

DETROIT INDUSTRIAL MARKET

METRO DETROIT INDUSTRIAL USERS CONTINUE TO ADD CAPACITY DESPITE TARIFFS AND STRIKES

Metro Detroit's industrial construction activity continued to grow during the third quarter of 2019 despite market battling tariffs and looming General Motor autoworkers strikes. Seven new construction projects broke ground during the third quarter totaling 1.6 million square feet- an increase of 34.0% over the previous quarter- to 5.6 million square feet. Year-to-date, new construction starts total 5.1 million square feet with new completions totaling 1.5 million square feet. Build-to-suits make up the bulk of new construction for companies such as Subaru, Cooper Standard, Aperam, Tiberina Group and SAPA Transmission. These projects continue the trend of major investments coming into Metro Detroit. Earlier in the year, Fiat Chrysler began construction on a new, \$1.6 billion production facility at the Mack Engine complex, and Amazon is currently planning to redevelop the former 127-acre Pontiac Silverdome site into a 3.0 million-square-foot distribution site. Meanwhile, as regulations for a legalized marijuana market are drafted and local municipalities approve laws regarding the growth and distribution of marijuana, developers are building new inventory to accommodate the cannabis industry. Metro Detroit's industrial vacancy rate held steady at 4.1% during the third quarter of 2019, as net absorption totaled just over 404,000 square feet.

SOUTHEAST OAKLAND COUNTY

New construction in Southeast Oakland County grew 40.0% to just over 1.6 million square feet during the third quarter of 2019 and is set to drastically increase in 2020 as a result of limited availabilities in the submarket, rising lease rates and continued demand for modern facilities. The vast majority of construction starts during the third quarter were speculative developments. The burgeoning marijuana industry has spawned construction of a new, 288,000-square-foot Cannabis Business Park in Orion Township that is already 75.0% pre-leased. Meanwhile, Schostak Brothers & Company, Inc. began construction on a 138,000-square-foot speculative development on 2150 Executive Hills Drive in Auburn Hills. A smaller, 46,000-square-foot facility is also going up on Lapper Road in Lake Orion. These new speculative developments follow Ashley Capital's second major distribution facility, a 695,000-square-foot distribution center in Hazel Park, which began construction earlier in the year and already 100% pre-leased. One of Metro Detroit's largest developments is a new distribution center for Amazon that is likely to begin construction in 2020. The facility, which is slated for the 127-acre Pontiac Silverdome site, could total more than 3.0 million square feet. The vacancy rate in Southeast Oakland County stood at just 2.6% during the third quarter.

CURRENT CONDITIONS

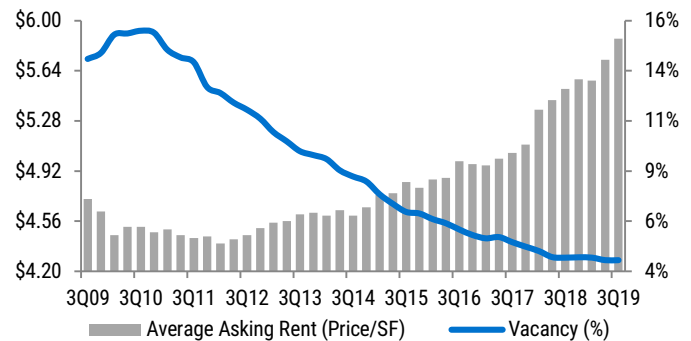
Seven new construction projects broke ground during the quarter that will increase square footage by 34.0%, to 5.6 million square feet.

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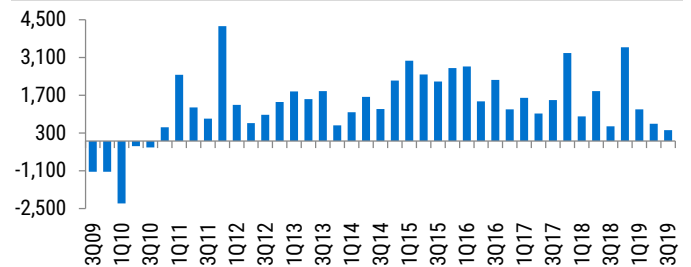
Developers are building new inventory to accommodate the cannabis industry.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption (SF, Thousands)



MARKET SUMMARY

| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 394 MSF | 394 MSF | 387 MSF | ↑ |
| Vacancy Rate | 4.1% | 4.1% | 4.1% | ↓ |
| Quarterly Net Absorption | 404,746 | 644,506 | 545,094 | ↑ |
| Average Asking Rent | \$5.87 | \$5.73 | \$5.50 | ↑ |
| Under Construction | 5,679,537 | 4,214,950 | 6,754,847 | ↑ |
| Deliveries | 189,000 | 360,000 | 565,790 | ↑ |

Notable deals include IQ Manufacturing’s purchase of a 28,000-square-foot building on Centre Road in Auburn Hills and Moghul Foods LLC’s acquisition of a 28,000-square-foot facility on Stephenson Hwy in Madison Heights. The average asking rate in the submarket has risen 10% over the past two years, as low vacancies continue to put upward pressure on rates.

SOUTHWESTERN OAKLAND COUNTY

The Southwest Oakland County industrial vacancy rate fell 40 basis points to 7.0% during the third quarter, as roughly 216,000 square feet was absorbed. Notable deals include Salt Mine of Southfield LLC’s purchase of a 74,000-square-foot building on Eight Mile Road in Southfield; Keford Collision & Towing’s move into 26,000 square feet on Grand River in Novi; and Randazzo Heating and Cooling’s 17,000-square-foot lease on Industrial Park Drive in Farmington Hills. Meanwhile, Multimatic Inc. completed construction of a new, 25,000-square-foot advanced vehicle development and driving simulation center at 25540 Seeley Road Novi. Construction activity rose 7.0% to 1.35 million square feet, as Bluewater Technologies Group Inc. began building a 90,000-square-foot research and development facility on Twelve Mile in Novi. Build-to-suit projects account for 1.2 million square feet of active construction in the submarket. The largest of these projects is the 500,000-square-foot facility that Hans Power and Water is building on Grand River Avenue in New Hudson. Other build-to-suits are underway for A123 Systems (128,000 square feet), Zeiss Industrial Metrology (83,000 square feet), Truck-Lite Company (40,000 square feet), Berkshire eSupply (194,000 square feet), Hexagon AB (68,000 square feet) and Boulder Properties (27,000 square feet). Meanwhile, six speculative projects totaling 1.0 millions square feet are under construction. The facilities range in size from 12,000 to 92,000 square feet.

MACOMB COUNTY

Macomb County’s industrial vacancy rate edged up 10 basis points to 2.4% during the third quarter of 2019.

The market for existing industrial space is showing signs of a slowdown with several new vacancies popping up across the county.

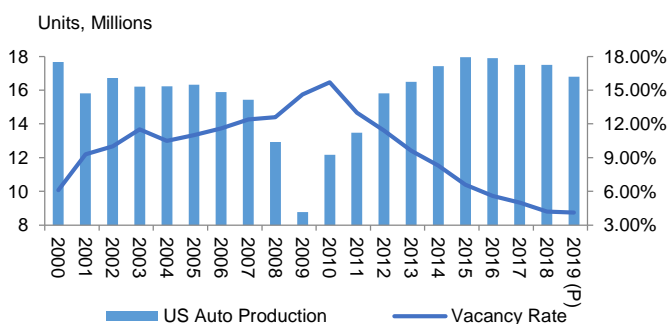
A few notable vacancies included 45,000-square feet on Danview Technology Court in Shelby Township and 40,000 square feet on Sherwood in Warren. Despite growing vacancies, the submarket posted just over 84,000 square feet of positive absorption, mostly from pre-leased construction completions. HTI Cybernetics Inc. completed and moved into its 189,000-square-foot facility at 40033 Mitchell Drive in Sterling Heights. Although the market for existing space might be softening, new construction remains robust. Aperam, a producer of specialty steels, began construction on a new, 100,000-square-foot facility on Eighteen ½ Mile in Sterling Heights. This new build-to-suit follows two other major projects currently underway: SAPA Transmission’s 110,000-square-foot facility on Twenty Four Mile Road and Kroll International’s 54,000-square-foot building on Danview Technology Court in Shelby Township. Macomb County has three speculative developments underway. The largest is Ashley Capital’s 569,000-square-foot Liberty Park development in Sterling Heights. The second-largest is a 65,000-square-foot facility that Niko’s Import & Export, LLC is developing in Macomb Township. Bringing up the rear is a 17,000-square-foot development that C&D Building Company is building in Shelby Township.

SOUTHERN WAYNE COUNTY

The Southern Wayne County industrial vacancy rate held at 1.9% during the third quarter. JW Logistics Operations, LLC’s 51,000-square-foot lease on Trolley Drive in Taylor accounted for the bulk of absorption. Meanwhile, Uncle Ray’s LLC leased 90,000 square feet of distribution space on Sibley Road in Brownstown. Bulk warehouse/distribution space continues to perform well. The submarket’s inventory of nearly 13.0 million square feet of Class A bulk warehouse space is 100% leased, while the Class B bulk warehouse inventory of 13.5 million square feet has a vacancy rate of just 2.9%. Ashley Capital is currently speculatively building two developments, Crossroads Distribution Center #4 and #5, to capitalize on demand in the tight bulk warehouse market.

US AUTO PRODUCTION TREND

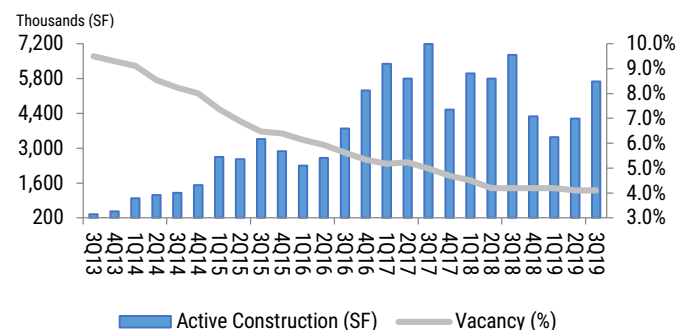
Vacancy Rate (%)



Source: Wards Auto. NKGf

ACTIVE CONSTRUCTION PROJECTS

Vacancy Rate (%)



The two Belleville facilities will add close to 1.0 million square feet of new supply to the market when completed in mid-2020. Subaru Research and Development Inc.'s 70,000-square-foot high-tech facility on Michigan Avenue in Van Buren is the submarket's one major build-to-suit project.

WESTERN WAYNE COUNTY

The Western Wayne industrial vacancy rate fell 20 basis points to 2.6% during the third quarter, as just over 110,000 square feet was absorbed. City Recyclers Inc.'s 120,000-square-foot lease on Beech Daly in Dearborn Heights was the largest deal of the quarter. Other notable deals include Oakland Standard LLC's 35,000-square-foot lease on Newburgh and MGA Research Corporation's 20,000-square-foot deal in Livonia. Absorption was slightly offset by a 50,000-square-foot vacancy at the Flint Group Industrial Building on Beck Road in Plymouth and a few smaller vacancies, such as the 15,000-square-foot blocks on Glendale and Galleon Street in Livonia. Construction activity grew 21.0% to 613,000 square feet during the quarter, as Cooper Standard began building its 110,000-square-foot facility at Seven Mile & Haggerty Road in Northville.

CITY OF DETROIT

The city of Detroit's industrial vacancy rate held at 11.4% during the third quarter. The most notable deal was Faurecia's 181,000-square-foot sublease at 12900-13000 Oakland Park in Highland. A 50,000-square-foot vacancy was created on Hoover Road. Meanwhile, Comprehensive Logistics Inc.'s 346,000-square-foot distribution facility on Wyoming became available. New construction will tick up, as Italian automotive supplier Tiberina Group will soon begin construction on a 180,000-square-foot manufacturing plant in the city.

LEASE/USER TRANSACTIONS

| Tenant | Building | Submarket | City | Square Feet |
|-----------------------------|-------------------------|----------------|------------------|-------------|
| DSV Air & Sea Inc | First Distribution Bldg | Southern Wayne | Romulus | 228,000 |
| Faurecia | 13000 Oakland Ave | Detroit | Highland Park | 181,000 |
| City Recyclers Inc. | 2525 S Beech Daly St | Western Wayne | Dearborn Heights | 120,000 |
| ESYS Automation, LLC | 6701 Center Drive | Macomb | Sterling Heights | 89,000 |
| Salt Mine of Southfield LLC | 21170 W 8 Mile | SW Oakland | Southfield | 74,000 |

SELECT SALES TRANSACTIONS

| Building | Submarket | Sale Price | Price/SF | Square Feet |
|-----------------------|---------------|------------|----------|-------------|
| 3950-4100 Pinnacle Ct | SE Oakland | \$7550000 | \$61 | 123,000 |
| 2700 Auburn Ct | SE Oakland | \$2275000 | \$89 | 25,512 |
| 1180 Centre Rd | SE Oakland | \$2000000 | \$70 | 28,584 |
| 13017 Newburgh | Western Wayne | \$1940000 | \$55 | 35,273 |
| 4100 Lambert Dr | Livingston | \$1747500 | \$63 | 27,556 |

SUBMARKET STATISTICS

| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | WH/Dist Asking Rent (Price/SF) | R&D/Flex Asking Rent (Price/SF) | Gen Ind Asking Rent (Price/SF) |
|-------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|--------------------------------|---------------------------------|--------------------------------|
| Ann Arbor | 5,402,213 | 44,525 | 7.1% | (19,045) | (13,940) | \$7.85 | \$10.11 | \$5.63 |
| Detroit | 45,325,153 | - | 11.4% | (17,717) | 56,411 | \$3.15 | \$5.74 | \$4.72 |
| Livingston County | 13,487,727 | 40,000 | 2.9% | (3,790) | 47,205 | \$5.61 | \$7.85 | \$6.35 |
| Macomb | 82,189,943 | 816,402 | 2.4% | 115,961 | 158,946 | \$5.66 | \$7.14 | \$5.28 |
| SE Oakland | 85,828,820 | 1,662,937 | 2.6% | 16,944 | 621,053 | \$5.95 | \$9.90 | \$5.81 |
| Southern Wayne | 56,427,250 | 1,140,887 | 1.9% | (14,000) | 122,371 | \$5.14 | \$8.60 | \$4.90 |
| SW Oakland | 37,064,729 | 1,351,125 | 7.0% | 216,239 | 394,766 | \$6.65 | \$9.37 | \$6.50 |
| Western Wayne | 68,884,267 | 623,661 | 2.6% | 110,154 | 838,798 | \$6.29 | \$10.74 | \$5.67 |
| Totals | 394,610,102 | 5,679,537 | 4.1% | 404,746 | 2,225,610 | \$4.94 | \$9.33 | \$5.39 |

SUBMARKET STATISTICS BY SUBTYPE

| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Total Asking Rent (Price/SF) |
|------------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|------------------------------|
| General Industrial | 215,109,631 | 2,305,635 | 4.4% | 473,324 | 1,265,514 | \$5.39 |
| Incubator | 1,917,930 | X | 5.3% | 2,200 | - | \$6.41 |
| R&D/Flex | 43,019,500 | 449,025 | 5.7% | 33,078 | 81,421 | \$9.33 |
| Warehouse/Distribution | 134,563,041 | 2,924,877 | 3.2% | (103,856) | 878,675 | \$4.94 |
| Totals | 394,610,102 | 5,679,537 | 4.1% | 404,746 | 2,225,610 | \$5.87 |

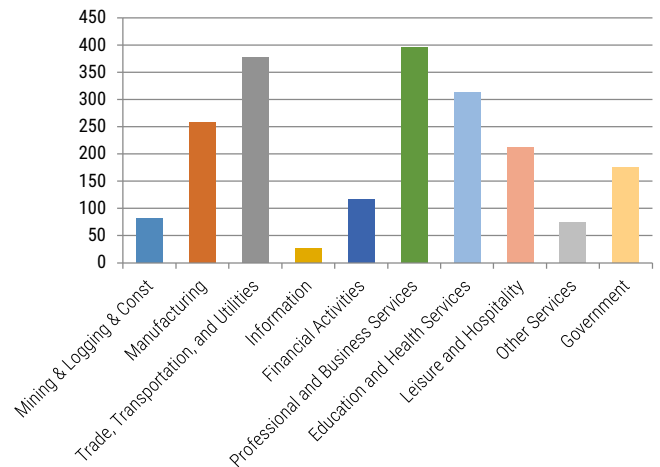
ECONOMIC CONDITIONS

Metro Detroit unemployment levels began trending up during the third quarter of 2019. In June unemployment jumped to 5.3% from its low point in the year of 3.9% in April. The rate recovered slightly dropping to 4.5% in August.

While construction employment growth remains robust, growing in Metro Detroit 2.6% over the same time last year, other segments including manufacturing, Information and business services are showing employment declines over the same period.

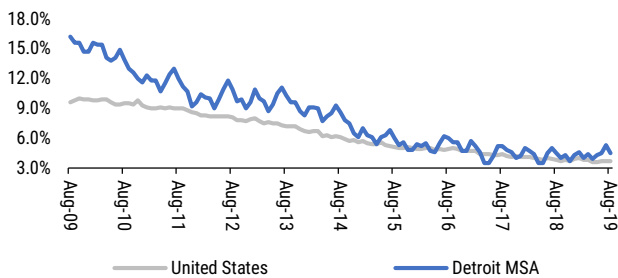
EMPLOYMENT BY INDUSTRY

Detroit MSA, June, 2019



UNEMPLOYMENT RATE

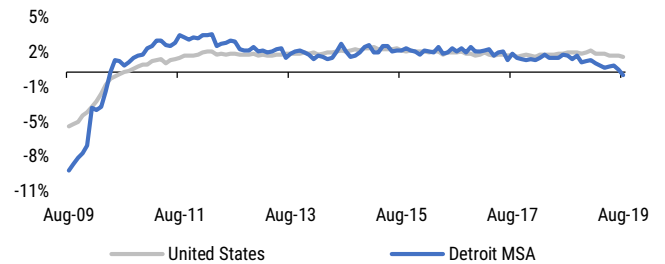
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

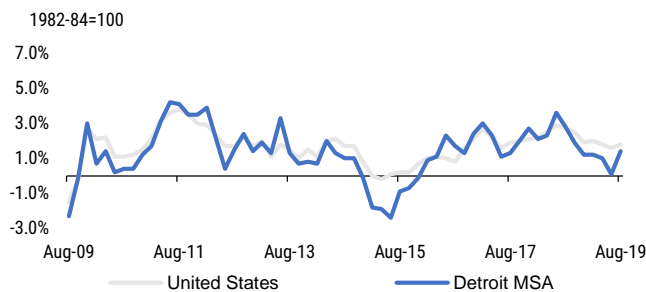
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

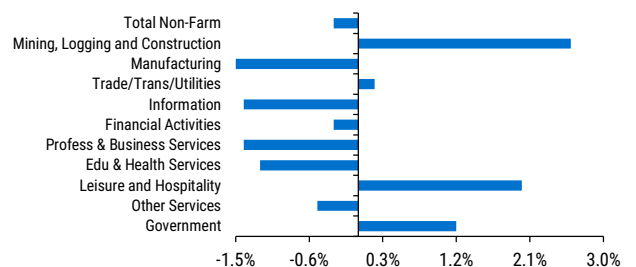
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

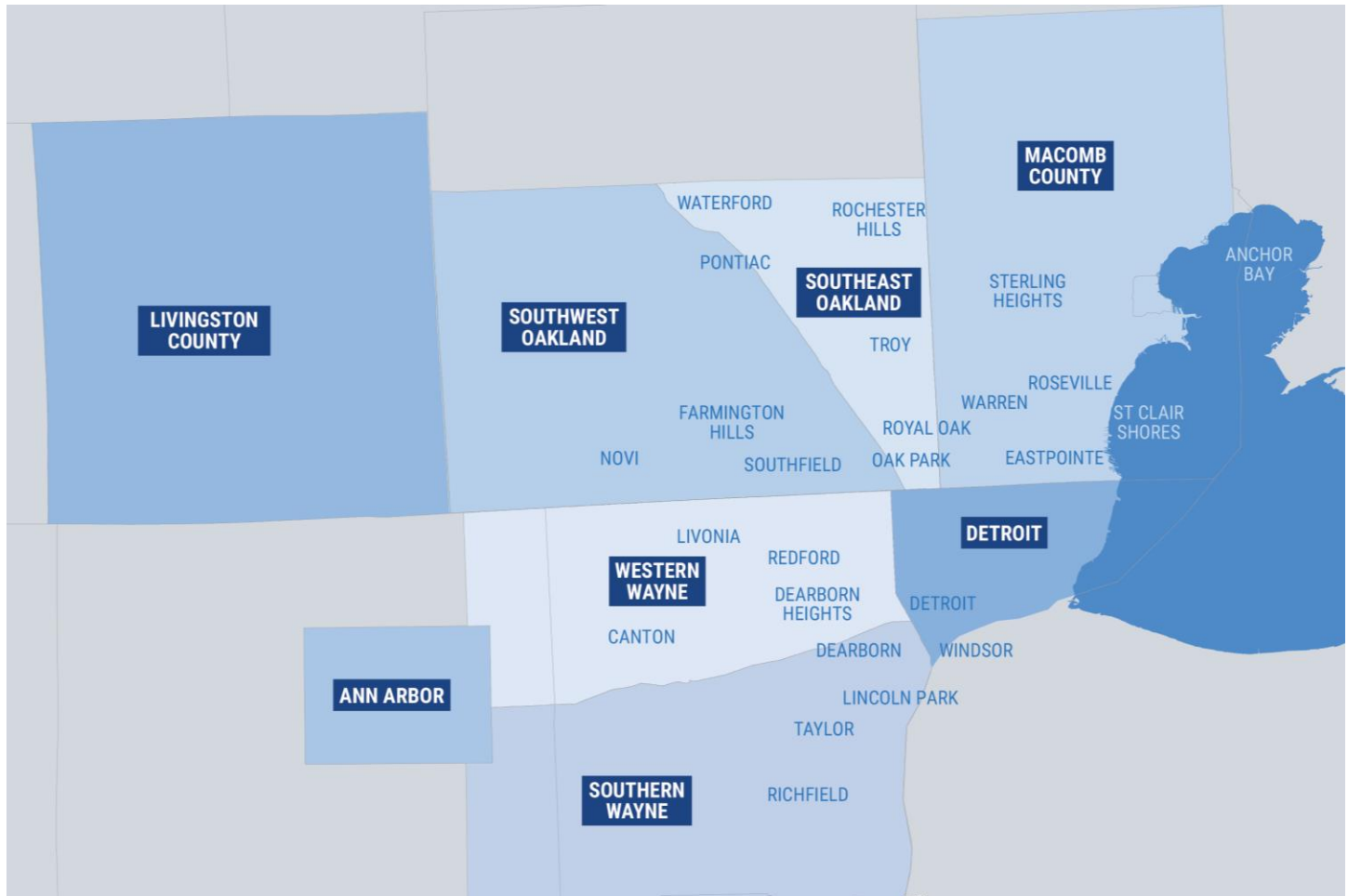
EMPLOYMENT GROWTH BY INDUSTRY

Detroit June, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

DETROIT INDUSTRIAL SUBMARKET LOCATIONS



Farmington Hills

27725 Stansbury, Suite 300
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248.350.9500

Southfield

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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