

DETROIT INDUSTRIAL MARKET

INDUSTRIAL MARKET BRACES AS BIG THREE ADJUST INVESTMENT STRATEGY

General Motors and Ford Motor Company are shifting investments from traditional passenger cars to more profitable trucks and SUVs while also increasing investments in electric and autonomous vehicles. This reallocation of investments has led to the planned closing of five plants, including two in metro Detroit: Detroit-Hamtramck Assembly and Warren Transmission. Looking at automotive sales trends, the reallocation of investments makes sense. According to market researchers at J.D. Power and Associates, sales of traditional passenger cars have fallen to just one-third of light vehicle sales, compared with nearly half in 2014. Declining demand has left the Big Three operating at overcapacity in many plants. According to Reuters and LMC Automotive, after GM ends production next year at factories in Michigan, Ohio and Ontario, it will still have four U.S. car plants, all operating at less than 50% of rated capacity. By comparison, Ford Motor Company and Fiat Chrysler Automobiles NV will have one car plant each in North America after 2019. As demand for heavy vehicles surges, companies like Ford are shifting hundreds of automotive workers to plants producing SUVs. Although these cuts will likely lead to new industrial vacancies from suppliers close to the sedan market, investments elsewhere are likely to pick up much of those losses. The Big Three and their suppliers are increasing investments in electric and autonomous vehicles. In turn, these investments are spurring new construction and expansion in the metro Detroit industrial market. This is particularly evident in Auburn Hills with Samsung SDI America, Inc.'s new vehicle battery pack factory and WABCO's new autonomous and electric (ACE) commercial vehicles technologies facility. Additionally, Ford plans to invest hundreds of millions of dollars in a new autonomous campus in Detroit. With vacancies at record lows, new construction from both the automotive and e-commerce industries continues to drive the metro Detroit industrial market. During the fourth quarter of 2018, eight new facilities were completed for a total of 3.4 million square feet for Amazon, Inc., Flex-N-Gate Corp, Hino Motors, Esys Corporation, Orotex Corporation and Penske Logistics.

SOUTHEAST OAKLAND COUNTY

The Southeast Oakland County industrial vacancy rate fell 10 basis points to 3.3% during the fourth quarter, as just over 259,000 square feet was absorbed. Investments in electric and autonomous vehicles continue to spur construction and expansions in the submarket. In Auburn Hills, WABCO completed construction of its 102,000-square-foot build-to-suit facility at 1220 Pacific Drive, where the company will develop its autonomous, connected and electric (ACE) commercial vehicle technologies.

CURRENT CONDITIONS

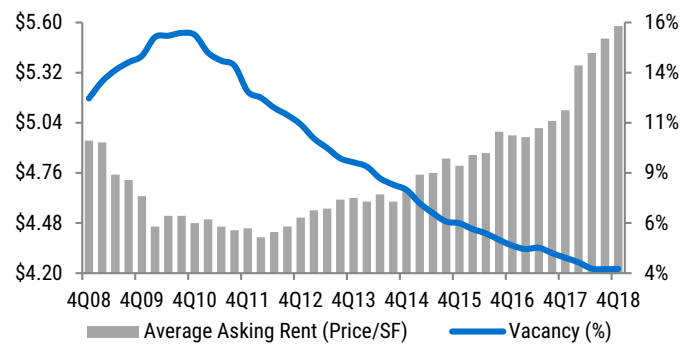
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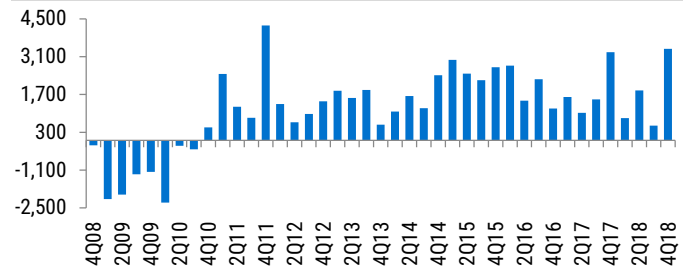
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MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	392 MSF	388 MSF	383 MSF	↑
Vacancy Rate	4.2%	4.2%	4.7%	↓
Quarterly Net Absorption	3,393,854	544,954	3,268,349	↑
Average Asking Rent	\$5.58	\$5.51	\$5.11	↑
Under Construction	4,279,064	6,715,771	4,558,487	↑
Deliveries	3,413,646	565,790	2,584,907	↑

Samsung SDI America, Inc. will complete the build-out of its new, 137,000-square-foot, \$62.0 million electric vehicle battery pack factory at 50 Continental Drive in Auburn Hills. Meanwhile, Esys Corporation moved into its newly completed 124,000-square-foot building on Brown Road. In addition to building new space, many companies are expanding at their existing facilities. Rand Construction recently completed a 24,000-square-foot expansion to the MiDAS Foods International building in Oak Park. Kirco Manix is building a 50,000-square-foot addition to Kay Graphics' facility in Orion Township, while Alpine Electronics is expanding by 11,000 square feet on Atlantic Boulevard in Auburn Hills. New construction does not appear to be abating, either. German auto supplier KOSTAL Kontakt Systems Inc. plans to begin building in 2019 a 250,000-square-foot manufacturing facility in the Avon Industrial Park in Rochester. On the speculative construction front, Ashley Capital is clearing the way for a new development at Hazel Park's former horse racing track. This development follows the highly successful 575,000-square-foot Tri-County Commerce Center, which was completed in 2017 and nearly fully occupied by Amazon.com, LG Electronics and Bridgewater Interiors. Ashley Capital is planning two additional buildings for the former race track, one comprising 650,000 square feet and the other 840,000 square feet, which will accommodate manufacturing or bulk warehouse users. Southeast Oakland has been a hotbed for new construction with 24 new industrial facilities completed since 2014, totaling just over 3.1 million square feet. During the fourth quarter, the only active construction project underway was FANUC America Corporation's 461,000-square-foot build-to-suit on Entrance Drive in Rochester Hills. Notable deals during the quarter included GST Auto Leather's 65,000-square-foot lease on Waterview Drive in Rochester Hills; Superior Electric Great Lakes Company's purchase of a 52,000-square-foot building at 1740 East Maple Road in Troy; and P3 North America, Inc.'s 35,000-square-foot lease on Spartan Street in Madison Heights.

SOUTHWESTERN OAKLAND COUNTY

Southwest Oakland has the highest number of active construction projects with 13 buildings under construction, despite an influx of existing vacant space coming on the market. During the previous quarter, the submarket saw a 203,000-square-foot new vacancy at 30240 Oak Creek Drive in Wixom. This was followed by a 130,000-square-foot vacancy on Eight Mile in Southfield and a 101,000-square-foot vacancy on Martin Drive in Wixom during the fourth quarter. For the year, submarket's vacancy rate has climbed 70 basis points to 6.7% during the fourth quarter.

The latest construction completion was Hino Motors' 124,000-square-foot facility on Taft Road and Orotex Corporation's 60,000-square-foot expansion on Venture Drive in Novi. The submarket has more build-to-suits and speculative developments in the pipeline. In Novi, build-to-suit projects for Berkshire E-Supply (211,610 square feet) and A-123 (128,936 square feet) are scheduled for completion in early 2019. In addition, Autoliv ASP is expected to complete construction of an 180,000-square-foot build-to-suit on Bridge Street in Southfield by mid-2019. On the speculative front, the submarket has nine developments. Burton-Katzman Development Company has the largest with an 110,000-square-foot facility on Beck Road in Wixom. Meanwhile, Quadrants Inc. is developing a 95,000 and a 61,000-square-foot speculative development on Automation Court. The balance of the speculative developments are geared toward mid-market-size users requiring 20,000 to 40,000 square feet.

MACOMB COUNTY

The Macomb County industrial submarket vacancy rate fell 10 basis points to 2.0% during the fourth quarter, as just over 1 million square feet was absorbed. Amazon completed construction of its new, 1.0 million-square-foot fulfillment center in Shelby Township. This is Amazon's third million-square-foot distribution facility in Metro Detroit. Notable deals included the sale of 65,000 square feet at 23751-23801 Hoover Road in Warren to Verdant Realty Group; Daiek Woodworks' purchase of a 33,000-square-foot building at 14981 Thirty-Two Mile Road in Romeo; and Great Lakes Trucking MI, Inc.'s purchase of a 25,000-square-foot facility at 2700 East Nine Mile Road in Warren. On the construction front, HTI Cybernetics Inc. announced plans to finish-to-suit a former 189,000-square-foot speculative manufacturing facility on the former Sunnybrook golf course in Sterling Heights. Other ongoing build-to-suits include Lanzen Fabricating Inc.'s 92,000-square-foot facility in Romeo and Mor-Tech Design's 43,000-square-foot facility in Sterling Heights. Meanwhile, four ongoing speculation construction projects will add just over 671,000 square feet of space to the market in 2019, the largest being Ashley Capital's 569,000-square-foot Liberty Park development on Mound Road in Sterling Heights. The project is expected to fill up fast, as the county's 2.0% vacancy leaves very few options for companies looking for large-block/high dock density space. The four other speculative developments in Macomb Township, Romeo and Shelby Township are targeting smaller users, in the 20,000 to 40,000-square-foot range. These projects are expected to be completed in early 2019.

SOUTHERN WAYNE COUNTY

The Southern Wayne County industrial market saw the completion of two major construction projects during the fourth quarter, Amazon's 856,000-square-foot fulfillment center at 32801 Ecorse Road and Penske Logistics' new, 606,000-square-foot distribution center in Romulus. The submarket also saw a few sizable leases in existing space, notably General Transit and Warehouse's 85,000-square-foot lease at 18700 Meginnity Street in Melvindale and Daehan Solution's 26,000-square-foot lease at Aeroplex Two in Romulus. Southern Wayne County's vacancy rate remains critically low at just 2.5%. The submarket's only construction project is a 150,000-square-foot build-to-suit for ProTrans in Romulus. The submarket's 13 million-square-foot Class A bulk warehouse inventory has a vacancy rate of just 1.5%, while the Class B bulk warehouse inventory of 13.5 million square feet has a vacancy rate of just 2.3%. The lack of speculative construction in the submarket will continue to put a strain on bulk warehouse users in the market while keeping upward pressure on lease rates. Over the past three years, asking rates for bulk warehouse space have climbed 35%. With the high likelihood that vacancy will remain below 3.0%, developers are prepping new sites for development. Development firm Wildamere is planning a 311,000-square-foot bulk warehouse development known as the Airport Logistics Center on Cogswell Road in Romulus. Ashley Capital is planning an addition to its Crossroads Distribution Center in Van Buren Township that could total up to 660,000 square feet, while Spartan Real Estate Group LLC is planning a 416,000-square-foot development on Ecorse Road in Romulus.

WESTERN WAYNE COUNTY

The Western Wayne Industrial market vacancy rate fell 20 basis to 2.7% during the fourth quarter, as just over 146,000 square feet was absorbed. Notable deals included Anderson Process' 35,000-square-foot lease on Concept Drive in Plymouth and Best Supply Company, Inc.'s 31,000-square-foot lease on Sears Drive in Livonia. On the construction front, two build-to-suit projects will near completion going into 2019: Republic National Distributing Company's 500,000-square-foot bulk warehouse facility on Eckles Road in Livonia and Tenneco Inc.'s 100,000-square-foot facility on Technology Drive in Northville. In speculative development, Frankel Associates is building two facilities called the Haggerty II Corporate Park in Canton that will accommodate either a 67,000 or a 46,000-square-foot user.

DETROIT

The city of Detroit's industrial vacancy fell 20 basis points to 12.1% during the fourth quarter, as just over 518,000 square feet was absorbed. The bulk of the absorption came from Flex-N-Gate Corporation completing its 480,000-square-foot manufacturing facility on the city's northeast side. Meanwhile, Ford Motor Company began redeveloping Michigan Central Station. By 2022, Ford plans to create a 1.2 million-square-foot campus that will be a new hub for autonomous and electric vehicle research.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	City	Square Feet
Kostal Kontakt Systems Inc.	Avon Industrial Park	SE Oakland	Rochester Hills	250,000
Samsung SDI America, Inc.	50 Continental Drive	SE Oakland	Auburn Hills	137,000
General Transit and Warehouse	18700 Meginnity St	Southern Wayne	Melvindale	85,000
Axalta Coating Systems	151 Lafayette St	Macomb	Mount Clemens	56,000
Randazzo Mechanical	51327 Quadrate Dr	Macomb	Macomb Twp	43,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1175 N Opdyke	SE Oakland	\$10,500,000	\$73	143150
1740 E Maple Rd	SE Oakland	\$4,350,000	\$83	52,000
2365 Pontiac Rd	SE Oakland	\$2,850,000	\$93	30,500
24975 Trans X Rd	SW Oakland	\$2,138,000	\$72	29,000
14981 Thirty-Two Mile	Macomb	\$1,650,000	\$50	33,000

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	6.8%	(9,648)	30,935	\$9.50	\$11.35	\$5.27
Detroit	45,189,161	180,000	12.1%	478,482	924,956	\$3.23	\$5.74	\$3.60
Livingston County	13,511,727	40,000	3.4%	(12,807)	(63,826)	\$5.85	\$8.31	\$6.25
Macomb	81,247,834	996,488	2.0%	1,084,987	1,946,015	\$5.49	\$8.07	\$5.15
SE Oakland	85,789,700	1,156,000	3.3%	259,475	656,479	\$6.08	\$8.89	\$5.99
Southern Wayne	56,873,440	150,000	2.5%	1,364,074	1,406,182	\$5.11	\$8.27	\$5.09
SW Oakland	36,157,675	1,071,780	6.7%	82,755	278,854	\$5.97	\$8.74	\$6.35
Western Wayne	68,271,353	713,661	2.7%	146,536	1,485,545	\$5.23	\$10.64	\$5.41
Totals	392,443,103	4,279,064	4.2%	3,393,854	6,665,140	\$4.76	\$9.13	\$5.06

SUBMARKET STATISTICS BY SUBTYPE

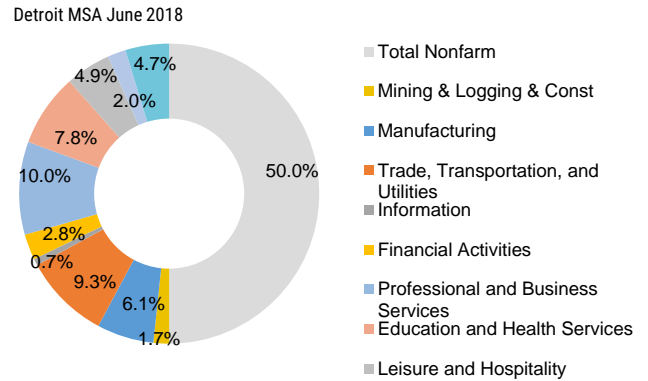
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	214,144,966	2,261,313	4.5%	827,931	2,423,794	\$5.06
Incubator	1,917,930	X	5.2%	(4,800)	9,450	\$6.45
R&D/Flex	42,853,912	426,525	5.4%	94,769	680,791	\$9.13
Warehouse/Distribution	133,526,295	3,894,163	3.4%	2,475,954	3,551,105	\$4.76
Totals	392,443,103	4,279,064	4.2%	3,393,854	6,665,140	\$5.52

ECONOMIC CONDITIONS

Metro Detroit unemployment levels saw an uptick in the latest October reading to 4.4%, compared to 3.7% the previous month and 4.3% at the same time last year. Metro Detroit unemployment levels are slightly higher than the national level of 3.7%. Payroll employment for Metro Detroit in October showed a 1.0% change over the previous year. Those gains were comparatively lower than the national figure of 1.6%.

EMPLOYMENT BY INDUSTRY

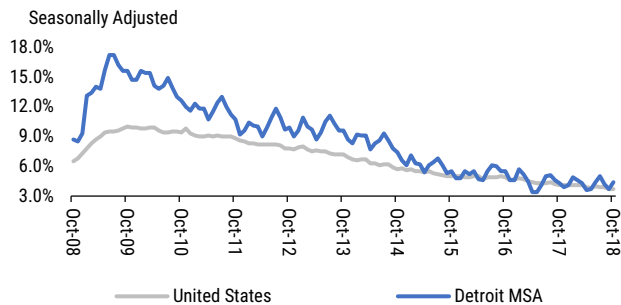
Detroit MSA, October 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

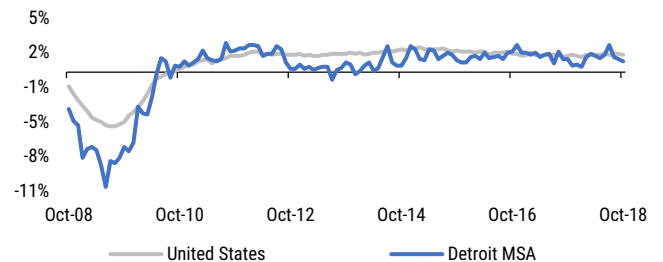
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

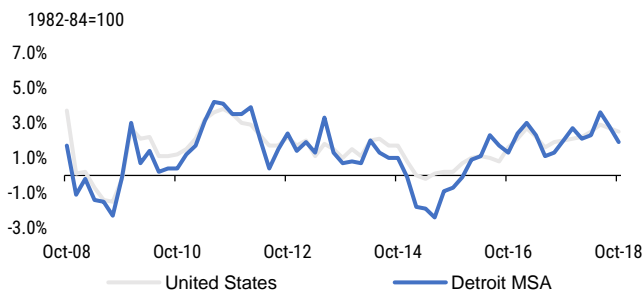
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

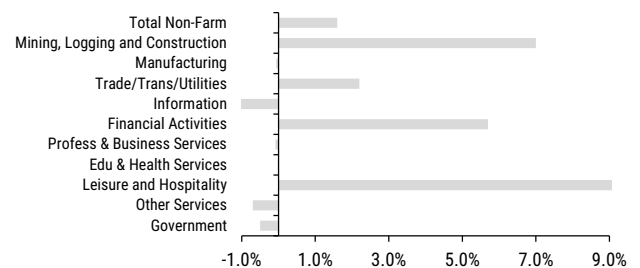
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

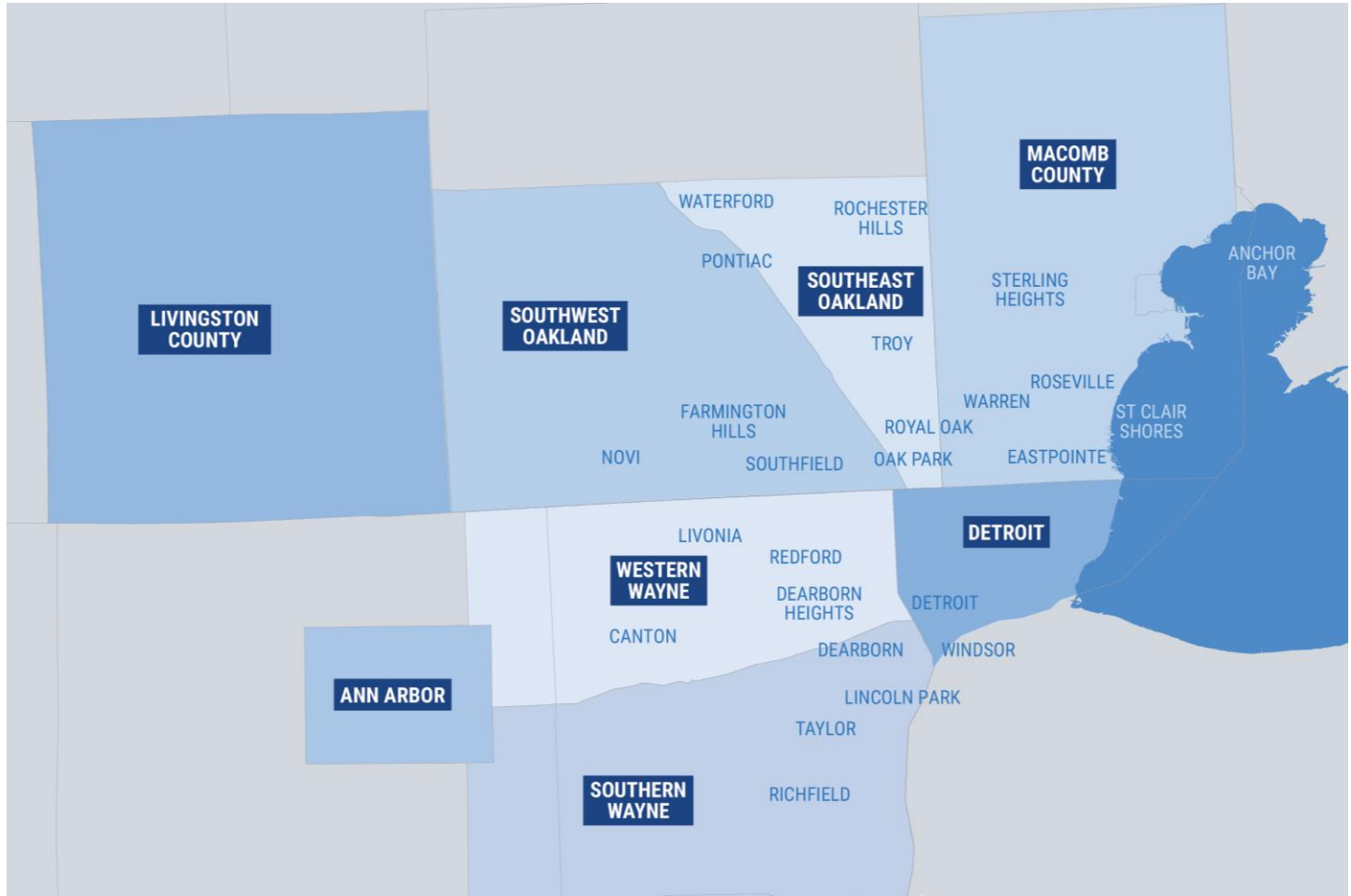
EMPLOYMENT GROWTH BY INDUSTRY

Detroit October, 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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