

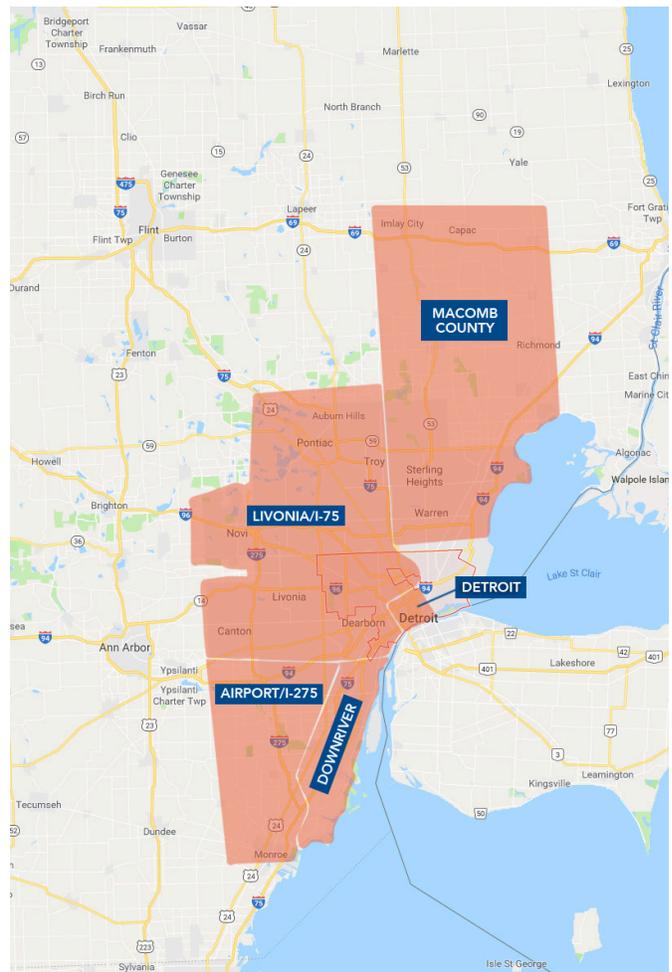
Q3 2018 MARKET REPORT

Detroit, MI (Airport/I-275 Submarket) | Industrial Market

OVERVIEW

DETROIT is making rapid progress in the autonomous vehicle sector. Investment took place in the American Center for Mobility, an autonomous vehicle testing facility, with Subaru getting involved in the same. Furthermore, Waymo, a Google affiliate is planning to purchase up to 62,000 Chrysler minivans for autonomous driving research. Ford purchased the Michigan Central Station in Corktown, with intentions of redeveloping it for future mobility R&D. Finally, May Mobility put together a fleet of autonomous vehicles to transport workers in downtown Detroit.

The Detroit industrial market had a strong Q2 2018, with absorption and asking lease rates remaining high and vacancy rates lowering. According to the Bureau of Labor Statistics, unemployment in the month of April was 4.7%; aside from 2016 data, the last time Michigan saw unemployment below 5.0% was in June 2001. Part of this economic health may be attributed to several recently completed or under construction developments in Q2, with each creating a predicted 700-1,000 jobs. The industrial market will continue to tighten and therefore, the need for warehousing and distribution space shows no signs of diminishing.



MARKET REVIEW

The second quarter ended with the overall Detroit industrial market experiencing a 3.1% vacancy rate, down from the first quarter, reflecting single digit vacancy throughout all submarkets. Net absorption was positive at 1,672,738 square feet. Rental rates stood at \$5.94, an increase from the first quarter.

Period Ending	Vacancy (%)		Asking Rates/SF	
	U.S.	Detroit	U.S.	Detroit
Q2 2018	4.6%	2.8%	\$6.42	\$5.46
Q1 2018	4.7%	2.9%	\$6.31	\$5.38
Q4 2017	4.7%	2.6%	\$6.15	\$5.29
Q3 2017	4.8%	2.8%	\$5.96	\$5.05
Q2 2017	4.8%	2.7%	\$5.85	\$4.97
Q1 2017	4.9%	2.6%	\$5.72	\$4.90
2016	5.0%	2.6%	\$5.64	\$4.72
2015	5.6%	3.5%	\$5.30	\$4.45
2014	6.3%	5.0%	\$5.03	\$4.26

The average quoted asking rental rate for available industrial space (excluding flex space statistics) overall stood at \$5.46/SF at the end of the second quarter 2018, up from \$5.38/SF at the end of the first quarter 2018, and up from \$5.05/SF a year ago. For the market, lower rates may be found in the southern submarkets such as Downriver, while rates increase northerly, in submarkets such as Livonia/I-75.

Renewals remain common, and while tenants attempt to push for shorter-term extensions, landlords insist on five-year commitments or longer to continue to escalate rates. The competition in the market limits relocation options and significantly reduces leverage in renewal negotiations.

For new construction, the overall Detroit industrial market is seeing rates at approximately \$6.00-\$8.00/SF. New construction has primarily been found in the Livonia/I-75 and Airport/I-275 submarkets, while the Downriver submarket has not been home to new construction.

For concessions, landlords are open to one month of free rent per year at most.

Due to the incredible demand in this market, Landlords have the upper hand. There is expected to be rare concessions offered by landlords to their new tenants. New deals are being done with Tenant Improvement allowances of \$4.00-\$6.00 per square foot. Landlords are also pushing tenants to sign longer term deals, more in the range of 10 years. It is a very competitive market with new product being quick to lease.

SUBMARKETS

The Greater Detroit industrial market is generally divided into five major submarket regions:

- Macomb County
- Livonia/I-75
- Downtown
- Airport/I-275
- Downriver

Macomb County is the third-most populous county in the state of Michigan. Of the largest counties in the state, Macomb experienced the greatest population growth between 2000 and 2010, at 6.7%. The County is home to more than 18,000 businesses, including growing industries in advanced manufacturing and automotive. Macomb County's average asking lease rate was \$6.17/square foot for the quarter. Its vacancy rate stood at 0.9%.

Next, it comes as no surprise that the leading employer in the Livonia/I-75 submarket is Ford Motor Company. In mid-2018, Ford announced that it plans to phase out most of its automobile lineup in North America, besides the Mustang, to focus on trucks and SUVs. This specific submarket saw average asking lease rates of \$7.03/square foot with a vacancy rate of 2.3% for the quarter.

Downtown Detroit, another submarket, is home to several headquarters, including Quicken Loans, General Motors, and Dickinson Wright. Moreover, a port is in downtown Detroit along the west side of the Detroit River. The port has multiple marine terminals handling general, liquid, and bulk cargo, as well as passengers. The port's single most valuable commodity is steel, and the largest commodity handled by tonnage is ore. Other important commodities handled at the port include stone, coal, and cement. In 2011, the port saw 1,333 vessel arrivals and experienced 13,738,737 cargo tons. The downtown Detroit submarket witnessed an average asking lease rate of \$5.81 and vacancy rate of 3.6% for the quarter.

When focusing specifically on the Airport/I-275 submarket, the area overall is realizing rental rates at \$5.91/square foot in the second quarter. The submarket saw some of the largest lease signings in 2018, with a 590,141 square foot lease signed by Penske Logistics LLC and 182,000 square foot lease signed by Experi-Metal Inc. Furthermore, compared to the other submarkets, the Airport/I-275 submarket was home to the most construction activity for the calendar year thus far, with total rentable building area at 2,261,568 square feet; 98.2% of that is already preleased. This construction will bring the submarket's average building size up sevenfold, from an average of 40,515 square feet to 282,969 square feet. The submarket possesses the largest amount of existing inventory within one submarket in the Greater Detroit market and has lower than average (the average being \$5.94/square foot) rental rates.

Lastly, the Downriver submarket is comprised of 18 suburban cities and townships in Wayne County, along the western shore of the Detroit River. Historically, Downriver was populated by employees of auto factories, manufacturing suppliers, and mills and plants making up local heavy industry. While heavy industry is still important in Downriver, this community has seen a rise in white collar workers. Its average asking lease rate stood at \$5.07/square foot for the quarter, with total vacancy at 2.1%.

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