Research &
Forecast Report

DETROIT & ANN ARBOR INDUSTRIAL

Quarter 4 2016

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INDUSTRIAL STILL IN OVERDRIVE

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Over the past five years, the silent success story in Metro Detroit is the recovery of the region's industrial real estate market. Current trends are effectively in unchartered waters for the Detroit market. The market currently reports a 3.8% vacancy rate—a 10 basis point improvement from the previous quarter and yet again, the lowest reported vacancy rate on record.

The rock bottom vacancy rate is not the only positive indicator. 1,430,086 SF of space was absorbed in quarter 4 of 2016, which is an excellent follow-up to the third quarter's 1,227,163 SF. Rental rates posted a modest increase as well—climbing from \$5.25 per SF to \$5.29. Although new construction deliveries climbed from 470,588 SF to 649,685 SF, new construction continues to lag behind other markets across the United States.

Looking back on 2016, Detroit's industrial market had plenty to celebrate—vacancy declined and rents grew, given the lack of new construction in the pipeline, we do not see the market slowing down in a significant manner, and barring a major economic slowdown, 2017 will be another year of low vacancy rates and positive absorption, with any new construction getting snapped up almost immediately upon delivery.

Market Indicators

	Quarter 3 2016	Quarter 4 2016
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↑
RENTAL RATE*	↑	↑

*Asking Rents

Notes on the Market

RENTAL GROWTH SLOW

The average quoted rental rate for available industrial space, all types, climbed to $5.29 per SF at the end of the fourth quarter of 2016. This represents a $.04 increase from the previous quarter. The market for flex space experienced another positive quarter.

The average quoted rental rate for flex space at the end of the fourth quarter was $9.13, a solid $.14 increase from the previous quarter. The average quoted rental rate for warehouse space at the end of the third quarter was $4.77, a relatively small $.03 increase. Overall, significant rent growth in the Detroit industrial market has remained elusive.

VACANCY AT RECORD LOWS

The industrial vacancy rate in Metro Detroit decreased to a miniscule 3.8% at the end of the fourth quarter of 2016—a number that represents a 10 basis point improvement from the previous quarter. The low vacancy rate has tipped the market scales in the landlord's favor. Most notably, landlords are far more aggressive on renewals than they were just two years ago. Much like the previous quarter, the East Area/Macomb submarket reported the lowest vacancy rate at 2.0%. The Troy submarket continues to be a strong performer as well, reporting a 2.3% vacancy rate. The Airport and I-275 submarket are also reporting a 2.8% vacancy rate, indicating how tight things have become across the board.

ABSORPTION GROWS

Net absorption for Metro Detroit's industrial market was a positive 1,430,086 SF in the fourth quarter of 2016. This represents a solid continuation of the previous quarter's absorption rate of 1,227,163 SF.

Overall, there have been few signs of absorption slowing down in the coming months. Tenants continue to need space, and new construction is still minimal. The only dynamic that might impede absorption in the coming months is the lack of new product hitting the market—users may simply be unable to find the space that they need.

SALES MARKET IMPROVING

The fourth quarter continued the trend of slow investment sales. However, what the market lacks in blockbuster deals, it makes up for with quick transactions and solid prices for user buildings. Large sales included the sale of 1415 Durant in Howell for $6,480,000 at $51.72 per SF, and the former Burroughs headquarters in Plymouth for $4,625,000 at $77.99 per SF. In the fourth quarter, 4,476,411 SF of space traded, with an average sale price of $23.28 per SF. The average deal size was 32,675 SF.

NEW CONSTRUCTION SLOW

For the fourth quarter of 2016, 640,865 SF of space was delivered, an increase from 482,588 during the previous quarter. As with previous quarters, the lack of speculative construction in Metro Detroit will continue to be the number one factor affecting vacancy, absorption, and rental rates for the foreseeable future.

Key Takeaways

> 2016 was a great year for sellers. The trend should continue in 2017.

> In 2016, absorption remained positive due to continued confidence in the market and a lack of new construction. This trend is not expected to change.

> Rental rates are growing, but are not high enough to support new construction across the board.

> Industrial user buildings in good submarkets often trade for more than retail and office buildings, even without leases in place.

Looking Forward

> Quality industrial space remains the most difficult commodity to find in the Metro Detroit marketplace.

> Beginning of 2017, the market's fundamentals remain unchanged. Expect more positive news at the end of the next quarter.

> Finding a decent building in Troy or Sterling Heights is becoming exceedingly difficult. The area near Metro Airport is not far behind.

> Due to a lack of product for users, industrial investment sales have slowed down in the Detroit market.

THE NUMBERS > QUARTER 4 > INDUSTRIAL

Flex Market Statistics

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Airport /I-275	251	11,473,320	473,664	473,664	4.1%	241,713	0	50,000	$8.41
Detroit Area	69	2,003,276	528,876	528,876	26.4%	(154,017)	0	0	$7.48
Downriver	18	1,050,941	199,550	199,550	19.0%	106,504	0	0	$5.90
East Area	139	4,496,635	244,389	244,389	5.4%	59,775	0	0	$6.69
I-96 Corridor	297	8,996,474	642,979	655,479	7.3%	150,671	0	80,000	$9.29
Oakland County NW	166	7,692,261	729,274	730,774	9.5%	363,384	0	0	$9.67
Royal Oak/Southfield	104	3,127,383	296,564	296,564	9.5%	121,205	0	0	$8.38
Troy Area	142	4,482,494	371,048	371,048	8.3%	108,850	0	0	$7.62
Washtenaw	167	8,245,522	318,446	341,382	4.1%	18,483	10,493	44,525	$12.94
Totals	**1,353**	**51,568,306**	**3,804,790**	**3,841,726**	**7.4%**	**1,016,568**	**10,493**	**174,525**	**$9.13**

Warehouse Market Statistics

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Airport /I-275	2,906	113,864,917	3,053,358	3,059,456	2.7%	1,046,306	54,879	143,320	$4.39
Detroit Area	1,809	85,441,164	6,701,919	6,701,919	7.8%	963,966	300,000	254,000	$3.74
Downriver	683	40,151,895	1,426,034	1,426,034	3.6%	789,279	0	0	$3.86
East Area	3,994	117,425,257	2,115,483	2,139,483	1.8%	572,384	171,259	495,210	$4.97
I-96 Corridor	1,815	47,435,603	956,047	1,003,047	2.1%	853,620	683,858	1,376,083	$6.34
Oakland County NW	1,249	45,385,638	1,737,110	1,739,600	3.8%	226,140	300,050	260,811	$5.77
Royal Oak/Southfield	1,101	16,561,671	459,635	465,355	2.8%	479,303	300,000	575,000	$5.35
Troy Area	1,306	26,517,337	306,193	330,818	1.2%	44,950	0	0	$5.88
Washtenaw	710	23,606,144	802,174	802,174	3.4%	135,413	54,400	50,000	$5.93
Totals	**15,573**	**516,389,626**	**17,557,953**	**17,667,886**	**3.4%**	**5,111,361**	**1,864,446**	**3,154,424**	**$4.77**

Total Industrial Market Statistics

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Airport /I-275	3,157	125,338,237	3,527,022	3,533,120	2.8%	1,288,019	54,879	193,320	$4.62
Detroit Area	1,878	87,444,440	7,230,795	7,230,795	8.3%	809,949	300,000	254,000	$3.83
Downriver	701	41,202,836	1,625,584	1,625,584	3.9%	895,783	0	0	$3.89
East Area	4,133	121,921,892	2,359,872	2,383,872	2.0%	632,159	171,259	495,210	$5.05
I-96 Corridor	2,112	56,432,077	1,599,026	1,658,526	2.9%	1,004,291	683,858	1,456,083	$7.06
Oakland County NW	1,415	53,077,899	2,466,384	2,470,374	4.7%	589,524	300,050	260,811	$6.72
Royal Oak/Southfield	1,205	19,689,054	756,199	761,919	3.9%	600,508	300,000	575,000	$5.87
Troy Area	1,448	30,999,831	677,241	701,866	2.3%	153,800	0	0	$6.48
Washtenaw	877	31,851,666	1,120,620	1,143,556	3.6%	153,896	64,893	94,525	$8.25
Totals	**16,926**	**567,957,932**	**21,362,743**	**21,509,612**	**3.8%**	**6,127,929**	**1,874,939**	**3,328,949**	**$5.29**

TREND TO WATCH:
Follow-up on Infill Development

For decades, cities in America's industrial Midwest have bled jobs and population to the suburbs. For the industrial real estate sector, the trend was born out of necessity. The modern, single story factory design needed large acre sites, which simply were not available in built-up urban areas. Consequently, industrial sites moved further and further away from the city—seeking large greenfield sites and favorable treatment from local municipalities. While initially the chief victim of this phenomenon was the City of Detroit, over time, a number of inner-ring suburbs have begun to feel the crunch as well—stuck with older, obsolete product and little prospects for redevelopment.

Fortunately for large cities and inner ring suburbs, large industrial users are now looking for sites within urban areas again. A variety of push-pull trends are driving users away from greenfield sites and back towards infill areas. Due to higher gas prices and access to labor, older, infill greenfield sites do not have the appeal that they used to. For infill industrial sites, industrial users know that the infrastructure they need is already in place, and that the skilled labor markets they need to access are nearby. A more favorable regulatory and tax environment has also helped sweeten the pot for a variety of sites.

In Metro Detroit, we have seen the beginning of this trend come to fruition. The I-94 industrial park in Detroit is catching action from logistics companies, and the former American Axle site in Detroit has been a draw for automotive suppliers looking for build-to-suit manufacturing space. More recently, an old GM site in Livonia was selected for a new Amazon warehouse—the ultimate contrast of old and new economy. In the short-term, expect the market for infill industrial development to improve—quality buildings and sites are in short supply in Metro Detroit. Over time, expect these sites to continue to hold their value—their locations simply offer too much value to industrial users over the long term.

INFILL INDUSTRIAL HEATS UP

Amazon is moving forward with a warehouse on an old GM warehouse site: the perfect comparison of the old and new industrial real estate market.

FOR MORE INFORMATION

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