

2Q23

Detroit Industrial Market Overview



NEWMARK

Market Observations

Economy

- The Detroit Metro’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 3.0% unemployment rate is down from 3.6% during the same time last year.
- Nonfarm payroll employment showed a 1.5% year-over-year gain in May
- In May, all industrial employment sectors posted slight gains year over year; manufacturing increased 0.02%, construction was up 0.6% and trade, transportation and utilities posted 0.5%.

Major Transactions

- General Motors plans a \$200.0-million electric vehicle parts plant at the former Palace of Auburn Hills site. The development is set to be 1.1 million SF, covering about 87.3 acres.
- Tier 1 auto supplier AGS Automotive Systems is expanding in Sterling Heights. The expansion will add up to 235,000 SF to grow its existing assembly capacity.
- DTE Energy signed the largest deal of the quarter, leasing 528,340 SF at the Pinnacle Logistics Center in Redford.

Leasing Market Fundamentals

- The Detroit Metro vacancy rate held at 3.1% during the second quarter of 2023 as just over 434,000 SF were absorbed. Net absorption was limited by lower construction completion levels during the second quarter of 2023 due to a scarcity of vacant existing space. Year to date, the industrial market has posted over 2.6 million SF of absorption.
- Just over 1.67 million SF of new construction has been completed in 2023, with an additional 8.7 million SF under development. Class A bulk warehouse accounts for 80%.0 of SF under development..
- Overall asking rates continue to climb on limited supply of space. The average asking is up 12.95% to \$7.56/SF from a year ago and over 25% from two years ago.

Outlook

- The bulk warehouse market has seen unprecedented growth in supply and demand over the past 10 years, with 26.8 million SF constructed and 34 million SF absorbed. In the coming quarters, 19 facilities totaling over 6.1 million SF of speculative construction will be added to the market.
- Bulk warehouse vacancy will likely increase as 19 facilities totaling over 6.1 million SF of speculative construction will be added to the market in the coming quarters.
- Rent growth is expected to be aggressive in the coming quarters. Strong demand, limited vacancies and rising interest rates will all be factors.

1. Economy
2. Leasing Market Fundamentals

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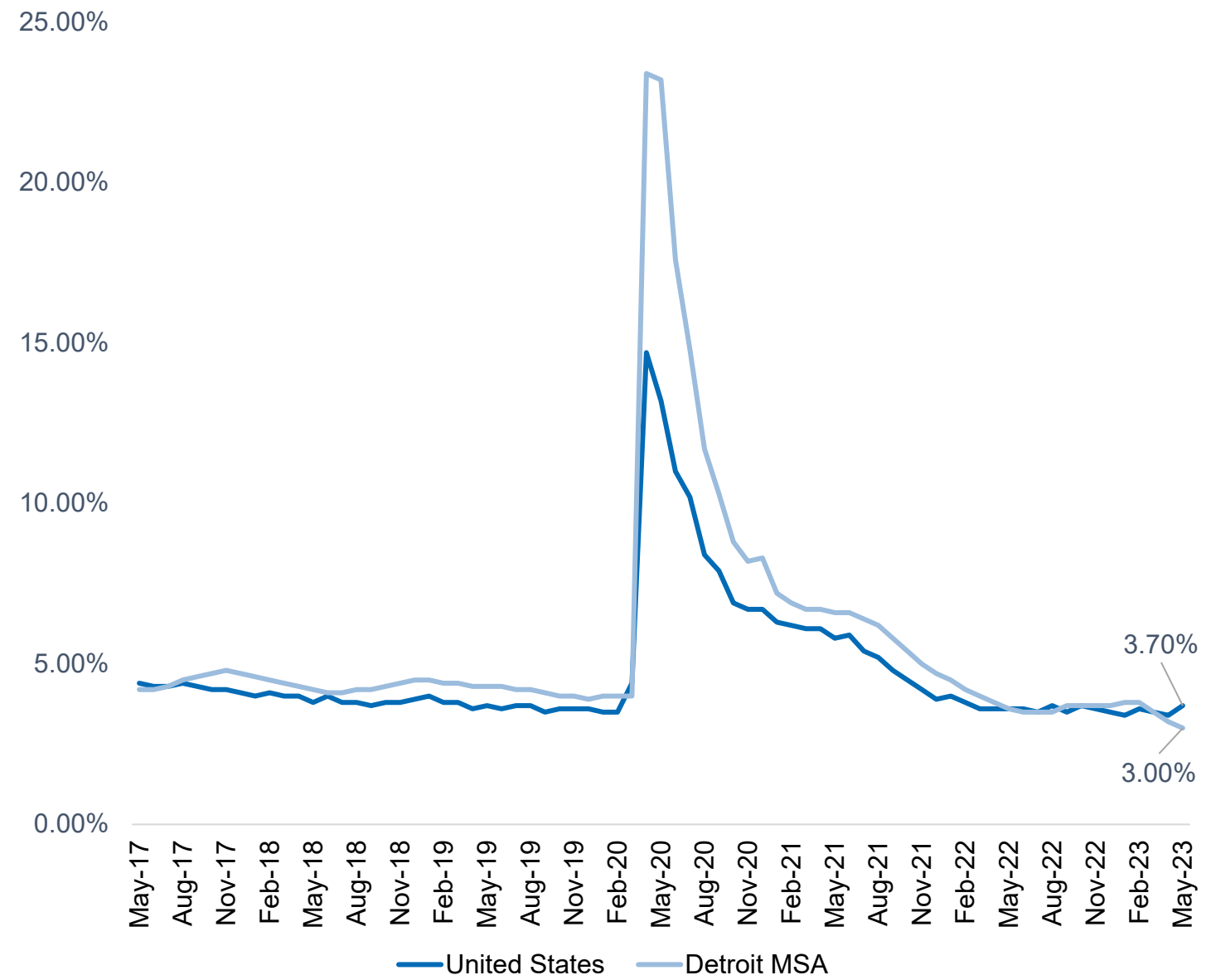
Economy



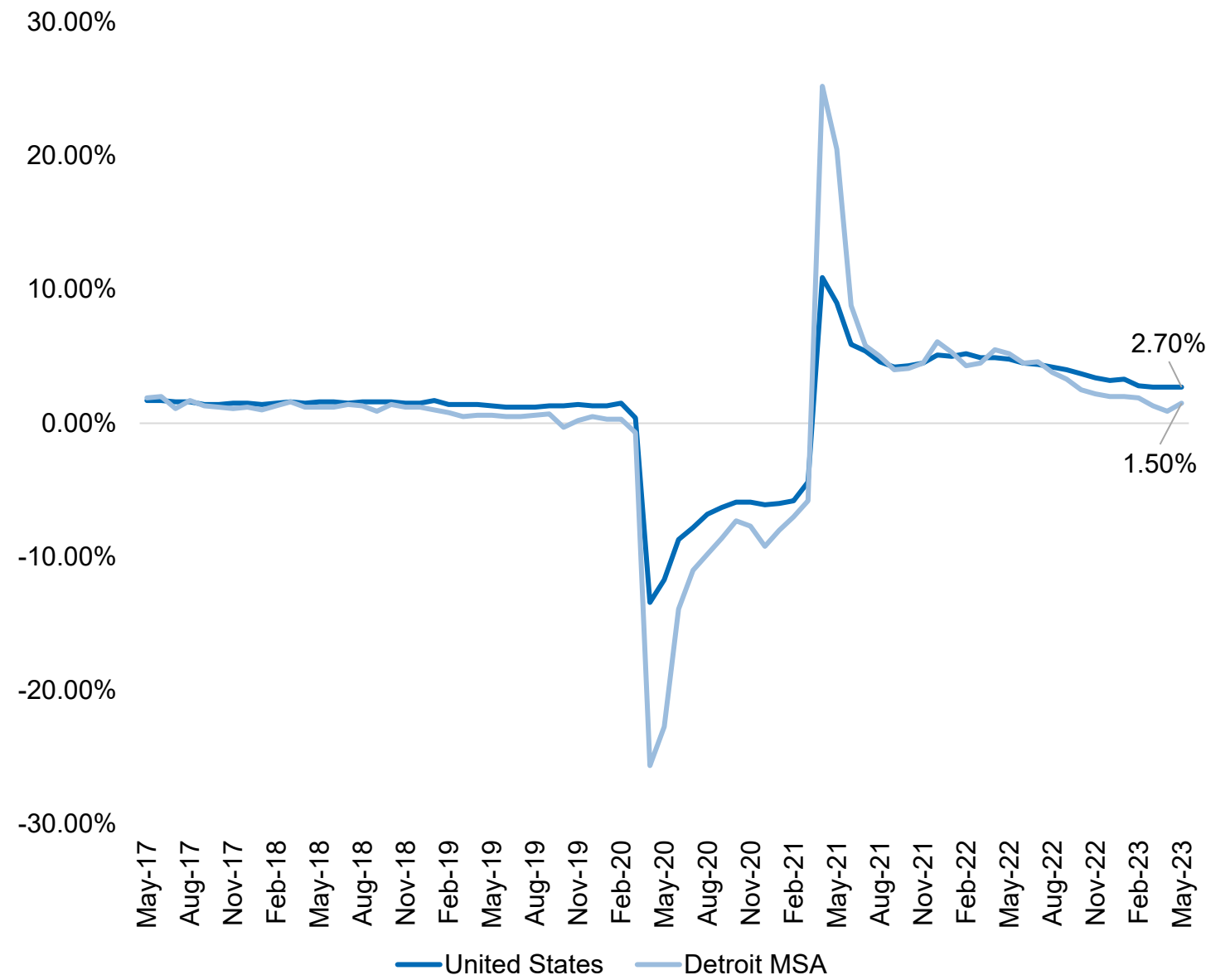
Metro Employment Trends Signal A Slowing Economy

The Detroit Metro labor market remains on relatively solid footing with the unemployment rate below previous years; however, year-over-year gains are beginning to soften amid persistently high inflation and increasing interest rates.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



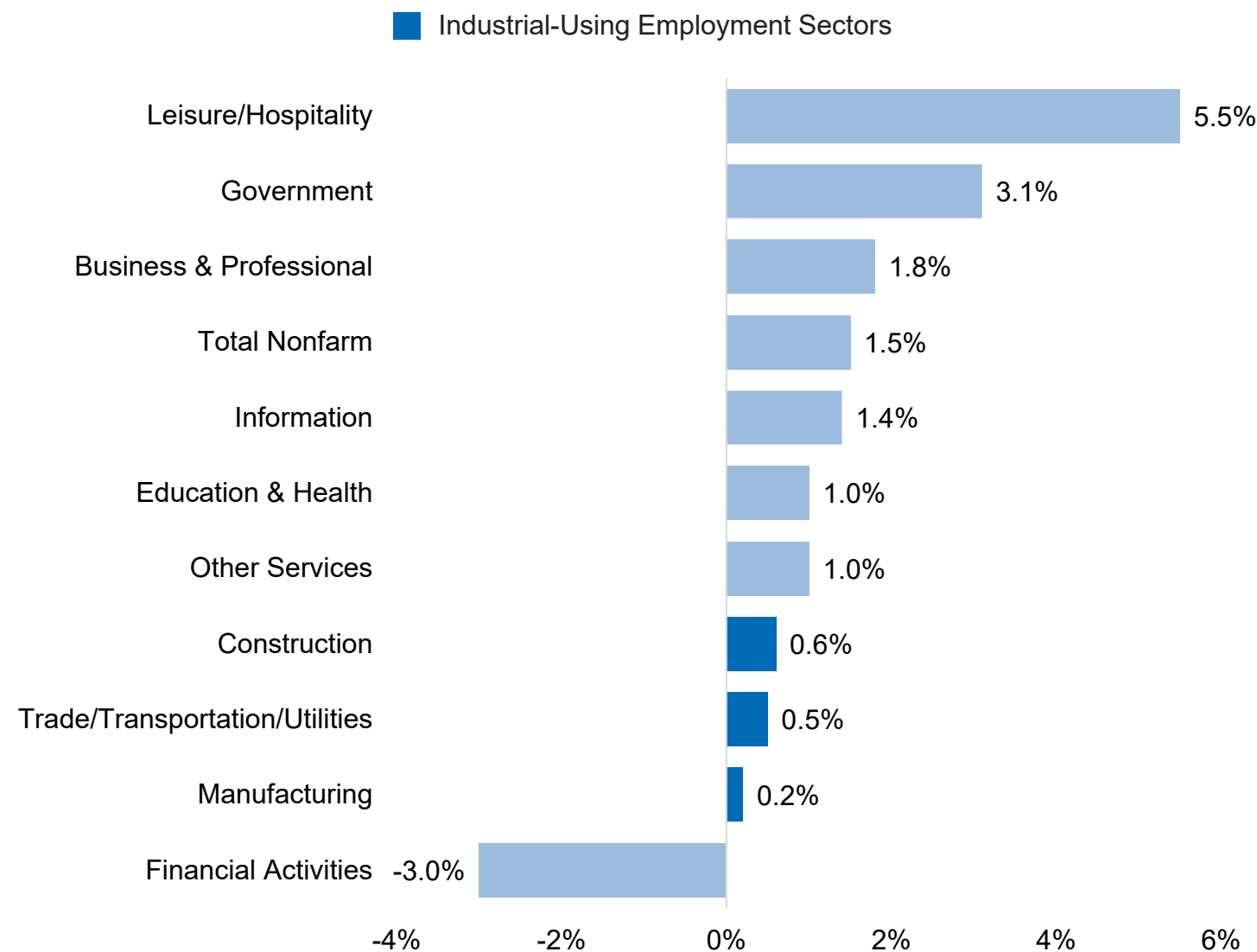
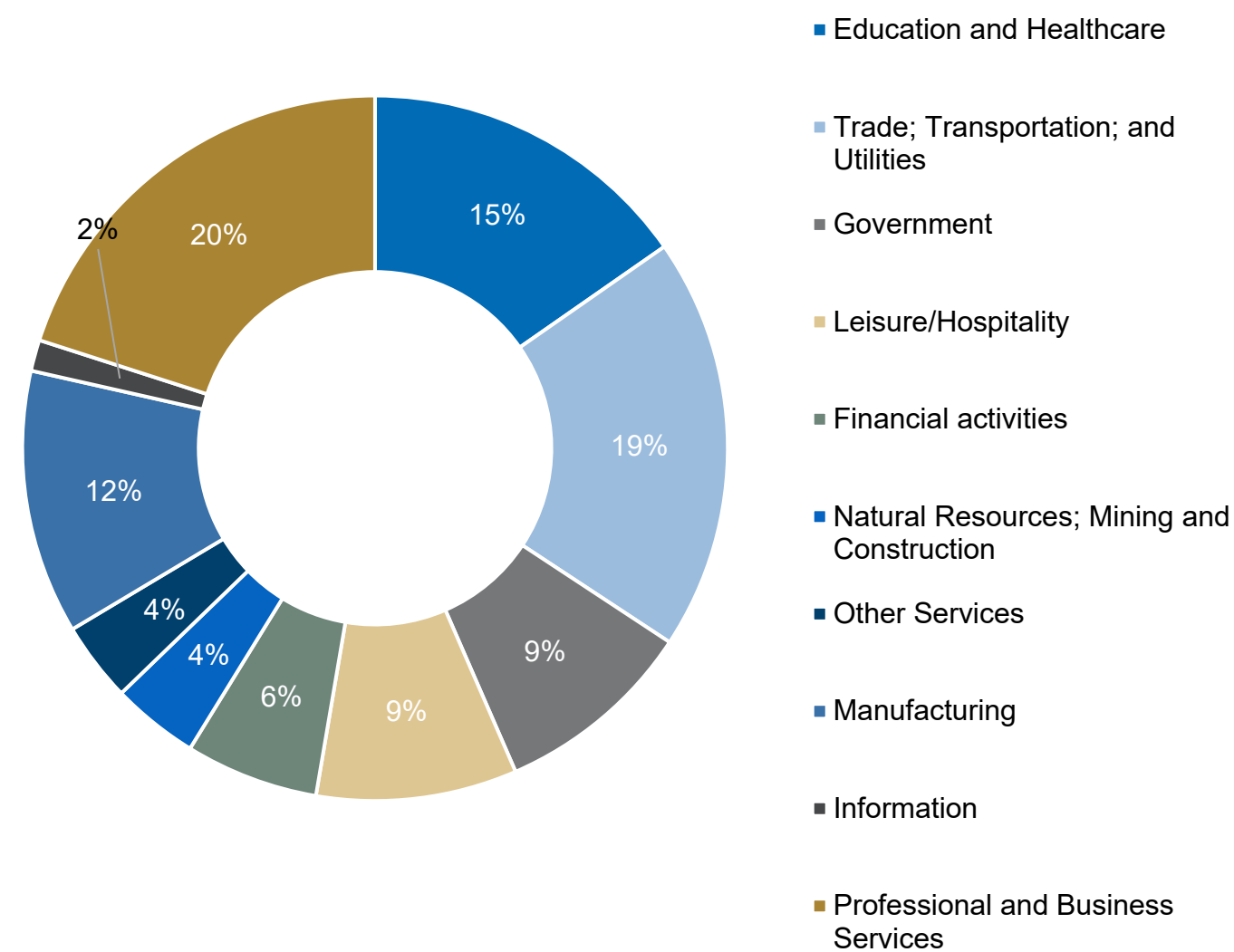
Source: U.S. Bureau of Labor Statistics, Detroit MSA

Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, while most other sectors saw modest year-over-year gains. Persistently high inflation and increasing interest rates have taken a toll on the financial activities sector which saw employment fall 3.0% from the previous year.

Employment by Industry, May 2023

Employment Growth by Industry, 12-Month % Change, May 2023

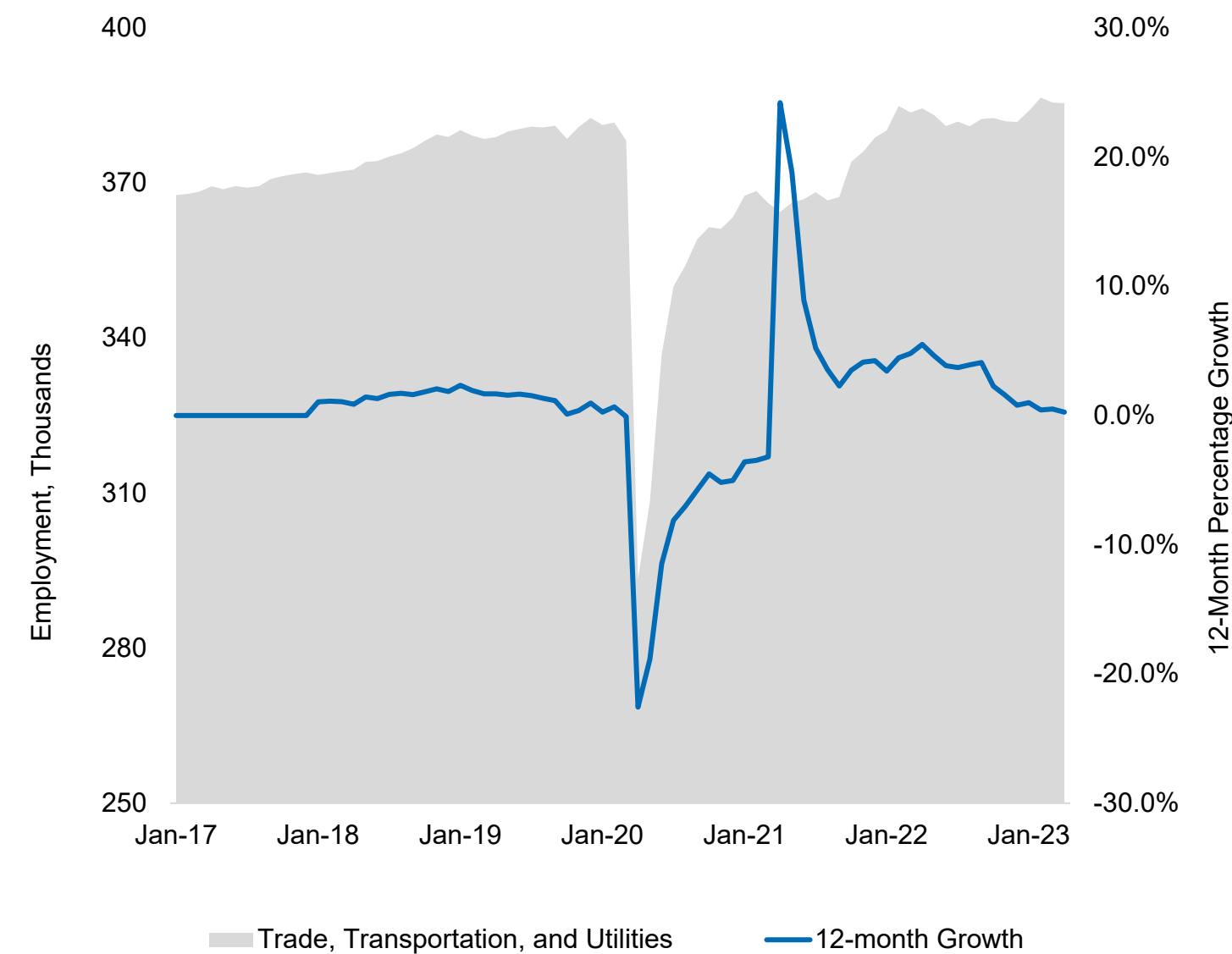


Source: U.S. Bureau of Labor Statistics, Detroit MSA

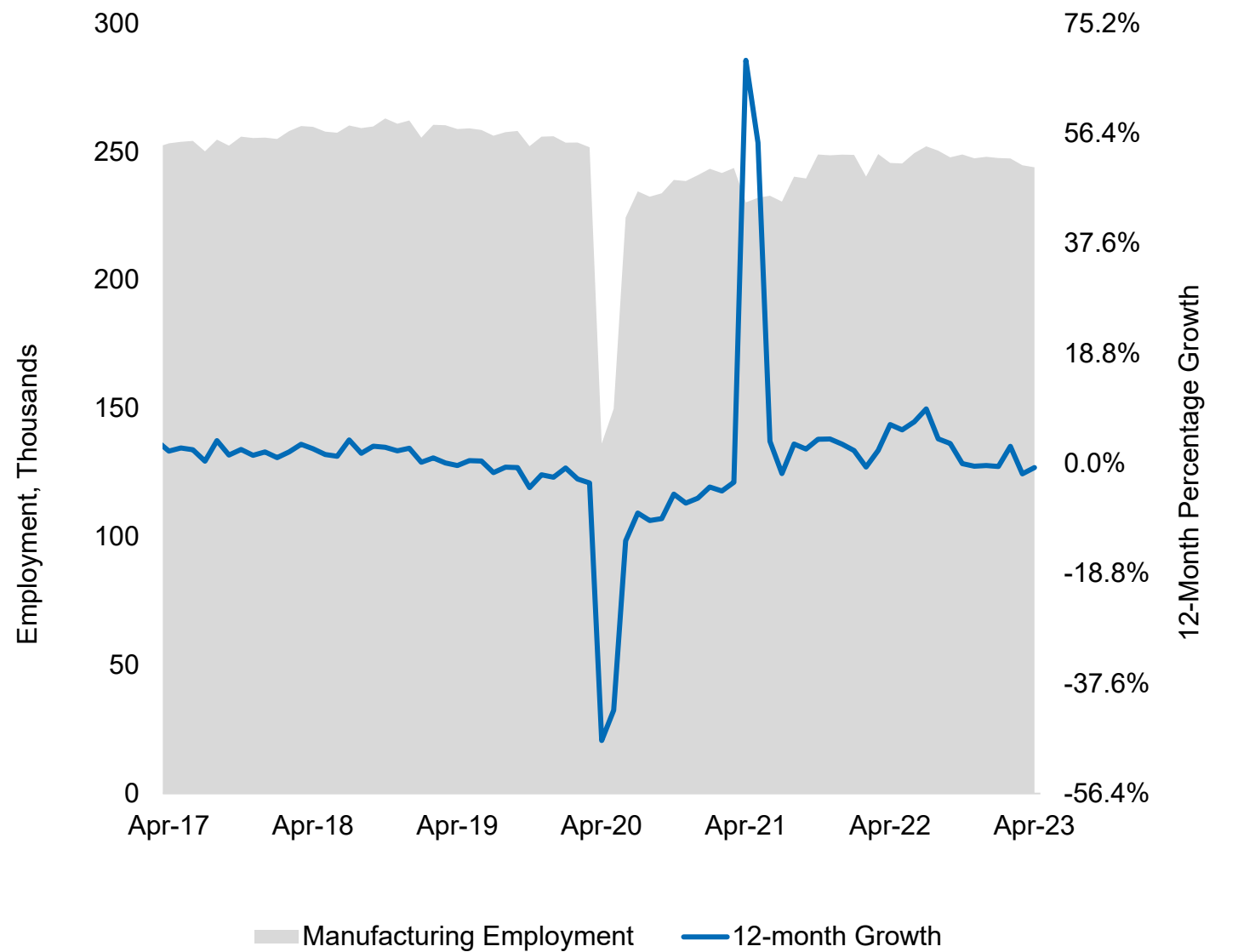
Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are seeing a slowdown in hiring. Both sectors are up against inflationary forces reducing consumer demand for most goods. With inflation cooling on costs of components and energy, these sectors could see renewed growth.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Detroit MSA

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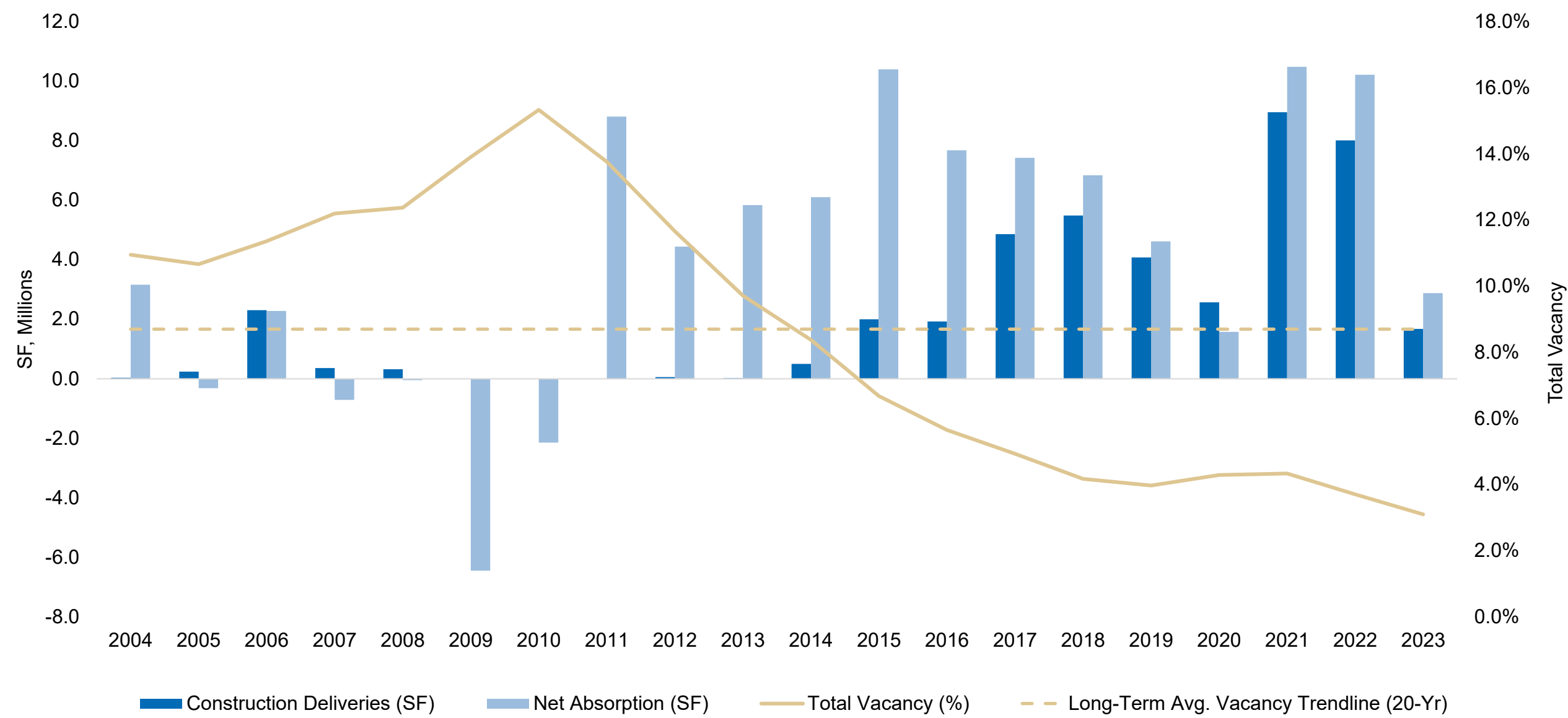
Leasing Market Fundamentals



Vacancy Fall as Absorption Outpaces Construction

The Detroit Metro vacancy rate held at 3.1% during the second quarter of 2023. Construction completions totaled 598,000 SF for the quarter and 1.67 million SF for the year. Construction starts continue to rise. Developers began construction on an additional 760,000 SF during the second quarter of 2023, bringing the total construction inventory to 8.7 million SF.

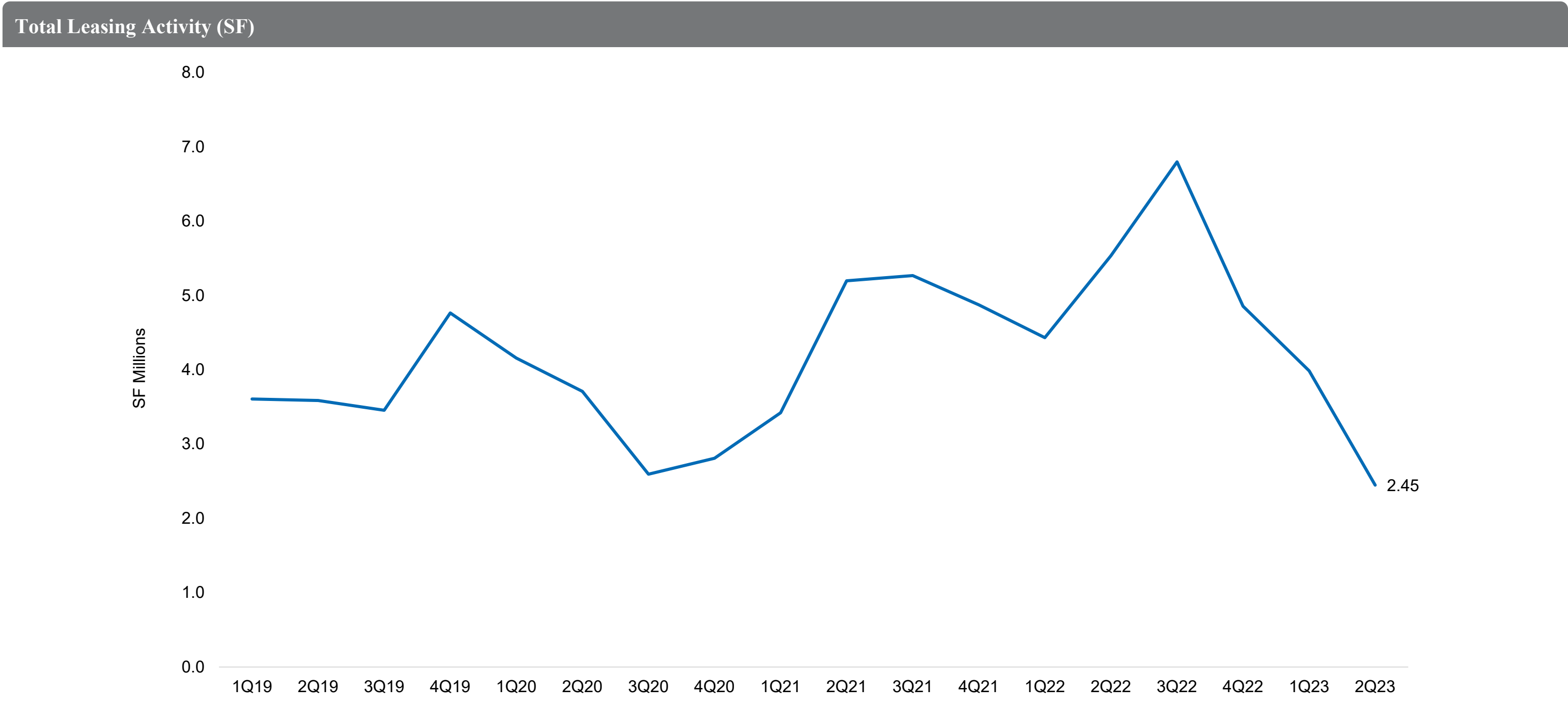
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Decelerates as Available Space Becomes Scarce.

With vacancies at just over 3% in the Detroit Metro, the limited supply of available space is slowing overall leasing activity. Leasing volume in the second quarter of 2023 totaled 2.45 million SF compared with the four-year quarterly average of 4.1 million SF. With over 8.7 million SF of both build-to-suits and speculative developments in the pipeline, the pace is likely to pick up

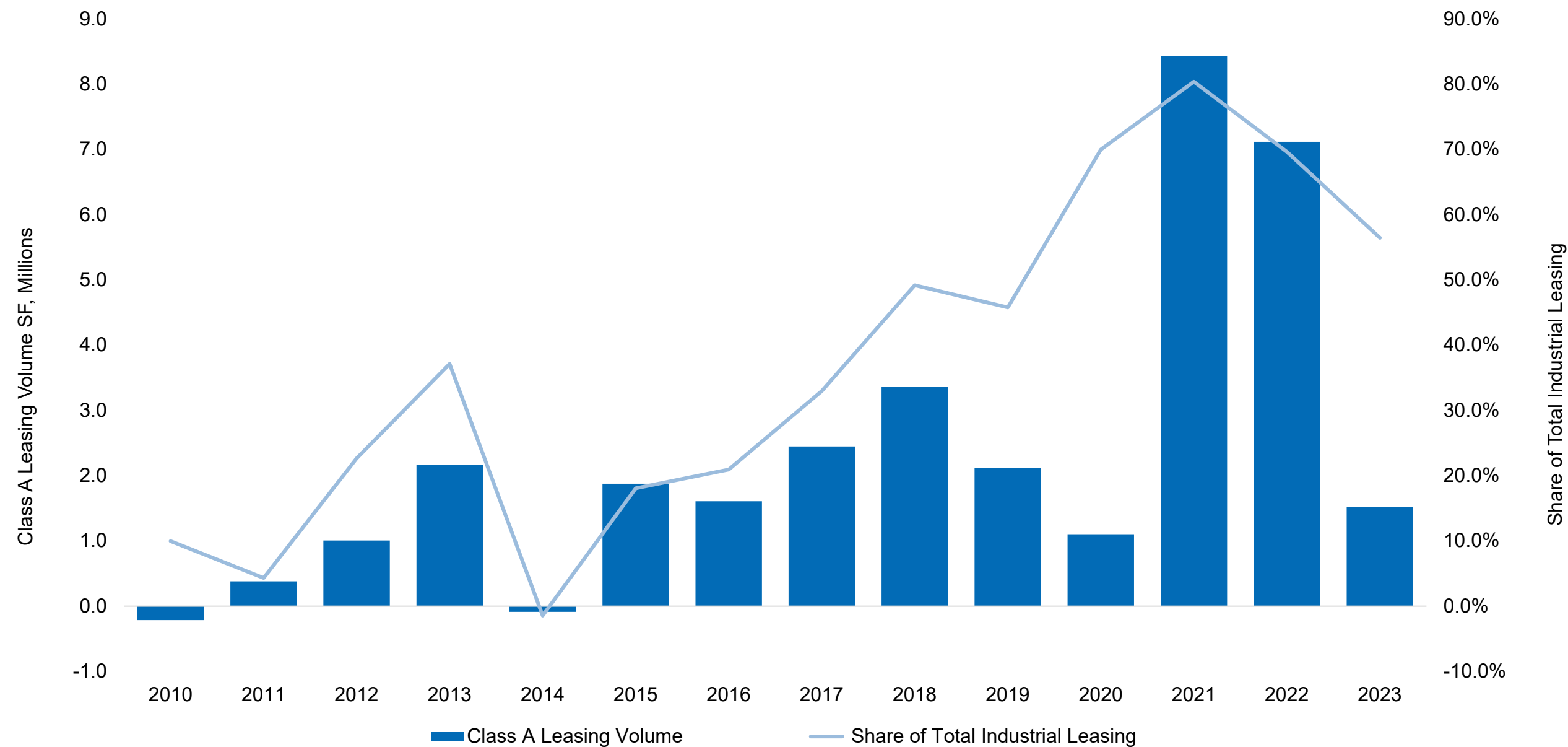


Source: Newmark Research, CoStar

Class A Warehouse Leasing Above Long-Term Average

Class A bulk warehouse continues to dominate the market. Since 2010, 26 million SF of new bulk warehouse has been built and nearly 33 million SF have been absorbed. Over the past four years, bulk warehouse share of leasing activity ranged from 50.0% to nearly 80% of overall leased space. Available space remains scarce amid strong user demand with vacancies at just 1.0%. Currently, 19 speculative Class A bulk warehouse developments are under construction, totaling just over 6.1 million SF.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

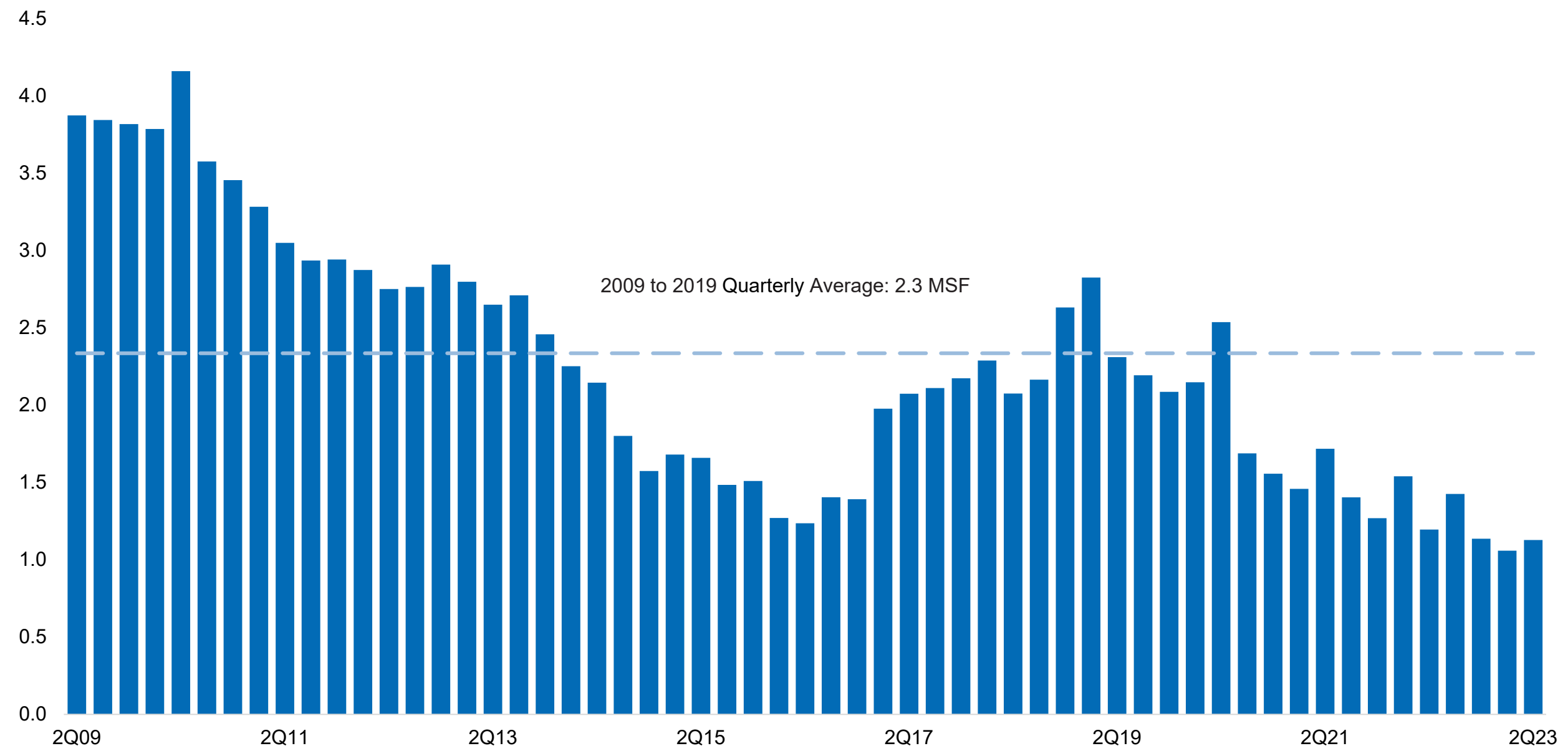


Source: Newmark Research, CoStar

Industrial Sublease Availability Continues to Shrink

Sublease volume continued to shrink to just 0.25% of Detroit Metro’s overall industrial inventory. The available sublease inventory of 1.0 million SF is well under the average inventory of 2.3 million SF.

Available Industrial Sublease Volume (msf)

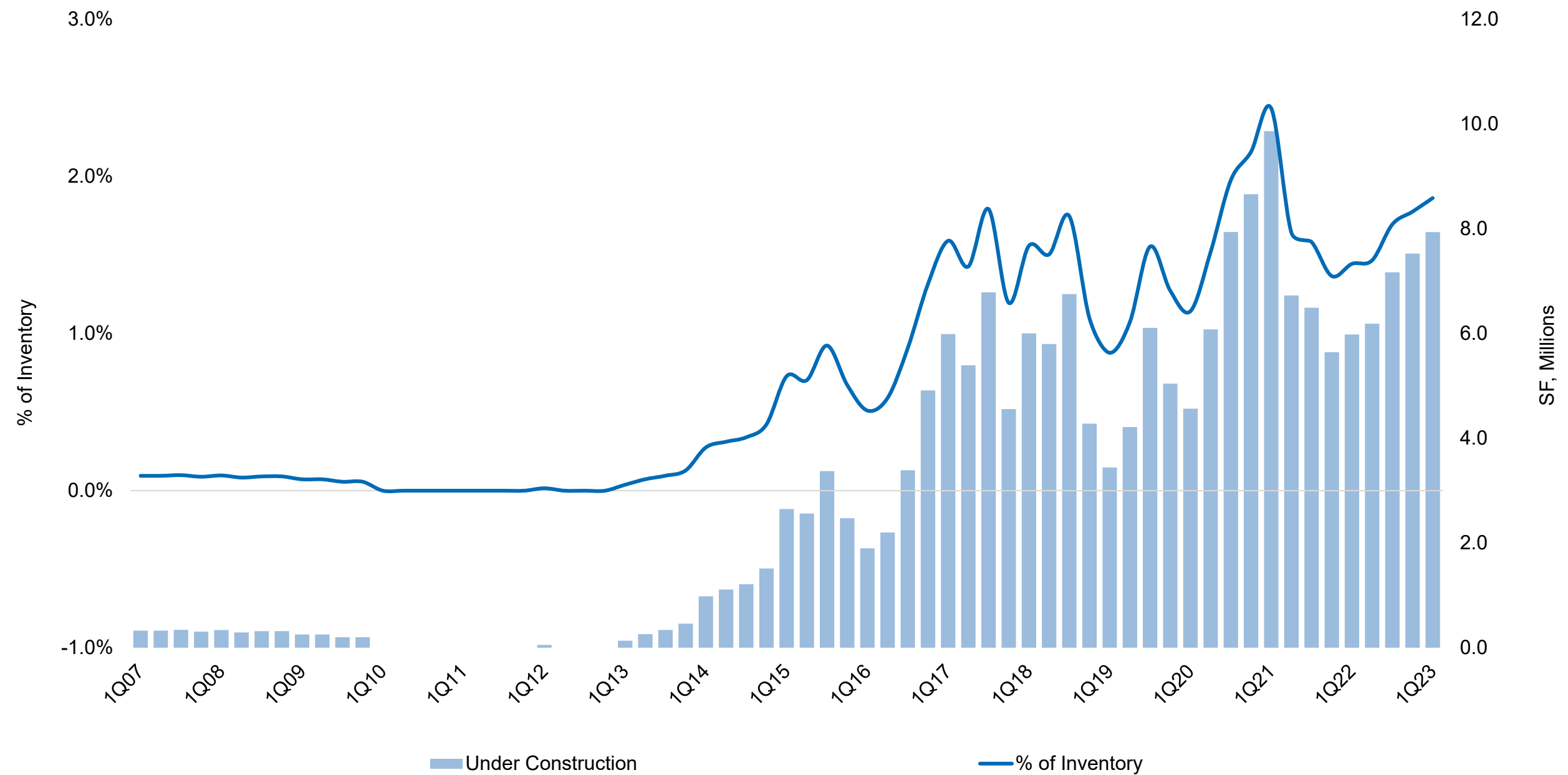


Source: Newmark Research, CoStar

Industrial Supply Pipeline Continues to Grow

Despite rising interest rates and construction costs, new developments under construction are at a two-year high. Currently, 29 industrial buildings are under construction, totaling 8.7 million SF. Twenty-one of those facilities, both build-to-suit and speculative, are bulk warehouses developments that total just over 7 million SF. Strong demand, low vacancy rates and rising lease rates are outweighing increased costs of construction.

Industrial Under Construction and % of Inventory

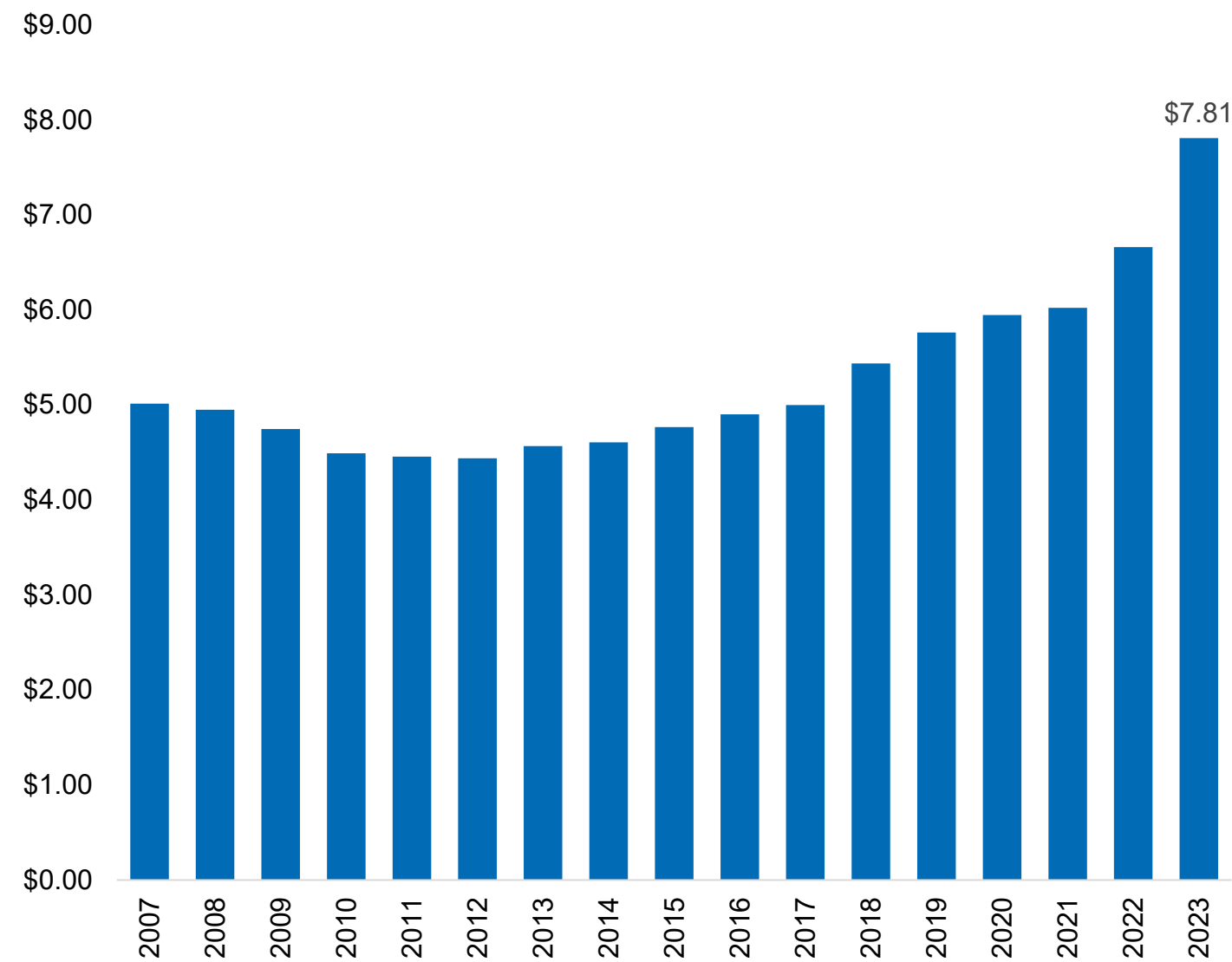


Source: Newmark Research, CoStar

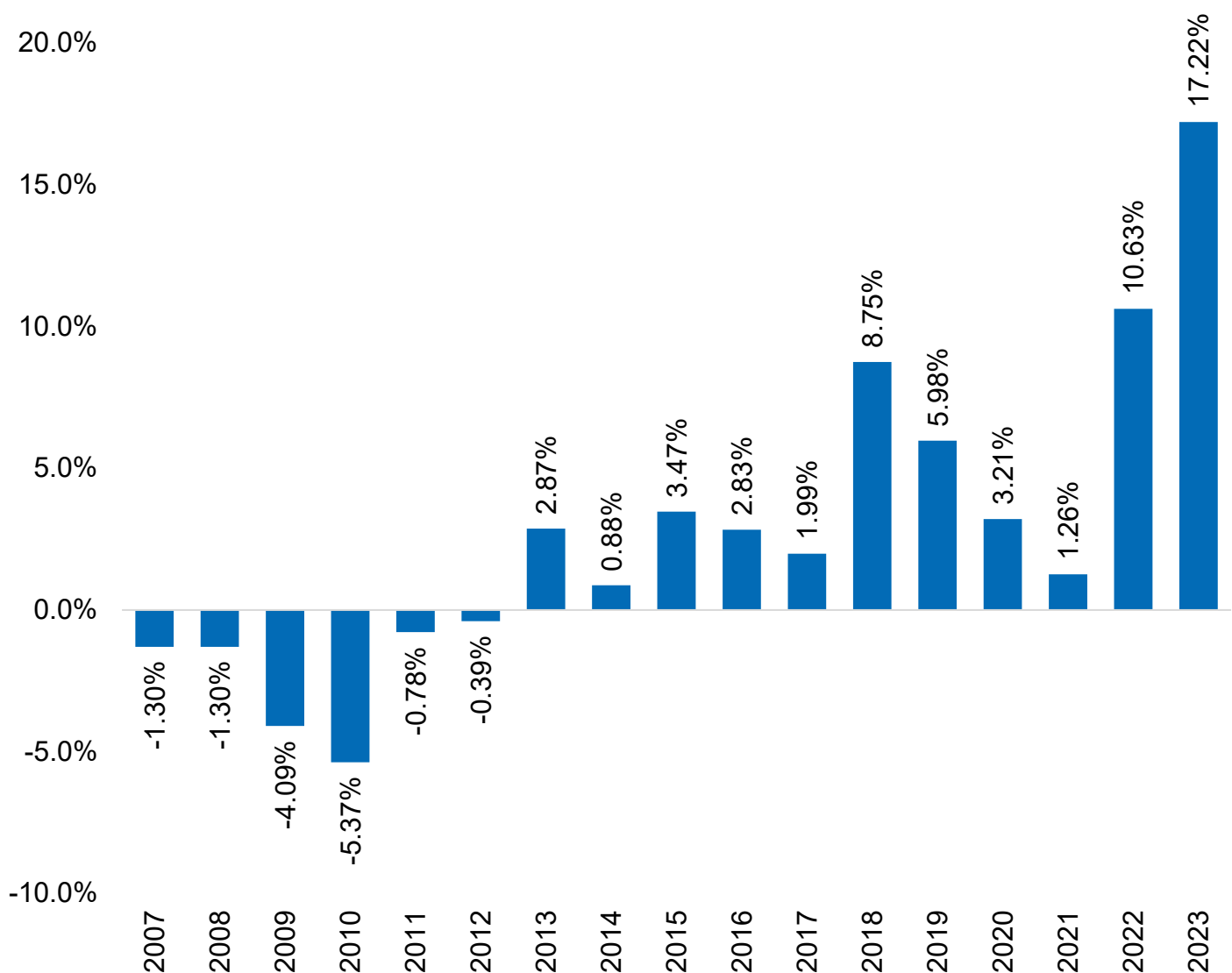
Record-Pace Industrial Asking Rent Growth Continues into the Second Quarter of 2023

Overall asking rates continue to climb on limited supply of space. The average asking rate is up 17.22% to \$7.81/SF from a year ago and over 30% from two years ago. Bulk warehouse is seeing the greatest increase with rates up 20.0% to \$8.48/SF from a year ago and nearly 40% from two years ago.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 2Q23 Lease Transactions

With a scarcity of available space in the market, particularly bulk warehouse, a significant percentage of leasing activity is in newly constructed facilities. Four out of the five largest deals during the quarter were in newly constructed facilities.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
DTE Energy <i>Existing Logistics Building Built in 1956</i>	Pinnacle Logistics Center	Western Wayne County	Direct New	528,340
CEVA Logistics US, Inc. <i>New Construction</i>	Romulus Trade Center Building 2	Southern Wayne County	Direct New	349,492
Choctaw-Kaul Distribution <i>New Construction</i>	Halyard Ridge Business Park	Western Wayne County	Direct New	286,347
Akasol AG <i>New Construction</i>	Mound Road Industrial Park 1	Macomb County	Direct New	104,391
Penske Logistics Inc <i>New Construction</i>	Livonia West Commerce Center 2	Western Wayne County	Direct New	101,965

Source: Newmark Research

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