

DETROIT INDUSTRIAL MARKET

DEVELOPERS SEEING NEW MARKET OPPORTUNITY IN WAKE OF PANDEMIC

The Metro Detroit industrial market vacancy climbed 40 basis points to 4.4% during the second quarter of 2020, as just over 1.6 million square feet in net vacancies were added to the market. The bulk of the Metro area vacancies came from Art Van's 1.0-million-square-foot facility in Warren following the company's bankruptcy. With stay-at-home measures and a near stop to most business activity, the industrial market was mostly quiet during the quarter. However, in wake of the COVID-19 crisis, developers are seeing a new market opportunity as the demand in the ecommerce industry is expected to grow, as people grow reluctant to shop at traditional brick-and-mortar stores. New construction for bulk warehouse jumped 50% to 4.3 million square feet during the second quarter. In addition, Amazon continues to expand its presence by taking more space in Macomb County.

SOUTHEAST OAKLAND COUNTY

The Southeast Oakland County industrial vacancy rate climbed 20 basis points to 2.5% during the second quarter, as nearly 177,000 square feet in net vacancies were added to the market. Several large vacancies were created in Auburn Hills; notably, 84,000 square feet at 2430 East Walton Boulevard and a 46,000-square-foot space opened up at 2840 Auburn Court. A few notable vacancies of 40,000 square feet in Madison Heights opened up, as well, on Stephenson Highway. Leasing activity was quiet, with the exception of Oxus America Inc. relocating from 2704 Paldan Drive to 34,000 square feet at 2046 Brown Road in Auburn Hills. Webasto Roof Systems released 80,000 square feet at 2655 Product Drive in Rochester Hills, formerly occupied by Eissmann Automotive. The balance of market activity didn't produce much positive absorption. Esys Automation, LLC subleased 90,000 square feet from Valiant International, Inc. at 1500 Highwood East in Pontiac. Michigan Diversified Holdings, Inc. also subleased Stec USA, Inc.'s former 18,000 square feet at 31831 Sherman Avenue in Madison Heights. A few notable sales that closed during the quarter included Magic Research LLC's purchase of 29,000 square feet at 31601 Research Park Drive in Madison Heights and Griffon Steel's purchase of the 24,000 square feet it formerly occupied as a tenant at 1561 East Highwood in Pontiac. Despite the state-mandated pause in construction activity over the past three months, new development has now resumed. The newest construction project is Auburn Pharmaceutical Company's 65,000-square-foot build-to-suit located at 1744 Rochester Industrial Drive in Rochester Hills being constructed by General Development. Other projects are ongoing. The largest of these developments remains Ashley Capital's Tri-County Commerce Center III, which will total 926,000 square feet.

CURRENT CONDITIONS

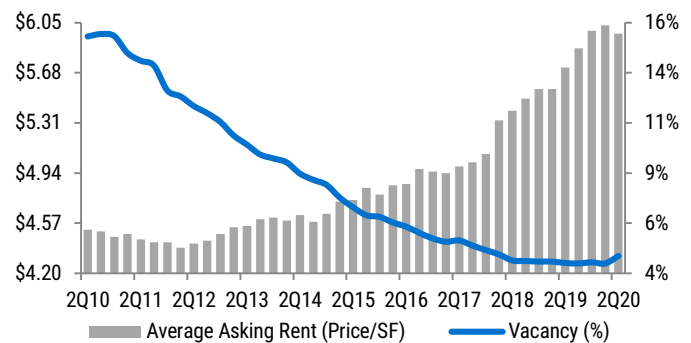
The Metro Detroit industrial market vacancy climbed 40 basis points to 4.4% during the second quarter of 2020.

New construction for bulk warehouse jumped 50% during the second quarter.

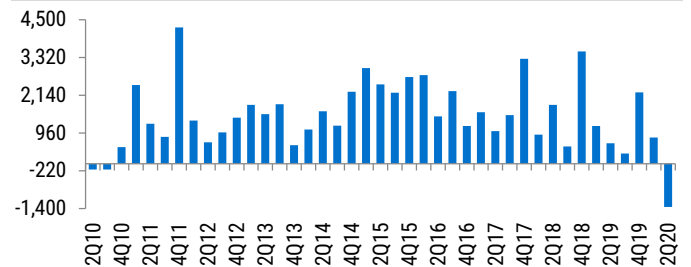
In wake of the COVID-19 crisis, developers are seeing a new market opportunity as the demand in the ecommerce industry is expected to grow,

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	400 MSF	399 MSF	394 MSF	↑
Vacancy Rate	4.4%	4.0%	4.0%	↓
Quarterly Net Absorption	(1,635,248)	824,892	644,506	↑
Average Asking Rent	\$5.97	\$6.03	\$5.72	↑
Under Construction	6,121,677	4,606,469	4,214,950	↑
Deliveries	0	651,469	360,000	↑

This is Ashley Capital's third bulk warehouse development in Hazel Park over the past three years; it started following the success of the first two buildings, that are at 100% occupancy. The three-building complex will total more than 2.1 million square feet. Other ongoing construction projects include Schostak Brokers's 138,000-square-foot development at 2150 Executive Hills in Auburn Hills and Kemp & Peyerk's 46,000-square-foot facility on Lapeer Road in Lake Orion. In addition, Holistic Industries is building a 65,000-square-foot build-to-suit on Stephenson Highway in Madison Heights.

MACOMB COUNTY

The Macomb County industrial vacancy rate climbed 160 basis points to 4.5% during the second quarter, as just over 1.3 million square feet in net vacancies were added to the market. Art Van Furniture Inc.'s bankruptcy filing and subsequent vacating of the company's 1.0-million-square-foot headquarters and warehouse facility at 6500 14 Mile Road in Warren accounted for the bulk of negative absorption in the submarket. Other vacancies during the quarter include 228,000 square feet at 29880 Groesbeck Highway and 129,000 square feet at 30450 Little Mack Avenue in Roseville. In addition, Sterling Heights saw a 53,000-square-foot vacancy at 6525 Center Drive, a 36,000-square-foot at 6300 Sterling Dr N and a 25,000-square-foot vacancy at 41155 Technology Park Drive. A few new leases partially offset new availabilities. PTI Quality Containment Solutions, LLC leased 128,000 square feet at 7000 Fifteen Mile Road in Sterling Heights. Rolar Property Services Inc. took 15,000 square feet at 5860 Frazho Road in Warren, and RTE LLC leased 11,000 square feet at 15776 Leone Drive in Macomb Township. Amazon signed a lease and is scheduled to occupy Ashley Capital's 569,000-square-foot speculative development at Liberty Park in Sterling Heights during third-quarter 2020. The Liberty Park development was completed at the end of 2019. With the lease at Liberty Park, Amazon's presence in Macomb County has now grown to over 1.5 million square feet. Meanwhile, construction activity has resumed on several other major developments around Macomb County. Hillwood Investment Properties's 296,000-square-foot speculative bulk warehouse on Dequindre Road in Warren is scheduled to be completed near the end of 2020.

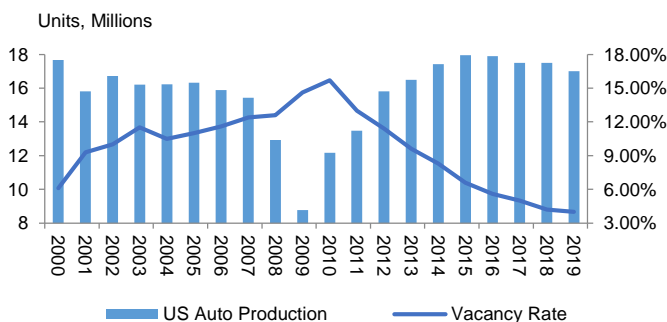
Two major build-to-suit projects are expected to be completed later this year: Crown Development Inc.'s 451,000-square-foot parts distribution center, which is being built for FCA at Nine Mile and Hoover Roads, and Aperam's 100,000-square-foot steel processing facility on Eighteen 1/2 Mile Road in Sterling Heights.

SOUTHERN WAYNE COUNTY

The Southern Wayne County industrial vacancy rate climbed 50 basis points to 2.4% during the second quarter, as nearly 270,000 square feet in net new vacancies were added to the market. The bulk of the submarket's negative absorption came from a 160,000-square-foot block of space in the Maksteel building in Dearborn. Meanwhile, another 70,000 square feet of manufacturing space came available at 24850 Northline Road in Taylor. While the submarket saw new vacancies in its older manufacturing inventory, the bulk warehouse market continues to show strength both in the Southern Wayne and Western Wayne County submarkets. Just over 70% of Metro Detroit's bulk warehouse inventory is in these two submarkets. The bulk warehouse/distribution vacancy rate for the combined submarkets, totaling 25.0 million square feet, fell to just 0.7% during second-quarter 2020. The effects of COVID-19 have developers predicting greater demand in the ecommerce market, creating greater demand for bulk warehouse logistics space. Scarcity of available space and a greater source of demand has created a renewed impetus on new developments. Ashley Capital is adding additional bulk warehouse inventory with the construction of Crossroads Distribution Center buildings #4 and #5. The two buildings will add nearly 925,000 square feet of Class A bulk warehouse space to the submarket by first-quarter 2021. Other new developments are in the pipeline that are in close proximity to the Metro Airport. Hillwood Development has two buildings planned, 351,520 square feet and 249,600 square feet. NorthPoint Development has broken ground on a 409,000-square-foot and 245,000-square-foot facilities. While Kojai is in the process of building a 165,000-square-foot distribution facility for Performance Food Group and has potential plans for additional buildings ranging from 80,000 to 243,000 square feet.

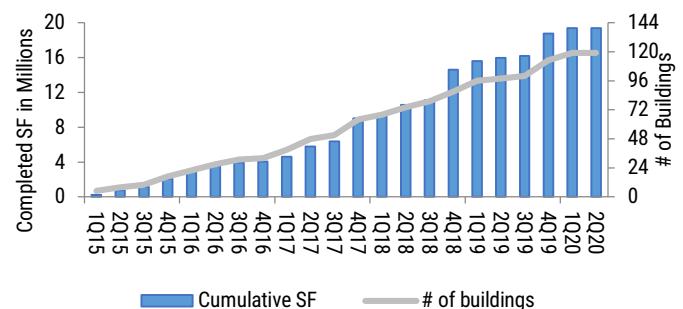
US AUTO PRODUCTION TREND

Vacancy Rate (%)



CUMULATIVE CONSTRUCTION DEVELOPMENTS

Vacancy Rate (%)



WESTERN WAYNE COUNTY

The Western Wayne County industrial vacancy rate held steady at 2.7% during the second quarter, as just over 50,000 square feet was absorbed. Mobility Transportation Services' purchase of the 100,000-square-foot facility at 12633 Inkster Road in Livonia accounted for the bulk of overall absorption. Various new vacancies partially offset absorption. The largest new vacancy in the submarket was a 37,000-square-foot space at 12163 Globe Street. No speculative projects are under development. Several sizable build-to-suit facilities are currently under construction. Webasto Roof Systems Inc. is building a 300,000-square-foot industrial building at Schoolcraft and Haggerty Roads in Plymouth, and Cooper Standard is constructing an 110,000-square-foot office facility at Seven Mile and Haggerty Roads in Northville. Meanwhile, Subaru Research and Development Inc. continues to construct a 70,000-square-foot build-to-suit research facility on Michigan Avenue in Van Buren Township.

SOUTHWEST OAKLAND COUNTY

The Southwest Oakland County industrial vacancy rate fell 10 basis points to 5.9% during second-quarter 2020, as just over 38,000 square feet was absorbed. Novelis completed construction of the company's 40,000-square-foot Customer Solutions Center on the corner of MacKenzie Drive and Cabot Drive in Novi. Market activity was mostly quiet during the quarter.

On the construction front, three major construction projects are continuing, including a 505,000-square-foot build-to-suit development for Hans Power and Water in New Hudson and a 193,000-square-foot facility nearly finished for Berkshire E-Supply in Novi. In addition, developer Amson Nassar is prepping land for a potential 137,000-square-foot speculative development on Twelve Mile Road in Novi.

CITY OF DETROIT

The City of Detroit's industrial vacancy rate fell 10 basis points to 12% during the second quarter, as just over 74,000 square feet was absorbed. Detroit is poised to see a significant vacancy in the third quarter of 2020 as Sakthi Automotive Group vacates its 618,000-square-foot manufacturing plant on the corner of West Fort Street and Waterman Street. Despite the setback, other major investments are underway. The city's largest development is Fiat Chrysler's new, \$1.6-billion production facility at the Mack Engine complex. The new production facility is scheduled to be completed in late 2020. Additional plans are underway for two new plants in the City of Detroit. Dakkota Integrated Systems LLC is moving forward with plans for a \$40.0-million, 300,000-square-foot plant to supply parts to FCA's new Mack Avenue assembly plants, and Italian automaker Tiberina Group recently acquired land to construct a plant near Hamtramck. Meanwhile, Bangladesh's Beximco Group plans to invest \$20.0 million to set up a plant to manufacture face masks.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	City	Square Feet
Amazon	33600 Mound Road	Macomb	Sterling Heights	569,000
Pti Quality Containment Solutions	7000 Fifteen Mile Road	Macomb	Sterling Heights	128,000
Maintenance Supply Headquarters	19881 Brownstown Center Dr	Southern Wayne	Brownstown Township	91,000
Auburn Pharmaceutical	1744 Rochester Industrial	SE Oakland	Rochester Hills	65,000
Oxus America Inc	2046 Brown Rd	SE Oakland	Auburn Hills	37,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
12633 Inkster Road	Western Wayne	\$4,450,000	\$44	100,000
34700 Grand River Ave	SW Oakland	\$5,810,000	\$67	86,781
16660 E 13 Mile Rd	Macomb	\$1,625,000	\$47	34,380
31601 Research Park Dr	SE Oakland	\$1,725,000	\$59	29,220
1561 Highwood	SE Oakland	\$1,505,000	\$61	24,646

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	5,300,453	44,525	7.0%	(10,288)	(21,836)	\$7.71	\$10.60	\$5.77
Detroit	45,943,160	300,000	12.0%	74,760	(239,740)	\$3.64	\$5.74	\$5.03
Livingston County	13,488,329	40,000	3.4%	(11,910)	(9,520)	\$5.39	\$9.56	\$6.10
Macomb	84,128,143	846,510	4.5%	(1,329,926)	(1,139,567)	\$5.82	\$7.25	\$5.26
SE Oakland	87,327,661	1,225,437	2.5%	(177,463)	226,508	\$5.94	\$9.44	\$6.00
Southern Wayne	56,933,996	2,411,565	2.4%	(269,160)	(210,647)	\$5.25	\$8.40	\$5.31
SW Oakland	38,085,387	843,640	5.9%	38,120	465,165	\$5.89	\$9.46	\$6.67
Western Wayne	69,559,668	410,000	2.7%	50,619	119,281	\$6.48	\$10.46	\$5.71
Totals	400,766,797	6,121,677	4.4%	(1,635,248)	(810,356)	\$5.30	\$9.47	\$5.53

SUBMARKET STATISTICS BY SUBTYPE

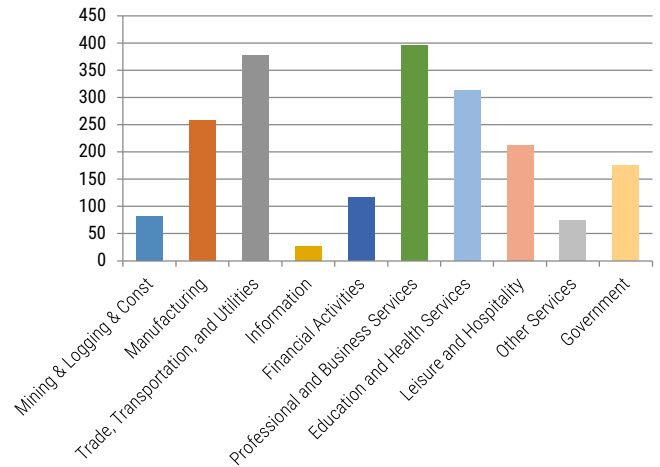
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	217,799,851	1,531,467	4.3%	(257,096)	160,924	5.53
Incubator	1,917,930	X	4.9%	4,800	2,800	\$6.47
R&D/Flex	43,018,128	289,525	8.2%	76,949	459,951	\$9.47
Warehouse/Distribution	138,030,888	4,300,685	4.5%	(1,459,901)	(1,434,031)	\$5.30
Totals	400,766,797	6,121,677	4.4%	(1,635,248)	(810,356)	\$5.97

ECONOMIC CONDITIONS

The Metro Detroit unemployment rate climbed dramatically to near 24% in May as COVID-19 containment measures shutdown most industries. Employment in the Manufacturing industry fell 28% compared to the same time last years. Other industries saw significant employment loses. Leisure and Hospitality fell 52%, Construction fell 20% while Trade & Transportation fell 14%.

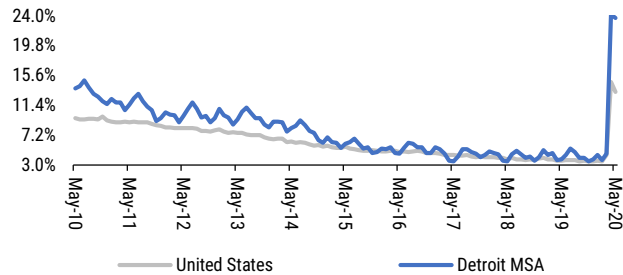
EMPLOYMENT BY INDUSTRY

Detroit MSA, May 2020



UNEMPLOYMENT RATE

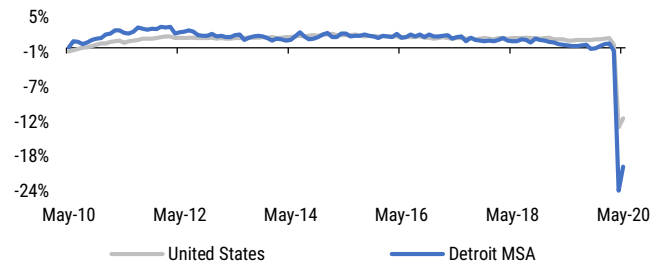
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

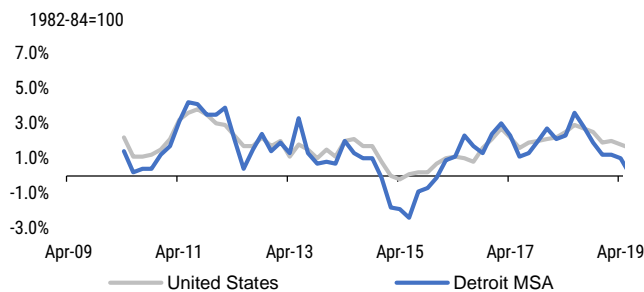
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

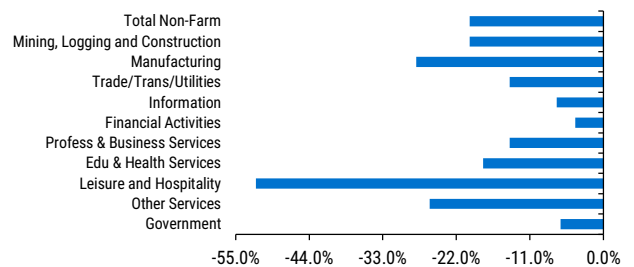
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

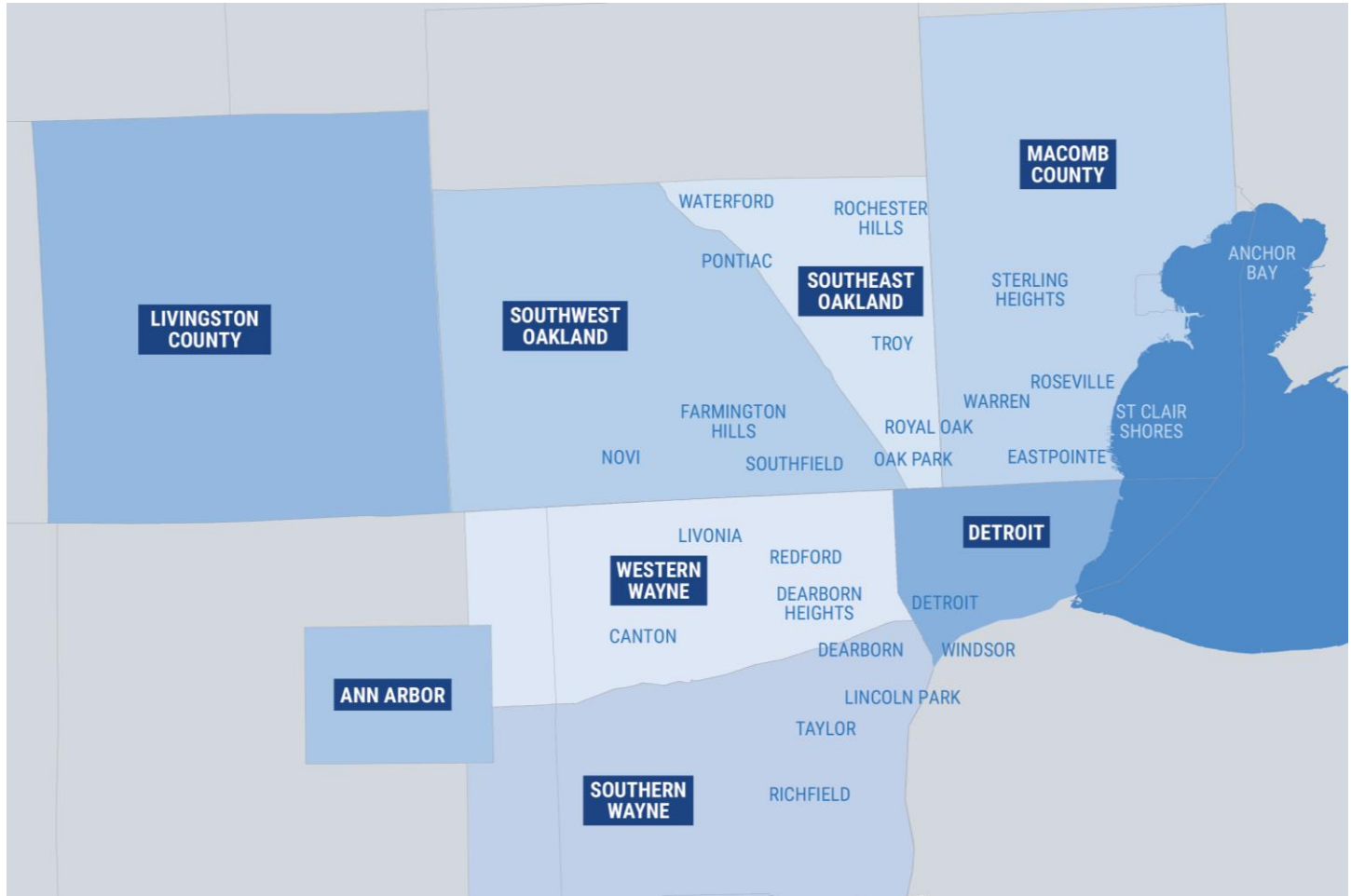
EMPLOYMENT GROWTH BY INDUSTRY

Detroit May 2020, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

DETROIT INDUSTRIAL SUBMARKET LOCATIONS



Farmington Hills

27725 Stansbury, Suite 300
Farmington Hills, MI 48334
248.350.9500

Southfield

26555 Evergreen, Suite 500
Southfield, MI 48076
248.350.9500

John DeGroot

Vice President, Research
248.357.6588
jdegroot@ngkf.com

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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