

# MARKET REPORT

INDUSTRIAL

Detroit Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

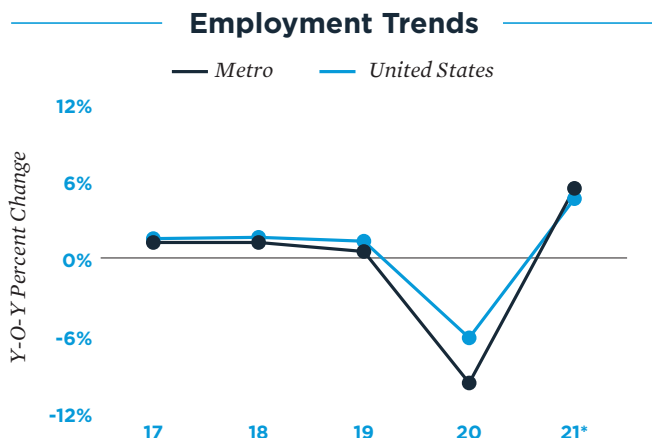
2Q/21

## Storage Needs Drive Leasing; Speculative Development Pressures Vacancy, Rents

### Shortcomings of on-demand delivery boost space needs.

Disrupted supply chains amid a surge in online ordering during the health crisis buoyed industrial demand over the past four quarters. Companies recognized the need to keep more stock on hand, bolstering the demand for additional storage capacity. Vehicle parts distributors and retailers including U.S. Autoforce, Alex Brands and Hawthorne Gardening recently penned leases. Amazon is also rapidly expanding in the metro. During the past year, the company leased 560,000 square feet on Mound Road for a distribution center and 150,000 square feet in Royal Oak. Amazon also has a 1 million-square-foot distribution building underway in Pontiac that is slated for completion in the final quarter of 2021.

**Speculative development poses challenges.** Of the 8 million square feet underway in the metro with completion dates extending into 2022, more than half is being constructed without a signed lease. Logistic hurdles and tremendous growth in e-commerce during the health crisis have emboldened developers hoping to take advantage of the robust need for storage facilities. Warehouse and distribution buildings account for the bulk of speculative inventory and the greatest portion is located in the Airport District and Central I-96 Corridor submarkets. As more projects are finalized without a tenant, fundamentals, especially in these areas, are likely to be impacted as the year progresses.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Industrial 2021 Outlook



**100,800  
JOBS**

*will be created*

### EMPLOYMENT:

Roughly 47,100 positions were added in the first quarter of 2021, keeping employers on track to replace roughly half of the nearly 200,000 jobs lost in 2020. This year the employment base is expected to expand 5.4 percent.



**5,000,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

The growth in e-commerce is generating construction of large distribution facilities, many being built on speculation. Deliveries will rise above the five-year average of 3.9 million square feet in 2021, expanding inventory 0.9 percent.



**30  
BASIS POINT**

*increase in vacancy*

### VACANCY:

An elevated delivery pace that includes a number of large speculative buildings will raise vacancy to 4.8 percent in 2021. This is the third consecutive year of gains in availability that included a 50-basis-point jump in 2020.



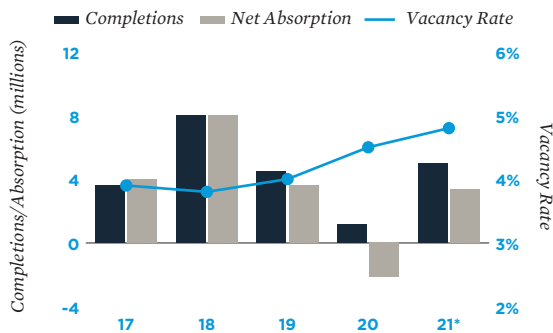
**1.3%  
INCREASE**

*in asking rent*

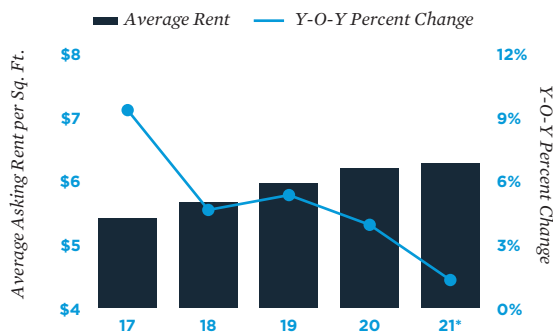
### RENT:

New inventory being marketed will contribute to rent climbing for the 10th year in a row. During 2021, the average asking rent sets a new high of \$6.27 per square foot, following a 3.9 percent hike last year.

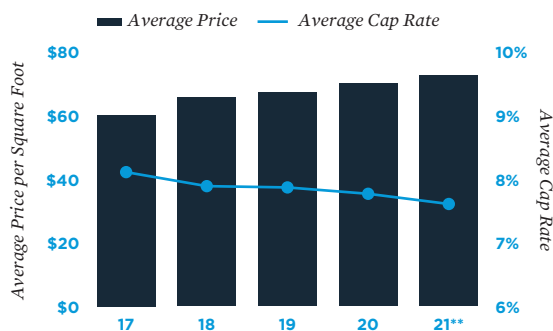
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 1Q21 – 12-Month Period



### CONSTRUCTION

**3,278,000** square feet completed

- The completion of nearly 2.6 million square feet in the first quarter of 2021 raised year-over-year deliveries to 3.3 million square feet, down from the prior period's 4.4 million square feet.
- The Airport/I-275, and Royal Oak-Southfield submarkets received roughly half of the inventory added since the first quarter of 2020.



### VACANCY

**30** basis point increase in vacancy Y-O-Y

- Vacancy rose to 4.6 percent in March, the highest rate since 2015. One year earlier, the rate moved up 40 basis points.
- New speculative buildings in the metro's largest submarket by inventory contributed to a 190-basis-point jump in vacancy to 4.8 percent in the Airport/I-275 area, while rent posted a 4.1 percent hike.



### RENT

**3.4%** increase in the average asking rent Y-O-Y

- The rise in vacancy did not deter rent growth as new speculative inventory was marketed. The asking rent advanced to \$6.16 per square foot on average, following a 2.6 percent gain one year earlier.
- The I-96 Corridor maintains the highest asking rent among submarkets at \$8.00 per square foot, up 3.5 percent since April 2020.

## Investment Highlights

- Transaction activity slowed 16 percent over the past four quarters, mainly due to a slowdown at the beginning of the health crisis. Many private local investors remained active with deal flow for properties in the \$1 million to \$10 million price range down 13 percent.
- Buyers focusing on quality assets contributed to the average price surging 7.1 percent to \$72 per square foot over the past 12 months that ended in March. Since 2015, prices have jumped almost 50 percent. Over the past four quarters, the mean cap rate dipped 20 basis points to 7.6 percent after holding in the high-7 percent range since 2018.
- Warehouses were most often sought, especially those located near the airport and on the east side of Detroit. Buildings in Wayne and Oakland counties drew out-of-state investors, coming mainly from surrounding states and Canada.
- During the past four quarters, flex facilities attracted a wide range of investors and traded at an average of \$105 per square foot. First-year returns were typically in the high-6 to mid-8 percent span.