

MARKET REPORT

Industrial
Detroit Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

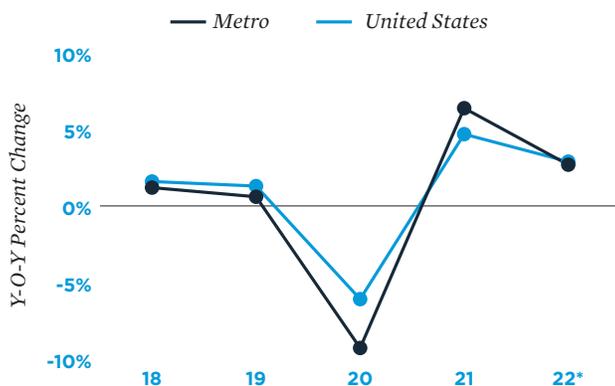
Midyear 2022

Supply Chain Complications Necessitate Connected Locations, Draw in Companies

Renewed confidence in Detroit spurs leasing activity. With deep roots in manufacturing, Detroit's industrial sector emerged from pandemic headwinds relatively unscathed. While a net of 2.7 million square feet was relinquished in 2020, vacancy never broke above 5 percent, and demand has improved significantly since. Last year was the third strongest period for net absorption across two decades. Leasing is expected to remain sturdy as companies expand in the metro. Ford and General Motors announced intentions to house their electric vehicle operations in the Detroit area earlier this year. Both companies have allocated billions to their manufacturing facilities in the market, and the metro is expecting a culmination of around 10,000 jobs created as a result. Downstream partnerships in the auto industry support space demand, while job creation boosts retail spending and ultimately the need for storing goods locally.

Enhanced trade with Canada presents opportunities. In April, Port Huron and Detroit at large were the second busiest rail and truck border ports nationally, reflecting a larger increase in North American transborder freight. In response, logistics companies, importers and suppliers are setting their sights on Detroit and its access to Canada amid supply chain complications. Demand for warehouse and distribution space is such that nearly 60 percent of this year's 6.8 million-square-foot construction pipeline was pre-leased as of June. This demand will ease supply pressure, with the metro's favorable location providing future tailwinds for industrial growth.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2022 Outlook



**54,000
JOBS**
will be created

EMPLOYMENT:

The metro employment base is on track to expand by 2.7 percent this year, climbing within 17,000 positions of the year-end 2019 level. Job growth will be driven by the financial activities and the trade, transportation and utilities sectors.



**6,800,000
SQ. FT.**
will be completed

CONSTRUCTION:

Detroit's inventory is set to expand by 1.2 percent as over 6 million square feet is delivered for the second straight year. During the remainder of this year, nearly half of the space slated for 2022 delivery is in the East Area and Airport-I-275 submarkets.



**10
BASIS POINT**
increase in vacancy

VACANCY:

Despite a second year of elevated development that will raise availability to 4.3 percent, demand is robust. By year-end, upward pressure on vacancy will be modest as more than 6 million square feet will have been absorbed on a net basis.

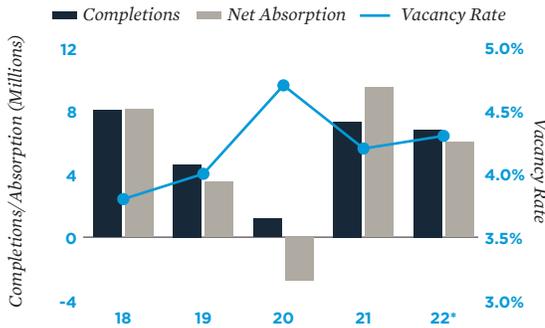


**5.8%
INCREASE**
in asking rent

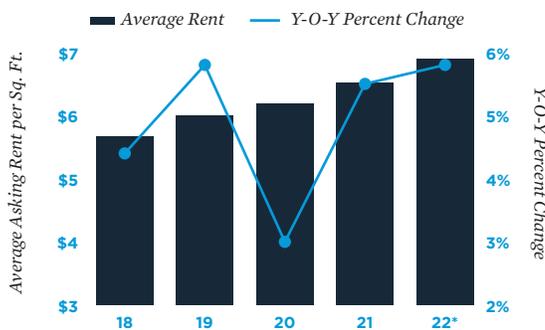
RENT:

The average asking rent will reach \$6.90 per square foot as the annual rate of growth surpasses last year's 5.5 percent gain. This increase will mark a decade-plus of consistent improvements, and will also be the largest increase since 2019.

Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

7,290,000 sq. ft. completed

- Detroit's inventory grew by 1.3 percent over the past four quarters ended in March. Most of the completions during this period came online in Oakland County Northwest, the I-96 Corridor and Royal Oak-Southfield.
- Entering June, over 6.5 million square feet was under construction with delivery dates extending into 2023.



VACANCY

10 basis point decrease in vacancy Y-O-Y

- Elevated demand ending 2021 supported the net absorption of 7.5 million square feet for the year ended in March, reducing vacancy to 4.5 percent.
- Among submarkets with more than 50 million square feet of inventory, Airport-I-275 saw the sharpest vacancy compression. Here, availability fell 130 basis points to 3.4 percent as companies sought access to air transport.



RENT

6.8% increase in the average asking rent Y-O-Y

- Tightening conditions are supporting rent growth, with the first quarter of 2022 witnessing the highest year-over-year rise since 2018, increasing the mean asking rent to \$6.57 per square foot.
- Each of Detroit's five largest submarkets noted rent gains. Double-digit growth in Detroit proper lifted the local rate to \$5.62 per square foot.

Investment Highlights

- The metro has remained a stable industrial market throughout the health crisis as interstate highway access to most of the Midwest and parts of Canada has supported steady user demand and limited vacancy fluctuation. International supply chain complications have further fanned interest in accessible port cities like Detroit, which provides access to Canada through Port Huron.
- Over the 12-month period ended in March, deal flow nearly doubled the 2019 recording as investors sought connected locations and lower entry costs. Even with a 10 percent bump in the mean sale price to \$90 per square foot, the metro remains one of the Midwest's lowest cost markets.
- Detroit reported an average cap rate of 7.4 percent over the recent yearlong span. Despite this compression, the metro's mean return is regionally high, appealing to out-of-state investors during a period of rising interest rates.
- The Airport-I-275, I-96 Corridor and East Area submarkets saw the greatest number of trades in the past year as buyers desired access to facilities near border transport routes amid international trade challenges. Here, warehouse space trades in the \$50 to low-\$100 per square foot range.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; Bureau of Transportation Statistics; CoStar Group, Inc.; Real Capital Analytics