MARKET REPORT

INDUSTRIAL

Detroit Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Transformation in Vehicle Technology Fuels Industrial Demand; Vacancy Remains Among Tightest in Nation

New vehicle technology changing industrial market. The metro's dominance in autonomous and electric vehicle technology is producing demand for industrial space as auto companies and suppliers expand facilities. The "big three" automakers are all upgrading facilities in the region and Fiat Chrysler is building the metro's first new auto plant in three decades. While the auto companies occupy large buildings, vehicle parts manufacturers and suppliers generate demand for small and midsize properties within an easy driving distance to the automakers. Advances in vehicle technology are also creating the need for skilled workers and engineers, luring additional people to the metro. This is boosting storage and distribution needs as the demand for goods and services increases. Yet, construction was restrained until 2017, when Amazon began opening massive warehouses. Even though deliveries have surged recently, the vacancy rate has remained below 4 percent for three consecutive years. At 3.3 percent in the third quarter, the rate is one of the tightest in the nation, boosting rent growth. The average asking rent at $6.06 per square foot in September rests at a cycle high, soaring 42 percent over the past five years. Headwinds do persist, however, as the labor strike extends and tariff uncertainty remains.

Prices rise and cap rates compress further. After elevated transaction levels over the past two years, deal flow has dwindled during the past 12 months ending in June as fewer listings were available. The slowdown was most evident in price tranches less than $10 million. Competition for fewer for-sale properties contributed to the average price jumping 8 percent year over year to $68 per square foot in the second quarter, while cap rates continue to decline. First-year returns dropped 30 basis points to 7.6 percent on average in June. Through the first half of 2019, buyers have been most prevalent in Livonia targeting warehouse and manufacturing buildings. The city's interstate access, proximity to auto suppliers and the airport holds vacancy tight and attracts investors.

2019 Market Forecast

Employment up 0.5%: Employers are on track to add 10,000 jobs in 2019, well below last year's 1.2 percent gain. A tight labor market is making it more difficult to find workers.

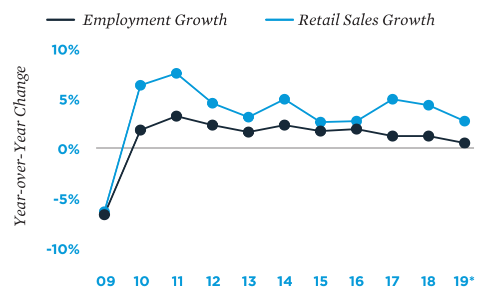
Construction 4.0 million sq. ft.: During 2019, deliveries fall below last year's cyclical peak of 7.3 million square feet but remain above the previous five-year average.

Vacancy up 50 bps: More uncertainty in the economy and speculative deliveries will hinder absorption and contribute to vacancy rising to 3.5 percent at year end. This is the fourth consecutive year that vacancy has remained below 4 percent.

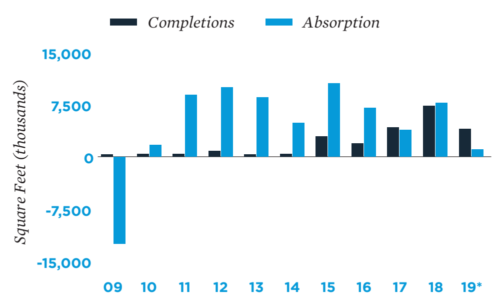
Rent up 5.9%: Building on an 7.8 percent hike last year, the average asking rent climbs to $6.12 per square foot in 2019. Tight vacancy, new inventory and the repurposing of older or obsolete space is contributing to sizable rent gains.

Investment: The potential for higher returns and lower entry costs than are available in other markets of its size will continue to attract investors to Detroit. Access to auto manufacturers will keep investors searching in Oakland County.

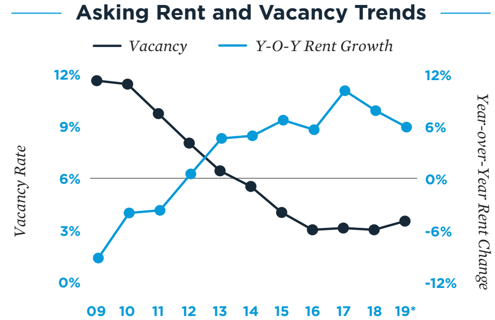
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



** Forecast*
Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.