

FIGURES | DETROIT INDUSTRIAL | Q4 2022

# Market steady at year end with solid fundamentals

▲ 1.8%

Vacancy Rate

▼ 2.5%

Availability Rate

▼ 398,134

SF Net Absorption

▼ \$7.06

Lease Rate

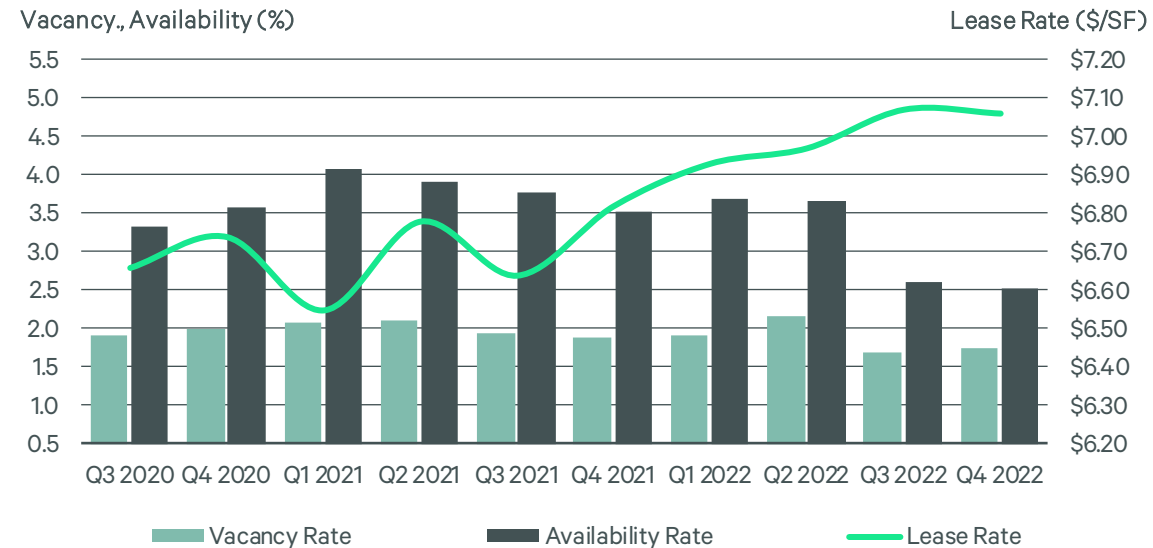
Note: Arrows indicate change from previous quarter.

## Market Summary

- The Detroit market was steady in Q4 2022 with modest change to availability and vacancy, positive net absorption overall, and 1 million sq. ft. of completed construction with an additional 3.3 million sq. f. under construction.
- Industrial availability dropped to 2.5%, quarter over quarter, representing the fourth quarter since 2017 to post under 3.0% availability.
- Overall industrial vacancy increased 10 basis points (bps), quarter over quarter, moving to 1.8%.

During Q4 2022, the Metro Detroit industrial market experienced a decrease in vacancy and net absorption and an increase in vacancy and average asking lease rates. Net absorption for the quarter was 398,134 sq. ft. Over the trailing 12 months, total absorption was just over 5.0 million sq. ft. During that same time period, the average asking lease rate decreased \$0.01, moving to \$7.06 per sq. ft. NNN. By the end of 2022, Michigan had won \$15 billion in electric vehicle projects across five companies. The state of Michigan spent \$2 billion funding the incentives. See Fig.7 for market statistics by submarket.

FIGURE 1: Vacancy, Availability, and Average Asking Lease Rate



Source: CBRE Research, Q4 2022

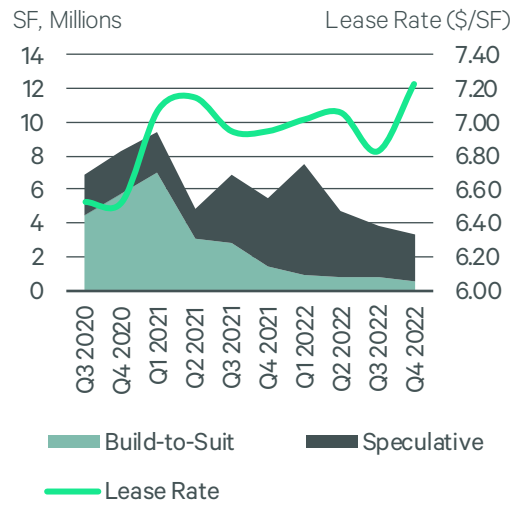
Deliveries and Current Construction

At the end of the quarter, projects under construction totaled roughly 3.3 million sq. ft. Build-to-suit projects made up roughly 500,000 sq. ft. of the total, while speculative construction equaled over 2.7 million sq. ft. The Detroit, NW Suburbs, and Western Wayne submarkets saw the most construction, totaling 1.8 million sq. ft., 690,000 sq. ft., and 290,000 sq. ft., respectively. Two buildings delivered this quarter, adding over 900,000 sq. ft. of industrial product to the market. See Figure 9 for detailed construction statistics.

Net Absorption

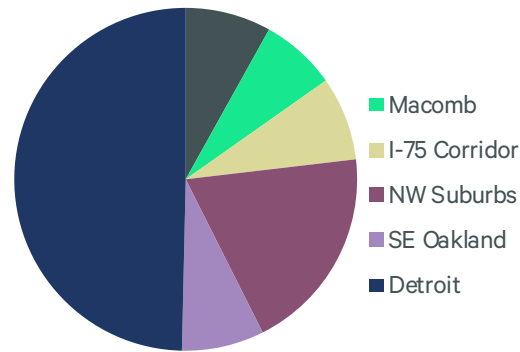
Net absorption for the quarter totaled 398,134 sq. ft., driven by positive absorption in the SE Oakland, I-75 Corridor, Downriver, and Washtenaw submarkets, respectively. Over the past year, the market has seen over 5.0 million sq. ft. of positive absorption. In fact, every year over the past decade has seen positive absorption.

FIGURE 2: Construction and Average Asking Lease Rate



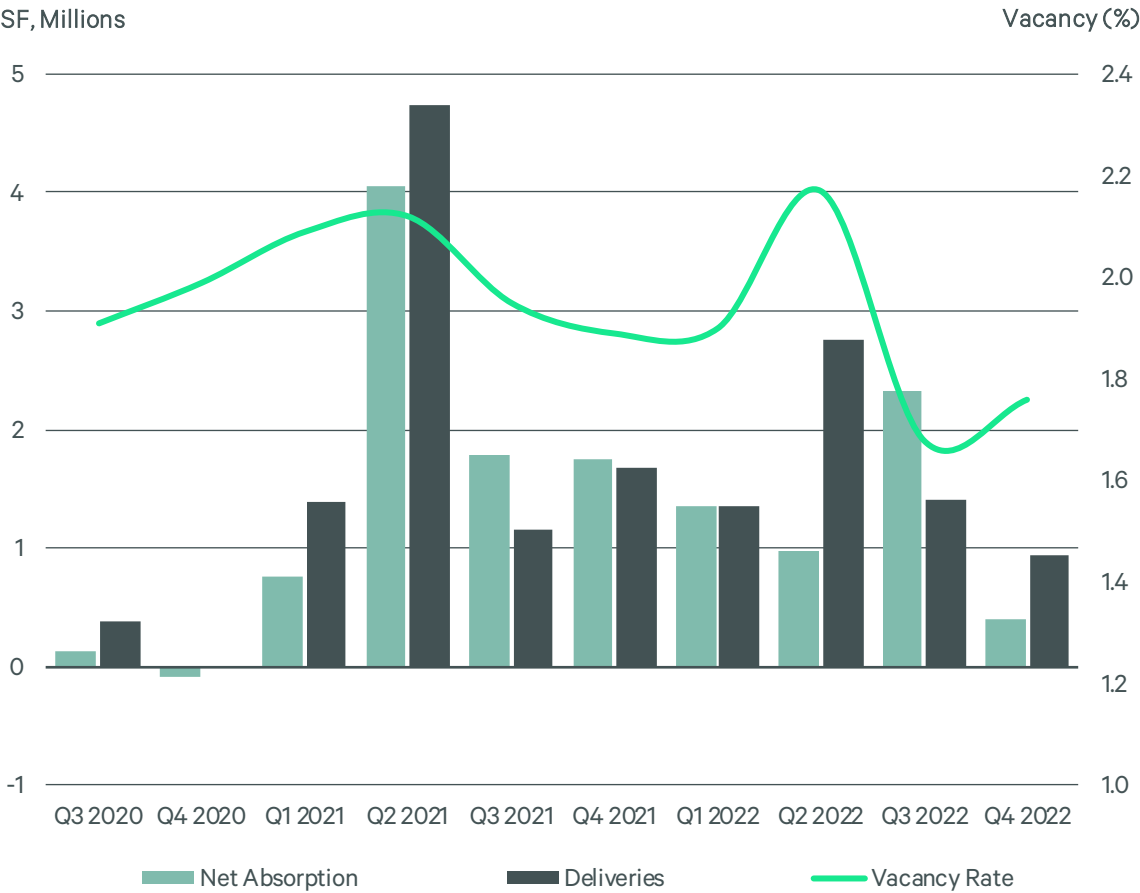
Source: CBRE Research, Q4 2022

FIGURE 3: Current Construction by Submarket



Source: CBRE Research, Q4 2022

FIGURE 4: Net Absorption and Vacancy Rate



Source: CBRE Research, Q4 2022

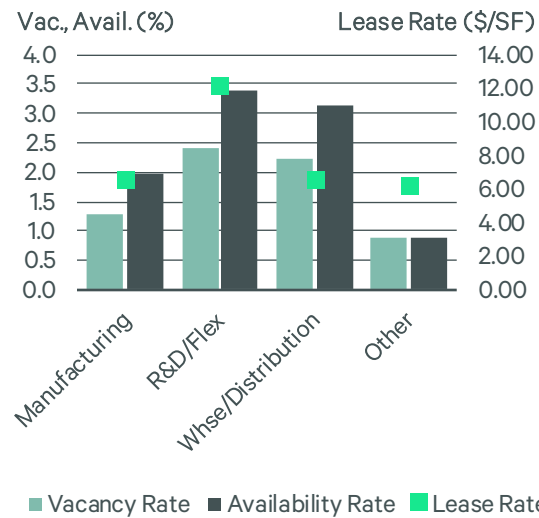
Availability and Vacancy

Quarter over quarter, vacancy ticked up to 1.8% and availability decreased to 2.5%. Manufacturing space continues to be in high demand, keeping vacancy and availability low at 1.3% and 2.0%, respectively. R&D/Flex space posted its strongest vacancy and availability rates of 2022, at 2.4% and 3.4%, respectively. Vacancy – across all property subtypes – has trended below 3.0% since 2017.

Lease Rates

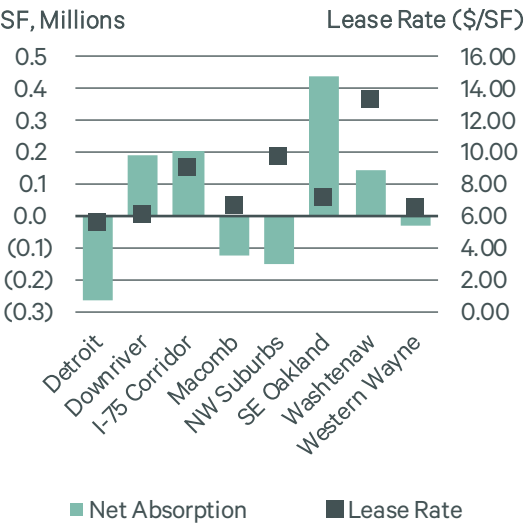
The market experienced a \$0.01 decrease in the average asking lease rate, quarter over quarter, moving the overall asking rate to \$7.06 per sq. ft. NNN in Q4 2022. Over the last two years, the average asking rate has fluctuated between \$6.55 and \$7.07, with the high occurring last quarter and the low occurring in Q1 2021. Since the beginning of 2017, the average asking rent has risen 20.7%.

FIGURE 5: Vacancy, Availability, and Avg. Asking Lease Rate by Development Type



Source: CBRE Research, Q4 2022

FIGURE 6: Net Absorption and Lease Rate by Submarket



Source: CBRE Research, Q4 2022

FIGURE 7: Detailed Market Statistics by Submarket

Submarket	Total Inventory (SF)	Total Vac. (%)	Total Avail. (%)	Q4 2022 Net Abs. (SF)	2022 YTD Net Abs. (SF)	Under Construction (SF)	Average Asking Lease Rate
Detroit	86,464,191	2.8	4.0	(262,583)	970,234	1,758,098	5.59
Downriver	70,697,486	1.4	2.3	190,466	(145,215)	-	6.24
I-75 Corridor	83,993,233	1.3	2.1	204,391	1,418,496	280,000	9.12
Macomb	107,222,939	1.9	2.0	(126,215)	396,488	253,000	6.69
NW Suburbs	57,490,292	1.8	2.4	(150,331)	1,938,817	688,726	9.86
SE Oakland	16,805,792	1.7	1.9	435,167	159,806	-	7.22
Washtenaw	24,340,146	0.7	2.2	140,128	277,642	-	13.43
Western Wayne	89,773,481	1.7	2.7	(32,889)	20,934	286,347	6.49
TOTAL	535,852,971	1.8	2.5	398,134	5,037,202	3,266,171	7.06

Source: CBRE Research, Q4 2022

FIGURE 8: Vacancy by Development Type and Size

Development Type	Total Inventory (SF)	0 - 50k Vacant (SF)	0 - 50k Vacancy (%)	50 - 100k Vacant (SF)	50 - 100k Vacancy (%)	100k + Vacant (SF)	100k + Vacancy (%)	Total Vacancy (%)
Manufacturing	257,119,022	421,212	0.5	369,149	0.9	2,562,374	2.0	1.3
R&D/Flex	52,568,360	423,800	2.3	292,150	2.6	556,802	2.5	2.4
Whse/Distribution	206,625,103	435,032	0.7	562,045	1.8	3,634,995	3.3	1.9
Other	19,023,257	7,500	0.1	-	-	145,781	2.7	0.8
TOTAL	535,335,742	1,287,544	0.7	1,223,344	1.4	6,899,952	2.6	1.8

Source: CBRE Research, Q4 2022.

FIGURE 9: Construction Statistics

Submarket	Spec Under Construction (SF)	BTS Under Construction (SF)	Total Under Construction (SF)	Spec Completed (SF)	BTS Completed (SF)	Total Construction Completed (SF)
Detroit	1,758,098	-	1,758,098	-	-	-
Downriver	-	-	-	659,589	-	-
I-75 Corridor	-	280,000	280,000	-	-	-
Macomb	-	253,000	253,000	-	-	-
NW Suburbs	688,726	-	688,726	-	-	-
SE Oakland	-	-	-	-	275,000	275,000
Washtenaw	-	-	-	-	-	-
Western Wayne	286,347	-	286,347	-	-	-
TOTAL	2,733,171	533,000	3,266,171	659,589	275,000	934,589

Source: CBRE Research, Q4 2022.

FIGURE 10: Key Transactions

Transaction Type	Tenant/Buyer	Location	Transaction Size (SF)	Industry
Renewal	TAG Holdings, LLC	Wixom, MI	203,899	Investment Services
Sale	Omega Industrial Realty	Detroit, MI	190,000	Real Estate Services
New Lease	VeTech	Redford, MI	135,638	Manufacturing
New Lease	General Motors	Brownstown, MI	134,545	Automotive
New Lease	DLG International, Inc.	Detroit, MI	108,406	Professional, Scientific, & Technical Services

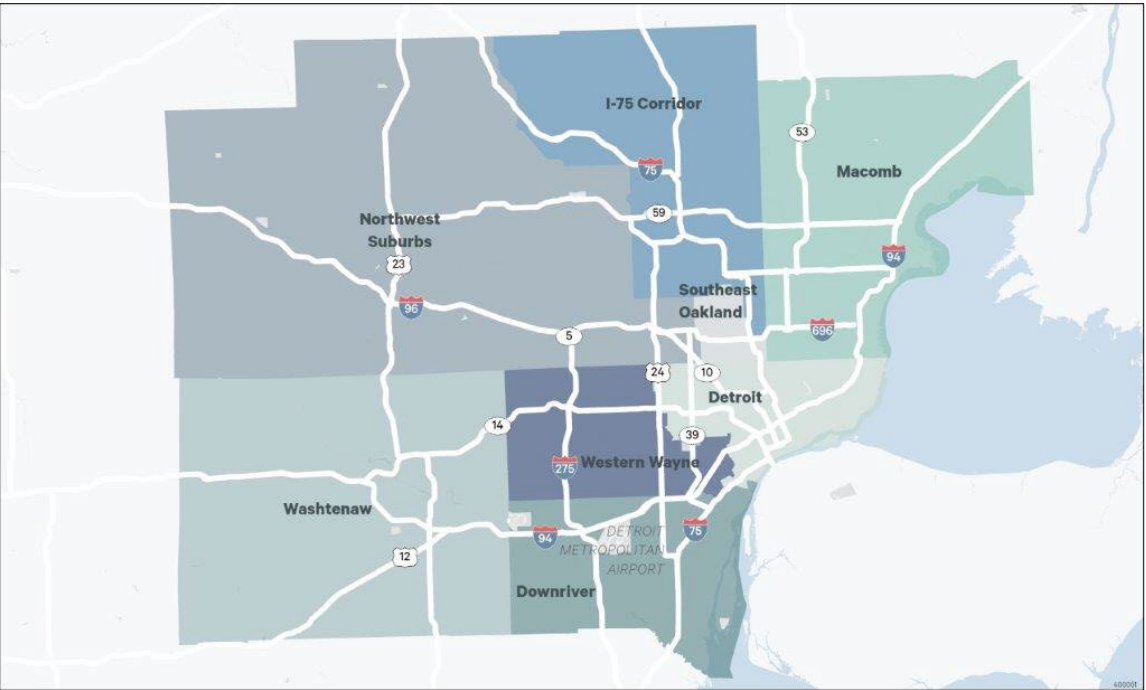
Source: CBRE Research, Q4 2022.

## A Challenging Year Ahead

High interest rates and a recession will make 2023 a challenging year for commercial real estate. Though inflation eased in late 2022, it was still running at more than 7%. The Fed will continue raising rates until it sees a marked reduction in inflation nearer to its 2% target. Weakening fundamentals and higher cost of capital will generally lower asset values.

The recession will not be particularly deep. Corporate finances are in good shape and employers will shun excessive layoffs to avoid losing employees in a tight market for skilled labor. While consumer confidence is highly subdued, average household debt is low compared with the onset of previous recessions. These factors suggest a moderate downturn, with unemployment unlikely to breach the 6% level. Inflation will be significantly lower by the second half of 2023, setting the stage for falling interest rates and the beginning of a new cycle that will last to the 2030s.

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes industrial buildings 10,000 sq. ft. and greater in size in Livingston County, Macomb County, Oakland County, Washtenaw County, and Wayne County. Buildings which have begun construction as evidenced by site excavation or foundation work.

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