



# METRO DETROIT

## 2023 OUTLOOK & 2022 REVIEW INDUSTRIAL REPORT

**FRIEDMAN HQ**

**34975 W. Twelve Mile Rd.**

**Farmington Hills, MI 48331**

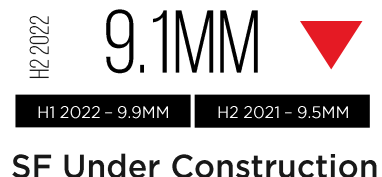
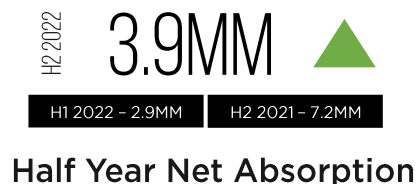
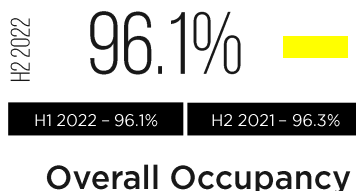
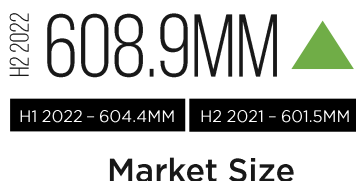
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## MARKET AT A GLANCE (H2 2022)



Note: ▲ or ▼ or ■ indicates change compared to H1 2022

Note: H1 = Q1 & Q2 ; H2 = Q3 & Q4

## 2023 MARKET OUTLOOK

**GROWING INDUSTRIES:** Michigan's low cost of living, central location, lower cost of power, existing industrial infrastructure, and low ranking on the National Risk Index (lack of natural disasters), is expected to result in increased development of general manufacturing, data centers, and electric vehicle related facilities.

**INCREASED RENTAL RATES:** We expect continued moderate asking rent growth due to the high inflation environment and increased construction/labor costs associated with development. New warehouse distribution developments asking rents currently range from \$7.50 to \$8.50 PSF NNN compared to the \$6.56 PSF NNN average.

**FLIGHT TO QUALITY:** Leasing activity and net absorption in new (delivered 2020 - present) industrial properties will likely continue to disproportionately exceed activity in the older existing inventory due to the significant demand for modern industrial facilities.

**CAP RATE ADJUSTMENTS:** Despite strong fundamentals, we expect a moderate increase to cap rates due to the rising interest rate environments direct impact on acquisition pricing.

**POSTPONED DEVELOPMENT:** Many developments in the 9.1MM SF under construction and 27.8M SF of proposed industrial inventory have been postponed due to the increased development costs and interest rates. Due to this, we expect the overall development pipeline to shrink through 2023.

## MARKET OVERVIEW

In the second half of 2022, the Metro Detroit industrial market remained robust after recording historic levels of leasing activity and net absorption in 2021. Positive rent growth and net absorption continue, while leasing activity and the construction pipeline began to slow.

## SUPPLY AND DEMAND

Occupancy remained stable at 96.1% and exceeded market demand with 3.9MM SF of net absorption to meet the 3.4MM SF delivered. Submarkets with the most antiquated industrial inventory typically had above-market vacancy rates including City of Detroit (6.70%) and Dearborn/Downriver (4.60%).

The region's growing automotive electrification industry and an overall antiquated industrial supply continue to drive demand for modern distribution and hi-tech facilities. Notably, the Auburn Hills/Pontiac/Rochester and Macomb W of Van Dyke submarkets accounted for 50.0% of total net absorption, with 1.6MM SF and 700K SF, respectively. Overall, there is flight to quality underway with industrial properties delivered from 2020-2022 (17.9MM SF) recording 3.3MM SF, or 84.3%, of total net absorption (3.9MM SF), and 2.6MM SF, or 32.4%, of total leasing activity (7.6MM SF). Although this flight to quality has resulted in sustained activity from local (Ashley Capital & General Development) and out-of-state developers (Flint Development & NorthPoint Development), there is a short-term over supply risk as the 2020-2022 deliveries are 84.7% occupied, and the 5.1MM SF of speculative industrial under construction is 4.0% pre-leased.

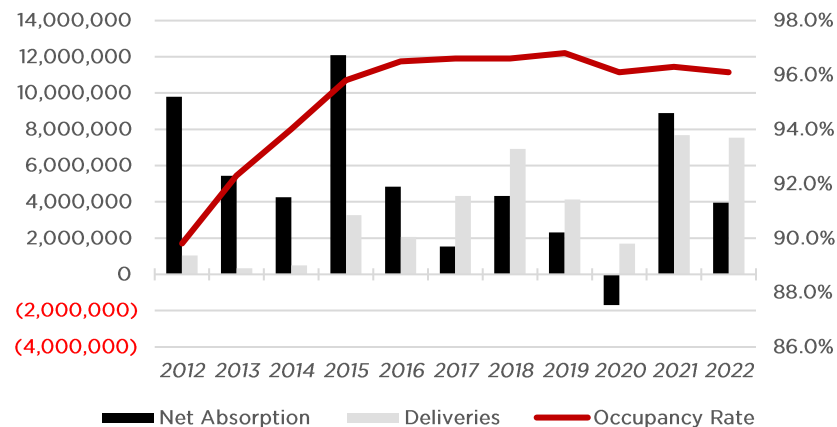
Leasing activity (7.9MM SF) remains stable compared to 8.1MM in H1 2022 with warehouse distribution properties accounting for 69.1% (5.5MM SF) of leasing activity, the majority of which was in properties delivered since 2020. Overall leasing activity and demand continues to be disproportionately captured by submarkets near key logistics and manufacturing nodes including Auburn Hills/Pontiac/Rochester (1.6MM SF / 20.0%), Dearborn/Downriver (850K SF / 10.7%), and Groesbeck (760K / 9.5%). While overall half-year leasing volume remained stable and well above historic levels, only 3.4MM SF (43.5%) of leasing activity was recorded in Q4 2022, which is a 35.4% reduction from 5.3MM SF in Q4 2022 and indicative of slowing demand. Although this is concerning given the robust development pipeline with 9.1MM SF under construction and 27.8MM SF proposed, numerous developments have been postponed due to increased development costs and interest rates.

Due to increased construction and labor costs, which are up 20.8% year-over-year (YOY), along with the constrained supply, overall sustained demand, and high inflation environment asking rates have increased 4.40% YOY from H2 2021 to a record high of \$7.12 PSF NNN. Notably, flex facilities asking rents increased 6.2% YOY to \$10.83 PSF NNN. Submarkets with the highest YOY rent growth from H1 2021 include Royal Oak (17.4%), Airport District (15.0%), and Farmington Hills (13.2%).

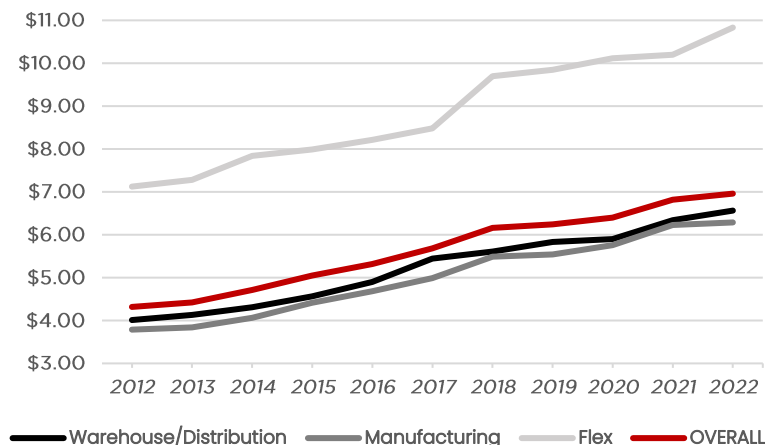
## SALES AND INTEREST RATES

Total sales volume remained stable at \$436MM, in-line with the five-year half-year average of \$442MM, indicating that despite strong market fundamentals and significant capital chasing deals, there are few sellers. Flex facilities have attracted increased investor attention due to the growing demand for single-story hi-tech facilities, with \$83.1MM sales volume in H2 2022 compared to \$70.1MM in H1 2022. Emblematic of this trend, the two largest transaction in H2 2022 were 4600 Arrowhead in Ann Arbor (±149K SF flex sold for \$19.75MM) and Southfield Research Park in Southfield (±145K SF flex portfolio sold for \$19.57MM).

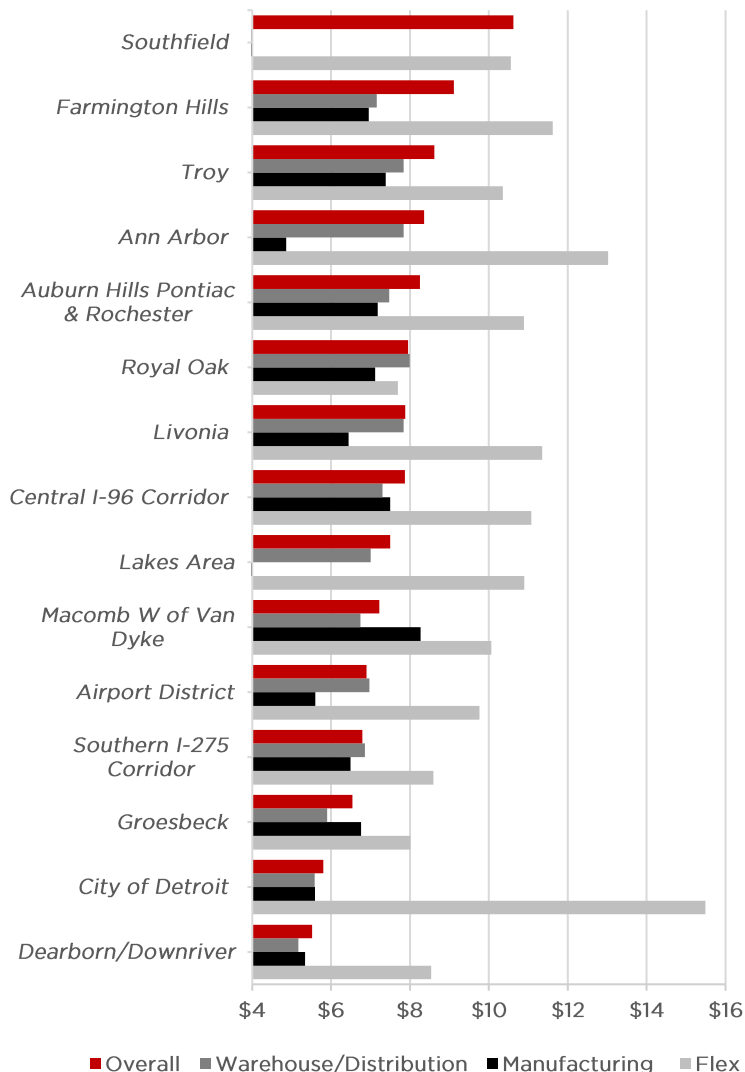
## OCCUPANCY AND ABSORPTION



## AVERAGE NNN ASKING RENT BY CLASS



## AVERAGE NNN ASKING RENTS BY SUBMARKET



## TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	SF	SALE PRICE	PRICE/SF
4600 Arrowhead Dr	Ann Arbor	148,651	\$19,750,000	\$132.86
Southfield Research Park	Southfield	144,861	\$19,565,200	\$135.06
26601 W Huron River Dr	Flat Rock	307,700	\$17,059,800	\$55.44
13231 23 Mile Rd	Shelby Township	156,536	\$15,750,000	\$100.62
6501 E Nevada Ave	Detroit	238,334	\$15,250,000	\$63.99

## TOP LEASE TRANSACTIONS (BASED ON SQUARE FEET)

TENANT	PROPERTY NAME	CITY	SF
General Motors	Oakland Logistics Park	Pontiac	713,796
Rite Aid	5400 Perry Dr	Waterford	412,254
Dana Thermal Products	3600 Giddings Rd	Auburn Hills	346,182
Hirotec America	1750 Summit Dr	Auburn Hills	217,731
Tag Holdings LLC	30260 Oak Creek Dr	Wixom	203,899

Note: Bold represents Friedman transactions



**Top Sale:**  
**4600 Arrowhead Dr - Ann Arbor**  
**Sale Price: \$19,750,000**



**Top Lease:**  
**General Motors - Oakland Logistics Park**  
**Square Footage: 713,796**

SUBMARKET	# BLDGS	INVENTORY (SF)	NET ABS. (SF)	SF UNDER CONST	TOTAL VAC. (%)	TOTAL AVAIL. (%)	OVERALL OCC. (%)	AVG ASKING RENT (NNN)	ASKING RENT (NNN)			TOTAL SALES VOLUME	SALES PER SF
									W/D	MFG	FLEX		
Ann Arbor	882	33,452,131	54,583	130,000	4.70%	5.10%	95.30%	\$8.36	\$7.84	\$4.86	\$13.02	\$44,446,181	\$88.00
Airport District	1,037	56,139,577	814,594	952,784	2.10%	4.60%	97.90%	\$6.90	\$6.97	\$5.60	\$9.76	\$45,727,499	\$68.00
Auburn Hills/Pontiac/Rochester	1,098	55,032,613	1,365,576	1,723,000	3.40%	4.50%	96.60%	\$8.25	\$7.47	\$7.18	\$10.89	\$47,060,256	\$98.00
Central I-96 Corridor	1,172	35,968,050	771,719	1,025,039	4.00%	7.10%	96.00%	\$7.87	\$7.30	\$7.50	\$11.08	\$14,514,343	\$101.00
City of Detroit	2,090	89,861,446	72,644	2,600,254	6.70%	11.00%	93.30%	\$5.80	\$5.58	\$5.59	\$15.49	\$24,514,060	\$58.00
Dearborn/Downriver	1,200	70,163,176	95,787	0	4.60%	5.50%	95.40%	\$5.52	\$5.17	\$5.34	\$8.54	\$17,373,992	\$63.00
Farmington Hills	431	11,678,185	188,872	0	3.80%	5.90%	96.20%	\$9.11	\$7.16	\$6.95	\$11.62	\$4,925,000	\$88.00
Livonia	1,108	42,650,740	(18,178)	196,246	3.50%	3.70%	96.50%	\$7.88	\$7.84	\$6.44	\$11.35	\$16,477,321	\$77.00
Southern I-275 Corridor	583	19,608,709	137,860	901,600	2.90%	6.10%	97.10%	\$6.79	\$6.86	\$6.49	\$8.59	\$7,137,500	\$71.00
Lakes Area	385	7,567,907	(95,578)	0	2.60%	2.60%	97.40%	\$7.50	\$7.00	-	\$10.90	\$10,256,041	\$86.00
Groesbeck	3,007	68,647,001	(219,611)	1,140,386	3.10%	4.40%	96.90%	\$6.54	\$5.90	\$6.76	\$8.01	\$63,347,000	\$76.00
Macomb W of Van Dyke	1,341	65,233,776	608,626	393,619	2.20%	2.60%	97.80%	\$7.22	\$6.74	\$8.27	\$10.06	\$44,237,355	\$76.00
Royal Oak	946	15,745,917	46,403	0	2.90%	4.10%	97.10%	\$7.95	\$7.99	\$7.12	\$7.69	\$15,621,600	\$88.00
Southfield	249	6,238,721	39,665	0	2.90%	5.20%	97.10%	\$10.56	-	-	\$10.56	\$33,336,944	\$86.00
Troy	1,441	30,876,441	83,188	0	3.20%	5.10%	96.80%	\$8.62	\$7.84	\$7.38	\$10.35	\$46,582,257	\$89.00
<b>TOTAL</b>	<b>16,970</b>	<b>608,864,390</b>	<b>3,946,150</b>	<b>9,062,928</b>	<b>3.90%</b>	<b>5.60%</b>	<b>96.10%</b>	<b>\$7.12</b>	<b>\$6.56</b>	<b>\$6.29</b>	<b>\$10.83</b>	<b>\$435,557,349</b>	<b>\$77.00</b>

\*W/D = Warehouse/Distribution

\*MFG = Manufacturing

## TOP INDUSTRIAL PROPERTIES DELIVERED (H2 2022)

PROPERTY NAME	CITY	SF	DEVELOPER	DELIVERED	PROPERTY TYPE
Crossroad Distribution Center North - Building 6	Van Buren Township	659,589	Ashley Capital	Q4 2022	W/D
Gateway Industrial Center	Detroit	426,500	The Opus Group	Q4 2022	W/D
Livonia West Commerce Center - Building 2	Livonia	364,812	Ashley Capital	Q3 2022	W/D
Shelby Commerce Center Building 2	Shelby Township	359,226	Northpoint Development	Q4 2022	W/D
Shelby Commerce Center Building 3	Shelby Township	332,186	Northpoint Development	Q3 2022	W/D
Shelby Commerce Center Building 1	Shelby Township	312,322	Northpoint Development	Q3 2022	W/D



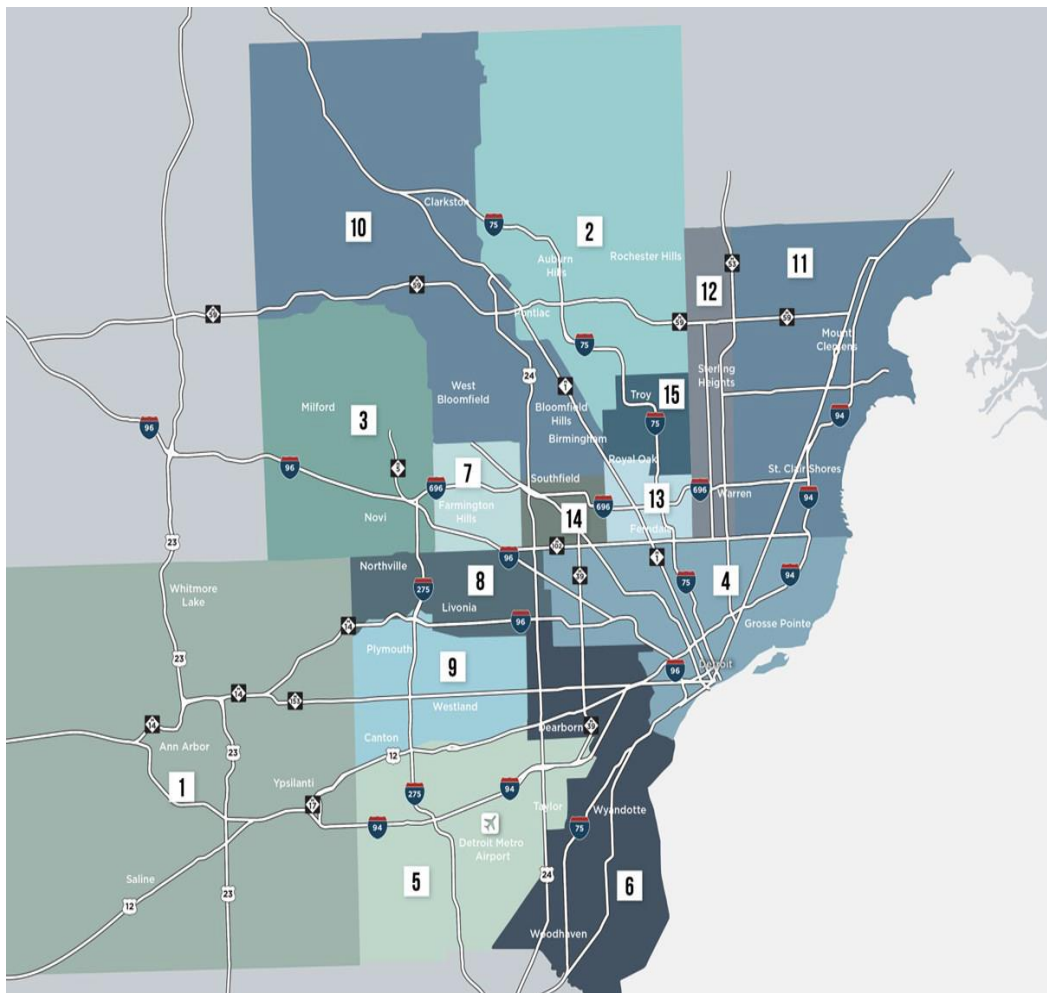
## TOP INDUSTRIAL PROPERTIES UNDER CONSTRUCTION (H2 2022)

PROPERTY NAME	CITY	SF	DEVELOPER	DELIVERY	PROPERTY TYPE
FANUC America Corporation	Auburn Hills	788,000	General Development Company	Q1 2024	Flex
Eastland Commerce Center - Building 2	Detroit	535,342	NorthPoint Development	Q3 2023	W/D
Shelby Industrial Center - Building D	Shelby Township	450,000	NorthPoint Development	Q3 2023	W/D
13751 Hamilton Ave	Highland Park	443,156	Means Group, Inc.	Q1 2023	W/D
Romulus Trade Center - Building 3	Romulus	349,492	NorthPoint Development	Q2 2023	W/D
Wixom Assembly Park - Building C	Wixom	306,280	Flint Development	Q3 2023	W/D

\*W/D = Warehouse/Distribution



## INDUSTRIAL SUBMARKET MAP



1	ANN ARBOR	9	I-275 CORRIDOR
2	AUBURN HILLS/PONTIAC/ ROCHESTER	10	LAKES AREA
3	CENTRAL I-96 CORRIDOR	11	GROESBECK
4	DETROIT	12	MACOMB W OF VAN DYKE
5	AIRPORT DISTRICT	13	ROYAL OAK
6	DEARBORN/DOWNRIVER	14	SOUTHFIELD
7	FARMINGTON HILLS	15	TROY
8	LIVONIA		

Friedman Research separates the Metro Detroit Industrial submarkets in the manner shown to better reflect the way users, tenants, and brokers view our market. We believe this provides a more accurate statistical picture of each submarket which allows our clients to make better informed decisions.

Friedman's 2023 Outlook & 2022 Review Industrial Market Report provides our clients with a snapshot of pertinent market data and information to help them make informed commercial real estate decisions. The information contained in this report is gathered from multiple sources believed to be reliable.