

# PERSPECTIVE Q3 2019

## METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



### ALL EYES ON INDUSTRIAL

John T. Arthurs, Principal, and Kevin Bull, Associate | P.A. Commercial

**With 580 million SF of inventory and an estimated asset value of more than \$34 billion, Detroit's industrial commercial real estate market is in great shape.**

Investment is on the rise with nearly \$300 million in industrial transactions in 2019's first six months. There's 5.2 million square feet under construction and the market projects an additional 5 million square feet in inventory by 2021.

As for leasing, 26 deals topped 100,000 square feet over the past 12 months, led by the Salvation Army landing a 324,545 SF building on Cabot Street. Rents for industrial properties surpassed \$6.50 a square foot in 2019's second quarter, the highest rate since 2000. The market is the tightest in almost two decades with a vacancy rate of just 3.2 percent.

#### THE BIG DEALS

Triyar Cos. bought Waretech Industrial Park (667,000 SF) in Grand Blanc for \$14.9 million (\$22 per SF). Seefried Industrial Properties is seeking approval for a redevelopment at the Pontiac Silverdome site (127 acres) for a warehouse distribution center. The company has built U.S. hubs for Mercedes-Benz, Amazon, and Best Buy.

Ashley Capital completed the 651,000 SF Tri-County Commerce Center, at the former Hazel Park Raceway horse racetrack site, this year and has plans for two additional high-cube warehousing buildings. A 600,000 SF building is on track to be completed by the end of this year, with plans to kick-off a third and final 900,000 SF project in 2020. Liberty Park Commerce Center, at the old Liberty Park sports complex in Sterling Heights, has a new 625,000 SF building that will be available this year. According to our sources, all locations are juggling several large tenants that will occupy the majority of the space. Tenant use is 50% automotive and 50% non-automotive.

Flint is a finalist for Mahindra Automotive North America's second U.S. manufacturing plant. The company has signed a letter of intent for the former Buick City site. Mahindra Automotive opened its North American headquarters and manufacturing operation in Auburn Hills in 2017 and needs a significant facility expansion.

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The Palace of Auburn Hills was sold earlier this year for \$22 million to a joint venture involving the development firm Schostak Brothers.

The former home of the Detroit Pistons is expected to be demolished in favor of a new business park.

### INDUSTRIAL INSIGHT

The Michigan unemployment rate was at 4.3% in July and with the Federal Reserve interest rates expected to drop a quarter-percentage point, the economy remains strong with no recession in site. Consumer spending continues to be strong. The demand for quality industrial space is still very strong. We are seeing an increase of cash buyers, and lenders are eager to provide financing. Some buyers are overpaying due to location and the cost to build.

#### **Six quick observations from our industrial real estate experts:**

1. The investment sector is loaded with cash buyers big and small.
2. Industrial land has not been quick to sell due to high construction prices.
3. The industrial market is strong with transactions in the service sector, textiles, landscaping, all types of manufacturing, including machine shops, testing services, disaster restoration, warehousing for e-commerce, construction industry, medical equipment and much more. New contracts for automotive prototypes and production have been reluctant to be released. The shift to autonomous and electric vehicles is likely playing a role.
4. Chinese auto-related manufacturing companies have increased their interest in relocating operations to the Detroit area to avoid tariffs, which may be a long-term issue. The interest is in vacant buildings as well as ongoing manufacturing businesses.
5. We are seeing a lot of movement with entrepreneurs requiring small shop space for business and very little vacancy to accommodate.
6. Shortage of all types of labor is continuing to be a problem.





# INDUSTRIAL MARKET REPORT

## METRO DETROIT

3Q  
2019

### Industrial Vacancies Near Historic Lows

Despite continuing deindustrialization pains, Detroit is still an industrial real estate powerhouse. Comprised of 580 million SF of inventory and an estimated asset value of over \$34 billion, Detroit's fundamentals are in great shape.

Vacancies are near historical lows, asking rents are at the other end of the spectrum. The average asking rental rates have increased by .04% since last quarter. Sales volume picked up over the past 12 months as of 9/5/2019 with around \$847,700,000 million accrued from industrial sales.

There are currently 56 properties in the metro Detroit area that are under construction. The majority of deliveries cater to build-to-suit tenants such as Costco's almost 350,000 SF facility in the Airport District Submarket and Cardinal Health's 300,000 SF distribution center in the Detroit West Submarket.

#### Notable Industrial Transactions in Q2 - Q3 of 2019:

- 623,124 SF Amazon Regional Distribution Center in Livonia sold to Cantor Real Estate for \$126 M
- Morning Calm Management purchased a 9-Building 1,381,847 SF Industrial Portfolio for \$83.7 M

#### FEATURED INDUSTRIAL LISTINGS IN THE METRO-DETROIT AREA



FOR SALE | 8,590 SF IN CLINTON TWP



FOR SALE | 8,340 SF IN SHELBY TWP



FOR LEASE | 32,945 SF IN OAK PARK

### Metro Detroit's Industrial Market Statistics

Market Area	Inventory SF	Vacancy %	Market Sale p/SF	SF Under Const.	Market Cap Rate
Detroit East	43.9 M	4.2%	\$44	0	8.9%
Detroit West	45.7 M	4.9%	\$38	0	9.6%
Southfield	6.1 M	8.3%	\$68	0	9.1%
Livonia	42.7 M	2.6%	\$57	39,500	8.8%
Farmington	11 M	4.6%	\$67	0	9%
Southern I-275 Corridor	18.8 M	5%	\$52	114,000	9%
Troy Central	9.1 M	2%	\$62	0	9.5%
Troy East	12.6 M	4.4%	\$64	0	9.7%
Troy West	9.3 M	3.9%	\$67	0	9.1%
I-75 Corr/N Oakland	46.2 M	5%	\$73	692,000	8.7%
Macomb	62.2 M	2.6%	\$62	198,000	8.5%
Groesbeck North	30.7 M	1.9%	\$60	409,000	9.1%
Groesbeck South	19.2 M	2.4%	\$52	10,000	9.5%

For additional market information, contact P.A. Commercial. Source: CoStar.

## Rental Rate for Available Office Space Continues to Climb

The average quoted asking rental rate for available office space, all classes is \$20.06 per SF which has increased by .3% year-over-year as of Q3. Office rental rates have posted an average annual gain of 1.9% over the past three years. Vacancies were well below the cycle average at 9.5% and have trended downwards over the past four quarters.

The annual sales volume for office properties in Detroit is expected to slide 65% from its most recent peak in 2017, as high-end office transactions grind to a halt. The average sale price of Detroit Office as of Q3 is \$82.00 per SF with a cap rate of 8.5%.

There are currently 19 properties in the metro Detroit area that are under construction, representing 1.9 million SF. 58% of this construction volume comes from the much anticipated repurposing of Michigan Central Station, the new Hudsons Building, and the expansion of One Campus Martius in Downtown Detroit.

### Notable Office Transactions in Q2 - Q3 of 2019:

- ID Ventures LLC purchased the TriAtria Office Building in Farmington Hills for \$27M
- A 77,735 SF, six-story office building in Detroit was purchased for \$5.8M by Time Equities Inc.
- Trinity Health signed a 180,012 SF lease in Farmington Hills

### FEATURED OFFICE LISTINGS IN THE METRO-DETROIT AREA



FOR SALE | 85,557 SF IN LIVONIA



FOR SALE | 4,127 SF OFFICE IN GPW



FOR LEASE | MIDTOWN RETAIL

## Metro Detroit's Office Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Const.	Market Cap Rate
The Pointes/Harper Woods	1.4 M	10%	\$22.29	\$116	0	9.2%
Detroit - New Center	8.4 M	6.7%	\$22.09	\$113	0	9.5%
Detroit - W of Woodward	4.8 M	19%	\$20.34	\$96	458,000	9.6%
Detroit - E of Woodward	5.8 M	13.9%	\$21.13	\$99	744	9.7%
Southfield - N of 10 Mile	18.5 M	15.8%	\$18.84	\$91	0	9.2%
Southfield - S of 10 Mile	5.8 M	16.8%	\$15.04	\$73	0	9.5%
Farmington	9.7 M	9.1%	\$19.81	\$110	0	9.1%
Southern I-275 Corridor	11.9 M	6.6%	\$18.65	\$110	110,000	9.1%
Bloomfield	1.9 M	5%	\$25.69	\$124	25,000	8.9%
Troy North	5.3 M	12.5%	\$19.88	\$95	0	9.2%
Troy South	12.9 M	12.7%	\$20.14	\$93	0	9.3%
Macomb West	8.8 M	5.1%	\$17.71	\$100	72,900	9.3%
Macomb East	8.1 M	8.1%	\$17.44	\$100	0	9.3%

For additional market information, contact P.A. Commercial. Source: CoStar.



### P.A. IN THE NEWS: CRAINS DETROIT BUSINESS

## LANDLORDS COURT BROKERS WITH EVENTS, INCENTIVES

Matt Schiffman, Senior Associate and Levi Smith, Principal were interviewed by *Crain's Detroit Business* in the June 17<sup>th</sup> issue on the perks of being a commercial real estate broker. From vehicle leases, pro sports championship series tickets, tailored suits, and electronics, learn about some interesting incentives landlords are using to court brokers...

[CLICK HERE TO READ ARTICLE](#)

### NEW EMPLOYEE SPOTLIGHT

## SHARON STRICHARTZ JOINS TEAM

Sharon is a top-selling, award-winning leasing agent of commercial and multi-family properties and has an impressive track record of performing lease negotiations for a variety of clients throughout metro Detroit. At P.A., Sharon's focus will be on the sale and leasing of office and retail properties, representing owners in marketing their properties and representing tenants in locating new space and negotiating renewal leases.

Prior to joining P.A. Commercial, Sharon served as Vice President of NAI/Farbman Group for fifteen years. She started her career in commercial real estate at The Hayman Company and Friedman Real Estate Group.



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# RECENT DEALS

## OFFICE & INDUSTRIAL IN METRO DETROIT

3Q  
2019

Below is a sample of office and industrial listings that the P.A. Commercial brokerage team have recently sold or leased in Q2-Q3 2019.

For a full list of industrial, retail, land, and other investment opportunities - please visit [www.pacommercial.com](http://www.pacommercial.com)



OFFICE LEASE - LIVONIA



INDUSTRIAL LEASE - SMITH CREEK



RETAIL LEASE - NOVI



OFFICE LEASE - DETROIT



OFFICE LEASE - LIVONIA



INDUSTRIAL SALE - FRASER



RETAIL SALE - ST. CLAIR SHORES



INDUSTRIAL LEASE - LIVONIA



OFFICE SALE - GROSSE POINTE



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