CONVERGENCE OF FACTORS PUTS A CHARGE IN SOUTHEAST MICHIGAN'S INDUSTRIAL MARKET

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A trifecta shaped by six years of a bull market, historically low interest rates and oil around $50 a barrel is benefitting one business sector arguably more than any other industry in the United States: automotive.

Researcher AutoData Corp. estimates that, seasonally adjusted, the annual vehicle sales rate topped 17.1 million in March of this year, indicating the industry is on pace to have its best year in more than a decade. Further, the industry's 5.6 percent sales increase in the first quarter has come entirely on gains of sales of trucks and sport-utility vehicles, two categories that do well when gas prices are low.

Ford Motor Co. is forecasting that between 17 million and 17.5 million light vehicles — from all automakers — will be sold in the United States this year. The estimate is similar to competitor estimates. If it comes to pass, 2015 would be the best year for unit sales since 2006. Approximately 16.5 million cars and light trucks were sold nationally in 2014, according to AutoData.

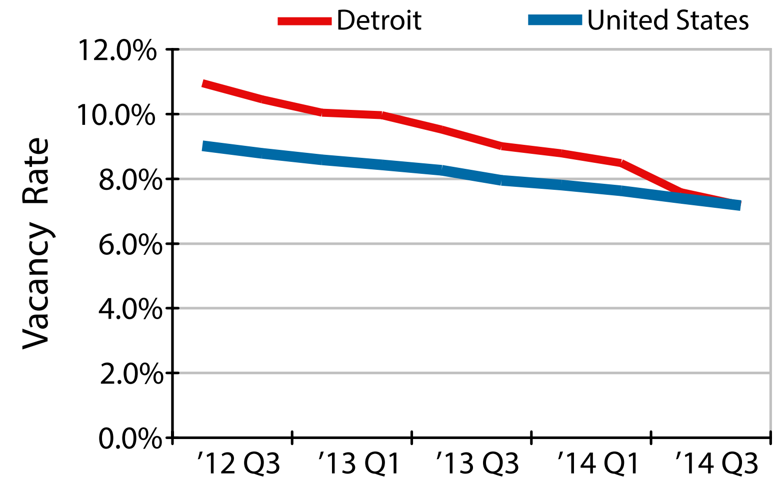
Consequently, it has been shocking to see how quickly so many vacant Detroit industrial buildings have been occupied in such a short period of time.

Vacancy Rates Tumble

The Detroit industrial market posted approximately 3.9 million square feet of positive net absorption in 2014, according to CoStar Group. From an inventory base in excess of 500 million square feet, more than 50 million square feet of space has been absorbed since mid-2009, when the industrial vacancy rate was about 20 percent.

Detroit's industrial vacancy rate stood at 8.8 percent at the end of the first quarter of 2014. It decreased to 7.2 percent by the end of last year and is expected to dip below 7 percent. What's interesting is that during 2014 Detroit essentially "caught up" with the U.S. industrial market in terms of vacancy (*please see chart*).

Detroit Industrial Vacancy Rate Drops



The industrial vacancy rate in metro Detroit fell from 8.8 percent in the first quarter of 2014 to 7.2 percent by the end of the year, essentially in line with the U.S. vacancy rate. A further drop in vacancy — under 7 percent — is expected this year.
Source: CoStar Group

What was a strong tenant's market just a few years ago has clearly shifted to become a landlord's market. Rent concessions are rare again, and rent schedules are regularly starting at asking rates.

The average rent for industrial space was $4.79 per square foot at the close of the fourth quarter, up from $4.71 per square foot the prior quarter, according to CoStar. For heavy manufacturing buildings, rates are closer to the high $5s and into the low $6s per square foot. Flex rates averaged $8.03 per square foot at the end of last year.

Construction Activity Spikes

There is a lack of supply across the board and demand for space has spurred development, most of which has been build-to-suit. Speculative development is beginning to make a return, particularly for smaller buildings ranging in size from 30,000 to 50,000 square feet.

Nearly 1.3 million square feet of industrial space was under construction as we kicked off 2015, reports CoStar. Demand is greatest for manufacturing buildings between 100,000 square feet and 200,000 square feet, which is in scarce supply.

We're in a classic automotive industry recovery cycle. The first segment to recover was heavy manufacturing, followed by companies that build high-tech prototype components and parts. Now we're in the third phase, when the auto suppliers start retooling their facilities to meet new manufacturing and production demands that are spurred by new car designs.

For example, Paslin Co. is scheduled to occupy a build-to-suit facility located in Cherry Creek Park in Shelby Township, near M-53 and 23 Mile Road. Scheduled for completion in late May, this 170,000 square-foot building will be a true state-of-the-art facility, with two 95-foot crane bays with a ceiling clearance of nearly 40 feet.

Included within the overall square footage will be about 40,000 square feet of engineering and executive office space. Paslin designs and builds automated welding systems, gauges, tooling, fixtures and special machines.

One of Paslin's contracts is with Ford, for its F-150. The Ford F-150 pickup truck was the top seller in 2014, according to AutoData.

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Window of Opportunity

We know that interest rates won't stay so low forever, and the price of oil will eventually increase. But in the meantime, attractive financing will continue to encourage consumers to buy new cars. With lower-priced gasoline, people are more comfortably buying lightweight trucks and SUVs than they have been in years. As long as these trends continue, the automotive industry will keep driving Detroit's economy as well as demand for industrial space.