

2Q24

Detroit Office Market Overview



NEWMARK

Market Observations

Economy

- The Detroit Metro’s labor market remains stagnant. May’s 3.9% unemployment rate was up 10 basis points from April levels.
- Construction continues to lead employment growth fueled by infrastructure funds to rebuild major expressways. Meanwhile, the key manufacturing sector showed employment is 0.6% below May 2023 levels.
- Financial activities and business and professional services both showed year-over-year declines of 1.1% and 2.9%, respectively. Information showed the biggest drop in employment, showing a 4.2 % year-over-year decline.

Major Transactions

- Plastic Omnium Auto Inergy (USA) LLC, a French automotive supplier, signed a 79,000-SF lease at 4685 Investment Dr. in Troy. The company will occupy the space 1Q 2025.
- The Sam Bernstein Law Firm leased 46,000 SF at 31440 Northwestern Hwy. in Farmington Hills.
- Lit Financial Corporation leased 10,949 SF at 3221 W. Big Beaver Rd. in Troy.
- MetLife Services and Solutions LLC leased 10,019 SF at Travelers Tower I, located at 26555 Evergreen Rd. in Southfield.

Leasing Market Fundamentals

- The Metro Detroit office vacancy rate climbed 10 basis points to 22.3% during the second quarter of 2024, as just over 60,000 SF of net vacancy was added to the market.
- The bleeding appears to be slowing down in the office market. The first two quarters of 2024 saw 328,000 SF in net vacancies compared to 1.5 million SF mid-2023.
- Available sublease space grew 7% during the second quarter of 2024 to just over 2.1 million SF.

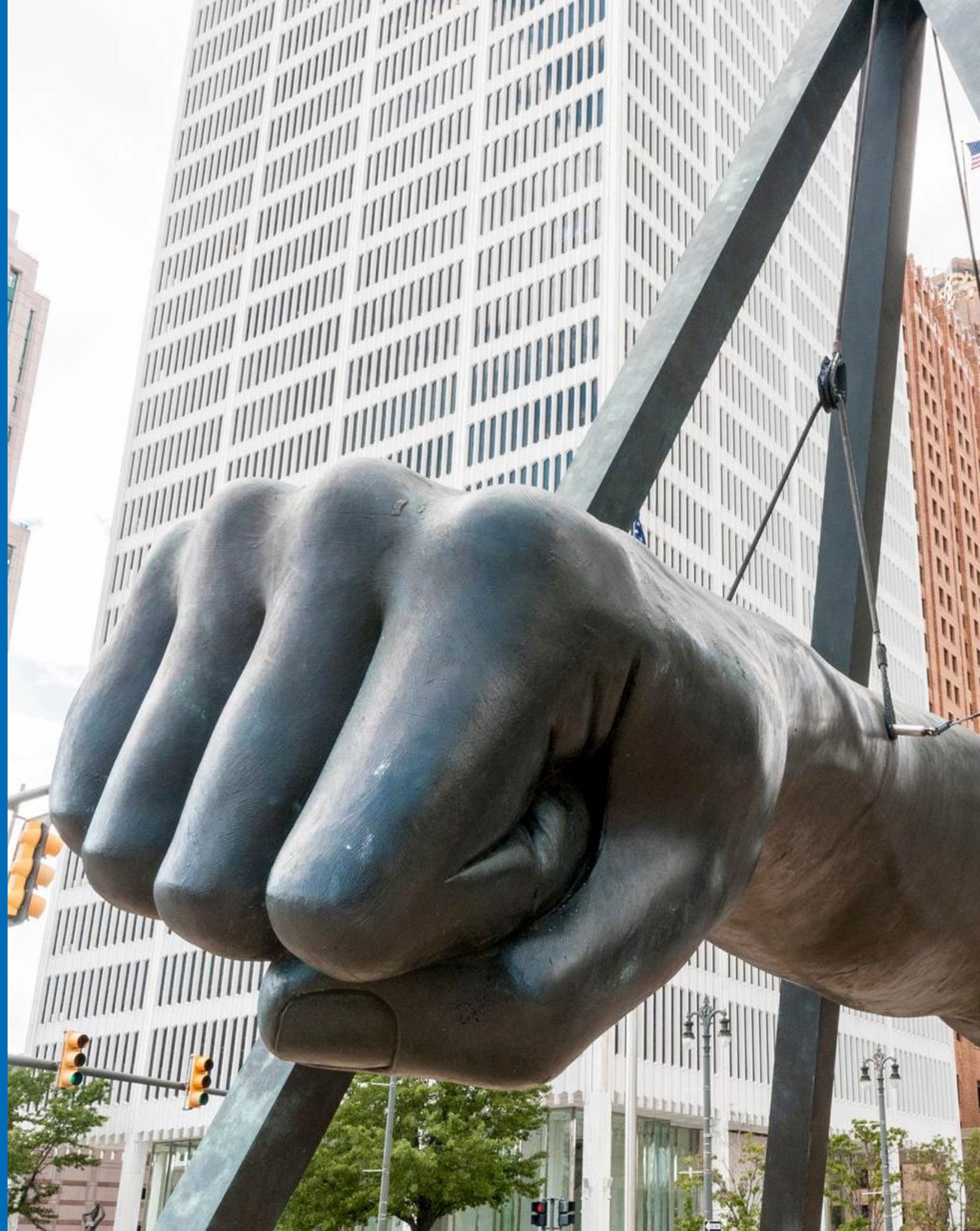
Outlook

- The market is seeing an increase in leases over 10,000 SF going into the second quarter of 2024. Increased leasing activity could translate into net positive absorption for the market in the coming quarters.
- Despite elevated asking rates, tenants will see increasingly competitive offers from landlords in the form of rent concessions and tenant improvement allowances.
- Tenants will capitalize on competitive rates from landlords and lock in with long-term lease deals.
- The market continues to be favorable for tenants looking to purchase office buildings as sale prices fall.

1. Economy
2. Leasing Market Fundamentals

2Q24

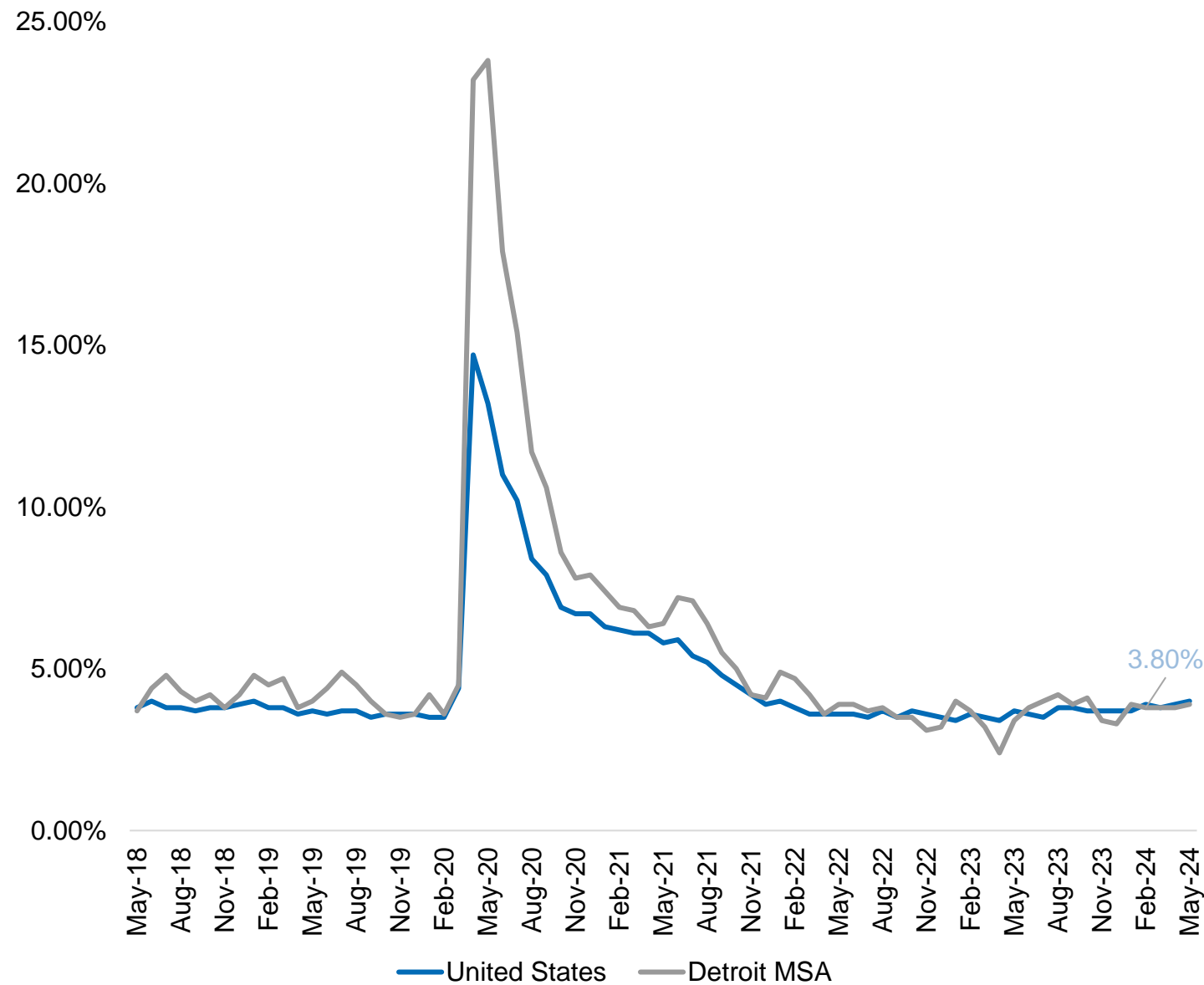
Economy



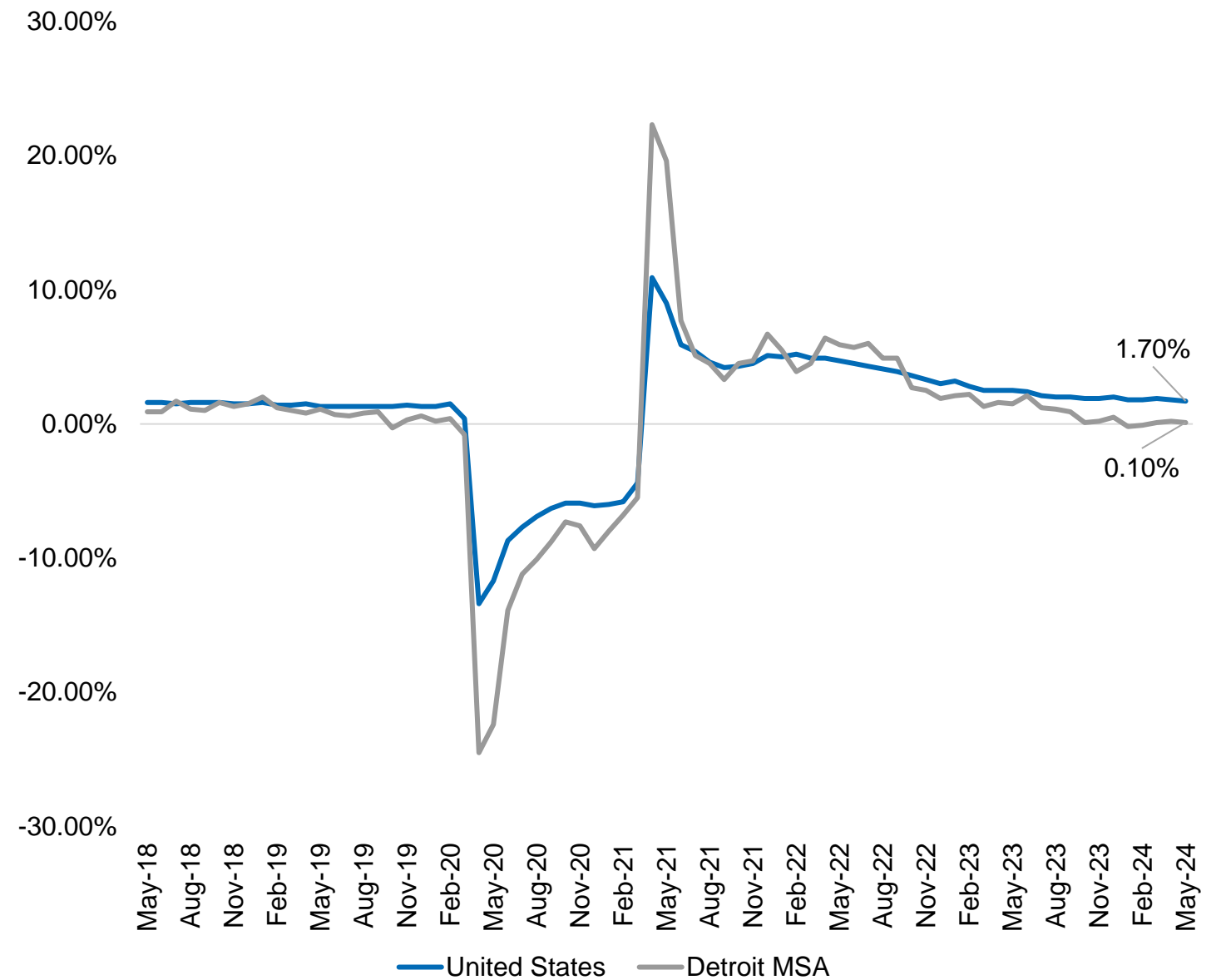
Metro Employment Trends Signal A Slowing Economy

The Detroit Metro's labor market remains stagnant. May's 3.9% unemployment rate was up 10 basis points from April levels. Compared to last year, employment levels remained relatively unchanged. Year-over-year employment grew just 0.10%. The unemployment rate remains lower than the 5.7% 10-year historical average.

Unemployment Rate, Seasonally Adjusted



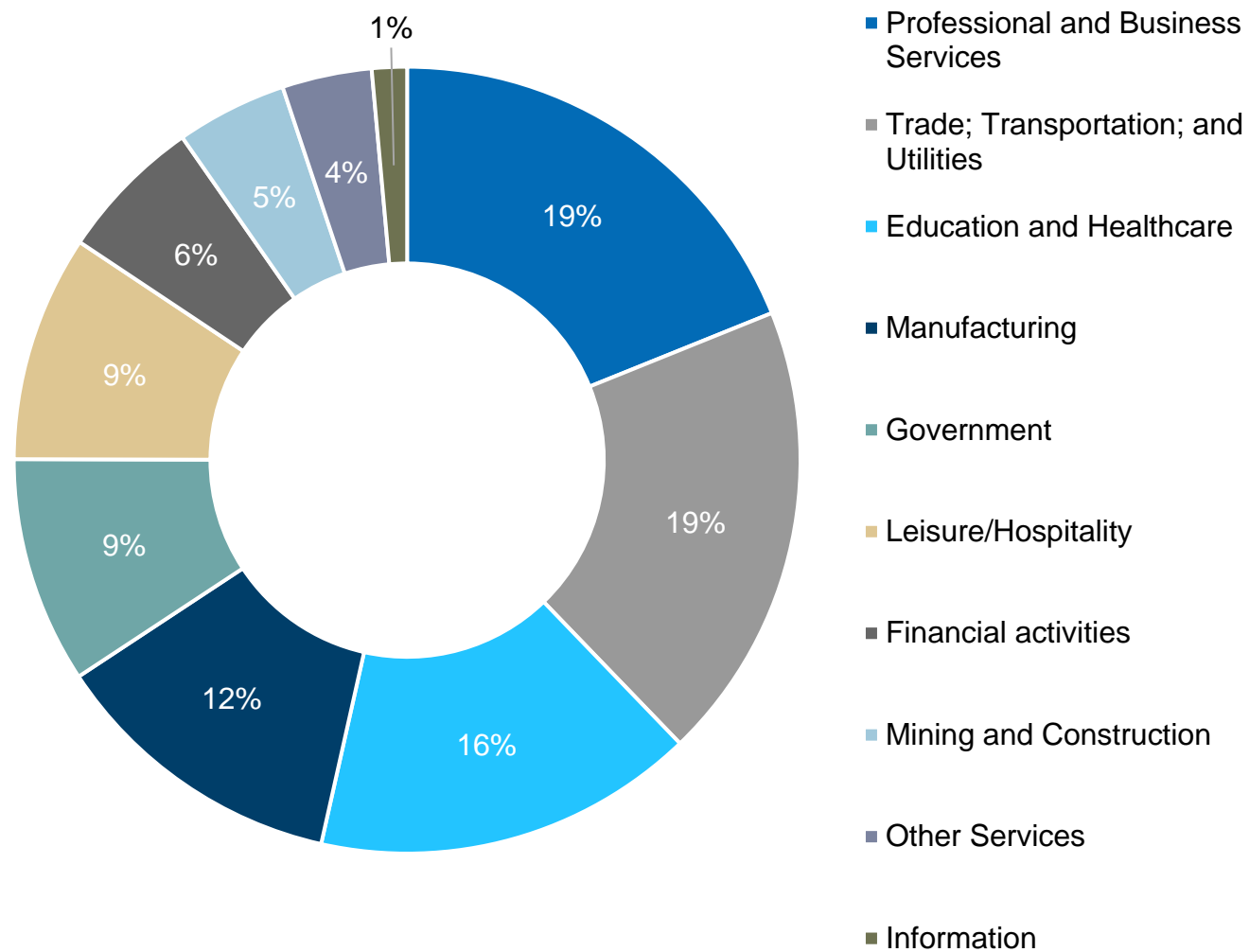
Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



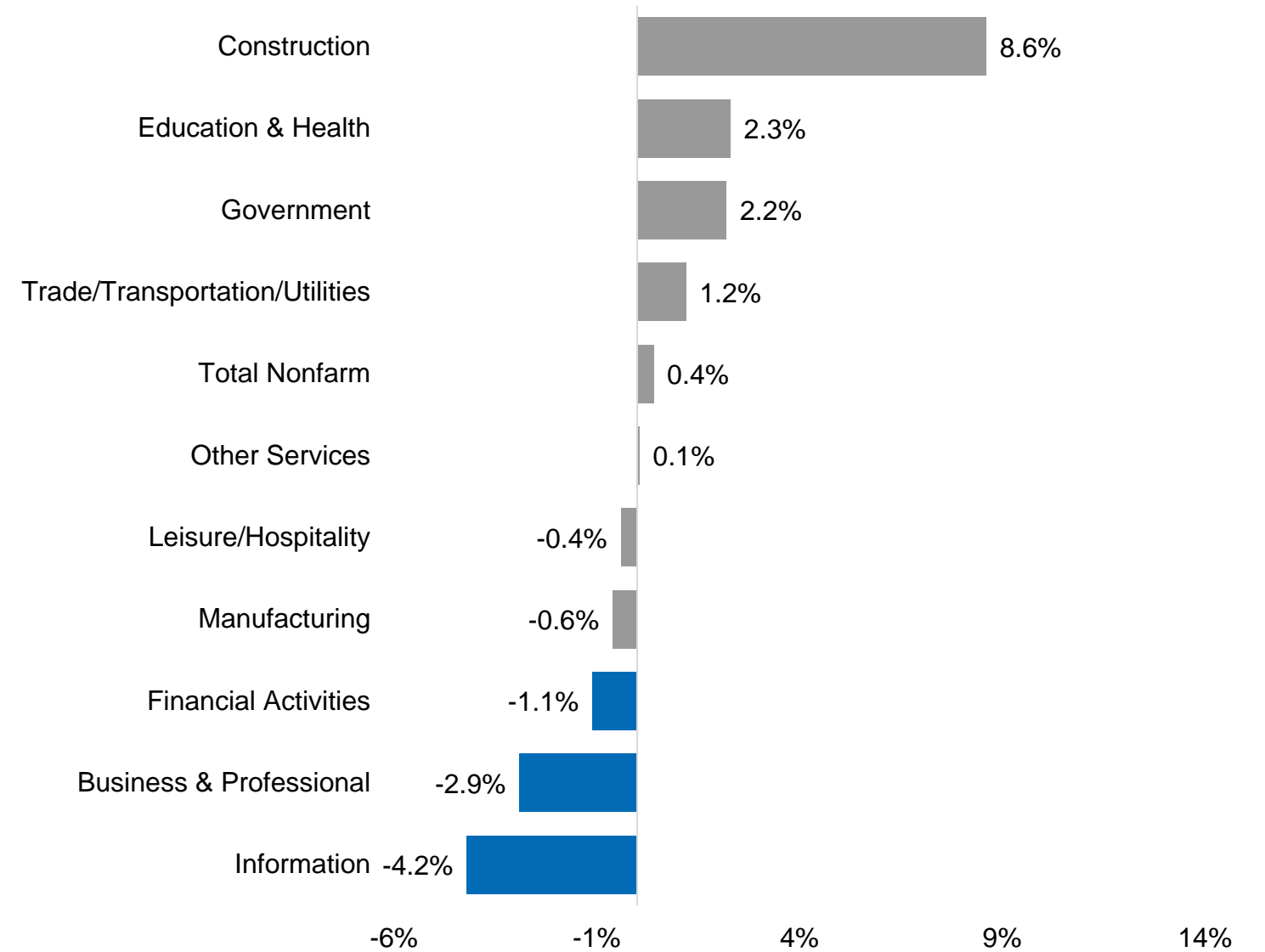
Office-Using Employment Down from Last Year

Office sector employment didn't show much gain in May 2024. Employment levels are down in year-over-year comparisons.

Employment by Industry, May 2024



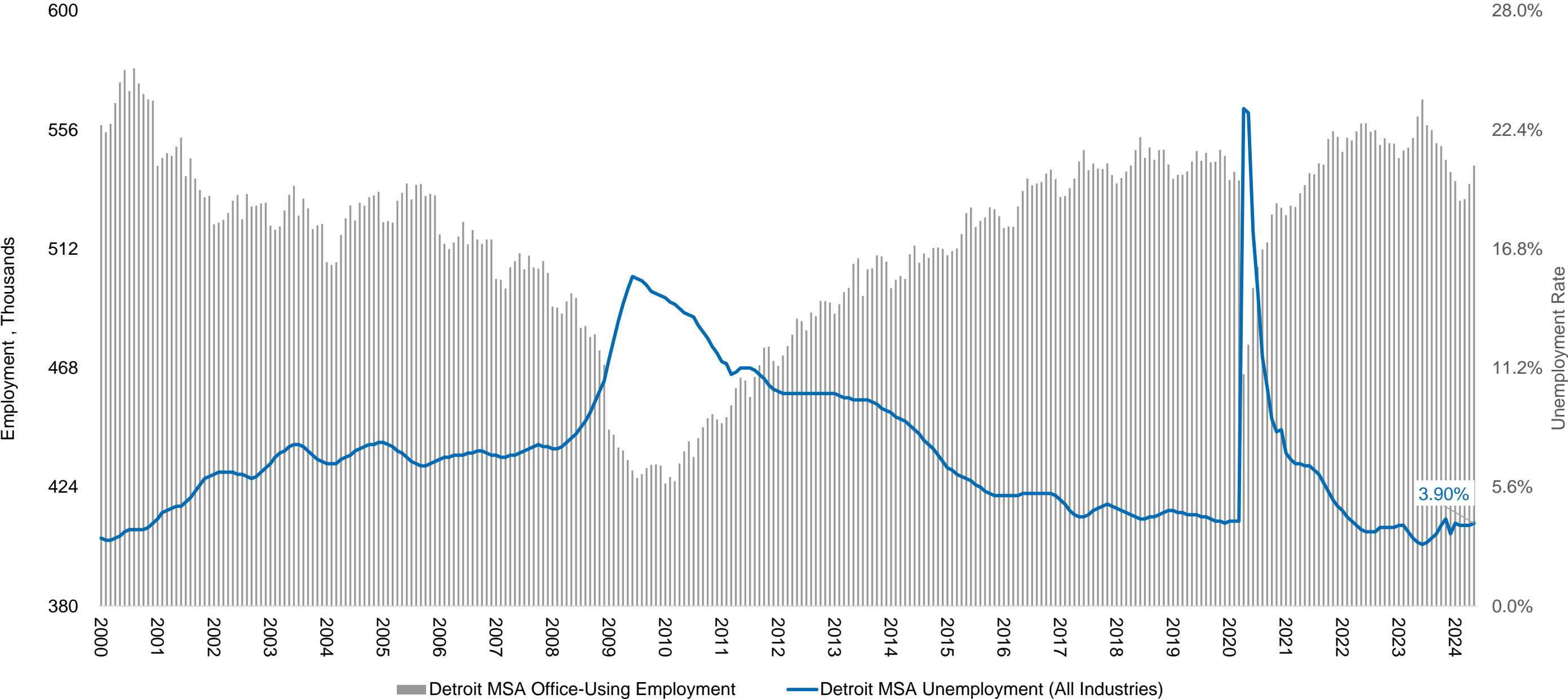
Employment Growth by Industry, 12-Month % Change, May 2024



Overall Office-Using Employment

While year-over-year office-using employment is down, figures are showing improvement over the past several months. Office employment grew 2.6% from January to May 2024. Year over year, employment is still down 4.6% from its peak in June 2023.

Historical Construction Deliveries, Net Absorption, and Vacancy



Office-Using Employment* and Unemployment Across All Industries

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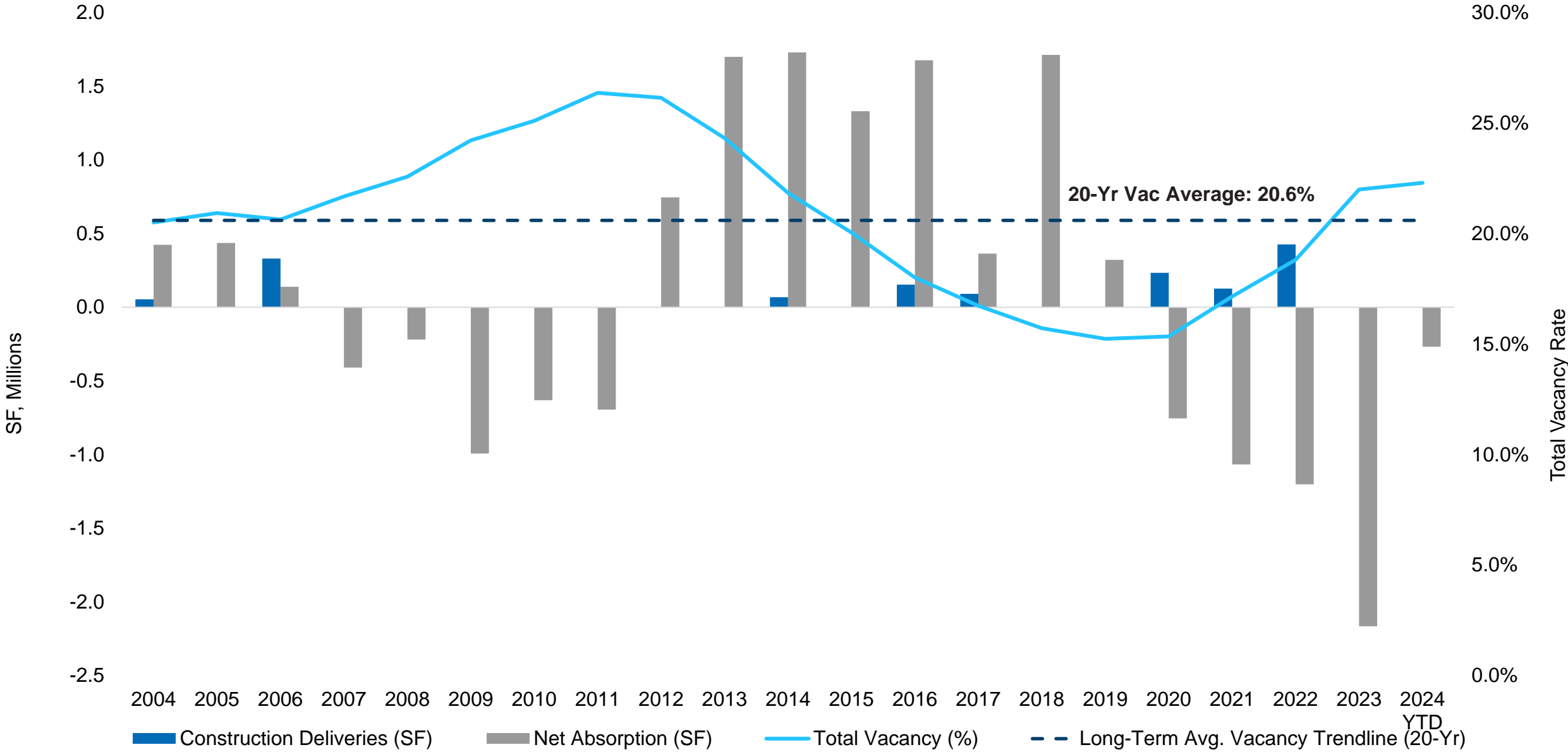
Leasing Market Fundamentals



Vacancy Rate Beginning to Level Out

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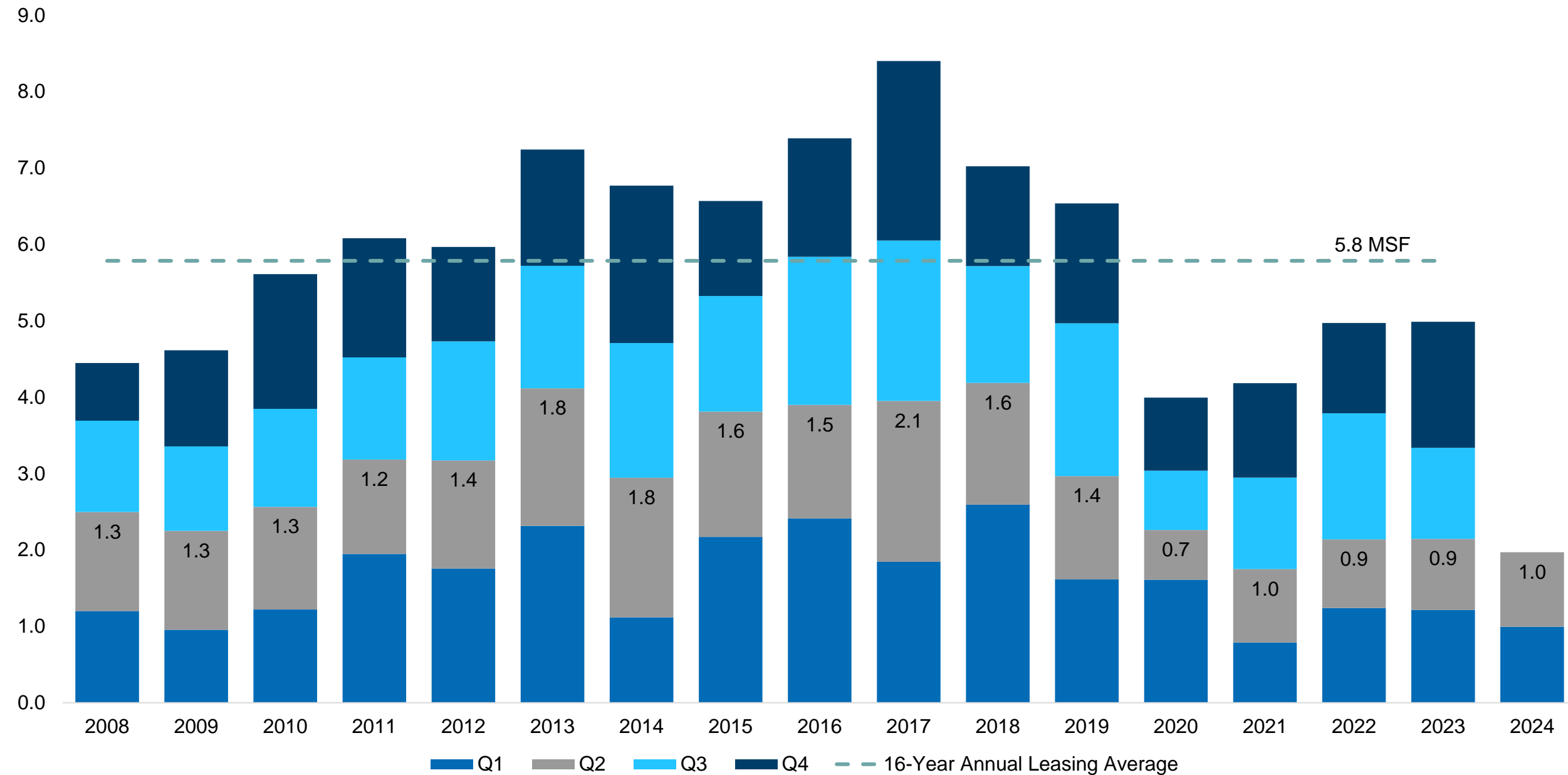
Historical Construction Deliveries, Net Absorption, and Vacancy



Leasing Activity Poised to Rebound

Overall leasing activity continues to be below pre-COVID levels in the Detroit Metro area. Tenant demand for space declined sharply following 2019 as office users cut occupancy costs by reducing space. Recently companies are beginning to take advantage of reduced occupancy cost and signing new lease space as landlords are offering greater concession on larger leases. Smaller users continue to be active in the market. The coming quarters are likely to see increased leasing activity as more companies realize savings and lock in longer terms.

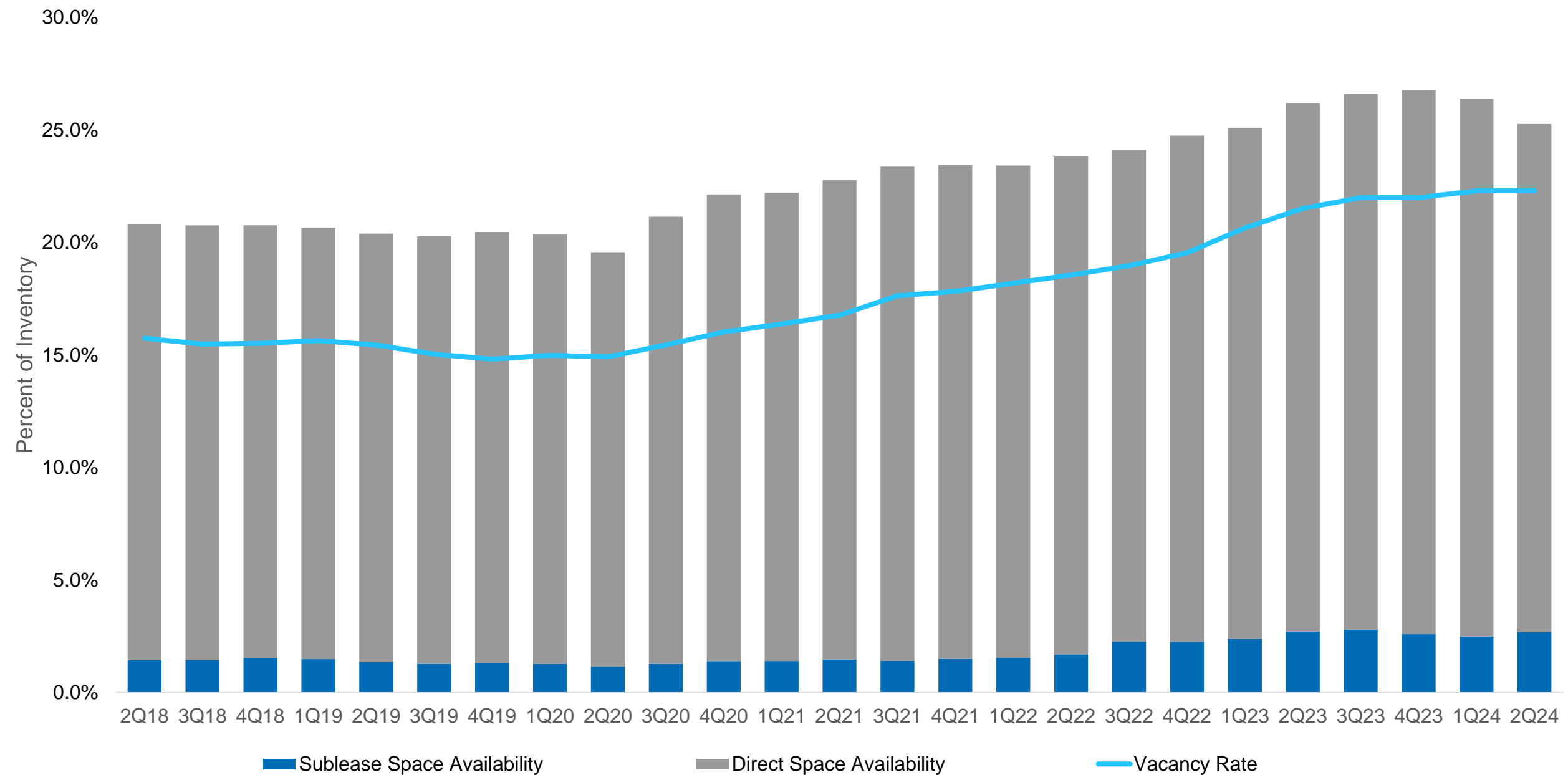
Total Leasing Activity (msf)



Direct Available Space Dips While Sublease Levels Grow

Available sublease space grew 7% during the second quarter of 2024 to just over 2.1 million SF as companies continue to shed excess floor capacity.

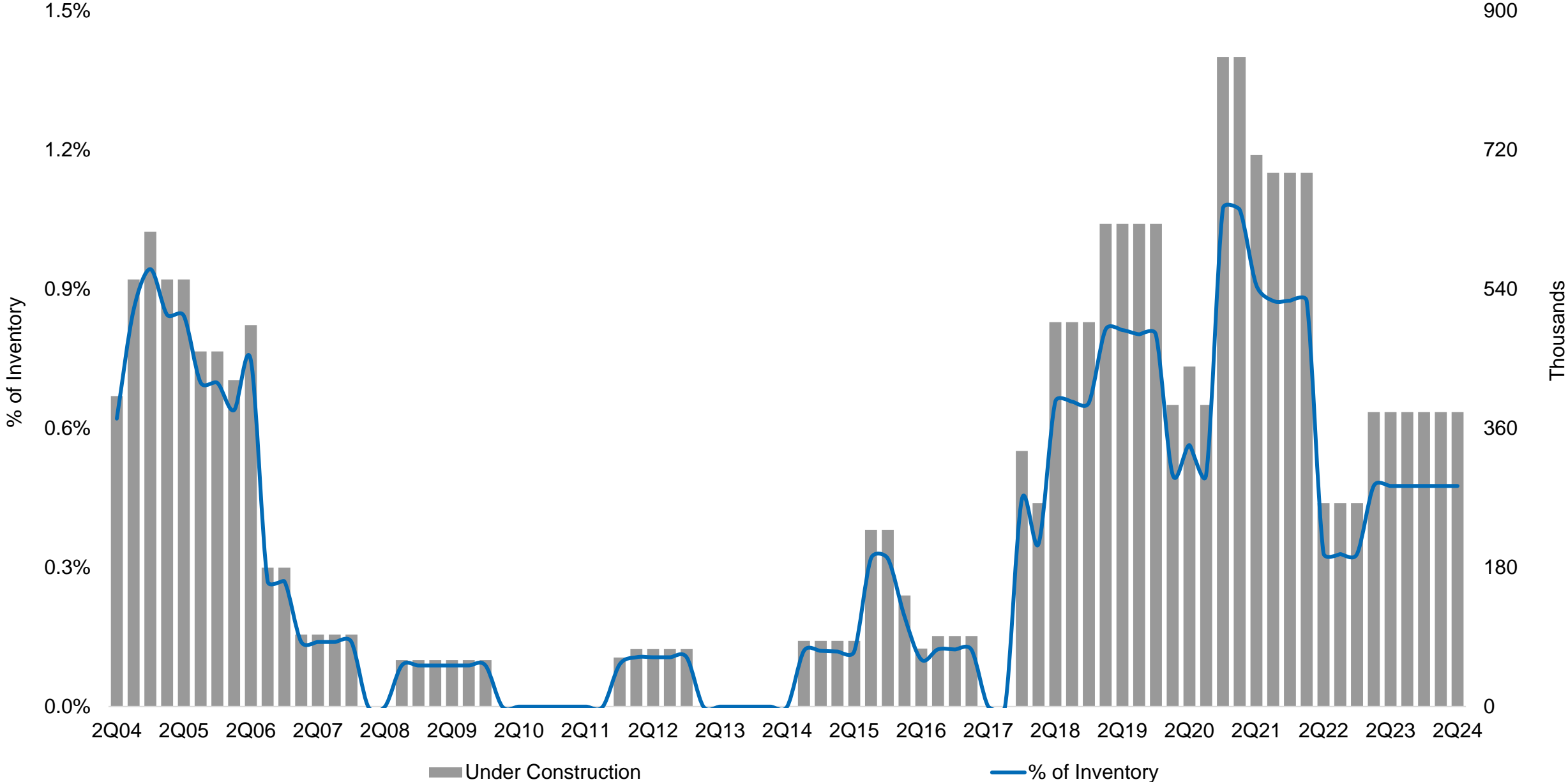
Available Direct & Sublease Space and as Percent of Overall Market



Construction Continues on the City of Detroit's Newest High-Rise

Construction on Bedrock's new high-rise on the former Hudson site at Woodward and Gratiot Avenues continues. The 680-foot-tall mixed-use development will feature a 400,000-SF block of Class A office space, along with residential, hotel and retail components. The new tower will likely be completed in 2024.

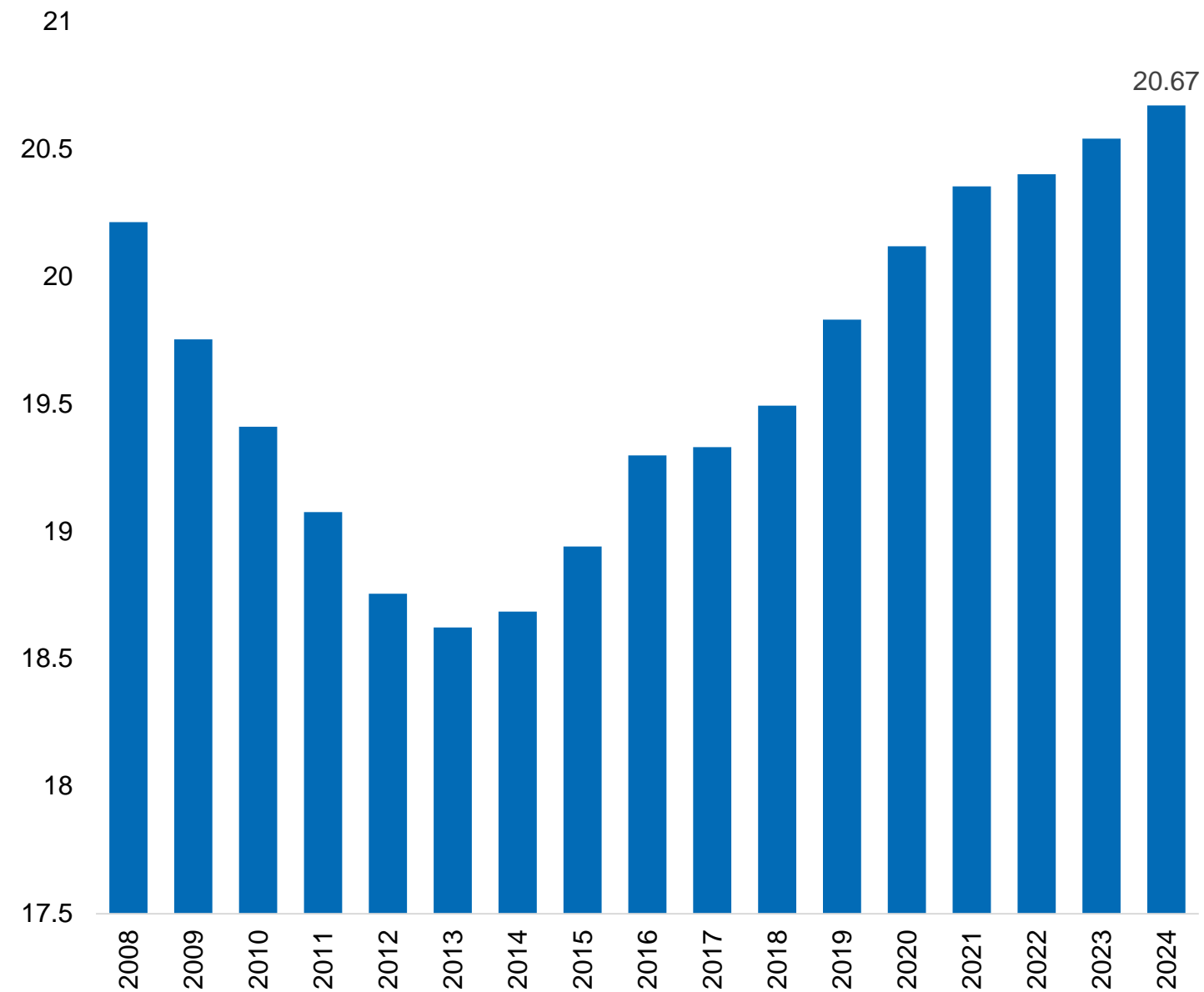
Office Under Construction and % of Inventory



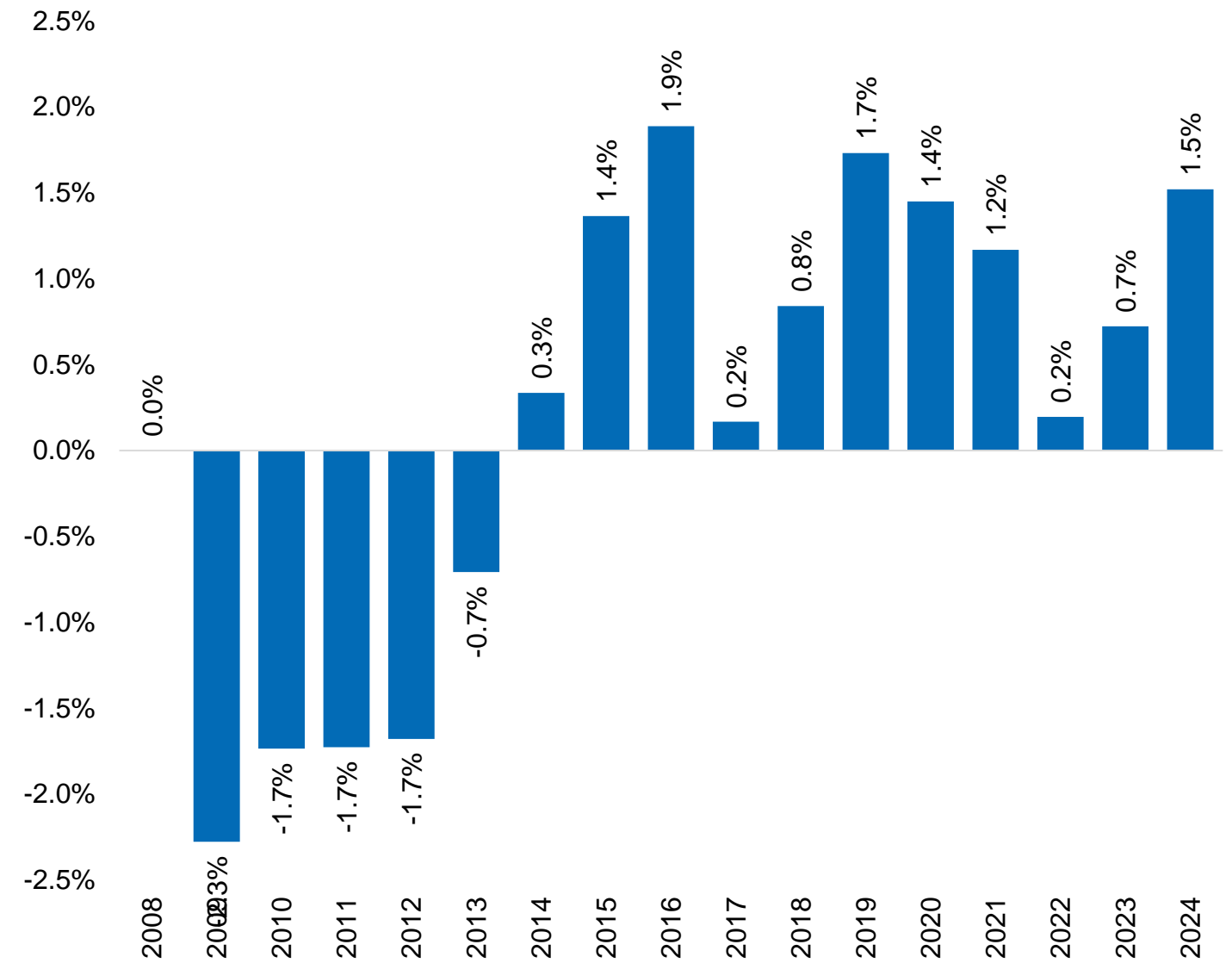
Average Asking Rents Pause Upward Trend

Despite a slew of space coming on the market since the pandemic from companies downsizing, asking rents haven't shown much downward movement. On the contrary, the average asking rate has climbed as more high-quality space is added to the market. The market is finally seeing a pause in the upward trend. Landlords continue to incentivize tenants with increasingly competitive offers in the form of rent concessions that include free rent and tenant improvement allowances.

Office Average Asking Rent, \$20.67/SF, FS



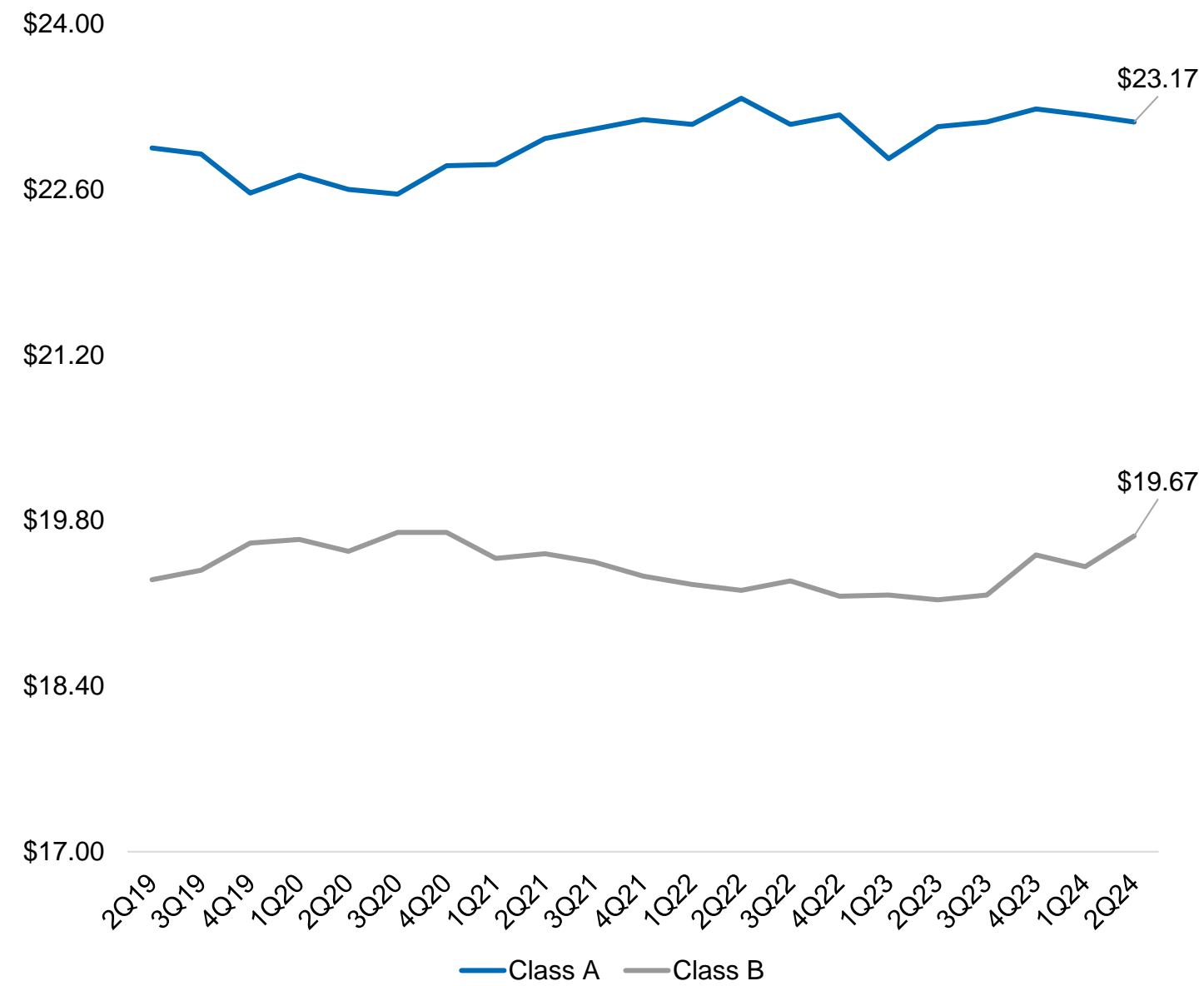
Year-over-Year Asking Rent Growth Rate



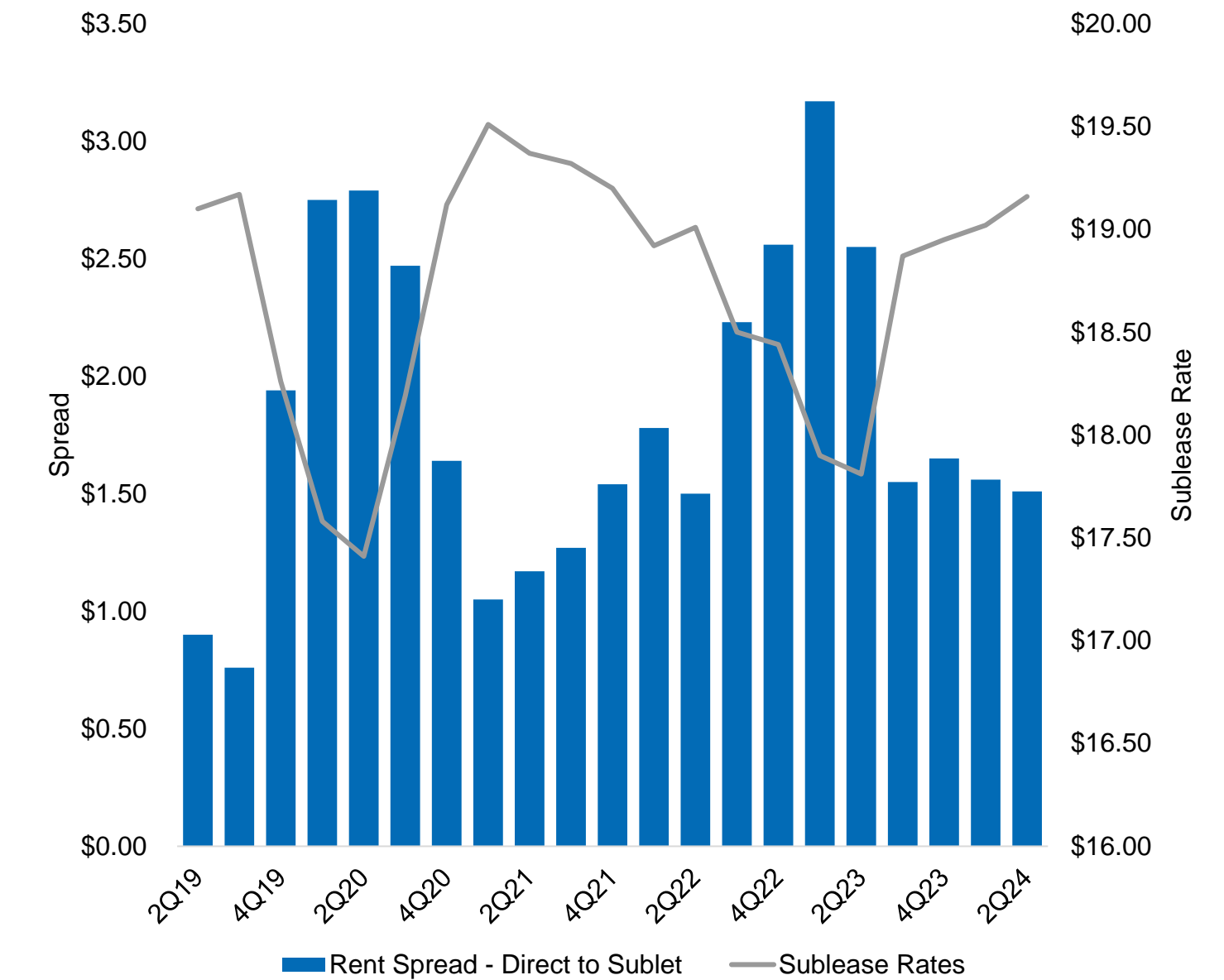
Asking Rates Mostly Unchanged

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely remained unchanged since the onset of the pandemic. Landlords have traded rent reductions with increased lease incentives, including greater free rent periods and TI packages. Sublease rents have mostly declined since 2021 before the market was saturated with space. An increase in Class A sublease space has driven the average up over the past few quarters.

Class A and Class B Asking Rents



Sublease Rates



2Q24 Overall Metro Detroit Office Market Stats

Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
CBD	15,452,549	380,821	19.7 %	-28,256	-166,754	\$26.83	\$24.59	\$24.94
CBD North Central	1,623,604	-	18.1 %	1,893	-17,722	\$30.00	\$21.16	\$23.37
CBD Total	17,076,153	380,821	19.6 %	-26,363	-184,476	\$27.10	\$23.97	\$24.75
Ann Arbor Briarwood	2,301,862	-	19.2 %	19,792	22,588	\$28.19	\$23.71	\$25.25
Ann Arbor CBD	1,336,823	-	14.1 %	-23,902	-59,332	\$34.22	\$28.53	\$31.18
Ann Arbor Northeast	2,053,840	-	12.4 %	2,711	118,615	\$28.45	\$23.02	\$28.12
Auburn Hills	3,291,327	-	21.7 %	-9,323	-2,906	\$20.27	\$20.44	\$20.36
Birmingham	258,752	-	11.0 %	-1,069	-3,159	-	\$35.40	\$35.29
Birmingham CBD	1,270,864	-	8.5 %	-12,123	-8,319	\$36.10	\$34.65	\$33.90
Bloomfield Hills	3,031,190	-	18.3 %	27,111	31,202	\$25.05	\$22.78	\$23.97
Dearborn	2,962,871	-	26.7 %	-1,029	409	\$19.63	\$16.90	\$18.36
Farmington Hills	6,724,127	-	21.0 %	-26,560	-126,319	\$20.27	\$18.93	\$19.52
Livonia	3,360,051	-	24.4 %	-22,682	-59,087	\$20.77	\$18.30	\$18.47
Novi	1,689,457	-	23.6 %	29,610	12,369	\$22.48	\$20.44	\$21.23
Pontiac	2,780,852	-	15.6 %	-8,000	-8,935	-	\$16.00	\$15.78
Southfield	17,168,665	-	27.3 %	-7,952	-85,381	\$20.65	\$18.03	\$18.42
Troy	13,615,095	-	25.6 %	2,241	32,728	\$24.98	\$18.52	\$19.50
West Bloomfield	557,771	-	10.1 %	-2,595	-8,083	\$19.00	\$17.54	\$18.21
Suburban Total	62,403,547	-	23.1 %	-33,770	-143,610	\$22.31	\$18.97	\$19.86
Totals	79,479,700	380,821	22.3 %	-60,133	-328,086	\$23.17	\$19.67	\$20.67

Source: Newmark Research

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