
1Q24

Detroit Office Market Overview



NEWMARK

Market Observations

Economy

- The Detroit Metro’s labor market showed signs of weakening in the latest figures. February’s 4.0% unemployment rate was up from a recent low of 3.3% in December, lower than the 5.7% 10-year historical average.
- Office employment continued to show losses in the latest February 2024 figures. Employment in financial activities fell 1.0%, while business and professional services fell 3.7% and the information sector fell 3.9% year over year.
- High interest rates are negatively affecting the financial services sector.

Major Transactions

- Plastic Omnium Auto Inergy (USA) LLC, a French automotive supplier, signed a 79,000-SF lease at 4685 Investment Dr. in Troy.
- Jack Cooper CT Services, LLC., an auto transport and specialized vehicle logistics provider, leased a 11,000-SF lease at 24800 Denso Dr. in Southfield.
- The Christman Company, a construction management firm, leased 10,900 SF in the Book Building in Downtown Detroit.
- Berkadia Commercial Mortgage LLC leased 8,000 SF at 260 E. Brown St. in Birmingham.

Leasing Market Fundamentals

- The Detroit Metro office vacancy rate climbed 30 basis points to 22.3% during the first quarter of 2024 as 267,953 SF in net vacant space were added to the market. Negative absorption increased as available space with remaining lease term expired. The office market is producing fewer vacancies compared with the first quarter of 2023 which saw 963,165 SF added to the market.
- Direct available space declined by 1.78% during the first quarter of 2024. This was the first decline since the first quarter of 2021.
- Available sublease continued to subside for the second consecutive quarter. During the first quarter of 2024, total levels fell by just over 66,000 SF to 2,010,870 SF. Over the past two quarters, sublease space has fallen by just over 244,000 SF.

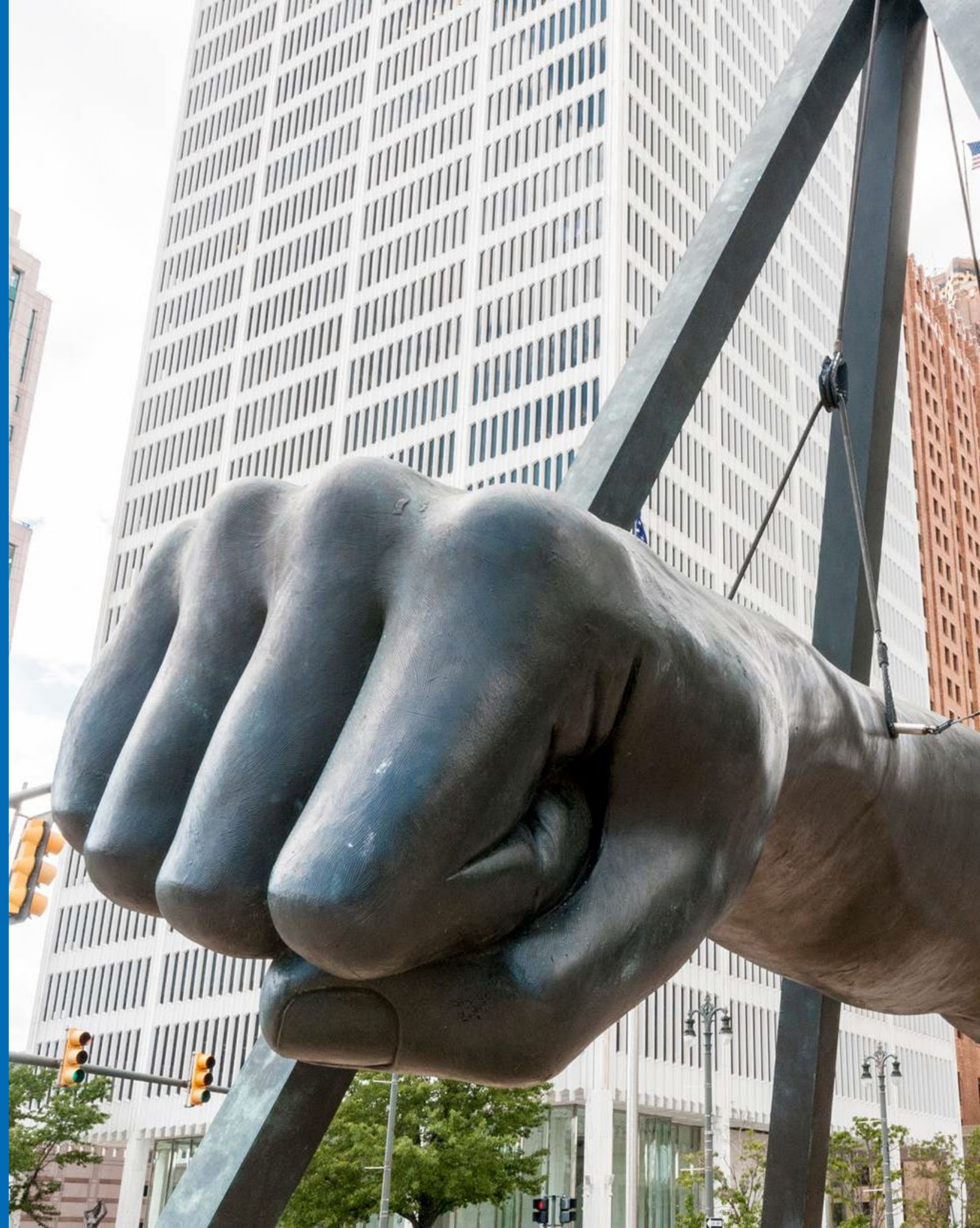
Outlook

- 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

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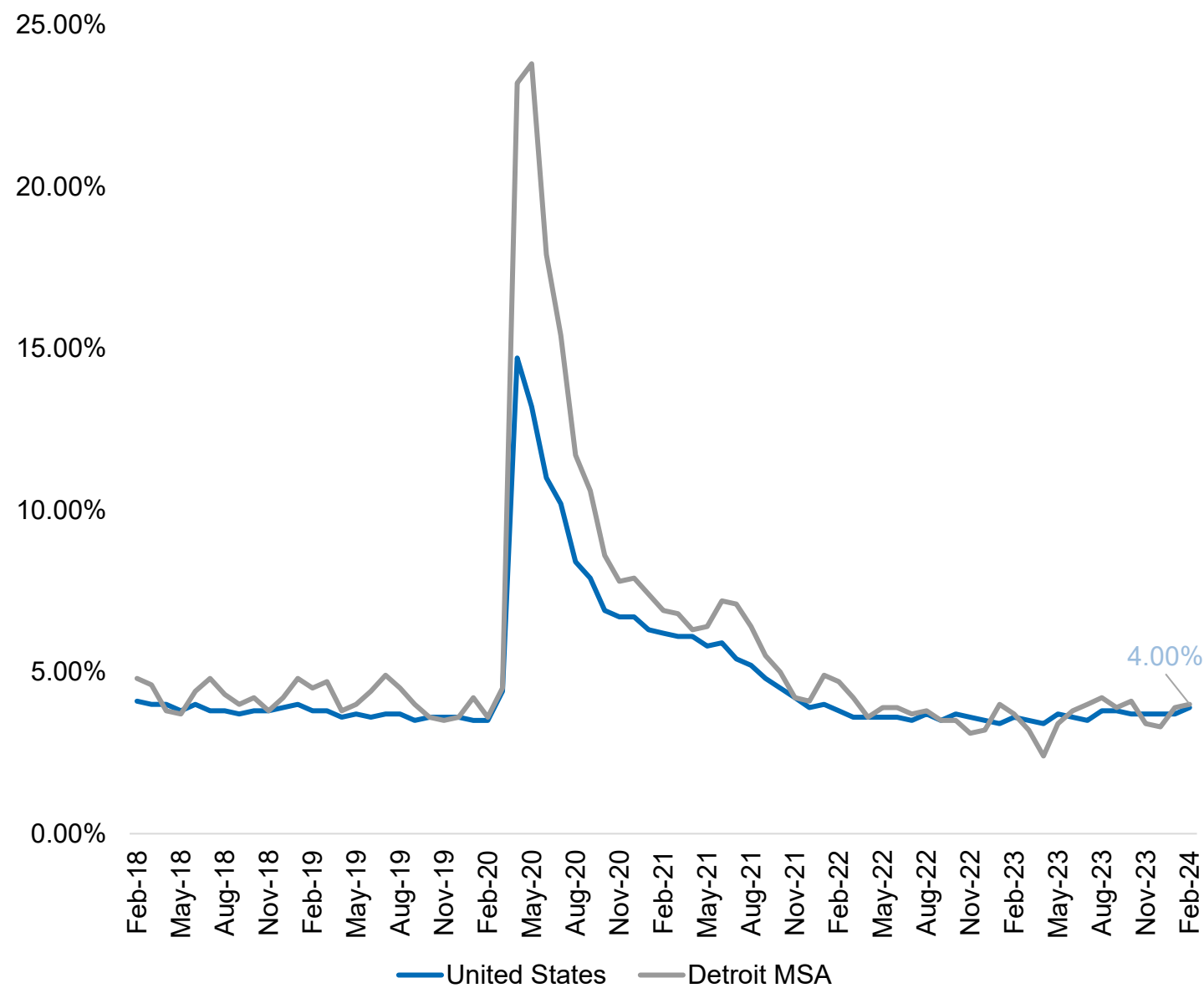
Economy



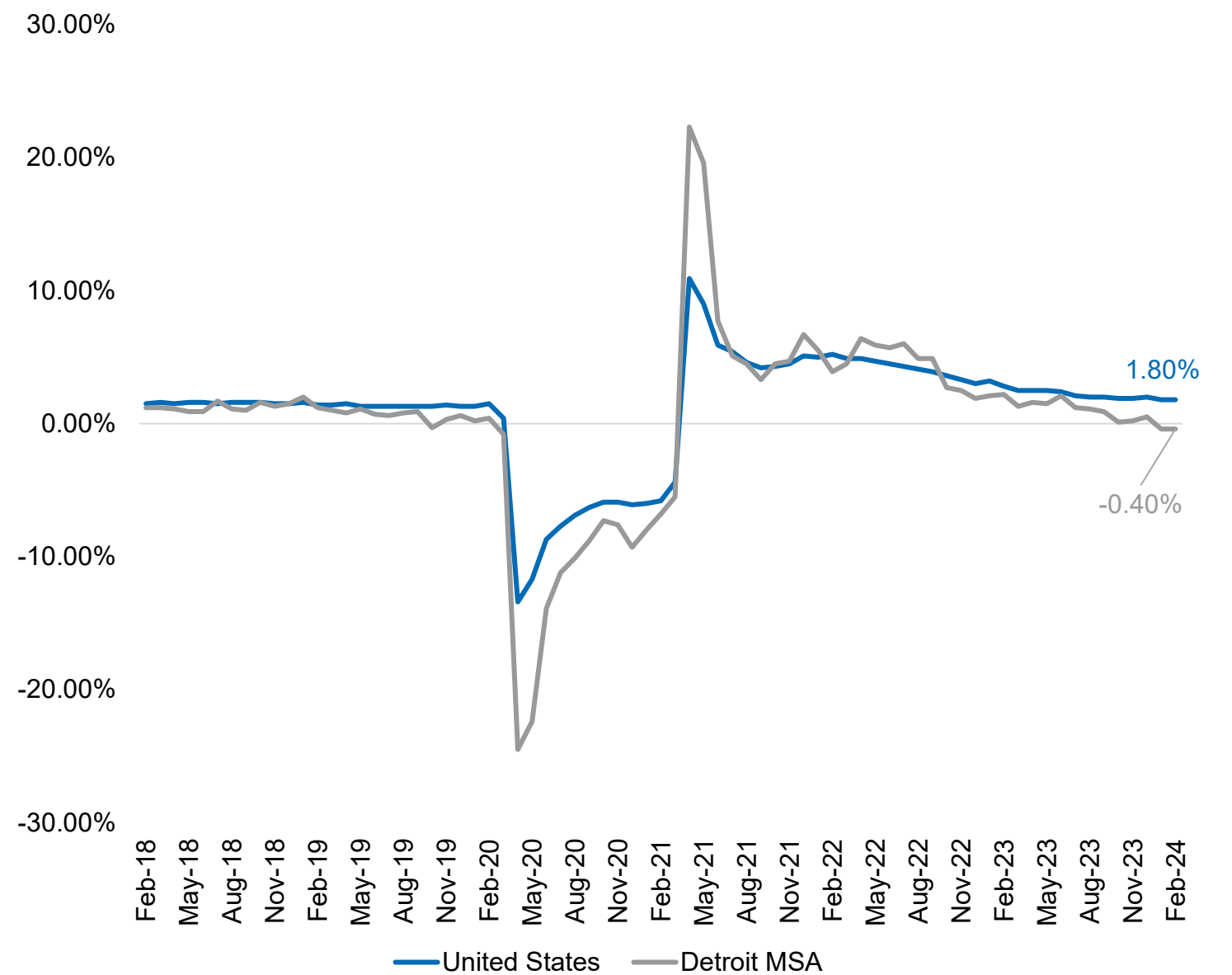
Metro Employment Trends Signal A Slowing Economy

The Detroit Metro's labor market showed signs of weakening in the latest figures. February's 4.0% unemployment rate was up from a recent low of 3.3% in December. The rate remains lower than the 5.7% 10-year historical average.

Unemployment Rate, Seasonally Adjusted



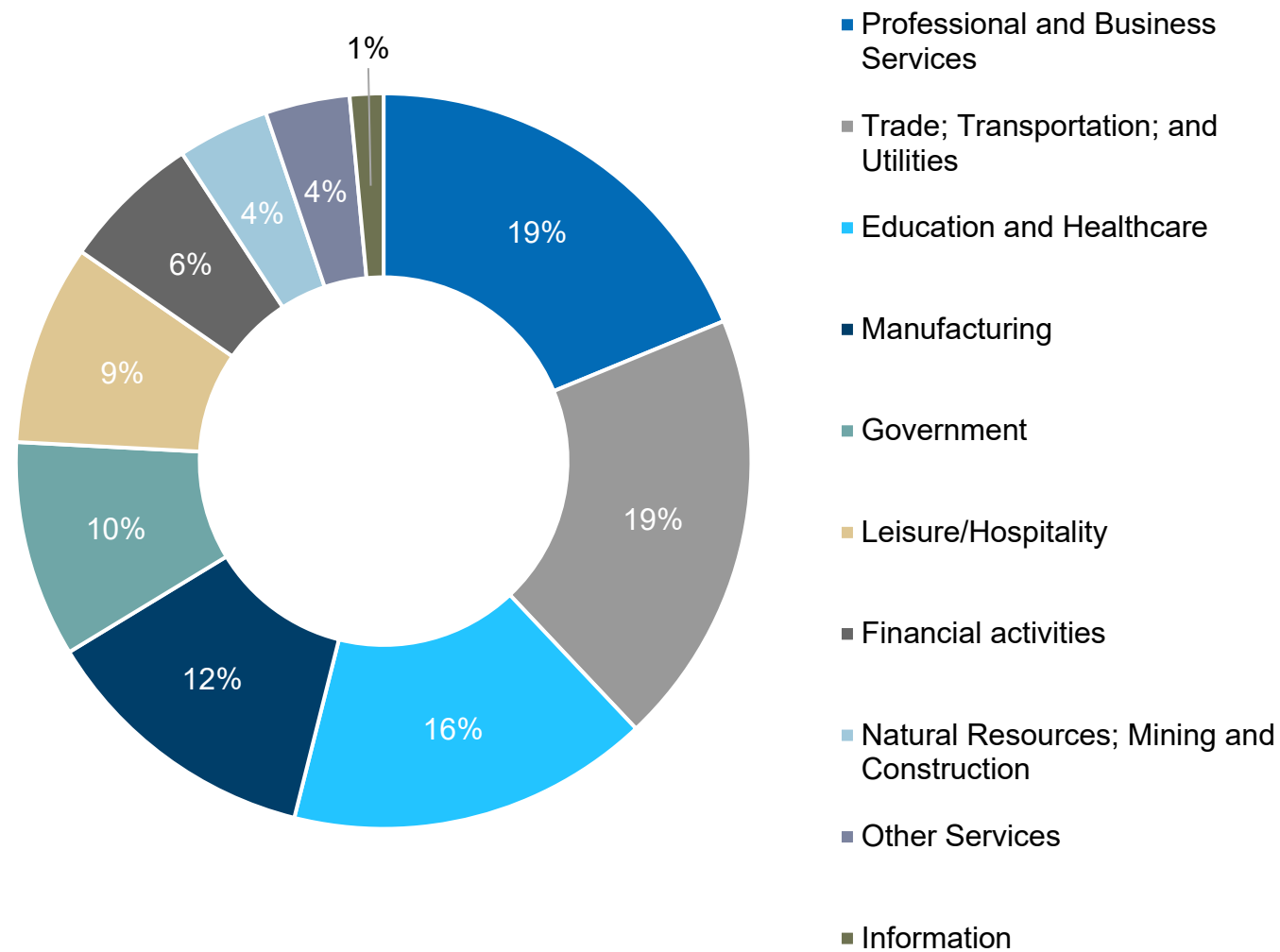
Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



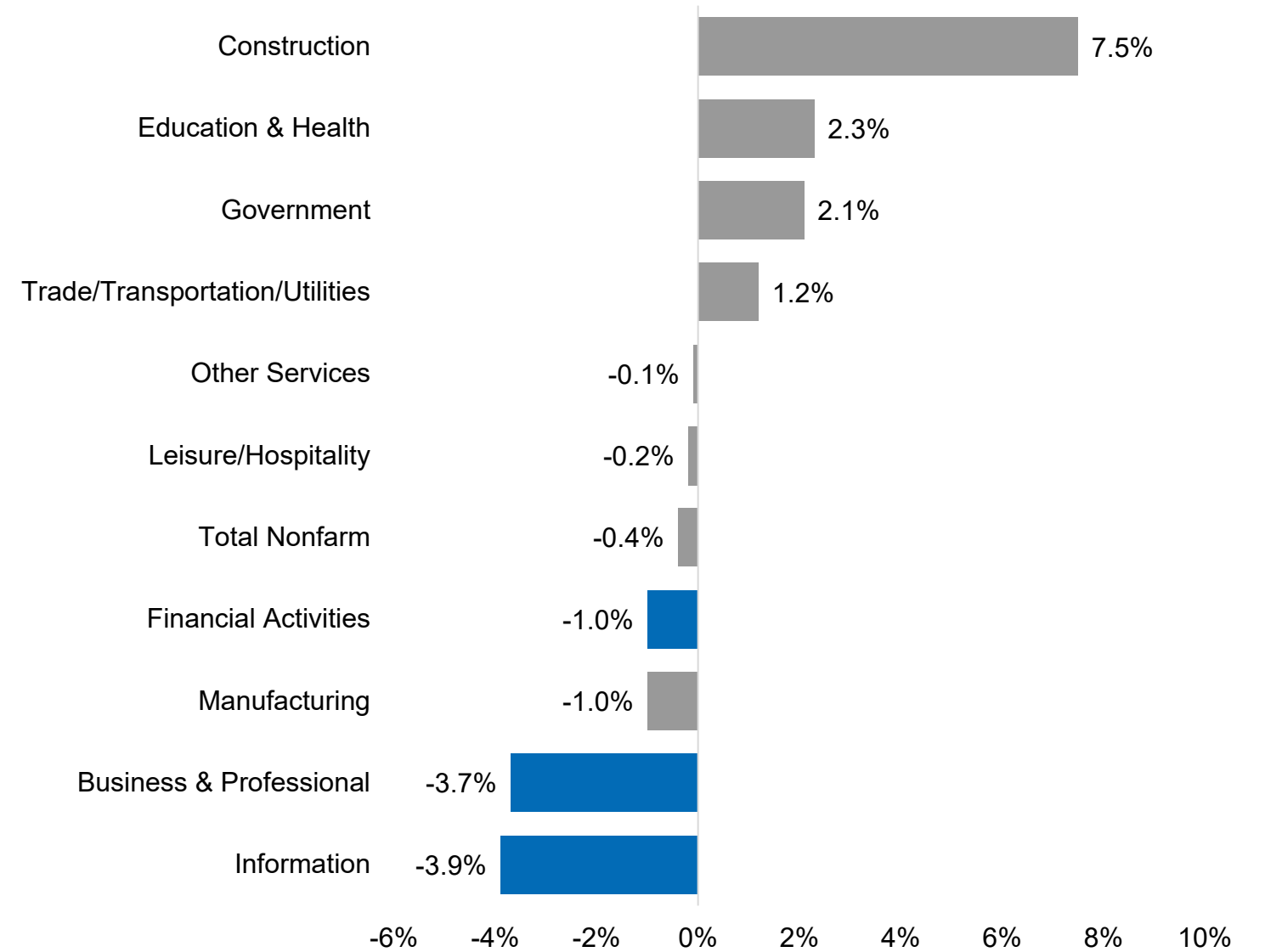
Office-Using Employment Down from Last Year

Office employment continued to show losses in the latest February 2024 figures. Employment in financial activities fell 1.0%, while business and professional services fell 3.7% and the information sector fell 3.9% year-over-year. .

Employment by Industry, February 2024



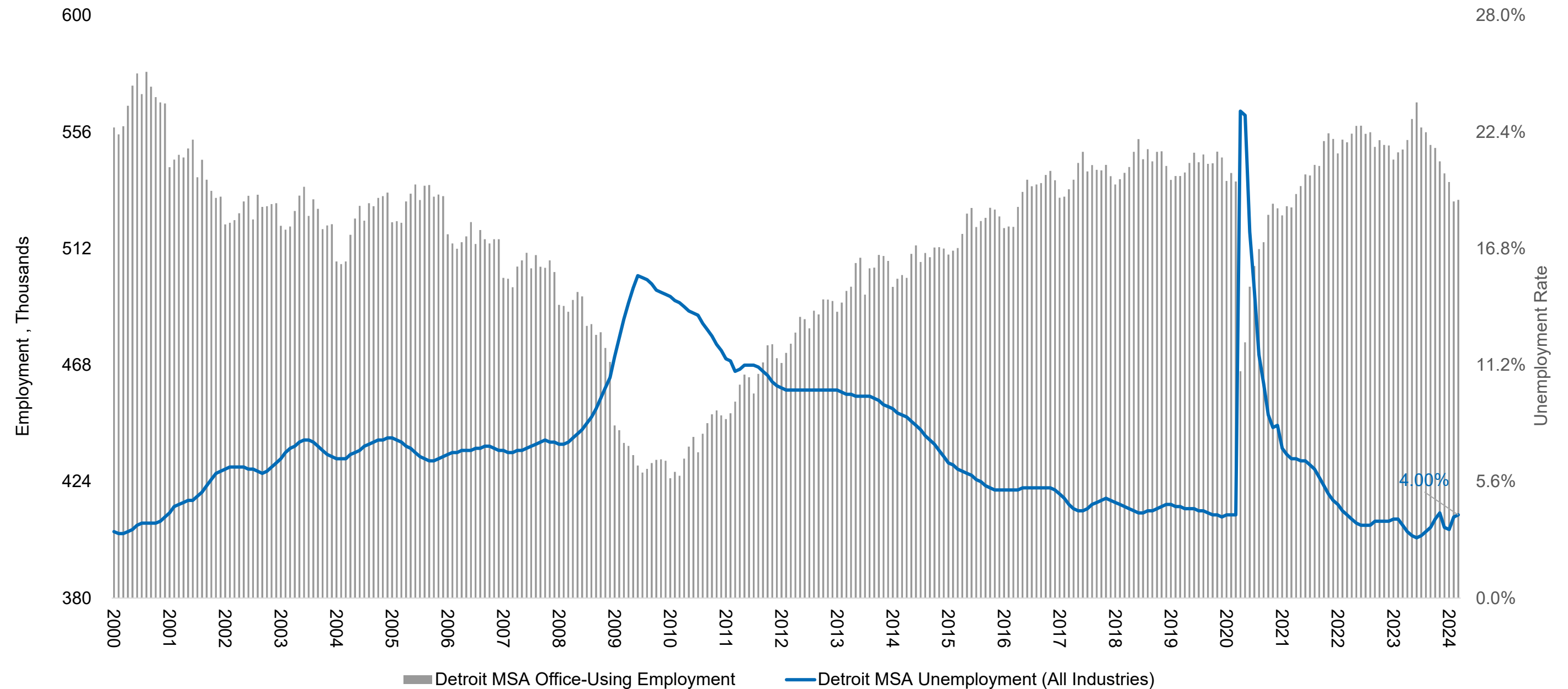
Employment Growth by Industry, 12-Month % Change, February 2024



Overall Office-Using Employment

Office employment peaked in mid-2023 and has since declined. Rising interest rates have had a negative effect on these sectors given Metro Detroit's high density of mortgage industry employment. Over the past year, the industry has shed thousands of jobs. Increased office-using employment is necessary to increase office absorption.

Office-Using Employment* and Unemployment Across All Industries



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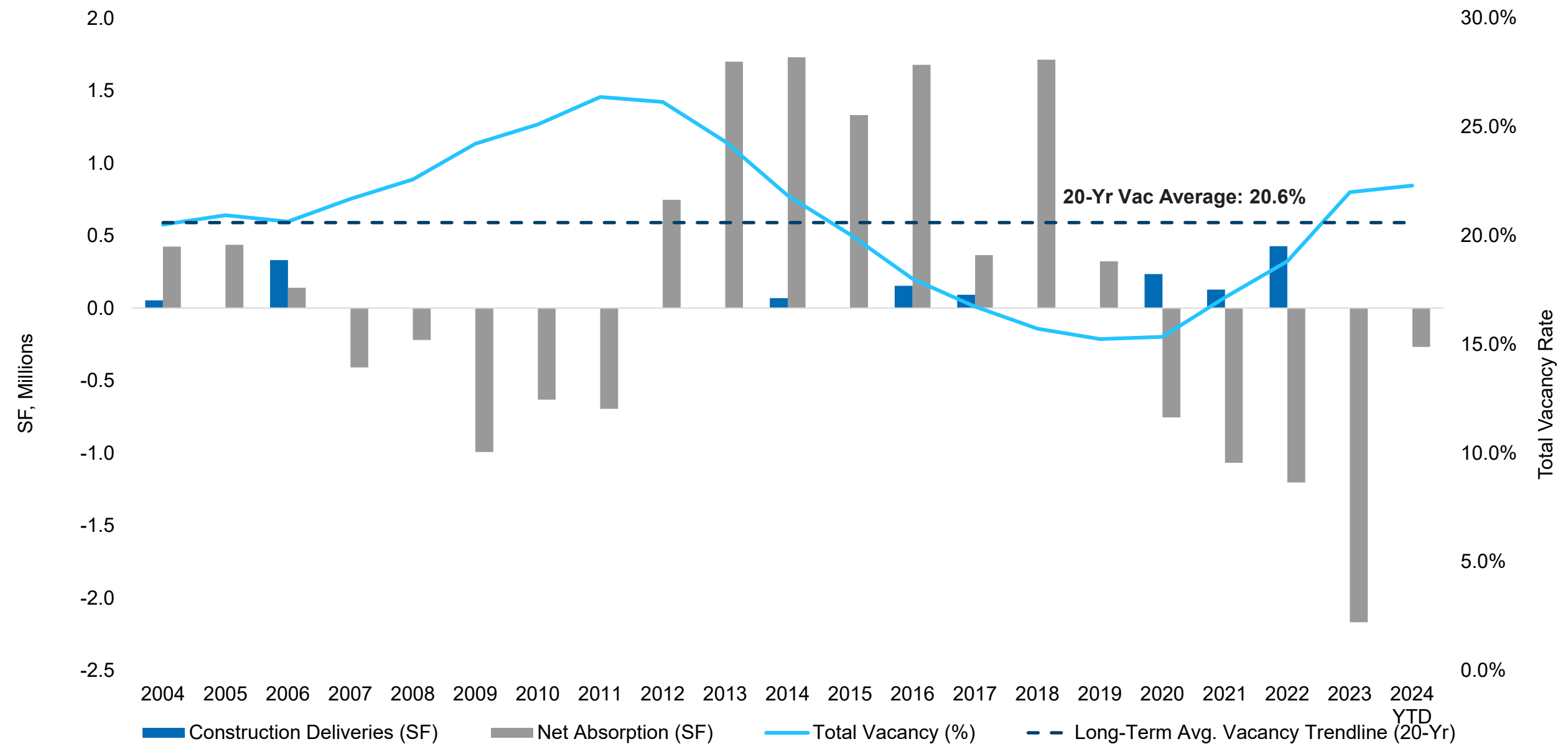
Leasing Market Fundamentals



Vacancy Rate Beginning to Level Out

The Detroit Metro office vacancy rate climbed 30 basis points to 22.3% during the first quarter of 2024 as 267,953 SF in net vacant space were added to the market. The office market is producing fewer vacancies compared with the first quarter of 2023, which saw 963,165 SF added to the market. The vacancy rate is above the 20-year average of 20.6%.

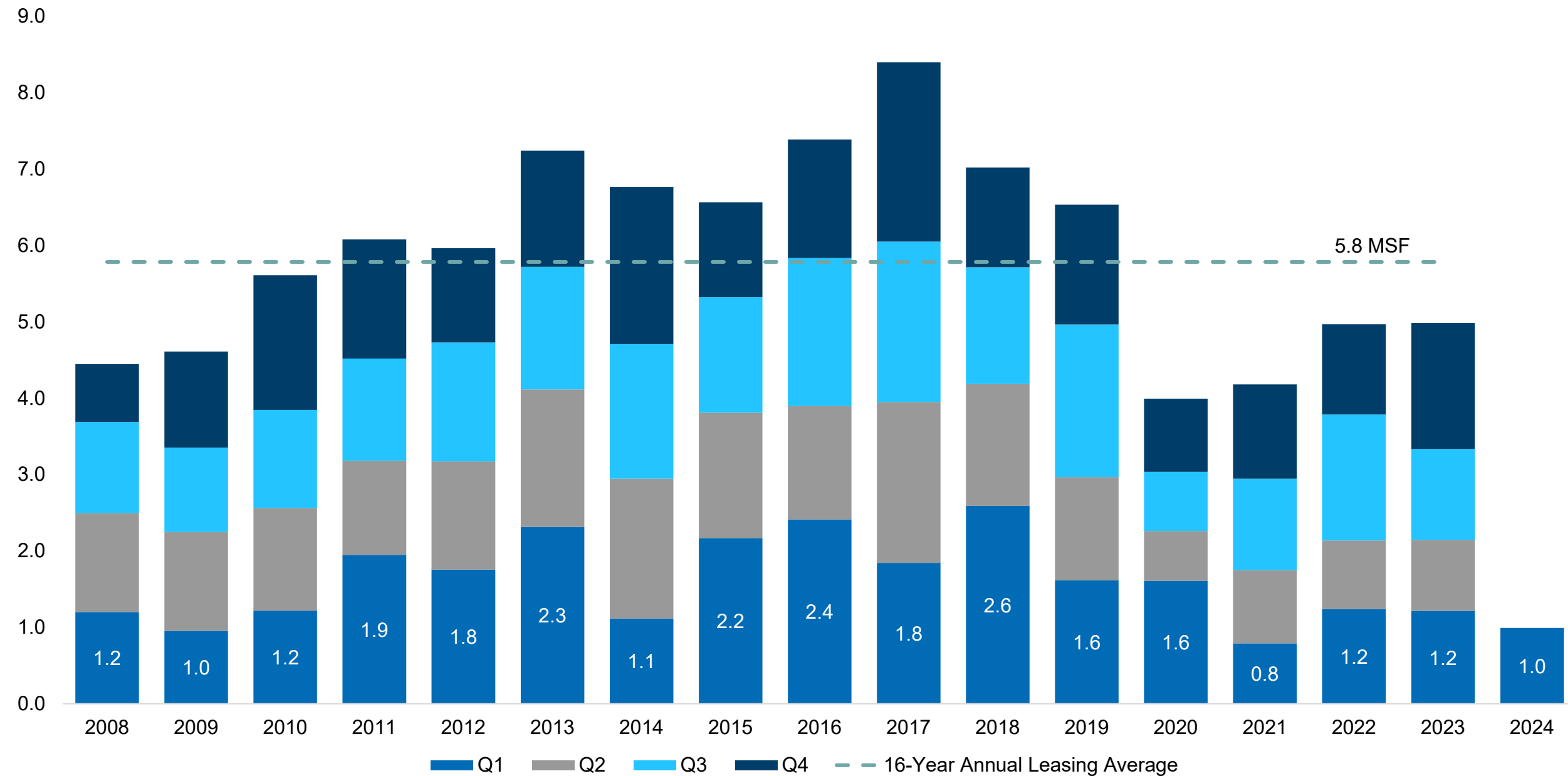
Historical Construction Deliveries, Net Absorption, and Vacancy



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.

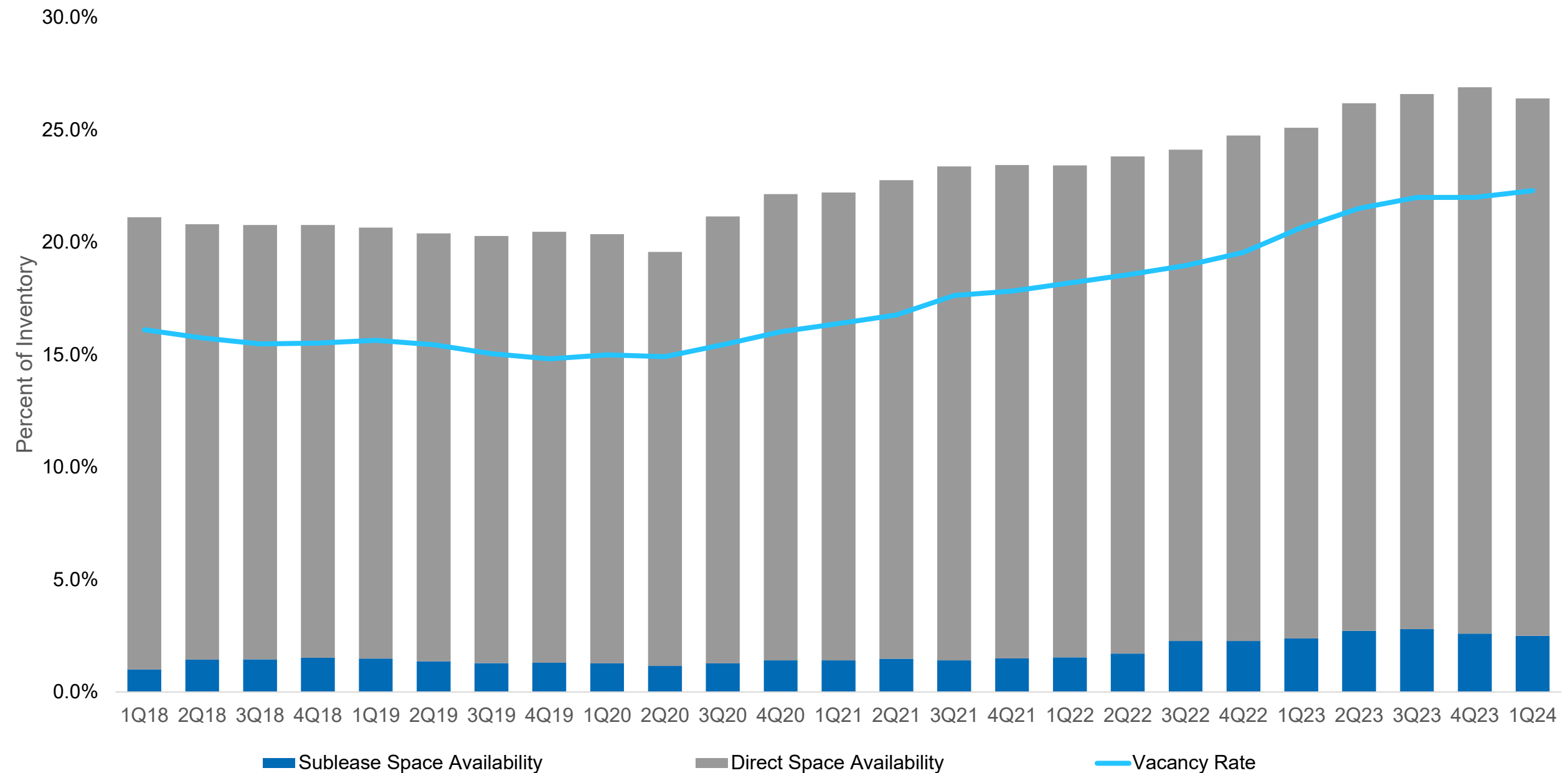
Total Leasing Activity (msf)



Direct Available and Sublease Levels Fall

Available sublease space decreased by 3.18% during the first quarter of 2024 to 2.0 million SF. Direct available space declined by 1.78% during the first quarter of 2024. This was the first decline since the first quarter of 2021. The decline was due to large block leasing in Troy and an increase in smaller block space volume. The market saw several additional new signed leases from Plastic Omnium, Jack Cooper CT Services and The Christman Company that will further reduce direct available space in the coming quarters.

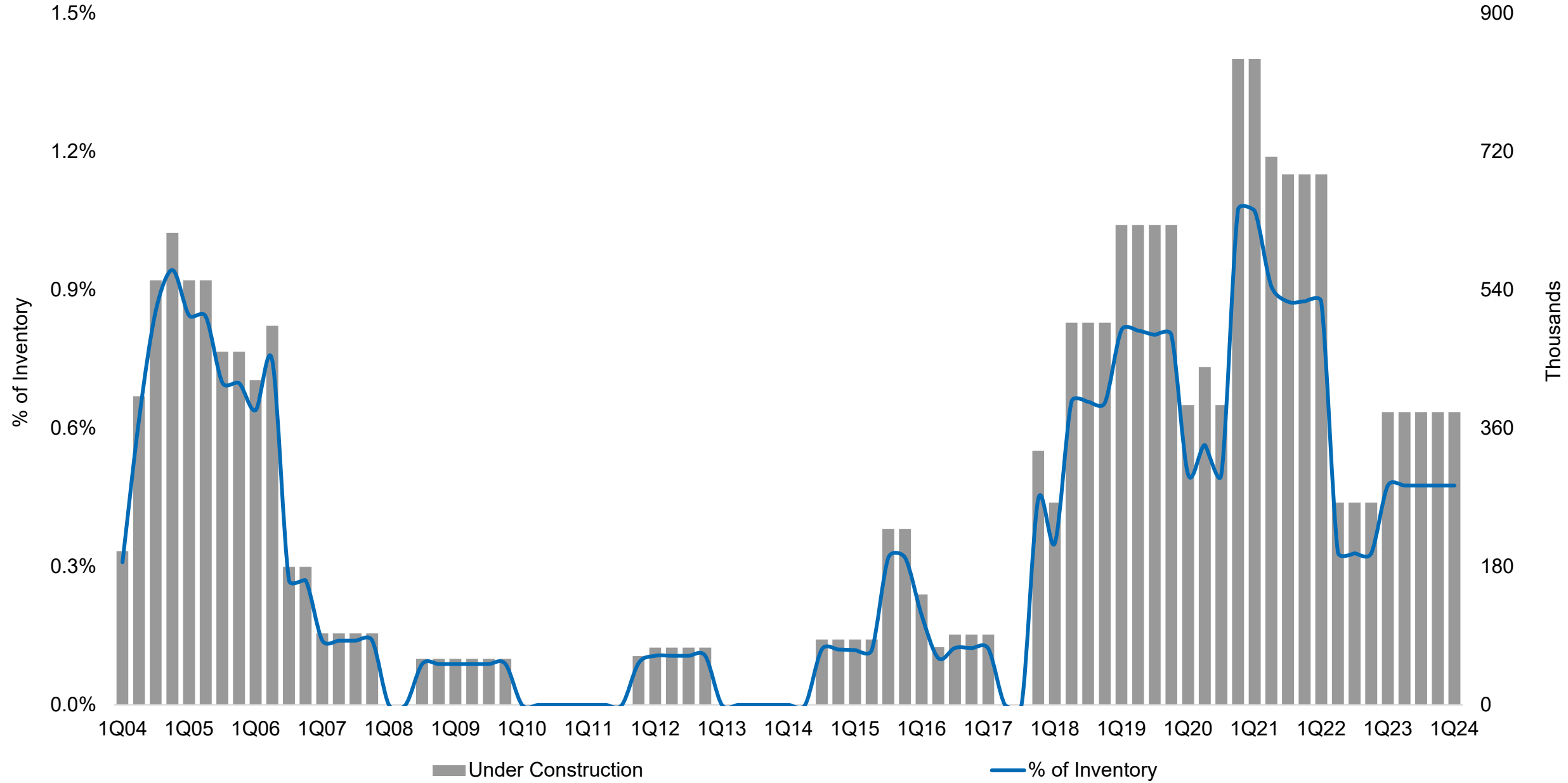
Available Direct & Sublease Space and as Percent of Overall Market



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.

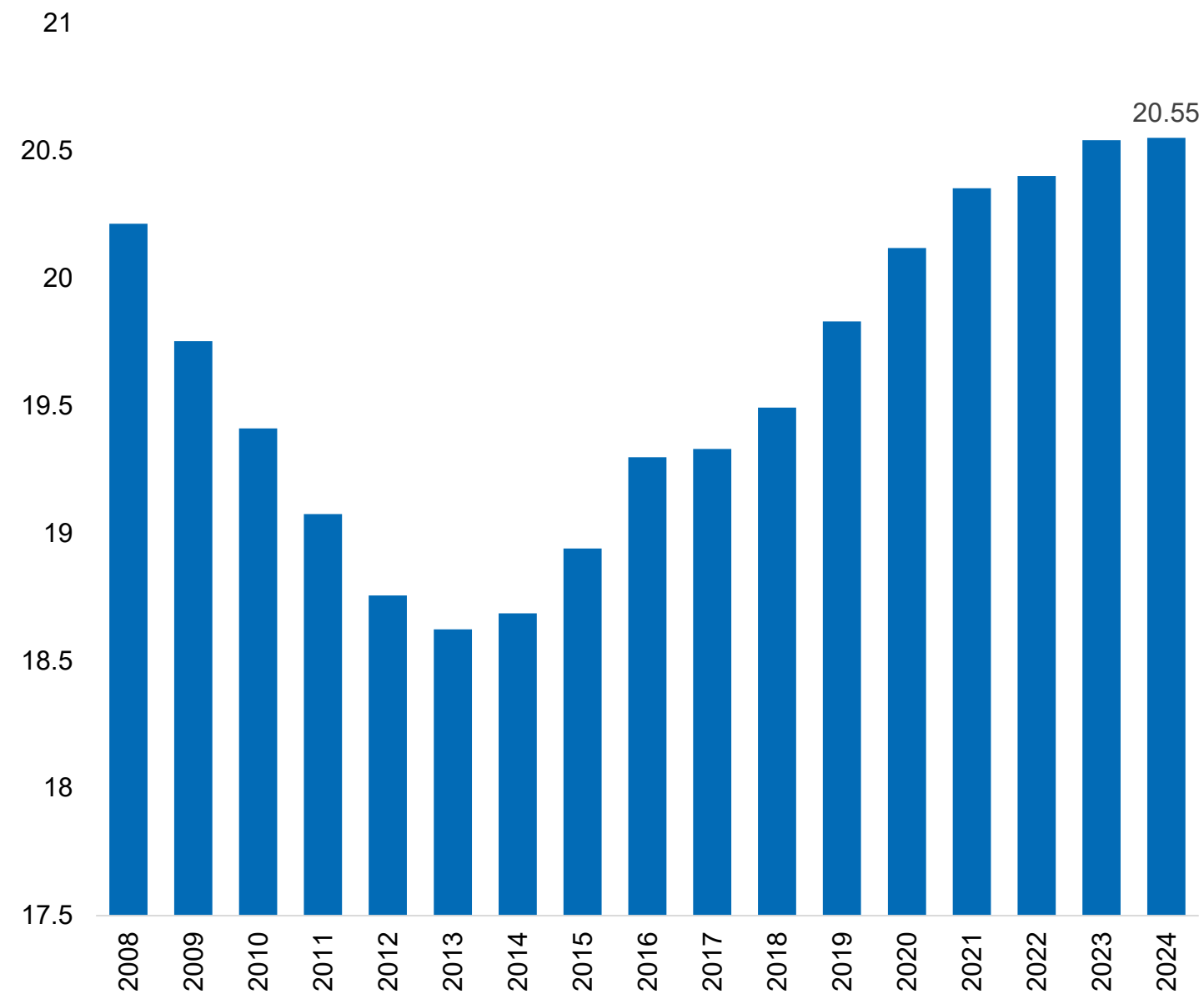
Office Under Construction and % of Inventory



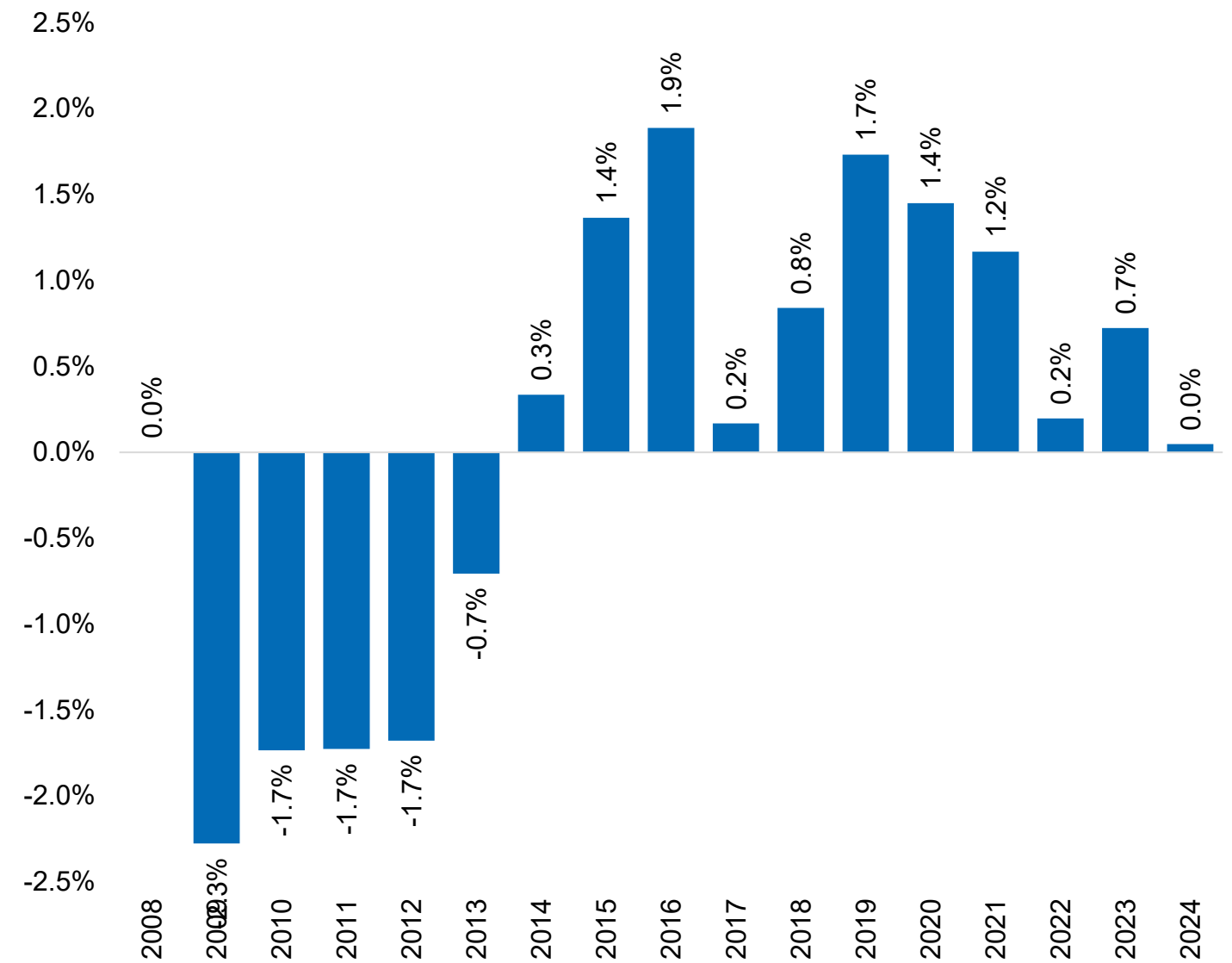
Average Asking Rents Pause Upward Trend

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, \$20.54/SF, FS



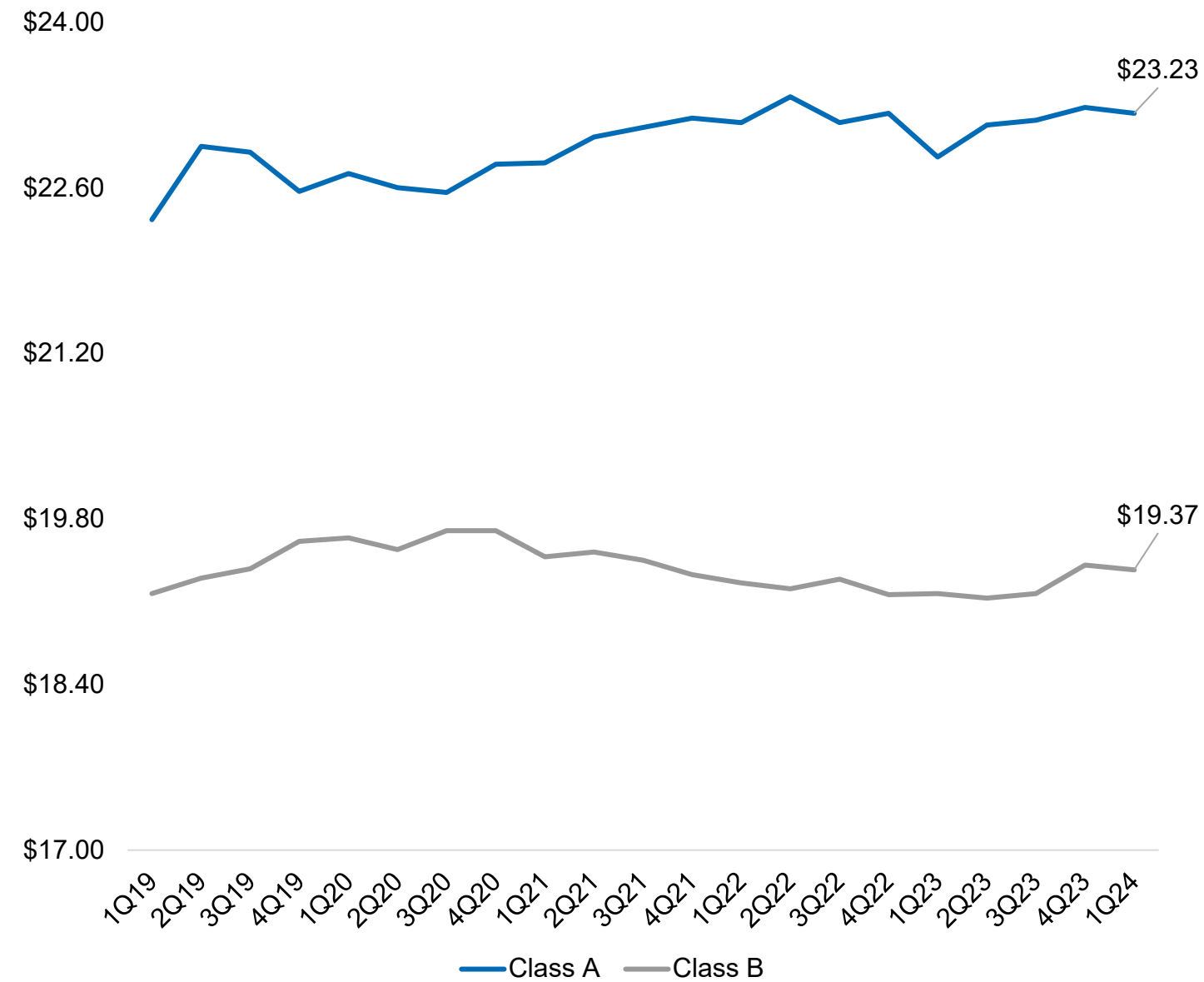
Year-over-Year Asking Rent Growth Rate



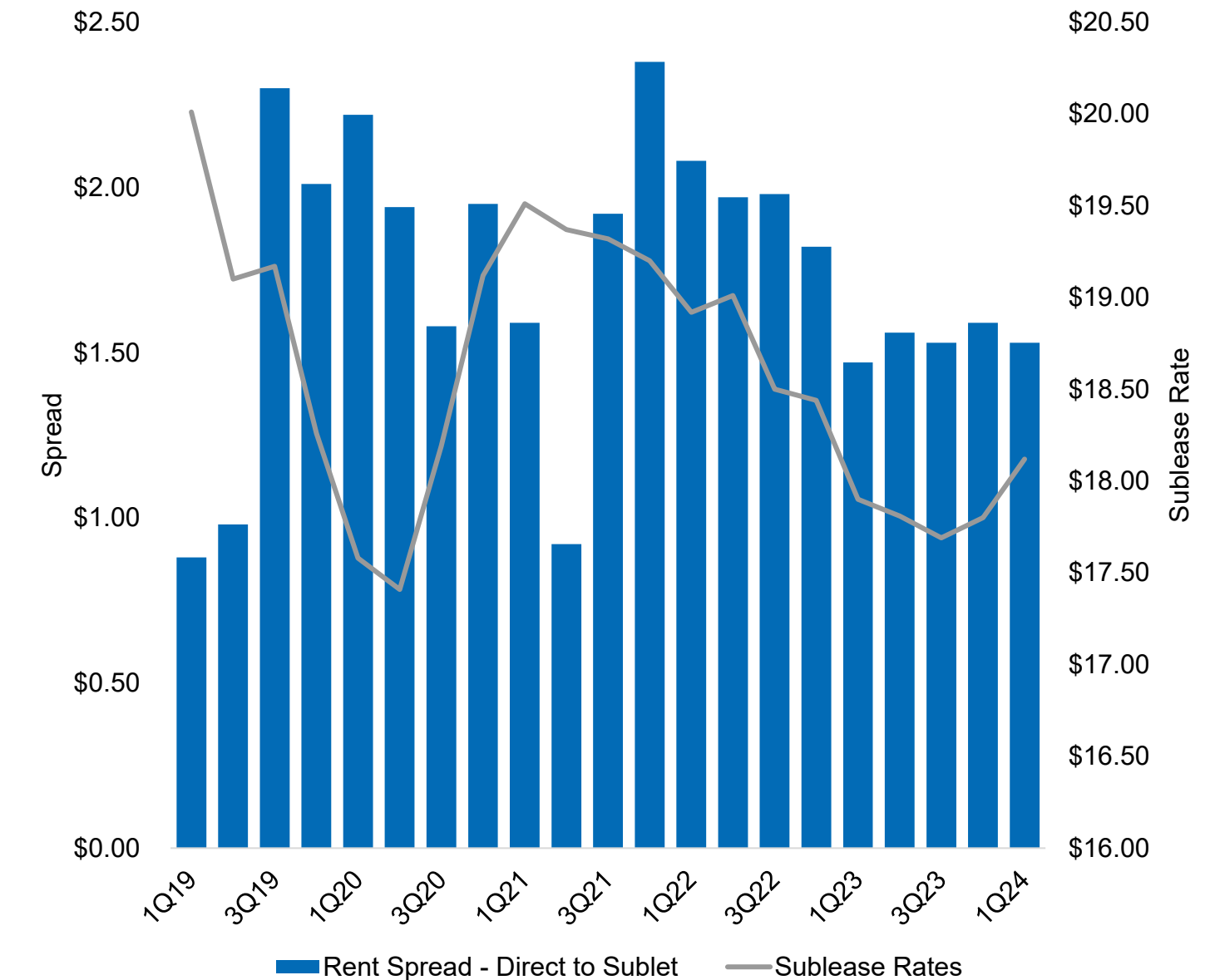
Sublease Asking Rates Falling

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



1Q 2024 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	19.5 %	-138,498	-138,498	\$27.29	\$24.53	\$25.15
CBD North Central	1,623,604	-	18.2 %	-19,615	-19,615	\$30.00	\$21.38	\$23.51
CBD Total	17,076,153	380,821	19.4 %	-158,113	-158,113	\$27.54	\$23.95	\$24.94
Ann Arbor Briarwood	2,301,862	-	20.1 %	2,796	2,796	\$30.15	\$23.41	\$25.20
Ann Arbor CBD	1,395,745	-	11.8 %	-35,430	-35,430	\$33.91	\$27.23	\$31.01
Ann Arbor Northeast	2,053,840	-	12.5 %	115,904	115,904	\$29.42	\$23.02	\$29.00
Auburn Hills	3,291,327	-	21.5 %	6,417	6,417	\$20.28	\$20.36	\$20.32
Birmingham	258,752	-	10.6 %	-2,090	-2,090	-	\$35.28	\$35.17
Birmingham CBD	1,270,864	-	7.5 %	3,804	3,804	\$32.82	\$32.55	\$31.55
Bloomfield Hills	3,031,190	-	19.2 %	4,091	4,091	\$25.30	\$22.74	\$24.40
Dearborn	3,238,871	-	28.0 %	1,438	1,438	\$20.91	\$17.12	\$18.87
Farmington Hills	6,724,127	-	20.6 %	-99,759	-99,759	\$20.21	\$18.84	\$19.51
Livonia	3,360,051	-	23.7 %	-36,405	-36,405	\$23.05	\$18.07	\$19.34
Novi	1,689,457	-	25.3 %	-17,241	-17,241	\$22.34	\$20.17	\$20.94
Pontiac	2,780,852	-	15.3 %	-935	-935	-	\$16.00	\$15.98
Southfield	17,166,391	-	27.3 %	-77,429	-77,429	\$20.63	\$17.13	\$17.90
Troy	13,596,607	-	25.5 %	30,487	30,487	\$24.07	\$18.76	\$19.71
West Bloomfield	557,771	-	9.6 %	-5,488	-5,488	\$19.00	\$18.02	\$18.38
Suburban Total	62,717,707	-	23.0 %	-109,840	-109,840	\$22.44	\$18.68	\$19.76
Totals	79,793,860	380,821	22.3 %	-267,953	-267,953	\$23.23	\$19.37	\$20.55

Source: Newmark Research

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