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2Q23

# Detroit Office Market Overview



NEWMARK

# Market Observations

## Economy

- While the Metro Detroit labor market remains on relatively solid footing with employment growth rate exceeding previous years. However, year-over-year gains are beginning to soften amid persistently high inflation and increasing interest rates.
- The number of office jobs has recovered from losses during the pandemic in 2020. Office employment is now showing slight gains from pre-pandemic levels.
- Rising interest rates are negatively affecting the financial services sector. Professional & Business Services and Information continue to see gains.

## Major Transactions

- Innovative Computer Systems, Inc. purchased the 120,000-square-foot Butterfield Office Center at 2125-2155 Butterfield Drive in Troy.
- Gallagher-Kaiser leased 114,000 square feet in North Troy Corporate Park located at 5555 New King Drive in Troy.
- Central City Integrated Health leased 23,000 square feet at 613 Abbott Street and 1240 3rd Street in Detroit.

## Leasing Market Fundamentals

- The Metro Detroit office market vacancy rate climbed 90 basis points to 21.5% during the second quarter of 2023 as just over 694,000 square feet in net vacancies were added to the market.
- The volume of vacant space being added to the market is outpacing last year's total. During the first half of 2023 1.65 MSF was added in net vacancies compared to 1.2 MSF total in 2022.
- Available sublease space grew 14% to a 20-year high of 2,180,227 square feet in the second quarter.

## Outlook

- Vacancies are likely to increase in the coming quarters as large block office users shed excess office space.
- While asking rents haven't shown much downward movement, tenants will see increasingly competitive offers from landlords.
- The market is also becoming more favorable for tenants looking to purchase office space as sale prices fall.

1. Economy
2. Leasing Market Fundamentals



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# Economy

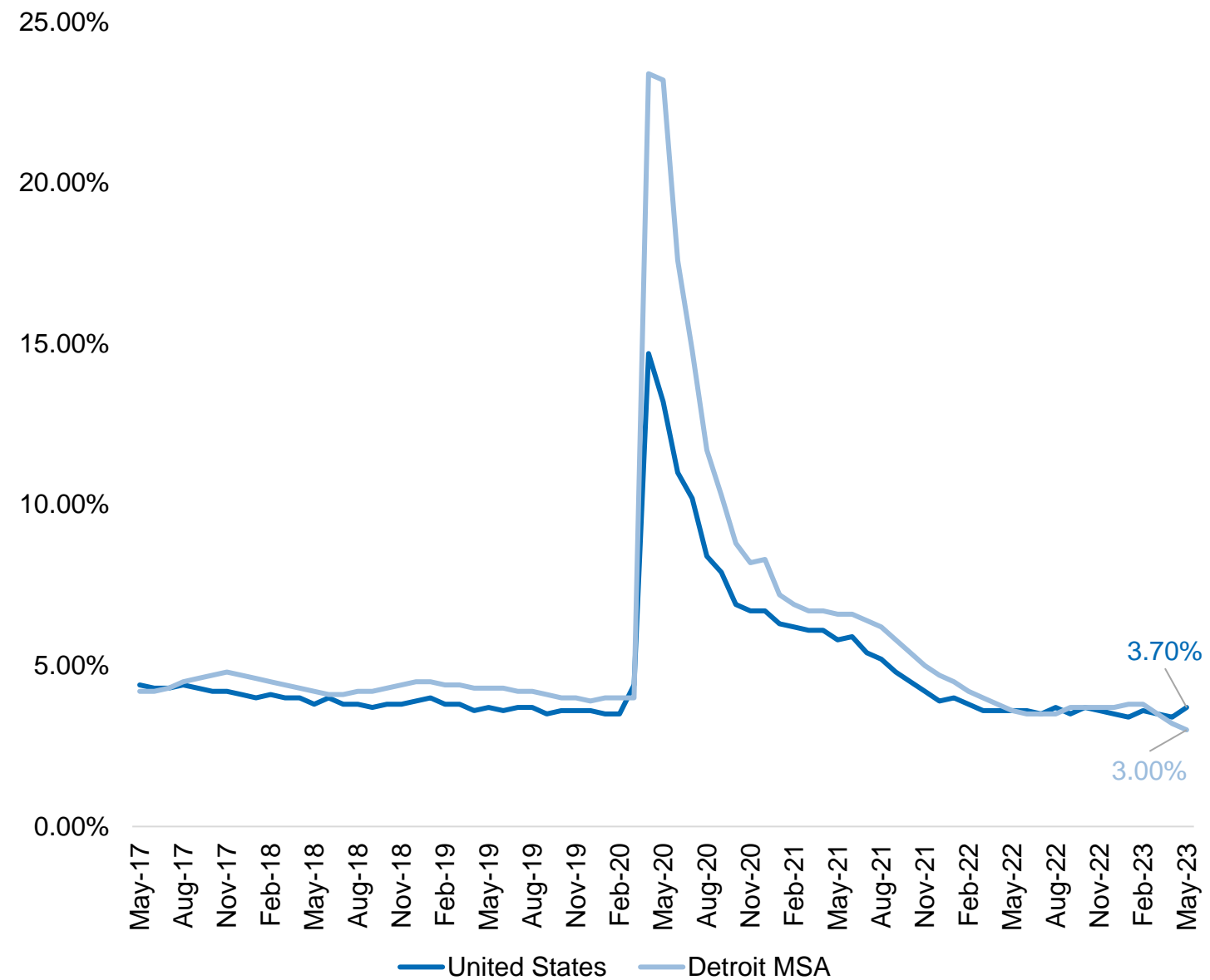




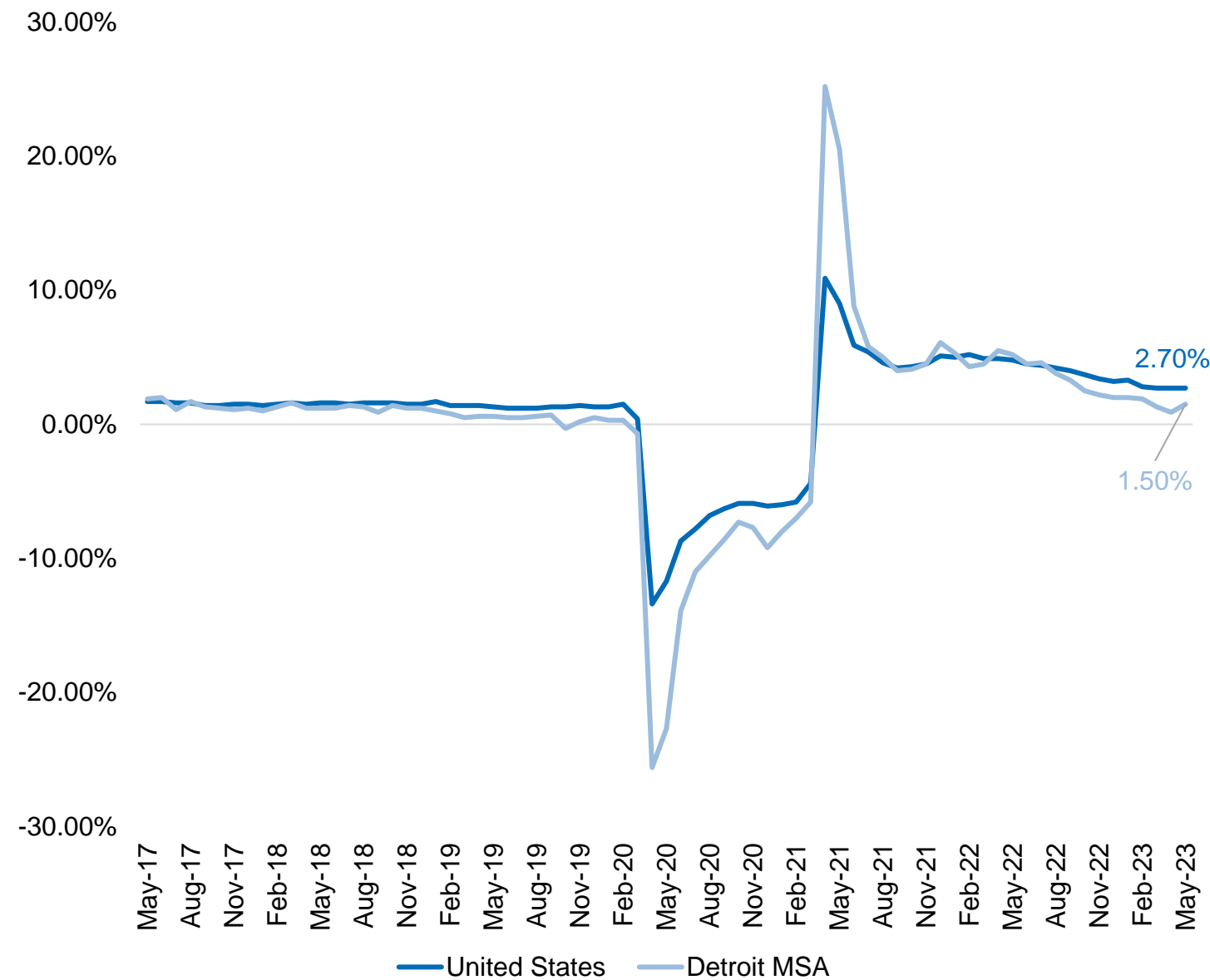
# Metro Employment Trends Signal A Slowing Economy

The Metro Detroit labor market remains on relatively solid footing with employment growth rate exceeding previous years. However, year-over-year gains are beginning to soften amid persistently high inflation and increasing interest rates.

Unemployment Rate, Seasonally Adjusted



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

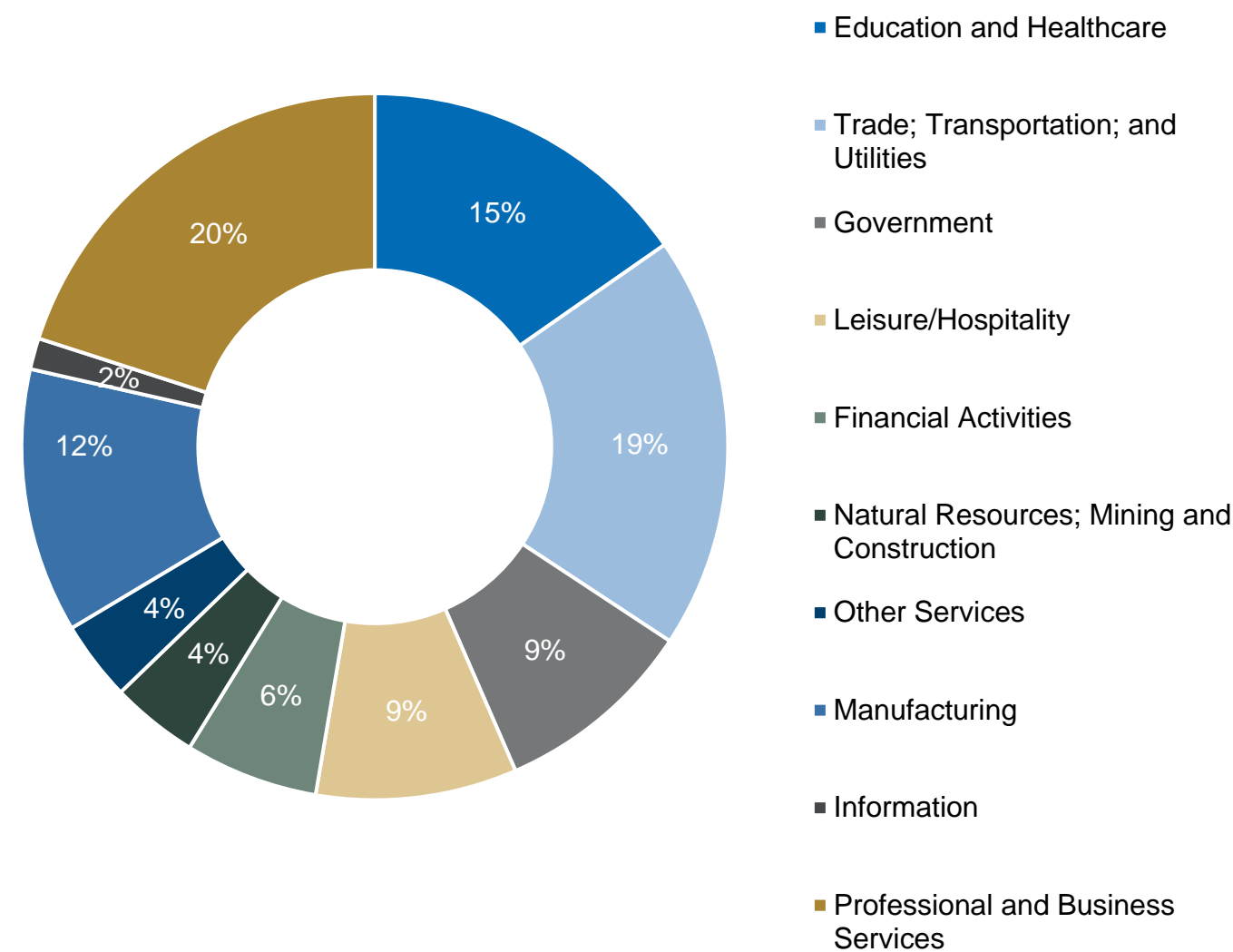


Source: U.S. Bureau of Labor Statistics, Detroit MSA

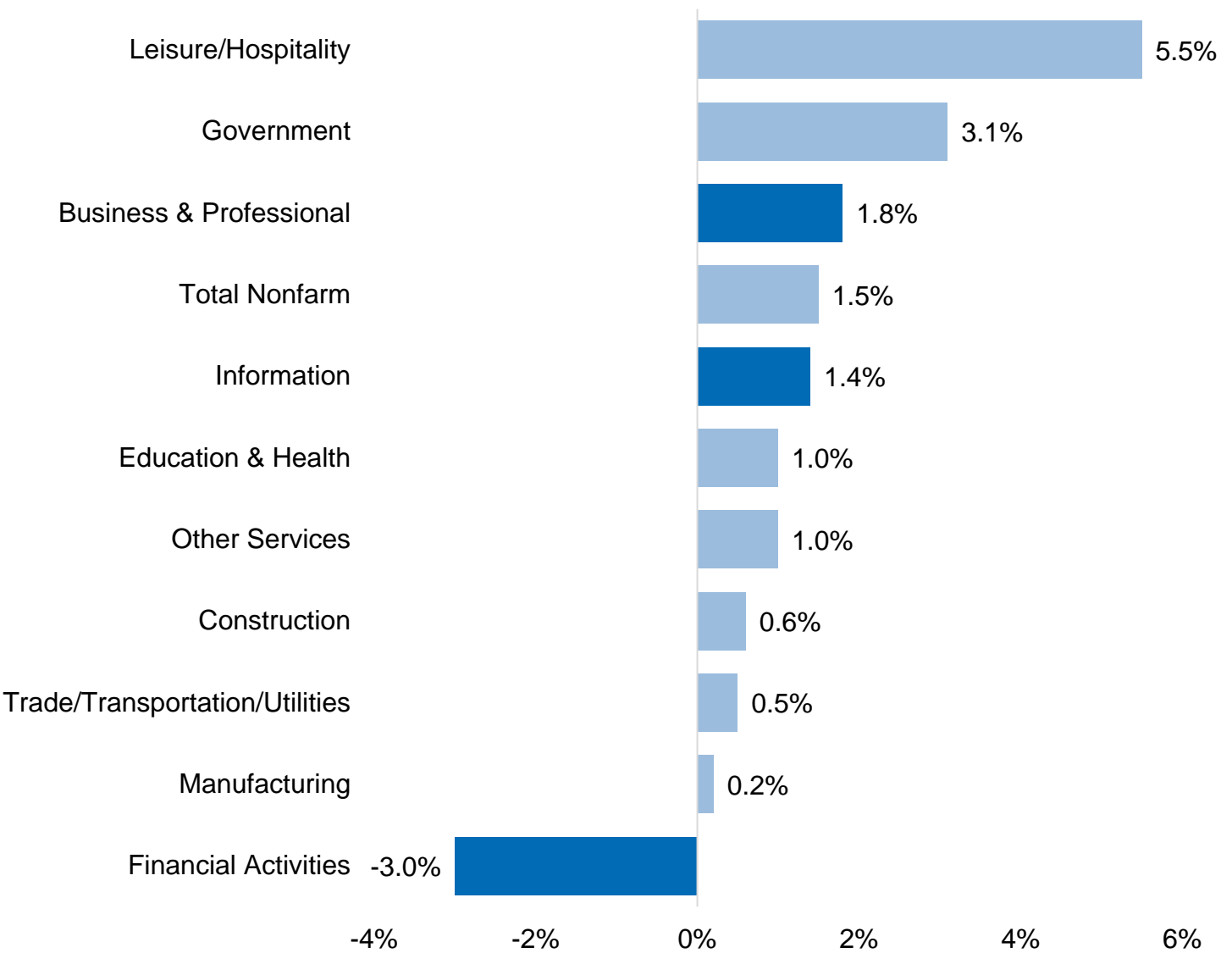
# Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, while most other sectors saw modest year-over-year gains. Persistently high inflation and increasing interest rates have taken a toll on the financial activities sector which saw employment fall 3% from the previous year.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

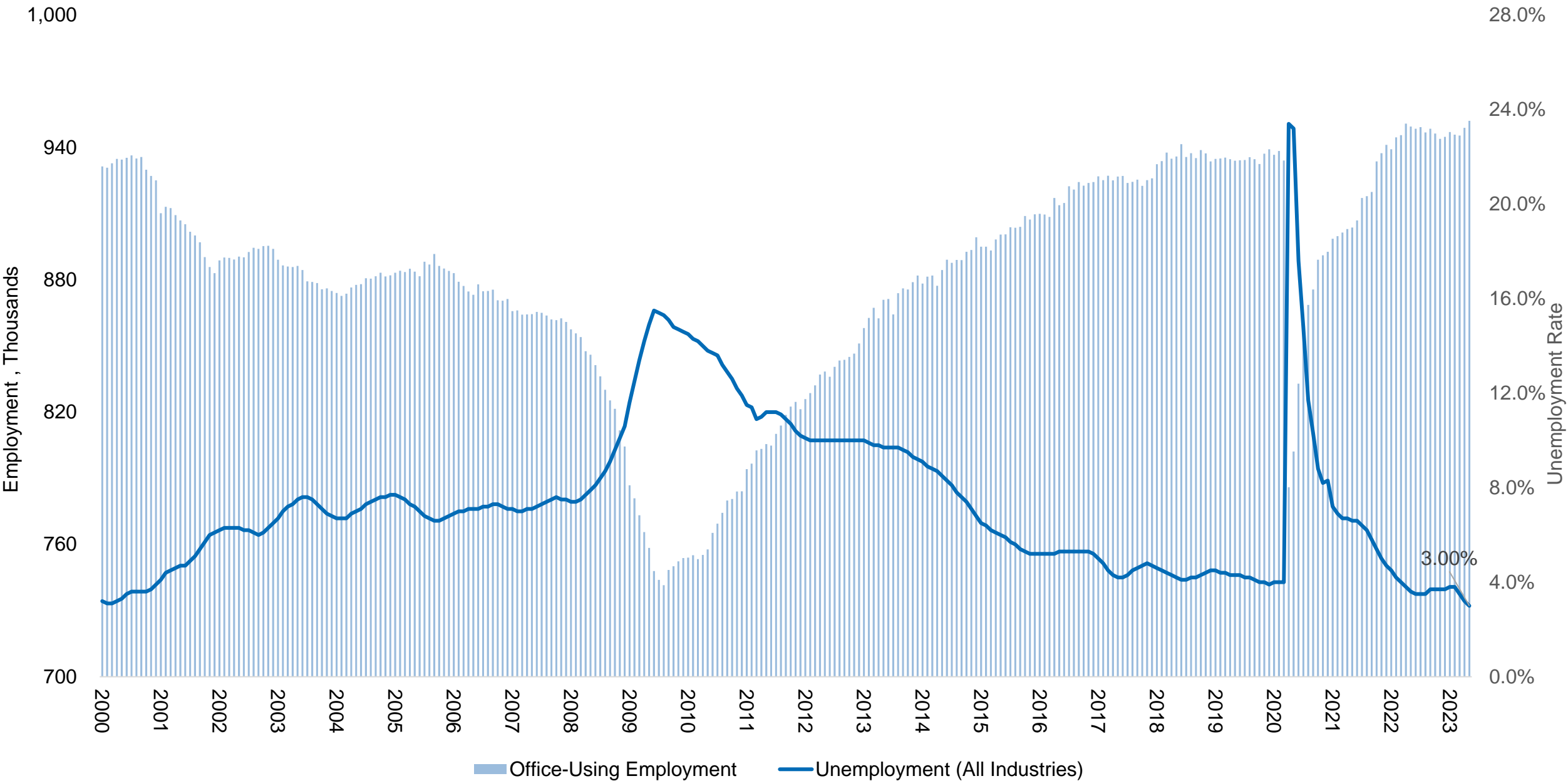


Source: U.S. Bureau of Labor Statistics, Detroit MSA

# Overall Office-Using Employment Has Rebounded

The number of office jobs has recovered from losses during the pandemic in 2020. Office employment is now showing slight gains from pre-pandemic levels. However rising interest rates are negatively affecting the financial services sector. Professional & Business Services and Information continue to see gains. While this sector is rebounding, it is not translating into demand for office space.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Name of Local Detroit MSA  
Note: February 2023 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

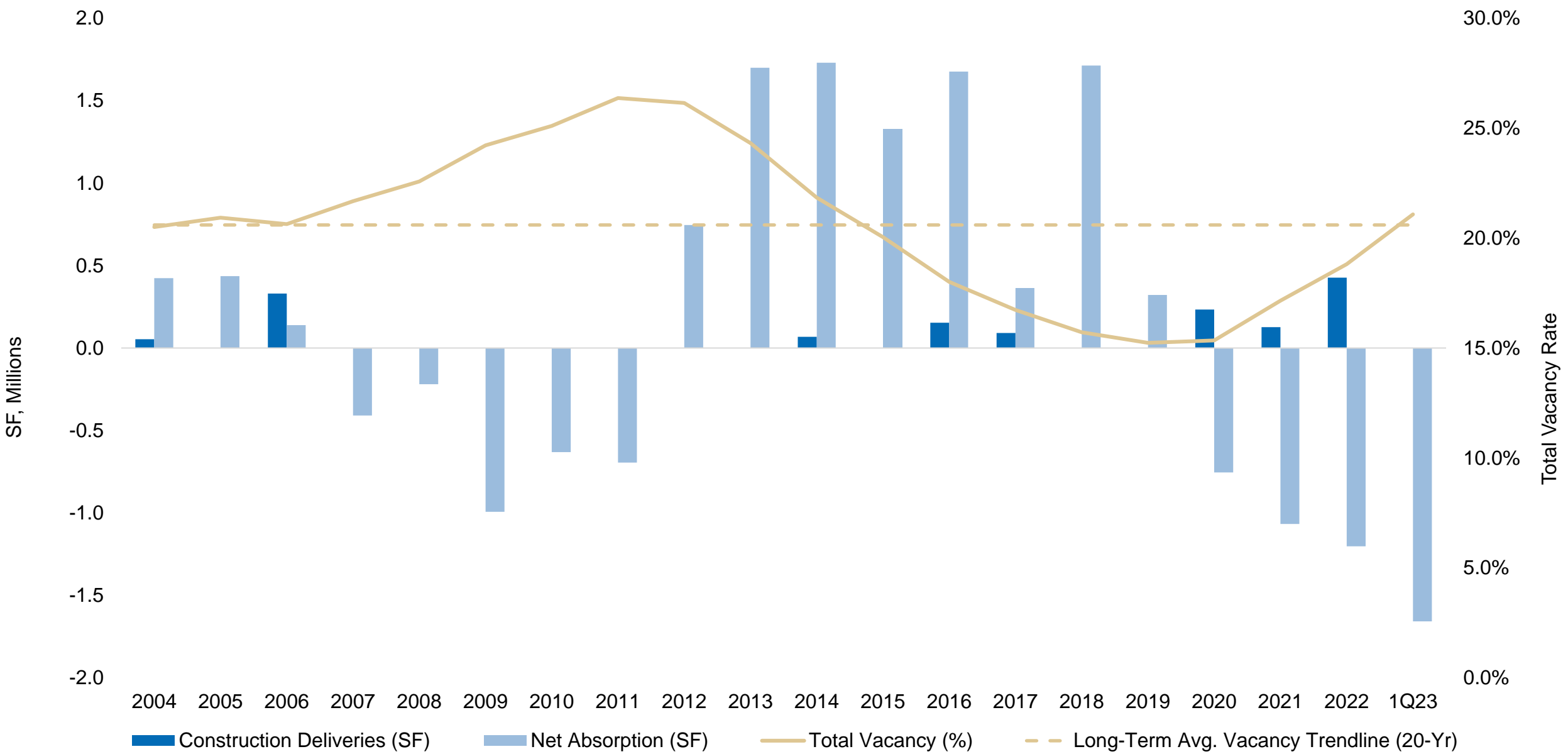




# Vacancy Rates Up Considerably Since Start of Pandemic

The metro Detroit office market vacancy rate climbed about the 20-year average to 21.5% during the second quarter of 2023, as just over 694,000 square feet in net vacancies were added to the market. Overall vacancy is up 6.3 percentage points from pre-pandemic levels in 2019.

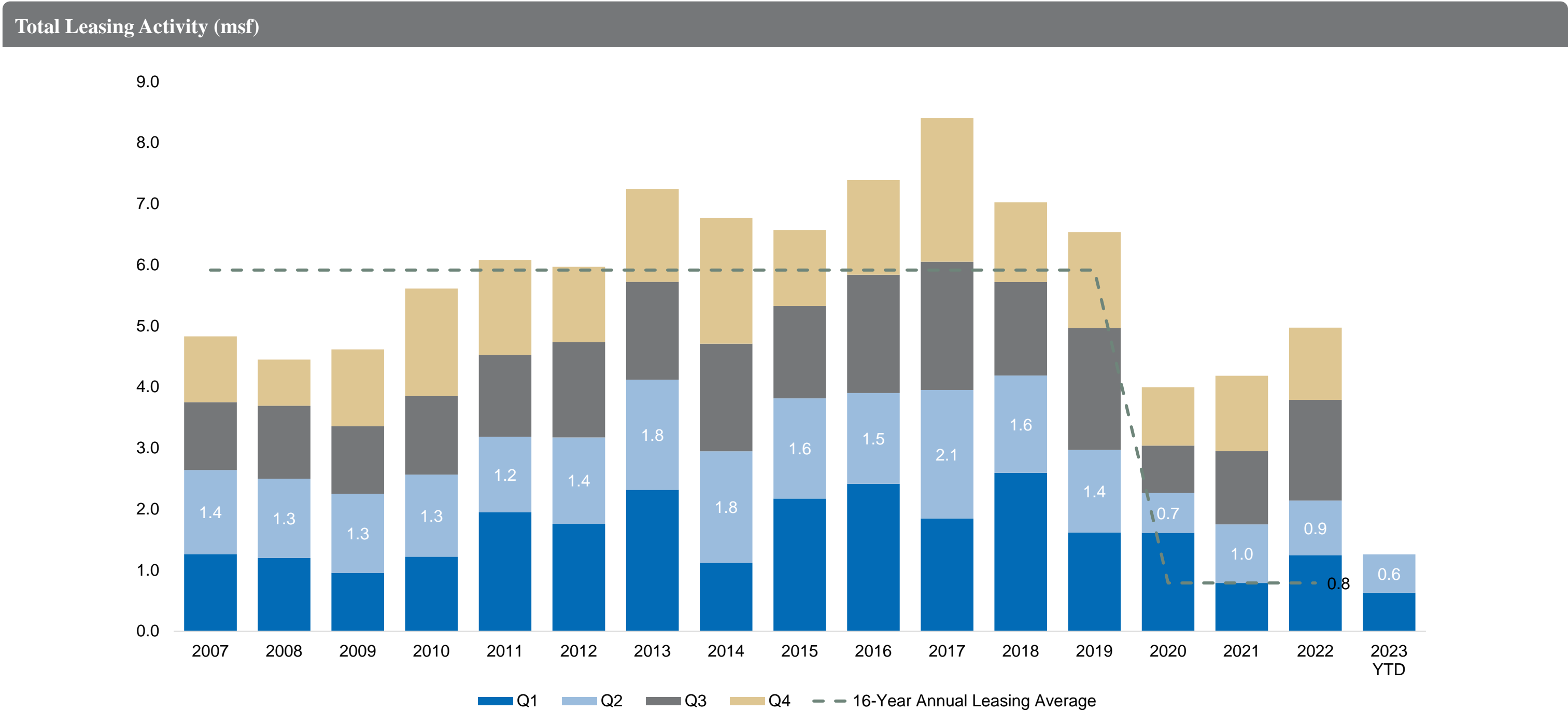
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Pace Has Slowed

Ongoing space reductions and a cloudy economic outlook has prompted many companies with large office footprints to pause, assess current conditions and enact cost-cutting measures that include reducing occupancy levels. While large block office users are cutting space, an increase in smaller users has provided an under current in demand.



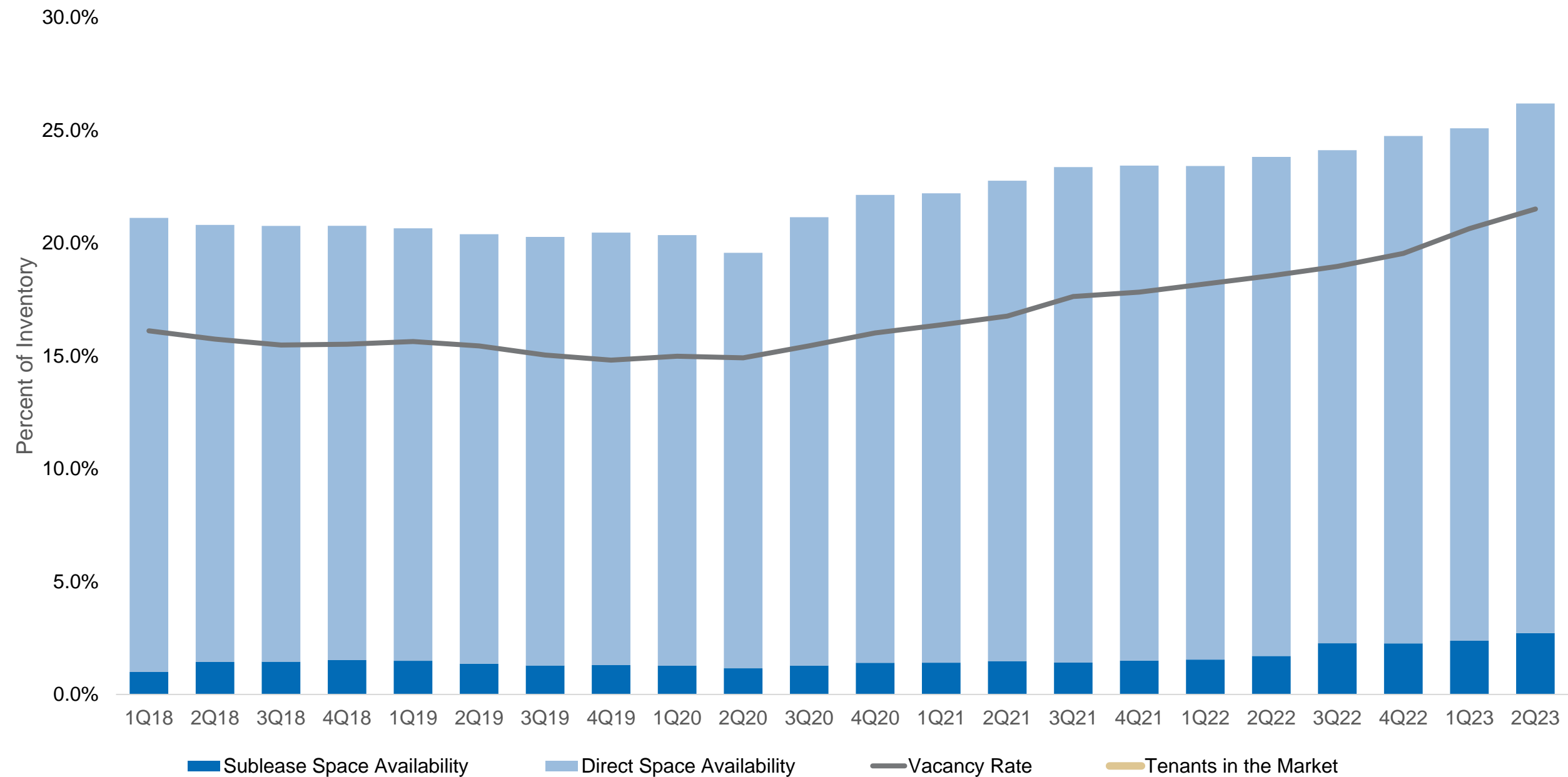
Source: Newmark Research, CoStar



# Availability Continues to Increase While Tenant Demand Drops

Large block office users are reducing their office footprint as work-from-home policies make past occupancy levels unnecessary. This has been the trend over the past year. As a result, nearly one quarter of Metro Detroit’s office inventory is on the market.

Available Space and Tenant Demand as Percent of Overall Market

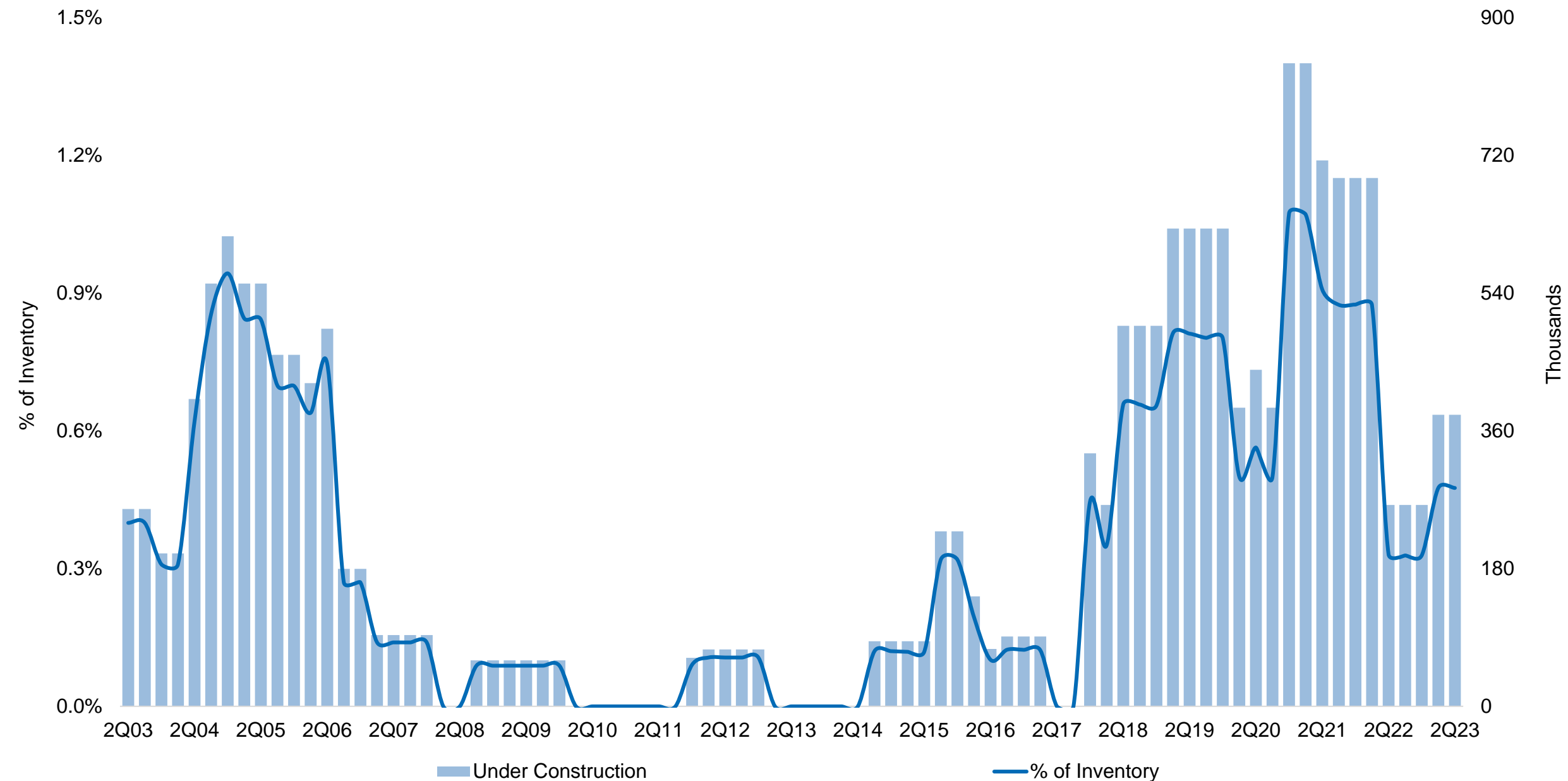


Source: Newmark Research

# 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-square-foot 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



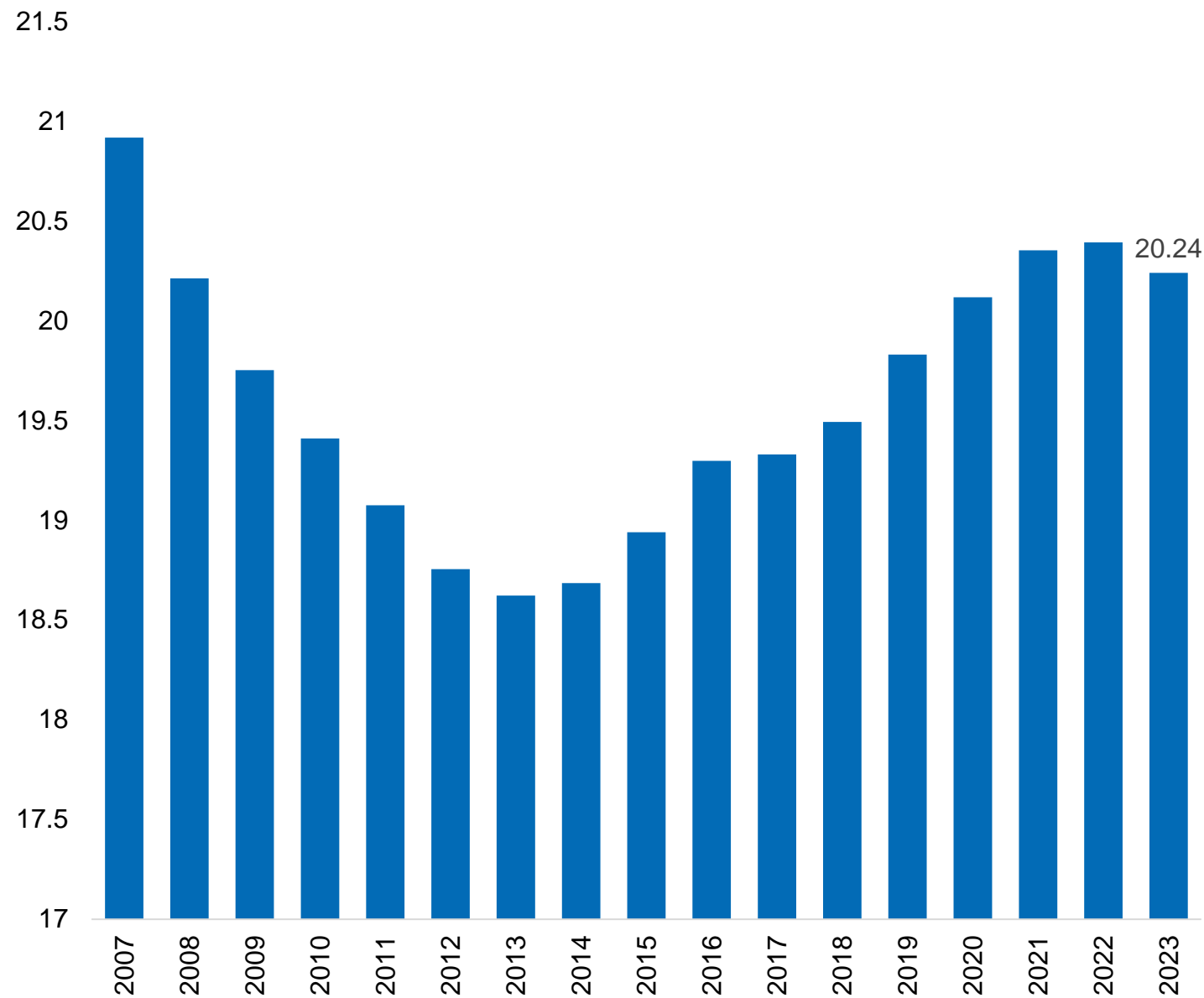
Source: Newmark Research, CoStar, City/County of \_\_\_\_ (where applicable)



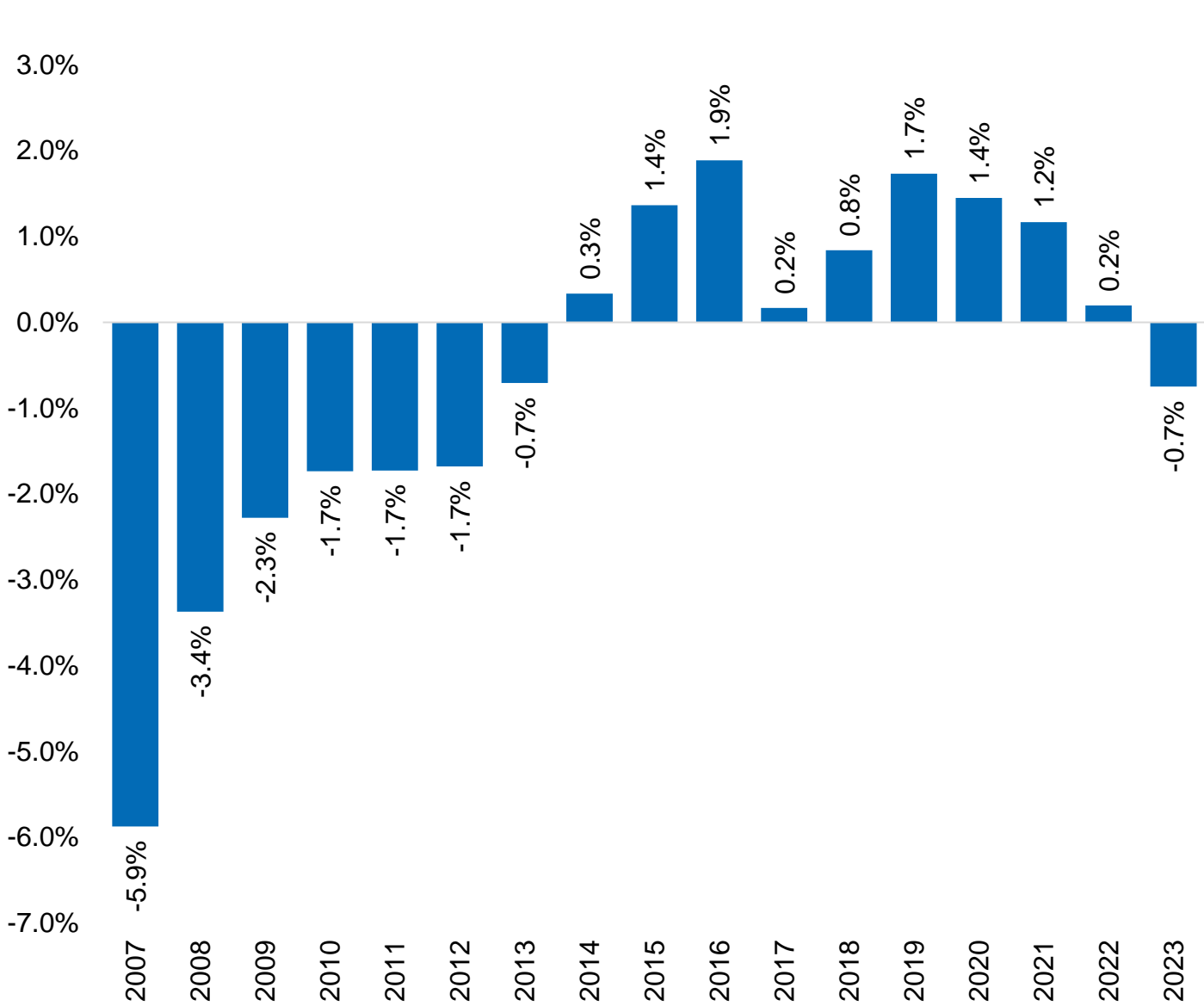
# Rents Mostly Hold Steady

Despite a slew of space coming on the market since the pandemic from companies downsizing, asking rents haven't shown much downward movement. Tenants will see increasingly competitive offers from landlords in the form of rent concessions that include free rent and tenant improvement allowances.

Office Average Asking Rent, \$20.32/SF, FS



Year-over-Year Asking Rent Growth Rate

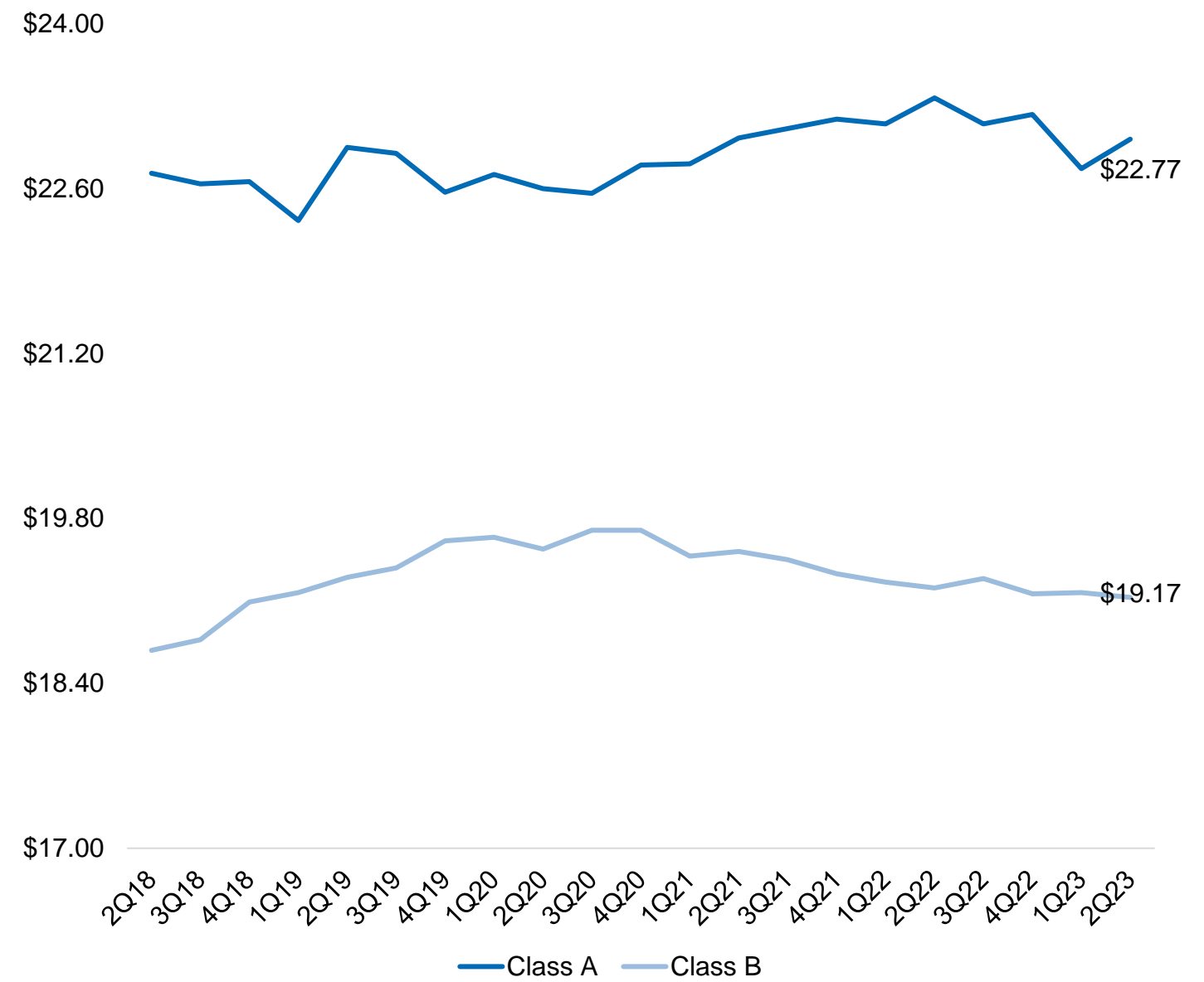


Source: Newmark Research, CoStar

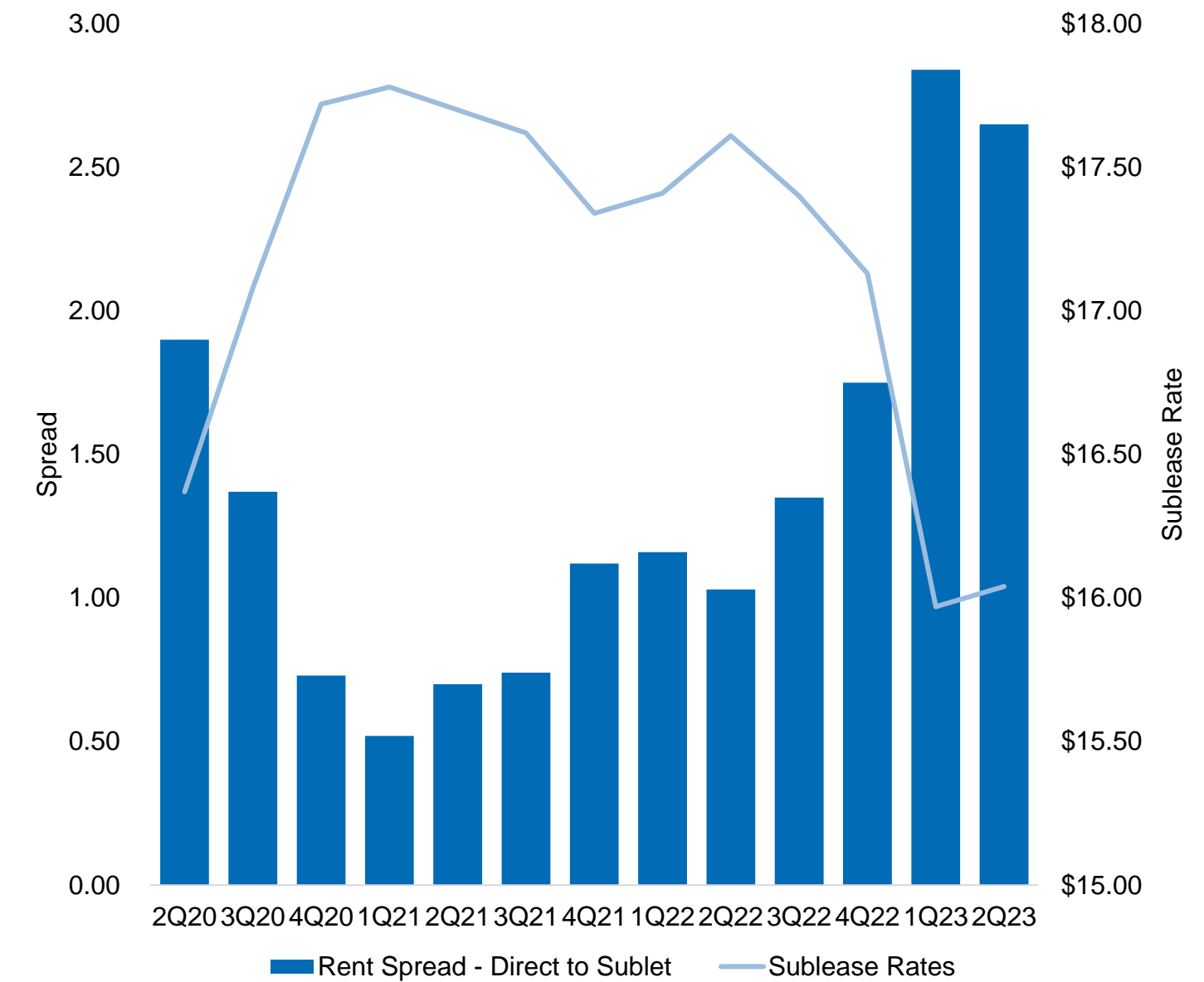
# Sublease Asking Rates Falling

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 increase lease incentives including greater free rent periods and TI packages. Sublease rents have begun to fall over the past few quarters while sublessees are seeing greater discounts compared to direct leases. The spread between direct rates and sublease rates has grown to \$2.65 PSF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# New Deals Signed Despite Overall Weak Office Market

Rising vacancies in Metro Detroit are creating opportunities for office users. Tenants are taking advantage of market conditions by leasing new space or renewing current space at reduced rates with more concessions.

## Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
General Electric Company	Laurel Office Park II	Livonia	Direct Lease	17,620
C. H. Robinson Company	Travelers Tower I	Southfield	Lease Extension	14,991
RoadEx Solutions LLC	Travelers Tower I	Southfield	Direct Lease	11,493
Transfast Logistics, Inc.	Farmington Hills Officenter I	Farmington Hills	Direct Lease	6,466

Source: Newmark Research

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