RESEARCH Q3 2022

Metro Detroit Office Market

Office Market Remains in Contraction Mode, Sublease Levels Jump

Metro Detroit's office market vacancy rate climbed 50 basis points to 19.1% during the third quarter of 2022 as just over 526,000 square feet in net vacancies were added to the market. The office market remains in contraction mode as vacancies have continued to trend upward since the third quarter of 2020. During that period, the vacancy rate as climbed 420 basis points and produced just over 2.7 million square feet in net vacancies. Available sublease space rose by 460,000 square feet during the third quarter of 2022 to just over 1.8 million square feet. Pre-pandemic sublease levels stood at just 900,000 square feet. While the suburban submarkets are seeing rising vacancies, the Detroit Central Business District continues to be a magnet for companies as Downtown has welcomed major companies to the district over the past two quarters. Huntington Bank and Majorel are the latest firms to take up a significant footprint in the city.

Current Conditions

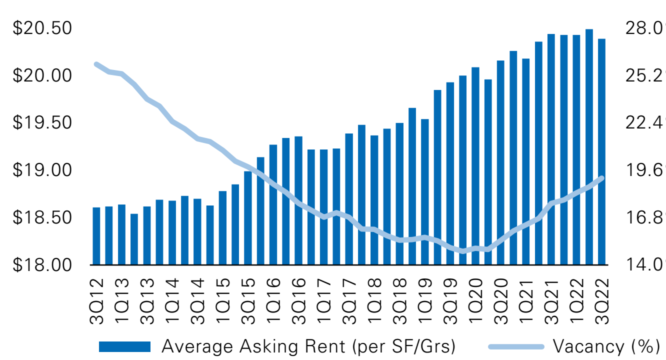
- Metro Detroit's office market vacancy rate climbed 20 basis points to 18.8% during the third quarter of 2022 as just over 220,000 square feet in net vacancies were added to the market.
- The office market remains in contraction mode as vacancies have continued to trend upward since the third quarter of 2020.
- Available sublease space rose by 460,000 square feet during the third quarter of 2022 to just over 1.8 million square feet.

Market Summary

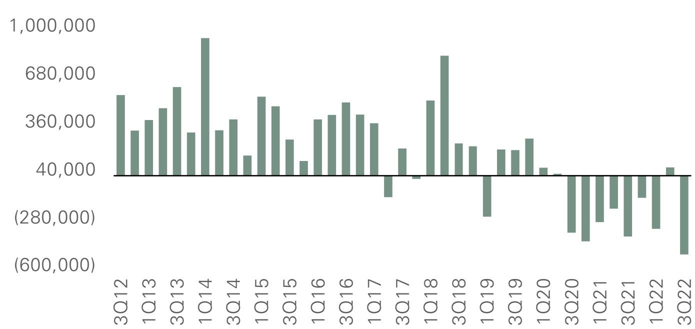
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	80.0M	79.4M	78.9M	↑
Vacancy Rate	19.1%	18.6%	17.7%	→
Quarterly Net Absorption (SF)	(526,142)	55,095	(405,668)	→
Average Asking Rent/SF	$20.39	$20.49	$20.44	→
Under Construction (SF)	263,000	263,000	690,000	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



NEWMARK

Detroit CBD

The Detroit CBD office market vacancy rate fell climbed 160 basis points to 16.1% during the third quarter of 2022 as just over 242,000 square feet of net vacancies were added to the market. The bulk of the submarket's vacancies came from Meridian Health added 266,000-square feet of vacant sublease space at 1 Campus Martius and another 39,000-square-foot sublease at One Kennedy Square on Woodward Avenue. While Meridian Health is reducing its footprint, the CBD is gaining a new major company that is taking up a large block of office space. Majorel, an IT service management company, is the latest large company to set up a large footprint in Detroit's Downtown. The company recently leased roughly 50,000 square feet at 211 W. Fort St. This follows Huntington Bank's move into its new 250,000-square-foot recently constructed headquarters at 2047 Woodward Ave. In just the past three years, the CBD has seen Little Caesars, Warner Norcross & Judd, Boston Consulting Group, Ally Financial Inc., WPP Detroit, Google, Majorel and Huntington Bank absorbing over 500,000 square feet of space. Meanwhile, construction on Bedrock's new high-rise on the former Hudson site at Woodward Avenue and Gratiot Avenue 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. The Detroit CBD's Class A market vacancy rate jumped 350 basis points to 14.0% during the third quarter of 2022 as new vacancies at 1 Campus Martius and One Kennedy Square added to the over 256,000 square feet in net vacancies. This was the first time the Class A vacancy rate was above 14% since 2015. The Class B market vacancy rate fell 20 basis points to 19.0% during the quarter as just over 13,000 square feet was absorbed.

Southfield

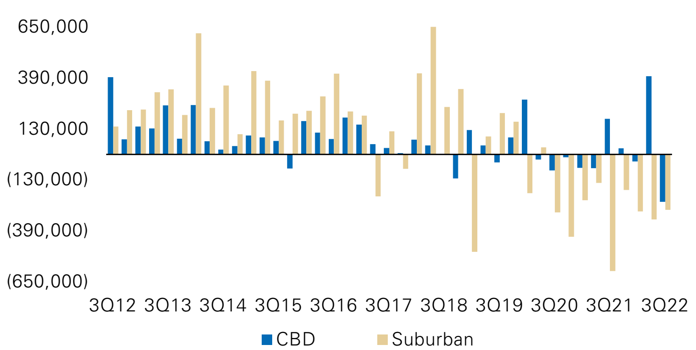
The Southfield office market vacancy rate climbed 40 basis points to 22.6% during the third quarter of 2022 as nearly 62,000 square feet in net vacancies were added to the market. The Lockdale Business Center at 24725 W. Twelve Mile Rd. saw the largest influx of space as the office building posted roughly 78,000 square feet in new vacancies. Several other office buildings around the submarket saw vacancies rise. One Towne Square added 25,000 square feet of available space, while 24901 Northwestern Highway added 19,000 square feet. While overall leasing activity remains down, the submarket saw some leasing activity. Sylvan Inc. leased 10,000 square feet at Travelers Tower I on Evergreen Road. Other facilities, such as 4000 Town Center, saw increased leasing activity, with Ciena Healthcare taking 18,000 square feet. Various smaller leases in at 2 Corporate Dr., Nine Mile Crossing and 100 Galleria Officentre helped offset much of the added new vacancies in the submarket. Southfield's Class A vacancy rate remained at 25.4% during the quarter, with just over 2,500 square feet in net vacancies. The Class B market vacancy rate rose 60 basis points to 20.4% during the quarter as just over 46,000 square feet in net vacancies were added to the market.

Troy

The City of Troy's office market vacancy rate climbed 80 basis points to 23.0% during the third quarter of 2022 as just over 111,000 square feet in net vacancies were added to the market. The submarket's largest vacancy was 137,000 square feet at 1414 E. Maple Rd. Timberland I on Corporate Drive added 14,000 square feet of space. Columbia Center I on West Big Beaver Road and 1133 E. Maple Rd. each added 10,000 square feet to the market. Meanwhile, City Center at 888 W. Big Beaver Rd. Added roughly 9,000 square feet. New leasing activity remained mostly quiet, with the bulk of market activity being small renewals. Troy's Class A vacancy rate climbed 480 basis points to 16.4% during the third quarter of 2022 as just over 176,000 square feet in net vacancies were added to the market.

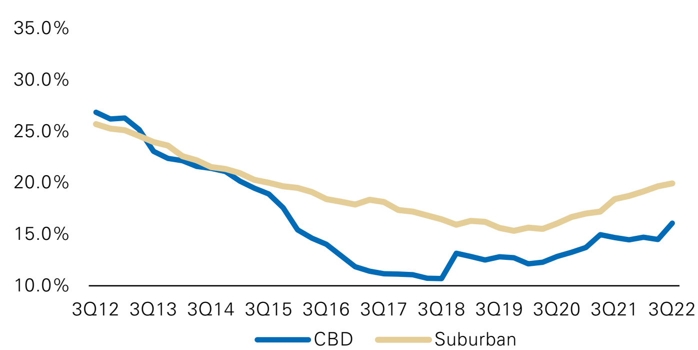
Detroit CBD vs Suburban Market

ABSORPTION (SF)



Detroit CBD vs Suburban Market

VACANCY RATE (%)



Net vacancies in the Class A Columbia Center were mostly offset by Butzel Long taking roughly 15,000 square feet and Philadelphia Insurance Companies taking 13,0000 square feet. The Class B vacancy rate fell 70 basis points to 25.3% during the quarter as just over 65,000 square feet was absorbed. The bulk of absorption came from stronger leasing activity at Troy Place, where tenants Conifer Holdings, Inc. and Venture Agency Holdings, Inc. are occupying space signed during the previous quarter. In the coming quarter, Nolan Transportation Group, LLC's will be taking occupancy of 15,000 square feet at 900 Wilshire Dr.

Farmington Hills

Farmington Hills's office vacancy rate fell 4.0 percentage points to 14.2% during the third quarter of 2022, as just over 264,000 square feet was absorbed. Comerica leased Farmington Hills Officenter II A and B for a total of 321,000 square feet. The company is building efficiencies by vacating facilities in Auburn Hills and Livonia and consolidating its operations in Farmington Hills. Despite gaining the largest new companies during the quarter, overall leasing volume in the submarket remained down and new vacancies were up. Orchards Corporate Center on Stansbury Blvd. added roughly 15,000 square feet of space to the market. While Country Club Office Centre and Gateway Building on Twelve Mile Road also saw vacancies rise, Farmington Hills's Class A vacancy rate fell on account of Comerica's lease by 8.1 percentage points to 18.5% during the quarter as a net 248,000 square feet were absorbed. The Class B vacancy rate remained steady at 10.3% during the quarter.

Auburn Hills

Auburn Hills office market vacancy rate climbed 530 basis points to 17.1% during the third quarter of 2022 as just over 233,000 square feet in net vacancies were added to the market. New vacancies were attributed to Comerica vacating 3501 and 3551 Hamlin Rd. The submarket saw no notable leasing activity. The Class A vacancy rate climbed 10 basis points to 13.8% during the quarter. The Class B vacancy rate more than doubled to 19.8% during the quarter on account of Comerica's consolidation efforts as a net 232,000 square feet was added to the market.

Birmingham

Birmingham's overall vacancy rate climbed 60 basis points to 6.2% during the third quarter of 2022 as nearly 10,000 square feet in net vacancies were added to the market. Leasing volume in the submarket remained low. Birmingham Place at 401-411 S. Old Woodward Ave. is seeing availabilities on the rise. The office facility recently added over 15,000 square feet of sublease space to the market. While leasing volume remains low, the submarket is not seeing significant vacancy rise compared to the submarkets across Metro Detroit. In fact, the vacancy rate is 120 basis points lower compared with the third quarter of 2020.

Novi

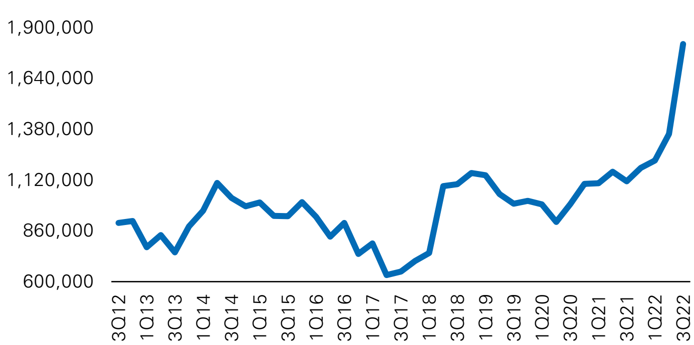
Novi's office market vacancy rate climbed 110 basis points to 23.5% during the third quarter of 2022 as just over 18,000 square feet in net vacancies were added to the market. The largest vacancy came from the Learning Care Group Building at 21333 Haggerty Rd., which added 20,000 square feet to the market. Leasing activity remains low in the submarket. Kyowa North America, Inc's 2,800-square-foot new lease at Crystal Glen Office Centre was one of the very few completed during the quarter. Novi's Class A office market vacancy rate fell by 20 basis points to 16.6% during the quarter. The Class B vacancy rate climbed 160 basis points to 31.6% during the quarter as nearly 19,000 square feet in net vacancies added to the market.

West Bloomfield

The Bloomfield Hills office market vacancy rate climbed 140 basis points to 5.9% during the third quarter of 2022 as just over 7,500 square feet in net vacancies were added to the market. Bloomfield Hills's Class A vacancy is among the highest in Metro Detroit at 27.3%.

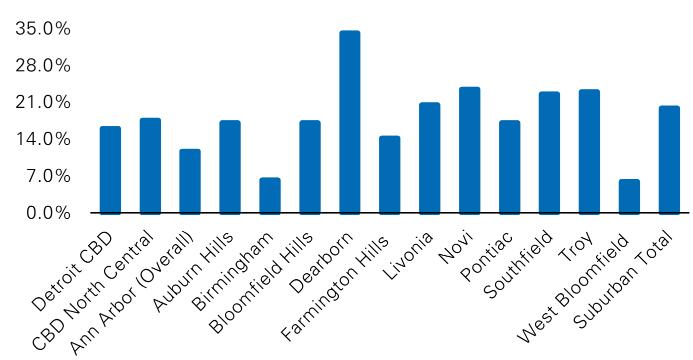
AVAILABLE SUBLEASE SPACE

Metro Detroit (SF)



VACANCY BY SUBMARKET

Vacancy Rate (%)



The majority of the submarket's vacant Class A space comes from 100 Bloomfield Hills Pkwy., which has been vacant since PulteGroup Inc. moved out of 197,000 square feet mid-2020. The Class B vacancy rate climbed just 10 basis points to 9.75% during the quarter.

Ann Arbor

Ann Arbor's overall vacancy rate climbed 130 basis points to 11.7% during the third quarter of 2022 as just over 76,000 square feet in net vacancies were added to the market. The largest vacancy was in the Northeast corridor at 2301 Commonwealth Blvd., where 60,000 square feet of new space was added to the market. The Northeast Corridor vacancy climbed from 8.8% to 12.0% as a result. The Briarwood Corridor vacancy rate climbed 70 basis points to 13.8% during the quarter as a net 15,000 square feet in net vacancies were added to the market. The Ponds Office Center North at 3767 Ranchero Dr. saw the largest space, adding just over 19,000 square feet. Meanwhile, Atrium I at 900 Victors Way added a 7,000-square-foot vacancy. Several new leases partially offset new vacancies. Ann Arbor Pharmacometrics Group LLC leased 5,000 square feet at Park Place 5 on Oak Valley Drive and KR International Group took 7,000 square feet at 555 Briarwood Circle. The CBD Corridor vacancy rate fell 30 basis points to 7.9% during the quarter, posting just over 4,500 square feet in net absorption.

NOTABLE 3Q 2022 LEASE TRANSACTIONS

Tenant	Building	City	Type	Square Feet
Comerica	Farmington Hills Officenter II A & B	Farmington Hills	Direct	321,000
Majorel	211 W Fort Street	Detroit	Direct	50,000
Assured Family Services	7300 Woodward Ave	Detroit	Renewal	30,000
DiaMedical USA Equipment, LLC	Brookfield II	Farmington Hills	Direct	13,727
Hygieia, Inc.	Laurel Office Park II	Livonia	Direct	12,393

NOTABLE 3Q 2022 SALE TRANSACTIONS

Building	City	Sale Price	Price/SF	Square Feet
Birmingham Place	Birmingham	$37,000,000	$340	108,753
2630 Featherstone Rd	Auburn Hills	$18,500,000	$139	132,745
34705 W 12 Mile Rd	Farmington Hills	$15,900,000	$135	117,998
38935 Ann Arbor Rd	Livonia	$3,600,000	$100	36,084

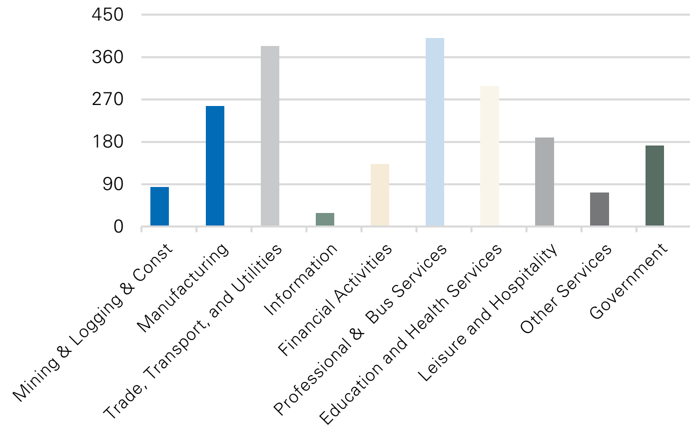
Submarket Statistics

	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)	Class A/B/C Asking Rent (Price/SF)
Detroit CBD	15,186,119	263,000	16.1%	-242,657	119,543	$28.97	$23.94	$24.20
CBD North Central	1,623,604	X	17.6 %	191	-37,217	$30.00	$19.31	$22.00
Detroit Total	**16,809,723**	**263,000**	**16.2%**	**-242,466**	**82,326**	**$29.07**	**$23.01**	**$23.91**
Ann Arbor Briarwood	2,219,920	-	13.8%	-15,314	-37,601	$30.16	$21.16	$25.36
Ann Arbor CBD	1,395,745	X	7.9%	4,512	-8,650	$34.78	$25.59	$28.95
Ann Arbor Northeast	2,051,577	X	12.0%	-65,326	-137,834	$27.28	$22.20	$27.10
Auburn Hills	3,424,072	X	17.1%	-233,013	-221,720	$20.69	$19.25	$20.31
Birmingham	304,654	X	0.3%	2,726	3,046	-	$30.00	$29.62
Birmingham CBD	1,270,864	X	7.6%	-12,530	-4,600	$35.01	$32.44	$32.83
Bloomfield Hills	3,031,190	X	17.1%	-5,844	20,704	$25.43	$24.00	$24.97
Dearborn	3,196,263	X	34.2%	-11,950	-89,176	$19.40	$16.35	$18.05
Farmington Hills	6,721,661	X	14.2%	264,794	-135,434	$19.61	$18.78	$19.13
Livonia	3,358,830	X	20.5%	-12,944	-137,549	$21.93	$18.50	$19.22
Novi	1,688,957	X	23.5%	-18,212	-18,772	$22.15	$20.18	$20.96
Pontiac	2,800,852	X	17.1%	-	-5,000	-	$16.00	$15.98
Southfield	17,423,100	X	22.6%	-61,922	-81,488	$21.40	$18.60	$18.83
Troy	13,660,389	X	23.0%	-111,143	-319,955	$24.02	$18.34	$19.50
West Bloomfield	557,771	X	5.9%	-7,510	-5,457	$19.00	$17.51	$18.13
Suburban Total	63,105,845	**X**	**19.9%**	**-283,676**	**-908,618**	**$22.19**	**$18.69**	**$19.73**
Market	**80,092,568**	**263,000**	**19.1%**	**-526,142**	**-826,292**	**$23.17**	**$19.29**	**$20.39**

Metro Detroit's unemployment rate continued to trend downward falling from 4.6% during the end of the second quarter to 3.8% in August 2022. The national rate in comparison saw a slight uptick, going from 3.6% at the end of the second quarter to 3.7% in August. Comparing year-over-year payroll employment, Metro Detroit showed a gain of 4.1% in August while national payroll employment showed a gain of 4.0%. The Detroit MSA Consumer Price Index looks to have peaked at 9.7% in June of 2022 as the rate fell to 8.4% in August. Similarly, the national rate showed a peak of 9.1% and felt to 8.3% during the same time period.

EMPLOYMENT BY INDUSTRY

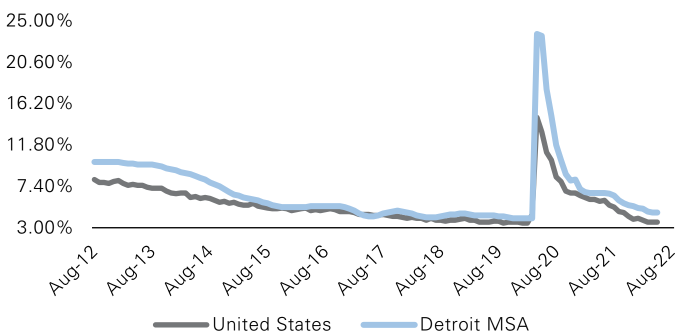
Detroit MSA, in thousands



*Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

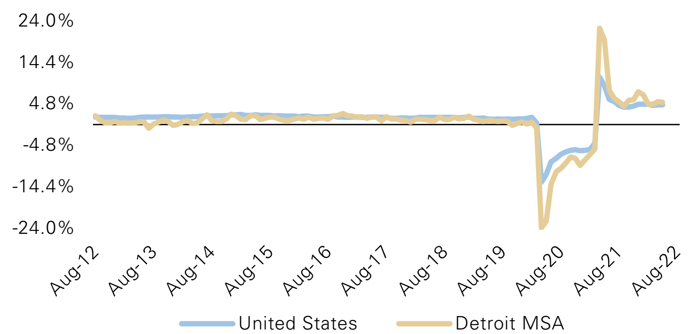
Seasonally Adjusted



*Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

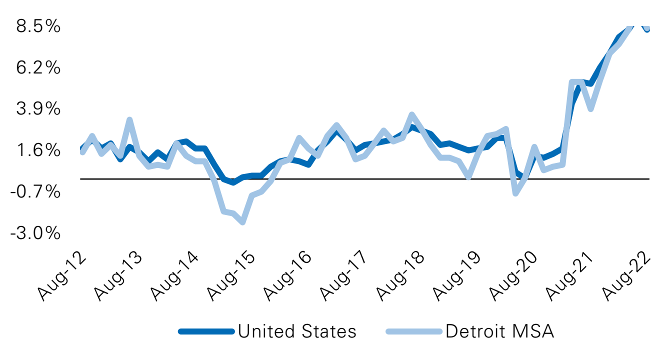
Total Nonfarm, Seasonally Adjusted, 12-Month % Change



*Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

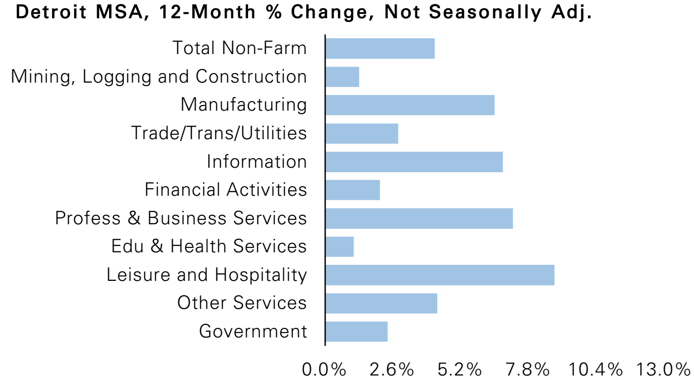
All Items, 12-Month % Change, Not Seasonally Adjusted



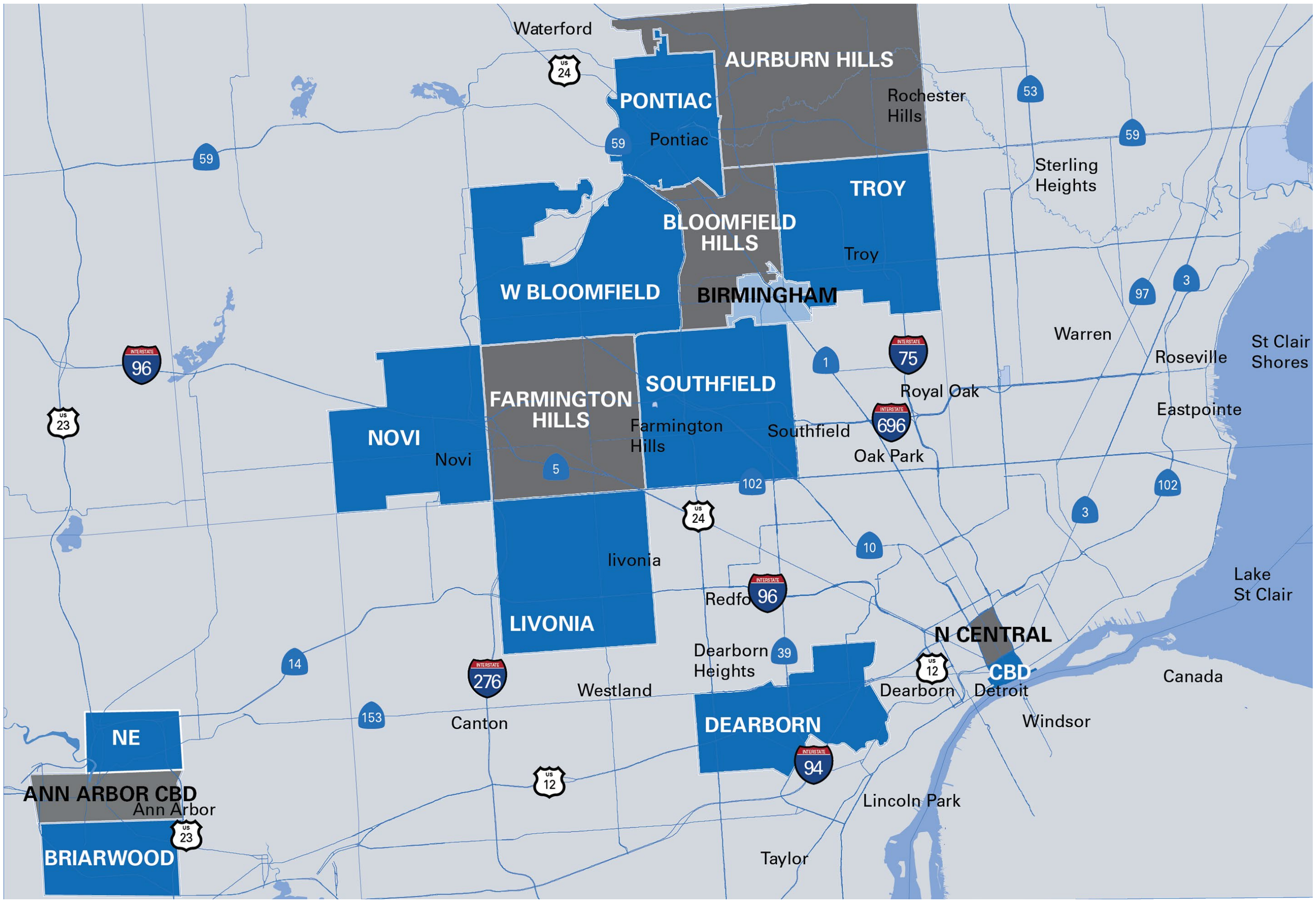
*Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Detroit MSA, 12-Month % Change, Not Seasonally Adj.



*Source: U.S. Bureau of Labor Statistics



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