

4Q23

Detroit Office Market Overview



NEWMARK

Market Observations

Economy

- The Detroit Metro unemployment rate climbed to 4.1% in November 2023 from a low of 2.9% in June. Year-over-year the unemployment rate is up 0.20%.
- Office employment is showing signs of weakening. Employment in financial activities fell 1.5% year-over-year, while business and professional services fell 0.9%. Office using unemployment rose to 4.1% from a low of 2.9% in June 2023.
- High interest rates are negatively affecting the financial services sector.

Major Transactions

- RXO Capacity Solutions, LLC signed a 42,000 SF expansion at Travelers Tower II on Evergreen Road in Southfield.
- Member Business Services, LLC leased 16,300 SF at Northfield Plaza I on Crooks Road in Troy.
- Bridge Business Credit, LLC. Expanded into 5,300 SF at Wilshire Plaza North on Wilshire Drive in Troy.

Leasing Market Fundamentals

- The Metro Detroit office market vacancy rate climbed 10 basis points to 22.0% during the fourth quarter of 2023 as just over 124,000 SF in net vacancies were added to the market. For the year, just over 2.1 million SF in net vacancies were added to the market.
- Overall leasing activity continues to decline in Detroit Metro. Tenant demand for space declined sharply in 2023 as office users continue to cut occupancy cost by reducing space.
- Available sublease space decreased by 6% during the fourth quarter of 2023 to 2.6 million SF. The decline is mostly due to expiring subleases that have turned into direct available space.

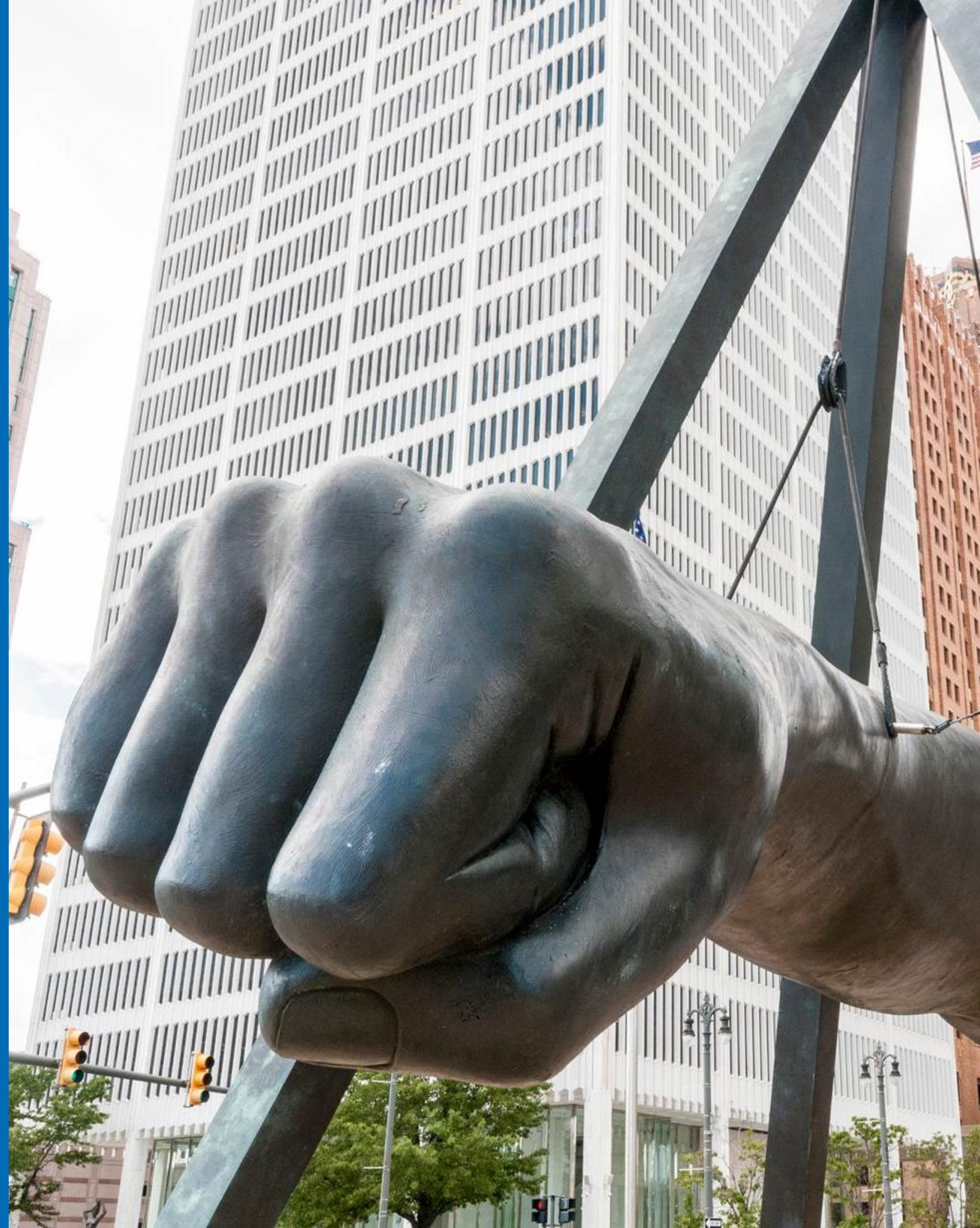
Outlook

- 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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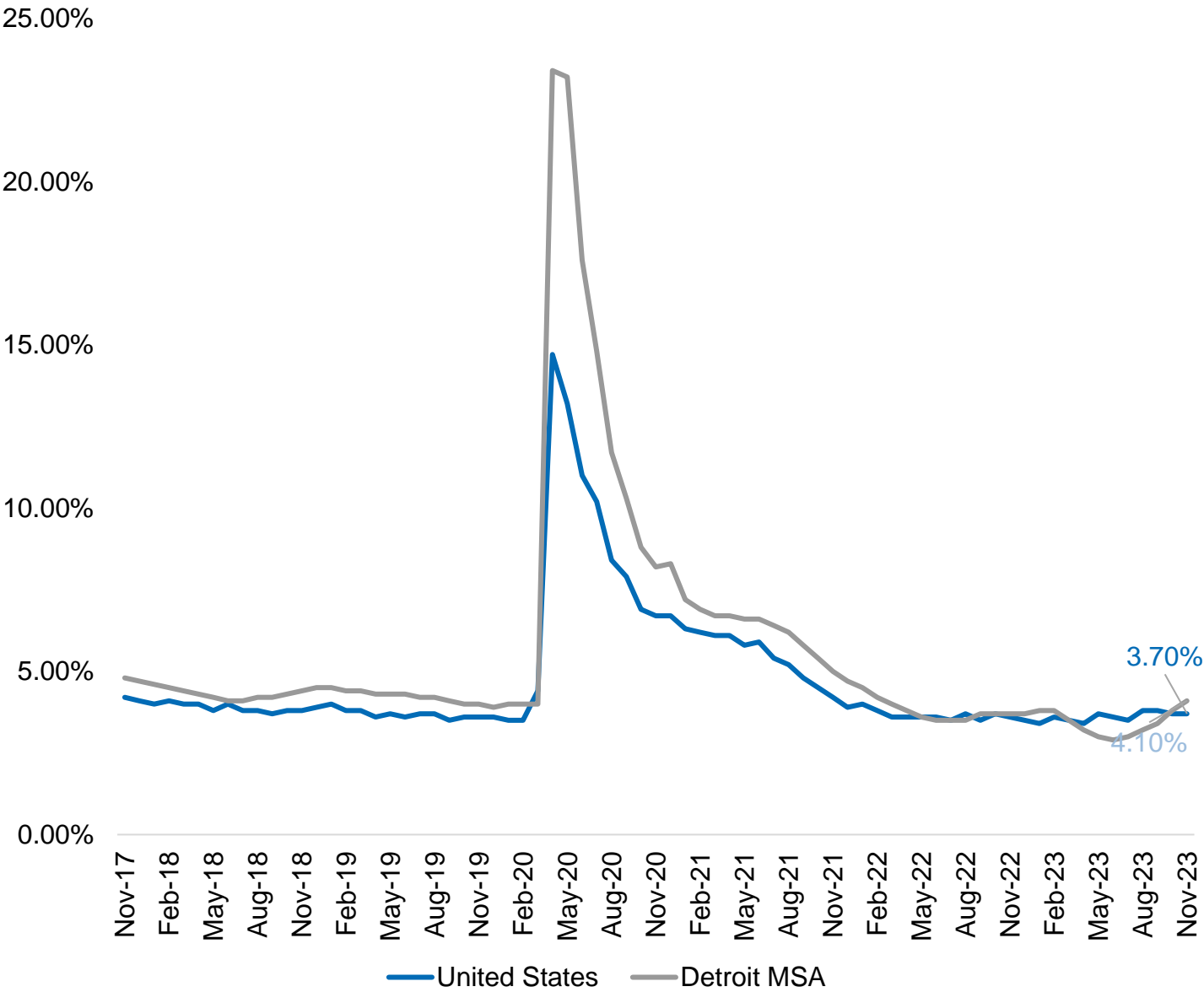
Economy



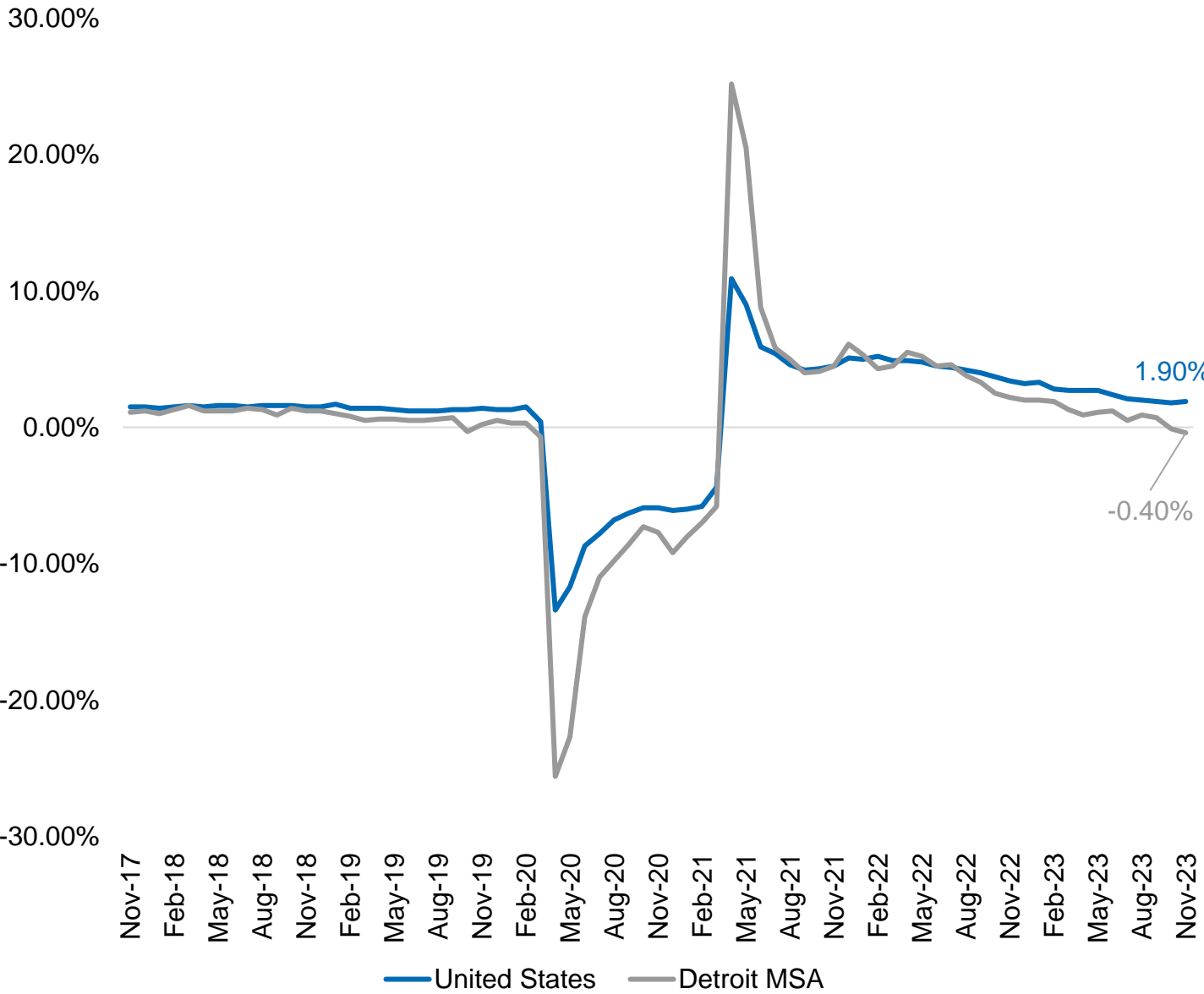
Metro Employment Trends Signal A Slowing Economy

The Detroit Metro labor market saw an uptick in unemployment, rising 90 basis points to 4.1% from August to November 2023. Year-over-year employment in Metro Detroit is off 0.40%, as the Big Three announced layoffs during the end of summer.

Unemployment Rate, Seasonally Adjusted



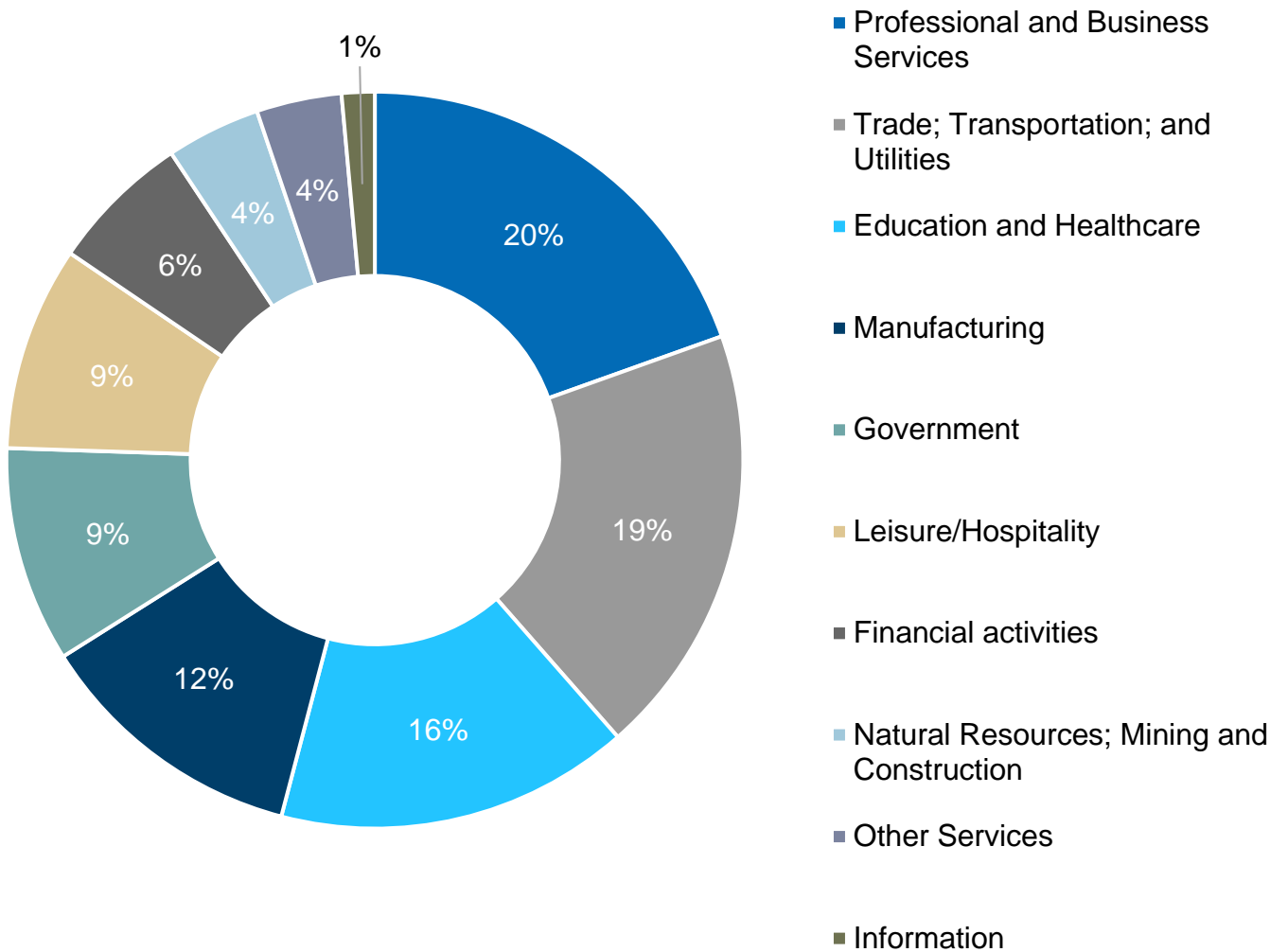
Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



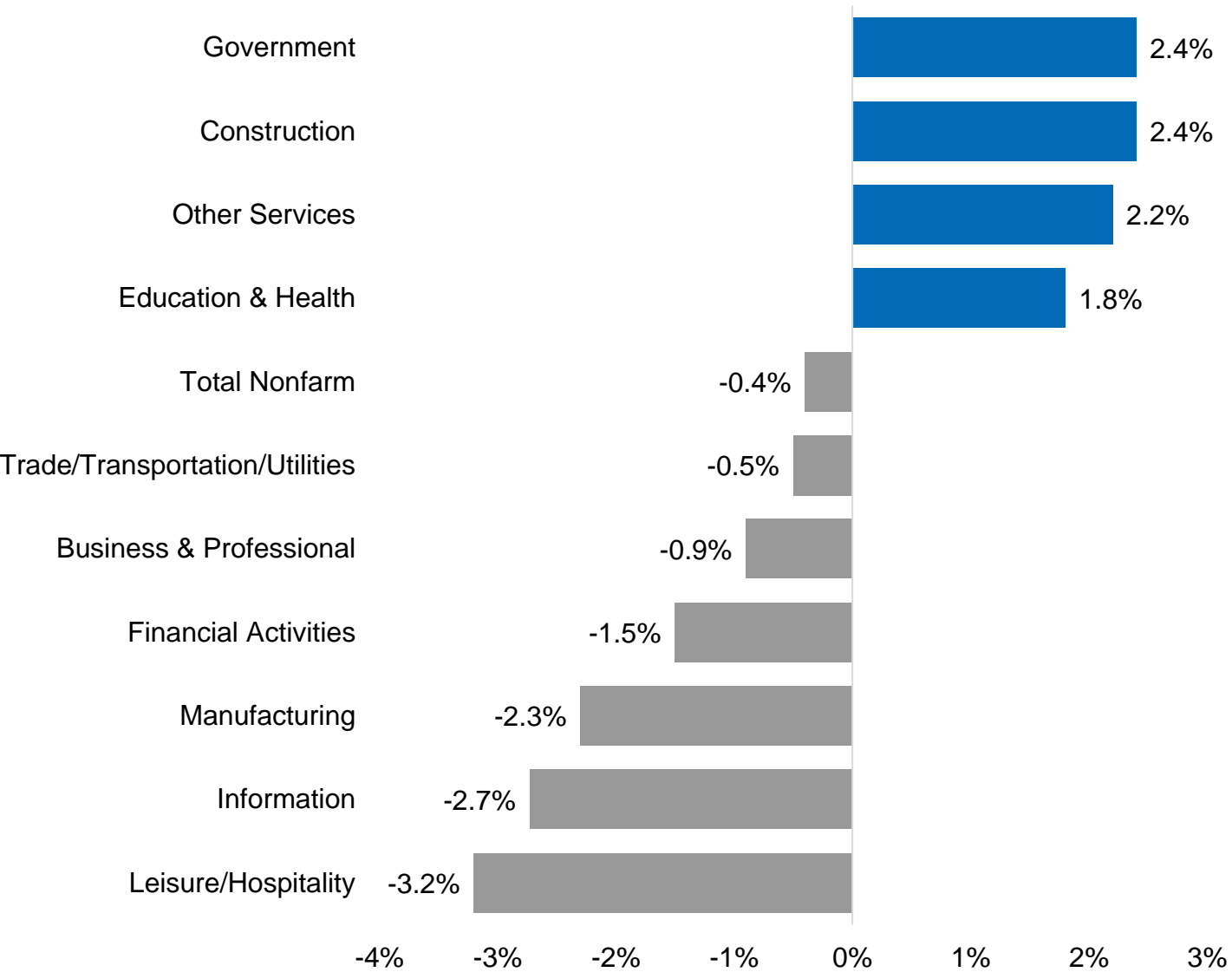
Office Using Employment Down From Last Year

The main office-using employment sectors, business and professional services, information and financial activities, posted declines compared with the same time last year. A slowing service sector economy due to high interest rates led to tenants downsizing office space requirements. This trend is likely to continue into 2024.

Employment by Industry, November 2023



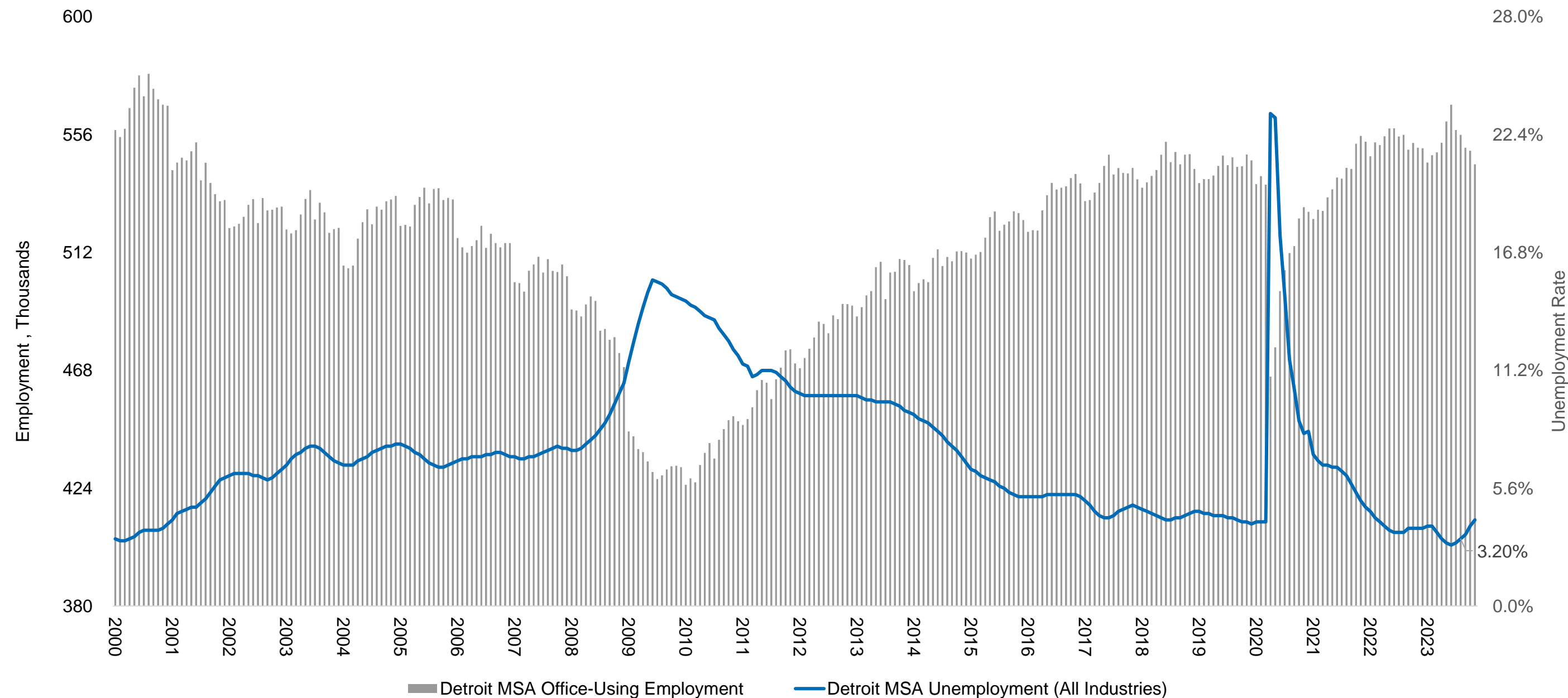
Employment Growth by Industry, 12-Month % Change, November 2023



Overall Office-Using Employment

Office employment peaked in mid-2023 and has since declined. Rising interest rates has had a negative effect on these sectors. Increased employment is necessary to increase office absorption.

Office-Using Employment* and Unemployment Across All Industries



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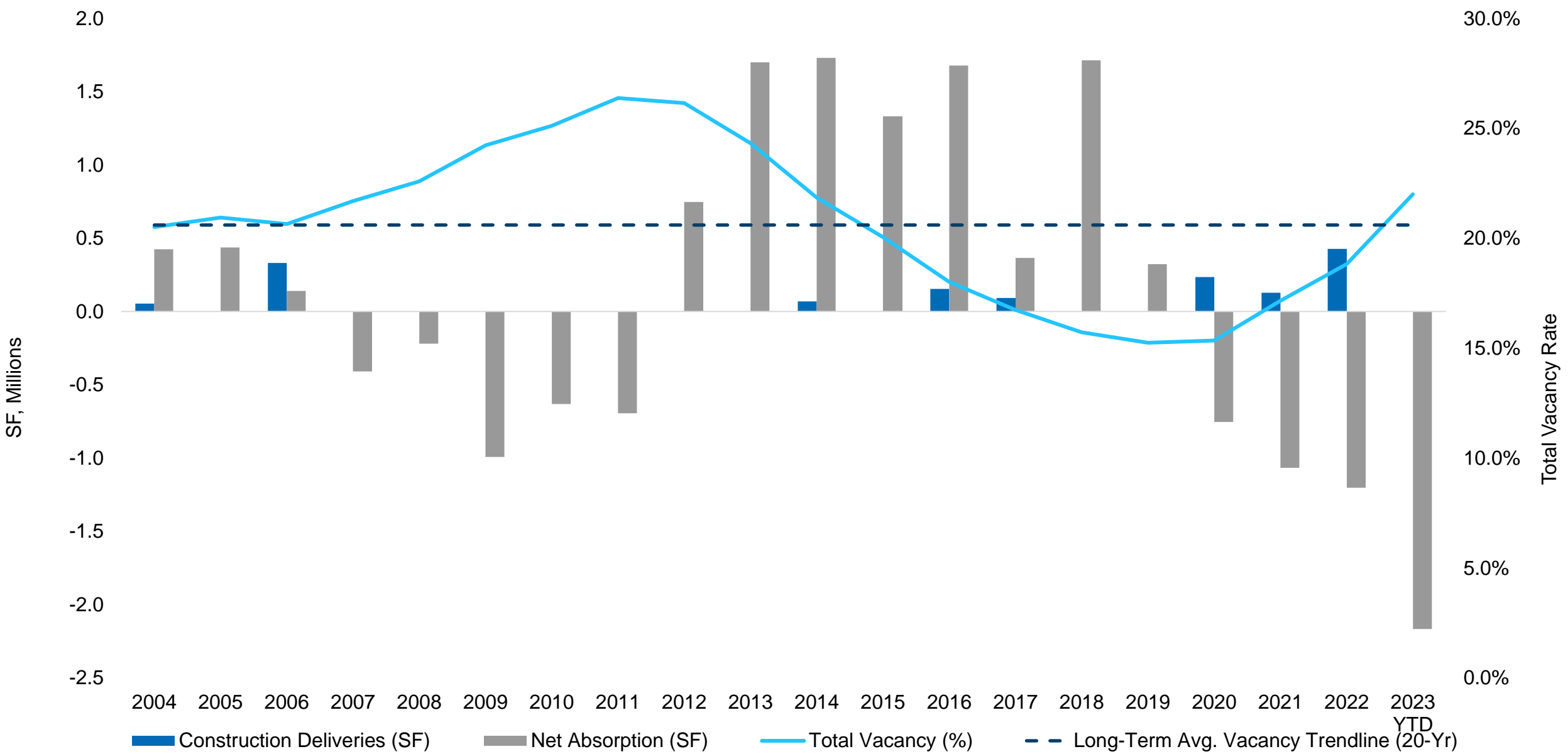
Leasing Market Fundamentals



Vacancy Rates Up Considerably Since Start of Pandemic

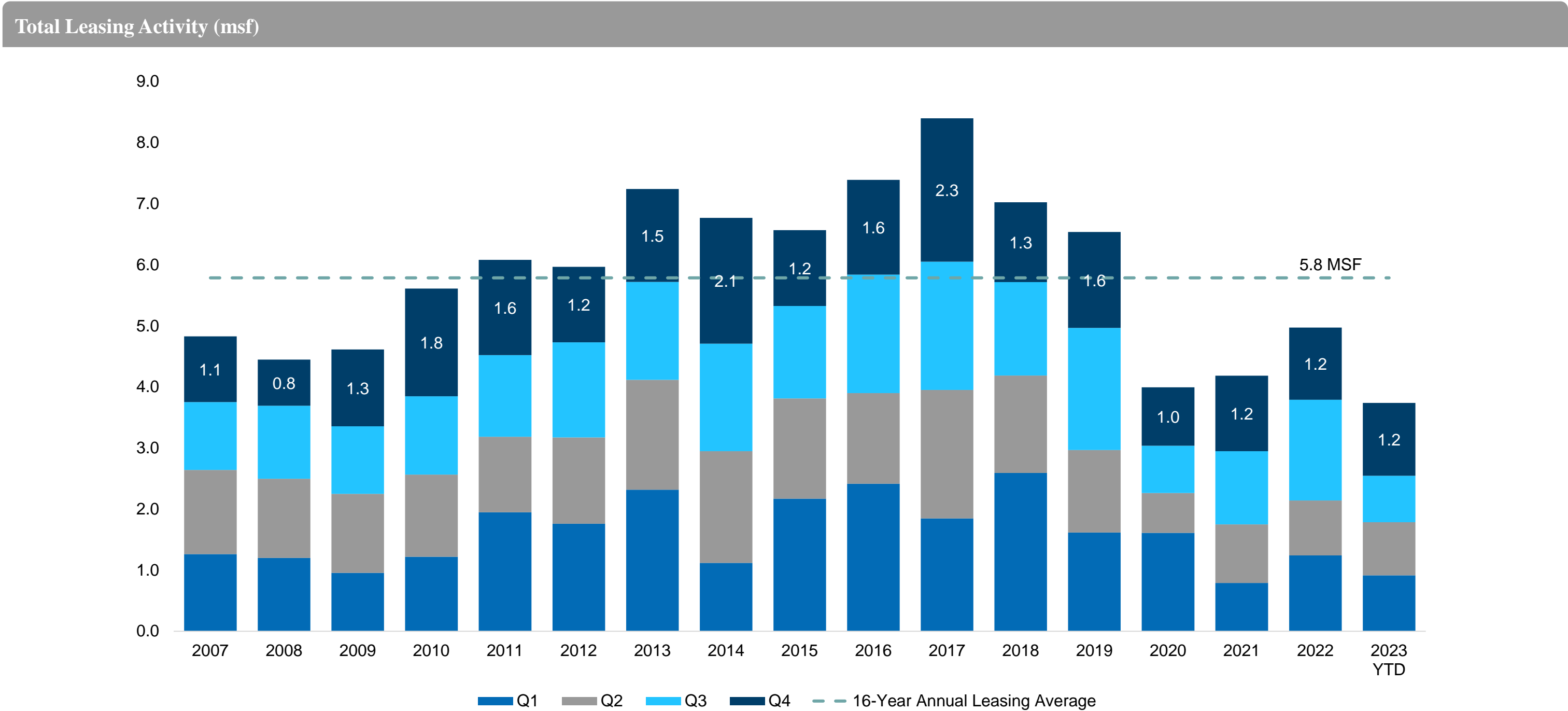
The Detroit Metro office vacancy rate climbed 10 basis points to 22.0% during the fourth quarter of 2023 as 124,276 SF in net vacancies were added to the market. Year to date, 2.16 million SF in net vacancies have been added to the market. Since the start of the pandemic, the office market has added over 5 million SF of space to the market. The market will see a bottom in 2024 as pre-COVID five-year leases expire and companies resign with adjusted occupancy requirements based on work-from-home policies.

Historical Construction Deliveries, Net Absorption, and Vacancy



Leasing Activity Pace Has Slowed

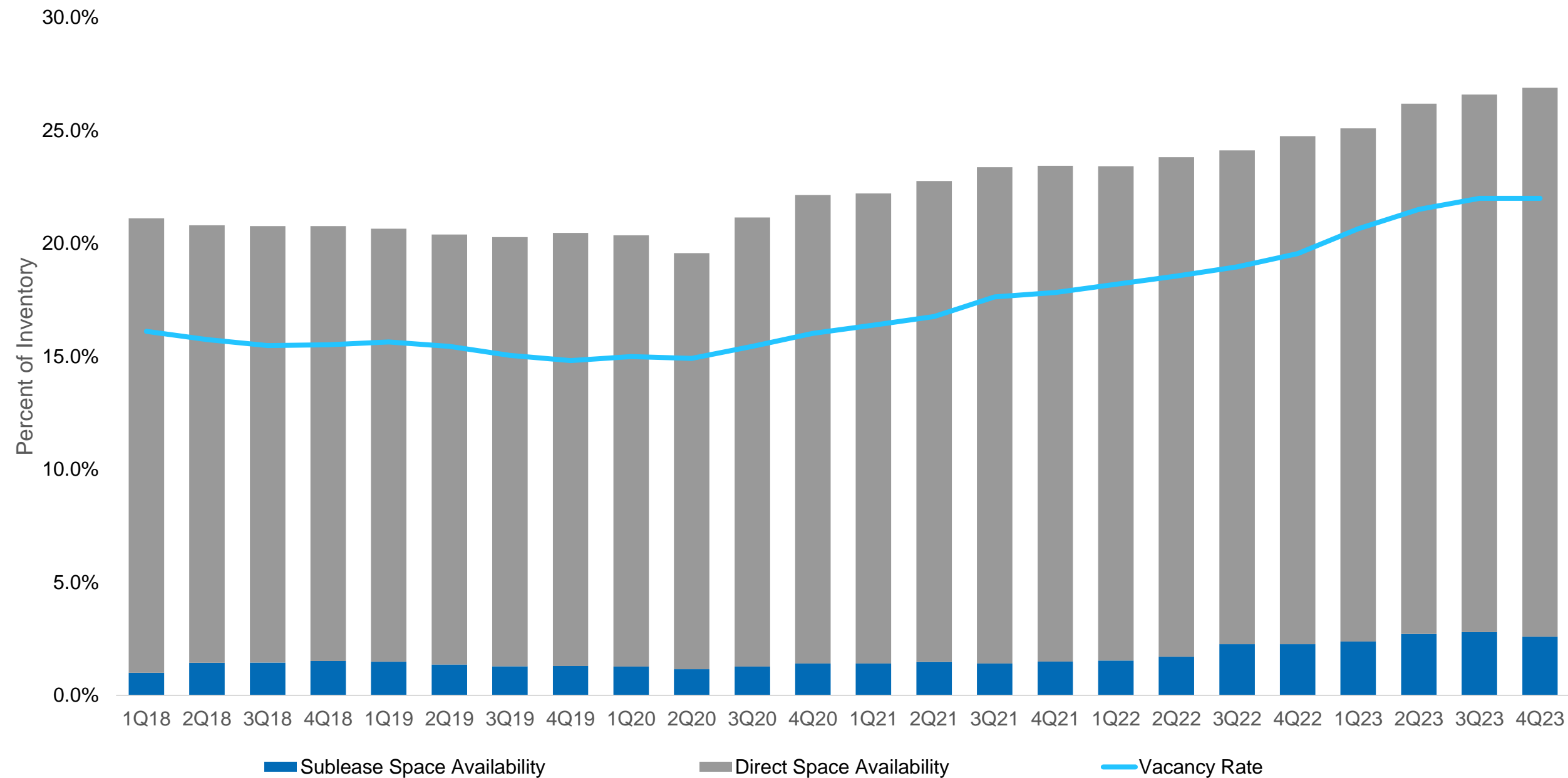
Overall leasing activity continues to be below pre-COVID levels in Detroit Metro. Tenant demand for space declined sharply following 2019 as office users cut occupancy costs by reducing space. While large-block office users are cutting space, an uptick in smaller users has provided an undercurrent in demand. Absorption levels moving forward are likely to stay below the 16-year leasing average.



Direct Available Space Climbs While Sublease Levels Fall

Available sublease space decreased by 6% during the fourth quarter of 2023 to 2.6 million SF. The decline is mostly due to expiring subleases that have turned into direct available space. Direct available space grew by over 563,000 SF, reaching a 10-year high of 19.5 million SF. The absence of new sublease space is a good sign the market is close to bottoming out.

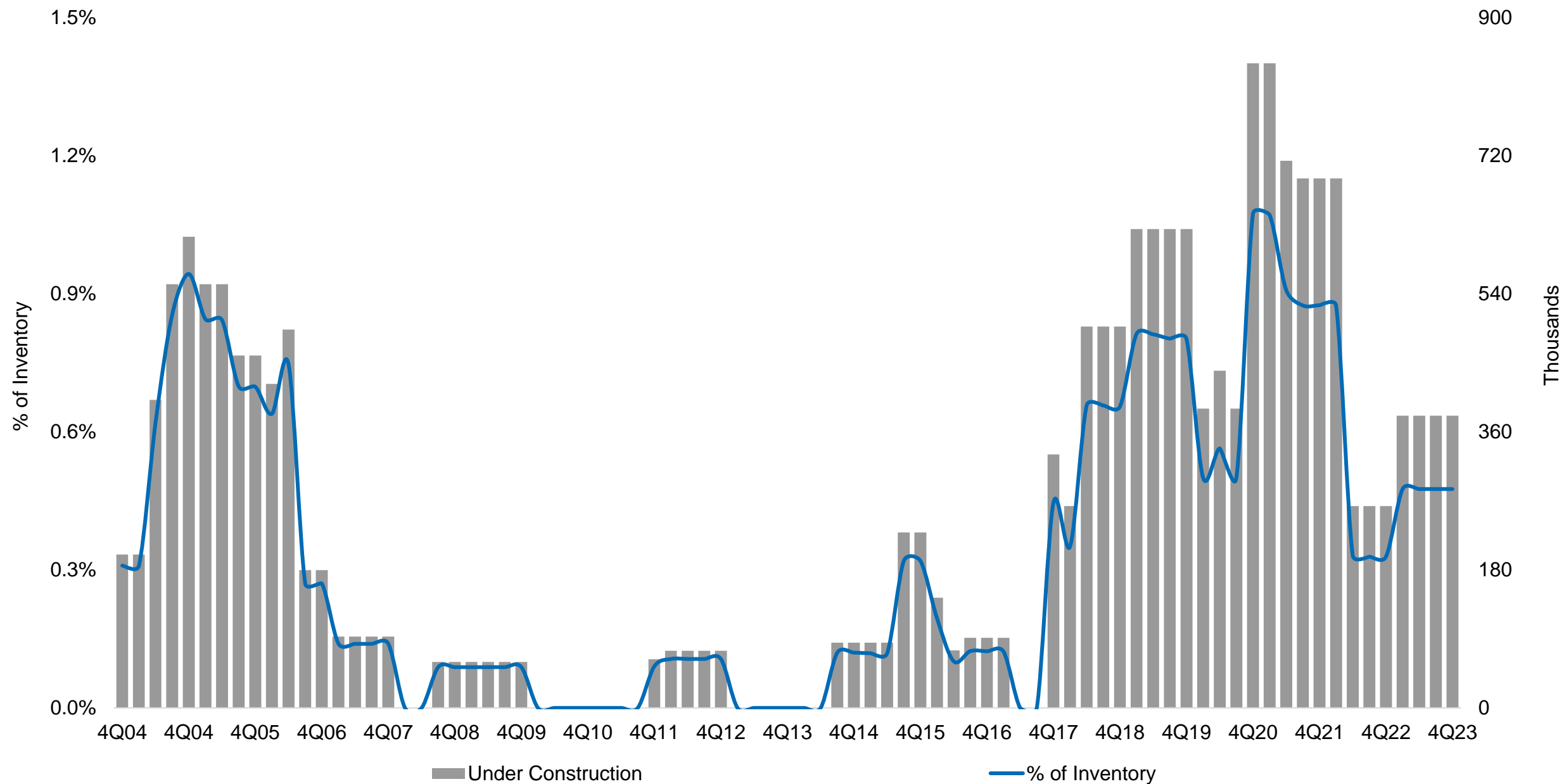
Available Direct & Sublease Space and as Percent of Overall Market



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.

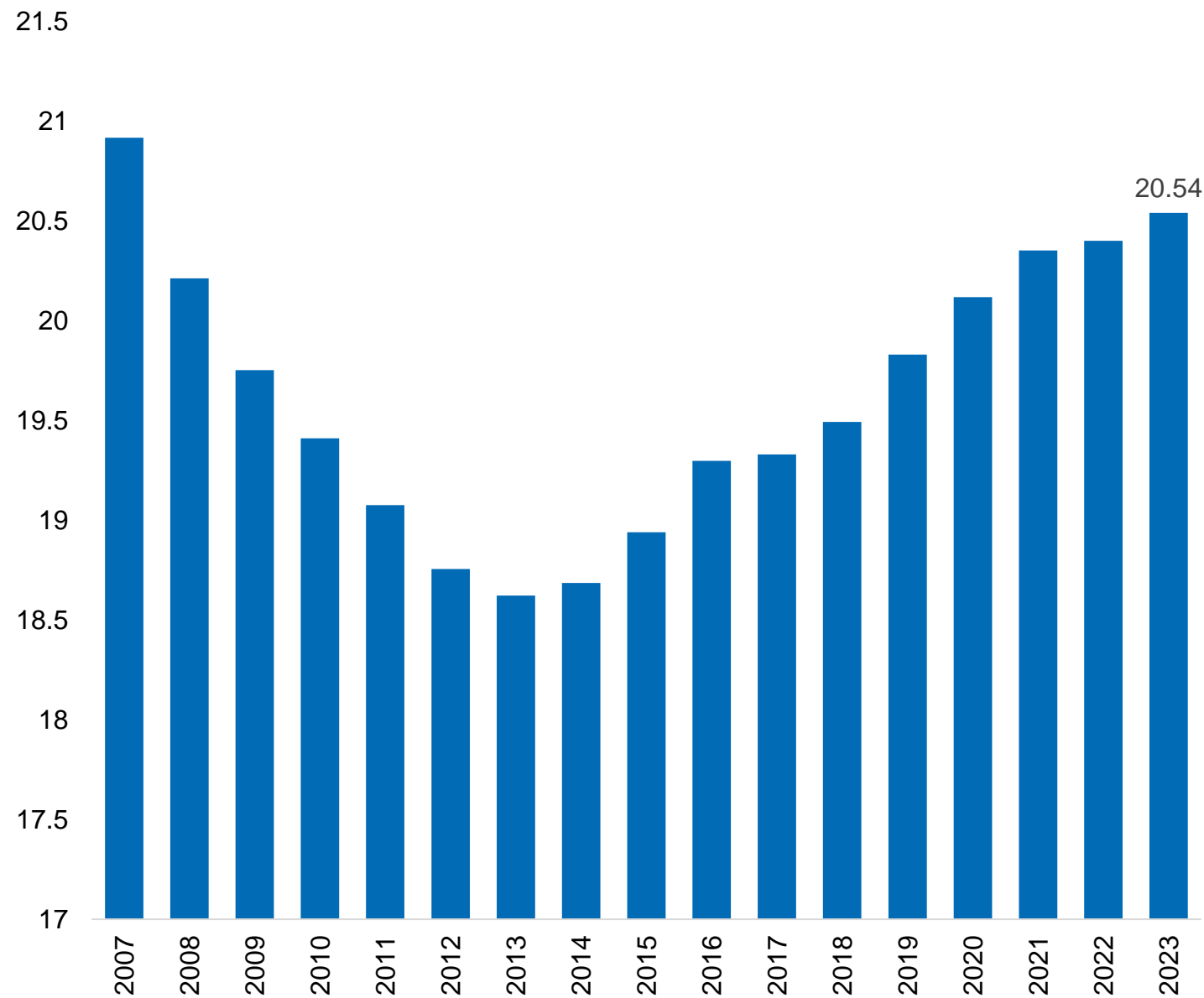
Office Under Construction and % of Inventory



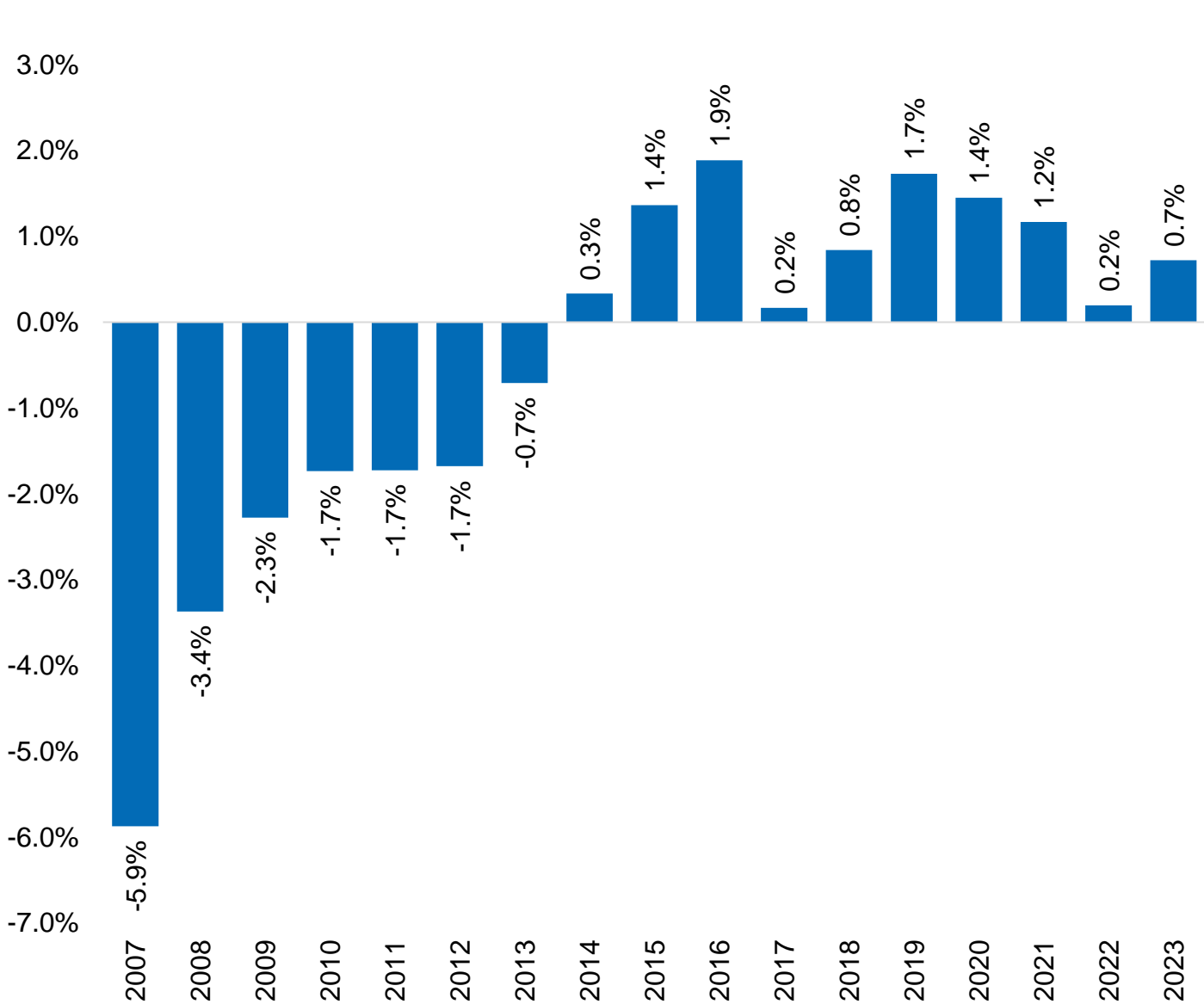
Rents Increase as More High-end Space Added to the Market

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. 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, \$20.54/SF, FS



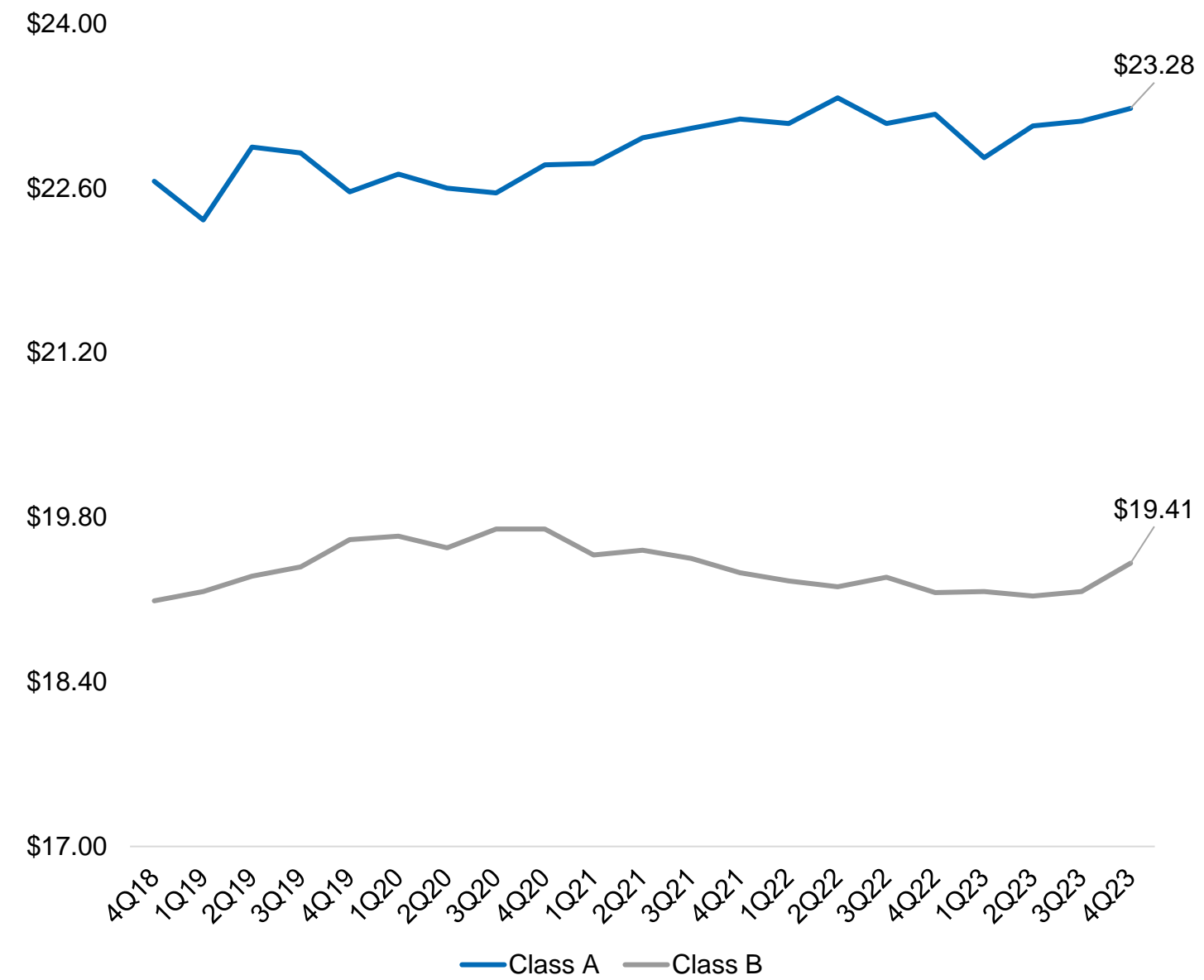
Year-over-Year Asking Rent Growth Rate



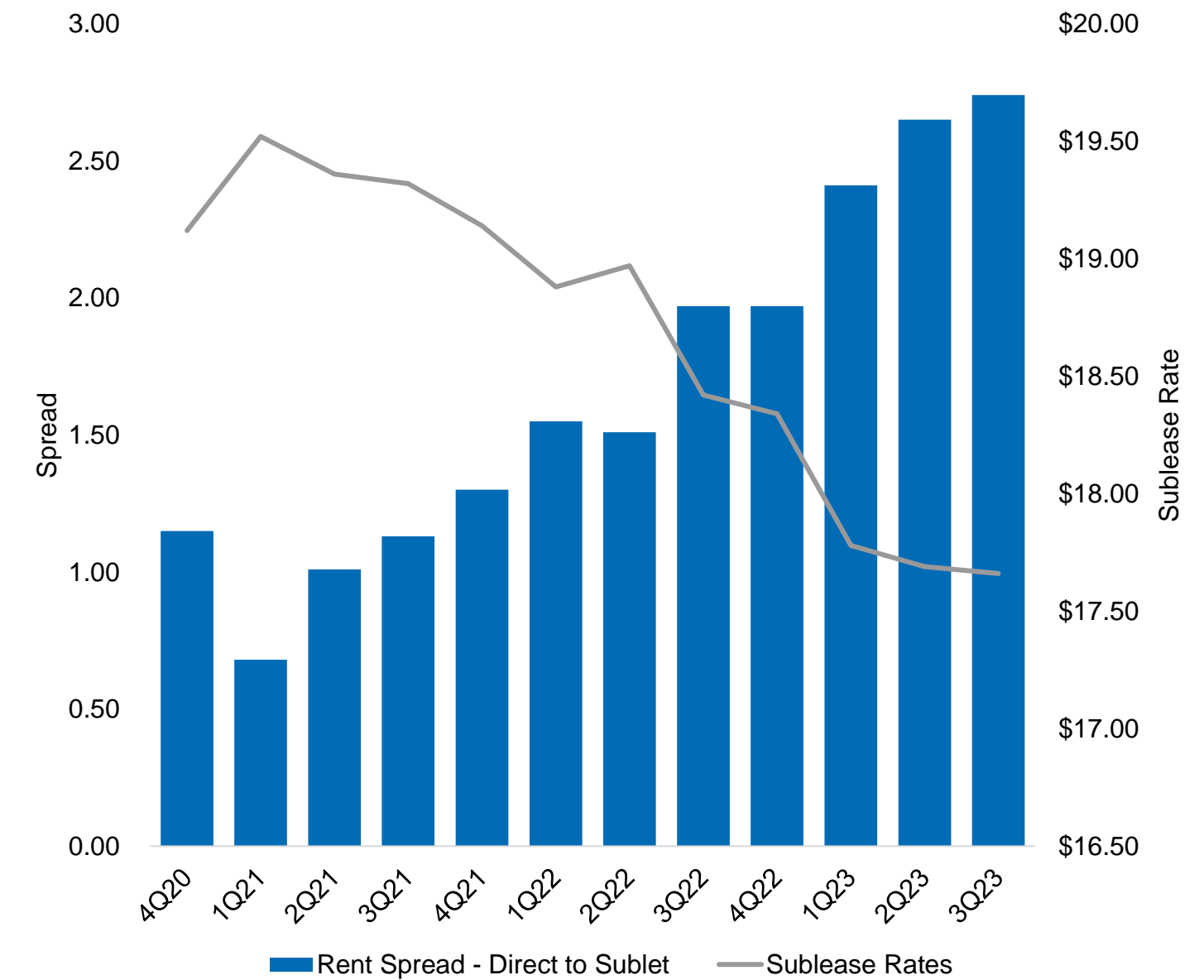
Sublease Asking Rates Falling

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, however, have mostly declined since 2021 before the market was saturated with space. Meanwhile, the spread between direct rates and sublease rates continued to grow to a high of \$2.77/SF.

Class A and Class B Asking Rents



Sublease Rates



4Q 2023 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	15,492,549	380,821	18.6 %	-25,722	-437,242	\$28.42	\$24.65	\$25.09
CBD North Central	1,623,604	-	17.0 %	-16,746	6,941	\$30.00	\$19.27	\$22.15
CBD Total	17,116,153	380,821	18.4 %	-42,468	-430,301	\$28.56	\$23.84	\$24.76
Ann Arbor Briarwood	2,324,242	-	20.0 %	-3,008	-155,493	\$30.08	\$23.41	\$25.12
Ann Arbor CBD	1,395,745	-	9.3 %	9,195	-15,084	\$35.55	\$26.13	\$30.01
Ann Arbor Northeast	2,051,577	-	18.1 %	0	-121,697	\$28.37	\$22.20	\$28.24
Auburn Hills	3,291,327	-	21.7 %	14,296	-22,321	\$20.28	\$19.46	\$20.05
Birmingham	304,654	-	8.3 %	-21,900	-20,770	-	\$42.17	\$42.02
Birmingham CBD	1,270,864	-	7.8 %	-11,437	-32,843	\$32.15	\$31.57	\$31.62
Bloomfield Hills	3,031,190	-	20.1 %	-64,725	-56,523	\$25.87	\$22.49	\$24.61
Dearborn	3,196,263	-	29.9 %	44,322	-3,022	\$20.82	\$16.71	\$18.55
Farmington Hills	6,724,127	-	19.1 %	54,706	-310,385	\$20.25	\$18.84	\$19.57
Livonia	3,370,499	-	22.9 %	-20,039	-5,159	\$19.51	\$17.89	\$18.06
Novi	1,689,457	-	24.3 %	6,619	-31,692	\$21.85	\$20.55	\$21.03
Pontiac	2,800,852	-	15.2 %	45,000	50,000	-	\$16.00	\$15.98
Southfield	17,337,859	-	27.0 %	-7,925	-703,312	\$20.61	\$17.33	\$18.07
Troy	13,662,207	-	25.6 %	-126,912	-298,325	\$23.95	\$18.69	\$19.64
West Bloomfield	557,771	-	8.6 %	0	-9,415	\$19.00	\$17.63	\$18.16
Suburban Total	63,009,034	-	23.0 %	-81,808	-1,736,041	\$22.31	\$18.63	\$19.73
Totals	80,125,187	380,821	22.0 %	-124,276	-2,166,342	\$23.28	\$19.41	\$20.54

Source: Newmark Research

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