

**DETROIT  
1Q18 OFFICE MARKET**

**LEASING ACTIVITY UP IN  
BOTH SUBURBAN AND DETROIT  
CBD MARKETS**

Metro Detroit’s office market vacancy rate fell 30 basis points to 16.0% during the first quarter of 2018, as just over 488,000 square feet was absorbed. Strong leasing activity by large office users, such as Flextronics America, LLC, Mortgage Center, LC, Wells Fargo Clearing Services, LLC, Society of Manufacturing Engineers (SME) and ConcertoHealth, boosted the suburban market. In particular, the suburban submarkets of Southfield, Troy, Auburn Hills and Farmington Hills accounted for nearly 400,000 of the overall metro absorption totals for the quarter. The Detroit CBD office market remains active with groundbreaking construction and massive renovations, as property owners and investors look to capitalize on the continued growth of the Central Business District.

**Southfield**

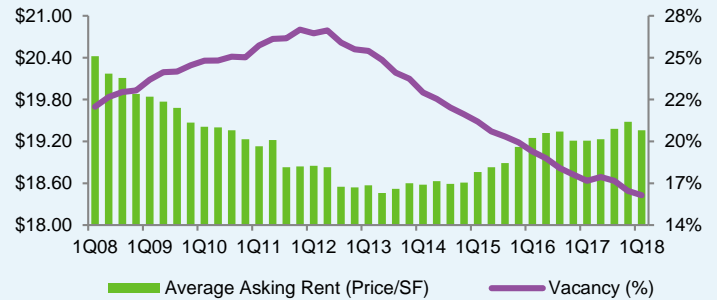
Southfield’s office market started 2018 in positive territory, as tenants absorbed just over 141,000 square feet, causing the submarket’s vacancy rate to fall 80 basis points to 20.7% during the first quarter. Class A space saw the greatest demand, as office users absorbed nearly 90,000 square feet during the quarter, pushing the vacancy rate down 150 basis points to 18.2%. Travelers Tower I accounted for a great share of overall Class A leasing activity, as companies such as Mortgage Center, LC, Group Associates, Inc. and BCD Travel absorbed 40,000 square feet in the office building. The Southfield Town Center complex also saw an increase in leasing activity, as companies such as the Society of Manufacturing Engineers (SME), Bejin Bieneman PLC and SHI International signed new leases. Southfield’s Class B market vacancy fell 60 basis points to 23.8% during the quarter, as just over 53,000 square feet was absorbed. Much of the Class B absorption resulted from ConcertoHealth’s move from Detroit and into 17,000 square feet in the Southfield Centre on Nine Mile Road. Auria Solutions USA, Inc. 25,000-square-foot lease at City Center Office Park on Central Park Boulevard also accounted for a large share of the Class B market’s overall quarterly absorption totals. With Southfield’s overall vacancy now at levels not seen since 2006, most multi-tenant office buildings have healthy occupancy levels. The submarket’s overall vacancy is inflated by a few mostly empty office buildings, such as the 254,000-square-foot former HAP building on Northwestern Highway and the Raleigh Officentre on Telegraph Road. Other office buildings, such as the former single-user 687,000-square-foot Michigan Blue Cross headquarters complex on Eleven Mile Road, remain 80% vacant.

**Current Conditions**

- Metro Detroit’s office market vacancy rate fell 30 basis points to 16.0% during the first quarter of 2018, as just over 488,000 square feet was absorbed.
- Strong leasing activity by large office users boosted the suburban market.
- The Detroit CBD office market remains active with groundbreaking construction and massive renovations

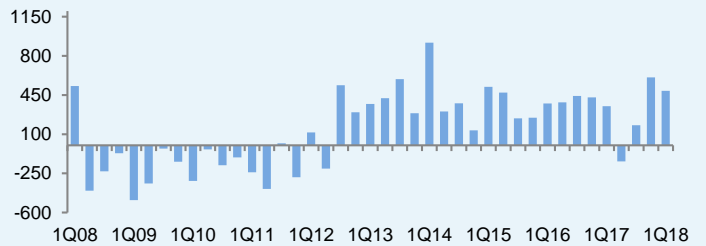
**Market Analysis**

**Asking Rent and Vacancy**



**Net Absorption**

Square Feet, Thousands



**Market Summary**

|                          | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory          | 75.0MSF         | 74.9MSF       | 74.10MSF        | ↑                 |
| Vacancy Rate             | 16.0%           | 16.3%         | 17.0%           | ↓                 |
| Quarterly Net Absorption | 488,184         | 607,832       | 349,937         | ↑                 |
| Average Asking Rent      | \$19.36         | \$19.48       | \$19.21         | ↑                 |
| Under Construction       | 263,000         | 330,430       | 91,220          | ↑                 |
| Deliveries               | 67,430          | 0             | 0               | ↑                 |

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**MAJOR DEVELOPMENTS  
REMAIN UNDERWAY THAT ARE  
TRANSFORMING THE CITY OF  
DETROIT'S MARKET**

**Detroit CBD**

The Detroit CBD vacancy rate held steady at 11.1% during the first quarter, although the submarket did see just over 78,000 square feet of positive absorption. Google, Inc. accounted for the bulk of overall absorption, as the company moved into 30,000 square feet of office space at the Little Caesars Arena. Meanwhile, UBS moved into 19,000 square feet at 1515 Woodward Avenue. Major developments remain underway that are transforming the city of Detroit's market. Little Caesars is nearing completion of its \$150.0 million, nine-story, 234,000-square-foot world headquarters at the corner of Woodward Avenue and Columbia Street. Construction on what will be Detroit's tallest skyscraper is underway at the former Hudson's Department Store site. The nearly \$1 billion construction project, which is being developed by Bedrock, will feature residential units and retail space along with an estimated 263,000 square feet of office space. In the New Center area, the 290,000-square-foot Albert Kahn Building and 634,000-square-foot Max M. Fisher Building, built in the 1930s, are getting a \$100.0 million renovation. The 300,000-square-foot former Detroit Free Press building is undergoing renovations that will turn the building into a mixture of office, retail and residential uses.

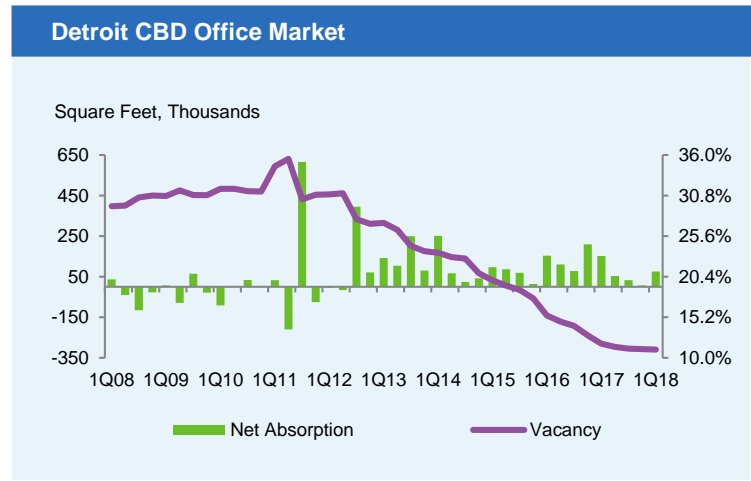
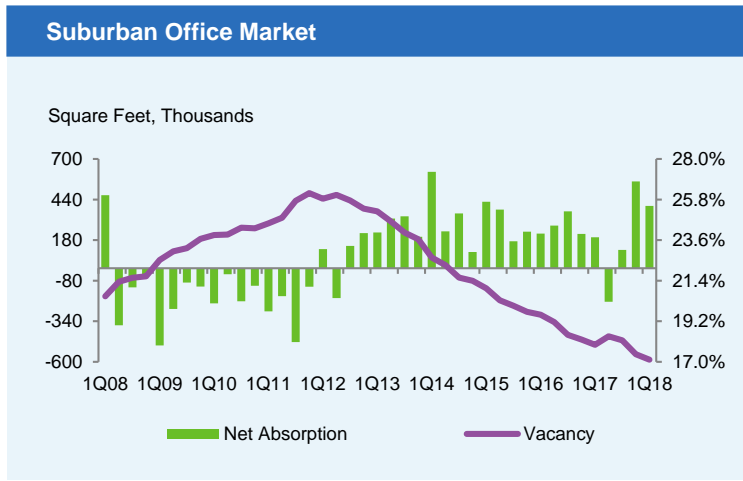
**Troy**

Troy's office market vacancy fell 80 basis points to 19.3% during the first quarter, as just over 107,000 square feet was absorbed. Henry Ford Health System signed the largest deal of the quarter, as it agreed to

lease 276,250 square feet in United Shore Financial Center's former building at 1414 East Maple Road. United Shore Financial Center is relocating its headquarters to Pontiac. Henry Ford Health System is scheduled to move into its Maple Road location at the beginning of 2019. Troy's Class A market posted just over 80,000 square feet of positive absorption during the quarter. Increased leasing activity in places like the PNC Center and Columbia Center on West Big Beaver Road accounted for a large portion of overall absorption. The Class B market posted just over 27,000 square feet of positive absorption during the quarter, pushing vacancy down 20 basis points to 23.7%. Much of the overall Class B absorption was attributed to Trion Solutions, Inc.'s 33,000-square-foot lease in the City Center at 888 West Big Beaver Road and Konica Minolta Business Solutions' 15,000-square-foot lease in the Troy Officentre at 340 West Big Beaver Road.

**Farmington Hills**

Strong leasing activity in the Farmington Hills office market resulted in a vacancy decline of 70 basis points to 11.7% during the first quarter, as just over 43,000 square feet was absorbed. The Class A Orchards Corporate Center accounted for the lion's share of overall absorption in the submarket. Flextronics America, LLC leased 60,000 square feet, and Wells Fargo Clearing Services, LLC leased 10,000 square feet in Orchards Corporate Center II at 27755 Stansbury Boulevard. The submarket's overall Class A vacancy fell 100 basis points to 12.3% during the quarter, with a net absorption of 40,000 square feet. The Class B market saw less market activity, as the vacancy rate held steady at 11.2% during the quarter. Buoyed by large office users such as Autoliv ASP Inc., Continental AG, ZF TRW, AGC Flat Glass North America, Renesas Electronics Corporation, Trinity Health and Bank of America, Inc. over the past several years, the Farmington Hills' overall vacancy rate is now the lowest it has ever been over the past 10 years.



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**IN 2018 GOOGLE, INC. IS SCHEDULED TO VACANT ROUGHLY 16,000 SQUARE FEET AT 325 NORTH OLD WOODWARD AVENUE AND RELOCATE THE DETROIT CBD**

**Ann Arbor**

Ann Arbor’s overall office market vacancy rate fell 90 basis points to 6.7% during the first quarter, as just over 47,000 square feet was absorbed. Only two years ago, the Briarwood Corridor’s vacancy rate stood at 20%. Persistent demand over the past eight quarters has resulted in lower vacancies. Demand remained strong during the first quarter of 2018, as companies absorbed just over 42,000 square feet in the corridor, pushing the vacancy rate down 230 basis points to 13.3%. 777 Eisenhower Plaza, 3959 Research Park and The Wickfield Center saw significantly lower vacancies.

The Northeast Corridor’s vacancy rate fell 10 basis points to just 1.2% during the first quarter. Home Point Financial’s 33,000-square-foot lease at 2211 Old Earhart Road represents one of the largest of the quarter.

The CBD Corridor’s vacancy rate, on the other hand, climbed 100 basis points to 4.1% during the quarter, as just over 13,000 square feet of new vacant space was created. The bulk of the Corridor’s vacancies came from the One North Main Building.

**Auburn Hills**

Auburn Hills’ office vacancy rate went up from 13.4% to 17.1% during the first quarter, as just over 109,000 square feet of vacant space came on the market. The large vacancy was primarily the result of RGIS vacating 121,000 square feet at 2000 East Taylor Road, as the company downsized operations to just 40,000 square feet.

**Birmingham**

Birmingham’s overall vacancy rate increased 310 basis points to 12.4% during the first quarter, as just over 43,000 square feet became vacant. Google, Inc.’s relocation from Birmingham to Detroit created a 30,000-square-foot vacancy at 114 Willits Street. Meanwhile, a 9,000-square-foot vacancy at 280 North Old Woodward Avenue also contributed to the submarket’s overall vacancy increase.

**Lease/User Transactions**

| Tenant                             | Building                  | Submarket        | Type   | Square Feet |
|------------------------------------|---------------------------|------------------|--------|-------------|
| Henry Ford Health System           | 1414 E Maple Road         | Troy             | Direct | 276,000     |
| Flextronics America, LLC           | Orchards Corporate Center | Farmington Hills | Direct | 60,000      |
| Society of Manufacturing Engineers | Southfield Town Center    | Southfield       | Direct | 22,000      |
| Mortgage Center, LC                | Travelers Tower I         | Southfield       | Direct | 21,000      |
| Group Associates, Inc.             | Travelers Tower I         | Southfield       | Direct | 10,000      |

**Select Sales Transactions**

| Building             | Submarket    | Sale Price   | Price/SF | Square Feet |
|----------------------|--------------|--------------|----------|-------------|
| 1075 W Entrance Dr   | Auburn Hills | \$14,843,921 | \$71     | 210,000     |
| 900 N Squirrel Rd    | Auburn Hills | \$1,916,121  | \$92     | 128,000     |
| 2211 E Jefferson Ave | Detroit      | \$3,900,000  | \$51     | 77,000      |
| 1685 Baldwin Rd      | Pontiac      | \$2,250,000  | \$73     | 30,300      |

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**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) | Total Asking Rent (Price/SF) |
|-----------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|--------------------------------|--------------------------------|------------------------------|
| CBD                   | 14,658,853           | 263,000                 | 11.1%              | 75,166              | 75,166              | \$24.33                        | \$20.14                        | \$20.77                      |
| CBD North Central     | 1,209,188            | 0                       | 21.8%              | 13,393              | 13,393              | -                              | \$18.02                        | \$17.96                      |
| <b>Detroit Total</b>  | <b>15,868,041</b>    | <b>263,000</b>          | <b>11.9%</b>       | <b>88,559</b>       | <b>88,559</b>       | <b>\$24.33</b>                 | <b>\$19.53</b>                 | <b>\$20.37</b>               |
| Ann Arbor Briarwood   | 2,027,860            | 0                       | 13.3%              | 42,125              | 42,125              | \$26.68                        | \$20.21                        | \$24.19                      |
| Ann Arbor CBD         | 1,404,669            | 0                       | 4.1%               | -13,047             | -13,047             | \$33.57                        | \$26.34                        | \$30.82                      |
| Ann Arbor Northeast   | 1,798,602            | 0                       | 1.2%               | 18,627              | 18,627              | \$25.57                        | \$22.20                        | \$24.30                      |
| Auburn Hills          | 2,950,157            | 0                       | 17.1%              | 109,419             | 109,419             | \$19.43                        | \$18.00                        | \$18.60                      |
| Birmingham            | 424,654              | 0                       | 9.0%               | -31,511             | -31,511             | \$43.20                        | \$26.67                        | \$40.19                      |
| Birmingham CBD        | 979,645              | 0                       | 13.9%              | -11,935             | -11,935             | \$32.33                        | \$32.25                        | \$32.29                      |
| Bloomfield Hills      | 3,030,134            | 0                       | 8.0%               | -2,358              | -2,358              | \$25.39                        | \$22.71                        | \$23.79                      |
| Dearborn              | 3,193,219            | 0                       | 27.5%              | -11,721             | -11,721             | \$17.90                        | \$15.94                        | \$16.87                      |
| Farmington Hills      | 6,157,143            | 0                       | 11.7%              | 43,329              | 43,329              | \$20.03                        | \$19.09                        | \$19.26                      |
| Livonia               | 3,146,329            | 0                       | 13.2%              | -1,831              | -1,831              | \$20.90                        | \$19.71                        | \$17.16                      |
| Novi                  | 1,620,708            | 0                       | 7.1%               | 11,617              | 11,617              | \$21.97                        | \$18.95                        | \$20.86                      |
| Pontiac               | 1,278,080            | 0                       | 42.9%              | -                   | -                   | -                              | \$16.49                        | \$16.15                      |
| Southfield            | 17,216,730           | 0                       | 20.7%              | 141,157             | 141,157             | \$21.20                        | \$18.23                        | \$18.37                      |
| Troy                  | 13,261,602           | 0                       | 19.3%              | 107,583             | 107,583             | \$22.63                        | \$18.70                        | \$19.56                      |
| West Bloomfield       | 557,771              | 0                       | 6.4%               | -1,829              | -1,829              | \$22.00                        | \$17.09                        | \$18.90                      |
| <b>Suburban Total</b> | <b>59,047,303</b>    | <b>0</b>                | <b>17.1%</b>       | <b>399,625</b>      | <b>399,625</b>      | <b>\$21.85</b>                 | <b>\$18.52</b>                 | <b>\$19.14</b>               |
| <b>Totals</b>         | <b>74,915,344</b>    | <b>0</b>                | <b>16.0%</b>       | <b>488,184</b>      | <b>488,184</b>      | <b>\$22.20</b>                 | <b>\$18.68</b>                 | <b>\$19.36</b>               |

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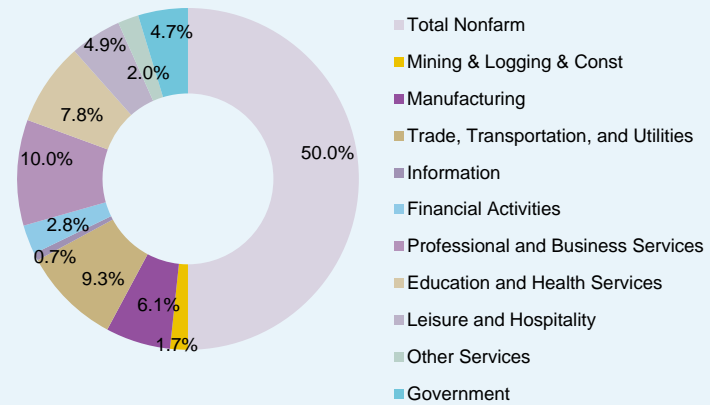
## ECONOMIC CONDITIONS

January 2018 seasonally adjusted unemployment figures for Metro Detroit showed the rate remained unchanged at 4.3% over the past quarter. However the Metro unemployment level was down from the January 2017 of 5.10%. Nationally, the unemployment stood at 4.1% in January 2018 which was unchanged from the previous quarter but down 70 basis points compared to the same time last year.

Payroll figures for Metro Detroit trended downward. The 12-month % change figure show payroll employment in Metro Detroit stood at .90% compared 1.10% during the previous quarter. Nationally, payroll employment trended downward to 1.4% from 1.5% from the previous quarter.

## Employment By Industry

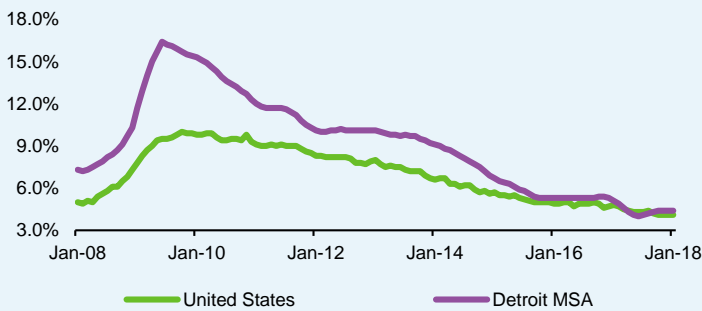
Detroit MSA January 2018



Source: U.S. Bureau of Labor Statistics

## Unemployment Rate

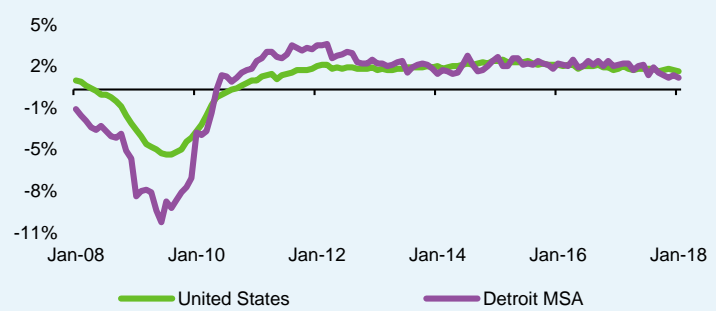
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## Payroll Employment

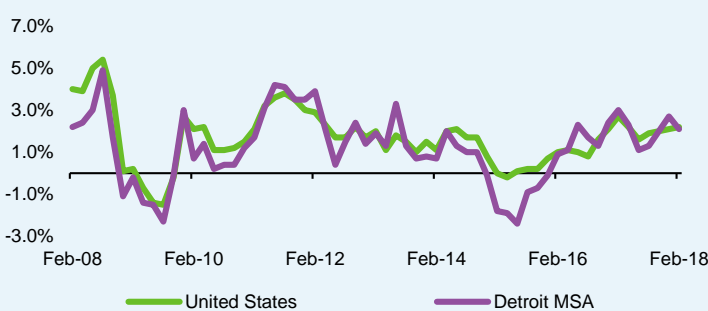
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## Consumer Price Index (CPI)

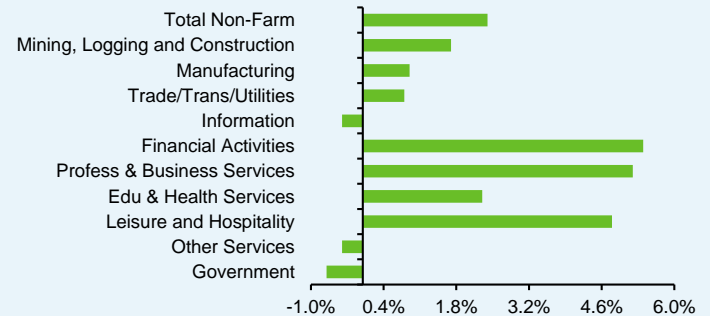
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

## Employment Growth by Industry

Detroit MSA, January 2018, 12-Month % Change, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

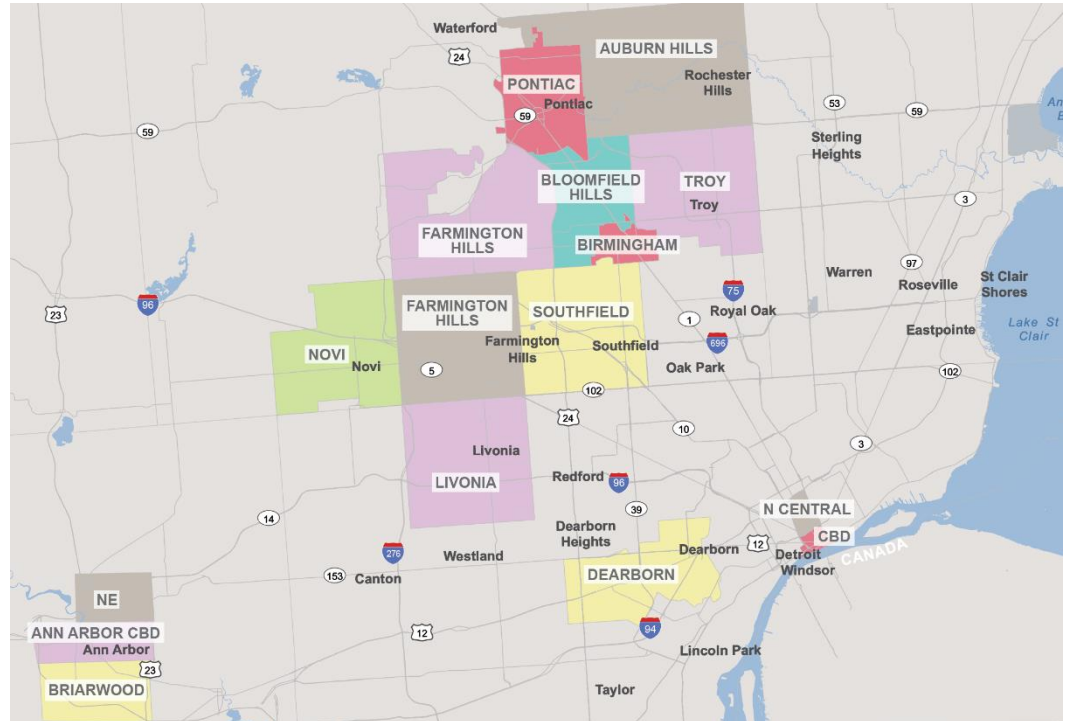
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**Detroit Office Submarket Locations**



**Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.**

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