

DETROIT OFFICE MARKET

OFFICE DEMAND HEATING UP IN DETROIT'S NEW CENTER CORRIDOR

Metro Detroit's office market vacancy rate fell 30 basis points to 15.2% during the first quarter of 2019, as just over 261,000 square feet was absorbed. The city of Detroit continues to see new investments in terms of real estate development and tenant migration. In the suburbs, pockets of demand are showing up in the Farmington Hills, Troy and Ann Arbor submarkets, while vacancies are either idle or trending up in the Novi, Livonia and Southfield submarkets.

City of Detroit

The city of Detroit's overall office vacancy rate fell 80 basis points to 13.1% during first-quarter 2019. Office demand, once concentrated in the Central Business District, is now spreading to Detroit's New Center corridor. Vacancy in the corridor fell to 15.3% from 25.6% during the previous quarter, as just over 101,000 square feet was absorbed. Notable deals include PricewaterhouseCoopers's 30,000-square-foot lease and Davenport University's 12,000-square-foot lease in the New Center One building. In addition, United Way for Southeastern Michigan leased 36,000 square feet in the Fisher Building.

The Detroit CBD office vacancy rate fell 10 basis points 12.8% during first-quarter 2019, as just over 123,000 square feet was absorbed. Despite new vacancies from Brewery Park II on Brewery Park Boulevard and the Francis Palms Building at 2111 Woodward Avenue, strong new leasing and suburban migration activity kept the corridor positive. Universal McCann was the latest company to make its way downtown, expanding into 20,000 square feet in the First National Building at 660 Woodward Avenue. Meanwhile, LinkedIn moved into 76,000 square feet at 1523 Woodward Avenue. As more companies look to establish a presence in the Detroit CBD, construction activity on new office buildings is growing. The law firm Warner, Norcross, & Judd pre-leased 30,000 square feet on an Olympia Development Co., LLC development at 2715 Woodward Avenue, located in The District Detroit. The new Class A five-story, 110,000-square-foot office building will be located between Little Caesars Arena and the new Mike Ilitch School of Business at Wayne State University. Meanwhile, construction continues at the former Hudson's Department Store site on Detroit's tallest skyscraper. The nearly \$1.0 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. Bedrock is also adding a 310,000-square-foot expansion to the One Campus Martius building.

CURRENT CONDITIONS

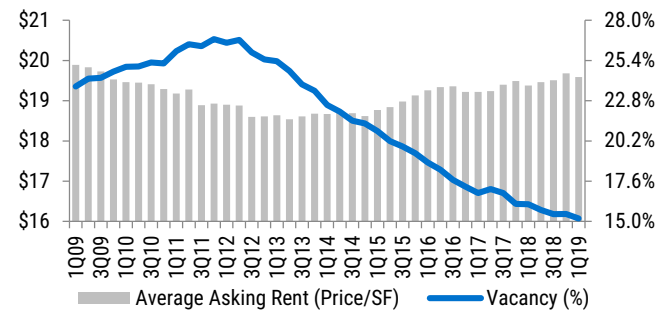
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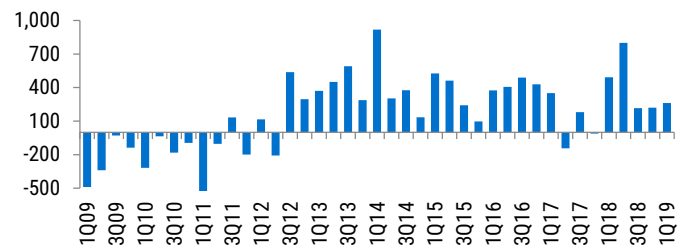
In the suburbs, pockets of demand are showing up in the Farmington Hills, Troy and Ann Arbor submarkets.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	76.3 MSF	75.8 MSF	74.9 MSF	↑
Vacancy Rate	15.2%	15.5%	16.1%	↓
Quarterly Net Absorption	261,766	220,055	492,086	↓
Average Asking Rent	\$19.59	\$19.68	\$19.38	↑
Under Construction	624 KSF	497 KSF	263 KSF	↑
Deliveries	0	0	0	↑

By the second quarter of 2019, Little Caesars is expected to complete its \$150.0 million, nine-story, 234,000-square-foot world headquarters at the corner of Woodward Avenue and Columbia Street. Around the same time, Chemical Bank is expected to start construction on a 20-story, 250,000-square-foot high-rise at Woodward Avenue and Elizabeth Street. The company plans to begin construction on the building in mid-2019 and move 500 employees there within the next two years. Coyote Logistics LLC announced it is relocating from Ann Arbor to Detroit's Corktown District. Bedrock LLC Real Estate Development is renovating the 160,000-square-foot Corktown Lofts into a mixed-use development that will feature 71,000 square feet of new office space. Coyote Logistics LLC plans to occupy 58,000 square feet in the renovated building during the third quarter of 2019. The Corktown District is anticipating Ford Motor Company's Michigan Central Station renovation and planned 1.2 million-square-foot campus development over the next five years.

Southfield

The Southfield office vacancy rate increased 110 basis points to 21.4% during the first quarter, as the submarket saw just over 200,000 square feet of new vacancies. The bulk of those vacancies came from HAP, which relocated to Troy, moving out of 174,000 square feet at Tower 14 at 21700 Northwestern Highway. Plante Moran vacated space at Oxford Pointe Office Center and AIAG created a new vacancy at Lahser Center following moves to the Town Center. The bulk of these vacancies, particularly HAP's, had the greatest impact on the submarket's Class C market, which saw its vacancy rate increase 390 basis points to 23.0%. These older high-vacancy facilities, which have with a high degree of functional obsolescence, have been the target of some developers and users seeing opportunity in revitalization. Recently, Credit Acceptance Corporation revitalized the 297,000-square-foot Raleigh Officentre, located just south of Ten Mile Road on Telegraph, for the company's new headquarters. Most recently, owners have made significant investment in upgrades to two office facilities, Lahser Center at Lasher Road and Northwestern Highway and Centrum Officenter at Evergreen Road and Northwestern Highway.

Southfield's Class B market vacancy rate edged up just 10 basis points to 23.5% during the first quarter. By contrast, the Class A market vacancy rate increased by 80 basis points to 18.5%, as just over 53,000 square feet of new vacancies were created. Oxford Pointe Office Center accounted for most of the submarket's Class A vacancy.

Troy

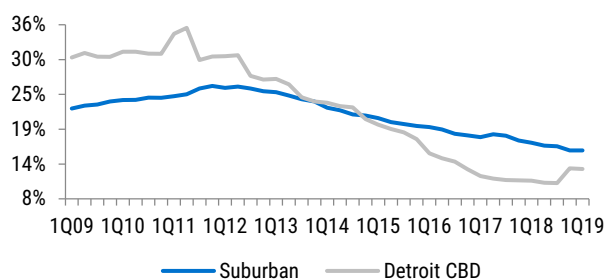
Troy's office market vacancy rate fell 40 basis points to 17.0% during the second quarter, as just over 52,000 square feet was absorbed. Notable leases during the quarter were Novara Tesija and Catenacci PLLC's 23,000-square-foot lease at 888 West Big Beaver Road, Community Housing Network's 19,000-square-foot lease at 5505 Corporate Drive and American Income Life Insurance Company's 10,000-square-foot deal at 901 Tower Drive. Strong leasing activity has resulted in six consecutive quarters of positive absorption for the Troy office market. The submarket posted just over 206,000 square feet of positive absorption in 2018, as companies such as Henry Ford Health Systems, Road to One Hundred, LLC and S&P Data leased significant blocks of space. During the first quarter of 2018, the submarket's Class A vacancy rate fell 180 basis points to 7.6%, as just over 39,000 square feet was absorbed. Two notable deals include Aras' 16,000-square-foot lease at 2600 West Big Beaver Road and Intelligent Office's 7,000-square-foot lease in the PNC Center. The Class B market saw the bulk of the large leases in 2018 with just over 170,000 square feet absorbed, which pushed the vacancy rate down 350 basis points for the year. However, during the first quarter of 2019, the Class B market vacancy climbed by 20 basis points to 20.6% as just over 16,000 square feet of new vacancies were created.

Birmingham CBD

The Birmingham CBD office vacancy rate fell 70 basis points to 12.9% during the first quarter. Demand remains brisk in the submarket with Universal McCann quickly subleasing its 21,000 square feet of office space on Old Woodward following the marketing firms move and expansion into the Detroit CBD.

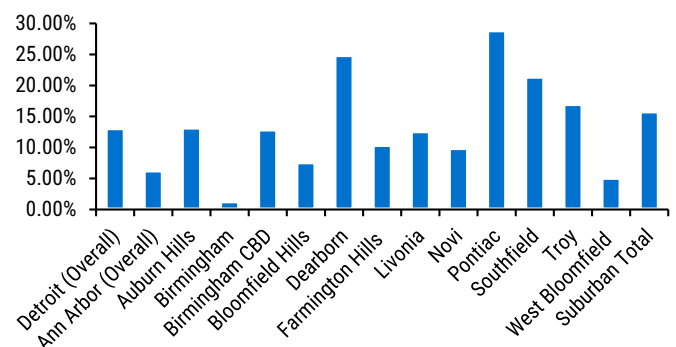
SUBURBAN VS DETROIT CBD

Vacancy Rate (\$/SF)



VACANCY BY SUBMARKET

Vacancy Rate (%)



Meanwhile, Raymond James & Associates, Inc. leased additional space at 325 North Old Woodward Avenue.

Farmington Hills

The Farmington Hills office market vacancy rate fell 120 basis points to 10.4% during the first quarter, as just over 92,000 square feet was absorbed. The submarket's Class A market accounted for the bulk of leasing activity, as companies absorbed nearly 88,000 square feet, causing the vacancy rate to fall 300 basis points. Notable Class A deals include Harman International Industries, Inc.'s 40,000-square foot lease at Farmington Hills Offcenter II on Corporate Drive, Open Dealer Exchange LLC's 25,000-square-foot lease at the Trott Financial Center on Northwestern Highway and Delta Dental's expansion in Orchards Corporate Center on Stansbury Boulevard. The Class B vacancy rate jumped 70 basis points to 9.3% during the first quarter. A 35,000-square-foot vacancy at Haggerty Pointe on Twelve Mile Road was the largest of the new vacancies. Negative absorption was somewhat offset by TRW Automotive US, LLC's 24,000-square-foot lease at 34555 West 12 Mile Road.

Ann Arbor

Ann Arbor's Briarwood corridor posted a dramatic vacancy drop as the University of Michigan moved into 120,000 square feet at 777 East Eisenhower Parkway. In addition, Mercedes-Benz Research & Development North America moved into 20,000 square feet at 3959 Research Park Drive.

The corridor's vacancy rate fell from 13.6% to 5.5% during the first quarter, as just over 164,000 square feet was absorbed. Ann Arbor's CBD corridor vacancy rate held steady at 3.4% during the first quarter, while the Northeast corridor, with very little available vacant space to absorb, held steady with a 1.4% vacancy rate.

Livonia

Livonia's office market vacancy rate increased by 50 basis points to 12.6% during the first quarter, with nearly 16,000 square feet in new net vacancies. Laurel Park Place Office Center posted nearly 13,000 square feet in vacancies, while Cambridge Center West added 10,000 square feet. Leasing activity in Livonia has been mostly dormant over the past four quarters, as the submarket has posted mostly new vacancies.

Novi

Novi's office vacancy rate jumped from 6.6% to 9.9% during the first quarter following just over 50,000 square feet in new vacancies. The bulk of that space came from the Haggerty Corporate Office which posted a 50,000-square-foot vacancy following The Art Institute of Michigan giving up space. Another large block of 40,000 square feet block of office/ medical space is set to become vacant in the South University building at 41555 W Twelve Mile Road. New leasing activity consisted mostly of renewals and extensions, such as Sumitomo Wiring Systems (USA) Inc.'s and Revere Plastics Systems, LLC's leases at Crystal Glen Office Centre.

NOTABLE LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
University of Michigan	777 E Eisenhower	Ann Arbor	Direct	120,000
LinkedIn	1523 Woodward Ave	Detroit CBD	Direct	76,000
United Way for SE Michigan	Fisher Building	Detroit - New Center	Direct	36,000
PricewaterhouseCoopers	New Center One	Detroit - New Center	Direct	30,000
Davenport University	New Center One	Detroit - New Center	Direct	12,000

NOTABLE SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Lahser Center	Southfield	\$5,000,000	\$26	194,284
1401-1413 Vermont St	Detroit - Corktown	\$3,300,000	\$116	28,402
450-461 Eliot St	Detroit - New Center	\$1,690,000	\$88	19,256
28116 Orchard Lake Rd	Farmington Hills	\$98,000	\$91	10,727
34020 W 7 Mile Rd	Livonia	\$925,000	\$91	10,188

SUBMARKET STATISTICS

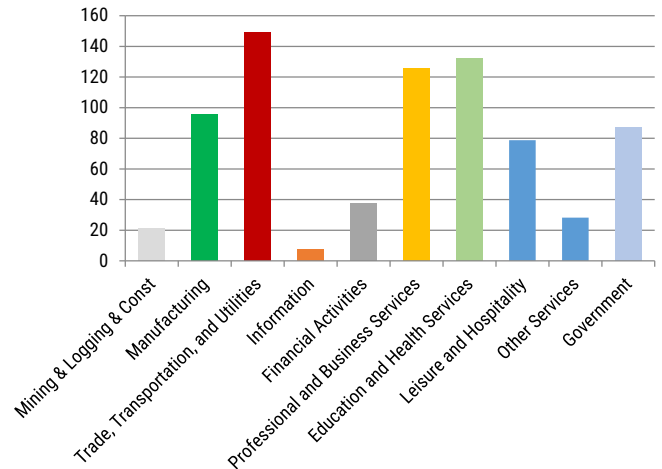
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	14,747,418	624,000	12.8%	123,375	123,375	\$25.58	\$21.87	\$21.21
CBD New Center	1,533,604	X	15.3%	101,753	101,753	-	\$17.89	\$17.83
Detroit Total	16,281,022	624,000	13.1%	225,128	225,128	\$25.58	\$20.76	\$20.79
Ann Arbor Briarwood	2,027,860	X	5.5%	164,156	164,156	\$28.65	\$20.47	\$24.50
Ann Arbor CBD	1,404,669	X	3.4%	-	-	\$33.92	\$30.71	\$32.70
Ann Arbor Northeast	1,880,605	X	1.4%	-	-	\$25.77	\$22.20	\$25.06
Auburn Hills	2,950,157	X	13.2%	1,104	1,104	\$20.36	\$18.14	\$18.84
Birmingham	273,654	X	1.3%	1,479	1,479	\$43.20	\$29.44	\$40.88
Birmingham CBD	1,256,864	X	12.6%	2,937	2,937	\$36.37	\$33.07	\$34.98
Bloomfield Hills	3,031,190	X	7.3%	-13,658	-13,658	\$25.24	\$22.90	\$24.14
Dearborn	3,193,219	X	24.9%	-2,483	-2,483	\$18.47	\$15.84	\$17.03
Farmington Hills	6,360,965	X	10.4%	92,877	92,877	\$20.33	\$19.12	\$19.39
Livonia	3,146,329	X	12.6%	-15,865	-15,865	\$21.00	\$19.79	\$17.29
Novi	1,620,708	X	9.9%	-50,513	-50,513	\$21.30	\$19.07	\$20.37
Pontiac	1,897,834	X	28.9%	-	-	-	\$16.18	\$15.88
Southfield	17,216,538	X	21.4%	-200,031	-200,031	\$21.20	\$18.37	\$18.50
Troy	13,290,574	X	17.0%	52,362	52,362	\$24.14	\$19.35	\$19.99
West Bloomfield	557,771	X	5.1%	4,273	4,273	\$22.00	\$16.54	\$18.41
Suburban Total	60,108,937	X	15.8%	66,125	66,125	\$22.05	\$18.89	\$19.33
Totals	76,389,959	624,000	15.2%	261,766	261,766	\$22.44	\$19.16	\$19.59

ECONOMIC CONDITIONS

Metro Detroit unemployment levels saw an uptick in the latest January reading to 4.5%, compared to 4.3% the previous month, though down from 4.9% at the same time last year. Metro Detroit unemployment levels are slightly higher than the national level of 4.1%. Payroll employment for Metro Detroit in January showed a 1.6% change over the previous year. Those gains were comparatively lower than the national figure of 2.0%.

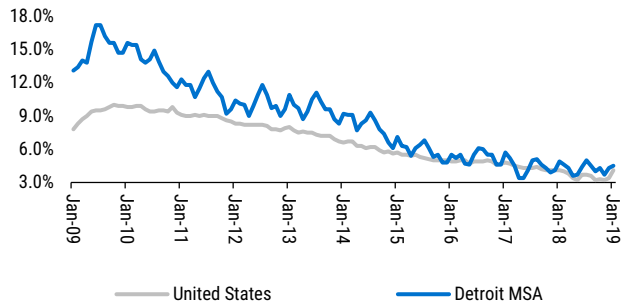
EMPLOYMENT BY INDUSTRY

Detroit MSA, Jan 2019, in thousands



UNEMPLOYMENT RATE

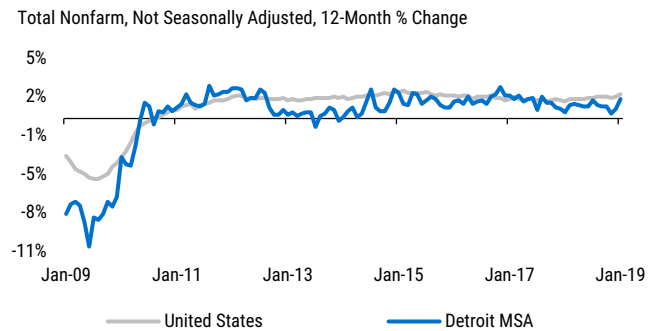
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

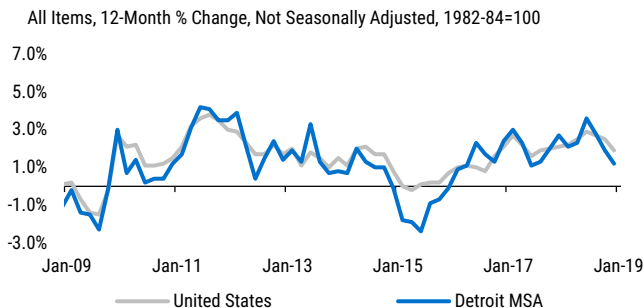
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

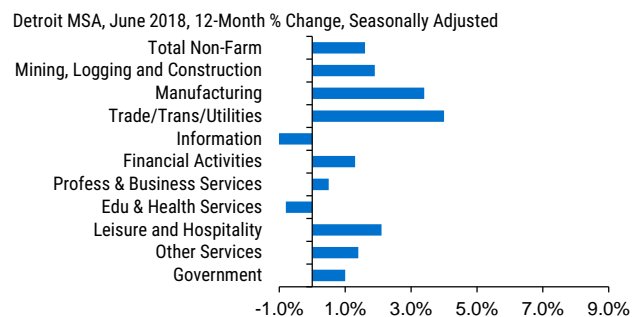
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics

