

# DETROIT OFFICE MARKET

## SUBURBAN MARKETS SEE VACANCIES ON THE RISE

Metro Detroit's office vacancy rate climbed 20 basis points to 15.1% during the first quarter of 2020, as net vacancies totaling just over 157,000 square feet were added to the market. The suburban market accounted for the uptick in available space, as large consolidations and relocations added 175,000 square feet in new vacancies, pushing the vacancy rate up 50 basis points to 15.7%. Most of the vacancies came from the core suburban submarkets of Southfield, Troy and Farmington Hills. By contrast, the Detroit CBD remains the metro area's hot spot, as vacancies in the submarket continue to decline. Strong demand in the CBD has led to the development of the largest development since construction of the Little Caesars Arena. Bedrock's planned new skyscraper at the former Hudson site, slated to be the second tallest in Detroit, took another step closer to beginning construction, as the developer committed to a spring 2020 construction start date.

### City of Detroit

The Detroit CBD office vacancy rate fell 40 basis points to 12.2% during the first quarter, as just over 46,000 square feet was absorbed. Brewery Park II office building absorbed 32,000 square feet. Various tenants took space in Riverfront Place, including Matrix Human Services, absorbing roughly 30,000 square feet. Leasing activity also occurred at 2111 Woodward Avenue, from tenants such as Divdat and Zoyes Creative. Strong demand continues to spur development in the city's downtown. Bedrock is nearly finished renovating the former Detroit Free Press building at 321 West Lafayette Boulevard. The iconic 302,000-square-foot building is being redeveloped into residential units along with 50,000 square feet of renovated office space that will be available during the second quarter of 2020. The Marquette Building is also being renovated, as 1,000 employees of advertising firm WPP are set to move into 150,000 square there during the fourth quarter of 2020. Bedrock's new high-rise development on the former Hudson site at Woodward and Gratiot Avenue is moving forward. The developer is scheduled to go vertical this spring on construction of the 680-foot-tall mixed-use development that will consist of residential, hotel, retail and a 400,000-square-foot block of Class A office space. The current vacancy rate of Class A office space in the CBD is just 8.2%, with the market continuing to produce solid demand for prime office space. Another Class A development under construction is Olympia Development's 127,000-square-foot facility that will be leased to Boston Consulting Group, Detroit Medical Center and Warner, Norcross, & Judd. The CBD's Class B office market vacancy rate fell 40 basis points to 15.7% during the quarter.

## CURRENT CONDITIONS

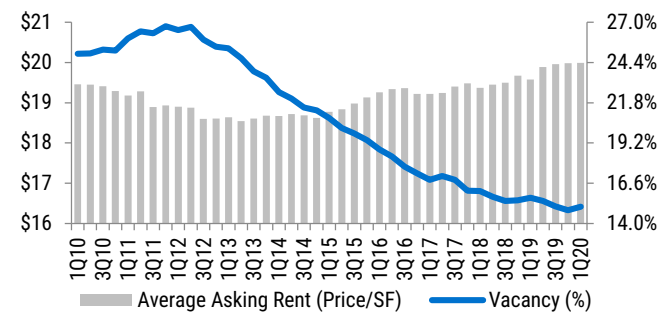
Metro Detroit's office vacancy rate climbed 20 basis points to 15.1% during the first quarter of 2020, as net vacancies totaling just over 157,000 square feet were added to the market.

The suburban market accounted for the uptick in available space, as large consolidations and relocations.

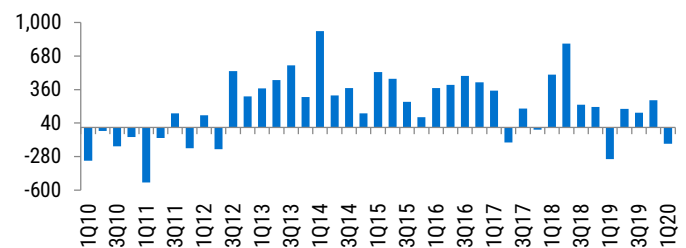
By contrast, the Detroit CBD remains the metro area's hot spot, as vacancies in the submarket continue to decline.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, Thousands)



## MARKET SUMMARY

|                          | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory          | 77.8 MSF        | 77.7 MSF      | 75.9 MSF        | ↑                 |
| Vacancy Rate             | 15.1%           | 14.9%         | 15.7%           | →                 |
| Quarterly Net Absorption | (157,920)       | 259,453       | (302,880)       | ↓                 |
| Average Asking Rent      | \$19.99         | \$19.98       | \$19.58         | ↑                 |
| Under Construction       | 624 KSF         | 624 KSF       | 497 KSF         | ↑                 |
| Deliveries               | 0               | 0             | 0               | ↑                 |

## Southfield

The Southfield office market vacancy rate rose 40 basis points to 22.0% during the first quarter, net vacancies totaling just over 56,000 square feet were added to the market. Galleria II saw a large share of new vacancies, as Credit Acceptance vacated its remaining space in the building and relocated to the Raleigh Officentre on Telegraph and Ten Mile Road. New leases during the quarter include Eduvision, Inc.'s 27,000-square-foot lease at Lahser Center I and Specs Howard's 23,000-square-foot lease at 26700 Lahser Road. Bingham Office Park V saw 15,000 square feet in new leasing activity from various tenants. Southfield's Class A market saw tenants give up the most space, as just over 110,000 square feet became vacant, pushing the vacancy rate up 170 basis points to 18.0%. At the same time, however, the Class B vacancy rate fell 80 basis points to 23.3%, as just over 58,000 square feet was absorbed. Automotive supplier Marelli announced the company is moving into the 359,645-square-foot former Federal Mogul Corporation at 26555 Northwestern Highway. Marelli plans to move into its new Southfield location during the latter half of 2020 and into 2021.

## Troy

Troy's office market vacancy rate rose 60 basis points to 16.7% during the first quarter, as net vacancies totaling just over 81,000 square feet were added to the market. The largest vacancy was at 750 Stephenson, as Beaumont finalized its move out of the building in its relocation to Southfield. The submarket is expecting additional vacancies in the coming quarters, as Kelly Services consolidates its operations into its 180,000-square-foot 999 West Big Beaver Road and 100,000-square-foot 295 Kirts Boulevard locations. The company is set to vacate nearly 88,000 square feet at 2690 Crooks Road and 50,000 square feet at 911 West Big Beaver Road. Other new vacancies came on the market in Butterfield Center and 1111 West Long Lake Road. Offsetting the additional supply of space were new leases. Timberland Office Center on Long Lake Road leased 34,000 square feet.

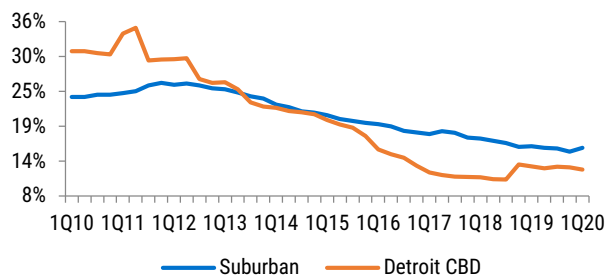
Troy Place on West Big Beaver and Wilshire Plaza saw leasing activity from various smaller tenants, while law firm Siegel, Gross & Tou, P.C. leased 5,500 square feet at 580 Kirts Boulevard. Troy's Class A market vacancy rose 70 basis points to 8.3% during the quarter, as new vacancies totaling nearly 24,000 square feet were added to the market. The Class B vacancy rate rose 40 basis points to 20.1%, as new vacancies totaling just over 66,000 square feet were added to the market. Kelly Services' consolidation will likely add another 100 basis points to the Class B vacancy in the coming quarters.

## Farmington Hills

The Farmington Hills office market vacancy rate rose 50 basis points to 9.6% during the first quarter, as vacancies totaling just over 28,000 square feet were added to the market. Brookfield II at 31440 Northwestern Highway contributed the largest share of vacant space, as 70,000 square feet of space in the building came on the market. Leasing activity consisted of mostly renewals and various smaller new leases. Reachout Healthcare renewed its 20,000-square-foot lease in the Gateway Building on Twelve Mile Road. Country Club Corporate Park and Haggerty Pointe combined for roughly 25,000 square feet in new leases to various tenants. The Farmington Hills office market has one of the lowest vacancy rates in Metro Detroit. This is due in large part to Trinity Health taking 180,000 square feet in 2019. The submarket's Class A vacancy rate rose 230 basis points to 13.3%, as just over 63,000 square feet in net vacancies was created, with most of these new vacancies at Brookfield II. The Class B market vacancy rate fell 130 basis points to 5.9% during the quarter, as a net 39,000 square feet was absorbed. Plans are still on going for Olympia Development to develop a new Mercedes-Benz Financial Services USA's 200,000-square-foot headquarters located on the corner of Twelve Mile Road and Drake.

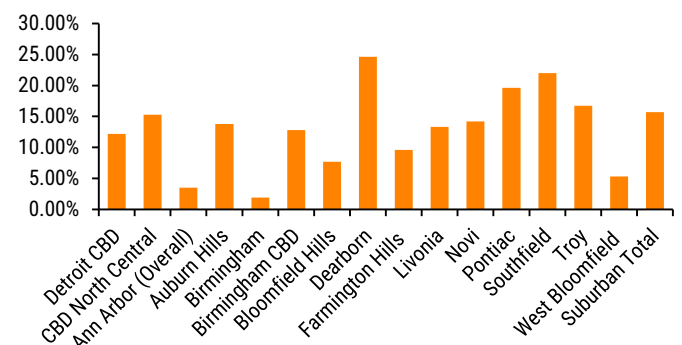
## SUBURBAN VS DETROIT CBD

Vacancy Rate (\$/SF)



## VACANCY BY SUBMARKET

Vacancy Rate (%)



## Novi

Novi's office market vacancy rate rose 20 basis points to 14.2% during the quarter, as new vacancies totaling just over 9,000 square feet were added to the market. Summit Pointe Office Center contributed the bulk of new space, as the building added just over 7,000 square feet of new vacancies. Summit Pointe also pushed the overall Class A vacancy rate up 110 basis points to 9.4% during the quarter. The submarket's Class B vacancy rate held steady at 19.5%.

## Livonia

Livonia's office market vacancy rate climbed 90 basis points to 13.3% during the first quarter, as the submarket added nearly 27,000 square feet of new vacancies to the market. The bulk of vacancies came from Laurel Park Place and Victor Corporate Park, which added 15,000 square feet and 13,000 square feet, respectively. The Powerscourt office building offset a portion of the submarkets' new vacancies by leasing up 7,000 square feet to Tass Americas & NeuroBo Pharmaceuticals, Inc.

## Bloomfield Hills

Bloomfield Hills' office market vacancy rate rose 90 basis points to 7.7%, as new vacancies totaling just over 27,000 square feet were added to the market. Much of submarket's new availabilities came from the Stoneridge Office Park on Woodward Avenue, which added nearly 20,000 square feet to the market. Winthrop Park, also on Woodward, saw 8,000 square feet in new vacancies.

## Birmingham

Birmingham's overall vacancy rate climbed 50 basis points during the first quarter, adding just over 8,200 square feet in new vacancies. The CBD corridor accounted for the bulk of overall vacancy, as various smaller units hit the market. Birmingham's CBD vacancy rate climbed 70 basis points to 12.8% during the quarter.

## Ann Arbor

Ann Arbor's overall vacancy rate held steady at 3.5% during the first quarter, as just over 15,000 square feet was absorbed. Ann Arbor's CBD corridor accounted for the bulk of positive absorption, as Clinc, Inc. moved into 21,000 square feet at the newly renovated 200 South First Street. Various tenants leased roughly 8,000 square feet at the One North Main building. The CBD's vacancy rate fell 40 basis points to 2.3% during the quarter, while the vacancy rate for Ann Arbor's Briarwood corridor edged up 50 basis to 5.4%. Much of the corridor's vacancies came from 777 East Eisenhower Parkway, which added 20,000 square feet to the market. Market activity was quiet in the Northeast, as the corridor's vacancy rate held steady during the quarter at 2.4%.

## NOTABLE LEASE TRANSACTIONS

| Tenant                    | Building                | Submarket        | Type   | Square Feet |
|---------------------------|-------------------------|------------------|--------|-------------|
| Eduvision, Inc.           | Lahser Center I         | Southfield       | Direct | 27,000      |
| Specs Howard              | 26700 Lahser            | Southfield       | Direct | 23,000      |
| Reachout Healthcare       | Gateway Building        | Farmington Hills | Direct | 20,000      |
| Weight Watchers           | 28555 Orchard Lake Road | Farmington Hills | Direct | 15,000      |
| Siegel, Gross & Tou, P.C. | Woodcrest Office Park   | Troy             | Direct | 5,500       |

## NOTABLE SALE TRANSACTIONS

| Building               | Submarket        | Sale Price  | Price/SF | Square Feet |
|------------------------|------------------|-------------|----------|-------------|
| 39395 W Twelve Mile Rd | Farmington Hills | \$6,685,683 | \$152    | 44,033      |
| 575 E Big Beaver Rd    | Troy             | \$3,700,000 | \$103    | 36,000      |
| 6755 Telegraph Rd      | Bloomfield Hills | \$2,700,000 | \$128    | 21,000      |
| Pembroke Center        | Livonia          | \$1,558,000 | \$78     | 20,000      |
| Johnstowne Offices     | Livonia          | \$1,197,000 | \$80     | 15,000      |

## SUBMARKET STATISTICS

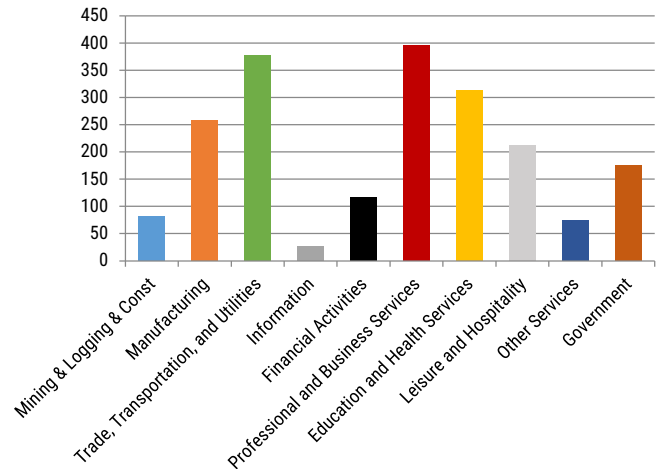
|                       | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|-----------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|--------------------------------|--------------------------------|------------------------------|
| CBD                   | 14,701,670           | 624,000                 | 12.2%              | 46,408              | 46,408              | \$26.82                        | \$21.63                        | \$22.59                      |
| CBD New Center        | 1,623,604            | X                       | 15.3%              | -29,507             | -29,507             | -                              | \$18.25                        | \$18.06                      |
| <b>Detroit Total</b>  | <b>16,325,274</b>    | <b>624,000</b>          | <b>12.5%</b>       | <b>16,901</b>       | <b>16,901</b>       | <b>\$26.82</b>                 | <b>\$20.60</b>                 | <b>\$21.00</b>               |
| Ann Arbor Briarwood   | 2,129,620            | X                       | 5.4%               | -11,645             | -11,645             | \$30.02                        | \$20.88                        | \$27.17                      |
| Ann Arbor CBD         | 1,404,669            | X                       | 2.3%               | 26,956              | 26,956              | \$33.00                        | \$25.24                        | \$30.78                      |
| Ann Arbor Northeast   | 1,880,605            | X                       | 2.4%               | -179                | -179                | \$26.74                        | \$22.20                        | \$26.21                      |
| Auburn Hills          | 2,950,157            | X                       | 13.8%              | 21,569              | 21,569              | \$20.83                        | \$17.95                        | \$18.83                      |
| Birmingham            | 273,654              | X                       | 1.9%               | 195                 | 195                 | \$43.20                        | \$27.90                        | \$27.58                      |
| Birmingham CBD        | 1,270,864            | X                       | 12.8%              | -8,435              | -8,435              | \$34.55                        | \$32.26                        | \$33.60                      |
| Bloomfield Hills      | 3,031,190            | X                       | 7.7%               | -27,089             | -27,089             | \$26.73                        | \$22.91                        | \$24.58                      |
| Dearborn              | 3,193,219            | X                       | 24.6%              | 2,469               | 2,469               | \$18.75                        | \$15.90                        | \$17.33                      |
| Farmington Hills      | 6,538,565            | X                       | 9.6%               | -28,061             | -28,061             | \$21.06                        | \$19.08                        | \$19.74                      |
| Livonia               | 3,186,059            | X                       | 13.3%              | -26,756             | -26,756             | \$21.43                        | \$20.55                        | \$18.53                      |
| Novi                  | 1,661,094            | X                       | 14.2%              | -9,488              | -9,488              | \$21.83                        | \$21.34                        | \$21.53                      |
| Pontiac               | 2,777,834            | X                       | 19.6%              | 23,018              | 23,018              | -                              | \$16.18                        | \$15.88                      |
| Southfield            | 17,213,532           | X                       | 22.0%              | -56,257             | -56,257             | \$21.80                        | \$18.61                        | \$19.02                      |
| Troy                  | 13,378,220           | X                       | 16.7%              | -81,497             | -81,497             | \$23.54                        | \$19.84                        | \$20.57                      |
| West Bloomfield       | 557,771              | X                       | 5.3%               | 379                 | 379                 | \$22.00                        | \$16.90                        | \$19.34                      |
| <b>Suburban Total</b> | <b>61,447,053</b>    | <b>X</b>                | <b>15.7%</b>       | <b>-174,821</b>     | <b>-174,821</b>     | <b>\$22.49</b>                 | <b>\$19.17</b>                 | <b>\$19.80</b>               |
| <b>Totals</b>         | <b>77,772,327</b>    | <b>624,000</b>          | <b>15.1%</b>       | <b>-157,920</b>     | <b>-157,920</b>     | <b>\$22.79</b>                 | <b>\$19.38</b>                 | <b>\$19.99</b>               |

## ECONOMIC CONDITIONS

The Metro Detroit unemployment rate fell 20 basis points from the previous month to 4.0% in latest January figures. In comparison, the US unemployment rate rose 10 basis points to 3.6% during the same period. In Metro Detroit, employment in the construction industry showed the largest gains with a 3.8% year-over-year increase. Employment in manufacturing, transportation, financial, education and health services industries also saw strong year-over-year growth.

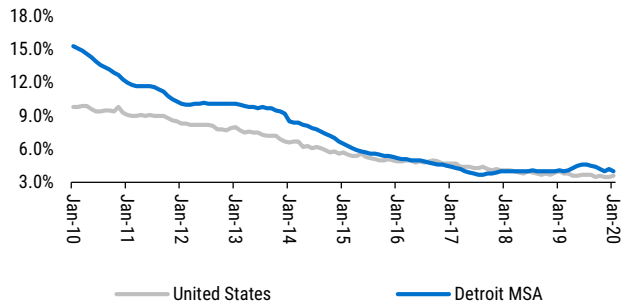
## EMPLOYMENT BY INDUSTRY

Detroit MSA, Jan 2020, in thousands



## UNEMPLOYMENT RATE

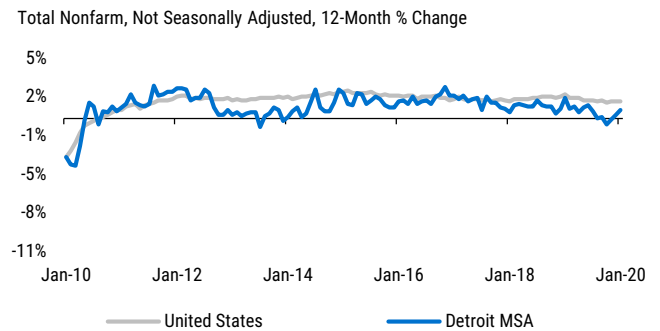
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

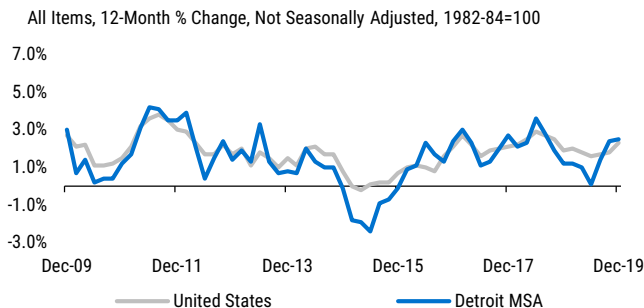
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

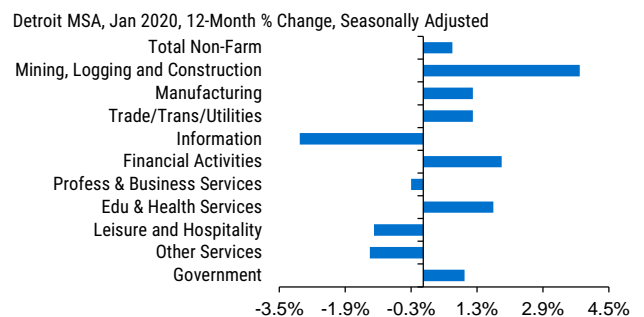
All Items, 12-Month % Change, Not Seasonally Adjusted,



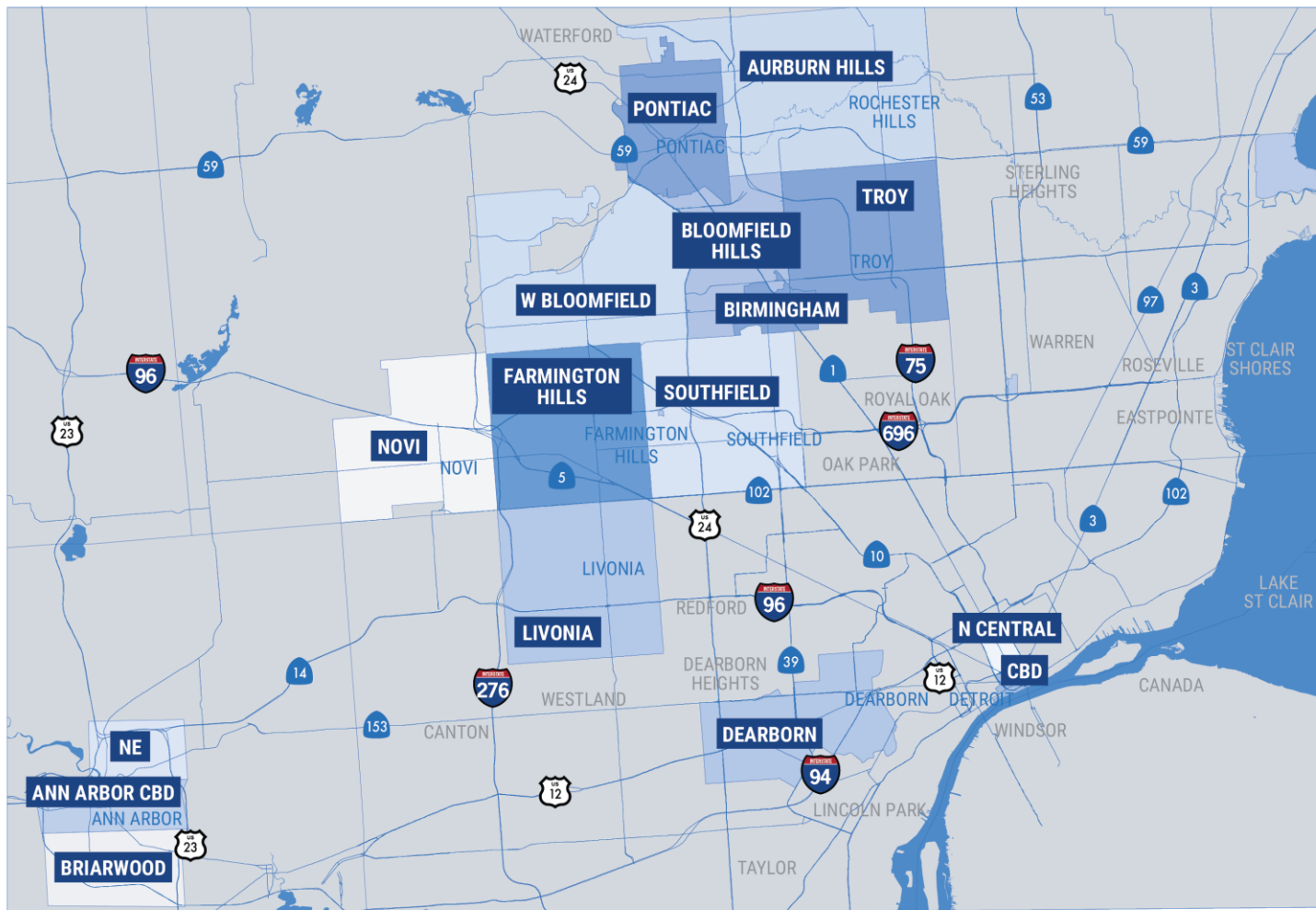
Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

Detroit Jan 2020, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



**JOHN DEGROOT**

Vice President, Research  
248.357.6588  
jdegroot@ngkf.com

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