

## DETROIT 2Q17 OFFICE MARKET

# OFFICE MARKET POST NEGATIVE ABSORPTION FOR FIRST TIME SINCE 2012

The Metro Detroit office market's vacancy rate climbed 20 basis points during the second quarter of 2017 to 17.2%, as just over a net 143,000 square feet became vacant. This is the market's first increase in vacancy since 2012. The cities of Southfield and Troy, the two core suburban submarkets, both saw a rise in vacancies during the second quarter, as tenants leased space elsewhere. Corporate relocations will continue to affect these two core submarkets, as companies seek opportunities in other submarkets. The biggest beneficiary of corporate relocations to date has been the Detroit Central Business District (CBD), which over the past four years has seen its vacancy rate fall from 35.0% to 11.4%. The city of Pontiac, which has seen vacancies linger near 40%, is the next to benefit from this trend, which could push the submarket's vacancy rate into the single digits.

### Detroit

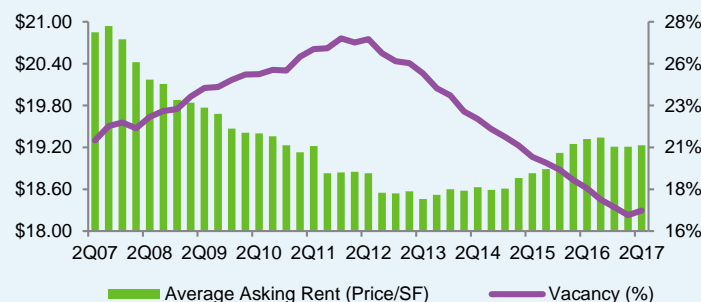
The Detroit CBD's vacancy rate fell 40 basis points to 11.4% during the second quarter, as over 52,000 square feet was absorbed. Office space is becoming particularly sparse in the Class A market, as the vacancy rate dropped to just 7.3% during the second quarter, down 90 basis points from the prior quarter and down 180 basis points from the same time last year. In addition, Class A asking rents are rising at an increasing rate, up nearly 4% from the same time last year. The Class B market is also seeing significant gains, as the vacancy rate fell to 14.4% during the second quarter, 40 basis points lower than in the first last quarter and 520 basis points lower than at the same time last year. As vacancy reaches all-time lows, some developers and owner-users are investing millions into rehabbing older office buildings, while others are proposing the construction of new high-rise buildings to accommodate the growing demand. Adient, for instance, is renovating the 164,000-square-foot Marquette Building, built in 1899. The company will move 500 employees into the building in late 2018 or early 2019. Other iconic buildings are coming back to life. 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 million renovation. The renovation, will include the addition of 162 apartment units to accommodate growing residential demand. Meanwhile, Bedrock Detroit is proposing a 600,000-square-foot, 20-story, new office tower to be built near Campus Martius. The proposed construction is shooting for a start date in early 2018, and will be the first major office construction project since 2006.

### Current Conditions

- The Metro Detroit office market's vacancy rate climbed 20 basis points during the second quarter of 2017 to 17.2%, as just over a net 143,000 square feet became vacant.
- This is the market's first increase in vacancy since 2012.
- Corporate relocations will continue to affect these two core submarkets, as companies seek opportunities in other submarkets.

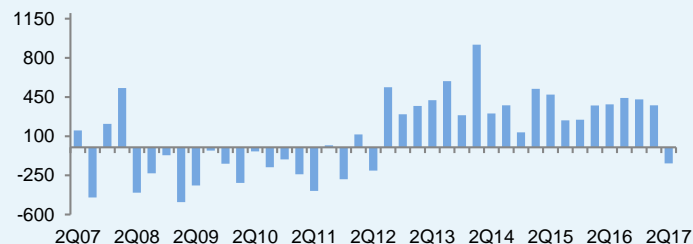
### Market Analysis

#### 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	17.2%	16.9%	18.5%	↓
Quarterly Net Absorption	(143,348)	376,076	384,103	↑
Average Asking Rent	\$19.23	\$19.21	\$19.32	↑
Under Construction	0	91,220	91,220	↑
Deliveries	91,220	0	0	↑



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# TWO MAJOR COMPANIES ANNOUNCED MOVES TO PONTIAC DURING THE SECOND QUARTER OF 2017.

### Pontiac

Pontiac's office market, which has long had the metro area's highest vacancy rate, is coming back to life. After suffering for years from large office vacancies caused by General Motors' changing footprint in Metro Detroit, the submarket is attracting large office users seeking low-cost facilities to improve occupancy cost. Two major companies announced moves to Pontiac during the second quarter of 2017. United Shore announced the company will relocate from Troy into the 638,000-square-foot 585 South Boulevard office. Williams International Co. LLC also announced plans to relocate from Commerce Township to the vacant 385,000-square-foot 1999 Centerpoint facility and all of the surrounding vacant land that once housed the GM truck and bus plant. When complete, these moves will bring the city's vacancy rate, which reached nearly 40.0% in 2016, down to around 8.0%.

### Troy

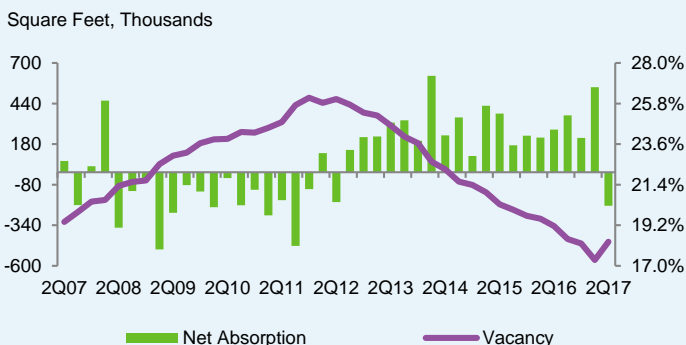
Troy's office market ended its six consecutive quarter of positive absorption, as vacancies increased during the second quarter. The submarket's vacancy rate jumped 50 basis points to 20.1% during the quarter, as a net 111,000 square feet became vacant. The former ITT Campus at 1522 East Big Beaver Road became vacant and was sold to an investor looking to re-lease the facility. Other vacancies were created at 901 Wilshire Drive as HTC Global relocated to 100 E Big. One notable new deal was Clear Rate Communications, Inc.'s 21,000-square-foot lease at 2600 West Big Beaver Road. The company is relocating from the Birmingham submarket. Troy's overall vacancy could see another

vacancy spike in the coming quarters, as United Shore announced plans to relocate from its Class A 267,000-square-foot headquarters to 585 South Boulevard in Pontiac. Troy's current Class A vacancy rate edged up 10 basis points to 12.3% during the second quarter. United Shore's relocation would put the submarket's Class A vacancy rate at 20.0%. The Class B vacancy also edged up by 60 basis points to 23.2% during the second quarter.

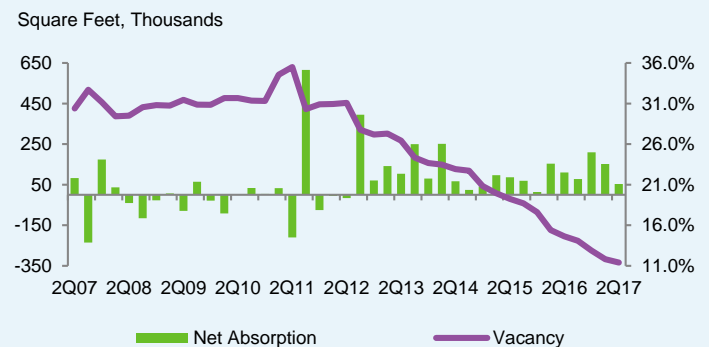
### Southfield

The Southfield office market vacancy rate climbed 110 basis points to 23.6% during the second quarter of 2016, as just over 184,000 square feet of net vacant space was added to the submarket. The bulk of new vacancies were once again created in the Class A market and mostly came from the Southfield Town Center. The Complex has suffered several large vacancies over the past couple of years, as tenants had relocated to the Detroit CBD. Two other major tenants are relocating out of the complex: Microsoft is vacating roughly 52,000 square feet and moving its offices to Campus Martius in the Detroit CBD, while Stout Risius Ross is in the process of vacating roughly 20,000 square feet and moving into the new 74,000-square-foot office building under construction in Royal Oak. Etkin Equities is developing the new speculative office building on Center Street. Despite new vacancies in the Town Center, a few notable leases were signed in the submarket during the quarter. One of the largest was Adient's 58,000-square-foot lease at 200 Galleria Officentre. The company is moving into Galleria on a short-term basis while its new headquarters, the Marquette Building in the Detroit CBD, is being renovated. Village Green Management leased roughly 20,000 square feet at One Northwestern Plaza, as the company relocated from the Kaufman Financial Center in Farmington Hills. The average Class A asking rent slipped from \$21.75/SF during the previous quarter to \$21.31/SF. The Class B market posted just over 14,000 square feet of positive absorption.

### Suburban Office Market



### Detroit CBD Office Market





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# DELPHI DOWNSIZED ITS OFFICE SPACE AT 3000 UNIVERSITY DRIVE

### Auburn Hills

Auburn Hills' office market saw another increase in its vacancy rate, which ended the second quarter at 19.1%, a 160-basis-point increase from the previous quarter. A large block of vacant space hit the market as Delphi downsized its office space at 3000 University Drive. Since the beginning of the year, just over 280,000 square feet of net vacancy space has been put on the market.

### Farmington Hills

The Farmington Hills office market's vacancy rate climbed 60 basis points to 12.5% during the second quarter, as just over 29,000 square feet became vacant. A slowdown in overall leasing activity and various new, smaller vacancies in Brookfield, Halsted Point and The Standard at Farmington Hills accounted for the uptick in available space. The Class A market once again saw vacancies increase as the rate increased by 60 basis points to 13.1% during the second quarter, while the rate is up 210 basis points year-to-date. The Class B market lost momentum during the second quarter as the vacancy rate increased 60 basis points to 11.8%. This follows a strong first quarter for the Class B market that saw nearly 90,000 square feet of absorption, as companies such as Elektrobit Automotive, Premier Internists, PC, Merrill Lynch Wealth Management and Glanz Financial Group leased office space.

### Livonia

Masco's completion of its new, 91,000-square-foot headquarters on College Parkway is the first new office building built in Livonia since Infineon Tech North completed its 46,000-square-foot headquarters in 2012. With Masco taking occupancy of its new headquarters, Livonia's office market posted just over 52,000-square feet of positive absorption during the second quarter. Vacancies at Laurel Office Park and Livonia Corporate Tower offset much of this absorption, however.

### Birmingham

Birmingham's office market vacancy held steady at 12.2% during the second quarter. The only notable vacancy during the quarter was Clear Rate Communications, Inc.'s relocation from 555 South Old Woodward Avenue into the Troy submarket. Various smaller leases by companies, such as Demarle at Home Inc. and Ignite Social Media LLC, offset new vacancies.

### Bloomfield Hills

The Bloomfield Hills office market vacancy increased 50 basis points to 8.4% during the second quarter, as just over 13,000 square feet of net vacant space came on the market. This marks the third consecutive quarter the submarket has posted negative absorption totaling just over 73,000 square feet. The bulk of new vacancy during the second quarter came from 36800 Woodward Avenue, which added roughly 15,000 square feet to the market.

### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
United Shore	585 South Blvd	Pontiac	Direct	638,000
Williams International Co	1999 Centerpoint	Pontiac	Direct	385,000
Adient	200 Galleria	Southfield	Direct	58,000
Village Green	28411 Northwestern Hwy	Southfield	Direct	28,000
Clear Rate Communications, Inc	2600 W Big Beaver Road	Troy	Direct	21,000

### Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Troy Officentre	Troy	\$55,000,000	\$75	731,915
Arboretum III & V	Farmington Hills	\$26,000,000	\$144	183,133
3663 Woodward Ave	Detroit CBD	\$21,000,000	\$137	153,279
431 Howard St	Detroit CBD	\$16,100,000	\$236	68,063
901 Tower	Troy	\$9,000,000	\$72	125,390


**DETROIT**  
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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	14,289,025	0	11.4%	52,910	204,818	\$24.36	\$20.21	\$20.76
CBD North Central	1,209,188	0	29.1%	18,326	18,326	-	\$18.03	\$17.98
<b>Detroit Total</b>	<b>15,498,213</b>	<b>0</b>	<b>12.8%</b>	<b>71,236</b>	<b>223,144</b>	<b>\$24.36</b>	<b>\$19.59</b>	<b>\$20.31</b>
Ann Arbor Briarwood	2,005,480	0	16.3%	7,091	11,560	\$26.90	\$20.13	\$24.76
Ann Arbor CBD	1,404,669	0	2.6%	18,134	1,242	\$32.51	\$24.52	\$28.70
Ann Arbor Northeast	1,798,602	0	2.2%	-2,880	1,044	\$27.59	\$22.20	\$26.58
Auburn Hills	2,770,597	0	19.1%	-43,945	-280,378	\$19.05	\$18.72	\$18.94
Birmingham	424,654	0	1.1%	-	12,489	\$32.25	\$28.13	\$27.96
Birmingham CBD	935,645	0	12.2%	528	25,230	\$31.95	\$31.77	\$32.42
Bloomfield Hills	3,030,134	0	8.4%	-13,612	-28,503	\$25.33	\$21.97	\$23.46
Dearborn	3,193,219	0	28.2%	25,334	63,031	\$17.63	\$15.43	\$16.47
Farmington Hills	6,157,143	0	12.5%	-29,678	16,493	\$19.81	\$18.94	\$19.14
Livonia	3,132,874	0	13.8%	52,111	41,685	\$20.79	\$19.78	\$17.58
Novi	1,620,708	0	9.1%	30,673	108,876	\$22.07	\$18.99	\$20.77
Pontiac	1,916,080	0	30.0%	-1,000	155,015	-	\$16.49	\$16.02
Southfield	17,216,730	0	23.6%	-184,806	-216,098	\$21.31	\$18.03	\$18.42
Troy	13,299,957	0	20.1%	-72,752	94,910	\$24.75	\$18.29	\$19.19
West Bloomfield	557,771	0	6.4%	218	2,988	-	\$17.17	\$17.09
<b>Suburban Total</b>	<b>59,508,263</b>	<b>0</b>	<b>18.3%</b>	<b>-214,584</b>	<b>9,584</b>	<b>\$21.75</b>	<b>\$18.29</b>	<b>\$19.00</b>
<b>Totals</b>	<b>75,006,476</b>	<b>0</b>	<b>17.2%</b>	<b>-143,348</b>	<b>232,728</b>	<b>\$22.06</b>	<b>\$18.50</b>	<b>\$19.23</b>

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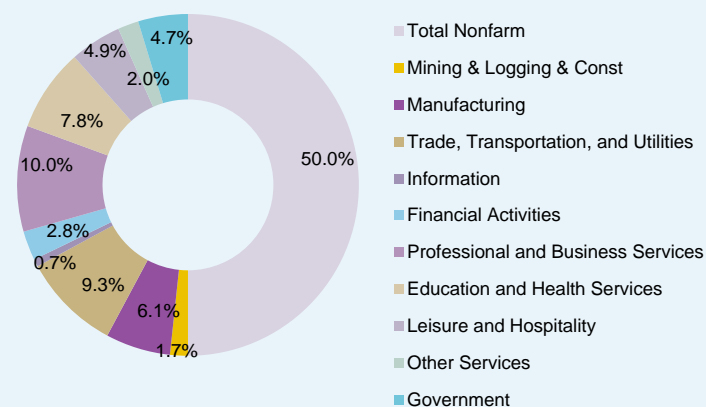
### ECONOMIC CONDITIONS

Metro Detroit's seasonally adjusted unemployment rate fell to 3.6% in the latest May 2017 figures, down from 4.0% during the previous month. Compared to the same time a year ago, the rate is down 110 basis points. Nationally, the unemployment rate fell 10 basis points 4.3% in May from the previous month and is down 40 basis points from the same time last year.

Payroll figures for Metro Detroit continue to trend upward. The 12-month % change figure show payroll in Metro Detroit grew 2.2%, compared to 1.5% nationally.

#### Employment By Industry

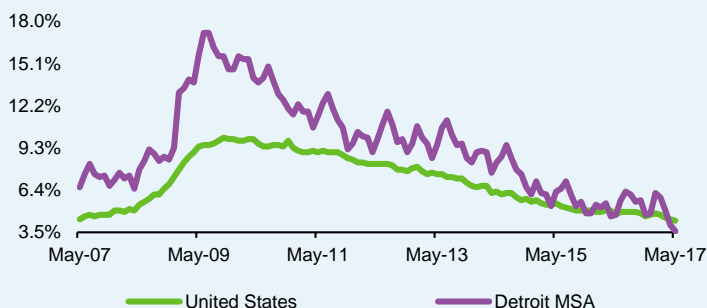
Detroit MSA May 2017



Source: U.S. Bureau of Labor Statistics

#### Unemployment Rate

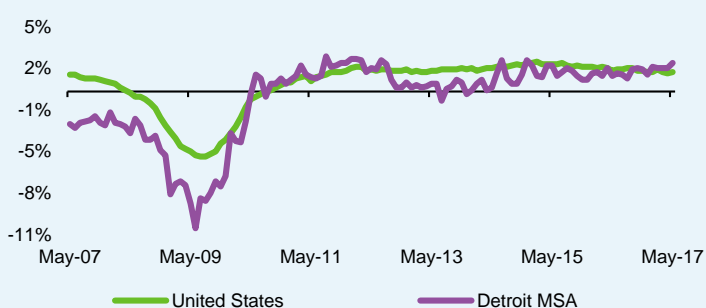
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

#### Payroll Employment

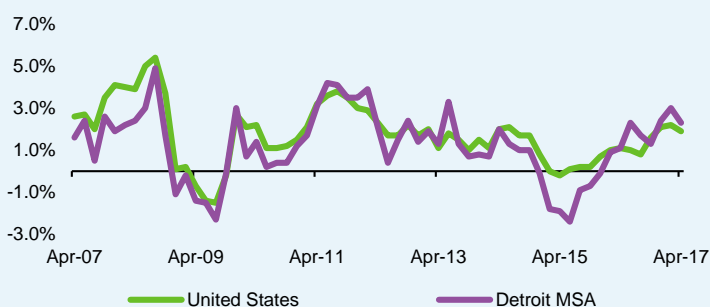
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

#### Consumer Price Index (CPI)

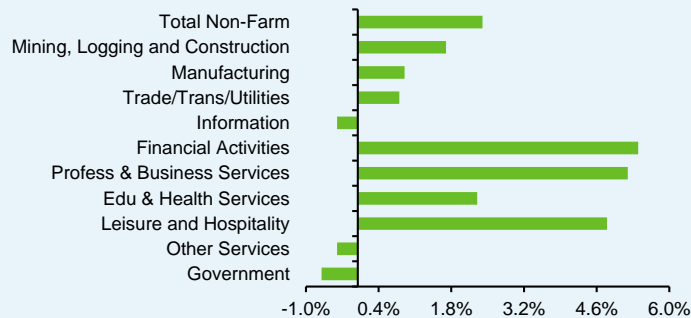
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

#### Employment Growth by Industry

Detroit MSA, May 2017, 12-Month % Change, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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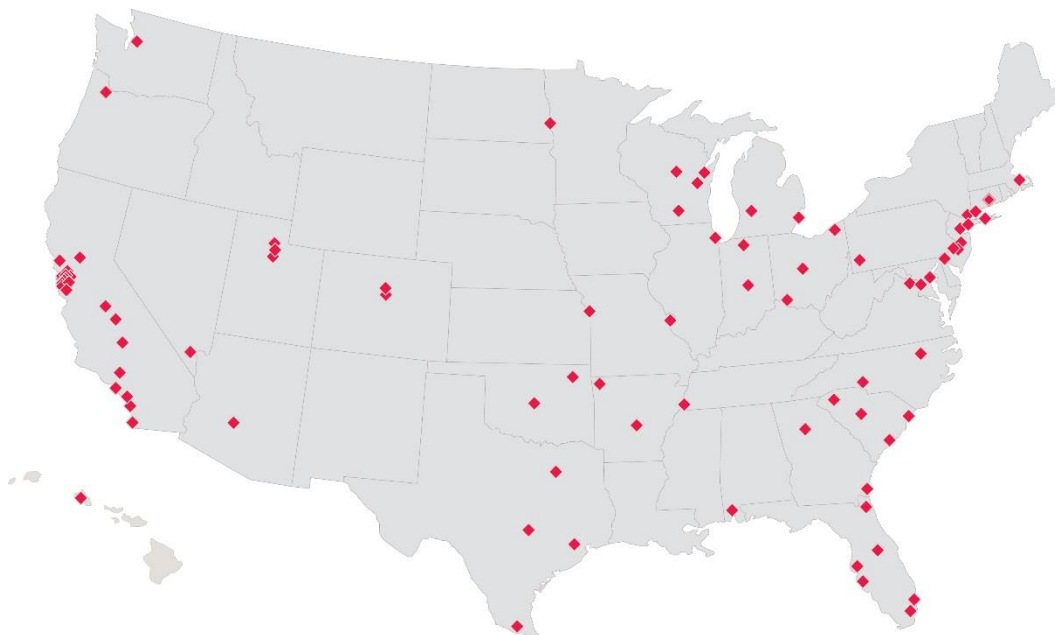
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