

METRO DETROIT OFFICE MARKET

METRO OFFICE MARKET STEADY DESPITE GROWING VACANCIES IN WESTERN SUBURBS

Metro Detroit's office market vacancy rate fell 30 basis points to 15.0% during the second quarter of 2019, as just over 216,000 square feet was absorbed. Demand remains healthy in the City of Detroit, as well as in a few of the suburban submarkets of Southfield, Troy, Farmington Hills and Birmingham. Ann Arbor's office market also is seeing a surge in office demand. On the flip side, Novi is seeing large vacancy upswings after losing two major office users. In Livonia, demand remains soft.

CITY OF DETROIT

The City of Detroit's overall office vacancy rate fell 60 basis points to 12.5% during the second quarter of 2019 as just over 85,000 square feet was absorbed. In the New Center Corridor, the vacancy rate fell 240 basis points to 13.4% with just over 39,000 square feet being absorbed. United Way for Southeastern Michigan's move into 36,000 square feet in the Fisher Building accounted for the bulk of the Corridor's absorbed space. Detroit's CBD Corridor vacancy rate fell 40 basis points to 12.4% during the quarter as nearly 46,000 square feet was absorbed. Office demand in the CBD remains healthy. One of the more notable deals was Quicken Loans's 41,000-square-foot lease that Molina Healthcare recently vacated when it consolidated its employees into its Troy location in late 2018. Meanwhile, Google is planning to expand its presence Downtown. The company currently occupies 30,000 square feet on Henry Street adjacent to the Little Caesars Arena and plans to lease another floor in the building by 2020. IBM is also joining the companies moving from the suburbs or expanding in the Downtown market. The company is moving from its 18000 West Nine Mile Road in Southfield and taking 10,000 square feet in the Ally Detroit Center at 500 Woodward Avenue by the end of the year. Other major companies who recently expanded or moved to the CBD include Microsoft, LinkedIn, Universal McCann, WeWork and Waymo. While most companies are leasing existing office space, several are constructing new office buildings. Little Caesars has nearly completed construction of its \$150.0-million, nine-story, 234,000-square-foot world headquarters at the corner of Woodward Avenue and Columbia Street. Chemical Bank is building a 20-story, 250,000-square-foot high-rise at Woodward Avenue and Elizabeth Street. Additionally, 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.

CURRENT CONDITIONS

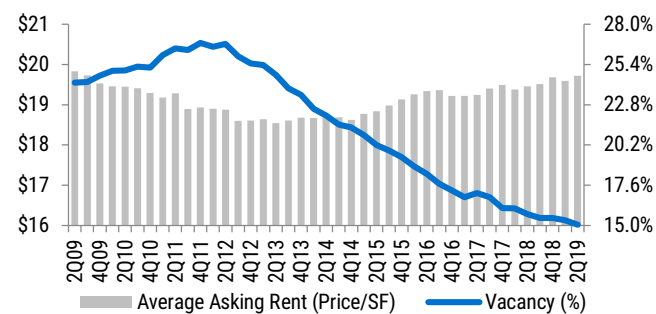
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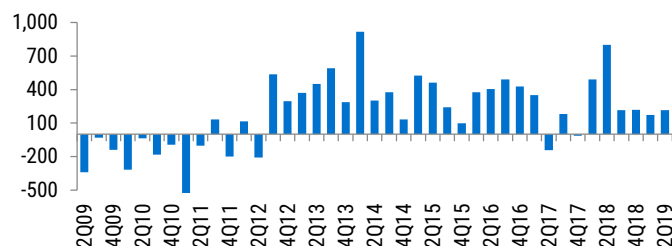
Novi is seeing large vacancy upswings after losing two major office users. In Livonia, demand remains soft.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	76.4 MSF	76.4 MSF	75.6 MSF	↑
Vacancy Rate	15.0%	15.3%	15.7%	↓
Quarterly Net Absorption	216,948	172,949	800,046	↓
Average Asking Rent	\$19.72	\$19.59	\$19.46	↑
Under Construction	624 KSF	624 KSF	497 KSF	↑
Deliveries	0	0	0	↑

SOUTHFIELD

The Southfield office market vacancy rate fell 20 basis points to 21.2% during the second quarter as just over 32,000 square feet was absorbed. Notable deals during the quarter include Northwestern Technological Institute's 20,000-square-foot lease at 24800 Northwestern Highway and American Mortgage Consultants's 12,000-square-foot lease at Travelers Tower I on Evergreen Road. Positive absorption is welcome news for the submarket after posting just over 200,000 square feet in new vacancies during the first quarter as HAP relocated to Troy. Despite that large vacancy, the submarket's overall vacancy rate is down 20 basis points from a year ago, primarily due to increased demand in the Class B market. The Class B vacancy rate fell 60 basis points to 22.9% from the previous quarter and 370 basis points from a year ago. Vacancies in the Class A market are trending upward with new availabilities. The Class A vacancy rate increased 10 basis points to 18.6% during the second quarter and 100 basis points from the same time last year. However, large expected moves into the Town Center Complex in the coming quarters will likely reverse this trend. Looking ahead, the submarket will see a large vacancy as IBM vacates 30,000 square feet at the Class C 18000 West Nine Mile Road office tower as the company relocates to the Detroit CBD.

TROY

Troy's office market vacancy rate fell 20 basis points to 17.0% during second-quarter 2019 as just over 37,000 square feet was absorbed. Three of the larger deals were Edag, Inc.'s 22,000-square-foot lease at 1650 Research Drive, EASI's 20,000-square-foot deal at 340 East Big Beaver Road and LG Chemical's 16,000-square-foot lease at 1960 Technology Drive. Other notable deals around the submarket include Orbbec's 7,000-square-foot lease on Livernois Road, Revize LLC's 9,000-square-foot deal at 150 Kirts Boulevard and Diversified Restaurant Holdings Inc.'s 6,000-square-foot lease at 5750 New King Drive. 901 Tower Drive saw the largest new vacancy after EASI's relocation. The submarket's Class A vacancy edged up 20 basis points to 7.8% during the quarter as just under 6,000 square feet of new vacancies hit the market.

The Class B market saw the bulk of leasing activity as the vacancy rate fell 40 basis points to 20.6% as just over 44,000 square feet was absorbed. The overall trend for the Troy office market has been consistently positive, as the submarket has posted seven consecutive quarters of positive absorption. Since fourth-quarter 2017, the overall vacancy rate has fallen 340 basis points. Average asking rents responded, increasing 3.3% during the near-two-year period.

FARMINGTON HILLS

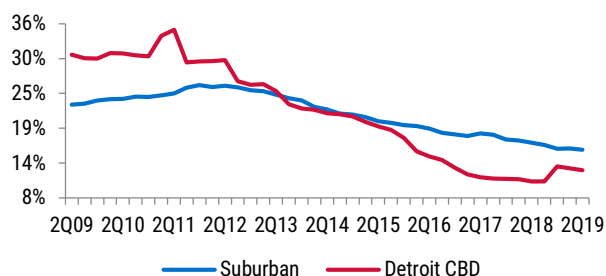
The Farmington Hills office market vacancy rate fell 50 basis points to 9.9% during the second quarter as nearly 35,000 square feet was absorbed. Haggerty Pointe saw vacancies fall by 21,000 square feet as The Rehmann Group and Dowaksa USA LLC leased space in the building. Meanwhile, in Westhills II on Twelve Mile Road, Lytle Medical Technologies took 12,000 square feet of office space. The Class A vacancy rate fell edged up 40 basis points to 11.4% during the quarter with just under 10,000 square feet in new vacancies. The Class B vacancy rate fell 190 basis points to 7.4% during the second quarter as just over 57,000 square feet was absorbed. Overall demand is healthy in the submarket as the overall vacancy rate fell has declined 280 basis points over the past four quarters. Much of that decline was from a strong first-quarter 2019, which saw Harman International Industries, Inc., Open Dealer Exchange LLC and TRW Automotive US, LLC taking large blocks of office space.

BIRMINGHAM

Birmingham's overall office market vacancy rate fell 290 basis points to 7.9% during the second quarter as just over 16,000 square feet was absorbed. The bulk of leasing activity was in the submarket's CBD Corridor, which saw vacancies fall 360 basis points to 9.6% during the second quarter. Birmingham Towers at 280 North Old Woodward Avenue saw tenants such as Work Company, LLC and Farm Bureau Insurance taking on office space. Meanwhile, after posting vacancies following Google, Inc. relocation to Detroit, 325 N Old Woodward Avenue is quickly releasing space as the building absorbed roughly 15,000 square feet during the quarter.

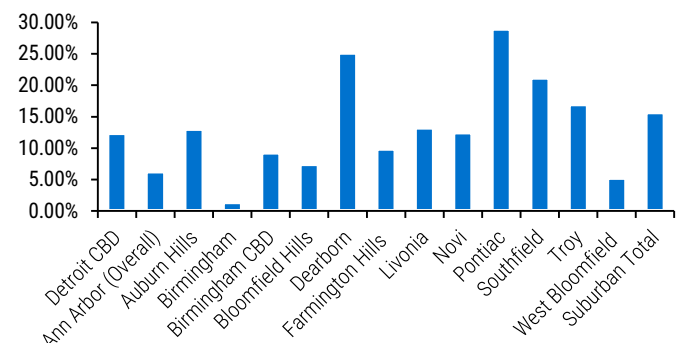
SUBURBAN VS DETROIT CBD

Vacancy Rate (\$/SF)



VACANCY BY SUBMARKET

Vacancy Rate (%)



Strong demand was also evident in the prior quarter as Universal McCann immediately subleased its 21,000 square feet of office space on Old Woodward, following the marketing firm's move and expansion into the Detroit CBD.

NOVI

Novi's office market vacancy rate jumped 260 basis points to 12.5% during the second quarter as nearly 47,000 square feet in new vacancies hit the market. The bulk of negative absorption came as South University vacated its 40,000-square-foot facility at 41555 West Twelve Mile Road. This is the second large recent vacancy in Novi. During the previous quarter, The Art Institute of Michigan vacated 50,000 square feet from Haggerty Corporate Office Centre. Leasing activity during the second quarter was made up of smaller office users taking approximately 1,500 square feet at Crystal Glen Office Centre. The loss of South University and Art Institute of Michigan users has doubled the submarket's vacancy rate, which stood at 6.8% at the beginning of 2019.

LIVONIA

Livonia's office market vacancy rate edged up 70 basis points to 13.3% during the second quarter as just over 5,000 square feet in new vacancies was added to the market. Livonia's office market has largely been stagnant over the past three years with the vacancy rate hovering at just over 13%.

ANN ARBOR

Two major companies are set to expand in the Ann Arbor market. KLA Corporation announced plans to build a 230,000-square-foot research and development facility at Ann Arbor Technology Park near Dixboro Road and Goss Road. KLA Corporation signed a 50,000-square-foot lease in the Northeast Corporate Center located at 2350 Green Road until the company completes its new facility in 2021. Google announced it is expanding its presence in Detroit and Ann Arbor. In 2016, Google added on to its Ann Arbor headquarters on Traverwood Drive that now totals roughly 133,000 square feet. The company said it plans on taking on another significant block of space in North Ann Arbor by 2021. Meanwhile, the Northeast Office Corridor's vacancy rate fell 200 basis points to 2.3% during the second quarter, mostly on leasing activity from KLA Corporation. The Briarwood Corridor's vacancy rate also fell 200 basis points to 3.5% during the quarter. Celsee, Inc.'s 13,000-square-foot lease in The Wickfield Center at 100 Phoenix Drive was one of the Corridor's larger leases. 555 Briarwood Circle also saw leasing active from various tenants, contributing to roughly 10,000 square feet of absorption for the building. Ann Arbor's CBD Corridor vacancy rate edged up 60 basis points to 4.0% during the second quarter. Various new vacancies at One North Main and 220 East Huron Street accounted for much of the spike.

NOTABLE LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
KLA Corporation	Northeast Corporate Center	Ann Arbor	Direct	50,000
Edag, Inc	1650 Research Dr	Troy	Direct	22,000
EASi	340 E Big Beaver Road	Troy	Direct	20,000
Northwestern Tech Institute	24800 Northwestern Highway	Southfield	Direct	20,000
IBM	Ally Detroit Center	Detroit CBD	Direct	10,000

NOTABLE SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
41935 W Twelve Mile Rd	Novi	\$1,750,000	\$187	93,558
613 Abbott St	Detroit - CBD	\$5,099,969	\$65	77,735
2250 Butterfield Dr	Troy	\$4,500,000	\$159	28,364
30665 Northwestern Hwy	Farmington Hills	\$4,500,000	\$60	75,000
28819 Franklin Rd	Southfield	\$3,200,000	\$97	32,996

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	12.4%	45,860	169,235	\$26.58	\$21.98	\$22.21
CBD New Center	1,533,604	X	13.4%	39,200	140,953	-	\$17.90	\$17.69
Detroit Total	16,281,022	624,000	12.5%	85,060	310,188	\$26.58	\$20.83	\$22.79
Ann Arbor Briarwood	2,027,860	X	3.5%	41,635	205,791	\$30.90	\$20.95	\$27.23
Ann Arbor CBD	1,404,669	X	4.0%	-8,986	-8,986	\$34.69	\$29.88	\$32.87
Ann Arbor Northeast	1,880,605	X	2.3%	37,494	-17,662	\$27.04	\$22.20	\$26.42
Auburn Hills	2,950,157	X	13.1%	2,101	3,205	\$21.09	\$18.15	\$19.05
Birmingham	273,654	X	1.4%	-318	1,161	\$43.20	\$29.25	\$28.79
Birmingham CBD	1,256,864	X	9.3%	16,543	19,480	\$36.37	\$32.99	\$33.77
Bloomfield Hills	3,031,190	X	7.5%	4,009	-9,649	\$25.24	\$22.91	\$24.18
Dearborn	3,193,219	X	25.2%	-10,817	-13,300	\$18.47	\$15.87	\$17.19
Farmington Hills	6,360,965	X	9.9%	34,891	127,768	\$20.65	\$19.30	\$19.52
Livonia	3,146,329	X	13.3%	-5,582	-21,447	\$21.00	\$20.07	\$17.68
Novi	1,620,708	X	12.5%	-46,986	-97,499	\$21.43	\$21.82	\$21.68
Pontiac	1,897,834	X	29.0%	-815	-815	-	\$16.18	\$15.88
Southfield	17,216,538	X	21.2%	32,197	-167,834	\$21.21	\$18.44	\$18.60
Troy	13,290,574	X	17.0%	37,690	56,391	\$24.18	\$19.55	\$20.22
West Bloomfield	557,771	X	5.3%	-1,168	3,105	\$22.00	\$16.61	\$18.56
Suburban Total	60,108,937	X	15.7%	131,888	79,709	\$22.09	\$19.04	\$19.44
Totals	76,389,959	624,000	15.0%	216,948	389,897	\$22.48	\$19.29	\$19.72

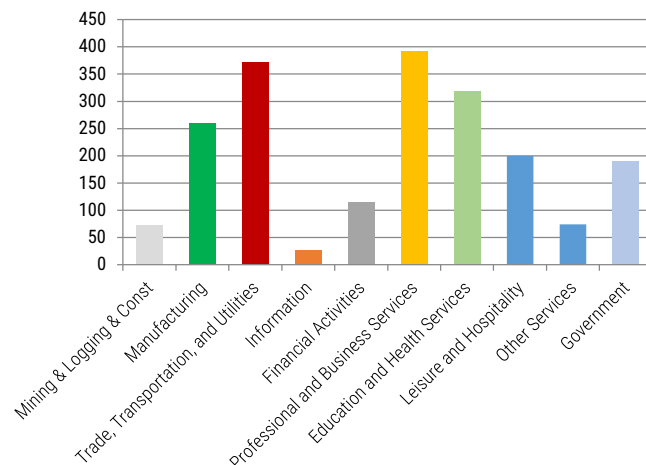
ECONOMIC CONDITIONS

Metro Detroit unemployment levels trending downward once again with rate falling to 3.90% in latest April 2019 figures compared 4.4% at the beginning of the year. However, the rate is up compared to April 2018 level of 3.5%.

Payroll employment for Metro Detroit in April showed a .30% gain over the previous year. Those gains were comparatively lower than the national figure of 1.7%.

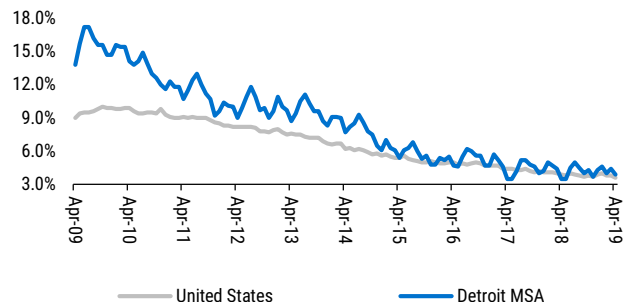
EMPLOYMENT BY INDUSTRY

Detroit MSA, June 2019, in thousands



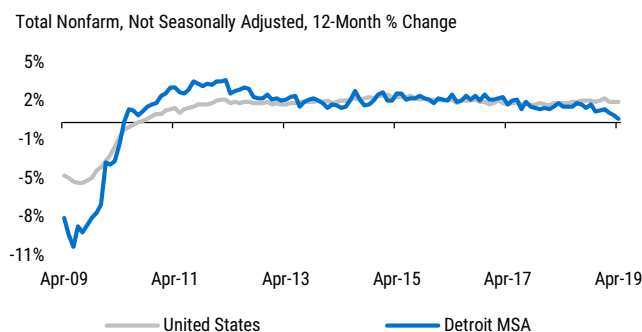
UNEMPLOYMENT RATE

Not Seasonally Adjusted



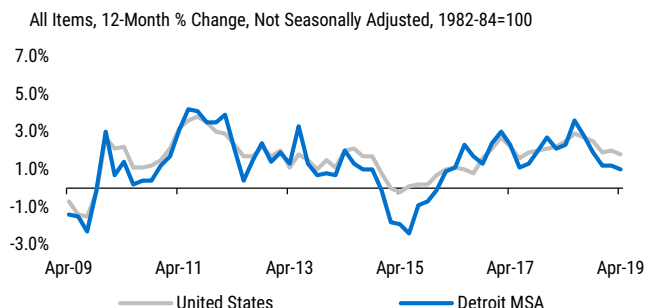
PAYROLL EMPLOYMENT

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



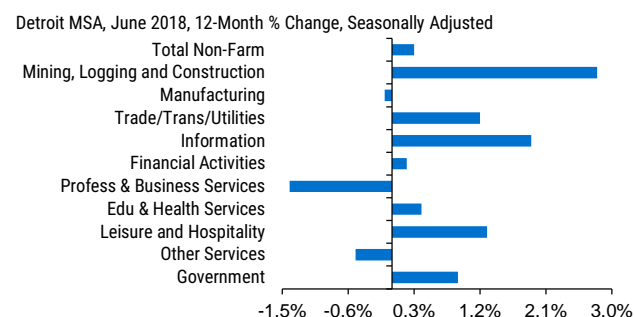
CONSUMER PRICE INDEX (CPI)

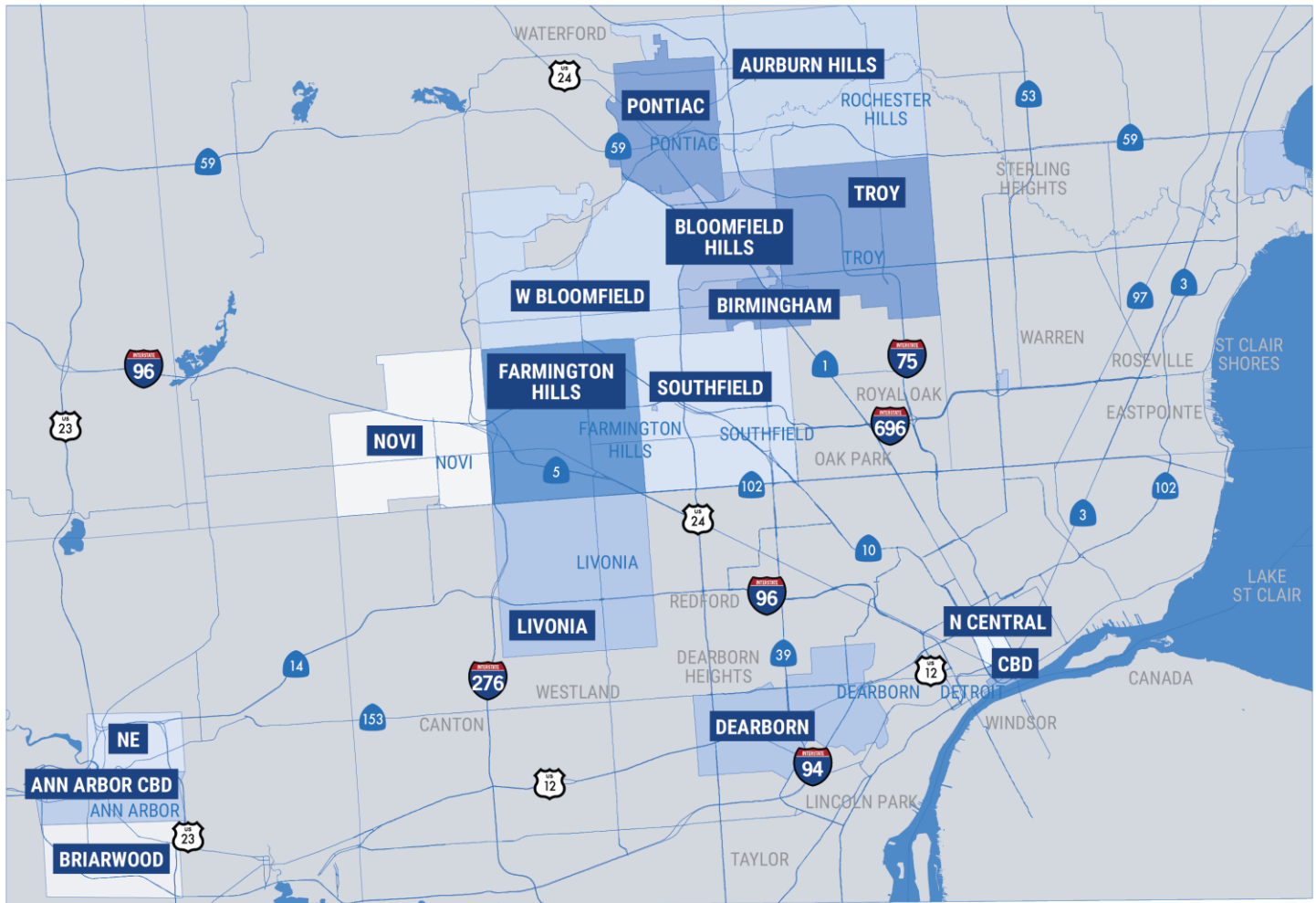
All Items, 12-Month % Change, Not Seasonally Adjusted,



EMPLOYMENT GROWTH BY INDUSTRY

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





JOHN DEGROOT

Vice President, Research
248.357.6588
jdegroot@ngkf.com

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. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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