

METRO DETROIT OFFICE MARKET

FARMINGTON HILLS LEADS METRO SUBMARKETS WITH STRONG QUARTER

Metro Detroit's office market vacancy rate fell 30 basis points to 15.0% during the third quarter of 2019, as nearly 110,000 square feet was absorbed. The Farmington Hills submarket accounted for the greatest share of absorption after Trinity Health took occupancy of a large block of office space. In the Detroit Central Business District, the vacancy rate spiked as property owners are bringing more renovated space onto the market to capture the growing office user base. Meanwhile, the downsizing educational market continues to create new vacancies around Metro Detroit. During the previous quarter, South University and the Art Institute of Michigan in Novi created nearly 100,000 square feet of new vacancies. During the third quarter, Northwestern Technological Institute and University of Phoenix added a combined 82,000 square feet of vacant space in Southfield.

City of Detroit

The Detroit CBD office market vacancy rate jumped 30 basis points to 12.7% during the third quarter, as negative absorption totaled just over 41,000 square feet. The vacancy rate spiked as the 85,000-square-foot Campau on Jefferson located in the Rivertown - Warehouse District hit the market. The core CBD office market remained healthy during the quarter. Notable deals during the quarter include Neighborhood Defender Services, Inc.'s 17,000-square-foot lease in the Guardian Building and Burns & McDonnell LLC's expansion to 17,000 square feet in the Francis Palms Building. Expansions are part of a trend in the CBD, as more companies have expanded their footprints in the city. Recently, companies such as IBM, Microsoft, LinkedIn, Universal McCann, WeWork and Waymo have expanded, while Google is planning to add onto its already existing space in the coming quarters. Meanwhile, renovations are nearly complete at The Assembly, a former warehouse that is being transformed into a five-story, multi-use development. Located in the Corktown District, the Bedrock-owned building will feature just over 79,000 square feet of office space. Its first office tenant, Coyote Logistics LLC, will occupy 50,000 square feet at the beginning of the fourth quarter of 2019. In terms of other new construction activity, 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

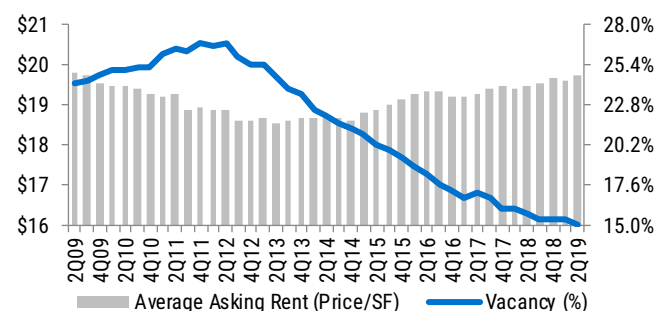
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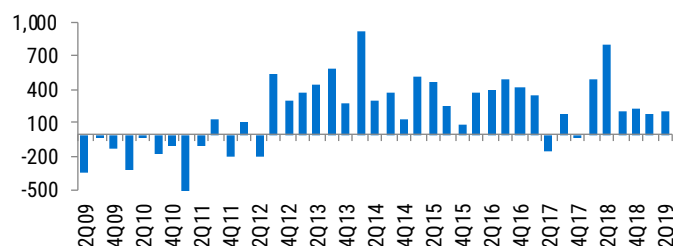
In the Detroit Central Business District, the vacancy rate spiked as property owners are bringing more renovated space onto the market

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	77.6 MSF	76.7 MSF	75.6 MSF	↑
Vacancy Rate	15.0%	15.3%	15.5%	↓
Quarterly Net Absorption	110,576	175,721	215,438	↓
Average Asking Rent	\$19.98	\$19.90	\$19.51	↑
Under Construction	624 KSF	624 KSF	497 KSF	↑
Deliveries	0	0	0	↑

Southfield

The Southfield office market vacancy rate climbed 30 basis points to 21.6% during the third quarter, as new vacancies totaling just over 65,000 square feet were added to the submarket. The bulk of new vacancies came from two major educational companies. Northwestern Technological Institute vacated its 44,000-square-foot facility at 24567 Northwestern Highway and leased 13,000 square feet in the Northwestern Corporate Center. Meanwhile, University of Phoenix vacated 36,000 square feet of office space at the Evergreen Atrium Office Building, located at 26261 Evergreen Road. As these new blocks of space hit the market, the Class B and Class C vacancy rates increased, yet the Class A market saw positive absorption. In the Southfield Town Center, Blue Care Network of Michigan moved into 48,000 square feet, and SpotOn took 12,000 square feet in 4000 Town Center. United Health took 13,000 square feet in the 3000 Tower, and Edge Logistics leased 11,000 square feet in the 1000 Tower. Southfield's Class A vacancy rate fell 80 basis points to 18.3% during the quarter with net absorption just over 24,000 square feet. The Class B market vacancy rate increased 80 basis points to 23.7% with just over 51,000 square feet in new vacancies. The Class C market vacancy rate jumped 100 basis points to 23.9% with just over 37,000 square feet of negative absorption.

Farmington Hills

There were major developments in the Farmington Hills market, where Trinity Health took occupancy of an entire building, and a new building is set to begin construction. The Farmington Hills office vacancy rate fell 300 basis points to 9.3% during the third quarter, as nearly 200,000 square feet was absorbed. The bulk of absorption came as Trinity Health consolidated from 18 locations across Michigan into 180,000 square feet at 34375 Twelve Mile Road. Other notable deals during the quarter include Symphony Performance Health, Inc.'s 9,500-square-foot lease in the Orchards Corporate Center and Sumika Polymers North America, LLC's 6,500-square-foot lease at Farmington Hills Offcenter I.

Meanwhile, Olympia Development is set to begin construction on a new, 200,000-square-foot Class A headquarters for Mercedes-Benz Financial Services USA. The new facility, located on the corner of Twelve Mile Road and Drake Road, is expected to be completed by 2021.

Troy

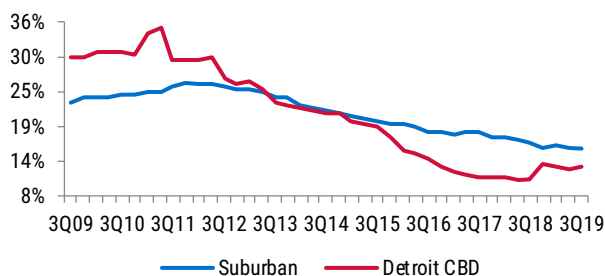
Troy's office market vacancy rate held steady at 17.0% during third-quarter 2019. Notable deals during the quarter include Fishman Stewart PLLC's 11,000-square-foot lease at 800 Tower and co-working provider Next7's 21,000-square-foot deal at 888 West Big Beaver Road. New leases were offset by various new vacancies around the submarket in buildings such as Kirts Office Park, Long Lake Crossing Campus and Columbia Center I. Overall, the trend in the Troy office submarket for the past two years has been positive. The submarket has posted eight consecutive quarters of positive absorption, totaling just over 620,000 square feet and resulting in a vacancy rate drop of 3.4 percentage points. Troy's Class A market vacancy fell 40 basis points to 7.4% during the third quarter after absorbing just over 14,000 square feet. The Class B market vacancy rate has remained at roughly the same 20.6% level throughout 2019. By contrast, the Class B market absorbed more than 345,000 square feet in 2018.

Birmingham

Birmingham's overall office market vacancy rate fell 30 basis points to 10.3% during the third quarter, as just over 3,000 square feet was absorbed. In Birmingham's CBD corridor, the vacancy rate fell 80 basis points to 12.4%; outside the CBD, the vacancy rate fell 50 basis points to 0.9%. Law firm Varnum, Riddering, Schmidt & Howlett, LLP moved into 8,000 square feet at 260 Brown Street, accounting for a large share of overall absorption in Birmingham. Year to date, Birmingham has absorbed just over 23,000 square feet.

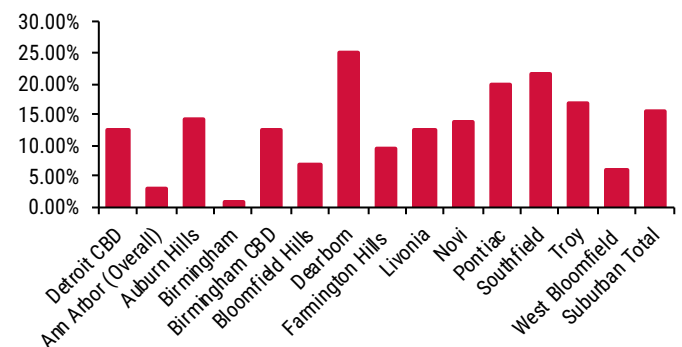
SUBURBAN VS DETROIT CBD

Vacancy Rate (\$/SF)



VACANCY BY SUBMARKET

Vacancy Rate (%)



Notable market activity during the year included Universal McCann subleasing 21,000 square feet formerly occupied by Google, Inc.; Farm Bureau Insurance and various other firms taking space at 280 North Old Woodward Avenue; and Lion Resources Inc. leasing 15,000 square feet at 325 North Old Woodward Avenue.

Novi

The Novi office vacancy rate increased 60 basis points to 13.9% during the third quarter, as new vacancies totaling just over 9,000 square feet were added to the market. The bulk of new vacancies came from Summit Point and Orchard Hill Place. Offsetting some of the new vacancies were new leases at Crystal Glen Office Centre that included KLDDiscovery Ontrack, LLC's 11,000-square-foot deal as well as smaller leases by Pace Industries, LLC and Michigan Venture Capital Association. 2019 has seen record levels of new vacancies for the Novi submarket. Year to date, negative absorption has totaled nearly 120,000 square feet. The bulk of those new vacancies came from South University and the Art Institute of Michigan, as the two educational firms moved out of nearly 100,000 combined square feet at 41555 West Twelve Mile Road and Haggerty Corporate Office Centre.

Livonia

The Livonia office market vacancy rate fell 70 basis points to 12.6% during the third quarter, as just over 14,000 square feet was absorbed. Flint Group's 16,000-square-foot lease in Laurel Office Park was the submarket's largest deal. Cambridge Center West also saw vacancies fall, as the office building leased roughly 10,000 square feet to various smaller tenants. New vacancies at Victor V and 17370-17390 North Laurel Park Drive offset a portion of the submarket's overall absorption levels.

Ann Arbor

Ann Arbor's overall vacancy rate fell 20 basis points to 3.0% during the third quarter, as nearly 13,000 square feet was absorbed. In the Ann Arbor CBD corridor, the vacancy rate fell 40 basis points to 3.6%. In the Northeast corridor, the vacancy rate held steady at 2.4% during the third quarter. KLA Corporation began construction of a 230,000-square-foot R&D facility at the Ann Arbor Technology Park. The new facility is slated for completion in 2021, at around the same time that Google Inc. is expected to greatly expand its presence in Northeast Ann Arbor. In the Briarwood corridor, the vacancy rate fell 50 basis points to 3.0% during the quarter, as just over 10,000 square feet was absorbed.

NOTABLE LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Trinity Health	34375 Twelve Mile	Farmington Hills	Direct	180,000
Fishman Stewart PLLC's	800 Tower	Troy	Direct	11,000
KLDDiscovery Ontrack, LLC	Crystal Glen Office Centre	Novi	Direct	11,000
Hall, Render, Killian, Heath & Lyman, P.C.	Columbia Center II	Troy	Direct	10,050
Symphony Performance Health, Inc	Orchards Corporate Center	Farmington Hills	Direct	9,500

NOTABLE SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
32255 Northwestern Hwy	Farmington Hills	\$27,084,452	\$114	236,921
12001 Tech Center Dr	Livonia	\$12,870,000	\$149	86,500
5755 New King Ct	Troy	\$5,722,500	\$97	59,034
3245 E Jefferson Ave	Detroit	\$5,600,000	\$123	45,383
7441 2nd Ave	Detroit	\$3,500,000	\$117	30,000

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	14,657,418	624,000	12.7%	-41,685	127,550	\$26.58	\$21.95	\$21.69
CBD New Center	1,623,604	X	13.3%	1,961	142,914	-	\$18.49	\$18.28
Detroit Total	16,281,022	624,000	12.8%	-39,724	270,464	\$26.58	\$20.88	\$21.13
Ann Arbor Briarwood	2,027,860	X	3.0%	10,167	215,958	\$30.96	\$20.97	\$27.13
Ann Arbor CBD	1,404,669	X	3.6%	5,287	-3,699	\$34.42	\$28.83	\$32.31
Ann Arbor Northeast	1,880,605	X	2.4%	-2,470	-20,132	\$27.94	\$22.20	\$26.24
Auburn Hills	2,950,157	X	14.3%	-35,211	-32,006	\$21.08	\$18.15	\$18.99
Birmingham	273,654	X	0.9%	1,225	2,386	\$43.20	\$28.08	\$27.38
Birmingham CBD	1,270,864	X	12.4%	10,168	21,469	\$35.30	\$32.49	\$34.15
Bloomfield Hills	3,031,190	X	7.1%	11,097	1,448	\$26.17	\$23.80	\$24.80
Dearborn	3,193,219	X	24.8%	13,642	342	\$18.38	\$15.87	\$17.07
Farmington Hills	6,538,565	X	9.3%	197,293	147,461	\$20.77	\$19.31	\$19.71
Livonia	3,186,059	X	12.6%	14,288	-7,159	\$20.72	\$20.14	\$17.45
Novi	1,661,094	X	13.9%	-9,181	-119,680	\$21.35	\$21.74	\$21.60
Pontiac	2,777,834	X	19.8%	-	-815	-	\$16.18	\$15.88
Southfield	17,213,532	X	21.6%	-65,163	-237,997	\$22.39	\$18.61	\$19.09
Troy	13,378,220	X	17.0%	2,563	43,906	\$23.48	\$19.67	\$20.39
West Bloomfield	557,771	X	5.9%	-3,405	-300	\$22.00	\$16.67	\$18.33
Suburban Total	61,345,293	X	15.6%	150,300	11,182	\$22.76	\$19.12	\$19.75
Totals	77,626,315	624,000	15.0%	110,576	281,646	\$23.02	\$19.37	\$19.98

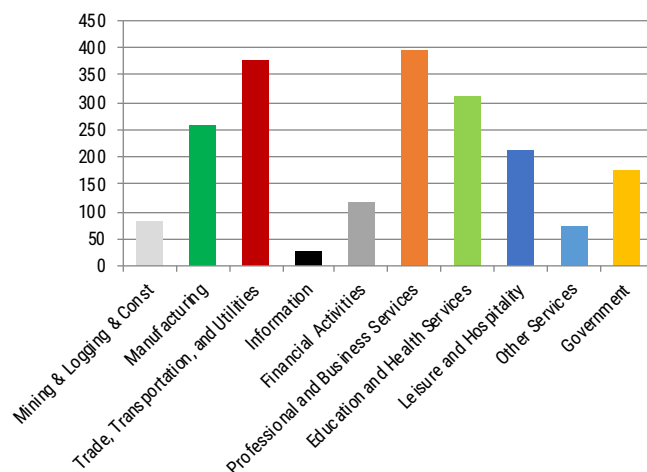
ECONOMIC CONDITIONS

Metro Detroit unemployment levels began trending up during the third quarter of 2019. In June unemployment jumped to 5.3% from its low point in the year of 3.9% in April. The rate recovered slightly dropping to 4.5% in August.

While construction employment growth remains robust, growing in Metro Detroit 2.6% over the same time last year, other segments including manufacturing, Information and business services are showing employment declines over the same period.

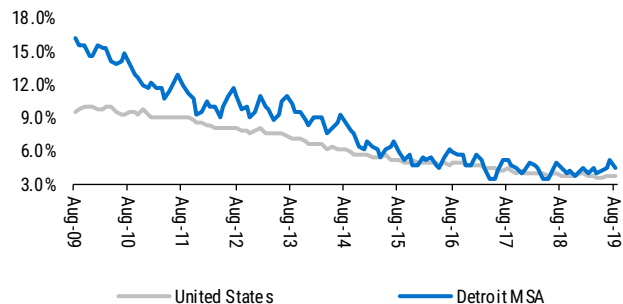
EMPLOYMENT BY INDUSTRY

Detroit MSA, June 2019, in thousands



UNEMPLOYMENT RATE

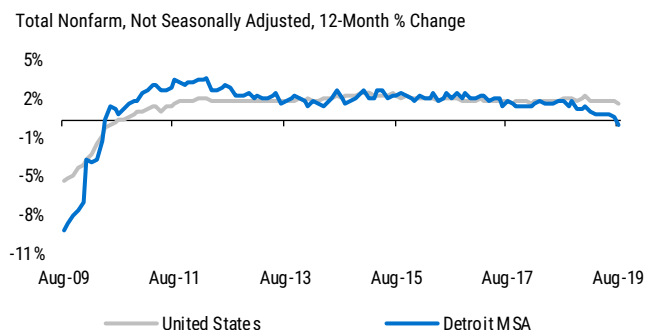
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

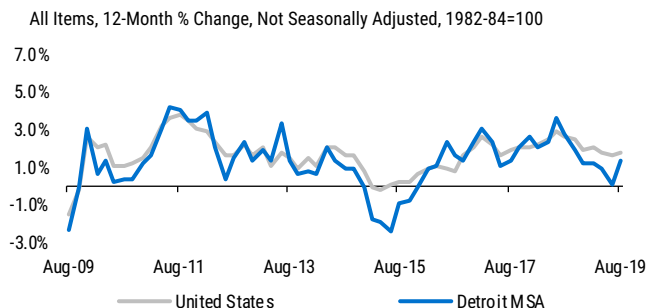
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

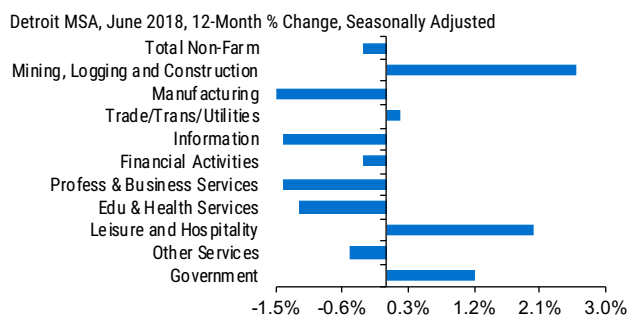
All Items, 12-Month % Change, Not Seasonally Adjusted,



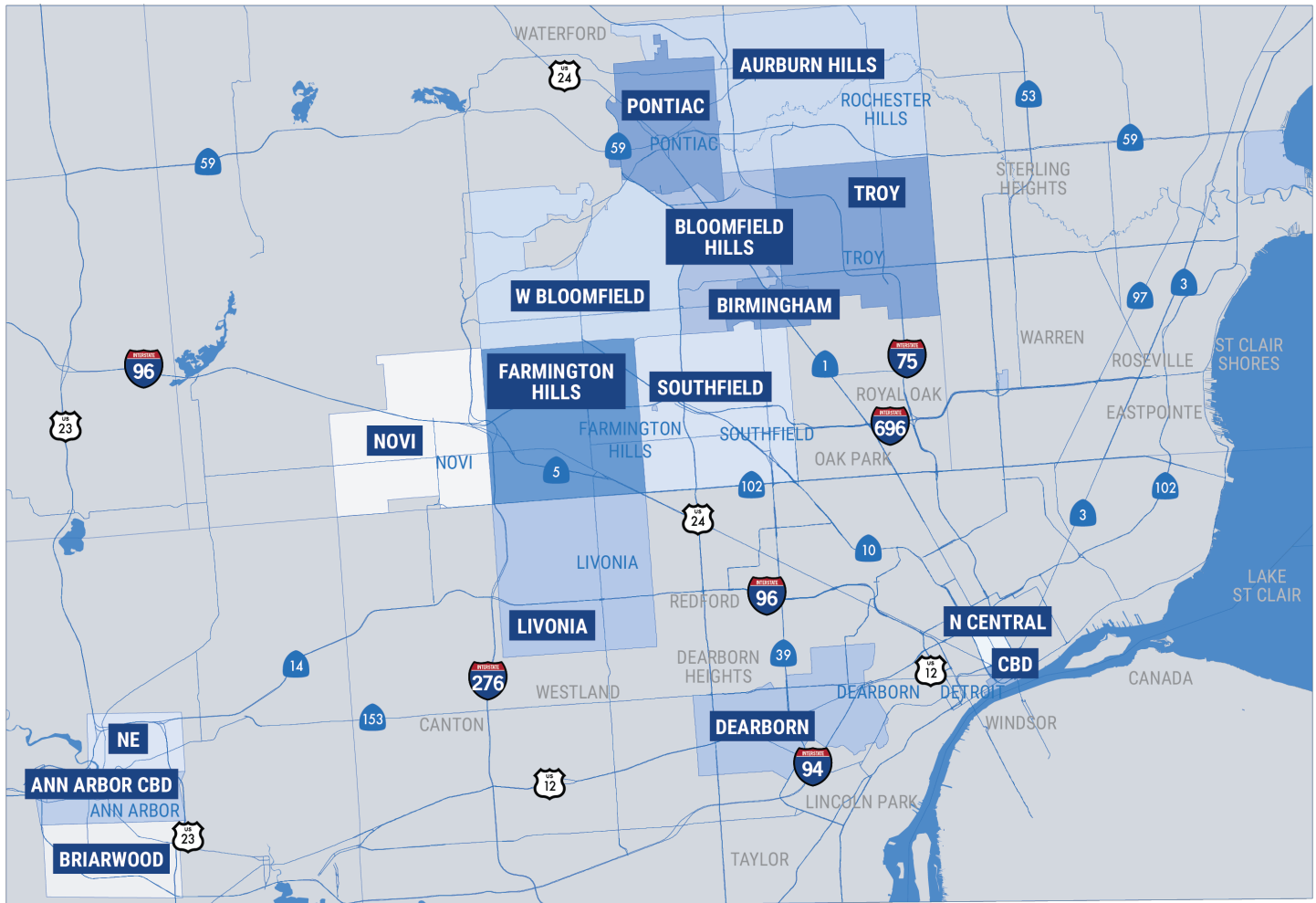
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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