

DETROIT OFFICE MARKET

DETROIT CBD POSTS FIRST VACANCY UPTICK IN NEARLY SEVEN YEARS

Metro Detroit's office market vacancy rate fell 20 basis points to 15.3% during the fourth quarter of 2018, as just over 353,000 square feet was absorbed. The metro office market posted just over 1.7 million square feet of absorption in 2018, compared with 1.0 million square for all of 2017. Large office users such as United Shore Financial Center, Henry Ford Health Systems, Mortgage Center, LC, MSX International, Inc. and General Motors accounted for the bulk of absorption in the Southfield, Troy, Auburn Hills and Pontiac submarkets in 2018. By contrast, the western office submarkets of Livonia and Novi continued to see slow market activity in 2018, similar to levels in 2017. The Detroit Central Business District posted negative absorption for the first time since 2012. Despite having an off fourth quarter, the city of Detroit could post more historic absorption levels in 2019, as more firms are set to establish a greater presence in the CBD.

Detroit CBD

The fourth quarter of 2018 marked the first uptick in the Detroit CBD's vacancy in nearly seven years. The vacancy rate increased 180 basis points to 12.3%, as new vacancies totaled just over 33,000 square feet. Molina Healthcare accounted for the largest vacancy, as the company moved out of 41,000 square feet at 615 West Lafayette and consolidated its employees into its Troy location. This was the city's second significant loss of the year: During the second quarter, automotive seating supplier Adient withdrew plans to relocate from Plymouth and spend \$100.0 million to renovate the Marquette Building. Despite these losses, the city still has significant investments coming in 2019. Chemical Bank announced plans to build 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. Meanwhile, Universal McCann announced plans to relocate 40 employees to 1001 Woodward Avenue and eventually expand by 150 employees. This follows announcements by two other companies looking to increase their presence within the CBD: LinkedIn, which has grown to 40 employees in Detroit, plans to expand in the Sanders Building on Woodward Avenue, and RSM US LLP, which plans to expand by 120 employees in the Chrysler House on Griswold Street over the next three years. On the new development front, 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 in early 2019. In addition, construction started on Detroit's tallest skyscraper at the former Hudson's Department Store site.

CURRENT CONDITIONS

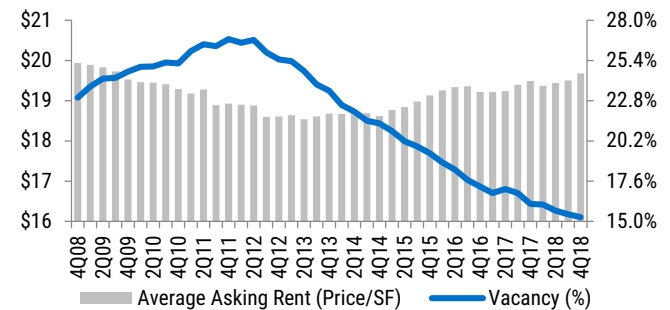
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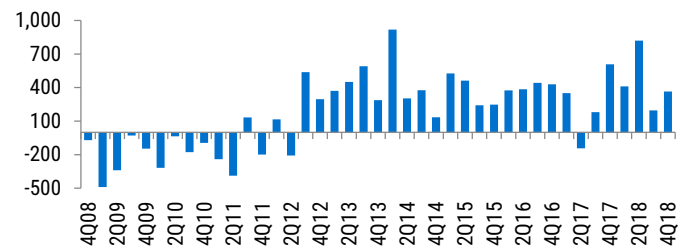
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MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	75.7 MSF	75.4 MSF	74.0 MSF	↑
Vacancy Rate	15.3%	15.5%	16.1%	↓
Quarterly Net Absorption	353,012	195,438	607,832	↓
Average Asking Rent	\$19.68	\$19.50	\$19.49	↑
Under Construction	236 KSF	236 KSF	330 KSF	↑
Deliveries	0	91 KSF	0	↑

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. Meanwhile, Ford continues to hammer out plans to renovate the iconic Michigan Central Station the company purchased during the second quarter. In addition to renovating and reusing the 18-story, 500,000-square-foot building, Ford is planning to redevelop the area into a 1.2 million-square-foot campus.

Southfield

Southfield's office vacancy rate fell 100 basis points to 20.3% during the fourth quarter, as just over 181,000 square feet was absorbed. Credit Acceptance's move into the 297,000-square-foot Raleigh Officentre, which the company purchased during the previous quarter, accounted for a significant share of overall absorption. The 339,000-square-foot Travelers Tower II on Evergreen Road saw a strong uptick in leasing activity during the quarter that has left the building nearly 100% occupied. American Axle & Manufacturing, Inc. and XPO Logistics, LLC each leased 33,000 square feet, while R.L. Polk & Company expanded its presence in the building by 9,000 square feet. The fourth quarter accounted for 85% of the overall absorption for the year, as the first three quarters combined produced just 32,000 square feet of absorption. Although occupancy increased in the Raleigh Officentre and Travelers Tower II buildings, downsizing companies are creating vacancies in others. Consulting firm Concentrix announced 209 layoffs and is cutting employees from its 100 Galleria Officentre location. The move will add to the overall growing amount of sublease space on the market, particularly large-block sublease that has also seen a rise in the Troy submarket. As of the fourth quarter, there was 235,000 square feet of sublease space on the market in Southfield, up from 180,000 square during the same time last year.

Troy

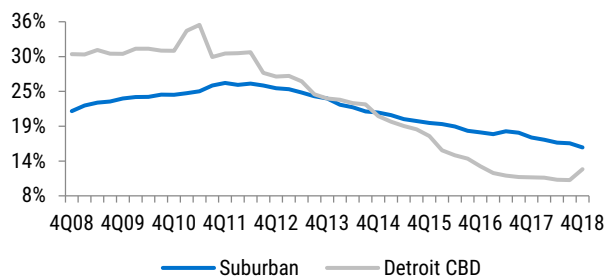
The Troy office vacancy rate fell 110 basis points to 17.4% during the fourth quarter, as just over 160,000 square feet was absorbed. One of the largest deals of the quarter was Road to One Hundred, LLC's purchase of the 79,000-square-foot 1850 Research Drive. Molina Healthcare of Michigan is relocating its Detroit CBD space and consolidating employees into shadow space in the company's 197,000-square-foot 880 West Long Lake Road location. Other notable leasing activity in the Troy submarket includes S&P Data's 30,000-square-foot lease at 300 East Big Beaver Road and Power Home Solar & Roofing's 17,000-square-foot lease at 500 Stephenson Highway. For the year, the Troy office market absorbed just over 406,000 square feet. In addition to a strong fourth-quarter absorption, the submarket's strong year was buoyed by Henry Ford Health Systems' 275,000-square-foot move into United Shore Financial Center's former space at 1414 East Maple Road. The rise of sublease space in the market is one underlying weakness for the submarket. During the fourth quarter, sublease space totaled 273,000 square feet, compared with 77,000 square during the same period last year. The bulk of sublease on the market is the result of large users such as Beaumont Hospital's relocation from Troy to First Center Office Plaza in Southfield. Just over 70.0% of the submarkets' sublease space resides in just three buildings: 755 West Big Beaver Road, which has 78,000 square feet; 750 Stephenson Highway, which has 70,000 square feet; and 2600 West Big Beaver Road, which has 37,000 square feet.

Farmington Hills

Farmington Hills' office vacancy rate fell 10 basis points to 11.0% during the fourth quarter, as just over 6,000 square feet was absorbed. For the year, the vacancy rate fell 140 basis points on just over 86,000 square feet of absorption. Notable deals during the year were Flextronics America, LLC's 60,000-square-foot lease and Wells Fargo's 10,000-square-foot lease at Orchards Corporate Center II.

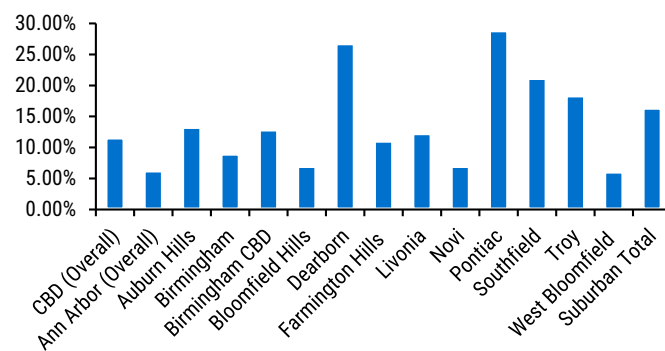
SUBURBAN VS DETROIT CBD

Vacancy Rate (\$/SF)



VACANCY BY SUBMARKET

Vacancy Rate (%)



Livonia

Livonia's office market vacancy rate fell 20 basis points to 12.1% during the fourth quarter, as just over 4,500 square feet was absorbed. 2018 proved to be a slow year for the Livonia office market, as the submarket absorbed just over 12,000 square feet. In addition to slow leasing activity, Eastern Michigan University's move out of the Cambridge Center on Six Mile Road during the second quarter added a 20,000-square-foot block of space to the market. Looking ahead, another large vacancy will be added to the market as Cardinal Health vacates its office space at Laurel Park II.

Novi

Although the city of Novi has seen more than 1.0 million square feet in industrial construction over the past two years, its office market cooled in 2018. Office users absorbed a net 16,000 square feet of space during the year. By comparison, the office market absorbed more than 130,000 square feet in 2017. Yanfeng Automotive Interiors' 93,000-square-foot lease at the former Twelve Oaks Professional Center at 41935 Twelve Mile Road accounted for the bulk of 2018 absorption. Despite an overall slowdown, the Novi office market ended the fourth quarter of 2018 with a healthy vacancy rate of just 6.8%.

Bloomfield Hills

The Bloomfield Hills office vacancy rate edged up 20 basis points to 7.2% during the fourth quarter, as small vacancies in Bloomfield Office Park and Franklin Office Centre came on the market. The submarket absorbed slightly more than 23,000 square feet during 2018, as companies such as Latitude Subrogation Services, SGF North America, Inc., NuTechs LLC and L. Weis Associates, Inc. leased new space. For the year, the submarket's vacancy rate fell 70 basis points.

NOTABLE LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
American Axle	Travelers Tower II	Southfield	Direct	33,000
XPO Logistics, LLC	Travelers Tower II	Southfield	Direct	33,000
S&P Data	300 E Big Beaver Road	Troy	Direct	30,000
American Red Cross	7800 W Outer Dr	Detroit - New Center	Direct	20,000
Davenport University	3031 W Grand Blvd	Detroit - New Center	Direct	11,000

NOTABLE SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
610 W Congress St	Detroit CBD	\$5000000	\$187	26,000
1850 Research Drive	Troy	\$4975000	\$62	80,000
30201 Orchard Lake Rd	Farmington Hills	\$4750000	\$93	51,000
19900 W 9 Mile Rd	Southfield	\$3491250	\$58	60,000
43750 Garfield Rd	Clinton Township	\$3450000	\$65	53,000

SUBMARKET STATISTICS

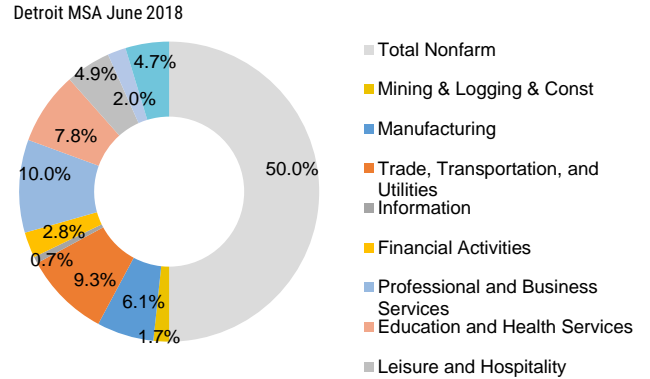
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	14,729,905	263,000	12.3%	-33,723	97,919	\$25.36	\$21.63	\$21.23
CBD North Central	1,290,952	X	24.5%	-1,867	-5,787	-	\$18.20	\$18.15
Detroit Total	16,020,857	263,000	13.3%	-35,590	92,132	\$25.36	\$20.56	\$20.77
Ann Arbor Briarwood	2,027,860	X	13.6%	-13,159	35,711	\$28.71	\$20.28	\$25.97
Ann Arbor CBD	1,404,669	X	3.4%	-8,195	-3,028	\$33.47	\$30.71	\$32.42
Ann Arbor Northeast	1,798,602	X	1.4%	-6,326	14,413	\$25.77	\$22.20	\$25.06
Auburn Hills	2,950,157	X	13.2%	4,367	223,620	\$20.36	\$18.15	\$18.84
Birmingham	424,654	X	8.6%	1,494	-30,017	\$43.20	\$27.59	\$40.88
Birmingham CBD	979,645	X	13.6%	-6,344	-9,046	\$34.23	\$32.77	\$33.45
Bloomfield Hills	3,031,190	X	7.2%	-2,795	23,269	\$25.36	\$23.13	\$24.33
Dearborn	3,193,219	X	24.8%	63,997	73,510	\$18.47	\$15.84	\$17.04
Farmington Hills	6,157,143	X	11.0%	6,265	86,483	\$20.08	\$19.05	\$19.21
Livonia	3,146,329	X	12.1%	4,583	12,487	\$21.00	\$19.76	\$17.25
Novi	1,620,708	X	6.8%	2,217	16,161	\$21.42	\$20.97	\$21.16
Pontiac	1,897,834	X	28.9%	-	619,754	\$X	\$16.18	\$15.88
Southfield	17,216,730	X	20.3%	181,295	213,735	\$21.49	\$18.31	\$18.51
Troy	13,290,574	X	17.3%	160,084	406,154	\$24.24	\$18.99	\$19.82
West Bloomfield	557,771	X	5.9%	1,119	1,240	\$22.00	\$16.71	\$18.62
Suburban Total	59,697,085	X	15.8%	388,602	1,684,446	\$22.50	\$18.80	\$19.44
Totals	75,717,942	263,000	15.3%	353,012	1,776,578	\$22.77	\$19.08	\$19.68

ECONOMIC CONDITIONS

Metro Detroit unemployment levels saw an uptick in the latest October reading to 4.4%, compared to 3.7% the previous month and 4.3% at the same time last year. Metro Detroit unemployment levels are slightly higher than the national level of 3.7%. Payroll employment for Metro Detroit in October showed a 1.0% change over the previous year. Those gains were comparatively lower than the national figure of 1.6%.

EMPLOYMENT BY INDUSTRY

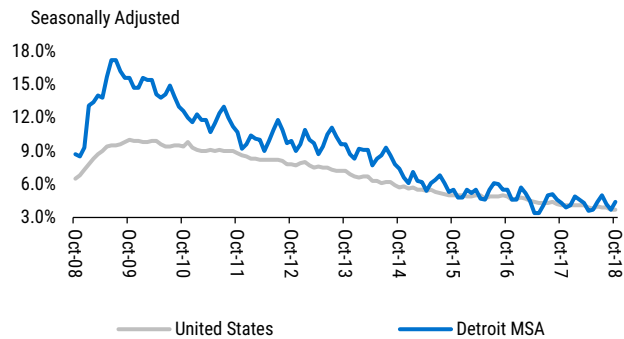
Detroit MSA, June 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

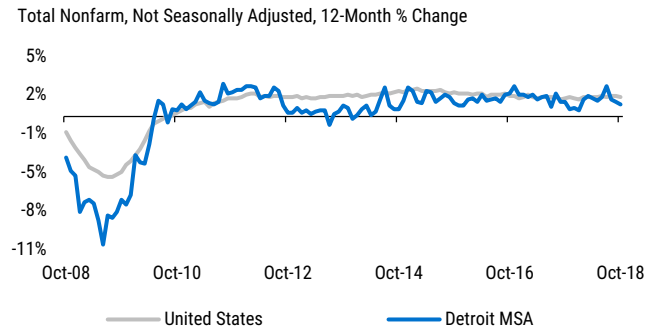
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

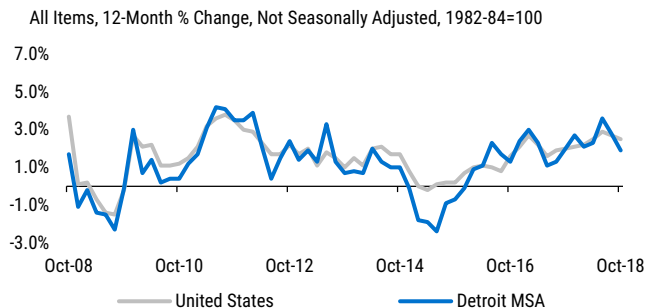
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

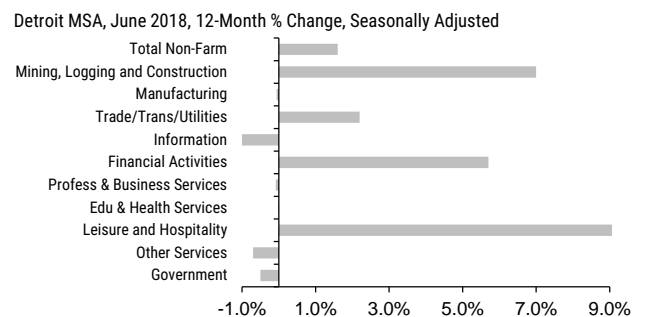
All Items, 12-Month % Change, Not Seasonally Adjusted,



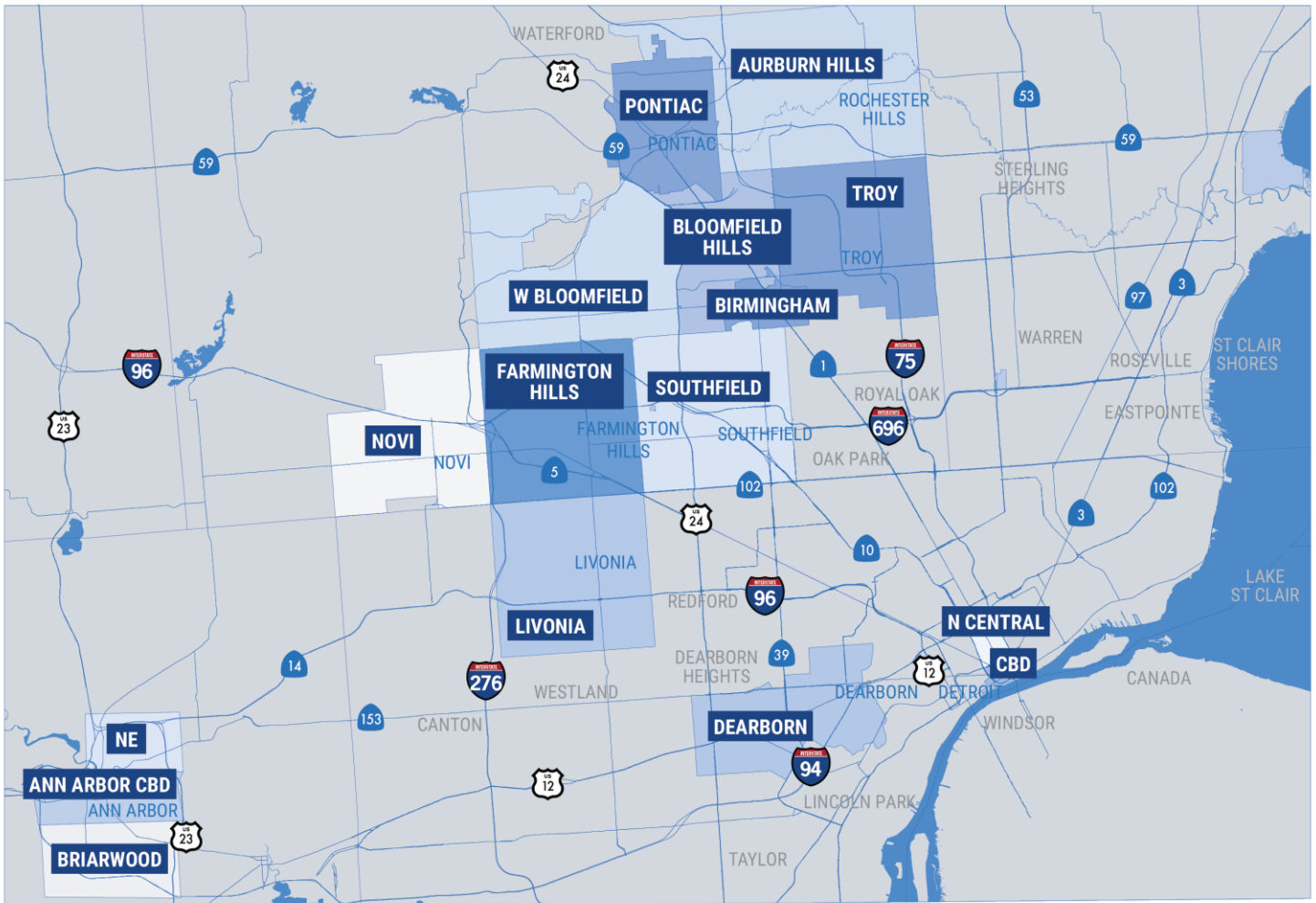
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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