

# DETROIT OFFICE MARKET

## METRO DETROIT OFFICE MARKET MOSTLY INACTIVE. NO SURGE IN SUBLEASES ON MARKET

Metro Detroit's office market vacancy rate held steady at 15% during the second quarter of 2020. The market was predictably inactive, given COVID-19-related stay-at-home orders that put a halt to most business interactions. The three-month long mandate caused many to fear companies would collapse, leaving the office market flooded with vacant office space. One main indicator of this is the volume of subleasing being added to the market in the core office submarkets. The market did not see a surge in sublease space as expected. The numbers reveal that while some submarkets saw a greater share of sublease space coming on the market, most saw few or none at all. In fact, in terms of square footage, overall sublease space fell 14.0% as space was either leased or expired into direct available space. In the core office submarkets, 14 sublease units came on the market during the second quarter, compared with 20 units that came on the market during first-quarter 2020 and 19 units that came on the market during fourth-quarter 2019.

### Southfield

The Southfield office vacancy rate fell 210 basis points to 19.9% during the second quarter, as just over 367,000 square feet was absorbed. Automotive supplier Marelli relocated from locations in Farmington Hills and Auburn Hills into the former Federal Mogul Corporation located at 26555 Northwestern Highway. Marelli's move into the 359,000-square-foot facility accounted for the bulk of overall absorption in Southfield. PACE Southeast Michigan's 18,000-square-foot lease at 21700 Northwestern Highway also accounted for a large share of overall absorbed space. Absent long-planned leases for Marelli and PACE Southeast Michigan, the Southfield office market was understandably quiet during the quarter. The largest new vacancies during the quarter were 32,000 square feet in the American Center and 13,000 square feet in Central Park Plaza. Available sublease space rose by a net 4,000 square feet from 235,000 square feet during the quarter. The one major sublease to come on the market during the second quarter was 21,605 square feet at 1000 Town Center. The balance of overall sublease space was either leased or expired and converted back to direct available space. An analysis of the 239,000 square feet of available sublease space indicates the inventory is primarily large bulk space that has been on the market for many months and not necessarily competing with most typical direct available spaces. For example, the entire 118,000-square-foot IAC building at 28333 Telegraph Road is available for sublease, while Beaumont Service Center has 83,000 square feet available for sublease.

## CURRENT CONDITIONS

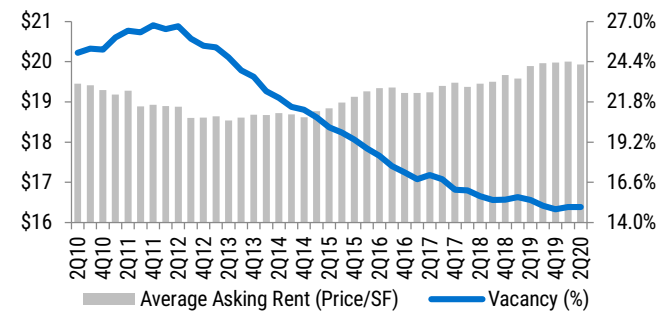
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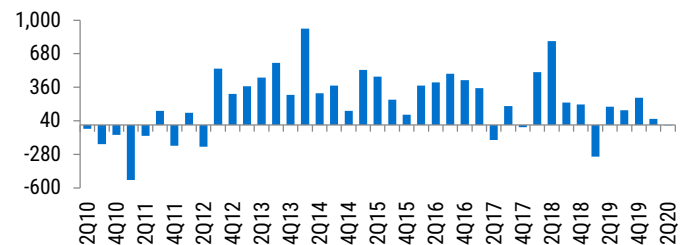
The market did not see a surge in sublease space as expected.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, Thousands)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	78.1 MSF	78.1 MSF	76.9 MSF	↑
Vacancy Rate	15.0%	15.0%	15.5%	→
Quarterly Net Absorption	(2,293)	57,538	175,721	↓
Average Asking Rent	\$19.93	\$20.00	\$19.89	↑
Under Construction	390 KSF	390 KSF	624 KSF	↑
Deliveries	0	234KSF	0	↑

## Detroit CBD

The Detroit Central Business District vacancy rate held steady at 12.1% during the second quarter as market activity mostly came to a standstill. Coworking firm Venture X opened at 28,000 square feet of shared office space at 220 West Congress Street. Only one new sublease space came on the market over the past 90 days, at 1500 North Woodward Avenue for 3,000 square feet. Following the completion of Little Caesars's \$150.0-million, nine-story, 234,000-square-foot world headquarters at the corner of Woodward Avenue and Columbia Street during the first quarter, other developments are underway for companies moving into the CBD. The Marquette Building is being renovated, as 1,000 employees of advertising firm WPP plans to move into 150,000 square feet during fourth-quarter 2020. Olympia Development is near completion of a 127,000-square-foot facility at 2715 Woodward Avenue that will be leased to Boston Consulting Group, Detroit Medical Center and Warner Norcross + Judd. The city's largest development, Bedrock's new high-rise on the former Hudson site at Woodward Avenue and Gratiot Avenue is moving forward. The developer is going vertical with 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.

## Troy

Troy's office market vacancy rate fell 20 basis points to 16.6% during the second quarter as just over 30,000 square feet was absorbed. The bulk of the submarket's overall absorption came from Billhighway's 32,000-square-foot lease at Timberland II on Corporate Drive and Ipsos Group's 24,000-square-foot lease at City Center Building on Big Beaver Road. New vacancies at Sheffield Office Park I on Big Beaver Road and 901 Tower Drive partially offset absorption. Four available subleases were added to the submarket over past 90 days, totaling roughly 22,400 square feet, the largest being a 8,000-square-foot space at 700 Tower Drive. Overall sublease space in Troy also fell by 10,000 square feet during the quarter as space was either leased or converted back to direct space.

By the next quarter, Troy is expected to see additional vacancies 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.

## Farmington Hills

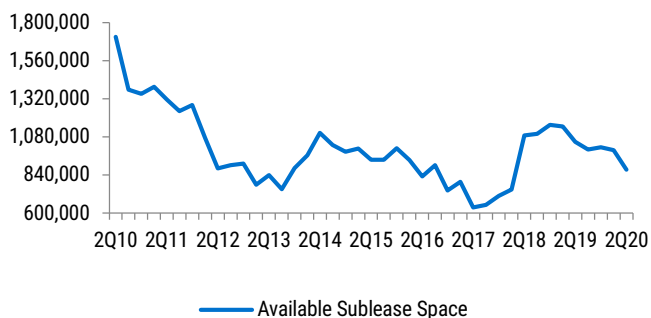
The Farmington Hills office was mostly inactive during the second quarter. The vacancy rate climbed 30 basis points to 9.9% during the quarter as just over 18,000 square feet in new vacancies were added to the market. Arboretum II added roughly 8,000 square feet to the market and Haggerty Pointe added 4,000 square feet, while various other buildings saw smaller units come available. Only one 1,400-square-foot sublease space came on the market during the past 90 days. Farmington Hills's overall sublease inventory stands at 87,388 square feet. The bulk of that sublease space consists of the nearly 70,000 square feet at 31440 Northwestern Highway. The Farmington Hills Class A vacancy rate held at 13.3% during the quarter as no market activity took place. The Class B vacancy rate rose 60 basis points to 6.5% during the quarter, largely from space coming on the market from Arboretum II and Haggerty Pointe.

## Bloomfield Hills

The Bloomfield Hills's office market vacancy rate climbed from 7.7% to 15.7% during the second quarter as just over 240,000 square feet of vacant space was added to the market. The largest vacancy came from PulteGroup Inc. moving out of 197,000 square feet at 100 Bloomfield Hills Parkway that was originally available for sublease but is now vacant direct space. Other large vacancies were created around the submarket as well, including: Bloomfield Centre-South on Woodward Avenue, which saw a 15,000-square-foot vacancy; and Taubman Office Center on Long Lake Road, which saw 9,000 square feet in new vacancies. Available sublease space totals 18,500 square feet. Just two sublease units came on the market over the past 90 days: a 10,000-square-foot unit at 6001 North Adams Road; and a 4,900-square-foot unit at Stoneridge Office Park II.

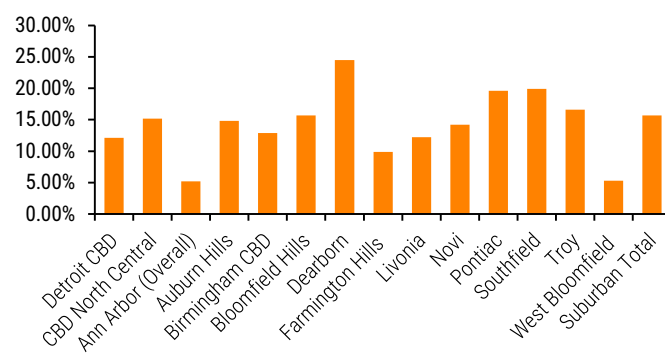
## AVAILABLE SUBLEASE SPACE

### Metro Detroit (SF)



## VACANCY BY SUBMARKET

### Vacancy Rate (%)



## Livonia

Livonia's office market vacancy rate fell 10 basis points to 12.2% during the second quarter as nearly 4,000 square feet was absorbed. Two deals made up the bulk of absorbed space: Community Alliance Credit Union's 5,000-square-foot lease at Cambridge West; and Nishikawa Cooper LLC's 4,000-square-foot lease at Laurel Office Park III. A 5,000-square-foot vacancy at Victor V partially offset overall absorption. No new sublease space was added to the Livonia office market in the past 90 days. The submarket's overall sublease inventory totals 88,763 square feet. Tower International's 77,146-square-foot sublease at 17672 North Laurel Park Drive added during first-quarter 2020 makes up the bulk of overall sublease space.

## Novi

Novi's office market vacancy held steady at 14.2% during the second quarter. Novelis completed construction of the company's 40,000-square-foot Customer Solutions Center on the corner of MacKenzie Drive and Cabot Drive in Novi. Overall, market activity was mostly quiet during the quarter. No new sublease space was added to the market during the past 90 days. The submarket's only available sublease space is a block of 30,000 square feet at 39500 Orchard Hill Place.

## Birmingham

Birmingham's overall office market was mostly inactive during the second quarter as the vacancy rate climbed 20 basis points to 11.0%.

The CBD Corridor's vacancy rate also jumped 10 basis points to 12.9% during the quarter. 220 Park Street remains the largest vacancy in the CBD as the 45,000-square-foot building underwent a complete renovation. Three new sublease spaces came on the market over the past 90 days located at 325 South Old Woodward Avenue, 210 South Old Woodward Avenue and 344 North Old Woodward Avenue, totaling nearly 19,000 square feet.

## Ann Arbor

Ann Arbor's overall vacancy rate climbed 170 basis points to 5.2% during second-quarter of 2020, as just over 92,000 square feet in new vacancies were added to the market. The bulk of new vacancy were seen in the Briarwood Corridor, which saw the vacancy rate climb 320 basis points to 8.6% as nearly 68,000 square feet of space was added to the market. South State Commons II saw the largest vacancy as 30,000 square feet came available in the building. The Wickfield Center added 18,000 square feet of available space, while the Burlington Office Center and 5430 Data Court each saw roughly 8,000 square feet come available. The Northeast Corridor's vacancy rate climbed 130 basis points to 3.7% during the quarter as nearly 25,000 square feet became vacant. Northeast Corporate Center added the bulk of space as 27,000 square feet came on the market in the building. Various smaller leases were able to partially offset the new vacancies. In Ann Arbor's CBD Corridor, the vacancy rate held steady at 2.3%.

## NOTABLE LEASE TRANSACTIONS

Tenant	Building	City	Type	Square Feet
Billhighway	Timberland II	Troy	Direct	32,000
Ipsos Group	City Center Building	Troy	Direct	24,000
PACE Southeast Michigan	21700 Northwestern Hwy	Southfield	Direct	18,000
Michigan Mutual, Inc.	Galleria Officentre	Southfield	Direct	9,000
Community Alliance Credit Union	Cambridge West	Livonia	Direct	5,000

## NOTABLE SALE TRANSACTIONS

Building	City	Sale Price	Price/SF	Square Feet
210 W University Dr	Rochester Hills	\$2,650,000	\$138	19,150
25899 W 12 Mile Rd	Southfield	\$1,700,070	\$48	35,766
37875 W 12 Mile Rd	Southfield	\$950,000	\$130	7,274
17500 W 11 Mile Rd	Southfield	\$925,000	\$84	11,000
15755 Northline Rd	Southgate	\$900,000	\$109	8,252

## SUBMARKET STATISTICS

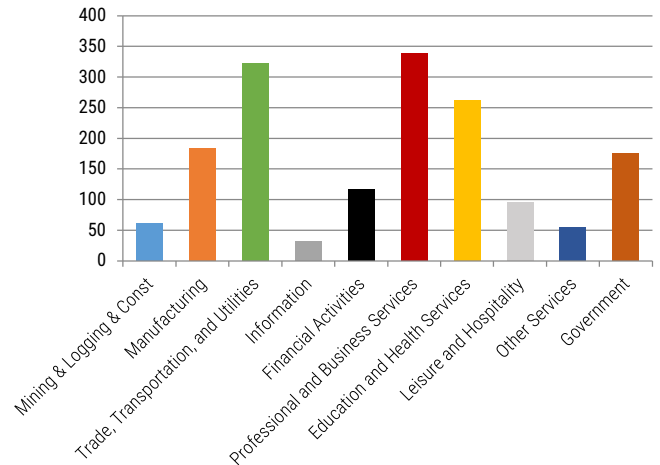
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD	14,685,119	390,000	12.1%	-26,230	254,178	\$26.82	\$21.63	\$22.59
CBD New Center	1,623,604	X	15.2%	2,077	-27,430	-	\$18.25	\$18.06
<b>Detroit Total</b>	<b>16,308,723</b>	<b>390,000</b>	<b>12.4%</b>	<b>-24,153</b>	<b>226,748</b>	<b>\$26.82</b>	<b>\$20.60</b>	<b>\$21.00</b>
Ann Arbor Briarwood	2,129,620	X	8.6%	-67,841	-79,486	\$30.11	\$22.19	\$27.17
Ann Arbor CBD	1,426,045	X	2.3%	241	27,197	\$33.00	\$25.24	\$30.78
Ann Arbor Northeast	1,880,605	X	3.7%	-24,827	-25,006	\$27.00	\$22.20	\$26.21
Auburn Hills	2,950,157	X	14.8%	-29,542	-7,973	\$21.23	\$17.93	\$18.83
Birmingham	273,654	X	2.3%	-1,206	-1,011	\$43.20	\$29.15	\$27.58
Birmingham CBD	1,270,864	X	12.9%	-1,496	-9,931	\$34.55	\$32.26	\$33.60
Bloomfield Hills	3,031,190	X	15.7%	-240,136	-267,225	\$26.76	\$22.96	\$24.58
Dearborn	3,193,219	X	24.5%	3,180	5,649	\$18.75	\$15.90	\$17.33
Farmington Hills	6,538,565	X	9.9%	-18,482	-46,543	\$21.06	\$19.24	\$19.74
Livonia	3,175,930	X	12.2%	3,908	-22,848	\$22.23	\$20.56	\$18.53
Novi	1,661,094	X	14.2%	596	-8,892	\$22.62	\$21.50	\$21.53
Pontiac	2,800,852	X	19.6%	-	23,018	-	\$16.18	\$15.88
Southfield	17,355,814	X	19.9%	366,869	310,612	\$21.41	\$18.25	\$19.02
Troy	13,579,620	X	16.6%	30,595	-69,444	\$23.54	\$19.85	\$20.57
West Bloomfield	557,771	X	5.3%	1	380	\$22.00	\$16.77	\$19.34
<b>Suburban Total</b>	<b>61,828,000</b>	<b>X</b>	<b>15.7%</b>	<b>21,860</b>	<b>-171,503</b>	<b>\$22.52</b>	<b>\$19.12</b>	<b>\$19.80</b>
<b>Totals</b>	<b>78,136,723</b>	<b>390,000</b>	<b>15.0%</b>	<b>-2,293</b>	<b>55,245</b>	<b>\$22.83</b>	<b>\$19.36</b>	<b>\$19.93</b>

## ECONOMIC CONDITIONS

The Metro Detroit unemployment rate climbed dramatically to near 24% in May as COVID-19 containment measures shutdown most industries. Employment in the Manufacturing industry fell 28% compared to the same time last years. Other industries saw significant employment loses. Leisure and Hospitality fell 52%, Construction fell 20% while Trade & Transportation fell 14%.

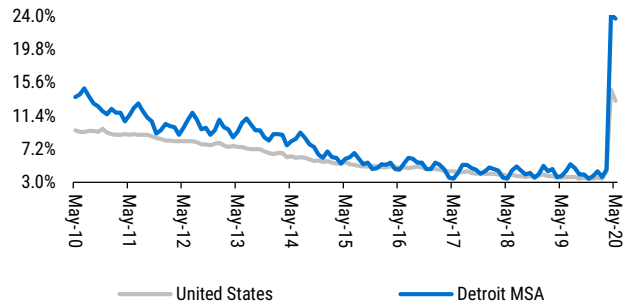
## EMPLOYMENT BY INDUSTRY

Detroit MSA, May 2020, in thousands



## UNEMPLOYMENT RATE

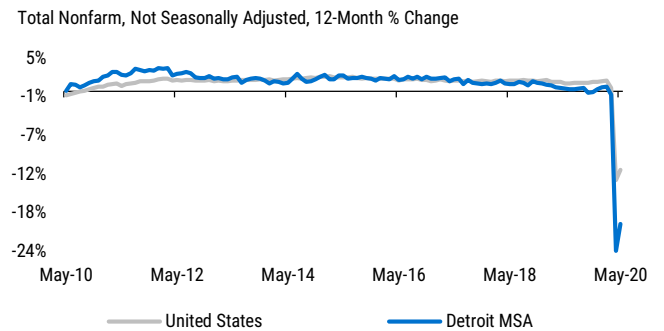
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

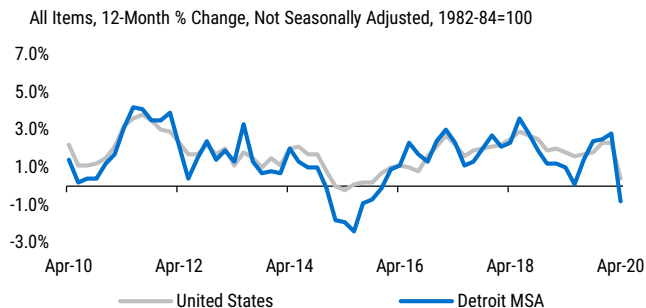
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

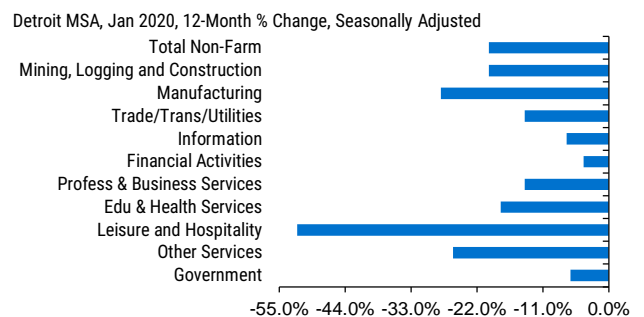
All Items, 12-Month % Change, Not Seasonally Adjusted,



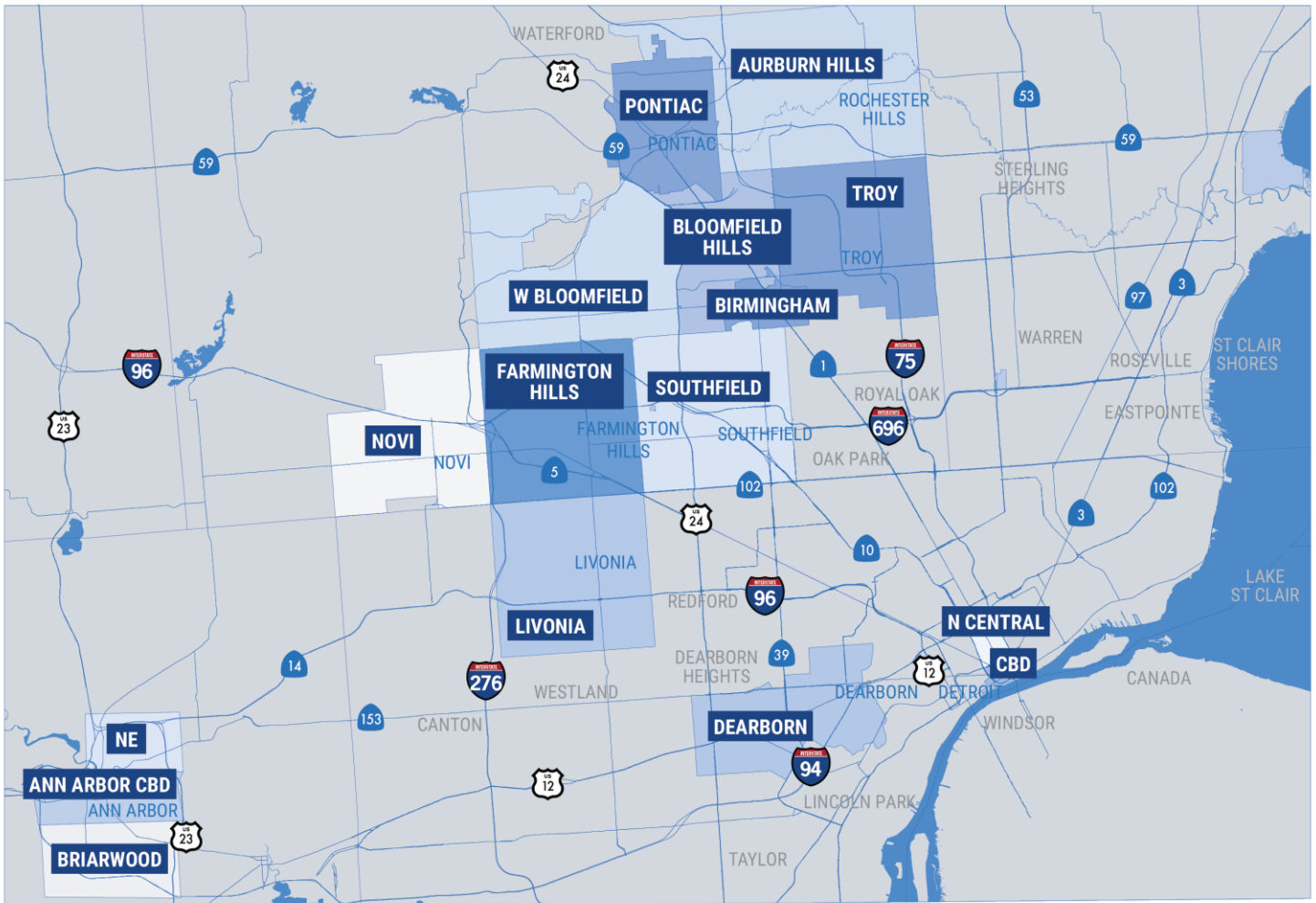
Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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