

3Q24

Detroit Office Market Overview



NEWMARK

Market Observations

Economy

- The Detroit Metro’s labor market remains stagnant. August 2024 unemployment was up 60 basis points from the end of the second quarter.
- Infrastructure Investment and Jobs Act continues to boost employment levels. Employment in the Construction sector grew 9.8% year-over-year.
- Recent trends have indicated a 1.7% decline in office-using employment during July and August. This follows a period of growth from February to June. While such fluctuations can be concerning, the financial sector may benefit from the currently falling interest rates, potentially leading to an uptick in employment in the coming quarters.

Major Transactions

- Benteler Automotive leased 15,000 SF at 900 Squirrel Rd in Auburn Hills.
- Shinsho American Corporation took 5,003 SF at Farmington Hills Officenter I on Executive Drive in Farmington Hills.
- SPA Associates LLC leased 4,800 SF at Crystal Glen Office Centre on Orchard Hill Place in Novi.
- Oakland Hills Cardiology Consultants, PLLC leased 4,445 SF in Southfield Wellness Building on Telegraph Road in Southfield.

Leasing Market Fundamentals

- The Metro Detroit office vacancy rate increased by 50 basis points to 22.8% during the third quarter of 2024, with 340,689 square feet of net vacancies added to the market.
- The bleeding appears to be slowing down in the office market. Year-to-date absorption was negative 702,729 SF compared to negative 1,995,140 SF during the first three quarters of 2023.
- Available sublease space remained at levels seen during the previous quarter.

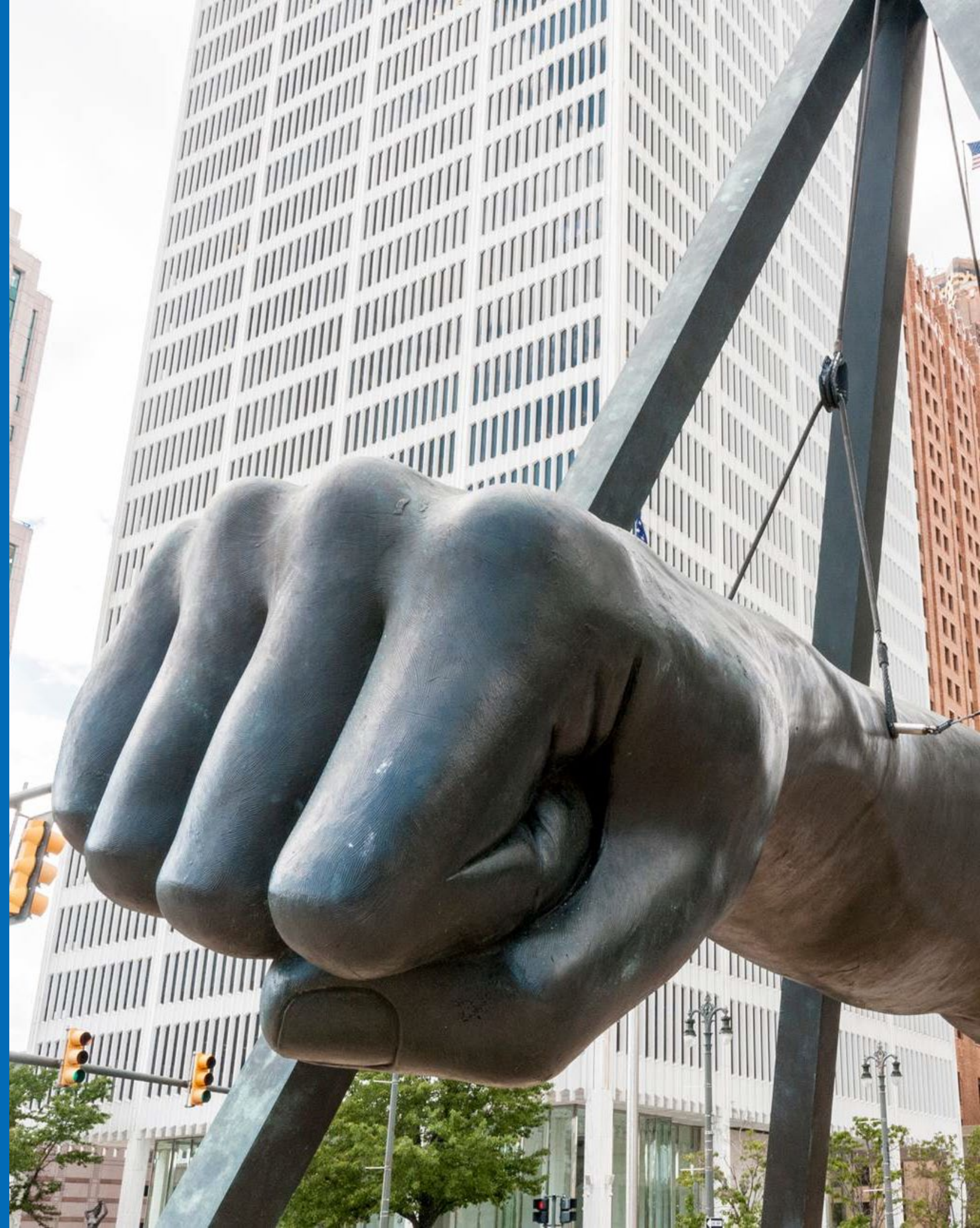
Outlook

- The market is seeing an increase in leases over 10,000 SF going into the second quarter of 2024. Increased leasing activity could translate into net positive absorption for the market in the coming quarters.
- Despite elevated asking rates, tenants will see increasingly competitive offers from landlords in the form of rent concessions and tenant improvement allowances.
- Tenants will capitalize on competitive rates from landlords and lock in with long-term lease deals.
- The market continues to be favorable for tenants looking to purchase office buildings as sale prices fall.

1. Economy
2. Leasing Market Fundamentals

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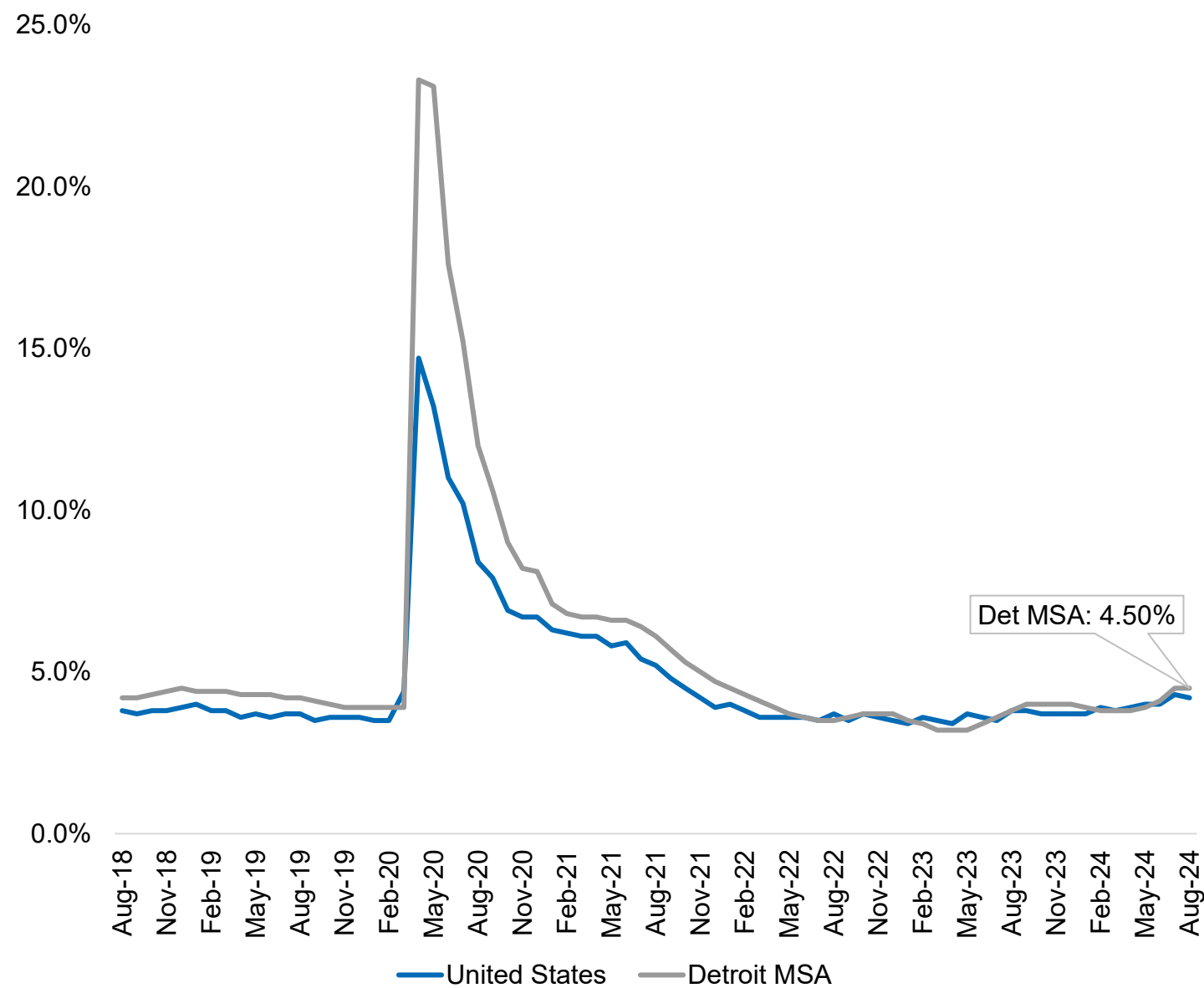
Economy



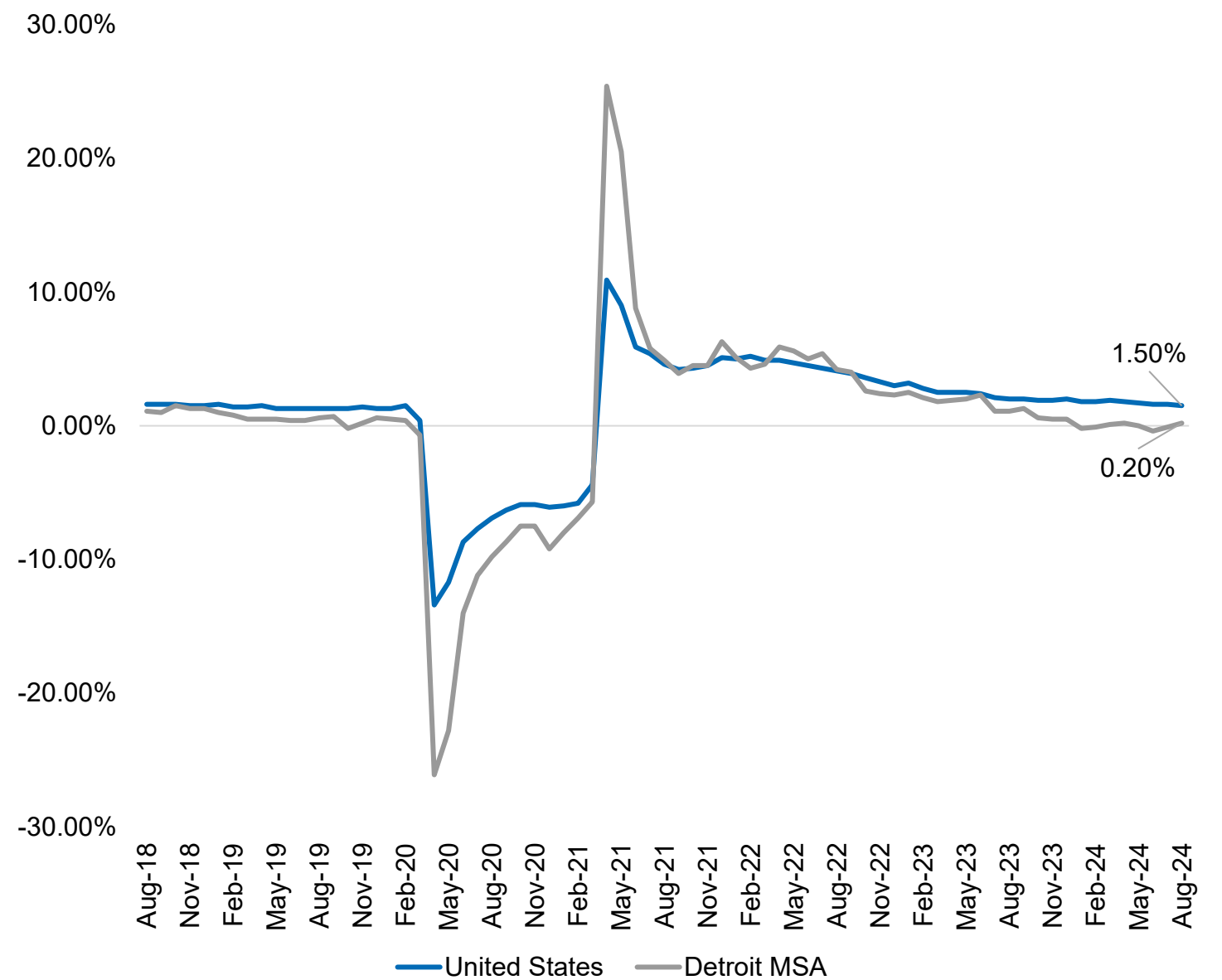
Metro Employment Trends Signal A Slowing Economy

The Detroit Metro's labor market remains stagnant. August 2024 unemployment was up 60 basis points from the end of the second quarter. Compared to last year, employment levels grew at a modest .20%. The unemployment rate remains lower than the 5.7% 10-year historical average.

Unemployment Rate, Seasonally Adjusted



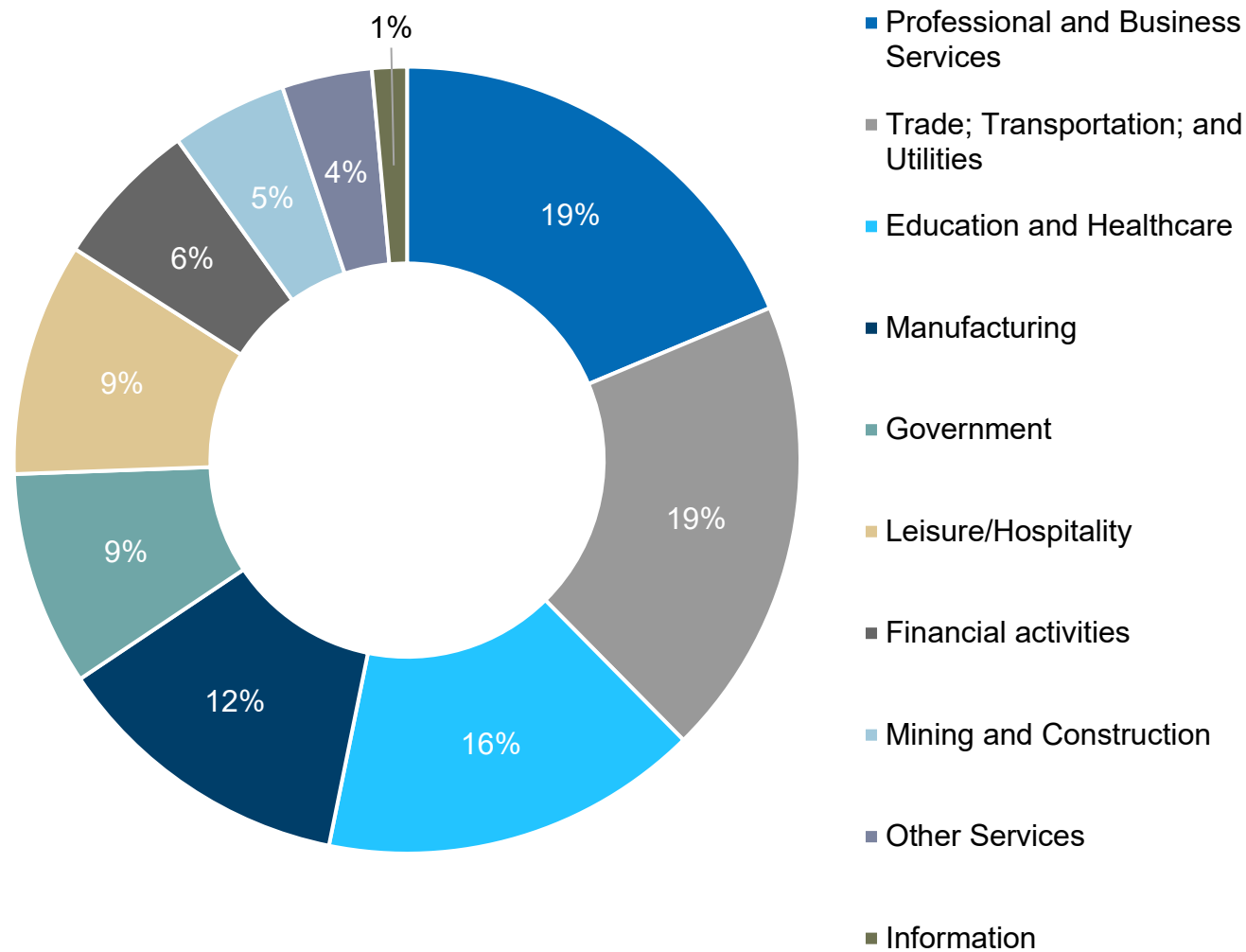
Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



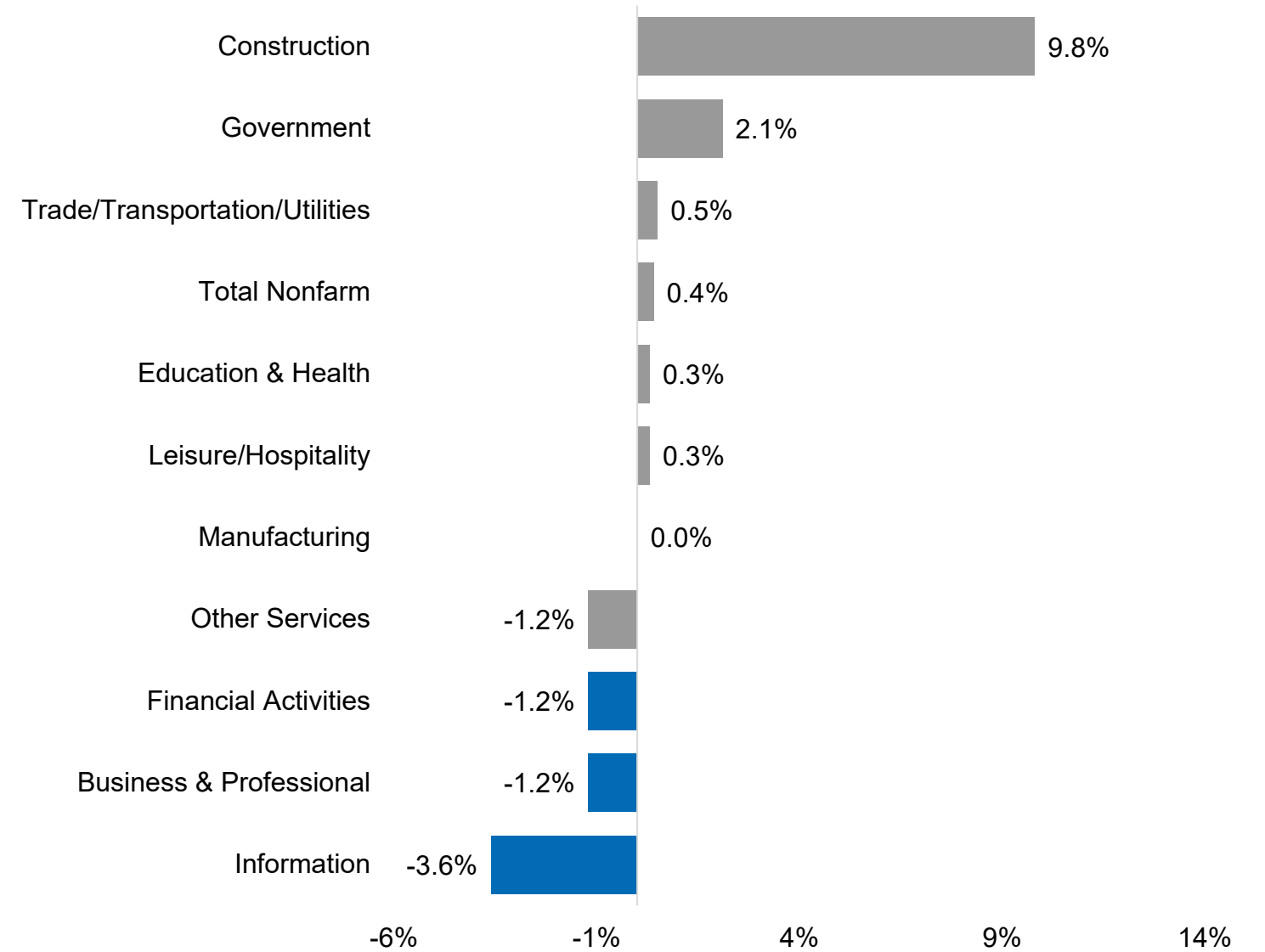
Office-Using Employment Down from Last Year

The latest figures for August 2024 indicate a downturn in office sector employment. The Information sector experienced the most significant decline, with a year-over-year (YOY) decrease of 3.6%. Similarly, employment in Financial Activities as well as Business & Professional Development each recorded a YOY decrease of 1.2%.

Employment by Industry, August 2024



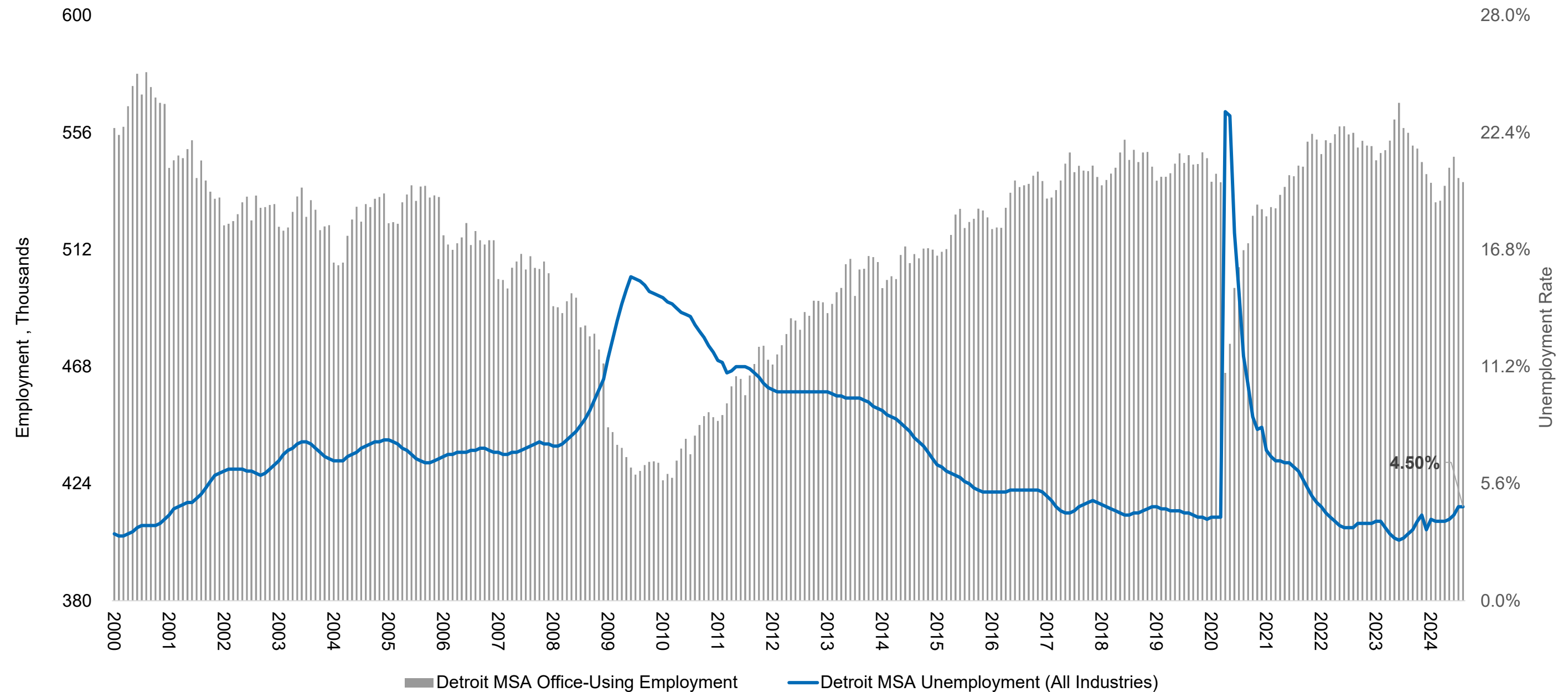
Employment Growth by Industry, 12-Month % Change, August 2024



Overall Office-Using Employment

Recent trends have indicated a 1.7% decline in office-using employment during July and August. This follows a period of growth from February to June. While such fluctuations can be concerning, the financial sector may benefit from the currently falling interest rates, potentially leading to an uptick in employment in the coming quarters

Office-Using Employment* and Unemployment Across All Industries



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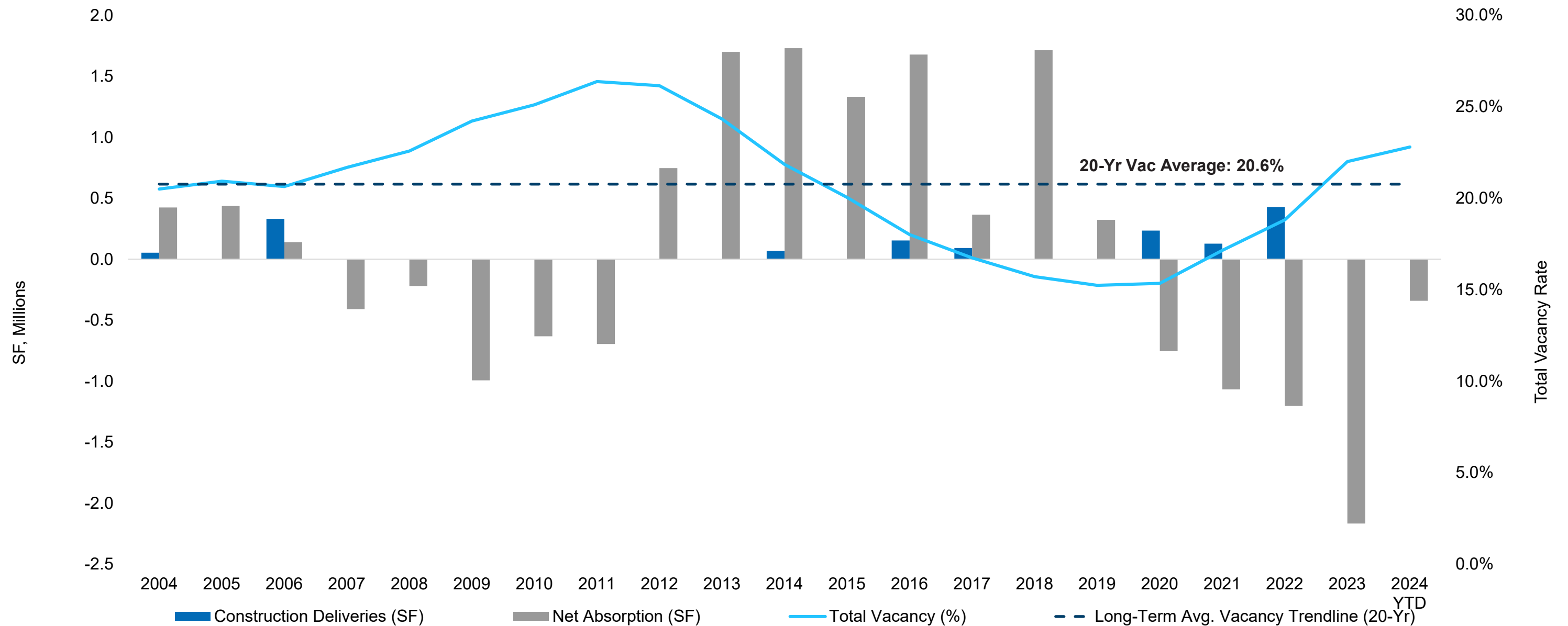
Leasing Market Fundamentals



Negative Absorption Levels Decelerate

The Metro Detroit office vacancy rate increased by 50 basis points to 22.8% during the third quarter of 2024, with 340,689 square feet of net vacancies added to the market. Year-to-date, the market has seen an addition of 702,729 square feet of vacant space. In comparison, by the third quarter of 2023, the market had seen a significantly higher addition of 1,995,140 square feet of vacant space.

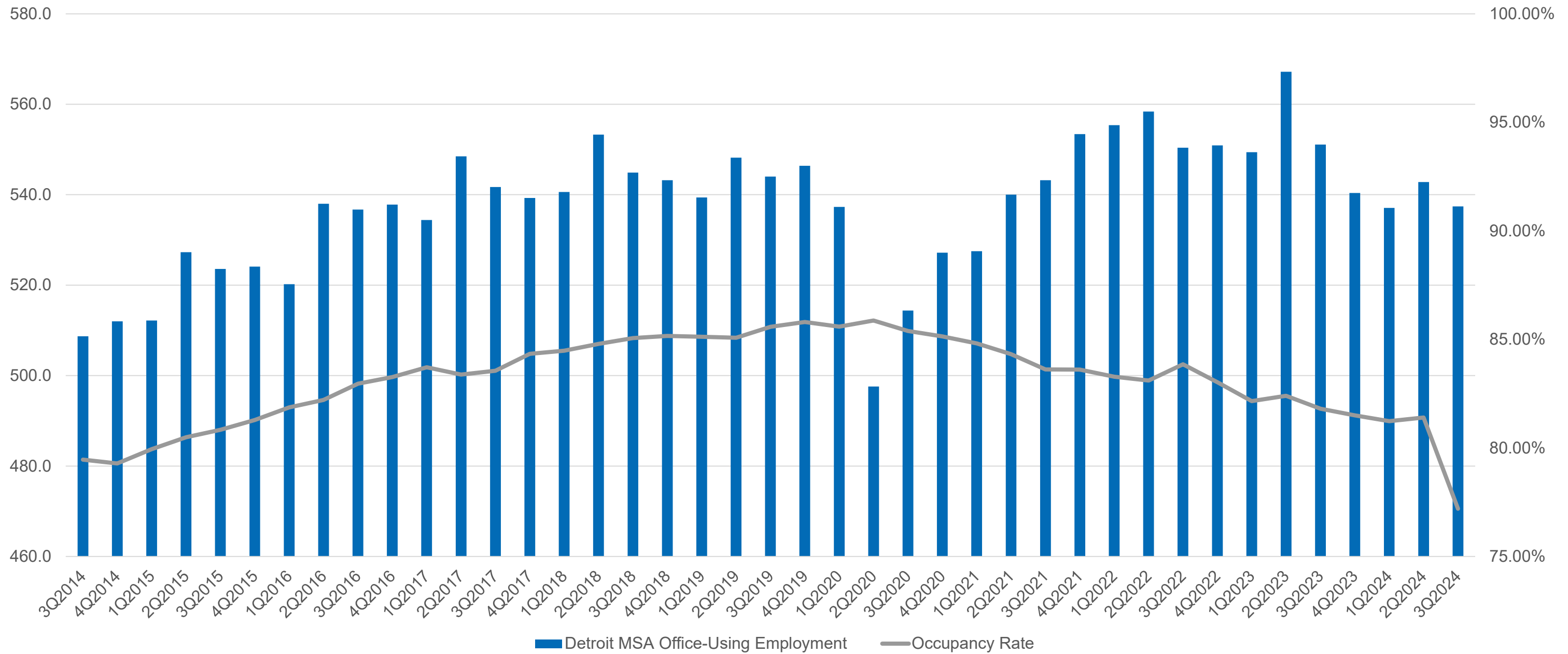
Historical Construction Deliveries, Net Absorption, and Vacancy



Overall Office-Using Employment vs Occupancy Levels

Office-using employment traditionally correlated with office building occupancy levels. Post Covid, Metro Detroit began to see a deviation as employment levels rose while office occupancy levels dropped. There are indications that occupancy levels are stabilizing as companies continue to use office space but at reduced levels.

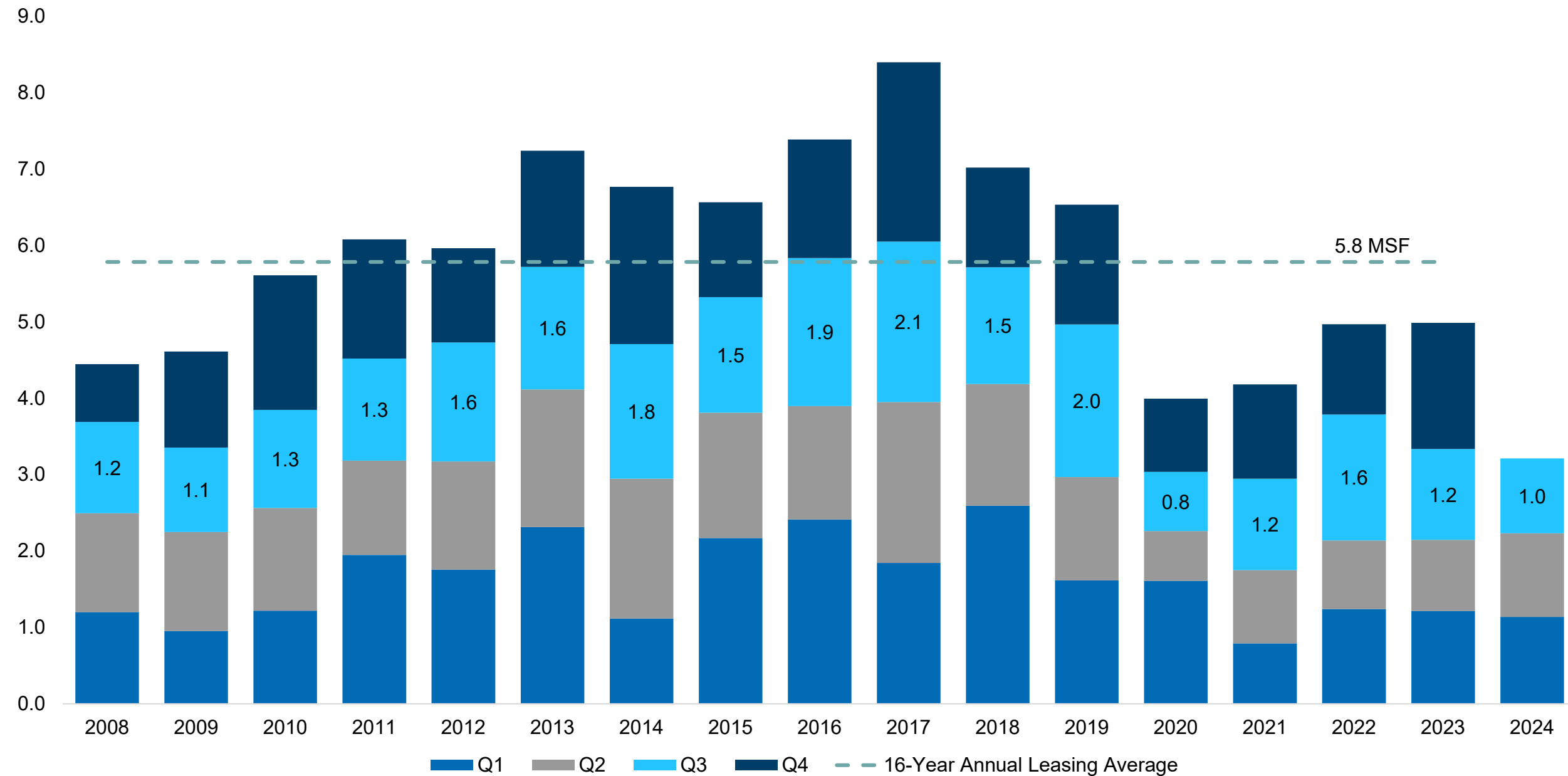
Office-Using Employment* and Office Occupancy Levels



Leasing Activity Remains Stagnant

Overall leasing activity in the Detroit Metro area continues to be below pre-COVID levels. After 2019, demand for space sharply declined as office users aimed to reduce occupancy costs by downsizing. All Done

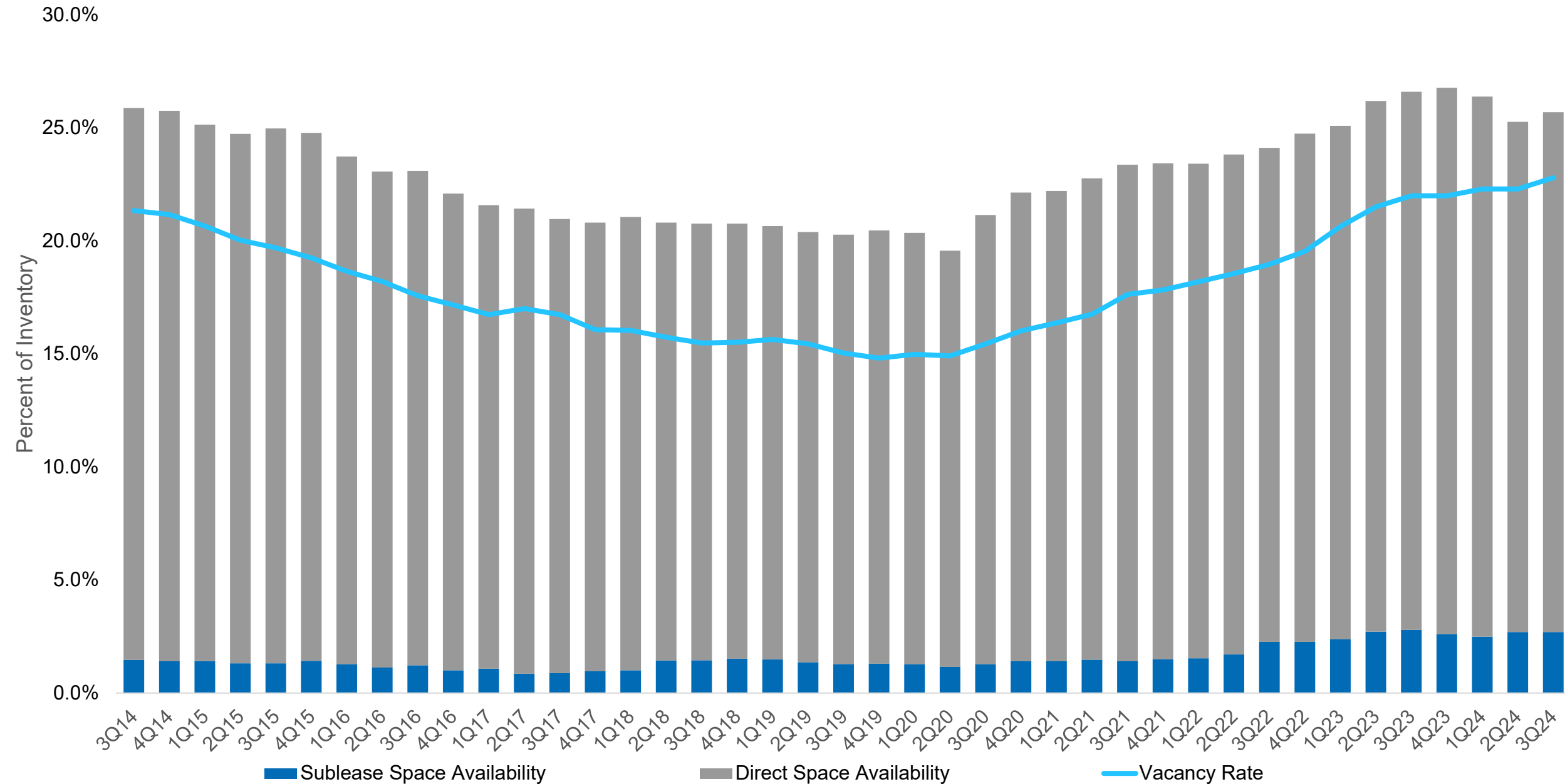
Total Leasing Activity (msf)



Direct Available Space Dips While Sublease Levels Grow

Available sublease space remains elevated at just over 2 million square feet, accounting for 2.7% of the overall inventory. Prior to Covid, just over 1 million square feet of sublease space was available. Direct available space has increased by 2.7%, reaching 18.3 million square feet. All Done

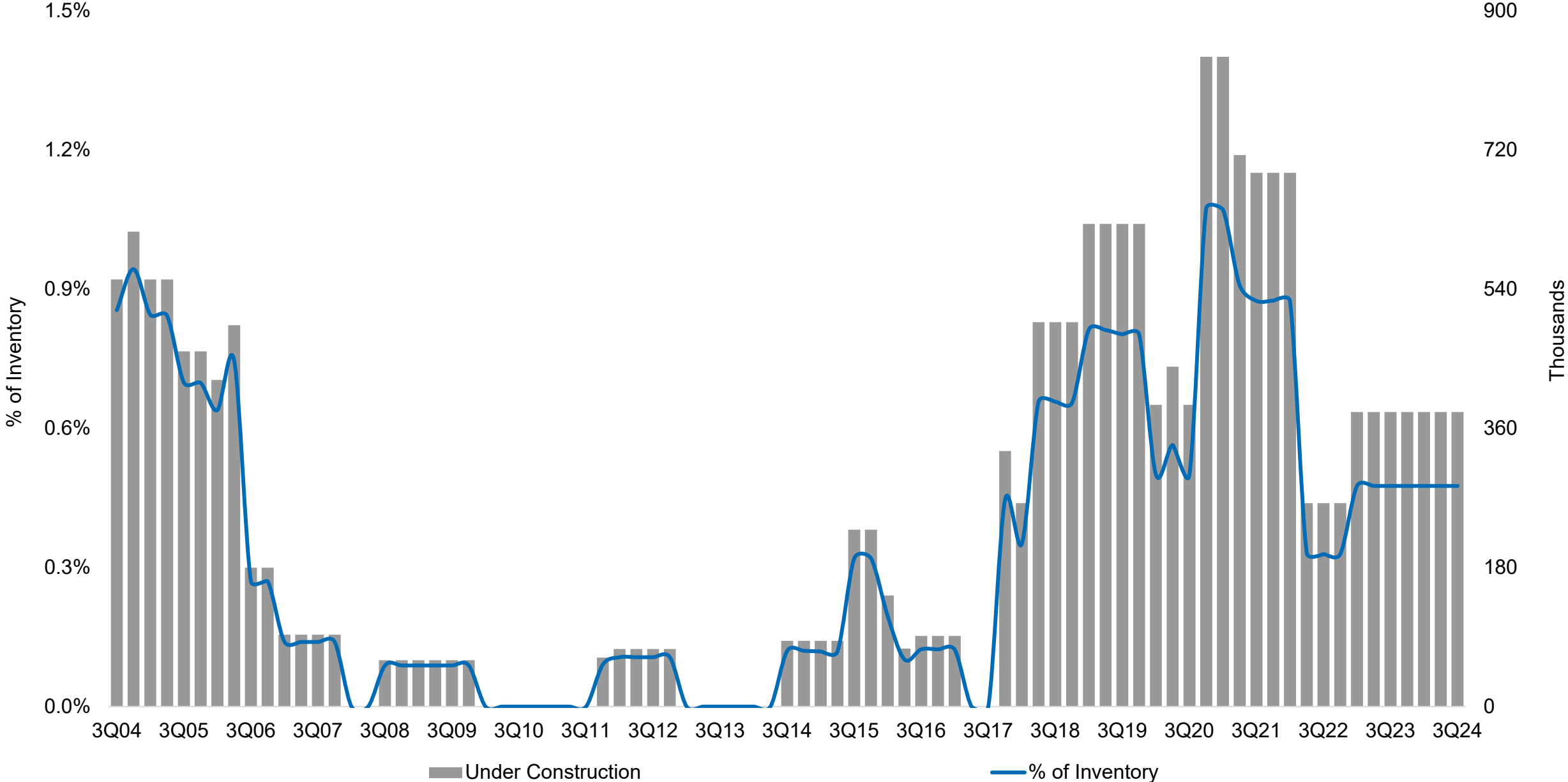
Available Direct & Sublease Space and as Percent of Overall Market



Construction Continues on the City of Detroit's Newest High-Rise

Construction on Bedrock's new high-rise on the former Hudson site at Woodward and Gratiot Avenues continues. The 680-foot-tall mixed-use development will feature a 400,000-SF block of Class A office space, along with residential, hotel and retail components. The new tower will likely be completed late 2024 to early 2025.

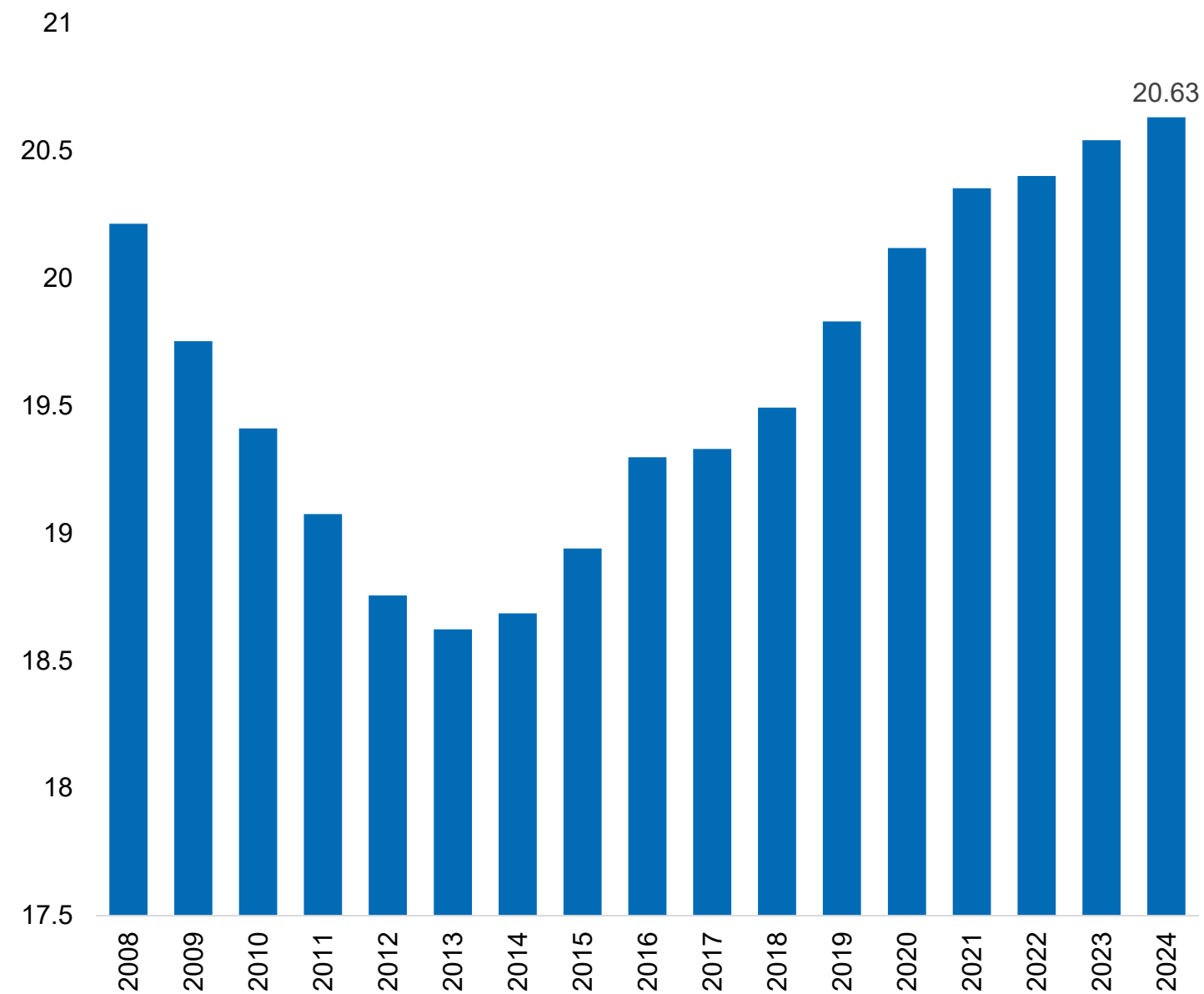
Office Under Construction and % of Inventory



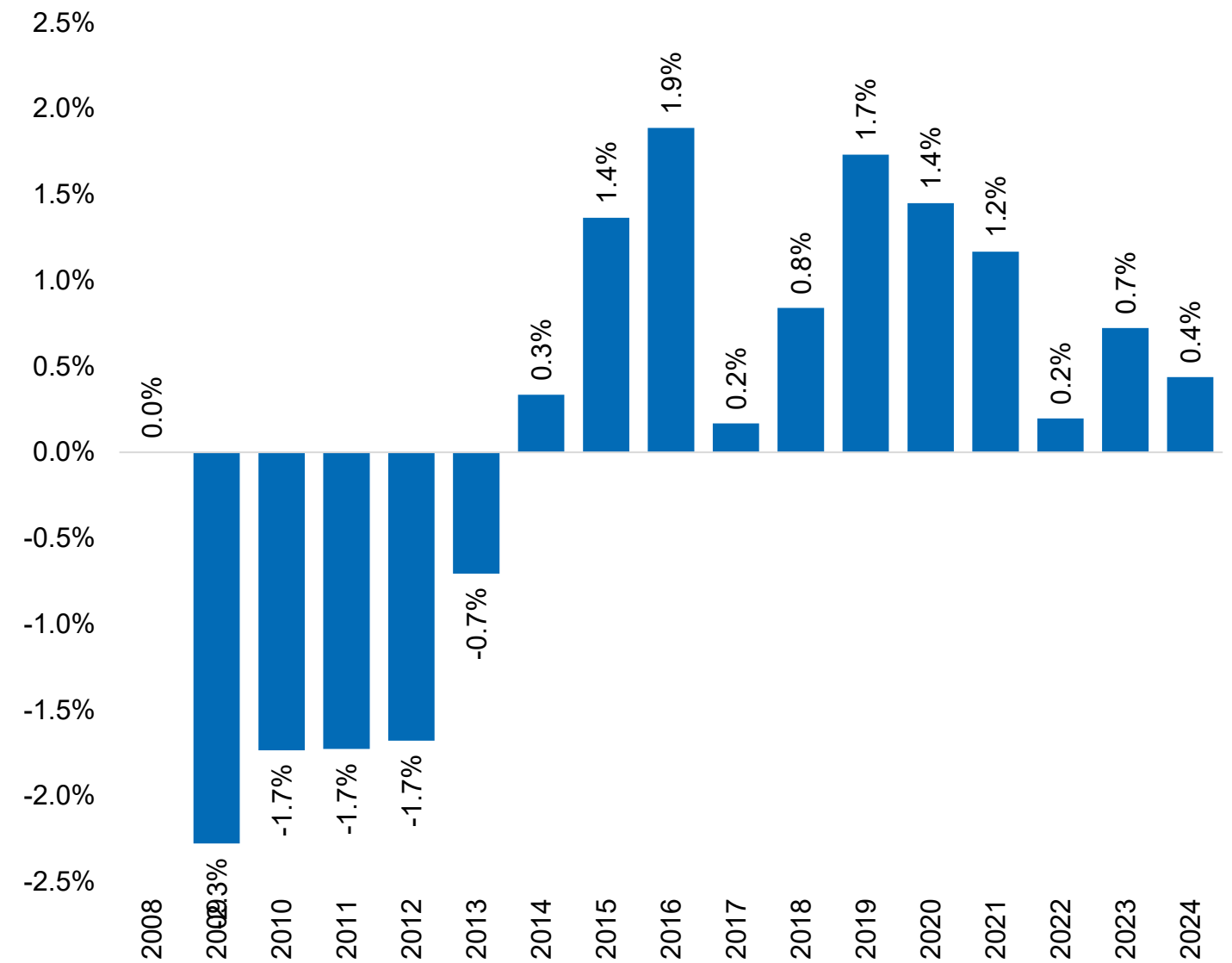
Average Asking Rents Pause Upward Trend

Despite a slew of space coming on the market since the pandemic from companies downsizing, asking rents haven't shown much downward movement. On the contrary, the average asking rate has climbed as more high-quality space is added to the market. The market is finally seeing a pause in the upward trend. Landlords continue to incentivize tenants with increasingly competitive offers in the form of rent concessions that include free rent and tenant improvement allowances. Graph DONE

Office Average Asking Rent, \$20.67/SF, FS



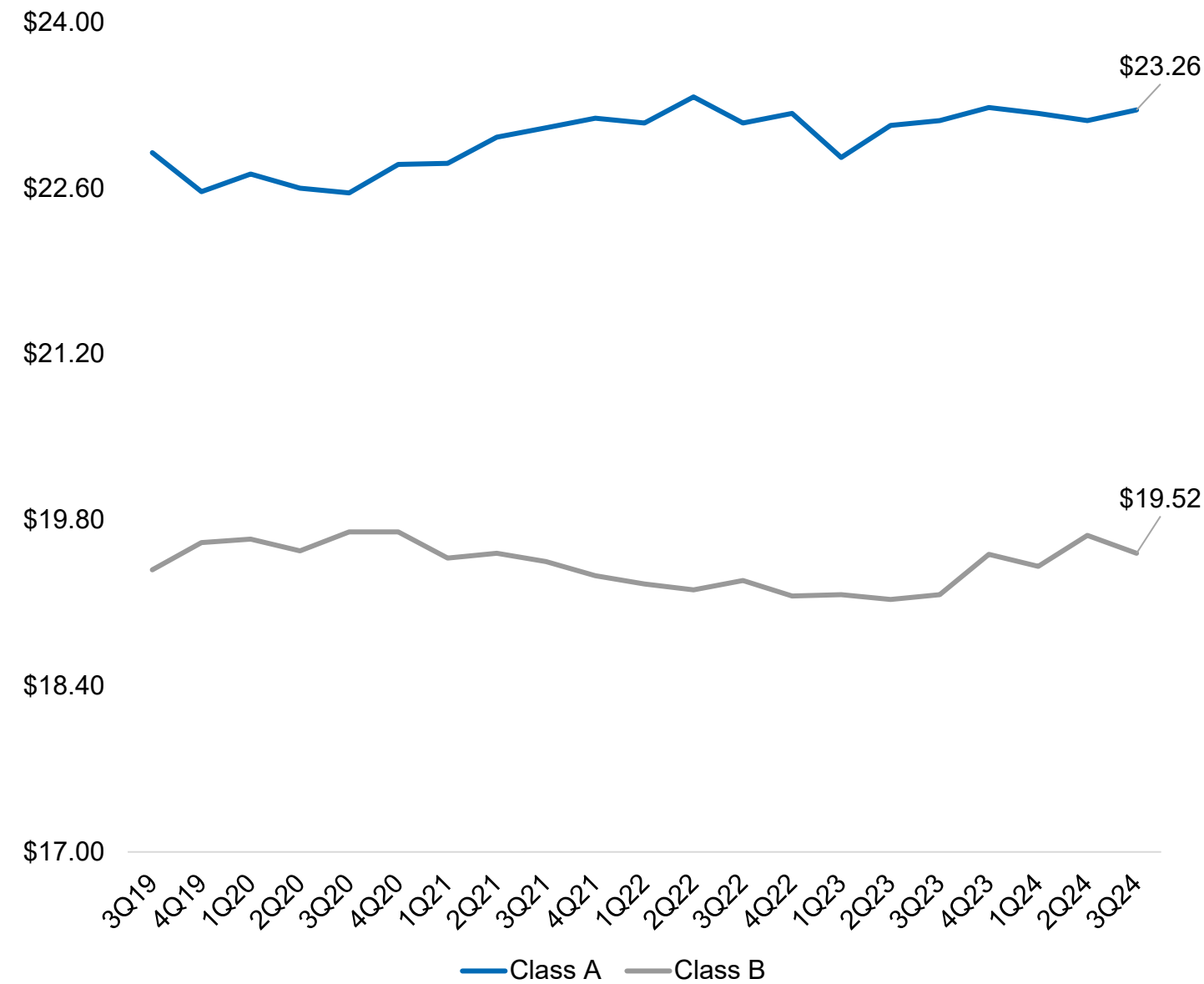
Year-over-Year Asking Rent Growth Rate



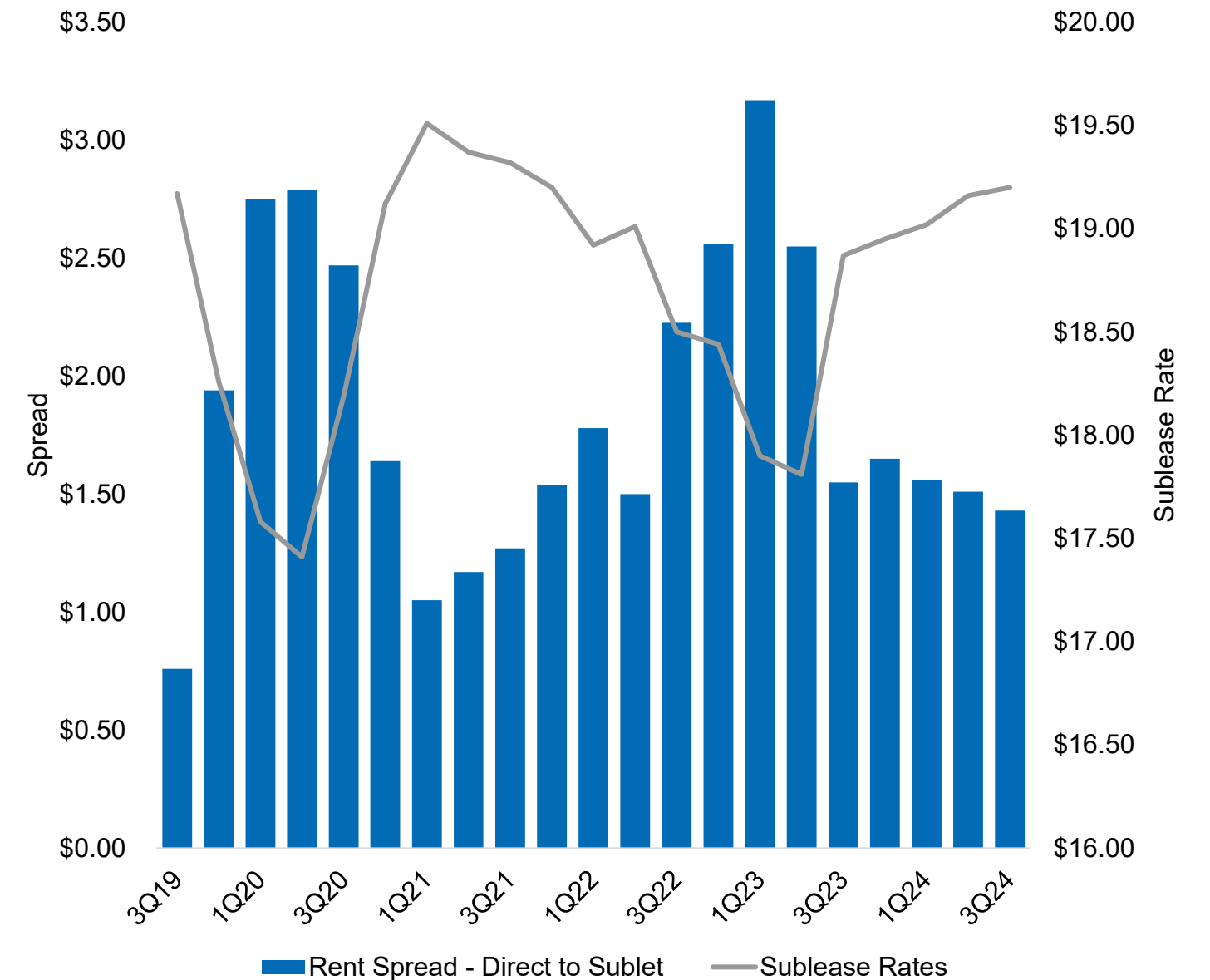
Asking Rates Mostly Unchanged

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely remained unchanged since the onset of the pandemic. Landlords have traded rent reductions with increased lease incentives, including greater free rent periods and TI packages. Sublease rents have mostly declined since 2021 before the market was saturated with space. An increase in Class A sublease space has driven the average up over the past few quarters.

Class A and Class B Asking Rents



Sublease Rates



3Q 2024 Overall Metro Detroit Office Market Stats

Submarket Statistics – All Classes

| | Total Inventory | Under Construction | Total Vacancy | Qtr Absorption | YTD Absorption | Class A Asking Rent | Class B Asking Rent | Average Asking Rent |
|-----------------------|-------------------|--------------------|---------------|-----------------|-----------------|---------------------|---------------------|---------------------|
| | (SF) | (SF) | Rate | (SF) | (SF) | (Price/SF) | (Price/SF) | (Price/SF) |
| CBD | 15,425,549 | 380,821 | 19.6 % | 2,638 | -164,116 | \$26.55 | \$24.73 | \$24.97 |
| CBD North Central | 1,623,604 | - | 18.4 % | -4,878 | -22,600 | \$30.00 | \$21.18 | \$23.36 |
| CBD Total | 17,076,153 | 380,821 | 19.5 % | --2,240 | -186,716 | \$26.85 | \$24.06 | \$24.77 |
| Ann Arbor Briarwood | 2,301,862 | - | 19.9 % | -15,425 | 7,163 | \$27.14 | \$23.73 | \$24.61 |
| Ann Arbor CBD | 1,336,823 | - | 14.2 % | -286 | -59,618 | \$34.12 | \$28.04 | \$30.72 |
| Ann Arbor Northeast | 2,053,840 | - | 14.6 % | -45,521 | 73,094 | \$28.45 | \$22.20 | \$28.31 |
| Auburn Hills | 3,291,327 | - | 21.5 % | 9,304 | 6,398 | \$20.34 | \$20.47 | \$20.41 |
| Birmingham | 258,752 | - | 11.4 % | -870 | -4,029 | - | \$35.24 | \$35.14 |
| Birmingham CBD | 1,270,864 | - | 8.3 % | 2,418 | -5,901 | \$36.21 | \$32.98 | \$33.01 |
| Bloomfield Hills | 3,031,190 | - | 18.7 % | -12,111 | 19,091 | \$25.06 | \$22.69 | \$23.96 |
| Dearborn | 2,962,871 | - | 26.3 % | 11,898 | 12,307 | \$21.06 | \$16.90 | \$19.12 |
| Farmington Hills | 6,724,127 | - | 22.0 % | -32,465 | -192,738 | \$20.51 | \$19.17 | \$19.77 |
| Livonia | 3,360,051 | - | 24.8 % | -12,062 | -71,149 | \$20.85 | \$18.35 | \$18.53 |
| Novi | 1,689,457 | - | 22.9 % | 10,530 | 22,899 | \$22.20 | \$20.46 | \$21.16 |
| Pontiac | 2,780,852 | - | 15.6 % | - | -8,935 | - | \$16.00 | \$15.78 |
| Southfield | 17,168,665 | - | 28.4 % | -125,132 | -210,513 | \$20.73 | \$17.74 | \$18.30 |
| Troy | 13,615,095 | - | 26.5 % | -123,608 | -90,880 | \$25.68 | \$18.56 | \$19.85 |
| West Bloomfield | 557,771 | - | 11.0 % | -5,119 | -13,202 | \$20.20 | \$17.54 | \$18.68 |
| Suburban Total | 62,403,547 | - | 23.7 % | -338,449 | -516,013 | \$22.52 | \$18.85 | \$19.86 |
| Totals | 79,479,700 | 380,821 | 22.8 % | -340,689 | -702,729 | \$23.26 | \$19.52 | \$20.63 |

Source: Newmark Research

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