

INVESTMENT FORECAST

Office
Detroit

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Improved Leasing Activity and Limited Speculative Development to Aid Vacancy in the Motor City

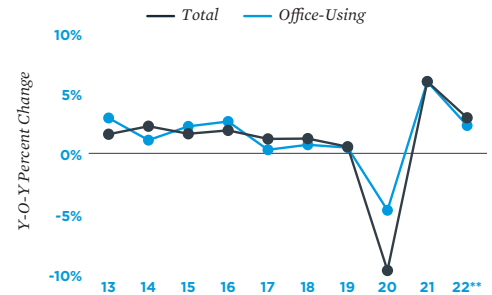
Second-half momentum paves way for a positive outlook. Uncertainty surrounding future office space needs during the health crisis resulted in a number of relocations and consolidations that lifted metrowide vacancy in 2021. However, net absorption returned to positive territory during the second half, supporting an optimistic outlook for fundamentals this year. Total employment in traditional office-using sectors surpassed the market's pre-pandemic peak, contributing to the rise in tenant demand. Notable companies like Rocket Mortgage already initiated their return to office, while other major firms like Ford Motor Co. and General Motors plan to recall workers in the early stages of 2022. Barring any setbacks from COVID-19 variants, more employers could follow suit as vaccination rates increase. Development activity remains robust, but it is improbable that deliveries will result in a rise in availability, as nearly 85 percent of space scheduled to deliver in 2022 has a tenant in place. Therefore, a moderate contraction in vacancy is expected this year. Nevertheless, the metro's recovery timeline will likely extend into 2023 as availability remains above the historical average.

Regionally discounted pricing stimulates deal flow. Detroit's office sector offers investors lower entry costs and the potential for higher first-year returns relative to some other major Midwest markets. The metro's expanding buyer pool contributed to transaction velocity returning to pre-pandemic levels in 2021. Assets in Macomb County, Southfield and the Southern I-275 corridor account for the largest proportion of trades in the metro. Low vacancy rates and the presence of medical office listings heighten buyer interest in Macomb County, while low entry costs in Southfield garner the attention of yield-driven investors. Buyers seeking higher-quality assets target properties in Farmington Hills and Troy. As fundamentals continue to tighten and more businesses return to the office, assets inside the CBD may become more attractive in 2022.

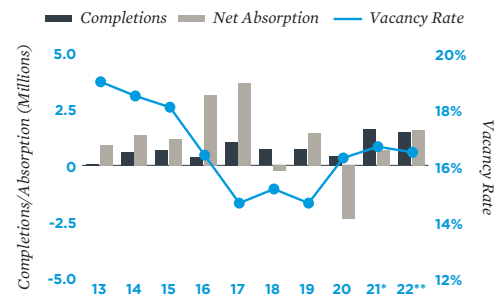
2022 Market Forecast

- Employment**
up 3.0%
Employers will create 58,000 jobs this year, with around 12,750 new roles in traditional office-using industries.
- Construction**
1,450,000 sq. ft.
Supply additions exceed 1 million square feet for the second consecutive year. The bulk of new development is located within the city of Detroit.
- Vacancy**
down 20 bps
Tenants absorb more than 1.5 million square feet of office space this year, lowering the vacancy rate to 16.5 percent. In 2021, the metro registered a 40-basis-point increase.
- Rent**
up 2.2%
Contracting vacancy will aid rent growth, with the average asking rate reaching \$18.85 per square foot in 2022. This gain follows a 0.3 percent decrease recorded last year.
- Investment**
Elevated development activity inside the city of Detroit may present investors with additional opportunities for higher-quality assets moving forward.

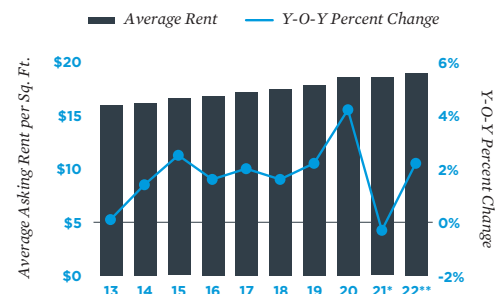
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.