MARKET REPORT

Office

Detroit Metro Area

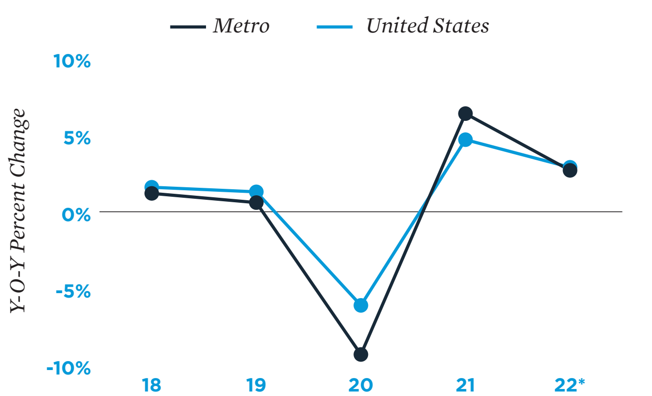
2Q/22

Office Operations in the Core Pick up Steam as Tenants Seek High-Quality New Space

Tenants chase talent into Downtown. Shifting preferences among firms emerging from the pandemic have resulted in a stronger demand for high-end space, coinciding with heightened levels of office construction in the core. Firms are increasingly viewing collaborative meeting spaces as a means of bringing workers back into offices on their own volition and as a tool for recruiting. As downtown enlarges its stock of higher-end housing and retail, younger professionals are searching for jobs in or near the core. Vacancy in the Detroit-The Pointes submarket fell 70 basis points in the last three quarters, with Class A availability dropping 80 basis points year-over-year in the locale. Walbridge and HNTB, two construction companies, highlight the deals inked for high-end space in the CBD.

Suburban office owners react to rejuvenated CBD office scene. To stay competitive with recent completions downtown from an amenities standpoint, more suburban office renovations are underway. Recently upgraded buildings outside the CBD have been successful in securing and retaining tenants, despite vacancy rising more sharply in the suburbs than the core since the onset of COVID-19. Areas between downtown and more distant suburbs, such as southern Macomb County, Southfield and Royal Oak, have vacancy rates that are broadly comparable to pre-pandemic levels or are declining. These locales are close enough to downtown to appeal to younger workers, while providing shorter commutes from the suburbs, producing a best-of-both-worlds scenario for certain tenants and workers.

Employment Trends



* *Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

54,000 JOBS
will be created

EMPLOYMENT:

Employers are set to expand job counts by 54,000 roles, bringing the metro within 17,000 positions of the pre-health crisis level. At the same time, traditionally office-using employment is already 7,000 positions ahead of the 2019 high as of April.

1,250,000 SQ. FT.
will be completed

CONSTRUCTION:

Development activity is heightened this year, with several projects delayed by the pandemic set to finalize before the end of December. Annual inventory growth of 0.7 percent is the largest increase since 2007.

10 BASIS POINT
increase in vacancy

VACANCY:

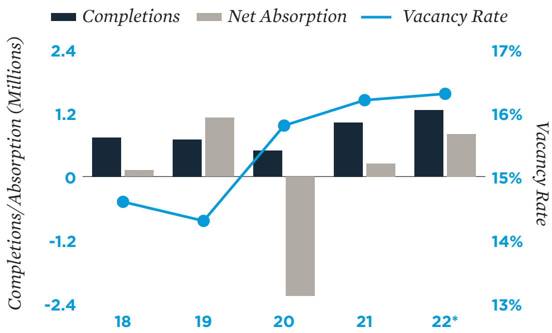
Vacancy is expected to remain relatively steady in 2022, following a 40-basis-point rise last year and a 150-basis-point swell in 2020. The metrowide rate will be 16.3 percent at the end of December.

2.2% INCREASE
in asking rent

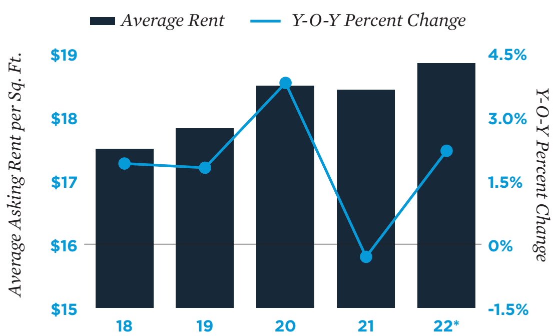
RENT:

After falling last year for the first time since 2012, the average asking rent is set to recover those losses by the end of the year, rising to $18.84 per square foot. This puts the mean asking rent more than a full dollar above the pre-pandemic level.

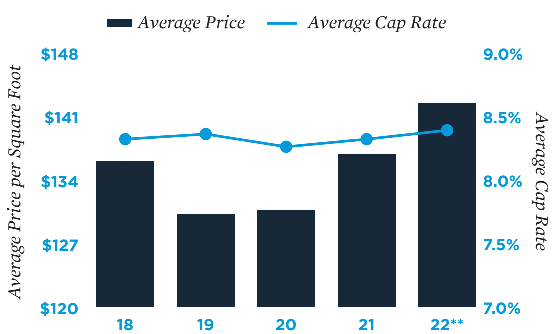
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

Detroit Office:

Steven Chaben

Senior Vice President, Regional Manager

Tel: (248) 415-2600 | steven.chaben@marcusmillichap.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

683,000 sq. ft. completed

- Developers have more than 2 million square feet of office space under construction. However, pre-leasing of more than 70 percent on these builds will prevent new supply from greatly disrupting market conditions.
- Detroit-The Pointes, Northern Outlying and Macomb County are the only submarkets reporting year-over-year stock growth above 0.6 percent.

VACANCY

40 basis point increase in vacancy Y-O-Y

- Vacancy rose to 16.3 percent entering April. The rate has held between 16.2 percent and 16.4 percent since the second quarter of last year.
- Vacancy in the core is 330 basis points lower than it is in the suburbs in March. This gap has widened 10 basis points since the end of 2019, despite inventory expansion downtown outpacing stock growth in the suburbs.

RENT

0.7% decrease in the average asking rent Y-O-Y

- Rising availability played a role in the average asking rent retreating to $18.27 per square foot at the end of the first quarter. This represents the first annual period rents slipped in the metro since 2014.
- Despite the mean marketed rent dropping 1.4 percent for Class B/C space, the Class A average grew 1.0 percent during the year preceding April.

Investment Highlights

- Sales velocity during the 12 months preceding April rose nearly 40 percent when compared to the previous yearlong period. Heightened activity is translating into sales price growth reaching its quickest pace since 2014, growing 7.8 percent year-over-year to $142 per square foot.
- Cap rates in Detroit maintained an average just below 8.5 percent, staying in a narrow band since 2016. Year-one returns above or on-par with many regional peers will likely continue to draw in interest from yield-driven buyers. Along with higher cap rates, entry costs are typically below those recorded in Minneapolis, Chicago, Milwaukee and Indianapolis.
- Out-of-state buyers have made up roughly half of the investors acquiring space in the metro during the last 12 months. West Wayne County and Birmingham recorded the highest transaction volume during this period, but a larger number of trades occurred in Macomb County.
- Toward the end of last year, the bid-ask gap for Detroit's office assets narrowed greatly. Buyers have been more willing to meet sellers at desired price points, resulting in the difference between sales prices and asking prices going from 30 percent to 5 percent in less than 12 months.