MARKET REPORT

Office

Detroit Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

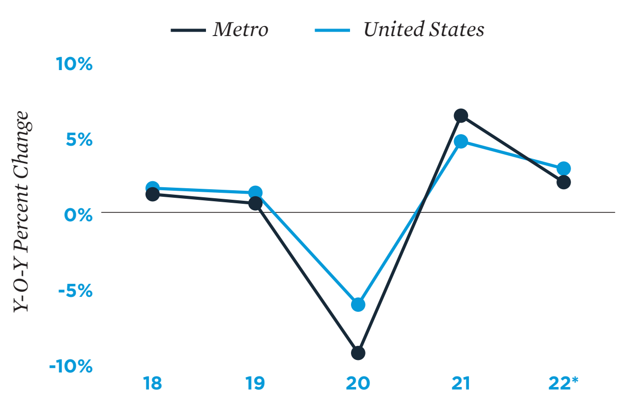
4Q/22

General Motors Commits to Future In-Person Work; Class A Sector Aided by Encouraging Pre-Leasing

Return-to-office policies aid CBD vacancy. Entering the second half of 2022, Detroit's CBD is showing early signs of recovery. Here, vacancy dropped 70 basis points year-over-year to 13.7 percent in June. The CBD's Class B/C segment, which accounts for nearly 75 percent of the core's total inventory, noted vacancy falling 130 basis points over the past year, facilitating the overall vacancy compression. Further aiding the CBD's recovery, General Motors has confirmed its plans for a more regular in-person work cycle at its downtown office, likely requiring employees to be present at least three days a week. While this schedule will not be implemented until 2023, the company's decision has the potential to motivate local firms that support them, and office-using companies in general, to re-evaluate their remote or hybrid work policies.

Upcoming supply additions largely accounted for. Detroit's active pipeline comprises nearly 2 million square feet of space. These Class A builds come as segment vacancy sits at a seven-year high. Fortunately, nearly 80 percent of this space was accounted for as of September, minimizing the impact of supply additions on sector availability. Western Wayne County represents one submarket poised to record near-term Class A compression. The locale is expecting few near-term deliveries, and noted the smallest 12-month increase in higher-tier vacancy among submarkets with over 4 million square feet of Class A stock. Additionally, the area offers prospective tenants some of the lowest asking rents in the market.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

40,000
JOBS
will be created

EMPLOYMENT:

Total employment in Detroit will expand by 2.0 percent in 2022. As of August, positions have been predominantly added in the manufacturing, leisure and hospitality, and trade, transportation, and utilities sectors.

1,100,000
SQ. FT.
will be completed

CONSTRUCTION:

Detroit registers its highest number of deliveries since at least 2007, expanding metro inventory by 0.6 percent. Prior to the pandemic, annual completions surpassed the 1 million-square-foot mark just twice.

70
BASIS POINT
increase in vacancy

VACANCY:

Following an influx of new builds, Detroit's vacancy rate will rise to 16.8 percent by year-end. There will be a negative net absorption of around 200,000 square feet as new space comes online in the market.

0.3%
DECREASE
in asking rent

RENT:

The metro registers a second consecutive year of moderate rent depreciation, with the average asking rate expected to end 2022 at $18.40 per square foot. This figure trails the record mark by just 0.5 percent.

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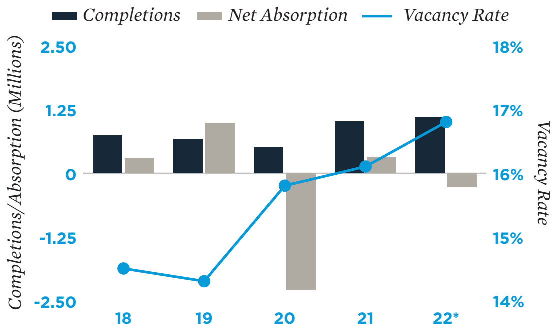
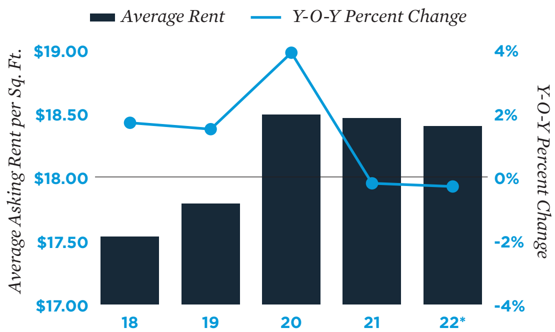
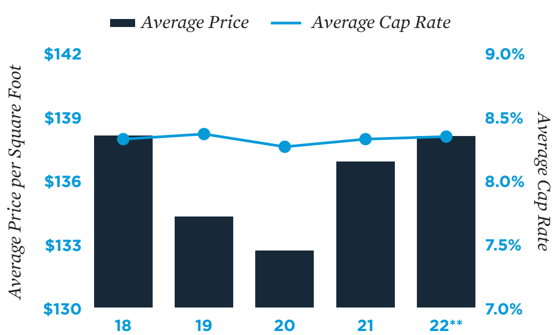
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q 2022 - 12-Month Period

CONSTRUCTION

533,000 sq. ft. completed

- Delivery volume in the 12-month period ended in June was nearly half of the previous span, equating to inventory expansion of 0.3 percent.
- Deliveries were spread across the Bloomfield, Macomb and Western Wayne submarkets, as well as the northern outskirts of Detroit. The CBD noted minimal completions during the period.

VACANCY

60 basis point increase in vacancy Y-O-Y

- Office availability rose to 17.0 percent in the second quarter, as the metro's vacant stock increased by 1.2 million square feet over the past year.
- Vacancy in the CBD fell 70 basis points year-over-year to 13.7 percent. In contrast, the suburban rate elevated 110 basis points to 18.1 percent, a rate on par with the segment's long-term average.

RENT

1.4% decrease in the average asking rent Y-O-Y

- After reaching a high of $18.50 per square foot last June, the average asking rent entered the second half of 2022 at $18.24 per square foot.
- Bloomfield reported a 4.0 percent year-over-year rent gain to $20.72 per square foot in the second quarter. This rise came as the submarket received most of the metro's recent high-tier completions.

Investment Highlights

- Deal flow improved by nearly 30 percent during the 12-month span ended in June, highlighted by a notable rise in $10 million-plus trades.
- Detroit continues to attract out-of-state investors, due to its lower entry costs and higher first-year returns. Over the past year, the metro reported the second-lowest average price per square foot among major U.S. markets at $138, paired with one of the highest mean cap rates at 8.3 percent.
- Investors predominantly focused on western suburbs proximate to Highway 24 in the trailing 12-month span. Home to consistent rent gains and positive net absorption in the first half of this year, Bloomfield was a target locale for buyers. Here, properties traded in the low- to mid-$100 per square foot range. Investors seeking slightly lower entry costs were active in the Western Wayne submarket, acquiring buildings at or below $100 per square foot.
- Medical office transaction velocity was around 50 percent higher than immediate pre-pandemic activity, with buyers most active in Bloomfield, Western Wayne and Macomb. Across these areas, mid-$100 per square foot pricing is frequent for these assets.

Price: $250