

MARKET REPORT

OFFICE

Detroit Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

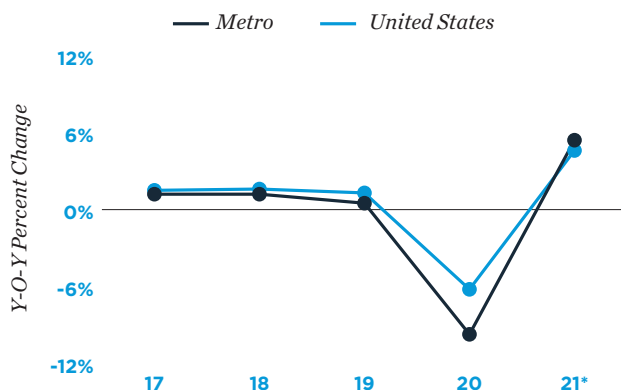
2Q/21

Business Expansions Offer Brighter Outlook; Elevated Construction Poses Challenges

Job gains provide encouragement. Robust hiring in the first quarter including more than 5,200 positions in traditional office-using sectors provide a more favorable expectation for the Detroit office sector. The region's vast supply of tech talent and relatively lower cost of living are drawing firms. Earlier this year, Apple stated that it will open its first U.S. Developer Academy in the city of Detroit. More recently, the announced merger of Huntington Bank with TCF Bank will result in the metro becoming the headquarters for the commercial bank division. Roughly 800 of its employees are expected to be housed in downtown Detroit. Widespread vaccinations will bring these and other employees back to offices, which should improve leasing activity after the pandemic delayed space decisions at many firms.

Deliveries set to rise. Construction is expected to soar to the highest level in 14 years during 2021. Nonetheless, built-to-suit projects including the Mercedes-Benz Financial Services headquarters in Farmington and the expansion of One Campus Martius in Detroit for Quicken Loans will lessen the overall impact on vacancy this year. Companies moving out of leased space for new offices, however, could pose challenges when the inventory comes back on the market. Development will remain elevated beyond this year, largely concentrated in the city of Detroit as the underway Huntington Tower, Ford's Michigan Central Station and the former Hudson's site project debut.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**100,800
JOBS**

will be created

EMPLOYMENT:

Following the loss of 199,800 positions in 2020, which drove the unemployment rate to 10.3 percent, the employment base is expected to grow by 5.4 percent this year. The hiring total includes 15,000 jobs in sectors that traditionally lease office space.



**1,530,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries surge from last year's 409,300 square feet, climbing to the highest annual rate since 2007. Build-to-suits and strong pre-leasing activity, however, will lessen the overall impact on vacancy this year.



**60
BASIS POINT**

increase in vacancy

VACANCY:

Following a 150-basis-point leap during 2020, vacancy rises to 16.9 percent this year as an additional 1.3 million square feet is vacated. The last time the vacancy rate was this high was in mid-2016.



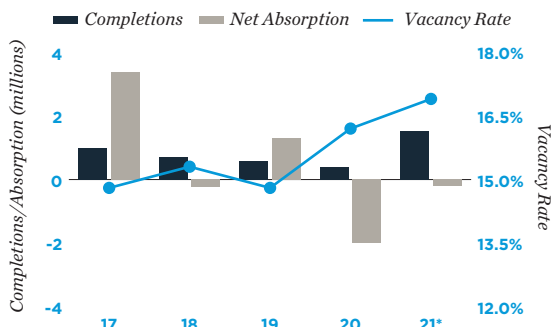
**1.1%
DECREASE**

in asking rent

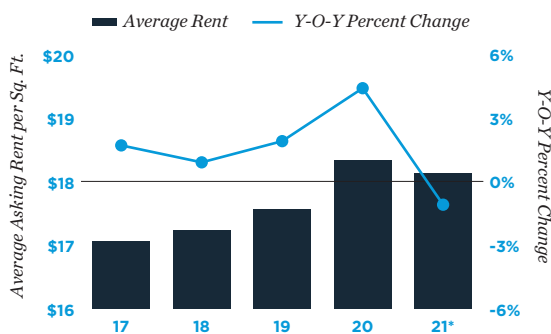
RENT:

Elevated vacancy and additional sublease space entering the market will result in the average asking rent retreating to \$18.14 per square foot as operators increase incentives to fill empty floor plates.

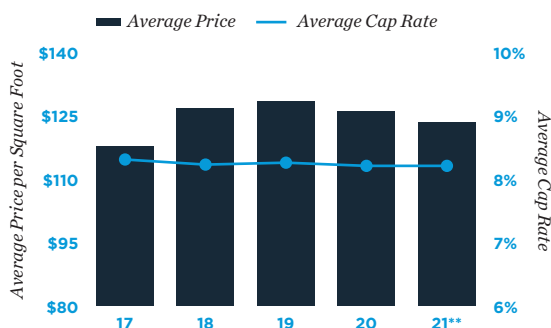
Supply and Demand



Rent Trends



Sales Trends



* Forecast **Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q21—12-Month Period

CONSTRUCTION

749,000 square feet completed

- Deliveries jumped to 418,000 square feet in the first quarter of 2021, the highest quarterly total since 2018 and more completions than all of 2020. Bloomfield and Detroit received the bulk of new inventory.
- Builders have another 3.2 million square feet underway with finalizations extending into 2023.

VACANCY

190 basis point increase in vacancy Y-O-Y

- Available stock grew by nearly 3.4 million square feet during the past four quarters, pushing the vacancy rate up to 16.3 percent in March. This follows a 50-basis-point drop registered one year earlier.
- The Troy submarket posted the largest 12-month vacancy hike, rising 400 basis points to 22.8 percent.

RENT

3.0% increase in the average asking rent Y-O-Y

- A 4.4 percent leap in Class B/C average pushed the mean asking rent up to \$18.22 per square foot, after a 2.1 percent gain 12 months earlier.
- Among submarkets, the largest rent gain over the past four quarters was posted in Detroit-The Points bringing the average asking rent to \$21.22 per square foot, the highest rate in the metro.

Investment Highlights

- Uncertainty in the office sector is continuing to weigh on sales activity. During the first three months of 2021 transactions fell 47 percent from the prior year's level, reducing volume over the past four quarters 36 percent. Transactions of medical office buildings fared better, retreating just 15 percent during the same yearlong period.
- Less demand for office properties amid rising vacancy resulted in the average price declining 3 percent year over year in the first quarter to \$123 per square foot. During this period, the mean cap rate held steady at 8.2 percent.
- Suburban medical office assets attracted a wide range of buyers to the metro. During the past four quarters Class B/C properties traded at an average of \$138 per square foot; however, some buildings in prime locations near medical facilities with quality tenants changed hands at more than \$200 per square foot.
- During the past 12 months ending in March, office assets in Southfield and in the Southern I-275 Corridor garnered the most buyer attention.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics