Q1 2024 – Office

Detroit

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Direct availability continues to mount as Detroit office market observes moderate leasing activity

Following a strong close to 2023, the Metro Detroit region in the first quarter witnessed a notable retreat in activity as measured by transaction volume. The nearly 0.8 million square feet (msf) transacted this quarter denoted a 33.5% decline from the fourth quarter, but nevertheless matched the market's five-year quarterly average. Only two of the 10 largest leases this quarter were by tenants renewing in place, a positive signal that transaction activity was less sustained by lease expirations. Direct space options continued to mount across Detroit, and overall Q1 market availability jumped to 25.4%, rising by 120 basis points (bps) from a year ago. The City of Detroit exhibited more markedly softened conditions, with availability increasing 320 bps, to 22.4%.

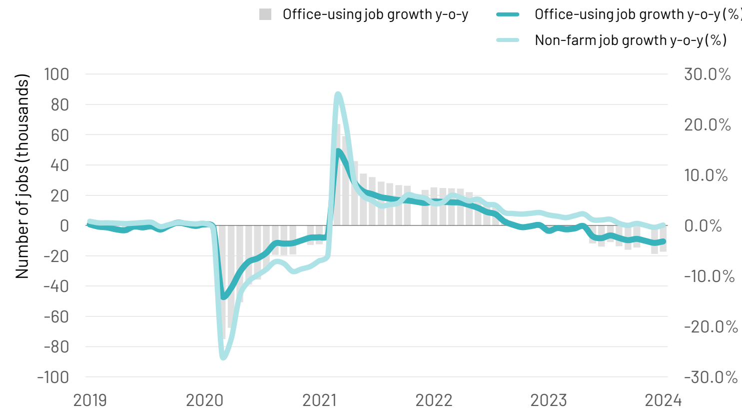
OpEx, taxes, and new trophy space contribute to higher face rents
Despite the soft conditions observed across the market, asking rents continued to tick upward at the start of 2024. Some of the increase this quarter was a result of rising tax and operating expenses that are often passed through to tenants. The soon-to-deliver Hudson's development totaling 400,000 square feet (sf) in the CBD also had a significant impact on market asking rents, as the developer sought nearly $60 per square foot, among the market's highest-ever asking rates. Despite elevated face rents, tenants typically garnered relief via significant landlord concessions in the form of tenant improvement allowances and rental abatement.

Older office stock faces reckoning while new developments rise
Like others across the county, the Detroit market is hobbled by obsolete space that attracts little to no demand. With office-using employment across Detroit in decline, and a growing consensus that the market suffers from excess office inventory, some properties will likely be destined for repurposing or demolition. However, occupier demand for top quality and well-located space remains. Despite the pandemic, developers moved forward with a handful of smaller projects as well as the Downtown Hudson's development, and the much anticipated, District Detroit project totaling 1.2 msf is now scheduled to kick off early next year.

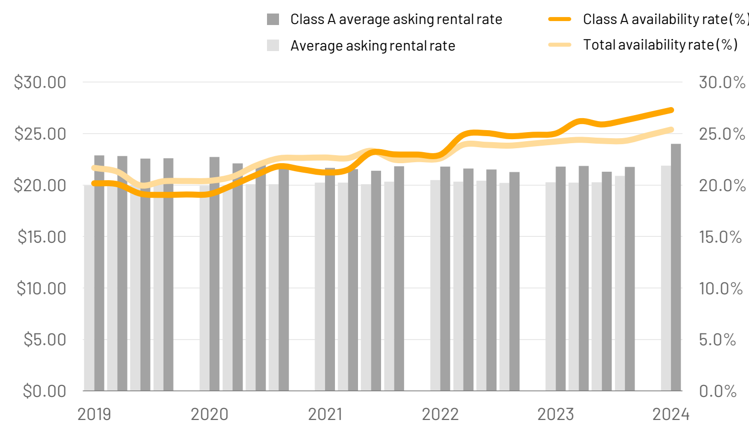
Key Statistics

	Q1 2023	Q1 2024	Y-O-Y
Inventory	84.4 msf	84.6 msf	+0.2 msf
Availability Rate	24.2%	25.4%	+120 bps
Asking Rental Rate	$20.27	$21.88	+7.9%
Class A Asking Rental Rate	$21.78	$24.01	+10.2%
Quarterly Leasing Activity	0.8 msf	0.8 msf	+0.0 msf
Available Sublease Space	2.5 msf	2.3 msf	-0.2 msf

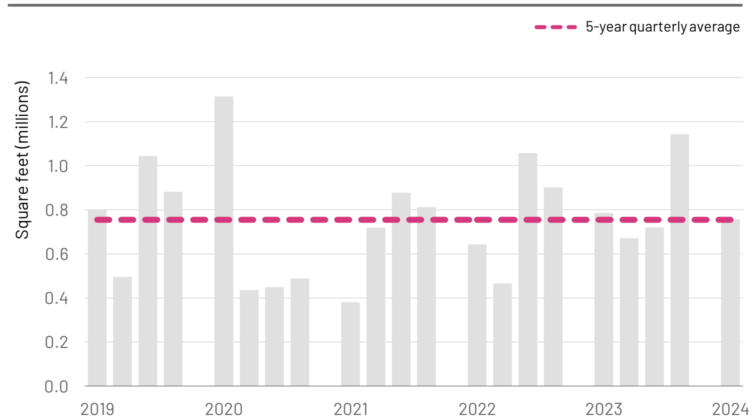
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Outlook

01 The regional economy is likely to benefit from improving conditions within the automotive industry, which by many industry observers is anticipated to see robust sales growth in 2024

02 Conditions will remain tight in the most desirable live-work-play submarkets including Royal Oak and Birmingham, where employers have found success bringing employees back to the office

03 Office-using employment growth continues to trend negative across the Detroit MSA, and may ultimately have a negative impact on the market's leasing transaction volumes

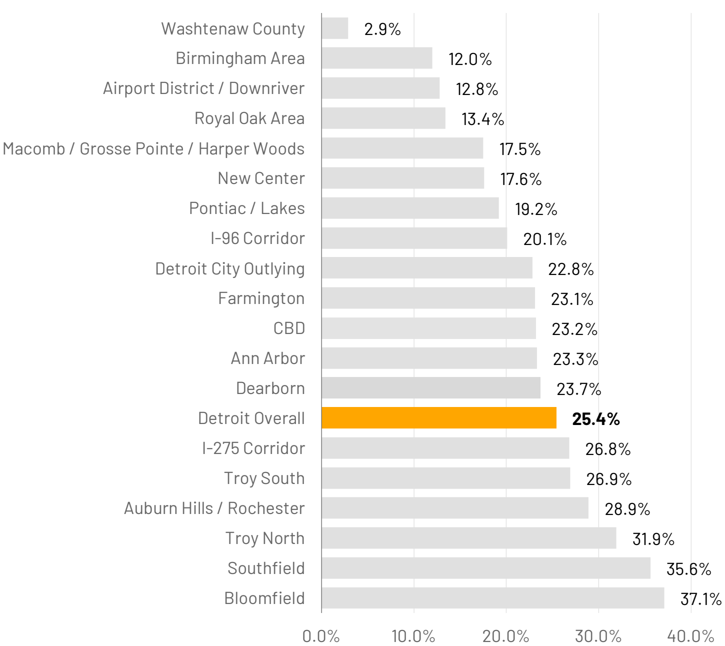
Top Transactions

*Trophy Building **Sublease Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
General Dynamics Land Systems	Manufacturing	Troy South	1414 E Maple Road	64,000	New Location**
IHS Global	TAMI	Southfield	26533 Evergreen Road	34,000	Renewal
Farbman Group	Real Estate	Farmington	31700 Middlebelt Road	30,000	Relocation
Autoneum	Manufacturing	Farmington	34705 W 12 Mile Road	25,000	New Location
Lucid USA	Manufacturing	Southfield	26533 Evergreen Road	25,000	New Location
Revela Inc.	TAMI	New Center	6001 Cass Avenue	22,000	Relocation
Quality Freight Logistics	Transportation	I-96 Corridor	48797 Alpha Drive	10,000	Relocation
NorthStar Clean Energy	Energy & Utilities	Ann Arbor	2373 Oak Valley Drive	10,000	New Location
Warner Norcross & Judd	Legal Services	Macomb County / Grosse Pointe / Harper Woods	12900 Hall Road	10,000	New Location
Kimley-Horn	Architecture, Engineering, and Construction	Southfield	3000 Town Center	10,000	Renewal

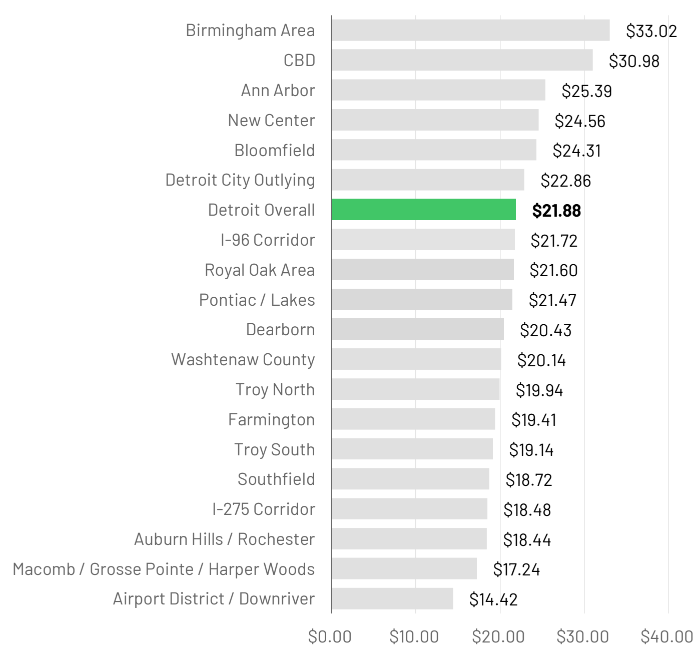
Availability Rate Comparison (%)

DETROIT SUBMARKETS



Rental Rate Comparison ($/sf)

DETROIT SUBMARKETS



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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.