

Demand for space wanes as the pandemic continues to stifle Detroit's office market

The Detroit office market remained mired in inactivity in the third quarter due to the effects of the COVID-19 pandemic. The region witnessed meager improvement in transaction activity, increasing by 2.8% as compared to the prior quarter. However, Detroit market transactions were down by more than 50% year over year, and few large tenants were known to be actively seeking space. Southeast Michigan companies have taken varied approaches to the pandemic, as many tenants have begun to re-enter the workplace, while others have employed more cautious tactics that will likely last until an effective vaccine becomes available.

Market fundamentals mixed as occupiers, landlords take "wait-and-see" approach

Despite the market's relative dormancy, overall gross asking rents inched upward from the previous quarter, increasing 0.8% to \$20.09 per square foot (psf). While landlords have yet to show a willingness for repricing, that may change if availability continues to swell. Overall availability increased 110 basis points to 21.9%, marking its highest point in nearly two years. Detroit remained among the only major North American markets to not observe a wave of sublease availability caused by companies seeking to trim their occupancy footprints. While San Francisco and Austin have seen their respective supplies of sublease availability double since the start of the year, the Detroit market has seen sublease availability compress by 18.6%.

A few notable deals completed; opportunities exist for tenants in a position to transact space

While transaction activity in the suburban market remained comparatively dormant this period, a handful of larger deals were completed. Among them, Quicken Loans committed to growing by more than 80,000 sf across six floors of the One Campus Martius building addition. Also, Sachse Construction / Broder & Sachse took 33,000 sf at the Orchestra Place building in Midtown, while STMircoelectronics opted renew its 21,000-sf space at 19111 Victor Parkway in Livonia. Given the market's abrupt slowdown, occupiers in a position to negotiate can take advantage of market uncertainty and should expect favorable and flexible terms.

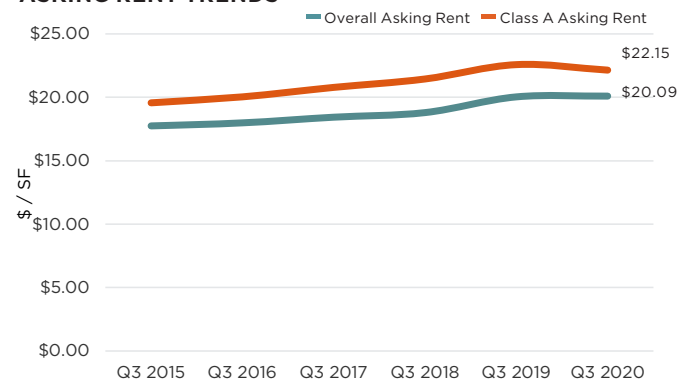
Outlook

- Given the lack of new sublease offerings coming to market, landlords may remain uninclined to lower rental rates and instead focus on providing relief via concessions
- Opportunities remain to renegotiate and increase efficiency within current premises, as landlords seek to secure tenants in an uncertain, softening market
- Looking ahead to 2021 when it is anticipated that market stability and normalcy should return, Detroit will again be an attractive solution for corporate users, given its comparatively low occupancy costs and large, skilled pool of labor

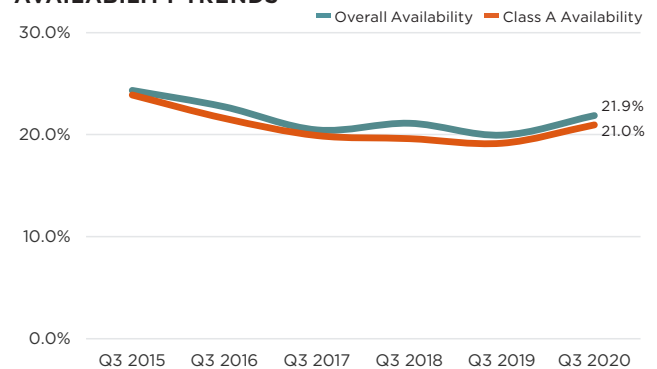
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	81.5 MSF	81.5 MSF	◀▶
Availability Rate	20.0%	21.9%	▲
Asking Rental Rate	\$20.03	\$20.09	▲
Class A Asking Rental Rate	\$22.58	\$22.15	▼
Quarterly Leasing Activity	1.0 MSF	0.4 MSF	▼

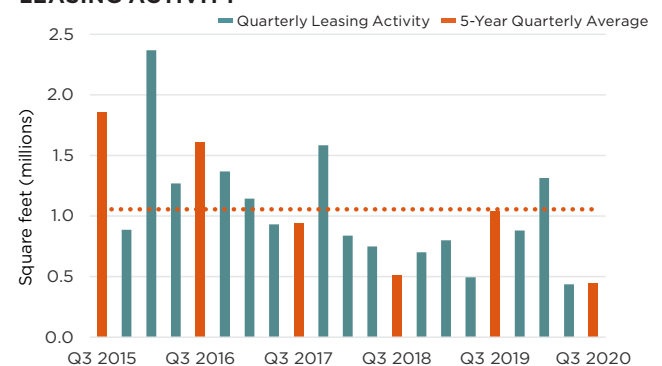
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

3 of 5

major transactions were renewals

52.5%

of large transactions occurred within the CBD submarket by square footage

59.1%

Financial Services represented 59.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Quicken Loans	83,250	1 Campus Martius	Expansion	CBD	Financial Services
Sachse Construction / Broder & Sachse	33,000	3663 Woodward Avenue	New Location	New Center	Real Estate
STMicroelectronics	21,120	19111 Victor Parkway	Renewal	I-275 Corridor	Manufacturing
Starr Commonwealth	10,725	19992 Kelly Road	Renewal	Macomb County / Grosse Pointe / Harper Woods	Association and Nonprofits
PNC Bank	10,388	4-6 Parklane Boulevard	Renewal	Dearborn	Financial Services

Source Savills Research

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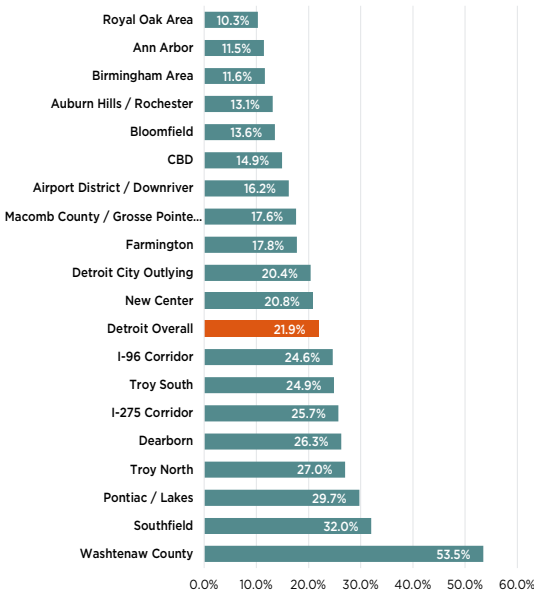
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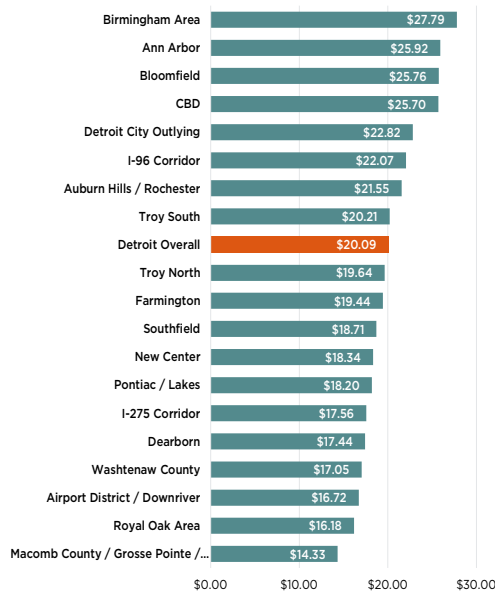
AVAILABILITY RATE COMPARISON

Detroit Submarkets



RENTAL RATE COMPARISON (\$/SF)

Detroit Submarkets



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.

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