



## COVID-19 casts pall over Detroit office market as activity slows to a crawl

As the greater U.S. economy reeled from the impact of COVID-19, the Detroit office market exhibited some signs of resiliency at the close of the second quarter. Improving metrics concerning COVID-19 spread throughout the state allowed Governor Whitmer to relax many of the more stringent restrictions initially placed on Michigan businesses in March. By late June, Michigan was one of only a few states on track to effectively contain the virus. Nevertheless, caution and uncertainty pervaded throughout the Detroit business community, as evidenced by a 66.8% decline in office leasing activity compared to the previous quarter.

### Market fundamentals hold steady as occupiers, landlords assess pandemic fallout

Overall gross asking rents were unchanged from the previous quarter at \$19.93 per square foot (psf) as landlords generally held firm on rates. Rents were down just 1.0% from the second quarter of 2019. In Detroit's Central Business District (CBD), rents continued to swell, increasing 1.3% year over year to \$25.20 psf. While availability in the region increased by 40 basis points (bps) to 20.8%, the rate was 50 bps below the same period last year. The Detroit market starkly differed from other major markets in the scope of new subleases coming to market. While San Francisco, Austin, and Phoenix were among markets that witnessed their respective sublease supplies increase by more than 50% over the past six months, Detroit has so far in 2020 observed a net decline in sublease availability. Without a rapid economic resurgence, however, sublease availability is all but certain to increase over time.

### Challenges and uncertainty loom for region, affording advantages to opportunistic tenants

While the Detroit office market largely held the line in the second quarter, uncertainty is likely to persist in the months and quarters to come. The Governor pledged to dial back the state's reopening should COVID-19 cases rise, which could stifle hope for a rapid economic bounce back. Meanwhile, steep declines in sales of passenger cars and SUVs in early 2020 may negatively affect the regional economy and could spur a wave of new sublease availability if trends continue. While a rebound in office leasing activity is expected to follow, the timing and magnitude of this boost remains unknown. Although overall fundamentals have not yet exhibited a shift, opportunistic tenants may be able to take advantage of unprecedented uncertainty to renegotiate terms and increase efficiencies.

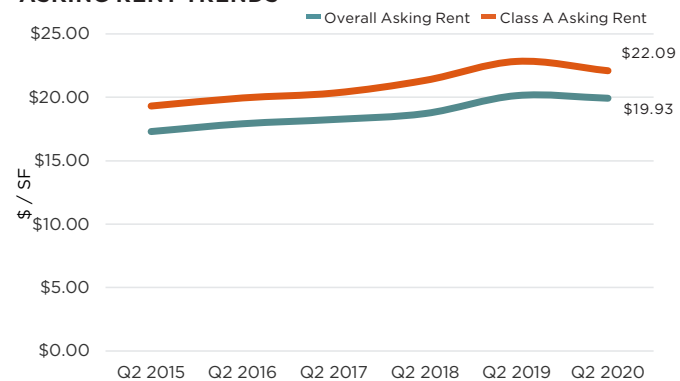
### Outlook

- Real estate decisions are expected to largely remain on hold throughout 2020 until COVID-19 uncertainty dissipates
- Some downward pressure on rental rates is likely to persist in the short term as leasing activity wanes and sublease supply begins to track upward
- Recovery for the automotive sector is expected by many to last for years, due to plummeting sales, decreased production, and increased debt and other financial pressures facing car makers

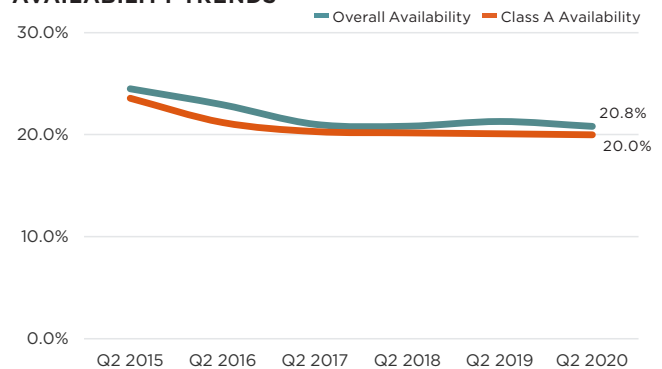
### KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	80.8 MSF	<b>81.6 MSF</b>	▲
Availability Rate	21.3%	<b>20.8%</b>	▼
Asking Rental Rate	\$20.14	<b>\$19.93</b>	▼
Class A Asking Rental Rate	\$22.83	<b>\$22.09</b>	▼
Quarterly Leasing Activity	0.49 MSF	<b>0.44 MSF</b>	▼

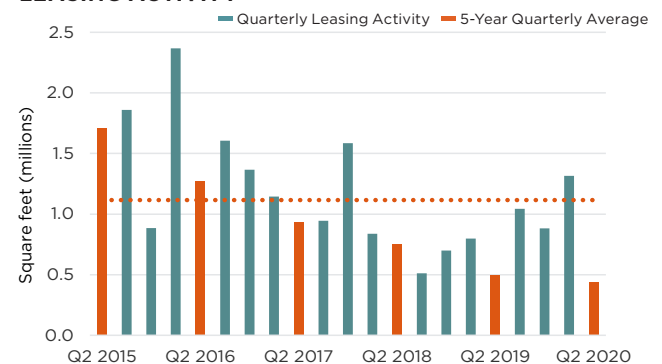
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

70.6%

major transactions were renewals

52.5%

of large transactions occurred within the City of Detroit

38.0%

Insurance, Financial & Professional services represented 38.0% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Shinola	82,000	485 W Milwaukee Street	Renewal	New Center	Manufacturing
KPMG	40,250	150 W Jefferson Avenue	Renewal	Central Business District (CBD)	Professional Services
Champion Home Builders	19,624	755 W Big Beaver Road	Renewal	Troy South	Construction
PACE	17,940	21700 Northwestern Highway	New Location	Southfield	Associations and Nonprofits
CenturyLink	14,891	300 Galleria Officentre	New Location	Southfield	Telecommunications
AmeriSave Mortgage	14,717	700 Tower Drive	Expansion	Troy North	Financial Services
XanEdu Publishing	12,500	4750 Venture Drive	Renewal	Ann Arbor	Professional Services
Raymond James Financial	11,750	251 Diversion Street	New Location	Auburn Hills / Rochester	Financial Services
FedEx	10,043	36131-36141 Schoolcraft Road	Renewal	I-275 Corridor	Transportation
United Insurance Group	9,185	22670 Haggerty Road	New Location	Farmington	Financial Services

Source Savills Research

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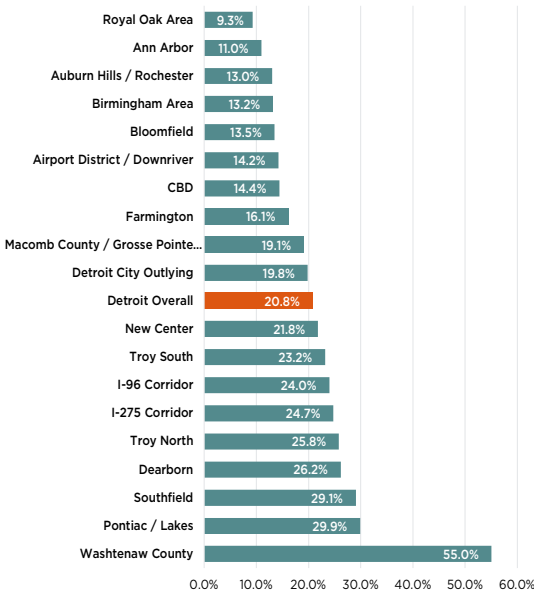
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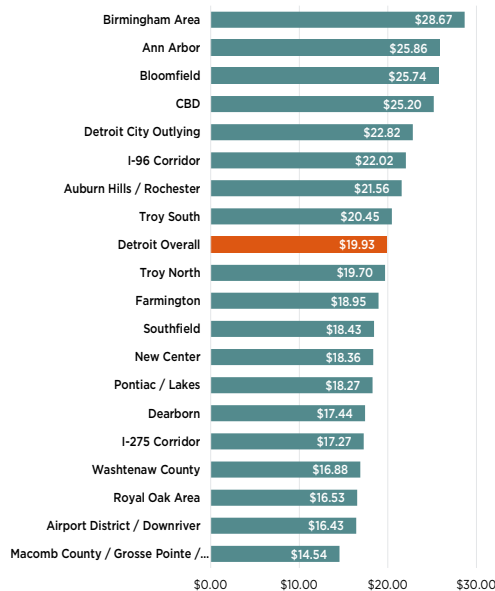
AVAILABILITY RATE COMPARISON

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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