

Market fundamentals tighten, but options for tenants remain plentiful in most areas

The Detroit market witnessed overall office availability tighten in the third quarter. The region stood at 20.3% available at the end of the third quarter, exhibiting a 110-basis-point decrease over the prior year. Class A availability declined less markedly, falling 40 basis points to 19.0%. Options were slimmest in the Royal Oak and Ann Arbor submarkets, where availability rates stood at 6.8% and 9.6%, respectively. Meanwhile, conditions were considerably more favorable to tenants in the Bloomfield submarket, where availability eclipsed 25.0%. Within the City of Detroit, availability stood at 18.7%, exhibiting a 20-basis-point drop from one year prior.

Overall asking rents trend upward, although some submarkets are observing a softening of rates

Overall asking rents in the Detroit market averaged \$19.29 per square foot (psf), increasing 2.4% over one year prior. While options within the City of Detroit remained relatively plentiful, rents across all Detroit submarkets have surged 9.1% year over year, to \$22.71 psf. Annual asking rental rate growth was more pronounced in the CBD (9.5%) and Detroit City Outlying (11.7%) than in New Center (3.2%). Meanwhile, conditions have moderated in some North Suburban submarkets, providing tenants with value opportunities. Bloomfield has witnessed its overall rental rate decline to \$23.54 psf, marking a 9.4% decline from the same period last year.

Largest lease deals located across entire Metro region; capital markets activity dormant

Leasing activity was not heavily concentrated in any single submarket, although three of the largest seven deals were located within the city of Detroit. In the largest lease this quarter, Mercedes-Benz Financial Services committed to a new, 200,000-sf facility in Farmington Hills. The campus, to be built by Olympia Development, is just one mile from the firm's current headquarters. Cloud services provider Secure-24 opted to move its headquarters with Southfield to 4000 Town Center, leasing 100,000 sf across six floors. Also, beleaguered coworking provider WeWork committed to 91,000 sf at 6001 Cass Avenue in Midtown, more than doubling its footprint in the Detroit market. Meanwhile, investment sales activity was nearly non-existent this quarter, with just one significant transaction taking place. Sterling Group sold the 237,000-sf Tri-Atria building in Farmington Hills (32255 Northwestern Highway) to a private investor for approximately \$27.1 million (\$114 psf).

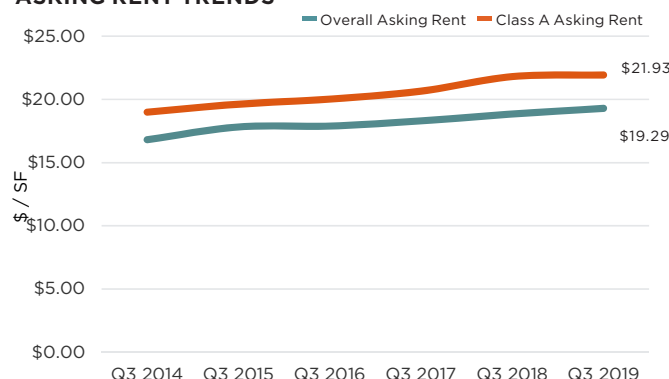
Outlook

- With more than a fifth of all office inventory available for lease, tenant favorable conditions are likely to persist in the short-to-medium term
- With availability hovering in the mid-teens, only 11 existing Detroit CBD properties offer blocks of 50,000 sf and greater, forcing large users to consider other locales
- Coworking operators are likely to view the Detroit as a growth market, since flexible space comprises less than 1.0% of the region's office inventory, far smaller than other nearby markets

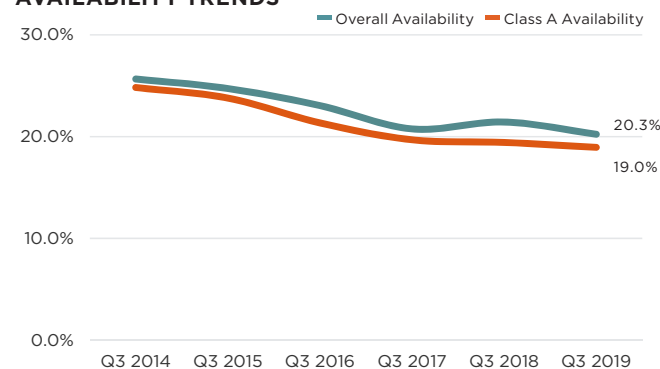
KEY STATISTICS

	Q3 2018	Q3 2019	y-o-y Change
Inventory	80.0 MSF	80.2 MSF	▲
Availability Rate	21.4%	20.3%	▼
Asking Rental Rate	\$18.84	\$19.29	▲
Class A Asking Rental Rate	\$21.80	\$21.93	▲
Quarterly Leasing Activity	0.5 MSF	1.0 MSF	▲

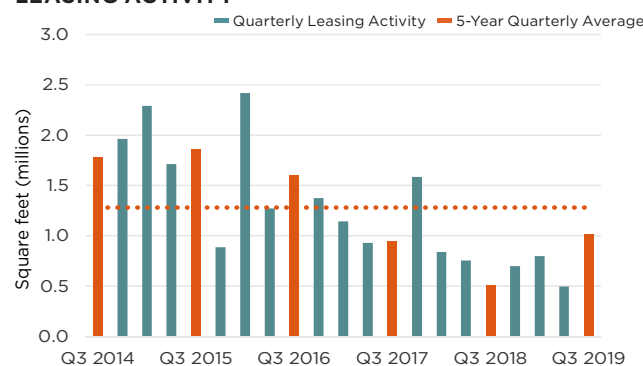
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

90.3%

of major transactions were **new locations**

31.0%

of large transactions occurred within the **City of Detroit**

22.6%

Government agencies represented 22.6% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Mercedes-Benz Financial	200,000	W 12 Mile Rd and Drake Road	New Location	Farmington	Financial Services and Insurance
Secure-24	100,000	4000 Town Center	New Location	Southfield	TAMI
WeWork	91,000	6001 Cass Avenue	New Location	New Center	Coworking
City of Detroit	90,000	100 Mack Ave & 100 Eliot Street	New Location	New Center	Government
Blue Care Network	56,073	4000 Town Center	New Location	Southfield	Financial Services and Insurance
Waste Management	40,000	48797 Alpha Drive	Renewal	I-96 Corridor	Environmental Services
U.S. Department of Veterans Affairs	34,640	3245 E Jefferson Aveue	New Location	Detroit City Outlying	Government
Military Entrance Processing Station	32,662	1172 Kirts Boulevard	New Location	Troy South	Government
Harman International	27,377	28845 Cabot Drive	Renewal	I-96 Corridor	Manufacturing
Centria Healthcare	24,210	3001 N Guley Road	New Location	Dearborn	Healthcare

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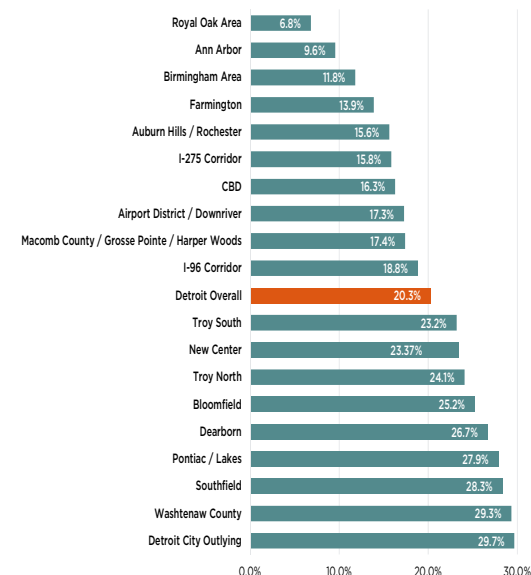
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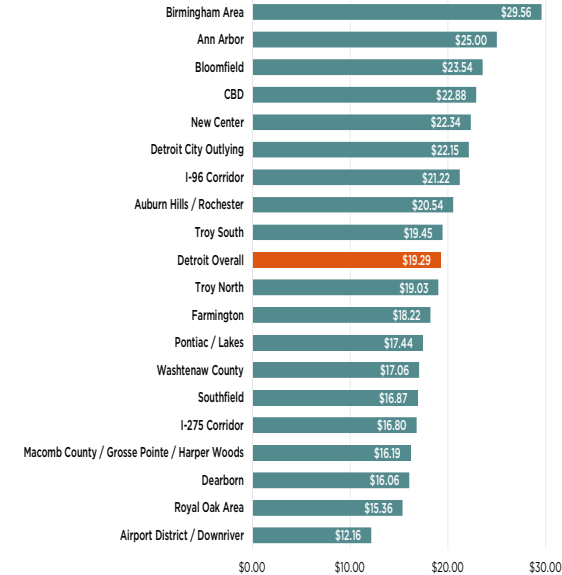
AVAILABILITY RATE COMPARISON

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.

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