

Detroit office market fundamentals remain weakened despite uptick in transactions

Activity in the Detroit office market has been relatively dormant throughout the pandemic, with asking rents flat and availabilities slowly rising over the last 18 months. Glimmers of a potential revival appeared in the third quarter, however, as leasing activity accelerated. Companies seeking to capitalize on favorable market conditions and ample quality space options are beginning to reengage the market. With nearly 0.9 million square feet (msf) leased in the third quarter, the Detroit office market observed its strongest quarter by transaction volume since the start of the pandemic and exceeded its five-year quarterly average of 0.8 msf transacted.

Available space options increase, but at a slower rate than other nearby markets

The Detroit market witnessed availability tick up 70 basis points (bps) this quarter to 23.3%. Availability is up 140 basis points year over year, having increased more modestly than other proximate markets including Downtown Chicago (+360 basis points) and Toronto (+310 basis points). The supply of sublease space on the market was relatively unchanged from the previous quarter, but at 2.1 million square feet, sublease availability remains well above the long-term average. A handful of larger subleases came to market this quarter, including more than 64,000 sf at PentaCentre in Troy offered by Dialog Direct, and a 30,000 sf space at 27777 Inkster Road in Farmington Hills occupied by Centria.

Tenant favorable conditions expected to endure as options abound

Coinciding with the Detroit market's rise in deal volume, several larger transactions were completed in the third quarter. Among them, Ally Financial expanded by 77,000 sf across three floors at 500 Woodward Avenue in Detroit's CBD, marking the largest transaction this period. Overall asking rents declined 0.7% from the previous quarter, to \$20.09 per square foot (psf). Landlords have largely held firm on pricing throughout the pandemic while concessions have been more generous, driving net effective rents lower. Despite the increase in deal activity, tenant favorable conditions should persist in the near and medium terms throughout much of the region as occupier demand remains dampened and quality space options remain aplenty.

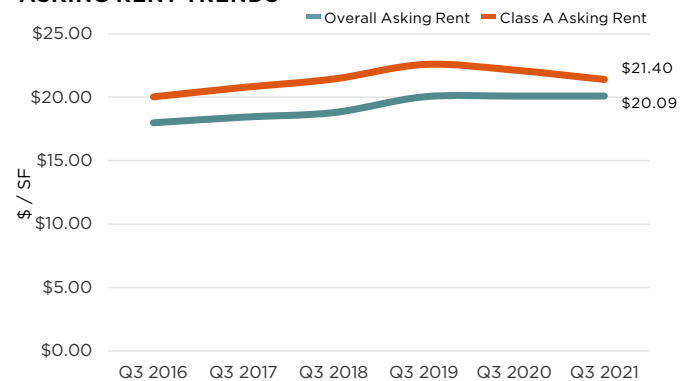
Outlook

- With availability having yet to plateau, occupiers will continue to hold the upper hand in negotiations and should expect flexible terms and generous concessions
- With the recent uptick in Coronavirus cases, many companies both in Detroit and nationally have postponed return to work plans until late fall or early 2022
- While economic conditions have stabilized across Southeast Michigan and the country alike, the long-term impact of flexible work policies may, to some degree, hinder chances for a rapid recovery in the Detroit office market

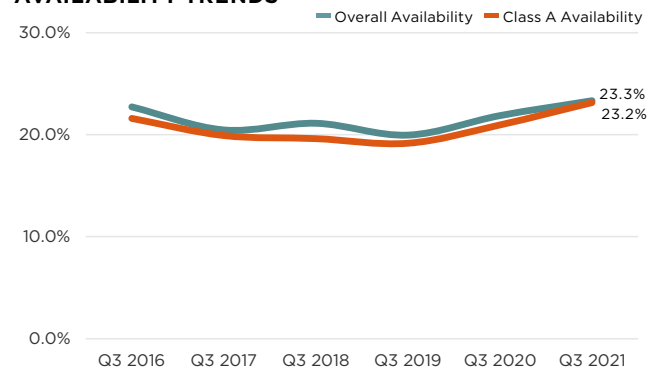
KEY STATISTICS

	Q3 2020	Q3 2021	y-o-y Change
Inventory	82.3 MSF	83.8 MSF	▲
Availability Rate	21.9%	23.3%	▲
Asking Rental Rate	\$20.09	\$20.09	◀▶
Class A Asking Rental Rate	\$22.15	\$21.40	▼
Quarterly Leasing Activity	0.4 MSF	0.9 MSF	▲

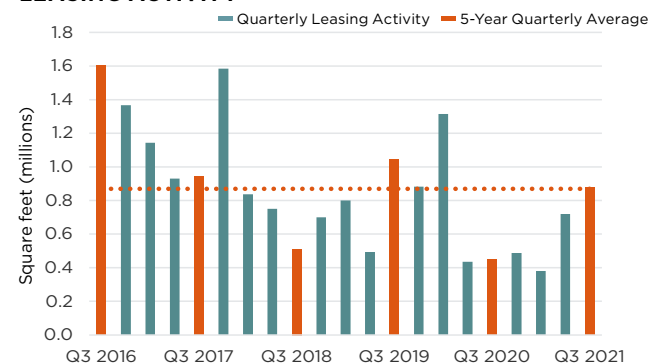
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

38.6%

of major transactions were **relocations** by square footage

26.1%

of large transactions occurred within the **CBD** submarket by square footage

44.8%

Financial services sector tenants represented 44.8% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Ally Financial	77,000	500 Woodward Avenue	Expansion	CBD	Financial Services
Proctor Financial	74,584	700 Tower Drive	Relocation	Troy North	Financial Services
U.S. Ecology	60,991	17440 College Parkway	Renewal	I-275 Corridor	Energy
NYX Inc	35,227	14909 N Beck Road	Relocation	I-275 Corridor	Engineering
J.D. Power	28,812	320 E Big Beaver Road	Renewal	Troy South	TAMI
Michigan Department of Health and Human Services	26,380	19700-19800 Hall Road	Renewal	Macomb County / Grosse Pointe / Harper Woods	Government
DT Midstream	26,000	500 Woodward Avenue	Relocation	CBD	Energy
Hall Financial	25,124	1650 Research Drive	New	Troy South	Financial Services
OneStream Software	23,500	191 N Chester Street	New	Birmingham Area	TAMI
Koussan Hamood PLC	16,498	28819 Franklin Road	Relocation	Southfield	Legal Services

Source Savills Research

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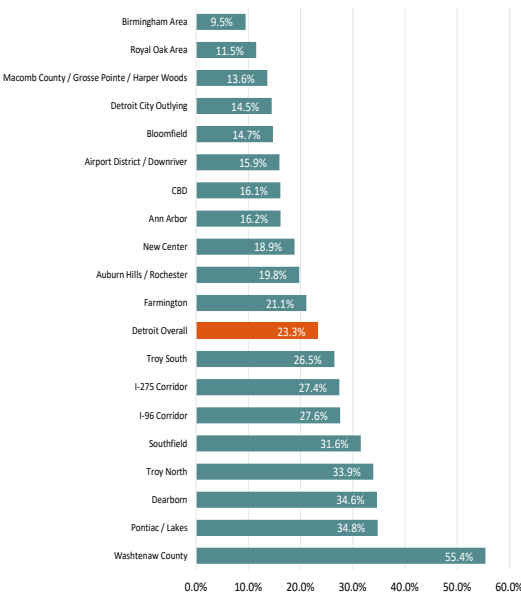
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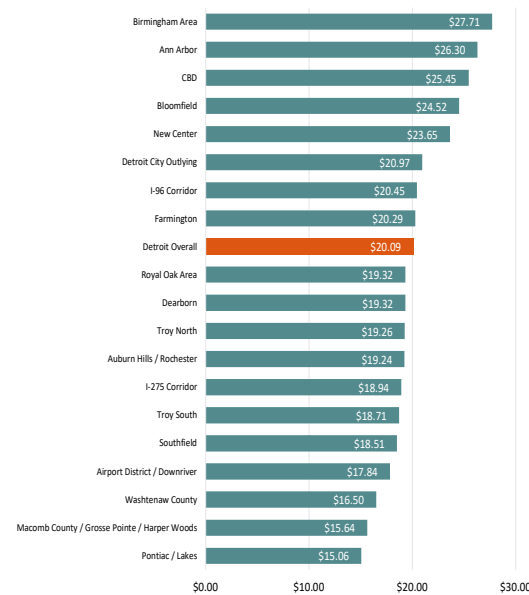
AVAILABILITY RATE COMPARISON

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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