

Detroit office market fundamentals largely unchanged, but activity continues to be sluggish

The office market across Detroit remained comparatively inactive in early 2022 as the region remained stymied by the effects of the pandemic, work from home, and general uncertainty about companies' future occupancy needs. Asking rents across much of the market remained flat while tenant effective rents inched lower as landlords have struggled to lease space. Some larger tenants have begun to reengage the market, seeking to capitalize on favorable market conditions and ample quality space options.

Availability remains elevated, with pockets of increasingly tight conditions in most desirable locales

The availability rate across the Detroit market was virtually unchanged from last quarter, increasing 10 basis points (bps) to 22.6%. Class A availability (23.0%) held steady but has risen 180 basis points year-over-year. The sought-after Royal Oak Area and Birmingham submarkets, with availability in the single digits, witnessed tightening conditions in the first quarter, falling 180 and 20 bps respectively. Meanwhile, the supply of available sublease space ticked higher to 2.0 million square feet and remained well above the long-term average. The market's supply of sublease options looks to diminish through 2022 as approximately 500,000 sf of available sublease space will run out of term this year.

Occupiers able to engage the market have the upper hand in current environment

Office leasing activity cooled in the first quarter, falling 20.7% as compared to the previous quarter. However, conditions improved significantly as compared to a year ago, increasing 69.2% by square feet transacted. Among the largest deals closed this period, New Eagle leased more than 60,000 sf at 5220 South State Road in Ann Arbor. Meanwhile, HED announced its intentions to relocate from Southfield to Royal Oak, leasing 19,000 sf at 500-525 South Main Street converted from retail space. Overall asking rents increased 0.8% from the previous quarter, to \$20.50 per square foot (psf). While face rents have largely held firm on pricing since the start of the pandemic, concessions have been more generous and tenants in a position to transact space have generally enjoyed lower net effective rents.

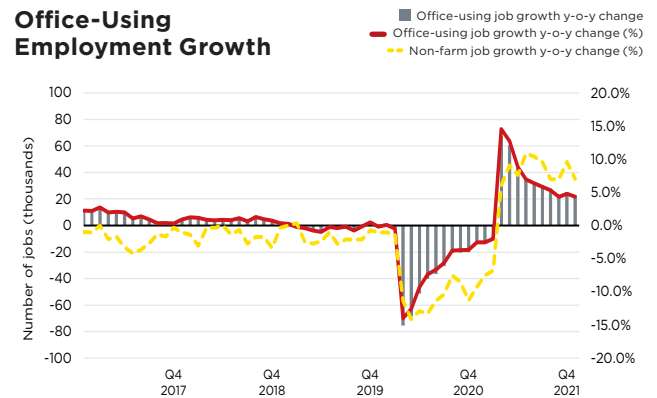
Outlook

- As companies will reevaluate their occupancy needs in the quarters and years to come, a continued flight to quality is all but certain to endure as companies gravitate to amenitized office buildings while competing for the best talent in a tight labor market
- With demand for space uncertain and options aplenty across much of the region, occupiers will should expect flexible terms and generous concessions in negotiations
- Given the comparatively soft market conditions and lingering uncertainty relating to companies' future occupancy requirements, landlords will be forced to invest in the tenant experience to both attract and retain occupant

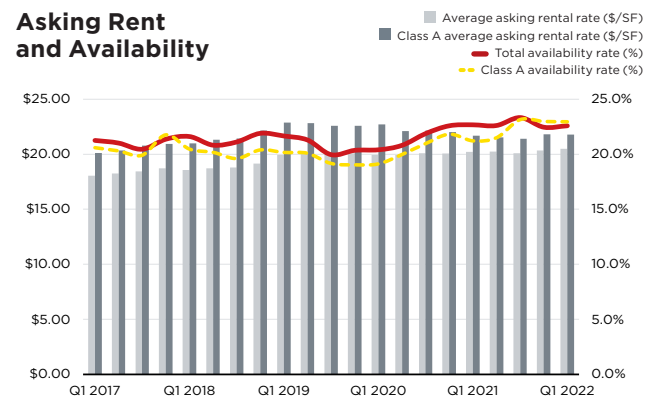
Key Statistics

	Q1 2021	Q1 2022	Y-o-Y Change
Inventory	83.0 MSF	84.1 MSF	▲
Availability Rate	22.7%	22.6%	▼
Asking Rental Rate	\$20.23	\$20.50	▲
Class A Asking Rental Rate	\$21.68	\$21.80	▲
Quarterly Leasing Activity	0.4 MSF	0.6 MSF	▲
Available Sublease Space	1.7 MSF	2.0 MSF	▲

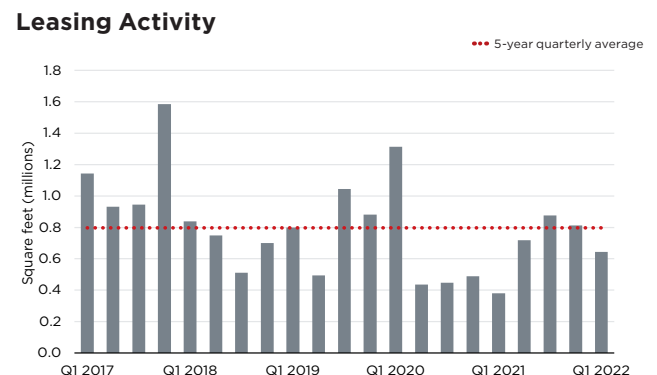
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

5.1%

Detroit-Warren-Livonia, MI MSA unemployment rate (as of Jan. 2022)

4.4%

Office-using employment growth year-over-year (as of Jan. 2022)

2.2 msf

Office space currently under construction

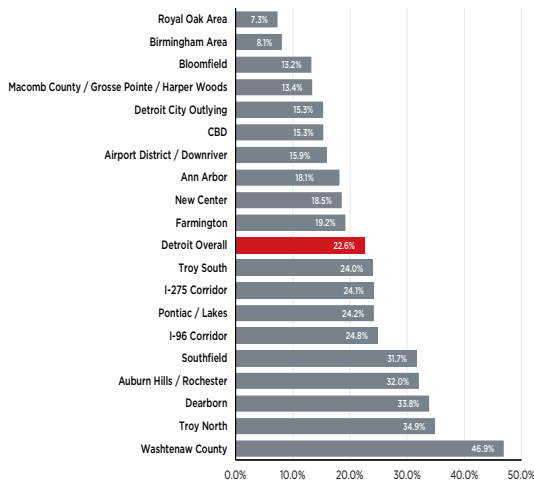
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
New Eagle	60,380	5220 S State Road	New Location	Ann Arbor	Manufacturing
Signarama	41,091	5875 New King Court	New Location	Troy North	Professional Services
Ushr	23,263	38695 7 Mile Road	Renewal	I-275 Corridor	TAMI
HED	19,000	500-525 S Main Street	Relocation	Royal Oak Area	Architecture
Mersino	17,210	900 N Squirrel Road	New Location	Auburn Hills / Rochester	Construction
Coherix	14,925	3980 Ranchero Drive	Renewal	Ann Arbor	Manufacturing
Capital Home Mortgage	11,418	3310 W Big Beaver Road	Relocation	Troy South	Financial Services
Michigan Works!	9,950	30500 Van Dyke Avenue	New Location	Macomb County / Grosse Pointe / Harper Woods	Non-profit
SiTime	8,197	1100 Victors Way	Relocation	Ann Arbor	Manufacturing
Mercedes-Benz	7,407	315 E Eisenhower Parkway	New Location	Ann Arbor	Manufacturing

Source: Savills Research

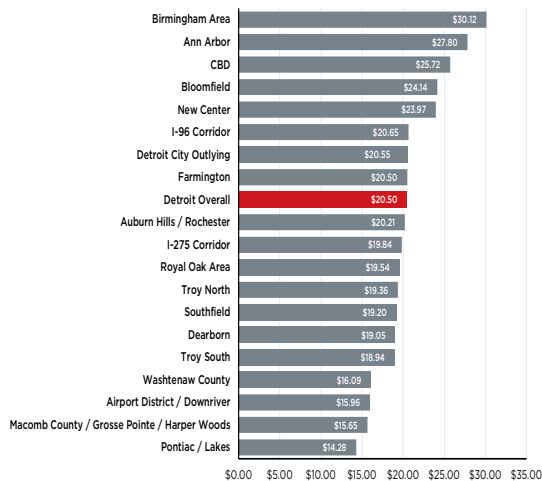
Availability Rate Comparison (%)

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.

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