



# METRO DETROIT

## 2023 OUTLOOK & 2022 REVIEW OFFICE REPORT

**FRIEDMAN HQ**

**34975 W. Twelve Mile Rd.**

**Farmington Hills, MI 48331**

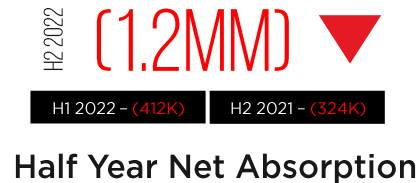
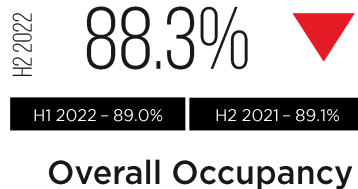
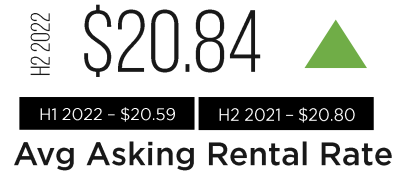
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## MARKET AT A GLANCE (H2 2022)



Note: ▲ or ▼ indicates change compared to H1 2022.

Note: H1 = Q1 & Q2 ; H2 = Q3 & Q4

## 2023 MARKET OUTLOOK

**OFFICE DEFAULTS:** We expect increased office foreclosures due to increased interest rates, soft occupancy and demand fundamentals, and increased concessions, which all negatively impact property cashflows.

**DECREASED OCCUPANCY:** We expect continued overall occupancy decline due to sluggish demand, upcoming expirations of dark or underutilized space, and expiration of sublease listings.

**FLIGHT TO QUALITY:** Leasing activity and net absorption in newer Class A buildings will likely continue to disproportionately exceed activity in older Class B/C buildings.

**SMALL USERS IN MARKET:** Continued limited leasing activity from larger users (20K+ SF) is likely due to work from home/remote work policies and the economic downturn. Only 18 of the 605 leases recorded (±3.0%) in the second half of 2022 were 20K+ SF.

**STABLE RENTAL RATES:** Rental rates are expected to remain relatively stable as Landlord's continue to favor increased tenant concessions (free rent and/or tenant improvement allowance) rather than decreased asking rates.

**ADAPTIVE REUSE:** Repurposing of office properties to alternative asset classes (i.e. multi-family & self-storage) is expected to increase as investors reposition obsolete office assets. The number of conversions will be limited due to factors including construction costs, building floor plates, and effective rents making most conversions cost prohibitive.

**LIMITED DEVELOPMENT:** Development will likely continue to be primarily limited to non-traditional office assets (medical office & mixed-use) due to soft fundamentals and increased construction costs.



## MARKET OVERVIEW

In the second half of 2022, the Metro Detroit office market continued to soften with market fundamentals including overall occupancy, net absorption, and available sublease space worsened largely due to the lingering effects of the work from home movement and 2022 economic downturn.

### SUPPLY AND DEMAND

Occupancy decreased 0.7% from H1 2022 to 88.3% with an additional 2MM SF of gross vacancy added to the market. The submarkets with the largest amount of additional gross vacancy include: Auburn Hills (430K SF); Southfield (335K SF); and Southern I-275 Corridor (185K SF). Overall, the submarkets with the largest amount of traditional multi-tenant office inventory, Southfield (19.3%) and Troy (19.2%), have the highest vacancy rates in the market.

H2 2022 leasing volume (2.4MM SF) represents a  $\pm 200K$  SF improvement from H1 2022, but remains at  $\pm 50\%$  of pre-covid historical half-year levels (4.5MM SF). Average lease area (3,900 SF) has increased  $\pm 600$  SF from H1 2022, indicating slightly increased activity from larger users (20K+SF), which represented 18 of the 605 leases recorded ( $\pm 3.0\%$ ) compared to 12 ( $\pm 1.6\%$ ) in H1 2022. Despite this, average lease area is well below H2 2019 levels (4,600 SF), indicating an overall decrease in demand and space requirements. Submarkets with the largest amount and proportion of leasing activity include: Troy (451K SF / 18.8%); Farmington Hills (371K SF / 15.5%); Southfield (254K SF / 10.6%); Ann Arbor (254K SF / 10.6%).

Available sublease space (2.7MM SF), represents a  $\pm 400K$  SF increase from H1 2022 and the highest level since 2010. The submarkets with the largest amount and proportion of total sublease area include: Troy (732K SF / 27.3%); Southfield (463K SF / 17.2%); Downtown Detroit (421K SF / 15.7%); and Ann Arbor (377K SF / 14.0%). The Meridian Health sublease in One Campus Martius accounted for 266K SF of the additional available sublease space with their 4-floor space listed through 12/31/24 due to their  $\pm 65\%$  nationwide office space reduction. Despite the significant sublease availability, only 24 of the 605 recorded leases (91K SF / 3.8%) were sublease transactions despite representing 7.4% of total availability, indicating that tenants, on average, favor a robust concession package via a direct lease instead of a comparable sublease.

Net absorption (-1.2MM SF) represents the worst half-year level since H1 2009 as sublease space expires, tenants downsize/vacate upon lease expiration, and demand stagnates with Auburn Hills (-417K SF), Southfield (-350K SF), and Southern I-275 Corridor (-171K SF) among the worst performing submarkets. The flight to quality continues as Class A properties accounted for (-48K SF) of the net absorption compared to (-1.3MM SF) in Class B properties, and (-163K SF) in Class C properties. Submarkets where Class A properties account for a larger portion of total inventory typically had positive net absorption including Downtown Detroit (230K SF) and Royal Oak (127K SF). The Class A and Downtown Detroit net absorption would be  $\pm 266K$  SF higher without including the recent Meridian Health sublease listing in One Campus Martius.

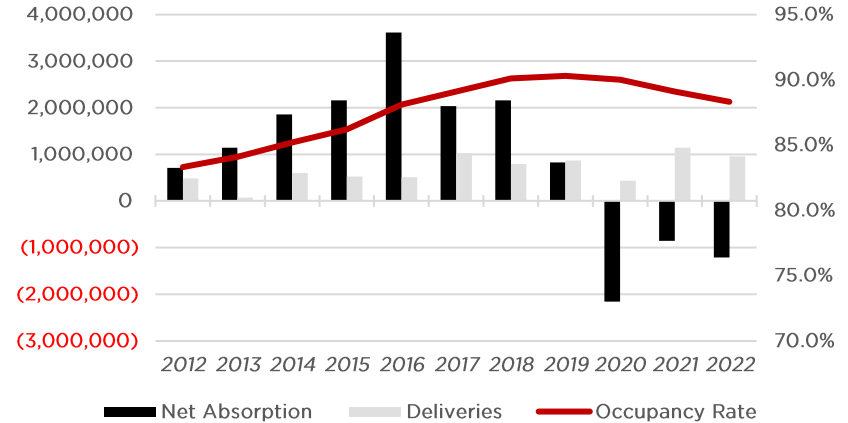
### RETURN TO OFFICE

Future office demand will likely decrease as many Metro Detroit office users, specifically larger companies (10K + employees), have continued to utilize a work-from-home/remote work model due to employee preference or have opted to decrease their office footprint to accommodate a hybrid work model, which is supported by the increasing sublease availability and continued negative net absorption. Notably, General Motors recently mandated their salaried workforce ( $\pm 35K$  in Michigan) return to the office at least three days a week starting January 30.

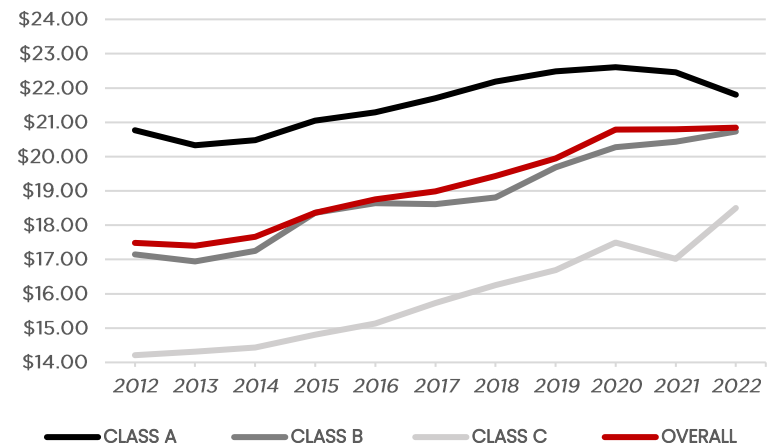
### SALES AND INTEREST RATES

Total sales volume remained stable at \$333MM with the highest volume in the Birmingham/Bloomfield (\$105MM) and Ann Arbor (\$38MM) submarkets. Despite sliding fundamentals and a high interest rate environment (4.25% YOY increase), investors utilized distress in the office market to purchase assets below replacement cost or non-traditional office assets (medical office). Overall, the rising interest rates, lower occupancy/demand, and looming maturity dates has decreased demand from investors for value-add office inventory and increased office defaults/foreclosures.

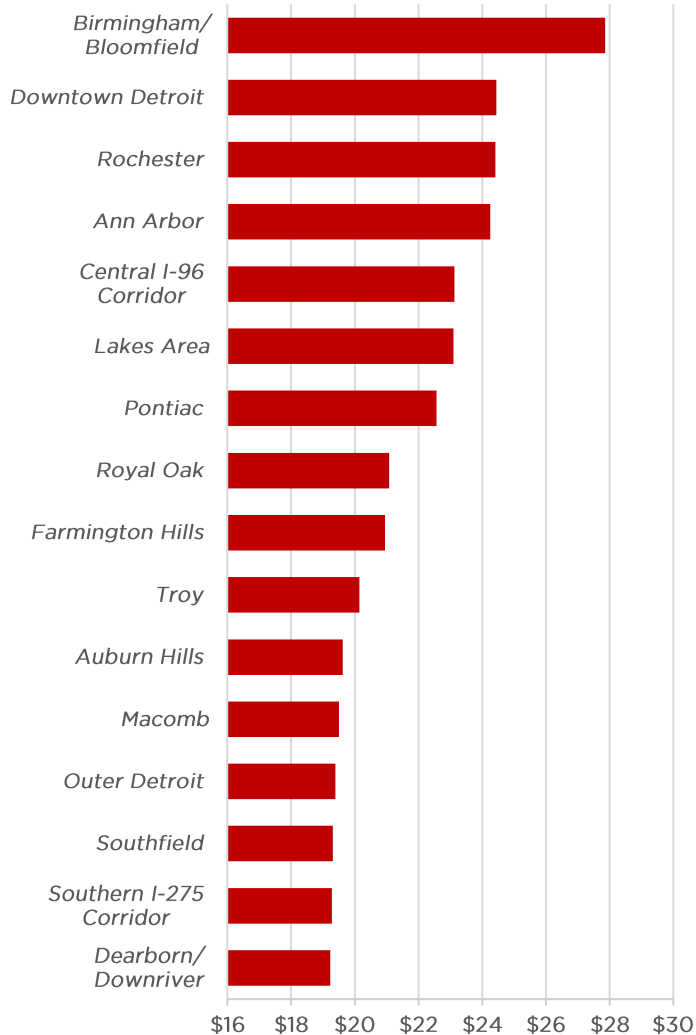
## OCCUPANCY AND ABSORPTION



## AVERAGE ASKING GROSS RENTAL RATE BY CLASS



## AVERAGE GROSS ASKING RENTAL RATE BY SUBMARKET



## TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	SF	SALE PRICE	PRICE/SF
Beaumont Medical Center	West Bloomfield	153,094	\$64,500,000	\$421.31
North Troy Corporate Park	Troy	459,594	\$59,230,000	\$128.87
Birmingham Place	Birmingham	108,753	\$37,000,000	\$340.22
Ashley Mews	Ann Arbor	116,984	\$21,000,000	\$179.51
2630 Featherstone Rd	Auburn Hills	132,745	\$18,500,000	\$139.36

Note: Bold represents Friedman transactions

## TOP LEASE TRANSACTIONS (BASED ON SQUARE FEET)

TENANT	PROPERTY NAME	CITY	SF
Comerica Bank	Farmington Hills Offcenter	Farmington Hills	273,830
Autosystems America	Orchard Hill Place	Novi	91,708
Cabinetworks Group	Victor III	Livonia	89,543
Majorel	211 W Fort St	Detroit	63,289
*Siemens PLM	Seven Mile Crossing III	Livonia	46,564

Note: Bold represents Friedman transactions | \*Indicates Renewal



**Top Sale:**  
**Beaumont Medical Center- West Bloomfield, MI**  
**Sale Price: \$64,500,000**



**Top Lease:**  
**Comerica Bank - Farmington Hills, MI**  
**Square Footage: 273,830**

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SUBMARKET	# BLDGS	INVENTORY (SF)	NET ABS. (SF)	SF UNDER CONST	TOTAL VAC. (%)	TOTAL AVAIL. (%)	OVERALL OCC. (%)	AVG ASKING RENT (GROSS)	ASKING RENT (GROSS)			TOTAL SALES VOLUME	SALES PER SF
									Class A	Class B	Class C		
Ann Arbor	900	15,074,535	(15,500)	-	10.90%	12.10%	89.10%	\$24.25	\$32.35	\$24.05	\$23.82	\$37,775,000	\$160.00
Auburn Hills	70	8,748,060	(416,741)	-	10.80%	12.00%	89.20%	\$19.62	\$19.70	\$19.59	-	\$25,657,500	\$142.00
Birmingham/ Bloomfield	400	7,889,184	(215,196)	22,485	9.40%	14.60%	90.60%	\$27.86	\$31.58	\$27.44	\$22.45	\$105,406,000	\$169.00
Central I-96 Corridor	342	6,211,982	(111,623)	48,582	12.30%	14.10%	87.70%	\$23.13	\$23.14	\$23.08	\$20.30	\$4,775,000	\$169.00
Dearborn/ Downriver	1,236	18,317,616	(103,224)	-	8.60%	14.80%	91.40%	\$19.23	\$20.18	\$19.79	\$16.69	\$7,910,000	\$132.00
Downtown Detroit	273	35,964,112	229,821	641,240	6.70%	11.90%	93.30%	\$24.45	\$25.51	\$22.73	\$22.07	\$800,000	\$137.00
Farmington Hills	402	9,790,157	(105,196)	-	13.90%	18.50%	86.10%	\$20.95	\$21.92	\$21.23	\$17.31	\$21,113,670	\$145.00
Lakes Area	346	2,450,691	2,754	-	7.60%	8.40%	92.40%	\$23.10	\$31.52	\$23.92	\$19.18	\$7,432,900	\$118.00
Macomb	1,723	18,172,706	161,105	40,000	7.50%	9.50%	92.50%	\$19.50	\$24.76	\$19.67	\$18.61	\$15,232,790	\$107.00
Outer Detroit	812	11,553,289	22,663	471,970	12.60%	13.80%	87.40%	\$19.39	\$20.02	\$18.75	\$15.80	\$7,093,000	\$114.00
Pontiac	219	6,254,201	(110,820)	-	12.40%	14.00%	87.60%	\$22.57	\$23.29	\$22.33	\$21.53	\$1,439,000	\$116.00
Rochester	182	2,543,981	(52,450)	73,349	9.70%	13.30%	90.30%	\$24.42	\$25.53	\$22.16	\$21.29	\$350,000	\$133.00
Royal Oak	653	5,631,952	126,782	50,000	10.60%	12.40%	89.40%	\$21.08	\$24.40	\$22.86	\$19.99	\$7,810,069	\$120.00
Southern I-275 Corridor	1,015	12,734,276	(170,609)	25,354	13.20%	17.60%	86.80%	\$19.28	\$20.03	\$18.88	\$18.17	\$7,036,250	\$140.00
Southfield	582	23,486,233	(350,273)	-	19.30%	27.80%	80.70%	\$19.31	\$22.97	\$17.75	\$14.36	\$14,848,456	\$115.00
Troy	336	17,495,598	(102,764)	-	19.20%	26.60%	80.80%	\$20.15	\$21.16	\$19.41	\$16.44	\$68,540,000	\$118.00
<b>TOTAL</b>	<b>9,491</b>	<b>202,318,573</b>	<b>(1,211,271)</b>	<b>1,372,980</b>	<b>11.70%</b>	<b>16.30%</b>	<b>88.30%</b>	<b>\$20.84</b>	<b>\$21.80</b>	<b>\$20.73</b>	<b>\$18.50</b>	<b>\$333,219,635</b>	<b>\$132.00</b>

## TOP OFFICE PROPERTIES DELIVERED (H2 2022)

PROPERTY NAME	CITY	OFFICE SF	DELIVERED	OCCUPANCY	PROPERTY TYPE	ASKING RATE PSF (NNN)
Huntington Tower	Detroit	422,437	Q3 2022	N/A	Office	N/A
21510 Harrington St	Clinton Township	67,275	Q4 2022	100%	Medical Office	\$21.00
Canton Dermatology	Canton	15,000	Q3 2022	100%	Medical Office	N/A
Fountain View Professional Center	Novi	14,014	Q4 2022	67%	Medical Office	\$26.00
Pioneer Surgery Center	Sterling Heights	10,560	Q3 2022	N/A	Medical Office	N/A

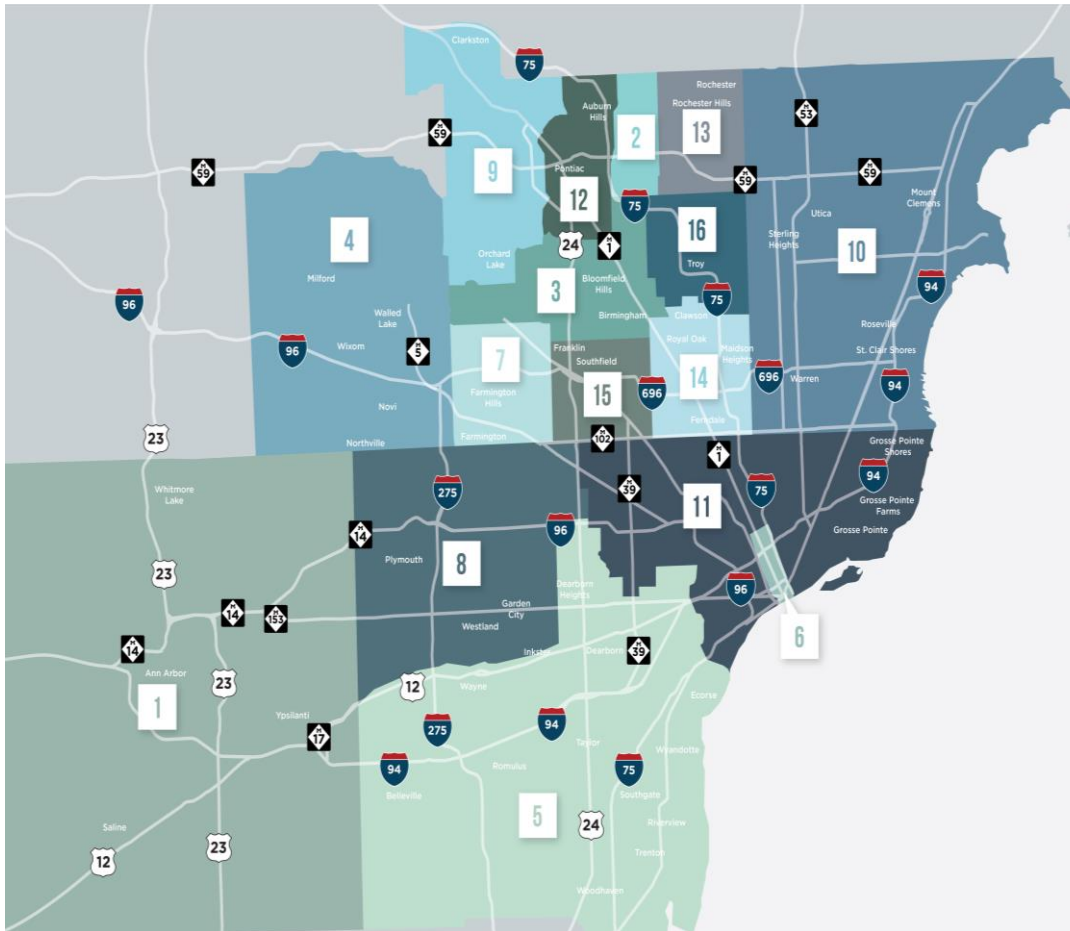


## TOP OFFICE PROPERTIES UNDER CONSTRUCTION (H2 2022)

PROPERTY NAME	CITY	OFFICE SF	DELIVERY	OCCUPANCY	PROPERTY TYPE	ASKING RATE PSF (NNN)
Michigan Central Station	Detroit	458,000	Q2 2023	64%	Mixed Use	Withheld
Hudson's Site	Detroit	404,000	Q1 2024	N/A	Mixed Use	Withheld
Ann Arbor Technology Center	Ann Arbor	122,620	Q1 2024	0%	Office	Withheld
120 Henry St	Detroit	114,400	Q4 2023	0%	Mixed Use	Withheld
111 Henry St	Detroit	73,500	Q4 2023	0%	Mixed Use	Withheld
Rochester Hills Surgery Center	Rochester Hills	60,000	Q1 2023	0%	Medical Office	Withheld



## OFFICE SUBMARKET MAP



1	ANN ARBOR	9	LAKE AREA
2	AUBURN HILLS	10	MACOMB
3	BIRMINGHAM/BLOOMFIELD	11	OUTER DETROIT
4	CENTRAL I-96 CORRIDOR	12	PONTIAC
5	DEARBORN/DOWNRIVER	13	ROCHESTER
6	DOWNTOWN DETROIT	14	ROYAL OAK
7	FARMINGTON HILLS	15	SOUTHFIELD
8	I-275 CORRIDOR	16	TROY

Friedman Research separates the Metro Detroit office submarkets in the manner shown to better reflect the way users, tenants, and brokers view our market. We believe this provides a more accurate statistical picture of each submarket which allows our clients to make better informed decisions.

Friedman's 2023 Outlook & 2022 Review Office Market Report provides our clients with a snapshot of pertinent market data and information to help them make informed commercial real estate decisions. The information contained in this report is gathered from multiple sources believed to be reliable.