



METRO DETROIT

2022 MIDYEAR OFFICE REPORT

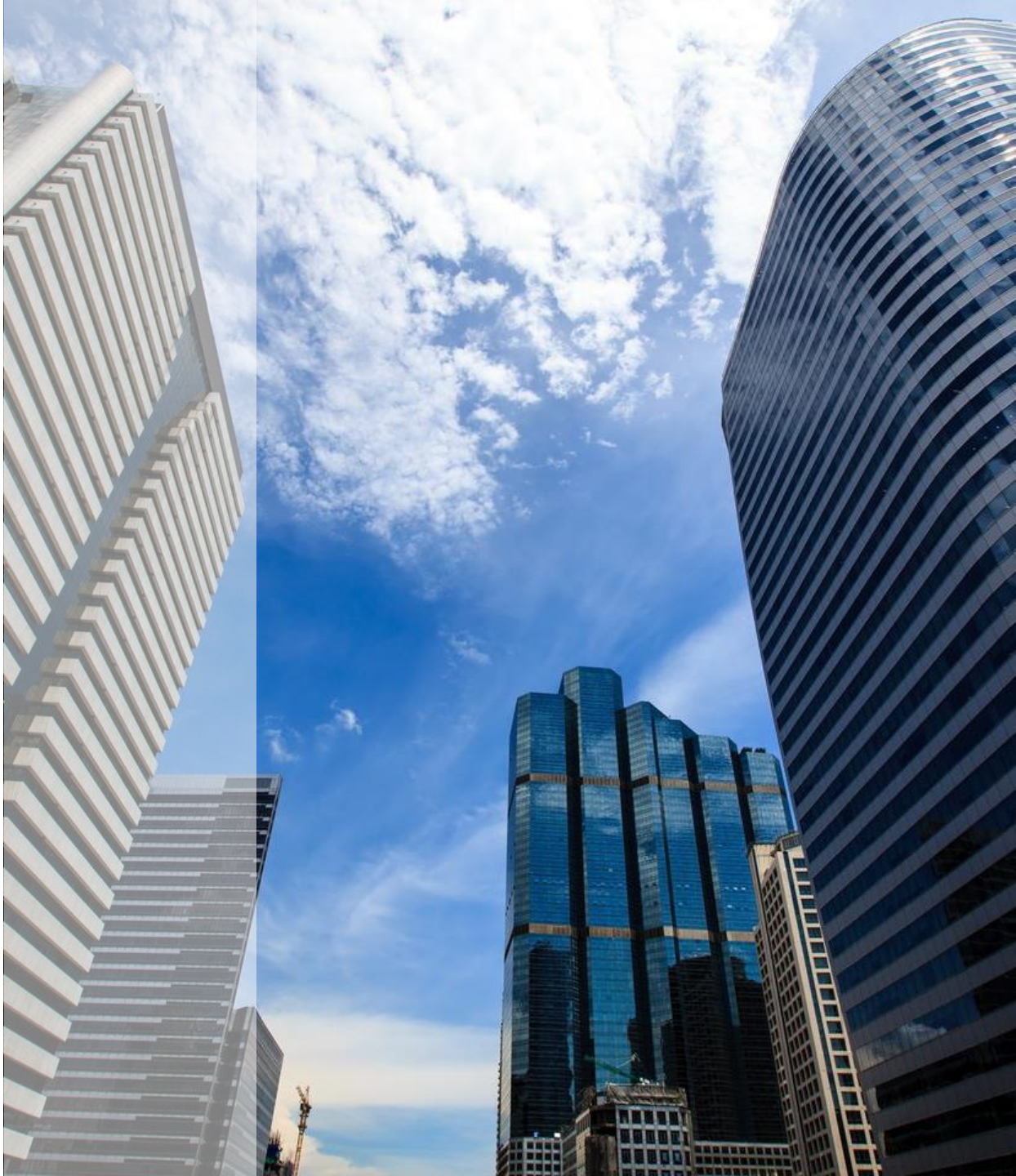
FRIEDMAN HQ

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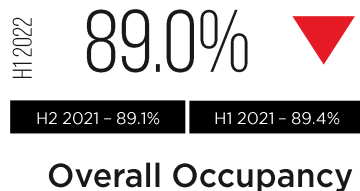
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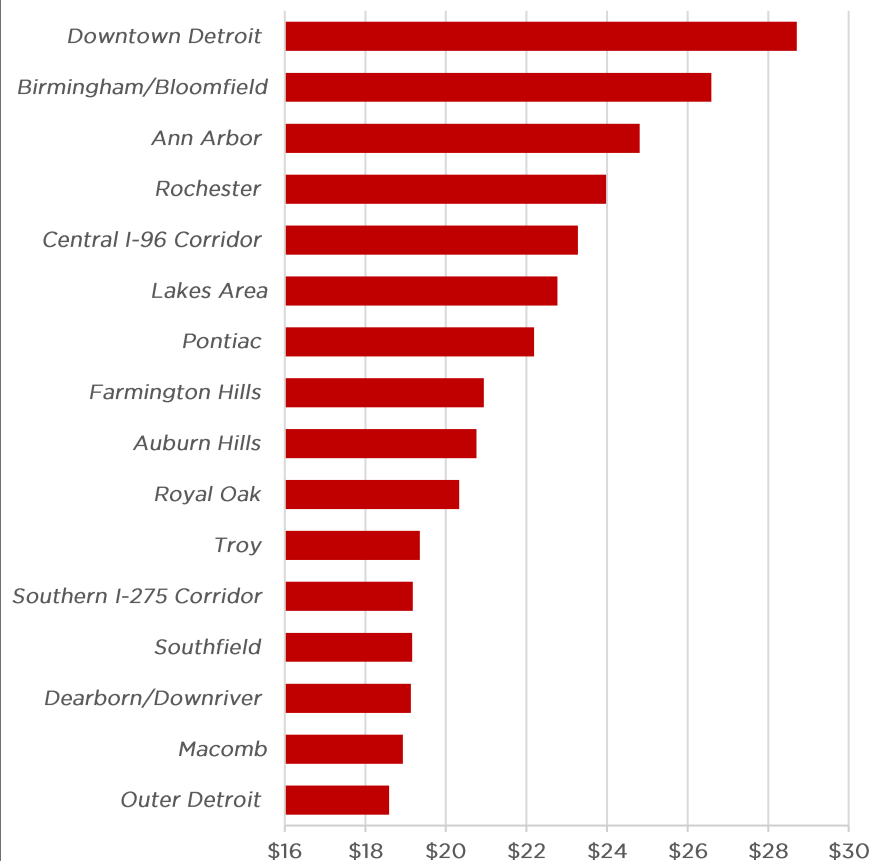
MARKET AT A GLANCE (H1 2022)



Note: ▲ or ▼ indicates change compared to H2 2021.

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

AVERAGE GROSS ASKING RENTAL RATE BY SUBMARKET



MARKET OVERVIEW

In the first half of 2022, the Metro Detroit office market recovery from the COVID-19 induced demand shock has slowed. Market fundamentals including overall occupancy, net absorption, leasing volume, and available sublease space worsened largely due to the continuation of the work from home movement and recent economic downturn.

SUPPLY AND DEMAND

Occupancy decreased 0.10% from the second half of 2021 to 89.0% with an additional 342K SF of gross vacancy added to the market. The Troy submarket accounted for 207K SF of additional gross vacancy in H1 2022.

H1 2022 leasing volume (2.2MM SF) has not improved and represents $\pm 50\%$ of pre-covid historical half-year levels (4.5MM SF), while the average lease area has decreased to 3,160 SF from 4,600 SF in H2 2019, indicating an overall decrease in demand and space requirements. By contrast, the Downtown Detroit submarket averaged 12,700 SF per lease from 203K SF leasing volume, indicating that, on average, larger users favor a location in Downtown Detroit. Overall, based on our extensive experience owning, leasing, and managing Metro Detroit office assets, we are seeing extremely limited new activity from larger users (20K+ SF) with only 11 of the 704 total leases ($\pm 1.6\%$) in H1 2022 over 20K SF.

Available sublease space, totaling 2.3MM SF, has reached the highest level since 2010 with an additional 200K SF added since H2 2021. The submarkets with the largest amount and proportion of total sublease area include: Troy (588K SF / 24.7%); Southfield (555K SF / 23.4%); and Ann Arbor (395K SF / 16.6%).

Net absorption remains negative (-412K SF) and reverses the improvement seen in H2 2021 as sublease space expires and demand stagnates with Southfield (-210K SF), Ann Arbor (-209K SF), and Troy (-195K SF) among the worst performing submarkets. The flight to quality continues as Class A properties accounted for 433K SF of the net absorption compared to (-529K SF) in Class B properties, and (-316K 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 (151K SF), Rochester (101K SF), and Auburn Hills (114K SF).

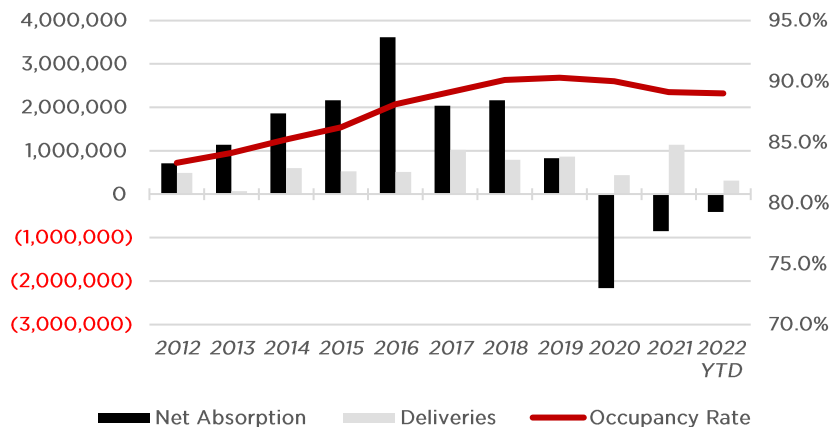
RETURN TO OFFICE

Future office demand remains ambiguous 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 and lingering safety concerns, which is supported by the increasing sublease availability and continued negative net absorption. Notably, Bank of America plans to vacate their 145K SF regional HQ at 2600 W Big Beaver in Troy and relocate with a decreased footprint within three suburban Detroit locations.

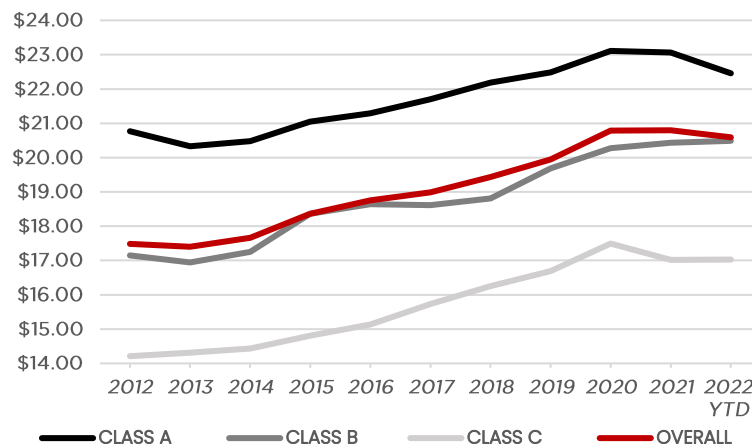
SALES AND INTEREST RATES

Total sales volume slightly decreased to \$323MM with the highest volume in the Troy (\$96MM) and Birmingham/Bloomfield (\$76MM) submarkets. Despite sliding fundamentals, investors utilized the low interest rate environment in 2021 to acquire office properties, which is no longer the case due to the rising interest rate environment. 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 GROSS ASKING RENTAL RATE BY CLASS



MARKET OUTLOOK

OFFICE DEFAULTS: We expect increased office foreclosures due to increasing 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 and upcoming expirations of dark or underutilized space.

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 11 of the 704 leases (±1.6%) so far this year have been 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.

TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	SF	SALE PRICE	PRICE/SF
PentaCentre	Troy	737,111	\$51,250,000	\$69.53
325 N Old Woodward Ave	Birmingham	125,998	\$46,750,000	\$371.04
Long Lake Crossing Campus	Troy	171,994	\$35,200,000	\$204.66
Henry Ford Medical Center	West Bloomfield	37,562	\$15,050,000	\$400.67
380 N Old Woodward Ave	Birmingham	42,091	\$14,000,000	\$332.61

TOP LEASE TRANSACTIONS (BASED ON SQUARE FEET)

TENANT	PROPERTY NAME	CITY	SF
Drug Enforcement Administration	Rick Finley Building	Detroit	76,074
Proctor Financial	North Troy Corporate Park - 700	Troy	68,244
New Eagle LLC	5220 S State Rd	Ann Arbor	60,380
Barracuda Networks Inc	Park Place - 5	Ann Arbor	31,728
*Ushr, Inc.	Seven Mile Crossing II	Livonia	23,263

Note: Bold represents Friedman transactions | *Indicates Renewal



Top Sale:
Pentacentre - Troy, MI
Sale Price: \$51,250,000



Top Lease:
DEA - Detroit, MI
Square Footage: 76,074

2022 MIDYEAR OFFICE REPORT - METRO DETROIT

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	896	14,966,329	(208,598)	-	10.60%	14.40%	89.40%	\$24.81	\$30.73	\$24.23	\$23.55	\$8,068,500	\$164.00
Auburn Hills	70	8,748,241	114,218	-	3.60%	11.70%	96.40%	\$20.76	\$26.41	\$21.45	\$20.45	\$122,000	\$151.00
Birmingham/ Bloomfield	403	7,867,789	68,710	22,485	8.90%	13.80%	91.10%	\$26.59	\$28.44	\$26.67	\$23.42	\$75,800,000	\$172.00
Central I-96 Corridor	340	6,213,028	55,950	48,582	11.00%	15.00%	89.00%	\$23.28	\$23.52	\$22.93	\$20.30	\$9,977,500	\$171.00
Dearborn/ Downriver	1,231	18,273,507	238,159	-	8.00%	14.80%	92.00%	\$19.13	\$20.01	\$19.40	\$15.68	\$20,648,364	\$125.00
Downtown Detroit	275	35,739,606	150,821	1,071,677	7.50%	11.00%	92.50%	\$28.71	\$33.67	\$26.97	\$20.44	\$5,900,000	\$141.00
Farmington Hills	403	9,782,718	2,375	-	12.90%	19.10%	87.10%	\$20.94	\$23.86	\$20.02	\$16.93	\$26,901,000	\$147.00
Lakes Area	346	2,483,836	(10,896)	-	7.70%	10.30%	92.30%	\$22.77	\$31.52	\$23.02	\$20.32	\$4,005,500	\$123.00
Macomb	1,723	18,070,375	(175,102)	117,835	8.00%	10.60%	92.00%	\$18.93	\$25.54	\$19.17	\$17.89	\$26,012,956	\$111.00
Outer Detroit	806	11,508,664	(181,510)	471,970	12.90%	16.90%	87.10%	\$18.59	\$20.01	\$17.10	\$17.00	\$5,728,500	\$115.00
Pontiac	218	6,235,338	(36,822)	-	10.70%	14.40%	89.30%	\$22.19	\$24.74	\$18.75	\$18.60	\$1,965,000	\$122.00
Rochester	183	2,615,930	101,255	13,349	7.40%	9.70%	92.60%	\$23.98	\$25.49	\$18.89	\$16.31	\$5,532,000	\$138.00
Royal Oak	651	5,622,924	(78,871)	190,000	10.40%	11.70%	89.60%	\$20.33	\$24.40	\$19.55	\$17.24	\$3,112,000	\$125.00
Southern I-275 Corridor	1,008	12,367,477	(46,119)	27,090	12.00%	16.60%	88.00%	\$19.18	\$21.17	\$20.24	\$16.93	\$13,335,228	\$135.00
Southfield	586	23,555,330	(210,062)	-	17.90%	25.50%	82.10%	\$19.16	\$23.01	\$18.05	\$13.34	\$19,750,000	\$116.00
Troy	336	17,434,873	(195,150)	-	18.70%	26.70%	81.30%	\$19.35	\$19.59	\$19.54	\$15.82	\$96,130,000	\$128.00
TOTAL	9,475	201,485,965	(411,642)	1,962,988	11.00%	16.00%	89.00%	\$20.59	\$22.46	\$20.49	\$17.03	\$322,988,548	\$133.84

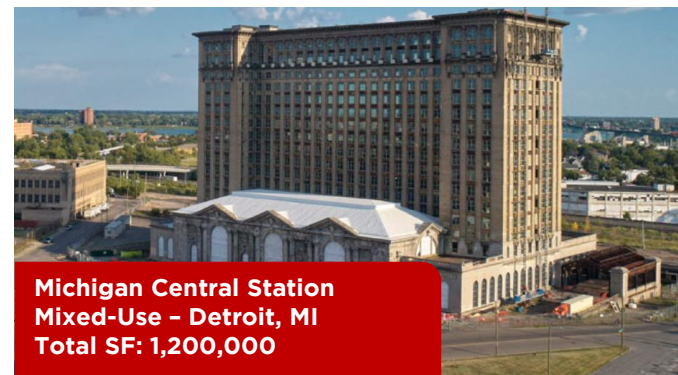
TOP OFFICE PROPERTIES DELIVERED (H1 2022)

PROPERTY NAME	CITY	OFFICE SF	DELIVERED	OCCUPANCY	PROPERTY TYPE	ASKING RATE PSF (NNN)
39000 W Seven Mile Rd	Livonia	127,379	Q1 2022	81%	Medical Office	Withheld
1405 South Blvd	Rochester Hills	75,000	Q1 2022	N/A	Office	N/A
Bloomfield Hills Office Center II	Bloomfield Hills	74,371	Q2 2022	0%	Office	Withheld
277 Pierce St	Birmingham	23,826	Q1 2022	100%	Mixed-Use	N/A
580 E Warren Ave	Detroit	6,297	Q1 2022	N/A	Office	N/A
42371 Mound Rd	Sterling Heights	2,450	Q2 2022	0%	Medical Office	\$15.95

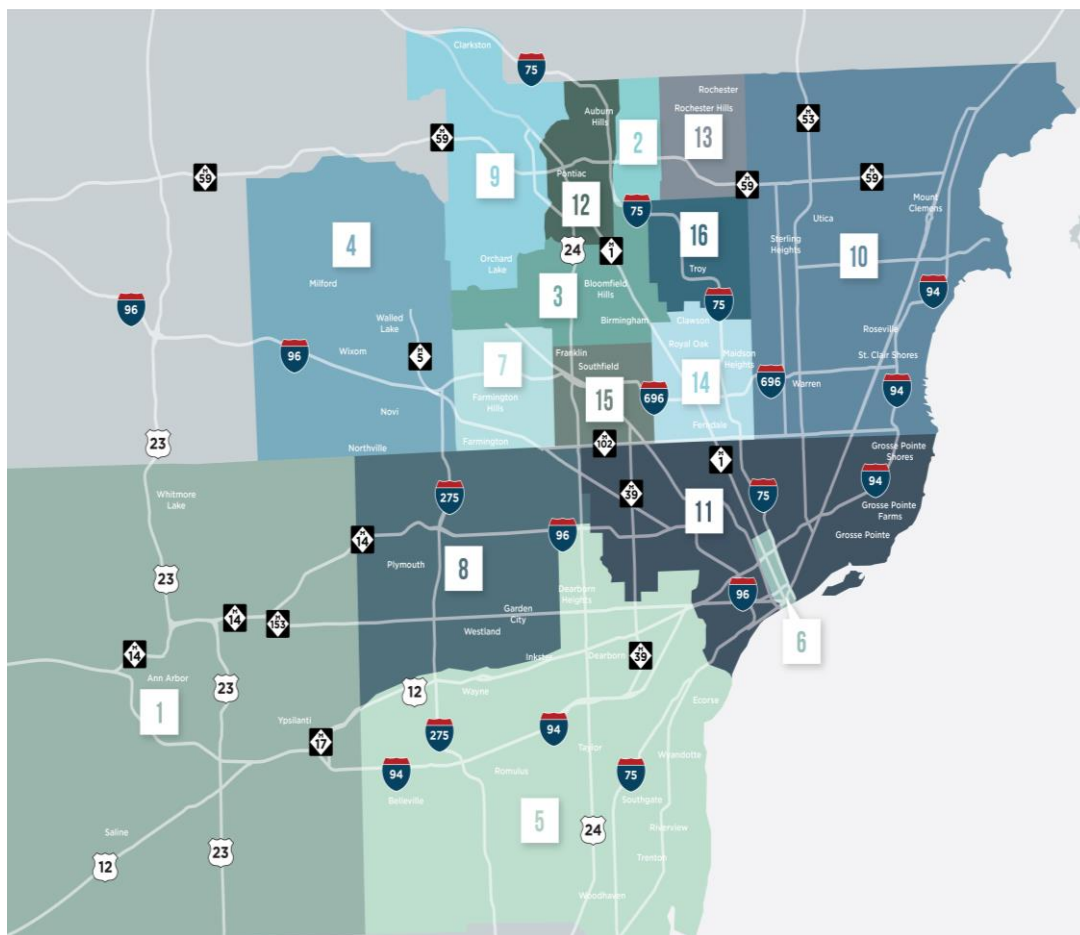


TOP OFFICE PROPERTIES UNDER CONSTRUCTION (H1 2022)

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	Q2 2024	0%	Mixed Use	N/A
TCF Tower	Detroit	205,104	Q4 2022	85%	Mixed Use	\$40.00
120 Henry St	Detroit	114,400	Q4 2023	14%	Mixed Use	Withheld
111 Henry St	Detroit	73,500	Q4 2023	0%	Mixed Use	Withheld
Macomb Surgery Center	Clinton Township	67,275	Q3 2022	98%	Medical Office	\$21.00



OFFICE SUBMARKET MAP



1	ANN ARBOR	9	LAKES 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 MIDYEAR 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.