# METRO DETROIT | YEAR END 2021 OFFICE REPORT

FRIEDMAN REAL ESTATE

## CONTINUED UNCERTAINTY & PANDEMIC SPURRED FLIGHT TO QUALITY

In the second half of 2021, the Metro Detroit office market began its recovery from the effects of the COVID-19 pandemic. Many market metrics improved, such as net absorption, leasing volume, and sales volume. Unfortunately, decreased overall demand, continued negative net absorption, and a weak construction pipeline suggests that the Metro Detroit office market is still yet to realize the full impact of COVID-19 and the subsequent work from home movement.

## SUPPLY AND DEMAND

Occupancy decreased 0.30% from the first half of 2021 to 89.1%, but still remains above the market's 10-year average of 87.9%.

H2 2021 leasing activity of 2.4MM SF remains well below pre-pandemic levels of 4.4MM SF in H2 2019, while average square feet per lease has decreased from 4,600 SF in H2 2019 to 3,300 SF, indicating an overall decrease in demand and space requirements. Available sublease space, totaling 1.28MM SF, has reached the highest level since 08/09, and an additional 150,000 SF has become available since the first half of 2021.

Net absorption remains negative (-324,131 SF), but is a major improvement from the initial COVID-19 induced demand shock in the second half of 2020 of (–1.7MM SF). This demand shock spurred a flight to quality that continued in the second half of 2021 as buildings built post 2015 accounted for 319,446 SF of the net absorption compared to (–327,550 SF) in buildings built between 2000-2014 and (–316,027 SF) in buildings built pre 2000.

## RETURN TO THE OFFICE

Future office space demand remains ambiguous as businesses were forced to re-assess their in-person and remote working arrangements amid the onset of the Omicron variant.

The increasing sublease inventory and flight to quality suggests that many firms are attempting to downsize, relocate to a newer building with more amenities, and/or adopt a work-from-home model.

Notably, Ford announced in December they would maintain a remote work structure and delay their return to the office until March as a result of the Omicron variant. Quicken Loans executed their return to the office last fall and has maintained a hybrid work structure with 19,000 Detroit employees in the office only two or three days a week. General Motors has no scheduled date to return to work and plans to continue its hybrid work structure on a team-by-team basis.

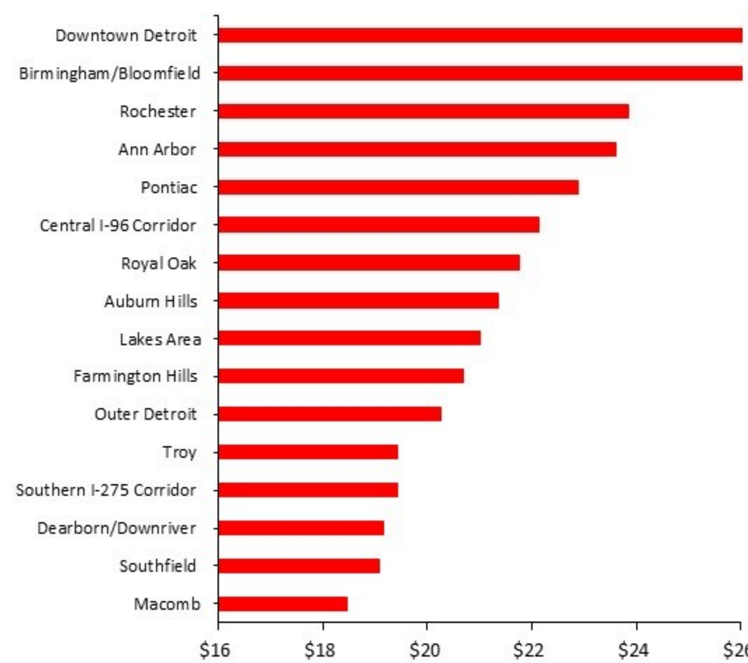
## SALES

Total office buildings sales volume increased to $337MM, the highest level since the second half of 2017. Despite sliding fundamentals, investors are taking advantage of the low interest rate environment to acquire office properties, which is a positive sign for the outlook of the Metro Detroit office market.

## MARKET AT A GLANCE

| | PRIOR PERIOD H2 2020 | PRIOR PERIOD H1 2021 | CURRENT H2 2021 | |
|---|---|---|---|---|
| # Of Office Buildings | 9,464 | 9,474 | 9,489 | ↑ |
| Market Size (SF) | 200,408,155 | 201,276,539 | 201,052,653 | ↑ |
| Direct Avg Asking Rental Rate | $20.79 | $20.65 | $20.80 | ↑ |
| Overall Occupancy | 90.0% | 89.4% | 89.1% | ↓ |
| Half Year Net Absorption | (1,690,108) | (527,919) | (324,131) | ↑ |
| Half Year Leasing Volume | 2,305,948 | 1,951,772 | 2,378,465 | ↑ |
| Half Year Sales Volume | $248,441,072 | $262,091,078 | $337,964,193 | ↑ |
| # Prop Under Construction | 23 | 14 | 17 | ↓ |
| SF Under Construction | 2,945,570 | 2,114,949 | 2,034,204 | ↓ |

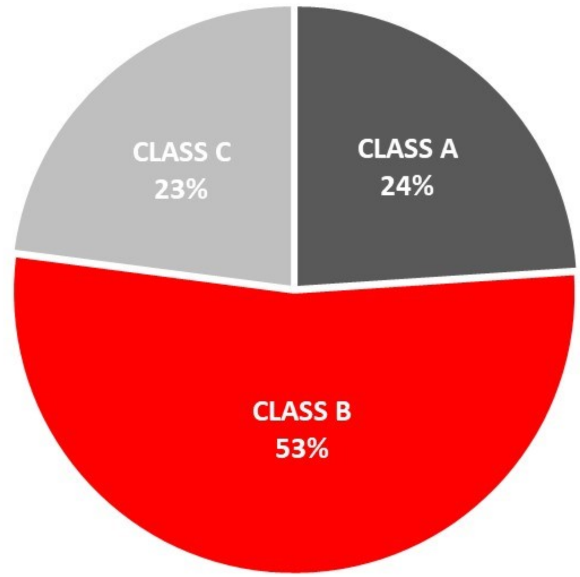
## AVERAGE GROSS ASKING RENTAL RATES BY SUBMARKET



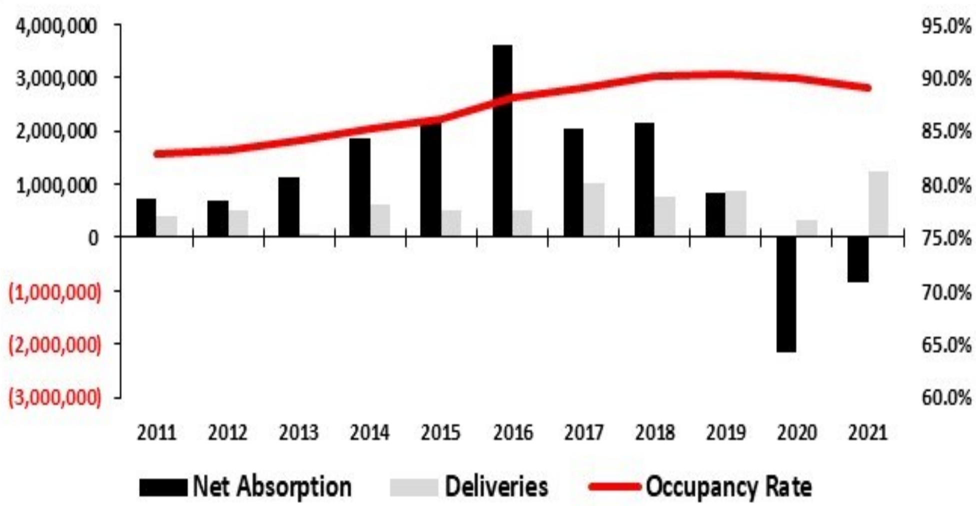
## 2022 OUTLOOK

- **Flight to Quality:** Leasing activity in newer Class A buildings is expected to disproportionately exceed activity in older Class B/C buildings.
- **Return to the Office:** We expect that approximately 80% of large corporations (10K + employees) will return to a hybrid work model this year despite additional COVID-19 variants.
- **Decreased Occupancy:** Overall occupancy is expected to continue to its decline due to sluggish demand and upcoming expirations of dark or underutilized space.
- **Stable Rental Rates:** Rental rates are expected to remain stable as Landlord's continue to favor increased tenant concessions (increased free rent and/or tenant improvement allowance) rather than decreased asking prices.
- **Minimal Construction:** Increased construction and labor costs combined with weak office fundamentals will likely continue to deter developers from speculative office development. Over 90% of office inventory delivered in 2021 was build-to-suit, or medical office developments.

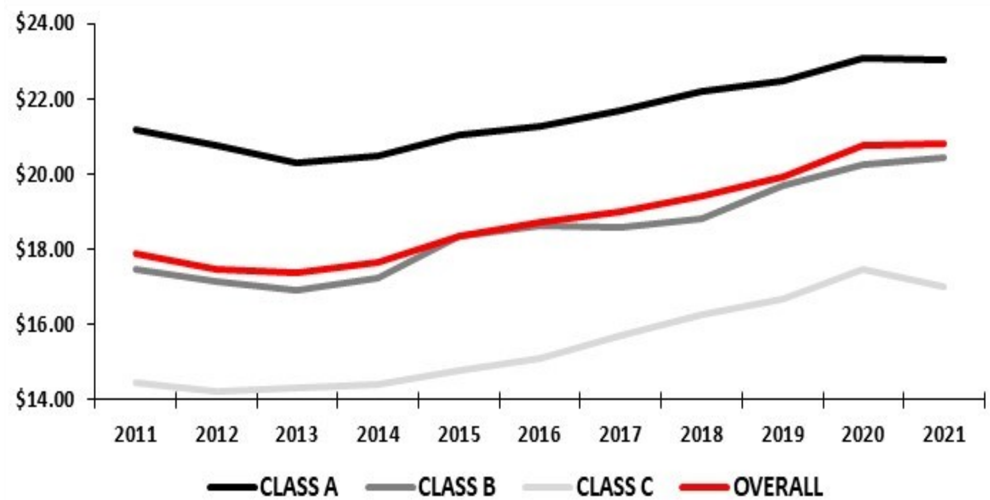
## INVENTORY BY CLASS




## OCCUPANCY AND ABSORPTION




## AVERAGE EFFECTIVE RENT BY CLASS



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## SUBMARKET STATS

| 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 | 901 | 15,087,520 | 58,430 | - | 9.70% | 15.40% | 90.30% | $23.61 | $32.77 | $23.34 | $22.89 | $17,423,900 | $172.29 |
| Auburn Hills | 70 | 8,688,125 | (96,062) | - | 5.00% | 9.50% | 95.00% | $21.37 | $23.20 | $19.72 | $19.00 | - | - |
| Birmingham/ Bloomfield | 396 | 7,733,082 | 109,859 | 98,197 | 9.50% | 13.50% | 90.50% | $28.23 | $33.95 | $27.38 | $23.71 | $11,742,500 | $146.00 |
| Central I-96 Corridor | 343 | 6,354,165 | (23,219) | - | 13.70% | 15.90% | 86.30% | $22.14 | $23.08 | $21.93 | $20.84 | $4,395,000 | $91.64 |
| Dearborn/ Downriver | 1,235 | 18,269,668 | (137,456) | 7,994 | 9.60% | 13.20% | 90.40% | $19.16 | $20.11 | $19.75 | $15.43 | $22,125,893 | $39.99 |
| Downtown Detroit | 274 | 35,823,085 | 105,387 | 997,077 | 7.90% | 11.20% | 92.10% | $28.40 | $29.51 | $27.26 | $21.10 | - | - |
| Farmington Hills | 405 | 9,839,467 | (221,690) | - | 12.90% | 19.50% | 87.10% | $20.70 | $24.16 | $19.70 | $15.69 | $16,217,000 | $77.02 |
| Lakes Area | 345 | 2,470,317 | 3,507 | - | 7.30% | 9.00% | 92.70% | $21.00 | $22.00 | $21.25 | $19.44 | $1,847,000 | $87.83 |
| Macomb | 1,730 | 17,964,040 | 43,714 | 77,835 | 7.10% | 11.10% | 92.90% | $18.46 | $28.65 | $18.80 | $17.32 | $125,699,966 | $257.53 |
| Outer Detroit | 806 | 11,425,683 | 122,520 | 458,000 | 11.40% | 14.60% | 88.60% | $20.27 | $23.68 | $20.51 | $17.22 | $22,494,947 | $168.85 |
| Pontiac | 219 | 6,213,533 | 108,985 | - | 10.60% | 13.70% | 89.40% | $22.88 | $26.39 | $18.87 | $18.49 | $551,174 | $116.00 |
| Rochester | 181 | 2,445,672 | (28,031) | 100,632 | 9.00% | 10.90% | 91.00% | $23.85 | $25.15 | $19.33 | $18.89 | $36,042,572 | $187.02 |
| Royal Oak | 650 | 5,606,202 | (54,492) | 140,000 | 9.40% | 11.20% | 90.60% | $21.76 | $32.77 | $22.12 | $21.41 | $8,294,000 | $62.66 |
| Southern I-275 Corridor | 1,009 | 12,265,761 | 165,999 | 154,469 | 11.00% | 15.90% | 89.00% | $19.42 | $21.14 | $19.10 | $18.75 | $54,038,750 | $258.66 |
| Southfield | 588 | 23,418,747 | (345,834) | - | 17.40% | 25.50% | 82.60% | $19.09 | $22.70 | $18.43 | $13.14 | $10,941,491 | $47.54 |
| Troy | 337 | 17,447,586 | (135,748) | - | 17.50% | 23.20% | 82.50% | $19.42 | $19.64 | $19.44 | $16.02 | $6,150,000 | $92.91 |
| **TOTAL** | **9,489** | **201,052,653** | **-324,131** | **2,034,204** | **10.90%** | **14.50%** | **89.10%** | **$20.80** | **$23.06** | **$20.43** | **$17.02** | **$337,964,193** | **$148.56** |

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# TOP SALES (BASED ON SALES PRICE)

| BUILDING | ADDRESS | CITY | SF | SALE PRICE | PRICE/SF |
|---|---|---|---|---|---|
| | 44344 Dequindre Rd (Part of Portfolio) | Sterling Heights | 259,350 | $97,408,445 | $375.59 |
| Cooper Standard Automotive HQ | 40300 Traditions Dr | Northville | 110,000 | $42,000,000 | $381.82 |
| Beaumont Health & Wellness Center | 1555 E South Blvd (Part of Portfolio) | Rochester Hills | 94,572 | $35,527,572 | $375.67 |
| Grosse Pointe Medical Office Building | 16815 E Jefferson Ave (Part of Portfolio) | Grosse Pointe | 57,040 | $16,986,442 | $297.80 |
| | 27085-27087 Gratiot Ave | Roseville | 22,400 | $11,100,000 | $495.54 |
| Fairlane Office Centre I & II | 4-6 Parklane Blvd | Dearborn | 286,726 | $9,897,393 | $34.52 |
| | 27500 Drake Rd | Farmington Hills | 182,761 | $7,500,000 | $41.04 |
| Bingham Farms Office Park | 32500 Telegraph Rd | Bingham Farms | 46,618 | $6,000,000 | $128.71 |
| Clinton Office Center | 43475 Dalcoma Dr (Part of Multi-Condo Sale) | Clinton Township | 16,190 | $5,000,000 | $308.83 |
| **Brookfield Center** | **38275 W 12 Mile Road** | **Farmington Hills** | **35,365** | **$4,650,000** | **$131.49** |
| | 2929 Plymouth Rd | Ann Arbor | 30,192 | $4,500,000 | $149.05 |
| Westpark Center | 5111 Auto Club Dr | Dearborn | 114,656 | $4,100,000 | $35.76 |
| Markham Place | 340 N Main St | Plymouth | 32,407 | $4,000,000 | $123.43 |
| | **36400 Woodward Ave** | **Bloomfield Hills** | **24,816** | **$3,492,500** | **$140.74** |
| | 6440 E 14 Mile Rd (Part of Multi-Property Sale) | Warren | 39,575 | $3,262,226 | $82.43 |
| High Oak Business Center | 180 High Oak Rd | Bloomfield Hills | 9,248 | $2,250,000 | $243.30 |
| Southfield Crossing II | 25510 W 11 Mile Rd | Southfield | 66,195 | $2,163,000 | $32.68 |
| | **27650-27652 Franklin Rd (Part of Multi-Property Sale)** | **Southfield** | **41,226** | **$2,095,197** | **$50.82** |
| | 3250 Franklin St | Detroit | 30,000 | $2,000,000 | $66.67 |
| | 3515 Broad St | Dexter | 13,588 | $1,892,000 | $139.24 |
| Fairlane Office Park West | 5225 Auto Club Dr | Dearborn | 72,866 | $1,800,000 | $24.70 |
| | **7175 E 14 Mile Road** | **Troy** | **13,400** | **$1,700,000** | **$126.87** |
| **Madison Place** | **876 Horace Brown Dr** | **Madison Heights** | **49,928** | **$1,600,000** | **$32.05** |
| | **14061 Lappin St** | **Detroit** | **36,520** | **$1,575,000** | **$43.13** |
| | 27301 Dequindre Rd | Madison Heights | 47,208 | $1,500,000 | $31.77 |
| | 29753 Hoover Rd (Part of Multi-Property Sale) | Warren | 10,459 | $1,485,946 | $142.07 |
| | 109-111 Catherine St | Ann Arbor | 5,478 | $1,450,000 | $264.70 |
| J&M Office Center | 9310-9340 Telegraph Rd | Taylor | 7,348 | $1,400,000 | $190.53 |
| **TOTAL H2 2021 MARKET SALES** | | | **4,737,054** | **$337,964,193** | **$148.56** |

*Note: Bold represents Friedman transaction*

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# TOP LEASES (BASED ON SF)

| TENANT | BUILDING | SUBMARKET | SF |
|---|---|---|---|
| Ally Financial, Inc** | Ally Detroit Center | Downtown Detroit | 77,000 |
| **Proctor Financial** | **700 Tower Drive** | **Troy** | **68,244** |
| U.S. Ecology* | 17440 College Parkway | Southern I-275 Corridor | 60,991 |
| NYX Inc. | 14909 N Beck Road | Southern I-275 Corridor | 35,227 |
| PACE SE Michigan | 17330 Greydale Avenue | Outer Detroit | 30,498 |
| J.D. Power * | 320 E Big Beaver Road | Troy | 28,812 |
| MDHHS | 19700-19800 Hall Road | Macomb | 26,380 |
| Hall Financial | 1650 Research Drive | Troy | 25,124 |
| The Hatchery | 51111 Woodward Avenue | Pontiac | 25,000 |
| DT Midstream, Inc. | Ally Detroit Center | Downtown Detroit | 22,727 |
| **Pace Industries, LLC** | **Haggerty Corporate Office Centre III** | **Central I-96 Corridor** | **22,460** |
| **Toyota Tsusho America** | **Arboretum II** | **Farmington Hills** | **22,027** |
| **Vectorform, LLC*** | **500 S Main Street** | **Royal Oak** | **19,924** |
| 5iron Golf | Walker-Roehrig Building | Downtown Detroit | 18,340 |
| **Stifel, Nicolaus & Company, Inc.*** | **One Northwestern Plaza** | **Southfield** | **18,193** |
| Estate Financial | Epicentre | Southfield | 17,488 |
| Koussan Hamood PLC | 28819 Franklin Road | Southfield | 16,498 |
| **Perry Johnson & Associates, Inc.*** | **PNC Center** | **Troy** | **16,283** |
| **Oakwood Healthcare, Inc.*** | **22060 Beech Street** | **Dearborn/Downriver** | **16,038** |
| **Xanedu Publishing** | **Laurel Office Park I** | **Southern I-275 Corridor** | **15,581** |
| **UBS Financial Services, Inc.*** | **Nottingham Office Center** | **Farmington Hills** | **15,392** |
| Carnegie Institute* | 550 Stephenson Highway | Troy | 14,832 |
| Kay H Law Firm | Epicentre | Southfield | 13,116 |
| Cambridge MI Language Assessment | 2025 Traverwood Drive | Ann Arbor | 13,038 |
| **Loan X Mortgage, LLC** | **Wells Fargo Center** | **Birmingham/Bloomfield** | **12,432** |
| **Essex Title & Canterra Management** | **Onyx Building** | **Southfield** | **12,291** |
| Clarivate | Bingham Office Park IV | Southfield | 12,066 |
| Detroit Trading Co. | Raymond James Centre | Auburn Hills | 11,553 |

*Note: Bold represents Friedman transaction*
*Renewal **Renewal & Expansion

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# TOP DEVELOPMENTS (BASED ON SF)

## TOP OFFICE PROPERTIES DELIVERED (H2 2021)

| Property Name | Property Address | Property City | Office SF | Delivered | Occupancy | Property Type | Asking Rate (NNN) |
|---|---|---|---|---|---|---|---|
| KLA-Tenor Headquarters | 1200 Woodridge Ave | Ann Arbor | 230,000 | Q4 2021 | 100% | Office | N/A |
| Wellington Professional Campus-Phase III | 15250 Wellington Center Blvd | Macomb Township | 80,000 | Q3 2021 | 0% | Medical Office | Withheld |
| 40421-40477 Mound Road | 40421-40477 Mound Rd | Sterling Heights | 16,380 | Q4 2021 | 0% | Office | Withheld |
| Shelby Professional Center | 7725-7825 25 Mile Rd | Shelby Township | 14,304 | Q4 2021 | 0% | Medical Office | $16.50 |
| 2005 Biddle Avenue | 2005 Biddle Ave | Wyandotte | 7,500 | Q3 2021 | 0% | Medical Office | Withheld |

## TOP OFFICE PROPERTIES UNDER CONSTRUCTION (H2 2021)

| Property Name | Property Address | Property City | Office SF | Delivery | Occupancy | Property Type | Asking Rate (NNN) |
|---|---|---|---|---|---|---|---|
| Michigan Central Station | 2001 15th St | Detroit | 458,000 | Q2 2023 | 100% | Office | N/A |
| Hudson's Site | 1206 Woodward Ave | Detroit | 404,000 | Q3 2023 | N/A | Mixed Use | N/A |
| TCF Tower | 2025 Woodward Ave | Detroit | 205,104 | Q1 2022 | 69% | Mixed Use | $40.00 |
| 120 Henry Street | 120 Henry St | Detroit | 114,400 | Q4 2023 | 0% | Mixed Use | Withheld |
| 39000 W 7 Mile Road | 39000 W 7 Mile Rd | Livonia | 127,379 | Q2 2022 | 78% | Medical Office | Withheld |
| 1405 E South Boulevard | 1405 E South Blvd | Rochester Hills | 75,000 | Q1 2022 | 100% | Medical Office | N/A |
| Bloomfield Hills Office Center II | 40705 Woodward Ave | Bloomfield Hills | 74,371 | Q2 2022 | 0% | Office | Withheld |
| 22510 Harrington Street | 22510 Harrington St | Clinton Township | 67,275 | Q1 2022 | 98% | Medical Office | $21.00 |
| 3848 S Rochester Road | 3848 S Rochester Rd | Rochester Hills | 25,632 | Q1 2022 | 50% | Medical Office | $19.90 |

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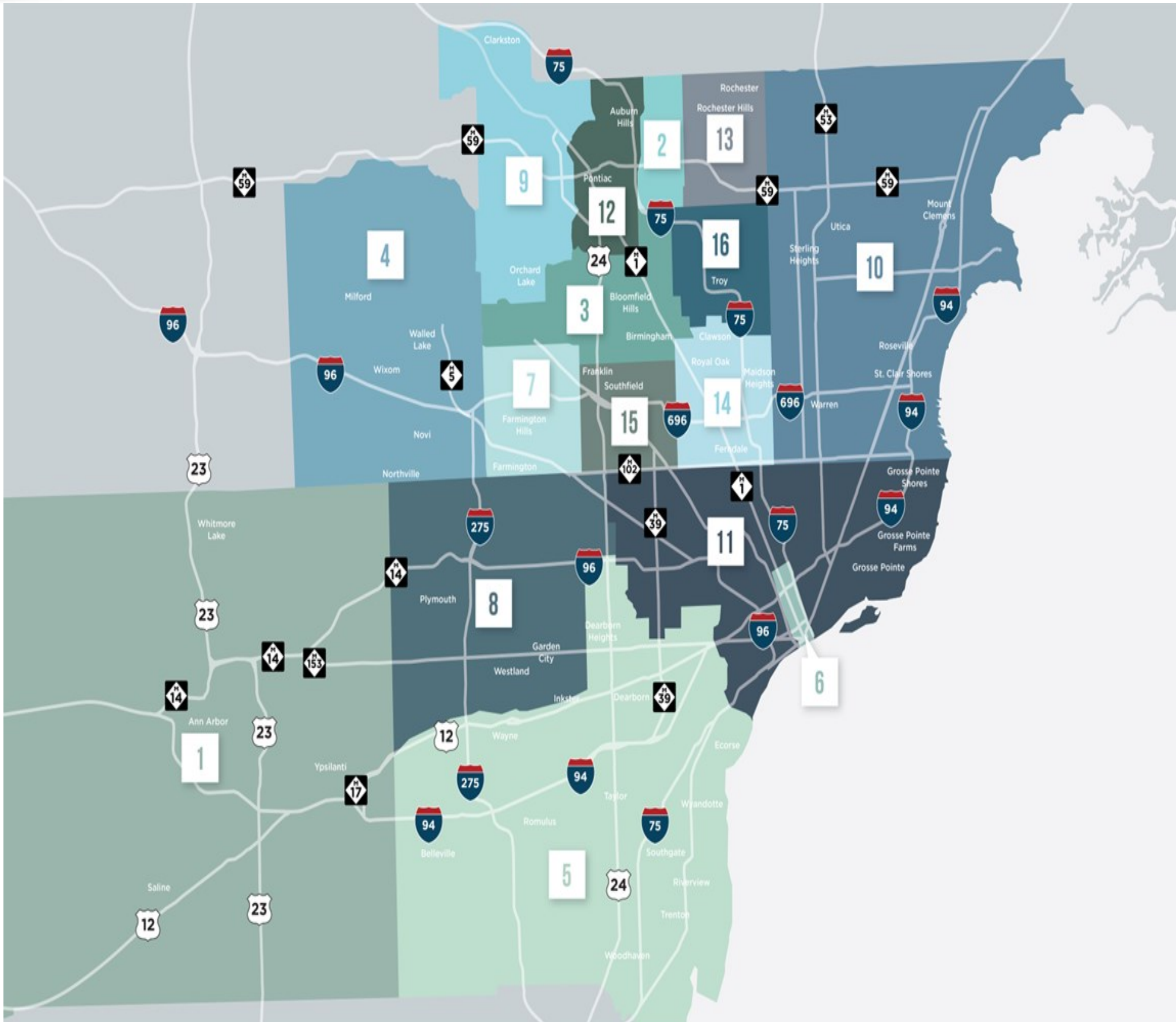
# OFFICE SUBMARKET MAP




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

Note: Friedman's YEAR-END Office Market Report provides out clients with a snapshot of pertinent market date 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.

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