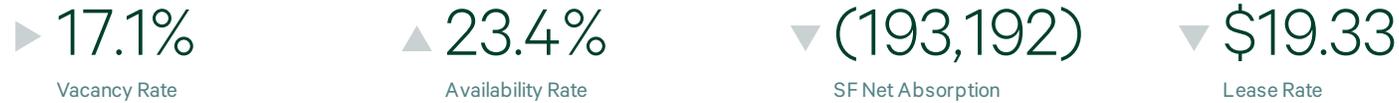


FIGURES | DETROIT OFFICE | Q4 2022

Detroit office sees slight increase in availability and falling lease rates



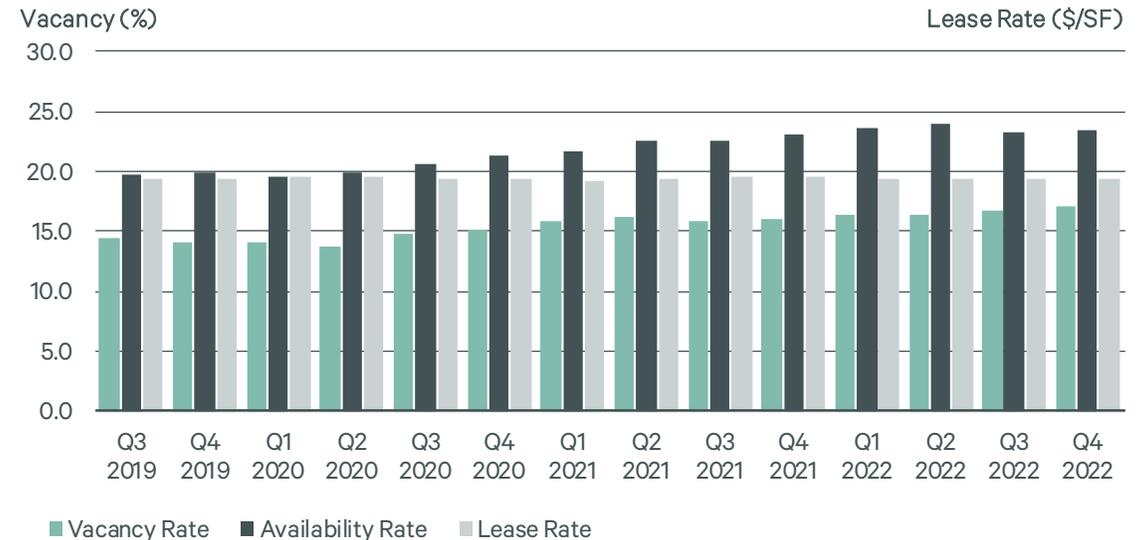
Note: Arrows indicate change from previous quarter.

Market Summary

- Vacancy held steady at 17.1% while availability rose 10 basis points (bps), quarter over quarter, moving to 23.4%.
- The office market posted 193,192 square feet (sq. ft.) of negative net absorption in Q4 2022, driven by 115,651 sq. ft. of negative net absorption downtown and smaller tenant move-outs across the suburbs.
- At the end of Q4 2022, office space under construction totaled just over 1.1 million sq. ft.
- Available sublease space decreased 2.9% from last quarter, moving to 1.6 million sq. ft.

Detroit posted 193,192 sq. ft. of negative net absorption this quarter, bringing the 12-month trailing absorption to negative 689,826 sq. ft. Notable move-outs from the past year include Meridian in Q3 and Siemens in Q4. Vacancy is expected to rise slightly in Q1 2023 as Bank of America plans to vacate 144,000 sq. ft. at 2600 W Big Beaver Rd. In Q4 2022, vacancy stayed constant at 17.1% and availability increased to 23.4%. The average asking lease rate across the market dropped \$.05 to \$19.33 per sq. ft., which is in line with rates seen in Q4 2019. Available sublease space dropped nearly 3.0% from last quarter. From Q4 2020 through Q4 2022, available sublease space has increased 31.5%.

FIGURE 1: Vacancy, Availability, and Average Asking Lease Rate



Source: CBRE Research, Q4 2022.

Suburban

The suburban market posted 77,541 sq. ft. of negative net absorption in Q4 2022. Over the past 12 months, absorption has totaled negative 684,220 sq. ft. Overall vacancy rose 30 bps to 18.0% during the quarter, while availability dipped 20 bps to 25.1%. The average asking lease rate for the quarter was \$18.53. Notably, downtown Birmingham posted the highest asking rental rate in the metro at \$34.68 with a vacancy rate of 4.8%.

Downtown

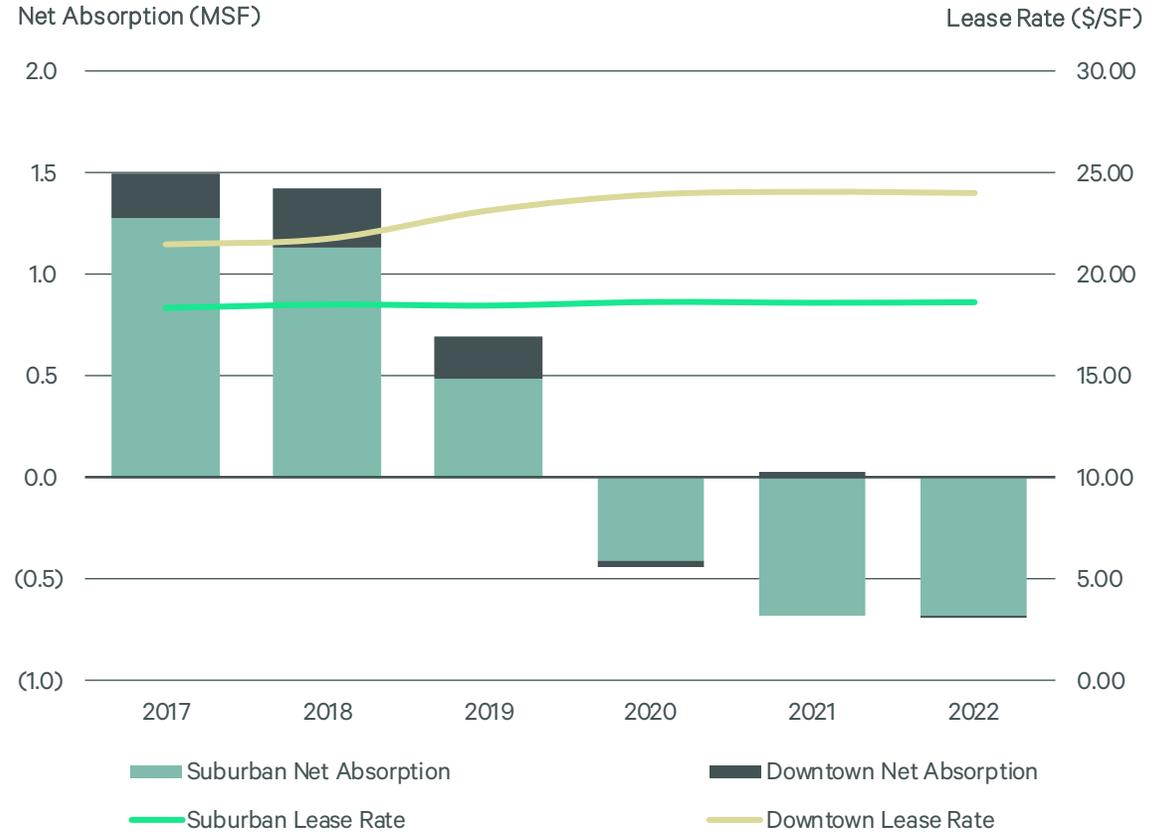
The downtown market posted 115,651 sq. ft. of negative net absorption in Q4 2022. Over the past 12 months, absorption totaled negative 5,606 sq. ft. The vacancy rate increased 70 bps to 14.0%, quarter over quarter, while availability rose 80 bps to 17.6%. At \$24.02 per square foot gross, the average asking lease rate in downtown Detroit was \$5.49 higher than the suburban average asking lease rate.

FIGURE 2: Key Transactions

Transaction Type	Tenant / Buyer	Location	Transaction Size (SF)	Industry
Renewal	Perry Johnson & Associates	755 W Big Beaver Rd, Troy	16,283	Information & Technology Services
Renewal	TE Connectivity Corporation	900 Wilshire Dr, Troy	15,998	Consumer Electronics
Renewal	Miller, Canfield, Paddock, and Stone	101 N Main St, Ann Arbor	15,423	Legal Services
New Lease	Detroit Wayne Integrated Health Network	3031 W Grand Blvd, Detroit	14,774	Health Services
Renewal	HTC Global Services, Inc.	2600 W Big Beaver Rd, Troy	10,319	Information & Technology Services

Source: CBRE Research, Q4 2022

FIGURE 3: Net Absorption and Average Asking Lease Rate



Source: CBRE Research, Q4 2022

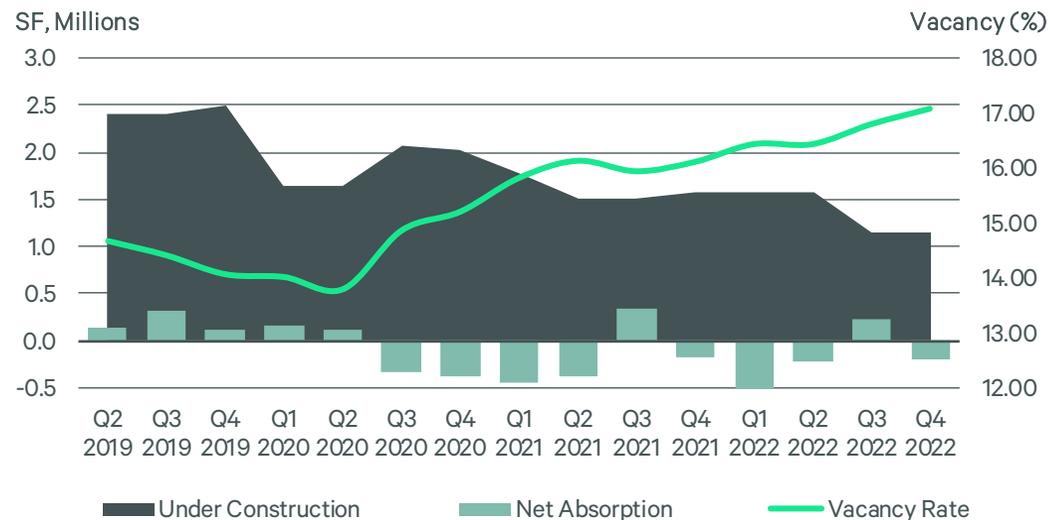
Construction

Office space under construction in Metro Detroit totaled just over 1.1 million sq. ft. at the end of Q4 2022. The bulk of this construction is happening downtown, accounting for roughly 1 million sq. ft. of the overall total. Notable completions this year include Huntington Tower, which delivered in Q3 and added 422,437 sq. ft. of Class A office product to the downtown market. Notable developments include Hudson’s Site and the Book Depository, which are poised to bring 363,000 sq. ft. and 205,000 sq. ft. to the market, respectively, by the end of 2023.

Vacancy and Absorption

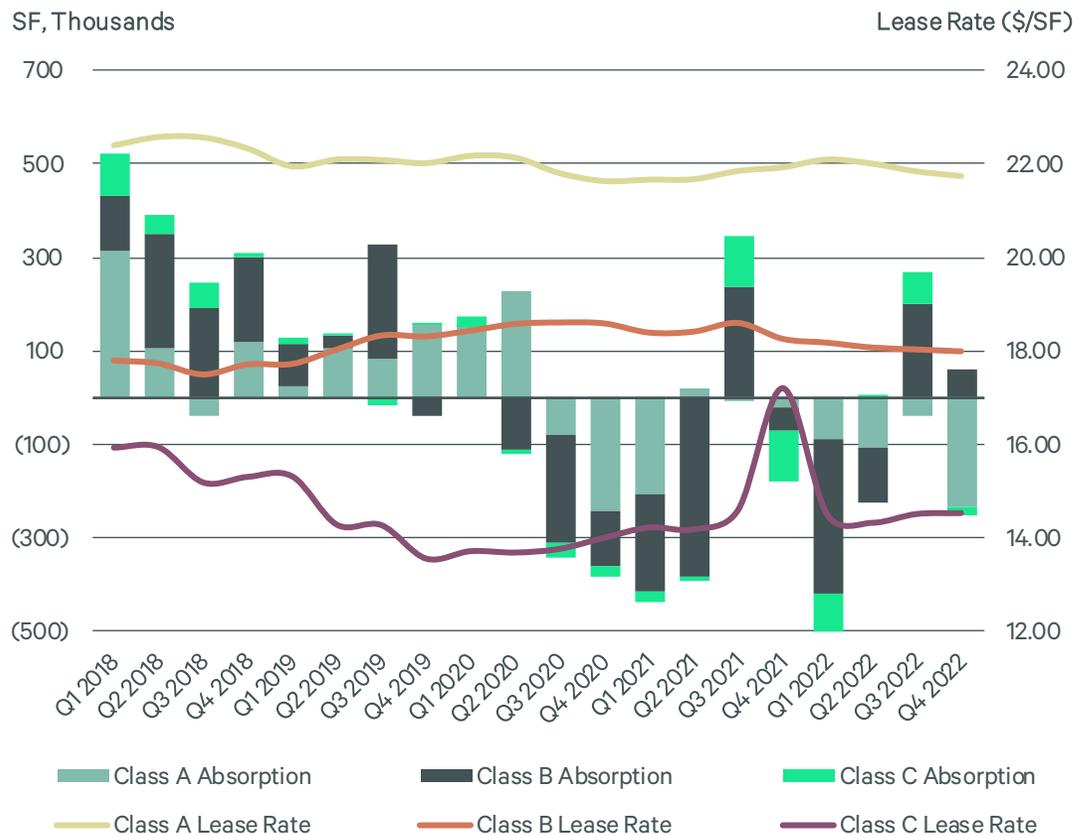
With a vacancy rate of 17.1%, the Metro Detroit office market experienced a vacancy rate increase of 70 bps, year over year. Vacancy has steadily risen since the start of the Covid-19 pandemic but remains lower than rates seen in the first half of the 2010’s. At the end of 2022, net absorption totaled negative 689,826 sq. ft. Net absorption since the start of 2017 has totaled over 1.8 million sq. ft.

FIGURE 4: Net Absorption, Under Construction Sq. Ft., and Vacancy Rate



Source: CBRE Research, Q4 2022.

FIGURE 5: Net Absorption and Lease Rate by Class



Source: CBRE Research, Q4 2022.

FIGURE 6: Detailed Market Statistics by Submarket

Submarket	Market Size (SF)	Vac. Rate (%)	Avail. Rate (%)	Avail. Sublease (SF)	Q4 2022 Net Absorption (SF)	2022 Net Absorption (SF)	Gross Asking Lease Rate (\$/SF)
Ann Arbor	5,800,735	11.0	15.2	39,545	1,840	1,414	\$24.50
Auburn Hills	2,145,667	15.6	28.0	87,347	(159,890)	(201,334)	\$17.20
Birmingham /Bloomfield	5,767,352	12.1	17.3	39,421	39,895	(86,499)	\$24.07
Dearborn	4,120,297	20.8	26.5	0	8,697	(8,301)	\$16.87
Farmington Hills/West Bloomfield	6,544,261	14.4	19.2	73,267	(44,669)	(121,164)	\$18.00
I-275 Corridor	5,839,296	14.7	23.8	129,205	(6,063)	(205,890)	\$19.02
Macomb	1,331,663	9.0	11.7	0	21,246	22,844	\$16.45
Rochester	543,803	3.3	4.6	0	4,058	7,284	\$18.03
Southfield	16,873,916	22.3	31.7	344,938	102,667	6,558	\$17.52
Troy	12,976,227	17.9	29.3	464,032	(45,322)	(99,132)	\$17.79
SUBURBAN TOTAL	61,943,217	18.0	25.1	1,177,755	(77,541)	(684,220)	\$18.53
DOWNTOWN TOTAL	18,443,908	14.0	17.6	402,425	(115,651)	(5,606)	\$24.02
METRO DETROIT TOTAL	80,387,125	17.1	23.4	1,580,180	(193,192)	(689,826)	\$19.33

Source: CBRE Research, Q4 2022

FIGURE 7: Detailed Market Statistics by Index and Class

Index and Class	Market Size (SF)	Vac. Rate (%)	Avail. Rate (%)	Avail. Sublease (SF)	Q4 2022 Net Absorption (SF)	2022 Net Absorption (SF)	Gross Asking Lease Rate (\$/SF)
Class A	24,052,528	18.0	25.2	547,325	(54,449)	(272,387)	\$21.08
Class B	32,649,102	19.0	26.3	625,054	2,194	(368,671)	\$17.04
Class C	5,241,587	11.6	17.4	5,376	(25,286)	(43,162)	\$13.82
SUBURBAN TOTAL	61,943,217	18.0	25.1	1,177,755	(77,541)	(684,220)	\$18.53
Class A	9,246,665	13.3	15.6	358,815	(180,419)	(196,021)	\$26.20
Class B	7,146,055	17.9	21.1	21,476	56,794	179,881	\$22.74
Class C	2,051,188	3.1	14.1	22,134	7,974	10,534	\$24.22
DOWNTOWN TOTAL	18,443,908	14.0	17.6	402,425	(115,651)	(5,606)	\$24.02
Class A	33,299,193	16.7	22.5	906,140	(234,868)	(468,408)	\$21.74
Class B	39,795,157	18.8	25.4	646,530	58,988	(188,790)	\$17.99
Class C	7,292,775	9.2	16.5	27,510	(17,312)	(32,628)	\$14.53
METRO DETROIT TOTAL	80,387,125	17.1	23.4	1,580,180	(193,192)	(689,826)	\$19.33

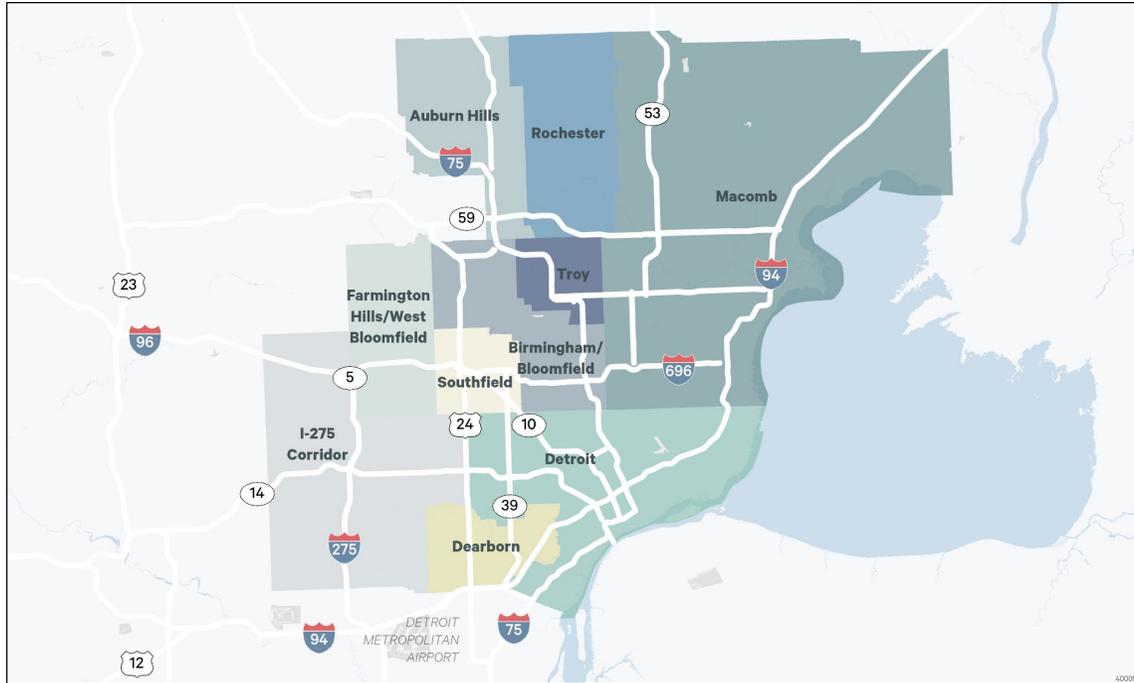
Source: CBRE Research, Q4 2022

A Challenging Year Ahead

High interest rates and a recession will make 2023 a challenging year for commercial real estate. Though inflation eased in late 2022, it was still running at more than 7%. The Fed will continue raising rates until it sees a marked reduction in inflation nearer to its 2% target. Weakening fundamentals and higher cost of capital will generally lower asset values.

The recession will not be particularly deep. Corporate finances are in good shape and employers will shun excessive layoffs to avoid losing employees in a tight market for skilled labor. While consumer confidence is highly subdued, average household debt is low compared with the onset of previous recessions. These factors suggest a moderate downturn, with unemployment unlikely to breach the 6% level. Inflation will be significantly lower by the second half of 2023, setting the stage for falling interest rates and the beginning of a new cycle that will last to the 2030s.

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. **Availability Rate:** Total Available Sq. Ft. divided by the total building Area. **Average Asking Lease Rate:** A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. **Building Area:** The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. **Gross Activity:** All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. **Gross Lease Rate:** Rent typically includes real property taxes, building insurance, operating expenses, and common area maintenance. **Net Absorption:** The change in Occupied Sq. Ft. from one period to the next. **Net Lease Rate:** Rent excludes one or more of the “net” costs (real property taxes, building insurance, operating expenses, and common area maintenance) typically included in a Gross Lease Rate. **Occupied Sq. Ft.:** Building Area not considered vacant. **Vacancy Rate:** Total Vacant Sq. Ft. divided by the total Building Area. **Vacant Sq. Ft.:** Space that can be occupied within 30 days.

Survey Criteria

Includes office buildings 30,000 sq. ft. and greater in size. Excludes single-tenant owner-occupied buildings, government-owned-and-occupied buildings, and medical buildings. Buildings which have begun construction as evidenced by site excavation or foundation work.

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