

PERSPECTIVE Q4 2022

METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



WHAT'S UP (OR DOWN) WITH THE METRO DETROIT OFFICE MARKET?

DeVon Jackson & Levi Smith | P.A. Commercial

Most reports about Detroit's commercial real estate market focus on rent, vacancy, and absorption, including those in CoStar, Yardi, and Crain's Detroit Business, and these three measurements have been significantly impacted by the Coronavirus Pandemic. Detroit CBD's daytime office population decreased dramatically, from nearly 80,000 at a pre-pandemic level to under 20,000. Parking lots are still 90% empty and you see fewer workers walking downtown during the day. Of course, the Russian/Ukrainian War, federal interest rate hikes, and emerging Flu/RSV breakouts haven't helped the commercial real estate office market either. But, how have these factors impacted Detroit's office property investments and owner/user Sales?

The Metro Detroit office market is comprised of 198,569,670 square feet with an asset value of \$25.8B. This square footage represents 57% of office properties in the entire State of Michigan. Detroit's office market also represents 60% of the total asset value for the State of Michigan, which is \$42.6B.

In the last 12 months, there were \$1.1B in office sales - \$823M or 75% of these sales where in the Metro Detroit office market. The office market also represents 16% of the overall commercial real estate sales in Metro Detroit. This is significant, because it's consistent with the decline in sales represented by office properties since 2017, when office represented 29% of the CRE sales in the Metro Detroit market.

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In the Detroit Metro, the submarkets with the largest inventory based on square feet are the Detroit CBD (27,253,000), Southfield (23,648,000), Troy South (13,076,000), Southern I-275 Corridor (12,737,000) and Dearborn (11,566,000).

A majority of metro Detroit office sales in 2022 have been in the suburban markets including Birmingham, Troy North, Bloomfield West, the Southern I-275 Corridor and Troy South. A complete last of office sales by Submarket is below:

Market Area	Sales Volume	# of Transactions	Transacted SF	Avg. SF	Market CAP Rate	Market Sale Price p/SF
Birmingham	\$112,806,000	13	427,731	32,902	8.4%	\$181
Troy North	\$104,500,000	8	828,513	103,564	9.0%	\$123
Bloomfield West	\$80,800,000	3	198,989	66,330	8.5%	\$151
Southern I-275 Corridor	\$73,896,478	47	627,219	13,345	8.8%	\$140
Troy South	\$68,720,000	16	1,150,181	71,886	9.1%	\$114
Farmington/Farm Hills	\$50,402,170	31	614,896	19,835	8.7%	\$145
Southfield	\$40,588,456	28	873,344	31,191	8.7%	\$115
St Clair & Lapeer Counties	\$33,942,245	38	291,844	7,680	9.5%	\$111
Macomb East	\$29,084,956	51	542,321	10,634	9.9%	\$104
Macomb West	\$23,304,500	26	334,964	12,883	9.6%	\$109
Auburn Hills	\$20,972,000	6	436,297	72,716	8.7%	\$142
Royal Oak	\$17,112,069	35	265,095	7,574	9.2%	\$120
Dearborn	\$16,652,500	29	894,569	30,847	9.0%	\$139
Central I-96 Corridor	\$15,277,500	15	326,832	21,789	8.5%	\$169
Livingston County	\$14,992,100	26	225,831	8,686	9.2%	\$124
Downriver South	\$13,568,764	33	377,258	11,432	9.6%	\$102
Lakes Area	\$11,758,400	20	162,780	8,139	9.2%	\$118
CBD	\$6,700,000	6	509,463	84,911	9.3%	\$140
Detroit W of Woodward	\$6,654,000	13	248,870	19,144	9.3%	\$119
Rochester	\$5,882,000	4	131,090	32,773	9.4%	\$133
Pontiac	\$3,404,000	9	51,637	5,737	9.1%	\$117
Airport District	\$2,210,000	16	63,096	3,944	9.1%	\$143
Detroit E of Woodward	\$1,649,500	8	470,156	58,770	9.6%	\$116
The Pointes/Harper Woods	\$1,368,000	11	137,568	12,506	9.9%	\$115
Detroit-New Center	-	2	636,744	318,372	9.4%	\$129



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The relatively poor sales performance of the CBD office submarket, compared to the rest of the market, is indicative of the future of the Metro Detroit Office Market. Looking ahead, we forecast...

1. **Office usage is migrating to the suburbs.** A good example of this is BMC Compuware moving from Downtown Detroit to Southfield's Town Center.
2. Some of the CBD **office inventory** (and other submarkets with a large office inventory) **will be repurposed**. Downtown, the Fox Office Building is being converted into a new hotel. In Southfield, the former home of Plante Moran Victor Center is being converted into self-storage space by Devon Self Storage.
3. **The Detroit CBD is turning into an Entertainment District.** The CBD is home to

Ford Field, Comerica Park, Little Caesars Arena, Three Casinos, and Huntington Place. There's a big push to secure conventions and host national events in Detroit, especially with the conversion of office buildings to hotels.

4. Many **organizations will continue to downsize their office space** throughout the entire Detroit Metro Office Market.

While the focus of this newsletter is CBD office sales, you can't speak of the Metro Detroit office market without noting the vast amount of vacant space in Southfield and Troy. The vacancy in these submarkets is right at or over 20% AND in the past 12 months they have all experienced negative absorption. What do we predict will happen in these office submarkets in 2023 and beyond?

OFFICE MARKET REPORT

METRO DETROIT

Q4 2022

While many companies planned to have employees fully return to the office late last year, workers' preference for the flexibility of remote working has been persistent. Although office-using employment sectors have led the Detroit area in job recovery since the onset of the pandemic, this has yet to translate into increased demand for office space.

LEASING

The past few quarters of office leasing was back in positive territory, and as of 22Q4, the annual net absorption is at 21,000 SF. The struggle to fill space continues as companies that have extended work from home policies seek ways to reduce their office footprint. Weakness is concentrated in Troy, Southfield, and some of the urban submarkets of Detroit. Sublease space is now sitting near an eight-year high of more than 2 million SF.

SALES

Heading into the tail end of 2022, investing activity in the Detroit area for office space since the start of 2022 has reached \$729.4 million. So far, this year's top submarkets for total sales volume include Troy North with \$134 million, Birmingham with \$100 million, and Troy South with \$67 million in sales.

CONSTRUCTION

Approximately 1.5 million SF of space is underway, with the majority, at 1.3 million SF, comprising 4 & 5 Star properties. The suburbs have approximately 789,000 SF under construction across 15 buildings, with the most significant portion underway in the Detroit West of Woodward Submarket with 471,970 SF.

FEATURED OFFICE LISTINGS IN THE METRO-DETROIT AREA



CBD BUILDING FOR LEASE | DETROIT



4-BUILDING OFFICE INVESTMENT | NORTHVILLE



MEDICAL FOR LEASE | GROSE POINT FARMS

Metro Detroit's Office Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Construction	Market CAP Rate
The Pointes/Harper Woods	1.4 M	7.0%	\$23.70	\$115	0	9.9%
CBD	27.3 M	8.0%	\$23.77	\$140	433 K	9.3%
Detroit - W of Woodward	4.9 M	16.9%	\$22.19	\$119	472 K	9.3%
Detroit - E of Woodward	5.9 M	18.7%	\$22.61	\$116	0	9.6%
Southfield	23.6 M	19.7%	\$18.75	\$115	0	8.7%
Farmington	9.8 M	13.7%	\$20.95	\$145	0	8.7%
Southern I-275 Corridor	12.7 M	10.2%	\$19.82	\$140	25.4 K	8.8%
Central I-96 Corridor	6.2 M	11.8%	\$23.81	\$169	48.6 K	8.5%
Troy North	5.5 M	19.9%	\$20.85	\$123	0	9.0%
Troy South	13.1 M	25.5%	\$21.04	\$114	0	9.1%
Royal Oak	5.6 M	10.7%	\$21.40	\$120	50 K	9.2%
Macomb West	9.6 M	7.1%	\$18.53	\$109	40 K	9.6%
Macomb East	8.5 M	8.7%	\$18.32	\$104	67.3 K	9.9%
Airport District	3.1 M	5.0%	\$19.00	\$143	0	9.1%

For additional market information, contact P.A. Commercial. Source: CoStar.

INDUSTRIAL MARKET REPORT

METRO DETROIT

Q4 2022

Heading toward the final days of 2022, Detroit's industrial leasing is just below the all-time high, which was set in 21Q3, and the market vacancy rate of 4.7% is sitting near an all-time low.

LEASING

Most people don't realize that Detroit's industrial market has been operating at nearly full capacity for almost half a decade, with vacancies and availabilities running below the U.S. average. Over the past year, leasing reached a five-year quarterly high, indicating continued tenant demand. Looking ahead to 2023, as long as the U.S. economy can avoid a significant downturn, vacancies will likely remain compressed.

SALES

While investors have displayed consistent interest in Detroit's industrial sector over the past decade, it has intensified over the past 12 months. As of 22Q4, the pace of activity has decelerated slightly, but the annual sales volume of \$972 billion is well above the 10-year average of \$737 million. While investing activity has been diffused throughout the metro, the area with the highest sales, the Airport District Submarket, captured about 33% of the total volume to date in 2022.

CONSTRUCTION

Over the past few years, there's been an uptick, with just over 9.2 million SF under construction as of 22Q4. Most new developments for manufacturing users are concentrated on the north side of the metro, in the Groesbeck North; West of Van Dyke/Macomb; and Auburn Hills, Pontiac & Rochester submarkets, near the General Motors, Ford, and Stellantis assembly plants.

FEATURED INDUSTRIAL LISTINGS IN THE METRO-DETROIT AREA



12,600 SF FOR SALE/LEASE | DETROIT



15,300 SF FOR SALE | WARREN



1,533 SF FLEX FOR SALE/LEASE | PONTIAC

Metro Detroit's Industrial Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Construction	Market CAP Rate
Airport District	56.1 M	2.2%	\$8.04	\$68	943 K	8.5%
Detroit East	46 M	5.5%	\$6.54	\$62	1.9 M	8.6%
Detroit West	48.4 M	10.1%	\$6.18	\$56	736 M	8.8%
Groesbeck Central	15.8 M	2.8%	\$8.15	\$72	0	9.2%
Groesbeck South	19.7 M	4.9%	\$7.38	\$68	207 M	90%
Groesbeck North	33.1 M	2.3%	\$8.57	\$82	958 K	8.7%
W of Van Dyke/Macomb	65.2 M	2.2%	\$8.90	\$76	394 K	8.4%
Auburn Hills, Pontiac, Rochester	55.1	3.7%	\$9.31	\$97	1.7 M	8.3%
Royal Oak	15.7 M	4.2%	\$8.25	\$88	0	8.7%
Livonia	42.7 M	3.8%	\$8.41	\$77	196 K	8.3%
Central I-96 Corridor	36 M	4.5%	\$10.43	\$101	1 M	8.4%
Southern I-275	19.6 M	3.3%	\$8.05	\$71	902 K	8.6%
Southfield	6.2 M	2.7%	\$9.38	\$87	0	8.8%
Farmington/Farmington Hills	11.7 M	3.8%	\$9.74	\$88	0	8.6%
Troy Area East	12.6 M	3.1%	\$8.85	\$86	0	9.0%
Troy Area West	9.2 M	3.5%	\$9.94	\$93	0	8.7%

For additional market information, contact P.A. Commercial. Source: CoStar.

RECENT TRANSACTIONS

OFFICE | INDUSTRIAL | RETAIL | LAND

Q4
2022

Below is a sample of property listings that the P.A. Commercial brokerage team have sold or leased during Q3 - Q4 2022.

For a full list of office, industrial, retail, land, and other investment opportunities - please visit www.pacommercial.com



OFFICE/RETAIL SALE | FERNDALE



OFFICE LEASE | DETROIT



EVENT CENTER SALE | SOUTHFIELD



RETAIL LEASE | CENTERLINE



INDUSTRIAL SALE | CLINTON TWP



FLEX SALE | HAZEL PARK



OFFICE SALE | FARMINGTON HILLS



INDUSTRIAL SALE | WARREN



INDUSTRIAL LEASE | WARREN



MEDICAL OFFICE SALE | BELLEVILLE



LAND SALE | PONTIAC



OFFICE LEASE | CLINTON TWP