

2022 FIRST QUARTER

MARKET TRENDS REPORT



ADVANTAGE
COMMERCIAL REAL ESTATE



This is our story

The past 15 months has truly exceeded our expectations. Our team's shared desire to provide the best real estate solutions fuels our passion to be valuable, reliable, trustworthy and enables us to serve our clients with excellence.

Our local community is filled with stories – **the minds behind building Grand Rapids, the creatives that made our city vibrant, business leaders attracting employees to our market, and the hardworking individuals of West Michigan who are innovating daily.** As a commercial real estate firm, we know first-hand the unique story of our clients, including the businesses they operate, the families they represent and how history has led to their success. We have so much gratitude for the deep relationships we have formed, those that are new and others that are well-established. Many of our client's stories intersect with our own, which has created meaningful connections between us and them.

In effort to recognize the impact our clients are making in West Michigan; we have been sharing some of their stories and a few of our own. We will continue this theme throughout 2022 and hope that it gives you a glimpse behind the scenes.

As always, thank you for trusting us with your real estate needs. We hope that our Q1 Market Trends provides information that is useful for your business decisions for the rest of the year.

WEST MICHIGAN MARKET

Where exactly are we heading?

In the current market, you will likely find barriers everywhere you look, as there seems to be a long list of challenges throughout our region. Inflation, labor shortages, the uptick in interest rates and general uncertainty of what lies ahead are topics dominating the conversation. The initial labor challenges and rise in inflation appeared to be a short-term result of the pandemic, however both quickly turned into trends potentially forecasted to last a few years.

The rapid decline of the workforce is having a significant impact on the communities we live in, as well as each sector of commercial real estate. Inflation will keep climbing as labor costs increase, driving up the costs of goods and services for both businesses and consumers. Experts are saying the labor market will continue to tighten and rapid wage growth will fuel the inflation we are already seeing.

The labor participation rates' stunted growth is one of Michigan's largest economic challenges. **In West Michigan alone, the labor participation rate currently sits at 62.4%, according to the U.S. Bureau of Labor Statistics.** This is a 1% decline from 2019, which may seem slight, but has impacted the region heavily due to its slow recovery (see chart of page 4). Thankfully, we are starting to see a slight increase and hope that this upward momentum continues throughout the year. As labor shortages accelerate, leaders throughout our market remain on high alert for the potential challenges this may create. Business owners are likely struggling to hire employees and navigate the rise in the cost of products, while the rest of us are feeling the effects of inflation as everyday living becomes more expensive. Regardless of how you feel these challenges currently impact you, these types of shifts within our market are ones we should all pay attention to.

What is the good news?

For those of us living in West Michigan, there is good news! **Our market is resilient and despite the obvious external challenges, the region is coping well compared to other cities.** Overall, our advisors are remaining optimistic as demand is higher than ever and national corporations have a growing desire to be here. Businesses are motivated to find solutions that are sustainable and long-term, allowing them to ebb and flow with the current economic conditions.



INDUSTRIAL MARKET

\$5.56
PER SF

WEIGHTED AVERAGE
LEASE RATES/SF

How do local manufacturers pivot amid supply chain challenges?

Demand for warehouse, distribution, and fulfillment centers is still at an all-time high in West Michigan, with quite possibly the lowest amount of available inventory our market has ever experienced. Supply chain issues have led to higher product demand and as a result, manufacturers are speeding up their production time and delivering goods at an unprecedented rate. Satisfying these high demands and meeting expectations creates challenges, as local manufactures run into supply chain instability, labor shortages, and a lack of available space to support growth. With a record number of unfilled jobs, these manufactures are forced to halt some production,

and therefore delay the revenue brought in. Local manufactures must address the labor shortage by offering desirable benefits. Major companies across the country are attracting and retaining warehouse employees through their flexibility, immediate benefits upon hire and solid leadership within the company.

What is ahead for the West Michigan industrial market?

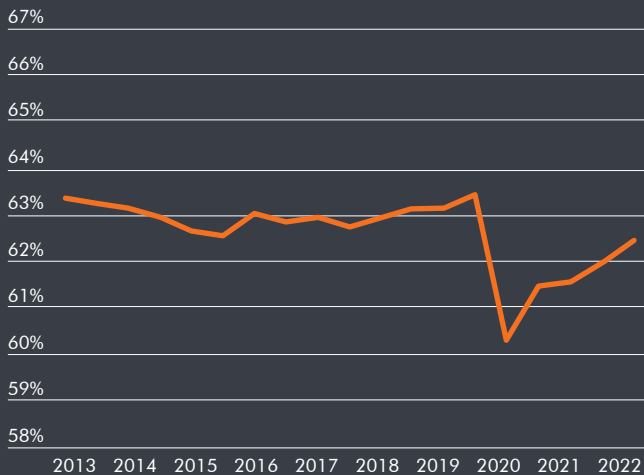
Although the supply chain disruptions are driving up costs globally, our local industrial market has felt limited impact compared to other major markets. This, coupled with the continuation of new construction throughout West Michigan is attracting major companies to the market.

The Midwest is highly regarded as the major manufacturing base across the country. Our region is standing out in this sphere as local manufactures are innovating in both design and technology.

Although the industrial market has been healthy, manufacturers are being more strategic as they continue production in a very different environment than usual. Given the rapid growth and lack of available inventory across this sector, users will have no choice but to expand their operations in other corridors within Greater West Michigan. This will likely create a flurry of activity in areas where there are very few new developments and continue to expand the West Michigan footprint.

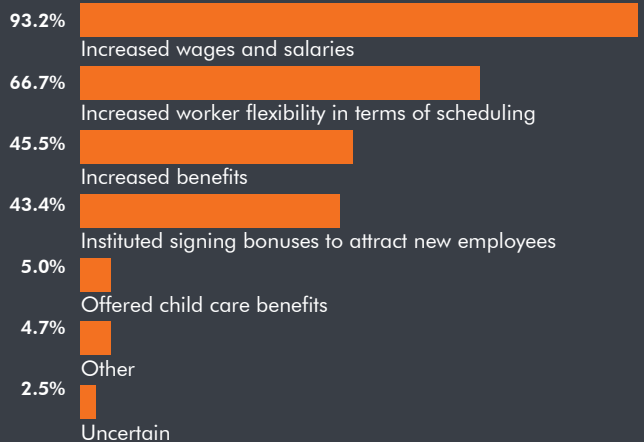
CIVILIAN LABOR FORCE PARTICIPATION

Source: U.S. Bureau of Labor Statistics



WHAT MANUFACTURERS HAVE DONE TO ADDRESS THE TIGHT LABOR MARKET

Source: National Association of Manufacturers (NAM.org)



What is really happening in the office market?

2022 will be a telling year for the future of the office market given the continued shifts in work from home trends, amenities offered to employees, flexibility in work schedule, and most importantly wages and bonuses.

Now more than ever, business leaders need to **adapt to flexibility in all areas of their business**. Although labor shortages are not directly impacting this specialty, businesses are trading carefully with their employees when it comes to returning to the office. The general concern shared among executives is that asking employees to return to work may result in losing some of their team. Failure to create solutions that meet employee expectations will likely create retainment and hiring challenges.

Local businesses in West Michigan fear losing their employees and are offering pay increases to keep up with competitive wage offerings elsewhere. Large corporations are rolling out hybrid plans to slowly get their workforce to return, allowing employees to choose what days they work from home. This provides freedom to the individual and allows businesses to continue building company culture. Other employers that want to totally return to the office will need to meet employee's workplace demands. Modifications are being made to office layouts to create an ideal environment for these employees. **Privacy within the office will be a major factor for employers to consider this year**, according to a report released by Steelcase earlier this month. Their survey found that 70% of employees enjoy working from home, mainly because they have a dedicated workspace. The study also found that more than 50% of employee's desks in the office are out in the open, so they have little to no access to privacy. As business leaders evaluate their next steps, offering private conference rooms or providing employees access to individual offices will be a consideration.

What is to come for the office market?

There are a variety of scenarios that could play out this year. The good news is that the office market is still active and growing. Office users continue to look in the suburbs, but are being more strategic in their decisions. They want buildings or suites that create the best environment for their team. If businesses creatively meet demands of employees, the office market should remain relatively stable.

\$16.23
SUBURBAN

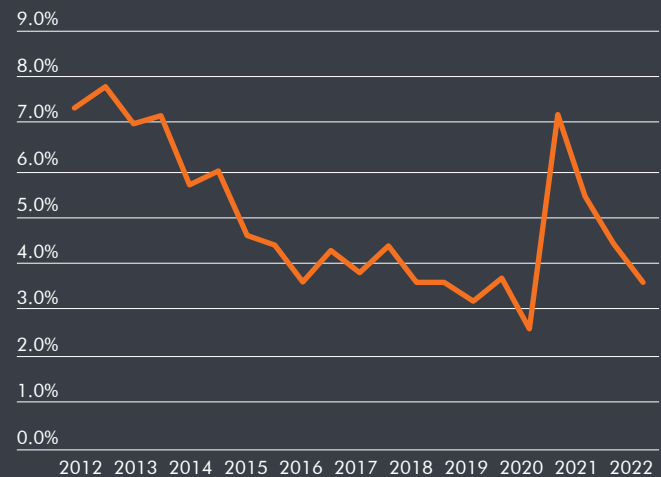
\$17.96
CBD

WEIGHTED AVERAGE
LEASE RATES/SF

OFFICE MARKET

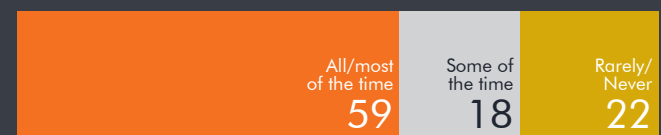
UNEMPLOYMENT RATE | GRAND RAPIDS

Source: U.S. Bureau of Labor Statistics



EMPLOYEES WHO CAN WORK FROM HOME CURRENTLY WORKING FROM HOME

Source: Pew Research



January 2022



October 2022

RETAIL MARKET

How is the labor shortage impacting retail?

Retailers and restaurants are finding it nearly impossible to hire employees. The lack of labor we are seeing across the country and in our local market is directly impacting many franchisee's growth plans. The fallout of this has limited many West Michigan retailers and restaurants from re-opening altogether, and for many, limiting their hours or dine-in service options. **Without a consistent number of employees, retailers are struggling to keep up with demand from consumers.** This creates empty shelves, especially for Big-box retailers. Although West Michigan is sitting at 3.7% unemployment, many local retailers and restaurants are unable to pay potential employees their desired wage, as they compete with companies like DoorDash or UberEats. Retailers are being forced to get creative to attract employees to their stores, as the desire for more money and flexibility are top priority for applicants.

So...where do we go from here?

Contrary to public perception and the current challenges this sector faces, the retail market is healthy and growing. **Demand is high in every sector of retail**, including the restaurant industry. West Michigan consumers are still spending money, primarily throughout main-and-main, but also in the city's smaller corridors.

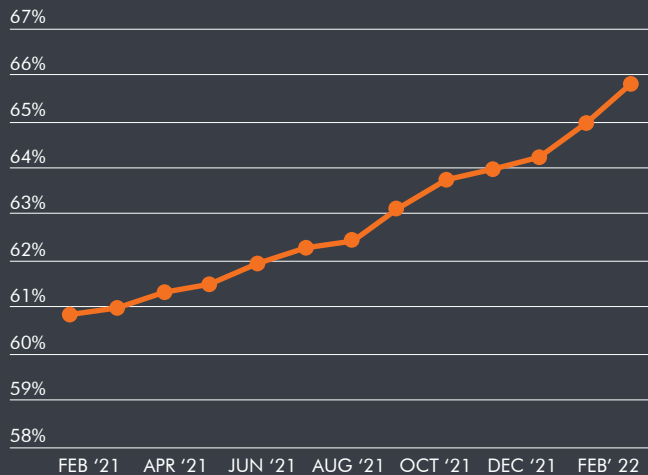
This year, we expect to see more demand for space from retailers and restaurants. National retailer's have their eyes on West Michigan, as they want to be a part of the local retail community, regardless of what challenges may lie ahead. Keeping that positive momentum in place is key for the continued growth of the retail sector.

\$14.20
PER SF

WEIGHTED AVERAGE
LEASE RATE/SF

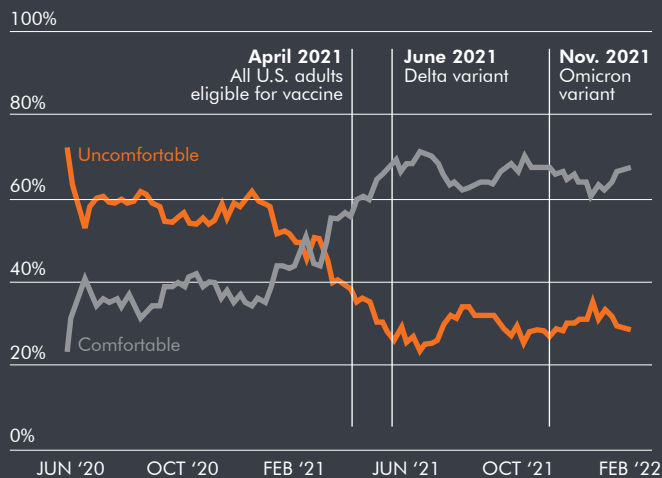
FOOD CONSUMER PRICE INDEX (CPI) | ALL U.S. ADULTS

Source: Morning Consult, Bureau of Labor Statistics



AVERAGE COMFORT LEVELS OF LEISURE ACTIVITIES

Source: Morning Consult



8.5%

YEAR-OVER-YEAR
C.P.I. INFLATION

INVESTMENT MARKET

What exactly is happening with investors?

West Michigan has remained relatively stable since the pandemic. Although investors are still finding opportunities, the market has become difficult to navigate. **Interest rates have risen, and meaningful rate increases will continue, creating quite a bit of uncertainty for the investment sector.** The growth in inflation has created implications on both individuals and businesses in our market, or those looking to invest in Grand Rapids.

The investment market has accelerated since the beginning of 2022, stemming back to financial assistance from the government. Demand continues to increase (like other sectors of our market), inflation is reaching all time highs and **the climbing interest rates have created urgency for investors to place capital.** Additionally, investors and corporations have more capital now than ever before. This excess capital has allowed investors to buy more, creating a tighter investment market overall.

There are a few factors prohibiting growth in our market from an investment standpoint. Currently, investors see some barriers when they look at the real estate landscape in general. Land availability will

constrain growth opportunity and the long-term issues of utility challenges and zoning restraints are hurdles for investors and developers looking to grow within West Michigan.

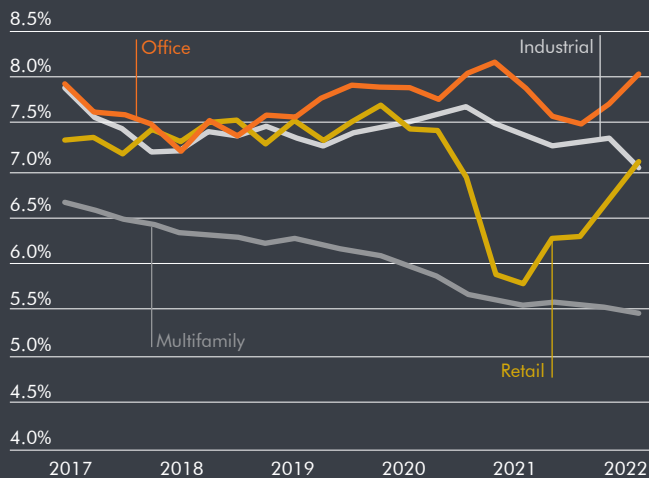
What factors are indicating growth?

West Michigan continues to see strong activity throughout all major asset classes. Although each segment has its challenges, businesses are buying, building, and investing into their future through new real estate decisions. This activity is the lifeblood of a stable investor market.

Although value-add investment plays are scarce, this drives capital towards new development which West Michigan needs. As we experience rapid growth post-COVID, investors are focusing now more than ever on future growth headwinds and macro-economic risk that could trigger a recession. However, West Michigan has a conservative undercurrent that insulates us from significant volatility. Coupled with a diverse ecosystem of industries and steady growth, investors remain bullish on West Michigan's long-term growth.

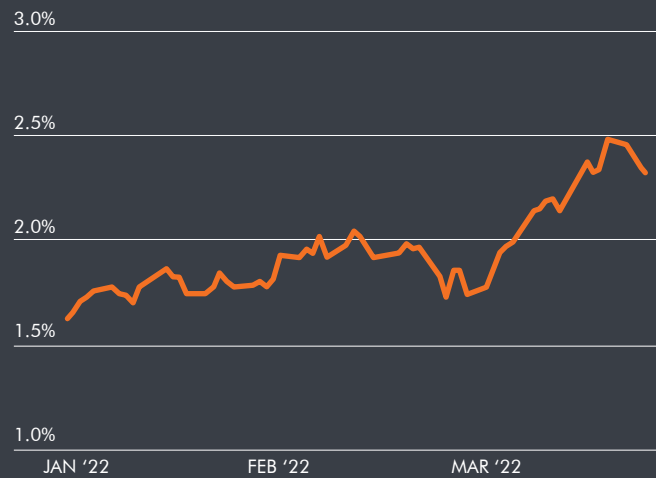
MICHIGAN 12-MONTH AVERAGE CAP RATE PER SECTOR

Source: Real Capital Analytics



10-YEAR TREASURY YIELD

Source: MacroTrends.net



NOTABLE TRANSACTIONS

INDUSTRIAL



4700 Broadmoor Avenue SE, Grand Rapids
Leased | 75,000 SF | \$4.50/SF, NNN



3501 Fruitridge Avenue NW, Walker
Leased | 165,000 SF | \$5.35/SF, NNN



6192 Valduga Drive SW, Byron Center
Leased | 63,000 SF | \$5.85/SF, NNN

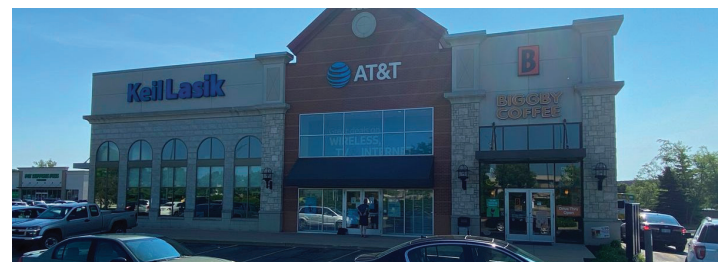


5225 68th Street SE, Caledonia
Leased | 38,900 SF | \$5.83/SF, NNN

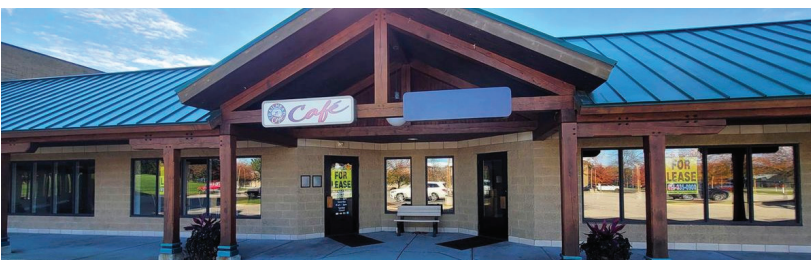
RETAIL



4743 US-10, Ludington
Sold | 8,125 SF | \$1,350,000



2500 East Beltline Avenue SE, Grand Rapids
Leased | 1,627 SF | \$12.00/SF, Gross



1200 East Paris Avenue SE, Grand Rapids
Leased | 1,897 SF | \$25.42/SF, Modified Gross



1551 Wealthy Street SE, Grand Rapids
Leased | 1,637 SF | \$19.50/SF, NNN

OFFICE



4771 50th Street SE, Grand Rapids
Sold | 12,850 SF | \$1,087,500



4595 Broadmoor Avenue SE, Grand Rapids
Leased | 9,897 SF | \$10.25/SF, NNN



4245 Clay Avenue SW, Grand Rapids
Leased | 9,118 SF | \$9.95/SF, NNN

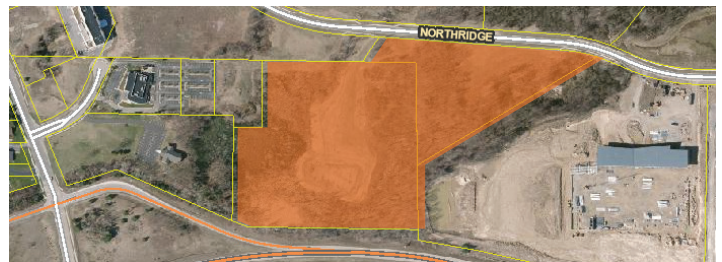


333 Bridge Street NW, Grand Rapids
Leased | 8,662 SF | \$23.00/SF, NNN

INVESTMENT



14111 White Creek Avenue NE, Cedar Springs
Sold | 18,960 SF | \$1,950,000



1920 North Ridge Avenue NW, Walker
Sold | 27.38 Acres | \$940,000



Aspen Surgical Portfolio
Sold | 2 Buildings | 117,625 SF | \$11,500,000



FBM Portfolio
Sold | 8 Buildings | 350,651 SF | \$14,900,000

OUR TEAM



2022 is off to a great start. Since celebrating our one year anniversary, our team has grown and the value we provide continues to evolve for our clients. Our commercial real estate specialists in the industrial, office, retail, investment, land, and multifamily sectors are continuing to develop new relationships with both local, national, and global clients. Our number of employees has increased which provides more service offerings to both our advisors and clients. Last year we were able to launch **Advantage Commercial Real Estate Management Services, now managing over 1 million square feet** thanks to the team's hard work. The community continues to support our team, and our clients trust us to be the experts as they make real estate decisions. Our growth and continued success is impossible without you and your business. Thank you!



* not pictured: Duke Suwyn and Earl Clements

3333 Deposit Drive NE, Suite 330
Grand Rapids, MI 49546

616 327 2800
www.AdvantageCRE.com

