

2023 FIRST QUARTER

MARKET TRENDS REPORT



ADVANTAGE
COMMERCIAL REAL ESTATE

WEST MICHIGAN MARKET

As we finish the first quarter of the new year, it's a natural milestone to reflect on the state of market. At the start of the year, many businesses were apprehensive about the future economic climate, while others were eagerly anticipating the opportunities ahead.

Over the past few quarters, we have continued to mention how West Michigan sets itself apart from the rest of the Midwest and the nation. While trends in the local market may present challenges on the surface, these challenges are often more of a reflection of the region playing "catch-up" to the rest of the country. In comparison to major nearby markets such as Detroit, Indianapolis, or Chicago, West Michigan's conservative decision-making, real estate asset pricing, and overall low cost of living sets the region apart in the Midwest.

However, as the region becomes more stable, businesses that were accustomed to the West Michigan market pre-pandemic, are experiencing disruptions in the form of new changes. The rising inflation and interest rates, as well as the impact of the current economy on their business have left many feeling cautious about making real estate decisions. Despite these challenges, West Michigan remains a unique and promising region with exciting opportunities on the horizon. It's important to approach these changes with a strategic mindset, leveraging the strengths of the region, while being mindful of external factors.

As we move forward into the rest of the year, let's continue to remain optimistic about the possibilities that lie ahead for West Michigan's businesses and economy. By embracing the changes and working collaboratively, the market can overcome any obstacles and continue to thrive.



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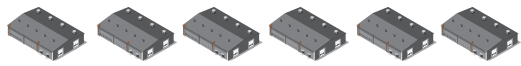
INDUSTRIAL MARKET

\$5.38
NNN

WEIGHTED AVERAGE
LEASE RATE/SF

WEST MICHIGAN INDUSTRIAL SUBLEASE SPACE

Source: Commercial Alliance of Realtors West Michigan (CARWM)

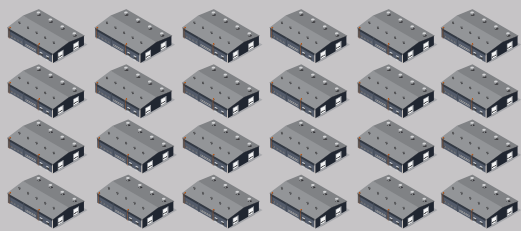


14
TRANSACTIONS

SUBLEASE TRANSACTIONS REPORTED OVER PAST 2 YEARS

203,557 SF

SUBLEASE LISTINGS CURRENTLY LISTED AS OF 3/28/2023
70% were listed in the last 120 days



21
LISTINGS

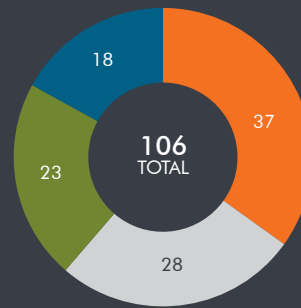
805,178 SF

WEST MICHIGAN INDUSTRIAL LISTINGS BY SIZE

Source: Commercial Alliance of Realtors West Michigan (CARWM)

INDUSTRIAL LEASE LISTINGS

INDUSTRIAL SALE LISTINGS



■ Up to 10,000 SF ■ 10,000-25,000 SF ■ 25,000-70,000 SF ■ Over 70,000 SF

West Michigan's industrial market continues to benefit from low vacancy, and while interest rates and perceptions of economic uncertainty have caused concern for some, most manufacturers in the area are not over-leveraged and have healthy cash reserves. Economic challenges and overbuilt speculative markets often see greater increases in vacancy, something industrial users and developers in West Michigan take for granted.

What were the challenges faced by the West Michigan industrial market in the first quarter?

The impact of high interest rates became visible as demand tapered for industrial properties throughout the first quarter. A slowdown like this is unusual for the West Michigan industrial market, as the last several years this sector has been the region's shining star. Landlords and sellers are beginning to adjust their expectations on pricing, and how quickly space is absorbed.

Another challenge for industrial users is new construction, with limited ready-to-build land available for new speculative space and rising construction costs. Building material prices also increased, causing some projects to be postponed or potentially canceled altogether.

Despite significant improvements in supply chain issues, the freight market struggled in Q1. Transportation companies faced difficulties due to dropping rates and increases

in insurance costs, yet the impact on the West Michigan industrial market remains limited. Businesses that can adjust their supply chains to rely less on imports may be better positioned to weather future challenges in the year ahead.

What is the potential impact of the surge in industrial space subleasing?

Very recently, West Michigan witnessed a surge in industrial space for sublease. This is attributed to general economic uncertainty, an anticipated decrease in output, and a shift in perceived future demand. Subleases of warehouse space is typically the first sector of industrial product to become available in a down-turn. This is a result of less demand on the user side of the market. However, some of the sublease space available may be due to companies leasing more space than initially needed to accommodate for the explosive growth over the last 30 months.

Despite some continued challenges, there is reason to be optimistic about West Michigan's long history of innovation and strong entrepreneurial spirit that has enabled businesses to pivot and adapt to the current economy. Demand for industrial property will continue to remain strong due to the area's manufacturing-focused mindset and critical role in the national economy. By leading with strategy to overcome some of the future headwinds this year, industrial users can position themselves to be adaptable and profitable in 2023.

\$15.38
SUBURBAN

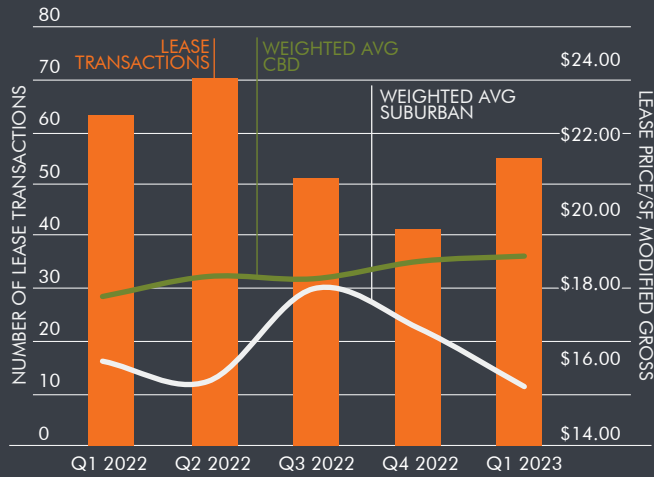
\$19.03
CBD

WEIGHTED AVERAGE
LEASE RATES/SF
MODIFIED GROSS

OFFICE MARKET

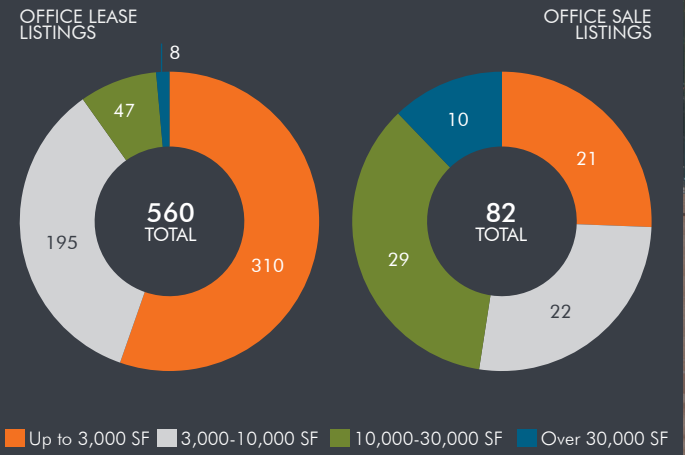
KENT COUNTY OFFICE LEASE TRANSACTIONS

Source: Commercial Alliance of Realtors West Michigan (CARWM)

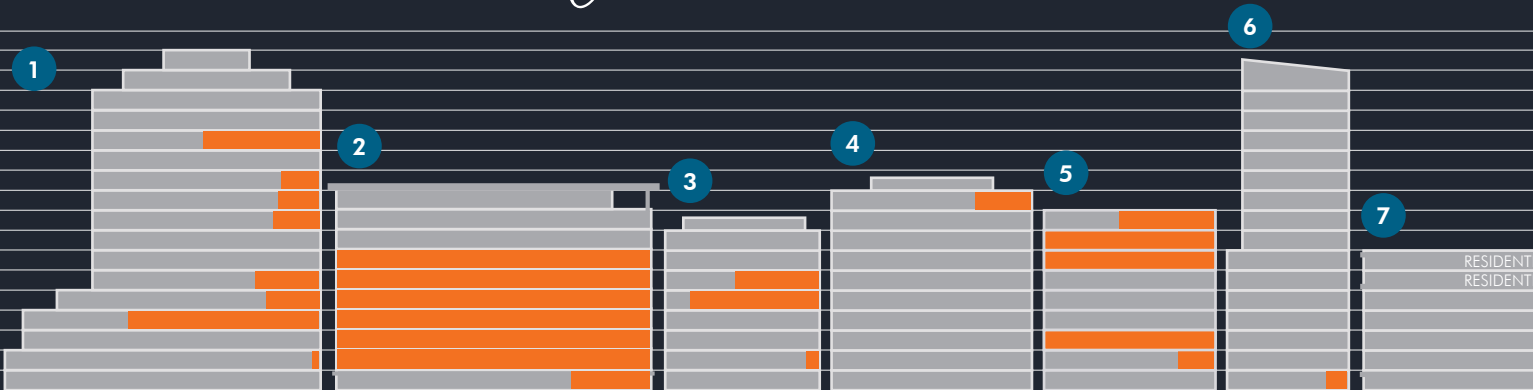


WEST MICHIGAN OFFICE LISTINGS BY SIZE

Source: Commercial Alliance of Realtors West Michigan (CARWM)



Grand Rapids Skyline



Number	1	2	3	4	5	6	7
Address	333 Bridge Street NW	430 Monroe Avenue NW	300 Ottawa Avenue NW	200 Ottawa Avenue NW	250 Ottawa Avenue NW	150 Ottawa Avenue NW	161 Ottawa Avenue NW
# of Floors	17	10	8	10	9	15	7
Total SF	348,543 SF	136,805 SF	126,448 SF	148,589 SF	176,220 SF	261,657 SF	136,054 SF
Available SF	45,421 SF	67,596 SF	22,760 SF	4,133 SF	73,581 SF	2,532 SF	16,970 SF
Occupancy Rate	86.97%	50.59%	82.00%	97.22%	58.24%	99.03%	87.53%

How is the office market sentiment being shaped by the changing landscape of Downtown Grand Rapids?

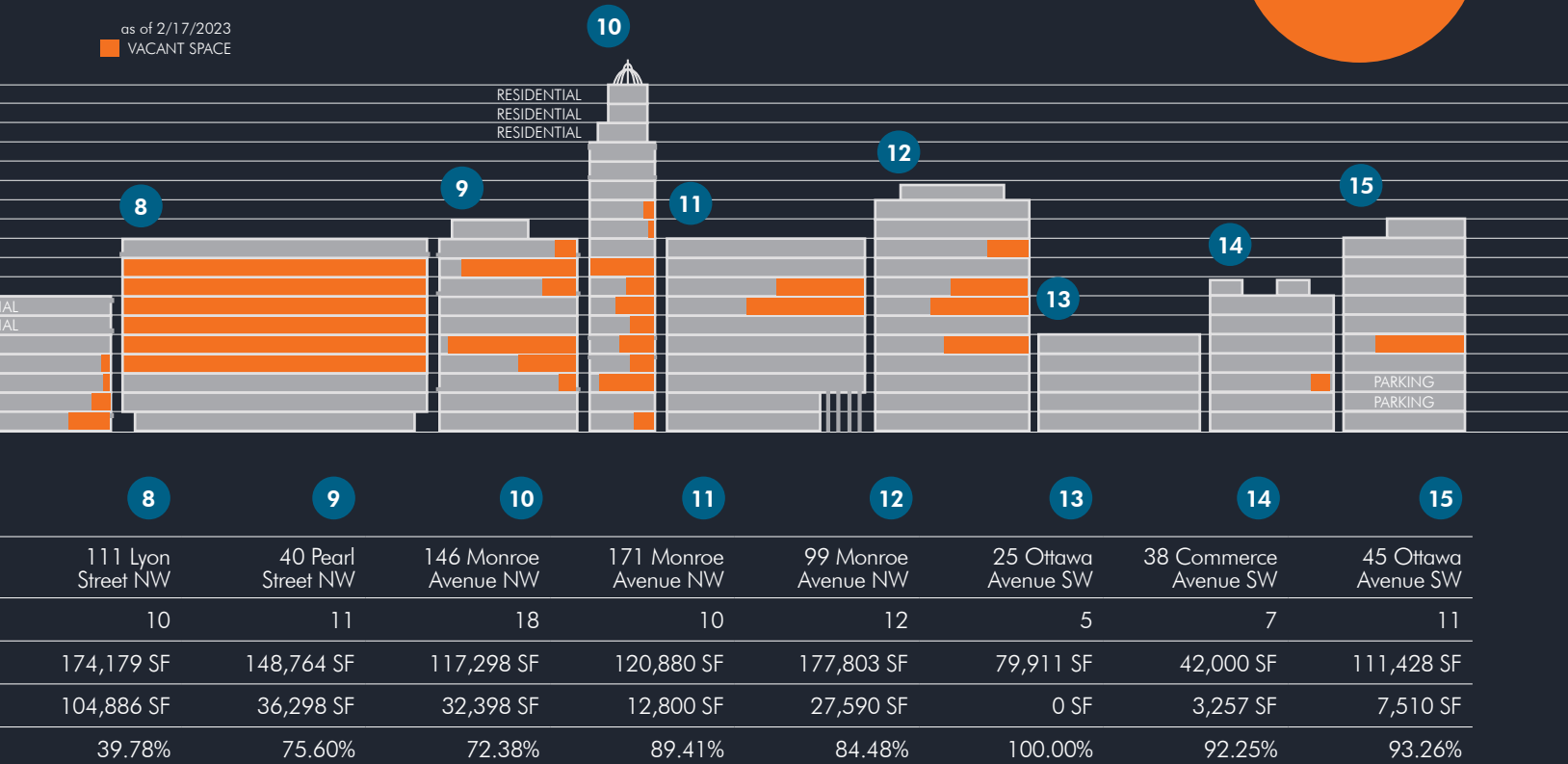
Throughout Q1, the ever changing landscape of Downtown Grand Rapids played a role in shaping the overall office market sentiment. Since the pandemic, many large corporations in downtown Grand Rapids have had very few requirements for employees to return to the office. This has led to a decrease in daily foot traffic throughout the city, as people are no longer commuting to the downtown area every day. Consequently, many companies are evaluating their space needs and are looking for alternative locations. In the past, businesses wanted to be downtown, as it was where most of the activity was happening, and employees enjoyed being in that atmosphere. However, with a slowdown in activity, limited restaurant hours, safety concerns with an increase in homelessness, parking challenges, and overhead costs, companies more than ever before are considering office locations outside of the CBD (Central Business District).

As many of these businesses' 5-year leases come up for renewal in the next 9-18 months, there will likely be even more movement in the office market than was seen in Q1. Large office buildings in the 20,000 to 30,000 square foot range are becoming more readily available in the suburban markets, indicating that more companies may be downsizing than expanding, given the unique working environment

throughout West Michigan, and employee preference. There has also been an increase in activity for spaces in the 2,000 to 3,000 square foot range, which reinforces this emerging trend. Many companies are now comfortable using smaller spaces to provide an office option for employees who prefer a physical workspace while keeping overhead costs low. By selecting office space outside of downtown, corporations can also save on parking and provide better access to buildings and nearby amenities for their employees. The Northwest Side of Grand Rapids and the suburbs offer several attractive alternatives, including easy access to highways, ample parking, and a range of retail, restaurant, and entertainment options.

Amid these recent trends, long-term office transactions are still being written, indicating that the desire or need for office space has not been eliminated in West Michigan. In the coming quarters the expectation is that lease rates and pricing for office assets will not change much overall. Additionally, the cost of construction for build-outs will likely remain the same. Thankfully, businesses understand the cost implications and are still proceeding with deals, which is a positive sign for the office market. As more businesses leave downtown Grand Rapids over the next several quarters, it is likely more office users will follow suit and relocate to the suburbs.

19.84%
VACANCY RATE*



*This total is just from the buildings reported in this skyline report

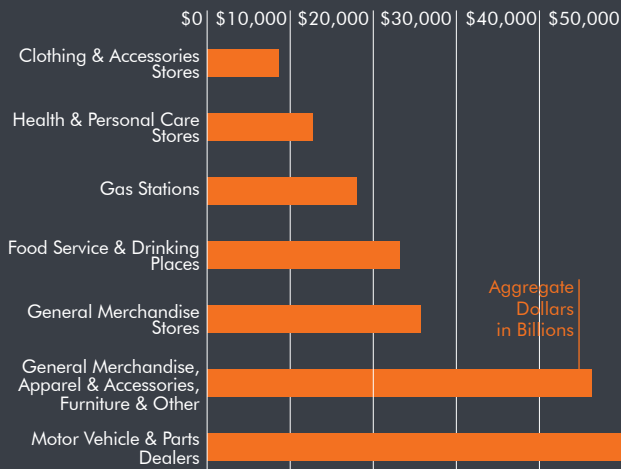
RETAIL MARKET

\$14.29
NNN

WEIGHTED AVERAGE LEASE RATE/SF

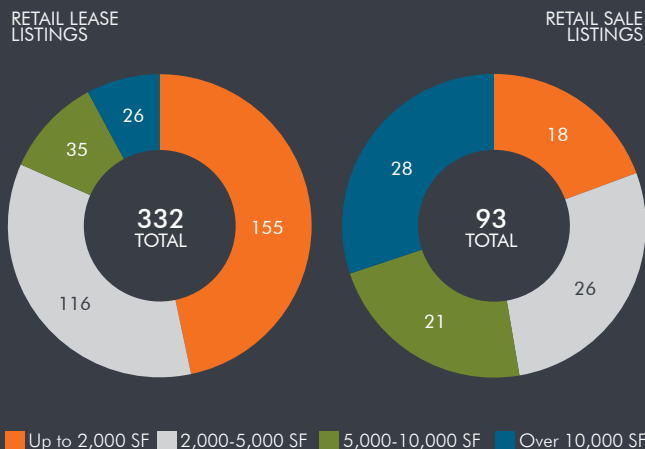
LEADING RETAIL SECTORS IN MICHIGAN

Source: Gale.com



WEST MICHIGAN RETAIL LISTINGS BY SIZE

Source: Commercial Alliance of Realtors West Michigan (CARWM)



The first quarter of the year usually brings more activity to the retail market. Restaurants and retailers that were quiet in the winter months were busy planning for the year ahead, which drives more demand and activity to local retail corridors in West Michigan. Despite the continued rise in inflation, retail activity remains strong in Grand Rapids and the market is still very limited on available spaces.

What are the trends and challenges for retailers and restaurants?

A trend that gained momentum in Q1 is an increase in both retailers and restaurants expanding their horizons on tertiary corridors in West Michigan. This is attributed to the lack of available space or ready to build land in the region. Corridors in the outskirts of Grand Rapids that have not yet been identified as “growth corridors” are now being considered by retailers looking to expand their business, like North Alpine and M-6. Previously ignored retail space close to West Michigan’s popular retail corridors should also gain momentum this year, as retailers hope to secure additional locations.

Q1 continued to bring high construction costs for new retail or renovations to existing space. This created delays to retail transactions in the quarter, which unfortunately is expected to continue. Moving forward, retailers and restaurants will likely re-think their growth strategy as it relates to space that can be retrofitted to avoid large overhead costs of constructing new, ground-up prototypes. We also expect triple net lease expenses to continue to increase over the next several quarters as well.

What is driving the strong activity and what’s ahead for 2023?

The strong activity the West Michigan retail market is mainly attributed to the national retail brands, specifically Quick Service Restaurants (QSR). New locations are necessary for these QSRs, or they risk becoming irrelevant. It’s very unlikely that demand for this specific type of site will decrease moving forward. Quick service restaurants have become the ideal concept for national retail brands since the pandemic, as consumers are more focused on quick and easy take-out options. In West Michigan the number of QSR is expected to increase in the coming months.

While the activity in the retail market will continue to remain strong, there are some factors to be aware of in the next quarter. Limited inventory and continued price increases are two issues that retailers will continue to face. Additionally, there are still some supply chain issues that remain, directly impacting retail users’ build-outs. The significant delay on electrical components and transformers will need to be resolved soon, to prevent more retail transactions being delayed, put on hold, or terminated altogether.

5.0%
MARCH

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

INVESTMENT MARKET

How are investors reacting to economic uncertainty?

The West Michigan investment market continues to be restricted by high interest rates and continued fluctuations that have impacted every facet of the commercial real estate industry. We have seen the spread between Cap rates and interest rates compress in this rising interest rate environment, yet Cap rates have been slow to rise along with the cost of funds.

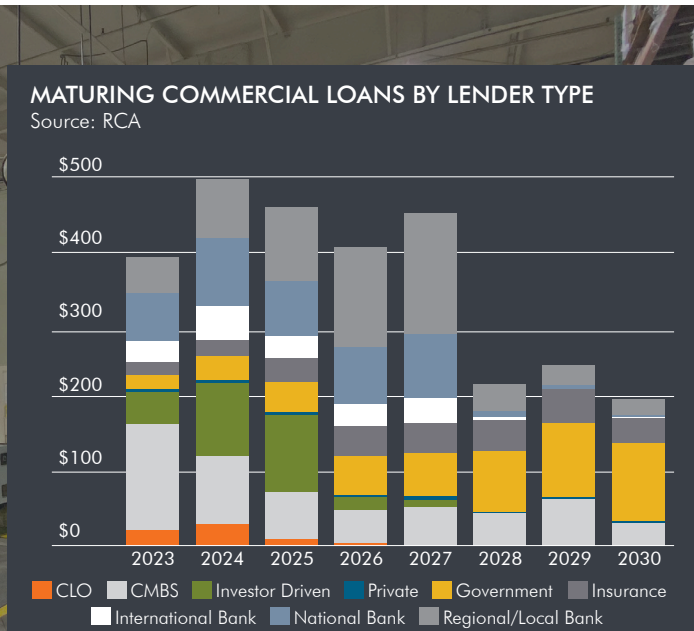
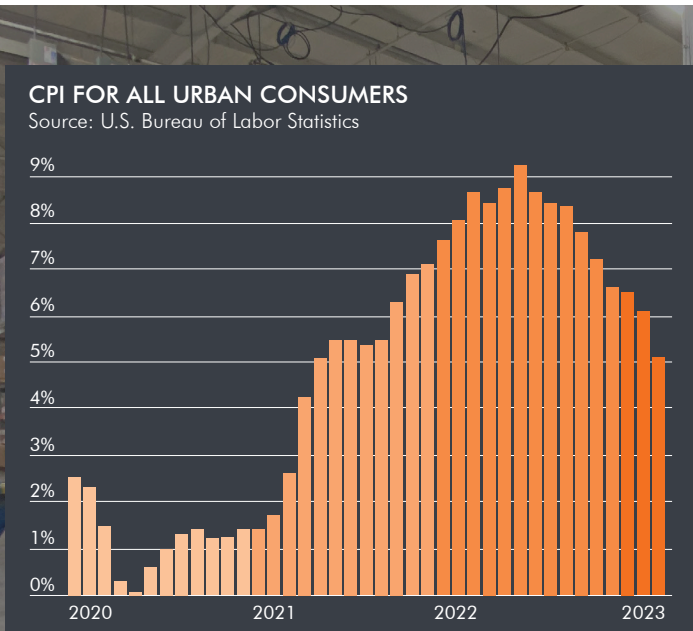
In comparison to Q4 of 2022, more investors are currently biding their time before placing their capital in assets, preferring to wait until a clearer economic picture emerges. This uncertainty has spread across the national investment market, causing widespread concern and little action to be taken. The focus has been primarily on regional and national banks as they consider lending options and location of debt for property-specific investment loans. The slowdown in transaction velocity in West Michigan is due to a lack of investment opportunities, as there is little distress in the commercial real estate market and tenants are paying rent and renewing leases. Additionally, owners with long-term debt financing at favorable rates are less likely to sell their properties.

Despite these factors, many investors in West Michigan remain unfazed about the local market, which has largely remained insulated from national economic trends. Investors

still have large amounts of capital that they desire to deploy. As limited opportunity does surface, expect the action from buyers to be robust.

Trends/Highlights

- Cost of capital, largely on the debt side, continues to complicate deal underwriting, and makes penciling investment deals very difficult.
- With limited transactions the last two quarters, the market is struggling to price investment offerings. We are in a price discovery phase that will likely continue through the summer.
- Surplus of cash will continue to be present in our market, meaning any quality offering brought to market will be quick to create a market. This prevents any major “discounts” or distressed pricing opportunities in the near term.
- Industrial investment specific deals decreased in Q1, both locally and nationally, however sellers are not reducing prices for prime real estate assets in strong demand.
- Office remains the most talked about asset class. The future of this sector is uncertain, but there has been steady activity as companies downsize and upgrade to premium spaces for their employees. The trend of flight to quality is expected to continue.



The first quarter brought little change for the land market in West Michigan. Demand for land with the appropriate infrastructure is still in high demand, despite there being very few properly zoned parcels that remain. Despite that demand, buyers were trying to figure out a way to secure funding for certain sites throughout the quarter, which caused some delays and a decrease in sales to start off the year. Reported land sales decreased by 10% in Q1. Part of that decrease is likely due to a barrier that continued throughout Q1 with municipalities creating gridlocks for developers in West Michigan. Municipalities are not only delaying approvals for zone-change requests on purchased sites but failing to regularly re-zone land throughout the market overall to promote future growth. By working to speed up approval processes and regulations, development can continue to thrive in tertiary markets in the West Michigan area.

These new developments are essential to the health of the local economy. As cities and townships desire new housing developments, multifamily projects, industrial parks, or shopping centers, they are looking to developers to pursue such projects. As the process begins, most developers are engaging with the State of Michigan, communicating that they will develop the site if the state can meet certain requirements, or provide funding for aspects of the project. As of late the State of Michigan has been lacking in providing developers with what they need, causing delays in sales of underutilized land, ultimately delaying growth for that specific area.

The West Michigan market will continue to grow in the midst of these challenges, and land is a critical component in that. Things should remain mostly positive for developers purchasing land in the market, as there is still plenty of capital available and investors are still writing offers on the ideal sites they find.

Retail Highlights

Retail users are finding buildings to tear down, pivoting amid record low inventory at “main and main”.

Office Highlights

The office market has changed and the need for a new office building is obsolete with the continued trend of working from home. This will likely continue.

Industrial Highlights

Industrial users are targeting future growth areas in West Michigan for parcels of land including Dorr, Zeeland, Lowell, North of Alpine, and Caledonia to name a few.

Multifamily Highlights

Investors have focused their attention most recently on the suburban market. With the desperate need for more housing in West Michigan, garden-style apartments will likely continue to pop-up throughout the outskirts of downtown, regardless of interest rates or construction prices.

LAND MARKET

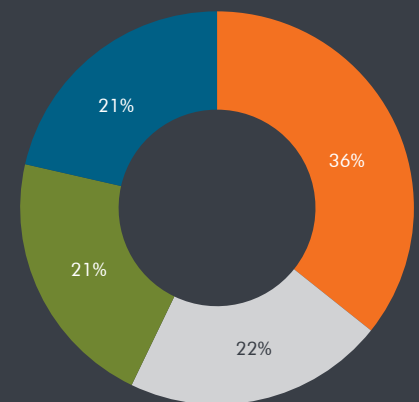
\$100,209
PER ACRE

AVERAGE
SALE PRICE/ACRE

14 LAND SALES
FIRST QUARTER 2023

Q1 LAND SALES BY SUBTYPE

Source: Commercial Alliance of Realtors West Michigan (CARWM)



Industrial Office Retail Residential

NOTABLE TRANSACTIONS

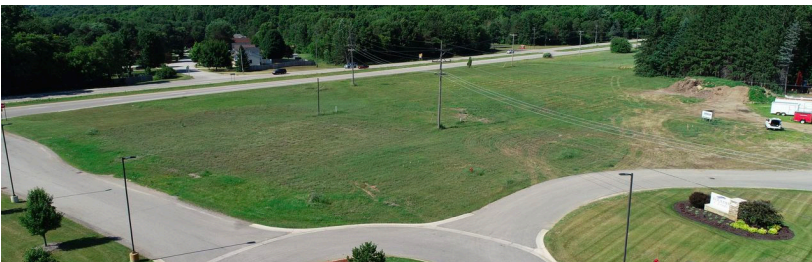
LAND



1080 133rd Street, 3276 10th Street & 132nd Street, Wayland
Sold | 187.10 Acres | Undisclosed



7567 & 7535 Fase Street SE, Ada
Sold | 27.89 Acres | \$2,700,000



6120 Northland Drive NE, Rockford
Sold | 8.6 Acres | \$300,000



1835 84th Street SW, Byron Center
Sold | 6.43 Acres | \$495,000

INDUSTRIAL



1776 Airport Park Court, Holland
Sold | 136,155 SF | \$9,120,000



1040 40th Street, Grand Rapids
Leased | 210,000 SF | \$4.75/SF, NNN



11700 48th Avenue, Allendale
Leased | 335,346 SF | \$4.25/SF, NNN



5760 N. Hawkeye Court SW, Wyoming
Sold | 32,320 SF | \$2,875,000

NOTABLE TRANSACTIONS

OFFICE



5300 Patterson Avenue SE, Grand Rapids
Leased | 8,816 SF | Undisclosed



5211 Cascade Road SE, Grand Rapids
Leased | 12,528 SF | \$17.50/SF, Gross



61 Commerce Avenue SW, Grand Rapids
Sold | 25,000 SF | \$3,000,000



220 Lyon Street NW, Grand Rapids
Leased | 3,456 SF | \$21.00/SF, Modified Gross

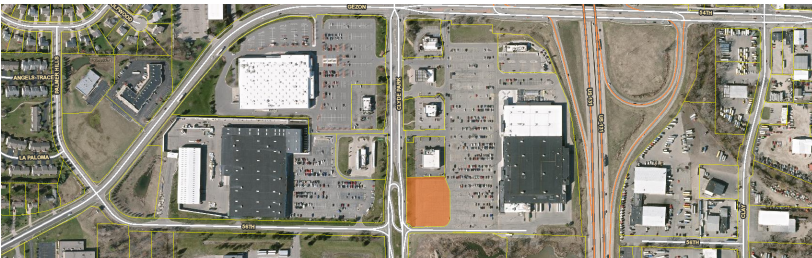
RETAIL



619 Wealthy Street SE, Grand Rapids
Leased | 800 SF | \$25.00/SF, NNN



701 Wealthy Street SE, Grand Rapids
Sold | 3,183 SF | \$1,200,000



5560 Clyde Park Avenue SW, Wyoming
Sold | 1.7 Acres | \$775,000



465 Fuller Avenue NE, Grand Rapids
Leased | 1,500 SF | \$20.00/SF, NNN

INVESTMENT



Manufacturing Portfolio
2 Buildings | 394,691 SF | \$33,250,000 | 6.1% Cap Rate



Industrial Portfolio
Sold | Buildings | 750,000 SF | 7.1% Cap Rate



3131 Woodland Drive SE, Grand Rapids
Sold | 89,653 SF | \$4,175,000



3590 East Beltline Avenue NE, Grand Rapids
Sold | 320 Units | \$94,800,000



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