



2022 SECOND QUARTER

MARKET TRENDS REPORT



ADVANTAGE
COMMERCIAL REAL ESTATE

This is our story

As commercial real estate specialists working in a turbulent market, we have been attentively listening to the stories we hear from our clients. Every story is unique, and each client is experiencing the current challenges of the market differently. By leading with intentionality in each conversation and being present in the marketplace, our team of advisors have gained an understanding of what our clients have overcome in Q1 and Q2 of this year.

It may come as a surprise to you, but despite what you may hear or read online, **Grand Rapids is not all doom and gloom**. During difficulty and uncertainty, our clients are leading with creativity in every way, pivoting amid the rapid changes around them, providing stability for their employees, and thereby growing our local market. We will continue to share our client's unique stories this year, in hopes of encouraging you and your business to keep moving forward, regardless of how overwhelming the current conditions may feel.

As you read through our report, I hope it provides the information you are looking for. More importantly, I hope it tells you the story of West Michigan – what we are currently up against and where each sector of our market is heading. Our entire team is always willing to listen to your story, answer challenging questions you may have, and help you and your business navigate the market.



John Kuiper SIOR, CCIM
Principal | CEO | Broker | Industrial



WEST MICHIGAN MARKET

What has changed since Q1?

There is no question that our country is up against some big challenges that are impacting all markets both large and small. In our Q1 report, we mentioned the uncertainty of the upcoming year. As you glance at the market from all angles, the initial view doesn't reflect much positivity. **In Q2, inflation was the top challenge and continues to be one of the largest factors impacting the national market, local communities, and businesses in every sector.** Supply chain, labor shortages, increased interest rates, and a geopolitical disaster due to the Ukraine-Russian invasion are right on the heels of inflation. Each of these trends have led to the continued uncertainty that many feel looming.

The West Michigan market continues to ebb and flow amid the varying conditions. Since Q1, we have seen some of the trends we previously mentioned amplify, while others have slightly improved, but the majority remain at status quo. Each sector of our market is staying afloat and naturally shifting with the market despite much instability and uncertainty.

Where are the bright spots amid so much uncertainty?

West Michigan has demonstrated its resilience in each sector of our market. **Compared to other major cities throughout the country, Grand Rapids is insulated and can pivot as economic implications rise. Businesses in every category have a high ability to recuperate and recover, and we are slowly starting to see that play out.** Overall, West Michigan is well on its way in a post-pandemic climate. Popular retail corridors are still highly sought after, creating extremely tight inventory across the board. Many downtown and suburban employers are reopening their doors to employees. Manufacturers are strategically restructuring their production and shipping models amid continued supply challenges, and investors are still finding opportunity, albeit cautious for what lies ahead. Historically, West Michigan is resilient through both global and national economic trends. Throughout Q3 we are hopeful that the local market will stabilize, and new opportunities will present themselves for all product types.

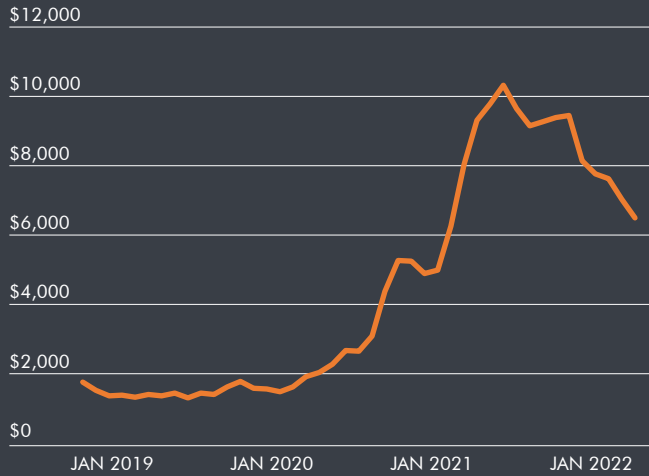
INDUSTRIAL MARKET

\$5.08
PER SF

WEIGHTED AVERAGE
LEASE RATES/SF

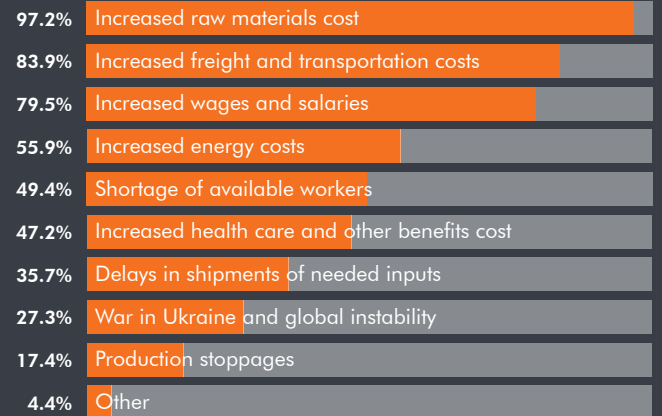
GLOBAL CONTAINER FREIGHT RATE INDEX

Source: Freightos Data



INFLATION DRIVERS THAT ARE RAISING PRODUCTION PRICES FOR MANUFACTURERS | Q2 2022

Source: National Association of Manufacturers (NAM.org)



Respondents were able to check more than one response; therefore responses exceed 100%

Are supply chain challenges getting worse?

Industrial has long been the strongest property type in West Michigan. With all the nuances 2022 has brought, many have wondered if the industrial market will keep its momentum from the last several years. Supply chain disruptions both locally and nationally are persisting. Record high inflation is still limiting the type of product that can be ordered and produced. Record low vacancy continues to plague manufacturers and warehouse owners desiring to expand their operations. The notion of a looming recession and escalating interest rates are also effecting the industry. **Current conditions show that the industrial market is still adjusting amid the erratic supply chain and substantial labor shortages.**

Is the industrial market changing?

Supply chain disruptions and manufacturing input prices have made life extremely difficult for almost every company that touches industrial real estate. However, West Michigan has yet to see a negative effect on lease rates, occupancy percentage, or sales volume. According to Real Capital Analytics, which tracks investment sales, the national volume of transactions

decreased 19.3% since Q1 2022. This decrease is mainly attributed to the rapid rise in interest rates, making the low cap rate investment sales of the past harder for buyers to justify. **We expect to see sales volume plateau, but we have yet to determine how much the rapidly changing economy will affect the local industrial market.** If inflation keeps raging at forty-year highs, the Fed will keep aggressively raising rates, applying both feet to the brake pedal of the economy. Fortunately, vacancy rates are still historically low, and overall demand in the market remains high. This puts pressure on every part of the industrial real estate value chain to keep making, moving, and storing the materials and products that are integral to our modern society.

Moving forward, we expect industrial users to proceed with caution, given the continued uncertainty and potential market implications that may arise. Finding industrial-zoned land in the ideal location for manufacturers will become even more challenging in Q3. This will limit the amount of spec space available in our local market. Regardless of these challenges heading into a new quarter, we do expect the West Michigan market to experience growth in the industrial sector.

OFFICE MARKET

\$15.69
SUBURBAN

\$18.49
CBD

WEIGHTED AVERAGE
LEASE RATES/SF

Are companies really returning to the office?

The idea of returning to the office grows more attractive as companies reshape their culture and encourage collaboration. The pandemic allowed employees to reevaluate what they expect out of office space. Because of this, we are seeing a substantial progression in how business is being conducted and office environments are formed. **Companies with greater collaboration are no longer fully remote and companies that have been hybrid or completely remote are ready to experience the benefits that come along with going into the office.** Companies such as Acrisure, that were once completely remote, are now leading the march back into the office, influencing other local businesses to reevaluate their plans for the second half of 2022. The trends we have been tracking throughout Q1 and Q2 can be seen in Kent County's most recent unemployment rate, proving that the West Michigan workforce is truly on the upswing. The local unemployed population has decreased by 33.96% since this time last year. **Throughout Q3, we expect the downtown core to experience an increase in activity as businesses continue to return to the office.** This trend will create a ripple effect for other sectors in our market, especially retail.

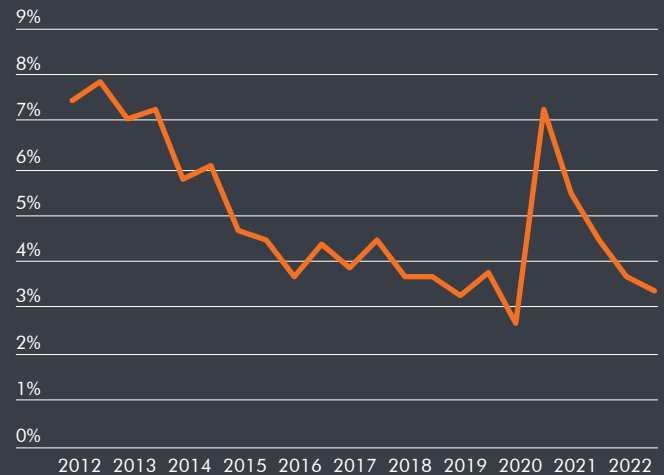
Is the office sector growing amid economic uncertainty?

The West Michigan office market is experiencing pockets of growth, with the suburbs still at a high activity level. Downtown leasing is slowly returning, after a brief hiatus post-pandemic and our experts are expecting this to remain steady. The West Side of Grand Rapids has particularly gained interest from office users looking to grow locally. **Future growth patterns, planned developments, and ample on-site parking are just a few of the many amenities attracting businesses to the area.**

Looking forward, businesses with 3 to 5 year leases will be determining their options for the future. As many of these leases come up for expiration, commercial real estate experts think businesses' decisions for space will be an indication of the future stability of the office sector. **The good news is that lease rates have remained consistent throughout Q2, and we expect there to be very little change in the immediate quarter.** The West Michigan office market is in recuperation and is still finding ways to utilize post-pandemic requirements towards a more resilient future.

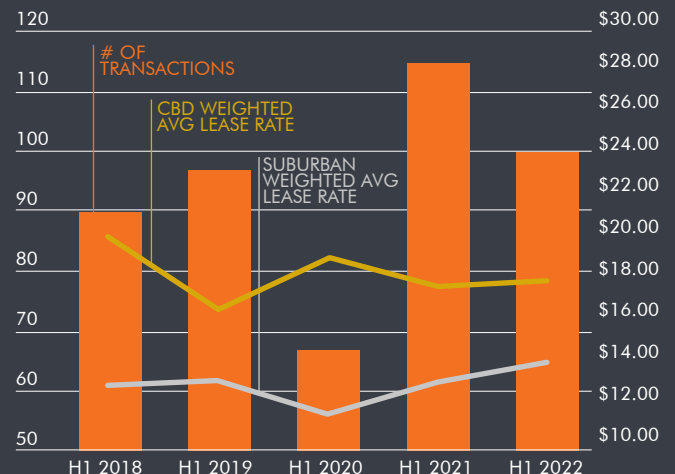
UNEMPLOYMENT RATE | GRAND RAPIDS

Source: U.S. Bureau of Labor Statistics



H1 OFFICE LEASE TRANSACTIONS

Source: Commercial Alliance of Realtors West Michigan



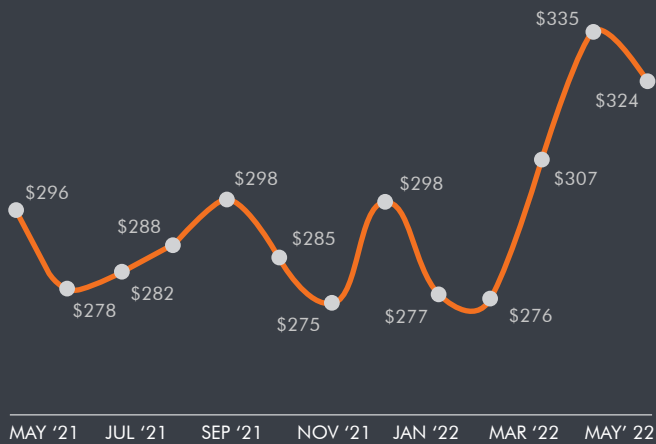
RETAIL MARKET

\$15.56
PER SF

WEIGHTED AVERAGE
LEASE RATE/SF

AVERAGE MONTHLY GROCERY BILL | U.S. ADULTS

Source: Morning Consult



TRACKING CONSUMER COMFORT WITH SOCIALIZING

Source: Morning Consult

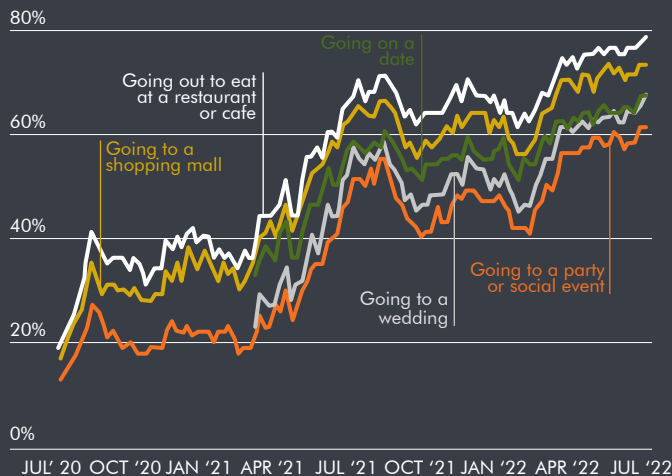


Photo taken from Wahlburgers Grand Rapids Facebook

Are retail patterns changing?

As we conclude yet another quarter, the retail market in West Michigan is facing a variety of trends, many of which have yet to provide concrete conclusions or certainty for the stability of retail going forward. In Q1, retailers struggled to hire employees and keep up with demand from consumers. **Throughout Q2, big-box stores struggled to keep shelves stocked due to continued supply chain and logistic issues. They were also met with record high inflation.** Despite the challenges this creates across the market, consumer spending has not slowed down, as individuals are more concerned with getting their product over the price. In June, the C.P.I. reached 9.1%, which is the highest it has been since 1981. The good news is that retailers are adjusting to meet consumer needs and fighting rapid economic changes to support development in this sector.

Despite the challenges that every West Michigan based retailer is facing, activity in downtown Grand Rapids increased in Q2, likely linked to employers bringing employees back to the office. This will continue to be a positive factor for the local retail market going forward, as more restaurants begin evaluating reopening during lunch hours.

Are we running out of room for national retailers?

Throughout our region, demand for space continues to grow and is high in almost every major corridor within our market. **Given the validity of West Michigan, national retailers and restaurants want to grow within our market. This is challenging as there is very little inventory along Main and Main.** In the midst of this limited inventory, local entrepreneurs in Grand Rapids are still eager to bring their innovations and concepts to the market.

Moving ahead, we believe the retail market will be steady, as demand continues to soar. Commercial real estate professionals in West Michigan will need to lead with creativity as they assist businesses in finding ideal sites throughout the region. The future of the retail market in West Michigan is dependent on the ingenuity of businesses with groundbreaking ideas to ensure a stronger marketplace.

9.1%
JUNE

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

INVESTMENT MARKET

What is the effect of inflation on investors?

Q2 brought some interesting trends to the investment market. Inflation, interest rates, stock market volatility, and cap rates have been the topic of conversation between investors. Inflation increased even more in Q2, with interest rates following close behind, in hopes of curbing the inflationary market. However, in an environment where investors still have cash, demand continues to be strong, supporting current real estate prices. **By utilizing this cash to purchase assets, investors can ignore interest rate hikes, while simultaneously hedging against inflation.**

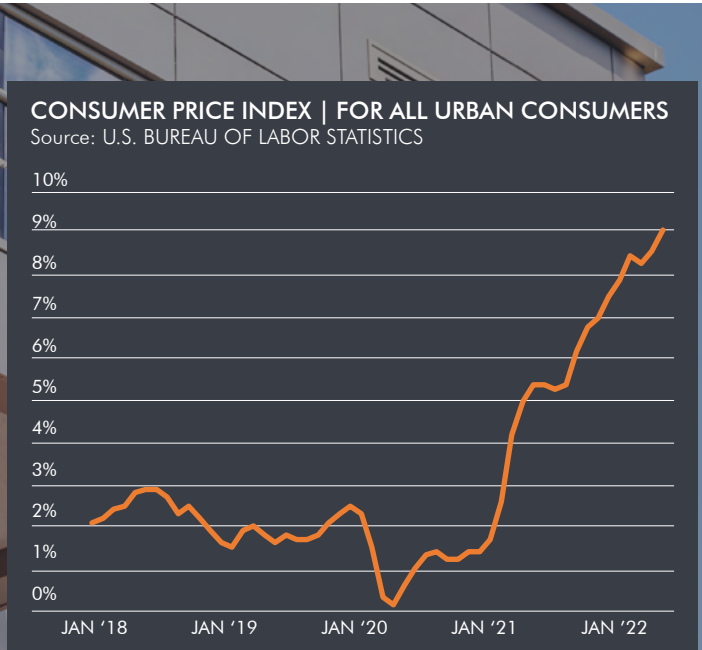
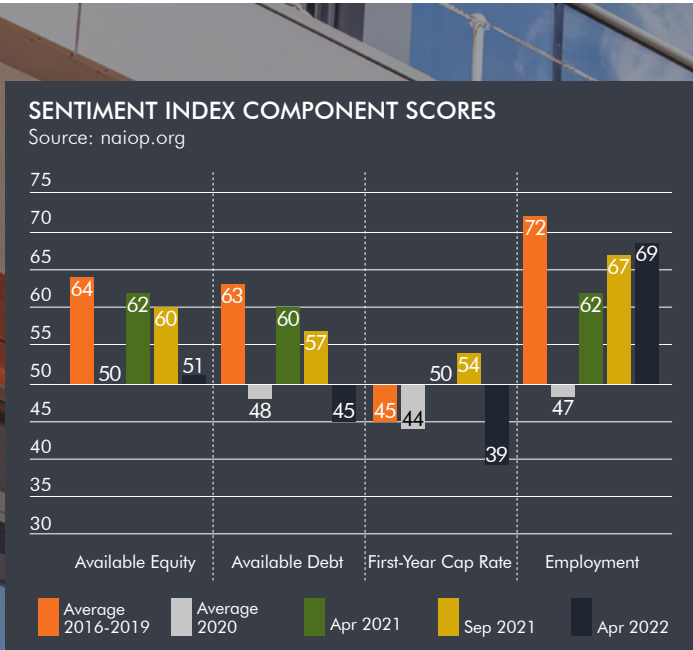
Demand for retail, industrial, office, and land investments continued throughout Q2, with the most sought-after product types being industrial and multifamily. Manufacturing continues to drive our local economy given its stability over the last several years, therefore it is continuously sought out by investors. On the e-commerce side there is room for additional distribution and logistics companies looking to grow in West Michigan. We have seen activity slightly slow throughout Q2, but are expecting new opportunities to present themselves throughout the year.

Investors also still desire multifamily product, given the persistent high rental demand from the housing scarcity that continues in both the city and suburban areas.

The biggest challenge investors face is the unpredictable future. Oil prices, record high inflation, lack of labor, climbing interest rates, and the continued war between Ukraine and Russia are all factors making the market more difficult to navigate, due to the uncertainty that they bring. Investors in West Michigan need to be more strategic than ever before, in order to have success in their investments.

Are investors holding property?

In Q3 we expect investors to lead with caution, but demand to remain high. Many investors are holding their properties and we expect this to remain for the foreseeable future. Investors will continue to monitor the market, evaluating the right time to sell, trade, or develop. Although the market appears to lack stability, the current trends may turn out to be positive for the local investment market. **Historically, commercial real estate has proven to out perform alternative asset classes through periods of high inflation.**



LAND MARKET

Is land the most sought-after property type?

Land appears to be seen as the last frontier. At the end of Q2 land investments increased significantly and one of the main reasons for this is its increased value of land in recent years. This comes as a drastic change to the West Michigan market, as investors perception of land's value is quite different from reality.

Industrial

Industrial land is currently the most sought after property type. The industrial market has remained strong and is not expected to slow down anytime soon. With little existing space available, manufacturers are looking for land to develop. Limited supply available, along with ideal amenities, such as

utilities and zoning continues to make the search for industrial land challenging. That, combined with a semi-construction halt, is creating pent-up demand that will likely influence next year's pipeline.

Retail

With the rise of E-commerce and consumer demand patterns shifting, retail land value is based on location. The desire to purchase land that is zoned for retail developments is purely demographic and traffic driven. The most popular locations throughout West Michigan that retailers most desire have limited sites available for development. Because of this, users are waiting for the right locations throughout Main and Main, in hopes of re-purposing space or demolishing an existing building for land to develop.

2022 INDUSTRIAL DEVELOPMENTS

ADDRESS	COMPANY/PROJECT	SIZE	STATUS
1900 4 Mile Road NW, Walker	Kent County Road Commission	189,261 SF	Completed
3174 4 Mile Road NW, Grand Rapids	Spec Building	267,000 SF	Completed
3195 Northridge Drive NW, Walker	Spec Building	119,000 SF	Completed
3260 Northridge Drive NW, Walker	Vikings Products	106,000 SF	Completed
3413 Quincy Street, Hudsonville	Phase 2	28,000 SF	Completed
3501 Fruit Ridge Avenue, Grand Rapids	Spec Building	285,000 SF	Completed
4317 68th Street SE, Caledonia	Old Dominion Freight Line	43,089 SF	Completed
4495 68th Street SE, Kentwood	Amazon Sorting	279,000 SF	Completed
5145 Beltway Drive SE, Grand Rapids	Aspen Surgical	78,000 SF	Completed
6155 East Paris Avenue SE, Caledonia	Mobil Defenders	90,000 SF	Completed
6192 Valduga Drive SW, Byron Center	Valduga Business Center Phase 2	63,000 SF	Completed
6748 Patterson Avenue SE, Caledonia	Six Eight Business Center	120,000 SF	Completed
4495 68th Street SE, Kentwood	Amazon Delivery	219,000 SF	Proposed
800 Riley Street, Zeeland	Spec Building	750,000 SF	Proposed
3060 South Industrial Drive, Walker	Speedrack	275,000 SF	Under Construction
3220 Northridge Drive NW, Walker	Spec Building	150,000 SF	Under Construction
5120 East Paris Avenue SE, Grand Rapids	Spec Building	22,610 SF	Under Construction
5505 Patterson Avenue SE, Kentwood	Spec Building	56,000 SF	Under Construction
5784 Kraft Avenue SE, Grand Rapids	Expansion	100,000 SF	Under Construction
Broadmoor Avenue at 36th Street SE, Kentwood	Autocam Medical	100,000 SF	Under Construction
TOTAL		3,339,960 SF	

Office

In Q2, there was a slow down in land sales intended for the development of office space. This decrease in land sales is still a result of instability from the pandemic. The good news is we are starting to see demand for office land slowly increase, as businesses return back to the office. Employers are reevaluating the idea of customizing their space through new builds that will better suit their employee’s needs.

Multifamily

Multifamily is proving to be one of the most valuable land types post-pandemic. As the local community grows, there is a great need to provide more living spaces to the region,

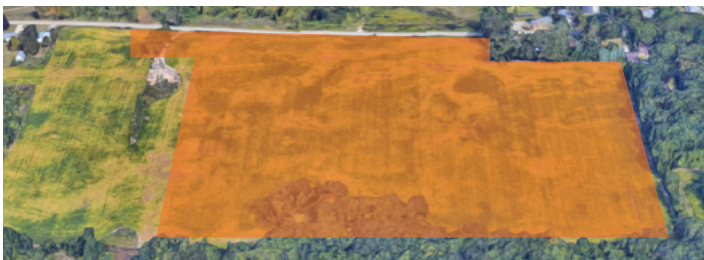
creating high demand for land that meets all building requirements. With a larger focus on creating fair housing, this sector is expected to keep growing in Q3, although construction and development might be delayed.

What will happen as land development slows?

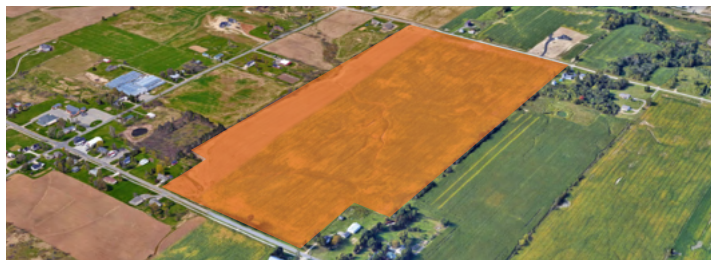
Overall, there were more off-market deals done than ever before in Q2. Currently, landowners are holding on to owned properties and delaying development due to construction costs and inflation. Sites gaining the most attention throughout Q2 had the necessary utility and zoning requirements, allowing for immediate development. The urbanization and government-supported infrastructure is also making land a beneficial investment.

NOTABLE TRANSACTIONS

LAND



1150 60th Street SE, Byron Center
 Sold | 30.7 Acres | \$2,609,500



3801 Riley Street, Hudsonville
 Sold | 77 Acres | \$2,000,000



7153 Whitneyville Avenue, Caledonia
 Sold | 78.76 Acres | \$1,500,000



Central Parkway & Greenly Street, Hudsonville
 Sold | 18.48 Acres | \$1,000,000

NOTABLE TRANSACTIONS

INDUSTRIAL



4155 Danvers Court SE, Grand Rapids
 Sold | 93,158 SF | \$5,200,000



2700 Chicago Drive, Hudsonville
 Leased | 44,400 SF | \$6.95/SF, NNN



5255 68th Street SE, Caledonia
 Leased | 52,015 SF | \$6.90/SF, NNN



3498 Kraft Avenue SE, Grand Rapids
 Sold | 35,086 SF | \$2,350,000

RETAIL



3665 28th Street SE, Grand Rapids
 Leased | 3,665 SF | \$22.00/SF, NNN



3345 28th Street SE, Grand Rapids
 Sold | 9,461 SF | \$1,525,000



3005 Broadmoor Avenue SE, Grand Rapids
 Sold | 10,202 SF | \$1,900,000



4273 Alpine Avenue NW, Comstock Park
 Sold | 96,400 SF | \$2,000,000

OFFICE



6355 East Paris Avenue SE, Grand Rapids
Sold | 28,450 SF | \$5,000,000



38 Commerce Avenue SW, Grand Rapids
Leased | 6,000 SF | \$22.50/SF, Modified Gross



625 Kenmoor Avenue SE, Grand Rapids
Leased | 6,456 SF | \$13.43/SF, NNN



607 Dewey Avenue NW, Grand Rapids
Sold | 20,427 SF | \$2,775,000

INVESTMENT



5300 Patterson Avenue SE, Grand Rapids
Sold | 141,157 SF | \$17,300,000



6797 Cascade Road, Grand Rapids
Sold | 78,815 SF | \$4,950,000



1790 Sun Dolphin Drive, Muskegon
Sold | 179,279 SF | \$6,250,000



6850 Southbelt Drive, Caledonia
Sold | 100,676 SF | \$12,850,000



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