

2022 THIRD QUARTER

MARKET TRENDS REPORT



This is our story

This year, we've had the opportunity to highlight some of our clients and advisors to share their unique stories. Successful businesses come from leaders who care about their employees, support the local community, strategically create in their industry, and overcome challenges with excellence. Our clients do this every day and are having an impact on their sphere of influence. If you would like to read some of these stories, visit www.AdvantageCRE.com/our-story.



FLEXGO

Flexco started as a family-owned business in Illinois. Now, over a century later, Manager of Lean Operations and Facilities, Duane Bjork is helping lead the company in Michigan.

Trent and Duane's individual stories and experience lead to an excellent working relationship. The result was the disposition of Flexco's prior two Grand Rapids facilities, and the acquisition of land in Walker, MI where they just completed the construction of their world class manufacturing facility.

"Our brand new building allows us to have a fully integrated facility that..."

Trent Waringa
Advantage Commercial Real Estate



This is our story

"Working alongside my clients has always brought me great satisfaction, and I consider it a privilege to help them achieve their business goals. I try diligently to problem solve and provide creative solutions for each client's unique needs. A key factor in all of the longtime relationships I've been blessed to build is that I always strive to put myself in the client's shoes, doing what is best for them before anything else."

Steve's primary priority is to ensure that every client's needs are met. Steve has the ability to build relationships in the home construction field. Steve has the ability to build relationships in the home construction field. Steve has the ability to build relationships in the home construction field.

Steve Miller
Advantage Commercial Real Estate



This is our story

"Le Kebab's amazing growth throughout the years is mainly attributed to Amer's staff and loyal customers. There are additional markets that have yet to experience the restaurant and I am looking forward to helping Amer secure the right locations that will help their entire team continue to succeed."

The story of Le Kebab started with a desire to bring quality Mediterranean food to West Michigan. The restaurant has been a part of the local real estate community since 2016, after opening at the location in Grand Rapids. Since then, Amer and the Amer team have worked closely with Advantage Commercial Real Estate to help Amer secure the right locations that will help their entire team continue to succeed.

Rachel Johnson and Managing Principal, Mark Amos met Amer in 2016 after regularly seeing it on the restaurant's website. Amer's brand resonated with Amer's team and Amer's staff. Amer's staff resonated with Amer's team and Amer's staff.

Michelle
Managing Principal
Senior Vice President | Retail
Advantage Commercial Real Estate

ADVANTAGE
#OurTeamOurStory



This is our story

"Throughout my career I have faced challenges that have ultimately created fantastic opportunities. Working alongside great mentors and clients that provide valuable lessons from each of those situations. I am grateful for the opportunity to work in this industry, solutions that are benefiting communities."

John Foster
Advantage Commercial Real Estate



This is our story

"Working with Kirsten and the Edward Rose & Sons team has been fantastic. The work they are doing across the Midwest has always impressed me and I am confident Grand Rapids will benefit from their commitment to developing a vibrant apartment community in one of the busiest corridors in our market."

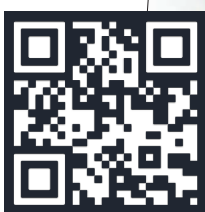
Edward Rose & Sons is a family-owned company known for providing excellent service to their clients. Edward Rose & Sons is a family-owned company known for providing excellent service to their clients.

Edward Rose & Sons
Advantage Commercial Real Estate




"Retailers are always evolving. The clients I get to work with are changing the local communities they open locations in. Both restaurants and retailers provide creative branding, unique experiences for consumers and more importantly, new local job opportunities. When new retail opens, new jobs are created, and the West Michigan market grows for everyone."

Mike Murray
Principal | Senior Vice President | Retail
Advantage Commercial Real Estate



WEST MICHIGAN MARKET

Why are we not worried about West Michigan?

Very few trends have changed in each sector of our market since Q2. Challenges like inflation, lack of labor, or unsatisfied demand have yet to slow, but despite these varying conditions, West Michigan continues to be dynamic by adapting to the challenges that arise. We continue to talk about our local market being insulated compared to the rest of the country, meaning it doesn't experience a large impact if the market were to crash. This has become a vital part of our conversations with our clients, as we want everyone to understand that things are quite positive in West Michigan.

The perception of what is ahead for us is not currently aligning with our market's reality. Some business owners believe that a market crash will provide more opportunities for them, but West Michigan has a more stable real estate market. If a recession is in store, markets like Detroit, Indianapolis, or Chicago will experience a greater impact, compared to what we will see locally, mainly because we don't overbuild. West Michigan business leaders make conservative decisions, and its leaders act creatively and strategically, something that has always been unique to the area. National trends and economic uncertainty at large help inform local decisions, but those trends have not altered West Michigan in any detrimental way. This has helped drive local growth in the commercial real estate market, fostered a positive environment for local business owners, and created more certainty for out-of-market investors looking at West Michigan.

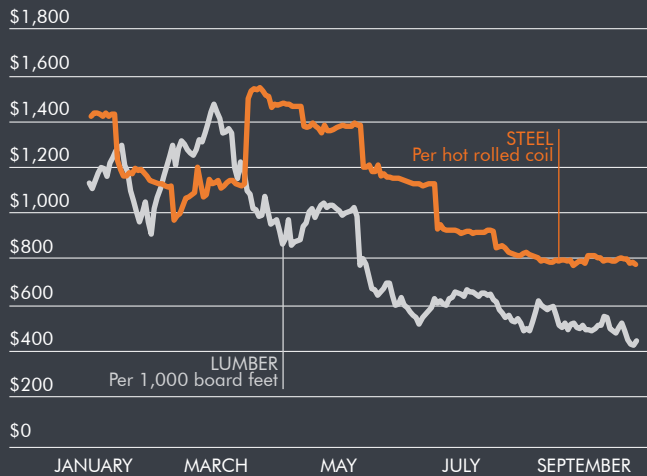
INDUSTRIAL MARKET

\$5.51
NNN

WEIGHTED AVERAGE
LEASE RATES/SF

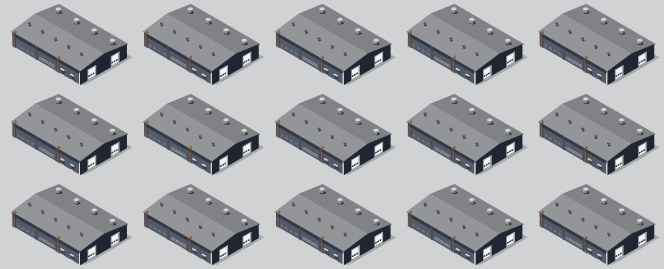
LUMBER & STEEL PRICE YTD

Source: Markets Insider (markets.businessinsider.com)



GRAND RAPIDS INDUSTRIAL VACANCY RATE Q3 2022

Source: Advantage Commercial Real Estate Research



OCCUPIED

VACANT

1.66% GRAND RAPIDS
INDUSTRIAL VACANCY RATE

Is the industrial market still gaining momentum?

The industrial market in West Michigan continues to thrive despite challenging economic conditions. The challenges industrial users face are not sustainable long term and have many wondering what major disruptions will continue and how long they will last. Almost every manufacturer is running into expansion issues with market vacancy less than 1.66%. Those looking to build new in hopes of curbing that lack of vacancy continue to experience record-high construction costs and little available land located in the premiere corridors. Both challenges have resulted in very few buildings going vertical locally. The West Michigan industrial market will continue to tighten, making it extremely difficult for industrial users to find adequate space.

Nationally, port issues are finally getting worked out and are functioning much smoother than the past two years. Most of them are back to pre-pandemic averages for the delivery of goods, however domestically, issues remain. Labor unions are working out new agreements, rail road conductors are going on strike and now labor is the number one issue impacting both railroads and ports.

Are trends pointing to a struggling future for the industrial sector?

The industrial market is guaranteed to face challenges in the future, although we cannot exactly say how much disruption this will create locally. One factor we are watching is consumer

spending. As interest rates continue to rise, we could possibly see a decrease in consumer spending near the end of this year. This will likely slow the need for warehousing and manufacturing space, lessening the current pent-up demand.

As we look ahead, leaders in West Michigan need to implement major changes to keep up with the momentum of the industrial market. Attracting major manufacturers to our market will require new strategies, something necessary to create local opportunities. Until demand decreases, adaptive re-use for land and space is a creative concept that users may implement in the future. The recent announcement of the DeltaPlex redevelopment is an example of this, as space and land are limited. Visser Brothers purchased the 18.85-acre site with plans to build a new 162,000 SF industrial building, while converting the existing venue into industrial space.

Solving issues like utility and zoning challenges, as well as Class A roads will also be necessary moving forward. These issues should be of greater concern for the industrial market than interest rates or construction costs.

However, the economy is still growing in West Michigan, and despite the federal government trying to cool inflation, users still want to buy. If the challenges we mentioned are met with creative solutions both locally and nationally, industrial-focused companies will be able to continue their pattern of growth.

Why does everyone still have questions about the office market?

The past couple quarters have brought little change to the office market from a transaction standpoint. Leasing activity remains the strongest in the suburban markets, specifically and most recently on the Northwest side of Grand Rapids. User-driven sales are also strong in almost every suburban corridor in West Michigan. Activity is still lagging in Downtown Grand Rapids, with very few transactions taking place within the immediate CBD.

Many of us want concrete answers as to what the future of the office market will look like. Will work-from-home trends continue, or will hybrid models look differently than we expected? Will re-purposing of office space continue, or will businesses get rid of their buildings altogether? Why is downtown Grand Rapids still so quiet, despite Acrisure re-opening? For a while we speculated that employers would not return to pre-pandemic operations, and provide more flexibility to their employees. But now, it appears that businesses are shifting their focus back to the office with a 4.2% increase of employees back to work this quarter. The recent announcement from JP Morgan Chase and Goldman Sachs requiring all employees to return will likely drive the next two quarters for the office market nationally. At the same time, we recognize that some employers may never return to the office, given the specific industry they are in. By being completely remote, these businesses have opened their talent pool across the country, a factor that can totally transform operations without employees needing to relocate. The dichotomy of these trends has created inconsistency across the office market, leaving corporations indecisive of the best route to take. West Michigan-based companies are watching national corporation's decisions and using those to help inform their strategy, business model, and the overall culture they want to foster in or outside the office.

Will industry determine the future of the office market?

As we head into the remaining months of 2022, it is important to recognize that future trends in the office market will likely be different for each industry, given the unique needs of the business. This inconsistency may be the new normal for the foreseeable future. As business leaders make concrete plans to either foster flexibility, or resume operations as normal, employee satisfaction and retention will need to be evaluated on a regular basis. How these trends play out will directly impact the commercial real estate market and businesses' need for space going forward. Strong growth should continue in the suburbs, and our hope is that activity in downtown Grand Rapids increases, if more companies begin to entertain the idea of re-opening or securing space in the CBD.

OFFICE MARKET

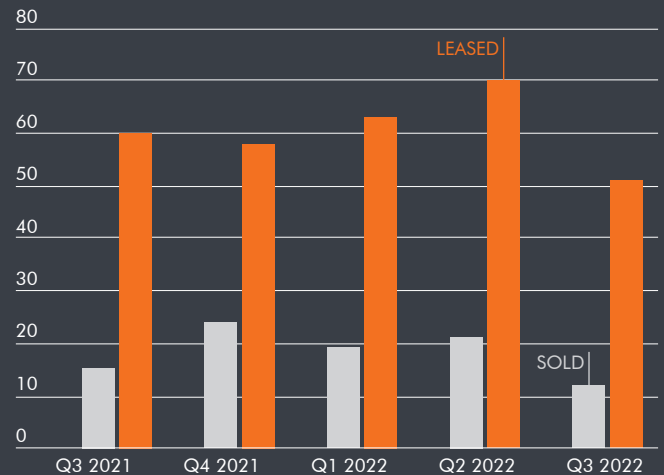
\$18.17
SUBURBAN

\$18.43
CBD

WEIGHTED AVERAGE
LEASE RATES/SF
MODIFIED GROSS

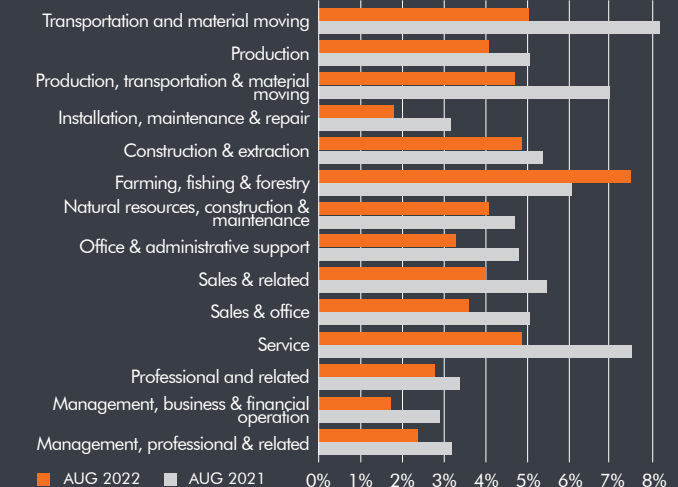
KENT COUNTY OFFICE SALE AND LEASE TRANSACTIONS

Source: Commercial Alliance of Realtors West Michigan



UNEMPLOYMENT RATE BY SECTOR | AUG 2021 vs AUG 2022

Source: U.S. Bureau of Labor Statistics



RETAIL MARKET

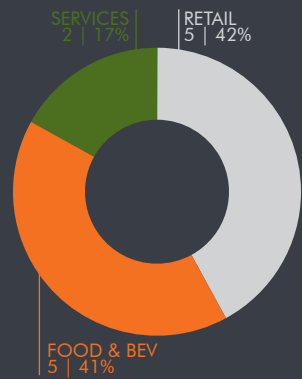
\$13.90
NNN

WEIGHTED AVERAGE
LEASE RATE/SF

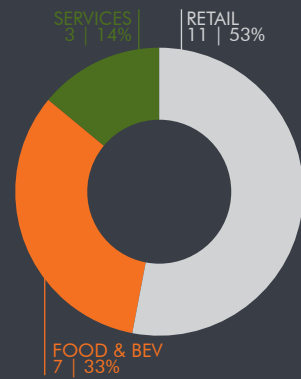
TYPES OF BUSINESSES CLOSED OR OPENED IN 2022

Source: Downtown Development Authority

BUSINESSES THAT CLOSED 2022



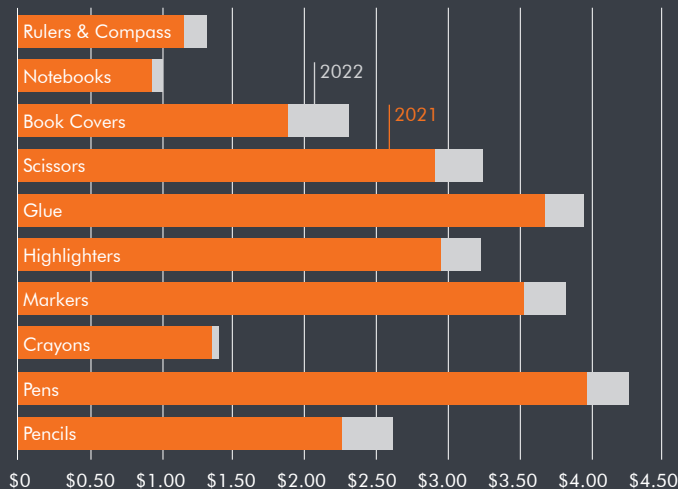
BUSINESSES THAT OPENED 2022



Businesses are opening **1.8 TIMES FASTER** than closing in 2022

SCHOOL SUPPLY COST 2021 VS 2022

Source: NielsenIQ.com



Has retail fully rebounded?

It's no question the retail market got a direct hit by the pandemic. The labor shortages, wage increases, inventory challenges and the inflation that followed continues to impact retailers, restaurants, and consumers throughout West Michigan. Despite these lingering effects, local retail has been in a steady growth pattern this quarter. Activity is back at its usual pace with the community re-engaging with restaurants, local retailers, and entertainment venues again. This is yet another indication of how far we have come the further we get away from the pandemic. The busyness seen at "Main and Main" is also a healthy indicator for the local retail market. National retailers still want to be here, despite lack of retail space or land to develop. Given this limited vacancy and the current costs for both buildouts and site work, commercial real estate transactions are taking longer, some taking years to complete.

Currently, national chains are the most stabilized in our market, since they are dealing with less labor challenges in comparison to mom-and-pop retailers. This is due to job seekers wanting better wages and more flexibility, something national retailers and restaurants can offer. Larger retailers can also provide better job protection and financial stability than most local retailers, if there were to be a recession. Because of this, mom-and-pop users are having great difficulty finding employees to hire, which makes it even more challenging for them to keep up with consumer demand.

What experience do consumers really want?

Despite yet another quarter of high inflation, consumer spending has remained consistent. Trends continue to show that regardless of the steady growth in online shopping, consumers are still eager to go to brick-and-mortar stores. We don't see the experience of going to a physical store front going away anytime soon, as our market is still feeling the result of pent-up demand due to the pandemic.

Over the past quarter we have started to see retailers re-strategize their business models and functionality of their space to keep up with consumer demands. The Best Buy on 28th Street SE is a great example of this. Currently, their storefront is under construction until December, being redesigned to house more product than ever before. As one of the top performing Best Buy's in the country, this remodel allows them to provide faster service and higher-end products to their West Michigan customer-base.

Overall, consumers are driving a lot of retailer's decisions, like whether to expand their service offerings, renovate their store to account for more product or provide a better shopping experience. By strategically adjusting to keep the consumer engaged, the retail market will continue to grow in our local market.

8.2%
SEPTEMBER

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

INVESTMENT MARKET

Will the investment market withstand the current economic climate?

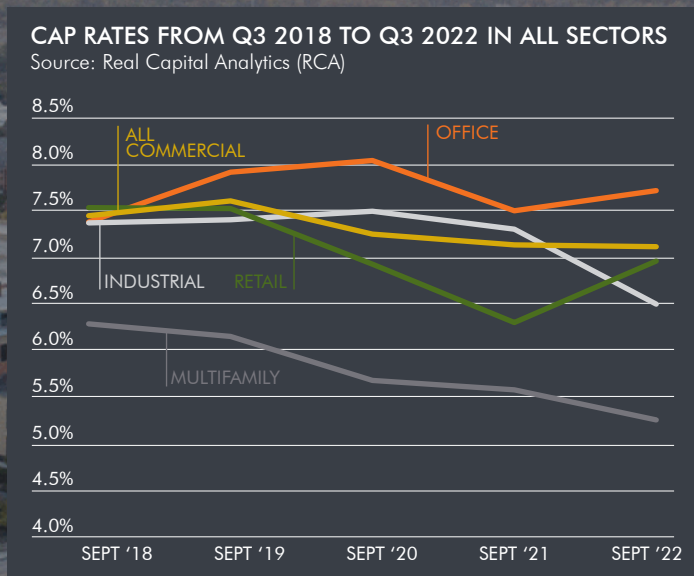
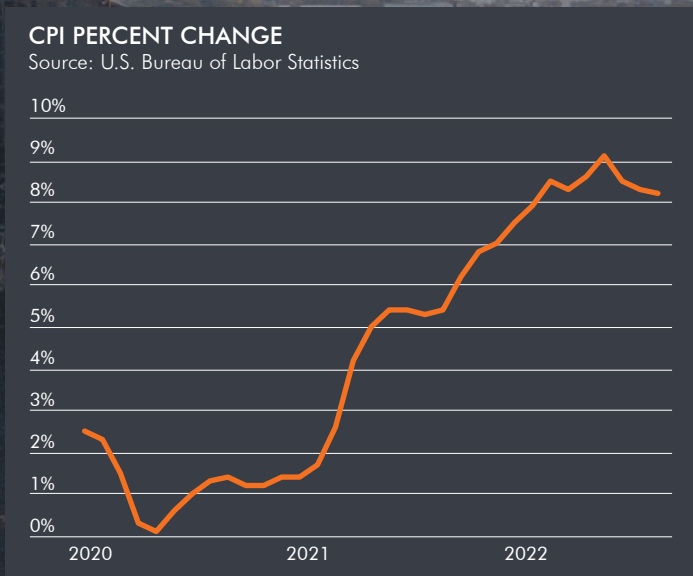
Simply put, the national investment market has been tumultuous over the past quarter. The instability of the capital markets has raised some questions about the current and future economic impacts on West Michigan. Thankfully, our local market is well insulated, a key factor for growth in the industrial, retail, office, land, and multifamily sectors. Rising interest rates and inflation have not escaped our area entirely. Although interest rates have yet to have a meaningful impact on pricing, they are starting to stall buyers as sellers still seek pricing expectations set earlier this year. The disconnect between seller expectations and the market reality will continue to be a major headwind for the rest of 2022, and likely into early 2023, with most sellers unwilling to compromise on price to get a transaction closed.

The concerns of a recession are certainly looming, with both owners and buyers watching major economic indicators in hopes of seeing a pattern of trends for the future. As an investor in West Michigan there is less risk, given the diverse and stable nature of our economy, driven by business leaders throughout the region typically make conservative financial decisions. This factor continues to make West Michigan a great area to invest, despite the varying economic headwinds. In summary, without stability, the debt and equity markets tied to real estate will remain a difficult to navigate.

Are investors, buyers, and owners hesitant?

As we head into the fall, many investors are still eager to purchase real estate. They are sitting on more cash and buying power than they ever have. However, the persistent rise in inflation and interest rates typically take longer to affect commercial real estate than other investment alternatives. We have already started seeing investors on the sidelines, waiting for the economic climate to change. Additionally, we are now competing against alternative investment opportunities, something we have not seen for a handful of years. Despite the strong investment demand, the unpredictable volatility of the market is showing signs of a pullback in certain areas.

In the coming months, cash flow will be a critical component for a successful investment. Value add and new construction will continue to be a difficult equation to solve and the cost of capital and interest rates will likely continue to rise. This will result in valuations being impacted in some asset classes, causing investors to re-think their investment strategy overall. As investors adjust to our market's new normal, opportunities must be evaluated from every angle to maneuver around an unforeseeable future. This means stress tests will become even more critical in the coming quarters before investors purchase assets, buyers look to place capital, or owners sell.



LAND MARKET

Is there a limited amount of land in West Michigan?

This year, land has been an interesting sector to watch. As demand for commercial space grew in Q2, land became a more popular option for businesses looking to grow or relocate in West Michigan. However, ready-to-develop land has become scarce, especially in the highly sought-after corridors. Manufacturers, office users, investors developing multifamily, as well as retailers and restaurants are all running into challenges finding the appropriately zoned land with the necessary utilities. Buyers are starting to pursue sites along M-6, Zeeland, Lowell, and North of Walker because there are no other options. Because of this, sites that were once overlooked for years are now going under contract for the first time.

This quarter, we noticed large pieces of land come to market that have never been listed before. Farmland is now becoming available regularly, sites that buyers have called on or pursued for years. Most of the farmland purchased will be used for mixed-use development projects, ultimately growing corridors outside of the Grand Rapids core. If buyers can find

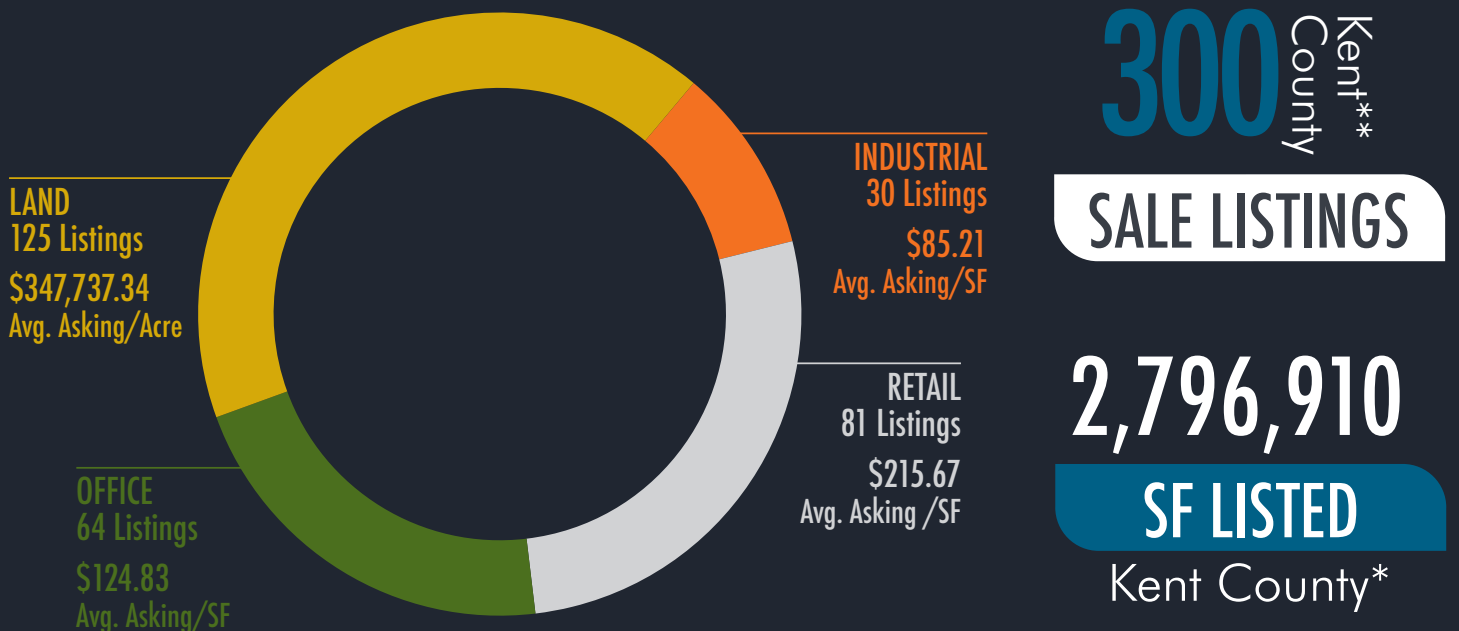
sites with the proper infrastructure, there is more justification to purchase a larger piece of land with everything in place, versus a small site with challenges.

What needs to change for more land to be developed?

Moving forward, we plan to see land constraints across every sector of our market. These challenges will require the need for extensive infrastructure in West Michigan. Conversations about infrastructure funding have already begun, however, local, regional, and state organizations will need to evaluate this necessity for continued market growth and the development of projects.

Eventually, the market reality will begin sinking in, especially with the recent increases to interest rates. As you begin to replicate that reality in the commercial real estate sphere, pricing will start to gradually shift for land. The inflationary component of the market should also slow, following a decrease in demand given the pricing and lack of land availability.

MARKET BY THE NUMBERS



* includes industrial, retail & office
** includes industrial, retail, office & land

NOTABLE TRANSACTIONS

LAND



4610 N Breton Court SE, Kentwood
Sold | 30.7 Acres | \$2,609,500



3101 Fruit Ridge Avenue NW, Grand Rapids
Sold | 31.91 Acres | \$1,700,000



12466 Ransom Street, Holland
Sold | 29.1 Acres | \$750,000



2131 64th Street SW, Byron Center
Sold | 7.37 Acres | \$2,293,500

AS LISTED ON COMMERCIAL ALLIANCE OF REALTORS WEST MICHIGAN

807 Kent*
County

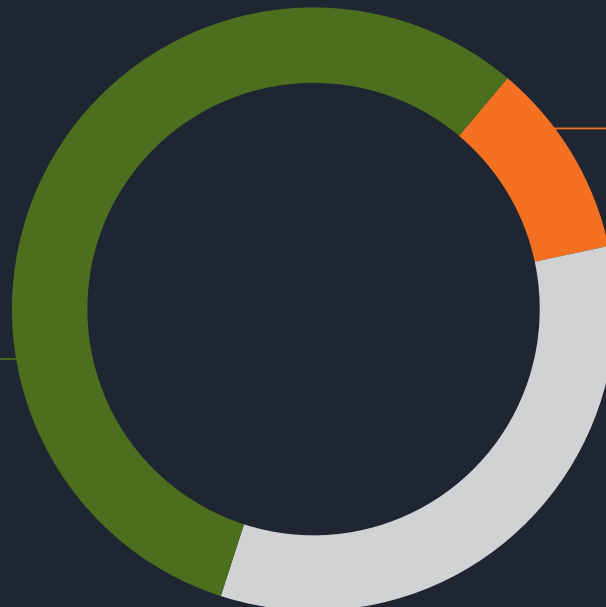
LEASE LISTINGS

7,860,790

SF LISTED

Kent County*

OFFICE
453 Spaces
\$19.75, MG
Avg. Asking/SF



INDUSTRIAL
85 Spaces
\$7.15, NNN
Avg. Asking/SF

RETAIL
269 Spaces
\$15.24, NNN
Avg. Asking/SF

NOTABLE TRANSACTIONS

INDUSTRIAL



902 Scribner Ave NW, Grand Rapids
Sold | 32,480 SF | \$2,7700,000



280 E 64th Street, Holland
Sold | 77,220 SF | \$7,775,000

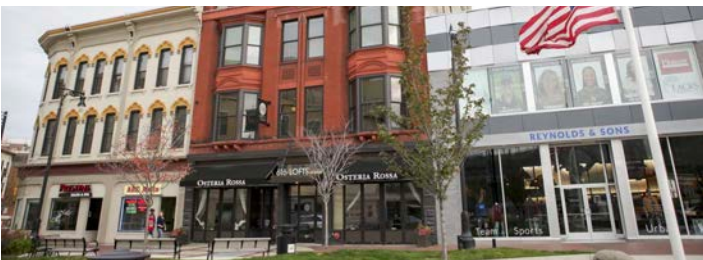


4300 36th Street SE
Leased | 138,421 SF | \$4.25/SF, NNN



2815 Remico Street SW, Grandville
Leased | 40,000 SF | \$3.30/SF, NNN

RETAIL



16 Monroe Center Street, Grand Rapids
Leased | 3,200 SF | \$24.75/SF, Modified Gross



465 Fuller Avenue NE
Leased | 3,542 SF | \$20.00/SF, NNN



1140 Monroe Avenue NW, Grand Rapids
Sold | 45,417 SF | \$5,170,000



2844 Thornapple River Drive SE, Grand Rapids
Sold | 2,752 SF | \$550,000

OFFICE



1657 Gezon Parkway SW, Wyoming
Leased | 8,543 SF | \$19.50/SF, NNN



10717 Adams Street, Holland
Sold | 132,127 SF | \$7,000,000



3333 Deposit Drive NE, Grand Rapids
Leased | 4,442 SF | \$18.25/SF, Gross



3737 E Coolidge Road, Lansing
Sold | 28,000 SF | \$3,200,000

INVESTMENT



4165 Prairie Street SW, Grandville
Sold | 4,500 SF | \$585,000



701 68th Street SW, Cutlerville
Sold | 185,649 SF | Undisclosed



Shops at Centerpoint
Sold | 774,137 SF | \$63,500,000



3516 Roger B Chaffee Memorial Blvd SE, Grand Rapids
Sold | 159,600 SF | \$10,975,000

#OurTeam>Your Advantage

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

616 327 2800
www.AdvantageCRE.com

