



THIRD QUARTER
MARKET UPDATE

THIRD QUARTER MARKET UPDATE



Trends throughout the world are shifting rapidly, causing a ripple effect that can be felt throughout every sector of the country and our local community. Record high inflation, supply chain issues, and challenges with employment and wages are hot topics that fill most of our news channels. In Q3, we saw each of these trends impact our clients and the commercial real estate market. Now, heading into the fourth quarter, we are tracking these challenges to provide predictions for our clients and their businesses.



RETAIL

MARKET UPDATE

“Slow and steady” is the overall theme of the retail market in West Michigan. There is no question this sector of our market has been the most impacted by major trends happening around the world. Restaurants and retailers are experiencing a record low number of employees and a significant lack of high demand inventory. Because of this, some essential retailers are scaling back, pausing expansion plans due to the lack of employees. Many are attempting to get the help needed by offering sign-on bonuses and pay increases, while corporations are trying to come up with creative solutions to the inventory challenge.

In the third quarter, quite a few notable trends emerged within the retail sector of the commercial real estate market. The main retail corridors throughout West Michigan experienced a significant amount of activity. Because of this, gas stations, quick service restaurants, automotive supply and dollar stores are now paying record prices for sites within those key areas, like the 28th Street SE corridor and Alpine Avenue. We expect redevelopment in those areas to continue into the fourth quarter and next year. There was also an uptick in back-to-school shopping in the third quarter, as schools around the country re-opened post-pandemic. Deloitte found that 74% of shoppers went to mass merchants for their needs.

Since the pandemic hit, we have continued to see patterns of change in the retail market. A trend being closely tracked is a possible change in shopping habits among consumers. Retailers are noticing high volume consumer spending in

each store visit, instead of spreading out spending over the span of several days. This emerging trend means shoppers are spending most of their time near “main and main,” as it offers the most variety of stores.

As we head into the fourth quarter, retailers will shift focus from expansion to holiday shopping, hoping for strong sales to indicate positive growth. With the major supply chain issues felt globally, retailers are struggling to guarantee delivery of goods by the holidays. This factor may substantially change consumer habits and we may see an uptick in travel spending, as families choose to forgo their typical holiday gifts.

Many topics of conversation have been centered around what the future is for the various sectors of commercial real estate. While there are many important trends to be watching across property types, retail continues to face the most instability, as it experiences the highs and lows of the market. Retailers and restaurants face a much larger risk of going dark, due to the employee and inventory shortages. The retail sector will likely see more change the landscape in West Michigan, and we are closely watching all aspects of this specialty heading into the next two months.

The fourth quarter will be analyzed and dissected to glean insight from the global economy, as it also deals with shipping, delivery, production, and employment issues.

\$13.28
PSF | NNN

**WEIGHTED AVERAGE
ASKING RATES**

NOTABLE TRANSACTIONS

Address	Type	Size	Close Date
4089 Alpine Avenue NW, Comstock Park	Sale	17,634 SF	9/2/2021
3128 28th Street SE, Kentwood	Sale	5,000 SF	8/11/2021
601 Bond Avenue NW, Grand Rapids	Lease	2,139 SF	8/23/2021
3845 Rivertown Parkway, Grandville	Lease	2,700 SF	8/13/2021



Very little has changed regarding uncertainty for the future of the office market. “Wait and see” is the general tone for both landlords and tenants, as it is too soon to tell exactly what will happen in the next two months.

In the third quarter we saw an increase in activity, a positive sign after having a quiet first and second quarter. Downtown Grand Rapids is becoming busy again, with increased traffic around town and office parking lots filling up, a substantial change from six months ago. Despite that increase, office activity downtown is quiet, a trend we did not see pre-pandemic. Because of this, most activity has been in the suburban market. As businesses struggle to predict what the next quarter will hold, reduction in overhead cost, flexibility, lower rental rates, and free on-site parking are a few of the amenities attracting tenants outside of the downtown core. In addition to suburban activity, shorter term leases are being sought as the office market decides what it is going to be in the future. However, the increased cost of materials and labor, along with the extended lead times are making shorter term leases more difficult for Landlords to provide market rate tenant improvement packages.

Throughout the quarter, we continued to see shifts in the way businesses are operating as a result of the pandemic. With the rise in Delta Variant cases, businesses planning to bring back employees in September are now looking to January 2022 as their target date. Companies that have opened their doors to employees are looking for creative ways to bring them back in the office, by either adapting to

a hybrid work schedule model or re-designing their space all together. There are, however, Tenants that are looking to sublease their space, or shift into smaller suites within their office building to cut down on costs and to “wait and see” how the landscape of the office market transforms.

Going forward, there are certain industries that believe they will no longer have a need for office space. In West Michigan specifically, some businesses are completely changing their normal operations, which could pose challenges with building company culture for those going entirely remote. As businesses hire employees they have never met, potential issues come into play as a company begins to build rapport among employees, on-board, mentor, and train them. We are experiencing a new normal we have yet to see in our market, where college graduates are getting into the workforce without ever meeting their team in person. How will companies handle this new normal? Will the future of business culture, collaboration, and camaraderie be challenged? These trends could entirely change the landscape of the office market, but the results of operational shifts have yet to be seen.

As we head into the fourth quarter, activity and rental rates will remain stable, with quality office product still scarce. Businesses will continue to watch national, regional and local trends, in hopes of getting out of the “wait and see” mentality and back to a more sense of normality mentality.

CBD
\$19.96
SUBURBAN
\$13.33
PSF | MOD GROSS

**WEIGHTED AVERAGE
ASKING RATES**

NOTABLE TRANSACTIONS

Address	Type	Size	Close Date
301 Leonard Street NE, Grand Rapids	Sale	31,138 SF	8/17/2021
3210 Eagle Run Drive NE, Grand Rapids	Sale	22,680 SF	8/31/2021
333 Bridge Street SE, Grand Rapids	Lease	63,000 SF	Renewal
3333 Deposit Drive NE	Lease	6,800 SF	Off-Market

INDUSTRIAL

MARKET UPDATE

There is no question that the hottest sector in commercial real estate is industrial. Over the last several years this property type has flourished and played a vital role in the continued development of West Michigan's economy. Every submarket is experiencing record high demand, amid constrained supply for industrial space, mirroring trends we are seeing across the country, in markets both large and small. In order to meet this consistently strong demand for new, high quality industrial space, there are over 35 new construction projects being built or just recently completed with several more planned. An additional challenge users and developers alike are facing is the expanded lead times for steel and other building materials, causing completion dates to be delayed and projects repriced, which furthers the turbulence so many are experiencing when exploring new space options.

In response to these higher land and construction costs, as well as the low inventory environment, rental rates continue to accelerate, specifically for newer, modern warehousing space. Weighted average rental rates currently sit at \$4.79/SF, up 13% from last year. These higher rental rates so far have not dissuaded tenants from upgrading or expanding

their space in order to serve their customers. The higher rental rates we're experiencing in West Michigan are one small example of how inflation eventually reaches the consumer, with the majority of the increases in companies overhead passed on in the form of higher prices.

The ripple effects of the pandemic and subsequent shutdowns continue to affect global supply chains, causing havoc behind the scenes, from companies relying on global networks all the way down to one person service companies. Most of the world's largest manufacturing companies have been operating on a "just in time" production model for more than the past two decades in order to drive down costs. This model works well so long as there are only minor and distinct interruptions that can be remedied in short order. The current issues are so widespread they are touching nearly every industry and consumer in some way. It remains to be seen if the negative feedback loop hampering manufacturing, distribution, transportation, and their corresponding labor can be slowly smoothed out. If not, these millions of broker interactions could continue to amplify on each other for some time to come.

SPEC BUILDINGS

4090 40th St SE	Completed
1250 60th St SE	Completed
4670 60th St SE	Completed
5680 Kraft Ave SE	Completed
3220 Northridge Dr NW	Proposed
8104 Belmont Ave NE	Proposed

5505 Patterson Ave SE	Proposed
3174 4 Mile Rd NW	Under Construction
3501 Fruit Ridge Ave NW	Under Construction
2853 Northridge Dr NW	Under Construction
3195 Northridge Dr NW	Under Construction
5120 East Paris Ave SE	Under Construction

\$4.79
PSF | NNN

**WEIGHTED AVERAGE
ASKING RATES**

NOTABLE TRANSACTIONS

Address	Type	Size	Close Date
5010 52nd Street SE, Grand Rapids	Sale	160,996 SF	9/24/2021
3100 Walker Ridge Road NW, Grand Rapids	Sale	235,963 SF	9/24/2021
3500 Kraft Avenue SE, Grand Rapids	Lease	8,300 SF	Off-Market
4317 Airwest Drive SE, Kentwood	Lease	10,000 SF	8/27/2021



Investment commercial real estate plays a vital role in the overall U.S. economy. In this post-pandemic era, some investors may think the current market is primed for opportunity, however the investment sector remains hyper competitive.

In Q3, the market continued to grow quickly, which was a result of record low interest rates and inflationary pressures. We continued to see more demand than ever before, creating strong competition on the limited investment opportunities available for commercial properties. Investors ready to purchase are facing barriers and delays with such a limited number of sellers in the market. We have also seen an abundance of capital for specific types of investments, including multifamily and industrial, a theme we fully expect in the fourth quarter and 2022.

There is growing concern over rent escalations as inflation continues to rise. The cash flow to an investor from assets

in the long-term will be challenging, especially in such a volatile market. This trend directly impacts all sectors of commercial real estate, so we are tracking this closely to gain a better understanding of what 2022 could bring.

Heading into the fourth quarter, watching investor behavior will be critical to understand how trends will pan out. Since our market has experienced the longest period of economic growth, many investors have growing concerns of a potential downturn. This may change investing patterns and the specific amount of capital being invested into various sectors of West Michigan.

We expect most of the trends from the third quarter to remain status quo in the fourth quarter and into 2022. While real estate fundamentals remain solid, investors continue to watch outside factors such as the cost and overall shortage of labor, and the potential effects it can have on the economy.

INVESTOR FOCUS

- Leases incorporating annual increases, ideally based on CPI-U
- Focus on cost basis vs cost of construction with less emphasis on lease term
- Low vacancy and accelerated market lease rates create upside value through re-tenanting buildings, specifically in industrial
- Investors are evaluating portfolios and re-issuing long-term debt at low interest rates

NOTABLE TRANSACTIONS

Address	Type	Size	CAP Rate	Close Date
3128 28th Street SE, Kentwood	Retail	5,000 SF	7.71%	8/11/2021
3686 32nd Avenue, Jamestown	Retail	11,233 SF	7.50%	8/31/2021
3275 Kraft Avenue SE, Grand Rapids	Industrial	64,500 SF	7.86%	6/4/2021



LAND

MARKET UPDATE

Over the past 10 years the Greater Grand Rapids market has seen a flurry of land acquisition and development activity. Land parcels have been steadily absorbed and we are now at a point where it is very difficult to find new sites. With historically low vacancy rates in all commercial categories, new companies that want to expand have no choice but to build new if they want to grow their business.

RETAIL LAND

With the change in shopping patterns from the growth of online sales, the retail market has had to adjust over the last few years. Since retail site selection is driven primarily by demographics and traffic counts, most of the land sites are in established corridors that have already been developed, thus a lot of the “new land sites” are redevelopment sites. However, there are land sites available at new interchanges and in more rural locations. Retail users acquiring those, especially gas stations, car washes and fast food/casual related users. We expect this trend to continue as the growth of Grand Rapids continues.

OFFICE LAND

The office market is still trying to stabilize from COVID-19. Because of this, office users are purchasing land due to uncertainty that still exists. There are some smaller users that are buying vacant land sites and building, some of which are trying to take advantage of the low interest rate environment. There are ample office sites throughout the Grand Rapids market that remain available, but there are

some constraints in active corridors.

INDUSTRIAL LAND

The Industrial market is without a doubt the most active vacant land product type. There is an abundance of users and developers looking for vacant land throughout West Michigan. There are a lot of challenges and restraints in the industrial vacant land market because we are running out of available land parcels. There are also several larger users (like Amazon) that are buying up large tracks of land for their use and looking for more. As this continues in the future, we will need to develop additional industrial parks or there will be serious industrial vacant land restraints.

MULTI-FAMILY | RESIDENTIAL DEVELOPMENT LAND

The Grand Rapids residential market is still playing catch up in all product types. There are active developers both local and national that are scouring the market looking for sites to build apartments, assisted living facilities, as well as all residential housing types. Moving forward we expect this to continue, as we make up for the lack of construction from the recession 10 years ago.

Moving forward the land market will continue to be challenging because there are very few sites that are zoned appropriately for commercial uses that have municipal sewer and water available. It will be imperative that new large-scale projects get entitled and developed in the near future or many sector of the commercial real estate market will be forced to slow, primarily because of the inability to expand and the lack of new vacant land parcels.

NOTABLE TRANSACTIONS

Address	Type	Size
4495 68th Street SE, Grand Rapids	Industrial	173.98 Acres
3060 S Industrial Drive NW, Walker	Industrial	31.61 Acres
3300 East Beltline Avenue NE, Grand Rapids	Multi-Family	7.65 Acres



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