

2023 SECOND QUARTER

# MARKET TRENDS REPORT



**ADVANTAGE**  
COMMERCIAL REAL ESTATE

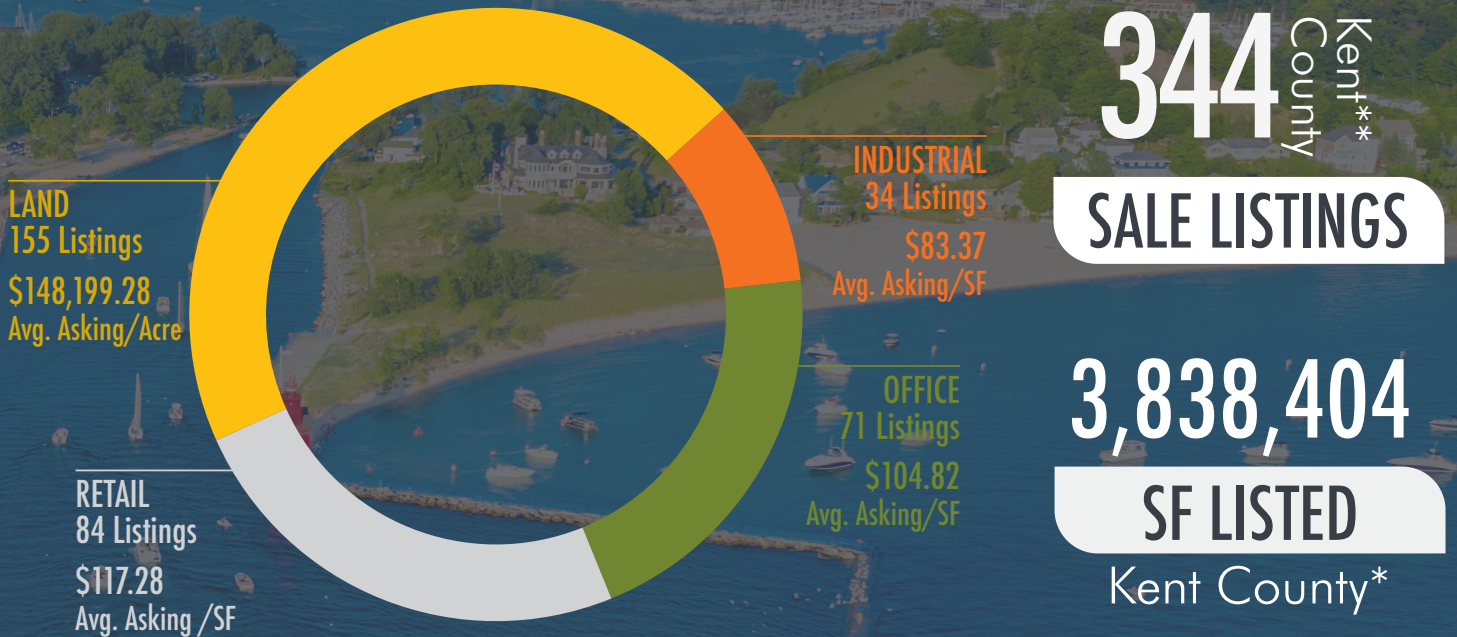
# WEST MICHIGAN MARKET

The West Michigan market has been changing since the beginning of the year, raising concerns across office, retail, industrial, land, and investment sectors. This quarter, Downtown Grand Rapids and the CBD have become focal points of amplified concerns. Until resolved, these challenges will impact both office and retail markets. The industrial market remains active, but rising rates coupled with construction and labor costs are significantly affecting project expenses for industrial users in West Michigan. Economic uncertainty is prompting caution among investors in the investment sector and capital markets. High interest rates are increasing the cost of capital, and few sellers are willing to lower property values. Developers looking to purchase land face inconsistency in zoning and municipal approvals, causing a stand-still in the land market throughout West Michigan.

While these recent trends are concerning, it's essential to recognize the potential for positive change. With well-crafted city and municipal proposals, strategic planning, innovative thinkers introducing fresh ideas, and bold developers willing to take risk, we can maintain the trajectory set out for the City of Grand Rapids decades ago. West Michigan has consistently demonstrated resilience and has been a magnet for regional and national companies. Regardless of the challenges that may arise in the upcoming quarter, we have confidence in the capable leaders within our local market who will drive significant transformative and sustained growth.

# MARKET BY THE NUMBERS

AS LISTED ON COMMERCIAL ALLIANCE OF REALTORS WEST MICHIGAN



**8,612,857**  
**SF LISTED**  
Kent County\*

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

# INDUSTRIAL MARKET

**\$6.59**  
NNN

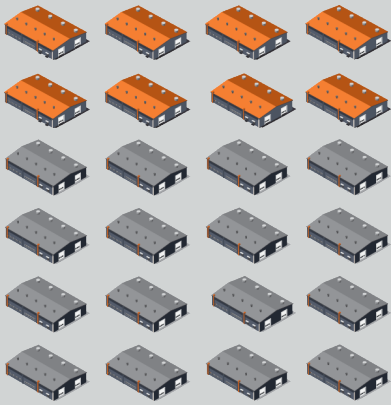
WEIGHTED AVERAGE  
LEASE RATE/SF

**1.60%**

VACANCY RATE  
KENT & OTTAWA COUNTY

## WEST MICHIGAN INDUSTRIAL SUBLEASE SPACE

Source: Commercial Alliance of Realtors West Michigan (CARWM)

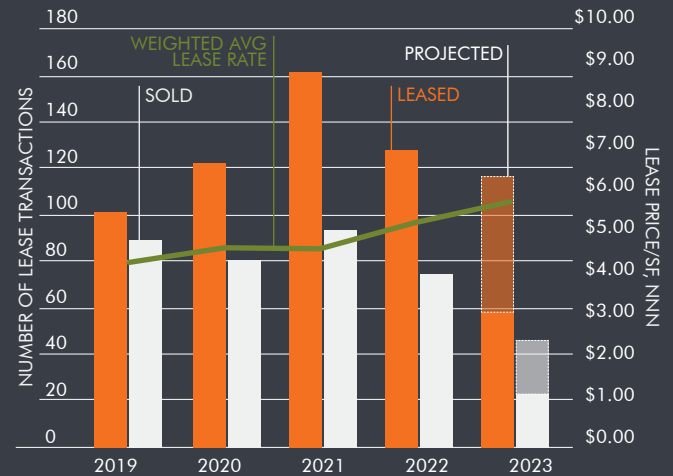


THESE BUILDINGS REPRESENT  
**272,074 SF**  
SUBLEASE SPACE ABSORBED IN  
SECOND QUARTER 2023

ALL BUILDINGS REPRESENT  
**805,178 SF**  
SUBLEASE LISTINGS  
AS OF 4/1/2023

## KENT COUNTY INDUSTRIAL TRANSACTIONS

Source: Commercial Alliance of Realtors West Michigan (CARWM)



In the second quarter, the West Michigan industrial sector remained a tight market. Although demand has slowed down, the effects of the previously active market are still noticeable. National tenants continue to show keen interest in the region, signaling promising signs for West Michigan. Lease rates have continued to rise in Q2 due to factors such as interest rates, construction costs, and land availability. Nationally, these high levels of demand are driven by the continuing rise in manufacturing. In a capital market update, Merrill Bank of America, believes that the U.S. is on the cusp of a manufacturing super cycle that should maintain U.S. manufacturing primacy well into the future.

### What factors have had significant effect on the industrial market?

Several factors have significantly influenced the industrial market. Throughout the second quarter, interest rates have continued to rise, although it is expected rates are approaching their near-term peak. Despite these rising rates, industrial users have remained more active than one might think. The impact of these interest rates are primarily felt on the investment side of the industrial sector.

Furthermore, construction costs continue to rise and are now playing a crucial role in determining rates, mirroring trends observed across the country. The increase in construction costs can be attributed to various factors including labor, materials, and interest rates. With a high demand for skilled labor, general contractors have been compelled to offer

higher wages and benefits, substantially affecting project costs. Additionally, building material prices have risen in recent years, influenced by national disasters, interest rates, labor & raw material costs, and government tariffs.

One notable trend has been the increased activity in sublease space. As the supply of new space stays low, companies look to absorb current space through subleasing. This surge is reflected in the absorption of sublease space over the past few months. At the beginning of this quarter, there was 805,178 SF of sublease space listed, but since then, 272,074 SF has been absorbed. This level of sublease absorption is truly remarkable, especially when compared to previous sublease reports. Over the past two years, excluding this quarter, only 203,557 SF of sublease transactions were reported, further highlighting the significance of this quarter's numbers.

### Where is demand, in the industrial market?

In terms of demand, the industrial market is beginning to slow down. This trend should not be a cause for significant concern when considering the context. In recent years, the West Michigan market has witnessed remarkable growth, and the current deceleration represents a transition to more normal growth rates. Presently, demand primarily revolves around newer spaces, with strong interest from large national and regional tenants who can afford to overlook factors that might discourage smaller tenants. If overall demand continues to decline, landlords and sellers may need to adopt more competitive pricing strategies.

## What is the current state of Downtown Grand Rapids?

As we move past the second quarter of 2023, the Central Business District (CBD) in Grand Rapids continues to exhibit minimal signs of improvement. With a high vacancy rate and mounting challenges, it can be difficult to maintain a sense of optimism. The departure of companies from their CBD offices has created a ripple effect downtown. The presence of office users plays a crucial role in sustaining the health of downtown, and retailers are grappling with the lack of consistent consumerism. So, what steps are necessary to revitalize the downtown office market? First and foremost, downtown needs to become attractive again. Tenants want attractive office space; which means property owners need to improve their outdated vacant spaces with new amenities or offer appealing tenant improvement packages. Additionally, introducing a catalyst could significantly improve downtown. Fortunately, there is hope in this regard, with the proposed development of an amphitheater at 201 Market Avenue and discussions about a soccer stadium west of the Grand River, off Pearl Street. These potential projects offer promising opportunities to help revitalize the city again. Despite the current challenges facing downtown, there has been some activity this quarter, particularly from the northwest side and the areas just north of the Grand Rapids' Medical Mile. Overall, there is still interest in proximity to downtown, even if businesses are not yet prepared to relocate there. While this area unquestionably faces struggles, there are pathways to progress and opportunities for what it was pre-COVID.

## Where are office users currently looking to be?

Despite the ongoing issues in downtown Grand Rapids, there is still activity in the office market. We have witnessed an increase in leasing activity as more spaces become available on the market. While there may be fewer companies seeking to establish themselves directly in downtown, there is still a demand for proximity to the area. The Corewell Health expansion on the north side of downtown is expected to have a significant impact on the market. Although the exact extent of this change remains uncertain, we are eagerly anticipating its effects. The trend for smaller offices has persisted in this quarter, with a rise in leases for spaces ranging from 2,000 to 5,000 square feet. This aligns with the current preference of many businesses which seek to provide an office for employees who enjoy working in a physical workspace, while still accommodating those who prefer to work from home. As many existing lease agreements are approaching their renewal notices in the coming months, we anticipate continued leasing of smaller offices. It's positive that there is still movement in the West Michigan office market with increased activity in other areas of the city and a continued upsurge in smaller office spaces.

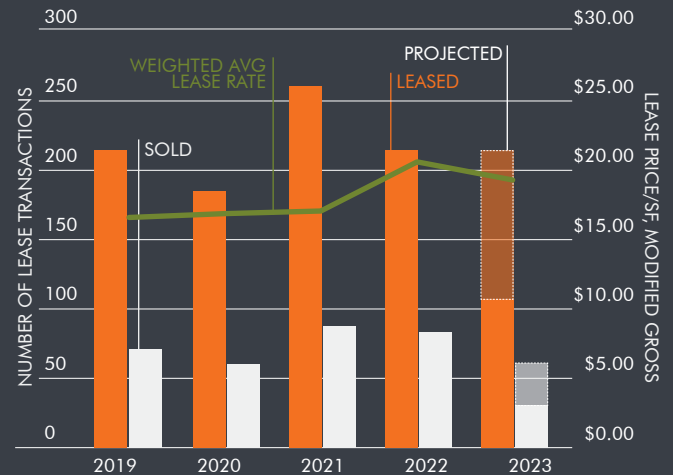
# OFFICE MARKET

**\$17.44**  
SUBURBAN  
**\$20.75**  
CBD

WEIGHTED AVERAGE  
LEASE RATES/SF  
MODIFIED GROSS

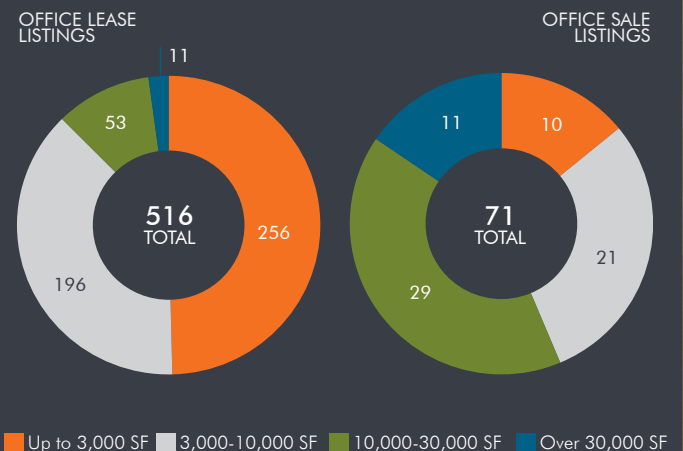
## KENT COUNTY OFFICE TRANSACTIONS

Source: Commercial Alliance of Realtors West Michigan (CARWM)



## WEST MICHIGAN OFFICE LISTINGS BY SIZE

Source: Commercial Alliance of Realtors West Michigan (CARWM)

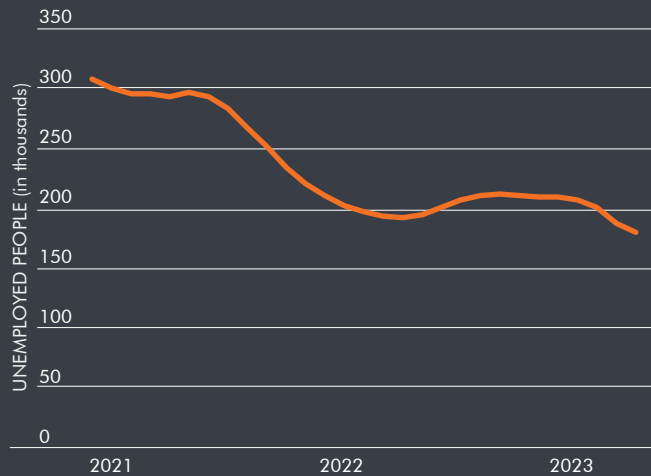


# RETAIL MARKET

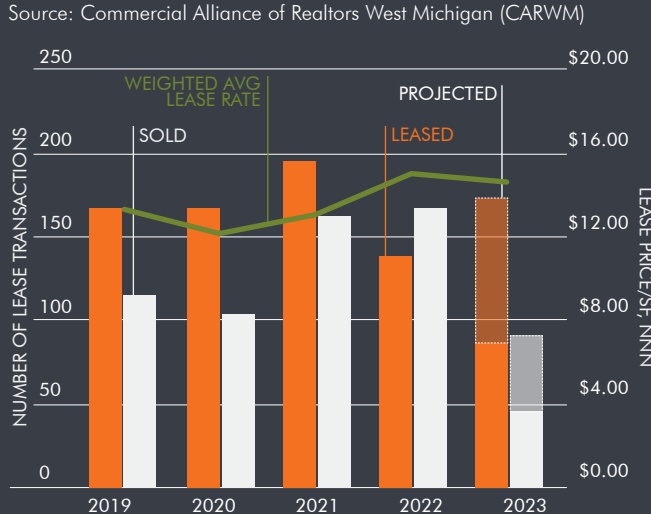
**\$15.21**  
NNN

WEIGHTED AVERAGE  
LEASE RATE/SF

**MICHIGAN UNEMPLOYMENT**  
Source: U.S. Bureau of Labor Statistics



**KENT COUNTY RETAIL TRANSACTIONS**  
Source: Commercial Alliance of Realtors West Michigan (CARWM)



## Can the challenges in the CBD be solved?

During the second quarter, there was a notable increase in discussions with potential tenants seeking to lease space. Many retailers are eager to secure leases to ensure they can open their doors by the end of the year. It's not just local tenants showing interest in retail space; the West Michigan area has been drawing notice from national retailers and restaurants. These national brands are actively pursuing opportunities to establish a presence in the region, and we anticipate their arrival in the near future. The state of downtown is still a concern for the retail market as there continues to be closures, but that's not to say retail isn't finding its place within the city. There has been activity in many of the pockets around downtown, with six new openings in the CBD this year, and two of those happening in the second quarter, along with thirteen new businesses planning to open soon. Unfortunately, there are some concerns impacting the market at present. The ongoing labor shortages experienced nationwide are also affecting West Michigan. This has led to daytime closures, adding to the challenges associated with the declining office presence in the CBD. Outside of downtown, the lack of available space for desirable tenants poses an issue, potentially causing area saving tenants to consider other markets. Overall, the market remains active, albeit with a slight summer slowdown that follows a typical seasonal trend. Deals are being finalized, and West Michigan continues to solidify its position as an attractive destination for both local and national tenants.

## Indoor malls, outdoor malls, and retail corridors. Where is retail thriving?

Retail thrives when it is surrounded by other retail and restaurants, which is why retail markets often focus on central points like indoor and outdoor malls, as well as retail corridors. In the second quarter, users started vacating regional indoor malls and seeking space in the growing retail corridors. Consumers have shown a preference for retailers located in outdoor environments, such as outdoor malls and outlets like Tanger. However, certain indoor malls are working to combat this trend. Woodland Mall, for instance, continues to open new attractions to create more foot traffic. Nevertheless, some indoor malls are experiencing a domino effect, wherein if one store relocates outside the mall, others may be inclined to follow suit. When it comes to healthy retail corridors in West Michigan, there are plenty of options to choose from. Wealthy Street has been particularly active in the second quarter, drawing attention from both retailers and consumers. Additionally, corridors like 28th Street and East Beltline Avenue, as well as Knapp Street and East Beltline Avenue, have also seen significant activity. These retail corridors have become major focal points for consumers in West Michigan and are popular destinations for those seeking a variety of choices and accessible shopping experiences.

**3.0%**  
JUNE

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

# INVESTMENT MARKET

## Slow deal velocity and impact of interest rates

At the end of Q2, deal velocity in the commercial investment market remained slow. Interest rates remain the biggest factor impacting deal volume. With tenant default low, cashflow of investment properties remain strong. Additionally, many investors have 2-3 years remaining on fixed-rate financing, removing appetite to trade investments in the current market climate. We expect this trend to continue throughout Q3, but are beginning to see an uptick in both investor and user movement in the Commercial Real Estate marketplace since mid-June. The high rates have led to high cost of capital and higher cap rates required by investors, but a lack of sellers willing to provide lower property values. Investors tend to become more selective when risk and financing costs increase. There certainly appears to be a discrepancy in values between buyers and sellers.

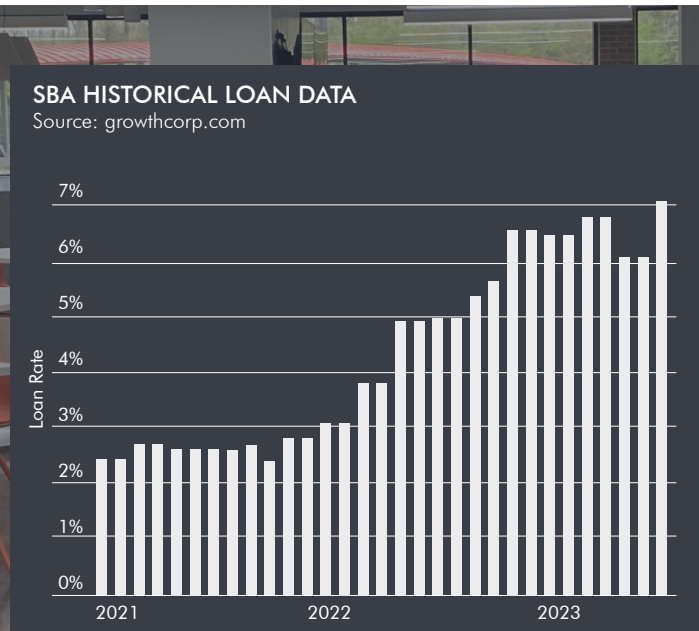
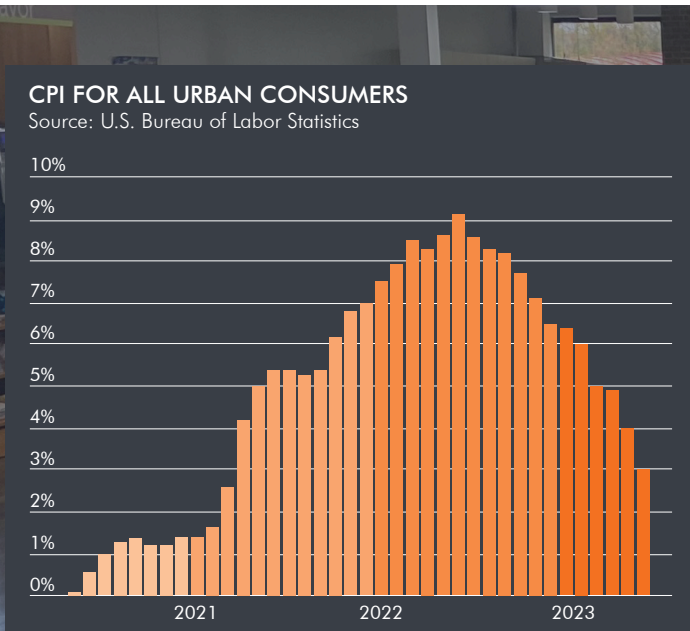
On a macro level, the retail and office product types are carrying the weight of the majority of the distress in assets in the U.S. retail properties distress is mainly concentrated on regional malls, but does appear to be improving slightly. Nationally, the office market is moving in the opposite direction. With the continuation of growing vacancies, rising interest rates, and declining property values throughout major cities, the outlook remains uncertain. This is expected to continue throughout the year as the office market is reported to have more loans maturing than any other property type,

only leading to more potential distress. Despite these macro trends, suburban office space in West Michigan is currently seeing strong demand and occupancy.

## Investment resilience amidst economic uncertainty

Although there is always a reason to sell, the lack of inventory in the investment market can be attributed to landlords' desire to hold onto their assets based on current market conditions. This is especially true if they purchased within the past few years and likely have desirable debt terms. Others may be experiencing a different situation if they have a loan maturing relatively soon forcing a refinance to current market rates.

Despite the prevailing market conditions and lingering rumors of a recession, investment opportunities are still emerging, albeit at a slower pace compared to previous quarters. Investors are exercising caution, carefully evaluating their options, and exploring alternative assets to grow their capital. With the uncertainty surrounding the economic landscape, they are patiently waiting for the right opportunity to arise. The concerns about a potential recession continue to linger, influencing their decision-making process and prompting a more calculated approach to investing. However, amidst these challenges, opportunities exist for those willing to navigate the market diligently. With that said, good investment opportunities move quickly with multiple offers when brought to market.



In the second quarter of 2023, the land market remained stagnant. While there has been discussions in regarding methods to increase the number of projects, including the possibility of offering incentives, so far, no changes have been made; although talk on the matter continues to progress. One notable difference between the West Michigan land market and other markets is the lack of users driving land projects. The absence of users combined with sellers' hesitancy to sell due to uncertainties about their future purchasing options has created a growing gap between buyers and sellers in the market. Despite these challenges, deals are still being completed in the market, even if at a slower pace.

**What are the current challenges in the land market?**

The current land market faces several challenges that need to be addressed. In addition to the growing gap between buyers and sellers, another significant issue is the scarcity of ready-to-build land throughout West Michigan, commonly referred to as greenfield sites. These sites are highly favored by developers and companies due to the relatively lower effort and costs required for development. In contrast, these undesirable sites face even more difficulties in attracting buyers, particularly considering the recent rise in construction costs. The increased construction costs act as a deterrent for smaller industrial developers, further complicating the market. State and City municipalities continue to put developers in a hard place with slow zoning approvals. And the Michigan Department of Environment, Great Lakes, and Energy (EGLE) along with the Michigan Department of Transportation (MDOT) have kept strict regulations making it more difficult for developers to work in a timely manner. Overall, the current land market is grappling with a lack of available greenfield sites, contaminated or undesirable land, increased construction costs, and more stringent regulations.

**Multifamily**

The multifamily sector is experiencing substantial interest in the market. If an adequate supply were available, multifamily projects would play a significant role in land sales. Given the growing need for residential spaces in the Grand Rapids area, prioritizing the availability of sites for multifamily development should be essential.

**Industrial**

The industrial sector continues to demonstrate a strong demand for land, primarily driven by the need for new buildings.

**Office**

The office market remains relatively stagnant in terms of land demand. The office sector is currently experiencing a large uptick in available existing space. This high supply of existing space has almost completely removed any interest in building brand new space from the ground up.

**Retail**

Retail does have interest in the market, unfortunately there isn't much desirable land in the current retail corridors. Much of the current land available in the existing corridors is currently not worth the money to develop it.

# LAND MARKET

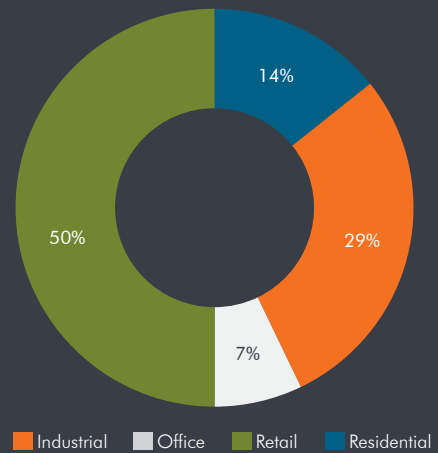
**\$210,518**  
PER ACRE

AVERAGE  
SALE PRICE/ACRE

**14 LAND SALES**  
SECOND QUARTER 2023

**Q2 LAND SALES BY SUBTYPE**

Source: Commercial Alliance of Realtors West Michigan (CARWM)





# NOTABLE TRANSACTIONS

## LAND



2160 Celebration Drive NE, Grand Rapids  
Sold | 3.07 Acres | \$1,895,000



2000 Northridge Drive NW, Grand Rapids  
Sold | 2.1 Acres | \$300,000



961 Bridge Street NW, Grand Rapids  
Sold | 0.19 Acres | \$170,500



5380 Lake Michigan Avenue, Allendale  
Sold | 2.4 Acres | \$900,00

## INDUSTRIAL



2151 Beverly Avenue SW, Wyoming  
Sold | 25,980 SF | \$2,200,000



6155 East Paris Avenue SE, Caledonia  
Leased | 16,364 SF | \$7.95/SF, NNN



5275 68th Street SE, Caledonia  
Leased | 25,920 SF | \$7.00/SF, NNN



3620 Mill Creek Avenue NW, Comstock Park  
Sold | 8,578 SF | \$662,500

# NOTABLE TRANSACTIONS

## OFFICE



7437 River Street SE, Ada  
 Leased | 5,963 SF | \$20.00/SF, Modified Gross



5651 Byron Center Ave SW, Wyoming  
 Leased | 12,375 SF | \$20.00/SF, Modified Gross



6735 Cascade Road SE, Grand Rapids  
 Sold | 15,012 SF | \$1,870,000



25 Ottawa Avenue SW, Grand Rapids  
 Leased | 15,738 SF | \$25.00/SF, Modified Gross

## RETAIL



6539 28th Street SE, Grand Rapids  
 Sold | 2,450 SF | \$795,000



888 Forest Hills Avenue SE, Grand Rapids  
 Leased | 3,800 SF | \$15.00/SF, NNN



2100 East Beltline Avenue NE, Grand Rapids  
 Leased | 2,353 SF | \$26.00/SF, NNN



700 Wealthy Street SE  
 Sold | 1,984 SF | \$715,000

## INVESTMENT



422 Leonard Street NW, Grand Rapids  
Sold | 15,000 SF | \$1,145,000



2244 Porter Street SW, Wyoming  
Sold | 11,825 SF | 1.41 Acres | \$650,000



1615 Broadway Avenue NW, Grand Rapids  
Sold | 68,407 SF | \$2,951,000



4782 44th Street SE, Kentwood  
Sold | 20,130 SF | \$2,725,000

## Featured Listing

Eastwood Towne Center is known for its exceptional selection of retailers, restaurants, hotels, apartments, and future entertainment options. 20 sites are available for sale, in and around this premier retail power center in Lansing. The portfolio of sites for sale includes a mixture of both vacant land and existing buildings, making it an ideal opportunity to own or develop any one of these retail, land, industrial, or development properties.

Visit [www.AdvantageCRE.com](http://www.AdvantageCRE.com) for more information on all of our listings.



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