2023 THIRD QUARTER

MARKET TRENDS REPORT

ADVANTAGE
COMMERCIAL REAL ESTATE

LETTER FROM THE CEO

As we delve into the insights of West Michigan's commercial real estate landscape for the third quarter of 2023, I want to thank you for your partnership, which fuels our commitment to providing the most insightful market analysis.

The past quarter has seen our market navigate challenges – from shifting interest rates to limited property availability and economic uncertainties. Yet, within these challenges, there remains opportunity.

Looking ahead, it is important to acknowledge that the market will appear different in 2024. However, far from being an obstacle, this change presents a unique opportunity to redefine how we perceive, approach, and embrace the evolving commercial real estate landscape. Change is not a hindrance; it's a catalyst for innovation and growth, creating opportunities.

This report is more than just data and trends; it's a testament to our shared commitment to understanding the nuances of our local real estate market. I encourage you to read these pages with optimism. In every trend, there's a thread of opportunity waiting to be discovered, and I believe that your insights and instincts, coupled with our expertise, will lead to remarkable outcomes amid uncertainty.

Our team of advisors is not just here to provide you with information; we're here to be your market experts, and partners in making the most out of every opportunity that comes your way.

Thank you for being an essential part of our story and the West Michigan community. We look forward to discussing these insights with you and exploring the possibilities that lie ahead.

John Kuiper SIOR, CCIM
Advantage Commercial Real Estate
Partner | CEO | Broker | Industrial

OFFICE MARKET

The office market in the third quarter of has carried forward the ongoing pattern of uncertainty. This hesitancy is well-founded, as Central Business Districts nationwide have faced substantial challenges. By the end of August, the national vacancy rate had climbed to 17.5%, representing a noticeable uptick from 15.7% recorded at the end of 2022. The non-renewal of leases is driving this upward trajectory in vacancy rates as they expire, and this trend is mirrored at the local level, where there has been a notable surge in available office space.

The uncertainty at the national and local level has brought significant changes to the office landscape, particularly impacting property appraisals and covenants. Appraisers now value office buildings at levels lower than their previous market worth. A few major factors contributing to this are vacancies in the market as well as the potential risk in office transactions. As long as both these rates stay high, appraisers will continue to adjust their valuation of office properties accordingly. National lenders often associate West Michigan with larger more volatile markets, inaccurately perceiving it as higher risk. The reality is our insulated market presents lower risks than these broader, fluctuating counterparts. This has caused them to consider lending into our market a higher risk than what is reality.

Where are deals getting done and where is the standard heading?

Despite challenges facing the office sector, there are some positive aspects to consider. Notably, deals are still being executed in the market. However, these transactions are increasingly focused on the quality and type of office space available. Many spaces currently on the market are outdated, and demand for both modern in-office amenities and hybrid work continues, forcing owners to adapt to the evolving landscape.

Currently, closed deals belong to one of two distinct categories. The first category is newer, high-quality Class A spaces that continue to enjoy high demand. The second involves landlords enticing tenants with tenant improvement packages, which enable them to make upgrades and customize their spaces. This flexibility in customization has become an attractive selling point for both landlords and tenants.

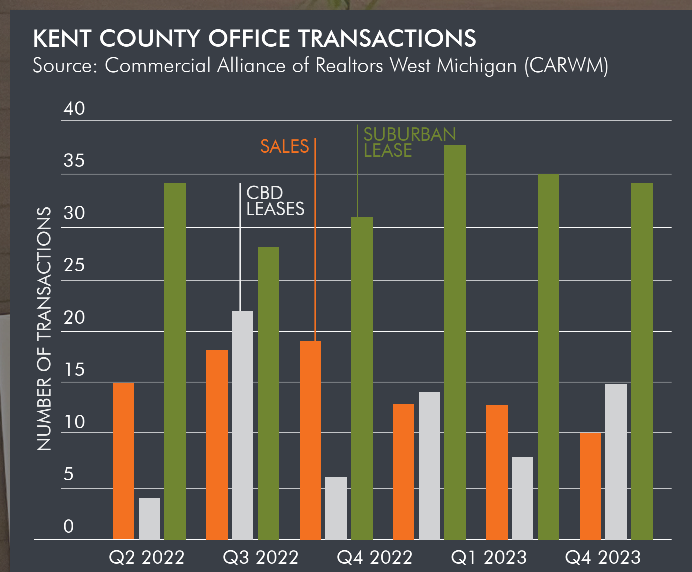
In tandem with these trends, there is a shift toward downsizing. With more employees choosing remote work, companies are downsizing their office footprints and relocating to these newer, more efficient spaces.

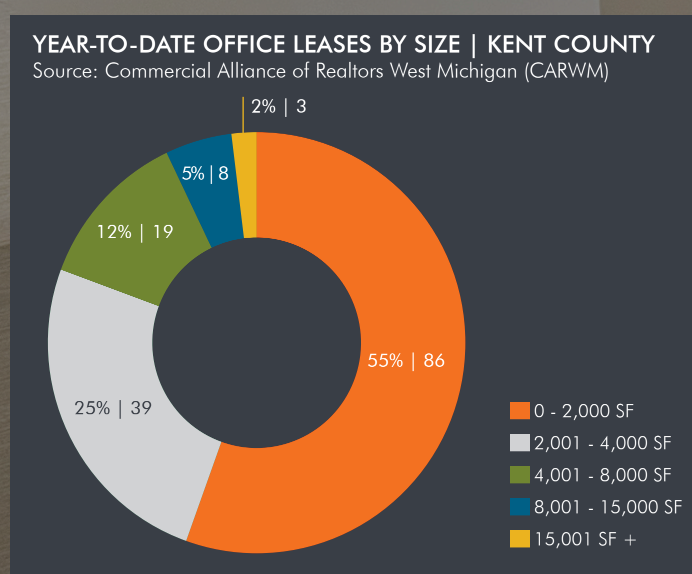
In the evolving landscape, it's clear that hybrid office spaces, with their enhanced flexibility and periodic office visits, are poised to redefine the standard, making them a strategic focus for forward-thinking landlords and property owners investing in upgrading and modernizing office spaces.

$16.12
SUBURBAN

$21.33
CBD

WEIGHTED AVERAGE
LEASE RATES/SF
MODIFIED GROSS





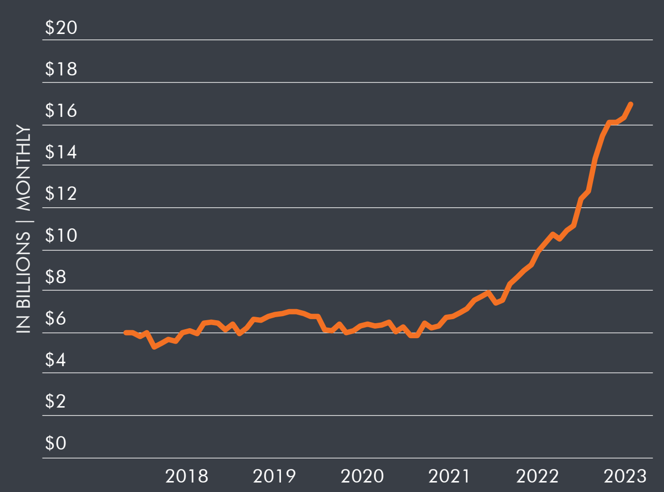
INDUSTRIAL MARKET

$5.93* NNN WEIGHTED AVERAGE LEASE RATE/SF

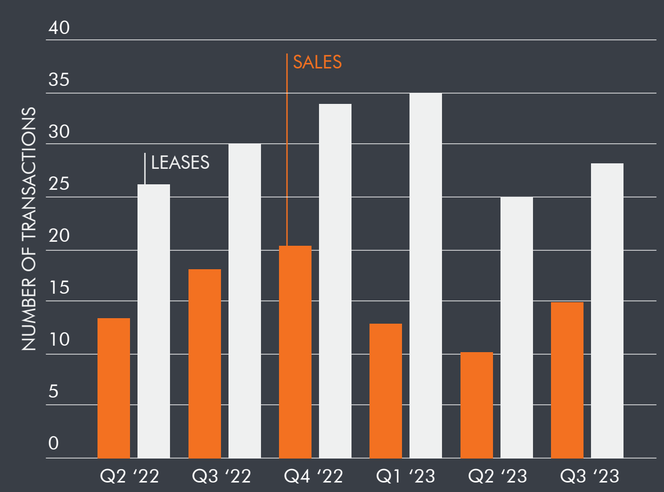
1.2% VACANCY RATE KENT & OTTAWA COUNTY

* Lower rate due to fewer new construction spaces being absorbed in Q3 2023

TOTAL CONSTRUCTION SPENDING: U.S. MANUFACTURING
Source: Fred Economic Data



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



The industrial market remained stable in the third quarter, mirroring the trends from the previous quarter. Manufacturing as well as construction related industries continue to drive demand, while rising lease rates and swift sublease absorption persist. Additionally, elevated interest rates have become the new normal, with both users and investors begrudgingly adapting to this reality.

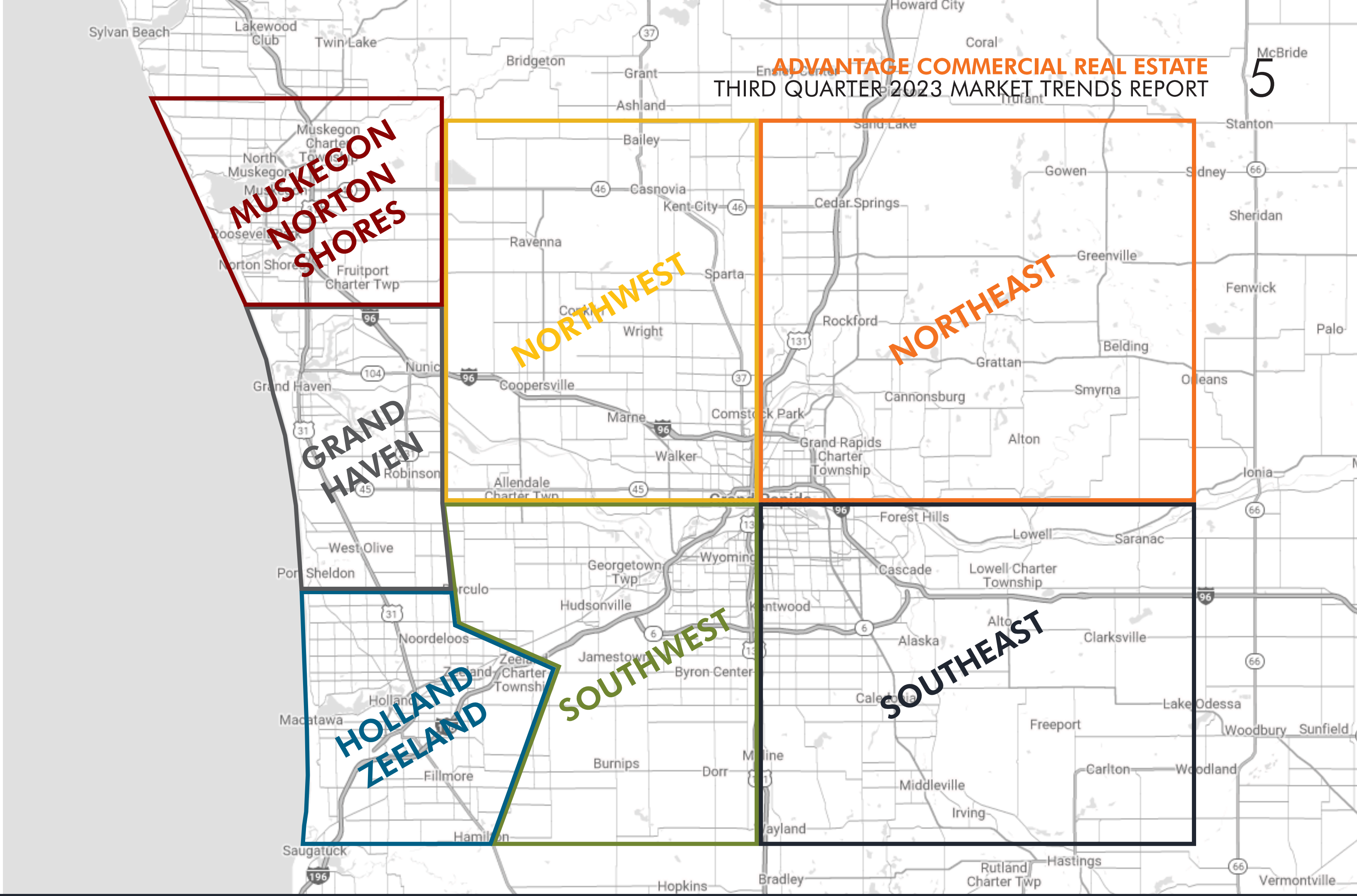
Increased demand for Manufacturing along with its relationship to construction.

In the first half of 2023, we observed a rise in demand for manufacturing space. This is not the case for warehousing space as activity has slowed down over the past year. Locally, we have witnessed substantial demand from national users for new and more specialized manufacturing spaces. However, due to the scarcity of "shovel ready" land and the high construction costs associated with them, these new spaces are proving to be quite costly. Nevertheless, the overall cost of these projects hasn't deterred the national users, as we continue to see new spaces being developed.

This surge in manufacturing capacity is not without its ripple effects. National and multi-national users, who make up the bulk of the demand, can afford higher construction rates compared to smaller local tenants and users. This ability to pay more has consumed a larger share of the supply of construction services, and when paired with material costs and skilled labor shortages, construction rates continue to increase. This trend is not unique to our locality; it is a nationwide issue. According to the Census Bureau and an article by Wolf Street, construction spending for manufacturing plants has surged by 186% in the last 30 months, (January 2021 through July 2023). National tenants consistently drive the demand for construction, fueling increasing construction pricing nationwide, which ultimately drives up lease rates.

Will the UAW Strikes Be a Concern for West Michigan?

Overall, the labor market continues to be historically tight, but a new concern has come up both locally and nationally. The United Auto Workers strikes against the "Big Three" have caused many companies to delay decisions on hiring, expansions, and investment. West Michigan has a lot of tier-two and tier-three suppliers, and the longer and more broadly the strike is implemented, the greater the effect on the local economy will be. However, it's important to note that, aside from the suppliers directly linked to the auto industry, West Michigan's industrial and manufacturing landscape is diversified enough that the overall market is expected to experience only minimal effects. This resilience is due to the wide range of industries that have established a presence in West Michigan. While certain segments of the market may be impacted, the region as a whole is poised to continue its economic consistent economic growth, benefiting from its diversified industrial base.



INDUSTRIAL STATS BY SUBMARKET

5,000 SF and above

	INVENTORY	QUARTERLY TOTAL NET ABSORPTION	YTD TOTAL NET ABSORPTION	TOTAL VACANCY	WEIGHTED AVG ASKING RENT
NORTHEAST	17,795,633 SF	(14,744) SF	30,070 SF	0.5%	$7.76/SF
NORTHWEST	33,860,545 SF	316,704 SF	958,721 SF	0.5%	$5.63/SF
SOUTHEAST	74,768,194 SF	(29,333) SF	558,270 SF	1.4%	$5.44/SF
SOUTHWEST	52,117,223 SF	37,975 SF	567,172 SF	0.8%	$7.28/SF
GREATER GRAND RAPIDS TOTAL	**178,541,595 SF**	**310,602 SF**	**2,114,233 SF**	**1.0%**	**$6.53/SF**
MUSKEGON/NORTON SHORE	22,280,858 SF	(267,008) SF	(120,925) SF	1.8%	$4.82/SF
GRAND HAVEN	14,018,357 SF	(145,188) SF	(184,045) SF	1.9%	$6.76/SF
HOLLAND/ZEELAND	47,378,180 SF	158,048 SF	368,922 SF	1.5%	$6.07/SF
LAKESHORE TOTAL	**83,677,395 SF**	**(254,148) SF**	**63,953 SF**	**1.6%**	**$5.88/SF**
WEST MICHIGAN TOTAL	**262,218,990 SF**	**56,454 SF**	**2,178,185 SF**	**1.2%**	**$6.25/SF**

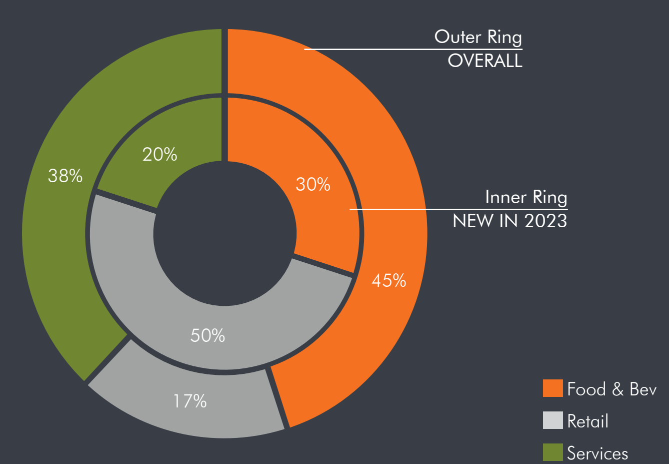
RETAIL MARKET

$15.29 NNN

WEIGHTED AVERAGE LEASE RATE/SF

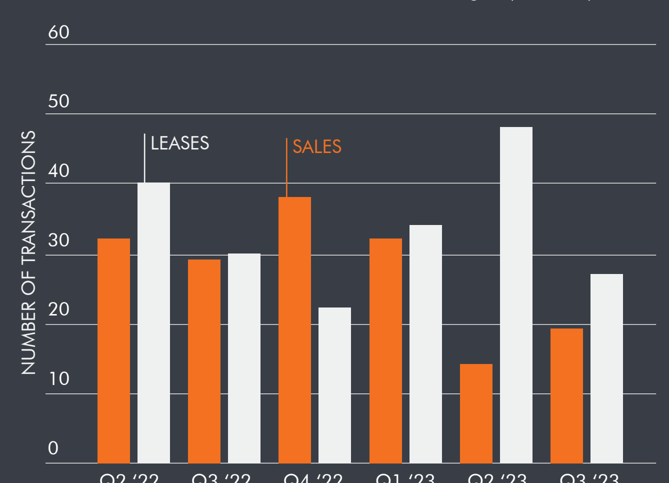
DOWNTOWN GRAND RAPIDS BUSINESS MIX OF STOREFRONTS

Source: Downtown Grand Rapids Inc.



KENT COUNTY RETAIL TRANSACTIONS

Source: Commercial Alliance of Realtors West Michigan (CARWM)



In the third quarter, the retail sector faces many of the same challenges as other sectors in our region. One prevalent concern is the persistently high interest rates and the potential impact on consumer spending. While there has been a slight leveling off in the rate hikes, it is expected that they will remain elevated in the near future. These elevated rates have created a general sense of unease about the national economy, causing both consumers and investors to approach with caution. However, it's expected that this cautiousness will gradually ease as the market adjusts to the new reality.

Retail developers, in particular continue to execute several difficulties in the past quarter. High construction costs, a trend that has also significantly impacted the industrial sector, coupled with delays in municipal approvals, have created challenges. With the combination of high interest rates, soaring construction costs, and sluggish municipal approvals, retail developers are finding it challenging to meet the demand for new space required to attract national tenants.

Continued interest from national tenants

West Michigan continues to attract significant interest from high-quality national retailers and restaurants. The presence of these national brands is crucial, not just for the retail sector, but for the broader West Michigan economy. These brands, in addition to their ability to pay higher costs for new construction and committing to longer leases with reduced vacancy risk, play a substantial role in local employment. Working for a national brand offers employees a sense of financial security and a structured work environment that many find appealing, along with more flexible working hours, a feature that local brands may sometimes struggle to provide. This combination of flexibility and security contributes to an expanded workforce. For example, a single Taco Bell franchisee employs over 2,700 people across multiple locations in West Michigan alone.

In recent quarters, we have faced a scarcity of available in-line or free-standing real estate, which is precisely what many of these national retailers and restaurants seek. The limited inventory has driven up prices, particularly in sought-after retail corridors like East Beltline Avenue at Knapp Street, and 28th Street in Grand Rapids or South Westnedge and West Main in Portage/Kalamazoo. Besides the traditional standalone restaurants and retailers expressing interest in the area, quick-service restaurants (QSRs) are also striving to establish a presence in our market. These QSRs, however, grapple with the challenge of securing reasonably priced sites, with new spaces featuring drive-thrus on busy retail corridors like Lake Michigan Drive costing $40 per square foot NNN or more. High lease rates stem from elevated construction costs and developer challenges, yet national brands, less deterred by expenses are able to pay these rates.

3.7%
SEPT

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

INVESTMENT MARKET

Interest rates, inventory, and economic uncertainty

The investment market is currently experiencing low deal volume, and this can be attributed to several key factors. These include elevated interest rates, a shortage of available properties, and a prevailing sense of economic uncertainty, affecting both the local and national markets.

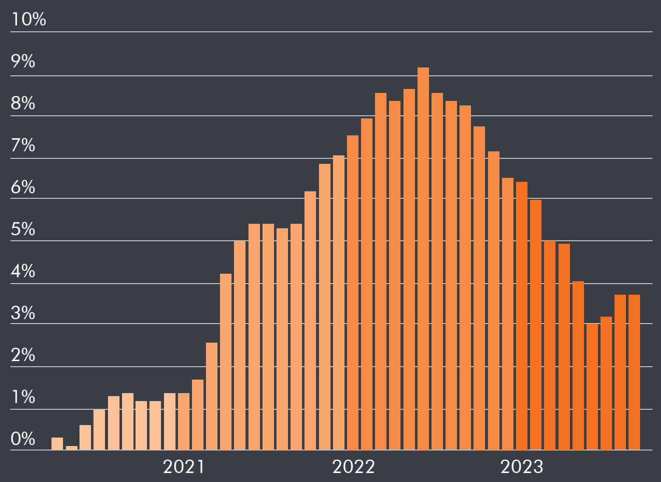
The impact of high interest rates is two-fold. Firstly, it has decreased investor demand, making it more challenging for investors to secure loans required for property development or purchase. Consequently, this has led to a slowdown in the creation of new space, with developers hesitant to take on the increased financial burden, particularly given the current high construction costs. This shortage of new space has been particularly notable in the industrial and housing sectors, and is a significant contributor to the inventory problems we are currently facing.

Coupled with global economic uncertainty, these challenges have left many investors feeling cautious about engaging in the current market. Instead, they are often opting to delay investments in the hope of more favorable conditions next year. Nonetheless, it's important to note that there is still a substantial presence of real estate investors in West Michigan, many of whom have $5 to $10 million in liquidity. Should market conditions improve, and the inventory of available buildings increase, we anticipate a swift return to active investment transaction in our market.

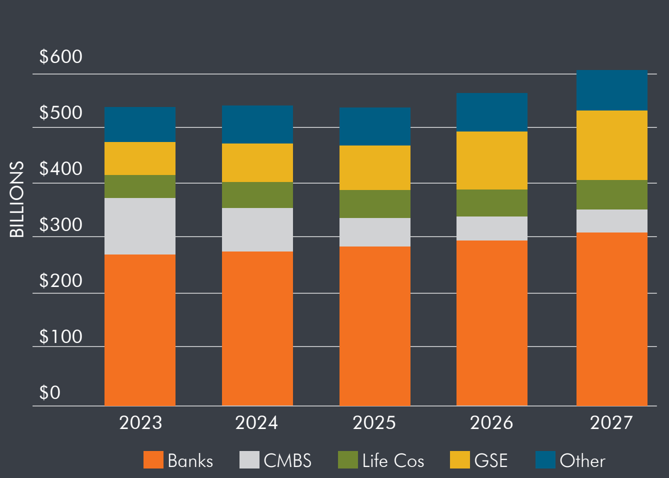
Despite these concerns and challenges, there are still deals taking place. Most of these transactions are motivated by necessity. While people will always have reasons to sell, many property owners are not currently incentivized to do so in today's market. Tenants in the area have generally been consistent in paying rent, encouraging property owners to refinance and hold onto their assets until market conditions become more favorable for sellers; as more low-interest rate loans mature, we anticipate more owners will entertain the thought of selling their asset.

Investors in our region are nonetheless still active, and when attractive investment opportunities arise, they are quick to act. This indicates that there is still a strong interest in investment.

CPI FOR ALL URBAN CONSUMERS
Source: U.S. Bureau of Labor Statistics



COMMERCIAL MORTGAGE MATURITIES BY LENDER TYPE
Source: Trepp Inc., based on Federal Reserve Flow of Funds Data



LAND MARKET

In the third quarter, the land market showed robust demand from various sectors, but activity remained slow. A primary driver behind this slow pace is the persistent impact of high interest rates, a trend that has affected numerous sectors in recent quarters. This, combined with broader concerns about the country's economic climate, has led to a significant reduction in land sales and acquisitions. Buyers, in particular, are cautious about making commitments. As long as interest rates remain high, it's expected that the market will continue to face challenges.

Land scarcity and its effects

It is no great secret that land has been scarce in recent quarters, while the demand for new space in sectors such as industrial, retail, and multifamily has remained high. Few deals have come to fruition due to the lack of site readiness on sites throughout the market. Most available land presents lingering issues demanding time and resources before construction initiation. The time commitment arises from slow approvals and lengthy processes when working with city and state governments, such as the Michigan Department of Environment, Great Lakes, and Energy (EGLE) and the Michigan Department of Transportation (MDOT). The cost issues stem from the current high construction costs, which are on the rise nationwide, as well as the current high interest rates. Despite challenges, national tenants' sustained interest in West Michigan underscores our market's growing national significance. As the region advances and the land market improves, our market will recover and capitalize on the current high demand.

Multifamily

Multifamily continues to show interest in the land market, with plenty of groups and developers looking to expand the multifamily presence in West Michigan. Part of this demand is for more multifamily and hospitality in downtown. Lack of supply and high pricing on the available sites are keeping these projects from progressing.

Industrial

Many national tenants are able to front the price for new industrial space, but more local user sales have decreased. Much of the activity not coming from large national users is on smaller, user specific sites.

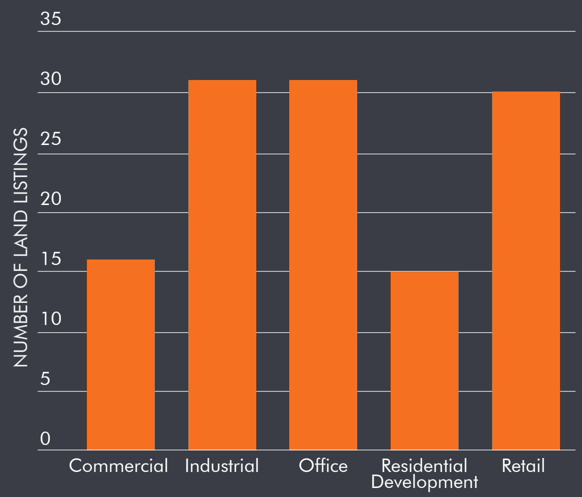
Office

As office begins to get its feet in the changing landscape of remote and hybrid work, its demand for land has been cut down to almost nothing. It does, however, have interest and activity in regard to new medical and dental space.

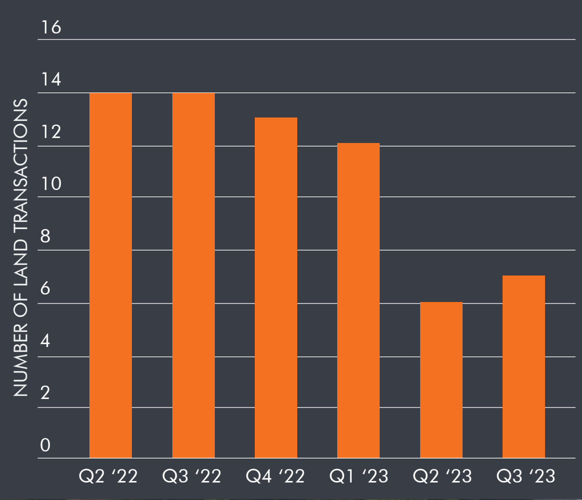
Retail

Retail has shown heavy interest in land on a very site-specific basis. High traffic retail corridors have a very high demand, but supply of usable sites in these areas is low. Demand is largely coming from QSR drive-thru, Coffee, Car Washes, and Gas Stations, many of which are national brands.

KENT COUNTY LAND LISTINGS
Source: Commercial Alliance of Realtors West Michigan (CARWM)



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



NOTABLE TRANSACTIONS

LAND

520 & 620 Watson Street SW, Grand Rapids
Sold | 5.35 Acres | $3,090,000

370 Dodge Street NE, Comstock Park
Sold | 2.64 Acres | $304,000

240 Lake Michigan Drive, Grand Rapids
Sold | 0.67 Acres | $245,000

995 O E Bieri Industrial Drive SE, Lowell
Sold | 2.02 Acres | $135,000

INDUSTRIAL

1181 58th Street SW, Wyoming
Sold | 18,384 SF | $1,900,000

4935 Starr Street SE, Grand Rapids
Sold | 53,325 SF | $2,800,000

2815 Remico Street SW, Grandville
Leased | 80,000 SF | $3.40/SF, NNN

5120 Beltway Drive SE, Caledonia
Leased | 131,200 SF | $6.80/SF, NNN

NOTABLE TRANSACTIONS

OFFICE

5659 N. Kraft Lake Drive, Caledonia
Sold | 12,395 SF | $2,000,000

3333 Deposit Drive NE, Grand Rapids
Leased | 6,878 SF |$19.25 SF, Gross

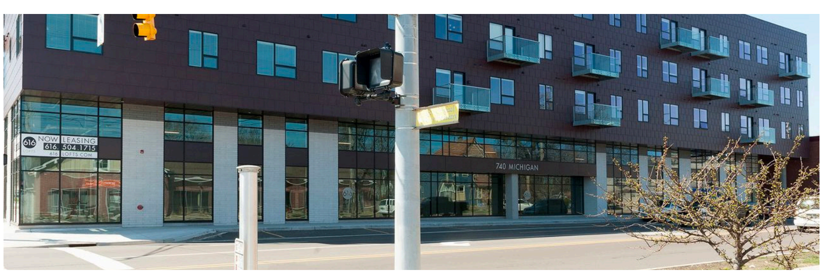
3235 Eagle Park Drive NE, Grand Rapids
Sold | 39,865 SF | $3,500,000

625 Kenmoor Avenue SE, Grand Rapids
Leased | 7,192 SF | $12.50/SF, NNN

RETAIL

2260 Alpine Avenue NW, Grand Rapids
Sold | 1,056 SF | $310,000

619 Wealthy Street SE, Grand Rapids
Leased | 800 SF | $28.00/SF, NNN



740 Michigan Street NE, Grand Rapids
Leased | 2,250 SF | $25.00/SF, Modified Gross

137 East Bridge Street, Plainwell
Sold | 2,175 SF | $195,000

INVESTMENT

1369-1407 Manistee Hwy, Manistee
Sold | 61,999 SF | Strip Center| $2,250,000

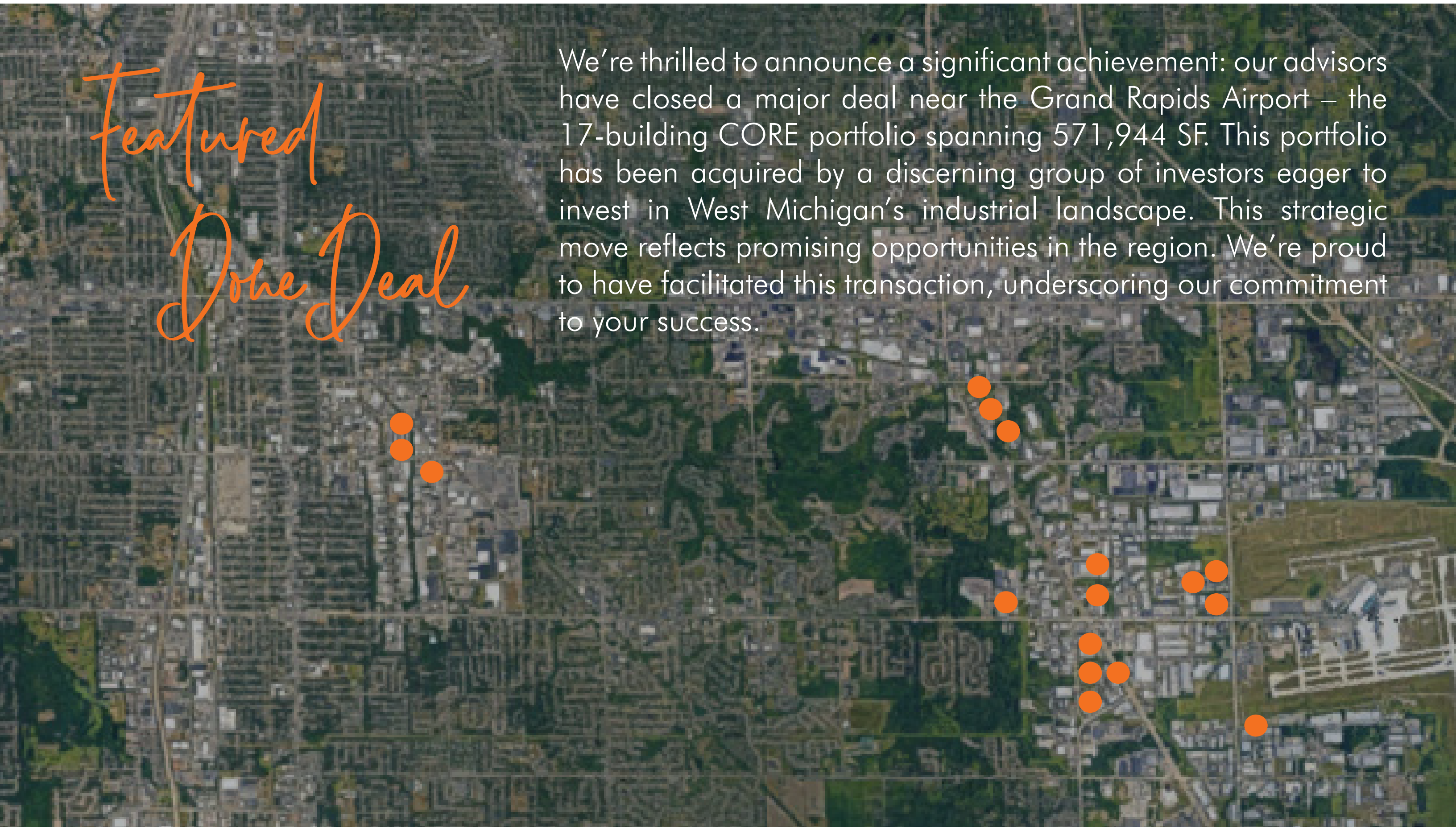
2400 43rd Street SE, Grand Rapids
Sold | 8.39 Acres | Proposed Affordable Housing | $2,650,000

601 - 609 Eastern Avenue SE, Grand Rapids
Sold | 16,526 SF| Retail Investment | $700,000

2520 104th Avenue, Zeeland
Sold | 20,000 SF | $2,637,500 | 6.60% Cap Rate

Featured Done Deal

We're thrilled to announce a significant achievement: our advisors have closed a major deal near the Grand Rapids Airport – the 17-building CORE portfolio spanning 571,944 SF. This portfolio has been acquired by a discerning group of investors eager to invest in West Michigan's industrial landscape. This strategic move reflects promising opportunities in the region. We're proud to have facilitated this transaction, underscoring our commitment to your success.



#OurTeam_YourAdvantage

3333 Deposit Drive NE, Suite 100
Grand Rapids, MI 49546

616 327 2800
www.AdvantageCRE.com

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