2023 FOURTH QUARTER

MARKET TRENDS REPORT

ADVANTAGE
COMMERCIAL REAL ESTATE

WEST MICHIGAN

Looking back, 2023 saw strong growth and innovation in West Michigan, laying the groundwork for an even more dynamic 2024. The Grand Action plan is set to transform downtown Grand Rapids with a cutting-edge soccer stadium, infusing the city with newfound energy. Simultaneously, the ongoing expansion of the industrial sector exemplifies West Michigan's status as a thriving hub of innovation and economic prosperity. The Factory Yards development on Godfrey Avenue is set to make a lasting impact on the Grand Rapids market with 467 housing units, commercial spaces, and a food hall. Anticipation is high for the Acrisure Amphitheater, a cultural landmark set to redefine regional entertainment.

Looking ahead, we are excited to support our clients' growth and continue collaborative projects that will shape West Michigan's landscape in 2024. Our commitment to facilitating progress remains strong, and we anticipate another year of successful partnerships and shared accomplishments.

OFFICE MARKET

The office market in West Michigan remains remarkably similar to previous quarters, characterized by an ongoing sense of uncertainty. There continues to be a disconnect between appraisals and actual purchase price in the market, low purchase prices are causing loans to drop resulting in a low loan-to-value ratio. Appraisals continue to undervalue office spaces due to prevalent market fears, creating a disconnect between what current owners believe their buildings are worth and what buyers can finance. Additionally, heightened concerns, coupled with the current interest rates have made banks more cautious when financing office projects. Although these concerns may not entirely reflect the local market conditions, a broader view of the national landscape explains the fears. The national vacancy rate stood at 15.7% at the end of 2022, which has since increased to 17.8% by October 2023 and is expected to continue to rise.

Amidst uncertainty, certain segments of the market are still active. Much of this activity comes from pre-pandemic leases reaching the end of their term. Many tenants will evaluate their spaces and actively pursue other options. The evolving amenity preferences from office users should prompt landlords to consider updating their properties to align with these changing needs.

Problems facing old spaces and the CBD

The primary challenge contributing to the majority of office market vacancies is concentrated within cities' central business districts (CBDs). Post-pandemic tenants have been looking towards smaller, Class A spaces with ample free parking and more amenities, which the CBD often struggles to provide due to outdated buildings, limited parking, and higher costs compared to their suburban counterparts. Owners encounter difficulties in updating existing spaces due to soaring expenses, resulting in higher costs for tenant improvement packages and space improvements.

However, there may be a resurgence of interest in CBD locations as the city undergoes developments. Notably, projects like the Amphitheater at 201 Market Avenue and the proposed soccer stadium, as highlighted in a recent Crain's article estimating an economic boost of around $408 million to the city over the next 30 years.

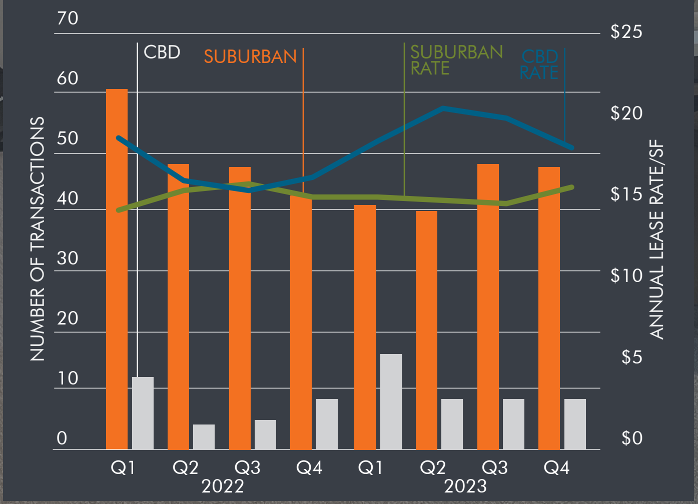
In this evolving office landscape, uncertainty has been the largest factor, but the market must adapt to this new reality. As leases approach expiration, triggering increased movement and activity within the market, landlords and investors will gradually understand and adjust to the emerging trends. Deals will continue to progress, fostering the city's growth, and ultimately contribute to the advancement of real estate across our local market.

$15.49
SUBURBAN

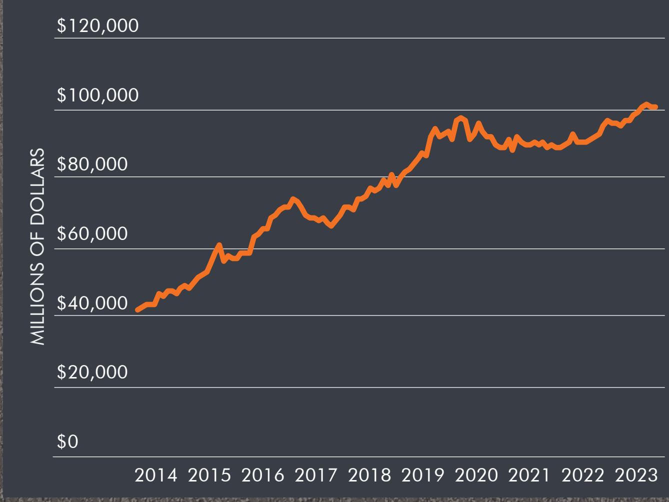
$17.95
CBD

WEIGHTED AVERAGE LEASE RATES/SF MODIFIED GROSS

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



TOTAL U.S. OFFICE CONSTRUCTION SPENDING
Source: Federal Reserve Economic Data (FRED)

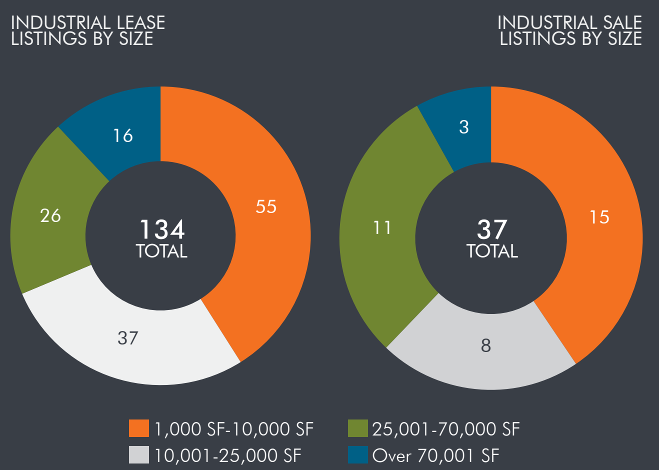


INDUSTRIAL MARKET

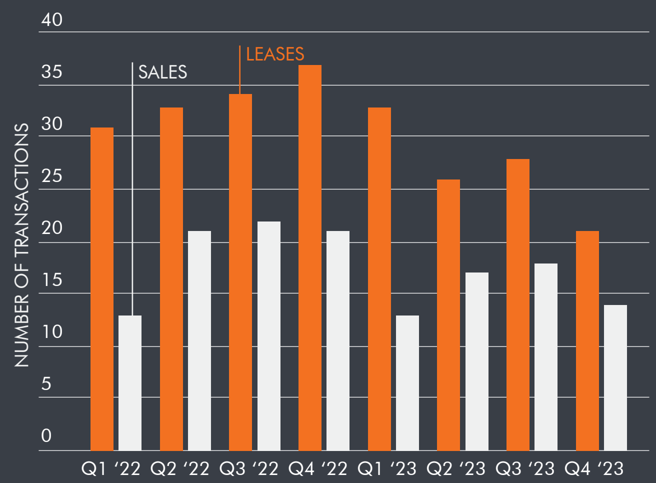
$6.89 NNN WEIGHTED AVERAGE LEASE RATE/SF

1.43% VACANCY RATE KENT & OTTAWA COUNTY

WEST MICHIGAN INDUSTRIAL LISTINGS BY SIZE
Source: Commercial Alliance of Realtors West Michigan (CARWM)



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



Tight conditions amid slow development

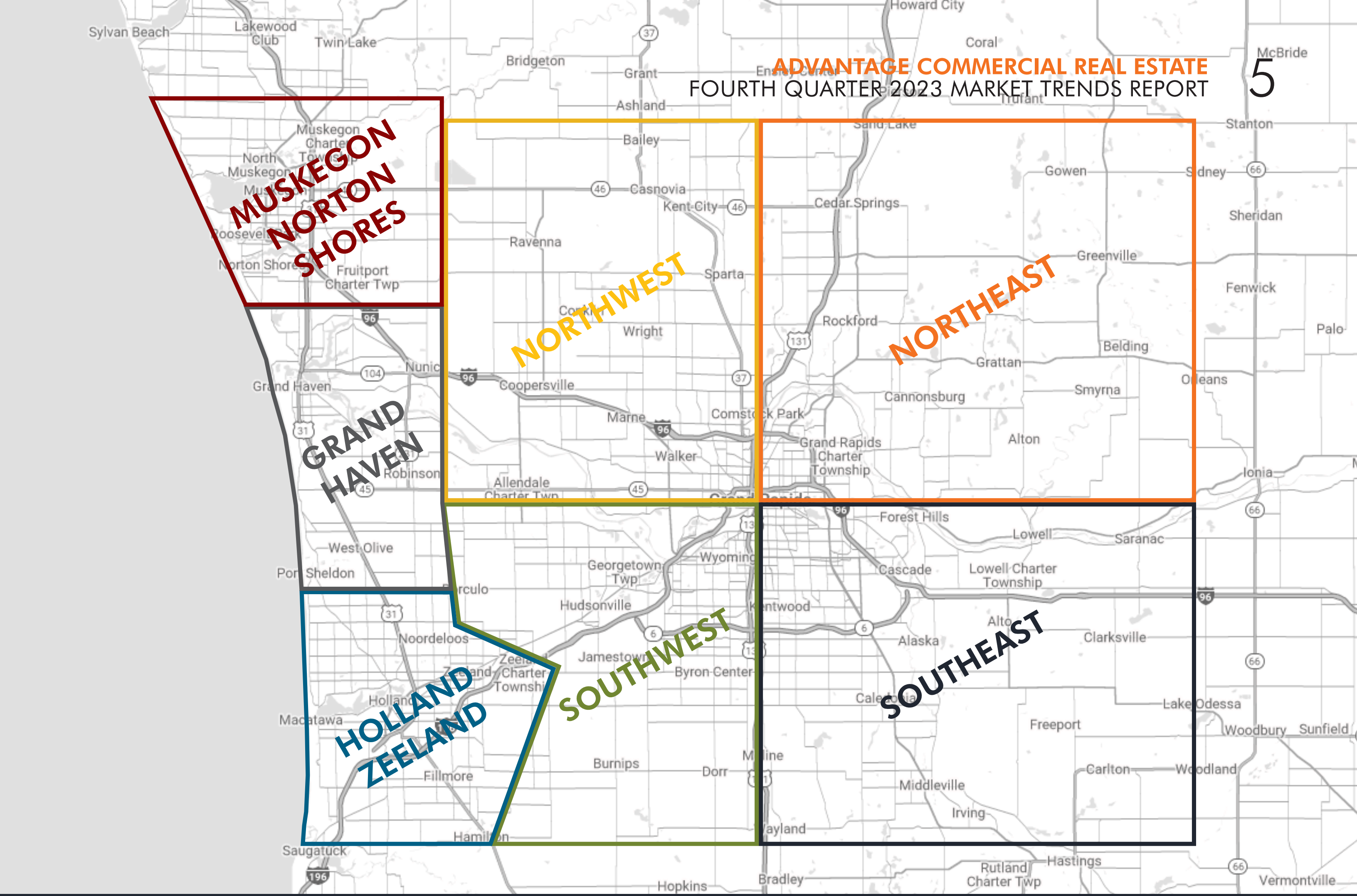
The West Michigan industrial market continues to experience the benefits and struggles of a tight market. Last quarter we observed remarkably low vacancy rates throughout West Michigan, with even lower rates in greater Grand Rapids. The national vacancy trend was significantly different than West Michigan's in 2023 as vacancies increased throughout the year resulting in static, or in some cases, a drop in rental rates. This was caused by a sudden demand shift while millions of square feet of industrial product was under construction. As projects continued to be completed, the demand was less, so absorption decreased. Contrary to the major markets, West Michigan's developer base is generally regional and not national or institutional, and therefore, more conservative. Speculative construction in our market started to slow as interest rates began climbing, curbing our local developer's appetites to be aggressive on new projects, essentially eliminating an overbuilding, and leaving West Michigan with a relatively stable market as we head into 2024. As an example, there is currently a shortage of 100,000 SF or larger industrial buildings in our market. Lastly, the entitlement process, including zoning, wetland determination, road and utility infrastructure is increasingly challenging, slowing the expansion of the overall industrial market.

One possible way developers and investors may move forward with projects is utilizing the Strategic Site Readiness program. In August, the state of Michigan approved the program "for the purpose of creating a state-wide inventory of investment-ready sites to attract and promote investment in Michigan." The program has already granted a Ford project in Marshall $120.3 million, though not in our immediate area, this is an encouraging sign as we start to see the benefits that the state looks to provide for private developers and investors.

Sales continue as the city grows

Despite the low availability in the market, transactions are still getting done, and these are primarily being driven by user sales as the investment market has slowed considerably. As expected, we continue to see strong demand from a broad base of manufacturers and construction-based industries, where activity is on the rise. While user sales have been the strongest segment of the market, the overall number of sales has been constrained due to the limited availability. The market's very low vacancy rate has allowed lease rates to remain stable even in the face of slowing demand and on the heels of huge increases. We believe lease rates are starting to stabilize and increases will be more manageable in the next year.

Overall, the Grand Rapids region continues to grow despite the fluctuation the national industrial market has experienced in the last eighteen months. A recent article by Crains Grand Rapids stated that Grand Rapids has experienced a 7.8% increase in population over the past decade, a living cost 10% below the national average, and a 4% increase in the labor force from 2022 to 2023, making us one of the few markets in the Midwest that continues to grow.



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	(43,131) SF	(4,351) SF	0.80%	$8.24/SF
NORTHWEST	33,860,545 SF	218,404 SF	1,267,286 SF	0.70%	$5.71/SF
SOUTHEAST	74,768,194 SF	(247,446) SF	1,126,273 SF	1.60%	$6.45/SF
SOUTHWEST	52,117,223 SF	(269,605) SF	520,548 SF	1.00%	$8.80/SF
GREATER GRAND RAPIDS TOTAL	**178,541,595 SF**	**(341,778) SF**	**2,909,756 SF**	**1.20%**	**$7.30/SF**
MUSKEGON/NORTON SHORE	22,280,858 SF	(44,448) SF	(158,656) SF	2.57%	$4.53/SF
GRAND HAVEN	14,018,357 SF	175,060 SF	242,654 SF	0.95%	$4.68/SF
HOLLAND/ZEELAND	47,378,180 SF	(207,575) SF	133,348 SF	1.86%	$6.59/SF
LAKESHORE TOTAL	**83,677,395 SF**	**(76,963) SF**	**217,346 SF**	**1.89%**	**$5.27/SF**
WEST MICHIGAN TOTAL	**262,218,990 SF**	**(418,741) SF**	**3,127,102 SF**	**1.30%**	**$6.43/SF**

RETAIL MARKET

$19.95 NNN

WEIGHTED AVERAGE LEASE RATE/SF

The retail market experienced a slower pace in the last quarter, which is pretty common around the holiday season. Deals were still in the negotiation phase since many involved in the market prefer to wait until after the holidays to finalize decisions. Surprisingly there were more deals completed than initially anticipated during the holiday season. This past quarter, demand from local and national retailers increased along Main and Main as well as the Lakeshore for new real estate opportunities.

What is the retail market facing?

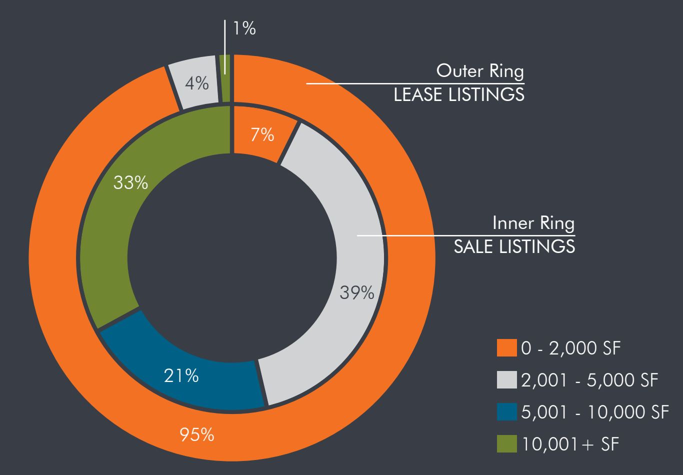
Despite the positive market activity, there are underlying challenges that continue to slow progress for the retail sector. Investor groups that own regional malls face uncertainty, as they grapple with inconsistent growth for some locations in their portfolios. Flight to quality is their largest challenge as they navigate current market dynamics, along with financial instability, and a lack of anchor tenants impeding growth.

This trend isn't isolated to West Michigan, but nationally, numerous malls are encountering similar issues, leading to investor groups filing for bankruptcy. A recent example is the Pennsylvania Real Estate Investment Trust (PREIT), the owner of 19 regional malls, including Woodland Mall, filed for bankruptcy this month. As mall owners continue to face steep economic headwinds, financial restructuring may be necessary to help eliminate some debt from their under-performing malls. While both West and Central Michigan have a large quantity of malls, not all are performing as consistently as Woodland Mall. It is unique in its consistent growth and regular foot traffic year-around.

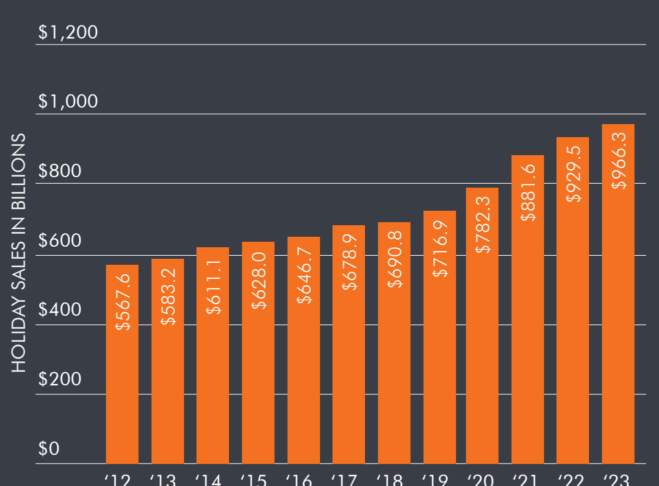
Although malls are a concern for the retail sector, the scarcity of land across markets has notably affected the retail industry. In the previous quarter, we highlighted the substantial interest from national brands looking to get into the Grand Rapids market. However, the primary obstacle remains the availability of suitable sites. Desirable and buildable land in prime locations has become increasingly scarce, and when such parcels do become available, they are being sold at premium prices. This scarcity has forced national retail tenants to explore alternative markets due to the limited options available in West Michigan.

Despite this hurdle, the attention from these national brands is indicative of our market's appeal and growth potential. Even if sites aren't immediately available, sustained interest signifies our standing as an attractive and promising market.

CURRENT RETAIL LISTINGS BY SF IN KENT COUNTY
Source: Commercial Alliance of Realtors West Michigan (CARWM)



U.S. HOLIDAY SALES
Source: National Retail Federation



3.4%
DECEMBER

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

INVESTMENT MARKET

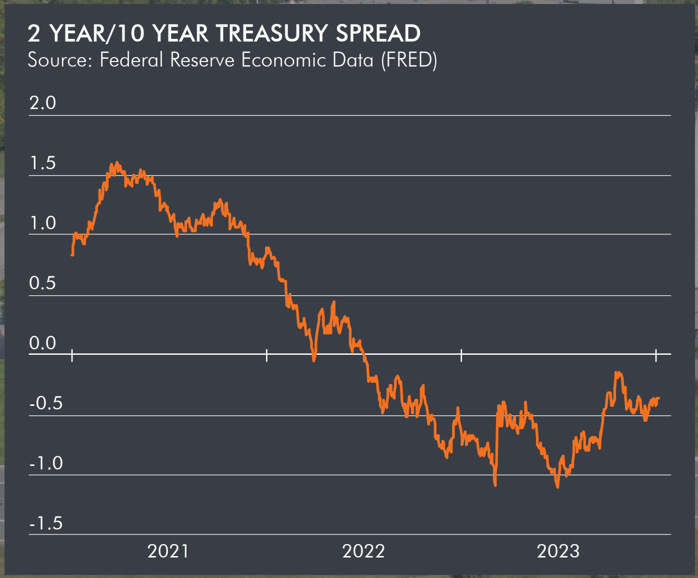
Interest rates and why we've seen a lack of deal volume

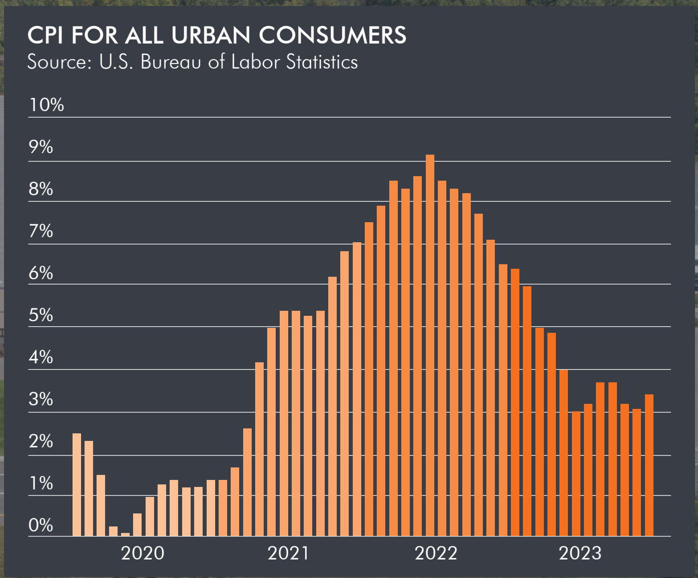
The persistence of high-interest rates throughout the last quarter significantly contributed to the low deal volume in our local market. Many investors are adopting a wait-and-see approach, anticipating more favorable market conditions. Despite the high rates, investors understand that this situation is not permanent. In the recent December meeting, the FED announced that the federal funds rate will remain at 5.33% for the time being but will begin to drop in 2024 where the summary of economic projections has the federal funds rate ending 2024 at 4.6%. Investors most likely anticipated a more substantial rate drop, and they still might get that drop. The FED stated that if inflation trends downwards toward their 2% target, they will start cutting rates even before reaching that goal. In such a scenario, the federal funds rate could potentially decrease to as low as 3.75%. These prospective rate cuts could reinvigorate investor interest and increase activity in the investment market.

However, high-interest rates aren't the sole factor contributing to the lack of completed deals. While there is a considerable amount of capital in the market, the current inventory is priced unreasonably and lacks the quality investors want to see. Despite this, when a well-priced opportunity emerges, investors are ready to take advantage of it quickly.

Trends & Highlights

- As loans start to mature investors are reevaluating their assets to determine if they should refinance or sell their properties.
- 1031 Exchange deals remain popular in the current investment climate.
- Loans are increasingly difficult to get for office space as many people see the overall national trends of vacancy without looking at the context of our local market.
- Completed deals in which buyers and sellers are aware of the current state of the market, coming to terms on real estate pricing that is realistic for both parties.
- In deals that are getting done, Buyers and sellers expectations have normalized this quarter, with both parties coming to terms on real estate pricing and meeting in the middle.
- Transactions with high levels of cas going in with low debt levels makes up local deals, often between $500K and $2.5M





LAND MARKET

The land market has stayed very consistent with the previous quarter, with the overarching trend being a scarcity of desirable land. Many in the industrial market seek expansion opportunities, while individuals in the retail market are actively searching for usable land within our already established retail corridors. Areas like Alpine Avenue are experiencing a high demand from users looking for buildable land. This has caused land prices to continue to rise in these well-established corridors, with some properties selling for twice as much as they were previously worth five or six years ago.

Many of the issues with obtaining new land stem from obstacles put in place by local and state governments. Municipalities have continued to be obstacles when trying to develop new vacant land sites, along with changes in local zoning laws, making the process of getting new development approved increasingly difficult. On top of this, there has also been very little stabilization of construction pricing.

Despite the problems the land market currently faces, we are seeing desirable land receive multiple offers, and deals are still getting done. There are plenty of conversations happening about deals, and though few have turned into anything concrete, there may be an increase in deal volume going forward, as interest rates shift and the numbers behind the projects start to become more clear.

Retail Highlights

Many national brands continue to try and enter the Grand Rapids market but are finding it increasingly difficult to find a suitable site. Most issues stem from zoning challenges and an overall lack of land in well-established retail corridors.

Office Highlights

Larger suburban office sites have experienced some demand but finding suitable lots is difficult. We have also seen a shift away from company building new medical office space, instead medical has been more interested in renovating existing space.

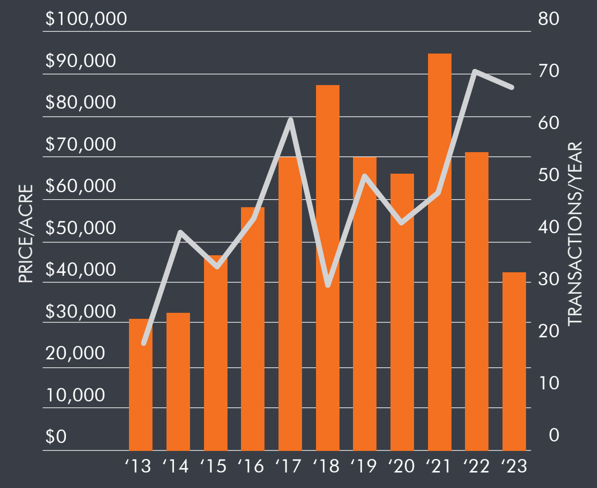
Industrial Highlights

Industrial users continue to show remarkable interest in land, primarily targeting existing industrial zones as well as looking where industrial might expand to. But overall deals are hard to get done due to current interest rates and construction pricing.

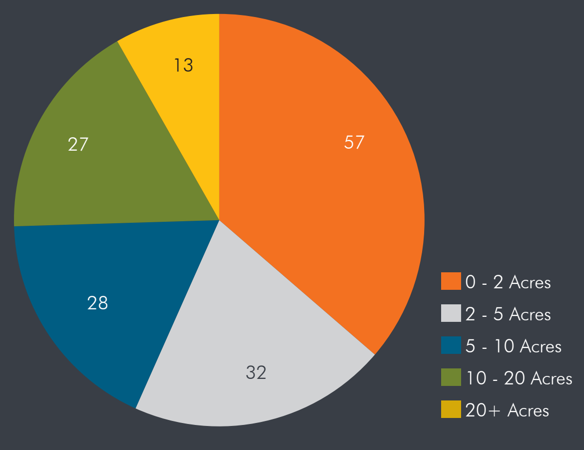
Multifamily Highlights

There is a heavy demand for new multifamily in and around downtown Grand Rapids, but similar to industrial, it is hard to finance these deals with current costs. Outside of downtown home builders are very active and on the lookout for new buildable land, in hopes to ease Grand Rapids' need for more housing.

WEIGHTED AVERAGE $/ACRE AND TRANSACTIONS
Source: Commercial Alliance of Realtors West Michigan (CARWM)



LAND LISTINGS BY ACREAGE
Source: Commercial Alliance of Realtors West Michigan (CARWM)

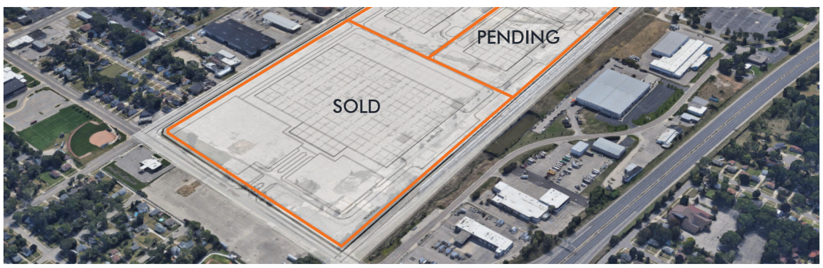


NOTABLE TRANSACTIONS

LAND

2800 Pryde Boulevard, Lansing
Sold | 2 Acres | $1,800,000

905 E High Street, Greenville
Sold | 2.65 Acres | $150,000



300 36th Street SW, Wyoming
Sold | 40 Acres | $6,600,000

3145 Henry Street, Muskegon
Sold | 1.19 Acres | $925,000

INDUSTRIAL

6093 Clay Avenue SW, Grand Rapids
Sold | 9,200 SF | $2,750,000

1120 36th Street SE, Grand Rapids
Leased | 244,330 SF | $4.50, Gross

5505 Patterson Avenue SE, Kentwood
Leased | 54,000 SF | $8.67/SF, NNN

1425 Aerial View Drive, Grand Haven
Sold | 187,406 SF | $9,224,832

NOTABLE TRANSACTIONS

OFFICE

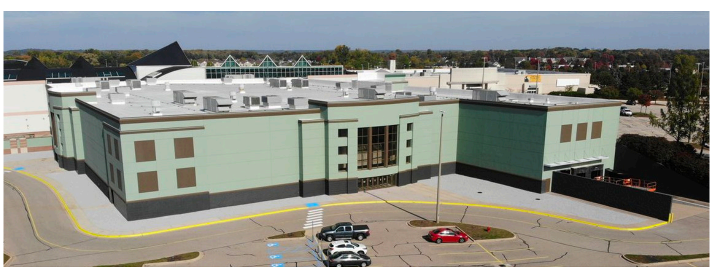
1250 Mercy Drive, Muskegon
Leased | 4,265 SF | $18.25 - $21.81/SF, NNN

605 Seward Avenue NW, Grand Rapids
Leased | 25,298 SF |$21.95/SF, Mod Gross

2301 East Paris Avenue SE, Grand Rapids
Sold | 13,339 SF | $2,350,000

2060 East Paris Avenue SE, Grand Rapids
Leased | 13,828 SF | $19.50/SF, NNN

RETAIL



3668 Rivertown Parkway, Grandville
Leased | 74,720 SF | $12.00/SF, NNN

2320 28th Street SE, Grand Rapids
Leased | 17,296 SF | $10.00/SF, NNN

3464 28th Street SE, Kentwood
Leased | 3,500 SF | $49361/SF, NNN

2518 Alpine Avenue NW, Grand Rapids
Sold | 7,892 SF | $785,000

INVESTMENT

1020 7 Mile Road NW, Comstock Park
Sold | 126,000 SF | Local Investor| $6,031,500

3115 Centre Boulevard, Lansing
Sold | 4,207 SF | Established Restaurant | $2,875,000

660 Baldwin Street, Jenison
Sold | 13,200 SF| Retail Strip Center | $1,650,000

1710 Woodworth Street NE, Grand Rapids
Sold | 10,800 SF | $1,550,000

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