

Greater Lansing Area, Michigan / H2 2019

Market Continues to Strengthen; First Spec Bldg Planned in Over 10 Years

Market at a Glance:

Arrows indicate change from previous period.



Vacancy Rate

13.5%



Completions

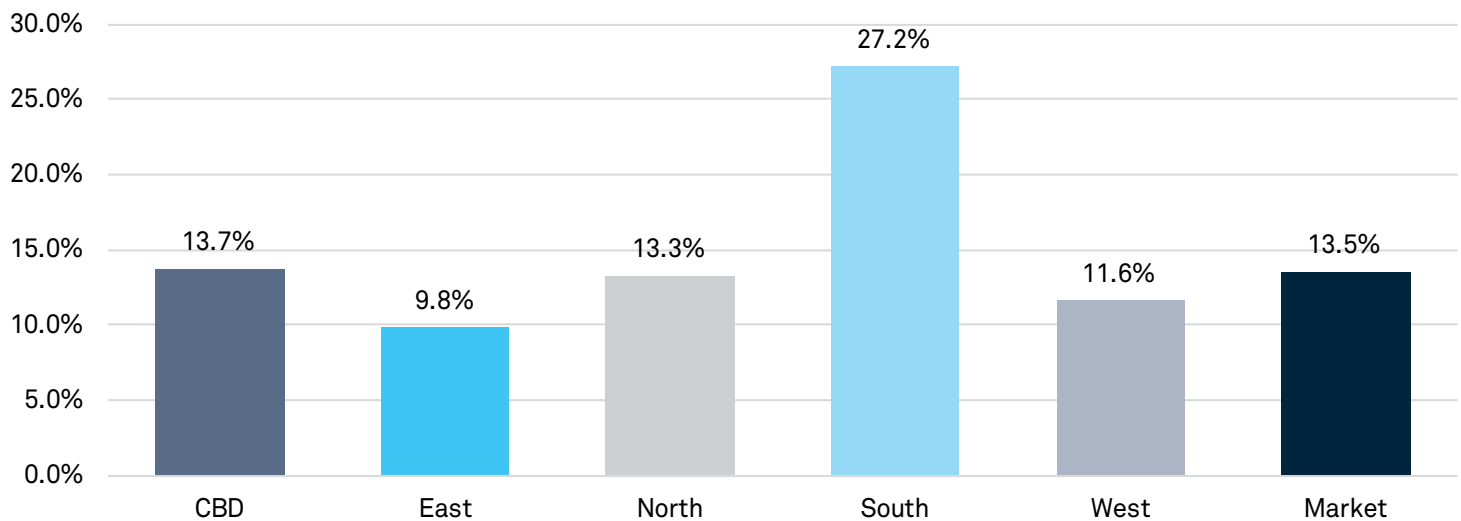
0 SF



Absorption

108,703 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- The local unemployment rate dropped to 2.7% in H2 2019, well below state and national averages; however, the unemployment situation in 2020 is expected to remain fluid due to the COVID-19 health crisis.
- Market vacancy dropped from 14.5% in H1 2019 to 13.5% in H2 2019.
- During the same period, submarket vacancy fell in most sectors.
- Wayfair leased 62,961 sq. ft. in Hannah Tech (East Submarket).
- State of Michigan leasing activity was strong during H2 2019, and is anticipated to maintain momentum throughout 2020, subject to ramifications of the COVID-19 pandemic.
- Large blocks of quality space remain at a premium.
- In 2020, the market is expected to break ground on its first speculative building in over ten years (East Submarket).
- The 115,000-sq. ft. 4300 West Saginaw professional building sold in H2 2019 for \$1.5 Million.

Market Composition

The Greater Lansing Area comprises just over 8.6 million sq. ft. of leasable office space divided into five submarkets (CBD, East, North, South and West). The largest concentrations of office space are found in the CBD and the East Submarket, representing over 74% of the space surveyed.

Approximately 36% of space is Class A, 60% is Class B and 4% is Class C.

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Figure 2: Market Statistics | H2 2019

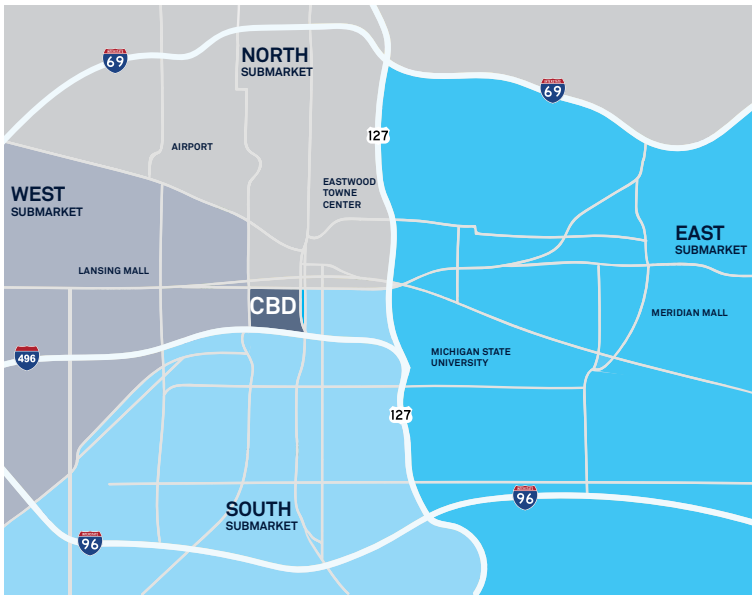
SUBMARKET	MARKET RENTABLE AREA (SF)	VACANT (SF)	VACANCY RATE (%)	NET ABSORPTION (SF)	COMPLETIONS (SF)	ASKING LEASE RATES (\$/SF/YR)
CBD	2,738,689	375,275	13.7	-1,510	0	9-29.00
Class A	1,291,141	28,837	2.2	2,688	0	23-29.00
Class B	1,336,941	269,422	20.2	-12,365	0	18-22.00
Class C	110,607	77,016	69.6	8,167	0	9-12.00
EAST	3,645,052	357,626	9.8	61,354	0	12-28.00
Class A	1,603,296	98,970	6.2	74,078	0	22-26.00
Class B	1,933,464	251,256	13.0	-12,724	0	16-22.00
Class C	108,292	7,400	6.8	0	0	12-16.00
I-96/Jolly Road	788,307	51,237	6.5	1,568	0	17-19.00
Lk Lans/US-127	559,538	67,318	12.0	572	0	18-28.00
NORTH	133,811	17,768	13.3	-3,101	0	13-18.00
Class A	0	NA	NA	NA	0	NA
Class B	133,811	17,768	13.3	-3,101	0	13-18.00
Class C	0	NA	NA	NA	0	NA
SOUTH	1,089,522	296,010	27.2	26,832	0	8-25.00
Class A	123,405	28,122	22.8	0	0	25.00
Class B	935,962	251,488	26.9	26,832	0	12-16.00
Class C	30,155	16,400	54.4	0	0	8-10.00
WEST	1,004,491	116,667	11.6	25,128	0	11-20.00
Class A	106,159	0	0	0	0	NA
Class B	838,786	112,272	13.4	22,573	0	17-19.00
Class C	59,546	4,395	7.4	2,555	0	11-12.00
I-96/W Saginaw	193,924	29,132	15.0	8,006	0	14-17.00
Creyts/W St Joe	452,367	35,530	7.9	4,667	0	14-20.00
MARKET	8,611,565	1,163,346	13.5	108,703	0	8-29.00
Class A	3,124,001	155,929	5.0	76,766	0	22-29.00
Class B	5,178,964	902,206	17.4	21,215	0	12-22.00
Class C	308,600	105,211	34.1	10,722	0	8-12.00

Source: Martin Commercial Properties, Inc.

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Greater Lansing Area



The Impact of COVID-19

It is important to note that while we are publishing this H2 2019 market report in early 2020, the new COVID-19 pandemic is creating a swirl of uncertainty in markets around the world, as government-mandated social distancing and temporary office closures have created a powerful economic burden for small businesses.

Many local, state and federal programs have been launched to provide financial assistance to impacted businesses. For example, the Small Business Development Center (SBDC) has published a Question & Answer transcript outlining various programs and numerous resources you may find beneficial. Also, the U.S. Small Business Association (SBA) has published an outline of resources, products, loan programs and guidance measures meant to assist business owners. U.S. Representative Slotkin (MI) encourages small businesses to apply for a part of the \$1 billion allotted to the SBA for business loans, reminding us that these loans can be as high as \$2 million. Also, the MEDC just announced Michigan Small Business Relief Program will provide up to \$20 million in support for small businesses negatively impacted by COVID-19. Details and resources can be found at <https://www.michiganbusiness.org/covid19/>.

This situation is unprecedented in modern times, and it is difficult to fully assess what the Greater Lansing office market will look like in the coming months. Much will depend on how long the economy is stalled and the time it will take for small and large businesses alike to get back to a reasonable normal.

And then, the question becomes: What will the new normal be? People are working from home, using technology to transact business and they are developing creative ways to stay socially distant while remaining in touch.

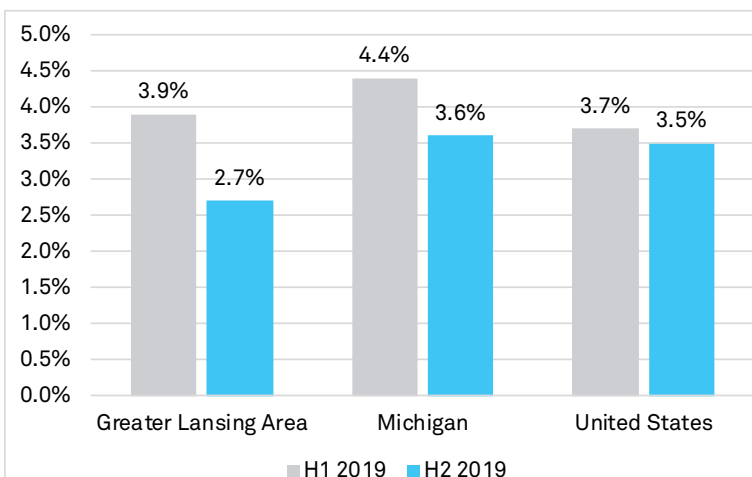
Most likely, there will be both negative and positive aspects to the “new normal” for landlords and tenants, and we will continue to provide market updates to keep you informed.

Unemployment Rate

The unemployment rate in the Greater Lansing Metropolitan Area fell from 3.9% in H1 2019 to 2.7% in H2 2019.

According to the Bureau of Labor Statistics, the tri-county's unemployment rate was below both the state and federal levels (3.6% and 3.5%, respectively).

Figure 3: Unemployment Statistics | H2 2019



Source: Bureau of Labor Statistics

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Snapshot

A number of significant new leases were executed during H2 2019, some of which included the **Wayfair** lease of 62,961 sq. ft. in Hannah Tech (East Submarket), the **General Services Administration** lease of 34,202 sq. ft. at 120 East Jolly Road (East Submarket), and the **Energy Developments, Inc. (EDL)** lease of 10,340 sq. ft. at 2501 Coolidge Road (East Submarket).

Large renewals were also inked, including 8,615 sq. ft. for **McLaren Health Plan** at 2900 West Road (East Submarket), 29,668 sq. ft. for the **State of Michigan Department of Human Services** at 5511 Enterprise Drive (South Submarket), 9,229 sq. ft. for **United Healthcare** at 822 Centennial Drive (West Submarket), 29,417 sq. ft. for **CLEARresult Consulting** at Park Place (East Submarket), and the **Ingham County** lease of 10,316 sq. ft. at 1115 South Pennsylvania Avenue (South Submarket).

Vacancies throughout the Greater Lansing area dropped one hundred basis points from 14.5% in H1 2019 to 13.5% in H2 2019, wrapping up the strongest year for the office market since 1999.

The continued migration from downtown offices to newer suburban space with on-site parking has created a visible shift in dynamics. For the first time in over 20 years of studying the Greater Lansing office market, the suburbs have outperformed the CBD in terms of occupancy. Suburban vacancy now averages 13.4%, while urban vacancy averages 13.7%.

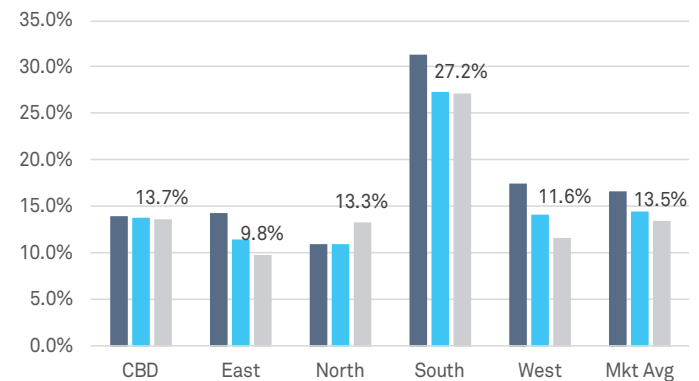


The Louie - 80,000 Sq. Ft. Class A Redevelopment Downtown

We continue to chart the trend of tenant flight toward high-end space throughout the market. Vacancy for Class A space continues its downward trend, averaging 5.0%, while Class B vacancies hover well above market average (17.4% and 34.1%, respectively.)

It is no surprise that market fundamentals are creating a very competitive environment in which occupiers often struggle to both identify quality office space and secure favorable lease terms. For over ten years, new speculative construction has remained at a virtual standstill; however, we anticipate the groundbreaking of a 34,000 sq. ft. office building on Eyde Parkway in 2020 (East Submarket). Furthermore, Class A renovations continued during H2 2019 on the 80,000-sq. ft. former Senate headquarters building, now dubbed **The Louie**, with occupancy expected in late 2020. **The Louie** is downtown's latest success story. **Dickinson Wright** will occupy the 9th and 10th floors of the building, and at the time of publication, additional transactions for several floors of **The Louie** are in-place or in-negotiation.

Figure 4: History of Vacancies



Source: Martin Commercial Properties, Inc.

Vacancy

H2 2019 vacancy rates averaged 13.5%, down from 14.5% in H1 2019. Vacancy rates fell in every submarket except the North. The strongest sector was clearly the East

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"Vacancy" - Continued from page 4.

Submarket, averaging 9.8% vacancy, while the weakest submarket continued to be the South Submarket, averaging 27.2% vacancy.

The CBD vacancy rate averaged 13.7% while vacancies in the suburbs averaged 13.4%.

There remained a broad gap between Class A and B vacancy, and tenants who desire best-in-market space are willing to pay rising asking rates in order to secure it. Class A space averages 5.0% vacancy, Class B space averages 17.4% vacancy, and Class C space averages 34.10% vacancy.

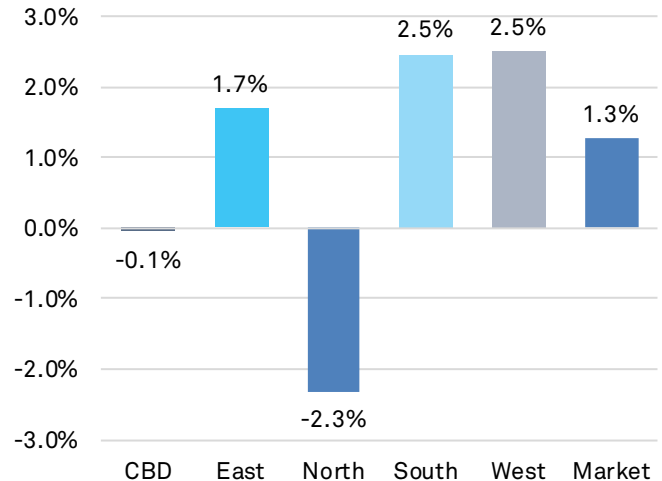
Absorption

Absorption is the net change in physically occupied space from one period to the next. During H2 2019, the Greater Lansing Area absorbed 108,703 sq. ft. (+1.3%). The East Submarket experienced the greatest absorption (61,354 sq. ft.), while the North Submarket fared the worst, absorbing a negative 3,101 sq. ft. (-2.3%).

New leasing activity continued at a brisk pace throughout H2 2019. Major leases included:

- **Midwest Strategy Group** - 6,635 sq. ft. at 101 S. Washington (CBD)
- **McPat Inc.** - 5,108 sq. ft. at 101 S. Washington (CBD)
- **Wayfair** - 62,961 sq. ft. in Hannah Tech (East Submarket)
- **General Services Administration** - 34,202 sq. ft. at 120 East Jolly Road (East Submarket)
- **Energy Developments, Inc. (EDL)** - 10,340 sq. ft. at 2501 Coolidge Road (East Submarket)

Figure 5: Absorption - H2 2019



Source: Martin Commercial Properties, Inc.

Asking Rental Rates

Full service asking rates for **Class A** space range from \$23.00 to \$29.00 per sq. ft. per year in the CBD and from \$22.00 to \$26.00 per sq. ft. per year in the suburbs.

Rental rates for **Class B** space range from \$18.00 to \$22.00 per sq. ft. in the CBD and \$12.00 to \$22.00 per sq. ft. in the suburbs. **Class C** rental rates vary widely, but are generally less than Class B rates.

Tenants requiring the best space that the market has to offer are often paying asking rates for Class A space. For Class B and C space, it is common for landlords to negotiate deals 5-10% lower than the list rate; however, lease concessions are no longer a major part of negotiations. If landlords are asked to invest significant capital to remodel lease space, they tend to ask for terms beyond five years. In the event tenants take space in an 'as is' condition, landlords tend to be more flexible on concessions.

The average parking allowance is 4:1,000 SF in the suburbs. Average monthly cost for parking in the CBD is \$150 per space for reserved parking and \$100 per space for unreserved. The average cost for unreserved parking (reserved is unavailable) in downtown East Lansing is between \$90 and \$125 per month.

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About Martin Commercial Properties

For nearly 60 years, Martin Commercial Properties has provided commercial real estate services to owners and occupiers and across five core business lines: Brokerage, Property Management, Project Management, Investment and Corporate Services.

Since 1988, Martin has produced comprehensive index briefs for the Greater Lansing Area, detailing local office, retail and industrial statistics, major transactions, industry trends and market forecasts. *Martin Commercial Properties is the source for local market knowledge.* We welcome the opportunity to be of service.

Trusted Commercial Real Estate Services...Since 1962.

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