Martin

INDEX BRIEF - **Office Market**

Greater Lansing Area, Michigan / H1 2019

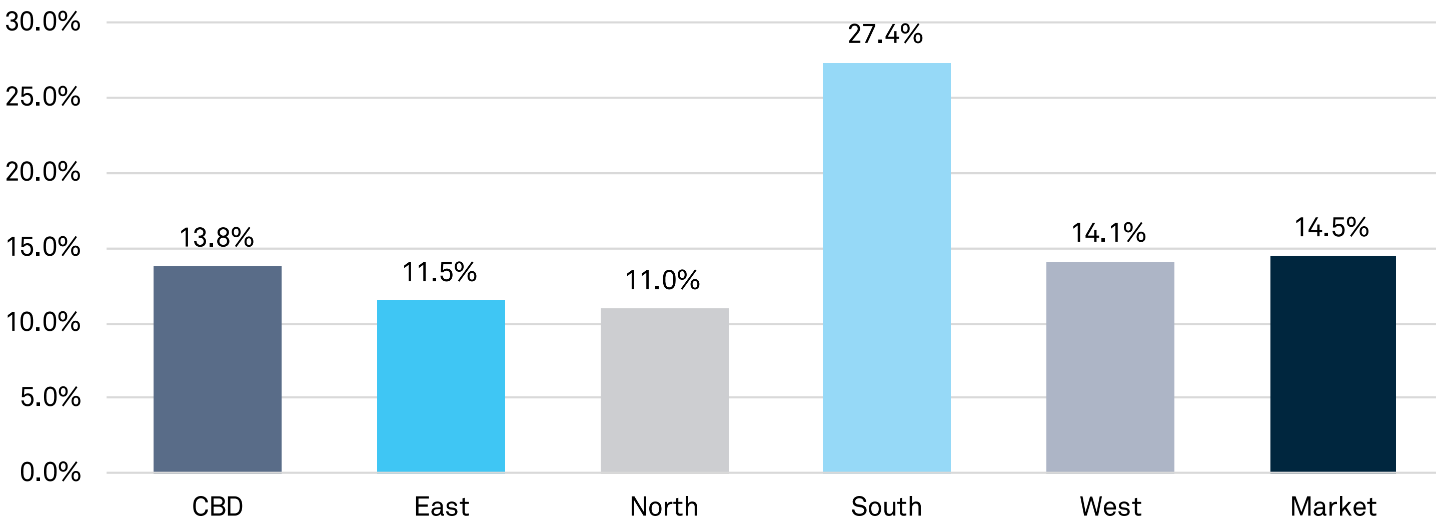
Vacancies Continue to Fall, Prompting Build-to-Suit Construction

Market at a Glance:

Arrows indicate change from previous period.

Vacancy Rate	Completions	Absorption
14.5%	0 SF	168,966 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- Local unemployment rate remains steady at 3.9%, below the State of Michigan average (4.4%), and above the national average (3.7%).
- Overall market vacancy falls over 200 basis points to 14.5%
- Vacancy rates down in nearly all submarkets
- **State of Michigan** leasing activity escalates
- Large blocks of quality space at a premium
- 32,000 SF 5656 S. Cedar sold to investor for non-office use
- 80,000 SF former Senate office building at 123 W. Allegan (CBD) sold for $4.5 Million and will be available for lease in 2020
- Speculative development remains stalled
- New construction is limited to build-to-suit; recent examples include 35,000 SF for **MASB-SEG Property/Casualty Pool** and 19,000 SF for **Employers Mutual** (both in the East Submarket)

Market Composition

The Greater Lansing Area comprises just under 8.6 million SF 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 75% of the space surveyed.

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

Greater Lansing Area, Michigan

Figure 2: Market Statistics | H1 2019

SUBMARKET	MARKET RENTABLE AREA (SF)	VACANT (SF)	VACANCY RATE (%)	NET ABSORPTION (SF)	COMPLETIONS (SF)	ASKING LEASE RATES ($/SF/YR)
CBD	**2,746,748**	**378,945**	**13.8**	**-6,807**	**0**	**9-29.00**
Class A	1,291,141	31,525	2.4	-86,134	0	23-29.00
Class B	1,345,000	262,237	19.5	79,851	0	18-22.00
Class C	110,607	85,183	77.0	-19,306	0	9-12.00
EAST	**3,645,052**	**418,980**	**11.5**	**151,464**	**0**	**12-28.00**
Class A	1,603,296	173,048	10.8	96,926	0	22-26.00
Class B	1,933,464	238,532	12.3	26,960	0	16-22.00
Class C	108,292	7,400	6.8	16,828	0	12-16.00
I-96/Jolly Road	788,307	52,805	6.7	2,303	0	17-19.00
Lk Lans/US-127	559,538	67,890	12.1	14,689	0	18-28.00
NORTH	**133,811**	**14,667**	**11.0**	**0**	**0**	**13-18.00**
Class A	0	NA	NA	NA	0	NA
Class B	133,811	14,667	11.0	0	0	13-18.00
Class C	0	NA	NA	NA	0	NA
SOUTH	**1,055,320**	**288,640**	**27.4**	**-8,501**	**0**	**8-25.00**
Class A	123,405	28,122	22.8	-20,000	0	25.00
Class B	901,760	244,118	27.1	41,214	0	18-19.00
Class C	30,155	16,400	54.4	0	0	8-10.00
WEST	**1,004,491**	**141,795**	**14.1**	**32,810**	**0**	**11-20.00**
Class A	106,159	0	7.5	0	0	NA
Class B	838,786	134,845	16.1	64,024	0	18-19.00
Class C	59,546	6,950	11.7	1,550	0	11-12.00
I-96/W Saginaw	193,924	37,138	19.2	-16,617	0	14-17.00
Creyts/W St Joe	452,367	40,197	8.9	49,287	0	14-20.00
MARKET	**8,585,422**	**1,243,027**	**14.5**	**168,966**	**0**	**8-29.00**
Class A	3,124,001	232,695	7.5	-9,208	0	22-29.00
Class B	5,152,821	894,399	17.4	217,794	0	18-22.00
Class C	308,600	115,933	37.6	-928	0	8-12.00

Source: Martin Commercial Properties, Inc.

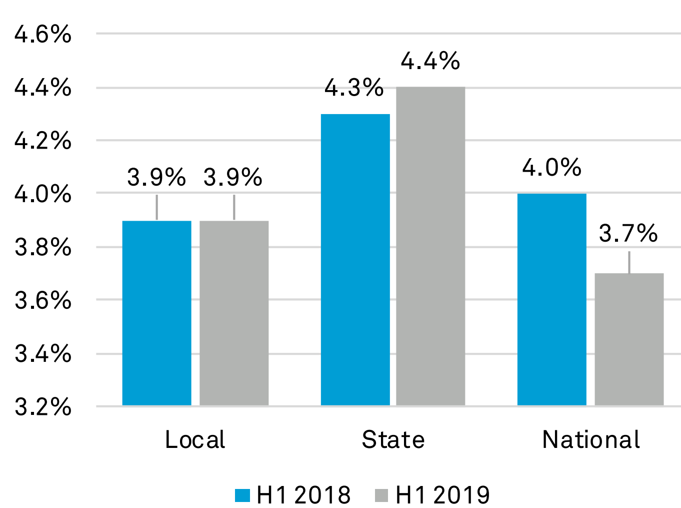
Greater Lansing Area

Unemployment Rate

The unemployment rate in the Greater Lansing Metropolitan Area remained steady at 3.9% from H1 2018 to H1 2019.

According to the Bureau of Labor Statistics, the tri-county's unemployment rate remains below the state level (4.4%), yet is above the national unemployment rate of 3.7%.

Figure 3: Unemployment Statistics | H1 2019



Source: Bureau of Labor Statistics

Greater Lansing Area, Michigan

Vacancies

During the past 12 months, vacancies in the Greater Lansing Area fell 220 basis points from 16.7% in H1 2018 to 14.5% in H1 2019. Every submarket experienced a drop in vacancies. The South Submarket continues to have significant vacancy with 27.4% of available office product currently vacant, while the strongest submarket is East Submarket, with 11.5% vacancy.

Existing occupiers throughout the market continue to focus on improving efficiency and reducing space footprints, if possible. Tenants who desire premium space are forced to start the process well in advance of their desired occupancy date.

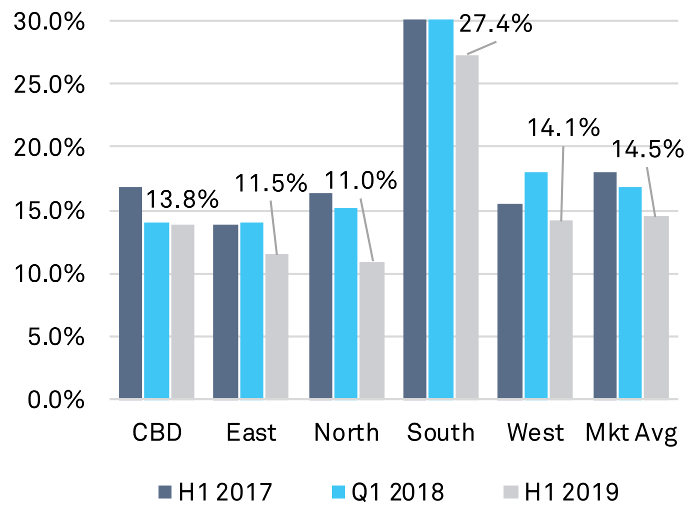
There remains a broad gap between Class A vacancy (7.5%) and Class B vacancy (17.4%), and this gap is accentuated downtown, where Class A space is 2.4% vacant. Class C space is faring very poorly marketwide (37.6% vacant).

"The CBD continues to outperform the suburbs; however, the gap has narrowed."

Overall, the CBD continues to outperform the suburbs in terms of occupancy; however, the gap has narrowed. Urban vacancies average 13.8% (down from 13.9% one year ago), while suburban vacancies average 14.8% (down from 18.1% in H1 2018).

The fundamentals of the market continue to create a very competitive environment in which occupiers have limited options, especially if in the market for over 5,000 SF.

Figure 4: History of Vacancies



Source: Martin Commercial Properties, Inc.

Absorption

Absorption is the net change in physically occupied space from one period to the next. During the past 12 months, the Greater Lansing Area absorbed 168,966 SF (+2.0%), a significant increase for our market size.

The submarket that absorbed the most space was the East sector (151,464 SF absorbed), while the South Submarket fared the worst, absorbing a negative 8,501 SF (-0.8%), largely due to **Two Men and a Truck** vacating ±20,000 SF on Executive Drive and the **State of Michigan** vacating ±15,000 SF on South Washington.

Leasing activity was steady throughout the market. Major lease transactions this period included:

- **Employers Mutual Casualty Company** leased ±19,000 SF in a build-to-suit building under construction on Earl Avenue (East Submarket);
- **Michigan State University** leased ±18,000 SF on South Hagadorn (East Submarket);

Continued on page 5.

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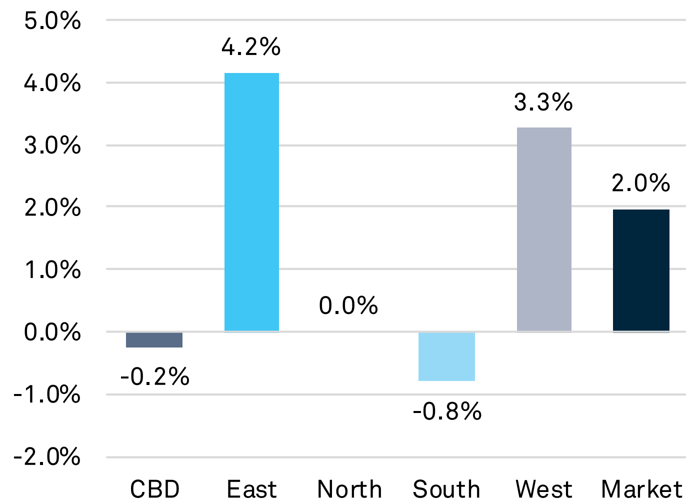
"Absorption" - Continued from page 4.

- **Care Free Medical** leased ±16,000 SF on West Saginaw (West Submarket);
- A law firm leased ±15,000 SF in the former Senate building under renovation on Allegan (CBD);
- The **State of Michigan** leased over 40,000 SF in several locations in the Central Business District.
- **Great Lakes Cyber Academy** leased ±10,200 SF on Eyde Parkway (East Submarket); and
- **Pulmonary & Critical Care** leased ±6,500 SF on East Michigan (CBD).

Figure 5: Absorption - Past 12 Months



Source: Martin Commercial Properties, Inc.

Care Free Medical Leased 16,000 SF at 1100 W. Saginaw

We anticipate leasing activity to escalate, as multiple transactions directly and indirectly related to the **State of Michigan** are pending, with anticipated absorption totaling over 200,000 SF.

Asking Rental Rates

Rental rates edged higher this period. Full service asking rates for **Class A** space range from $23.00 to $29.00 per SF per year in the CBD and from $22.00 to $28.00 per SF per year in the suburbs.

Rental rates for **Class B** space are similar in both the CBD and the surburbs, and range from $18.00 to $22.00 per SF per year. **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 becoming more price insensitive, 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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Greater Lansing Area, Michigan

The Hollister Building

About Martin Commercial Properties

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

We continually study comparable leases and sales, vacancy and rental rates, as well as economic considerations and industry trends. With Martin, you get the premier service provider in the industry. We'd welcome the opportunity to be of service.

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Services Summary

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