

Greater Lansing Area, Michigan / H1 2020

Local Office Market Remains Strong – Minimally Impacted by Covid -19

Market at a Glance:

Arrows indicate change from previous period.



Vacancy Rate

14.0%



Completions

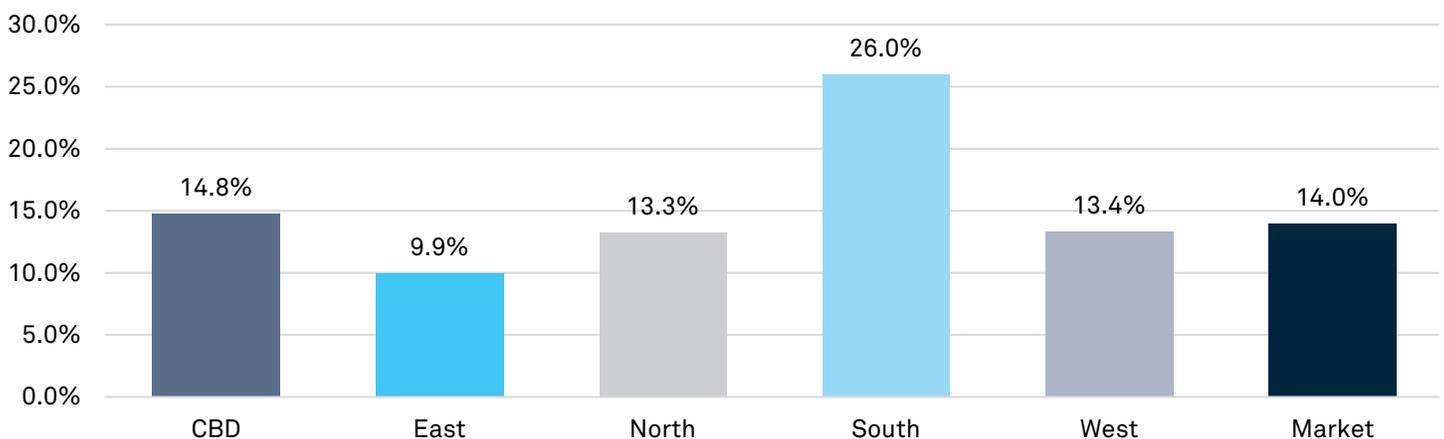
0 SF



Absorption

-6,967 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- The local unemployment rate soared from 2.7% in H2 2019 to 16.4% due to the COVID-19 health crisis.
- Average market vacancy increased from 13.5% in H2 2019 to 14.0% in H1 2020, while vacancies of Class A space fell from 5.0% in H2 2019 to 4.8% in H1 2020. We anticipate vacancies to rise due to the effects of COVID-19.
- Vacancies in the South Submarket dropped to the lowest rate since H2 2009.
- Large blocks of quality space remain at a premium.
- Ground breaking occurred on a 34,000 SF building on Eyde Parkway and an 8,000 SF addition to **Watertower Place** is planned (East Submarket), while renovations continue on the 80,000 SF former senate building now dubbed **'The Louie'** (CBD).
- The six-building 36,800 SF Office Park West sold for \$1,715,000 to Creyts Holding, LLC.

The Impact of COVID-19

The COVID-19 pandemic continues to generate a swirl of uncertainty in markets around the globe. Shelter-in-place orders abruptly changed the way we work, resulting in mass remote working, a significant lifestyle change and a great deal of concern going forward.

Clearly, not all sectors of the commercial real estate market, nor regions of the United States, have been and will be impacted in the same manner. General office properties have been impacted to some degree nationally; however, the local impact of COVID-19 to the office market has been minimal to this point. The hotel and retail markets are expected to rebound much slower than office or industrial and it could take a matter of years before there is any normalcy in those sectors.

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"The Impact of COVID-19" - Continued from page 1.

Year-to-date, the road meandering through the Greater Lansing office market has certainly had its share of ripples with many businesses forced to make short-term decisions with long-term implications. Office expansion, relocation and start-ups slowed, and some lease terms were shorter, while many purchasers elected to remain on the sidelines, terminating agreements or extending inspection periods to more fully understand COVID-19's repercussions to their businesses prior to close.

We are in the first wave of the crisis. An analysis of paid rent in our management portfolio shows over 95% of local office tenants are current and less than 5% have requested rent deferral or abatement. It is clear tenants and landlords are attempting to determine what lies ahead and this first wave is sorting out the issues.

How the federal government continues to address the needs of businesses will play a vital role in the market's ultimate recovery.

The second wave will be the fallout from months of COVID-19 issues and those effects will impact the owners and operators for years to come. How the federal government continues to address the needs of businesses will play a vital role in the market's ultimate recovery.

The virus has and will continue to have an effect on the economy and workforce, forcing some businesses into tough decisions. Two conflicting trends have emerged from the pandemic, which will determine whether or not there will be a significant change in office space demand.

The first trend relates to cost savings. Many businesses are studying or have elected to reduce their footprint to decrease rent obligations, which would diminish demand for office space. This can be accomplished through various

work-at-home scenarios. Throughout the pandemic there has been an awakening that remote working arrangements can be effective. Some form of work-from-home scenario most likely will be embraced by employer and employee alike and continue into the post-pandemic world. That said, coaching, mentoring and collaborating are more effective in person, in an office. The office market will never disappear, but it *will* transform.

Over the past decade, we have seen a shift toward densification (packing more people into open office spaces). Recent safety protocols suggest it is likely that we will soon see a new shift toward de-densification in an effort to create the requisite physical distancing to make employees feel safe. This second trend requires the physical separation of workstations and the expansion of collaborative areas – and ultimately, it could create a greater demand for office space.

It is too early to say whether or not COVID-19 leads to an increase or decrease in demand for office space. In either scenario, building owners will need to take steps to ensure that tenants, employees and guests feel safe in their space by altering common areas, enhancing cleaning efforts, and improving air filtering processes. These changes are costly, and this cost may affect the rent that owners charge, assuming the market will bear the increased cost. The market is volatile and elements could change on a moment's notice as the country and world move through a new way of doing business. 🏢

Comerica Building
101 N. Washington Square
Up to 35,000 SF is for Lease
One Block from State Capitol



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TIMELINE: Local Impact of COVID-19

March 12	K-12 Schools Close
March 13	Temporary Ban on Large Gatherings/ Events of 250+
March 16	Temporary Closures of Bars, Theaters, Casinos & Public Spaces; Restaurants Limited to Delivery & Carry-Out Orders
March 19	SBA Loans Become Available for Small Businesses
March 21	Temporary Closures of Hair, Nail & Tanning Salons, Massage, Spa, Tattoo & Similar Services
March 23	Initial "Stay Home, Stay Safe" Order Temporarily Suspends In-Person Operations
March 27	Small Business Relief Program Funding Applications Processed Live
March 30	Food Labeling Training for Restaurants to Sell Food & Pantry Items Previously Only Sold by Grocery & Retail Stores
March	2.9% Unemployment (Greater Lansing MSA)
April 7	LEAP awards 60 Local Small Businesses with MI Small Business Relief Program Grants (\$10,000)
April 9	"Stay Home, Stay Safe" Order Extended
April	19.2% Unemployment (Greater Lansing MSA)
May 1	Construction and Real Estate Re-Open
May 6	\$10 Million in Small Business Relief Program Grants Awarded to 2,700+ State Businesses (60 by LEAP)
May 7	Michigan 'Safe Start' Plan Detailed
May 11	Manufacturing Employees Return to Work
May 12	Paycheck Protection Program (PPP) Implemented; \$16+ Billion in Forgivable Loans Provided to 110,000+ Small Businesses Statewide to Date
May	16.4% Unemployment (Greater Lansing MSA)
June 1	"Safer at Home" Order Rescinded
June 4	Retailers Re-Open, Subject to Capacity Limits
June 8	Restaurants Re-Open, Subject to Capacity Limits
June 15	Personal Services (Hair, Nail, Massage, etc.) Re-Open Following Safety Guidelines
June 11	MEDC Awards \$4.35 M Low-Interest Loans to 74 Small Businesses Through Small Business Relief Program
June 23	Michigan Strategic Fund Approves New Economic Assistance for Small Businesses

Sources: Michigan.gov and LEAP

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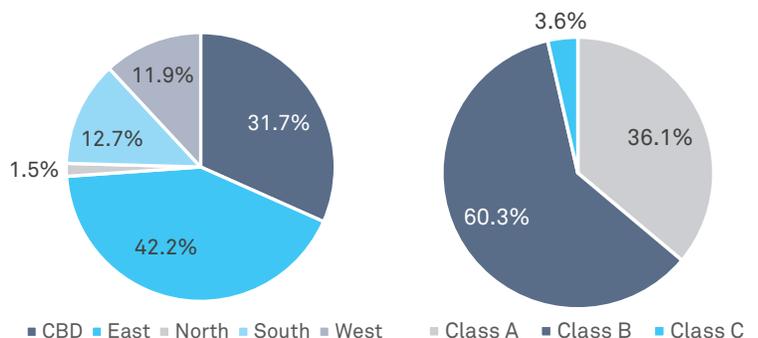


Market Composition

The Greater Lansing Area comprises just over 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 74% of the space surveyed. 36.1% of space is Class A, 60.3% is Class B and 3.6% is Class C.

For over 10 years, new speculative construction has remained at a virtual standstill and market fundamentals have created a very competitive environment in which large occupiers struggle to identify quality office space and secure favorable lease terms. This demand may be satisfied soon, as a new Class A 34,000 SF speculative office building is under construction on Eyde Parkway (East Submarket) and renovations continue in the CBD on the Class A 80,000 SF former Senate headquarters building dubbed **The Louie**, with occupancy expected next year.

Figure 2: Market Composition



Source: Martin Commercial Properties, Inc.

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Figure 3: Market Statistics | H1 2020

SUBMARKET	MARKET RENTABLE AREA (SF)	VACANT (SF)	VACANCY RATE (%)	NET ABSORPTION (SF)	COMPLETIONS (SF)	ASKING LEASE RATES (\$/SF/YR)
CBD	2,738,689	405,279	14.8	-30,004	0	9-29.00
Class A	1,291,141	32,119	2.5	-3,282	0	23-29.00
Class B	1,336,941	308,964	23.1	-39,542	0	18-22.00
Class C	110,607	64,196	58.0	12,820	0	9-12.00
EAST	3,652,193	363,049	9.9	1,718	0	12-28.00
Class A	1,603,296	90,107	5.6	8,863	0	22-26.00
Class B	1,940,605	265,542	13.7	-7,145	0	16-22.00
Class C	108,292	7,400	6.8	0	0	12-16.00
I-96/Jolly Road	795,448	57,920	7.3	458	0	17-19.00
Lk Lans/US-127	559,538	55,066	9.8	12,252	0	18-28.00
NORTH	133,811	17,768	13.3	0	0	13-18.00
Class A	0	NA	NA	NA	0	NA
Class B	133,811	17,768	13.3	0	0	13-18.00
Class C	0	NA	NA	NA	0	NA
SOUTH	1,095,236	284,689	26.0	17,035	0	8-25.00
Class A	123,405	28,122	22.8	0	0	25.00
Class B	941,676	240,167	25.5	17,035	0	12-16.00
Class C	30,155	16,400	54.4	0	0	8-10.00
WEST	1,029,747	137,639	13.4	4,284	0	11-20.00
Class A	106,159	0	0	0	0	NA
Class B	864,042	133,244	15.4	4,284	0	17-19.00
Class C	59,546	4,395	7.4	0	0	11-12.00
I-96/W Saginaw	193,924	29,132	15.0	0	0	14-17.00
Creyts/W St Joe	452,367	57,474	12.7	-21,944	0	14-20.00
MARKET	8,649,676	1,208,424	14.0	-6,967	0	8-29.00
Class A	3,124,001	150,348	4.8	5,581	0	22-29.00
Class B	5,217,075	965,685	18.5	-25,368	0	12-22.00
Class C	308,600	92,391	29.9	12,820	0	8-12.00

Source: Martin Commercial Properties, Inc.

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Vacancy

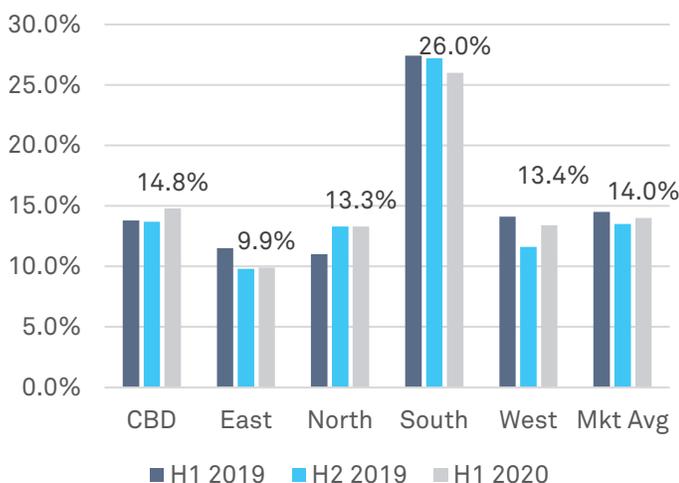
H1 2020 vacancy rates averaged 14.0%, down from 13.5% in H2 2019, but up from 14.5% charted one year ago. The strongest sector remains the East Submarket, averaging 9.9% vacancy (up from 9.8% in H2 2019). The weakest submarket is the South Submarket, averaging 26.0% vacancy (down from 27.2% in H2 2019). It is interesting to note that the last time vacancy in this submarket fell below 26.0% was in 4Q 2009, where it averaged 22.1%.

The CBD vacancy rate continued its uphill climb to 14.8%, while vacancies in the suburbs averaged 13.6%, up from 13.4% in H2 2019.

There remains a broad gap between Class A and B vacancy, and tenants who desire best-in-market space continue to pay higher rates in order to secure it. Class A space averages 4.8% vacant (down from 5.0% in H2 2019); Class B space averages 18.5% (up from 17.4% in H2 2019); and Class C space averages 29.9% (down from 34.10% in H2 2019). It should be noted that Class A space in the CBD is only 2.5% vacant. This figure is expected to rise in early 2021, with the addition of the 80,000 SF Class A redevelopment of the former Senate Headquarters, **The Louie**.

The market is volatile due to the effects of COVID, and we anticipate vacancies to rise. 📈

Figure 4: History of Vacancies



Source: Martin Commercial Properties, Inc.



2900 West Road

*Up to 3,464 SF Class A Space for Lease
w/Immediate Access to US-127*

Absorption

Absorption is the net change in physically occupied space from one period to the next. During H1 2020, the Greater Lansing Area absorbed a negative 6,967 SF (-0.1%), down from H2 2019, which charted 108,703 SF of absorption. The South Submarket experienced the greatest absorption (17,035 SF), while the East Submarket fared the worst, absorbing a negative 30,004 SF.

H1 2020 began with brisk market interest; however, with the onset of COVID-19 in March, most lease negotiations slowed and many were scrapped entirely. As a result, leasing activity for the period was sluggish and the average lease size was reduced. Major leases this period included:

- A confidential lobbyist firm - 14,900 SF in the Louie (CBD);
- **VanGuard Public Affairs** - 4,400 SF in the Comerica Building (CBD);
- **Plunkett Cooney** - 4,400 SF in the Comerica Building (CBD);
- **Business College Access Network** - 4,500 SF in Business & Trade Center (CBD);
- **Financial Technology** - 6,800 SF at University Place (East Submarket);
- **Conduent State & Local Solutions** - 6,500 SF at 4050 Hunsaker (East Submarket);

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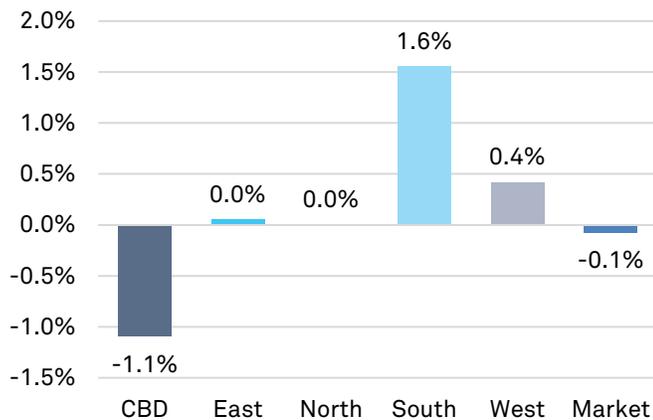
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"Absorption" - Continued from page 5.

- **Better Health Therapy** - 7,141 SF leased at 2157 University Park Drive (East Submarket);
- **Safe Health PC** - 5,700 SF at 5135 South Pennsylvania (South Submarket); and
- **State of Michigan Department of Health & Human Services** - 20,000 SF at Edgewood Tech (South Submarket).

As the market is volatile due to impacts of COVID-19, we anticipate absorption to trend downward. 📉

Figure 5: Absorption - H1 2020



Source: Martin Commercial Properties, Inc.

Asking Rental Rates

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

Rental rates for **Class B** space range from \$18.00 to \$22.00 PSF in the CBD and \$12.00 to \$22.00 PSF 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.

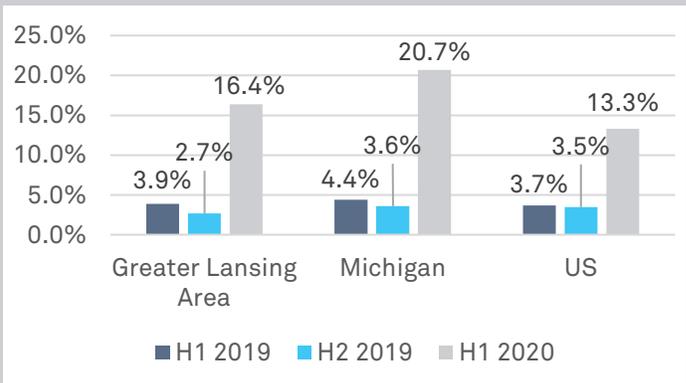
The average parking allowance is 4:1,000 SF in the suburbs. Average monthly cost for parking in the CBD is \$150 per space for reserved parking and \$100 per space for unreserved. The average cost for unreserved parking (reserved is unavailable) in downtown East Lansing is between \$90 and \$125 per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

Unemployment Rate

The unemployment rate in the Greater Lansing Metropolitan Area jumped from 2.7% in H2 2019 to 16.4% in H1 2020.

According to the Bureau of Labor Statistics, the tri-county's unemployment rate was below the state average (20.7%) but above the national average (13.3%).

Figure 6: Unemployment Statistics



Source: Bureau of Labor Statistics

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MMA Building
620 S. Capitol Avenue
684 SF for Lease

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 market insights 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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Services Summary

- Brokerage
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- Investment
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Eric F. Rosekrans
CCIM, CPM

Senior Vice President
Office Advisor

517 319-9209

eric.rosekrans@
martincommercial.com

Thomas Jamieson

Senior Associate
Office Advisor

517 319-9235

thomas.jamieson@
martincommercial.com

Carson Patten

Associate
Office Advisor

517 319-9230

carson.patten@
martincommercial.com

Van W. Martin
CCIM, SIOR, CRE

President &
CEO

517 319-9241

van.martin@
martincommercial.com

Mid-Michigan Office / 1111 Michigan Avenue, Suite 300, East Lansing, MI 48823 / (517) 351-2200