

Greater Lansing Area, Michigan / H1 2020

## Retail Vacancies Poised to Escalate Due to Economic Crisis

### Market at a Glance:

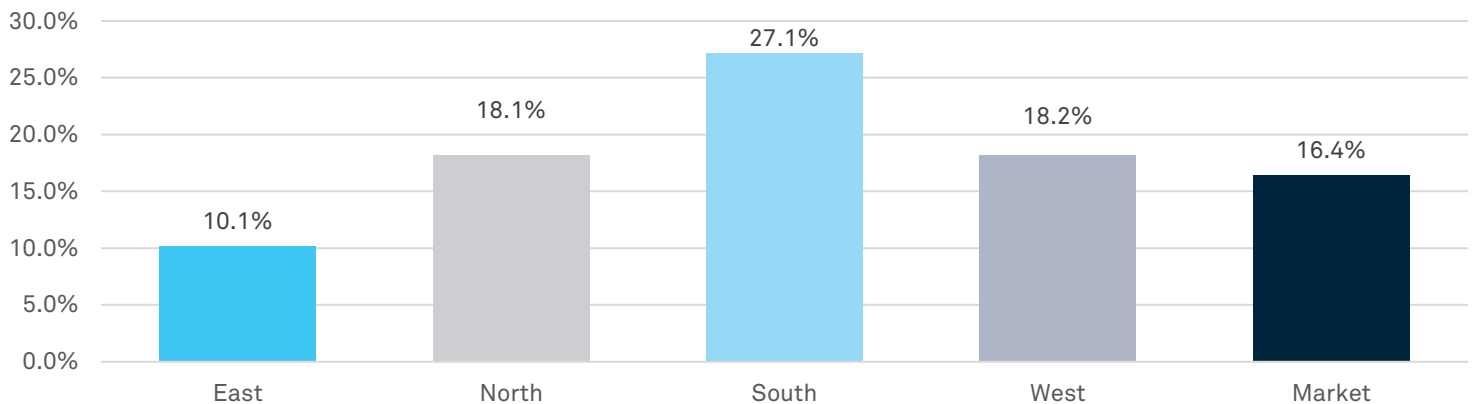
Arrows indicate change from previous period.

 **Vacancy Rate**  
16.4%

 **Completions**  
0 SF

 **Absorption**  
-40,194SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

### Market News

- COVID-19 wreaks havoc on local retail; scores of restaurants & stores close doors permanently, with even more in limbo.
- The local unemployment rate soars from 2.7% in H2 2019 to 16.4% due to the COVID-19 health crisis.
- **Sears** closes its **Frandon** store (East Submarket).
- **JC Penney** to remain open in Meridian Mall after announcing imminent closure (East Submarket).
- 32,000-SF former **Toys R Us** building on Newman Road sold to **Klingman's Furniture & Design** (East Submarket).
- **Hobby Lobby** inks deal for new 45,000 SF building in Phase 1 of the long-awaited mixed-use development **Delta Crossings** @ the NW quadrant of I-96 & West Saginaw Highway (West Submarket).
- Other Phase I retailers in **Delta Crossings** will include **TJ Maxx**, who leased 35,000 SF in the 157,000-SF power center scheduled for construction; **Texas Roadhouse**, who signed a ground lease for a West Saginaw pad site; and two national big box retailers, who postponed lease execution until later this year due to COVID.
- **Meijer** nears opening of small format store in new mixed-use development on Michigan Avenue (Downtown).

### The Impact of COVID-19

The COVID-19 pandemic continues to generate a swirl of uncertainty in markets around the globe. Shelter-in-place and social distancing orders abruptly changed daily life, resulting in mass store and restaurant closures, a significant lifestyle change and a great deal of concern moving 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. For example, healthcare properties are experiencing a surge with pent-up demand to serve growing medical needs. Industrial and general office properties have taken a hit in 2020; however, they are expected to rebound more quickly than hotel and retail properties.

Continued on page 2.

## Retail Market Insights / H1 2020

# Greater Lansing Area, Michigan

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

Year-to-date, the road meandering through the Greater Lansing retail market has been a turbulent one, with many businesses forced to make short-term decisions with long-term implications. Lease transactions slowed or were scrapped, 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.

Inventory management systems were rapidly overwhelmed by the acceleration of on-line shopping and consumer stockpiling. Due to the lack of raw materials caused by stay-at-home mandates, manufacturers could not replenish the centers, and retailers and grocers were then unable to stock food and essential goods in a timely fashion.

Non-essential businesses were ordered to temporarily close, creating an unprecedented disruption of commerce. Incumbents rarely do well in this type of disruption, and national retailers were forced to abide by a multitude of unique state-mandated protocols throughout the nation, creating internal turmoil for management and supply chain alike. Many tenants, large and small, have sought concession agreements to defer or reduce payments to manage cashflow.

Retailers will continue to face a daunting multitude of challenges for years to come. As social distancing and shelter-in-place orders escalated, more customers from all demographics shifted to digital, curbside pickup, and delivery. The longer the crisis persists, the greater the likelihood that this behavior will continue post-pandemic as consumers embrace this frictionless way to shop. Digital orders, however, are less profitable than traditional in-store shopping trips and the digital experience does not lend itself to impulse buys or new product trials. This behavioral shift may also pose a question about the purpose of many brick-and-mortar locations, and unique in-store experiences will be paramount to drive traffic and improve profitability. The irony, of course, is that local in-store

*Continued on page 3.*

## 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	<b>2.9% Unemployment (Greater Lansing MSA)</b>
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	<b>19.2% Unemployment (Greater Lansing MSA)</b>
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	<b>16.4% Unemployment (Greater Lansing MSA)</b>
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

# Retail Market Insights / H1 2020

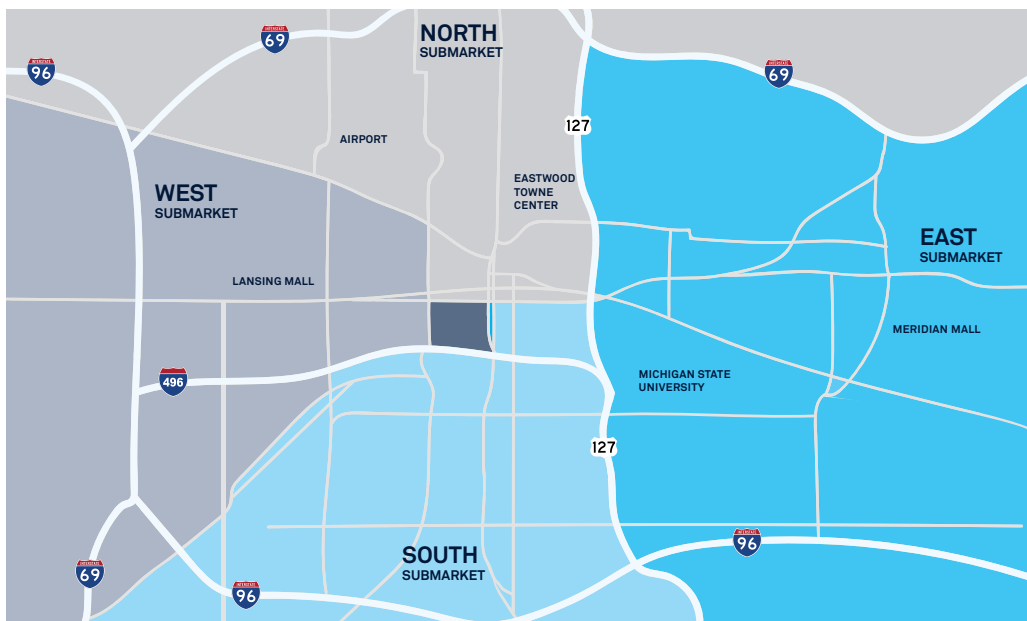
## Greater Lansing Area, Michigan

Figure 2: Market Statistics | H1 2020

SUBMARKET	MARKET RENTABLE AREA (SF)	MARKET SHARE (%)	VACANT (SF)	VACANCY RATE (%)	ABSORPTION (%)	ASKING LEASE RATES (\$/SF/YR)
EAST	3,951,812	41.7	400,377	10.1	-11,036	10-45.00
NORTH	778,041	8.2	141,004	18.1	-1,733	8-40.00
SOUTH	1,712,200	18.0	464,811	27.1	0	7-18.00
WEST	3,045,608	32.2	553,262	18.2	-27,425	9-35.00
MARKET	9,487,661	100	1,559,454	16.4	-40,194	7-45.00

Source: Martin Commercial Properties, Inc.

### Greater Lansing Area



"The Impact of COVID-19" - Continued from page 2.

experiences such as fitness centers, trampoline parks, axe-throwing ventures, cinemas, etc. have been, and to date remain, shut down.

Another significant challenge facing retailers is the need to protect customers and employees from contracting or spreading COVID-19, and in general, to address public germaphobia. Those retailers with the highest degree of touchless automation, designated curbside pickup, and delivery may enjoy a competitive advantage.

The implications of COVID-19 will likely influence owners and occupiers for decades. The virus has and will continue to take a toll on the economy and consumers, forcing some businesses to close and others to cut costs. The market will eventually recover, and retail and restaurants will ultimately thrive again, but recovery can mean many things, including change. One thing is clear: We will emerge in a different world from the one we knew prior to COVID-19. 🌊

## Retail Market Insights / H1 2020

# Greater Lansing Area, Michigan

### Market Composition

Just under 9.5 million SF of leasable retail space was surveyed throughout the Greater Lansing Area. The largest submarket is the East Submarket, home to **Michigan State University** and the **Meridian Mall**, with 42% of the market. The smallest submarket is the North Submarket, home to **Eastwood Towne Center**, with 8% of the market.

The most dynamic retail corridors in the market include Grand River Ave. from **MSU** to the **Meridian Mall** (East Submarket); West Saginaw Hwy. from Waverly to I-96, soon to be home to the new **Delta Crossings** development (West Submarket); Lake Lansing Rd. from Coolidge to Wood St. and Old US-27 in Dewitt near the I-69 interchange (north submarket); and Cedar St. from Jolly Rd. to Willoughby Rd. (South Submarket).

### Market Growth and Movement

#### EAST SUBMARKET

The East Submarket is the market's largest retail sector and has remained remarkably healthy throughout H1 2020. Average vacancies dipped from 10.9% in H2 2019 to 10.1% in H1 2020 largely due to removal of the 100,000 SF Haslett Village Square from the survey base, as it is pending sale to a developer and no longer on the market.

**JC Penney's Meridian Mall location, initially slated for closure, will now remain open.**

New restaurants leased space in H1 2020, including **For Crepe Sake** (211 M.A.C.) and **Biggby** (300 West Grand River); and **D&D Bicycles** opened in the 4,750 SF suite previously occupied by **Velocipede Peddler** in **Brookfield Plaza**.



**SkyVue**  
3,890 SF for Lease in  
Mixed-Use Project

Also, though **Sears** closed its doors in **Frاندor** this period, the property is still under master lease and the closure did not negatively impact submarket numbers. Ultimately, the 14.5-acre parcel will be removed from the leased market, and redeveloped to further strengthen the sector.

Currently though, several high-profile projects are under construction or ready to launch:

- **Red Cedar Redevelopment Project** - Mixed-use project on Michigan @ US-127, across from **Frاندor Shopping Center**, which will include 45,000 + square feet of retail and restaurant space, as well as two hotels, 1,100 student housing units, 150 market-rate apartments and an assisted living facility.
- **Park District** - Mixed-use project at the NW corner of Abbot and Grand River, which will feature an apartment building, a hotel and approximately 13,360 SF of retail.
- **Village of Okemos** - Mixed-use project at the intersection of Okemos and Hamilton Roads, will deliver residential units with over 66,000 SF of retail, including a new **Douglas J.**
- Renovation of 3470 Okemos - to accommodate a 3,900 SF **Big Boy** and a 1,500 SF **Tropical Smoothie Cafe**; and
- A new 10,000 SF development at the SE Corner of Grand River and Okemos Road - to welcome a drive-through **Chipotle** and **Aspen Dental**.

One prominent building sale occurred in the submarket this period: The former **Toys R Us** building at 1705 Newman Road was sold to **Klingman's Furniture & Design** for \$1.8 Million.

*Continued on page 5.*

## Retail Market Insights / H1 2020

# Greater Lansing Area, Michigan

"Market Growth and Movement" - Continued from page 4.

Despite predominantly good news throughout the submarket, COVID-19 has left a mark. This is best demonstrated by the status of the **Meridian Mall**, which after losing **Younkers** in 2018 made remarkable gains by leasing over 100,000 SF to entertainment venues. Vacancy is up and foot traffic is down due to the temporary COVID-related closures of **High Caliber**, **Launch Trampoline Park**, **Planet Fitness**, **Sky High Bungee**, **Studio C**, **Extreme Fun** and more. All is not bleak, however, as **JC Penney's** Meridian Mall location, initially salted for closure, will now remain open.

### NORTH SUBMARKET

Vacancies inched up from 17.9% in H2 2019 to 18.1% in H1 2020, while the most notable activity in the North Submarket this period included two new restaurants. **BJ's Restaurant & Brewhouse** is under construction on the site of the former **Max and Erma's** in **Eastwood Towne Center**, and a block to the east on Lake Lansing Road, **Fiesta Charra** will soon be under renovation.

### SOUTH SUBMARKET

Though historically a weak sector, strong 2019 retail activity put the submarket on the map as the new hotspot for retailers. Much of the sector is occupied by older buildings, and vacancies hovered at 27.1% this period.

However, quality space in the sector has performed well, prompting new development. **Shaheen's** new **Cadillac** dealership is under construction on American Road and **Xfinity** opened, joining **Panera**, in the new building at the corner of South Cedar and Edgewood.

In Holt, construction is underway on the 14,000 SF mixed-use **Esker Square** at 2030 North Cedar; an additional 6,000 SF is being built adjacent to **Dollar Tree** on Kipp Road in Mason, in which **Wild Bill's Tobacco** leased space; and a new Dollar General is under construction on Eaton Rapids Road, just south of I-96 in Lansing.

Good news remains pending in regard to the long-vacated former **Big K** on South Cedar Street, as **U-Haul** is poised to purchase the 120,600 SF building.

Finally, two notable sales occurred this period. The 61,500 SF auto dealership at 5827-5910 S. Pennsylvania was sold for \$3.1 Million to **LAG Lansing GM, LLC** and the 44,000 SF former **Market Fresh** building on South Martin Luther King, Jr. Blvd. sold for \$545,000 to **Soldan's**.

### WEST SUBMARKET

Vacancies edged higher in the West Submarket to 18.2%, up from 17.3% charted in H2 2019. **Victoria's Secret** and **Chipolte** closed in the struggling **Lansing Mall**, and **Pier One** shut down its store on Marketplace Drive.

However, like the East Submarket, this sector is a major hub for retail activity. **Chipolte** opened in a new 2,400 SF free-standing building with drive-thru along West Saginaw; **Detroit Frankie's Pizza** opened on Migaldi Lane and **American Freight** replaced the failing **Sears Outlet** in 31,937 SF at 800 Waverly Road.

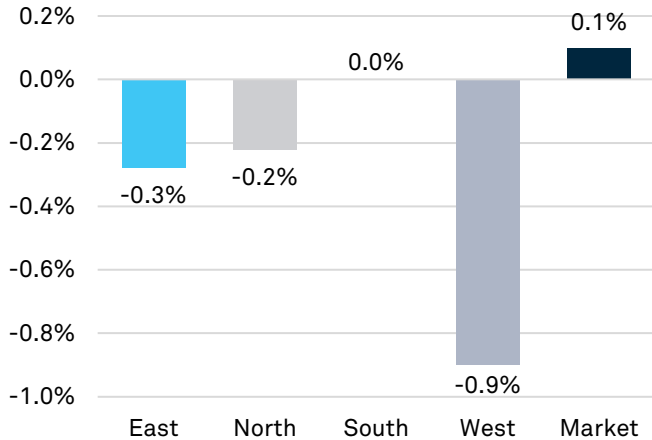
**Phase 1 of Delta Crossings will include powerhouses Hobby Lobby, TJ Maxx, Texas Roadhouse & more.**

Farther west, new construction is on the horizon at the NW intersection of I-96 and West Saginaw Highway. Phase 1 of the long-awaited mixed-use development **Delta Crossings** will include retail powerhouses **Hobby Lobby**, who inked a deal for a new 45,000 SF build-to-suit facility; **Texas Roadhouse**, who signed a ground lease for a West Saginaw pad-site; and **TJ Maxx**, who leased 35,000 SF in a 157,000-SF power center to break ground later this year. It is reported that 24,500 SF **HomeGoods** and a 32,000 SF national big box user still to be named have successfully negotiated deals at **Delta Crossings**, but have postponed lease execution due to COVID-19. 🏡

# Retail Market Insights / H1 2020

## Greater Lansing Area, Michigan

**Figure 3: History of Vacancies**



Source: Martin Commercial Properties, Inc.

### Vacancies

The average vacancy rate for Greater Lansing retail space stalled this period at 16.4% and leasing activity, while brisk in early H1 2020, slowed to a crawl after state-ordered measures attempting to curb the spread of COVID-19 were put into place. The governor's directive to close restaurants on March 16th quickly accelerated one week later with a state-wide stay-at-home order, and most deals were postponed or canceled altogether.

The submarket experiencing the highest percentage of vacancy is the South Submarket (27.1%, unchanging from H1 2020). This sector is expected to strengthen considerably with the pending sale of the long-vacant 120,000 SF **Big K** building to **U-Haul** in 2020. Furthermore, several high-profile restaurant vacancies that are on the market near the Cedar Street/I-96 interchange are expected to attract national restaurant interest when the market recovers.

The sector with the lowest vacancy continues to be the East Submarket (10.1% vacant, down from 10.9% in H2 2019); and significant mixed-use development is underway in the sector. 🏗️

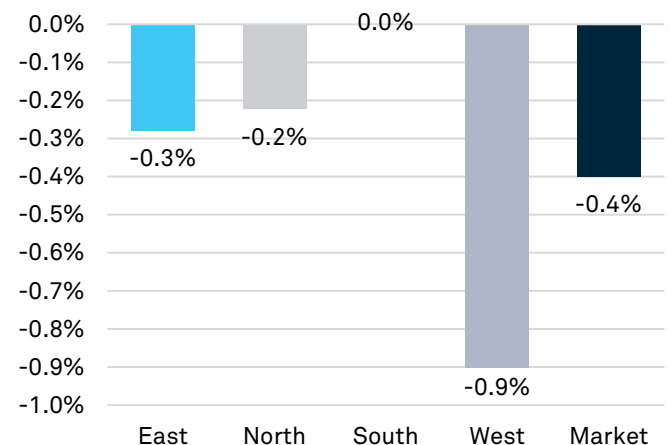
We anticipate vacancies to escalate in all submarkets during the next year, as a result of the financial hardships already inflicted upon retailers, as well as recent behavior shifts of the consumer. A significant consolidation of retailers will fundamentally alter the competitive landscape.

### Absorption

Absorption is the net change in physically occupied space from one period to the next. Over the past six months, the Greater Lansing retail market absorbed -40,194 SF, down from 61,754 SF of absorption during H2 2019.

The South Submarket stayed static with 0 SF absorption; all other sectors lost ground. The West Submarket was the hardest hit, with -27,425 SF absorption, due in large part to the closure of **Pier One** (9,456 SF) on Marketplace Drive & **Victoria's Secret** (6,406 SF) in the **Lansing Mall**. 🏢

**Figure 4: Absorption During H1 2020**



Source: Martin Commercial Properties, Inc.

## Greater Lansing Area, Michigan



2440 Cedar Street, Holt  
4,954 SF Restaurant for Sale

### 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.

© 2020 Martin Commercial Properties, Inc. and Martin Commercial Properties West Michigan, LLC. All rights reserved. This information has been obtained by Martin Commercial Properties' Vice President of Research, Jill Langosch, from sources believed reliable but has not been verified for accuracy or completeness. Any reliance on this information is solely at your own risk. Martin Commercial Properties and the Martin logo are service marks of Martin Commercial Properties, Inc. and Martin Commercial Properties West Michigan, LLC.

### Services Summary

- Brokerage
- Property Management
- Project Management
- Investment
- Corporate Services

#### Amy Richter-Perkins

Senior Associate / Retail Advisor

517 319-9248

amy.richter-perkins@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