

Greater Lansing Area, Michigan / H2 2020

Office Vacancies Rise; Market Faces Tough Times Ahead

Market at a Glance:

Arrows indicate change from previous period.



Vacancy Rate

16.4%



Completions

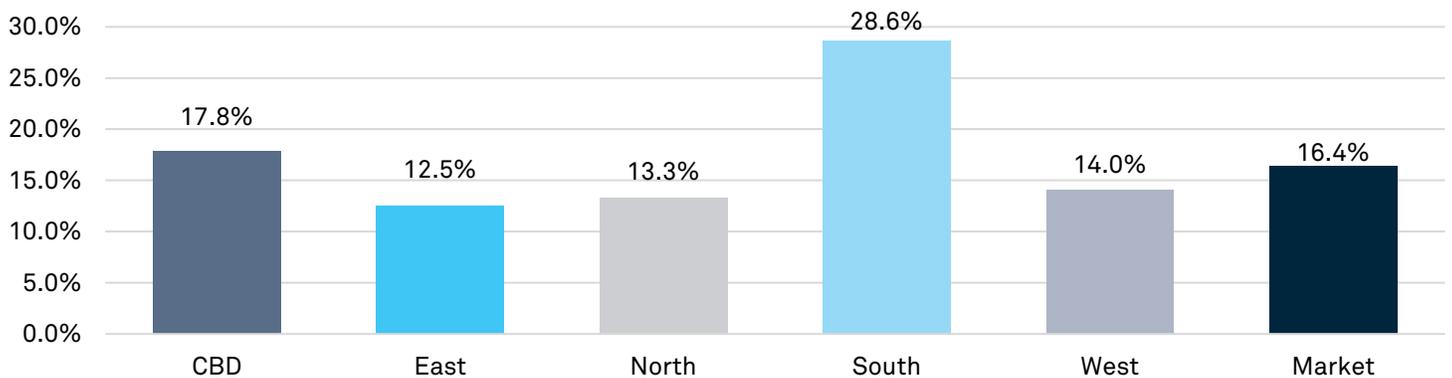
109,000 SF



Absorption

-218,797 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- Local unemployment fell from 19.2% in H1 2020 to 3.9% in H2 2020, while state unemployment dropped from 23.6% to 6.3% during the same period; both improvements offering a misleading image of prosperity.
- Office market fundamentals deteriorated over the past six months, with vacancies averaging 16.4% (up from 14.0% in H1 2020), representing the highest level of vacancy since 2009.
- The Central Business District (CBD) was disproportionately impacted by COVID-19, as the **State of Michigan** canceled multiple leases throughout the sector to offset shrinking tax revenues.
- An influx of sublease space brought to the market in H2 2020, as well as an elevated level of new office completions, will contribute to persistently high vacancy throughout 2021 and into 2022.
- Office vacancy is expected to remain at a stubbornly high rate, and rent increases will be difficult to achieve as market conditions remain in favor of occupiers.

- Deals involving significant build-out will not be as flexible, given costs of construction.
- Suburban office sectors are expected to recover faster than their CBD counterpart.
- "The Louie,"** a 75,000 sq. ft. renovated building opened its doors 50% leased to **Dickinson Wright, PLLC**; **Truscott Rossman Group, LLC**; & **FH67, LLC** (CBD).
- A new 34,000 SF speculative building was completed on Eyde Parkway (East).
- Tenants made both long and short-term leasing decisions over the period, with shorter term renewals more prevalent.
- Most companies have not yet returned to the office. When they do return, many may favor a hybrid work style that combines remote working with office use.
- Occupiers are increasingly demanding flexible space options, indoor air quality and touchless technology.
- Wayfair** scrapped plans for a 62,000 SF customer service center; space offered for sublease (East)
- Sales activity was steady throughout the period.

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Greater Lansing Area, Michigan

Figure 2: Market Statistics | H2 2020

SUBMARKET	MARKET RENTABLE AREA (SF)	MARKET SHARE (%)	VACANT (SF)	VACANCY RATE (%)	ABSORPTION (SF)	ASKING LEASE RATES (\$/SF/YR)
CBD	2,750,003	31.8	490,322	17.8	-73,729	9-30.00
EAST	3,632,605	42.0	453,031	12.5	-109,570	12-28.00
NORTH	133,811	1.6	17,768	13.3	0	13-18.00
SOUTH	1,095,236	12.7	313,406	28.6	-28,717	8-25.00
WEST	1,029,747	11.9	144,420	14.0	-6,781	11-20.00
MARKET	8,641,402	100	1,418,947	16.4	-218,797	8-30.00

Source: Martin Commercial Properties, Inc.

Greater Lansing Area



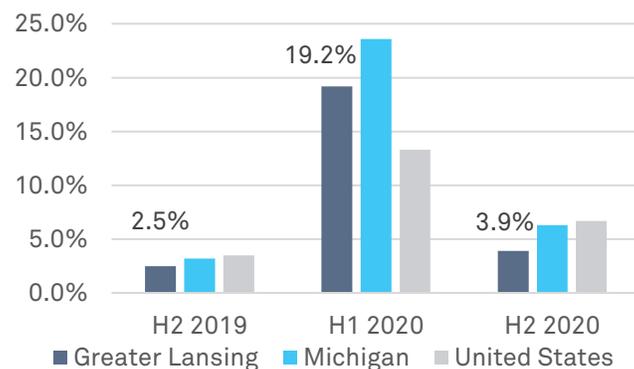
Economic Update

The ongoing global pandemic and rise of COVID-19 cases in 2020 marked a difficult year for the local economy. In April alone, the Greater Lansing Area saw nearly 58,000 jobs lost. However, as of November 2020, the market recovered over 71% of the jobs it lost in April, representing an exceptionally fast recovery over previous recessions.

We anticipate this growth to continue as vaccines are deployed and the market continues to strengthen. 📈

Figure 3: Unemployment Statistics

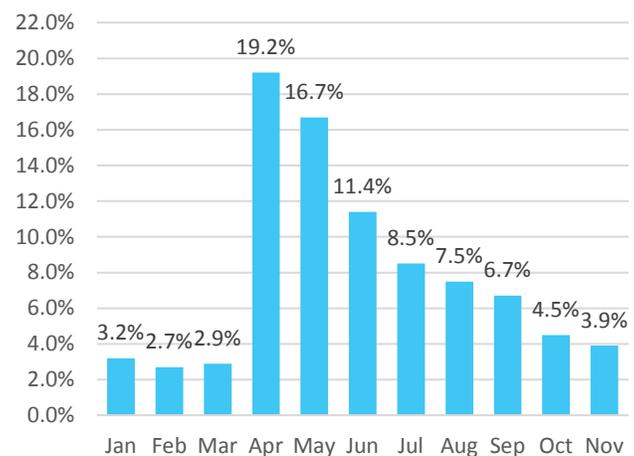
History of Unemployment / Local, State, U.S.



Source: Bureau of Labor Statistics

Figure 4: Unemployment Statistics

History of Greater Lansing Unemployment / 2020 by Month



Source: Bureau of Labor Statistics

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Greater Lansing Area, Michigan

Market Composition & Growth

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.

Prior to H2 2020, new speculative construction remained at a virtual standstill for over a decade and market fundamentals created a very competitive environment where large occupiers struggled to identify quality office space and secure favorable lease terms. This period, however, the much-anticipated "The Louie," a 75,000 SF renovated building opened its doors in the CBD, along with a 34,000 SF spec building on Eyde Parkway (East Submarket). No additional new office construction is anticipated until the market fully recovers.

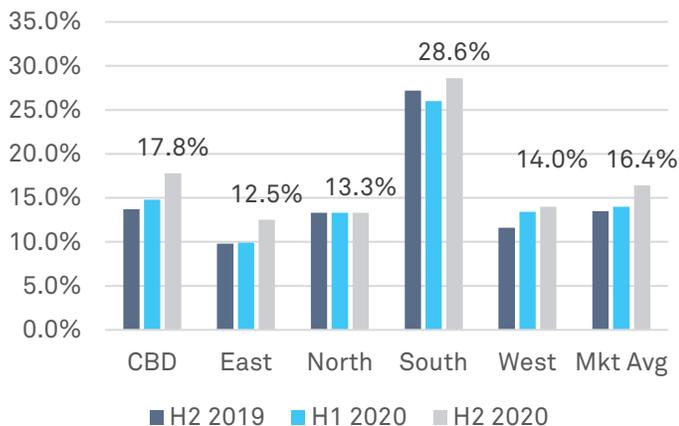
The CBD vacancy rate continued its uphill climb to 17.8%, the highest recorded in the sector since 2009, while vacancies in the suburbs averaged 15.8%, up from 13.6% in H1 2020.

Though large blocks of space became available in both the CBD and the East Submarket this period, suburban markets have remained relatively healthy overall. The CBD is experiencing more damaging consequences from the COVID-19 crisis, due to the State of Michigan exercising a number of their lease cancellation clauses, and an increasing number of private sector firms placing space on the market for sublease. Historically, sublease space has not been a notable market influencer; nevertheless, it should be noted that sublease space has now become a competitive factor in the market. During the past six months alone an additional 35,000 SF of sublease space in the CBD and 75,000 SF of sublease space in the East Submarket were reported, and the number is projected to rise. 📈

Vacancy

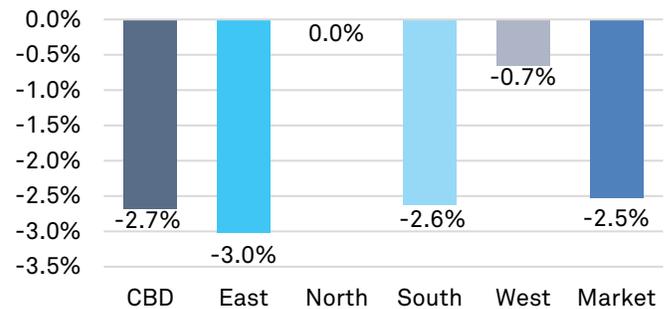
H2 2020 vacancy rates averaged 16.4%, up from 14.0% in H1 2020, and well above the 13.5% vacancies charted one year ago. The strongest sector remains the East Submarket, averaging 12.5% vacancy (up from 9.9% in H1 2020). The weakest submarket is the South Submarket, averaging 28.6% vacancy (up from 26.0% in H1 2020).

Figure 5: History of Vacancies



Source: Martin Commercial Properties, Inc.

Figure 6: Absorption - H2 2020



Source: Martin Commercial Properties, Inc.

Absorption

Absorption is the net change in physically occupied space from one period to the next. During H2 2020, the Greater Lansing Area absorbed a negative 218,797 SF (-2.5%), down from H1 2020, which charted negative 6,967 SF (-0.1%) of absorption. Disregarding the North Submarket, in which no absorption was charted, all sectors charted negative absorption. The West Submarket fared the best, with -6,781 SF of absorption, while the East Submarket experienced the greatest negative absorption (-109,570 SF). 📈

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Greater Lansing Area, Michigan



200 N. Washington
2,750-4,376 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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