

Greater Lansing Area, Michigan / H1 2021

Office Leasing Slows While Building Sales Escalate

Market at a Glance:

Arrows indicate change from previous period.



Vacancy Rate
20.0%

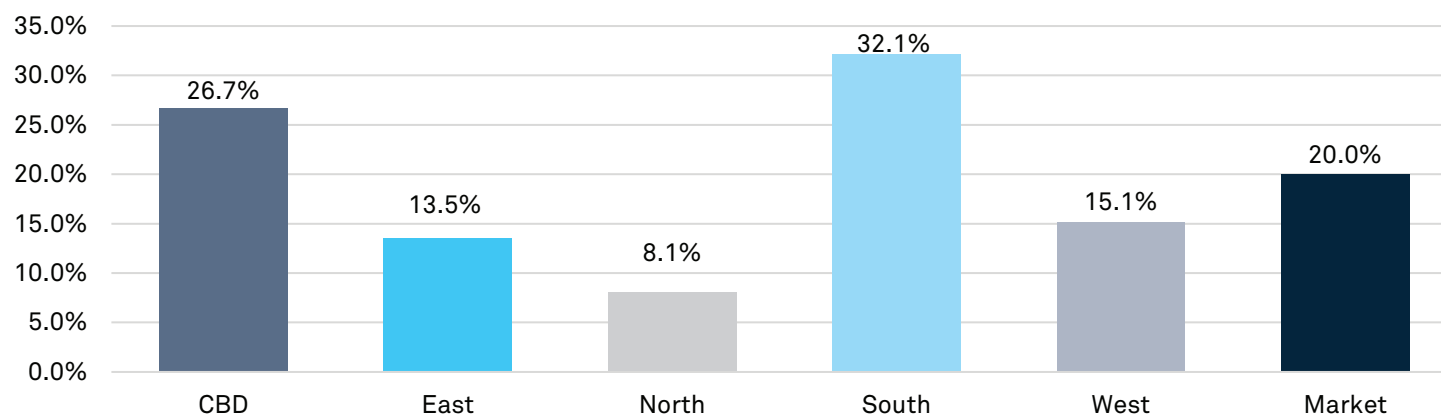


Completions
0 SF



Absorption
-232,925 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- Average market vacancy escalated from 17.2% in H2 2020 to 20.0% in H1 2021.
- The sector most disproportionately impacted by COVID-19 was the CBD, in which vacancies escalated to 26.7% - the highest level ever charted downtown.
- Many companies are establishing return-to-work policies for the 3rd and 4th quarters.
- Deal financials vary widely, and landlords are now considering below-market lease rates with moderate improvements.
- Construction costs for build-outs continue to escalate, largely due to increased labor costs, and rental rates are lowest when space can be occupied with minimal landlord investment.
- Leasing was slow this period, with most new deals inked well below 5,000 SF. Several significant lease renewals were signed, however, signaling that some firms are willing to move forward with pre-COVID footprints. Large recent deals include a confidential user renewing its lease on Hagadorn

Rd. (18,161 SF|East Submarket); **Data Recognition Corporation** renewing its lease on West Rd. (8,900 SF|East Submarket); **AARP** renewing its lease for 7,300 SF on N. Washington Sq. (CBD); and **Truscott Rossman Group** leasing 4,993 SF on W. Allegan (CBD).

- Sales activity was healthy as banks had money to lend at low interest rates. Recent notable sale transactions include **916 Mall Dr.** (10,000 SF|\$2.7 M); **405 W. Greenlawn** (50,000 SF|\$2.1 M); **2400 Lake Lansing Rd.** (11,730 SF|\$1.47 M); and **1350 E. Lake Lansing Rd.** (7,632 SF|\$1.3 M).
- MSUFCU** broke ground on a new 80,000+ SF building in downtown East Lansing (East Submarket), and construction is underway for **TechSmith's** new 62,500-SF world headquarters on S. Harrison (East Submarket).
- McLaren of Lansing's** hospital sites on Greenlawn & Pennsylvania (South Submarket) are now available as McLaren prepares for the 2022 opening of its new health care campus (East Submarket).

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Figure 2: Market Statistics | H1 2021

SUBMARKET	MARKET RENTABLE AREA (SF)	MARKET SHARE (%)	VACANT (SF)	VACANCY RATE (%)	ABSORPTION (SF)	ASKING LEASE RATES (\$/SF/YR)
CBD	2,457,571	29.8	656,595	26.7	-166,273	9-30.00
EAST	3,541,379	42.8	477,341	13.5	- 24,310	12-28.00
NORTH	133,811	1.6	10,814	8.1	6,954	13-18.00
SOUTH	1,095,236	13.3	351,924	32.1	- 38,518	8-25.00
WEST	1,029,747	12.5	155,198	15.1	- 10,778	11-20.00
MARKET	8,257,744	100.0	1,651,872	20.0	-232,925	8-30.00

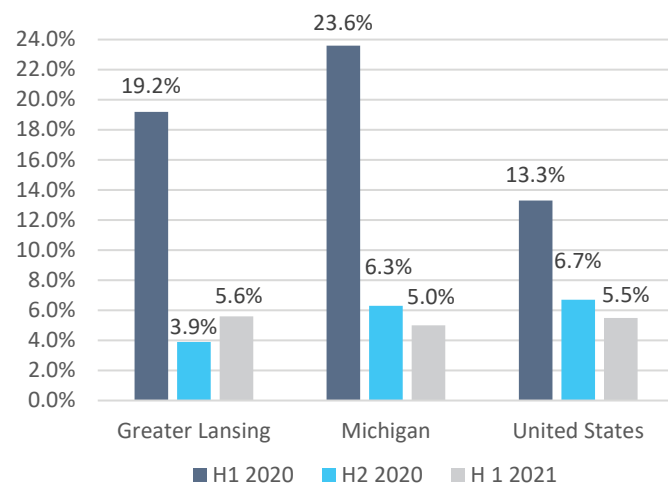
Source: Martin Commercial Properties, Inc.

Greater Lansing Area



Figure 3: Unemployment Statistics

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



Source: Bureau of Labor Statistics

Market Composition & Growth

The Greater Lansing Area comprises just over 8.2 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, which together represent nearly 73% of the market. The East Submarket (comprising 3.5 million SF) is clearly the largest segment of private sector leased space in the Greater Lansing Area, while the CBD continues to grow smaller as historically leased buildings are sold to owner-occupiers. The CBD now comprises roughly 2.5 million square feet, down from 3.5 million SF a decade ago.

No new speculative construction occurred in the market during H1 2021; however, ground was broken for a new 2-story 62,500-SF international headquarters facility for **TechSmith**. The visual communication software company entered into a long-term agreement to lease the property, located along South Harrison Road on the former **Spartan Village** site, (East Submarket) and occupancy is expected in 2023.

Finally, **MSUFCU** has commenced construction on a 7-story 80,000+ SF building in downtown East Lansing (East Submarket). Although it will be owned by the credit union, two floors will be available for lease. We expect this to be the last speculative construction in the market for some time.

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Vacancy

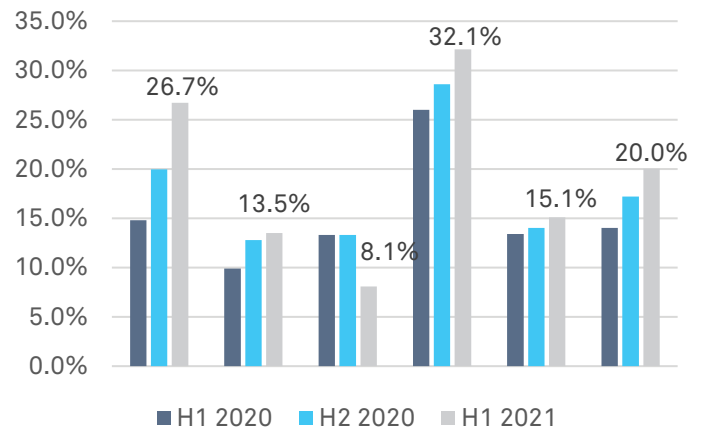
During H1 2021, leasing activity was slow and modest with most new lease transactions inked under 5,000 SF. Market vacancy rates averaged 20.0%, up 280 basis points from the 17.2% charted in H2 2020. This is the highest average market vacancy in over a decade.

Vacancy was up in all but the smallest sector (North Submarket) where a few small leases moved the needle on the scale in a positive direction. Disregarding the North side, the strongest submarket is the East Submarket, averaging 13.5% vacant (up from 12.8% in H2 2020). The weakest submarket is the South Submarket, with vacancies averaging 32.1% (up from 28.6% in H2 2020).

The most remarkable decline in occupancy, however, occurred in the Central Business District (CBD), which was disproportionately impacted by COVID-19. The **State of Michigan** is the largest occupier of leased space in the sector, and when State employees began to work remotely, the State exercised its 90-day cancellation clause in several downtown leases totaling upwards of 200,000 SF, while opting to relocate consolidated offices to State-owned facilities. Consequently, the CBD is now 26.7% vacant, which is the highest level ever charted in the submarket. Unfortunately, at this time it is unclear when (and if) the State will shift these operations back to leased space.

Furthermore, it should be noted that an increasing number of private sector firms are reducing their footprints as more employees opt to work remotely. Some companies are not electing to delay these space decisions until lease expiration, and instead, set about to market the space for sublease at greatly reduced rates. This new trend directly competes with landlords' efforts to fill vacancies in a market demonstrating minimal demand. 🏢

Figure 5: History of Vacancies

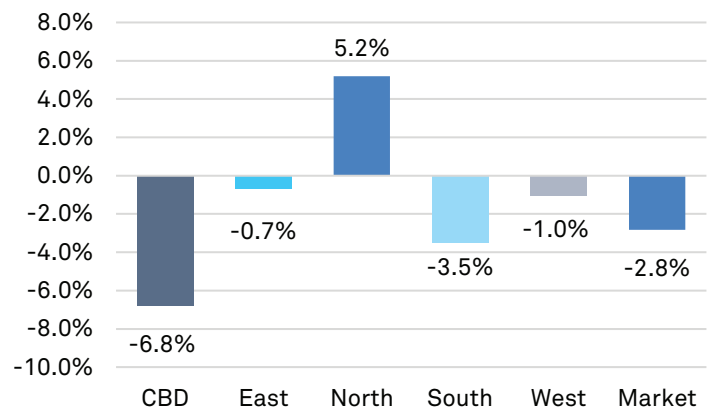


Source: Martin Commercial Properties, Inc.

Absorption

Absorption is the net change in physically occupied space from one period to the next. During H1 2021, the Greater Lansing Area absorbed negative 232,925 SF (-2.8%), down from H2 2020, which charted negative 218,797 SF (-2.6%) of absorption. Absorption was negative in all submarkets except the North Submarket, which absorbed 6,954 SF (5.2%). The CBD experienced the greatest negative absorption (-166,273 SF), largely due to the cancellation of several State of Michigan leases. 🏢

Figure 4: H1 2021 Absorption



Source: Martin Commercial Properties, Inc.

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Greater Lansing Area, Michigan



120 West Saginaw Street, East Lansing, MI
Iconic 46,255 SF Office Building Available 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.

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