

Greater Lansing Area, Michigan / H2 2021

Vacancy Rates Remain Historically High, but Stabilizing; Slow Recovery Expected

Market at a Glance:

Arrows indicate change from previous period.



Vacancy Rate
20.2%

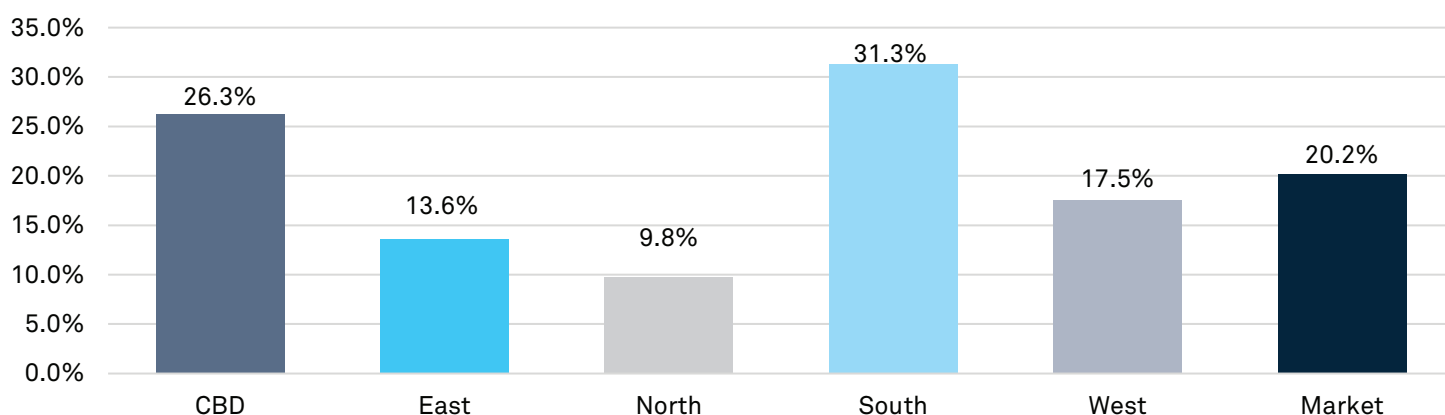


Completions
0 SF



Absorption
-123 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- Market vacancy continued to increase post-COVID from 19.8% in H1 2021 to 20.2% in H2 2021.
- Greater Lansing has the largest concentration of State offices in Michigan and the health of our market is largely driven by State leasing activity. The State's cancellation of private sector leases totaling several hundred thousand square feet, will slow the rate of market recovery, especially in the Central Business District.
- Sublease space has presented an additional obstacle for landlords, as it has become an increasingly large source of supply.
- Occupiers continue to put off long-term decision making in favor of short-term renewals.
- Occupiers continue to debate and experiment with the return-to-work and work-from-home hybrid models, and absorption gains will be gradual as companies rightsize their footprints.
- While return-to-work has been slower than many predicted, leasing activity shows that many companies will maintain a strong place for in-person working in their hybrid strategies.
- Leasing ticked up this period, though most new deals were inked well below 5,000 SF.
- Landlords remain highly amenable with creative terms, pricing and amenities.
- Sales activity was healthy and largely investor-related. Notable sales included 217 S. Capitol (109,826 SF); Crowne Pointe Plaza (30,000 SF); 7050 W. Saginaw (18,584 SF); and 2163 University Commerce Park (17,848 SF), among others.
- Recent tenant demands are for high quality space, creating potential distress in older office inventory. We may see new investors enter the market, focused on value-add, turnaround plays.

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Figure 2: Market Statistics | H2 2021

SUBMARKET	MARKET RENTABLE AREA (SF)	MARKET SHARE (%)	VACANT (SF)	VACANCY RATE (%)	ABSORPTION (SF)	ASKING LEASE RATES (\$/SF/YR)
CBD	2,457,571	29.6	646,435	26.3	- 4,830	9-30.00
EAST	3,541,379	42.7	482,176	13.6	- 4,835	12-28.00
NORTH	133,811	1.6	13,098	9.8	- 2,282	13-18.00
SOUTH	1,114,492	13.4	348,736	31.3	+ 22,444	8-23.00
WEST	1,047,602	12.6	183,673	17.5	- 10,620	11-20.00
MARKET	8,294,855		1,674,116	20.2	- 123	8-30.00

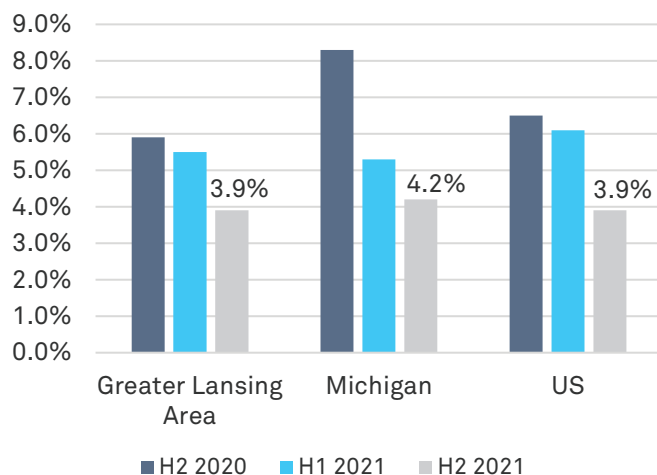
Source: Martin Commercial Properties, Inc.

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 nearly 8.3 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 72.3% of the market. The East Submarket (comprising 3.5 million SF) is the largest segment of private sector leased space in the Greater Lansing Area, while the North Submarket is the market's smallest sector, with just over 130,000 SF.

No new speculative construction occurred in the market during H2 2021; however, owner-user construction continued in the East Submarket on a new 2-story 62,500-SF international headquarters facility for **TechSmith** and a 7-story 80,000+ SF building for **MSUFCU**.

It should be noted that **McLaren** is preparing for the H1 2022 opening of its new health care campus (East Submarket). A new 60,420-square-foot medical/service building on Technology Blvd. is already slated for development on the new **McLaren** campus in 2023, and future growth is expected along the nearby Jolly, Dunckel and Collins Road corridors. Additionally, alternative uses are being considered for **McLaren's** current hospital sites on Greenlawn (600,000 SF) and Pennsylvania (250,000 SF), which may bring hundreds of new jobs to the area.

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Vacancy

During H1 2021, leasing activity continued to modest with most new lease transactions inked under 5,000 SF. Market vacancy rates averaged 20.2%, up slightly from the 19.8% charted in H1 2021.

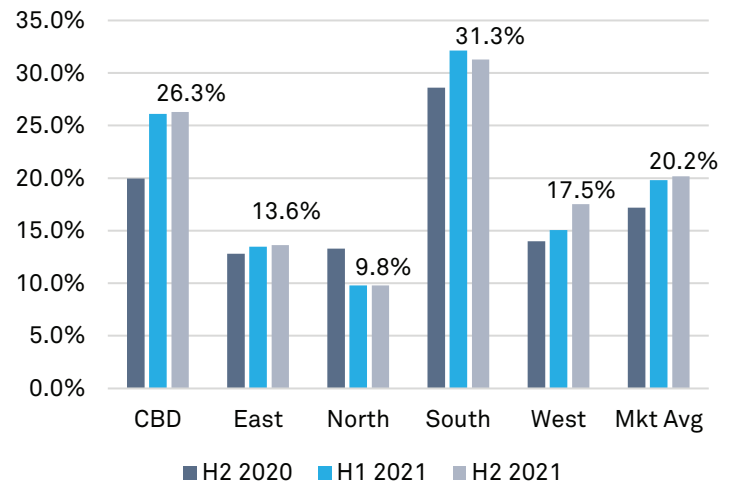
Disregarding the North sector, which represents only 1.6% of the market, the strongest submarket continues to be the East Submarket, which is 13.6% vacant (up from 13.5% in H1 2021). The weakest submarket is the South Submarket, with vacancies totaling 31.3% (down from 32.1% in H1 2021 due to several small leases).

The largest transactions of H2 2021 include **First National Bank of America** leasing 17,950 SF in the mixed-use development Heights of Eastwood; a major healthcare provider renewing its lease for 21,410 SF at 1301 N. Hagadorn (East Submarket); **Colliers Engineering & Design** leasing 17,855 SF @ 7050 W. Saginaw (West Submarket); **Clark Hill PLC** leasing at 215 S. Washington and downsizing from approx. 15,000 SF (CBD); and **United Healthcare Services** extending its lease for 9,229 SF on Centennial Way (West Submarket).

While corporate profits are largely up, occupiers are still determining how best to support hybrid work, and how it will impact their portfolio strategies. Some will reduce their footprints, while others will expand. Most are delaying long-term space decisions, electing instead to enter into short-term lease renewals.

It is important to mention the growing impact sublease space is expected to have on the direct leasing market. At this time, the Greater Lansing Area has over 100,000 SF of sublease space, and as businesses continue to reevaluate their space needs, this number is expected to rise. In a period of uncertainty over future work patterns, business performance and space needs, sublease space can be an attractive short-term option for firms waiting for clarity. The space is often offered at lower rental rates and shorter lease terms; and it requires minimal capital output while providing greater flexibility. Accordingly, sublease space is expected to slow the rate of market recovery. 📈

Figure 5: History of Vacancies

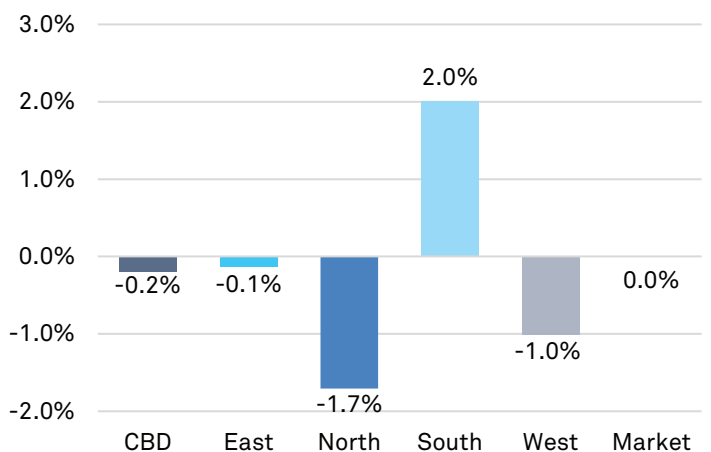


Source: Martin Commercial Properties, Inc.

Absorption

Absorption is the net change in physically occupied space from one period to the next. During H2 2021, the Greater Lansing Area absorbed negative 123 SF (-0.002%), up from H1 2021, which charted negative 217,935 SF (-2.1%) of absorption. Absorption was negative in all submarkets except the South Submarket, which absorbed 22,444 SF (2.0%). The West Submarket experienced the greatest negative absorption (-10,620 SF). 📉

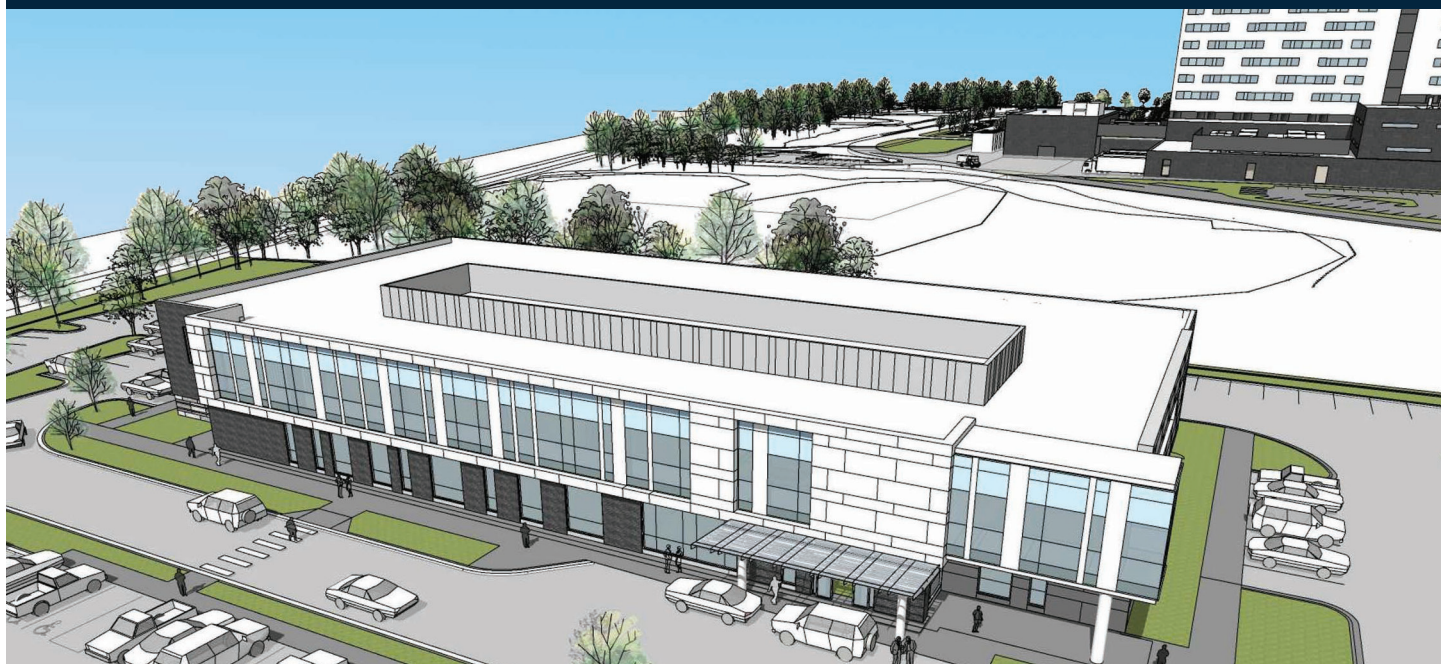
Figure 4: H2 2021 Absorption



Source: Martin Commercial Properties, Inc.

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SLATED FOR DEVELOPMENT IN 2023
60,420 SF Medical/Service Bldg on New McLaren Hospital Campus
Up to 17,000 SF Available 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.

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