

Greater Lansing Area, Michigan / H1 2022

Lansing Office Sector: Long-Term Softening or a Pandemic Era Blip?

Market at a Glance:

Arrows indicate change from previous period.



Vacancy Rate
20.9%

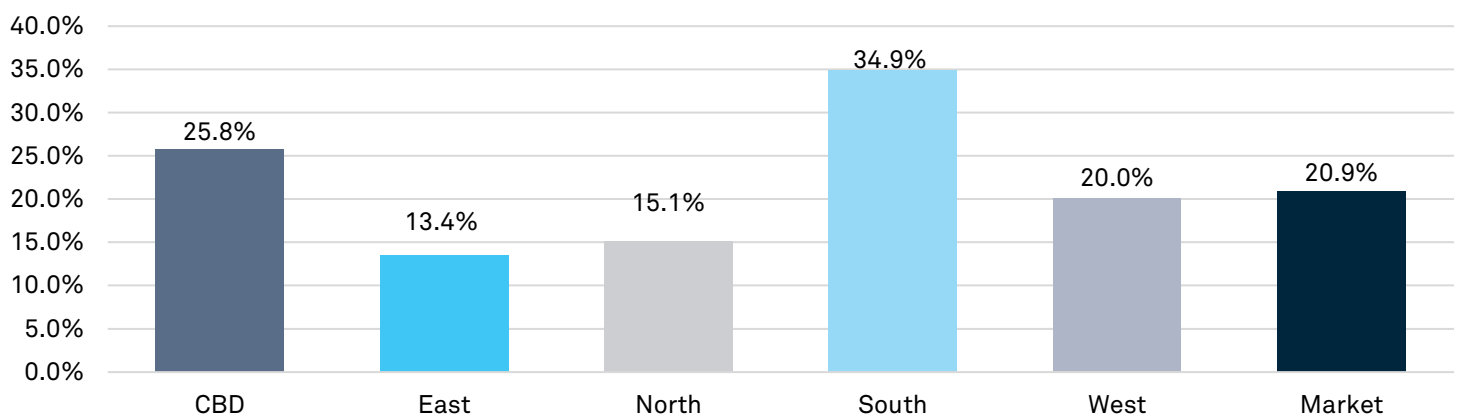


Completions
0 SF



Absorption
-93,220 SF

Figure 1: Market Vacancy



Source: Martin Commercial Properties, Inc.

Market News

- Though the world's public battle against COVID-19 has been largely sidelined, hazards triggered by the virus continue to cause damage to the Greater Lansing office market.
- Market vacancy escalated from 20.2% in H2 2021 to 20.9% in H1 2022.
- Sublease options are pushing market availability higher, potentially hindering rent growth in the coming periods.
- Answers to recurrent questions developed during the pandemic remain unclear: How much space should businesses utilize? How should they determine workplace strategies? How will the labor market affect their business decisions?
- Economic conditions continue to weigh on the local economy, and many companies are taking a wait-and-see approach to business expansion plans.
- Construction remains stalled, although approx. 80,000 SF of medical/office/service space is under construction near McLaren's new health campus.
- Landlords remain highly amenable with creative terms, pricing and amenities.
- Sales activity is healthy. Notable sales included 1100 West Saginaw (\$1.9 Million); 2120 University Park Drive (\$1.5 Million), 411 W. Lake Lansing (\$1.6 Million); 4050 Hunsaker (\$1.3 Million); and 6101 W. Saginaw (\$1.3 Million).
- Unemployment in the Lansing-East Lansing MSA increased to 4.7% in May 2022, up from 4.2% charted in December 2021; and above both the national and state unemployment rates of 3.4% and 4.6%, respectively.

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Figure 2: Market Statistics | H1 2022

SUBMARKET	MARKET RENTABLE AREA (SF)	MARKET SHARE (%)	VACANT (SF)	VACANCY RATE (%)	ABSORPTION (SF)	ASKING LEASE RATES (\$/SF/YR)
CBD	2,473,238	30.0	637,647	25.8	+24,455	14-32.00
EAST	3,496,326	42.4	470,046	13.4	-32,923	14-26.00
NORTH	133,811	1.6	20,150	15.1	-7,054	13-15.00
SOUTH	1,097,124	13.3	382,707	34.9	-51,339	8-23.00
WEST	1,047,602	12.7	210,032	20.0	-26,359	11-20.00
MARKET	8,248,101		1,720,582	20.9	-93,220	8-20.00

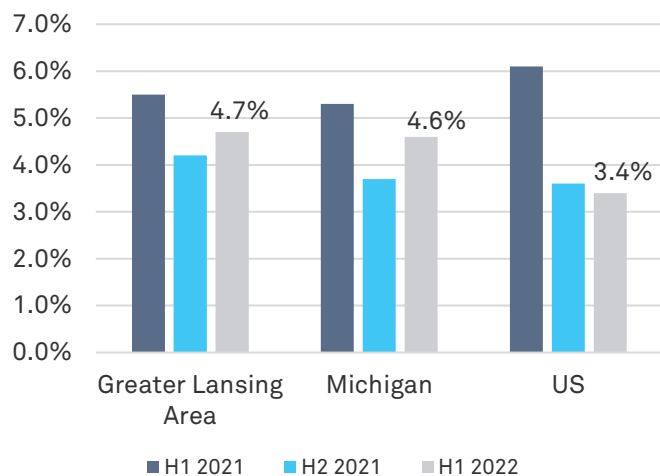
Source: Martin Commercial Properties, Inc.

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 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 72.4% 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 H1 2022; 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**.

McLaren opened its new health care campus (East Submarket) during H1 2022 and over 80,000 SF of medical/ office space is planned nearby. Alternative uses are being considered for **McLaren's** current hospital sites on Greenlawn (600,000 SF) and Pennsylvania (250,000 SF), which are now on the market for sale, and which has the potential to bring hundreds of new jobs to the area.

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Vacancy

During H1 2022, lease transactions were modest in size and term, and market vacancy averaged 20.9%, up slightly from the 20.2% charted in H2 2021.

Omitting the North sector, which represents only 1.6% of the market, the strongest submarket continues to be the East sector, which despite TechSmith vacating over 58,000 SF on Woodlake Drive, is 13.4% vacant (down from 13.6% in H2 2021). The weakest submarket is the South Submarket, where vacancies average 34.9% (up from 31.3% in H2 2021).

The largest transactions of H1 2022 include **Community Mental Health** leasing 20,000 SF on Executive Drive (South Submarket); **Warner Norcross & Judd** renewing its lease for 6,700 SF on North Washington Square (CBD); **Certus Medical LLC** leasing 6,000 SF on West Lake Lansing Road (East Submarket); **Michigan Association of Community Mental Health Boards** leasing 5,500 SF on South Grand (CBD); and **CompOne Administrators** renewing in 4,400 SF on Woodlake Drive (East Submarket).

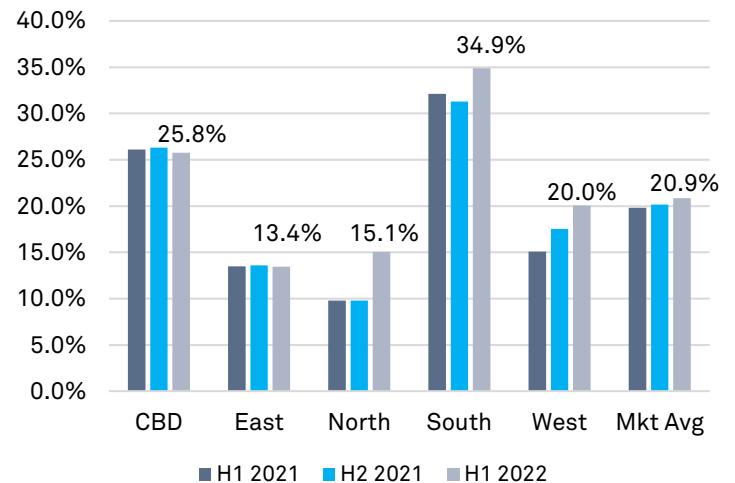
Though we anticipate leasing activity to continue at a similar rate over the next 12 months, it should be noted that scores of leases signed prior to the pandemic will be set to expire over the next few years, giving companies an opportunity to right-size, implement new workplace strategies and work with landlords to restructure lease terms and rental rates. This will likely lead to greater influence on office vacancy and potential downward pressure on rental rates.

Additionally, economic conditions are impacting office space decisions marketwide. With inflation at a 40-year high, employers are getting pushback from employees to work from home in some fashion due to a variety of reasons, including the increase in gas prices, food and coffee. Many employees feel they can get more done at home in a timely manner at less cost to them - and are attempting to convince employers of this.

Finally, over 100,000 SF of sublease space currently on the market is expected to slow the rate of market recovery, as

the space is offered at lower rental rates and shorter lease terms; and subleases generally require minimal capital out-put while providing greater flexibility. 🏢

Figure 5: History of Vacancies

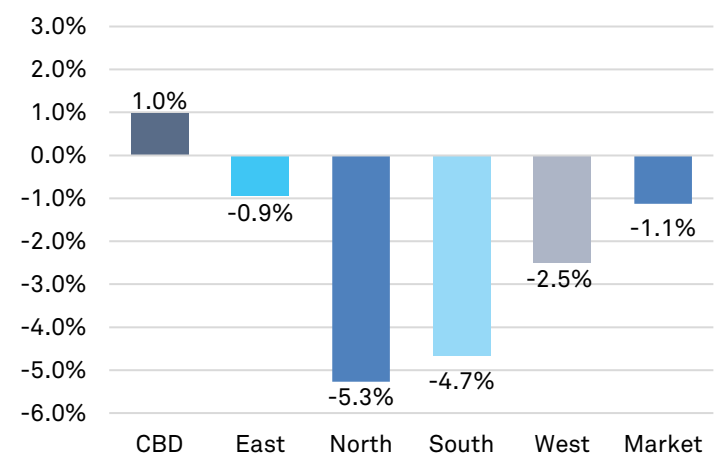


Source: Martin Commercial Properties, Inc.

Absorption

Absorption is the net change in physically occupied space from one period to the next. During H1 2022, the Greater Lansing Area absorbed negative 93,220 SF (-1.1%), down from H2 2021, which charted negative 123 SF of absorption. Absorption was negative in all submarkets except the Central Business District, which absorbed 24,455 SF (1.0%). The South Submarket experienced the greatest negative absorption (-51,339 SF). 🏢

Figure 4: H1 2022 Absorption



Source: Martin Commercial Properties, Inc.

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About Martin Commercial Properties

For 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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