OFFICE

'23 Market Insights

Greater Lansing Area, Michigan | H1 2023

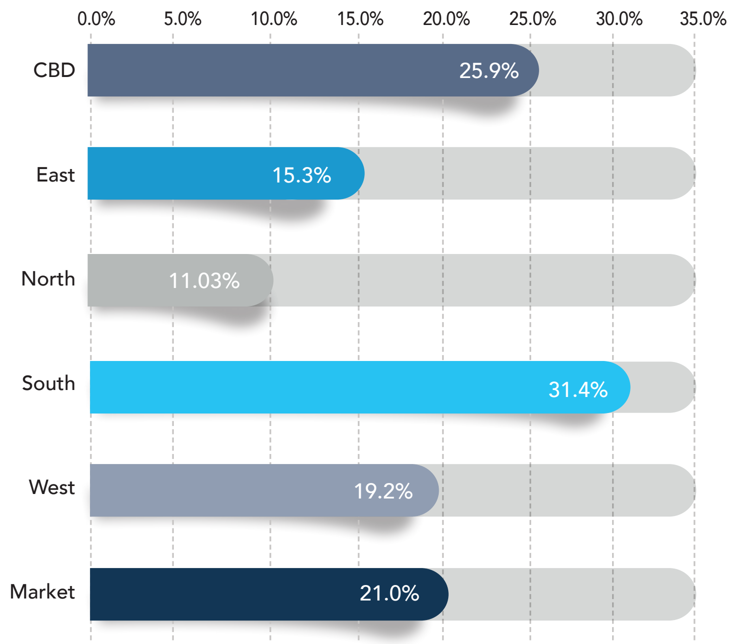
Hybrid Work Continues to Curb Demand; Market Stabilizes into New "Normal"

Market at a Glance

Arrows indicate change from previous period.

Vacancy Rate	Completions	Absorption
21.0%	0 SF	13,771 SF

Figure 1: Market Vacancy ≥5,000 SF Leased Space



Source: Martin Commercial Properties, Inc.

MARKET NEWS

- The average market vacancy rate remained flat, increasing 2 basis points over H2 2022 figures and 1 basis point over H1 2022 numbers, suggesting a new "normal."
- Location is playing an important role in the performance of office properties, with much of the surge in vacancy rates originating from CBD assets. Conversely, suburban properties have remained more stable with lower declines in vacancy rates. Specifically, the latest figures show 25.9% vacancy for CBD properties and 18.8% for suburban assets.
- When comparing current vacancy figures with pre-pandemic (H2 2019) numbers, occupancy is down 27.7% in the suburbs and 47.1% in the CBD.
- Remote and hybrid work has become status quo and lowered office demand. National trends toward placing more desks in less space and greater shifts to automation have also contributed to reducing the average office footprint.
- Building amenities may help a property stand-out from the field; however, return-to-office strategies will require more than office perks to gain long-term traction.
- Despite higher vacancy rates, rental rates are largely unchanged; however, most landlords will aggressively negotiate if space can be occupied with minimal investment.
- Tenants are electing to sign shorter-term leases for less space. Interestingly, the number of lease transactions during H1 2023 was up 24.4% over H2 2022 activity, while overall lease value was down 31.1%.
- The largest lease transactions this period occurred in the East Submarket and included **Jackson Financial Inc**. renewing its 33,000 SF lease in the **City Center Building**; **Plante & Moran** extending its lease for 21,000 SF at **Corporate Place**; and **Health Management Associates** inking a new 10,500 SF deal in **The Woodlands**.
- Speculative construction is non-existent.
- Capital market activity was significant. A 58,500 SF portfolio in **The Woodlands** closed for $5.55 Million; the 41,000 SF 120 W. Saginaw closed for $2.2 Million; the 12,600 SF 1600 Abbot Rd. traded for $4.1 Million (all East Submarket); and a 17,500 SF portfolio in **Centennial Park** (West Submarket) sold for $1.8 Million.
- Owner-user sale activity was strong, though pricing is down. Examples incl. the 210,000 SF **Hannah Tech** sale to **MSU** and the 31,000 SF 1760 Abbey Rd. sale to **Mich. Cty. Road Commission Self Ins. Pool** (both East Submarket).

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Figure 2: Market Statistics | H1 2023
≥5,000 SF Leased Space

SUBMARKET	MARKET RENTABLE AREA (SF)	MARKET SHARE (%)	VACANT (SF)	VACANCY RATE (%)	COMPLETIONS (SF)	ABSORPTION (SF)	ASKING LEASE RATE ($/SF/YR)
CBD	2,479,176	30.1	642,169	25.9	0	10,325	14.00-32.00
East	3,513,506	42.5	538,058	15.3	0	14,229	14.00-26.00
North	133,811	1.6	14,715	11.0	0	-3,033	13.00-15.00
South	1,097,124	13.3	344,406	31.4	0	-9,152	8.00-23.00
West	1,034,775	12.5	198,550	19.2	0	1,402	11.00-20.00
Market	8,258,392	100.0	1,737,898	21.0	0	13,771	8.00-32.00

Source: Martin Commercial Properties, Inc.

MARKET COMPOSITION AND GROWTH

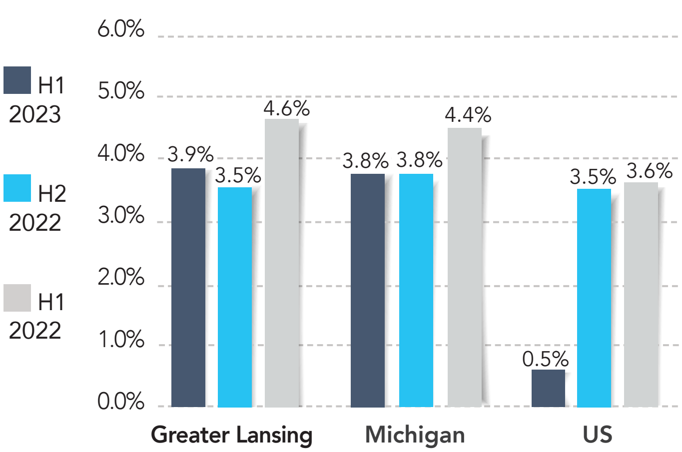
The Greater Lansing Area comprises over 8.2 million SF of leasable office space divided into five submarkets (CBD, East, North, South and West).

The largest concentrations of office space are found in the CBD and the East Submarket, which together represent 72.6% of the market. The East Submarket (comprising approx. 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 was completed in the market during H2 2022; however, an 87,000+ SF building was completed this period for owner-user **MSUFCU** at the NW corner of Abbot and Albert in East Lansing (East Submarket).

Finally, **McLaren's** former Greenlawn campus is under contract for sale (South Submarket), which has the potential to bring new opportunities to the area.

Figure 3: Unemployment Statistics
History of Unemployment / Local, State, U.S.



Source: Bureau of Labor Statistics

VACANCIES

Office market vacancies in H1 2023 averaged 21.0%, up from 20.8% charted in H2 2022.

Though the Central Business District is the weakest office sector in the Greater Lansing Area, it is the only submarket where vacancies declined. The average vacancy rate in the CBD is 25.9%, down from 26.7% charted in H2 2022. Two of the most significant transactions downtown included **Small Business Resource Center**, leasing 6,600 SF on S. Washington Ave. and **The WinMatt Group,** LLC, inking a 4,700 SF deal on N. Washington Sq.

The strongest sector in the market is the East Submarket, where vacancies increased from 14.7% in H2 2022 to 15.3%. Lease activity in the submarket was steady. Three large deals were inked in the sector: **Jackson Financial, Inc.** renewed its lease for 33,000 SF in the **City Center Bldg**.; **Plante & Moran** renewed in 21,000 SF at **Corporate Place** and **Health Management Associates** leased 10,500 SF in **The Woodlands**); however, the majority of transactions were smaller, short-term deals.

The North Submarket is Greater Lansing's smallest office sector and vacancies rose from 8.7% in H2 2022 to 11.0% in H1 2023.

The South Submarket is the area's weakest sector, with vacancies averaging 31.4%, up from 30.6% in H2 2022. Leasing activity was slow; the most prominent deals include **Convergence Networks**, leasing 5,400 SF on S. Washington Ave. and **Kraig Biocraft Laboratories,** extending its lease of 5,600 SF on W. Edgewood Blvd.

Though leasing volume was steady in the sector, vacancies in the West Submarket rose to 19.2%, up from 18.3% in H2 2022. The largest transactions included **Gateway Pediatric Therapy** leasing 9,400 SF on Westshire Drive and Everbridge, Inc. downsizing and extending its lease for 6,200 SF in Verndale Lakes.

ABSORPTION

Absorption is the net change in physically occupied space from one period to the next.

Over the past six months,the Greater Lansing office market was largely flat, absorbing 13,771 SF (0.2%), up from -27,371 SF in H2 2022.

Figure 4: History of Market Vacancies - Leased Buildings Comprising ≥5,000 SF

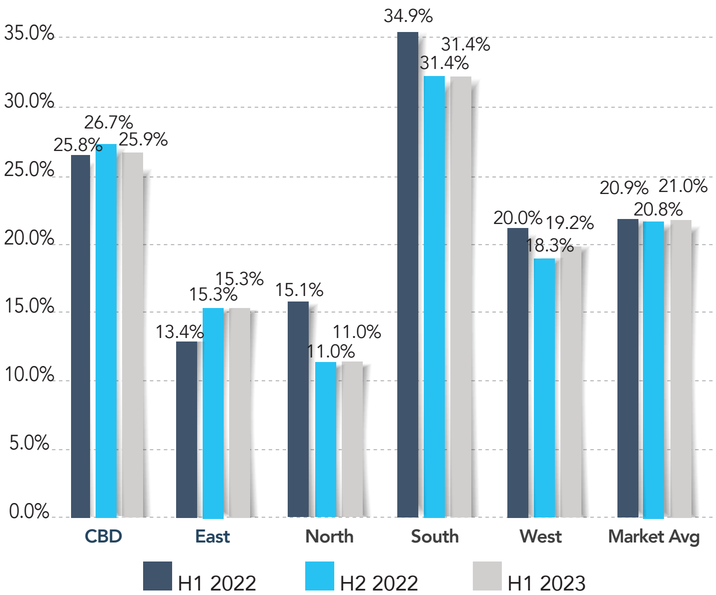
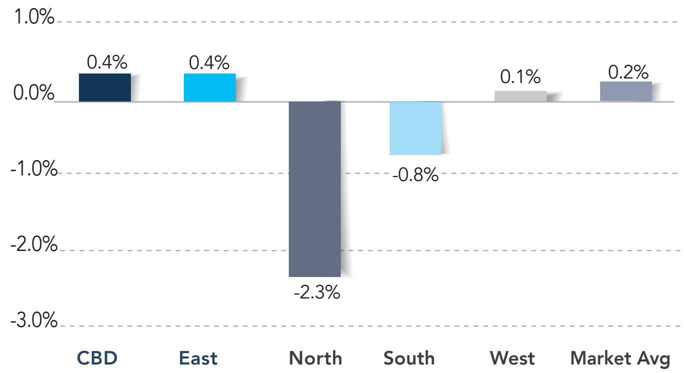


Figure 5: H1 2023 Absorption - Leased Buildings Comprising ≥5,000 SF



Source: Martin Commercial Properties, Inc.

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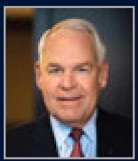
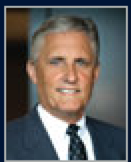
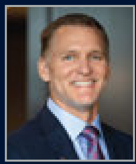

Van W. Martin, SIOR, CCIM, CRE
President & CEO
van.martin@martincommercial.com


Eric F. Rosekrans, CCIM,CPM
Executive Vice President
eric.rosekrans@martincommercial.com


Thomas Jamieson, SIOR
Senior VP | Office Advisor
thomas.jamieson@martincommercial.com