

WEST MICHIGAN

Q4 2019 / Q1 2020

MARKET OVERVIEW

West Michigan is home to more than 130 international companies and well-known corporations such as: Amway, Bissell, Pfizer, Stryker Corporation, Steelcase, Herman Miller, Bell's Brewery, Arcadia Brewing, Meijer, and Kellogg's. West Michigan boasts one of the most diverse manufacturing regions in the state with over 141,315 manufacturing jobs and 2,452 manufacturers.

West Michigan comprises a 10 county region which includes Grand Rapids, Holland, Kalamazoo, and Muskegon. West Michigan experienced a 4% growth in population from 2013 to 2018, with Grand Rapids leading much of that growth as its population surpassed 200,000 residents in 2018.

Manufacturing, information technology, life sciences, aerospace and defense, and the food processing industries are the main driver of growth in of West Michigan.

HIGHLIGHTS

A STRONG ECONOMY BEFORE THE VIRUS WILL AID WEST MICHIGAN'S RECOVERY ONCE THE ECONOMY REOPENS.

At the beginning of the year, our expectations for the West Michigan market were that the momentum we saw in 2019 would continue into the first half of 2020. While the future of industrial and multifamily real estate remains strong, the outcome for retail, office, and hospitality is less clear. Certainly vacancies will rise in the retail sector, as some businesses will not be able to weather the storm. Just how much vacancy, remains to be seen. Governor Whitmer enacted the first "Stay Home, Stay Safe" order on March 16. Since then more restrictions have been put in place, including classifying construction as non essential, which has resulted in projects placed in limbo for the foreseeable future. Along with small businesses and restaurants that occupy the majority of retail space, the full-stop of large-scale sporting events, conventions and tourism has significantly impacted the hospitality sector, thus making their road to recovery much longer. Hotel projects that were already in the pipeline will see delays and funding for new projects may become scarce as banks and investors use capital to shore up existing businesses. Industrial demand was strong in Michigan well before the virus and thanks to the surge in e-commerce, will be the strongest sector in recovery when the economy reopens. The office market recovery is more uncertain. Companies may have to contemplate workplace redesigns to allow more distance between employees if some social distancing guidelines remain in effect. Other companies may have to shrink their workforce to survive during the shutdown and may look to reduce office space.

The outlook for commercial real estate primarily hinges on the strength of our healthcare system, the timeline for providing more widespread testing and a vaccine, in addition to the length of stay at home orders, and the government's ability to continue providing financial support to businesses.

Because West Michigan's economy was strong prior to the shutdown, the expectation is that it will be in a good position when businesses are allowed to reopen. Many businesses have already found creative ways to stay open and provide support to the community and the medical industry. The region is home to many large and small manufacturers who are now making much-needed medical supplies. 2Gen Manufacturing which just moved into a larger facility in southwest Grand Rapids last fall is now making parts for face masks. Steelcase shifted dozens of workers to its critical medical supply effort and has produced and donated 20,000 facial shields and 10,000 masks. The company has the capacity to produce 8,000 masks and 13,000 to 14,000 shields per week for donation. Steelcase is also looking for other markets in which to sell the screens, with the ability to produce up to 1,000 units per week.¹

West Michigan is home to many breweries, with some having minimal product diversification. Those that have not diversified will be at risk the longer the shutdown continues. However, some have continued to stay open by offering delivery, curbside pick-up, food orders, and even selling some grocery items to grateful consumers. Breweries and distilleries are also making hand sanitizer for customers and donating some to hospitals and medical workers. Restaurants who had invested in tech and delivery options are also continuing to feed thousands of residents.

It's going to be a tough couple of months for everyone, but West Michigan is well-positioned to weather the storm.

DEMOGRAPHICS

1,987,303

Population



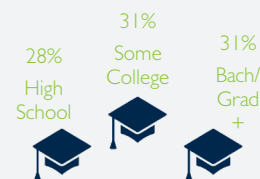
759,816

Households

\$57,036



Median Household Income



Education

67,513



Total Businesses

1,008,587



Total Employees

Source: Esri

1. <https://grbj.com/news/economic-development/manufacturers-answer-the-call/>

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INDUSTRIAL OVERVIEW

INDUSTRIAL DEMAND IS HIGH IN WEST MICHIGAN IS PROJECTED TO CONTINUE

According to REIS, the Grand Rapids warehouse/distribution market is comprised of 28.3 million square-feet in five geographic concentrations ranging in size from the 10.1 million square-foot Southwest submarket to the North submarket, which accounts for 3.4 million square-feet. A majority of all new construction has occurred in the Airport submarket. The average asking rent for the entire market is \$3 with an average vacancy rate of 3.8%.¹

Flexco is building a new 300,000 square-foot campus in Walkerview Industrial Park. The project was scheduled for completion in the first half of 2021 but may be impacted due to the state-wide stay at home order. They currently have 193,000 square-feet in two buildings in Grand Rapids. The company manufactures and develops products for conveyor belts and employs 150. Flexco expects to expand their workforce over the next 5 years.

Amazon opened its new \$150 million 855,000-square-foot fulfillment center in Gaines Township in early March, creating 1,000 new jobs. Since the virus hit, Amazon has already expanded further in Grand Rapids, hiring even more workers.

Industrial properties have been in high demand throughout West Michigan and are projected to remain so, once COVID-19 begins to abate. While construction is halted or delayed, we may begin to see other property types, such as retail or office converted to industrial use. In Kalamazoo, where strong demand exists, there's simply not enough industrial space to keep up with demand.

While some manufacturers have temporarily shutdown, including auto manufacturers, others are producing medical supplies and remain open. The Michigan Economic Development Corporation created a "Retooling" grant for Michigan manufacturers to help them make the switch to producing medical supplies. A partial list includes:

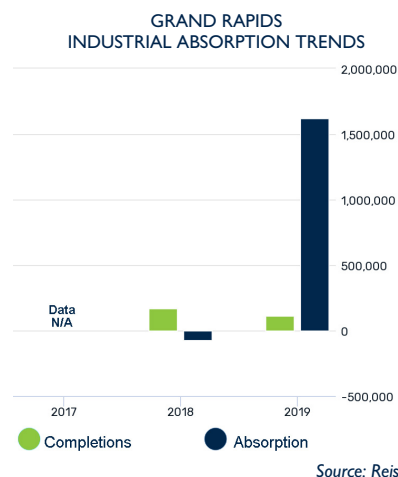
- Hybrid Machining Inc. in Holland has become a pickup and drop-off point for face masks and is running its machines nonstop to produce more face masks and COVID-19 test swabs.
- Stryker in Kalamazoo just rolled out a low-cost emergency response bed that is designed to accommodate the unique needs of COVID-19 patients.
- Altus in Walker is making mobile ventilator and telemedicine carts.
- Cascade Township-based Clean Rooms International reconfigured stock HEPA filters to create a new product that allows hospitals to convert standard patient rooms to isolation rooms, minimizing airborne contagions from entering hallways and corridors to protect clinicians and other patients.
- The logistics team at Inontime in Zeeland delivered sneeze guards to all 248 Meijer stores in the U.S.
- Holland startup SolisMatica is mobilizing owners of 3D printers statewide to make face shields, masks and ventilator parts. As of April 7, 296 3D printers had produced 5,772 visors for 101 requesting organizations.
- Steelcase is using its plants, model shop and innovation center in Grand Rapids to produce isolation masks and face shields as well as sharing patterns developed in partnership with health systems that will allow anyone with a sewing machine to make masks.²



GRAND RAPIDS WAREHOUSE / DISTRIBUTION ASKING RENTS BY SUBMARKET

Central	\$3.88
Airport	\$4.00
Southwest	\$2.95
North	\$3.26
Ottawa County	\$3.02

Source: Reis



2020 FORECAST

- West Michigan's industrial sector was experiencing high demand in 2019 and is projected to sustain momentum into 2020.
- West Michigan is experiencing record low industrial vacancy rates due to high demand.
- Post-virus, the industrial sector should remain strong due to the increase in online shopping and the need for last-mile delivery.
- Construction delays due to Governor Whitmer's order and supply chain disruption will delay delivery of new buildings.
- Conversion of retail or office space may be needed to keep up with demand for industrial.

1. Reis
2. <https://grbj.com/news/economic-development/manufacturers-answer-the-call/>

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OFFICE OVERVIEW

CONSTRUCTION DELAYS DUE TO COVID-19 WILL LIKELY PUSH 2020 PROJECTS OUT TO 2021 AND 2022.

Prior to the virus outbreak, the office sector in Grand Rapids had been experiencing growth, particularly in the downtown submarket. It's difficult at this point to pinpoint how the market will shake out once the economy is reopened. Office demand could grow as open co-working and shared spaces may seem a less safe option going forward. Additionally other companies may seek to expand their current spaces to safely accommodate their workforce should social distancing guidelines continue for an expanded period time. We might also see that some companies, having had to downsize their workforce to survive pandemic closures, look to unload some office space and utilize sublease options.

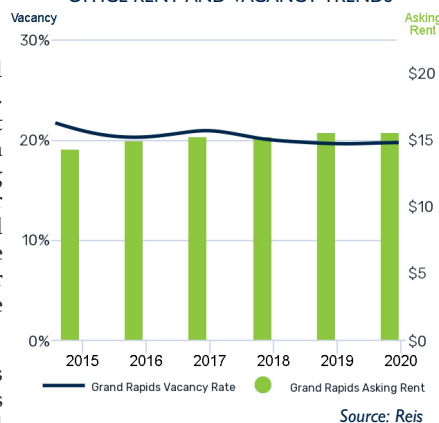
Downtown Grand Rapids was continuing to attract new tenants in 2019 and demand is expected to grow again once businesses open back up. How quickly this will occur is unknown and could potentially affect new projects that were expected to come online in 2020. According to Reis, average asking rent for Class A in the CBD is around \$20, with some newer buildings commanding rents between \$22-\$30. 37 Ottawa still has over 70,000 square-feet available for lease. The 90,000 square-foot building completed a redevelopment last year. Phase 2 of Studio Park was already underway before social distancing measures were implemented, which will likely effect the opening time line. Phase 2 includes a Canopy by Hilton and a 7-story office tower for Acrisure, an insurance company moving their HQ downtown from their current location south of the airport. Phase 1 of Studio Park opened last year with retail, a movie theatre, concert venue, parking garage, apartments and condos.

Wheeler Development Group has proposed a new mixed-use development at 22 Ottawa Avenue NW, The Wedge. The \$55 million project would be 24-stories and include retail, parking, and apartments or condos and around 44,000 square-feet of office. Groundbreaking was planned for this fall with a 28 month construction time line, however, the project is currently on hold as construction is not classified as essential in Michigan.

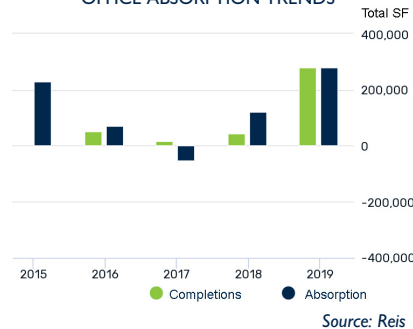
The Airport submarket is also in demand with several companies expanding or moving into new spaces. JetCo Federal is moving to a newly completed building at 5575 Kraft Ave. SE from their current HQ downtown, tripling their footprint to 16,100 square-feet.

In downtown Kalamazoo, the Exchange Building suffered some construction delays. Some residential tenants have moved in. The rest of the units were scheduled to be available later this year, however, virus-related construction delays may move the time line. The building has 60,000 square-feet of office space, with over 43,000 square-feet still available for lease. Asking rents are \$25-\$35. RX Optical and Chemical Bank have also leased space on the ground floor. Catalyst Development Group's \$70 million mixed-use project in downtown Kalamazoo was expected to be complete later this year. The seven-story building will have office, residential, and parking. Bronson Health System announced a new ambulatory center for the southwest side of Kalamazoo. The \$21 million, 18,000 square-foot center was scheduled to break ground this spring, but most likely the project will be delayed. The project was slated to be completed in late 2021 and is adjacent to medical offices that Bronson already had under construction. Adiva Credit Union is constructing a new 150,000 square-foot HQ on West Main, west of US 131. Construction was expected to be complete by mid 2021.

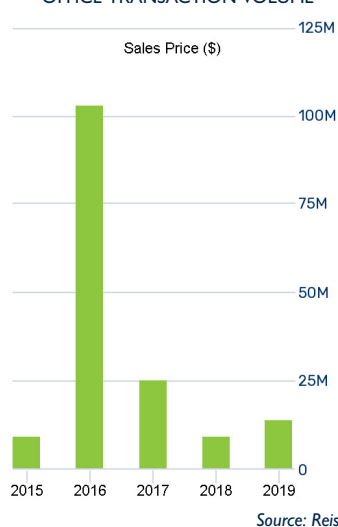
GRAND RAPIDS
OFFICE RENT AND VACANCY TRENDS



GRAND RAPIDS
OFFICE ABSORPTION TRENDS



GRAND RAPIDS
OFFICE TRANSACTION VOLUME



FORECAST

- Although the region has experienced growth in the office sector over the past several years, demand will slow as social distancing continues and people work from home.
- Construction delays due to Governor Whitmer's "Stay Home, Stay Safe" order will affect planned deliveries of new space in 2020.
- Office rents will likely see declines in 2020.
- As a result of the social distancing, and employee's ability to work from home, we forecast additional sublease space may hit the market. There may be some bargain deals for those tenants willing to react quickly to take advantage of the opportunity.
- Office could see more demand for space if social distancing guidelines remain in effect for a longer period of time, with some companies needing expansion room to reconfigure their offices to safely accommodate workers.

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RETAIL OVERVIEW

WEST MICHIGAN WILL SEE VACANCIES RISE, CREATING OPPORTUNITIES AND CHALLENGES IN 2020.

Retail will continue to see ups and downs throughout West Michigan, much like the rest of the country. Depending on how long COVID-19 continues to depress economic activity like dining out and shopping, more retailers could end up in bankruptcy this year, especially if they were already struggling. However, the region had been experiencing strong consumer spending that propelled new retail and restaurant concepts into the market last year.

PREIT completed their two-year \$100 million expansion of Woodland Mall in October. Von Maur opened on the site formerly occupied by Sears, with a brand new 90,000 square-foot store, their first in West Michigan. In addition to Von Maur, the mall added a new wing and continues to add new retailers, including Urban Outfitters, Sephora, White House | Black Market, REI, Black Rock Bar & Grill, Aeropostale, and Champs Sports. The Cheesecake Factory opened its second location in Michigan at the mall in November.

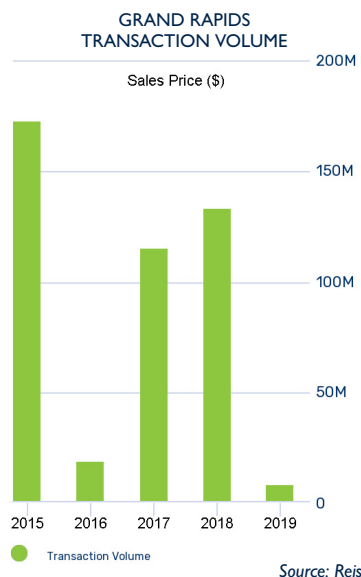
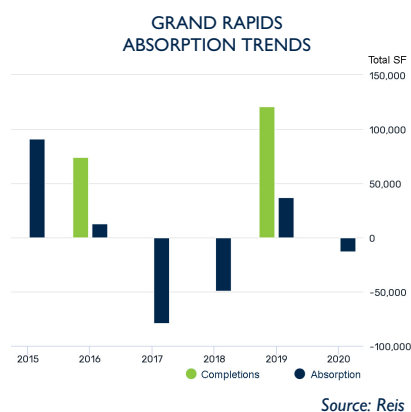
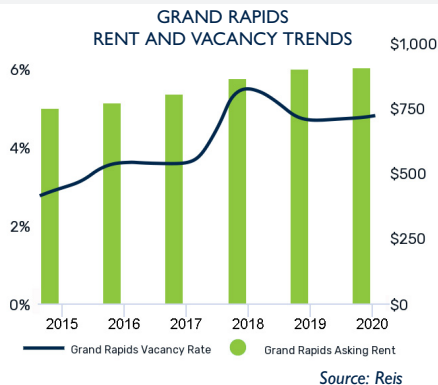
Granger Group plans \$55 million in projects for their Village Life Marketplace at Metro Health Village in Wyoming. The project will include retail, a food hall, office, parking, and apartments.

Blain's Farm & Fleet broke ground in early March on a new 106,000 square-foot store in Walker next to Meijer. Blain's opened in Holland in October in the 48-acre Quincy Marketplace that includes 9 outlots, inline retail space, and a hotel. Blain's previously opened a new location in Portage in a former 80,000 square-foot Menards and expanded it by 30,000 square-feet in 2018.

Fresh Thyme Farmer's Market opened their first location in the Kalamazoo / Portage market. Fresh Thyme filled a vacancy left by Office Max in the Southland Mall in Portage. Other concepts have also opened their first locations in Kalamazoo and Portage or announced new locations for 2020, including: Black Rock Bar & Grill, Buddy's Pizza, MOD Pizza, Menchie's Frozen Yogurt, Orange Theory Fitness, and Chowhound Pet Supplies.

Closings and bankruptcies will continue into 2020. A few casualties were already announced, prior to the "stay home, stay safe" order. Art Van Furniture, is closing all locations across six states - Michigan, Indiana, Illinois, Pennsylvania and Ohio. The closures also include Wolf's and Levin Furniture locations. The previous owner of Levin, Robert Levin, tried to buy back 40 locations of the business founded by his family, but was denied in court. Robert Levin has established a \$2 million fund to help families impacted by the closures. Goodrich Quality Theaters filed for bankruptcy in February. The Grand Rapids based chain was founded in 1930. The company has 30 theaters in the Midwest and one in Florida. Most of the theaters are in Michigan and Indiana.

Many of west Michigan's breweries will be facing difficult decisions as the "Stay Home, Stay Safe" order continues through April. Some breweries are now making hand sanitizer and delivering food and beer to customers, as well as offering curbside pickup. Thornapple Brewing is also offering free hand sanitizer and a roll of toilet paper for \$25 and \$50 orders. Founders Brewery is partnering with Long Road Distillers to make hand sanitizer. Founders is donating neutral spirits and Long Road is making and selling 2 ounce bottles for \$2, with \$1 of every sale being donated to employees. Long Road is also working with 35 hospitals, nursing homes, grocers, logistics companies and social service agencies to provide them with much needed sanitizer. ¹



FORECAST

- Limited vacancies were expected in 2020 as certain national retailers continued to close under-performing stores in their effort to right-size their brands. COVID-19 is likely to expedite the closures of even more retailers and restaurants.
- Property owners and tenants will need to work together on rent solutions to help businesses survive their pandemic-forced closures.
- Property owners may have an opportunity to reposition shopping centers once the economy is reopened and vacancies rise. Additionally, tenants may also be able to get better locations within the market as more space becomes available.
- Tenants may have the opportunity to restructure leases for more favorable terms.
- The legalization of recreational Marijuana may turn out to be a bright spot in retail, at least in municipalities that have elected to allow legal shops.

1. <https://grbj.com/news/beverages/founders-long-road-team-up-to-create-hand-sanitizer/>

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MULTIFAMILY OVERVIEW

THE MULTIFAMILY MARKET IN WEST MICHIGAN IS EXPECTED TO REMAIN STRONG. CONSTRUCTION DELAYS WILL PUSH NEW PROJECTS INTO 2021.

According to Reis, Since 2010, Grand Rapids has added over 4,700 apartments. The average rent for apartments built after 2010 is around \$1500 with approximately 62% of them built in or near downtown.

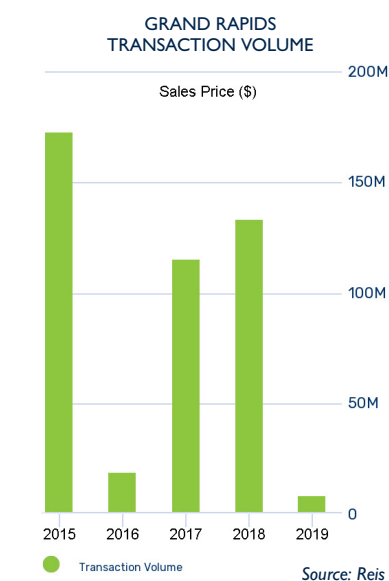
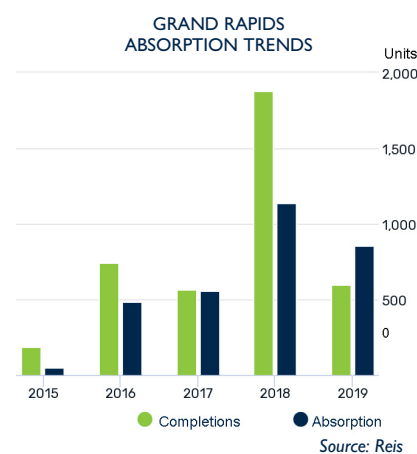
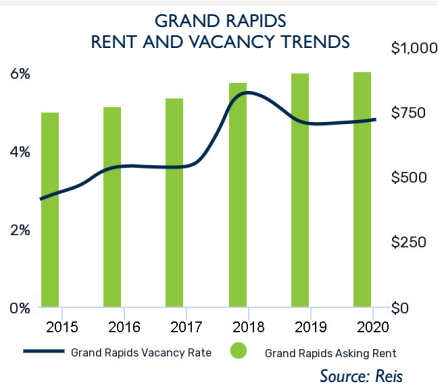
A new mixed-use development proposed for downtown, The Wedge, includes plans for 118 units and around 20 condos. The development could include between 10-20% of affordable units, meaning they would be accessible to people making less than 80% of the local median income. Two new affordable unit buildings opened in February. Built by the non profit, Inner City Christian Federation, the buildings located at 501 and 525 Eastern Avenue SE, contain 61 affordable and 4 market rent units. The demand for housing has largely been influenced by millennials attracted to the culture and growth of Grand Rapids.

Affordable housing may become an even larger issue once the virus threat has passed. Demand may increase in this category as people start to dig out financially once the economy is restarted. Governor Whitmer issued an executive order halting evictions while Michigan is under a State of Emergency. Landlords will also have tenants who may not be able to pay rent, due to job losses or pay cuts. This factor could bring more multifamily properties to the market over the next year or potentially trigger property loan defaults by the owners.

Although market rate apartment vacancies are relatively low, there have been multiple new developments over the past year that are slowing absorption rates. Some projects, like 601 Bond, which completed construction last year, still have around 30% vacancy and Grand Castle, which was built to resemble a castle, also completed in 2019, has the largest number of units still available at 522 and the highest vacancy - over 35%. The average vacancy rate for post 2010 apartments is approximately 7%. Apartments built prior to 2010, by comparison, have an average vacancy rate between 2-3% with an average asking rent around \$960. Apartment rents are seeing a slight decline across Michigan, according to a report by Rent Cafe, though Grand Rapids rents have increased. The report showed a y-o-y March rent increase of 5.9% in Grand Rapids.¹

Some deals are still getting done, The Foote Hills apartment complex, a class B property, sold for an undisclosed price to a private equity firm in April.² The complex is located west of I-96 off of 28th Street SE in Grand Rapids. The property is well-located in the market, not far from Woodland Mall and north of the Airport Industrial Park. Multifamily is expected to weather the recession well, with low interest rates and prices remaining steady.

Projects that were planned or under construction in 2020 will see delays, as Michigan's governor has halted construction, citing it as "non essential". The Homebuilders Association of Michigan is petitioning governor Whitmer to allow projects to continue. Currently some inspections and permits are still being processed, but further complicating matters is supply chain disruption which is limiting some supplies and building materials.



FORECAST

- Michigan has one of the strictest "stay at home" orders in the country, classifying construction as non essential. Projects that were under construction or planned for 2020 will see delays.
- Sales of multifamily properties will see a dip through the first half of the year, but prices are projected to remain steady or see a slight decrease.
- The virus impact on some property owners may lead to more multifamily sale opportunities, especially as interest rates remain low.
- Affordable housing will remain an issue. More developers will be required to include a portion of affordable units in new projects.

- <https://grbj.com/news/real-estate/rental-rates-decelerate-across-state-except-in-grand-rapids/>
- <https://grbj.com/news/real-estate/nai-wisinski-of-west-michigan-brokers-sale-of-foote-hills-apartment-complex/>

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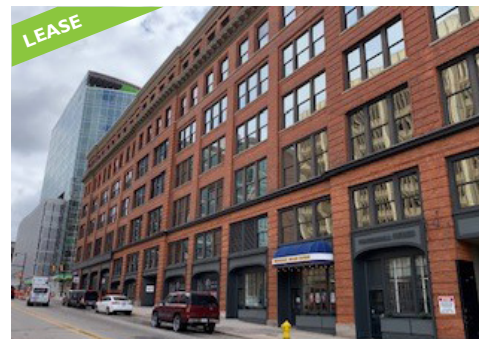
320 N BEACON BLVD, GRAND HAVEN, MI

- 2,991 SF former Wendy's restaurant on .78-acre site in Grand Haven
- High visibility location, just east of downtown Grand Haven, offers 94' of frontage on busy N. Beacon Blvd./US-31
- Average daily traffic counts of approx. 40,000
- Property offers drive-thru window, pylon signage, 40+ parking spaces and curb cuts on N. Beacon Blvd./US-31 and Elliott St.



1200 & 1470 4 MILE ROAD NW, GRAND RAPIDS, MI

- Formerly the English Hills Country Club, this beautiful property contains 137 acres ready for mixed-use development
- Located only 10 minutes from downtown Grand Rapids
- The property is directly next to two major highways, I-96 and US-131.
- The English Hills Banquet Facility is NOT included in this sale.



161 OTTAWA AVE, GRAND RAPIDS, MI

- The Waters Building was the 2016 Development Project of the Year
- Onsite ownership, management, and dedicated maintenance staff
- 650-space parking garage with an enclosed walkway to/from the building; owned and operated by Ellis Parking
- Connected to Homewood Suites hotel to conveniently accommodate out-of-town guests
- Roof top deck with grill, firepit, and seating overlooking downtown Grand Rapids

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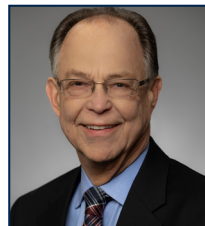
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