

WEST MICHIGAN

Q3 2021

MARKET OVERVIEW

West Michigan comprises a 10 county region which includes Kent, Muskegon, Berrien, Cass, St. Joseph, Calhoun, Kalamazoo, Van Buren, Allegan, and Ottawa. Grand Rapids is the second largest city in the state and has been experiencing extensive growth over the past decade with over 200,000 residents within the city limits.

Grand Rapids has a long history of furniture manufacturing, dating back to the 1800s. Today, West Michigan is a manufacturing hub which includes not just furniture, but automotive, medical devices, food processing, aerospace, and defense. The region has over 141,315 manufacturing jobs and 2,452 manufacturers. AdvisorSmith ranked Grand Rapids third on their 2020 list of "Top Cities Where U.S. Manufacturing is Thriving". Major employers in the manufacturing sector include: Gentex Corporation (5,800), Amway (3,791), Herman Miller, Inc. (3,621), Perrigo (3,500), Steelcase, Inc. (3,500), Lacks Enterprises (3,000), Arconic (2,350), Roskam Baking Co. (2,090), Haworth Inc. (2,000), Wolverine Worldwide, Inc. (1,500), GE Aviation (1,100), Bissell, Inc. (600), and The Kellogg Company (992).

Healthcare is also a major economic driver in the region. Spectrum Health is headquartered in Grand Rapids and is West Michigan's largest employer with 25,000+ employees. Spectrum has several world class facilities in Grand Rapids including the Meijer Heart Center, Lemmen-Holton Cancer Pavilion, Spectrum Health Cancer Pavilion, Spectrum Health Helen DeVos Children's Hospital, and Butterworth Hospital, a level 1 trauma center. The stretch of Michigan Street in downtown Grand Rapids is known as the Medical Mile. Several medical research and life science facilities are located here, drawing medical talent to the area and spurring residential and retail growth. The internationally recognized Van Andel Institute is the second highest endowed medical research facility in the country. Because of all the research facilities in the area, Michigan State University moved its medical school to Grand Rapids from Lansing in 2010. Other medical systems in the region include Mercy Health Saint Mary's (8,500), Metro Health Hospital (2,100), and Metron Integrated Health Systems (700).

In addition to manufacturing and healthcare, other major employers include retail, education, finance, and insurance. Some of the major employers in these sectors include: Meijer (10,340), Gordon Food Service (5,000), Farmers Insurance Group (3,500), Grand Valley State University (3,300), Fifth Third Bank (2,062), SpartanNash (2,000), Independent Bank (800), Calvin University (797), and Gerber Life Insurance Company (569).

Grand Rapids is sometimes referred to as Beer City USA as it boasts more than 40 craft breweries in the metro area. The entire region is home to over 80 breweries, distilleries, and meaderies. Two of the country's top breweries are located in West Michigan: Bell's in Kalamazoo and Founders in Grand Rapids. Breweries support the tourism industry, bringing thousands of people each year to West Michigan. Kent County alone attracted over 94,000 people to its breweries in 2019 with an estimated economic impact of \$38.5 million. The entire region is a draw for tourists due to the numerous lake shore cities and towns, campgrounds and RV parks, and a myriad of attractions. The total revenue collected from state and local taxes is approximately \$440 million. Grand Rapids / Kent County has a 5.3% share of all tourism spending for the state of Michigan.

West Michigan is vibrant and growing, bringing in new residents every year. The lakeshore appeals to previous city dwellers while Grand Rapids' growth has been fueled by millennials who are attracted to the city's culture, job prospects and quality of life. Grand Rapids has several notable rankings including:

Other accolades include:

- #3 - "Top Cities Where U.S. Manufacturing is Thriving" - Grand Rapids, AdvisorSmith, 2020
- #2 - "Top Housing Market for Millennials" - Grand Rapids, ImproveNet, 2020
- #13 - "50 Best Places to Live in America" - Grand Rapids, Business Insider, 2020
- #4 - "Best Cities for First-Time Home Buyers" - Grand Rapids, WalletHub, 2019
- #2 - "Best Destination for Millennials" - Grand Rapids, The National Association of Realtors (NAR), 2019
- #6 - "25 Best Affordable Places to Live in the U.S." - Grand Rapids, U.S. News & World Report, 2019

DEMOGRAPHICS

1,990,598



Population

764,808

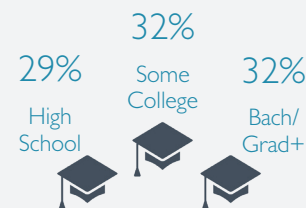


Households

\$59,357



Median Household Income



Education

66,223



Total Businesses

1,000,764



Total Employees

Source: Esri 2021

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INDUSTRIAL OVERVIEW

THE INDUSTRIAL SECTOR CONTINUES PERFORMING WELL, BUT SUPPLY IS STRUGGLING TO KEEP PACE WITH DEMAND

The industrial sector of Grand Rapids has been the shining light in the region, with new companies moving in, existing companies expanding, and industrial tenants continuing to produce and grow in high numbers despite the bottlenecks in the supply chain.

Compared to the previous quarter, not too much has changed in terms of trends in the industrial market. It is the fastest growing sector and is seeing positive growth and absorption, but there remains little inventory on the market. With construction costs being high and lead times being extended, existing product is in high demand, and existing product is getting rental rates and sale prices that are inflated. If a tenant does decide to renovate and can find a contractor to do the improvements, the costs are very expensive.

The lack of inventory can be attributed to the surrounding municipalities struggling to absorb the demand. And because of the small amount of developable land left in the airport region, we are starting to finally see the move to the outskirts. Investors and developers have begun buying up farmland and rezoning it to light or heavy industrial to start developing new appealing buildings.

While the sector contains a mixed bag of light and heavy industrial/manufacturing, warehouse space is the new hot commodity for business owners, as there is now a heavy emphasis on holding inventory through the pandemic due to the global supply chain issues. Companies are unsure of how long it will take for product to be delivered, so businesses are starting to plan long term and stock months to even a years' worth of supply. Despite the product type shift, the most appealing features of an industrial building are still the number of loading docks, high ceiling height, and column spacing.

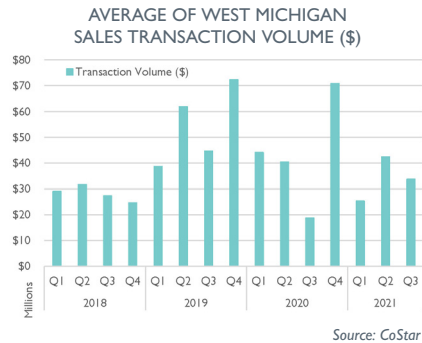
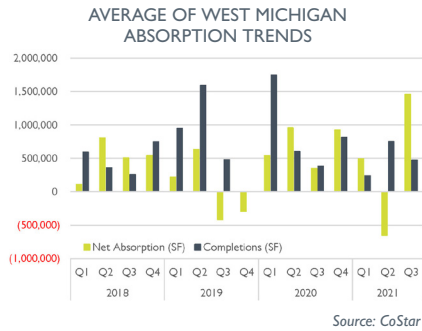
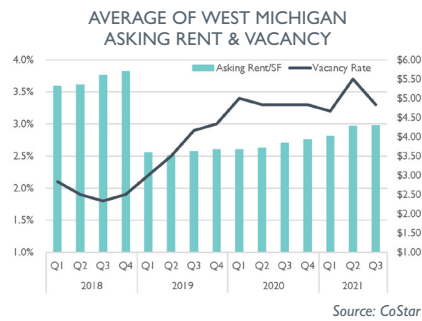
Mlive Media Group has sold its former production facility of newspaper printing to Pontiac based Lee Contracting for \$9.75 million. This is their first location outside of Pontiac and will be used as a satellite office to provide electrical and mechanical services, along with rigging/machinery moving and concrete machine foundations. They already support over a dozen area companies and are currently looking to hire skilled and experienced tradespeople.

Amazon had officially opened the doors to their new 850,000 square foot fulfillment center in Gaines township in March 2020. They just announced they will be building a sorting and delivery center nearby in 2022 and 2023, each of which will be adding more than 100 new jobs and will be adjacent to one another. Amazon has made a tremendous investment in the community and is looking forward to a long and productive relationship with West Michigan as they continue to add even more service centers throughout the years.

Asking rents for leases on average are around \$5.42 per square foot, but actual price is about 16.8% below, with a reported actual price of \$4.55 per square foot. With the industrial sector being the hot commodity during the pandemic, it is no surprise industrial properties only spend an average of 228 days on market, which is less time than other property types.

TRENDS

- Two million square feet available for lease, and 739,875 square feet currently for sale
- Upwards pressure on used building price because new construction is too expensive. The current lead time for steel is 48-52 weeks out.
- Land values increasing, some acres of land are going for \$60000 to \$70000 an acre, almost double what it's ever been historically.



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OFFICE OVERVIEW

THE PANDEMIC HAS CONTINUED TO ALTER MARKET CONDITIONS; OFFICE IN GRAND RAPIDS IS RECOVERING FASTER THAN OTHERS

While predictions for how the office market would shake out globally have varied across the board, one thing everyone can agree on is Grand Rapids has remained relatively unscathed and sheltered from the social unrest due to the pandemic. There is a large amount of deal velocity happening right now in West Michigan, and while some tenants have turned to the suburbs for various reasons, many nationwide companies have decided to call downtown Grand Rapids their new home.

Rates have held particularly steady in Class A and B downtown office buildings. In the city of Grand Rapids, the average asking price of a lease rate was \$17.74 per square foot. However, on average it has been 11% below the listing price, with a reported lease rate of \$13.50 per square foot and is on market for an average of 243 days.

There are several large regional and national companies that have trailblazed the way for business success in Grand Rapids. There is also a significant amount of expansion, consolidation, lease extensions, and new companies that have moved to the central business district this quarter. Companies that have found longtime success being headquartered in Grand Rapids include Spectrum Health, Varnum, Rhoades McKee, Miller Johnson, Warner Norcross, and BofA to name a few.

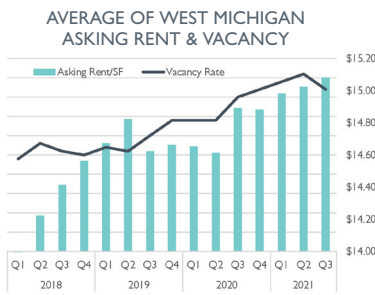
Varnum LLP and Spectrum Health, two of the companies with a large office presence in downtown Grand Rapids, are starting to consolidate their corporate headquarters. Varnum has committed to being downtown for at least the next 10 years, and while they have downsized to 63,000 square feet, they still will be occupying four floors at Bridgewater Place. They are planning a large-scale renovation and are taking lessons learned throughout the pandemic to create an up-to-date work environment to meet the needs of its workforce and better serve its clients. Spectrum Health is in the process of building an 8-story office building on the north end of downtown and will continue to provide services and support to the West Michigan community. Spectrum Health has started to vacate its old offices and has begun buying and leasing out its own properties. They currently have 26 office space leases in place, and their goal is to have 1200 to 1500 employees working in the new building, which is expected to be completed by summer 2023.

The new players in town who are following in the footsteps of the trailblazers after seeing their success include Perrigo, Acrisure, MCP, RDV Corporation, Mercy Health Saint Mary's, and the new Meijer Innovation Center. Perrigo, the leading provider of affordable self-care products, has made the decision to build their new North American headquarters on the Medical Mile of Grand Rapids. Joining Michigan State University's Innovation Park, they will be adding to a network of strong academic, medical, and health care delivery partners uniting to transform the health industry. In addition, construction is closing on Acrisure's new \$30 million headquarter in the central business district, becoming Studio Park's largest tenant. Approximately 500 employees began working there in August, with room for around 100 more when completed. All Acrisure's West Michigan insurance brokers will now be working together under one roof.

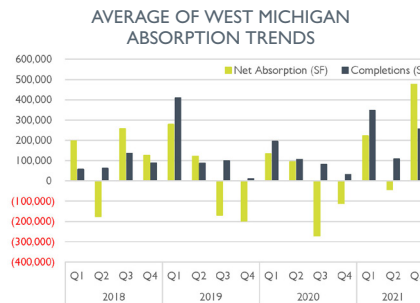
As a result of some of these users downsizing and consolidating, Grand Rapids is finally starting to see a "reshuffling of the deck" in the city. The giveback from these larger companies is leaving plenty of opportunity for up-and-coming new companies who focus on tech, logistics, staffing, medical, and other sectors. As businesses figure out their long-term plans as a result of Covid-19 and a ramp up in technology, they are finding out they don't need as much of a footprint in today's hybrid work environment.

TRENDS

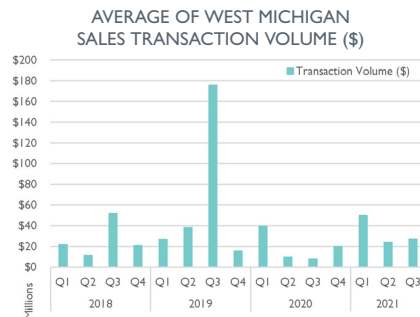
- Currently 2.9 million square feet for lease, and 1.1 million square feet for sale in Grand Rapids.
- Cap rates are leveling out and starting to increase once again. At the midpoint of this year, it fell to under 8.7% from 10% at the start of 2021. They now are hovering around 9.0% and are predicted to slightly increase by end of the year.
- Rents anticipated to decrease in order to compete with present and future sublease space, along with the at home office.



Source: CoStar



Source: CoStar



Source: CoStar

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RETAIL OVERVIEW

RETAIL CONTINUES EVOLVING THROUGHOUT THE PANDEMIC, BRINGING COMPETITIVE ADVANTAGES FOR LOCAL RETAILERS

Confidence in retail is rising, and people are finally getting out and enjoying life once again. While there are some ongoing disruptions in the industry right now, the future holds many positive projections. But with the current supply chain bottlenecks, the big question is: how will the upcoming holiday season perform?

With the state of Michigan changing its rules on cannabis with the social equity plan, more categories are being added for small startup growers and sellers of medical/recreational marijuana. This market is starting to catch investors' attention, with big companies starting to make acquisitions, which in turn is competing with the industrial sector for space. But none the less, once a disjointed market, and arguably still is to some degree, is starting to finally see less expensive properties and a growing submarket.

Grand Rapids continues to expand exponentially with medical research, high quality jobs, and skilled college graduates who are here to stay. And because of the sophisticated, strong financial base of West Michigan, national retailers like Total Wine & More and Whole Foods have decided to make the move to Grand Rapids.

Total Wine & More opened its first Michigan location in Grand Rapids earlier this year. The 34,000 square foot retailer at 4923 28th St. SE hosts up to 8,000 different wines, 3,500 beers, and 3,000 spirits. Employing upwards of 50 new team members, they will be given 100 hours of training on beer, spirits, and wine before they even start working. They will be offering full-time positions with competitive wages and full benefits, including a 401(k), health and dental insurance, paid leave, and assistance for secondary education. By end of 2021, Total Wine & More plans on opening three new locations in Ann Arbor, Novi, and Sterling Heights.

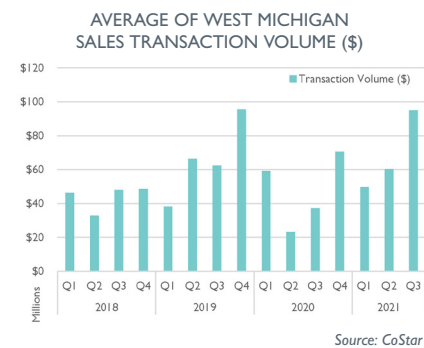
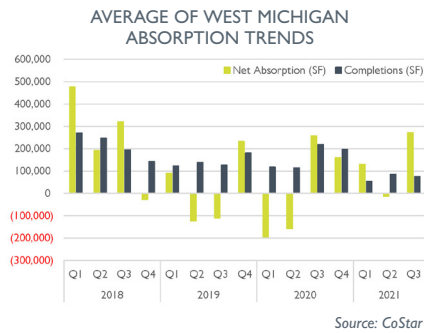
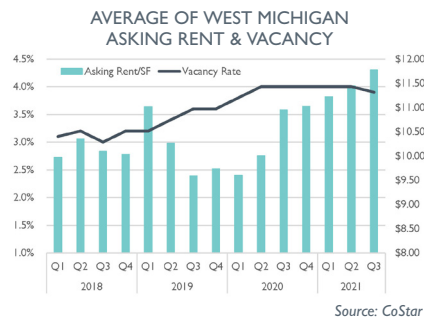
Whole Foods has signed a lease to open a store in Kentwood at the Radcliff Plaza, near the Woodland Mall. While the store is currently in development, there is currently no timeline for when it will be completed. Landing a Whole Foods in any particular market is a great accomplishment in the retail industry, as this will open the doors for new retailers in the area because of the heavy foot traffic and excitement this big box retailer generates.

Although the retail industry is making a comeback, retail properties are on the market longer than some of the other property types such as office. In Grand Rapids, retail properties are listed and on the market for an average of 498 days. These are usually smaller box spaces though; big box retail does not stay vacant as long and has a quick turnover rate. For the whole market, the average asking price for lease is currently \$14.34 a square foot, but actual lease price is higher, sitting at an average of \$14.89 a square foot.

Retail in West Michigan is somewhat flux relative, and Grand Rapids has needed more rooftops and a larger corporate presence in the downtown area for urban retail to thrive. After decades of recruitment efforts, there are now three large corporate users relocating headquarters into downtown Grand Rapids. Between Acrisure, Perrigo, and Spectrum, new corporate employees will be adding to the activity in downtown Grand Rapids over the next couple of years. Combined with new residential units either under construction or planned for the downtown Grand Rapids area, we will be entering an exciting new era in urban retail.

TRENDS

- With a labor shortage in an economy where jobs vacancies are plentiful and the people to fill them are scarce because of the conditions, workers are finding themselves with much more leverage.
- 78% of sales volume comes from National companies, while 21% comes from local companies with the remaining 1% coming from foreign companies.
- Holiday retail sales are likely to increase between 7% and 9% in 2021, according to Deloitte's annual holiday retail forecast.



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5370-5394 S DIVISION AVE | KENTWOOD

- 2,040-5,340 SF available for lease
- Built in 1995, Renovated in 2011
- Attractive building & pylon signage options
- Hard corner with great accessibility via 2 curb cuts from S. Division and 54th St. SW
- Located on vibrant retail corner near Walmart, Home Depot, Target, Meijer, Menards and many other national retailers



3809 LAKE EASTBROOK BLVD SE | GRAND RAPIDS

- 3809 Lake Eastbrook Blvd. is a very attractive building currently undergoing a complete renovation. Major lead tenant has signed a long term lease occupying 75% of the building. Located just north of 28th Street, the property is in walking distance to two regional malls, restaurants, and additional amenities.
- White box suite that can be customized to your specifications



3174 4 MILE RD. NW | GRAND RAPIDS

- Located in the City of Walker with easy access to I-96, Bradley Company and JLL are pleased to offer 216,000 +/- SF; expandable to 267,000 +/- SF of industrial development with 32-foot ceilings and 24 dock doors. Walker is a highly desired industrial location with an abundant employee pool, making it an ideal location as a prime logistics hub or manufacturing location.
- 50+ trailer parking spaces



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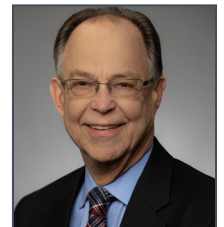
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