

WEST MICHIGAN

Q1 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 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, affordable cost of living, and quality of life. According to a study in 2019 by The National Association of Realtors (NAR), Grand Rapids is ranked the second best destination in the country for millennials. Grand Rapids has several other notable rankings as well, including three from U.S. News and World Report including the 13th "Best Place to Live", 6th "Best Place to Retire", and the 6th "Most Affordable Place to live". Financial technology company SmartAsset ranked Grand Rapids number one on their list of "Best Places to Buy a First Home".

DEMOGRAPHICS

1,987,303
Population

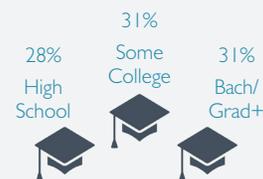


759,816
Households

\$57,036



Median Household
Income



Education

67,513



Total Businesses

1,008,587



Total Employees

Source: Esri

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INDUSTRIAL OVERVIEW

INDUSTRIAL DEMAND REMAINS UNABATED INTO 2021 AFTER A HIGH NUMBER OF SALES TRANSACTIONS IN Q4 2020

The warehouse and distribution sector in West Michigan continues its positive momentum. There were 6 sale transactions in Q1 2021 that were over \$1 million with one over \$4 million. There were 11 sales transactions above \$1 million in the final quarter of 2020, with 6 of those in December alone. The transactions combined accounted for \$120 million, the highest sales volume in the past five years. The number of properties traded was the second highest in the 5-year period. Industrial and warehouse space is in such high demand that properties will often get offers as soon as they go on the market and existing industrial properties are seeing record high prices as construction costs continue to increase.

In the previous quarter it was noted that several food distributors had laid off some workers due to restaurants and bars having restricted capacity from the pandemic. While some sectors struggled, the e-commerce industry is in expansion mode. Conveyor Concepts is expanding their facility in Coopersville. The company, which makes automation equipment, is investing \$1.3 million to expand their facility by 30,000 square-feet. The company is benefiting from increased demand in e-commerce and the need for more warehouse and distribution facilities that rely on their products. Likewise, Holland Steel has announced a 34,000 square-foot expansion. The company makes steel products for a variety of industries. They plan to invest \$2.4 million in the project. The largest expansion project is also in Holland. The \$35 million project by Hudsonville Creamery and Ice Cream Company includes a new 156,466 square-foot cold storage distribution facility and expanding their manufacturing capabilities at their headquarters. They previously spent nearly \$10 million on an expansion in 2020.

In addition to expansions, new facilities are also underway. Projects include:

- Pfizer broke ground in March on a new \$465 million facility in Portage in Kalamazoo County. The project was announced in 2018 and will open in 2025, creating 450 jobs.
- Alro Plastics will move into their new facility at 4284 60th St SE, Grand Rapids this spring. The project has a total 160,000 square-feet with Alro occupying 65,000 square-feet. The build-to-suit project broke ground in July 2020.
- Walker, in Kent County, continues to attract new developments. Pinnacle construction is building a 15,750 square-foot multi-tenant facility. Construction is slated for completion in Q3 2021. German Auto Service has been announced as the first tenant, with several suites still available.
- Also in Walker, Amazon's \$10 million, 113,000 square-foot sorting and delivery center is scheduled for completion in Q3 2021.

TRENDS

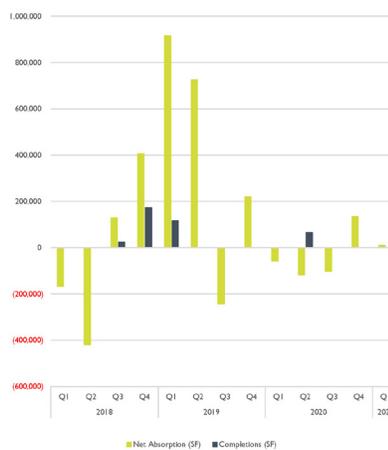
- Demand remains high for warehouse and distribution space, which is expected to drive construction of more spec buildings, though higher construction costs may limit some developments.
- Record low industrial vacancy rates in West Michigan are likely to continue throughout 2021.
- Asking rents are expected to rise as supply continues to lag behind demand.
- Demand has been highest in the 5,000 - 10,000 and 20,000-30,000 square-foot ranges.

WAREHOUSE & DISTRIBUTION
ASKING RENT & VACANCY



Source: Reis

WAREHOUSE & DISTRIBUTION
ABSORPTION TRENDS



Source: Reis

INDUSTRIAL
TRANSACTION VOLUME



Source: Real Capital Analytics

WEST MICHIGAN

Q1 2021

OFFICE OVERVIEW

AFTER A SLOWDOWN IN 2020, OFFICE DEMAND IS GAINING STRENGTH IN Q1 2021

West Michigan, like all office markets across the United States and the Midwest, saw a spike in office vacancy rates in 2020 due to the pandemic. The Western Michigan area includes Grand Rapids and Kalamazoo.

Grand Rapids is a secondary market, making it appealing for those looking for lower cost of living, compared to the large gateway cities. Office space had robust demand in Grand Rapids, especially in the downtown area before COVID-19. There is uncertainty as to what the office market will look like in the near-term, but most are bullish on the strength of demand for space in the Grand Rapids market. With its many amenities, demand for downtown office space should rise as companies make decisions about their physical presence. Additionally, local universities, such as Grand Valley State University and Michigan State University, feed the economy with fresh graduates each year and entice companies looking to place themselves in a city with a great talent pipeline.

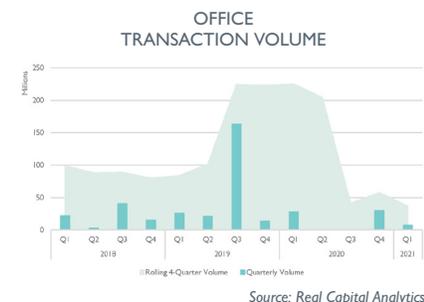
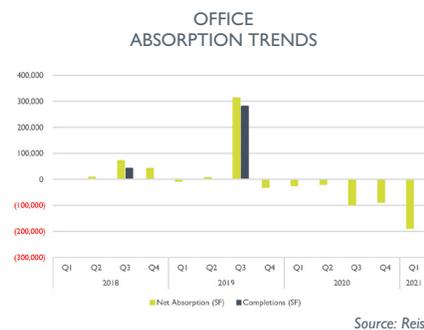
There are multiple companies building in or relocating to Grand Rapids:

- Acrisure, an insurance brokerage company, is building its new headquarters at Studio Park in downtown Grand Rapids. The building is currently under construction and expected to be completed in the second half of 2021. The company is also infusing cash into the community by pledging to donate \$15 Million to Spectrum Health Helen DeVos Children's Hospital.¹
- Spectrum Health is building an 8-story office building north of downtown Grand Rapids. It will connect this 8-story building to an adjacent one (the Brass Works Building) it bought for \$24.7 Million. It will house 1,500 employees. Construction of the new office building is expected to start in the fall of 2021.²
- A couple of new buildings are under construction within Michigan State University's Grand Rapids Innovation Park. The 210,000 square-foot Doug Meijer Medical Innovation building and Perrigo's new 125,000 square-foot North American corporate headquarters both are scheduled for completion in February 2022. The project also includes a 600-car parking garage. Perrigo is a provider of over-the-counter health and wellness solutions. BAMF (Bold Advanced Medical Future Health) will lease 35,000 square-feet in the Medical Innovation building for their corporate headquarters. The company plans to expand their life science workforce by 200 and the location will contain the world's most advanced cyclotron-equipped radiopharmacy, molecular imaging clinic and theranostics clinic. BAMF is investing \$30 million in the project.³ When both buildings are complete the four buildings that comprise Innovation Park will have a \$339 million impact in Kent County.⁴
- Kalamazoo is also seeing development activity. Treystar and Catalyst Development are partnering to develop Haymarket Plaza in downtown Kalamazoo. This is a placemaking project that is expected to connect Catalyst Development's mixed-use project and Treystar's office development.⁵

Transaction volume in the Western Michigan region was down 74.6% year-over-year in Q1 2021. Over \$7 million worth of office properties sold in Q1, down from \$29.9 Million in Q4 2020. The median price per square-foot was \$141 in Q1 2021, which is a drop from \$165 in Q4 2020 and \$196 in Q1 2020. According to Integra Realty Resources, cap rates in the CBD ranged from 6.0% to 6.5% and ranged from 7.5% to 9.5% in the suburbs in 2020. Cap rates are expected to increase between 1-24 basis points along all asset classes and in the CBD and suburbs in the next 12 months.⁶

TRENDS

- Demand has been the strongest in the midsize range between 1,500 - 4,000 square-feet.
- Sublease spaces are continuing to offer opportunities to new users that include lower rents and sometimes furniture.
- West Michigan is attracting new residents from gateway cities due to its lower cost of living and the cultural amenities the region offers.
- The reconfiguration of office space by companies to draw talent and current employees to the office will continue as executives make decisions about space use. Some companies may opt for larger office spaces or smaller spaces with desks for hoteling.



1. <https://grbj.com/news/acrisure-donates-15m-to-downtown-hospital/>
2. <https://www.mlive.com/news/grand-rapids/2021/04/spectrum-health-plans-large-8-story-office-building-for-downtown-grand-rapids.html>
3. <https://grbj.com/news/economic-development/msus-growth-to-net-kent-county-339m-annually/>
4. <https://www.rightplace.org/news/bamf-health-medical-mile-hq>
5. <https://grbj.com/news/real-estate/developers-city-partner-on-downtown-kalamazoo-plaza/>
6. Integra Realty Resources (IRR)

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RETAIL OVERVIEW

RETAIL IS THRIVING IN WEST MICHIGAN, ESPECIALLY IN CORRIDORS WITH CLASS A PROPERTIES

Despite capacity limits and mandated closures last year in Michigan due to the pandemic, the West Michigan retail sector continues to be active. There were business closures last year, of course, but through the first quarter of 2021, openings are outpacing closures. National tenants not currently in the market and local entrepreneurs are looking for space in West Michigan.

Whole Foods announced in December that it was opening its first store in the Grand Rapids Metro. The store will open next to Guitar Center in Radcliff Plaza in Kentwood. The center was built in 1988, but is well located across from Woodland Mall, which opened new stores and anchor Von Maur in 2019. The Class A property continues to perform well and helps to attract other tenants to this vibrant corridor. In turn, Whole Foods will spur additional growth. Currently the nearest Whole Foods to Grand Rapids is in Lansing, approximately 70 miles away. An opening date hasn't been announced.

Another new entrant to the market, Wahlburgers is opening a location downtown this summer in the new Residence Inn by Marriott. This will be the third location in Michigan. Condado Tacos opened in February on Bridge Street, just west of downtown. This is their fourth Michigan location, but the first outside the Detroit Metro area. Loretta's Deep Dish has opened in downtown also. The Chicago style pizzeria is a new restaurant concept by the founder of Hop Cat and also the Tiki bar, Max's South Seas Hideaway. The new restaurant is located in the basement of Max's on Ionia Ave SW.

Credit Unions have also been opening new locations. Consumers Credit opened in Walker and broke ground on another location in Grand Haven. Arbor Financial opened in Hudsonville. Both credit unions are based in Kalamazoo.

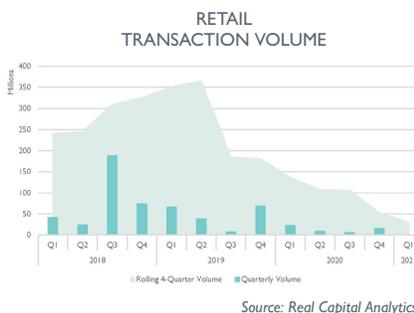
Last year Loves Furniture and Mattresses announced they were opening in 18 of the former Art Van stores after Art Van closed earlier in the year. Less than 6 months later, Loves, beset with warehouse and supply chain issues filed for bankruptcy in December and are liquidating all stores. The company has indicated that the liquidation may allow them to reopen some locations. Five of the locations are in West Michigan.

In 2020 some breweries merged or closed, but seven new ones are opening in West Michigan. Brewery Nyx will be the first gluten free brewery to open in Michigan. They plan to open in June just south of downtown Grand Rapids at 506 Oakland Ave. SW. Saugatuck Brewing Co. is expanding to a third location. The company has purchased Creston Brewing after it closed in March 2020. Saugatuck plans on keeping the Creston name.

Michigan is now the most active retail cannabis state since it was legalized in November 2018. Some retail chains have opened new locations in the Grand Rapids market. JARS Cannabis will open in June at 1815 Alpine Ave. NW. The new store will replace a formerly vacant building that was demolished. New Standard opened their second location in Sand Lake, north of Grand Rapids in February. 3Fifteen Cannabis, based in Detroit added recreational sales to their already operating medical dispensaries. Gage Cannabis Co. opened a 4,000 square-foot store in January on the northeast side of Grand Rapids. The chain has five other locations in the state and has plans to open more this year with a goal of 20 stores.

TRENDS

- After the retail and restaurant closings last year, West Michigan is now seeing retail openings outpace closures.
- Tenant retention in the market has remained strong in Class A retail centers, where vacancy remains low. B and C Class spaces have had higher vacancy rates, but even those spaces are finding new tenants.
- Medical tenants will likely continue to open in retail spaces that offer more convenience and visibility for patients.
- Consumer behaviors have changed during the pandemic and the preference for drive-thrus and curbside pickup are likely changes that will remain as customer requirements. These preferences will factor into new restaurant designs.
- Retail Cannabis has been thriving but in some markets, like Grand Rapids, available space for new operators is running out. Site restrictions may lead to fewer openings this year.



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4670 60TH ST. SE, KENTWOOD, MI

- Brand new 160,000 s.f. industrial facility right on M-6! Unparalleled exposure to over 50,777 vehicles per day in the airport region. This region's industrial market is in extraordinarily high demand. The location is right next to the M-6 & M-37 interchange allowing quick access to I-96 as well as US-131. Each suite has 4 truck doors and 1 large overhead door. Owner is open to a complete rewrite.



TIMBERLAKE RESORT & RV CLUB 4370 NORTH RIDGE ROAD, MEARS MI

- Only 5 minutes north of Silver Lake Sand Dunes, the resort is located on 280 beautiful wooded acres, including its own private lake and 243 feet of private beach on Lake Michigan
- With an existing income stream and undeveloped 170 acres, this is the perfect opportunity for an owner or investor to acquire an RV resort
- 3 available purchase options



2333 E. BELTLINE AVE. SE, GRAND RAPIDS, MI

- Beautiful, updated campus property located on the corner of East Beltline and Woodland Drive (just north of 28th Street) and in immediate proximity to dozens of restaurants, retailers, and hotels along East Beltline/28th Street. 5 parcels make up this wooded campus, containing approximately 11 acres of land and a 38,075 s.f. brick building with glass facade, security system, furniture, and large commercial kitchen.



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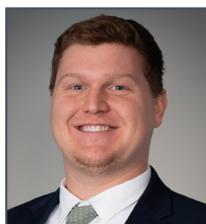
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