

Grand Rapids Industrial & Logistics, Q2 2018

Construction activity heats up as vacancy rates reach historic lows

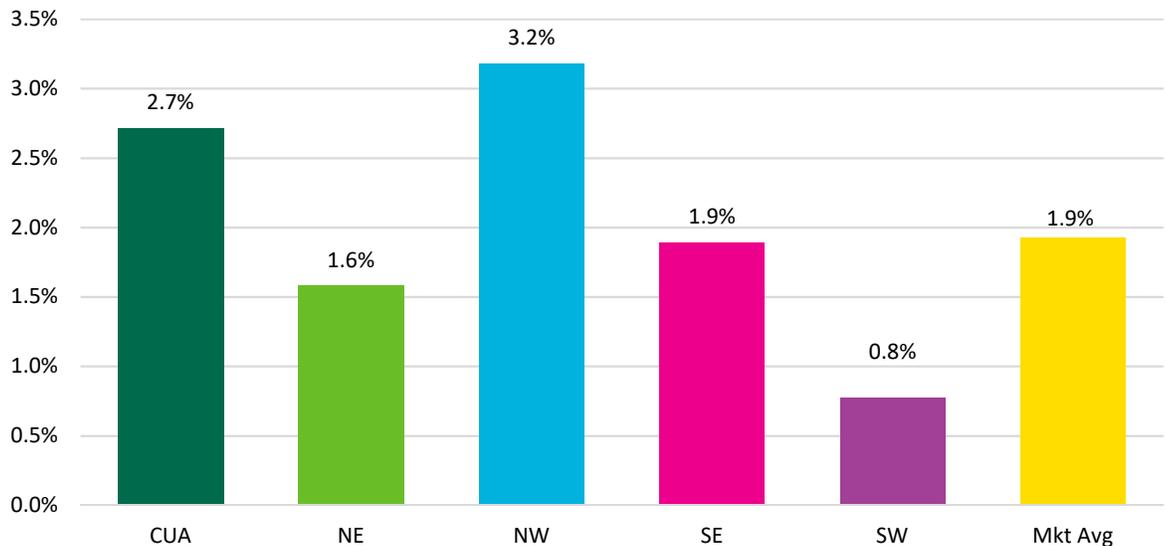
 Vacancy Rate
1.9%

 Net Absorption
286,931 SF

 Completions
436,500 SF

Figure 1: Market Vacancy

*Arrows indicate change from previous period.



Source: CBRE Research, Q2 2018.

- 436,500 sq. ft. of new industrial space was delivered to the market in Q2 2018.
- Another 1.5 Million sq. ft. of industrial space is under construction.
- Construction has commenced on the 855,000 sq. ft. Amazon distribution facility in Gaines Township (Southeast Submarket)
- Viking Group to build new headquarters in Caledonia Township (Southeast Submarket).
- Axis Company to build \$4 Million facility in a location to be determined.
- Market vacancies drop to historic levels.
- Rental rates edge up; gap remains between rental rates for existing buildings versus new construction.

MARKET COMPOSITION

The Kent County industrial market comprises over 100.6 Million sq. ft. of gross warehouse and manufacturing space,* of which nearly 53 Million sq. ft. is categorized as “leasable space,” with the balance “owner occupied.”

Kent County’s largest sector, comprising 45.2% of the area’s gross industrial product, is the Southeast Submarket, which is home to Steelcase, Gerald R. Ford International Airport, Roskam Baking Company and Lacks Enterprises. The smallest submarket is the Northeast Submarket with 7.0% of the gross industrial space.

**comprising a minimum of 20,000 sq. ft.*

Figure 2: Market Statistics – Gross Space

Submarket	Market Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	Completions (SF)
CUA	10,152,715	275,974	2.7	0	0
NE Submarket	7,047,850	111,575	1.6	(111,575)	0
NW Submarket	16,461,622	523,747	3.2	76,257	24,000
SE Submarket	45,443,688	860,022	1.9	283,874	412,500
SW Submarket	21,510,205	167,047	0.8	38,375	0
Totals	100,616,080	1,938,365	1.9	286,931	436,500

Source: CBRE Research, Q2 2018.

Figure 3: Market Statistics – Leasable Space

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Avail. Rate (%)	Net Absorption (SF)	Completions (SF)	Asking Lease Rates (\$/SF/Yr NNN)
CUA	5,681,361	98,073	1.7	1.7	0	0	2.75-6.25
NE Submarket	2,100,333	0	0.0	0.0	0	0	N/A
NW Submarket	8,164,214	408,056	5.0	5.0	52,246	0	2.50-5.00
SE Submarket	24,487,098	985,798	4.0	4.8	183,486	412,500	2.65-5.95
SW Submarket	12,285,065	60,428	0.5	1.3	(4,420)	0	3.10-4.95
Totals	52,718,071	1,552,355	2.9	3.5	231,312	412,500	2.50-6.25

Source: CBRE Research, Q2 2018.

KENT COUNTY SNAPSHOT

Market fundamentals remain sound throughout Kent County. The metropolitan unemployment rate of 2.9% is below that of Michigan and the U.S. (3.8% and 4.0%, respectively).

During Q2 2018, developers delivered 436,500 sq. ft. of new product to the local industrial market. Furthermore, the under-construction pipeline comprises over 1.5 million sq. ft. The most notable of these projects include:

- 855,000 sq. ft. distribution center on 68th Street SE for Amazon (Southeast Submarket);
- New global headquarters for Viking Group in Caledonia Township (Southeast Submarket);

- 185,000 sq. ft. speculative building at 6610 Patterson Avenue SE (Southeast Submarket);
- 92,400 sq. ft. spec building on 76th Street SW;
- 125,000 sq. ft. spec building on Broadmoor SE; and
- 136,000 sq. ft. owner-user building on 68th Street (Siliconature Corporation);

This roaring activity, mainly for warehouse/distribution product, clearly demonstrates the robust demand for quality Grand Rapids industrial space and the growing functionality of local logistics.

VACANCIES

The recent surge of construction activity has not created an uptick in vacancies. Instead, Kent County industrial vacancy rates are at historic lows. Gross industrial space is 1.9% vacant, down from 2.0% charted in Q1 2018. Leasable space in Kent County is 2.9% vacant, down from 3.0% in Q1 2018. For further perspective, ten years ago, Kent County gross industrial space was 8.4% vacant, while leasable vacancies averaged 11.2%.

Gross and leasable vacancies are once again highest in the Northwest Submarket (3.2% and 5.8%, respectively). However, the submarket comprises only 16% of the industrial market, and it is greatly impacted by the few large vacancies along Northridge Drive and within the former Baker Furniture building on Monroe NW.

The Northeast Submarket offers no available lease space in properties of 20,000+ sq. ft., and thus, enjoys the market's lowest average vacancy rate in that classification (0%). The Southwest Submarket has the lowest percentage of gross vacancies (0.8%); its largest industrial vacancy last quarter (126,300 sq. ft. @ 3400 Wentworth) was sold to an owner-user in June.

ABSORPTION

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

Over Q2 2018, absorption of gross industrial space totaled 286,931 sq. ft. (+0.3%), down from 453,274 sq. ft. absorbed during Q1 2018. Absorption for leased space during the same period totaled 231,312 sq. ft. (+0.4%), also down from Q1 2018 figures (376,675 sq. ft.).

The submarket faring the best was clearly the Southeast Submarket, which absorbed 283,874 sq. ft. of gross space (+0.6%) and 183,486 sq. ft. of leased space (+0.7%).

LARGE TRANSACTIONS

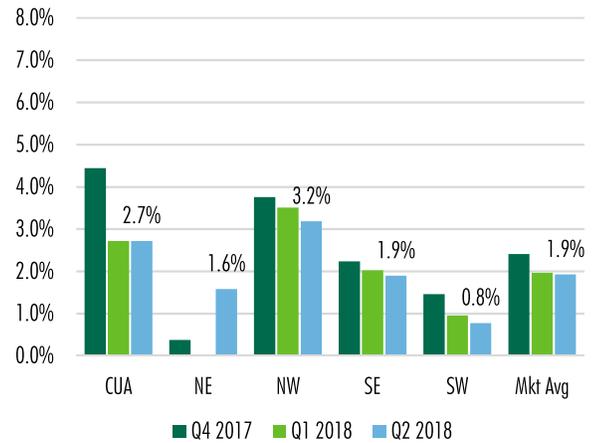
Major leases reported this period include:

- Lacks leased 227,500 sq. ft. new construction at 5361 52nd Street SE;
- Benteler Automotive renewed its lease for 91,560 sq. ft. at 2929 32nd Street SE;
- A confidential tenant leased 66,250 sq. ft. at 2935 Walkent Drive NW; and
- A confidential tenant leased 42,786 sq. ft. at 2601 Elmridge Drive NW.

Several large industrial building sales occurred during Q2 2018, including:

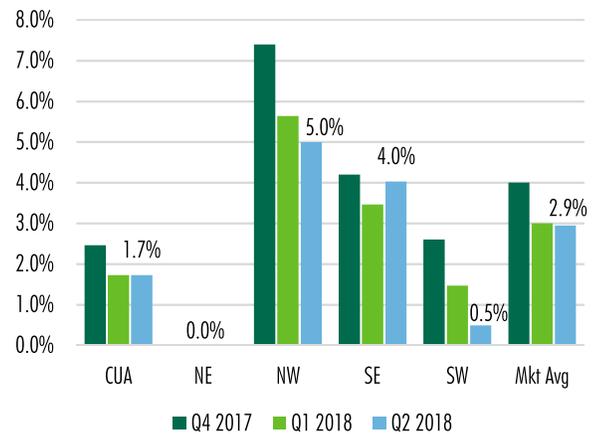
- 3400 Wentworth Drive SW (126,300 sq. ft. @ \$4.5 Million);
- 3070 Shaffer Avenue SE (120,600 sq. ft. @ \$3.6 Million); and
- 5670-97 Eagle Dr. SE (16,282 sq. ft. @ \$1.4 Million).

Figure 4: History of Vacancies – Gross Space



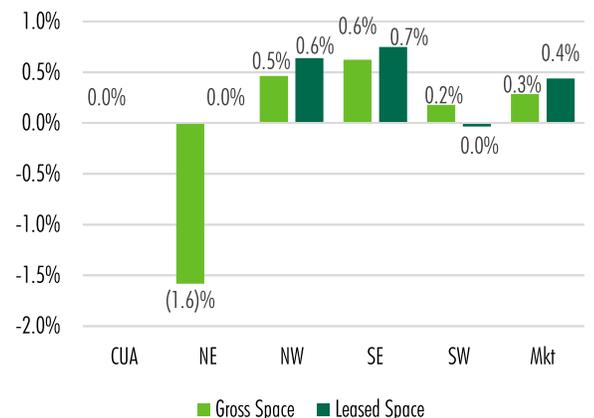
Source: CBRE Research, Q2 2018.

Figure 5: History of Vacancies – Leased Space

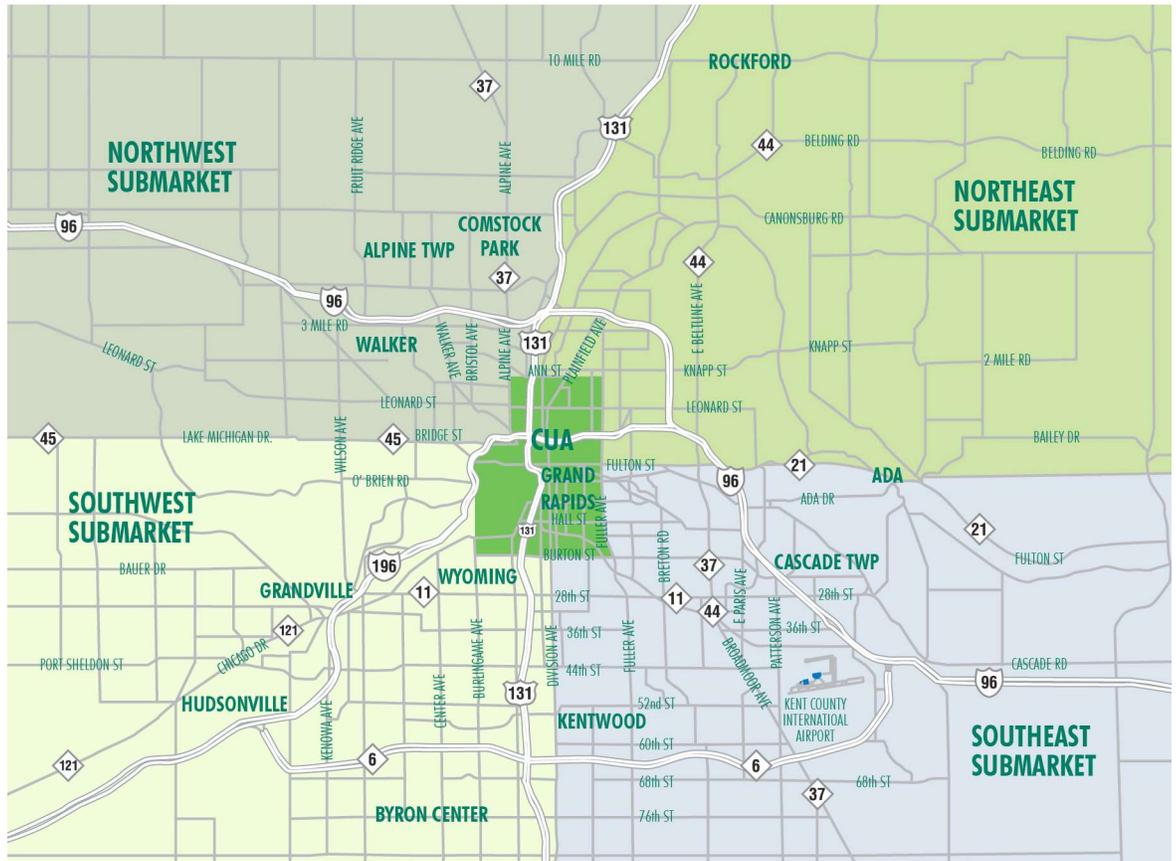


Source: CBRE Research, Q2 2018.

Figure 6: Absorption– Q2 2018



Source: CBRE Research, Q2 2018.

**CONTACTS**

Jill Langosch
+1 616 831 2200
Vice President of Research
jill.langosch@cbre-gr.com

CBRE OFFICE

CBRE | Grand Rapids
634 Front Ave. NW, Suite 550
Grand Rapids, MI 49504

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