

Grand Rapids Office, Q2 2018

Market continues to stabilize with strong fundamentals.

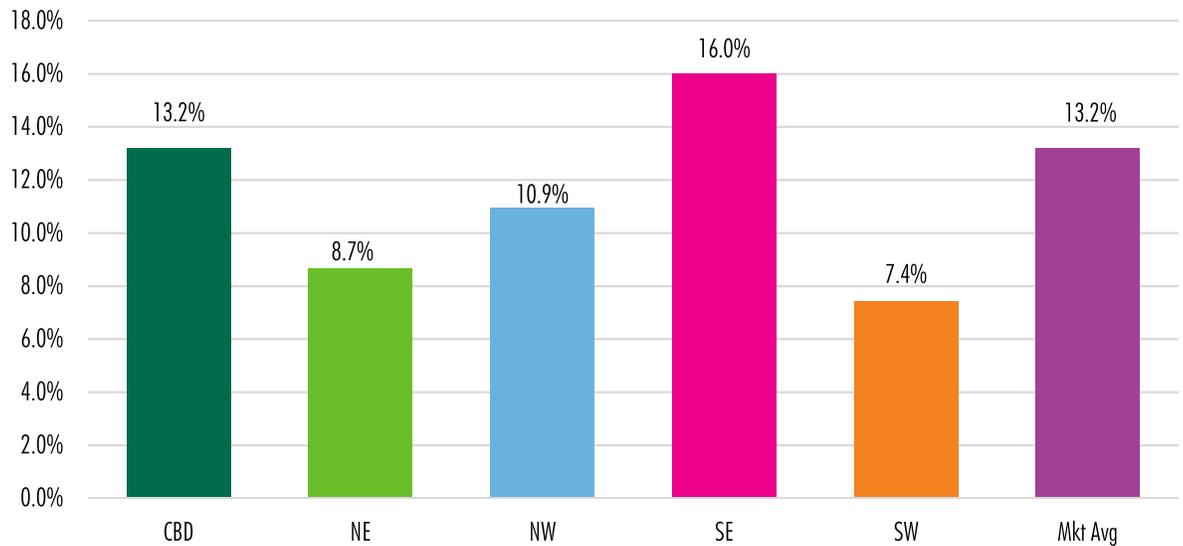
 Vacancy Rate
13.2%

 Net Absorption
116,757 SF

 Completions
23,757 SF

*Arrows indicate change from previous period.

Figure 1: Market Vacancy



Source: CBRE Research, Q2 2018.

- Wolverine Dermatology opens doors in new 15,547 sq. ft. building at 1673 Gezon Parkway SW (Southwest Submarket).
- 8,210 sq. ft. of executive office suites completed as part of new mixed-use project at 1430 Robinson Road SE (Southeast Submarket).
- Numerous developments underway throughout market.
- Confidential user relocates from Kenmoor Avenue office space to 34,520 sq. ft. at 5300 Patterson Avenue SE (Southeast Submarket).
- Investment sales are moderate.
- Market vacancy drops 80 basis points.
- Rental rates remain steady.

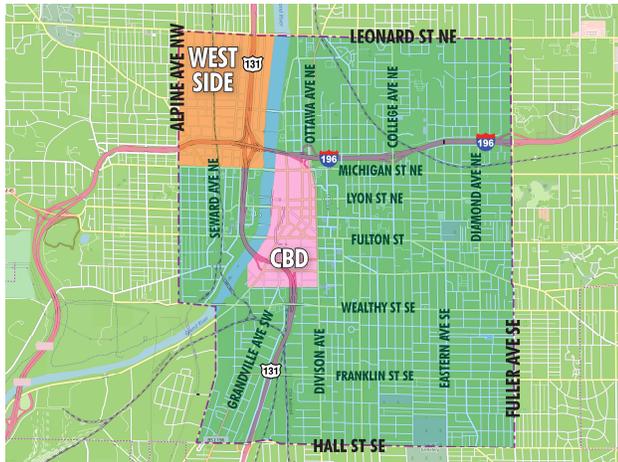
MARKET COMPOSITION

The overall Grand Rapids office market comprises over 15.8 million sq. ft. of leasable office space divided into five submarkets (CBD, Northeast, Northwest, Southeast and Southwest).

The largest concentrations of leasable office space are found in the CBD and Southeast Submarkets, which together represent approximately 77% of the office space surveyed.

19% is Class A space; 64% is Class B space and 17% is Class C space.

Figure 2: Downtown Grand Rapids



Source: CBRE Research, Q2 2018.

Figure 3: Downtown Market Statistics

Submarket	Market Rentable Area (SF)*	Vacant (SF)	Vacancy Rate (%)	Q2 2018 Net Absorption (SF)	Q2 2018 Completions (SF)	Asking Lease Rates \$/SF/YR Mod. Gross
DOWNTOWN (Gross)	6,009,225	794,118	13.2	45,261	0	
Professional Office	5,662,391	781,185	13.8	45,261	0	
Class A	2,064,657	331,645	16.1	15,531	0	23-29.00
Class B	2,870,490	359,300	12.5	19,326	0	17-22.00
Class C	727,244	95,829	13.2	10,404	0	14-18.00
Medical Office	346,834	12,933	3.7	0	0	
Class A	109,482	7,309	6.7	0	0	30-35.00
Class B	237,352	5,624	2.4	0	0	27-30.00
Class C	NA	NA	NA	0	0	NA
DOWNTOWN (CBD)	3,769,726	619,269	16.4	42,508	0	
Professional Office	3,769,726	619,269	16.4	42,508	0	
Class A	1,482,064	257,386	17.4	12,237	0	23-29.00
Class B	1,993,266	294,686	14.8	20,048	0	18-22.00
Class C	294,396	67,586	23.0	10,223	0	16-18.00
Medical Office	NA	NA	NA	NA	0	NA
DOWNTOWN (West Side)	1,094,918	81,626	7.5	3,294	0	
Professional Office	1,094,918	81,626	7.5	3,294	0	
Class A	478,545	58,238	12.2	3,294	0	20-26.00
Class B	616,373	23,388	3.8	0	0	17-19.00
Class C	NA	NA	NA	NA	NA	NA
Medical Office	NA	NA	NA	NA	NA	NA

Source: CBRE Research, Q2 2018.

Figure 4: Suburban Market Statistics

Submarket	Market Rentable Area (SF)*	Vacant (SF)	Vacancy Rate (%)	Q2 2018 Net Absorption (SF)	Completions (SF)	Asking Lease Rates \$/SF/YR Mod. Gross
NORTHEAST	1,624,157	140,890	8.7	4,197	0	
Prof. Office	1,323,149	121,975	9.2	7,496	0	
Class A	167,349	7,570	4.5	0	0	20-22.00
Class B	1,067,917	112,478	10.5	1,003	0	13-19.00
Class C	87,883	3,320	3.8	6,493	0	9-12.00
Medical Office	301,008	18,915	6.3	(3,299)	0	18-22.00
NORTHWEST	639,136	69,910	10.9	(17,029)	0	
Prof. Office	570,092	51,867	9.1	(16,579)	0	
Class A	22,582	0	0	0	0	NA
Class B	410,254	41,437	10.1%	(8,455)	0	13-16.00
Class C	137,256	11,820	8.6	(8,124)	0	12-13.00
Medical Office	69,044	18,043	26.1	(450)	0	22-24.00
SOUTHEAST	6,105,470	978,428	16.0	51,636	8,211	
Prof. Office	5,275,357	898,927	17.0	49,115	8,211	
Class A	359,656	56,604	15.7	2,112	0	20-26.00
Class B	3,658,580	590,601	16.1	34,857	8,211	14-20.00
Class C	1,257,121	251,722	20.0	12,146	0	9-13.00
Medical Office	830,113	79,501	9.6	2,521	0	14-23.00
SOUTHWEST	1,466,980	108,928	7.4	32,692	15,547	
Prof. Office	1,098,526	94,775	8.6	17,214	0	
Class A	NA	NA	NA	NA	0	NA
Class B	840,321	86,161	10.3	14,901	0	11-18.00
Class C	258,205	8,869	3.4	2,313	0	8-10.00
Medical Office	368,454	14,153	3.8	15,478	15,547	25-28.00
MARKET	15,844,968	2,092,274	13.2	116,757	23,757	
Prof. Office	13,929,515	1,948,729	14.0	102,507	8,211	
Class A	2,614,244	395,819	15.1	17,643	0	
Class B	8,847,562	1,189,977	13.4	61,632	8,211	
Class C	2,467,709	371,560	15.1	23,232	0	
Medical Office	1,915,453	143,545	7.5	14,250	15,547	
Class A	640,040	32,539	5.1	(2,810)	15,547	
Class B	1,251,595	98,582	7.9	16,815	0	
Class C	23,818	6,741	28.3	245	0	

Source: CBRE Research, Q2 2018

**Survey base includes leased office space of 5,000+ sq. ft. in Kent County.*

NATIONAL SNAPSHOT

According to CBRE Research, technology, financial services and health care/life sciences are the most active industries driving demand for office space.

Nationwide, vacancies average 13.3%, up slightly from the previous period. Nearly 70% of space delivered this period was pre-leased at the time of completion, reflecting strong tenant demand for high-quality, efficient space.

On par with the last quarter, older buildings lacking amenities preferred by today's workforce could struggle, particularly in markets where large volumes of high-quality product are being delivered. Meanwhile, markets that offer a range of housing choices and urban amenities—including retail and restaurant options, public transit and walkability—are well positioned to capture demand from the maturing millennials.

MARKET GROWTH AND MOVEMENT

No new office deliverables were charted in Q2 2018; however, many new developments and renovations are underway and more will break ground later this year. The most notable office projects include:

CBD

- 30,000 sq. ft. as a part of a new mixed-use development under construction at 234 Market (completion slated for August 2018);
- Over 150,000 sq. ft. Warner Tower is under construction at the SE corner of Lyon and Ottawa (completion is estimated in early 2019);
- Approximately 56,000 sq. ft. is under construction in the mixed-use Super Block at the SW corner of First Street NW and Seward Avenue NW in downtown's West Side;
- Approximately 90,000 sq. ft. of office space is under construction in the Studio C project near the Van Andel Arena; and
- 70,000 sq. ft. at 37 Ottawa (formerly known as part of 50 Monroe) is under renovation.

SE SUBMARKET

- Nearly 30,000 sq. ft. of speculative office space is under construction in a mixed-use development in Ada Village;
- A 41,000 sq. ft. medical office building is under construction and an additional 40,000 sq. ft. medical office building is planned on East Paris Avenue SE; and

- Bridge Pointe Office Park is under renovation near I-96 off 28th Street.

SW SUBMARKET

- 40,000 sq. ft. medical office on Health Drive SW near Metro Health Hospital is planned for 2018.

Finally, it is important to note that although not directly impacting our survey figures of leased space, the following developments will support the local office market:

- Grand Valley State University's \$81 Million health professions building at 500 Lafayette in downtown should be complete this summer;
- A 130-room AC Hotel by Marriott is under construction at 50 Monroe in the CBD;
- A 246-room Embassy Suites by Hilton is under construction on Monroe in the CBD;
- A 12-story Hyatt Place hotel is under construction adjacent to the Warner Building at 150 Ottawa Avenue in the CBD; and
- Consumers Energy recently announced the upcoming development of a \$20 Million corporate headquarters in downtown's West Side.

LEASING ACTIVITY

Key lease transactions during Q2 2018 included:

- 34,520 sq. ft. leased to a confidential user at 5300 Patterson Avenue SE (Southeast Submarket);
- 15,000 sq. ft. leased to a confidential user at 1555 Arboretum Drive SE (Southeast Submarket);
- Approximately 11,000 sq. ft. leased to Fresenius Kidney Care at 5311 Clyde Park SW (Southwest Submarket);
- Approximately 7,400 sq. ft. leased to confidential user at 665 Seward Avenue NW (Northwest Submarket); and
- 5,100 sq. ft. leased to Dr. Peabody at 2525 East Paris Avenue SE (Southeast Submarket).

VACANCIES

During Q2 2018 the market continues to improve, with vacancies averaging 13.2% (nearly 2.1 million sq. ft.), down from 14.0% in Q1 2018. Interestingly, both urban and suburban space average 13.2% vacant, as well.

Leasable professional office space averages 14.0% vacant (vs. 14.9% in Q1 2018), with Class A space averaging 15.1% vacant, Class B space averaging 13.4% vacant, and Class C space averaging 15.1% vacant.

Leasable medical office space averages 7.5% vacant, with Class A space averaging 5.1% vacant, Class B space averaging 7.9% vacant and Class C space averaging 28.3% vacant.

We anticipate that vacancies will remain steady over the next few periods.

ABSORPTION

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

Occupiers throughout the market continue to focus on improving efficiency and reducing their footprints. During Q2 2018, Kent County experienced 116,757 sq. ft. of absorption, up from negative 5,855 sq. ft. in Q1 2018.

The sector absorbing the most space during Q2 2018 was the Southeast Submarket, which absorbed 51,636 sq. ft. (0.8%), while the sector absorbing the greatest percentage of space was the Southwest Submarket (2.2%). The only sector with negative absorption was the Northwest Submarket, which absorbed a negative 17,029 sq. ft.

ASKING RENTAL RATES

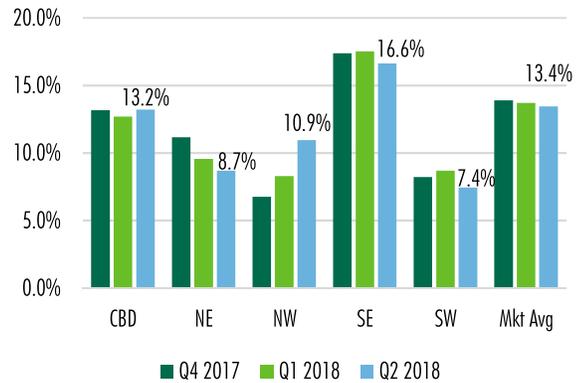
Rental rates remained steady this period. The following rates are based on a modified gross rental rate, where tenants pay utilities and janitorial (estimated at \$3 per sq. ft.); and landlords pay taxes, insurance, and common area maintenance (estimated at \$6-7.00 per sq. ft.).

Excluding medical office space, Class A space ranges from \$20-22.00 per sq. ft. in the CBD and from \$20.00-26.00 per sq. ft. in the suburbs. Class B space ranges from \$13-19.00 per sq. ft. in the CBD and from \$11-20.00 per sq. ft. in the suburbs. Class C space ranges from \$9-12.00 in the CBD and from \$8.00-13.00 per sq. ft. in the suburbs.

Rental rates for new construction throughout the market are considerably higher, averaging \$25-36.00 per sq. ft.

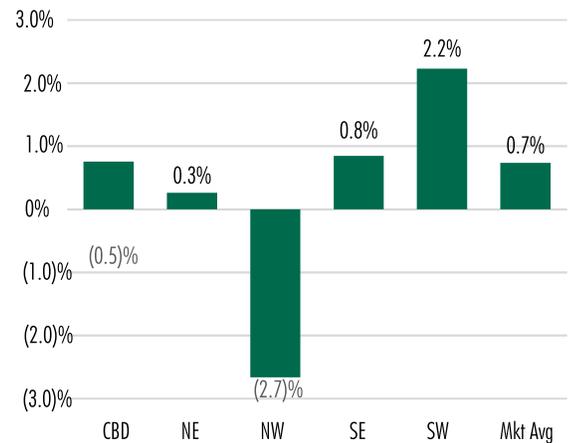
The average parking allowance is 4-7:1,000 sq. ft. in the suburbs and none downtown. Monthly cost per space for downtown parking ranges from \$48-154 for public parking (cheaper in downtown’s West Side) and \$145-195 for private parking.

Figure 5: History of Vacancies



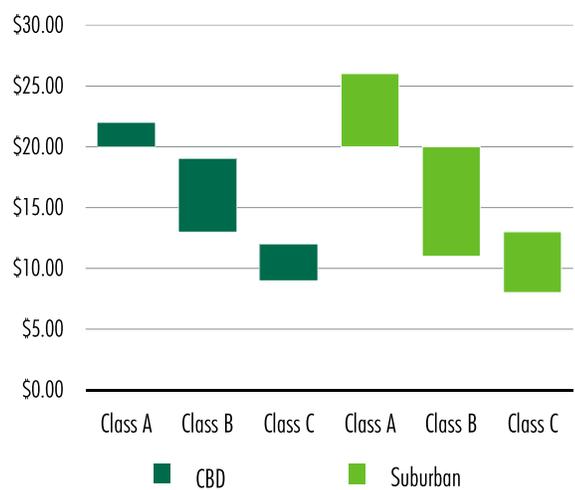
Source: CBRE Research, Q2 2018.

Figure 6: Net Absorption



Source: CBRE Research, Q2 2018.

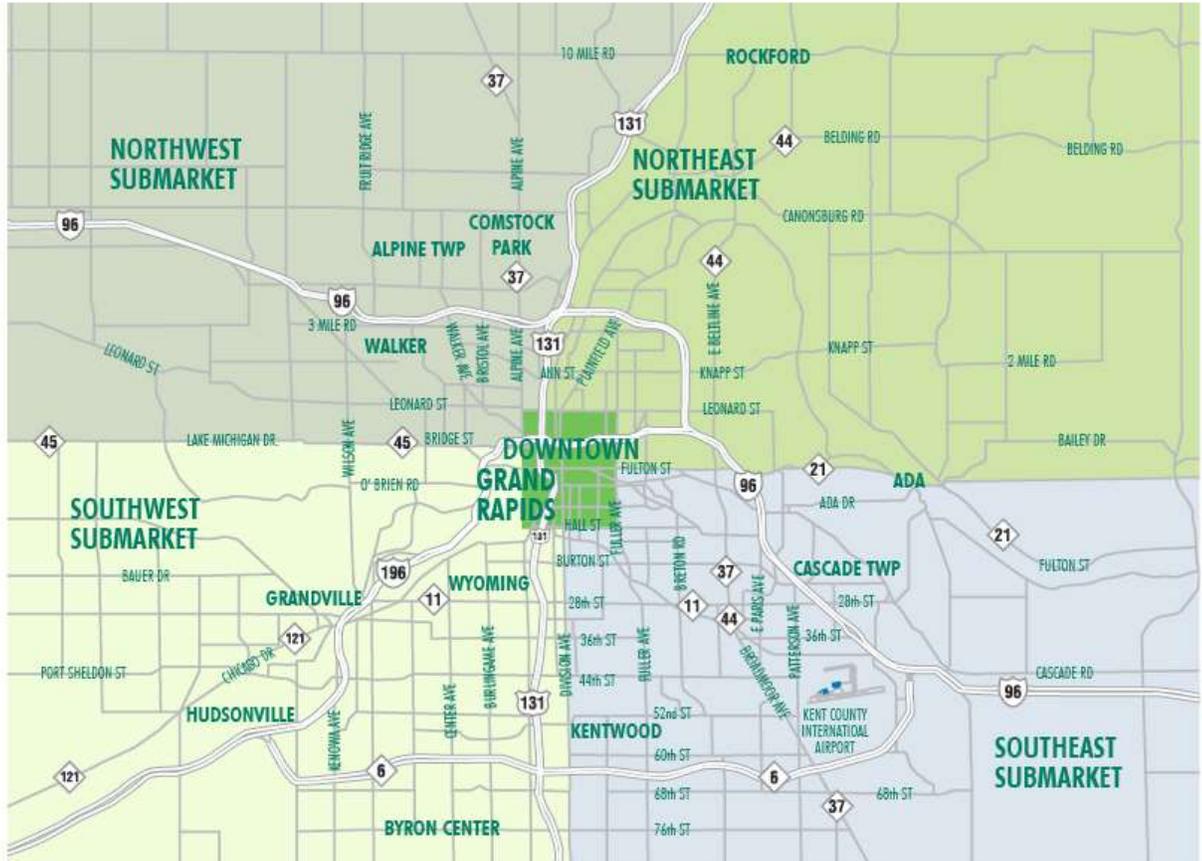
Figure 7: Asking Rental Rates (Modified Gross)



Source: CBRE Research, Q2 2018.

Grand Rapids

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