

Greater Lansing Area Office, Q2 2018

Market continues to improve while new construction remains stalled

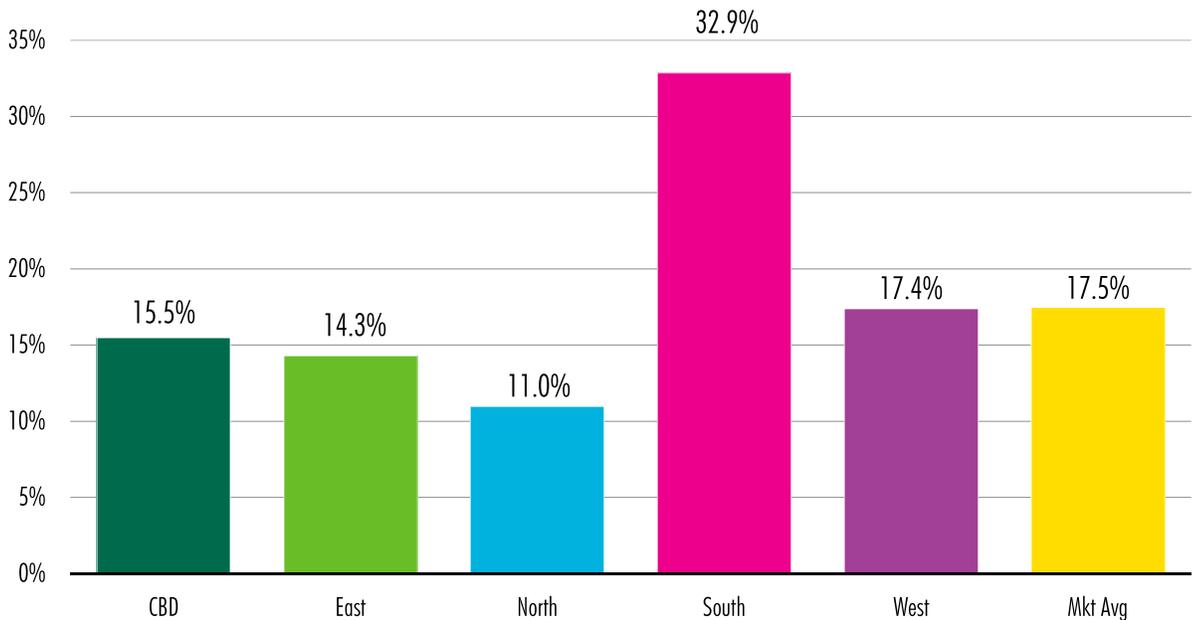
 Vacancy Rate
17.5%

 Net Absorption
(36,766) SF

 Completions
0 SF

*Arrows indicate change from previous period.

Figure 1: Market Vacancy



Source: CBRE Research, Q2 2018.

- Lansing-East Lansing MSA has an unemployment rate of 3.4%, below the State of Michigan rate of 4.3% and the U.S. rate of 4.0%.
- Overall market vacancy falls 10 basis points to 17.5%.
- The 91,710 sq. ft. MSHDA building at 735 East Michigan Avenue (CBD) sold for \$21 Million.
- State government lease activity continues to be active.
- Rental rates steady with limited landlord concessions.
- New speculative construction remains non-existent.

MARKET COMPOSITION

The Greater Lansing Area comprises over 8.6 million sq. ft. of leasable office space, divided into five submarkets (CBD, East, North, South and West).

The largest concentrations of office space are found in the CBD and the East Submarket, which together represent over 74% of the space surveyed.

Approximately 36% of the space is Class A, 61% is Class B and 3% is Class C.

Figure 2: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	Completions (SF)	Full Service Asking Lease Rates (\$/SF/Yr)
CBD	2,746,748	425,668	15.5	(72,312)	0	9.00-23.00
Class A	1,291,141	32,591	2.5	(87,200)	0	18.50-23.00
Class B	1,345,000	316,300	23.5	25,788	0	12.00-16.00
Class C	110,607	76,777	69.4	(10,900)	0	9.00-12.00
East	3,585,977	512,253	14.3	(11,634)	0	8.00-28.00
Class A	1,543,296	203,866	13.2	6,108	0	22.00-28.00
Class B	1,934,389	284,159	14.7	(17,742)	0	13.00-21.00
Class C	108,292	24,228	22.4	0	0	8.00-12.00
I-96/Jolly Rd Corridor	787,423	63,283	8.0	(9,059)	0	17.00-19.00
US-127/Lk Lansing Corridor	559,538	73,043	13.1	9,536	0	17.50-28.00
North	133,811	14,667	11.0	5,745	0	13.00-18.00
Class A	NA	NA	NA	NA	0	NA
Class B	133,811	14,667	11.0	5,745	0	13.00-18.00
Class C	NA	NA	NA	NA	0	NA
South	1,146,078	376,629	32.9	8,671	0	8.00-22.00
Class A	123,405	8,122	6.6	0	0	22.00
Class B	992,518	352,107	35.5	8,671	0	10.00-15.00
Class C	30,155	16,400	54.4	0	0	8.00-10.00
West	1,004,491	174,605	17.4	32,764	0	11.00-20.50
Class A	71,723	0	0	0	0	NA
Class B	838,786	167,550	20.0	31,319	0	12.75-20.50
Class C	59,546	7,055	11.9	1,445	0	11.00-12.00
I-96/West Saginaw Hwy Corridor	193,924	28,996	15.0	(8,475)	0	13.00-17.00
Creyts/St. Joe Hwy Corridor	452,367	50,195	11.1	39,289	0	14.00-20.50
Market	8,617,105	1,503,822	17.5	(36,766)	0	8.00-28.00
Class A	3,064,001	244,579	8.0	(81,092)	0	18.50-28.00
Class B	5,244,504	1,134,783	21.6	53,781	0	9.00-21.00
Class C	308,600	124,460	40.3	(9,455)	0	8.00-12.00

Source: CBRE Research, Q2 2018.

NATIONAL SNAPSHOT

- Net absorption in Q2 2018 more than doubled quarter-over-quarter and year-over-year to 15.5 million sq. ft.—the highest total since Q4 2015.
- Construction completions exceeded 10 million sq. ft. for the eighth consecutive quarter, but slowed slightly from the previous two quarters to 11.1 million sq. ft. Nearly 60% of the space delivered in the markets tracked by CBRE Research was preleased, reflecting strong tenant demand for high-quality space.
- The vacancy rate decreased for the first time in four quarters, falling by 10 basis points (bps) to 13.0%. The downtown vacancy rate decreased by 20 bps both quarter-over-quarter and year-over-year to 10.5%. The suburban vacancy rate fell by 10 bps from Q1 and was unchanged from the year-earlier period.
- Gross asking rent growth continued to slow, reflecting a balance between supply and demand during the past few years.

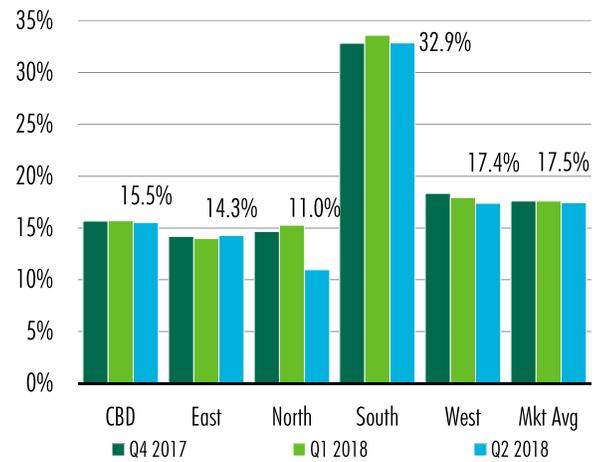
MARKET GROWTH AND MOVEMENT

Once again, no new office deliverables were charted this period and none are currently under construction. While we do not anticipate speculative office construction in the near future, the market will see an increase in build-to-suit development this fall.

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

- The 61,000 sq. ft. former Lake Trust Credit Union building at 601 S. Capitol was sold and will be renovated and incorporated into a larger mixed-use development (residential, office and retail);
- An 88-room Springhill Suites is under construction on Trowbridge Road (East Submarket); and
- A 100-room Holiday Inn Express & Suites opened in Okemos (East Submarket).

Figure 3: History of Vacancies



Source: CBRE Research, Q2 2018.

VACANCIES

During Q2 2018 vacancies in the Greater Lansing office market fell 10 basis points from 17.6% in Q1 2018 to 17.5% (1,503,822 sq. ft.) in Q2 2018. Urban space averages 15.5% vacant, while suburban space averages 18.4% vacant. Both figures are down slightly from Q1 2018.

Class A space vacancies continue to trend downward. Current vacancies average 8.0%, down from 8.1% charted in Q1 2018, and down from 8.3% noted in Q4 2017. Large blocks of Class A space are difficult to find, prompting larger users to seek alternate space more than a year in advance of lease expiration.

Despite a slight uptick in Class B vacancies last period (from 21.9% in Q4 2017 to 22.4% in Q1 2018), Class B space is again tightening (21.6% vacant).

Class C space averages 40.3% vacant, up from 37.3% charted last quarter.

Throughout Q2 2018, state government was the most active user in the market. The State of Michigan executed multiple leases totaling over 65,000 sq. ft. in the CBD and West Submarket.

BUILDING SALES

Building sales continued at a moderate pace. Some of the highest-profile sales this period include:

- 735 East Michigan Avenue (91,710 sq. ft. in the CBD) sold to occupant MSHDA for \$21 Million;
- 818 West Lake Lansing Road (3,968 sq. ft. in the East Submarket) sold to Trustme Leasing, LLC for \$730,000; and
- 1033 S. Washington Avenue (15,312 sq. ft. in the South Submarket) sold to Washington Equity Partners LLC for \$500,000.



The M.S.H.D.A. building at 735 East Michigan was sold Q2 2018. Photo credit: City of Lansing assessor.

ABSORPTION

Absorption is the net change in physically occupied space from one period to the next. During Q2 2018, absorption totaled negative 36,766 sq. ft. (-0.4%), down from 1,667 sq. ft. absorbed in Q1 2018.

The drop was largely due to the sale and subsequent reclassification of the 91,710 sq. ft. Michigan State Housing Development building at 735 East Michigan Avenue from leased to owner-occupied space (CBD).

The submarket that absorbed the most space this period was the West Submarket, which absorbed 32,764 sq. ft. (3.3%); while the North Submarket absorbed the greatest percentage of space (4.3%, or 5,745 sq. ft.)

ASKING RENTAL RATES

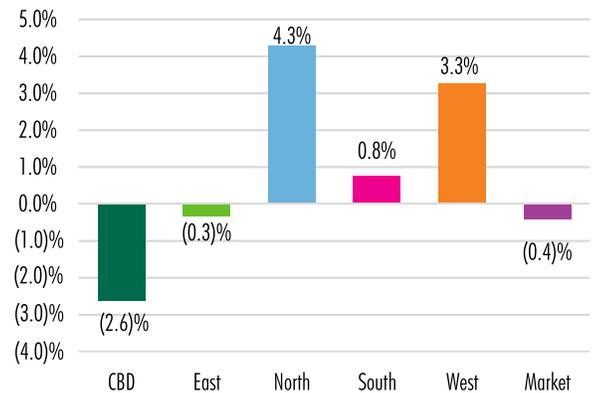
Asking rental rates generally remained at previous levels. Overall, full service asking rates for Class A space range from \$18.50-23.00 per sq. ft. in the CBD and from \$22-28.00 per sq. ft. in the suburbs. Class B space ranges from \$12.00-16.00 per sq. ft. in the CBD and \$9.00-21.00 per sq. ft. in the suburbs. Class C space ranges from \$9.00-12.00 per sq. ft. in the CBD and \$8.00-12.00 per sq. ft. in the suburbs.

It is common for landlords to negotiate deals 5-8% lower than the list rate for Class B and C space; however, lease concessions are no longer a major

part of negotiations. If landlords are asked to invest significant capital to remodel lease space, they tend to ask for terms beyond five years. In the event tenants take space in an 'as is' condition, landlords tend to be more flexible on concessions.

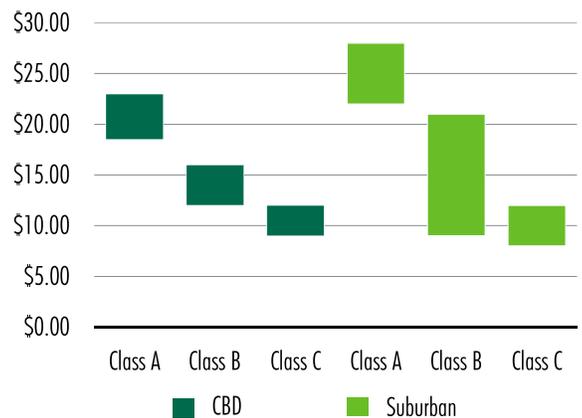
The average parking allowance is 4:1,000 sq. ft. in the suburbs; however, this ratio will slowly increase as tenants become more efficient with their space. Average monthly cost for parking in the CBD is \$150 per space for reserved parking and \$100 per space for unreserved. The average cost for unreserved parking (reserved is unavailable) in downtown East Lansing is between \$90 and \$125 per month.

Figure 4: Net Absorption



Source: CBRE Research, Q2 2018.

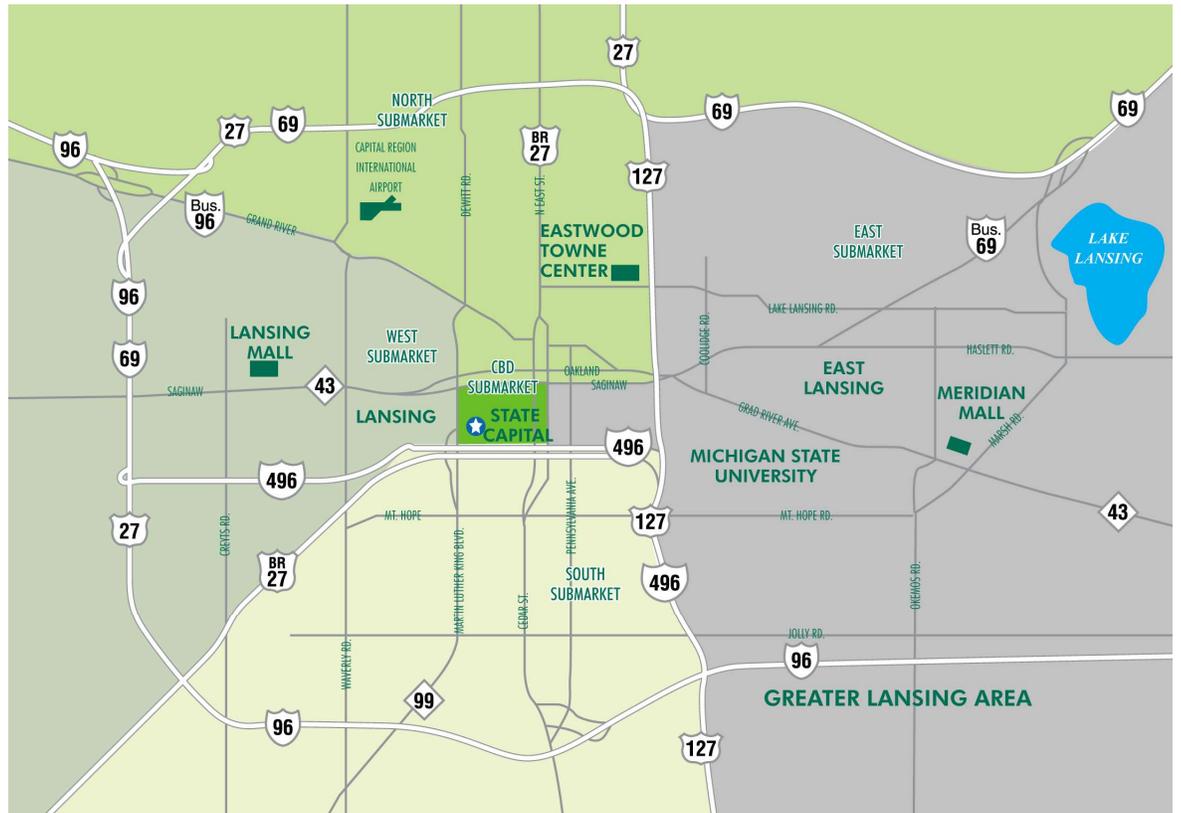
Figure 5: Asking Rental Rates (Full Service)



Source: CBRE Research, Q2 2018.

Martin

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CONTACT

Jill Langosch
Vice President of Research
+1 517 351 2200
jill.langosch@cbre-martin.com

CBRE OFFICE

CBRE | Martin
1111 Michigan Ave., Suite 300
East Lansing, MI 48823

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