

Greater Lansing Area Retail, Q2 2018

Market fundamentals strengthen, yet increased vacancies imminent

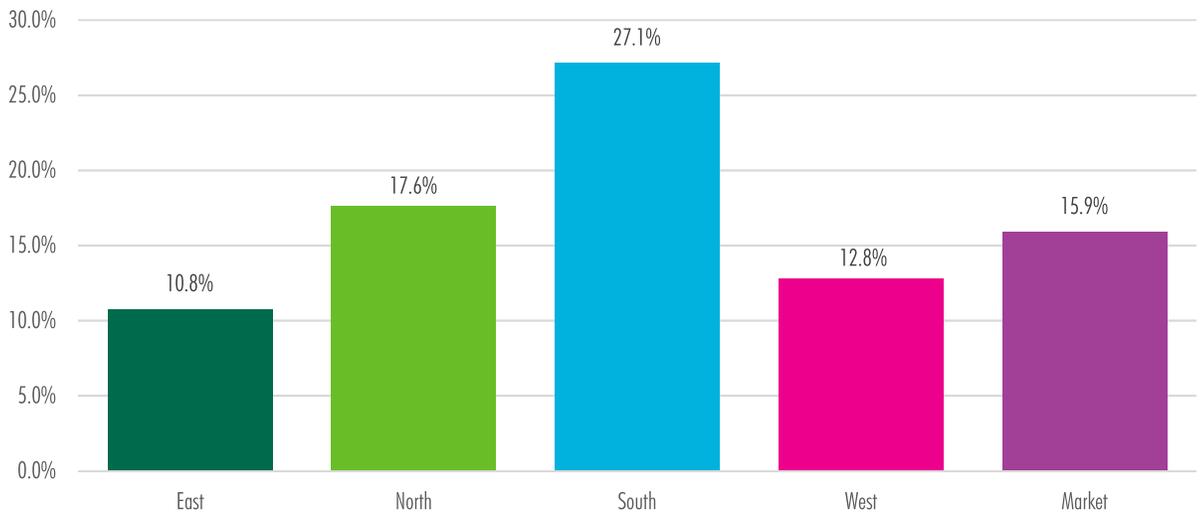
 Vacancy Rate
15.9%

 Net Absorption
1,101 SF

 Completions
17,130 SF

Figure 1: Market Vacancy

*Arrows indicate change from previous period.



Source: CBRE Research, Q2 2018.

- Greater Lansing welcomes new 7,000 sq. ft. MSU Art Lab and 7,500 sq. ft. A1 Fusion Sushi & Grill (East Submarket).
- Construction projects underway throughout market.
- Vacated former K-Mart building in St. Johns (North Submarket) sold and repurposed for industrial use.
- Everett Plaza sells for \$1.58 Million (South Submarket).
- Toys R Us closes 32,000 sq. ft. store on Newman Road (East Submarket).
- Gift & Bible closes 23,500 sq. ft. store in Delta Center (West Submarket).
- Younkers' two regional mall locations (East Submarket and West Submarket) slated to close late summer.

MARKET COMPOSITION

Over eight million sq. ft. of leasable retail space (excluding regional malls) was surveyed throughout the Greater Lansing Area. The largest retail sector is the East Submarket, home to Michigan State University and the Meridian Mall; and it represents 37.1% of the market. The smallest sector is the North Submarket, home to Eastwood Towne Center, with 13.3% of the market.

The most vibrant retail corridors are found along Grand River Avenue near Michigan State University (East Submarket), the I-96/West Saginaw Highway interchange (West Submarket) and the US-127/Lake Lansing Road interchange (North Submarket).

Construction activity is present throughout the Greater Lansing Area.

Figure 2: Market Statistics

Submarket	Market Rentable Area (SF)	Market Share (%)	Vacant (SF)	Vacancy Rate (%)	H2 2017 Net Absorption (SF)	Completions (SF)	Asking Lease Rates (\$/SF/Yr NNN)
East	2,982,092	37.1	321,194	10.8	(7,639)	7,000	10.00-39.00
North	1,064,679	13.3	187,773	17.6	8,451	0	6.00-32.00
South	1,811,061	22.5	491,592	27.1	5,184	4,200	4.00-17.00
West	2,177,361	27.1	279,473	12.8	(4,895)	5,930	9.00-40.00
Market	8,035,193	100.0	1,280,032	15.9	1,101	17,130	6.00-40.00

Source: CBRE Research, Q2 2018.

NATIONAL SNAPSHOT

According to CBRE Research, retail metrics throughout the country remain positive, despite e-commerce growth:

- Consumer sentiment remains strong and retail sales recorded healthy growth.
- Net absorption continued to increase, due to a falloff in the number of recent store closures. Asking rents also increased.
- The gap in performance between prime and non-prime assets continued to grow across the major retail segments, with vacancies and availability rising for Class B- and below properties while demand remained strong for prime assets.
- New retail supply is limited, creating opportunities for redevelopment of existing properties.
- With wages, consumer sentiment and spending expected to see a boost from recently enacted tax reform, the outlook for the remainder of 2018 is positive.
- E-commerce sales accounted for an estimated 9.4% of total retail sales, up from 8.5% a year ago.
- While several retail categories such as home & garden centers and grocery stores remain partially insulated from growing e-commerce sales, evolving retail trends present opportunities for data sharing partnerships between landlords and tenants to build a robust omnichannel strategy.
- With stable economic growth, unemployment holding steady at 4%, and continued job growth, U.S. households appear confident in the wider economy and in their own financial prospects.

MARKET MOVEMENT

Despite over 17,000 sq. ft. of new construction, the Greater Lansing leasable retail market decreased by nearly 130,000 sq. ft. this period, due in large part to the sale and industrial repurposing of the 133,480 sq. ft. K-Mart building in St. Johns (North Submarket).

New construction deliverables included 7,000 sq. ft. of ground-floor retail in the East Lansing mixed-use project Stonehouse Village 7 (East Submarket); a 4,200 sq. ft. addition to Mason Town Center (South Submarket); a 5,930 sq. ft. new strip center at the intersection of West Saginaw and North Canal (West Submarket); and a 2,200 sq. ft. free-standing Panda Express on West Saginaw Highway (West Submarket).

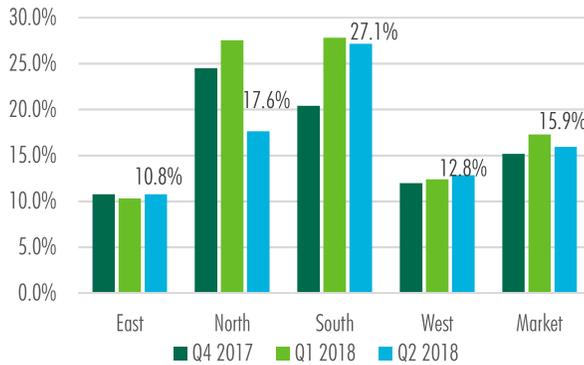


New Panda Express on W. Saginaw Hwy.

More retail space is under construction; some of the more notable projects include:

- Center City District (East Submarket) – Mixed-use development across from M.S.U. in the 100-200 block of East Grand River with apartments, parking, a small Target store, and additional retail.
- Trowbridge Crossings (East Submarket) – Mixed-use development at 1100 Trowbridge with a Springhill Suites by Marriot and 10,683 sq. ft. of retail, slated for delivery by end of Q3 2018.
- The Hub of East Lansing (East Submarket) – Mixed-use development with apartments and 12,000 sq. ft. retail on the ground floor. 7-11 and Georgio's Pizza will occupy new space in The Hub.
- A 3,000 sq. ft. strip center on West Saginaw (West Submarket) is under construction, in which Tropical Smoothie will lease 1,600 sq. ft.

Figure 3: History of Vacancies



Source: CBRE Research, Q2 2018.

VACANCIES

The average vacancy rate for Greater Lansing retail space fell from 17.3% in Q1 2018 to 15.9% in Q2 2018. The drop was largely due to the repurposing of the 133,480 sq. ft. vacated K-Mart building in St. Johns (North Submarket) from retail to warehouse.

The area’s largest retail sectors, the East and West Submarkets, outperformed the balance of the market, although both experienced slight upticks in vacancy over Q1 2018.

While the only notable store closures this period were Toys R Us closing its 32,000 sq. ft. Newman Road location (East Submarket) and Gift & Bible closing its 25,300 sq. ft. location in Delta Center (West Submarket), many national retailers continue to struggle and local vacancies are expected to rise:

- The master lease for the vacated 98,000 sq. ft. Big K building on South Cedar (South Submarket) will expire this year and create an opportunity for redevelopment; and
- Youngers will close its Lansing Mall (West Submarket) and Meridian Mall (East Submarket) locations this summer.

Despite rising vacancies, quality space with good visibility along high-traffic corridors is in demand and not readily available. This will continue to prompt new development throughout the area.

ABSORPTION

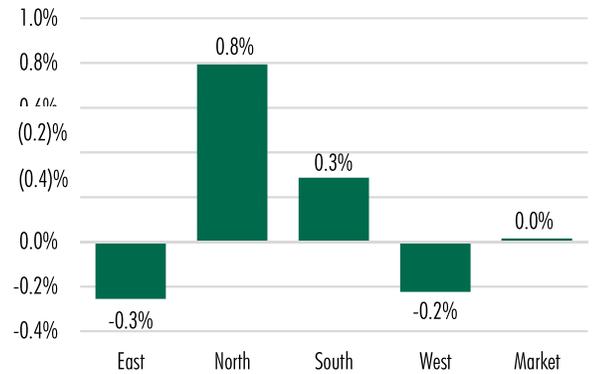
Leasing activity continues at a slow pace throughout the market. The largest lease transactions reported in Q2 2018 include:

- A-1 Fusion Sushi & Grill leased 7,500 sq. ft. on Grand River in Okemos (East Submarket); and
- MSU Broad Art Lab leased 7,000 sq. ft. in the new Stonehouse Village 7 development on East Grand River in East Lansing (East Submarket).

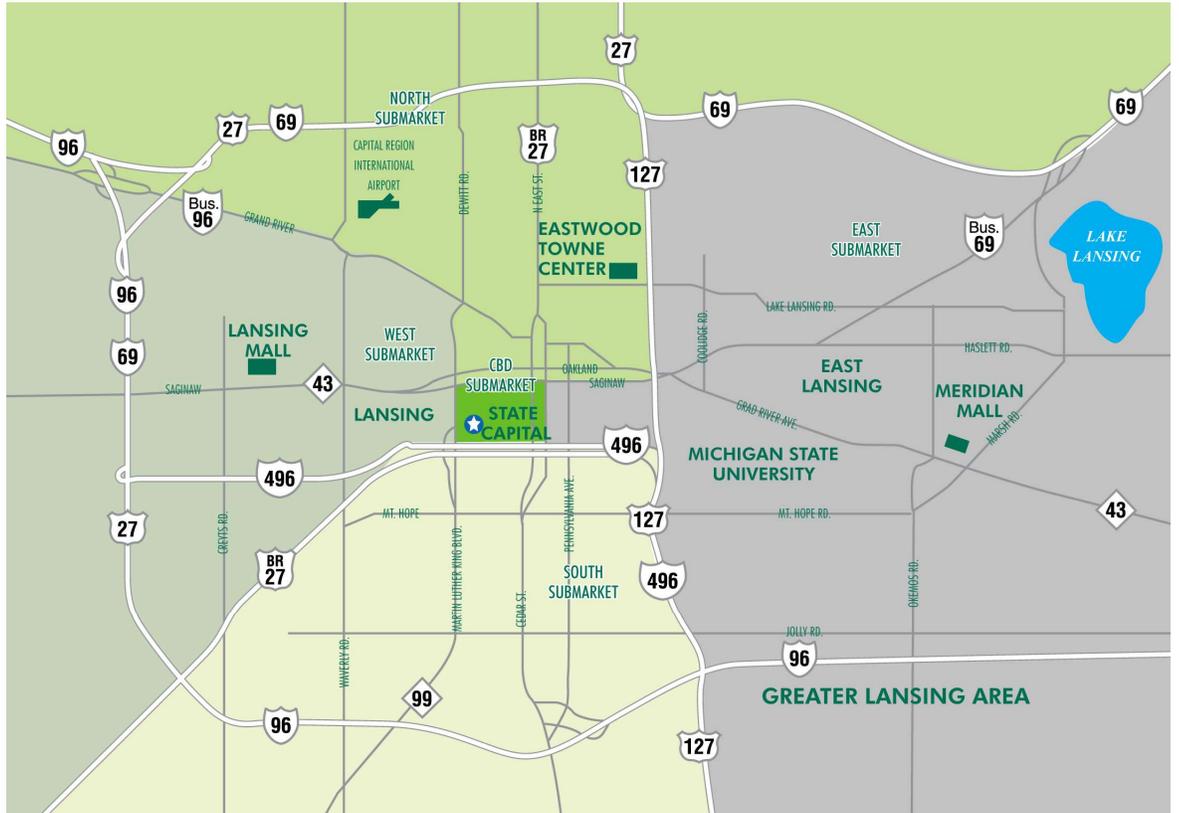
Absorption is the net change in physically occupied space from one period to the next. During Q2 2018, market absorption totaled negative 17,130 sq. ft., up from the negative 25,744 sq. ft. absorbed during Q1 2018.

The North and South Submarkets were positively impacted by moderate leasing activity at Southpoint Mall and Mason Town Center, while both the East and the West Submarkets lost ground.

Figure 4: Net Absorption – Q2 2018



Source: CBRE Research, Q2 2018.



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