

Greater Lansing Office MarketView

2H 2013

CBRE Global Research and Consulting

 US UNEMPLOYMENT RATE
7.0%

 MICHIGAN UNEMPLOYMENT RATE
8.8%

 GREATER LANSING AREA UNEMPLOYMENT RATE
6.3%

MARKET RECOVERY BUMPY, BUT READY TO REBOUND

Quick Stats

2H 2013	Current	Change from last Year	Change from last Period
Vacancy	17.3%	↓	↑
Lease Rates		↑	→
Net Absorption	-91,440 SF (-1.0%)	↓	↑
Construction	0	→	→

Hot Topics

- State of Michigan vacates nearly 72,000 SF in West Submarket
- Tenants continue to upgrade space where possible
- Top quality space continues to be in demand
- Very little new construction in the works
- Business pillars of the Greater Lansing economy—automotive, healthcare, insurance and government—are doing well

Notable Market Activity*

Legislative Services Bureau—30,000 SF—3350 Apollo Drive* (extension)

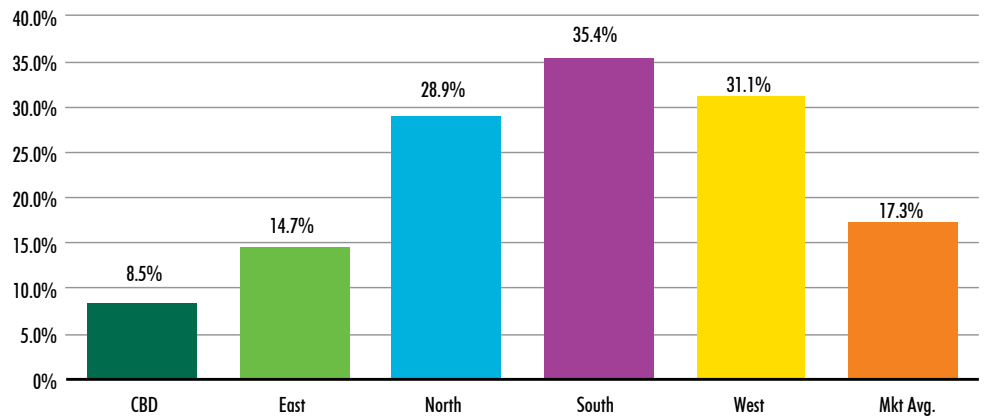
Miller Canfield Paddock & Stone—14,997 SF—120 N. Washington Square* (extension)

Merrill Lynch Pierce Fenner & Smith—10,784 SF—2501 Coolidge Road* (extension)

Governmental Consultant Services—7,087 SF—120 N. Washington Square* (extension)

*Market data compiled ending December 31, 2013

Chart 1: Vacancy Rates By Submarket



Source: CBRE Research, 2H 2013.

CBRE Global Research reports that the average U.S. office market vacancy rate continued to inch down during 2H 2013 to 15.1%, and that the Midwest experienced greater-than-average declines in vacancy due to strong activity by healthcare, insurance and financial services occupiers.

Unfortunately, the greater Lansing office market, largely influenced by the fluctuating occupancy of the State of Michigan, did not follow this trend. Over the past six months, office vacancies escalated 100 basis points from 16.3% to 17.3%. This was due in large part to the State of Michigan's decision to consolidate and relocate several offices to State-owned facilities, which led to the vacancy of over 70,000 square feet of space on West Saginaw Highway.

Leasing activity was sluggish over the past six months, with the majority of deals being transacted with tenants already in the market. Local businesses continue to identify ways to shrink their overall office footprints through more efficient use of space, and absorption was negative in all submarkets but the East sector.

Although advertised rental rates are up slightly from those charted in 2H 2012, landlords are aggressive with rental rates, negotiating deals 10-15% lower than the list rate in an effort to secure tenants. Concessions are available in most buildings, often in the form of free rent and robust tenant improvement packages.

Local tenants continue to upgrade their space from Class B to Class A whenever possible. Class A space throughout the market is 7.1% vacant; however, this is misleading, as 30% of these vacancies are due to the State of Michigan vacating one west side building. Class A space downtown averages 3.2% vacant, and there are only four Class A office buildings in the market that could accommodate a 10,000-square-foot user.

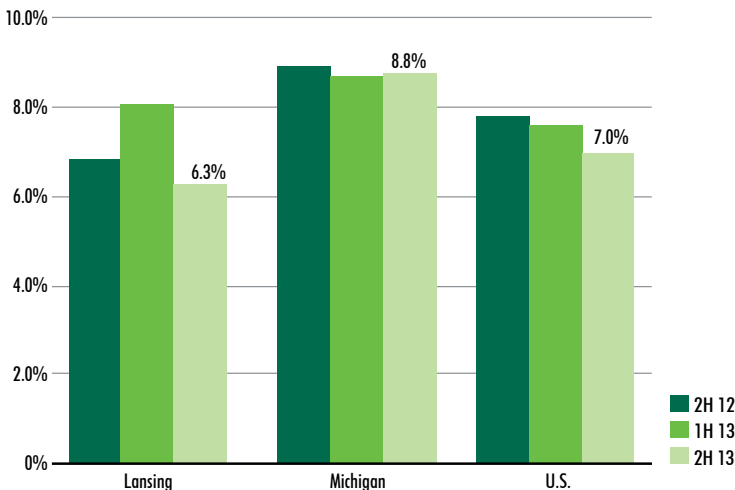
New construction is still nearly nonexistent due to preleasing qualifications and pricing limits. However, with the dwindling supply of Class A space, we anticipate renewed interest in build-to-suit development.

OFFICE MARKET STATISTICS

Table 2: Market Statistics

Submarket	Rentable Area (SF)	Vacancy Rate	Absorption- 2H 2013 (SF)	Under Construction (SF)	Asking Lease Rates- \$/SF/YR, Full Service
CBD	3,040,334	8.5%	-10,001	0	\$10-26.00
Class A Space	1,526,948	3.2%	(-0.3%)		
Class B Space	1,394,079	11.5%			
Class C Space	119,307	40.7%			
East	4,021,618	14.7%	+36,819	0	\$11-21.50
I-96/Jolly Road	845,522	19.0%	(+0.9%)		
US-127/Lake Lansing	579,666	5.9%			
Class A Space	1,629,787	7.3%			
Class B Space	2,279,485	19.9%			
Class C Space	112,346	15.9%			
North	149,379	28.9%	0	0	\$12-16.00
Class A Space	NA	NA	0%		
Class B Space	149,379	28.9%			
Class C Space	NA	NA			
South	1,179,218	35.4%	-29,556	0	\$8-20.00
Class A Space	130,000	0.0%	(-2.5%)		
Class B Space	987,058	38.6%			
Class C Space	62,160	58.4%			
West	1,000,285	31.1%	-88,702	0	\$11-20.00
I-96/West Saginaw	212,356	62.0%	(-8.9%)		
I-496/St. Joe/Creyts	471,345	24.2%			
Class A Space	99,723	71.9%			
Class B Space	849,865	27.0%			
Class C Space	50,697	20.3%			
Market	9,390,834	17.3%	-91,440	0	\$8-26.00
Class A Space	3,386,458	7.1%	(-1.0%)		
Class B Space	5,659,866	22.4%			
Class C Space	344,510	32.8%			

Chart 3: Unemployment Rate



The unemployment rate within the Greater Lansing MSA decreased from 8.1% in 1H 2013 to 6.3% in 2H 2013. Over the same period, the Michigan unemployment rate increased from 8.7% to 8.8%, while the U.S. unemployment rate fell from 7.6% to 7.0%

Source: US Bureau of Labor Statistics: 2H 2013.

Chart 4: Market Vacancies

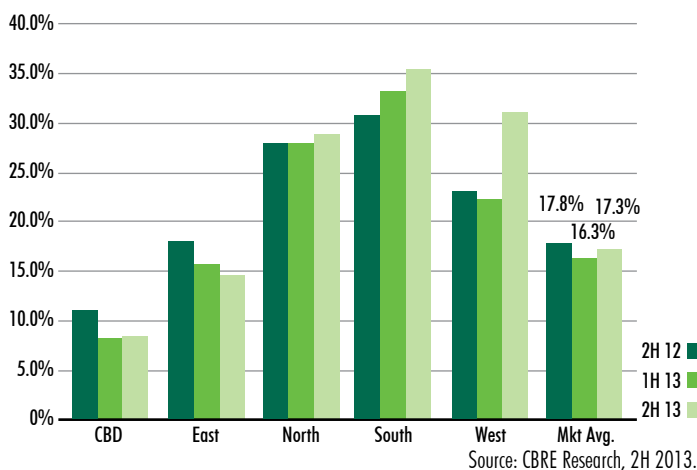


Chart 5: Asking Rental Rates*

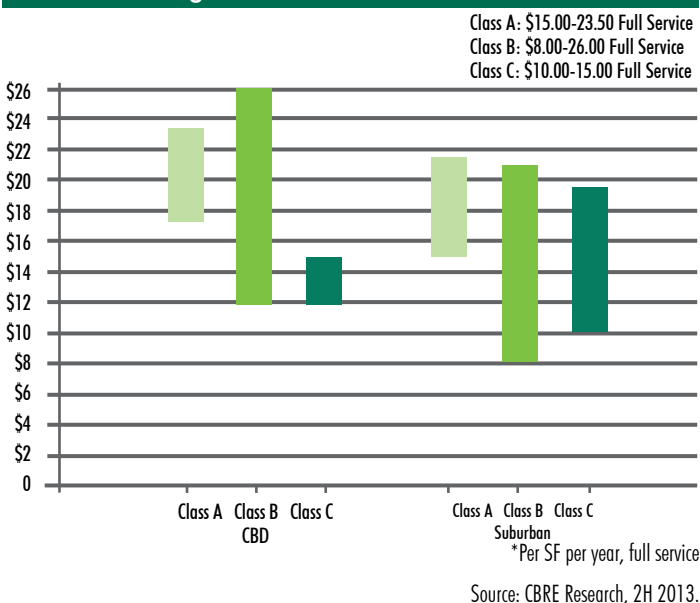
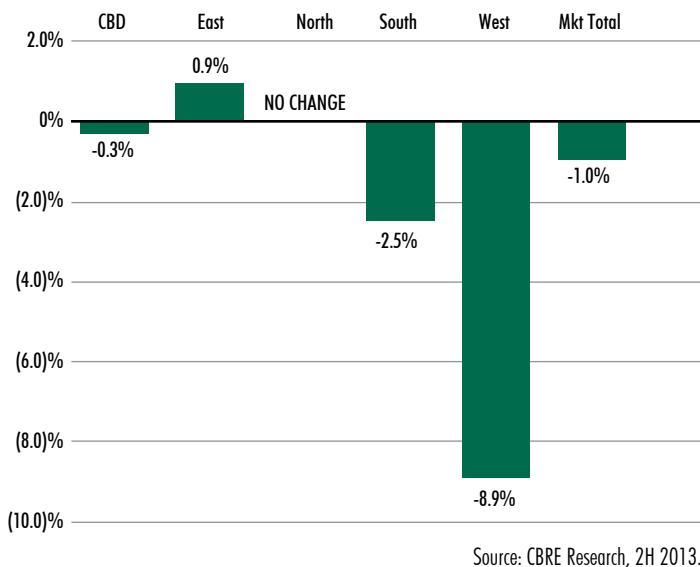


Chart 6: Absorption



MARKET COMPOSITION

Vacancies across the Greater Lansing Area average 17.3%, up from 16.3% charted in 1H 2013 and down from 17.8% charted one year ago. From a geographical perspective, the strongest submarket is the CBD, with an average vacancy rate of 8.5%, and the weakest sector is the South Submarket, averaging 35.4% vacant.

Class A space, which represents 36.1% of the market, is strong, with an average vacancy rate of 7.1%. Class B space, which represents 60.2% of the market is 22.4% vacant, and Class C space, which represents a small portion of the market, is 32.8% vacant.

ASKING RENTAL RATES

Full service asking rental rates for Class A space range from \$17.50-23.50 per square foot in the CBD and \$15-21.50 per square foot in the suburbs. Class B space ranges from \$10-26.00 per square foot in the CBD and \$8-21.00 per square foot in the suburbs. Class C space ranges from \$12-15.00 per square foot in the CBD and \$10-19.00 per square foot in the suburbs. Advertised rental rates are up slightly from those charted a year ago; however, it is common for landlords to negotiate deals 10-15% lower than the list rate.

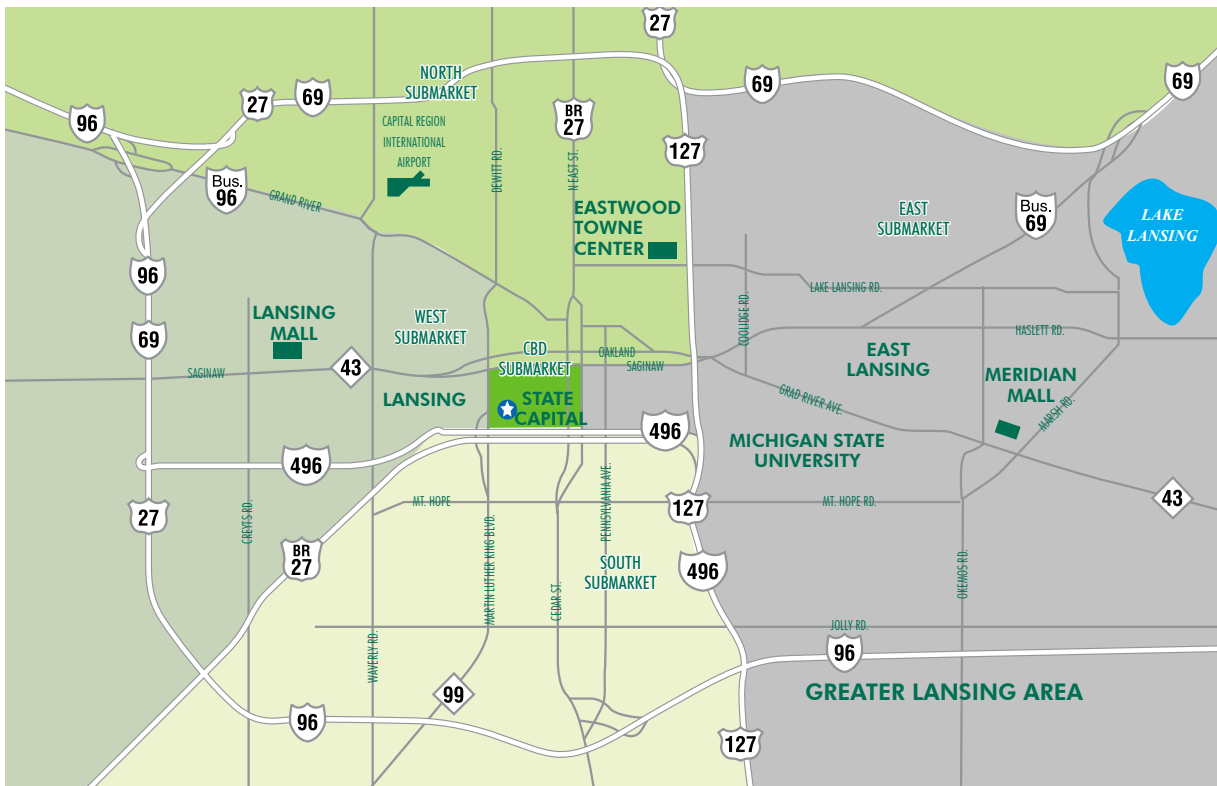
The CBD and East Submarkets continue to have the highest average lease rates, while the South Submarket remains at the lower end of the scale. The asking rates typically include operating expenses, which average \$10-12.00 per square foot for better quality space and \$6-8.00 per square foot for Class B space. Concessions are available in most all buildings, often in the form of free rent; however, they are tightening for Class A space.

The average parking allowance is 4:1,000 square feet in the suburbs and none in the CBD. Average monthly cost for parking in the CBD is \$150 per space for reserved parking and \$100 per space for unreserved.

ABSORPTION

Absorption is the net change in physically occupied space from one period to the next. During the last six months, the Greater Lansing office market absorbed -91,440 square feet (-1.0%), up from -204,767 square feet (-2.2%) absorption in 1H 2013.

The only sector gaining ground this period was the East Submarket, which absorbed +36,819 square feet (+0.9%). The West Submarket fared the worst this period, with absorption totaling -88,702 square feet (-8.9%), primarily due to the relocation of State of Michigan offices from privately owned space to State-owned properties.



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