

Grand Rapids Industrial & Logistics, H1 2017

# User demand storms back; construction in full swing

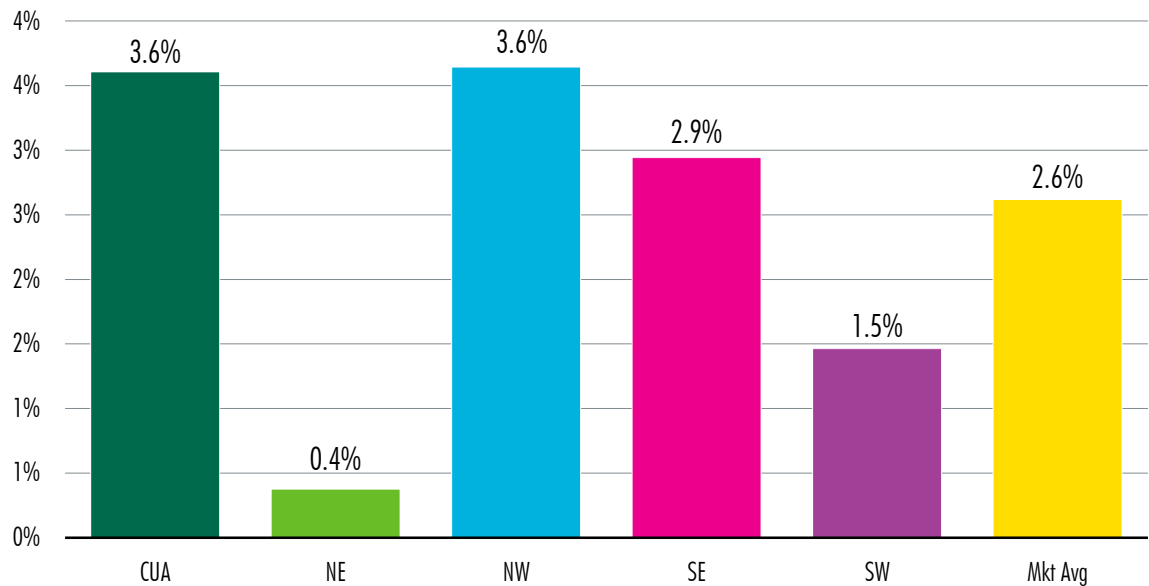
**Vacancy Rate**  
2.6%

**Net Absorption**  
1,876,985 SF

**Completions**  
1,408,790 SF

Figure 1: Market Vacancy

\*Arrows indicate change from previous period.



Source: CBRE Research, H1 2017.

- Kent County’s industrial market continues to thrive.
- The vacancy rate is one of the lowest in the country.
- Nearly 1.9 million sq. ft. of space was absorbed during H1 2017.
- Significant supply is being added to meet demand; over 1.4 million sq. ft. of new construction was added during H1 2017 and more is underway.
- Land, building and investment sales are steady.
- Tight supply continues to push net asking rents up and concessions down.
- Federal Express opens in new 352,000+ sq. ft. building in Walker View Industrial Park.
- A 92,400 sq. ft. speculative building is under construction at 103 76<sup>th</sup> Street SW, Grand Rapids.

**MARKET COMPOSITION**

The Kent County industrial market comprises over 99.5 million sq. ft. of gross space, of which over 52.1 million sq. ft. is categorized as “leasable space,” with the balance “owner occupied.”

Kent County’s largest submarket, consisting of 45.9% of the gross industrial space, is located in the Southeast Submarket, 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.

Figure 2: Market Statistics – Gross Space

Submarket	Market Area (SF)	Vacant (SF)	Vacancy Rate (%)	H1 2017 Net Absorption (SF)	Completions (SF)
CUA	9,598,538	312,484	3.3	67,440	0
NE Submarket	6,997,647	26,304	0.4	71,055	0
NW Submarket	16,901,970	615,861	3.6	709,435	225,500
SE Submarket	44,546,583	1,315,757	2.9	1,112,686	1,183,290
SW Submarket	21,492,409	314,311	1.5	(83,631)	0
<b>Totals</b>	<b>99,537,147</b>	<b>2,579,901</b>	<b>2.6</b>	<b>1,876,985</b>	<b>1,408,790</b>

Source: CBRE Research, H1 2017.

Figure 3: Market Statistics – Leasable Space

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Avail. Rate (%)	H1 2017 Net Absorption (SF)	Completions (SF)	Asking Lease Rates (\$/SF/Yr)
CUA	5,487,162	176,182	3.9	3.9	67,440	0	2.75-3.35
NE Submarket	2,150,333	0	0.0	0.0	71,055	0	N/A
NW Submarket	8,119,426	472,090	5.8	5.8	417,805	102,000	3.25-5.25
SE Submarket	23,949,451	1,222,896	5.1	7.3	618,987	477,290	2.50-5.95
SW Submarket	12,396,159	268,888	2.2	2.5	265,076	0	2.25-5.25
<b>Totals</b>	<b>52,142,531</b>	<b>2,140,056</b>	<b>4.2</b>	<b>5.3</b>	<b>1,440,179</b>	<b>579,290</b>	<b>2.25-5.75</b>

Source: CBRE Research, H1 2017.

**NATIONAL SNAPSHOT**

According to CBRE Research, the U.S. economy continued to see mainly positive growth in H1 2017. Economic activity in the manufacturing sector expanded in June, with new orders, production and manufacturing employment seeing the strongest growth.

Consumer spending remains the brightest spot for the economy, with monthly personal consumption expenditure at approximately 4.2% as of May 2017.

More importantly, continued strength in the job market and wage growth of around 2.5% as of June translate into more spending power and a higher disposable income for the U.S. consumer.

Nationwide, the vacancy rate for leased industrial space dropped to 4.6% this period and tight supply pushed net asking rents up in many core markets.

**KENT COUNTY SNAPSHOT**

Kent County’s industrial market continued to improve in H1 2017. The average vacancy for gross space (both leased and owner-occupied) fell from 3.0% in H2 2016 to 2.6% in H1 2017, and the market is one of the strongest in the nation.

Market fundamentals clearly indicate signs of a healthy market, with lack of available supply being slightly out-paced by occupier demand. Although the supply side is growing in response to user demand, developers have shown healthy discipline, allowing for steady rental growth, and bringing the market to a full recovery. Over 1.4 million sq. ft. of new construction was completed this period, and more projects are underway.

**VACANCIES**

Kent County gross industrial space is 2.6% vacant, down slightly from 3.0% charted in H2 2016. Leasable space in Kent County is 4.1% vacant, down from 4.7% charted in H2 2016.

From a geographical perspective, the Northwest and the CUA Submarkets are experiencing the highest percentage of gross vacancies (3.6% and 3.3% respectively), while the Southeast and Northwest Submarkets continue to have the highest percentage of vacancies of leasable space (7.3% and 5.8%, respectively). There continues to be minimal shadow space in the market space that is leased or owned but largely empty and not officially listed as vacant.

**ABSORPTION**

Absorption is the net change in physically occupied space from one period to the next. Over the past six months, net absorption of gross industrial space totaled 1,876,985 sq. ft., up from 985,430 sq. ft. absorbed during H2 2016. The submarket faring the best was the Southeast Submarket, which absorbed 1,112,686 sq. ft. The submarket losing the most ground was the Southwest, which lost 83,631 sq. ft. during the period.

Net absorption of leasable industrial space over the same period totaled 1,440,179 sq. ft., up from 1,074,791 sq. ft. absorbed during H2 2016. Absorption in all submarkets was positive; however, the submarket faring the best was the Southeast Submarket, which absorbed 618,803 sq. ft., and the submarket absorbing the least amount of square footage was the Central Urban Area (CUA), which absorbed only 67,440 sq. ft. during the period.

**CONSTRUCTION INCREASES**

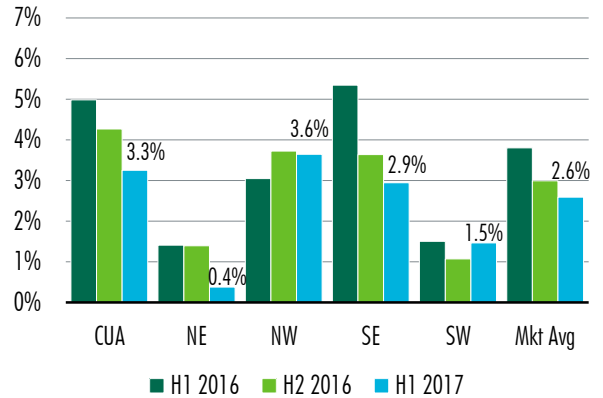
During H1 2017, over 1.4 million sq. ft. of industrial space was added to the market. The most prominent developments include the 352,362 sq. ft. Federal Express building on Shippers Drive NW; 500,000 sq. ft. for Lacks on Kraft Avenue SE; 82,000 sq. ft. for ETO Magnetic at 5925 Patterson Avenue SE; and a 90,490 sq. ft. speculative building at 3800 36<sup>th</sup> Street SE.

**LARGE TRANSACTIONS**

Major lease transactions during H1 2017 included Comfort Research (62,805 sq. ft. on West River Drive), ColorHub (58,000 sq. ft. on Kraft SE), Holland Special Delivery (135,000 sq. ft. on 44<sup>th</sup> Street SE), confidential tenant (145,000 sq. ft. on Patterson SE), and Plasan America (50,750 sq. ft. on North Wilson).

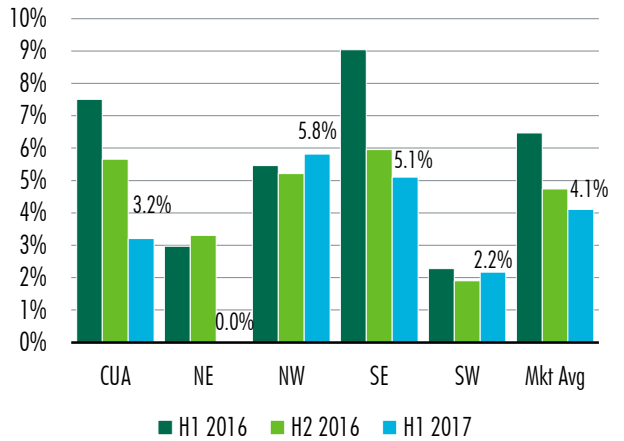
A number of industrial buildings sold in H1 2017; however, the highest value transactions were investment sales: 3466 Shippers Drive NW (Federal Express Building, \$32.1 Million); 1440 Butterworth SW (Coca Cola Building, \$13.8 Million); and 4550 36<sup>th</sup> Street SE (Corvac Composites Building, \$8.2 Million).

**Figure 4: History of Vacancies – Gross Space**



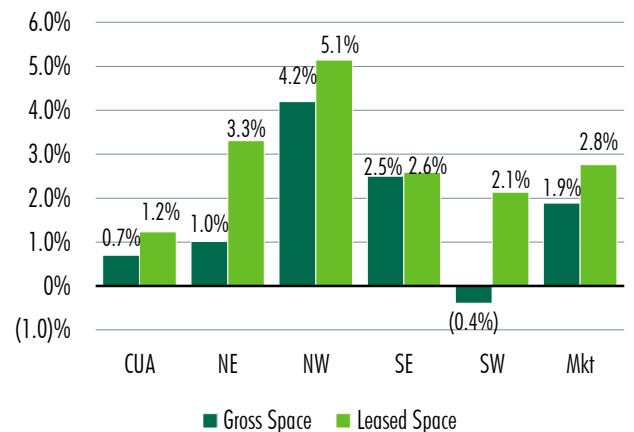
Source: CBRE Research, H1 2017.

**Figure 5: History of Vacancies – Leased Space**

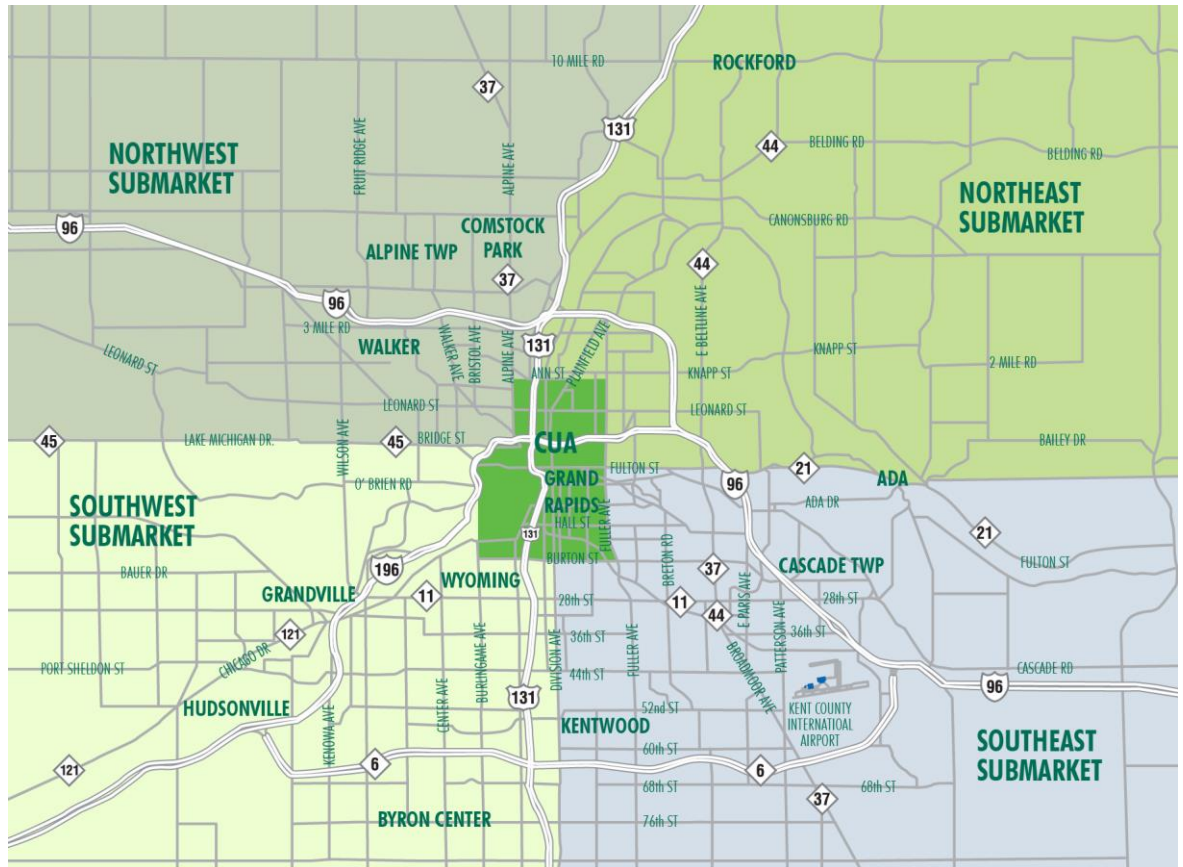


Source: CBRE Research, H1 2017.

**Figure 6: Absorption– H1 2017**



Source: CBRE Research, H1 2017.

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