

Sale lease-backs have increased, due to abundance of capital

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The information contained herein is collected and analyzed by the Colliers International | West Michigan Research Department.

ECONOMIC OVERVIEW

As Q3 concluded, many began to wonder if a recession is on the horizon, as trade wars in China continue, U.S. manufacturing begins to contract and hiring slows down. Although the economy showed some signs of cooling down in Q3, economists say it's still too early to determine when the next recession will happen.

Throughout Q3, manufacturing continued to feel the impact of the trade war and slowing global economy. In September, the U.S. manufacturing industry entered its second consecutive month of contraction with a purchasing managers' index of 47.8% – the steepest contraction in manufacturing since June 2009. Manufacturers also lost 2,000 jobs.

In West Michigan, the trade war is beginning to slow the pace of the local manufacturing sector, according to Brian Long, director of supply management research at Grand Valley State University. Long surveyed West Michigan business leaders in July who reported a slowdown in new orders, production, purchases and employment.

Another issue that could potentially impact the local economy is the United Auto Workers strike that began in early September. West Michigan is home to suppliers for big automakers, including General Motors. Many auto suppliers have diversified their customer base, which has helped minimize the impact of the strikes. However, other sectors are beginning to feel the impact of the strike – like car dealerships and auto repair shops – as car deliveries slow down and it's taking longer to get GM parts ordered for repairs, according to Automotive News.

CONSTRUCTION TRACKER

INDUSTRIAL SPACE UNDER CONSTRUCTION

16
PROJECTS

1,292,195
SQUARE FEET

MARKET INDICATORS

RELATIVE TO PRIOR PERIOD

Q3 2019

Q4 2019*

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE



Note: Construction is the change in Under Construction.

*Projected

MARKET ACTIVITY

Strong demand for industrial space in West Michigan continues, and it's absorbed quickly as soon as it becomes vacant. In Q3, industrial vacancy rates were 2.39%. Companies continue to look for newly built, clean space that is also affordable. Industrial users desire facilities with drive-in or cross dock features. Smaller standalone buildings ranging from

10,000 to 30,000 square feet that include extra land for possible future expansion are also in high demand. Additionally, demand continues for distribution and light manufacturing facilities.

While the total vacancy rate this quarter reflects 2.39%, a jump of +0.77% from last quarter, it is important to note that this jump was largely due to the 900,000-square-foot space left by Amstore Corp. at 3951 Trade Drive that emerged onto the market. The manufacturing facility previously operated as a chair plant for Steelcase before serving as a headquarters for Amstore for the last decade. After ceasing all operations, the building was sold in July for nearly \$11.9 million. The now vacant 900,000-square-foot space accounts for 30% of all vacant industrial space being tracked in Greater Grand Rapids. Negating this one property, the market vacancy rate sits at 1.69%.

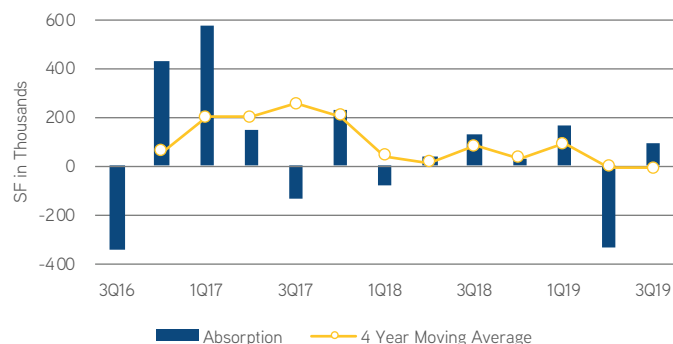
Buyers generated the most activity in Q3. An investor purchased 6850 Southbelt Drive SE in Caledonia where MarketLab is located. DTE Energy purchased 4211 and 4279 3 Mile Road in Walker where the utility plans to redevelop the properties for their new renewable energy facility. River City Mechanical purchased a 34,000-square-foot building at 5402 Rusche Drive. U-Haul purchased the old Kmart building in Byron Township at 701 68th Street SW and plans to convert it into a showroom and self-storage facility. Rasmussen Exteriors announced it will relocate its headquarters to 1500 Taylor Avenue in Grand Rapids.

There has also been an increase in sale-leasebacks from private equity acquisitions, due to the abundance of capital among businesses that are benefiting from a strong economy. A sale-leaseback happens when a firm sells its building and then signs a lease to occupy the space. An example of this is the sale of a warehouse facility at 90 Spring Street in Kent City. The buyer now operates a portion of the 160,000-square-foot building, the seller leased a portion of the building, and another portion is leased to an existing tenant.

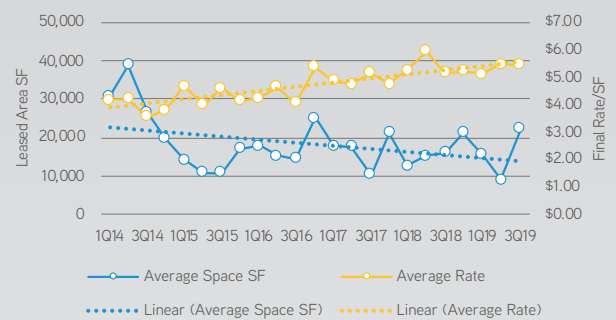
Two manufacturing acquisitions happened in Q3. Alabama-based Great Lakes Metal Stamping divested its business to Walker-based Challenge Manufacturing Company, which employs about 3,500 team members across 10 locations in North America and Asia. Spring Lake-based Concept Metals Group acquired Comstock Park-based Freedom Manufacturing. The acquisition will add 46 employees to Concept Metals Groups' team.

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QUARTERLY ABSORPTION



AVERAGE LEASE SIZE & RENTAL RATE



OCCUPANCY RATE

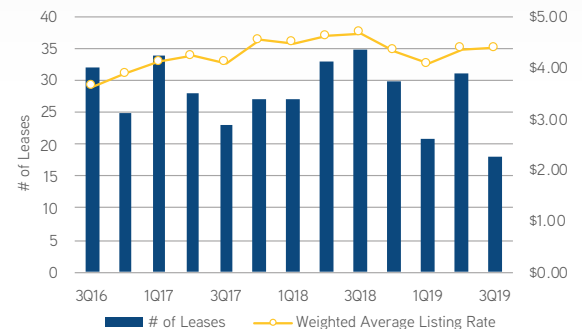


ASKING RATES*

SUBMARKET	Q2 2019 WEIGHTED AVG ASKING RATE	Q3 2019 WEIGHTED AVG ASKING RATE
Downtown	\$3.48	↓ \$3.23
Northeast	\$6.32	↓ \$6.27
Northwest	\$4.65	↑ \$4.92
Southeast	\$3.79	↑ \$3.97
Southwest	\$4.91	↓ \$4.77
Outside Metro Area	\$5.86	↓ \$5.35
TOTALS	\$4.36	↑ \$4.38

*INCLUDES LISTED PROPOSED BUILDINGS. ALL RATES CALCULATED ON A TRIPLE NET BASIS

INDUSTRIAL TRANSACTIONS AND WEIGHTED AVERAGE ASKING RATE



SOURCE: RESEARCH DEPARTMENT, COLLIERS INTERNATIONAL | WEST MICHIGAN

INDUSTRIAL MARKET STATISTICS

SUBMARKET	NUMBER OF BUILDINGS	EXISTING INVENTORY (SF)	VACANCY (SF)	VACANCY RATE	OCCUPIED SPACE (SF)	NET ABSORPTION Q3 2019 (SF)
Downtown	302	16,218,599	159,086	0.98%	16,059,513	6,000
Northeast	113	5,362,464	145,100	2.71%	5,217,364	-70,954
Northwest	260	16,110,258	228,980	1.42%	15,881,278	-119,232
Southeast	678	52,242,739	1,780,569	3.41%	50,462,170	357,687
Southwest	467	25,910,686	312,852	1.21%	25,597,834	-4,436
Outside Metro Area	97	4,600,153	246,131	5.35%	4,354,022	-75,250
TOTALS	1,917	120,444,899	2,872,718	2.39%	117,572,181	93,815

PROPERTY SUBTYPE	NUMBER OF BUILDINGS	EXISTING INVENTORY (SF)	VACANCY (SF)	VACANCY RATE	OCCUPIED SPACE (SF)	NET ABSORPTION Q3 2019 (SF)
Flex Space	117	3,976,200	151,960	3.82%	3,824,240	140,253
Food/Freezer	22	3,241,125	0	0.00%	3,241,125	0
General	1,261	39,334,097	822,725	2.09%	38,511,372	-322,981
Manufacturing	343	46,121,832	1,060,451	2.30%	45,061,381	-837,977
Truck Terminal/Cross Dock	19	1,234,306	50,000	4.05%	1,184,306	-10,000
Warehouse/Storage	155	26,537,339	787,582	2.97%	25,749,757	1,124,520
TOTALS	1,917	120,444,899	2,872,718	2.39%	117,572,181	93,815



SALE ACTIVITY

PROPERTY NAME	SIZE (SF)	SALE PRICE	CITY
6850 Southbelt Drive SE	100,676	\$9,650,000	Caledonia
5010 52nd Street SE	163,172	\$7,225,000	Grand Rapids
2700 Patterson Avenue SE	113,740	\$2,337,500	Grand Rapids
5402 Rusche Drive	32,956	\$2,250,000	Comstock Park
3951 Trade Drive	900,000	\$11,886,000	Grand Rapids



LEASING ACTIVITY

PROPERTY NAME	SIZE (SF)	TENANT	CITY
1120 36th Street SE	84,714	Inphastos	Grand Rapids
4240 Roger B Chaffee Memorial Drive SE	40,300	Bouma Corporation	Grand Rapids
6150 Valduga Drive SW	34,889	Undisclosed	Byron Center
1761 Airport Park Court	71,350	LG Chem Michigan Inc.	Holland
332 River Street	12,000	Valley Farms Supply	Coopersville

CONSTRUCTION

Vision Real Estate Investment completed construction of a new multi-tenant industrial building at 6030 Clyde Park Avenue SW in Byron Center. The building adds 116,480 square feet to the market and is now available for occupancy.

A number of industrial projects are underway throughout West Michigan. Falk North America Inc. began phase one of construction at its site in WalkerView Industrial Park. Phase one includes construction of a 78,750-square-foot building with a total of 176,000 square feet planned. Royal Technologies, a technology-based plastic injection molding company headquartered in Hudsonville, announced it will build a 50,000-square-foot warehouse and a 270,000-square-foot manufacturing facility adjacent to its existing location in Jamestown Charter Township. Flexco, an Illinois-based conveyor belt solutions manufacturer, recently purchased a 35.6-acre parcel at 1920 Northridge Drive NW in Walker for the construction of their 288,000-square-foot manufacturing facility.

Roskam Baking Company, a family operated bakery, announced it will expand its operations at 5565 Broadmoor Avenue SE in Kentwood. The expansion will result in the creation of 238 new jobs. Additionally, Grand River Aseptic Manufacturing announced it will expand to its fifth location, which will allow the company to triple or quadruple capacity by 2020.

A LOOK AHEAD

- » Vacancy rates will remain flat due to the high demand of space, generating swift absorption of space that becomes available.
- » Rental rates will trend slightly upward with minimal concessions offered.
- » Many deals will continue to happen off-market.

Offices located in
68 countries on
17,000+ professionals.
\$3.3* billion in annual brokerage revenue
2 billion square feet under management
69,000 sale & lease transactions
with a total transaction value of
\$127 billion.

*All statistics are for 2019, are in U.S. dollars and include affiliates.

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