

Greater Lansing Area Office, H2 2015

# Vacancies and absorption steady as activity slows

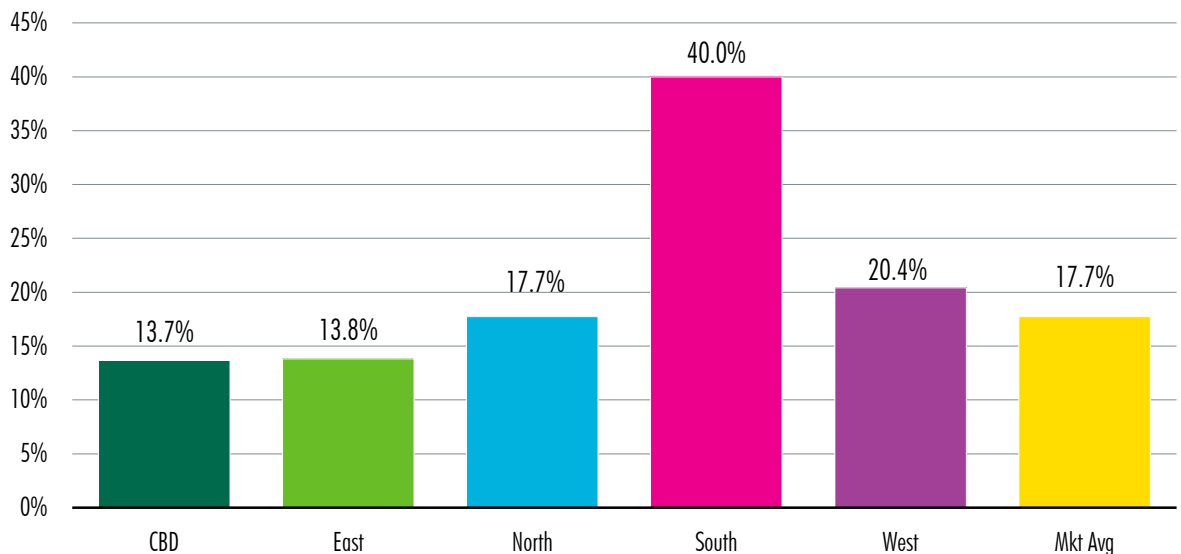
 Vacancy Rate  
**17.7%**

 Net Absorption  
**(63,158 SF)**

 Completions  
**0 SF**

\*Arrows indicate change from previous period.

Figure 1: Market Vacancy



Source: CBRE Research, H2 2015.

- Activity for Class A space slowed across all markets.
- Market size continues to contract due to owner/user purchases and reclassification of space.
- Asking and deal rates continue to vary widely depending on location, project and requirements.
- Market continues to be reliant on the State of Michigan, Michigan State University, the auto industry and the healthcare and financial services sectors.
- Sales activity was strong and prices are slowly edging upward from 4-5 year lows.
- Absorption was negligible, accounting for the stable vacancy factor overall.

**MARKET COMPOSITION**

The Greater Lansing Area comprises just over nine 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 76% of the space surveyed.

Approximately 36.9% of the space is Class A, 59.4% is Class B and 3.7% is Class C.

Figure 2: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	H2 2015 Net Absorption (SF)	Completions (SF)	Asking Lease Rates (\$/SF/Yr) <sup>1</sup>
<b>CBD</b>	3,014,288	411,834	13.7	(26,103)	0	8.50-24.00
Class A	1,526,948	54,943	3.6	(18,291)	0	17.50-24.00
Class B	1,376,733	273,422	19.9	(3,174)	0	10.50-24.00
Class C	110,607	83,469	75.5	(4,638)	0	8.50-18.00
<b>East</b>	3,825,019	528,694	13.8	(10,350)	0	8.00-25.00
Class A	1,552,966	149,191	9.6	26,631	0	18.00-25.00
Class B	2,159,707	349,486	16.2	(34,081)	0	10.75-21.00
Class C	112,346	30,017	26.7	(2,900)	0	8.00-20.00
I-96/Jolly Rd	799,801	89,894	11.2	(861)	0	16.00-21.00
US-127/Lake Lansing Rd	549,971	29,222	5.3	3,925	0	17.50-21.00
<b>North</b>	126,059	22,375	17.7	(1,976)	0	13.00-21.00
Class A	NA	NA	NA	NA	0	NA
Class B	126,059	22,375	17.7	(1,976)	0	13.00-21.00
Class C	NA	NA	NA	NA	0	NA
<b>South</b>	1,105,384	441,902	40.0	(38,362)	0	6.00-22.00
Class A	130,000	30,000	23.1	(30,000)	0	19.00-19.50
Class B	855,819	356,251	41.6	8,783	0	10.50-22.00
Class C	62,060	34,460	55.5	(18,060)	0	6.00-14.00
<b>West</b>	941,917	192,276	20.4	13,633	0	12.50-19.00
Class A	71,723	0	0	0	0	NA
Class B	791,497	182,029	23.0	13,633	0	12.50-19.00
Class C	50,697	10,247	20.2	0	0	12.50-14.50
I-96/West Saginaw Hwy	212,169	36,170	17.0	28,778	0	15.00-19.00
Creyts/St. Joe Hwy	413,164	101,606	24.6	(10,233)	0	16.00-17.00
<b>Market</b>	9,012,582	1,597,081	17.7	(63,158)	0	8.00-25.00
Class A	3,309,637	234,134	7.1	(21,660)	0	17.50-25.00
Class B	5,328,814	1,190,615	22.3	(4,868)	0	10.50-24.00
Class C	335,710	158,193	47.1	(25,598)	0	8.00-20.00

Source: CBRE Research, H2 2015.

<sup>1</sup>Full service

#### NATIONAL SNAPSHOT

According to CBRE Research, in H2 2015 office vacancy rates decreased nationwide in both downtown and suburban areas to 13.2%, the lowest level since mid-2008 and an eight-year low. Furthermore, tightening market conditions drove a 5.6% year-over-year increase in the gross average asking rent to \$29.70 per sq. ft. in H2 2015. However, in many secondary and tertiary markets rents have yet to increase enough to justify new construction; half of the markets tracked by CBRE Research had less than 500,000 sq. ft. under construction at year-end 2015. Finally, despite slow economic growth and financial market volatility, hiring by firms in the primary office-using employment sectors (professional and business services, financial activities and information services) remained strong through H2 2015, with the net addition 237,000 positions.

#### GREATER LANSING AREA SNAPSHOT

Greater Lansing vacancies increased slightly from 17.2% in H1 2015 to 17.7% in H2 2015 and are expected to remain at this level throughout 2016. The CBD continues to outperform the suburbs in terms of occupancy, as urban vacancy averages 13.7%, while that of the suburbs averages 19.8%. A flight towards high-end space, which fueled the leasing market in 2013/14, abated somewhat in the last half of 2015.

Lake Lansing Center, a mixed use development consisting of 10,000 sq. ft. second floor office space and 10,000 sq. ft. of ground floor retail, is under construction in the East Submarket and is due to come online during the second half of 2016. While Lake Lansing Center will bring new Class A office space to the market, it will have no significant impact on occupancy levels. Class A vacancies average 7.1% market-wide and are in shorter supply within the CBD and West Submarkets. The fundamentals of the market will

continue to create a very competitive environment in which occupiers struggle to both identify quality office space and secure favorable lease terms.

Due to the aforementioned factors, we anticipate no significant deviation in negotiating power for either the landlord or those tenants seeking Class A space in the immediate future. Leasing activity decreased across all markets during the latter half of 2015, yet some of the notable lease transactions included the Lansing State Journal lease of 18,330 sq. ft. at the Knapps Office Centre in the CBD, the Regus Corporation lease of 15,000 sq. ft. at One Michigan Avenue in the CBD and the CNSI lease of 10,527 sq. ft. at 825 Centennial Way in the West Submarket. Most of the remaining lease activity involved users under 5,000 sq. ft.

Sales activity continued to be strong in the office sector during H2 2015 and prices are slowly edging upward from lows of 4-5 years ago. Some of the most prominent transactions involved the sale of the Iron Point Portfolio within both the East and West Submarkets, the sale of Executive Office Park at 4970-5030 Northwind Drive in the East submarket and the 120,000 sq. ft. condo sale to the Michigan Strategic Fund within the Capitol View building at 201 Townsend in the CBD.



*Iron Point Portfolio – Capitol Commerce Center*

**VACANCIES**

Vacancy rates have risen slightly in every submarket except for the East and the West. The CBD's vacancy rate averaged 13.7% while vacancies were 19.8% in the suburbs. The South submarket reached 40% vacancy by the end of H2 2015, although we anticipate absorption to trend positive at some point in 2016 as tenants search for options within this sector.

Class A space averages 7.1% vacancy, Class B space averages 22.3% vacancy, and Class C space averages 47.1% vacancy. Consequently, tenants who want best-in-market space have become more price insensitive and willing to pay rising asking rates.

**ABSORPTION**

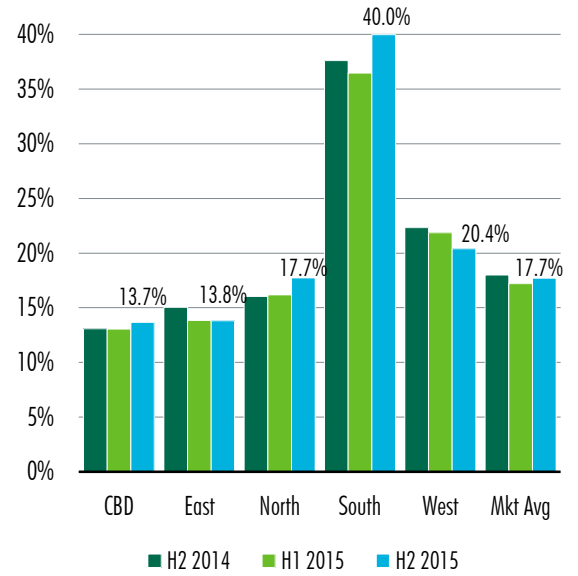
Absorption is the net change in physically occupied space from one period to the next.

During the past six months, the Greater Lansing office market experienced 63,158 sq. ft. of negative absorption, down from the 63,539 sq. ft. absorbed during H1 2015. Absorption for 2015 totaled 381 sq. ft.

Overall, leasing activity slowed across all submarkets during H2 2015 and market size continued to contract due to owner/user purchases and reclassification of space.

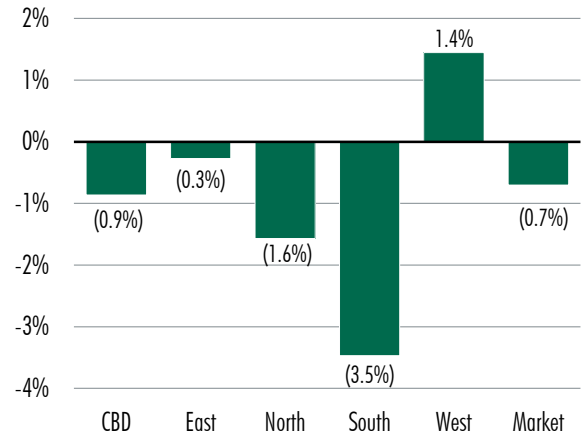
The West Submarket recorded the greatest amount of absorption in H2 2015 at 13,633 sq. ft., while the South Submarket fared the worst, with 38,362 sq. ft. of negative absorption. Nonetheless, we anticipate that the South submarket will begin to experience positive absorption in 2016 as economically minded users will be attracted to the sector's low rental rates and available inventory.

**Figure 3: History of Vacancies**



Source: CBRE Research, H2 2015.

**Figure 4 Net Absorption**



Source: CBRE Research, H2 2015.

**ASKING RENTAL RATES**

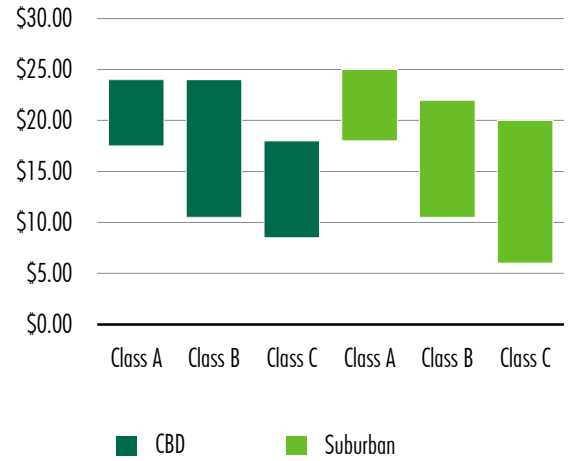
Asking and deal rates continue to vary widely depending on the submarket, the project and the landlord. However, the rates in active submarkets are beginning to tighten. The exception to the aforementioned are Class A rental rates, which have increased across all submarkets due to the lack of market options.

Full service asking rates for Class A space range from \$17.50-24.00 per sq. ft. in the CBD and from \$18-25.00 per sq. ft. in the suburbs. Class B space ranges from \$10.50-24.00 per sq. ft. in the CBD and \$10.50-22.00 per sq. ft. in the suburbs. Class C space ranges from \$8.50-18.00 per sq. ft. in the CBD and \$6-20.00 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, with the limited supply of Class A product coupled with reasonably strong demand, the fundamentals of the market will continue to favor landlords as we enter into 2016.

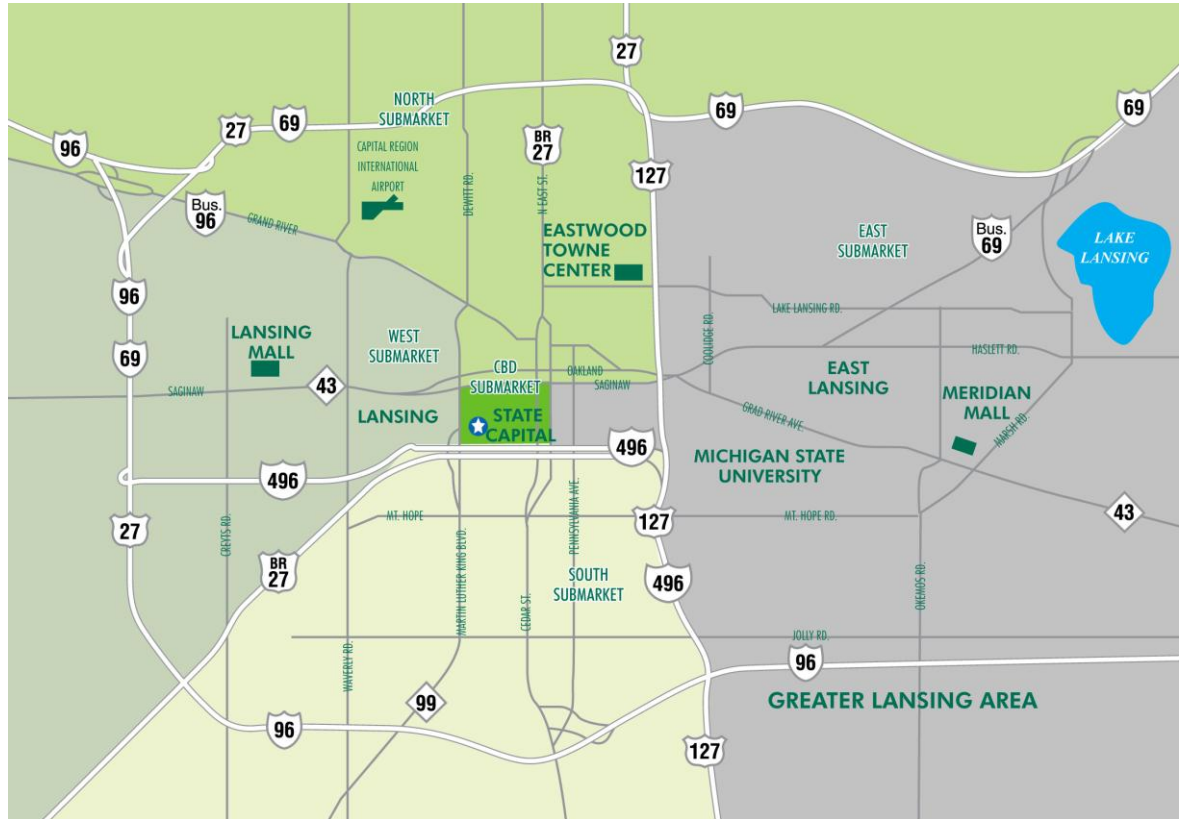
The CBD and East Submarkets continue to have the highest average lease rates, while the South Submarket remains at the lower end of the scale. The asking lease rates typically include operating expenses, which average \$10-12.00 per sq. ft. for Class A space and \$6-8.00 per sq. ft. for Class B space. Concessions remain available in most all buildings, often in the form of free rent; however, concessions are more limited for Class A space due to its scarcity in the market.

The average parking allowance is 4:1,000 sq. ft. 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. The average cost for unreserved parking (reserved is unavailable) in downtown East Lansing is between \$75 and \$85 per month.

Figure 5: Asking Rental Rates (Full Service)



Source: CBRE Research, H2 2015.

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