

Greater Lansing Area Office, H1 2016

Activity steady despite lack of available options

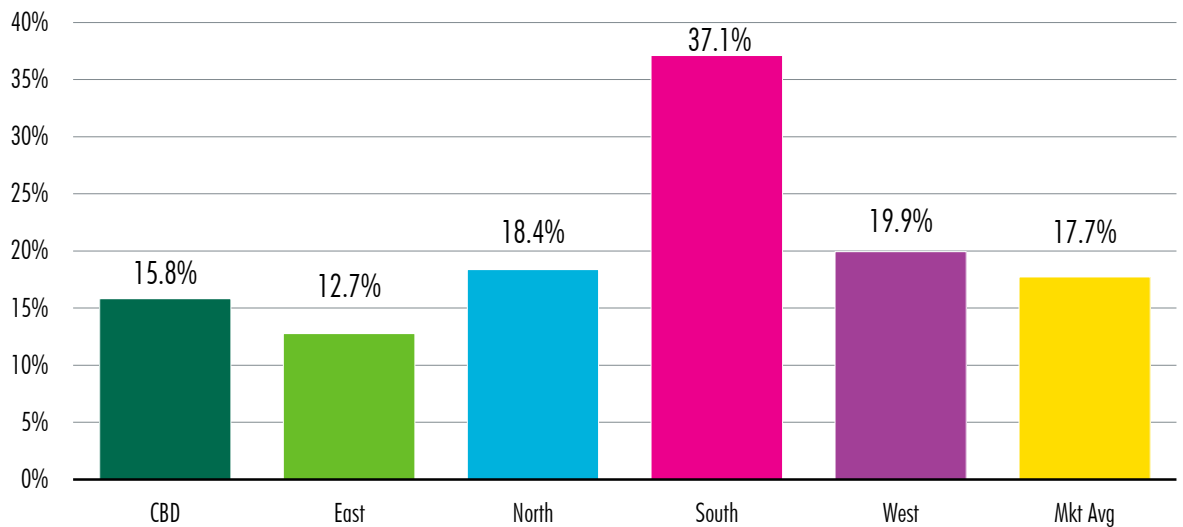
Vacancy Rate
17.7%

Net Absorption
(9,545 SF)

Completions
0 SF

*Arrows indicate change from previous period.

Figure 1: Market Vacancy



Source: CBRE Research, H1 2016.

- Class A space activity continues to be scarce as a result of limited supply.
- Renewal activity very strong given limited options in the market.
- Rental rates held relatively steady and forecasted to hold firm through 2016.
- Market continues to be reliant on the State of Michigan, Michigan State University, the auto industry and the healthcare, insurance and financial services sectors.
- Speculative space will continue to be non-existent.
- Sales activity relatively active, prices to continue to increase slightly across all Submarkets.

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 37.6% of the space is Class A, 58.6% is Class B and 3.8% is Class C.

Figure 2: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	H1 2016 Net Absorption (SF)	Completions (SF)	Asking Lease Rates (\$/SF/Yr) ¹
CBD	3,036,277	480,386	15.8	(2,437)	0	9.50-24.00
Class A	1,526,948	39,787	2.6	15,156	0	18.50-23.00
Class B	1,398,722	357,130	25.5	(12,719)	0	10.50-24.00
Class C	110,607	83,469	75.5	0	0	9.50-18.00
East	3,643,671	464,508	12.7	(39,488)	0	8.00-25.00
Class A	1,552,966	152,985	9.9	(3,794)	0	18.00-25.00
Class B	1,978,359	289,246	14.6	(43,434)	0	10.75-21.00
Class C	112,346	22,277	19.8	7,740	0	8.00-20.00
I-96/Jolly Rd	785,531	60,034	7.6	29,860	0	16.50-19.00
US-127/Lake Lansing Rd	549,971	39,575	7.2	(10,353)	0	17.50-22.00
North	131,002	24,066	18.4	0	0	16.00-17.00
Class A	NA	NA	NA	NA	0	NA
Class B	126,059	22,375	17.7	0	0	16.00-17.00
Class C	NA	NA	NA	NA	0	NA
South	1,116,545	414,286	37.1	27,616	0	9.00-21.25
Class A	130,000	8,122	6.2	21,878	0	18.50
Class B	867,980	355,732	41.0	519	0	10.50-21.25
Class C	62,060	29,241	47.1	5,219	0	9.00-13.00
West	936,157	186,626	19.9	(110)	0	10.00-20.50
Class A	99,723	0	0	0	0	NA
Class B	785,737	178,916	22.8	(2,647)	0	10.00-20.50
Class C	50,697	7,710	15.2	2,537	0	11.00-15.00
I-96/West Saginaw Hwy	212,169	45,606	21.5	424	0	13.00-19.50
Creyts/St. Joe Hwy	413,164	88,097	21.3	13,509	0	14.00-20.50
Market	8,863,652	1,569,872	17.7	(9,545)	0	8.00-25.00
Class A	3,309,637	200,894	6.1	33,240	0	18.00-25.00
Class B	5,156,857	1,203,399	23.3	(58,281)	0	10.00-24.00
Class C	335,710	142,697	42.5	15,496	0	8.00-20.00

Source: CBRE Research, H1 2016.

¹Full service

NATIONAL SNAPSHOT

According to CBRE Research, the overall U.S. office market picked up pace in H1 2016 despite continued global economic and financial market uncertainty. While the Brexit vote at the end of H1 2016 created a new source of uncertainty for the global economy, it should not have any significant impact on U.S. office leasing. Many companies continued to seek creative space in vibrant downtown and suburban areas near public transportation in order to attract millennial talent desiring a live/work/play environment. With continued office-using employment growth and limited new supply expected in 2016, rents will likely increase. The vacancy rate decreased by 20 basis points (bps) to 13% in H1 2016, the lowest level since H1 2008. Gross asking rent increased 6.2% year-over-year, the fastest pace since mid-2008. Markets with the strongest year-over-year growth were concentrated in the West and South.

GREATER LANSING AREA SNAPSHOT

Greater Lansing vacancies decreased from 18.0% in H2 2015 to 17.7% in H1 2016 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 15.8%, while that of the suburbs averages 18.7%.

Class A space continues to be in shorter supply within the CBD and West Submarkets. Speculative construction will continue to be almost non-existent through 2016 as sales prices and rental rates remain largely unchanged since H2 2015. Therefore, as a result of the lack of quality supply in the market we saw strong renewal activity throughout the half.

Leasing activity was moderate across all markets during the first half of 2016. Some of the notable new lease transactions included the TWO MEN AND A TRUCK® lease of 20,000 sq. ft. at Corporate Centre in the South Submarket and the C2AE lease of 13,468 sq. ft. at the Hollister Building in the CBD.

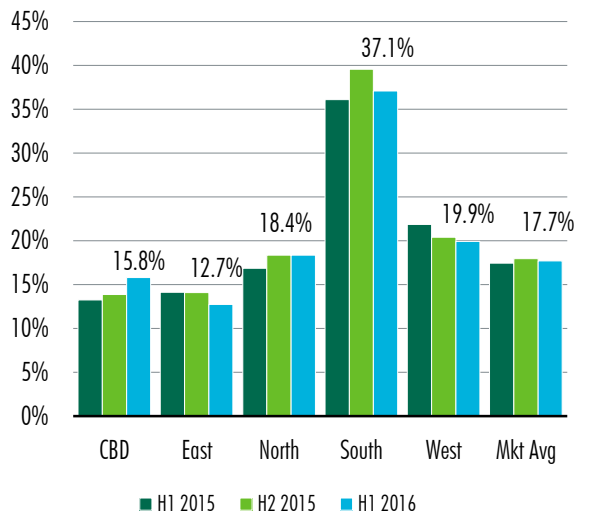
Some of the notable lease renewal transactions included TechSmith Corporation’s lease renewal of 67,769 sq. ft. at The Woodlands in the East Submarket and Inovalon’s lease renewal of 49,357 sq. ft. at the Frandor Plus Shopping Center also in the East Submarket. Most of the remaining lease activity involved users under 5,000 sq. ft. and additional smaller sized lease renewals.

VACANCIES

Vacancy rates have decreased slightly in every Submarket except for the CBD and the North Submarkets. Vacancy within the CBD rose from 13.9% in H2 2015 to 15.8% in H2 2016 largely due to the vacated Lansing State Journal building, which the owner has plans to convert to office space.

Class A space averages 6.1% vacancy, Class B space averages 23.3% vacancy, and Class C space averages 42.5% vacancy. Large blocks of space (over 10,000 sq. ft.) in any classification will be challenging to identify and to utilize for most users, especially in the CBD.

Figure 3: History of Vacancies



Source: CBRE Research, H1 2016.

ABSORPTION

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

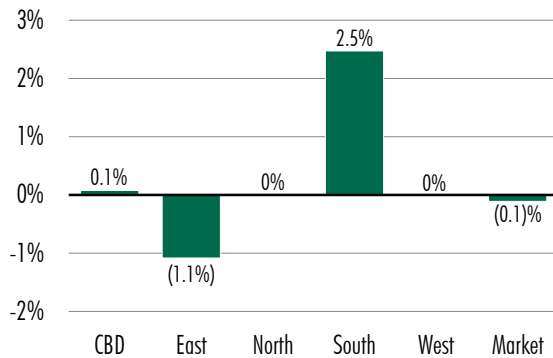
During the past six months, the Greater Lansing office market experienced 9,545 sq. ft. of negative absorption, up from the 63,158 sq. ft. of negative absorption during H2 2015. Absorption was negative as a result of three fully occupied buildings being sold to owner occupants during the period.

The South Submarket recorded the greatest amount of absorption in H1 2016 at 27,616 sq. ft., while the East Submarket fared the worst, with 39,488 sq. ft. of negative absorption due to buildings being sold to owner occupants. Given the size and activity in the East Submarket, this is not cause for concern.

Overall, leasing activity was relatively stable across all submarkets during H1 2016. The majority of the lease transactions completed during the last six months were lease renewals given the limited options in the market.

Given the limited supply fundamental of the market, we see absorption to trend positive as we enter the second half of 2016.

Figure 4 Net Absorption



Source: CBRE Research, H1 2016.

ASKING RENTAL RATES

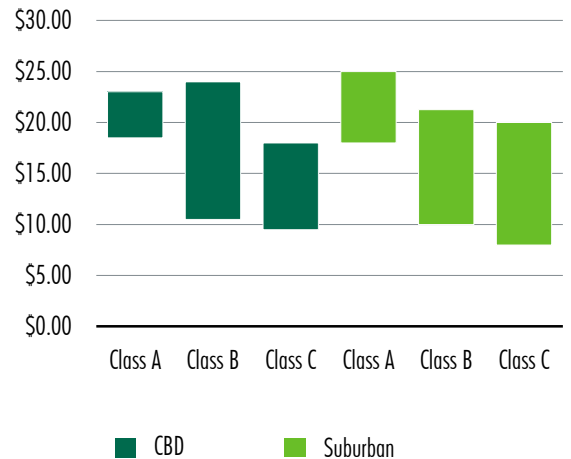
Asking rental rates held relatively steady with the same elements in place for pricing. Those elements include the submarket location, the landlord's desire to lease the space and the tenant improvement incentives required to make a deal acceptable to both parties.

Full service asking rates for Class A space range from \$18.50-23.00 per sq. ft. in the CBD and from \$18.00-25.00 per sq. ft. in the suburbs. Class B space ranges from \$10.50-24.00 per sq. ft. in the CBD and \$10.00-21.25 per sq. ft. in the suburbs. Class C space ranges from \$9.50-18.00 per sq. ft. in the CBD and \$8.00-20.00 per sq. ft. in the suburbs. It is common for landlords to negotiate deals 5-8% lower than the asking lease rate for Class B and C space. However, with the limited supply of Class A space, coupled with reasonably strong demand, the fundamentals of the market for quality space will continue to favor landlords as we enter into the second half of 2016.

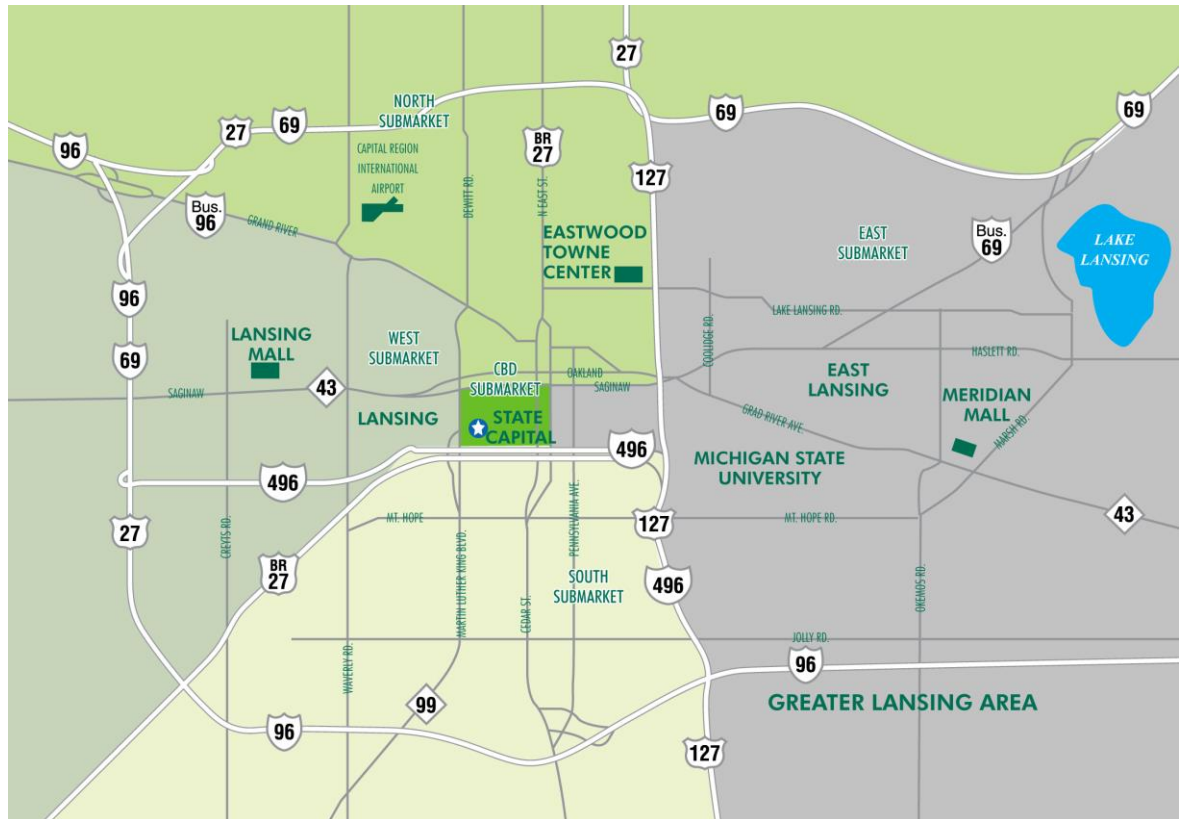
The CBD and East Submarkets continue to have the highest average lease rates, while the South Submarket remains at the lower end of the scale. The asking lease rates typically include operating expenses, which average \$10.00-12.00 per sq. ft. for Class A space and \$6.00-8.00 per sq. ft. for Class B space. Concessions will continue to be building and landlord specific but in general will consist of a slightly reduced rate and free rent.

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 \$85 and \$115 per month.

Figure 5: Asking Rental Rates (Full Service)



Source: CBRE Research, H1 2016.



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