The West Michigan Economic & Commercial Real Estate Forecast Report is produced by Colliers and GVSU and draws hundreds of people. **Photo by Mike Nichols**

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What's the state of West Michigan's economy and real estate industry?

The short answer is, in Paul Isely's words, "It's doing really, really, really, really well. This last year was just unbelievable by almost every measure that we had."

Isely, a professor and associate dean at Grand Valley State University's Seidman School of Business at GVSU, was the lead speaker at today's 2015 West Michigan Economic & Commercial Real Estate Forecast Report.

The event at DeVos Place in downtown Grand Rapids was produced by Colliers International West Michigan and GVSU.

About 600 people attended the event, which looked back at 2014 and ahead to 2015.

Regional economy

Isely delivered a presentation on the regional economy, which included some national perspective.

He said that in 2014, the U.S. overall saw annual GDP growth of 2.5-3.5 percent, with an average employment growth of 2.5-million jobs. West Michigan employment increase will be 2.7-3.1 percent and is currently running at 3.8 percent.

West Michigan is now considered a national contender, and it's thanks to automotive growth, which he feels has somewhat leveled off.

"The good news is West Michigan is looking for steady growth next year, a little bit slower than it was last year," Isely said. "The U.S. economy is looking at about the same rate as last year.

"The U.S. is the envy of the rest of the world, and West Michigan right now is the envy of the U.S. We're in a really good place. Just don't expect us to continue growing at this rate."

Banks, manufacturing and consumers are where they need to be nationally.

Wages

But one red flag Isely sees locally is in a needed wage-level adjustment. By a large margin, the biggest growth industry in the Michigan economy by jobs was hospitality. But those real wages haven't changed at all in the last 10 years.

For employers that can't find workers, they need to raise their wages.

"Minimum wage changes, coming/going, whatever hasn't affected their real wages, and it's the largest growth sector. People don't buy houses, and they don't buy cars at $10 an hour," he said.

The recurring theme for this year will be that employers will be need to paying their employees more to stay competitive.

"Here in West Michigan, as I talk to people around the area, we have a particular problem: we feel like we're competing for workers with the people in the area. That's not so, particularly with millennials. They're more than happy to get in an airplane and go to Denver or Texas or Florida and make more money. You need to be looking at your competitors in all of those areas."

Residential

In terms of residential real estate, Isely noted that "finally, we're back to pre-recession levels at being late on our mortgages," acknowledging that home prices will cause wages in construction to go up, which will also likely see an increase in manufacturing wages.

"Even if I include distressed properties in Grand Rapids, which is your slowest market in West Michigan, we're back above the year 2000 prices in the residential market. If I don't include them, we're really almost — in the Grand Rapids market —back to our peak. We're a smidge below it," he said.

"In the nice areas with good schools on the outskirts, we're at record prices now for individual houses. This is good news for builders, because now the existing home stock is competitive and high enough priced that you can build new houses."

Commercial real estate

Duke Suwyn, president and CEO of Colliers International West Michigan, presented on real estate markets in the region, citing a roster of impressive real estate projects from a number of companies.

Across all the markets, Suwyn noted a lack of space and the need to grow.

Industrial market

The industrial market in the region saw positive absorption in three of 2014's four quarters, and Colliers predicts a "net year-end total of 472,600 square feet absorbed — pushing the overall occupancy rate past 94 percent," according to its report.

"It is not much of a secret that manufacturing has buoyed West Michigan in recent years. According to the W.E. Upjohn Institute, during the 12-month period ending in July 2014, manufacturers in West Michigan increased their workforces by 3.4 percent — outpacing overall area employment growth by 40 basis points," the report says.

"This has had a direct correlation to overall industrial occupancy. In addition, the overall unemployment rate in Kent County dropped to a state-low of 4 percent."

Overall, 2014 saw an increase in both sales and leasing activity, with the market executing about 101 sales and 123 leases, which were 25.8 percent and 12.2 percent increases from the 75 sales and 108 leases of 2013.

The problem now is that space is running out.

"With industrial, the summary is real simple," Suwyn said. "We have very few products that we can pull off the shelf. There's very little inventory of high-quality buildings with what the market is looking for. We've re-configured about every building there is out there. So now we're starting to see new construction and starting to see spec buildings come out of the ground. "

Office market

In the office market, Suwyn noted that a new wave of businesses wanted "cool" amenity-offerings.

He said that although 75 percent of people say brand is a central driver to business, only about 15 percent say their facilities reflect the brand very well.

He added that last year's office market was impacted by continued job growth.

"We saw unemployment for all of West Michigan drop 180 basis points to 4.9 percent and private sector employment grow 320 basis points with the addition of 17,300 jobs as companies continue to expand. Compare this to a state unemployment rate of 7.1 percent and a private sector employment growth of only 50 basis points," the report reads.

Suwyn said that the office market is currently where the industrial market was a few years ago, although finding space continues to be an issue for both.

"The suburban office market is primed to shift as well. As the downtown office market becomes increasingly tight, tenants will begin to seriously look at alternative options in the suburbs. . . . This will increase the demand for on-site parking and users demanding a higher ratio of spaces will be intrigued by the suburbs due to the lack of availability and cost of downtown parking."

Retail market

In the retail market, Suwyn said that although retail was the slowest of the markets to rebound, it has gained great ground as it accelerated, primarily in premier retail locations.

He said the redevelopment of existing facilities is a recurring theme for retail, noting the success of the de-malling of the Centerpointe Mall.

"National retailers are starting to look at our market," he said. "They see our West Michigan economy . . . thriving. It's become a star, and they want to get involved in this dynamic growing market and that gets very attractive to these national retailers."

In 2015, Colliers is interested to watch the relationship between the retail market and downtown Grand Rapids. The report notes that an increase in downtown residential should lead to an increase in downtown retail.

"Many large residential projects are underway or planned in the Central Business District, with a current projection of doubling residential units within the next few years. As more and more people decide to live downtown, retailers will follow that demand," the report reads.

"The historically active retail corridors continue to garner much of the tenant interest. However, as these available spaces become absorbed, rental rates will continue to rise, lease term length will continue to grow and new construction/renovation will likely be common. Landlords in tertiary retail corridors still struggle with attracting quality tenants, which has historically been the case, and 2014 was no different."

Investment market

In the investment market, Suwyn said that "lack of inventory" is the biggest issue.

Grand Rapids really has no more empty buildings.

He added that the investment summary is strong, particularly for higher-end projects with greater amenities.

"According to Emerging Trends in Real Estate 2015, 'The issue for 2015 is not the volume of liquidity supporting the industry . . . it's navigation.' With rising interest rates looming in the future, many investors see now as a great time to lock in debt and strategically leverage it in real estate investments," the report reads.

"The combination of available capital and shortage of opportunities in major markets has translated into greater interest throughout the West Michigan market. Traditionally, larger institutional investors have operated in areas of familiarity. We are now seeing a wider array of investors exploring the opportunities available in West Michigan. We expect 2015 to be a continuation of this trend and will be monitoring how this affects competition for assets, cap rates and capital invested by out-of-state investors."

In 2010, 80 percent of the investments transactions in Grand Rapids involved a distressed property, but this past year, that number was les than 10 percent, Sudwyn said.

"I was looking through my notes from 2010 for this event, and what a different story we were talking about," he said. "It's kind of crept up on us. Every year's been a nice steady increase. . . . But when we look back for four, five years, what a difference!"

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