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What are private health insurance exchanges about?

Is moving your corporate headquarters overseas really worth it?

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As we head into the 2016 presidential primaries and the race to the White House heats up, there is little uncertainty about the top issues that will be debated both by politicians and members of the public across this great nation. Regardless of party affiliation, much will undoubtedly be made of the candidates’ stances on the economy in general, as well as on the specific areas of racial inequality, healthcare, immigration, tax policies, and entrepreneurship.

These topics of national concern are also reflected in the articles presented in this edition of the Seidman Business Review. The general economic situation is reflected in our yearly reviews and analyses of regional stocks, housing markets, and commercial real estate, as well as our ever-popular annual economic forecast. These perennial sections of the Review are rounded out this year by several thought-provoking articles on other specific issues: a review of private health insurance exchanges; a case study of tax policies that encourage a company to move its headquarters overseas; and an analysis of how factors such as racial inequality, immigration, and entrepreneurship can set cities on different economic paths.

As always, it is my hope that you find these articles interesting and informative, as they reveal much about our regional economic prosperity. In addition, I encourage you to look over the list of Seidman Faculty Experts provided on the last page, and to contact those whose expertise may be of value to you, both before and after November’s election.

Gerry Simons, Professor of Economics
The Current Business Confidence Index for 2015 is 77.5%, a small improvement over last year. The Forecast Business Confidence Index for 2016 is 76.7%. Employment is expected to grow by 2.6% to 3.0% in 2016. Overall nominal sales are expected to increase by 2.3%–2.7% for 2016. Export growth in 2016 is forecast to be much weaker than last year; expected growth is between 2.4% and 4.4% during 2016. All indicators signal the 2016 economy continuing to grow, but the pace will be slower than in 2015.

Introduction
The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November and December 2015. A survey was mailed to the CEOs and business leaders of 970 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the area. Eventually, 188 organizations responded, resulting in a response rate of 19%, which is consistent with previous years. However, due to possibility of a non-random response sample, the survey should be interpreted with caution.
A few methodological considerations are in order. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers—responses beyond one standard deviation). Since the average of a small sample is significantly influenced by extreme numbers, we use the averages without the outliers to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture.

Confidence Index

The confidence index has been tracked by researchers at the Seidman College of Business since 1995. A continuing goal of the survey is to historically track the overall business confidence of the Grand Rapids area with a confidence index. The confidence index respondents use a scale from zero percent (no confidence at all) to one hundred percent (complete confidence). In response to the question: How confident are you in the regional economy? The average responses for the private sector and the government/non-profit sector over the last 19 years are shown in figure 1.

For 2014 business leaders underestimated the strength of the economy, and to a lesser degree that happened again in 2015. Last year, the private sector confidence index expected for 2015 was 75%, but by the end of 2015, survey respondents reported their current confidence at 77.5%. As with 2014, firms were positively surprised, but less so. For 2016, organizations expect a 76.7% confidence level, which, although higher than last year, has essentially been flat for 3 years. The level of confidence also remains about 10 points lower than the index reported in the 1990s. The regional economy is expected to continue to grow in 2016, but the rate of this increase is also expected to continue to slow down.

Employment

For 2015, employment for KOMA was projected to grow at an average of 2.8–3.2%. The numbers from the Local Area Unemployment Statistics (LAUS) survey indicate that employment in KOMA grew by approximately 3.0% from October 2014 to October 2015 which is dead center in the projected range.

The respondents answer the following question: What percent change do you expect in employment for the four counties in 2016?

Compared to 2015, when nearly 45% of the respondents expected job growth between 2 and 3%, 2016 shows firms dividing into two camps. Firms looking at above 3% employment growth now make up 33% of the respondents compared to 23% last year. However, firms looking at growth below 2% now make up 43% of respondents compared to 33% last year. This suggests business leaders see employment growth continuing the moderation seen in 2015. Average employment in the KOMA region is expected to grow at 2.8% which is slightly below last year’s expectations and last year’s actual employment growth.

The number of firms expecting to hire this year continues to increase and has reached 83% for 2016 up from 78% last year and 69% the year before. Of those persons being hired, about 70% are expected to be permanent workers, which shows firms’ level of optimism for 2016 is a little lower than that seen in 2015 when 80% of the hires were expected to be permanent.

Sales

For sales, the respondents answer the following question: What percent change in sales do you project for the four counties in 2016? During the late 1990s, sales grew at an
annual rate of 5%. Last year 43% of respondents were expecting growth above 3%. For 2016, the percent of firms looking for sales growth above 3% has dropped to 23%. Now more than a third of firms expect sales growth to be between 1% and 2%. The result is average expected sales growth drops from 2.7% last year to 2.5% in 2016. The increase could be because of an increase in prices and/or quantities. Since sales growth is barely above inflation, this means the relatively slow sales growth is most likely to increase due to prices, not because firms are building more product. This also means the employment growth expected next year is likely to face headwinds.

Export Growth
Exports have traditionally been a bright spot in the West Michigan economy. This year, exports growth is expected to continue a slowdown started last year, with expected growth dropping to 3.4% in 2016. This reflects the slowdown in the rest of the world. In fact, this year 13% of respondents expect exports to fall.

General Outlook
At the national level, expected growth will average between 2.0% and 3.0% for 2016. The economy will continue the slow acceleration seen started in 2014. Nationwide employment will continue to improve in 2016. Full-time hiring will continue to increase, but not at the rate seen over the last year in West Michigan. In addition, tightness in the labor markets already are leading to increases in wages in almost all sectors. At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 70%. Employment will grow by approximately 2.8%. Nominal sales will increase by 2.5%. In spite of its volatility, exports have always been a bright spot, but this engine of growth is expected to slow considerably to 3.4%.

Three major uncertainties exist for 2016. First, the United States continues to stand alone in economic growth. The headwinds internationally are affecting domestic growth, and the effects are now starting to show in decreased export growth. Second, it is an election year in the United States. Many of the candidates are influencing consumer confidence negatively. In addition, the unknowns surrounding the policies being proposed make it harder to plan for 2017 and 2018. The combination can slow growth in the United States. Finally, anecdotal evidence is that wages are starting to move. This might be obscured by the mix of experienced versus inexperienced workers, but it is not showing in the aggregate data yet. New labor contracts and moving minimum wages should start to cause all wages to increase, putting pressure on firms’ profitability. Overall, the US and West Michigan economies ended 2015 better than they started them, and 2016 will see more of the same.

Acknowledgments
This study could not be completed without the assistance of the SBDC West Michigan Region staff. We are very grateful to all the organizations that participated in the survey.
Private Health Insurance Exchanges—An Answer to Rising Health Insurance Costs?

Jeff Rubleski, M.B.A.
Director, Sales Strategy, Blue Cross Blue Shield of Michigan
Adjunct Faculty Member, Seidman College of Business

In Michigan, about 60% of employers offer health insurance benefits to eligible employees, and about 80% of those eligible for coverage enroll in health coverage.¹ If you work for an employer with 50 or more covered employees, the probability that your employer offers health insurance is 90% or higher.²

Exhibit 1 shows the percentage of employers offering health insurance to eligible employees by company size. Employers that offer health coverage find that it is a coveted benefit for current and prospective employees. Once coverage is offered to employees, it is difficult for an employer to discontinue sponsoring coverage, as employees view this benefit as an essential component of their employment relationship and total compensation package. Paying for health coverage continues to be a major dilemma for employers, as year-over-year premium costs continue to escalate at a multiple of the Consumer Price Index (CPI). Employees are also feeling the pain of paying for higher health insurance premiums. In a recent comprehensive study exploring employees’ financial and savings attitudes, sponsored by benefits consulting firm Aon Hewitt, the top financial concern employees expressed was the rising cost of health care.³

Exhibit 2 illustrates over a 16 year period the alarming rise of health insurance premiums and workers’ increasing

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³ Inside The Employee Financial Mindset Study, Aon Hewitt, 2015, aon.com/employeemindset
contributions to premiums on the top two lines, contrasted with annual workers’ wage increases and annual CPI increases on the bottom two lines. The annual health insurance cost increase “gap” that exists between the top and bottom sets of values is alarming and results in relentless cost pressures on both the employer and covered employees in year-over-year health insurance premium increases that exceed by a wide margin the annual increases in wages and the CPI.

Most employers in West Michigan have experienced a similar relationship in annual health insurance premium increases over the past decade. During this time, employers have reduced annual premium increases by making common changes to health plans, including the following:

1. Requiring employees to pay more for their health insurance coverage;
2. Increasing health insurance deductibles, fixed dollar co-payments and coinsurance amounts;
3. Introducing “consumer-directed” health plans that have health plan deductibles of at least $1,000 for employee-only coverage, linked to a health care expense account like a Health Reimbursement Arrangement or a Health Savings Account;
4. Implementing health insurance plans that reward employees and family members with better coverage if certain plan requirements are attained, such as completing an annual physical exam, completing a health risk assessment, avoiding tobacco products, and keeping body weight below a targeted threshold;
5. Providing employee wellness incentives for attaining desired program participation, including reductions in employee health insurance premium share for adhering to wellness program guidelines;
6. Changing the prescription drug benefit to a multi-tier payment structure that saves money and encourages employees to use the lowest cost drug to treat the identified condition.

All of the listed techniques have helped to curb the final cost increase of health plan coverage in any given year. These strategies reduce costs for employers but often result in costs being “shifted” to employees. In spite of these efforts to contain annual cost increases, structural cost pressures continue to exist. As a result, employers are continually looking for the “next best thing” to help them to control annual cost increases in health insurance.

**Private Health Insurance Exchanges—A New Way to Deliver Benefits and Manage Costs**

Private health insurance exchanges are a relatively new option for employers to consider for the purchase of group health insurance. These differ from the state-based government regulated public health insurance exchanges (officially referred to as public marketplaces) that were created under the Affordable Care Act of 2010. Private exchanges are sponsored by the private sector and are not subject to the same health plan design and company size rules as plans offered on the state-based public exchanges. Like public exchanges, most private health insurance exchanges started
just a few years ago, and the growth in private exchanges has been boosted by tremendous financial investments in the development of private exchange technology platforms led by benefits consulting firms, technology companies, and health insurance carriers to develop the private exchange infrastructure to support multiple health insurance options delivered via an online shopping experience. Elements of a private health insurance exchange include the following:

- An online, Amazon.com-type marketplace that allows employees to purchase health and ancillary coverage during open enrollment or when a qualifying event occurs;
- Multiple health insurance options for employee selection—usually 5, 10, or more health insurance choices, combined with an array of “ancillary” health product offerings, including dental, vision, life, critical illness, disability and other supplemental insurance-related coverages;
- The ability for the employer to allocate a fixed amount of dollars for the purchase of coverage in the employee’s online (notional) spending account;
- Products offered by one insurance carrier or multiple insurance carriers;
- The ability for the employee to enroll in medical savings plans such as Health Savings Accounts or Flexible Spending Arrangements;
- Detailed employer reporting that simplifies the enrollment and ongoing insurance administration for the company benefits administrator.

What is the Potential Market Size for Private Exchanges?
A number of national benefits consulting firms have projected the growth of private exchanges over the next few years. Although projections vary significantly, most estimates indicate explosive growth, as employers shift coverage into these new benefit delivery platforms. For example, the benefits consulting firm Accenture estimates that private exchange enrollment will double from 6 million members in 2015 to 12 million members in 2016. Exhibit 3 highlights Accenture’s projected growth rate for private exchanges through 2018. If the anticipated growth rate reaches 40 million members in 2018, Accenture estimates that it will impact about 25% of the covered workforce. This would result in private exchanges representing a significant enrollment platform for a considerable number of employers in just three years.

Will Private Health Insurance Exchanges Lower Annual Cost Increases?
Some employers turn to private exchanges in an attempt to mitigate annual premium cost increases. Given the recent movement by some employers to private exchanges, it is too early to conclude whether private exchanges will deliver long-term cost savings over the traditional offering of health insurance with few plan options. That’s why it is important to offer an integrated employee wellness program that encourages employees to make appropriate health choices that may result in lower health care costs (over a period of years) through improved personal health.

One common private exchange funding technique that helps employers to control their required investment in the overall health insurance benefit is the establishment of a fixed dollar contribution for employee health insurance. This helps the employer to budget with certainty how much it will spend on health insurance through fixed dollar contributions to each employee account. When employees have a fixed dollar amount to spend (from their notional health account) and many health plan choices with differing benefits and price tags, they typically will purchase coverage that is less costly than the coverage they previously had, as they attempt to maximize the dollars available to purchase insurance coverage. This “buy-down” effect results in lower insurance premiums during the first year of the private exchange, but significant buy-down savings will not repeat in subsequent years, resulting in ongoing cost pressures for employers and employees as premiums continue to rise for all health plans. Proponents of private exchanges believe that a fixed dollar employer contribution for health insurance selection empowers employees to become better purchasers of health insurance, as employees seek to find the right coverage options to fit their unique health insurance needs.

Evaluating Private Exchange Options
To evaluate private exchange options, a good place to start is by engaging your independent insurance agent or benefits consultant to search the market for appropriate private exchanges. In West Michigan, the two dominant health carriers, Blue Cross Blue Shield of Michigan and Priority Health, offer excellent private exchange options for consideration for employers of all sizes. Your organization
may make a good candidate for private exchange if the following criteria apply:

- Employees contribute at least 10% toward the cost of health insurance premiums;
- Current plan design includes high deductible options of at least $1,000 or more for employee-only coverage, coupled with a health savings account;
- Employee wellness programs are in place to encourage healthful behaviors;
- Current plan design includes at least two plan choices;
- There is a wide range of worker ages in your workplace. (Younger workers have much different health insurance needs than older workers.)

A private exchange option will require employees to be engaged in benefit selection, as most private exchanges require employees to make a plan selection during open enrollment. To help employees to select an appropriate health insurance plan, be sure to evaluate the “decision support” software that the exchange offers. This online support will help your employees to select the plan that best fits their health insurance needs and their ability to pay for the plan selected. In addition to online support during open enrollment, some private exchanges offer Health Plan Advisors to assist employees in the selection of the best coverage through telephone support. Not all private exchanges offer human support for benefits selection, but this is a good option to consider, as some employees will prefer to talk with an advisor to assist with the enrollment decision.

Allow at least six months before your annual open enrollment to begin exploring your private exchange options. Be sure to include key staff in the discovery process, as private exchanges represent a completely different way to purchase health and related ancillary benefits. It is critical for a successful private exchange introduction to have appropriate staff buy into the concept. Your CFO will likely support a private exchange approach due to the fixed dollar funding flexibility that is a core component associated with the private exchange. The ability to establish a “fixed” notional contribution for health insurance premiums for each employee health account simplifies the health insurance budgeting process, as the total spending for health insurance premiums is established before the open enrollment begins.

Moving Forward with a Private Exchange

Be sure to consult your benefits agent or health insurance consultant at least 6 to 12 months before your health plan open enrollment date to explore whether a private exchange makes sense for the delivery of your health and ancillary benefit products. Start by evaluating the plan options the private exchange offers and secure a price quotation from the private exchange vendor for the available health insurance products offered on the exchange, including ancillary benefit products. If a decision is made to move forward with a private exchange, start proactive communications with employees at least two months prior to open enrollment to ensure employee understanding of the reasons for choosing the private exchange and how it will impact them through expanded health insurance plan choices to meet their unique insurance coverage needs. Your private exchange vendor should have robust employee communication materials to help prepare your employees for the changes that the private exchange will bring and to articulate the benefits of the private exchange experience. The added product choices, fixed dollar funding flexibility, and administrative efficiencies through online enrollment and enhanced employer reporting may make a private exchange a good option for your organization and its employees moving forward.
Tax Inversions – The Real Costs

Seidman College of Business

Introduction
On July 29 2013, Allegan-based Perrigo Company announced the acquisition of Elan Corporation, PLC located in Dublin, Ireland. Perrigo manufactures and distributes over-the-counter and generic prescription pharmaceuticals and is the world’s largest manufacturer of over-the-counter pharmaceutical products for the store brand market. Elan is a biotechnology company with its biggest product being a multiple sclerosis drug, Tysabri. One of the primary reasons for this acquisition, as stated by Perrigo, was the “opportunity for substantial after-tax annual operating expense and tax savings of more than $150 million.” Let’s take a look at how the tax savings for these transactions are realized and the effect these transactions have on the U.S. economy.

Background
U.S. companies spend a lot of time, effort and money to minimize their tax costs. There is no downside in pursuing avenues to reduce tax costs. In fact, it is a corporation’s responsibility to do so to increase shareholder returns. The U.S. has the highest statutory tax rates in the world, with a marginal federal tax rate of 35% (plus state taxes puts the rate at 38% to 40%). Certainly no significant corporation pays taxes at anywhere near the highest rates because of various tax rules and regulations that allow for deductions and deferrals. However, these rates compare to tax rates of 29.65% in Germany, 26.5% in Canada, 20% in the United Kingdom (recently reduced from 25%), 33% in Japan and a very low 12.5% in Ireland. There are certain smaller “tax haven” nations that have a zero corporate tax rate, notably Bermuda and the Cayman Islands.

One tax reduction structure used frequently by U.S. corporations is a tax inversion. A tax inversion involves purchasing a company in a low tax jurisdiction, such as Ireland, and moving the company headquarters to that jurisdiction. “Moving company headquarters” is fairly subjective and typically requires only limited activity at the foreign headquarters. In 2004, the U.S. legislated restrictions on this strategy mandating that any merger be with a company that is at least 25% of the acquirer’s fair market value. In recent years, (some prior to 2004) many of the largest U.S. corporations have implemented tax inversions, including Apple, Cisco Systems, Facebook, Google, Microsoft and Twitter.

Whereas U.S. corporations pay taxes on worldwide earnings at U.S. tax rates (less foreign taxes paid), this tax inversion structure allows the company to reduce taxes by paying lower rates for international sales and activities. These earnings are “trapped” overseas and cannot be remitted to the U.S. company, as dividends, without paying substantial additional taxes. This typically forces investment of these funds in operations or investments outside the U.S. In fact, many of these apparently “cash rich” companies have to borrow funds because of the amount of cash trapped overseas. For example, in June 2014, Microsoft, with cash and short investments of $86 billion, had long term debt of $21 billion.

<table>
<thead>
<tr>
<th>Historical Table of Corporate Tax Rates from Selected Jurisdictions</th>
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<tbody>
<tr>
<td>Year</td>
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<tr>
<td>2009</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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SOURCE: kpmg.com

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<tr>
<th>Indefinitely Invested Earnings of Foreign Subsidiaries (in millions)</th>
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<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
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<td>2012</td>
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<tr>
<td>2013</td>
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<tr>
<td>2014</td>
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</tbody>
</table>

SOURCE: kpmg.com
 Estimates of these trapped amounts, often called “indefinitely invested earnings of foreign subsidiaries,” exceed $1 trillion. In its 2014 Annual Report, Microsoft stated that it had $92.9 billion in “permanently invested earnings of foreign subsidiaries.” Below is a graph of the “indefinitely invested earnings of foreign subsidiaries” for five of the larger U.S. corporate tax inversions, Google, Microsoft, Cisco, Pfizer and Intel.

The U.S. treasury loses most of the tax revenue associated with international earnings of these companies. However, that’s not the only cost of tax inversions.

Let’s examine all of the costs by looking at Perrigo Corporation and its recent tax inversion.

### Perrigo Case Study

#### Perrigo Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>6/27/15 Post-merger</th>
<th>6/28/14 Pre-merger</th>
<th>6/29/13 Pre-merger</th>
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<tr>
<td><strong>Assets</strong></td>
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<tr>
<td>Current Assets</td>
<td>3,183</td>
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<tr>
<td>Fixed Assets, net</td>
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<td>Goodwill / intangibles</td>
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<tr>
<td>Other non-current assets</td>
<td>265</td>
<td>219</td>
<td>101</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>19,721</td>
<td>13,880</td>
<td>5,351</td>
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<tr>
<td><strong>Liabilities and Shareholders’ Equity</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Current Liabilities</td>
<td>1,694</td>
<td>1,075</td>
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<tr>
<td>Long-term Debt</td>
<td>5,247</td>
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<tr>
<td>Other non-current liabilities</td>
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<td><strong>Total Liabilities</strong></td>
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<td><strong>Shareholders’ Equity</strong></td>
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<tr>
<td>Common Stock</td>
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<td>Retained Earnings</td>
<td>1,938</td>
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<td>Other</td>
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<tr>
<td><strong>Total Shareholders’ Equity</strong></td>
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<td>8,694</td>
<td>2,333</td>
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<tr>
<td><strong>Total Liabilities and S/H Equity</strong></td>
<td>19,721</td>
<td>13,880</td>
<td>5,351</td>
</tr>
</tbody>
</table>

1. **Lower Effective Tax Rate**

Perrigo’s merger with Elan Corporation was finalized in December 2013. As stated in Perrigo’s 10-K report for the year ended June 28 2014, “due to changes to the jurisdictional mix of income and the new corporate structure…, the Company was able to reduce its effective tax rate.” This is the first and most obvious benefit of a tax inversion. There is definitely a lot of activity and complexity that goes into calculating taxes for large international corporations, and the effective tax rates change every year for a multitude of reasons. For approximately six months of activity after its reincorporation in Ireland, Perrigo’s effective tax rate went from 27.3% for fiscal 2013 to 24.7% for fiscal 2014. This saved more than $7 million in tax expense. The lower taxes relate to international (non-U.S.) earnings that were taxed at lower rates in Ireland.

To better estimate the taxes saved since 2013, it’s fair to use the increase in “undistributed earnings of foreign subsidiaries” of $2.8 billion as a starting point. A portion of these undistributed earnings were a component of the Elan acquisition.

2. **Earnings Trapped Overseas**

From fiscal 2013 to fiscal 2015, Perrigo’s “undistributed earnings of foreign subsidiaries” went from $640 million to $3.4 billion. These amounts can only be transferred to the U.S. entity as dividends, which would require paying U.S. taxes on any amounts repatriated.

3. **Change in Dividend Policy**

The amounts trapped in “undistributed earnings of foreign subsidiaries” reduces cash available to the company and impacts the ability to freely pay dividends from earnings.

4. **Higher Acquisition Potential**

Perrigo, being domiciled in Ireland, has now become a more attractive acquisition target. This was confirmed by the recent unsolicited buyout offer from Mylan NV, which was spurned by Perrigo. If they are acquired by another company, surely a good portion of their Michigan facilities will be redundant and eliminated. If the acquirer is a foreign company, there will be a dramatic decrease in the U.S. taxes paid by the foreign company.

### Recommendations

a. **Lower corporate tax rates**

Lowering corporate tax rates, in line with other countries, would eliminate the benefit of moving income outside of the U.S. The United Kingdom has done just that by lowering its corporate tax rates from 28% to 20% over the last seven years. The revenue lost due to lower tax rates would be recovered by fewer tax inversions by U.S. companies.

b. **Reduced tax rate on foreign dividends**

This has been done in the U.S. before (in 2004 as a one-time incentive) but doesn’t address the core issue of vastly different corporate tax rates. Companies would only bring funds into the U.S. if they don’t have better or equivalent investment options internationally.

Other, less substantive, potential tax legislation has been kicked around, but it’s clear that the only way to address this issue long term is for Congress to reduce corporate tax rates so they are more in line with international standards. Once this is done, companies won’t have the incentive to move their domicile outside the U.S., and there won’t be restrictions to moving their assets and investments to geographic areas where the returns are the highest.
West Michigan Stock Returns

Gregg Dimkoff, Ph.D., Department of Finance
Seidman College of Business

West Michigan Stocks Retreat in 2015

The West Michigan Stock Index increased 240 percent during the six years 2009 through 2014. In other words, $1,000 invested at the beginning of 2009 would have grown to $3,400 by the end of 2014. That’s a 22.6% annual return. Seasoned investors know there will be ups and downs from year to year, and the down finally happened in 2015: West Michigan stocks retreated 6.5%. Joining the local index with losses for the year are the Dow Jones Industrial Average’s 2.2% decline and the S&P 500 Index’s 0.7% loss. The NASDAQ Composite Index, comprised mostly of smaller corporations, finished the year with a 5.7% gain, however. Table 1, Stock Market Returns, shows how the West Michigan Index has performed compared with the major indexes over the past three years.

As shown in Table 2, one-half of the companies in the West Michigan Index ended 2015 with stock price increases, and the other half had losses.

The 2015 performance of each of the companies in the Index is described below.

Meritage Hospitality Group Inc.

Meritage Hospitality Group’s stock outperformed all other West Michigan companies in the Index, rising 115%. The company operates 167 quick service and casual restaurants in seven states and has approximately 5,100 employees. Meritage continued a multi-year trend of growing its portfolio of new restaurants by adding 20 locations in 2015. The number of restaurants it owns has doubled since the beginning of 2012, and not surprisingly, its stock increased 449% during that period. Its 2015 financial performance would be the envy of most companies: Sales more than doubled, and its net profit margin increased substantially.

Community Shores Bank Corporation

Community Shores Bank Corp. rebounded 45% in 2015 following a disappointing 2014 when its stock price fell by more than one-half. The bank continues to make slow progress toward recovering from the Great Recession. It renegotiated a data processing contract projected to save the bank $1.8 million over the next six years, and completed a rights offering late in 2015, raising money to repay long-term debt, to increase bank capital, and for other general corporate purposes. Yet, it remains out of compliance with a 2010 Consent Order from the FDIC and the State of Michigan’s Department of Insurance and Financial Services requiring minimum capital ratios. Additionally, a Written Agreement with the Federal Reserve Bank places several restrictions on the Community Shore’s financial operations and other bank matters.

<table>
<thead>
<tr>
<th>Table 1: Stock Market Returns¹</th>
</tr>
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<tbody>
<tr>
<td>2015</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>West Michigan Index</td>
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<tr>
<td>NASDAQ Composite Index</td>
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<tr>
<td>S&amp;P 500 Index</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
</tr>
</tbody>
</table>

¹The West Michigan Index consists of 14 publicly traded companies headquartered in West Michigan. Each company's return is weighted by its market value—the number of shares of common stock outstanding multiplied by the company's stock price. The index matches the weighting methodology used by both the S&P 500 Index and the NASDAQ Composite Index. The Dow Jones Industrial Average is price weighted.

<table>
<thead>
<tr>
<th>Table 2: West Michigan Company Returns</th>
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<tbody>
<tr>
<td>2015 Prices</td>
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<td>2015 Closing</td>
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<tr>
<td>Meritage Hospitality Group Inc.</td>
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<tr>
<td>Community Shores Bank Corporation</td>
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<tr>
<td>Universal Forest Products, Inc.</td>
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<tr>
<td>Mercantile Bank of Corporation</td>
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<tr>
<td>Independent Bank Corporation</td>
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<tr>
<td>Macatawa Bank Corporation</td>
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<tr>
<td>ChoiceOne Financial Services, Inc.</td>
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<tr>
<td>Stryker Corporation</td>
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<tr>
<td>Herman Miller, Inc.</td>
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<td>Gentex Corporation</td>
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<tr>
<td>Perrigo Corporation PLC</td>
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<tr>
<td>Steelcase Inc.</td>
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<tr>
<td>SpartanNash Company</td>
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<tr>
<td>Wolverine Worldwide, Inc.</td>
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</tbody>
</table>

¹Adjusted to reflect a 5% stock dividend on May 5.
**Universal Forest Products, Inc.**

Universal's stock price has been on a tear since October 2014, having risen from around $42 per share to nearly $78 in mid-November 2015, before closing the year at $68.37. When a stock rises that much, you can be sure earnings are the reason. Sure enough, the company has surpassed stock analysts’ consensus earnings estimates every quarter beginning with the first quarter of 2014. Over the past five years, revenue has grown an average of 8% annually, while dividend growth averaged 18.6%. Zack's Investment Research—a widely followed and respected firm—projects a 12.3% increase in earnings for Universal in 2016 and gives the company its highest rating: a strong buy.

Universal designs, manufactures, and markets wood and wood-alternative products to retail, construction, and industrial customers.

**Mercantile Bank Corporation**

Grand Rapids-based Mercantile has 53 branches in central and western Michigan. Its stock price slowly declined for most of 2015 until third quarter financials were reported in early October. Stock analysts had expected earnings per share equal to $0.40, but the bank reported $0.45, a significant difference. The stock quickly shot up to $24-$25 where it closed at the end of 2015. The bank raised its dividend two times in 2015, once in January and again in July. Not only do most investors love dividends, but increases send a message that management expects higher earnings and dividends to continue in the future.

**Independent Bank Corporation**

Independent Bank Corporation is headquartered in Ionia and operates 70 bank branches across the Lower Peninsula. The year was marked by increasing revenue and profits. After the bank raised its common stock dividend by 33% in late October, the stock price reached a 5-year high in November and was up 16.7% in 2015.

**Macatawa Bank Corporation**

Holland-based Macatawa Bank Corp. had another great year. Its assets, revenue, profits, and loan quality steadily increased, while the common stock dividend was increased from two cents per share to three cents in the second quarter. Macatawa's stock price held steady around $5.25 for most of 2015. But after release of the third quarter's strong performance, the price immediately shot up to $6 per share and held there through year end.

**ChoiceOne Financial Services, Inc.**

Choice One is a Sparta-based bank holding company with 12 full-service offices in Kent, Ottawa, Muskegon, and Newaygo Counties. Bank investors have enjoyed annual dividend increases and rising stock prices for several years, and that was again the case in 2015. With only 3.3 million shares outstanding, the stock is not widely held, and its investors tend to be long-term investors. As a result, changes in ChoiceOne's stock price are not closely correlated with movements in the major stock indices.

**Stryker Corporation**

A year ago Stryker had a price/earnings ratio of 57 and a price of $94.33. Twelve months later, the ratio is nearer to 30—a decrease of nearly one-half—but its price is about the same. How can that happen? It happens when investors lose some of their confidence about the company's future and are not willing to pay as high a price for a dollar's worth of earnings. They will pay $30 for each earnings dollar, not $57. As a result, Stryker's earnings have nearly doubled without an increase in its price. That earnings strength, the associated increase in earnings per share, a low debt level relative to the healthcare industry, and a higher return on equity relative to the industry are factors suggesting long-run success for the company. On the other hand, increasing competition, weaker global markets, and the strong U.S. dollar are offsetting some of that optimism. As 2016 progresses, it will become clear whether Stryker's strengths can offset the headwinds it faces.

**Herman Miller, Inc. and Steelcase Inc.**

Both companies began the year amid much optimism. Sales growth was strong, continuing the trend from 2014. Stock prices of both office furniture companies were having a great fiscal year. But as the year continued, the economies of the Eurozone, Asia, and Africa weakened considerably. Further, the U.S. dollar strengthened relative to many currencies, making U.S. products more expensive for international customers. This compound problem hurt international sales of both Steelcase and Herman Miller.

The size of the impact became obvious when both companies released financial results near the end of 2015. When Steelcase failed to meet analysts’ revenue and earnings expectations and reduced it guidance for its next fiscal quarter, its stock fell nearly 23% in a single day. On the other hand, Herman Miller has experienced four consecutive quarters of profit increases, driven mostly by strong, double-digit increases in North American sales. Yet, its stock price had barely budge by the end of the year, falling by $0.73.

**Gentex Corporation**

Many readers can recall when Gentex's stock price briefly rose above $37 in early December, 2014, an all-time high. At the end of December, however, Gentex paid a 100% stock dividend, reducing share price to $18.07. Then, during the second quarter of 2015, the stock drifted down to around $16 and stayed there for the rest of the year. Still, at $16, the stock is only 11% below its highest price ever.

2015 sales and earnings were approximately in line with stock analysts’ projections, which reflected concerns about the strong U.S. dollar (making Gentex products more expensive to foreign customers) and the possible effect
on Gentex as sales to Volkswagen, an important Gentex customer, could fall due to Volkswagen’s EPA-tricking software scandal.

Zeeland-based Gentex Corporation is best known for designing and manufacturing automatic dimming automotive mirrors and other electronics for the automotive industry.

**Perrigo Company PLC**
Perrigo, the leading manufacturer and seller of over the counter healthcare products, underperformed in 2015 compared with the prior 15 years in which its stock price increased 30-fold. The company’s share price rose from $140 to $203 during the first eight months of 2015. Much of the increase was due to a hostile takeover bid by Dublin, Ireland-based Mylan NV. Perrigo shareholders rejected the offer after Perrigo executives said they would raise stock value by cutting costs and increasing share buybacks. After the Mylan bid was rejected, Perrigo’s stock returned to earth, settling at nearly $145, a 13% decrease from January 1.

**SpartanNash Company**
Grand Rapids-based SpartanNash began the year with its stock trading at $26 per share, but when first quarter earnings-beating expectations were announced, its stock bounced up to nearly $33 where it stayed until early November. At that time, the company reported third quarter revenue had fallen 1.9%, and that led to a stock price decline for the rest of 2015.

The company owns several grocery store chains across 46 states including Family Fare Supermarkets, Family Fresh Markets, and D&W Fresh Markets in West Michigan. It also has a military segment supplying grocery products to military commissaries and 400 exchanges, and operates as a grocery distributor.

**Wolverine Worldwide, Inc.**
By dropping 43%, Rockford-based Wolverine Worldwide’s 2015 stock performance was the bottom performer in the Index. Its stock price fall began in mid-August and continued through the end of the year. Surprisingly, the company hasn’t been doing badly. Third quarter earnings were in line with analysts’ expectations, and revenue was lower than expectations by only 0.3%. The company is facing a few issues, however. The strong U.S. dollar is affecting its financial performance, and the company has lowered both its earnings guidance (approximately 12%) and its revenue guidance (by 1.8% to 2.6%). As a world leader in marketing footwear, it has faced such problems before and has prevailed. Wolverine Worldwide is a solid company, suggesting it will bounce back.

Although the West Michigan Index fell 6.5% in 2015, stocks in the Index averaged a dividend yield of 1.4%, reducing the loss to 5.1%. Only one company in the index didn’t pay cash dividends. That one company is Community Shores Bank. Bank regulators prohibit it from doing so until its capital ratios meet minimum requirements, and it hasn’t been able to do so since the capital requirement was imposed in 2010. Mercantile Bank Corporation and Choice One Financial Services, Inc. have the highest dividend yields, the ratio of dividends per share to current market price. At 2.3%, Mercantile is highest, while Choice One is close behind at 2.1%. Perrigo and Wolverine World Wide have smallest dividend yields, 0.3% and 0.8%, respectively. Wolverine hasn’t increased its dividend since March 2011—nearly 5 years—in spite of strong earnings.

<table>
<thead>
<tr>
<th>Table 3: Market Capitalizations of Companies in the WM Stock Index</th>
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<tbody>
<tr>
<td><strong>Company</strong></td>
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<tr>
<td>Stryker Corporation</td>
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<tr>
<td>Meritage Hospitality Group Inc.</td>
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<tr>
<td>Community Shores Bank Corporation</td>
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<tr>
<td><strong>Total Value:</strong> $66.3 billion</td>
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</table>

It’s interesting to note a coincidence in Table 2. All of the companies with market capitalizations greater than $1 billion saw their stock prices fall during 2015.

Because the West Michigan Stock Index weights each company’s stock return by its market capitalization relative to total index capitalization ($66.3 billion), negative returns from the large firms outweighed positive returns from the small firms in 2015.
Housing market conditions continued to improve during 2015 in the U.S., with prices, sales, and construction activities rising to levels not seen since 2007–2008. Home prices rose by 5% in the U.S. during the last 12 months ending in September 2015 (S&P/Case-Shiller 20-City Price Index; S&P Dow Jones Indices LLC). Meanwhile, in the first 10 months of 2015, home sales were 7% higher than in the same period of 2014 (National Association of Realtors), and private housing starts (construction) were 10% higher, reaching an annual rate of 1.1 million units (Federal Reserve Bank of St. Louis). Housing markets have been helped by better demand conditions, with low unemployment rates, reaching 5% in November (Federal Reserve Bank of St. Louis), and low mortgage rates, at an average of 3.8% during 2015 vs. 4.2% in 2014 (Freddie Mac). Optimism about future home prices and sales are also driving up demand. On the negative side, delinquency rate on residential loans is still much higher than the historical average. After reaching a peak of 11.3% in 2010, the delinquency rate was down to 5.8% during the 3rd quarter of 2015, compared with 2% before the foreclosure crisis (Federal Reserve Bank of St. Louis). Another issue is that homeownership rates continue to drop to levels last seen in the 1980s or 1990s. In the Midwest region, it went down to 68% in the 3rd quarter of 2015 after reaching a peak of 74% in 2004 (Federal Reserve Bank of St. Louis). Among the culprits are strict credit standards, low wage growth, and demographic and employment trends, which make ownership less enticing, especially to younger people.

At the local level, our quality-adjusted price index shows that home prices continue to rise following a trend that started in 2012. Figure 1 presents two indexes for Grand Rapids. The non-distressed index excludes houses with sale prices below $50,000, which are the ones more likely affected by the foreclosure crisis (the estimation of these indexes is discussed in a technical note at the end of the article). Based on the non-distressed index, prices in 2015 rose by 6.5%, after rising by 9% in 2014. This price growth is justified by sales rising without a corresponding increase to the number of houses available for sale. During the first 9 months of 2015, sales of single-family homes rose by 12% compared to the same period in 2014 in the region of activity of the Grand Rapids Association of Realtors. However, inventory-to-sales ratio reached a very low 2.6 months’ supply in September 2015 (the average in 2014 was 3.2). In response to the increasing demand and low supply of units for sale, construction of new homes has risen. The annualized rate of permits in Grand Rapids city is now back to the level in 2005 (see Table 1). Construction in the remaining of Kent County has also recovered significantly.

Despite growth in the last 3 years, the latest housing price index for Grand Rapids is still below the peak in 2006. For comparison purposes, home prices in higher income suburban communities in the region had already surpassed their 2006 peak values during 2014. The Grand Rapids housing market recovery has been slowed down by the high rate of foreclosures during the housing crisis, a reflection of the lower income and worse employment conditions in the city (see comparison in Table 1).

With foreclosure activity declining, prices of cheaper houses are recovering faster, so that both price indexes shown in Figure 1 are now about 20% higher than in 2000. However, during the same period, the inflation rate has been 38% (based on the

**Figure 1: Housing Price Index**

Source: Indexes computed using data from IS BS&A
CPI - Consumer Price Index; Bureau of Labor Statistics), which implies that the real value of Grand Rapids housing is still far below the 2000 level. This decrease in real value reflects the economic issues that the city has faced in the last 15 years, including loss of population, low income growth of residents, and high foreclosure rates. Recent improvements in housing and employment conditions may help revert this long term decline in home value in the next few years.

Gross rental rates in Kent County have increased faster than the average rental rates in the 30 largest counties in Michigan, rising 27% compared to 21% since 2005. In addition, the increases in gross rents have accelerated in recent years doubling the average Michigan increase in 2014. Much of the increase in Kent County has been on the high end of the market with an increase in gross rents above $1,000. This has accelerated building of multi-family units in the Grand Rapids area and is also making single family housing more price competitive, as the increase in gross rental rates has substantially exceeded price increases in single family homes.

In conclusion, economic and housing market conditions continue to improve in the region. Demand for both rental and owned housing has risen this year, with inventory of homes reaching very low levels, especially in the higher end of the market. These trends indicate that the local market will see more growth in prices, sales, and construction activity next year. One concern is the risk of a severe slowdown of U.S. economic growth due to the weakening of foreign economies. On the other hand, if the economy improves, we will likely see interest rates rising next year. It is still unclear how much the sales of homes will be affected by rising mortgage rates, but it should slow down the growth in home prices.

Technical note
The repeat-sale housing price index shown in Figure 1 is set at 100 in 2000, so it can be interpreted as the amount of money needed to buy a house for every $100 that was needed to buy the same house in 2000. The index is computed by comparing sales prices of the same houses over time. The use of repeat-sales is a way to control for variation in quality across houses. Thus, the estimation does not include prices of houses that were not resold during the period analyzed. It also disregards the impact of renovation or deterioration of houses. Nonetheless, it is a widely accepted method to measure the average changes in prices in a broad housing market. Our indexes were computed using sales from 2000 to October 2015, with prices as low as $10,000 and as high as $500,000 in 2015. This value-boundary helps to better reflect changes in the prices of typical homes in the market.

References


<table>
<thead>
<tr>
<th>Area</th>
<th>Building Permits (annual rate)</th>
<th>Median Household Income 2013</th>
<th>Worker Population Change 2005 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2009</td>
<td>2014</td>
</tr>
<tr>
<td>Grand Rapids city</td>
<td>318</td>
<td>30</td>
<td>203</td>
</tr>
<tr>
<td>Kent County</td>
<td>2,941</td>
<td>645</td>
<td>1,711</td>
</tr>
</tbody>
</table>

Annual rate of building permits based on data until October 2015. Median household income comes from the American Community Survey 2009-2013 estimates. Worker population comes from the Longitudinal Employer-Household Dynamics (LEHD) estimates. Source: U.S. Census Bureau.
The West Michigan industrial real estate market was healthy and balanced, but tight in 2015. Continued demand pushed supply to record lows after another four quarters of positive absorption totaling 509,827 square feet. As a result, the long-awaited arrival of new construction finally occurred.

In early 2014, as we saw the market break the 7.0% vacancy threshold, we predicted that new construction was the most viable and likely solution to the problem of lack of supply. Over the course of the year, construction was not as prevalent as foreseen—despite demand—and vacancy dipped to 6.15%, as those needing space settled for what was still left on the market.

At the beginning of 2015, the market climate seemed even more likely to produce new space, and it finally did.

With property values increasing and becoming closer to replacement costs, and quality available space being extremely scarce, those sitting on the sidelines waiting for the market to produce a solution started to take action.

We have seen numerous additions, speculative builds, and build-to-suit construction projects break ground over the past year. Weeke North America built a new 100,000-square-foot facility at 4577 44th Street in the Aerotech Industrial Park. Automated Machine Systems Inc. broke ground on a new 41,250-square-foot plant in Jenison. Notions Marketing announced a $33-million, 80,000-square-foot expansion to its current facility, which will add nearly 250 jobs. And speculative industrial park Area 52 broke ground on the first of a three-phase, 700,000-square-foot complex. Speculative buildings of that size are a positive indicator, showing confidence in the long-term health of the market and exhibiting the feasibility of undertaking such a project.

Redevelopment projects have also breathed new life into centers that in the recent past were viewed as undesirable or functionally obsolete, and created new spaces to absorb. One example is the Grand Rapids Corporate Center on Roger B. Chaffee Memorial Drive. In less than nine months after a new owner invested capital to reposition it, a team of Colliers International advisors was able to take the center from roughly two-thirds vacant to close to two-thirds occupied.

Looking forward into 2016, we expect construction to continue. Projects now underway or completed in 2015 should stimulate further development. In Hudsonville, one site is already priming for a big development splash this year.
The Jamestown Commerce Center, a 250-acre industrial/residential site located at the 32nd Avenue and I-196 interchange has already sold multiple parcels to various developers and users who will begin building this year.

“To be able to watch a large tract of land in your backyard be converted and developed into a new and vibrant industrial park is extremely motivating and exciting. Projects like this ripple excitement and encouragement throughout the entire community, and restore confidence and motivation for both extrinsic and intrinsic growth, which are evident in all segments of the market,” said Trent Wieringa, Colliers International industrial advisor who is helping broker the site.

So what will drive the industrial market in 2016?

**Manufacturing continues to show strength in West Michigan, with an approximately 1.0% per quarter average job growth over the past year.**

We expect to see this trend remain positive in 2016. However, the talent pool and wages are again topics of conversation.

Much of the population entering the workforce has grown up around a negative manufacturing job stigma, and subsequently avoided the skilled training necessary to be qualified for numerous positions. As a result, many of those being hired are entry-level and inexperienced. This trend is decreasing overall average wages, which will need to increase to keep our community competitive for hiring. Some manufacturers in the community are taking a proactive approach to combat this. Primera Plastics, for example, has started its own talent pipeline by reaching out to current high schoolers and mentoring them with on-the-job training while monetarily compensating them for their time as well. Creative solutions to a dried up talent pool will be imperative to continue to grow the manufacturing industry.

Automotive manufacturing and sales have long been a staple in Michigan. This past year saw a return to some of the historically high automotive sales numbers that we last saw in the early 2000s. According to the University of Michigan's Research Seminar in Quantitative Economics, the country is projected to produce 18 million automobiles in 2016, up from approximately 17.7 million in 2015. This continued growth bodes well for many West Michigan manufacturers who supply parts to the auto industry, although Dr. Paul Isely of Grand Valley State University sees the auto industry flattening out.

The office furniture industry is also a historical benchmark metric for the West Michigan manufacturing economy. According to the Michael A. Dunlap & Associates (MADA) office furniture index, the industry is continuing to grow and is currently above historical averages. The MADA Personal Outlook index is also well above a normal level and suggests an optimistic attitude about the future. Grand Rapids-based Business and Institutional Furniture Manufacturers Association (BIFMA) reported a 4.0% increase in office furniture shipments from a year ago. They project an approximately 2.0% increase in 2016.

In December, lawmakers approved a pair of tax break bills that paved the way for Nevada-based data center company Switch to select West Michigan as its new home. Switch plans to build a 2-million-square-foot campus surrounding the existing iconic 600,000-square-foot Pyramid building, adding new infrastructure on the 100-acre site. The project is estimated to bring more than $5 billion to the local economy and create 1,000 new jobs over 10 years. It is still yet to be seen how this will affect the industrial real estate market, but it will be a topic of focus going forward.

In 2016, we expect to see continued advancement, however at a slightly slower pace across the board. Much like the rest of the economy, we have seen several years of impressive growth that is now reaching a plateau.

Unemployment in West Michigan has reached 3.1% and likely doesn’t have much room to push lower. While demand for industrial space continues to be solid, it is inevitable that the undulation of the economic cycle will take its course. New construction will meet some of the space demand, although transaction velocity will likely level off. New absorption is estimated to be approximately 350,000-square-feet for the coming year, down slightly from this past year, yet still positive. Rental rates are also likely to remain steady, as landlords have mostly adjusted to the market. We anticipate creative solutions being what drives an already very healthy market forward, and with stabilized assets and strong fundamentals in place, investment interest in industrial product should also remain strong.

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**Industries by Jobs**

Credit: The Right Place

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OFFICE
The West Michigan office market continued to grow in 2015, led by the continued expansion of the downtown Grand Rapids Central Business District. For the 20th consecutive quarter, we saw positive absorption to end the year, with a market total of approximately 468,478 net square feet of newly occupied space in 2015. Quality of office space continues to drive transactions as companies build on the theme of talent attraction and retention.

Building ownership groups have embraced this with renovations and new construction that include tenant amenities and common areas designed to foster more than just a work environment. Physical fitness facilities, retail establishments, and comfortable common areas are now the norm.

Now rebranded Twenty 5, 25 Ottawa Avenue is finishing up renovations that completely overhauled the building. Spectrum Health leased more than 75,000 square feet of the building to house training and information technology staff, with new restaurant concept “IRON” taking up the nearly 6,000 square feet on the ground floor. Building owners felt it was imperative to bring in a new and exciting restaurant concept to continue with the mixed-use formula they utilized by bringing Panera Bread to 99 Monroe. In today’s modern office building, tenants are finding it increasingly appealing for their office building to include extra-curricular components.

As the market continues to traverse its natural cycle, it is important to keep expectations in perspective. The West Michigan office market has experienced unprecedented growth since recovering from the trying times of the late 2000s, where in 2010, the office market lost nearly 600,000 square feet of occupancy. Creative solutions and investment in the market and the community have brought positive results. Nevertheless, market experts are starting to see a plateauing of activity. This is not to say the market is declining, simply a normal adjustment that should be expected. Rental rates are strong and firm, with downtown Class-A modified gross rates averaging $20.75 per square foot and suburban Class-A averaging approximately $18.75 per square foot. These numbers show continued strength overall, and are likely to stay relatively consistent throughout 2016.

Downtown, Fusion Education Group signed a 15,000-square-foot lease at 72 Monroe Center after an exhaustive search. The construction of Twelve Weston is planned for the upcoming year at the corner of South Division Avenue and Weston Street SW. SIBSCO, LLC is the ownership group behind the project and Rockford Construction will be the contractor, however, they are still attempting to overcome some hurdles. Landowners had to gain approval from the Heartside Neighborhood Historic Preservation Commission before the 150,000-square-foot project would be green-lit. In addition, Orion Real Estate Solutions has announced a partnership with Midtown Properties, Pearl & Ottawa, LLC, and DTN Management to construct two new towers at the intersection of Lyon Street and Ottawa Avenue. Law firm Warner Norcross & Judd has committed to be a lead tenant, and will be moving from its
current office in 111 Lyon Street NW. Building owner of the firm’s current location, Fifth Third Bank, has publically expressed interest in selling the building which creates a new opportunity for investment downtown in 2016.

Suburban office buildings continue to try to attract the tenants that desire some of the higher profile spaces of the downtown area. Many buildings have deferred maintenance that has been long overdue, and thus have failed to garner the attention and rental rates of buildings that have benefited from long-sighted investment. Second- and third-generation medical space will likely continue to struggle in 2016 as those seeking space are likely to invest in new construction or retrofit quality buildings to pave the way for their future. Many of our experts feel that the coming year will be difficult to convince tenants to lease space that has been neglected.

A theme we saw emerge in 2015 that will likely continue in 2016 is companies purchasing suburban office buildings rather than leasing space within them. Applied Imaging, Andrews Hooper Pavlik PLC, Hungerford Nichols CPAs + Advisors, and Compliance Systems, Inc. all recognized the opportunity to own their building and executed purchases in 2015. Legal Copy Services, Inc. purchased land on East Beltline to construct a new two-story building to move from its currently leased home at 1555 Arboretum Drive SE. These suburban purchases are spurred by opportunity to improve buildings to fit specific needs as well as to ensure ample parking options that may not be available in the central business district.

The former Steelcase Pyramid changed hands in 2015, with investment firm Norman Properties realizing the potential it has. After weeks of discussion, new tax incentive legislation from the state finally paved way for Las Vegas-based data center company Switch to select West Michigan as its new home and rename the building to the Switch Pyramid. Switch plans to build a more than 2-million-square-foot campus surrounding the existing iconic 600,000-square-foot pyramid shaped building, by adding new infrastructure to the site. The project is estimated to bring more than $5 billion to the local economy and create thousands of new jobs over 10 years.

In all segments of the market, we have seen a lack of quality supply and an increasing need for new construction. 2015 was a year of continued positive momentum, but 2016 will be shaped by how tenants and building owners adjust and adapt to a market that is now competing on a national stage with the likes of Chicago and Detroit. In order to become a major market, growth has to push through barriers, and 2016 will be a great litmus test to see where we stack up.

2016 will likely be another year of overall growth for the office market. New construction will be seen in areas of the suburban landscape, and downtown will continue its transformation into a mixed-use development community. Downtown office space is in high demand, and those who desire to be in the central business district will remain a presence, despite cost concerns. Those looking for space at a discounted rate will still certainly find options in the suburbs. The West Michigan office market should remain positive in 2016, with modest but steady growth.

RETAIL
Historically, the retail segment of the commercial real estate market has slightly trailed overall economic trends. Over the course of the last five to seven years, we have seen the retail market exhibit strong fundamentals but generally lack the resiliency that the office and industrial markets have displayed. However, as those markets are peaking and preparing for a plateau, the retail market is again booming. Market cycles are inevitable. Nevertheless, the strength that West Michigan commercial real estate has shown over the past few years has brought with it a very healthy retail demand for the foreseeable future.

Over the past year, we saw a number of key retail locations make news, with more to come. Tanger Outlet Mall opened in Byron Center, which brought to the community more than 1,000 full-time jobs as well as more than 300 temporary construction jobs. It has been heralded as a resounding success. Located in a less-than-traditional retail location, the mall created a destination that has positively impacted the surrounding community and validated the strong retail demand that West Michigan has. Trader Joe’s, a grocery chain long desired but historically found only in larger markets, opened a location at 3684 28th Street SW in September. More than 300 people showed up for the grand opening. Detroit-based Slows BBQ also opened a new storefront in the Grand Rapids Downtown Market while Leo’s Coney Island, another east-side concept, also open their first West Michigan location.

The Shops at CenterPoint is another success story, completing an unprecedented “de-malling” and not only adding full outlet retail buildings, but bringing the existing mall to nearly 100% occupancy. Advisors from Colliers were confident in the de-malling plan when they advised the center’s owners, and have now brought the strategy to the Holland area. They have already been successful in implementing the same strategy at the former Westshore Mall, which is being rebranded and de-malled similar to Centerpointe Mall, and will be called Shops of Westshore. Existing anchor tenants Yonkers, JCPenney, Dunham’s Sports, and GNC continue to operate, though much of the rest of the mall was vacated before

![ Asking Rent by Corridor ](https://www.gvsu.edu/business/ASKING_RENT_BY_CORRIDOR.jpg)

![www.gvsu.edu/business](https://www.gvsu.edu/business)

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construction began. New ownership was eager and excited to revamp the struggling center, investing more than $25 million and hiring a group with experience to breathe new life into it. In a matter of months, creative marketing (including a “Shark Tank”-like competition in which the winning concept received $10,000 in marketing and free rent for a year) has brought in a host of new tenants, utilizing the strategy of out-lot buildings and a similar de-malling of interior space. Restaurants Anna’s House and On the Border have both committed to expand to the site. Ownership and the team of brokers have worked diligently to create a mix of both local and national retailers.

2015 saw approximately 50,800 square feet of retail absorption, with vacancy dropping to 9.0%. Alpine Avenue remains the corridor with the lowest vacancy at less than 3.8%. Overall, transaction velocity was about the same as 2014, with sales decreasing by 19.6% but leases increasing 2.6%.

2016 looks to increase in sales and leases signed, as continued interest pushes transactions to the finish line. Additionally, we expect rental rates to remain strong and even increase in some of the marquee locations. As demand continues to outpace solid supply, landlord lease concessions also will remain minimal.

Further, in 2016, we will see the Village at Knapp’s Crossing continue to grow and expand on the popular retail corridor of East Beltline Avenue. Bagger Dave’s Burger Tavern has already opened its doors after
building its restaurant, and BRAVO! Cucina Italiana, Menchie’s Frozen Yogurt, Pieology Pizzeria, Potbelly Sandwich Shop, PNC Bank, and Rx Optical have all committed to the new center as well, which will join existing retailers D&W Fresh Market and P.F. Chang’s. The site was purchased by Detroit developer/investor Lormax Stern, the same company that initiated the Centerpointe Mall reconfiguration. Lormax Stern is partnering with Visser Brothers Inc. on the development of the site.

Continuing the theme of the office and the industrial markets, quality retail space is at a premium. In 2016, we expect historically active retail corridors continue to see rates increase and any free space, utilized with urgency. Regional and national retailers looking to enter or expand within the market will do so with key locations in their sights. As we have seen over the past few years, undesirable retail locations will continue to face challenges despite demand.

Property owners will be tasked with finding ways to incentivize tenants, although they will not be able to collect the rates that 28th Street, Alpine Avenue and East Beltline will get.

Many new retailers to the market are now looking at West Michigan as the entry point to the state, with eventual expansion east. In the past, we have seen the opposite, where companies look to the east side to establish a brand and then move west. A number of new national retailers will look to enter the West Michigan market for the first time in 2016.

In addition to new retailers, existing brands have decided to expand as well. Jimmy John’s, Subway, Taco Bell, Potbelly Sandwich Shop, and AutoZone all have searched for and found new locations. Finding the right location is always the difficulty in retail—which has recently kept some searching, rather than executing. We expect to see more solutions in 2016.

Another trend that we have seen is a retail component to residential and office development. Specifically downtown, we have seen projects such as Arena Place at 45–55 Ottawa Avenue, Eastown Flats, The Rowe, and Twenty 5 at 25 Ottawa Avenue all include ground-floor retail. In 2016, we expect many of the new developments to continue to incorporate and drive retail locations.

INVESTMENT

The West Michigan investment market remains strong. Nevertheless, a lack of supply is drastically reducing opportunities for those looking to invest in commercial real estate—a theme we saw across all property types for both users and investors.

In 2015, our forecast indicated a tightening of supply spurring new construction, and we began to see that this past year.

Market conditions in the region continued to improve, with unemployment below 3.5% for both the Grand Rapids-Wyoming and Holland-Grand Haven metropolitan statistical areas, attracting a great deal of investor interest to the area from all around the country.

Nevada-based Norman Properties, which previously invested in the Kalamazoo-Portage region, invested heavily in the area in 2015 by purchasing the former Steelcase Pyramid building. The investment firm quickly attracted Switch, a data center company that plans to invest nearly $5 billion, including a $400-million initial construction to expand the campus and create the largest data center campus in the eastern United States.

“We look forward to working in partnership with Michigan to attract the largest companies in the world to the Switch ecosystem here in the Great Lakes State,” Adam Kramer, Switch executive vice president of strategy, said in a statement. Norman Properties and Switch collaborated on the company’s flagship location in Reno, Nev., as well.

Franklin Partners disposed of two assets in 2015, with 5010 52nd Street in Kentwood being sold in June at an 8.38% cap rate, and 4147 Eastern Avenue in Wyoming selling at an 8.70% cap rate. Both properties were 100% occupied. An investment firm from New York purchased the pair—one for office use and the other for industrial use. The two buildings together totaled more than 250,000 square feet of space.

The Grand Rapids Central Business District will continue to excite, as plans for an arena expansion and a mixed-use development anchored by Loeks Theaters Inc. continue to work through the planning process. Few assets actually traded in the CBD in 2015. However, the sale of the student housing property located at 5 Lyon to a New York investor showed the competitiveness of the market, commanding a $12.5-million purchase price, representing a 6.10% cap rate at the time of sale. The property is slated for renovations to the ground floor retail and conversion of the top floors into market rate apartments. With a sizable pipeline of projects breaking ground or scheduled for groundbreaking in early 2016, Grand Rapids’ downtown landscape will see significant change throughout the year.
We saw 1031-exchange activity increase over the past year as investors realized the gains from early recession investing. As all asset classes benefit from increased tenant activity, 1031-exchange activity will continue to be prevalent through 2016. A San Diego-based investment company triggered a reverse exchange by purchasing a three-property portfolio of multi-family complexes in West Michigan. In January 2015, the 160-unit Wyndtree Townhomes in Springfield, 100-unit Tree Top Ridge Apartments in Battle Creek, and 136-unit Forest Hills Apartments sold with an 8.44% cap rate.

Retail properties benefited, with growing tenant activity increasing investment activity in the market. Investment firms like Lorman Stern are realizing the opportunity through development. After an extremely successful investment into the repositioning of Centerpointe Mall, the Detroit-based investment firm is now heading the development of the Village at Knapp’s Crossing, constructing a number of new retail buildings for a group of tenants that has already committed.

We saw a number of office tenants purchase the building they were leasing, with the knowledge that options for relocation are scarce. Landlords are finally filling vacancies that have not been occupied since the Great Recession. Downtown, many of the investment opportunities have already transpired over the past few years. However, we expect creativity will drive new projects. With a handful of redevelopment and ground-up projects nearing the end of the planning stages, 2016 will usher in new construction of mixed-use buildings anchored by office tenants and supplemented with residential and retail components.

For 2016, the lack of quality opportunities will continue to be the biggest challenge in the marketplace. Developers may be more selective when deciding on projects to fill the 2017 pipeline, as the cost of short-term debt financing increases due to the Federal Reserve’s decision to raise short-term interest rates. With the majority of the investor market seeking assets secured by long-term fixed-rate debt, investors are likely going to see yield compression as cap rates resist pressure to move upwards.

In summary, the economy of the greater Grand Rapids area will continue to grow and diversify, creating a desirable market for long-term investors.
Social Capital, Economic Diversity, and Civic Well-Being in Flint and Grand Rapids

Michael DeWilde, M.T.S.
Director, Koeze Business Ethics Initiative, Seidman College of Business
Associate Professor of Philosophy, Grand Valley State University

Not quite 70 years ago, even as it was clear Flint paid higher wages with better benefits and attracted more workers to its thriving General Motors plants, noted American sociologist C. Wright Mills and economist Melville Ulmer argued in a 29-page study commissioned by a 1946 congressional sub-committee that “small-business cities provided for their residents a considerably more balanced economic life than did big-business cities.” Looking at a broad range of measures, they concluded that “the general level of civic welfare was appreciably higher in small business cities,” and that the difference between the better life to be had in the small-business cities versus the large-business cities was due largely to their “industrial organization,” to the effects of a “dominant big-business on one hand and the prevalence of small businesses on the other.” The economic landscape of the “small business” cities was simply better balanced.

Neither Flint nor Grand Rapids was named in the study as such, but in the 1990s they were revealed to be two of the six paired cities Mills and Ulmer looked at for their work. It may be an article of faith now that “economic diversity” is a key to a thriving regional economy, but their conclusions would not have been obvious to many at the time. In 1950, Flint was named the “happiest city in Michigan,” for example, and paid its workers 37% above the national average. For job security and for upward mobility, Flint was hailed by many to be the “epicenter of the American Dream,” and seemed to have a number of advantages over a place like Grand Rapids. Everyone knows—or thinks they know—the story of how Flint came to fall on hard times, but what the Mills piece does is ask us to look again (and again) at what it is that gives cities and regions long-term advantages when viewed through the lenses of business activity, civic well-being, immigration patterns and integration, educational opportunities, civic institutions, tax structures, philanthropy, and the like. Why did Mills come to be convinced that a place like Grand Rapids, with its mix of small- to medium-sized businesses, was faring better than the birthplace of General Motors, which, while successful by any measure in 1946, was still a decade away from its heyday? And what lessons from the past and present can help decide how to best plan for the future?

Mills and Ulmer, in brief, conclude that “big-business cities”—cities or regions that are dominated by one or two major industries or companies—suffer from (1) instability of employment and wages; (2) a deficit of retail facilities; (3) a larger income gap between the few very rich and the poor; (4) poorer scores when measuring health, housing, education and recreation, among other items; and finally, (5) the corrosive economic and civic effects of the “absentee-owner phenomenon,” as major stockholders and senior leaders often live elsewhere (Figure 1).

In setting out to revisit some of these factors, it was not our intent to “disparage” Flint while “elevating” Grand Rapids. It is true that currently Grand Rapids is experiencing growth and a level of prosperity not matched by Flint, but that hardly means GR is without its challenges or Flint without its bright spots (Flint’s water issue, while related, deserves and is getting...
its own attention). Our intent is rather to better understand what the factors are that allow for long-term economic and civic prosperity, which of those factors may be unique to a given region, and which may be transferrable.

There is first, though, a fundamental chicken-and-egg situation behind some of the inquiries already raised, and it is the question of where social capital comes from and the role it plays in economic development and diversity. Mills and Ulmer did not take up this question explicitly in their study (though it seems implied) since the term “social capital” doesn’t really appear in widespread usage until the 1960s. Social capital refers to social connectedness, to what the social psychologist Jonathan Haidt describes as “the social ties among individuals and the norms of reciprocity and trustworthiness that arise from those ties.” Harvard sociologist Robert Putnam, who as much as anyone thrust social capital into the foreground in his book, Bowling Alone, goes on to say that social capital is “the informal ties to family, friends, neighbors and acquaintances and involvement in civic associations, religious institutions, volunteer activities and so on.” It is critically important, he writes, because “social capital has repeatedly been shown to be a strong predictor of well-being both for individuals and for communities...social networks have powerful effects on health, happiness, and educational and economic success...."

Because the Mills study does not refer to social capital directly but rather the effects of it, it may appear that on the surface, the study sides with those economists who would generally say that social virtues like honesty, prudence, and industriousness spring from repeated interactions in a commercial society. Or, in Marx’s terms, that the economic substructure produces the cultural superstructure—economic relations come first. There is some good social science research on, for example, what happens to and within families and the institution of marriage when decent jobs disappear, suggesting there is merit to this claim that, in fact, economic organization comes first and determines social relations. On the other side, though, is the argument made by Max Weber and those influenced by him that is just the opposite of Marx, i.e., it is actually the culture that produces the economic structures. In Weber’s case, he was looking at the moral values generated and embraced by Puritanism as part of the legacy of the Protestant Reformation. As historian and The End of History author Francis Fukuyama states it, what Weber sees is that virtues like honesty and reciprocity were mandated by religious teaching to be practiced well beyond the family as a matter of moral norms, not economic self-interest, and it is those practices that ultimately led to what we know as modern capitalism—a hugely consequential “side effect.”

One of the reasons the above discussion matters is that the evidence, to echo Putnam, is now overwhelming that the presence or absence of social capital in—or even within particular parts of—a region makes a huge difference in how people in the region, especially young people, fare in life. For most of those young people, the presence of shared, informal norms that produce trust, cooperation, and mutual benefit lead to mentoring relationships (very often outside the family); these relationships have a direct bearing on their ultimate economic well-being as well as on the richness and density of their social networks, and, therefore, on their own ability to generate social capital for others. So, very often these days when people—businesspersons, government officials, academics, agency directors, etc.—ask what is to be done to address our pressing social concerns, they are asking the question of building or extending social capital.

If the Weberians are right and social capital comes first, where does it come from specifically? We can report that 90% of the business leaders we interviewed in West Michigan spoke, unprompted (though occasionally apologetically), about religion as the source for much of what was “uniquely good” about living in and doing business in the region. There was an understanding that, as one person put it, “maybe West Michigan isn’t for everybody and maybe that isn’t a bad thing.” What he meant was that it was alright with him that people self-selected to be here on the basis of shared values with roots in particular religious traditions. The cultural norms that expressed themselves in West Michigan because of those traditions were responsible, to some large degree, for our economic and civic success. This was a widely shared view, even if put more inclusively in other interviews. And there is a shared concern that as religion qua religion becomes less important to younger generations, much of what is uniquely good about the Grand Rapids area will ultimately be lost—work ethic, fair dealings without the added cost of legal oversight, stewardship, philanthropic spirit, and so on. Eighty percent of those same business leaders expressed this concern. As one CEO lamented, “The values that made West Michigan successful are in decline.” Interestingly, in his new book, Our Kids, Robert Putnam echoes this observation, citing declining church attendance and the diminished community role of churches as a factor in our collective decreasing social capital (affecting us all, but disproportionately hitting poor communities). The evidence suggests conservatives and fair-minded liberals are right to point out that there is a connection between religion and social capital (i.e., religious traditions are one source of social capital, an important though sometimes ambiguous one given temptations to exclusivity), but as formal religious institutions become less important to Americans, the question for many becomes: what might take those institutions’ places as it relates to the formation and extension of social capital? What sorts of civic-minded and value-laden communities have arisen or will arise as substitutes? While many others might applaud the end of the parochialism associated with a church-centered region, what will be the source of resistance to pure “market morality?” There was no clear consensus on this yet.

Based on our conversations, research, and observations, we offer the following as topics for conversation and further
research as the two regions consider social capital, economic diversity, and civic well-being. We cannot cover here all of the evidence as to why we find these among the most compelling topics (the evidence will be presented in a longer article in the coming year), but each section does highlight some reasons for why these float to the top of the list.

**Entrepreneurship and Immigration**

The importance of entrepreneurship cannot be overstated for regional advantage, and yet in our cities, even though both have strong entrepreneurial roots, aspects of this have been overlooked. Flint's entrepreneurs became largely subsumed into GM's vertical structure as that city became a “one-industry” town, diminishing the prospects that entrepreneurship would continue to flourish. Grand Rapids' small business culture allowed for more horizontal organization, where businesses both cooperated and competed, driving innovation and continued entrepreneurship (and wealth creation as they traded with one another). For the future, however, even though both cities have laudable programs seeking to encourage local entrepreneurship, historical and present research shows that immigration plays a key role in any region that seeks to start and sustain new businesses.

Foreign immigrants (Poles, Germans, the Dutch especially, and now Hispanics, in the case of Grand Rapids) played a major role in shaping both the culture and economy. Flint had an “immigration” pattern over the past 80 years that was often as not internal as workers came from the South or other parts of the Midwest to take factory jobs. For the future, both regions will be looking to develop and attract that self-same entrepreneurial spirit. There continues to be conversation in Flint about (1) whether to try and develop that entrepreneurial spirit internally with those who are there while recognizing that Flint's population growth as a region is basically done, or (2) to attempt to attract domestic and foreign investment to the region. It is clear that Grand Rapids is looking to attract talent as part of its growth strategy and to fulfill professional needs it will not be able to fill otherwise (Start Garden and Talent 2025 serve as just two agents of all kinds of capital in this regard, as do other efforts). Policies and attitudes towards immigration and immigrants, and their role in the business community, will be a challenge going forward that neither community can afford to ignore. Immigrants, to take just one example, represent only 13% of the U.S. population, yet they start 28% of all new businesses, employing close to 5 million people nation-wide.

**Two Middle Classes?**

Both large multi-national corporations and small- to medium-sized, privately-held firms have helped, and continue to help, employees reach the vaunted “middle class.” However, Mills correctly intuited that in the former case, employees (workers and managers) could be considered the “dependent” middle class (dependent because they are subject to forces beyond their control and have very little recourse), while the latter businesses tended to produce an “independent” middle class, one that was not only mobile because of their wider range of talents and work experiences in smaller firms, but also much more likely to be civically engaged, and, therefore, possessed of a social capital network that helped them and their families survive tough times. Prof. Gerald Davis’ work on “Re-imagining American Corporations” speaks to what will happen if workers continue to rely on large businesses rather than developing the skills that allow for a more “independent” and “entrepreneurial” way of life.

**Shared Values**

A “shared sense of values” needs to find formal and informal ways to be communicated to future leaders and workers. In the case of Grand Rapids, both the protestant churches (especially those in the Dutch Reformed tradition) and the Catholic Church played no small part in how leaders and workers came to see their obligations to others. Per capita giving in West Michigan ranks near the top when compared with other regions in the U.S., and the adage that “to whom much is given, much is expected” is no mere cliché here. The long history and preponderance of privately-held and family-held businesses leaves Grand Rapids open to charges of paternalism (which some persuasively argue is, in fact, a good thing), but it has also meant that employees have some good reason to think of themselves as “part of the family,” and to expect that their employment is more than simply a contractual agreement. Various GM officials are on record over the years suggesting they “owe” Flint nothing, even in the face of a rich history and shared loyalty there. Whether one ultimately lays the blame for Flint's challenges at the feet of global capitalism, the unions, bad management decisions, or some combination of those and more, it is clear that the kind of adversarial relationships that characterized Flint even in its good days are less evident in Grand Rapids. But if Flint was once, by way of GM, the exemplar of the shared values that make up the American Dream (industriousness, opportunity, ambition, etc.), which institutions or businesses are most likely to help it replicate that period of success? In our conversations with the Crim Foundation, the C.S. Mott Foundation, and the Genesys System, among others, they articulated possibilities for the region that are backed up by another trait of the American Dream: undying optimism.

**Racial Inequalities**

Race relations and standing have come to play a much larger role in both places since Mills' time. He does not consider it, and when you look at the racial makeup of the cities in 1946, you can see why—the percentages are small. That is not so now, and in the growth of the African-American community and their economic fate, one sees mirrored the problem of race relations. The black community in both places falls behind the white in almost all measures, but at least in Flint there is a conversation about this. African-American activities in the city are looking to attract talent as part of its growth strategy and to fulfill professional needs it will not be able to fill otherwise (Start Garden and Talent 2025 serve as just two agents of all kinds of capital in this regard, as do other efforts). Policies and attitudes towards immigration and immigrants, and their role in the business community, will be a challenge going forward that neither community can afford to ignore. Immigrants, to take just one example, represent only 13% of the U.S. population, yet they start 28% of all new businesses, employing close to 5 million people nation-wide.

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Americans hold prominent positions and are at the forefront of helping guide the policies and plans to put Flint back on track (Flint’s Master Plan). In GR, though they make up 21% of the population, the black community is largely still segregated, and there are relatively few prominent black leaders recognized as such city-wide (see Fig. 2).

Integration, for all its attendant emotional issues, actually was proving itself to be a real vehicle for black upward mobility in the 1980s and ’90s before it was effectively abandoned (black students who were part of integration closed the “test gap” between themselves and white students by as much as 40% in those years, for example, with no decrease in scores for white students). It deserves another look (see the work of renowned economist Raj Chetty in making this point).

**Education**

The role schools and universities play in both regions has to be more closely examined. Most of the long-term successful regions in the country have access to a major university (or several). These are typically research universities that provide intellectual capital, innovative research, an educated workforce, and programming to the larger community, particularly in the arts. In thinking about the future, both places have a challenge in this regard. While Flint is rightfully proud of its 30,000 students, and boasts both one of the best technical universities in the state (Kettering) and ties to the University of Michigan through UM-Flint, parties with whom I spoke did think that the educational institutions were “in Flint, but not always necessarily of it.”

As community partners looking to work together to rebuild Flint, the universities were not yet as fully engaged as they might be. Contrast that sentiment with the Crim Fitness Foundation’s work with local schools. Grand Rapids has Grand Valley State University as its major educational institution (25,000 students), with the well-regarded additions of Calvin College, Aquinas College, the Grand Rapids Community College, and various Centers from Michigan State University located there as well, including its College of Human Medicine. GVSU should be considered the major player by way of providing the capital spoken of above, but as a young institution, it has yet to install itself in the community in ways that fulfill all the requirements of a university that drive innovation in the region. In both cases, community, business, and education leaders probably need to develop and share more ideas about how the universities can contribute the capital needed to stimulate growth, in Flint’s case, and sustain growth, in the case of Grand Rapids. Service-learning programs, in which qualified university students provide a wide array of services to local communities, have proven to be one very effective way to enhance social capital for all parties involved.

**Criminal Justice Reform**

The pendulum seems to be swinging back from the purely punitive approach taken by the criminal justice system over the past few decades. Both cities, like the State itself, suffer from too many resources going toward jails, prisons, parole, and lost economic opportunities. A concerted effort to reform sentencing and to educate returning inmates has also shown itself to contribute to civic well-being. The Koeze Business Ethics Initiative, with the help of Fred Keller and Cascade Engineering, runs courses in area prisons in one attempt to push these reforms through.
Tax Policies
Finally, tax policies play a role in either stimulating economic diversity, longevity, and growth, or hindering it. These are highly contested debates, and the authors do not pretend expertise on the intricacies of estate tax law, but we do want to report that the estate tax was mentioned as inhibiting wealth creation or sustainability by almost all of the businesspersons we spoke to in Grand Rapids. In Flint, state appropriations and the Earned Income Tax Credit were more of a major concern. It is part of phase two of this study to incorporate more findings and thoughts on ways in which tax policy might influence the future of both regions. With Figure 3, we conclude by highlighting important criteria by which to measure civic well-being, and encourage business and civic leaders to include average citizens in discussions of all of these.

Figure 3: Criteria for Civic Well-Being

CIVIC WELL-BEING

- A high degree of social capital
- Good schools and a high degree of educational attainment
- A thriving arts and cultural life accessible to all citizens
- Affordable housing
- Safe neighborhoods
- Low rates of incarceration
- Stable two-parent households
- Job skills that match available jobs
- Low ratios of income disparity

Commentary and research provided by:
Gerald Davis, Wilbur K. Pierpont Collegiate Professor of Management & Professor of Management and Organizations, Ross School of Business, the University of Michigan

Abigail DeHart, Master's Candidate, Cambridge University, UK
Seidman Faculty Experts

Asli Akbulut, Ph.D.
- Information Systems
- ERP/SAP Systems

Monica Allen, M.A.S.
- Workforce Diversity
- Leadership
- Business Ethics

Suzanne Benet, Ph.D.
- Advertising to the Elderly
- Marketing Ethics
- Social Marketing

Bruce Bettinghaus, Ph.D.
- Accounting Ethics
- Corporate Governance
- Financial Reporting

Yatin Bhagwat, Ph.D.
- Corporate Finance
- International Finance

Laurence Blose, Ph.D.
- Market Efficiency
- Option & Futures Pricing
- Valuation

Kevin Callison, Ph.D.
- Healthcare Markets
- Health Insurance
- Health Systems Analysis

George Chang, Ph.D.
- Asset Pricing/Investments
- Derivative Securities
- Applied (Bayesian) Financial Econometrics

Michael Cotter, D.B.A.
- Negotiation
- Marketing Strategy

Suzanne Crampton, Ph.D.
- Human Resource Management
- Organizational Behavior

Vivek Dalela, Ph.D.
- Relationship Marketing
- Sales
- Supply Chain Management

Sonia Dalmia, Ph.D.
- Applied Econometrics
- Economics of Gender
- Matching Models

Marinus DeBruine, Ph.D.
- Business Valuation
- Financial Reporting

Michael DeWilde, M.T.S.
- Business Ethics
- Leadership Development

Gregg Dimkoff, Ph.D.
- Personal Finance
- Business Finance
- Economics

Cheryl Dunn, Ph.D.
- Resources-Events-Agents Accounting
- Accounting Information Systems

Anton P. Fenik, Ph.D.
- Strategic Alliances
- Supply Chain Management
- Marketing Research

Robert Frey, J.D.
- Corporate Governance
- Business Ethics & Sustainability
- Global Strategy

Daniel Giedeman, Ph.D.
- Financial Systems
- Economic Forecasting
- Economic History

Stephen Goldberg, Ph.D.
- Accounting Ethics
- Corporate Governance
- International Accounting

Vijay Gondhalekar, Ph.D.
- Asset Pricing
- Behavioral Finance
- Mergers & Acquisitions

Xiangling Hu, Ph.D.
- Operations Management
- Supply Chain Management
- Purchasing & Pricing

Paul Isely, Ph.D.
- West Michigan Economy
- Housing Markets
- Environmental/Resource Economics

Samir IsHak, Ph.D.
- International Business-Egypt/China
- Managing Change
- Effective Business Negotiations

Catherine Jones-Rikkers, J.D.
- Alternative Staffing
- Consumer Protection Law
- Workplace Diversity Issues

Parag Kosalige, Ph.D.
- Business Process
- ERP/SAP Systems
- Electronic Commerce

Fredric Kraft, D.B.A.
- Market Research
- Consumer Analysis
- Satisfaction Research

Ashok Kumar, Ph.D.
- Manufacturing & Service Strategy
- Quality Management & Six Sigma
- Supply Chain Management

Paul Lane, Ph.D.
- Innovation & Design Thinking
- Marketing Strategy
- Mentoring

Kevin Lehnert, Ph.D.
- Marketing Ethics
- Creativity

Nancy Levenburg, Ph.D.
- Small Business Management
- Family Business
- Private Club/Golf Resort Management

Joseph Little, Ph.D.
- Sports Marketing
- International Marketing

Aaron Lowen, Ph.D.
- Econometric Modeling
- Program Impact Analysis

Simha Magal, Ph.D.
- Integrated Business Process
- Enterprise Information Systems
- SAP Certified

Thomas McGinnis, Ph.D.
- Enterprise Resource Planning
- Business Intelligence
- SAP Certified

Marie McKendall, Ph.D.
- Diversity Management
- Human Resource Functions
- Teambuilding

Jaideep Motwani, Ph.D.
- Lean Production - People Systems
- Change Management
- Lean & Six Sigma

Vijay Gondhalekar, Ph.D.
- Workplace Diversity Issues
- Consumer Protection Law
- Change Management

Xiangling Hu, Ph.D.
- Mergers & Acquisitions
- Transition & Acquisition Strategies
- Business & Corporate Strategy

Parvez Sopariwala, Ph.D.
- Accounting for Capacity Utilization
- Strategic Analysis of Income

Maria Stella (Savitt), J.D.
- Labor & Employment Law
- Mediation & Arbitration
- E-HR

Timothy Syfert, Ph.D.
- Entrepreneurship & Small Business Management
- Business Strategy
- Leadership

Anna Walz, Ph.D.
- Customer Relationship Management & Development & Management
- Service Retail Brand Relationships

Michael Ricco, D.B.A.
- Strategic Alliances
- International Negotiations & Business
- Business Strategy

Douglas Robideaux, D.B.A.
- Consumer Research
- Consumer Behavior
- Advertising & Marketing Communication

Sridhar Sundaram, D.B.A.
- Banking Industry-Regulation & Management
- Financial Markets & Interest Rates

Yalonda M. Ross-Davis, M.S.M.
- Workforce Diversity

Claudia Smith Kelly, Ph.D.
- Labor Economics
- Public Economics

Carol Sánchez, D.B.A.
- Family-Owned Businesses
- International Business
- Strategic Management

Gerry Simons, Ph.D.
- Emerging Markets
- International Trade & Finance

Jennifer Pope, Ph.D.
- Nonprofit Marketing
- International Marketing

To contact the faculty, call 616.331.7100 or visit gvsu.edu/seidman