

# Seidman Business Review

Seidman College of Business at Grand Valley State University, Grand Rapids, Michigan



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Winter 2015

## Stocks

EXPORTS

FORECLOSURES

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Family  
Owned  
Business

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## From the Editor...



**T**his past December, my colleagues and I bid a fond farewell to Seidman College of Business Associate Dean John Reifel, who retired after 43 years of service to the Economics Department, the Business College, and the University. As we celebrated his character and his accomplishments at a reception in his honor, guest speakers reflected on the changes that John has

witnessed in his years at Grand Valley. Some of these changes have taken place over many years—for example, enrollment at GVSU was barely 4,200 when John arrived compared to over 25,000 now. Other changes took place over just this past year—such as our welcoming of Diana Lawson as Dean of the Seidman College of Business during the summer, and the launching of Seidman’s Executive MBA program in the fall semester. Perhaps some at the reception paused to think, as I did, on what changes we might see in the years to come. For, as management guru Peter Drucker observed, “The only thing we know about the future is that it is going to be different”.

Reflecting on the past, present, and future is evident in this edition of the *Seidman Business Review* too. We start with a look back at how the West Michigan economy has changed over the last seven years, since the official beginning of the Great Recession. We then move onto the present, with analyses of the outsourcing decisions of local non-profits, surveys of regional family-owned businesses, and a look at what motivates companies to move to this area. We round off our look at the current situation in West Michigan with our yearly reviews of regional stocks, housing markets, and commercial real estate. We then finish up by looking forward, with our much-anticipated annual economic forecast.

I hope that you find these articles interesting and informative, as they shed light on the state of our regional economy. As always, 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, now and in the future.

A handwritten signature in black ink that reads "G. Simons".

Gerry Simons, Professor of Economics

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# The West Michigan Economy in Review

Gerry Simons, Ph.D., Professor, Department of Economics  
Seidman College of Business

This past December was the seventh anniversary of the officially recognized start of the economic downturn that became known as the Great Recession—the National Bureau of Economic Research identified December 2007 as a peak in the U.S.’s business cycle, thus marking the end of the economic expansion that dated back to late 2001 and the beginning of the recession that lasted until mid-2009. Michigan, with its reliance on manufacturing, was particularly hard hit by the Great Recession, and has struggled with a lackluster recovery. In this paper, I take a look at the West Michigan economy’s performance over this period.

Any economic analysis of regions within a state faces the problem of limited “hard” data. Some, such as detailed government data on international trade, are not available below the state level, while others, such as the Bureau of Economic Analysis’s measure of average income in a metropolitan area, are only calculated annually and with a significant time lag before the data is released. One exception is with labor market data—the U.S. Department of Labor’s Bureau of Labor Statistics (BLS) provides monthly data on numerous labor market measures, with only a modest time lag. Such data is publicly available on the BLS’s website at [www.bls.gov](http://www.bls.gov). Despite being limited to the labor market, I have used the BLS’s database to provide what I hope is a revealing overview of our regional economy.

Figure 1 shows the unemployment rate for the Grand Rapids, Holland, and Muskegon Metropolitan Statistical Areas (MSAs). In November 2007, the unemployment rates in these MSAs were 5.5%, 5.2%, and 6.6%, respectively. By July 2009, these unemployment rates had risen to 12.2%, 13.4%,

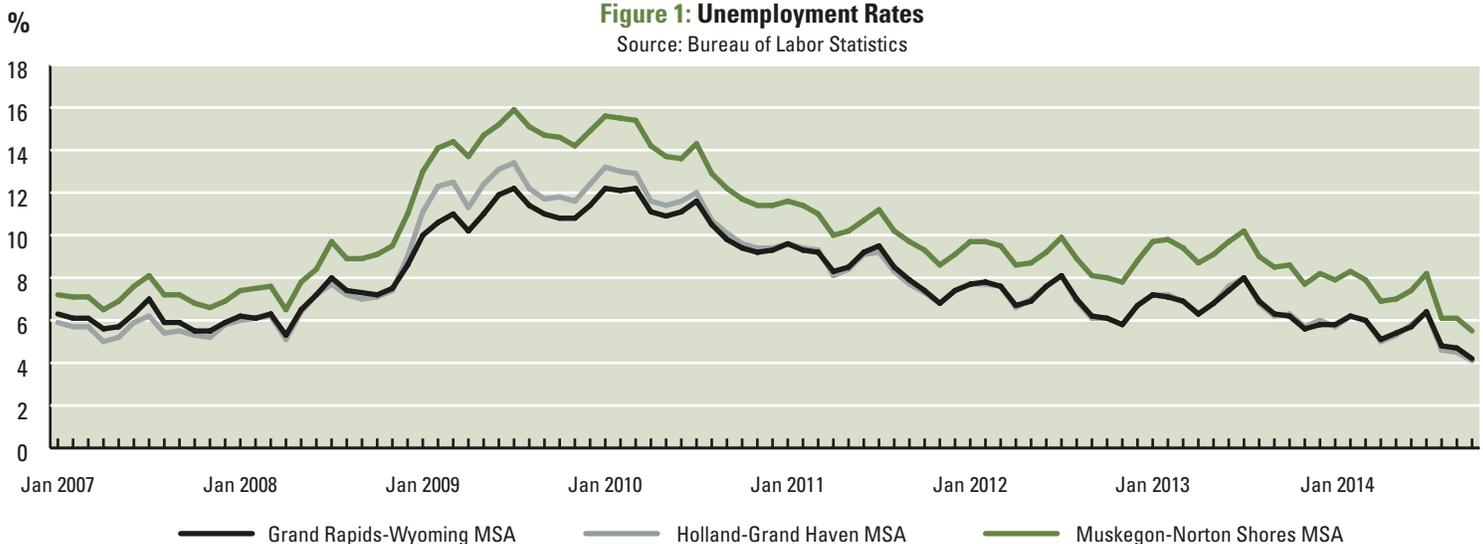
and 15.9%. Even though the U.S. has not been in recession since mid-2009, it was only in the spring of 2010 that the unemployment rates in our region began to fairly consistently, but slowly, fall. The Grand Rapids and Holland MSAs dipped back to the pre-recession levels in spring 2014, with the Muskegon area doing so only by August 2014. Although not shown here, this pattern aligns with Michigan’s statewide unemployment rate, which was 7.3% in November 2007 and 14.1% in July 2009, and fell back below its pre-recession level in September 2014.

The Great Recession and its aftermath were clearly an enormous blow to many in our region—the number of people unemployed in the Grand Rapids MSA alone rose by 25,000 between November 2007 and July 2009—but what do the data tell us about those fortunate enough to have employment? Figure 2 shows the average number of hours worked per week by all private sector employees. This graph needs to be interpreted carefully, as individuals can be counted in the data more than once—a person with two part-time jobs, for example, is counted twice.

Figure 2 shows a significant negative impact of the recession on employee hours. This likely reflects a combination of changes—some workers who kept their job but had their hours cut, and others who lost a full-time job and ended up with part-time employment instead. Between 2007 and 2009, average weekly hours fell by about two in both the Grand Rapids and Holland MSAs, and by about one in the Muskegon MSA. That might not sound like much, but taking into account the number of employees that this represents, it collectively amounts to approximately 2.5 million fewer hours

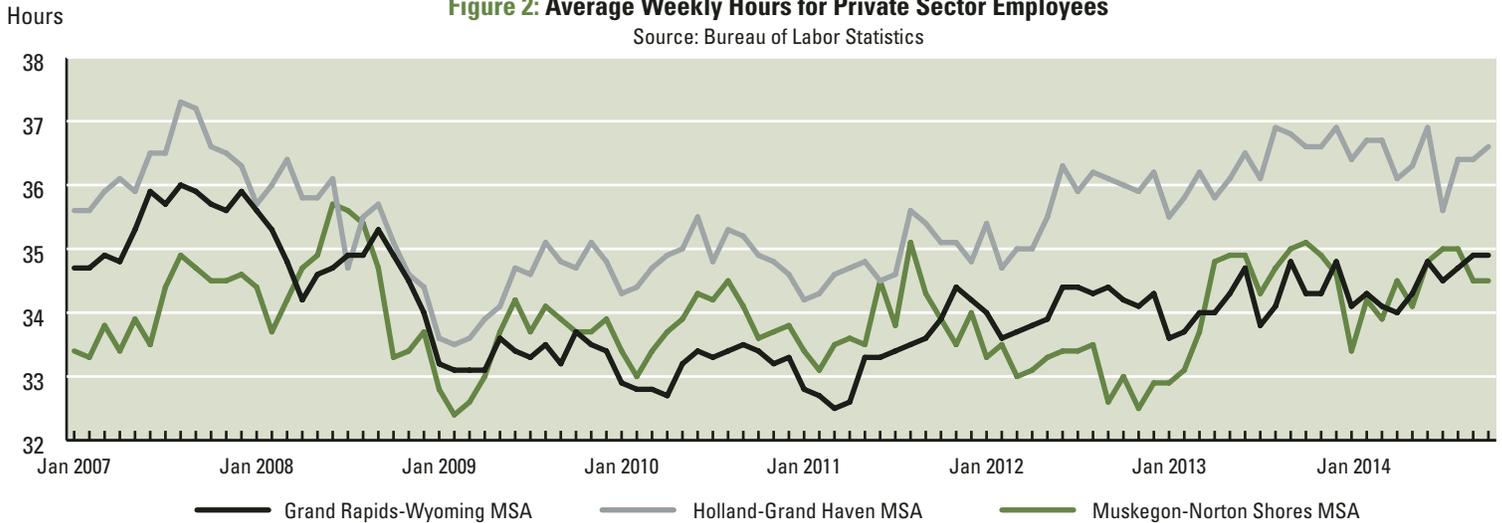
Figure 1: Unemployment Rates

Source: Bureau of Labor Statistics



**Figure 2: Average Weekly Hours for Private Sector Employees**

Source: Bureau of Labor Statistics



of private sector work per week for the region. As with the regional unemployment rates, these weekly hours returned to their pre-recession levels in mid/late 2014.

Not only did the recession lead to reduced hours for workers, it also resulted in lower “real” pay per hour. Figure 3 shows average hourly earnings adjusted for inflation.

In January 2007, the average hourly earnings of private sector employees in Grand Rapids were \$20.55. In simple dollar terms, the average rose to \$21.05 by July 2009. But, taking into account the inflation that occurred in the meantime, the real value of those earnings was about \$19.69—a lower purchasing power than two years earlier. As with the data in Figure 2, this likely reflects two influences—stagnant pay for workers who kept their job, and other workers who lost their job and moved into lower paying, possibly part-time, work. One interesting feature of Figure 3 is the increase in real earnings that can be seen in the second half of 2008. This was a result of some modest increases in nominal hourly earnings, coupled with some deflation, which helped to boost the purchasing power of that pay.

As of October 2014, average hourly earnings in each of the three MSAs remained below the levels of mid-2009, when the Great Recession was at its worst. Inflation-adjusted hourly earnings were 5.2%, 7.3%, and 14.9% lower in October 2014 than in January 2007, for the Grand Rapids, Holland, and Muskegon MSAs, respectively. Perhaps more alarmingly, the real hourly earnings in October 2014 were 1.2%, 3.2%, and 10.8% lower, respectively, than at the official end of the recession in June 2009.

As many have come to realize, the Great Recession emphasized the need for the West Michigan economy to diversify away from traditional manufacturing jobs. To some extent, the data show a change in the employment focus over the last decade. Figure 4 shows the changes in employment in select sectors for the Grand Rapids, Holland, and Muskegon MSAs combined.

Using October 2014 data, manufacturing jobs now make up 19.6% of the area’s nonfarm employment, compared to 22% in 2004, while Professional and Business Service jobs have grown from just under 12% to almost 15%, and Education and Health Service jobs have grown from about 13% to

**Figure 3: Average Hourly Earnings of Private Sector Employees, Adjusted for Inflation**

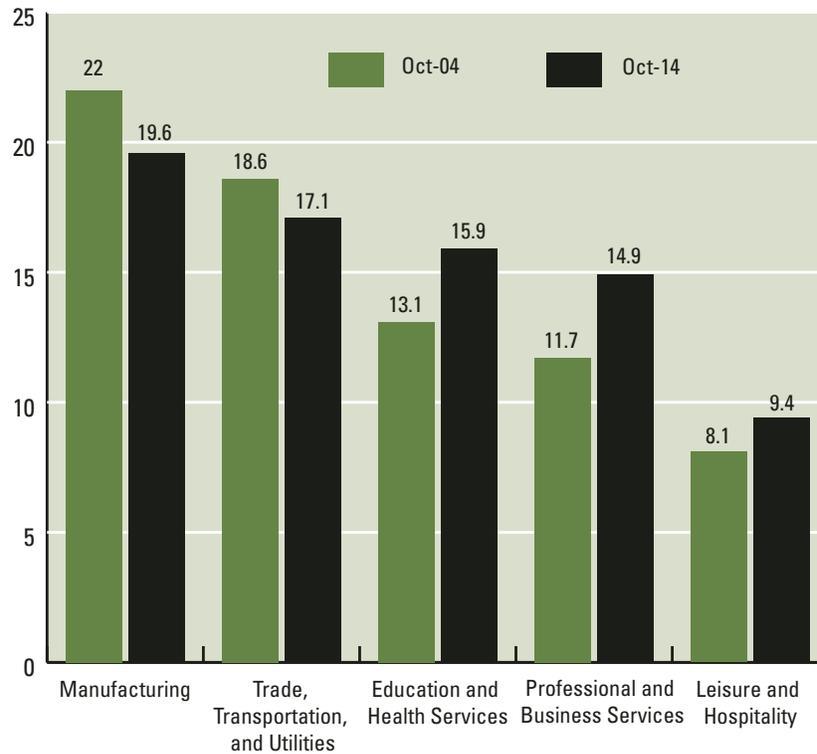
Source: Bureau of Labor Statistics and author’s calculations



% of total non-farm employment

**Figure 4: West Michigan Employment by Selected Sector**

Source: Bureau of Labor Statistics and author's calculations



almost 16%. As Table 1 shows, these changes reflect a 35% and 28% increase in the number of workers in West Michigan in professional/business services and in education/health services respectively, a 23% increase in leisure/hospitality jobs, and a 5.2% decline in manufacturing employment. The total number of nonfarm employees in the area grew by 6.1% in that 10 year period.

In conclusion, the Great Recession is officially well behind us; but it casts a long shadow. For some measures of our regional economy—unemployment and average hours, for example—we have only recently returned to the pre-recession levels. For others—such as the real value of hourly earnings—we have yet to return to the levels seen at the end of the recession, with the Muskegon area still substantially well behind. And, although it has been painful, the economy is in the process of a much needed transition in the structure of employment, with business, education, and health services posting impressive gains. ■

**Table 1.**

Employment in West Michigan's three MSAs, by selected sector	# of Employees, October 2014 (thousands)	% Change in # of Employees, October 2004 to October 2014
Manufacturing	119.9	-5.2
Trade, Transportation, and Utilities	104.2	-2.8
Education and Health Services	96.8	28.4
Professional and Business Services	91.0	35.4
Leisure and Hospitality	57.6	23.0
Total Non-farm	610.2	6.1

Source: Bureau of Labor Statistics and author's calculations

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# Outsourcing Trends in Small Nonprofit Organizations in West Michigan

**Jennifer A. Pope, Ph.D., Associate Professor, Department of Marketing, Seidman College of Business**

**Ashima Saigal, M.S., Owner, Database Sherpa**

**Katherine E. Key, M.P.A., Program Manager, Girl Scouts of Michigan Shore to Shore**

**W**est Michigan has numerous small nonprofit organizations (NPOs) which fill a variety of gaps left by the government and for-profit organizations. These organizations often struggle to stay solvent and provide the services needed in the community. One way they could save some money is to outsource certain back-office or administrative functions, but they usually will keep those in-house for a variety of reasons. This paper briefly examines some of the reasons why NPOs have not embraced outsourcing with the same enthusiasm as for-profit organizations.

The outsourcing of back-office functions by NPOs is a recent development in the sector. Most research on outsourcing practices are focused on large or medium-sized businesses. However, most NPOs more accurately resemble a very small enterprise (VSE) and have annual revenues of less than \$500,000 (Independent Sector, 2013). Similar to NPOs, “in very small firms, owner-managers perform most business activities themselves, or directly supervise performance of these activities.” There are differences in the rationale behind small business and larger companies outsourcing practices. While larger companies can create a competitive advantage and lower cost through outsourcing, VSEs often outsource because they lack the skills in-house. This means that “when a VSE owner or operator is not skilled in handling an HRM (human resource management) activity, it is likely that it will be outsourced” (Barczyk, Husain, and Green, 2007, p.40). NPOs, however, conscious of the donor mentality that all of their money should go to the cause, will often “learn” the skill rather than outsource it.

Many small businesses, like their NPO counterparts, are running “on a fire fighter mentality: constantly putting out crises in the organization” (Barczyk et al. 2007, p.42). Barczyk et al. believe that VSEs (and small NPOs) might not be aware of the importance of strategic HRM and might not have the resources necessary to outsource HRM activities.” They will therefore take on that task even if less than optimally (Barczyk et al., 2007). Just like their for-profit counterparts in VSEs, a “large percentage of small nonprofit executives are performing many of these back-office functions themselves, and many or most of them are dissatisfied with their own performance.” (Meyer Foundation, 2009, p. 2)

According to the Meyer Foundation, “Small nonprofits already outsource many functions... although they may not think about it in this way” (2009, p 7). These organizations are more likely to rely on board members and other volunteers for their “outsourcing” rather than pay for the service in order to keep overhead costs low. Small nonprofits are also at a disadvantage in relation to overhead rates as compared with

larger nonprofits. Small and medium nonprofits tend to spend 20–25% on overhead while large organizations only spend 10% on overhead (Meyer Foundation, 2009). This higher ratio could lead to a drop in their rankings on charity watchdog sites, which could encourage donors to perceive them as less efficient than their larger counterparts. Since individual donors are responsible for about 75 percent of all moneys given to NPOs, NPOs take the potential impact of watchdog rankings seriously (Williams and Moxham, 2009), despite the uneven evidence that such sites have any significant influence on donor behavior. Li et al. (2012) found that the focus on these rankings encourages NPOs to change their financial practices at the expense of the mission of the organization.

For these reasons, nonprofits often misreport their overhead expenditures. NPOs realize that they will be “judged on how many of their total dollars they can put toward programs, and they know that donors want to believe that a minimum of their contributions is being used for administration and fundraising. So they find ways, some legitimate and some not, to represent as many of their expenses as programmatic expenses as they can” (Hager, 2003, p. 50). With this administrative overhead being buried into program costs, it becomes more challenging for a nonprofit to want to outsource, since they are unable to weed the administrative functions from the core activities. Thus, cost savings cannot be achieved because the “managerial incentive intensity becomes the primary motivation for outsourcing, as managerial efforts are focused on core competency maximization when undistracted by non-essential tasks” (Kakabadse and Kakabadse, 2000, p. 673). In other words, when the NPO administrators cannot separate non-mission-based tasks from mission-based ones, it is hard to achieve any real saving through outsourcing.

As part of a larger study, we interviewed ten small nonprofit organizations in West Michigan about their outsourcing practices. While these organizations were willing to outsource certain functions, they often did so only when they could get the service for free or at a sharply reduced cost (see Tables 1 and 2). Two areas that are more likely to be outsourced are payroll and bookkeeping, in part because of their complexity and the ability to easily and safely outsource them. As one West Michigan NPO stated: “It’s something we probably could handle in-house but not nearly as well. And we have an organization that... we’ve been with for over 10 years and who’s never raised their prices for us and it’s a real sweetheart deal and they do a professional job, keep up with all the logs changes everything.” Another local organization, that once did payroll themselves, realized that as the organization grew from five to 10 people it became more challenging to manage, but

“we still had a bookkeeper and the bookkeeper said oh this is silly we can do it ourselves. And then we grew more and it was taking her much longer to do it than the cost of farming it out.”

In our survey, information technology is a back-office function that was split between outsourcing and keeping the function in-house. The two West Michigan organizations that kept IT entirely in-house mentioned that they had a unique situation where their staff had the skills to do the IT work and if they “didn’t have [removed name] and her unique skill set, we would outsource all of it.” Both organizations were lucky to have such staff. The two that were blended were housed within a University or College environment and were able to use the resources available to them. Thus, it can be concluded that unless circumstances warrant, like having staff and external resources available for free, organizations will likely outsource their IT functions.

There is also loyalty to the companies with which the NPO staff are connected. Very few organizations are willing to move from their current IT provider to a new provider. Most of the organizations in our survey were “not unhappy so it would be a harder sell.” But, one organization, in particular, is looking to find a new company to provide their IT functions, because quality is an issue. “We discovered we were getting back-ups and so I had to go back to him three or four times to ask him to please follow up on this. And finally it’s resolved, but yeah it’s just, you know, the old adage ‘you get what you pay for’ is often true in many cases.”

However, other functions are more likely to be kept in-house because of the feeling of control and cost savings. Because local small NPOs are very concerned about cost savings, they were more likely to look for the cheapest alternative and sometimes found this to be an issue. One NPO that used to outsource its printing stated: “It was just disaster working with them. I mean we were not high on their priority list and we were like a month past our deadline getting our last newsletter out.”

Another organization found that they could control costs by owning their own copier and “can control the number of copies we make and thus reduce our in-house printing cost.” This director felt if they were tied to a company, they’d suddenly have less control over the cost of the copies. A different organization stated that they would rather take the time to learn the publishing software and design and print their own materials in order to save money.

A third option that West Michigan nonprofits use is board expertise or receiving in-kind donations for certain back-office functions. This is the typical approach for legal services for example. As you can see in Table 1, two of the organizations use board members for their legal service, and the three that outsource stated they use in-kind donations for legal services. None of the NPOs interviewed paid for regular legal services. Our study suggests that West Michigan NPOs still view outsourcing from either an absolute necessity viewpoint (“there is no way we can outsource this, so we have to do it ourselves”) or from a convenience viewpoint (“we have a staff or board member who can do this for free”). There does not seem, as of yet, to be a systematic approach to outsourcing among smaller NPOs. As Table 2 shows, the reasoning for deciding to outsource a back-office function is more about whether or not they can handle it in-house and not as much about the cost savings. It seems that they will outsource only when they recognize that there is no way for them to do the work in-house (due to lack of expertise/time or potential ramifications for getting it wrong). ■

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**Table 1: Results for Interviews on how back-office functions are handled**

How function is handled	Printing	IT	Payroll	Legal	Bookkeeping
Blended	2	2	0	1	2
In-house	3	3	0	2 (board)	3
Outsourced	3	5	8	3	3
Not Mentioned	2	0	2	4	2

**Table 2: Deciding to Outsource**

Staff Skills (in-house)	6
Cheaper (outsourced)	1
Cheaper (in-house)	1
Unknown	2

# Family Owned Business in West Michigan



**Joseph Horak, Ph.D.**  
**Director, Family Owned Business Institute**  
**Paul Isely, Ph.D., Professor of Economics**  
**Seidman College of Business**

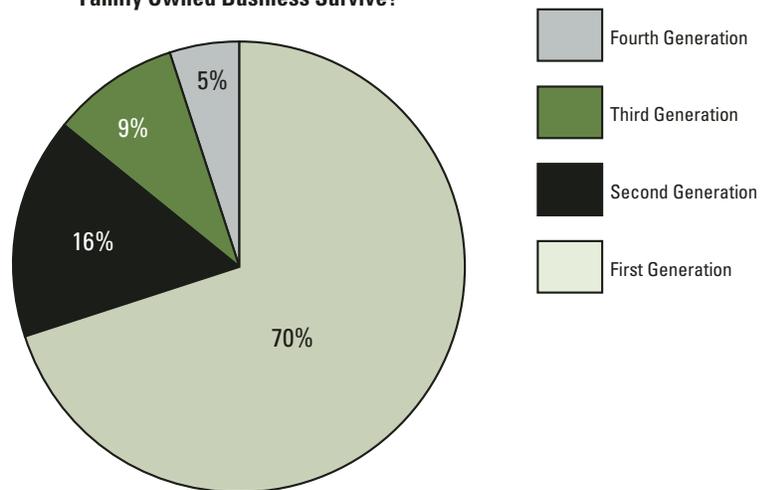
Many people may be surprised when they learn that family owned businesses contribute 57% to the U.S. economy and over 70% to the GDP in many other free democratic societies around the world. However, it isn't necessarily surprising to those of us living in a community led by family businesses that include Amway, Bissell, Gordon Food Services, Iwrin Seating, Lacks, Meijer and Steelcase. Family business scholars have begun to explore the importance of family owned businesses as well as the unique role they play in a community.

The tangible and intangible benefits of the prevalence of long-term stable family businesses in West Michigan may be one of the reasons West Michigan has been ranked as a top place to raise a family (*Forbes*, 2014) and to live (*Relocate America*, 2011) and to retire (AARP, 2013). While many areas of the auto-dependent Michigan economy have struggled, something truly unique has been occurring in West Michigan. There may not exist a better geographic region to study family owned businesses. And this is exactly what the Family Owned Business Institute (FOBI) at the Seidman College of Business intends to do. FOBI's mission is to champion and serve family owned businesses through education and research.

In collaboration with Dr. Laurel Ofstein at the Haworth College of Business at Western Michigan University, FOBI conducted a survey of family businesses in West Michigan. Ellie Frey, the Director of the Family Business Alliance, also contributed to this project, as did Seidman faculty members Dr. Paul Isely and Rita Grant as well as Kevin McCurren, the Executive Director of Seidman's Center for Entrepreneurship & Innovation. The database consists of 690 family businesses, and the 2014 survey had a 23% response rate.

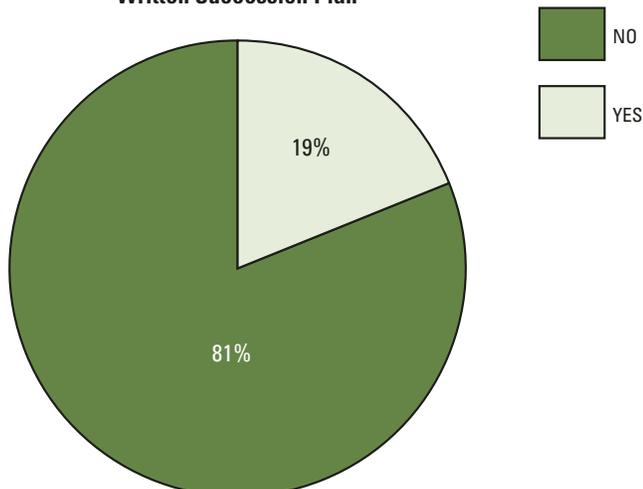
**Findings:** While 80% of the family businesses surveyed planned on handing down the business within the family, only 19% had a formal written succession plan in place. Not surprisingly, the number one topic requested for future workshops was in the area of succession planning. The lack of planning may be part of the reason why family businesses have such a difficult time surviving successions. (Only 30% survive from the first to second generation transfer, 14% from the second to third, and less than 5% from the third to fourth generation.)

**How Many Generations Does a Family Owned Business Survive?**



Given the difficult succession rate and lack of formal planning for succession, one might expect to see few older family owned businesses. Supporting Schumpeter's Creative Destruction theory, we have continued to see the average age of businesses decrease. On the S & P 500 in 1958, the average age of a business was 61 years. In 1980 it was 25 years and in 2011, only an 18 year lifespan (Foster & Kaplan, 2011). However, the results of the 2014 survey found something very different is occurring in family businesses in West Michigan. The age of family owned businesses in the survey ranged from 1 to 155 years old. Surprisingly, the mean was 50 years and 11% were over 100 years old. Maybe it wasn't just fluoride that was added to the water in Grand Rapids in 1945. Further research could explore factors that may contribute to this interesting phenomenon that has been occurring in West Michigan and how it has impacted our communities.

**Written Succession Plan**



In most geographic regions, family owned businesses are small to medium size enterprises (SMEs). This is a European Union designation for companies with less than 250 employees and sales under 50 million EUR. In our survey, 88% of our sample

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had sales under 50 million USD (63 million EUR). Family owned businesses appear to also behave in ways that the Local First movement would appreciate. Ninety percent produce their products or services in Michigan, and 66% obtain their consumables in Michigan (only 2% purchase consumables outside of the U.S.).

We know from the literature that family owned businesses live out their values in their business as well as in the community. In our survey, 90% engaged in philanthropy with up to 82% giving up to \$100k. In the future FOBI will be conducting a study to explore the philanthropic impact of family businesses in West Michigan.

While family owned businesses have been criticized for being risk averse and not taking on more debt when the economy is on an upswing, the lack of debt during a downturn allows FOBs to function very differently. While publically traded companies move quickly to reduce their workforce to survive a downturn, family owned businesses will only lay off as a last resort. As a matter of fact, our survey found that the first course of action (mentioned by 76% of family businesses) would be reducing or eliminating distributions to owners. In addition, 58% would reduce or eliminate salaries to family members if revenues significantly declined. Subsequently, we believe that family businesses may function as a type of 'ballast' during a downturn buffering the effect of unemployment and stabilizing the areas where they are more prominent.

While we have known that family owned businesses have been extremely important as key employers providing well paying and stable jobs in West Michigan, they may actually be playing a larger role in our local economy and in making our community a great place to live. As we learn more about the important role family business plays in our economy and community, the Family Owned Business Institute at the Seidman College of Business will begin to advocate for public policies to sustain and grow family businesses in our community, our state, our country and our world. ■

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# Michigan Supply Management: Why Companies are Moving to West Michigan

**Brian G. Long, Ph.D., C.P.M.**  
**Director, Supply Chain Management Research**  
**Seidman College of Business**

## Industrial Market

The year 2014 will long be remembered as a year of “doing it right” in West Michigan. A glance at the local unemployment numbers show that many West Michigan counties have some of the lowest unemployment rates in the state, and most counties are **well under** state and national unemployment percentages. Needless to say, the local economic development offices in West Michigan have been humming. Our existing companies are expanding, and new companies are taking a look at West Michigan for the first time ever. The local development offices have identified the possibility of SEVERAL THOUSAND new jobs coming to our area over the next year or so.

Why are companies coming to West Michigan? In a similar light, why are our existing companies expanding in West Michigan and not fleeing to other states that, say, offer no taxes for ten years? With a few exceptions, these firms are not charities. They are coming to West Michigan because they can make a long term investment in plant, equipment, and jobs, AND as a result, **make money**. Why West Michigan? In the simplest form, the decision to come to our side of the state is based on a simple formula: West Michigan offers the lowest **total cost of doing business**.

In recent years, the computer has made a huge difference in assessing various locations around the world. A book written a few years ago entitled, “The World is Flat,” notes that almost all of the major corporations of the world, and some of the smaller firms as well, are now operating on “enterprise” software such as Oracle and SAP. Hence, even without any sort of an international treaty, the accounting rules and the accounting systems for the **world** have become unified. It is important to note that profitability, or lack thereof, around the world is the same metric. Unlike the paradigm of the 1970s, central management can track **real-time** performance of as many as 300 locations around the world—and assess their profitability—or lack thereof.

When considering a new location, it isn’t a quantum leap to figure out that this same “enterprise” software is used to calculate the cost of doing business at any potential location worldwide. Obviously, factors that are plugged into the model include the projected cost of labor, local taxes, federal taxes, state taxes, and cost of insurance, especially including worker’s comp. Other local input factors that may be deal-breakers include the cost of electricity, cost of transportation, cost of water, and the cost of waste disposal. Overall, the location must have a significant degree of “viability,” meaning that the new firm would be easily and

quickly integrated into the local area. This is the reason that a rural county could offer free taxes, free utilities, and even free land only to find that the local workforce was so small that potential new workers would have to drive many miles to get to work.

Unfortunately, thanks to new accounting software, unprofitable locations now tend to stand out **like a sore thumb**. For instance, a Fortune 500 auto parts supplier recently observed that a small plant located in West Michigan was only marginally profitable compared to other locations. Management initially tried to work with the cost structure of the plant, but after several years of minimal improvement, the decision was made to abandon the West Michigan location and move the production to South Carolina. Fortunately, this incident is the exception and not the rule.

Another major consideration is infrastructure. Traditionally, infrastructure has included things like access to rail line sidings, good roads, water, and sewer. But every business is different. For instance, some firms that do business worldwide find it best to be near a major airport so that potential clients and customers can visit, and that the firm’s salesforce can easily spread out to the world. For others, such as a plating company, access to sufficient electric power at a reasonable rate may be essential.

And then there is the geographical cost itself. Specifically, where are the firm’s customers, and what is the cost of shipping to their locations? Obviously, if the product is light, in the age of, “If it fits, it ships,” this may not be a problem. For heavier products, the cost of freight becomes a major consideration. The same is, of course, true of **INBOUND** freight, which can add considerably to the cost.

Clustering. For at least the last 150 years, competing firms have tended to co-locate or “cluster” near a common location. Steel firms located in Pittsburgh. Auto firms located in Michigan. Furniture firms located in Grand Rapids. Although shipping considerations may be a part of the reason for co-location, the bigger consideration is the local support structure, such as the right industrial distributors, the right equipment repair facilities, and perhaps most importantly, a pool of labor familiar with the industry that doesn’t have to be trained from scratch.

Then comes the essential analysis of the soft factors. The classic case comes from Texas Instruments, which negotiated a seemingly remarkable deal for lower taxes and virtually free land in order to build a semiconductor research center

in Lubbock, Texas. Hiring a few local clerical workers was not a problem, but getting middle level engineers and other experienced management to uproot from culturally diverse Dallas and move to Lubbock resulted in a major problem. Some employees literally left the company rather than move. Of course, the local “work ethic” cultural factor can also come into play. Some local firms that have recently located facilities on the eastern side of the Michigan have been stymied by the “us versus them” mentality in some locations, as well as the blatant lack of company loyalty.

Local attitudes toward the potential new business can also make a difference. If the potential business operates inside four closed walls with no smokestacks in the air, chances are that it may raise little discussion. However, even if the plant is baking bread, someone will probably object to the smell of freshly baked bread wafting through the air at all hours of the night. If the plant will employ a large number of people, others may object to the increase in street traffic near the plant, and demand that the plant be located on the other side of town. The boards of many of Michigan’s rural incorporated townships want developers to locate in adjoining townships in order to keep their township rural. This is often referred to with the generality of “not in my back yard.” Of course, the attitudes of some locations are just anti-business, and building the plant would result in local resentment of the firm and its employees. If a firm senses that local inspectors or local assessors have an anti-business attitude, they will look elsewhere.

### **Where West Michigan Shines**

The latest report from the Michigan Department of Technology, Management, and Budget notes that Kent County has the lowest unemployment rate (4.0%) among the 83 counties in Michigan. Kalamazoo County is not far behind at 4.7%, and Calhoun County at 5.1%. This compares very favorably with the state’s official rate of 7.1%, and the national rate of 5.8%. The average GDP growth for all “Metropolitan Statistical Areas” (MSAs) in the nation grew at a rate of 1.7% in 2013. In the Grand Rapids MSA, the growth rate was 3.9% followed by 2.4% in Kalamazoo-Portage, and 1.4% for the Battle Creek MSA.

### **Why are we doing so well? Several factors come to mind.**

1. *Productivity.* If you ask the management of any company that has locations throughout the state, they will most often tell you that the West Michigan work force is more productive than other locations in the Midwest. Along those same lines, the work ethic of MOST West Michigan workers compares favorably with that of other locations around the nation.

2. *Schools.* Convincing high-powered employees to move to a new city in a new state requires evidence that good education is available. I know, we all think our schools can do better, and they can. However, compared to many other cities and many other states, our schools are well ahead of the averages. Furthermore, we have a wide selection of charter, religious,

and private schools for those that are inclined to send their children to those types of schools.

In another educational perspective, many firms are looking for an endless stream of educated job-seekers to fill positions. Although there is always room for improvement, West Michigan does have a well-trained workforce to choose from when new jobs are posted.

3. *University Support.* Particularly in high tech and biotechnology, many firms are looking for partnerships with local universities for internships, research support, and qualified job-seekers to fill positions. Through Grand Valley State University, Western Michigan University, Michigan State University, and a host of private colleges, West Michigan offers plenty of support in this category. For technology jobs, we have numerous junior colleges that do an excellent job training electricians, mechanics, computer operators, and the like.

4. *Simpler Taxation.* Only a few years ago, NUMEROUS development opportunities were lost because of the complications of the old Michigan Business Tax. Although some states levy no significant corporate income tax, the replacement of the Michigan Business Tax with the new, flat rate 6% tax has at least made computation and reporting much simpler. Just a few years ago, it was typical for a small or medium-sized firm to file a 250-page Michigan Business Tax return. With the new system, the same tax return may now be only six pages. When assessing the all-important total cost factor, an **accurate** estimate is essential. Under the old system, it was very difficult. When one out-of-state firm asked for an accurate estimate of the Michigan Business Tax, one frustrated state official was quoted as saying, “Why don’t you just build your plant here, and we will tell you what the tax is at the end of the year.”

Although the repeal of the hated “Personal Property Tax” is still too new to have much of a current impact, the future upshot from an economic development standpoint is very significant. Michigan was one of the few remaining states to get rid of this arcane system of taxing, and some analysts suggest that the most immediate impact may be an increase in capital investment among Michigan’s existing firms now that new investment is no longer discouraged.

Another future tax issue that is now on the radar relates to unfunded pension liabilities for any potential location and what the situation will look like in, say, twenty or thirty years. If no plan is in place to balance these liabilities, the unfortunate local businesses will probably be stuck with the bill when the credit runs out. Or like Detroit, they may just flee in advance. Coleman Young, the former mayor of Detroit once commented about a firm leaving the city, “Good riddance. We didn’t need them anyway.”

5. *Capital Availability.* Believe it or not, West Michigan has plenty of venture capital available to invest when the right opportunities come along. Venture capitalists are sometimes

called “angel investors” because they provide opportunities for startups that look promising. If you Google “Angel Investors Michigan,” you will find organizations like Great Lakes Angels, Grand Angels, Capital Angels, Muskegon Angels, and the Michigan Angel Fund all of which are just some of the organizations ready to connect investors with good opportunities.

6. *Right to Work.* Granted, this is very controversial issue. However, the FACT remains that about 60% of the major firms would not seriously consider Michigan for expansion until after the Right-to-Work law was recently passed. Organized labor remains vehemently opposed to Right-to-Work, but this change has resulted in numerous new employment opportunities in Michigan, and will continue to result in economic gains in the future.

7. *Clustering.* As previously noted, some firms choose West Michigan to locate because of the proximity to other similar companies. The support structure in terms of suppliers, distributors, repair facilities, and the like are already in place. Furthermore, there are trained employees from which to draw.

8. *Cost of Living.* The Consumer Price Index (CPI) for West Michigan consistently runs at about 90% of the national average. Needless to say, a lower CPI at least partially translates to a lower cost of doing business.

9. *MEDC.* Simply stated, the role of the Michigan Economic Development Corporation is to “assist local development organizations to secure new jobs for Michigan.” And yes, they also provide financial and tax incentives that are sometimes essential to “seal the deal.” About five years back, the organization was roundly criticized for awarding incentives based on political, rather than economic, considerations. There were calls for the termination of the organization altogether, given the amount of political cronyism money they were throwing down the proverbial rat hole. Although some segments of the electorate still feel that MEDC constitutes a form of corporate welfare, the fact remains that most major states have competing organizations that also provide lucrative incentives. Some don’t like it, but that’s just the way business development is done in 2014. On the balance, the new leadership in the past few years has done an excellent job in helping to expand economic opportunities in Michigan and eliminating the cronyism of the past.

10. *Active Development Agencies.* A huge portion of our local success in economic development must be attributed to the prowess of our local development offices, the largest of which are “The Right Place” and “Southwest Michigan First.” Granted, our development people are also well-trained in the old-fashioned art of “schmoozing,” but just showing potential companies our beautiful parks, our sandy beaches, and our positive attitude is not enough in today’s world. In fact, not even close. Again, firms choose to locate or expand in West Michigan because it is **profitable** to do so. And given a

chance, we have the people in our development offices who can show why West Michigan is the place to be. Believe it or not, some economic development offices around the country consist of one director and one secretary, and they spend most of their time simply placing ads in magazines and answering the phone. Not so in West Michigan.

11. *Good Publicity.* On the people side, Kalamazoo, Grand Rapids, South Haven, and other local cities frequently pop up on various lists of “best places to live.” Fine, but deciding to locate in West Michigan is still a **business** decision. All corporate and local development offices subscribe to a magazine entitled “Site Selection.” For 2014, Michigan came in at 6th place in the nation, up from 16th place in 2013. Among the Great Lakes states, Michigan is **Number One**. Just a few years ago, Michigan regularly ranked in the bottom quartile. In short, Michigan wasn’t even on the radar for consideration by most out-of-state firms. What a difference a few years make!!

### **Problems**

Adding all of this together says that the “bottom line” or the lowest “total cost” for doing business for many firms **around the world** may well be here in West Michigan. Granted, if we had a perfect environment for jobs, we wouldn’t have to worry. But the fact remains that we still have a few stumbling blocks that result in West Michigan losing out to other states.

One of the main reasons for firms not coming to West Michigan is obvious and expected. Locating in West Michigan doesn’t fit their business model, i.e., we are too far away from their primary customers; we are too far away from their main sources of supply; the weather is not conducive to their type of business, or other locations simply offer a lower cost of doing business. Of course, the soft factors such as where the founders like to be located play a role as well. We can’t expect to win all new business, and there are factors over which the development advocates and the politicians have little control. However, there are a few areas that **CAN** be improved.

*Tax Consistency.* Granted, lower taxes are always popular with businesses, but most of these businesses also know that there is a point at which taxes are cut so low that the firm can be driven out of business because of the underfunding of essential government services. Adequate police, fire protection, and sanitation are obvious, but so are the aforementioned school systems for providing a stream of qualified workers. Ten year tax breaks are often tendered to attract an initial investment, but what happens after the grace period is over? Chrysler in good faith once located a plant in Wisconsin only to have the local officials crank up the tax bill to four times the initial estimate in less than ten years.

Again, consistency and predictability of taxes and tax policy are paramount. Unfortunately, elected official, especially at the local level, turn over. New officials and assessors may

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come to power who take a negative attitude toward the business, and tax fights may ensue. This poisons the water for further development.

*Electric Power.* Many people are unaware that Michigan commercial electric power rates are higher than most of the rest of the United States. They are 15% higher than Ohio, 16% higher than Indiana, and a whopping 31% higher than Illinois. Part of the reason for these higher rates comes from the lack of a competitive rate structure, and part is the result of the on-going push for more green energy. Whereas wind turbines are now profitable investments for DTE and Consumers Power given the high level of the current rate structure, other states have taken advantage of the lower cost of natural gas for their expansions in generating capacity. Hence, industries that require large amounts of electricity go to those states. It's a trade-off that most people feel is worth the additional cost, although the resulting higher cost of electricity results in forcing most firms that require large amounts of electricity to look elsewhere. The exception is that electric power for the far southwest corner of Michigan comes from AEP (American Electric Power), and the rates are less.

*Untrained Regulators.* One of the classic cases from a few years ago involved a stiff fine levied against a farmer/landowner in Roscommon County. The DNR inspector found that the farmer had apparently dammed up a small creek near the back of his property for some unknown reason. The DNR regulator issued a fine and demanded that the dam be torn down immediately. To make a long story short, the landowner wrote the DNR a long letter in an attempt to educate the inspector about the nature and habits of the Michigan beaver.

The overwhelming majority of regulators do not operate this way. They know the law, they know the rules, and most importantly, they know the industry they are regulating. However, stories abound about inspectors who have a personal agenda or an ax to grind with the industry they are regulating.

*Overregulation.* In the past four years, the Michigan Legislature has methodically eliminated numerous outdated regulations. Work is now proceeding to eliminate overlapping regulators, i.e., multiple agencies calling on the same businesses to inspect similar factors. However, as a catch-all, the concept of government overregulation continues to stand in the way of business expansion.

Granted, SOME degree of red tape is definitely needed in order to keep the environment safe and to maintain property values in the surrounding area. Again, there is a question of balance. Firms expect government regulation, but they do not expect overregulation.

It would be possible to write a book about economic development in West Michigan and still not cover everything. But in today's world, it is essential that that our state, county, township, and city officials understand how we got to where we are now as well as where we need to go in the future. With a few wrong turns, **all or most of these gains can be reversed.** We must recognize that the successful economic growth we have experienced in recent years is the result of a lot of hard work, not just blind luck. Furthermore, we cannot rest on success. Innovation and creativity will drive the future, and for the sake of our posterity, it is our job as a society to make sure that the right people and policies are in place to make it happen. ■

# West Michigan Stock Returns

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## West Michigan Stocks Tack on 17.4% in 2014

**2014** was another great year for investors in West Michigan's publicly traded companies. Returns jumped 17.4%, and that is on top of 42.2% in 2013. Once again, local stock returns outpaced returns from the three major indexes comprising the Security Market Indicator Series (SMIS): the Dow Jones Industrial Average, the S&P 500 Index, and the NASDAQ Composite Index. Table 1, Stock Market Returns, shows how the West Michigan Index has performed compared with the SMIS over the past three years.

**Table 1: Stock Market Returns<sup>1</sup>**

	2014	2013	2012	3-Year Cumulative
West Michigan Index	17.4%	42.2%	9.0%	82.0%
NASDAQ Composite Index	13.4	37.4	15.9	80.6
S&P 500 Index	11.4	29.1	13.4	63.1
Dow Jones Industrial Average	7.5	25.8	7.3	45.1

<sup>1</sup>The 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. This is a change from the methodology used in previous years. In those years, returns were weighted by only the number of shares outstanding. The index now 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.

Three-year cumulative returns shown in the table's last column are compound returns. They include returns earned on prior years' returns. Over the past three years, cumulative returns from the West Michigan Index exceeded cumulative returns from all three SMIS indexes, and nearly doubled returns from the Dow Jones Industrial Averages.

The 2014 performance of each of the companies in the Index is described below.

### Community Shores Bank Corp.

The bank is slowly reducing the dollar value of its non-performing loans and has returned to profitability. Yet problems loom. To be in compliance with the bank's consent order with the FDIC, the bank needs an infusion of \$6.4 million of capital. It has not been in compliance since the order was issued in late 2010, and coming up with the additional capital is proving difficult. Failure to comply with the consent order may eventually cause the FDIC to take additional regulatory actions harmful to both the bank and its shareholders. Worse, the bank has \$1.28 million of senior debt and over \$500,000 of accrued interest on subordinated

debt maturing on March 31, 2015. Yet it had only \$373,000 of cash—its only source of liquidity—available on September 30. The bank must raise capital and/or renegotiate repayment terms on its debt by the end of March. As that date approaches, investors are getting worried, causing the bank's stock price to suffer.

### Independent Bank Corporation

Ionia-based Independent Bank Corporation reported its eleventh consecutive profitable quarter in October. Like all local banks, Independent Bank's financial health continued to strengthen during 2014. The dollar value of non-performing loans continued to fall, as did the ratio of non-performing loans to total loans. At 1.25%, the ratio has a value that would have been considered great in the years prior to the recession. Further, the bank's capital ratios are considerably above minimum levels required by bank regulators. The year-over-year increase in earnings in 2014 was 92%. The bank resumed paying a \$0.06 per share common stock dividend in April, the first dividend in several years. That caused a price spike to over \$14 per share from around \$12, but the stock spent most of the year fluctuating between \$12 and \$13.50.

**Table 2: West Michigan Company Returns**

	2014 Price		2014 Price Change
	Closing	Opening	
ChoiceOne Financial Services	\$23.00	\$17.09	34.6
Stryker	94.33	75.14	25.5
Meritage Hospitality Group	5.23	4.45	17.5
Steelcase	17.95	15.86	13.2
Gentex Corporation	36.13	32.98	9.6
Perrigo	167.16	153.46	8.9
Macatawa Bank	5.44	5.00	8.8
Independent Bank	13.05	12.00	8.8
SpartanNash	26.14	24.28	7.7
Universal Forest Products	53.20	52.14	2.0
Herman Miller, Inc.	29.43	29.52	- 0.3
Mercantile Bank	21.02	21.58	- 2.6
Wolverine Worldwide	29.47	33.96	- 13.3
Community Shores Bank	\$ 1.50	\$ 3.25	- 53.9

### **Macatawa Bank Corp.**

Holland-based Macatawa Bank had a good year. It reinstated dividends on common stock beginning March 7, its first dividend in nearly six years. Over that time period, the bank's number of shares increased from 17 million to over 27 million (primarily because of the conversion of preferred shares into common shares at the end of 2013 and a public offering in 2011), and the bank's assets shrunk. As a result, spreading a smaller earnings base over a larger share base makes for smaller earnings and dividends per share. Quarterly dividends six years ago were \$0.13, but now are \$0.02. In other developments, Macatawa's loan delinquency is at the lowest level in 11 years with the ratio of non-performing loans to total loans equal to 1.18%, and the company has been profitable for three years. That trend should continue in 2015.

### **Gentex Corporation**

Gentex also had a great year. It completed acquisition of Johnson Control's HomeLink business on September 27. Homelink allows vehicle owners to operate garage door openers, door locks, and other home systems controlled by radio frequencies. Further, Gentex stock was on fire the last three months of the year. From a low of \$26.49 on October 1, it rose to over \$36 by the end of 2014, an increase of nearly 40%. Why the price jump? Sales increased 22% while earnings rose 30% in the third quarter ending September 30. This is great performance considering flat light vehicle production. The company attributes its great results to the performance of its SmartBeam and driver assist camera systems, contributions from its HomeLink acquisition, and continued market penetration of its electrochromic mirrors.

As 2014 drew to a close, Gentex Corporation announced it would pay a 100% stock dividend on December 31. The dividend has the same effect on stock price as a 2:1 stock split, cutting both the stock price and dividend in half while doubling the number of shares.

### **Meritage Hospitality Group**

Meritage Hospitality Group operates 141 restaurants in six states. As has been the case in past years, the company continued to acquire and build new restaurants. It acquired 19 Wendy's restaurants in the Atlanta, GA area, and began construction of two Wendy's restaurants in Jacksonville, FL. Through the first 9 months of 2014, sales increased 13.4%. However, net income increased \$1.9 million compared with \$2.4 million in the 2013 comparable period, as higher beef costs and minimum wages hurt profitability. The company's stock price hardly moved during 2014, ranging from \$4 to \$6.

### **Wolverine Worldwide**

Mixed financial performance marked much of 2014. The company lowered its forecast for the year in July citing soft footwear markets. It also announced it was ending its license to produce Patagonia Footwear and close 140 stores, most of them Stride Rite locations. When investors hear about lowered earnings forecasts and store closings, the stock loses some of its luster. Yet third quarter revenue fell less than one

percent, while earnings per share grew 8.6%. The company reaffirmed 2014 would end with record revenue and earnings, and its stock price began to rise in November after spending several months below \$27 per share.

### **SpartanNash**

The company surprised Wall Street analysts with its 3rd quarter earnings per share when it reported earning 45 cents versus analysts' estimates of 42 cents, and the company raised its earnings outlook for the entire year. Still, it is earning only 0.8 cents on every dollar of sales, a slight decrease from last year, and many investors are waiting for evidence demonstrating the 3rd quarter's good news can be sustained.

SpartanNash was created when Byron Township based Spartan Stores merged with Edina, MN based Nash Finch in late 2013. The combined company has nearly \$8 billion of sales and approximately \$2 billion of assets. The company owns several grocery store chains across 44 states including Family Fare Supermarkets, Family Fresh Markets, D&W Fresh Markets in West Michigan, has a military segment supplying grocery products to military commissaries and 400 exchanges, and also operates as a grocery distributor.

### **Perrigo**

Perrigo, the leading manufacturer and seller of over the counter healthcare products, moved its tax headquarters from Allegan, MI to Ireland after acquiring biotech firm Elan in December, 2013, a tax inversion projected to save the company \$150 million per year in income taxes and operating expenses. The company has enjoyed double-digit growth rates for several years, with its stock price increasing 30-fold since 2000. Perrigo has the leading market share in nearly 50% of the products it sells, and is in the top three of market share for 95% of its products. The company remains bullish on the future with 160 new products awaiting regulatory approval.

### **Stryker Corp.**

Stryker has been on an acquisition tear. It acquired MAKO Surgical for its advanced robotic arm surgical technology 13 months ago, it added two acquisitions in March, and one other company in April. The rumor mill has continued to predict other possible candidates for Stryker acquisitions, especially British medical device maker Smith & Nephew Plc. A strong balance sheet and stock price, and its acquisition tear help fuel that speculation. The rumor mill is at least partially responsible for Stryker's unusually high price/earnings ratio. With its P/E ratio equal to 57, it more resembles a bio-tech firm than a medical technology company. That ratio can be maintained only if the company continues to acquire well-fitting companies and ramps up its earnings.

### **Universal Forest Products**

Universal designs, manufactures, and markets wood and wood-alternative products to retail, construction, and industrial customers. The company's stock varied between \$41 in mid-October to \$53 by year's end reflecting variations in quarterly sales and earnings growth. Third quarter earnings

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were up 36.5%, providing an end-of-year boost to the company's stock price. Universal also raised its dividend from \$0.21 to \$0.40 during the year, and continued to buy back its stock. All of these events made for a good year, and provide optimism for 2015.

### **Herman Miller and Steelcase**

The outlook for the office furniture industry is at the strongest level of optimism in a decade. Revenue growth for both firms is accelerating, and is projected to continue accelerating at double-digit growth well into 2015. That bodes well for earnings, and as earnings increase, stock prices usually increase.

The price of Steelcase shares grew price unsteadily throughout most of 2014. In contrast, Herman Miller's stock price maintained a level between \$29 and \$32 per share for most of 2014.

### **Mercantile Bank Corp.**

The bank's stock price was unchanged during the year. The big news, however, was the fairly seamless integration of its merger with First Bank, doubling Mercantile's pre-merger size. The bank's executives are optimistic that 2015 will be a great year. The merger and most of the associated expenses will be history, and the pipeline for new commercial loans has never been stronger in the bank's history.

### **ChoiceOne Financial Services, Inc.**

Choice One—a Sparta-based bank holding company with 12 full-service offices—enjoyed record earnings in 2014. While its stock price does not change much in response to changes in the overall stock market, its price does move in response to increases in its earnings. That certainly was the case in 2014. Its stock price rose from \$16.69 to \$23.00 during the year, a 34.6% increase, reflecting a 10% increase in earnings.

Dividends added another 1.2% to the Index's 17.4% return in 2014, giving a total return of 18.6%. Almost all companies in the index pay cash dividends, but one company does not: 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 small dividend yields, 0.3% and 0.8%, respectively. Wolverine hasn't increased its dividend since March 2011, nearly four years. Why don't these two companies pay higher dividends? It's because they are growing rapidly. High-growth companies usually plow earnings back into growth instead of paying dividends. That leads to higher stock prices and makes for very happy stockholders.

Finally, many stocks, including West Michigan stocks, are at or near all-time high prices. Should you sell? No one knows the answer to that question, because the answer depends on you and your circumstances and risk tolerance. And no one knows what stocks will do in the future. Just make sure you are diversified, and that means no more than 10% of your stock investments in any stock. ■

# Housing Prices and Foreclosures in Grand Rapids

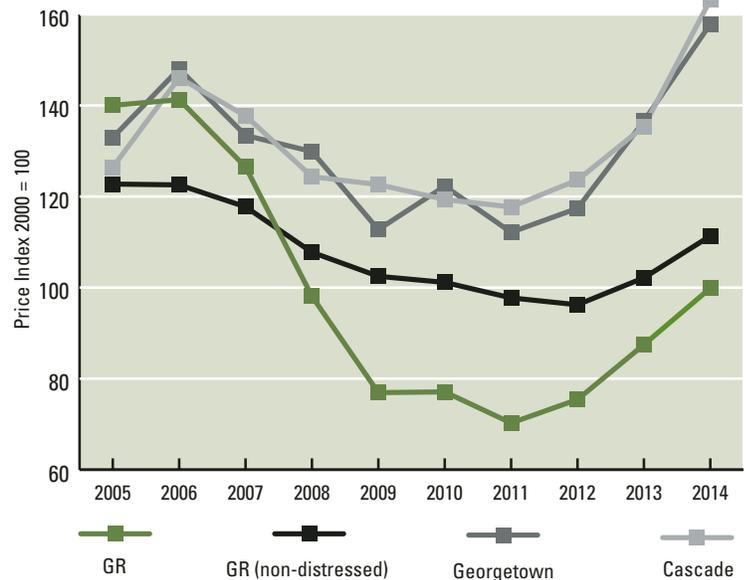
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In 2014, U.S. housing prices, sales, and construction were at a higher level compared to the same period last year, reflecting the continuing recovery of the housing market. However, during the first 9 months of 2014, U.S. housing prices rose only 2% (seasonally adjusted S&P/Case-Shiller 20-city price index; Federal Reserve Bank of St. Louis) and existing home sales remained relatively stable at an annual rate of 5.3 million in October 2014 (National Association of Realtors). Private housing starts (construction) have also been stable at a rate of 1 million units per year (Federal Reserve Bank of St. Louis). This stability of the housing market in 2014 reflects economic conditions that are still unfavorable to the full recovery of the industry. For instance, unemployment rate has gone down substantially, but it is at 5.8% in November 2014 (Federal Reserve Bank of St. Louis). The delinquency rate on residential real estate loans was at 7% in the third quarter of 2014 (Federal Reserve Bank), which is decreasing, but much above the 2% rates seen in early 2000s. Strict credit requirements also make it harder for first time buyers to apply for mortgage financing, with homeownership rates having decreased to mid-1990s level (the national rate reached 64.3% in the third quarter of 2014; Federal Reserve Bank of St. Louis). On the positive side for housing markets, mortgage rates declined during 2014 after rising quickly during the previous year. The 30-year fixed payment mortgage rate went down from 4.5% at the end of 2013 to 4% in November 2014 as economic growth in foreign economies has slowed.

At the regional level, our quality-adjusted housing price index shows average prices rising in the last 3 years in Grand Rapids. Figure 1 presents the indexes for Grand Rapids and for two nearby suburban communities (Georgetown Township and Cascade Township, which have higher income population). For Grand Rapids, an alternative index called the non-distressed is also shown, which excludes houses with sale prices below \$50,000 (these are houses more likely affected by the foreclosure crisis). Details on the estimation of these indexes are discussed in a technical note at the end of this article.

Based on the non-distressed index, prices of Grand Rapids homes sold in 2014 were 9% higher than in 2013, but the index was still below the peak in 2005. In comparison, price changes in Georgetown and Cascade Townships were larger, with increases of 16% and 21% respectively, reaching levels that are already above the peaks in 2006. The full recovery in these communities reflects their better income and employment conditions. As a result, construction has also picked up, especially in Cascade, where the number of building permits

**Figure 1: Housing Price Index**



See Technical notes at the end of the article for details. Source: Indexes computed using data from IS BS&A ([accessmygov.com](http://accessmygov.com)).

in 2014 is more than double than in 2005. See Table 1 for changes in building permits and a comparison of income and employment conditions across places.

With higher home prices and a decreasing inventory of houses available, the volume of sales has stabilized in 2014. The Grand Rapids Association of Realtors reported a 3% decline in units sold in their area of activity until October, compared to the same period in 2013. The inventory of available houses has decreased quickly recently, reaching an inventory-to-sales ratio of 3 months' supply in October 2014.

With better price and sales conditions, foreclosure activities have also decreased significantly compared to last year. In Table 2, we show the number of Sheriff's sales in Grand Rapids city decreasing from a monthly average of 75 homes in 2012 to 29 in 2014 (data available until October 2014).

These changes have increased interest in building new residential properties. Local builders are finding it hard to take advantage of this change as there is a lack of skilled construction workers. This has made it particularly hard to find sub-contractors to work on projects. This has resulted in wages for construction workers increasing faster than inflation (3.5% increase 2013–2014 according to the Bureau of Labor Statistics). As workers are drawn back into the construction sector, it is likely new residential construction will increase at a faster rate.

**Table 1: Building Permits, Income, and Employment**

Area	Building permits (annual rate)			Median Household Income 2013	Worker Population Change 2005–2011
	2005	2009	2014		
Grand Rapids	318	30	229	\$39,227	-15.4%
Georgetown	448	64	238	\$61,504	-2.4%
Cascade	167	139	382	\$101,273	+28.8%

Building permits data until October 2014. Median household income is based on the American Community Survey 2009–2013 estimates. Employment and worker population from Longitudinal Employer-Household Dynamics (LEHD) estimates. Source: U.S. Census Bureau.

**Table 2: Sheriff Sales in Grand Rapids City**

Year	Monthly Average
2012	75.1
2013	46.3
2014*	29.2

Data until October 2014. Source: Estimated using data from IS BS&A (accessmygov.com).

In conclusion, we have seen a substantial improvement in overall economic and housing market conditions in 2014 in the region. For 2015, we will likely see a continuation of increasing home prices due to further improvement in the regional economy and low inventory of homes for sale, although at a slower rate than in 2014. The weak recovery of foreign economies still poses risks to the U.S. economy growth, but the resulting lower interest rates and energy prices may be helpful to the housing industry. Credit availability is still an issue due to the strict lending requirements imposed during the foreclosure crisis, but there are recent signs that lending practices are starting to loose, which should bring more first-time home buyers to the market.

#### 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 of quality and location across houses. Thus, the estimation does not include sale 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 the housing market. Our indexes were computed using home sales from 2000 to October 2014, with sale prices as low as \$10,000 and as high as \$1 million (this value boundary is to better reflect changes in the prices of average homes). ■

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# West Michigan - Grand Rapids Commercial Real Estate Review and Forecast

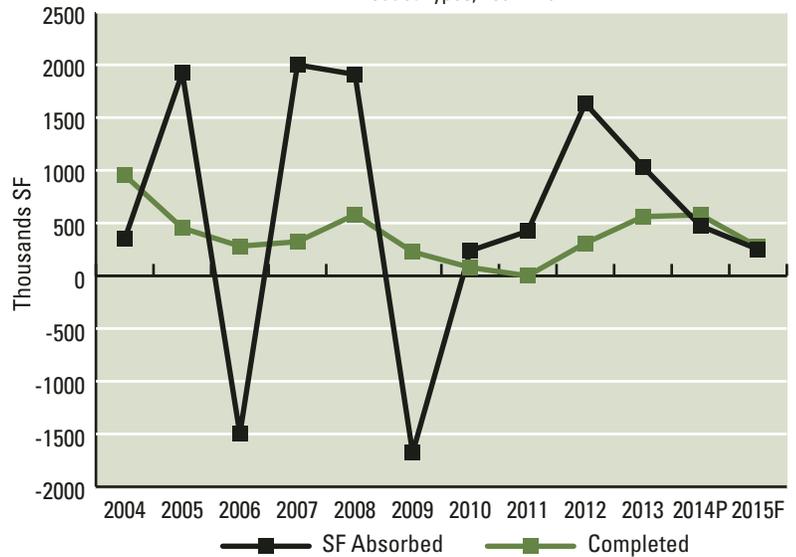
Jeff Hainer and Dave Shafer, Research Analysts  
Colliers International | West Michigan

## Industrial

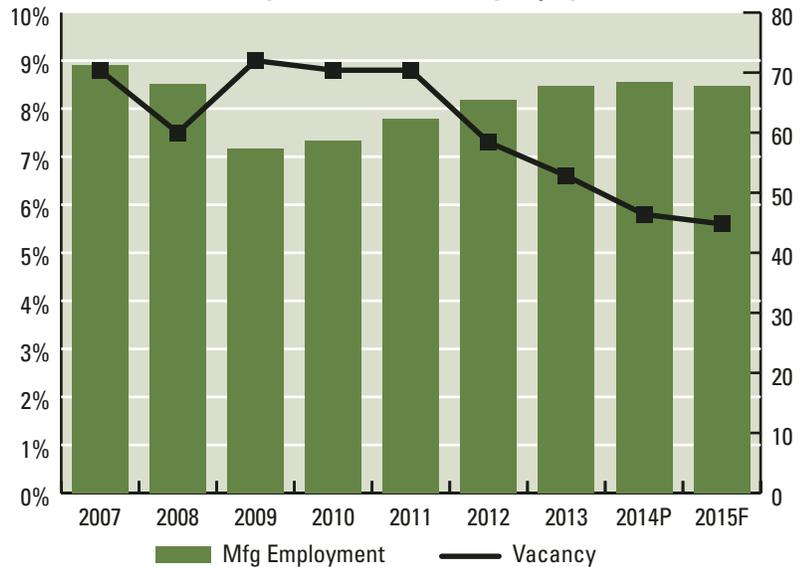
The West Michigan industrial real estate market continued to mature in 2014 with landlords, tenants and brokers all adjusting to the reality that demand for quality space has reached an all-time high and supply is struggling to keep up. As the region continues to attract national and international manufacturers, industrial inventory has been stretched near its limit. As forecast last year, we saw the return of construction—albeit modest—and the creative repositioning of functionally obsolete buildings to meet the needs of companies without many options. Whereas in the past, landlords struggled to keep entire buildings full and had to juggle multiple tenants, in 2014 and moving into 2015 we are predicting larger companies entering the market and existing ones expanding within it. This trend is stabilizing these assets for ownership and in turn attracting new investors from all over the country. Subsequently, sale prices are getting closer to cost of new construction according to Colliers International CEO and industrial broker, Duke Suwyn. The market saw positive absorption in three of the four quarters this past year, and we predict a net year-end total of 472,600 square feet absorbed—pushing the overall occupancy rate past 94%. Although absorption was slightly lower than the 2013 total, we had predicted a slowdown due to diminishing available product and the continued need for new facility construction. Rental rates crept higher, and concessions given by landlords again moderately decreased due to competition for space.

It is not much of a secret that manufacturing has buoyed West Michigan in recent years. According to the W.E. Upjohn Institute, during the 12-month period ending in July 2014, manufacturers in West Michigan increased their workforces by 3.4%—outpacing overall area employment growth by 40 basis points. This has had a direct correlation to overall industrial occupancy (see graph below). In addition, the overall unemployment rate in Kent County dropped to a state-low of 4.0%. With strong workforce talent and a desirable geographic location, West Michigan continues to catch the eye of many major companies around the globe. As the trend of on-shoring increases, we have seen major capital investment in the area. Companies like Proos Manufacturing, NOVO 1, INglass S.p.a., Plasan Carbon Composites and others have combined to invest nearly \$275,000,000 and create over 2,000 new jobs. Recently, Chinese automotive supplier CiTiC Dicastal Co. Ltd. committed \$140 million to open production at the former Uni-Solar campus in Greenville. The manufacturer of aluminum wheels plans to add approximately 300 jobs and should be operational by the end of 2015. In Walker,

Absorption vs. Completions  
All Product Types, Year-End



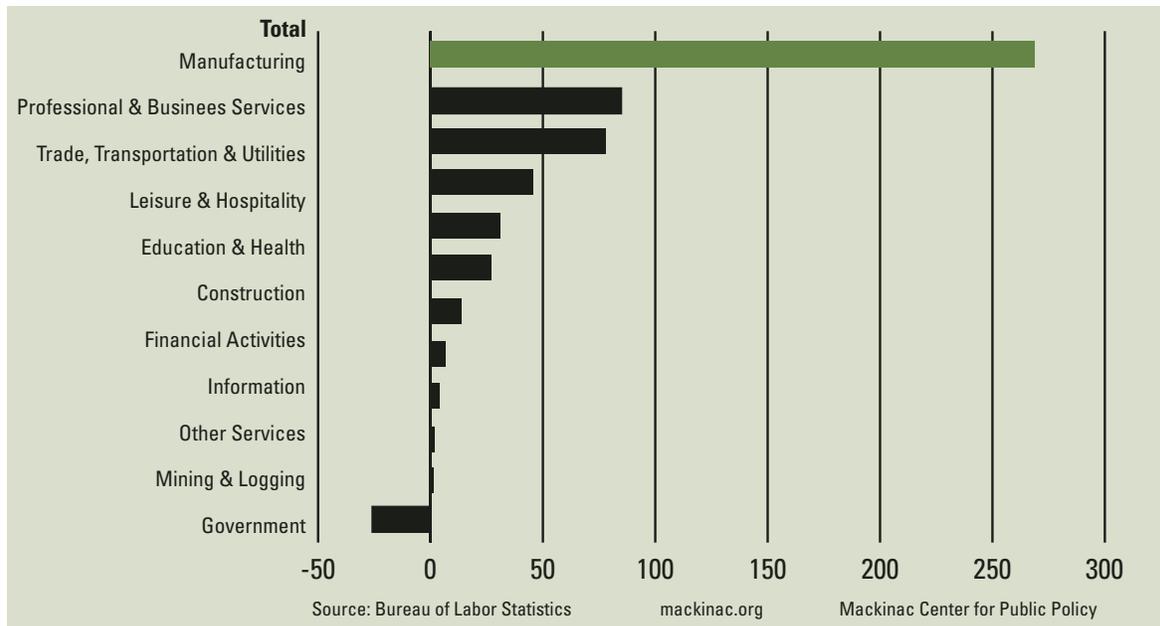
Vacancy Rate vs Manufacturing Employment



the 700,000-square-foot Avastar Industrial Park is now essentially full due to Profile Industrial Packaging Corp. purchasing a 200,000-square-foot condo section. In Lowell, Brunswick Corporation expanded their footprint at 1016 N. Monroe Street and now occupies 398,387 square feet of the 450,000-square-foot building. Additionally, developer/investor Franklin Partners, LLC acquired nearly 1.5 million square feet previously owned by Steelcase and has since leased nearly half of the space to food processor Roskam Bakery Co.

Despite limited quality supply and large chunks of space being eaten up, 2014 saw an overall increase in both sales and

## Michigan Job Growth by Industry, Dec 2010 – July 2014



leasing activity. In 2014, the market executed 123 leases and 101 sales (compared to 108 leases and 75 sales in 2013)—a 12.2% and 25.8% increase, respectively. High demand and healthy activity has pushed us to the brink of full-capacity, and forced brokers and clients to work hard with one another to create solutions. Moving into 2015, we don't see demand or activity slowing down and will be interested to see how the market reacts to and facilitates this momentum. Build-to-suit construction, speculative construction, and reconfiguration of existing product are all anticipated to be strong considerations. One example of new construction in 2014 was Alliance Beverage's warehouse on 60th Street, which was completed this past year. The merger of Kent Beverage and B&B Beverage Co. created the need for the new 276,000-square-foot facility, which sits on nearly 32 acres of land.

The industrial market's last period of considerable growth was spurred by large corporate shutdowns and specific industry consolidations, providing available space. We do not see that being a theme over the next five years. Therefore, we see new construction being the most viable market driver over that period of time. The creation of new space will cause a modest upward adjustment of overall rental rates. It will also increase the rental rate divide as functionally obsolete space becomes even less desirable, and new buildings requiring rates much higher than previously seen. New construction could also cause the creation of a new industrial corridor. As large lots of land will be needed for ground-up builds, historically dense industrial areas might not be the solution. According to our brokers, submarkets with the highest availability of land will see the most interest in 2015 for this reason.

A project to keep an eye on this year is the Site36 development on 36th Street in Wyoming. The 92-acre site was once home to a two million square-foot General Motors stamping plant, which has since been demolished. Site36 is a public-private

partnership between the City of Wyoming, developer Lormax Stern and economic developer The Right Place, Inc. Currently, the partnership has J.O. Galloup, a subsidiary of Kendall Electric, committed to build a \$4.5 million, 104,000-square-foot manufacturing and warehouse complex on the site; however, the majority of the site is still available. Developers are hoping that tax incentives and the site's inherent qualities will attract one or two large-scale manufacturers to make the location home. The site has basically unlimited infrastructure and a community of skilled labor, making for a major story this year if a deal can be struck.

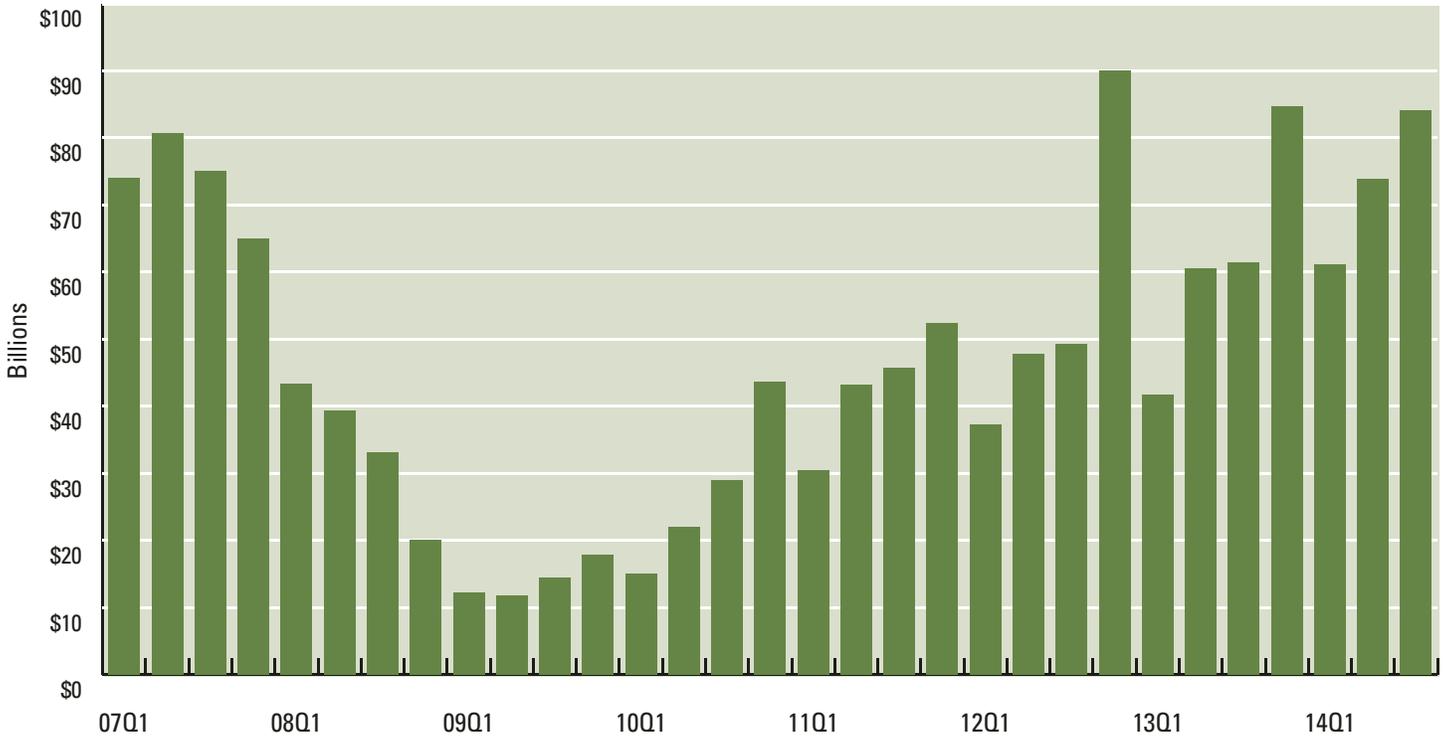
Going forward into 2015, we expect to see employment in the area, specifically manufacturing, have humbled gains. Economist Brian Long, director of Supply Chain Research in the Seidman College of Business at Grand Valley State University, says the region continued to see "modest growth" towards the end of 2014. On a national level, the Business Roundtable's Fourth Quarter Outlook Index communicated some pessimism for the 2015 economy due to government tax policy and regulatory issues, so it will be interesting to see how that effects overseas investment in the U.S. economy. The West Michigan market has been very strong in the face of some of the adversity of the nation, so we anticipate that any major economic slowdown will not hit home as hard for us as in other places.

### INVESTMENT

Sentiment in the investment sector of the West Michigan real estate market remains positive moving into 2015. Steady economic growth and low interest rates continue to be the key forces of increasing investor confidence. Demand for quality opportunities outpaced supply in 2014, causing the market to shift in favor of sellers. Many value-add investors have had to reform their strategy, as most distressed assets have now traded hands. In 2015, competitive debt and equity markets

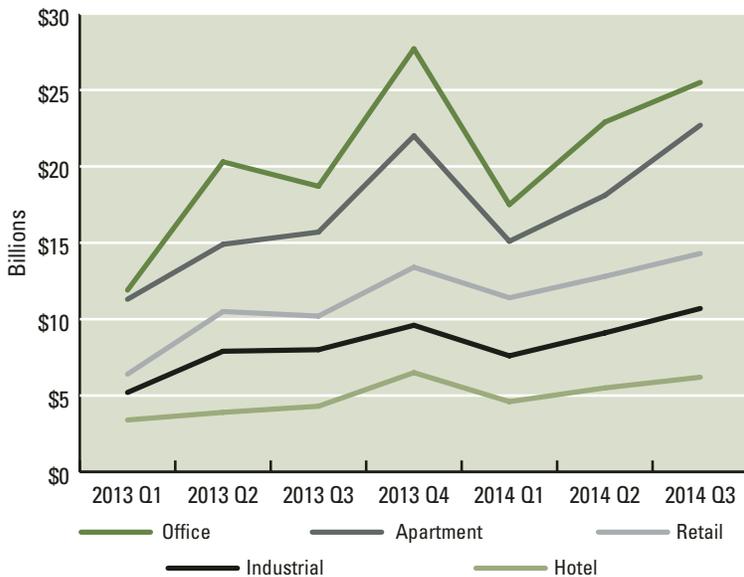
## Total U.S. Investment Volume

U.S. National Properties - RCAnalytics



## Investment Volume by Subtype

U.S. National Properties - RCAnalytics

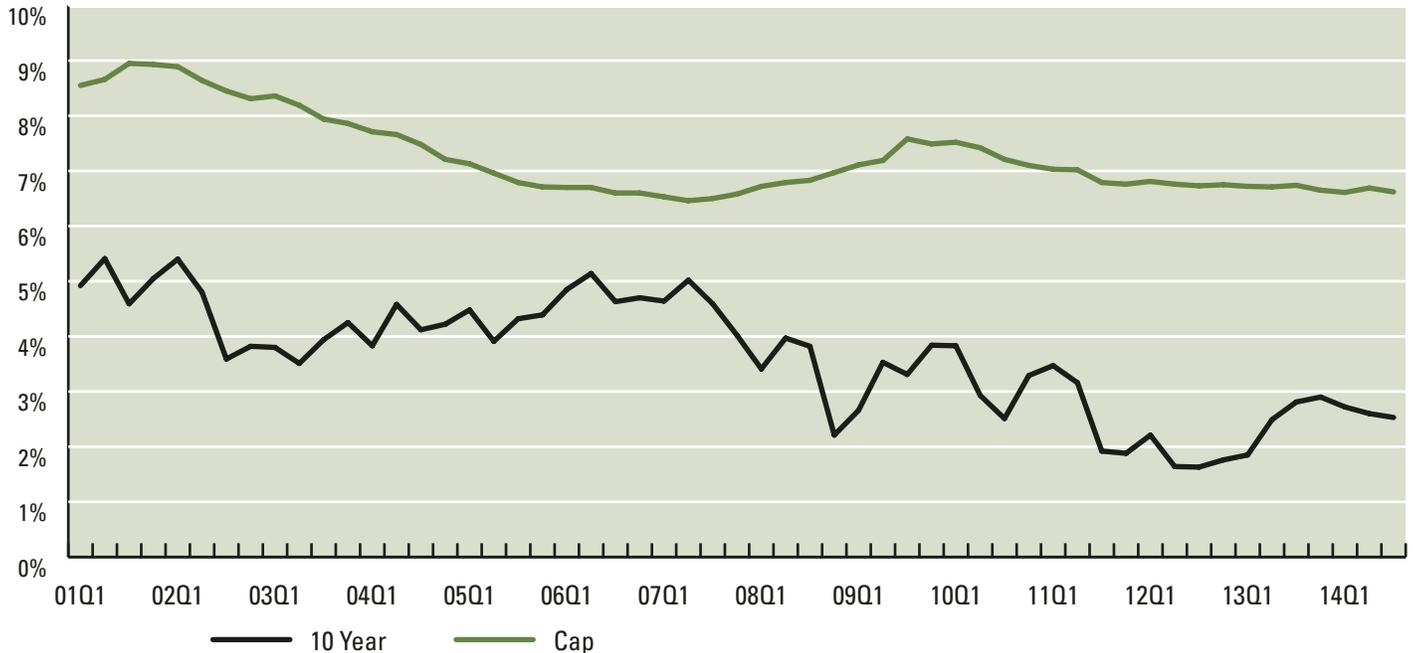


will continue to make the real estate market a competitive arena to deploy capital in. Debt will continue to be the driving force behind investor activity. Commercial banks have largely finished deleveraging and restructuring legacy loans, investment banks have reemerged as a source of funds, and insurance companies continue their steady disciplined lending. According to *Emerging Trends in Real Estate 2015*, “the issue for 2015 is not the volume of liquidity supporting the industry... its navigation.” With rising interest rates looming

in the future, many investors see now as a great time to lock in debt and strategically leverage it in real estate investments. The combination of available capital and shortage of opportunities in major markets has translated into greater interest throughout the West Michigan market. Traditionally, larger institutional investors have operated in areas of familiarity. We are now seeing a wider array of investors exploring the opportunities available in West Michigan. We expect 2015 to be a continuation of this trend and will be monitoring how this affects competition for assets, cap rates and capital invested by out-of-state investors. While West Michigan cap rates are higher than national averages (lower property value compared to operating income), our market saw a decrease across all property types in 2014 that we anticipate will follow a similar trend throughout 2015.

The retail segment lagged the overall market coming out of 2013; however, our prediction that it would rebound in mid-to-late 2014 was proven correct. Moving into the New Year, we expect the retail sector to continue making strides. As stated in last year’s forecast, we see retail activity as a function of an overall economic cycle that starts with industrial growth and leads to job creation, which spurs consumer spending. The industrial market is now at approximately 94% occupancy with steady manufacturing employment growth of 3.4% year-over-year and an unemployment rate at a state low of 4%. We are clearly now into the pro-retail segment of that cycle. This will translate into new retail developments and additional national tenants wanting to enter the market—all good signs for investors and developers of real estate. The Shops at

## 10 Year U.S. vs Cap Rate



Centerpointe on 28th Street SE is a great example of an out-of-town developer/investor coming to the market and successfully executing and repositioning a failing asset. The site has since changed hands to a new investor, completing the investment cycle for this high profile retail location in West Michigan. This project exemplifies the success value-add investors have had across multiple property segments in purchasing a distressed asset, reinvesting in it, and ultimately selling it as a stabilized repositioned piece of real estate.

The office market continues to be divided into two segments—the downtown Central Business District and the suburbs. The downtown district has experienced significant ownership consolidation over the past 36 months, with many buildings being purchased by firms with a local presence. New owners are well capitalized with multi-year repositioning strategies focused on adding amenity packages, updated common areas and building exteriors. The result is rental rates that have risen by approximately 25% since 2011. Twenty5 (25 Ottawa Avenue), the Trust Building (40 Pearl Street), Calder Plaza (250 Monroe Avenue), 99 Monroe, Bridgewater Place (333 Bridge Street), and the Waters Building (161 Ottawa Avenue) are all examples of assets that have changed hands during the last three years. Suburban office buildings will begin to see the trend taking place downtown of ‘acquisition to reposition,’ as limited inventory of downtown will push investors to the suburban market.

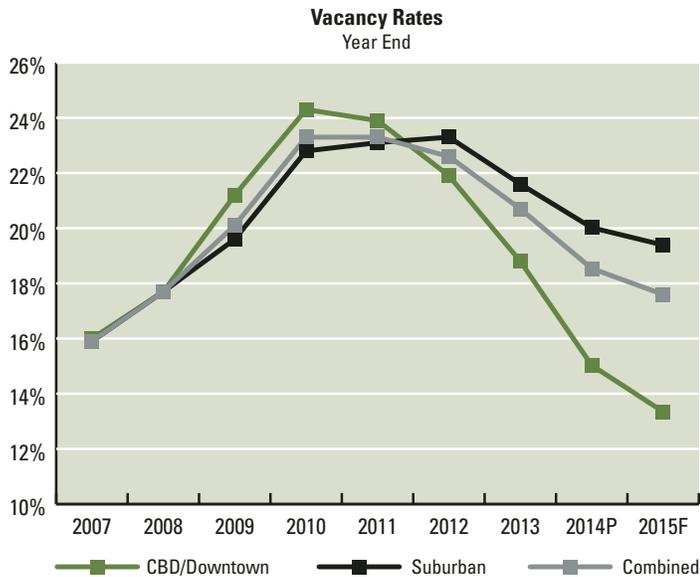
The industrial market remains one of West Michigan’s most active property types for investors. There is virtually no availability of quality, heavily infrastructured industrial buildings. Investors who can identify opportunities to create space for tenants will be able to improve their asset’s value through tenant lease-up. This past year, Franklin Partners,

an Illinois-based investor, purchased 1.5 million square feet of Steelcase’s campus on Broadmoor Avenue. They have since leased nearly half of the building and have the remaining space in the building and approximately 35 acres of vacant land on the market. Other notable transactions include national REIT, ARC Global Partners’, purchase of the 281,715-square-foot GE Aviation building at 3290 Patterson Avenue for \$138/square foot. Finally, New York-based Praedium Group purchased the 434,000-square-foot, single tenant building at 4247 Eastern Avenue. In 2015, we predict increased activity from out-of-market investors actively seeking industrial investments as the West Michigan market continues to grab the national spotlight for its economic stability.

Multi-family apartment projects have been the most actively traded asset in our market. With a growing workforce and the rising popularity of West Michigan, occupancy rates are at record highs. New multi-family developments are underway or in the planning stages throughout West Michigan. With over 1,300 units delivered, under construction, or planned, the downtown Grand Rapids market will see increased investor activity continue to pressure cap rates lower. Notable transactions include the sale of a 222-unit property known as Richmond Hills Apartments, and 306-unit Oxford Place. Both properties should see investors increase rents through strategic unit upgrades. A New York-based investor, The Embassy Group, had a big year with acquisitions that included the Cambridge Partners six-property portfolio that consisted of over 1,000 units, as well as the 144-unit Glen Oaks East Apartments.

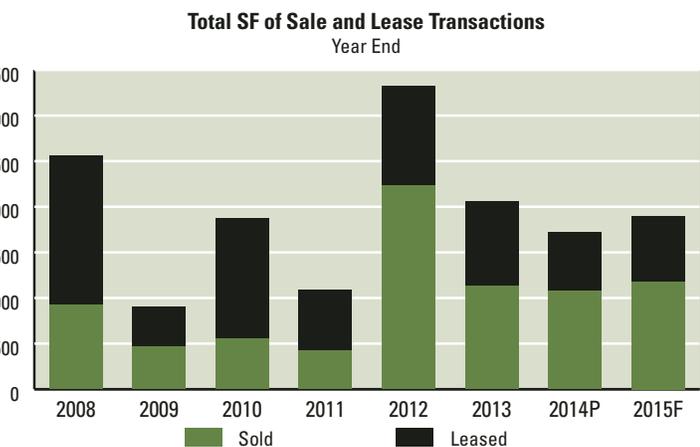
A market driver affecting all property types in 2015 will be increases in new construction. Fundamentals have continued to improve, and the increased demand for quality space

will lead to the new construction. The positive economic environment of West Michigan will continue to attract investors seeking real estate investment opportunities, although shortage of inventory will be a barrier to entry in our marketplace throughout 2015. The basic “principle of anticipation” states that any investment is priced based on the anticipated benefits of future ownership. We believe the West Michigan market has a stable and bright future and expect that investors will continue to experience this as West Michigan continues to receive accolades for entrepreneurship, growth, hospitality and sustainability.



**OFFICE**

In 2014, the West Michigan office market was shaped by a few key factors—continued job growth, evolution of the way office space is used, transportation logistics, and repurposing/repositioning of office buildings. We saw unemployment in West Michigan drop 180 basis points to 4.9%, and private sector employment grow 320 basis points with the addition of 17,300 jobs as companies continue to expand. (Compare this to a state unemployment rate of 7.1% and a private sector employment growth of only 50 basis points). While companies make strategic moves to accommodate this growth, they are



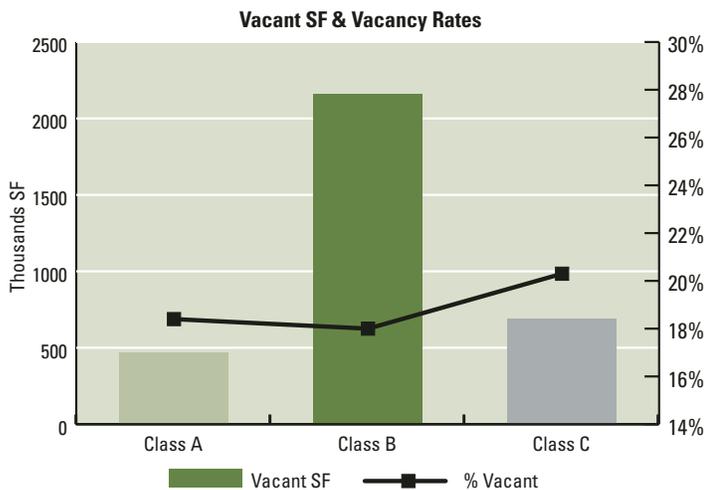
engaging space planners to incorporate design efficiencies and collaborative work environments. Tenants and landlords alike have largely embraced this and in turn have seen some major repositioning and repurposing of a few marquee office buildings in the market, specifically downtown. Companies looking for a new office are prioritizing the look and feel of space over other factors now more than ever. This sentiment was echoed by the recently-held Commercial Construction & Development Roundtable, in which 10 executives from the industry discussed trends they are seeing in the market. Finally, the investment and growth of our public transportation system has helped alleviate some of the growing parking concerns and enabled workers to sprawl while still having efficient access to downtown workplaces and mobilization during the workday. The Rapids launched the \$40 million Silver Line Transit system this past fall, which is a 9.6-mile route that connects the city’s core to the Medical Mile, Wyoming and Kentwood. Supporters say the route can cut an average commute by approximately 40%. This ability has added to the allure of making downtown a place to call home.

As the recovery has regained a foothold, we are now seeing enough confidence to explore the market and its possibilities. As Grand Rapids continues to grow as an urban destination, building owners have to progressively plan to keep up with the shifting paradigm. New owners of Arena Station at 25 Ottawa Avenue have rebranded it “Twenty5,” which at the time of acquisition was roughly 40% occupied. Repositioning this asset will include new common areas and the addition of various tenant amenities. Other buildings in the market have begun the repositioning process as well. The Waters Building at 161 Ottawa Avenue was purchased by Waters Building, LLC. Plans for this historic 290,000-square-foot office building include office, retail, residential and hotel space. The renovation is scheduled for completion in late 2015 with an estimated cost of \$35 million.

Arena Place, located at 45 Ottawa Avenue SW, broke ground in 2014. It will be a mixed-use building anchored by law firm Miller Johnson, who will occupy 54,000 square feet, as well as restaurant operator Meritage Hospitality Group and brand agency Domoregood|Hanon McKendry. The 11-story building located just west of the Van Andel Arena is scheduled for completion in late 2015. Arena Place Development, LLC is teaming with Concept Design and Orion Construction to design and construct the building. Other repositioning projects to occur in the CBD are The Ledyard Building (125 Ottawa Avenue), The Trust Building (40 Pearl Street), and The Trade Center Building (50 Louis Street). In a number of situations, building owners were able to work with the Downtown Development Authority for façade grants, Brownfields Tax Incentives, Tax Increment Funding (TIF), and the Michigan Strategic Fund (MSF) for assistance.

The suburban office market is primed to shift, as well. As the downtown office market becomes increasingly tight, tenants will begin to seriously look at alternative options in the suburbs. With an emergence of call-center type users, as well

as a shift toward collaborative work environments, the number of workers occupying space has grown. This will increase the demand for on-site parking, and users demanding a higher ratio of spaces will be intrigued by the suburbs due to the lack of availability and cost of downtown parking. Additionally, owners of suburban office buildings will be put under pressure to upgrade their buildings, to meet expectations of tenants who know about the quality of buildings downtown. Because the cost of redevelopment of outdated or obsolete product can be cost prohibitive, we expect the reemergence of new suburban office construction in the near future. One example of new construction is the three new medical buildings planned to be completed in 2015 on East Paris as Phase II of the existing Heritage Pointe Center, which will total approximately 80,000 square feet of new space. Currently, the suburban office market is largely built-out but not repositioned in the main corridors such as East Paris, Cascade Road and the East Beltline. We expect to see some creativity in construction and even the possibility of a new suburban corridor emerge south near M-6.



Looking forward into 2015, we expect to see the trend of repositioning continue downtown and begin in the suburbs. As competition for tenants force ownership groups to get creative with their buildings, we predict more reimagining and more multipurpose building configurations. We will also see the downtown market begin to develop north and south as the core becomes increasingly tight. The office market has maintained steady absorption for the past 16 quarters and, despite planned additions to market inventory, many tenants looking to expand or upgrade will be left with fewer and fewer quality options. Tenants looking for new offices are beginning to fall into two distinct camps—those willing to pay a premium for the amenities and prestige of a Class A building, which have exhibited increasing rental rates due to investment into them, or those shopping for value in suburban or Class B/B- downtown space. Because of this, some of the Class B+ space is being caught in the middle. Landlord concessions will continue to fall as they gain more leverage against tenants and lease terms will increase as the market continues to stabilize. We foresee 2015 being another successful year for the office market, granted the

maturity of trends we saw in 2014 and the shifts we predict moving forward. We also expect positive absorption for each of the next four quarters, and as Grand Rapids continues to gain national recognition for talent, opportunity and entrepreneurial spirit, we see no signs of it reversing course anytime soon.

## RETAIL

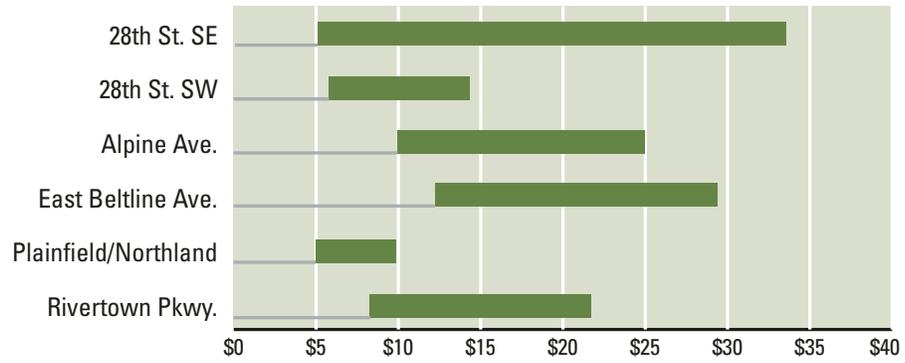
Many Grand Rapids retail market historical trends of the past continued into 2014. New marquee transactions or projects and big name tenants entered or expanded within the market as well. West Michigan continues to gain significant interest from national retailers as the region continues to lead as one of the most successful recession recoveries in the nation. The area has received numerous awards and recognitions from national publications and, due to its increased attention, major retailers have started exploring the opportunities that exist. In addition to individual retailers gaining interest in the market, large investment groups are also figuring out ways to put down roots in the area. We have seen a number of large-scale renovations and ground-up builds started or planned for in the market. This year initiated a lot of momentum, and we expect some of these big name projects and tenants to continue to drive activity into 2015.

In 2014, we saw a full range of retail activity—continued development of the new Bucktown Shopping Center in Grandville, reconfiguration of the former Centerpointe Mall on 28th Street Southeast, the addition of Tanger Outlets to the market, and planning for The Village at Knapp’s Crossing—all noteworthy projects to keep a close eye on. We expect these centers to aggressively drive retail commerce in their respective areas moving forward.

Anchored by Target and Cabela’s, Bucktown Shopping Center has further plans to expand in 2015 and recently attracted new tenants such as Panda Express and Tom+Chee, a restaurant concept featured on television shows like ABC’s “Shark Tank” and the Travel Channel’s “Man vs. Food.” Furthermore, after more than \$50 million in investment into the de-malling of Centerpointe Mall, previous owners sold the site for \$68 million to an investment firm out of New York this past summer. The new owners plan to continue the progress already started and position it as one of the most prominent retail locations in West Michigan. The center has been rebranded The Shops at Centerpointe and, with the help of the leasing team at Colliers International | West Michigan, owners are currently in negotiation with tenants to continue making a dent in the vacancy rate. The mall, once considered all but dead, is inching closer to becoming fully leased. In addition to traditional mall retailers, food concepts such as Potbelly, 5 Guys Burgers & Fries, Saladworks and Red Olive have recently come to newly created outlots in front of the center, and we expect to see the remaining vacant space fill up quickly. Additionally, Tanger Outlets has begun construction at their newly acquired site south of Grand Rapids at US-131 and 84th Street, attracting tenants such as Nike, Polo Ralph Lauren, H&M, Old Navy, Under Armour, Banana Republic and many more. Finally, plans to revitalize the retail project at Knapp and

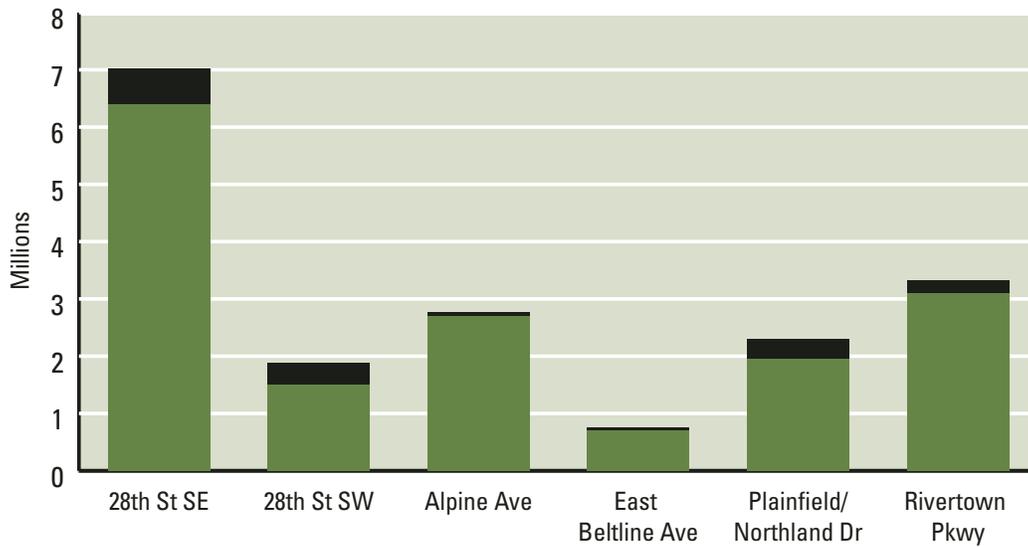
### Asking Rent by Corridor

\$/SF/YR, Year-End

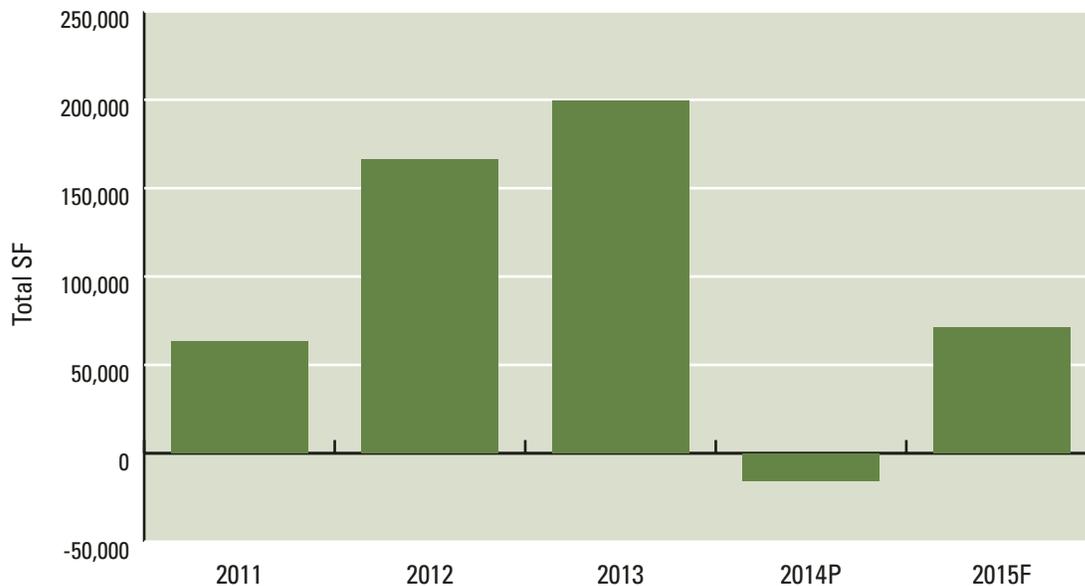


### Vacancy Percentage of Total Inventory SF

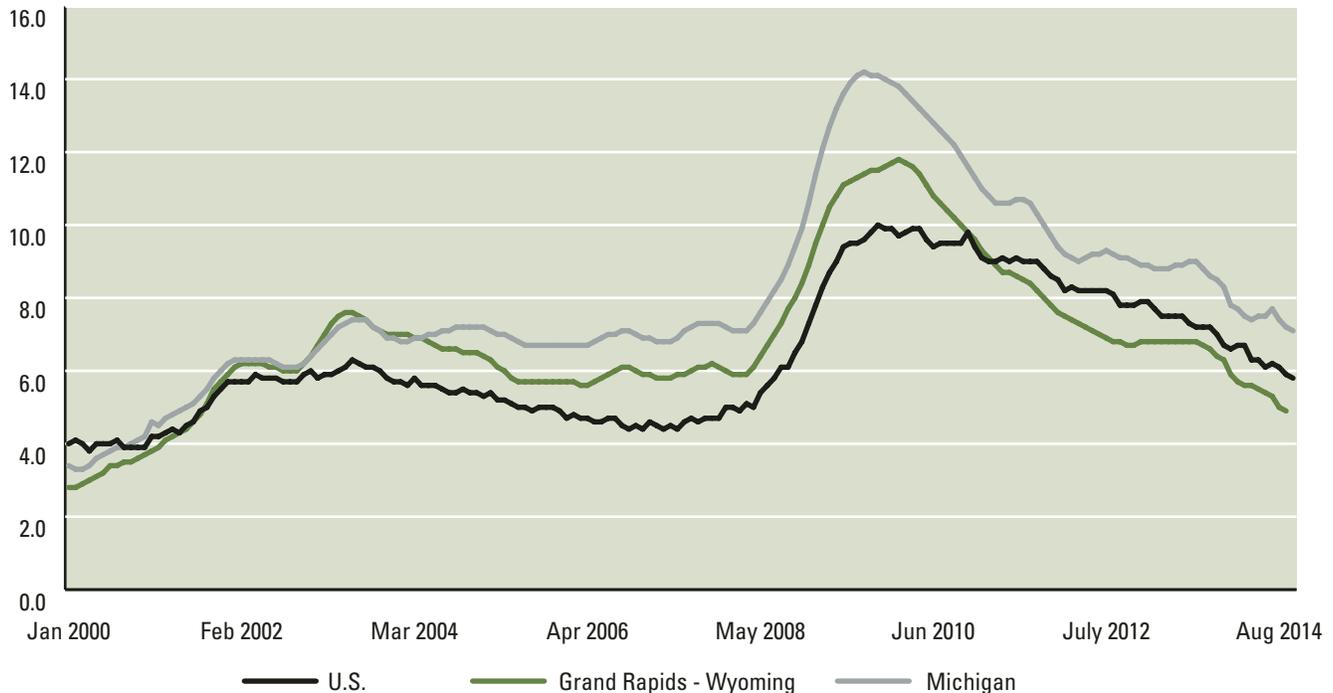
(by submarket)



### Net Absorption



## FRED Unemployment Stats



East Beltline are regaining steam as well. Detroit-area investor Lormax Stern, who started the Centerpointe Mall renovation, is currently in the planning stages of development and will be announcing more formalized plans early in 2015. Currently, the center is home to D&W Fresh Market and P.F. Chang's.

The historically active retail corridors continue to garner much of the tenant interest; however, as these available spaces become absorbed, rental rates will continue to rise, lease term length will continue to grow, and new construction/renovation will likely be common. Landlords in tertiary retail corridors still struggle with attracting quality tenants, which has historically been the case, and 2014 was no different. These landlords must offer additional concessions and be willing to be flexible with tenants' situations in order to fill space. Moving into 2015, this trend will continue. Rental rates will grow slightly in sought-after retail areas while rates in secondary corridors are unlikely to make any significant progress. Prominent tenants coming into the market will likely seek prime location and will have to pay a premium for it as inventory declines. These tenants are less likely to settle for unimpressive retail centers, which will in turn keep those centers searching for occupants.

In 2015, we will be interested to see how the activity downtown will affect the retail market. With an increasing commitment to downtown residential living, we expect to see that translate into growth within the downtown retail scene. Many large residential projects are underway or planned in the Central Business District, with a current projection of doubling residential units within the next few years. As more and more people decide to live downtown, retailers

will follow that demand. In addition, with the reimagining and repurposing of some of the major downtown office buildings, the increased workforce activity will likely factor into retailers' decisions to possibly locate downtown as well. Office space has been positively absorbed for the past 16 quarters, so retailers will be looking to take advantage of the demand that creates. Furthermore, with New Holland Brewing and Harmony Hall set to open new locations on Bridge Street and the Michigan Street Corridor Planning Initiative underway to decide how to modernize Michigan Avenue, we will likely see an expansion of the downtown retail market in both east and west directions.

The upcoming year is expected to bring more growth. It can't be overstated how well West Michigan has rebounded since the recession or how well consumer confidence in the region has driven retail expansion. The area is not only a bright spot for the State of Michigan, but for the Midwest and the nation as a whole. Local entrepreneurial-focused 'seed funds' like Start Garden continue to gain momentum and publicity and will lead to new and unique retail concepts in the area. We foresee continued interest from all types and sizes of retailers and expect 2015 to introduce even more new-development and redevelopment ideas. As always, absorption and rental rates will reflect demand, and we see demand continuing to grow. It is an exciting time to be in Grand Rapids. ■

# Grand Rapids Economic Forecast 2015

Paul Isely, Ph.D., Department of Economics  
Seidman College of Business

The Current Business Confidence Index for 2014 is 75%, its highest reading since the 1990s.

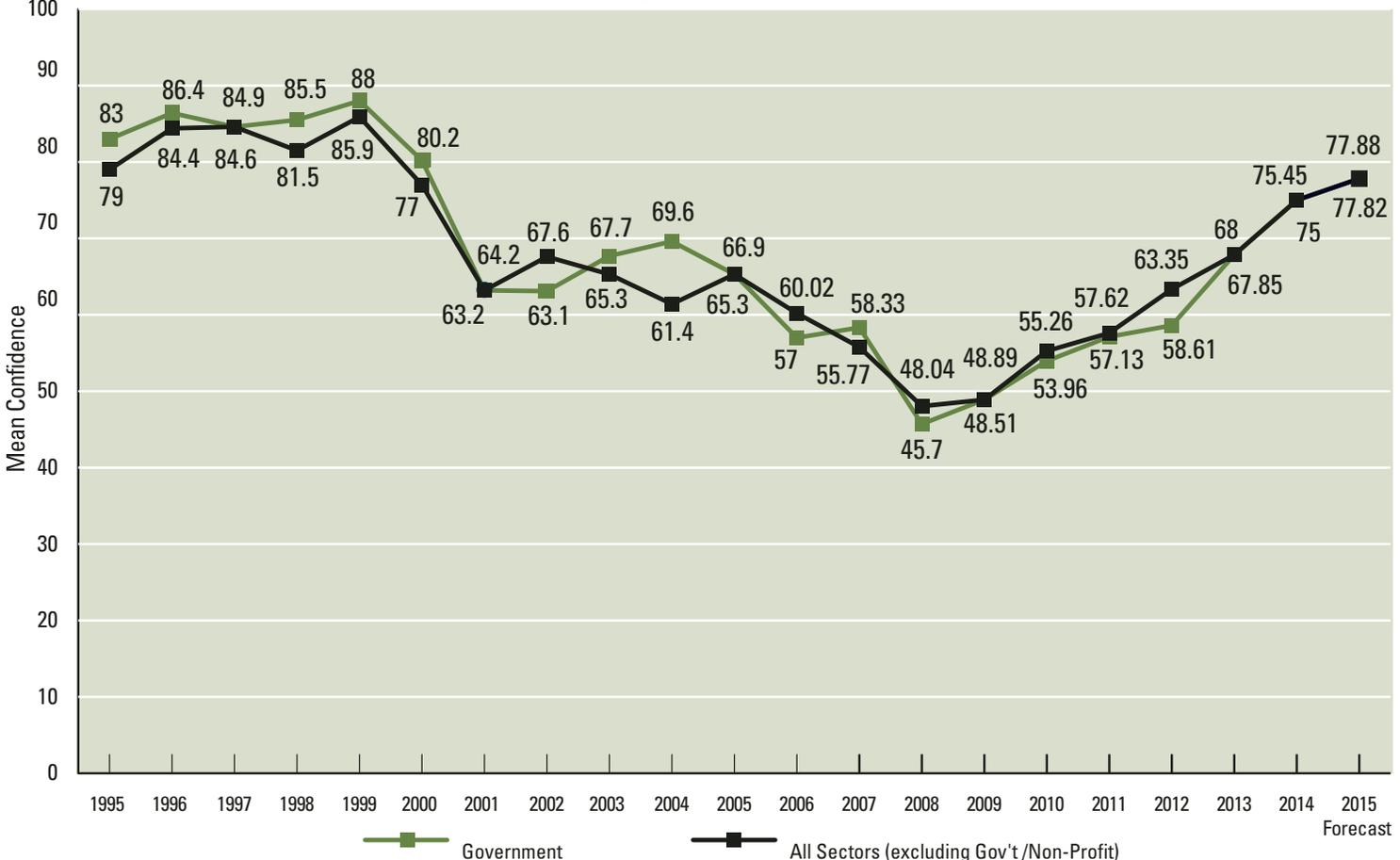
- The Forecast Business Confidence Index for 2015 is 77.8%.
- Employment is expected to grow by 2.8%–3.2% in 2015.
- Overall, nominal sales are expected to increase by 2.5%–2.9% for 2015.
- Export growth in 2015 is forecast to be weaker than last year; expected growth is 6.7%–7.7% during 2015
- All indicators signal the 2015 economy continuing to grow as last year.

## Introduction

The survey for the greater Grand Rapids economy, Kent, Ottawa, Muskegon, and Allegan counties (COMA), was conducted in December 2014. A survey was mailed to the CEOs and business leaders for just over 964 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, 170 organizations responded, resulting in a response rate of 18%, 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. Note that the total numbers in the histogram figures do not add up to exactly 170 because a few respondents did not answer all questions.

**Figure 1** West Michigan Confidence Index 2015

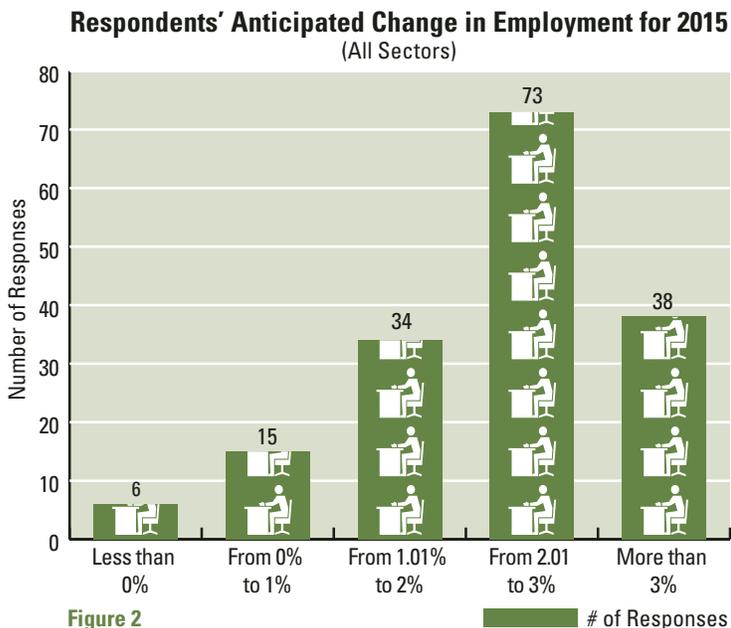


## Confidence Index

A continuing goal of our 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 0% (no confidence at all) to 100% (complete confidence). In the average responses over the last 19 years to the question: *How confident are you in the regional economy?* are shown in figure 1.

Last year, the expected private sector confidence index for 2014 was 70%, but by the end of 2014 originations reported their current confidence at 75%, showing firms were positively surprised for the second year in a row. For 2015, organizations expect a 75% confidence level, which is the highest reading since December 1999. There has been a steady increase in confidence since the low seen in 2008, and the West Michigan business leaders surveyed see this improvement continuing during 2015.

The West Michigan confidence is now back to levels seen during the 1990s. The regional economy is expected to continue to grow in 2015, but the rate of this increase is also expected to slow down.



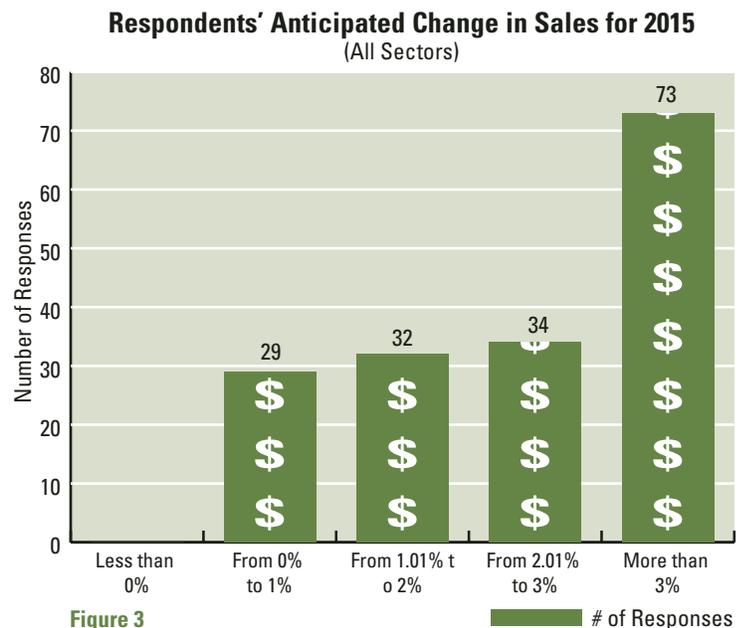
## Employment

Michigan's economy was led out of the recession of 2007 to 2009 by automotive manufacturing. This growth is now slowing and employment growth is shifting to services. For 2014, employment for KOMA was projected to grow at an average of 2.7–3.1%. The numbers from the Local Area Unemployment Statistics (LUAS) survey indicate that employment in KOMA has grown by approximately 6.8% from October 2013 to October 2014, reflecting the positive surprise seen by business leaders. The more accurate Current Employment Survey shows a 3.8% employment growth for the covered Metro Statistical Areas. This is also above the top end of the forecast range for last year.

Figure 2 shows the responses to the question: *What percent change do you expect in employment for the four counties in 2015?*

In 2014, 40% of respondents expected hiring growth greater than 3% in 2014, but now 22% expect hiring to grow that fast in 2015. In addition, 3.6% of respondents expect to reduce their work force compared to less than 1% last year. This suggests that business leaders see employment growth in 2015 to moderate. Average employment in the KOMA region is expected to grow at 3.0% which is nearly the same as expectations last year, but well below actual employment growth in 2014.

More than three quarters of respondents (78%) expect to hire in 2015, which is up from 69% last year. Of those persons being hired, about 80% are expected to be permanent workers. This continues to suggest hiring in West Michigan at a rate faster than the country as a whole.



## Sales

For sales, the respondents answer the question: *What percent change in sales do you project for the four counties in 2015?* During the late 1990s, sales grew at an annual rate of 5%. Over the last few years the respondents have been clustered around the 1%–3% range. This year, sales are expected to grow at 2.7%, only slightly faster than last year.

Note that our sales numbers are for the nominal sales of all goods/services produced in the West Michigan economy. Consequently, the increase could be in prices and/or quantities.

## Export Growth

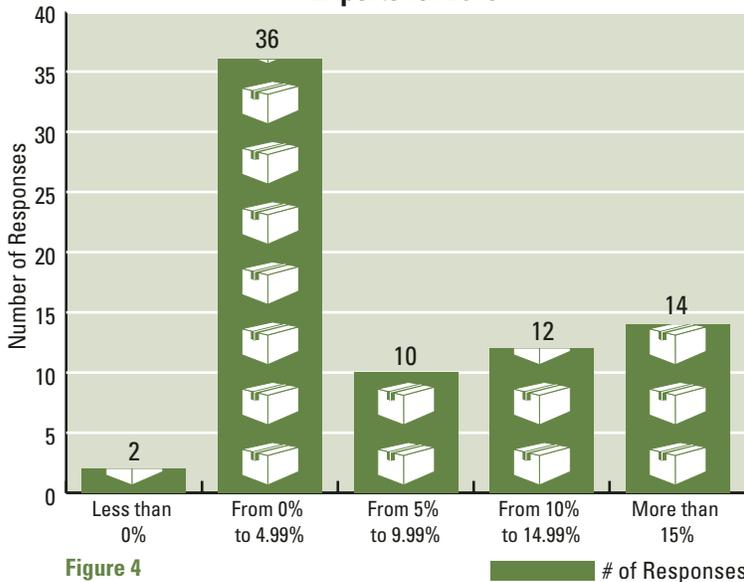
Exports have been a bright spot in the West Michigan economy the last few years. This year, exports are expected to slow down compared to last year, with respondents expecting a 7.2% increase for 2015. This reflects the slowdown in

the rest of the world. However, since the expected growth of exports is based on a much smaller sample of only 74 respondents, it should be viewed with caution.

### 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. ■

### Exporting Respondents' Anticipated Change in Exports for 2015



### General Outlook

At the national level, expected growth will average between 2.5% and 3.5% for 2015. The economy will continue the slow acceleration seen in 2014. Nationwide employment will continue to improve in 2015. 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 will likely lead to increases in wages in sectors like construction and manufacturing.

At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 70%. Employment will grow by approximately 3.0%. Nominal sales will increase by 2.7%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to continue to grow next year by 7.2%.

Two major uncertainties exist for 2015. First, the United States stands alone in economic growth. The headwinds internationally are affecting domestic growth, but so far the effects have been limited. The longer the rest of the world takes to become more vibrant, the larger the effect will be on the United States. During the second half of the year commodity prices dropped drastically, especially energy prices. This is because of increases in supply and decreases in demand internationally. The drop in prices is now large enough that some producers may begin to exit the markets, and this will start to increase prices in the longer term. Overall, the U.S. and West Michigan economies ended 2014 better than they started them, and 2015 will see more of the same.

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