Seidman Business Review

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

SEIDMAN
COLLEGE OF BUSINESS

GRAND VALLEY
STATE UNIVERSITY

Vol. XVIII
Winter 2012

Find out:

What is in store for the West Michigan Economy in 2012

How different sectors of Commercial Real Estate will perform in 2012

What Purchasing Managers are doing about new orders, production, and prices

What the prospects are for Residential Real Estate in West Michigan

And much more …

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Seidman Business Review *is an annual publication of Grand Valley State University's Seidman College of Business, Grand Rapids, Michigan.*

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From the Dean …

As we begin 2012, I am pleased to announce that, once again, the Seidman College of Business has received reaffirmation of AACSB International accreditation[1] at both the College of Business and School of Accounting levels! We attribute large measures of this continuing success to the culture and support of this West Michigan community. Almost assuredly, neither the University nor the College could maintain this kind of consistent excellence and academic achievement without this community's commitment to Grand Valley State University and the Seidman College of Business—and our reciprocal commitment to this community! Indeed, the responsibility we feel to serve this business community drives us to greater heights of excellence and achievement both inside and outside the classrooms. It is in that vein that I welcome you to another edition of the *Seidman Business Review!*

As we continue a slow—but steady—recovery from the "Great Recession," the experts deliver some mixed results for the local, regional, and national economies. Still, the following pages are filled with some of the best analyses of aspects of the economy as you will find anywhere in the country, including the critical, highly anticipated economic and real estate forecasts for 2012, a supply-management purchasing index review and projections, and a performance review of West Michigan's regional stocks. In addition, the Review's commentators share perspectives on Kent County's housing market, this region's embracing of sustainability, and how Michigan's business schools continue to respond to the challenges of creating academic environments that support student education and preparation for ethical business leadership.

Grand Valley State University was founded on a promise of social and economic impetus for this region of Michigan. The Seidman College of Business was born to support the vision of fulfilling that promise—by providing cutting-edge, relevant, and real-world commentary regarding existing and emerging business knowledge and innovations, in ways that are relevant and compelling for West Michigan businesses and other public and private organizations. We hope you agree that the Seidman Business Review supports the fulfillment of that promise!

(Incidentally, Seidman's faculty experts excel at teaching, applications-based research, and consulting—as confirmed and highlighted in the recent reaffirmation of AACSB International accreditation. I urge you to peruse the "Panel of Experts," on the last page of this issue. Perhaps, you can utilize Seidman's faculty expertise to improve your operations and facilitate your business and management initiatives.)

Oh, and by the way, I wouldn't place too much stock in that Nostradamus forecast … I heard he's, at best, 50-50!

H. James Williams
Dean, Seidman College of Business

[1]AACSB (Association for the Advancement of Collegiate Schools of Business) International is the premiere accrediting agency in the world for business schools and accounting programs. Seidman is one of 177 business schools in the world achieving both business and accounting accreditation.

Seidman Business Review Winter 2012 Contents

WEST MICHIGAN ANALYSIS

BUSINESS ISSUES

Grand Rapids Economic Forecast 2012

Hari Singh, Ph.D., and Nancy Boese, M.B.A.[1]
Seidman College of Business

- Business confidence index is poised to approach 60% for the first time in 5 years
- Employment is expected to grow by 1.5% to 2% in 2012
- Overall nominal sales are expected to increase by 2.5% for 2012
- Exports continue to be a bright spot; expected growth is 7% during 2012
- All indicators signal a continuous but slow improvement in 2012

Introduction

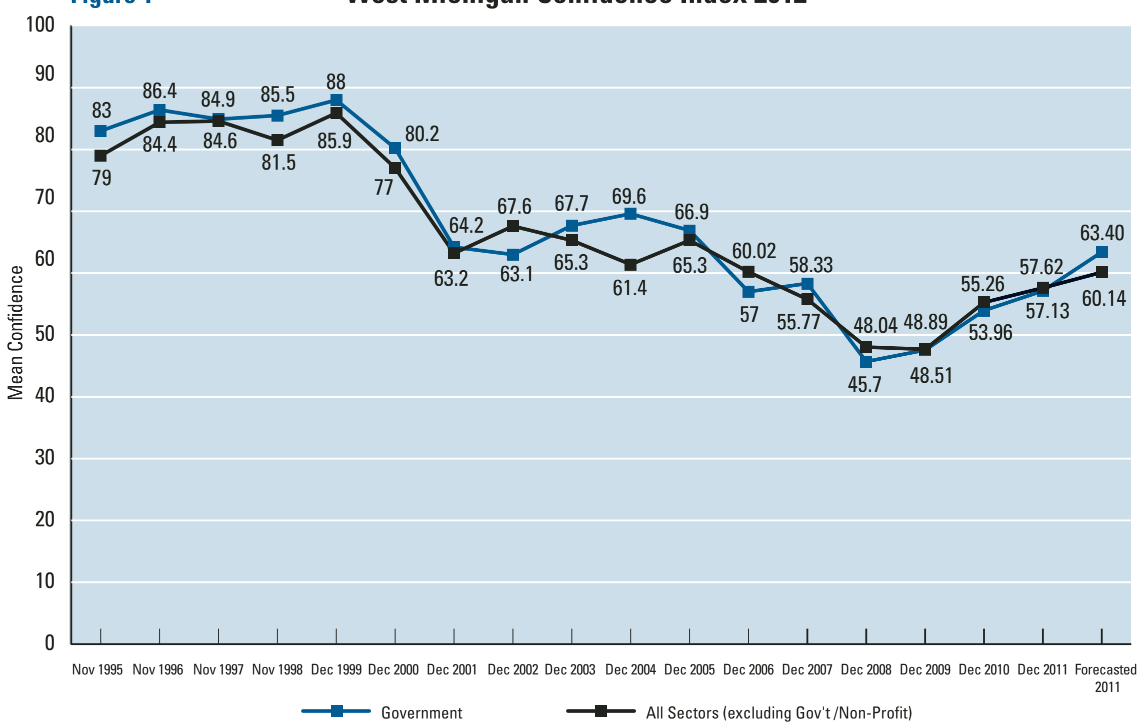
The survey for the greater Grand Rapids economy (Kent, Ottawa, Muskegon, and Allegan counties) was conducted in November 2011. A survey was mailed to the CEOs of 1000 organizations based on a representative sample. We tried to ensure that the sample represented different sectors of the regional economy and the geographical diversity of the area. Eventually, 259 organizations responded, resulting in a response rate of 26%. Due to the small sample size, 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 259 because a few respondents did not provide their employment or sales data.

Confidence Index

A major 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 zero percent (no confidence at all) to one hundred percent (complete confidence). In response to the question: *How confident are you in the regional economy?* The average responses for the private sector and the government/non-profit sector over the last 17 years are shown in Figure 1.

Figure 1 **West Michigan Confidence Index 2012**



Let us consider the private sector confidence index. The current results need to be interpreted in a larger historical context. For the last seventeen years that we have surveyed the region, when the economy has been growing steadily at a robust rate, the confidence index has depicted a high level of confidence, generally around 80% for the private sector. Since the 2001 recession, the confidence index has been in the vicinity of the sixties and the high fifties. The confidence index in 2008 and 2009 was below the 50% benchmark. In December 2010, the confidence index had

[1]Hari Singh is a Professor of Economics in the Seidman College of Business at Grand Valley State University. Nancy Boese is the Business Tools Specialist of The Small Business & Technology Development Center (MI-SBTDC). We were aided by invaluable research support from Hazel Muntongerwa, graduate research assistant in the Economics Department.

increased to 55.3%. In November 2011, it increased to 57.6% and is projected to increase to 60.1%. The government and nonprofit sector has similar numbers: 54% for 2010 and 57.1% for 2011, and 63.4% projected for 2012.

For the first time in the last five years, the projected confidence is approaching the 60% benchmark. There is a palpable increase in the regional confidence for the next year. The regional economy is expected to improve slowly in 2012 after a long consolidation process.

Respondents' Anticipated Change in Employment for 2012
(All Sectors)

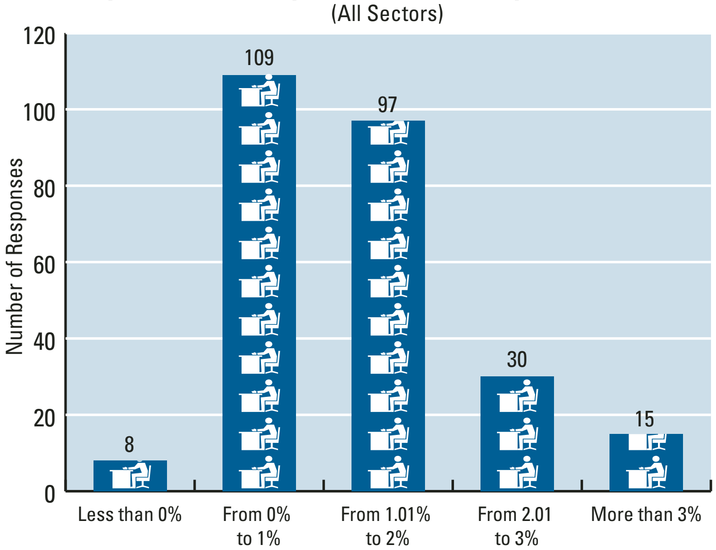


Figure 2

Employment

Due to the restructuring in the manufacturing sector, the regional labor market in West Michigan had been repairing at a very slow pace since the recent recession. For 2011, employment was projected to grow at an average of 2%. Actual employment growth has been slower. The numbers from the Local Area Unemployment Statistics (LUAS) survey indicate that employment in KOMA has grown by approximately one percent. The Current Employment Statistics (CES) establishment survey for the three metropolitan areas (Grand Rapids-Wyoming, Holland-Grand Haven, and Muskegon-Norton Shores) indicates employment growth of approximately 1.8%. It appears that our projection last year was more optimistic than what actually happened in 2011.

Factors that continue to depress expectations for 2012 are the same ones that slowed the recovery in 2011. They include the still-tight credit market for small business, the persistently high unemployment rate, fiscal uncertainty and higher debt at the federal level, and ongoing concerns about the Eurozone. Consumer and business confidence will consolidate slowly as the national economy improves. The structural problems in Michigan will continue to depress expectations compared to the national profile. However, the new resurgence in the manufacturing sector is encouraging.

The respondents answer the following question: *What percent change do you expect in employment for the four counties in 2012?*

For 2012 we can see that the distribution is clustered in the 0 to 2% range, but there are 142 respondents who expect to hire more than 1%. Only 8 respondents expect to reduce their work force. Average employment is expected to grow at 1.4% (without outliers) and 2.1% (with outliers). Given these expectations, regional employment will grow in the 1.5% to 2% range.

More than half of the respondents (51%) expect to hire next year. Of those persons being hired, about 70% are expected to be permanent workers. These numbers corroborate the slow improvement in the labor market in 2012.

Respondents' Anticipated Change in Sales for 2012
(All Sectors)

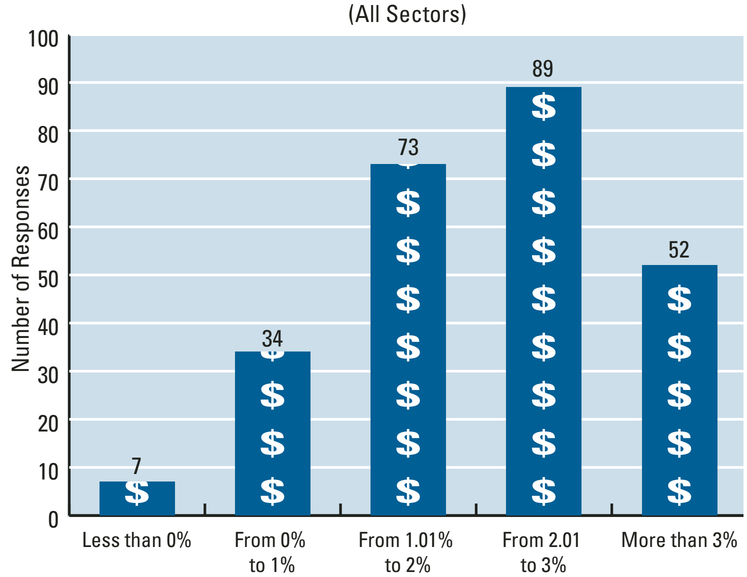


Figure 3

Sales

For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2012?* In times of robust economic growth, sales have grown at an annual rate of 5%. The sales projection made by respondents for last year was 2.5% for the private sector (without outliers). We can see in Figure 3 that respondents are clustered around the 1% to 3% range. The holiday season shopping numbers indicate that retail sales are showing a significant rebound. In this context an overall sales growth of 2.5% seems reasonable.

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

In spite of the recessionary times, exports have been growing above 6% for the last few years. Part of the export growth is propelled by the low value of the dollar and the resumed high growth rates in Asia, particularly China and India. This year exports are expected to grow at approximately 6.5% (without

Respondents' Anticipated Change in Exports for 2012

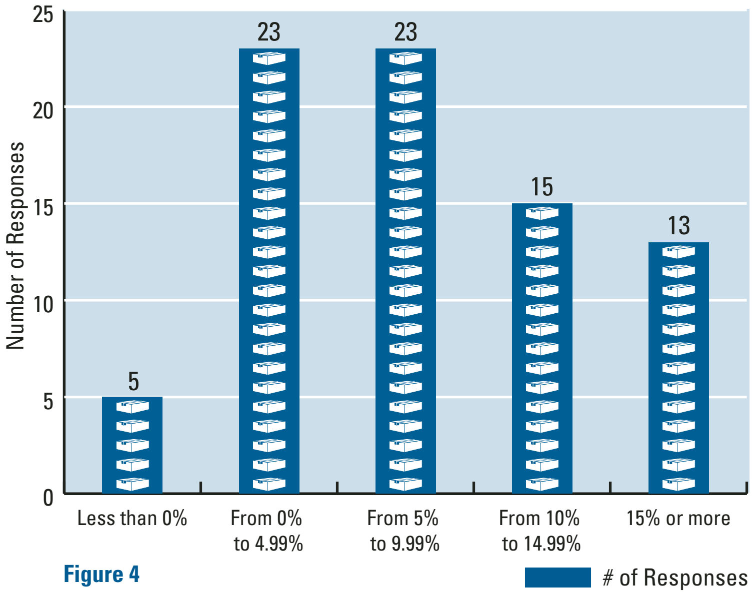


Figure 4

outliers) and 8.2 (with outliers). Actual growth will be in the 6% to 8% range for 2012. However, since the expected growth of exports is based on a much smaller sample of only 79 respondents, it should be viewed with caution.

General Expectations

The slow improvement in employment, sales, and exports has also influenced the expectations about achieving a robust regional growth rate of 5% in the near future. (Figure 5) Approximately 43% expect a robust growth by December 2013. A significant majority (57%) expected a robust growth only after December 2013. These numbers are more pessimistic than last year. Anecdotal evidence suggests that most respondents have a notion that even in "good times" we will return to a "new normal" although most are not clear about what this would look like. Given the continued national and global uncertainty and the continuous bickering at the Federal level, this pessimism is understandable.

General Outlook

What is the final word on the national and regional economies? At the national level, expected growth will average between 2% and 3% for 2012 with significant volatility. The economy will continue to grow slowly. Nationwide employment will continue to improve in 2012. The Household Survey job report from the Bureau of Labor Statistics (BLS) for December, 2011 indicating the creation of 200,000 new jobs is encouraging. Full-time hiring will increase significantly as businesses become progressively more confident about the future. However, it is not likely that the employment situation will improve dramatically. By the end of 2012, the unemployment rate will be in the 7.8% to 8.3% range.

One note of caution is in order. Problems similar to the Eurozone could visit our shores soon. Unless we put our long-term fiscal house in order by reducing long-term entitlements and reforming the tax code to raise more revenue, there is a distinct possibility that the long-term solvency of the government resources will be tested by the market. The important thing is to get the timing right in pivoting towards a more constrained fiscal policy for the long term, once we have consolidated a strong growth path. The right time to have a more restrictive fiscal policy and whether the federal government will develop a *credible binding policy for controlling entitlements* are two key issues confronting the nation.

At the regional level, the economy continues to improve slowly. Overall confidence is projected to approach the 60% benchmark. Employment will grow by approximately 1.5% to 2%. Nominal sales will increase by 2.5%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to grow next year by 7%.

There are several wild cards that may disrupt the forecasts. These include a significant meltdown in the Eurozone, further downgrading of U.S. debt, and/or some other external shock.

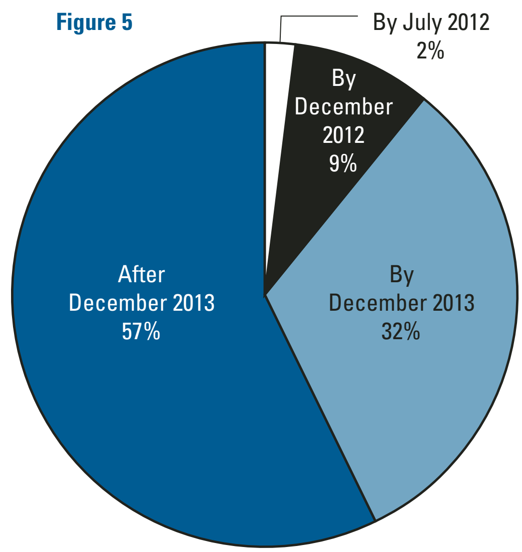
West Michigan will continue to find a foothold by diversifying into specialized services such as health care, professionals services, education and high tech\precision manufacturing. The state needs to ensure that it will create a highly qualified work force for the future by investing more resources in education and training. State resources need to be leveraged to position ourselves strategically in growth sectors of the future. Besides health care and high tech manufacturing, state policies need to promote more renewable/alternative energy options within the state.

Acknowledgments

We are very grateful to all the organizations that participated in the survey. ■

Respondents' Anticipated Date of Economic Rebound
(All Sectors)

Figure 5



West Michigan-Grand Rapids Commercial Real Estate Review and Forecast

Jeff Hainer and Jeff Williams, Research Analysts
Colliers International | West Michigan

Grand Rapids | Industrial Market

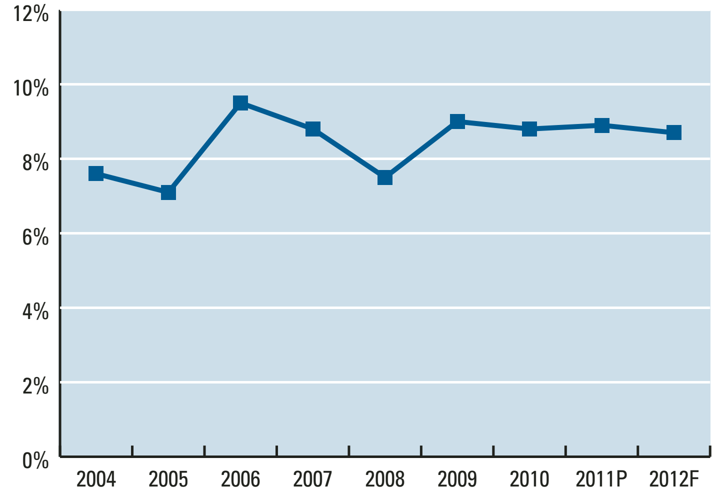
As we continue to traverse the uncertain waters of the commercial real estate market, we look for trends to emerge that foreshadow what the future has in store. The industrial sector of the market has been on the forefront of such trends throughout much of the economic downturn and is a great barometer for how the rest of the local market will continue to react and recover. In 2011, we continued to see market perception trail market reality. Users as well as investors are still cautious, despite the bottoming-out that we have seen over the past twelve months. Rates and occupancy have hit all-time lows; however, we believe the worst is now behind us.

The industrial segment of the market has seen an underrated recovery this year. Competition has begun again as quality space is as highly sought after as ever. The norms of the past are now more than just a distant memory. Activity in the market has increased and tenants are starting to see rates firm up and landlords offer fewer incentives. More than ever, those with market knowledge through this time will be better positioned to take advantage of this changing paradigm.

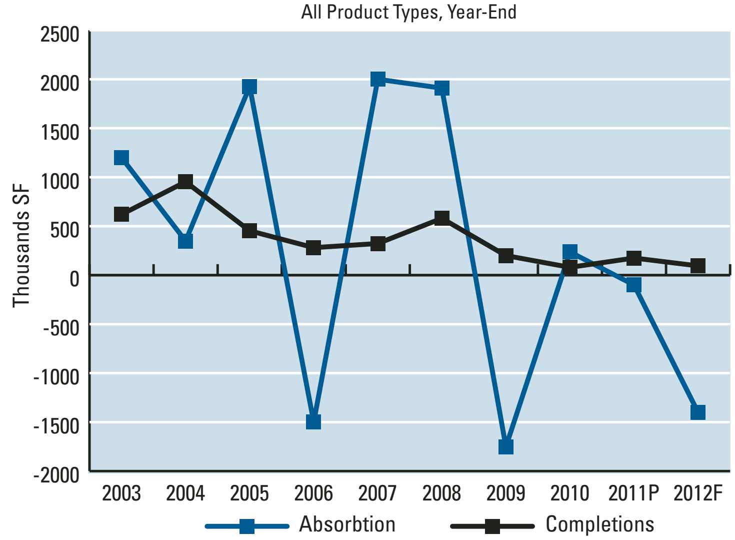
As always, each sector of the market behaves differently. Southern Grand Rapids continues to see the most industrial activity; however, quality space all over the market is being actively considered. Manufacturing continues to lead the comeback, with demand overflowing into warehouse product as well. One result of the recent economy is more efficiency. Industrial users are operating as effectively as ever, and that has been a catalyst for much of the movement in the market. Companies are looking for opportunities to take advantage of, not only their increased productivity, but the lingering incentives still left in the market. We see now as a great time to re-evaluate needs and act accordingly.

This past year has seen some major deals in our region. Lumbermen's, Inc. moved into 198,000 square feet of space in Byron Center, while ATEK Medical relocated and expanded, and R.L. Plastics took nearly 100,000 square feet on Expressway Drive. Close to 100 acres of land was sold in a deal that was motivated by the presence of a rail spur that made it economically beneficial for the purchaser to acquire the land. In today's ever-changing market, unique solutions to real estate problems are how many deals get done. In addition, banks are beginning to loosen their purse strings and funding is becoming more attainable. As forecasted at the beginning of last year, we see these banks continuing to dispose of REO properties, some even at a significant loss. We maintain the theory of two markets: Class A industrial space trades at a premium, while distressed or functionally obsolete space garners much less attention.

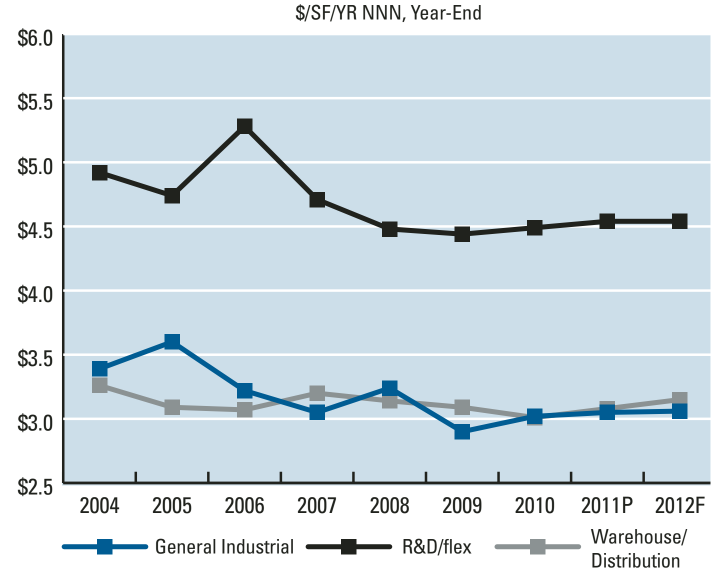
Vacancy Rates
All Product Types Year-End

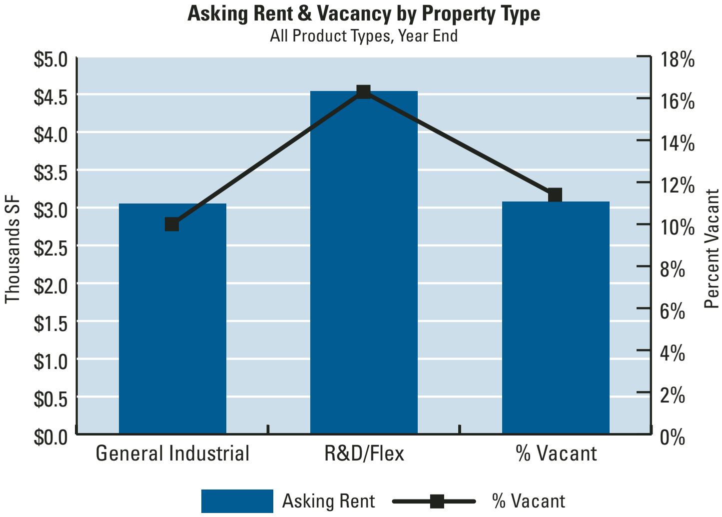


Absorption vs. Completions
All Product Types, Year-End



Asking Rental Rates
$/SF/YR NNN, Year-End





Grand Rapids has been a bright spot in an otherwise dark couple of years for the State of Michigan. While the state as a whole has seen rising unemployment and declining residential population, Grand Rapids has continued to buck that trend. The magazine *RelocateAmerica* recently gave the city the distinction of the number two best places to live in America. The area has seen its population grow by nearly 10% over the past five years and is projected to add another 20,000 or so residents by 2015. Furthermore, unemployment in the area has dropped from 9% in November of 2010 to 6.5% in November of 2011.

Through three quarters, we have seen positive absorption of over a half million square feet in the industrial sector. This number will end 2011, however, as Amway readies to vacate their nearly 700,000 square foot facility on Spaulding Avenue. Although this seems like negative news for the local economy, the move was described by the company as a "strategic adjustment" and will eventually add jobs while simply relocating and refocusing much of their production. Another project to keep an eye on is the demolition of the General Motors plant on 36th Street that is currently under way. We expect to see this job completed by the second quarter of 2012 and look to find out what redevelopment plans will be in place. This nearly 2 million square foot facility has been in need of redevelopment for years and the tax incentives that are now available have finally gotten the project off the ground. Conversely, there have been some additions to the market inventory as well. Auto supplier Lacks Enterprises completed 82,300 square feet of additions to two of their sites this year, while Lighthouse Foods added approximately 43,000 square feet on the southeast side of town. We look for new construction to remain steady at a very moderate rate going forward. Instead of new development, we expect most of the industrial construction to come in the form of additions and reconfigurations. Building owners must consider the replacement costs involved in moving, and many are choosing to be creative with what they have rather than look for new space.

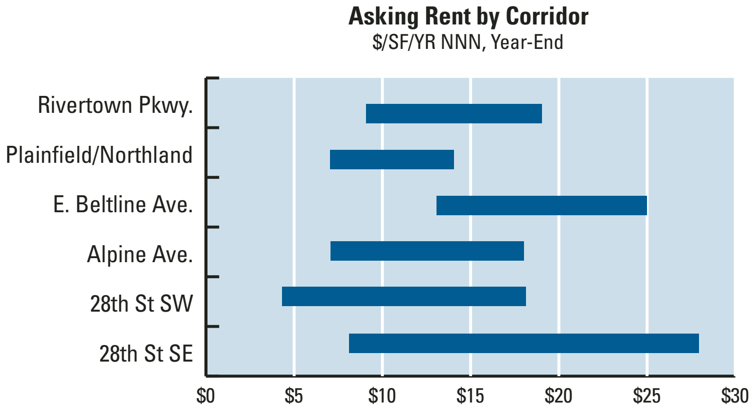
We predicted last year that manufacturing would lead Grand Rapids through these trying times, and we continue to echo that sentiment. West Michigan is known for its combination of entrepreneurial talent, skilled labor force, and access to manufacturers; going forward into 2012 we see this advantage to only increase. While the recovery is still flying under the radar, we continue to see signs of positive activity. In the Midwest region, manufacturing technology orders are up nearly 49% year-over-year, and we predict further investment in the industry. As we all know, it will take time and effort to build back up to historical norms; however, such investment in technology is a sign that businesses are ready to spend money again and have hope for the future.

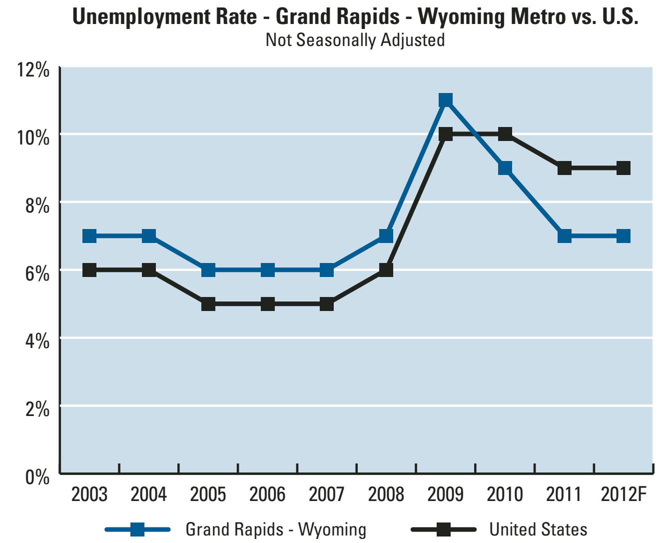
Going forward, the gap between "trophy" Class A properties and "train wreck" Class C properties looks to only grow. We expect to see more and more transactions formed with creative solutions. More than ever, it will be important for brokers, landlords, and tenants to work together to get deals across the finish line. Quality inventory will continue to decrease, and, subsequently, tenants will look to lock-in their spaces at current market rates. 2012 should be a good indicator for the speed of recovery. As the end of 2011 showed a good amount of activity, we see 2012 as a year to rebuild the reputation and perception of the market.

Grand Rapids | Investment Market

2011 began where 2010 ended with increasing activity level in the investment real estate sector and a slow gradual valuation improvement in most property types. The West Michigan market saw a return to a more "normalized" transaction activity level, although there remained a higher percentage of transactions that were spurred by distressed or bank-owned transactions than in years past. A more confident atmosphere permeated the market in all facets, including investor interest, financing availability, and seller confidence. Generally, values increased throughout the year, and capitalization rates have continued a slow and gradual downward adjustment (signifying higher values). Prices remain below the averages of 4 and 5 years ago, having been pulled down by a higher percentage of distressed assets. However, long term net leased investment sales have recovered much of the value lost during the great recession, and capitalization rates for net leased, credit tenants are again near historic lows.

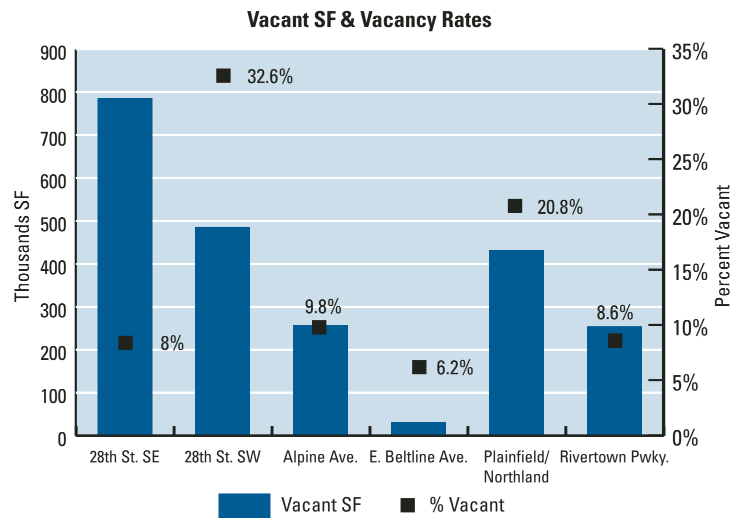
The recovery of the investment real estate market has been spurred in part by interest rates that have continued to decrease and are at historically low levels. Additionally, there is increasing availability of capital sources, including local lenders, national life insurance companies, and even the return of the CMBS market. The low interest rate levels and increasing financing options have created a surge of new investors seeking opportunities in the market. Investors have primarily been searching for value-added investments available at prices well below replacement costs, or long-term net leased investments demonstrating a stable and predictable



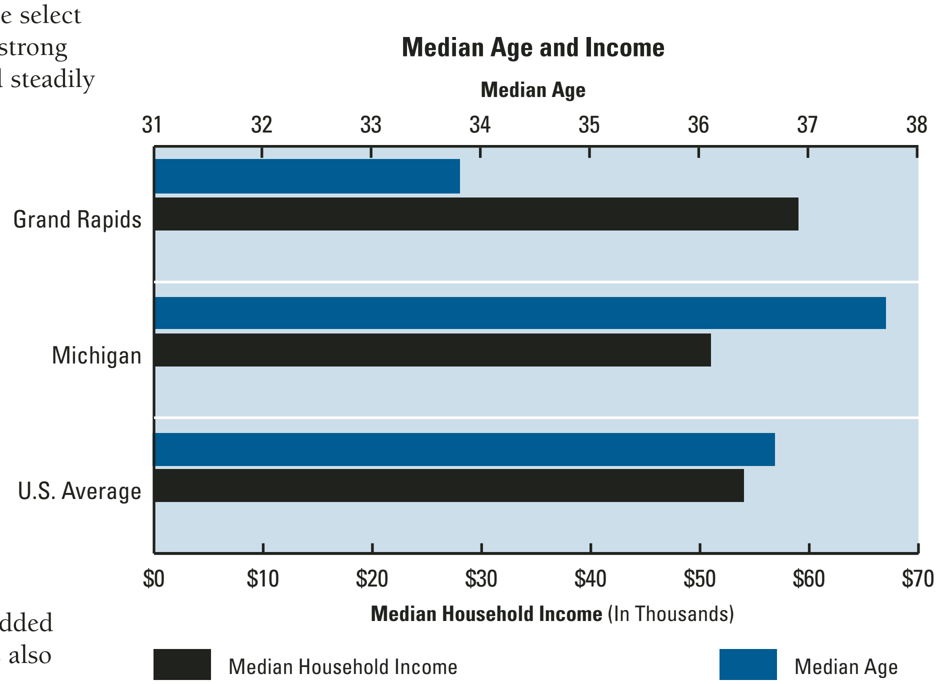


cash flow. Throughout 2011 there was a shortage of quality investment opportunities. In fact, many properties that have traded hands have been distressed assets with little or no cash flow in place at the time of sale. There remains a supply of distressed assets with challenges in place, but also a return of a more traditional investment market.

The most active property type in 2011 was the multi-family market. This is a fundamentally healthy market which has seen the biggest improvement since the recent recession. Rental rates have increased; vacancies have decreased; and the market dynamics continue to show a consumer more interested in renting than owning for the foreseeable future. In West Michigan, we have seen a lack of new quality multi-housing options, which has created upward pressure on occupancy and rental rates at existing properties. The downtown and fringe neighborhoods have been particularly stable as the growing population of students and young professionals prefer to be located in an urban environment. We anticipate 2012 will continue a national trend of increasing buyer interest in the multi-family market. In West Michigan we will continue to see a lack of high quality product available on the market. Those select assets that do go to market should see a very strong level of interest from potential purchasers and steadily rising valuations.

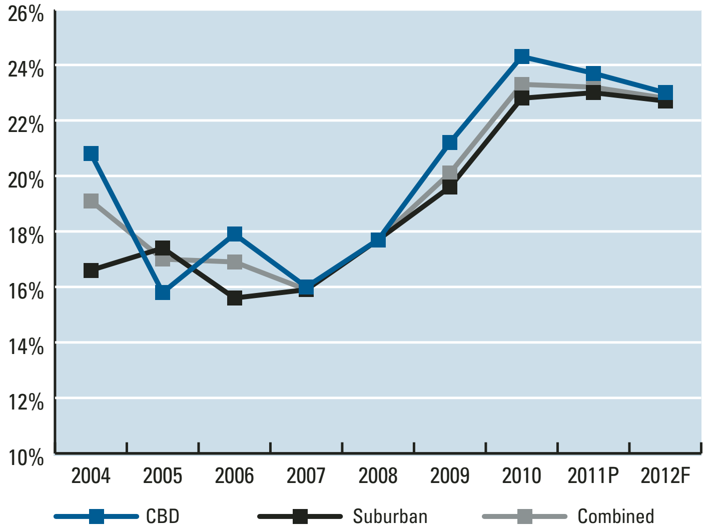


The industrial segment continues to strengthen. The fundamentals point to a tightening marketplace, increasing rents and positive absorption. We expect to see continued interest in stable long-term leased industrial investment properties. Buyer interest will be particularly focused on manufacturing facilities with bolted down equipment, high ceilings, and adequate power, as this segment has seen the greatest demand and shows the highest level of long-term stability for West Michigan manufacturers and, in turn, investors.

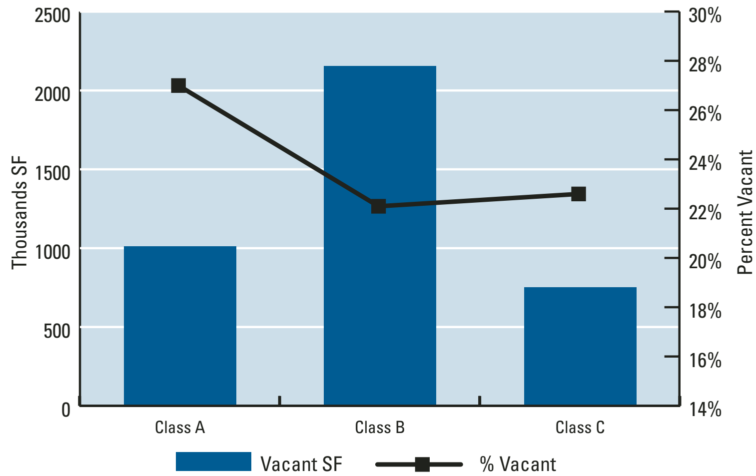


The office market remains focused on value-added transactions or medical office sales. There has also

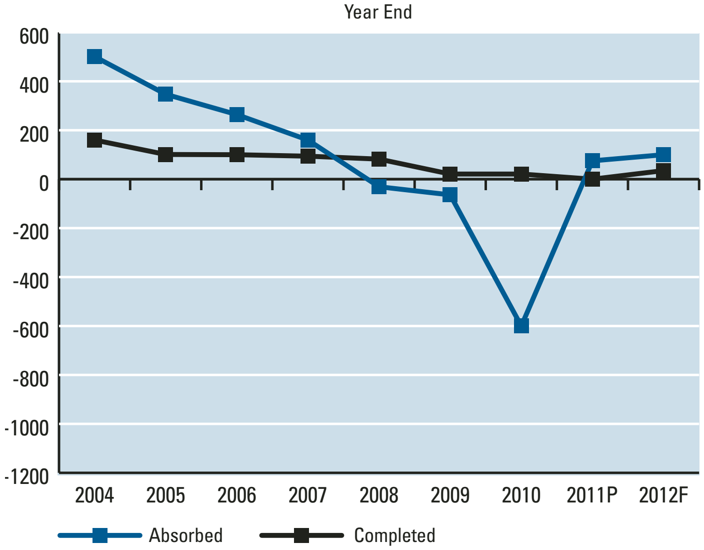
Vacancy Rates
Year End



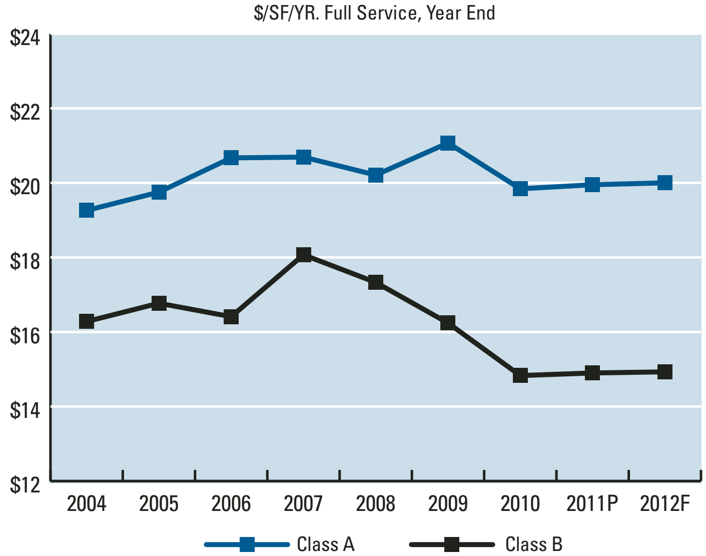
Vacant SF & Vacancy Rates



Absorption vs. Completions
Year End



Asking Rental Rates
$/SF/YR. Full Service, Year End



been more demand for office properties located in the CBD over the suburbs. The vast majority of the suburban office sales have been distressed in nature. Additionally, there have been limited numbers of transactions from out-of-state investors, a component that buoyed sales prices in past years that simply was not evident in 2011. We anticipate increasing activity from out-of-state investors in 2012 as the Michigan recovery continues to outpace the performance of the rest of the nation yet offers returns above that of other real estate markets around the country.

Generally, the retail market was characterized by relatively few transactions, the majority of which were at some level of distress. The market appears to have bottomed and has begun a slow upward climb. We expect to see a strengthening of the retail sales market in 2012, particularly for well-located premium centers. Tenants remain active, and retail same store sales have generally reported a positive tone in West Michigan. Single tenant, new lease retail investments, however, stands in stark contrast to the rest of the retail investment market. Single tenant assets have shown strong pricing and demand from both local and national investors. Properties located in Class A locations with strong tenants are able to achieve valuations nearing historic highs.

In 2012 we anticipate a healthier level of transaction volume. The market will be characterized by fewer distressed sales and a return to a more traditional arm's length seller and buyer. Additionally we expect to see increasing demand and participation from out-of-state investors. We also see a number of sellers interested in taking advantage of the strength of the single-tenant market through either a sale and leaseback transaction, or a blend and extend of an existing lease in order to sell into the currently strong single-tenant sales market.

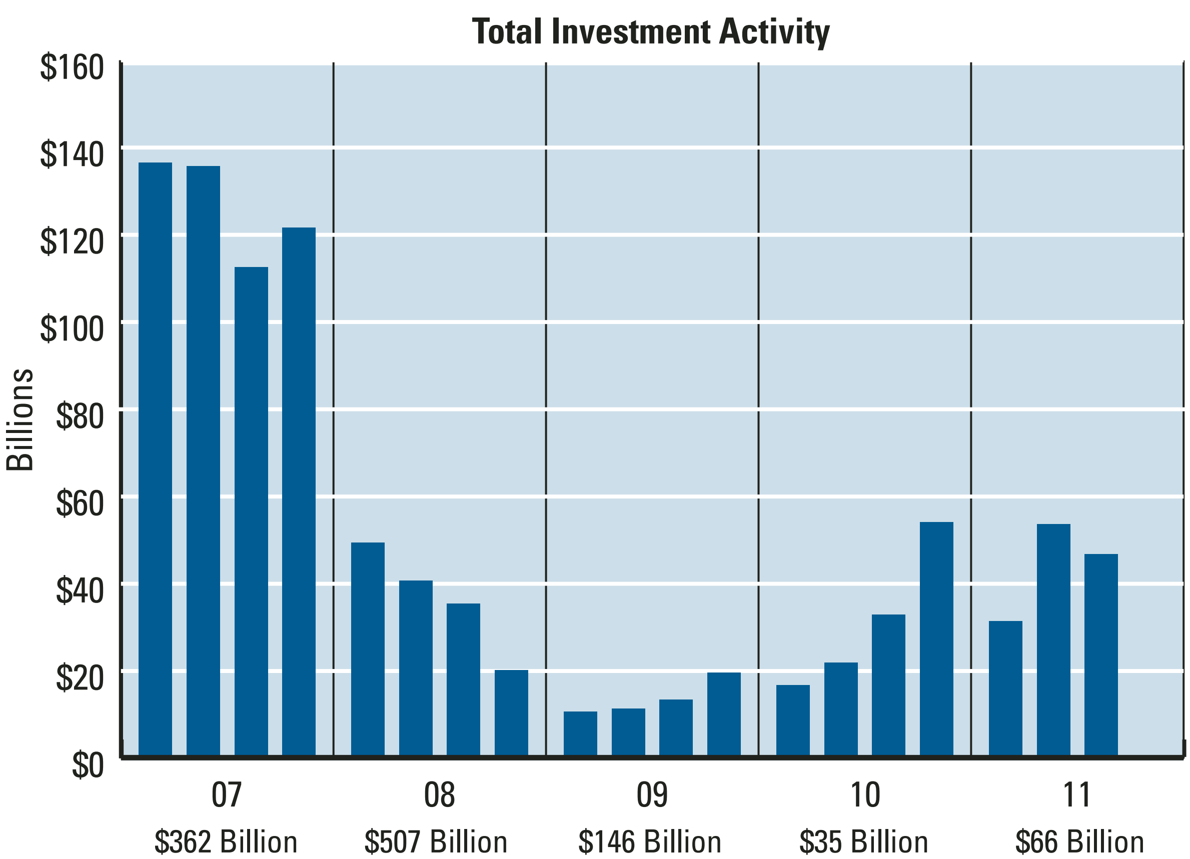
In 2012 we will see a handful of high quality, high profile lender owned pieces of investment real estate that will trade hands. To date, much of the lender owned product has been subpar or older and significantly undervalued real estate. The values attributed to some of the higher profile distressed real estate will have a strong impact on pricing trends in West Michigan.

Grand Rapids | Office Market
Grand Rapids made some national headlines over the summer as it came in at number two on *RelocateAmerica's* top 10 places to live in the entire nation. Our city was chosen because of its solid schools and strong economy. "It's got the best of everything in a smaller large city," said Steve Nickerson, president of *RelocateAmerica*. Also, a survey by the employment services firm ManpowerGroup announced Grand Rapids, Michigan as having the country's most optimistic forecast for summer hiring in a metropolitan area. "This is the strongest outlook we've seen in the Grand Rapids-Wyoming market in almost three years," says Melanie Holmes, a vice president at ManpowerGroup. This does not come as a surprise as West Michigan has diversified over the last decade and has recovered economically more quickly than other parts of Michigan, and the nation.

Employment is a key statistic and one of the driving factors of office real estate. Throughout the year, employment numbers in West Michigan have fluctuated some but, for the most part, have been positive. According to the Bureau of Labor Statistics, the Grand Rapids area unemployment rate dropped two and a half percentage points year-to-date falling to 6.5% in November of 2011 compared to 9% a year earlier. The unemployment number also decreased from 7.9% to 6.5% between September and November; these strong employment numbers should help fuel office leasing activity going into 2012.

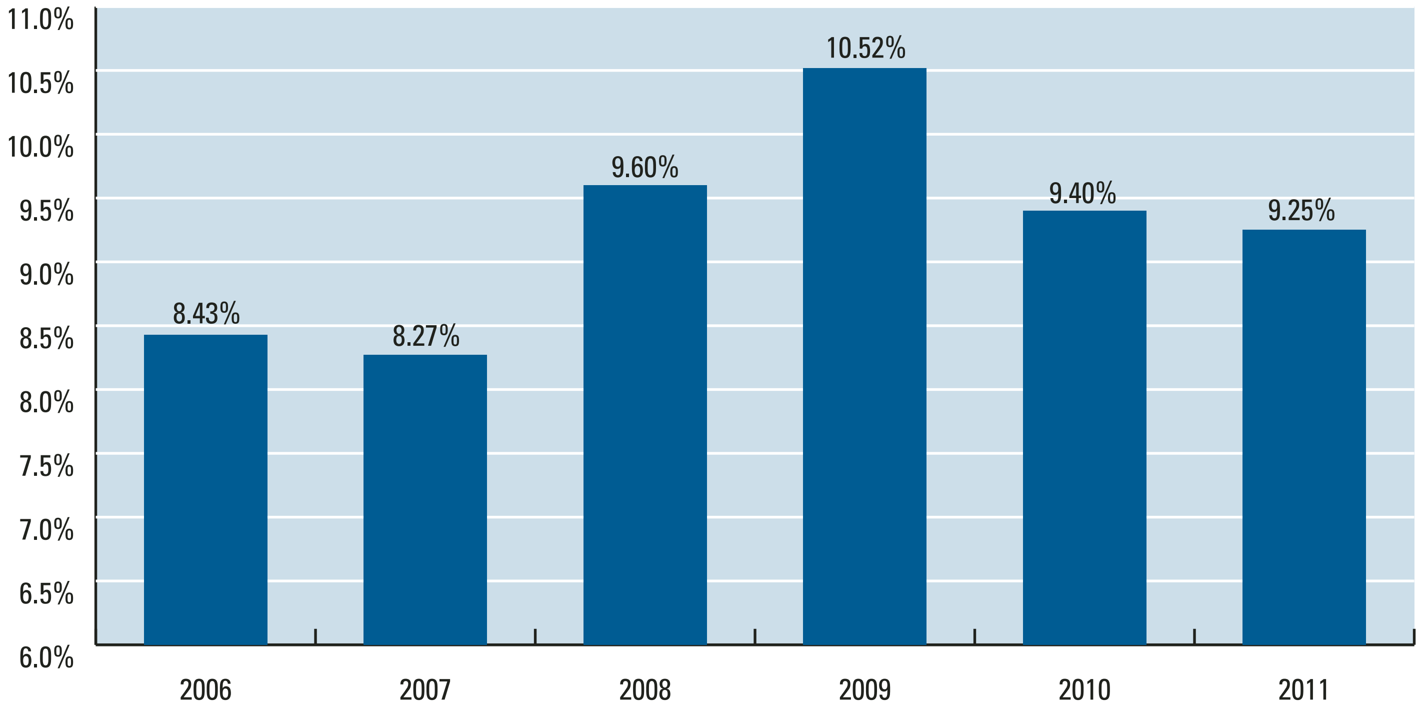
The office market is not as unpredictable today as it has been in the last couple of years and, for the most part, the panic is over. There has been a flight to quality as more tenants have been able to find newer and better located space at less expensive rents than in previous years. Companies are also getting lean and right sizing in an effort to make more efficient use of their office space. In spite of this, the Grand Rapids office market started the year with three straight quarters of positive absorption, and the fourth quarter is expected to finish the year repeating that trend. The third quarter posted a positive absorption of 55,638 square feet, which is the largest positive quarterly absorption number since the second quarter of 2007.

The suburban office market saw strong activity throughout the year and an uptick in the number of transactions completed. The southeastern corridors remain the strongest and have seen the bulk of the positive absorption for the suburban office submarket. Landlords have dropped their rates and are doing turn-key build-outs to attract new companies and keep existing tenants. Vacant suburban office space has decreased in the past 12 months, which is good



Source: Real Capital Analytics, www.rcanalytics.com

Average West Michigan Capitalization Rates



Reflects average cap rates for all investment property sales completed by Colliers International in West Michigan

news following a slow 2010. Suburban transactions of note in 2011 include a lease by Intelligrated at 3033 Orchard Vista Drive for over 16,500 square feet, and almost 12,000 square feet leased to Raymond James at 2060 East Paris Avenue. Expect more of the same for suburban office in the next year: a steady dose of slow but decreasing vacancy and positive absorption. The southeast corridors will again be the dominant suburban submarkets because of the amount of inventory, quality of product, and proximity to the airport compared to the other suburban submarkets. Although suburban rental rates trended downward slightly in 2011, signs show that those rates are firming up. Rental rates could hit bottom in 2012 and potentially even see a slight increase.

The Central Business District (CBD) continued to be the "hub" of leasing activity in Grand Rapids over the past year. Competitive lease rates and the cultural investments made in the CBD have contributed in attracting tenants to the heart of the city. Because of this activity, the downtown office market saw a decrease in vacancy percentage each quarter of 2011. Rental rates in the CBD have stabilized throughout the year, but we are still far from the once historical highs. Some of the noteworthy leases that were signed downtown in 2011 include BDO USA, LLP 44,500 square foot lease at 200 Ottawa Avenue, Smith Haughey Rice & Roegge's 26,600 square feet at the Flat Iron Building, and Deloitte's lease for 12,000 square feet at 38 Commerce Avenue.

Looking ahead to 2012, the CBD office market should see a slight increase in rental rates because of increased demand and a shortage of large blocks of quality space. These factors will also cause the trend of decreasing landlord concessions to continue in the next year. Tenants will be signing longer-term leases due to growing confidence and bottomed out rental rates. Vacancy and absorption should remain relatively flat for the CBD next year. This is due to a number of buildings with "shadow space" that will come on the market in 2012. Shadow space refers to office space that is technically leased at the present time but not currently being utilized, or is physically vacant.

There was minimal ground-up construction completed throughout the year, although we saw more activity in 2011 than in recent memory. The largest completion of the year was a 370,000 square foot, three-story building for Farmer's Insurance in Caledonia. This is expected to add 1,600 jobs and will house a call center, printing distribution center, and Farmer's University. Another large project that broke ground was the new headquarters for Gordon Food Service on Gezon Parkway SW in Wyoming. More than 1,000 office workers will move to the new 382,000 square foot complex in 2012. Beyond this, we are seeing a trend of extensive rehabilitation projects such as law firm Smith Haughey Rice & Roegge's renovation at the Flat Iron Building. Other noteworthy office renovations include 201 Lyon Avenue and 35 Oakes Avenue, which will be known as GRid35. GRid35 will be more than 50,000 square feet of collaborative office space, which grew from the success of its predecessor GRid70.

There is some potential for new office development projects to break ground in the next year; however, expect new construction to be limited beyond the completion of the Gordon Food Service building. In general, next year should mirror much of what we saw in 2011. The worst is over, but the recovery will be a long and drawn out process.

Grand Rapids | Retail Market

Last year we forecast that the retail market would bottom out and then look to gain from the bottom in the second part of the year. With a strong third and fourth quarter, we believe this prediction came to fruition. Absorption was positive for the year, and overall activity has generally picked up as well. As is true with many real estate transactions, the end result is often realized well down the road from its inception. This is important to keep in mind when analyzing the market. Market metrics have not yet started to climb back toward historical norms; however, projects are now underway which will eventually result in a trend back towards normalcy. In the meantime, landlords and tenants alike are looking to continue to weather the storm and position themselves better for the future.

The consumer confidence index climbed in November by the most it has in eight years, just in time for the holiday season. Also, unemployment in the area has dropped from 9% in November of 2010 to 6.5% in November of 2011, which should help consumer activity as well. Grand Rapids has been instrumental in leading Michigan out of the recession, as it continues to create unique opportunities for people to come downtown and spend money. Along with the open art competition ArtPrize, the city hosted a holiday celebration called Holly Jolly, which was intended to boost retail sales during the biggest spending period of the year.

As always, location has played a large role in the success of local retail operations. There are historically active submarkets, such as 28th Street SE and Alpine Avenue, that continue to see interest, while areas with less historical success continue to struggle. Now more than ever, market knowledge will be key to taking advantage of the opportunities in the market and will help create a game plan for the future. Capable tenants are attempting to lockin current rates while also looking at potentially upgrading their location, such as Best Buy on Alpine, which moved closer to the I-96/US-131 interchange in an attempt to attract more foot traffic. Landlords are giving fewer incentives due to their economic struggles, which will keep rates low and stable in order to still attract tenants. As tenants continue to lockin or upgrade, stressed retail areas will continue to struggle.

One solution to combat this issue is re-development or renovation. We have seen construction pick up from its non-existence last year, with ALDI and Lake Michigan Credit Union being finished at Knapp's Corner as well as PF Changs and D&W Market in Knapp's Crossing just across the street. Baggar Dave's, a national restaurant chain, re-developed the old Big Boy on the corner of 28th Street and Kraft, while Smash Burger moved into locations on the Medical Mile downtown as well as in the former Blockbuster Video on the corner of 28th Street and East Beltline. In Breton Village, 22,000 square feet was added to the 180,000 square feet of recently remodeled retail space. Women's brand Anthropologie moved into roughly half of the new addition, and has already started quite the buzz about the retail center. Since the announcement of the new store, two new retailers have committed to taking space in the center in 2012. We look to see more activity in this area than in recent history.

As we close the book on 2011, we now look forward to 2012 and beyond. Activity in the marketplace is increasing, and we look for that to continue into the New Year. Many retailers are done sitting on the sidelines and look at the current situation as a time to gain an advantage. Ruben Ysasi, VP of business development for Subway of Western Michigan, maintains that now is the time to start taking risks again. He says, rather than be timid about the market, now is the time to "attack, attack, attack." Yasi advises, "Not doing anything is not the answer." In Grand Rapids, we see this sentiment broadly supported by the increase in activity from a year ago.

Projects underway that will have an influence in the future include the transformation of 400,000 square feet into a retail and office center in Grandville. The site was formerly the headquarters of X-Rite Corporation and has been in negotiation for re-development for years. Target has committed to be the anchor tenant, taking roughly 135,000 square feet, which will surely help the rest of the center lease up. Additionally, CenterPointe Mall will soon begin a two year "de-malling" process, which will see the mall trim roughly 350,000 square feet of floor space. The plans call for the removal of much of the southern side of the building including the interior mall, food court, and the former Klingman's furniture store. The building's owner, Bloomfield Hills-based Lormax Stern Development Co., plans to consolidate existing tenants for the alteration, as well as add new ones.

As the focus for many people has shifted from "shopping" to simply "buying," retailers are coming up with ways to make the experience quicker and easier. The advent of online shopping has helped make this possible, but has had a negative effect on physical stores. E-commerce now accounts for nearly 10% of the retail market share and we look for this to continue to have an impact going forward. Expect to see legislation proposed which would make it harder for online retailers to avoid state sales tax laws in an attempt to even the playing field as much as possible. Also, look to see more integration of restaurants and entertainment with merchandisers, as consumers look for more consolidated destinations.

We stated last year that the future of retail in West Michigan still remains bright due to our vibrant community and its commitment to local establishments. The healthy holiday season, coupled with increasing confidence in the market should get 2012 off to a nice start. Since we can now see the worst of the downturn in our rearview mirrors, we predict the upcoming year will build on the momentum captured at the end of 2011.

Property Management

2011 has been a year of transition in the property management world. As the economy continues to show signs of improvement, we are seeing more and more properties transition ownership. While banks continue to play a role, the troubled assets that are hitting the market today are not the truly distressed properties that were prominent in 2009 and 2010; they are decidedly higher quality Class A & B properties, well located and with fairly stable occupancy. Financial institutions understand the value in managing and maintaining these properties at a higher level and are not opposed to spending the money to make improvements and take care of deferred maintenance. With these properties hitting the market, property owners are recognizing the need to focus on operating efficiency, tenant retention and attention to detail to remain competitive.

As Asset Managers, we continue to closely monitor operating expenses and tenant rental payment patterns. With rental rates in certain segments still not back up to pre-recession levels, property owners are still focused on reducing expenses. However, for the first time in several years, owners are willing to look at creating efficiencies by investing in energy efficient fixtures, equipment, and operating system upgrades. We are also encouraged by the fact that more property owners are including capital improvement projects in their 2012 budgets. Some of this optimism may be inspired by the overwhelming popularity of ArtPrize. Downtown property owners and retail businesses want to advantage of the increased exposure by putting their best foot forward for the community.

2011 also brought an increased demand for facility management and maintenance services. This has been an area of significant growth as more and more institutions are under close public and/or stakeholder scrutiny. We are projecting this trend will continue as outsourcing and reduced corporate/government spending appear to be the new "norm."

Improving consumer confidence, stabilizing rental rates and increasing real estate investment activity are all positive signs for our market. We are strongly encouraged by the momentum heading into the New Year.

As more real estate is expected to change hands in 2012, we anticipate the re-positioning of many properties. New owners who were able to take advantage of "bargain prices," will be in a position to invest in new infrastructure, capital improvements, and aesthetic updates to create a new image for those properties stigmatized by vacancy, foreclosure, or other financial troubles.

With the return of more traditional ownership structures (non-bank owned), will come tenant stability. Tenants who have grown weary of inconsistent service, deferred maintenance, and general lack of attention will be happy to see responsible operating practices come back into style. Tenant retention will still be the name of the game, but stable ownership and reliable management systems will make that much easier. ■

West Michigan Supply Management: A Year in Review

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Since April of 2009, Grand Rapids has been in a state of recovery from one of the worst recessions in recent history. Although there have been a few months that were less robust than others, the recovery has continued unabated. Unfortunately, the pace of the recovery is still very slow by historical standards, and the 2007–2009 economic downturn will always be referred to as the "Great Recession."

During 2011, office furniture, our region's largest industry, continued to lead the recovery, albeit at a slower pace than expected. Since commercial construction continues to be at historical lows, almost none of the uptick can be attributed to furnishing new office space. The strong cash positions of customers resulted in some firms investing in long promised new replacement office furniture. Analysts also attribute the industry's continued diversification into the medical furniture business as a major component of the industry's success in 2011.

Automotive parts, our second largest industry, continued on the recovery path in lockstep with slow but steady increases in the sales for new motor vehicles in North America. In recent months, the standards for auto financing have loosened, and the interest rates are near record lows. Whereas auto sales are still far below the levels of five years ago, the number of miles that Americans are driving has only fallen about 2½%. Although the prices for new cars remain very high, consumers are being forced to buy new cars or drive less. Furthermore, with rising prices for quality used cars, some buyers have found it to be more economical to buy new cars than old cars. Hopefully, this trend will continue well into 2012.

As we approached the end of 2011, some of the economic indicators began to show signs of stress. Fear and rumors again surfaced that the 2½ year old recovery may have run its course and a second economic dip might be on its way. With incoming orders starting to flatten, the office furniture industry has begun to show signs of topping out. Other local firms experienced slower sales, partially due to sluggish business conditions throughout the country. Whereas this hesitation is not necessarily a major cause for concern, it reminds us that there is still a long way to go before the economy returns to the lofty levels of 2004–2005. It also suggests that the first half of 2012 may be less robust.

Probably the biggest economic news for 2011 was the passage of Michigan's new budget for FY 2012. In setting a pattern for future years, the new budget incorporates some of the biggest changes in taxation since the Hedley Amendment many years ago. With the goal of closing a huge budget gap, the new budget incorporates some controversial cuts in education as well as benefit cuts for state workers. Most important, the complicated Michigan Business Tax has been replaced with a simplistic 6% flat rate tax on profits. Will this new tax structure attract new business to the state as the proponents have claimed? Yes, of course. But it may take years before the major impact is felt. Indeed, the most immediate benefit to Michigan will be the retention of jobs that would otherwise move out of the state. This means that the *total cost of business* will now be reduced just enough to keep some firms solvent and discourage others from seeking more favorable tax environments elsewhere. The simplicity of the new tax for planning purposes is also a plus. Hence, we should see some moderate improvement in unemployment rate over the next couple of years. However, this should not be regarded as a total fix. Michigan must still continue to diversify its economy by balancing our automotive concentration with new industries over the long term.

About the Survey

The monthly survey of business condition, published under the title of "Current Business Trends," first debuted in Kalamazoo in February of 1979, and was expanded to Grand Rapids in 1988. At present, the survey encompasses 53 purchasing managers from ISM-Greater Grand Rapids and 25 from N.A.P.M. Southwestern Michigan. For both surveys, the respondents are purchasing managers from the region's major industrial manufacturers, distributors, and industrial service organizations.

Patterned after the nationwide survey conduced by the Institute for Supply Management, the strength of the survey is its simplicity. Each month, the respondents are asked to rate eight factors as "SAME" or stable, "UP" or improving/rising, OR "Down" as in declining/falling.

New Orders

This index measures new business coming into the firms and signifies business improvement, or business decline. When this index is positive for an extended period of time, it implies that the firm or organization will soon need to purchase more raw materials and services, hire more people, or possibly expand facilities. This results in billions of dollars being added to the local economy. Conversely, billions of dollars are pulled from the economy when the index turns negative. Depending on the firm, a significant portion of this money ends up being spent in the local community.

We entered 2011 on a firm footing and a New Order index of +25 for January. The index jumped to +45 in February, but eased slightly to +38 in March. Then tragedy struck Japan with a devastating tsunami, and the next few months resulted in parts shortages that slowed automobile

Figure 1: **2010–2011 New Orders**

Percent "Up" vs. "Down"

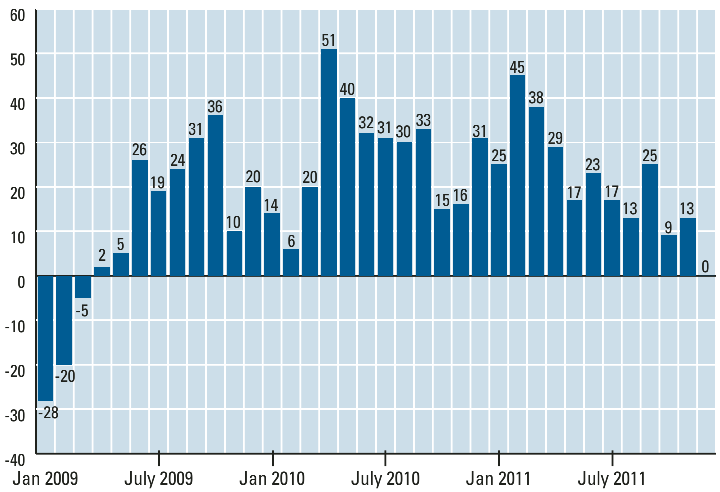
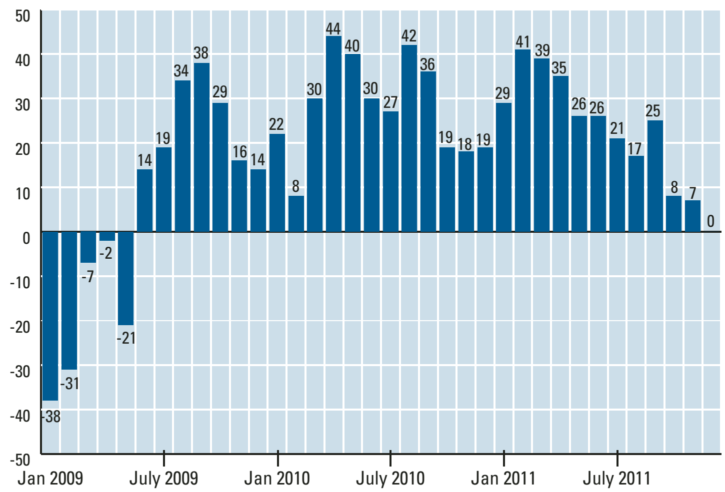


Figure 2: **2010–2011 PRODUCTION**

Percent "Up" vs. "Down"



production around the world. The impact of the tsunami was certainly not enough to put us into recession, but any disruption to the automobile industry generally has an impact on Michigan. Despite the recovery from the parts shortages, the pace for New Orders continued to slow for the rest of the year. We expect the index to be positive as we enter 2012.

The caution remains that the world economy continues to slow, and many countries may soon slide into a technical recession, i.e, two continuous quarters of negative economic growth. For us, the big question remains about how much we will be drawn in if the economy for most of the rest of the world turns slightly negative. In the case of the Eurozone, the most recent GDP numbers are just barely positive, and many forecasts for the fourth quarter expect the numbers to turn negative. The main problem continues to be the heightened caution over the European debt situation, which has caused businesses and consumers alike to hunker down.

Production

For 2011, the production schedules varied widely between different types of manufacturing firms. At least some of the production slowdown in the middle of the year can be attributed to the annual "model changeover," although this trend continues to become less pronounced with each passing year. Despite the slowing of production by some firms later in the year, the strength in the automotive sector kept the index positive. Unlike previous years, several auto parts producers expect the schedules to remain higher than usual in the season surrounding Thanksgiving and Christmas. Other holidays, bad weather, and material shortages may also constitute uncontrollable influences for the production index.

When the production index remains positive for several months, it almost always result in an increase in the employment index. Conversely, a decline in production for several months in a row will almost always results in layoffs. Hence, the fact that the production index in late 2011 has slowed will probably result in the Employment Index slowing as well in early 2012.

Industrial Inflation

For many industrial buyers, 2011 will be remembered as a year with a wave of severe industrial inflation. As noted in Figure 3, the year began with our index of prices at the highest level we had seen in three years. For the next three months, the index escalated to its highest level in the 22-year history of the survey. To make matters worse, the inflation centered on big ticket commodities like steel, aluminum, magnesium, corrugated, plastic resins, and all oil related products. Industrial buyers scramble to find better pricing for these commodities, but most were unable to hold back the tide.

Where did this inflation come from? Unfortunately, much of it came from speculation. With interest rates for all the major currencies still historically low, professional money managers and hedge fund operators have been forced to look for creative ways to increase investment returns. With the stock market already fairly high, some otherwise conservative investors decided to dabble in commodity speculation.

Another cause for the escalation of prices was the problem of shortages. Some of these shortages were the result of various pockets of bad weather all over the world. Other shortages resulted from the tsunami that devastated Japan.

By mid-year 2011, the speculative bubble burst, and prices began to fall. As a result of the falling prices, speculators began liquidating inventories, driving prices even lower. By the end of the year, the index of Prices turned negative for the first time since July, 2009.

Employment

As we approach another election year, the cry for more "jobs" permeates almost every candidate's rhetoric regardless of party affiliation. For 2011, the unemployment rate in the Greater

Figure 3: 2010–2011 PRICES

Percent Reporting "Up" vs. "Down"

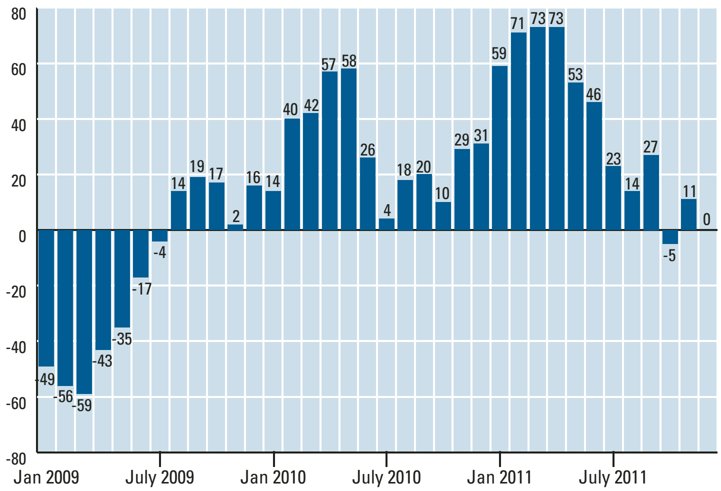
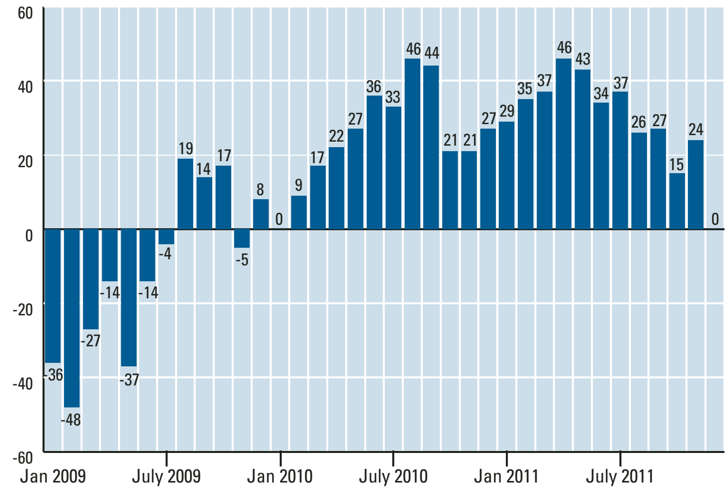


Figure 4: 2010–2011 EMPLOYMENT

Percent Reporting "Up" vs. "Down"



Grand Rapids area remained excessively high, despite the continued local industrial sector recovery.

On the other hand, our survey's index of Employment was very positive for the entire year. The automotive parts producers were among the firms to call back many laid off workers and hire many new people as well. In April, the Employment Index rose to a twenty-year high of +46. For several months in the middle of the year, over half of the firms in our survey reported adding personnel. We did not always hear about it in the news because some firms were very quiet about it lest they end up with a line at the door.

Unfortunately, our survey covers only the industrial sector, and the consumer sector has not shown as much promise. Again, retailers and other service-related firms are uncertain about the future and prefer not to expand. Smaller firms are also far more reluctant to hire and view the future with much more caution.

In 2011, another problem surfaced, namely the shortage of qualified personnel. The fact is that ALMOST all of the new hires require some kind of skill, such as computer analysis, CNC operators, electronics repair, lab techs, medical skills, etc. Hence, the shortage of personnel has inhibited growth. Several firms in our survey have complained that the inability to hire qualified personnel has forced them to turn away work and halted plans to expand production.

Looking Ahead to 2012

In summary, softness in the world economy is spilling over into our domestic economy, and we are not completely immune. Our local economy is still holding positive, but we are not an island. The statistics for 2012 may dance back and forth from incrementally positive to negative. Unemployment, which has improved little since the 2007–2009 recession, may drift higher. The business tax cuts, which do not take effect until January of 2012, will take time to show results. As we are all aware, the national surveys show that most people feel that the 2007–2009 recession never ended.

Business confidence and consumer confidence will continue to be negative. The segments of this negativity include (1) the disheartening "debt ceiling" battle in August, (2) the high unemployment rates, and no sign of significant improvement, (3) concerns over the European debt situation, (4) concerns over our own sovereign debt situation and the impact that it will have on the future, (5) the uneasy feeling that the tax and regulatory environment will remain unclear until after the national election in November of 2012. In other words, 2012 could be a year of legislative gridlock at the national level.

The ongoing housing crisis will continue to weigh on the economy. Locally, there is evidence that home prices are starting to stabilize, although the continued high level of foreclosures will inhibit prices from rising for years to come. Hence, homeowners now feel like homes are not the investment that they once were. In short, 2012 will not be the year that the housing market returns to normal.

Overall, barring an immediate collapse of the Euro, we still expect to see the current pattern of slow growth to continue in West Michigan for 2012. If we do slide into another recession, chances are that this time we can blame it on the Europeans. As long as automobile sales remain positive, we should continue to stay modestly positive in Michigan for at least the first half of 2012. However, the fact remains that the ENTIRE western world has awakened to the fact that politicians have vastly overpromised pensions as well as benefits to the baby boomers that are unfunded and unsustainable. Greece, the first country to run out of money, was simply the proverbial canary in the coal mine. Fortunately, the problem is still fixable, and the sooner we start, the better.

Last but not least, we need to be vigilant of surprises or catastrophes that may be out of our immediate control. The tsunami in Japan was unexpected, but it impacted most of the industrialized world. Many terrorist acts have been subverted since 9/11, but a major terrorist act that could slip through the cracks would shake our confidence and force us back into a recession. ■

West Michigan Stock Returns

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West Michigan Stocks Lose 3.9% in 2011

After rising 87% during the two-year period 2009–2010, the West Michigan Stock Index fell modestly in 2011. It fell 3.9%, slightly more than the 1.8% decrease in the NASDAQ Composite Index, the index most similar to the West Michigan Index.

Table 1, Stock Market Returns, shows how the West Michigan Index performed over the past three years relative to commonly used yardsticks: the Dow Jones Industrials, the S&P 500, and the NASDAQ Composite Index.

Table 1: Stock Market Returns[1]

	2011	2010	2009
West Michigan Index	- 3.9%	41.4%	32.5%
Dow Jones Industrial Average	5.5	10.1	18.8
S&P 500 Index	0.0	11.8	23.5
NASDAQ Composite Index	- 1.8	16.8	43.9

[1]The West Michigan Index consists of 16 publicly traded companies headquartered in West Michigan. Each company's return is weighted by the number of shares of common stock outstanding, the same procedure used in the S&P 500 Index and the NASDAQ Composite Index. In contrast, the DJIA's Index uses a simple unweighted average return.

Perrigo was the top performer in 2011, generating a nearly 54% stock price increase. Conversely, two small banks—Community Shores Bank and Independent Bank—turned in the worst performances. Table 2, Local Company Returns, shows how each stock in the West Michigan Index performed in 2011.

The performance of each of the above companies is described below.

West Michigan Banks

All four West Michigan banks in the Index are still recovering from effects of the Great Recession. The recession reduced loan demand, dropped the prices of bank investments, and caused a huge dollar amount of loan defaults. Of the four banks, Mercantile is recovering the quickest. Its stock rose 18.9% in 2011 reflecting a nearly 40% decrease in reserves for bad loans and an increase in net income of approximately $18 million from the third quarter of 2010 to the third quarter of 2011. In another sign of its rapidly improving financial health, Mercantile paid all deferred trust preferred stock dividends during 2011. These were dividends the bank deferred to save cash during the recession. Mercantile still owes a little more than $20 million in TARP loans, and you can be sure repaying that money will receive top priority in 2012. Once it's repaid, the bank can resume its common stock dividend, a sure boost to the stock price.

Likewise, Macatawa Bank is coming back strongly. Through the third quarter of 2011, it earnings per share were $0.22 compared with a loss of $1.06 in the same quarter a year earlier. Nonperforming loans fell $40 million in the first nine months of 2011, a 46% decrease. The bank's financial strength improved greatly in the 2nd quarter when it raised $20.5 million by issuing nearly 9 million new shares of common stock. The move was necessary to raise capital to satisfy a regulatory consent order. The bank is now well-capitalized, but the 50% increase in the number of shares reduced the price per share proportionately.

Table 2: Local Company Returns
1/3/11 through 12/30/11

	2011 PRICES		
	Closing	Opening	Price Change
Perrigo	$97.30	$63.33	+ 53.6
Mercantile Bank	9.75	8.20	+ 18.9
Wolverine World Wide	35.64	31.88	+ 11.8
Spartan Stores Inc.	18.50	16.95	+ 9.1
ChoiceOne Financial Services	12.25	12.00	+ 2.5
Independent Bank	1.33	1.30	+ 2.3
X-Rite Inc.	4.64	4.57	+ 1.5
Gentex Corporation	29.59	29.56	+ 0.1
Stryker	49.71	53.70	- 7.4
Meritage Hospitality Group	1.71	2.05	- 16.6
Universal Forest Products	30.87	38.90	- 20.6
Herman Miller, Inc.	18.45	25.30	- 27.1
Steelcase	7.46	10.57	- 29.4
Macatawa Bank	2.28	4.12	- 44.7
Community Shores Bank	0.05	0.66	- 92.4

Both Community Shores Bank headquartered in Muskegon and Independent Bank headquartered in Ionia have yet to turn the corner in their recoveries. Community Bank lost money in every year beginning with 2007 including $8.8 million in 2010 and $1.9 million through the first 9 months of 2011. In its third quarter 2011 report, it said the problems it faces, "… creates uncertainty about the company's ability to continue as a going concern." That's a very bleak statement.

Independent Bank has yet to turn a profit since the recession began, but it made progress reducing it non-performing loans by 25% in 2011. Bank executives have their work cut out for them in 2012.

Gentex

Gentex's stock paused its upward march in 2011 after increasing 167% in the prior two years and over four-fold since bottoming at $7.21 March 6, 2009. During the past 19 years, sales of the automotive mirror and rear camera manufacturer have grown at a 19% annual compound growth rate, equivalent to a 27-fold increase. Still, the company always seems poised for further growth. Its third quarter sales and profits hit all-time high values in 2011, and the company projects 20–25% growth in the 4th quarter. The company broke ground in December on the first of several expansions that will add several hundred thousand square feet of manufacturing space at a cost of $160 million. An announcement is imminent from the US Department of Transportation requiring rear camera display mirrors on light vehicles beginning with 2014. The potential exists for Gentex to increase its vehicle camera market from one-third to one-half of all light vehicles, and maintain its high growth rate.

Herman Miller and Steelcase

Both companys' revenues increased 7–8% in their most recent fiscal quarters ended December 3, while Steelcase's profits increased 21% compared with the same quarter a year earlier, and Herman Miller's profits increased 32%. These are good numbers, and many companies would be elated with them. Not Steelcase and Herman Miller investors, however. That's because accompanying Herman Miller's earnings announcement was a warning about a slowdown in domestic orders during 2012. The office furniture systems industry was hurt by the deep recession, and even through economists say the recession ended more than two and one-half years ago, new office construction hasn't recovered, and many large businesses are reluctant to spend money on new office furnishings until uncertainties about the economy are resolved favorably. In the meantime, don't expect the stock prices of either company to soar in 2012.

Meritage Hospitality Group

Meritage Hospitality Group is one of the nation's leading franchise operators, operating 89 quick service and casual dining restaurants and leisure properties. With only about 800 shareholders, the company's stock is thinly traded and followed. Through the first three quarters of 2011, sales increased 15.1%, but net income fell 50%. The company attributes lower earnings mostly to higher beef costs.

Perrigo

Perrigo — the Allegan-based generic and over-the-counter drug manufacturer and maker of generic health and beauty aids — reported 1st quarter (ending October 27) earnings of $1.10 per share beating analyst's consensus estimate of $1.03. When a company outperforms the consensus by that much, its price will rise. That good news, plus company guidance of 16–20% growth for its 2nd quarter, put Perrigo's stock performance at the top of the West Michigan stock index in 2011.

Its stock jumped approximately $10 per share in late November when both the NASDAQ 100 and S&P 500 Indexes announced they were adding Perrigo to their Indexes on December 6. Even without that bump up, the company's stock price would have risen nearly 38% during the year.

Spartan Stores

In its most recent quarter ending in October, Spartan Store's string of four consecutive quarters of year-over-year profit increases ended when net income fell 8.8% despite a 2.9% increase in revenue. The company fell short of analysts' consensus estimates for the second consecutive quarter. On top of that, its gross profit margin fell because of cost increases, and analysts are lowering their projections for the entire fiscal year ending in April. That bad news trimmed Spartan's price by almost a third during the summer, and it is still recovering. None the less, its stock rose 9.1% in 2011.

Stryker Corp.

Stryker's stock traded around $60 per share through early July. Then it reported a 3.1% decrease in second quarter profits and lower profit margins, knocking its share price into the low-to-mid $40 range. In the 3rd quarter of 2011, sales grew 14.9% compared with a year earlier, but earnings fell 3% because of a one-time charge generated by acquisition costs. Even though the medical products company is well-run, diversified, and has many new products in the pipeline, intense industry competition placed downward pressure on its price and weak demand for several of its orthopedic implant devices. Stryker's stock price recovered somewhat toward the end of 2011, and most stock analysts are bullish on the company's longer-term performance.

Universal Forest Products

As was the case in 2010, Universal Forest Products has struggled to increase its stock price in an environment where relatively few new houses are constructed. Third quarter revenue fell 2.4%, but profits more than doubled. How can that happen? Cost cutting and great inventory control. Universal's outlook for the near term is for continued pressure on profits, but when the housing market rebounds, UFP will be in great shape to take advantage and earn much higher returns.

Wolverine World Wide

It seems Wolverine World Wide is every analyst's and investor's favorite. Its most recently completed quarter, the quarter ending September 30, was the fifth consecutive quarter where revenue set a record (earnings have reached record high levels for seven consecutive quarters), and even the company's gross profit margin rose. The company is well-run and well-diversified, and its outlook continues to look bright. Wolverine also has a history of delivering more than it promises.

X-Rite

X-Rite's stock price more than tripled during the two year period 2009–2010. The company was recovering from severe strains caused by slowing world-wide economic growth and a huge debt burden incurred to finance acquisitions. That recovery continued in 2011, but at a slower pace. Net sales increased 9.4% through the first three quarters of 2011, operating income increased nearly 41%, and nearly $12 million of debt was repaid. With a price/earnings ratio of nearly 50, X-Rite remains a pricey stock.

In summary, 2011 was a little disappointing for the West Michigan Stock Index, but after the two preceding years gave investors a combined 87% return, stepping back 3.9% is not that bad. Several West Michigan publicly traded companies are poised for a great 2012. If you've been following the returns generated by local firms over time, you likely understand two important points about investing. First, it's difficult to predict accurately how individual companies will perform. And second, there is safety in numbers. Any index is less volatile than its individual components. You should leave the job of picking individual stocks to risk seekers, and instead, stick to mutual funds. ■

The Future of Housing Prices in Kent County

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

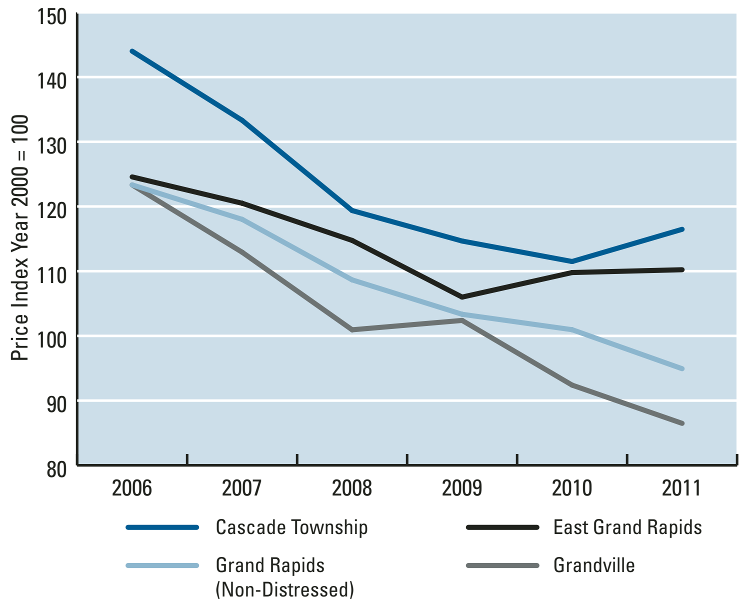
Over the last few years the housing market in Kent County has seen a drop in housing values just like the rest of the country. Since the drop in values began in 2006 people have been trying to understand when the bottom of the market will be reached and when the area will regain the values seen prior to the drop. The current evidence suggests that some markets in Kent County have already bottomed out, whereas other markets are still falling.

A quality adjusted housing price index is used to illustrate the story of the housing market in Kent County. Unlike the change in median prices that report the median price of houses sold, a quality adjusted price index statistically compares the change in value of the same house across time. The index is set to 100 in the year 2000, so it can be interpreted as to how much money is needed to buy a house now for every $100 needed to purchase the same house in the year 2000. Using data from the Kent County Board of Equalization, the sale prices for every house sold more than once from the early 1990s to the third quarter of 2011 are compared. Although there might be things such as renovations or an owner that does not keep up maintenance that affects the change in the price for a particular house, this technique will find the cumulative effect of all houses across the entire city.

An index for each of four distinct areas within Kent County is used to illustrate the changes including Cascade Township, East Grand Rapids, Grand Rapids, and Grandville. All the indexes include houses sold between $10,000 and $1 million except for Grand Rapids. The Grand Rapids market index includes houses sold between $50,000 and $1 million. The reason for this difference is that the Grand Rapids market has had a large "distressed" housing market that substantially influences the price index, which is not the case for the three other markets. The effect of these distressed houses on the market was explained in the 2011 *Seidman Business Review*. However, if the distressed houses are included, the Grand Rapids index drops substantially.

Figure 1 contains the price indices since 2006 when the prices in Michigan universally have been falling. The areas shown for Kent County average a 20% drop in prices between 2006 and 2011. However, Cascade Township and East Grand Rapids have recently seen price increases and are currently above prices seen in 2000. This contrasts with Grand Rapids and Grandville where the price index indicates housing prices continue to drop and have fallen below their 2000 price levels.

Figure 1: Residential Housing Price Index



Economists would say the drop in price levels seen in Figure 1 occurred either because of an increase in the supply of housing available for sale or a decrease in demand for housing. The supply of housing available increases when more houses are built or more people choose to sell or face foreclosure. Demand for housing increases when more people move into an area, more people become wealthy enough to buy a house, or it becomes easier to buy a house (like occurred prior to the economic crisis with zero down and interest- only loans).

Figure 2: Housing Supply and Demand Drivers 2000–2010

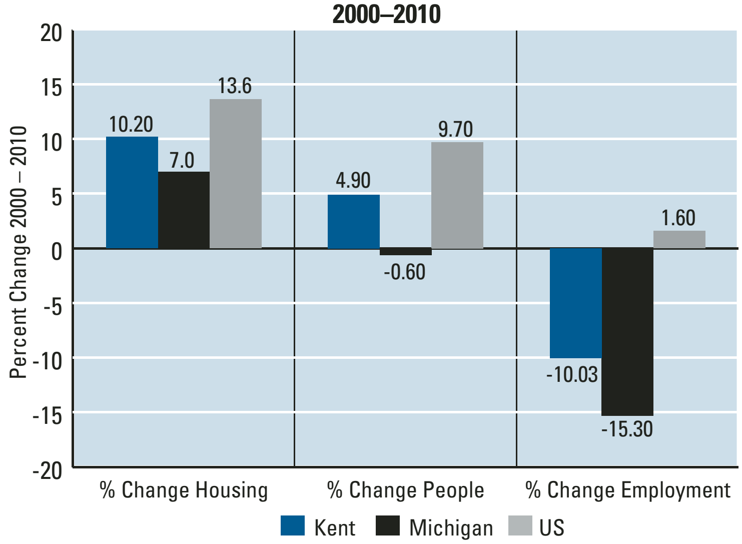
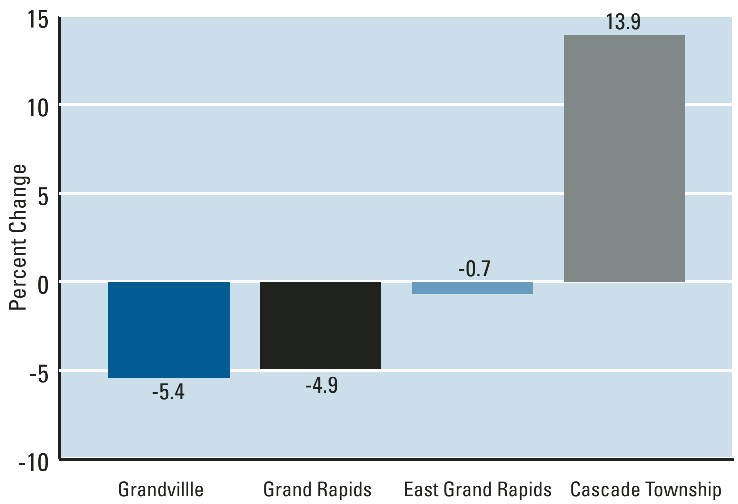


Figure 2 compares some of the supply and demand drivers for Kent County with the rest of the state and country. Currently across Michigan the number of houses entering the market through foreclosure is double the rates seen in 2000 (New York Federal Reserve). In addition, new houses are being built so there are 10% more houses compared to pre-crisis levels (U.S. Census), so the supply of houses available for sale has increased. In addition, higher loan requirements make it much harder to get a mortgage and fewer people in Kent County have jobs when compared to pre-crisis levels (Michigan Department of Technology Management and Budget), which suggests generally across Kent County a decrease in demand for housing. Finally, the population in Kent County has increased, but the population growth rate between 2000 and 2010 is half the growth rate of new houses (U.S.Census). The net result is more people competing to sell houses to fewer people, this competition lowers prices overall in Kent County.

Figure 3: Population Change 2000–2010



The variation in price indexes across the county seen in Figure 1 are most directly explained by population growth (Figure 3). Between the 2000 and 2010 Census Cascade Township has seen more than a 10% increase in population; East Grand Rapids has seen less than a 1% decrease in population; but Grand Rapids and Grandville both have seen close to 5% decrease in population. These shifts in population have increased demand—and therefore values—in some communities and decreased demand in others. In addition, even within each of these communities there can be variation in value changes based on localized conditions.

Given the last 12 years, what are the expectations for Kent county real estate prices during 2012? Virtually all of the demand and supply drivers are moving in the right direction to put upward pressure on prices again across Kent County. On the demand side, job growth has begun again in Kent county with 3.5% more employment now compared to the bottom in 2009 (Michigan Department of Technology Management and Budget) with all indications that this slow employment growth will continue in 2012. Based on population estimates (U.S. Census), most of the population decreases in cities like Grand Rapids occurred during the first half of the last decade. Since that time slow population growth has returned to most cities. Finally, the Federal Reserve reports that lenders have stopped tightening standards, and during 2011 some even began to loosen them again. The combination of more employment, more population, and more loan options increases the number of households able to purchase a house.

On the supply side, house construction continues to be muted across Kent County with limited strategic building occurring when an opportunity presents itself. However, houses have continued to enter the market through foreclosure. Foreclosure rates remain elevated; however, information form the New York Federal Reserve shows that the rate of new foreclosures in Michigan has dropped by 50% over the last year and a half. In addition, the rate at which people are transitioning from being current on their mortgage to being 30 days late has been dropping and is back to rates seen in 2003 and almost back to rates seen in the late '90s. Therefore, although in some cities there are a large number of houses already in foreclosure or pre-foreclosure, the rate at which homeowners are starting down the path toward foreclosure is quickly retreating toward normal. Slow building and a reduction of the pipeline into foreclosure decreases the options for new buyers.

These demand and supply drivers are good news for Kent County. Over the course of 2012 many more communities will see their prices bottom out and some will start to see appreciation. The best single indicator for individual cities and neighborhoods within Kent County should continue to be population growth.

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Student Codes of Honor: Part of the Solution?

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In last year's edition of the *Seidman Business Review,* Williams [2010] shared perspectives on the state of affairs regarding business schools'[1] perspectives on business ethics, including the levels of responsibility and accountability society should expect, given the limited level of "control" business programs have over the development of their students' ethical behavior. In the final analysis, Williams [2010] posits that business schools have appreciably more control over their environments and, therefore, are responsible for and should be accountable for creating appropriate cultures of ethics, so that students can begin to live—while they are students—the exercise of ethics society expects of them when they become business professionals.

In addressing the issue of responsibility of business schools regarding business ethics, Williams [2010] provides data that reflect that Michigan's state-assisted business schools[2]—as well as West Michigan Colleges and Universities—have done outstanding jobs of creating ethics courses and embedding ethics in other courses to create and enhance appropriate environments for students to learn and experience ethical business behavior.[3]

This paper addresses another aspect of the measures business schools are implementing to address the issue of creating environments to foster and promote ethical conduct on the parts of their students. Specifically, it seeks to flesh out the issue of codes of academic integrity and student honor codes in business schools at Michigan's state-assisted colleges and universities, as well as at West Michigan's colleges and universities. While the paper also provides a retrospective of one business school's students' grand success in creating a student honor code, it ultimately, at least effectively, asks whether student honor codes might be part of the solution.

Codes of Academic Integrity

Academic integrity is the broad, general moral code of academia, including values of maintaining academic standards and, thus, avoiding instances of academic dishonesty, including cheating and plagiarism. The concept applies to both faculty and students. As such, virtually every institution of higher education has some explicit version of a code of academic integrity, at least for students. In fact, every college and university surveyed to support this study (see Table 1, below) includes some version of a university-level student code of academic integrity. Typically, these student codes include a provision prohibiting academic dishonesty and providing sanctions (from failing of individual assignments to failing of courses) for those found guilty of the offenses. In fact, most academic integrity codes allow, in appropriate circumstances, for expulsions of students determined to be guilty of such offenses. These codes begin to establish a culture that promotes ethical conduct and behavior, at least as they relate to academic aspects of students' lives—including, of course, business students.

Unfortunately, those university-level student integrity codes rarely receive much attention by students, except, of course, the relatively few students who happen to become subject to them. Moreover, since these codes also rarely include a reporting provision to alert other students to violations and punishments, they often fail the broader potential to discourage future violations.

Academic integrity policies are typically created, maintained, and enforced by college and university administrators. On the other hand, *student honor codes* are typically created, maintained, and adjudicated by students. Research shows that when students play significant roles in developing and implementing honor codes they acquire a sense of ownership that makes the codes more real and tangible and that "peer pressure" causes their classmates to pay more attention to the code; this usually results in students exercising more ethical conduct. Indeed, according to Dr. Don McCabe,[4] an authority on academic integrity, serious cheating on both tests and written assignments occurs much less frequently in schools where *student honor codes* exist.

Honor Codes

Two basic types of student honor codes exist: the traditional honor code, which often governs non-academic behavior, and the modified honor code, which usually focuses on addressing academic infractions and on education about academic integrity. The traditional honor code is usually characterized by three or more of the following: (1) student initiated and operated; (2) students handle all aspects of enforcement; (3) suspension or expulsion is typically the penalty for every infraction; (4)

[1] Throughout this article "Business School" and "School" are used generically, to include all incarnations of academic business programs at colleges and universities, whether clusters of faculty, departments, schools, or colleges.

[2] In fact, the Table in Williams [2011] should be updated to reflect that Michigan State University's Broad College of Business later reported that it offers two stand-alone ethics courses, as well as the courses in which ethics is embedded.

[3] The Williams [2011] Table 2 should also be updated to note that, since last year's publication, Baker College's School of Business reported that it offers one stand-alone business ethics course and discusses ethics in virtually all its business courses.

[4] Dr. Don McCabe is a Professor of Management and Global Business at Rutgers University. Over the last seventeen years he has done extensive research on college cheating, surveying over 150,000 students at more than 150 colleges and universities in the U.S. and Canada. He has also surveyed over 40,000 high school students in the United States during the last six years. His work has been published widely in business, education and sociology journals and he is founding president of the Center for Academic Integrity, a consortium of over 350 colleges and universities based at Clemson University who are joined in a united effort to promote academic integrity among college and university students. (http://www.usma.edu/uscc/scpme/ncea/old%20ncea%20sites/2008_site/2008_Speakers/mccabe.html.)

requires students to report violations; (5) requires a signed pledge for every graded assignment; (6) and each student must pass an honor code test or receive education about the code. [Dodd, 2010] The modified honor code, a more recent innovation, on the other hand, is often characterized by many of the following elements: (1) initiated and operated in a shared fashion among students, faculty, and administrators; (2) students usually possess the majority representation on adjudication panels; (3) faculty usually handle first offenses, and must report violations to administrators; (4) subsequent violations are considered by panels that include students and usually result in more severe punishments (often either suspension or expulsion); and (5) usually "requires" students to report violations, but with no penalties for failures to do so. [Dodd, 2010]

Irrespective of the type of honor code in effect, research supports the notion that serious test cheating and cheating on written assignments happen much less frequently on campuses with honor codes than on those campuses that have no honor codes. [McCabe, April 2002 and June 2002] Indeed, the impact of honor codes, both traditional and modified, is surprisingly strong on many campuses, suggesting that an ethical appeal to students—rooted in a sense of community responsibility—can help reduce cheating. [McCabe, April 2002] Unfortunately, however, among more than 4,000 institutions of higher education in the United States, fewer than 300 report having honor codes, of either type, at the university level, let alone at the business-school level. [Dodd, 2010] The apparent effectiveness of student honor codes and the desires of business schools to create environments of ethics and corporate social responsibility beg questions regarding the number of Michigan business schools that either have implemented or plan to implement student honor codes.

A survey of the 15 State-assisted universities across Michigan and eight West Michigan colleges and universities (see Table 1) revealed that 50 percent of the business schools responding[5] have implemented student honor codes (see Table 2). (That represents more than 36 percent of all the business units surveyed, including those that failed to respond.) These separate student honor codes provide additional guidance for business students, in addition to the university-level student codes of academic integrity. Moreover, the respondents indicated that the earliest of these separate honor codes was implemented during 2006. These business schools are to be applauded for their movement in a right direction.

In addition, "Students … should play a major role in [honor code] … development and implementation." [McCabe, 2002, p. 38] In fact, the evidence also suggests that where students play a major role in creating honor codes, the codes are much more likely to create positive peer pressures and, thus, have a positive impact on the culture of ethics and appropriate conduct in the academic community. Table 3 suggests that Michigan business schools understand the importance of student participation, revealing that 75 percent (12.5% plus 62.5%) of the responding schools reported that code development included student participation.[6] In fact, one School indicated that students developed the student honor code. That respondent, Grand Valley State University's Seidman College of Business, self-identified and agreed to allow a retrospective of its student-created *Student Code of Honor,* (see Exhibit 1, below) ratified by the Seidman College of Business faculty on April 15, 2011.

Table 1: Colleges and Universities Surveyed

State-Assisted University	West Michigan College/University
Central Michigan University	Aquinas College
Eastern Michigan University	Baker College
Ferris State University	Calvin College
Grand Valley State University	Cornerstone University
Lake Superior State University	Davenport University
Michigan State University	Grand Rapids Community College
Michigan Technological University	Grand Valley State University
Northern Michigan University	Hope College
Oakland University	
Saginaw Valley State University	
University of Michigan – Ann Arbor	
University of Michigan – Flint	
University of Michigan-Dearborn	
Wayne State University	
Western Michigan University	

Table 2: Business Schools with Separate Honor Codes

Option	Number	Percentage
Yes	8	50%
No	8	50%
Total	16	100%

Table 3: Primary Developers of Student Codes

Option	Number	Percentage
Faculty	2	25%
Students	1	12.5%
Both Faculty and Students	5	62.5%
Total	8	100%

[5] Sixteen of the 22 business schools surveyed responded, resulting in a 73 percent response rate.
[6] While there was no requested reporting of the significance of student participation in the processes, the assumption is that student participation was very important to the process.

Anatomy of the Creation of a Student Code of Honor

Grand Valley State University has a *Student Code* that, while being updated appropriately over the years, has been in place for its 50 years of existence. In addition, since the 2000–2001 academic year, the Seidman College of Business faculty routinely includes a reference to the University's academic integrity policy in every syllabus, for every course, in an effort to increase student awareness and sensitivity to the issues of academic integrity and to emphasize that it is a priority for both the College of Business and for the University.

The College's Business Ethics Center, which was created in 1997, has as its mission "to examine the role and influence of business in public life, to promote inquiry into ethical business practices and education, and to be a leading resource for business persons, students, faculty, and administrators who seek to understand the relationship between business, the common good, and a life well-lived." Over the years, it has served both external constituents and faculty, staff, and students, encouraging and supporting the faculty's rising concern with trying to create an appropriate environment and College of Business culture that prioritizes integrity and helps students become better equipped to move into the professional world with a firm understanding of, and commitment to, ethical business conduct.

A few years ago, a senior Accounting faculty member, with military experience, suggested that the College consider creating an honor code for students. He, effectively, challenged both the Dean's Undergraduate and Graduate Student Advisory Boards[7] to begin a blog regarding the issue, to ascertain student sentiment regarding a Seidman College of Business honor code. These student groups concluded that a significant number of the College's approximately 3,400 students (3,000 undergraduates and 400 graduate students) supported further exploration of the honor code concept. In fact, the student advisory groups brought the issue to the Dean as an item they wanted to pursue.

The Dean, who supported the notion passionately from the outset, agreed to facilitate the students' considering an honor code, insisting that they, first, develop an appropriate understanding of honor codes and their potential impacts on students' conduct and on the cultures of academic environments. The Director of the Business Ethics Center and the Dean's Executive Committee (comprised of the College's leadership team of department chairpersons, associate dean, and directors) agreed that the College should support the students' leadership efforts.

At the end of the 2009 Fall Semester, the Dean sanctioned two independent-study courses (one graduate and one undergraduate) to allow small groups of students to collaborate in studying honor codes and planning a process for moving forward the project.[8] The Director of the Business Ethics Center, a Philosophy Professor and long-time business consultant on business ethics, served as the faculty-member-of-record for the courses.[9] The Director facilitated the students' code-development process: how to approach the project, including how to educate themselves about honor codes, how to communicate to, and receive input from, the College's 3,400 students, how to best secure the Seidman College of Business faculty's support, how to assure it satisfies legal standards, and how to have the honor code articulate with and support the University's overarching *Student Code*.

The student leaders enrolled in the one-credit-hour courses,[10] which met only during the evening hours during each of three semesters, beginning with the 2010 Winter Semester. During the 2010 Winter Semester, the students researched and discussed honor codes and their effectiveness and began drafting the code; they invited the Dean to discuss what they had learned and the conclusions they reached. Very importantly, the students presented their idea of developing the honor code to the College's Faculty Senate, securing approval to move forward with the process.

During the 2010 Fall Semester, the group continued fine-tuning the code, per se, and began developing the supporting processes, including assuring that the enforcement process articulates with the University's *Student Code* adjudication process. The students presented their proposals to appropriate University administrators, including the Dean of Students and Legal Counsel. During the semester, the students hosted a number of Town Hall meetings and other meetings for students to discuss the code and its development. After appropriate education, the students conducted a student approval vote, via email: 88.75 percent of the Seidman undergraduate and graduate students who cast votes[11] supported the implementation of the *Seidman Student Code Of Honor.*

The students presented what they considered a finished product to the Faculty Senate during December of the 2010 Fall Semester, in anticipation of a ratification policy vote. The faculty, indeed, applauded the students' work. On the other hand, individual faculty members challenged the aspirational aspects of the Code, noting that they could not realistically be enforced (e.g., the Code's provision to "strive for continuous self-improvement"). The Faculty asked the students to re-think some of the aspirational aspects of the Code and, then, to present it again during the 2011 Winter Semester.

On April 15, 2011, the students presented a slightly revised final version of the Student Code of Honor. In response to the renewed challenges to their having retained the aspirational aspects, the student representative noted that the students

[7] The Dean's Undergraduate Student Advisory Board and Graduate Student Advisory Board, in existence for eight years, are groups of approximately 17 and 14 students, respectively, who provide advice and counsel to the Dean regarding student issues in the Seidman College of Business. They also serve as "Ambassadors" for the Dean's Office with respect to the respective student populations.

[8] During the three semesters of the project a total of 13 students participated in the courses, but never more than seven during any single semester.

[9] Two accounting faculty members also served as reference sources as the students required their input.

[10] The courses, of course, satisfied the different academic standards and expectations for graduate and undergraduate students, respectively.

[11] Unfortunately, only slightly more than 14% of the students cast votes.

Exhibit 1: Seidman College Student Code of Honor

SEIDMAN COLLEGE OF BUSINESS
Student Code of Honor

The principles of truth and honesty are recognized as fundamental to a community of teachers and scholars. As such, the Seidman College of Business expects both faculty and students to honor these principles and, in so doing, to forge a lifelong commitment to ethical behavior.

To uphold and promote the highest standards of behavior in the academic and professional world, I hereby make the following pledge.

As a member of the Seidman College of Business, I shall
- conduct myself with the highest level of integrity,
- maintain accountability for my actions and encourage the same of others, and
- be open, fair, trustworthy and honest.

Additionally, I will strive for
- continuous self-improvement,
- intellectual engagement,
- global perspective, and
- advancement of sustainable business practices.

I shall not

lie, cheat, steal, or plagiarize.

I recognize that compliance with this Student Code, established by Grand Valley State University business students, is the minimum standard that must be followed to maintain good standing as a member of the Seidman College of Business. As a member of this organization, I will strive to reach levels of excellence that will serve as benchmarks of ethics and performance in the academic and business communities.

understand that the aspirational aspects defy enforcement, at least per se, and at least by "other" parties; nonetheless, the students think it is important that the Code include the aspirational aspects so that they can challenge themselves and each other to accept personal accountability to strive for the achievement of those aspirational goals. The faculty applauded their work, their commitment, and some even applauded their insistence on retaining the aspirational aspects of the Code! Indeed, on April 15, 2011, the faculty approved the ratification policy, which concludes with the following quote:

> "As faculty members of the Seidman College of Business, we pledge to model standards of excellence in academic integrity and honor and to hold students responsible and accountable for upholding the Seidman College of Business Student Code of Honor. Therefore, we pledge to enforce the Student Code of Honor, in accordance with the boundaries of the existing *Grand Valley State University Student Code*." [Vegter, 2001, p. 5]

In the final analysis, and in accordance with best practices, the new *Seidman College of Business Student Code of Honor* reflects significant student leadership (in its development, implementation, and enforcement), speaks to consensus institutional values of integrity and social responsibility, includes appropriate proscriptions and ideals, assures fair and consistent adjudication, and requires central recordkeeping and reporting to the students. [Dodd, 2010] Moreover, the actual document includes definitions of terms included in the Code, an incident-reporting-and-enforcement process, the Faculty's approved "Student Code of Honor Policy," and an important message provided by the President of the University:

> "As President of Grand Valley State University, it is my distinct pleasure to recognize and congratulate the students in the Seidman College of Business for creating and adopting their own moral educational compass in the form of this *Student Code of Honor.* I trust it will help them shape their lives, their professions, and their societies.
>
> Please join me in applauding this special effort. This action will only enhance the current atmosphere that promotes intellectual character for our entire university community." [Vegter, 2011, p. 1]

Of course, as McCabe correctly points out, “ [ultimate] success depends on getting students to accept responsibility for academic integrity, both their own and that of their peers. They do not necessarily have to monitor and report on their peers, but they do have to help create and sustain an environment where most students view cheating as socially unacceptable.” [McCabe, April 2002, p. 40] Student leadership in the Seidman College of Business vows to continue and to enhance that culture—with the *Seidman College of Business Student Code of Honor* as the cornerstone.

Conclusion

Williams [2011] concluded by noting that, since Business schools have a very limited level of “control” over the values their students bring with them as well as over any positive values students may inculcate during their matriculations, business schools should focus on creating academic environments that provide opportunities for students to learn about ethics and to practice exercising their moral values. This limited study suggests that, across the State of Michigan and in this West Michigan community, business schools are moving the ball forward by implementing and reinvigorating separate student honor codes, which, in turn, encourage increased dialogue among faculty, staff, and students about ethical business conduct and communicates to students that integrity is a priority for the business schools and their universities. Honor codes may, in fact, prove to be part of the solution. Perhaps, then, business-student graduates may become even more resilient and less tolerant of unethical business conduct when they enter the work force. Enhancing the culture of integrity in business schools may provide even more; indeed, “…the greatest benefit of a culture of integrity may not be reduced student cheating ... it may be the lifelong benefit of learning the value of living in a community of trust.” [McCabe, April 2002, p. 41] ■

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The Age of Sustainability Has Arrived in West Michigan

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West Michigan businesses can trace their "green" roots back 50 years with the efforts of the furniture industry, including Herman Miller, Steelcase, Haworth, and others. Many of these early-on activities and initiatives became embedded in the "green" movement, which was associated primarily with environmental stewardship programs surrounding air, waste, water, and land use issues. Some have used the terms green and sustainability interchangeably and synonymously, but there is a significant difference. Sustainability takes into account a broader perspective of economic and social impact, as well as environmental stewardship. These three sustainability impacts are known as the "triple bottom line."

West Michigan has been practicing "triple bottom line" sustainability for many years and the progress can now be seen across the public, private, academic, and service sectors. Business leaders, owners, and managers are now able to implement and use these applied sustainable development best practices in their companies and organizations. Think of sustainability as a toolbox of applied skill sets that can help business and organizational leaders make better decisions today and in the future by improving their overall economic, social, and environmental impact in the communities they serve.

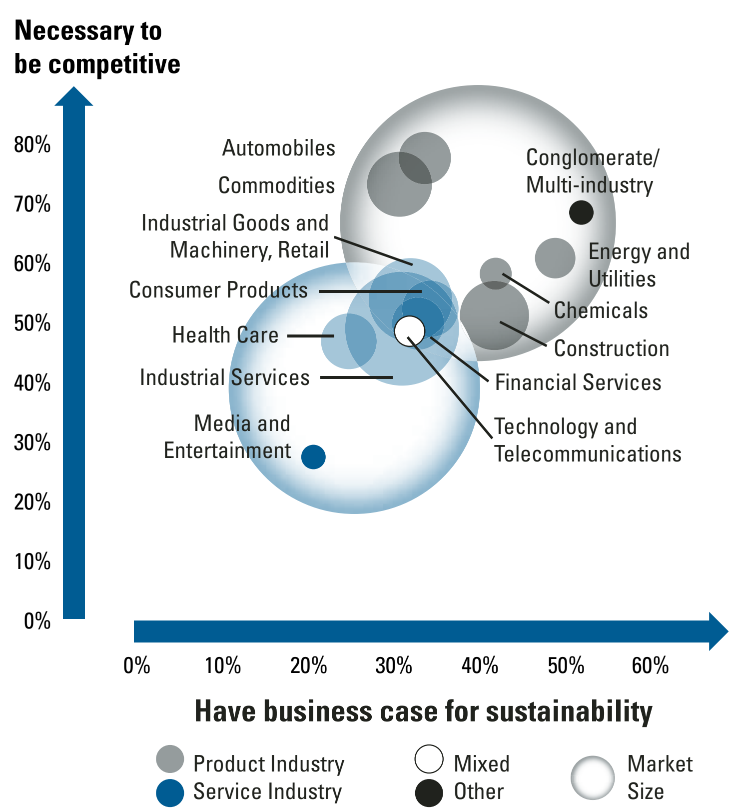
West Michigan companies and businesses are being drawn into the era of sustainability through their supply chain and global business opportunities and because sustainable development best practices can generate short-term efficiencies and long-term value for their operations. What are some of the market driving forces for sustainability? Accenture in 2010 issued a United Nations Global Compact CEO Study entitled "A New Era of Sustainability." (1) Feedback and responses were received from 1000 CEOs. The following are a few statistics from this CEO survey:

- 93% believed sustainability issues would be critically important to the future success of their business;
- 91% reported that their company would be implementing new innovative technologies such as energy efficiency, energy optimization, IT, etc., to address sustainability issues over the next 5 years;
- 72% acknowledged that "brand, trust, and responsibility" were one of the top 3 factors that were driving them to address sustainability issues and opportunities;
- 96% believed that sustainability issues should be fully integrated into the business strategy and operations of a company, up from 72% in 2007;
- 88% believed that they should be integrating sustainability throughout their supply chain.

Additionally, the MIT Sloan Management Review, in collaboration with the Boston Consulting Group, issued a Research Report in the winter 2011 entitled "Sustainability: The 'Embracers' Seize the Advantage." (2) Over 3000 global business leaders and executives participated with the following key findings:

- Spending on sustainability survived the downturn, with 60% of companies increasing their investments in 2010;
- all companies, including embracers and adopters, are seeing the benefits of strategies such as improved resource efficiency and waste minimization efforts;
- companies across all industries acknowledge and agree that implementing sustainability best practices is essential to remaining competitive;
- all companies recognize the results and benefits of the brand building and reputation for being sustainability driven.

The following chart depicts industry and market segment perception of the necessity for sustainability relative to the presence of a business case for sustainability. For nearly all industries and market segments, 40%–80% responded that sustainability is necessary to be competitive, and 25–50% responded that they have the business case for sustainability.



From these surveys and other reports, sustainability can be seen as becoming part of the DNA of a business or company, not a passing management fad or interest, and not just representing a future cost and opportunity. Companies and organizations are now able to use these best practices to "do the right thing" and make money while doing it.
Moving forward, sustainability is leading the way into the sixth wave of innovation in the United States. (3) Sustainability is closely associated with several important business processes, such as radical resource productivity and whole systems design, and new clean technologies, such as green chemistry, renewable energy, and green nanotechnology.

How then are the West Michigan businesses progressing along the sustainability journey? During the last several years, our sustainability journey has gone through several sustainable development stages including awareness, understanding, application, and progress. We have now reached a level where expectations have been raised.

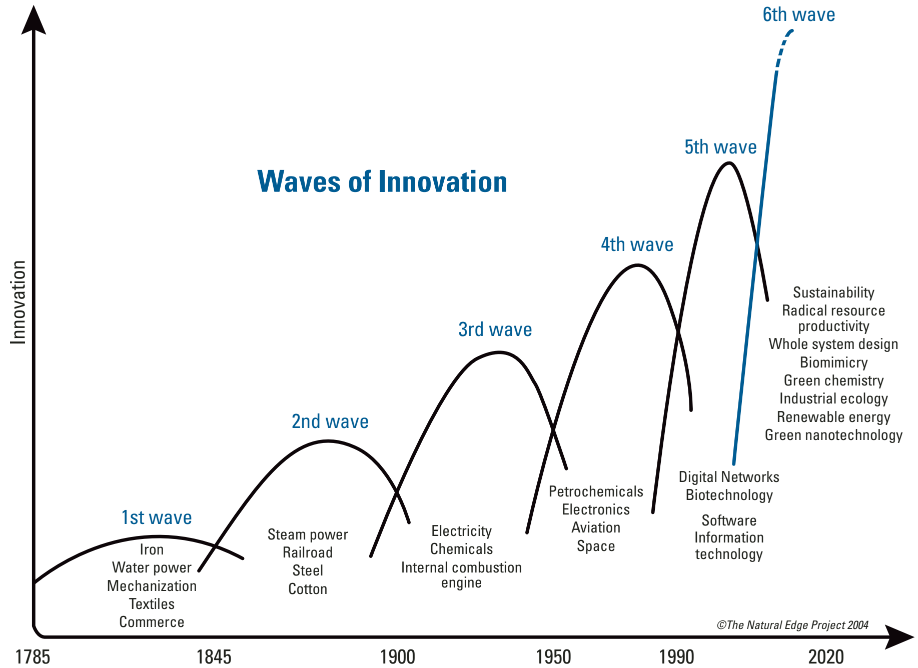


Figure 2 *Waves of Innovation of the First Industrial Revolution*

Leadership and excellence will be required to help develop new behaviors and lifestyle models. Our business leaders will need to inspire their organizations with new visions and help empower their companies to act as change agents!

West Michigan is fortunate to have a number of businesses and organizations that are leading the sustainability journey and helping to pave the way for others. These companies include Amway, Cascade Engineering, Haworth, Herman Miller, Steelcase, and many others. They are willing to share their sustainability best practices and experiences to help others gain insights from lessons learned. Today, the West Michigan Sustainable Business Forum (www.wmsbf.org) has a membership of nearly 100 companies that meet monthly with active committees on sustainable design, sustainable business, social responsibility, and energy.

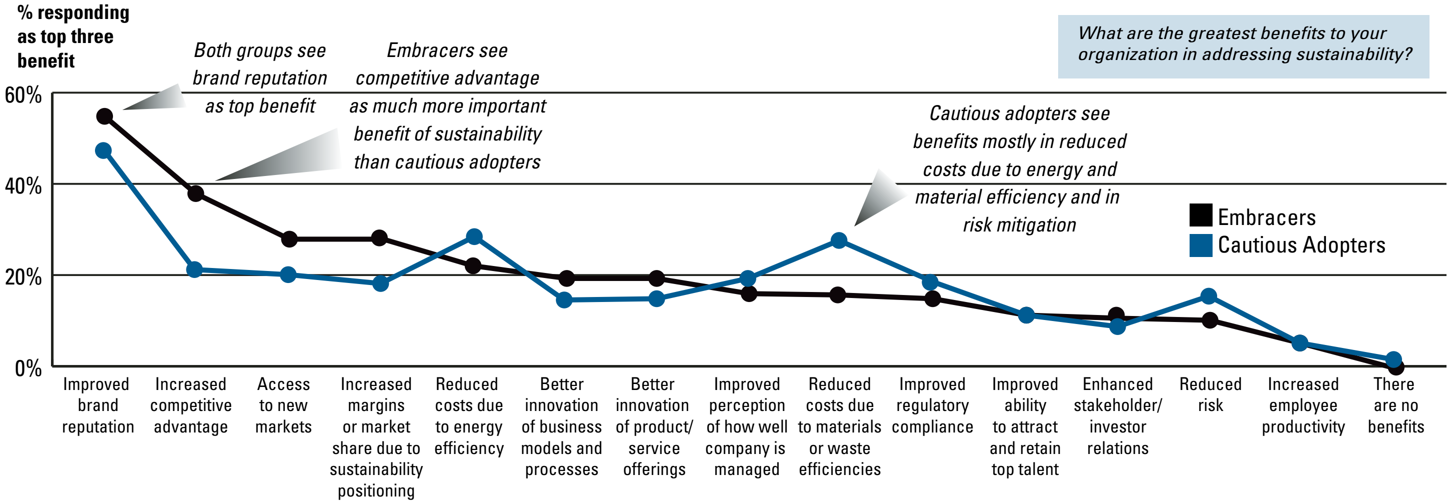
The Business and Institutional Furniture Manufacturers Association (www.bifma.org) in Grand Rapids has also taken a leadership position in sustainability by developing the voluntary ANSI/BIFMA Furniture Sustainability Standard and level® Certification program. The institutional furniture marketplace in the U.S. is an approximately$10B industry. Thirty-one companies, including Haworth, Herman Miller, Izzy+, Nucraft, and Steelcase from West Michigan, have 1448 product lines level® certified to the e3 standard. This standard was modeled after the Leading Environmental and Energy Design (LEED) rating system format. "Level 3" is the highest product rating category, with the following breakdown as of November 2011:

- Level 1 - 919 product lines
- Level 2 - 378 product lines
- Level 3 - 151 product lines

The level® mark means third party certification (www.level certified.org). Other industries and companies are now evaluating this voluntary standard for their own use and implementation. Significant progress has also been made in LEED building and construction in West Michigan. The West Michigan chapter of the U.S. Green Building Council (www.usgbcwm.org) has over 165 organizations and professionals that are focusing on LEED–NC (New Construction), LEED–H (Homes), LEED-ND (Neighborhood Development), advocacy, and incentive opportunities. To date, there are now 159 LEED building projects totaling 26,970,801 sq. ft. that have been certified to LEED platinum, gold, silver, and certified levels in West Michigan as follows:

- LEED Certified - 76 buildings
- LEED Silver - 40 buildings
- LEED Gold - 30 buildings
- LEED Platinum - 3 buildings

There are also several "LEED firsts" in the US in the West Michigan area, including the Grand Rapids Arts Museum, the David Hunting YMCA, and Keystone Community Church. On average, all LEED buildings cost $144 per square foot to build and save 52 cents per sq. ft. on annual energy costs. Using these averages, there has been approximately $3.8B of capital investments in LEED buildings in West Michigan with average annual energy savings of approximately $14MM. LEED buildings also offer a healthier and more productive work environment for employees. West Michigan also has approximately 65% of all LEED building construction projects in Michigan. West Michigan has also taken the reduction in waste to a new level. Initially the focus was improving recycling rates. For example, at Grand Valley over the last five years, we have been able to improve our recycling rates twofold to over 40% campus wide. Then the focus shifted to why we generate so much waste in the first place.



Americans, on average, each generate 4.5 pounds of waste every day. Businesses then further developed strategies to reduce, reuse, recycle, redesign, and re-imagine new uses for their various waste streams. (4) Comprenew Environmental (www.comprenew.org), a local non-profit electronics recycler, last year, for example, kept over 2MM pounds of electronics products from reaching our landfills.

Food composting has also been a proven industrial process for Steelcase, Grand Valley, and others. Today, the bar has been raised even higher by companies in the furniture industry that have set auspicious zero waste goals for their operations. Haworth Inc. set a goal of zero waste to landfill and has now achieved it for its Holland, Michigan corporate headquarters and in its manufacturing facilities in the United States, China, and India. Since 1993 and the opening of the Haworth Recycling Center, more than 460 mm lbs. of material have been processed. (www.haworth.com)

Additionally, West Michigan has been able to leverage the Green Suppliers Network (GSN) program (www.greensuppliers.gov/gsn). The GSN is designed to provide small and medium size businesses with lean, green, and clean best practices to improve their manufacturing processes, reduce waste, use materials and energy more efficiently, increase the use of environmentally friendly raw materials, reduce labor costs, and increase overall profitability. The Right Place Inc., the MDEQ, and West Michigan businesses formed a partnership to undertake this program. There have been 17 GSN reviews with West Michigan member companies with total estimated savings of over $6MM. About one-half of these were one-time savings. The other savings were considered to be annualized savings, such as water and energy use reduction. The $6MM savings include both "lean" and "green" savings. Today the GSN has completed a total of 166 company interviews with aggregated annual environmental savings of approximately $36MM and aggregated annual lean savings of approximately $41MM.

West Michigan has also formed the West Michigan Sustainable Purchasing Consortium (WMSPC) [www.wmspc.org]. The WMSPC is the nation's first voluntary public-private purchasing consortium to focus on sustainable, environmentally friendly, and socially responsible products that leverages quantity discounts and helps spur economic growth in the region. The initial products of interest include copy paper, de-icing products, and janitorial supplies.

Why is sustainability gaining traction and momentum? What have been the benefits that businesses and organizations have realized when using sustainable development best practices?

From "Sustainability: The 'Embracers' Seize Advantage" the top reasons include:

1. Improved brand reputation
2. Increased competitive advantage
3. Access to new markets
4. Increased margins
5. Reduced costs
6. Better innovation

The use of sustainable development best practices has gained significant momentum in the recent past and will continue for West Michigan business and organizations. After all, for those who live and work in Grand Rapids, it is the most sustainable mid-size city in the United States.

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