

# ***Seidman Business Review***

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



Vol. XX  
Winter 2014



What is in store for the West Michigan economy in 2014?

Is the regional housing market back on its feet?

What does the success of the Grand Rapids Griffins mean to the local economy?

What are the prospects for the area's commercial real estate?

And much more...

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## From the Editor...



he shepherded the College's move into the new four-story, \$40 million L. William Seidman Center. A new dean will begin service July 1, 2014.

The past year has been one of change for the West Michigan economy too, as the articles in this latest edition of the *Seidman Business Review* attest. Our continued commitment to excellence in this publication is reflected by the expert analysis and commentary on a variety of topics of relevance to you, our readers—the annual Grand Rapids economic forecast; retrospectives of the year for the regional housing, real estate, and stock markets; analysis of the changes in the area economy through the Great Recession and the ongoing recovery; an evaluation of the economic impact of the Calder Cup win by the Grand Rapids Griffins; and a review of corporate tax rates and the question of their appropriate level.

I hope that you enjoy these articles, and that they answer some of the questions you might have about the economy and business environment in our region. As you read through this edition of the *Seidman Business Review*, other questions might arise. I encourage you to look over the list of Seidman Faculty Experts provided on the last page and contact those whose expertise may be of value to you. They might just help you bring the change that you need in 2014.

Gerry Simons, Professor of Economics

**T**he past year has been one of change for the Seidman College of Business. Near the beginning of 2013, after nine years of leadership at Seidman, Dean H. James Williams took the position of President of Fisk University in Nashville. Associate Dean John W. Reifel, who has a longstanding record of exemplary service in the College, assumed the position of Interim Dean, and in May

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Winning the Calder Cup in 2013 was a tremendous achievement for the Grand Rapids Griffins. What economic impact does such a successful season bring to the area?

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# Grand Rapids Economic Forecast 2014

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

- Business confidence index in 2014 is 71%, the highest level for the index since December 2000
- Employment is expected to grow by 2.7% to 3.1% in 2014
- Overall nominal sales are expected to increase by 2.4%–2.8% for 2014
- Exports continue to be a bright spot; expected growth is between 8% and 9.2% during 2014
- All indicators signal the 2014 economy growing faster than during the last 2 years

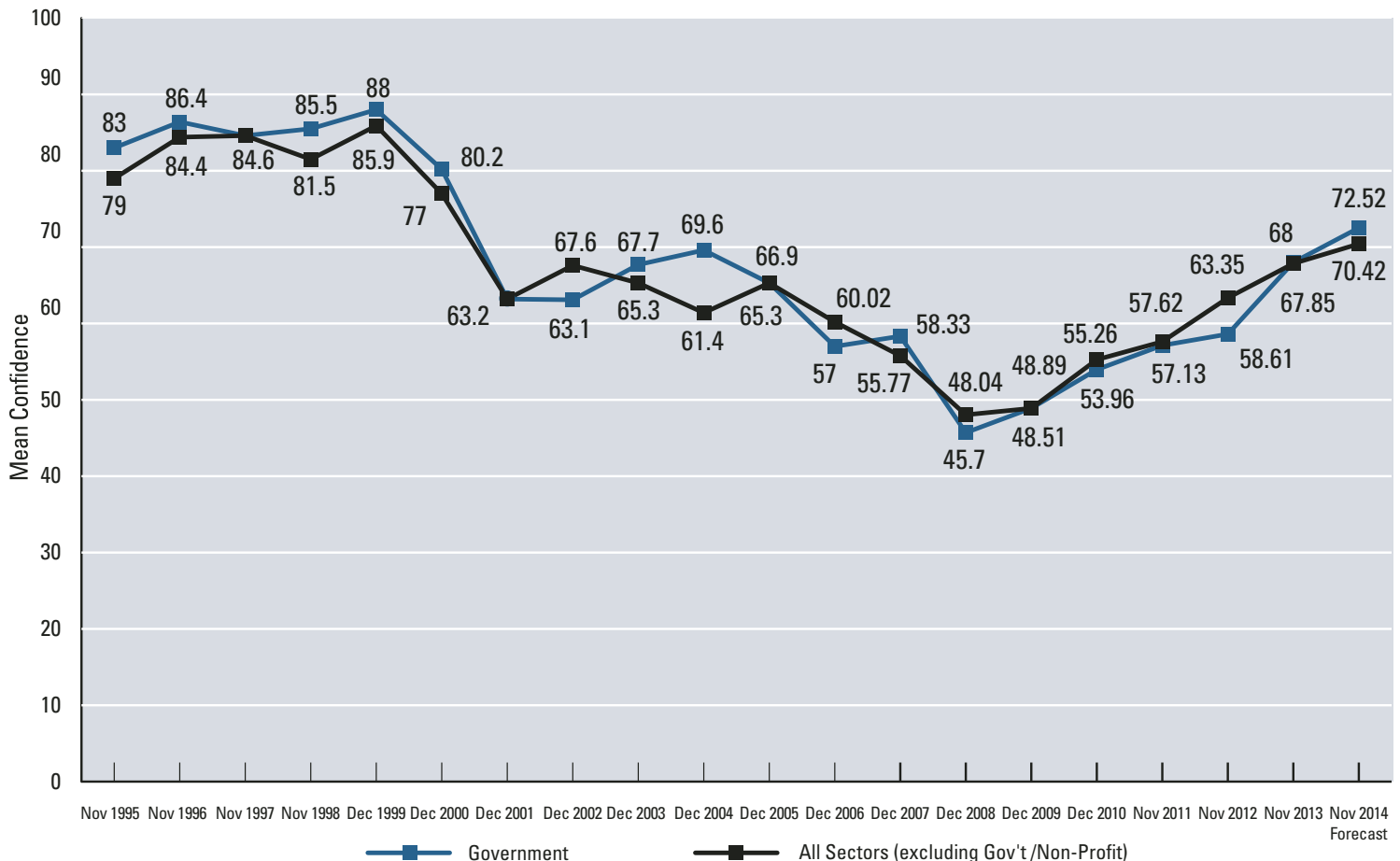
## Introduction

The survey for the greater Grand Rapids economy, Kent, Ottawa, Muskegon, and Allegan Counties (KOMA), was conducted in November and December 2013. A survey was mailed to the CEOs and business leaders for just over 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, 227 organizations responded, resulting in a response rate of 21%, which is consistent with previous years. However, due to possibility of a non-random response sample, the survey should be interpreted with caution.

A few methodological considerations are in order. Although we discuss the survey results in terms of averages, the data are represented in a histogram format to show the entire distribution of responses. The employment, sales, and export numbers are more volatile as raw averages (when calculated without adjusting for outliers—responses beyond one standard deviation). Since the average of a small sample is significantly influenced by extreme numbers, we use the averages without the outliers to provide more reliable results. The histograms, however, depict all the available observations to show the broad picture. Note that the total numbers in the histogram figures do not add up to exactly 227 because a few respondents did not answer all questions.

Figure 1

## West Michigan Confidence Index 2014





## Confidence Index

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

Last year the private sector confidence index expected for 2013 was 63%, but by the end of 2013 organizations reported their current confidence at 68%, showing firms were positively surprised last year. For 2014, organizations expect a 71% confidence level, which is the highest reading since December 2000, but it is still below those reported in the late 1990s. There has been a steady increase in confidence since the low seen in 2008, and the West Michigan business leaders surveyed see this improvement continuing during 2014.

For the first time since 2000, the projected confidence is above 70%. The regional economy is expected to not only continue to grow in 2014, but also grow faster than the rate seen in 2013.

## Employment

Michigan's economy has been led out of the recession of 2007 to 2009 by automotive manufacturing. The Current Establishment Survey shows this is true in West Michigan where 7% of the jobs added in the Grand Rapids MSA since October 2009 have been transportation equipment manufacturing, even though the sector employs less than 3% of the workforce for the region. For 2013, employment for KOMA was projected to grow at an average of 1.7–2.3%. The numbers from the Local Area Unemployment Statistics (LUAS) survey indicate that employment in KOMA has grown by approximately 2.3% from October 2012 to October 2013 bringing employment above the level seen in October 2008. This is on the top end of the forecast range for last year and is

**Respondents' Anticipated Change in Employment for 2014**  
(All Sectors)

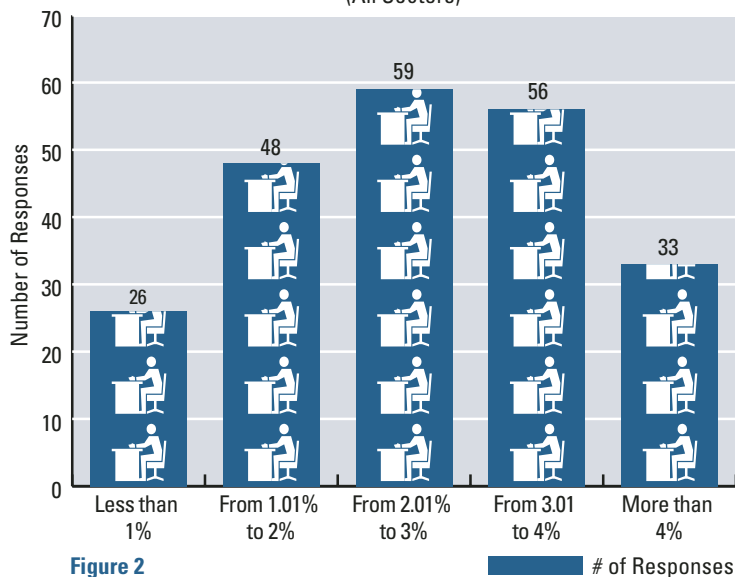


Figure 2

likely to be a little higher for 2013 once the data for the end of the year are published.

In 2013, 14% of respondents expected hiring growth greater than 3% in 2013, but 40% expect hiring to grow this fast in 2014. In addition, less than 1% of respondents expect to reduce their work force compared to 6% last year. Productivity gains are a drag on employment growth, as 43% of those surveyed are purchasing equipment to decrease the need for workers. Average employment in the KOMA region is expected to grow at 2.9%, which is a strong improvement from the 2013 expectations.

More than two thirds of respondents (69%) expect to hire next year, which is up from 58% last year. Of those persons being hired, about 76% are expected to be permanent workers. This continues to suggest hiring in West Michigan at a rate faster than the country as a whole.

**Respondents' Anticipated Change in Sales for 2013**  
(All Sectors)

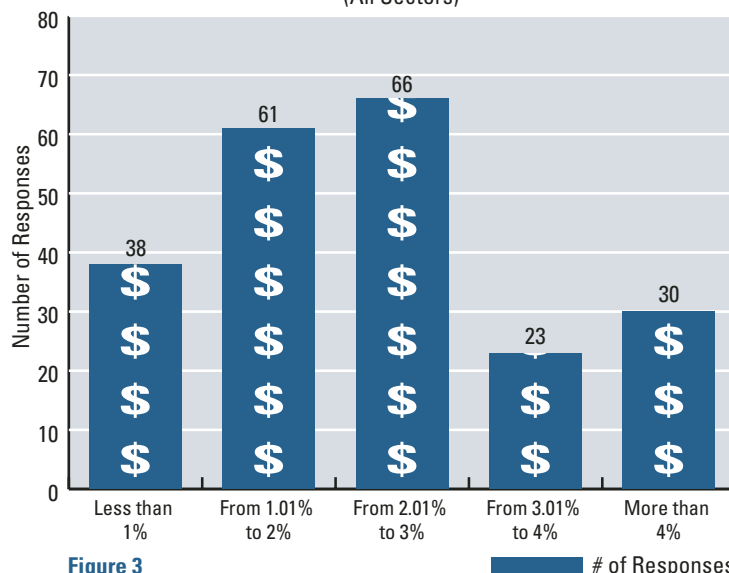


Figure 3

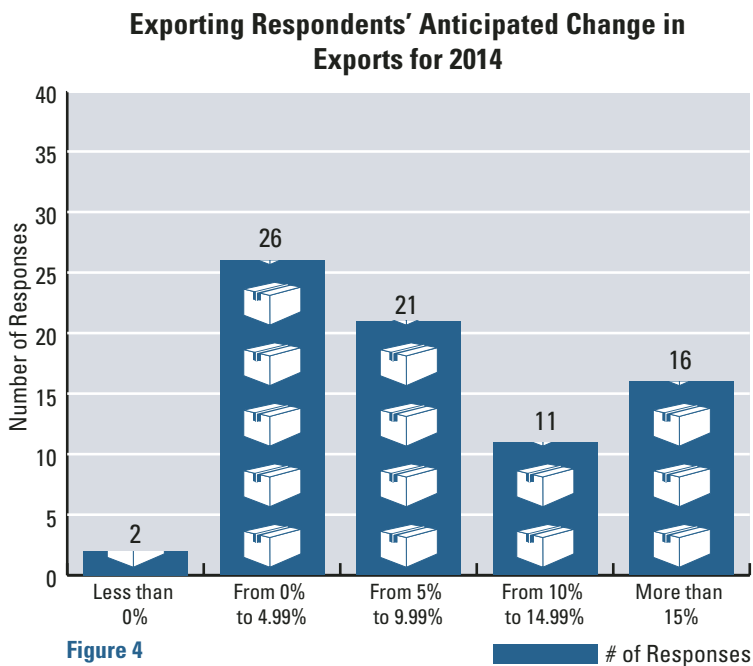
## Sales

For sales, the respondents answer the following question: *What percent change in sales do you project for the four counties in 2014?* During the late 1990s, sales grew at an annual rate of 5%. We can see in Figure 3 that respondents are clustered around the 1% to 3% range, much as they were the last two years; however approximately a quarter of respondents now believe growth will be above this range. We should expect sales to grow at a rate of 2.6% in 2014.

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

## Export Growth

Exports have been a bright spot in the West Michigan economy the last few years. This year, exports are expected to pick up compared to last year with respondents expecting an



8.6% increase for 2014. However, since the expected growth of exports is based on a much smaller sample of only 72 respondents, it should be viewed with caution.

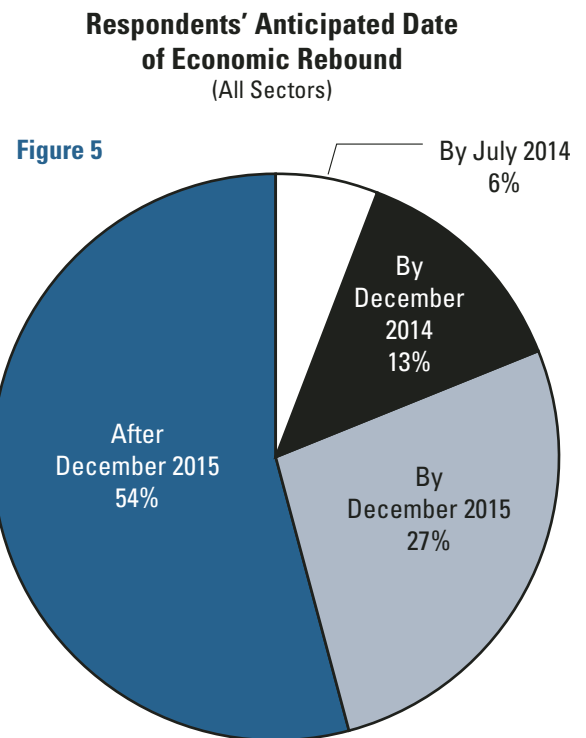
### General Expectations

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 46% expect a robust growth by December 2015. A significant majority (54%) expected a robust growth only after December 2015, if ever. These numbers are essentially the same as last year. It appears that about half the respondents do not believe that growth as was seen in the late 1990s is realistic for the foreseeable future and probably believe that we are on a new slow, but steady, growth path.

### General Outlook

At the national level, expected growth will average between 2.5% and 3.5% for 2014. The economy will continue the slow acceleration seen in 2013. Nationwide employment will continue to improve in 2014. 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 2014, the unemployment rate should still be above 6.4%.

At the regional level, the economy continues to improve slowly. Overall confidence is expected to remain above 70%. Employment will grow by approximately 2.9%. Nominal sales will increase by 2.6%. In spite of its volatility, exports have always been a bright spot during the Great Recession and are projected to continue to grow next year by 8.6%.



Three major pitfalls exist for 2014. Early in 2014 we face another possible showdown over the debt limit that has the potential to limit growth in the near term. During 2014 we will also see the beginning of the Federal Reserve wind down of the extraordinary measures used since the last recession which needs to be handled with care. Finally, there are always concerns about external shocks from around the world, particularly since data from Asia has been weaker as 2013 came to a close.

### Acknowledgments

This study could not be completed without the assistance of the Small Business Development Center, West Michigan Region, and in particular, Joanne Fowler. We are very grateful to all the organizations that participated in the survey. ■

# West Michigan Commercial Real Estate Review and Forecast

David Shafer and Logan Mentz, Research Analysts  
Colliers International | West Michigan

## Industrial Market

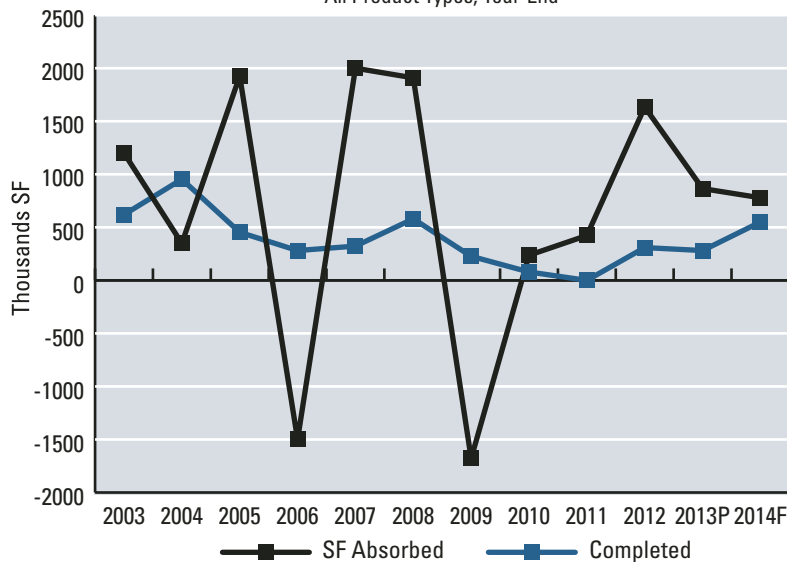
**W**est Michigan's industrial sector is driving the region's economic resurgence to new heights. "West Michigan's economic recovery is leading the state of Michigan, which is running ahead of the nation's economic recovery," said Paul Traub, a Detroit-based economist with the Federal Reserve Bank of Chicago. Attributed to strong growth by many of the area's auto suppliers and an overall uptick in industrial production, we are seeing businesses expanding and creating new jobs like never before. The industrial real estate market's unprecedented low vacancy rates and increased level of construction offer proof that West Michigan has made major strides over the past year.

Vacancy rates dropped 65 basis points throughout the year reaching a new low of 6.62%. Additionally, both sale volume—dropping from 187 in 2012 to 133 in 2013—and lease volume—dropping from 248 in 2012 to 177 in 2013—took a hit compared to last year due to lack of inventory available in the market. Transaction velocity will continue this downward trend until more quality space is added to the market. Rental rates are gradually increasing, although we haven't yet experienced that necessary bump to the next tier of pricing. As a result, many developers are hesitant to construct new speculative projects based on the current market rates. This situation is posing a problem for many users who demand new quality space, unable to find a location to secure. Demand will continue to outweigh supply until action is taken to equalize the scale. This is why we anticipate a surge in speculative construction throughout 2014 as developers respond to this economic imbalance.

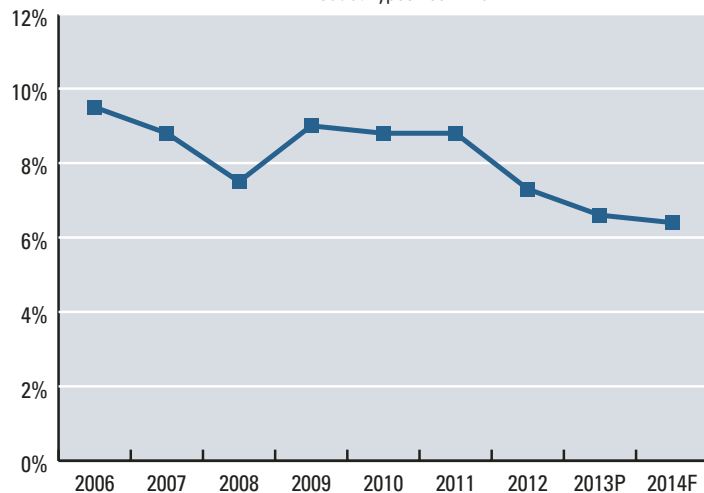
Some companies like Franklin Partners, based out of Naperville, IL, have found their own solution by purchasing older industrial buildings and repositioning them into high-quality manufacturing and warehouse space. Their latest project includes the purchase of a 400,000-square-foot industrial and office building at 5300 Patterson Avenue SE. They intend to split the building into two separate buildings—office and warehouse—to appeal to a wider range of users.

Though speculative construction is lacking, we are experiencing an increase in build-to-suit projects. CHEP Pallets recently moved into a brand new 85,000-square-foot building in the Meadowbrook Business Park. Within months, they were forced to add a 65,000-square-foot expansion to account for increased demand and production requirements. Gordon Foods is experiencing similar conditions adding a 94,000-square-foot freezer facility at 651 50th Street, down the road from their distribution center on Clay Avenue. If they have extra land, building expansions are the next best option for many of the growing companies who are unable to

**Absorption vs. Completions**  
All Product Types, Year-End



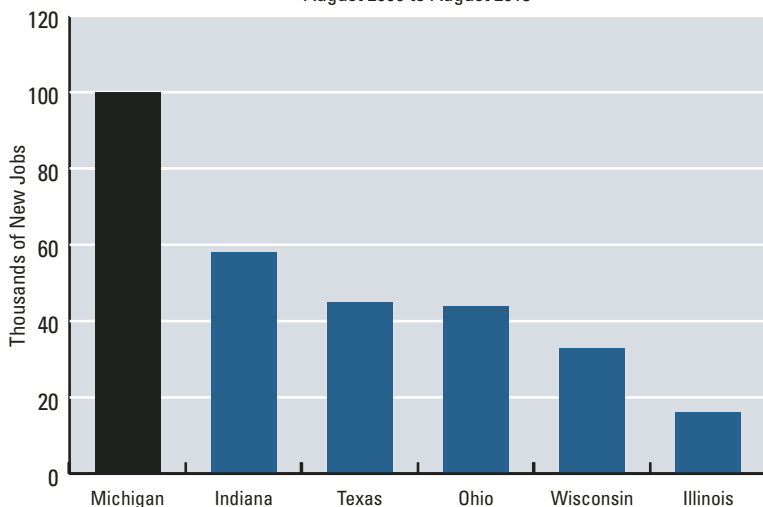
**Vacancy Rates**  
All Product Types Year-End



move. New construction will continue to be clustered around manufacturers that need space and have very few options in existing buildings that meet their specifications.

The state of Michigan currently leads the nation with the most manufacturing jobs added over the last three years. Strong auto sales and the resurrection of the "Big Three" can be credited for a large portion of this growth but other factors are bringing jobs back to the state. Attractive tax credits offered by the state, labor costs increasing overseas, and the low cost of natural gas is making it cheaper to manufacture on our own soil. Such high levels of growth are encouraging as we move into 2014 where we will continue to notice the ripple effects in other industries. With more jobs available, consumers will have more money in their pockets to spend on goods and services. As demand increases, production

**Manufacturing Employment**  
August 2009 to August 2013



levels for manufacturers will follow suit. This important cycle influences the entire economy, and we expect it to carry West Michigan through 2014 with confidence and success.

## INVESTMENT

The investment sector of the West Michigan real estate market experienced very strong activity in 2013, with transaction velocity nearing historic highs from 2007. There certainly has been more demand than supply for quality investment real estate deals. Investors remain focused on assets that include some level of value add, or projects that have long-term leases in place. Increasingly, the vast majority of transactions in the market are arms-length transactions, with the percentage of distressed assets falling from a post recession high of 70% to below 20%. Most local lenders have seen their balance sheets shored up considerably, and the volume of distressed properties coming to the market exemplifies this.

The high levels of investor demand are being driven by a diverse range of buyers actively seeking stable real estate projects as a diversification tool while simultaneously hedging against inflation. We have also seen a marked increase of confidence in the overall real estate market as the number of 1031 transaction needs has risen dramatically over their post-recession lows. Investors are looking toward the additional benefit of interest rates that remain at or below historic rates as another reason to view real estate as an attractive investment. Banks and lenders remain very active with multiple financing options available for qualified buyers. Given the discussion at the federal level, we will continue to keep a close watch in rising interest rates and their effect on the investment real estate sector as we move through 2014.

The robust industrial market garnered high investor interest throughout the year, particularly directed toward long-term net-leased properties. With industrial vacancy rates falling to historic lows, industrial buildings offer the security of high quality tenants, low turnover, and future rental rate escalations. One of the largest transactions of 2013 consisted of the sale of an industrial portfolio totaling over

**Jobs & Investment Announced in 2013**

Company	Location	Investment	*Jobs Created
Perrigo	Allegan/Holland	\$242 Million	650
Denso Mfg.	Battle Creek	\$105 Million	266
Cosma Int.	Battle Creek	\$162 Million	572
Core Power	Coopersville	\$127.5 Million	133
Gill Industries	Grand Rapids	\$2 Million	50
Firstronic	Grand Rapids	\$2.45 Million	110
Knap & Vogt	Grand Rapids	N/A	100
Grand Rapids Chair	Grand Rapids	\$2.5 Million	50
Amway	Grand Rapids	\$81 Million	200
Undercar Products	Grand Rapids	\$26 Million	150
Trans-matic Mfg.	Holland	\$9 Million	25
Magna Mirrors	Holland	\$11 Million	50
L&W Engineering	Holland	\$3.42 Million	100
Cargill Kitchen Solutions	Ionia	\$10.6 Million	28
ADAC Automotive	Muskegon	\$7.9 Million	97
American Axle	Three Rivers	\$102 Million	500
<b>TOTAL</b>		<b>\$894.37 Million</b>	<b>3,081</b>

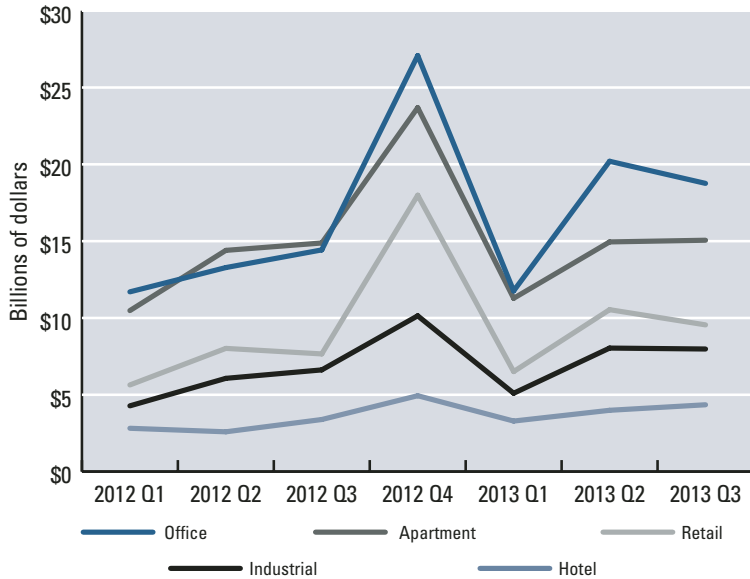
\*Growth figures are based off of multiple year plans

1.5 million square feet by a new investor out of the Chicago market, CrossLake Partners. The portfolio consisted of 7 multi-tenant properties totaling \$29.3 million or \$19.24 per square foot. Other notable investment transactions include the \$5.6 million sale of a fully-leased 197,220-square-foot manufacturing facility at 3195 N. Wilson Dr. to an out-of-state investor from Tennessee and the \$6.17 million sale of an 88,000-square-foot fully-leased manufacturing building at 4070 East Paris to a national REIT. Multiple sale and leaseback transactions also occurred between local manufacturing companies and various national REITS.

Out-of-state investor interest has reached exceedingly high levels over the past year distributed toward all of the property sectors. West Michigan is now viewed in a very positive light compared to prior years when poor conditions stifled local investment exploration. Being a smaller market has its benefits as investors can quickly distinguish the value of lower price points and higher cap rates compared to the larger markets like Chicago or Atlanta. California-based Hertz Investment Group made its first purchase in Grand Rapids earlier in 2013 with the acquisition of one of West Michigan's most recognized office towers, Bridgewater Place. Bridgewater Place was approximately 70% occupied at the time of sale, and represented an opportunity with a solid mix of long-term tenants, and a value add component through additional leasing. The next largest office deal consisted of a 53,000-square-foot fully-leased medical building occupied by Spectrum Health



**Investment Volume by Subtype**  
U.S. National Properties - RCAnalytics



until 2022. Acquired by another out-of-market REIT, the hefty \$16.4 million (\$309/per square foot) price tag illustrates just how much investors value long-term, triple net leased facilities with quality rated tenants. The health care field is expected to outpace the rest of the office property subtypes as investors compete to find the most secure and rewarding opportunities to place their money.

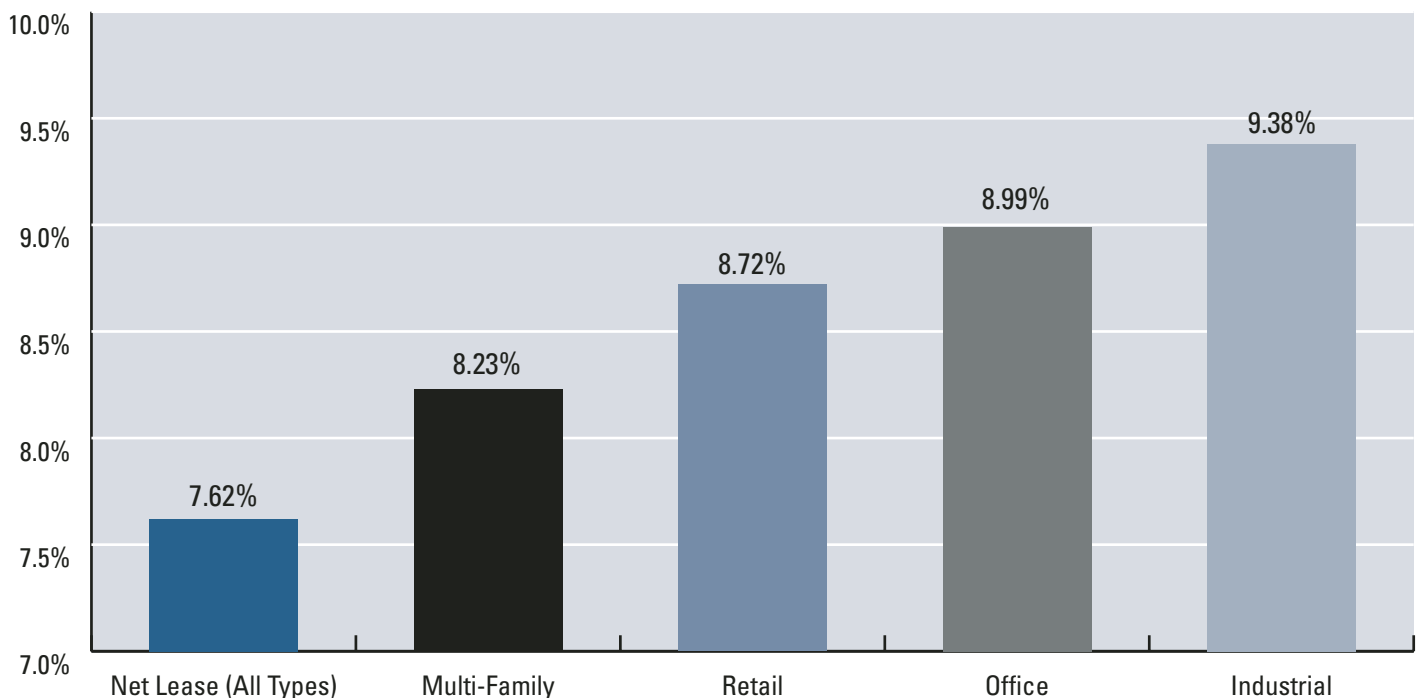
The retail market has made solid gains in the past year but continues to be the lagging segment of the West Michigan market. Historically, this trend is the product of an economic cycle that starts with industrial growth, job creation, putting

money in the hands of the consumers, and ending with strong retail performance. This cycle is progressing nicely and the proof is in the increased industrial activity and corresponding decrease in unemployment in the area. As a result, retail investment opportunities have increased in activity and interest over the past year. One of the first major retail center transactions since the downturn was completed in February when a buyer out of Ohio invested \$4.2 million into the 60,876-square-foot Rivertown Center in Grandville. Activity has remained very strong for single-tenant net leased retail operations, with cap rates continuing to fall as investors search for long-term stable assets. The 1031 exchange market has been very active, with many investors in this sector driven to retail in search of long-term net leased assets.

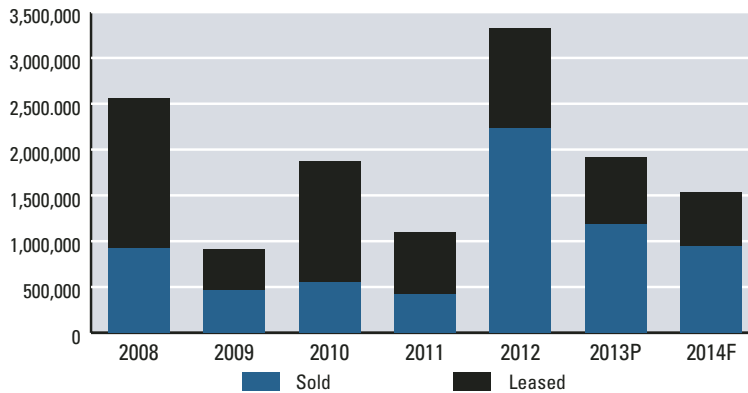
Some of the major deals in the pipeline for the year ahead include a 14-story 108-unit mixed-use apartment building at 20 E. Fulton, a 7-story 48-unit mixed-use apartment building at 240 Ionia Avenue SW, and a four-story 54-unit mixed use development at 740 Michigan Street NE. In addition to these urban based projects, there are also a number of suburban apartment projects that have been announced or are in the works. These projects will prove to be the first delivery of new suburban multi-family of any magnitude in the last five years.

Looking forward, we expect apartments to reign as the dominant player in the investment market. Healthy demand, low vacancy rates, and the young work force entering the market will drive new developments and additional investment activity in the year to come. Manufacturing and warehouse space will benefit from the local production increases as well as the e-commerce trend that is forcing online retail operations to expand their back-end storage

**Average Capitalization Rates**  
West Michigan 2013



**Total SF of Sale and Lease Transactions**  
Year End



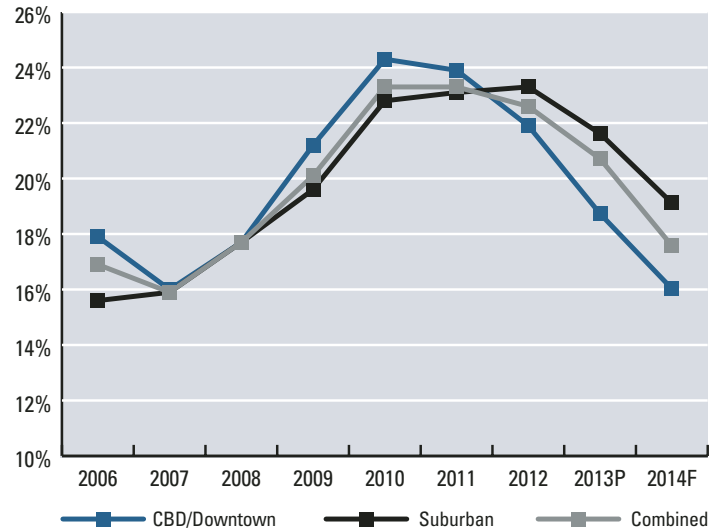
requirements. Lastly, retail and office investment properties will reach attractive occupancy levels as the economy gets stronger with each quarter.

## OFFICE

Sales activity for the year was highlighted by the culmination of several significant investment deals. The first of which, occurring at the beginning of the year, was the purchase of Bridgewater Place at 333 Bridge Street NW for \$26.5 million. This was an REO sale of a 70% occupied Class A building to an out-of-state investor making its first purchase in Grand Rapids. Another noteworthy transaction transpired in the Southwest corridor where a public REIT named American Realty Capital purchased the Spectrum Health West Pavilion building for \$16.4 million. This is a triple net leased investment to an Aa3 Moody's rated tenant (Spectrum Health) with nine years remaining on the lease, hence the hefty sale price. An alternate investment approach was applied to the 395,689-square-foot building at 5300 Patterson Avenue SE. The buyer plans to split the office and warehouse portions of the building into two separate sections to give a clear distinction between the uses. The repositioned office building will offer around 100,000 square feet of space designed for large suburban users with sizeable floor plate requirements.

Overall, construction is making a comeback in the market and the office sector is no exception. A new 24,631 square foot Class A office building was erected at 4362 Cascade Road, marking one of the first partially speculative developments arising in the last 5 years. Just under half of the building was pre-leased before construction leaving two available units totaling 13,549 square feet. The aforementioned Spectrum build-to-suit on 3 Mile will be a large addition to the area drawing more attention to the East Beltline corridor. There is a vast number of project proposals in the pipeline moving forward including an office complex on East Paris with one 40,000-square-foot two-story building and another two 10,000-square-foot buildings. Downtown Grand Rapids also has a variety of projects in the pipeline for this year including a \$28 million mixed use development in the parking lot behind Van Andel Arena. The proposal calls for a 200,000-square-foot structure including office,

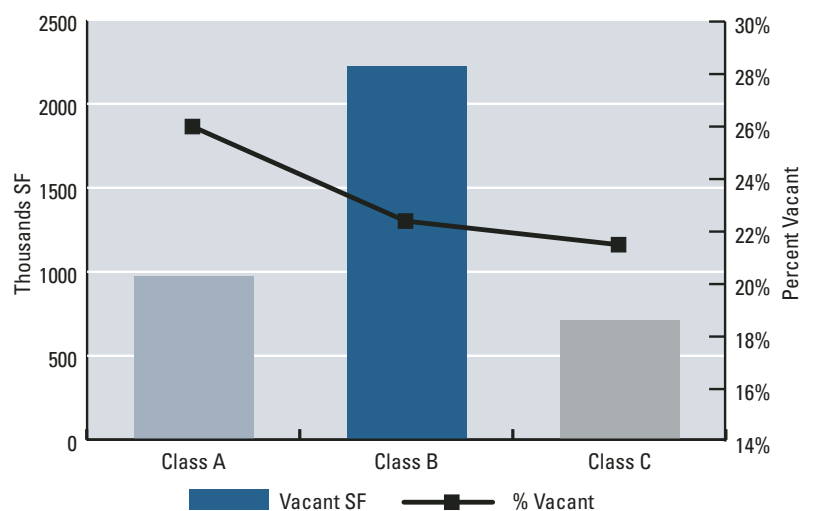
**Vacancy Rates**  
Year End



retail, market rate apartments, and underground parking to offset the spaces taken away.

The updating and upgrading of older historic downtown buildings is reaching an all time high as landlords lure tenants to their space by adding value and amenities. The 186,597-square-foot office building at 99 Monroe, built in 1985, recently underwent a repositioning effort that added a modernistic new interior, a fitness center, and a contemporary conference room. Another local real estate firm announced that it will spend a total of \$6.7 million updating two other downtown buildings originally built in the 1890s. The firm plans to rehabilitate the exterior façade, update the lobby/common areas, and modernize the existing office suites. With intentions of increasing overall profits in the long run, landlords know that these structural improvements are necessary to raise rents and stabilize the urban core. These tactics have proven successful throughout the past year as we witnessed the Downtown/CBD vacancy rate drop 3.71%. This trend

**Vacant SF & Vacancy Rates**



is expected to continue moving forward with increased absorption levels projected as the year progresses.

Overall, companies are doing much better today propelled by the dynamic economy of West Michigan. The office sector will be a major beneficiary of these positive conditions as growing companies demand larger real estate requirements. The influx of new companies capitalizing on the abundant workforce of Grand Rapids will also benefit landlords and sellers in the market. The many new construction projects planned for 2014 will offer some excitement for tenants wishing to occupy the latest and greatest space. Landlords must continue to be mindful of this fact by further strategizing how to maintain strong occupancy levels in such a competitive market.

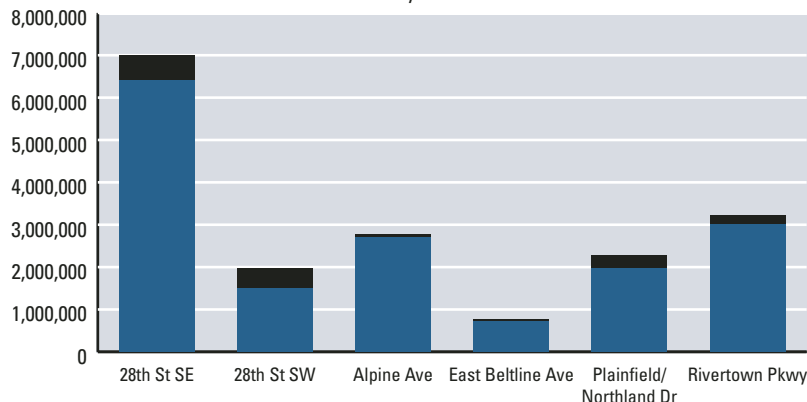
## RETAIL

As we look back on the real estate market in 2013, it is apparent that West Michigan is robust and alive with retail activity. Picking up steam from last year's strong performance, we experienced improving conditions on all fronts including absorption, activity, and new construction. Net absorption has increased each of the last four years, each year exceeding the previous. Already surpassing last year's absorption projections with over 180,000 square feet of newly occupied space, we expect more of the same moving forward especially with many new construction projects making room for the growing demand. New and existing tenants are stimulating the market by opening new stores and further expanding their brand presence in the major submarkets. Quick service restaurants have been particularly busy deploying growth strategies and opening new locations.

Prospective buyers have also made moves during the busy year as both owner-user and investment activity increased. One of the first investment grade shopping center

transactions occurred in the first quarter of the year when the 60,876-square-foot Rivertown Center Building at 3845 Rivertown Parkway SW sold to an out-of-state investor. This imperative transaction boasted confidence to new investors who were previously weary to invest in the West Michigan marketplace. Since then we have witnessed an influx of out-of-state investor activity resulting in more deals coming to a close. Two notable deals include a triple net leased Walgreens on Plainfield Avenue and a triple net leased Applebee's on Alpine Avenue, each selling for over \$2.5 million.

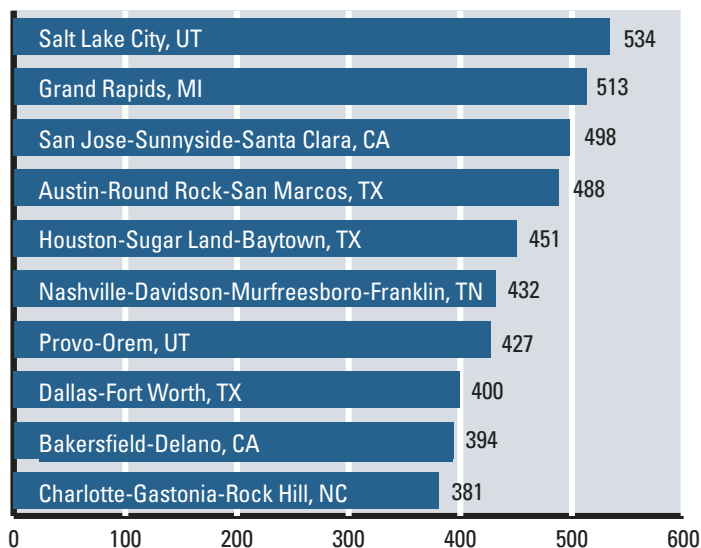
**Vacancy Percentage of Total Inventory SF**  
By Submarket



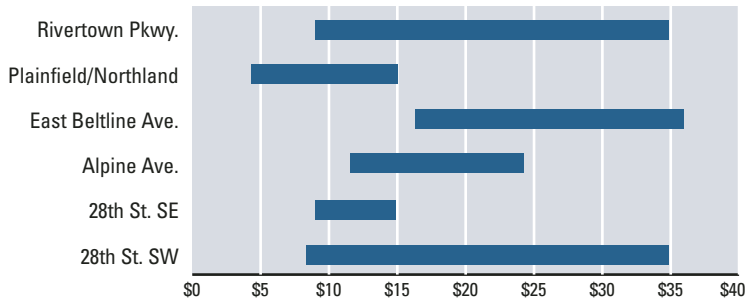
Developers are well aware of the rising demand and diminishing vacancy in the main retail corridors. This has resulted in a long awaited surge of new retail construction that has played a crucial role in providing space to new entrants to the market. The majority of the developments are fueled by prospective tenants pre-leasing space before the structure is built to ensure the developer's interests are protected. The "Bucktown" development on the corner of 44th Street and Ivanrest Avenue is a perfect example of how investors are applying this method. Capitalizing off of the flood of consumers Cabela's has attracted since its opening in March, there have been multiple new buildings constructed surrounding the outdoor goods giant and its fellow anchor tenants Target, Ulta, and Maurice's. These buildings are 100% full with a strong mix of quality tenants. They will be joined by an additional 35,000 square foot development in this coming year. The recently built retail center in Forest Hills has nearly filled up in under a year with quality tenants like Jets, Great Clips, and Sweet-Yo's Frozen Yogurt.

Rental rates in the main retail corridors have returned to pre-recession prices in the \$20-\$26/square foot range while new construction is demanding even higher figures in excess of \$30/square foot. Landlords of these high quality buildings are demanding top dollar for their remaining space and holding firm on the price as they now have options to choose from. Free rent and tenant improvements in these scenarios are nonexistent and overall they are less common than years before. Still, rates starting as low as \$6/square foot do exist in the struggling areas where properties suffer from poor location and deferred maintenance.

**Metros With Most New Jobs Per 10,000 People**  
Top 10 from 2010 to 2013



**Asking Rent by Corridor**  
\$/SF/YR, Year-End



The East Beltline/Knapp's Corner area is projected to be the next retail hot spot in the upcoming year. Already boasting one of the lowest vacancy rates at 4.50%, this area will surely see a surge in new development. Driven by very strong neighborhood demographics and the surplus of vacant land nearby, tenants will be fighting for space once they discover there is little else to choose from in the other submarkets.

The three key takeaways from the 2014 forecast equate to an increase in construction activity moving forward, new entrants prospecting in the market, and very tight vacancy rates pushing rental rates upwards.

### Property Management

The spring of 2013 brought heavy rains, flash flooding and enough water-related issues throughout our region to make the record books. The Grand River peaked in downtown Grand Rapids around 21.85 feet, the highest it has been in years, affecting many commercial and residential buildings in the Greater Grand Rapids area. It was preventative measures and immediate emergency management that kept our heads above water.

Emergency management is the process of preparing for, responding to and recovering from any unplanned event that could have a negative effect on your tenants and/or your property. The goal is to establish a strategic plan which provides uniform standard operating procedures for response to emergency conditions within owned or managed buildings. An emergency plan should take into account various tenant profiles within each property to address their specific needs and risks. The property type and use has a direct bearing on the types of risks inherent to it. Residential, office, industrial, hospitals, medical office, theatres, retail centers and shopping malls all offer different challenges based on varying factors specific to their occupancy: the number of hours per day the property is occupied, occupant load, building height, security levels, building contents, presence of hazardous materials, and nature of activities are factors that must be taken into consideration. We are constantly adjusting our emergency plans and procedures, but used the months after the flood to especially evaluate other potential risks and situations for our clients and their properties.

While emergency plans were a big part of the beginning of 2013, the rest of the year brought many new projects and acquisitions, including two residential complexes.

Icon on Bond, a well-known apartment building in downtown Grand Rapids, was acquired by a New York investment firm in July of this year, and our team was awarded management of the nine-story building by the new ownership group. In addition, Glen Oaks East is a 144-unit multi-family housing complex located in the Southeast market of Greater Grand Rapids that we began managing this year with the addition of a few more team members.

One of the largest new management projects this year was a portfolio totaling over 1.5-million square feet. A partnership based out of the Chicago area named CrossLake Partners purchased the seven former Centerpointe properties for a total of \$29.3-million and engaged our team to manage them.

We anticipate continued growth of our management portfolio and of our team, as more and more buildings are built or change hands throughout the upcoming year. The current property management portfolio totals 5,194,240 square feet of over eight property types. ■



# West Michigan Stock Returns

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Seidman College of Business

## West Michigan Stocks Roar to a 52.3% gain in 2013

**2013** was one of those rare years most investors can only dream about. Returns from the three major market indexes—the Dow Industrials, S&P 500, and NASDAQ Composite—were at their highest since the heydays of the Dotcom frenzy in 1999 when, for example, the NASDAQ Composite Index rose an unbelievable 86%. Returns from those three major indexes, collectively known as the Security Market Indicator Series (SMIS), however, pale compared with the West Michigan Index's 52.3% return last year as shown below in Table 1, Stock Market Returns.

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

	2013	2012	2011	2010	4-Year Compound Return
West Michigan Index	52.3%	13.2%	- 3.7%	41.9%	135.6%
NASDAQ Composite Index	38.3	15.9	- 1.8	16.9	84.0
S&P 500 Index	27.6	13.4	0.0	12.8	65.8
Dow Jones Industrial Average	26.5	7.3	5.5	11.0	59.0

<sup>1</sup>The West Michigan Index consists of 14 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 Index uses a simple price-weighted return.

The news is even better for investors in publicly-traded corporations headquartered in West Michigan when 4-year cumulative returns are considered. The West Michigan Index far outperformed the three other indexes during the years 2010 through 2013. As shown above, the Index generated a 135.6% return, far more than any of the SMIS indexes.

Note these interesting points about prices and returns in Table 2. For the first time in the 16 years that I've been preparing these annual stock return summaries, the price of every stock in the Index rose. Further, while it's not unusual for the top performing company's stock price to double or maybe even triple, Community Shores Bank stock's more than 14.5-fold increase in only 12 months is breath-taking. It gets better. In January 2012, Community Shores price was \$0.05. In a little more than twenty-two months, it reached an intra-day high of \$4.95. That's a 99-fold price increase. Finally, Wolverine Worldwide split its stock price two for one on November 1. Why is that notable? It was the first stock split among firms in the West Michigan Index since Macatawa Bank split 3:2 in mid-2006.

The 2013 performance of each of the companies in the Index is described below.

### Community Shores Bank Corp.

As a group, investors usually aren't irrational, so there had to be some mighty good news behind Community Shores' 1,448% price increase in 2013. When the year began, the bank was in default of its \$5.8 million dollar debt to Fifth Third Bank, and its ability to continue as a going concern was in question. Then the good news: Fifth Third agreed to accept \$500,000 and write off the remaining \$5.3 million. A small group of bank insiders and other investors had loaned Community Shores nearly \$1.3 million, giving the

bank cash to repay Fifth Third and take other actions to improve its financial health. Although the bank still faces a highly competitive environment, the outlook for its future is much improved.

### Independent Bank Corporation

The Ionia-based bank exited from the TARP program during 2013, re-paying the Federal Government \$81 million. It also continued to reduce its non-performing loan balance, reduced its provision for

**Table 2: West Michigan Company 2013 Returns**

2013 PRICES			
	Closing	Opening	Price Change
Community Shores Bank	\$ 3.25	\$ 0.21	1,447.6%
Independent Bank	12.00	3.50	242.9
Macatawa Bank	5.00	2.89	73.0
Gentex Corporation	32.98	18.85	75.0
Meritage Hospitality Group	4.45	2.55	74.5
Wolverine Worldwide	33.96	20.49 <sup>1</sup>	65.7
Spartan Stores Inc.	24.28	15.36	58.1
Perrigo	153.46	104.03	47.5
Stryker	75.14	54.82	37.1
Universal Forest Products	52.14	38.04	37.1
Herman Miller, Inc.	29.52	21.46	37.6
Mercantile Bank	21.58	16.50	30.8
Steelcase	15.86	12.74	24.5
ChoiceOne Financial Services	17.09	14.44	18.4

<sup>1</sup>Adjusted for a 2:1 stock split on 11/1/2013.

loan losses as it experienced fewer defaults, and improved its capital ratio in excess of the “well-capitalized” bank standard. Essentially, it has recovered from the Great Recession. Further increases in earnings and stock price will reflect the bank’s ability to out-compete its competition.

#### **Macatawa Bank Corp.**

Similar to Independent Bank’s year, Macatawa continued to recover from the recession in 2013. It reduced its loan loss provisions and reduced its non-performing loans to the lowest level since mid-2007. Further, it paid interest on its trust preferred securities for the first time in 15 quarters, and its capital ratios now are at the highest levels in bank history. Like all area banks, Macatawa’s challenge is to grow in a competitive banking environment.

#### **Gentex Corporation**

Gentex’s stock traded at around \$18-\$19 per share through the first four months of the year. Then the company announced it would purchase Johnson Controls’ HomeLink® business, a vehicle-based radio frequency control system allowing drivers to remotely operate garage door openers, home lighting, entry gates, and other related devices. Gentex predicted the acquisition would raise company profit margins 1-1.5% and revenue by \$125-150 million. Even better, when the company reported 3rd quarter earnings in October, sales were up 8%, gross profit margin had increased 3.1%, and net income was up 33%. In response, investors drove up the company’s stock price another 30%.

#### **Meritage Hospitality Group**

Meritage Hospitality Group operates 119 quick service and casual dining restaurants including Wendys, Twisted Rooster, and Crooked Goose. The company added 29 restaurants during the year. At the end of the third quarter, Meritage reported its 9-month sales had increased 39%, and its net income before taxes was up 135% compared with the same period a year earlier. Investors reacted to the good news by bidding up the company’s stock price nearly 75%.

#### **Wolverine Worldwide**

Wolverine designs and sells many well-known footwear brands including Hush Puppies, HyTest, Merrill, Sebago, Sperry Top-Sider, Stride Rite, and Keds. The company’s stock price has steadily increased since 1998 reflecting years of increasing sales and profits. Through the first 9 months of 2013, it has been more of the same: Sales rose 9%, earnings per share increased 61%, and that was further good news for the company’s stock price.

#### **Spartan Stores Inc.**

Spartan, the nation’s 9th largest grocery distributor, operates 102 corporate-owned grocery stores (including D&W Fresh Markets and Family Fare Supermarkets) and distributes more than 40,000 items to 380 independent grocery stores. Sales were up 4.5% and adjusted earnings from continuing operations for the most recent quarter ended September 14

increased nearly 19%. The company’s biggest news of the year was its merger with Nash Finch. The combined company will be named SpartanNash beginning May 2014.

#### **Perrigo**

Perrigo announced record sales and net income at the end of its fiscal first quarter ending September 28. Sales and earnings per share were up 21% and 20%, respectively. The company announced at the end of July plans to acquire Ireland-based biotech firm Elan and move its headquarters to Ireland, saving the company \$150 million per year in income taxes and operating expenses. At the end of December, JP Morgan raised its target price for Perrigo to \$180 per share.

#### **Stryker Corp.**

Stryker executives project 2013 sales will increase 4.5–5.5%, while earnings per share will increase about 4%. The company increased its common stock dividend 15% effective January 31, 2014. It also announced or completed several acquisitions during the year, but the biggest was the \$1.65 billion acquisition of Mako Surgical Corp., a pioneer of robotic assisted surgery in orthopedics.

#### **Universal Forest Products**

Universal designs, manufactures, and markets wood and wood-alternative products. Most of the company’s stock price increase occurred after its October earnings announcement when executives reported earnings per share of 71 cents compared with 21 cents in the year ago quarter. The company also reduced its long-term debt 41% in 2013.

#### **Herman Miller and Steelcase**

Herman Miller’s stock out-performed Steelcase primarily because Steelcase’s sales and earnings have been mostly flat, whereas Herman Miller’s sales rose over 5% in its two most recent calendar quarters. The fortunes of both companies are highly correlated with new office construction and occupancy rates, both of which tanked during and immediately after the recession. Industry sales were projected to rise 4% in 2013, and estimates for 2014 are for a 6% increase. The stock performance of both companies will be muted until industry sales are much higher.

#### **Mercantile Bank Corp.**

All of Mercantile’s stock price increase occurred after June due to two factors. First, the bank’s earnings increased 28% at the end of the second quarter compared with a year earlier, and then 43% at the end of the first 9 months. Second, Mercantile announced a proposed merger with Firstbank in August, more than doubling Mercantile’s size.

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

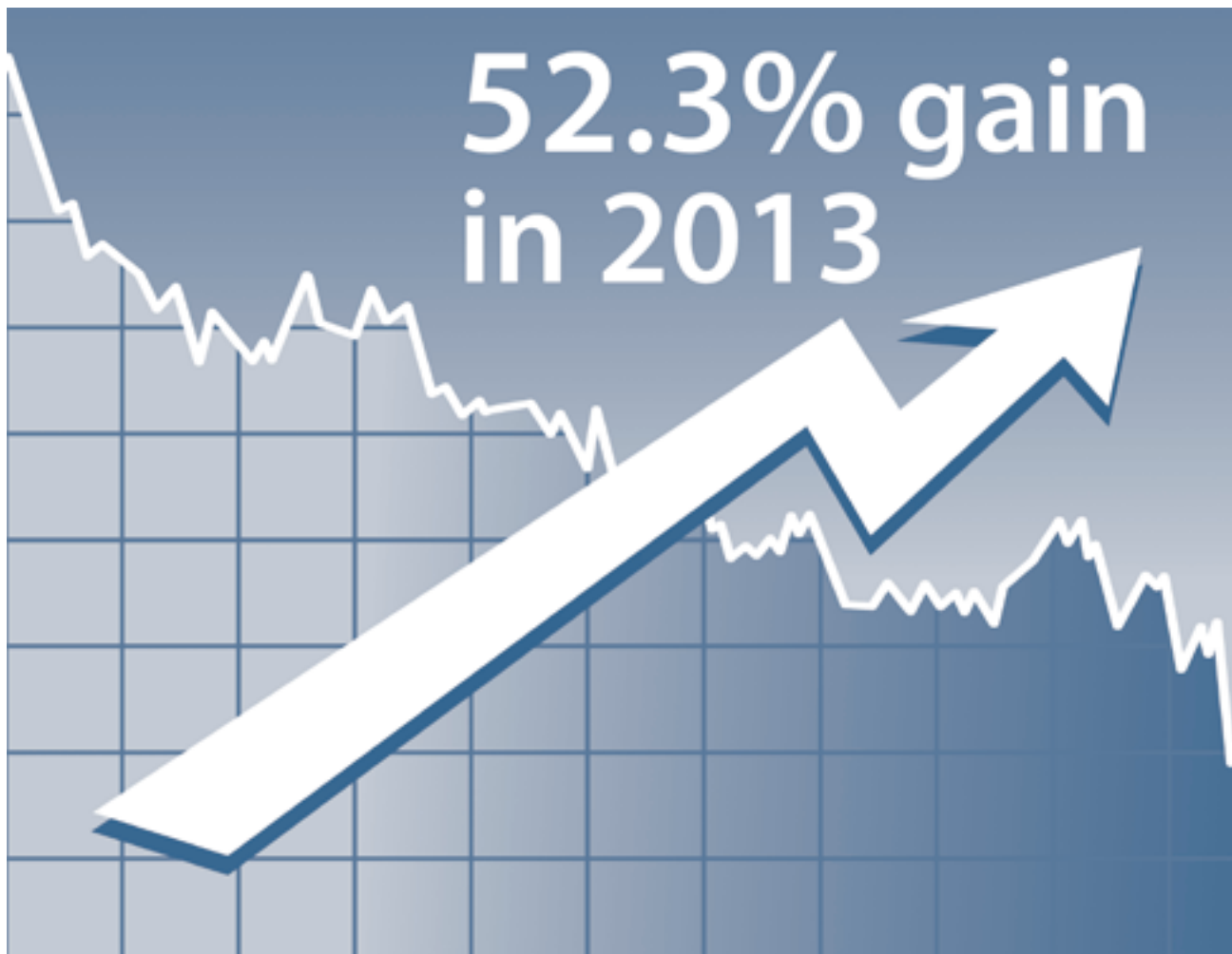
The stock price of Sparta-based Choice One Financial Services increased 18% in 2013. In a normal year, that’s a wonderful return, but compared with the Index’s eye-popping return, the bank ended up at the bottom of the list in Table 2. Net income for the first 9 months of 2013 was up 19%, but the

bank's stock price did not increase as much as would be expected. ChoiceOne's stock price doesn't move in step with the overall market, likely because only around 600 shares are traded daily.

Here are a few additional facts about stocks in the West Michigan Index:

- The company whose stock is most responsive to stock market changes continues to be Macatawa Bank. For every 1% change in the stock market, Macatawa's stock has changed 2% over the past 5 years.
- Similarly, the most defensive stock is Community Shores Bank. On average, for every 1% drop in the stock market, its stock rises 1.9%.
- Stryker has the greatest number of outstanding shares: 378 million.
- Community Shores Bank has the fewest number of outstanding shares: 1.5 million.
- Dividends added another 1.0% to the Index's 52.3% return in 2013, giving a total return of 53.3%.

Finally, here are two predictions for 2014. First, because of the huge increase in stock prices during 2013, many stocks in the West MI Index are at all-time highs. As a result, you can expect to see additional stock splits. Second, things will surely change. There are no assurances that the Index, nor any of its components, will continue to rise in 2014. Invest in stocks only if your time horizon is long-term, and diversify, diversify, diversify. ■



# Housing Prices and Foreclosures in Grand Rapids

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

**U.S.** housing prices have been rising since reaching a bottom in the first month of 2012. From that time to September 2013, prices have gone up by 23.6% (seasonally adjusted S&P/Case-Shiller 20-City Price Index; Federal Reserve Bank of St Louis). Housing sales have risen from an annual rate of 4.7 million in 2012 to 5.1 million in 2013 (until October; National Association of Realtors). Private housing starts have also increased from an annual rate of 783 thousand in 2012 to 919 thousand in 2013 (until November; Federal Reserve Bank of St. Louis).

The main factors that have helped the housing market recovery were the improvement in the economic conditions (the national unemployment rate decreased to 7% in November 2013), mortgage rates kept low (reaching 3.4% in October 2012), and the winding down of the foreclosure crisis (delinquency rate on residential real estate loans was down to 8.6% in the third quarter of 2013, two percentage points down from one year ago, according to the Federal Reserve Bank).

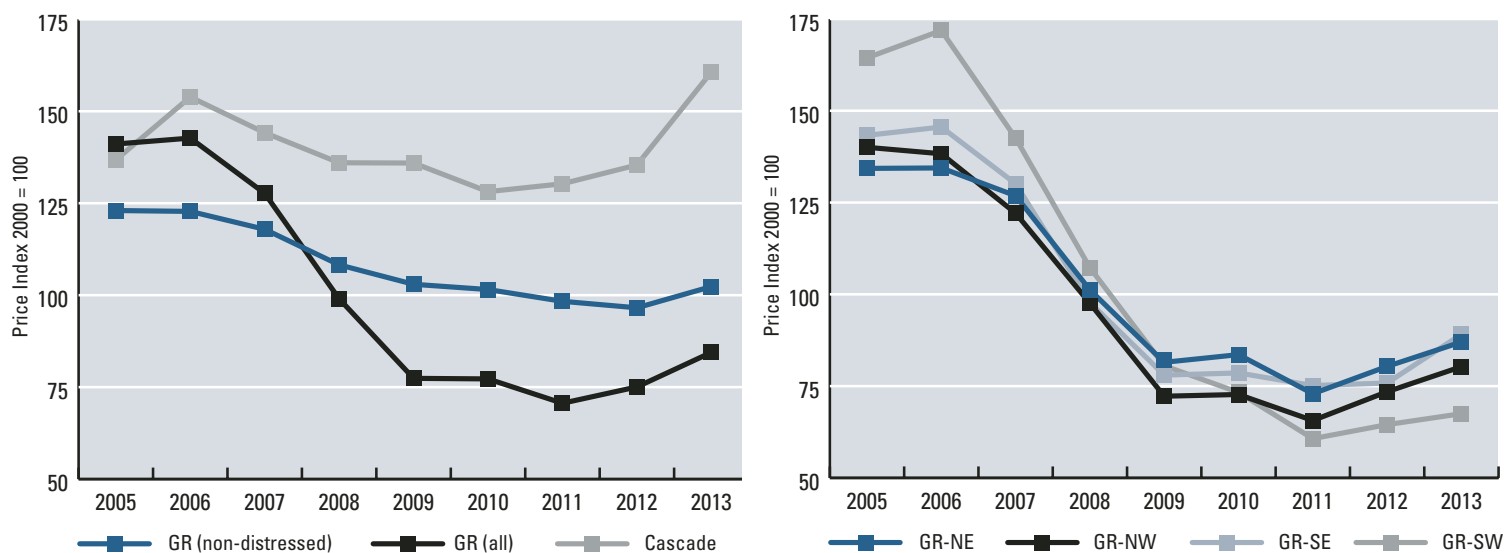
However, recently rising housing prices and mortgage rates seem to be slowing down the growth of sales and prices nationally. In addition, foreclosure filings rose in October due to houses with delayed judicial processes now being scheduled for public auction as lenders take advantage of the increasing demand.

In Grand Rapids, our quality-adjusted housing price index shows prices rising since 2012. Figure 1 shows this index for Grand Rapids. For the sake of comparison, it also shows the index for the nearby Cascade Township, which is a suburban

community with higher income households. The index is set at 100 in 2000, so it can be interpreted as the amount of money needed to buy a house for every \$100 that was needed to buy the same house in 2000. The index is computed by comparing the sales prices of the same houses over time, which means that only the value of houses sold more than once are taken into account. The use of repeat-sales to compute housing price indexes is a way to control for the variation of quality and location across houses. Although the estimation does not include the sale prices of all houses and disregards the impact of renovation or deterioration, the index is considered to be a good measure of the average changes in local market conditions. The indexes were computed using home sales from 2000 to November 15th 2013, with sale prices as low as \$10,000. For Grand Rapids, an alternative index is estimated that excludes houses with sale prices below \$50,000 (these houses are more likely affected by the foreclosure crisis). In Figure 1, the alternative measure is called non-distressed index.

As seen in Figure 1, housing prices have gone up in 2013, with the index in Cascade Township already higher than its peak level reached in 2006. In Grand Rapids, the overall market price index is still below the 2000 level. The non-distressed index shows a better recovery, being now slightly higher than the 2000 level. The difference indicates that the recovery is likely affected negatively by foreclosures, which impacted especially lower income homeowners. Foreclosures across Grand Rapids during the first six months of 2013 occurred at a rate below any year since 2004 and were 80% below the comparable period in 2008.

**Figure 1: Housing Price Index**



Source: Indexes computed using data from Access Kent



**Table 1: Foreclosure Sales during 2004–2012**

Area	Foreclosure Sales (A)	housing units in 2012 (B)	rate (A/B)
NE	2,212	15,344	14.4%
NW	1,912	12,195	15.7%
SE	4,026	20,112	20.0%
SW	1,356	4,425	30.6%

Source: Community Research Institute

In order to better understand the impact of foreclosures on home prices, we divided the Grand Rapids city area in four quadrants (Northwest, Northeast, Southwest, and Southeast). In Figure 1, the right-side graph shows the differences in housing price indexes across these four areas.

It is notable that the Southwest (SW) area had the largest decline in housing prices. Indeed, that area had the highest rate of foreclosure sales (see Table 1). The SW area also experienced the highest increase in prices during the housing boom. All neighborhoods with boundaries within the SW have median household incomes more than 25% below the citywide average, making them benefit the most from the ease borrowing standards prior to the recession and most vulnerable once the economy slowed. It is also interesting that the NE area, which had the smallest variations in prices over the last 13 years, was also the area with lowest rate of foreclosure sales in the period 2004–2012. This pattern shows the correlation between high housing price increases during the boom and foreclosure activity during the crisis. Then, large declines in prices were seen in areas of high foreclosure sales rate.

To understand the difference in housing price changes in Grand Rapids and Cascade, first notice that households in Cascade are much richer and the population of workers have increased there since 2005 (Table 2). Employment opportunities have also risen slightly in Cascade, while dropping in Grand Rapids. These changes help explain why housing demand remained higher in Cascade, leading to a fast rise in home prices recently. Higher expectations on future prices and income also give home buyers incentive to bid more for houses in growing areas.

On the other hand, greater supply of available housing makes it easier to buy homes at lower prices. The high rate of foreclosure home sales in Grand Rapids has kept this supply high in recent years. On the other hand, construction is still growing in Cascade, but prices are rising fast, indicating a lack of available houses.

In 2013, we have seen improvements in employment opportunities, loosening of credit requirements, lower

foreclosure rates, and rising home sales and construction. For 2014, rising mortgage rates, stricter mortgage regulations, and higher availability of newly built housing will likely reduce the pace of the housing recovery. In fact, the latest data on price changes and existing home sales already show a slowdown.

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**Table 2: Building Permits, Income, and Employment**

Area	Building Permits (annual rate)		Median Household Income	Employment Change	Worker Population Change
	2005	2013			
Grand Rapids	318	101	\$38,731	-4.6%	-15.4%
Cascade	167	203	\$98,273	1.1%	28.8%

Building permit includes data until September 2013. Median household income is based on the American Community Survey 2007–2011 estimates. Employment and worker population from Longitudinal Employer-Household Dynamics (LEHD) estimates. Source: US Census Bureau.

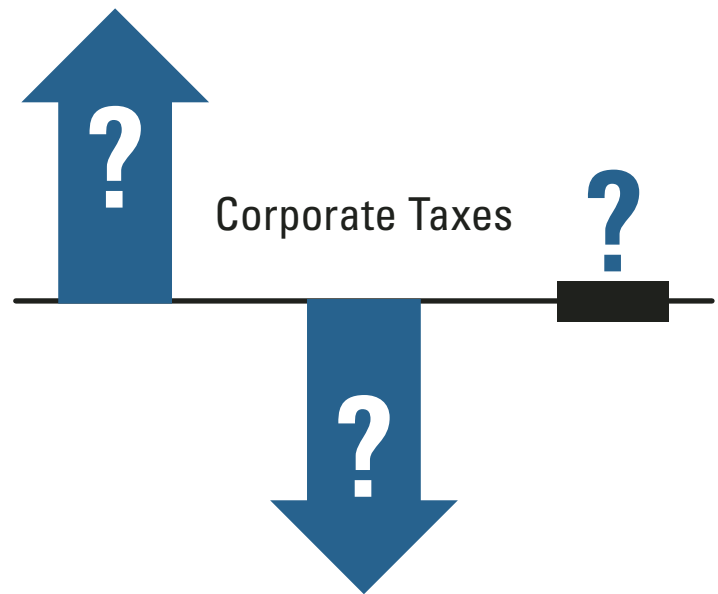
# Corporate Taxes: Too High, Too Low, or Just Right? That is the Question.

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**T**here are many today who believe corporate taxes are just too high and it would be best to eliminate them. Others believe corporations are not paying their fair share. Yet, others believe the rates currently paid are fair and just. Because of these divergent opinions, the fairness of corporate taxes once again has moved into the political spotlight. Both political parties present facts, figures, and rationale to support their individual positions. The arguments presented by politicians, economists, the media, and corporate executives, however, often conflict depending on the point each group is trying to make. Often their arguments are not based on economic theory, but instead merely reflect their emotions or their philosophical values. This article reviews trends in the corporate tax environment and concludes with an outlook for change.

Discussion about the fairness of corporate taxes has been debated since the income tax on corporations was established by the Corporate Income Tax Act of 1909 (The 16th amendment to the U.S. Constitution created the individual income tax in 1913). The corporate income tax rate is a graduated tax topping out at 35% for taxable income above \$18.3 million. That official U.S. corporate income tax rate is the world's highest. For example, rates in China and Brazil are 25%, Russia is 20%, and India is 33.9%. Yet, the average effective tax rate paid by U.S. corporations was 12.6 percent in 2010 as reported by the Government Accounting Office earlier this year. In addition, corporate income tax receipts have become smaller relative to total federal tax revenue over the years. They accounted for 32.1% of tax revenue in 1952 (the post-WWII peak), entered a long downward trend, and by 2010 amounted to 8.9% of federal tax revenue. The decrease is due to the explosion in other organizational forms of business such as LLCs and partnerships, where profits pass through to owners who then pay individual income taxes, the decline in profitability of corporations over the years, and the practice of U.S. global corporations holding profits they've earned overseas in foreign banks to delay or avoid paying corporate income taxes when those profits are brought back into the U.S.

Considering these facts and figures, what are some aspects that must be considered when determining if corporate tax rates are currently too high, too low, or just right? First, note that income of most corporations is taxed twice: first at the corporate level through the corporate income tax, and second, at the individual level through personal income taxes on dividends paid to owners. Does this double taxation matter to you? Most likely. The majority of us are corporate owners through shares of stock we own directly or in our defined contribution retirement plans, our pension funds, and



maybe even in our annuities and life insurance policies. Stock ownership is not just the domain of the filthy rich. About 52% of households own stock, and a slight majority of owners are women.

Here is an example showing how double taxation can affect a stockholder. Say a corporation earns \$100 of taxable income. At a corporate tax rate of 30%, taxes will be \$30. That leaves \$70 after taxes. If the entire \$70 is paid to the shareholders who have an average 33% individual federal and state tax rate, owners would pay another \$23 in taxes. The \$100 of corporate income is taxed a total of \$53. Although the corporate tax rate is 30%, the investor/owner paid an overall effective rate of 53%. Double taxation is an important reason why many U.S. corporations have moved their headquarters to countries where tax laws are less onerous.

C-Corporations are the only business organization form having its own income tax—the corporate income tax. Pass-through entities (LLCs, partnerships, and S-Corporations) pay no income taxes. Instead, their taxable income passes through to their owners' individual income tax forms. Along with sole proprietorships, these pass through entities account for 71% of tax returns filed, a number that is increasing. A major reason for this growth is the avoidance of double taxation.

The top tax rates on corporate income taxes have been much higher in the past. When Kennedy was president in the early 1960s, for example, the top corporate rate was 90%. From 1970–1986, top rates were in the mid- to high-40% range. Only since 1993 have top rates been at 35%.

Corporations rarely pay the current statutory federal rate. Although the average rate is 12.6%, many companies pay little or no taxes because of the numerous tax preferences,

deductions, and the benefits of offshore operations. Large corporations unable to take advantage of these tax breaks pay much higher rates than average. Accordingly, lowering the corporate income tax from 35% to even 25%—a substantial cut in the official rate—will have a muted effect on overall tax revenue, but would give the perception that the U.S. corporate tax structure is more globally competitive.

Corporations go to great lengths to avoid corporate income taxes. For example, many companies hold money outside the U.S. instead of repatriating it back home and subjecting it to U.S. tax rates. These actions are increasingly frustrating to the political establishment. For example, General Electric holds only \$30.7 of its \$85.5 billion in cash reserves in the United States; Microsoft holds only \$8.6 of its \$58 billion of cash in the United States; Whirlpool keeps 85% offshore; and Johnson and Johnson has all of its \$24.5 billion offshore (Spaeth, 2012). Apple was criticized last summer for issuing bonds to pay dividends rather than move its cash from offshore accounts back to the United States. In fact, Citizens for Tax Justice reports that 253 corporations hold \$1.3 trillion in profits overseas to avoid high U.S. income tax rates.

Many people believe that cutting corporate taxes would lower the Federal Government's tax revenue. Some economists estimate that cutting the tax rate from 35% to 25% would reduce revenues by \$1.2 trillion—about \$120 billion a year—over a 10 year period (Pozen, 2013). That number seems preposterous given that U.S. corporations pay about \$160 billion in corporate income taxes per year. Others argue a tax cut would spur business growth with the resulting higher income leading to increased corporate tax receipts. Because the average corporate tax rate is 12.6%, a reduction in the official rate would have to be enormous to have the effect proponents of either position contend. In addition, over the past century, there have been periods when lowered corporate tax rates increased economic growth, while at other times growth did not increase. Clearly, economic factors can swamp the effect of changes in tax rates.

The populist opinion holds that businesses and industries earning huge profits can afford to pay additional taxes. Petroleum companies are criticized for making exorbitant profits, and many of the complainers feel oil companies should be taxed at higher rates. For example, Exxon Mobil's annual report shows \$44.9 billion of profit from sales of \$453.1 billion and an overall profit margin of 10%. In contrast, Apple Inc. reported profits of \$25.9 billion on \$108.2 billion on sales equivalent to a profit margin of 23.9%. In other words, Exxon Mobil had over four times the sales of Apple, but only 40% of Apple's profit margin. What's fair then? It's rare to hear someone railing against Apple's profit gouging, while it's common to hear such complaints about Exxon Mobil. In comparison, General Electric earned \$14.2 billion in profit, yet when it came tax time, it reported a \$3.2 billion credit. According to Kocieniewski (2011), that was due to "an aggressive strategy that mixes fierce lobbying for tax breaks and innovative accounting that enables it to

concentrate its profits offshore." Any change to corporate income tax law must address the difference between total profit, profit margin, the size of the company relative to the size of its profits, and the fairness of the lobbying leverage enjoyed by the largest firms. That is an exceedingly complex issue, and any agreement will face a steep battle.

Today, corporations are increasingly moving offshore to take advantage of lower tax rates in other countries. That trend extends to West Michigan. For example, Perrigo Co. announced this past summer it would buy Dublin, Ireland-based Elan Pharmaceuticals in a \$8.6 billion deal. The decision to move the holding company headquarters to Dublin was driven mostly by Ireland's 12% income tax rate. Perrigo executives expect the move will reduce expenses by \$150 million per year, with most of the savings coming from Ireland's lower income tax. CEO Joseph Papa estimated that Perrigo's income tax rate will drop from about 30% to the high teens. The good news is that Perrigo's executive headquarters will remain in Allegan, MI. During the past decade, over 300 U.S. corporations moved their headquarters to countries with more favorable tax laws. In a global environment, one would expect these shifts and transitions to continue as the world becomes more competitive.

So, what conclusions can be made about corporation taxation? First, it is a complex topic that not only affects the national landscape but plays out in the global environment. Corporations will continue to push for lower rates and are not fearful of moving their global headquarters to gain them. The U.S. also has to be sensitive to its ranking within the world marketplace and must push to remain a competitive environment for businesses. Lowering the statutory rate would help satisfy those who argue corporate tax rates are too high, but the effect on corporations would be uneven, and unless the decrease is substantial, would have little effect on overall revenue raised. While there is general agreement within Congress to reform the corporate tax code to make it more efficient and effective, there are still major disagreements about how to do so fairly. In short, the answer to whether taxes are too high, too low, or just right cannot be answered easily, if at all. And that's why the status quo is likely to be the norm for the immediate future. ■

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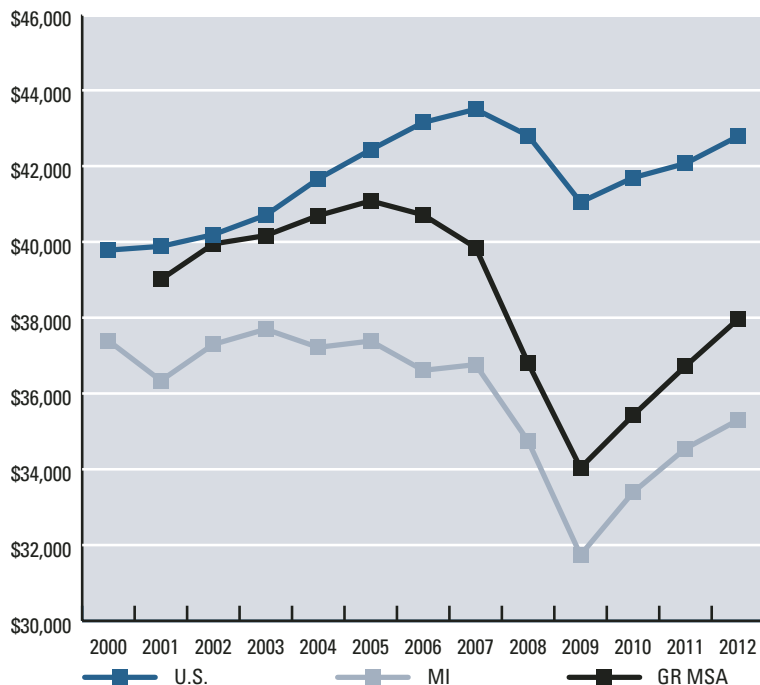
# Economic Growth in the Grand Rapids Region

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The 2008–2009 economic downturn severely disrupted the growth of the U.S. economy (Figure 1). Workers were especially affected by the recession, with the national unemployment rate rising from 4.4% in 2007 to 10% in October 2009. After a slow recovery, real GDP per capita, which measures the average production value per person, finally reached its pre-recession peak in 2013, but the unemployment rate was still at 7.2% in September 2013.

The economic decline at the end of the decade was even more pronounced in the Grand Rapids region. The unemployment rate in the region reached 12.4% in January 2010. This deeper decline was partially due to the greater reliance on the manufacturing industry, which was especially hard hit during the recession. Manufacturing accounted for 25% of the regional production value in 2012 compared to 13% at the national level. The negative impact of the manufacturing decline on the regional economy can be seen in Figure 2, which shows a \$3.1 billion reduction in annual value added by the industry from 2007 to 2009. In fact, more than half of the decline in the regional GDP during that period was due to the manufacturing decline.

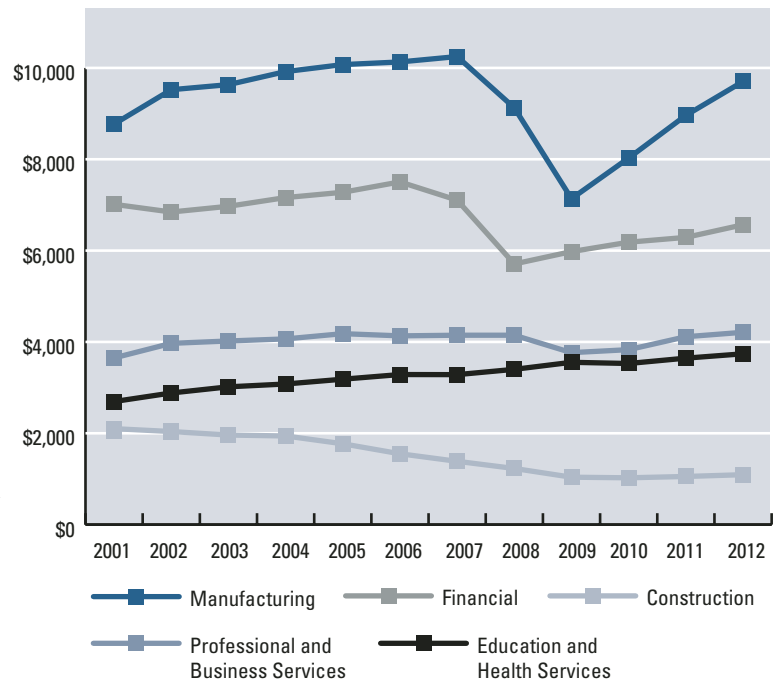
**Figure 1: Real GDP per capita (chained 2005 dollar)**



Real GDP measures the inflation-adjusted total value added by producers in the economy. There is no data available for GR MSA in 2000. GR MSA refers to the Grand Rapids-Wyoming Metropolitan Statistical Area, which comprises Kent, Ottawa, Barry, and Montcalm Counties.

Source: Bureau of Economic Analysis

**Figure 2: Real GDP by industry in the GR MSA region (millions of chained 2005 dollar)**



Other major industries had smaller changes in real GDP during this period. Total real GDP in 2012 was \$38,171 million.

Source: Bureau of Economic Analysis

## Economic Growth Factors

Economists generally focus on changes in real GDP per capita, not total GDP, when analyzing economic growth. The ratio of total output divided by the population gives a more accurate picture of the well-being of the average person in an economy, thus the growth (or decline) in per capita production is more relevant. From Figure 1 it is apparent that real GDP per capita in the region increased from 2001 to 2005, declined from 2005 to 2009, and has been rising ever since. However, the 2012 level is slightly lower than in 2001, so the average resident ended up slightly worse off if based exclusively on the region's production. In practice, residents can get income from external sources, and part of the income generated in the region is sent away. That said, the recent upswing in the economy has been fairly steep, and the trajectory suggests that production per capita in the region will soon recover to its 2001 mark.

Looking at production growth in the region since 2001, consider two questions: (1) What are the economic forces behind the overall decline in the real GDP per capita since 2001? and (2) What is driving the relatively sharp recovery that the region has experienced since the end of the recession in 2009?



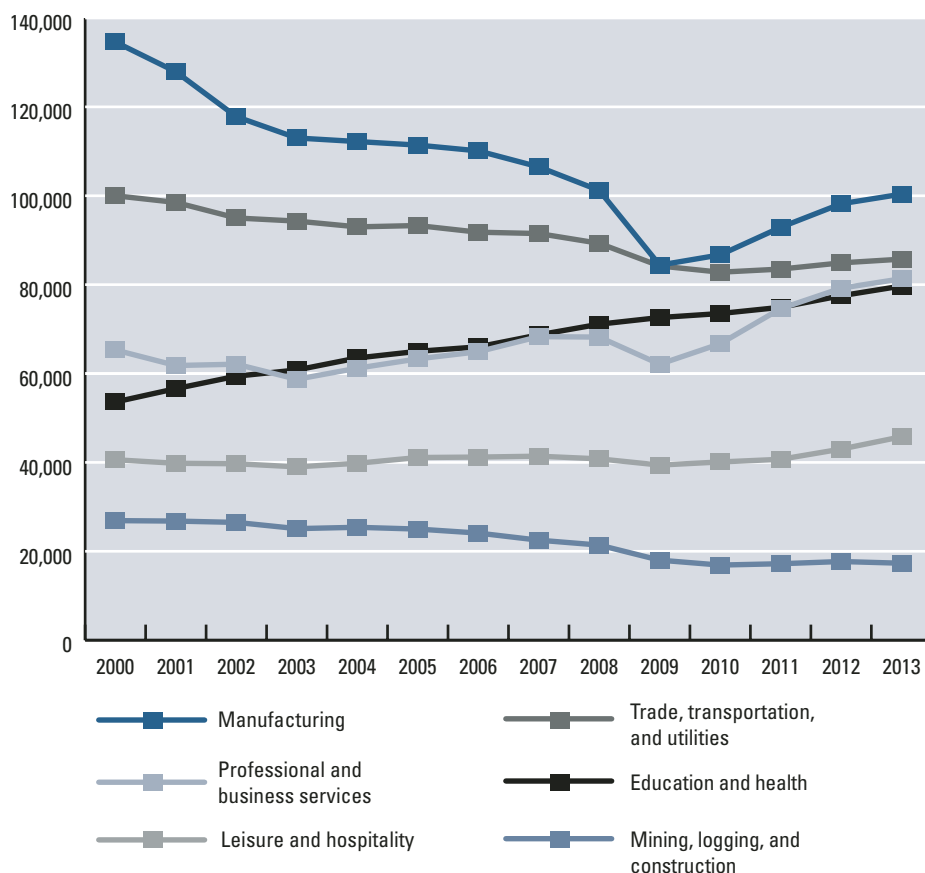
**Table 1: Population Growth**

	Population		Growth from 2000–2012			
	2000	2012	Total	Age 0 to 24	Age 25 to 64	Age 65 over
<b>U.S.</b>	281,424,600	313,914,040	+11.5%	+5.7%	+12.7%	+23.3%
<b>Michigan</b>	9,938,823	9,883,360	-0.6%	-7.4%	-0.3%	+18.4%
<b>GR MSA</b>	930,880	1,005,648	+8.0%	+0.3%	+10.1%	+26.6%

Michigan population peaked in 2004 at 10,055,315, declining after that, with a small recovery in 2012. **Source: US Census Bureau (2000 Decennial Census and 2012 ACS)**

The answer to question (1) is quite simple and perhaps a bit surprising. The per capita level of production has declined because the population has grown faster than total production. Although Michigan's population decreased slightly from 2000 to 2012, it has increased by 8% for the GR MSA (see Table 1). This population growth in and of itself is not a bad thing, and potentially reflects, at least to some degree, better economic opportunities in the GR MSA relative to other regions across the Midwest. The fact that total real GDP grew by a slower rate (only 4% between 2001 and 2012) is the explanation for the decline in real production per capita. The region now produces more goods and services than in 2001, but the increase has not been large enough to offset the growth in population.

To answer question (2), for the rise in production per capita since 2009, the seminal work by Robert Solow (1956) can help explain. Solow points out that production growth requires that the physical capital stock grows more quickly than the population, for a constant technology. Although data for capital stock or usage at the regional level are not available, the breakdown of output by industry shows that manufacturing has been recovering very noticeably since 2009 (see Figure 2). Manufacturing remains very important in the region and relies heavily on physical capital (machinery, tools, equipment, building, etc.). Thus, it is likely that the growth or reemployment of the capital stock in recent years allowed a quick recovery in manufacturing output and, thus, in total production per capita.

**Figure 3: Employment by Industry in the Grand Rapids Region\***

\* The data includes Newaygo and Ionia Counties, but not Montcalm County. For 2013, the average is calculated using data from January to August. Other major industries had smaller changes in employment during this period.

**Source: Bureau of Labor Statistics**

Beyond physical capital, Robert Lucas (1988) and Paul Romer (1990) studied the importance of advancements in technology and human capital (education, training and experience of workers). As human capital rises, workers become more productive, so more goods and services can be produced. Technology is a broad concept that refers to the underlying state of knowledge about the production process, and when technology advances, more output can be produced with a given amount of inputs.

According to the Census Bureau, 24% of the adults aged 25 years and over in the Grand Rapids region had a college degree or higher in 2000. By 2011, that share had increased by four percentage points to 28%. Though the data does not yield a breakdown by industry, it is reasonable to conclude that human capital has advanced across most sectors. Education and health services particularly rely on human capital, and between 2001 and 2012, the output in this industry has increased by 39%, while employment has risen by 37% (see Figure 3). That industry has experienced a steady growth since 2001, making a direct contribution to the recent upswing in production per capita. The industry growth can also contribute indirectly via the incentive that it creates for potential workers across all sectors to move to the region. Labor is highly

mobile, thus well qualified workers in the Midwest might find West Michigan an attractive place to live as education and health care services expand there.

Technology is difficult to measure explicitly, but better machinery and more efficient management lead to higher labor productivity. This seems to be the case with manufacturing production in the region. Even during the recent recovery, manufacturing output has increased much faster than employment. Production reached its lowest point in 2009, but by 2012 it had risen to a level 11% above the 2001 mark. Employment, on the other hand, declined by a whopping 23% in the same period. Again, because manufacturing accounts for a large share of the regional production, greater labor productivity in the industry seems to have contributed to the sharp rise in production per capita since 2009.

### Demographics and labor market

For future economic growth, demographic trends can be a concern. Population has grown 8% from 2000 to 2012 in the region, above the state average, but below the national trend (Table 1). The lower growth rate correlates to the loss of jobs in many industries (total employment in 2013 was still 5% below its level in 2000; see Table 2). Another possible concern is that the population of people under 25 years old has not increased, while the population of people over 65 years old rose by 27% from 2000 to 2012. This aging pattern is more noticeable in the region relative to the national trend, indicating that, despite attractive living conditions (low housing cost, leisure and cultural activities, some great schools, etc.), employment growth is needed to retain or attract younger workers and their families.

**Table 2: Civil Employment**

	U.S. (million)	Michigan (thousand)	GR MSA (thousand)
2000	136.9	4,948.8	499.3
2007	146.1	4,679.0	489.6
2010	139.1	4,148.3	434.8
2013	143.8	4,279.9	472.3
2000–2013 change	+5.0%	-13.5%	-5.4%
2007–2010 change	-4.8%	-11.3%	-11.2%
2010–2013 change	+3.4%	+3.2%	+8.6%

The values reported are annual average employment (for 2013, it includes data from January to August).

Source: Bureau of Labor Statistics

Hopefully, the shift in industry composition from low job growth to high job growth industries can help with recruitment in the future. From 2000 to 2013, there were large job losses in manufacturing, trade, and construction related industries (see Figure 3), while the largest gains happened in the education and health industry and in the professional and business services industry (the latter includes activities that generally support businesses like legal, accounting, management, engineering, and computer system services). Leisure and hospitality is also a high job growth industry at the national level, and it has grown rapidly in the region recently. A thriving community is needed to attract and retain educated and entrepreneurial people, so it is important that the economy can rely more on high job growth industries. ■

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# Economic Impact of the Grand Rapids Griffins Calder Cup Championship

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Michigan residents are enthusiastic about their regional sports teams, which include such familiar names as the Red Wings, Pistons, Tigers, Wolverines, and Spartans. Closer to West Michigan, Grand Rapids boasts its own local teams; the West Michigan White Caps, and the Grand Rapids Griffins. Recent headlines lauded the 2012–2013 Grand Rapids Griffins team for making history by winning the Calder Cup Championship. Reaching this milestone is not only an accomplishment of skill, but it is likely to have an economic impact on the Kent County community. What potential economic changes could occur in Kent County as a result of this achievement?



The Grand Rapids Griffins, founded in 1996, began playing in the International Hockey League, (IHL) which merged into the American Hockey League (AHL) in 2001. Currently the Griffins organization is affiliated with the Detroit Red Wings. According to the official website of the Grand Rapids Griffins, the organization's vision is: *Teaming up to enhance our community and deliver memorable experiences through sports.* Although the Griffins achieve their vision every year, the team delivered incremental memorable

experiences and community enhancement in May and June of 2013, participating in the playoffs and winning the AHL's championship, the Calder Cup.

In general, a community will experience both quantifiable and non-quantifiable effects when hosting an athletic franchise. When economists analyze the immeasurable impact of an athletic franchise, they refer to the team as a "public good". A public good is defined as a good that is non-excludable and non-divisible. In other words, the Grand Rapids Griffins' successes enhance pride in the region of West Michigan and benefit the Grand Rapids city's self-image or identity. This was demonstrated in numerous ways such as increased media attention at the time of the playoffs including regional television coverage, electronic and print news. Although the Calder Cup Championship banner was raised in front of a sell-out crowd opening night of the 2013–2014 season, fans did not have to attend this event or the opening games to experience the growing excitement expressed in all the tweets, Facebook posts, and talk around the water cooler. The Grand Rapids community buzzed with an excitement for the Grand Rapids Griffins that was palpable.

**Table 1: Attendance, Food & Beverage, and Retail Sales in Van Andel Arena, 2013 Playoff Games**

Home Games				Food & Beverage	Van Andel
Date	Opponent	Attendance	% Capacity	Sales	Retail Sales
Wed. May 1, 2013	Houston Aeros	4,683	43.23%	\$30,053.56	\$3,181.42
Fri. May 3, 2013	Houston Aeros	4,190	38.67%	\$29,336.24	\$2,989.55
Sat. May 4, 2013	Houston Aeros	2,290	21.14%	\$12,383.91	\$1,893.70
Wed. May 15, 2013	Toronto Marlies	2,738	25.27%	\$16,740.66	\$2,083.40
Fri. May 17, 2013	Toronto Marlies	3,774	34.83%	\$28,901.99	\$2,470.86
Sat. May 18, 2013	Toronto Marlies	3,428	31.64%	\$24,476.87	\$2,719.65
Fri. May 24, 2013	Oklahoma City Barons	5,014	46.28%	\$36,721.91	\$2,493.07
Sat. May 25, 2013	Oklahoma City Barons	5,353	49.41%	\$34,067.50	\$3,193.56
Tue. June 4, 2013	Oklahoma City Barons	4,926	45.47%	\$36,549.49	\$1,712.51
Wed. June 5, 2013	Oklahoma City Barons	4,112	37.95%	\$32,840.17	\$1,486.56
Wed. June 12, 2013	Syracuse Crunch	10,102	93.24%	\$77,045.82	\$9,217.50
Fri. June 14, 2013	Syracuse Crunch	11,280	104.12%	\$97,328.57	\$12,876.80
Sat. June 15, 2013	Syracuse Crunch	11,031	101.82%	\$83,306.66	\$12,846.12
	<b>Total</b>	<b>72,921</b>		<b>\$539,753.35</b>	<b>\$59,164.70</b>

**Table 2: Quantifiable Economic Impact of the Grand Rapids Griffins Calder Cup Championship**

<b>Total Attendance</b>	72921					
Kent County Residents	53%	38648				
Non-Kent County Residents	47%	34273				
<b>Van Andel Food and Beverage Sales</b>						
<b>Van Andel Food and Beverage Sales</b>						<b>\$539,753</b>
<b>New Spending By Attendees Outside Venue</b>						
	Estimated Food & Beverage Spending per person	Total Estimated Food & Beverage Spending	Portion of Resident Spending New to Kent County	Total Estimated Ne Spending on Food & Beverage		
Kent County Residents	\$ 25	\$966,203	10%	\$96,620		
Non-Kent County Residents	\$ 25	\$856,822		\$856,822	<b>\$953,442</b>	
	Estimated Incidental Spending per person	Total Estimated Incidental Spending				
Kent County Residents	\$3	\$115,944				
Non-Kent County Residents	\$5	\$171,364			<b>\$287,309</b>	
	Estimated Hotel Expenditure per night	Portion of Non-Kent County Residents Staying in Hotel	Total Non-Kent County Hotel Spending			
Non-Kent County Residents	\$88	10%	\$301,910		<b>\$301,910</b>	
<b>New Spending By Attendees Outside Venue</b>						<b>\$1,542,661</b>
<b>Spending by Visiting Teams</b>						
	Estimated Hotel Expenditure per night	Estimated Number of Rooms	Estimated Number of Nights	Total Estimated Hotel Expenditures		
	\$100	25	5	\$12,500	\$12,500	
	Estimated Food & Beverage Spending	Number of Game Days	Total Estimate Food & Beverage Spending			
	\$900	13	\$11,700		\$11,700	
<b>Spending by Visiting Teams</b>						<b>\$24,200</b>
				<b>Total New Spending</b>		<b>\$2,106,614</b>

As for the quantifiable economic impact, ticket sales indicate how many people were in the downtown area to attend the home games at Van Andel Arena. The 2012–2013 Grand Rapids Griffins participated in thirteen additional home games with an average attendance of 5609 fans or 51.78% capacity per game. The Griffins had not reached the playoffs since the 2008–2009 season when they lost in the second round after 5 post season home games. The long awaited and successful 2012–2013 play-off run brought 72,921 fans to the downtown area.

As Table 1 shows, while at Van Andel Arena, hockey fans spent \$539,753.35 on food and beverages and \$59,164.70 on retail items at concession stands inside the facility. According to Tim Gortsema, Senior Vice President of Business Operations, virtually all concessions are provided by area restaurants such as Peppinos, Tim Hortons, Gordon Food Service, Sysco, Pepsi Bottling Group and West Side Beer (personal communication, November 1, 2013). Although retail items are not sourced locally, all of the full and part time employees of the retail and concession stands in Van Andel are area residents.



**Table 3: Total Economic Impact of the Grand Rapids Griffins Calder Cup Championship**

	Spending	Multiplier	Total Economic Impact
<b>New Spending Inside Venue</b>			
Van Andel Food and Beverage Sales	\$539,753.35		
<b>Total New Spending Inside Venue</b>	<b>\$539,753.35</b>	<b>1.7706</b>	<b>\$955,687.28</b>
<b>New Spending Outside Venue</b>			
New Spending By Attendees Outside Venue	\$1,542,660.53		
Spending by Visiting Teams	\$24,200.00		
<b>Total New Spending Outside Venue</b>	<b>\$1,566,860.53</b>	<b>1.8037</b>	<b>\$2,826,146.33</b>
			<b>\$3,781,833.61</b>

An average attendee to a sporting event at Van Andel arena will possibly spend money at local restaurants, hotels, and on other incidentals such as parking. To calculate the true economic impact on an economy, only new spending should be taken into consideration. Therefore, spending by attendees that would have occurred in the Grand Rapids area even if the fan had not attended the game, does not count toward new economic impact. According to a study performed by Anderson Economic Group, LLC titled *The Economic Impacts of The Grand Rapids-Kent County Convention/Arena Authority Venues: Devos Performance Hall, DeVos Place, and Van Andel Arena*, in the fiscal year 2011, 53% of all attendees to Van Andel Arena were residents of Kent County and only 10% of Kent County residents' spending around Van Andel on the evening of an event was actually new spending. The economic impact analysis of the Grand Rapids Griffins Calder Cup Championship presented here will assume those same proportions held during the championship season.

Further estimates by the Anderson Economic Group, LLC found a local restaurant or nightclub tab was \$25 per person; incidentals were \$3 for a local attendee and \$5 for a non-Kent Count resident, whereby 10% of those fans from other counties had additional hotel expenditures of \$88.09 per night.

The last spending category impacting the Grand Rapids area pertains to the visiting teams. Using the Griffins as an example, their hotel expenses when traveling being between \$100 and \$125 per night for 25 rooms, we can extrapolate that teams visiting Grand Rapids with back-to-back games, need 25 rooms for 5 nights.

Additionally, according to Anderson Economic Group, LLC's analysis, visiting teams had a record of spending \$31,500 for catering and incidentals while in Grand Rapids for 35 game days in 2011. Using these spending assumptions, one can predict a per game day benefit for local businesses of about \$900.

Bringing together all of these spending assumptions (Table 2), one can estimate the direct, quantifiable economic impact of the Grand Rapids Griffins play-off hockey bid (benefitting

Kent County restaurants, hotels, parking facilities, etc.) was in excess of \$2.1 million dollars in total.

Economists also assume that new spending typically multiplies the economic impact on the economy. The higher income received by area employees and businesses who benefit from the fans and teams new spending leads to additional spending elsewhere around the area.

The Bureau of Economic Analysis has two multipliers that are relevant to economic impact studies in Kent County; 1.7706 for "spectator sports", and 1.8037 for "food services" and "drinking places"(BEA RIMS II multiplier). Using these multipliers and the information in Table 2, the increase in expenditures on goods and services in west Michigan as a result of the Calder Cup Championship games played in Grand Rapids was almost \$3.8 million (see Table 3).

Finally, the positive economic impact does not stop there. The future growth of attendance and spending in West Michigan should also be considered. It is likely that the success of the 2012–2013 Grand Rapids Griffins will help to increase attendance in the future. Fans like to see competitive games, but also love to see their team win. A winning team will cause an increase in demand for not only tickets to see the Griffins play, but an increased demand for a lot of the things that Grand Rapids and Kent County have to offer, including excellent restaurants, nightclub activities, festivals, music and hotel accommodations. The success of the Calder Cup Champions impacts the success of our entire community today and in the future. ■

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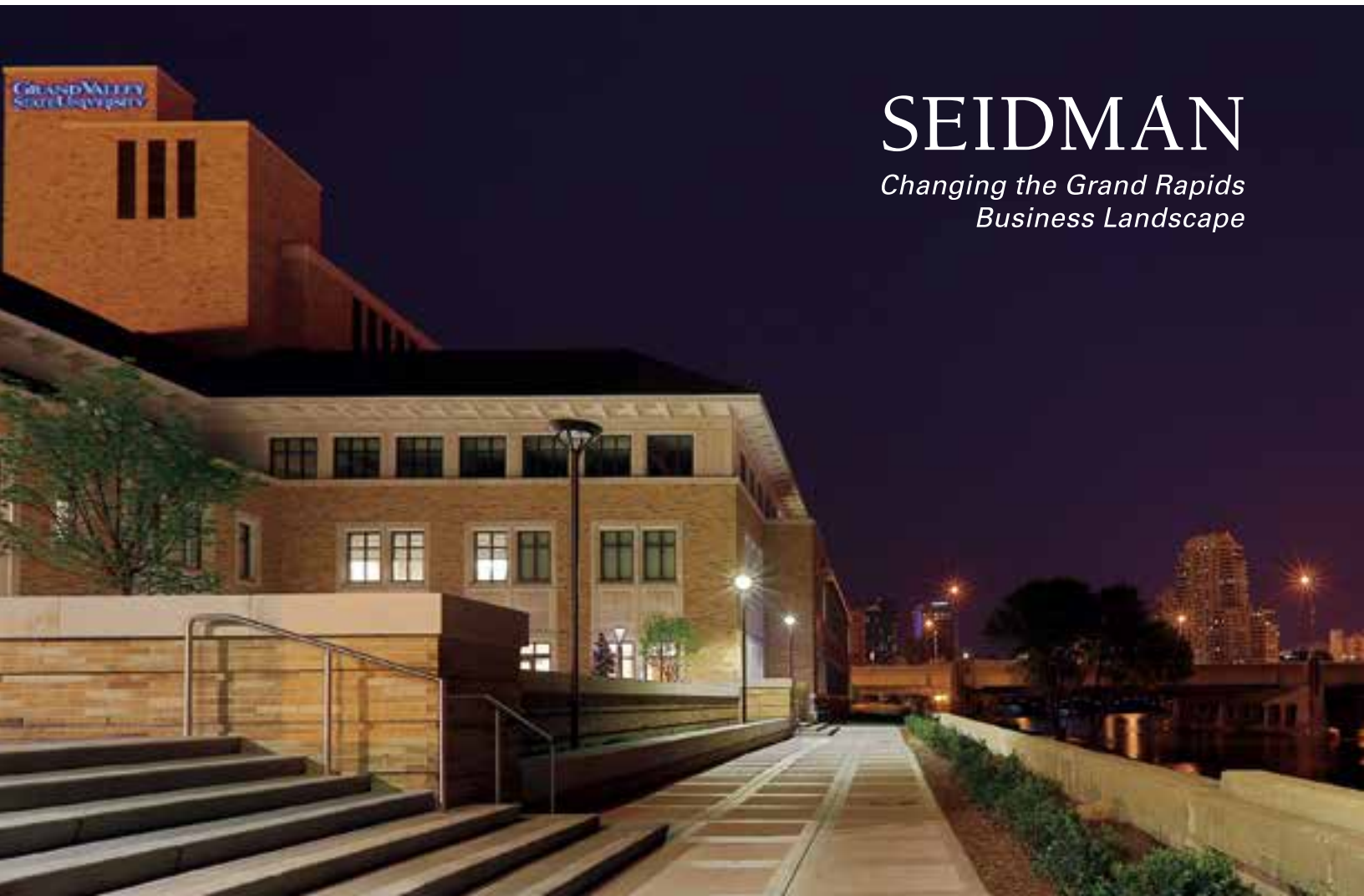


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