



Swisher Commercial

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SWISHER COMMERCIAL DECEMBER 2011 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** 19th annual year-end 2011 survey of vacancy rates for office and flex space in the Ann Arbor area. We surveyed **321 buildings** of 5,000 square feet or larger, totaling just under **12 million square feet**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last nineteen years. We hope this report will help you better understand the current market and assist you in planning your real estate decisions for the future.

As of December 31, 2011, the total market vacancy rate for office and flex space is 13.20%. This is a 1.84% decrease in vacancy from one year ago and a confirmation of a general sense among Swisher Commercial brokers that local commercial real estate market activity accelerated in 2011. The office vacancy rate decreased to 12.08% from 13.76% one year ago, while the flex vacancy rate decreased even more, with a drop to 16.50% from last year's 18.84%. Our analysis of the eight sub-market areas reveals that every area decreased in vacancy, although four of the areas decreased by less than one percentage point. The third page of this report is our statistical analysis of the vacancy rates for each of the eight areas.

The **Downtown Office Area** vacancy rate decreased by over 2.5% to 10.99% this year, which confirms that there is ongoing demand for downtown office space. Arbor Research Collaborative for Health expanded to 20,000 square feet in a move to the University of Michigan Credit Union Building, formerly the Ann Arbor News Building, on Huron Street. Businesses moving to downtown Ann Arbor frequently identify the "downtown environment" as a compelling reason for their decision.

The **North Office Area** vacancy rate decreased from 12.64% in 2010 to 10.92% this year. A number of North Area office buildings gained occupancy, the sum of which gave the North Area the second lowest vacancy rate of the areas we survey. Similar to last year, the North Area had a large scale occupancy gain from one tenant, with Cole Taylor Mortgage moving into 27,000 square feet.

The **East Office Area** vacancy rate was basically unchanged at 13.82% for 2011. With Class A buildings becoming more affordable, the East Area's Class B buildings lost some tenants to its rivals in the North Area and South Area. Nevertheless, tenant gains in other buildings in the East Area offset these losses.

The **CGMA** (Clark-Golfside Medical Area) Office Area continued to have the lowest vacancy rate in the market, for a third year in a row, remaining steady with a 6% vacancy rate.

The **South Office Area** vacancy rate moved down slightly from 14.48% to this year's 14.12%. A few South Area office buildings had gains in occupancy while others had losses, but they balanced out with the South Office Area overall vacancy rate remaining flat in 2011.

The **West Office Area** vacancy rate had two previous years with large vacancy increases, but this year showed a 48% vacancy reduction, dropping from 24.07% to 12.62%. That said, it should be noted that the main reason for this year's dramatic decrease in vacancy can be attributed to one 35,000 square foot office building fully vacant in 2010 being rented by Terumo Medical Corporation in 2011. Six other office buildings in the West Area reported moderate drops in vacancy.

The **South Flex Area** vacancy rate saw a slight vacancy rate decrease to this year's 17.03%. Costco's new site on Ellsworth Road displaced a number of South Flex tenants, who in turn rented other flex buildings in the South and West Areas. While there are still some bargains for the tenants making moves into the South Area Flex buildings this year, brokers have reported that some size segments and some specification types are becoming hard to find. This could lead to a pendulum swing toward higher rental rates in the future.

The **West Flex Area** mirrored the West Office Area, with a 47% drop in vacancy, moving from 25.85% in 2010 to 13.81% in 2011. Two west flex properties accounted for a 71,000 square foot drop in vacancy by renting space to high-tech and light industrial businesses.

LEASING DEMAND

Leasing demand and transaction activity in 2011 increased significantly compared to 2009 & 2010. Swisher Commercial brokers recorded a 27% increase in the number of lease transactions and a 40% increase in lease dollar volume as compared to 2010. This increased activity is good news to the extent that it reflects more businesses feeling optimistic about the future. However, increases of 27% and 40% need to be seen in the context of 2010 having been a slow year. There are still many individual landlords who have vacancies that need to be filled. Where there are properties with high vacancy rates, lease transactions are often occurring at historically low rental rates. Tenants who can justify a move or expansion in 2012 will find many landlords still willing to rent space at desirable terms to fill their vacancies.

SALES ACTIVITY

Although Swisher Commercial statistics show a 19% increase in the number of building sales between 2010 and 2011, there continues to be a tug-of-war between competing forces in the market. Historically low sale prices should incentivize buyers to enter the market, but limited commercial real estate financing and the current economy negatively influence prospective buyers. It will be interesting to see which forces prevail in the tug-of-war in 2012. Swisher brokers have reported that most sales involve "user buyers" of commercial buildings as opposed to "investment buyers", with a disproportionate number of those transactions being "cash sales." There are still bank-owned commercial properties available for sale, most of which are flex and light industrial style buildings.

Swisher Commercial is dedicated to helping our clients make informed real estate decisions. Our brokerage efforts continue to yield creative solutions that culminate in successful real estate transactions. We have assembled the largest and most experienced team of commercial real estate professionals in Washtenaw County. We understand the greater Ann Arbor market including Ypsilanti, Saline, Chelsea and Dexter, Lenawee and Jackson Counties, and are committed to serving the long-term needs of the business community. We look forward to assisting you with your lease, purchase/sale, investment, property management and advisory needs in the future.

If you have any questions or suggestions feel free to contact **Swisher Commercial** at (734) 663-0501, e-mail at info@swishercommercial.com, or visit our website at www.swishercommercial.com.

SWISHER COMMERCIAL

Ann Arbor, Michigan
December 31, 2011



Swisher Commercial 2011 Year-end Office/Flex Vacancy Report

ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2011

	Area	# Blds	Gross SF	Vacant SF	Vac %	YE 2010	% Chg.
OFFICE	Downtown	69	1,687,473	185,459	10.99%	13.57%	-2.58%
	North	35	2,444,925	267,067	10.92%	12.64%	-1.72%
	East	36	647,531	89,483	13.82%	13.83%	-0.01%
	CGMA	10	501,543	30,096	6.00%	6.88%	-0.88%
	South	70	3,119,680	440,447	14.12%	14.48%	-0.36%
	<u>West</u>	<u>20</u>	<u>445,772</u>	<u>56,262</u>	<u>12.62%</u>	<u>24.07%</u>	<u>-11.45%</u>
	Total	240	8,846,924	1,068,814	12.08%	13.76%	-1.68%
FLEX	South	64	2,512,076	427,927	17.03%	17.46%	-0.43%
	<u>West</u>	<u>17</u>	<u>496,731</u>	<u>68,591</u>	<u>13.81%</u>	<u>25.85%</u>	<u>-12.04%</u>
	Total	81	3,008,807	496,518	16.50%	18.84%	-2.33%
OFFICE & FLEX	Downtown	69	1,687,473	185,459	10.99%	13.57%	-2.58%
	North	35	2,444,925	267,067	10.92%	12.64%	-1.72%
	East	36	647,531	89,483	13.82%	13.83%	-0.01%
	CGMA	10	501,543	30,096	6.00%	6.88%	-0.88%
	South	134	5,631,756	868,374	15.42%	15.81%	-0.39%
	<u>West</u>	<u>37</u>	<u>942,503</u>	<u>124,853</u>	<u>13.25%</u>	<u>25.04%</u>	<u>-11.80%</u>
	Total	321	11,855,731	1,565,332	13.20%	15.04%	-1.84%

ASSUMPTIONS

- Area:** City of Ann Arbor plus Scio, Pittsfield & Ann Arbor Twps. North includes Plymouth Road corridor. East includes Washtenaw, Packard and Carpenter Rds. South includes S. Industrial, S. Main, S. State, Briarwood and airport areas. West includes W. Liberty and Jackson Road areas. CGMA is the Clark-Golfside Medical Area; St. Joseph Mercy Hospital campus and the Huron River Drive/Golfside-Clark area.
- Buildings:** Includes all identified non-owner-occupied buildings over 5,000 SF.
- Flex:** Defined as high-bay type buildings, often combining office, high-tech, research, warehouse & similar.
- % Change:** A negative denotes a decreasing vacancy rate. Calculation is YE 2011 rate less the YE 2010 rate.

