



## Swisher Commercial

David L. Hamilton, CCIM  
Douglas Smith, CCIM  
Michael Giraud  
Michael Jurgenson, CCIM  
Joseph Palms

Ronald Dankert  
John Evans  
Charlie Koenn  
Gretchen Driskell  
Kyle Bamm

Barton Wise  
Tony Caprarese  
Randy Maas  
Jeff Evans  
Joseph Merkel

### SWISHER COMMERCIAL DECEMBER 2015 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** 23rd annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2015. We surveyed **305 buildings** of 5,000 square feet or larger, totaling over **12 million square feet**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 23 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.

**As of December 31, 2015, the total market vacancy rate for office and flex space is 8.5%**, decreasing from 9.2% one year ago. In the past year, both office and flex vacancy rates decreased, with office vacancy decreasing from 7.3% to 7.1% and flex vacancy from 14.5% to 12.5%. Swisher's analysis of the eight sub-market areas reveals that three of the areas decreased in vacancy, three increased, and two areas remained essentially flat when compared to 2014. The final page of this report summarizes the statistical analysis of the vacancy rates for each of the eight areas.

The **Downtown Office Area (DOA)** vacancy rate dropped to 2.1%, the lowest rate since Swisher began this vacancy report in 1993. As discussed in recent Swisher vacancy reports, the rapid growth of high-tech firms with a desire to locate downtown is a predominant reason for the scarce availability of office space. Eleven downtown buildings that had vacancies in December of 2014 are now showing 100% occupancy. Looking forward, Google will vacate its 86,484 square foot office space at the McKinley Town Center in the spring of 2016, while First Martin Corporation is already advertising October 2016 availability of a 28,648 square foot office footprint at 130 South First Street. Those offices are publicly listing modified gross asking lease rates of \$35.00 and \$30.00 per square foot respectively. Could this be the new norm for class A downtown office building lease rates?

Looking into the future for the DOA, there are several parcels of land that could be developed as office buildings. However, the cost of land and new construction would likely mandate modified gross square foot lease rates in the \$40's. Given that potentiality, a developer would need a significant portion of a planned building to be pre-leased to a credit tenant with a 2-3 year lead time before proceeding. The question becomes – will there be sufficient interest by office tenants for a developer to make the investment into a new downtown office building?

The **North Office Area (NOA)** has historically joined the DOA in having a high demand for office space. This year's vacancy rate decreased slightly to 3.5%, from last year's 3.8%. The NOA's large office space users such as the University of Michigan, Domino's, Conway, and Blue Cross provide long-term stability to Ann Arbor's second largest office market. In 2016, Google will become a NOA resident as well, occupying 133,289 square feet in the Traverwood Business Park.

The **East Office Area (EOA)** vacancy rate increased to 18.7% from its 2014 rate of 16.2%. Swisher brokers found that although there was some modest office leasing activity in the EOA, the businesses signing new leases gravitated toward buildings with lower rental rates. The two buildings in the EOA that experienced the highest increase in vacancy were those with the highest asking rental rates.

The **CGMA** (Clark-Golfside Medical Area) **Office Area** vacancy rate decreased to 7.0% in 2015 as compared to 8.1% in 2014. Similar to 2014, Swisher brokers noticed this year that there was very little demand for small medical suites throughout the Ann Arbor market. So, although the CGMA market remained relatively steady, those buildings with vacant medical suites still struggled to back-fill those spaces.

The **South Office Area (SOA)**, having the largest office inventory, had a vacancy rate that remained flat at 10.3%. However, there is more of a story to this statistic. The largest tenant, Truven Health Analytics, occupying one of the largest Ann Arbor buildings, 777 E. Eisenhower Parkway, is scheduled to move out of its 170,000 + square foot office in favor of a 143,000 square foot suite at 100 Phoenix by the end of 2015. Despite the physical move to the new space, Truven's lease at 777 E. Eisenhower continues well into 2016, thereby not considered a vacancy in the Swisher report. How long will it take for SOA tenants to consume such a large quantity of vacant space? As an interesting side note, Truven is moving from a building quoting a \$26.00 per square foot lease rate into a building quoting \$14.50 per square foot.

The **South Flex Area (SFA)** had the largest decrease in vacancy of all areas Swisher measured, moving from 15.6% to 13.1% in 2015. Although there were new leases signed in the SFA, the main contributing factor in the statistical drop to the 13.1% vacancy is attributed to the sale of six bank-owned Ann Arbor Commerce Park buildings. As a result, 112,000 square feet was eliminated from the vacancy report as the buildings are now owner occupied. In our 2014 vacancy report, those six buildings reported 57,000 square feet of vacancy. Removing those buildings from this year's report, in effect, accounted for 2/3rds of the 2.5% vacancy rate drop in the SFA.

The **West Office Area (WOA)** was steady this year with a rate of 4.2%, up slightly from 3.8% in 2014. Though the vacancy rate is low, new demand for office space was moderate. Even so, the WOA tends to have a consistent flow of smaller local office tenants. WOA office buildings often attract businesses with owners and/or employees who live on the west side of Washtenaw County.

The **West Flex Area (WFA)** vacancy rate increased from 8% to 9.7% this year. Though there was positive leasing activity in 2015, those efforts were outweighed by two larger tenants moving out of the WFA and one large tenant downsizing. The increased vacancy rate is not particularly alarming as a 1.6% vacancy increase in the WFA only equates to approximately 12,000 square feet.

## **LEASING DEMAND**

Swisher Commercial's internal statistics show that the office and flex space leasing demand in 2015 was comparable to 2014. Both years were significantly better than recent recession years, but by no means can they be considered a hot leasing market. The exception, of course, would be demand for office space in the DOA. Our observation is that the businesses experiencing the most dramatic growth are local high-tech companies, who for the most part, have chosen to locate downtown. It follows that the businesses in the rest of Ann Arbor are growing more modestly, or in some cases are downsizing. It is worth saying that although pocketbooks have loosened up a bit since the recession, many businesses are choosing to rent lower priced suites.

## **SALES ACTIVITY**

In 2015, opportunities to purchase bank-owned distressed properties were limited, the average sale price moved upward as the year progressed, and it became more difficult for some buyers to find just the right building to purchase. Even so, with interest rates remaining low and many businesses seeing this as the right time to make the jump from leasing to owning, Swisher Commercial saw a 60% increase in sales dollar volume in 2015 compared to 2014, and a 40% increase in the number of buildings sold. We surmise that in 2016, buyers will require more time to search and/or wait for a property to purchase and will likely see higher prices.

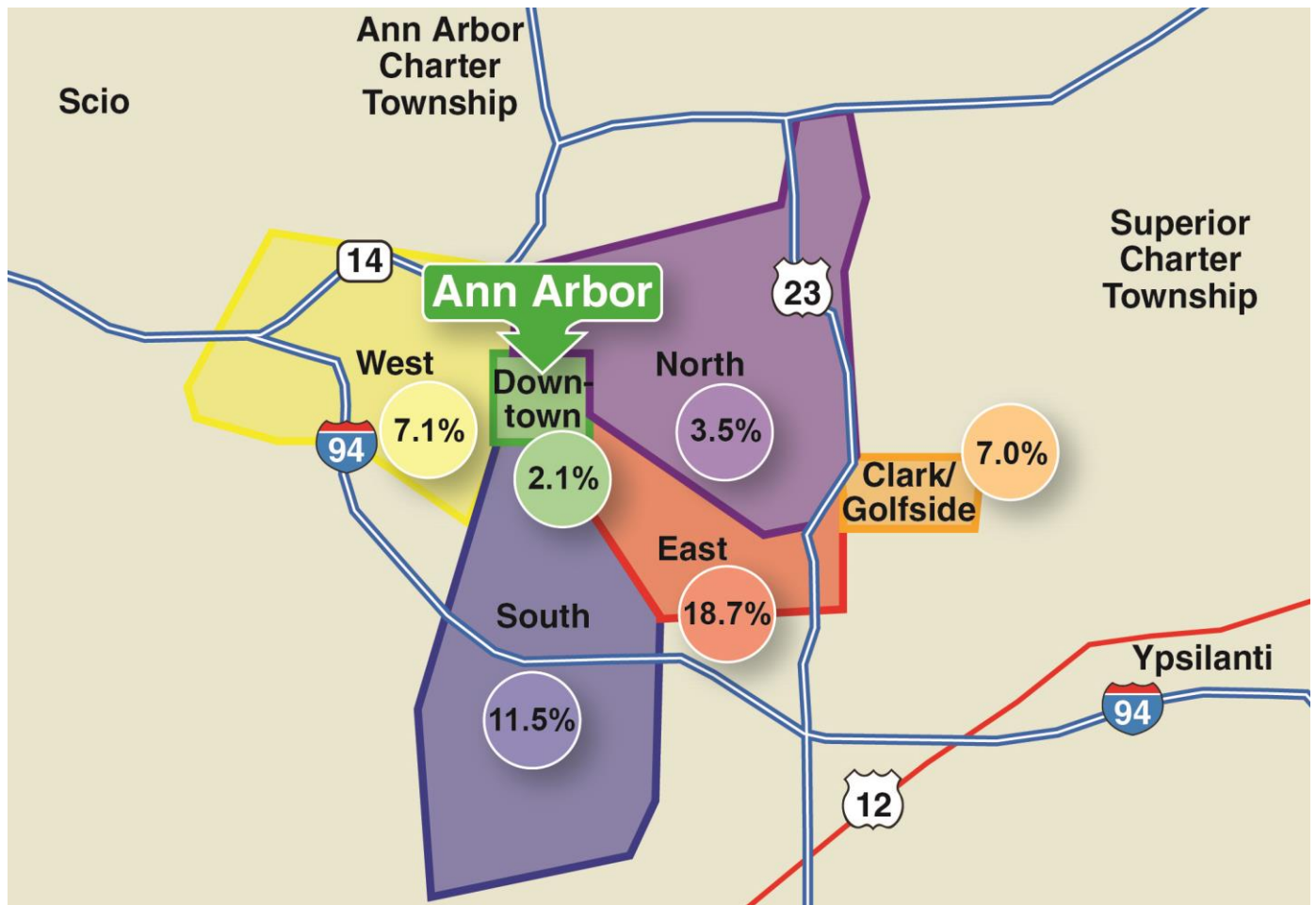
**Swisher Commercial** is dedicated to helping our clients make informed real estate decisions. Our brokerage efforts continue to yield creative solutions that culminate in successful real estate transactions. We have assembled the largest and most experienced team of commercial real estate professionals in Washtenaw County. We understand the greater Ann Arbor market including Ypsilanti, Saline, Chelsea and Dexter, and 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](mailto:info@swishercommercial.com), or visit our website at [www.swishercommercial.com](http://www.swishercommercial.com).

SWISHER COMMERCIAL

*Swisher Commercial*

Ann Arbor, Michigan  
December 31, 2015





# Swisher Commercial 2015 Year-end Office/Flex Vacancy Report

## ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2015

	Area	# Blds	Gross SF	Vacant SF	YE 2015 Vac %	YE 2014 Vac %	% Chg.
<b>OFFICE</b>	Downtown	64	1,667,744	35,370	2.1%	3.6%	-1.5%
	North	35	2,449,756	85,738	3.5%	3.8%	-0.3%
	East	35	639,092	119,224	18.7%	16.2%	2.5%
	CGMA	10	501,543	34,866	7.0%	8.1%	-1.1%
	South	71	3,461,490	355,110	10.3%	10.3%	0.0%
	West	20	441,451	18,356	4.2%	3.3%	0.9%
	<b>Total</b>		<b>235</b>	<b>9,161,076</b>	<b>648,664</b>	<b>7.1%</b>	<b>7.3%</b>
<b>FLEX</b>	South	54	2,553,036	335,099	13.1%	15.6%	-2.5%
	West	16	515,504	50,002	9.7%	8.0%	1.7%
	<b>Total</b>	<b>70</b>	<b>3,068,540</b>	<b>385,101</b>	<b>12.5%</b>	<b>14.5%</b>	<b>-1.9%</b>
<b>OFFICE &amp; FLEX</b>	Downtown	64	1,667,744	35,370	2.1%	3.6%	-1.5%
	North	35	2,449,756	85,738	3.5%	3.8%	-0.3%
	East	35	639,092	119,224	18.7%	16.2%	2.5%
	CGMA	10	501,543	34,866	7.0%	8.1%	-1.1%
	South	125	6,014,526	690,209	11.5%	12.6%	-1.1%
	West	36	956,955	68,358	7.1%	5.7%	1.4%
	<b>Total</b>		<b>305</b>	<b>12,229,616</b>	<b>1,033,765</b>	<b>8.5%</b>	<b>9.2%</b>

### ASSUMPTIONS

- Area:** Downtown includes Ann Arbor, 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 2015 rate less the YE 2014 rate.

