



2018

YEAR-END VACANCY REPORT

Ann Arbor Area Office & Flex

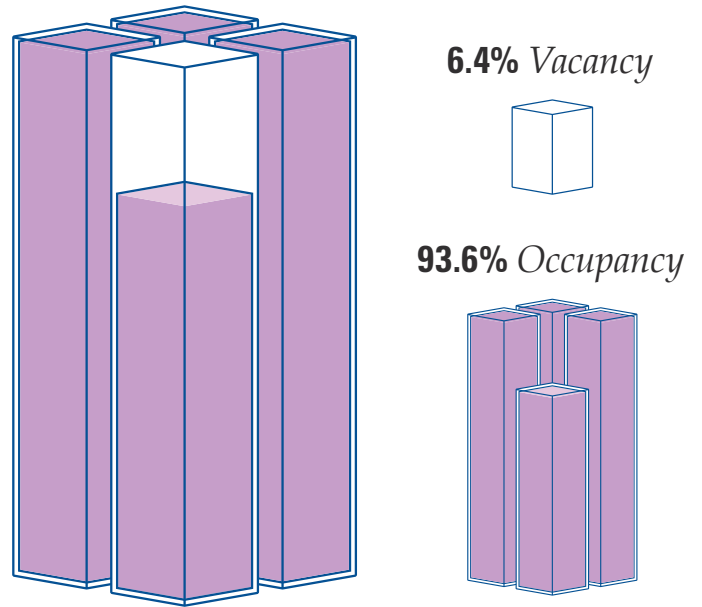
Dear Friend,

Enclosed is Swisher Commercial's 26th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2018. We surveyed 302 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 26 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.

<i>Michael Jurgenson, CCIM</i>	<i>David L. Hamilton, CCIM</i>	<i>Barton Wise</i>
<i>Douglas Smith, CCIM</i>	<i>Tony Caprarese</i>	<i>Charlie Koenn</i>
<i>John Evans</i>	<i>Ronald K. Dankert</i>	<i>Michael Giraud</i>
<i>Randy Maas</i>	<i>Joseph Palms, CCIM</i>	<i>Jeffrey Evans</i>
	<i>Stephen Galgan</i>	

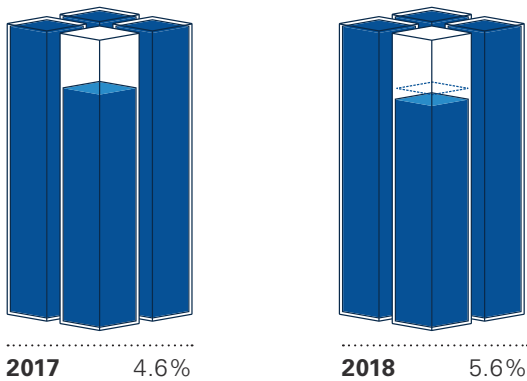
ANN ARBOR OFFICE/FLEX MARKET

As of December 31, 2018, the total market vacancy rate for office and flex space is **6.4%**, a decrease from the **7.2%** vacancy rate one year ago.



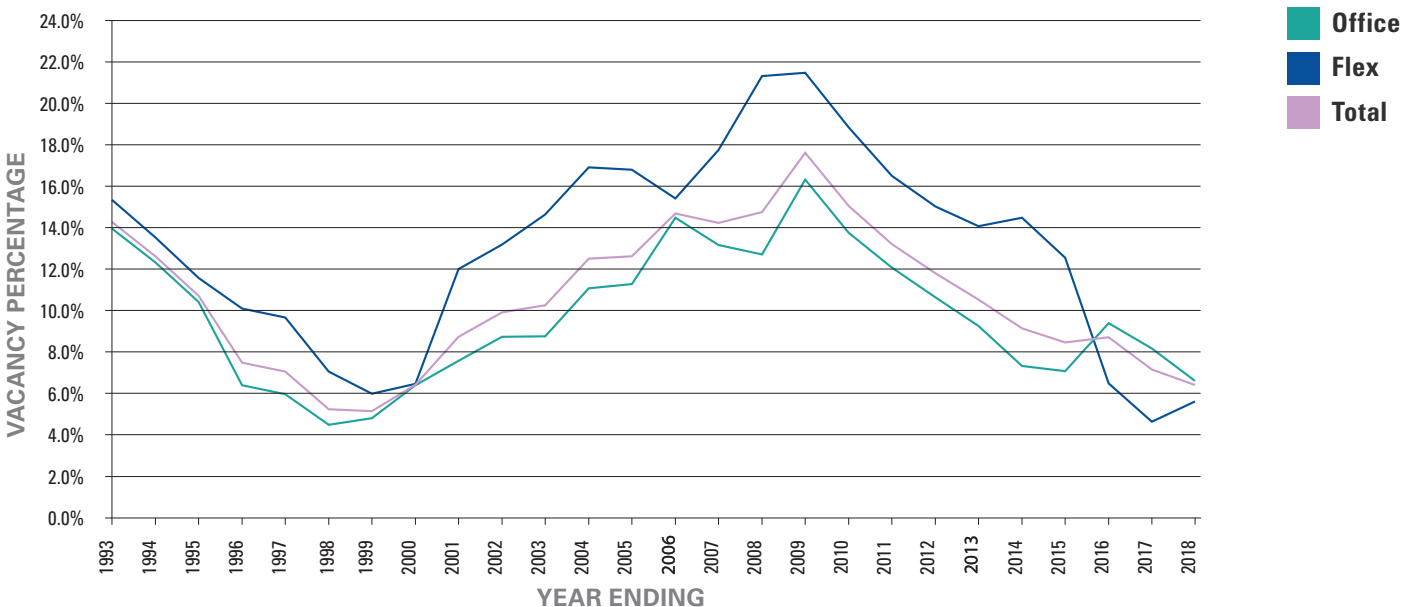
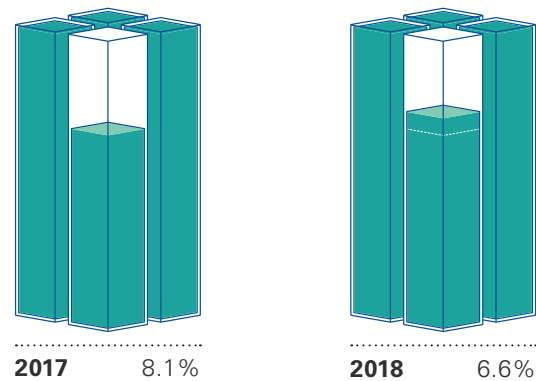
FLEX

In the past year, flex vacancy rates increased from **4.6%** to **5.6%**. (+1.0%)



OFFICE

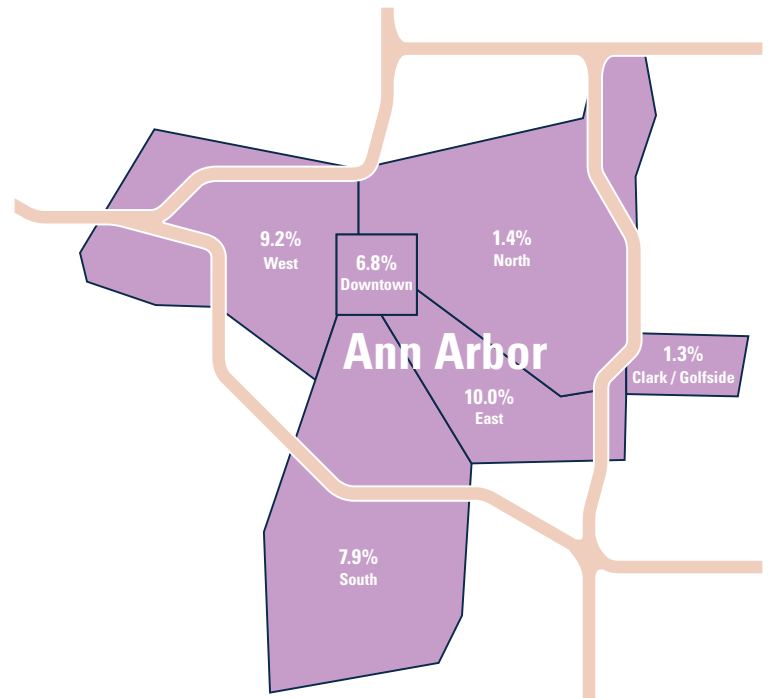
The office vacancy rate decreased from **8.1%** to **6.6%**. (-1.5%)



According to Swisher’s analysis of the eight sub-market areas, four of the areas decreased in vacancy and four of the areas increased in vacancy when compared to 2017.

Below is a detailed analysis of the sub-market areas.

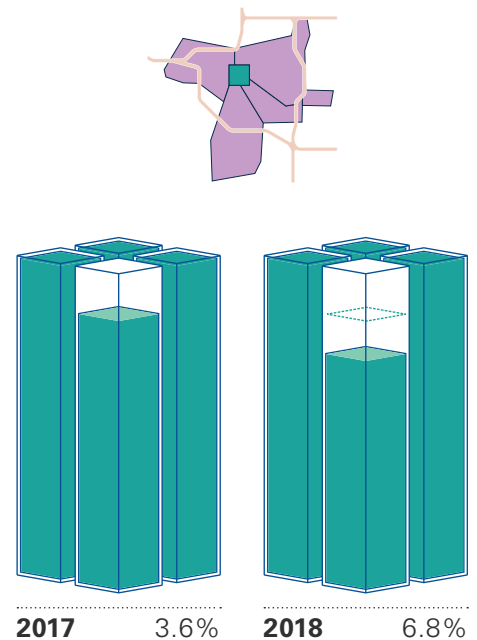
The final page of this report summarizes the statistical analysis of the vacancy rates for each of the eight areas.



THE DOWNTOWN OFFICE AREA (DOA)

The DOA vacancy rate nearly doubled, increasing from **3.6%** to **6.8%**. (+3.2%)

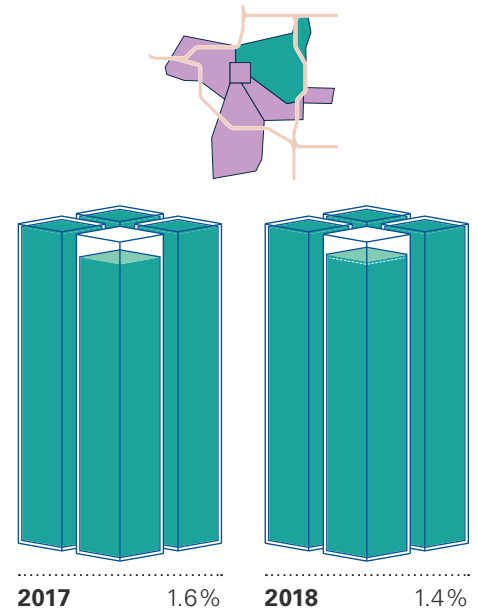
The majority of this change is due to two downtown buildings showing large vacancies of approximately 30,000 sf each. One of those buildings is a multi-story office building now marketing the second and third floors as office suites for the first time in decades. In addition, there are a number of 2,000 sf to 6,000 sf office suites that remain vacant at year-end, with brokers reporting fewer inquiries from prospective tenants. All in all, the demand for downtown office space was less intense than in recent years.



THE NORTH OFFICE AREA (NOA)

The NOA vacancy rate decreased slightly from **1.6%** to **1.4%**. (-0.2%)

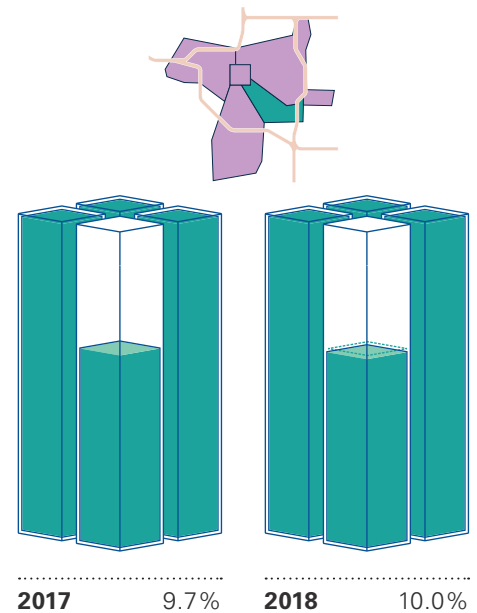
It is difficult to measure the new demand for this area because there were very few vacancies to attract prospective tenants. A vacancy rate of 1.4% is remarkably low. Given the NOA's proximity to major University of Michigan medical and research facilities, plus easy highway access to surrounding suburbs, office space in this area is in high demand.



THE EAST OFFICE AREA (EOA)

The EOA vacancy rate nudged up to **10.0%**, as compared to **9.7%** last year. (+0.3%)

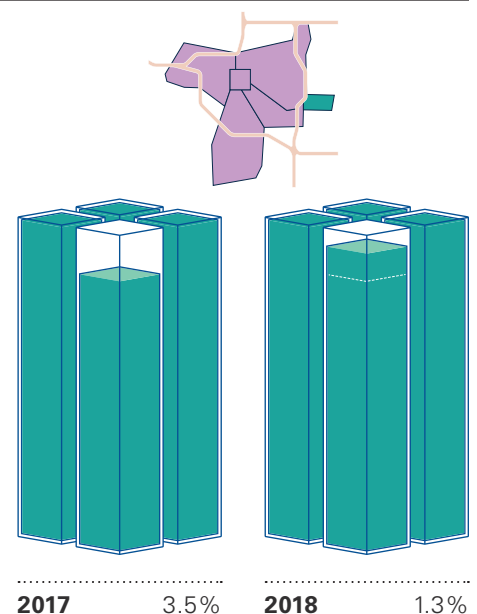
There was a steady flow of small office leases in 2018, but not enough to bring this market into line with the 6.6% vacancy rate for the overall office market. Mental health, family health and social service type tenants were the most common businesses attracted to the East Office Area's smaller and more economical office suites.



THE CLARK-GOLFSIDE MEDICAL (CGMA) OFFICE AREA

The CGMA Office Area vacancy rate experienced a considerable drop for the second consecutive year decreasing from **3.5%** to **1.3%**. (-2.2%)

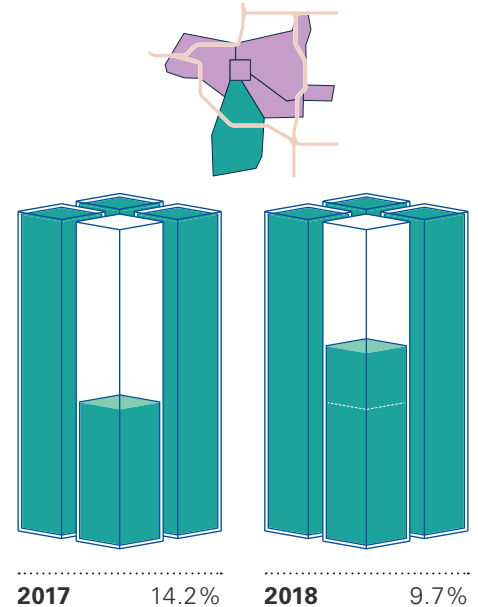
Interestingly, the vacancy rate for buildings surveyed on the McAuley Campus is 0.0%, whereas the rate for the other buildings in the CGMA is 6.6%. Based on what we have seen in recent years of vacancy surveys, there appears to be a trend toward medical professionals consolidating into the larger medical campuses, rather than individually locating in the smaller outlying buildings.



THE SOUTH OFFICE AREA (SOA)

The SOA vacancy rate dropped from **14.2%** to **9.7%** this year. (-4.5%)

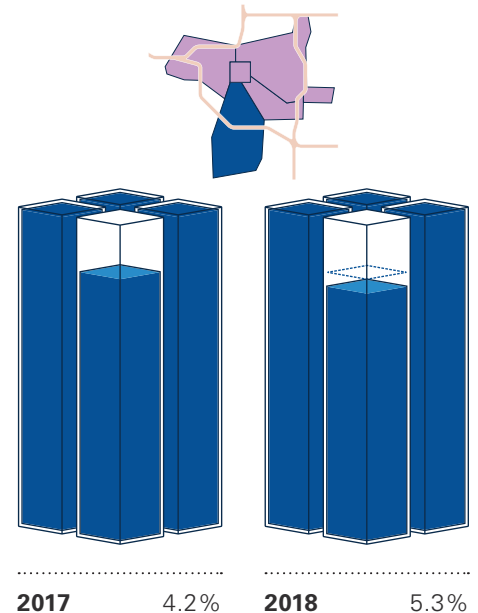
The SOA is the largest office market and currently has over 330,000 sf of vacant space. It also contains the largest blocks of contiguous space for potential users. It was this availability that contributed to the leasing of substantial square footage to a single user. This impact represented an overall decrease of almost 25% in the SOA vacancy and a nearly 1% decrease in the market vacancy rate as a whole.



THE SOUTH FLEX AREA (SFA)

The SFA rate increased slightly, moving from **4.2%** vacancy in 2017 to **5.3%** this year. (+1.1%)

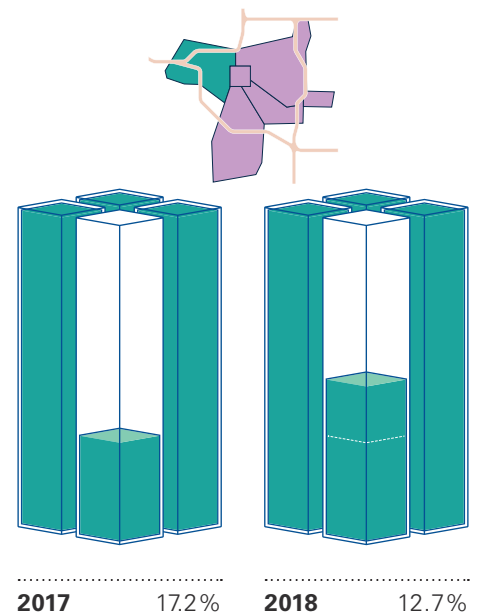
The demand for flex space was modest in 2018; even so, a 5.3% vacancy doesn't leave much room for growing businesses. There are two flex speculative buildings that went under construction in 2018. One is located on Oak Valley Drive, measuring 18,000 square feet, with expected completion in late spring. The second is on Bestech Drive, totaling 19,000 sf, with the primary building construction completed and ready for tenant finishes.



THE WEST OFFICE AREA (WOA)

The WOA vacancy rate decreased from **17.2%** to **12.7%**. (-4.5%)

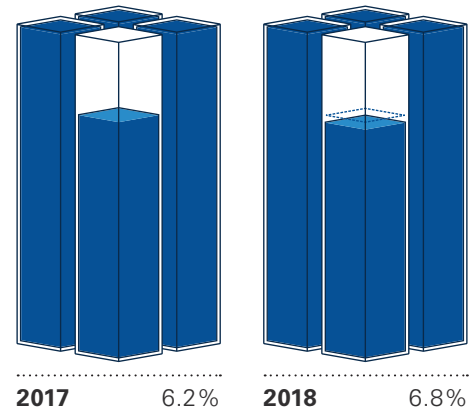
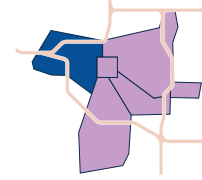
Most of the rate decrease is due to a 10,000 sf occupancy gain in one office park west of Ann Arbor and a 9,000 sf occupancy gain at another office park off West Stadium Blvd. It should be noted that over 50% of the WOA vacancy is due to an empty 38,000 sf building on Jackson Plaza. Statistically, the WOA is a small area subject to wide swings in vacancy rate caused by changes, year to year, of the larger buildings.



THE WEST FLEX AREA (WFA)

The WFA vacancy rate increased slightly from **6.2%** to **6.8%**. (+0.6%)

The availability of economical small Flex suites with proximity to Ann Arbor kept the WFA vacancy low in 2018. Tenant inquiries and showings in the WFA were moderately active, however successful closed lease deals went to the buildings that had the right combination of suite attributes such as ceiling height, garage door types, electrical power capacity, and the desired shop to office ratio.



LEASING DEMAND

The leasing market for 2018 was steady to slow with some exceptions. Among seemingly well-positioned office suites, Swisher brokers observed that some sat vacant while others were leased relatively quickly with few concessions. It appears to Swisher brokers that Ann Arbor companies have in general been growing steadily, but despite this trend we believe the lasting sting from the last recession coupled with current economic uncertainty may be leading business owners to be cautious when making lease expansion decisions.



SALES ACTIVITY

As we predicted in our 2017 vacancy report the decreased availability of buildings led to a significant drop in building sales in 2018. There are fewer buildings on the market for sale than in past years, while there is still consistent demand from both occupant buyers and investment buyers. Both residential and commercial vacant land sales in 2018 have been relatively robust due to the lower supply of existing buildings for sale. That said, land prices have not increased, due in large part to the high cost of construction.

STATISTICAL SUMMARY

	Area	# Blds	Gross sf	Vacant sf	YE 2018 Vac %	YE 2017 Vac %	% Chg.
Office	Downtown	64	1,621,912	110,689	6.8%	3.6%	3.2%
	North	35	2,516,300	34,996	1.4%	1.6%	-0.2%
	East	35	633,974	63,087	10.0%	9.7%	0.3%
	CGMA	10	501,543	6,380	1.3%	3.5%	-2.2%
	South	70	3,478,234	337,169	9.7%	14.2%	-4.5%
	West	20	433,755	54,930	12.7%	17.2%	-4.5%
	Total	234	9,185,718	607,251	6.6%	8.1%	-1.5%
Flex	South	49	2,345,478	124,652	5.3%	4.2%	1.1%
	West	19	644,848	44,092	6.8%	6.2%	0.6%
	Total	68	2,990,326	168,744	5.6%	4.6%	1.0%
Office & Flex	Downtown	64	1,621,912	110,689	6.8%	3.6%	3.2%
	North	35	2,516,300	34,996	1.4%	1.6%	-0.2%
	East	35	633,974	63,087	10.0%	9.7%	0.3%
	CGMA	10	501,543	6,380	1.3%	3.5%	-2.2%
	South	119	5,823,712	461,821	7.9%	10.1%	-2.2%
	West	39	1,078,603	99,022	9.2%	10.7%	-1.5%
	Total	302	12,176,044	775,995	6.4%	7.2%	-0.8%

ASSUMPTIONS

1. 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.

2. BUILDINGS

Includes all identified non-owner-occupied buildings over 5,000 sf.

3. FLEX

Defined as high-bay type buildings, often combining office, high-tech, research, warehouse & similar.

4. % CHANGE

A negative denotes a decreasing vacancy rate. Calculation is YE 2018 rate less the YE 2017 rate.

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 leasing, 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

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208 E. Washington St.
Ann Arbor, MI, 48014

P 734.663.0501
F 734.663.0316

www.swishercommercial.com