



Swisher Commercial 2007 Year-end Office/Flex Vacancy Report

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Enclosed is **Swisher Commercial's** year-end 2007 survey of vacancy rates for Office and Flex space in the Ann Arbor area. We surveyed **298 buildings** of 3,000 square feet (sf) or larger, totaling **11.3 million sf**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last fifteen years. All comparisons hereafter will compare year-ending 2007 vacancy rates to year-ending 2006 rates, unless otherwise noted. 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, 2007, the total market vacancy rate, including Office and Flex space, was 14.23%. This rate is .46% lower than one year ago, representing a negligible change for the market as a whole. The combined Office vacancy rate moved slightly lower to 13.17% from 14.48%, while the combined Flex vacancy rate increased to 17.76% from 15.41%. Our analysis of the eight sub-market areas reveals that four of the areas increased in vacancy while the other four areas decreased in vacancy. See the attached vacancy rate analysis for each of the eight areas.

ANALYSIS BY SUB-MARKET

The Downtown Office area had a sizable decrease in vacancy, dropping from 15.67% to 12.44%. As reported in our June 2007 mid-year report, the change in this market is not due to a single large transaction (i.e. Google in our December 06 report), but rather due to a number of buildings experiencing small decreases in vacancy.

The North Office area vacancy rate appears to be headed in the direction of its historical single digit vacancy rates of years past, decreasing from 17.29% to its current 11.91%. Our survey noted that Domino's Farms and a couple of other large office buildings in the Plymouth Road corridor had successful 2007 leasing seasons. As reported in the Business Review December 12, 2007 news report, with Con-way Freight, Inc. leasing 120,000 sf in the Earhart Corporate Center building, the North Office area vacancy rate will fall even lower in 2008 when the tenant takes occupancy, but will leave vacancy in 2 other sub-markets. Note – this report does not take into account the future availability of the 2 million sf Pfizer facility as the buildings are not currently being offered for lease.

The East Office vacancy rate decreased from 12.46% to 11.07%. Most of this market activity is comprised of small office suites being rented 1,000 sf at a time. Demand for this size space is encouraging as small businesses enter the market. These small office users can develop into larger local employers demanding more space.

The South Office area had the highest vacancy rate increase of all the market areas, increasing to 17.07% from just 14.59%. As identified in our mid-year report, this change is primarily due to the addition of a large spec office building that is currently vacant plus the re-entry of a vacant Briarwood area office building that was removed from our market survey during its renovation. The combined affect accounts for 29% of the total vacancy in the South Office area. Contrary to the statistical vacancy rate increase, this sub-market did see a few office buildings capture new tenants while numerous other buildings remained steady.

The CGMA (Clark-Golfside Medical Area) Office area continued to have the lowest vacancy rate in the market, now at 3.34%.



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The West Office area decreased from 8.12% to the current 4.84% vacancy rate, making it the tightest non-medical office sub-market.

The South Flex area increased in vacancy from 17.01% in December 2006 to the present 18.49%. Many of the buildings in this market area were developed to suit mid to large size high tech companies. This sub-market hasn't seen a single digit vacancy rate since before the 2001 dot-com bust. This sub-market will recover when users of this kind of product experience economic recovery.

The West Flex area vacancy rose from 6.08% in December of 2006 to the current 13.50%. Leasing for the Jackson Road corridor warehouse-like flex buildings was slow this year.

LEASING DEMAND

While the overall vacancy rate remained stable over the past year, the most notable sign of weakness in the Office/Flex market is the reduced new demand for lease space. Building owners with vacancies cannot count on a steady flow of prospective tenants to rent vacant suites at this time, leading to a lengthened time on the market for most properties. Those tenants who are in the market for space have many buildings to choose from, and will likely be courted by landlords offering flexible terms and rent incentives. It is important to note, however, that under the radar there continues to be vibrant and enthusiastic entrepreneurial activity in the Ann Arbor area, which bodes well for the future.

SALES ACTIVITY

Historically, when the Ann Arbor area is experiencing a strong real estate economy it has been difficult for buyers to find properties available for sale. With the weaker economy and higher vacancy rates, there are more buildings available for sale for both owner occupant and investment type buyers. There have been some investment grade property sales at relative high prices this year. Even so, if a property has a high vacancy or below market rents, the property is not likely to sell at a premium.

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.



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ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2007

	Area	# Blds	Gross SF	Vacant SF	Vac %	YE 2006	% Chg.
OFFICE	Downtown	69	1,606,935	199,885	12.44%	15.67%	-3.23%
	North	36	2,436,270	290,049	11.91%	17.29%	-5.39%
	East	35	619,614	72,933	11.77%	12.46%	-0.69%
	CGMA	8	472,349	15,778	3.34%	2.16%	1.18%
	South	70	3,204,688	547,029	17.07%	14.59%	2.48%
	<u>West</u>	<u>14</u>	<u>328,750</u>	<u>15,912</u>	<u>4.84%</u>	<u>8.12%</u>	<u>-3.28%</u>
	Total	232	8,668,606	1,141,586	13.17%	14.48%	-1.31%
FLEX	South	56	2,220,859	410,740	18.49%	17.01%	1.49%
	<u>West</u>	<u>10</u>	<u>384,427</u>	<u>51,900</u>	<u>13.50%</u>	<u>6.08%</u>	<u>7.42%</u>
	Total	66	2,605,286	462,640	17.76%	15.41%	2.35%
OFFICE & FLEX	Downtown	69	1,606,935	199,885	12.44%	15.67%	-3.23%
	North	36	2,436,270	290,049	11.91%	17.29%	-5.39%
	East	35	619,614	72,933	11.77%	12.46%	-0.69%
	CGMA	8	472,349	15,778	3.34%	2.16%	1.18%
	South	126	5,425,547	957,769	17.65%	15.56%	2.09%
	<u>West</u>	<u>24</u>	<u>713,177</u>	<u>67,812</u>	<u>9.51%</u>	<u>7.01%</u>	<u>2.50%</u>
	Total	298	11,273,892	1,604,226	14.23%	14.69%	-0.46%

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; McAuley campus and the Huron River Drive/Golfside-Clark area.
- Buildings:** Includes all identified non-owner-occupied buildings over 3,000 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 2007 rate less the YE 2006 rate.

