



## Swisher Commercial 2008 Year-end Office/Flex Vacancy Report

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Enclosed is **Swisher Commercial's** year-end 2008 survey of vacancy rates for office and flex space in the Ann Arbor area. We surveyed **305 buildings** of 3,000 square feet (sf) or larger, totaling **11.43 million sf**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last sixteen 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, 2008, the total market vacancy rate, including office and flex space, is 14.75%.** This rate is up slightly compared to one year ago, showing an increase of .5%. The Office vacancy rate actually decreased to 12.71% from 13.17% in December 2007, while the Flex vacancy rate increased to 21.32% from 17.76% in December 2007. Our analysis of the eight submarket areas reveals that six of the areas increased in vacancy while the other two areas decreased, although two of the increasing submarkets had changes of only .5%. See the attached vacancy rate analysis for the vacancy rates for each of the eight areas.

### ANALYSIS BY SUB-MARKET

The Downtown Office area vacancy rate moved to 12.95%, just a .5% rate increase from one year ago. The Downtown area remained stable; however demand has not been sufficient to drive rental rate increases or substantial absorption. Interestingly, the Downtown area attracts office tenants similar to the South Office area and some software/high tech tenants similar to the South Flex area, but the Downtown area didn't experience the loss of tenants seen in the South areas.

For the second consecutive year the North Office area vacancy rate dropped by 6%. With the Conway Freight, Inc. occupancy of Earhart Corporate Center and Barracuda renting half of 201 Depot, even with some increased vacancy in other North area buildings, the vacancy rate now stands at 6.09%, compared to 11.91% in December 2007. Note – this report does not take into account the future availability of the 2 million square foot Pfizer facility, as it remains to be seen whether the site will be marketed as a multi-tenant property.

The East Office vacancy rate decreased for the second year in a row from 11.77% last year to 10.68%. Most of the activity is in small office leases, though blocks of office space of 5,000 sf and up are also available in this office market, conveniently located near the US 23 freeway interchange with the Washtenaw Avenue retail strip.

The CGMA (Clark-Golfside Medical Area) Office area continued to have the lowest vacancy rate in the market, now at 3.85%. The higher percentage of medical tenants due to proximity to the McAuley Hospital campus helps this sub-market maintain its high occupancy rate.

The South Office area is distinguished with a second year of having the highest vacancy rate increase of all the office sub-market areas, increasing to 19.92% from just 17.07% in December of 2007. This increase in vacancy can be accounted for by ProQuest's move out of the 777 Eisenhower building and Parametric Technology (formerly Arbortext) moving out of the 1000 Victors Way office building. The rest of the South Office area experienced a balance of losses and gains.



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The West Office area increased from 4.84% vacancy a year ago to the current 6.55% vacancy rate. As a signal to the importance of building location, the Forest Cove Office Park successfully leased 20,000 sf of office space to nine individual tenants over the first 9 months of 2008, leading this, the largest office building in the West area, to 100% occupancy. In a real estate market that has discouraged speculative development, the Forest Cove developer plans to construct a new 16,000 sf office building on its Miller Road-M14 site in the near future.

The South Flex area increased in vacancy from 18.49% in December 2007 to the present 21.11%. Whereas the North Office market was buoyed by Con-way's move, the South Flex area lost a long time tenant, thus contributing to the higher vacancy rate. The South Flex one-story high tech, light industrial and lab spaces have struggled due to the downsizing of area high tech companies.

The West Flex area vacancy jumped to 22.40% from the 13.50% rate of December of 2007. This sub-market was also negatively affected by the Con-way move, with their previous 21,000 sf building now sitting vacant. While the South Flex and West Flex areas experienced a loss, the Con-way move brought a net occupancy gain to the Ann Arbor market as a whole.

## LEASING DEMAND

Is the glass "half full" or "half empty"? While the overall vacancy rate increased only slightly from 12 months ago, we now have the combined two South submarkets with a 20.41% vacancy rate. A 14.75% vacancy rate doesn't exactly reflect a vigorous leasing market, but when compared to other neighboring markets with vacancies over 20%, Ann Arbor is weathering the economic storm relatively well. As reported last year, the most notable sign of weakness in the office/flex market is the reduced demand for vacant lease space. Building owners with vacancies cannot count on a steady flow of prospective tenants to rent vacant suites, 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. In our experience tenants are motivated more than ever to reduce their occupancy costs.

## SALES ACTIVITY

With the weaker economy and higher vacancy rates, there are more buildings available for sale for both owner occupant and investment type buyers. In recent months the lack of availability of commercial loans has made it difficult for some buyers to take advantage of purchase opportunities. Yet, local lenders are reporting that they are still eager to make "good loans", so building sale activity should continue for qualified buyers and quality properties.

**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](mailto:info@swishercommercial.com), or visit our website at [www.swishercommercial.com](http://www.swishercommercial.com).



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## ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2008

	Area	# Blds	Gross SF	Vacant SF	Vac %	YE 2007	% Chg.
<b>OFFICE</b>	Downtown	70	1,613,289	208,984	<b>12.95%</b>	<b>12.44%</b>	0.52%
	North	36	2,436,270	148,440	<b>6.09%</b>	<b>11.91%</b>	-5.81%
	East	35	619,614	66,145	<b>10.68%</b>	<b>11.77%</b>	-1.10%
	CGMA	8	472,349	18,191	<b>3.85%</b>	<b>3.34%</b>	0.51%
	South	71	3,237,322	644,944	<b>19.92%</b>	<b>17.07%</b>	2.85%
	<u>West</u>	<u>15</u>	<u>347,050</u>	<u>22,742</u>	<u><b>6.55%</b></u>	<u><b>4.84%</b></u>	<u>1.71%</u>
	<b>Total</b>	<b>235</b>	<b>8,725,894</b>	<b>1,109,446</b>	<b>12.71%</b>	<b>13.17%</b>	<b>-0.45%</b>
<b>FLEX</b>	South	59	2,272,309	479,735	<b>21.11%</b>	<b>18.49%</b>	2.62%
	<u>West</u>	<u>11</u>	<u>435,627</u>	<u>97,574</u>	<u><b>22.40%</b></u>	<u><b>13.50%</b></u>	<u>8.90%</u>
	<b>Total</b>	<b>70</b>	<b>2,707,936</b>	<b>577,309</b>	<b>21.32%</b>	<b>17.76%</b>	<b>3.56%</b>
<b>OFFICE &amp; FLEX</b>	Downtown	70	1,613,289	208,984	<b>12.95%</b>	<b>12.44%</b>	0.52%
	North	36	2,436,270	148,440	<b>6.09%</b>	<b>11.91%</b>	-5.81%
	East	35	619,614	66,145	<b>10.68%</b>	<b>11.77%</b>	-1.10%
	CGMA	8	472,349	18,191	<b>3.85%</b>	<b>3.34%</b>	0.51%
	South	130	5,509,631	1,124,679	<b>20.41%</b>	<b>17.65%</b>	2.76%
	<u>West</u>	<u>26</u>	<u>782,677</u>	<u>120,316</u>	<u><b>15.37%</b></u>	<u><b>9.51%</b></u>	<u>5.86%</u>
	<b>Total</b>	<b>305</b>	<b>11,433,830</b>	<b>1,686,755</b>	<b>14.75%</b>	<b>14.23%</b>	<b>0.52%</b>

### 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 2008 rate less the YE 2007 rate.

