



Swisher Commercial

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SWISHER COMMERCIAL June 2005 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** mid-year survey of vacancy rates for office and flex space in the Ann Arbor area. We hope the report will help you better understand the current market and assist in planning your future real estate decisions. We surveyed **286 buildings** of 3,000 square feet (sf) or larger, totaling **10.6 million sf**. Our report includes a breakdown of vacancy rates by submarket, and charts the vacancy trends over the last twelve years.

As of June 30, 2005, the total market vacancy rate was 12.56%. This rate is nearly identical to the vacancy rate we reported six months ago. As you will see, the Ann Arbor area market is fluid, even when the overall vacancy rate is statistically unchanged.

ANALYSIS BY SUBMARKET

Compared to December 31, 2004, four of the submarket areas were, for all practical purposes unchanged: namely the Downtown office, East office, West office and West flex. The North office area vacancy increased dramatically while the South office, the CGMA office and South flex areas decreased. See the attached vacancy rate analysis for the exact vacancy rates for these areas.

The North office area had the largest increase in vacancy, from 1.04% six months ago to its current 8.61%. This increase is due almost entirely to the addition of the nearly 300,000 sf that Domino's Farms added during their last building phase, which added 165,000 sf of vacant office space to this submarket. This increase, however, does not indicate soft demand for space. Without this large influx of available office space, the North office area vacancy rate would be 1.36%.

The South flex area vacancy rate decreased from 18.34% to 15.15%. This is the first time since 1999 that our report showed a vacancy decrease in this area. Time will tell if this change in direction will result in a turnaround for the beleaguered South flex submarket.

The South office area also tightened significantly in the last six months, moving from a 17.92% to a 15.57% vacancy rate. The biggest contributor to this statistical change is State Street Commons. Their 130,000 sf Phase II building was added to the market in 2005 and is already fully leased.

The Clark Golfside Medical area vacancy decreased from 8.14% in our last report to the current 5.57%.

The vacancy rate in this report does not include suites available for sublease. However, **Swisher Commercial** still tracks this important market component. Last year we reported 206,000 sf of sublease space in the market. The available sublease space has decreased to less than 150,000 sf over the last six months, a trend we expect will continue.

NEW CONSTRUCTION

We are anticipating that the remainder of 2005 will bring another 60,000 sf of new construction to the market, depending on construction schedules and leasing demand. 2006 may bring an additional 250,000 sf. The largest of these new construction projects are:

- State Street Executive Park's newest 60,000 sf office building is expected to be complete late in 2005.
- Transwestern's 110,000 sf building for Proquest at the 777 Eisenhower campus will be completed in 2006.
- The 15,000 sf Covington Office Building on Ellsworth Road is expected in 2006.
- 760 W. Eisenhower, a 24,000 sf medical/office building, is due in early 2006.
- Kojaian's 200,000 sf+ project on Earhart Road, due for completion in 2006.

LEASING DEMAND

Demand for lease space in the first half of 2005 was steady, neither expanding nor contracting significantly.

- Class A office experienced some absorption, though not high in volume.
- The class B office market (best characterized by smaller suite sizes) area was notably slow. Historically there are five prospective small tenants for every one large tenant looking for space. This formula has not been the rule over the last couple of years.
- The flex market improvement resulted from movement by some Class A tenants to flex buildings in order to take advantage of the generally lower rental rates. Additionally, we saw a slight reemergence of high-tech businesses needing space.
- Uncertainty in the market was evidenced by the many tenant's who sought to keep rental rates low and lease commitments short.

SALES ACTIVITY

Sales activity at **Swisher Commercial** continued to be strong in the first half of 2005. Investors are still seeking high quality income properties, and owner/users continue to take advantage of low interest rates. The result is that demand still outstrips supply for the purchase of commercial buildings.

Swisher Commercial is dedicated to helping you 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. Our firm understands the greater Ann Arbor market, including Ypsilanti, Saline, Chelsea and Dexter, and is committed to serving the long-term needs of the business community.

Expanding our area of service, **Swisher Commercial** recently opened a branch office in Lenawee County where we will provide the same level of expertise that our clients have come to expect. 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, please 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, Michigan
June 30, 2005



OFFICE AND FLEX SPACE VACANCY TRENDS ANN ARBOR AREA MID-YEAR ENDING JUNE 30, 2005

	Area	# Blds	Gross SF	Vacant SF	Vac. %	YE	%
						2004	Chg.
OFFICE	Downtown	70	1,461,117	194,338	13.30%	13.09%	0.21%
	North	34	2,221,578	191,353	8.61%	1.04%	7.58%
	East	36	658,711	88,467	13.43%	12.28%	1.15%
	CGMA	8	498,614	28,780	5.77%	8.14%	-2.36%
	South	61	2,802,861	436,397	15.57%	17.92%	-2.35%
	<u>West</u>	<u>13</u>	<u>299,450</u>	<u>14,171</u>	<u>4.73%</u>	<u>3.99%</u>	<u>0.74%</u>
	Total	222	7,942,331	953,506	12.01%	11.08%	0.93%
FLEX	South	54	2,257,797	339,926	15.06%	18.34%	-3.29%
	<u>West</u>	<u>10</u>	<u>397,352</u>	<u>37,700</u>	<u>9.49%</u>	<u>8.98%</u>	<u>0.50%</u>
	Total	64	2,655,149	377,626	14.22%	16.91%	-2.69%
OFFICE & FLEX	Downtown	70	1,461,117	194,338	13.30%	13.09%	0.21%
	North	34	2,221,578	191,353	8.61%	1.04%	7.58%
	East	36	658,711	88,467	13.43%	12.28%	1.15%
	CGMA	8	498,614	28,780	5.77%	8.14%	-2.36%
	South	115	5,060,658	776,323	15.34%	18.10%	-2.76%
	<u>West</u>	<u>23</u>	<u>696,802</u>	<u>51,871</u>	<u>7.44%</u>	<u>6.73%</u>	<u>0.72%</u>
	Total	286	10,597,480	1,331,132	12.56%	12.51%	0.05%

ASSUMPTIONS

1. 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.
2. Buildings: Includes all identified non-owner-occupied buildings over 3,000 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 MYE 2005 rate less the YE 2004 rate.

