

## Wide-open spaces

### Broker report: 1M square feet on market

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Office leasing in Ann Arbor at the end of 2003 showed gains in the northeast part of the city and the highest vacancy rate for downtown since 1995, according to a new report released by Swisher Commercial.

Overall leasing also yielded the area's highest vacancy rate in eight years, with about 10.3 percent of the combined office and flex space on the market — or nearly 1.05 million square feet — available for lease.

The stagnant market continued when factoring in sublease space, giving the area an effective vacancy rate of 12.9 percent, identical to the end of 2002.

New space coming online in 2004 is expected to further soften the market. That could be most acute in the south sector of Ann Arbor, which includes Briarwood and South State Street. Already in that area, empty tech buildings and the upcoming 110,000-square-foot vacancy in Eisenhower Plaza at 777 Eisenhower pose their own challenges in a market driven by leases under 4,000 square feet.

Still, while the Ann Arbor leasing market lacks the urgency of the dot-com years, some brokers point to a national commercial vacancy rate of 16.3 percent and note that this area had pockets of activity that yielded improvements.

"I think we're at a point of stability," said Doug Smith, vice president at Swisher.

The Swisher report offers the most comprehensive glimpse of the local leasing market, with agents calling owners or representatives of 282 buildings during the last two months of 2003.

The report will be distributed to more than 800 people in related industries, such as banking and law.

Among the gains noted in the report:

- The north market, dominated by the Plymouth Road corridor, which closed its vacancy percentage by half, cutting it to 3.03 percent. This is the second-largest office sector, with more than 2 million square feet.

- The east market, namely Washtenaw Avenue, Carpenter Road and Packard, where the vacancy dropped to just under 10 percent from 10.29 percent.

- The south office market, the city's largest with 2.6 million square feet, where the vacancy rate dropped to 10.4 percent.

"That the north side filled as rapidly as it did comes as a pleasant surprise," said Mike Giraud, associate broker at Swisher.

However, that happened without a comparable increase in leasing in the south market, said Jeff Harshe, also an associate broker at Swisher. Those markets tend to have buildings that appeal to similar users, though the prices vary from \$13-14 per square foot in the south market to the low \$20s per square foot in the north.

Downturns were recorded in other areas, particularly when factoring in flex buildings, or the high-tech buildings that blend office space with loading docks and other industrial configurations.

- Flex space vacancy totaled about 14 percent, or 381,708 square feet. That includes several spec and vacant buildings along the South State Street corridor.

- Vacancy in the overall west market, including Jackson Road, increased three percentage points to 7.95 percent.

- The Clark Road-Golfside Road medical area near St. Joseph Mercy Hospital yielded a 10.6 percent office vacancy, up from 8.32 percent.

Downtown Ann Arbor office space forms the third-largest sector in the market, with 1.4 million square feet. Its vacancy rate of 12.95 percent means nearly 190,000 square feet is available, with another 26,000 hitting the market at the end of January when All Media Group vacates offices at 301 E. Liberty St.

That doesn't include sublease space such as 60,000 square feet in the former Tally Hall and 40,000 square feet in the former Jacobson's building, said Neal Warling, senior vice president at Grubb & Ellis.

Downtown demand peaked in 2000, Warling said, when the Internet-related startup boom surged. That sent the vacancy rate plunging below 2 percent.

That many of those companies vanished or contracted doesn't mean downtown has lost its luster.



ROBERT RAMEY

Swisher's Jeff Harshe (left), Mike Giraud and Doug Smith: Deep look at Ann Arbor's leasing market.

"Amenities downtown are just so plentiful and attractive, they offset the negative," Warling said, noting the city's many restaurants and services downtown.

Rates downtown seem to be holding fairly steady, Warling said, ranging near the mid-\$20s per square foot.

Parking may be the key issue downtown, with tenants seeking to work with landlords that could add \$2-3 per square foot to the base rent, depending on lease negotiations.

Susan Pollay, director of the Ann Arbor Downtown Development Authority, said businesses that need parking for employees in the seven city structures pay \$105 per month per space. Some structures have waiting lists, but the DDA said they have few reports of problems with parking downtown.

Pollay said she's watching the vacancies for impact in other areas, since a drop in employees can have ripple effects in restaurants, shops and services that attract business customers.

"The challenge for downtown is that the increase of office space in the marketplace — good office space — is obviously going to be a good competitor to what's

downtown. People who were once naturally downtown will have to make a choice," Pollay said.

That dynamic is affecting downtown leasing, Harshe said.

Many brokers report an up-tick in leasing interest, and they hope that results in deals during the first half of this year. Prospective tenants continue to scrutinize their options and visit multiple sites before making a decision, drawing out the leasing process.

That's what happened with many of the First Martin Corp. buildings near Plymouth Road, where leases with M-Care Inc. and Ideation powered the sector's climb in 2003.

"Our first sign of recovery is when people from out of town start looking for office space in Ann Arbor, and we haven't seen that yet," said Chris Grant, First Marin senior vice president. "I'm confident the economy will turn around," he said, "but we won't be starting to build any new office buildings soon."

Paula Gardner covers real estate and development for Business Direct Weekly.