

Local office market stable, survey shows

BY PAULA GARDNER

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The Ann Arbor office market shows only a marginal change in its overall vacancy rate from 2004, according to an annual year-end survey by Swisher Commercial.

With a total market vacancy of 12.6 percent, Ann Arbor remains a leader among major business centers in the state as other areas grapple with rates from 17 percent in Grand Rapids to more than 25 percent in Detroit.

Yet some brokers say they're surprised by the local rate, given the area's soft leasing climate in the fourth quarter and ongoing concerns about pending vacancies as tenants complete moves, buildings shift to multi-tenant properties and new construction is completed.

"There are some indicators that make me feel (that the numbers could have been worse)," said Bart Wise, vice president at Swisher. "Primarily, that's the softness in the new demand for space ... yet the statistics show the same vacancy rate."

Swisher completed the study in mid-December after surveying 291 buildings of 3,000 square feet or larger, totaling 10.9 million square feet. Not included in the report were offices available for sublease or buildings that were owner-occupied.

The study follows a year where many of the bigger deals involved tenants moving from one office to another without significant gains in office size. An example is Creative Solutions, which vacated offices on South State Street to set up new facilities in a long-vacant building in Avis Farms.

New tenants in the market were limited. Among the larger deals that

represent absorption – or a reduction in the area's available space – were the signing of Google Inc. to a 40,000 square foot office in Eisenhower Commerce Center and Affinia, a Dana Corp. spinoff company, leasing 15,000 square feet for its new corporate headquarters.

Wise said the year-end report showed some stability that gives him optimism that the overall market – which has lagged for four years – finally may have bottomed out and is ready to turn around.

The stability comes from the medium and larger companies that are staying in their existing facilities, Wise said.

That in turn kept new vacancies minimal. At the same time, sublease space has returned to the market as direct-lease opportunities, and the vacancy numbers reflect the market absorbing that, Wise said.

What brokers and building owners are waiting for, Wise said, is new demand.

"We see tenants being cautious," he said. "They're still trying to be very careful about how they spend their money.

"...That means landlords have to be as creative as they can and as aggressive as they can to attract tenants."

One of the largest office owners in Ann Arbor is First Martin Corp., which operates nearly 1 million square feet of commercial space and is building a 27,000-square-foot speculative office on Depot Street.

Vice president Chris Grant said he's been watching the building go up as he braces for uncharacteristic vacancies in some of the company's downtown properties. They include the Allmendinger Building and the First National Building, which is losing accounting firm Wright, Grif-

fin, Davis & Co.

Downtown had a slight improvement in its year-end vacancy, going from 13.09 percent to 12.49 percent. Grant said landlords see little likelihood that big companies will move in to fill the larger floorplates.

He adds: "I can't think of any downtown office user that's expanding."

Yet that doesn't mean that any owners consider the trend a crisis, Grant said.

"There is a multitude of owners downtown, and nobody with a substantial portion of the market," he said. "If we're all 15 percent vacant, it doesn't hurt any of us. ... We're long-term players in the real estate market, and we've been through many cycles before."

Still, by a mid-2006 vacancy update, some of the owner-occupant dynamics in the Ann Arbor office market may change, since multiple building sales are possible during the coming year. They include the headquarters of Flint Ink and Dobson-McOmer, which – if buyers convert them to multi-tenant buildings – could add 150,000 square feet to the area's leasing market.

That is already playing out in downtown Ann Arbor's former TCF Bank regional headquarters, which McKinley Associates bought in early 2005. TCF is vacating its space for new offices in Livonia as McKinley converts the building to a multi-tenant, mixed-use building.

That means that by the end of 2006, the McKinley Towne Centre's 100,000 square feet of offices will be added to the gross square footage in the Swisher survey – and that local brokers will be looking to lease that much space just for the market to stay even with 2005 numbers.

New spec construction will be coming online, too. In addition to the First Martin building, it includes:

■ The 200,000-square-foot Earhart Corporate Center by the Kojaijan Co. at U.S. 23 and Plymouth Road. No leases have been announced, and the floor plates have been adjusted to accommodate multiple tenants.

■ A 16,000-square-foot addition to Forest Cove Office Park.

■ The 15,000-square-foot Covington Office Building on Ellsworth Road.

Domino's Farms added more than 200,000 square feet of spec construction to its office center in Ann Arbor Township in mid-2005. The timing was aggressive, given the market, but the building also fulfilled owner Tom Monaghan's original vision for the building.

It's an investment that appears to be paying off, as about one-third of the space has commitments. The north office market's vacancy rate reflects the addition of the space, but it remains one of the most vibrant submarkets in Ann Arbor: the vacancy rate was just under 7 percent, according to Swisher.

Doug Smith, also a vice president of Swisher, said he and his co-workers got no sense from building owners that large pending changes were going to strike the area during 2006.

"Owners in Ann Arbor worry about the level of vacancy that we have but we're still ahead of other markets," Smith said. "I think we're doing all right."

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