



Swisher Commercial

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SWISHER COMMERCIAL YEAR ENDING 2004 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** twelfth annual 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 you in planning your real estate decisions for the future. We surveyed **284 buildings** of 3,000 square feet (sf) or larger, totaling over **10.4 million sf**. Our report includes a breakdown of vacancy rates by submarket and charts the vacancy trends over the last twelve years.

As of December 31, 2004, the total market vacancy rate, including office and flex space, is 12.5%, notably higher than the 10.3% of one year prior. A closer analysis of the individual submarkets and the available sublease space, however, reveals a stronger market over the past year than the vacancy rate may suggest.

Over the past year, only four of the eight submarket areas surveyed increased in vacancy (the South and East Office markets, and the South and West Flex markets), while three decreased (the North, West and Clark-Golfside Medical Area Office markets), and one remained flat (the Downtown Office market).

A closer look into the two submarkets with the highest vacancy rates (South Office and South Flex) is worthwhile because of their significant impact on the total market vacancy rate. The South Office submarket had the largest increase in vacancy, from 10.4% a year ago to its current 17.9%. However, this increase does not indicate widespread softness in this region. Actually, it is the result of changes in the vacancy status of just three buildings. First, a 125,000 sf vacancy at the 777 Eisenhower building resulted from the ABN AMRO move to its new headquarters on South State Road at Textile. Second, the 555 Briarwood building has a new 26,000 sf vacancy. And third, one building in Avis Farms now has an 85,000 sf vacancy.

The South Flex submarket has the highest vacancy rate, at 18.3%. Once again, however, the vacancy is not reflective of overall market softness. In fact, it can be attributed to three major factors. First, most flex buildings were designed and built to satisfy demand for space from high tech companies. Many of these businesses have decreased in size, or disappeared from the market altogether. Second, some flex buildings were vacated by tenants years ago, but the landlords still collected rent for the remainder of the lease terms, which are now expiring. Last, a strong "non-high tech" demand for the larger blocks of space typified by the South Flex market has not materialized.

A closer look at the sublease market provides additional insight into the overall market vacancy rate. Available sublease space is not included in the vacancy rate, but **Swisher Commercial** still tracks this important market component. Last year 265,000 sf of sublease space was on the market. This year only 206,000 sf is available. As anticipated in past reports, sublease space is now reverting back to building owners as leases on unoccupied spaces expire. This has influenced the vacancy rate this year because much of the 59,000 sf reduction in sublease space was simply a conversion into direct vacant space.

Other market observations are also worth noting. The Class A office market was the most robust sector, overall. South State Commons and Burlington Office Center (South Office submarket), and 301 East Liberty (Downtown Office submarket) all showed significant absorption, primarily with small and medium sized tenants. By contrast, the Class B office market, best characterized by the East Office submarket, was slow.

New construction provided significant additions to the market in 2004, as well, with the completion of the 255,000 sf ABN AMRO building, and 32,000 sf Concourse Office Center, developed by Guenther Building Company. 2005 will bring more new projects into the market, also, with the following anticipated building completions:

- ▶ Domino's Farms 226,000 sf final phase (with just 150,000 sf available for lease to third party tenants);
- ▶ MAV Development's 120,000 sf phase II at South State Commons, with all but 35,000 sf preleased; and
- ▶ McMullen Company's newest 14,000 sf building at the Valley Ranch Business Park.

Sale activity at Swisher Commercial was strong again in 2004. Investors continue to seek properties, while historically low interest rates make purchasing a viable, and often desirable, alternative to leasing for some companies. The result is that demand for purchase continues to outstrip the supply of commercial buildings for sale.

Swisher Commercial is dedicated to helping you make informed real estate decisions. Our brokerage efforts continue to yield creative solutions that lead to 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, and are committed to serving its needs. We look forward to assisting you with your lease, purchase or sale, investment, property management and advisory needs in the future.

If you have any questions or suggestions, please feel free to contact **Swisher Commercial** by telephone at (734) 663-0501 or by e-mail at info@swishercommercial.com, or visit our website at www.swishercommercial.com.

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Building relationships.



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OFFICE AND FLEX SPACE VACANCY TRENDS ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2004

	Area	# Blds	Gross SF	Vacant SF	Vac. %	Last Year	% Chg.
OFFICE	Downtown	70	1,456,983	190,771	13.09%	12.95%	0.15%
	North	34	1,987,890	20,630	1.04%	3.03%	-1.99%
	East	36	658,711	80,869	12.28%	9.97%	2.30%
	CGMA	8	491,947	40,025	8.14%	10.66%	-2.52%
	South	61	2,924,861	524,012	17.92%	10.40%	7.51%
	<u>West</u>	<u>14</u>	<u>323,450</u>	<u>12,921</u>	<u>3.99%</u>	<u>7.70%</u>	<u>-3.71%</u>
	Total	223	7,843,842	869,228	11.08%	8.76%	2.32%
FLEX	South	52	2,165,272	397,182	18.34%	15.80%	2.55%
	<u>West</u>	<u>9</u>	<u>391,852</u>	<u>35,200</u>	<u>8.98%</u>	<u>8.12%</u>	<u>0.86%</u>
	Total	61	2,557,124	432,382	16.91%	14.64%	2.27%
OFFICE & FLEX	Downtown	70	1,456,983	190,771	13.09%	12.95%	0.15%
	North	34	1,987,890	20,630	1.04%	3.03%	-1.99%
	East	36	658,711	80,869	12.28%	9.97%	2.30%
	CGMA	8	491,947	40,025	8.14%	10.66%	-2.52%
	South	113	5,090,133	921,194	18.10%	12.87%	5.23%
	<u>West</u>	<u>23</u>	<u>715,302</u>	<u>48,121</u>	<u>6.73%</u>	<u>7.95%</u>	<u>-1.22%</u>
	Total	284	10,400,966	1,301,610	12.51%	10.26%	2.25%

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 YE 2004 rate less the YE 2003 rate.

