



Swisher Commercial

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SWISHER COMMERCIAL June 2006 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** mid-year 2006 survey of vacancy rates for office and flex space in the Ann Arbor area. We surveyed **295 buildings** of 3,000 square feet (sf) or larger, totaling over **11 million sf**. Our report includes a breakdown of vacancy rates by submarket and charts the vacancy trends over the last thirteen years. We hope the report will help you better understand the current market and assist you in planning your real estate decisions for the future

As of June 30, 2006 the total market vacancy rate, including office and flex space, is 13.2%. While this rate is only .6% higher than we reported last December and .7% higher than one year ago, it represents the highest total market vacancy rate since Swisher Commercial began its vacancy reports in 1994. The total market vacancy rate has been on an upward trend since 1999.

ANALYSIS BY SUBMARKET

Compared to December 31, 2005 the vacancy rate for the North office, Downtown office, West office, and South flex areas increased while the vacancy rate for the East office, South office, West flex, and the CGMA office submarkets decreased slightly. See the attached vacancy rate analysis and chart for details.

The North office area had the largest increase in vacancy, from 6.96% six months ago to its current 9.80%. Even with this increase, the North office submarket vacancy rate is still below the average for the total market. This vacancy rate will likely increase when the Earhart Corporate Center is completed later this year unless the 200,000 sf building comes on-line with substantial pre-leasing.

The South office area vacancy rate decreased compared to year-end 2005, moving from 14.58% to 13.29% vacancy. The improvement in this market was earned in part due to Proquest moving out of buildings categorized as South flex into office space in the South office area.

The South flex area vacancy rate increased from 18.20% six months ago to 19.87%, representing the highest vacancy rate for this sector since 1994. The owners of the South area flex buildings appear to be eager to deal with prospective tenants, but new tenants are hard to come by.

The Clark Golfside Medical Area (CGMA) vacancy decreased from 8.51% last December to 5.05%. This reinforces our perceptions that the medical/health industry is more resilient to the sluggish economy than other industries.

The West office vacancy rate increased slightly from 5.77% to 6.17% and the West flex vacancy rate decreased from 8.75% to 6.66%. The vacancy rates of less than 7% in the west area reflect a limited supply of product and general bullishness for West Ann Arbor and Scio Township.

The East office vacancy decreased from 12.51% to 11.21%. A leasing rally this spring helped breath some fresh life into this submarket and it's collection of smaller Class B office buildings.

The Downtown Ann Arbor vacancy rate jumped from 12.49% last December to 14.74%. The Downtown area did lose another notable tenant when Plante & Moran moved to South State Street, but our research shows that the increase in vacancy over the last six months is spread over a dozen or more buildings whose vacancies increased moderately.

SUBLEASE SPACE

The vacancy rates in this report do not include suites available for sublease. However, **Swisher Commercial** still tracks this important market component. Last December we reported 100,000 sf of sublease space in the market. Today there is over 225,000 sf of sublease space available.

NEW CONSTRUCTION

New construction added over 150,000 sf of leaseable space to the market during the first half of 2006 including the new Proquest office building on Eisenhower, the Covington Office building on Ellsworth Road, the Eisenhower Professional Center, and a small office building on West Liberty Street.

We are anticipating that in the second half of 2006 new construction will add at least another 350,000 sf to our survey with the completion of the Earhart Corporate Park, State Street Executive Park, and First Martin's 201 Depot office building. Depending on construction schedules and leasing demand there could be another 200,000 sf of new construction arriving in 2007.

LEASING DEMAND

Demand for lease space in the first six months of 2006 has been lighter than in 2005. Although there has been a recent flurry of smaller office deals, many of them have been short-term leases. There has been an absence of the higher profile larger tenants that we saw making lease commitments last year.

Compared with other SE Michigan communities who are reporting vacancy rates of 18-22%, the Ann Arbor area office market is still healthy. Despite the poor condition of Michigan's economy, the Ann Arbor vacancy rates continue to be below national averages according to NAR/Realtors Commercial Alliance. However, taking into account the increase in supply that this year's new construction will bring, without an increase in tenant demand, vacancy rates in Ann Arbor are likely to increase further by the time the next Swisher Commercial report is conducted in December of 2006.

SALES ACTIVITY

Sale activity at Swisher Commercial continues to be strong so far in 2006. The future will tell whether the increased vacancy rates will slow down investors, or to what degree increasing interest rates will be a hindrance to buyer/occupants.

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 Ann Arbor, Ypsilanti, Saline, Chelsea, Dexter, and Lenawee County markets, 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.

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

SWISHER COMMERCIAL

Building relationships.

Ann Arbor, Michigan
June 30, 2006



OFFICE AND FLEX SPACE VACANCY TRENDS ANN ARBOR AREA MID-YEAR ENDING JUNE 30, 2006

	Area	# Blds	Gross SF	Vacant SF	Vac. %	YE	%
						2005	Chg.
OFFICE	Downtown	70	1,499,662	221,024	14.74%	12.49%	2.24%
	North	34	2,221,578	217,621	9.80%	6.96%	2.84%
	East	37	688,511	77,177	11.21%	12.51%	-1.30%
	CGMA	8	498,614	25,200	5.05%	8.51%	-3.46%
	South	67	3,280,354	435,816	13.29%	14.58%	-1.30%
	<u>West</u>	<u>15</u>	<u>322,950</u>	<u>19,936</u>	<u>6.17%</u>	<u>5.77%</u>	<u>0.41%</u>
	Total	231	8,511,669	996,774	11.71%	11.28%	0.43%
FLEX	South	54	2,236,074	444,354	19.87%	18.20%	1.68%
	<u>West</u>	<u>10</u>	<u>384,427</u>	<u>25,590</u>	<u>6.66%</u>	<u>8.57%</u>	<u>-1.91%</u>
	Total	64	2,620,501	469,944	17.93%	16.80%	1.13%
OFFICE & FLEX	Downtown	70	1,499,662	221,024	14.74%	12.49%	2.24%
	North	34	2,221,578	217,621	9.80%	6.96%	2.84%
	East	37	688,511	77,177	11.21%	12.51%	-1.30%
	CGMA	8	498,614	25,200	5.05%	8.51%	-3.46%
	South	121	5,516,428	880,170	15.96%	16.12%	-0.16%
	<u>West</u>	<u>25</u>	<u>707,377</u>	<u>45,526</u>	<u>6.44%</u>	<u>7.31%</u>	<u>-0.87%</u>
	Total	295	11,132,170	1,466,718	13.18%	12.62%	0.55%

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 MY 2006 rate less the YE 2005 rate.

