



Swisher Commercial

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SWISHER COMMERCIAL YEAR ENDING 2003 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** eleventh 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 **282 buildings** of 3,000 square feet (sf) or larger, totaling over **10.2 million sf**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last eleven years.

As of December 31, 2003, the total market vacancy rate, including office and flex space, was 10.3%, slightly higher than the 9.9% from one year prior. When compared to the national commercial vacancy rate of 16.3%, the local rate is still relatively attractive.

The vacancy rate for office space alone was 8.76%, almost unchanged from the 8.74% rate as of December 31, 2002. The flex space vacancy rate was 14.6%, up from 13.2% in 2002. As noted in the attached comparative analysis, the **most dramatic changes were in the North and Downtown geographic areas: the North vacancy rate was cut in half, while the Downtown rate almost doubled**. The West and CGMA (Clark-Golfside Medical Area) areas softened slightly compared to last year, while the East and South markets held steady.

For the purposes of this report, the vacancy of a building does not include suites available for sublease. However, we still track this important market component. Last year we reported 300,000 sf of sublease space in the market. This year the sublease number decreased to 265,000 sf. **If the sublease space currently available were added to the total vacancy rate, this "wind chill factor" would increase the effective vacancy rate from 10.3% to 12.9% – identical to last year's combined figure of 12.9%**. Interestingly, the majority of the sublease suites are large blocks of space located in the South State Street corridor where significant rent concessions are available on sublease spaces of 7,000 or more sf.

Similar to 2002, about **110,000 sf of newly constructed office and flex space came on line in 2003**, a relatively small amount. This suggests that developers felt there was enough existing vacant product to satisfy demand. However, **2004 signals an end to this trend with four new buildings totaling over 600,000 sf slated for completion**. They include: 1. Domino's Farms' 226,000 sf final phase; 2. MAV Development's 120,000 sf second building at South State Commons; 3. Guenther Building Company's 32,000 sf Concourse Office Building, off South State Street near the Airport, and; 4. Avis Farm South's completion of its 255,000 sf building to be occupied by ABN AMRO Mortgage Group. MAV reports that 82,000 square feet of its new building is pre-leased, and Domino's is actively negotiating with an office tenant who would occupy all of its new phase.

In general, leasing demand in 2003 was inconsistent, **but the year ended with an air of optimism as the fourth quarter showed a surge in closed leases.** However, despite the strong late-year activity and the good pre-leasing activity in the new construction, the large volume of new space, combined with ABN AMRO vacating 110,000 sf in the 777 Building on Eisenhower, **suggests the office market will remain soft in the near term.** The local vacancy rate will improve only as area businesses continue to grow and expand into larger office quarters, and as new businesses choose to locate in our relatively healthy economic area.

Sale activity at Swisher Commercial was strong in 2003. Investors continue to look for quality income properties and owner-occupant's continue to take advantage of low interest rates. The result is that there are still far more potential purchasers of commercial buildings than buildings for sale.

Swisher Commercial helps it's clientele 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 greater Ann Arbor market including Ypsilanti, Saline, Chelsea and Dexter, and are committed to serving the long-term needs of its 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 us at (734) 663-0501, e-mail at info@swishercommercial.com, or visit our website at www.swishercommercial.com if you have any questions or suggestions.

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Ann Arbor, Michigan
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OFFICE AND FLEX SPACE VACANCY TRENDS ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2003

	Area	# Blds	Gross SF	Vacant SF	Vac. %	Last Year	% Chg.
OFFICE	Downtown	70	1,460,834	189,109	12.95%	7.60%	5.34%
	North	34	2,069,419	62,622	3.03%	6.61%	-3.58%
	East	37	658,711	65,695	9.97%	10.29%	-0.32%
	CGMA	8	498,614	53,154	10.66%	8.32%	2.34%
	South	59	2,635,361	274,138	10.40%	11.24%	-0.84%
	<u>West</u>	<u>13</u>	<u>288,450</u>	<u>22,225</u>	<u>7.70%</u>	<u>5.66%</u>	<u>2.05%</u>
	Total	221	7,611,389	666,943	8.76%	8.74%	0.02%
FLEX	South	52	2,214,957	349,883	15.80%	14.68%	1.12%
	<u>West</u>	<u>9</u>	<u>391,852</u>	<u>31,825</u>	<u>8.12%</u>	<u>4.35%</u>	<u>3.77%</u>
	Total	61	2,606,809	381,708	14.64%	13.18%	1.47%
OFFICE & FLEX	Downtown	70	1,460,834	189,109	12.95%	7.60%	5.34%
	North	34	2,069,419	62,622	3.03%	6.61%	-3.58%
	East	37	658,711	65,695	9.97%	10.29%	-0.32%
	CGMA	8	498,614	53,154	10.66%	8.32%	2.34%
	South	111	4,850,318	624,021	12.87%	12.90%	-0.04%
	<u>West</u>	<u>22</u>	<u>680,302</u>	<u>54,050</u>	<u>7.95%</u>	<u>4.90%</u>	<u>3.04%</u>
	Total	282	10,218,198	1,048,651	10.26%	9.91%	0.35%

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 2003 rate less the YE 2002 rate.

