



Swisher Commercial

David L. Hamilton, CCIM
John Swisher III
Ronald Dankert
Barton Wise
Douglas Smith, CCIM
Mike Giraud
John Evans

Tony Caprrese
Jeff Evans
Randy Maas
Charlie Koenn
Gretchen Driskell
Joseph Palms
Mike Jurgenson, CCIM

SWISHER COMMERCIAL DECEMBER 2013 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** 21st annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2013. We surveyed **318 buildings** of 5,000 square feet or larger, totaling over **12 million square feet**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 21 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.

As of December 31, 2013, the total market vacancy rate for office and flex space is 10.53%, a 1.25% decrease in vacancy from one year ago. The office vacancy rate decreased from 10.65% one year ago to 9.27%, while the flex vacancy rate decreased slightly, with a drop from 15.02% to 14.07%. Our analysis of the eight sub-market areas reveals that four of the areas decreased in vacancy, while four increased. The last page of this report is our statistical analysis of the vacancy rates for each of the eight areas.

The **Downtown Office Area (DOA)** vacancy rate showed a significant drop to 6.78%, which is 2.99% lower than last year indicating that office-space users are attracted to downtown Ann Arbor. Ann Arbor's technology companies, particularly software development firms, seek the benefits of creative office space in the midst of downtown Ann Arbor's flourishing urban-life and dining environment. As in past years, the DOA benefited from new businesses moving downtown and from existing businesses adding employees and expanding. If this absorption rate continues, the availability of downtown office space will be limited.

The **North Office Area (NOA)** vacancy rate increased marginally from 4.82% in 2012 to 5.04% this year. The North Office Area has a low rate of vacancy and in 2013 didn't have as much activity as in 2012. Of the 35 buildings surveyed 22 buildings had no significant change to their occupancy status. The remaining buildings were evenly split between those gaining occupancy and those increasing in vacancy.

The **East Office Area (EOA)** vacancy rate increased to 18.87% from last year's 16.56%. This is the second year of significant vacancy rate increase for the East Area's Class B office buildings. Interestingly, no single building saw more than a 4,000 square foot increase in vacancy. However, one-third of the EOA's 36 buildings increased slightly in vacancy. Swisher Commercial brokers speculate that the service sector businesses that predominantly populate the EOA didn't experience the same growth as seen in local high-tech companies, while other EOA businesses moved to more expensive Class A buildings, both of which led to lower demand for office space in the EOA.

The **CGMA (Clark-Golfside Medical Area) Office Area** vacancy rate increased from 7.07% in 2012 to 8.28% in 2013. History has shown that the vacancy rate for the medical and office suites near the hospital rarely changes by more than 1% to 1.5% from year to year.

The **South Office Area (SOA)** vacancy rate decreased to 12.28% for 2013, which is significantly lower than the 15.13% vacancy rate in 2012. Seven of the larger South Office Area buildings saw vacancy reductions of 10,000 square feet or more. Some of these newly leased buildings have quality office suites which sat vacant for multiple years due to the recession. The South Office Area exhibited a healthy absorption of space in 2013.

The **South Flex Area (SFA)** vacancy rate decreased for the fourth year in a row, dropping from 15.73% in 2012 to 14.52% in 2013. The SFA was the hardest hit by the recession of 2008, but now is making one of the strongest comebacks of the eight surveyed areas. Swisher Commercial brokers report that innovative research and high-tech companies are growing, expanding and renting space in the SFA. Many buildings in this area combine office space with overhead door access and high-ceiling shop space. This type of building suits the specific needs of Ann Arbor's research and high-tech companies.

The **West Office Area (WOA)** vacancy rate dropped for the third year in a row, decreasing from 10.72% in 2012 to 7.78% this year. The WOA is the smallest of our eight areas, measuring just over 400,000 square feet. This improvement in occupancy is a testament to the moderate but consistent demand for office space in Scio Township and Ann Arbor's west side.

The **West Flex Area (WFA)** vacancy rate nudged up slightly to 11.58% from 11.07% in 2012. Though this vacancy rate is basically flat as compared to one year ago, the Jackson Road corridor is showing some buoyancy with a combination of light industrial/flex and retail activity this year. As new commercial and retail development continues along that corridor, we expect both the WOA and WFA markets to expand and strengthen.

LEASING DEMAND

In terms of the vacancy rate, the DOA, SOA and SFA all experienced significant space absorption because of growth by existing businesses, new tenant leases and the absence of new inventory. Lease transactions occurred this year all across the market. Still, there are many buildings with high vacancy rates and suites that have been unrented for multiple years and for multiple reasons.

SALES ACTIVITY

There were a significant number of building sales in 2013. We saw a rush of local and non-local lenders funding the purchase of both investment and owner-user buildings in Washtenaw County. The larger number of banks in the market and the lower interest rates fueled the flurry of building sales. Sales and leasing are tied together because when an investor makes a purchase, new resources are often invested into a building, which in turn creates available space for the leasing market. In 2013, we saw Ann Arbor's businesses absorb significant square footage in those buildings.

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 greater Ann Arbor market including Ypsilanti, Saline, Chelsea and Dexter, and Lenawee and Jackson Counties, 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.

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

SWISHER COMMERCIAL

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Ann Arbor, Michigan
December 31, 2013



Swisher Commercial 2013 Year-end Office/Flex Vacancy Report

ANN ARBOR AREA

YEAR ENDING DECEMBER 31, 2013

	Area	# Blds	Gross SF	Vacant SF	YE 2013	YE 2012	% Chg.
					Vac %	Vac %	
OFFICE	Downtown	69	1,722,807	116,852	6.78%	9.78%	-2.99%
	North	35	2,449,756	123,525	5.04%	4.82%	0.22%
	East	36	648,092	122,291	18.87%	16.56%	2.31%
	CGMA	10	501,543	41,528	8.28%	7.07%	1.21%
	South	69	3,114,698	382,366	12.28%	15.13%	-2.85%
	<u>West</u>	<u>19</u>	<u>430,382</u>	<u>33,497</u>	<u>7.78%</u>	<u>10.72%</u>	<u>-2.93%</u>
	Total	238	8,867,278	820,059	9.25%	10.65%	-1.40%
FLEX	South	64	2,726,272	395,737	14.52%	15.73%	-1.21%
	<u>West</u>	<u>16</u>	<u>481,844</u>	<u>55,795</u>	<u>11.58%</u>	<u>11.07%</u>	<u>0.51%</u>
	Total	80	3,208,116	451,532	14.07%	15.02%	-0.94%
OFFICE & FLEX	Downtown	69	1,722,807	116,852	6.78%	9.78%	-2.99%
	North	35	2,449,756	123,525	5.04%	4.82%	0.22%
	East	36	648,092	122,291	18.87%	16.56%	2.31%
	CGMA	10	501,543	41,528	8.28%	7.07%	1.21%
	South	133	5,840,970	778,103	13.32%	15.41%	-2.09%
	<u>West</u>	<u>35</u>	<u>912,226</u>	<u>89,292</u>	<u>9.79%</u>	<u>10.90%</u>	<u>-1.12%</u>
	Total	318	12,075,394	1,271,591	10.53%	11.80%	-1.27%

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, St. Joseph Mercy Hospital campus and the Huron River Drive/Golfside-Clark area.
- Buildings:** Includes all identified non-owner-occupied buildings over 5,000 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 YE 2013 rate less the YE 2012 rate.

