



# Swisher Commercial

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## SWISHER COMMERCIAL DECEMBER 2012 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** 20<sup>th</sup> annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2012. We surveyed **315 buildings** of 5,000 square feet or larger, totaling just under **12 million square feet**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last twenty years. We hope this report will help you better understand the current market and assist you in planning your real estate decisions for the future.

**As of December 31, 2012, the total market vacancy rate for office and flex space is 11.80%**, a 1.40% decrease in vacancy from one year ago, and the lowest overall vacancy level since 2003. The office vacancy rate decreased to 10.65% from 12.08% one year ago, while the flex vacancy rate decreased slightly more, with a drop from 16.50% to 15.02%. Our analysis of the eight sub-market areas reveals that five of the areas decreased in vacancy, while three 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** vacancy rate decreased to 9.78% compared to 10.99% last year. The biggest factor in the drop in rate is Barracuda Networks' addition of 45,000 square feet at 317 Maynard. It is notable that because Barracuda did not vacate its Depot Street location, this Downtown occupancy gain did not come at the expense of another Ann Arbor market. Another significant part of this year's downtown office space absorption is the expansion by long-time downtown tenants Menlo Innovations and Novodynamics. Downtown Ann Arbor continues to attract successful high-tech companies.

The **North Office Area** vacancy rate had the largest decrease, dropping from 10.92% in 2011 to 4.82% this year. Four of the North Area's largest buildings had significant drops in vacancy. The North Office Area hadn't seen a single-digit vacancy rate since 2005.

The **East Office Area** vacancy rate was hardest hit this year, jumping to 16.56%, a 2.74% increase over 2011. The East area's Class B office buildings continued to feel the pressure of cross-town competition. Several of its tenants moved to flex buildings and Class A office buildings in other Ann Arbor areas in order to take advantage of aggressive lease packages.

The **CGMA** (Clark-Golfside Medical Area) **Office Area** vacancy rate increased to 7.07% from a 6% vacancy rate one year ago. Though this is technically an increase in vacancy, it is still a very stable office market.

The **South Office Area** vacancy rate saw a slight increase from 14.12% in 2011 to this year's 15.13%. One Briarwood area office building posted 40,000 square feet of new vacancy due to software company Infor's move to Ann Arbor's North Area. In the South Area's 3 million + square foot market that single move accounts for nearly the entire 1% change in its vacancy rate.

The **West Office Area** vacancy rate dropped for the second year in a row, tightening to 10.72% this year from 12.62% last year. The West Office Area hasn't had vacancy numbers this low since 2008.

The **South Flex Area** vacancy rate decreased for the third year in a row, now settling at 15.73%. There are a number of Flex landlords still sitting on suites that have been vacant multiple years, which spells price incentives for prospective tenants for those spaces. But if the economy improves and demand increases, the story may change. See commentary below, titled "Loss of Inventory."

The **West Flex Area**, like the West Office Area, saw a vacancy rate decrease, moving from 13.81% in 2011 to 11.07% in 2012. Moderate leasing gains in a large variety of West Flex buildings lead to 2012's improvement.

### **LEASING DEMAND**

Although Swisher Commercial brokers would tell you that the activity level among prospective tenants seemed to be higher in 2012 than in 2011, Swisher Commercial statistics show that our actual lease transaction numbers and dollar volume totals were only slightly ahead of 2011. Even with the overall Ann Arbor Area office vacancy rate standing at 11.80%, the hesitant leasing demand caused rental rates for office space to remain moderate, with some landlords, depending on their individual building vacancy status, offering incentives to new tenants. It will be interesting to see whether the increased activity that brokers sensed in 2012 will turn into more lease transactions in 2013.

### **SALES ACTIVITY**

The most striking element of the 2012 commercial real estate market was the large number of REO (lender-owned building) and distressed-building sales in the Ann Arbor Area. Swisher Commercial's statistics show an 18% increase in the number of building sales and a 38% increase in dollar volume for building sales between 2011 and 2012. Most of these buildings sold at prices below the "old normal" building values before the 2008 economic crisis. For instance in an older but representative example, a two story building along the South State Street corridor sold for \$206/sf in 2007 (an occupied building sold to an investor) but subsequently sold for \$72/sf in 2010 (a vacant building sold to a buyer-user). For those buyers who can find financing or have cash available, there have been some tremendous opportunities to buy buildings at low prices.

### **LOSS OF INVENTORY**

An interesting impact of the commercial building sales noted above is that a large number of the purchasers of these REO and distressed buildings are companies buying the buildings for their own use and occupancy. Over the last three years there were at least eight such sales of moderate-size flex buildings in the South Area, totaling over 260,000 square feet that will no longer be available as "for lease buildings." Basic economic theory says that reducing the supply of a product will put upward pressure on prices; so we won't be surprised to see some buildings in our market starting to increase their rental rates in the coming year.

**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](mailto:info@swishercommercial.com), or visit our website at [www.swishercommercial.com](http://www.swishercommercial.com).

SWISHER COMMERCIAL

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Ann Arbor, Michigan  
December 31, 2012



# Swisher Commercial 2012 Year-end Office/Flex Vacancy Report

## ANN ARBOR AREA

### YEAR ENDING DECEMBER 31, 2012

	Area	# Blds	Gross SF	Vacant SF	YE 2012		YE 2011	% Chg.
					Vac %	Vac %		
<b>OFFICE</b>	Downtown	69	1,703,073	166,516	9.78%		10.99%	-1.21%
	North	35	2,444,925	117,904	4.82%		10.92%	-6.10%
	East	36	647,531	107,230	16.56%		13.82%	2.74%
	CGMA	10	501,543	35,464	7.07%		6.00%	1.07%
	South	68	3,043,180	460,432	15.13%		14.12%	1.01%
	<u>West</u>	<u>20</u>	<u>428,163</u>	<u>45,883</u>	<u>10.72%</u>		<u>12.62%</u>	<u>-1.91%</u>
	<b>Total</b>	<b>238</b>	<b>8,768,415</b>	<b>933,429</b>	<b>10.65%</b>		<b>12.08%</b>	<b>-1.44%</b>
<b>FLEX</b>	South	61	2,666,496	419,420	15.73%		17.03%	-1.31%
	<u>West</u>	<u>16</u>	<u>481,844</u>	<u>53,340</u>	<u>11.07%</u>		<u>13.81%</u>	<u>-2.74%</u>
	<b>Total</b>	<b>77</b>	<b>3,148,340</b>	<b>472,760</b>	<b>15.02%</b>		<b>16.50%</b>	<b>-1.49%</b>
<b>OFFICE &amp; FLEX</b>	Downtown	69	1,703,073	166,516	9.78%		10.99%	-1.21%
	North	35	2,444,925	117,904	4.82%		10.92%	-6.10%
	East	36	647,531	107,230	16.56%		13.82%	2.74%
	CGMA	10	501,543	35,464	7.07%		6.00%	1.07%
	South	129	5,709,676	879,852	15.41%		15.42%	-0.01%
	<u>West</u>	<u>36</u>	<u>910,007</u>	<u>99,223</u>	<u>10.90%</u>		<u>13.25%</u>	<u>-2.34%</u>
	<b>Total</b>	<b>315</b>	<b>11,916,755</b>	<b>1,406,189</b>	<b>11.80%</b>		<b>13.20%</b>	<b>-1.40%</b>

### 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 2012 rate less the YE 2011 rate.

