



## Swisher Commercial

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### SWISHER COMMERCIAL YEAR ENDING 2005 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** thirteenth 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 **291 buildings** of 3,000 square feet (sf) or larger, totaling **10.9 million sf**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last thirteen years.

**As of December 31, 2005, the total market vacancy rate, including office and flex space, was 12.6%**, slightly higher (.1%) than our December 2004 report. But as our report will indicate, the individual submarket areas have fluctuated.

Compared to December 31, 2004, six (6) of the submarket areas were relatively unchanged: Downtown office, East office, South flex, West office, West flex, and CGMA office. The North office area vacancy increased dramatically while the South office vacancy decreased significantly. See the attached vacancy rate analysis and chart.

The North office area had the largest increase in vacancy, from 1.04% twelve months ago to its current 6.96%. This increase, however, does not indicate soft demand for space in this region. It is almost entirely caused by increased supply due to the construction of the last phase of Domino's Farms, which accounts for 124,000 sf of vacant office space to this submarket. Without this large influx of available office space, the North office area vacancy rate would still be under 2%.

The South office area tightened compared to year-end 2004, moving from 17.92% to 14.58% vacancy. The South office area added close to 200,000 sf of new office space, yet managed to still improve its vacancy status; this is a sign of good health in a challenging economy.

The South flex area vacancy rate decreased to 18.20% from 18.34% a year ago. A closer look tells us that the "office style" flex buildings fared better than the more "industrial style" flex buildings. This was due in part to tenants who previously rented pricier Class A office suites moving their offices into "office style" flex buildings to take advantage of the lower rental rates.

The Clark Golfside Medical Area (CGMA) vacancy increased to 8.51% from 8.14% a year ago.

The West office and West flex vacancy rates experienced very little change due to moderate leasing activity. Similar to the last few years, the Jackson Road corridor saw a tremendous amount of activity in building and land sales in 2005.

The East office market remained basically flat at 12.51%. This market traditionally caters to small office users. New leasing activity this year has been uncommonly slow, leading **Swisher Commercial** to conclude that the current Michigan economy has been tough on small businesses.

The Downtown Ann Arbor vacancy rate improved to 12.49% from 13.09% in 2004. The Downtown office market lost some larger tenants, but others have expanded and some new small office tenants have come downtown to fill those suites. Recent building sale prices indicate that investors are still bullish on downtown Ann Arbor.

The vacancy rates in this report do not include suites available for sublease. However, **Swisher Commercial** still tracks this important market component. Last year we reported 206,000 sf of sublease space in the market. The available sublease space has decreased to about 100,000 sf.

## NEW CONSTRUCTION

New construction added over 300,000 sf of leaseable space to the market in 2005. We are anticipating that 2006 new construction will add close to 400,000 sf to our survey, depending on construction schedules and leasing demand. The new construction projects for 2006 include:

- 27,000 sf office building will be coming to Depot Street.
- 16,000 sf office building addition at Miller Road & M14, the Forest Cove Office Park.
- 110,000 sf building for Proquest at the 777 Eisenhower campus.
- 15,000 sf Covington Office Building on Ellsworth Road opens in January of 2006.
- 200,000 sf+ Earhart Corporate Park is expected to be completed in 2006.

## LEASING DEMAND

Demand for lease space in 2005 was generally slow but with a few bright spots. Highlights include long term lease commitments from national organizations such as Google, Internet II, Merit Network and Proquest. Securing this class of office tenant bodes well for Ann Arbor. Amidst some gloomy economic predictions for Michigan, **Swisher Commercial** saw the Ann Arbor market expand with new construction, absorb more sublease vacancies, and yet the vacancy rate remained steady, giving us reason for cautious optimism. Our 12.6% vacancy rate is low compared to other Southeast Michigan communities such as Farmington Hills, Livonia, Novi and Troy with vacancy rates of 15-20% and higher.

## SALES ACTIVITY

Sale activity at **Swisher Commercial** continued to be strong throughout 2005. Investors continue to seek high quality income properties, and owner/users continue to take advantage of low interest rates. The result is that demand still outstrips supply for the purchase of commercial buildings. See attached report on cap rates.

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

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Ann Arbor, Michigan  
December 31, 2005

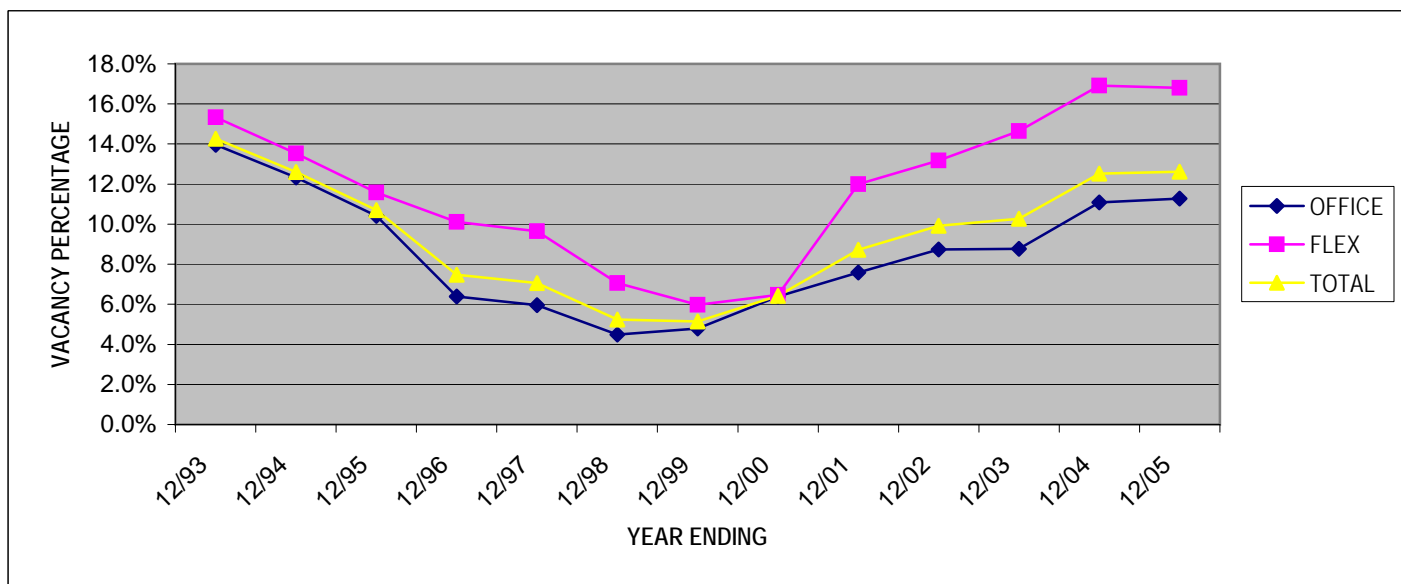


## OFFICE AND FLEX SPACE VACANCY TRENDS ANN ARBOR AREA YEAR-END ENDING DECEMBER 31, 2005

						YE	%
Area	# Blds	Gross SF	Vacant SF	Vac. %	2004	Chg.	
<b>OFFICE</b>	Downtown	69	1,464,733	183,007	12.49%	13.09%	-0.60%
	North	34	2,221,578	154,617	6.96%	1.04%	5.92%
	East	36	658,711	82,411	12.51%	12.28%	0.23%
	CGMA	8	498,614	42,429	8.51%	8.14%	0.37%
	South	64	3,065,354	446,975	14.58%	17.92%	-3.33%
	<u>West</u>	<u>14</u>	<u>314,950</u>	<u>18,163</u>	<u>5.77%</u>	<u>3.99%</u>	<u>1.77%</u>
	<b>Total</b>	<b>225</b>	<b>8,223,940</b>	<b>927,602</b>	<b>11.28%</b>	<b>11.08%</b>	<b>0.20%</b>
<b>FLEX</b>	South	56	2,264,959	412,154	18.20%	18.34%	-0.15%
	<u>West</u>	<u>10</u>	<u>383,927</u>	<u>32,900</u>	<u>8.57%</u>	<u>8.98%</u>	<u>-0.41%</u>
	<b>Total</b>	<b>66</b>	<b>2,648,886</b>	<b>445,054</b>	<b>16.80%</b>	<b>16.91%</b>	<b>-0.11%</b>
<b>OFFICE &amp; FLEX</b>	Downtown	69	1,464,733	183,007	12.49%	13.09%	-0.60%
	North	34	2,221,578	154,617	6.96%	1.04%	5.92%
	East	36	658,711	82,411	12.51%	12.28%	0.23%
	CGMA	8	498,614	42,429	8.51%	8.14%	0.37%
	South	120	5,330,313	859,129	16.12%	18.10%	-1.98%
	<u>West</u>	<u>24</u>	<u>698,877</u>	<u>51,063</u>	<u>7.31%</u>	<u>6.73%</u>	<u>0.58%</u>
	<b>Total</b>	<b>291</b>	<b>10,872,826</b>	<b>1,372,656</b>	<b>12.62%</b>	<b>12.51%</b>	<b>0.11%</b>

### 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 2005 rate less the YE 2004 rate.





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## CAP RATE SUMMARY, JANUARY 1, 2006

**Swisher Commercial** surveyed a cross section of commercial appraisers and commercial bankers in the Ann Arbor area for their observations on Cap Rates<sup>[1]</sup> and the market factors affecting them locally.

The general trend for Cap Rates in 2006 will range from steady to increasing, depending on the sector and the property. Non-student apartments will most likely remain unchanged but look for student housing Cap Rates to increase, especially in the fringe areas of campus. New dorm construction in 2006 will bring new product to the market putting pressure on the older single family home conversions. Office, industrial, and retail sector Cap Rates are expected to rise.

Just as Cap Rates were pushed downward in the last few years with low interest rates, Cap Rates will now move upward with the rising interest rates. The slow recovery of the automotive sector is holding back job growth, a key factor in why the local economy lags behind the nation in recovery. A slow auto sector also contributes to high vacancy rates in the industrial market, holding down rental rates and sale prices, thus serving to push Cap Rates upward.

### - Industrial

Industrial market Cap Rates ranged higher than normal from 8.5% to 11% as a result of vacant space and the slow recovery of the manufacturing sector. The lower rates represent newer buildings, while the higher rates represent older buildings. Buildings with financially strong tenants will also drive the Cap Rate to the lower end of the range.

### - Office

Office market Cap Rates ranged from 8% to 10% with the difference in the strength of the tenants and length of leases, as well as age and condition of the building. Newer buildings with long leases from credit tenants are at the low end of the range.

### - Retail

Retail market Cap Rates ranged from 7% to 9.5%, with the lower end being driven by the national big box tenants and the new "Arborland to Whole Foods" hot spot with rents \$30 and more per sq. ft. The older retail centers and properties with historically higher vacancies end up at the higher end of the range.

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<sup>[1]</sup> Capitalization Rate is defined as any rate that converts income into value. It generally is derived by taking the net operating income at the time of sale and dividing it by the sales price. Visit the Vacancy Report page of our website at [www.swishercommercial.com](http://www.swishercommercial.com) for a more detailed explanation of Cap Rates and how to determine Net Operating Income.