

By: [Paula Gardner](#) AnnArbor.com Staff

## ANNUAL SURVEY: Ann Arbor office vacancy climbs to 17.62 percent

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Ann Arbor closed 2009 with the highest office vacancy rate recorded since a local real estate firm starting tracking it in 1993.

The local office market's vacancy rate is 17.62 percent, up from 14.75 percent at year-end 2008, according to an [annual report](#) issued this week by [Swisher Commercial](#).

That increase represents an additional 424,724 square feet of empty, leasable office space in the region - which now has an estimated 2.11 million square feet of office space available for lease.

The vacancy rate is an indicator of economic health and job retention. Experts said the jump in vacancy - accompanied by a low demand for office space and falling rental rates - is a signal that Ann Arbor's economy is catching up to the national slowdown.

"A year ago we didn't see the full effect of the economic downturn (in the data)," said Bart Wise, vice president at Swisher Commercial. "This year we see it."

The annual survey yielded the highest overall office vacancy rate since Swisher began it in 1993. The survey is done every fall for leasable properties of 3,000 square feet or larger, representing the most detailed data available for this market.

This latest survey includes little new construction added to the mix during 2009. It also doesn't include owner-occupied buildings, properties that are not being marketed or space available for sublease.

The numbers are high for this region, but Ann Arbor still fares better than most areas in Metro Detroit, where the overall office vacancy rate for larger properties was 23.5 percent at the end of the third quarter in 2009, according to Grubb & Ellis.

Yet the Ann Arbor area's largest submarket - its south zone, representing 5.7 million square feet of office and flex space in the Briarwood area and near South State Street - now is just shy of 21 percent vacant.

And the past year saw vacancy gains in downtown and the areas both east and west of Ann Arbor that pushed vacancies to about 15 percent or higher.

The gains followed a year-end 2008 overall vacancy rate was 12.71 percent, which represented a slight improvement over 2007.

"Last year we thought we'd see a bigger decline," Wise said. "... We saw the effects of the economy in the south office (market), but the statistics weren't showing in the other submarkets," Wise said.

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"This year, every other market has responded."

Each sector of the Ann Arbor area's 11.9 million square-foot office market - which includes both traditional space and "flex" space that blends office and light industrial uses - posted increased vacancies by the end of 2009:

- **Downtown:** 16.58 percent (288,223 square feet) up from 12.95 percent.
- **North:** 12.61 percent (311,669 square feet) up from 6.09 percent.
- **East:** 14.96 percent (92,671 square feet), up from 10.68 percent.
- **Clark-Golfside:** 6.69 percent (32,618 square feet), up from 3.85 percent.
- **South:** 20.96 percent (1.21 million square feet), up from 20.41 percent.
- **West:** 19.67 percent (176,251 square feet), up from 15.37 percent.

Part of the south submarket's vacancy rate stems from its high proportion - about 40 percent - of flex space in a market where "there's a huge lack of demand," Wise said.

That's also an issue west of Ann Arbor, particularly along the Jackson Road corridor.

Downtown's office vacancy represents some new space becoming available - such as two floors in the Sudworth Building on East Washington and the office space at Ashley Terrace.

But it also represents some tenant movement to other areas and some downsizing, landlords said.

"Last year was not necessarily a train wreck, but it was a reality gut-check," said Ed Shaffran, downtown property owner. A lot of companies that we deal with have been downsizing - or right-sizing - themselves."

The typical downtown floorplate is suitable for a smaller tenant, and that's good in this market, Shaffran added.

"Smaller users will continue to come downtown," he said.

And there are prospective tenants shopping as the year begins, said Mike Giraud of Colliers International.

Still, most in the industry are watching whether the unemployment rate will decline further, signaling what they hope would be an uptick in hiring.

"There have been very few new office users coming in," Giraud said. "There's been more downsizing than upsizing. And there isn't a lot of people around to backfill the spaces."

The climbing vacancy rate means that landlords are competing for the fewer tenants in the market.

"Virtually all of the lease that came together in 2009 were at more favorable economics for tenants than we've seen in a long time," Wise said. "Landlords have grown tired of sitting on vacancies."

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Rates are starting to fall, and concessions - like free rent added to a lease term - are becoming more common.

Meanwhile, recovery will be seen in submarkets first, brokers said, and may not be reflected in the overall vacancy rate by this time next year.

"We're getting lots of calls on downtown space," said Jim Chaconas of Colliers International in Ann Arbor.

But the south market will remain slower, he said.

"There are large buildings there, and we don't have large users coming in," Chaconas said.

And some owners predicted that the vacancy rate is actually higher, due to "shadow space," or leased space that is left unused by a tenant.

Despite the uptick shown in the vacancy rate survey, many in Ann Arbor commercial real estate say they've been adjusting to the market conditions. They're working harder to keep tenants, making concessions as needed and watching costs.

And they don't expect many changes in 2010 as the region, the state and the nation work toward recovery.

"This is just something we have to get use to," said Chris Grant of First Martin Corp.

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