



Swisher Commercial 2007 Mid-Year Office/Flex Vacancy Report

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Enclosed is **Swisher Commercial's** mid-year 2007 survey of vacancy rates for Office and Flex space in the Ann Arbor area. We surveyed **302 buildings** of 3,000 square feet (sf) or larger, totaling over **11.3 million sf**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 14+ 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 June 30, 2007, the total market vacancy rate, including Office and Flex space, was 15.2%. This rate is .51% higher than reported six months ago (at 14.69%) and 2.02% higher than one year ago (at 13.18%). Of the eight sub-markets we analyzed, four increased in vacancy while the other four sub-markets decreased in vacancy.

ANALYSIS BY SUBMARKET

To the surprise of many, the Office vacancy rate decreased to 13.97% from the 14.48% noted in our December 2006 report. During that same time frame, the Flex vacancy rate increased markedly from 15.41% to its current 19.31%. See the attached vacancy rate analysis for the precise vacancy rates for each of the eight sub-markets.

The Downtown Office sub-market had the largest decrease in vacancy of 3.31%, reducing it to 12.36%. Interestingly, the change in this sub-market is not due to a single large transaction (i.e. Google in our last report), but rather, our study found that of the 71 buildings surveyed in this sub-market, there were 9 buildings that experienced a significant decrease in vacancy.

Also notable is the North Office vacancy rate, which decreased from 17.29% six months ago to its current 14.45%. Considering that the recently completed Earhart Corporate Center, which accounts for 200,000 sf, represents over 15% of the total vacant office space in this sub-market, the 14.45% vacancy rate is remarkably low. *Note – this report does not take into account the future availability of the two million square foot Pfizer facility.*

The East Office sub-market, which has a predominance of small suites, shows a vacancy rate below 10% for the first time since January, 2002. **Swisher Commercial** has seen a resurgence of small office tenants leasing suites in the East sub-market – perhaps a sign that local small businesses are feeling more confident about the future.

The South Office sub-market vacancy rate shows a dramatic 3.14% increase to 17.73%. The change is attributable to 1) the addition of a large spec office building that is currently vacant and 2) the removal of a large office building from our survey due to its re-categorization to an owner occupied building (owner occupied buildings are not included into our survey). Without these two significant events, the South Office vacancy rate would have remained unchanged from the 14.69% rate in the December 2006 survey.

The CGMA (Clark-Golfside Medical Area) and West Office sub-markets have not changed significantly over the last six months.

The Flex market as a whole increased in vacancy from a year-end 2006 rate of 15.41% to the present 19.31%. The primary cause of this 3.9% increase was the loss of a single major tenant by one of the South area Flex parks. With the exception of this single loss, the Flex market was relatively unchanged as compared to six months ago.



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LEASING DEMAND

Demand for lease space in the first half of 2007 remained slow. Tenants continue to be very cautious and cost conscious. Brokers have reported a common experience of prospective tenants going through the standard routine of searching the market for a new location, even negotiating terms, only to put the decision to relocate "on the back burner" in hopes of a clearer economic picture in the future. Similar to our year-end 2006 reporting, landlords are frequently offering rent concessions and shorter lease lengths in order to secure leases from a relatively small pool of prospective tenants.

SALES ACTIVITY

As in 2006, sale activity at Swisher Commercial in the first half of 2007 was slow but steady. There continues to be a shortage of investment properties with high occupancy, but the availability of owner occupant type properties has increased. Some buyers are expressing concern with the risks of purchasing property given the uncertainty of the Michigan economy, while other buyers are finding the more favorable cap rates in Michigan appealing. The recent climb in interest rates could have a dampening effect on local sale prices.

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, 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.

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



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ANN ARBOR AREA MID-YEAR ENDING JUNE 30, 2007

	Area	# Blds	Gross SF	Vacant SF	Vac %	YE 2006	% Chg.
OFFICE	Downtown	71	1,621,435	200,401	12.36%	15.67%	-3.31%
	North	36	2,436,270	352,091	14.45%	17.29%	-2.84%
	East	36	619,614	61,594	9.94%	12.46%	-2.52%
	CGMA	8	472,349	11,745	2.49%	2.16%	0.33%
	South	72	3,208,608	568,754	17.73%	14.59%	3.14%
	<u>West</u>	<u>14</u>	<u>338,750</u>	<u>20,797</u>	<u>6.14%</u>	<u>8.12%</u>	<u>-1.98%</u>
	Total	237	8,697,026	1,215,382	13.97%	14.48%	-0.51%
FLEX	South	55	2,220,229	465,053	20.95%	17.01%	3.94%
	<u>West</u>	<u>10</u>	<u>384,427</u>	<u>37,900</u>	<u>9.86%</u>	<u>6.08%</u>	<u>3.77%</u>
	Total	65	2,604,656	502,953	19.31%	15.41%	3.90%
OFFICE & FLEX	Downtown	71	1,621,435	200,401	12.36%	15.67%	-3.31%
	North	36	2,436,270	352,091	14.45%	17.29%	-2.84%
	East	36	619,614	61,594	9.94%	12.46%	-2.52%
	CGMA	8	472,349	11,745	2.49%	2.16%	0.33%
	South	127	5,428,837	1,033,807	19.04%	15.56%	3.48%
	<u>West</u>	<u>24</u>	<u>723,177</u>	<u>58,697</u>	<u>8.12%</u>	<u>7.01%</u>	<u>1.10%</u>
	Total	302	11,301,682	1,718,335	15.20%	14.69%	0.51%

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; McAuley campus and the Huron River Drive/Golfside-Clark area.
- Buildings:** Includes all identified non-owner-occupied buildings over 3,000 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 MY 2007 rate less the YE 2006 rate.

