



Swisher Commercial

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SWISHER COMMERCIAL DECEMBER 2009 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** year-end 2009 survey of vacancy rates for office and flex space in the Ann Arbor area. We surveyed **321 buildings** of 3,000 square feet (sf) or larger, totaling just under **12 million sf**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last seventeen 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, 2009, the total market vacancy rate, including office and flex space, was 17.62%. This is a 2.86% increase in vacancy from one year ago and is the single largest annual increase in vacancy since the inception of the Swisher Commercial Vacancy Report in 1993. The office vacancy rate increased to 16.33% from 12.71% in December 2008, while the flex vacancy rate remained basically flat, moving up to 21.47% from last year's 21.32%. Our analysis of the eight sub-market areas reveals that seven of the areas increased in vacancy while one area decreased its vacancy rate by a thin .37%. See the attached vacancy analysis for the vacancy rates for each of the eight areas.

The Downtown Office Area vacancy rate moved up to 16.58%, a notable 3.63% rate increase from one year ago. In past Vacancy Reports we noted the ability of the Downtown Area to attract software/high tech tenants from other areas. But this year the Downtown Area lost a large high-tech tenant to the South Area. There are at least 8 downtown buildings at this time with more than 10,000 square feet vacant.

After two years of vacancy rate drops, the North Area saw its vacancy rate double, moving from 6.09% last year to the current 12.61%. However, about 30% of the total vacant square footage in the North Area is due to a single 100,000 sf vacancy in one office complex on Green Road. Otherwise, the North Area is still experiencing relative stability.

The East Office Area vacancy rate increased to 14.96% compared to 11.77% last year. The two largest multi-tenant office complexes in the East Area both saw their vacancies increase. We will be watching the East Office Area for signs of improvement in 2010 because our past experience has shown that the small office market is often the first to rebound after difficult times.

The CGMA (Clark-Golfside Medical Area) Office Area continued to have the lowest vacancy rate in the market, but the current 6.69% vacancy is an increase over last year's 3.85% rate. However, again most of the increase in this area's vacancy rate can be attributed to vacant space in a newly built medical/professional building on Huron River Drive near McAuley Hospital.

The South Office Area vacancy rate increased slightly to 21.13% from last year's 19.92%. A bit of a relief in light of two consecutive years of dramatic increases. There were a number of office buildings in this area with increased vacancies, but this was balanced by a few buildings with large gains in occupancy.

The West Office Area vacancy rate jumped to 13.02% from a low 6.09% in 2008. With the exception of two medium size office buildings that are completely vacant, there were few dramatic changes, just moderate increases in vacancy among most West Area office buildings.

The South Flex Area is the only sub-market with a decrease in vacancy, dropping from 21.11% in 2008 to the current 20.75%. There were some "winners" and some "losers" among the South Flex buildings, but on average no significant overall change to the vacancy rate.

The West Flex Area vacancy increased to 25.20% from the 22.40% rate last December. This rate increase reflects the lack of demand for "warehouse/industrial leaning" flex buildings and spaces in this market.

LEASING DEMAND

If you speak to landlords or brokers with vacant spaces, you will hear a refrain about the scarcity of prospective tenants in 2009. In past years, an increased vacancy rate for the Ann Arbor area was most often caused by increased inventory plus decreased absorption. But in 2009 there were very few new construction multi-tenant buildings. Therefore we believe the cause for the vacancy rate increase was the combination of 1) vacancies caused by downsizing tenants and businesses going out of business or no longer renting Ann Arbor area buildings, and 2) fewer new tenants coming along to "back fill" the vacant buildings and suites. Ann Arbor's soft leasing market is tied to Michigan's high unemployment rate. If local companies are not hiring new staff, there are few reasons to expend the time, effort and costs of moving.

VACANCIES ABOUND

When quality properties, priced reasonably and marketed professionally, sit vacant for 12 months or longer, you know there is a problem. In 2009 many landlords came to the conclusion that it is better to fill a vacant suite, even at a significantly lower than expected rental rate, than allow the suite to remain vacant for months on end. We have seen significant economic concessions used this year to lure in the few tenants leasing office and flex space. But reducing rental rates doesn't create demand, so as Ann Arbor's businesses struggle to cut expenses and survive in this difficult economy, Ann Arbor's landlords must face the "triple whammy" of **high vacancy rates, lower rental rates and very little new demand** for lease space.

SALES ACTIVITY

The world banking crisis has had a chilling effect on commercial real estate loans. Some regional and national/international banks are seen as not being interested in making loans on investment type commercial real estate. Local banks have made some owner-occupied and investment type loans this year, but with more stringent demands of the borrowers. So, although there are Ann Arbor area properties available at historically low sale prices, finding the financing to complete a purchase can be a limiting factor.

THE BIG PICTURE

One year ago we were three months into a world-wide economic crisis in which few of us could predict the long term affects. The Ann Arbor market did not appear to be dramatically effected when measured by the year-end 2008 Swisher Commercial vacancy report; the vacancy rate was 14.75%. But, this year's numbers now show the impact of the crisis. Ongoing challenges remain, including high unemployment numbers, the State of Michigan struggling to create a corporate tax environment that will draw new businesses to the State and retain the existing businesses, and a banking system hesitant to finance new investments in Michigan properties and businesses. Progress in these and other areas will have a significant impact on the Ann Arbor commercial real estate market in 2010.

After nine months of below average activity, Swisher Commercial brokers reported an uptick in activity and closings in the last quarter of 2009. Perhaps this is an indication that in 2009 the economy "hit bottom" and in 2010 we will see the beginning of a recovery.

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.

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, 2009



Swisher Commercial 2009 Year-end Office/Flex Vacancy Report

ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2009

	Area	# Blds	Gross SF	Vacant SF	Vac %	YE 2008	% Chg.
OFFICE	Downtown	78	1,738,322	288,223	16.58%	12.95%	3.63%
	North	37	2,471,970	311,669	12.61%	6.09%	6.52%
	East	35	619,614	92,671	14.96%	10.68%	4.28%
	CGMA	9	487,349	32,618	6.69%	3.85%	2.84%
	South	72	3,254,322	687,609	21.13%	19.92%	1.21%
	<u>West</u>	<u>18</u>	<u>406,250</u>	<u>52,886</u>	<u>13.02%</u>	<u>6.55%</u>	<u>6.47%</u>
	Total	249	8,977,827	1,465,676	16.33%	12.71%	3.61%
FLEX	South	58	2,518,242	522,438	20.75%	21.11%	-0.37%
	<u>West</u>	<u>14</u>	<u>489,604</u>	<u>123,365</u>	<u>25.20%</u>	<u>22.40%</u>	<u>2.80%</u>
	Total	72	3,007,846	645,803	21.47%	21.32%	0.15%
OFFICE & FLEX	Downtown	78	1,738,322	288,223	16.58%	12.95%	3.63%
	North	37	2,471,970	311,669	12.61%	6.09%	6.52%
	East	35	619,614	92,671	14.96%	10.68%	4.28%
	CGMA	9	487,349	32,618	6.69%	3.85%	2.84%
	South	130	5,772,564	1,210,047	20.96%	20.41%	0.55%
	<u>West</u>	<u>32</u>	<u>895,854</u>	<u>176,251</u>	<u>19.67%</u>	<u>15.37%</u>	<u>4.30%</u>
	Total	321	11,985,673	2,111,479	17.62%	14.75%	2.86%

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 YE 2009 rate less the YE 2008 rate.

