



# Swisher Commercial

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## SWISHER COMMERCIAL DECEMBER 2014 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** 22nd annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2014. We surveyed **316 buildings** of 5,000 square feet or larger, totaling over **12 million square feet**. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 22 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.

**As of December 31, 2014, the total market vacancy rate for office and flex space is 9.15%**, a 1.38% decrease in vacancy from one year ago. In the past year, the office vacancy rate decreased from 9.25% to 7.32%, while the flex vacancy rate increased slightly from 14.07% to 14.47%. Our analysis of the eight sub-market areas reveals that seven of the areas decreased in vacancy, while one 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 dropped significantly below last year's already low vacancy rate of 6.78% to a rate of 3.62%. Repeating the themes from 2013, office space users, primarily technology companies, moved to the Downtown Office Area. In many cases, those already downtown expanded their staffing and absorbed more office space. The question many people are asking is, "At what point will a new building be built to meet the demand for downtown office space?" Developers have indicated that current office rental rates in the \$20-26/sf range are not sufficient to support the cost of new construction. With no new construction underway the Downtown Office Area is likely to remain tight into the foreseeable future.

The **North Office Area** vacancy rate dropped from last year's 5.04% to 3.84% this year making the Downtown Office Area not the only place in which office space is in high demand. Despite the North Office Area having nearly the same vacancy rate as the Downtown Office Area this year, the North Office Area has about 750,000 sf (30%) more office space than the Downtown Office Area, leaving a bit more breathing room for growing businesses. As of December 31<sup>st</sup>, there are only four North Office Area locations reporting footprints of more than 10,000 sf in vacancy, while the remainder of available suites are smaller in size.

The **East Office Area** vacancy rate improved from its high rate of 18.87% last year, dropping to 16.21%. In comparison with increased demand in other areas, Swisher brokers found limited demand for Class B office suites typical to the East Office Area. We have observed that part of the reason for the East Office Area's slow absorption has been competition from some of the nearby Class A buildings, where rental rates have been unusually low. With that said, relief may be on the way for the East Office Area. With the current lower vacancy rates, Class A rental rates will likely climb, which in turn may push tenants back to the less expensive East Office Area.

The **CGMA** (Clark-Golfside Medical Area) **Office Area** vacancy rate decreased slightly in 2014, settling in at 8.09%. Although medical buildings have long been seen as a stable market, Swisher brokers have seen little demand for a number of vacant medical/dental suites (ranging in size from 800 – 4000 sf) available in Washtenaw County. This weakness also applies to a handful of medical/dental buildings and condos that have been available for sale.

The **South Office Area** vacancy rate decreased to 10.32% this year, which is 1.96% lower than 2013. Class A office space in the South Office Area north of I-94 was in high demand in 2014, pushing the overall South Office Area vacancy rate to a 12-year low. The new vacancy rate is even more impressive given the fact that the Wickfield redevelopment at 100 Phoenix, the old Border's HQ, added in excess of 330,000 sf to our survey this year. The additional square footage accounted for approximately 10% of the total square feet and approximately 20% of the vacant square feet of the South Office Area. In 2014, many landlords filled vacancies that had been available for as long as 12 months or more, so in some cases the lease rates were still moderate. Swisher brokers expect to see South Office Area rental rates increase in the near future, especially those Class A buildings north of I-94.

The **South Flex Area** was the only Area to increase in vacancy in 2014, moving from 14.52% to 15.64%. Even with buildings in the South Office Area getting inquiries from prospective tenants, Swisher brokers observed moderate interest in high-tech and light industrial buildings in the South Flex Area. It should be noted that approximately 50% of the South Flex Area vacancy this year was located in a single business park which is now "lender owned."

The **West Office Area** vacancy rate plummeted to 3.25%, becoming the lowest rate of all 8 sub-market areas. When vacancies in a market measuring less than 500,000 sf drop to 3.25%, this translates to there being very little office space available. Based on current office rental rates, vacant land availability, and the ease of access to the Jackson Road corridor, new construction opportunities may exist for Ann Arbor's West side.

The **West Flex Area** vacancy rate dropped from 11.58% in 2013 to 7.97% in 2014. High-tech, engineering and shop-type tenants went on a feeding frenzy in the West Flex Area. The result is a scarcity of "bite-size" light industrial suites as we approach the end of the year. With less than 50,000 sf vacant in the buildings surveyed, it is difficult to predict how long the supply will last for the growing West Ann Arbor businesses.

#### **LEASING DEMAND**

We have not seen this level of absorption since before the 2008 recession. Nevertheless, 2014 was a year of lopsided demand: High demand for Class A office in the South Office Area (particularly north of I-94), Downtown Office Area, and North Office Area, but weak demand for Class B office space in the East Office Area; High demand for flex and light industrial space in the West Office Area but relatively weak demand for space in the South Flex Area.

#### **SALES ACTIVITY**

With fewer distressed buildings on the market in 2014 the number of buildings sold decreased. Buyers who grew accustomed to the low pricing of 2008-2012 noticed higher asking prices caused by a stronger economy and fewer building owners under pressure to sell. Buyers will need to anticipate a longer search time if looking for a building in 2015.

**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, as well as 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), stay connected via Facebook/Twitter/LinkedIn, or visit our website at [www.swishercommercial.com](http://www.swishercommercial.com).

SWISHER COMMERCIAL

*Swisher Commercial*

Ann Arbor, Michigan  
December 31, 2014



# Swisher Commercial 2014 Year-end Office/Flex Vacancy Report

## ANN ARBOR AREA

### YEAR ENDING DECEMBER 31, 2014

|                          | Area         | # Blds     | Gross SF          | Vacant SF        | YE 2014       | YE 2013       | % Chg.        |
|--------------------------|--------------|------------|-------------------|------------------|---------------|---------------|---------------|
|                          |              |            |                   |                  | Vac %         | Vac %         |               |
| <b>OFFICE</b>            | Downtown     | 68         | 1,697,807         | 61,399           | 3.62%         | 6.78%         | -3.17%        |
|                          | North        | 35         | 2,449,756         | 93,994           | 3.84%         | 5.04%         | -1.21%        |
|                          | East         | 36         | 648,092           | 105,064          | 16.21%        | 18.87%        | -2.66%        |
|                          | CGMA         | 10         | 501,543           | 40,578           | 8.09%         | 8.28%         | -0.19%        |
|                          | South        | 71         | 3,460,567         | 357,146          | 10.32%        | 12.28%        | -1.96%        |
|                          | West         | <u>19</u>  | <u>430,382</u>    | <u>14,007</u>    | <u>3.25%</u>  | <u>7.78%</u>  | <u>-4.53%</u> |
|                          | <b>Total</b> | <b>239</b> | <b>9,188,147</b>  | <b>672,188</b>   | <b>7.32%</b>  | <b>9.25%</b>  | <b>-1.93%</b> |
| <b>FLEX</b>              | South        | 61         | 2,688,254         | 420,402          | 15.64%        | 14.52%        | 1.12%         |
|                          | West         | <u>16</u>  | <u>481,844</u>    | <u>38,384</u>    | <u>7.97%</u>  | <u>11.58%</u> | <u>-3.61%</u> |
|                          | <b>Total</b> | <b>77</b>  | <b>3,170,098</b>  | <b>458,786</b>   | <b>14.47%</b> | <b>14.07%</b> | <b>0.40%</b>  |
| <b>OFFICE &amp; FLEX</b> | Downtown     | 68         | 1,697,807         | 61,399           | 3.62%         | 6.78%         | -3.17%        |
|                          | North        | 35         | 2,449,756         | 93,994           | 3.84%         | 5.04%         | -1.21%        |
|                          | East         | 36         | 648,092           | 105,064          | 16.21%        | 18.87%        | -2.66%        |
|                          | CGMA         | 10         | 501,543           | 40,578           | 8.09%         | 8.28%         | -0.19%        |
|                          | South        | 132        | 6,148,821         | 777,548          | 12.65%        | 13.32%        | -0.68%        |
|                          | West         | <u>35</u>  | <u>912,226</u>    | <u>52,391</u>    | <u>5.74%</u>  | <u>9.79%</u>  | <u>-4.05%</u> |
|                          | <b>Total</b> | <b>316</b> | <b>12,358,245</b> | <b>1,130,974</b> | <b>9.15%</b>  | <b>10.53%</b> | <b>-1.38%</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 2014 rate less the YE 2013 rate.

