



Swisher Commercial

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SWISHER COMMERCIAL DECEMBER 2010 OFFICE/FLEX VACANCY REPORT

Dear Friend,

Enclosed is **Swisher Commercial's** year-end 2010 survey of vacancy rates for office and flex space in the Ann Arbor area. We surveyed **318 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 eighteen 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, 2010, the total market vacancy rate, including office and flex space, was 15.04%. This is a 2.58% decrease in vacancy from one year ago and a breath of fresh air for those looking for a hopeful sign for the local commercial real estate market. The office vacancy rate decreased to 13.76% from 16.33% one year ago, and the flex vacancy rate followed suit with a drop to 18.84% from last year's 21.47%. Our analysis of the eight sub-market areas reveals that four of the areas decreased in vacancy, one area increased its vacancy rate and three areas remained basically flat. See the attached vacancy rate analysis for the vacancy rates of each of the eight areas.

The Downtown Office Area vacancy rate decreased to 13.57% this year. Last year we reported that the Downtown Area vacancy rate increased by 3%, but now we see a balancing 3% drop. Individual downtown office buildings experienced up and down swings in vacancy, but the winners outnumbered the losers, leading to an overall increase in occupancy.

The North Office Area vacancy rate remained essentially flat going from 12.61% in 2009 to 12.64% this year. One stabilizing factor in the North Area was the growth of Foresee Results, a tenant in a Green Road office building named North East Plaza. This company now occupies 50,000 square feet of office space, a 30,000 square foot increase this year. The recovery of the commercial real estate market will depend in part on the growth of innovative companies of this kind.

The East Office Area vacancy rate dropped slightly from 14.96% to 13.83% in December 2010. The Class B office buildings in this Area had to compete with Class A landlords lowering their prices to attract tenants. So, the East Office Area office buildings did lose some tenants, but had enough gains to mark an improvement of 1.13%.

The CGMA (Clark-Golfside Medical Area) Office Area continued to have the lowest vacancy rate in the market, remaining steady with a 6.88% vacancy rate.

The South Office Area vacancy rate decreased substantially from 21.13% to this year's 14.48%. A number of the larger Class A office complexes in the South Area such as the Burlington Office Center and Atrium Office Center significantly decreased their vacancy, as well as the single story office buildings at the Valley Ranch Business Park and Avis Farms Business and Research Park.

The West Office Area vacancy rate jumped for the second year in a row, now at 24.07% from a lower 13.02% in 2009 and 6.09% in 2008. That said, it should be noted that the main reason for this year's dramatic increase in vacancy is because of one 35,000 square foot office building being fully occupied in 2009 then 100% vacant in 2010, individually causing an 8% vacancy increase in the West Office Area.

After experiencing a 20%+ vacancy in 2008 and 2009, the South Flex Area vacancy rate dropped to 17.46% for year-ending 2010. Reports from brokers tell us that there were some exceptional bargains for the tenants making moves into the South Area Flex buildings this year. The Flex buildings that gained new tenants this year were those willing to offer low rental rates and generous incentives.

The West Flex Area did not follow the lead of the South Flex Area. The West Flex Area vacancy rate remained flat at 25.85%. As in 2009, this year there was very little demand for the "warehouse/industrial type" flex buildings and spaces in this market.

LEASING DEMAND

Leasing demand in 2010 seemed to increase slightly over 2009 and the activity level by "shoppers" was noticeably higher, but brokers report that the number of new lease transactions were still far below the normal pace of healthier economic times. There are two main reasons for this year's low number of lease transactions. First, the weak economy of 2010 kept local companies from growing and seeking new office/flex space. Second, many landlords offered favorable economic packages to their current tenants in order to keep them from moving. The 2.5% overall vacancy rate drop between 2009 and 2010 is evidence that some time in 2009 our local office/flex market hit "bottom", and although the 2010 activity was lackluster, there is reason to believe that this year may be the start of a positive trend that will become even more visible in 2011.

SALES ACTIVITY

This year, as in 2009, though there were buildings on the market at historically low list prices, it was very difficult to find financing for commercial real estate purchases. Buyers with very strong credit, buyers with cash, and buildings that could offer Seller financing were the exception. There were three notable building sales in Ann Arbor's South Area. The 27,720 square foot 500 Avis Drive building, previously the Atwell Hicks headquarters, was sold to Phoenix Contact Services, who will occupy the building. The 26,268 square foot 731 Fairfield building was sold to BHI Ventures, an entity related to Ductz, a tenant in the building. The 50,000 square foot shell building at 5683 Hines was sold to Tecumseh Products for their eventual occupancy. The common denominator in these three sales is that they represent owner occupant purchasers buying buildings at reduced 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.

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, 2010



Swisher Commercial 2010 Year-end Office/Flex Vacancy Report

ANN ARBOR AREA YEAR ENDING DECEMBER 31, 2010

| | Area | # Blds | Gross SF | Vacant SF | Vac % | YE 2009 | % Chg. |
|--------------------------|--------------|------------|-------------------|------------------|---------------|----------------------|---------------|
| OFFICE | Downtown | 79 | 1,762,522 | 239,158 | 13.57% | 16.58% | -3.01% |
| | North | 37 | 2,471,970 | 312,469 | 12.64% | 12.61% | 0.03% |
| | East | 35 | 619,614 | 85,698 | 13.83% | 14.96% | -1.13% |
| | CGMA | 9 | 487,349 | 33,518 | 6.88% | 6.69% | 0.19% |
| | South | 68 | 3,114,722 | 450,952 | 14.48% | 21.13% | -6.65% |
| | <u>West</u> | <u>18</u> | <u>406,250</u> | <u>97,802</u> | <u>24.07%</u> | <u>13.02%</u> | <u>11.05%</u> |
| | Total | 246 | 8,862,427 | 1,219,597 | 13.76% | 16.33% | -2.57% |
| FLEX | South | 58 | 2,498,020 | 436,213 | 17.46% | 20.75% | -3.29% |
| | <u>West</u> | <u>14</u> | <u>489,605</u> | <u>126,559</u> | <u>25.85%</u> | <u>25.20%</u> | <u>0.65%</u> |
| | Total | 72 | 2,987,625 | 562,772 | 18.84% | 21.47% | -2.63% |
| OFFICE & FLEX | Downtown | 79 | 1,762,522 | 239,158 | 13.57% | 16.58% | -3.01% |
| | North | 37 | 2,471,970 | 312,469 | 12.64% | 12.61% | 0.03% |
| | East | 35 | 619,614 | 85,698 | 13.83% | 14.96% | -1.13% |
| | CGMA | 9 | 487,349 | 33,518 | 6.88% | 6.69% | 0.19% |
| | South | 126 | 5,612,742 | 887,165 | 15.81% | 20.96% | -5.15% |
| | <u>West</u> | <u>32</u> | <u>895,855</u> | <u>224,361</u> | <u>25.04%</u> | <u>19.67%</u> | <u>5.37%</u> |
| | Total | 318 | 11,850,052 | 1,782,369 | 15.04% | 17.62% | -2.58% |

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 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 2010 rate less the YE 2009 rate.

