Dear Friend,

Enclosed is Swisher Commercial’s 24th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2016. We personally surveyed 301 buildings of 5,000 square feet (sf) or larger, totaling over 12,000,000 sf. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 24 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.
ANN ARBOR
OFFICE/FLEX MARKET

As of December 31st 2016, the total market vacancy rate for office and flex space is 8.7%, a fraction higher than the 8.5% vacancy rate one year ago.

FLEX
In the past year, flex vacancy rates decreased from 12.5% to 6.5%. (-6.0%)

OFFICE
The office vacancy rate increased from 7.1% to 9.4%. (+2.3%)
Swisher’s analysis of the eight sub-market areas reveals that four of the areas decreased in vacancy, three increased, and one area remained flat when compared to 2015.

Below we provide you with a detailed analysis of each segment of the market.

The final page of this report summarizes the statistical analysis of the vacancy rates for each of the eight areas.

**THE DOWNTOWN OFFICE AREA (DOA)**

The **DOA vacancy stayed at the historically low rate of 2.1%.** (+0.0%)

This year the 86,484 sf suite at the McKinley Town Center (vacated by Google) and the 28,648 sf at the Allmendinger Building (formally a law firm) both were absorbed by growing downtown Ann Arbor tenants Duo Security, Llamasoft and TD Ameritrade. Those downtown companies and others have determined the benefits of being downtown outweigh the higher cost of downtown rents and parking. However, there are also businesses that have decided because of the higher costs and limited availability of DOA space, they are choosing to seek space in the “suburban markets”. Even though most of the larger blocks of space have been absorbed in the DOA, there are still available suites in the 2,000 sf to 5,000 sf range.
THE NORTH OFFICE AREA (NOA)

The NOA vacancy rate decreased slightly to **3.1%**, from last year’s **3.5%**. (-0.4%)

Google completed their move into their expanded Traverwood Business Park building, now occupying 133,289 sf. Interestingly, four buildings that showed vacancy one year ago are now reporting 100% occupancy, whereas eight buildings that showed vacancy in December of 2015 are still reporting approximately the same vacancies at this time, reflecting that new demand for office space did not benefit all buildings in the NOA.

2015 3.5% 2016 3.1%

THE EAST OFFICE AREA (EOA)

The EOA vacancy rate decreased to **16.6%** from its 2015 rate of **18.7%**. (-2.1%)

The office leasing activity in the EOA was steady and the successes were spread around widely, with about 1/3 of the buildings in our survey experiencing a drop in vacancy rate. It is notable that the tenants in this sub-market were mostly in the service industry sector and not high-tech, which is a driving force in other areas of the market.

2015 18.7% 2016 16.6%

THE CLARK-GOLFSIDE MEDICAL AREA (CGMA) OFFICE AREA

The CGMA Office Area vacancy rate decreased slightly from **7%** in 2015 to **6.4%** this year. (-0.6%)

Similar to 2015, though existing medical-type tenants seem to be stable, there was very little demand for small medical suites across the Ann Arbor market.

2015 7.0% 2016 6.4%
THE SOUTH OFFICE AREA (SOA)

The SOA had a dramatic increase in vacancy rate from **10.3%** to **16.2%** (**+5.9%)**, as anticipated in last year’s report.

Of the 202,000 sf of new SOA vacancy, the Truven move out of the 777 Eisenhower building accounts for 180,000 sf. Out of the 70 buildings that make up the SOA, a dozen buildings decreased their vacancy rate in 2016, with the majority of the buildings remaining 100% occupied. With that said, we can report that there was a moderately strong demand for office space in the SOA. In addition to the 777 vacancy, there are two buildings in Avis Farms and another building nearby that reported 35,000 sf, 60,000 sf and 85,000 sf vacant footprints. There have not been many tenants of this size looking for space in the SOA this year.

THE SOUTH FLEX AREA (SFA)

The SFA again had the largest decrease in vacancy rate this year, moving from **13.1%** to a startling **5.6%**. **(-7.5%)**

Similar to 2015, the predominant reason for this statistical change is the sale of another six bank-owned Ann Arbor Commerce Park buildings. As a result, 141,000 sf of flex space was eliminated from the vacancy report as the buildings are now owner occupied. In our 2015 vacancy report, those six buildings reported 121,000 sf of vacancy. Removing those buildings from this year’s report, in effect, accounted for about 60% of the vacancy rate drop in the SFA, while the rest of the vacancy rate drop came from modest flex/light industrial leasing.

THE WEST OFFICE AREA (WOA)

The WOA vacancy rate increased from **4.2%** up to **13.9%** this year, an increase of 44,000 sf of vacant office space. **(+9.7%)**

Three quarters of the increase resulted from a single 35,000 sf Jackson Plaza building moving from 100% occupied to 100% vacant. Most WOA office buildings saw their occupancy remain steady in 2016.
THE WEST FLEX AREA (WFA)

The WFA vacancy rate increased from 9.7% to 10.6% this year. (+0.9%)

Of the seventeen buildings in the WFA, thirteen reported either steady or decreased vacancy in 2016. Of the four remaining buildings three reported that larger tenants totaling 30,000 sf had vacated. New leasing activity was steady for the WFA, so if this trend continues, then the WFA vacancy rate will likely decrease in 2017.

2015 9.7% 2016 10.6%

LEASING DEMAND

Swisher Commercial’s internal statistics show that the office space leasing demand in 2016 was about 10% stronger than in 2015, while our flex and light industrial numbers in 2016 were nearly 10% behind the 2015 pace. This year’s leasing absorption was suppressed slightly by companies purchasing their own buildings, rather than leasing space. What we did not see in 2016 was the construction of new multi-tenant office or flex buildings.

We saw a number of companies expanding. We also saw a bit more activity from “non-high-tech” businesses.

SALES ACTIVITY

In 2016, local occupant/buyers purchased six of the remaining Ann Arbor Commerce Park flex buildings at prices well below the cost of new construction. There were also a number of large office buildings such as the Concord Office Center, 555 Briarwood, 101 N. Main and the Ann Arbor Commerce Bank Building sold to investors who understandably believe that the likely increase in rental rates and the likely low vacancy rates expected for Ann Arbor will justify their purchases. As long as there is product available for sale in the Ann Arbor area, there will be a steady flow of buyers interested in becoming investment owners or owner occupants. These purchases were aided by banks and lenders offering low interest rates and showing their confidence in the Ann Arbor area commercial real estate market with their willingness to make commercial loans.
## STATISTICAL SUMMARY

<table>
<thead>
<tr>
<th>Area</th>
<th># Blds</th>
<th>Gross sf</th>
<th>Vacant sf</th>
<th>YE 2016 Vac %</th>
<th>YE 2015 Vac %</th>
<th>% Chg.</th>
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<tbody>
<tr>
<td><strong>Office</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown</td>
<td>63</td>
<td>1,659,744</td>
<td>34,193</td>
<td>2.1%</td>
<td>2.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>North</td>
<td>36</td>
<td>2,582,444</td>
<td>79,121</td>
<td>3.1%</td>
<td>3.5%</td>
<td>-0.4%</td>
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<tr>
<td>East</td>
<td>35</td>
<td>637,974</td>
<td>105,801</td>
<td>16.6%</td>
<td>18.7%</td>
<td>-2.1%</td>
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<tr>
<td>CGMA</td>
<td>10</td>
<td>501,543</td>
<td>31,957</td>
<td>6.4%</td>
<td>7.0%</td>
<td>-0.6%</td>
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<tr>
<td>South</td>
<td>70</td>
<td>3,438,314</td>
<td>557,768</td>
<td>16.2%</td>
<td>10.3%</td>
<td>5.9%</td>
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<tr>
<td>West</td>
<td>21</td>
<td>446,795</td>
<td>62,151</td>
<td>13.9%</td>
<td>4.2%</td>
<td>9.7%</td>
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<td><strong>Total</strong></td>
<td>235</td>
<td>9,266,814</td>
<td>870,991</td>
<td>9.4%</td>
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<tr>
<td><strong>Flex</strong></td>
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<tr>
<td>South</td>
<td>49</td>
<td>2,407,866</td>
<td>134,847</td>
<td>5.6%</td>
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<td>West</td>
<td>17</td>
<td>516,508</td>
<td>54,876</td>
<td>10.6%</td>
<td>9.7%</td>
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<td><strong>Total</strong></td>
<td>66</td>
<td>2,924,374</td>
<td>189,723</td>
<td>6.5%</td>
<td>12.5%</td>
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<td><strong>Office &amp; Flex</strong></td>
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<td>6.4%</td>
<td>7.0%</td>
<td>-0.6%</td>
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<tr>
<td>South</td>
<td>119</td>
<td>5,846,180</td>
<td>692,615</td>
<td>11.8%</td>
<td>11.5%</td>
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<tr>
<td>West</td>
<td>38</td>
<td>963,303</td>
<td>117,027</td>
<td>12.1%</td>
<td>7.1%</td>
<td>5.0%</td>
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<tr>
<td><strong>Total</strong></td>
<td>301</td>
<td>12,191,188</td>
<td>1,060,714</td>
<td>8.7%</td>
<td>8.5%</td>
<td>0.2%</td>
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</table>

### ASSUMPTIONS

1. **AREA**
   - **Downtown** includes Ann Arbor, Scio/Pittsfield/Ann Arbor Twps. **North** includes Plymouth Road corridor. **East** includes Washtenaw, Packard and Carpenter Rds. **CGMA** is the Clark-Golfside Medical area, St. Joseph Mercy Hospital campus and the Huron River Drive/Golfside-Clark area. **South** includes S. Industrial, S. Main, S. State, Briarwood and airport areas. **West** includes W. Liberty and Jackson Road areas.

2. **BUILDINGS**
   Includes all identified non-owner-occupied buildings over 5,000 sf.

3. **FLEX**
   Defined as high-bay type buildings, often combining office, high-tech, research, warehouse & similar.

4. **% CHANGE**
   A negative denotes a decreasing vacancy rate. Calculation is YE 2016 rate less the YE 2015 rate.
As we approach our 25th year of providing the Ann Arbor community with informative year-end vacancy reports, we thank you for your interest and involvement. 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, and 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.

Swisher Commercial is preparing to celebrate 50 years of business and success. Stay in touch with us to see opportunities revealed throughout the new year.

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

Ann Arbor, Michigan
December 31, 2016