2021 YEAR-END VACANCY REPORT

Ann Arbor Area Office & Flex

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SWISHER COMMERCIAL

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Dear Friend,

Enclosed is Swisher Commercial's 29th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2021. We surveyed 306 buildings of 5,000 square feet or larger, totaling nearly 11.7 million square feet. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 29 years. This year's numbers reflect the continued impact of the COVID pandemic, in addition to other market forces that influence commercial real estate in Washtenaw County, Michigan.

We hope this report will help you better understand the current market and assist in planning your real estate decisions. Swisher Commercial extends our wishes of good health to our community, and we welcome your inquiries and requests for assistance related to your commercial real estate needs.

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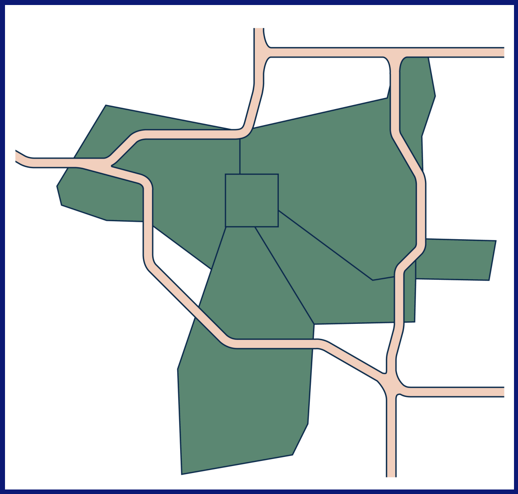
Charlie Koenn
Jeff Evans
Douglas Smith, CCIM

Tony Caprarese
David L. Hamilton, CCIM
Michael Giraud
Jason Um

Michael Jurgenson, CCIM
Randy Maas
Joseph Palms, CCIM

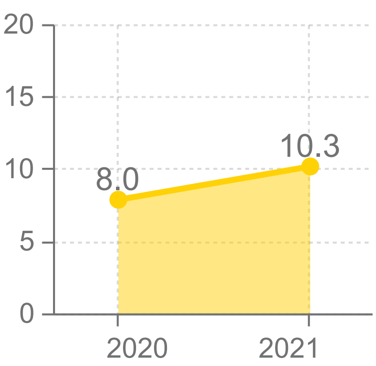
According to Swisher Commercial's analysis of eight sub-markets, six increased in vacancy, while one office sub-market and one flex sub-market decreased in vacancy.

This report includes a detailed analysis of each of the eight sub-markets.



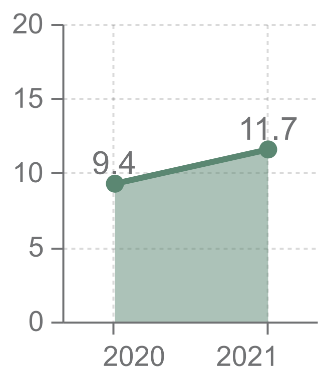
ANN ARBOR OFFICE/FLEX MARKET

As of December 31, 2021, the total market vacancy rate for office and flex space is 10.3%, somewhat higher than the 2020 vacancy rate of 8%. (+2.3%)



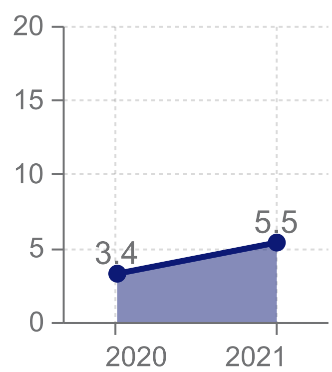
OFFICE

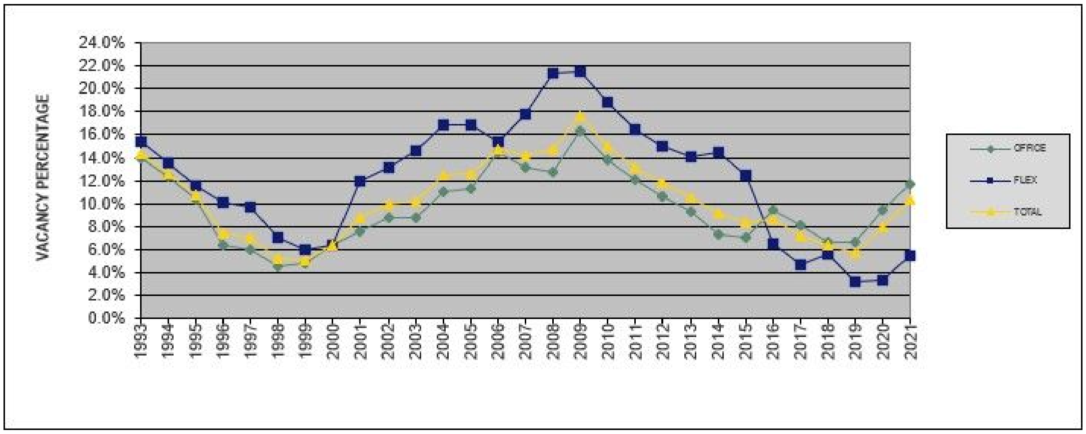
The office vacancy rate increased from 9.4% in 2020 to 11.7% this year. (+2.3%)



FLEX

In the past year, flex vacancy rates increased from 3.4% to 5.5%. (+2.1%)





STATISTICAL SUMMARY

Office

Area	# Bldgs	Gross SF	Vacant SF	YE 2021 Vacancy %	YE 2020 Vacancy %	% Change
Downtown	67	1,699,391	241,639	14.2%	8.0%	6.2%
North	34	2,494,689	142,769	5.7%	7.0%	-1.3%
East	34	626,480	82,066	13.1%	12.4%	0.7%
CGMA	10	506,484	66,535	13.1%	9.9%	3.2%
South	68	3,323,966	460,502	13.9%	11.4%	2.5%
West	23	497,100	72,621	14.6%	9.4%	5.2%
Total	236	9,148,110	1,066,132	11.7%	9.4%	2.3%

Flex

Area	# Bldgs	Gross SF	Vacant SF	YE 2021 Vacancy %	YE 2020 Vacancy %	% Change
South	51	1,896,112	122,350	6.5%	3.1%	3.4%
West	19	635,172	17,890	2.8%	4.5%	-1.7%
Total	70	2,531,284	140,240	5.5%	3.4%	2.1%

Office & Flex

Area	# Bldgs	Gross SF	Vacant SF	YE 2021 Vacancy %	YE 2020 Vacancy %	% Change
Downtown	67	1,699,391	241,639	14.2%	8.0%	6.2%
North	34	2,494,689	142,769	5.7%	7.0%	-1.3%
East	34	626,480	82,066	13.1%	12.4%	0.7%
CGMA	10	506,484	66,535	13.1%	9.9%	3.2%
South	119	5,220,078	582,852	11.2%	8.1%	3.1%
West	42	1,132,272	90,511	8.0%	6.5%	1.5%
Total	306	11,679,394	1,206,372	10.3%	8.0%	2.3%

ASSUMPTIONS

1. AREA
Downtown **includes D1 & D2 zoned bldgs.**
North **includes Plymouth Rd corridor & Ann Arbor Twp.**
East **includes Washtenaw, Packard and Carpenter Rds.**
South **includes S. Industrial, S. Main, S. State, Pittsfield Twp, Briarwood, & Airport areas.**
West **includes Scio Twp, W. Liberty & Jackson Road areas.**
CGMA **is the Clark-Golfside Medical Area, St. Joseph Mercy Hospital campus & the Huron River Drive/ Golfside-Clark area.**

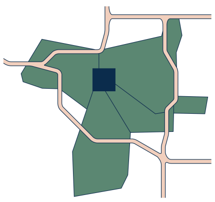
2. BUILDINGS
Includes all identified non-owner-occupied buildings over 5,000 sf.

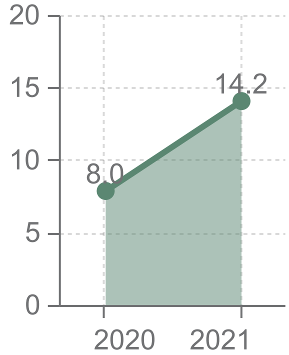
3. FLEX
Defined as high-bay type buildings, often combining office, high-tech, research, warehouse & similar.

4. % CHANGE
A negative denotes a decreasing vacancy rate. Calculation is YE 2021 rate less the YE 2020 rate.

THE DOWNTOWN OFFICE AREA (DOA)

The DOA vacancy rate increased from 8.0% to 14.2% in 2021. (+6.2%)

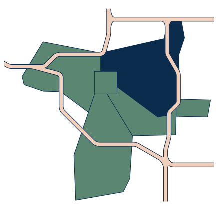


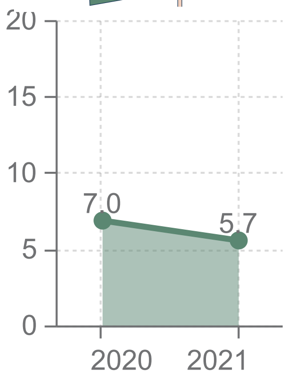


Of the 67 DOA buildings surveyed, there were 16 that increased in vacancy when compared to 2020. Over the years, DOA office buildings have attracted professional services, creative services, software development and technology firms, amongst others. Many of these businesses have adjusted to employees working remotely. As their leases have expired over the past 12 months some of the businesses have reassessed their office space needs, leading them to downsize, or in some cases depart from their DOA buildings. Another contributing factor to this year's vacancy rate increase is the addition of an owner-occupied DOA building now offering new "for lease" space to the market, as they, like other DOA businesses, found that they can operate in less office space. The few new 2021 leases were transactions with smaller office users with little demand by large tenants. Among active office prospects, the majority seem to be downsizing their footprint. To date, DOA landlords have not widely decreased asking rates on vacant office suites. Time will tell what kind of incentives, if any, will be offered by DOA landlords in order to rent the relatively large number of vacant office suites. We are watching to see the long-term effects of the pandemic on the DOA and the other sub-markets.

THE NORTH OFFICE AREA (NOA)

The NOA vacancy rate decreased from 7.0% to 5.7%. (-1.3%)

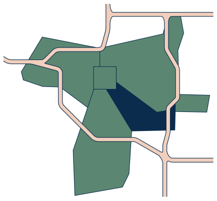


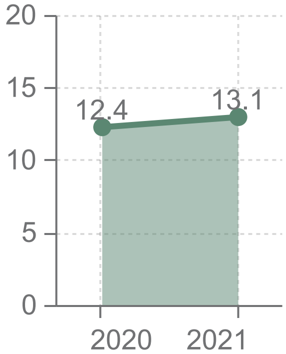


It is difficult to explain why the NOA vacancy rate did not increase as seen in the East, West, downtown, and South office areas. Were the larger NOA employers more willing to hang onto their office leases even with employees working remotely? Were NOA tenants tied into longer leases, thus preventing them from reexamining their office space leasing options in 2021? We do know that there are several large NOA tenants that are planning to move out of NOA buildings in 2022, so there may simply be a delay in the presumed rise in vacancy rate for this market.

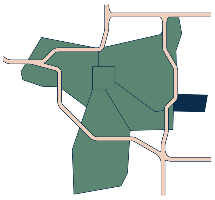
THE EAST OFFICE AREA (EOA)

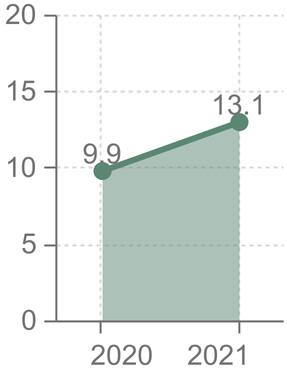
The EOA vacancy rate increased slightly from 12.4% in 2020 to the current rate of 13.1%. (+0.7%)





While there are EOA buildings that lost tenants due to increased remote-work practices, this was somewhat countered by new and expanding office users such as mental health professionals and other businesses that need to meet clients/customers at their office sites. There were also some office tenants leaving higher-rent sub-markets in favor of lower rents and smaller suite sizes offered by the EOA. There was a steady flow of new small-office transactions in the EOA, which moderated the increase in the vacancy rate of this sub-market.

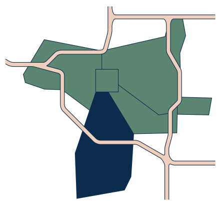


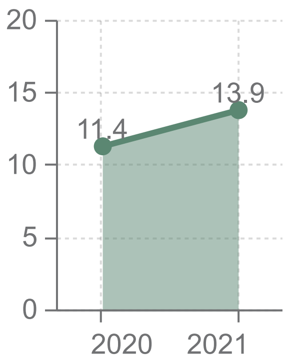


THE CLARK-GOLFSIDE MEDICAL OFFICE AREA (CGMA)

The CGMA vacancy rate increased from 9.9% to 13.1%. (+3.2%)

There was not a lot of new demand for medical suites in the CGMA.   One 20,000 square foot building comprised of multiple small medical suites is now 100% vacant, contributing to the increased vacancy rate this year. This continues a pre-Covid trend of smaller medical offices being shuttered in favor of locating in larger medical facilities.

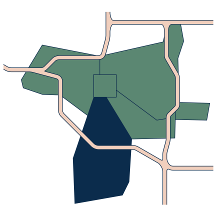


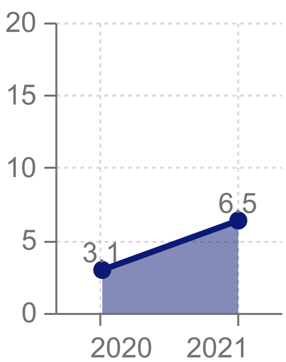


THE SOUTH OFFICE AREA (SOA)

The SOA vacancy rate increased from 11.4% to 13.9%, the second highest vacancy rate of the eight sub-markets in our survey, which is significant considering the SOA is the largest sub-market by total square footage. (+2.5%)

Within the SOA there are 14 buildings with 10,000 to 30,000 square feet vacant. There are 7 other buildings with more than 30,000 square feet vacant. The SOA has been home for many large office tenants. We speculate that these office users particularly felt the burden of carrying large office suites while their employees in many cases continued to work remotely.   As leases expired, many businesses relocated or reduced the size of their SOA office suites.

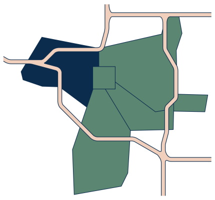


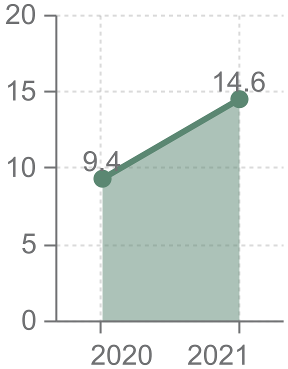


THE SOUTH FLEX AREA (SFA)

The SFA vacancy rate increased from 3.1% vacancy in 2020 to 6.5% this year. (+3.4%)

The increase is due in part to one large flex building becoming vacant in the last quarter of 2021. Though the SFA vacancy rate increased to 6.5%, it is still relatively low telling us that there is more stability and demand for flex space than office. The users of flex space often have equipment, products and operations that can only be handled on-site, thus leading these operations to retain their leased spaces more often than pure office users.

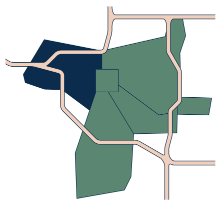


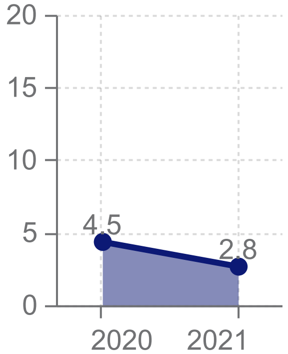


THE WEST OFFICE AREA (WOA)

The WOA vacancy rate increased from 9.4% to 14.6% in 2021, the highest vacancy rate of the eight sub-markets. (+5.2%)

The largest building in the WOA experienced a loss of tenancy in 2021, with this building now showing 37% vacancy. Because the WOA is such a small market overall, one large building with high vacancy can have a dramatic effect on the total vacancy rate for the WOA. Nine of the 23 WOA buildings increased in vacancy, though in most cases the vacancies are relatively small.

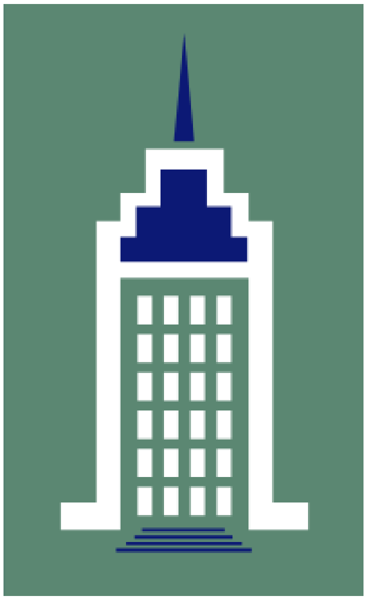




THE WEST FLEX AREA (WFA)

The WFA vacancy rate decreased from 4.5% in 2020 to 2.8% this year, the lowest vacancy rate in the market. (-1.7%)

Of the eighteen WFA properties surveyed, only two show more than 1,000 square feet vacant. There is only a total of 18,000 square feet vacant of the entire 635,000 square feet in the WFA. The WFA offers flex/shop suites in smaller sizes which are in high demand. In addition, the Wagner Road buildings that cater to incubator tech companies have been wildly successful, reporting 100% occupancy.



SALES ACTIVITY

Sales volume was high in 2021, and values continued upward in the Ann Arbor area. With the increasing cost of new construction, due to the cost and availability of materials and labor, businesses bought existing structures to renovate rather than build from scratch. The dominant sector among building sales was clearly light industrial and flex style buildings, as measured by Swisher Commercial's tracking of its own transactions. Year after year, as businesses purchase buildings for their own use, these transactions reduce the number of buildings available for lease which are thereby removed from our vacancy report statistics.

LEASING DEMAND & ABSORBTION

There are many forces that influence the vacancy rate in the Ann Arbor area. Recently, the strongest force decreasing demand and absorption has been the increasingly adopted remote-work business model leading many businesses to reduce their office space footprint. Pushing in the opposite direction is a strong Ann Arbor area economy with many businesses being stable, successful and growing despite the pandemic and changes to how they use office space. Many businesses feel uncertain how to proceed with their office space leasing decisions. They are trying to determine how to balance the benefits versus liabilities of employees working remotely. Employers are contemplating four general scenarios:

1. Discontinue leasing office space entirely and have all employees work remotely.
2. Decrease the amount of office space leased while some employees work from home, some work on site, and some adopt a hybrid arrangement.
3. Continue leasing the existing office suite despite many employees working remotely, postponing long-term office use decisions.
4. Continue leasing office space while asking most or all employees to return to the office.

Regardless of which approach employers choose, there is no doubt that the pandemic spurred the use of technology, allowing employees to work together online, and to interact with customers/clients online. Some industries will determine that online technology is sufficient for the near future, while others may conclude that online interactions fall short of the synergy and collaboration that occurs face to face. While we watch employers evaluate how their employees carry out their work, we can only say that the year 2022 will reveal more as to how businesses will use their office and flex suites.

The 2021 overall net absorption was negative 248,915 square feet. The office market contributed 82% of the negative net absorption while the flex portion of the market made up 18% of the total negative net absorption.

Swisher COMMERCIAL

commercial real estate is our business.
building relationships is our priority.

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 understand the Southeast and South Central Michigan markets and are committed to serving the long-term needs of the business community. We look forward to assisting you with your leasing, 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.

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