



2017

YEAR-END VACANCY REPORT

Ann Arbor Area Office & Flex

Dear Friend,

Enclosed is Swisher Commercial's 25th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2017. We surveyed 299 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 this year's vacancy as well as trends over the last 25 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.

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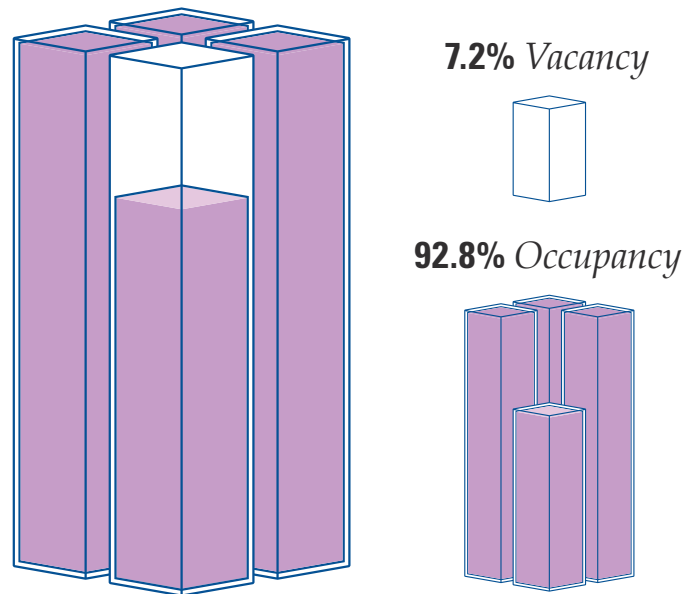
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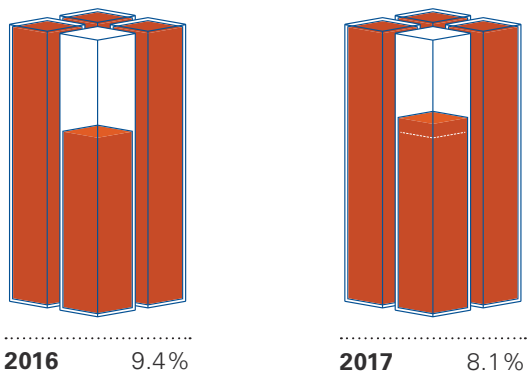
ANN ARBOR OFFICE/FLEX MARKET

As of December 31, 2017, the overall market vacancy rate for office and flex space is **7.2%**, a decrease from the **8.7%** vacancy rate one year ago.



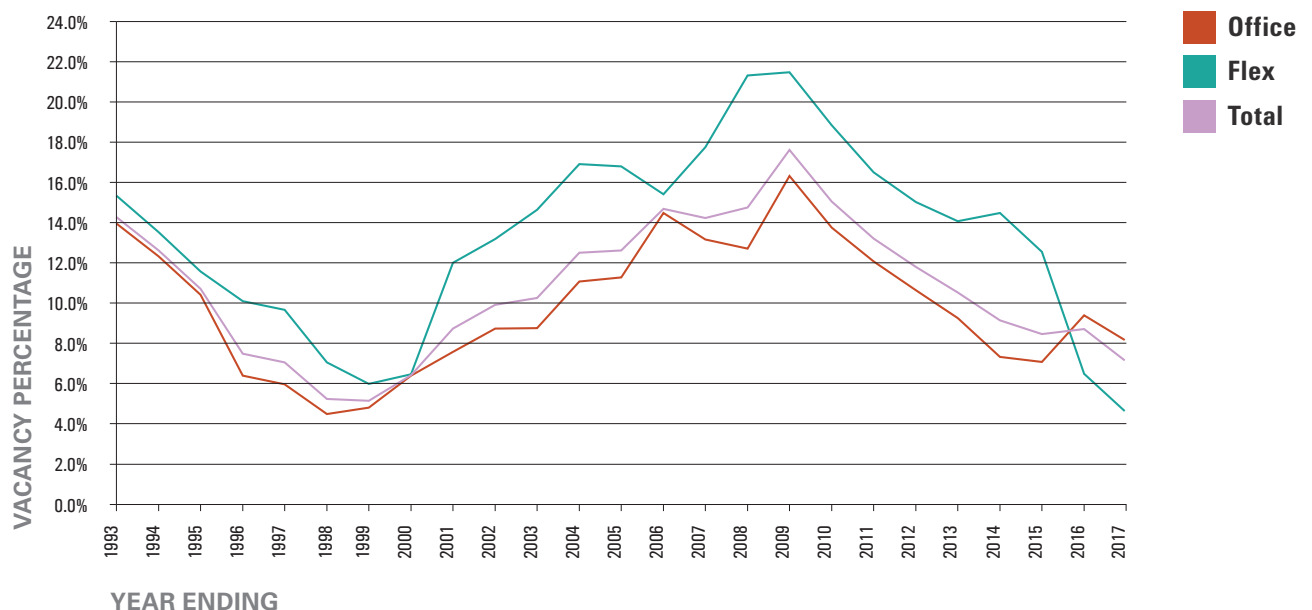
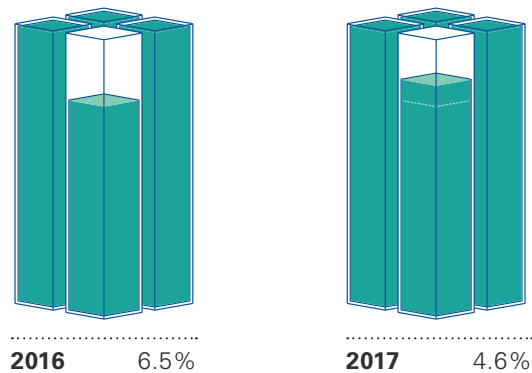
OFFICE

The office vacancy rate decreased from **9.4%** to **8.1%**. (-1.3%)



FLEX

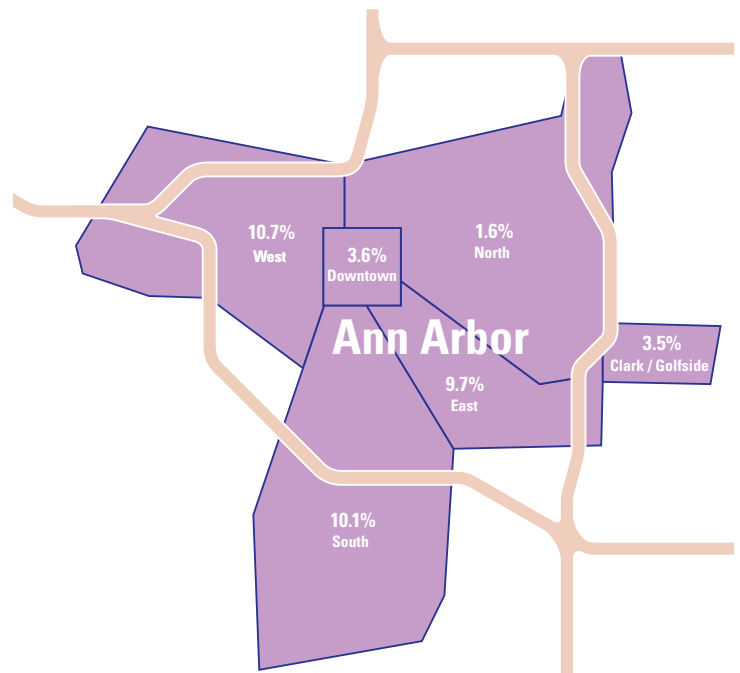
In the past year, flex vacancy rates decreased from **6.5%** to **4.6%**. (-1.9%)



According to Swisher's analysis of the eight sub-markets, six of the areas decreased in vacancy and two of the areas increased, when compared to 2016.

Below is a detailed analysis of the sub-market areas.

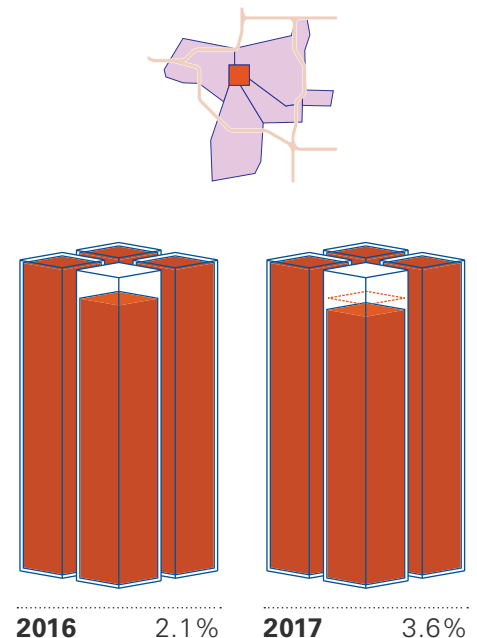
The final page of this report summarizes the statistical analysis of the vacancy rates for each of the eight areas.



THE DOWNTOWN OFFICE AREA (DOA)

The **DOA** vacancy rate moved from **2.1%** to a slightly higher **3.6%**. (+1.5%)

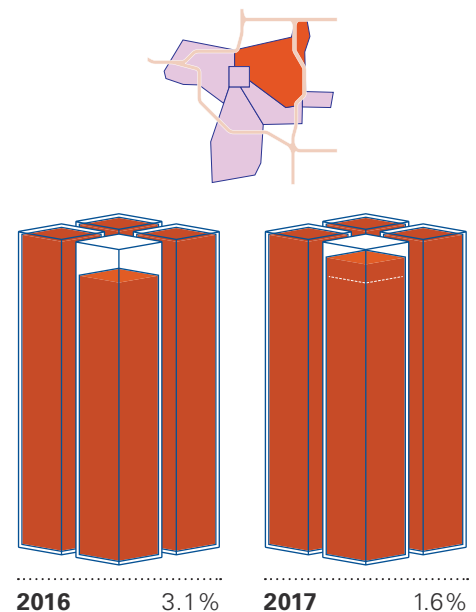
Though a noticeable increase as a percentage, this represents only 26,000 more square feet of vacant space. In addition, there are at least four downtown buildings advertising the availability of sublease space, totaling approximately 30,000 square feet of office space (technically still under lease, this space is not included in our vacancy tally). The combination of the vacant office space plus the available sublease space may provide a bit of breathing room for the downtown Ann Arbor companies expecting to hire more employees in 2018. The DOA attractiveness for growing businesses and new tenants alike will be influenced by the availability of public parking. While alternative transportation is becoming more popular, cars are still the norm, leading many businesses to hesitate renting office space downtown if they are unable to secure parking for their employees.



THE NORTH OFFICE AREA (NOA)

The NOA vacancy rate decreased from **3.1%** to **1.6%**. (-1.5%)

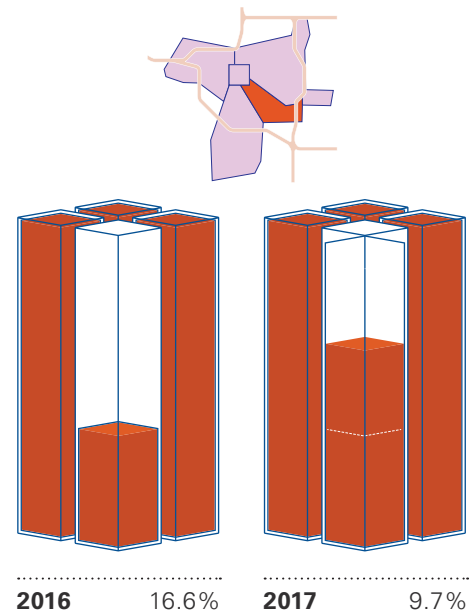
For a market of 2.5 million square feet to show only 40,000 square feet of vacant office space is notable. There is a single building reporting 20,000 square feet of vacancy and another reporting 10,000 square feet vacant, while all other vacancies measure less than 2,000 square feet in size. Swisher believes that the strength of the 2017 numbers for the NOA is best explained by the great stability of the long-term existing tenants, and not primarily by an abundance of new renters in the market.



THE EAST OFFICE AREA (EOA)

The EOA saw the most dramatic change of all the areas, with a vacancy rate decrease from **16.6%** to **9.7%**. (-6.9%)

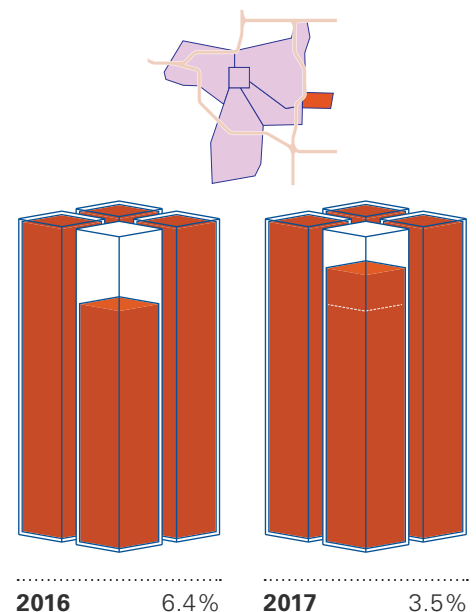
The office leasing activity in the EOA was particularly robust in buildings featuring 1,000 square foot to 2,000 square foot suites and at rental rates that were among the most affordable in Ann Arbor. Historically, tenants in these Class B office buildings tended to be healthcare and social service related organizations. However this year landlords have seen an influx of new types of tenants, including attorneys, engineers and high tech companies who seemed to be seeking lower rental rates.



THE CLARK-GOLFSIDE MEDICAL (CGMA) OFFICE AREA

The CGMA Office Area vacancy rate decreased from **6.4%** to **3.5%**, the first marked change in vacancy since 2008. (-2.9%)

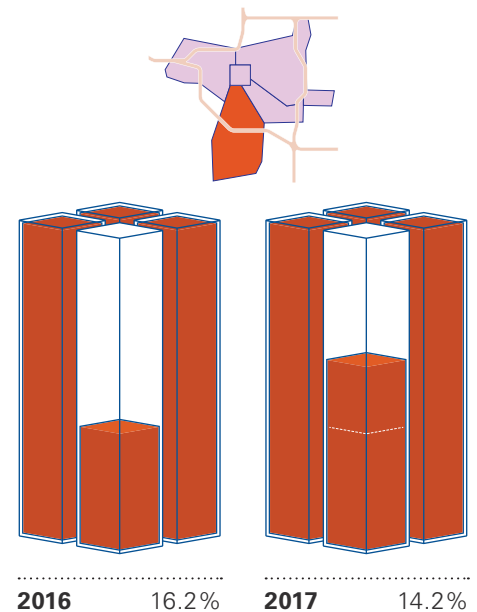
The medical tenants who are part of the St. Joseph Mercy Hospital campus and located in nearby buildings provide significant stability to the CGMA. Swisher brokers continue to report that there were very few traditional medical practices renting new offices in Ann Arbor, but there has been a steady flow of alternative-medicine, counseling, and other health-related businesses bolstering the Ann Arbor market.



THE SOUTH OFFICE AREA (SOA)

The SOA vacancy rate decreased from **16.2%** to **14.2%**. (-2.0%)

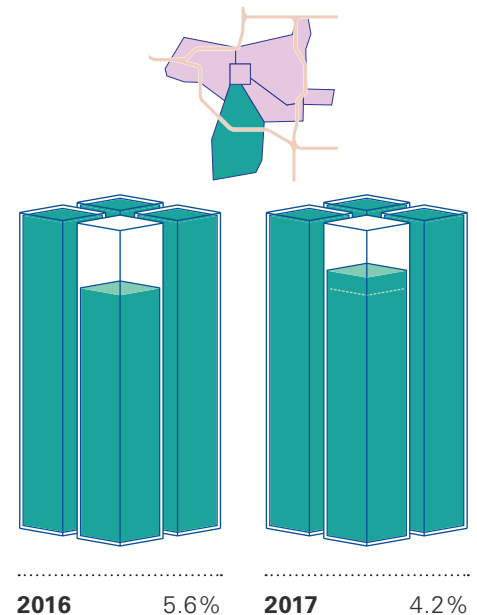
The sub-market as a whole had a net absorption of approximately 80,000 square feet, with one building accounting for 50% of the occupancy gain. The multi-story Class A buildings north of I-94 had successes as did some of the single-story office buildings south of I-94. Our research found that there were 12 buildings that gained occupancy and 12 buildings showing decreased occupancy. The SOA is the largest area by total square footage (3.4 million square feet) and has the highest vacancy rate, providing plenty of office space for companies looking to expand in 2018.



THE SOUTH FLEX AREA (SFA)

The SFA had its second consecutive vacancy rate decline, from **5.6%** to **4.2%**. (-1.4%)

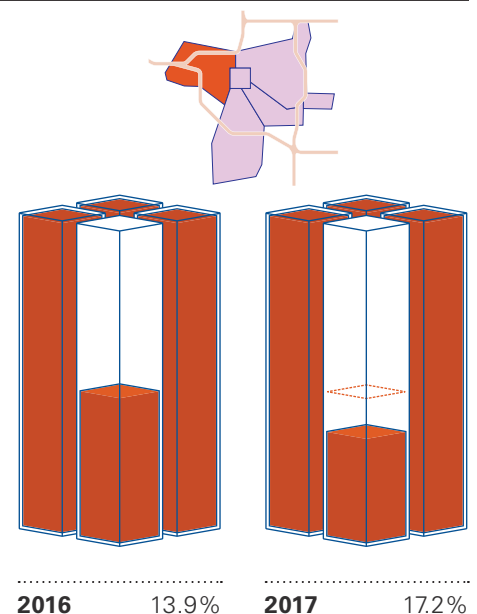
In 2016, there was a large drop in vacancy because many buildings were sold to owner occupants. The loss of inventory in 2016 plus moderate new demand for flex space rentals worked together to produce this year's low vacancy rate. If there is a surge in demand for flex space in 2018, those tenants will need to plan ahead and conduct a thorough search to find the flex space that meets their needs.



THE WEST OFFICE AREA (WOA)

The WOA vacancy rate increased for the second year, moving up from **13.9%** to **17.2%**. (+3.3%)

Most of the increased vacancy can be found in one specific office park that has 18,000 square feet of office space newly available this year. However, there seems to be ongoing demand for WOA office suites—for example, a single Jackson Road corridor office building signed four new leases totaling 8,000 square feet, with suites ranging from 1,000–3,000 square feet.

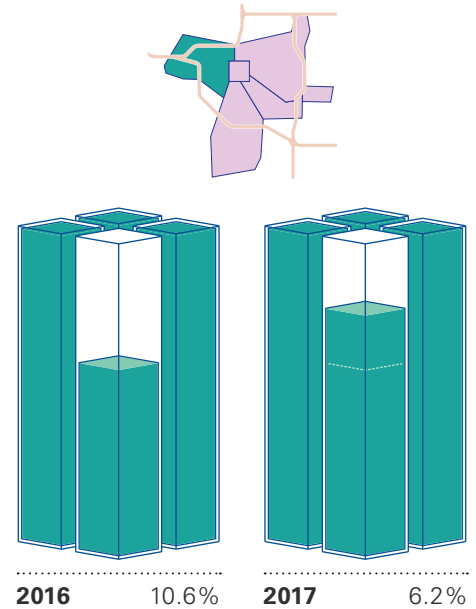


THE WEST FLEX AREA (WFA)

The WFA vacancy rate decreased from **10.6%** to **6.2%**. (-4.4%)

Swisher brokers report that demand was steady-to-strong for flex suites, particularly flex suites made up of higher proportions of shop/warehouse space.

With only 35,000 square feet of WFA vacant space, 2018 rental rates in the WFA may trend higher.



LEASING DEMAND

The leasing market for 2017 was steady with approximately 180,000 square feet of net absorption of office and flex space.



Swisher Commercial's brokers leased 6% more office space in 2017 than in 2016, with other area brokers also reporting activity levels trending slower in the second half of the year.

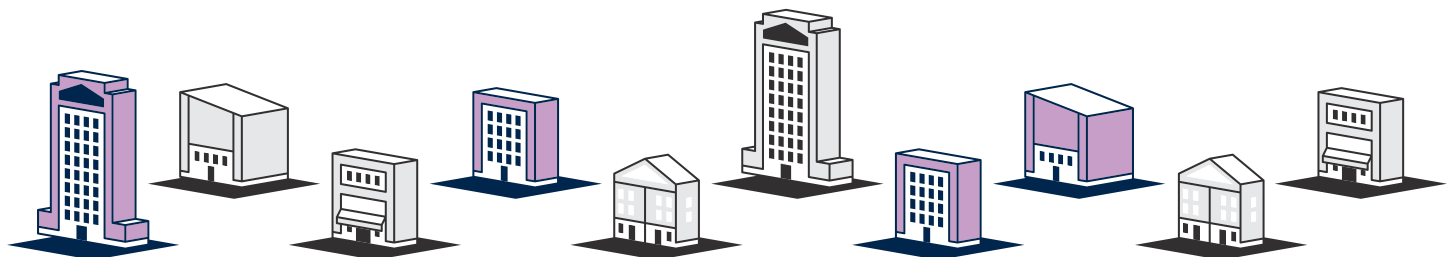
Swisher's 2017 flex and light industrial leasing productivity was approximately equal to its 2016 pace.

The lower vacancy rates of 2017 were caused by continued moderate absorption combined with the lack of new supply of space.

SALES ACTIVITY

There were many building sales in 2017, both investors buying properties and businesses making purchases for their own use. The big difference is that fewer of the transactions were the lender-owned sales that were common in 2016 and earlier years. As the year progressed brokers noticed fewer buildings available for sale, and fewer bargains.

Early indications are that there might not be as many buildings available to purchase in 2018.



SPECULATIVE BUILDINGS UNDER CONSTRUCTION FOR 2018

There are a number of speculative new construction projects expecting completion in 2018; not a surprise given the eight-year string of continued vacancy rate decreases.

HERE ARE FIVE SPECULATIVE PROJECTS:

1. A 60,000 sf Class A office/medical building currently under construction on Oak Valley Drive near the A2 Ice Cube.

2. A 25,000 sf Class A office building on S. Main Street in downtown Ann Arbor.

3. A nearly complete 10,000 sf office building on E. Eisenhower Parkway across from Briarwood Mall.

4. A 36,000 sf Class B office building on Concourse Drive catering to tenants ranging from 1,000–10,000 sf, with construction expected to start in early 2018.

5. A 20,000 sf single-story flex building on Oak Valley Drive offering office and light industrial suites from 3,000–20,000 sf, with construction expected to start in 2018.

Developers are responding to leasing demand, demonstrating confidence there will be expansions, relocations and start-ups to occupy their new buildings.



STATISTICAL SUMMARY

	Area	# Blds	Gross sf	Vacant sf	YE 2017 Vac %	YE 2016 Vac %	% Chg.
Office	Downtown	63	1,662,869	60,484	3.6%	2.1%	1.5%
	North	35	2,516,300	39,880	1.6%	3.1%	-1.5%
	East	35	637,974	62,105	9.7%	16.6%	-6.9%
	CGMA	10	501,543	17,548	3.5%	6.4%	-2.9%
	South	68	3,389,591	480,574	14.2%	16.2%	-2.0%
	West	21	448,755	77,396	17.2%	13.9%	3.3%
	Total	232	9,157,032	737,987	8.1%	9.4%	-1.3%
Flex	South	48	2,391,702	101,007	4.2%	5.6%	-1.4%
	West	19	644,848	39,755	6.2%	10.6%	-4.4%
	Total	67	3,036,550	140,762	4.6%	6.5%	-1.9%
Office & Flex	Downtown	63	1,662,869	60,484	3.6%	2.1%	1.5%
	North	35	2,516,300	39,880	1.6%	3.1%	-1.5%
	East	35	637,974	62,105	9.7%	16.6%	-6.9%
	CGMA	10	501,543	17,548	3.5%	6.4%	-2.9%
	South	116	5,781,293	581,581	10.1%	11.8%	-1.7%
	West	40	1,093,603	117,151	10.7%	12.1%	-1.4%
	Total	299	12,193,582	878,749	7.2%	8.7%	-1.5%

ASSUMPTIONS

1. AREA

Downtown includes Ann Arbor, 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 ares. **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.

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 2017 rate less the YE 2016 rate.

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 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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