# 2019

# YEAR-END VACANCY REPORT

## *Ann Arbor Area Office & Flex*

Dear Friend,

Enclosed is Swisher Commercial's 27th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2019. We surveyed 307 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 27 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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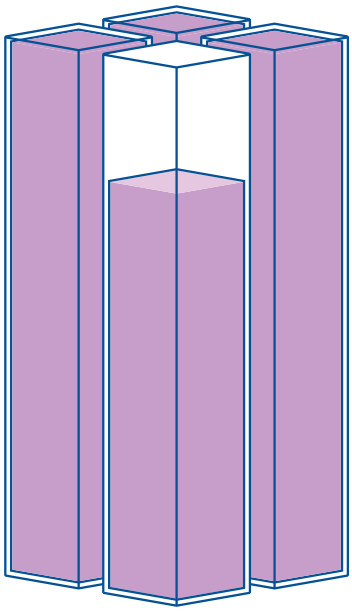
# ANN ARBOR OFFICE/FLEX MARKET

As of December 31, 2019, the total market vacancy rate for office and flex space is **5.8%**, a decrease from the **6.4%** vacancy rate one year ago. (-0.6%)

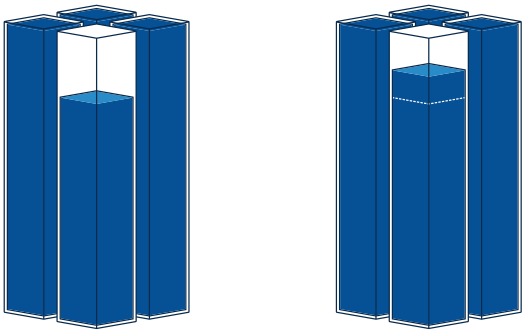


**5.8%** *Vacancy*

**94.2%** *Occupancy*

## FLEX

In the past year, flex vacancy rates decreased from **5.6%** to **3.2%**. (-2.4%)

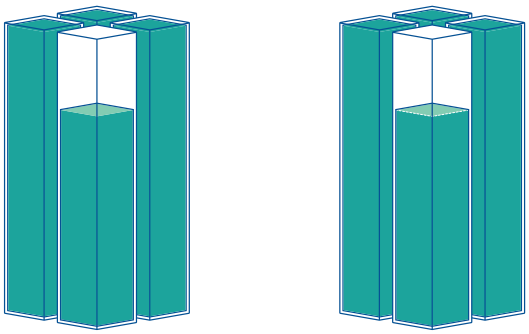


**2018** 5.6%

**2019** 3.2%

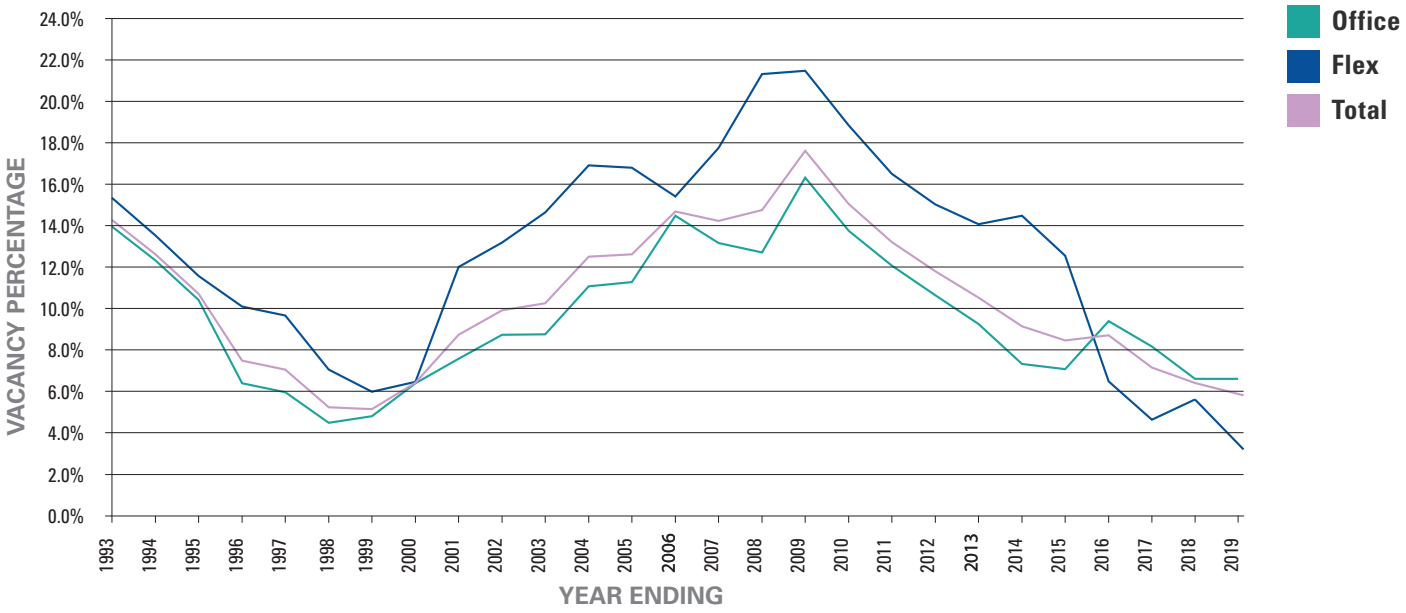
## OFFICE

The office vacancy rate remained flat at **6.6%**. (+0.0%)



**2018** 6.6%

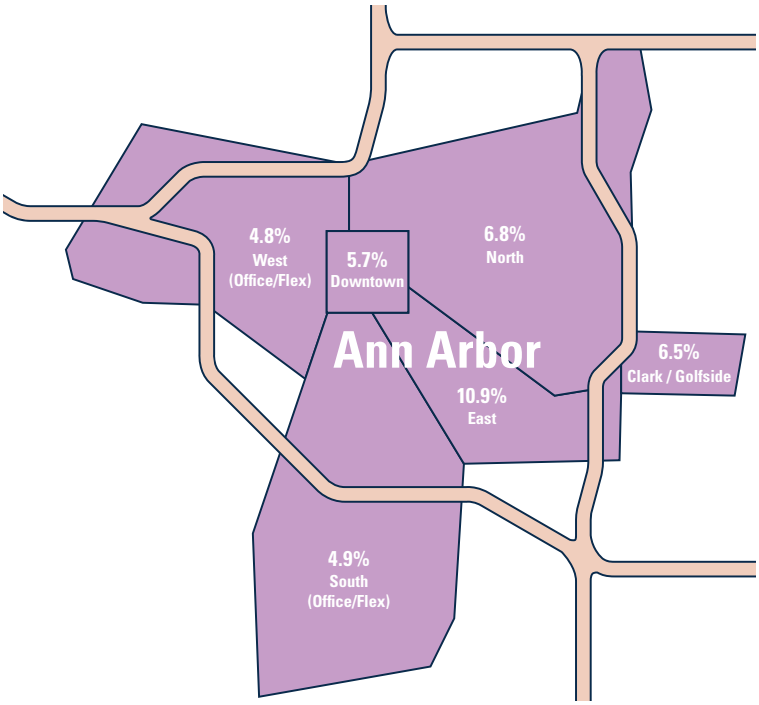
**2019** 6.6%



According to Swisher Commercial's analysis of the eight sub-market areas, five of the areas decreased in vacancy and three of the areas increased in vacancy when compared to 2018.

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.

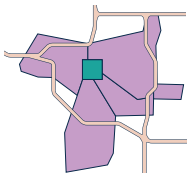


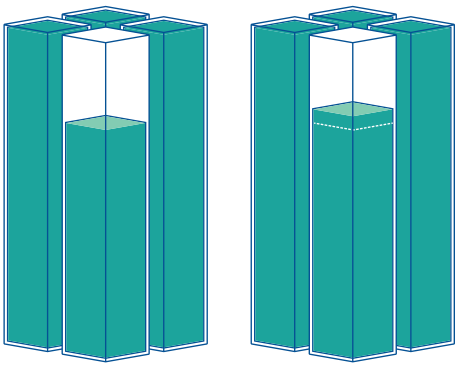

2019

## THE DOWNTOWN OFFICE AREA (DOA)

The **DOA** vacancy rate decreased from **6.8%** to **5.7%** in 2019. (-1.1%)

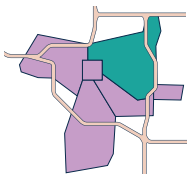
There were eleven downtown office buildings reporting a higher vacancy rate than in 2018, and four buildings reporting a lower vacancy rate, with no fluctuation in the remaining buildings. Swisher Commercial brokers are reporting steady leasing activity in the DOA, with interest being stronger in the second half of the year. The DOA continues to be attractive to technology and software companies that want to improve their ability to attract and retain tech talent for their workforce by locating amidst the amenities available in downtown Ann Arbor.





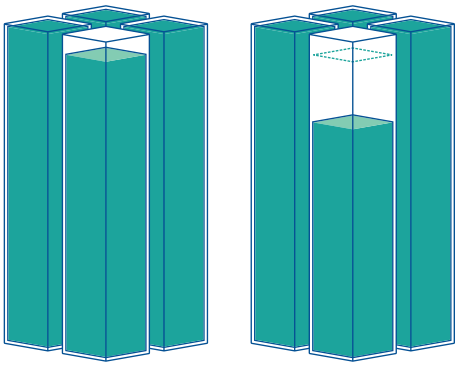
**2018** 6.8% **2019** 5.7%

## THE NORTH OFFICE AREA (NOA)



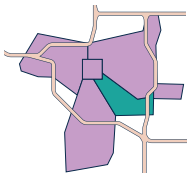
The **NOA** vacancy rate jumped from **1.4%** to **6.8%**. (+5.4%)

There are two NOA office buildings with newly vacant large blocks of office space resulting from businesses relocating to the SOA. Another factor in the increased vacancy rate is a building now marketing 63,000 square feet as a potential redevelopment for office users. The NOA has not exceeded a 6% vacancy rate since measuring 10.9% in the 2011 Swisher Commercial Vacancy Report. Based on historical demand for NOA space and the limited number of large vacant blocks of space in Ann Arbor, we see the space being promptly absorbed.



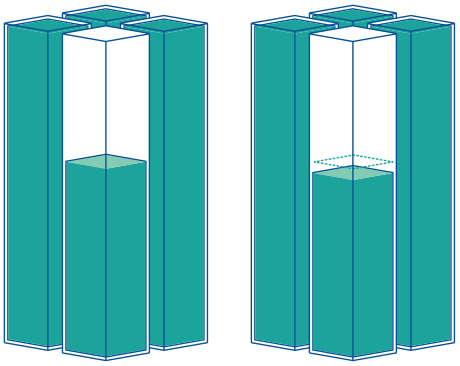
**2018** 1.4% **2019** 6.8%

## THE EAST OFFICE AREA (EOA)



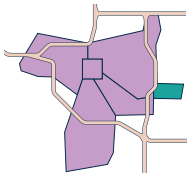
The **EOA** vacancy rate increased slightly from **10.0%** in 2018 to the current rate of **10.9%**. (+0.9%)

There was a consistent flow of small office leases in the EOA this year. Similar to last year, the most common tenants were those providing personal services; and practitioners in mental health therapy, family health and social services. The EOA buildings provide an important niche of smaller and more economical office suites.



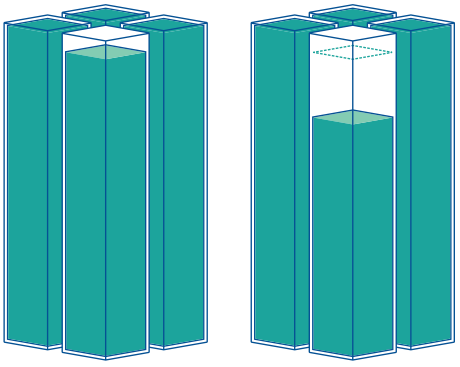
**2018** 10.0% **2019** 10.9%

## THE CLARK-GOLFSIDE MEDICAL (CGMA) OFFICE AREA



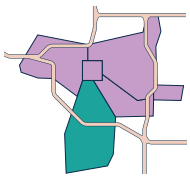
The **CGMA Office Area** vacancy rate increased from **1.3%** to **6.5%** after two consecutive years of decreasing vacancy. (+5.2%)

This change is primarily due to a McAuley Campus building now showing 20,000 square feet available to third party tenants.



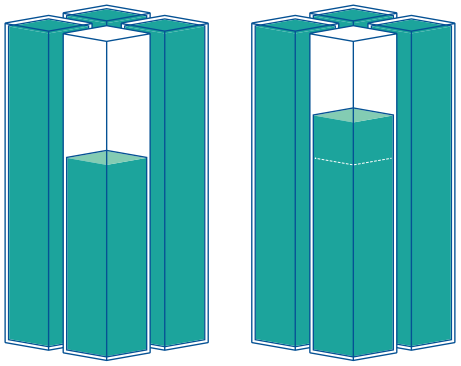
**2018** 1.3% **2019** 6.5%

## THE SOUTH OFFICE AREA (SOA)



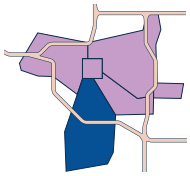
The **SOA** vacancy rate dropped for the second consecutive year, decreasing from **9.7%** to **6.3%**. (-3.4%)

Three SOA buildings had significant office leasing success, due in part to the relocations from the NOA mentioned aforehand. Continued demand decreased the available space in the SOA from 337,000 square feet in 2018 to just over 200,000 square feet. Only four SOA buildings have contiguous blocks of space measuring over 20,000 square feet.



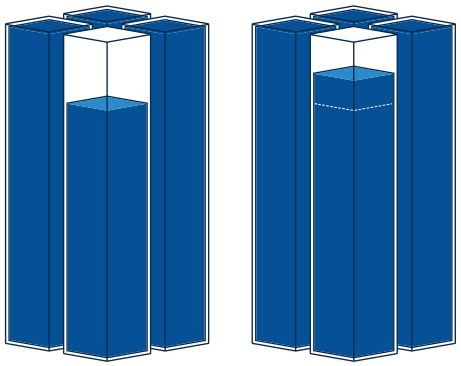
**2018** 9.7% **2019** 6.3%

## THE SOUTH FLEX AREA (SFA)



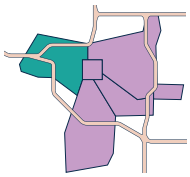
The **SFA** rate dropped significantly, from **5.3%** vacancy in 2018 to **2.9%** this year. (-2.4%)

The reduction leaves over 68,000 square feet of vacant flex space in a market of 50 buildings totaling almost 2.34 million square feet, which does not provide much space for incoming businesses, or for existing SFA businesses hoping to expand. The low supply of existing flex space is leading developers to offer opportunities for new buildings in the form of build-to-suit projects as well as in speculative construction. A 20,000 square foot speculative building, completed in 2019, is fully leased and its success triggered a new 25,000 square foot project by the same developer, scheduled for completion in 2020.



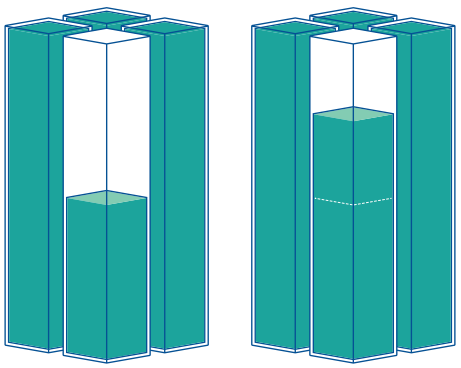
**2018** 5.3% **2019** 2.9%

## THE WEST OFFICE AREA (WOA)



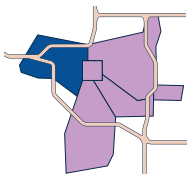
The **WOA** vacancy rate was cut in half, dropping from **12.7%** to **6.0%** in 2019. (-6.7%)

This was due to consistent demand all year for WOA office space. Another factor in the drop of this year's rate is attributed to the sale of a 35,000 square foot building to an owner-user, thereby eliminating it from this year's report. Last year, that building comprised 50% of the WOA total vacancy. As of year-end, just over 25,000 square feet of WOA space remains vacant, with 18 of the 22 buildings in the WOA being fully occupied.



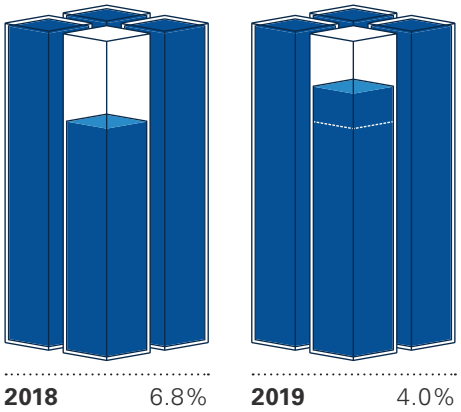
**2018** 12.7% **2019** 6.0%

# THE WEST FLEX AREA (WFA)



The **WFA** vacancy rate dropped from **6.8%** in 2018 to **4.0%** this year. (-2.8%)

There wasn't a specific event or transaction that caused the rate drop, however, limited supply and strong demand for economical flex space persists across the WFA. Swisher Commercial's research indicates that there were small swings in vacancy status from building to building, with most of the transactions being smaller in size. One 8,000 square foot speculative flex building was constructed in 2019 and was fully leased before its completion.



## LEASING DEMAND & ABSORBTION

Leasing activity in 2019 was steady to strong and widespread across the Ann Arbor market. The total market for 2019 had 75,156 square feet in net absorption. Swisher observed lease transactions for large blocks of space in 2019, but we also saw robust leasing activity among smaller suites ranging from 1,000 square feet to 5,000 square feet. In addition, the University of Michigan has become more active in its leasing of office space in third party buildings.

## SALES ACTIVITY

Similar to 2018, there was a limited supply of buildings for sale in 2019. Consequently, Swisher Commercial brokers saw fewer sale transactions. There continues to be strong interest in the investment property sector when well-positioned properties become available.

# STATISTICAL SUMMARY

| | Area | # Blds | Gross sf | Vacant sf | YE 2019 Vac % | YE 2018 Vac % | % Chg. |
|---|---|---|---|---|---|---|---|
| **Office** | Downtown | 67 | 1,654,283 | 93,504 | 5.7% | 6.8% | -1.1% |
| | North | 36 | 2,564,615 | 174,506 | 6.8% | 1.4% | 5.4% |
| | East | 35 | 633,974 | 69,158 | 10.9% | 10.0% | 0.9% |
| | CGMA | 10 | 501,543 | 32,777 | 6.5% | 1.3% | 5.2% |
| | South | 68 | 3,348,827 | 209,901 | 6.3% | 9.7% | -3.4% |
| | West | 22 | 436,201 | 26,310 | 6.0% | 12.7% | -6.7% |
| | **Total** | **238** | **9,139,443** | **606,156** | **6.6%** | **6.6%** | 0.0% |
| **Flex** | South | 50 | 2,335,703 | 68,737 | 2.9% | 5.3% | -2.4% |
| | West | 19 | 643,464 | 25,946 | 4.0% | 6.8% | -2.8% |
| | **Total** | **69** | **2,979,167** | **94,683** | **3.2%** | **5.6%** | -2.4% |
| **Office & Flex** | Downtown | 67 | 1,654,283 | 93,504 | 5.7% | 6.8% | -1.1% |
| | North | 36 | 2,564,615 | 174,506 | 6.8% | 1.4% | 5.4% |
| | East | 35 | 633,974 | 69,158 | 10.9% | 10.0% | 0.9% |
| | CGMA | 10 | 501,543 | 32,777 | 6.5% | 1.3% | 5.2% |
| | South | 118 | 5,684,530 | 278,638 | 4.9% | 7.9% | -3.0% |
| | West | 41 | 1,079,665 | 52,256 | 4.8% | 9.2% | -4.4% |
| | **Total** | **307** | **12,118,610** | **700,839** | **5.8%** | **6.4%** | -0.6% |

## 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, & Ann Arbor Airport areas.

***West*** includes Scio Twp, W. Liberty & Jackson corridor.

***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 2019 rate less the YE 2018 rate.

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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 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.

*Swisher Commercial*

*Ann Arbor, Michigan*
*December 31, 2019*

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