



2020

YEAR-END VACANCY REPORT

Ann Arbor Area Office & Flex

Dear Friend,

Enclosed is Swisher Commercial's 28th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2020. We surveyed 304 buildings of 5,000 square feet or larger, totaling approximately 12 million square feet. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 28 years. We hope this report will help you better understand the current market and assist in planning your real estate decisions.

The 2020 year-end report shows a glimpse of the early impact of the COVID-19 pandemic relative to office and flex vacancy, though we expect it will be years before the full impact is seen and is measurable. Swisher Commercial extends its wishes of good health to our community and welcomes your inquiries and requests for assistance related to your commercial real estate needs.

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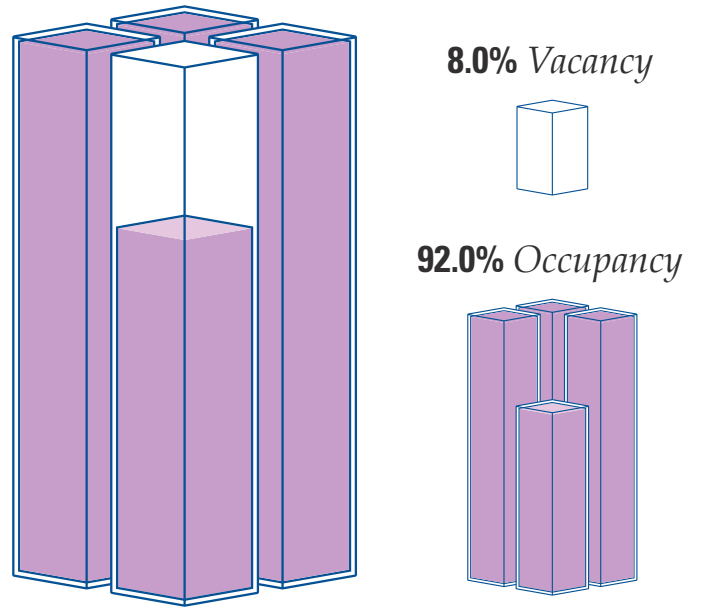
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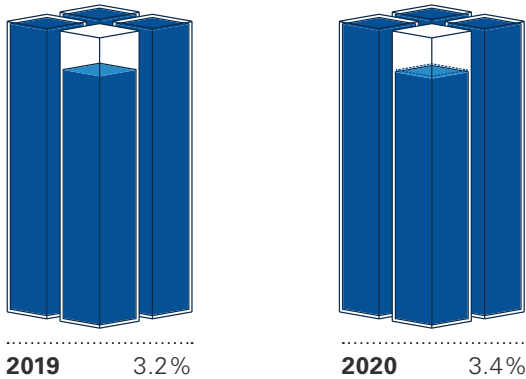
ANN ARBOR OFFICE/FLEX MARKET

As of December 31, 2020, the total market vacancy rate for office and flex space is **8.0%**, an increase from the **5.8%** vacancy rate one year ago. (+2.2%)



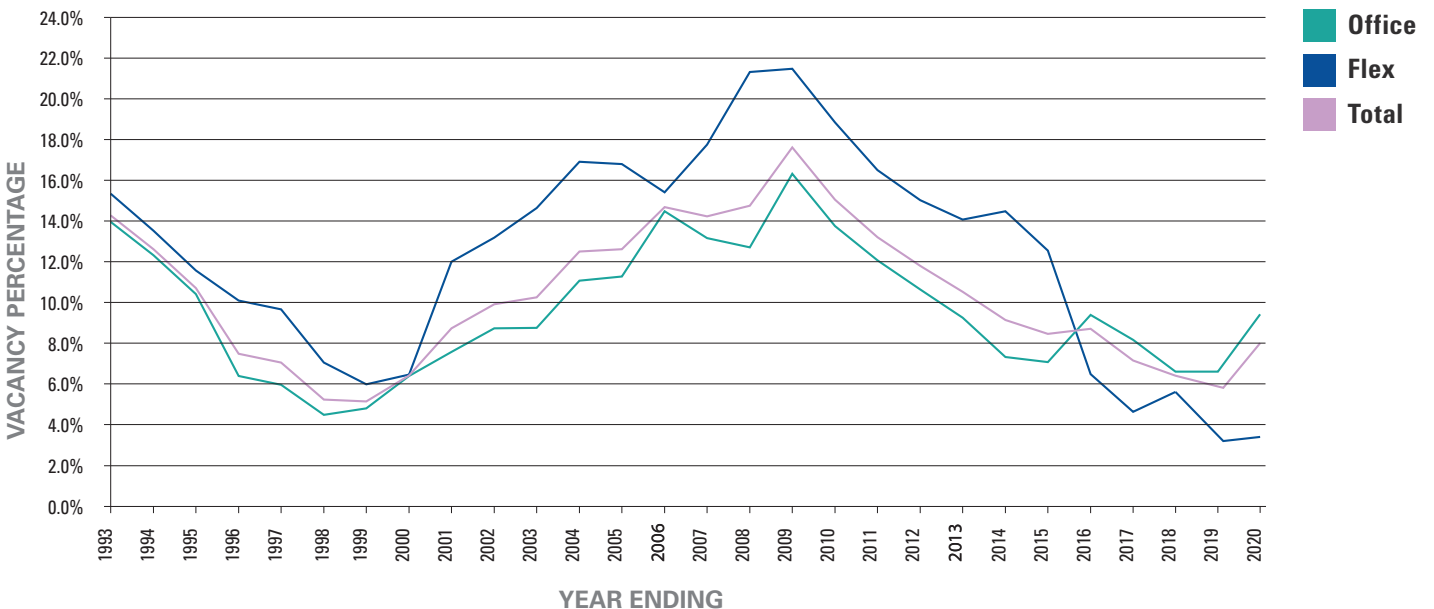
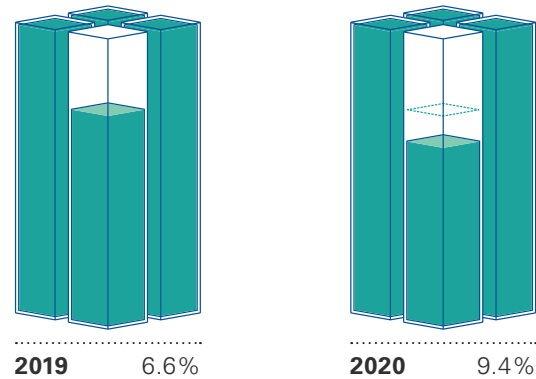
FLEX

In the past year, flex vacancy rates were essentially flat, rising from **3.2%** to **3.4%**. (+0.2%)



OFFICE

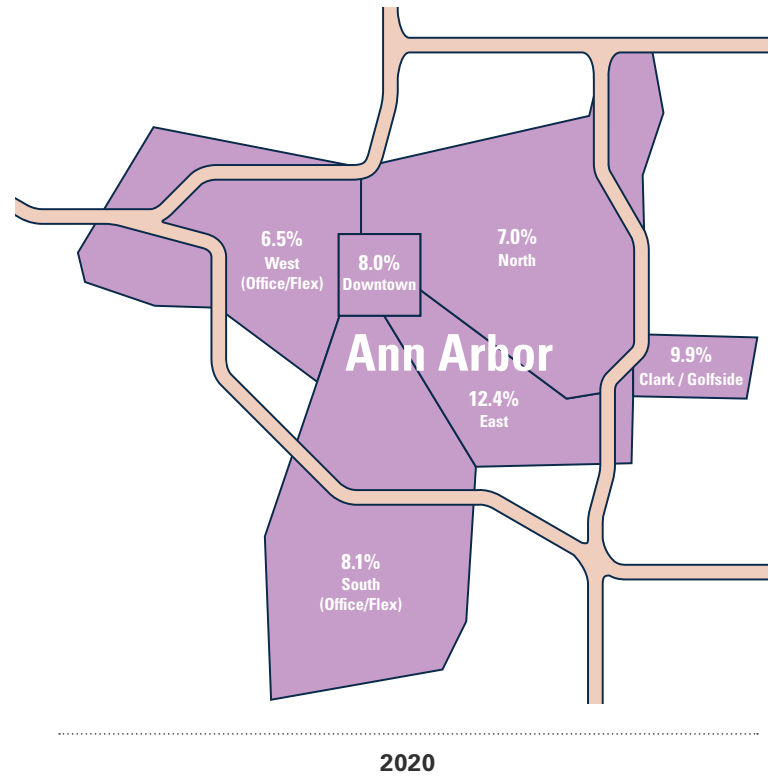
The office vacancy rate increased from **6.6%** to **9.4%**. (+2.8%)



According to Swisher Commercial's analysis of the eight sub-markets, each of the areas increased in vacancy when compared to 2019, though three areas increased by less than one-half percent.

Below is a detailed analysis of the sub-markets.

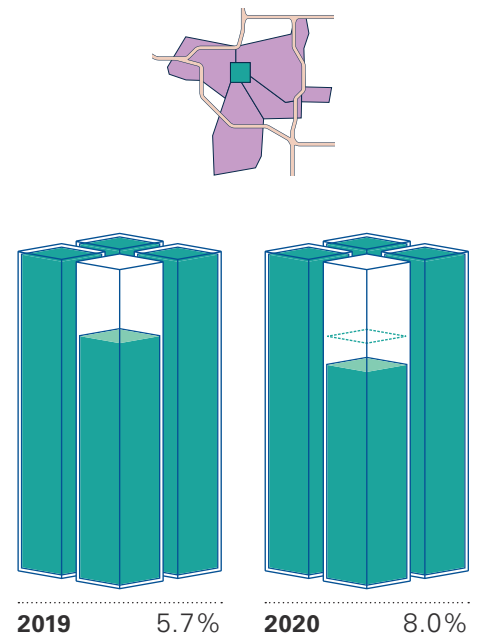
The final page of this report summarizes the statistical analysis of the vacancy rates for each of the eight areas.



THE DOWNTOWN OFFICE AREA (DOA)

The DOA vacancy rate increased from **5.7%** to **8.0%** in 2020. (+2.3%)

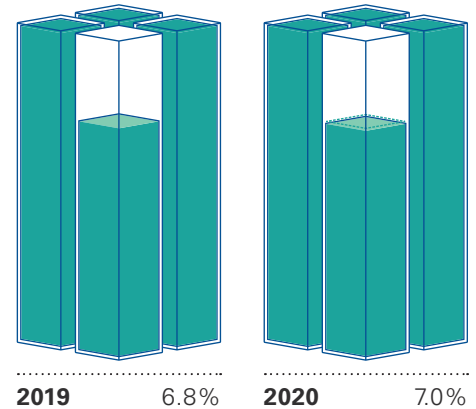
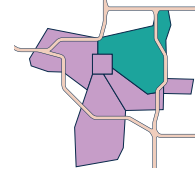
Of the 66 DOA buildings, there were 23 that increased in vacancy, though only three buildings ended the year with more than 10,000 square feet vacant. A 92% DOA office occupancy rate would typically signify a healthy downtown, however, casual observers saw that downtown Ann Arbor had a fraction of its normal foot traffic. While leases remained in place, floors of office buildings were unoccupied and parking spaces were abundantly available. Swisher brokers report that there has been little office space demand by new prospective DOA tenants this year. Over the years, office tenants have been attracted to the vibrancy of the DOA amenities, and at the same time, downtown Ann Arbor restaurants and retail businesses have come to rely on foot traffic from office occupants and their clientele for weekday business. In reaction to the pandemic, the State of Michigan shut-down orders in 2020 intermittently disallowed office occupancy, indoor restaurant dining, and retail operations. When the orders themselves were eased, downtown activity remained slow. The symbiotic relationship between DOA office users and downtown restaurants and retail was dramatically disrupted.



THE NORTH OFFICE AREA (NOA)

The NOA vacancy increased from **6.8%** to **7.0%**. (+0.2%)

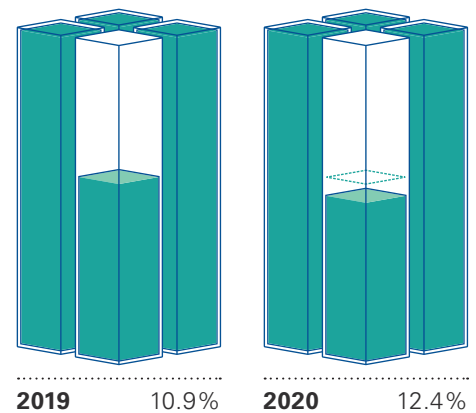
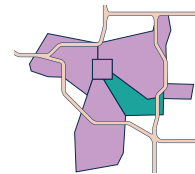
Of the 35 NOA buildings, nine reported a change in vacancy, with three of those buildings increasing by more than 5,000 square feet. The negligible increase reinforces our vacancy report historical data showing that NOA buildings attract long-term tenants, bringing stability to NOA landlords, even in difficult times. Nevertheless, underneath the relatively stable vacancy rate, this year there was a lack of significant new demand for office space in the NOA. Anecdotally, a listing broker reports that a Class A NOA office building with a sizable vacancy has had but a single new prospect inquiry since the beginning of the pandemic. Typically, in that same time frame, a quality Class A office vacancy in the NOA would draw a half-dozen or more inquiries by prospective tenants.



THE EAST OFFICE AREA (EOA)

The EOA vacancy rate increased a percent and a half from **10.9%** in 2019 to the current rate of **12.4%**. (+1.5%)

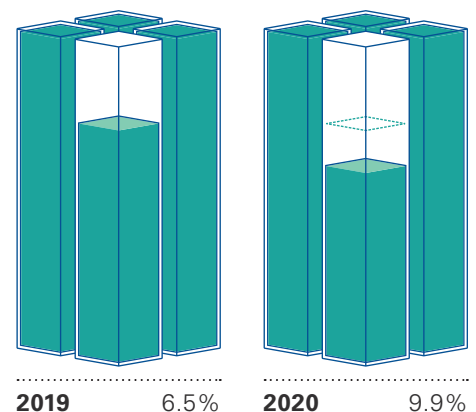
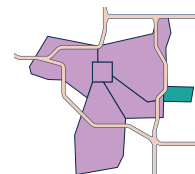
One property in the EOA reported 14,000 square feet higher vacancy than last year, and of the nine other buildings in the EOA with increased vacancy, none increased by more than 5,000 square feet. Despite the dampening effect of the pandemic, there was a steady flow of new small-office transactions in the EOA, which moderated the increase in the vacancy rate of the sub-market. New office tenants relocating or expanding into the EOA included firms in the mental health, accounting, legal and real estate sectors.



THE CLARK-GOLFSIDE MEDICAL (CGMA) OFFICE AREA

The CGMA Office Area vacancy rate increased from **6.5%** to **9.9%**. (+3.4%)

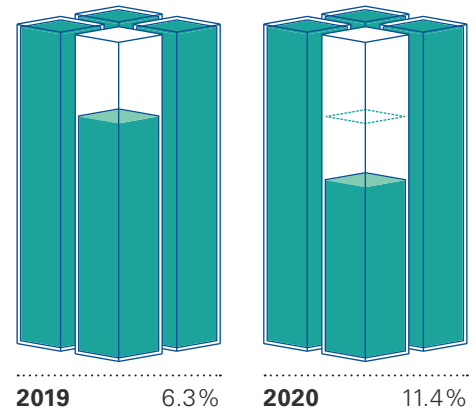
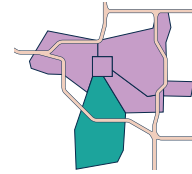
There was some demand for CGMA suites by medical/health-related tenants, even though the vacancy rate increased. Brokers reported that while demand persisted, prospective tenants proceeded at a cautious pace.



THE SOUTH OFFICE AREA (SOA)

The SOA vacancy rate increased from **6.3%** to **11.4%**, the largest increase in vacancy of the eight sub-markets in our survey. (+5.1%)

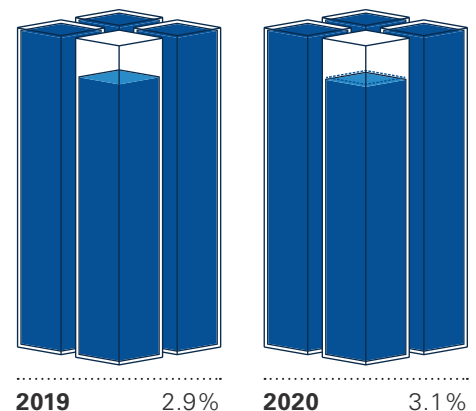
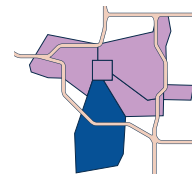
Twenty-one SOA buildings increased in vacancy, including five buildings with 10,000 square feet higher vacancy than in 2019 and two buildings with 30,000 square feet higher vacancy than in 2019. There were fewer new prospects for the SOA market, with a notable decrease in demand for large blocks of office space. Swisher brokers suspect that the SOA experienced a typical amount of attrition in 2020, common in any year in any market, but that the SOA did not experience the typical back-fill by new office tenants, thus resulting in the sizable net loss of occupants in the SOA. What is yet to be seen in the SOA, as in all sub-markets, is whether the pandemic-driven move to have employees work from home will have long-term effects on office space consumption and consequently affect the vacancy rate.



THE SOUTH FLEX AREA (SFA)

The SFA vacancy rate was flat, increasing from **2.9%** vacancy in 2019 to **3.1%** this year. (+0.2%)

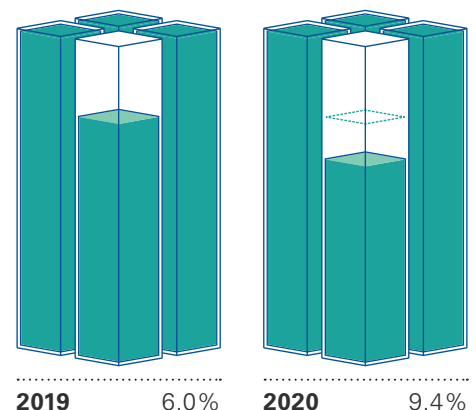
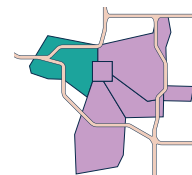
Eight of the 50 SFA buildings had a change of status, with four of them increasing and four decreasing in vacancy. It is noteworthy to see that a large, 2 million square foot, sub-market remained stable in 2020. The businesses who use the SFA buildings had fewer options of working from home due to the nature of their operations. The SFA differs from the six office sub-markets in our report in that there was ongoing new demand for space throughout 2020.



THE WEST OFFICE AREA (WOA)

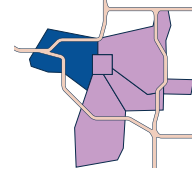
The WOA vacancy rate increased from **6.0%** to **9.4%** in 2020. (+3.4%)

Five buildings increased in vacancy while two buildings decreased. Of the five increases, four properties are located in the West Stadium corridor and one is located along the Jackson Road corridor.

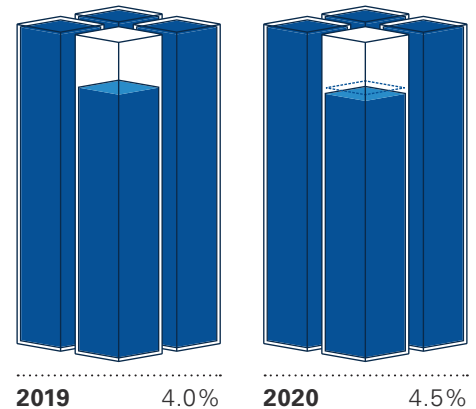


THE WEST FLEX AREA (WFA)

The WFA vacancy rate inched up slightly from **4.0%** in 2019 to **4.5%** this year. (+0.5%)



Of the eighteen WFA properties surveyed, two increased in vacancy and two decreased. Much like the SFA, the businesses that use WFA buildings remained in place in 2020, perhaps also having less flexibility to work from home. Brokers report that the demand for the WFA's buildings remains strong, stating that, "If a flex suite is vacant and is in move-in condition it generally gets leased quickly." The same brokers report that office-heavy WFA buildings are not as desirable as the WFA buildings with 90% shop/10% office combinations. There is ongoing demand for flex space, particularly by tenants who need 3,000 to 6,000 square feet. Prospective tenants include engineers, service contractors, auto-related businesses, fitness gyms and R&D companies.



LEASING DEMAND & ABSORPTION

Despite the impact of the pandemic, many Washtenaw County businesses continued to actively seek space for lease, especially flex and shop for those in the service industry, and office space for those requiring some degree of customer interaction at their place of business. There was decreased demand by office users who could easily have personnel work from home. The 2020 net absorption was negative 256,618 square feet.

We cannot ignore the fact that the pandemic resulted in many businesses struggling and some failing. Swisher brokers participated in numerous conversations between commercial landlords and their tenants looking for rent relief. There were no cookie-cutter outcomes to these interactions. Some struggling tenants were able to stay in their space and pay their rent, while others had to end their leases. There were many landlords that provided concessions and other creative solutions while other landlords adhered to existing lease agreements.

SALES ACTIVITY

Low interest rates added some fuel to the demand for commercial real estate purchases. Swisher Commercial brokers experienced a marked increase in the sale of residential-zoned land for new housing. There was demand by purchasers for all sectors of commercial real estate, however, modest-sized industrial property sales saw the largest increase in volume as measured by Swisher Commercial's tracking of its own transactions.

COVID'S EFFECT ON THE COMMERCIAL REAL ESTATE MARKET

There are more questions than answers when it comes to knowing how the pandemic will impact the Ann Arbor area in the long run.

- To what degree will businesses continue to work from home even after the risks of COVID-19 diminish?
- As lease expiration dates approach, which businesses will lease less office space because of working from home and which businesses will lease more office space in order to provide room for social distancing between employees?
- Which businesses will conclude that business synergy or work productivity suffered at home, hastening their return to the office environment? And will they rearrange their floor plans and change the way they use office space?
- How quickly will downtown restaurants, sidewalks and office buildings repopulate?
- How will Ann Arbor's future downtown ecosystem be different from the past?

Certainly, more time is needed before answers to these questions are known.

STATISTICAL SUMMARY

	Area	# Blds	Gross sf	Vacant sf	YE 2020 Vac %	YE 2019 Vac %	% Chg.
Office	Downtown	66	1,675,559	134,350	8.0%	5.7%	2.3%
	North	35	2,557,941	178,482	7.0%	6.8%	0.2%
	East	35	633,974	78,454	12.4%	10.9%	1.5%
	CGMA	10	501,543	49,796	9.9%	6.5%	3.4%
	South	68	3,348,827	380,222	11.4%	6.3%	5.1%
	West	22	436,201	40,975	9.4%	6.0%	3.4%
	Total	236	9,154,045	862,279	9.4%	6.6%	2.8%
Flex	South	50	2,139,292	66,623	3.1%	2.9%	0.2%
	West	18	635,172	28,555	4.5%	4.0%	0.5%
	Total	68	2,774,464	95,178	3.4%	3.2%	0.2%
Office & Flex	Downtown	66	1,675,559	134,350	8.0%	5.7%	2.3%
	North	35	2,557,941	178,482	7.0%	6.8%	0.2%
	East	35	633,974	78,454	12.4%	10.9%	1.5%
	CGMA	10	501,543	49,796	9.9%	6.5%	3.4%
	South	118	5,488,119	446,845	8.1%	4.9%	3.2%
	West	40	1,071,373	69,530	6.5%	4.8%	1.7%
	Total	304	11,928,509	957,457	8.0%	5.8%	2.2%

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 2020 rate less the YE 2019 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, 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

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