

Office market ends '07 flat



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The Ann Arbor office market remained flat in 2007, as increased leasing activity downtown and in the north was offset by continued weakness in the south.

The end-of-year vacancy rate is 14.23 percent, down less than half a percent from the end of 2006, according to data from Swisher Commercial, which surveyed 298 buildings totaling 11.27 million square feet in the region.

Most significantly, downtown vacancies fell 3.23 percentage points to 12.44 percent, a decline that brokers said

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 McMullen Co.

McKinley Commercial Brokerage. “We find it stable.”

The north side, Ann Arbor’s second-largest market, with 2.4 million square feet, was buoyed by strong leasing at Domino’s Farms, which signed 12 deals totaling 100,163 square feet and increased its own occupancy rate to 93 percent, said

indicates the city’s resilience in a tough economy. Many of the leases were less than 2,000 square feet, and were spread out among a number of the sector’s 69 buildings.

Downtown deals also appeared to be less discounted than in other areas, said Ron Dankert, Swisher Commercial president.

“If you’ve got something like that, you really don’t have to back off in your rates,” he said. “That product has a mind of its own.”

Downtown, however, has had troubles filling space in recent years because of concerns over parking, and many brokers have resorted to food as an alternative.

“We look at downtown, and we don’t find it that successful,” said Jim Chaconas, managing director of

Vacancy rates

Office and flex space, year-end 2007

AREA	VACANCY RATE	PCT. PT.CHANGE
Downtown	12.44%	(-3.23)
North	11.91%	(-5.39)
East	11.77%	(-0.69)
Clark/Golfside	3.34%	(+1.18)
South	17.65%	(+2.09)
West	9.51%	(+2.50)
Total	14.23%	(-0.46)

Margaret Parkinson, vice president of leasing for the office park.

Vacancies in the north fell 5.39 percentage points, the largest decrease among the region’s eight submarkets.

It can expect to see an even greater drop in 2008, when Con-way Freight takes occupancy of 120,000 square feet of the Earhart Corp. Center off US-23, a move that’s expected to attract a slew of smaller tenants to help fill the 200,000-square-foot structure.

That sector has been helped by its proximity to Detroit’s western suburbs and the University of Michigan’s North Campus

“It’s always been a very important part of the market,” said Neal Warling, CEO of Bluestone Realty Advisors, who brokered Con-way lease.

The south office market saw its vacancy increase to 17.07 percent, a 2.48 percentage-point leap from the previous year, which Swisher said attributable to the addition of space near Briarwood Mall. It’s the largest market in Ann Arbor, with 3.2 million square feet.

The south did have some bright spots, including Aernnova’s decision to open its first North American engineering office in McMullen Co.’s Valley Ranch Business Park.

Ted McMullen said his company had secured to nine new tenants as of Dec. 20 and was able to resign 13 others.

“In a down market, there is opportunity, and we’ve been

able to complete most deals that come around because of our location and our price,” McMullen said.

Flex space in the south also continues to suffer after the bursting of the dot-com bubble. Vacancies edged up 1.49 percentage points year-over-year to 18.49 percent. The area, which has 2.22 million square feet of space, has been hurt because its buildings were constructed specifically to fit mid-1990s tech companies, a market that isn’t seeing much current demand.

South flex hasn’t been had single-digit vacancy since before 2001.

“That whole area came tumbling down,” said Bart Wise, the Swisher vice president who authored the report.

Reaction to the flat market was mixed among brokers, who remain wary of the impact of the 2 million square feet of space about to be vacated by Pfizer Inc. The campus on Ann Arbor’s north side isn’t counted in the Swisher report because it still is occupied by an estimated 300 workers.

“I just think that pretty much the state of the economy is pretty flat everywhere,” said Chris Grant, senior vice president of First Martin Corp.

Brokers are also concerned about the risk carried by many of the small tenants who comprised a significant portion of the deals seen in the second half of the year. The smaller companies were partially responsible for downtown’s decrease in vacancy, but also can have less stable futures than larger firms.

“We see the potential for longevity with them, and I guess we cross our fingers with them,” McMullen said.

Some brokers are also resorting to using short-term leases to fill space, a tactic Chaconas called “playing with fire.”

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