

MARKETBEAT OFFICE SNAPSHOT



MILWAUKEE, WI

A Cushman & Wakefield Alliance Research Publication

Q3 2013



ECONOMIC OVERVIEW

The Wisconsin economy is slowly inching towards recovery as positive economic announcements are made. One such announcement came from the Philadelphia Federal Reserve Bank. According to the report, the Philadelphia Fed issued new rankings that put Wisconsin first in the economic outlook for the next six months. The economic growth index is a predictor of economic activity for the coming six months for each of the 50 states, based upon state housing permit data, initial unemployment insurance claims, the Institute for Supply Management manufacturing survey and prior coincident indexes created by the Federal Reserve Bank of Philadelphia. Also included in the report, Wisconsin jumped to number two in the nation for economic growth in September 2013 and the unemployment rate stood at 6.7 percent (below the national average of 7.3 percent). While Wisconsin still has its work cut out to climb out from the bottom, recent positive indicators have boded well for the state.

OFFICE MARKET

The Milwaukee office sector saw a slight uptick in vacancy and posted slower than anticipated activity for the third quarter of 2013. While direct absorption was positive, multiple subleases came onto the market, leaving overall absorption just teetering over the cusp into the black. Although the statistics showed lackluster results, positive local and statewide economic news are expected to help gain positive traction on a macro level.

The Southeastern Wisconsin office market took a slight turn for the worse in Q3 2013, as the overall vacancy rate increased 0.3 percentage points to 20.6%. The Downtown – East submarket, however, experienced a 0.8 percentage point decrease, putting overall vacancy at 15.8%, and multiple suburban submarkets posted decreased vacancy as well. The CBD benefitted from the majority of leasing activity this quarter, with Schlitz Park signing over 120,000 sf.

PROPOSED DOWNTOWN CONSTRUCTION BOOM

Northwestern Mutual Life Insurance (NML), one of Milwaukee's major employers, recently released renderings of the company's proposed 32-story, 1.1-million-square-foot (msf) downtown office tower anticipated to break ground in 2014, with estimated completion in 2017. This building will replace the former headquarters location, while adding space that could accommodate another 1,900 employees by 2030. In addition to NML, Irgens proposed constructing an 18-story, \$100 million class A office building along the lakefront, with an anticipated construction start in February 2014. The Couture, a 44-story apartment and high-end

hotel with a \$160 million price tag is also in the works in close proximity to the lakefront, with an anticipated 2015 groundbreaking.

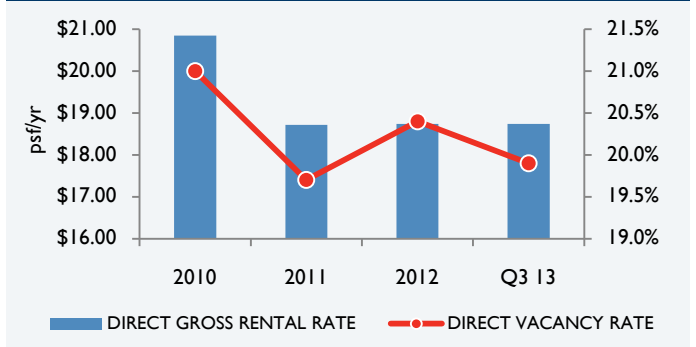
OUTLOOK

Wisconsin could begin to see not only a changing skyline, but also an uptick in the local economy as recent indicators point in favor of the state. Milwaukee still has a long way to a full recovery, but as more investors continue to enter the market, and as local companies and developers invest in Milwaukee, the business landscape is bound to change for the better.

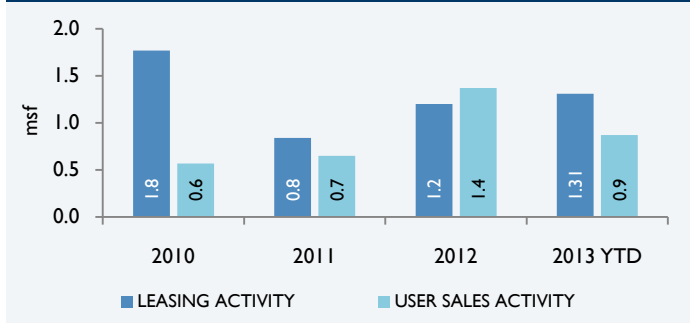
STATS ON THE GO

	Q3 2012	Q3 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.0%	20.6%	0.6pp	◀▶
Direct Asking Rents (psf/yr)	\$18.74	\$18.74	0.0%	◀▶
YTD Leasing Activity (sf)	911,326	1,311,213	43.9%	◀▶

DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



MILWAUKEE, WI

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG. ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Downtown East	6,903,853	15.8%	15.7%	135,025	0	0	(6,032)	11,748	\$20.20	\$23.69
Downtown West	3,053,054	30.4%	30.4%	268,687	73,100	0	38,294	48,526	\$19.36	\$20.41
MILWAUKEE CBD	9,956,907	20.2%	20.2%	403,712	73,100	0	32,262	60,274	\$19.90	\$22.52
Mayfair/Wauwatosa	2,733,614	21.7%	21.7%	58,037	95,000	0	(62,396)	(62,396)	\$19.21	\$25.50
North Shore	2,204,330	26.7%	23.7%	54,786	0	0	(3,831)	(1,536)	\$15.30	\$22.21
Northwest	1,342,460	14.1%	12.9%	70,236	0	0	5,612	(5,656)	\$18.59	\$20.28
Southeast	265,910	40.1%	40.1%	15,352	0	0	(625)	(625)	\$17.07	N/A
Southwest	389,749	13.0%	13.0%	11,464	0	64,000	(12,111)	(12,111)	\$19.07	\$19.16
Third Ward/Walker's Point	1,730,676	19.5%	19.5%	79,892	0	0	44,906	50,806	\$18.55	\$21.54
West Allis	1,935,235	20.4%	18.5%	94,736	12,480	0	56,526	18,892	\$14.60	N/A
MILWAUKEE SUBURBAN	10,601,974	21.3%	20.2%	384,503	107,480	64,000	28,081	(12,626)	\$17.61	\$21.58
Ozaukee	691,777	14.7%	14.7%	41,015	0	0	39,634	39,634	\$14.49	\$15.18
Waukesha/Brookfield	4,145,884	23.0%	21.7%	223,804	0	0	7,222	3,107	\$17.92	\$20.69
Waukesha/Pewaukee	2,377,232	16.2%	16.2%	258,189	0	0	106,639	79,139	\$18.07	\$21.21
MILWAUKEE OUTLYING	7,214,893	20.0%	19.2%	523,008	0	0	153,495	121,880	\$17.62	\$19.97
CBD	9,956,907	20.2%	20.2%	403,712	73,100	0	32,262	60,274	\$19.90	\$22.52
SUBURBAN	17,816,867	20.8%	19.8%	907,511	107,480	64,000	181,576	109,254	\$17.62	\$20.53
TOTALS	27,773,774	20.6%	19.9%	1,311,223	180,580	64,000	213,838	169,528	\$18.68	\$21.34

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant Q3 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
235 W Galena Street	Downtown – West	UMB Fund Services	B	86,000
2424 S 102 nd Street	West Allis	WI Department of Transportation	B	39,708
875 E Wisconsin Street	Downtown – East	Ernst & Young	A	27,568
Significant Q3 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
250 E Wisconsin Street	Downtown – East	Lone Star Real Estate Fund II	\$7,500,000 / \$37.49	200,039
219-233 N Milwaukee Street	Downtown – East	Badger Investment LLC	\$4,545,000 / \$33.64	135,100
5310 W Capitol Drive	Northwest	Nex Door Foundation, Inc.	\$1,850,000 / \$17.96	103,000
Significant Q3 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
635 N 26 th Street	Southwest	Bureau of Child Welfare	Q3 2013	64,000
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
Watertown Plank Road at Highway 45	Mayfair/Wauwatosa	ABB Inc.	2014	95,000
1036 W Juneau Avenue	Downtown – West	Speculative Development	2014	73,100