

# MARKETBEAT OFFICE SNAPSHOT



## MILWAUKEE, WI

A Cushman & Wakefield Alliance Research Publication

Q2 2013



### ECONOMIC OVERVIEW

The Milwaukee office sector remained relatively stable for the second quarter of 2013. Vacancy rates posted modest decreases, construction and leasing activity is up, while sales activity decreased slightly over the prior quarter. However, job growth and economic development in Wisconsin is falling behind the nation. According to the Federal Reserve Bank of Philadelphia, Wisconsin's six-month economic forecast ranks 49<sup>th</sup> in the nation. In addition, The U.S. Chamber of Commerce ranked Wisconsin last out of 50 states for short-term job growth, while the U.S. Bureau of Labor Statistics shows Wisconsin 31<sup>st</sup> in total job creation for the 2012 calendar year, an improvement from a year ago when Wisconsin ranked 44<sup>th</sup> in the nation. The U.S. Department of Commerce's Bureau of Economic Analysis reported that Wisconsin's economy grew at 1.5 percent in 2012, a statistic that is behind all of our neighboring states and 32<sup>nd</sup> in the nation.

### OFFICE MARKET

The Southeastern Wisconsin office market continued to show slight improvement in Q2 2013 as the vacancy rate decreased 40 basis points over the past quarter to 20.3%. In addition, absorption remained positive year-to-date, but slowed slightly in the second quarter when compared to the prior quarter. The suburban office market and the Central Business District (CBD) both posted modest positive absorption with the suburban market posting 44,311 sf of positive absorption and the CBD posting 41,064 sf in Q2 2013.

### INVESTMENT ACTIVITY

Wisconsin welcomed a new investor into the market in the second quarter of 2013. Broadstone Net Lease Inc., a private New York Real Estate Investment Trust (REIT), acquired four medical office properties in Wisconsin from Irgens Partners, LLC. The portfolio sale of 6 medical office properties, located throughout Wisconsin, Illinois and Arizona, represented a combined sale price of \$46.5 million. The leased properties within the portfolio were to market-dominant hospital systems with attractive credit ratings. Each lease is NNN with modest annual rent increases and remaining lease terms in excess of ten years.

### OUTLOOK

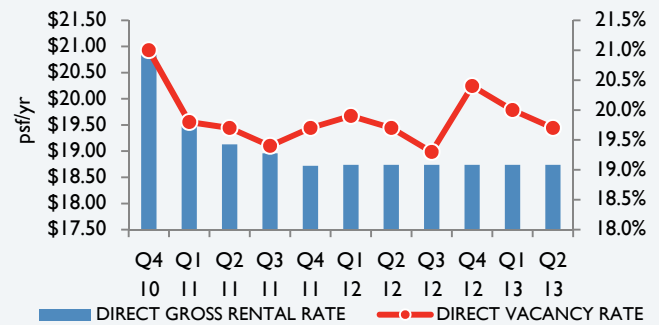
The Wisconsin economy as a whole has lagged other states with continued slow job growth and economic recovery. Although the numbers trend in a negative light as of late for our overall economy, the office market currently has no consistent trend when analyzed

over the prior three years. When you view the office market over the past two quarters, there is a glimmer of hope with the sector posting two quarters of decreased vacancy, a 70 basis points decline, as well as two quarters of positive absorption. One of Milwaukee's premier hiring firms is predicting "vigorous" hiring in the Milwaukee area in the third quarter and should that pan out, demand for office space should increase, helping assist in the continued positive absorption and downward vacancy rate trend.

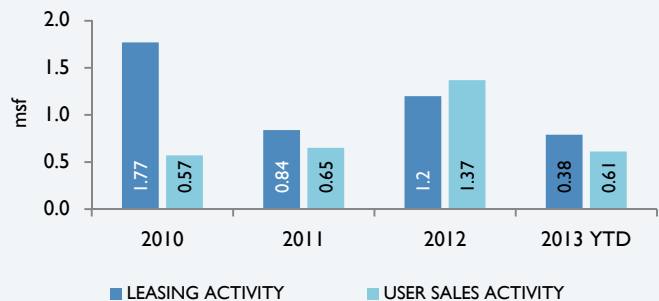
### STATS ON THE GO

	Q2 2012	Q2 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.4%	20.3%	-0.1pp	◀▶
Direct Asking Rents (psf/yr)	\$18.74	\$18.74	0.0%	◀▶
YTD Leasing Activity (sf)	658,708	789,495	19.85%	◀▶

### 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	6,999,687	16.6%	16.4%	66,593	0	0	(8,384)	967	\$20.20	\$23.69
Downtown West	2,957,220	29.7%	29.5%	107,558	73,100	0	39,174	41,556	\$19.36	\$20.41
<b>MILWAUKEE CBD</b>	<b>9,956,907</b>	<b>20.5%</b>	<b>20.3%</b>	<b>174,151</b>	<b>73,100</b>	<b>0</b>	<b>30,790</b>	<b>42,523</b>	<b>\$19.90</b>	<b>\$22.52</b>
Mayfair/Wauwatosa	2,794,102	20.1%	20.1%	54,733	95,000	0	(4,679)	(4,679)	\$19.21	\$25.50
North Shore	2,204,330	26.6%	23.7%	48,108	0	0	(3,608)	(1,313)	\$15.30	\$22.21
Northwest	1,342,460	14.1%	14.1%	41,673	0	0	5,612	11,916	\$18.59	\$20.28
Southeast	265,910	39.9%	39.9%	12,852	0	0	0	0	\$17.07	N/A
Southwest	389,749	13.2%	13.2%	11,464	64,000	0	(13,178)	(13,178)	\$19.07	\$19.16
Third Ward/Walker's Point	1,730,676	21.3%	21.0%	42,079	93,035	0	17,964	17,964	\$18.55	\$21.54
West Allis	1,746,235	14.4%	14.4%	37,154	0	0	3,843	3,843	\$14.60	N/A
<b>MILWAUKEE SUBURBAN</b>	<b>10,421,462</b>	<b>20.2%</b>	<b>19.5%</b>	<b>248,063</b>	<b>252,035</b>	<b>0</b>	<b>5,954</b>	<b>14,553</b>	<b>\$17.61</b>	<b>\$21.58</b>
Ozaukee	691,777	15.3%	15.3%	36,096	0	0	30,204	30,204	\$14.49	\$15.18
Waukesha/Brookfield	4,145,884	25.6%	21.2%	144,470	0	0	22,340	18,225	\$17.92	\$20.69
Waukesha/Pewaukee	2,388,937	17.1%	17.1%	186,715	0	0	93,092	65,592	\$18.07	\$21.21
<b>MILWAUKEE OUTLYING</b>	<b>7,226,598</b>	<b>20.1%</b>	<b>19.3%</b>	<b>367,281</b>	<b>0</b>	<b>0</b>	<b>145,636</b>	<b>114,021</b>	<b>\$17.62</b>	<b>\$19.97</b>
CBD	9,956,907	20.5%	20.3%	174,151	73,100	0	30,790	42,523	\$19.90	\$22.52
SUBURBAN	17,648,060	20.1%	19.4%	615,344	252,035	0	151,590	128,574	\$17.62	\$20.53
<b>TOTALS</b>	<b>27,604,967</b>	<b>20.3%</b>	<b>19.7%</b>	<b>789,495</b>	<b>325,135</b>	<b>0</b>	<b>182,380</b>	<b>171,097</b>	<b>\$18.68</b>	<b>\$21.34</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

<b>Significant Q2 2013 Lease Transactions</b>	<b>SUBMARKET</b>	<b>TENANT</b>	<b>BUILDING CLASS</b>	<b>SQUARE FEET</b>
1515-1575 River Center Drive	Downtown – West	Infosys	B	26,819
11425 W Lake Park Drive	Northwest	Herizon Healthcare	B	21,503
N25 W23255 Paul Road	Waukesha/Pewaukee	Waterstone Mortgage	B	16,068
<b>Significant Q2 2013 Sale Transactions</b>	<b>SUBMARKET</b>	<b>BUYER</b>	<b>PURCHASE PRICE / \$PSF</b>	<b>SQUARE FEET</b>
2929 & 2949 N Mayfair Road	Mayfair/Wauwatosa	Huachen Enterprises, LLC	\$2,000,000 / \$29.11	68,700
160 Bishops Way	Waukesha/Brookfield	David and Susan M Zanon	\$999,000 / \$33.30	30,000
11815 W Bradley Road	Northwest	WBR Property Group, LLC	\$3,800,000 / \$126.67	30,000
<b>Significant Q2 2013 Construction Completions</b>	<b>SUBMARKET</b>	<b>MAJOR TENANT</b>	<b>COMPLETION DATE</b>	<b>BUILDING SQUARE FEET</b>
N/A				
<b>Significant Projects Under Construction</b>	<b>SUBMARKET</b>	<b>MAJOR TENANT</b>	<b>COMPLETION DATE</b>	<b>BUILDING SQUARE FEET</b>
Watertown Plank Road at Highway 45	Mayfair/Wauwatosa	ABB Inc.	2014	95,000
W Wisconsin at N 28 <sup>th</sup> Street	Southwest	Bureau of Child Welfare	2013	64,000