

MARKETBEAT OFFICE SNAPSHOT



MILWAUKEE, WI

A Cushman & Wakefield Alliance Research Publication

Q4 2013



ECONOMIC OVERVIEW

Similar to much of the nation, Wisconsin has been on the “slow and steady” course of economic improvement over the course of the past few years. The statewide unemployment rate was consistently on the decline in 2013, with November posting a 6.3% unemployment rate, less than the national rate of 7%. Over the past six months, Wisconsin’s economy saw the strongest job growth since 1997. The economic recovery is slowly inching back, but additional growth needs to be reached in order to be back at pre-recession levels.

OFFICE MARKET

The Milwaukee office market ended 2013 with the lowest vacancy in the last two years. Due to the decreasing vacancy rate and continued positive absorption, construction activity in the office sector is slated to pick up pace. The Southeastern Wisconsin office market posted a year-end vacancy rate of 19.6%, down 0.3 percentage points quarter-over-quarter and 0.8 percentage points year-over-year.

The Waukesha/Brookfield, Third Ward/Walker’s Point, and Waukesha/ Pewaukee submarkets helped contribute to the overall decrease, as the direct vacancy rates declined 2.7 percentage points, 1.0 percentage points, and 0.8 percentage points respectively quarter-over-quarter. The highest level of absorption in Q4 2013 occurred in the Waukesha/Brookfield submarket, with FedEx Smart Post leasing over 79,000 square feet (sf) at Brookfield Lakes Corporate Center XI.

INCREASED CONSTRUCTION ACTIVITY

Milwaukee-based Irgens has plans to develop a 17-story office building, 833 East, in the central business district (CBD) with construction scheduled to begin in the first quarter of 2014.

Northwestern Mutual Life Insurance Company (NML), has begun demolition on its existing headquarters building to make way for the 32-story, 1.1-million-square-foot (msf) state-of-the-art CBD office tower with an anticipated completion in 2017.

With two major developments scheduled to move forward, one local corporation has decided to alter its corporate real estate strategy. Kohl’s Corporation previously had anticipated to develop a 900,000-sf corporate headquarters building on its campus in Menomonee Falls. However, the company decided to drop plans and instead operate in at least nine buildings within the Menomonee Falls and northwest side of Milwaukee vicinity instead.

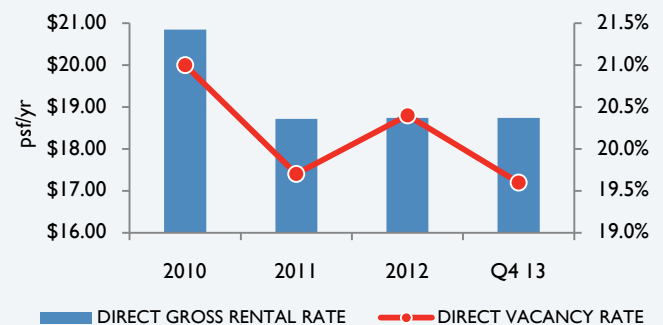
OUTLOOK

The Milwaukee-metro office market is gaining momentum coming out of 2013, with declining vacancy and positive overall absorption. 2014 is slated to have multiple significant office ground breakings as office tenants are ready to plan for future growth after spending the past few years hunkered down, waiting for political and economic uncertainty to resolve itself.

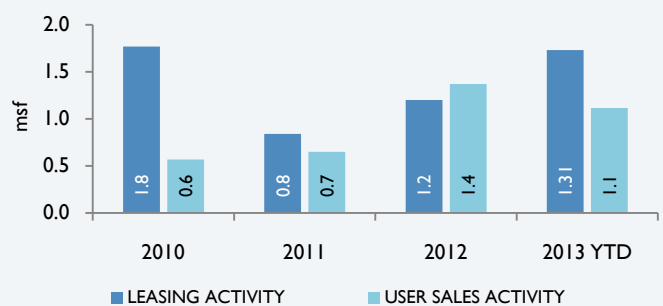
STATS ON THE GO

	Q4 2012	Q4 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	20.9%	20.4%	-0.5pp	◀▶
Direct Asking Rents (psf/yr)	\$18.74	\$18.74	0.0%	◀▶
YTD Leasing Activity (sf)	1,200,910	1,730,454	44.1%	◀▶

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	16.3%	16.2%	178,165	0	0	(417)	8,684	\$20.20	\$23.69
Downtown West	3,049,929	30.9%	30.9%	302,190	73,100	0	26,394	36,626	\$19.36	\$20.41
MILWAUKEE CBD	9,953,782	20.8%	20.7%	480,355	73,100	0	25,977	45,310	\$19.90	\$22.52
Mayfair/Wauwatosa	2,712,102	21.1%	21.1%	89,350	95,000	0	(39,025)	(39,025)	\$19.21	\$25.50
North Shore	2,204,330	28.0%	25.0%	67,306	0	0	(3,089)	(794)	\$15.30	\$22.21
Northwest	1,342,460	14.5%	13.2%	70,236	0	0	762	(10,506)	\$18.59	\$20.28
Southeast	265,910	40.0%	40.0%	18,575	0	0	(337)	(337)	\$17.07	N/A
Southwest	389,749	13.2%	13.2%	11,464	0	64,000	(12,913)	(12,913)	\$19.07	\$19.16
Third Ward/Walker's Point	1,730,676	18.5%	18.5%	103,902	0	0	59,796	65,696	\$18.55	\$21.54
West Allis	1,935,235	20.2%	18.3%	199,794	12,480	0	60,485	22,851	\$14.60	N/A
MILWAUKEE SUBURBAN	10,580,462	21.3%	20.2%	560,627	107,480	64,000	65,679	24,972	\$17.61	\$21.58
Ozaukee	691,777	14.4%	14.4%	41,015	0	12,000	41,672	41,672	\$14.49	\$15.18
Waukesha/Brookfield	4,145,884	20.5%	19.0%	353,819	0	0	119,665	110,115	\$17.92	\$20.69
Waukesha/Pewaukee	2,348,937	16.4%	15.3%	294,648	0	0	136,549	89,170	\$18.07	\$21.21
MILWAUKEE OUTLYING	7,186,598	18.5%	17.3%	689,482	0	12,000	297,886	240,957	\$17.62	\$19.97
CBD	9,953,782	20.8%	20.7%	408,355	73,100	0	25,977	45,310	\$19.90	\$22.52
SUBURBAN	17,767,060	20.2%	19.0%	1,250,109	107,480	76,000	363,565	265,929	\$17.62	\$20.53
TOTALS	27,720,842	20.4%	19.6%	1,730,464	180,580	76,000	389,542	311,239	\$18.68	\$21.34

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant 2013 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
235 W Galena Street	Downtown – West	UMB Fund Services	B	86,000
6737 W Washington Street	West Allis	Children's Hospital	B	80,000
17950 W Corporate Drive	Waukesha/Brookfield	FedEx Smart Post	A	79,228
Significant 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
11200 W Parkland Avenue	Northwest	The GC Net Lease (Milwaukee) Investors, LLC	\$26,000,000 / \$108	240,675
250 E Wisconsin Street	Downtown – East	Lone Star Real Estate Fund II	\$7,500,000 / \$37	200,039
727-733 N Van Buren Street	Downtown – East	The Northwestern Mutual Life Insurance Company	\$6,860,000 / \$45	153,00
Significant 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