

MARKETBEAT



MILWAUKEE OFFICE REPORT

1Q11

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Overview

There has been a modest increase in tenant activity with regard to the number of showings and request for proposals. It appears as though tenants continue to commit to relocation and/or execute long-term leases. However, tenants are demanding significant incentives that result in deals being completed. Landlords are delivering free rent and lower rental rates as an example of concessions given to tenants to complete these deals.

The challenge to the recovery is not only an over-supply, but a lack of demand. Part of the lack of demand, we feel, comes from tenants negotiating early lease extensions, "extend and blend," over the past two years. The early lease renewals adjusted the timing of tenant's expiration dates to 2013 and beyond versus the originally anticipated 2011.

The Milwaukee office market ended 2010 with significant negative absorption. Although nearly all submarkets reported negative absorption, two larger tenants downsized: Assurant Health vacated 105,000 square feet (sf) at Schlitz Park and Milwaukee County Department of Aging vacated 38,808 sf at Federal Plaza. This particularly hurt the Downtown West Central Business District (CBD).

Economy

The Metro Milwaukee market continues to show signs of recovery as 19 of 23 February business activity indicators improved over last year levels, according to the Metropolitan Milwaukee Association of Commerce (MMAC). According to the MMAC's economic research director, overall employment gains were broad based by industry with eight out of ten major industry sectors reporting year-over-year growth. The two employment declines were posted in the information sector, down 3.2% from last year, and the financial activities

sector, down 2.9% from last year's figures. However, for the first time in over three years, the construction, mining and natural resources sector recorded its first year-over-year job increase. Unemployment figures continue to improve as February marked the eighth consecutive month of year-over-year job gain.

Outlook

Although we do not anticipate expansion for the majority of tenants, slight to moderate absorption will be a welcome change in 2011. Financing and refinancing continues to remain a challenge and lenders are waiting for pristine transaction to pursue. Tenants will still continue to drive the market, requesting considerable rate concessions and above average tenant improvement packages.

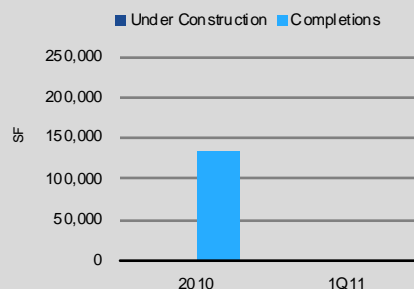
In the coming year, some help will trickle through to the office market as developers are looking to purchase historic office buildings in the CBD and convert these buildings to alternative uses; multifamily residential and hotel. An example of this redevelopment is the recent acquisition of the Loyalty and Mackie buildings purchased by First Hospitality Group Inc. with plans to renovate into an estimated 200-room hotel. This will improve the office market in the CBD by relocating tenants to other buildings while decreasing obsolete office space in the total market.

Once substantial tenant demand occurs, the stabilization of supply should follow. This in turn, will boost both consumer as well as business confidence, hopefully building early recovery efforts. Creative solutions, such as innovative financing and lease concessions will set the stage for the continued recovery of the commercial real estate market.

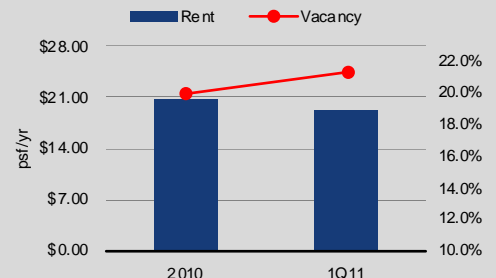
Stats on the Go

	1Q10	1Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	20.0%	21.4%	1.4pp	◀▶
Direct Asking Rents	\$22.02	\$19.48	-11.5%	◀▶
YTD Leasing Activity (sf)	297,133	205,591	-30.8%	◀▶

Under Construction vs. Completions



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
Downtown East	7,165,345	17.1%	16.1%	41,445	0	0	91,369	67,461	\$22.50	\$26.42
Downtown West	3,425,065	36.9%	29.7%	16,011	0	0	99,544	(103,345)	\$19.27	\$20.61
MILWAUKEE CBD	10,590,410	23.5%	20.5%	57,456	0	0	190,913	(35,884)	\$21.23	\$24.41
Mayfair/Wauwatosa	2,802,031	17.8%	17.6%	29,651	0	0	46,549	46,549	\$19.64	\$24.52
North Shore	2,030,394	20.3%	19.8%	11,512	0	0	(2,565)	(2,565)	\$16.89	\$21.75
Northwest	1,393,147	24.8%	23.8%	0	0	0	(4,998)	(4,998)	\$19.08	\$20.62
Southeast Suburban	265,910	28.4%	28.4%	30,520	0	0	2,631	2,631	\$18.28	N/A
Southwest	374,028	14.2%	13.4%	2,000	0	0	(1,956)	(1,956)	\$20.17	\$20.09
Third Ward/Walker's Point	1,849,178	25.1%	24.5%	30,887	0	0	(11,585)	(11,046)	\$18.85	\$20.04
West Allis	1,746,235	15.8%	14.8%	6,270	0	0	10,601	22,085	\$15.53	N/A
MILWAUKEE NON-CBD	10,460,923	20.3%	19.7%	110,840	0	0	38,677	50,700	\$18.25	\$21.32
Ozaukee	708,449	18.1%	18.1%	290	0	0	17	17	\$15.22	\$16.42
Waukesha/Brookfield	4,171,014	22.0%	20.6%	37,005	0	0	(7,669)	(4,909)	\$18.38	\$20.92
Waukesha/Pewaukee	2,380,135	16.5%	16.1%	0	0	0	55,378	61,478	\$18.42	\$21.95
Milwaukee Outlying Total	7,259,598	19.8%	18.9%	37,295	0	0	47,726	56,586	\$18.15	\$20.72
CBD	10,590,410	23.5%	20.5%	57,456	0	0	190,913	(35,884)	\$21.23	\$24.41
NON CBD	17,720,521	20.1%	19.4%	148,135	0	0	86,403	107,286	\$18.20	\$20.98
MILWAUKEE TO TAL	28,310,931	21.4%	19.8%	205,591	0	0	277,316	71,402	\$19.45	\$22.40

* Rental rates reflect asking \$psf/year.

Leasing activity reflects both new leases and renewals

Market Highlights

SIGNIFICANT 1Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
2156 S. 4th Street	Southeast Suburban	St. Anthony's High School	30,520	B
700 W Virginia Street	Third Ward/Walker's Point	U.S. Billing	9,000	B
1243 N 10th Street	Downtown West	Krukowski & Costello	8,101	A

SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	MARKET	BUYER	SQUARE FEET	PURCHASE PRICE
611 N Broadway & 225 E Michigan	Downtown East	First Hospitality Group	143,420	\$2,200,000
350 N Sunny Slope Drive	Waukesha/Brookfield	37 TR LLC	84,700	\$13,950,000
207 E Michigan Street	Downtown East	207 E Michigan Street LLC	42,000	\$290,000
333 Bishops Way	Waukesha/Brookfield	AH Holdings, LLC	34,000	\$1,360,000

SIGNIFICANT 1Q11 CONSTRUCTION COMPLETIONS

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	MARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				