

MARKETBEAT



MILWAUKEE OFFICE REPORT

2Q11

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Overview

The Milwaukee market continues to see slow office-sector job growth, continuing the trend of low demand for space. There is however solid activity in terms of employers surveying the market, with a moderate level of deals being executed. Completed deals continue to have heavy concessions in favor of the tenant getting free rent, lower “face rates” and healthy tenant improvement allowances. Class A Central Business District (CBD), space remains to be the most desirable property class, from an owner’s prospective, with a 13.6% vacancy rate. Class B CBD demand has seen little to no interest and has a 33.1% vacancy rate. The suburban submarkets vary as well, with vacancy rates ranging anywhere from 16.6% to 27.5%.

Although the market is not improving as rapidly as most hoped, we have seen a slight increase in leasing activity in 2011. The Corners, the Marcus Corporation/Von Maur project in Brookfield, is drawing considerable attention. Although mostly retail, we are told there will be a class A office component to the project as well. Brookfield’s office market has vacancy in class A projects of 23.7% and class B of 20.3%.

Economy

According to the Metro Milwaukee Association of Commerce (MMAC), the Metro Milwaukee area expects continuing improvement in the economic environment for 2011’s second quarter. Survey results report that the economic recovery has reached firmer ground, according to the MMAC’s economic research director. For the second consecutive quarter, business expectations reflect those normally seen in a typical growth environment. 62% of businesses surveyed expect higher profits in 2011’s second quarter versus levels one year ago. In addition, 48% of businesses surveyed expect continued employment upturn.

Outlook

Banks appear to be a player once again in the commercial real estate market for a variety of different reasons. The sale of Marshall & Ilsley Corp to BMO Financial is occurring during an opportune time for bankers to build new relationships in the real estate industry. Office users are in the market for loans acquiring distressed properties and existing owners are looking to re-finance taking advantage of the low interest rates.

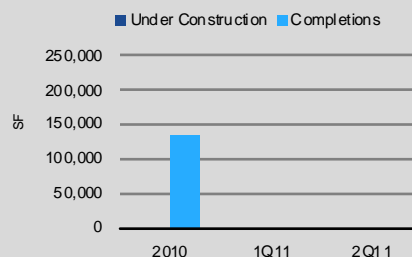
Historically M&I has been active in commercial real estate lending on local projects. It is unknown how the recent acquisition by BMO will affect M&I’s commercial real estate clients and whether BMO-owned Harris Bank in Chicago will become more active in commercial real estate lending in southeastern Wisconsin.

Sensing opportunities with the disruptions in the Wisconsin banking industry, Wells Fargo has opened a Wisconsin commercial real estate lending office in downtown Milwaukee. The new office is housed at Wells Fargo Milwaukee headquarters on Wisconsin Avenue. The focus will be on middle-market loans in the range of \$5 – \$25 million. Anticipated loan activity will be geared toward mainly sale transactions and refinancing because new development is slow.

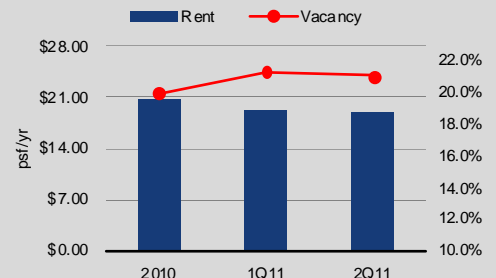
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	20.8%	21.1%	0.3pp	◀▶
Direct Asking Rents	\$20.85	\$19.13	-8.2%	◀▶
YTD Leasing Activity (sf)	796,333	344,060	-56.8%	◀▶

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	17.8%	16.7%	70,723	0	0	181,126	123,297	\$21.14	\$24.97
Downtown West	3,425,065	34.4%	31.1%	42,623	0	0	50,899	(125,746)	\$18.85	\$20.50
MILWAUKEE CBD	10,590,410	23.2%	21.3%	113,346	0	0	232,025	(2,449)	\$20.25	\$23.43
Mayfair/Wauwatosa	2,802,031	17.3%	17.1%	40,189	0	0	62,829	62,829	\$18.97	\$21.40
North Shore	2,011,746	19.7%	19.6%	20,259	0	0	(9,804)	(1,127)	\$16.98	\$22.49
Northwest	1,393,147	23.2%	16.5%	0	0	0	75,214	(4,786)	\$18.69	\$20.44
Southeast Suburban	265,910	27.5%	27.5%	34,519	0	0	5,102	5,102	\$18.31	N/A
Southwest	374,028	14.4%	13.6%	2,000	0	0	(3,139)	(3,139)	\$19.56	\$19.77
Third Ward/Walker's Point	1,849,178	24.6%	24.1%	42,967	0	0	29,876	30,415	\$18.89	\$22.70
West Allis	1,746,235	16.6%	15.5%	27,825	0	0	(1,631)	20,449	\$15.52	N/A
MILWAUKEE NON-CBD	10,442,275	19.9%	18.6%	167,759	0	0	158,447	109,743	\$18.03	\$21.19
Ozaukee	708,449	18.0%	18.0%	4,307	0	0	2,452	2,452	\$17.21	\$19.36
Waukesha/Brookfield	4,168,096	21.4%	20.2%	53,847	0	0	(12,123)	(3,008)	\$18.41	\$21.04
Waukesha/Pewaukee	2,380,135	17.8%	17.4%	4,801	0	0	48,044	54,144	\$18.11	\$21.64
Milwaukee Outlying Total	7,256,680	19.9%	19.1%	62,955	0	0	38,373	53,588	\$18.23	\$20.99
CBD	10,590,410	23.2%	21.3%	113,346	0	0	232,025	(2,449)	\$20.25	\$23.43
NON-CBD	17,698,955	19.9%	18.8%	230,714	0	0	196,820	163,331	\$18.12	\$21.06
MILWAUKEE TOTAL	28,289,365	21.1%	19.7%	344,060	0	0	428,845	160,882	\$19.02	\$22.13

* Rental rates reflect asking \$psf/year.

Leasing activity reflects both new leases and renewals

Market Highlights

SIGNIFICANT 2Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
1126 S 70th Street	West Allis	Transitional Living Services	14,760	B
135 W Wells Street	Downtown West	Sojourner Peace Center	11,450	B

SIGNIFICANT 2Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
9779 & 9809 S Franklin Drive	Southwest	Airways 9809 LLC	64,000	\$5,500,000
605-609 W Virginia Street	Third Ward/Walker's Point	LCM Funds 20 LLC	8,728	\$523,100
1250 S Sunny Slope Road	Brookfield	1250 Sunnyslope LLC	8,563	\$575,000

SIGNIFICANT 2Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				