

MARKETBEAT



MILWAUKEE OFFICE REPORT

3Q11

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Overview

Although the path to economic recovery continues to be uncertain, there is a concentrated focus on job creation in Wisconsin as well as development priorities in Milwaukee. Governor Walker has issued an executive order calling for the Wisconsin State Legislature to reconvene in a “Back to Work Wisconsin” special session. Items to be considered in the special session will be improving access to capital and loans, worker training, the regulatory process and also include additional tort reform measures.

Also during this time of limited fiscal resources, Milwaukee has realized that it is critical to prioritize commercial real estate and real estate development to determine which investments are solid and will yield the greatest returns for the community. Public officials involved in planning and development are expected to further assist with moving the priority projects forward.

Economy

Wisconsin’s unemployment rate climbed to 7.9% in August, the fourth consecutive month it has increased from the previous month. The state’s seasonally adjusted rate rose from 7.8% in July, from 7.6% in June and from 7.4% in May according to the Wisconsin Department of Workforce Development. While the State’s unemployment rate continues to increase, Governor Walker has added over 39,000 private-sector jobs since declaring Wisconsin is open for business.

According to the Metro Milwaukee Association of Commerce (MMAC), the Metro Milwaukee area continues to show modest growth amongst the economic indicators. July 2011 was the thirteenth consecutive month in which the majority of local indicators posted year-over-year gains. Such indicators include employment, leisure & hospitality, and existing home sales. According to the economic research director, local economic growth has held its ground despite lackluster trends nationally. Yet metro area gains may begin to erode if national sluggishness persists for an extended period.

Downtown Redevelopment

The Central Business District (CBD) anticipates seeing multiple hotel conversions to begin within the coming year. Marriott is scheduled to develop a 200-room hotel located near the southwest corner of E. Wisconsin Avenue & N. Milwaukee Street with work anticipated to begin later this year. The planned nine-story hotel is anticipated to be completed in two years. Also, a 90-room hotel, to be called the Brewhouse Inn & Suites, is scheduled to begin construction in October in the former Brew House building and Mill house building located northwest of W. Juneau Avenue & N. 10th Street. Additionally, a 128-room Hilton Garden Inn has been proposed. This potential hotel would occupy the Loyalty Building located at the northwest corner of N. Broadway Street & E. Michigan Street.

Outlook

The Milwaukee office market continues to show signs of slow, but steady, improvement as overall vacancy rates continue to decline for the second consecutive quarter and absorption continues to remain positive. Job creation and consumer confidence need to increase before significant positive results will flow through to our marketplace.

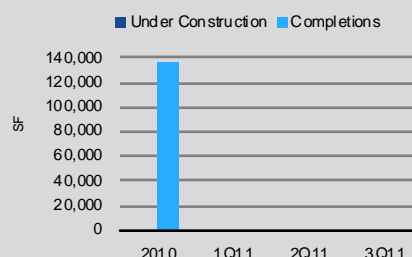
Class A CBD space continues to be the preferred property class, with vacancy rates falling from 13.6% in the second quarter to 12.8% in the third quarter. Class B CBD vacancy has improved slightly over the quarter posting positive gain of 170 basis points. While class A CBD space has seen the highest demand, the suburban markets continue to vary, with overall vacancy rates ranging from 11.9% to 27.3%.

The office market heavily leans on positive job growth, and with Wisconsin’s current proactive approach towards job creation, we expect this small, yet positive improvement to continue into the fourth quarter of 2011.

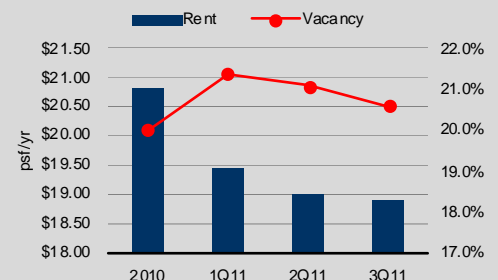
Stats on the Go

	3Q10	3Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	21.0%	20.6%	-0.4pp	◀▶
Direct Asking Rents	\$20.85	\$18.96	-9.1%	◀▶
YTD Leasing Activity (sf)	1,214,864	616,535	-49.3%	◀▶

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	7,086,345	16.8%	16.1%	133,195	0	0	225,483	167,654	\$21.53	\$25.11
Downtown West	3,349,510	32.2%	29.2%	57,787	0	0	69,056	(94,628)	\$18.63	\$20.45
MILWAUKEE CBD	10,435,855	21.8%	20.3%	190,982	0	0	294,539	73,026	\$20.20	\$23.53
Mayfair/Wauwatosa	2,802,031	17.7%	17.5%	65,674	0	0	61,864	61,864	\$19.12	\$21.79
North Shore	2,011,746	19.4%	19.3%	51,266	0	0	(3,051)	5,626	\$17.17	\$22.38
Northwest	1,393,764	22.7%	16.0%	6,685	0	0	81,166	1,166	\$18.34	\$20.83
Southeast Suburban	265,910	27.3%	27.3%	34,519	0	0	5,465	5,465	\$12.21	N/A
Southwest	374,028	11.9%	11.9%	3,925	0	0	3,361	6,091	\$19.91	\$21.26
Third Ward/Walker's Point	1,849,178	24.9%	24.6%	63,329	0	0	21,819	38,483	\$18.82	\$22.70
West Allis	1,746,235	14.6%	14.6%	31,546	0	0	(303)	40,993	\$14.49	N/A
MILWAUKEE NON-CBD	10,442,892	19.5%	18.5%	256,944	0	0	170,321	159,688	\$17.86	\$21.50
Ozaukee	708,449	21.0%	21.0%	28,651	0	0	(15,410)	(15,410)	\$17.07	\$18.58
Waukesha/Brookfield	4,259,077	21.4%	20.5%	88,637	0	0	(48,197)	(48,524)	\$18.20	\$21.07
Waukesha/Pewaukee	2,396,851	17.2%	17.2%	51,321	0	0	46,190	54,810	\$17.99	\$21.00
Milwaukee Outlying Total	7,364,377	20.3%	19.5%	168,609	0	0	(17,417)	(9,124)	\$18.03	\$20.62
CBD	10,435,855	21.8%	20.3%	190,982	0	0	294,539	73,026	\$20.20	\$23.53
NON-CBD	17,807,269	19.8%	18.9%	425,553	0	0	152,904	150,564	\$17.94	\$20.94
MILWAUKEE TOTAL	28,243,124	20.6%	19.4%	616,535	0	0	447,443	223,590	\$18.89	\$22.13

* Rental rates reflect asking \$psf/year.

Leasing activity reflects both new leases and renewals

Market Highlights

SIGNIFICANT 3Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
135 S 84th Street	Mayfair/Wauwatosa	Komisar Brady & Co	15,128	A
100 E Wisconsin Avenue	Downtown - East	Joy Global	13,009	A

SIGNIFICANT 3Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
20700 & 20800 Swenson Drive, 245 S Executive Drive & 15800 Bluemound Road	Brookfield & Waukesha/Pewaukee	JTM MKE LLC	338,424	\$40,800,000
312 E Wisconsin Avenue	Downtown - East	Next East LLC	68,655	\$1,900,000
625 N Milwaukee Street	Downtown - East	Wisconsin & Milwaukee Hotel LLC	68,110	\$1,400,000

SIGNIFICANT 3Q11 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				