



After an Active 2016, Year Off to a Slow Start

Introduction

In Q1 2017, the Southeastern Wisconsin Industrial market suffered a hangover from the large flurry of activity that closed out 2016. With over 5 million SF of net absorption throughout 2016 and multiple, large industrial buildings selling at the end of the year, this performance will be difficult to repeat. The first three months of the year felt as though the market needed a breather from the fast-paced, high velocity transaction volume of 2016. Overall, activity slowed in the 1st quarter, for many users in the market kept a low profile as we entered the new year.

All economic indicators for the quarter improved from the 4th quarter. Metro, state, and national unemployment all dropped from the 4th quarter, with unemployment for both the metro area and the state lower than national averages. Based on the Midwest Economy Index that the Chicago Federal Reserve produces, Wisconsin saw a positive 0.12 index value- the highest positive contribution for the month of February. This is an improvement from December, when Wisconsin's value on the index was slightly negative. Other states included in the index are Iowa, Illinois, Indiana, and Michigan. The index measures the four broad categories of manufacturing, construction, services, and consumer spending; Wisconsin was positive in all categories.

Market Indicators

	Q4 2016	Q1 2016
VACANCY	↑	↑
NET ABSORPTION	+	+
CONSTRUCTION	↓	↓

Economic Indicators

	Quarter over Quarter
METRO MKE UNEMPL.	4.2% ↓
WISCONSIN UNEMPL.	3.7% ↓
NATIONAL UNEMPL.	4.8% ↓
WI MEI*	+0.12 ↑

Source: Bureau of Labor Statistics, January 2017

*Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Summary Statistics

Q1 2017 Industrial Market	FLEX	LI	WH&D
Vacancy Rate	4.11%	2.79%	6.90%
Change From Q4 2016 (basis points)	+5	-5	-53
Absorption (Square Feet)	214,293	199,259	232,068
New Construction (Square Feet)	0	82,000	624,860
Under Construction (Square Feet)	297,640	261,500	1,681,538

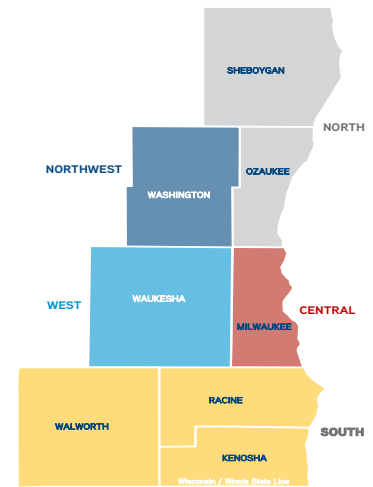
Market Overview

Several of the prospects who were testing the market renewed in place, thus not moving the needle on absorption or vacancy for their respective submarkets. Valspar Paints, who had been in the market for a two-location consolidation renewed in Menomonee Falls for 67,000 square feet. Versa Technologies also renewed their 70,000 square foot lease in Cudahy after a brief market evaluation. Additionally, ACS/Sterling Manufacturing toured the market briefly earlier in the year and renewed in place at their 178,000 square foot complex in New Berlin.

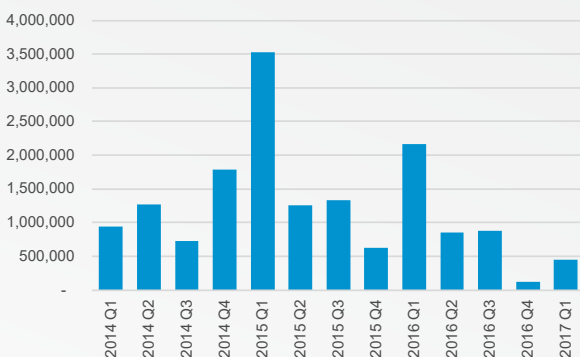
The primary driver for this strong renewal activity is a lack of quality options for users in the market, which continues to be a limiter for Southeastern Wisconsin's industrial companies looking to expand and or relocate. Every submarket is affected by this shortage, giving landlords a significant advantage. Additionally, we finally are seeing an uptick in rents, which is long overdue for our marketplace.

Although the development community is responding with new speculative buildings, these developments are still very measured. The locations for these projects are hand-picked after long evaluation and consideration of multiple options. Still, most of the speculative development activity continues to be in the I-94 corridor south to the state line through Racine and Kenosha Counties. There are several "proposed" speculative development projects in other submarkets, but we will be surprised if any of these projects become a reality in the near future.

It is expected that market conditions will remain relatively unchanged as we move into the 2nd quarter. Although there are several transactions in the market, we believe it will be difficult for these users to find suitable building alternatives to relocate. New construction continues to be the other alternative for many of these companies, but the cost of construction continues to climb, making a new facility a very expensive alternative and oftentimes a non-option for growing companies.



HISTORICAL NET ABSORPTION



Net Absorption

In the 1st quarter of 2017 there were five new leases exceeding 100,000 SF in Southeastern Wisconsin. Three of the five occurred in the south submarket, with Gold Standard Baking and Cree, Inc entering the market and Seda North America expanding their current facility at Globe Drive. The northwest submarket also had a strong start to the year, seeing 117,487 SF of positive net absorption, which was driven by two expansions and a lack of move-outs.

Both the central and west submarkets had large lease activity that was offset by moveouts, resulting in both submarkets realizing negative net absorption for the quarter. Sellars Absorbant Materials occupied 138,480 SF on Calmut Road in the central submarket. Hallmark Building Supply and Kirby products signed leases at 901 Northview Road in Waukesha County, making this new development 73.8% leased. Despite the activity that was experienced in the quarter, absorption is down from a year ago. This is primarily due to smaller moveouts as well as a slowdown of overall activity. However, absorption is up significantly from the 4th quarter of 2016, and the quarter marked the 28th straight quarter of positive absorption.

Vacancy

Vacancy rates continue their downward trend. The west submarket remains the tightest market, with sub 4% vacancy rates across all property types. Of the 72.2 million SF that makes up the west submarket, only 2.1 million SF remain available.

The south submarkets vacancy rates have increased as a result of new product coming online in recent quarters. Last year, the south submarket delivered 1.7 million SF of space, with 1.1 million SF being warehouse and distribution space. Despite the delivery of space, the south saw vacancy rates lower than a year ago. In fact, the only submarket to not realize vacancy rates lower than Q1 2016 was the north submarket.

Construction Activity

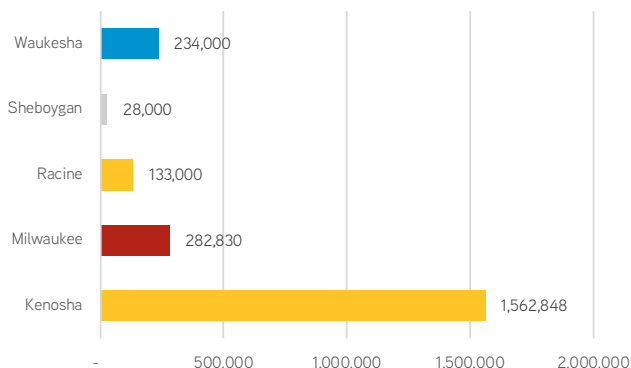
Lease activity continues to drive new industrial construction across Southeastern Wisconsin. The south, west, and central submarkets continue to see increased construction activity. Kenosha County is seeing the majority of the activity with 1.56 million SF under construction. This includes Uline's 880,000 SF facility and the 600,000 SF First Park 94 Building, which remains fully available. Of the 2.24 million SF currently under construction, only 35% or 783,000 SF remain available.

Notable projects include:

- > Uline Midwest Distribution
- > First Park 94 Building B
- > Vonco Products
- > Restaurant Depot
- > Oakview Business Park
- > Burnham Business Center
- > Nordco
- > Sheboygan Paper Box Expansion
- > ER Wagner Facility
- > 5250 N Executive Drive

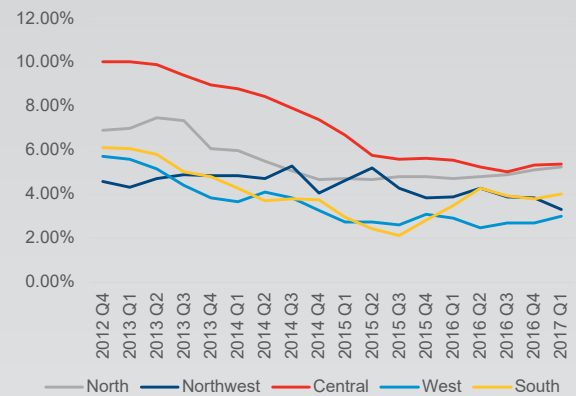
SF Under Construction

by county



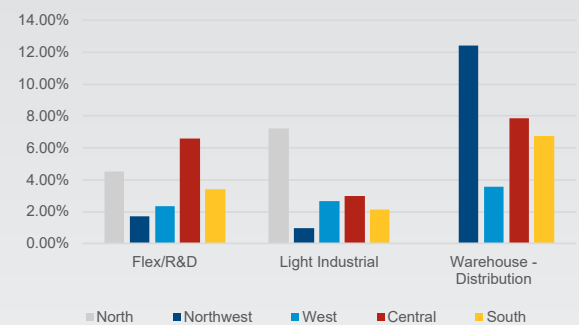
HISTORICAL VACANCY

By Submarket

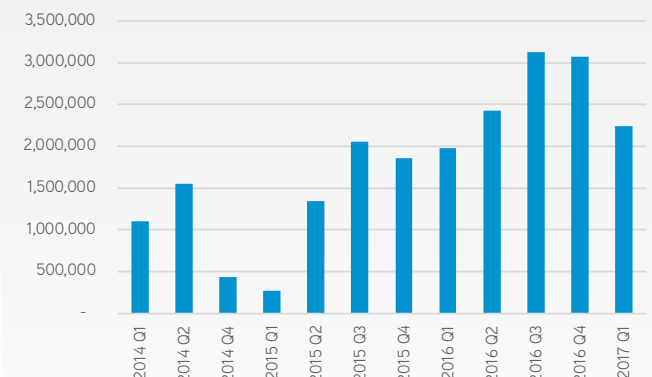


VACANCY

By Use



Historical Construction Activity



Q1 2017 Industrial Market Statistics

INDUSTRIAL MARKET										
EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q-17	Q1-16	CURRENT QUARTER	YTD	CURRENT QUARTER	YTD	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
FX	83	5,222,191	569,001	10.90%	11.11%	11,400	11,400	-	-	-
LI	208	17,686,235	828,017	4.68%	4.29%	-57,712	-57,712	-	-	28,000
WH&D	31	3,746,768	0	0.00%	0.00%	-	0	-	-	-
Total	322	26,655,194	1,397,018	5.24%	5.03%	-46,312	-46,312	-	-	28,000
NORTHWEST MARKET: Washington County										
FX	155	6,685,211	150,221	2.25%	2.27%	1,855	1,855	-	-	-
LI	129	9,399,158	60,280	0.64%	0.65%	94,000	94,000	-	-	-
WH&D	42	3,658,908	440,000	12.03%	12.62%	21,632	21,632	-	-	-
Total	326	19,743,277	650,501	3.29%	3.43%	117,487	117,487	-	-	-
WEST MARKET: Waukesha County										
FX	467	16,869,087	563,691	3.34%	2.98%	-54,486	-54,486	-	-	-
LI	845	37,957,731	939,657	2.48%	2.91%	-62,358	-62,358	82,000	82,000	234,000
WH&D	198	17,323,587	644,504	3.72%	3.96%	33,214	33,214	-	-	-
Total	1,510	72,150,405	2,147,852	2.98%	3.18%	-83,630	-83,630	82,000	82,000	234,000
CENTRAL MARKET: Milwaukee County										
FX	251	12,036,919	544,211	4.52%	5.31%	16,844	16,844	-	-	83,640
LI	851	53,326,159	2,068,795	3.88%	4.44%	159,990	159,990	-	-	-
WH&D	336	28,731,636	2,431,788	8.46%	7.88%	-160,052	-160,052	-	-	199,190
Total	1,438	94,094,714	5,044,794	5.36%	5.60%	16,782	16,782	-	-	282,830
SOUTH MARKET: Racine County, Kenosha County and Walworth County										
FX	69	4,642,994	204,782	4.41%	4.13%	107,835	107,835	-	-	-
LI	610	40,468,102	851,324	2.10%	2.42%	-3,816	-3,816	-	-	213,500
WH&D	89	20,269,423	1,568,939	7.74%	15.93%	337,274	337,274	624,860	624,860	1,482,348
Total	768	65,380,519	2,625,045	4.02%	6.87%	441,293	441,293	624,860	624,860	1,695,848
GRAND TOTAL										
FX	1,025	45,456,402	2,031,906	4.47%	9.11%	83,448	83,448	-	-	83,640
LI	2,643	158,837,385	4,748,073	2.99%	3.02%	130,104	130,104	82,000	82,000	475,500
WH&D	696	73,730,322	5,085,231	6.90%	4.55%	232,068	232,068	624,860	624,860	1,681,538
Total	4,364	278,024,109	11,865,210	4.27%	4.33%	445,620	445,620	706,860	706,860	2,240,678
QUARTERLY COMPARISON TOTALS										
2017 Q1	4,364	278,024,109	11,865,210	4.27%	-	445,620	-	706,860	-	2,240,678
2016 Q4	4,366	276,770,662	11,481,988	4.15%	-	16,540	-	520,000	-	2,673,708
2016 Q3	4,364	276,279,021	11,073,394	4.01%	-	875,074	-	1,142,400	-	2,868,528
2016 Q2	4,363	275,879,058	11,483,035	4.16%	-	816,134	-	2,944,557	-	2,550,257
2016 Q1	4,362	275,292,929	11,477,385	4.17%	-	2,160,101	-	614,062	-	2,730,107

Source: Xceligent & Colliers | Wisconsin Research

68 countries

\$2.6

billion in
annual revenue

2

billion square feet
under management

15,000

professionals
and staff

\$105

billion in
total transaction value

*All statistics are for 2016, are in U.S. dollars and
include affiliates.

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