

Investor Focus Continues to Shift, More CBD Towers Expected to Trade in 2017

In similar fashion to the past several years, the first quarter finished nearly as quietly as it began. The market is no stranger to this trend; a slow first quarter is followed by stronger activity the rest of the year. GDP tends to follow this trend as well. In fact, if this pattern continues for the remainder of 2017, it will mark the fifth time in the past seven years that the first quarter GDP was the weakest of the four. Part of the slow start in the first quarter can be attributed to politics. With a new administration in office, investors tend to wait on the sidelines to see what policies will be put into place that could have an adverse effect, particularly in regards to capital gains.

Overall, the economy and property fundamentals remain sound and capital markets are robust in historical terms. While data suggests we are peaking (cap rates, sale transaction levels and absorption rates are all falling/slowing), the economy is in good shape and we are seeing no imminent economic downturn. Unemployment rates have hit their lowest levels in a decade while consumer confidence hit a 16-year high in March. And in February, The Federal Reserve Bank of Philadelphia's State Leading Indexes listed Wisconsin as one of three states with the highest expected six-month positive change in the state coincident index at greater than 4.5%. Currently, the state ranks in the lower half of all states, but with large positive changes expected over the next few months, Wisconsin has some positive momentum.

As 2017 continues, we expect to see an increase in transaction volume, though likely not at the near-peak levels of 2015. With slowing appreciation and moderating returns, investors continue to shift their focus from primary to secondary markets like Milwaukee. This is clearly evidenced by the significant amount of trading activity in the Milwaukee CBD. In our Q3 2016 report, we highlighted the eight CBD towers that had traded over the course of 24 months. This activity will continue into 2017, as two major towers are currently on the market: 411 E Wisconsin Ave and 310 W Wisconsin Ave. The 411 building was sold in mid-2014 for \$74.3 million. Since then, ownership has reinvested a significant amount of capital into the building and stabilized the occupancy. On the opposite end of the spectrum, 310 is a value-add repositioning opportunity at 52% leased. Both of these towers are expected to trade in mid-2017.

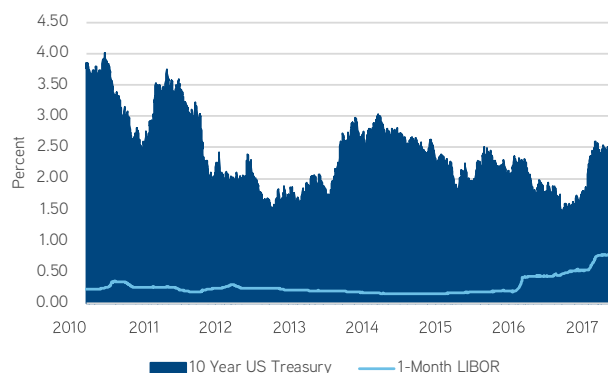
Cap Rate Movement

Q1 2017 Compared to Q1 2016

OFFICE (CBD)	↓
OFFICE (SUBURBAN)	↑
INDUSTRIAL	↓
RETAIL	↑
MULTIFAMILY	↔
HOSPITALITY	↓

Source: Colliers | Wisconsin Investment Services

Interest Rate Indicators



Source: FRED, Federal Reserve Bank of St. Louis

Office Market

Office property transactions were light in the first quarter, but two notable sales did close. In Milwaukee's central business district, North Wells Capital (Chicago) bought the Bon-Ton (NAS: BONT) building located at 331 W. Wisconsin Avenue for \$25,000,000. The property predominantly serves as Bon-Ton's headquarters; however, it does also feature a retail department store and the Boston Lofts apartments. This mixed-use sale traded at approximately an 8.00% blended cap rate when a downward adjustment is factored for the apartment component.

In the suburbs, 400 N. Executive Drive in Brookfield, Wisconsin, a 100,000 square foot, 96% occupied multi-tenant office building was sold by RAIT Financial Trust (NAS: RAS) to an affiliate of Arthur Goldner & Associates (Northbrook, IL). The property is anchored by US Bank and Willis Towers Watson and was sold on March 31st, 2017 for \$10,600,000 at a 10.25% cap rate.

Two high profile office assets are currently on the sale market in downtown Milwaukee. 411 E. Wisconsin Avenue is a 693,000 square foot, 89% occupied, 30 story Class A tower that is actively seeking a buyer. Five Mile Capital Partners LLC (Stamford, CT) and Riverview Realty (Chicago) purchased the asset three years ago as a value-add opportunity. They significantly reinvested in the common areas, increased occupancy, and are now trying to reap the rewards of their efforts.

310 W. Wisconsin Avenue is on the sale market with Colliers International. This 578,000 square foot value-add opportunity is being sold by RAIT Financial Trust (Philadelphia). RAIT has owned the property on balance sheet for approximately twelve years. The two-tower complex is 52% leased to numerous GSA and private sector tenants, and the offering includes a 606 stall parking garage.



411 Building



310 W Wisconsin



400 N Executive Drive



8551 Research Way

Industrial Market

Comparable to the office sector, closing activity was very light for the first quarter for industrial investment product. Phoenix Investors, Brennan Investment Group, Zilber Ltd., and MLG Capital have recently been buying in this sector in Wisconsin. An abundant supply of capital continues to chase a shortage in supply of product. Net effective rents have continued to climb as vacancy rates have hit historic lows, and new development deliveries have not flooded the available space inventory. Cap rates for core, Class A product are still at historic lows in the 6% to low 7% range. Cap rates for value-add and Class B product are in the 8% to 9% range. Recently there has been a shift in buyer mentality, due to the lack of core product, as many have shifted strategies and are looking in the flex/tech sector (14' – 18' clear) to find more opportunities.



Sears - Brookfield

Retail Market

Retail activity in the first quarter was significantly lighter than the first quarter of 2016. While consumer confidence hit a 16-year high of 124.9 in March 2017, consumer spending did not reflect the same. In 2016, store closures reached their highest levels since 2010, a number that is forecasted to be even higher in 2017 with bankruptcies on the rise as well. Most of these closures have impacted malls, lifestyle and power centers, resulting in more critical underwriting of retail assets and a stronger attraction to neighborhood/community centers and strip centers.

Two of the largest retail sales in the first quarter were strip centers. Josh Jeffers (Milwaukee, WI) purchased College Plaza in Franklin for \$3,300,000 (\$183 PSF). In Mequon, Avante Properties out of Madison, WI purchased a 12,750 SF retail center for \$4,275,000 (\$336 PSF). The center featured national tenants such as Starbucks, Mattress Firm and Charles Schwab. In Brookfield, the Sears department store at Brookfield Square Mall was sold in a seven-building sale-leaseback portfolio. CBL & Associates (Chattanooga, TN) purchased the portfolio for \$75.5 million (\$62 PSF). Sears will continue to operate the stores under new 10-year leases. CBL purchased the properties for future redevelopment with both landlord and tenant having rights to terminate the leases.

Multifamily Market

During the 1st quarter, 1,659 units traded in Milwaukee with cap rates ranging from 6% to 13.5%. Meanwhile, rental rate growth has remained flat at 0.2% month over month and 1.2% year over year. Notable transactions for the quarter include the 476 unit West Grove on the Lake Apartments located in Waukesha. MLG Capital (Brookfield, WI) acquired the asset at the end of January for \$36.5 million (\$76,680/unit). Average rent is \$1,135/unit and the property was 95% occupied at closing. In Racine, Lake Oaks, a 100% occupied age-restricted project from 2001, sold for \$11.99 million (\$70,680/unit). The project was developed by Gene B. Hicks Co. of Indiana and traded hands at the end of the quarter with average rents of \$825 and no vacancy at time of close.

As new construction projects continue to launch within Milwaukee's first tier suburbs (Emerald at Drexel Towne Square in Oak Creek, Forte at 84South in Greenfield, and State Street Station in Wauwatosa) the question arises; how will these projects be absorbed and what will be their impact on the market be? Meanwhile, in Downtown Milwaukee, waiting lists continue to build for high-end apartments as developers temper deliveries for the anticipated slowdown. Credit markets have tightened slightly and conventional wisdom suggests that we are crossing from expansion into hyper-supply for the multifamily market. As the year progresses, we expect fewer properties to transact, in spite of the continued influx of market capital.



West Grove on the Lake Apartments



Uncommon Madison - Student Housing



Lake Oaks

Notable Recent Investment Sales

Q1 2017							
INDUSTRIAL & FLEX							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
8551 Research Way (Two Properties)	Middleton	IRA Captial	Vanta Commercial Properties	3/21/2017	\$55,000,000	\$235	7.57%
5555 S Packard Ave	Cudahy	Phoenix Investors	Dentice Properties	12/30/2016	\$14,500,000	\$35	10.26%
Metso Paper Facility	Appleton	J F Ahern Co	STAG Industrial, Inc.	1/24/2017	\$4,100,000	\$28	Undisclosed
OFFICE							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
Boston Store ¹	Milwaukee	North Wells Capital	WISPARK LLC	4/3/2017	\$25,000,000	\$58	7.96%
Executive Center VI	Brookfield	Arthur Goldner & Associates, Inc.	RAIT Financial Trust	3/31/2017	\$10,600,000	\$104	10.25%
10500 W Loomis Rd	Franklin	JS 10500 Loomis Proprty, LLC	GN Realty Franklin, LLC	3/27/2017	\$3,900,000	\$195	7.02%
RETAIL							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
Sears Sale-Leaseback ²	Brookfield	CBL & Associates Properties	Sears Holding Corporation	1/30/2017	\$72,500,000	\$62	Undisclosed
Shopko	Manitowoc	DeWoskin Investments	Spirit Realty Capital	3/1/2017	\$10,124,000	\$115	7.00%
College Plaza	Franklin	J. Jeffers & Co., LLC	Bouraxis Properties	2/14/2017	\$3,300,000	\$183	Undisclosed
11301-11311 N Port Washington Rd	Mequon	Avante Properties	Colbalt Partners	2/15/2017	\$4,275,000	\$336	Undisclosed
MULTIFAMILY							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE/UNIT	EST. CAP
West Grove on The Lake Apartments	Waukesha	MLG Capital, LLC	SDI Management Co Inc	1/30/2017	\$36,500,000	\$76,681	Undisclosed
Lake Oaks	Racine	Glick Lake Oaks, LLC	Marcliff Bear Creek Lake Oaks Apartments, LLC	3/30/2017	\$11,990,000	\$70,529	Undisclosed
9121-9151 W Custer Ave	Milwaukee	UTEC Associates	The Obrenski Living Trust	1/31/2017	\$6,200,000	\$83,784	8.40%
Belmar Apartment Homes	Madison	Timken T Chiu	Wilma Anderson	2/7/2017	\$4,900,000	\$48,039	Undisclosed
Meadowbrook Apartments	Manitowoc	Thomas A Wright	CD Meadowbrook, LLC	2/13/2017	\$3,400,000	\$36,170	Undisclosed
STUDENT HOUSING							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE/BED	EST. CAP
Uncommon Madison	Madison	The Scion Group LLC	CA Ventures, LLC	3/21/2017	\$57,000,000	\$139,024	5.25%
Varsity Quarters	Madison	The Opus Group	1423 Monroe	3/1/2017	\$25,000,000	\$154,321	5.75%
ASSISTED LIVING							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
Applewood Senior Living (Two Properties)	Brookfield	CareTrust REIT	Greg Petrauski	2/2/2017	\$26,100,000	\$477	8.30%

¹Sale includes Boston Store retail space, BonTon corporate headquarters office and Boston Lofts apartments.

²Sale was a seven-building portfolio with six of the buildings located out of state.

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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