

Introduction

Q1 2017 marked the 14th straight quarter of positive net absorption for the Metro Milwaukee office market. Driving positive absorption for the quarter was the central submarket, specifically the high activity Milwaukee County Research Park experienced. Despite this, net absorption for the quarter was lower than the past seven quarters and the lowest start to a year since 2012. However, the slowdown cannot be attributed to lack of deals, rather partially to blame is the decrease in average deal size and an active second half of 2016. Other market indicators remain steady. Vacancy rates continue to decrease both year over year and quarter over quarter and construction activity has continued with 283,500 SF of multi-tenant office space currently under construction.

All economic indicators for the quarter improved from the 4th quarter. Metro, state, and national unemployment all dropped from the 4th quarter, with Metro Milwaukee adding 8,000 office using jobs* in the first part of 2017. Unemployment for both the metro area and the state are 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.

*Based on preliminary February numbers from the BLS.

Trends

- › The gravity of downtown continues to attract tenants not only to the downtown market, but also to first ring suburban markets, such as the central submarket, that have quick commutes to Downtown.
- › The market continues to be a landlord's market with lease concessions holding steady or decreasing depending on the class of space.
- › Asking rates continue their upward trend, with landlords pushing rates across all classes of space.

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 ↑

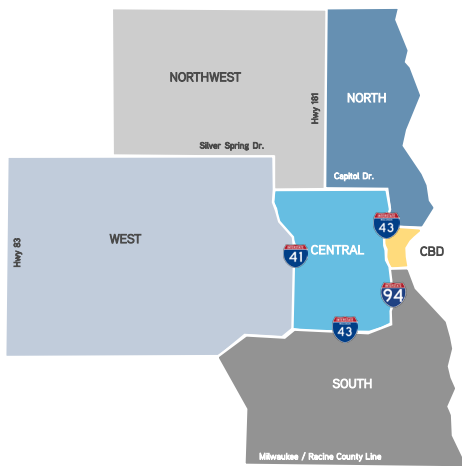
Source: Bureau of Labor Statistics, January 2017

*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 Office Market	MKE	CBD	Suburban
Vacancy Rate	16.65%	15.74%	17.3%
Change From Q4 2016 (basis points)	-14	-36	1
Absorption (Square Feet)	20,529	4,918	15,611
New Construction (Square Feet)	0	0	0
Under Construction (Square Feet)	283,500	283,500	0

Source: Xceligent & Colliers | Wisconsin Research



Sale Activity

The 1st quarter saw a slowdown of sale activity, with the only two notable sales closing on the last day of the quarter. Both the downtown and suburban markets saw office properties trade hands, with the Boston Store Building trading downtown and Executive VI trading in Brookfield.

Two downtown buildings are also on the market. Previously purchased in 2014 by Riverview Realty Partners, the 411 Building is back on the market. Also on the market is 310 W Wisconsin, making two notable office buildings available within Downtown Milwaukee.

Vacancy

Despite relatively low absorption numbers, vacancy numbers across the metropolitan area remained stable. With vacancy across all classes continuing its current downward trajectory, the market saw a decrease in vacancy rates both quarter over quarter and year over year. Following the increase in demand and occupied space, the central submarket realized an impressive 125 basis point drop in vacancy rates quarter over quarter and 206 basis point drop year over year.

Of the submarkets, the northwest and CBD were the only markets to realize a decrease in rates year over year. The slight increase in CBD rates are primarily driven by inventory expanding as a result of the Q1 2016 delivery of 833 East. However, the CBD has 42% of all vacant space in the market, the same percentage as its market share. The Northwest submarket is also experiencing an increase in vacancy as it has lost a few large users to the CBD over the past couple of years, most notably Monster, Dohmen Life Science Services and Plunkett Raysich.

16.65% 
MARKET VACANCY RATE

Notable Sale Activity

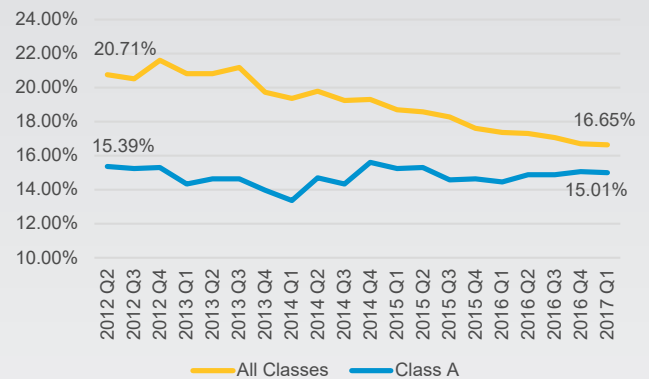
Q1 2017 Closed Transactions

Executive Center VI (400 N Executive Dr)
Buyer: Arthur Goldner & Associates
\$10,600,000 (\$104.00 psf)

Boston Store Building (331 W. Wisconsin Ave)
Buyer: North Wells Capital
\$25,000,000 (\$58.00 psf)

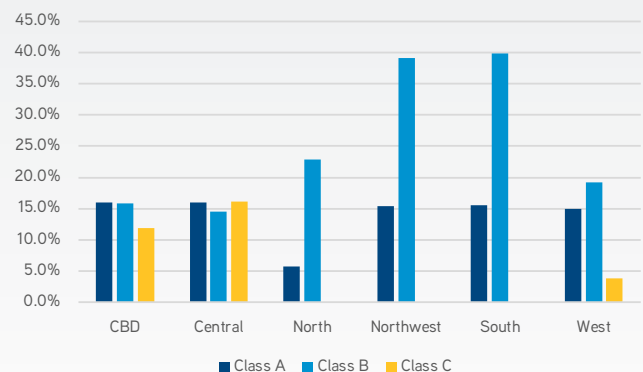
HISTORICAL VACANCY

By Class



VACANCY RATE

By Submarket & Class



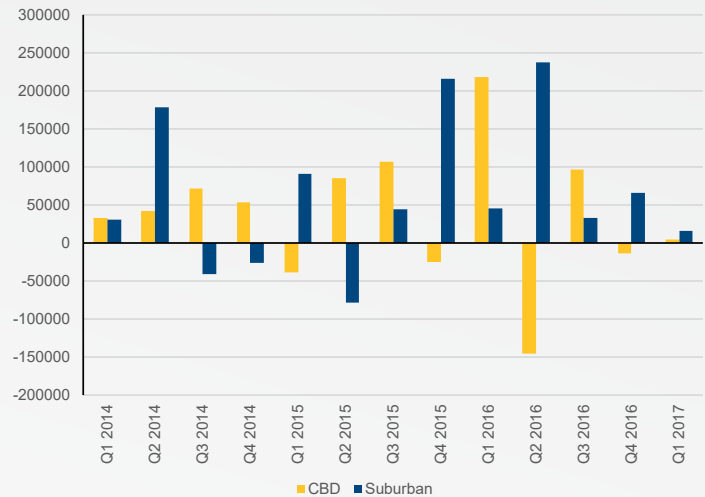
Source: Xceligent & Colliers | Wisconsin Research

Net Absorption

Class A product saw an impressive 73,000 SF of net positive absorption for the quarter driven by two 20,000+ SF leases in the Milwaukee County Research Park. Most notable of these deals was Saputo Cheese relocating its Richfield office in order to create a regional headquarters for the company. The company is currently in 12,000 SF and will be expanding its footprint by nearly 16,000 SF when it moves to Mayfair Woods Business & Technology Center.

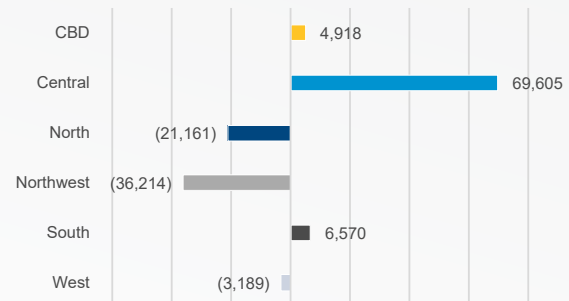
The activity experienced by the central submarket is indicative of the larger overall trend that the gravity of downtown is having on the market. Tenants who enjoy suburban amenities, but are eager to attract talent are choosing to move their operations to locations that are convenient for employees who live downtown. This is further supported by the slowdown of activity in the west submarket, a market that historically has been the most active suburban office market. However, with only 15 Class A buildings in the central market, the submarket could continue to tighten, should demand for the area continue. The first multi-tenant suburban office building delivered this cycle, the Meadowlands Research and Technology Center was delivered to the central submarket in the middle of 2016 and is nearly 76% occupied six months after delivery.

HISTORICAL NET ABSORPTION



NET ABSORPTION

By Submarket



Source: Xceligent & Colliers | Wisconsin Research



Metro Milwaukee Development Snapshot

Metro Milwaukee, especially the downtown area continues to see cranes in the sky. There has been \$1.7 billion invested in public and private projects and an additional \$936 million proposed for new downtown projects. As 2017 ramps up, and projects move closer to completion, the dynamics of Downtown Milwaukee continue to change.

In the 1st quarter, four multi-tenant office projects totaling 283,500 SF are under construction, of which approximately 53% is available. All of the projects are located in Milwaukee's CBD, with three of the four located west of the river in non-traditional office locations. All of these projects are within close proximity of new multi-family, entertainment, or hospitality developments. Also under construction is Northwestern Mutual's 1.2 million SF corporate headquarters, which is expected to deliver at the end of this year.

Over the past couple of years, as office buildings are being redeveloped for multi-family and hospitality uses, 1.32 million SF of lower class office space has been removed from the market, with a majority of the space coming off-line, located in the Downtown West market.

Source: Downtown Milwaukee & Colliers | Wisconsin Research

Meto Milwaukee Office Market

2017 Quarter 1										
EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q1-17	Q1-16	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
CBD - Downtown East, Downtown West, Third Ward & Walker's Point										
A	18	5,798,531	926,890	15.98%	14.89%	-6,021	-6,021	-	-	256,000
B	67	5,565,548	881,726	15.84%	17.21%	22,155	22,155	-	-	27,500
C	9	518,335	61,743	11.91%	7.95%	-11,216	-11,216	-	-	-
Total	94	11,882,414	1,870,359	15.74%	15.57%	4,918	4,918	-	-	283,500
CENTRAL - West Allis, Mayfair, Wauwatosa										
A	15	1,426,296	228,453	16.02%	19.91%	73,067	73,067	-	-	-
B	41	3,107,405	451,758	14.54%	16.35%	-4,090	-4,090	-	-	-
C	5	169,554	27,441	16.18%	16.12%	628	628	-	-	-
Total	61	4,703,255	707,652	15.05%	17.34%	69,605	69,605	-	-	-
NORTH - North Shore, Brown Deer, Mequon										
A	23	810,628	46,252	5.71%	7.43%	1,464	1,464	-	-	-
B	49	1,493,730	341,452	22.86%	27.46%	-22,625	-22,625	-	-	-
C	1	8,857	0	0.00%	8.13%	0	0	-	-	-
Total	73	2,313,215	387,704	16.76%	19.50%	-21,161	-21,161	-	-	-
NORTHWEST - Menomonee Falls, Germantown										
A	10	1,064,984	163,387	15.34%	12.82%	-3,148	-3,148	-	-	-
B	7	622,254	243,403	39.12%	37.26%	-33,066	-33,066	-	-	-
C	1	33,443	0	0.00%	37.26%	0	0	-	-	-
Total	18	1,687,238	406,790	24.11%	22.82%	-36,214	-36,214	-	-	-
SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin,										
A	7	185,711	28,767	15.49%	19.20%	-1,859	-1,859	-	-	-
B	12	369,084	147,221	39.89%	38.81%	8,429	8,429	-	-	-
Total	19	554,795	175,988	31.72%	32.68%	6,570	6,570	-	-	-
WEST - Brookfield, Waukesha, New Berlin, Pewaukee										
A	58	3,349,645	503,169	15.02%	13.78%	-33,818	-33,818	-	-	-
B	76	3,169,923	610,888	19.27%	21.98%	30,629	30,629	-	-	-
C	7	396,995	15,128	3.81%	6.12%	0	0	-	-	-
Total	141	6,916,563	1,129,185	16.33%	17.10%	-3,189	-3,189	-	-	-
TOTAL										
A	131	12,635,795	1,896,918	15.01%	14.50%	29,685	29,685	-	-	256,000
B	252	14,327,944	2,676,448	18.68%	20.71%	1,432	1,432	-	-	27,500
C	23	1,127,184	104,312	9.25%	9.30%	-10,588	-10,588	-	-	-
Total	406	28,090,923	4,677,678	16.65%	17.39%	20,529	20,529	-	-	283,500
QUARTERLY COMPARISON TOTALS										
1Q 2017	406	28,090,923	4,677,678	16.65%	-	20,529	-	-	-	283,500
4Q 2016	410	28,271,550	4,747,420	16.79%	-	32,706	-	-	-	137,500
3Q 2016	410	28,271,550	4,780,126	16.91%	-	129,558	-	-	-	113,830
2Q 2016	410	28,344,750	4,888,463	17.25%	-	124,749	-	156,000	513,000	113,830
1Q 2016	410	27,969,151	4,864,288	17.39%	-	379,099	-	358,000	358,000	156,000

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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