

Transactions Flat Though Investor Demand Remains High; 1031 Investors Return

As the first half of 2017 comes to a close, there is still a fair level of uncertainty surrounding the current market conditions and what the rest of 2017 and beyond holds. Commercial real estate transactions were down 8% nationwide for the first half of 2017 versus a year earlier as the disparity between buyer and seller expectations continues to grow. Buyers are proceeding with more caution now that pricing in most sectors seems to have peaked and property performance levels have stabilized. The overall deal climate in the capital markets remains optimistic that values are not grossly inflated.

Unlike pricing activity, deal volume across the country did increase for a few sectors (mainly industrial, suburban office and hotel) in Q2 which can partially be attributed to nationwide megadeals in each sector. Although it seems counterintuitive to say that deal volume and prices do not move together, that seems to be the trend that has developed over the last two years beginning just before the peak of this cycle in Q4 2015.

Even with fewer transactions so far in 2017 compared to this time last year, prices remain at levels 22.9% higher than the pre-recession peak particularly for trophy assets in major markets. This statement is echoed within the Milwaukee Central Business District (CBD) as well. 411 E Wisconsin Ave, Milwaukee's second largest class A office tower at 693,000 SF, was sold at the end of June for \$124.6 million or just under \$180 PSF. The 1980s-built tower had been purchased just three years earlier for \$74.3 million with new ownership heavily investing in upgrades to the property. Prior to that, the asset was purchased by a Tenant-in-Common (TIC) group for \$95 million in 2005. The sale this quarter presents a 31% price increase over the pre-recession pricing.

Outside of the red-hot Milwaukee CBD, transaction volume did pick up slightly from Q1 but not at the pre-recession pricing increases seen at 411 E Wisconsin. Most sectors performed relatively well with healthy pricing. Investors continue to move into metro Milwaukee as they are being priced out of major markets across the country. Additionally, there has been a recent uptick in 1031 exchange activity as interest rates remain relatively low across the board. Deal volume is expected to continue to increase throughout the remainder of 2017 as investors look to place capital before the next calendar change.

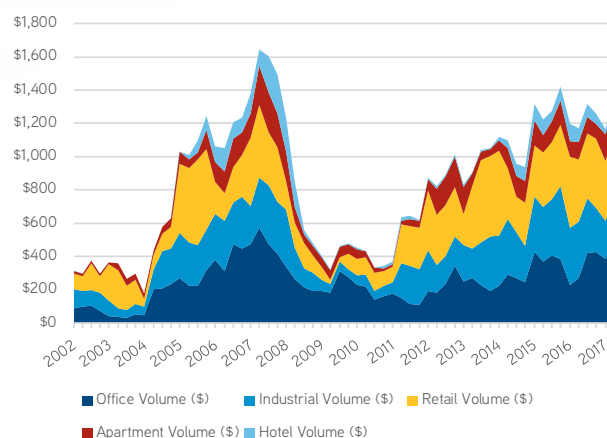
Cap Rate Movement

Q2 2017 Compared to Q2 2016

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

Source: Colliers | Wisconsin Investment Services

Historical Milwaukee Transaction Volume (millions)



Source: Real Capital Analytics

Office Market

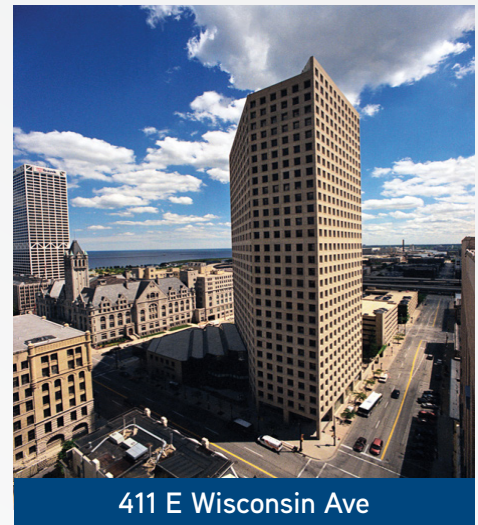
Investor demand in downtown Milwaukee remains at an all-time high with two notable CBD properties, Manpower and 411 E. Wisconsin, exchanging hands in Q2. The 280,000 square foot, four-story Manpower (NYSE: MAN) global headquarters located at 100 N Manpower Place sold for \$66.5 million (\$237.50 PSF) to Seattle, Washington-based Bentall Kennedy. The LEED Gold Certified building was delivered new by developer Gary Grunau dba Schlitz Park/The Brewery Works Inc. as a build-to-suit in 2007. The transaction closed on June 1st, 2017 at a reported 6.53% cap rate.

411 E. Wisconsin is a 693,000 square foot, 30-story, high profile office tower, and a remarkable value-creation story for downtown Milwaukee. The asset is home to anchor tenant law firms Quarles & Brady, LLP and von Briesen & Roper, S.C. The property was sold by a distressed TIC owner in May of 2014 to Five Mile Capital Partners (Chicago, IL) for \$74.3 million or \$107.20 PSF (inclusive of parking structure and annex structure). Five Mile invested a large amount of capital (reported at \$17.3 million) over a three year repositioning business plan, and then took the asset to market in the spring of 2017. Five Mile increased occupancy from 76% to 89% as a result of the major upgrades to the HVAC, lobby, roof, elevator and parking structure. On June 29th, Middleton Partners (Northbrook, IL) purchased the property for \$124.6 million (\$179.77 per sf) at a reported 9.30% cap rate, parking income included.

The downtown office sale market continues to be robust as investors follow the momentum of the residential, commercial, and Bucks Arena building boom. Currently on the sale market are CBD assets located at 310 W. Wisconsin Avenue (578,000 square feet) and 648 N Plankinton (195,000 square feet).



100 Manpower Place



411 E Wisconsin Ave

Industrial Market



5235 International Drive

The industrial capital markets in Wisconsin continued to accelerate forward in Q2. With strong property fundamentals and historically low vacancy rates, there remains pent-up demand from private and institutional buyers to acquire both core and value-add industrial. Consistent with the last eight quarters, there are a couple of noteworthy sales to discuss, but the lack of significant trading volume is astounding. Colliers | Wisconsin Investment Services is forecasting significantly more transactional activity for Q3 and Q4 of 2017.

In a May 9th sale leaseback, New York-based investor Angelo, Gordon & Co. acquired three single tenant industrial buildings in West Bend and Germantown totaling 629,000 square feet for approximately \$34.42 million, or \$55 PSF. Per sources, Gehl Foods executed a 20-year NNN lease on the entire portfolio.

On June 28th, Welsh Property Trust (Minneapolis, MN) purchased a 147,213 square foot, 28' clear, institutional-grade building from CenterPoint Properties (Oak Brook, IL) for \$10.3 million (\$69.97 PSF). The sale also included an adjacent 7.38 acre vacant development parcel. The land was allocated a \$1.03 million value for a total purchase price of \$11.33. The property was 100% occupied at the time of sale and the resulting cap rate is estimated to be in the mid to high 7% range.



The Commons at West Milwaukee

Retail Market

Despite the ongoing news of retailer store closings and bankruptcies, demand for high quality, stabilized retail centers remains relatively strong in Wisconsin. Investors continue to look for well-located, multi-tenant centers with a heavy presence of national and regional retailers.

The Commons at West Milwaukee, a 9,376 square foot three-tenant retail center, traded hands for \$4.23 million or \$450.62 per square foot at a 7.22% cap rate. Located at the busy corner of Miller Park Way and Greenfield Ave, this adaptive re-use project involved converting a 1955 warehouse into a new retail center. Mattress Firm, Noodles & Co. and Johnson Bank occupy 100% of the center on long term triple net leases with an average net lease rate of \$32.50 per square foot. The property was sold by KVG Building Corporation (Milwaukee, WI) to S & A Real Estate Holdings (Milwaukee, WI).

In Kenosha, a newly constructed three-tenant retail center sold for a healthy \$447.92 PSF or \$3.225 million at an approximately 6.50% cap rate. Like The Commons, this center also boasts a list of strong national tenants including Five Guys and Potbelly.



Prairie Ridge Marketplace - Kenosha

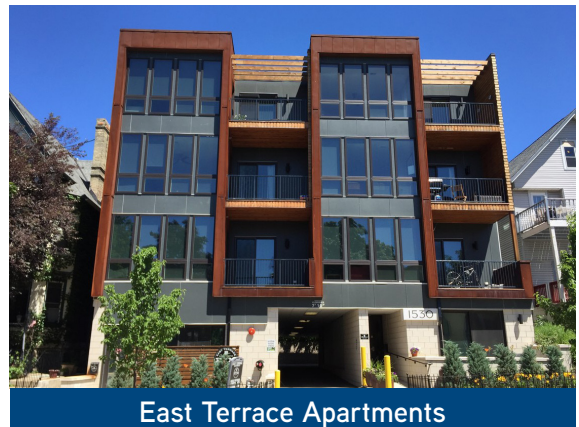
Multifamily Market

With the first half of the year behind us, trends for 2017 are unfolding. Nationwide, the apartment market remains strong. Vacancy for Q2 held steady from Q1 at 4.9 percent, but increased by 200 basis points year-over-year. Across the same period, average rent growth was 4.1 percent. Locally, rent growth over the past six months was 4.9 percent, with an average rent of \$1,278 across the market. Broken down by unit type, one-bedroom units averaged \$1,102 while two-bedroom units averaged \$1,455. Neighborhoods with the highest rents are Northpoint and the Third Ward, while the neighborhoods with the lowest rents were Washington park, Southgate and Concordia.

Over the past eight quarters, 4,259 units have been delivered to the market. With 6,730 units currently under construction, concerns linger over the pace of new deliveries in the market. Thus far, pent up demand and changing demographic trends have allowed the market to absorb new product, but the trend cannot continue at its current pace.

Market activity for the quarter was light, with few notable transactions. Cap rates ranged from 6.48% to 7.23%. Pricing ranged from \$48,000 per unit to \$241,000 per unit. Only one property with more than 100 units traded in Q2. East Terrace Apartments, a 14-unit apartment building located on the edge of downtown in Milwaukee's Lower Eastside neighborhood, traded for a near-record high of \$241,428 per unit or \$3.38 million at a 6.70% cap rate. The property was constructed in 2014 and features high-end finishes such as quartz countertops and stainless steel appliances. WiRED Properties (Milwaukee, WI) sold the property on May 1st to Bluefields Jackson LLC (Omaha, NE).

Source: Data on the multifamily market presented above is derived from MPF Publications Q2 2017 & rentjungle.com, a national apartment search engine.



East Terrace Apartments

Notable Recent Investment Sales

Q2 2017							
INDUSTRIAL & FLEX							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
Gehl Foods ¹	Germantown	Angelo, Gordon & Co.	Wind Point Partners	5/9/2017	\$34,420,000	\$56	Undisclosed
BuySeasons HQ	New Berlin	Rubie's Costume Co.	Angelo, Gordon & Co.	7/7/2017	\$18,500,000	\$39	Undisclosed
5235 International Drive	Cudahy	5201 International Drive DEV, LLC	CenterPoint Properties	6/30/2017	\$10,300,000	\$70	Undisclosed
1101 S. Sylvania Avenue	Sturtevant	Zilber Property Group	Sierra Management	5/11/2017	\$6,095,000	\$56	8.26%
OFFICE							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
411 E. Wisconsin Ave	Milwaukee	Middleton Partners	Five Mile Capital Partners	6/29/2017	\$124,600,000	\$180	9.30%
100 N. Manpower Place	Milwaukee	Bentall Kennedy	Schlitz Park/The Brewery Works Inc.	6/1/2017	\$66,500,000	\$238	6.53%
Executive Center VI	Brookfield	Arthur Goldner & Associates, Inc.	RAIT Financial Trust	3/31/2017	\$10,600,000	\$104	10.25%
Lincoln Center II & III	West Allis	Sara Investment Real Estate	Greenfield Partners & Somerset Properties, Inc.	5/8/2017	\$8,000,000	\$66	Undisclosed
Executive Center III	Brookfield	Sterling Properties	Vfc Properties 27 LLC	5/12/2017	\$3,320,000	\$60	9.47%
600 N Broadway	Milwaukee	J. Jeffers & Co.	600 N. Broadway Partners LLC	6/30/2017	\$1,550,000	\$65	N/A
RETAIL							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
Greentree Centre	Racine	Phillips Edison Grocery Center REIT I, Inc.	DRA Advisors LLC	5/5/2017	\$12,050,000	\$146	7.50%
The Commons at West Milwaukee	West Milwaukee	S & A Real Estate Holdings	KVG Building Corporation	6/29/2017	\$4,225,000	\$451	7.22%
Crossroads Commons	Plover	Genesis Biotechnology Group	Form Development Company	4/25/2017	\$4,146,541	\$111	8.75%
Prairie Ridge Marketplace	Kenosha	Adelphia Properties	Oldacre McDonald	6/5/2017	\$3,225,000	\$448	6.50%
MULTIFAMILY							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE / UNIT	EST. CAP
Nakoma Heights Apartments	Fitchburg	J.K. Rock Property Management	Star Holdings of Illinois, LLC	4/13/2017	\$7,000,000	\$48,611	7.23%
Arcade Apartments	Racine	Greystone Funding Corporation	Arcade Partners, LLC	6/19/2017	\$4,450,000	\$222,500	Undisclosed
Northern Bluffs Apartments	Madison	Northern Bluffs LLC	Northridge Terrace LLC	6/6/2017	\$4,360,000	\$90,833	7.00%
East Terrace Apartments	Milwaukee	Bluefields Jackson LLC	Wired Properties	5/1/2017	\$3,380,000	\$241,428	6.70%
Northgate Senior Apartments	Fond du Lac	Capri Senior Communities	Star Holdings of Illinois, LLC.	4/13/2017	\$3,046,150	\$54,937	6.48%
700 E Lyon St ²	Milwaukee	Dominion Properties	Catherine Charlton	6/30/2017	\$1,700,000	N/A	Undisclosed
ASSISTED LIVING							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	EST. CAP
Heritage Place	Brookfield	Capri Senior Communities	Bruce and Linda Borchadt	5/26/2017	\$11,200,000	\$102	Undisclosed
HOTEL							
BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE / ROOM	EST. CAP
Sheraton Madison Hotel	Madison	DeFoor Brothers LLC	Waterton Associates LLC & The Marcus Corporation	4/18/2017	\$19,250,000	\$80,544	Undisclosed
Comfort Suites	Lake Geneva	Narednra Patel	Badger Hotel Development	5/1/2017	\$6,000,000	\$75,000	10.00%

¹ Portfolio sale of three industrial properties in Wisconsin

² Portfolio sale of four mixed-use properties

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.

About Colliers International

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIGI) is an industry leading global real estate services company with more than 15,000 skilled professionals operating in 68 countries. With an enterprising culture and significant employee ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include strategic advice and execution for property sales, leasing and finance; global corporate solutions; property, facility and project management; workplace solutions; appraisal, valuation and tax consulting; customized research; and thought leadership consulting.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice that help clients accelerate their success. Colliers has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 12 consecutive years, more than any other real estate services firm.

Investment Services



Tom Shepherd
Partner | Wisconsin
Direct +1 414 278 6815
tom.shepherd@colliers.com



Joe Eldredge
Senior Vice President | Wisconsin
Direct +1 414 278 6825
joe.eldredge@colliers.com



Jennifer Huber-Bullock
Investment Analyst | Wisconsin
Direct +1 414 278 6867
jennifer.huber@colliers.com

Research



Margaret Bruckner
Research Analyst
Direct +1 414 278 6801
margaret.bruckner@colliers.com



David Fischer
Research Analyst
Direct +1 414 982 6577
david.fischer@colliers.com