



Introduction

Following a slow start to the year, Q2 2017 picked up steam. Driven by the delivery of multiple new construction projects, absorption reached its highest point since the beginning of 2016. Both build-to-suit (BTS) and speculative construction projects were delivered this quarter and had a positive impact on absorption. Companies who had BTS facilities completed during Q2 include Uline, Restaurant Depot, Vonco Products, and Sussex IM, totaling 1.03 million square feet. Speculative development accounted for 819,178 square feet, of which 53 percent was leased within the quarter of delivery.

Once new construction activity is removed, activity slows down. The slowdown is caused partially by limited available supply, not necessarily a lack of demand. With vacancy rates sub-five percent across all submarkets, the availability of space remains limited. Newer quality space with good column spacing and clear heights is especially limited, which is contributing to the absorption of speculative development.

The local economy continued on a positive trajectory during Q2. Metro, state, and national unemployment dropped during the quarter, with both metro and state unemployment being a mere 3.1 percent. Manufacturing jobs for the state and Milwaukee Metro area increased 1.5 percent and 1.0 percent year over year, respectively. Furthermore, per the relative MEI, Wisconsin continues to lead the Midwest with a positive contribution for May. Both the manufacturing and service sectors remained unchanged from April, while consumer spending was up and construction and mining were down for the state.

Market Indicators

	Q1 2017	Q2 2016
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↓

Economic Indicators

	Quarter over Quarter
METRO MKE UNEMPL.	3.1% ↓
WISCONSIN UNEMPL.	3.1% ↓
NATIONAL UNEMPL.	4.3% ↓
WI MEI*	+0.15 ↑

Source: Bureau of Labor Statistics, May 2017

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

Summary Statistics

Q2 2017 Industrial Market	FLEX	LI	WH&D
Vacancy Rate	4.28%	3.09%	6.90%
Change From Q4 2016 (basis points)	-20	+13	+2
Absorption (Square Feet)	180,691	-142,522	1,562,252
New Construction (Square Feet)	83,640	166,000	1,469,049
Under Construction (Square Feet)	0	673,672	244,489

MANUFACTURING JOBS

May 2017



471,800

Wisconsin



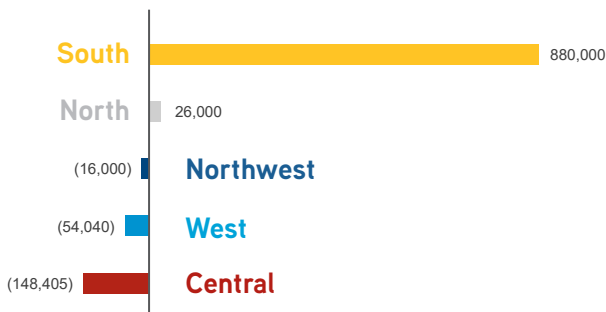
120,300

Milwaukee-Waukesha-West Allis MSA

Net Absorption

Q2 2017 marked the 29th straight quarter of positive net absorption. With the market realizing 1.5 million square feet of positive absorption for the quarter, the magnitude of absorption follows two slower quarters. The uptick in activity was primarily driven by the delivery of Uline's Midwest Distribution Center (880,000 square feet). In addition to the new Uline facility, other large move-ins include Madden Communications leasing 301,174 square feet at newly delivered First Park 94 in Somers (Kenosha County) and Linder Logistics leasing 147,700 square feet on S 20th Street in Milwaukee. To better understand the impact that new construction had on net absorption, when new construction is excluded, net absorption is a mere 189,107 square feet.

The largest negative absorption of the quarter was MasterLock vacating 148,405 square feet at its Forest Home Location. Below illustrates the largest needle movers, both positive and negative, for each of the submarkets during Q2.



Vacancy

Despite over 1.7 million square feet of industrial product being delivered during the quarter, vacancy only increased by six basis points or 234,679 square feet. Compared to other midwest industrial markets, SE WI was 80 basis points lower than the average in Q1 2017. Omaha and Cincinnati had the lowest vacancy of the region. Compared to the national market, the midwest had the second lowest average vacancy, with only the west region realizing a lower rate.

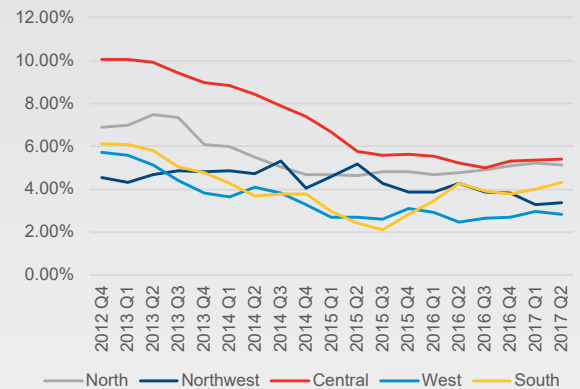
Vacancy rates across SE WI have continued to fall, with every submarket ending the quarter under five percent vacant. Since 2012, the south submarket is the only submarket that has seen a substantive increase in rates caused by the amount of new product that has been delivered during the same period. Light industrial continues to have the lowest vacancy of the property types. With over 600,000 square feet of light industrial space under construction and a little less than half remaining available, vacancy rates are likely to hold steady or increase slightly. Of the submarkets, the west submarket remains the tightest. Due to constrained buildable land and limited product currently under construction, the west submarket is likely to remain tight.

HISTORICAL NET ABSORPTION



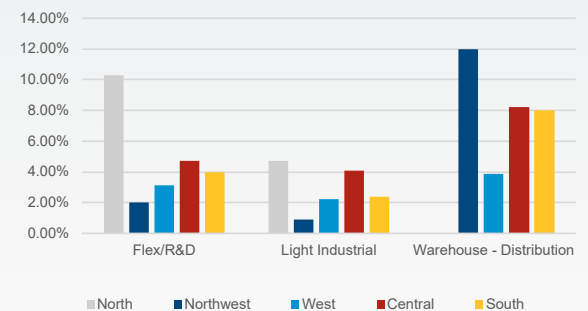
HISTORICAL VACANCY

By Submarket

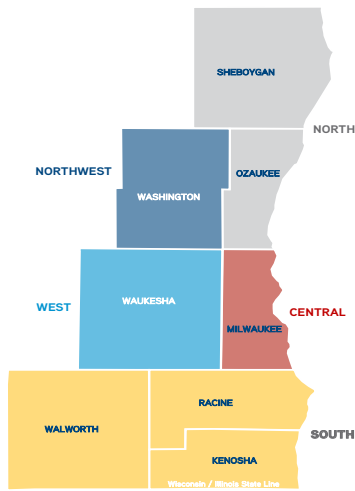


VACANCY

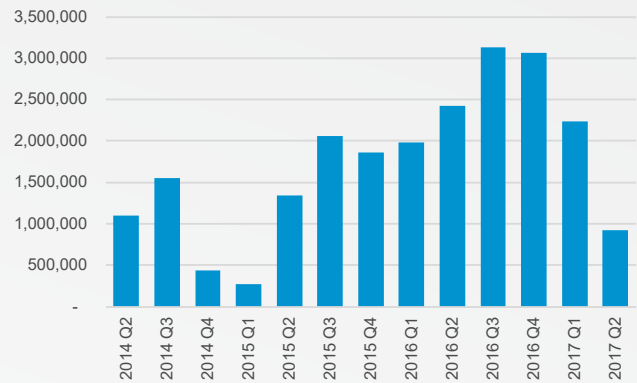
By Use



Source: Colliers | Wisconsin & Xceligent



Historical Construction Activity

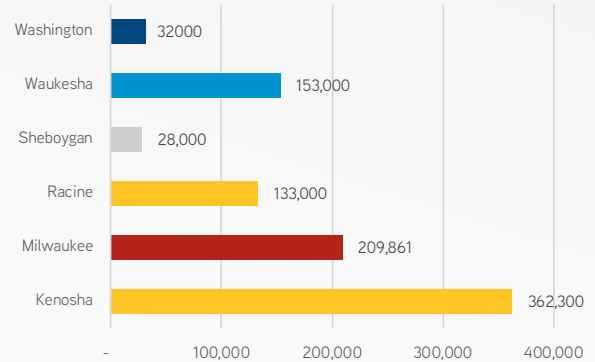


Construction

Q2 saw the completion of seven industrial projects totaling over 1.9 million square feet. As a result, square feet under construction reached its lowest level in two years despite new projects breaking ground. In Q2, five projects totaling 604,000 square feet broke ground bringing the total projects under construction to 918,161 square feet. Of the projects, the largest project is Doheny Enterprises’s new headquarters and distribution center in Pleasant Prairie. Other companies with facilities currently under construction include ER Wagner, Norco, and Sheboygan Paper Box, which includes both ground up construction and facility expansions. While BTS construction has a significant impact on the market, speculative construction continues marketwide, with the heaviest concentration of speculative activity in the south, central, and west submarkets.

SF Under Construction

by county



Source: Colliers | Wisconsin & Xceligent

Notable Lease Activity

PROPERTY NAME / ADDRESS	TENANT NAME	SQUARE FEET LEASED	SUBMARKET
Uline Midwest Distribution	Uline	880,000 SF	Kenosha
First Park 94 Bldg B	Madden Communications	301,174 SF	Kenosha
3201-3257 S 20th Street	Linder Logistics	145,700 SF	Milwaukee

Recent Sale Transactions

PROPERTY NAME / ADDRESS	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF
Gehl Foods	Angelo, Gordon & Co.	Wind Point Partners	5/9/2017	\$34,420,000	\$56
5235 International Drive	5201 International Drive DEV, LLC	CenterPoint Properties	6/30/2017	\$10,300,000	\$70
1101 S. Sylvania Ave	Zilber Property Group	Sierra Management	5/11/2017	\$6,095,000	\$56

For additional insight on investment transactions from the quarter, please see our Q2 Investment Market Report

Q2 2017 Industrial Market Statistics

INDUSTRIAL MARKET

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q2-17	Q2-16	CURRENT QUARTER	YTD	CURRENT QUARTER	YTD	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
FX	83	5,222,191	536,241	10.27%	10.95%	32,760	44,160	-	-	-
LI	208	17,686,235	828,017	4.68%	3.96%	0	-57,712	-	-	28,000
WH&D	31	3,746,768	0	0.00%	0.00%	-	0	-	-	-
Total	322	26,655,194	1,364,258	5.12%	4.78%	32,760	-13,552	-	-	28,000
NORTHWEST MARKET: Washington County										
FX	155	6,685,211	134,530	2.01%	2.54%	15,691	17,546	-	-	-
LI	129	9,399,158	89,265	0.95%	1.22%	-28,985	65,015	-	-	-
WH&D	42	3,658,908	440,000	12.03%	12.62%	0	21,632	-	-	32,000
Total	326	19,743,277	663,795	3.36%	3.79%	-13,294	104,193	-	-	-
WEST MARKET: Waukesha County										
FX	465	16,796,339	522,298	3.11%	2.96%	45,804	-109,062	-	-	-
LI	847	38,080,371	848,071	2.23%	3.64%	107,786	126,428	81,000	163,000	153,000
WH&D	198	17,332,024	670,882	3.87%	4.16%	-26,378	6,836	-	-	-
Total	1,510	72,208,734	2,041,251	2.83%	3.60%	127,212	24,202	81,000	163,000	153,000
CENTRAL MARKET: Milwaukee County										
FX	250	12,005,299	559,710	4.66%	5.27%	68,141	84,985	83,640	83,640	-
LI	846	53,534,815	2,188,154	4.09%	4.19%	-182,723	-22,733	-	-	209,861
WH&D	337	28,782,330	2,352,817	8.17%	7.60%	270,161	113,909	199,190	199,190	-
Total	1,433	94,322,444	5,100,681	5.41%	5.38%	155,579	176,161	282,830	282,830	209,861
SOUTH MARKET: Racine County, Kenosha County and Walworth County										
FX	69	4,642,994	186,487	4.02%	4.15%	18,295	126,130	-	-	-
LI	611	40,578,750	970,424	2.39%	3.27%	-38,600	-42,416	80,500	80,500	282,811
WH&D	91	21,751,771	1,732,818	7.97%	13.44%	1,318,469	1,655,743	1,482,348	2,107,208	212,489
Total	771	66,973,515	2,889,729	4.31%	6.54%	1,298,164	1,739,457	1,562,848	2,187,708	495,300
GRAND TOTAL										
FX	1,022	45,352,034	1,939,266	4.28%	8.96%	180,691	163,759	83,640	83,640	-
LI	2,641	159,279,329	4,923,931	3.09%	2.97%	-142,522	68,582	161,500	243,500	673,672
WH&D	699	75,271,801	5,196,517	6.90%	4.65%	1,562,252	1,798,120	1,681,538	2,306,398	244,489
Total	4,362	279,903,164	12,059,714	4.31%	3.98%	1,600,421	2,030,461	1,926,678	2,633,538	918,161
QUARTERLY COMPARISON TOTALS										
2017 Q2	4,362	279,903,164	12,059,714	4.31%	-	1,600,421	-	1,926,678	-	918,161
2017 Q1	4,363	278,408,529	11,825,035	4.25%	-	445,620	-	445,620	-	2,240,678
2016 Q4	4,365	277,155,082	11,441,813	4.13%	-	79,357	-	520,000	-	2,673,708
2016 Q3	4,363	276,600,624	11,033,219	3.99%	-	875,074	-	1,142,400	-	2,868,528
2016 Q2	4,362	276,200,661	11,442,860	4.14%	-	799,934	-	2,944,557	-	2,550,257

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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