

Introduction

The Milwaukee Office Market picked up steam in Q2 following a quieter start to the year. Quarter highlights include the completion and delivery of 1433 N Water in downtown Milwaukee. The 110,000-square-foot building is anchored by Bader Rutter, who is the latest Milwaukee company to relocate downtown from the suburbs. In recent quarters, the gravity of downtown has pulled companies looking to attract talent to relocate within or closer to the Milwaukee Central Business District (CBD). With Bader Rutter, the trend continues; however, the west submarket saw strong activity in Q2, counteracting this gravity. Despite Bader Rutter vacating nearly 68,000 square feet of space in Pinnacle III, the west submarket still realized positive net absorption driven by both satellite offices, expansions, and new deals. Following a strong Q1, the central submarket was quiet in Q2. The other suburban submarkets also remained stagnant in Q2, with small absorption and vacancy changes.

The local economy continued on its positive trajectory during Q2. Metro, state, and national unemployment dropped during the quarter, with both metro and state unemployment being a mere 3.1%, 120 basis points lower than national unemployment. Furthermore, per the relative MEI, Wisconsin continues to lead the Midwest with a positive contribution for the month of May. Driving this was manufacturing and service sectors, both of which remained unchanged from April. In May, consumer spending was up for the state while construction and mining was down.



190,010
OFFICE USING JOBS
Milwaukee-Waukesha-West Allis MSA



+800
YEAR OVER YEAR
Office Using Jobs

Source: St. Louis FRED
May 2017 Employment Numbers

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

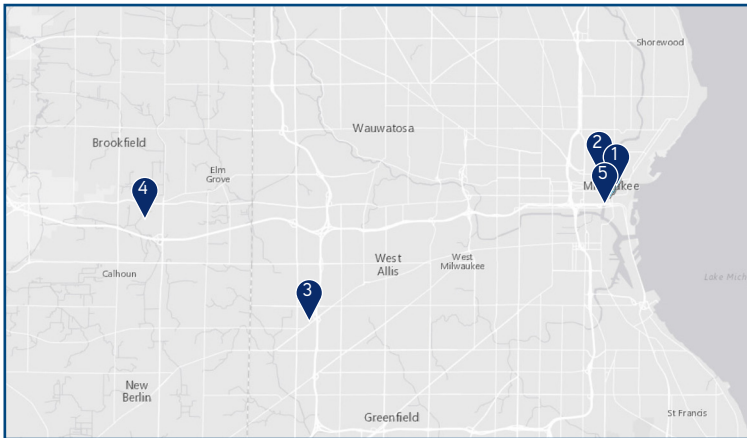
*Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Summary Statistics

Q2 2017 Office Market	MKE	CBD	Suburban
Vacancy Rate	16.40%	15.75%	16.89%
Change From Q1 2017 (basis points)	-23	-11	-28
Absorption (Square Feet)	120,007	106,329	13,678
New Construction (Square Feet)	110,000	110,000	0
Under Construction (Square Feet)	173,500	173,500	0

Source: Xceligent & Colliers | Wisconsin Research

Map of Q2 2017 Sale Activity



Sale Activity

Following a slow start to the year, investment in the office market picked up substantially in Q2. The largest transaction of the quarter was the sale of [411 E Wisconsin](#) in downtown Milwaukee, which closed June 29 for \$124.6 million (\$179.77 PSF). Following heavy investment since taking over the asset in 2014, the building was sold by Five Mile Capital to Middleton Partners. Also in the CBD, [100 N Manpower Place](#) sold earlier in the quarter for \$66,500,000 (\$238 PSF) to Bentall Kennedy. The building was sold following Manpower's lease renewal through 2031. Suburban assets changing hands include [Lincoln Center II & III](#) and [Executive Center III](#).

Vacancy

In Q2, vacancy rates continued their downward trend. Marketwide vacancy rates decreased 76 basis points year over year. During the same period, CBD and suburban rates fell 52 and 93 basis points, respectively. As rates continue to fall, they are beginning to stabilize. Historically, vacancy rates have stabilized around 20 percent; however, rates have been sub 20 percent since the end of 2013.

In terms of vacancy rates among submarkets, the CBD, central, and west submarkets continue to have the lowest vacancy rates. For both the CBD and central submarket, Class B product has slightly lower vacancy rates than Class A. The west submarket has experienced the opposite with Class A vacancy more than 300 basis points lower than Class B. However, as demonstrated by the historical vacancy graph to the right, Class A properties held occupancy better than Class B properties throughout the recession. Fortunately, over recent years, Class B product has recovered well, decreasing vacancy an average of 800 percentage points and surpassing Class A occupancy in two of the major office submarkets. Important to note that during this time, due to Class B inventory being taken off market or adapted for new uses, Class B inventory has decreased by about 750,000 square feet, or 2.5% of the multi-tenant market. While the inventory change does impact the vacancy numbers, overall the market has decreased vacancy by over one million square feet.

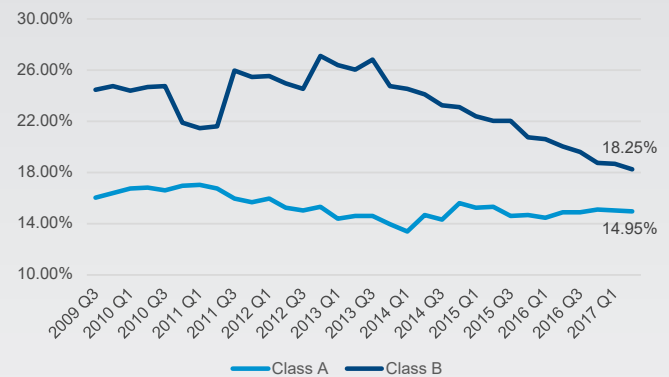
Notable Sale Activity

	BUILDING(S)	SIZE	PRICE (MILLIONS)	PRICE PSF
1	411 E Wisconsin	693,126 SF	\$124.6	\$179.77
2	100 N Manpower Place	280,000 SF	\$66.5	\$238
3	Lincoln Center II & III	120,867 SF	\$8.0	\$66
4	Executive Center III	55,678 SF	\$3.32	\$60
5	600 N Broadway	23,796 SF	\$1.55	\$65.14

See our *Investment Market Report* for additional insight on these and other Q2 transactions.

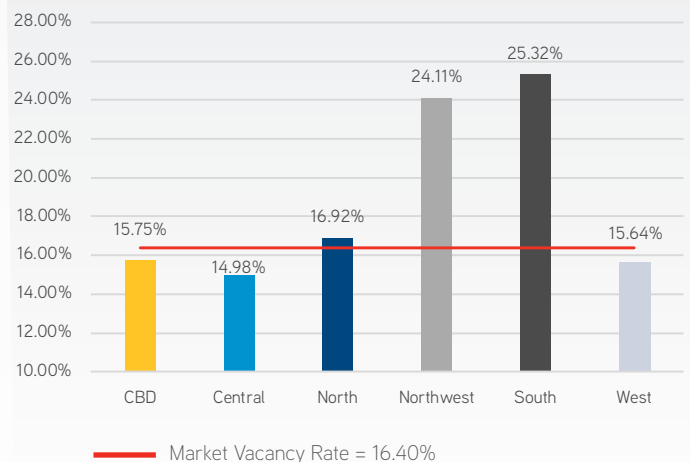
HISTORICAL VACANCY

By Class



VACANCY RATE

By Submarket



Source: Xceligent & Colliers | Wisconsin Research

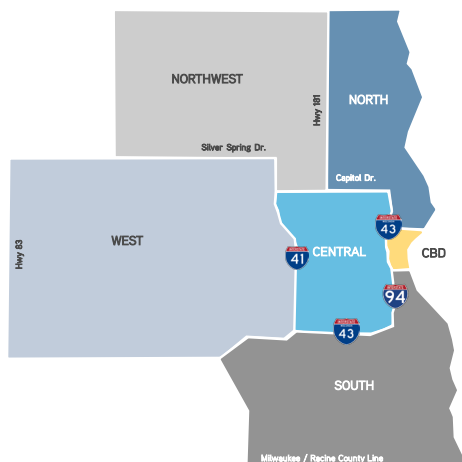
Net Absorption

After two slow quarters, net absorption in Q2 experienced an uptick, driven primarily by the CBD. With positive net absorption of 106,329 square feet, nearly half attributed to the delivery of 1433 N Water and Bader Rutter occupying 57,719 square feet in the building. Important to note is that Bader Rutter moved from the west submarket and decreased its occupied space by 10,600 square feet. Despite the decrease in occupied space by Bader Rutter, a little over 40,000 square feet has been backfilled in its previous location, offsetting the negative impact.

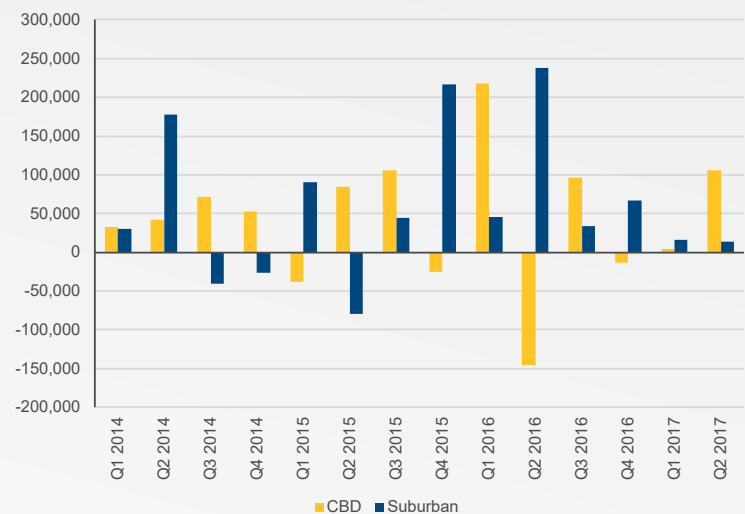
Also having a major impact on the CBD was Class B building, Wells Fargo Plaza, being taken off market to be converted into multifamily units. With the building being sold, it becomes the most recent lower class office building to have plans to be converted to other uses.

Despite most of the absorption for the quarter being driven by the CBD, suburban submarkets such as the west saw large absorption changes. Tenants taking more than 10,000 square feet in the quarter include von Briesen & Roper SC and Capri Senior Communities. Q2 2017 was the strongest absorption the west submarket has experienced since Q3 2016.

Year over year, absorption is relatively stable, down by only 4,742 square feet. The biggest difference between absorption this quarter and absorption a year ago is Q2 2016 absorption was driven by the suburban submarkets (delivery of Meadowlands Research and Technology Center), while this quarter was driven by the CBD (delivery of 1433 N Water). Quarter over quarter absorption is up 106,022 square feet. Despite the central submarket accounting for nearly 70,000 square feet of absorption in Q1, it only accounted for 1,270 SF in square feet.

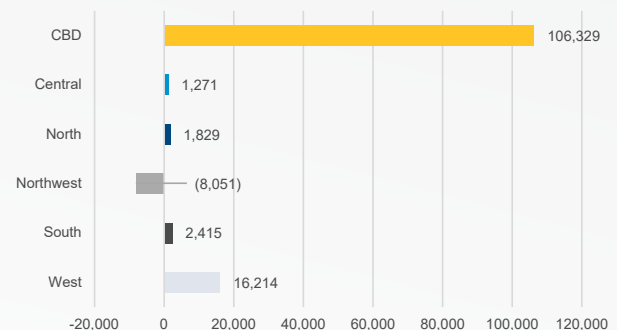


HISTORICAL NET ABSORPTION



NET ABSORPTION

By Submarket



Source: Xceligent & Colliers | Wisconsin Research

Market Activity

After a quiet Q1, market activity picked up during the Q2. While a strong number of tenants in the market are focused on downtown east, the west and central submarkets are seeing an increase amount of activity as well. Unsurprisingly, a majority of new-to-market users begin their search in the CBD, with expanding users looking primarily at the CBD, west, and central submarkets. Overall deal activity from the quarter was a split between new deals and renewals. The deal pipeline remains strong, and the market is well-positioned moving into the back half of the year.

Meto Milwaukee Office Market

2017 Quarter 2										
EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q2-17	Q2-16	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
CBD - Downtown East, Downtown West, Third Ward & Walker's Point										
A	19	5,908,531	951,577	16.11%	16.37%	85,313	78,889	110,000	110,000	146,000
B	66	5,533,684	869,852	15.72%	17.48%	21,036	34,029	-	-	27,500
C	9	518,335	61,743	11.91%	7.53%	0	-11,216	-	-	-
Total	94	11,960,550	1,883,172	15.74%	16.43%	106,349	101,702	110,000	110,000	173,500
CENTRAL - West Allis, Mayfair, Wauwatosa										
A	15	1,426,296	232,186	16.28%	21.15%	-3,733	69,334	-	-	-
B	42	3,119,405	446,828	14.32%	15.75%	4,930	840	-	-	-
C	5	169,554	27,367	16.14%	16.12%	74	702	-	-	-
Total	62	4,715,255	706,381	14.98%	17.40%	1,271	70,876	-	-	-
NORTH - North Shore, Brown Deer, Mequon										
A	23	810,628	45,529	5.62%	6.03%	723	2,187	-	-	-
B	48	1,461,280	340,346	23.29%	23.96%	1,106	-21,519	-	-	-
C	1	8,857	0	0.00%	0.00%	0	0	-	-	-
Total	72	2,280,765	385,875	16.92%	17.59%	1,829	-19,332	-	-	-
NORTHWEST - Menomonee Falls, Germantown										
A	10	1,064,984	172,815	16.23%	12.82%	-9,428	-12,576	-	-	-
B	7	622,254	242,026	38.90%	31.51%	1,377	-31,689	-	-	-
C	1	33,443	0	0.00%	31.51%	0	0	-	-	-
Total	18	1,687,238	414,841	24.59%	20.59%	-8,051	-44,265	-	-	-
SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin,										
A	7	185,711	27,602	14.86%	17.37%	1,165	-694	-	-	-
B	11	322,090	100,971	31.35%	43.61%	1,250	9,679	-	-	-
Total	18	507,801	128,573	25.32%	34.82%	2,415	8,985	-	-	-
WEST - Brookfield, Waukesha, New Berlin, Pewaukee										
A	58	3,363,508	478,293	14.22%	12.25%	7,414	-26,404	-	-	-
B	76	3,170,823	597,558	18.85%	21.52%	10,712	43,959	-	-	-
C	7	396,995	17,040	4.29%	5.54%	-1,912	-1,912	-	-	-
Total	141	6,931,326	1,092,891	15.77%	16.11%	16,214	15,643	-	-	-
TOTAL										
A	132	12,759,658	1,908,002	14.95%	14.87%	81,454	110,736	110,000	110,000	146,000
B	250	14,229,536	2,597,581	18.25%	20.00%	40,411	35,299	-	-	27,500
C	23	1,127,184	106,150	9.42%	8.92%	-1,838	-12,426	-	-	-
Total	405	28,116,378	4,611,733	16.40%	17.23%	120,027	133,609	110,000	110,000	173,500
QUARTERLY COMPARISON TOTALS										
2017 Q2	405	28,116,378	4,611,733	16.40%	-	120,027	-	110,000	110,000	173,500
2017 Q1	406	28,085,372	4,666,760	16.62%	-	13,985	-	-	-	189,500
2016 Q4	411	28,301,999	4,729,958	16.71%	-	50,168	-	-	-	137,500
2016 Q3	411	28,301,999	4,780,126	16.89%	-	129,558	-	-	-	110,000
2016 Q2	411	28,375,199	4,888,463	17.23%	-	124,749	-	156,000	513,000	110,000

Source: Xceligent & Colliers | Wisconsin Research

The data contained within was obtained by a third party source deemed reliable. Updates have been made to include proprietary information.

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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