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Introduction

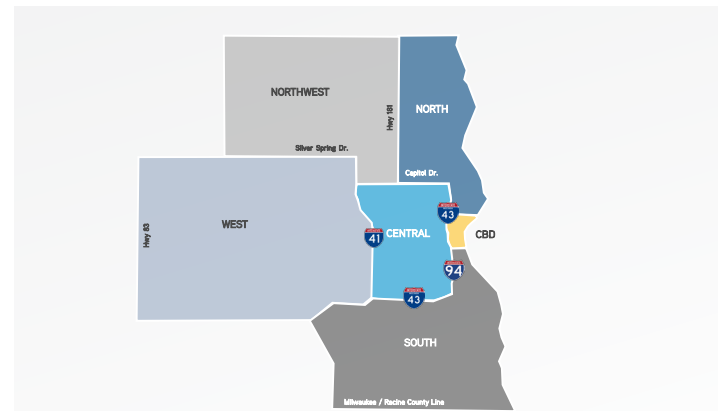
With one of the biggest investments made by a foreign company to the United States, Q3 started with Foxconn's commitment to build a \$10 billion campus in Wisconsin. While it is too early to know the magnitude of the impact the investment will have on Milwaukee and its office market; due to the scope of the investment, it is safe to say the market will experience spillover effects.

While Foxconn's investment will be the largest investment in the state made by a foreign company, it is not the only corporation investing in Wisconsin. Northwestern Mutual's (NML) new corporate headquarters officially opened in Q3, with employees moving in the end of August. The 1.1-million-square-foot building represents NML's commitment to Milwaukee. The Medical College of Wisconsin also is growing its campus. With a new 318,000-square-foot professional office building nearly complete, the building will house Medical College faculty, staff, and researchers¹. Another Milwaukee company increasing its corporate real estate presence is Milwaukee Tool with a 200,000 square-foot office expansion to its current headquarters located in Brookfield².

Despite single tenant office users growing in their commitment, the multitenant market had a relatively slow quarter. With negative absorption in the central business district (CBD), the largest positive space absorption was in the west submarket. The downsizing of Roundy's owned by Kroger Co. (NYSE:KR) impacted the market. With no large tenant move-ins, the smaller tenant activity was not enough to counteract the downsizing of Roundy's. Although absorption slowed, activity in the market remains healthy, with both new-to-market and existing tenants wanting to occupy space. Entering Q4, 2017 is unlikely to match 2016's performance, but the market remains well-positioned.

¹Source: Milwaukee Business Journal

²Source Milwaukee Journal Sentinel



Market Indicators

	Q2 2017	Q3 2016
VACANCY	↑	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↑

Summary Statistics

Q3 2017 Office Market	MKE	CBD	Suburban
Vacancy Rate	16.84%	16.12%	17.38%
Change From Q2 2017 (basis points)	+44	+37	+49
Absorption (Square Feet)	42,039	-2,821	44,860
New Construction (Square Feet)	27,500	27,500	0
Under Construction (Square Feet)	146,000	146,000	0

Source: Xceligent & Colliers | Wisconsin Research



Economic Activity

After a strong start to the year, the local economy slowed slightly during Q3. Local, state, and national unemployment increased in August, with metro Milwaukee experiencing a 80-basis-point uptick. Recall, that unemployment had been 3.1 percent at the local level, so despite the change, unemployment remains sub 4 percent at local and state levels. In terms of how Wisconsin is performing compared to the region, the state also experienced a decrease in performance, and was the only state in the region to have a negative contribution to growth in the Midwest Economy Index (MEI). A slowdown in both construction and services contributed to the negative value in the most recent report. This activity is consistent with the other states included as none had a positive construction contribution.

Vacancy

For one of the few times this cycle, vacancy rates rose during Q3. Following a market wide year-over-year decrease of 76 basis points last quarter, rates increased 44 basis points from Q2, suggesting that the market is stabilizing. The increase follows three years of decreasing rates, with the previous increase in rates occurring in Q2 2014. Despite the uptick, rates remain comfortably below the previous stabilization point of 20 percent vacant. Of the submarkets, the west, central, and CBD continue to have the lowest vacancy, with the north, northwest, and south submarkets situated above 20 percent vacant.

Class A space across all submarkets continue to perform better than the overall market, with all submarkets realizing sub-17 percent vacant in the highest class of space. Overall suburban vacancy rate for Class A averages 13.8 percent. CBD Class A also continues to do well at 16.6 percent, which drops to 8.69 percent when focusing on the top CBD assets. One large move-out and some additional market factors did lead to an increase in vacancy for the downtown Class A market during the quarter. With an overall market rate of 15.12 percent, the Class A market experienced an increase both quarter-over-quarter and year-over-year.

Overall, Class B space continues to have higher vacancy rates than higher class space. Class B also has a larger spread in rates between submarkets than Class A. The central submarket realized vacancy of only 14.58 percent, while the northwest, with the highest Class B vacancy, had Q3 vacancy of 38.90 percent, a spread of 24 basis points. Note, the central submarket has nearly five times the amount of inventory compared to the northwest market, which may contribute to a portion of the above spread. Since the Class B market did not hold well through the recession, it has seen larger decreases in vacant space compared to Class A. Despite an increase from last quarter, the Class B market decreased vacant space by 24 basis points year-over-year.

Economic Indicators

		Quarter over Quarter
METRO MKE UNEMPL.	3.9%	↑
WISCONSIN UNEMPL.	3.4%	↑
NATIONAL UNEMPL.	4.4%	↑
WI MEI*	-.01	↓

Source: Bureau of Labor Statistics, August 2017

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



193,000
OFFICE USING JOBS
Milwaukee-Waukesha-West Allis MSA

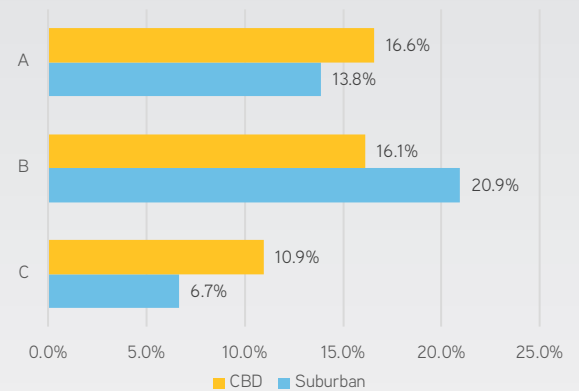


-1,800
YEAR OVER YEAR
Office Using Jobs

Source: St. Louis FRED
August 2017 Employment Numbers

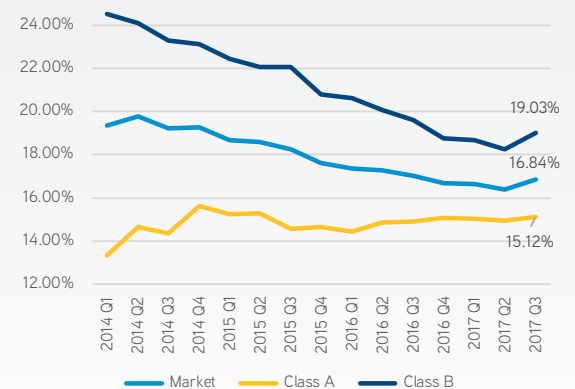
Q3 2017 VACANCY

By Class



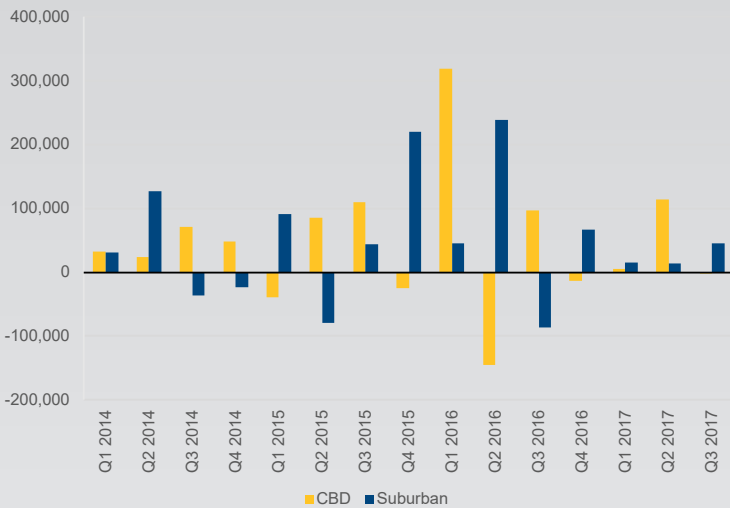
HISTORICAL VACANCY RATE

By Class



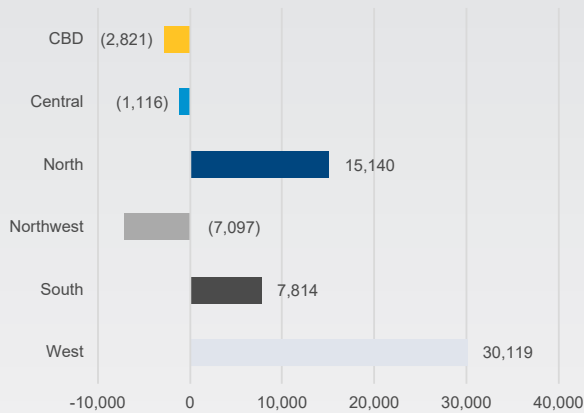
Source: Xceligent & Colliers | Wisconsin Research

HISTORICAL NET ABSORPTION



NET ABSORPTION

By Submarket



Source: Xceligent & Colliers | Wisconsin Research



146,000 SF
UNDER CONSTRUCTION



137,000 SF
DELIVERED YTD



\$555 MILLION
PROPOSED

Net Absorption

Net absorption continued to be sluggish during Q3. With positive absorption of only 42,039 square feet, year-to-date (YTD) absorption is also under performing expectations. So far, 2017 has seen only 161,160 square feet of positive absorption, with the split between CBD and suburban markets relatively even at around 80,000 square feet.

During Q3, there were few large needle movers, as most of the activity was smaller move-ins and outs. However, the expansion of the Mercantile Building at 220 E Buffalo delivered. Digital Measures moved less than a block to occupy two floors of the expanded building, while Hanson Dodge expanded into more space following the renovation and expansion. The delivery of the building resulted in nearly 22,000 square feet of positive absorption. Another large Third Ward mover was Physicians Realty Trust (NYSE: DOC). Physicians Realty Trust owns 309 N Water and already has a presence on two floors of the building. As one of the fastest growing companies in the state, it's continued growth has resulted in the increase to their current headquarters by over 16,000 square feet.

The largest negative influence on absorption was the Roundy's renewal and downsize at 875 E Wisconsin. Roundy's gave back a full floor as part of its renewal, adding 27,000 square feet of vacant space to the Class A CBD market. This move-out is the primary cause of the CBD realizing negative absorption of a couple thousand square feet on the quarter. The strong performance by the west submarket is attributed to smaller deals ranging from 1,000 to 5,000 square feet.

Construction

Milwaukee continues to see cranes in the sky. Of the cranes, a few remain dedicated to multitenant office projects. Hammes Company continues construction on its new headquarters located on the northern end of downtown. Also under construction is a less traditional office building, The Factory Suites at Forty Two, which is located within the Pabst Brewery complex. Recent completions include the expansion of 220 E Buffalo and 1433 N Water, which was delivered last quarter. On the horizon, Irgens has begun site work for the new BMO Harris Financial Center, which has an expected delivery of late 2019.

*Above construction numbers only include multitenant office space.

Sources: Xceligent, Milwaukee Downtown, & Colliers | Wisconsin Research

Metro Milwaukee Office Market

2017 Quarter 3										
EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q3-17	Q3-16	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
CBD - Downtown East, Downtown West, Third Ward & Walker's Point										
A	19	5,899,278	978,813	16.59%	15.52%	-12,928	61,663	-	110,000	146,000
B	67	5,634,184	907,476	16.11%	17.16%	5,110	28,951	27,500	27,500	-
C	9	518,335	56,746	10.95%	7.19%	4,997	-6,219	-	-	-
Total	95	12,051,797	1,943,035	16.12%	15.85%	-2,821	84,395	27,500	137,500	146,000
CENTRAL - West Allis, Mayfair, Wauwatosa										
A	15	1,426,296	228,540	16.02%	23.23%	3,646	72,980	-	-	-
B	42	3,119,405	451,590	14.48%	14.58%	-4,762	-3,922	-	-	-
C	5	169,554	27,367	16.14%	16.55%	0	702	-	-	-
Total	62	4,715,255	707,497	15.00%	17.27%	-1,116	69,760	-	-	-
NORTH - North Shore, Brown Deer, Mequon										
A	23	810,628	41,978	5.18%	5.64%	3,551	5,738	-	-	-
B	49	1,484,694	448,757	30.23%	22.32%	11,589	-9,930	-	-	-
C	1	8,857	0	0.00%	0.00%	0	0	-	-	-
Total	73	2,304,179	490,735	21.30%	16.44%	15,140	-4,192	-	-	-
NORTHWEST - Menomonee Falls, Germantown										
A	10	1,064,984	179,914	16.89%	15.05%	-7,097	-19,675	-	-	-
B	7	622,254	242,026	38.90%	31.51%	0	-31,689	-	-	-
C	1	33,443	0	0.00%	31.51%	0	0	-	-	-
Total	18	1,687,238	421,940	25.01%	21.91%	-7,097	-51,364	-	-	-
SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin,										
A	7	185,711	27,602	14.86%	15.44%	0	-694	-	-	-
B	11	322,090	93,157	28.92%	42.17%	7,814	17,493	-	-	-
Total	18	507,801	120,759	23.78%	33.22%	7,814	16,799	-	-	-
WEST - Brookfield, Waukesha, New Berlin, Pewaukee										
A	58	3,363,508	470,502	13.99%	12.64%	12,151	-14,253	-	-	-
B	75	3,147,409	583,490	18.54%	20.86%	14,068	58,027	-	-	-
C	7	396,995	13,140	3.31%	4.86%	3,900	1,988	-	-	-
Total	140	6,907,912	1,067,132	15.45%	15.94%	30,119	45,762	-	-	-
TOTAL										
A	132	12,750,405	1,927,349	15.12%	14.95%	-677	105,759	-	110,000	146,000
B	251	14,330,036	2,726,496	19.03%	19.27%	33,819	58,930	27,500	27,500	-
C	23	1,127,184	97,253	8.63%	8.59%	8,897	-3,529	-	-	-
Total	406	28,207,625	4,751,098	16.84%	16.88%	42,039	161,160	27,500	137,500	146,000
QUARTERLY COMPARISON TOTALS										
2017 Q3	406	28,207,625	4,751,098	16.84%	-	42,039	-	27,500	137,500	146,000
2017 Q2	406	28,180,525	4,651,250	16.51%	-	102,477	-	110,000	110,000	173,500
2017 Q1	407	28,143,846	4,683,054	16.64%	-	16,644	-	-	-	195,173
2016 Q4	412	28,360,473	4,748,911	16.74%	-	38,535	-	-	513,000	143,173
2016 Q3	412	28,360,473	4,787,446	16.88%	-	9,558	-	-	513,000	115,673

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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