

Research Market Report WISCONSIN | INDUSTRIAL SERVICES 2016 Quarter 2



Research | Wisconsin

Leaving the second quarter, the industrial market remains a tight market. With low vacancy rates and rental rates largely unchanged there appears to be significant demand for additional industrial space in the market. However, **there is a shortage of buildable industrial land that is limiting the expansion of inventory.** With Kenosha and Waukesha counties being highly sought after, the available space that is suitable for industrial use is limited in these submarkets.

The shortage of land has greatly impacted the market and has been partially caused by the flight to quality that has continued to occur during this expansionary period. Companies are looking to relocate to new buildings that more efficiently use space, provide increased column spacing, and are better suited for newer equipment and processes.

The economic indicators show little change from last quarter. While unemployment in the metro area slightly increased, it remained under both national and regional rates. Additionally, for the quarter, there was less than a 1% decrease in manufacturing jobs, suggesting that the local economy is relatively stable, which generally results in stable demand for industrial space.

With low vacancy rates and strong construction numbers, the South and West submarkets are in high demand. Important to note is that while the South submarket, which includes Walworth, Racine, and Kenosha counties, has performed well overall. However, due to the vacancy caused by JRS Distribution, Racine County is uniquely positioned.

Overall, vacancy rates have increase slightly, but remain low compared to national and regional averages. The Midwest has seen vacancy rates around 6.0% with the national average being slightly higher. With the Milwaukee market averaging nearly 2% lower than regional and national averages, Milwaukee remains a tight market, especially for users seeking large amounts of modern space.

ECONOMIC INDICATORS

Quarter Over Quarter

METRO MKE UNEMPL.	4.6%	↑
WISCONSIN UNEMPL.	4.2%	↓
MIDWEST UNEMPL.	4.8%	↔
NATIONAL UNEMPL.	4.7%	↓

Source: U.S. Census Bureau



VACANCY



NET ABSORPTION



CONSTRUCTION

MARKET INDICATORS

	Q2 2016	Q1 2016 QUARTER-OVER- QUARTER	Q2 2015 YEAR-OVER-YEAR
VACANCY	4.17%	↑	↑
NET ABSORPTION	848,163	↓	↓
CONSTRUCTION	1,976,200	↓	↑

Source: Colliers International Research, Xceligent

Vacancy

Vacancy rates have remained relatively constant across all submarkets in the past year with the one exception being the South submarket. Previous vacancy rates signaled that the market was under supplied. The increase in vacancy rates over the past year account for the market demand matching with the market supply. YTD the South submarket has seen an additional 600,000 SF of inventory. Of the delivered inventory, Enterprise Business Park in Racine delivered 375,900 SF.

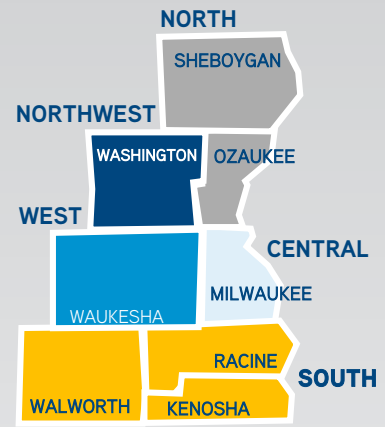
The West market has a vacancy rate of 2.72%. Because the market is in high demand, the available inventory in the market is limited. Further exacerbating the problem, there are few sites appropriate for industrial development. With low inventory, flat rents and limited opportunity to bring new inventory to market, vacancy rates in the west submarket are likely to remain low.

For the Milwaukee market, the average vacancy rate across all submarkets is 4.07%. However, once the West and South submarkets are excluded, the average vacancy rate stabilizes to 4.67%. While the South and West submarkets have the lowest rates, the vacancy rates of all submarkets and the overall Milwaukee market remain low, especially when compared to regional and national averages.

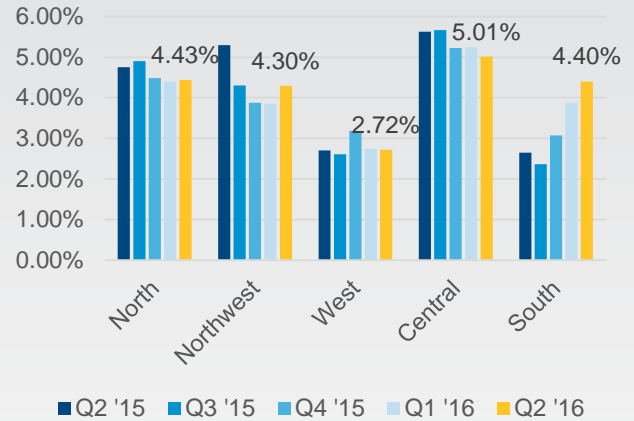
Construction

Below, the historical construction numbers by submarket are depicted. Over the past five quarters, the South and West submarkets have seen the majority of new construction in terms of SF. New construction is trending towards additional space between columns, higher clear heights, and larger loading docks to accommodate changing technologies and equipment. Additionally, construction has seen an increase in speculative construction whereas, a few years ago, the market was dominated by build-to-suit. This shift, indicates a shift in market sentiment as developers are confident in the market and therefore, are willing to develop industrial space prior to having all tenants secured.

For this quarter, Kenosha County has seen the most construction with approximately 1.5 million SF under construction, outweighing the other submarkets. Of the total SF under construction in Kenosha County, approximately two-thirds comes from the additional distribution center being built for Uline. With historically low vacancy rates, and an ideal location for distribution and manufacturing due to the close proximity to the Chicago market, speculation and build to suit construction is expected to continue in the area.

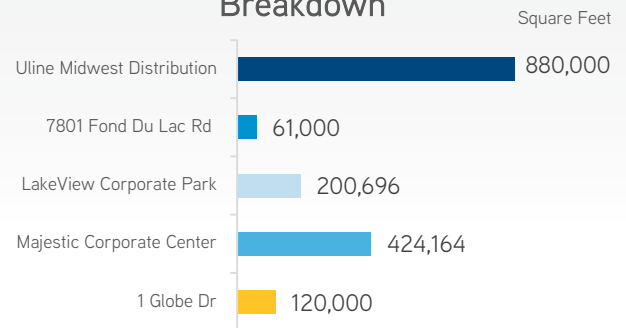


Vacancy by Submarket



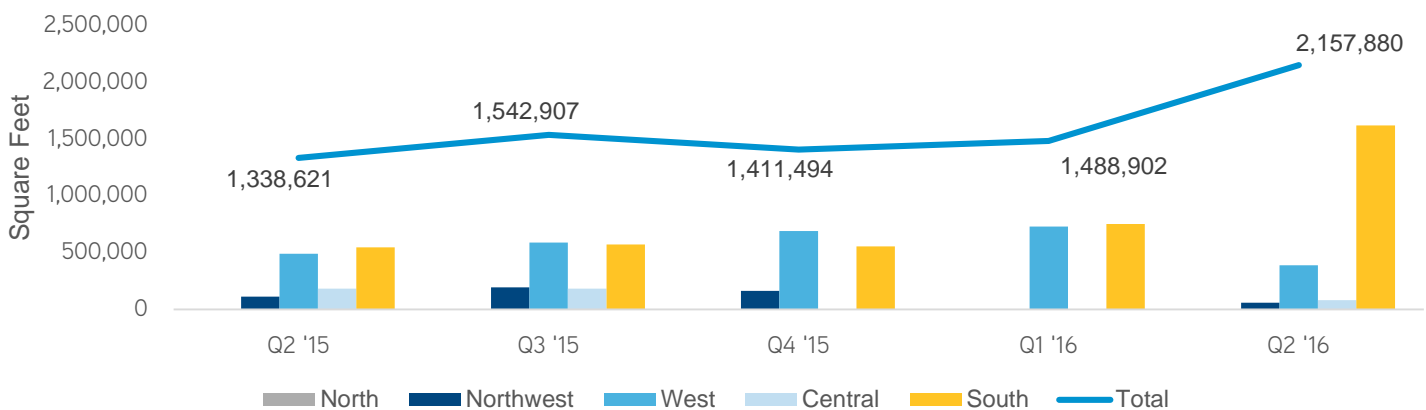
Source: Xceligent

South Submarket Construction Breakdown



Source: Xceligent

Historical New Construction by Submarket



Source: Xceligent

Trends

- **Newer / quality buildings are receiving lots of attention and these deals are getting done quickly.**
- **Market wide, sales price PSF have increased $\pm 10\%$.**

Highlights

- **Froedtert has taken occupancy of an Industrial Spec Building located in Northeast Menomonee Falls.**
- **JRS Distribution lost a major contract resulting in them vacating 300,000 SF of space in Racine County. As a result, the Racine County submarket remains soft.**
- **Sharp Packaging moved to a new building with 152,000 SF, making it one of the top lease deals of the quarter. Their old space (approximately 20,000 SF) was leased within 30 days. Both spaces are located in the West submarket.**

Absorption and Leasing Activity

While new construction activity has been strongest in the West and South, both submarkets registered quarter over quarter decreases in absorption. Additionally, the South has failed to absorb as much space as the West and experienced substantial decreases in absorption this quarter.

Over the past year, absorption for the North and Northwest submarkets have remained relatively low, with little growth activity occurring in these areas. The Central submarket had strong absorption a year ago, but has since fallen to levels that are not as strong as the West and South but stronger than the North and Northwest markets.

Among the different submarkets, average absorption per quarter over the past year has fluctuated substantially, with the South averaging the strongest with 477,668 SF followed by the Central at 384,638 SF. Due to negative absorption in 2015 Q4 and near zero absorption in 2015 Q2, the West averages only 231,967 SF over the past five quarters. The North and Northwest average 29,745 SF and 60,200 SF respectively. As construction continues in the West and South it is expected that absorption in both submarkets will continue to increase in the coming quarters.

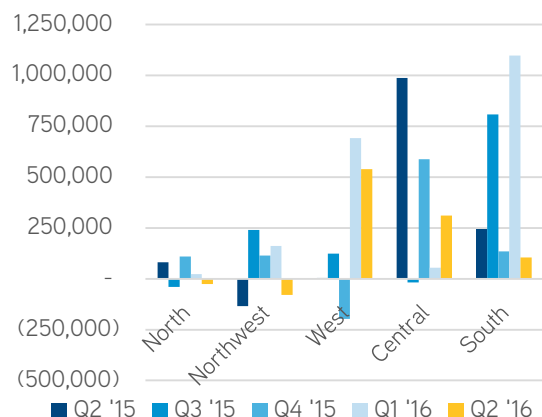
Rates

Overall, rental rates have not responded to changing product type. In the industrial market, regardless of the submarket, there has been little change in the average asking rates. In four quarters, there has been on average \$0.03 raise in asking rents, which translates to a 0.57% increase, substantially less than average inflation of 1.54% over the same period.

Rental rates across the submarkets are relatively similar with the West submarket having the highest average asking rent. With new construction occurring in the West and South submarkets, it should be expected that the average rental rates in these markets will change in the coming quarters as these buildings are delivered to market. However, seeing as historically the market has not increased rates in response to new product, it is unlikely that there will be any sudden spikes in rental rates in the near future.

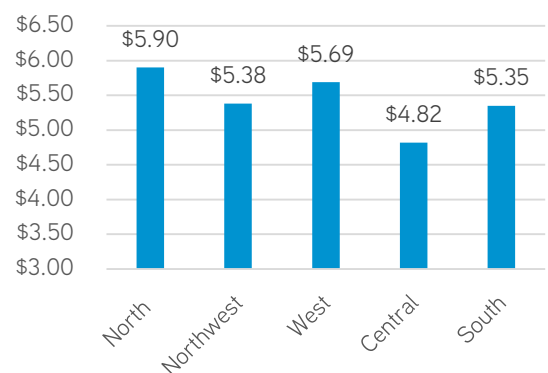
As opposed to rental rates, sale price on a per square foot basis has increased in recent quarters. The magnitude of the increase is dependent on the submarket, but most submarkets are experiencing at least a 10% increase in price PSF, with some markets experiencing 15-20%.

Absorption by Submarket



Source: Xceligent

Average Asking Rate by Submarket

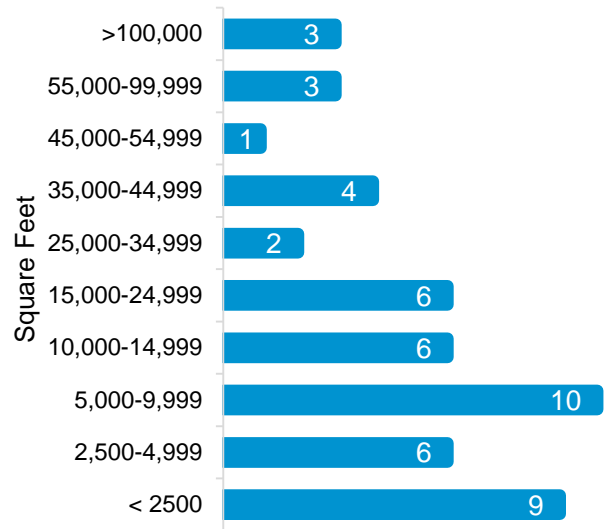


Source: Xceligent



Source: Colliers International | Wisconsin Research, Xceligent

Leasing Activity by Number of Deals



Source: Xceligent

Top Q2 2016 Leases

	BUILDING	MARKET	TENANT	SF LEASED
1	Old Orchard Road (Hwy 145)	Waukesha	Froedert	158,525
2	4143 N 27 th St	Milwaukee	Briggs and Stratton	155,856
3	N62 W22632 Village Dr.	Waukesha	Sharp Packaging	151,970
4	Zilber Industrial I	Waukesha	Kreiser & Staples	63,665 30,000

Top Q2 2016 Transactions

	BUILDING	MARKET	BUYER	SELLER	SF SOLD	PRICE PSF	SALE PRICE
5	Lake View IX	Kenosha	Exeter Property Group	Centerpoint Properties Trust	890,972	\$52.86	\$47,100,000
6	Airport International Center	Milwaukee	MLG Capital	First Industrial Realty Trust Inc.	340,272	\$24.98	\$8,500,000
7	RidgeView Business Center IV	Waukesha	Noble Management, Inc.	Federal Manufacturing	77,500	\$106.19	\$8,229,829
8	CrossLake Airport Industrial Park Bldg.	Milwaukee	Steiner Group	Colliers International	172,201	\$36.29	\$6,250,000

Southeastern Wisconsin Industrial Market

2016 Quarter 2

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER	AVG. NNN
BLDG TYPE	BLDGS	TOTAL SF	SF	Q2-16	Q2-15	CURRENT QUARTER	YTD	CURRENT QUARTER	YTD	CONST. SF	ASKING RATE
NORTH MARKET: Ozaukee County and Sheboygan County											
FX	83	5,222,191	472,547	9.05%	8.47%	-26,000	-26,000	-	-	-	\$7.29
LI	207	17,600,298	700,511	3.98%	4.39%	-	-16,940	-	-	-	\$4.51
WH&D	31	3,746,768	5,000	0.13%	1.27%	-	40,522	-	-	-	-
Total	321	26,569,257	1,178,058	4.43%	4.75%	-26,000	-2,418	-	-	-	\$5.90
NORTHWEST MARKET: Washington County											
FX	156	6,731,748	271,133	4.03%	5.68%	2,253	152,327	-	-	-	\$5.34
LI	130	9,375,158	113,881	1.21%	0.38%	-72,200	-72,200	-	-	-	\$5.29
WH&D	43	3,602,358	461,632	12.81%	17.35%	-10,097	-10,097	-	-	-	\$5.50
Total	329	19,709,264	846,646	4.30%	5.30%	-80,044	70,030	-	-	-	\$5.38
WEST MARKET: Waukesha County											
FX	465	16,978,361	500,981	2.95%	3.57%	38,680	304,573	-	159,000	389,700	\$6.33
LI	840	37,460,551	771,904	2.06%	2.28%	304,959	451,379	-	-	-	\$5.39
WH&D	200	17,252,719	675,734	3.92%	2.78%	194,725	436,382	158,525	373,058	-	\$5.35
Total	1,505	71,691,631	1,948,619	2.72%	2.70%	538,364	1,192,334	158,525	532,058	389,700	\$5.69
CENTRAL MARKET: Milwaukee County											
FX	254	12,166,326	610,085	5.01%	4.38%	68,916	95,019	-	-	82,500	\$5.70
LI	851	52,906,886	2,014,199	3.81%	4.56%	222,518	270,690	-	60,000	-	\$4.59
WH&D	343	28,955,468	2,086,614	7.21%	8.09%	19,586	-5,914	-	-	-	\$4.17
Total	1,448	94,028,680	4,710,898	5.01%	5.63%	311,020	359,795	-	60,000	82,500	\$4.82
SOUTH MARKET: Racine County, Kenosha County and Walworth County											
FX	69	4,517,092	187,386	4.15%	2.89%	11,323	41,844	-	-	-	\$6.38
LI	611	40,533,576	1,411,102	3.48%	2.60%	18,500	-115,585	-	-	-	\$5.29
WH&D	86	19,037,914	1,219,215	6.40%	2.69%	75,000	1,271,309	-	600,000	1,504,000	\$4.39
Total	766	64,088,582	2,817,703	4.40%	2.65%	104,823	1,197,568	-	600,000	1,504,000	\$5.35
GRAND TOTAL											
FX	1,027	45,615,718	2,042,132	4.48%	4.60%	95,172	567,763	-	159,000	472,200	\$6.09
LI	2,639	157,876,469	5,011,597	3.17%	3.26%	473,777	517,344	-	60,000	-	\$4.97
WH&D	703	72,595,227	4,448,195	6.13%	5.63%	279,214	1,732,202	158,525	973,058	1,504,000	\$4.65
Total	4,369	276,087,414	11,501,924	4.17%	4.09%	848,163	2,817,309	158,525		1,976,200	\$5.27
QUARTERLY COMPARISON TOTALS											
2016 Q2	4,369	276,087,414	11,501,924	4.17%		848,163	2,817,309	158,525		1,976,200	\$5.27
2016 Q1	4,363	274,620,799	11,261,334	4.10%		2,027,746	2,027,746	520,000	5,221,019	2,217,783	\$5.27
2015 Q4	4,354	272,409,762	11,002,427	4.04%		747,268	6,546,248	1,142,400	4,701,019	1,325,862	\$5.23
2015 Q3	4,347	271,396,557	10,736,490	3.96%		1,114,406	5,746,628	2,944,557	3,558,619	1,638,843	\$5.18
2015 Q2	4,342	270,614,737	11,069,076	4.09%		1,183,564	4,632,222	614,062	614,062	1,685,189	\$5.23

Source: Colliers International | Wisconsin Research, Xceligent

554 offices in 66 countries on 6 continents

United States: 153

Canada: 34

Latin America: 24

Asia Pacific: 231

EMEA: 112

\$2.5 billion in annual revenue

2.0 billion sf under management

16,000 professionals and staff



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Research



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