

Research Market Report WISCONSIN | Investments 2016 Quarter 2

Source: Paul Sableman

Milwaukee CBD Investment Activity Ramps Up

While investor activity in Wisconsin has remained mostly stagnant like the rest of the national and global economies, activity within the CBD has been anything but quiet. For the second quarter in a row, a trophy CBD office tower in Milwaukee has traded hands. In June, Chase Bank Tower sold for \$30.5M, approximately \$64 PSF. This deal follows the first quarter sale of the Milwaukee Center to Associated Bank for \$60.5M, approximately \$162 PSF. Down the street, Milwaukee's first brand new, class A office tower in 12 years (833 East) officially opened in March. All of this activity has put even more eyes on downtown Milwaukee amidst the massive construction of Northwestern Mutual's two new towers, a multitude of apartment developments, the planned streetcar project and continued infrastructure upgrades to the lakefront area.

Now that we are halfway through the year, 2016 is trending to fall behind 2015, which was the strongest year for commercial real estate since the recession. Overall, deal volumes of large commercial properties totaled \$22 billion in April, down 34% from a year earlier. This is largely due to a sharp decline in large portfolio deals. Additionally, CMBS delinquencies jumped 25 bps from May to a rate of 4.60%. While still far below the all-time high of 10.34% in July of 2012, this pattern of increases in delinquencies is expected to continue with the majority of loans issued in 2006 and 2007 now coming due.

ECONOMIC INDICATORS

Quarter Over Quarter

METRO MKE UNEMPL.	4.6%	↑
WISCONSIN UNEMPL.	4.2%	↓
NATIONAL UNEMPL	4.7%	↓
WI RMEI*	0.2341	+

Source: U.S. Census Bureau

* Relative Midwest Economy Index: This index is a metric to measure Wisconsin's contribution to the Midwest Economy. A positive value signals above average performance. Quarterly numbers have not yet been released, RMEI value is from May 2016.

MARKET INDICATORS | Q2 2016

17.91%

vacancy

111,050

square feet
absorption

4.17%

vacancy

848,163

square feet
absorption

6.6%

vacancy

145,408

square feet
absorption

OFFICE

INDUSTRIAL

RETAIL

Part of the 1.7M square foot Vanta Portfolio



OFFICE

Following the trend from the first quarter of 2016, office transactions continued to dominate the Milwaukee market as far as notable transactions go. And for the second quarter in a row, a blockbuster downtown Milwaukee office tower traded hands. In June, Chase Bank Tower (477,700 SF) sold to Farban Group out of Southfield, Michigan for \$30.5M or approximately \$64 PSF. Last quarter, Associated Bank purchased the 373,699 SF Milwaukee Center at 111 East Kilbourn Avenue. This liquidity is encouraging news for Wisconsin's largest office market since new development product has recently come online in the CBD (Northwestern Mutual tower and 833 East Michigan) and the nearby Third Ward warehouse district (Catalano Square).

In Madison, a 16-building Class A office portfolio closed in June. Artis REIT (Winnipeg, Manitoba) entered the Wisconsin market in dramatic fashion by purchasing the 1.7M square foot Almanac/Vanta joint venture portfolio for a reported \$260M or roughly \$153 PSF at a 7.75% cap rate. The portfolio was 87% occupied at the time of sale by over 130 diverse tenants which include Humana, TDS Telecom, University of Wisconsin, and West Bend Mutual Insurance Company.

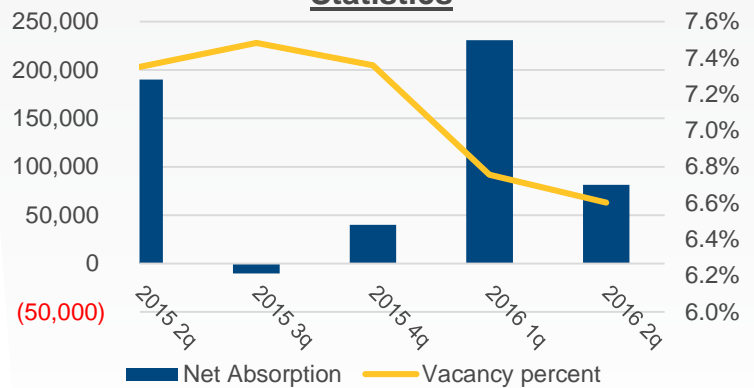


Top Downtown Asset Historical Vacancy



Source: Colliers | Wisconsin Research

Madison Historical Office Market Statistics



Source: CoStar & Colliers | Wisconsin Research

Cap Rate	
Q2'16	Q2'15
7.5%	8.0%

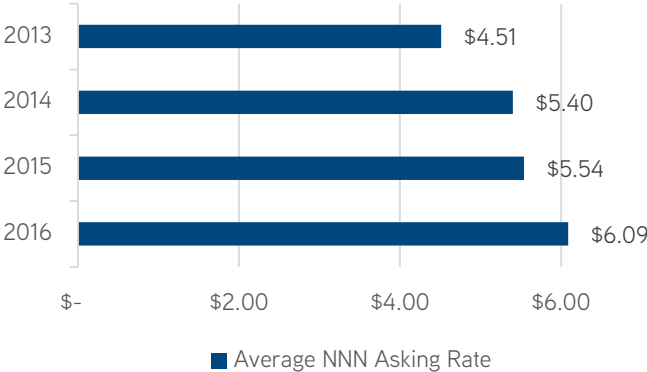
Sale Price PSF	
Q2'16	Q2'15
\$60	\$55

INDUSTRIAL

Industrial investors in Wisconsin continued to hold their properties through the second quarter. Light trading activity occurred, but one notable transaction was the sale of 585,292 square foot Brown Deer Business Park. New market entrant Hager Pacific Properties (West Hollywood, CA) purchased the property in May. HPP is a self-funded, value-add investor that owns over 12 million square feet of industrial and office. Brown Deer Business Park was lender-owned and 69.8% occupied at the time of sale. The transaction closed at \$16.5M which equates to \$28 PSF for this mix of eight industrial and flex buildings. The estimated cap rate, based off of a projected net operating income provided by third parties, was approximately 6.5%.

Also in May, CrossLake Partners engaged Colliers | Wisconsin to sell their 10 building, 877,791 square foot Milwaukee industrial park portfolio. The park is over 90% occupied by 25 tenants and benefits from its location near Interstate 94 and adjacency to General Mitchell International Airport. For information, please contact the Colliers | Wisconsin Investment Services Team.

Metro Milwaukee



In a year, average industrial cap rates have dropped by 50 basis points. Due to a shortage in available land fit for industrial development and historically low vacancy rates, prices may continue to rise.



Brown Deer Business Park



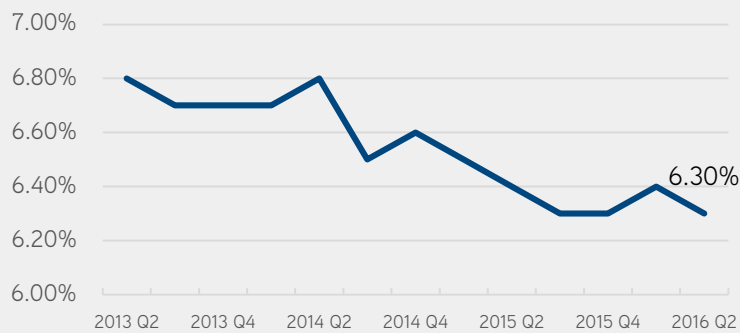
RETAIL

With equal amounts of new inventory and absorption keeping the retail vacancy rate at a low 6.3% in Southeastern Wisconsin, investors continued to place capital in well-located retail product with credit tenancy. The top retail acquisitions of the quarter were all multi-tenant shopping/lifestyle centers. The most noteworthy of which involved the sale of the grocery-anchored Ruby Isle Shopping Center in affluent Brookfield. The 133,027 square foot center sold to Piggly Wiggly Midwest (Sheboygan, WI) for nearly \$18M at a 10.00% cap rate. Piggly Wiggly Midwest purchased the center strictly as an investment property. Ruby Isle is anchored by a Pick 'n Save and was on the market for more than a year.

There were also two notable shopping center acquisitions in the Madison market. Westland Plaza was purchased by Atlanta-based Core Property Capital in April for \$13.3 million. The deal consisted of three buildings totaling a combined 138,000 SF. Westland Plaza is located directly across from West Towne Mall and is anchored by Burlington Coat Factory and Jo-Ann Fabrics. Also in April, Colliers | Wisconsin Investment Services Team brokered the sale of City Center Junction to local investor Lokre Properties at \$221 PSF. City Center Junction is a high-end retail development along the Beltline Highway corridor featuring a variety of restaurants, hot yoga studio and salon. Though the sale price included a vacant plot of land designated for future expansion, a cap rate of 7.25% was estimated for the retail building using the trailing year NOI.



Milwaukee Metro Retail Historical Vacancy Rate



Source: CoStar

— Vacancy Rate

Madison
Top Occupancy
Nationally

Milwaukee
7th for occupancy
among 100
primary markets

Occupancy
Madison 98.5%
Milwaukee 97.3%

Avg. Rent
Madison \$977
Milwaukee \$989
National \$1,132

MULTIFAMILY

The multifamily market remains strong throughout major metro areas in Wisconsin. Madison leads the nation with 98.5% occupancy while Milwaukee ranks 7th among primary markets at 97.3%. The average rent levels for the two markets are \$977 and \$989, respectively (against the national average of \$1,132). Rent growth in the Midwest markets continue to lag behind national averages. Amidst pressure of flat wages and population growth we believe that, while not at bubble levels, multi-family prices are peaking for this cycle.

Setting the bar for class A product pricing was the Norhardt Crossing & Trostel Square deal that closed in May for an undisclosed price at a cap rate of 5.69% according to a contract for the buyer. The 310-unit portfolio consisted of two apartment communities located in Milwaukee's popular Brewer's Hill neighborhood near downtown and the affluent city of Brookfield in the western suburbs. Additionally, while few on-market opportunities exist, the 110-unit Campus Community portfolio on the west side of Marquette University's campus is drawing much attention as offerings featuring greater than 100 units are rare. The diversified portfolio is currently unpriced and recently hit the market at the end of the second quarter.

National research studies cite potential over-supply in urban areas, a lack of designated affordable housing, and a growing pool of single family rentals in working class areas as tempering factors to this market. The Milwaukee market is tracking for 3,250 units delivered by early 2017 primarily in downtown Milwaukee, Shorewood, Wauwatosa, and Waukesha County.



NOTABLE RECENT INVESTMENT SALE

2016 QUARTER 2

INDUSTRIAL SALES

BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	ACTUAL CAP
Brown Deer Business Park*	Brown Deer	Hager Pacific Properties	US Bank	5/9/2016	\$16,500,000	\$28	6.50%*
Ridgeview Business Center VI	Waukesha	Noble Properties	Interstate Partners	4/13/2016	\$8,229,900	\$106	Undisclosed
1920 Nixon St	Little Chute	LCM Funds	National Equity Trust	4/6/2016	\$3,000,000	\$50	10.55%

OFFICE SALES

BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	ACTUAL CAP
Madison 16-Building Portfolio	Middleton	Artis REIT	Vanta Commercial Properties	6/13/2016	\$260,000,000	\$153	7.75%
Chase Tower	Milwaukee	Farbman Group	Brookfield Real Estate Opportunity Fund	6/17/2016	\$30,500,000	\$64	Undisclosed
High Point Office Park	Madison	Arthur Goldner & Associates	Vanta Commercial Properties	4/4/2016	\$14,200,000	\$65	10.00%
Ace Delafield 12-Building Portfolio	Delafield	Hendricks Commercial Properties	Steiner Group	5/3/2016	\$13,550,500	\$91	Undisclosed

RETAIL SALES

BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE PSF	ACTUAL CAP
Ruby Isle	Brookfield	Piggly Wiggly	Ruby Inc	5/17/2016	\$17,836,000	\$131	10.00%
Westland Plaza	Madison	Core Property Capital	Lears & Co	4/19/2016	\$13,300,000	\$96	Undisclosed
City Center Junction	Madison	Lokre Development	Outlook Development	4/6/2016	\$5,800,000	\$221	7.25%**
Hal's Harley Davidson	New Berlin	Capital Automotive Real Estate Services	Topel Building Company LP	6/26/2016	\$5,500,000	\$157	Undisclosed
Shops at Gammon Rd	Madison	Crow Holdings	Steve Yeko	4/1/2016	\$5,350,000	\$408	6.86%
8210 Plaza Drive	Madison	AEI Capital Corporation	The Hampshire Companies	6/13/2016	\$4,600,000	\$182	6.00%
1500 State St	Racine	Undisclosed	R&D Katz Real Estate	6/1/2016	\$4,100,000	\$172	7.25%
Maplenut Shopping Center	Pewaukee	REI Equity Partners	Forester & Company	4/28/2016	\$3,300,000	\$379	7.50%
Kenosha Pointe	Kenosha	Bear Real Estate Group	Terraco, Inc	5/16/2016	\$3,175,000	\$296	8.17%

MULTI-FAMILY SALES

BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE/UNIT	ACTUAL CAP
Trostel Square & Norhardt Apts/Crossing	Milwaukee & Brookfield	Inland Private Capital Corp	Mandel Group	5/25/2016	Undisclosed	Undisclosed	5.69%
5010 N 91st St	Milwaukee	RRG Fairmount Apartments LP	Braeside Management	4/28/2016	\$6,255,000	\$48,867	Undisclosed
Lakeview Village	Sheboygan	Lakeview Village LLC	Jack Dumke	5/2/2016	\$5,044,000	\$49,450	Undisclosed
Chalet Gardens Apartments	Fitchburg	JK Rock Management	Joyce Siefering	5/25/2016	\$5,000,000	\$50,505	Undisclosed

HOSPITALITY

BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE/ROOM	ACTUAL CAP
SpringHill Suites Green Bay	Green Bay	Lightstone Group	Badger Hotel Development	5/2/2016	\$18,250,000	\$143,701	Undisclosed
Best Western East Towne Suites	Madison	Seth Cutsinger	Ramesh Shah	5/13/2016	\$6,355,404	\$51,669	Undisclosed
Microtel Inn & Suites	Green Bay	Unknown	Terry Peterson	6/1/2016	\$4,000,000	\$62,500	10.19%

SENIOR/ASSISTED LIVING

BUILDING	CITY	BUYER	SELLER	SALE DATE	PRICE	PRICE/UNIT	ACTUAL CAP
Care Partners Assisted Living	Eau Claire	SKC Working Dream	Jason Reis	4/27/2016	\$5,250,000	\$154,412	7.58%
HeatherWood	Eau Claire	Compass Senior Living	Undisclosed	4/11/2016	\$4,275,000	\$145,833	Undisclosed
Riverwalk Senior Living	Menomonee Falls	The PaDDS Apartments	Fred Storm	5/9/2016	\$3,318,000	\$92,166	Undisclosed

*Three properties in portfolio transaction were out of state; Cap rate based on proforma NOI

**Based on estimated allocation of sale price to building only

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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