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Research Market Report

WISCONSIN | INDUSTRIAL SERVICES

2016 Quarter 3

Industrial Market Remains Tight

Research | Wisconsin

Introduction

Exiting the third quarter, the industrial market in Southeastern Wisconsin continues on its current trajectory. With demand supported by the rise of ecommerce and the limited amount of buildable industrial land, the market is expected to remain tight. With historically low vacancy rates and new product quickly absorbed by the market, an increase in rates, especially for newer product, is likely on the horizon. Of the 3.02 million square feet currently under construction, 70% is warehouse and distribution space located in the South submarket. With strong construction numbers in the South and West, these submarkets continue to be the most active.

MARKET INDICATORS

	Q3 2016	Q2 2016	Q3 2015
VACANCY	3.97%	↓	↓
NET ABSORPTION	819,932 SF	↓	↓
CONSTRUCTION	3,021,430 SF	↑	↑

ECONOMIC INDICATORS

Quarter Over Quarter

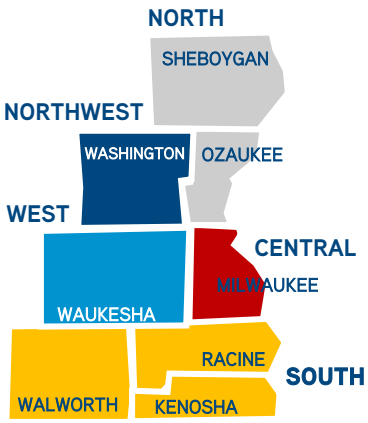
METRO MKE UNEMPL.	4.7%	↑
WISCONSIN UNEMPL.	4.2%	↔
NATIONAL UNEMPL.	4.9%	↑
WI MEI*	-0.01	—

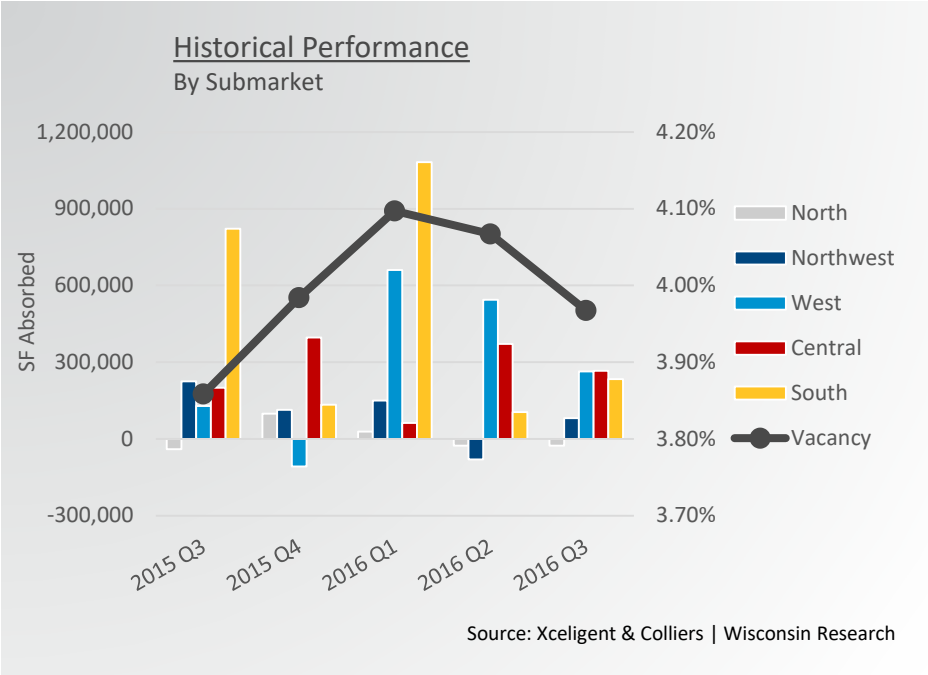
Source: U.S. Census Bureau
* Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Trends

Nationally, as consumer spending increases, and employment numbers continue to rise, it is expected that the demand for industrial space will see further growth. Local trends currently present in the market are:

- Continued demand for new product that is better suited for new technologies and processes.
- Middle-market manufacturers are consuming most infill sites.
- Sale prices are accelerating significantly past post market highs.
- Rental growth has not grown as expected.

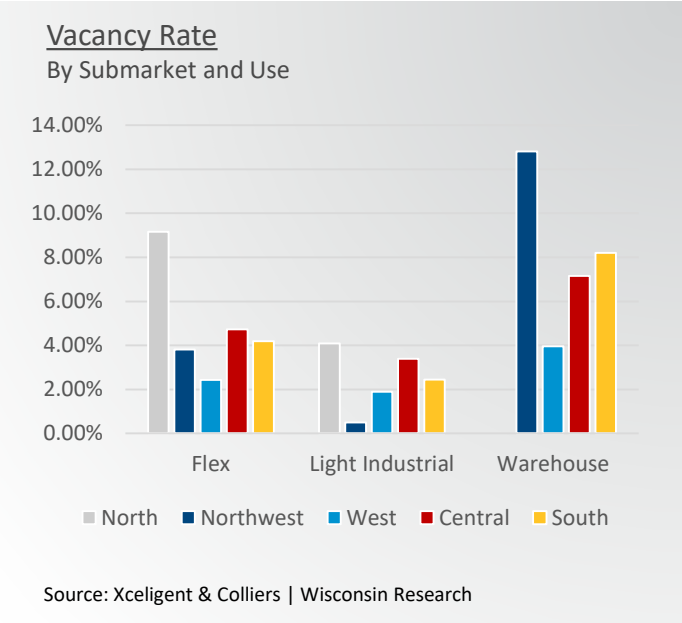




Absorption

The third quarter of 2016 was the **26th straight quarter of positive absorption.** Though absorption slowed from previous quarters, large tenant leases, such as Ariens Company's new lease for over 600,000 SF of space in the South submarket, helped the market realize positive net absorption.

Despite a few large deals, large blocks of industrial space were vacated as well. After losing a large contract, JRS Distribution vacated over 300,000 SF across two facilities in Racine. Only the North submarket realized negative net absorption in the quarter. All other submarkets saw positive net absorption, though overall absorption was not as strong as previous quarters.



Vacancy

Through the end of the third quarter, vacancy continued to decline. The West submarket experienced the lowest vacancy rates of the quarter, with light industrial remaining the tightest property type. With vacancy rates for light industrial dropping below 4.0% across all submarkets, this product type is extremely tight throughout Southeastern Wisconsin.

For the West submarket, warehouse and distribution space has the highest vacancy rate at only 3.96%. The vacancy further drops to 2.43% and 1.89% when looking at flex and light industrial space respectively. Over the past 14 quarters, the West submarket has experienced average vacancy rates of 3.64%, nearly two percentage points lower than the historical market average of 5.60%.

With all submarkets averaging less than 3.9% vacant, across all product types, the Milwaukee market remains tight, with no signs of major loosening on the horizon.

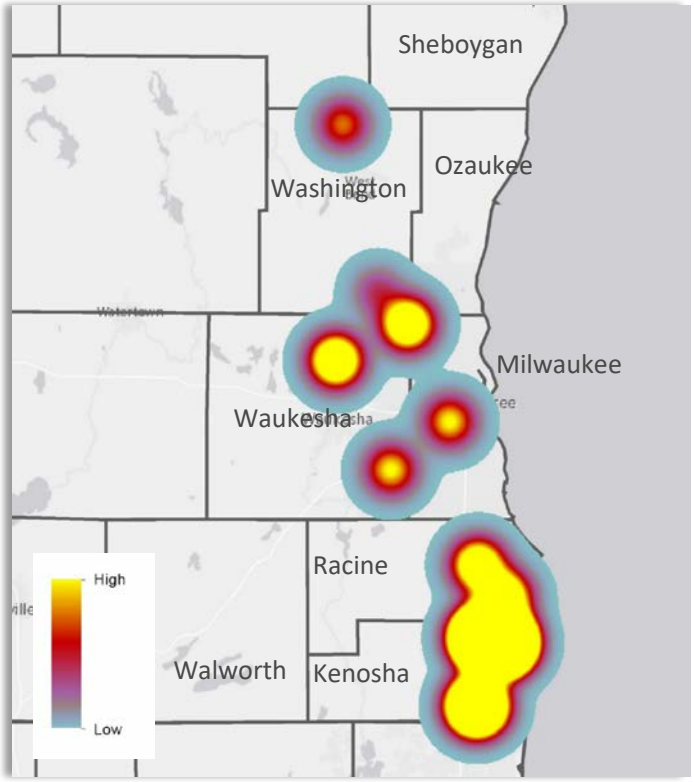
Construction

Industrial construction continues across the market. With the rise of ecommerce, the demand for industrial warehouse and distribution space continues to climb. With changing technology and evolving processes, users are seeking more modern facilities, which better address their needs. Examples of the attributes that are highly desired are higher clear heights, 50x50 column spacing, increased loading positions, expanded truck counts, and higher capacity fiber optic service.

The South and West submarkets are experiencing the most construction activity. Being located halfway between Chicago and Milwaukee continues to drive demand along the I-94 corridor in the South submarket. With low vacancy rates, and space leasing up quickly, this submarket continues to see both spec and build-to-suit construction. Waukesha county is also seeing new construction. However, with limited buildable land available for development, expansion is limited in the West.

The heat map to the right depicts the "hot" areas for industrial development by detailing the total square feet currently under construction.

Total Square Feet Under Construction



Source: ESRI, Xceligent, & Colliers | Wisconsin Research

Largest Q3 2016 Lease Transactions

BUILDING	MARKET	TENANT	SF LEASED	SPECIFIC USE
First Park 94 Bldg A	South	Ariens Company	601,439	Light Industrial
7300 N 60th St	Central	Sellars Absorbent Materials	98,927	Warehouse
Pewaukee Corporate Park South	West	Undisclosed Tenant	77,700	Light Industrial
18456 W Fulton Dr	Northwest	Westrock	67,200	Light Industrial

Largest Q3 2016 Sale Transactions

BUILDING	BUYER	SELLER	SF SOLD	PRICE PSF	SALE PRICE
11800 W Brown Deer Rd	Reyes Holdings Operations	Coca-Cola Refreshments USA Inc.	360,418	$52.81	$19,034,061
11100 W Cleveland Ave	Bradbury Properties	WI Self Storage West Allis	109,376	$71.31	$7,800,000
279 W Olive St	BWP Holdings, LLC	LCM Funds 43 High Bay LLC	276,636	$21.04	$5,820,000

Southeastern Wisconsin Industrial Market

2016 Quarter 3

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q3-16	Q3-15	CURRENT QUARTER	YTD	CURRENT QUARTER	YTD	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
FX	83	5,222,191	478,847	9.17%	8.48%	-6,300	-32,300	-	-	-
LI	207	17,604,457	720,063	4.09%	4.45%	-19,552	-36,492	-	-	-
WH&D	31	3,746,768	0	0.00%	1.27%	-	45,522	-	-	-
Total	**321**	**26,573,416**	**1,198,910**	**4.51%**	**4.79%**	**-25,852**	**-23,270**	**-**	**-**	**-**
NORTHWEST MARKET: Washington County										
FX	156	6,733,928	257,196	3.82%	7.59%	13,987	166,314	-	-	-
LI	130	9,375,158	46,681	0.50%	0.67%	67,200	-5,000	-	-	94,000
WH&D	43	3,602,358	461,632	12.81%	12.67%	0	-10,097	-	-	-
Total	**329**	**19,711,444**	**765,509**	**3.88%**	**5.23%**	**81,187**	**151,217**	**-**	**-**	**-**
WEST MARKET: Waukesha County										
FX	466	16,982,361	412,365	2.43%	5.22%	87,501	398,189	-	159,000	
LI	842	37,591,116	709,730	1.89%	3.49%	183,239	641,253	127,700	127,700	572,820
WH&D	200	17,242,719	682,534	3.96%	4.83%	-6,800	429,582	214,533	587,591	-
Total	**1,508**	**71,816,196**	**1,804,629**	**2.51%**	**4.22%**	**263,940**	**1,469,024**	**342,233**	**874,291**	**572,820**
CENTRAL MARKET: Milwaukee County										
FX	254	12,145,240	574,964	4.73%	4.51%	-24,626	36,181	-	-	82,500
LI	850	53,042,646	1,795,622	3.39%	5.07%	292,702	713,360	-	60,000	-
WH&D	343	28,924,427	2,071,404	7.16%	7.77%	-1,755	13,411	-	-	-
Total	**1,447**	**94,112,313**	**4,441,990**	**4.72%**	**5.83%**	**266,321**	**762,952**	**-**	**60,000**	**82,500**
SOUTH MARKET: Racine County, Kenosha County and Walworth County										
FX	69	4,517,092	189,415	4.19%	4.33%	-2,029	39,815	-	-	125,902
LI	611	40,533,468	993,003	2.45%	1.70%	433,516	286,153	-	-	133,000
WH&D	87	19,193,758	1,574,210	8.20%	16.38%	-197,151	1,074,158	-	600,000	2,107,208
Total	**767**	**64,244,318**	**2,756,628**	**4.29%**	**6.38%**	**234,336**	**1,400,126**	**155,844**	**600,000**	**2,366,110**
GRAND TOTAL										
FX	1,028	45,600,812	1,912,787	4.19%	5.67%	68,533	608,199	-	159,000	208,402
LI	2,640	158,146,845	4,265,099	2.70%	3.51%	957,105	1,599,274	127,700	187,700	705,820
WH&D	704	72,710,030	4,789,780	6.59%	9.30%	-205,706	1,552,576	214,533	1,187,591	2,107,208
Total	**4,372**	**276,457,687**	**10,967,666**	**3.97%**	**5.40%**	**819,932**	**3,760,049**	**370,377**	**1,534,291**	**3,021,430**
QUARTERLY COMPARISON TOTALS										
2016 Q3	4,372	276,457,687	10,967,666	3.97%		819,932	3,719,427	214,533	893,058	2,762,528
2016 Q2	4,368	275,947,610	11,223,358	4.07%		914,978	2,899,495	158,525	678,525	2,217,783
2016 Q1	4,363	274,999,496	11,267,222	4.10%		1,984,517	1,984,517	520,000	520,000	1,325,862
2015 Q4	4,353	272,608,639	10,860,882	3.98%		633,970	6,602,398	1,142,400	4,701,019	1,638,843
2015 Q3	4,345	271,593,434	10,479,647	3.86%		1,336,206	5,968,428	2,944,557	3,558,619	1,685,189

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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