



Research Market Report METROPOLITAN MILWAUKEE | OFFICE 2016 Quarter 3

Sale Activity Surges, Leasing Activity Softens

Research | Wisconsin

Introduction

Investment Sale activity is up. Both market and economic indicators remain strong.

Leaving the third quarter, the Milwaukee Office market remains steadfast. Downtown and suburban markets continue to perform well with vacancy down in both. The quarter also saw three major investment sales. Downtown, 100 East and First Financial Centre both changed hands in August, with First Financial Centre being sold as a redevelopment opportunity. Also this Quarter, Honey Creek Corporate Center, a Class A 118,000 SF building located in the Central submarket, sold in September.

Performance Among Peer Markets

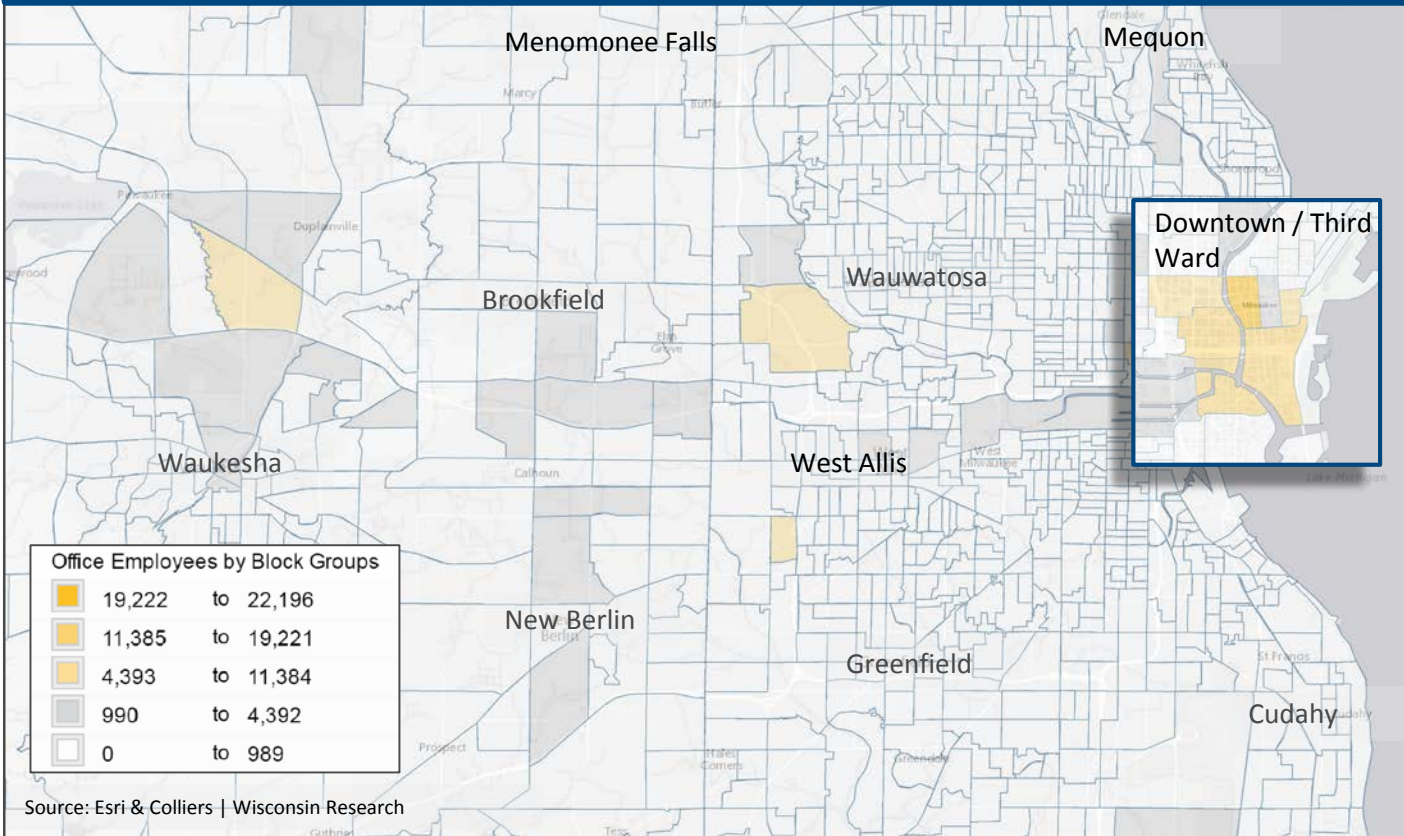
Of Midwest office inventory, Milwaukee has 5% of the total downtown inventory and 4.31% of total suburban inventory. When Chicago is excluded, the percentage share increases to 8.60%. Additionally, Milwaukee's vacancy rates are lower than the average historical vacancy rates across the Midwest for both downtown and suburban office buildings. Milwaukee continues to be a strong performer within the Midwest, which is supported by its performance among peer markets as well as the Chicago Federal Reserves metric for measuring market performance.

Source: Colliers International & Colliers | Wisconsin Research
Markets included in the peer markets are: Chicago, Cincinnati, Cleveland, Columbus, Detroit, Indianapolis, Kansas City, Minneapolis / St. Paul, Omaha, and St. Louis.

ECONOMIC INDICATORS				
Quarter Over Quarter				
METRO MKE UNEMPL.	4.4%			↓
WISCONSIN UNEMPL.	4.2%			↔
NATIONAL UNEMPL.	4.9%			↑
WI MEI*	-0.01			—

MARKET INDICATORS				
	Q3 2016	Q2 2016	Q3 2015	
VACANCY	16.79%			↓
NET ABSORPTION	150,722 SF			↑
CONSTRUCTION	113,830 SF			↔

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



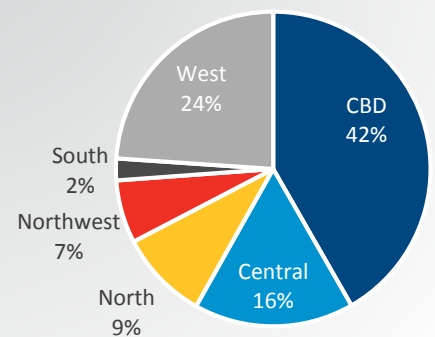
Office Market Trends

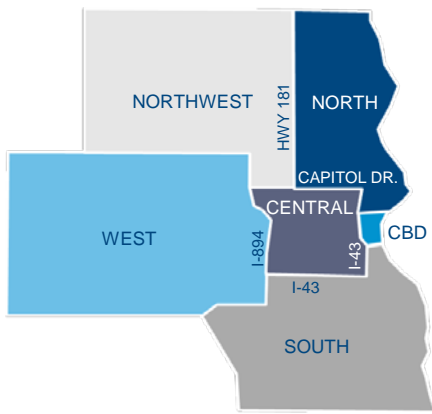
- Asking rates for top downtown assets have grown **2.81%** over the past five years. Inflation over the same period has averaged under 2% resulting in the **downtown asking rates**, net inflation, **increasing 1.0-1.5%** since 2012.
- The downtown market has seen an increasing number of office building conversions. An estimated **1.3 million SF** of **underutilized office** product **has been converted** to multifamily and hospitality uses in recent years.
- Compared to 2013, there are **fewer tenants** in the market, but each tenant is seeking **more square footage**. Additionally, whereas the suburban market had more active tenants and square feet demanded in 2013, the downtown market is currently favored among active tenants.
- In the past 24 months, eight downtown office assets have sold. With three of the sales occurring this quarter, sales activity has outpaced previous quarters, with the current quarter being the **highest volume of office sales**. For more information on what this means for the Milwaukee investment market, see our Q3 Investment Report and Forecast.

The above heat map estimates the number of office employees in Metro Milwaukee by looking at the number of individuals employed by industries that are considered major office users.

The following industries are included to create Office Employees: Information, Finance and Insurance, Central Bank, Securities / Commodity Contracts, Professional / Scientific / Technical Services, Insurance, Legal Services, Real Estate, and Management companies.

Office Inventory By Submarket





Central Business District

Both the downtown and suburban markets experienced positive net absorption during the third quarter, with downtown outpacing suburban markets.

Across the Metro Milwaukee market, there was a 53 basis point drop in overall vacancy. Looking specifically at downtown, vacancy rates decreased 80 basis points. While recent quarters have seen slight decreases in vacant space, the Metro Milwaukee market has not seen a drop this large in over a year. Contributing to this sharp decline could be the continued lease up of 833 East with recently announced tenants including PWC, Executive Benefits Network, and Lubar.

Additionally, renovations to downtown buildings such as 330 E Kilbourn and Two Fifty, as well as the trends previously mentioned, could be contributing to more office users looking to move downtown. With newer better product coming to market, and older product leaving market through conversion development, the data surrounding downtown vacancy rates are likely capturing the changing downtown market.

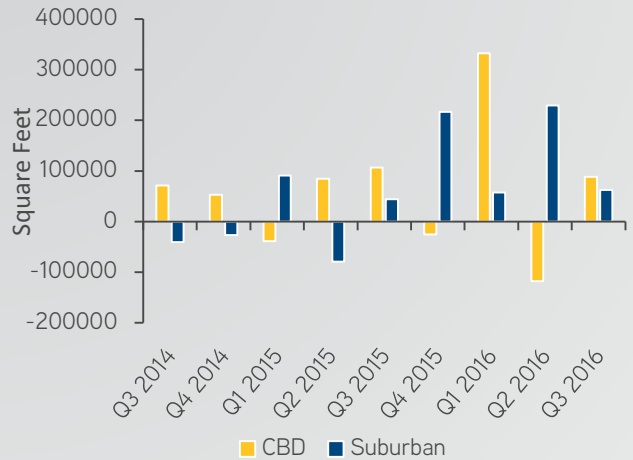
Suburban

With Meadowlands Research and Technology Center delivering last quarter, the suburban market continues to have strong performance. The Northwest submarket was the only submarket to have negative absorption, but this was greatly offset with positive absorption by all other suburban submarkets.

Looking at the impact that the suburban submarkets had on vacancy, all submarkets saw a drop in vacancy. However, it is important to note that AT&T vacating its Pewaukee office is not reflected in these numbers. AT&T's new Brookfield location was the largest positive absorption of the quarter. With the move, AT&T is decreasing its total occupied space in the market by approximately 130,000 SF, which will increase total vacant space in the western submarket.

Net Absorption

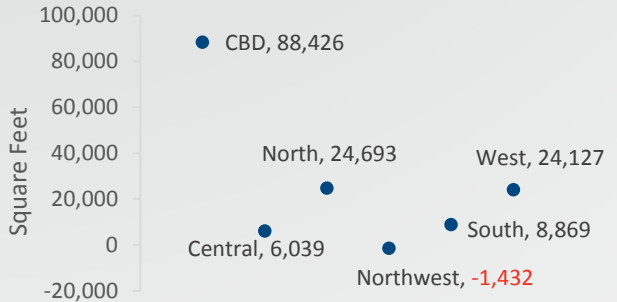
Historical



Source: Xceligent
Colliers | Wisconsin Research

Net Absorption

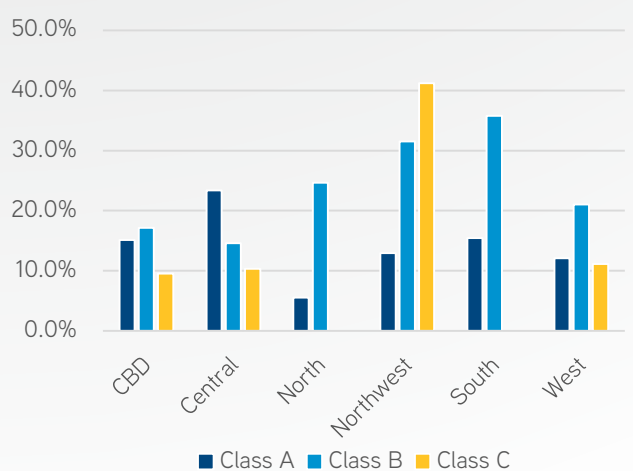
By Submarket



Source: Xceligent
Colliers | Wisconsin Research

Vacancy Rate

By Submarket



Source: Xceligent
Colliers | Wisconsin Research

Metro Milwaukee Office 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	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
CBD - Downtown East, Downtown West, Third Ward & Walker's Point										
A	18	5,818,531	879,796	15.12%	12.56%	54,863	208,781	-	358,000	113,830
B	68	5,576,111	957,156	17.17%	18.84%	35,513	66,120	-	-	-
C	9	518,335	49,424	9.54%	8.13%	-1,950	672	-	-	-
Total	95	11,912,977	1,886,376	15.83%	15.40%	88,426	275,573	-	358,000	113,830

CENTRAL - West Allis, Mayfair, Wauwatosa

A	15	1,428,876	333,969	23.37%	22.53%	-29,734	79,322	-	155,000	-
B	41	3,103,763	452,180	14.57%	18.17%	36,514	77,710	-	-	-
C	5	169,554	17,544	10.35%	8.95%	-741	-741	-	-	-
Total	61	4,702,193	803,693	17.09%	19.05%	6,039	156,291	-	155,000	-

NORTH - North Shore, Brown Deer, Mequon

A	23	824,674	45,686	5.54%	8.66%	3,219	14,762	-	-	-
B	49	1,493,730	368,361	24.66%	24.88%	21,474	23,761	-	-	-
C	2	232,066	0	0.00%	0.00%	0	1,789	-	-	-
Total	74	2,550,470	414,047	16.23%	17.37%	24,693	40,312	-	-	-

NORTHWEST - Menomonee Falls, Germantown

A	10	1,064,984	137,954	12.95%	21.67%	-1,432	85,010	-	-	-
B	9	695,341	219,078	31.51%	59.34%	0	40,020	-	-	-
C	1	33443	13,786	41.22%	59.34%	0	0	-	-	-
Total	20	1,760,325	357,032	20.28%	36.64%	-1,432	125,030	-	-	-

SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin

A	7	185,711	28,678	15.44%	21.39%	3,571	6,975	-	-	-
B	13	434,805	155,650	35.80%	36.37%	5,298	3,737	-	-	-
Total	20	620,516	184,328	29.71%	31.89%	8,869	10,712	-	-	-

WEST - Brookfield, Waukesha, New Berlin, Pewaukee

A	58	3,348,188	404,181	12.07%	13.62%	-1,419	54,563	-	-	-
B	75	3,104,202	652,866	21.03%	20.00%	22,876	-45,383	-	-	-
C	6	173,786	19,311	11.11%	20.50%	2,670	9,847	-	-	-
Total	139	6,626,176	1,076,358	16.24%	16.79%	24,127	19,027	-	-	-

TOTAL

A	131	12,670,964	1,830,264	14.44%	14.51%	29,068	449,413	-	513,000	113,830
B	255	14,407,952	2,805,291	19.47%	20.76%	121,675	165,965	-	-	-
C	23	1,127,184	100,065	8.88%	9.17%	-21	11,567	-	-	-
Total	409	28,206,100	4,735,620	16.79%	17.52%	150,722	626,945	-	513,000	113,830

QUARTERLY COMPARISON TOTALS

2016 Q3	409	28,206,100	4,735,620	16.79%	-	150,722	-	-	513,000	113,830
2016 Q2	409	28,206,100	4,886,429	17.32%	-	93,319	-	155,000	513,000	113,830
2016 Q1	408	28,057,176	4,830,824	17.22%	-	391,817	-	358,000	358,000	156,000
2015 Q4	407	27,699,176	4,864,641	17.56%	-	192,233	-	-	-	656,000
2015 Q3	407	27,699,176	5,056,874	18.26%	-	153,701	-	-	-	656,000

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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