

Research Market Report WISCONSIN | INDUSTRIAL SERVICES 2016 Quarter 4

Late Year Flurry of Activity Closes Out 2016 on Strong Note

Research | Wisconsin

Introduction

Leaving 2016, the industrial market in Southeastern Wisconsin continues on its current trajectory. The market has been stable over the past year, and has experienced no sudden changes, neither positive nor negative. With a solid number of deals closing late year, our quarterly absorption totaled 127,040 square feet leaving the vacancy rate essentially unchanged at 4.16%.

Key Observations

- > In 2016, there were 10 industrial speculative buildings delivered totaling 2,185,946 square feet. As of 1/1/2017, 2,099,523 square feet has been leased / absorbed by the market, which accounts for 21.8 % of total annual absorption.
- > Rental rates have remained largely unchanged, however, we have experienced a tightening of landlord concessions with minimal free rent and decreasing improvement allowances.
- > Tenants with upcoming lease expirations need to start their renewal discussions immediately in order to create leverage in a market that continues to tighten.

MARKET INDICATORS

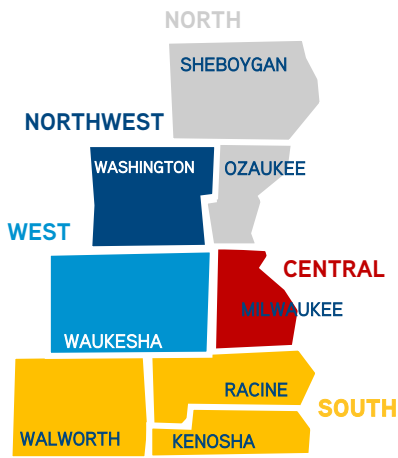
	Q4 2016	Q3 2016	Q4 2015
VACANCY	4.16%	↑	↑
NET ABSORPTION	127,040 SF	↓	↓
CONSTRUCTION	3,820,021 SF	↑	↑

ECONOMIC INDICATORS

	Quarter Over Quarter	
METRO MKE UNEMPL.	4.5%	↓
WISCONSIN UNEMPL.	4.1%	↓
NATIONAL UNEMPL.	4.9%	↔
WI MEI*	-0.04	—

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



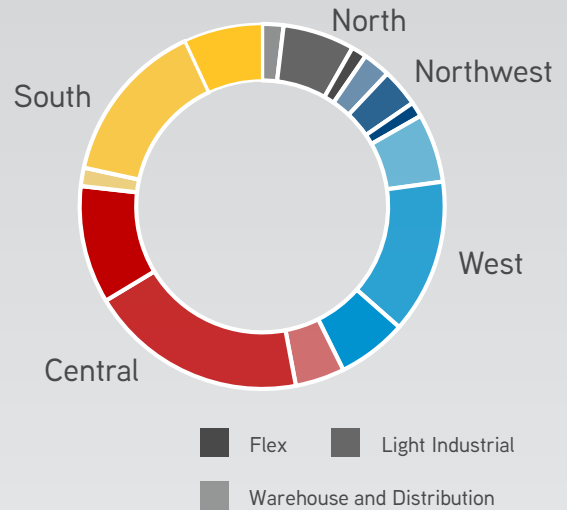
Vacancy

The amount of vacant square feet in the industrial market increased slightly during the 4th quarter. Driven primarily by vacancy in the north submarket increasing by over 30 basis points, the overall market returned to where it was at the end of the 2nd quarter. The south submarket continues to have decreasing vacancy rates, but the west submarket continues to be the tightest market. With vacancy rates across all building types under 4.0% and both flex and light industrial under 3.0%, the west submarket has limited vacancies. Notably, the central submarket has continued to see decreasing vacancy rates. Historically, the central submarket has seen vacancy rates around 8%. Leaving 2016, the submarket boosts a vacancy rate of 5.31%, a drop of more than two percentage points over two years.

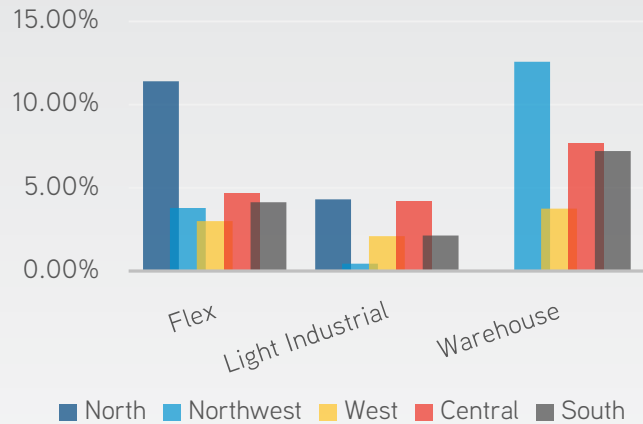
Construction

New construction continues to boom, especially in the south submarket driven by Kenosha County. Speculative construction continues to grow. Over 2.19 million square feet of speculative product was delivered this year, and another 2.02 million is under construction. The market has more than 2.97 million square feet currently under construction, with the majority of product being located in the south submarket. Of the submarkets, the west and south continue to provide the best opportunity for new industrial development.

Industrial Inventory Breakdown By Submarket & Property Type



Vacancy Rate By Property Type



3.97 MILLION SF
UNDER CONSTRUCTION



2.6 MILLION SF
IN THE SOUTH SUBMARKET



Getty Images

Projections for 2017

- > Speculative industrial development and absorption will look very similar to 2016.
- > Interest rate increases will have zero impact on Southeastern Wisconsin's industrial market.
- > We will see an eruption of single tenant build-to-suit projects in 2017.

Absorption

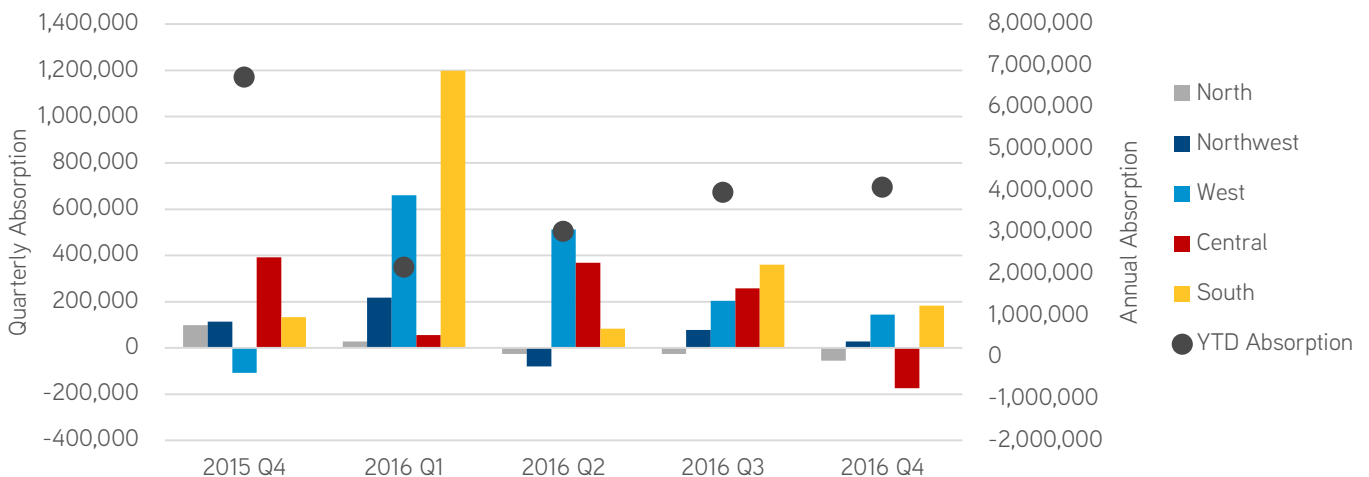
In 2016, the industrial market not only delivered over 1.7 million SF of new product, but also absorbed over 4.0 million SF of industrial product.

The 4th quarter had low quarterly absorption, but the market has seen 27 straight quarters of positive absorption. Because the market is tight, there is less opportunity for tenants to change locations and to expand into more space. Additionally, because it is a landlord's market with fewer concessions and lower tenant improvement allowances, tenants are finding value in renewing their current leases resulting in less space changing hands and ultimately lower absorption. Demand appears healthy, and supported by the fact that of industrial speculative construction delivered

in 2016, 96% has been absorbed by the market, Q4's low absorption can be partially attributed to the lack of supply in this tight market.

Annual absorption was lower than 2015 but was consistent with average annual absorption over the past five years. Of total annual absorption both the west and south submarkets tracked extremely well with the west submarket being 25% of total inventory but 37% of absorption and the south submarket being only 23% of inventory but 45% of annual absorption. Together these two markets account for over 80% of annual absorption.

Historical Absorption By Submarket



Largest Q4 2016 Lease Transactions



BUILDING	MARKET	TENANT	SF LEASED	USE
1 Zilber Industrial II	West	XPO Logistics	179,820	Light Industrial
2 7515 N. 81st Street	Central	Buske Logistics	114,844	Warehouse
3 18605 Renaissance Blvd	South	Leman USA Expansion	99,100	Light Industrial
4 Enterprise Business Park II	South	Andis Co.	83,146	Warehouse

Zilber Industrial II

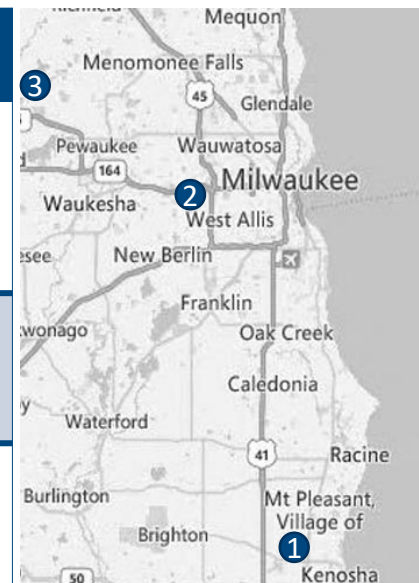


Enterprise Business Park II



Largest Q4 2016 Sale Transactions

BUILDING	BUYER	SELLER	SF SOLD	PRICE PSF	SALE PRICE
1 8100 60th St, Kenosha	Associated Wholesale Grocers Inc	Affiliated Foods Midwest Cooperative Inc.	731,186	\$77.08	\$56,359,134
2 Liberty Point, West Allis	Bear Realty	LSOP WILLIS12	123,332	\$72.97	\$56,359,134
3 500 W North Shore Dr, Hartland	Stag Industrial Inc.	Leman USA Expansion	99,100	\$56.41	\$7,400,000



Southeastern Wisconsin Industrial Market

Q4 2016

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q4-16	Q4-15	CURRENT QUARTER	YTD	CURRENT QUARTER	YTD	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
FX	83	5,222,191	594,784	11.39%	10.45%	-16,615	-48,915	-	-	-
LI	207	17,604,457	758,527	4.31%	3.88%	-38,464	-74,956	-	-	-
WH&D	31	3,746,768	0	0.00%	1.21%	-	45,522	-	-	-
Total	321	26,573,416	1,353,311	5.09%	4.80%	-55,079	-78,349	-	-	-

NORTHWEST MARKET: Washington County										
FX	157	6,759,494	255,609	3.78%	6.27%	22,952	181,402	-	-	-
LI	130	9,375,158	41,080	0.44%	0.44%	5,601	601	-	-	94,000
WH&D	43	3,669,308	461,632	12.58%	12.53%	0	56,853	-	-	-
Total	330	19,803,960	758,321	3.83%	4.64%	28,553	238,856	-	-	94,000

WEST MARKET: Waukesha County										
FX	465	16,875,246	504,205	2.99%	4.80%	-51,840	306,349	-	159,000	-
LI	845	37,873,299	795,299	2.10%	4.12%	163,309	764,214	194,820	322,520	393,000
WH&D	198	17,105,409	641,766	3.75%	6.50%	32,880	450,350	-	587,591	395,000
Total	1,508	71,853,954	1,941,270	2.70%	4.85%	144,349	1,520,913	194,820	1,069,111	788,000

CENTRAL MARKET: Milwaukee County										
FX	253	12,118,623	561,055	4.63%	5.59%	11,208	104,603	-	-	82,500
LI	855	53,560,046	2,240,866	4.18%	4.84%	-83,824	553,538	-	60,000	-
WH&D	339	28,869,914	2,221,665	7.70%	7.28%	-101,163	-87,752	-	-	186,350
Total	1,447	94,548,583	5,023,586	5.31%	5.68%	-173,779	570,389	-	60,000	268,850

SOUTH MARKET: Racine County, Kenosha County and Walworth County										
FX	69	4,517,092	186,715	4.13%	3.78%	2,700	42,515	-	-	125,902
LI	611	40,623,458	868,330	2.14%	1.72%	115,350	517,726	-	-	133,000
WH&D	87	19,193,758	1,383,381	7.21%	16.53%	64,946	1,264,987	-	600,000	2,410,269
Total	767	64,334,308	2,438,426	3.79%	6.43%	182,996	1,825,228	-	600,000	2,669,171

GRAND TOTAL										
FX	1,027	45,492,646	2,102,368	4.62%	5.78%	-31,595	585,954	-	159,000	208,402
LI	2,648	159,036,418	4,704,102	2.96%	3.52%	161,972	1,761,123	194,820	382,520	620,000
WH&D	698	72,585,157	4,708,444	6.49%	9.56%	-3,337	1,729,960	-	1,187,591	2,991,619
Total	4,373	277,114,221	11,514,914	4.16%	5.48%	127,040	4,077,037	194,820	1,729,111	3,820,021

QUARTERLY COMPARISON TOTALS										
2016 Q4	4,373	277,114,221	11,514,914	4.16%		127,040		194,820		3,820,021
2016 Q3	4,370	276,694,301	11,225,978	4.06%		875,074		520,000		3,130,430
2016 Q2	4,366	276,184,224	11,555,619	4.18%		857,086		1,142,400		2,423,257
2016 Q1	4,361	275,236,110	11,541,591	4.19%		2,160,101		2,944,557		1,979,707
2015 Q4	4,351	272,778,303	11,243,885	4.12%		629,136		614,062		1,856,010

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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