

# Research Market Report METROPOLITAN MILWAUKEE | OFFICE 2016 Quarter 4



Accelerating success.



Research | Wisconsin

## Introduction

The office market had a strong year in 2016. Vacancy rates continued their downward trend ending the year at 16.67%. In the 4<sup>th</sup> quarter the market also experienced positive absorption, helping the market realize 638,780 SF annual net absorption, the highest this cycle. Additionally, rental rates are climbing steadily. In the past year, net rent of the top five downtown asserts have increased an average of 3.23%, outpacing inflation, resulting in the market realizing real rental growth.

## Trends

2016 saw a gravity towards downtown. With downtown living on the rise, the number of companies relocating to be closer to downtown increased substantially. This is apparent through the increased activity in both the central and downtown markets. As real estate is increasingly used as a tool for recruitment and retention, companies will continue to consider where their employees live and where potential employees live when making relocation decisions. While some companies prefer the suburban office environment, they will continue to seek options that allow downtown residents to easily commute to their suburban office locations.

### ECONOMIC INDICATORS

Quarter Over Quarter

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

### MARKET INDICATORS

|                | Q4 2016    | Q3 2016 | Q4 2015 |
|----------------|------------|---------|---------|
| VACANCY        | 16.67%     | ↓       | ↓       |
| NET ABSORPTION | 52,817 SF  | ↓       | ↓       |
| CONSTRUCTION   | 137,500 SF | ↑       | ↓       |

Source: U.S. Census Bureau, Xcelligent & Colliers | Wisconsin Research  
\* Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Source: FRED & Colliers | Wisconsin Research  
Photo Source: Flickr - Urbanfeel

VACANCY DOWN  
93 PERCENTAGE POINTS  
Year over Year



638,780 SF  
ANNUAL ABSORPTION




## Central Business District

Leaving 2016, the CBD continues to see a lot of activity. Both existing downtown tenants and suburban tenants have been actively seeking space in the market. Accounting for 26.2% of market YTD absorption, Downtown Class A space is out tracking the market. The balance of the downtown market, accounting for approximately 40% of annual absorption, is tracking with the market. It is important to note that the downtown market is showing negative absorption for the fourth quarter primarily due to a timing difference in PWC's recent move. The positive absorption was counted in Q3, with the negative accounted for this quarter. However, PWC did not change the amount of occupied space and therefore their move results in no change to net absorption.

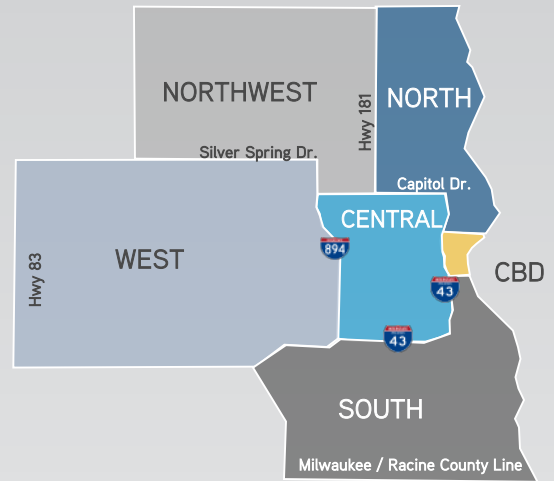
Vacancy and construction activity also support the continued positive growth of the CBD. Despite delivery of a new office tower in 2016, 833 East, vacancy rates remained stable. With more construction underway the CBD will continue to be an active market.

## Suburban

The suburban office market, especially the central submarket, has continued to see positive growth. Despite delivering a new office building, the submarket has seen vacancy drop 150 basis points year over year and has seen almost 200,000 SF of positive absorption during 2016. This is the highest absorption among the suburban submarkets. With over a third of the total office supply in the market, the west submarket has stayed consistent over the year. With only a 2 basis point change in vacancy year over year, the west market remains stable.

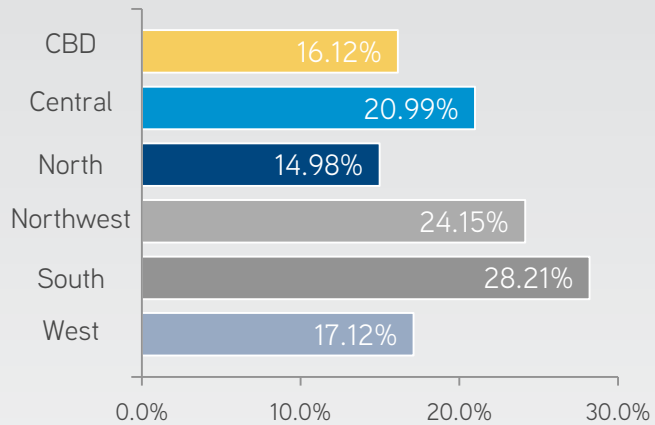
Net suburban absorption was 383,723 SF for 2016, compared to only 30,132 SF for 2015. This difference was driven by strong positive absorption in both the central and northwest submarkets.

The suburban markets are experiencing high construction numbers across various property types, most notably retail. With both The Corners of Brookfield and The Corridor under construction, the amenities and service offerings available to suburban office tenants, especially in the west submarket, will increase substantially over the coming quarters.



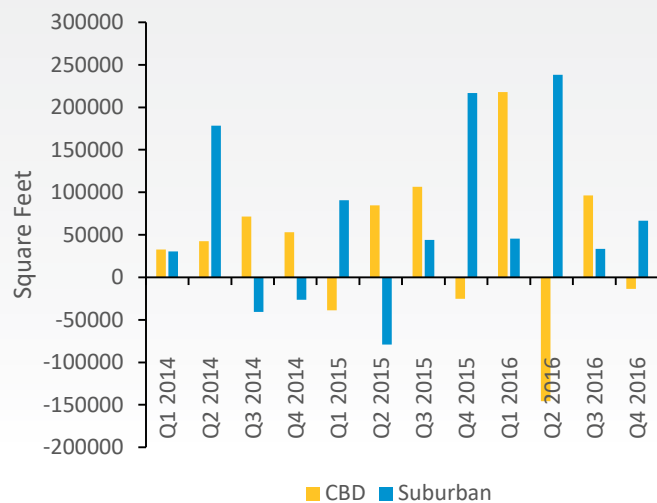
### Vacancy Rate

By Submarket



### Net Absorption

Historical



Source: Xceligent  
Colliers | Wisconsin Research

## Market Activity

- > This quarter, two major downtown office projects were announced. In October, Hammes Company unveiled plans to build a \$30 million headquarters in the Park East corridor. The company plans to occupy 36,000 SF and will lease the remaining space. The project has plans for a second phase which could add up to 100,000 SF of space to the office market.
- > In December, Irgens announced plans for a new downtown tower anchored by BMO Harris. Replacing the BMO Harris's current parking structure, the building will span 25 stories. Milwaukee law firm Michael Best and Friedrich will also move into the building following its completion in 2019. Once completed, BMO Harris's current location at 770 N Water will undergo significant renovations. 770 N Water lost one of its anchor tenants at the beginning of the year when Godfrey and Kahn moved to 833 East.
- > ABB building located in Wauwatosa was sold to an east coast investor at the end of November. ABB will continue to lease the building following the sale.
- > Leasing activity picked up from the 3<sup>rd</sup> quarter but was overall, tame. The largest lease of the quarter was at Oakwood Center by the Medical College of Wisconsin.
- > Quest Continuing Education signed an 11,267 SF lease at Meadowland Research & Technology Center. Six months after delivery the building is 75% occupied.

Sources: Colliers | Wisconsin Research, Milwaukee BizTimes, Milwaukee Business Journal & Xceligent



## Other Notable Activity

- > Construction continues on the new **Milwaukee Buck's Arena**. Plans for a Live Block were also released with the aim to create an entertainment district around the Arena.
- > This quarter, demolition began on the Milwaukee County Transit Center, the future home the 44-story development, **The Couture**.
- > **Northwestern Mutual's Corporate Headquarters** was enclosed this quarter; the building remains on track for completion by the end of 2017.

Hammes Co. Headquarters



ABB, Wauwatosa



## Metro Milwaukee Office Market

### 2016 Quarter 4

| BLDG TYPE  | EXISTING PROPERTIES |                   | TOTAL VACANCY    |               | NET ABSORPTION - SF |                 | NEW SUPPLY - SF |                 | UNDER CONST. SF |                |
|--|---------------------|-------------------|------------------|---------------|---------------------|-----------------|-----------------|-----------------|-----------------|----------------|
|  | BLDGS               | TOTAL SF          | SF               | Q4-16         | Q4-15               | CURRENT QUARTER | YEAR TO DATE    | CURRENT QUARTER |                 | YEAR TO DATE   |
| <b>CBD - Downtown East, Downtown West, Third Ward &amp; Walker's Point</b> |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 18                  | 5,818,531         | 921,240          | 15.83%        | 13.38%              | -23,436         | 167,337         | -               | 358,000         | 137,500        |
| B  | 68                  | 5,562,595         | 954,663          | 17.16%        | 18.54%              | 10,024          | 83,154          | -               | -               | -              |
| C  | 9                   | 518,335           | 45,530           | 8.78%         | 9.66%               | -200            | 4,566           | -               | -               | -              |
| <b>Total</b>   | <b>95</b>           | <b>11,899,461</b> | <b>1,921,433</b> | <b>16.15%</b> | <b>15.60%</b>       | <b>-13,612</b>  | <b>255,057</b>  | <b>-</b>        | <b>358,000</b>  | <b>137,500</b> |
| <b>CENTRAL - West Allis, Mayfair, Wauwatosa</b>                            |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 15                  | 1,426,296         | 301,520          | 21.14%        | 20.49%              | 29,869          | 109,191         | -               | 155,000         | -              |
| B  | 41                  | 3,107,405         | 447,668          | 14.41%        | 17.14%              | 7,181           | 84,891          | -               | -               | -              |
| C  | 5                   | 169,554           | 17,544           | 10.35%        | 9.91%               | 0               | -741            | -               | -               | -              |
| <b>Total</b>   | <b>61</b>           | <b>4,703,255</b>  | <b>766,732</b>   | <b>16.30%</b> | <b>17.81%</b>       | <b>37,050</b>   | <b>193,341</b>  | <b>-</b>        | <b>155,000</b>  | <b>-</b>       |
| <b>NORTH - North Shore, Brown Deer, Mequon</b>                             |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 23                  | 810,628           | 47,716           | 5.89%         | 7.46%               | -2,030          | 12,732          | -               | -               | -              |
| B  | 49                  | 1,493,730         | 288,694          | 19.33%        | 26.25%              | 17,494          | 41,255          | -               | -               | -              |
| C  | 1                   | 8,857             | 0                | 0.00%         | 20.20%              | 0               | 1,789           | -               | -               | -              |
| <b>Total</b>   | <b>73</b>           | <b>2,313,215</b>  | <b>336,410</b>   | <b>14.54%</b> | <b>19.64%</b>       | <b>15,464</b>   | <b>55,776</b>   | <b>-</b>        | <b>-</b>        | <b>-</b>       |
| <b>NORTHWEST - Menomonee Falls, Germantown</b>                             |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 10                  | 1,064,984         | 160,239          | 15.05%        | 20.94%              | 0               | 62,725          | -               | -               | -              |
| B  | 9                   | 695,341           | 210,337          | 30.25%        | 37.26%              | 8,741           | 48,761          | -               | -               | -              |
| C  | 1                   | 33,443            | 13,786           | 41.22%        | 37.26%              | 0               | 0               | -               | -               | -              |
| <b>Total</b>   | <b>20</b>           | <b>1,760,325</b>  | <b>370,576</b>   | <b>21.05%</b> | <b>27.64%</b>       | <b>8,741</b>    | <b>111,486</b>  | <b>-</b>        | <b>-</b>        | <b>-</b>       |
| <b>SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin,</b>           |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 7                   | 185,711           | 26,908           | 14.49%        | 19.20%              | 1,770           | 8,745           | -               | -               | -              |
| B  | 12                  | 369,084           | 155,650          | 42.17%        | 43.18%              | 0               | 3,737           | -               | -               | -              |
| <b>Total</b>   | <b>19</b>           | <b>554,795</b>    | <b>182,558</b>   | <b>32.91%</b> | <b>35.16%</b>       | <b>1,770</b>    | <b>12,482</b>   | <b>-</b>        | <b>-</b>        | <b>-</b>       |
| <b>WEST - Brookfield, Waukesha, New Berlin, Pewaukee</b>                   |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 58                  | 3,348,188         | 450,320          | 13.45%        | 13.97%              | -19,227         | 27,787          | -               | -               | -              |
| B  | 76                  | 3,169,923         | 641,517          | 20.24%        | 19.21%              | 18,448          | -31,179         | -               | -               | -              |
| C  | 7                   | 396,995           | 15,128           | 3.81%         | 7.34%               | 4,183           | 14,030          | -               | -               | -              |
| <b>Total</b>   | <b>141</b>          | <b>6,915,106</b>  | <b>1,106,965</b> | <b>16.01%</b> | <b>15.99%</b>       | <b>3,404</b>    | <b>10,638</b>   | <b>-</b>        | <b>-</b>        | <b>-</b>       |
| <b>TOTAL</b>   |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| A  | 131                 | 12,654,338        | 1,907,943        | 15.08%        | 14.65%              | -13,054         | 388,517         | -               | 513,000         | 137,500        |
| B  | 255                 | 14,398,078        | 2,698,529        | 18.74%        | 20.78%              | 61,888          | 230,619         | -               | -               | -              |
| C  | 23                  | 1,127,184         | 91,988           | 8.16%         | 9.90%               | 3,983           | 19,644          | -               | -               | -              |
| <b>Total</b>   | <b>409</b>          | <b>28,179,600</b> | <b>4,698,460</b> | <b>16.67%</b> | <b>17.60%</b>       | <b>52,817</b>   | <b>638,780</b>  | <b>-</b>        | <b>513,000</b>  | <b>137,500</b> |
| <b>QUARTERLY COMPARISON TOTALS</b>   |                     |                   |                  |               |                     |                 |                 |                 |                 |                |
| 4Q 2016  | 409                 | 28,179,600        | 4,698,460        | 16.67%        | -                   | 52,817          | -               | -               | 513,000         | 137,500        |
| 3Q 2016  | 409                 | 28,179,600        | 4,801,641        | 17.04%        | -                   | 129,558         | -               | 155,000         | 513,000         | 113,830        |
| 2Q 2016  | 408                 | 28,099,600        | 4,851,199        | 17.26%        | -                   | 92,709          | -               | 358,000         | 358,000         | 156,000        |
| 1Q 2016  | 406                 | 27,634,001        | 4,794,984        | 17.35%        | -                   | 363,696         | -               | -               | -               | 656,000        |
| 4Q 2015  | 405                 | 27,276,001        | 4,800,680        | 17.60%        | -                   | 195,066         | -               | -               | -               | 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*

## Office Services



**Lyle Landowski**  
Partner  
Direct +1 414 278 6827  
lyle.landowski@colliers.com



**Dan Wroblewski**  
Partner  
Direct +1 414 278 6813  
dan.wroblewski@colliers.com



**Joe Lak**  
Partner  
Direct +1 414 278 6824  
joe.lak@colliers.com



**Steve Palec**  
Partner  
Direct +1 414 278 6818  
steve.palec@colliers.com



**Mike Wanezek**  
Vice President  
Direct +1 414 278 6826  
mike.wanezek@colliers.com



**Matt Fahey**  
Associate Broker  
Direct +1 414 278 6860  
matt.fahey@colliers.com



**Sal Strehlow**  
Associate Broker  
Direct +1 414 278 6846  
sal.strehlow@colliers.com



**Ben Anderson**  
Associate Broker  
Direct +1 414 278 6848  
ben.anderson@colliers.com



**Brandon Ciebell**  
Associate Broker  
Direct +1 414 982 6989  
brandon.ciebell@colliers.com



**Maggie Grzesiowski**  
Client Services Coordinator  
Direct +1 414 278 6845  
maggie.grzesiowski@colliers.com

## Research



**Margaret Bruckner**  
Research Analyst  
Direct +1 414 278 6801  
margaret.bruckner@colliers.com



Colliers International | Wisconsin  
833 East Michigan Street  
Suite 500  
Milwaukee, WI 53202  
TEL: 414 276 9500  
FAX: 414 276 9501

Copyright © 2016 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.