

# **Inland**

## **Milwaukee & Metropolitan Area Office Market Report • Third Quarter 2009**



### **OVERVIEW**

While the U.S. economy began to stabilize this quarter, the greater Milwaukee area continues to be affected by company downsizing as seen in the third quarter negative absorption. Trends in the market have been for larger firms to consolidate satellite office locations as well as give back space in existing locations. Much like the second quarter, most local firms remain in a holding pattern, waiting for an economic rebound.

Negative absorption continues to increase through the area led by a loss of 30,210 square feet in the central submarket. The central market saw vacancy increase up to 22.93% as well as negative absorption increasing 12,682 square feet. Compared to the first half of the year, the market remained relatively inactive losing only 22,514 square feet to negative absorption.

Although overall absorption was negative and vacancy has increased, Class "B" vacancy decreased and had positive absorption of 36,018 square feet. The positive absorption and decrease in vacancy in Class "B" marks the first time since 2007 that absorption and vacancy were positive. This can mainly be attributed to the M&I Bank consolidation of their loan operations to the Milwaukee area.

As Class "B" has shown growth, Class "A" had a major regression from the second quarter with overall vacancy increasing by over 200 basis points and negative absorption of 41,814 square feet. The majority of these issues came from the central and west submarkets, having over 40,000 square feet of negative absorption between them.

Look for the negative absorption to increase slightly into the fourth quarter as firms continue to strive for greater efficiency in a leaner economy. Rental rates are likely to drop further in the fourth quarter in anticipation of 2010 when the market should start to balance out and recover. Similar to the third quarter, expect absorption and vacancy to remain relatively stagnant until 2010 when a rebound is expected to begin.

### **INVESTMENT SALES**

The office investment market in Milwaukee remained flat through the end of the third quarter of 2009.

Investors continue to stockpile cash and wait on the sidelines as the "Great Recession" runs its course. Most office investors are concerned with poor labor statistics and their direct correlation to space absorption in local leasing markets. Unemployment rates in the third quarter in Wisconsin continued to swell to 8.3%, according to the U.S. State Department of Labor (unemployment in Wisconsin was 4.7% for the same quarter 2008). Most investors, brokers, and lenders report that capitalization rates have risen 100-200 basis points for core assets. However arms-length office sales transactions are still few and far between, so values are difficult to benchmark. Most local CRE experts predict that 2010 will be the year for the bottom to hit as bank REO sales, foreclosure sales, and property auctions will more frequently hit the street.

*Inland Companies' quarterly market update for the Milwaukee and metropolitan area is an all-inclusive report intended to supply you with a precise, objective representation of the local commercial real estate environment. We have utilized our resources, knowledge, and supporting data to compile this comprehensive report of the local market. The office market statistics have been extracted from our internal database, with up-to-date information supplied by our brokerage and management staff. We are also a member of the Milwaukee Office Data Advisory Board which tracks and scrubs data from Xceligent on a quarterly basis. Our absorption statistics are calculated comparing occupancy to occupancy and account for occupied square footage associated with new construction.*

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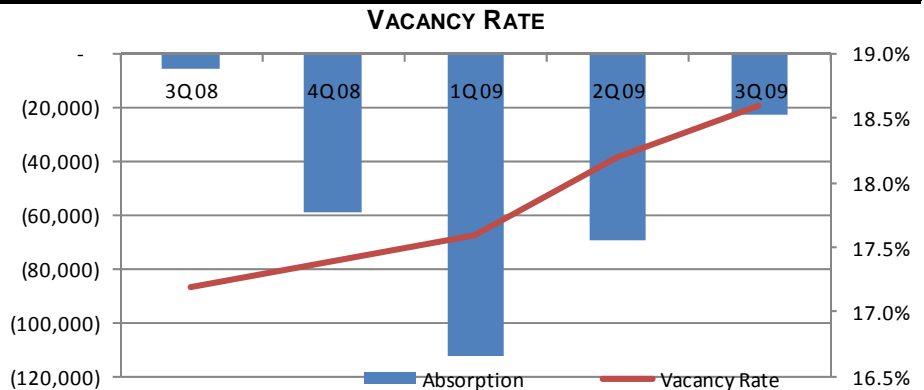
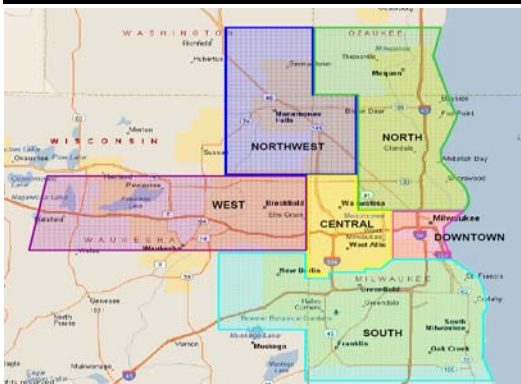
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| SUBMARKET        | NUMBER BUILDINGS | TOTAL BLDG SF     | DIRECT VACANT SF | DIRECT VACANT % | SUBLEASE AVAIL SF | SUBLEASE     | NET ABSORPTION |
|------------------|------------------|-------------------|------------------|-----------------|-------------------|--------------|----------------|
| <b>Downtown</b>  | <b>100</b>       | <b>12,477,627</b> | <b>2,515,145</b> | <b>20.16%</b>   | <b>157,634</b>    | <b>1.26%</b> | <b>6,866</b>   |
| Class A          | 19               | 5,525,051         | 761,345          | 13.78%          | 138,840           | 2.51%        | -1,410         |
| Class B          | 71               | 6,321,716         | 1,674,394        | 26.49%          | 18,794            | 0.30%        | 6,786          |
| Class C          | 10               | 630,860           | 79,406           | 12.59%          | 0                 | 0.00%        | 1,490          |
| <b>Central</b>   | <b>65</b>        | <b>4,633,481</b>  | <b>974,447</b>   | <b>21.03%</b>   | <b>38,523</b>     | <b>0.83%</b> | <b>-12,682</b> |
| Class A          | 12               | 1,188,908         | 267,315          | 22.48%          | 11,035            | 0.93%        | -4,103         |
| Class B          | 48               | 3,275,019         | 705,632          | 21.55%          | 27,488            | 0.84%        | -8,579         |
| Class C          | 5                | 169,554           | 1,500            | 0.88%           | 0                 | 0.00%        | 0              |
| <b>West</b>      | <b>132</b>       | <b>6,517,235</b>  | <b>940,431</b>   | <b>14.43%</b>   | <b>94,263</b>     | <b>1.45%</b> | <b>-30,210</b> |
| Class A          | 45               | 2,682,785         | 311,029          | 11.59%          | 37,193            | 1.39%        | -31,418        |
| Class B          | 80               | 3,621,863         | 592,405          | 16.36%          | 57,070            | 1.58%        | 19,416         |
| Class C          | 7                | 212,587           | 36,997           | 17.40%          | 0                 | 0.0%         | -18,208        |
| <b>Northwest</b> | <b>18</b>        | <b>1,392,790</b>  | <b>230,734</b>   | <b>16.57%</b>   | <b>10,090</b>     | <b>0.72%</b> | <b>6,803</b>   |
| Class A          | 11               | 1,114,351         | 214,241          | 19.23%          | 10,090            | 0.91%        | -402           |
| Class B          | 7                | 278,439           | 16,493           | 5.92%           | 0                 | 0.0%         | 7,205          |
| <b>North</b>     | <b>87</b>        | <b>2,734,089</b>  | <b>475,724</b>   | <b>17.40%</b>   | <b>13,538</b>     | <b>0.50%</b> | <b>-1,259</b>  |
| Class A          | 25               | 872,132           | 99,947           | 11.46%          | 4,861             | 0.56%        | -3,481         |
| Class B          | 60               | 1,843,100         | 369,918          | 20.07%          | 8,677             | 0.47%        | 2,222          |
| Class C          | 2                | 18,857            | 5,859            | 31.07%          | 0                 | 0.00%        | 0              |
| <b>South</b>     | <b>22</b>        | <b>658,568</b>    | <b>133,327</b>   | <b>20.24%</b>   | <b>1,000</b>      | <b>0.15%</b> | <b>7,968</b>   |
| Class A          | 7                | 178,687           | 34,525           | 19.32%          | 1,000             | 0.56%        | -1,000         |
| Class B          | 15               | 479,881           | 98,802           | 20.59%          | 0                 | 0.0%         | 8,968          |
| <b>Overall</b>   | <b>424</b>       | <b>28,413,790</b> | <b>5,269,808</b> | <b>18.55%</b>   | <b>315,048</b>    | <b>1.11%</b> | <b>-22,514</b> |
| Class A          | 119              | 11,561,914        | 1,688,402        | 14.60%          | 203,019           | 1.76%        | -41,814        |
| Class B          | 281              | 15,820,018        | 3,457,644        | 21.86%          | 112,029           | 0.71%        | 36,018         |
| Class C          | 24               | 1,031,858         | 123,762          | 11.99%          | 0                 | 0.00%        | -16,718        |



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