



Milwaukee & Metropolitan Area Office Market Report • Fourth Quarter 2009



RIVERWOOD CORPORATE CENTER III

OVERVIEW

As we closed out a relatively painful 2009 we have come to the realization that the bleeding is slowing down, at least for the time being. Despite the question marks that remain with the overall national economy going into 2010 we are beginning to see some signs of stabilization in the Milwaukee office market. Although new leasing activity has yet to increase there has been a slowdown in the amount of negative absorption throughout the market. It is likely that there are still some “shoes to drop” as we move into the first half of 2010, but it appears that we are slowly climbing out of the hole that was 2009.

Negative absorption has been the common theme throughout the market this past year, one that continued in the fourth quarter. However, this last quarter's numbers provided only a small amount of additional negative absorption to the overall total for the year. The quarter generated 6,775 square feet of negative absorption market wide. This was the smallest amount of negative absorption since the third quarter of 2008, which was the last quarter of positive absorption in this market. Overall, the Milwaukee market realized a total of 565,935 square feet of negative absorption in 2009, which equates to about 2% of the overall market. The overall year end vacancy rate for the market came in at 18.88%, up from 16.9% compared to year-end 2008.

With the absorption numbers approaching a flat level this past quarter we saw an interesting trend reverse itself. Over the past year the Class B office market has struggled, dragging down the overall vacancy and absorption numbers in every quarter. The Class A market on the other hand was relatively stable, which has saved 2009 from being as negative as expected. However, in the fourth quarter the markets flipped and the Class B market realized 28,080 square feet of positive absorption and the Class A market realized 36,855 of negative absorption. From our perspective this is a key positive indicator for the market as a whole as we move into 2010 as it shows that the Class B market may begin to stabilize. Despite the negative absorption, we remain confident in the overall health of the Class A market. We feel that if the Class B market continues to stabilize it could provide for some positive overall growth in the latter half of 2010.

Look for the negative absorption to remain slightly down to flat throughout the first half of 2010. Many firms currently have excess capacity in their offices that will allow for future growth as the economy recovers, which will put a lag effect on any potential positive absorption. Rental rates are likely to remain at or just below their currently compressed levels. Overall lease concessions will remain aggressive throughout 2010. We expect that a recovery is on its way, but not likely to be fully realized until the second half of 2010 and into early 2011.

INVESTMENT SALES

In the fourth quarter of 2009, the office investment sales market in Southeast Wisconsin continued to flat line for the sixth consecutive such period. Virtually zero notable sales transactions occurred in a market where landlords are focusing on keeping spaces lit and tenants are looking to take advantage of economic early renewals. The Urban Land Institute (ULI) in their 2010 Emerging Trends report forecasts, “Don't expect any spikes in this (office) recovery given the dearth of employment generators and rising vacancies.” However for opportunists in the investment world, this is the time to get active.

There are a handful of bank REO, foreclosures and short sales that are quietly being shopped right now on the office market in Milwaukee. Buyers that have been stagnant for the last six to eight quarters need to reach back out to their broker and lender network to discuss opportunistic plays. Most professionals expect sale activity to trend upward in 2010 at a gradual pace and thus price and cap rate discovery will be achieved. The first movers in 2010 will find the best asset pricing for their dollar with the expectations that value recovery will occur in 2011 and beyond.

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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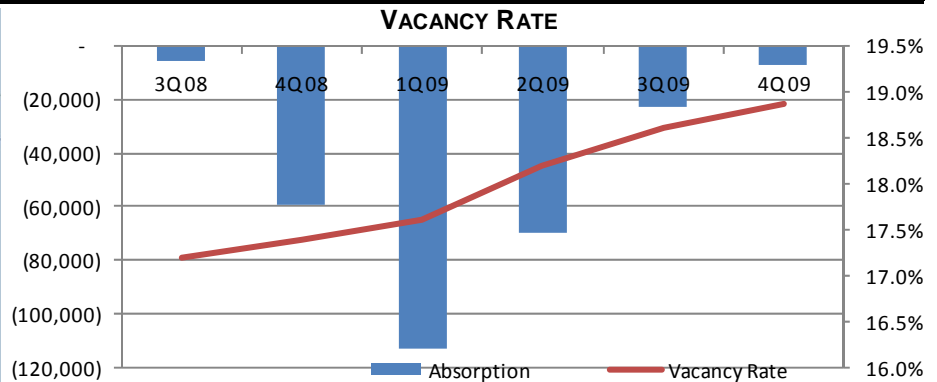
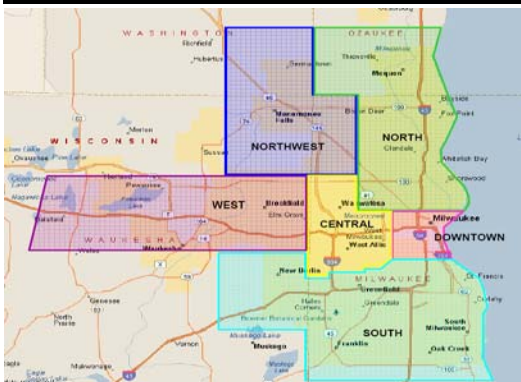
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SUBMARKET	NUMBER BUILDINGS	TOTAL BLDG SF	DIRECT VACANT SF	DIRECT VACANT %	SUBLEASE AVAIL SF	SUBLEASE	NET ABSORPTION
Downtown	100	12,477,627	2,476,660	19.85%	222,662	1.78%	-30,326
Class A	19	5,525,051	66,264	11.97%	128,337	2.32%	-1,166
Class B	71	6,321,716	1,725,350	27.29%	94,325	1.49%	-29,160
Class C	10	630,860	90,046	14.27%	0	0.00%	0
Central	65	4,645,244	970,545	20.89%	35,195	0.76%	23,056
Class A	12	1,188,908	240,614	20.24%	11,035	0.93%	17,403
Class B	48	3,286,782	715,215	21.76%	24,160	0.74%	5,653
Class C	5	169,554	14,716	8.68%	0	0.00%	0
West	133	6,541,731	944,379	14.44%	105,232	1.61%	98,767
Class A	46	2,707,281	273,149	10.09%	42,538	1.57%	35,070
Class B	80	3,621,863	636,233	17.57%	62,694	1.73%	61,697
Class C	7	212,587	34,997	16.46%	0	0.00%	2,000
Northwest	18	1,393,147	297,595	21.36%	43,511	3.12%	-87,682
Class A	11	1,114,708	281,102	25.22%	43,511	3.90%	-87,682
Class B	7	278,439	16,493	5.92%	0	0.00%	7,0
North	87	2,734,089	547,355	20.02%	15,833	0.58%	-18,243
Class A	25	872,132	102,972	11.81%	7,156	0.82%	-3,025
Class B	60	1,843,100	438,524	23.79%	8,677	0.47%	-15,218
Class C	2	18,857	5,859	31.07%	0	0.00%	0
South	22	658,568	133,674	20.30%	0	0.00%	7,653
Class A	7	178,687	31,980	17.90%	0	0.00%	2,545
Class B	15	479,881	101,694	21.19%	0	0.00%	5,108
Overall	425	28,450,406	5,370,208	18.88%	422,433	1.48%	-6,775
Class A	120	11,586,767	1,591,081	13.73%	232,577	2.01%	-36,855
Class B	281	15,831,781	3,633,509	22.95%	189,856	1.20%	28,080
Class C	24	1,031,858	145,618	14.11%	0	0.00%	2,000



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