

Inland

Milwaukee & Metropolitan Area Office Market Report • First Quarter 2010



OVERVIEW

With an uncertain forecast for the national economy, the first quarter of 2010 brought more mixed results. Most notable was a significant increase in activity which was negated by an increase in overall vacancy. Firms have gone to market seeking leverage in lease renewals with few actually relocating in the market this quarter. Negative absorption rose slightly from the fourth quarter 2009, with a decrease of 5,382 square feet for the greater Milwaukee area. Despite negative absorption in the first quarter, expect absorption and vacancy to stabilize throughout the rest of 2010 with recovery beginning in the fourth quarter of 2010 into the first quarter of 2011.

For the greater Milwaukee area, “class A” absorption was negative 19,610 square feet – continuing the fourth quarter trend – and marking two straight quarters of significant negative absorption numbers. Downtown “class A” had the largest decrease in the market with 14,034 square feet of negative absorption. Unlike past quarters, this was a result of several firms downsizing rather than leaving the downtown CBD. Look for this trend to reverse in future quarters as more companies relocate from class “B” to class “A”. The Central submarket “class A” product continued its run of positive absorption from the 4th quarter, albeit by only 656 square feet. In 2009 the Central submarket led all submarkets in negative absorption. In 2010, expect an increase in positive absorption in this submarket as rental rates decrease and Tenant’s continue to backfill existing vacancies.

The “class B” absorption took a blow in 2009 but looks to be on the rise with its second straight quarter of positive absorption. Tenants that have traditionally been in C+ to B- office space have started to take advantage of lower rental rates in “class B” space which has resulted in 30,510 square feet of positive absorption for the quarter. The Central and West submarkets led the “class B” charge with over 30,000 square feet of absorption, reversing the trend from 2009. Look for the “class B” numbers to continue to stabilize in 2010 as Landlords continue to entice tenants with rent abatement and more economic lease rates.

Inland is expecting 2010 to be a year of stabilization with a decrease in vacancy rates, but at the expense of lease rate and concessions. In other words – the recovery is underway, but the correction is not complete.

INVESTMENT SALES

The blips of activity on the office investment radar sounded off more frequently in the first quarter of 2010. For a market that was seemingly dormant for the previous eight quarters that may not say much, but local real estate experts are now witnessing a shift of investor attitude to the positive. The big news to hit the wire was the proposed sale of Northwestern Mutual Life Insurance Cos’ (NML) downtown Class A tower – 100 East Wisconsin. This trophy 35 story, 430,800 SF asset is on the market without an asking price. The property is home to notable tenants such as law firm Michael, Best, & Friedrich LLP, and lodging and theatre mogul Marcus Corporation. The seller previously tested the waters on the sale market with this asset in late 2008 and early 2009. However the property did not trade at that time most likely due to the turmoil and uncertainty surrounding the financial and capital markets. Inland Companies investment sales team led the local market with two notable office closings in the first quarter. Inland sold the 85,000 square foot 235 N. Executive Drive in Brookfield, Wisconsin to Endeavor Companies (Chicago, IL) in February 2010 on behalf of a local developer. The property traded for approximately \$68 per square foot and it was 91% occupied by six tenants at the time of closing. Inland also sold a 37,000 square foot single-tenant call center in New Berlin, Wisconsin to local investor in April, 2010. The call center also traded for approximately \$68 per square foot and was 100% occupied on a shorter term lease.

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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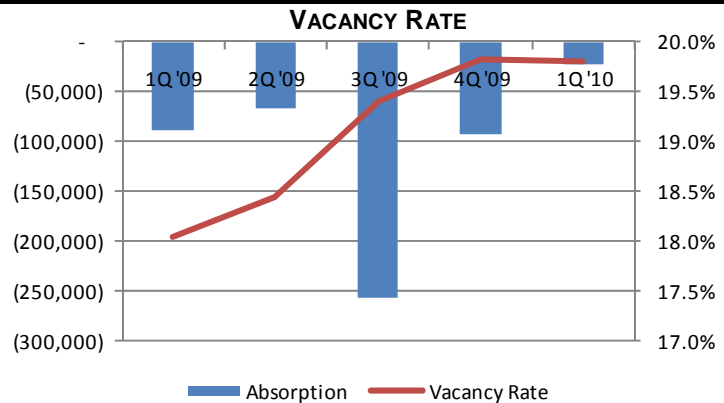
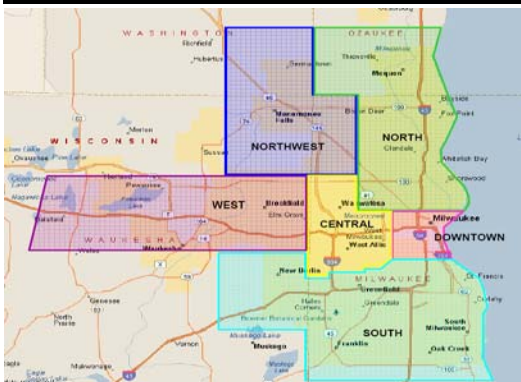
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SUBMARKET	NUMBER BUILDINGS	TOTAL BLDG SF	DIRECT VACANT SF	DIRECT VACANT %	SUBLEASE AVAIL SF	SUBLEASE	NET ABSORPTION
Downtown	100	12,484,078	2,439,189	19.54%	226,170	1.81%	-22,578
Class A	19	5,525,051	669,395	12.12%	133,539	2.42%	-14,034
Class B	70	6,268,677	1,676,717	26.75%	92,631	1.48%	3,410
Class C	11	690,350	93,077	13.48%	0	0.00%	-11,954
Central	65	4,645,244	934,405	20.12%	45,009	0.97%	22,640
Class A	12	1,188,908	243,919	20.52%	11,035	0.93%	656
Class B	48	3,286,782	675,770	20.56%	33,974	1.03%	21,984
Class C	5	169,554	14,716	8.68%	0	0.00%	0
West	133	6,543,469	1,047,576	16.01%	105,500	1.61%	-432
Class A	46	2,707,281	321,349	11.87%	36,691	1.36%	-10,726
Class B	80	3,623,601	691,230	19.08%	68,809	1.90%	10,294
Class C	7	212,587	34,997	16.46%	0	0.00%	0
Northwest	18	1,393,147	311,069	22.33%	47,112	3.38%	-17,075
Class A	11	1,114,708	280,850	25.19%	47,112	4.23%	-3,349
Class B	7	278,439	30,219	10.85%	0	0.00%	-13,726
North	87	2,738,310	531,872	19.42%	10,972	0.40%	8,983
Class A	25	876,353	95,129	10.86%	2,295	0.26%	7,843
Class B	60	1,843,100	426,556	23.14%	8,677	0.47%	5,468
Class C	2	18,857	10,187	54.02%	0	0.00%	-4,328
South	22	658,568	127,864	19.42%	2,730	0.41%	3,080
Class A	7	178,687	31,980	17.90%	0	0.00%	0
Class B	15	479,881	95,884	19.98%	2,730	0.57%	3,080
Overall	425	28,462,816	5,391,975	18.94%	437,493	1.54%	-5,382
Class A	120	11,590,988	1,642,622	14.17%	230,672	1.99%	-19,610
Class B	280	15,780,480	3,596,376	22.79%	206,821	1.31%	30,510
Class C	25	1,091,348	152,977	14.02%	0	0.00%	-16,282



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