# Milwaukee & Metropolitan Area
# Office Market Report • Third Quarter 2010


HONEY CREEK CORPORATE CENTER

## OVERVIEW

The Milwaukee market posted negative absorption for the seventh consecutive quarter with 21,183 square feet of negative absorption across the entire market. While this trend continues, there are signs of stabilization with vacancies remaining virtually unchanged across each subset. The “Class A” product once again held its ground by posting just over 22,000 square feet of positive absorption across the entire market for the quarter. Uncertainty in the economy and the upcoming midterm elections continues to affect the tenant activity in the market. Prospects that are in the market for space continue to be very rate sensitive and seem to be “holding onto their money” until after the elections on November 2. Competition among class B buildings remains very high as they are faced with a 24.7% vacancy rate across the entire market. Look for further signs of stabilization by the end of 2010 once the midterm elections are over and we begin to see signs of a possible economic recovery.

The most active submarkets in the 3rd quarter were the Central and Northwest. The Central submarket led the way with 41,000 square feet of positive absorption thanks to Strayer University and The US Department of Veteran Affairs both leasing a total of approximately 25,000 square feet in the Honey Creek Corporate Center. The education sector also contributed to the positive absorption in the Northwestern submarket with University of Phoenix leasing 30,000 square feet at Park Place. Look for the “Class A” subset, particularly in the Central submarket, to continue to see positive absorption as landlords continue to be aggressive with lease rates and concessions. Tenants will look to occupy first class space in anticipation of an economic recovery.

Continuing with the year end predictions of 2009, Inland sees 2010 as a year of stabilization with slightly positive absorption and vacancy rates remaining virtually unchanged by year end. As more jobs are created and companies gain more confidence in the economy, the demand for office space will pick up, but this will not happen until at least the 2nd half of 2011.

## INVESTMENT SALES

The successful closing of the prestigious trophy tower, 100 East Wisconsin, gave the investment market a renewed sense of confidence that quality, core assets in “A” locations are still fetching premium prices. This 430,800 square foot, 35 story, Class A tower was acquired for $81.3 million by Commonwealth REIT out of Newton, Massachusetts. Commonwealth also owns 111 E. Kilbourn, commonly known as the Milwaukee Center, and many industry experts applauded their strategy as they now control two of the most notable office addresses in Wisconsin.

On the contrary, the western suburban submarket is now witnessing a bottoming -out of pricing. Due to recession, there is a rash of 50-60% occupied Class B and C office buildings in the Brookfield area. Therefore we have seen an uptick in user/investor acquisitions. Recently, Inland Companies represented a local bank and sold a distressed 30,000 square foot asset located at 165 Bishops Way in the Bishops Woods Office Park for approximately $54 per square foot. The user/investor was a local, growing law firm that coincidentally specializes in foreclosure and REO work. Our office team is currently handling several similar transactions that involve office tenants that are now looking to buy vs. 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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# inland

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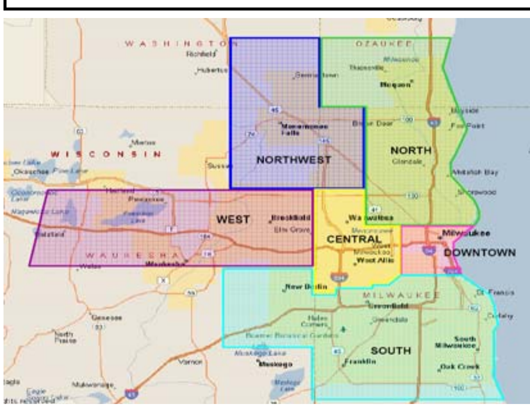
| SUBMARKET | NUMBER BUILDINGS | TOTAL BLDG SF | DIRECT VACANT SF | DIRECT VACANT % | SUBLEASE AVAIL SF | SUBLEASE | NET ABSORPTION |
|---|---|---|---|---|---|---|---|
| **Downtown** | **100** | **12,498,388** | **2,689,262** | **21.52%** | **163,919** | **1.31%** | **-12,679** |
| Class A | 19 | 5,525,051 | 736,664 | 13.33% | 147,391 | 2.67% | -77 |
| Class B | 70 | 6,268,677 | 1,853,184 | 29.49% | 16,528 | 0.26% | -4,669 |
| Class C | 11 | 689,660 | 99,414 | 14.41% | 0 | 0.00% | -7,933 |
| **Central** | **65** | **4,645,244** | **958,852** | **20.64%** | **32,594** | **0.70%** | **36,957** |
| Class A | 13 | 1,232,608 | 228,559 | 18.54% | 11,035 | 0.90% | 41,355 |
| Class B | 47 | 3,243,082 | 715,577 | 22.06% | 21,559 | 0.66% | -4,398 |
| Class C | 5 | 169,554 | 14,716 | 8.68% | 0 | 0.00% | 0 |
| **West** | **133** | **6,553,337** | **1,187,591** | **18.12%** | **99,622** | **1.52%** | **-24,931** |
| Class A | 46 | 2,712,062 | 436,155 | 16.08% | 34,549 | 1.27% | -23,477 |
| Class B | 80 | 3,624,688 | 712,544 | 19.71% | 65,073 | 1.80% | -2,540 |
| Class C | 7 | 216,587 | 38,982 | 17.03% | 0 | 0.00% | 1,086 |
| **Northwest** | **18** | **1,393,147** | **292,726** | **21.01%** | **13,691** | **0.98%** | 21,599 |
| Class A | 11 | 1,114,708 | 250,307 | 22.45% | 13,691 | 1.23% | 33,799 |
| Class B | 7 | 278,439 | 42,419 | 15.23% | 0 | 0.00% | -12,200 |
| **North** | **87** | **2,746,013** | **523,829** | **19.08%** | **10,972** | **0.40%** | **-38,066** |
| Class A | 25 | 876,353 | 128,374 | 14.65% | 2,295 | 0.26% | -27,480 |
| Class B | 60 | 1,850,803 | 386,760 | 20.90% | 8,667 | 0.47% | -11,578 |
| Class C | 2 | 18,857 | 8,695 | 46.11% | 0 | 0.00% | 992 |
| **South** | **21** | **639,938** | **125,948** | **19.68%** | **7,666** | **1.20%** | **-4,063** |
| Class A | 7 | 178,687 | 20,598 | 11.53% | 4,936 | 2.76% | -1,453 |
| Class B | 14 | 461,251 | 105,350 | 22.84% | 2,730 | 0.59% | -2,610 |
| **Overall** | **424** | **28,476,067** | **5,778,208** | **20.29%** | **328,464** | **1.15%** | **-21,183** |
| Class A | 121 | 11,639,469 | 1,800,657 | 15.47% | 213,897 | 1.84% | 22,667 |
| Class B | 278 | 15,741,940 | 3,817,834 | 24.25% | 114,567 | 0.73% | -37,995 |
| Class C | 25 | 1,094,658 | 159,717 | 14.59% | 0 | 0.00% | -5,855 |




### VACANCY RATE