



Milwaukee & Metropolitan Area Industrial Market Report • Fourth Quarter 2010



GATEWAY BUSINESS CENTER

OVERVIEW

Market Trends

Statistically, the Southeastern Wisconsin Industrial Market saw a considerable turnaround in the fourth quarter of 2010. The overall marketplace saw nearly 1.2 million square feet absorbed through leases and sales. However, three separate deals in Racine County made up 631,680 of the 1,195,834 SF of the total absorption. Outside of Racine County the market showed small signs of improvement as all but the Milwaukee (-23,785 SF) sub-market saw flat or positive absorption throughout the quarter. Overall, the vacancy rate for the eight counties in Southeastern Wisconsin improved from 9.1% in Q3 to 8.6% in Q4. Due to the aforementioned deals, Racine County saw the biggest decline in vacancy rates going from 7% in Q3 to 4.7% in Q4 compared to Ozaukee County whose vacancy rate increased from 13.1% in Q3 to 13.50% in Q4.

Leases and Sales

Leasing activity continued to be strong throughout Q4 of 2010. The trend in 2010 had been "Survival" for most landlords but the fourth quarter showed signs that landlords can do deals to not only simply cover their costs but in some markets see lease rates return to pre-recession levels. Overall, Waukesha County commands the highest average asking lease rate at \$5.17/SF compared to Milwaukee County at \$3.77/SF.

Sales activity dramatically improved in comparison to Q3 in 2010. Total industrial sales are as follows:

2008 = 162 transactions
2009 = 97 transactions
2010 = 37 transactions (Q1-Q3)
2010 = 55 transactions (Q4)

Sales number increased in Q4 as owner/users entered the market due to increased availability of funds from lending institutions and a change in the political landscape in Wisconsin. Most of the sale transactions in the quarter were buildings under 20,000 SF.

Inland Companies Production (Industrial, Office, Retail, Land) 2010

Transaction Value:	\$168,000,000
Total SF Leased and Sold:	2,630,000 square feet
Total Acres Sold:	110 acres of land

2011 Forecast

Looking ahead to 2011 we will see a slow and steady increase to the number of transactions in the Southeastern Wisconsin marketplace. 2010 saw a cautious approach from companies looking to relocate and transactions took longer to complete due to the amount of vacancy available to tour. The fourth quarter saw a turnaround due to pent up demand. With the change in the political climate in Wisconsin and the continued aggressiveness of lending institutions, we believe we will see a gradual increase not just in the amount of transactions but the in value of those transactions. Lease rates should begin to climb as well as property values as we see the economy slowly turn around.

INVESTMENT SALES

The general malaise in the industrial investment market in Wisconsin continued as we drew the curtain on an uneventful 2010. The majority of landlords in the market played asset defense through much of the year as they guarded against declining rents and rising vacancies. The leasing market proved very competitive as tenants right-sized their space requirements. If tenants moved in 2010 it was generally with the intent to trim rent and/or excess space. With that said, the resiliency of the industrial market also became evident. Seemingly, there were no relevant distressed or bank-owned REO sales to look at for the investors that had cash committed for value-add opportunities. For well-located, stabilized, investment-grade assets the indicators show that capitalization rates are holding their ground in the 8.75% - 9.75% range.

Even with rising vacancies and increased competition from Chicago-based landlords, Towne Investments (Milwaukee, Wisconsin) remains committed to increasing their foothold in Kenosha County. They completed the market's largest fourth quarter investment transaction when they acquired the eight building, 277,000 SF Riley Management portfolio located in Kenosha. This mix of office, flex, and light industrial assets traded for approximately \$49/SF and the cap rate was not indicated at the time of sale.

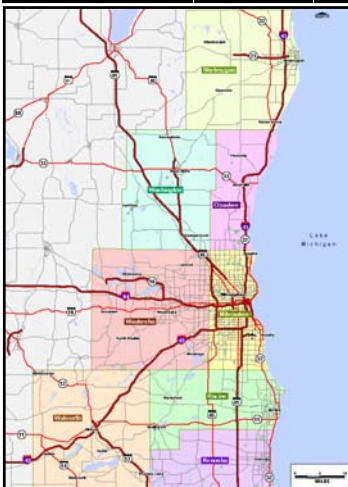
Inland Companies' quarterly market update for the Milwaukee and metropolitan area is an all-inclusive report intended to supply you with a precise, objective representation of the local commercial real estate environment. We have utilized our resources, knowledge, and supporting data to compile this comprehensive report of the local market. The industrial 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 Industrial Data Advisory Board which tracks and scrubs data from Xceligent on a quarterly basis.



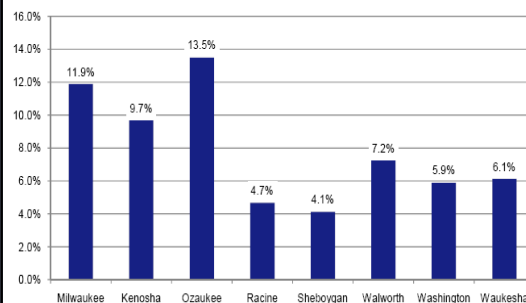
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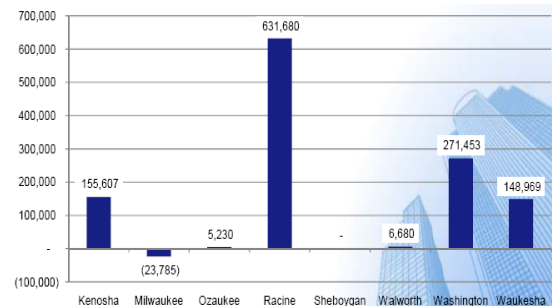
MARKET	BUILDING COUNT	BASE INVENTORY (SQ. FEET)	TOTAL AVAILABLE (SQ. FEET)	TOTAL VACANT (SQ. FEET)	TOTAL VACANCY RATE (%)	QTRLY NET ABSORPTION (SQ. FEET)	YTD NET ABSORPTION (SQ. FEET)
Kenosha	204	20,848,134	2,373,112	2,071,391	9.7%	155,607	1,661,462
Ozaukee	178	12,807,027	1,981,860	1,728,530	13.5%	5,230	11,040
Racine	382	28,079,456	2,352,204	1,312,492	4.7%	631,680	790,960
Sheboygan	136	12,745,734	1,136,081	524,814	4.1%	0	-231,914
Walworth	169	8,679,887	741,820	628,175	7.2%	6,680	64,900
Washington	323	19,316,661	1,452,815	1,138,776	5.9%	271,453	375,796
Milwaukee	1,489	95,443,854	13,020,162	11,337,317	11.9%	-23,785	-849,336
Downtown	183	12,340,082	1,853,396	1,664,905	13.5%	-65,280	-51,095
North Central	147	10,146,142	1,151,148	1,099,763	10.8%	0	-57,667
North Shore	102	7,184,493	1,356,434	1,195,890	16.6%	-91,879	-44,777
Northwest	346	19,005,788	2,227,432	1,878,269	9.9%	29,079	-177,404
South Central	162	9,930,030	1,350,907	1,133,138	11.4%	67,778	87,673
South	360	23,534,726	3,163,236	2,706,996	11.5%	13,155	-411,396
West	189	13,302,593	1,917,609	1,658,356	12.5%	23,362	-194,670
Waukesha	1,494	69,060,020	5,320,953	4,228,559	6.1%	148,969	160,580
Northeast	497	21,133,362	1,657,924	1,315,552	6.2%	-12,169	40,901
Northwest	330	17,839,216	1,559,478	1,279,091	7.2%	138,187	95,791
Southeast	315	15,021,741	1,254,011	977,135	6.5%	17,000	12,795
Southwest	352	15,065,701	849,540	656,781	4.4%	5,951	11,093
Grand Total	4,365	266,980,773	28,379,007	22,916,054	8.6%	1,195,834	1,983,488



Vacancy Rate by County



Net Absorption by County



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