



Milwaukee & Metropolitan Area Office Market Report • Fourth Quarter 2010



OVERVIEW

For the second straight year, the Milwaukee office market endured significant negative absorption. The good news, however, is that the numbers are headed in the right direction. Absorption in 2010 was about half of the 2009 total, with 292,583 square feet of negative absorption. Ironically, the 4th quarter was the best and worst quarter in 2010. It sustained the highest negative absorption total of the year at 219,082 square feet (of which 142,589 can be attributed to sublet space), but was also the most active quarter of the year by far.

Bright Spots

For the third straight year, the Downtown East class "A" micro-market has performed exceptionally well. This micro-market, which comprises the top eight class "A" office towers east of the River, recorded positive absorption of 31,596 square feet, bringing the direct vacancy down to an impressive 7.26%. This has led to the recent announcement of a new downtown office high-rise (Washington Square), which will be anchored by Godfrey & Kahn.

After two challenging years, the Central submarket bounced back in 2010 recording 70,236 square feet of positive absorption. This was led mainly by the 32,000 square foot relocation and expansion of Joy Global at Honey Creek Corporate Center and the 40,000 relocation and expansion Integrated Family Services at Summit Place. Additionally, Irgens finally made inroads at their two flagship projects in the Research Park – Mayfair Woods and 10000 Innovation Drive – signing leases with GE Healthcare, Clifton Gunderson, AON and Miron Construction.

Challenges

The Downtown West submarket continued the trend of increasing vacancy with a staggering 34% vacancy. In the 4th quarter alone, the submarket lost 144,975 square feet (39,975 direct and 105,000 sublet) as the Dept. of Aging vacated Federal Plaza and Assurant vacated Schlitz Park. On top of this, the troubled Grand Avenue Mall went back to the lender, (Bank of America).

The traditionally stable Western submarkets (Brookfield and Waukesha) did not fare well in 2010, recording negative absorption of 88,131 square feet for the quarter and negative 252,348 square feet for the year. This was led mainly by the consolidation of AT&T, which led them out of 90,000 square feet in Brookfield Lakes. In addition to this, both Allstate and American Family Insurance downsized their local operations.

In summary, 2010 was a challenging year, but it had its bright spots. There are more and more signs of new job growth in the way of incubators, governmental agencies and expansions, but there is also the unknown fate of one of Milwaukee largest employers – M & I Bank – which was recently purchased by Bank of Montreal. In 2011, look for the class "A" market to continue to perform well and for the class "B" market to stabilize benefiting from the return of the "start-ups".

INVESTMENT SALES

The generally sluggish first three quarters of 2010 demonstrated more of the same in the fourth quarter considering investment closings were few and far between.

However, two notable transactions occurred. First, Neroli Salon & Spa acquired a user/investor office building in Milwaukee's Historic Third Ward (Downtown Submarket). They plan on opening an Aveda training institute/salon, and leasing the balance of the space to office tenants. The 39,000 square foot building fetched \$2,950,000 or approximately \$75 per SF.

The second notable closing involved Thedacare, a large healthcare provider, in the Fox River Valley (Neenah & Appleton, Wisconsin). Thedacare occupies medical and office space in five buildings totaling 225,000 SF that were sold in December to institutional investor Ventas, Inc. dba Lillibridge Healthcare Services, Inc. The portfolio sale totaled \$36.6 million or approximately \$162 per SF.

2010 will go down in history as a benchmark year simply due to the 'trophy tower' sale of the 35 story, Class A 100 East Wisconsin Ave. This closing gave the investment market a renewed sense of confidence that quality, core assets in "A" locations are still commanding premium prices. This 430,800 square foot Downtown Milwaukee riverfront property 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.

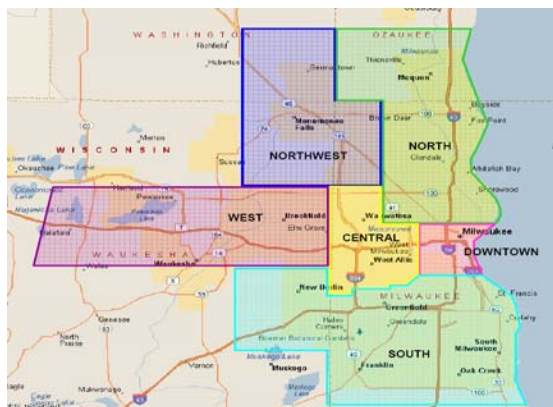
Inland Companies' quarterly market update for the Milwaukee and metropolitan area is an all-inclusive report intended to supply you with a precise, objective representation of the local commercial real estate environment. We have utilized our resources, knowledge, and supporting data to compile this 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.



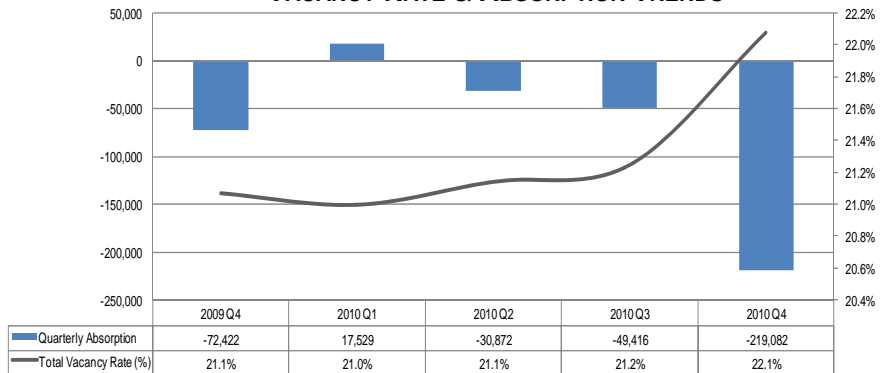
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SUBMARKET	NUMBER BUILDINGS	TOTAL BLDG SF	DIRECT VACANT SF	DIRECT VACANT %	SUBLEASE AVAIL SF	SUBLEASE	NET ABSORPTION	YEAR END ABSORPTION
Downtown	99	12,439,588	2,753,422	22.13%	352,542	2.83%	-151,053	-179,604
Class A	19	5,525,051	767,401	13.89%	126,014	2.28%	-38,815	-6,208
Class B	70	6,283,677	1,893,607	30.14%	226,528	3.61%	-112,238	-176,162
Class C	10	630,860	92,414	14.65%	0	0.00%	0	2,766
Central	65	4,645,244	892,789	19.22%	40,023	0.86%	70,236	115,978
Class A	13	1,232,608	193,860	15.73%	5,671	0.46%	46,699	886,623
Class B	47	3,243,082	684,213	21.10%	34,352	1.06%	-23,537	27,355
Class C	5	169,554	14,716	8.68%	0	0.00%	0	0
West	133	6,553,337	1,297,956	19.81%	111,338	1.70%	-103,081	-252,348
Class A	46	2,712,062	479,002	17.66%	26,517	0.98%	-26,049	-153,286
Class B	80	3,624,688	781,062	21.55%	84,821	2.34%	-76,032	-96,167
Class C	7	216,587	37,892	17.50%	0	0.00%	-1,000	-2,895
Northwest	18	1,393,147	326,770	23.46%	13,691	0.98%	-14,800	9,975
Class A	11	1,114,708	248,302	22.28%	13,691	1.23%	2,005	71,950
Class B	7	278,439	78,468	28.18%	0	0.00%	-16,805	-61,975
North	87	2,746,013	533,767	19.44%	14,119	0.51%	-20,343	8,461
Class A	25	876,353	136,613	15.59%	4,590	0.52%	-10,534	-35,936
Class B	60	1,850,803	388,459	20.99%	9,529	0.51%	-9,809	47,233
Class C	2	18,857	8,695	46.11%	0	0.00%	0	-2,836
South	21	639,938	125,989	19.69%	7,666	1.20%	-41	4,955
Class A	7	178,687	21,898	12.25%	4,936	2.76%	-1,300	10,082
Class B	14	461,251	104,091	22.57%	2,730	0.59%	1,259	-5,127
Overall	424	28,417,267	5,930,693	20.87%	539,379	1.90%	-219,082	-292,583
Class A	121	11,639,469	1,847,076	15.47%	181,419	1.56%	27,994	-24,775
Class B	278	15,741,940	3,929,900	24.96%	357,690	2.27%	-190,088	-264,843
Class C	24	1,035,858	153,717	14.84%	0	0.00%	-1,000	-2,965



VACANCY RATE & ABSORPTION TRENDS



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