



## Industrial Real Estate Market Report Milwaukee & Metropolitan Area First Quarter 2011



### OVERVIEW

#### Market Trends – Encouraging signs for two consecutive quarters

Overall the Milwaukee and surrounding Metro industrial real estate market is trending in a positive direction much like the economy. Activity continues to steadily increase across the board and brokers are in agreement they are busier at this time in 2011 than they were in 2010. With this seemingly improving real estate environment we're optimistic it will translate into more sales and lease activity throughout the year.

The overall vacancy rate of southeast Wisconsin consisting of eight counties, Milwaukee, Waukesha, Washington, Ozaukee, Sheboygan, Racine, Kenosha and Walworth, improved to 8.2% from 9.3% last year in Q1 of 2010. Racine County boasts the most impressive vacancy rate of only 3.9% compared to Waukesha County at 5.5%, Kenosha County at 9.9%, Milwaukee County at 10.9% and Ozaukee County with the highest vacancy rate at 14.2%.

Southeast Wisconsin experienced positive absorption in Q1 of 2011, the net result of total square feet leased or sold compared to the total square feet available for lease or sale during the quarter, of +1,097,227 SF, much improved from the negative absorption of -391,879 SF last year in Q1 of 2010. The first quarter continues the momentum of Q4 2010 which experienced approximately +1,200,000 SF of positive absorption.

Milwaukee County was the driving force behind this quarter's lower vacancy rate and positive absorption. There were 12 deals between 75,000 SF and 375,000 SF totaling 1,587,767 SF of which 6 were in Milwaukee County totaling 916,970 SF. Q1 of 2010 experienced only 3 deals between 75,000 SF and 375,000 SF totaling 485,307 SF.

#### Leases and Sales

Lease transactions dominated the deal flow this quarter with tenants continuing to achieve extremely competitive lease rates, free rent and modest rent bumps. It's now common for tenants to choose the most cost effective path by electing the lower quality property with the most competitive lease rate rather than capitalize on a reduced lease rate at a higher quality property. Often, tenants were merely shopping the market a year ago and ultimately not relocating compared to now enough demand seems to be surfacing that moving is a viable option. Although signs of improvement have arisen there is no question it still remains a "tenant's market".

Regarding sales transactions, there was a steady and consistent decline from 2006 – 2009. 2010 demonstrated similar sales levels, in terms of number of industrial properties sold and total square feet sold, to 2008 indicating 2009 could confidently be the market bottom. Q1 of 2011 is on pace to be similar to 2009 but let 2010 be an indication of how quickly the market can improve throughout the year, specifically the fourth quarter.

#### Forecast

We have experienced positive signs over the past two quarters but must keep in mind the economy continues to fluctuate and confidence is building at a cautious pace. Knowing tenants and buyers are watching their financials very closely we should expect demand to progress at a slow steady pace which will result in a continuation of competitive lease rates and reduced sale prices in the short term leading to lease rate and price appreciation in the long term.

### INVESTMENT SALES

In April 2011, a 2 million square foot industrial portfolio of Chicago & Milwaukee located assets jointly developed by Towne Investments (Milwaukee) and Interstate Partners (Milwaukee/Chicago) was sold to San Francisco-based Stockbridge Real Estate Fund. The majority of the sale was located in Elgin, IL (7 buildings), however a 120,000 SF asset in Pewaukee, Wisconsin 100% leased to snack manufacturer A.L. Schutzman was also included in the sale. This package of Class "A" quality buildings fetched a reported value of over \$100 million.

On the other end of the spectrum, distressed portfolios of loans are still working their way through the sale pipeline. Two of Wisconsin's largest banks are holding the majority of these distressed and/or non-performing commercial real estate loan sales.

Opportunity funds from all over the country are heating up in their efforts to evaluate, bid, and close at bottom-of-the-cycle prices. Brokers and buyers anticipate that 2011 will continue to be a recovery year for employment in Wisconsin, and that in 2012 our market will begin to realize real estate value stabilization.

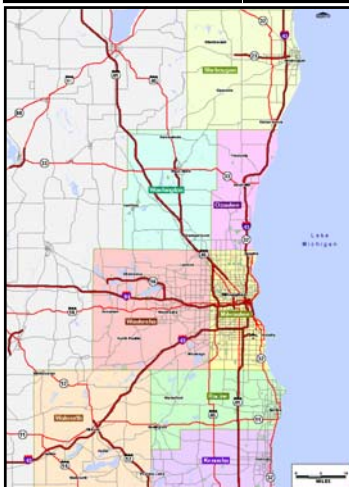
Inland Companies' quarterly market update for the Milwaukee and metropolitan area is an all-inclusive report intended to supply you with a precise, objective representation of the local commercial real estate environment. We have utilized our resources, knowledge, and supporting data to compile this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



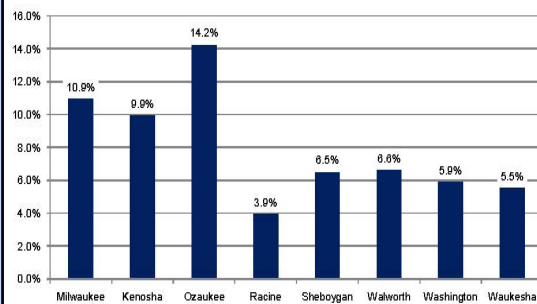
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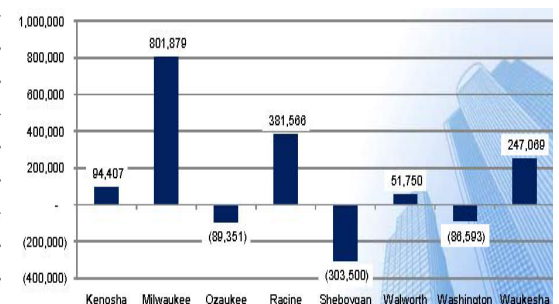
MARKET	BUILDING COUNT	BASE INVENTORY (SQ. FEET)	TOTAL AVAILABLE (SQ. FEET)	TOTAL VACANT (SQ. FEET)	TOTAL VACANCY RATE (%)	QTRLY NET ABSORPTION (SQ. FEET)
Kenosha	203	20,594,509	2,389,841	2,048,367	9.9	94,407
Ozaukee	177	12,781,742	2,012,281	1,817,881	14.2	-89,351
Racine	382	28,059,346	1,955,871	1,100,100	3.9	381,566
Sheboygan	136	12,760,606	1,216,081	828,314	6.5	-303,500
Walworth	169	8,754,887	690,070	576,425	6.6	51,750
Washington	321	19,354,894	1,536,479	1,136,351	5.9	-86,593
<b>Milwaukee</b>	<b>1,486</b>	<b>95,841,379</b>	<b>12,953,481</b>	<b>10,494,102</b>	<b>10.9</b>	<b>801,879</b>
Downtown	183	12,309,638	1,815,867	1,663,527	13.5	7,263
North Central	147	10,164,997	1,140,976	1,140,976	11.2	28,070
North Shore	101	7,233,337	1,131,434	969,490	13.4	220,179
Northwest	345	18,999,833	2,397,685	1,692,074	8.9	235,324
South Central	161	10,331,431	1,410,677	1,157,667	11.2	400
South	361	23,618,546	3,246,426	2,292,399	9.7	304,905
West	188	13,183,597	1,810,416	1,577,969	12.0	5,738
<b>Waukesha</b>	<b>1490</b>	<b>68,968,764</b>	<b>4,902,202</b>	<b>3,787,506</b>	<b>5.5</b>	<b>247,069</b>
Northeast	495	21,006,395	1,532,816	1,152,584	5.5	14,044
Northwest	330	17,874,057	1,361,261	1,030,164	5.8	252,280
Southeast	314	15,017,701	1,062,380	896,372	6.0	32,350
Southwest	351	15,070,611	945,745	708,386	4.7	-51,605
<b>Grand Total</b>	<b>4,364</b>	<b>267,116,127</b>	<b>27,656,306</b>	<b>21,789,046</b>	<b>8.2</b>	<b>1,097,227</b>



Vacancy Rate by County



Net Absorption by County



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