



Industrial Real Estate Market Report Milwaukee & Metropolitan Area Second Quarter 2011



OVERVIEW

Market Trends – Cautious Growth Through 2nd Quarter

Overall, the Milwaukee and surrounding metro industrial real estate market still continues to trend in a positive direction despite a considerable slowdown in deal volume. Activity continues to escalate but transactions are more difficult to close due to uncertainty in the marketplace. We have seen a number of corporate decision makers frequently changing their requirements or putting potential moves on hold until they get a better grasp on the direction of their business and the economy.

The overall vacancy rate of southeast Wisconsin consisting of eight counties, Milwaukee, Waukesha, Washington, Ozaukee, Sheboygan, Racine, Kenosha and Walworth, improved to 8.0% from 8.2% in Q1 of 2011 and from 9.3% last year in Q2 of 2010. Racine County continues to have the lowest vacancy at 3.8% compared to Waukesha County at 5.1%, Kenosha County at 9.9%, Milwaukee County at 10.6% and Ozaukee County remains with the highest vacancy rate at 14.1%.

Southeast Wisconsin again experienced positive absorption in Q2 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 was 446,378 SF, down considerably from the 1,100,000 in Q1 of 2011. Year to date, the Milwaukee market has seen a positive absorption of 1,656,546 SF.

Leases and Sales

Lease transactions continued to dominate the deal flow in Q2 with tenants continuing to achieve extremely competitive lease rates, free rent and modest rent bumps. Firms in the market have been willing to trade “prime” locations for the most cost-effective option when considering their moves which has made the marketplace increasingly competitive. The motto of a “tenant’s market” is still very much in place in the metro Milwaukee marketplace. Lease rates have been relatively stagnant over the last five quarters with an average asking lease rate of just over \$4/SF for flex/R&D space and rates in the low \$3/SF for light industrial and warehousing.

Regarding sales transactions, there were some major deals completed in Q2, although it can be said that most of the deals are more investment sales than industrial user sales. The Racine and Kenosha markets saw the two biggest transactions with the sale of the 626,784 SF distribution center in the Business Park of Kenosha to LPF 10100 Kenosha LLC and Centerpoint Properties acquisition of the 551,759 SF Diversey building in Sturtevant. Small user sales (under 10,000 SF) continue to flicker in the market but as is the case with leasing activity, sales volume for the quarter fell significantly from 16 notable transactions in Q1 to 6 in Q2.

Forecast

From an overall market standpoint, the outlook is cautiously positive. Although national unemployment remains high, there are some firms that are looking for significantly large blocks of space (which Milwaukee has not seen in a long time) but are taking their time in deciding which one is right due to the amount of space available and the budget that they need to fulfill. Looking forward to Q3 and Q4 we foresee the industrial market continuing to grow but at a slow pace. Landlords are continuing to be aggressive to attract tenants to their buildings. Tenants know that their bottom line is the deciding factor in any move they make leading to increasing competition between landlords.

INVESTMENT SALES

With gas prices on the climb, long term interest rate uncertainty, stagnant employment data, and fears of a double-dip recession looming there would be strong reason to think that the industrial investment market in Wisconsin is in turmoil. However, that doesn't seem to be the case. Investors are actively chasing core, quality industrial assets in the very competitive Chicago market. South of the Wisconsin border there is evidence of cap rate compression for best-in-class assets (buildings selling in the 6.5% to 7.5% cap rate range). Deal velocity in Milwaukee has been sluggish, but our market typically lags Chicago by 12 to 24 months in the real estate cycle. Therefore, we are forecasting that by mid-year 2012 we should witness a significant uptick in closing volume.

A significant single-tenant transaction closed in the 2nd Quarter in Southeast Wisconsin as Centerpoint Properties Trust (Oak Brook, IL) continued on the acquisition warpath in the southern Interstate 94 corridor. Centerpoint bought the 552,000 square foot Johnson Diversey building in Sturtevant (Racine) from Liberty Property Trust (Malvern, PA) for \$23,700,000 or almost \$43 per SF. The building was erected in 2007 and the Tenant signed a 10 year lease at that time for 100% of the property. Centerpoint is also building a 183,000 SF speculative multi-tenant industrial building in the Grandview Business Park in Yorkville (Racine) as part of a joint venture development with Wispark (Milwaukee, WI). It was recently reported by the Business Journal of Milwaukee that Anixter International, Inc. (Nasdaq: AXE) could be a lead tenant for approximately a third of this spec building. The Milwaukee to Chicago Interstate 94 corridor is clearly the hottest zone in the State right now for industrial investment real estate.

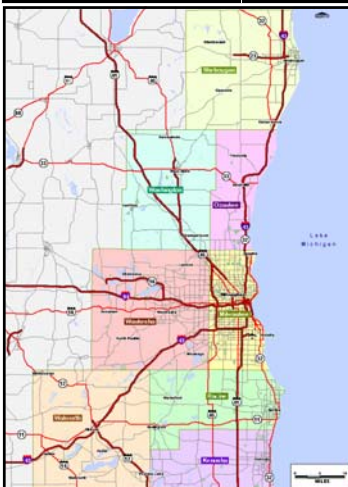
Inland Companies' quarterly market update for the Milwaukee and metropolitan area is an all-inclusive report intended to supply you with a precise, objective representation of the local commercial real estate environment. We have utilized our resources, knowledge, and supporting data to compile this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



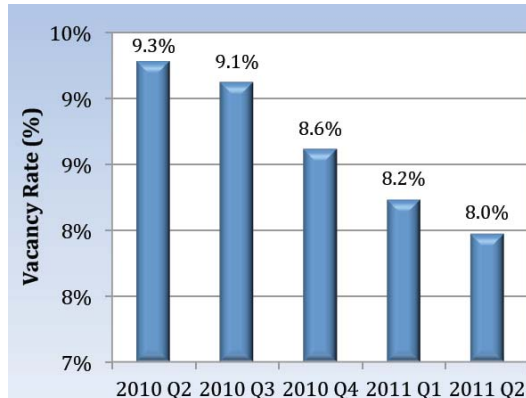
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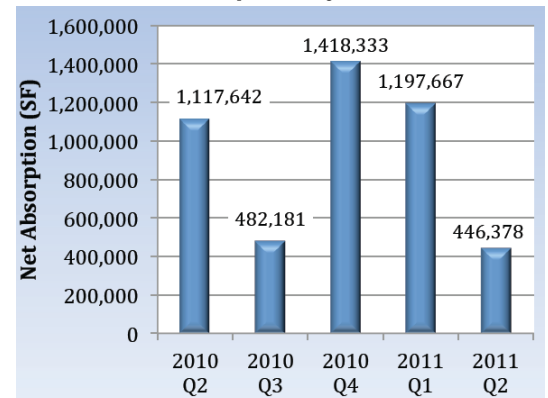
MARKET	BUILDING COUNT	BASE INVENTORY (SQ. FEET)	TOTAL AVAILABLE (SQ. FEET)	TOTAL VACANT (SQ. FEET)	TOTAL VACANCY RATE (%)	QTRLY NET ABSORPTION (SQ. FEET)
Kenosha	204	20,959,862	2,306,577	2,083,937	9.9	128,469
Ozaukee	179	12,811,490	2,017,901	1,808,501	14.1	7,428
Racine	382	28,038,946	1,928,671	1,073,523	3.8	-8,988
Sheboygan	136	12,760,606	1,108,003	828,314	6.5	0
Walworth	169	8,754,887	667,310	587,753	6.7	0
Washington	322	19,334,894	1,538,667	1,120,951	5.8	58,400
Milwaukee	1,485	96,044,595	12,978,096	10,238,955	10.7	29,023
Downtown	182	12,285,559	1,853,374	1,678,534	13.7	-15,007
North Central	147	10,201,339	1,118,968	1,118,968	11.0	31,404
North Shore	101	7,295,515	1,092,631	887,912	12.2	-73,222
Northwest	345	18,999,833	2,300,393	1,603,937	8.4	34,537
South Central	161	10,420,345	1,478,974	1,176,165	11.3	-2,500
South	361	23,658,347	3,425,905	3,325,916	9.8	-14,285
West	188	13,183,597	1,707,851	1,447,523	11	68,096
Waukesha	1,493	69,202,078	5,525,273	3,608,185	5.2	232,046
Northeast	495	21,074,909	1,656,062	1,086,859	5.2	27,788
Northwest	331	17,902,237	1,315,757	932,058	5.2	128,236
Southeast	314	15,017,701	1,269,090	834,567	5.6	61,359
Southwest	353	15,207,231	1,284,364	754,701	5	14,663
Grand Total	4,370	267,907,358	28,070,498	21,350,119	8	446,378



Vacancy Rate by Quarter



Net Absorption by Quarter



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