



Milwaukee & Metropolitan Area Office Market Report • Second Quarter 2011



OVERVIEW

Contrary to many macroeconomic indicators, the Milwaukee office market is trending positive for the second consecutive quarter. The significant increase in activity experienced in early 2011 resulted in many notable transactions coming to fruition. As a result, the year-to-date positive absorption of 144,741 square feet offsets the nearly equal negative absorption seen in the fourth quarter of 2010. As expected, this absorption was tranching across asset classes with "A" properties accounting for 102,000 square feet and "B" properties comprising 43,000 square feet – a trend that continues from calendar year 2010.

Transactions in varied submarkets served to increase occupancy via tenant expansion – thus providing for true net absorption. Notable leases include Kohl's Corporation occupying over 80,000 square feet of space at 7800 N 113th in the Northwest and University of Wisconsin-Milwaukee securing a leasehold interest in approximately 10,000 square feet in the North Shore at East Lake Towers. Both of these transactions bolstered their respective submarkets data for the quarter with the Northwest Class "A" market posting a substantial drop in vacancy from 22.01% in the first quarter, down to 14.03% for the second. Likewise, the North Class "A" market dropped to 14.02% - one of the lowest vacancy rates across the Milwaukee metro.

The most notable discrepancies between asset classes appeared in the downtown submarket with Class "A" posting a 13.24% vacancy rate while the Class "B" market readily approached 30%. This trend is expected to continue, albeit at a diminishing rate. The Third Ward reversed this by showing a nearly 41% vacancy amongst its 200,000sf inventory of Class "A" properties while the Class "B" market boasted a significantly lower 25.8% vacancy rate.

In the suburbs, the Central and Northwest submarkets were clear leaders with 16.47% and 16.46% vacancy overall. The subset of Class "A" assets in the Central submarket posted a 12.31% vacancy – nearly a full percentage point less than any other Class "A" subset. The Central submarkets' Class "B" assets also performed above par - showing an 18.42% vacancy – significantly less than any other suburban markets.

As the debt markets loosen, sales volume is expected to increase in velocity. The numbers indicate an economic rebound on the horizon; although it is unlikely to gain a foothold until early 2012.

INVESTMENT SALES

Investment interest continues to steadily pick up each quarter in Southeast Wisconsin for both distressed and stable assets. In May 2011, Sara Investment Real Estate (Madison, WI) closed on a bank-owned 64,000 SF suburban Class B office building in Franklin (South Submarket). The property traded for approximately \$5,500,000 (about \$86/SF). The building was sold at 75% occupancy. On the flip side, Liberty Property Trust (NYSE: LRY) is still vetting offers for their best-in-class office portfolio of suburban Class A buildings predominantly located in Brookfield (West Submarket). The rumor mill suggests that they have identified two buyers that have the ability to close on this 370,000 SF, 5 building deal.

The big news to hit the streets is that Brookfield Asset Management, Inc. (Toronto, ON) put the 484,000 Class A Chase Bank Tower in Milwaukee's CBD on the sale block. Brookfield acquired this property in 2006 as part of a 5.3 million square foot, \$460 million sale leaseback of numerous Chase locations across the country. According to Brookfield's website, their core U.S. office holdings are located in the primary coastal markets of New York, Washington D.C., Houston, Los Angeles, and San Diego. Please check in with Inland for our third quarter 2011 update with further details on both the Liberty and Chase Bank sales.

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	YTD Absorption
Downtown	99	12,439,588	2,697,518	21.68%	283,004	2.28%	30,434
Class A	19	5,525,051	731,288	13.24%	152,860	2.77%	46,730
Class B	70	6,283,677	1,875,656	29.85%	130,144	2.07%	-18,136
Class C	10	630,860	90,574	14.36%	0.00%	0.00%	1,840
Central	64	4,548,266	748,918	16.47%	23,756	0.52%	64,677
Class A	13	1,232,608	151,755	12.31%	0	0.00%	47,605
Class B	46	3,146,104	582,447	18.51%	23,756	0.76%	17,072
Class C	5	169,554	14,716	8.68%	0	0.00%	0
West	133	6,546,427	1,255,496	19.18%	96,123	1.47%	27,245
Class A	48	2,824,847	520,209	18.42%	14,982	0.53%	-5,210
Class B	78	3,504,993	705,317	20.12%	81,141	2.32%	38,777
Class C	7	216,587	29,970	13.84%	0	0.00%	-6,322
Northwest	18	1,393,147	229,296	16.46%	93,691	6.73%	3,214
Class A	11	1,114,708	156,338	14.03%	93,691	8.40%	3,214
Class B	7	278,439	72,958	26.20%	0	0.00%	0
North	86	2,720,195	522,414	19.21%	4,590	0.17%	16,818
Class A	25	875,087	126,175	14.42%	4,590	0.52%	11,976
Class B	59	1,826,251	391,619	21.44%	0	0.00%	767
Class C	2	18,857	4,620	24.50%	0	0.00%	4,075
South	21	639,938	124,016	19.38%	7,666	0.00%	2,353
Class A	7	178,687	24,526	13.73%	4,936	0.00%	-2,248
Class B	14	461,251	99,490	21.57%	2,730	0.00%	4,601
Overall	421	28,287,561	5,577,658	19.72%	508,830	11.16%	144,741
Class A	123	11,750,988	1,710,291	14.55%	271,059	2.31%	102,067
Class B	274	15,500,715	3,727,487	24.05%	237,771	1.53%	43,081
Class C	24	1,035,858	139,880	13.50%	0	0.00%	-407

