



## Milwaukee & Metropolitan Area Office Market Report • Third Quarter 2011



### OVERVIEW

The Milwaukee office market logged its third consecutive quarter of positive absorption, positioning the market to achieve its first year of positive absorption since 2006. Although the market experienced the typical slowdown in overall activity throughout the summer months we continue to see positive indicators throughout the market that lead us into a hopeful fourth quarter.

The Class A subset continues to lead the charge within most of the Milwaukee submarkets, posting another quarter of positive absorption (34,812 SF in Q3 and a YTD total of 89,246 SF). Overall vacancy rates in the Class A market have dropped to 14.2%, the lowest rate since Q1/2010. The Downtown East Class A subset continues to lead the market with a vacancy rate of 8.4%, however the Brookfield Class A subset has experienced some recent struggles, posting a 23.2% vacancy rate this past quarter. This Class A anomaly in Brookfield can be attributed to the large amount of quality Class B product that is available throughout that submarket. We expect that the Class A market will continue its strong performance throughout the market and expect that Brookfield will begin to see some positive absorption trends in their Class A subset in the next few quarters.

Although the Class B struggles have been well documented over the course of the past 24 months we are beginning to see some signs of life within that subset. Class B vacancy rates have improved to 23.7% market wide, down from a recent high of 25.3% just six months ago, and the subset experienced about 11,000 SF of positive absorption this past quarter. It will be some time before there is any upward progression in net rental rates among the Class B market; however positive momentum within this class will be a key indicator to the future strength of the overall Milwaukee office market.

Overall market activity among the smaller 1,500 to 5,000 SF core tenants was strong throughout most of the market in the third quarter, and Inland expects this trend to continue into the 4<sup>th</sup> quarter. There has been a slowdown in large office transactions since the first half of the year so most of the positive absorption figures can be attributed to a large quantity of small to midsized transactions. Some of the more notable transactions to occur this past quarter include Komisar Brady, a Milwaukee based accounting firm, which moved its 15,000 SF headquarters to Honey Creek Corporate Center, Von Briesen & Roper S.C expanded their presence at 411 East Wisconsin Center by an additional 23,000 square feet, and Hall Render Killian Heath & Lyman, which also expanded its Milwaukee health care law practice group at Milwaukee Center by 13,000 square feet.

Inland is expecting a strong finish in 2011 as overall market activity continues to improve coming out of this past quarter. We are optimistic in the potential of achieving a full year of positive absorption for this market, which will provide a good catalyst as we move into 2012.

### INVESTMENT SALES

It is still a split market for office investment sales in the greater Milwaukee area. On one hand, stabilized core properties are yielding strong sales prices at the closing table. On the other, opportunistic players are picking up the pieces of numerous distressed and short sale opportunities at shockingly low prices in both the suburbs and the CBD. Liberty Property Trust (NYSE: LRY), Malvern PA, was able to take some chips off the table in late July as they closed on five suburban office buildings to two separate out-of-state buyers. First, for \$237/SF they sold a single-tenant 29,000 SF long-term GSA lease with the State Department of Defense to a Massachusetts fund. They also packaged four Brookfield (west suburban) class "A" office buildings and sold them to an Illinois-based fund for \$114/SF. The suburban portfolio was over 93% leased at time of sale and both of these Liberty transactions were fully marketed and arms-length in nature.

On the other end of the spectrum, bargain basement prices were discovered for two downtown Milwaukee office buildings on East Wisconsin Avenue and an attractive Waukesha two story office center. The 70,000 SF 312 E. Wisconsin Avenue building was sold on a short sale for \$1,900,000 or approximately \$28/SF. The building had an asking price of \$4,750,000. This buyer was from Illinois and was also in a rare 1031 exchange situation. Also on Milwaukee's "Grand Avenue" the stately, turn-of-the-century 117,000 SF Wells building at 324 E. Wisconsin traded to a local, Wisconsin buyer for just under \$25/SF. Finally, in the western suburbs a Class "A" 33,000 SF building located on Stoneridge Drive in Waukesha sold to the Wisconsin Lutheran Synod on a lender-cooperative short sale for only \$86/SF. This building was the former headquarters of troubled homebuilder Bielinski Homes and was built in 2002.

*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 %	Q3 Absorption	YTD Absorption
<b>Downtown</b>	<b>98</b>	<b>12,285,033</b>	<b>2,575,608</b>	<b>20.97%</b>	<b>280,678</b>	<b>2.28%</b>	<b>60,994</b>	<b>-574</b>
Class A	19	5,525,051	707,905	12.81%	157,071	2.84%	23,383	9,263
Class B	69	6,129,122	1,781,854	29.07%	123,607	2.02%	32,886	-16,402
Class C	10	630,860	85,849	13.61%	0.00%	0.00%	4,725	6,565
<b>Central</b>	<b>64</b>	<b>4,548,266</b>	<b>758,837</b>	<b>16.68%</b>	<b>7,205</b>	<b>0.16%</b>	<b>6,780</b>	<b>80,252</b>
Class A	14	1,276,308	137,104	10.74%	2,665	0.21%	20,451	68,056
Class B	45	3,102,404	602,239	19.41%	4,540	0.15%	-15,171	10,696
Class C	5	169,554	19,494	11.50%	0	0.00%	1,500	1,500
<b>West</b>	<b>135</b>	<b>6,655,928</b>	<b>1,272,959</b>	<b>19.13%</b>	<b>96,658</b>	<b>1.45%</b>	<b>-30,576</b>	<b>3,056</b>
Class A	48	2,826,651	515,127	18.22%	8,595	0.30%	2,886	4,063
Class B	80	3,616,685	726,412	20.09%	88,063	2.43%	-28,017	10,760
Class C	7	212,592	31,420	14.78%	0	0.00%	-5,445	-11,767
<b>Northwest</b>	<b>18</b>	<b>1,393,764</b>	<b>210,907</b>	<b>15.13%</b>	<b>93,691</b>	<b>6.72%</b>	<b>18,389</b>	<b>21,603</b>
Class A	11	1,114,708	156,879	14.07%	93,691	8.40%	-541	2,673
Class B	7	279,056	54,028	19.36%	0	0.00%	18,930	18,930
<b>North</b>	<b>86</b>	<b>2,720,195</b>	<b>536,851</b>	<b>19.74%</b>	<b>4,590</b>	<b>0.17%</b>	<b>-11,109</b>	<b>5,709</b>
Class A	25	875,087	140,007	16.00%	4,590	0.52%	-10,504	1,472
Class B	59	1,826,251	392,224	21.48%	0	0.00%	-605	162
Class C	2	18,857	4,620	24.50%	0	0.00%	0	9,784
<b>South</b>	<b>21</b>	<b>639,938</b>	<b>117,686</b>	<b>18.39%</b>	<b>4,936</b>	<b>0.77%</b>	<b>2,230</b>	<b>11,413</b>
Class A	7	178,687	18,559	10.39%	4,936	2.76%	-863	3,719
Class B	14	461,251	99,127	21.49%	0	0.00%	3,093	7,694
<b>Overall</b>	<b>422</b>	<b>28,243,124</b>	<b>5,472,848</b>	<b>19.38%</b>	<b>487,758</b>	<b>11.56%</b>	<b>46,708</b>	<b>121,459</b>
Class A	124	11,796,492	1,675,581	14.20%	271,548	2.30%	34,812	89,246
Class B	274	15,414,769	3,655,884	23.72%	216,210	1.40%	11,116	31,840
Class C	24	1,031,863	141,383	13.70%	0	0.00%	780	373

