



CITY HIGHLIGHT, MAY 2008

MILWAUKEE CITY HIGHLIGHTS

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Milwaukee Retail Market

Milwaukee has historically been a conservative development market. As such, the market tends to be stable, without large fluctuations in rents and vacancy. In the past year, there has been a reduction in the amount of new development; an increase in absorption of smaller shopping center space; a slight increase in vacancy; a rise in large format sublease space; and substantial increases in construction costs. However, Milwaukee has not felt this negative impact to the same extent as other markets.

For the first quarter of the year, the general retail vacancy rate climbed to 6.6 percent, which is up from 5.9 percent since the second quarter of 2007, according to CoStar. Additionally, CoStar reports the average rental rate is \$12.92 per square foot; quoted rent is up slightly to \$13.41 per square foot.

One of the most significant changes in the retail sector is the decline in development of shopping centers of less than 20,000 square feet. This change has occurred due to decreased demand from retailers, as well as the consolidation of retailers within categories and the enormous increase in construction prices. These changes have combined with high land costs to push rental rates above \$20 per square foot — and in some cases over \$30 per square foot — for new construction under 20,000 square feet.

Much of the new development has been generated by big boxes such as Wal-Mart, Lowe's Home Improvement Warehouse, Target, Pick 'n Save and The Home Depot. Other retailers new to, or considering entering, the Milwaukee market include Kincaid's, Five Guys Burgers and Fries, Brunswick Zone, CVS/pharmacy, McCormick & Schmick's Seafood Restaurants, Dave & Busters, Wing Zone, Omaha Steaks, Jamba Juice, Claim Jumper, Stir Crazy, Joey's Seafood and Grill, American Apparel and Citi Trends.

Kenosha has become one of the hottest sub-markets in southeastern Wisconsin. Bradford Real Estate has commenced construction of Somers Market Center, a 110-acre development anchored by Wal-Mart Supercenter and Sam's Club that is located on the north side of Kenosha. On the west side of town, Gershman Brown & Associates has begun construction of a 350,000-square-foot Target & JC Penney-anchored center. Other retailers include Dick's Sporting Goods, PetSmart, Circuit City, Maurices, Ulta, Lane Bryant, Starbucks Coffee, FedEx Kinkos and Verizon. It will be interesting to see what impact these two developments have on the 550,000-square-foot Southport Plaza, which Target is vacating when it moves to Gershman Brown's new center, as well as the adjoining 300,000-square-foot Indian Trail Plaza, where Lowe's has completed construction.

Other items of interest include Dunkin' Donuts decision to open 50 stores in the coming years in Wisconsin, on the heels of Starbucks Coffee's announcement of a slowdown of its national expansion efforts. Additionally, Target is toying with the idea of opening a new store across the street from Kohl's corporate headquarters in Menomonee Falls.

Milwaukee's real estate market is solid with good fundamentals. Rental rates are reasonable, growth is based on realistic expectations, and properties are rarely overbuilt (and occasionally under built). Milwaukee has historically been a conservative development market; conservative, but certainly not boring. Even in an uncertain economic climate, the city is experiencing sustained and intelligent growth.

— Sean Osborne is senior vice president in the brokerage division of Milwaukee-based Inland Companies.