MARKET TRENDS

1Q 2017 | Milwaukee | Office

Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate for the Milwaukee metropolitan statistical area (MSA) decreased 110 basis points from 5.3% in January 2016 to 4.2% in January 2017. Unemployment rate for the US was reported at 4.8% in January 2017, up from 3.9% for the state of Wisconsin. The Milwaukee MSA job creation totaled 3,900 over the past year. The Milwaukee MSA lost 3,800 office using jobs (information, professional and business services and financial activities) over the past year.

Market Overview

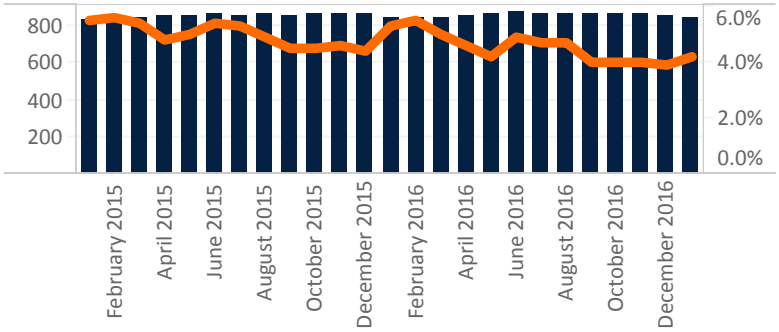
The Milwaukee office market recorded a positive 20,529 square feet (sf) of positive absorption during 1Q 2017, down from 32,706 sf recorded during 4Q 2016. The total vacancy rate has decreased from 17.4% in 1Q 2016 to 16.7% at the close of 1Q 2017. Direct vacancy rates decreased 60 basis points to 16.0% during the same period. Weighted average rent growth continued to improve during 1Q 2017 especially in Class A properties in Milwaukee – North Shore and Mayfair / Wauwatosa. Weighted average asking rents in all classes increased 4.0% recording $19.99 per square foot (psf) FSG at the close of 1Q 2017 compared to 1Q 2016. Class A weighted average rents improved 4.7% year-over-year, recording $24.17 psf at the close of 1Q 2017. Class B rents declined 5.6% year-over-year, recording $16.00 psf at the close of 1Q 2017.

Market Highlights

The Milwaukee office market continues to show improvement reflected in positive net absorption and an uptick in planned and under construction projects. In addition to 1433 Water and the Mercantile Building expansion, Hammes Co. broke ground on a 94,000 sf multi-tenant office building on North Water and East Knapp streets in downtown Milwaukee, expected to be completed in the first half of 2018. Another project underway is the partial repurposing of industrial space into 52,000 sf of office called The Factory Office Suites at Forty Two, part of a larger redevelopment in the Downtown West submarket. In total, over 283,000 sf of office is space under construction, with more than 525,000 sf planned over the next two years. The continued construction activity in the Milwaukee office market paints an optimistic outlook for 2017.

Milwaukee Employment

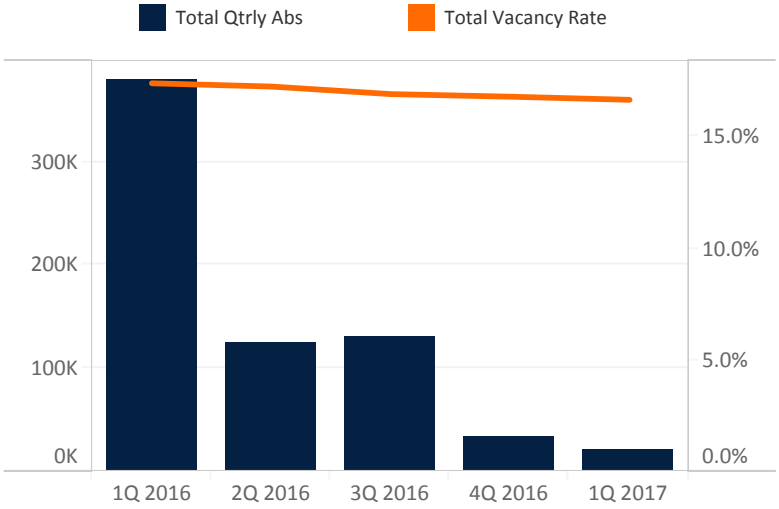
Source: BLS



Market Recap

Inventory (sf)	28,090,923
# of Bldgs	406
Qrtly Abs (sf)	20,529
Total Avail Rate	20.4%
Total Vacancy Rate	16.7%
U/C Inventory (sf)	189,500
Delivered (sf)	0
Weighted Average Asking Rate (FSG)	$19.99

Absorption and Vacancy Rate



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Overview by Class (Total)

Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
A	12,635,795	2,238,956	1,896,918	15.0%	29,685	29,685
B	14,327,944	3,317,095	2,676,448	18.7%	1,432	1,432
C	1,127,184	181,083	104,312	9.3%	-10,588	-10,588
Overall	28,090,923	5,737,134	4,677,678	16.7%	20,529	20,529

Overview by Market (Total)

Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
MKE-3rd Ward	A	264,664	52,421	51,071	19.3%	-3,390	-3,390
	B	1,364,011	255,847	215,520	15.8%	7,253	7,253
	C	297,675	47,064	41,344	13.9%	-4,826	-4,826
MKE-DT East	A	4,628,610	624,805	582,755	12.6%	-2,631	-2,631
	B	2,050,829	537,304	467,346	22.8%	8,568	8,568
	C	220,660	63,961	20,399	9.2%	-6,390	-6,390
MKE-DT West	A	905,257	298,467	293,064	32.4%	0	0
	B	2,150,708	300,324	198,860	9.2%	6,334	6,334
MKE-Mayfair	A	1,426,296	259,890	228,453	16.0%	73,067	73,067
	B	1,244,857	432,061	323,029	25.9%	22,137	22,137
	C	81,655	27,441	27,441	33.6%	628	628
MKE-North Shore	A	450,732	34,475	28,937	6.4%	3,578	3,578
	B	1,279,015	461,686	313,427	24.5%	-18,723	-18,723
	C	8,857	0	0	0.0%	0	0
MKE-Northwest	A	1,064,984	259,182	163,387	15.3%	-3,148	-3,148
	B	622,254	243,403	243,403	39.1%	-33,066	-33,066
	C	33,443	0	0	0.0%	0	0
MKE-Southeast	B	265,910	118,847	116,347	43.8%	8,429	8,429
MKE-Southwest	A	185,711	40,485	28,767	15.5%	-1,859	-1,859
	B	103,174	35,184	30,874	29.9%	0	0
MKE-W. Allis	B	1,862,548	185,652	128,729	6.9%	-26,227	-26,227
	C	87,899	0	0	0.0%	0	0
MKE-West	B	65,721	0	0	0.0%	0	0
	C	223,209	0	0	0.0%	0	0
Ozaukee	A	359,896	22,889	17,315	4.8%	-2,114	-2,114
	B	214,715	34,136	28,025	13.1%	-3,902	-3,902
WAK-Brookfield	A	1,978,730	412,569	283,858	14.3%	-18,991	-18,991
	B	1,997,873	472,485	413,180	20.7%	12,204	12,204
	C	141,786	34,089	6,600	4.7%	0	0
WAK-N.B./ Musk	B	121,676	18,884	18,884	15.5%	0	0
Overall		28,090,923	5,737,134	4,677,678	16.7%	20,529	20,529

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Overview by Market (Total) Cont'd

Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Vacancy Rate	Qrtly Abs (sf)	YTD Net Abs (sf)
WAK-Pewaukee	A	1,370,915	233,773	219,311	16.0%	-14,827	-14,827
	B	962,380	221,282	178,824	18.6%	18,425	18,425
WAK-West	B	22,273	0	0	0.0%	0	0
	C	32,000	8,528	8,528	26.7%	0	0
Overall		28,090,923	5,737,134	4,677,678	16.7%	20,529	20,529

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MARKET TRENDS

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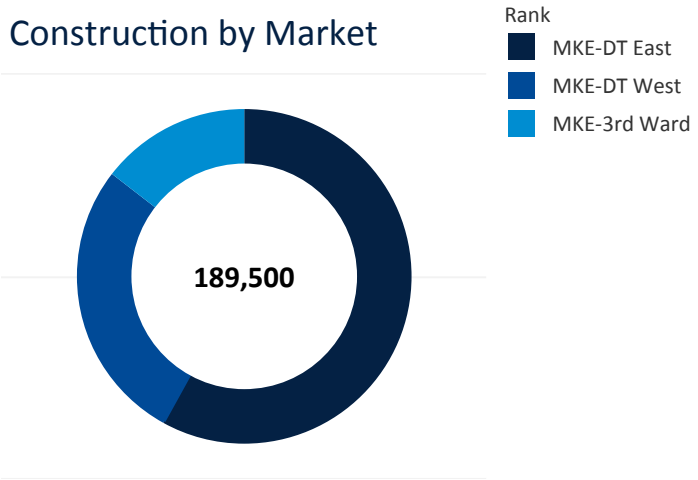
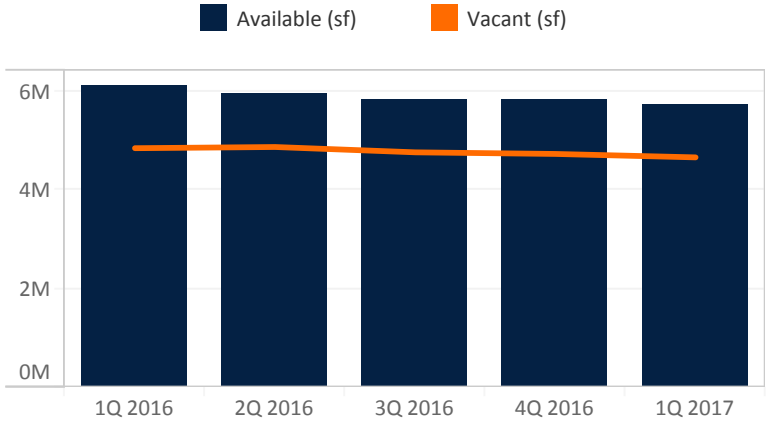
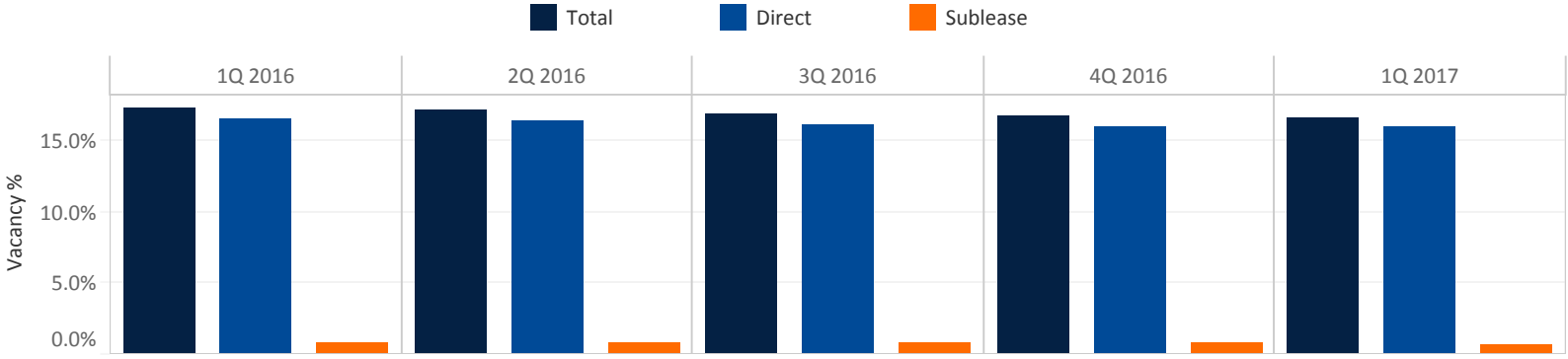
Construction by Market



Total Available and Vacant



Vacancy Rate



Overview by Class (Direct)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	12,635,795	2,166,360	1,865,799	14.8%	37,685	37,685
B	14,327,944	3,153,005	2,518,986	17.6%	-29,177	-29,177
C	1,127,184	177,371	100,600	8.9%	-17,088	-17,088
Overall	28,090,923	5,496,736	4,485,385	16.0%	-8,580	-8,580

Overview by Class (Sublease)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	12,635,795	72,596	31,119	0.2%	-8,000	-8,000
B	14,327,944	164,090	157,462	1.1%	30,609	30,609
C	1,127,184	3,712	3,712	0.3%	6,500	6,500
Overall	28,090,923	240,398	192,293	0.7%	29,109	29,109

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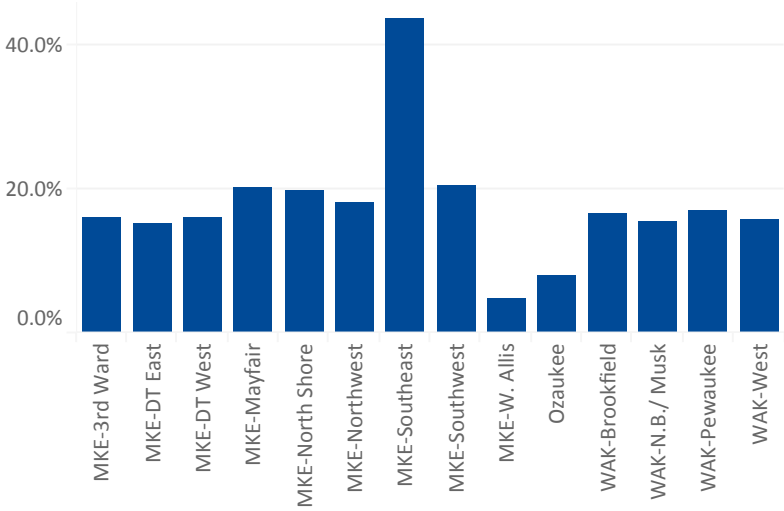
Direct Vacancy Rates

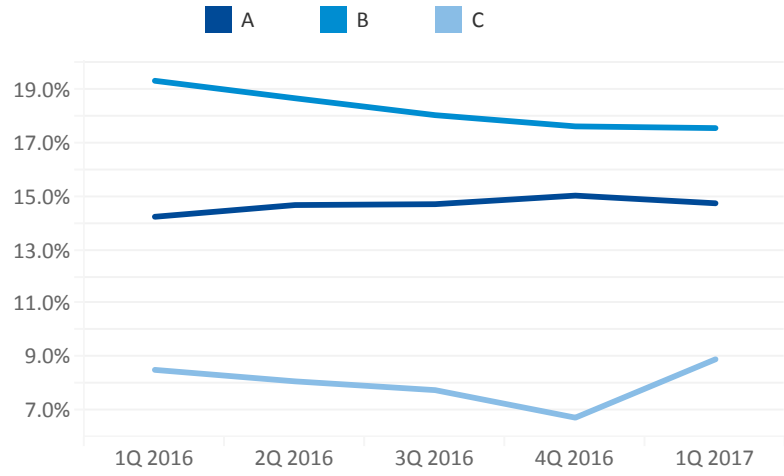
By Market and Class

Market Name	Class	Quarter Year 1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017
MKE-3rd Ward	A	21.4%	17.9%	17.5%	18.0%	19.3%
	B	11.3%	10.2%	14.8%	14.9%	15.8%
	C	11.7%	11.9%	10.5%	10.1%	13.9%
MKE-DT East	A	11.0%	13.2%	12.1%	12.5%	12.4%
	B	25.8%	26.2%	25.3%	24.7%	22.2%
	C	2.3%	0.8%	1.7%	4.7%	7.6%
MKE-DT West	A	32.7%	32.4%	32.4%	32.4%	32.4%
	B	9.0%	11.6%	10.0%	10.1%	9.2%
	C	0.0%	0.0%	0.0%	0.0%	
MKE-Mayfair	A	18.6%	20.0%	22.1%	20.0%	14.9%
	B	31.3%	30.1%	27.6%	27.4%	25.6%
	C	33.5%	33.5%	34.4%	34.4%	33.6%
MKE-North Shore	A	6.9%	7.2%	7.2%	7.2%	6.4%
	B	29.5%	25.3%	24.2%	23.0%	24.5%
	C	8.1%	0.0%	0.0%	0.0%	0.0%
MKE-Northwest	A	12.2%	12.2%	14.4%	14.4%	14.7%
	B	15.2%	9.5%	9.5%	8.2%	25.1%
	C	41.2%	41.2%	41.2%	0.0%	0.0%
MKE-Southeast	B	41.3%	48.4%	46.9%	46.9%	43.8%
MKE-Southwest	A	19.2%	17.4%	15.4%	14.5%	15.5%
	B	31.4%	31.4%	29.9%	29.9%	29.9%
MKE-W. Allis	B	6.1%	6.1%	5.7%	5.5%	5.0%
	C	0.0%	0.0%	0.0%	0.0%	0.0%
MKE-West	B	0.0%	0.0%	0.0%	0.0%	0.0%
	C	0.0%	0.0%	0.0%	0.0%	0.0%
Ozaukee	A	6.2%	4.6%	3.7%	4.2%	4.8%
	B	15.2%	16.1%	12.4%	11.2%	13.1%
WAK-Brookfield	A	13.4%	11.2%	11.0%	13.4%	14.3%
	B	22.8%	22.6%	21.4%	20.4%	19.8%
	C	11.1%	9.5%	7.6%	4.7%	4.7%
WAK-N.B./ Musk	B	15.5%	15.5%	15.5%	15.5%	15.5%
WAK-Pewaukee	A	14.4%	13.8%	14.8%	14.8%	16.0%
	B	20.9%	19.7%	20.2%	20.5%	18.6%
WAK-West	B	0.0%	0.0%	0.0%	0.0%	0.0%
	C	26.7%	26.7%	26.7%	26.7%	26.7%
Overall		16.6%	16.5%	16.1%	16.0%	16.0%

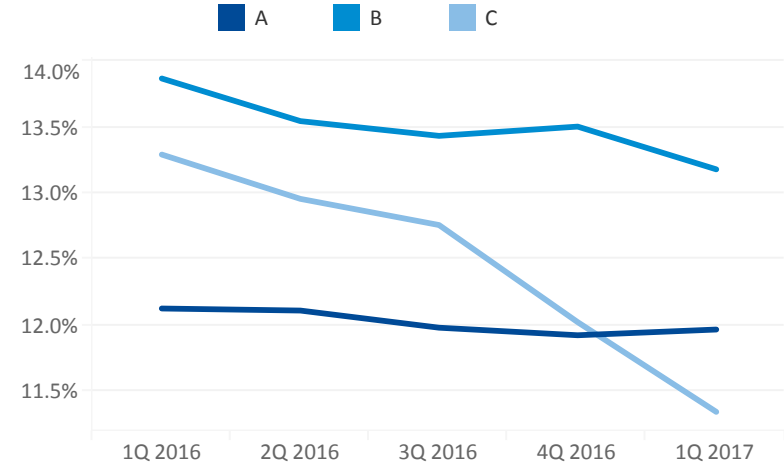
By Market



Milwaukee by Class



National by Class



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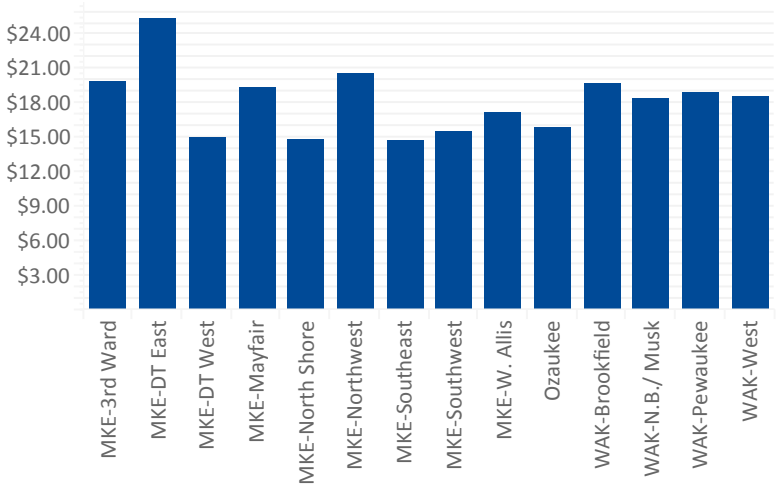
Direct Weighted Average Asking Rates (FSG)

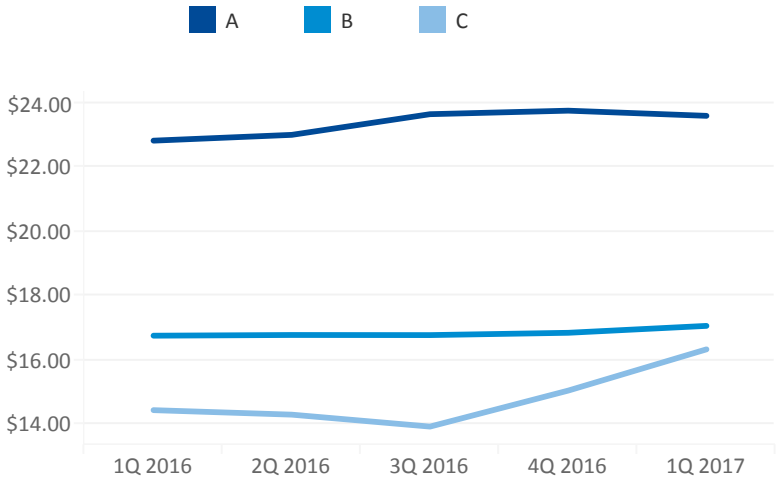
By Market and Class

Market Name	Class	Quarter Year 1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017
MKE-3rd Ward	A	$19.18	$19.93	$22.05	$21.78	$19.25
	B	$19.90	$19.97	$19.64	$19.64	$20.01
	C	$16.09	$14.00	$14.00	-	-
MKE-DT East	A	$25.78	$25.82	$26.94	$27.14	$26.92
	B	$22.27	$22.04	$22.00	$21.82	$21.42
	C	-	-	-	-	-
MKE-DT West	A	$15.00	$15.00	$15.00	$15.00	$15.00
	B	$13.61	$13.56	$13.78	$13.67	$15.03
	C	-	-	-	-	
MKE-Mayfair	A	$23.87	$24.60	$24.84	$24.66	$24.97
	B	$16.42	$16.43	$16.48	$17.43	$17.41
	C	$14.72	$14.72	$13.84	$13.84	$15.93
MKE-North Shore	A	$20.83	$20.74	$20.74	$20.76	$21.11
	B	$14.33	$14.08	$14.23	$14.34	$14.40
	C	$14.57	-	-	-	-
MKE-Northwest	A	$21.43	$21.57	$21.33	$21.33	$21.70
	B	$18.41	$18.74	$18.80	$18.85	$19.05
	C	$11.00	$11.00	$11.00	-	-
MKE-Southeast	B	$15.10	$15.42	$15.33	$15.36	$14.71
MKE-Southwest	A	$18.75	$18.75	$17.14	$17.14	$15.50
	B	$16.00	$16.00	-	$17.00	$17.00
MKE-W. Allis	B	$17.27	$17.22	$17.21	$17.18	$17.15
	C	-	-	-	-	-
MKE-West	B	-	-	-	-	-
	C	-	-	-	-	-
Ozaukee	A	$16.43	$16.43	$16.35	$16.60	$16.30
	B	$12.55	$12.40	$12.51	$12.51	$12.00
WAK-Brookfield	A	$21.27	$21.39	$21.65	$21.83	$21.82
	B	$17.23	$17.35	$17.27	$17.39	$17.50
	C	$14.09	$15.00	$15.00	$15.00	$15.00
WAK-N.B./ Musk	B	$18.35	$18.35	$18.35	$18.35	$18.35
WAK-Pewaukee	A	$22.41	$22.43	$22.32	$22.41	$22.26
	B	$15.02	$15.00	$15.02	$15.49	$15.43
WAK-West	B	$18.00	-	-	-	-
	C	$18.50	$18.50	$18.50	$18.50	$18.50
Overall		$19.19	$19.38	$19.92	$20.04	$19.99

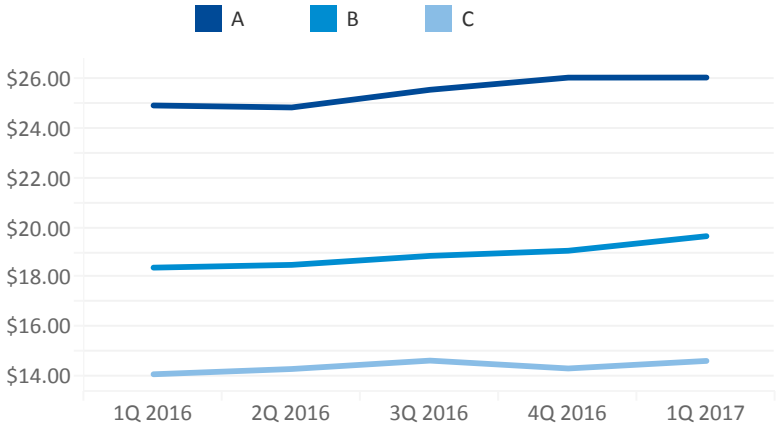
By Market



Milwaukee by Class



National by Class



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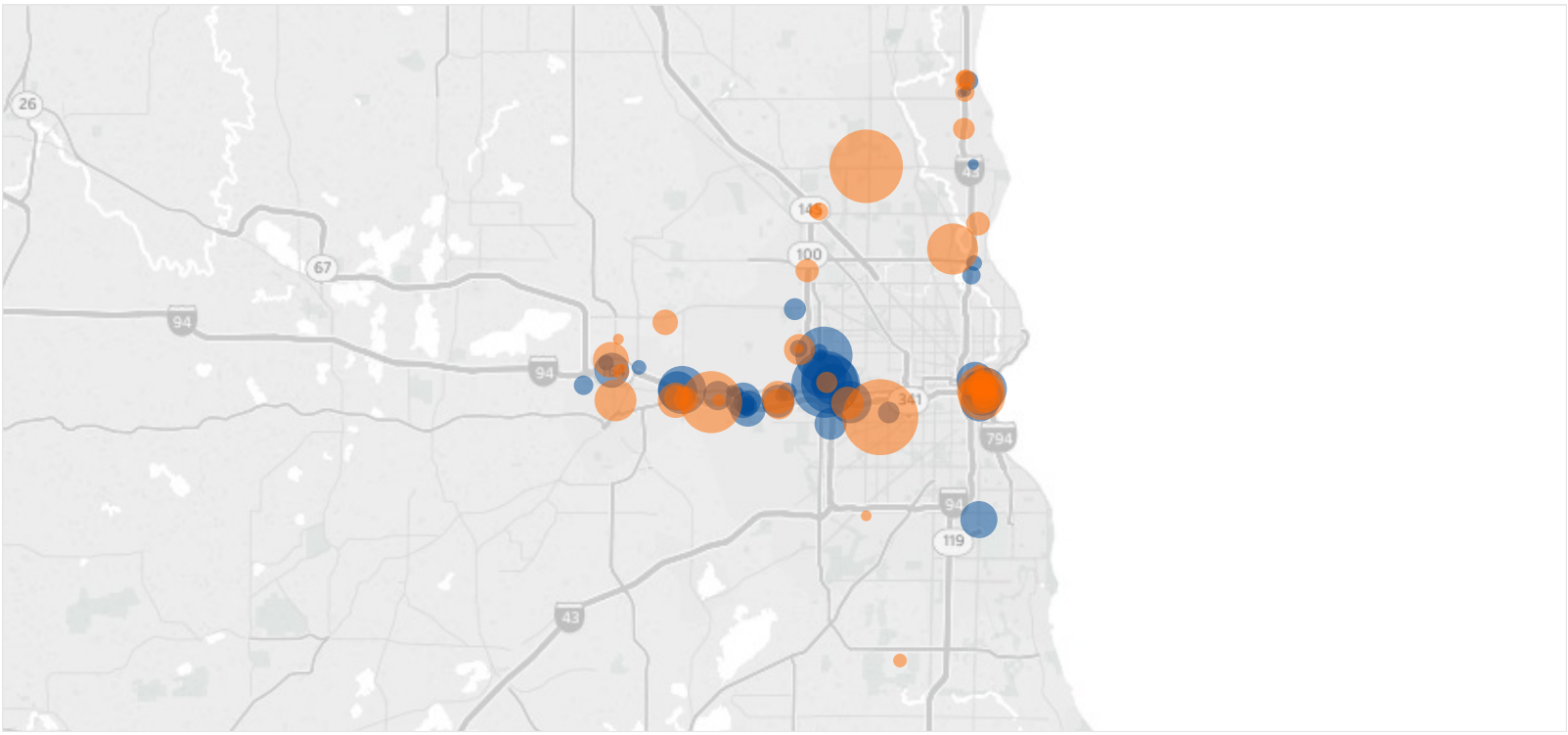
Absorption Map



Largest Positive (Total)

Property Name	Significant Transactions	Market Name	Class	
Mayfair Woods Bus. & Tech. Ctr.	Saputo Cheese USA Inc.	MKE-Mayfair	A	27,494
Wood Lake I Bus. & Tech. Center	My Choice Family Care	MKE-Mayfair	A	21,258
Mayfair Medical Center	Confidential Tenant(s)	MKE-Mayfair	B	20,000
601-611 N Barker Rd	Property owner expanded	WAK-Pewaukee	B	14,146
High Pointe Office Center	Confidential Tenant	MKE-Mayfair	A	12,500
411 East Wisconsin Center	Nicholas Funds	MKE-DT East	A	11,270
Honey Creek Corporate Center II	Suite size adjustments	MKE-Mayfair	A	10,975
10001 W Innovation Dr	Confidential Tenant	MKE-Mayfair	A	10,257

Largest Negative (Total)

Property Name	Significant Transactions	Market Name	Class	
Summit Place	Community Health Charities; Undisclosed Tenants	MKE-W. Allis	B	-35,375
7800-7810 W Brown Deer Rd	Monster (both direct and sublease space)	MKE-Northwest	B	-33,066
18650 W Corporate Dr	Ashley Furniture; Ricoh downsized	WAK-Brookfield	A	-23,536
Glendale Corporate Center	NTVB Media, Inc.	MKE-North Shore	B	-16,000
Chase Tower	Multiple tenants	MKE-DT East	A	-14,018
Renaissance on Water	Gass Weber Mullins, LLC; Undisclosed Tenant	MKE-3rd Ward	A	-13,435
Sky Plaza I	Hallmark Building Supply; New American Funding	WAK-Pewaukee	B	-10,827
Two Riverwood Place	Microsoft	WAK-Pewaukee	A	-7,875

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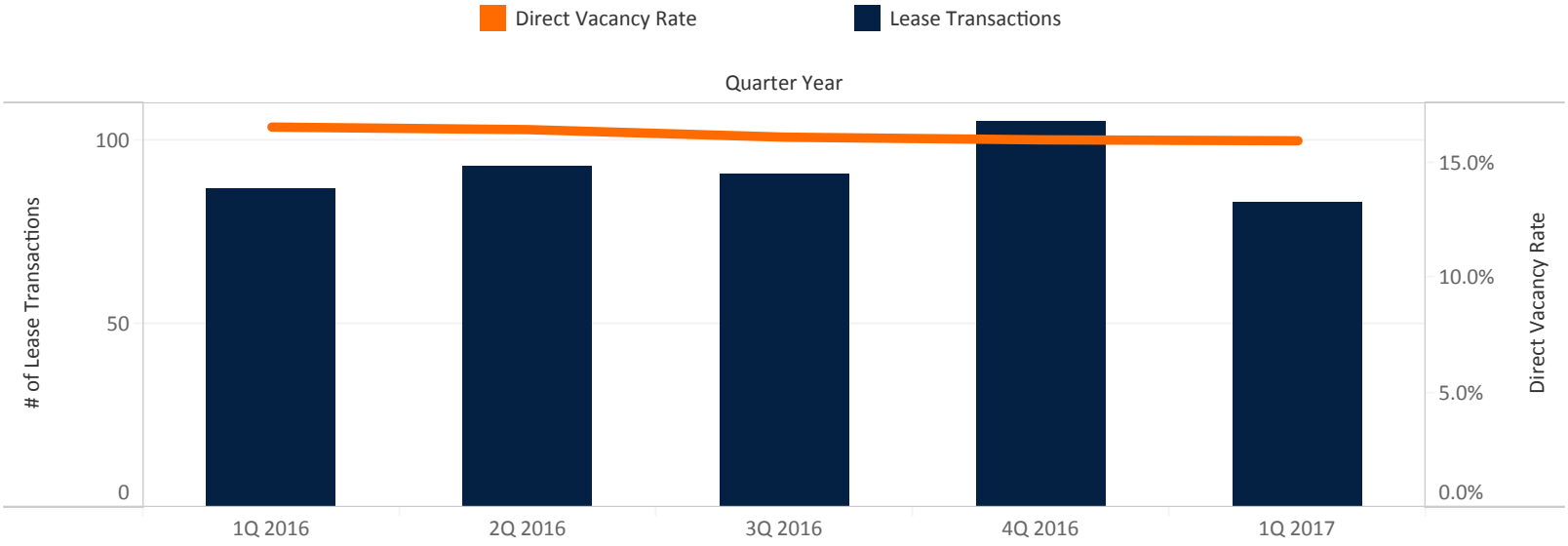
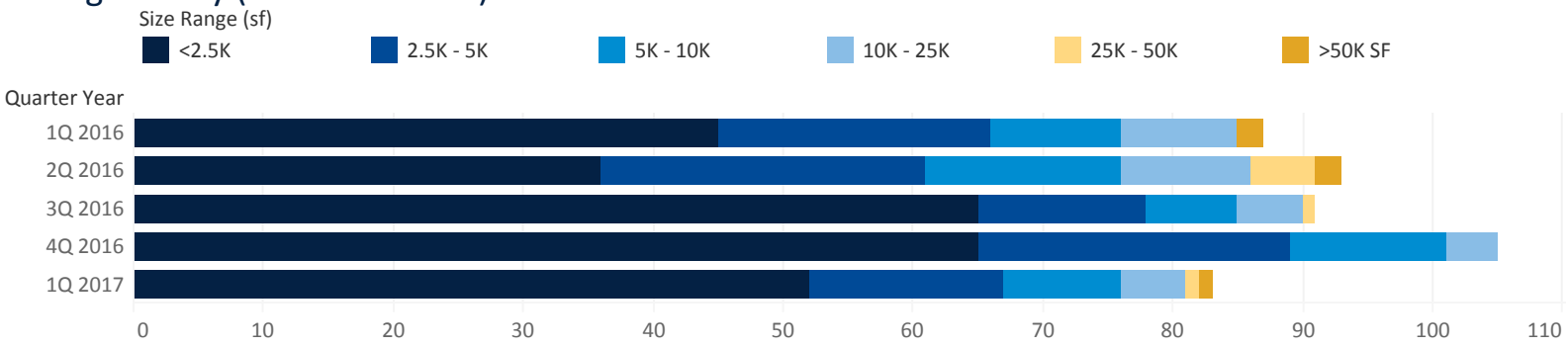
MARKET TRENDS

1Q 2017 | Milwaukee | Office

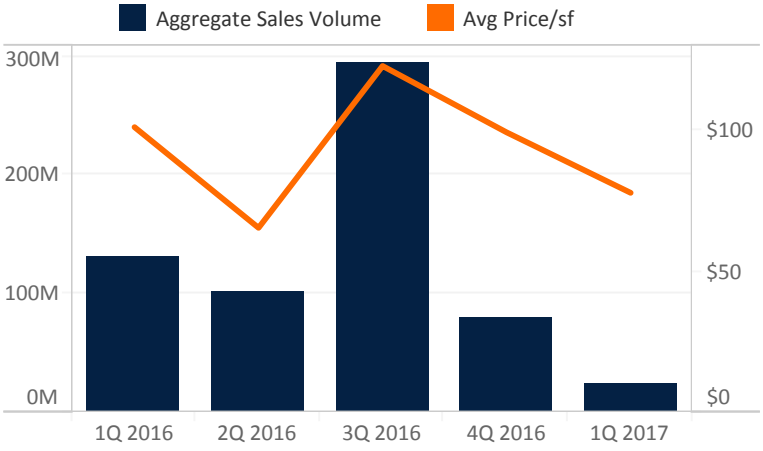
Leasing Activity Trends



Leasing Activity (# of New Deals)



Sales Volume vs. Price/SF



Top Sales

Property	Sale Date	Buyer	Sale Price
400 N Executive Dr	03/31/2017	Executive Center VI/Brookfield LLC et al	$10,600,000
Lexington Square	02/07/2017	James H Forester	$3,300,000
601-611 N Barker Rd	01/31/2017	Sitzberger Hau & Company, S.C.	$2,965,000
10521 N Port Washington Rd	01/13/2017	David R Teplin	$2,600,000
The Cudahy	01/31/2017	Peckerman, Klein & Van Kirk	$1,500,000

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Terminology

Term	Definition
Class A	Most prestigious buildings competing for premier office users with rents above the market average. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.
Class B	Buildings competing for a wide range of office users with average market rents. Building finishes are fair to good for the area and systems are adequate, but the property does not compete with Class A product.
Direct Vacant (sf)	The total of the vacant square footage in a building that is being marketed by an agent representing the landlord.
Inventory	The total square feet (sf) of all existing single and multi tenant office buildings greater than 20,000 sf, excluding medical, government and owner occupied buildings.
Net Absorption	The net change in occupancy from quarter to quarter, expressed in square feet.
Sublease (sf)	Space that is offered for lease by a current tenant, or his agent, within a property.
Total Available (sf)	All of the available leasable space within a building, whether it is occupied or vacant, for direct lease or sublease space. Space can be available but not vacant, for example, if the landlord, or his agent, is marketing space that will be coming available at a future date because a tenant is planning to move.
Total Vacant (sf)	The total of all of the vacant square footage within a building, including both direct and sublease space.
Weighted Average Asking Rents	The weighted average of all asking rents expressed as a full service/gross rental rate and weighted on total available square feet. Non-full service rates (such as NNN) have been grossed up to reflect a full service/gross rate.
Xceligent Partner	Commercial Association of Realtors Wisconsin (CARW)

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			Katie Gremban

Xceligent Team

Brian Reece	Regional VP of Analytics	breece@xceligent.com	(919) 971-3461
Greg Hayden	Regional VP of Sales	ghayden@xceligent.com	(816) 303-2833
James Bertolli	Sales Executive	jbertolli@xceligent.com	(949) 306-8767
Josh Parrish	Director of Analytics	jparrish@xceligent.com	(414) 416-7092

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