

Milwaukee Office, Q3 2015

Leasing activity drives new construction in Milwaukee

▼ Vacancy Rate
15.5%

▲ Lease Rate
\$22.29 PSF

▲ Net Absorption
108,597 SF

▲ Under Construction
563,717 SF

*Arrows indicate change from previous quarter.



One Park Plaza, 11270 West Park Place, has witnessed over 140,000 sq. ft. of leasing activity since the start of 2015.
Source: CBRE, Inc.

MARKET OVERVIEW

SUBURBS SEE UPTICK IN ACTIVITY

Leasing activity has remained steady in the Milwaukee market, with tenants expanding, renewing or leasing new space. This is evident as the vacancy rate for the suburban office market decreased by 50 basis points (bps) to 15.9%, with the largest amount of activity in the Brookfield and Mayfair/Wauwatosa submarkets. One of the largest office deals was Whyte Hirschboeck Dudek, S.C. leasing 12,160 sq. ft. at 20800 Swenson Drive in Waukesha. The increase in leasing activity this quarter has begun to outweigh new vacancies hitting the market.

Though not evident by the numbers, the Milwaukee Northwest submarket is starting to see positive leasing activity, specifically at Park Place office park near Interstate 41/45 and Good Hope Road. Since the beginning of the year, four major anchor tenants renewed their leases at One Park Plaza. A. O. Smith, a water technology company, BMO Harris Bank, law firm Kasdorf, Lewis + Swietlik and Riley Construction. These four lease transactions account for over 140,000 sq. ft. of space, keeping the occupancy level above 85.0%. Activity in Park Place has steadily been on the rise since Aurora Health Care leased 80,000 sq. ft. at 7800 North 113th Street, during Q1 2015.

- Chicago-based developers, Fulcrum Asset Advisors and Millbrook Properties, purchased 250 East Wisconsin Avenue in Milwaukee, for \$9.75 million. CBRE represented Lone Star Funds, who originally purchased the 20-story office building in July 2013.
- Local law firm Siesennop & Sullivan is moving from 200 North Jefferson Street in Milwaukee’s Historic Third Ward to Schlitz Park. By leasing 4,306 sq. ft., it brings the Keg House at 111 West Pleasant Street to 100.0% occupancy.
- Ryan Companies is proposing an 84,000-sq.-ft. medical office building at Port Washington Road and Venture Court in Mequon. Froedtert and the Medical College of Wisconsin could potentially occupy the proposed \$21.0 million project.

Figure 1: Milwaukee Market Office Statistics

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Avail. Rate (%)	Q3 2015 Net Absorption (SF)	YTD Net Absorption (SF)	Class A Gross Avg. Asking Lease Rate (\$/SF/Yr)
Downtown East	8,194,819	12.8	16.7	4,337	66,955	26.47
Downtown West	3,727,313	16.9	17.5	(20,359)	(35,337)	16.65
Third Ward/Walker's Point	2,761,661	17.8	20.7	4,050	25,305	18.90
CBD Subtotal	14,683,793	14.9	17.7	(31,084)	56,870	22.61
Milwaukee North Shore	2,730,435	15.1	19.2	(6,011)	(10,884)	22.60
Milwaukee Northwest	1,712,605	26.8	34.8	(3,754)	(125,860)	21.38
Milwaukee Central	1,086,500	3.9	3.9	23,240	28,240	23.60
Mayfair/Wauwatosa	3,590,012	21.1	24.2	72,133	(30,370)	25.49
West Allis	2,152,345	13.4	13.7	(6,645)	(22,585)	N/A
Milwaukee Southwest	818,135	21.8	23.8	2,048	(27,381)	18.35
Milwaukee Southeast	821,082	16.4	18.0	2,979	(5,870)	N/A
Brookfield	5,840,793	18.1	21.9	59,168	64,628	20.77
Waukesha/Pewaukee	2,765,907	9.8	11.5	3,491	(18,683)	23.62
Waukesha North	1,446,792	14.1	14.5	(4,123)	(47,346)	22.26
Waukesha South	652,471	16.8	16.8	0	1,200	15.25
North Suburban	2,121,937	14.4	15.7	(1,529)	(1,022)	19.97
South Suburban	1,740,022	7.8	9.3	(576)	173	N/A
Suburban Subtotal	27,479,036	15.9	18.5	140,401	(195,760)	22.00
Total	42,206,117	15.5	18.2	108,597	(138,890)	22.29

Source: CBRE Research, Q3 2015.

CBD VACANCY RISES

As the overall office market for Milwaukee improves, the downtown central business district (CBD) faces a similar challenge the suburbs saw in the first half of 2015, with large blocks of vacant space coming onto the market. Though the CBD office market only recorded one large vacant space this quarter, the vacancy rate increased 50 bps to 14.9%, due primarily to Extencicare closing their office at 101 West Michigan Street in downtown Milwaukee.

Despite the challenge in the CBD, there is still positive leasing activity. For instance, HSA Bank recently leased 21,604 sq. ft. of space at RiverCenter at Schlitz Park, an expansion of their existing 20,268-sq.-ft. lease signed in 2014. As Schlitz Park approaches full occupancy, Brewery Works Inc. announced plans to invest \$20 million into park improvements, including converting an existing warehouse building into 80,000 sq. ft. of new office space. They also proposed a 160,000-sq.-ft. addition to the top of the existing three-story Schlitz RiverCenter building. Ownership would also like to add a 140-room hotel and 140 market-rate apartments to Schlitz Park.

NEW CONSTRUCTION PICKS UP PACE

For the first time in over a decade, construction of new office space is gaining momentum. 833 East, located in downtown Milwaukee, is roughly 65.0% pre-leased as new tenants Heck Capital Advisors, financial services company Grace Matthews, and Major League Baseball Commissioner Emeritus Bud Selig, are expected to take occupancy upon completion. It was also announced that Milwaukee-based manufacturer, Jason Inc., will lease an additional 13,537 sq. ft., bringing their total to 26,043 sq. ft. or one entire floor.

Irgens Development Partners has under construction a 156,164-sq.-ft. office building located in the Milwaukee County Research Park, at 10100 West Innovation Drive in Wauwatosa. The Meadowland Research and Technology center is currently 40.0% pre-leased to Zywave, a software development company, who will relocate from a neighboring property. The four-story, Class A office building is being developed on one of the remaining lots in the Research Park. Irgens submitted an offer to purchase additional lots totaling 3.9 acres, which could support up to a 55,000-sq.-ft. office building.

Figure 2: Top Lease Transactions

Tenant	Sq. Ft.	Address	Business Sector	Type
BMO Harris Bank	70,000	11270 West Park Place, Milwaukee	Banking	Renewal
A.O. Smith	45,000	11270 West Park Place, Milwaukee	Manufacturing	Renewal
R.R. Donnelley & Sons Co.	34,111	3333 North Mayfair Road, Wauwatosa	Information Technology	Renewal
HSA Bank	21,604	1515 RiverCenter Drive, Milwaukee	Banking	Expansion
Minacs Marketing Solutions	17,880	1543 North 2 nd Street, Milwaukee	Marketing	New Lease

Source: CBRE Research, Q3 2015.

In addition, St. John Properties currently has three buildings under construction in Brookfield at 16950 – 17110 West Greenfield Avenue. The speculative office buildings will total 49,536 sq. ft. and are expected to be completed by Q1 2016. In total, there is more than 560,000 sq. ft. of new multi-tenant office space under construction. Additionally, 1.15 million sq. ft. of single-tenant construction and expansion is under way in the Milwaukee market, comprised of Northwestern Mutual’s 1.1 million-sq.-ft. downtown office tower, and a 50,000-sq.-ft. medical office expansion at 1155 North Mayfair Road in Wauwatosa.

VACANCY BY CLASS

The Q3 2015 vacancy rates are steadily improving, with the overall market decreasing by 20 bps to 15.5%. The Class A vacancy rate witnessed a 60 bps improvement over last quarter, coming in at 14.8%. This was due to an increase in leasing activity in both the CBD and the suburbs, specifically in Brookfield and Wauwatosa. The vacancy rate is steadily declining and leasing activity is on the rise as evident by the positive net absorption, however it does not reflect the true activity as roughly 40% of all lease deals from the start of 2015 have been renewals. This is an improvement over previous years, when tenants were more likely to renew than sign a lease at a new location.

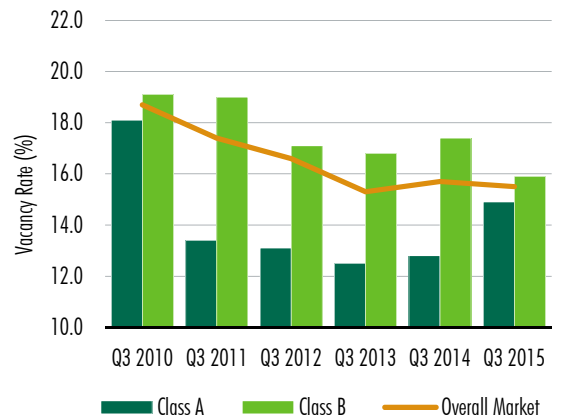
ASKING LEASE RATES

Average asking lease rates in the Milwaukee office market continue to rise, posting the highest Class A rate over the past five years, at \$22.29 per-sq.-ft. modified gross (MG). Though it is only a \$0.05 increase from last quarter, it is a \$0.73 per-sq.-ft. increase from Q3 2014. Class B office asking lease rates also continue to rise, coming in at \$16.18 per-sq.-ft. MG, up \$0.17 from Q2 2015. This trend should continue through the remainder of 2015, as the overall market tightens and new higher-quality space becomes available, driving rents up.

OUTLOOK

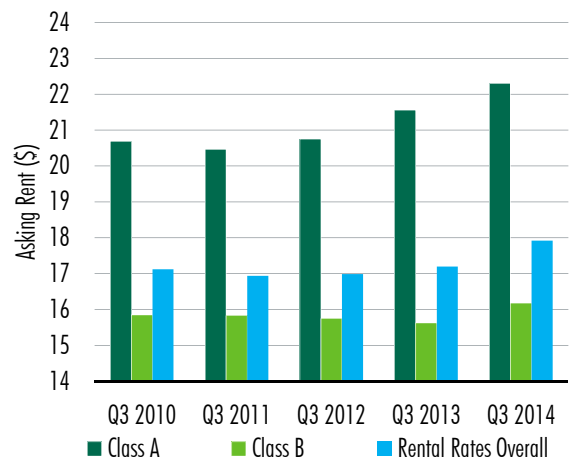
Tenant activity should remain constant through the remainder of 2015. As new construction is under way in the suburbs and 833 East nears completion in the Downtown East submarket, activity should peak in the first half of 2016. Though landlords still have an advantage in the market, tenants are driving deals as they weigh renewal and relocation options, being more selective, not only about their space, but the building as well. This is a sign that the Milwaukee office market continues to head in a positive direction.

Figure 3: Vacancy Rate by Class



Source: CBRE Research, Q3 2015.

Figure 4: Average Asking Lease Rates by Class



Source: CBRE Research, Q3 2015.



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