

Milwaukee Industrial, Q3 2015

Build-to-suit developments lead new construction

▲ Availability Rate
6.3%

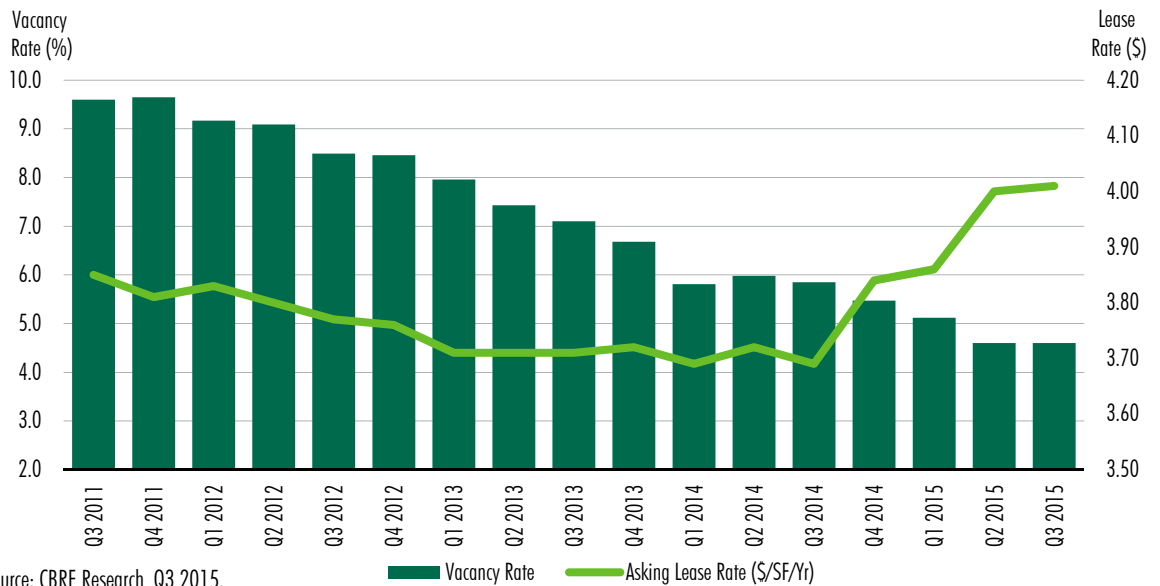
▶ Vacancy Rate
4.6%

▲ Asking Lease Rate
\$4.02 PSF

▼ Completions
304,340 SF

Figure 1: Vacancy Rate and Asking Lease Rate

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q3 2015.

MARKET OVERVIEW

The market continues to show its resiliency as construction prevails as the driving force in the area. The Milwaukee industrial market consisting of over 300 million sq. ft. of product, saw no change in the vacancy rate at 4.6% from last quarter, shedding 130 basis point from a year ago. The average asking lease rate remained virtually unchanged at \$4.02 per-sq.-ft. NNN and reported an increase of \$0.33 from a year ago. Though the lack of Class A product has suppressed asking lease rates, new speculative developments expected to come online over the next year should push asking lease rates higher. Class A asking lease rates for new construction are anticipated to range from \$4.50 to \$5.50 per-sq.-ft. NNN, due to higher development costs and demand, which are driving the rates up. The net absorption for Q3 2015 came in at 314,889 sq. ft., which is due primarily to new construction completions. As the net absorption continues to increase quarter-over-quarter, the year-to-date total for the Milwaukee market is just over 6.0 million sq. ft., meeting or surpassing the year-end totals over the past six years. Despite a nominal gain in net absorption and no real change in vacancy from the previous quarter, the year should end on a positive note as tenant activity is expected to remain strong, and over 3.0 million sq. ft. of new industrial space is completed.

Figure 2: Milwaukee Market Industrial Statistics

Submarket	Market Rentable Area (SF)	Vacancy Rate (%)	Avail. Rate (%)	Completions (SF)	NNN Avg. Asking Lease Rate (\$/SF/Yr)
Milwaukee Downtown	12,181,984	12.2	16.1	0	3.32
Milwaukee North Shore	8,809,586	7.6	9.6	0	3.36
Milwaukee Northwest	20,005,745	5.5	8.0	0	3.54
Milwaukee North Central	12,626,374	8.6	9.7	0	2.37
Milwaukee South Central	12,861,601	10.4	12.7	0	3.58
Milwaukee South	28,011,698	4.7	8.4	0	4.31
Milwaukee West	14,401,372	4.7	8.6	0	4.25
Waukesha Northeast	21,213,282	4.4	4.8	304,340	4.92
Waukesha Southeast	14,723,313	3.3	4.5	0	4.70
Waukesha Northwest	19,799,548	2.4	4.0	0	4.76
Waukesha Southwest	16,342,730	4.6	5.1	0	4.53
Ozaukee	13,173,845	5.8	6.3	0	3.79
Washington	21,180,296	4.1	6.0	0	4.45
Sheboygan	18,786,441	2.3	2.4	0	3.31
Racine	29,866,221	2.8	4.2	0	4.85
Kenosha	28,399,250	2.0	3.6	0	4.18
Walworth	11,669,887	1.6	2.5	0	3.71
Total	304,053,173	4.6	6.3	304,340	4.02

Source: CBRE Research, Q3 2015.

NEW CONSTRUCTION AND EXPANSIONS

With demand for higher quality Class A industrial space in the market, new construction is reaching levels not seen since before the recession. Since Q3 2014, 3.4 million sq. ft. of new space has been delivered, most of which were build-to-suits. A majority of the new space was developed in Racine and Kenosha counties, which is viewed as the focal point of activity in the Milwaukee market.

As of Q3 2015, there are 19 projects currently under construction totaling 4.2 million sq. ft. Of these projects, six are in Racine and Kenosha, which makes up 66.0% of the total square footage. Also noteworthy is 3.3 million sq. ft. of expected completions in the Milwaukee market during Q4 2015 alone, with two additional projects remaining under construction moving into 2016. Though there were few speculative projects completed last year, 12 of the 19 current projects fall into this category, accounting for 2.5 million sq. ft. of new construction. One notable development is a 310-acre business park in Somers, led by First Industrial Realty Trust. The Chicago-based developer purchased the land at Highways S and H for \$13.4 million. The site, known as First Park 94, broke ground on a 600,539-sq.-ft. speculative warehouse expected to be completed during Q2 2016.

Though new development is driving the market, expansions are also increasingly important. Whether lack of available space in the market or the cost associated with moving operations to a

new facility, some users have opted to remain in their current facility and expand to meet future business needs. Over the past three quarters, 275,117 sq. ft. of expansion space was delivered, the largest being Kapco’s facility at 1000 Badger Circle in Grafton, doubling the size of their building.

There is currently 292,852 sq. ft. of expansions under construction at nine facilities throughout southeastern Wisconsin, with 145,452 sq. ft. expected to be completed by the end of the year. Another 213,446 sq. ft. is proposed, with Seda North America looking to increase their current facility by 125,902 sq. ft. Other companies looking to expand include PolyFirst Packaging in Hartford, InfoCor in Germantown and Wixon, Inc. in Saint Francis.

FUTURE DEVELOPMENTS

As new construction continues to ramp up, companies look to capitalize on demand by proposing new development opportunities throughout the Milwaukee market. New York-based Ashley Capital is expected to complete the first of four Class A industrial buildings in the newly developed Enterprise Business Park, located at Highway 11 and County Highway H in Sturtevant. In addition to the 375,908-sq.-ft. building, they are proposing three additional industrial buildings ranging from 124,800 sq. ft. to 436,800 sq. ft., with no groundbreaking date set. This is just one of many proposed developments in the market driven by an increase in demand.

Figure 3: Top Lease Transactions

Tenant	Address	Sq. Ft.	Class	Lease Type
JRS Distribution, Inc.	1101 South Sylvania Avenue, Sturtevant	109,834	A	Renewal
OTR Wheel & Engineering	9151 North Deerbrook Trail, Brown Deer	71,778	B	New Lease
SEKO Worldwide	10020 South Reinhart Drive, Oak Creek	53,904	A	New Lease
Global Power Systems	6000 West Washington Street, West Allis	53,503	B	New Lease
Parker Plastics, Inc.	8201 109 th Street, Pleasant Prairie	50,000	A	New Lease

Source: CBRE Research, Q3 2015.

NET ABSORPTION

During Q3 2015, the Milwaukee industrial market posted a net absorption of 314,889 sq. ft., due a fully-occupied construction completions. The year-to-date net absorption remains positive at just over 6.0 million sq. ft., as new construction deliveries and expansions continue to ramp up, as well as continued increases in lease and sale activity. Expect next quarter's net absorption and year-end totals to finish on a high note, as a large number of industrial spaces are completed.

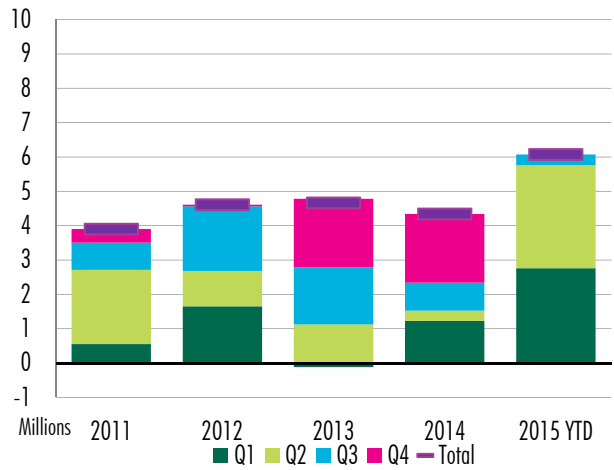
VACANCY AND ASKING LEASE RATE BY DEVELOPMENT TYPE

Despite no significant change in overall vacancy rate in Q3 2015 at 4.6%, the Milwaukee industrial market continues to improve. The overall vacancy rate should decline by year-end as new warehouse and distribution facilities are delivered, most of which will be fully occupied. The overall average asking lease rate remained virtually unchanged at \$4.02 per-sq.-ft. NNN, but should rise as new construction starts to hit the market by Q4 2015. This will be evident as available speculative space in key areas within the Waukesha, Pewaukee, Racine and Kenosha markets, elevate average asking lease rates.

CONSTRUCTION ACTIVITY

Construction, both in the way of expansions and new deliveries, remains a driving force in the Milwaukee industrial market. Over the past year alone, the market has gained 3.9 million sq. ft. in new construction deliveries. If projects currently underway are completed on time, the market will gain an additional 3.4 million sq. ft. in new construction by year-end, along with 145,452 sq. ft. in expansions. Of the new deliveries expected in Q4 2015, 11 of the 18 projects are speculative developments, totaling 2.1 million sq. ft. of warehouse and distribution space.

Figure 4: Net Absorption



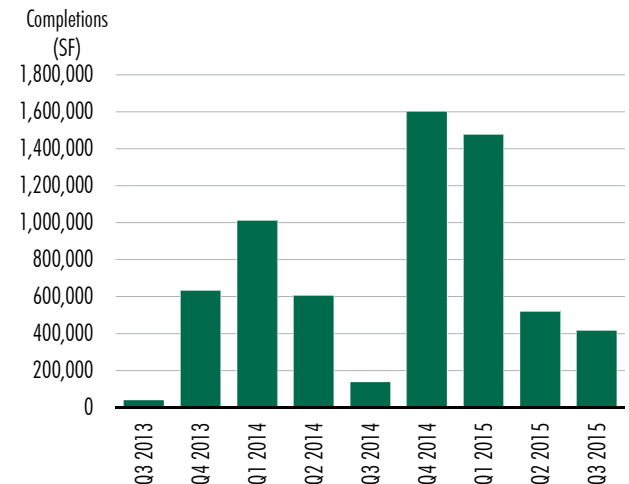
Source: CBRE Research, Q3 2015.

Figure 5: Vacancy and Asking Lease Rate by Development Type



Source: CBRE Research, Q3 2015.

Figure 6: Construction Completions



Source: CBRE Research, Q3 2015.



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