



Accelerating success.



## Introduction

Following a strong second half of 2017, 2018 had a slow start. Despite an increase in vacancy and negative absorption, market fundamentals remain strong. 2018 began with a few notable user trends continuing from 2017.

### Users are willing to pay for premium space and location

While the largest user migration downtown occurred prior to 2017, users are continuing to either relocate downtown or open satellite offices in the CBD as a way to attract talent. At the end of 2017 WageWorks announced it would be relocating operations downtown leasing 60,000 square-feet and in Q1 Rite-Hite announced it would open a 12,500 square-foot satellite office in the Third Ward. The office will be home to the company's sales and marketing staff as well as host trainings for new staff members. Outside of new users in the market, traditional class B users in the market are migrating towards class A office space, despite the higher cost associated.

### Companies are continuing to commit to metro Milwaukee

Despite recently completing an expansion to their existing campus, Milwaukee Tool announced in Q1 that they were moving forward with an additional \$32 million expansion, which would add 350 jobs.

### New to market users continuing to enter the Milwaukee market

Entering 2018, new to market users continue to be a strong portion of overall demand. In March 2018, roughly 25 percent of users active in the market did not have an existing presence in metro Milwaukee. One example, which is slightly unique was Manitowoc Company Inc. relocated their offices to the northwest submarket from Manitowoc, WI. The company will occupy 16,000 square feet in One Park Plaza this spring. Other users, including mostly out of state companies continue to seek space in the Milwaukee market, with the CBD being the primary focus of many.



**+48.6 MILLION SF**  
office inventory

### Market Indicators

	Q4 2017	Q1 2017
VACANCY	↑	↑
NET ABSORPTION	—	—
CONSTRUCTION	↔	↓

### Summary Statistics

Q1 2018 Office Market	MKE	CBD	Suburban
Vacancy Rate	8.47%	8.26%	8.62%
Change From Q4 2017 (basis points)	+14	+03	+20
Absorption (Square Feet)	(76,192)	(5,387)	(70,805)
New Construction (Square Feet)	0	0	0
Under Construction (Square Feet)	707,220	621,720	85,500

Source: CoStar & Colliers | Wisconsin Research



## Economic Indicators

	Quarter over Quarter	
METRO MKE UNEMPL.	3.2%	↓
WISCONSIN UNEMPL.	3.3%	↓
NATIONAL UNEMPL.	4.4%	↔
WI MEI*	0.18	↑

Source: Bureau of Labor Statistics, February 2018

\*Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Source: St. Louis FRED

February 2018 Employment Numbers

**188,400**  
OFFICE USING JOBS  
Milwaukee-Waukesha-West Allis MSA

**+2,500**  
YEAR OVER YEAR  
Office Using Jobs

## Economic Activity

2018 started with economic indicators signaling positive performance of the local economy. Both metro and statewide unemployment rates fell from Q4 with year-over-year unemployment dropping 90 basis points. During the same period, year-over-year office using jobs grew by 1.3 percent, with professional and business services driving the growth.

Compared to the region, Wisconsin outperformed surrounding states in the Chicago Federal Reserve's Midwest Economy Index (MEI). With an overall positive contribution of 0.18, manufacturing drove economic growth for the state in Q1. Illinois had similar manufacturing growth but saw negative contributions in the other sectors. All states and sectors saw an increase in their contributions to the relative MEI from January, with only Indiana having a negative contribution for the month of February.

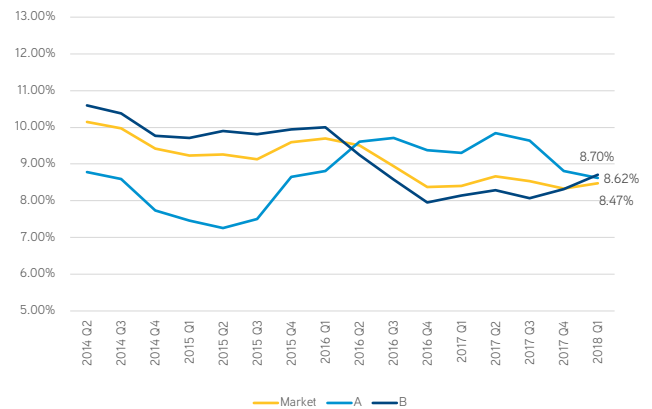
## Vacancy & Availability

Overall market vacancy has been relatively flat for the past six quarters, following a period of decreasing rates. To start 2018, vacancy increased slightly as a result of vacant space coming online. Looking at historical vacancy, the notable shift that has occurred is the spread between class A and B vacant space has decreased. Historically, class A space has had a lower vacancy rate than class B space. The spike in class A vacancy that is depicted in the graph to the right is the result of speculative office delivery in the CBD. The continued demand for higher quality space has resulted in the market occupying newly delivered product. This has resulted in class A vacancy steadily decreasing and as of Q1, dipping below class B vacancy rates.

Market wide availability has been steadily decreasing for the past six years. Class B space is the only class of space that has seen increases in overall availability, another indicator of the flight to quality that is occurring in the market. The northwest submarket has the highest availability rate followed closely by the west submarket. The CBD submarket has seen a large increase in the amount of sublease product become available in recent quarters. A majority of these sublease spaces are larger blocks of space, adding a few full floor options to the CBD competitive set. Outside of the CBD, the central submarket also had a large sublease space become available with Johnson Controls vacating 140,000 square feet of space at Renaissance Faire in West Allis. The availability of this large block, greatly increased the availability of space in the central submarket in Q1.

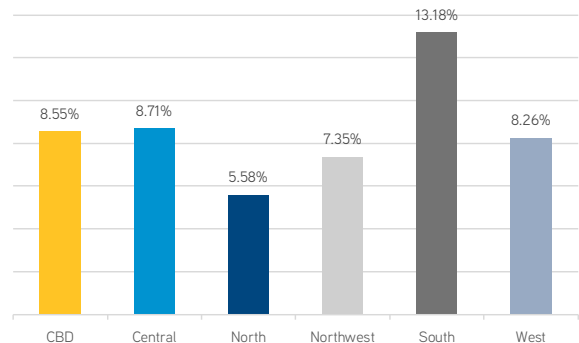
## HISTORICAL VACANCY RATE

### By Class



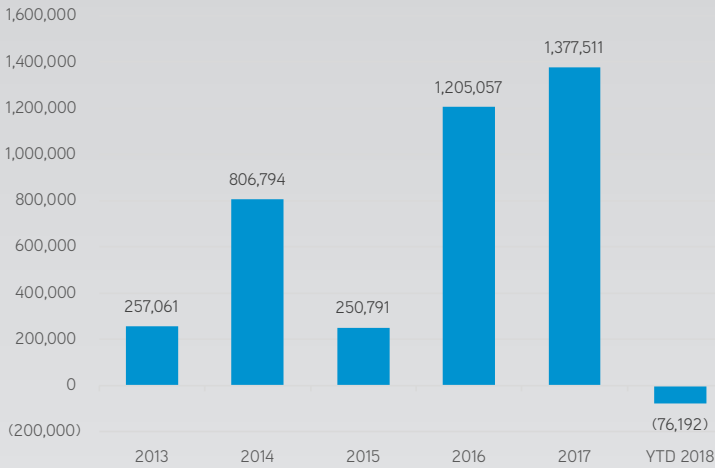
## Q1 2018 VACANCY

### By Submarket



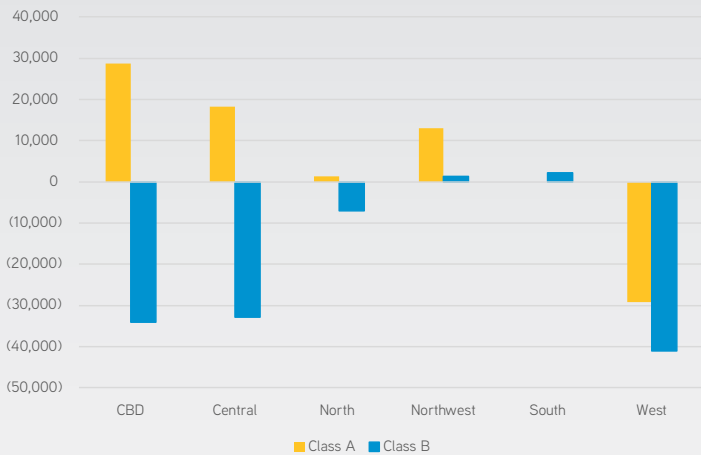
Source: CoStar & Colliers | Wisconsin Research

## HISTORICAL NET ABSORPTION



## Q1 2018 NET ABSORPTION

### By Class



## OFFICE CONSTRUCTION



**707,220 SF**  
UNDER CONSTRUCTION



**621,720 SF**  
CBD UNDER CONSTRUCTION

Sources: CoStar, & Colliers | Wisconsin Research

## Net Absorption

Following two strong years, it is unlikely that absorption in 2018 will match market absorption from 2016 and 2017, which were driven by delivery of new product, both speculative and build-to-suit. Q1 2018 began with negative net absorption across almost all submarkets. Surprisingly, the northwest submarket was the only submarket to realize positive net absorption on the quarter, driven primarily by new leases in One and Two Park Plaza.

In the CBD, large blocks of space that became available were primarily sublease space. Of the space that was absorbed during the quarter, a strong portion of it was through larger lease deals. Users such as Wintrust Bank, Rite-Hite, Old National Bank, and Nexus Solutions are all opening new locations in Milwaukee's CBD. As a result, absorption for CBD class A space was positive on the quarter, but was offset by the negative impact of class B space. This was indicative of a market wide trend of absorption of class A space being stronger than that of class B space.

For the remaining submarkets, the negative absorption was a result of a few large vacancies outweighing the positive gains of the quarter. Similar to the CBD, most submarkets saw class B vacancies offsetting the class A space that was absorbed. The graph to the left depicts the strong juxtaposition of class A and B space as it relates to Q1 absorption. While overall quarterly net absorption was negative to start 2018, the market continues to see activity and is well positioned moving into the rest of 2018.

## Construction

Construction activity continues to be strong in the office markets. With no new product delivered in Q1, projects that were started in 2017 continue to progress. Speculative new construction and renovation projects such as BMO Financial Center, Hammes Headquarters and Factory Office Suites at Forty-Two continue in the CBD with over 250,000 square-feet expected to be delivered later this year. All of the suburban properties currently under construction are build-to-suit projects with the largest being A.O. Smith Technology Center in Park Place.

Source: CoStar & Colliers | Wisconsin Research

# Metro Milwaukee Office Market

2018 Quarter 1									
EXISTING PROPERTIES			TOTAL VACANCY		NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q1-18	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
<b>CBD - Downtown North, Downtown East, Downtown West, Third Ward &amp; Walker's Point</b>									
A	28	8,061,496	853,533	10.59%	28,765	28,765	-	-	621,720
B	99	10,881,465	774,991	7.12%	-34,152	-34,152	-	-	-
C	13	811,062	3,000	0.37%	-	-	-	-	-
<b>Total</b>	<b>140</b>	<b>19,754,023</b>	<b>1,631,524</b>	<b>8.26%</b>	<b>-5,387</b>	<b>-5,387</b>	<b>-</b>	<b>-</b>	<b>621,720</b>
<b>CENTRAL - Near West Side, Wauwatosa, West Allis</b>									
A	21	2,940,835	99,534	3.38%	18,317	18,317	-	-	-
B	60	3,746,914	319,644	8.53%	-32,813	-32,813	-	-	22,000
C	21	1,047,117	101,844	9.73%	1,230	1,230	-	-	-
<b>Total</b>	<b>102</b>	<b>7,734,866</b>	<b>521,022</b>	<b>6.74%</b>	<b>-13,266</b>	<b>-13,266</b>	<b>-</b>	<b>-</b>	<b>22,000</b>
<b>NORTH - Milwaukee East, North Shore, Mequon</b>									
A	12	1,041,560	20,445	1.96%	1,256	1,256	-	-	-
B	63	2,850,067	169,321	5.94%	-7,059	-7,059	-	-	-
C	5	367,329	7,263	1.98%	-970	-970	-	-	-
<b>Total</b>	<b>80</b>	<b>4,258,956</b>	<b>197,029</b>	<b>4.63%</b>	<b>-6,773</b>	<b>-6,773</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NORTHWEST - Northwest Milwaukee, Menomonee Falls, Germantown</b>									
A	16	2,634,690	182,051	6.91%	13,067	13,067	-	-	42,700
B	41	1,704,331	198,008	11.62%	1,323	1,323	-	-	-
C	2	61,199	-	0.00%	-	-	-	-	-
<b>Total</b>	<b>59</b>	<b>4,400,220</b>	<b>380,059</b>	<b>8.64%</b>	<b>14,390</b>	<b>14,390</b>	<b>-</b>	<b>-</b>	<b>42,700</b>
<b>SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin</b>									
A	5	1,074,691	-	0.00%	-	-	-	-	-
B	25	1,148,838	154,083	13.41%	2,126	2,126	-	-	-
C	8	283,584	25,904	9.13%	3,076	3,076	-	-	-
<b>Total</b>	<b>38</b>	<b>2,507,113</b>	<b>179,987</b>	<b>7.18%</b>	<b>5,202</b>	<b>5,202</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>WEST - Brookfield, Waukesha, New Berlin, Pewaukee</b>									
A	42	3,165,372	461,972	14.59%	-29,200	-29,200	-	-	20,800
B	145	6,557,882	747,013	11.39%	-41,158	-41,158	-	-	-
C	8	229,706	-	0.00%	-	-	-	-	-
<b>Total</b>	<b>195</b>	<b>9,952,960</b>	<b>1,208,985</b>	<b>12.15%</b>	<b>-70,358</b>	<b>-70,358</b>	<b>-</b>	<b>-</b>	<b>20,800</b>
<b>GRAND TOTAL</b>									
A	124	18,918,644	1,617,535	8.55%	32,205	32,205	-	-	685,220
B	433	26,889,497	2,363,060	8.79%	-111,733	-111,733	-	-	22,000
C	57	2,799,997	138,011	4.93%	3,336	3,336	-	-	-
<b>Total</b>	<b>614</b>	<b>48,608,138</b>	<b>4,118,606</b>	<b>8.47%</b>	<b>-76,192</b>	<b>-76,192</b>	<b>-</b>	<b>-</b>	<b>707,220</b>
<b>QUARTERLY COMPARISON TOTALS</b>									
2018 Q1	614	48,608,138	4,118,606	8.47%	-76,192	-	-	-	707,220
2017 Q4	614	48,608,138	4,049,381	8.33%	365,530	-	548,000	1,796,830	707,220
2017 Q3	613	48,290,138	4,123,752	8.54%	1,067,509	-	1,127,500	1,237,500	672,000
2017 Q2	612	47,190,138	4,087,690	8.66%	-137,235	-	110,000	110,000	1,273,500
2017 Q1	612	47,190,138	3,967,869	8.41%	81,707	-	-	-	1,383,500

Source: CoStar & Colliers | Wisconsin Research

The data contained within was obtained by a third party source deemed reliable. Updates have been made to include proprietary information.

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69 countries

\$2.7

billion in  
annual revenue

2B

square feet  
under management

15,400

professionals  
and staff

\$116B

in total transaction value

\*All statistics are for 2017, are in U.S. dollars and include affiliates.

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