

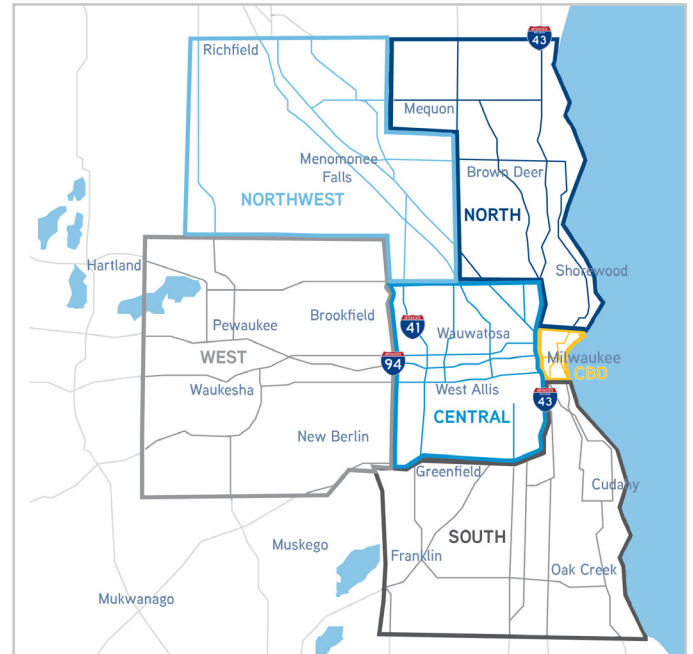


## Introduction

Large users were the key players in Q2. After a slow start to the year, momentum picked up, resulting in nearly 215,000-square-foot of positive absorption. For a quarter with no deliveries, this was the largest positive absorption this cycle.

In April, BonTon, parent company of the Boston Store, filed bankruptcy. The company had 700 employees in its Downtown West building. Recently purchased in 2017, building ownership has plans to multi-tenant the 400,000-square-foot building, leaving the first floor available for a retail use. Also in Downtown West, ASQ Center sold at the end of the quarter to the same ownership group that purchased Grand Avenue Mall. The two properties are connected via skywalk and could play a significant role in the continued investment in the micromarket.

Other market indicators continue to strengthen as well. Vacancy dropped 50 basis points quarter over quarter and demand continues to remain strong. In Q2 demand reached new peaks, with new to market tenants and expansions continues to drive overall demand. The Central submarket continues to gain momentum, nearly surpassing the CBD for both overall square footage demanded and number of users demanding space. Migration between submarkets also remains significant, with at least one of the of the largest deals of the quarter being a relocation to the CBD from a suburban market. Following a few slower quarters, demand in both the West and Northwest submarkets saw an increase, thanks to a handful of large users.



Overall, the market remains optimistic about the direction that the Milwaukee area is headed in. With both the Milwaukee Bucks Arena and the first stage of the street car nearing completion, investment in Milwaukee continues. The impact that these new additions to the area will have on office demand remains to be seen, however, two of the largest deals completed this quarter are within walking distance to the new arena.

Sources: Colliers | Wisconsin Research, Milwaukee Business Journal, BizTimes



**+48.9 MILLION SF**  
office inventory

### Market Indicators

Market Indicators	Q1 2018 Qrt Over Qrt	Q2 2017 Yr Over Yr
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↔	↓

### Summary Statistics

Q2 2018 Office Market	MKE	CBD	Suburban
Vacancy Rate	7.82%	7.16%	8.62%
Change From Q1 2018 (basis points)	-52	-110	-35
Absorption (Square Feet)	214,947	124,187	90,760
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.	2.8%	↓
WISCONSIN UNEMPL.	2.8%	↓
NATIONAL UNEMPL.	4.0%	↓
WI MEI*	0.16	↓

Source: Bureau of Labor Statistics, May 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

May 2018 Employment Numbers

## Vacancy & Availability

Market vacancy closed out the first half of the year at a cycle low of 7.82 percent, a difference of 52 basis points from Q1. Class A spaces are the primary driver of this reduction, with vacancy in these spaces decreasing 238 basis points year over year. Lower classes of space have experienced a slight increase in vacancy rates over the same time period as a result of users continuing to migrate from lower class spaces to class A properties, despite the increase in cost of occupancy.

Taking a closer look at individual submarkets, the West submarket has the highest vacancy rate across the overall market, with the Northwest having the highest rate within the multi-tenant market. The CBD and Central submarkets continue to have the highest user demand. Users continue to be drawn to the Central submarket for suburban amenities such as free parking, however, its close proximity to the downtown area may be its largest draw, as downtown is home to a large percentage of the millennial workforce. Availability in the submarket is starting to become more constrained, but multiple developers have proposed speculative projects in the pipeline for tenants seeking both high-class space and the desirable location.

Over the past few quarters, overall availability has remained relatively flat, with availability for class A space experiencing a sizeable increase. A key driver of this increase is the shift in how companies think about their space needs. As users move away from private offices and the traditional practice of limiting employees to working from the office full-time, companies are finding that they can more efficiently utilize their existing space, move to a smaller space, or even have capacity for more employees. Based on leases signed in Q2, all users who already had a presence in Milwaukee modified an important aspect of their space, whether in the form of downsizing or consolidating multiple offices in one location. Looking forward, these trends in relation to space efficiency have the potential to impact vacancy. With that said, it will be important to watch how other factors, such as users upgrading to class A efficient buildings, will offset the impact.

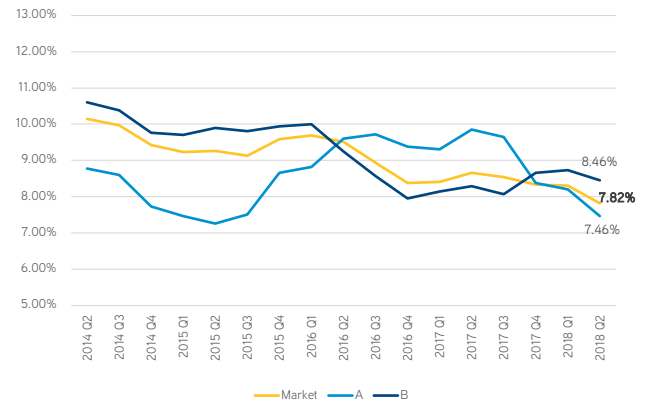
## Economic Activity

Moving into the second half of the year, the national economy remains strong. Unemployment dropped in comparison to Q1 at the national, state, and local levels. Taiwanese manufacturer Foxconn is beginning construction on their manufacturing plant and recently closed on office building purchases in downtown Milwaukee and further north in Green Bay, as well as one in the western part of the state in Eau Claire. With their increasing presence, more jobs are on the horizon for the Badger State.

In comparison to other areas in the region, Wisconsin continues to have one of the largest contributions to the Midwest economy, as measured by the Chicago Federal Reserve Bank. Driving Wisconsin's positive contribution is the manufacturing sector, which is also driving growth regionally. Similar to other states, service sector activity continues to struggle and was the weakest sector for the state. Meanwhile, consumer spending ticked up slightly for the state and the region.

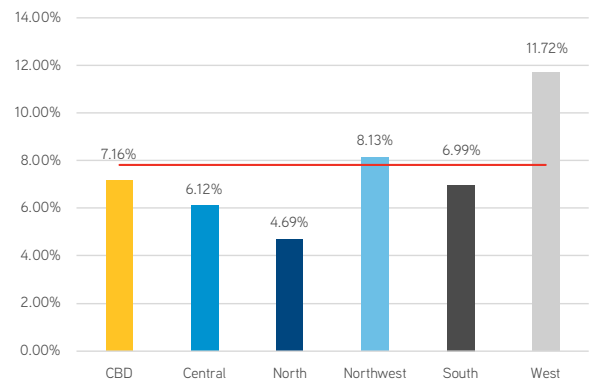
### HISTORICAL VACANCY RATE

#### By Class



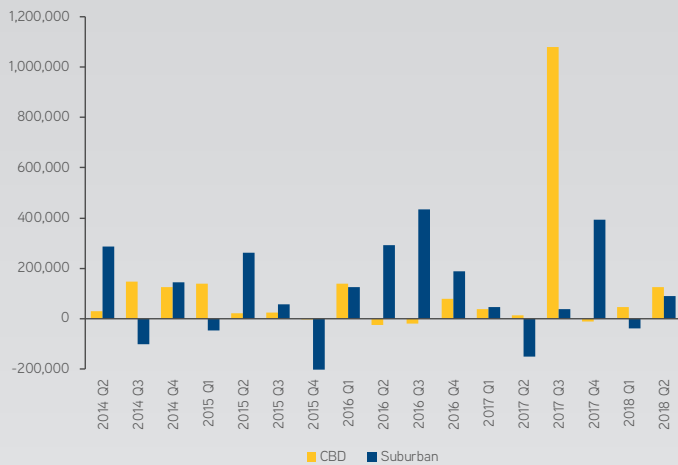
### Q2 2018 VACANCY

#### By Submarket



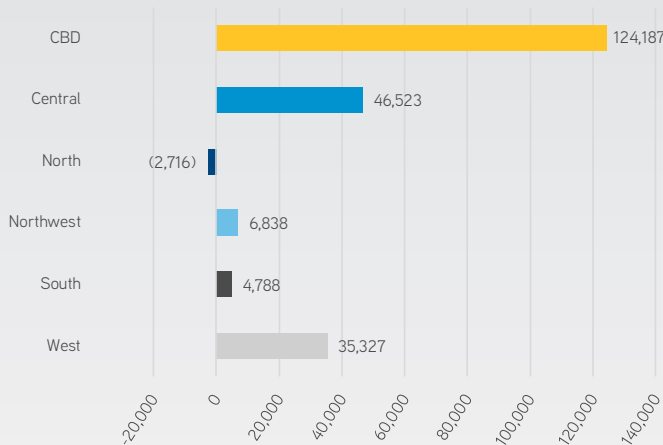
Source: CoStar & Colliers | Wisconsin Research

## HISTORICAL NET ABSORPTION



## Q1 2018 NET ABSORPTION

### By Submarket



## Net Absorption

Following a slow start to the year, Q2 activity picked up significantly and put net absorption back on pace for a strong 2018. Despite no product deliveries, Q2 leasing activity was heightened by multiple large users committing to occupy space, mostly in the CBD. Both Spaces, a new to market co-working company and National General Insurance signed leases in the newly defined Downtown North micromarket of the CBD. Spaces, a subsidiary of Regus (who has multiple Milwaukee area locations), will occupy over 40,000-square-feet of space in 1433 N Water, which was completed last year. National General Insurance will relocate to Schlitz Park and will occupy 31,000-square-feet of space. Also in Schlitz Park, longtime tenant iCare expanded its footprint in the park by 14,000-square-feet, bringing its overall footprint to 50,000-square-feet.

The CBD's newest multi-tenant tower, 833 East, also saw significant absorption in Q2. Bank of America Merrill Lynch will occupy a full floor, consolidating some of the company's suburban operations into over 26,000-square-feet. In addition, accounting firm Ernst and Young will relocate from across the street and will operate in nearly 20,000-square-feet of space. Q2 was one of the strongest quarters this cycle for the CBD. While this was the case this quarter, the average square footage sought in the Milwaukee market is 8,000-square-feet, and the presence of four users occupying more than double this average means it is unlikely that existing product will experience this amount of net absorption for a second time over the next year.

Other submarkets experienced activity consistent with what is common in the Milwaukee market. Transaction volume was strong for deals in the 3,000 to 5,000 square foot range, resulting in all submarkets realizing positive net absorption for the quarter. Bethesda Lutheran Communities was the largest suburban move, and they will occupy over 14,000-square-feet on Sunny Slope Dr in Brookfield.

## Construction

Construction projects from Q1 continued to make progress. In the CBD, BMO Tower, Hammes Co Headquarters, and The Forty Two all continue to progress. The new building for Bader Philanthropies, is expected to be completed in Q3 and is located on N Doctor MLK Drive. Also expected in Q3 are new suburban projects breaking ground, extending the new development pipeline. Local developer Irgens plans to break ground on Muir Woods, the latest Research Park building, following the commitment of Appleton based Schenck to anchor the building. The property has an estimated delivery date of Q3 2019.

## OFFICE CONSTRUCTION



**707,220 SF**  
UNDER CONSTRUCTION



**621,720 SF**  
CBD UNDER CONSTRUCTION

Sources: CoStar, & Colliers | Wisconsin Research

## 2018 Quarter 2

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q2-18	Q2-17	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	8,066,612	705,512	8.75%	11.87%	86,661	124,148	-	-	621,720
B	100	10,825,702	673,590	6.22%	6.52%	65,254	70,749	-	-	-
C	13	811,062	30,728	3.79%	0.64%	(27,728)	(24,016)	-	-	-
<b>Total</b>	<b>141</b>	<b>19,703,376</b>	<b>1,409,830</b>	<b>7.16%</b>	<b>8.26%</b>	<b>124,187</b>	<b>170,881</b>	<b>-</b>	<b>-</b>	<b>621,720</b>
<b>CENTRAL - Near West Side, Wauwatosa, West Allis</b>										
A	21	2,962,610	102,482	3.46%	7.04%	(2,948)	43,641	-	-	-
B	60	3,746,417	323,799	8.64%	8.76%	(4,155)	(12,616)	-	-	22,000
C	21	1,049,256	48,218	4.60%	7.50%	53,626	56,770	-	-	-
<b>Total</b>	<b>102</b>	<b>7,758,283</b>	<b>474,499</b>	<b>6.12%</b>	<b>7.97%</b>	<b>46,523</b>	<b>87,795</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%	3.32%	-	8,656	-	-	-
B	63	2,850,067	174,260	6.11%	6.47%	(4,939)	(10,898)	-	-	-
C	5	367,329	5,040	1.37%	3.29%	2,223	1,253	-	-	-
<b>Total</b>	<b>80</b>	<b>4,258,956</b>	<b>199,745</b>	<b>4.69%</b>	<b>5.42%</b>	<b>(2,716)</b>	<b>(989)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NORTHWEST - Northwest Milwaukee, Menomonee Falls, Germantown</b>										
A	16	2,620,167	158,241	6.04%	7.58%	7,142	36,877	-	-	42,700
B	41	1,704,331	198,312	11.64%	10.52%	(304)	(381)	-	-	-
C	2	61,199	-	0.00%	0.00%	-	-	-	-	-
<b>Total</b>	<b>59</b>	<b>4,385,697</b>	<b>356,553</b>	<b>8.13%</b>	<b>8.61%</b>	<b>6,838</b>	<b>36,496</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%	0.00%	-	-	-	-	-
B	26	1,174,589	149,295	12.71%	12.61%	4,788	(4,947)	-	-	-
C	7	257,833	25,904	10.05%	14.86%	-	3,076	-	-	-
<b>Total</b>	<b>38</b>	<b>2,507,113</b>	<b>175,199</b>	<b>6.99%</b>	<b>7.44%</b>	<b>4,788</b>	<b>(1,871)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>WEST - Brookfield, Waukesha, New Berlin, Pewaukee</b>										
A	43	3,558,312	455,020	12.79%	15.08%	20,606	(14,577)	-	-	20,800
B	145	6,557,882	752,237	11.47%	10.39%	19,869	(50,606)	-	-	-
C	8	229,706	-	2.24%	0.00%	(5,148)	(5,148)	-	-	-
<b>Total</b>	<b>196</b>	<b>10,345,900</b>	<b>1,212,405</b>	<b>11.72%</b>	<b>11.64%</b>	<b>35,327</b>	<b>(70,331)</b>	<b>-</b>	<b>-</b>	<b>20,800</b>
<b>GRAND TOTAL</b>										
A	125	19,323,952	1,441,700	7.46%	9.84%	111,461	198,745	-	-	685,220
B	435	26,858,988	2,271,493	8.46%	8.29%	80,513	-8,699	-	-	22,000
C	56	2,776,385	115,038	4.14%	4.83%	22,973	31,935	-	-	-
<b>Total</b>	<b>616</b>	<b>48,959,325</b>	<b>3,828,231</b>	<b>7.82%</b>	<b>8.66%</b>	<b>214,947</b>	<b>221,981</b>	<b>-</b>	<b>-</b>	<b>707,220</b>
<b>QUARTERLY COMPARISON TOTALS</b>										
2018 Q2	616	48,959,325	3,828,231	7.82%	-	214,947	-	-	-	707,220
2018 Q1	615	48,676,179	4,059,379	8.34%	-	7,034	-	-	-	707,220
2017 Q4	614	48,608,138	4,049,381	8.33%	-	431,177	-	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

### FOR MORE INFORMATION

#### MARKET CONTACT

Lyle Landowski

Partner | Wisconsin

+1 414 278 6827

lyle.landowski@colliers.com

#### RESEARCH CONTACT

Margaret Bruckner Blair

Director of Research | Wisconsin

+1 414 278 6801

margaret.blair@colliers.com

Colliers International | Wisconsin  
833 E Michigan St, Suite #500  
Milwaukee, Wisconsin 53202  
+1 414 276 9500  
colliers.com/milwaukee



Accelerating success.

