

MILWAUKEE

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CARW 2018—2nd Quarter Commercial Real Estate Market Report

Southeastern Wisconsin Commercial Real Estate Markets show relatively steady decline in vacancy rates and positive absorption, according to the commercial real estate market reports for the second quarter of 2018, released today by CARW. The market reports are produced in collaboration with CARW members and REDIComps Research and Catylist.

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Market Overview

The Milwaukee office market continues to flourish as new leases are signed and new construction adds to the ever-changing skyline. Of the top ten lease transactions recorded during 2Q, six were in the Central Business District (CBD). All six leases were new and accounted for 146,127 sf. The largest recorded lease was Spaces for 43,129 sf at 1433 N Water Street in the Downtown East submarket. The second largest lease was National General Insurance for 31,331 sf at the RiverCenter at Schlitz Park, making the entire complex fully leased.

In addition, 833 East signed two new tenants for a total of 43,012 sf during 2Q, bringing the vacancy rate for the building below 10 percent. The largest of the two leases was Bank of America taking 23,456 sf of the seventh floor space; part of an effort to consolidate some local operations. Ernst & Young will move from 875 E Wisconsin Avenue into 19,556 sf of space on the building's 15th floor.

Investment Sales

There were also some notable investment sale transactions that took place this quarter. The largest recorded sale was of a medical office building fully occupied by Orthopaedic Associates of Wisconsin in Pewaukee for \$38 million to Nashville-based, Mentecito Medical Real Estate. The next largest investment sale was of a portion of the ASQ Center owned by Irgens Partners for \$19.9 million to the owners of the Grand Avenue Mall. The sale also includes an adjacent parking structure at 555 N. Plankinton Avenue. Lastly, Greywolf Partners, Inc. acquired Honey Creek Corporate Center II at 115 S 84th St from an affiliate Dallas-based Lone Star Funds for \$11.2 million. This gives Greywolf ownership of all four Honey Creek Corporate Center office buildings in Milwaukee.

Construction Activity

New construction continues as Hammes Company's new development at Knapp and Water nears completion – adding over 90,000 sf of Class A office space to downtown. The BMO Tower is also starting to rise from the ground, adding just over 380,000 sf of Class A space to the CBD. The project, led by Irgens Partners, is expected to be completed during 4Q 2019. Irgens is also planning another office development in the Milwaukee County Research Park in Wauwatosa. Currently referred to as Muir Woods, the 84,000 sf project would be developed on the last remaining vacant parcel.

Notable Lease Transactions

Square Footage	Tenant Name	Location	Listing Company
43,129	Spaces	1433 N Water St, Milwaukee	CBRE
31,331	National General Insurance	1505 River Center Dr, Milwaukee	Founders 3
23,456	Bank of America	833 E Michigan St, Milwaukee	Colliers International
19,556	Ernst & Young	833 E Michigan St, Milwaukee	Colliers International
19,133	CORIX Infrastructure, Inc.	11020 W Plank Ct, Wauwatosa	JLL
14,789	AIDS Resource Center of Wisconsin	101 W Wisconsin Ave, Milwaukee	Irgens Partners
14,411	Bethesda Lutheran Communities	450 N Sunny Slope Rd, Brookfield	JLL
13,866	iCare	1505 River Center Dr, Milwaukee	Founders 3
13,144	Confidential Tenant	1011 W Innovation Dr, Wauwatosa	Irgens Partners
12,180	Lytx, Inc.	13400 Bishops Ln, Brookfield	NAI MLG Commercial

* Lease comp data obtained from sources deemed reliable. Sources include Catylist and Advisory Board members.

Notable Investment Sale Transactions

Sale Price (\$)	Buyer	Seller	Location
38,000,300	Mentecito Medical Real Estate	Orthopaedic Associates of WI	N15 W28300 Golf Rd, Delafield
19,900,000	Hemple Companies	Ivory Retail/Office Operating Co.	101 W Wisconsin Ave, Milwaukee
11,200,000	Greywolf Partners	Lone Star Funds	115 S 84 th St, Milwaukee

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Market Overview

The Milwaukee industrial market continues a streak of significant leasing and user sales, as well as investment sales as we close out the first half of 2018. Of the top 10 industrial leases and user sales, four were above 100,000 sf. The largest transaction was a lease at Zilber's recently completed project at 4620 W Oakwood Park Drive in the Franklin Business Park by Quad Packaging Inc. for a total of 162,861 sf. The next largest was also a new lease at the former Lowe's Home Improvement store at Midtown Center by Sellars Absorbent Materials for 134,000 sf. In total, the top 10 transactions accounted for 978,514 sf for 2Q 2018.

Outside of the notable transactions, the big news this quarter was the official ground breaking of Foxconn's 22 million sf campus in Mount Pleasant. Site work is already under way, with the first building expected to be completed as early as October and will initially house contractors for the project. In addition, they recently acquired an office building in downtown Milwaukee from Northwestern Mutual at 611 W Wisconsin Avenue. They also announced plans to open an innovation center in Green Bay that could employ up to 200 people. This would be in addition to the more than 13,000 workers at its main campus, and another 500 at its downtown office location.

Investment Sales

The investment sales market is also going strong in Southeastern Wisconsin. The largest investment sale recorded during 2Q was the sale of GE Healthcare's facility at 120 Opus Drive in Oak Creek for \$31.1 million to Delaware-based Thomson Logistics Assets. The second largest sale was of Foxconn's facility at 13315 Globe Drive in Mount Pleasant for \$13.66 million to the James Campbell Company. In addition, local developer Thomas Schafer, purchased a building that is home to Vesta, Inc. at 5695 W Franklin Drive in Franklin for \$3.77 million. Milwaukee continues to garner interest from both local and national investors alike.

Notable Lease and User Sale Transactions

Square Footage	Tenant Name	Location	Listing Company
162,861	Quad Packaging, Inc.	4620 W Oakwood Park Dr, Franklin	Zilber Property Group
134,314	Sellars Absorbent Materials	5800 W Hope Ave, Milwaukee	Phoenix Investors
127,346	Blast Cleaning Technologies	6682 W Greenfield Ave, West Allis	The Barry Company
113,499	SL Montevideo	8201 109 th St, Pleasant Prairie	CBRE
99,322	TJW Plant 7, LLC	1327 6 th Ave, Grafton	CBRE
78,000	Danfoss, Inc.	8800 W Bradley Rd, Milwaukee	Building Owner
70,000	Wantable	5315 S 3 rd St, Milwaukee	Colliers International
68,750	Real Flame Company	3030 S Sylvania Ave, Sturtevant	Cushman & Wakefield BOERKE
62,742	Fresenius USA Manufacturing	10601 Enterprise Way, Sturtevant	Lee & Associates
61,680	PodVacic Holdings, LLC	6525 W Burnham St, West Allis	Paradigm Commercial Real Estate

* Lease comp data obtained from sources deemed reliable. Sources include Catalist and Advisory Board members.

** Any transactions in **bold** indicate that it is a user sale transaction.

Notable Investment Sale Transactions

Sale Price (\$)	Buyer	Seller	Location
31,100,000	Thomson Logistics Assets	Exeter Property Group	120 W Opus Dr, Oak Creek
13,667,356	James Campbell Company	The Opus Group	13315 Globe Dr, Mount Pleasant
3,770,000	Bayside Development	C.P. Properties, LLC	5695 W Franklin Dr, Franklin

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Market Overview

New tenants to the market are driving absorption of vacant retail space, rather than the expansion of existing retailers. For those larger spaces that have been vacated over the past year, spaces are being backfilled by tenants. Those new tenants included Dick's Sporting Goods and Round 1 Bowling at the former Sears at Southridge Mall in Greendale, and a Marcus BistroPlex and Chicago-based WhirlyBall at the Sears at Brookfield Square in Brookfield. While big-box opportunities remain, landlords are getting creative with the spaces, both in re-tenanting and repurposing.

Aside from some of the larger tenants backfilling vacant space, most of the activity comes in the form of smaller tenants under 5,000 sf. For instance, the California restaurant chain, Burgerim, which specializes in mini burgers will open during 3Q at the former Cousins Subs space on Old World Third Street in downtown Milwaukee. Other new-to-market restaurant users like Café Zupas and Grate Modern Mac and Cheese are opening multiple locations throughout Southeastern Wisconsin, with the most recent opening at Cobalt Partners LLC 84South development in Greenfield. Fitness users have also been active in the market. Veneration Jiu Jitsu leased 5,000 sf at Fox River Plaza in Burlington and Shred 415 leased 2,473 sf at Autumn Grove Plaza in Elm Grove.

Overall, the retail activity in Southeastern Wisconsin remains strong, evolving to meet the changing consumer trends. There are no signs of a market slowdown as developments continue to be filled, and new tenants emerge, while existing tenants expand and move within the market to capitalize on market-specific activity.

Notable Investment Sale Transactions

Sale Price (\$)	Buyer	Seller	Location
17,900,000	Newport Capital Partners	IRC Retail Centers	17115 W Bluemound Rd, Brookfield
12,046,033	Exchange Right	The Cloverleaf Group	301 Falls Rd, Grafton
9,625,000	Brady MKE, LLC	Monroe Investment Partners	1414 E Brady St, Milwaukee
5,200,000	160 W Town Square Way Wisconsin, LLC	Midland Atlantic Properties	160 W Town Square Way, Oak Creek
4,300,000	Baseline Investments	General Capital Group	14625 W Capitol Dr, Brookfield

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