

2015 Industrial Q2 MarketBeat Update

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2015 Q2: Industrial Market Hits Acceleration Phase

MARKET OVERVIEW

Half way through 2015 the industrial real estate market in Milwaukee is entering into the mature phase of the current real estate cycle. The 2nd quarter amounted to an **additional 1.23 million square feet of absorption** in South East Wisconsin which has dropped the vacancy rate to 4.6%. Total absorption for the year is now in excess of 4 million SF. There is unquestionable upward pressure on market rents.

LOCAL MARKET TRENDS

- The market recovery has finally filtered into Milwaukee County with 1.6 million SF of absorption in the first ½ of the year. Milwaukee County had been the laggard throughout the recovery.
- The “Last Mile” concept is catching on in Milwaukee. All the rage in the distribution/ fulfillment world is getting product to the customer in the “last mile” of delivery. We are predicting a handful of national credit tenants in this space that will be announced in the 3rd quarter in infill areas with access to a vast amount of rooftops.
- “Big Box” product is in “Big” demand. CenterPoint's 411,000SF spec building in Pleasant Prairie is spoken for with MRS. The 280,000 Staples building in Oak Creek has a lease out for the entire building prior to it hitting the market, the 190,000SF Miller Brands building in Wauwatosa is Under Contract and the 250,000SF Oilgear facility is under negotiations.

- Tenants are entering into long term lease renewals. We renewed 330,000SF of leases in the 2nd quarter and are set to extend an additional 250,000SF in Q3. Tenant's are entering into 5-10 year extensions which we have not experienced since the mid 2000's. Tenant's see stability in the market, however long term lease renewals would project stable if not unspectacular overall growth.
- Sale/Leasebacks are coming back into play. Another indicator of the robustness of the capital markets is the resurgence of Sale/ Leasebacks. Bon Ton recently executed a \$88 million Sale / Leaseback of 3 stores, Proteus Packaging (Quad) completed a two building 496,000SF deal and Waukesha Foundry just entered into a long term sale lease back of their 230,000 SF plant for \$11.2 million.

HEADWINDS COMING?

- The local industrial user market has slowed in Q2. The Manufacturing Index for Southeast Wisconsin and Northern Illinois contracted for the 3rd consecutive month registering a 46.55 in the month of June.
- Increased Global uncertainty with the steep sell off in the Chinese stock market, ongoing Greece/Euro challenges, and the Iranian Nuclear deal are creating challenges for manufacturing (Energy & Exports).

HEADWINDS COMING IN THE INDUSTRIAL MARKETPLACE?

“The “Last Mile” concept is catching on in Milwaukee. All the rage in the distribution/ fulfillment world is getting product to the customer in the “last mile” of delivery.”

3rd Quarter Prediction: Handful of National Credit tenants in this space will be announced in infill areas with access to a vast amount of rooftops.



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