

# Southeastern Wisconsin 2010 Industrial Market Report



## *Year-End Statistics & Market Report*

*Published January 2011*

THE  
**DICKMAN**  
COMPANY, INC.  
REAL ESTATE

**CORFAC**  
International

626 E. Wisconsin Avenue, Suite 1020  
Milwaukee, Wisconsin 53202  
Phone: (414) 271-6100  
Fax: (414) 271-5125  
Info@dickmanrealestate.com  
www.dickmanrealestate.com



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## 2009 vs. 2010 Vacancy & Absorption

County/Submarket		Inventory (SF)	Total Vacant (SF)	Vacancy Q4 2009 (%)	Vacancy Q4 2010 (%)	Absorption Q4 2009 (SF)	Absorption Q4 2010 (SF)
Milwaukee	Downtown	12,340,082	1,664,905	13.1%	13.5%	-243,812	-51,095
	North Central	10,146,142	1,099,763	10.3%	10.8%	-8,906	-57,667
	North Shore	7,184,493	1,195,890	15.9%	16.6%	-527,738	-44,777
	Northwest	19,005,788	1,878,269	8.6%	9.9%	-202,091	-177,404
	South	23,534,726	2,706,996	9.8%	11.5%	-776,001	-411,396
	South Central	9,930,030	1,133,138	12.3%	11.4%	253,626	87,673
	West	13,302,593	1,658,356	11.0%	12.5%	-79,445	-194,670
<b>Milwaukee Total</b>		<b>95,443,854</b>	<b>11,337,317</b>	<b>10.9%</b>	<b>11.9%</b>	<b>-1,584,367</b>	<b>-849,336</b>
Waukesha	Northeast	21,133,362	1,315,552	6.4%	6.2%	91,339	40,901
	Northwest	17,839,216	1,279,091	7.5%	7.2%	-220,641	95,791
	Southeast	15,021,741	977,135	6.6%	6.5%	839,113	12,795
	Southwest	15,065,701	656,781	4.4%	4.4%	32,627	11,093
<b>Waukesha Total</b>		<b>69,060,020</b>	<b>4,228,559</b>	<b>6.3%</b>	<b>6.1%</b>	<b>742,438</b>	<b>160,580</b>
<b>Ozaukee</b>		<b>12,807,027</b>	<b>1,728,530</b>	<b>13.6%</b>	<b>13.5%</b>	<b>-467,531</b>	<b>11,040</b>
<b>Racine</b>		<b>28,079,456</b>	<b>1,312,492</b>	<b>6.7%</b>	<b>4.7%</b>	<b>661,687</b>	<b>790,960</b>
<b>Sheboygan</b>		<b>12,745,734</b>	<b>524,814</b>	<b>2.3%</b>	<b>4.1%</b>	<b>-61,300</b>	<b>-231,914</b>
<b>Kenosha</b>		<b>20,848,134</b>	<b>2,017,391</b>	<b>13.1%</b>	<b>9.7%</b>	<b>228,456</b>	<b>1,661,462</b>
<b>Walworth</b>		<b>8,679,887</b>	<b>628,175</b>	<b>8.0%</b>	<b>7.2%</b>	<b>-82,668</b>	<b>64,900</b>
<b>Washington</b>		<b>19,316,661</b>	<b>1,138,776</b>	<b>7.6%</b>	<b>5.9%</b>	<b>48,716</b>	<b>375,796</b>
<b>Grand Total</b>		<b>266,980,773</b>	<b>22,916,054</b>	<b>8.8%</b>	<b>8.6%</b>	<b>-514,569</b>	<b>1,983,488</b>

Data Source: Xceligent

### Terminology

**Inventory** - The total square feet of all single and multi-tenant industrial properties above 10,000 square feet.

**Vacant SF** - Space that is available and not currently occupied.

**Vacancy Rate** - Percentage of space in the market that is not currently occupied (Vacant square feet divided by inventory).

**Absorption** - The rate at which rentable space is filled. Net absorption is equal to the amount occupied at the end of the period minus the amount occupied at the beginning of the period, taking into consideration space vacated during the period.



## 2010 Quarterly Vacancy Rates

County/Submarket		Inventory (SF)	Total Vacant (SF)	Vacancy Q1 (%)	Vacancy Q2 (%)	Vacancy Q3 (%)	Vacancy Q4 (%)
Milwaukee	Downtown	12,340,082	1,664,905	13.2%	13.0%	13.0%	13.5%
	North Central	10,146,142	1,099,763	10.5%	10.2%	10.8%	10.8%
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<b>Ozaukee</b>		<b>12,807,027</b>	<b>1,728,530</b>	<b>13.6%</b>	<b>13.7%</b>	<b>13.5%</b>	<b>13.5%</b>
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<b>Washington</b>		<b>19,316,661</b>	<b>1,138,776</b>	<b>7.6%</b>	<b>7.9%</b>	<b>7.3%</b>	<b>5.9%</b>
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### Terminology

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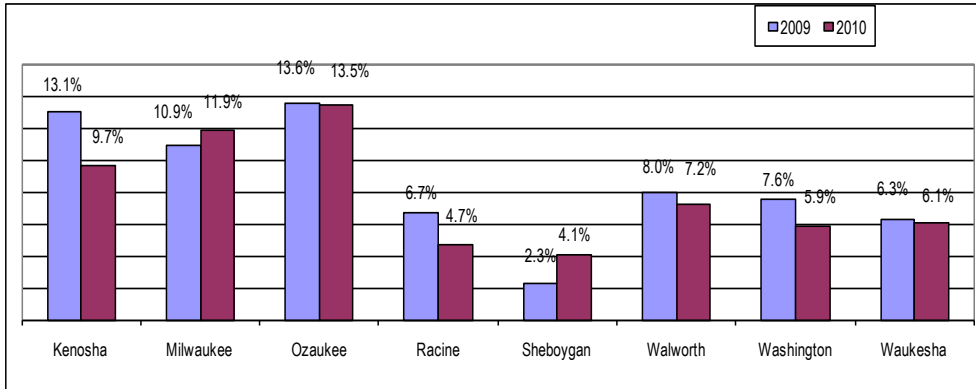
**Vacant SF** - Space that is available and not currently occupied.

**Vacancy Rate** - Percentage of space in the market that is not currently occupied (Vacant square feet divided by inventory).

# Southeastern Wisconsin 2010 Industrial Market Report



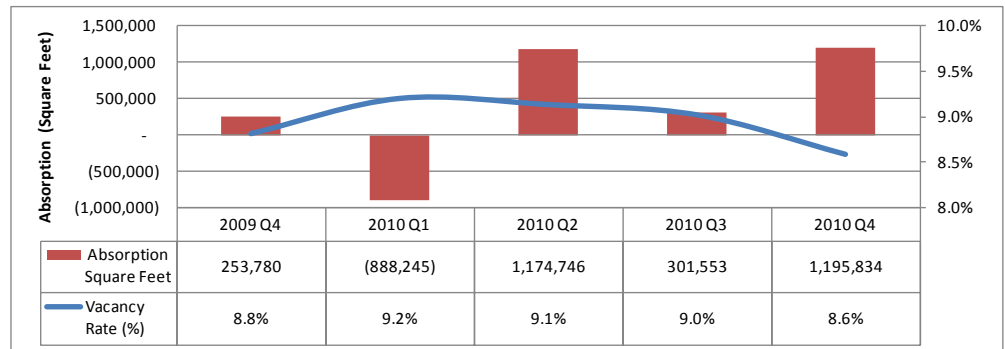
## 2009 vs. 2010 Vacancy by County Comparison



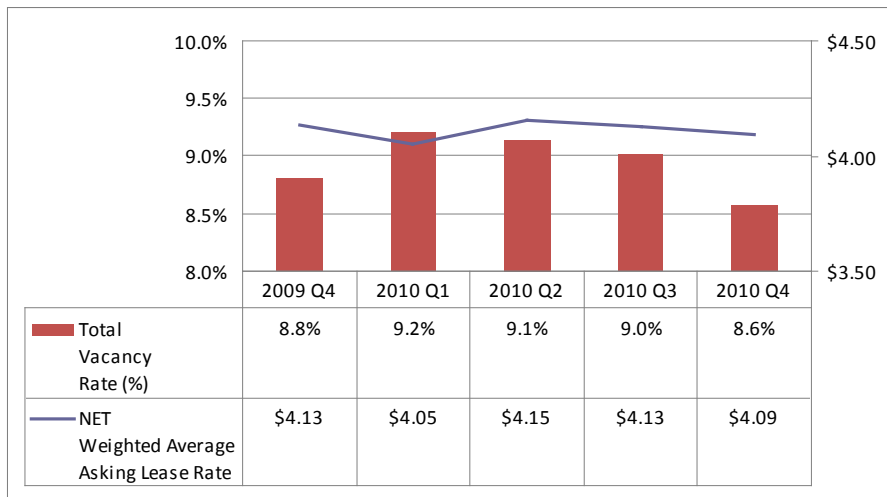
The side by side vacancy bar chart by county shows a generally positive trend of declining vacancy between 2009 and 2010. Markets west of I-45 and south of I-94 outperformed the other markets in 2010.

## Quarterly Absorption vs. Vacancy

The data demonstrates a generally positive trend of declining vacancy in 2010 with positive absorption in all three quarters since Q2 2010. We noted the positive absorption in Q2 can be attributed to Uline in Kenosha (new construction) and four transactions in Racine County in Q4 totalling approximately 700,000 Sq. Ft.



## Quarterly Vacancy vs. Asking Lease Rates



The data demonstrates how vacancy rates have steadily declined since Q1 2010 while asking lease rates have held relatively steady. Despite stabilized asking rates, aggressive landlord incentives such as free rent, lower base rent, and higher build-out allowances continued in 2010.

Data Source: Xceligent Milwaukee Industrial Market Report Q4 2010



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# Southeastern Wisconsin 2010 Industrial Market Report



## 2010 Recap

For the eight county area of Southeastern Wisconsin, we saw the overall vacancy rate decrease from 9.2% in Quarter 1 to 8.6% in Quarter 4 in 2010. This occurred as the region experienced 1,983,488 Sq. Ft. of net positive absorption. While a tremendous amount of the positive absorption occurred in Racine and Kenosha Counties, all of the counties except for Milwaukee and Sheboygan experienced a positive trend in vacancy and absorption statistics.

Milwaukee County saw a 9.2% increase in the vacant space, representing 11,337,317 square feet of currently vacant space at the end of the year. This amount is 49.5%, or almost half of the vacant space for the entire eight county metro area.

The bright spot for the overall market has remained Racine and Kenosha Counties. For Racine County, the vacancy rate dropped from 6.7% (Q4 '09) to 4.7% (Q4 '10) with 790,960 Sq. Ft. of positive absorption in 2010. For Kenosha County, the vacancy rate dropped from 13.1% (Q4 '09) to 9.7% (Q4 '10) with 1,661,462 Sq. Ft. of net positive absorption in 2010. A majority of this net change in absorption can be attributed to the new construction of the Uline Corporate Campus in Pleasant Prairie of approximately 1,100,000 Sq. Ft. on 20 acres.



The Chrysler Engine Plant in Kenosha closed its 1,900,000 SF facility in 2010.

Despite the positive news, we did note the closing of the Chrysler Engine Plant in Kenosha, totaling 1,900,000 Sq. Ft. on 109 acres. When Tower Automotive closed (2,200,000 Sq. Ft. on 86 acres), the City of Milwaukee ultimately became involved and purchased the site in 2009. Ultimately, we anticipate that Kenosha will play a similar role in the re-use or redevelopment of the site.

In 2009, Washington County experienced a significant amount of negative absorption and vacancy due to the closure of the Amnity Leather and Milliken Woodcraft facilities. In 2010, both of these facilities sold, resulting in a vacancy rate swing from 7.6% (Q4 '09) to 5.9% (Q4 '10) with 271,453 Sq. Ft. of net positive absorption in 2010.

On the investment side, we saw cap rates begin to decrease in 2010 and settle in a range between 8 – 10% for institutional product and 10 – 12% + for riskier non-institutional product. We expect a CAP rate depression of 50 – 100 basis points in 2010. Ultimately, this will increase the prices for investment opportunities as more buyers with cash return to the investment market.

SE Wisconsin 2010 Cap Rates		
	Korpacz**	Dickman Survey
Institutional	8.38 %	8.0 – 10.0 %
Non-Institutional	10.63 %	10.0 – 12.0 + %

\*\* Source: National Investor Survey, PriceWaterhouseCoopers

While the industrial market has not fully recovered, there are some strong indications that the recovery has begun. In general, vacancy rates are declining and positive absorption is occurring. These factors need to occur before lease rates and sale prices increase and new construction and speculative development can occur; which is yet to begin. The Dickman Company, Inc. will continue to monitor various market indicators to predict the short term direction of the market and serve as effective real estate advisors for our clients.

**2010 Recap**  
Compared to 2009:

Vacancy  
▼  
**DOWN**

Net Absorption  
▲  
**POSITIVE**

Lease Rates  
▼  
**DOWN**

Transactions  
▲  
**UP**



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## 2011 Forecast

The industrial real estate market for 2011 looks very positive and many indications that started in the fourth quarter of 2010 have continued to become stronger in 2011. The largest positive indication is the increased activity and closed deals in the brokerage community. There are more deals, larger deals and companies with real needs in the marketplace.

Large leases and sales have been the bulk of the activity in the last 3-4 months. Larger businesses that held off on space have decided the time is right to move forward. They are taking advantage of owners who feel a need to lease the property at low rental rates or sell to finally relieve themselves of a vacant property. This activity has started to create a shortage of large industrial space in certain submarkets such as Oak Creek and Pewaukee.

During 2009 and the beginning of 2010 there was a large discrepancy between owners and users. Many times this could not be bridged as owners hung onto a false reality of the value of their property or, due to financial reasons, could not bridge the distance. Prospects felt that if the owner didn't make a deal they would move on and find someone who would. The deals being completed today have a much smaller gap that needs to be closed. We have seen rising rental rates as well as purchase prices and the owners have finally decided to be realistic on their values. This trend should continue in 2011 as prices continue to rise, making it easier to complete transactions.

Banks have become part of the industrial real estate market as they market troubled properties. Many of the properties that banks take back are difficult properties to sell and buyers tend to push the banks harder in negotiations. This will affect the market but we believe bank owned properties will be phased out over the next 12-18 months as the economy improves. Owners will find buyers at reasonable prices and tenants will be found for investment properties.

Financial institutions have started to lend and solid companies with good cash flow are finding many banks willing to lend. SBA financing plays a part of this because the banks have a government guarantee and the borrower has a fixed rate for a long period of time. It takes longer to

finalize an SBA loan, but many borrowers choose this route because it is preferred by the banks.

When the economy slowed the two areas that remained steady were the areas around the airport and Pewaukee. These areas have few large available properties and have seen the most action in recent months. This should continue and as the economy improves these geographic areas should expand into other areas as companies search for quality real estate.

In the last few years rental rates dropped considerably and developers could no longer afford to build a speculative property. Rental rates started to rise in the fourth quarter of 2010 and will continue to rise as the lack of space becomes more apparent as companies need to move. As it gets higher it will reach a point where new construction becomes viable. Prices of existing buildings have also started to increase and this should continue as lack of space may become an issue.

While we are not quite a "healthy market", we are definitely moving in the right direction and the industrial market is much better than it has been. While there may be a few bumps in the road, the value of real estate will continue to rise and vacancy rates will drop.

### 2011 Forecast

Compared to 2010:

Vacancy



**DOWN**

Net Absorption



**POSITIVE**

Lease Rates



**UP**

Transactions



**UP**



**TOP 10 DICKMAN DEALS of 2010**

	Address	City	Building Size	Type
1	8600 N. 87th Street	Milwaukee	143,000 SF	Sale
2	529 N. River Road	West Bend	105,024 SF	Sale
3	600 Perkins Drive	Mukwonago	101,746 SF	Sale
4	N90 W14700 Commerce Drive	Men. Falls	85,000 SF	Lease
5	2969 S. Chase Avenue	Milwaukee	73,050 SF	Lease
6	7501 N. 81st Street	Milwaukee	69,114 SF	Lease
7	16333 W. Rogers Drive	New Berlin	56,884 SF	Sale
8	N7W22025 Johnson Drive	Pewaukee	52,670 SF	Sale
9	2700 - 2730 W. Silver Spring Dr. & 5623 N. 27th Street	Milwaukee	36,881 SF	Sale
10	1420 Ellis Street	Waukesha	28,000 SF	Sale

**The Dickman Company, Inc. is your source for commercial real estate in Wisconsin.**

The brokers at the Dickman Company aggressively work hard for their clients. Past clients will attest to the fact that we cold call, advertise, and push the availability of every property in a very effective manner.

**SERVICES AVAILABLE:**

- Listing Representation
- Facility and Site Analysis
- Tenant Representation
- Site Selection

**THE LEADER IN SALES FOR INDUSTRIAL REAL ESTATE**

The Dickman Company, Inc. continues to be the leader in its field. In 2010, The Dickman Company, Inc. was the leader in sales for industrial real estate in the City of Milwaukee, Milwaukee County and Waukesha County. Some of our notable transactions are listed above under the "Top 10 Dickman Deals of 2010". Every year, we track industrial sales brokered (completed transactions) in each market. We noted our strong performance by market share, ranking #1 in at least 2 of the 3 categories for each market:

**Market Sales Overview**

	City of Milwaukee	Milwaukee County	Waukesha County
<b>% of Deals Sold</b>	21%	26%	24%
<b>% of Sq. Ft. Sold</b>	36%	29%	31%
<b>% of Sold Value</b>	22%	20%	29%

**City of Milwaukee:**

24 completed deals = 814,603 Sq. Ft. / \$19,851,100

**Milwaukee County:**

38 completed deals = 1,291,489 Sq. Ft / \$36,760,300

**Waukesha County:**

34 completed deals = 981,174 Sq. Ft. / \$43,322,900

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