

# Madison Market Overview 2012

Presented by:

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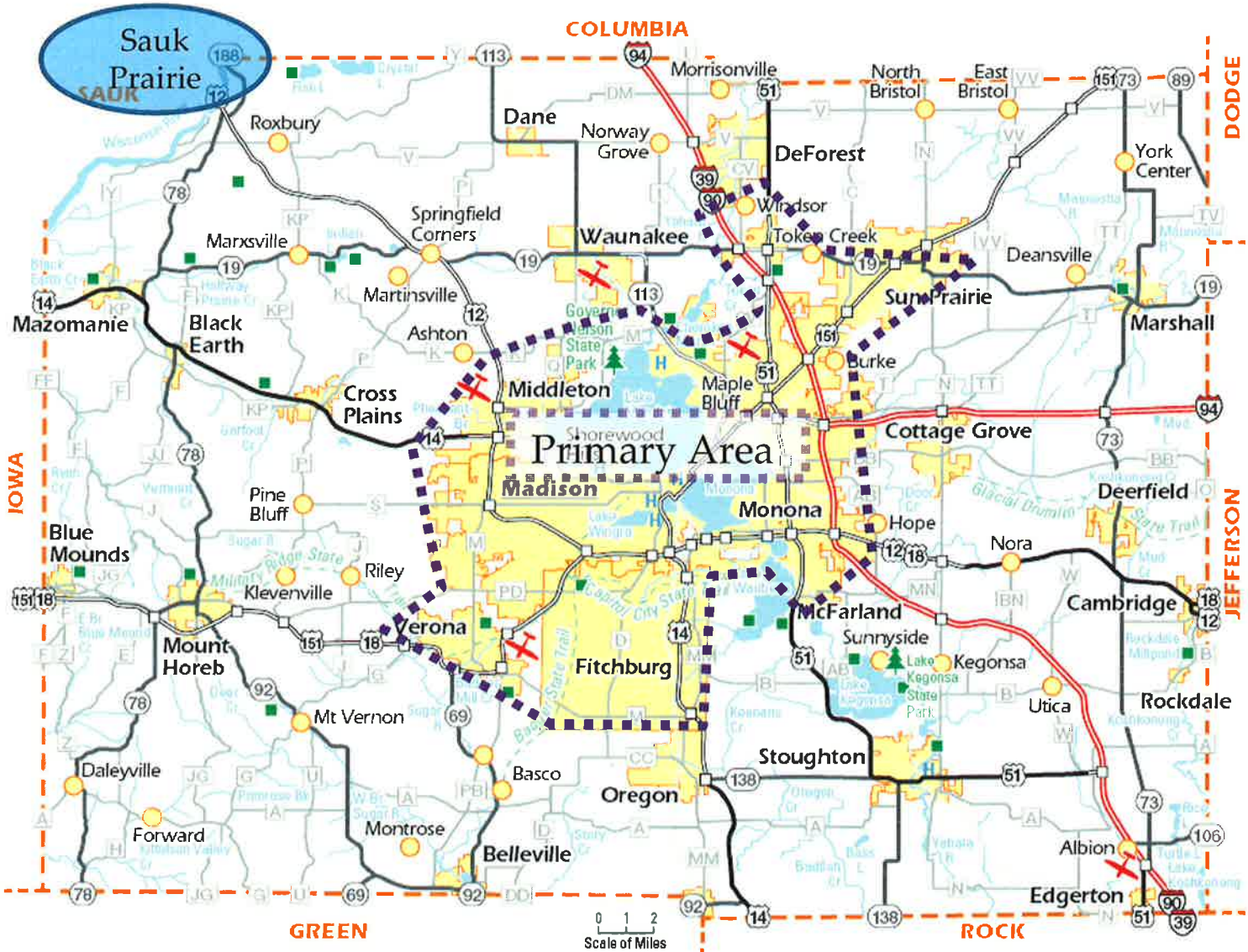
Landretti & Company, LLC

December 18, 2012

# Topics

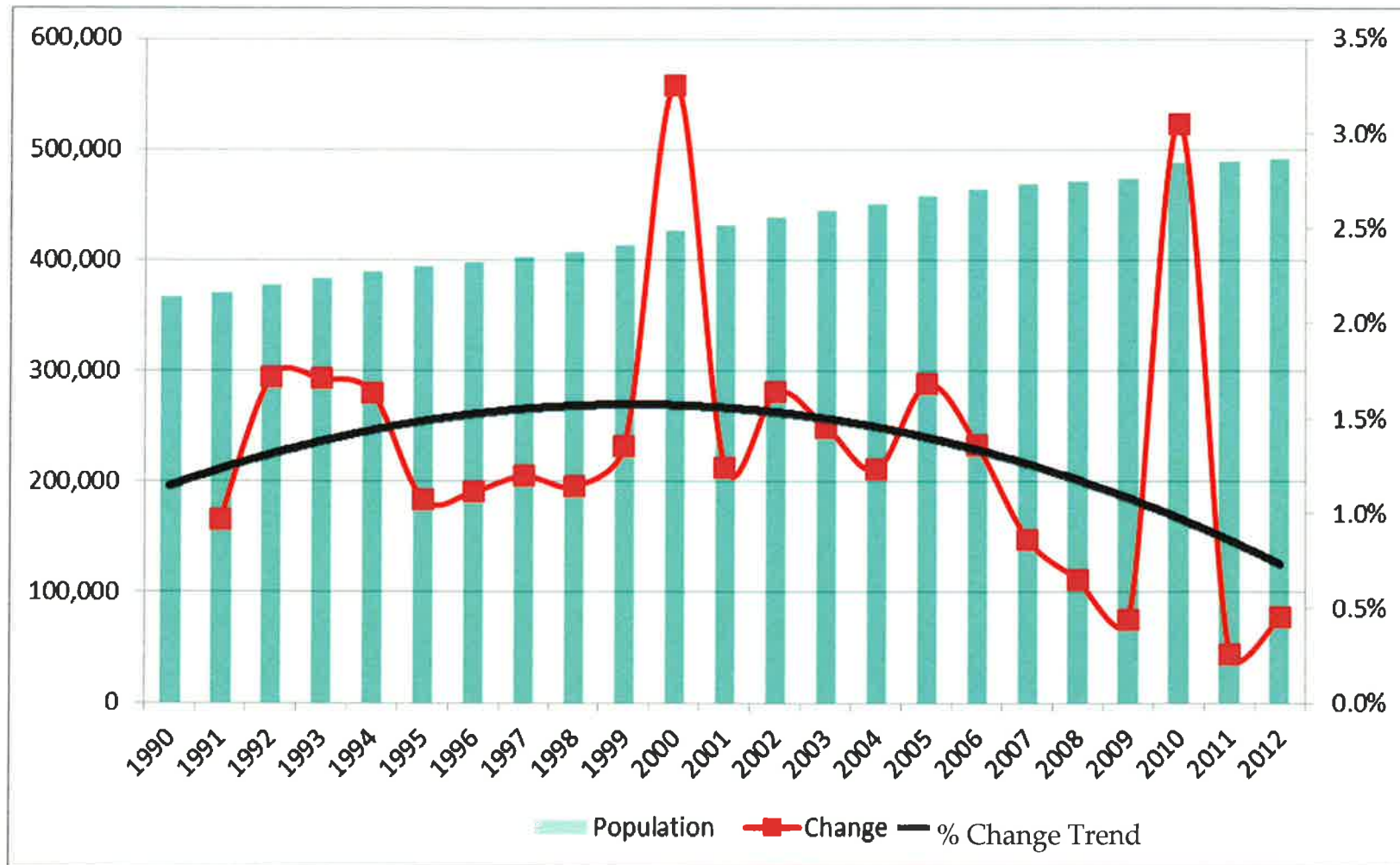
- Define the market
- Market statistics
- New construction
- Property type market trends

# Market Area



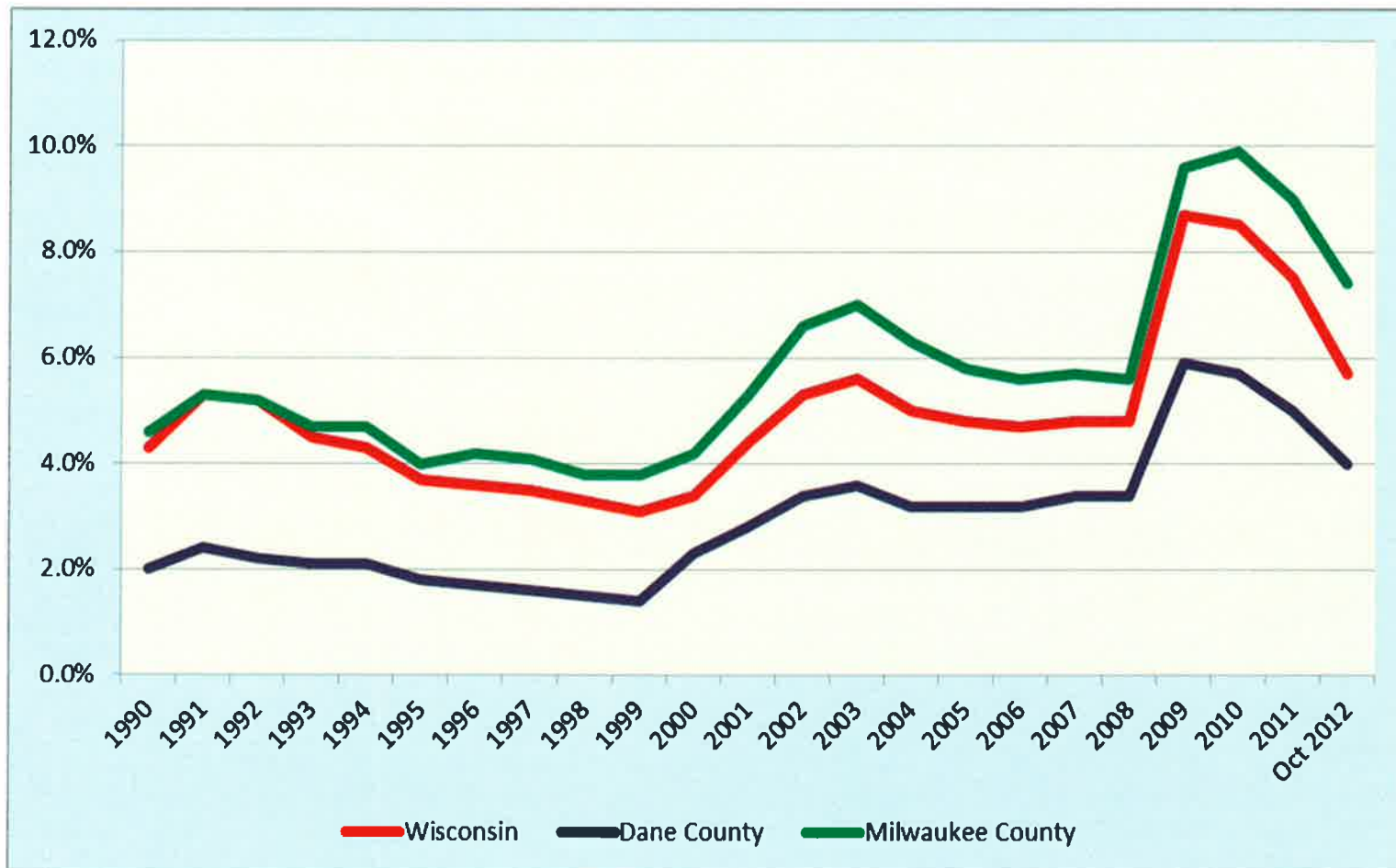
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# Population – Dane County



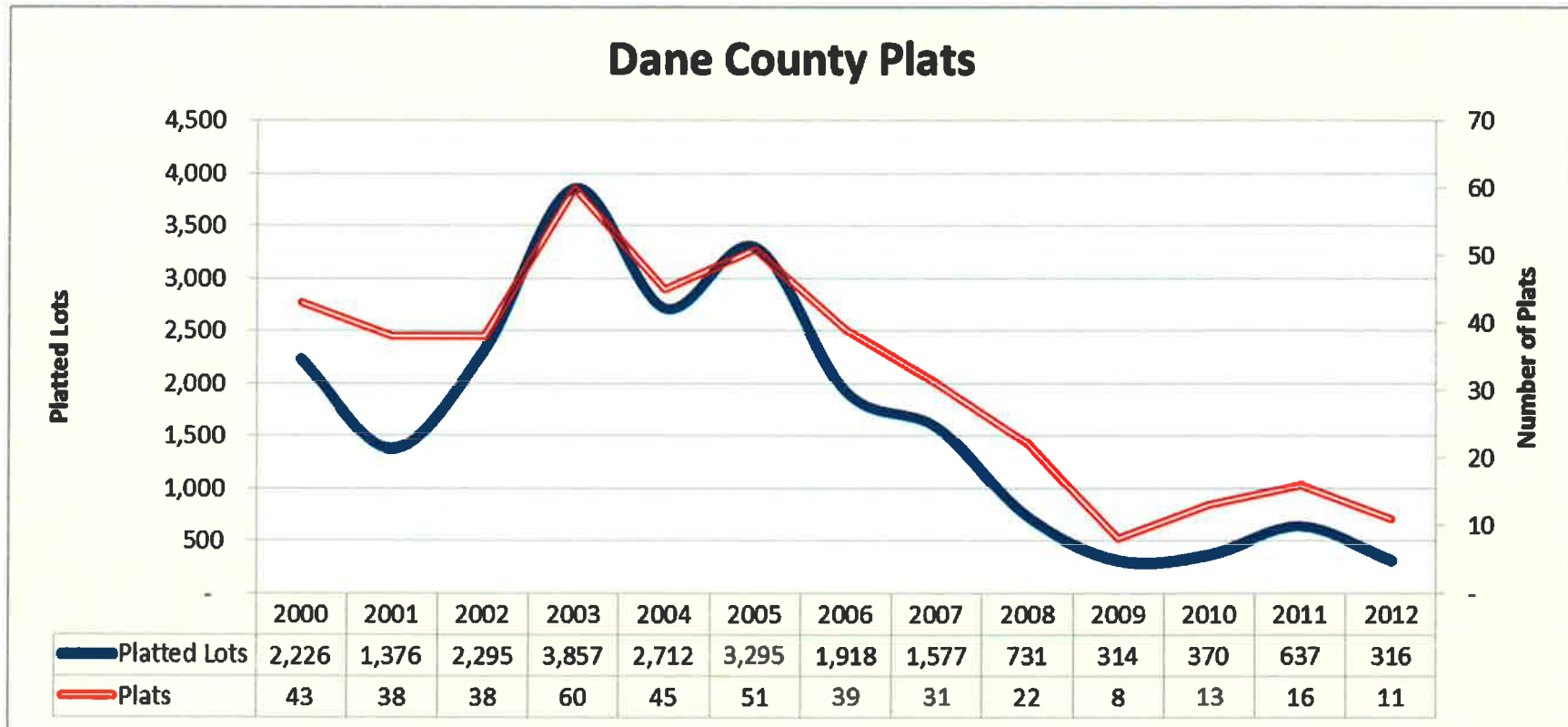
Source: Wisconsin Department of Administration; US Census

# Unemployment Rate



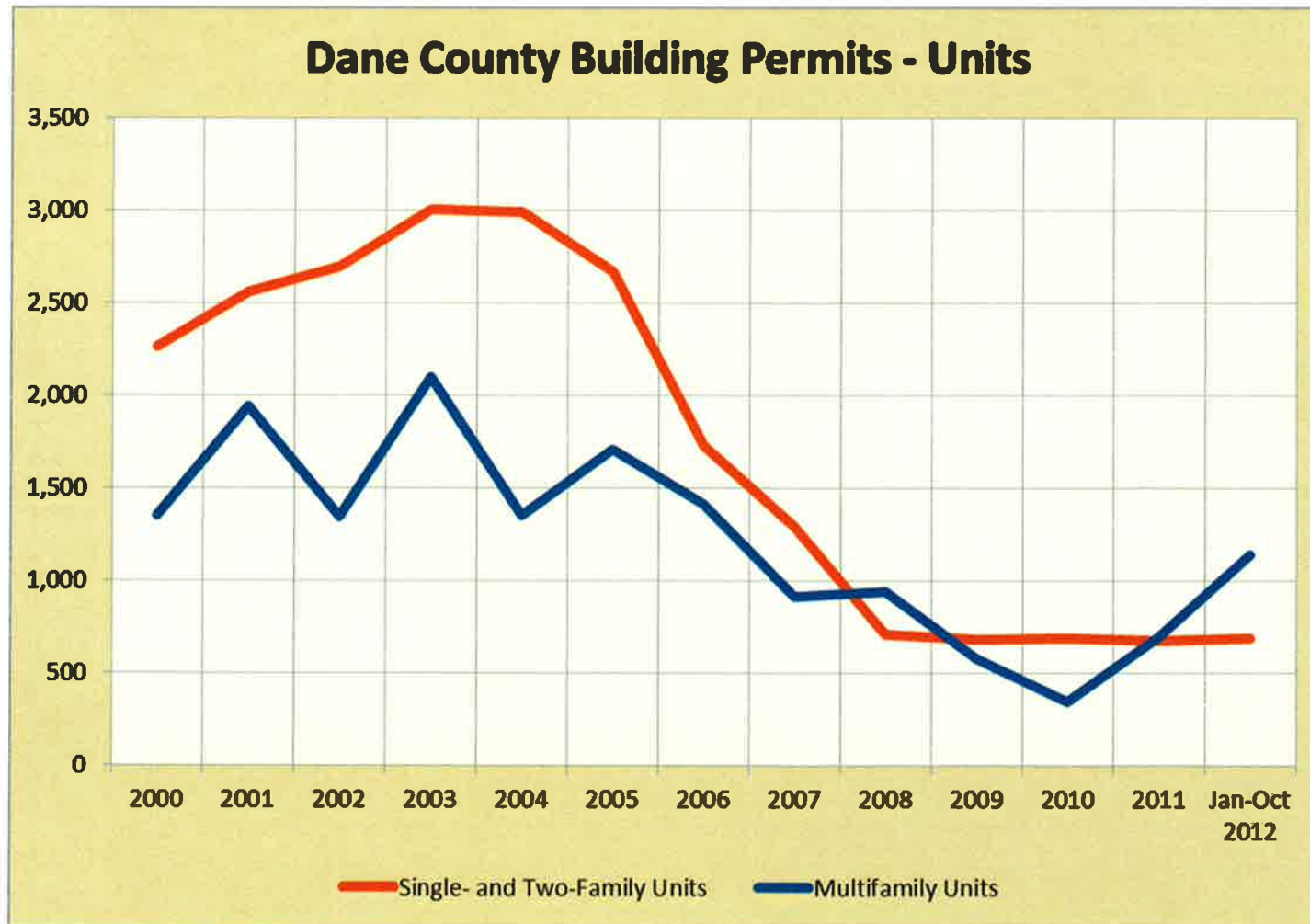
Source: State of Wisconsin Department of Workforce Development

# Land Platting Trend



Source: Dane County Planning & Development (through November 2012)

# Building Permits Issued



Source: SOCDs Building Permits Database

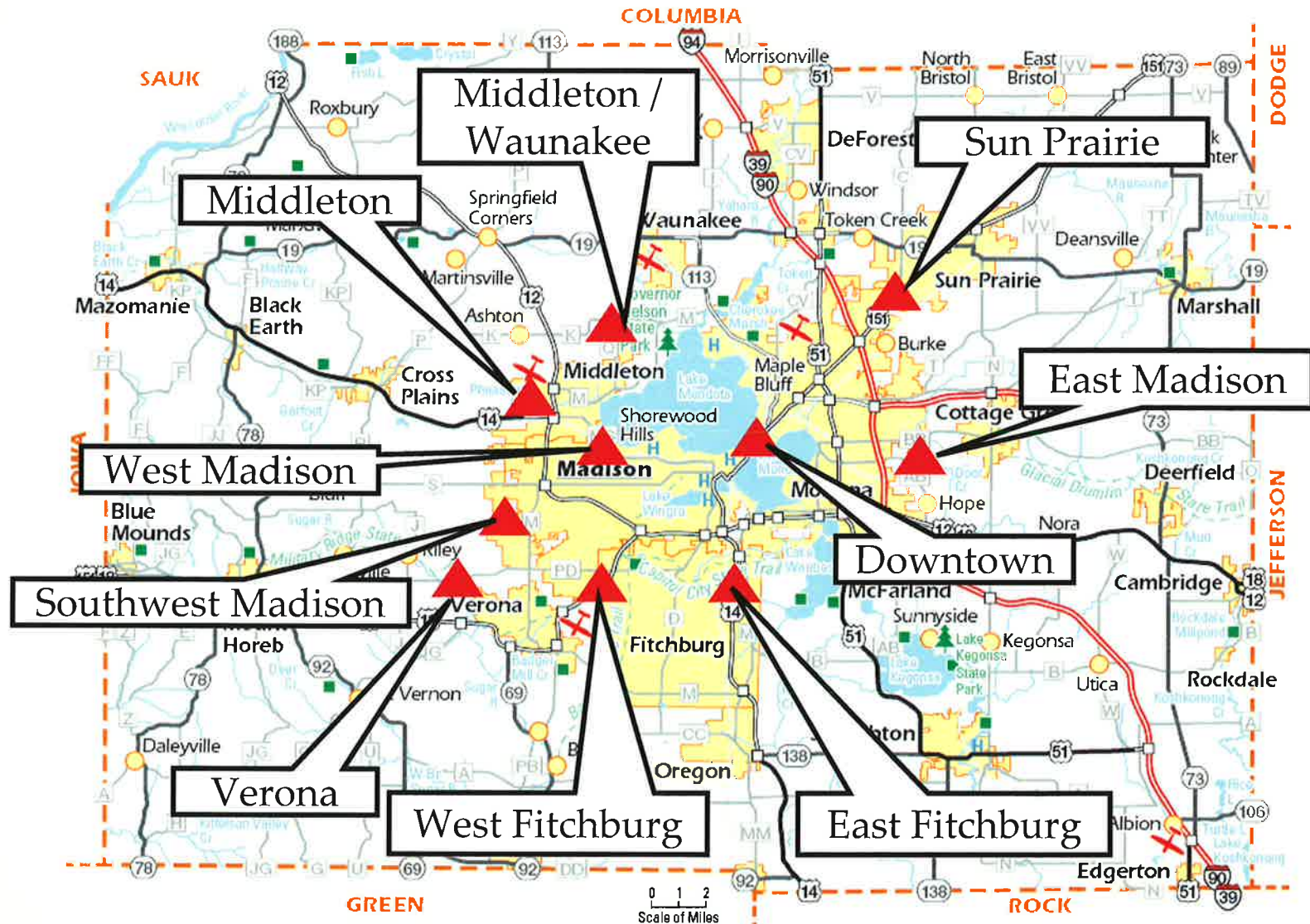
# Major Employers

Rank	Employer Name	Industry
1	U.W. - Madison	Colleges, Universities, and Professional Schools
2	<b>University of Wisconsin Hospitals &amp; Clinics</b>	<b>General Medical and Surgical Hospitals</b>
3	Madison Metropolitan School District	Elementary and Secondary Schools
4	<b>Epic Systems Corp</b>	<b>Software Publishers</b>
5	American Family Mutual Insurance Co	Direct Property and Casualty Insurance Carriers
6	Department of Corrections	Correctional Institutions
7	City of Madison	Police Protection
8	University of Wisconsin Medical Foundation	Offices of Physicians (except Mental Health Specialists)
9	Department of Health Services	Residential Intellectual and Developmental Disability Facilities
10	SSM Health Care of Wisconsin Inc	General Medical and Surgical Hospitals
11	<b>Dean Health Systems Inc</b>	<b>Offices of Physicians (except Mental Health Specialists)</b>
12	<b>Meriter Hospital Inc</b>	<b>General Medical and Surgical Hospitals</b>
13	Madison Area Technical College Dist	Junior Colleges
14	County of Dane	Executive and Legislative Offices, Combined
15	Wisconsin Physicians Service	Direct Health and Medical Insurance Carriers
16	Department of Veterans Affairs	General Medical and Surgical Hospitals
17	CapTel Inc	Telephone Answering Services
18	CUNA Mutual Insurance Society	Direct Life Insurance Carriers
19	Kraft Foods Global Inc	Meat Processed from Carcasses
20	Walgreen's	General Warehousing and Storage

Source: State of Wisconsin Department of Workforce Development



# New Construction



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## **Downtown Madison**

### Completed

- 2508 University Ave on Campus Drive – 130 Unit Apartment with Retail

### Under Construction

- 700 E Washington Ave – 12 Story 215 Unit Apartment with 30,000sf of Commercial
- 454 W Johnson St – 9 Story 194 Room Hotel with 3,000sf of Retail
- 633 W Wilson Redevelopment–60 Unit Apartment–Purchased site in July 2012 for \$16,000/unit
- 1001 University Avenue – 90 Unit Apartment
- 1552 University Ave at Campus Drive - Phase 1 of Wisconsin Energy Institute 107,000sf research laboratory and office – University of Wisconsin
- 306 S Livingston St – 5 Story 39 Unit Apartment with 5,300sf of Commercial near Willy St
- 1102 S Park St Moringstar Dairy Redevelopment–4 Story office for UW Health– 76,000sf
- 2709 Marshall Ct at University Avenue in Shorewood Hills – 80 Unit Apartment with 10,000sf of Commercial Space – 85% of Units are income restricted

### Planned

- 448 S Park St Redevelopment near St. Mary's Hospital– Mixed Use 40 Unit Apartment and 6,500sf of Retail Space
- Edgewater Project – Hotel Redevelopment – to be completed in 2014
- 305-325 West Johnson Street – One block south of State Street – Redevelopment with 250 apartment units and 60,000sf of retail space- Requires demolition of the Madison Fire Department Administrative offices – will relocate
- 512 W Dayton – Redevelopment of a 75 Unit Apartment Building
- Union Corners – 14 Acre Site at E Washington Ave and Milwaukee St - Mixed Use
- Ideal Body Shop Redevelopment – 502 S Park St and Drake St – 5 Story 62 Apartments and 4,300sf of Commercial Space
- Fish Hatchery Road at Park St – 4 Story 67 Unit Apartment – T. Wall

# 2508 University Ave on Campus Drive



## East Madison

### Completed

- The Midwest BioLink Commercialization and Business Center – 31,000sf laboratory/office incubator on World Dairy Drive
- Addition to the Pellitteri Recycle Center – 55,000sf addition to the existing 30,000sf building – Company is adding large accounts
- Ale Asylum – An \$8 million 45,000sf brewery at International Lane and Packers Avenue – Completed September 2012
- Wilde Honda – A 45,000sf \$10million facility on High Crossing Blvd completed in December 2012

### Under Construction

- Large addition to the State Laboratory of Hygiene – Agricultural Drive – to be completed in 2013

### Planned

- Grandview Commons
  - 58,000sf Copps Grocery Store approved
  - 3,800sf retail building approved
  - 95 Unit Apartment complex in two buildings
- American Parkway Apartments – 263 Apartment Units in the American Family Campus – To begin in 2013
- Royster-Clark Redevelopment Neighborhood – 60 acre planned neighborhood on Cottage Grove Road about four blocks east of Lake Monona
  - Demolition completed in 2012 of Royster-Clark fertilizer manufacturing plant, which closed in 2006 after over 50 years of operation

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# Pellitteri Recycle and Transfer Center



## West Madison

University Avenue Reconstruction – Segoe Rd to Allen Blvd – Year long completed in November 2012

University Crossing – University Avenue and Whitney Way

- 14 acre site purchased from Erdman by Krupp in January 2012 for \$23 per foot
- Demolition of 11 commercial buildings was required
- Development to include three UW Health clinics, a cancer patient lodge, a hotel, apartments, office, and retail space are planned
- First phase of the project - a \$24 million 60,000sf UW Health digestive health clinic. Construction started November 2011, with the clinic open by January 2013
- An 63,400sf office/retail building and a four-story, 118-unit apartment tower will make up the \$36 million second phase. Developer is seeking \$3.1 million in tax increment financing for this phase, mostly to help finance a 335-stall parking garage that will serve both buildings
- Second phase – started in June 2012

Good and Loud Music – 5225 University Avenue

- One block west of University Crossing Planned for redevelopment into retail with a drive-thru and outdoor seating

Hy-Vee – Westgate Mall – Odana Road and Whitney Way

- Demolition of the south side of the Mall began in June 2012 to make way for the 80,500sf store.
- Opening is scheduled for Spring 2013

677 S Segoe Road – Corner of Segoe and Odana Road behind Hy-Vee – 60 Unit Apartment under construction – Site was purchased in December 2011 for about

- \$13,000 per unit

# University Crossing



# Hy-Vee at Westgate Mall





## Southwest Madison

Highway M, Pleasant View Road, Valley View Road Interchange Completed Early 2012

University of Wisconsin Research Park, Phase 2

- Located at southwest intersection of Mineral Point Road and Highway M in Pioneer Neighborhood
- Partial infrastructure completed in 2012
- Development includes 54 building sites on 270 acres
- Groundbreaking planned for 2013
- Additional 75 acres purchased in January 2012 for \$74k per acre to the south. Planned for 14 sites.

ATC transmission Project – This project involves constructing approximately 32 miles of new 345-kilovolt transmission lines along the Beltline Highway to connect the existing Rockdale Substation located near Cambridge with the West Middleton Substation – To be wrapped up in 2013

Maple Grove Drive – 106 Unit Apartment is under construction – Site purchased in July 2012 for \$10,000 per unit



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## East Fitchburg

Nine Springs – Highway 14 and Lacy Road

- A new 383 acre mixed use development with a new interchange on Highway 14
- Subdivision Master Plan calls for as much as 6 million square feet of office space, retail shops, science and health care businesses and 2,000 housing units
- Meriter purchased first site in 2012. The 6.6 acre site sold for \$5 per foot

## Verona

Epic Systems – Medical Software Company - Founded 1979

- Has projected 6,200 employees, up from 4,200 in 2010 and 400 in 2000
  - Housed on a 800+ acre site – Nearly self-sustaining campus continues to grow
  - Has developed a small wind energy farm north of Middleton in 2012
- The West End – 62 acre Mixed Use Development – Developed in 2008
- Development was delayed
  - A 54 Unit Apartment building was started in 2011 and completed in 2012



## West Fitchburg

Orchard Pointe – Highway PD and Verona Road – Target Anchored 2007

- Goodwill Donation Center – Opened in August 2012 – 12,800sf
- Hy-Vee 8 acre site purchased in 2012 for \$8 per foot– 85,000sf store to be opened in 2013

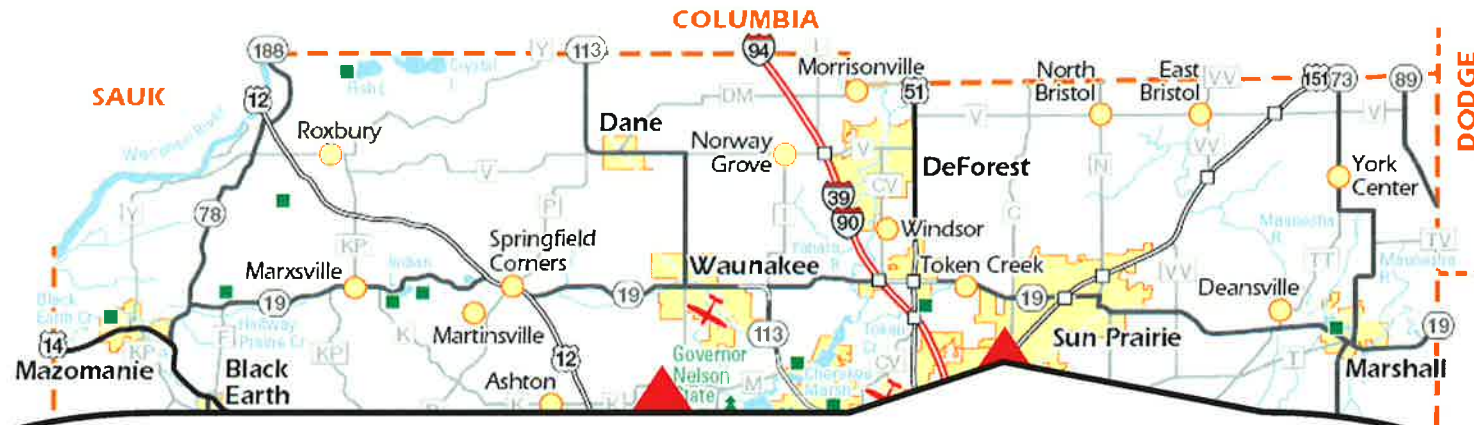
GREEN

0 1 2  
Scale of Miles

ROCK

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# New Construction



## Sun Prairie

Prairie Lakes Development – Highway 151 and C – Target Anchor in 2009

- Costco 13 acre site purchased in May 2012 for \$7.50 per foot – Opened November 2012 – 152,000sf store
- Woodman's Grocery Store – Opened August 2012 – 225,000sf store
- Marcus Theater 16 acre site was purchased in May 2010 for \$6.50 per foot– Construction is approved but is on hold
- Pizza Ranch 1.5 acre site was purchased in September 2012 for \$12 per foot – Will develop a 5,600sf building

658 - 662 West Main St – Purchased a one acre site in January 2012 for \$8 per foot for redevelopment of an Advance Auto Parts Store

# New Construction

## Middleton

### Tires Plus

- A 1.1 acre site was purchased in 2011 with Highway 14 exposure ~\$15 per foot
- Construction completed in May 2012

### Spectrum Brands Headquarters – Under Construction

- 210,000 four story office building on Deming Way and the Beltline in the Airport Road Business Park
- The 10 acre site was purchased in April 2012 for \$11 per foot
- Purchased and developed by Livesey, will lease to Spectrum with a 15 year lease, construction to be completed in 2013
- Will have about 500 employees

### ACD Distribution – Under Construction

- Purchased a 5.3 acre site in the Airport Road Business Park in September 2012, site cost was \$6.10 per foot
- Construction started in the Fall of 2012 and will be completed in 2013

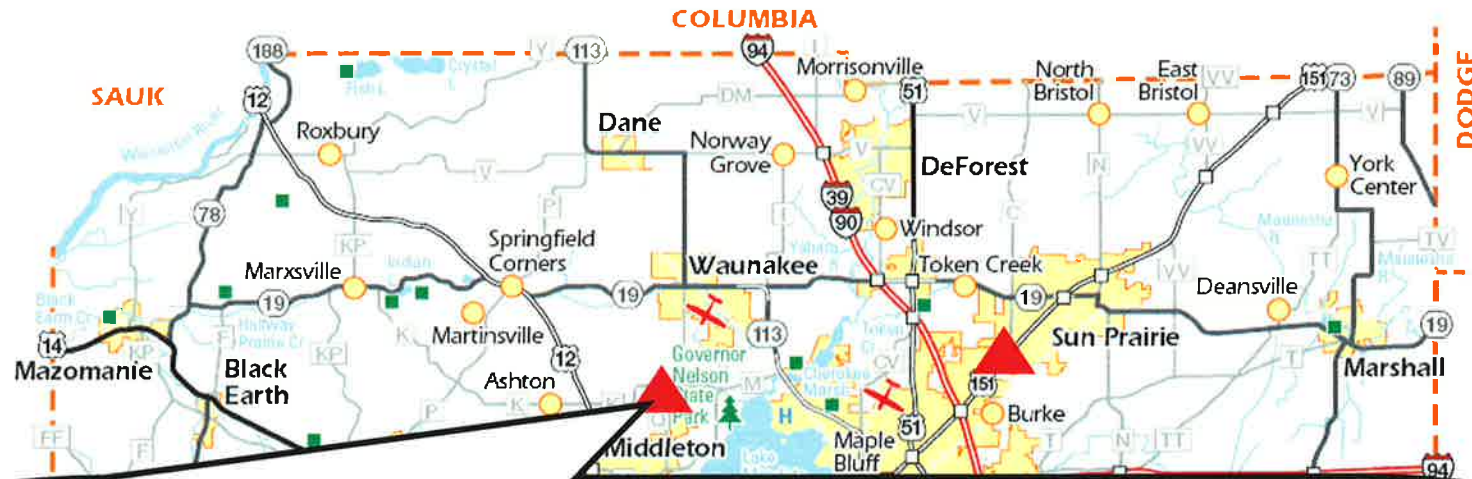
### Meriter Ambulatory Care Project

- A 6 acre site was purchased on Laura Lane and the Beltline in 2011 for about ~\$15 per foot, requires demolition
- Company is looking for some public assistance, put on hold

# Spectrum Brands Headquarters



# New Construction



## Middleton/Waunakee

### Bishops Bay Community

- A 800 acre community created by T. Wall Properties located on the north side of Middleton about three miles south of Waunakee on Highway Q
- An extension off of the existing Bishops Bay Golf Course
- Development will include residential and commercial space
- About 1,300 single-family homes and over 1,600 multifamily units are planned
- 39 residential lots were developed beginning in August 2012

### Highway Q

- Planned 270 acre, 380 residential lots with some commercial development just south of Waunakee
- Construction has begun on a Dean Clinic (medical) on Highway Q

# Office Market

- Limited Sale Transactions
  - Sales generally ranging from about \$70 to \$120 per foot
  - Primarily Class B is selling
  - Mostly purchased for owner-occupancy
  - Limited capitalization rate data
- Limited new construction outside of medical office
  - Spectrum Brands vacated old 240,000sf building that is now for lease
- Demand appears weak
  - Shadow space is apparent
  - Space per employee requirements shrinking

# Office Market

- Market Conditions Trend – 1289 Deming Way, Madison



- Class B Office Building with 33,900sf in the Old Sauk Trails Office Park
- Sold September 2006 for \$5,500,000 (\$162/sf)
- Sold October 2012 for \$3,650,000 (\$108/sf)
- Value change of -34% or about -5.5% per year



# Office Market

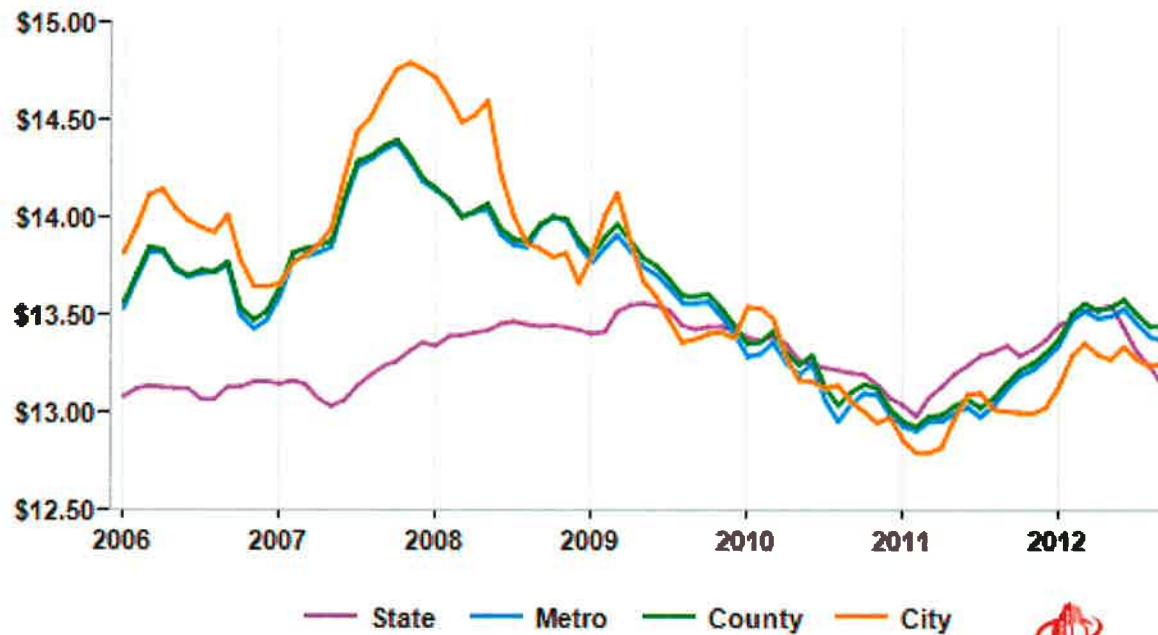
- Xceligent Report – Primarily the Madison Market



# Office Market

- LoopNet Data – Asking Rental Rates

Asking Rent Office for Lease Madison, WI (\$/SF/Year)



	Sep 12	vs. 3 mo. prior	Y-O-Y
State	\$13.14	-1.4%	-1.5%
Metro	\$13.37	-0.7%	+1.9%
County	\$13.45	-0.5%	+2.2%
City	\$13.25	-0.2%	+1.9%

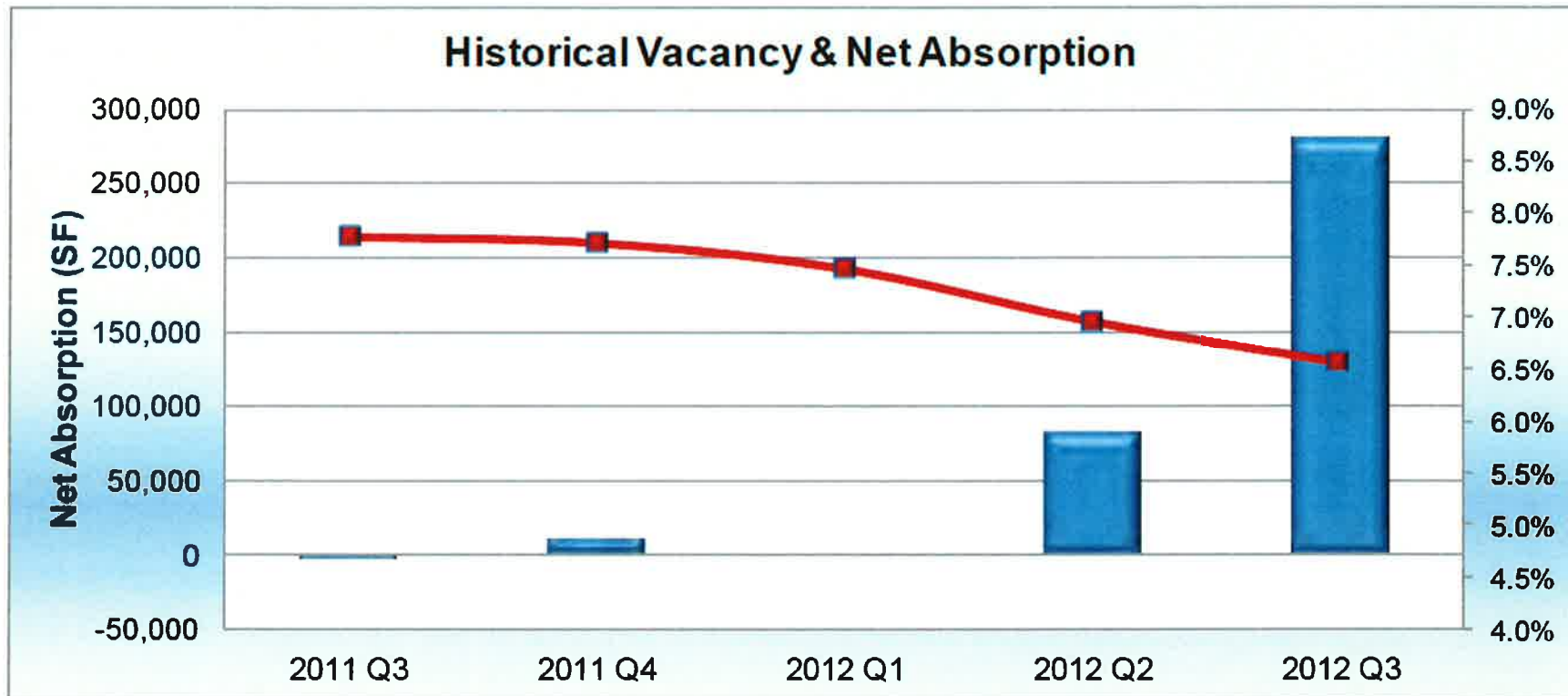


# Retail Market

- Moderate number of sale transactions
  - Mostly smaller properties
  - New and redevelopment sites are being purchased
  - Limited capitalization rate data reported
    - Capitalization rates ranging from about 8.5% to 9.5%
    - Long-term credit tenants command lower capitalization rates
- New construction in high exposure areas
  - New construction requires a credit tenant
  - Rental rates for new construction are \$25 to \$35 per foot
- Large transaction
  - Hilldale Mall sold at a Sheriff Sale – only one bidder
  - The 433,000sf Property sold in May 2012 for \$52 million, or about \$120 per foot – includes Macy's, a grocery store, and a parking structure
  - Previous owner purchased in 2004 and added a considerable amount of retail-restaurant space outside of the interior mall and added the Sundance Cinema

# Retail Market

- Xceligent Report – Primarily the Madison Market

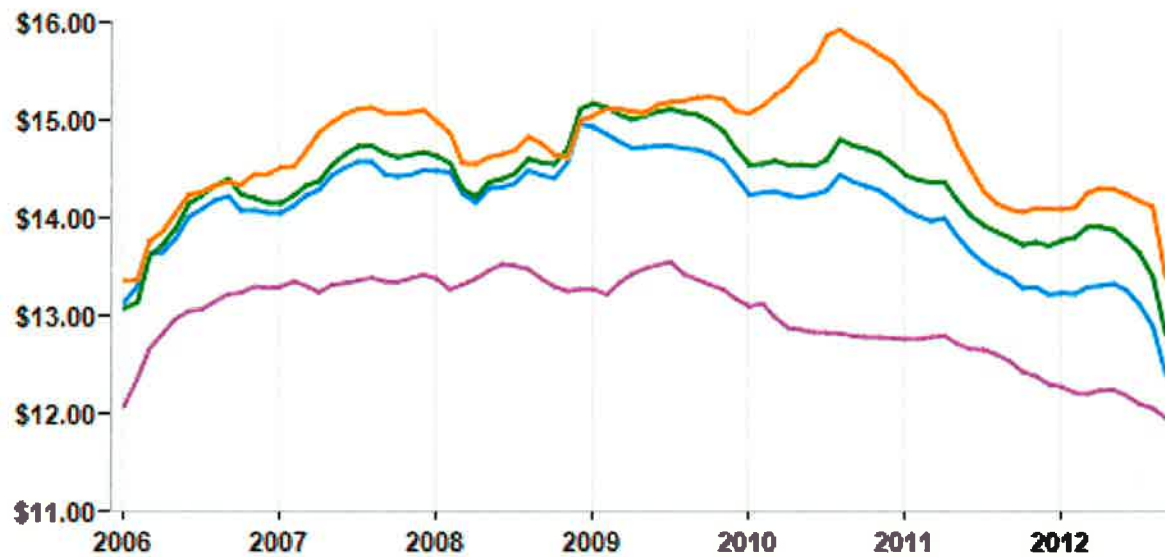


- The new Sun Prairie Woodman's Grocery is driving the 3<sup>rd</sup> Quarter absorption – data not net of delivery

# Retail Market

- LoopNet Data – Asking Rental Rates

Asking Rent Retail for Lease Madison, WI (\$/SF/Year)



	Sep 12	vs. 3 mo. prior	Y-O-Y
State	\$11.96	-1.3%	-4.6%
Metro	\$12.41	-5.3%	-7.4%
County	\$12.82	-5.8%	-7.1%
City	\$13.39	-5.6%	-5.0%

State Metro County City



# Industrial Market

- High number of sale transactions
  - Sales generally ranging from about \$40 to \$60 per foot
  - Age and office percentage generally drive selling price
  - Purchased primarily for owner-occupancy
  - Limited capitalization rate data reported
    - Capitalization rates ranging from about 9% to 10%
- New construction is nearly non-existent
  - Feasible rents are not obtainable
  - Large amount of existing supply
- Demand appears moderate for existing property
  - Land supply is high
  - Rental rates have declined

# Industrial Market

- Xceligent Report – Primarily the Madison Market

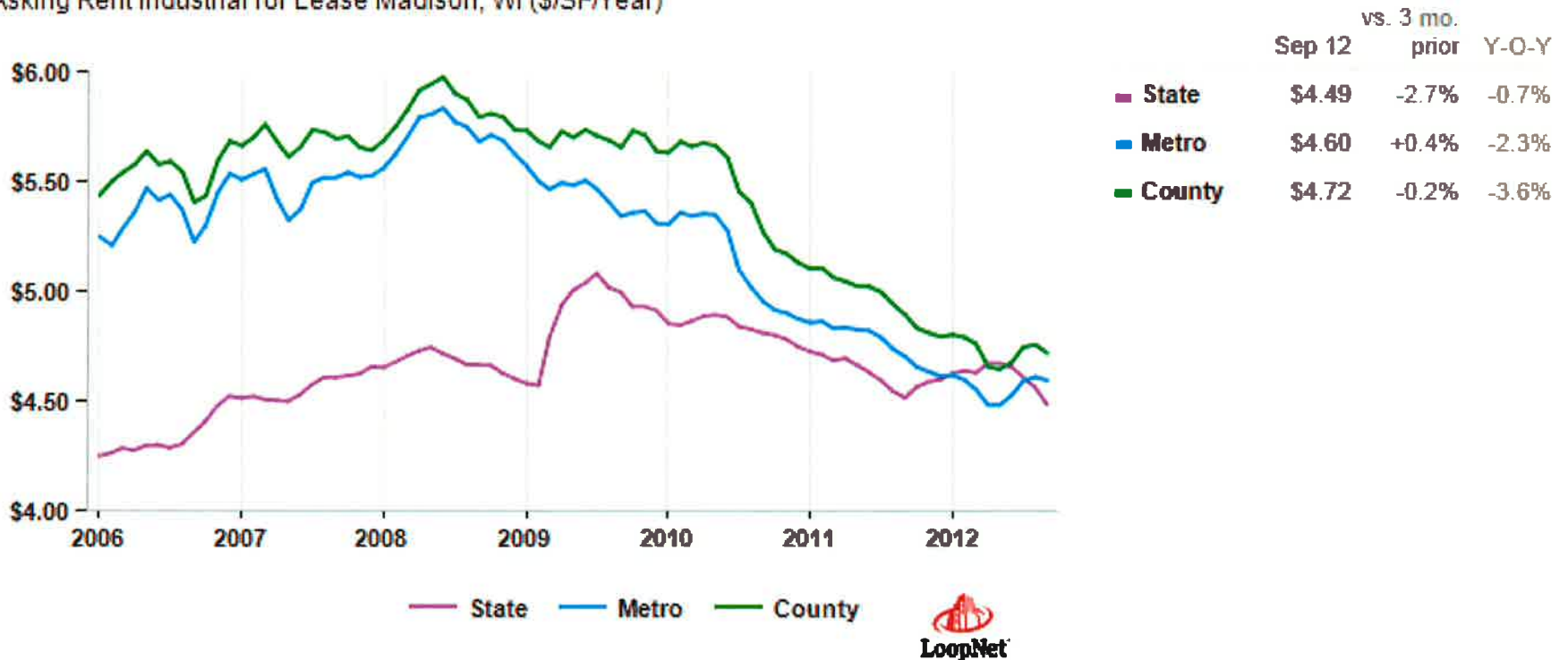


- Famous Footwear closed its 427,000sf distribution center in the Sun Prairie Business Park in the 2<sup>nd</sup> Quarter

# Industrial Market

- LoopNet Data – Asking Rental Rates

Asking Rent Industrial for Lease Madison, WI (\$/SF/Year)

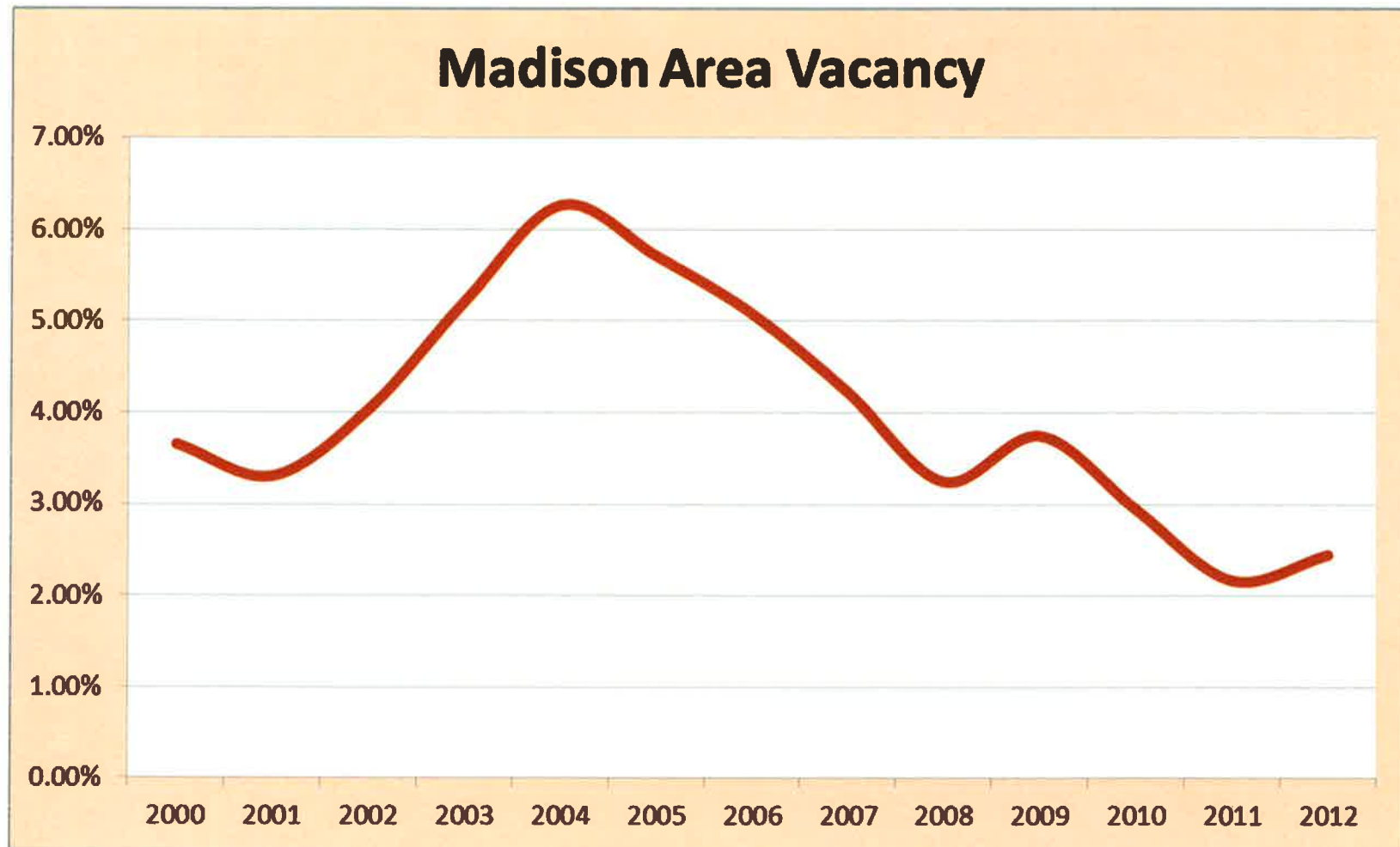




# Multifamily Market

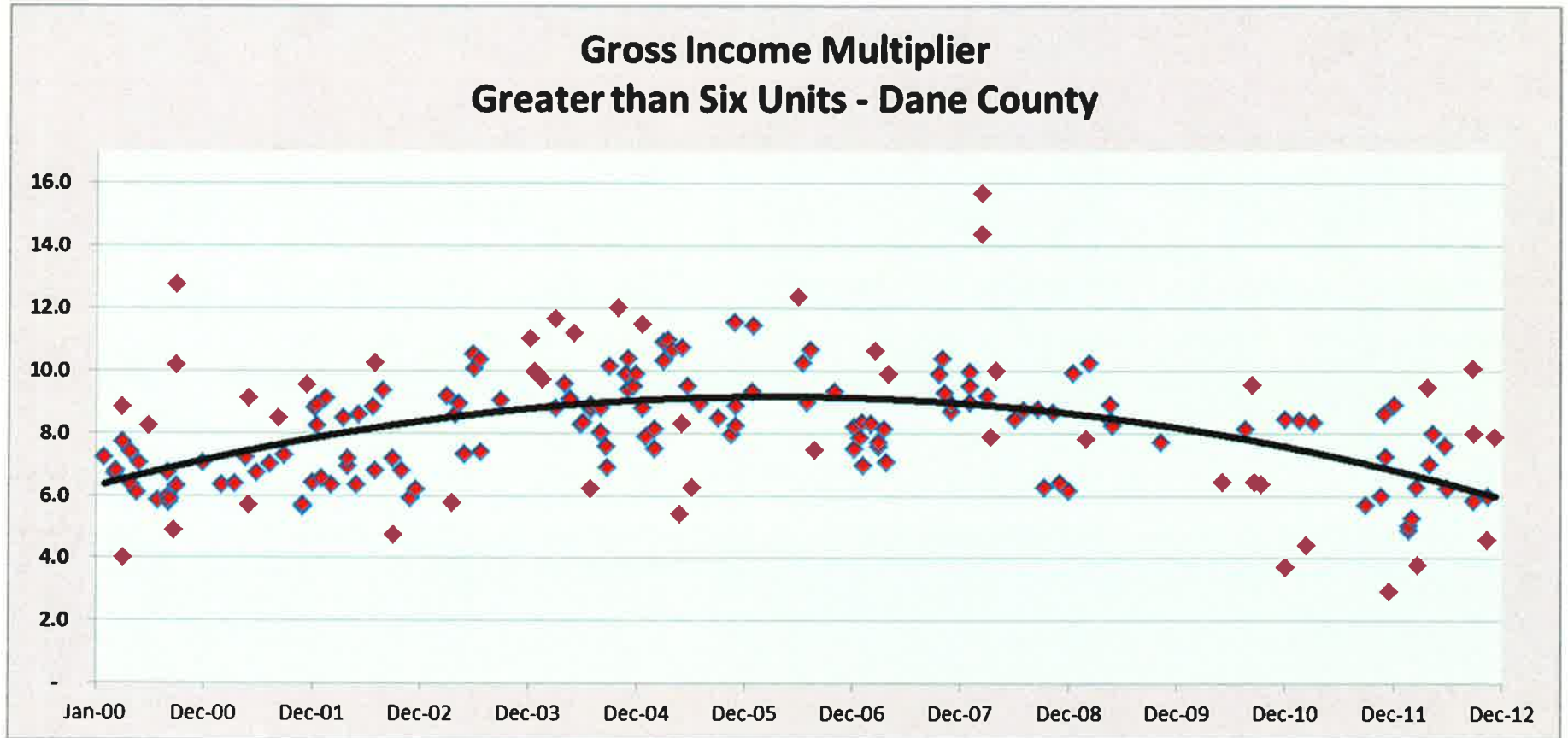
- High number of sale transactions
  - Mostly smaller properties, under 20 units
  - Sales ranging from about \$20,000 to \$150,000 per unit
  - Predominate sale range is about \$40,000 to \$80,000 per unit
  - Age, unit count, and amenities drive selling price
  - Capitalization rates are ranging from about 7% to 9%
- New construction is prevalent
  - The market is undersupplied
- Demand appears moderate for existing property
  - New construction is commanding highest rent
  - Rental rates have increased
  - Vacancy is low

# Multifamily Market



Source: Madison Gas and Electric

# Multifamily Market



Source: Compiled from the South Central Multiple Listing Service

# Conclusion

- Land subdivision has declined
- Unemployment is improving
- New construction is prevalent
  - For multifamily and supporting retail
- Office market is oversupplied
- Retail market is moderately strong
  - Credit tenants and good exposure are necessary
- Industrial market is weak for investment
  - Existing property demand appears strong for owner-occupancy
- Multifamily market appears undersupplied

# 2013 Predictions

- Excess multifamily demand will be targeted and vacancy will climb
- Unemployment will trend downward
- Epic will continue to grow and demand services
- Office market will continue to be oversupplied
- New industrial will be limited
- Credit tenants will demand retail space
- Barry will be the UW Football Coach

# Thank you - Questions?

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