Milwaukee Industrial Market Year in Review 2009

By: Todd J. Delahunt

Appraisal Institute – Wisconsin Chapter
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The Nicholson Group LLC

Industrial Market

Discussion Outline

- Market Conditions
- Cap Rate Analysis
- Sale Transaction Activity
- Regression Analysis – Physical Adjustments

Market Conditions

3Q 2008 vs. 3Q 2009

TOTAL INDUSTRIAL MARKET STATISTICS

Third Quarter 2009

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Dodge County Ind	149	9,476,200	221,750	221,750	2.3%	71,850	0	0	$3.62
Downtown Ind	221	10,331,874	1,169,987	1,169,987	11.3%	(87,102)	0	0	$4.00
Fond du Lac County Ind	67	3,288,657	180,205	180,205	5.5%	138,187	117,000	0	$4.14
Milwaukee County Ind	2,587	119,587,213	8,846,260	8,938,726	7.5%	(693,259)	190,000	0	$3.89
Ozaukee County Ind	258	11,580,457	1,529,277	1,529,277	13.2%	(622,930)	0	0	$4.53
Racine County Ind	782	29,940,612	2,639,573	2,679,509	8.9%	(155,876)	134,080	0	$3.51
Sheboygan County Ind	292	12,081,725	572,690	572,690	4.7%	(69,100)	0	0	$3.81
Walworth County Ind	243	7,488,967	507,910	507,910	6.8%	(122,797)	1,920	0	$4.38
Washington County Ind	477	18,897,921	1,007,603	1,007,603	5.3%	(108,308)	120,000	5,200	$4.29
Waukesha County Ind	2,041	69,862,464	2,772,072	2,825,450	4.0%	390,217	388,800	48,108	$5.28
Totals	**7,117**	**292,536,090**	**19,447,327**	**19,633,107**	**6.7%**	**(1,259,118)**	**951,800**	**53,308**	**$4.20**

Source: CoStar Property®

TOTAL INDUSTRIAL MARKET STATISTICS

Third Quarter 2008

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Dodge County Ind	135	7,832,388	379,438	379,438	4.8%	39,060	20,000	0	$3.12
Downtown Ind	218	10,030,614	939,780	939,780	9.4%	50,082	0	0	$3.92
Fond du Lac County Ind	56	2,440,022	211,754	211,754	8.7%	(19,187)	0	0	$3.65
Milwaukee County Ind	2,579	118,910,705	8,534,289	8,814,805	7.4%	216,707	212,500	0	$4.01
Ozaukee County Ind	254	11,764,274	588,361	641,075	5.4%	33,691	0	0	$4.54
Racine County Ind	672	27,271,829	1,968,405	1,968,405	7.2%	273,544	0	615,300	$3.40
Sheboygan County Ind	281	10,190,477	291,590	291,590	2.9%	82,710	0	0	$4.00
Walworth County Ind	212	7,106,042	410,282	410,282	5.8%	47,527	13,850	0	$4.20
Washington County Ind	479	20,434,099	949,573	949,573	4.6%	38,270	0	0	$4.53
Waukesha County Ind	2,031	69,190,501	3,855,585	3,904,970	5.6%	464,532	157,820	0	$5.47
Totals	**6,917**	**285,170,951**	**18,129,057**	**18,511,672**	**6.5%**	**1,226,936**	**404,170**	**615,300**	**$4.32**

Source: CoStar Property®

Market Conditions by Type

Warehouse & Flex

Warehouse Market Statistics

Market	Existing Inventory		Vacancy		
	# Blds	Total RBA	Direct SF	Total SF	Vac %
Dodge County Ind	104	7,634,554	197,328	197,328	2.6%
Downtown Ind	214	10,186,692	1,169,987	1,169,987	11.5%
Fond du Lac County Ind	59	2,889,260	140,335	140,335	4.9%
Milwaukee County Ind	2,092	98,069,410	7,997,954	8,090,420	8.2%
Ozaukee County Ind	148	8,356,794	1,469,279	1,469,279	17.6%
Racine County Ind	758	29,389,198	2,549,050	2,588,986	8.8%
Sheboygan County Ind	278	11,780,800	555,690	555,690	4.7%
Walworth County Ind	228	7,236,113	486,366	486,366	6.7%
Washington County Ind	358	14,913,356	963,028	963,028	6.5%
Waukesha County Ind	1,587	58,140,826	2,096,182	2,138,208	3.7%
Totals	**5,826**	**248,597,003**	**17,625,199**	**17,799,627**	**7.2%**

Source: CoStar Property®

Flex Market Statistics

Market	Existing Inventory		Vacancy		
	# Blds	Total RBA	Direct SF	Total SF	Vac %
Dodge County Ind	45	1,841,646	24,422	24,422	1.3%
Downtown Ind	7	145,182	0	0	0.0%
Fond du Lac County Ind	8	399,397	39,870	39,870	10.0%
Milwaukee County Ind	495	21,517,803	848,306	848,306	3.9%
Ozaukee County Ind	110	3,223,663	59,998	59,998	1.9%
Racine County Ind	24	551,414	90,523	90,523	16.4%
Sheboygan County Ind	14	300,925	17,000	17,000	5.6%
Walworth County Ind	15	252,854	21,544	21,544	8.5%
Washington County Ind	119	3,984,565	44,575	44,575	1.1%
Waukesha County Ind	454	11,721,638	675,890	687,242	5.9%
Totals	**1,291**	**43,939,087**	**1,822,128**	**1,833,480**	**4.2%**

Source: CoStar Property®

- Warehouse vacancy up (7.2% vs. 6.7% in 3Q 2008)
  - Driven by negative absorption in Milwaukee & Ozaukee Counties
- Flex vacancy down (4.2% vs. 5.4% in 3Q 2008)
  - Small businesses are continuing to lease rather than buy.
    - Market uncertainty
    - Tight credit markets

Historical Industrial Market Statistics

Total Industrial Market Statistics

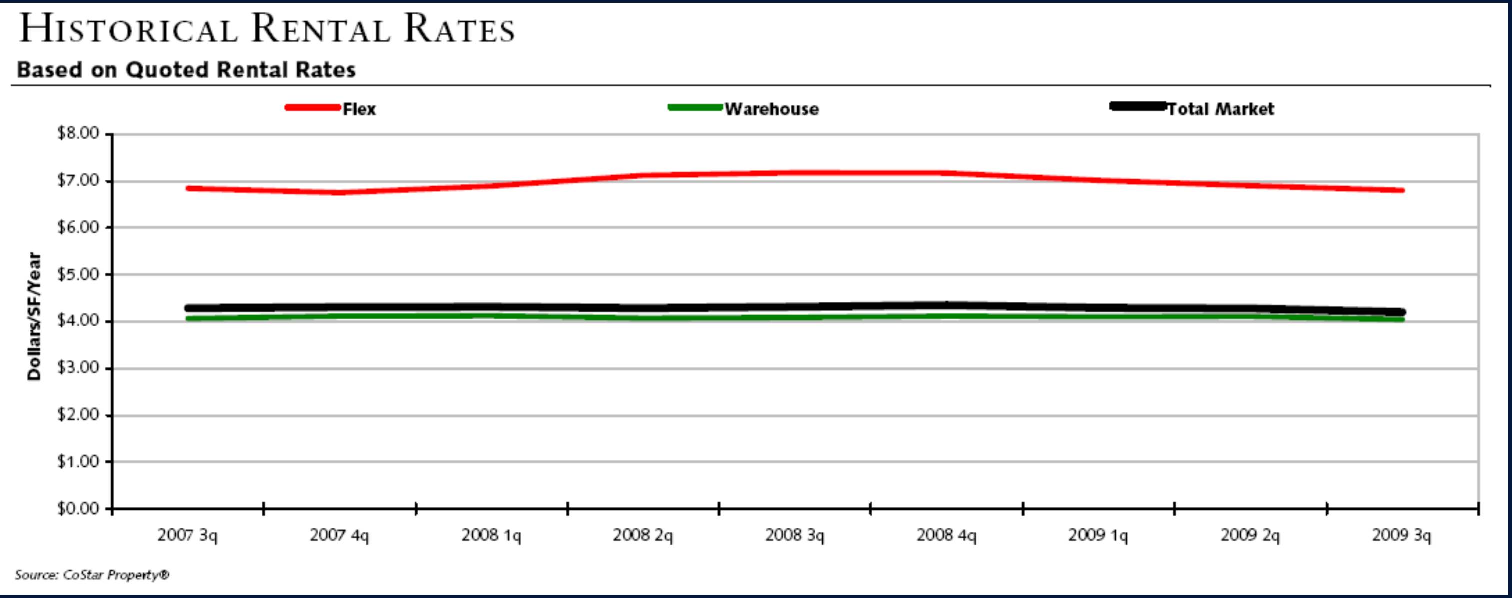
Third Quarter 2009

Period	Existing Inventory		Vacancy			Net	Deliveries		UC Inventory		Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total RBA	# Blds	Total RBA	Rates
2009 3q	7,117	292,536,090	19,447,327	19,633,107	6.7%	377,430	4	398,920	4	53,308	$4.20
2009 2q	7,113	292,137,170	19,371,704	19,611,617	6.7%	(1,886,875)	1	125,000	8	452,228	$4.28
2009 1q	7,114	292,267,090	17,661,488	17,854,662	6.1%	250,327	3	427,880	5	523,920	$4.29
2008 4q	7,111	291,839,210	17,522,609	17,677,109	6.1%	999,847	6	948,934	8	951,800	$4.35
2008 3q	7,105	290,890,276	17,588,344	17,728,022	6.1%	(30,253)	6	311,304	11	1,772,734	$4.31
2008 2q	7,103	291,194,548	17,851,416	18,002,041	6.2%	204,616	3	203,950	12	1,293,454	$4.29
2008 1q	7,102	291,121,876	17,965,713	18,133,985	6.2%	1,452,214	5	316,000	10	755,254	$4.31
2007 4q	7,101	290,979,269	19,286,970	19,443,592	6.7%	60,947	9	494,917	10	706,790	$4.30
2007 3q	7,092	290,484,352	18,834,069	19,009,622	6.5%	(29,920)	7	159,700	15	932,517	$4.29
2007 2q	7,085	290,324,652	18,546,816	18,820,002	6.5%	2,244,095	10	274,763	17	775,673	$4.32
2007 1q	7,075	290,049,889	20,489,340	20,789,334	7.2%	559,250	5	421,412	21	903,075	$4.26
2006 4q	7,070	289,628,477	20,657,028	20,927,172	7.2%	2,648,761	1	49,980	17	1,126,367	$4.45
2006 3q	7,070	290,878,497	24,391,778	24,825,953	8.5%	1,563,905	5	296,513	10	1,024,117	$4.44
2006 2q	7,066	290,597,630	25,708,367	26,108,991	9.0%	648,330	7	365,747	8	743,511	$4.25
2006 1q	7,059	290,231,883	26,008,610	26,391,574	9.1%	0	17	734,427	11	560,027	$4.07

Source: CoStar Property®

- Economic Recession of the last +/- 6 quarters
  - Vacancy rates have increased only slightly
  - Rental rates have decreased only slightly
  - Expect vacancy rates to slightly increase and rental rates to slightly decrease into 2010

Historical Rental Rates



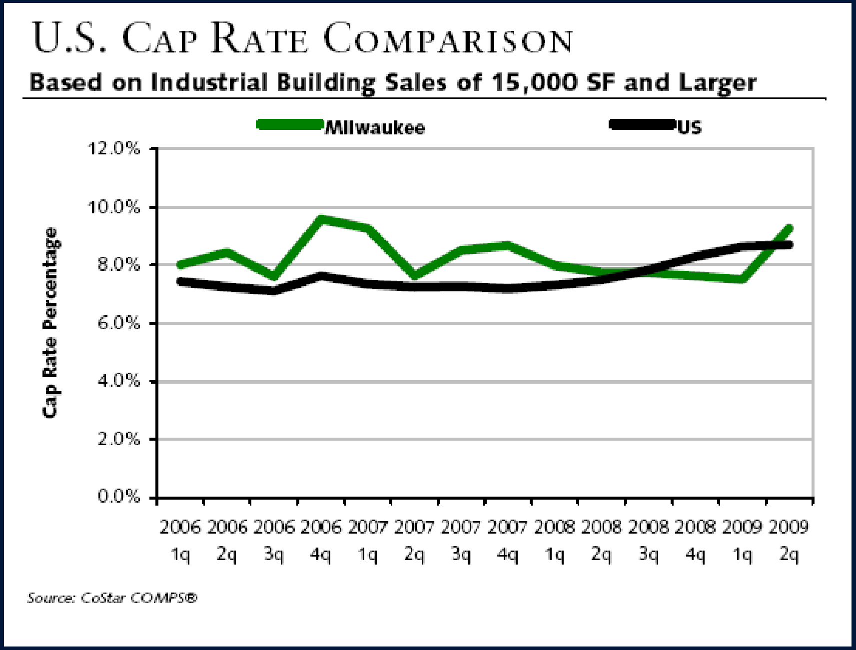
- Rental rates have remained flat over the past 2 years
- Anticipate a slight decrease in early 2010
- Rental market being propped up by short-term lease deals
  - Users are leasing on a short-term basis rather than buying
  - Free rent prevalent in the market (1 month free per year of lease term)

CAP Rates – Costar

Buildings 15,000 Sq. Ft. & Larger

- Milwaukee CAP rates are typically higher than national CAP rates.
  - Not the case from mid-2008 to early-2009.

- Over the past 12 months, the average CAP rate in Milwaukee has increased by +/- 150 basis points.



CAP Rates

National Investor Survey

SURVEY CAPITALIZATION RATES

National Warehouse		
Survey Date	**Survey OAR**	**Change (Basis Points)**
3Q 2007	6.53%	-
3Q 2008	6.63%	+10
3Q 2009	8.46%	+183

- CAP rates have increased dramatically over the past 12-months.
  - Both the warehouse & flex markets.

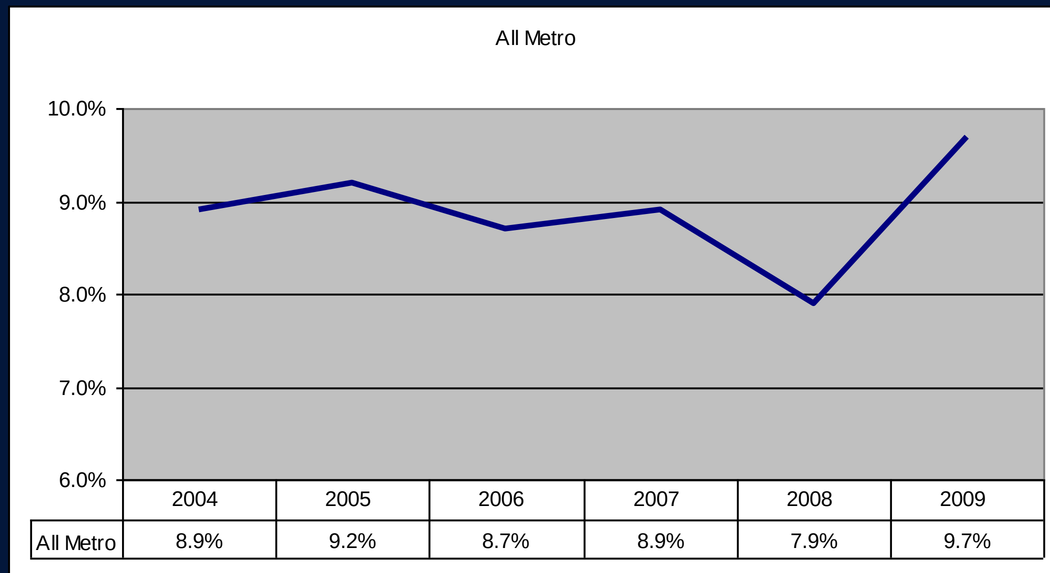
National Flex/R&D		
Survey Date	**Survey OAR**	**Survey OAR**
3Q 2007	7.55%	-
3Q 2008	7.60%	+5
3Q 2009	8.77%	+117

Source: Korpacz Real Estate Investor Survey

- Milwaukee CAP rates are typically 75-150 basis points higher than national CAP rates.

Milwaukee Area CAP Rates

Extracted from Actual Sales



- CAP rates increased 180 basis points in 2009.
  - Limited sample size as there have been few industrial CAP rate sales in 2009.
- Expect CAP rates to remain at current levels into 2010.

Transaction Activity
(10,000$^+$ Sq. Ft. Buildings)

- Industrial sales activity declined dramatically in 2009. (92 vs. 146)
- Average sale price increased slightly.
- Days on market increased slightly.
- Price to asking ratio decreased.

2009 Sales (1/1/09-11/17/09)

	Low	Average	High	Total # of Sales	Total Sales Volume
Sale Price	$127,000	$1,992,585	$17,600,000	92	$183,932,326
GBA	10,000	61,230	1,057,616		
Price PSF	$5.11	$32.54	$233.33		
Days on Market	2	364	1,140		
Price to Asking Ratio	-	80.78%	-		

2008 Sales

	Low	Average	High	Total # of Sales	Total Sales Volume
Sale Price	$115,000	$1,847,356	$11,333,331	146	$268,995,364
GBA	10,000	59,251	561,276		
Price PSF	$1.94	$31.18	$117.06		
Days on Market	25	345	1,024		
Price to Asking Ratio	-	87.10%	-		

Source: CoStar

Regression Analysis

Building Age Adjustment

	Average						
	# of Sales	$/SF	Building Size	Clear Height	Year Built	% Office	% Change/Yr.
All Sales	187	$34.15	53,147	17	1969	14%	
50+ yrs. Old	54	$24.63	50,719	14	1939	10%	
40-49 yrs. Old	19	$28.53	19,471	13	1963	12%	**1.4%**
30-39 yrs. Old	30	$32.68	75,850	17	1972	19%	**1.3%**
20-29 yrs. Old	32	$32.76	56,260	18	1981	15%	**0.0%**
10-19 yrs. Old	39	$45.06	41,129	19	1992	16%	**2.7%**
1998-Present	13	$55.93	88,451	25	1999	15%	**1.9%**

- Building age adjustment of 1.5% per year is appropriate.
  - All else being equal, a building constructed in 1989 will sell for +/- 1.5% less than a building constructed in 1990.

Regression Analysis

Clear Height Adjustment

	Average						
	# of Sales	$/SF	Building Size	Clear Height	Year Built	% Office	% Change
All Sales	187	$34.15	53,147	17	1969	14%	
< 16 ft.	82	$30.04	28,174	13	1953	15%	
16-18 ft.	50	$37.02	36,647	17	1979	14%	**18.8%**
19-21 ft.	21	$36.25	71,103	20	1984	15%	**-2.1%**
22-24 ft.	15	$37.01	117,913	22	1986	16%	**2.1%**
25-28 ft.	8	$39.40	143,746	27	1986	12%	**6.1%**
29+ ft.	11	$39.94	125,826	32	1979	8%	**1.3%**

- Market doesn't pay more for clear heights greater than 28 feet.
- This is incurable functional obsolescence.

Regression Analysis

Office Space Adjustment

		Average					
	# of Sales	$/SF	Building Size	Clear Height	Year Built	% Office	% Change/ Add. %
All Sales	181	$33.42	54,157	17	1969	12%	
0-5% Office	43	$23.69	93,177	17	1956	2%	
6-10% Office	53	$27.74	47,650	17	1969	8%	**2.9%**
11-15% Office	37	$39.04	36,290	18	1977	13%	**5.8%**
16-20% Office	19	$41.92	30,452	16	1970	18%	**1.4%**
21-25% Office	16	$45.11	41,106	17	1980	23%	**1.4%**
26-40% Office	13	$45.99	53,185	18	1978	32%	**0.4%**

Note: Excluded sales with >40% Office Space

- Market does not pay more for office space beyond 25% of the GBA.

Regression Analysis

Exterior Wall Type Adjustment

		Average					
Wall Type	# of Sales	$/SF	Building Size	Clear Height	Year Built	% Office	% Change
Block	97	$37.42	33,821	16	1970	15%	
Metal	44	$33.57	50,680	19	1983	11%	**-11.5%**

Note: Excluded sales with other wall types (brick, etc.)

- Buildings with concrete block exterior walls sell for +/- 10% more than buildings with metal exterior walls.

Contact Information

Todd J. Delahunt
Senior Appraiser
The Nicholson Group, LLC
555 S. Industrial Drive
Suite 207
Hartland, WI 53029
(262) 369-5400 ext. 22
tdelahunt@nicholson-group.com