

## Investor Activity Rising as Retail Asset Performance Escalates in Expanding Milwaukee

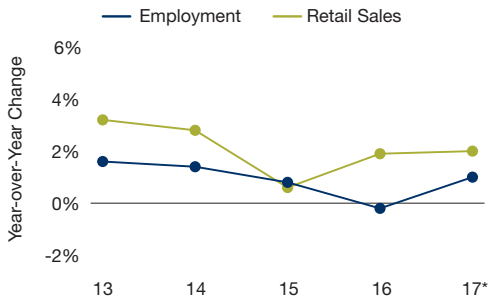
**Robust leasing activity fills new space as it comes to completion.** The Milwaukee retail sector is poised for another year of significant retail construction as new space opens in 2017. For the third straight year completions will surpass 1 million square feet, led by grocery-store expansion, chiefly by Meijer. In addition, multiple shopping centers such as the Corners of Brookfield, 84SOUTH and Drexel Town Square add to the total. With retail sales growth forecast to register at 2 percent in 2017, pointing to rising tenant financial strength this year, retailers have been signing new leases at a speedy clip. Roughly 10 percent of this year's deliveries remain available to occupy as demand to take up space in the area's new large mixed-use properties intensifies. Projected rent growth of 3.3 percent keeps asking rents 16 percent below the 2008 high, signaling upside potential for future rent growth, particularly as modern space comes online. Robust demand this year will contribute to the greatest vacancy drop since 2013.

**Retail expansion spurs greater demand for quality space among investors.** Sales of retail assets spiked last year as buyers capitalized on the expanding retail sector across Milwaukee. With no shortage of investors in the market and an influx of quality product, buyers will actively target assets with strong tenant profiles, focusing on national credit tenants and grocery-anchored shopping centers. Activity will remain greatest on the outskirts of Milwaukee along State Route 145 and Interstate 94. Cap rates for single-tenant space averaged in the low-7 percent band last year while multi-tenant assets traded at an 8 percent initial yield, fueling buyer interest in the metro. Investors and lenders are optimistic going into 2017 as businesses are anticipated to expand and add staff. A new high-water mark on pricing reached in 2016, though, could draw greater scrutiny from these parties with the potential to restrain deal flow.

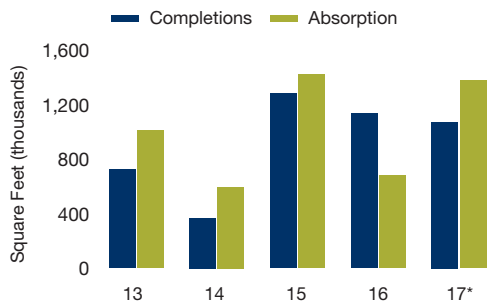
### 2017 Market Forecast

- NRI Rank** ↗ Milwaukee vacated last year's bottom ranking, moving up 42, up 4 places
- Employment** ↗ Following the loss of 2,000 jobs in 2016, the Milwaukee workforce is set to grow by 8,600 positions this year.
- Construction** ↘ Supply additions stay above the five-year average this year, edging lower from the more than 1.13 million-square-foot injection last year.
- Vacancy** ↘ Following a 40-basis-point bump in 2016, the vacancy rate will drop amid net absorption totaling 1.4 million square feet, ending this year at 6.6 percent.
- Rent** ↗ A drop in vacancy will support an asking rent increase that is the greatest since 2012, ending the year at \$11.80 per square foot. Last year rent fell 1.5 percent.
- Investment** ● Retail assets with upside leasing potential near the area's new shopping centers and in the downtown will attract buyers for their value-add purposes this year.

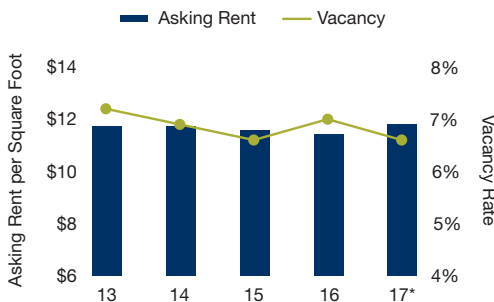
#### Employment vs. Retail Sales



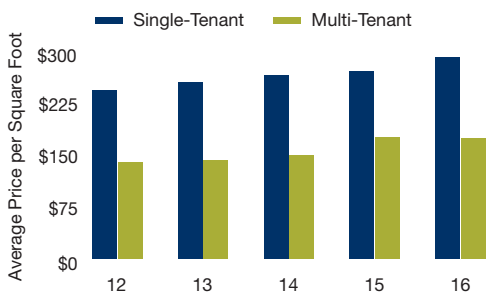
#### Retail Completions



#### Asking Rent and Vacancy Trends



#### Sales Trends



\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics