



Most of the commercial real estate sectors within the Milwaukee area are seeing prices well below, and capitalization rates slightly above, national averages. With employment slightly below the national average and population not expected to increase much during the next few quarters, the economy remains relatively flat. This could decrease demand for all property types, while keeping prices well below national levels and increasing capitalization rates to even higher levels.

Demographics & Economy

Population:

2006 (est.): 1.5 million

2011 (proj.): 1.6 million

Unemployment Rate:

Milwaukee - 4.6%

Wisconsin - 4.5%

National - 4.5%

Office

- The average sale price of office properties in the Milwaukee area is \$98 per square foot, lower than either the regional or national averages of \$111 per square foot and \$167 per square foot, respectively, according to RERC's transaction analysis.
- The average capitalization rate for the office sector is 7.4 percent, lower than the Midwest regional rate of 7.6 percent, but higher than the national average of 7.2 percent.

Since pricing is already low and the average capitalization rate is already slightly higher than the regional average, rates should remain somewhat constant.

Industrial

- RERC's transaction analysis indicates the average selling price for Milwaukee industrial space is \$41 per square foot, slightly lower than the regional average of \$49 per square foot, and only half the national average of \$83 per square foot.
- The average capitalization rate for the Milwaukee area industrial market is 7.6 percent, lower than the Midwest regional average of 7.8 percent, and higher than the national average of 7.4 percent.

Although the Milwaukee area industrial market is experiencing a higher capitalization rate and lower average price per square foot, the capitalization rate is only slightly greater than the national average while the price is substantially lower. Also, when compared to the regional averages, the Milwaukee area has a low price and low capitalization rate, indicating the industrial market is offering fairly strong investment potential. The average price for Milwaukee area industrial properties will likely stay well below the national average.

Retail

- Retail properties in the Milwaukee area have an average sale price of \$117 per square foot, comparable to the regional average of \$126 per square foot, but much lower than the national average of \$169 per square foot, according to RERC's transaction analysis.
- The average transaction-based capitalization rate for Milwaukee retail properties is 7.3 percent, in line with the Midwest regional average rate of 7.2 percent, but slightly higher than the national average of 6.9 percent.

With the unemployment rate slightly higher than the national average and

a population expected to grow little during the coming year, demand for retail properties will likely remain flat. Retail performance should continue below the national performance level.

Apartment

- The Milwaukee area has an average sale price for apartment properties of \$51,357 per unit, lower than the regional average of \$67,913 per unit, and less than half the national average price of \$107,833 per unit.
- The average capitalization rate for the apartment sector is 6.3 percent, lower than the regional rate of 6.9 percent, but equal to the national average capitalization rate.

With the average price per unit of Milwaukee apartment space much lower than the regional and national averages, the capitalization rate may increase to a level greater than the national average.

National Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
< \$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
> \$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
Unit Price Averages						
< \$2 million	\$103	\$68	\$103	\$92,566	\$53,998	-
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	-
> \$5 million	\$209	\$104	\$250	\$126,410	\$137,649	-
All	\$167	\$83	\$169	\$107,833	\$110,713	-
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	-
Capitalization Rates (All)						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

Midwest Region Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
< \$2 million	\$366	\$734	\$802	\$793	\$27	\$2,721
\$2-5 million	\$511	\$1,012	\$1,071	\$559	\$173	\$3,325
> \$5 million	\$20,592	\$3,963	\$8,580	\$5,780	\$3,268	\$42,183
All	\$21,449	\$5,669	\$10,417	\$7,097	\$3,463	\$48,095
Unit Price Averages						
< \$2 million	\$72	\$43	\$80	\$67,512	\$26,791	-
\$2-5 million	\$125	\$61	\$196	\$56,865	\$38,901	-
> \$5 million	\$146	\$60	\$199	\$74,944	\$106,884	-
All	\$111	\$49	\$126	\$67,913	\$77,324	-
Median of all	\$95	\$41	\$89	\$53,063	\$57,292	-
Capitalization Rates (All)						
Range	5.3 - 10.5	5.3 - 11	5 - 9.5	4.1 - 10.6	6.3 - 12.3	4.1 - 12.3
Average	7.6	7.8	7.2	6.9	9.1	7.7

Milwaukee Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume						
<\$5 million	\$52	\$58	\$57	\$60	-	\$227
>\$5 million	\$698	\$139	\$169	\$107	-	\$1,112
All	\$749	\$197	\$226	\$167	-	\$1,340
Unit Price Averages						
<\$5 million	\$57	\$36	\$106	\$48,813	-	-
>\$5 million	\$174	\$55	\$161	\$101,219	-	-
All	\$98	\$41	\$117	\$51,357	-	-
Median of all	\$74	\$40	\$89	\$46,875	-	-
Capitalization rates (all)						
Range	5.6 - 9.3	5.7 - 9.5	5.5 - 9.1	4.7 - 7.9	-	4.7 - 11.4
Average	7.4	7.6	7.3	6.3	-	7.5

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
Total Returns:					
1-Year Rate	3.50%	19.20%	-	-	8.90%
3-Year Rate	10.10%	-	-	-	12.00%
5-Year Rate	7.50%	-	-	-	10.90%
10-Year Rate	11.30%	-	-	-	9.50%
15-Year Rate	9.40%	-	-	-	6.90%
Income Return					
1-Year Rate	8.00%	8.40%	-	-	7.40%
3-Year Rate	8.80%	-	-	-	7.80%
5-Year Rate	8.70%	-	-	-	8.30%
10-Year Rate	9.40%	-	-	-	9.00%
15-Year Rate	10.20%	-	-	-	8.90%
Allocation					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	28%	37%	0%	0%	35%
3-Year Average	31%	20%	0%	0%	50%
5-Year Average	33%	12%	0%	0%	55%
10-Year Average	32%	6%	0%	0%	63%
15-Year Average	25%	4%	0%	0%	71%

Sources: RERC and National Council of Real Estate Investment Fiduciaries

Noteworthy Transactions

- St. James Place, a 236-unit apartment complex, sold for slightly more than \$16 million, or approximately \$68,000 per unit, well below the average of \$101,219 per unit for apartments selling for more than \$5 million.
- The 155,000-square-foot Time Warner office property sold for approximately \$28 million, or around \$185 per square foot, slightly above the average of \$174 per square foot for office properties selling in this price category.
- Chase Tower, a 450,000-square-foot office property, sold for around \$103 million, or \$229 per square foot, well above the average price per square foot for office properties selling for more than \$5 million.
- Value City Furniture, a 56,785-square-foot retail property, sold for slightly more than \$5 million, or \$91 per square foot, considerably less than the average price of \$161 per square foot for area retail properties selling in excess of \$5 million.
- The industrial property located at 8225 West Parkland Court and containing 70,000 square feet sold for just under \$3 million, or approximately \$37 per square foot, about equal to the average price of properties in the area selling for under \$5 million.