



MAINTAINING THE MOMENTUM

Exploring what needs to be done to continue and expand Milwaukee's renaissance

TABLE *of* EXPERTS



TRACY JOHNSON
CARW

Tracy is President and CEO for the Commercial Association of REALTORS® Wisconsin, the Voice for Commercial Real Estate in Wisconsin. With more than 650 members in Wisconsin, CARW is connected to the 1.2 million member national REALTOR® network. Focused on advocacy, education and networking, CARW members also deliver market insights through the Xceligent data platform.



DAN BRANDT
Old National Bank

Dan Brandt is a Vice President, Commercial Real Estate (CRE) at Old National Bank. Dan started his career as an Analyst and has underwritten over \$1 Billion of commercial bank deals during that time. Dan is an expert in southeast Wisconsin and Milwaukee County projects. His focus is on multi-family, office, retail and hospitality projects. Some of his recognizable area projects include: KimptonJourneyman Hotel, Pritzlaff Building, and Village Point Commons.



SCOTT BUCHER
Traction Factory

Scott Bucher, President of Traction Factory, believes in investing in Milwaukee through his business communications firm and philanthropic endeavors. Bucher and his award-winning team are focused on establishing momentum with strategic and compelling creative work for major brands as well as nonprofits like ALS Association of Wisconsin.

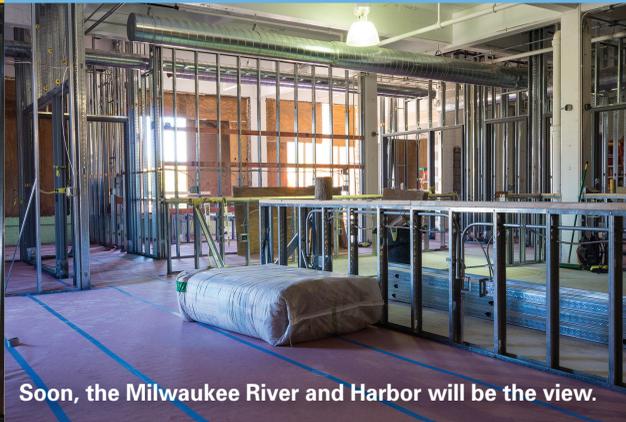
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New offices, restaurants and residential housing are sprouting up in the downtown and surrounding neighborhoods. The Milwaukee Business Journal recently assembled a panel of experts to explore where and why the renaissance is occurring and what can be done to ensure it continues.

MODERATOR: FIFTEEN TO 20 YEARS AGO, THE WESTERN SUBURBS WERE THE PLACE TO BE. WHAT HAS HAPPENED TO REVERSE THAT TREND AND MAKE THE DOWNTOWN AND SURROUNDING AREAS THE PLACE TO BE?

SCOTT BUCHER: Twenty years ago, there was a perception issue with Milwaukee. In addition, locating near amenities and parking were a significant consideration. Since that time, there has been a radical, positive perception change. You have restaurants, entertainment and new residential housing. You also have financing opportunities that did not exist before. There is an overall awareness that the city of Milwaukee wants to pursue development. It is a night and day difference from the way things were 20 years ago.

DAN BRANDT: Several years ago, I heard an urban planning professor from Harvard speak at a conference in Appleton. He noted that 40 years ago, civil engineers and urban planners were pitching the need for highway systems to make it easier to commute to the suburbs. Now they are pitching the opposite: that congestion and density are good because they make cities thrive.

TRACY JOHNSON: Twenty years ago, Milwaukee Mayor John Norquist was talking about density and urban revitalization. Now the private sector has caught up. It's really an attitudinal or perception thing. Where is the action? Where is the place to be? Momentum begets momentum.

MODERATOR: WHAT ARE THE "HOT" AND EMERGING NEIGHBORHOODS FOR OFFICES, RETAIL AND RESIDENTIAL?

JOHNSON: We are seeing a lot of movement into the Walker's Point/Fifth Ward area. You are seeing restaurants and mixed-use development, as well as new offices. We are seeing a lot of apartments in the Water Street and Brewers Hill area. Keep your eye on Martin Luther King Drive, north of Park East. That area has been a dead zone, but you are going to start to see more demand there. The lakefront, on the south edge of downtown, is another good area. You've got the Westin hotel development and the Couture. Further down the road you have the Harbor District and the Near West side, which is a very important area with Aurora, Harley-Davidson, Miller and Marquette.

BUCHER: We were in Westtown for six years and I can tell you the Marquette Aurora partnership (to build an athletic performance research center there) is big, but I think it will be five to 10 years before that area gets exciting.

BRANDT: From an office perspective, the Fifth Ward looks great

because it has parking. The Third Ward has become a destination for retail. I think the Park East area also will be good for retail because of the nearby housing. There's also the Pabst development. It has done well and now the Bucks arena is going to bring everything together.

BUCHER: The Bucks arena will fundamentally change Milwaukee, especially the areas around Schlitz office park and the Pabst development. The Third Ward is appealing for entertainment, but parking is too limited for employers our size or larger. We settled on Walker's Point/Fifth Ward for a variety of reasons. We build momentum for our clients, so the Fifth Ward's legacy made sense to us. Historically speak-

ing, every significant Milwaukee company started there. The Fifth Ward also gives us parking and entertainment options, as well as easy-on, easy-off access to the expressway, which is important for our clients. It also gives us the opportunity to take a raw piece of history and make it our own, right down to the lighting fixtures.

MODERATOR: WHY IS IT IMPORTANT THAT THESE AREAS BE DEVELOPED? WILL THEIR DEVELOPMENT TAKE AWAY FROM GROWTH IN THE SUBURBS AND OTHER AREAS OF THE CITY?

JOHNSON: No, because the whole region is doing well. We are not seeing flight from one area to another. Companies are mov-

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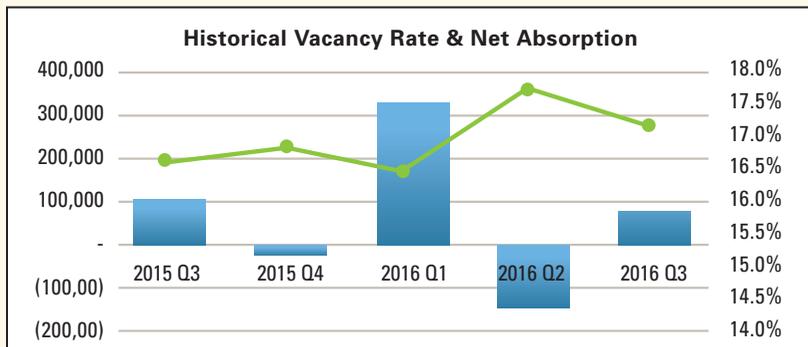


Figure 1: Historical Vacancy Rate and Net Absorption (CBD Only) / Source: Xceligent

The following chart, noted above, shows that the CBD has done well, despite negative net absorption during Q2, of which nearly 100,000 SF of the -154,000 SF was one single tenant moving from a multi-tenant building to a single-tenant leased building in a different submarket. Q1 and Q3 both show improvement due to the completion of 833 (Q1) and other positive movement during Q3. The only office development currently under way in the metro is the former Laacke & Joys on North Water Street in the Downtown East Submarket – 110,000 SF Class A office building anchored by Bader Rutter, a local marketing firm.

ing, but the buildings they are leaving behind are being converted. Not everyone is moving downtown. There are a lot of companies that still want to be in the suburbs or other areas of the city. The market is good overall and we have to take advantage of it.

BUCHER: I think it is important that we have significant, sustained growth in all areas.

BRANDT: Job growth comes from smaller business. We need to focus on the growth of incubator companies like water technology and areas like the Fifth Ward are ideal for that. Does it take away from the suburbs? I don't think so. Look at Oak Creek and what they have done.

JOHNSON: One issue that does need to be addressed is the convention center. We need to get more conventions here so people from the outside can see what Milwaukee is about.

BRANDT: Wisconsin Avenue in general is a concern. There is a lot that could right or wrong there.

MODERATOR: WHAT IS LEADING THE TRANSFORMATION? IS IT OFFICES, RETAIL, RESTAURANTS? WHAT ARE SOME OF THE PROJECTS THAT SERVED AS CATALYSTS FOR DEVELOPMENT?

JOHNSON: I think it is the investment in residential, which increases density for restaurants and retail. That's followed by offices. Once you get office buildings, you have completed the area's transformation. As far as catalysts, the Bucks arena will be the catalytic project of our generation.

BUCHER: I think the transformative impact of the Bucks arena is so big that it is hard to wrap your head around it.

JOHNSON: And that impact builds on what happened before. Without the Schlitz and Pabst developments, would the Bucks arena have been attractive as it is?

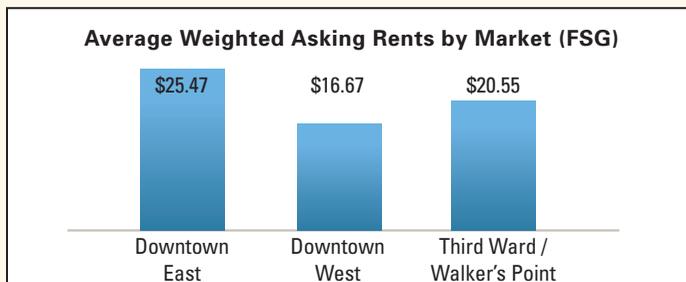


Figure 2: Average Weighted Asking Rents by Market (FSG) / Source: Xceligent

The following chart, noted above, shows the disparity between downtown east of the river, downtown west of the river and the Third Ward/Walker's Point submarkets. Downtown East has more higher-end office, while Downtown West has some solid Class B properties, including Schlitz Park which is doing quite well.

BRANDT: It's like a big puzzle where all of the pieces are important, but the arena is the biggest piece.

MODERATOR: EXCLUDING RETAIL AND RESTAURANTS, IS THERE A PARTICULAR TYPE OF BUSINESS BEING ATTRACTED TO THE DOWNTOWN? WHY?

JOHNSON: These areas are attractive to the creative industry, employers trying to attract Millennials and real estate brokerages. It is the industries that want to be collaborative and need or want to be where the

excitement, the momentum, is. You are also seeing a lot of professional service firms moving from Class B to Class A office space. They want to step it up and that is creating opportunities in Class B space for smaller companies. What you are not seeing are call centers moving downtown. They don't need to be there.

BUCHER: I found it interesting that Kohler said they needed a presence in Milwaukee from a positioning and recruiting perspective.

BRANDT: You also have businesses that are connected to the education sector. The School of Freshwater Sciences was a huge investment in the Fifth Ward. Having the opportunity to move from classroom to incubator space is important. One of the issues the convention center has faced is the lack of hotel rooms. We have added a lot of hotel rooms and that will help to bring in conventions.

BUCHER: Marquee properties like the Westin or Kimpton would not be investing here if they did not see the potential.

MODERATOR: SOME PEOPLE ARE CONCERNED THAT NEW OFFICE SPACES ARE BEING DEVELOPED WHEN THERE IS CURRENTLY A CONSIDERABLE VACANCY RATE DOWNTOWN. IS THIS AN ISSUE? WHY OR WHY NOT?

JOHNSON: The numbers don't show a lot



Kevin Anderson
Milwaukee Region President

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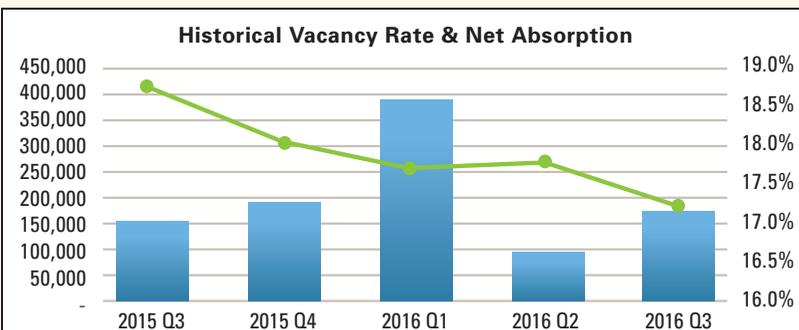


Figure 3: Historical Vacancy Rate and Net Absorption (Milwaukee Market) / Source: Xceligent

The following chart provides a good picture of the overall health of the market and the fact that despite a slight uptick (10 basis points) in Q2, the market continues to improve, opening the door for new developments. Q1 saw 833 (358,000 SF Class A office tower in Downtown East) open, and in Q3 Meadowlands Research and Technology Center (150,000 SF Class A office building in the Milwaukee County Research Park) was delivered, anchored by software tech firm Zywave.

of vacancies. Class A space is 85 or 90 percent occupied. Class B space is going for \$15-17.50 per square foot, which is up from last quarter. Landlord concessions are going away and developers are adding amenities like workout rooms.

BUCHER: The migration from Class B to Class A office space would not be happening if those firms were not succeeding. Outside investment in the market is another indicator of success.

BRANDT: We are seeing a lot of conversions. There are vacant buildings, especially west of the river, but developers are coming in and converting them to apartments or other uses. It is not like they are falling by the wayside.

MODERATOR: WHAT ARE SOME OF THE CONTINUING OR EMERGING CHALLENGES IN DEVELOPING THESE AREAS? WHAT CAN BUSINESSES DO TO HELP CONTINUE THE MOMENTUM?

BRANDT: One of biggest challenges is real estate taxes. The city needs to be conscious that every \$1 they take out of a business or resident's hands is one less dollar being spent in the city.

BUCHER: With continued investment and momentum, there will be concerns about safety, infrastructure and quality-of-life issues. All of these are paramount for a business owner trying to attract people. You also have to have continued thoughtful planning and by that I mean you need to have businesses, residents and the city working together on way finding.

BRANDT: Another challenge is stopping the brain drain. You need to keep your innovators from going to Chicago, Austin or the West Coast. Technical colleges have done a good job paring up potential workforce with employers in suburban markets. I would like to see more of that here in Milwaukee.

JOHNSON: Access to capital can be a challenge depending on the sector. There are also environmental issues, especially in the Fifth Ward.

BRANDT: One thing that is lacking in the Fifth Ward is green space. A major reason Bayview is popular is its parks and lakefront. Look how successful Jazz in the Park has been. The Fifth Ward needs to figure out how to do something like that.

BUCHER: I think things like that will be happening. There is a real community feel in that area. Its better when people work and live around each other get together and have a stake in what is happening those communities. That is where you can have real success.

MODERATOR: HOW ARE FINANCING ARRANGEMENTS AND GOVERNMENT PROGRAMS HELPING THIS TRANSFORMATION? ARE THERE CHANGES BEING CONSIDERED THAT MAY EITHER HINDER

OR HELP FUTURE DEVELOPMENTS?

BRANDT: When you are looking at the Fifth Ward or Third Ward, there are historic tax credits that offset some of the costs of renovating these buildings while preserving their historical integrity. First Pathway brings EB5 financing money to the region, which is helpful for properties that require more capital, like hotels. CDFIs (Community Development Financial Institutions) are important for the growth of start-ups and riskier businesses like restaurants. Another challenge is keeping construction costs in line because there has been a lot of inflation due to demand.

BUCHER: The city has to continue to fund and support departments that are important for development. You can't maintain or expand the renaissance we are having if the city cannot keep up with demand. They may need to add a second shift, metaphorically speaking, because otherwise you end up with a funnel that creates a backlog.

BRANDT: The permitting process has been a struggle. Every year that a project

is delayed is year of lost additional revenue for the city. When you think about it from that perspective, the city needs to spend the money because efficiency pays for itself.

JOHNSON: I would echo the importance of the historic tax credit. It was going to be capped, which would have been a huge hindrance, but we were able to help stop that. There are some concerns with tax-incremental financing districts statewide, but I think the city has done a thoughtful job of administering them. The city has also been active in developing infrastructure. The Couture would not have happened without the street car and that took public leadership.

BUCHER: It is also important for the business community to make a commitment. We have hitched our cart to the Fifth Ward/Walker's Point area. We need to be there working together to come with solutions and making sure city government continues to walk the walk. If we don't, development will stall. ■



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