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Improvements to downtown class B office space paying off

Property upgrades translate to more tenant leases

BY PETE MILLARD

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Jenny Jansen is watching a trend unfold in the downtown office market that is creating a buzz in commercial real estate brokerages.

Property owners are recognizing that investments they make in class B office buildings are translating into tenant leases, said Jansen, a broker who specializes in office properties for RFP Commercial Inc., Milwaukee.

Jansen and Ned Purtell, an RFP partner, recently signed Building Committee Inc. to a lease for 9,000 square feet for the top floor at 757 N. Broadway, a property owned by Dermond Property Investments, Milwaukee.

"Dermond invested in the building and it paid off," said Jansen.

Dermond Property spent more than \$500,000 to install new mechanical systems, upgrade the facade, improve the main lobby and spruce up its underground parking levels.

"Owners need to make a good first impression to attract tenants because there are many options available," said Jansen.

Compass Properties, Madison, invested millions in its 735 N. Water St. building. Soon af-

ter completing the renovations, PrivateBank N.A. moved in. In addition, class B buildings at 753 N. Water and 225 E. Mason St. currently are being renovated.

In September 2006, Los Angeles investment firm Stonewater Partners acquired the Mitchell Building, 207 E. Michigan St.; the Mackie Building, 225 E. Michigan; and the Loyalty Building, 605 N. Broadway, for \$8 million from local real estate owners David and Charles Ashley.

Stonewater is investing in the buildings to appeal to prospective tenants, said Nikki Hawley, a broker for Siegel-Gallagher Inc., a Milwaukee brokerage firm. Hawley is the leasing agent for all three Stonewater properties.

"To compete, owners are making changes," said Hawley.

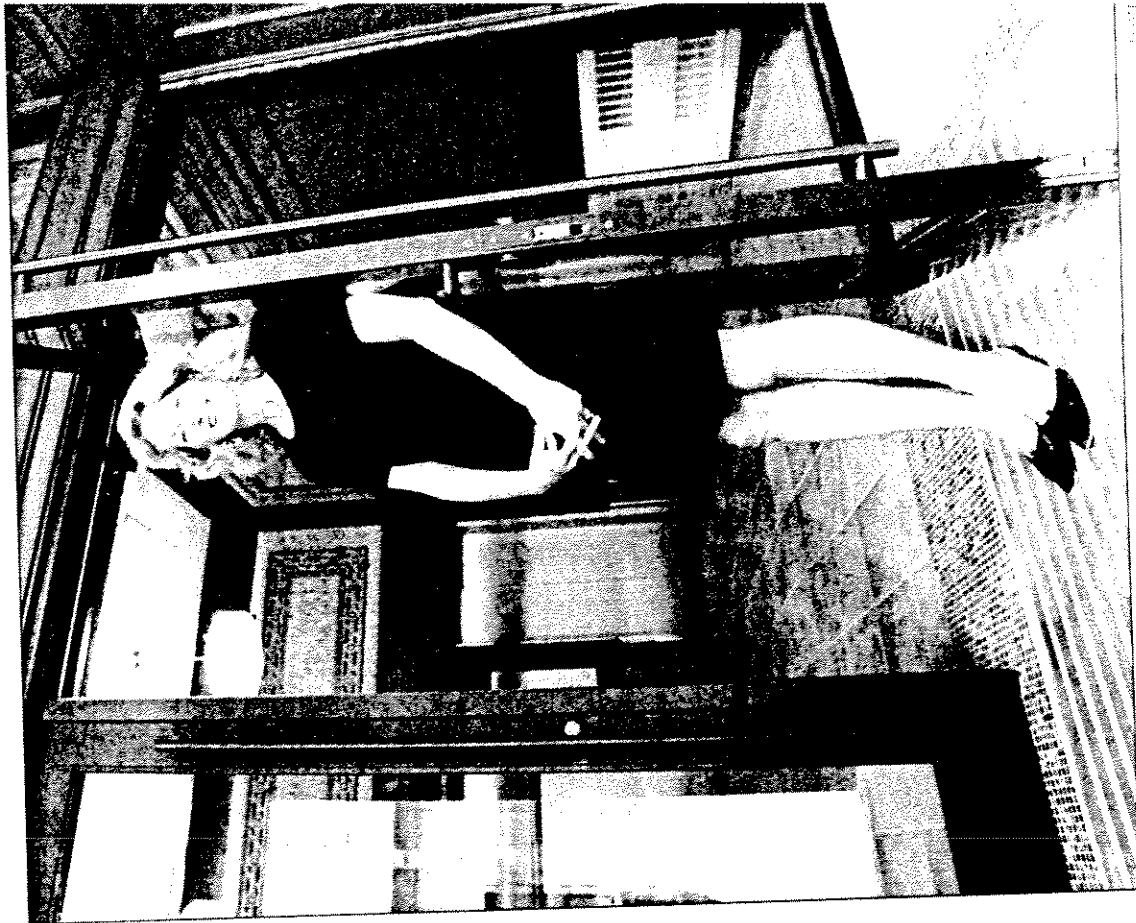
Hawley is negotiating with a financial planner currently based in Mequon who wants to move her business downtown to be closer to many of her clients.

"We're finding more and more tenants want to be in the heart of downtown for networking reasons," said Hawley.

The majority of the Class B office tenant prospects are looking for modest amounts of space, said Jansen. Many are seeking less than 4,000 square feet and a good deal.

"People are finding a good selection and reasonable rates," Jansen said.

SEE CLASS B, A28



Jenny Jansen . . . "Owners need to make a good first impression to attract tenants because there are many options available."

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CLASS B: Downtown property owners making class B space attractive

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The price range for class B office space per square foot falls between \$16.50 and \$18.50 modified gross, which means tenants will pay for electricity. In a class A office, prices range between \$19 and \$24 per square foot, said Jansen.

DOWNTOWN HOT SPOTS

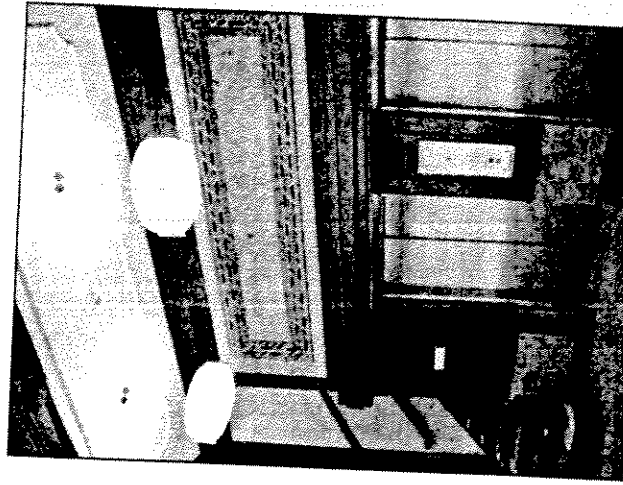
Three of the downtown class B hot spots east of the Milwaukee River are East Michigan and North Water streets, Broadway and East Mason, and the Cathedral Square area.

In addition to investing in common area improvements for their buildings, downtown property owners are more aggressive in pricing and offering allowances for tenant improvements, said Ken Braden, a broker with Colliers-Barry, Milwaukee. Braden represented Building Committee Inc. in its decision to move into the Dermond building.

To create an even hotter class B office market, Hawley believes the ground floor retail spaces on East Wisconsin Avenue, North Broadway and North Water Street have to be upgraded.

Hawley and other real estate executives are talking to downtown Milwaukee Ald. Bob Bauman about the city creating a tax incremental financing district for a three- or four-block area downtown that would prompt property owners to make even more investments.

"Many of the owners can't do it themselves," said Hawley.



SCOTT PAULUS

Besides common area upgrades, owners are more aggressive in pricing allowances for tenant improvements.

There also are downtown class B tenants who have decided to get away from the rental game altogether and invest in their own buildings. The law firm Boyle Fredrickson, for example, has moved from its leased office at 250 E. Wisconsin Ave. to a building it bought and renovated at 840 N. Plankinton Ave. The intellectual-property law firm invested \$2.2 million in the 13,000-square-foot building.

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