

## Bishop's Woods Market Analysis

### Background

Largely developed in the 1980s, the Bishop's Woods commercial and residential neighborhood remains a major employment center within the City of Brookfield. It has a small existing residential condominium component and a 194 unit market rate apartment project anticipated to be added soon. Its location along Interstate-94 and the vibrant Bluemound Road corridor attracts companies throughout the metropolitan region. However, with the growth of office space in downtown Milwaukee, further neighborhood analysis can assist in strategies to retain and attract tenants. A long range plan will influence the direction of development and promote future growth. Market Analysis aides in identifying the strength of the business community within Bishop's Woods and the surrounding submarket. In addition, peer cities were identified throughout the Midwest that represent similar demographic and economic characteristics as Brookfield. The comparison of office markets in peer cities provides further insight on the strength of the Bishop's Woods office market.

### Occupancy

Compared to the City of Brookfield office submarket, the Bishop's Woods office park has witnessed lower occupancy rates throughout the 3<sup>rd</sup> quarter of 2016. With a total of 209 office buildings throughout the City of Brookfield, the total vacancy rate is relatively low at 16%. Bishop's Woods contains 23 buildings with over 1.2 million square feet of workspace. Despite being located along the dynamic Bluemound Road corridor and Interstate 94, the Bishop's Woods office park is experiencing a gross vacancy rate of 22.85%. It appears that the higher vacancy rate indicates that the market is favoring other office parks in Brookfield and throughout the Milwaukee metropolitan region. Downtown Milwaukee's growing vibrancy has led to the relocation of suburban corporations. Bader Rutter is in the process of leaving Bishop's Woods to move into a new 60,000 square foot headquarters in downtown Milwaukee. There is a growing national trend for suburban firms to move downtown in order to attract and retain millennials.

Bishop's Woods		City of Brookfield Submarket	
2016 3rd Quarter Statistics		2016 3rd Quarter Statistics	
Occupancy		Occupancy	
Building Size SF	1,207,559	Building Size SF	6,026,310
Occupied SF	931,594	Occupied SF	5,062,104
Total Vacancy	22.85%	Total Vacancy	16%
Total Vacant SF	275,965	Total Vacant SF	964,206

Source: Xceligent 2016

Table 1

### Market Activity

The 2016 average lease rate in Bishop's Woods is \$16.75, slightly more affordable than the Brookfield submarket average lease rate of \$16.84. The third quarter of 2016 witnessed a net absorption of 5,894 square feet in the office park, increasing the net absorption year to date to 7,511 square feet. The positive absorption is reflective of the municipality's overall market. The Brookfield submarket 2016 third quarter net absorption is 36,360 square feet, creating a year to date net absorption of 153,767 square feet.

Bishop's Woods		City of Brookfield Submarket	
2016 3rd Quarter Statistics		2016 3rd Quarter Statistics	
Activity		Activity	
2016 3rd Q Net Absorption	5,894	2016 3rd Q Net Absorption	36,360
Net Absorption YTD	7,511	Net Absorption YTD	153,767
2016 Average Lease Rate	\$16.75	2016 Average Lease Rate	\$16.84

Source: Xceligent 2016

Table 2

### Office Space

Despite its perceived age, Bishop's Woods contains over 700,000 square feet of Class A office space, which accounts for 58.17% of the total office space. Class A office buildings are categorized as having the highest quality workspaces, accessible locations, asking rents above the area average, and attract premier office users. Only 33.86% of the Brookfield submarket is considered Class A office space, which provides a unique opportunity for Bishop's Woods to attract quality tenants. With 23.44% of the 702,484 square feet of Class A office space vacant, the neighborhood can entice potential regional and national businesses to Bishop's Woods that are seeking renovated buildings in a desirable location. The average annual asking rent for Class A office space within Bishop's Woods is \$17.06 per square foot, which is above the Brookfield submarket mean of \$16.

Bishop's Woods		City of Brookfield Submarket	
2016 3rd Quarter Statistics		2016 3rd Quarter Statistics	
Total Office Space - Class A		Total Office Space - Class A	
Class A - SF	702,484	Class A - SF	2,040,612
Class A -% of Bishops Woods	58.17%	Class A -% of City	33.86%
Class A - Vacancy Rate	23.44%	Class A - Vacancy Rate	18.61%
Class A - Average Asking Rent	\$17.06	Class A - Average Asking Rent	\$16.00

Source: Xceligent 2016

Table 3

Class B office buildings appeal to a wider range of users as spaces are more affordable and buildings are in fair to good condition. 61.22% of the Brookfield submarket is classified as Class B office space, contrasted to only 32.95% of the Bishop's Woods office park. These eight Class B office buildings in Bishop's Woods face increased competition with other Brookfield submarket properties in order to attract tenants. Bishop's Woods Class B 2016 vacancy rate is over 6% higher than the rest of the Brookfield submarket. In addition, the average asking rent for Class B workspaces in the Brookfield submarket is \$15.22, compared to the more expensive \$16.88 in the Bishop's Woods neighborhood. Cheaper rents and a greater variety of office spaces have made other locations in the Brookfield submarket more successful in attracting and maintaining Class B office tenants.

Bishop's Woods	
2016 3rd Quarter Statistics	
Total Office Space - Class B	
Class B - SF	397,870
Class B - % of Bishops Woods	32.95%
Class B - Vacancy Rate	21.06%
Class B - Average Asking Rent	\$16.88

City of Brookfield Submarket	
2016 3rd Quarter Statistics	
Total Office Space - Class B	
Class B - SF	3,689,282
Class B - % of City	61.22%
Class B - Vacancy Rate	14.90%
Class B - Average Asking Rent	\$15.22

Source: Xceligent 2016

Table 4

Bishop's Woods contains 8.88% of Class C office space, which represents 107,205 square feet of the total neighborhood. Class C buildings reflect properties in need of renovation and feature rents below the average for an area. The four Class C office buildings within Bishop's Woods are currently 25.64% vacant. Redevelopment of the neighborhood should focus on replacing these buildings or updating them to Class A offices. Eliminating Class C buildings from Bishop's Woods will improve the overall quality and perception of the park as a premier location for a company's headquarters.

Bishop's Woods	
2016 3rd Quarter Statistics	
Total Office Space - Class C	
Class C - SF	107,205
Class C - % of Bishops Woods	8.88%
Class C - Vacancy Rate	25.64%
Class C - Average Asking Rent	n/a

City of Brookfield Submarket	
2016 3rd Quarter Statistics	
Total Office Space - Class C	
Class C - SF	296,416
Class C - % of City	4.92%
Class C - Vacancy Rate	11.66%
Class C - Average Asking Rent	\$9.00

Source: Xceligent 2016

Table 5

### Peer Cities - Analysis

When creating neighborhood redevelopment plans, it is valuable to compare the local submarket to peer cities that possess similar qualities. Municipalities throughout the Midwest with comparable populations, employment, incomes, demographics, economies, and households were analyzed. Understanding cities with similar market characteristics will enable the City of Brookfield to better analyze its office market and identify development opportunities that will strengthen economic vitality. After conducting research, the City of Dublin (Ohio), City of Edina (Minnesota), City of West Des Moines (Iowa), and the Village of Northbrook (Illinois) were determined to be peer cities of Brookfield<sup>1</sup>. Sources for this work included the U.S. Census Bureau, Bureau of Labor Statistics, and respective municipal geographic data.

### Total Vacancy

In order to assess the vibrancy of the Brookfield's submarket, the total vacancy rate of peer cities should be compared and analyzed. With a Brookfield submarket vacancy rate of 16%, Brookfield's submarket only falls behind the 14.4% vacancy rate in the West submarket of Des Moines, Iowa. The 2016 3<sup>rd</sup> quarter statistics lists Brookfield with 964,206 square feet of vacant

<sup>1</sup> See Brookfield Peer Cities Work Area Analysis

office space, which is 77,112 square feet less than the West Des Moines submarket. The western suburbs of Iowa’s largest city underwent more activity than the central business district, as ten new leases were signed in 2016. Iowa office tenants will experience an increase in options in 2017 and 2018 with the completion of two office buildings totaling 255,000 square feet (Land, 2016). In addition, Kum & Go will be relocating from the western Des Moines submarket to their new headquarters in the central business district in 2018 (Aschbrenner, 2016). The surge in development and relocation of existing office tenants may cause vacancy rates to rise within the City of West Des Moines, yielding a similar vacancy rate to the Brookfield submarket.

City of Brookfield Submarket	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	6,026,310
Occupied SF	5,062,104
Total Vacancy	16%
Total Vacant SF	964,206

Source: Xceligent, 2016

Des Moines, Iowa - West Submarket (West Des Moines)	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	7,231,375
Occupied SF	6,190,057
Total Vacancy	14.40%
Total Vacant SF	1,041,318

Source: JLL, 2016

Table 6

Edina, Minnesota and the South/Airport submarket of Minneapolis yielded similar results to the Brookfield submarket. With comparable square feet of building size and occupied space, the Edina submarket comprised a total vacancy rate of 17.9%, or 1.9% higher than the Brookfield submarket. The remaining peer submarkets of Northbrook, Illinois (Chicago’s North submarket) had a vacancy rate of 18.6%, followed by an office vacancy rate of 25.36% in the City of Dublin, Ohio.

Minneapolis - South/Airport Submarket (Edina)	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	5,980,278
Occupied SF	4,938,836
Total Vacancy	17.90%
Total Vacant SF	1,041,442

Chicago - North Submarket (Northbrook)	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	29,032,562
Occupied SF	23,632,506
Total Vacancy	18.60%
Total Vacant SF	5,400,056

Source: Colliers International

City of Dublin, Ohio Submarket	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	2,310,990
Occupied SF	1,724,984
Total Vacancy	25.36%
Total Vacant SF	586,006

### 2016 Average Lease Rates

Despite being an upper-middle class suburb of Milwaukee with a median household income of \$91,485, the City of Brookfield offers lower asking rents per square foot (\$16.84) than the identified peer cities of Edina (\$23.39), Northbrook (\$22.04), and Dublin (\$19.42) (U.S. Census Bureau, 2014). West Des Moines (\$14.70) is the only peer city that has office space for lease that is less expensive than the Brookfield submarket.

Office lease rates can be partially attributed to the cost of living index of each metropolitan region. There is a positive correlation (.8) between the cost of living index and the average asking lease rate. Metropolitan areas with increased costs of living feature higher average asking lease rates. However, numerous other factors can slightly skew lease rates, such as large scale developments, changes in demographics, or market trends. Despite having a higher cost of living index, the Brookfield submarket features a cheaper average asking lease rate than the peer city of Dublin, Ohio. The more expensive lease rate in Dublin can be attributed to the construction of the Bridge Street District, a high end mixed use site currently under development. In addition, Dublin is home to 20 corporate headquarters and over 3,000 businesses that have made it Columbus CEO Magazine's best suburb for business from 2011-2016.

Even with its close proximity to downtown Milwaukee, access to Interstate-94, and vibrant commercial corridors, the Brookfield submarket is experiencing lower average asking lease rates than its peer Midwestern cities. The office market lease rate will reflect the lower cost of living in metropolitan Milwaukee and the state of Wisconsin. However, this can be viewed as a potential asset in attracting national corporations to relocate into the Brookfield submarket and Bishop's Woods neighborhood.

#	Metropolitan Area	Average Asking Lease Rate	Cost of Living Index
1	Minneapolis/St. Paul (Edina)	\$23.39	201
2	Chicago (Northbrook)	\$22.04	218
3	Columbus (Dublin)	\$19.42	171
4	Milwaukee (Brookfield)	\$16.84	183
5	Des Moines (West Des Moines)	\$14.70	165

*Expatistan, 2016*

Table 8

### Total Office Space

In comparison to other peer city submarkets, Brookfield is the only municipality with significantly less Class A office space (33.86%) than Class B (61.22%). The City of Dublin and Minneapolis-South/Airport submarket have similar office class ratios, with a less than 5% difference between Class A and Class B buildings. West Des Moines contains Class A office space that is 9.76% greater than the submarket's Class B space. Chicago's northern suburbs represent a major outlier as Class A office space is 63.51% of the total market, or 30.98% more than Class B office space.

Building age serves as a possible indicator into the breakdown of office classes (*NGKF Suburban Office Obsolescence 2015*). The average office building within the City of Brookfield is 32 years old. Since 66.14% of the Brookfield submarket is designated as Class B and Class C office space, it is a potential indicator that two-thirds of the office buildings within the municipality were built before the year 1984. Other peer cities have contrasting development patterns and history that provide insight into their office markets. Dublin underwent rapid development and population growth since it was first declared a city in 1987. As a result, 47.19% of the office buildings are designated as Class A given their newer construction and high quality finishes.

### **Conclusion**

The City of Brookfield submarket, particularly the Bishop's Woods Office Park, will face increased challenges in attracting and retaining major corporate headquarters. National trends indicate a decline in traditional suburban office parks, as companies are relocating into the central business districts in order to attract millennials (Schwartz, 2016). In addition to numerous developments reshaping downtown Milwaukee, Bishop's Woods will encounter increased competition for Class A office tenants from within the Brookfield submarket. The Corridor, located further west along Bluemound Road and Interstate-94, is proposing over 400,000 square feet of LEED-certified contemporary office buildings within the 66-acre development. Furthermore, the older buildings within Bishop's Woods create challenges in retaining and attracting tenants as new cutting edge workspaces are continuing to be developed throughout the metropolitan area.

Despite these barriers, Bishop's Woods is maintaining its economic vitality along the Bluemound Road corridor. The office park is located on premier real estate along Interstate-94 with nearby retail, restaurants, hotels, and other amenities. With nearly 60% of the office park consisting of Class A space, Bishop's Woods has a unique advantage in attracting high employment generating corporations given that the Brookfield submarket is largely dominated by Class B office space. In addition, Bishop's Woods supplies future tenants with a lower average lease rate than the surrounding submarket and regional peer cities. The City of Brookfield offers high household incomes, lower costs of living, safe neighborhoods, and a high performing school district that can potentially attract regional and national companies. Further identification of development and investment opportunities within the Bishop's Woods neighborhood will assist in the long range sustainability of the office park.

## Appendix

Bishop's Woods		City of Brookfield Submarket	
2016 3rd Quarter Statistics		2016 3rd Quarter Statistics	
Occupancy		Occupancy	
Building Size SF	1,207,559	Building Size SF	6,026,310
Occupied SF	931,594	Occupied SF	5,062,104
Total Vacancy	22.85%	Total Vacancy	16%
Total Vacant SF	275,965	Total Vacant SF	964,206
Activity		Activity	
2016 3rd Q Net Absorption	5,894	2016 3rd Q Net Absorption	36,360
Net Absorption YTD	7,511	Net Absorption YTD	153,767
2016 Average Lease Rate	\$16.75	2016 Average Lease Rate	\$16.84
Total Office Space - Class		Total Office Space - Class	
Class A - SF	702,484	Class A - SF	2,040,612
Class B - SF	397,870	Class B - SF	3,689,282
Class C - SF	107,205	Class C - SF	296,416
Class A - % of BW	58.17%	Class A - % of City	33.86%
Class B - % of BW	32.95%	Class B - % of City	61.22%
Class C - % of BW	8.88%	Class C - % of City	4.92%
Class A - Vacancy Rate	23.44%	Class A - Vacancy Rate	18.61%
Class B - Vacancy Rate	21.06%	Class B - Vacancy Rate	14.90%
Class C - Vacancy Rate	25.64%	Class C - Vacancy Rate	11.66%
Class A - Average Asking Rent	\$17.06	Class A - Average Asking Rent	\$16.00
Class B - Average Asking Rent	\$16.88	Class B - Average Asking Rent	\$15.22
Class C - Average Asking Rent	n/a	Class C - Average Asking Rent	\$9.00

City of Dublin, Ohio Submarket	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	2,310,990
Occupied SF	1,724,984
Total Vacancy	25.36%
Total Vacant SF	586,006
Activity	
2016 3rd Q Net Absorption	1,503
Net Absorption YTD	-57,977
2016 Average Lease Rate	\$19.42
Total Office Space - Class	
Class A - SF	1,090,671
Class B - SF	1,220,319
Class C - SF	0
Class A - % of City	47.19%
Class B - % of City	52.81%
Class C - % of City	0.00%
Class A - Vacancy Rate	31.50%
Class B - Vacancy Rate	21.14%
Class C - Vacancy Rate	0.00%
Class A - Average Asking Rent	\$21.44
Class B - Average Asking Rent	\$17.63
Class C - Average Asking Rent	n/a

Minneapolis - South/Airport Submarket (Edina)	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	5,980,278
Occupied SF	4,938,836
Total Vacancy	17.90%
Total Vacant SF	1,041,442
Activity	
2016 3rd Q Net Absorption	-24,104
Net Absorption YTD	68,262
2016 Average Lease Rate	\$23.39
Total Office Space (Minneapolis/St. Paul) - Class	
Class A - SF	33,664,067
Class B - SF	31,458,443
Class C - SF	6,192,957
Class A - % of Metro	47.20%
Class B - % of Metro	44.12%
Class C - % of Metro	8.68%
Class A - Vacancy Rate	14.20%
Class B - Vacancy Rate	19.40%
Class C - Vacancy Rate	15.10%
Class A - Average Asking Rent	\$29.16
Class B - Average Asking Rent	\$21.69
Class C - Average Asking Rent	\$18.14



Des Moines, Iowa - West Submarket (West Des Moines)	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	7,231,375
Occupied SF	6,190,057
Total Vacancy	14.40%
Total Vacant SF	1,041,318
Activity	
2016 3rd Q Net Absorption	-15,622
Net Absorption YTD	58,812
2016 Average Lease Rate	\$14.70
Total Office Space - Class	
Class A - SF	3,763,967
Class B - SF	3,058,028
Class C - SF	409,380
Class A - % of City	52.05%
Class B - % of City	42.29%
Class C - % of City	5.66%
Class A - Vacancy Rate	15.70%
Class B - Vacancy Rate	13.90%
Class C - Vacancy Rate	6.00%
Class A - Average Asking Rent	\$16.04
Class B - Average Asking Rent	\$13.35
Class C - Average Asking Rent	\$12.50

Chicago - North Submarket (Northbrook)	
2016 3rd Quarter Statistics	
Occupancy	
Building Size SF	29,032,562
Occupied SF	23,632,506
Total Vacancy	18.60%
Total Vacant SF	5,400,056
Activity	
2016 3rd Q Net Absorption	84,520
Net Absorption YTD	-182,997
2016 Average Lease Rate	\$22.04
Total Office Space - Class	
Class A - SF	18,439,512
Class B - SF	9,445,330
Class C - SF	1,147,720
Class A - % of City	63.51%
Class B - % of City	32.53%
Class C - % of City	3.96%
Class A - Vacancy Rate	21.10%
Class B - Vacancy Rate	13.70%
Class C - Vacancy Rate	19.00%
Class A - Average Asking Rent	\$30.13
Class B - Average Asking Rent	\$18.56
Class C - Average Asking Rent	\$17.42

Average Year Built	
Bishop's Woods	
All	1983
Class A	1986
Class B	1981
Class C	1976

Average Year Built	
City of Brookfield	
All	1984
Class A	1992
Class B	1984
Class C	1968

**Definitions**

*Class A:* The classification used to describe buildings that generally qualify as extremely desirable, investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.

*Class B:* The classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties.

*Class C:* The lowest classification of office building and space is Class C. These are older buildings and are located in less desirable areas and are often in need of extensive renovation. Architecturally, these buildings are the least desirable, and building infrastructure and technology is outdated.

*Cost of Living Index:* To determine each metropolises' Cost of Living Index value, we begin by assigning a value of 100 to a central reference city (that happens to be Prague, Czech Republic). Once the reference point has been established, the Price Index value of every other city in the database is calculated by comparing their cost of living to the cost of living in Prague. Therefore, if a city has a Price Index of 134, which means that living there is 34% more expensive than living in Prague.

*Net Absorption:* Net Absorption is the change in total occupied square footage of an area over a given period of time, usually based on financial quarters or annually.

*Total Vacant SF:* Total vacant space that is ready for immediate occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

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