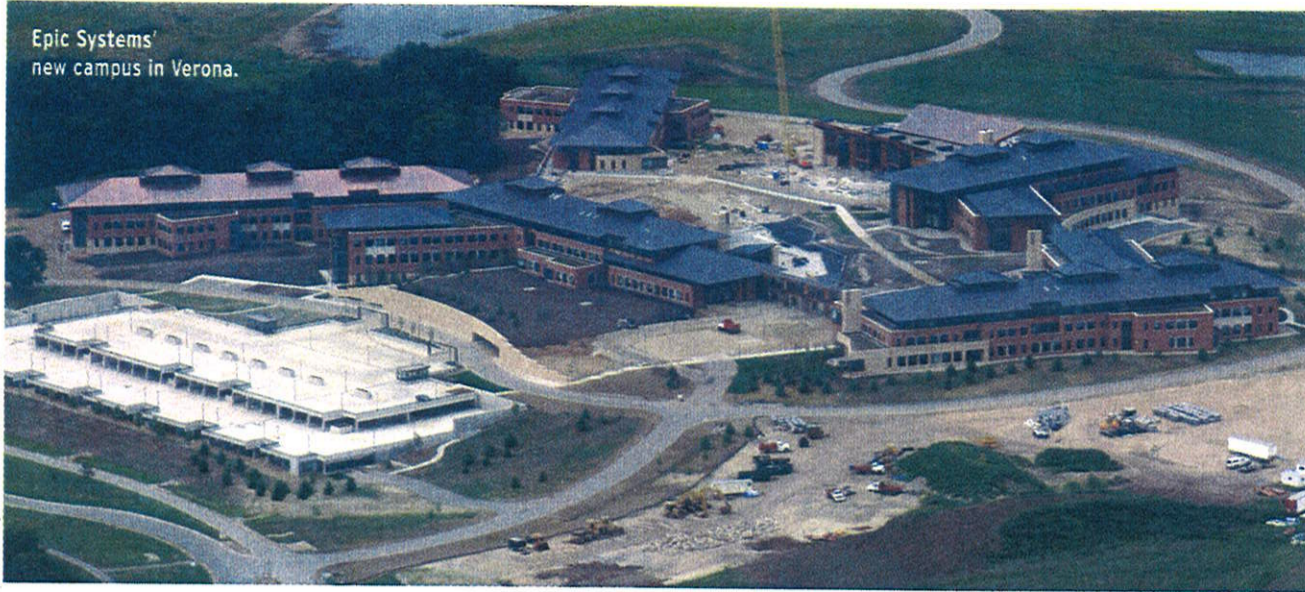


Photo by Bill Brose, JJR, LLC

Epic Systems' new campus in Verona.



# Commercial Real Estate in Madison: Speeding Up or Slowing Down?

By Mark Crawford

Dane County and Madison have shown strong regional growth in commercial real estate in 2005 and 2006, which bucks slower growth trends in other parts of the country.

"We see no significant signs of decline on the commercial side," says **Chris Richards of Grubb & Ellis/Oakbrook**. "In fact, Madison's vacancy rates remain much lower than Milwaukee or Chicago."

"Madison's office market had a solid year in 2005 and all signs point to an even stronger year in 2006," adds Oakbrook's director of research **Chris Caulum**. "Overall vacancy edged closer to market equilibrium as absorption eclipsed completed construction for the second year in a row."

Higher building costs don't seem to be slowing down office construction at all. "Higher prices of construction materials and increased costs for utilities have impacted the market for several years," says **Rob Helm**, owner of **Helm Commercial Real Estate**. "Coupled with interest rates going up, developing new buildings will be more expensive."

According to Grubb & Ellis/Oakbrook's recent office market trends report, growth in Madison was driven mostly by the Far West Side and Downtown markets. This year Class-A office space is being constructed in

all five submarkets of Madison. The impending sale of The Greenway Center in Middleton will mark the first foray in the Madison speculative office market by institutional investors.

Although construction might be booming, some experts feel the rental market for office space is soft.

"There is more space vacant in Madison than we are used to historically, although the vacancy rate has come down compared to a few years ago," says **Jeff Jansen**, a commercial real estate broker with **Sperry Van Ness**. "Low interest rates have encouraged developers to build buildings with a higher vacancy rate than when rates are higher. Also some large tenants have outgrown their rental space and moved, leaving large vacancies to be filled."

**Mike Herl**, vice president of brokerage services for **Inland Companies**, has observed a lot of tenant "shuffling" going on in Class-B and Class-C office space. "Landlords must offer rent incentives to keep existing tenants or attract new ones," says Herl. "If they don't, tenants shuffle between properties, depending on what rent incentives are being offered. We're seeing a great deal of activity, but the vacancy rates are staying about the same."

### Spreading Out

The lack of available land, high land costs, and dealing with city government have driven developers, owners, and tenants to other areas in Dane County.

"We will continue to see growth in outlying areas, such as Sun Prairie's new Main Street extension, Cottage Grove at I-94 and Highway N, Fitchburg's business park and

retail corridor along Highway PD, and McFarland's new retail area along Highway 51," says **Patricia Schwartz**, a commercial real estate agent with **Re/Max Preferred**. "And service-type businesses, retailers, restaurants, and fast-food chains are all in demand to serve the residential growth in these areas."

The lack of available land in Madison frustrates many business owners. "They'd love to own their own office space but they can't find available properties, especially in the 3000- to 10,000-square-foot ranges," says Jansen. "Some developers are responding with commercial condominiums, especially in the industrial and office sectors. These allow businesses to own their space within a larger building and benefit from those tax advantages. Maintenance and upkeep expenses are shared by owners."

### What the Future Holds

Most developers expect some sort of slowdown in commercial construction in 2007.

"This year started out strong and there have been lots of deals in marketplace," says **Kurt Welton**, president of **Welton Enterprises**. "But people are uncertain about the economy over the next couple of years, so decisions are being made more slowly and with more consideration. I think we'll see continued strength in the market through 2006 and a possible softening next year."

"As the economy slows and interest rates start to climb, the commercial real estate market in Madison should be affected," agrees **Ken Harwood** of **Park Towne Corporation**. "Growth will be complicated by the political rhetoric of Madison's Council and the often-complex approval process for

commercial and retail development."

"Government throws a lot of money at individuals and businesses (tens of millions sometimes) in order to get them to make decisions they would normally not make," says Welton. "This grossly distorts the economics of the marketplace, artificially disrupts the workforce, and lines the pockets of wealthy people at the expense of the average taxpayer—in the long run it hurts everyone."



Ken Harwood  
Park Towne Corporation

### Pulling Together

Another downside to government interference is that it creates a highly competitive environment that pits community against community. "What we need is a comprehensive, coherent, community-wide government structure," continues Welton. "We have over 40 different government units controlling development in Dane County. Perhaps we could come up with a new 'coalition government' that replaces all the villages, towns, cities, and country groups into one large metropolitan council."

A start in this direction has been the creation of the **Collaboration Council**. "Economic and quality of life issues are best addressed in a regional, collaborative manner," says **Rafael Carbonell**, director of regional economic development for the council.

"We do face some significant hurdles in the future," concludes Harwood. "Wisconsin has a limited array of tools for encouraging economic development when compared to other states. We continue to encourage communities to compete instead of cooperate. We need cooperative regional planning and the infrastructure to support to create the kind of Madison region we want." ■



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