

## TABLE of EXPERTS



**Moderator**  
**TRACY JOHNSON**  
 President and CEO, CARW -  
 the Commercial Association of  
 REALTORS® Wisconsin

The Commercial Association of REALTORS® is the voice for commercial real estate in Wisconsin. CARW advances the interests of individual practitioners and the industry through commercial education, commercial real estate data, networking opportunities, public affairs and advocacy. The organization's 850 members adhere to a professional code of ethics and represent more than 500 businesses throughout the State. CARW has partnered with Catylist to provide a statewide commercial real estate listing platform.



**PATRICK GALLAGHER**  
 Executive Vice President  
 CBRE Milwaukee

Patrick brings more than 30 years of experience representing private equity and institutional clients across all asset classes including the sale of over 10,000 apartment units, hundreds of retail, office and industrial buildings, plus development land and golf courses. Patrick and his team have significant receivership and troubled asset advisory experience, working with financial institutions in the evaluation, takeover, management and disposition of numerous troubled assets and notes.



**DEBBY TOMCZYK**  
 Shareholder  
 Reinhart Boerner Van Deuren  
 s.c.

Deborah Tomczyk is a shareholder and chair of Reinhart's Real Estate Practice. Debby assists clients in all aspects of real estate development, from structuring deals to obtaining financing and permits to ensuring that projects are successful. Her specialties include government relations, zoning, land use, eminent domain, licensing, tax increment financing and business improvement districts.



**ERIC WYNN**  
 Director of Project  
 Management and General  
 Manager of Southeast  
 Wisconsin, Findorff

Eric Wynn brings over 24 years of professional experience to his role at Findorff. Since joining Findorff in 2001, Eric's progressive role not only focuses on leading Findorff's Milwaukee operations, but also promoting the construction industry. Eric dedicates a lot of his time to enhancing, educating, and mentoring the future generations of the Wisconsin workforce. He has served as President for the AGC of Greater Milwaukee, is an active member of multiple labor negotiation committees and serves on a number of boards including the Milwaukee Christian Center.

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# Building in Change

## Technology, tight labor supplies and outside investors impacting commercial real estate

**MILWAUKEE'S COMMERCIAL REAL ESTATE MARKET CONTINUES TO FLOURISH, BUT SEVERAL FACTORS COULD IMPACT FUTURE TRENDS, INCLUDING THE ECONOMY, POLITICAL CHANGE AND THE REGION'S INCREASINGLY GROWING PROFILE. THE MILWAUKEE BUSINESS JOURNAL RECENTLY ASSEMBLED A PANEL OF EXPERTS TO EXPLORE HOW THESE FACTORS COULD CHANGE THE COMMERCIAL REAL ESTATE LANDSCAPE IN SOUTHEASTERN WISCONSIN.**

**Tracy Johnson:** When you look back at 2019, what do you see as the most significant developments or trends in the commercial real estate sector in terms of projects, financing arrangements and/or construction practices?

**Patrick Gallagher:** One of the things that stands out to me is the continued commitment to develop in Milwaukee's central business district. It's really exciting. American Family is moving into the Mandel building, Komatsu and Michels are both developing new projects in the Fifth Ward/Bay View area. There's the redevelopment of the Assurant building at 501 West Michigan, which is a full city block. The Journal Sentinel building, another full city block, has been sold to Josh Jeffers and his company. There's a lot of interest in taking advantage of all the exciting amenities that the public sector has been driving.

**What do you think is more in demand - new construction or repurposing existing buildings?**

**Eric Wynn:** It all depends on

location and what the end user is looking for. I don't think there is a demand for old or a demand for new. I think there is a demand to be downtown. **Deborah Tomczyk:** Location drives a lot of the decision. Downtown is more expensive for redeveloping, so there is an uphill cost differential that has to be taken into account. That has to be weighed against the desire to attract and retain a younger workforce. They want to be downtown because they want to be near services and restaurants. There are opportunities for different tax credits and financing packages that can offset the higher costs of redevelopment, but the deal has to make sense in the first place.

**How much of an issue is zoning?**

**Tomczyk:** There's almost nothing you can build today that won't need some zoning change or site-plan approval, so there always seems to be the need for government approval of some kind.

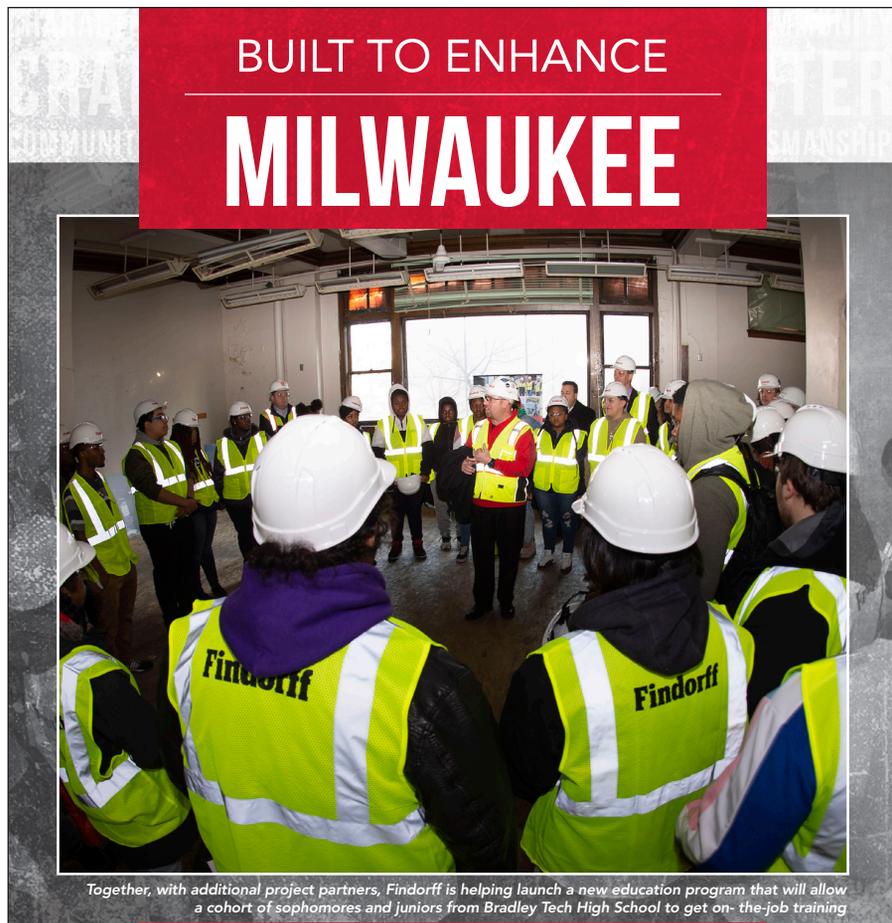
**Gallagher:** That process really depends on the type of use and the municipality involved. Some municipalities will bend over backwards to accommodate growth. Others are more picky. Fortunately, most municipalities realize that job growth is a good thing.

**We are in the tightest job market of all time. How is that impacting the supply and demand for skilled trades?**

**Wynn:** We still haven't hit the number of people that we had in the construction trades prior to the 2008 recession. That downturn prompted a lot of retirees and early retirees, and we still haven't fully reloaded the

workforce. As a result, we are constantly looking to recruit new workers. One of the challenges we have is that the new generation has a lot of options to choose from. We work closely with the unions, the tech colleges and high schools to get people excited about construction. **Tomczyk:** The Milwaukee Bucks and Northwestern Mutual did a great job of identifying a different type of pipeline when they did their projects. They reached out to underserved communities through the Wisconsin Regional Training Partnership's Building

Industry Group & Skilled Trades Employment Program (WRTP | BIG STEP). **Wynn:** Military veterans are another great resource that we are tapping into. **Gallagher:** We need to focus on promoting development paths for the trades as an alternative to four-year college. A lot of students going to college don't know why they are doing it except that they think they should. They could go to trade school instead and get a degree and good-paying job a lot faster without the debt.



Together, with additional project partners, Findorff is helping launch a new education program that will allow a cohort of sophomores and juniors from Bradley Tech High School to get on-the-job training

For 130 years, Findorff has established itself as a leading builder in the Midwest. For over 45 years, Findorff has called Milwaukee home and we are proud to consistently enhance the urban landscape within our community.



### How important is prefabrication becoming given the tight labor supply? Is that something we are going to see more of?

**Wynn:** Prefabrication has been around for years, but it is becoming more prevalent. Some of that is driven by the smaller workforce. When you have fewer hands to put material in place, your only choice is to have more of it fabricated offsite. It also helps with timelines.

### And what about changes to the projects that are underway? How critical have they become?

**Tomczyk:** The number-one thing is to avoid changes as much as possible because they add costs and time. Everything is on steroids these days because of the start-to-finish expectations. Hopefully you have a good plan and complete specs before you ink the contract. The more you identify upfront the better. In order to do that, you have to understand the expectations of the client and help them through the design process. Changes

during the construction process typically occur because the client really had not thought through what they wanted or needed.

**Wynn:** We see much more collaboration between the architect, engineer and contractor early on in the process, which definitely supports a good, strong development from design through occupancy. The sooner you can get the teams together, the better off the project will be.

### How is technology impacting the construction process? Or how end users are looking for space?

**Wynn:** Technology continues to help construction both on the administrative side – document control and information sharing – as well as in the implementation and placement of work. Construction has traditionally relied on blueprints where everything was on paper and two-dimensional. Now, more often than not, you can see the project in 3D, which helps with placing materials correctly

to avoid rework. Technology has also helped with the documentation that you hand over to the property owner so they know where everything is if they need to remodel.

**Gallagher:** Technology and construction design is being driven by outside forces like sustainability.

**Wynn:** Connectivity is also driving design. The generation coming into the workforce uses three and four screens. They have a computer, iPad, smartwatch and phone, and the infrastructure needed to support that connectivity needs to be integrated into new developments.

**Tomczyk:** And the need for that connectivity often becomes a question that needs to be addressed when considering whether to build new or refurbish an existing building. The level of infrastructure necessary to support high levels of connectivity is not cost-effective in many older buildings.

### Technology is changing the world of work by enabling people to work remotely. It's also changing the way people buy things. How are these changes impacting the need for office/retail space and the way it is designed or reimaged?

**Gallagher:** A few years ago, CBRE implemented what we call Office 360, which entails smaller, temporary workstations that are shared by workers and meeting spaces designed to encourage collaboration. A similar concept is being embraced by firms around the world. It is creating a better work environment, but reducing the demand for space.

**Tomczyk:** It's harder for law firms to have collaborative space because of confidentiality issues, but we do see our clients trending toward shared spaces. It's being driven by sustainability, technology and millennials. It's how they want to work.

### Is it less expensive per person?

**Wynn:** I don't know that it's less expensive, but I think it's what the end user is demanding.

### How is technology impacting retail?

**Gallagher:** Southeast Wisconsin has seen a number of department and grocery store closings, but many of those stores are getting repurposed. They are turning into fitness centers, self-storage or entertainment places. Bricks-and-clicks has become a very widely adopted concept. There are retailers who are opening stores to drive their online business. Allen Edmonds is a great example. They opened a store in the Pfister. People can walk in and try on shoes and then order online. There is a real blending of showroom and warehouse going on. Retailers are trying to figure out the magic formula.

**Wynn:** We are seeing former retail turn into office and residential space.

**Tomczyk:** The growth area in retail is manufacturing and industrial space. Retailers have to have places to house all the stuff that is going to end up on your doorstep.

### Sustainability is becoming an increasingly important issue. How is it impacting the demand for new buildings versus repurposing existing buildings?

**Wynn:** There has always been a desire for sustainability because



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it just makes sense from a construction or operational perspective. Many people think sustainability arrived on the scene with LEED, but it did not. LEED is a certification process that has a focus on sustainability, but those practices have been there for quite a few years. Many of the buildings being built today, whether they get LEED certification or not, are utilizing sustainable practices. They have to. It's just good design.

**Tomczyk:** I agree with Eric. I don't think LEED certification is the same driver that it was a few years ago. People don't care about as much about the certification as they do about doing the right thing.

**Gallagher:** Sustainability features don't always translate into an immediate economic benefit for a developer or building owner, but they can increase the speed of lease out and reduce operating costs. And then there are the intangibles. Companies want to be good corporate citizens and employees want to be in environments that are designed sustainably.

**How is the influx in out-of-state investors impacting the commercial real estate market?**

**Gallagher:** There is a massive amount of capital looking for investment opportunities around the country. The returns on the coasts and in the tier-one markets are so low that investors are looking at

second- and third-tier markets like Milwaukee and Madison to enhance their yield. But in doing so, they're driving down cap rates and pushing up sales prices. That can make it more difficult for local investors to compete.

**Tomczyk:** There is a lot of out-of-state money in the market right now and it is driving up prices. I think most of the national investor demand is for existing product, not new construction. They aren't affecting day-to-day construction, but they are impacting buyout scenarios.

**Gallagher:** I think the outside investors are really good for the marketplace because they are creating liquidity.

**Milwaukee's traditionally conservative nature has helped the commercial real estate sector weather economic disruptions better than other urban markets, especially on the coasts. Is that stability in danger with more money coming in from national and international players?**

**Gallagher:** The influx of out-of-state investors and capital could increase the tendency to overbuild, but I think there has been a good amount of discipline. I think developers are really studying demand.

**Tomczyk:** I am a little more concerned than Patrick. I think there is discipline in the market and I think our local

development community has been very conservative, but the new capital sources are driving down cap rates and I am not sure how that will play out.

**As you look toward 2020 and beyond, what concerns and excites you most about the region's commercial real estate market?**

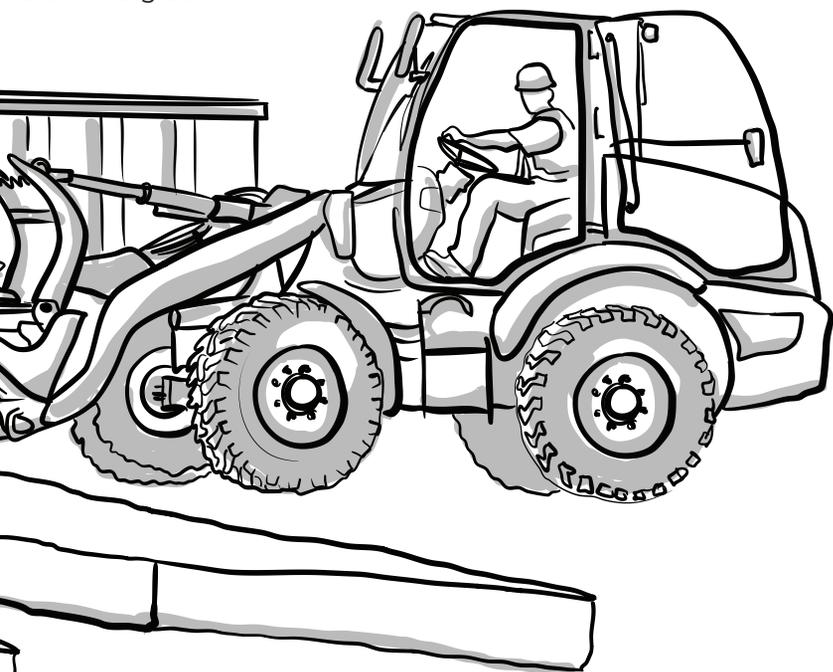
**Tomczyk:** Interest rates are historically low and I don't see that that's going to change. Unemployment is also historically low and there is no indication that is going to change either. But politics can change things dramatically. This year we have a presidential election, a county election and a city election, so we have potential changes coming and that could create unpredictability and uncertainty in the market.

**Wynn:** I echo what Deb said. Elections can cause people to retract because of uncertainty. What excites me is that there are still a lot of great developments being contemplated and designed for 2021 and beyond. It

looks like the market is going to stay strong from a construction perspective and that's good for Milwaukee because it means we are going to continue to grow. Milwaukee is a great place to be right now and it's becoming more of a destination than ever before.

**Tomczyk:** There are a lot of things happening this year - the Democratic National Convention and the Ryder Cup, for example - that are going to allow us to showcase the region.

**Gallagher:** Southeast Wisconsin and Milwaukee in particular are very exciting places to be. When we bring investors from out-of-state, they inevitably comment on what a beautiful city it is. The lifestyle this place affords is amazing and I think it is starting to get noticed. One of my larger, long-term concerns is the projected slow population and job growth in southeastern Wisconsin. It's impacting the ability of corporations to move here and for existing companies to grow here.



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