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University Upgrades Boost Commercial Sector

By MAURA WEBBER SADOVI | SPECIAL TO THE WSJ

Even as Madison, Wis., suffers arctic-like temperatures, there is a warm ray of hope for the commercial real-estate industry.

The city's academic sector is seeing a building boomlet while developers in other parts of the country slam the brakes on new office buildings, stores and shopping centers.

About \$600 million of new building projects are under construction on the University of Wisconsin-Madison campus and more than \$450 million of additional projects are in the planning stage, said Alan Fish, associate vice chancellor of facilities planning and management at the university.

A student-services center will officially open to students this week in a larger mixed-use development called University Square. The 1.1-million-square-foot project developed by Executive Management Inc., of Madison, also includes a rooftop garden, rental housing and about 125,000 square feet of retail space that is about 55% leased. The project, on the edge of the campus, is on land previously occupied by a one-story retail property, Mr. Fish said. Also under construction is the \$150 million Wisconsin Institutes for Discovery, an interdisciplinary research complex scheduled to open in 2010.

The construction, part of a continuing effort to update the campus's facilities since the 1990s, isn't just changing the face of secluded ivory towers. "We're smack dab in the middle of Madison," Mr. Fish said. "Clearly the dynamism the campus has exhibited in the last five years has had a big ripple effect."

The new development in Madison's academic sector comes as the recession is beginning to cause pain in other parts of Wisconsin's economy. Last month, General Motors Corp. halted production of full-size sport-utility vehicles at its facility in Janesville, about 35 miles southeast of Madison. That could slightly damp demand for industrial properties on the outskirts of the Madison region, said Mike Reisinger, vice president with CB Richard Ellis in Madison. Some brokers also worry that the state's budget problems could ultimately cut state agencies' need for office space.

A state capital and university town, Madison is viewed by some as Wisconsin's answer to Berkeley, Calif., due in part to its university ties and progressive political history and culture. The city, which is home to one of the country's largest producers-only farmers' markets -- that requires all items to be produced locally by vendors -- anchors a small metropolitan area of more than a half-million people west of Milwaukee.

The metro area, which is driven by state government and the University of Wisconsin-Madison, posted an unemployment rate of 3.9% in November, well below the national rate of 6.5%, according to the U.S. Department of Labor. The housing market also has held up better than most, though it is weakening. Single-family median home prices fell just 1.6% in the third quarter, to \$230,800, from the year-earlier period, according to the National Association of Realtors.

The weakening office market has become more apparent over the past year. Office vacancies rose as some 600,000 square feet of new office space was constructed and some companies downsized or left the market, said Michael L. Morey, president of Grubb & Ellis/Oakbrook. This year just about 376,000 square feet of new office space is expected to be completed, Mr. Morey said.

Madison's smaller size and lower profile may help it in the future. In several other markets, national developers funded large buildings without preleasing, a practice that has led to skyrocketing vacancies. That didn't happen in Madison, Mr. Morey said. "We don't have demand growth that's been attractive enough that you get many national builders coming in," Mr. Morey said. "There's certainly some speculation, but it's relatively conservative."

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