

Milwaukee County Research Park & Technology Innovation Center
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TO: Supervisor Patricia Jursik,
Chair, Economic and Community Development Committee

FROM: Guy T. Mascari, Director, Technology Innovation Center and
Director of Development, Milwaukee County Research Park

SUBJECT: Report on Recent Activity at the Milwaukee County Research Park, the Value of Business Incubation in Southeastern Wisconsin, and Comments regarding the CBRE Comprehensive Facilities Plan Consulting Report dated February 11, 2013

RECENT ACTIVITY

The most recent census indicated that there were approximately 115 businesses in the Research Park: 39 in the Technology Innovation Center (TIC) and 76 in multi-tenant and single occupant buildings. These businesses employ approximately 4,800 people. With the exception of the TIC, all of the other buildings are owned and leased by private developers. Occupancy has been exceptional in the park, with the vacancy rate currently at 1.6 percent. ⁽¹⁾

Total land sold equals 97.1 acres, with 17.30 acres left to sell or lease. These numbers do not include the 6.35 acres acquired by the Wisconsin Department of Transportation (WDOT) for the Zoo Interchange Project. The remaining land has a total value of about \$3,361,200. The park contains 14 buildings with a total of 1,691,000 square feet. This includes the largest building in the park – GE Healthcare’s 506,000 square foot clinical systems and corporate IT facility and the 200 room Crowne Plaza Hotel.

The 2013 total assessed value of all of the buildings in the Research Park is \$191,424,500 and annual property taxes total \$4,547,107. ⁽²⁾ Once the City of Wauwatosa closes the Research Park TID, approximately 25% of the annual property taxes with a value of about \$1,137,000 will go to Milwaukee County.

The TIC is the Milwaukee County Research Park Corporation’s (MCRPC) award winning 138,000 sq. ft. high-technology business incubator - one of the largest in the United States. Since opening its doors in March 1993, the TIC has attracted 152 firms (including 113 graduates) and helped create 1,059 new high paying jobs as of December 31, 2013. Currently 39 companies with 195 employees occupy space in the building. Over two-thirds of these employees hold jobs created since the firms first entered the building. The majority of TIC companies are in information technologies (50%), followed by medical and

biotechnology (25%). The remainder are in electronic equipment, industrial automation, LED optics, engineering, composite materials, and support organizations (25%). The TIC has 11,200 sq. ft. of wet lab space equipped with appropriate fixtures, ventilation, and equipment.

Space leased as of December 31, 2013 totaled 53,465 sq. ft. with corresponding revenues of \$53,918 per month, up substantially from the same date in 2012. As of May 1, 2014, space leased totaled 56,667 sq. ft. with corresponding revenues of \$56,573 per month due to the growth of several existing tenants. ⁽³⁾ As of May 1, 2014, total rent paid to Milwaukee County under the TIC lease was \$5,381,324.

GROUNDS AND BUILDING IMPROVEMENTS

Approximately \$3,600,000 has been or will be invested shortly in the southwest quadrant of the County Grounds that includes the Research Park (excluding the Zoo Interchange): (a) entrance re-construction - \$860,000, (b) TIC rain garden and pervious parking - \$128,000, (c) new boilers - \$420,000, (d) new laboratory for Agro BioSciences - \$70,000, (e) new card access, cameras, and security management system - \$76,000, (f) new hallway carpet and paint - \$52,000, and lastly (g) new access and parking at the Children's Court Center - \$2,000,000. MCRPC staff has spent a significant amount of time and effort overseeing, managing, and participating in these projects.

VALUE OF BUSINESS INCUBATION TO SOUTHEASTERN WISCONSIN

Business incubation works. This has been demonstrated time and again since the first business incubator opened in Batavia, New York in 1959.

A recent 2008 study conducted by consulting firm Grant Thornton for the U.S. Department of Commerce Economic Development Administration found that business incubators produce new jobs at a lower cost to the government than do other investments, such as roads and bridges, industrial parks, commercial buildings, and sewer and water projects. ⁽⁴⁾

Incubators improve the local economy through the creation of jobs and increased tax revenue. Growing in an incubator increases the business' chance of continued success and potential for long-term economic impact. Statistics indicate that two out of three business start-ups fail within the first five years, but 87 percent of businesses started in incubators are still viable after five years. ⁽⁵⁾ Also, businesses started in incubators tend to stay in the region in which they started. A major factor in these trends is the help businesses in an incubator give to each other. For this to happen, a suitable facility is absolutely necessary.

Other than the 39,000 sq. ft. Whitewater University Innovation Center in Walworth County, the TIC is the only business incubator in southeastern Wisconsin and as such vital to entrepreneurial development. Two of the largest general purpose incubators in the region operated by the Milwaukee Area Technical College, Milwaukee Enterprise Centers (MEC) North and South recently closed due to management problems and repurposed according to a January 25, 2014 Milwaukee Journal Sentinel article. ⁽⁶⁾

COMMENTS REGARDING THE CBRE COMPREHENSIVE FACILITIES PLAN CONSULTING REPORT DATED FEBRUARY 11, 2013 (the “report”)

While this report more or less accurately describes the physical condition of the TIC building, the conclusions and recommendations that the report makes are inaccurate. What follows are preliminary comments and observations that will be expanded and developed further as an analysis of the business incubation needs of the region are made, how they are best fulfilled, and what alternatives are most financially viable. MCRPC will retain the services of outside independent consultants to assist in this endeavor.

It is not a foregone conclusion that it is not feasible or desirable to renovate and/or maintain the existing TIC building. Among other things, the report failed to address the issue of the “embedded energy” in the TIC building and its importance to the urban ecology of the region. An article in *Buildings* dated June 21, 2012 “What is the Greenest Building” makes some very important points regarding the desirability of saving old buildings, not for historic reasons like the Eschweiler buildings, but for environmental reasons.⁽⁷⁾ That being said, the TIC as a former tuberculosis sanitarium built in 1913 is also a very historic building and representative of the social concerns of the County a century ago.

ALTERNATIVES TO THE TIC

The report also inaccurately describes alternatives to the TIC in the region. In fact, according to an official of the Wisconsin Business Incubation Association (WBIA), the TIC is the only business incubator current operating in the County. UWM’s Accelerator and the Water Council facility south of downtown Milwaukee are small in scale and have a different focus. Some may call them pre-incubation programs. As such, these two programs, especially the UWM Accelerator are complementary to the TIC.

Attached is a list of the eight incubators in metro-Milwaukee as of April 1993, a month after the TIC opened.⁽⁸⁾ According to the WBIA official, not one of them is operating today. There are reasons for this that could be explored – unsuitable facilities, poor location, ineffective management, lack of commitment by stakeholders, etc. There are also many reasons why the TIC is still thriving, including the fact that it is a facility singularly well suited for business incubation – it could be described as a big “egg crate” with over 250 individual rooms that make it easy for businesses to expand incrementally.

MILWAUKEE COUNTY’S RESEARCH TRIANGLE

Although the Milwaukee Regional Medical Center (MRMC) was established in 1968, Milwaukee County’s repurposing of the County Grounds began in earnest in 1978, when the Medical College of Wisconsin moved its campus west. Since then, the Medical College, Children’s Hospital, the Blood Research Institute, Froedtert Hospital, and other institutions, have fostered a common mission of excellence in patient care, medical education, life science research, and community service.

In response to a 1985 Blue Ribbon Task Force Report, Milwaukee County created the MCRPC in 1987. The Research Park became the second leg of the County’s research

triangle. While still on-going, a highpoint of development was the 2006 construction of GE Healthcare's 506,000 sq. ft. facility.

In early 2011, MCRPC released its lease-hold rights on 16 acres of land in the Northeast Quadrant of the County Grounds. This event allowed Milwaukee County to sell this parcel along with approximately 65 acres of additional land to the University of Wisconsin – Milwaukee Real Estate Foundation for the development of the UWM Innovation Campus associated with UWM's School of Engineering and Applied Science. The Innovation Campus will add significantly to the cluster of innovation and entrepreneurial activity already created by MCRPC and MRMC. The UWM Innovation Campus has become the third leg of the triangle.

This cluster of innovation – MRMC, Research Park, Innovation Campus – is unique. It is self-evident that the region's technology incubator must be part of this cluster. Milwaukee County can be justly proud of what it has accomplished at the County Grounds.

ECONOMICS OF BUILDING DEMOLITION

The economics of tearing the building down and turning the land over to a developer were not adequately developed by the report. The TIC sits on 6.3 acres of land worth \$160,000 per acre giving the site a value of \$1,008,000. A cursory search on the Internet revealed that demolishing a building runs between \$4 and \$8 per sq. ft. If the building contains asbestos (as the TIC does) another \$3 to \$5 per sq. ft. should be added, giving demolition costs of \$7 to \$13 per sq. ft. The TIC building is 138,000 sq. ft. so the cost to tear it down could be between \$966,000 and \$1,794,000, near or well in excess of the value of the underlying land. With substantial masonry construction, asbestos, and the numerous underground tunnels that are on the site it could be that the demolition cost would be on the high side or even greater. Of course these costs and this contingent liability must be made building specific by qualified estimators, an analysis apparently not done by CBRE.

UTILITY COSTS

The TIC utility costs in the CBRE report are out dated. The report stated that the building's utility costs "exceed \$2.20/sf" and that "for comparative use facilities, costs should be closer to \$1.45-\$1.60/sf." As reported in the attached TIC Utility Analysis, the TIC utility costs for the period 4/1/13 to 3/31/14 were \$101,270 or \$0.73/sf.⁽⁹⁾ This period obviously included the recent very cold winter. There are several reasons for this – paramount of course are the new high efficiency boilers installed by Johnson Controls in 2013 and paid for by WDOT at no cost to the County or MCRPC. As reported at the November 2013 MCRPC board meeting, the TIC won the County's "Kilowatt Challenge" with a 16% yearly reduction in electrical usage. This was a result of efforts by the MCRPC Facilities Manager, Kay Van Hecke, and the cooperation of the TIC's 40 some tenants.

RENOVATION OR NEW CONSTRUCTION

It is self-evident that a need will be established for a well-functioning business incubator in the region. To conclude otherwise would require a belief that the knowledge economy and entrepreneurial fervor that began in the 1990's and continues to thrive will soon run its

course. There is no one in the community saying this. Also, initiatives like BizStarts and BizForge have broad community and corporate support even though the effectiveness of these programs and others has yet to be demonstrated. Behavior analysts will confirm the benefits of clustering hi-tech and fledging enterprises in close proximity – an important rationale for business incubators.


A recent analysis ⁽¹⁰⁾ indicated that since the year 2000, on average approximately 60,000 sq. ft. has been occupied by tenants in TIC annually and is currently on the upswing. The period covered includes 9/11, the dot-com bust, and two recessions. In the event that the TIC were to be demolished, it is estimated that a 70,000 to 80,000 sq. ft. building would be required to replace the TIC – taking into account core services facilities, management offices, shared conferences rooms, etc.

A local real estate professional estimated that replacement costs would be in excess of \$200 per sq. ft. (partly as a result of the need for laboratories – the TIC has the only small ones for rent in the region). UWM's Accelerator at Innovation Campus cost approximately \$240 per sq. ft. This would make the cost of a new comparable building at least \$14,000,000 and as high as \$19,200,000 – well in excess of the \$8,000,000 estimate to renovate the current building.

If someone were to recommend a smaller facility and ignore established space needs, they should consider that the National Business Incubation Association (NBIA) estimates that an incubator of at least 40,000 to 50,000 sq. ft. is necessary if a program is to have any chance of being self-sufficient and sustainable. The cost of such a small facility would again equal or exceed the renovation costs. And, of course the TIC could operate efficiently for an extended period even if the funds to fully renovate the building cannot be found in the short term by only funding and maintaining certain critical parts of the building at a much lower cost, estimated to be about \$550,000.

CONCLUSION

While the preceding is not meant to make a definitive case for continuing the operation of the TIC, it clearly presents the difficulties with the CBRE report and the need for more analysis. The jury is certainly not out and there is a lot more evidence to consider. MCRPC needs the County's continued support as it moves forward.



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References and Exhibits Follow

Footnotes, References and Exhibits

- (1) Exhibit A - Report on Vacancy in Research Park Buildings
- (2) Exhibit B - Building Summary and 2013 Assessments
- (3) Exhibit C - Leasing Activity Report
- (4) “Business Incubation Works”
http://www.nbia.org/resource_library/works/index.php
- (5) “Community Benefits of a Business Incubator” <http://www.canbe.biz/CAN-BE/community-benefits.html>
- (6) “MATC Revamps South Side Milwaukee Building for Worker Training”
<http://www.jsonline.com/news/milwaukee/matc-revamps-south-side-milwaukee-building-for-worker-training-b99191129z1-241995971.html>
- (7) “What is the Greenest Building” <http://www.buildings.com/article-details/articleid/14207/title/what-is-the-greenest-building.aspx>
- (8) Exhibit D - 1993 Regional Incubators
- (9) Exhibit E - E-mail dated April 16, 2014 from Al Klatt, FM Accounting Coordinator
- (10) Exhibit F – Summary of TIC Leasing Activity 2000 to 2014 and 1993 to 2014