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Blue Cross to leave downtown

Move to West Allis expected to cut costs

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Blue Cross Blue Shield of Wisconsin plans to leave downtown Milwaukee next year and move 750 employees from its headquarters of about 25 years to an office complex in West Allis, the company announced Monday.

The move from 401 W. Michigan St. to the Summit Place office park, located in the former Allis-Chalmers Corp. manufacturing complex, will save Blue Cross \$8 million over 10 years, the company said.

The relocation will cost downtown one of its largest employers, and create a large gap in the downtown office market.

"At the end, this was not a contest between two cities," said Timothy Cullen, a senior vice president of WellPoint Inc., Blue Cross' parent company. "It was a contest between two landlords, including one that aggressively wanted us."

That winning landlord is Richard Carlson, whose Summit Place is in a central location not far from the I-94/I-894/Highway 45 interchange.

From downtown to suburbs

The Blue Cross relocation stands in contrast with recent moves by suburban offices to downtown.

In 2003, Roundy's Supermarkets Inc. moved its main offices from Pewaukee to downtown, followed by Bank One moving some operations in 2004 from Menomonee Falls to downtown.

The larger trend has been the steady growth of suburban offices, with downtown's share of the Milwaukee area's total office market declining. Ease of parking, along

Leaving Downtown

RELOCATION WEST ALLIS SITE LANDS BLUE CROSS OFFICE

Blue Cross Blue Shield of Wisconsin will move its offices from downtown Milwaukee to Summit Place, an office complex developed at the former Allis-Chalmers Corp. manufacturing complex in West Allis.



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with lower rents tied to cheaper operating costs and lower property taxes, have helped suburban office buildings capture a bigger share of the market.

At the end of last year, downtown accounted for about 38% of metropolitan Milwaukee's total office market, according to Polacheck Co. Five years ago, downtown accounted for about half of the total office market.

Summit Place, at 6737 W. Washington St., has about 400,000 square feet of offices, including renovated industrial space and new construction. Carlson plans to add another 190,000 square feet of offices, and is receiving financial assistance from the city of West Allis to cover part of the costs.

Carlson could not be reached for comment. Blue Cross is just the latest in a series of ever-larger tenants that have been relocating to Summit Place.

Among the major tenants, Merge Technologies Inc. moved to Summit Place from a nearby West Allis location earlier this year, while Alterra Healthcare Corp. moved there in 2004 from the Milwaukee County Research Park in Wauwatosa.

Carlson and his partners have done a good job of offering competitive lease rates, said William Bonifas, executive vice president at Polacheck Co., a commercial real estate brokerage.

Difficult vacancy

The loser is iStar Financial Inc., a New York-based real estate investment company which owns the 225,000-square-foot Michigan St. building. The iStar loss will be difficult to fill, Bonifas said.

"They are going to have some challenges," said Bonifas, who specializes in office lease negotiations.

One issue is location.

Most of downtown's largest office buildings - with the most expensive lease rates - are east of the Milwaukee River. They include such towers as the U.S. Bank Center, Cathedral Place and the 411 East Wisconsin Center.

The office buildings on downtown's east side are typically anchored by law firms, financial service providers, corporate headquarters and other tenants willing to pay higher rates.

The office buildings on downtown's west side, including iStar's building, which opened in 1979, tend to be older. The lease rates are lower. And the tenants often include government agencies as well as so-called "back office" operations, with employees who provide business support services such as information technology.

The 10-story iStar building will probably pursue leases with back office operations, Bonifas said. He said the building's strengths include its large floors, which are more than 20,000 square feet each. Back office tenants can operate more efficiently in such a building because they don't have to split their operations among a number of smaller floors.

However, demand for downtown office space is lackluster at the moment, Bonifas said.

An iStar executive could not be reached for comment. The firm, which focuses on providing financing to real estate investors, acquired the building in 1999 when it bought TriNet Corporate Realty Trust Inc. TriNet bought the building in 1996 for \$16 million. The building's current assessed value is \$17.7 million, a meager 11% increase in value over nine years.

Mayor offered incentives

Mayor Tom Barrett said the city was disappointed by the Blue Cross decision, but said it opens a prime downtown location.

"We are going to move ahead," Barrett said. "We think frankly they've missed an opportunity, but that's their decision."

Milwaukee offered \$500,000 of incentives, including technology tax credits and job training funds, for Blue Cross to remain downtown.

"Mayor Barrett did everything he could, but he doesn't have the ability to close an \$800,000 (a year) gap," said Cullen of WellPoint. "It came down to an aggressive landlord really wanting our business, and that's why we are moving."

Leasing space at Summit Place will cost the company about \$2 million a year compared with \$2.5 million at its current location, Cullen said.

The estimated savings from the move include operational efficiencies such as providing better security for its Government Health Services unit, which processes Medicare claims.

"We're sad to leave downtown, but this facility offers our employees so much more in terms of facilities and amenities that we are happy," said Sue Ross, chief union steward of the Blue Cross division and its affiliate, United Government Services, for the Office and Professional Employees International Union. The union represents about 178 workers at the company.

Blue Cross employs about 1,440 people in the Milwaukee area. Of those, 448 live in Milwaukee. About 300 of the 750 people who work downtown are city residents.

Blue Cross stressed that the move will not change its support of Milwaukee organizations.

The Blue Cross Blue Shield of Wisconsin Foundation gave more than \$1 million to Wisconsin organizations last year, said Jill Becker, a company spokeswoman.

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