

Industrial Q2 2022

YoY Chg 12-Mo. Forecast

2.7%
Vacancy Rate



1.3M
YTD Net Absorption, SF



\$4.90
Asking Rent, PSF



(Overall, Net Asking Rent)

ECONOMIC INDICATORS Q2 2022

YoY Chg 12-Mo. Forecast

839.9
Milwaukee
Employment



3.4%
Milwaukee
Unemployment Rate



3.6%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics
2022Q2 data are based on latest available data.

ECONOMY

Wisconsin's unemployment rate remained the same quarter-over-quarter (QOQ) at 2.9%, marking the third quarter where the unemployment rate is below the pre-pandemic reading of 3.2%. Locally, Metro Milwaukee's unemployment rate is slightly worse than the state, at 3.4% and just 20 basis points (bps) below the national average. The Marquette-Institute of Supply Management (ISM) Report on Manufacturing scored the Milwaukee area at 58.39 for June 2022, as concerns grow about a downturn in the economy.

MARKET OVERVIEW

The Metro Milwaukee industrial vacancy rate has been experiencing a steady decline over the past year, with a 70 bps decrease year-over-year (YOY) to 2.7%, representing the sixth consecutive quarter below 3%. Supply and demand fundamentals remain unbalanced, as tenant demand remains strong with nearly 1.3 million square feet (msf) of new leases signed in the quarter and large contiguous blocks of 100,000 square feet (sf) and greater remain limited, with only three class a buildings with over 100,000 sf presently available. Developers have taken note of the strong market fundamentals, with nearly 1.8 msf currently under construction and of which 933,642 sf is scheduled to be completed by year-end.

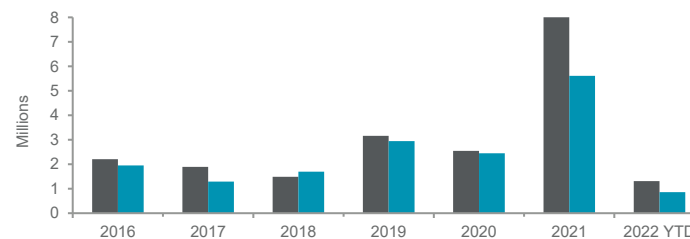
Demand has pushed up average asking rental rate, with overall asking rental rates increasing 6.3% YOY to \$4.90 per square foot (psf). Class A asking rents have moved above a 10% annual increase given the escalating cost of construction, with new buildings set to deliver approaching the \$6.25 psf mark.

Investment sales reached over 6 msf, up 90% YOY, with three of the largest transactions acquired by Eagle Glen Apartments, LLC in Milwaukee and Waukesha Counties, with Class A investments trading on average over \$100 psf. While a handful of trades dipped below a 5 cap to start the year, Q2 appeared to be the peak. With the Fed looking to curb inflation with aggressive interest rate increases, cap rates in the Milwaukee market went up 50 to 75 bps this quarter.

OUTLOOK

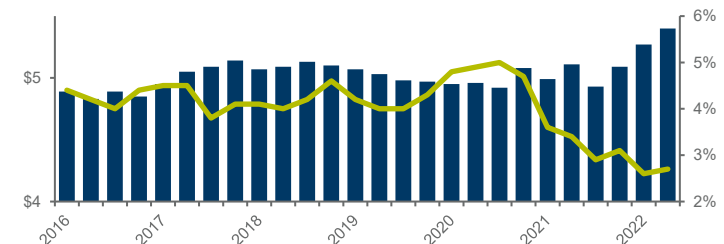
The cost of construction and tenant demand has kept the upward pressure on rents, but the euphoric state of industrial capital markets kept a lid on overall base rent increase due to record low exit cap rates. This era is coming to an end. The swing in exit cap rates and increasing interest rates will drive the need for substantial base rent increases for new developments. While there is no shortage of challenges, real estate fundamentals are driven by tenant demand and demand remains robust throughout the region. There was a significant uptick in new inquiries by both tenants and users within the region over the past quarter. Industry interest remains broad based with traditional manufacturing, Food & Beverage, and distribution / 3PL operators aggressively pursuing additional real estate capacity. Available Class A inventory has shrunk to only 600,000 sf and both landlords and tenants are coming to grips with the long-term inflation outlook. In a sign of times, annual lease escalators are eclipsing 3% and, in some cases reaching 4%.

SPACE DEMAND / DELIVERIES



■ Net Absorption, SF ■ Construction Completions, SF

OVERALL VACANCY & ASKING RENT



■ Asking Rent, \$ PSF — Vacancy Rate

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Industrial Q2 2022

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)*	OVERALL WEIGHTED AVG NET RENT (OS)*	OVERALL WEIGHTED AVG NET RENT (W/D)*
Milwaukee County	98,754,777	3,637,616	3.7%	-205,169	211,850	1,065,840	406,201	\$3.99	\$6.08	\$4.94
Ozaukee County	12,600,047	287,107	2.3%	176,469	294,390	0	125,000	\$4.67	\$6.84	\$5.50
Washington County	21,339,052	354,131	1.7%	108,787	209,961	739,350	161,235	\$5.16	\$5.34	\$5.06
Waukesha County	76,261,460	1,418,385	1.9%	358,035	589,232	1,080,456	163,396	\$6.15	\$6.31	\$5.85
MILWAUKEE TOTALS	208,955,336	5,697,239	2.7%	438,122	1,305,433	2,885,646	855,832	\$4.47	\$6.06	\$5.09

*Rental rates reflect weighted net asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

CLASSES	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT
Manufacturing	109,421,345	3,194,865	2.9%	-333,883	2,063	397,968	188,396	\$4.47
Office Service / Flex	38,374,915	613,228	1.6%	330,356	428,635	0	121,635	\$6.06
Warehouse / Distribution	61,159,076	1,889,146	3.1%	441,649	874,735	2,487,678	545,801	\$5.09

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
900 North Street, Grafton	Ozaukee County	Guy & O'Neill	167,837	New
5831 S Pennsylvania Avenue, Cudahy	Milwaukee County	CHEP USA	128,000	Renewal
7900 W Tower Avenue, Milwaukee	Milwaukee County	Converted Products	124,157	New
7624 S 10 th Street, Oak Creek	Milwaukee County	AIM Distribution	100,240	Renewal
5725 S Westridge, New Berlin	Waukesha County	New Berlin Plastics	97,877	Renewal

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	BUYER/SELLER	SF	PRICE/\$ PSF
6400 Enterprise Drive, Mequon	Ozaukee County	RA Mequon Fee Owner, LLC / Founders Properties, LLC	519,696	\$48.015M / \$92
W226N918 Northmound Drive, Pewaukee	Waukesha County	EG Milwaukee Northmound LLC / BBC Northmound LLC	153,892	\$20.8M / \$135
1301 W Canal Street, Milwaukee	Milwaukee County	EG Milwaukee Canal Street LLC / Canal Street Investments LLC	145,234	\$17.225M / \$119
9875 S Stern Street, Oak Creek	Milwaukee County	EG Milwaukee Capstone, LLC / CQ Creekside Land, LLC	102,503	\$12.73M / \$124

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
9141 13 th Street, Oak Creek	Milwaukee County	-	351,201	Frontline
N74W12528 Leatherwood Court, Menomonee Falls	Waukesha County	Milwaukee Electric Tool	121,635	Milwaukee Electric Tool

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