

MARKETBEAT MILWAUKEE

Office Q3 2023

23.5%
Vacancy Rate

YoY Chg ▲ 12-Mo. Forecast ▲

-319K
YTD Net Absorption, SF

▼ ▲

\$22.22
Asking Rent, PSF

▲ ▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

859.4K
Milwaukee Employment

YoY Chg ▲ 12-Mo. Forecast ▲

2.9%
Milwaukee Unemployment Rate

▼ ▲

3.7%
U.S. Unemployment Rate

▲ ▲

Source: BLS, Moody's Analytics
Q3 2023 data are based on latest available data.

ECONOMY

Home to six Fortune 500 companies, Metro Milwaukee is known for its historically strong manufacturing and financial services industries, while its growing water technology and energy industries position Milwaukee as a regional center of innovation. Metro Milwaukee's unemployment rate decreased 30 basis points (bps) year-over-year (YOY) to 2.9%, and employment grew 0.5% YOY.

MARKET OVERVIEW

The Milwaukee office market reported -366,168 square feet (sf) of net absorption in the third quarter of 2023, increasing the overall vacancy rate to 23.5%, a 130 bps increase from Q2 and 180 bps increase YOY. The Central Business District (CBD) reported negative absorption of -146,977 sf in Q3, due to large vacancies including Baker Tilly's former space at U.S. Bank Center, as the company recently moved to BMO Tower where they leased one less floor of space. The Gas Light Building also experienced a substantial downsize of USDA Forest Service's space. Non-CBD submarkets reported negative net absorption in Q3, totaling -219,191 sf, as firms continue to seek space in the CBD and adapt to hybrid work environments.

Total leasing activity in Q3 was an unprecedented 853,933 sf led by Robert W. Baird & Co. renewing and expanding their headquarters at U.S. Bank Center in the Downtown East submarket to a total footprint of 476,528 sf, reaffirming their commitment to the Milwaukee region and its CBD. Other new headquarters leasing activity included Annex Wealth Management leasing 45,307 sf in the Brookfield submarket, and Mayville Engineering Co. leasing 14,700 sf in the Mayfair / Wauwatosa submarket.

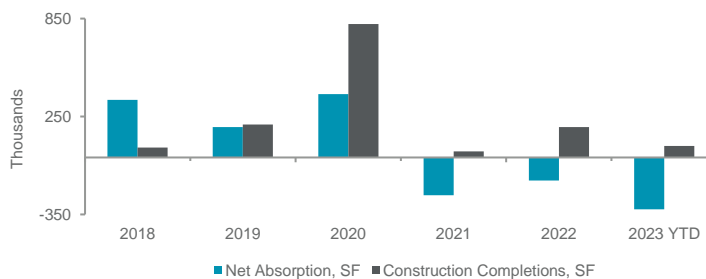
The market's overall rental rate increased slightly quarter-over-quarter (QOQ) to \$22.22 per square foot (psf), continuing a stable gross rate around \$21-\$22 psf since late 2021, as high market vacancy remains, with slight recent increases due to inflationary effects on NNN expenses. The Class A asking rate also increased to \$25.01 psf, a 5.2% increase YOY.

Class A properties continue to have high levels of tenant interest with 284,226 sf of new Class A leasing activity in Q3, yet still saw large amounts of net negative absorption this quarter at -260,440 sf. The year-to-date (YTD) net absorption for Class A properties totals -151,863 sf, while Class B properties total -198,870 sf of YTD absorption.

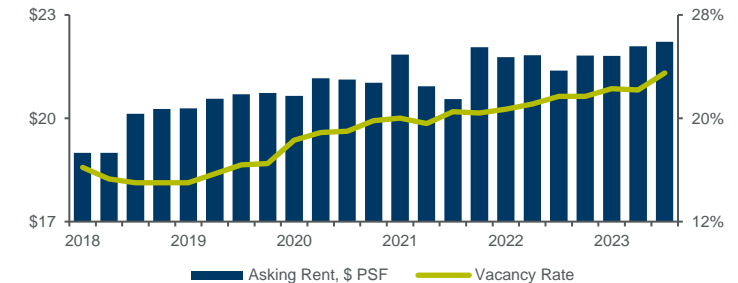
OUTLOOK

Milwaukee's office market continues to struggle with bloated levels of Class B & C inventory, leading to persistent high market vacancy. However, leasing activity remains strong due to "return to office" momentum and interest in the CBD environment, which has experienced a recent renaissance. Tenants have determined their post-pandemic space needs, leading to longer new lease terms and more custom buildouts of space tailored to their employees' needs. With large levels of sublease space still available, most of which went to market during the pandemic, expect vacancy to continue slowly climbing as terms end. In the near future, the market will continue to be defined by movement of existing firms and adjustment of their space needs.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

| SUBMARKET | INVENTORY (SF) | OVERALL AVAIL (SF) | OVERALL VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | OVERALL AVG ASKING RENT (ALL CLASSES)* | OVERALL AVG ASKING RENT (CLASS A)* |
|-----------------------------|-------------------|--------------------|---------------------|----------------------|---|---------------------------------|---------------------------|------------------|--|------------------------------------|
| Downtown East | 7,950,836 | 2,327,286 | 1,781,295 | 22.4% | -159,914 | -151,061 | 664,929 | 0 | \$27.64 | \$29.26 |
| Downtown West | 3,757,989 | 1,240,213 | 936,852 | 24.9% | 12,937 | 37,386 | 100,580 | 0 | \$21.48 | \$20.73 |
| CBD TOTALS | 11,708,825 | 3,567,499 | 2,718,147 | 23.2% | -146,977 | -113,675 | 765,509 | 0 | \$25.39 | \$26.29 |
| Brookfield | 4,271,696 | 1,526,402 | 1,222,084 | 28.6% | -97,716 | -200,025 | 367,741 | 0 | \$20.09 | \$21.49 |
| Mayfair / Wauwatosa | 3,134,618 | 1,029,800 | 771,762 | 24.6% | -74,866 | -51,266 | 213,349 | 0 | \$22.38 | \$25.66 |
| North Shore | 1,955,161 | 657,549 | 584,585 | 29.9% | -9,703 | -7,444 | 22,828 | 0 | \$16.29 | \$23.77 |
| Northwest | 1,736,002 | 546,939 | 369,598 | 21.3% | 0 | 24,054 | 35,002 | 0 | \$16.58 | \$21.31 |
| Ozaukee | 608,436 | 129,955 | 104,274 | 17.1% | -43,267 | -55,786 | 18,866 | 0 | \$17.21 | \$19.58 |
| Southeast | 263,076 | 37,523 | 36,120 | 13.7% | 4,617 | 3,913 | 13,069 | 0 | \$13.90 | N/A |
| Southwest | 354,606 | 109,231 | 60,135 | 17.0% | -2,438 | -2,250 | 14,796 | 0 | \$15.81 | \$16.00 |
| Third Ward / Walker's Point | 2,255,312 | 615,944 | 435,812 | 19.3% | 1,471 | 37,569 | 119,707 | 0 | \$26.47 | \$29.00 |
| Waukesha / Pewaukee | 2,466,636 | 712,744 | 472,411 | 19.2% | 2,708 | 15,809 | 107,791 | 61,779 | \$20.68 | \$23.34 |
| West Allis | 1,640,365 | 703,726 | 358,439 | 21.9% | 3 | 30,038 | 51,968 | 0 | \$17.68 | N/A |
| NON-CBD TOTALS | 18,685,908 | 6,069,813 | 4,415,220 | 23.6% | -219,191 | -205,388 | 965,117 | 61,779 | \$20.10 | \$23.40 |
| MILWAUKEE TOTALS | 30,394,733 | 9,637,312 | 7,133,367 | 23.5% | -366,168 | -319,063 | 1,730,626 | 61,779 | \$22.22 | \$25.01 |

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2023

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|--|---------------------|--------------------------|---------|---------------------|
| U.S. Bank Center – 777 E Wisconsin Ave, Milwaukee | Downtown East | Robert W. Baird & Co. | 476,528 | Renewal & Expansion |
| Brookfield Lakes Corporate Center XI – 17950 W Corporate Dr, Brookfield | Brookfield | Annex Wealth Management | 45,307 | New |
| 648 N Plankinton Ave, Milwaukee | Downtown West | Veolia | 32,028 | New |
| Meadowland Research & Technology Center – 10100 W Innovation Dr, Wauwatosa | Mayfair / Wauwatosa | Cielo Talent | 27,842 | New |
| Innovation One - 1401 Discovery Pkwy, Wauwatosa | Mayfair / Wauwatosa | M3 Insurance | 20,405 | New |
| Honey Creek Corporate Center III - 135 S 84th St, Milwaukee | Mayfair / Wauwatosa | Mayville Engineering Co. | 14,700 | New |

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KEY SALES TRANSACTIONS Q3 2023

| PROPERTY | SUBMARKET | BUYER / SELLER | SF | PRICE / \$ PSF |
|----------|-----------|----------------|----|----------------|
| N/A | | | | |

KEY CONSTRUCTION COMPLETIONS YTD 2023

| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER / DEVELOPER |
|---|---------------------|--------------|--------|-------------------|
| Innovation One – 1401 Discovery Pkwy, Wauwatosa | Mayfair / Wauwatosa | Irgens | 70,357 | Irgens |