



# *MILWAUKEE OFFICE*

## MARKET QUARTERLY REPORT

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QUARTER 2 - 2022





### MARKET OVERVIEW

#### The 'I's have it: Inflation, Interest Rates & Inventory

The second quarter saw a change in headline news related to commercial real estate. For the past several quarters discussions centered around getting employees back to the office. Allowing hybrid work schedules, creating amenity rich office environments, and retrofitting building systems to be more health friendly.

The dialogue changed in the 2nd quarter as three new variables were brought into the spotlight: inflation, excess inventory, and rising interest rates. Inflation has caused a dramatic price increase on construction materials and labor. The significant rise in interest rates has resulted in several acquisitions being put on hold as proforma's are reworked with the added debt load. Fear of excess space inventory as speculation of a potential recession loom -- despite a tight labor market -- has several companies announcing layoffs or hiring freezes. However, the bigger problem for the economy seems not to be a lack of jobs but rather, a lack of available candidates and talent in the labor pool.

Through all of this uncertainty, the Milwaukee market remained relatively stable in the 2nd quarter of 2022 with minimal disruption to deals that were already underway. Office building sales dominated the 2nd quarter vs. large leasing deals, showing building optimism in the overall market.



### SUBLEASE SPACE ON THE MARKET

Despite 57,595 SF coming off the sublease market in Milwaukee's Central Business District as a result of a large lease termination, the overall sublease inventory in the Milwaukee Office Market continues to rise. There is just over 557,000 square feet of sublease space officially on the market, up from 540,011 in Q1. The primary contribution to this increase occurred in the suburban submarkets.

Known larger blocks in the CBD include 24,972 square feet at 100 East, Quarles & Brady's 46,618 square feet at 411 E. Wisconsin, WageWorks's 37,000 square feet at City Center and Manpower's 62,427 square feet at 100 N. Manpower Place. While some of these larger blocks are a result of hybrid-workplace adoption, other large blocks are the result of companies moving to a new location prior to their previous lease expiring -- hoping to backfill and recapture some of the excess rent on the remaining lease term.

Sublease options continue to be an attractive option for Tenants in the marketplace as they can often include additional incentives such as furniture, move-in ready buildouts and competitive/below market lease rates.

### Market Synopsis

	Downtown*	Suburban
<b>Q2 Absorption</b>	-56,346 SF	28,595 SF
<b>Q2 Sublease SF</b>	313,219 SF	243,916 SF
<b>Vacancy</b>	21.15%	20.78%
<b>Class A Gross (Avg. Rate)</b>	\$30.28	\$23.08
<b>Class B Gross (Avg. Rate)</b>	\$21.43	\$17.86
*Downtown includes the Downtown East, Downtown West, and Third Ward/Walker's Point submarkets		
**See Figure 2 on Pg. 3 for individual submarket absorption data		

### Notable Leases and Sales

- CA Health & Science Trust, Inc. purchased the 51,615 SF Medical Office Building at 3077 N Mayfair Road for \$15.9M (\$308.04/SF)
- Dept. of Heath Services leased 56,000 SF at 6101 N 64th Street from CH Coakley.
- Big Sky Medical purchased a four-building , 111,827 SF medical office portfolio for \$28.4M (\$253.96/SF)
- Malteurop North American, Inc. leased 13,134 SF at Summit Place located at 6737 W Washington Street in West Allis
- Rockwell Automation's 560,000 SF Mequon Campus was sold for \$48M to a California investor
- St. John Properties, Inc. bought the 35,654 SF office building at 10375 N Baldev Court via auction for \$1.67M (\$46.84/SF)



## DOWNTOWN OUTLOOK - Downtown East, Downtown West, and Third Ward/Walker's Point

The downtown submarkets posted negative 56,346 square feet of negative absorption in the second quarter, wiping out Q1's positive gain and resulting in a year-to-date absorption of negative 17,945 square feet. The primary cause was Infinity Health Care taking its space off the sublease market by terminating its lease at Chase Tower. As a result, overall vacancy increased .75% to 21.15% marking the 7th consecutive quarter vacancy rates have exceeded 20%.

### Downtown East

Overall vacancy in the second quarter increased from 18.48% to 18.86%. Class A was relatively flat with negative 2,736 square feet of absorption and 17.31% vacancy rate. Class B saw negative 57,595 square feet of absorption and 21.65% vacancy rate.

From a transaction perspective, downtown East was relatively quiet in Q2. There were no major transactions to report with the exception of Old National Bank's lease signed late Q1. Old National Bank committed to 20,401 square feet of office space and 2,554 retail bank space at The Huron an 11 -story office building at 511 N. Broadway.

In the Class B market, Infinity Healthcare had been attempting to sublease its space in Chase Plaza. Infinity exercised a termination provision in its lease leading to the space becoming a direct vacancy, resulting in 57,595 of negative absorption in the submarket.

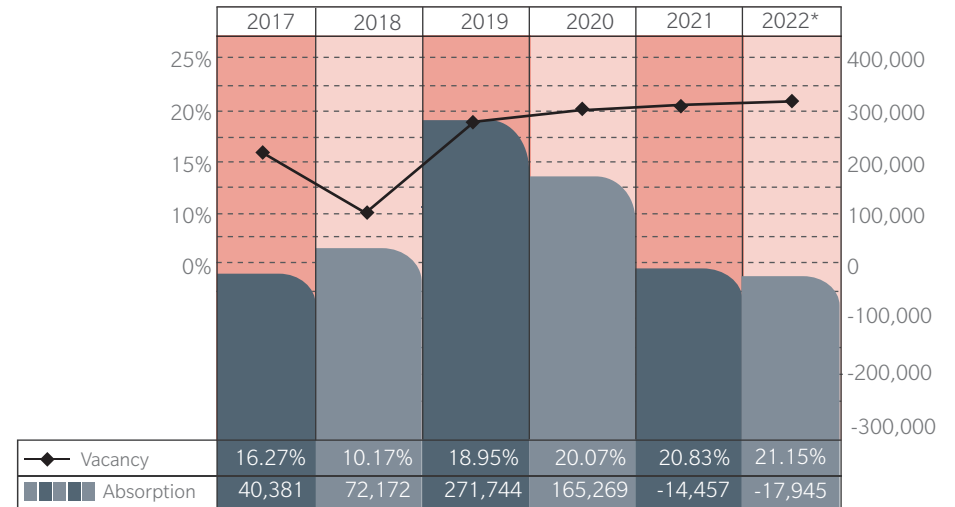
100 East Wisconsin – Milwaukee's 3rd tallest office building at 35 stories and 435,557 square feet is in receivership. It has been reported that several groups are considering the property with a few prospective purchasers looking to convert a portion of the building to alternative uses. Most likely – multi family. There is the possibility that over 100,000 square feet of Class A office space will come off the market.

### Downtown West

Despite 23,918 square feet of positive absorption, the vacancy rate in Downtown West remained stubbornly high at 26.78 % due to significant vacancy in a few key buildings.

Located at the corner of Wisconsin Avenue and Vel R. Phillips Avenue, Hub 640 made a major retail announcement that is sure to have a positive effect on the Downtown West submarket. Kohl's unveiled plans to open a 40,000 square foot store on the ground floor. Kohl's is the latest development contributing the resurgence of the submarket. HUB 640 also recently secured Abacus Architects for 6,149 square feet.

The western submarket as a whole continues to attract new projects. Bear Development & Kacmarick Enterprises announced their new project, The Iron District, a new sports and entertainment district near 7th Street and the I-94 interchange/Clybourn Avenue. The new development, pictured above, will feature a new stadium, an indoor concert venue, a full-service hotel, multi-family residential housing, as well as retail, and food and beverage elements. Marquette University sold 11-acres of land to the developers for the project.



Source: Data provided by Real Estate Database, Inc. (RediComps.com) and augmented by Founders 3 Real Estate Services  
\*Reflects Year-To-Date data



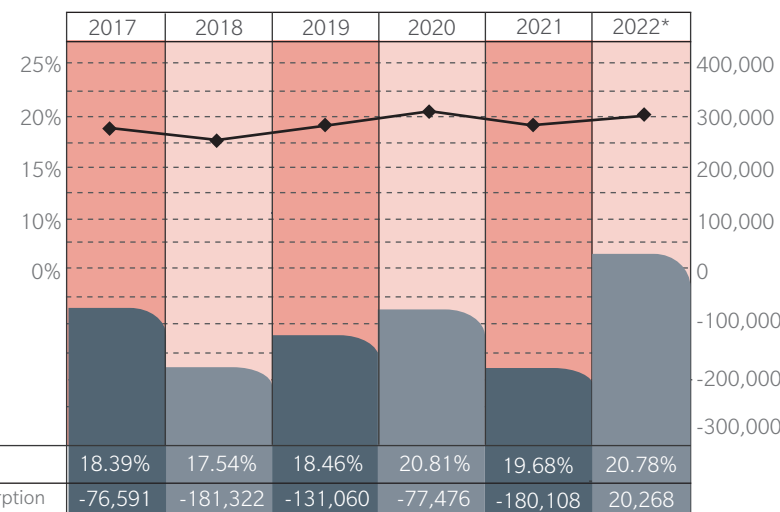


### SUBURBAN OUTLOOK

The suburban market experienced 28,595 square feet of positive absorption in the second quarter, reversing a negative Q1. Year-to-date absorption at the end of Q2 was 20,268 square feet. The vacancy rate in the suburbs increased from 20.08% to 20.78%. Average asking rents remained flat at \$19.54 per square foot, with Class A rates at \$23.08 per square foot and Class B rates at \$17.86 per square foot.

Suburban properties continue to see a boost in momentum following the pandemic with more users interested in working near their homes versus lengthier commutes downtown. This is directly reflected in the amount of office sales in the suburban market, which has been showing a consistent uptick in activity the past two quarters.

Multiple medical office sales occurred in the second quarter -- high rental revenues and long-term leases in-place as well as secure tenant credit makes these a comfortable bet. On the opposite side of the spectrum, high-vacancy office opportunities are also getting significant attention from investors looking to increase their portfolio with value-add opportunities -- purchasing properties at a low price point with the opportunity to increase its market position through aggressive pricing and renovations.



Source: Data provided by Real Estate Database, Inc. (RediComps.com) and augmented by Founders 3 Real Estate Services  
\*Reflects Year-To-Date Data

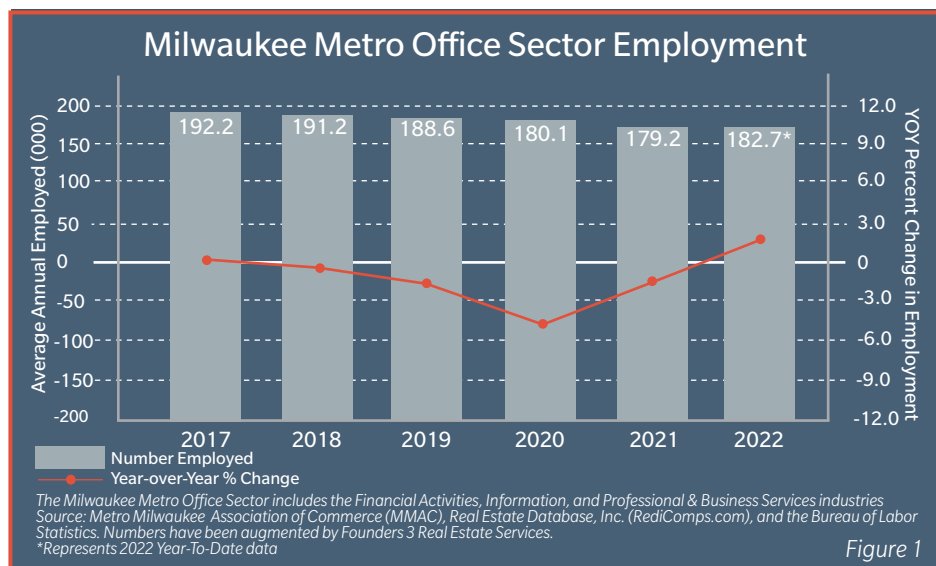


Figure 1

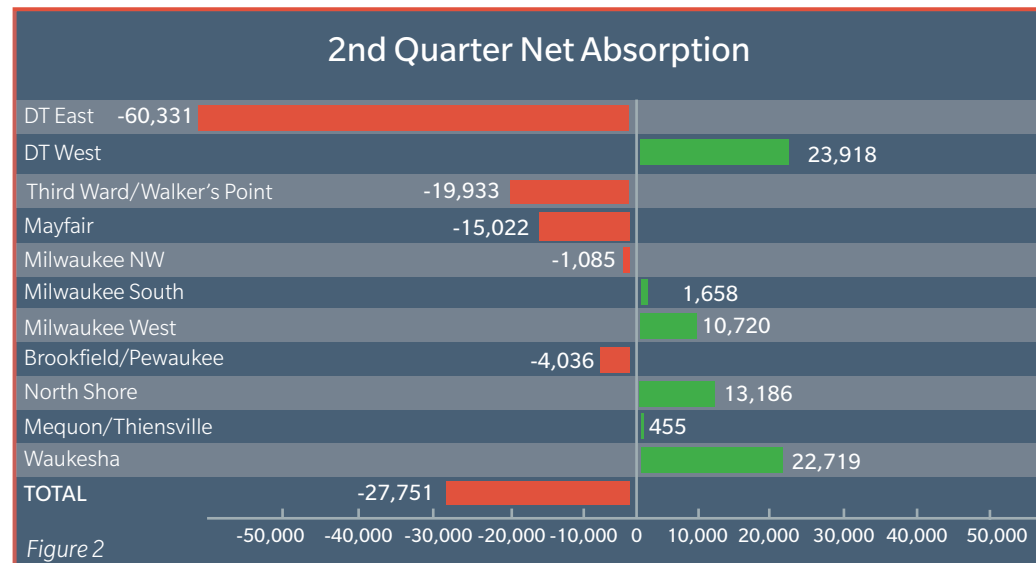


Figure 2

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical Area is 4.0%, up 0.4% since the end of the first quarter. Ironically and somewhat conflicting data from the MMAC shows that the Milwaukee MSA saw a substantial increase in "office using jobs", increasing by almost 5,000 jobs since 1st Quarter 2022. (See Figure 1)

Source - Metro Milwaukee Association of Commerce (MMAC), Real Estate Database, Inc. (RediComps.com), and the Bureau of Labor Statistics. Numbers have been augmented by Founders 3 Real Estate Services.



Submarket	Buildings	Building Size	Q2-2022 Vacancy %	Q2-2022 Vacant SF	Q2-2022 Absorption	Q2-2022 Sublease Space	Estimated Overall Average Asking Rent (FSG)
<b>Downtown - East</b>							
A	13	4,951,983	17.31%	857,252	(2,736)	121,895	\$33.08
B	31	2,750,602	21.65%	595,485	(57,595)	40,015	\$20.43
<b>Total</b>	<b>44</b>	<b>7,702,585</b>	<b>18.86%</b>	<b>1,452,737</b>	<b>(60,331)</b>	<b>161,910</b>	<b>\$25.99</b>
<b>Downtown - West</b>							
A	2	622,938	63.38%	394,795	0	12,868	\$22.49
B	22	2,660,522	18.21%	484,455	23,918	64,497	\$20.57
<b>Total</b>	<b>24</b>	<b>3,283,460</b>	<b>26.78%</b>	<b>879,250</b>	<b>23,918</b>	<b>77,365</b>	<b>\$20.92</b>
<b>Third Ward/Walker's Point</b>							
A	5	557,416	39.46%	219,944	9,112	19,693	\$27.24
B	31	1,839,165	15.17%	279,072	(29,045)	54,251	\$22.99
<b>Total</b>	<b>36</b>	<b>2,396,581</b>	<b>20.82%</b>	<b>499,016</b>	<b>(19,933)</b>	<b>73,944</b>	<b>\$24.11</b>
<b>Mayfair</b>							
A	12	1,491,894	19.06%	284,380	(33,037)	43,389	\$26.35
B	26	1,290,005	23.07%	297,611	18,015	19,113	\$17.94
<b>Total</b>	<b>38</b>	<b>2,781,899</b>	<b>20.92%</b>	<b>581,991</b>	<b>(15,022)</b>	<b>62,502</b>	<b>\$20.74</b>
<b>Milwaukee - NW</b>							
A	6	789,885	24.54%	193,811	0		\$22.26
B	24	1,177,328	28.51%	335,631	(1,085)	55,285	\$16.04
<b>Total</b>	<b>30</b>	<b>1,967,213</b>	<b>26.91%</b>	<b>529,442</b>	<b>(1,085)</b>	<b>55,285</b>	<b>\$17.50</b>
<b>Milwaukee - South</b>							
A	2	111,067	21.23%	23,575	0		\$25.00
B	13	529,059	15.29%	80,905	1,658	5,691	\$16.97
<b>Total</b>	<b>15</b>	<b>640,126</b>	<b>16.32%</b>	<b>104,480</b>	<b>1,658</b>	<b>5,691</b>	<b>\$17.86</b>
<b>Milwaukee - West</b>							
A	-	-	-	-	-	-	-
B	15	1,609,495	13.50%	217,214	10,720	73,098	\$17.41
<b>Total</b>	<b>15</b>	<b>1,609,495</b>	<b>13.50%</b>	<b>217,214</b>	<b>10,720</b>	<b>73,098</b>	<b>\$17.41</b>
<b>Brookfield/Pewaukee</b>							
A	36	2,397,278	23.85%	571,863	13,315	14,537	\$22.39
B	76	3,376,673	19.59%	661,362	(17,351)	11,407	\$18.67
<b>Total</b>	<b>112</b>	<b>5,773,951</b>	<b>21.36%</b>	<b>1,233,225</b>	<b>(4,036)</b>	<b>25,944</b>	<b>\$20.50</b>
<b>North Shore</b>							
A	3	233,538	62.32%	145,546	0	3,953	\$23.37
B	25	821,084	21.00%	172,445	13,186	15,050	\$20.81
<b>Total</b>	<b>28</b>	<b>1,054,622</b>	<b>30.15%</b>	<b>317,991</b>	<b>13,186</b>	<b>19,003</b>	<b>\$21.51</b>
<b>Mequon/Thiensville</b>							
A	4	127,493	14.21%	18,122	6,667		\$24.00
B	11	276,376	28.60%	79,043	(6,212)		\$16.51
<b>Total</b>	<b>15</b>	<b>403,869</b>	<b>24.06%</b>	<b>97,165</b>	<b>455</b>		<b>\$19.24</b>
<b>Waukesha</b>							
A	-	-	-	-	-	-	-
B	36	1,128,553	9.80%	110,602	22,719	2,393	\$17.37
<b>Total</b>	<b>36</b>	<b>1,128,553</b>	<b>9.80%</b>	<b>110,602</b>	<b>22,719</b>	<b>2,393</b>	<b>\$17.37</b>
<b>GRAND TOTAL</b>							
A	83	11,283,492	24.01%	2,709,288	(6,679)	216,335	\$25.13
B	310	17,458,862	18.98%	3,313,825	(21,072)	340,800	\$18.70
<b>Total</b>	<b>393</b>	<b>28,742,354</b>	<b>20.96%</b>	<b>6,023,113</b>	<b>(27,751)</b>	<b>557,135</b>	<b>\$20.78</b>

\*Source: Data provided by the Real Estate Database, Inc. (REDIComps.com) and augmented by Founders 3 Real Estate Services



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An aerial photograph of a city skyline, likely Milwaukee, featuring a large arena with a white roof and a curved facade. The arena has "fiserv forum" written on its side. In the background, a dense cluster of skyscrapers rises against a hazy sky. The text "FOUNDERS 3" is overlaid in the center, with "FOUNDERS" in dark blue and "3" in red, separated by a vertical red line. Below this, the text "REAL ESTATE SERVICES" is written in a smaller, dark blue font.

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