MILWAUKEE OFFICE MARKET QUARTERLY REPORT QUARTER 4 - 2022

INTRODUCTION

While 2022 did not bring the great 'return-to-work' that was predicted and hoped for, improvements were seen in Q3 2022 and continued throughout Q4 2022. The topics of remote work and flexible work schedules were still top of mind for employers and employees. Employers are listening and adapting, which has resulted in many companies looking to the future and making bold, new commitments in their physical office spaces. In the Downtown East submarket, RW Baird recently took on an additional one and half floors at the US Bank Center, Rite-Hite completed its new corporate headquarters in Walker's Point at the Reed Street Yards, and Fiserv recently announced a long-term lease commitment at HUB 640 in Milwaukee's 'Westown'.

Two observations can be made in the current Milwaukee office market. First, companies are not adopting 'hoteling' style workstations. Employees coming back to the office -- whether it be two, three, or five days a week -- want to come back to their own assigned office or workstation. Secondly, to encourage employees to come in often and on a weekly basis, businesses -- especially major employers -- are using high-quality spaces in well-located areas that are teeming with building amenities and cool, collaborative environments to entice them.

MARKET OVERVIEW

The overall office market ended the year with a 21.82% vacancy rate. A slight improvement from Q3's 22.05% but still a full 1.6% higher than Q4 2021. Absorption for the final quarter of 2022 in the Class A and B multi-tenant office market registered negative 43,837 SF, ending with a year-to-date negative absorption of 56,086 SF. The overall market vacancy is 25.85% for Class A inventory and 19.17% for Class B inventory. While this may sound counterintuitive based on the ongoing trend of "flight to quality", the delivery of new Class A properties in the past few years has significantly inflated the Class A inventory and, subsequently, its vacancy. The estimated overall average asking rate ended at \$20.91/SF, an increase from Q4 2021's \$20.24/SF. Sublease availability is currently sitting at its highest level in recent years at 649,967 SF. However on a positive note, much of the space available for sublease is still occupied rather than vacant, which from an optimistic perspective means there is still a need for the space.

SUBLEASE SPACE ON THE MARKET

There is currently 649,967 SF of sublease space on the market representing approximately 2.2% of the total inventory. This is up 37,858 SF from Q3 2022 and 79,656 SF from Q4 2021. The increase in Q4 2022 was the result of several smaller spaces being put on the market for sublease. The largest new sublease of the quarter, 10,861 SF at 330 Kilbourn, is due to the merger of Smith Amundsen and Davis & Kuelthau law firms, the two companies created its new home base at the Associated Bank River Center, which was already home to Davis & Kuelthau. Larger blocks still on the market include: 46,618 SF at 411 E. Wisconsin (Sublessor: Quarles & Brady) and 62,427 SF at 100 N. Manpower Place (Sublessor: Manpower).

Market Synopsis

ı	Downtown*	Suburban		
Q4 Absorption*	* 24,616 SF	-68,453 SF		
Q4 Sublease SF	340,405 SF	309,562 SF		
Vacancy	22.57%	21.17%		
Class A Gross (Avg. Rate)	\$30.28	\$23.11		
Class B Gross (Avg. Rate)	\$22.28	\$17.97		

Downtown includes the Downtown East, Downtown West, and Third Ward/Walker's Point submarkets

Notable Leases and Sales

- An affiliate of Houston-based commercial real estate company Transwestern purchased, a 110,000 SF building at W126 N7250 Flint Drive, Menomonee Falls for \$25.8M (\$234/SF)
- An affiliate of Rite-Hite purchased the 86,156
 SF Global Water Center building at 247 W.
 Freshwater Way for approx. \$12M (\$139/SF)
- Regus leased 18,021 SF at Bayshore Town Center located at 500 W. Silver Spring Drive in Glendale
- Attolles Law SC leased 10,618 SF at 222 E. Erie Street in the Third Ward
- Twin Disc leased 8,100 SF at 222 E. Erie Street in the Third Ward

^{**}See Figure 2 on Pg. 3 for individual submarket absorption data



DOWNTOWN OUTLOOK

The Downtown submarkets posted 24,616 SF of positive absorption for the quarter. ClassAandBgrossaverageasking rates were \$30.28/SF and \$22.28/SF, respectively. This resulted in an overall average gross asking rate of \$24.39/SF, up \$0.13 SF from the Q3 2022. The overall vacancy rate ended the year at 22.57% versus 20.83% in Q4 2021.

Downtown East

Overall vacancy remained flat at 20.07% versus 20.09% the previous quarter. Class A product saw 6,914 SF of negative absorption, resulting in a vacancy rate of 19.25% while Class B experienced 7,819 SF of positive absorption with an ending vacancy rate of 21.55%.

Leasing activity was limited in the Downtown East market during the fourth quarter. However, two notable leases signed were Silvercrest Asset Management Group leasing 11,194 SF on the 22nd floor of the BMO Tower and Bureau of Land Management leasing 8,797 SF at 250 East Wisconsin.

The most significant announcement for Downtown East is the proposed sale of 100 East and its rumored conversion to multi-family. Should this occur, it will have a



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

significant effect on Downtown East market statistics as 100 East, sitting at 435,000 SF, accounts for 8.8% of the Downtown East Class A space. Removing it and its nearly 200,000 vacant square feet from the statistics would drop the Downtown East Class A vacancy rate by approximately 2.4%. In addition, if the existing tenants at 100 East relocate into comparable sized spaces (235,000 SF), the vacancy would decrease another 1.0%.

Downtown West

Overall vacancy increased to 27.12% versus 26.06% in Q3. Class A inventory saw no absorption, resulting in a vacancy rate of 63.38% and Class B had minimal movement with 5,909 SF of positive absorption and an ending vacancy rate of 19.18%.

Downtown West, though seemingly quiet on market movement and signed leases, stole the show mid-quarter with the major announcement that Fiserv plans to move its global headquarters from Brookfield to HUB 640, the former Boston Store headquarters. Initial information provided by Fiserv indicated they will be leasing approximately 169,000 SF. The transaction required city financial support, which was approved late in the quarter. In exchange, Fiserv is committing to pre-determined employment levels and growth that include not only the addition of full-time employees, but also commitments to workday occupancy levels at the headquarters office. It is important to note that the Fiserv transaction is not included in 2022 market data, it will be absorbed in 2023.

Third Ward/Walker's Point

The Third Ward/Walker's Point submarkets saw direct vacancy between both Class A and Class B properties sitting near 23.93%. The submarket also saw the addition of two additional buildings to its data set -- Michel's R1VER in Bayview and Wangard's Eagleknit on south second street. These two additions account for the majority of the submarket's Class A vacancy.

This active submarket continues to see a steady flow of transactions. Attolles Law SC is moving to a larger office in the Third Ward at 222 E. Erie Street. The law firm, originally located in The Tannery, is expanding from 2,300 SF to 10,618 SF. Additionally at 222 East Erie, Twin Disc, Inc. will move its corporate office into 8,100 SF space on the fourth floor in early 2023.



SUBURBAN OUTLOOK

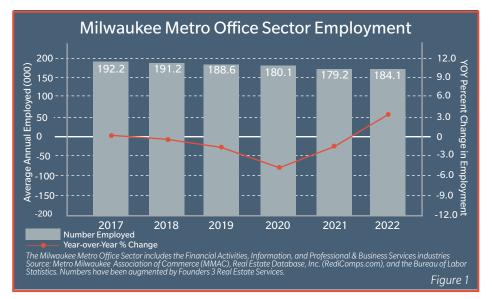
The Suburban market experienced 68,453 SF of negative absorption in Q4, ending the year relatively flat at 1,361 SF of negative absorportion. The overall vacancy rate ended the year at 21.17% compared to 19.68% the year prior. Class A and B gross average asking rates were \$23.11/SF and \$17.97/SF, respectively, resulting in an overall average gross asking rate of \$19.57/SF.

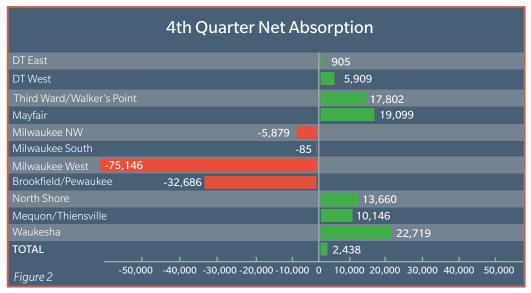
Co-working space is a making a significant comeback in the suburbs. In the Milwaukee North Shore market, Regus has re-established its presence at Bayshore after closing the 18,021 SF location in 2020. Regus was also active in the Mayfair/Wauwatosa market signing a lease for 11,041 SF at Honey Creek Corporate Park in the fourth quarter in addition to the new space at Lincoln Center that they added during the third quarter.

Irgens development delivered two projects to the market during the fourth quarter: Innovation One, a new construction 70,000 SF 2-story building plus garden level, on Discovery Parkway in its new Inovation Campus and Research One, a completely renovated 107,000 SF 4-story building with garden level, in Milwaukee County's Research Park. Both properties were designed to address tenant's flight for quality and set a new standard for the suburban workplace experience.



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





According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical Area is 2.4%, down a staggering 1.2% since the end of the third quarter. Similarly the data from the MMAC shows that the Milwaukee MSA saw a substantial increase in "office using jobs", increasing just over 5,000 jobs since 3rd 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.



Milwaukee Office Market Snapshot Multi-Tenant Properties

4th Quarter 2022

Submarket	Buildings	Building Size	Q4-2022 Vacancy %	Q4-2022 Vacant SF	Q4-2022 Absorption	Q4-2022 Sublease Space	Estimated Overall Average Asking Rent (FSG)
Downtown - East							
A	13	4,951,983	19.25%	953,495	(6,914)	132,756	\$32.72
В	30	2,742,183	21.55%	591,064	7,819	40,015	\$20.45
Total	43	7,694,166	20.07%	1,544,559	905	172,771	\$25.47
Downtown - West							
A	2	622,938	63.38%	394,795	0	12,868	\$23.30
В	25	2,842,426	19.18%	545,179	5,909	79,719	\$22.28
Total	27	3,465,364	27.12%	939,974	5,909	92,587	\$22.41
Third Ward/Walker's Point							
A	6	640,416	45.95%	294,254	14,440	24,332	\$28.28
В	32	1,887,703	16.46%	310,661	3,362	50,715	\$23.78
Total	38	2,528,119	23.93%	604,915	17,802	75,047	\$24.68
Mayfair							
A	14	1,636,815	21.94%	359,090	22,450	47,266	\$26.32
В	26	1,231,049	23.90%	294,181	(3,351)	19,113	\$18.07
Total	40	2,867,864	22.78%	653,271	19,099	66,379	\$21.28
Milwaukee - NW							
A	6	789,885	25.18%	198,929	7,479		\$22.26
В	25	1,189,974	30.87%	367,329	(13,358)	55,285	\$16.18
Total	31	1,979,859	28.60%	566,258	(5,879)	55,285	\$17.61
Milwaukee - South							
A	2	111,067	21.23%	23,575	0		\$25.00
В	14	529,059	13.68%	72,391	(85)	5,691	\$17.04
Total	16	640,126	14.99%	95,966	(85)	5,691	\$18.03
Milwaukee - West							
A	-		-	-	-	-	-
В	16	1,722,795	15.94%	274,632	(75,146)	115,856	\$18.20
Total	16	1,722,795	15.94%	274,632	(75,146)	115,856	\$18.20
Brookfield/Pewaukee							
A	37	2,585,278	25.57%	661,002	10,186	29,132	\$22.39
В	77	3,319,228	18.98%	630,008	(42,872)	17,932	\$18.82
Total	114	5,904,506	21.86%	1,291,010	(32,686)	47,064	\$20.44
North Shore		000 500	50.070	100.000	10 700		400.00
A B	3	233,538	52.27%	122,063	18,708	10.005	\$23.36
5	27	890,636	16.66%	148,418	(5,048)	18,805	\$19.57
Total	30	1,124,174	24.06%	270,481	13,660	18,805	\$20.71
Mequon/Thiensville	4	00 540	0.010/	7.076	10.146		¢22.00
A B	12	90,540	8.81%	7,976	10,146		\$23.00
-	16	336,905	20.68%	69,659			\$16.64
Total	10	427,445	18.16%	77,635	10,146		\$17.55
Waukesha	-			-			
В	37	1,081,442	9.62%	104,031	2,438	482	- \$17.50
Total	37	1,081,442	9.62%	104,031	2,438 2,438	482	\$17.50 \$17.50
GRAND TOTAL	3/	1,001,442	3.0270	104,031	۷,436	402	φ1/.OU
A AND TOTAL	87	11,662,460	25.85%	3.015.170	76,495	246,354	\$25.18
B	321	17,773,400	25.85%	3,015,179 3,407,553	(120,332)	403,613	\$25.18 \$18.96
U	321	17,773,400	19.1770	3,407,333	(43,837)	649,967	\$20.91

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

YOUR LOCAL OFFICE EXPERTS

Real Estate. Real Solutions.



Ned Purtell, CCIM, SIOR npurtell@founders3.com 414.249.2330



John Davis jdavis@founders3.com 414.249.2303



Kate Hanson khanson@founders3.com 414.249.2301



Patti Stevens
pstevens@founders3.com
414.249.2318



Jeanine Sweeney jsweeney@founders3.com 414.249.2307



Tiffany-Jo Bradley Marketing and Research tbradley@founders3.com 414.249.2320

FOUNDERS

REAL ESTATE SERVICES

330 E. Kilbourn Avenue, Suite 800 Milwaukee, WI 53202

founders3.com

Copyright © 2023 Founders 3 Commercial Services, Inc. -- The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

