



# MILWAUKEE OFFICE MARKET REPORT Q1 2023

## Introduction

For reporting purposes, Founders 3 undertook a significant reclassification of properties effective in the Q1 2023 Market Report. The recent deliveries to the market along with property renovations and upgrades resulted in a higher threshold of standards necessary in order to be included in the Class A property set. Examples of newer Class A deliveries include J. Jeffers & Co.'s Huron Building in the CBD, and Irgens's multiple development projects in Brookfield Lakes, Innovation Park, and Downtown Milwaukee. Specific building renovations impacting market classification include Felton Properties' Crossroads Corporate Center campus and Irgens's renovation of Research One in the Milwaukee County Research Park. All these properties raised the standard for Class A.

While some Class B properties were moved to Class A due to upgrades, other Class A buildings moved to Class B because they fell behind in quality and amenity offerings. In summary, 39 Class A properties were either reclassified to Class B or dropped from the tracked set, with the most notable reclassification being 100 East Wisconsin, once one of downtown Milwaukee's premiere Class A properties. The property became the subject of receivership and has been in foreclosure since April 2021. The sale to 100 East Propco, LLC for \$28.75 million was approved in March. 100 East Propco announced plans to move tenants out of the building and convert the building to multi-family once the sale closes.

## MARKET SNAPSHOT

	VACANCY	ABSORPTION	SUBLEASE	CLASS A RENT	CLASS B RENT
DOWNTOWN*	22.58%	-28,136	324,462	\$31.54	\$22.42
SUBURBS	23.21%	-69,710	278,060	\$24.17	\$18.71
TOTAL	22.93%	-97,846	602,522	\$27.86	\$20.57

\*Downtown includes Downtown East, Downtown West and Third Ward/Walker's Point submarkets.

## Market Overview

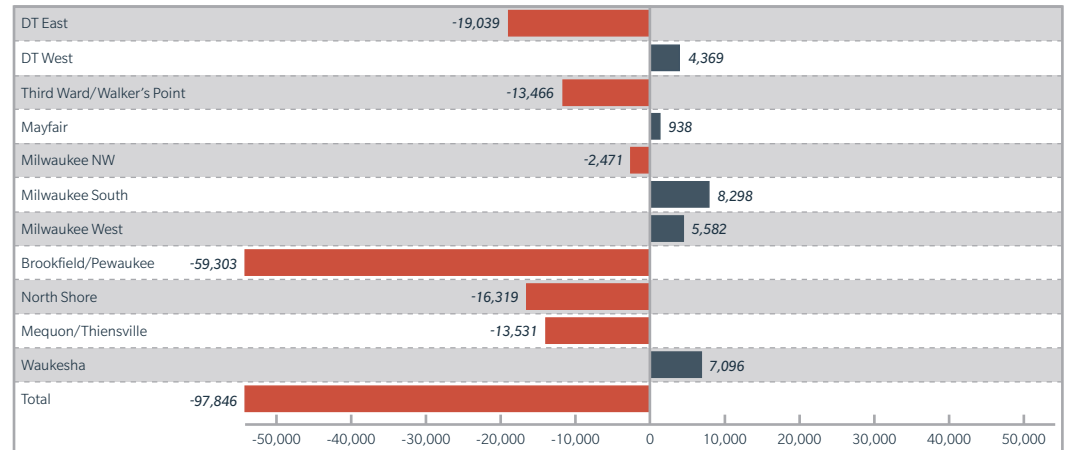
The overall market ended the quarter with a 22.93% vacancy rate. Despite the reclassification described in the introduction, the vacancy rate can be compared to Q4 2022 at 21.82% as the vacancy rate in both property sets includes the same Class A and B properties. Both Downtown and Suburban markets had negative absorption resulting in negative 97,846 SF for Q1. The estimated overall asking rate dropped slightly to \$20.78 per square foot versus \$20.91 per square foot in Q4 2022.

## Sublease in the Market

There is currently 602,522 SF of sublease space on the market, representing approximately 2% of the 28,370,266 SF total inventory. This is down 47,445 SF from Q4 2022. Though the amount of sublease space appears high, some of the space marketed as available is still occupied by the prime lessee. In addition, due to constraints (i.e., limited remaining terms, current condition of improvements and lack of flexibility in size), most of the sublease space rarely competes with the direct market for active tenants.

Larger blocks of space on the market include Milliman's 32,000 SF at 17335 Golf Parkway, Manpower's 61,000 SF at 100 N. Manpower, and Centene's 51,158 SF at 801 S. 60th Street.

## Q1 ABSORPTION



## Downtown Market

As further proof of the “Flight-to-Quality”, Class A downtown submarkets posted 6,084 positive absorption versus Class B posting negative 34,220 SF for a total of 28,136 SF negative absorption in Q1. Class A and B gross average asking rates were \$31.54 per square foot and \$22.42 per square foot, respectively. The overall downtown vacancy was 22.58%, with Class A vacancy at 19.33% and Class B at 29.75%. (Note: The Class A vacancy rate does not include 100 East vacancy of 200,000 SF, which if included would add nearly a 2% increase to the vacancy rate.)

As noted earlier, the court approved sale of 100 E Wisconsin for conversion to multi-family removed 100 East from our market statics. Effectively, 435,000 SF was removed from the market statistics of which 200,000 SF was previously counted as vacant space. The remaining tenants making up the other 235,000 SF – Gruber Law, Marcus Corporation and others are in search of new office space. These tenants, once relocated, would boost the occupancy rates by a full percentage point.

In Downtown West, Fiserv’s relocation of its Global HQ from Brookfield to HUB640 (the former Boston Store HQ) gained the city’s financial support in Q4 2022, resulting in the onset of construction in Q1. In exchange for the city’s financial incentives, Fiserv is committing to pre-determined employment levels and growth that includes not only the addition of full-time employees but also commitments to workday occupancy levels.

## Suburban Market

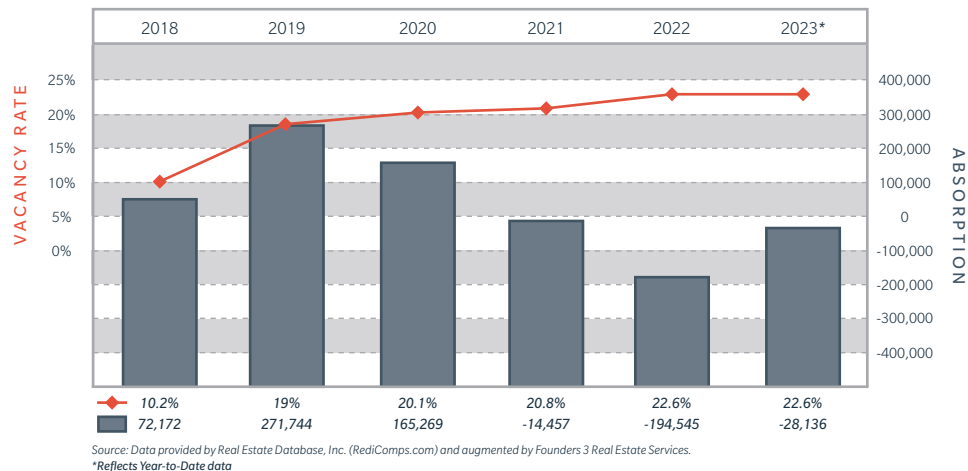
The suburban market experienced 69,710 of negative absorption, primarily due to larger square footage tenants moving out of Renaissance Faire in West Allis and Executive Center IV in Brookfield. The overall vacancy rate ended the quarter at 23.21%, with as Class A at 25.11% and Class B at 22.67%, respectively.

Class A and B gross average rates were \$24.17 per square foot and \$18.71 per square foot, respectively, resulting in an overall average gross asking rate of \$19.48 per square foot.

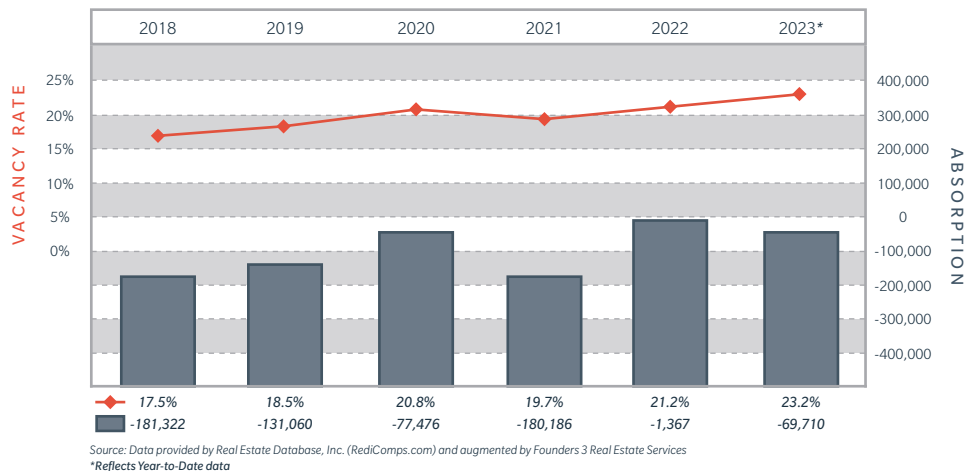
Northwestern Mutual announced it would be closing its 900,000 SF suburban Franklin campus and moving the approximately 2,000 employees downtown. However, it announced a \$500 million renovation and upgrade plan to its Downtown campus. While this is good news for the downtown market, the fate and future use of the Franklin campus creates a large unknown. As the relocation will not take place for several years, there is plenty of time to work on a solution.

In Brookfield, JD North America leased 9,000 SF of office space at 20825 Swenson Drive and will lease an additional 4,000 SF of lab space in Q2 2023. This property recently went under significant renovations, further cementing the “Flight-to-Quality” trend.

DOWNTOWN MARKET



SUBURBAN MARKET



## NOTABLE LEASE TRANSACTIONS

Location	Submarket	Tenant	SF Leased
790 N Water Street	DT East	Baker Tilly US, LLP	39,520
700 W Virginia Street	Walker’s Point	Capital First Trust	22,178
11414 West Park Place	Milwaukee NW	Jacobus Energy	17,064
790 N Water Street	DT East	Fiduciary Management	13,725

## NOTABLE SALE TRANSACTIONS

Location	Submarket	Price	PSF	Bldg. SF
N21W23340 Ridgeview Parkway	Waukesha	\$3,250,000	\$162.76	19,968
8530-8556 W National Avenue	West Allis	\$1,800,000	\$35.10	51,286
7620 W Burleigh St	Mayfair/Wauwatosa	\$280,000	\$39.05	7,170

Downtown includes Downtown East, Downtown West and Third Ward/Walker’s Point submarkets.

Submarket	Buildings	Building Size	Q1-2023 Direct Vacancy %	Q1-2023 Direct Vacant SF	Q1-2023 Absorption	Q1-2023 Sublease Space	Estimated Overall Average Asking Rent (FSG)
<b>Downtown - East</b>							
A	12	4,499,104	17.03%	766,045	1,689	107,558	\$32.49
B	27	2,625,288	23.55%	618,213	(20,728)	40,015	\$20.65
<b>Total</b>	<b>39</b>	<b>7,124,392</b>	<b>19.43%</b>	<b>1,384,258</b>	<b>(19,039)</b>	<b>147,573</b>	<b>\$24.96</b>
<b>Downtown - West</b>							
A	1	68,371	0.00%	-	0	13,000	\$28.10
B	24	3,069,655	30.46%	935,083	4,369	95,836	\$22.01
<b>Total</b>	<b>25</b>	<b>3,138,026</b>	<b>29.80%</b>	<b>935,083</b>	<b>4,369</b>	<b>108,836</b>	<b>\$22.41</b>
<b>Third Ward/Walker's Point</b>							
A	2	297,047	58.80%	174,671	4,395	-	\$29.45
B	34	2,103,572	17.34%	364,751	(17,861)	68,053	\$24.23
<b>Total</b>	<b>36</b>	<b>2,400,619</b>	<b>22.47%</b>	<b>539,422</b>	<b>(13,466)</b>	<b>68,053</b>	<b>\$24.78</b>
<b>Mayfair</b>							
A	13	1,569,637	23.09%	362,475	14,337	36,322	\$26.39
B	25	1,304,825	22.77%	297,118	(13,399)	19,113	\$18.83
<b>Total</b>	<b>38</b>	<b>2,874,462</b>	<b>22.95%</b>	<b>659,593</b>	<b>938</b>	<b>55,435</b>	<b>\$21.50</b>
<b>Milwaukee - NW</b>							
A	6	789,885	25.18%	198,929	0	-	\$21.51
B	24	1,169,198	31.63%	369,800	(2,471)	55,285	\$15.97
<b>Total</b>	<b>30</b>	<b>1,959,083</b>	<b>29.03%</b>	<b>568,729</b>	<b>(2,471)</b>	<b>55,285</b>	<b>\$17.27</b>
<b>Milwaukee - South</b>							
A	-	-	-	-	-	-	-
B	15	640,126	13.70%	87,668	8,298	5,691	\$17.39
<b>Total</b>	<b>15</b>	<b>640,126</b>	<b>13.70%</b>	<b>87,668</b>	<b>8,298</b>	<b>5,691</b>	<b>\$17.39</b>
<b>Milwaukee - West</b>							
A	-	-	-	-	-	-	-
B	16	1,722,795	21.33%	367,550	5,582	115,856	\$18.21
<b>Total</b>	<b>16</b>	<b>1,722,795</b>	<b>21.33%</b>	<b>367,550</b>	<b>5,582</b>	<b>115,856</b>	<b>\$18.21</b>
<b>Brookfield/Pewaukee</b>							
A	10	940,734	19.99%	188,016	(8,414)	3,447	\$23.76
B	100	4,986,170	24.90%	1,241,369	(50,889)	23,059	\$19.87
<b>Total</b>	<b>110</b>	<b>5,926,904</b>	<b>24.12%</b>	<b>1,429,385</b>	<b>(59,303)</b>	<b>26,506</b>	<b>\$20.27</b>
<b>North Shore</b>							
A	2	175,962	66.21%	116,513	910	-	\$24.45
B	26	948,212	17.37%	164,706	(17,229)	18,805	\$19.88
<b>Total</b>	<b>28</b>	<b>1,124,174</b>	<b>25.02%</b>	<b>281,219</b>	<b>(16,319)</b>	<b>18,805</b>	<b>\$20.79</b>
<b>Mequon/Thiensville</b>							
A	2	37,670	43.14%	16,250	-	-	\$24.00
B	12	329,246	25.84%	85,062	(13,531)	-	\$17.51
<b>Total</b>	<b>14</b>	<b>366,916</b>	<b>27.61%</b>	<b>101,312</b>	<b>(13,531)</b>	<b>-</b>	<b>\$18.96</b>
<b>Waukesha</b>							
A	-	-	-	-	-	-	-
B	33	1,092,769	13.80%	150,848	7,096	482	\$17.24
<b>Total</b>	<b>33</b>	<b>1,092,769</b>	<b>13.80%</b>	<b>150,848</b>	<b>7,096</b>	<b>482</b>	<b>\$17.24</b>
<b>GRAND TOTALS</b>							
A	48	8,378,410	21.76%	1,822,899	12,917	160,327	\$26.27
B	336	19,991,856	23.42%	4,682,168	(110,763)	442,195	\$19.25
<b>Total</b>	<b>384</b>	<b>28,370,266</b>	<b>22.93%</b>	<b>6,505,067</b>	<b>(97,846)</b>	<b>602,522</b>	<b>\$20.78</b>

# YOUR LOCAL OFFICE EXPERTS

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**Ned Purtell, CCIM, SIOR**  
*Partner*  
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 3**  
REAL ESTATE SERVICES

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

414.271.1111 | [founders3.com](https://founders3.com)