



MILWAUKEE OFFICE MARKET REPORT

Q3 2023

Introduction

The 3rd quarter of 2023 has shown stability in the Milwaukee office market, with no significant change in the vacancy rate. This positive trend is reinforced by robust macroeconomic activity and strong showing activity in both suburban and downtown markets. Looking ahead, the next twelve to eighteen months will provide crucial insights into the direction the office market is heading. Despite national news reports, we maintain optimism that the Milwaukee office market will fare better than portrayed.

The short of it is that the popularity of remote work and the subsequent reluctance to return to the office has resulted in all-time high vacancies for nearly all major markets. That is the bad news. The good news is rental rates have remained stable based on strong showing activity and the strategic recycling of older office buildings for alternative uses. For example, Irgens announced 790 N Water up for sale this quarter, which will likely draw strong activity from developers looking to convert this building into apartments. This results in lower cost properties being removed from the tracked set resulting in a higher average rate.

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Q3 MARKET SNAPSHOT

	VACANCY	ABSORPTION	SUBLEASE	CLASS A RENT	CLASS B RENT
DOWNTOWN*	24.11%	-114,175	324,835	\$32.01	\$22.71
SUBURBS	22.92%	-138,105	204,137	\$24.68	\$18.85
TOTAL/AVERAGE	23.45%	-252,280	528,972	\$28.35	\$20.78

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

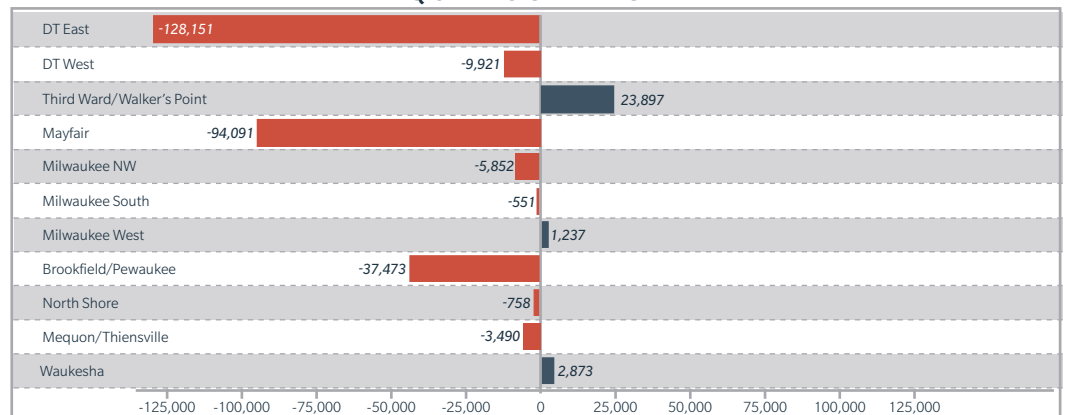
Market Overview

The overall market ended the quarter with a 23.45% vacancy rate and was relatively slow in the number of transactions completed. With ever-increasing buildout costs, companies's fluid remote work policies (resulting in constant space requirement changes) and the lingering semi-pessimistic economic outlook, deals are taking significantly longer to get across the finish line. Both the Downtown submarket and Suburban submarket showed substantial negative absorption and a subsequent increase in vacancy. The estimated overall asking rate rose slightly to \$20.91 per square foot versus \$20.87 per square foot in Q2 2023. Please keep in the mind that these are asking rates and not necessarily final deal rates and also do not include concessions.

Sublease in the Market

There is currently 528,972 SF of sublease space on the market, representing approximately 1.88% of the 28,075,687 square foot total inventory. This is a significant decrease of just over 80,000 square feet from Q2 2023, with the change predominantly being the result of leases expiring and the spaces becoming direct vacancies such as WageWorks's 33,000 square foot space at 735 N Water Street and GMR Marketing's 37,000 square foot space at 5000 S Towne Drive in New Berlin. As with previous quarters, although the amount of sublease space appears high, some of the space marketed as available is still occupied by the prime lessee and not, in fact, vacant. In addition, due to constraints and special provisions (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.

Q3 ABSORPTION



Downtown Market

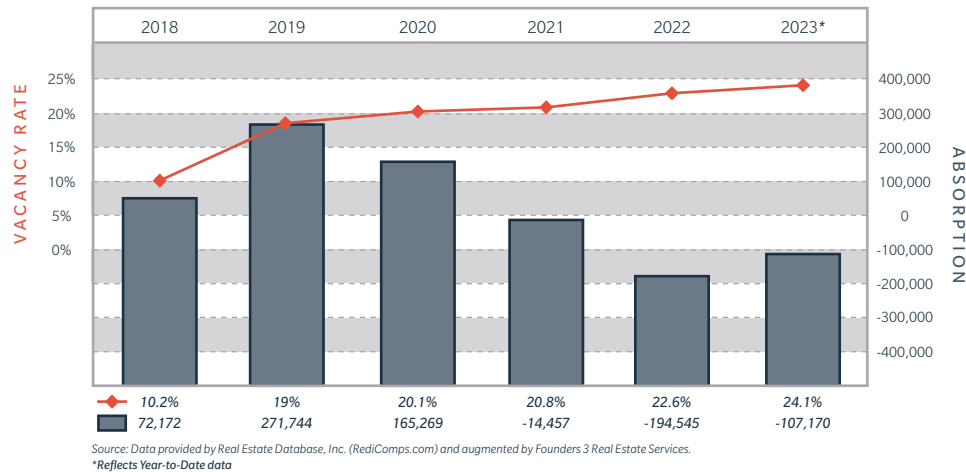
Class A downtown submarkets posted 37,507 negative absorption versus Class B posting negative 76,668 square feet for a total of 114,175 square feet of negative absorption in Q3. Class A and B gross average asking rates were \$32.01 per square foot and \$22.71 per square foot, respectively. The overall downtown vacancy was 24.11%, with Class A vacancy at 19.59% and Class B at 26.98%.

In Downtown East news, Irgens has listed the former M&I office building at 770 N Water Street for sale, which they had formerly slated for apartment redevelopment. Baker Tilly finally moved into their new 68,000 square foot home at BMO Tower. As mentioned in previous quarter, Baird backfilled a significant portion of Baker Tilly’s previous space at the US Bank Center.

Downtown West had significant positive market news in the third quarter as Veolia announced its move from Honey Creek Corporate Center in Mayfair to the ASQ Building at 648 N Plankinton Avenue. Veolia will be taking over the approx. 29,000 square vacancy created by architectural firm, Kahler Slater’s, move to BMO Tower in 2022. Additionally, the Avenue has transformed some of its first floor vacancy into an event venue versus its original intended use of office space, taking an additional 15,000 square feet off of the market.

The Third Ward/Walker’s Point submarket continued to show significant activity with five transactions in the press including WSP’s lease at the Saddlery, SRH Marketing’s lease at Eagleknit, Benesch Engineering at 247 W Freshwater Way, DSV Air Sea’s lease at R1VER One in Bayview, and the Bartolotta Group took over the approx. 9,500 SF sublease at 234 W. Florida.

DOWNTOWN MARKET



NOTABLE LEASE TRANSACTIONS

Location	Submarket	Tenant	SF Leased
648 N Plankinton Avenue	DT West	Veolia North America	29,100
1401 Discovery Parkway	Mayfair	M3 Insurance	20,000
135 S 84th Street	Mayfair	Mayville Engineering	14,700
247 W Freshwater Way	Third Ward	Benesch Engineering	7,807

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

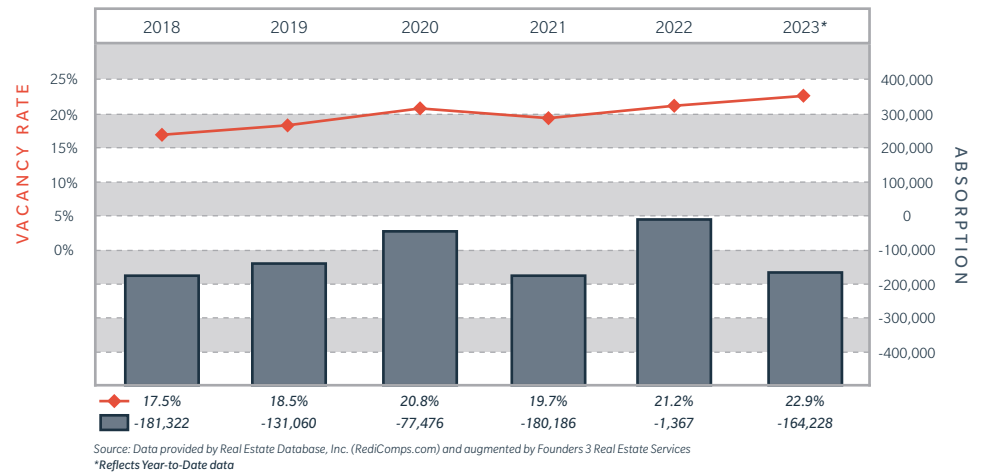
Suburban Market

The suburban market experienced 138,105 square feet of negative absorption. The overall vacancy rate ended the quarter at 22.92%, with as Class A at 27.16% and Class B at 21.66%, respectively. Class A and B gross average rates were \$24.68 per square foot and \$18.85 per square foot, respectively, resulting in an overall average gross asking rate of \$20.78 per square foot. With vacancy increasing and deals becoming more difficult to secure, many Landlords are working on upgrading their buildings (lobbies, elevators, amenities, etc.) to try and retain/attract tenants. Some of the upgrades are long overdue and a welcome sight for brokers and users alike.

The Brookfield/Pewaukee submarket is seeing additional sublease come to market (though it still for the most part occupied by the current Lessors). Milliman has listed one to two floors of their new headquarters for sublease at 17335 Golf Parkway and the Hausmann Group has also put their 37,000 square foot office at N25 W23050 Paul Road on the market.

Although it initially seemed that Honey Creek in the Mayfair submarket appeared to be expecting a significant loss from Veolia’s move to Downtown, the four-building office park announced in Q3 that Mayville Engineering will be moving its corporate headquarters from Mayville, WI to Milwaukee -- leasing 14,700 SF on the third floor of 135 S. 84th Street and nearly doubling its current office HQ size. This move is another example of rural manufacturing companies moving its office operations to more urban locations in order to retain and attract talent, which was also seen in Q2 with Regal Ware’s move from Kewaskum to One Park Plaza in Menomonee Falls.

SUBURBAN MARKET



NOTABLE LEASE TRANSACTIONS (CONT.)

Location	Submarket	Tenant	SF Leased
20700 Swenson Drive	Waukesha	Adult Day Services of Southeast WI	7,334
233 N Water Street	Third Ward	WSP	9,601
210 W Becher Street	Third Ward	DSV Air Sea	6,049
234 W. Florida Street	Third Ward	The Bartolotta Group	9,575

Submarket	Buildings	Building Size	Q3-2023 Direct Vacancy %	Q3-2023 Direct Vacant SF	Q3-2023 Absorption	Q3-2023 Sublease Space	Estimated Overall Average Asking Rent (FSG)
Downtown - East							
A	12	4,499,104	17.60%	791,910	(43,556)	162,830	\$32.69
B	27	2,622,795	28.43%	745,534	(84,595)	1,754	\$21.32
Total	39	7,121,899	21.59%	1,537,444	(128,151)	164,584	\$25.27
Downtown - West							
A	1	68,371	0.00%	0	0	13,000	\$28.10
B	24	3,069,714	31.49%	966,627	(9,921)	100,204	\$22.01
Total	25	3,138,085	30.80%	966,627	(9,921)	113,204	\$22.41
Third Ward/Walker's Point							
A	2	297,047	54.21%	161,024	6,049	0	\$29.32
B	32	1,969,145	18.03%	355,045	17,848	47,047	\$24.68
Total	34	2,266,192	22.77%	516,069	23,897	47,047	\$25.19
Mayfair							
A	13	1,569,637	27.29%	428,412	(81,191)	20,898	\$26.96
B	25	1,304,825	24.02%	313,412	(12,900)	19,113	\$18.84
Total	38	2,874,462	25.81%	741,824	(94,091)	40,011	\$21.71
Milwaukee - NW							
A	6	789,885	25.18%	198,929	0	0	\$21.50
B	24	1,109,618	31.82%	353,043	(5,852)	9,285	\$15.71
Total	30	1,899,503	29.06%	551,972	(5,852)	9,285	\$16.80
Milwaukee - South							
A	-	-	-	-	-	-	-
B	15	640,126	13.41%	85,870	(551)	5,691	\$17.28
Total	15	640,126	13.41%	85,870	(551)	5,691	\$17.28
Milwaukee - West							
A	-	-	-	-	-	-	-
B	16	1,722,795	16.05%	276,454	1,237	115,856	\$17.88
Total	16	1,722,795	16.05%	276,454	1,237	115,856	\$17.88
Brookfield/Pewaukee							
A	10	939,154	18.13%	170,223	(13,036)	5,619	\$24.21
B	101	4,936,124	25.02%	1,234,985	(24,437)	16,438	\$20.04
Total	111	5,875,278	23.92%	1,405,208	(37,473)	22,057	\$20.61
North Shore							
A	2	175,962	62.93%	110,733	0	0	\$24.45
B	25	901,700	19.86%	179,111	(758)	10,755	\$19.56
Total	27	1,077,662	26.90%	289,844	(758)	10,755	\$20.79
Mequon/Thiensville							
A	1	37,670	16.56%	6,237	0	-	\$24.00
B	12	329,246	20.97%	69,037	(3,490)	-	\$18.18
Total	13	366,916	20.52%	75,274	(3,490)	-	\$21.09
Waukesha							
A	1	53,913	100.00%	53,913	0	-	\$24.00
B	32	1,038,856	8.04%	83,564	2,873	482	\$17.97
Total	33	1,092,769	12.58%	137,477	2,873	482	\$20.99
GRAND TOTALS							
A	48	8,430,743	22.79%	1,921,381	(131,734)	202,347	\$26.40
B	333	19,644,944	23.73%	4,662,682	(120,546)	326,625	\$19.41
Total	381	28,075,687	23.45%	6,584,063	(252,280)	528,972	\$20.91

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