

MARKET OVERVIEW

Amid a global pandemic, the Milwaukee Industrial Market continues to hold steady for the first half of the year with signs of strength to come. We are seeing firsthand that with rising demand in e-commerce, along with increased US manufacturing operations, the industrial market continues to serve as the steady horse in the commercial real estate sector. Even with 1,200,000 SF delivered to the market in Q2 through seven properties, vacancy rates rose a mere 0.1% from 4.1% to 4.2%.

With an uptick in leasing transactions and over 7,000,000 SF of properties under construction at the close of Q2, it appears that businesses are beginning to grasp the current condition and are putting in place plans to return to normal operation.



W156 N9251 Tipp St - Source: Founders 3 Commercial Real Estate

Market Synopsis

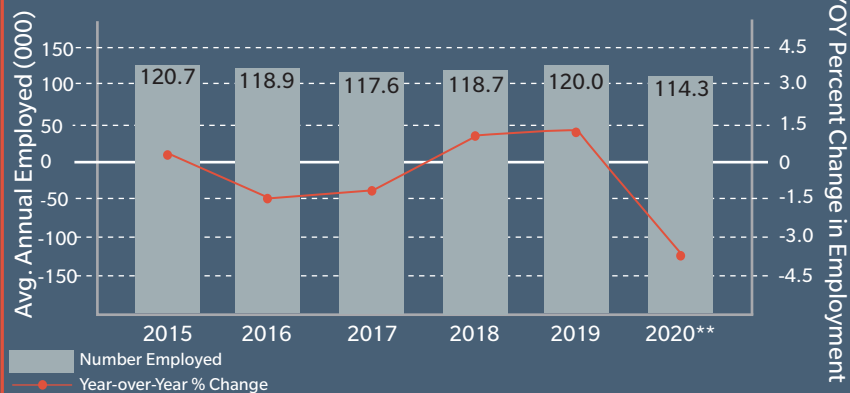
	Absorption SF	Vacancy	Avg. Rent
Central	(512,131)	7.1%	\$5.44
Western	(137,435)	1.8%	\$5.89
Southern	1,470,427	4.9%	\$4.92
Northern	347,925	1.7%	\$5.77

*For regional breakdown of submarkets see Figure 3 on page 4

**See Figure 2 for individual submarket absorption data

ECONOMIC OVERVIEW

Milwaukee Metro Industrial Sector Employment



*The Milwaukee Metro Office Sector includes the Manufacturing Industry
 **Data only reflects reported employment for the 1st and 2nd quarters of 2020
 Source: Current Employment Statistic (CES), U.S. Bureau of Labor Statistics, MMAC calculations

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical Area is 12.6%. This is a 930-basis point increase compared to May 2019. The Milwaukee MSA saw a substantial decrease in job growth in “manufacturing jobs”, falling by 7,400 jobs since the end of Q1. (See Figure 1, Left)

Notable Leases and Sales

- The Amazon Fulfillment Center at 3501 120th Pl. Kenosha sold for \$119.2 M (\$117.35/SF)
- Priedeman Business Center at 1501 Paramount Dr., Waukesha sold for \$2.35 M (\$77.34/SF)
- N117W18711 Fulton Dr., Germantown sold for \$2.36M (\$97.02/SF)
- Winco Stamping Inc. leased 21,390 SF at W156 N9251 Tipp St., Menomonee Falls

Figure 1

CENTRAL MARKET - MILWAUKEE COUNTY

It comes as no surprise that Amazon is flourishing in today's economy, however, they seem to be the only big player stirring activity in Milwaukee's central industrial market. Most recently, it's been confirmed that Amazon is the new tenant in the former J.C. Penney's on the west side of Wauwatosa, adding to the company's already massive footprint of distribution centers in Southeastern Wisconsin. The existing structure will be partially redeveloped to accommodate the company's fleet of delivery vans while the remaining space is used for its package processing center, taking up roughly 540,000 SF in total.

Despite the e-commerce giant's activities, Milwaukee County posted the highest industrial vacancy rate of 7.1% and just over 500,000 SF of negative absorption. The Central Market is simply moving slower compared to its suburban counterparts. This could soon change in Q3 as there are plans for two, separate, speculative industrial properties near the airport. HSA Commercial and Minneapolis developer, Real Estate Recycling, both have projects amounting to 127,282 SF and 160,800 SF, respectively. These projects could serve as a boost for the currently slower Central Market by providing options for continuing e-commerce and third-party logistical demands.

Central		
Year - Quarter	Vacancy Rate	Absorption SF
2019 Q1	5.6%	(277,923)
2019 Q2	5.5%	(31,590)
2019 Q3	6.0%	(361,895)
2019 Q4	6.1%	235,654
2020 Q1	6.2%	50,622
2020 Q2	7.1%	(512,131)

WESTERN MARKET - WALWORTH & WAUKESHA COUNTIES

In Q2, Waukesha and Walworth counties saw less leasing and sale activity than in previous quarters, though this is expected to change as businesses seem to have more confidence in the economic outlook. Though vacancy rates remained relatively flat at 1.8%, absorption was negative 137,435 SF. User reluctance is prompting more renewals and a decline in rent growth. Despite a slower than average quarter, we did see new spaces in the form of build-to-suite projects of growing companies.

The Angelus Corp., as well as Paul Davis Restoration, delivered new facilities to Pewaukee this month, helping the companies to achieve their expansion goals. Brookfield based Briohn Builder's is spearheading a new industrial park in New Berlin in the form of a 301,320 SF facility with the potential to house up to 80 jobs, could mark the start of this new park. If approved, the project would break ground later this year and be set to open summer 2021, where it would house an unnamed growing local distribution company.

Despite transactions being down, we are seeing more users expanding their current facilities to meet their projected growth numbers. Milwaukee Tool is planning a 120,000 SF new R&D facility on their campus in Menomonee Falls, and Sussex based Prestwick Group plans to add 74,000 SF to their current facility.

Western		
Year - Quarter	Vacancy Rate	Absorption SF
2019 Q1	1.7%	157,358
2019 Q2	1.6%	507,012
2019 Q3	1.6%	193,733
2019 Q4	1.8%	6,097
2020 Q1	1.7%	75,916
2020 Q2	1.8%	(137,435)

SOUTHERN MARKET - RACINE & KENOSHA COUNTIES

Amazon continued to be the largest player in the Southern Industrial Market, contributing to the decline in vacancy rates from 5.7% down to 4.9%. Of the 1,470,427 SF of absorption this quarter, the e-commerce behemoth accounted for 1,186,609 SF. We saw this absorption come through 438,309 SF leased at Enterprise Business Park Bldg. IV in Stewartville and 748,300 SF at 4250 120th Ave. in Kenosha. Activity overall mimics the region during the pandemic.

Although we saw Racine and Kenosha account for the highest amount of absorption in the entire Milwaukee Industrial Market, vacancy rates sit slightly higher, at 4.7% and 5.1%, respectively. This comes as we hear the somber news of 387 jobs being eliminated at the BRP, a Canadian manufacturer of the Evinrude outboard engines. County officials say they've been told that BRP plans to repurpose the facility to accommodate other needs for the company.

On a more promising note, Advent Tool & Manufacturing Inc., a manufacturer of precision tools out of Antioch, IL said that it will be moving its headquarters to the Salem Industrial Park in Kenosha, with plans to lease 50,000 SF in a new facility. The Potawatomi/Zilber Partnership has plans to develop the 240-acre former Dairyland Greyhound Park into a mixed use with office, retail, industrial and multifamily residential units.

Southern		
Year - Quarter	Vacancy Rate	Absorption SF
2019 Q1	3.0%	(28,012)
2019 Q2	4.0%	(24,825)
2019 Q3	5.0%	813,799
2019 Q4	5.4%	872,189
2020 Q1	5.7%	196,652
2020 Q2	4.9%	1,470,427

NORTHERN MARKET - OZAUKEE, SHEBOYGAN, & WASHINGTON COUNTIES

In the Northern Market of Ozaukee, Sheboygan, and Washington Counties we saw vacancy rates fall again, this time from 1.9% to 1.7% paired with a large uptick of 347,925 SF of absorption. We are seeing the positive effects of both a growing demand in e-commerce as well as the reshoring of United States manufacturing. With a proven infrastructure and excellent freeway access, the Northern Industrial Market will continue to remain strong as we enter the third quarter.

Some notable project updates include - Illing Co.'s new 240,000 SF Germantown facility. Set to open at the start of Q3, this project serves to consolidate Illing's current operation from three buildings to one. Wilo's new 250,000 SF headquarters and production facility are set to break ground in Cedarburg later this year with a scheduled opening for the beginning of 2022. Wilo's move from Rosemont, IL is set to bring in roughly 200 jobs as it consolidates its recently acquired Weil Pump and Scot Pump businesses. Milwaukee Tool's new \$10 million, 94,700 SF development in West Bend is set to start construction in August. The company's new manufacturing facility is expected to bring in 50 jobs over the next three years.

Northern		
Year - Quarter	Vacancy Rate	Absorption SF
2019 Q1	1.9%	103,986
2019 Q2	1.9%	661,344
2019 Q3	1.8%	64,770
2019 Q4	2.0%	242,901
2020 Q1	1.9%	14,050
2020 Q2	1.7%	347,925

MILWAUKEE INDUSTRIAL MARKET DATA

Market	Property Type	Buildings	Building Size	Q2-20 Total Available (SF)	Q2-20 Total Vacant (SF)	Q2-20 Vacancy Rate	Q2-20 Total Absorption (SF)	YTD Total Absorption (SF)	Q2 20 Average Lease Rate
Central Market: Milwaukee County	Flex/R&D	43	2,209,314	446,535	350,940	15.9%	(48,645)	(52,567)	\$6.81
	Manufacturing	679	61,309,112	3,102,572	2,391,044	3.9%	(178,544)	(216,353)	\$4.52
	Warehouse*	1,098	61,369,416	8,674,429	6,065,936	9.9%	(284,942)	(184,182)	\$5.00
	Subtotal	1,820	124,887,842	12,223,536	8,807,920	7.1%	(512,131)	(453,102)	\$5.44
Western Market: Walworth & Waukesha Counties	Flex/R&D	123	4,496,451	356,190	214,525	4.8%	(10,444)	15,615	\$7.14
	Manufacturing	735	47,670,526	619,557	281,967	0.6%	(94,911)	(108,415)	\$5.18
	Warehouse*	1,119	45,256,503	2,079,100	1,276,319	2.8%	(32,080)	107,735	\$5.36
	Subtotal	1,977	97,423,480	3,054,847	1,772,811	1.8%	(137,435)	14,935	\$5.89
Southern Market: Racine & Kenosha Counties	Flex/R&D	14	1,175,281	290,172	47,318	4.0%	0	0	\$3.78
	Manufacturing	300	25,725,940	347,360	553,590	2.2%	64,200	(37,396)	\$5.00
	Warehouse*	380	43,778,221	3,185,390	2,877,564	6.6%	1,406,227	1,704,475	\$5.98
	Subtotal	694	70,679,442	3,822,922	3,478,472	4.9%	1,470,427	1,667,079	\$4.92
Northern Market: Ozaukee, Sheboygan & Washington Counties	Flex/R&D	32	984,459	106,650	82,052	8.3%	(21,315)	(26,315)	\$6.35
	Manufacturing	536	45,457,510	567,060	236,657	0.5%	100,000	100,000	\$4.75
	Warehouse*	449	23,470,969	1,131,845	896,913	3.8%	269,240	288,290	\$6.20
	Subtotal	1,017	69,912,938	1,805,555	1,215,622	1.7%	347,925	361,975	\$5.77
Grand Total		5,508	362,903,702	20,906,860	15,274,825	4.2%	1,168,786	1,590,887	\$5.51

*Warehouse includes both Warehouse Office & Warehouse Distribution

**Source: Data provided by the Real Estate Database, Inc. (REDIComps.com)

Figure 2

MILWAUKEE INDUSTRIAL MARKET SUMMARY

The industrial market, specifically, warehouse distribution, continues to remain one of the most active amidst the challenging economic climate we see today. Q2 saw 1,168,786 SF of positive absorption, for a year to date total of 1,590,887 SF, all of which came from warehouse distribution property type. The average net rental rate across all industrial property types was \$5.51/SF. There have been eight properties delivered year to date, with seven of them coming online in Q2. This has added over 1,748,000 SF of new space to the market. There are over 7,000,000 SF of new developments under construction, with approximately 1/3 of this space being attributed to Amazon. These numbers signal to us that the strongest quarter for 2020 remains ahead.

YOUR LOCAL INDUSTRIAL EXPERTS

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