

1st Quarter Overview

Market Overview

The Milwaukee Office Market began 2020 with a vacancy rate of 17.19% and palatable absorption (140,684 SF). Brokers and Landlords were confident that the year would provide a continuation of the success enjoyed over the past several years. COVID-19 swiftly entered the picture this quarter and has since slowed the economy and, consequentially, the once-prosperous office market. Although the market has taken a wait-and-see approach over the past several weeks, our team is still optimistic that when the country is back to work leasing activity will pick up, though not where it left off.

Social distancing has the potential to have a profound effect on the office market. Landlords are worried that the work from home trend will reduce the square footage required by office tenants. Countering this effect is the potential for tenants to seek additional square footage per employee to provide the necessary 6 foot social distance buffer. Other potential trends that could emerge as a result of the pandemic include a flight to quality – tenants may seek newer buildings with professional property management and dedicated day porters providing sanitation and disinfection services. Suburban office markets may see a renaissance if density or public transportation is viewed as a negative to businesses post COVID-19. In addition, if the economy weakens, the financial strength of building ownership may prove to be an attractive differentiator for tenants when selecting an office location.

Pre COVID-19, the market was strong- the disruption we are experiencing now is not a function of oversupply or lack of demand. The great unknown is the impact of the pandemic on the economy, and how office tenants recover. In reviewing vacancy and absorption figures for the past 5 years, even if the Milwaukee Office Market sees a 40% increase in vacancy, a “worst-case scenario”, our vacancy rates in two of the strongest submarkets would swing from just above 11% to 15%, which is a meaningful change, but not a completely devastating outcome. Figure 1 on the second page illustrates this scenario.

Economic Overview

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee metropolitan statistical is 3.8%. This is a 20 basis point increase compared to February 2019. The Milwaukee MSA saw a decrease in job growth in “office using jobs”, decreasing by 3,500 jobs since January 1, 2019. (See Figure 3 on page 2)

Market Synopsis

	Downtown	Suburban
Absorption SF	63,999	33,982
Vacancy	16.52%	20.71%
Class A Gross (Avg. Rate)	\$28.97	\$20.83
Class B Gross (Avg. Rate)	\$23.69	\$17.45

**See Figure 2 for individual submarket absorption data*

Notable Deals and Sales

- Centene leased 50,000 SF at 801-851 S. 60th Street, West Allis
- Dematic Corporation leased 39,000 SF at 11241 W. Burleigh Street, Wauwatosa
- NCR Corporation leased 26,089 SF at 833 E. Michigan Street, Milwaukee
- Gordon Brothers leased 8,181 SF at 12200 N. Corporate Parkway, Mequon
- 11200 W. Park Place, Milwaukee sold for \$5.7M (\$28.85/SF)
- 9800 W. Bluemound Road, Wauwatosa sold for \$1.4M (\$55.45/SF)

SCENARIO ANALYSIS - FIGURE 1

East CBD	2015	2016	2017	2018	2019	2020 *
Vacancy	15.68%	16.59%	16.18%	16.81%	10.82%	14.92%
Absorption	97,533	131,463	7,295	4,797	93,180	(337,034)

Third Ward\Walker's Point	2015	2016	2017	2018	2019	2020 *
Vacancy	13.27%	15.43%	16.36%	6.47%	11.37%	14.66%
Absorption	(81,601)	23,158	33,086	95,000	45,713	(92,923)

* Hypothetical 2020 vacancy should vacancy increase by 40%.

Figure 1

East CBD			
Total RSF		7,905,196	
Vacant RSF		842,584	
Hypothetical Increase in Vacancy	40%	337,034	negative absorption
Total Vacant RSF		1,179,618	14.92%

Third Ward\Walker's Point			
Total RSF		2,218,151	
Vacant RSF		232,307	
Hypothetical Increase in Vacancy	40%	92,923	negative absorption
Total Vacant RSF		325,230	14.66%

ABSORPTION & EMPLOYMENT GRAPHS - FIGURES 2 & 3

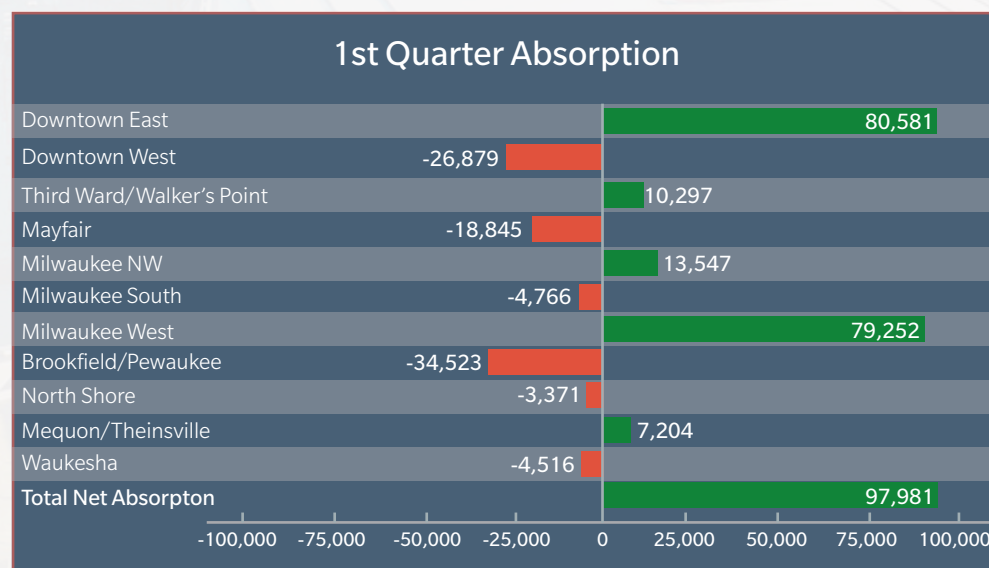


Figure 2

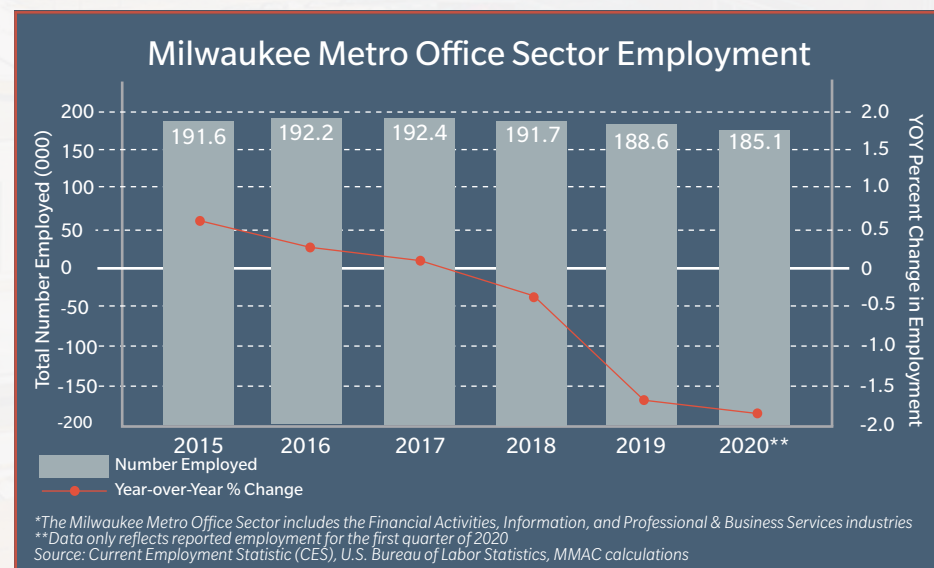


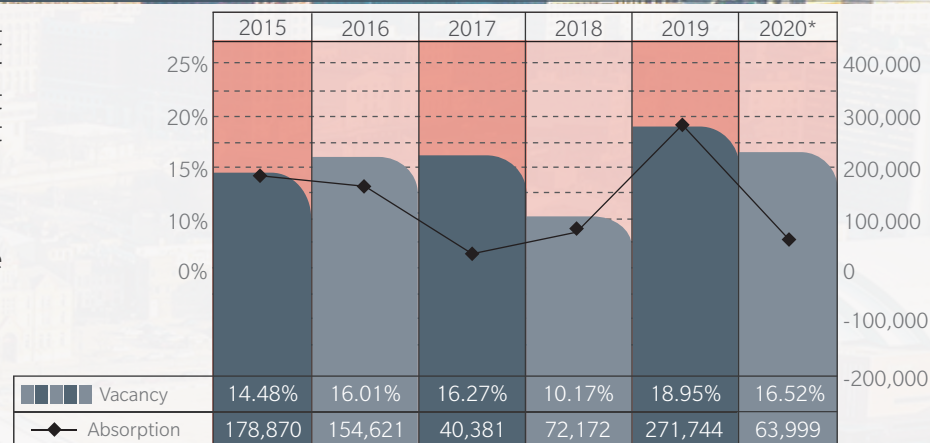
Figure 3

PROJECT UPDATES

GRAEF relocated from Honey Creek to The Avenue, kicking off this downtown project. Irgens Development delivered a striking addition to the city's skyline via BMO Tower, which welcomed its first office tenants late this quarter. The tower, along with the physically connected 770 N. Water Street building, will seek tenants for the balance of the vacant space in the project. HUB640 has announced its first office tenant, North Shore Healthcare, which will occupy 23,000 SF in the building. Michel's Corporation's headquarters and mixed-use campus development (R1VER) in the Harbor District has remained on-schedule with intent to deliver in the fall of 2020. The developers of the Milwaukee Athletic Club have indicated that they may seek alternative uses to the planned hotel within the building including office, citing the impact of COVID-19 on the hospitality industry. Rite-Hite recently unveiled plans for its headquarters project at The Reed Street Yards in Walker's Point, with plans to acquire the site and break ground by the end of the year.

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

Downtown East/West and the Third Ward/Walker's Point submarkets accounted for most of the positive absorption in the first quarter, indicating continued demand for CBD or near-CBD product by tenants. We anticipate that several deals that had tested the market in previous quarters- i.e. JP Morgan Chase and The Marcus Corporation- may choose to put on hold or renew their current leases, as opposed to relocating. As buildings and building owners formulate their plans to re-open with enhanced cleaning and social distancing requirements, tenants will likely value quality projects with top-tier management going forward. Concerns of pending foreclosure and deferred maintenance could push some downtown tenants to relocate to more stable buildings.

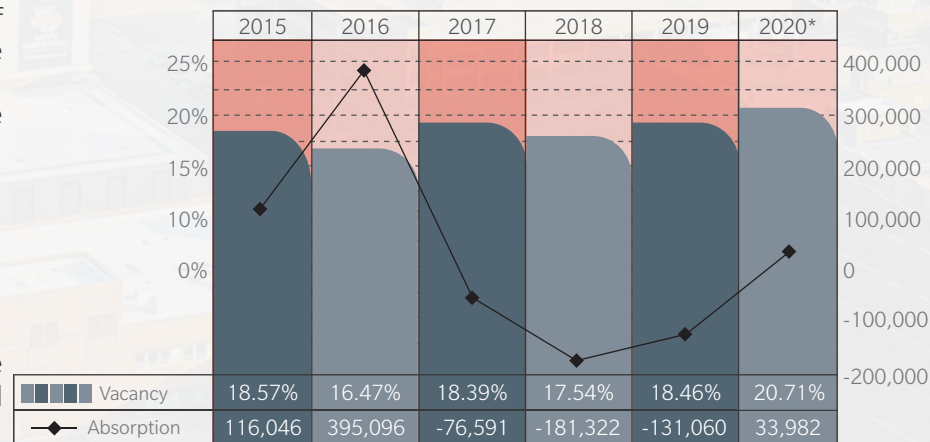


*2020 vacancy and absorption reflects only 1st quarter data

SUBURBAN OUTLOOK

COVID-19 could end up benefiting suburban landlords, at least in the short term. If there's a halt in activity or hesitancy by tenants to relocate due to economic concerns, the pandemic could put a temporary pause on suburban tenants relocating downtown. The "wait and see" approach as it relates to businesses re-opening and the economy as a whole has paused the majority of activity. Previously announced new developments, including Irgens' Golf Parkway Corporate Center, could be delayed unless some of the larger deals in the suburbs- namely Milliman and MRA - The Management Association commit to kicking them off. This would further limit the availability of quality, new construction options for suburban tenants for the foreseeable future.

Fiserv has remained mum regarding its future in Brookfield and has not made a decision to remain in the suburbs or relocate downtown. Fiserv's potential relocation will move the needle for the entire office market, however, as the deal has been on the radar for several years, the events of 2020 may further prolong a decision.



*2020 vacancy and absorption reflects only 1st quarter data

Submarket	Buildings	Building Size	Q1 20 Vacant SF	Q1 20 Vacancy %	Q1 20 Total Absorption	Overall Average Asking Rent (FSG)
Downtown - East						
A	12	4,912,948	562,312	11.45%	74,621	\$30.14
B	34	2,992,248	280,272	9.37%	5,960	\$20.59
Total	46	7,905,196	842,584	10.66%	80,581	\$23.77
Downtown - West						
A	2	622,938	381,914	61.31%	(1,701)	\$20.73
B	27	3,493,847	896,202	25.65%	(25,178)	\$20.47
Total	29	4,116,785	1,278,116	31.05%	(26,879)	\$20.60
Third Ward/Walker's Point						
A	3	263,369	8,897	3.38%	0	\$26.82
B	37	1,954,782	223,410	11.43%	10,297	\$21.85
Total	40	2,218,151	232,307	10.47%	10,297	\$24.34
Mayfair						
A	13	1,566,458	150,154	9.59%	(11,150)	\$26.50
B	25	1,271,442	311,826	24.53%	(7,695)	\$15.90
Total	38	2,837,900	461,980	16.28%	(18,845)	\$21.20
Milwaukee - NW						
A	5	690,699	207,836	30.09%	5,478	\$20.87
B	23	1,141,261	304,148	26.65%	8,069	\$18.27
Total	28	1,831,960	511,984	27.95%	13,547	\$19.57
Milwaukee - South						
A	2	111,067	26,776	24.11%	0	\$26.13
B	7	260,489	51,863	19.91%	(4,766)	\$16.48
Total	9	371,556	78,639	21.16%	(4,766)	\$19.24
Milwaukee - West						
A	-	-	-	-	-	-
B	16	1,607,042	222,117	13.82%	79,252	\$17.69
Total	16	1,607,042	222,117	13.82%	79,252	\$17.69
Brookfield/Pewaukee						
A	36	2,390,993	461,338	19.29%	10,007	\$22.53
B	82	3,517,640	603,222	17.15%	(44,530)	\$18.04
Total	118	5,908,633	1,064,560	18.02%	(34,523)	\$20.29
North Shore						
A	3	149,535	68,386	45.73%	2,874	\$24.00
B	28	1,213,227	540,377	44.54%	(6,245)	\$17.29
Total	31	1,362,762	608,763	44.67%	(3,371)	\$20.65
Mequon/Theisville						
A	4	127,493	30,874	24.22%	8,668	\$24.00
B	11	307,535	56,011	18.21%	(1,464)	\$17.80
Total	15	435,028	86,885	19.97%	7,204	\$20.90
Waukesha						
A	-	-	-	-	-	-
B	40	1,355,635	218,512	16.12%	(4,516)	\$16.68
Total	40	1,355,635	218,512	16.12%	(4,516)	\$16.68
GRAND TOTAL						
A	80	10,835,500	1,898,487	17.52%	88,797	\$24.72
B	330	19,115,148	3,707,960	19.40%	9,184	\$18.28
Total	410	29,950,648	5,606,447	18.72%	97,981	\$21.14

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

YOUR LOCAL OFFICE EXPERTS

This Market is our HOME.



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



Steve Pape
spape@founders3.com
414.249.2320



John Davis
jdavis@founders3.com
414.249.2303



Kate Hanson
khanson@founders3.com
414.249.2301



Jenna Maguire
jmaguire@founders3.com
414.249.2312



Patti Stevens
pstevens@founders3.com
414.249.2318



Jeanine Sweeney
jsweeney@founders3.com
414.249.2307



Ryan Wirthlin
rwirthlin@founders3.com
414.249.2319

FOUNDERS 3

REAL ESTATE SERVICES

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

founders3.com

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