

INTRODUCTION

The first quarter of 2021 marked the one-year anniversary of the COVID-19 pandemic. During this period, Wisconsin businesses faced an array of challenges and questions as they evaluated their office space needs. Would additional space be needed to accommodate physical distancing or is less space needed due to remote work? Though it is too early to make a definitive call, it appears unlikely that the typical firm will increase their office footprint. Remote work and hybrid schedules have taken hold and it will be difficult for firms to go back to “everyone in the office” as the norm.

MARKET OVERVIEW

The first quarter saw little in the way of signed transactions. For the transactions that did occur it was likely short-term (one year) as desired by both landlord and tenant, both of which are looking for flexibility until what the future holds comes into focus. With vaccination efforts underway, companies have begun to plan to bring their employees back to the office safely- with several targeting summer or fall of this year.

Despite the shortage of deals to report, there was no shortage of office-related news and headlines. Many of the headlines would have been considered big news in “normal” times. Examples include, “GE Healthcare has listed its 561- acre corporate campus in Waukesha for sale”¹, “Johnson Controls Preps Office Move”², “Irgens plans two office buildings at UWM Innovation Campus in Wauwatosa”³, “Milwaukee Tool plans 2,000 jobs downtown”⁴, and “330 Kilbourn office towers being sold to New York investor”⁵. During the pandemic, these were blockbuster announcements.

Despite these headlines, the overall Class A & B multi-tenant office market saw 45,044 square feet of negative absorption in the 1st quarter. Overall vacancy increased close to 0.75% to 21.36%. Overall asking rates remained relatively stable at \$20.06. Optimism in the office market remains among our Founders 3 office brokerage team, as there are several sizable deals circling the marketplace and activity as a whole was on the rise to end the quarter.

Source - ¹ Evan Frank, Milwaukee Journal Sentinel, ² Rich Kirchen, Milwaukee Business Journal, ³ Andrew Weiland, BizTimes Milwaukee, ⁴Tom Daykin, Milwaukee Journal Sentinel, ⁵ Alex Zank, BizTimes Milwaukee

SUBLEASE SPACE ON THE MARKET

There is currently 448,585 square feet of sublease space officially on the market, basically unchanged from Q4-2020. In addition to space being marketed as direct or sublease, there is a significant number of opportunities being quietly marketed as available which, if quantified, could add an additional 1% to the vacancy rate. Notable companies announcing plans to downsize or sublease office space include American Family Insurance, Concentrix, Manpower, and Windstream.

Milwaukee has not seen as significant an influx of sublease space coming to market as is being reported in other major metropolitan areas. Larger blocks of sublease space, particularly downtown, could put downward pressure on asking rates for buildings with direct space for lease. (See Figure 3 on page 4 for a breakout of sublease space by submarket)

Market Synopsis

	Downtown*	Suburban
Q1 Absorption	79,152 SF	-124,196 SF
Q1 Sublease SF	263,972 SF	184,613 SF
Vacancy	21.80%	20.97%
Class A Gross (Avg. Rate)	\$29.11	\$23.10
Class B Gross (Avg. Rate)	\$21.32	\$17.18

*Downtown includes the Downtown East, Downtown West, and Third Ward/Walker's Point submarkets
 **See Figure 2 on Pg. 3 for individual submarket absorption data

Notable Leases and Sales

- The Milwaukee Ballet sold its HQ at 504 W. National Ave. to H&D Investments for \$740,000 (\$44.05/SF).
- Tishman Speyer sold 330 E Kilbourn to New York based Group RMC - Price was not disclosed.
- Douglas Dynamics leased 17,983 SF at One Park Place.
- The Milwaukee LGBT Community Center leased 11,500 SF at 315 W. Court St.
- The Transport Security Administration (TSA) leased 11,820 SF at Franklin Corporate Center II in Franklin. (Renewal)

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

The Downtown submarkets posted positive 79,152 square feet of absorption and an overall vacancy rate of 21.80%.

Downtown East

Downtown East experienced little new office leasing activity during the 1st quarter of 2021. Overall vacancy rose from 15.61% to 17.43%. Class A product saw 25,561 square feet of negative absorption resulting in vacancy rates increasing from 16.93% to 17.79%. Class B fared better ending at 16.62%, vacancy and posting 45,025 square feet of positive absorption, the previous quarters negative absorption.

Another positive sign of continued confidence in Downtown was the sale of 330 Kilbourn. Group RMC, already a suburban Milwaukee landlord, made their first acquisition in the downtown market. 330 Kilbourn is a 488,000 square foot two-tower complex.

Johnson Controls announced plans to sell its headquarters at 507 E. Michigan and relocate 1,300 employees to Glendale. The downtown facility is a seven-building campus making up 422,674 square feet. It is expected to generate significant interest among developers seeking to convert portions of the campus to mixed-use including housing and or hotel uses.

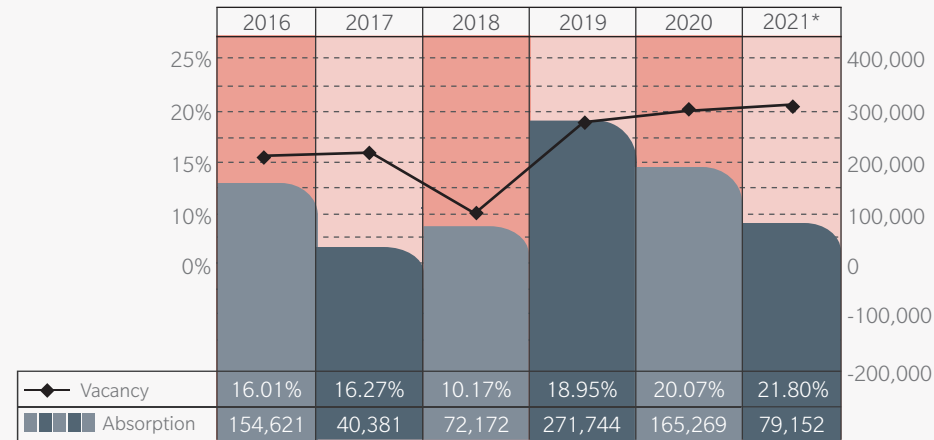
Downtown West

While not reflected in this quarter's numbers, Milwaukee Tool announced plans to purchase the former Assurant Building at 501 W. Michigan St. for a new downtown office location, which will bring up to 2,000 jobs to downtown west. The 5-story, 375,000 RSF building is currently owned by F Street Development and would be sold to Milwaukee Tool for a redevelopment project that could include the addition of two additional stories to the building. If this occurs as planned it could remove the largest contiguous block of available space from the downtown market resulting in a significant positive impact to the 33.25% vacancy rate.

Progress continues on Third Street Market Hall at The Avenue, slated to open this summer. With the Milwaukee Symphony Orchestra welcoming patrons to their new building this month, we anticipate additional activity and leasing velocity in the Downtown West submarket as 2021 continues.

Third Ward – Walkers Point

Michels Corp. has moved into the first eight-stories of the 202,000 square foot building in their \$100 million development in Milwaukee's Harbor District. Michels' tenancy accounted for 81,500 SF of space in this up and coming market to the south of the traditional boundaries of the Third Ward/Walker's point neighborhoods. The redevelopment of 228 S. 1st Street, a 40,000 square foot building, is moving forward after the project secured historic tax credits.



*2021 only reflects Quarter 1 vacancy and absorption data

Source: Data provided by Real Estate Database, Inc. (RediComps.com) and augmented by Founders 3 Real Estate Services

ECONOMIC OVERVIEW

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical is 5.2%. This is a 140-basis point increase compared to February 2020. The Milwaukee MSA saw a decrease in job growth in "office using jobs", decreasing by 900 jobs since the end of 2020. (See Figure 1 on page 3)

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 Real Estate Services.

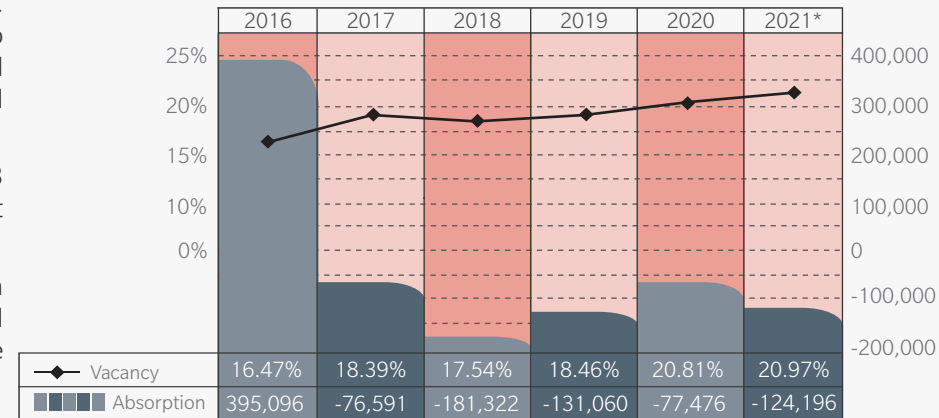
SUBURBAN OUTLOOK

The suburban market experienced 124,196 square feet of negative absorption in the first quarter. The vacancy rate in the suburbs bumped up slightly from 20.81% in the fourth quarter of 2020 to 20.97% in the first quarter of 2021. Suburban vacancy has been trending up since 2018. Overall average asking rents are \$19.97 per square foot, with Class A rates at \$23.10 per square foot and Class B rates at \$17.18 per square foot.

Xylem, a New York Based water technology company, will move its Sanitaire operations from 9333 N. 49th Street in Brown Deer to the Global Water Center in Walker's Point. Xylem will occupy about 8,600 square feet joining other water-tech companies in the building.

As mentioned in the notable headlines for Q1-2021, GE HealthCare listed their 561-acre, 1.2 million square foot campus for sale and plans to relocate jobs and operations to its West Milwaukee and Wauwatosa campuses. It has been reported that GE Healthcare will leaseback a portion of the campus.

Irgens announced plans to build two office buildings totaling 250,000 square feet at the Innovation Campus in Wauwatosa. The properties would be a two-story, 53,000 square foot office building with construction beginning in the fall of 2021. The 2nd building would be a six-story 197,000 square foot office building. A two-level parking structure would also be constructed.



*2021 only reflects Quarter 1 vacancy and absorption data
Source: Data provided by Real Estate Database, Inc. (RediComps.com) and augmented by Founders 3 Real Estate Services

ABSORPTION & EMPLOYMENT GRAPHS - FIGURES 1 & 2

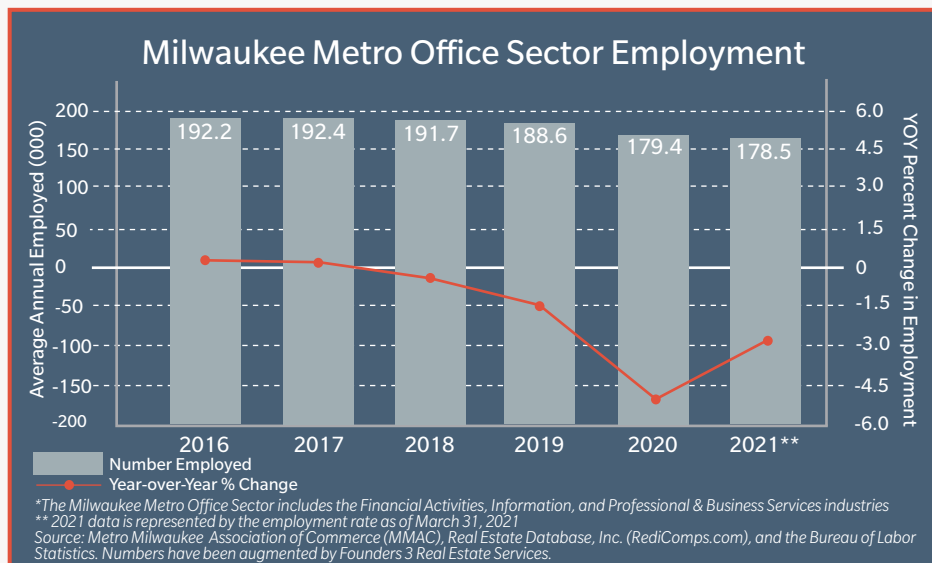


Figure 1

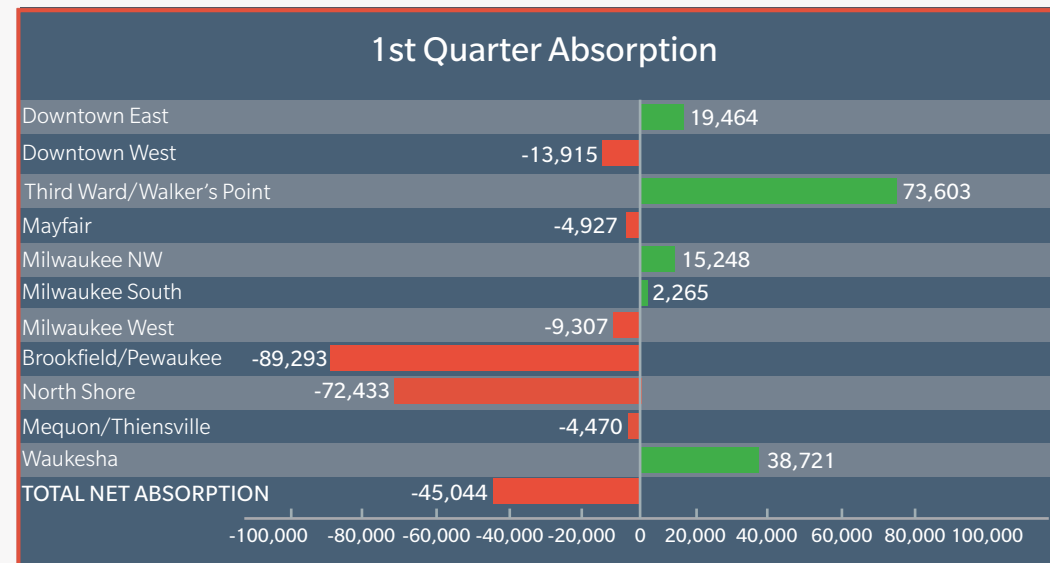


Figure 2

Submarket	Buildings	Building Size	Q1-21 Vacant SF	Q1-21 Vacancy %	Q1-21 Absorption	Q1-2021 Sublease Space	Estimated Overall Average Asking Rent (FSG)
Downtown - East							
A	14	5,428,151	965,443	17.79%	(25,561)	132,699	\$31.19
B	33	2,376,833	395,017	16.62%	45,025	3,015	\$20.37
Total	47	7,804,984	1,360,460	17.43%	19,464	135,714	\$24.24
Downtown - West							
A	2	622,938	380,784	61.13%	0	12,481	\$18.50
B	27	3,521,910	997,444	28.32%	(13,915)	56,875	\$20.45
Total	29	4,144,848	1,378,228	33.25%	(13,915)	69,356	\$20.29
Third Ward/Walker's Point							
A	4	465,416	148,963	32.01%	81,597	15,995	\$26.55
B	34	1,912,183	235,799	12.33%	(7,994)	42,907	\$23.36
Total	38	2,377,599	384,762	16.18%	73,603	58,902	\$24.11
Mayfair							
A	13	1,566,458	167,634	10.70%	(4,011)	17,460	\$26.41
B	26	1,302,787	344,366	26.43%	(916)	19,113	\$16.55
Total	39	2,869,245	512,000	17.84%	(4,927)	36,573	\$18.90
Milwaukee - NW							
A	5	690,699	180,314	26.11%	17,938	3,573	\$20.05
B	23	1,141,261	320,365	28.07%	(2,690)	62,006	\$16.49
Total	28	1,831,960	500,679	27.33%	15,248	65,579	\$17.25
Milwaukee - South							
A	2	111,067	19,782	17.81%	2,160	-	\$26.75
B	7	260,489	50,612	19.43%	105	-	\$16.44
Total	9	371,556	70,394	18.95%	2,265	-	\$19.39
Milwaukee - West							
A	-	-	-	-	-	-	-
B	16	1,609,495	217,150	13.49%	(9,307)	21,207	\$17.80
Total	16	1,609,495	217,150	13.49%	(9,307)	21,207	\$17.80
Brookfield/Pewaukee							
A	36	2,397,278	498,677	20.80%	(45,937)	30,471	\$22.49
B	77	3,410,197	678,127	19.89%	(43,356)	9,233	\$18.20
Total	113	5,807,475	1,176,804	20.26%	(89,293)	39,704	\$20.04
North Shore							
A	3	149,535	94,410	63.14%	0	3,953	\$23.33
B	28	1,568,164	505,708	32.25%	(72,433)	8,050	\$16.70
Total	31	1,717,699	600,118	34.94%	(72,433)	12,003	\$18.03
Mequon/Thiensville							
A	4	127,493	24,789	19.44%	0	-	\$24.00
B	11	307,535	58,772	19.11%	(4,470)	-	\$18.45
Total	15	435,028	83,561	19.21%	(4,470)	-	\$21.62
Waukesha							
A	-	-	-	-	-	-	-
B	41	1,375,043	198,477	14.43%	38,721	9,547	\$15.91
Total	41	1,375,043	198,477	14.43%	38,721	9,547	\$15.91
GRAND TOTAL							
A	83	11,559,035	2,480,796	21.46%	26,186	216,632	\$24.53
B	323	18,785,897	4,001,837	21.30%	(71,230)	231,953	\$18.28
Total	406	30,344,932	6,482,633	21.36%	(45,044)	448,585	\$20.06

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

Figure 3

YOUR LOCAL OFFICE EXPERTS

This Market is our HOME.



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An aerial photograph of a city skyline, likely Milwaukee, Wisconsin. In the foreground, a large, modern arena with a curved roof is visible, featuring the 'fiserv forum' logo. The background is filled with various skyscrapers and city buildings under a hazy sky. The company name 'FOUNDERS3' is overlaid in large, bold letters, with 'FOUNDERS' in dark blue and '3' in red, separated by a vertical red line. Below the name, the text 'REAL ESTATE SERVICES' is written in a smaller, grey font.

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