

2nd Quarter Overview

MARKET OVERVIEW

The COVID-19 pandemic and subsequent 'Safer-At-Home' order throughout the state of Wisconsin altered the course of several office deals during the second quarter of 2020. Several tenants opted for short-term renewals instead of planned longer-term extensions or relocations, while others have paused their search for space until the impact of the pandemic on the economy and employee work habits become clear. The overall Class A & B multi-tenant office market saw 104,494 SF of positive absorption and a vacancy rate of 19.60% by the end of the quarter; up a full basis point from the previous quarter. This seemingly contradictory increase can be attributed to the addition of Irgens' BMO Office Tower (380,000 SF) to the available Class A inventory.

Long-term plans remain in flux as employers wrestle with the decision to have staff continue working remotely, bring employees back in stages, modify office layouts/configurations to allow for social distancing, or undertake a combination of these solutions. This raises the question -- how much of the currently leased (though unoccupied) space will eventually hit the market as available?

Given the construction industry's "essential" status, most downtown projects continued relatively unabated during the quarter. J. Jeffers' 11-story - 163,000 SF building, The Huron Building, is progressing quicker than expected, pushing its completion date from mid-October to mid-August.

Timing remains to be the great unknown of the office-leasing market. Tenant confidence in the economy and the safety of office buildings will lead employees back to the office, and employers back into the leasing market -- but when? It's our hope and belief that work-from-home is a temporary solution to the current pandemic and that companies will find working in a physical office to be a critical component of employee engagement, productivity, and workforce collaboration.



"The Huron Building" Source: J. Jeffers & Co.

ECONOMIC OVERVIEW

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical 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 "office using jobs", falling by 11,200 jobs since the end of Q1. (See Figure 2 on page 2)

Market Synopsis

	Downtown*	Suburban
Absorption SF	147,148	-42,654
Vacancy	18.60%	20.65%
Class A Gross (Avg. Rate)	\$25.90	\$23.51
Class B Gross (Avg. Rate)	\$19.01	\$17.12

*Downtown includes the Downtown East, Downtown West, and Third Ward/Walker's Point submarkets
**See Figure 1 for individual submarket absorption data

Notable Leases and Sales

- Northshore Health Care leased 23,639 SF at Hub640, Downtown West, Milwaukee
- Secure-24 leased 15,270 SF at Summit Place, West Allis
- American Society of Gene and Cell Therapy leased 12,921 SF at Crossroads Corporate Center II, Brookfield
- Lincoln Centers II & III at 2514 S. 102nd St., West Allis and 10150 W. National Ave, West Allis, sold for \$10.1M (\$83/SF)
- American Cancer Society Building at N19 W24350 Riverwood Dr., Pewaukee sold for \$2.23M (\$62/SF)

ABSORPTION & EMPLOYMENT GRAPHS - FIGURES 1 & 2

2nd Quarter Absorption

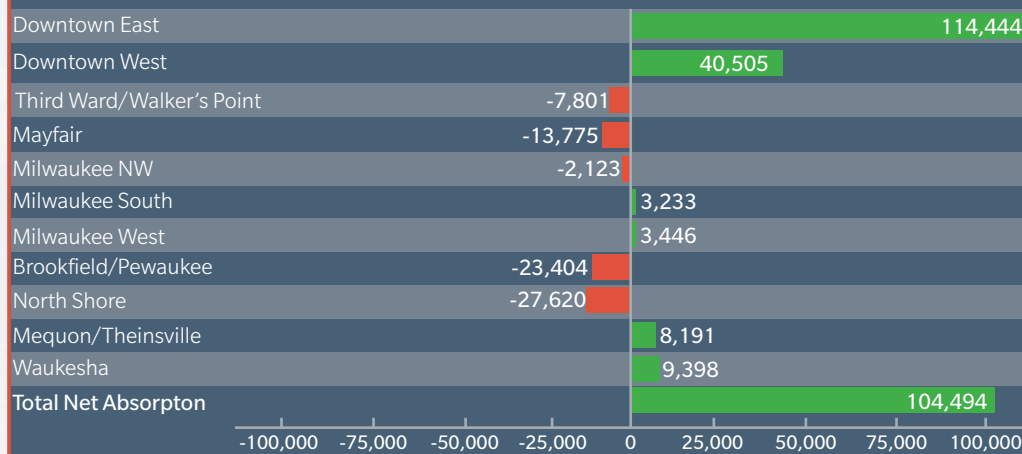


Figure 1

Milwaukee Metro Office Sector Employment

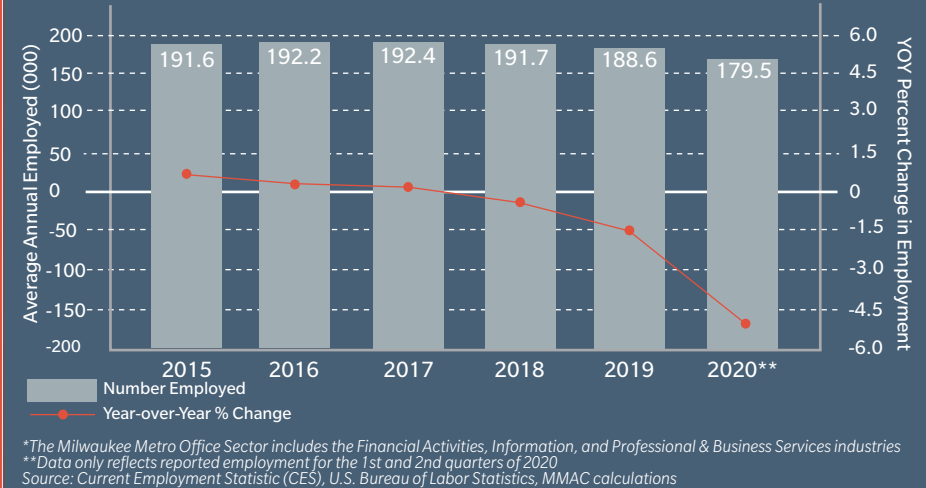


Figure 2

PROJECT UPDATES

Though momentum has slowed in comparison to pre-COVID levels, the market remains relatively active. Milwaukee Tool plans to build a new \$100 million corporate campus, which is expected to bring 770 jobs to Menomonee Falls by 2025. The new building will be a part of Milwaukee Tool's 700,000 sf expansion on 71 acres.

With the success of 1433 North Water, combining the former Laacke & Joy building with new construction to create Historic Modern Office/Retail, Wangard Partners has taken on another project where new construction meets historic preservation with the former Eagle Knitting Mills. Eagleknit is expected to come to the market at the end of 2020 with 102,000 SF of Class A office/retail space.

Landmark Credit Union's new 158,000 SF headquarters at 555 South Executive Dr. in Brookfield is currently under construction with scheduled completion in Spring of 2021.

Construction continues on Michel's Corp's \$100 million development in Milwaukee's Harbor District, a project that will bring several hundred employees, retail, housing and hotel to the area. Construction of the first eight-story 202,000 SF building is expected to be complete by the end of 2020.



Eagleknit - Source; Wangard Partners

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

The Downtown submarkets posted an overall vacancy rate of 18.60%.

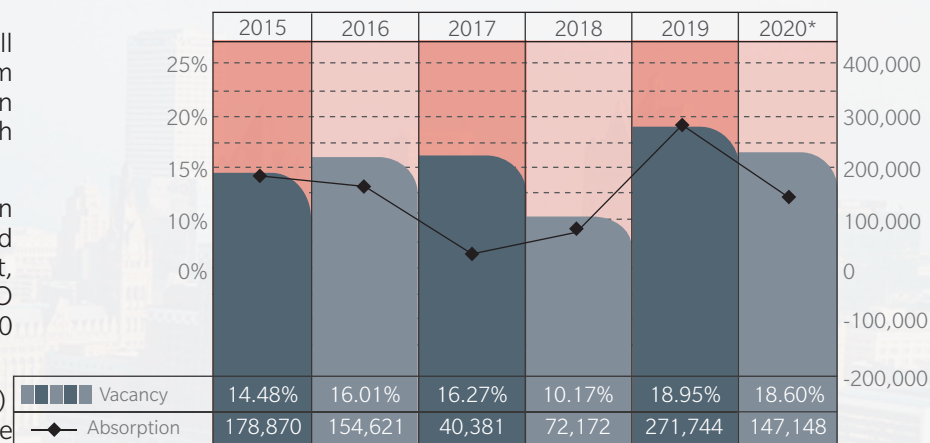
Downtown East experienced little new office leasing activity during the 2nd quarter of 2020. Overall vacancy rose from 10.66% to 13.95%. Class A product accounted for the largest increase, growing from 11.40% to 15.80%, despite almost 102,000 SF of absorption. As noted above, this seeming contradiction can be attributed to the addition of Irgens' 380,000 SF BMO Office Tower to the Class A pool, which opened this quarter at 57% leased.

Michael Best took occupancy of 2 ½ floors in the building in mid-April, with staff planning to return in stages throughout the end of the year. Other tenants in the newly constructed tower include Heartland Advisors (10,873 SF) and Andrus Intellectual Property Law (7,248 SF). In a rare new retail announcement, Fiddleheads Coffee Roasters plans to open a café on the ground floor of the annex between the BMO Tower and the existing 770 N. Water building in December 2020. BMO Harris Bank will occupy 124,000 SF though the exact occupancy date is still to be determined.

The Huron Building's anchor tenant, Husch Blackwell, will vacate Cathedral Place (550 E. Wells Street) and take occupancy of approximately 72,000 SF on three (3) floors of the brand new building in late October.

Despite a reported vacancy rate of 32.12%, Downtown West is continuing to emerge as one of metro Milwaukee area's more active submarkets. Northshore Healthcare leased 23,639 SF at HUB 640 and The Metropolitan Milwaukee Association of Commerce (MMAC) leased 11,750 SF at The Avenue, contributing to the 40,505 SF of positive absorption in Downtown West this quarter. Rexnord's new 150,000 SF headquarters at 105-111 W. Michigan opened, continuing the recent trend of suburban companies committing to Downtown West -- including GRAEF and American Family Insurance.

Significant lease transactions in Walker's Point this quarter include Forward Space taking 10,145 SF at 2400 S. 4th Street and Beckoff Automation leasing 3,600 SF at the Global Water Center. While not reflected in the numbers this quarter, Walker's Point is still one of Milwaukee's fastest growing areas with several new developments planned and in progress.



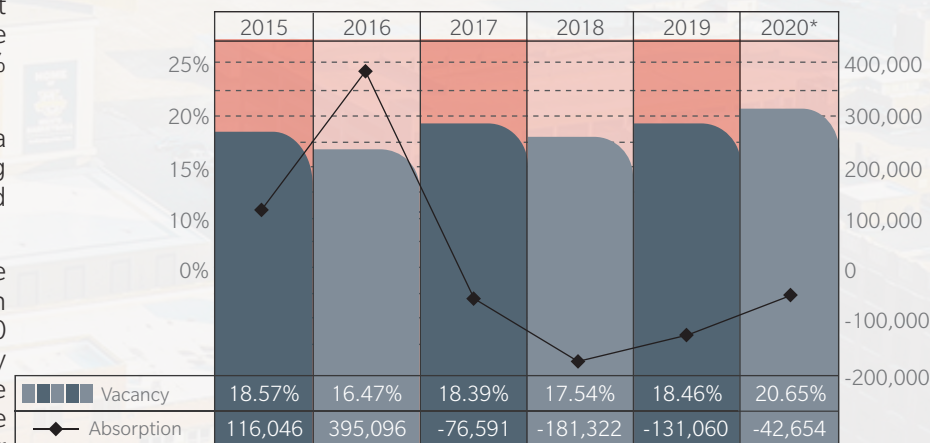
*2020 vacancy and absorption reflects only 1st and 2nd quarter data

SUBURBAN OUTLOOK

The suburban market experienced 42,654 SF of negative absorption in the second quarter. The largest contributing factor was the closure of Regus at Bayshore Mall, putting 16,000 SF of space on the market. The vacancy rate in the suburbs bumped up slightly from 20.17% in the first quarter to 20.65% in the second quarter.

While demolition continues at Cobalt Partners' Allis Yards project, Broadstep Behavioral Health made a 12,000 SF commitment to the project at the 1205 S. 70th Street building. Broadstep will be relocating from Milwaukee's East Side. In Mequon, Annex Wealth Management has signed on as Irgens second tenant for The Pointe, a new single-story office building, located at 12200 N. Corporate Parkway.

The end of the quarter brought two significant suburban project announcements by Irgens at The Corridor Development in Brookfield. Hydrite Chemical Company is almost doubling their footprint in the Milwaukee market and will occupy 45,000 SF. The new headquarters will house approximately 150 employees. The office is scheduled to break ground in the fall of 2020 and will be completed by January of 2022. Irgens was also selected by Milliman to develop their new Milwaukee office. Milliman will be relocating from 15800 West Bluemound to the Corridor. The company will occupy 118,300 SF in the six-story, 186,000 SF office. Construction will start in fall of 2020 with initial occupancy in the summer of 2022.



*2020 vacancy and absorption reflects only 1st and 2nd quarter data

Submarket	Buildings	Building Size	Q2-20 Vacant SF	Q2-20 Vacancy %	Q2-20 Absorption	YTD Absorption	Estimated Overall Average Asking Rent (FSG)
Downtown - East							
A	13	5,275,151	826,699	15.67%	109,442	184,063	\$30.36
B	34	2,992,248	327,011	10.93%	5,002	10,962	\$20.26
Total	47	8,267,399	1,153,710	13.95%	114,444	195,025	\$24.05
Downtown - West							
A	2	622,938	381,914	61.31%	0	(1,701)	\$20.73
B	27	3,539,910	955,183	26.98%	40,505	15,327	\$20.12
Total	29	4,162,848	1,337,097	32.12%	40,505	13,626	\$20.16
Third Ward/Walker's Point							
A	3	263,369	8,897	3.38%	0	0	\$26.61
B	36	1,936,782	222,049	11.46%	(7,801)	2,496	\$16.65
Total	39	2,200,151	230,946	10.50%	(7,801)	2,496	\$21.63
Mayfair							
A	13	1,566,458	150,154	9.59%	0	(11,150)	\$26.50
B	24	1,260,842	311,595	24.71%	(13,775)	(21,470)	\$15.90
Total	37	2,827,300	461,749	16.33%	(13,775)	(32,620)	\$21.20
Milwaukee - NW							
A	5	690,699	204,732	29.64%	8,548	14,026	\$19.96
B	23	1,141,261	314,819	27.59%	(10,671)	(2,602)	\$17.82
Total	28	1,831,960	519,551	28.36%	(2,123)	11,424	\$18.20
Milwaukee - South							
A	2	111,067	26,776	24.11%	0	0	\$26.13
B	7	260,489	48,630	18.67%	3,233	(5,925)	\$16.48
Total	9	371,556	75,406	20.29%	3,233	(5,925)	\$19.24
Milwaukee - West							
A	-	-	-	-	-	-	-
B	16	1,609,495	227,906	14.16%	3,446	82,698	\$17.81
Total	16	1,609,495	227,906	14.16%	3,446	82,698	\$17.81
Brookfield/Pewaukee							
A	36	2,390,993	449,871	18.82%	11,467	21,474	\$22.49
B	82	3,505,976	638,093	18.20%	(34,871)	(79,401)	\$17.84
Total	118	5,896,969	1,087,964	18.45%	(23,404)	(57,927)	\$20.16
North Shore							
A	3	149,535	84,407	56.45%	(16,021)	(13,147)	\$24.00
B	28	1,163,894	484,987	41.67%	(11,599)	(17,844)	\$16.63
Total	31	1,313,429	569,394	43.35%	(27,620)	(30,991)	\$20.32
Mequon/Theinsville							
A	4	127,493	22,683	17.79%	8,191	16,859	\$22.00
B	11	307,535	56,011	18.21%	0	(1,464)	\$17.62
Total	15	435,028	78,694	18.09%	8,191	15,395	\$20.81
Waukesha							
A	-	-	-	-	-	-	-
B	40	1,355,635	209,114	15.43%	9,398	4,882	\$16.88
Total	40	1,355,635	209,114	15.43%	9,398	4,882	\$16.88
GRAND TOTAL							
A	81	11,197,703	2,156,133	19.26%	121,627	210,424	\$24.31
B	328	19,074,067	3,795,398	19.90%	(17,133)	(12,341)	\$17.64
Total	409	30,271,770	5,951,531	19.66%	104,494	198,083	\$20.64

*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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