

### INTRODUCTION

Through the third quarter (Q3) COVID-19 continued its influence and impact on our personal and professional lives. A significant impact on the commercial real estate market has continued to be uncertainty of future market conditions. This has required decision-makers to contemplate the many changes in the ways their firms utilize real estate.

The questions facing decision-makers have remained the same – location, office layout, square feet required, etc. However, the answers to these questions are based on different factors. Pre-COVID-19, a downtown location may have been selected for population density with access to an abundance of talent and amenities in a live, work, play environment. That same firm may now select a suburban location in a single or low-rise building to be in a less dense and controllable environment.

As COVID-19 took hold and safer at home policies took effect, work from home became the norm.

Tenants and landlords are faced with the question of how much space if any, will companies require? If work from home reduces productivity and employees return to the office, will additional space be required for physical distancing? Will early efforts to create a collaborative environment; i.e. bench seating and open office layouts disappear? COVID-19 has not only forced decision-makers to confront these types of questions but has also left them with no concrete answers.

Q3 brought signs that businesses were beginning to bring employees back to the office. This was more evident with locally-based companies and those occupying space in non-high-rise buildings. Office tenants in larger buildings seemed to be taking longer to come back to the office and in some cases announced plans to not return until 2021. This may be a result of the bottleneck point of vertical transportation (elevators) or the fact that larger buildings mean more people and less control of the physical environment.

Although the pandemic has disrupted the office market, the commercial real estate industry is dynamic and adaptable to change, which will create opportunities for those able to address, answer and solve the many questions that have arisen during the past two quarters.

### MARKET OVERVIEW

The overall effect of COVID-19, as reflected in the numbers, has been minimal. Overall vacancy in the Class A & B multi-tenant markets rose slightly from 19.66% to 19.77% in Q3. The market experienced 82,138 SF of negative absorption but held on to YTD positive absorption of 94,834 SF. A positive observation is that, despite the pandemic, owners have not dropped their asking rental rates. Though it may seem counterintuitive, overall average gross asking rents increased from \$20.40 PSF to \$21.64, which is primarily a result of increased asking rates in the Downtown West submarket.

### ECONOMIC OVERVIEW

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical is 8.9%. This is a 375-basis point decrease compared to September 2019. The Milwaukee MSA saw an increase in job growth in “office using jobs”, rising by 5,000 jobs since the end of Q2. (See Figure 2 on page 2)

### Market Synopsis

	Downtown*	Suburban
<b>Absorption SF</b>	-50,260	-31,878
<b>Vacancy</b>	18.79%	20.68%
<b>Class A Gross (Avg. Rate)</b>	\$29.05	\$24.16
<b>Class B Gross (Avg. Rate)</b>	\$21.17	\$17.15

\*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

- 126 N. Jefferson St. in the Third Ward sold for \$9.45 Million (\$139.73/SF)
- 789 N. Water St. in Milwaukee East sold for \$6.25 Million (\$91.68/SF)
- 7800-7810 W Brown Deer Rd. in North Shore sold for \$13.3 Million (\$72.28/SF)
- Legal Action of Wisconsin leased 23,200 SF at 633 W. Wisconsin, the Clark Building
- Mindful Staffing Solutions leased 32,300 SF at 11700 W. Lake Park Drive.
- Broadstep Behavioral Health leased 12,000 SF at 1205 S 79th St. in West Allis

## ABSORPTION & EMPLOYMENT GRAPHS - FIGURES 1 & 2

### 3rd Quarter Absorption

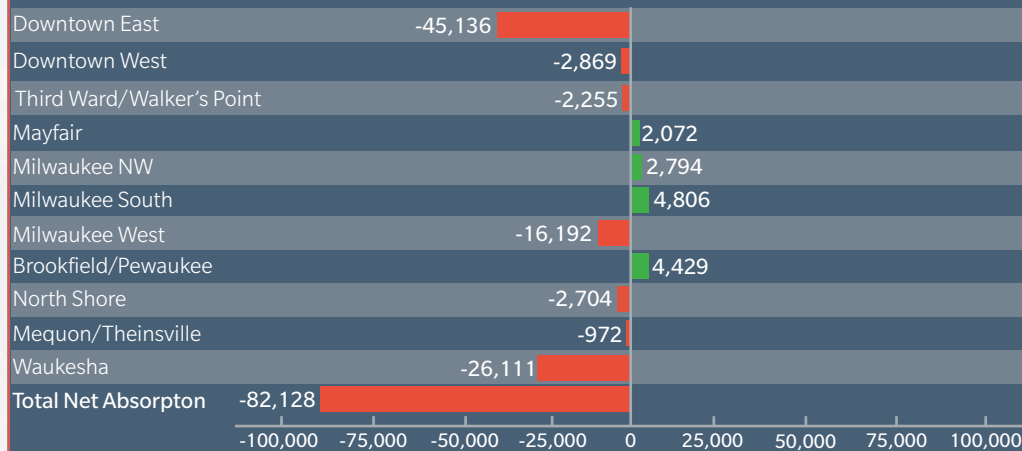


Figure 1

### Milwaukee Metro Office Sector Employment

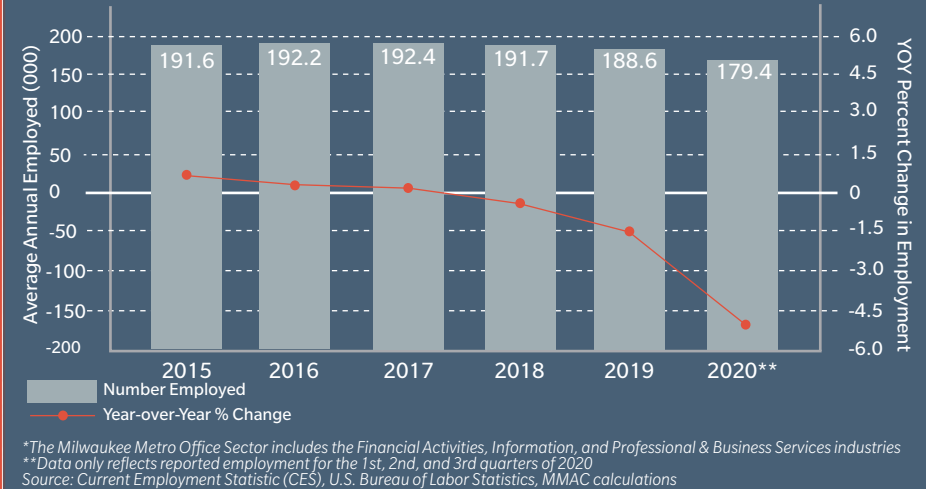


Figure 2

## PROJECT UPDATES

The 3rd quarter saw no delivery of new projects. In Downtown East – J. Jeffers & Co.'s Huron Building, located at 511 N. Broadway, is on track to deliver on-time, as scheduled. The project, an 8 story 163,000 SF class A office anchored by Husch Blackwell, will open in early October. The mid-rise class A property is receiving considerable interest from companies looking to lease space. R1VER, a 202,000 SF class A in the Harbor District, is also on track for a 4th quarter delivery.

Landmark Credit Union's new 158,000 SF headquarters at 555 South Executive Drive in Brookfield is in the final stages of construction. Landmark is expected to begin moving-in in mid-2021, making available their current 60,000 SF headquarters in New Berlin's Westridge Business Park.

Irgens held groundbreaking ceremonies for two projects announced at the tail end of the second quarter. The projects, a 186,000 SF office, of which 118,300 SF is leased to Milliman, and a 45,000 SF office leased entirely to Hydrite Chemical Company.



Huron Building - Source: Milwaukee Business Journal



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

Combined, the downtown submarkets posted a negative 50,260 SF of absorption, resulting in a slight increase in vacancy from 18.60% to 18.79%. Absorption YTD remained positive at 153,578 SF.

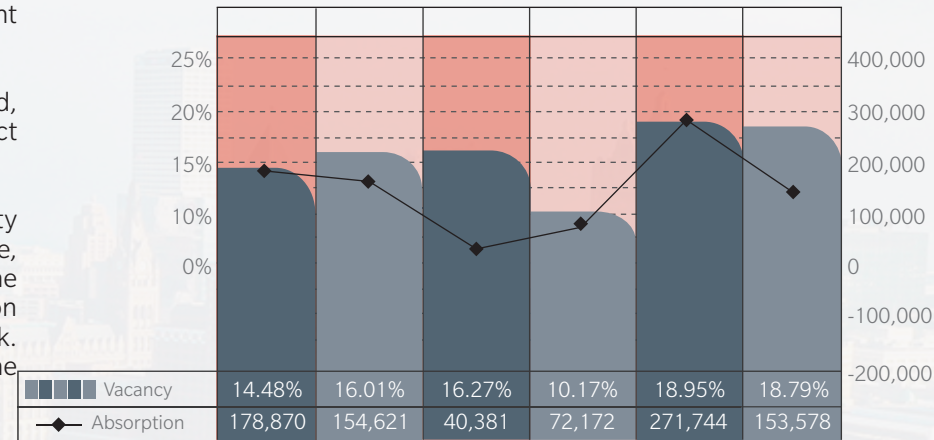
Downtown East saw a limited amount of leasing activity. The vacancy rate was mostly unchanged, moving from 13.95% to 14.14%, an increase of only 15,636 SF. Broken down by class, class A product moved from 15.1% to 15.2% and class B from 10.9% to 12.2%.

Downtown West had a slow 3rd Quarter for leasing, but there was no shortage of construction activity relating to new tenants in the submarket. The MMAC (13,000 SF) began construction at The Avenue, 275 W. Wisconsin Ave., for its relocation to the mixed-use project later this year. Developers of The Avenue, Hempel Companies and Interstate Development, continue to progress with the transformation of the former mall, re-starting construction of Third Street Market Hall after a COVID-19 related break. Additional projects included the construction of new entrances to the Third Street Market Hall and The Arcade Offices, as well as an updated lobby along Wisconsin Avenue.

Further west on the Avenue, Legal Action of Wisconsin signed a lease for the top two floors of the Clark Building at 633 W. Wisconsin Ave., another downtown project by J. Jeffers & Co.

Though not included in the data due to the single tenancy nature of the property, Rexnord Corporation began its move to the newly renovated 105-111 W. Wisconsin Ave. Rexnord is expected to over time to bring approximately 120 employees to the office.

On the investment side of the business, 126 N. Jefferson, a 67,628 SF building in the Third Ward, sold for \$9.45 million. This is the second Third Ward property acquired by Felton Properties. Druml Marine LLC acquired 789 N. Water Street, a 68,174 SF 5-story building, for \$6.25 million. River Bank Plaza, located at 740 N. Plankinton, hit the market for sale in the 3rd quarter.



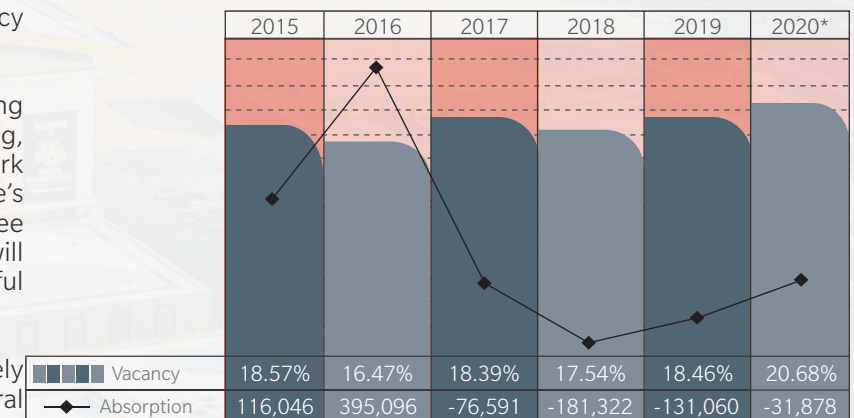
\*2020 vacancy and absorption reflects only 1st, 2nd, and 3rd quarter data

## SUBURBAN OUTLOOK

The suburban market experienced 31,878 SF of negative absorption in the 3rd quarter. The vacancy rate increased 11 basis points to 20.68%. Suburban YTD absorption is negative 58,774 SF.

Several sizeable vacant office buildings are on the market now, or will be listed soon, including the Kalmbach Publishing Building, 21027 Crossroads Circle, Waukesha, the former AT&T building, currently owned by ProHealth, at N17 W24300 Riverwood Dr. in Pewaukee, and the former Landmark Credit Union headquarters at 5445 S. Westridge Dr. in New Berlin. With American Family Insurance's commitment to a new headquarters downtown, it's possible their 75,000 SF building in Pewaukee will become available. With new deliveries underway via Irgens' development at The Corridor, we will be interested to see if perceived demand for suburban product due to COVID will create meaningful absorption of these large blocks of space.

Mindful Staffing Solutions a Milwaukee based staffing and training firm committed to approximately 32,300 SF at 11700 W. Lake Park Drive and will move there in December. Broadstep Behavioral Health leased 12,000 SF at 1205 S 79th St. in West Allis.



\*2020 vacancy and absorption reflects only 1st, 2nd, and 3rd quarter data

Miller Brothers Agave, LLC purchased 7800-7810 W Brown Deer Road, a 184,000 SF property for \$13.3 million. Local investor WI Park Investment LLC bought five Park Place buildings as part of a six-building office portfolio, with the other property located in Oak Creek at 10050 S. 27th St. According to state records, the six building portfolio totals 245,000 SF and was purchased for a combined total of \$3.6 million.

Submarket	Buildings	Building Size	Q3-20 Vacant SF	Q3-20 Vacancy %	Q3-20 Absorption	YTD Absorption	Estimated Overall Average Asking Rent (FSG)
<b>Downtown - East</b>							
A	13	5,275,151	804,234	15.25%	(7,035)	175,135	\$30.24
B	34	2,992,248	365,112	12.20%	(38,101)	(27,139)	\$20.21
<b>Total</b>	<b>47</b>	<b>8,267,399</b>	<b>1,169,346</b>	<b>14.14%</b>	<b>(45,136)</b>	<b>147,996</b>	<b>\$23.82</b>
<b>Downtown - West</b>							
A	2	622,938	380,784	61.13%	1,130	(571)	\$30.09
B	27	3,539,910	959,182	27.10%	(3,999)	11,328	\$20.55
<b>Total</b>	<b>29</b>	<b>4,162,848</b>	<b>1,339,966</b>	<b>32.19%</b>	<b>(2,869)</b>	<b>10,757</b>	<b>\$21.28</b>
<b>Third Ward/Walker's Point</b>							
A	3	263,369	8,897	3.38%	0	0	\$26.82
B	35	1,929,010	229,720	11.91%	(2,255)	(5,175)	\$22.76
<b>Total</b>	<b>38</b>	<b>2,192,379</b>	<b>238,617</b>	<b>10.88%</b>	<b>(2,255)</b>	<b>(5,175)</b>	<b>\$24.79</b>
<b>Mayfair</b>							
A	13	1,566,458	152,389	9.73%	10,843	(307)	\$26.61
B	24	1,260,842	326,541	25.90%	(8,771)	(36,416)	\$16.81
<b>Total</b>	<b>37</b>	<b>2,827,300</b>	<b>478,930</b>	<b>16.94%</b>	<b>2,072</b>	<b>(36,723)</b>	<b>\$21.71</b>
<b>Milwaukee - NW</b>							
A	5	690,699	206,951	29.96%	2,044	10,626	\$22.41
B	23	1,141,261	315,051	27.61%	750	(1,852)	\$17.85
<b>Total</b>	<b>28</b>	<b>1,831,960</b>	<b>522,002</b>	<b>28.49%</b>	<b>2,794</b>	<b>8,774</b>	<b>\$18.86</b>
<b>Milwaukee - South</b>							
A	2	111,067	29,726	26.76%	(2,950)	(2,950)	\$26.13
B	7	260,489	40,874	15.69%	7,756	1,831	\$16.39
<b>Total</b>	<b>9</b>	<b>371,556</b>	<b>70,600</b>	<b>19.00%</b>	<b>4,806</b>	<b>(1,119)</b>	<b>\$19.17</b>
<b>Milwaukee - West</b>							
A	-	-	-	-	-	-	-
B	16	1,609,495	244,098	15.17%	(16,192)	66,506	\$17.33
<b>Total</b>	<b>16</b>	<b>1,609,495</b>	<b>244,098</b>	<b>15.17%</b>	<b>(16,192)</b>	<b>66,506</b>	<b>\$17.33</b>
<b>Brookfield/Pewaukee</b>							
A	36	2,390,993	449,652	18.81%	6,471	27,945	\$22.46
B	82	3,493,720	644,935	18.46%	(2,042)	(86,243)	\$17.35
<b>Total</b>	<b>118</b>	<b>5,884,713</b>	<b>1,094,587</b>	<b>18.60%</b>	<b>4,429</b>	<b>(58,298)</b>	<b>\$19.90</b>
<b>North Shore</b>							
A	3	149,535	78,482	52.48%	(1,483)	(14,630)	\$23.33
B	26	1,124,101	423,288	37.66%	(1,221)	(15,145)	\$17.62
<b>Total</b>	<b>29</b>	<b>1,273,636</b>	<b>501,770</b>	<b>39.40%</b>	<b>(2,704)</b>	<b>(29,775)</b>	<b>\$20.48</b>
<b>Mequon/Thiensville</b>							
A	4	127,493	24,789	19.44%	0	14,753	\$24.00
B	11	307,535	56,983	18.53%	(972)	(2,436)	\$17.45
<b>Total</b>	<b>15</b>	<b>435,028</b>	<b>81,772</b>	<b>18.80%</b>	<b>(972)</b>	<b>12,317</b>	<b>\$20.73</b>
<b>Waukesha</b>							
A	-	-	-	-	-	-	-
B	41	1,375,043	234,422	17.05%	(26,111)	(20,426)	\$16.39
<b>Total</b>	<b>41</b>	<b>1,375,043</b>	<b>234,422</b>	<b>17.05%</b>	<b>(26,111)</b>	<b>(20,426)</b>	<b>\$16.39</b>
<b>GRAND TOTAL</b>							
A	81	11,197,703	2,135,904	19.07%	9,020	210,001	\$25.79
B	326	19,033,654	3,840,206	20.18%	(91,158)	(115,167)	\$18.25
<b>Total</b>	<b>407</b>	<b>30,231,357</b>	<b>5,976,110</b>	<b>19.77%</b>	<b>(82,138)</b>	<b>94,834</b>	<b>\$21.64</b>

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



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