

INTRODUCTION

The third quarter of 2021 brought consistent activity for office product. Though not at pre-pandemic levels, tenants are in the market. As a result, a few trends have emerged among these users in response to the pandemic. Most notably, office tenants are citing location, building amenities, and product quality as driving forces behind their office search.

The “flight to quality” is predominantly the result of companies taking on less space due to work from home or flexible work policies. With less space required, tenants are able to increase the spend per foot on the space they lease. In the current competitive market for talent, businesses recognize the importance of creating a workplace that is enticing for employees to want to come into the office. Employees are more likely to want to spend time in the office if it is modern, equipped with the latest technology and amenities, and well-located. Employee retention and recruitment are critical now more than ever, and employers are listening.

A significant increase in construction costs, paired with lagging construction timelines and material lead times are proving to be the biggest challenges when it comes to deal making. As a result, brokers are encouraging their clients to start the search early as additional time is seemingly required in order to develop specifications, competitively bid construction, and build-out space.

MARKET OVERVIEW

Q3 saw a continued uptick in general activity, including inquiries, showings, and proposals, but unfortunately, the number of deals signed in the quarter remained low. Founders 3 continues to be optimistic that the final quarter of the year will see a marked increase in signed deals as firms find they can no longer delay real estate decisions. Additionally, deals that were paused due to the pandemic are beginning to re-emerge in the market.

The overall Class A & B, for both downtown and suburban, multi-tenant office market saw 50,307 square feet of negative absorption in the third quarter. Overall vacancy rose 0.45% to 20.40% while gross asking rates increased slightly to \$20.35 per foot.

Ultimately, and to no surprise, rising sublease space coming online, construction costs, and corporate announcements regarding future work from home or hybrid work policies will continue to impact the office market for the foreseeable future.

SUBLEASE SPACE ON THE MARKET

There is currently 619,292 square feet of sublease space officially on the market. This is down 49,581 square feet from Q2. MSI Data subleased 17,880 square feet from Concentrix at The Stock House at Schlitz Park this quarter, absorbing one large block of sublease space. The additional reduction was the result of leases expiring and space converting to direct vacancy. Larger blocks in the CBD include Johnson Financial’s, approximately 24,972 square feet at 100 East, Quarles & Brady’s 46,618 square feet at 411 E. Wisconsin, WageWorks’ 37,000 square feet at City Center, and Manpower’s 62,427 square feet at 100 N. Manpower Place.

Market Synopsis

	Downtown*	Suburban
Q3 Absorption	20,509 SF	-70,816 SF
Q3 Sublease SF	360,682 SF	258,610 SF
Vacancy	21.03%	19.84%
Class A Gross (Avg. Rate)	\$29.81	\$23.12
Class B Gross (Avg. Rate)	\$21.21	\$17.56

*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

- Real Capital Solutions purchased 201-229 W. Cherry St, Milwaukee (280,000 SF) for \$70.43 Million (\$251.54/SF)
- American Family Insurance sold W236 N1402 Busse Rd, Pewaukee (75,000 SF) to Generac Power Systems for \$6.75 Million (\$90.00/SF)
- UW Credit Union leased 21,085 RSF at 2323 N. Mayfair Rd. in Wauwatosa
- Herzing University leased 17,265 RSF at the Arcade Offices at the Avenue located at 301 W. Wisconsin Ave, Milwaukee

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

The Downtown submarkets posted 20,509 square feet of positive absorption with an overall vacancy rate of 21.03%. Class A and B gross average asking rates were \$29.81 per square foot and \$21.21 per square foot, respectively; increasing overall average asking rents slightly to \$23.82 per square foot.

Downtown East

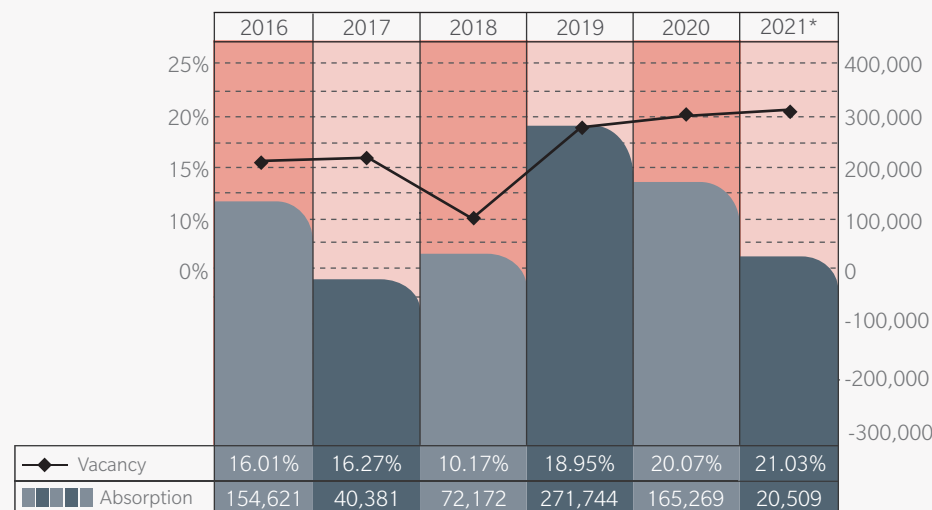
Downtown East experienced limited office leasing activity during the third quarter of 2021. Overall vacancy rose slightly from 18.89% to 18.92%. Class A product saw 10,558 square feet of negative absorption resulting in vacancy rates increasing from 17.80% to 18.30%. Class B saw 15,490 square feet of positive absorption and a full point decrease in vacancy ending at 20.38%.

The third quarter brought closure to Johnson Controls' first quarter announcement to sell its headquarters at 507 E. Michigan and relocate 1,300 employees to Glendale. Kenosha-based Bear Development closed on the purchase of the seven-building, 422,674 square foot campus for approximately \$24 million. Johnson Controls will lease back the campus while finalizing the relocation plan.

Downtown West

Downtown West, particularly Westtown, remains one of the most active submarkets. HUB640 announced the signing of its second tenant, Eight Eleven Group, leasing 10,060 square feet, and joining North Shore Healthcare in the renovated historic former Bon-Ton headquarters building. Adding to the vibrancy and activity in Westtown is Herzing University and TEMPO, each announcing leases at The Avenue. Herzing will move its corporate headquarters into approximately 22,000 square feet early next year. TEMPO moved in this quarter and occupies approximately 2,400 square feet. This is all positive news for the area and for 3rd Street Market Hall at The Avenue, which is expected to open in the fourth quarter.

Bentall Kennedy and Warba Bank sold 201-229 W. Cherry Street to Real Capital Solutions for \$70.43 million. The 280,000 square foot building is leased to Manpower Group for its Milwaukee corporate headquarters. The building last sold in 2017 for \$66.5 million. This is a positive indicator for the strength of the market, as fundamentals for the asset are arguably not as attractive as they were in 2017 with less lease term remaining and 62,000 square feet currently on the market for sublease.



*2021 only reflects Quarter 3 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 4.9%. This is a 230-basis point decrease compared to August 2020. The Milwaukee MSA saw an encouraging increase in "office using jobs", increasing by approximately 4,300 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.

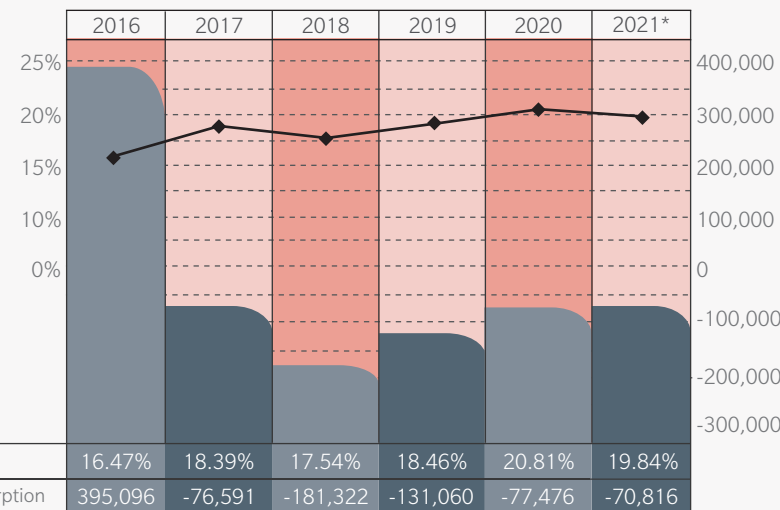
SUBURBAN OUTLOOK

The suburban market experienced 70,816 square feet of negative absorption in the third quarter. The vacancy rate in the suburbs increased from 19.15% to 19.84%. Overall average asking rents decreased slightly to \$19.19 per square foot with Class A rates at \$23.12 per square foot and Class B rates at \$17.56 per square foot.

Irgens Development announced the approval and planned groundbreaking for its office development on UW–Milwaukee’s Innovation Campus. Innovation One, will be 70,357 square foot, two-stories plus a garden-level and has an expected delivery in the 4th quarter of 2022. Innovation Overlook, planned to be 177,690 square feet on six floors is currently in the design and preleasing phase.

Two significant properties changed hands in the third quarter. Irgens Partners acquired the former United Healthcare building located at 10701 Research Drive in Wauwatosa. The five-story, 130,000 square foot office building was reported to have traded for \$9.5 million. Irgens is now marketing the property as Research One with plans for significant investments in the property, including an enhanced lobby, updated corridors, and modern finishes.

American Family Insurance sold its 75,000 square foot office building at W236 N1402 Busse Road in Pewaukee to Generac Power Systems for \$6.75 million. Generac has plans to occupy the property.



*2021 only reflects Quarter 3 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

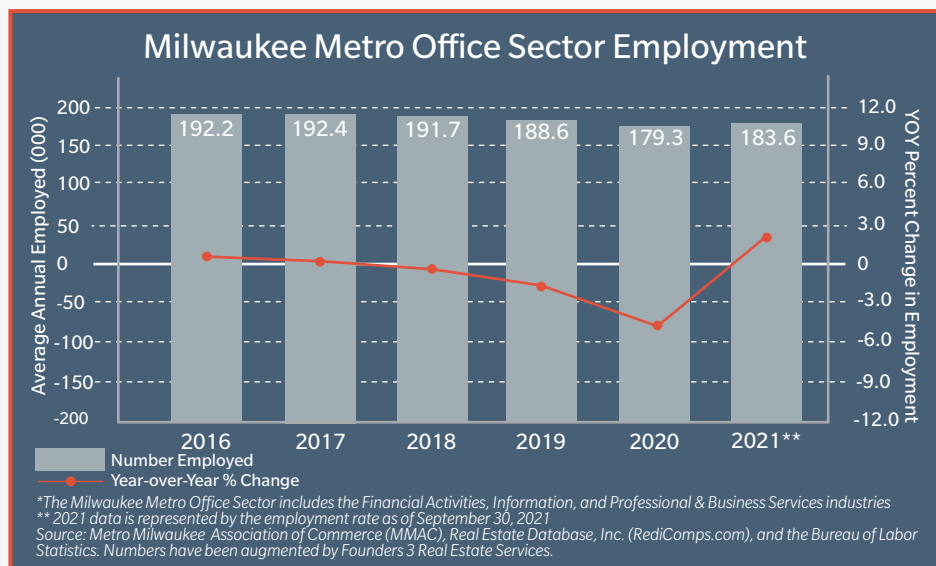


Figure 1

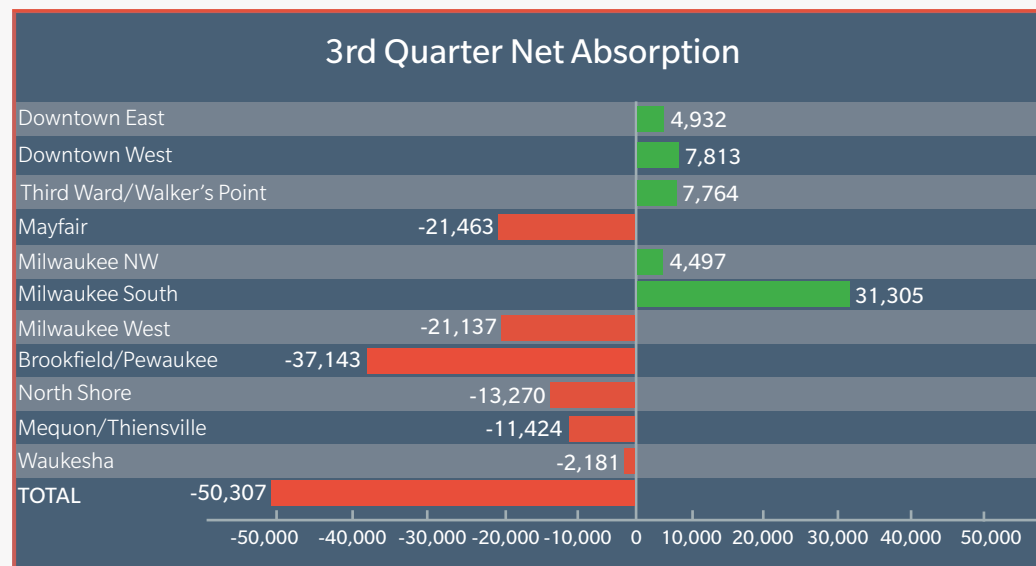


Figure 2

Submarket	Buildings	Building Size	Q3-21 Vacant SF	Q3-21 Vacancy %	Q3-21 Absorption	Q3-2021 Sublease Space	Estimated Overall Average Asking Rent (FSG)
Downtown - East							
A	14	5,428,151	993,455	18.30%	(10,558)	181,613	\$32.17
B	31	2,298,434	468,489	20.38%	15,490	41,503	\$20.16
Total	45	7,726,585	1,461,944	18.92%	4,932	223,116	\$24.72
Downtown - West							
A	2	622,938	395,400	63.47%	0	12,868	\$22.49
B	26	3,084,959	636,220	20.62%	7,813	43,356	\$20.38
Total	28	3,707,897	1,031,620	27.82%	7,813	56,224	\$20.76
Third Ward/Walker's Point							
A	4	465,416	148,963	32.01%	0	19,693	\$26.98
B	33	1,912,183	262,126	13.71%	7,764	61,649	\$23.39
Total	37	2,377,599	411,089	17.29%	7,764	81,342	\$24.29
Mayfair							
A	13	1,566,458	180,855	11.55%	(14,438)	17,520	\$26.25
B	26	1,313,289	316,856	24.13%	(7,025)	24,599	\$17.31
Total	39	2,879,747	497,711	17.28%	(21,463)	42,119	\$19.55
Milwaukee - NW							
A	6	789,885	210,237	26.62%	3,043	3,573	\$21.54
B	23	1,141,261	252,760	22.15%	1,454	62,006	\$16.49
Total	29	1,931,146	462,997	23.98%	4,497	65,579	\$17.83
Milwaukee - South							
A	2	111,067	18,236	16.42%	1,546	-	\$25.00
B	13	529,059	103,861	19.63%	29,759	5,691	\$16.84
Total	15	640,126	122,097	19.07%	31,305	-	\$17.66
Milwaukee - West							
A	-	-	-	-	-	-	-
B	15	1,609,495	223,025	13.86%	(21,137)	92,236	\$18.00
Total	15	1,609,495	223,025	13.86%	(21,137)	92,236	\$18.00
Brookfield/Pewaukee							
A	36	2,397,278	539,437	22.50%	(35,977)	32,876	\$22.65
B	80	3,471,311	670,427	19.31%	(1,166)	4,250	\$18.37
Total	116	5,868,589	1,209,864	20.62%	(37,143)	37,126	\$20.27
North Shore							
A	3	233,538	142,382	60.97%	(9,925)	3,953	\$23.33
B	25	929,793	237,962	25.59%	(3,345)	8,050	\$17.92
Total	28	1,163,331	380,344	32.69%	(13,270)	12,003	\$19.00
Mequon/Thiensville							
A	4	127,493	24,789	19.44%	-	-	\$24.00
B	11	307,535	63,720	20.72%	(11,424)	-	\$16.98
Total	15	435,028	88,509	20.35%	(11,424)	-	\$19.53
Waukesha							
A	-	-	-	-	-	-	-
B	33	1,073,505	110,601	10.30%	(2,181)	3,856	\$16.87
Total	33	1,073,505	110,601	10.30%	(2,181)	3,856	\$16.67
GRAND TOTAL							
A	84	11,742,224	2,653,754	22.60%	(66,309)	272,096	\$24.85
B	316	17,670,824	3,346,047	18.94%	16,002	347,196	\$18.46
Total	400	29,413,048	5,999,801	20.40%	(50,307)	619,292	\$20.35

*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, metallic roof is visible. The arena has "fiserv forum" written on its side. Behind the arena, a dense cluster of skyscrapers and commercial buildings forms the city skyline under a hazy sky. The text "FOUNDERS 3" is overlaid in the center, with "FOUNDERS" in dark blue and "3" in red, separated by a vertical red line. Below this, the words "REAL ESTATE SERVICES" are written in a smaller, grey font.

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