

INTRODUCTION

The saying “It’s going to get worse before it gets better” aptly applies to the state of the Milwaukee office market. The market clearly reflects the views held by many in the US today; nervousness tempered by a strong hope and belief that the negative effects caused by the COVID-19 pandemic will eventually pass.

Unfortunately, the full extent of the downturn has yet to be realized. Signs of what to expect in 2021 accelerated in the 4th quarter, with additional sublease space being brought to market and corporate users shrinking their office footprints. Office buildings which rarely have space available for third party tenants are advertising leasable space for lease for the first time in many years -- notably US Bank Center and Northwestern Mutual in downtown Milwaukee. We expect this trend, along with added sublease inventory, to continue well into 2021.

Despite the above, 2020 still saw its share of highlights. There were several office sale transactions, significant development projects, and large square footage lease commitments made this year. With COVID-19 vaccines in the early stages of distribution and many employers planning a safe return to work for their employees, 2021 could be a year of transition for many companies. We anticipate that a shift to a more flexible workplace culture, along with a desire to create an office atmosphere that encourages employees to work on-site, will create movement in the office market. Market relocations, downsizes, and a flight to quality will all be trends to watch in the coming year as companies identify what their post-COVID-19 workspaces look like.

The pandemic has certainly slowed leasing transaction volume in the past few months throughout the country, particularly for corporate America. However, without significant concern for mass transit and population density seen on the coasts and larger metropolitan areas, the logistics of back-to-work stand firmly in the favor of Milwaukee and other smaller markets.

2020 will undoubtedly have a lasting impact on the office market moving forward. In the near term, we anticipate a pause on new ground-up development, providing breathing room to existing landlords in the way of new product absorption. Additionally, as in any recession, we’re certain to see assets face foreclosure -- affording savvy investors an opportunity to acquire and reposition assets at a palatable cost of entry basis.

MARKET OVERVIEW

The overall Class A & B multi-tenant office market was negative – registering -47,984 SF of absorption, Q4 ended with a vacancy rate of 20.45%; up 0.68% from the previous quarter and approximately 3.26% as compared to Q4 2019. Rates have remained fairly stable year over year ending the year at \$20.23 compared with \$19.86 in Q4 2019. This increase is attributed to the addition of 667,851 SF of downtown Class A inventory delivered via two assets this quarter.

ECONOMIC OVERVIEW

According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical is 5.4%. This is a 210-basis point increase compared to November 2019. The Milwaukee MSA saw a decrease in job growth in “office using jobs”, decreasing by 9,200 jobs during the same period. (See Figure 2 on page 2)

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.

Market Synopsis

	Downtown*	Suburban
Q4 Absorption	-5,048 SF	-42,936 SF
YTD Absorption	165,269 SF	-77,476 SF
Vacancy	20.07%	20.81%
Class A Gross (Avg. Rate)	\$29.07	\$21.23
Class B Gross (Avg. Rate)	\$23.16	\$17.50

*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

- Leonardo DRS at W126 N7449 Flint Dr. in Menomonee Falls sold for \$30.3 Million (\$257/SF)
- Aurora Medical Building at 84 South in Greenfield sold for \$74 Million (\$535/SF)
- Warehouse No.1 at 126 N Jefferson in the Third Ward sold for \$9.45 Million (\$126/SF)
- Cleaver-Brooks Inc. leased 17,938 SF at One Park Plaza (11270 W Park Place)
- Mindful Staffing Solutions leased 32,300 SF at 11700 W. Lake Park Drive.
- Kahler Slated leased 14,745 SF at BMO Tower (790 N Water)

ABSORPTION & EMPLOYMENT GRAPHS - FIGURES 1 & 2

4th Quarter Absorption

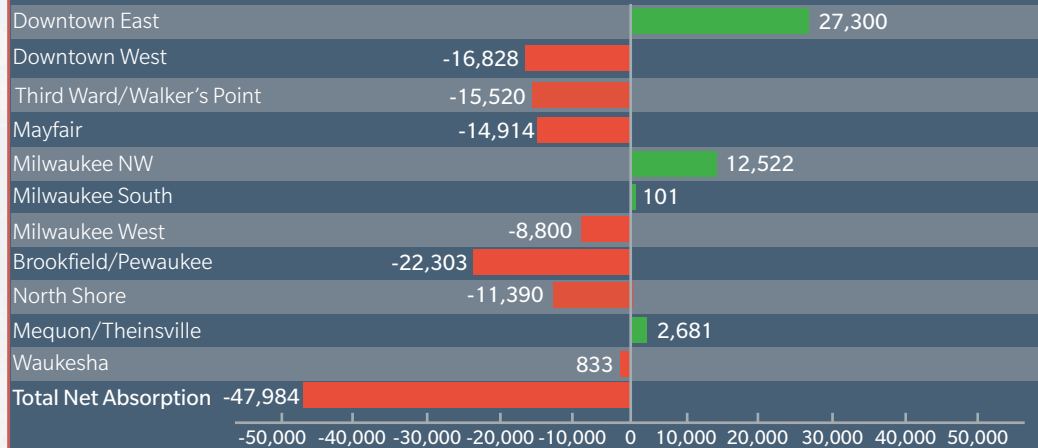


Figure 1

Milwaukee Metro Office Sector Employment

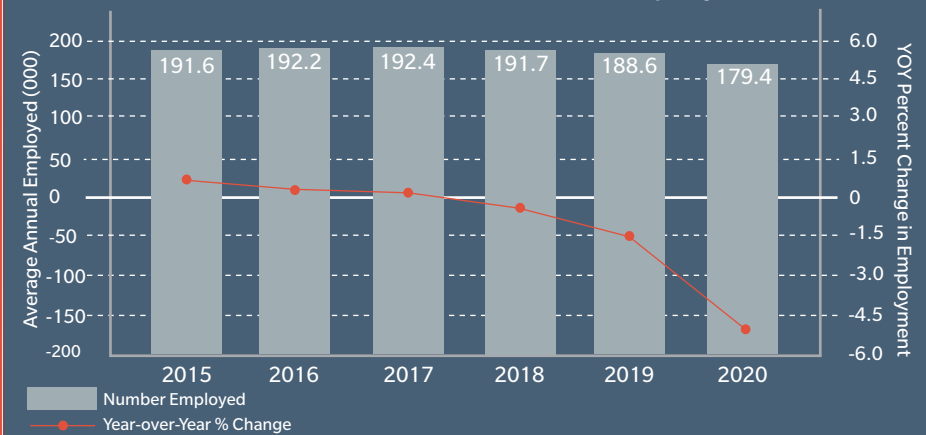


Figure 2

PROJECT UPDATES

The Avenue – Progress continues at the former Grand Avenue Mall -- now positioned as Milwaukee's premier multi-use development. The project includes The Arcade Offices, 55 apartment units, and Third Street Market Hall, a food and entertainment mecca slated to open in spring of 2021. Q4 2020 saw construction of Third Street Market Hall forge ahead, as well as the delivery of a new office lobby, signage, and wayfinding improvements: the announcement of an innovative amenity package including offerings such as a pickleball court, movie theater, indoor dog park, and more.

The Huron – Construction was completed in the 4th quarter allowing anchor tenant Husch Blackwell to move in October 2020 as planned.

Landmark Credit Union's architecturally stunning 158,000 SF headquarters at 555 South Executive Dr. in Brookfield is nearing completion with move in estimated to occur in the 2nd quarter of 2021.

Eagleknit Innovation Hub at 507 S. 2nd Street in Walker's Point with 84,000 SF of office is nearing completion and expected to deliver in early 2021.

One of Milwaukee's most active development firms, **Cobalt Partners**, announced two new projects: a 38-acre site at the I-894/Loomis interchange with room for over 500,000 sf of retail, medical and office and a 40-acre site at I-41 and Main Street in Menomonee Falls, which is also slated for up to 750,000 SF of office.



The Avenue - Source: Hempel Companies

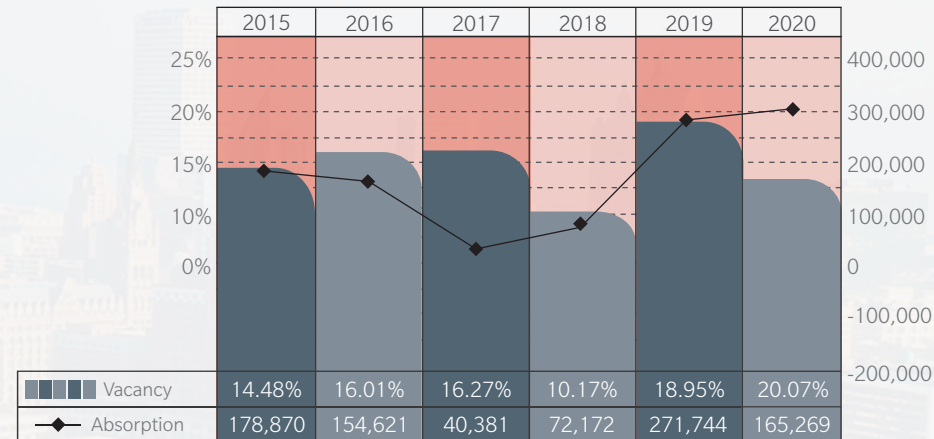
DOWNTOWN OUTLOOK - Downtown East, Downtown West, and Third Ward/Walker's Point

Currently the downtown market is quiet but certainly not dead. We are confident that significant previous investment in our downtown, including apartments, restaurants, the art museum, and lakefront gateway will bring people back to the CBD. Once the vaccine is widely distributed, restrictions lifted, and major employers open their doors we will once again see a vibrant downtown.

Overall Downtown vacancy rose from 18.79% to 20.07%. Despite almost 165,269 SF of absorption, Class A product accounted for the largest increase, growing from 19.37% to 21.04%. This seeming contradiction can be attributed to the addition of the Huron (noted above). Husch Blackwell leased 74,636 SF while vacating 90,000 SF at Cathedral Place. Cathedral Place's vacancy has been partially back filled with a commitment by Johnson Financial for 40,500 SF. Milwaukee's other 2020 Class A delivery, BMO Tower at 790 N. Water Street, announced its project architect, Kahler Slater, would be relocating to occupy 14,745 SF in 2021.

Downtown East experienced little new office leasing activity during the 4th quarter. Despite the limited leasing, several key events occurred. The biggest event for the quarter was the on-time delivery of The Huron Building; J. Jeffers & Co.'s 163,000 SF office building anchored by Husch Blackwell. Michel's R1VER development to the south of the CBD was expected to open in Q4, but a minor delay has pushed the expected delivery to Q1 2021.

Despite a reported vacancy rate of 33.41%, Downtown West is continuing to emerge as one of metro Milwaukee's most active submarkets. GRAEF, the MMAC, and Northshore Healthcare were some of the most recent significant transactions in the submarket, with another large tenant secured for The Avenue to be announced in Q1 of 2021. MSO's relocation to the renovated Grand Warner Theater, along with community initiatives such as the Newaukee Night Market and its close vicinity to the Fiserv Forum, positions this submarket as vibrant and active -- particularly when gatherings, performances, and sporting events resume.

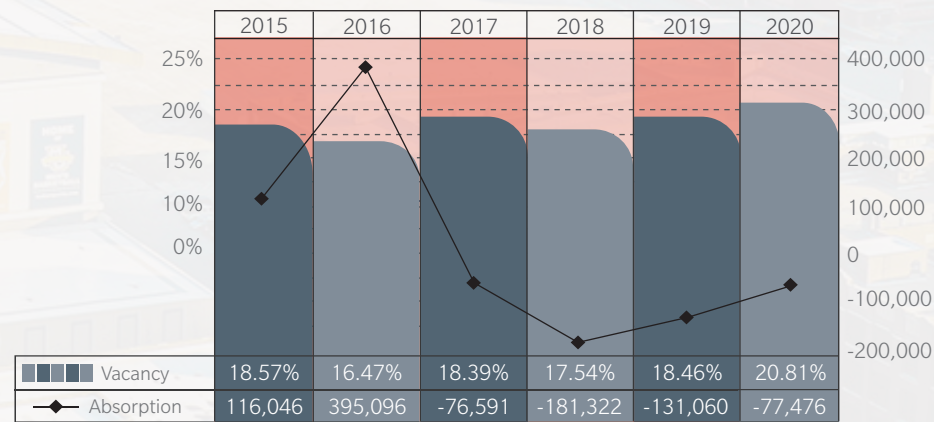


SUBURBAN OUTLOOK

In total, the suburban office market experienced negative absorption in the majority of its submarkets ending the quarter with 42,926 SF of negative absorption and 77,624 SF negative absorption for the year.

One of the bright spots for the suburbs was the Milwaukee Northwest market. One Park Plaza, purchased by Sovereign Partners in early 2020, secured tenants Burbach & Stansbury and Cleaver- Brooks, Inc., totaling approximately 21,400 SF, with a third full-floor lease reportedly out for signature. Of interesting note, Cleaver Brooks relocated from a single-story property to a multi-story building, counter to the oft-repeated prediction that tenants will prefer single tenant buildings in a post-COVID office environment.

An investment group led by Weas Development sold two buildings in nearby Woodland Prime: a 118,620 SF office building and a 372,856 SF industrial building for \$98,000,000. Both buildings are fully leased long term to Leonardo DRS. Milwaukee Tool is under construction with their second building in Woodland Prime as part of their \$100 million corporate campus development. In Glendale, Phoenix Investors acquired Lydell Corporate Center, a 277,000 SF office and industrial facility, for \$3.75 million. Phoenix has announced plans to convert the property back to an industrial use. While this change has yet to be seen, this will have a positive effect on the North Shore office market, removing a large block of space from the submarket's inventory.



Submarket	Buildings	Building Size	Q4-20 Vacant SF	Q4-20 Vacancy %	Q4-20 Absorption	YTD Absorption	Estimated Overall Average Asking Rent (FSG)
Downtown - East							
A	14	5,428,151	919,198	16.93%	33,270	215,737	\$31.15
B	34	2,911,723	382,601	13.14%	(5,970)	(44,628)	\$20.32
Total	48	8,339,874	1,301,799	15.61%	27,300	171,109	\$24.33
Downtown - West							
A	2	622,938	380,784	61.13%	0	(571)	\$20.73
B	27	3,521,910	1,004,049	28.51%	(16,828)	16,801	\$20.44
Total	29	4,144,848	1,384,833	33.41%	(16,828)	16,230	\$20.47
Third Ward/Walker's Point							
A	3	263,369	28,513	10.83%	(14,985)	(16,360)	\$24.90
B	34	1,912,183	227,805	11.91%	(535)	(5,710)	\$23.10
Total	37	2,175,552	256,318	11.78%	(15,520)	(22,070)	\$23.44
Mayfair							
A	13	1,566,458	163,623	10.45%	(11,234)	(11,541)	\$26.61
B	24	1,260,842	328,206	26.03%	(3,680)	(40,096)	\$16.54
Total	37	2,827,300	491,829	17.40%	(14,914)	(51,637)	\$19.72
Milwaukee - NW							
A	5	690,699	198,252	28.70%	15,387	19,325	\$20.08
B	23	1,141,261	317,675	27.84%	(2,865)	(4,476)	\$16.92
Total	28	1,831,960	515,927	28.16%	12,522	14,849	\$17.65
Milwaukee - South							
A	2	111,067	21,942	19.76%	9,944	4,834	\$26.75
B	7	260,489	50,717	19.47%	(9,843)	(8,012)	\$16.39
Total	9	371,556	72,659	19.56%	101	(3,178)	\$19.35
Milwaukee - West							
A	-	-	-	-	-	-	-
B	16	1,609,495	208,119	12.93%	(8,800)	102,485	\$17.76
Total	16	1,609,495	208,119	12.93%	(8,800)	102,485	\$17.76
Brookfield/Pewaukee							
A	36	2,390,993	463,575	19.39%	(9,547)	14,022	\$22.43
B	77	3,410,197	651,713	19.11%	(12,756)	(106,674)	\$18.37
Total	113	5,801,190	1,115,288	19.23%	(22,303)	(92,652)	\$20.12
North Shore							
A	3	149,535	92,384	61.78%	(15,928)	(28,532)	\$23.33
B	26	1,124,101	418,750	37.25%	4,538	(10,607)	\$17.62
Total	29	1,273,636	511,134	40.13%	(11,390)	(39,139)	\$18.69
Mequon/Thiensville							
A	4	127,493	24,789	19.44%	0	14,753	\$24.00
B	11	307,535	54,302	17.66%	2,681	245	\$19.12
Total	15	435,028	79,091	18.18%	2,681	14,998	\$21.91
Waukesha							
A	-	-	-	-	-	-	-
B	41	1,375,043	237,198	17.25%	(833)	(23,202)	\$16.39
Total	41	1,375,043	237,198	17.25%	(833)	(23,202)	\$16.39
GRAND TOTAL							
A	82	11,350,703	2,293,060	20.20%	6,907	211,667	\$23.23
B	320	18,834,779	3,881,135	20.61%	(54,891)	(123,874)	\$19.22
Total	402	30,185,482	6,174,195	20.45%	(47,984)	87,793	\$20.23

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

YOUR LOCAL OFFICE EXPERTS

This Market is our HOME.



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



Jenna Maguire
jmaguire@founders3.com
414.249.2312



Jeanine Sweeney
jsweeney@founders3.com
414.249.2307



Kate Hanson
khanson@founders3.com
414.249.2301



Patti Stevens
pstevens@founders3.com
414.249.2318



John Davis
jdavis@founders3.com
414.249.2303

FOUNDERS 3

REAL ESTATE SERVICES

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

founders3.com

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