

### INTRODUCTION

The 4th Quarter of 2021 further prolonged return-to-work strategies for companies, fueled by a late-year surge in Omicron cases. “False Starts” with these policies have pushed dates well into 2022. Regardless of these delays, active users seeking office space in the 4th quarter continue to trend in the direction of “Flight to Quality,” with many of these transactions anticipating closure in the first or second quarter of 2022.

The flight to quality trend is anticipated to continue for the foreseeable future as tenants rethink the functionality of their office spaces as well as the desire to provide building amenities and locations that are desirable to employees. It’s important to note that this “flight” tends to mean something different to every individual user -- upgrading building class, seeking a new submarket, or relocating to an amenity-rich project are just a few of the qualities that could achieve this “upgrade” from a tenant’s standpoint.

Companies are grappling with finding the balance between in-person, hybrid, or virtual workplace concepts, while also combatting historically low unemployment rates. This further complicates the process of determining long-term office space requirements. Employees continue to seek flexibility, leaving employers hesitant to make sweeping policies or commitments that might upend their talent pool.

### MARKET OVERVIEW

The 4th quarter ended somewhat flat compared with the previous three quarters. Absorption for the final quarter in the Class A and B multi-tenant office market registered 14,076 square feet, offsetting significant negative absorption from the previous three quarters, and ending with a year-to-date negative absorption of 285,778 square feet. The overall market vacancy was 20.75%; broken down as 23.36% for Class A inventory and 18.10% for Class B inventory. This may sound counter-intuitive based on the previously mentioned trend of “flight to quality,” however, the delivery of new Class A properties in 2020 and 2021 (BMO Tower, the Huron, etc.) significantly inflate the Class A inventory and subsequently, its vacancy. The estimated overall average asking rate ended at \$20.24 per square foot, a very flat increase from Q4 2020, which was at \$20.23. Sublease availability appears to have stabilized as no new larger blocks of space have been put on the market in the past two quarters, which was a striking comparison to early quarters of the pandemic.

Office sales were strong through the first three quarters and continued into the fourth quarter with significant commitments being made from out-of-town investors such as New York-based Group RMC purchasing Chase Tower at 111 E Wisconsin Avenue.

### SUBLEASE SPACE ON THE MARKET

There is currently 570,311 square feet of sublease space on the market representing approximately 2% of the total inventory. This is down 48,981 square feet from Q3. The reduction was primarily a result of Symbiont Science, Engineering and Construction subleasing 35,801 square feet at Summit Place located at 6609 W. Washington St. in West Allis. Larger blocks in the CBD include Johnson Financial: 24,972 square feet at 100 East, Quarles & Brady: 46,618 square feet at 411 E. Wisconsin, and Manpower: 62,427 square feet at 100 N. Manpower Place.

### Market Synopsis

	Downtown*	Suburban
<b>Q4 Absorption</b>	18,136 SF	-4,060 SF
<b>Q4 Sublease SF</b>	348,226 SF	222,085 SF
<b>Vacancy</b>	20.83%	19.68%
<b>Class A Gross (Avg. Rate)</b>	\$30.06	\$23.22
<b>Class B Gross (Avg. Rate)</b>	\$21.61	\$17.80
*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

- RW Baird leased an additional 30,000 SF at the US Bank Center, located at 777 E Wisconsin Avenue.
- Federal Defenders Services of WI leased 8,734 SF at 411 E. Wisconsin Avenue.
- Eight Eleven Group leased 10,060 SF at HUB 640 at 640 N Vel R. Phillips Avenue.
- Sientra leased 11,861 SF at Franklin Corporate Center located at 9779 S. Franklin Drive in Franklin.
- Group RMC purchased Chase Tower (480,654 SF) at 111 E. Wisconsin Avenue for \$34.25M.
- Goodwill Industries of SE WI leased 14,767 SF at Summit Place located at 6737 W. Washington Street, in West Allis.

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

The Downtown submarkets posted 18,136 square feet of positive absorption for the quarter. The overall vacancy rate ended the year at 20.83% versus 20.45% in 2020. Class A and B gross average asking rates were \$30.06 per square foot and \$21.61 per square foot, respectively. This resulted in an overall average gross asking rate of \$24.37 per square foot, up \$0.55 per square foot from the 3rd quarter.

### Downtown East

Overall vacancy showed improvement decreasing to 17.89% from 18.92% in the 3rd quarter. Class A product saw 14,384 square feet of positive absorption, resulting in a vacancy rate of 18.94%. Class B experienced 19,369 square feet of positive absorption and an ending vacancy rate of 15.27%, which represents a full 5% reduction since Q3.

One of the larger leases signed in the 4th quarter was RW Baird adding approximately 30,000 square feet to their already substantial presence in the U.S Bank Center at 777 E. Wisconsin Ave. Group RMC added to their Milwaukee portfolio with the acquisition of the 480,654 square foot Chase Tower in Milwaukee's CBD. It was reported to be 73% leased at the time of sale and new ownership has announced plans for significant renovations to the property. Previously, Group RMC acquired 330 E. Kilbourn in March of 2022 and a Brookfield Lakes portfolio in November of 2019. In total, their acquisitions account for approximately 1.5 million square feet, or 5% of the multi-tenant inventory in the market.

### Downtown West

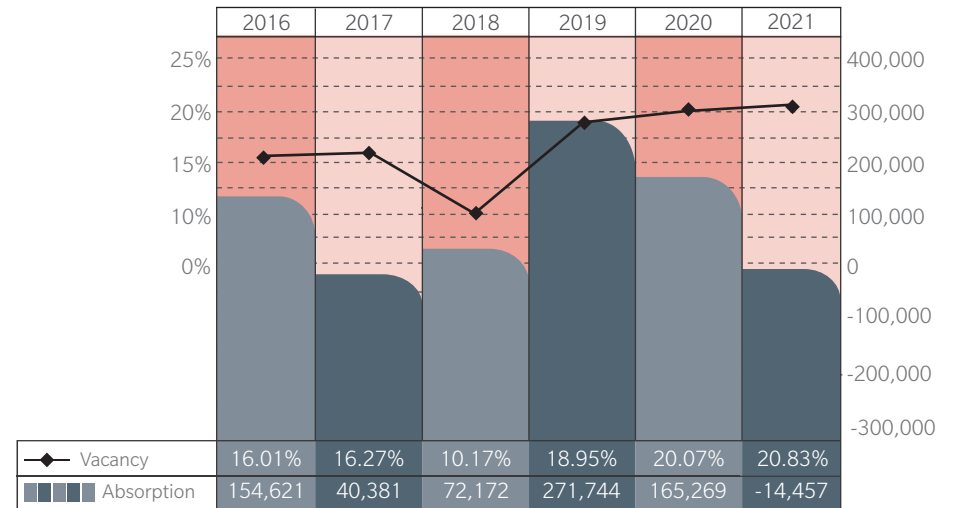
Westown along West Wisconsin Ave., and in particular The Avenue and HUB640, provided the majority of the 4th quarter's leasing activity. HUB640 welcomed Eight-Eleven Group in just over 10,000 square feet of space, and The Avenue continues buildouts for previously reported Herzing University and Good Karma Brands, set to bring hundreds of employees onsite in the coming months. Additional lease announcements are expected to be made at The Avenue in Q1 of 2022.

The Avenue's much anticipated 3rd Street Market Hall hosted soft openings and a charity event in December, with a public opening in January. The 35,000 square foot food hall will continue to add vendors throughout 2022 and has announced investments from high-profile athletes and community members over the past few months. This new 'central gathering' neighborhood amenity is sure to bring renewed attention and traffic to Westown year-round as well as beyond the traditional 8 to 5 workdays.

### Third Ward / Walker's Point

The Third Ward/Walker's Point experienced a slow quarter overall, with most of the leasing activity occurring in the smaller (less than 3,000 SF) range at The Tannery Office Complex in Walker's Point. The historically tight Third Ward/Walker's Point submarket experienced nearly 30,000 square feet of negative absorption in the 4th Quarter, primarily due to a significant vacancy left behind by advertising agency Cramer Krasselt, consisting of 29,137 rentable square feet.

With direct vacancy between Class A and Class B properties sitting near 22%, 2021 ended with the highest vacancy rate for the submarket in years. However, it should be noted that Michael's RIVER has been added to the submarket's inventory this past year, accounting for most of the 42% vacancy rate for Class A buildings.



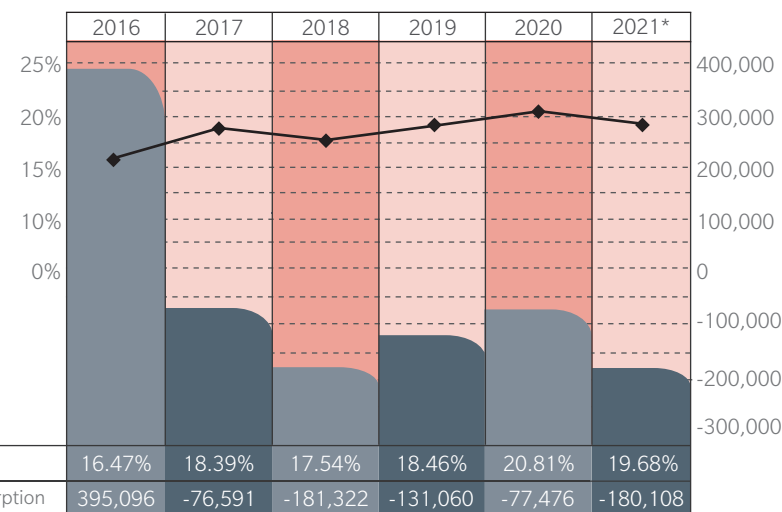
Source: Data provided by Real Estate Database, Inc. (RediComps.com) and augmented by Founders 3 Real Estate Services

### SUBURBAN OUTLOOK

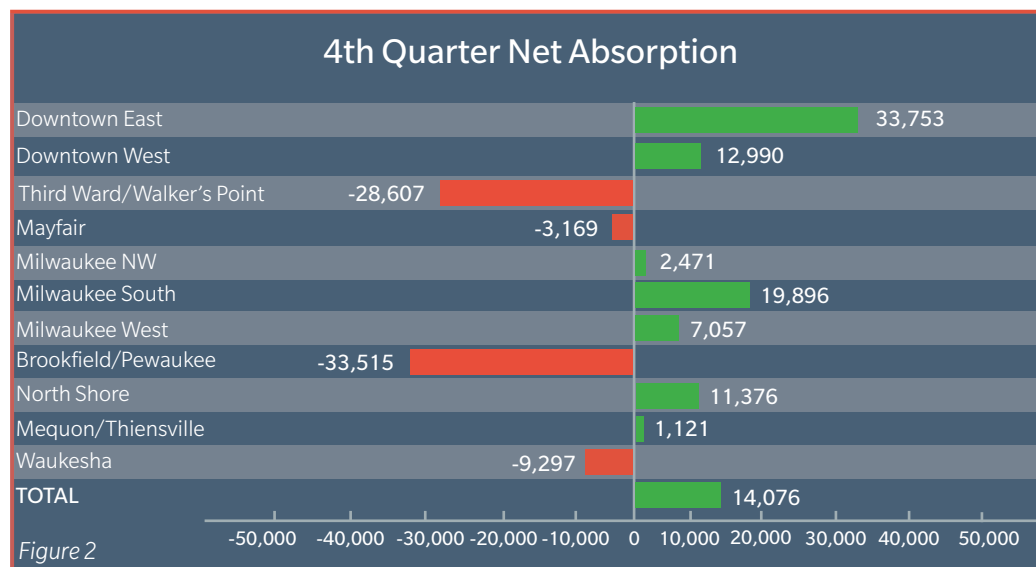
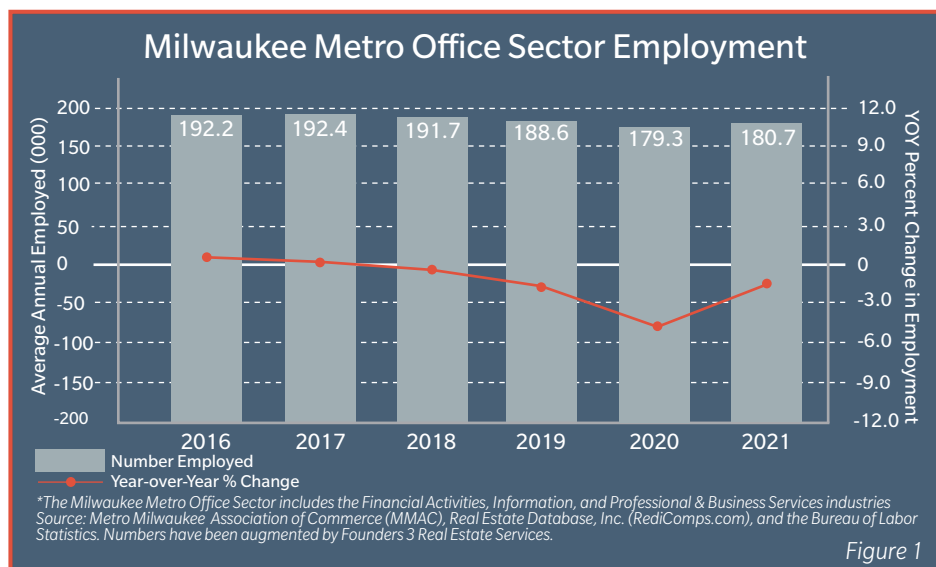
The suburban market experienced 4,060 square feet of negative absorption in the 4th quarter. The overall vacancy rate ended the year at 19.68% compared to 20.81% in Q4 2020. Class A and B gross average asking rates were \$23.22 per square foot and \$17.80 per square foot, respectively. This resulted in an overall average gross asking rate of \$19.44 per square foot.

Cobalt Partners, led by developer Scott Yauck and Bayside-based La Macchia Holdings LLC, plans to redevelop 27.4 acres northwest of Brown Deer and Port Washington roads. Conceptual plans show a variety of uses, including office, retail, dining and hospitality, residential, and a new North Shore Library location. Approximately 300,000 square feet of new office space is contemplated for the site, making the development one of the largest concentrations of office space in the area.

In May Goodwill announced plans to sell its 164,800-square-foot headquarters building at 5400 S. 60th St., to shift to a hybrid-work model, and to establish a new HQ within an existing facility on Milwaukee's far northwest side. As an auxiliary spoke of that plan, Goodwill signed a lease for 14,767 square feet of office space in Q4 at Summit Place, 6737 W. Washington Street in West Allis.



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



According to the Bureau of Labor Statistics (BLS), the unemployment rate for the Milwaukee Metropolitan Statistical Area is 3.3%, down from 4.9% since the end of the third quarter. The Milwaukee MSA saw a flat increase in "office using jobs", increasing by approximately 1,400 jobs since the end of 2020. (See Figure 1)

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.

Submarket	Buildings	Building Size	Q4-21 Vacancy %	Q4-21 Vacant SF	Q4-21 Absorption	Q4-2021 Sublease Space	Estimated Overall Average Asking Rent (FSG)
<b>Downtown - East</b>							
A	14	5,428,151	18.94%	998,893	14,384	181,613	\$33.16
B	30	2,167,394	15.27%	330,882	19,369	41,503	\$20.26
<b>Total</b>	<b>44</b>	<b>7,595,545</b>	<b>17.89%</b>	<b>1,329,775</b>	<b>33,753</b>	<b>223,116</b>	<b>\$25.64</b>
<b>Downtown - West</b>							
A	2	622,938	65.54%	395,400	0	12,868	\$22.49
B	26	3,084,959	20.20%	623,230	12,990	43,356	\$20.95
<b>Total</b>	<b>28</b>	<b>3,707,897</b>	<b>27.82%</b>	<b>1,018,630</b>	<b>12,990</b>	<b>56,224</b>	<b>\$21.26</b>
<b>Third Ward/Walker's Point</b>							
A	5	570,416	42.45%	242,126	(9,163)	19,693	\$26.89
B	33	1,912,183	14.73%	281,570	(19,444)	49,193	\$23.47
<b>Total</b>	<b>38</b>	<b>2,482,599</b>	<b>21.09%</b>	<b>523,696</b>	<b>(28,607)</b>	<b>68,886</b>	<b>\$24.42</b>
<b>Mayfair</b>							
A	13	1,566,458	12.45%	192,867	(12,012)	17,520	\$26.72
B	26	1,313,289	25.33%	308,013	8,843	24,599	\$18.00
<b>Total</b>	<b>39</b>	<b>2,879,747</b>	<b>18.32%</b>	<b>500,880</b>	<b>(3,169)</b>	<b>42,119</b>	<b>\$20.75</b>
<b>Milwaukee - NW</b>							
A	6	789,885	26.30%	207,766	2,471	3,573	\$21.47
B	23	1,141,261	27.58%	252,760	0	62,006	\$16.31
<b>Total</b>	<b>29</b>	<b>1,931,146</b>	<b>27.06%</b>	<b>460,526</b>	<b>2,471</b>	<b>65,579</b>	<b>\$17.68</b>
<b>Milwaukee - South</b>							
A	2	111,067	13.86%	15,390	2,846		\$25.00
B	7	260,489	12.27%	31,953	17,050		\$16.13
<b>Total</b>	<b>9</b>	<b>371,556</b>	<b>12.74%</b>	<b>47,343</b>	<b>19,896</b>	<b>-</b>	<b>\$17.90</b>
<b>Milwaukee - West</b>							
A	-	-	-	-	-	-	-
B	15	1,609,495	14.34%	215,968	7,057	74,919	\$17.76
<b>Total</b>	<b>15</b>	<b>1,609,495</b>	<b>14.34%</b>	<b>215,968</b>	<b>7,057</b>	<b>74,919</b>	<b>\$17.76</b>
<b>Brookfield/Pewaukee</b>							
A	36	2,397,278	22.94%	547,760	(26,166)	8,131	\$22.60
B	77	3,428,197	19.77%	677,776	(7,349)	4,250	\$18.63
<b>Total</b>	<b>113</b>	<b>5,825,475</b>	<b>21.07%</b>	<b>1,225,536</b>	<b>(33,515)</b>	<b>12,381</b>	<b>\$20.47</b>
<b>North Shore</b>							
A	3	233,538	62.66%	142,382	0	3,953	\$24.00
B	25	880,873	21.17%	186,486	11,376	15,050	\$19.60
<b>Total</b>	<b>28</b>	<b>1,114,411</b>	<b>29.87%</b>	<b>328,868</b>	<b>11,376</b>	<b>19,003</b>	<b>\$20.48</b>
<b>Mequon/Thiensville</b>							
A	4	127,493	19.44%	24,789	0		\$24.00
B	11	307,535	20.36%	62,599	1,121		\$16.89
<b>Total</b>	<b>15</b>	<b>435,028</b>	<b>20.09%</b>	<b>87,388</b>	<b>1,121</b>	<b>-</b>	<b>\$19.26</b>
<b>Waukesha</b>							
A	-	-	-	-	-	-	-
B	41	1,375,043	14.19%	192,776	(9,297)	8,084	\$17.01
<b>Total</b>	<b>41</b>	<b>1,375,043</b>	<b>14.19%</b>	<b>192,776</b>	<b>(9,297)</b>	<b>8,084</b>	<b>\$17.01</b>
<b>GRAND TOTAL</b>							
A	85	11,847,224	23.36%	2,767,373	(27,640)	247,351	\$25.15
B	314	17,480,718	18.10%	3,164,013	41,716	322,960	\$18.64
<b>Total</b>	<b>399</b>	<b>29,327,942</b>	<b>20.75%</b>	<b>5,931,386</b>	<b>14,076</b>	<b>570,311</b>	<b>\$20.24</b>

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

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