

INVESTMENT FORECAST

Office
Milwaukee

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Scant Pipeline and Leases at New Projects Help Shield Against Headwinds; More Buyers Eye Reuse

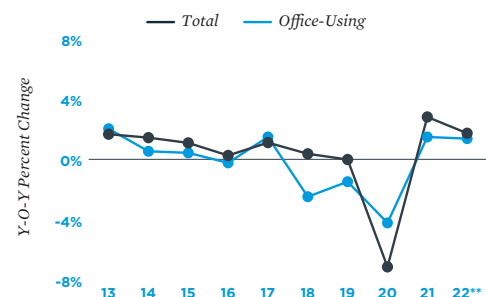
Strong pre-leasing at new builds to help calm the storm. The office sector in Milwaukee was facing some challenges prior to the health crisis, and the shift to remote work during the pandemic exacerbated headwinds. Net absorption was negative in each of the past three years, with vacant stock growing by nearly 3.7 million square feet over that span. Conditions appear to be stabilizing, however, as the 90-basis-point rise in availability last year paled in comparison to the 380-basis-point lift across the previous two years. While the market is not projected to reclaim downward vacancy movement in 2022, the rate is expected to hold steady as completions fall to the lowest level since 2018 and four-fifths of the space set to deliver has a tenant commitment. The largest signing was by Rite-Hite, which is moving into a built-to-suit 158,000-square-foot headquarters in Walker's Point. West of here in Brookfield, actuarial and consulting firm Milliman will occupy 118,000 square feet at the newly constructed Golf Parkway Corporate Center. Leases like these signal a desire for new buildings, but a more substantial market recovery hinges on tenant demand returning to existing spaces.

Muted trading persists; buyers find opportunities for alternative uses. Shaky office fundamentals over the past few years and the lack of a definitive rebound entering 2022 have many investors taking a wait-and-see approach. Deal flow has been mild for traditional office assets, though several transactions in recent quarters included high-vacancy properties and listings positioned for redevelopment. The metro's tight multifamily and industrial vacancy rates may be persuading buyers to acquire offices and repurpose them into different property types. Milwaukee's average office entry cost is appealing at a tick above \$150 per square foot, making acquisitions feasible for investors with the capital to undertake conversions. Meanwhile, medical office deal flow remains strong, with buyers favoring Class A/B assets in Waukesha County suburbs like Brookfield.

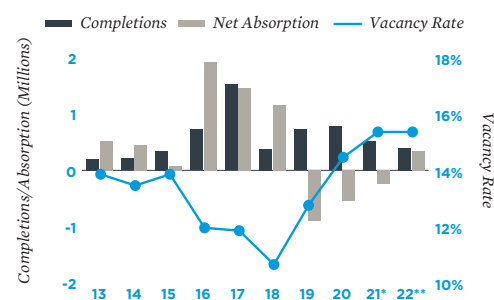
2022 Market Forecast

- Employment** ↑
 up 1.7%
 Milwaukee firms grow the local headcount by 14,500 roles in 2022, with 2,500 jobs coming from office-using sectors.
- Construction** ↔
 400,000 sq. ft.
 Inventory expands by 0.5 percent, marking the fifth straight year that metro stock enlarges by less than 1.0 percent. The slow pace of construction should help reduce near-term challenges.
- Vacancy** ↔
 no change
 Availability stays unchanged at 15.4 percent as net absorption returns to a positive level for the first time since 2018. Relative to the pre-pandemic rate, vacancy is 260 basis points higher.
- Rent** ↑
 up 0.6%
 Marketed asking rent moves up to an average of \$16.10 per square foot, reversing course from the 0.6 percent decline posted in 2021 and realigning with the 2020 mean.
- Investment** ●
 Looking beyond the near-term uncertainty, assets in live-work-play environments like East Town, West Town, Walker's Point and the Third Ward are compelling long-term investments.

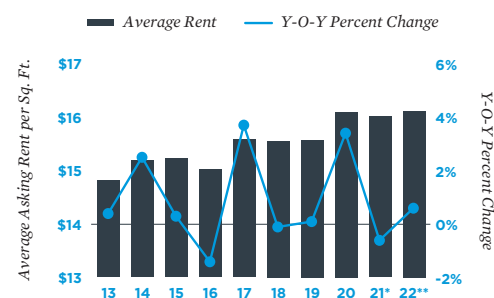
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.