

INVESTMENT FORECAST

Retail
Milwaukee

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Racine and Washington Counties Pilot Retail Rebound; Lingering Headwinds Downtown Will Soon Fade

Leisurely development pace funnels tenants to existing properties. Builders in Milwaukee will finalize fewer than 200,000 square feet for the third straight year in 2022, with stock expanding by just 0.4 percent since the start of 2020. By comparison, inventory grew by an average of 1.3 percent per year from 2015-2019. This drastic slowdown stopped availability from rising too extensively during the pinnacle of pandemic-induced lockdowns. Minimal construction is also accelerating vacancy compression as the recovery progresses, with tenants backfilling vacated spaces amid a lack of new floorplans to choose from. This has been most evident in Racine and Washington counties. Vacancy is down at least 90 basis points relative to each submarket's 2020 peak, and average asking rents jumped more than 10 percent relative to both counties' pandemic-era lows. On the other end of the spectrum, marketed rents plummeted downtown amid rising availability. This should, nevertheless, be a short-term setback for the area, as a broader return to offices will likely replenish foot traffic and tenant demand. Longer term, new hotels near the Deer District and revitalization projects, like the Harbor District, present tailwinds.

Nation's lowest entry cost pulls frugal buyers to Milwaukee. Retail assets change hands with an average sale price just short of \$250 per square foot, representing the lowest entry cost among all major markets in the United States. Investors in neighboring Illinois and Minnesota deploy capital across the state border, as Milwaukee retail properties trade at a 15 percent-plus discount on average to both Chicago and Minneapolis-St. Paul. Modest prices are not enough to facilitate deal flow, as many buyers take into consideration local retail metrics and demographic trends. Diminishing availability and rising rents in Washington County have stimulated higher transaction velocity relative to past periods. Buyers here are homed in on affluent suburbs like Germantown and West Bend, focusing on triple-net fast food and convenience stores of older vintage.

2022 Market Forecast

- Employment** up 1.7%

Milwaukee faces a shortfall of 44,000 roles to realign with the pre-pandemic high. That gap shrinks by one-third in 2022.
- Construction** 180,000 sq. ft.

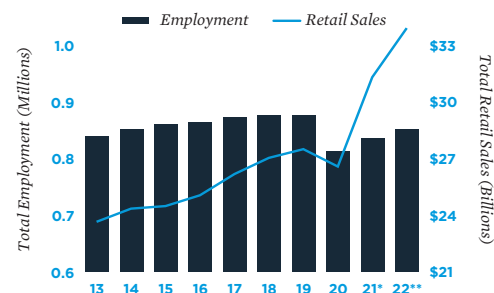
Following the completion of just 75,000 square feet in 2021, builders lift the annual total by 105,000 square feet this year. Multi-tenant construction has halted to a near standstill.
- Vacancy** down 50 bps

Metro vacancy subsides to 4.7 percent as net absorption registers four times as large as completions. This will be the lowest year-end rate dating back to the financial crisis.
- Rent** up 3.1%

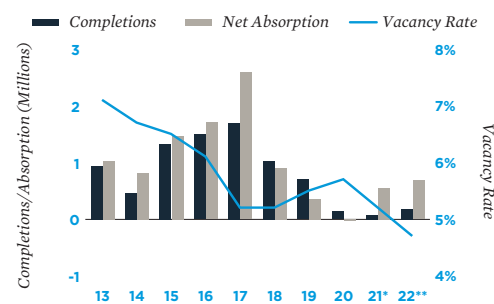
Mild competition from new construction allows operators of existing spaces to leverage tenant demand into rent growth. The average marketed rate climbs to \$13.30 per square foot.
- Investment**

Waukesha County assets remain attractive long-term prospects, though the submarket's vacancy rate notched a seven-year high, possibly persuading more owners to list in 2022.

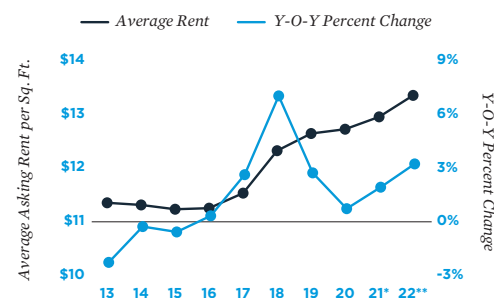
Economic Trends



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 February 2022. 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. Forecasts for employment and retail data are made during the first 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.