

MARKET REPORT

Office
Milwaukee Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

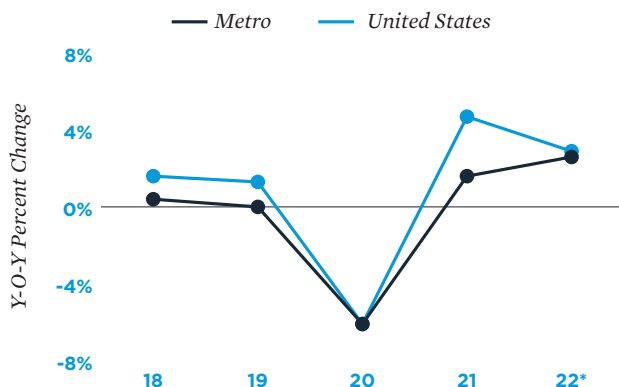
2Q/22

Divergent Vacancy Trends in Key Submarkets Reveal Metro-Level Demand Circulations

Uneven conditions within Milwaukee County. The primary economic engine and most populous area in the market — Milwaukee County — is split between two submarkets: Downtown and the remaining portion of the county. Entering the second quarter of 2021, the two sections had vacancy rates more than 500 basis points apart, with the CBD at 18.7 percent and remaining Milwaukee County at 13.6 percent. One year later at the same reference point in 2022, that margin had shrunk to 300 basis points as each area's vacancy rate moved about 100 basis points in opposite directions. This potentially represents the reversal of a pandemic-era trend, when demand for urban core office space dried up and less dense suburban floor plans gained favor. New move-ins Downtown in May 2022 by Old National Bank and 3D Molecular Designs indicate that this recalibration could continue in the coming quarters.

Waukesha County nabs highest vacancy. The third-largest zone with nearly 18 million square feet of office space, Waukesha County entered April with the highest rate of availability in the metro for the first time since 2014. That standing previously belonged to Downtown Milwaukee, but Waukesha County's 130-basis-point rise during the past year ended in March, compared to the CBD's 100-basis-point drop, altered the rankings. Nevertheless, the Golf Parkway Corporate Center in Brookfield, the largest project in the 2022 pipeline with 227,000 square feet of space, was more than 85 percent pre-leased as of June, which will aid net absorption here.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**22,000
JOBS**
will be created

EMPLOYMENT:

Similar to regional counterparts like the Twin Cities and Chicago, Milwaukee still trailed its pre-pandemic employment mark as of April 2022. A full recovery is unlikely by year-end, but a strong first quarter gain supports a faster annual rise than in 2021.



**475,000
SQ. FT.**
will be completed

CONSTRUCTION:

Metrowide, over 90 percent of 2022 deliveries were accounted for as of the second quarter. This should help minimize upward vacancy pressure and direct expanding users to existing floor plans. Also, the completion total is the lowest in four years.



**40
BASIS POINT**
increase in vacancy

VACANCY:

Despite a relatively small construction pipeline that is highly pre-leased, firms will continue to give up space as they reevaluate their needs amid remote and hybrid models. Net absorption falls short of inventory growth, pushing vacancy up to 16.4 percent.

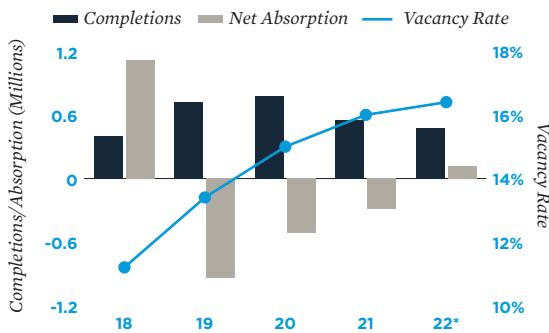


**1.2%
INCREASE**
in asking rent

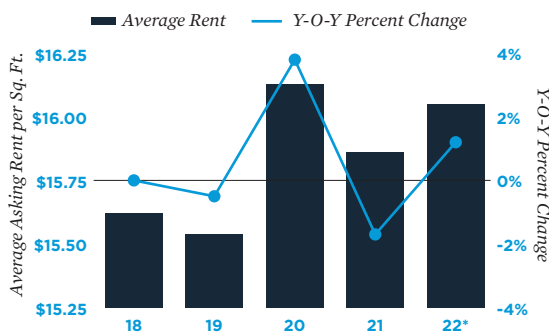
RENT:

Coming off three straight years of negative net absorption totaling 1.7 million square feet relinquished during that span, the metric flips positive in 2022. This supports asking rent growth, albeit a small rise to \$16.05 per square foot on average.

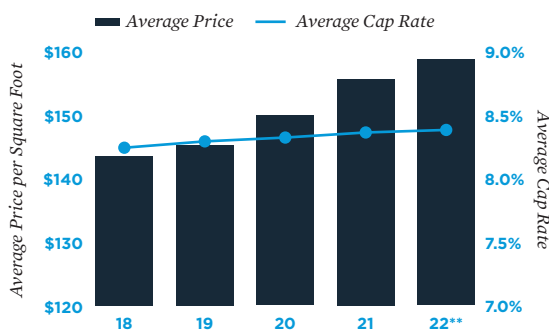
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

428,000 sq. ft. completed

- Less than 15,000 square feet finalized in the first quarter of 2022, limiting the yearlong completion volume to a measure that halved the previous 12 months. No submarket's stock grew by more than 1.3 percent annually.
- Underway projects are slim, but the proposal pipeline swelled to 2.5 million square feet in June, possibly signaling a future rise in developments.



VACANCY

40 basis point increase in vacancy Y-O-Y

- Upward pressure on availability was largely tied to the Class A tier, where vacancy shot up 180 basis points during the past year to 23.0 percent in March. Conversely, the Class B/C rate dipped to 13.7 percent.
- Washington County is the smallest submarket by stock, but the area's 4.9 percent vacancy stands out, as all other counties have double-digit rates.



RENT

0.3% increase in the average asking rent Y-O-Y

- Vacant Class A stock in the CBD rose by 15 percent during the past year, creating competition among operators and weighing on asking rates. This contributed to an overall 2.9 percent ease in marketed rents Downtown.
- The Class B/C segment piloted rent growth, with the fastest asking rate improvements in outlying areas like Ozaukee and Washington counties.

Investment Highlights

- Transaction velocity during the 12-month period ended in March landed in the middle of pre-pandemic heights recorded in 2019 and health crisis lows reported in 2020. Activity is edging up, yet a level of uncertainty persists as vacancy continues to rise and longer-term adoptions of hybrid and remote operations are likely. Meanwhile, the average sale price rose 5 percent during that period to \$159 per square foot on average, as the mean cap rate stayed among the highest in the nation at 8.4 percent.
- Over the past two quarters, several major office complexes changed hands. In Downtown Milwaukee, the Chase Tower and Johnson Controls building, each larger than 400,000 square feet, transacted for sale prices under \$70 per square foot. In the case of the Johnson Controls building, the buyer indicated that the property may be fit for a conversion into multifamily or hospitality, a strategy that could be utilized more frequently in the aftermath of the pandemic's impact on the office sector.
- Medical offices cater to a diverse landscape of investors. Clinics and health centers near medical hubs in Brookfield and Wauwatosa can fetch prices above \$300 per square foot. Assets in more outlying counties like Washington and Ozaukee have prices closer to \$150 per square foot on average.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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