

INVESTMENT FORECAST

OFFICE
Milwaukee Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2020

Initial Returns Above the National Average; Rising Vacancy Presents Short-Term Headwind

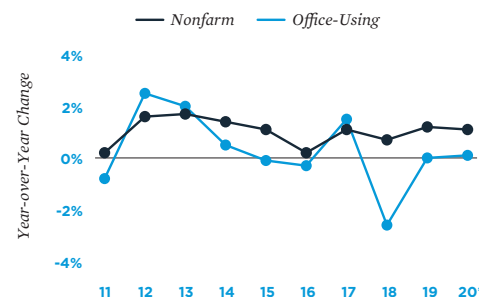
Downtown consolidation leaves behind unoccupied suburban spaces. Firms are placing a high priority on leasing office space in areas with an educated labor pool. This has brought a wave of tenants downtown east of the river, where access to the lakefront, Historic Third Ward and Riverwalk District provide the live-work-play environment that attracts young professionals. Here, the 163,000-square-foot Huron Building is underway, and law firm Husch Blackwell has pre-leased two-thirds of the space. Additionally, the BMO Tower will open nearby in early 2020 with a significant amount of pre-leased space. BMO Harris Bank will occupy 124,000 square feet of the tower as it consolidates multiple offices throughout the metro. As companies move into these newly built properties downtown, they are leaving behind smaller spaces in suburbs that need to be backfilled. Although leasing activity by financial institutions with an established market presence remains steady, the lack of new firms relocating to Milwaukee will create some headwinds. At the same time, roughly 856,000 square feet will be delivered this year, the largest volume since 2017, placing upward pressure on vacancy.

High cap rate environment luring investors. First-year returns averaged in the mid-8 percent range over the past 12 months, placing Milwaukee at one of the highest cap rates among major markets. The potential for elevated yields coupled with attractive entry costs have local and regional buyers scouring suburbs to the west and northwest of the core for value-add Class C assets. Once improved, these buildings will appeal to tenants seeking higher-quality office space at more affordable rent than found downtown. Out-of-state investors, particularly from the West Coast, will capitalize on downtown assets carrying higher yields than in their home markets. They will also target newly built medical office assets in suburbs west of the core. The strong healthcare presence in this area linked to the numerous medical colleges will fuel demand for medical office space.

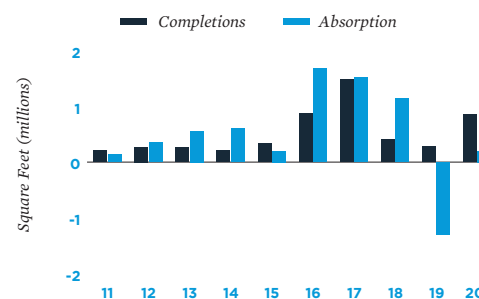
2020 Market Forecast

- Employment** ↑
 up 1.1%
 Organizations add roughly 9,800 employees to payrolls in 2020. Last year, 10,400 jobs were added.
- Construction** ↑
 860,000 sq. ft.
 Several large projects downtown bring total completions to more than triple the 281,000 square feet introduced in 2019.
- Vacancy** ↑
 up 70 bps
 A sizable supply pipeline and several move-outs leaving suburban space unoccupied facilitate a rise in vacancy to 14.3 percent this year.
- Rent** ↑
 up 2.1%
 Tenants' preference toward higher-quality space being met by new development will push the average asking rent to \$18.16 per square foot by year end.
- Investment** ●
 Class C buildings northwest of the core and farther south in Racine will be targeted for value-add opportunities. Those seeking more stabilized assets will concentrate on major office-using districts in the core, where vacancy is tight.

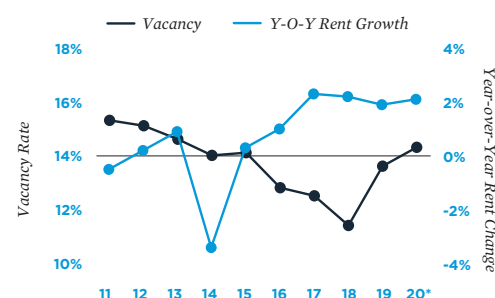
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



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

Alan Pontius

Senior Vice President | Director
Office and Industrial Properties Division
(415) 963-3000
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.