

2Q24

# Milwaukee Office Market Overview



NEWMARK



# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 3.2% unemployment rate remains significantly lower than the 3.8% 10-year historical average.
- Year over year, job gains have been most pronounced in the government and construction industries, while professional & business services had the most job losses.
- The Midwest Consumer Price Index has continued to fall after hitting a peak in June 2022 of 9.5%. As of June 2024, it now stands at 2.5%.

## Major Transactions

- This past quarter the market experienced 250,000 SF of leasing activity. Through the first half of the year there has been 724,000 SF of leasing activity, roughly 11% below the historical half year average.
- In 2023, Northwestern Mutual announced it will spend up to \$500 million to remodel and expand the 18-story 818 E. Mason St. office building and replicate the architecture of a neighboring 32-story office tower. Construction has begun on this project and the company will relocate up to 2,000 of its suburban employees upon completion. In addition, Northwestern Mutual recently purchased 732 N Jackson St, a 52,000 SF office property adjacent to another office building the company owns.
- Two large leases were signed this quarter at 300 N. Executive Dr. in Brookfield: Common Ground Healthcare leased 19,675 SF and Rausch Sturm leased 13,825 SF.

## Leasing Market Fundamentals

- Over the past four quarters, the market has experienced 236,666 square feet of negative absorption. Despite the substantial negative absorption, the vacancy rate has only increased by 18 basis points, reaching 20.75% up from 20.57% in 2Q 2023.
- While there has been a lot of movement on the surface, the market’s occupied SF is relatively unchanged since the second quarter of 2020 when it measured 28.88M SF it now stands at 28.74M SF.
- This past quarter, the availability rate fell a modest 129 basis points from 28.3% to 27.0%. Since the third quarter of 2022, the availability rate has gradually risen from 25.8% to its current level of 27.0%
- The construction pipeline is nearly empty, as there is only one office building under construction: Mayfair Medical Commons is a two-story, 45,823 SF outpatient facility.

## Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will continue to impact leasing and investment activity.
- Market-wide availability and vacancy rates will rise as large-block users will continue to shed excess office space.
- While asking rents have continued to moderately rise, tenants will see increasingly competitive concessions in the form of free rent and tenant improvements allowances from landlords.

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# Economy

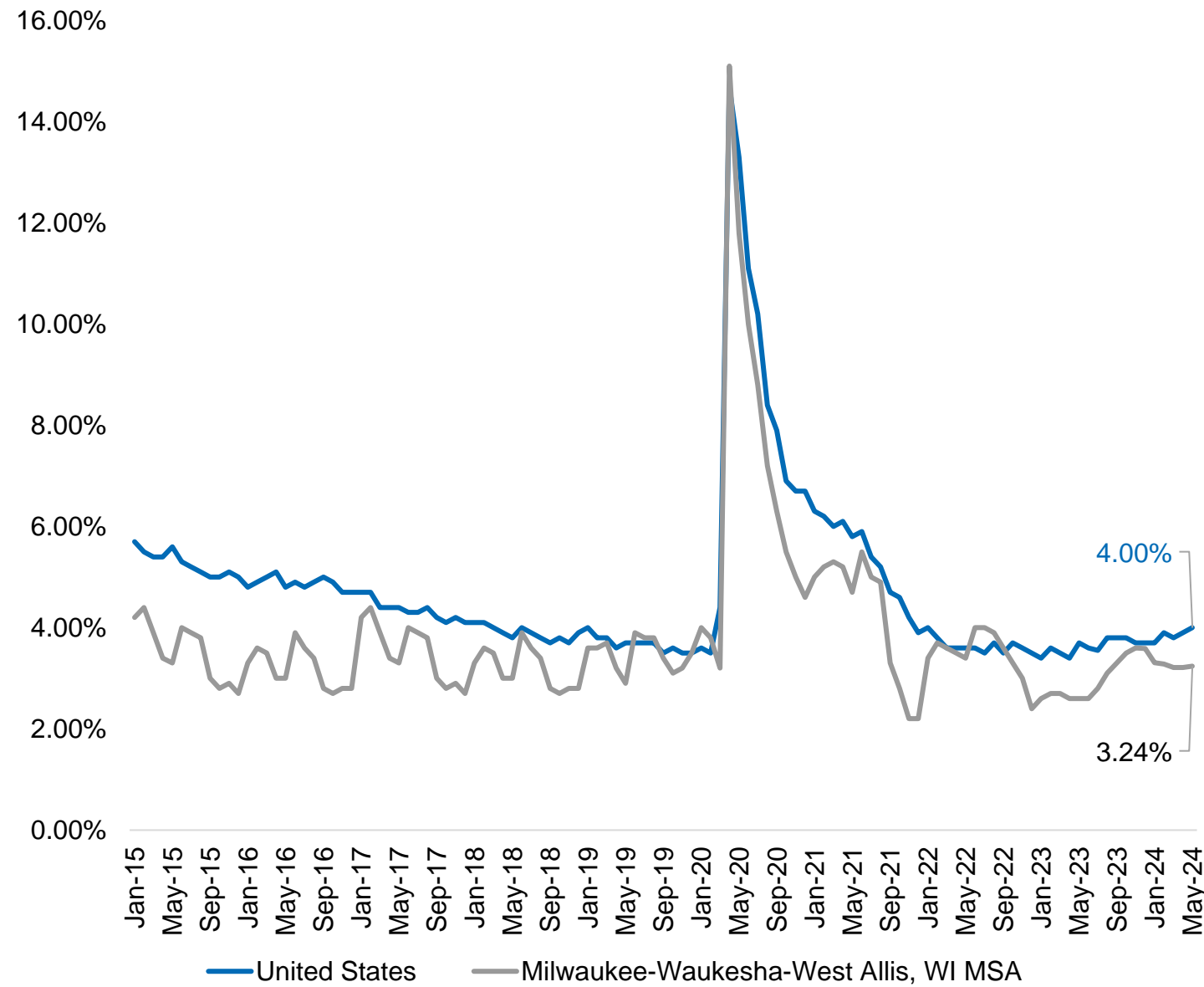




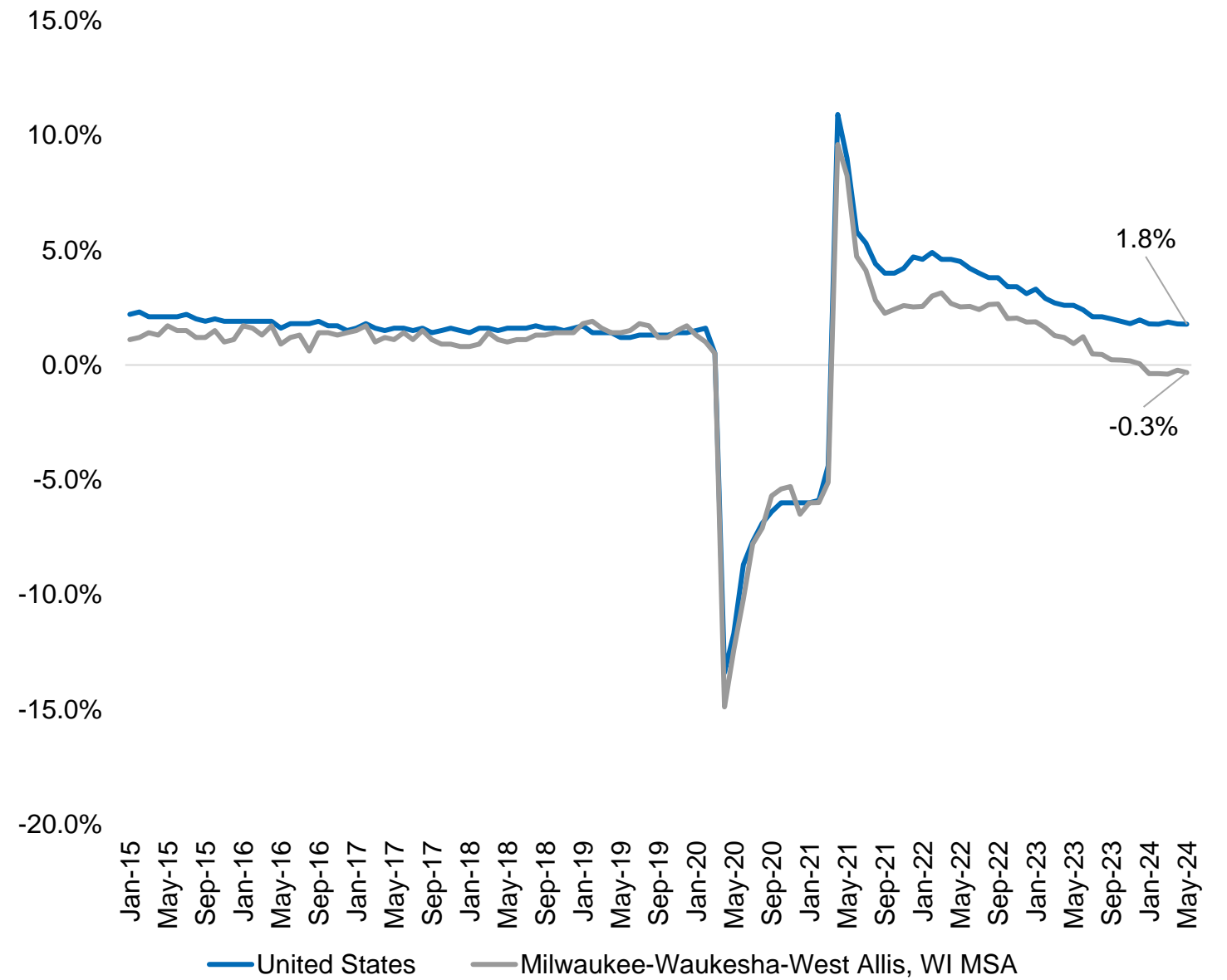
# Metro Employment Trends Signal A Slowing Economy

The Metro's annual payroll employment average contracted 0.3% and is considerably lower than the nationwide average of 1.8%. However, the Metro's unemployment remains at 3.2% which is better than the national average or 4.0%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

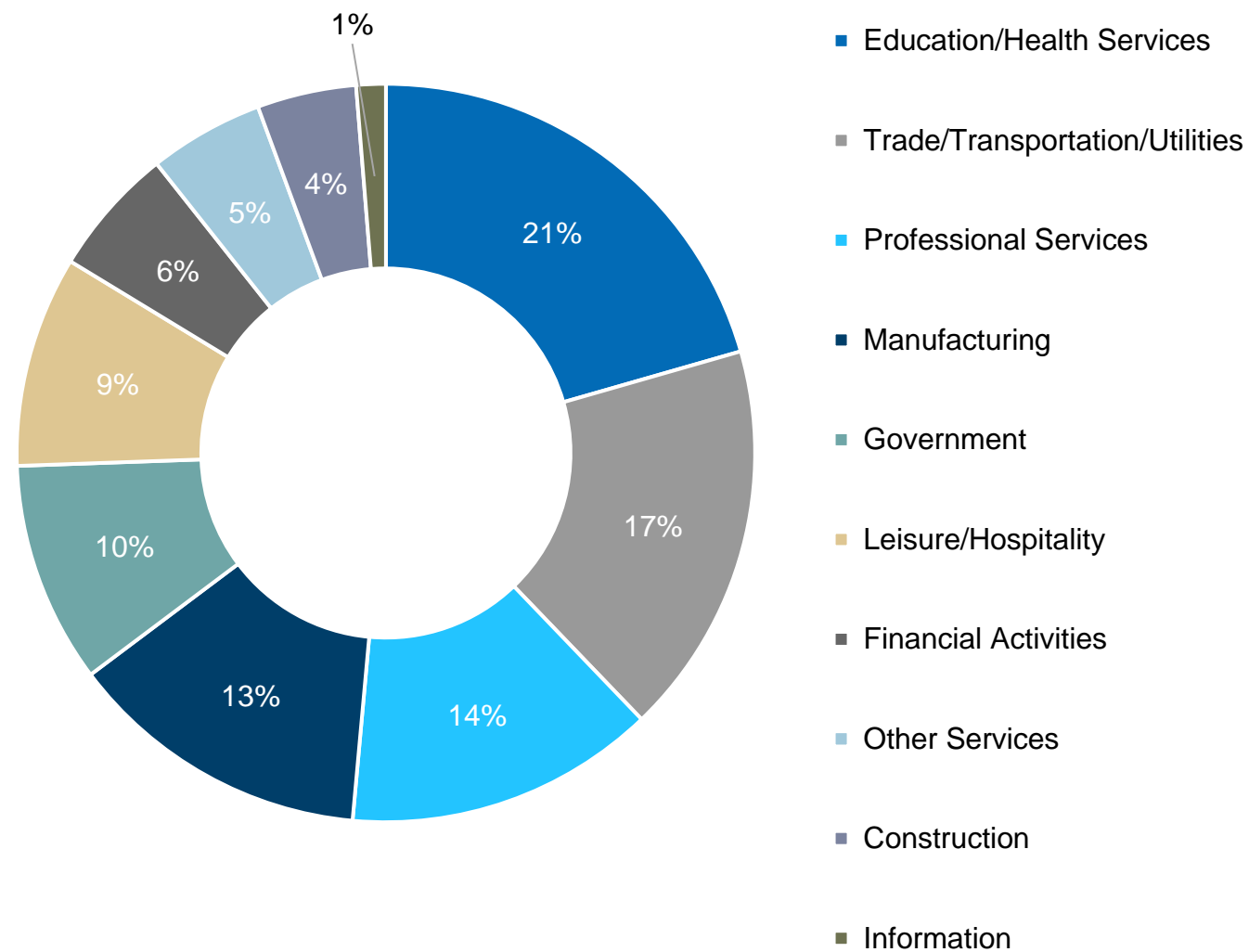


Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

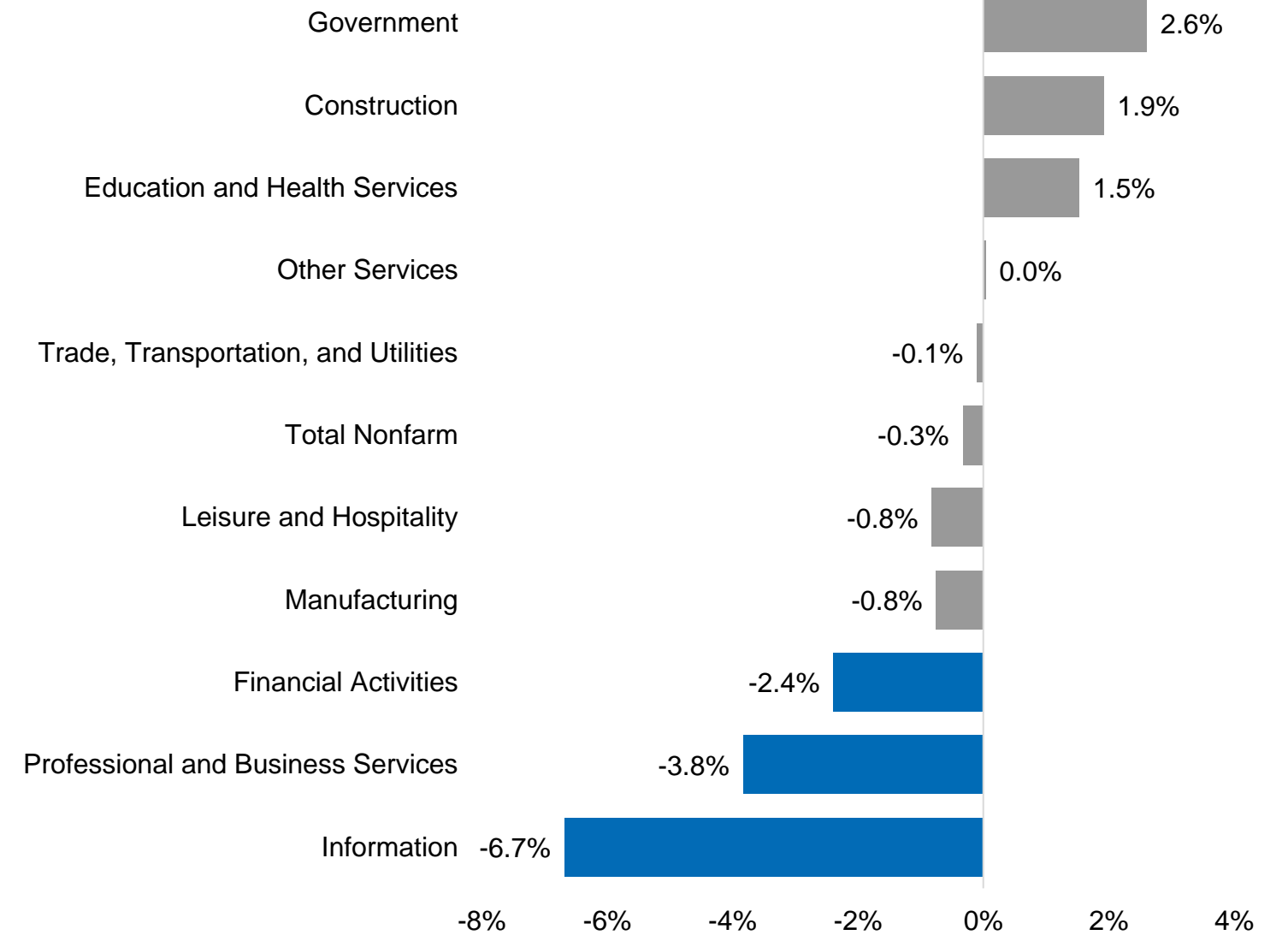
# Job Losses Driven in Large Part by the Professional Services Sector

Over the past year, 4,800 jobs were lost across the market. Office-using employment sectors saw a 1.5% contraction as 4,500 jobs were lost. The Government sector saw the most growth as 2,200 jobs were added representing a 2.6% increase in employment.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

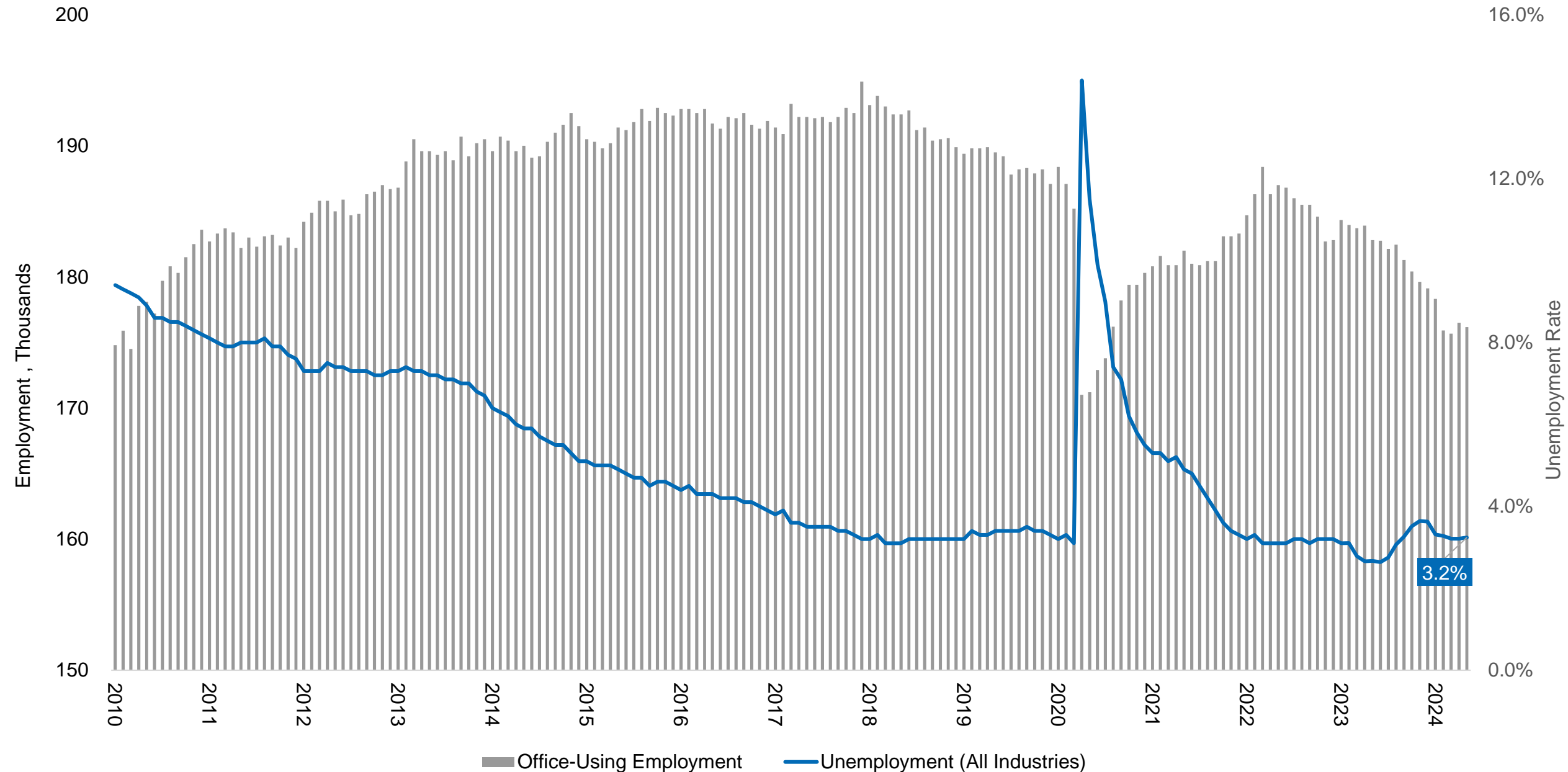


Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

# Office Employment Strong but Not Immune to Softening Conditions

The number of office jobs initially rebounded to pre-pandemic levels but recently has lost ground as there were a significant number of layoffs in the professional and business and information sectors throughout 2023 and early 2024.

## Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

Note: November 2023 data is preliminary.

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

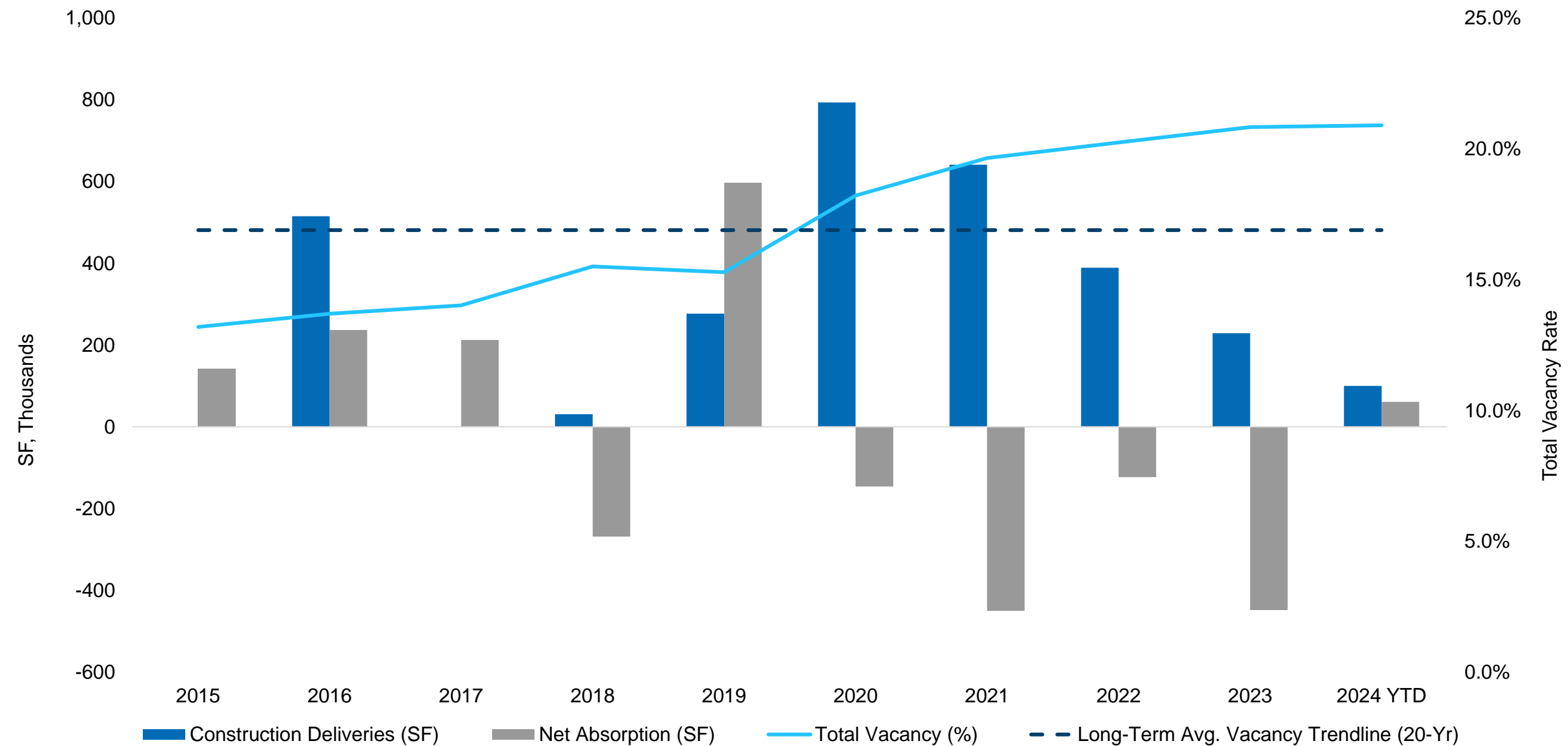




# Vacancy Rises as Construction Deliveries Outpace Net Absorption

Over the past four quarters, the market has experienced 236,666 square feet of negative absorption. Despite the substantial negative absorption, the vacancy rate has only increased by 18 basis points, reaching 20.75% up from 20.57% in 2Q 2023. This disconnect can be attributed to the conversion of vacant office buildings into multi-family and industrial uses. Additionally, while there has been a lot of movement on the surface, the market's occupied SF is relatively unchanged since the second quarter of 2020 when it measured 28.88M SF it now stands at 28.74M SF.

Historical Construction Deliveries, Net Absorption, and Vacancy

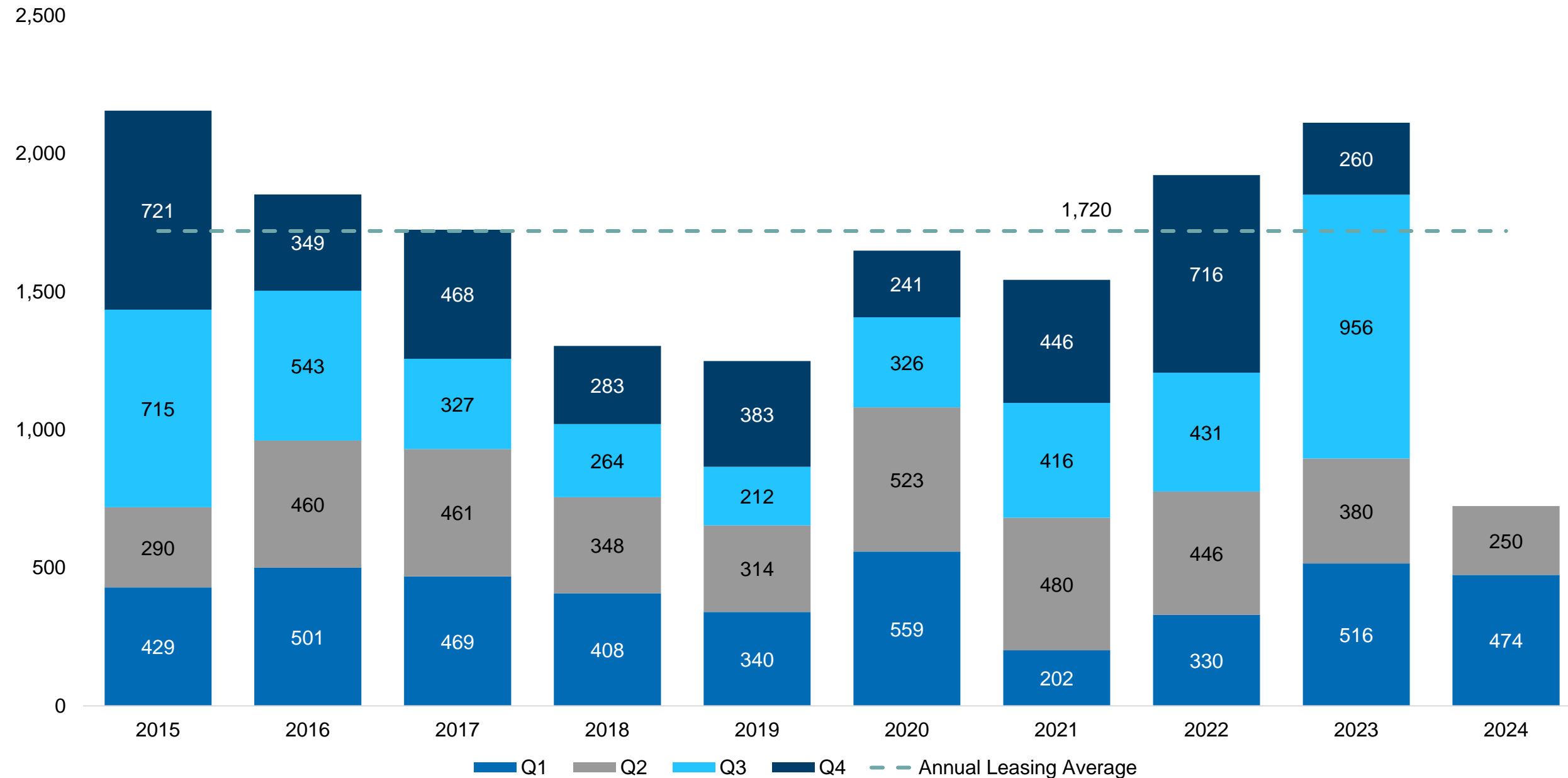


Source: Newmark Research

# Leasing Activity Pace Has Slowed

The combination of ongoing space reductions, economic uncertainty, and higher capital costs has prompted numerous companies to reassess their strategies and implement cost-cutting measures. This past quarter the market experienced 250,000 SF of leasing activity. Through the first half of the year there has been 724,000 SF of leasing activity, roughly 11% below the historical half year average.

Total Leasing Activity (Thousands SF)



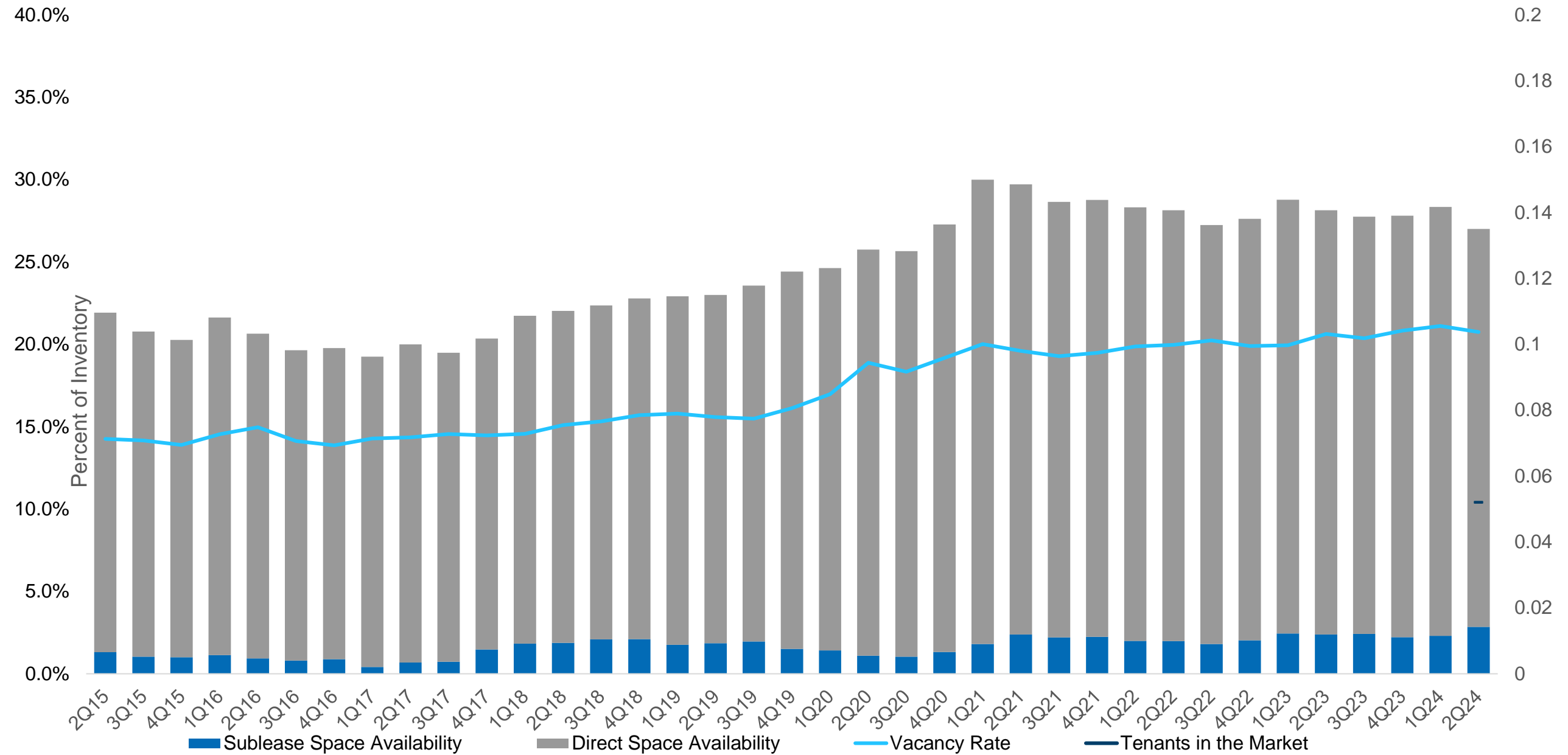
Source: Newmark Research, CoStar



# Availability Continues to Increase While Tenant Demand Drops

This past quarter, the availability rate fell a modest 129 basis points from 28.3% to 27.0%. Since the third quarter of 2022, the availability rate has gradually risen from 25.8% to its current level of 27.0%

Available Space and Tenant Demand as Percent of Overall Market

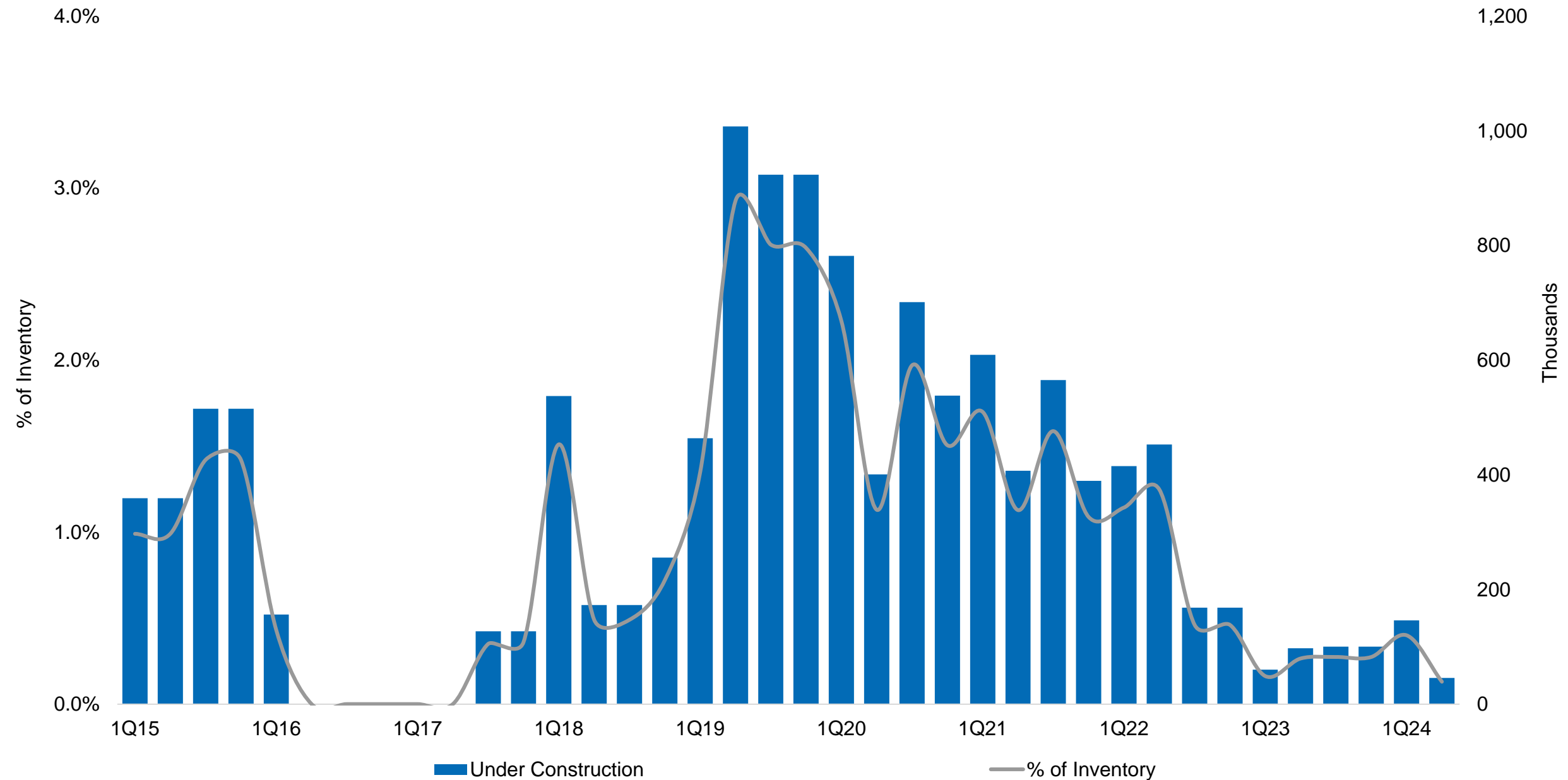


Source: Newmark Research

# New Construction Slows

The construction pipeline is nearly empty, as there is only one office building under construction: Mayfair Medical Commons is a two-story, 45,823 SF outpatient facility which will be delivering late 2024. This past quarter two buildings were delivered: The Grain, Loomis Crossing and Mayfair Medical Commons. The Grain is a four-story 60,500 SF mixed-use building in Delafield and Loomis Crossing is a 40,288 square foot medical office building.

## Office Under Construction and % of Inventory



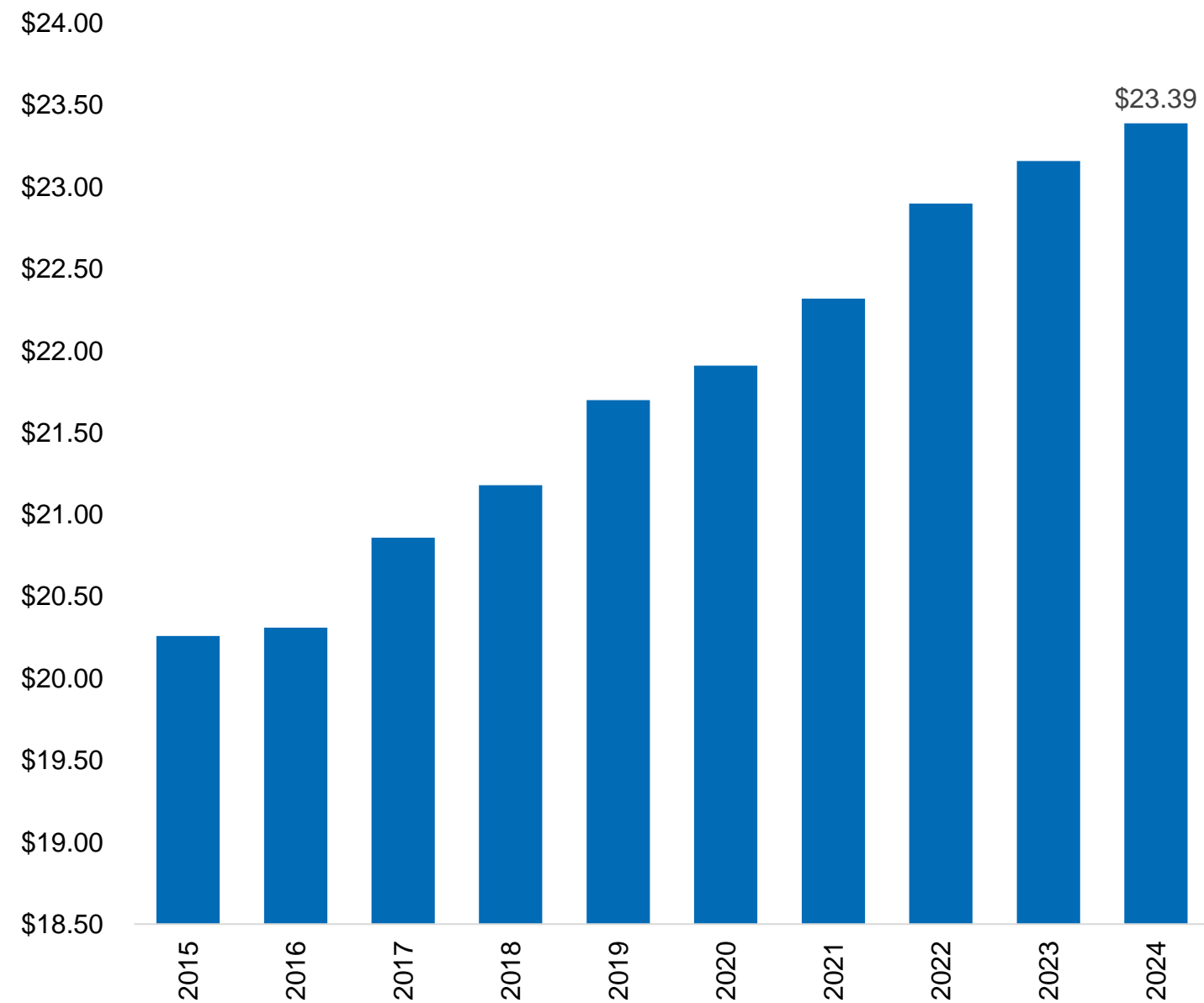
Source: Newmark Research, CoStar, City/County of \_\_\_\_ (where applicable)



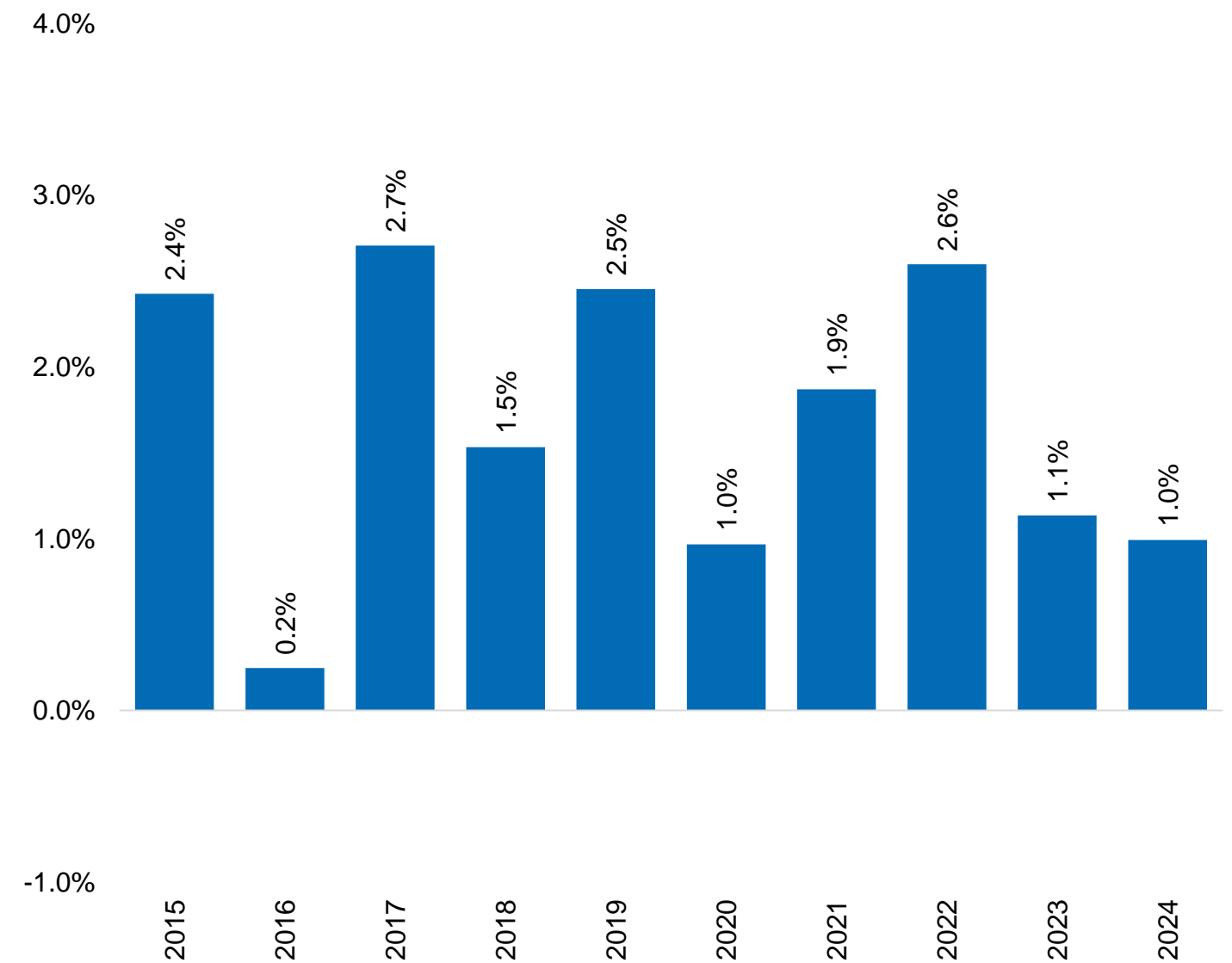
# Rents Remain Flat

Overall average asking gross rates have continued to grow and now sit at \$23.39/SF. Year-over-year rent growth grew a modest 1.0%, which can mostly be attributed rising operating costs and taxes. Class A asking rates increased slightly during the quarter to \$30.15/SF. It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

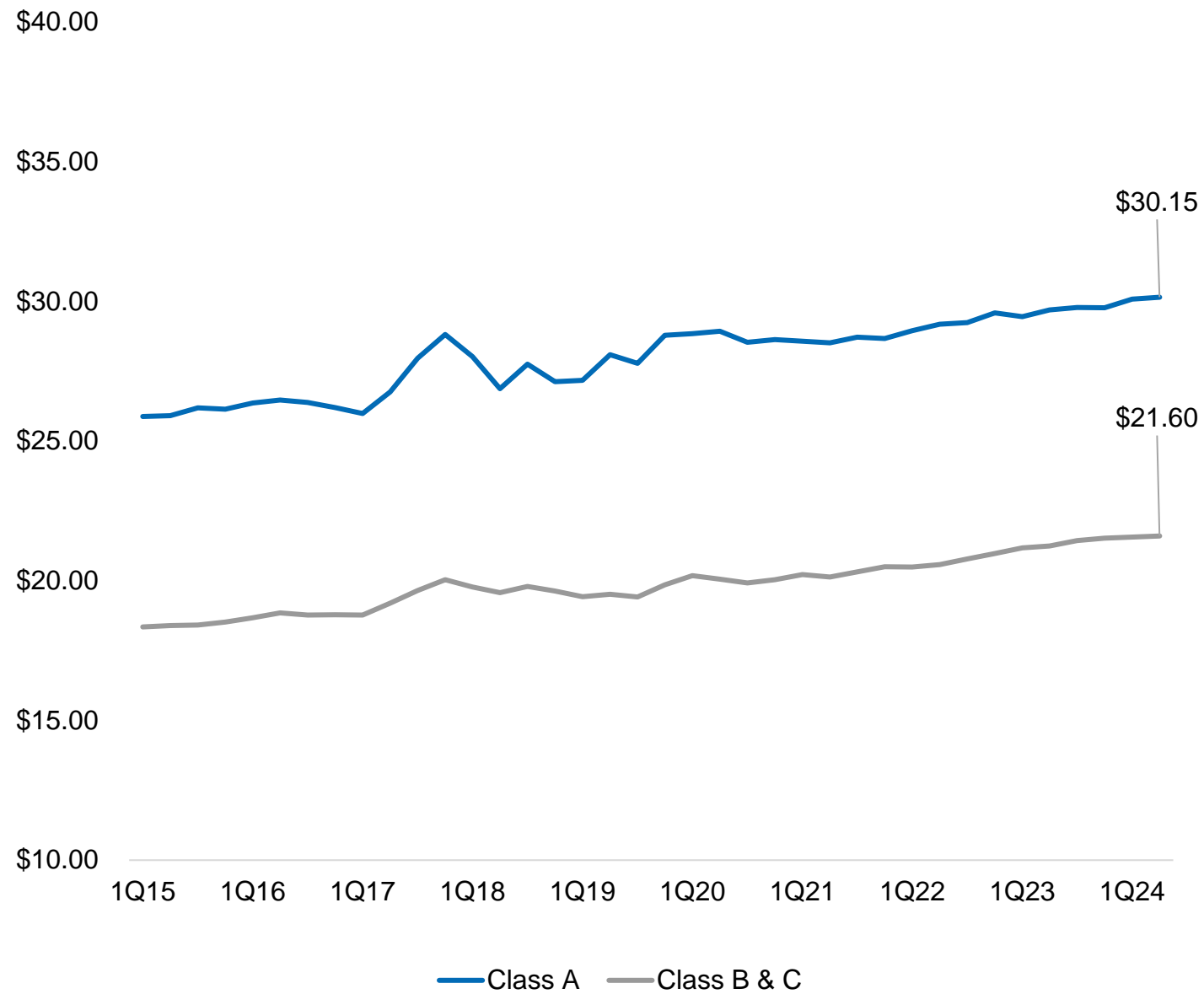


Source: Newmark Research, CoStar

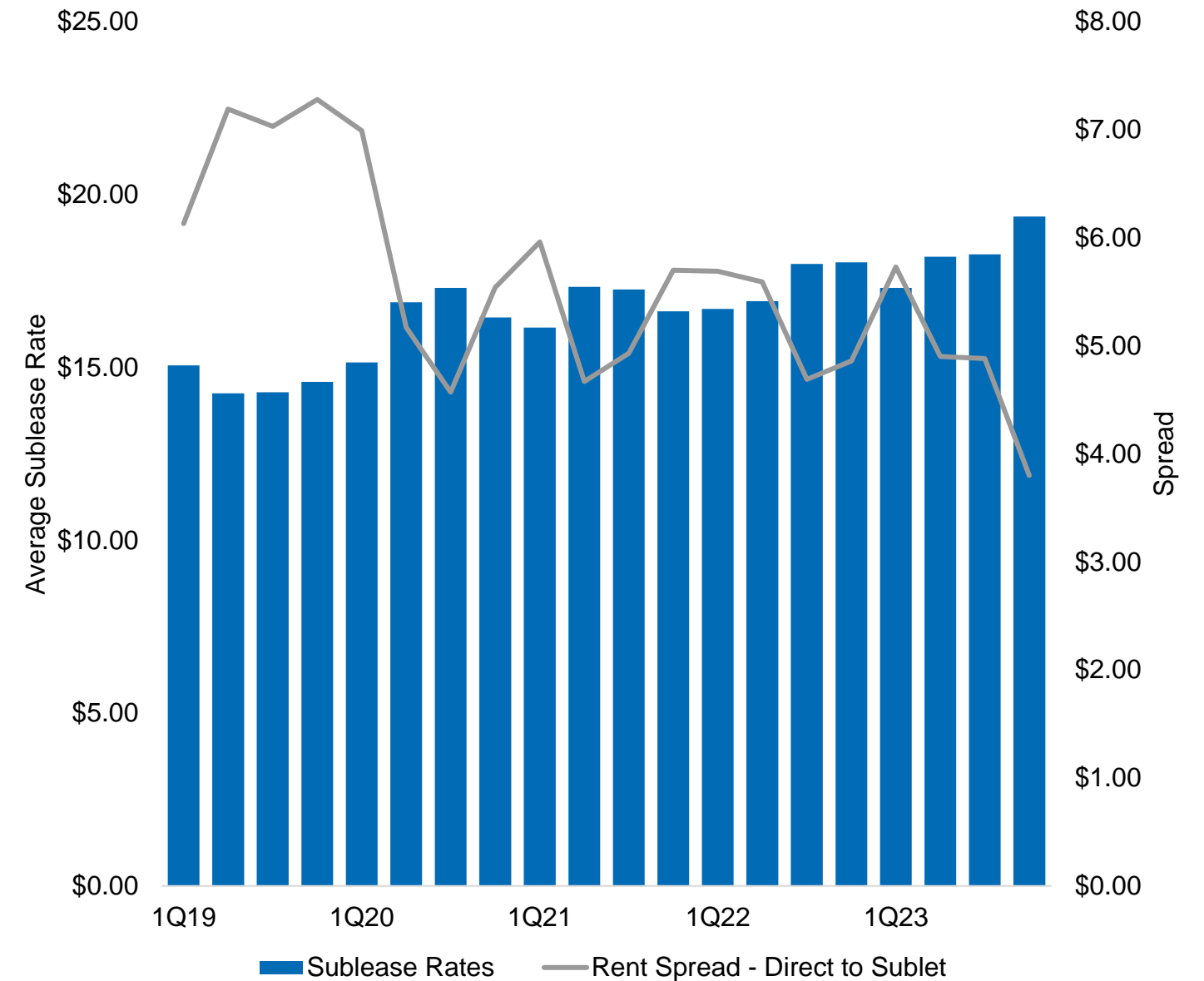
# Asking Rents March On

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Some rent compression is being experienced among major markets, but secondary and tertiary markets continue to appreciate.

Class A and Class B Average Asking Rents



Sublease Rates



Source: Newmark Research, Catylist (aka Redi Comps, Inc), Costar



# Activity Slows

While there are uncertainties about the overall economy, leasing momentum is getting stronger as there were **six** leases new leases over 10,000 SF completed this quarter.

## Notable 2Q24 Leases

Tenant	Building(s)	Submarket	Type	Square Feet
AECOM	Schlitz Park RiverCenter 1515 River Center Dr Milwaukee	Downtown West	Renewal	26,860
<i>AECOM renewed their lease at 1515 River Center Dr, Milwaukee.</i>				
Common Ground Healthcare	Executive Center V 300 N Executive Dr Brookfield	Brookfield	New	19,675
<i>Common Ground Healthcare announced that they were moving from their existing location in Bishops Woods to Executive Center V's 3<sup>rd</sup> floor and will move in late 2024.</i>				
Rausch Sturm	Executive Center V 300 N Executive Dr Brookfield	Brookfield	New	13,825
<i>Rausch Sturm announced that they are moving from their existing location on Sunny Slope Rd to Executive Center V's 3<sup>rd</sup> floor and will move in late 2024.</i>				
Milwaukee County – UW Extension	Summit 6737 W Washington St West Allis	West Allis	New	13,552
<i>Milwaukee County – UW Extension leased 13,552 SF at Summit Place, 6767 W Washington St, West Allis.</i>				
Mason Wells	411 Wisconsin 411 E Wisconsin Ave Milwaukee	Downtown East	Renewal	13,372
<i>Mason Wells renewed their lease at 411 E Wisconsin Ave, Milwaukee.</i>				
Network Health	16960 W Greenfield Ave Brookfield	Brookfield	Renewal	11,462
<i>Network Health renewed their lease at 16960 W Grenfield Ave, Brookfield.</i>				

Source: Newmark Research

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## Central Business District Vacancy Rate

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## Suburban Vacancy Rate

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# Supplemental Tables







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## Historical Statistical Overview

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