

FIGURES | MILWAUKEE INDUSTRIAL | Q2 2023

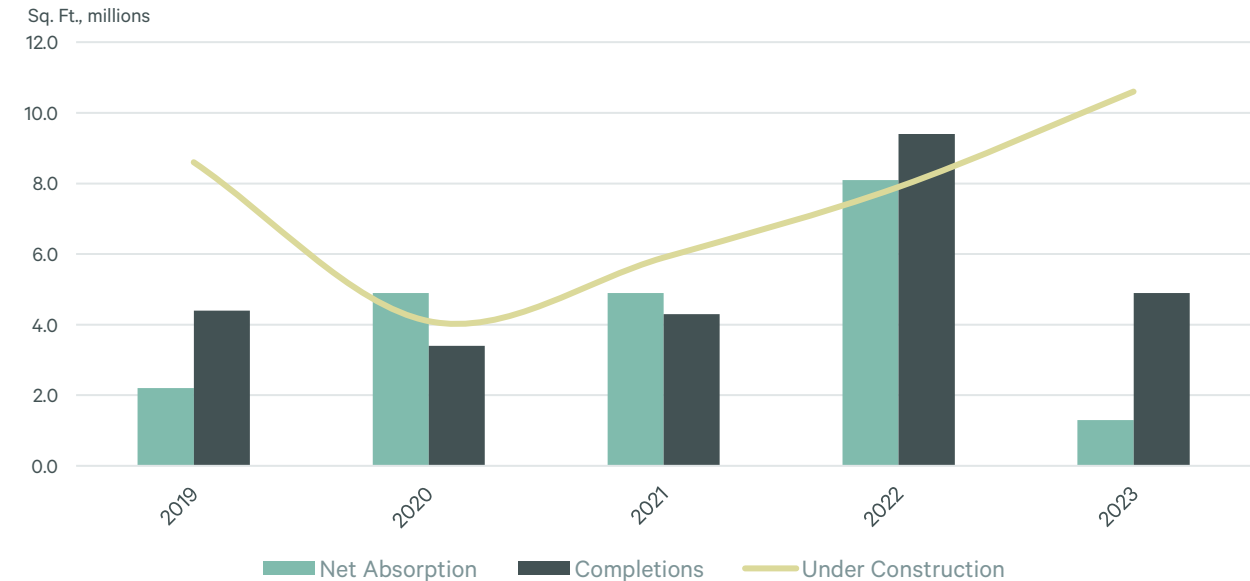
# Continued positive absorption and record construction pipeline in Q2



Note: Arrows indicate change from previous quarter.

- The vacancy rate increased to 3.4% and the availability rate increased to 5.2% while the average asking lease rate increased to \$5.32.
- The market saw 459,898 sq. ft. of positive absorption during Q2 2023.
- There were 6 deliveries total in Q2 2023, totaling approximately 1.1 million sq. ft. Included were five speculative (spec) projects.
- There are approximately 10.6 million sq. ft. of projects under construction in the market.
- Investment sales accounted for approximately \$69 million of sales volume in Q2 2023.

FIGURE 1: Net Absorption, Construction Completions and Under Construction



Source: CBRE Research, Q2 2023

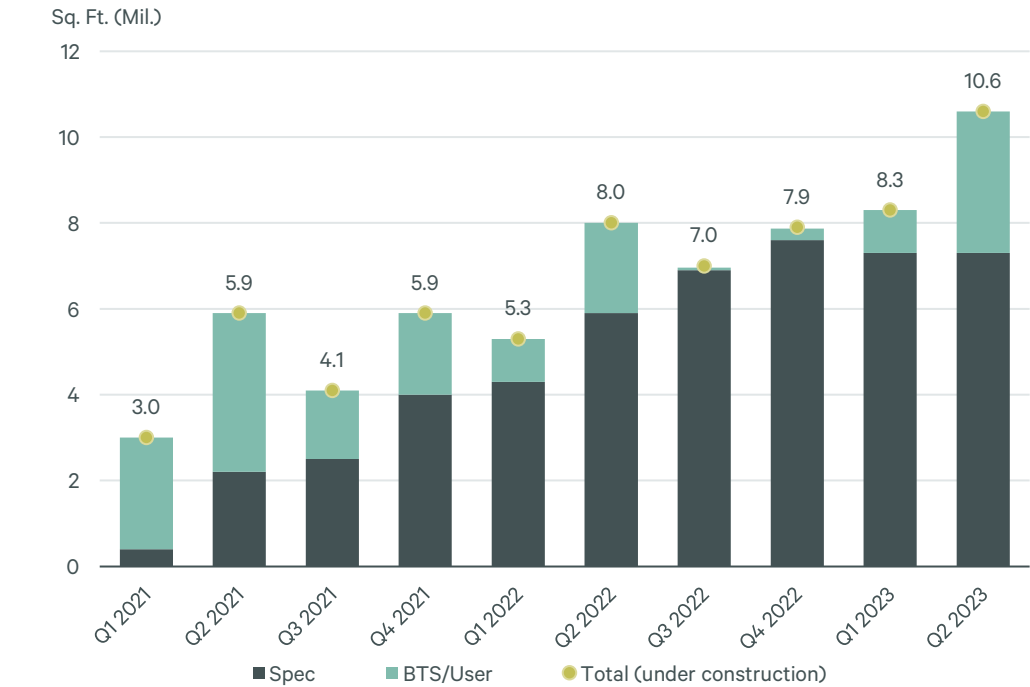
Construction Pipeline

For Q2 2023, the Milwaukee market saw a record amount of projects under construction with 10.6 million sq. ft. currently under construction. The largest project is currently the 1.4 million sq. ft. Uline warehouse in Kenosha, which is on track for a Q4 2023 delivery.

One spec project, I-94 Business Center by Endeavor Development delivered in Q2 in the Racine submarket, totaling over 204,638 sq. ft., and three spec projects totaling roughly 421,000 sq. ft also delivered. A BTS project, the ABB Warehouse (Lot 1 South), totals 309,474 sq. ft. and was delivered this quarter in New Berlin.

As of Q2 2023, there were 41 projects under construction, totaling approximately 10.6 million sq. ft. Most of these projects are in southern submarkets of Kenosha and Racine. Spec projects accounted for 7.3 million and BTS/User projects accounted for 3.3 million.

FIGURE 2: Active Construction, Q2 2021 to Q2 2023



Source: CBRE Research, Q2 2023.

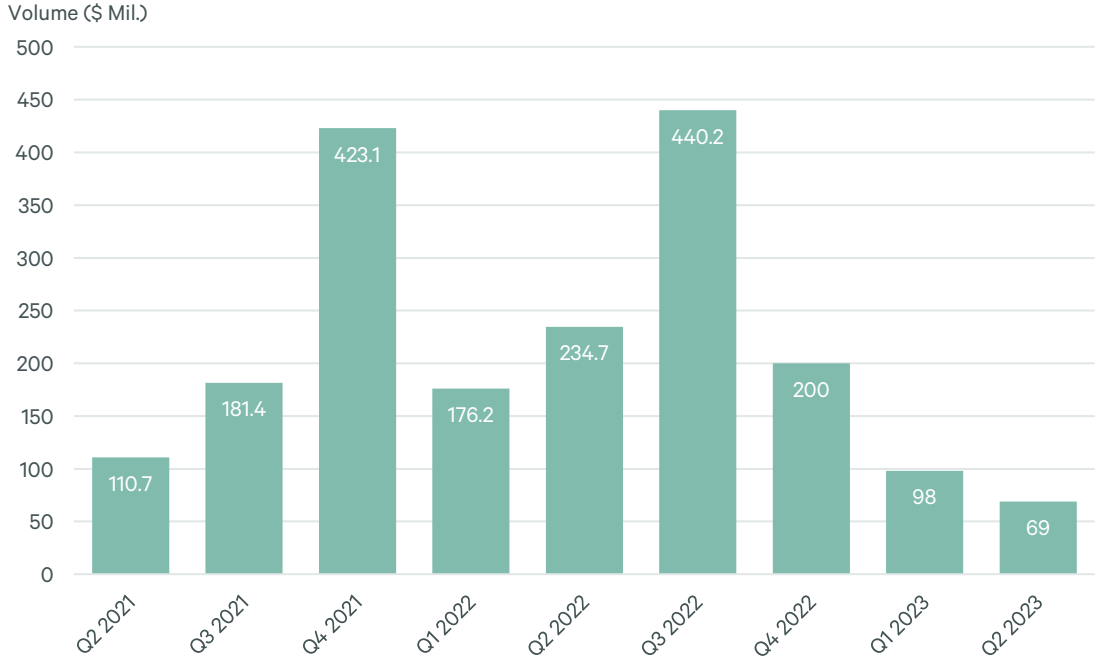
Investment Sales

Industrial investment sales volume decreased in Q2 2023, with 18 properties totaling 1.1 million sq. ft. sold for a total of \$69 million. Active buyers generally financed their purchases with all cash.

The largest investment transaction of the quarter was the sale-lease-back of the MGS properties in Germantown and Menomonee Falls. The properties were purchased by Borgman Capital for \$33 million.

Cap rates for core Class A (Core and Core Plus) in Milwaukee and Southeast WI markets are currently 5.75% – 6.25%. These rates are up from last quarter’s rates that fell between 5.25%-5.75%.

FIGURE 3: Investment Sales, Q2 2021 to Q2 2023



Source: CBRE Research, Q2 2023.

FIGURE 4: Vacancy Rate and Asking Lease Rate

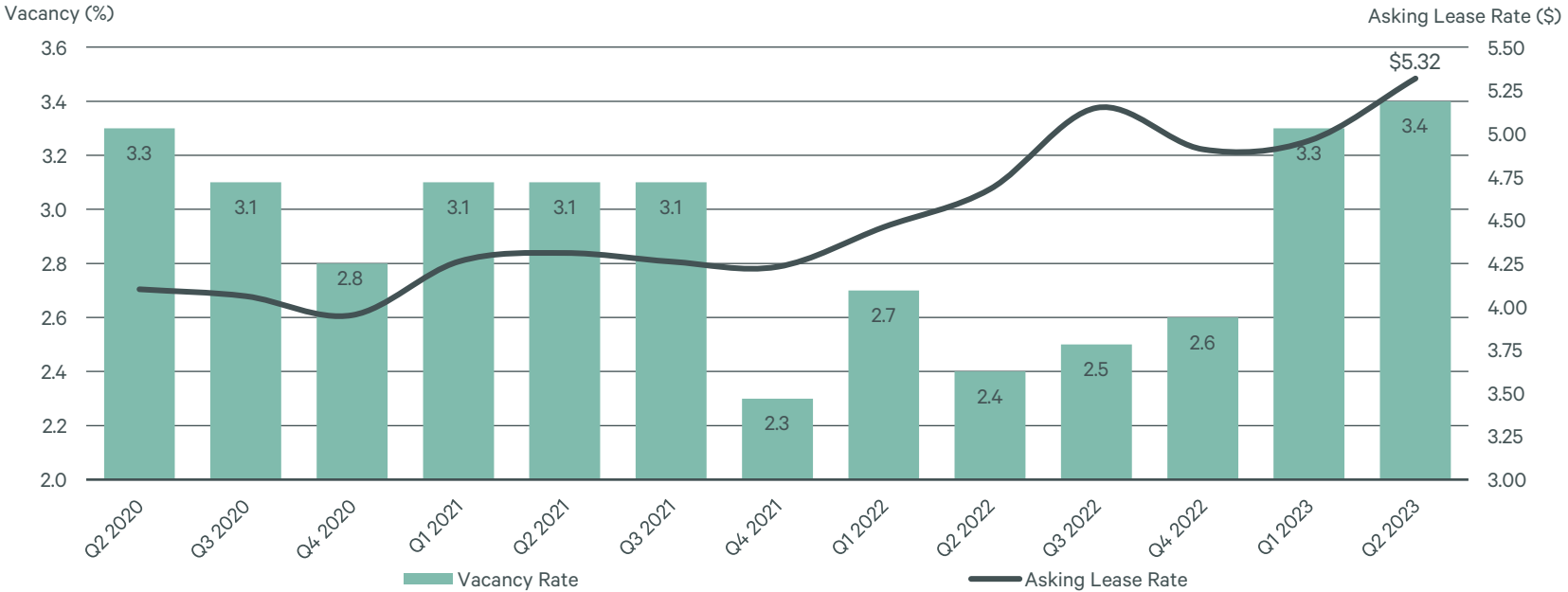


FIGURE 5: Top Transactions, Q2 2023

Tenant/Buyer	Sq. Ft.	Type	Lease Type	Address
Sterling Products, Inc	183,480	Lease	Renewal	2800-2900 S 160 <sup>th</sup> St, New Berlin
Zero Zone	183,200	Lease	New	104 Hill Ct, Mukwonago
2022 Florist, LLC	94,665	Sale	Sale	6100 N Baker Rd, Glendale
The Marek Group Inc	81,549	Lease	New	W251 N5350 Business Drive, Sussex
Nasco Sampling LLC	50,000	Lease	New	9501 80 <sup>th</sup> Ave, Pleasant Prairie

Source: CBRE Research Q2 2023

FIGURE 6: Milwaukee Market Industrial Statistics

Submarket	Market Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Avail. Rate (%)	Under Construction (Sq. Ft.)*	Completions (Sq. Ft.)*	Net Absorption (Sq. Ft.)	NNN Avg. Asking Lease Rate (\$/Sq. Ft./Yr)
Kenosha	46,215,983	7.5	9.7	5,423,845	224,000	341,285	\$4.5
Milwaukee Downtown	11,827,396	4.9	8.6	-	-	-	\$4.2
Milwaukee North Central	12,237,532	3.7	4.5	-	-	(29,860)	\$3.7
Milwaukee North Shore	5,743,081	4.8	5.8	-	-	62,121	\$4.6
Milwaukee Northwest	24,188,258	0.9	3.1	740,273	-	31,809	\$4.4
Milwaukee South	34,662,531	4.5	7.3	788,499	-	122,050	\$6.1
Milwaukee South Central	13,276,248	7.0	8.5	-	-	(112,000)	\$6.8
Milwaukee West	13,924,905	7.1	12.6	81,000	-	(488,096)	\$4.6
Ozaukee	12,099,902	1.7	2.4	540,868	-	(7,357)	\$5.4
Racine	31,070,288	4.1	5.1	1,204,142	401,644	11,400	\$7.6
Sheboygan	18,810,566	0.8	0.9	255,800	-	-	\$5.5
Walworth	11,474,824	0.6	0.6	-	-	(39,557)	\$3.8
Washington	22,727,852	1.4	4.1	200,000	351,282	156,237	\$5.51
Waukesha Northeast	22,548,572	0.7	1.3	-	-	87,847	\$6.9
Waukesha Northwest	20,821,261	2.0	3.2	-	150,002	115,345	\$5.9
Waukesha Southeast	16,124,325	1.2	4.0	358,010	309,474	210,087	\$7.3
Waukesha Southwest	17,351,520	0.1	1.0	-	-	(1,413)	\$6.6
TOTAL	337,605,392	3.4	5.2	10,520,516	1,436,402	459,898	5.3

Macroeconomic Outlook

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with America's small and medium sized businesses (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 and last through to the end of Q1 2024 by which time inflation will have slowed up and rates will be falling.

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all industrial buildings 20,000 sq. ft. or greater. Excludes Government owned and occupied buildings, or Medical buildings. Buildings which have begun construction as evidenced by site excavation or foundation work.

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