

FIGURES | MILWAUKEE INDUSTRIAL | Q4 2023

# SE Wisconsin speculative deliveries contribute to record vacancy



Note: Arrows indicate change from previous quarter.

- The vacancy rate increased to 4.6% and the availability rate decreased to 5.8% while the average direct asking lease rate decreased to \$5.20.
- The market saw 470k sq. ft. of positive absorption during Q4 2023. User tenants including Saputo and ABB contributed significantly to the positive absorption, moving into a combined 588k sq. ft. in Franklin and New Berlin.
- There were 10 deliveries in Q4 2023, totaling approximately 2.1 million sq. ft. Included were 6 speculative (spec) projects.
- There are approximately 5.2 million sq. ft. of projects under construction in the market.
- Investment sales accounted for approximately \$101.5million of sales volume in Q4 2023.
- This quarter the vacancy rate for Milwaukee industrial hit 4.6% - the highest it has been since Q3 2016. Much of the vacancy is limited to recently delivered Class A spaces in Kenosha and Racine.
- Leasing activity showed two 100k sq. ft.+ new leases this quarter including HARIBO of America, Green Bay Packaging Partners Fulfillment while the majority signed were under 100k sq. ft.

FIGURE 1: Net Absorption and Construction Completions



Source: CBRE Research, Q4 2023

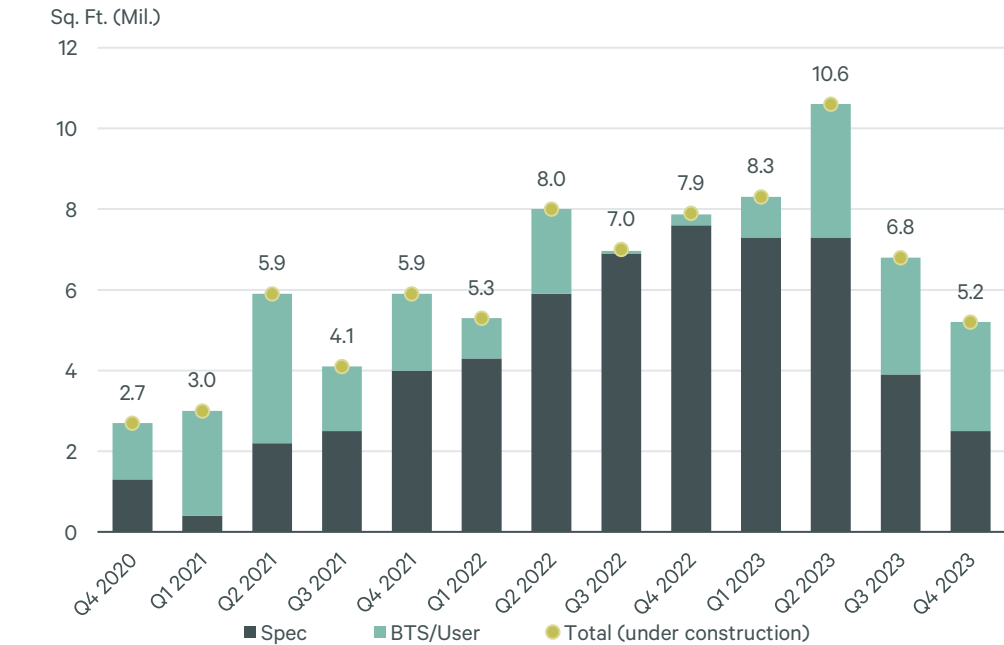
Construction Pipeline & Absorption

For Q4 2023, Milwaukee recorded 5.2 million sq. ft. under construction – a drop from last quarter as those projects have started to deliver. The largest project is currently the 1.4 million sq. ft. Uline warehouse in Kenosha, which is on track for a Q1 2024 delivery. One spec project, Flint Commerce Center – Building 3, was delivered in Q4 2023 in the Kenosha submarket, totaling 509,017 sq. ft., and five additional spec projects totaling roughly 945k sq. ft. were also delivered. The largest user project that delivered this quarter was Saputo’s facility in Franklin, WI, totaling 310k sq. ft. In addition to Saputo, three other user projects delivered this quarter, totaling 322,140 sq. ft.

As of Q4 2023, there are 27 projects under construction, totaling approximately 5.2 million sq. ft. Spec projects account for 2.5 million and build-to-suit/user projects account for 2.7 million of the total under construction.

Over the past year, many large industrial users have vacated old buildings in the Milwaukee Metro, including Briggs and Stratton, Regal Rexnord and WB Warehousing. These vacant spaces in older industrial buildings in Milwaukee South and Milwaukee West submarkets, along with new spec deliveries in the Kenosha and Racine submarkets have contributed significantly to 2023’s rising industrial vacancy rates.

FIGURE 2: Active Construction, Q4 2020 to Q4 2023



Source: CBRE Research, Q4 2023.

Investment Sales

Industrial investment sales volume increased in Q4 2023, with 15 properties totaling 1.4 million sq. ft. selling for a total of \$101.5 million.

The largest single-property investment transaction of the quarter was of a 217,988 sq. ft. property in Pewaukee, that sold for 25 million. The property traded for a 6.26% Cap rate. Sold by Westminster Capital, the property was purchased by Sterling REIT out of Fargo, ND. The largest portfolio transaction of the quarter was of the Starwood Capital Group properties in Franklin, Butler and Pewaukee. The properties were purchased by EQT Exeter for \$31.5 million. EQT Exeter held the largest industrial investment portfolio sale from Q3 2023, purchasing properties in Pleasant Prairie and Sturtevant for \$42 million.

Cap rates for core Class A (Core and Core Plus) in the Milwaukee Metro are currently 6.25%-6.50%, up from 6.00% – 6.25% in Q3 2023.

FIGURE 3: Investment Sales, Q4 2020 to Q4 2023



Source: CBRE Research, Q4 2023.

FIGURE 4: Vacancy Rate and NNN / Lease Rate

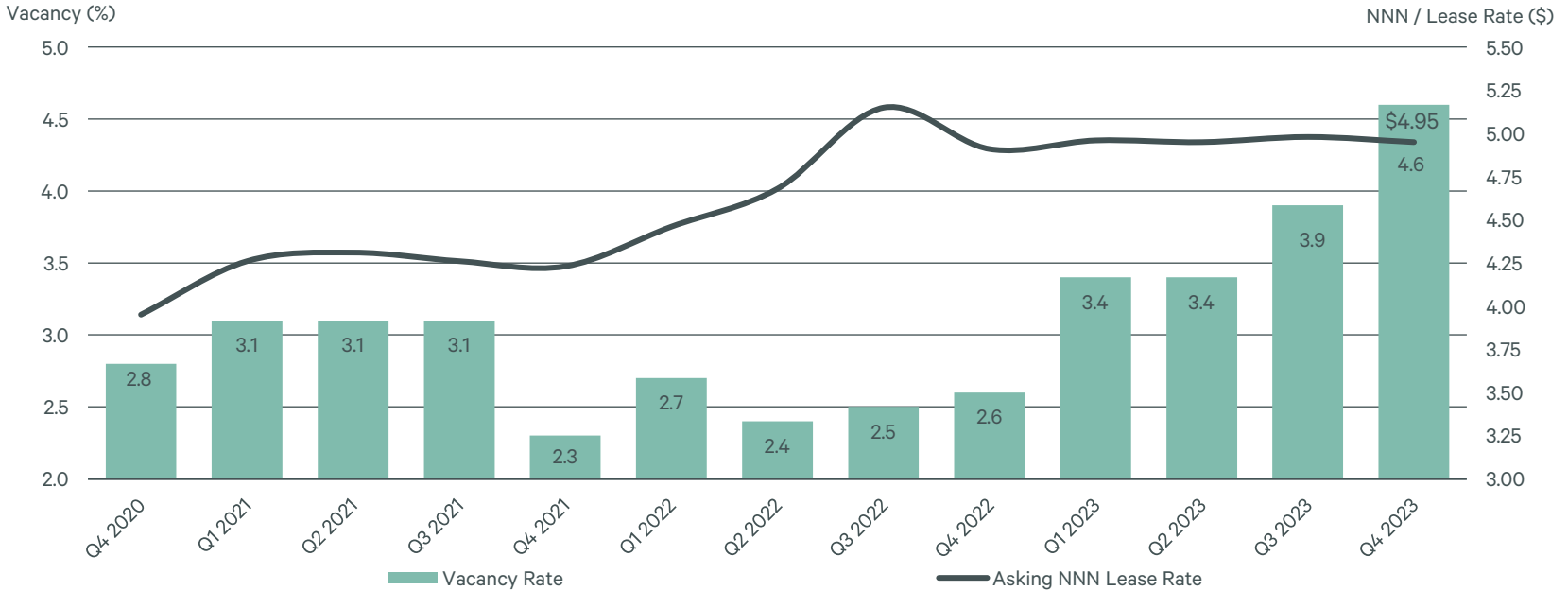


FIGURE 5: Top Lease Transactions, Q4 2023

Tenant	Sq. Ft.	Lease Type	Address
HARIBO of America	447,000	New	9403 136 <sup>th</sup> Ave, Kenosha
Green Bay Packaging	205,435	New	5600 S Moorland Rd, New Berlin
Partners Fulfillment	125,000	New	11201 Enterprise Way, Sturtevant
Microbial Discovery Group	116,667	New	3303 W Oakwood Rd, Franklin
Tekra	81,501	New	2207 S 114 <sup>th</sup> St, West Allis

Source: CBRE Research Q4 2023

FIGURE 6: Milwaukee Market Industrial Statistics

Submarket	Market Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Avail. Rate (%)	Net Absorption (Sq. Ft.)	NNN Avg. Asking Lease Rate (\$/Sq. Ft./Yr)	Under Construction (Sq. Ft.)*	Completions (Sq. Ft.)*
Kenosha	48,749,049	12.2%	11.4%	-	\$4.50	2,7150,94	666,060
Milwaukee Downtown	11,827,396	4.7%	8.4%	-	\$3.69	-	-
Milwaukee North Central	12,175,482	2.9%	6.7%	13,706	\$3.97	-	-
Milwaukee North Shore	5,743,081	1.3%	3.2%	221,500	\$4.71	-	-
Milwaukee Northwest	24,639,805	2.2%	3.9%	58,673	\$4.16	205,116	445,659
Milwaukee South	36,108,092	4.1%	5.2%	514,714	\$6.54	-	443,984
Milwaukee South Central	13,276,248	10.6%	12.4%	(565,959)	\$6.91	-	-
Milwaukee West	13,917,486	10.9%	16.2%	(443,871)	\$4.77	81,000	-
Ozaukee	12,079,352	1.5%	2.2%	34,576	\$4.38	165,868	-
Racine	33,160,129	7.3%	8.5%	149,224	\$5.90	77,000	234,360
Sheboygan	18,810,566	1.5%	1.7%	(138,050)	\$5.50	-	-
Walworth	11,658,024	0.5%	0.5%	19,000	\$3.78	25,000	-
Washington	22,724,852	0.7%	1.4%	194,423	\$4.95	1,505,036	-
Waukesha Northeast	22,649,018	0.7%	1.5%	(12,025)	\$7.61	236,045	18,180
Waukesha Northwest	21,119,022	1.8%	2.2%	170,335	\$5.60	-	-
Waukesha Southeast	16,516,038	1.9%	4.5%	209,993	\$6.91	118,000	277,960
Waukesha Southwest	17,347,680	0.6%	1.3%	19,687	\$6.77	24,000	-
TOTAL	342,501,320	4.6%	5.8%	470,150	\$4.95	5,152,159	2,086,203

National Economic Outlook

A ‘soft landing’ appears likely for the U.S. economy as consumer momentum remains strong and the Fed’s tightening cycle probably comes to an end. The pace of growth in 2024 should be slower, however, with lower and middle-income households no longer having the same levels of excess savings and wage growth they benefited from in recent years while simultaneously dealing with the effects of higher core inflation. CBRE expects the Fed to remain wary of inflation and only lower its rates 75-100 basis points in 2024. Although conditions remain less than perfect for credit markets, increased clarity of the path forward combined with healthy fundamentals in many sectors provides some welcome upsides for real estate performance in 2024.

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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