

FIGURES | MILWAUKEE INDUSTRIAL | Q3 2024

# Vacancy drops as positive absorption persists in SE Wisconsin

▼ 5.2%

Vacancy Rate

▼ 649,347

Sq. Ft. Net Absorption

▲ 2.8M

Sq. Ft. Construction

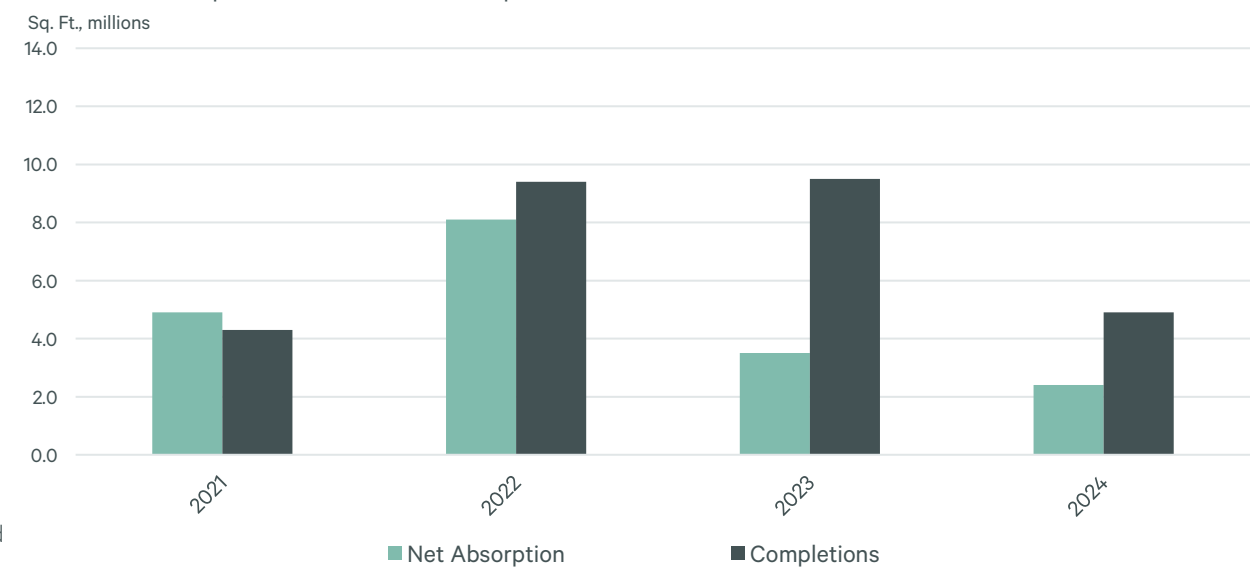
▲ \$5.47

NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

- The vacancy rate decreased by 20 basis points (bps) to 5.2% and the availability rate decreased 40 bps to 6.4%. The average direct asking lease rate increased to \$5.47.
- The market saw 649,347 sq. ft. of positive absorption during Q3 2024. MDS Fulfilment leased and moved into 150,000 sq. ft. in Milwaukee. Two user expansion projects including Dreampack in New Berlin and Plas Tech Engineering in Walworth County contributed 75,000 sq ft. towards positive absorption for the quarter.
- There were two deliveries in Q3 2024, totaling 75,000 sq. ft. bringing this quarter’s delivery volume to the lowest it has been since Q1 2018. There are approximately 2.8 million sq. ft. of projects under construction in the market.
- There was approximately \$124.5 million in industrial investment sales volume in Q3 2024.
- Vacancy remains higher in submarkets where large spec projects were recently delivered, as tenants slowly fill in space, along with submarkets where users have given up large, older industrial properties. One tenant, GZ Media, moved into 68,750 sq. ft in a new spec building in the Racine submarket this quarter.
- There were four new leases over 100,000 sq. ft. signed this quarter. One of the top largest leases signed this quarter was MGS Investments Inc. signing 128,886 sq. ft at N128W20955 Holy Hill Rd, Germantown.

FIGURE 1: Net Absorption and Construction Completions



Source: CBRE Research, Q3 2024

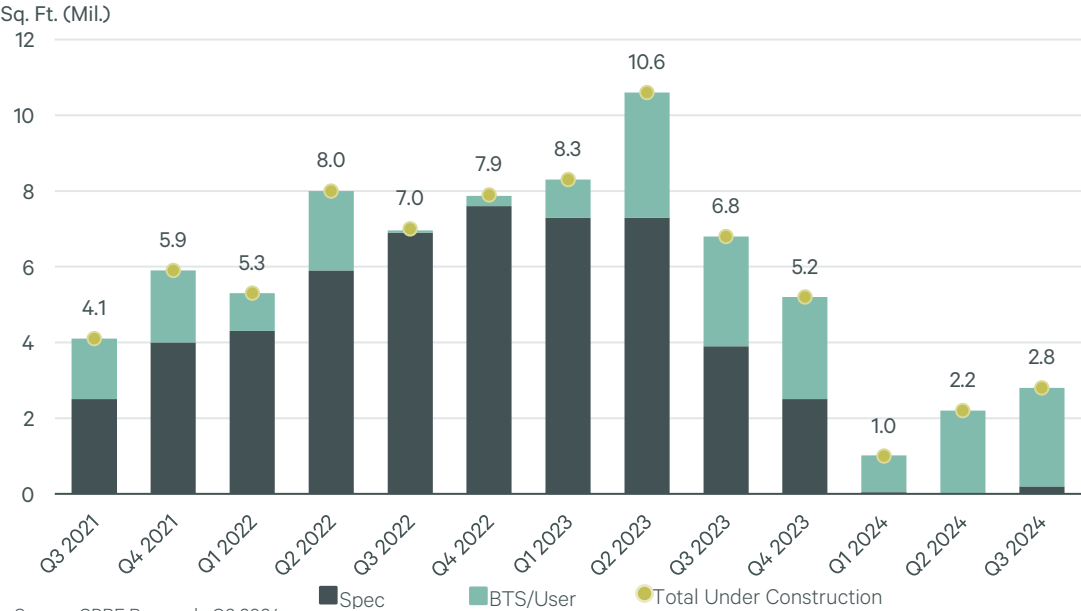
Construction Pipeline & Absorption

For Q3 2024, Milwaukee recorded 20 projects totaling 2.8 million sq. ft. under construction. The largest project currently under construction is the 583,565 sq. ft. build-to-suit (BTS) LogistiCenter – Building 1 for Atlanta-based manufacturer WestRock in Kenosha. The two projects that delivered this quarter include Dreampack’s 50,000 sq. ft. expansion in New Berlin and Plas Tech Engineering’s 25,000 sq. ft. expansion, adding a total of 75,000 sf. ft to the market’s inventory.

There are only two spec projects currently under construction due to large amounts of recently delivered and vacant spec space in the Milwaukee market. The two include XII Sussex Highlands, a 138,992 sq. ft. property in Sussex, and Mitchell Airport Spec Industrial, a 61,400 sq. ft. property in Cudahy. Both began construction work in Q3 2024.

In 2024, many large industrial users have vacated dated industrial buildings in the Milwaukee metro, including Briggs and Stratton, Steel Solutions and PepsiCo. These vacant spaces in older industrial buildings in Milwaukee South and Milwaukee West submarkets, along with recent spec deliveries in the Kenosha and Racine submarkets, contributed to a long-term trend of rising industrial vacancy rates in the past two years. However, as spec construction slows and tenants move into newly delivered spaces, Q3 saw vacancy rates drop.

FIGURE 2: Active Construction, Q3 2021 to Q3 2024



Investment Sales

Industrial investment sales volume increased in Q3 2024, with 22 properties totaling 1.7 million sq. ft. selling for a total of \$124.5 million.

The largest investment transaction of the quarter was the portfolio sale of Mitchell Industrial Park in Cudahy. Ten properties, totaling 879,704 sq. ft. sold for \$60 million. This purchase is also the largest industrial investment deal in Milwaukee year to date in 2024.

There were no Class A trades Q3 2024, so cap rates for core Class A (Core and Core Plus) in the Milwaukee Metro are staying constant from Q2 2024 at 6.25%-6.50%. Interest rates dropped by 50 bps this quarter, bringing optimism to the industry, but not guaranteeing a significant immediate change.

Construction costs have remained high in Q3 2024, causing existing user-owned buildings to trade at a premium. Whereas in past years, income-producing industrial properties were valued more, costs to build comparable user-owned properties are currently more per sq. ft. than purchasing most existing buildings.

FIGURE 3: Investment Sales, Q3 2021 to Q3 2024

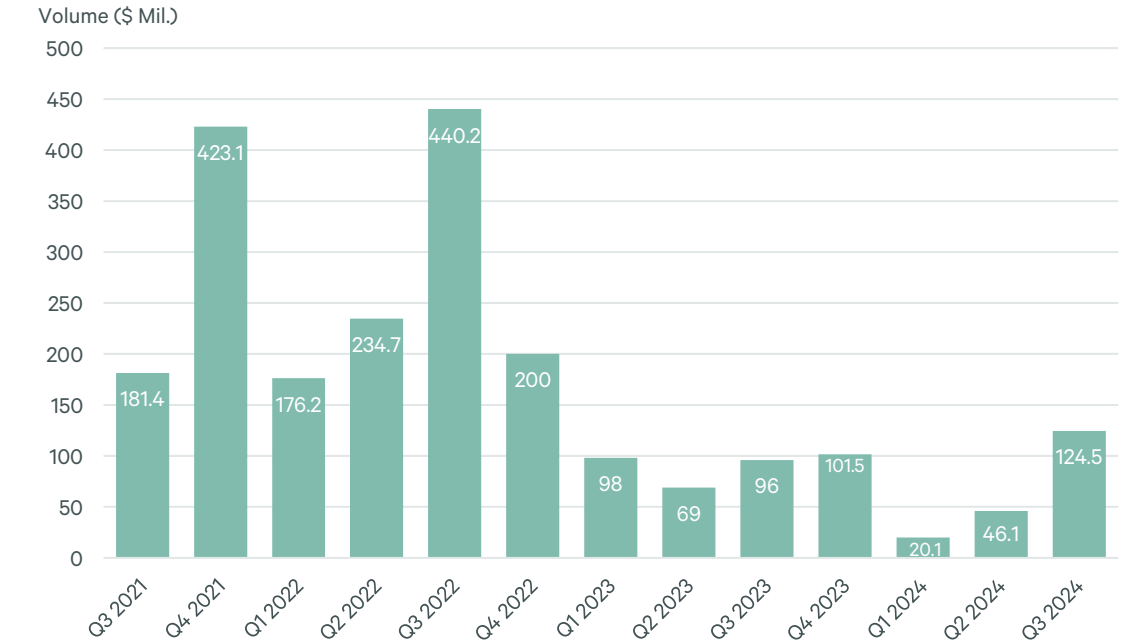


FIGURE 4: Vacancy Rate (%) and NNN / Lease Rate (\$)



Source: CBRE Research, Q3 2024

FIGURE 5: Top New Lease Transactions, Q3 2024

Tenant	Sq. Ft.	Lease Type	Address
Undisclosed	155,113	New	10343 S Hickory St, Franklin
MDS Fulfilment	150,000	New	5700 W Bender Rd, Milwaukee
MGS Investments	128,886	New	N128W20955 Holy Hill Rd, Germantown
Rubies II	120,000	New	5800 S Moorland, New Berlin
Global Power Components	61,641	New	6600 W Washington St, West Allis

Source: CBRE Research Q3 2024

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	51,241,858	12.5%	14.9%	-	\$5.43	954,565	-
Milwaukee Downtown	11,827,396	5.3%	6.4%	(60,500)	\$4.86	-	-
Milwaukee North Central	12,149,712	3.7%	7.0%	(29,337)	\$3.90	-	-
Milwaukee North Shore	5,791,117	1.2%	4.5%	100,800	\$4.71	-	-
Milwaukee Northwest	24,692,754	2.8%	3.5%	143,888	\$4.25	233,516	-
Milwaukee South	35,898,366	4.2%	5.5%	(8,700)	\$7.63	536,400	-
Milwaukee South Central	13,288,027	11.1%	14.5%	28,887	\$5.93	-	-
Milwaukee West	14,041,261	14.8%	16.0%	118,999	\$4.69	250,000	-
Ozaukee	12,256,998	0.9%	1.2%	(38,259)	\$5.35	-	-
Racine	33,045,257	7.2%	8.9%	147,725	\$5.80	109,636	-
Sheboygan	18,810,566	0.7%	0.7%	-	\$5.50	49,500	-
Walworth	11,840,462	0.3%	0.8%	103,000	\$3.89	-	25,000
Washington	24,091,998	4.1%	3.8%	45,648	\$11.83	348,652	-
Waukesha Northeast	22,731,081	0.7%	1.1%	(1,920)	\$6.88	40,670	-
Waukesha Northwest	21,251,796	1.6%	2.6%	(17,544)	\$6.75	223,526	-
Waukesha Southeast	16,544,154	1.5%	2.9%	80,829	\$7.31	58,000	50,000
Waukesha Southwest	17,389,009	1.1%	1.9%	35,858	\$7.35	-	-
TOTAL	346,891,812	5.2%	6.4%	649,374	\$5.47	2,804,465	75,000

National Economic Outlook

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is steady and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a downturn in the labor market, although the recent bump in unemployment appears mainly driven by an increase in participation.

One reason for concern is the decline in the share of private industries that are creating jobs. The labor market has slowed but it is not slumping, and companies are not letting workers go at a particularly high rate.

While many are focused on November's election, the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

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.

Contacts

**Madeline Strehlow**  
Senior Field Research Analyst  
+1 414 274 1680  
madeline.strehlow@cbre.com

**Marissa Oberlander**  
Research Director  
+1 312 540 4686  
marissa.oberlander@cbre.com

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