

FIGURES | MILWAUKEE INDUSTRIAL | Q1 2023

Continued positive absorption and record sq. ft. under construction in Q1



Note: Arrows indicate change from previous quarter.

- The vacancy rate increased 60 basis points (bps) to 3.2% and the availability rate declined 70 bps to 4.9% while the average asking lease rate increased to \$4.96.
- The market saw 859,408 sq. ft. of positive absorption during Q1 2023.
- 6 speculative (spec) projects totaling approximately 3.5million sq. ft. were completed in Q1 2023.
- There are approximately 8.3 million sq. ft. of projects under construction in the market.
- Investment sales accounted for approximately \$98 million of sales volume in Q1 2023.
- The Milwaukee industrial market closed Q1 2023 with 3.8 million sq. ft. of deliveries.

FIGURE 1: Net Absorption, Construction Completions and Under Construction



Source: CBRE Research, Q1 2023

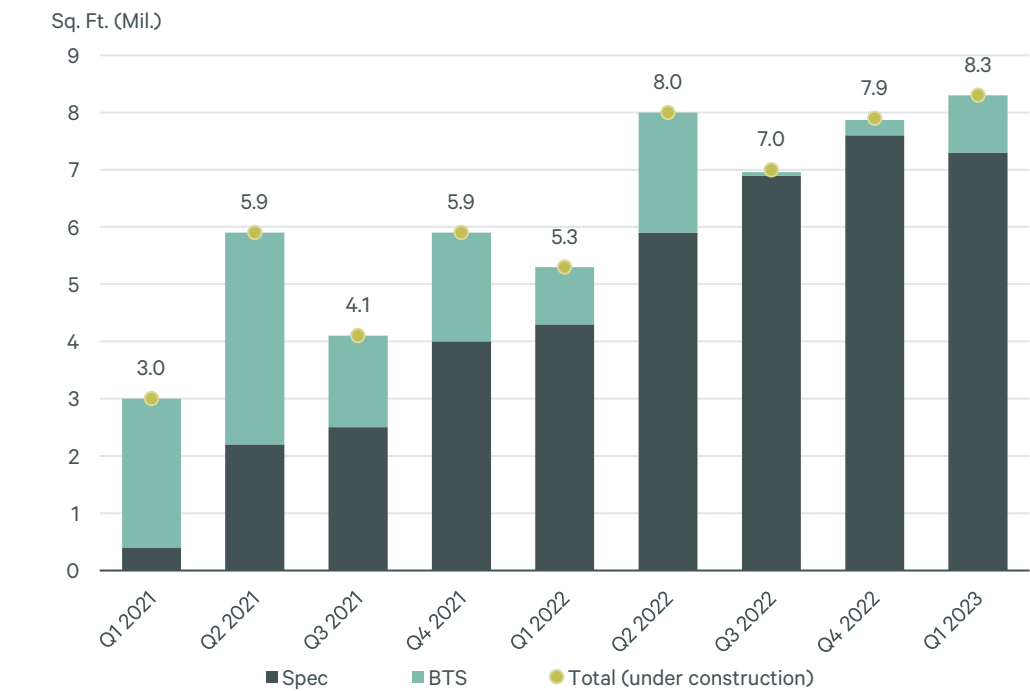
Construction Pipeline

For Q1 2023, the Milwaukee market saw a record amount of projects under construction since Q4 2019. The largest project is currently the Highland Commerce Center of Somers, which will be 918,844 sq. ft. and completed in Q3 2023.

One spec project by Uline delivered in Q1 in the Kenosha submarket, totaling just over 1 million sq. ft. 6 spec projects totaling roughly 3.5 million sq. ft also delivered.. A user-built project, the Kohler expansion, totals 155,00 sq. ft. and was delivered this quarter in Sheboygan.

As of Q1 2023, there were 35 projects under construction, totaling approximately 8.3 million sq. ft. Most of these projects are in southern submarkets of Kenosha and Racine. The Milwaukee industrial market closed Q1 2023 with \$3.8 million sq. ft. of deliveries.

FIGURE 2: Active Construction, Q1 2021 to Q1 2023



Source: CBRE Research, Q1 2023.

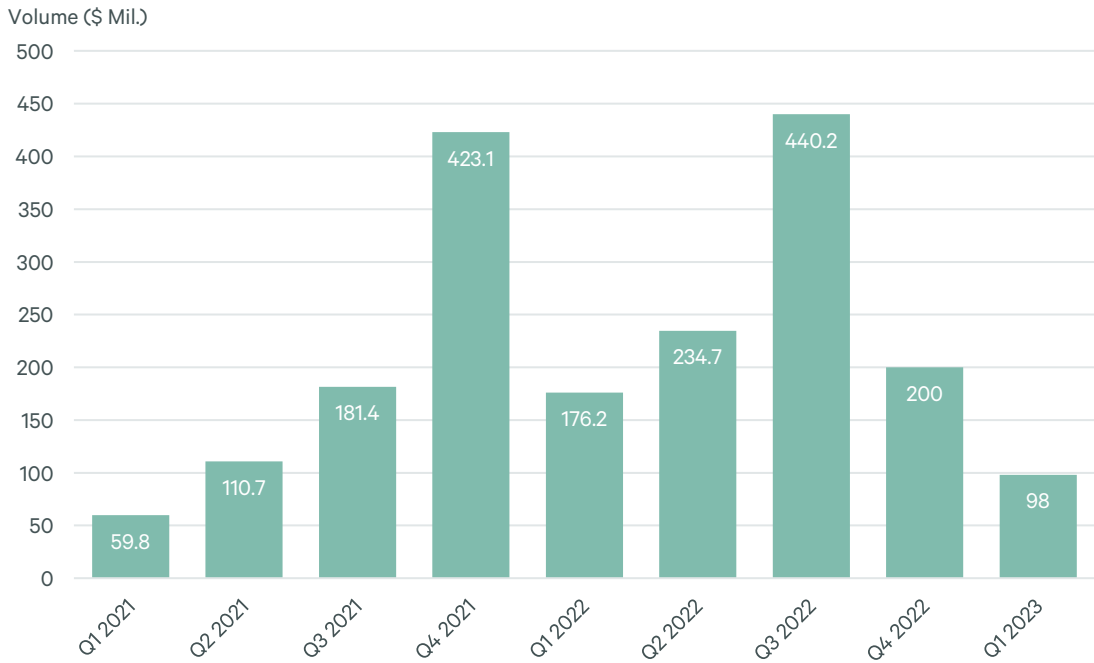
Investment Sales

Industrial investment sales volume decreased for Q1 2023, with 10 properties totaling 4.5 million sq. ft. sold for a total of \$98 million.

The largest investment transaction of the quarter was the purchase of I-94 & Hwy 165 – Building 3 Bristol Business Park in Kenosha. The 396,508-sq.-ft. manufacturing facility was purchased by EQT Exeter for \$47 million.

Cap rates for Class A (Core and Core Plus) in Milwaukee and Southeast WI markets are currently 5.25% – 5.75%. These rates match various other Midwest markets, including Minneapolis, Columbus, Kansas City and St Louis.

FIGURE 3: Investment Sales, Q1 2021 to Q1 2023



Source: CBRE Research, Q1 2023.

FIGURE 4: Vacancy Rate and Asking Lease Rate

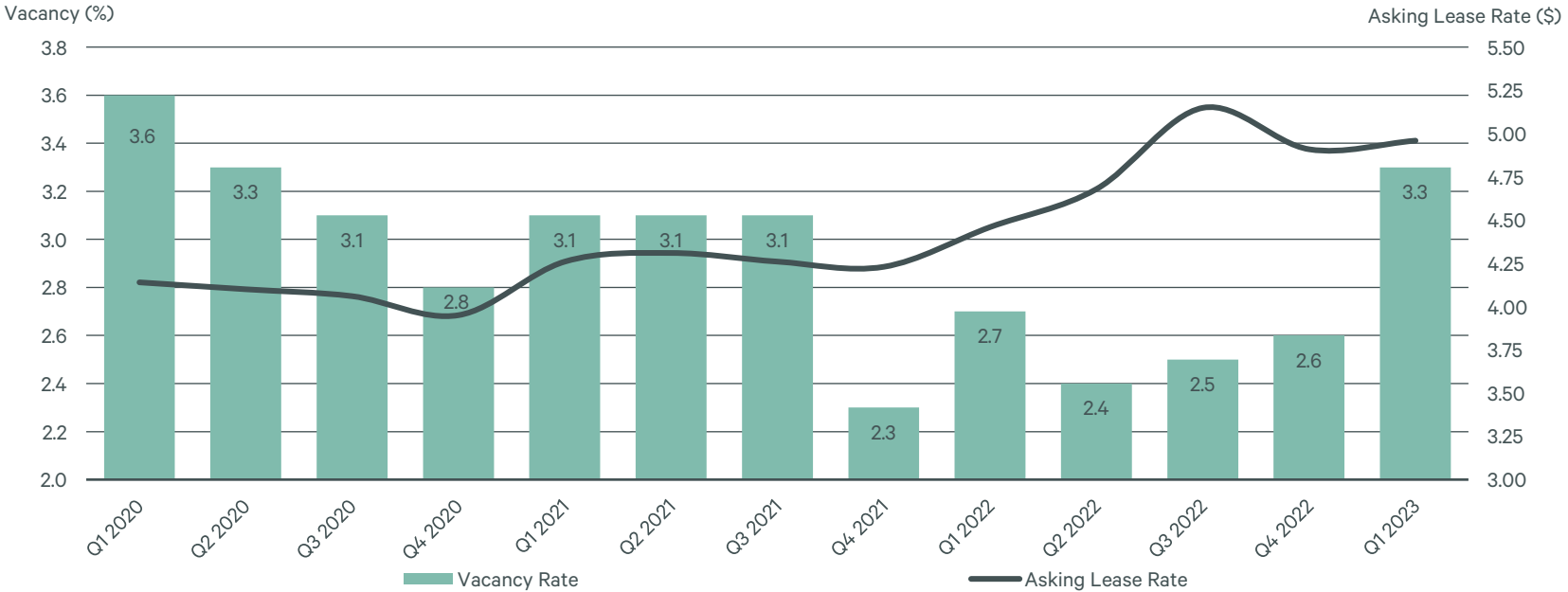


FIGURE 5: Top Transactions, Q1 2023

Tenant/Buyer	Sq. Ft.	Type	Address
Kenco	442,987	Lease	13300 Carol Ct, Caledonia
Eagle Foods	284,103	Lease	12345 38th St, Kenosha
Undisclosed	165,000	Lease	N30 W22835 Green Rd, Pewaukee
Motis	102,361	Lease	W210 N12975 Gateway Crossing, Germantown
Undisclosed	100,000	Lease	3073 S Chase Ave, Milwaukee

Source: CBRE Research, Q1 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	43,156,859	8.2	9.4	3,321,052	1,603,758	442,721	\$4.5
Milwaukee Downtown	11,827,396	5.2	8.4	-	-	0	\$4.3
Milwaukee North Central	12,237,532	3.3	3.5	-	-	250,585	\$4.1
Milwaukee North Shore	5,743,081	6.2	6.8	-	-	0	\$4.0
Milwaukee Northwest	20,822,160	0.7	2.9	892,483	738,862	161,430	\$4.3
Milwaukee South	34,662,531	4.9	7.6	812,075	391,236	88,404	\$5.6
Milwaukee South Central	13,276,248	6.4	6.9	-	-	630	\$5.6
Milwaukee West	13,924,905	3.6	12.2	-	-	0	\$4.6
Ozaukee	12,099,902	1.6	2.1	36,843	-	88,763	\$4.6
Racine	31,070,288	2.7	3.8	2,049,325	573,587	(55,735)	\$5.2
Sheboygan	18,810,566	0.8	0.9	100,800	-	0	\$5.5
Walworth	11,474,824	0.6	0.6	-	-	0	\$3.8
Washington	22,727,852	1.8	4.3	200,000	436,862	233,282	\$5.02
Waukesha Northeast	22,409,862	0.4	1.2	-	-	(33,800)	\$5.8
Waukesha Northwest	24,822,160	2.0	3.2	-	282,200	49,257	\$5.8
Waukesha Southeast	15,814,851	1.1	3.9	660,324	-	(5,126)	\$7.3
Waukesha Southwest	17,350,862	0.1	0.6	-	-	0	\$6.5
TOTAL	334,617,663	3.2	4.9	8,296,902	4,453,907	859,408	\$4.9

Source: CBRE Research, Q1 2023.
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* Includes built-to-suit and spec projects

Macroeconomic Outlook

Downstream consequences of the Fed’s tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

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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