

FIGURES | MILWAUKEE INDUSTRIAL | Q2 2024

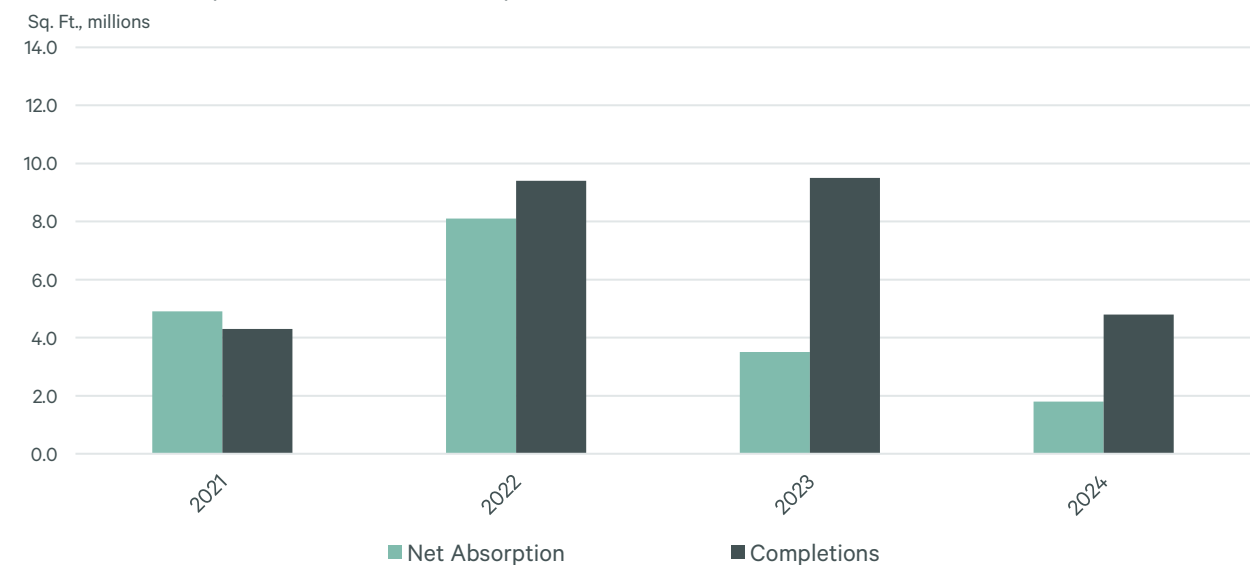
# Speculative construction ceases, while BTS and user projects continue in Q2



Note: Arrows indicate change from previous quarter.

- The vacancy rate decreased by 10 basis points (bps) to 5.8% and the availability rate remained at 6.8%. The average direct asking lease rate increased to \$5.23.
- The market saw 713,673 sq. ft. of positive absorption during Q2 2024. One user project, Sysco’s addition in Jackson, WI contributed 248,010 sq ft. towards positive absorption in Jackson. Additionally, PurposeBuilt Brands moved into 209,053 sq. ft. in the Kenosha submarket.
- There were three deliveries in Q2 2024, totaling 294,853 sq. ft. Included was one speculative (spec) project totaling 36,843 sq. ft. This quarter’s delivery volume is the lowest it has been since Q1 2018. There are approximately 2.2 million sq. ft. of projects under construction in the market.
- There was approximately \$41.6 million in industrial investment sales volume in Q2 2024
- Uline listed 602,376 SF for sublease in the Kenosha submarket, and plan to vacant the space in February 2025
- There were five new leases over 100,000 SF signed this quarter. The largest transaction of the quarter was WestRock, leasing 593,565 sq. ft. at the LogistiCenter in Pleasant Prairie. Of the top five leases by size signed in Q2 2024, four were signed in the Kenosha and Racine submarkets.

FIGURE 1: Net Absorption and Construction Completions



Source: CBRE Research, Q2 2024

Construction Pipeline & Absorption

For Q2 2024, Milwaukee recorded 16 projects totaling 2.2 million sq. ft. under construction. One of the largest projects currently under construction is the 583,565 sq. ft. build-to-suit (BTS) LogistiCenter – Building 1 for Atlanta-based manufacturer WestRock in Kenosha. The market’s largest user-built project delivered this quarter was Sysco’s addition in Jackson, adding 248,010 sq. ft. to the existing property. The only spec delivery was 5715 W Donges Bay Rd in Mequon, totaling 36,843 sq. ft.

There are no spec projects currently under construction due to large amounts of recently delivered and vacant spec space in previous quarters. One user project currently under construction is a 200,000 sq. ft manufacturing facility for Palermo’s Pizza in West Milwaukee.

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 significantly to recent rising industrial vacancy rates. In Q2 2024, the largest move-out was Poblocki Sign company at 922 S 70th St in West Allis, vacating the entire building’s 106,184 sq. ft.

FIGURE 2: Active Construction, Q2 2021 to Q2 2024



Investment Sales

Industrial investment sales volume increased in Q2 2024, with 10 properties totaling 700,555 sq. ft. selling for a total of \$46.1 million.

The largest single-property investment transaction of the quarter was the sale of W251N5350 Business Dr in the Sussex Business Park. The 150,002 sq. ft. Class A property sold for \$16 million by Wangard Partners and purchased by STAG Industrial at a 6.29% cap rate.

Cap rates for core Class A (Core and Core Plus) in the Milwaukee Metro are currently 6.25%-6.50%, staying constant from Q1 2024.

Construction costs have remained high in Q2 2024, causing existing user-owned buildings to increase in value. 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, Q2 2021 to Q2 2024

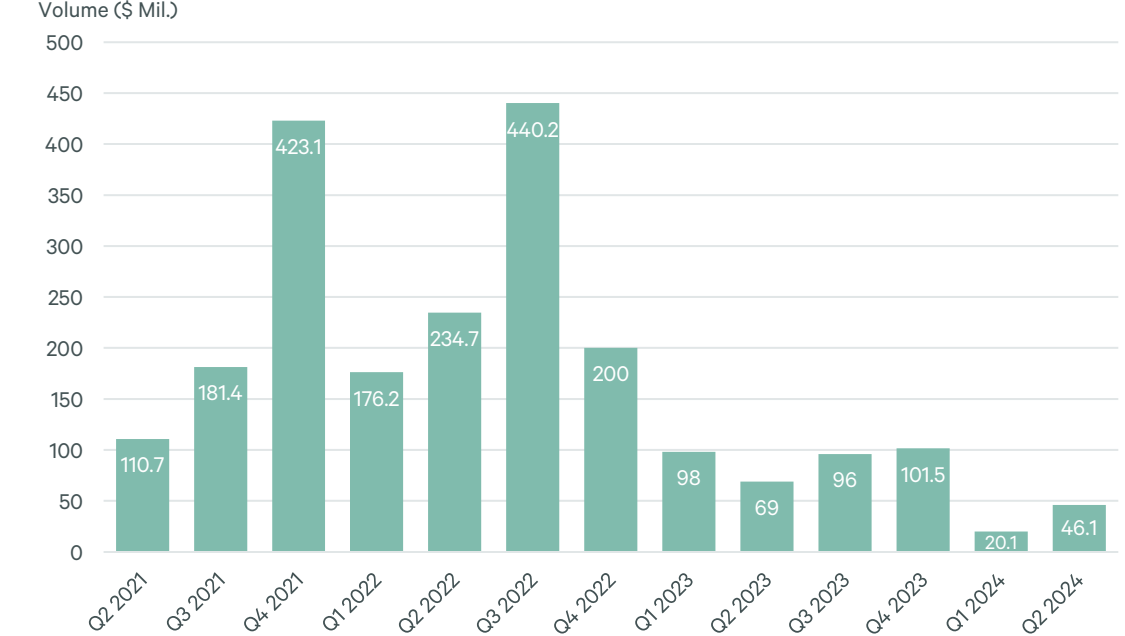


FIGURE 4: Vacancy Rate and NNN / Lease Rate

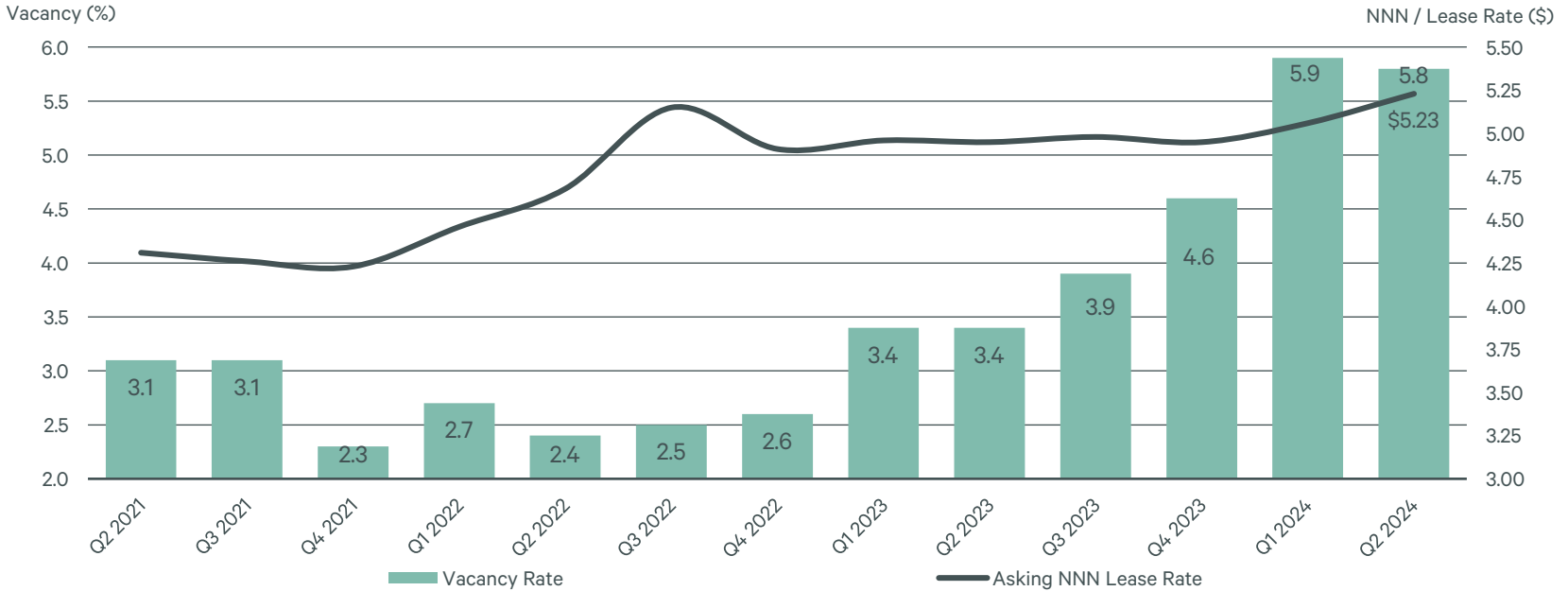


FIGURE 5: Top New Lease Transactions, Q2 2024

Tenant	Sq. Ft.	Lease Type	Address
WestRock	593,565	New	8000 95 <sup>th</sup> St, Pleasant Prairie
Green Bay Packaging	205,063	New	5600 S Moorland Rd, New Berlin
Trifinity Partners	147,877	New	8505 100 <sup>th</sup> St, Pleasant Prairie
Kane Warehousing	119,840	New	8630 31 <sup>st</sup> St, Kenosha
Publications International	108,000	New	1101 S Sylvania Ave, Sturtevant

Source: CBRE Research Q2 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	51,234,800	12.7%	14.4%	343,830	\$5.33	583,565	-
Milwaukee Downtown	11,827,396	4.7%	5.3%	-	\$4.91	-	-
Milwaukee North Central	12,202,990	4.2%	7.8%	14,204	\$3.83	-	-
Milwaukee North Shore	5,743,081	3.0%	5.0%	-	\$5.17	-	-
Milwaukee Northwest	24,641,800	3.1%	4.4%	(19,528)	\$4.35	233,516	-
Milwaukee South	36,147,059	7.2%	8.7%	(74,824)	\$6.73	475,000	-
Milwaukee South Central	13,281,765	11.4%	13.1%	7,082	\$6.94	-	-
Milwaukee West	14,034,947	15.8%	16.0%	(237,965)	\$4.49	200,000	-
Ozaukee	12,245,220	0.5%	1.1%	50,399	\$5.23	-	36,843
Racine	33,026,890	7.9%	8.0%	143,822	\$5.80	109,636	-
Sheboygan	18,810,566	1.2%	1.7%	-	\$5.50	49,500	-
Walworth	11,815,462	1.2%	1.2%	52,000	\$5.04	25,000	-
Washington	24,087,348	4.4%	5.1%	313,010	\$5.92	318,652	258,010
Waukesha Northeast	22,719,673	1.6%	1.9%	55,345	\$6.81	40,670	-
Waukesha Northwest	21,248,910	1.6%	1.9%	28,800	\$5.50	24,534	-
Waukesha Southeast	16,471,568	1.5%	4.3%	42,168	\$7.38	108,000	-
Waukesha Southwest	17,373,829	1.2%	2.2%	(4,670)	\$6.68	-	-
TOTAL	346,913,304	5.8%	6.8%	713,673	\$5.23	2,168,073	294,853

National Economic Outlook

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a “soft landing” in 2024. Last year’s expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut later this year will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

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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