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1Q24

# Milwaukee Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. November’s 3.5% unemployment rate remains significantly lower than the 4.5% 10-year historical average.
- Year over year, job gains have been most pronounced in the government and construction industries, while professional & business services had the most job losses.
- The Midwest Consumer Price Index has continued to fall after hitting a peak in June 2022 of 9.5%. As of February 2024, it now stands at 2.8%.

## Major Transactions

- In the first quarter of 2024 large lease activity notably decreased with only one new lease signing over 100,000 SF. WB Warehousing & Logistics leased +/- 117,000 SF at W204N13035 Goldendale Rd, Germantown.
- Sale transaction volume for the quarter was \$156 million. Over the past year, the market experienced \$455 million in transactional volume far less than the \$1.0 billion recorded in 2022 and \$1.1 billion recorded in 2021.
- Allis-Roller LLC sold 5801 W Franklin Dr, Franklin a 84,360 SF manufacturing building to Thomas M Schafter for \$7.17 million, or \$85/SF.
- Superior Die Set Corp sold 900 W Drexel, Oak Creek a 131,290 SF warehouse building to Neo Brake Systems for \$6.5 million, or \$50/SF.

## Leasing Market Fundamentals

- This past quarter, the Milwaukee industrial market experienced 341,956 SF of negative absorption. Over the past year, the market has absorbed 1.16 million SF. Since the beginning of the first quarter of 2020, the market has experienced 15.7 million SF of absorption, representing market growth of 5.9%.
- This past quarter, the availability rate rose to 6.2% from 5.7% and the vacancy rate rose to 4.1% from 3.4%. The market is recalibrating, with vacancy expected to continue to rise next quarter as construction deliveries outpace net absorption.
- This past quarter there was 1.57 million SF of new construction, of which only 39% was preleased.
- There is 739,400 SF in the construction pipeline, of which 19% is preleased.

## Outlook

- Milwaukee's rich history of a skilled and experienced workforce has been and will continue to attract manufacturers to bring their operations back to the region. The only limitations for occupiers seeking expansion will be the availability of space and the costs involved.
- Optimism is growing in the capital markets sector as interest rates show signs of stabilizing or potentially decreasing in 2024. This positive development is expected to stimulate activity among both investors and occupiers.
- Recent deliveries have experienced minimal preleasing and longer lease-up periods. As a result, fewer new projects are being announced. While vacancy rates are rising, they remain historically low and coupled with slowing construction, space will be limited throughout 2024. While demand remains strong, scarcity of space will continue to drive average rental rates upwards.

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1. Economy
  2. Leasing Market Fundamentals
  3. Supplemental Tables

1Q24

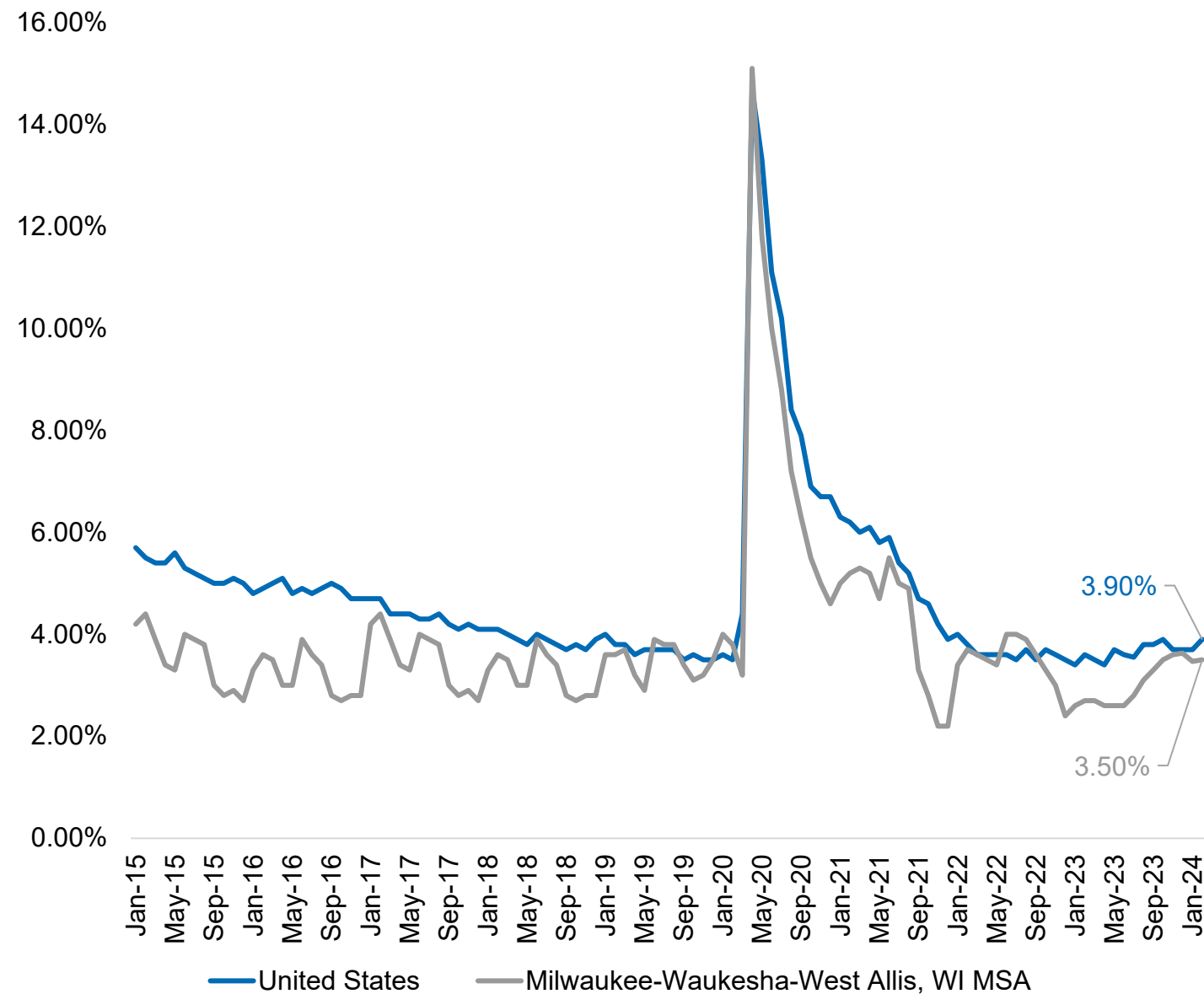
# Economy



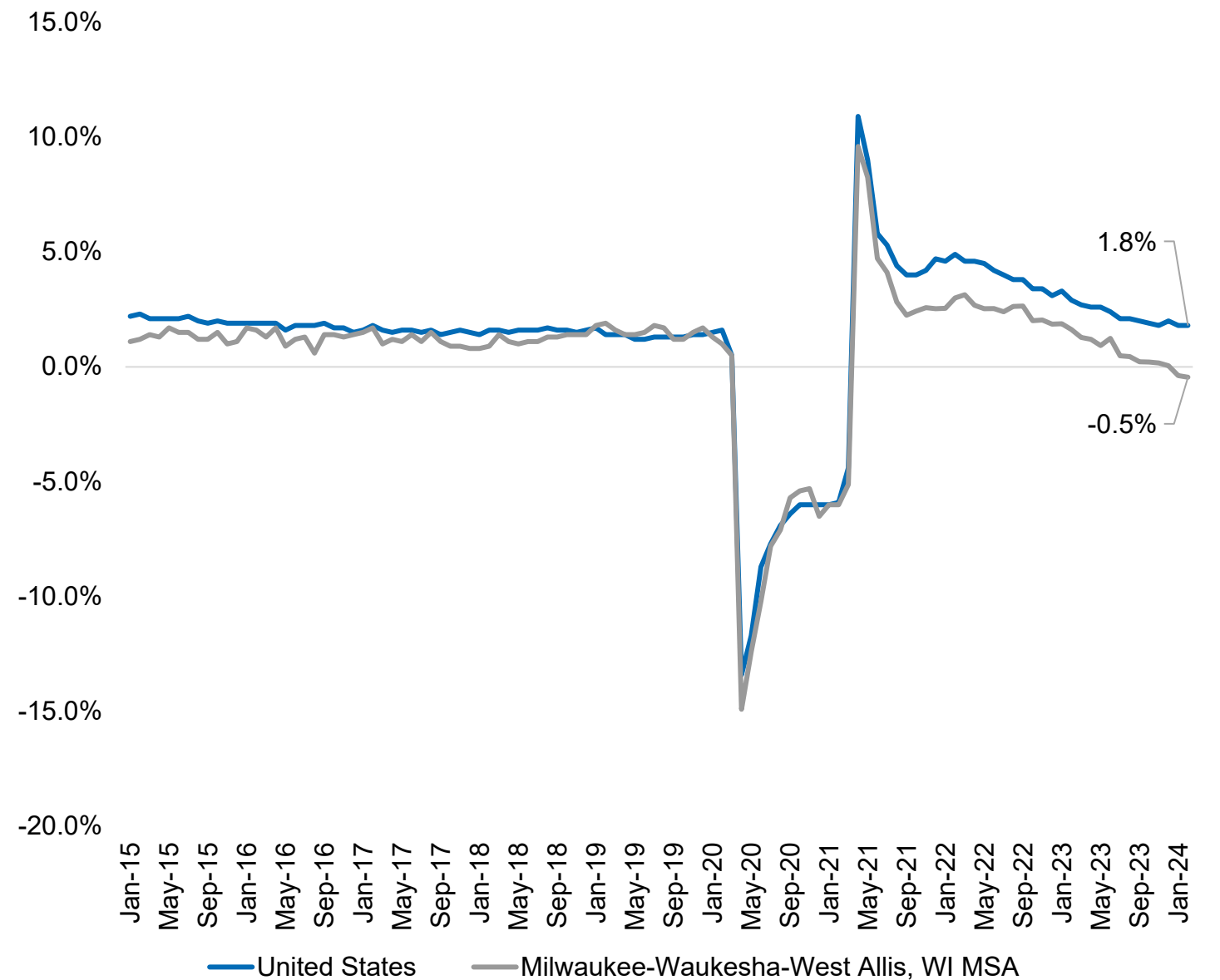
# Metro Employment Trends Signal A Slowing Economy

While the region's labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. The Metro's annual payroll employment average contracted 0.5% and is considerably lower than the nationwide average of 1.8%.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

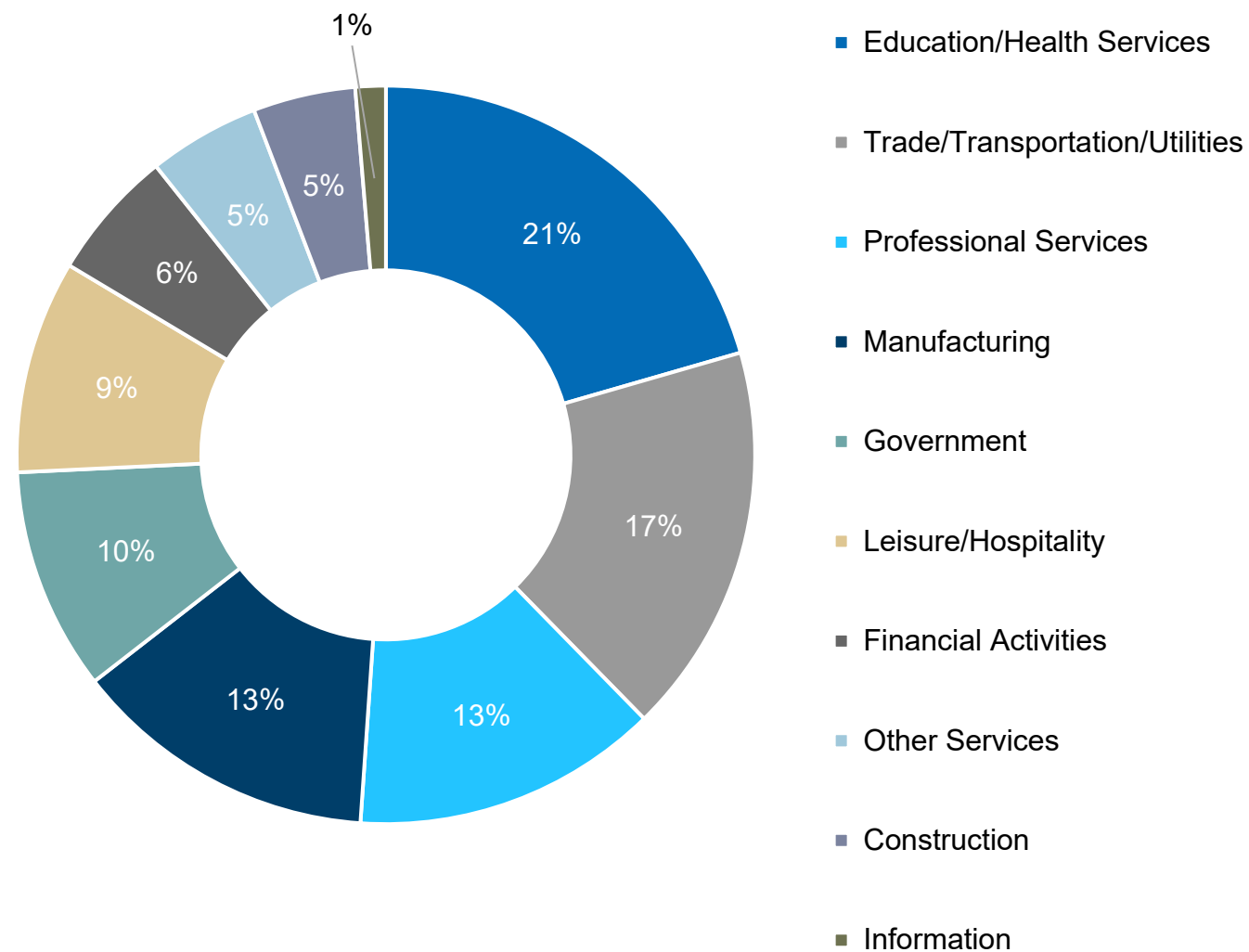


Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

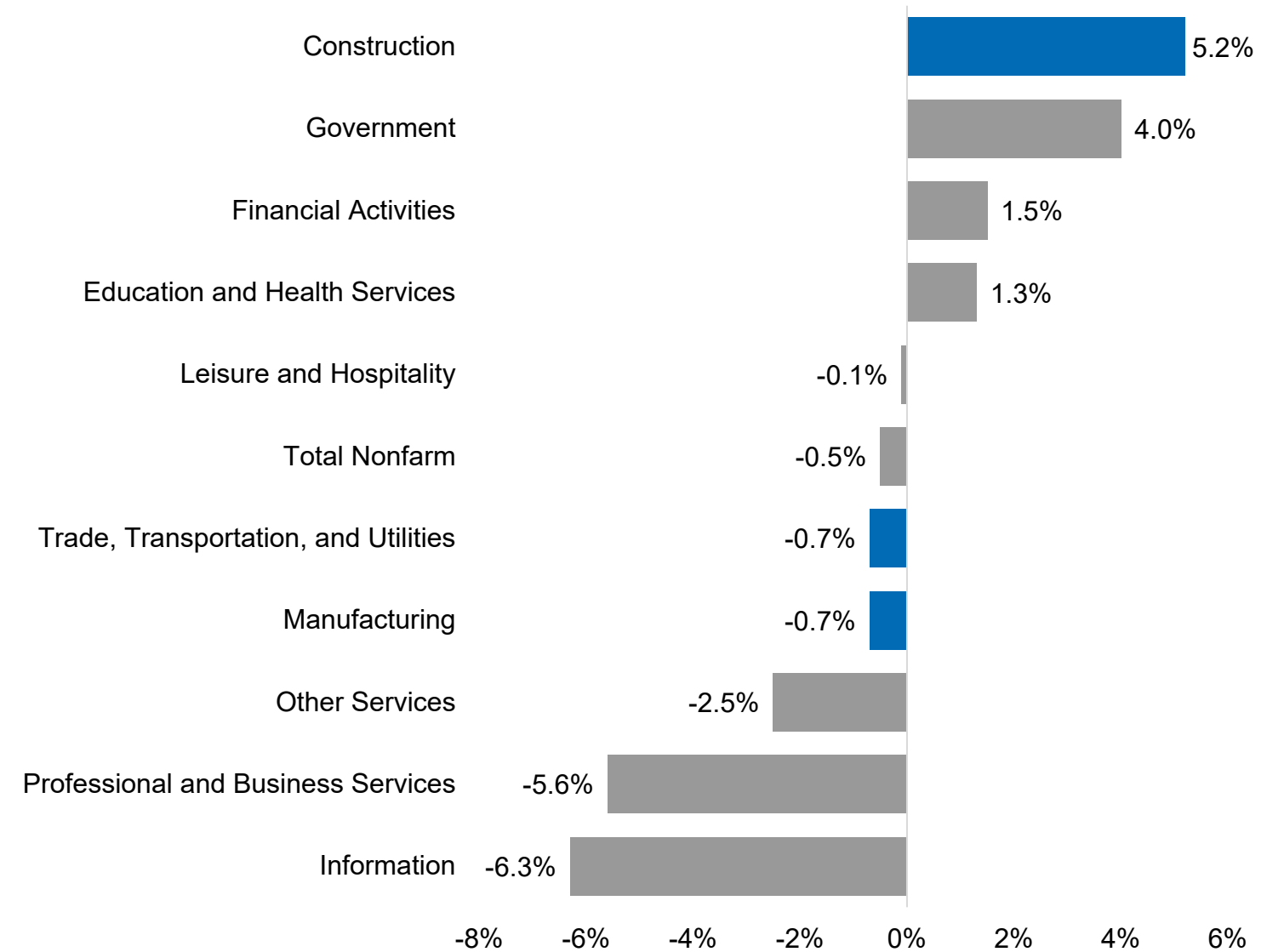
# Job Growth Driven in Large Part by Leisure and Hospitality Sector

In the past year, the construction sector saw 5.2% growth as 2,000 jobs were added, and the government sector saw 4.0% growth as 2,950 jobs were added. The Industrial-using employment sectors of, Trade/Transportation lost 1,000 jobs, Manufacturing lost 900 jobs and Construction gained 2,000 jobs.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

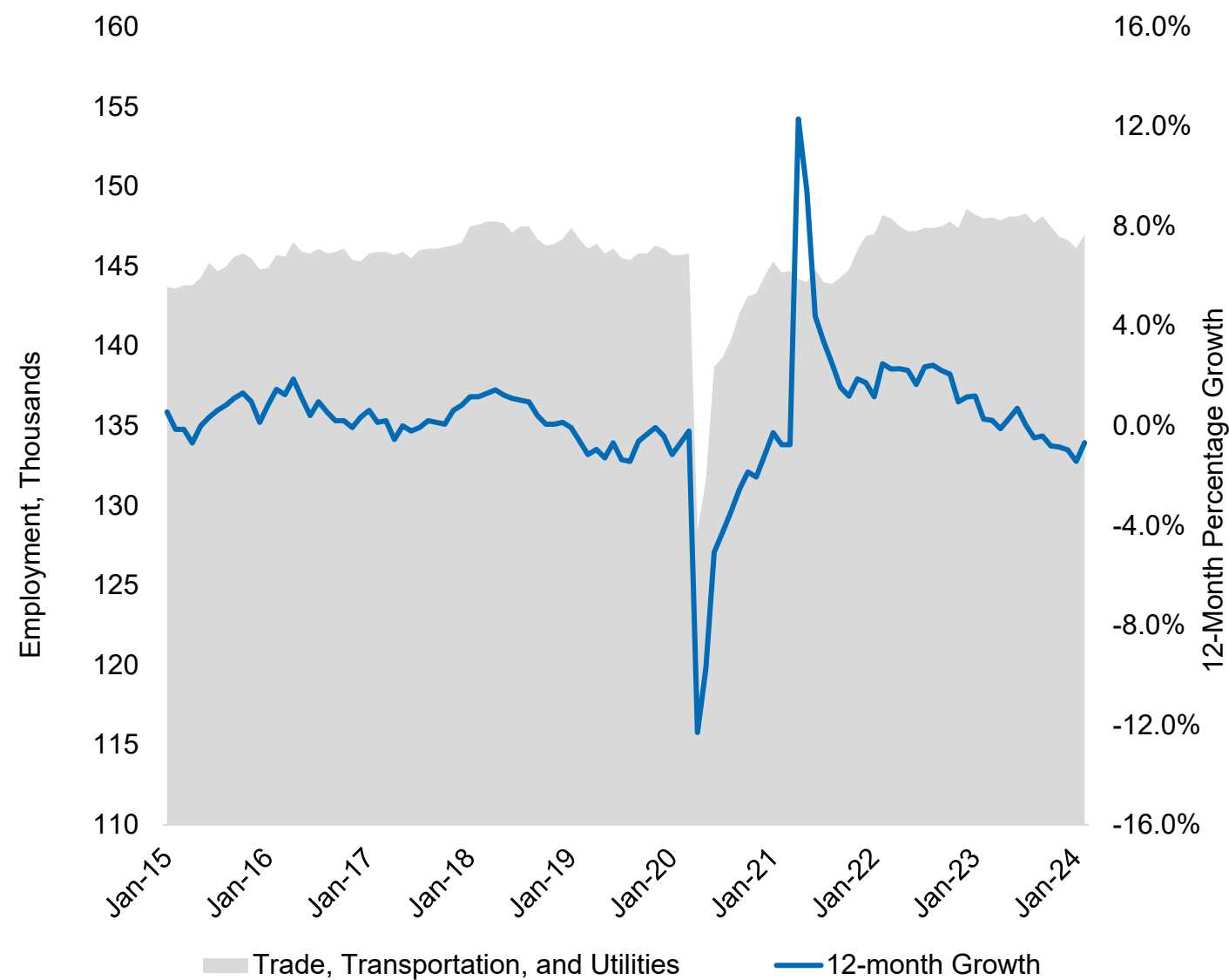


Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

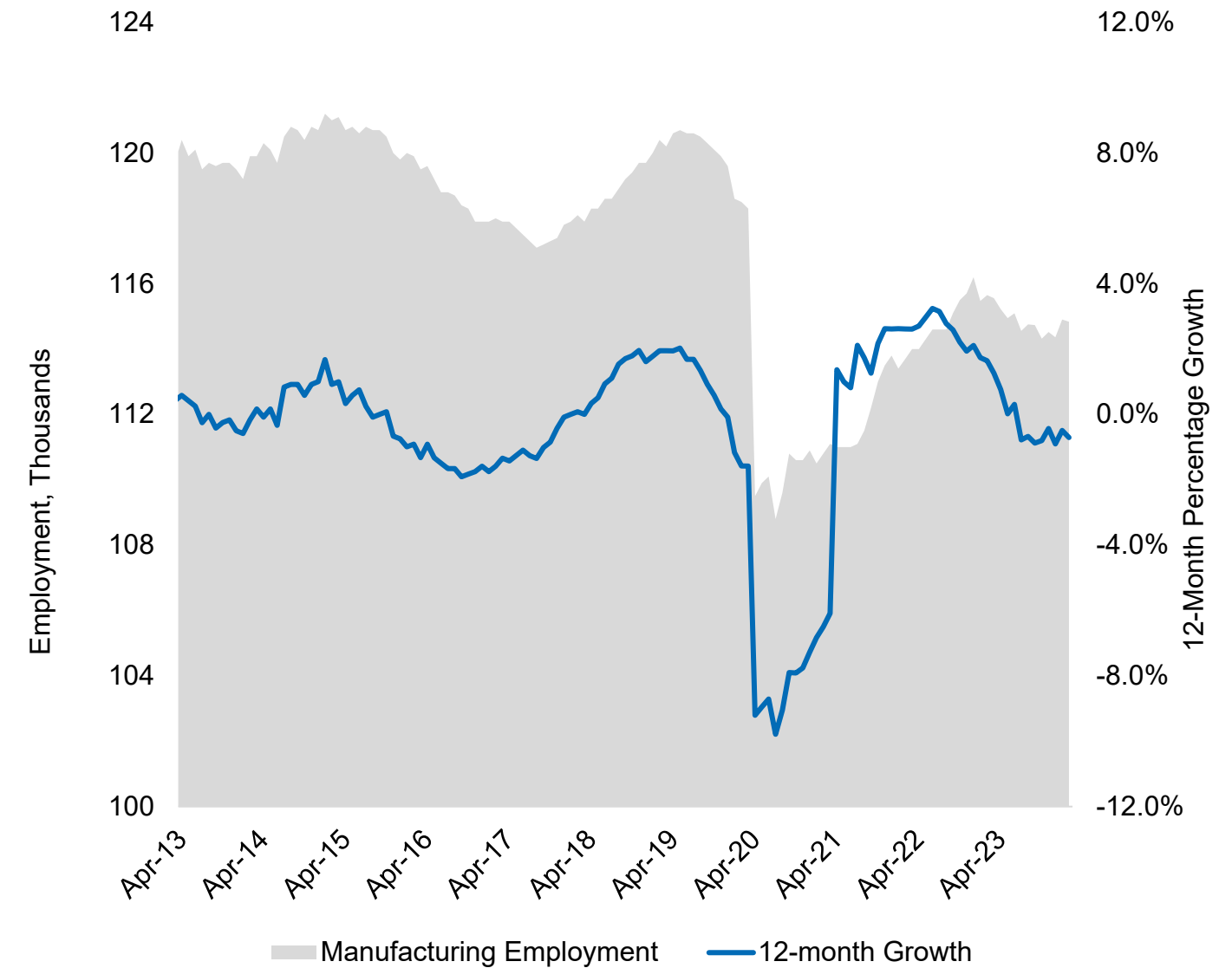
# Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

1Q24

# Leasing Market Fundamentals

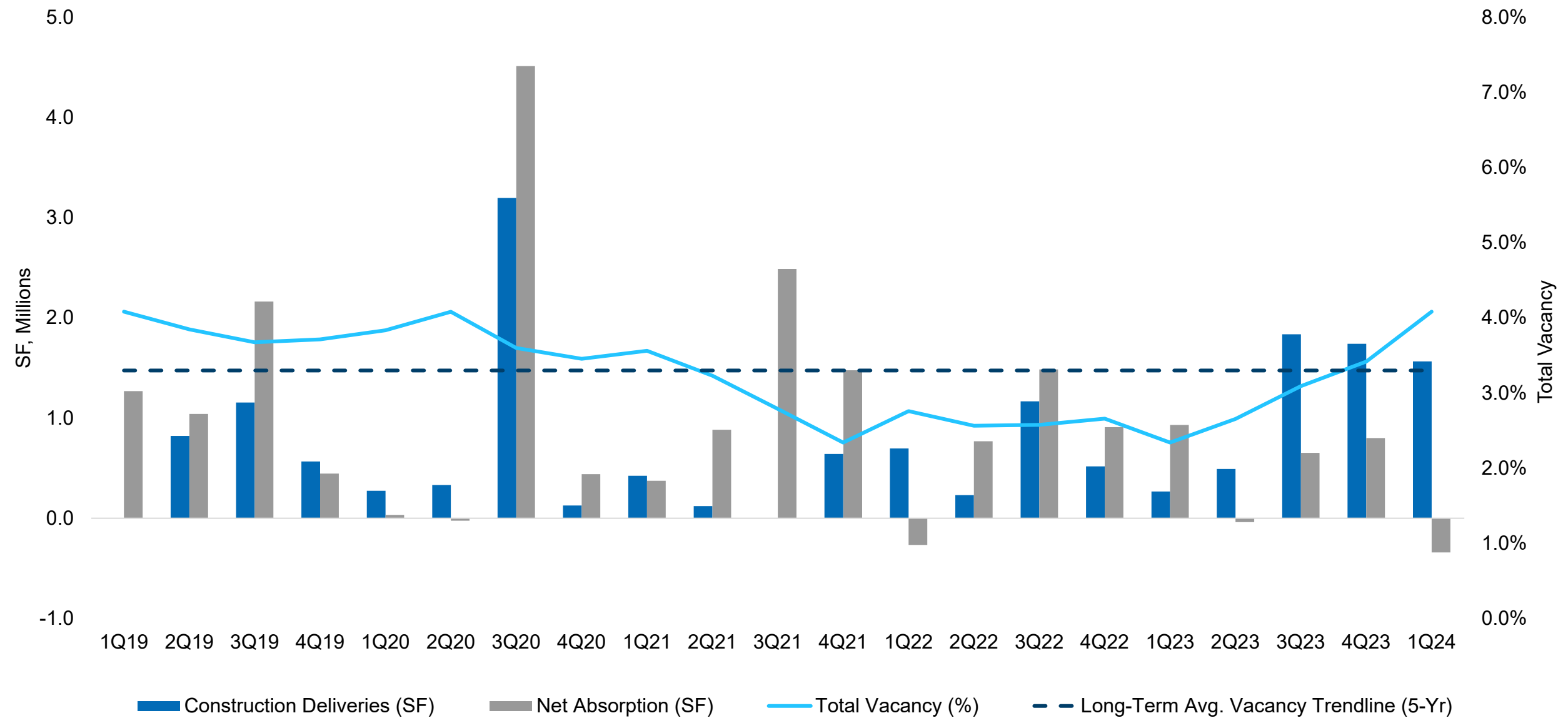




# Vacancy Rises as Construction Deliveries Outpace Net Absorption

This past quarter, the availability rate rose to 6.2% from 5.7% and the vacancy rate rose to 4.1% from 3.4%. Over the past year, the availability rate has risen to 6.2% from 3.8%, and the vacancy rate has risen to 4.1% from 2.3%. The market is recalibrating, with vacancy expected to continue to rise next quarter as construction deliveries outpace net absorption.

## Historical Construction Deliveries, Net Absorption, and Vacancy

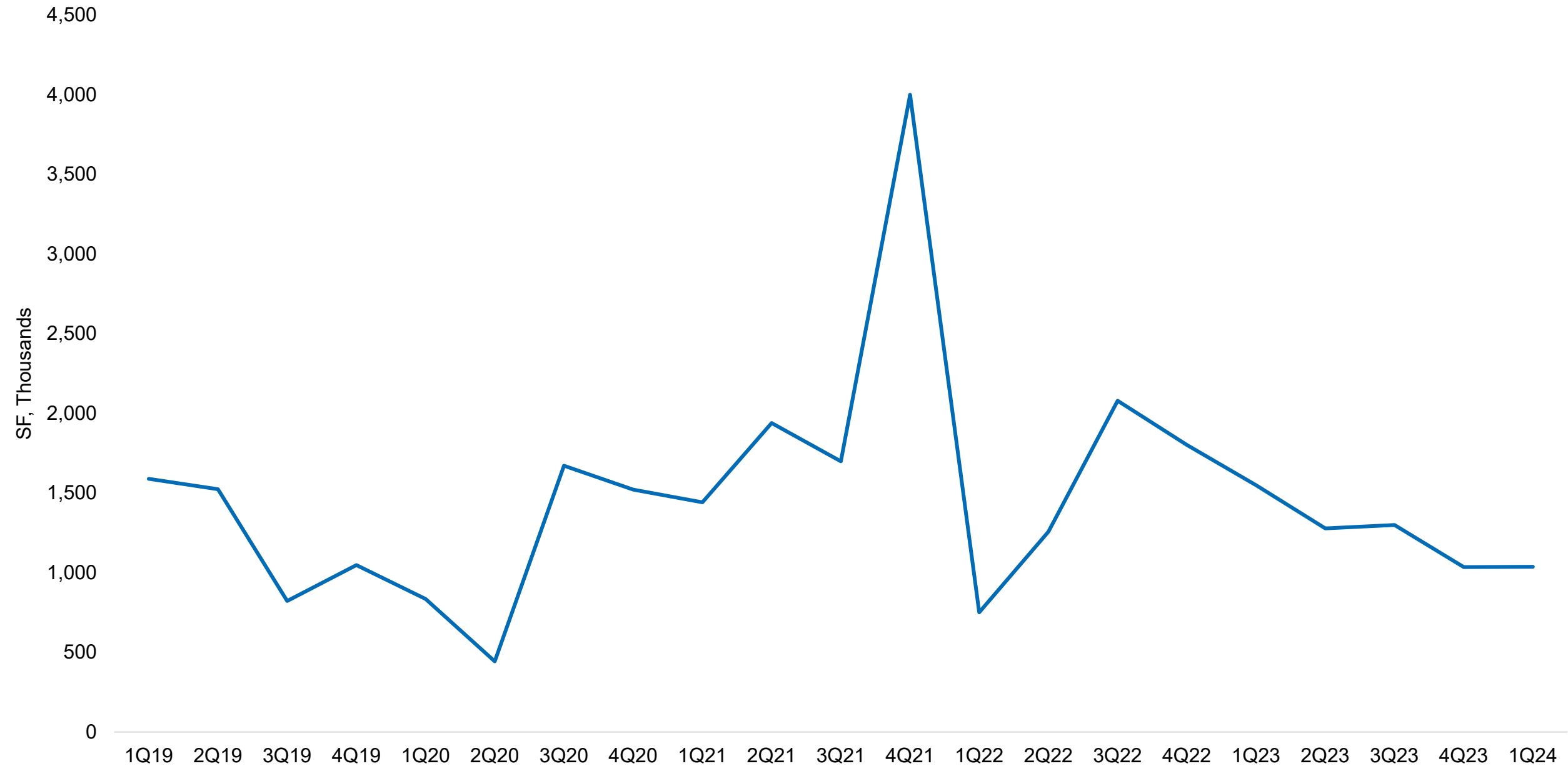


Source: Newmark Research

# Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

In the first quarter of 2024 large lease activity notably decreased with only one new lease signings over 100,000 SF. WB Warehousing & Logistics leased +/- 117,000 SF at W204N13035 Goldendale Rd, Germantown.

## Total Leasing Activity (SF)

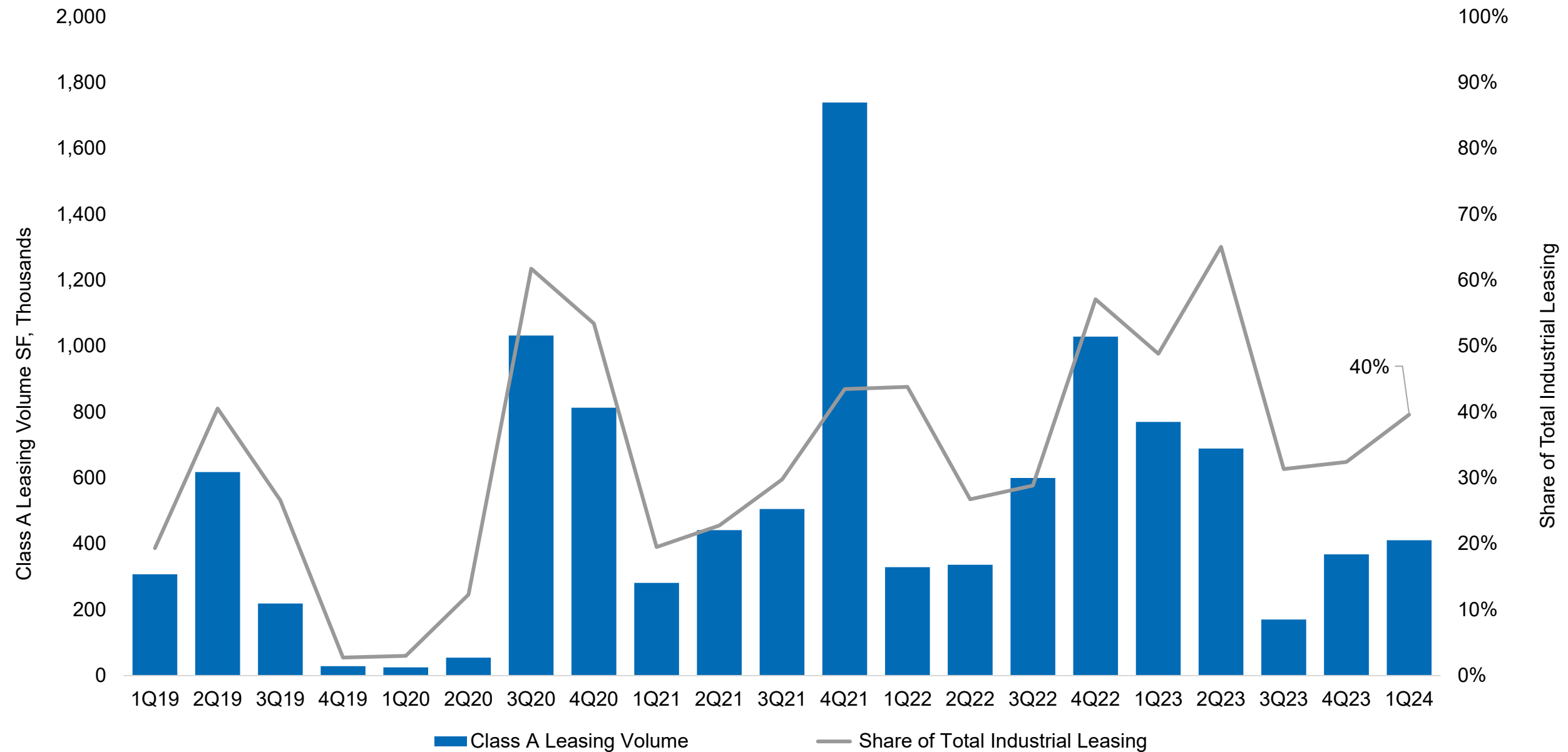


Source: Newmark Research, CoStar

# Class A Warehouse Leasing Slipping

In response to occupier needs for modern Class A warehouse space, new development has accelerated over the past few years; however, it appears that construction has begun to outpace demand. Class A warehouse leasing represented 40% of overall activity in the first quarter of 2024, down from a recent high of 63% (2Q23).

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

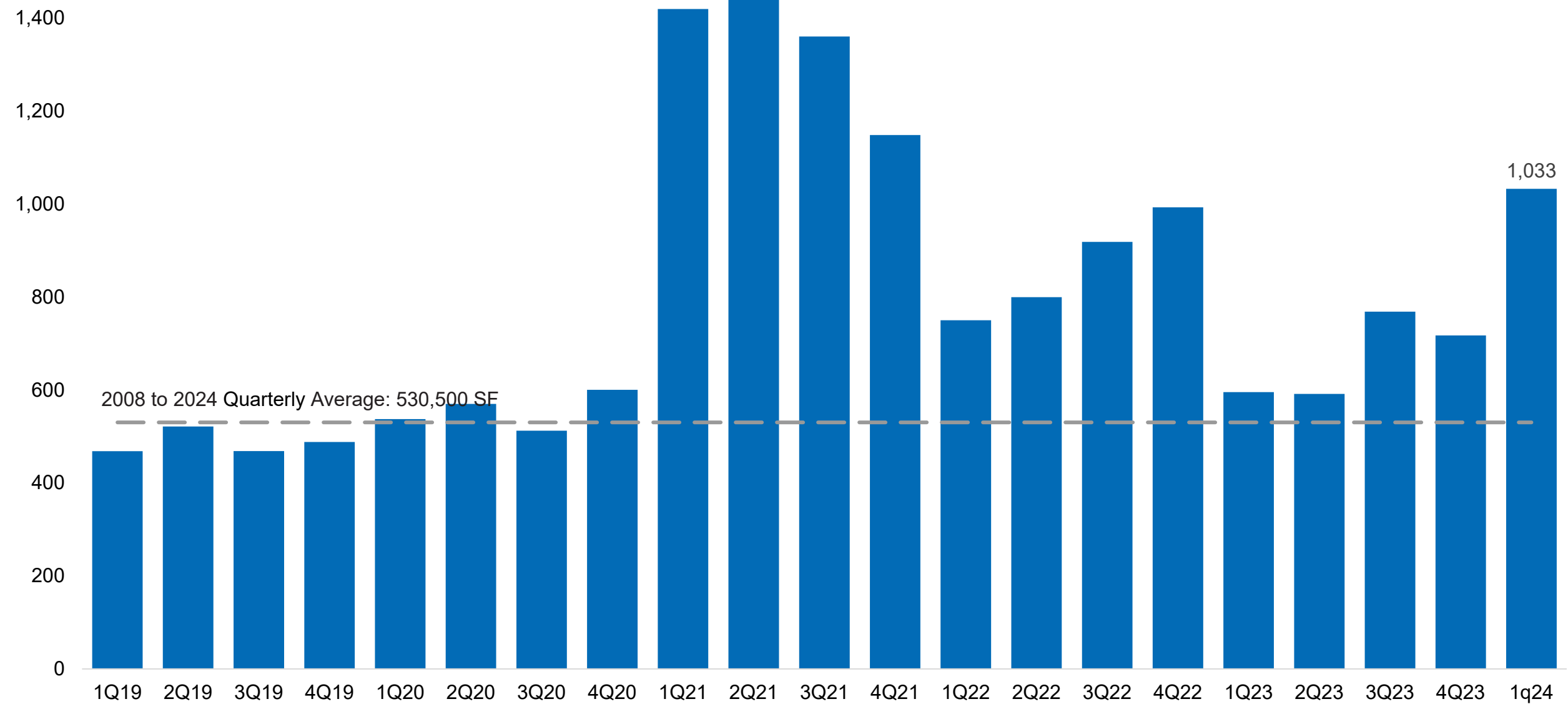


Source: Newmark Research, CoStar

# Industrial Sublease Availability Remains Above Average

The sublease availability rate jumped 11 basis points from 0.25% to 0.36% as an additional 315,632 SF of sublease space became available this past quarter. The current quarter amount is still less than the 2Q 2021 high of 1,442,585 SF.

Available Industrial Sublease Volume (Thousands SF)

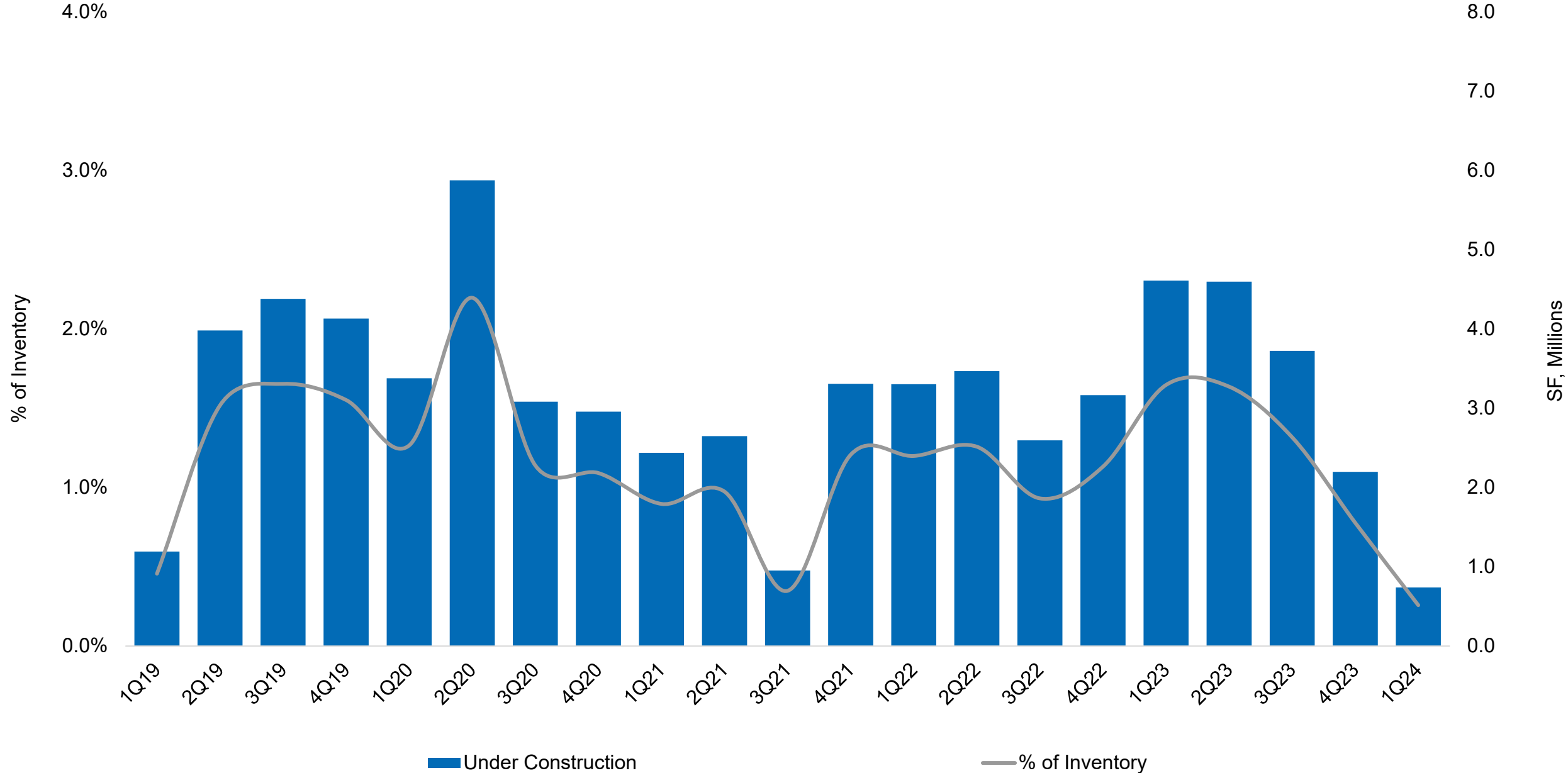


Source: Newmark Research, CoStar

# Speculative Construction Continues Shrinking

The construction pipeline trended downward for the fourth consecutive quarter after reaching a recent high of 4.6 million SF in the first quarter of 2023. 4.3 million SF was delivered throughout 2023, however the pace of new project announcements has slowed due to lessening demand and construction costs.

## Industrial Under Construction and % of Inventory

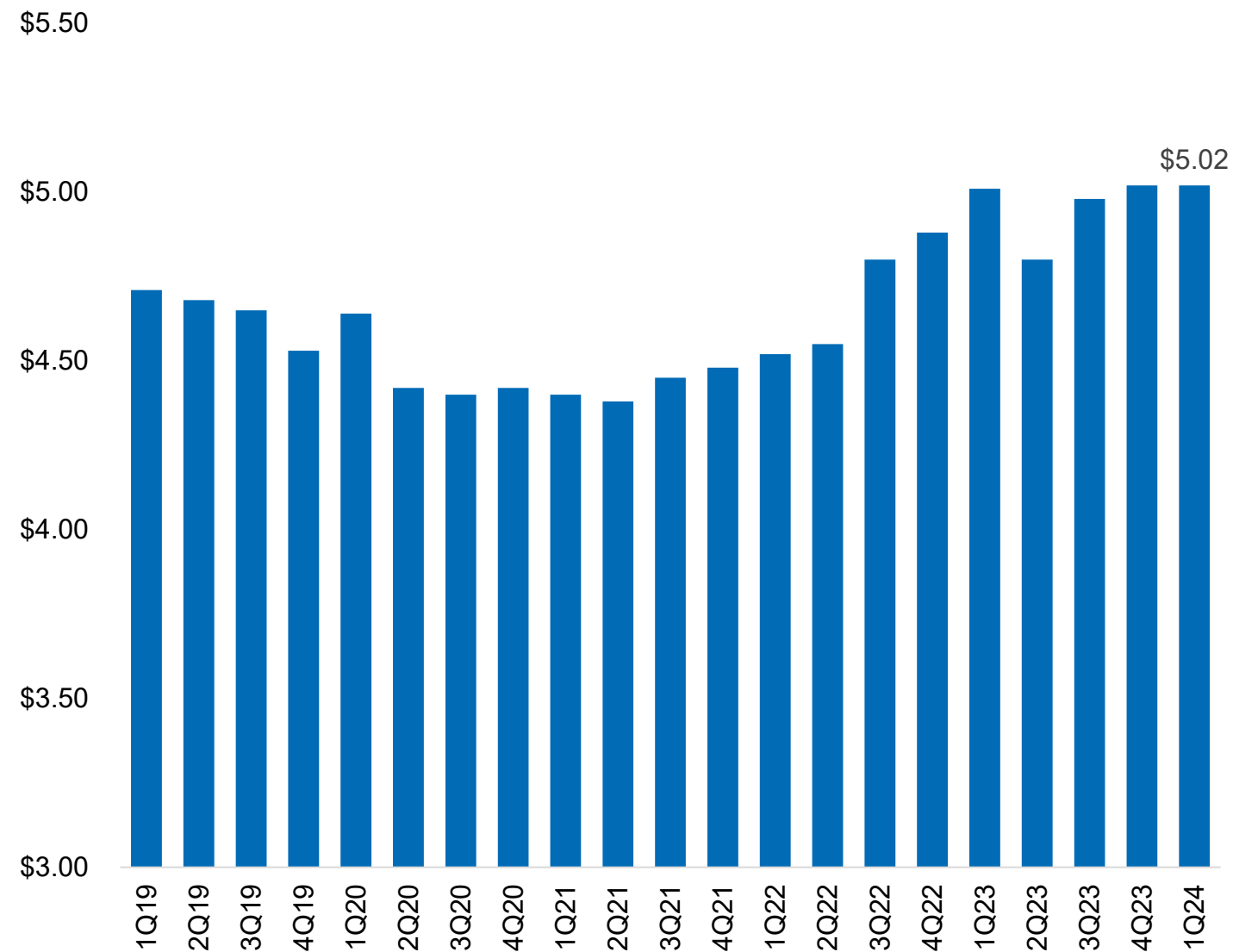


Source: Newmark Research, CoStar

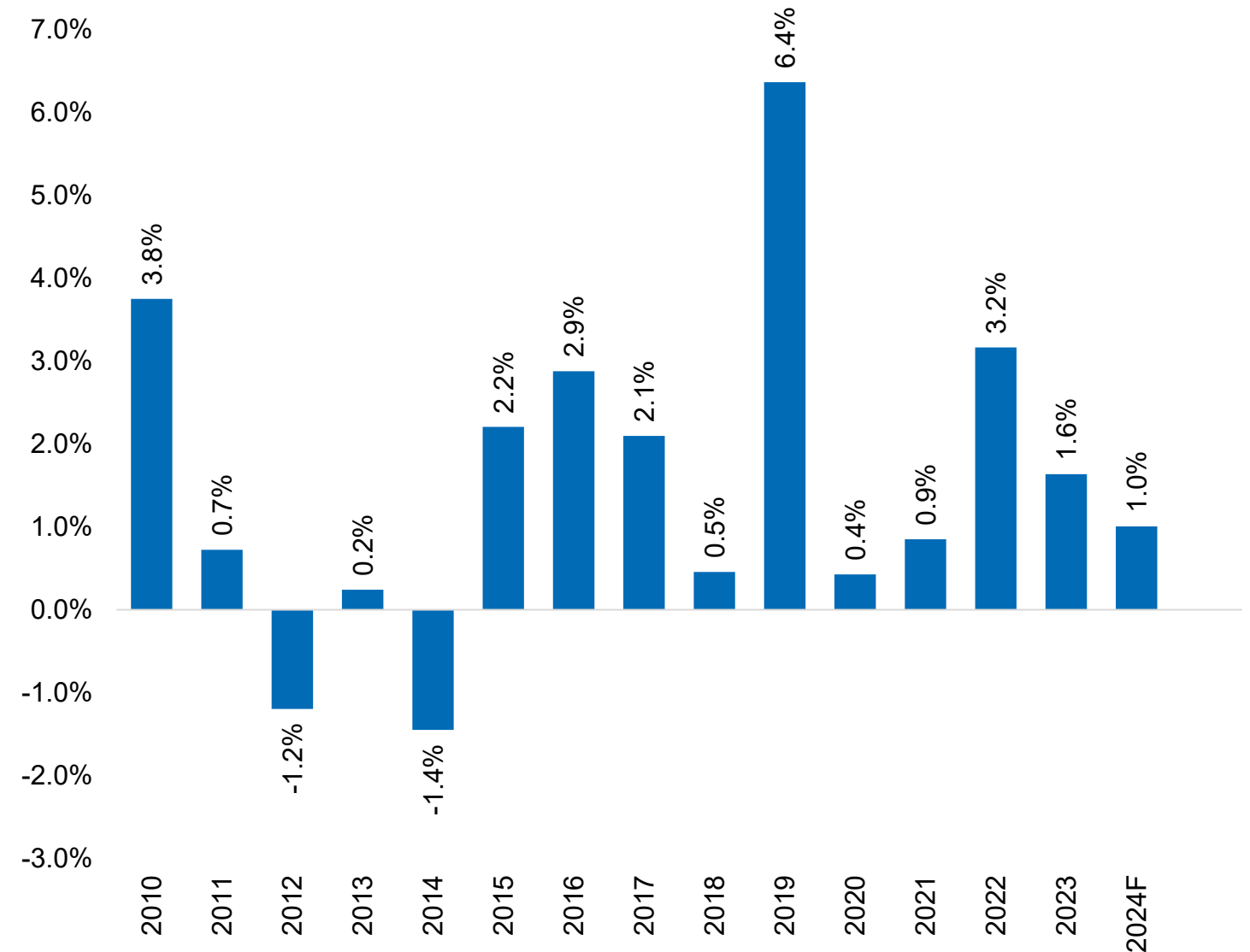
# Industrial Asking Rents Near Historic Highs

Average asking rents continue to grow year over year. While annual statistical growth is a modest 1.0%, actual growth is higher. The most sought-after properties are so quickly leased their rates don't impact quarterly data and new construction is advertised with negotiable rates, which are also not included. This leaves the statistics most influenced by properties with high vacancy and low rates.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

# Notable 4Q23 Lease Transactions

While there are uncertainties about the overall economy, the number of leases being completed this past quarter has remained strong, however the size of those deals has notably shrunk.

## Select Lease Transactions

| Tenant                            | Building                               | Submarket     | Type                | Square Feet |
|-----------------------------------|--|---------------|---------------------|-------------|
| WB Warehousing & Logistics        | W204N13035 Goldendale Rd, Germantown   | Washington Co | New                 | 117,000     |
| Kirby Built Products              | 901 Northview Rd, Waukesha             | Waukesha Co   | Renewal             | 116,176     |
| Silgan Containers Manufacturing   | W395 N5701 Frontier Rd, Oconomowoc     | Waukesha Co   | Renewal             | 100,000     |
| Goodwill                          | 14015 W Grandview Pkwy, Sturtevant     | Racine Co     | Renewal             | 97,073      |
| Christopher Morgan LLC            | 5333-5349 S Emmer Dr, New Berlin       | Waukesha Co   | Renewal & Expansion | 66,048      |
| Rexel USA Inc                     | W134N5450 Campbell Dr, Menomonee Falls | Waukesha Co   | New                 | 59,388      |
| Innovative Heights Wauwatosa, LLC | 1435 N 113th St, Wauwatosa             | Milwaukee Co  | New                 | 51,958      |

Source: Newmark Research

1Q24

# Supplemental Tables







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Newmark business contact for this information



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