

3Q23

Milwaukee Industrial Market Overview



NEWMARK

Market Observations



- The region’s labor market remained historically strong amid shifting macroeconomic conditions. August’s 3.1% unemployment rate was significantly lower than the 4.5% 10-year historical average.
- Year over year, job gains have been most pronounced in the hospitality and leisure industry, while the financial activities services had the most job losses.
- Locally, employment growth across all office-occupying sectors slowed substantially in 2023.
- The Midwest Consumer Price Index has continued to fall after hitting a peak in June 2022 of 9.2%. As of August 2023, it now stands at 2.9%.

Major Transactions

- Large lease activity notably decreased this past quarter as there was only one new lease signed over 100,000 SF. CNH Industrial America, LLC leased +/- 125,000 SF at 11201 Enterprise Way in Sturtevant.
- Founders Properties sold 8635 W. Washington Ave in Racine a 191,872 SF warehouse building to S.C. Johnson for \$21.85 million, or \$113.88/SF.
- Luterbach Realty sold 16875 W. Ryerson Rd in New Berlin a 94,250 SF manufacturing building to Thermtech, Inc for \$8.73 million, or \$92.57/SF.
- Jerico Drive LLC sold four multi-tenant industrial flex buildings in Waukesha and Hartland totaling 64,900 SF to Carmen and Victoria Galante for \$7.7 million, or \$118.64/SF.

Leasing Market Fundamentals

- This past quarter, the Milwaukee industrial market experienced 516,727 SF of absorption. Over the past year, the market has absorbed 2.4 million SF. Since the beginning of the first quarter of 2020, the market has experienced 14.5 million SF of absorption, representing market growth of 5.6%.
- The availability rate rose this past quarter, increasing from 4.8% to 6.0%. The vacancy rate also rose this past quarter from 3.0% to 3.4%. The year-over-year availability rate has risen from 4.5% to 6.0%, and the year-over-year vacancy rate has risen from 2.8 to 3.4%. The increase in the availability and vacancy rates can be primarily attributed to new speculative buildings being delivered.
- This past quarter 1.8 million SF of new construction was delivered this past quarter of which only 8% was preleased.
- There is 3.47 million SF in the construction pipeline, of which 42% is preleased.
- The sublease availability rate increased to 0.3% this past quarter, (716,689 SF), which is up slightly from the previous quarter of 0.2% (627,106 SF) but still near the long-term pre-pandemic average

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will continue to impact leasing and investment activity.
- The availability and vacancy rates increased this past quarter as deliveries came on-line with minimal amounts being preleased. Rates may continue to increase slightly next quarter as more speculative deliveries come online but they may begin to decrease starting in early 2024 as the development pipeline reaches equilibrium with demand.

1. Economy
2. Leasing Market Fundamentals

3Q23

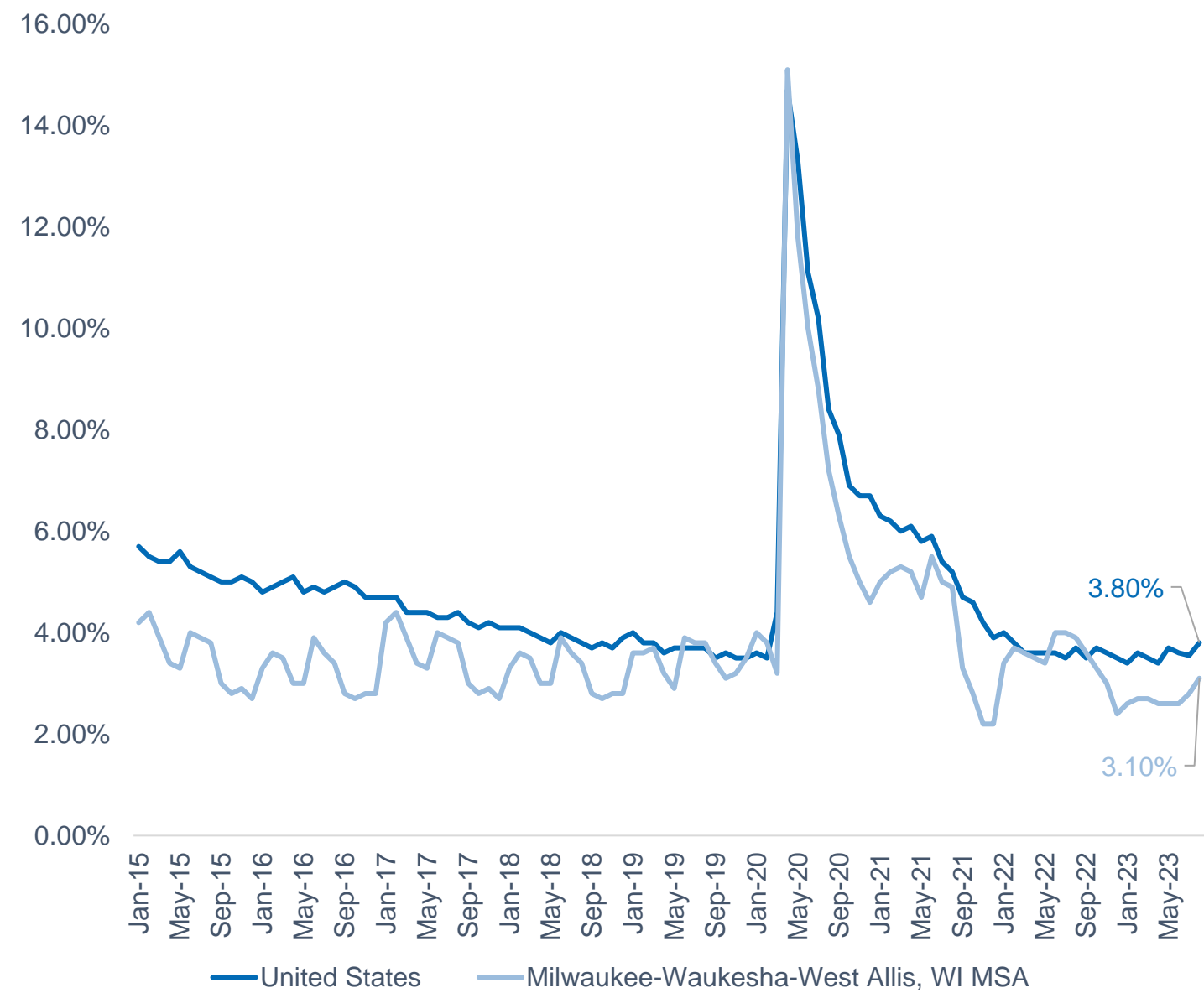
Economy



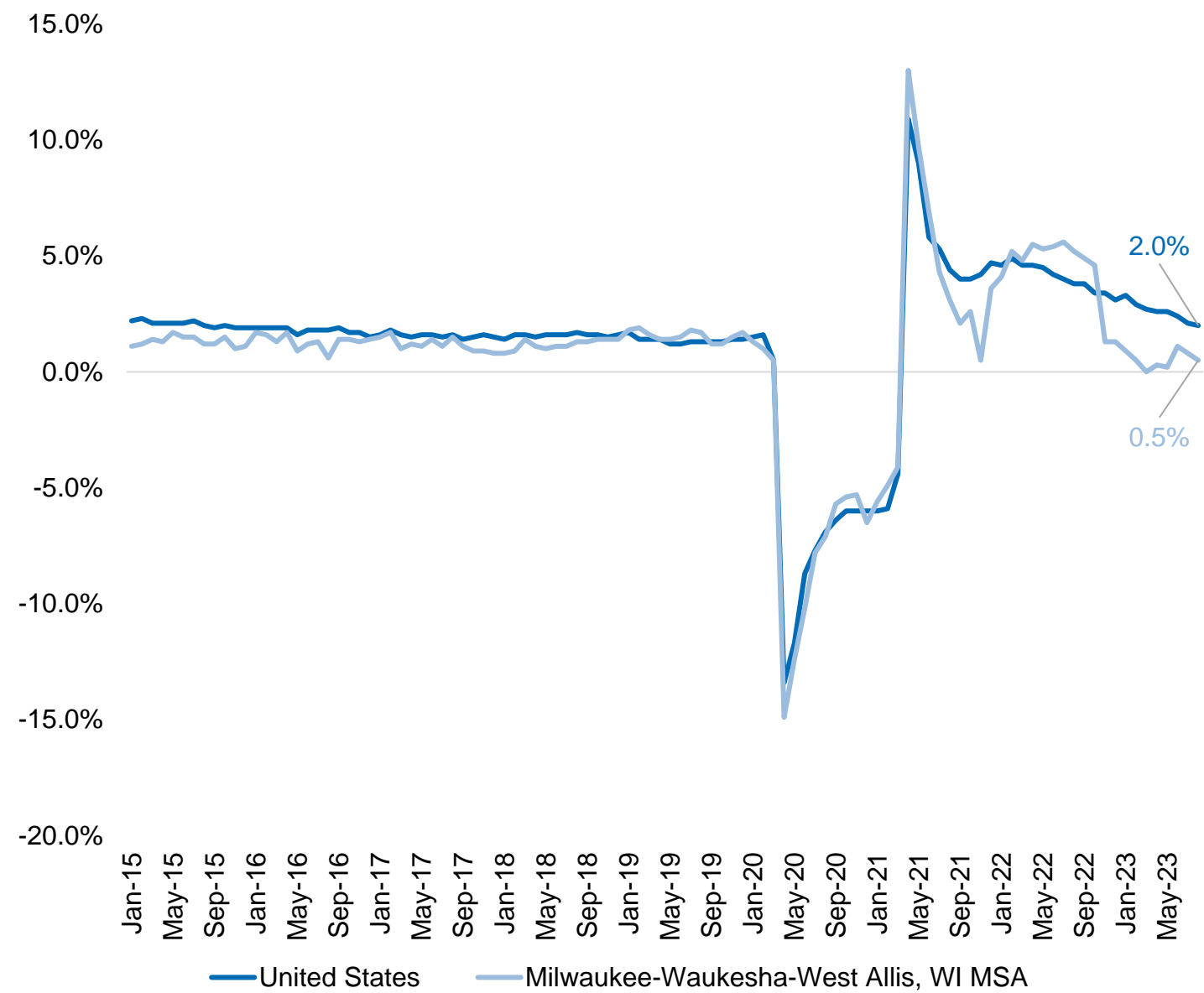
Metro Employment Trends Signal A Slowing Economy

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’s 12-month average, while still growing at 0.5%, is considerably lower than the nationwide average of 2.0%.

Unemployment Rate, Seasonally Adjusted



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



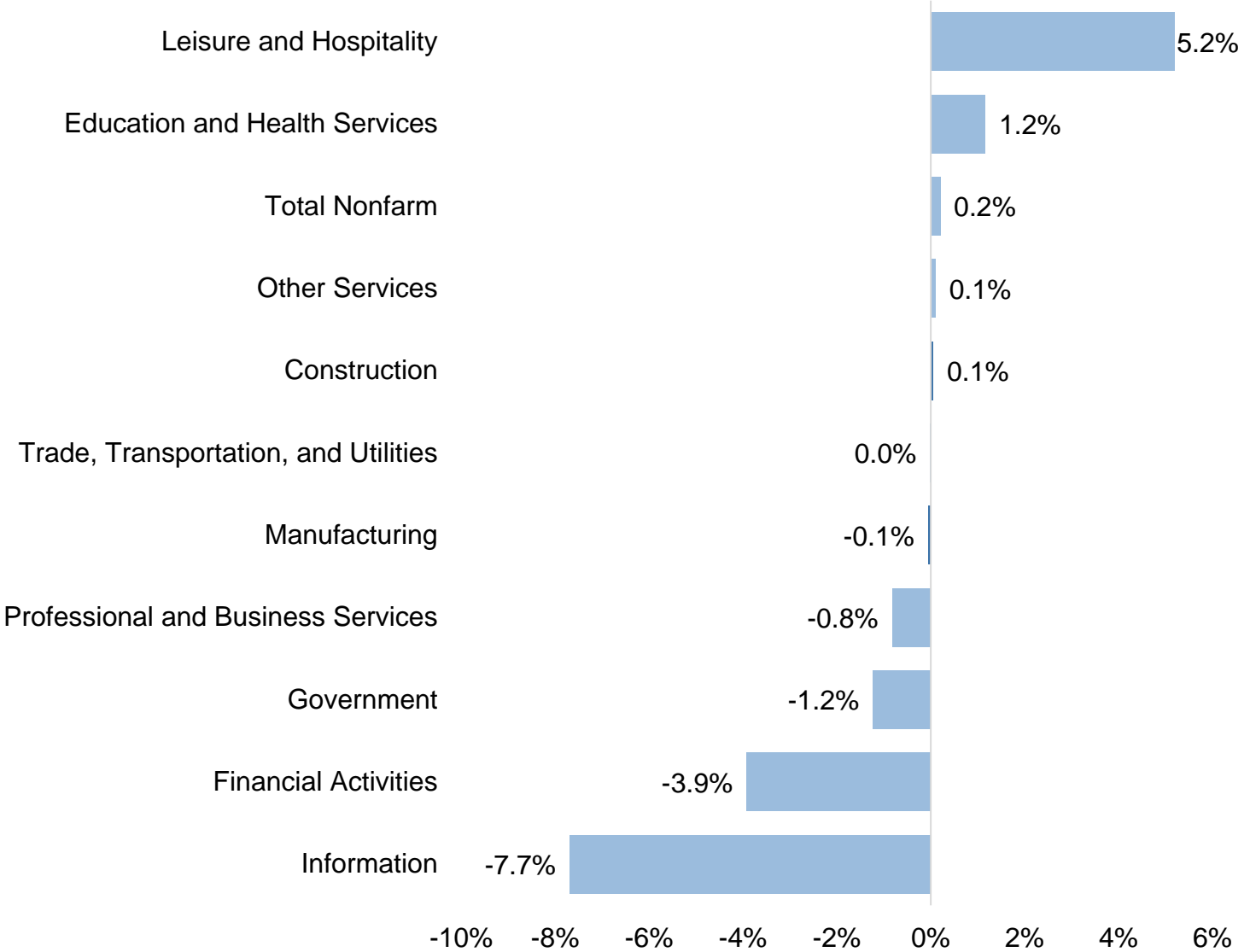
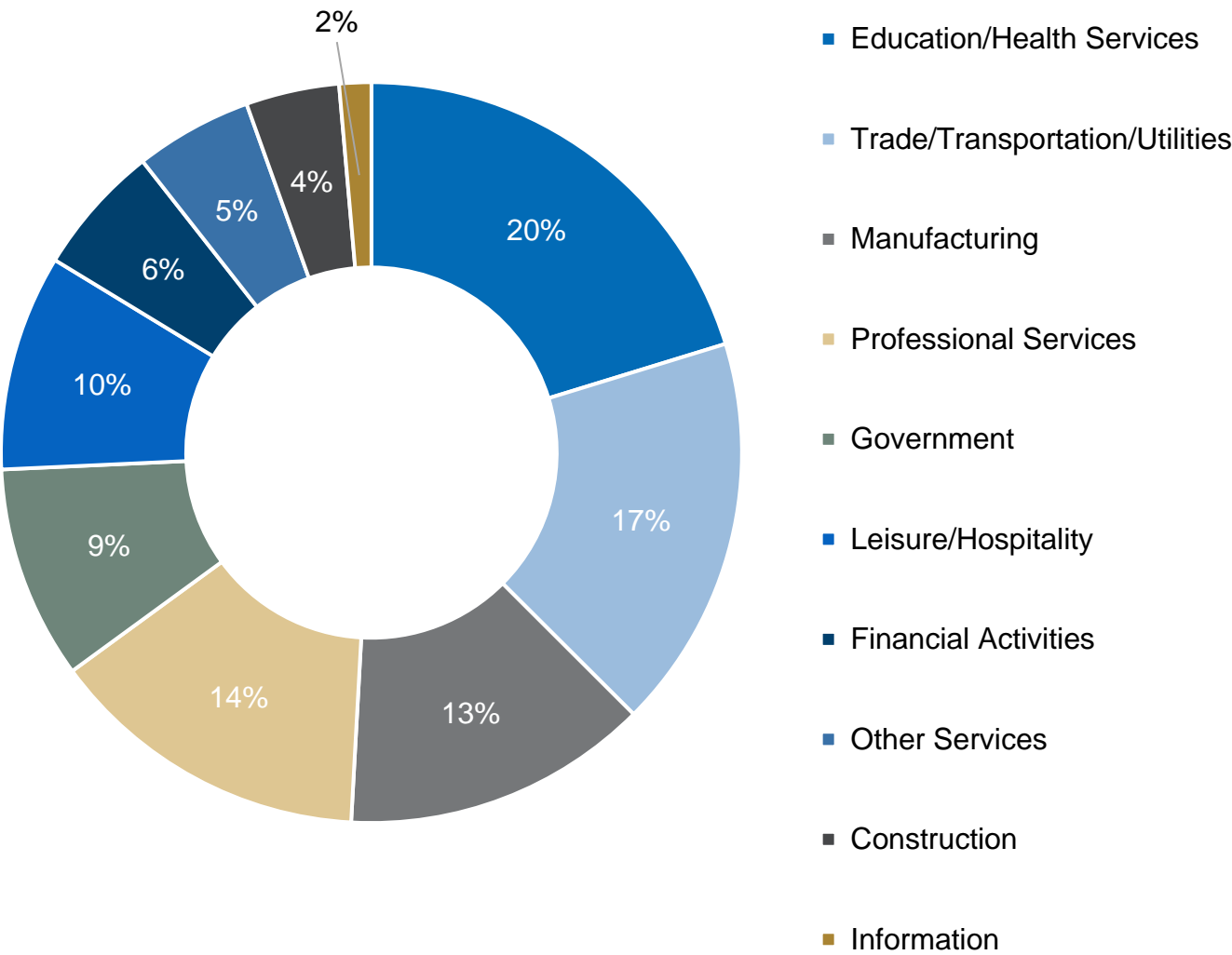
Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

Job Growth Driven in Large Part by Leisure and Hospitality Sector

The leisure and hospitality sector led all industries in regional annual job growth, with 4,000 jobs being added over the past year. Industrial-occupying and adjacent industries saw no notable growth.

Employment by Industry, August 2023

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

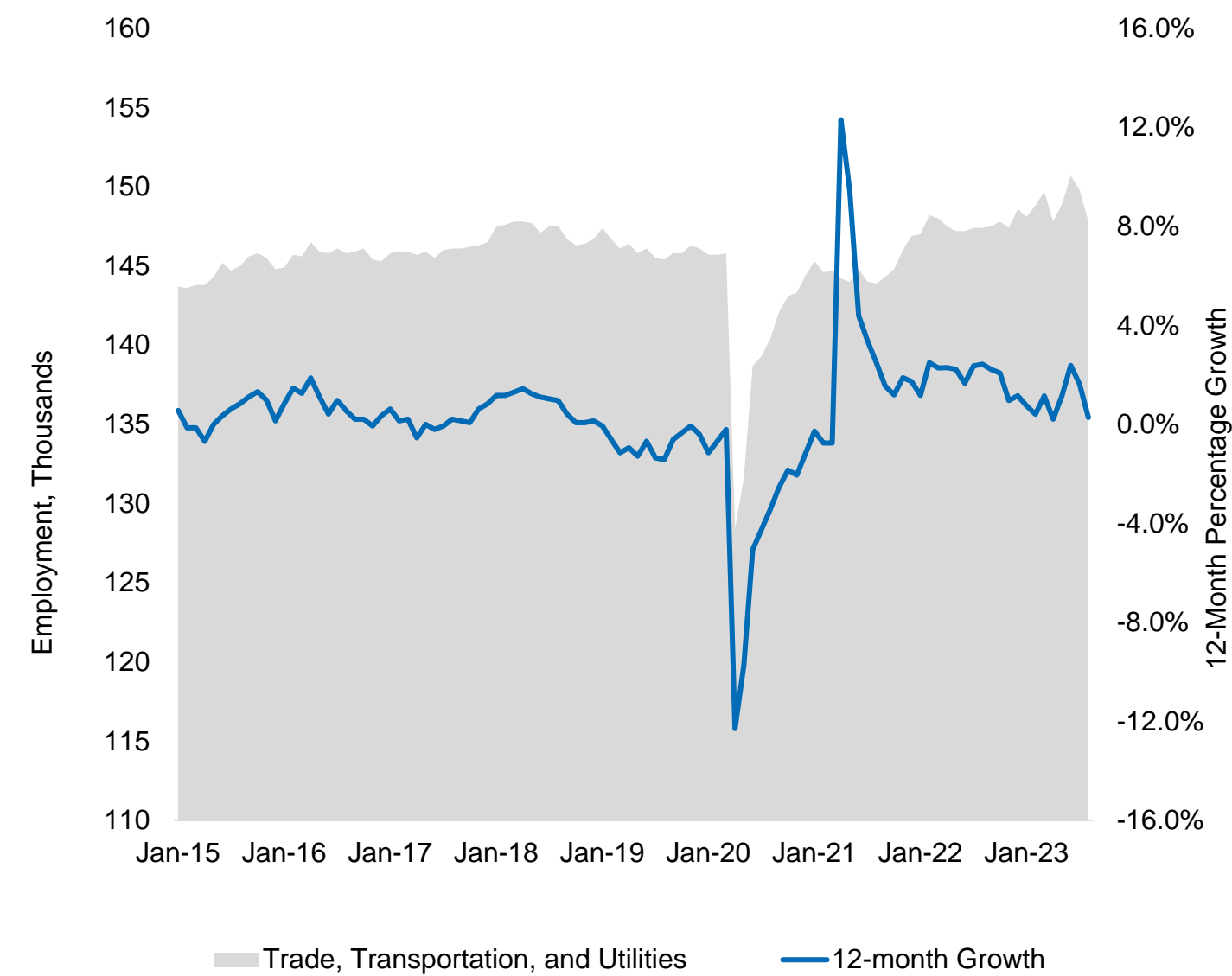


Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

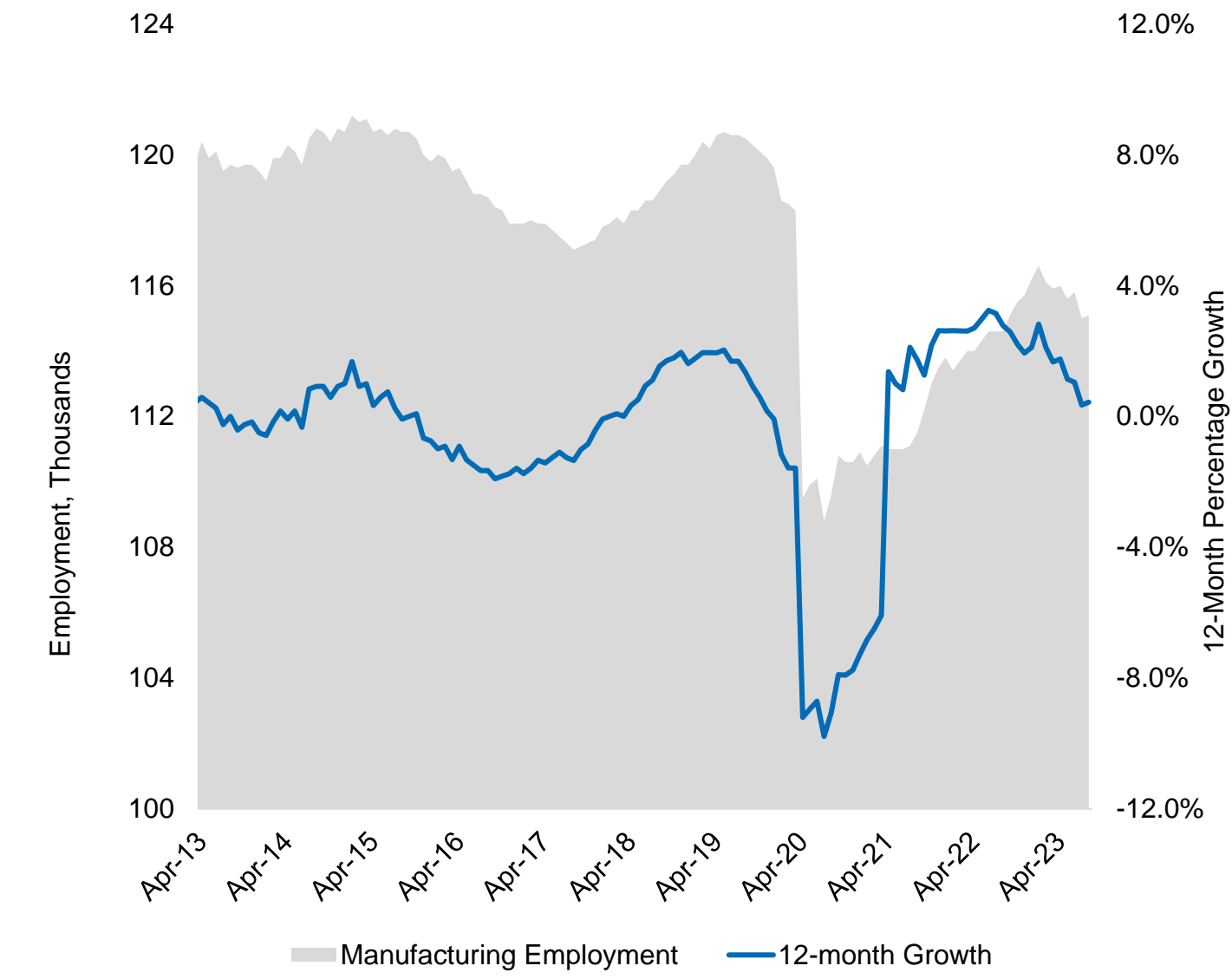
Industrial Employment Strong but Not Immune to Softening Conditions

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 in the market.

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

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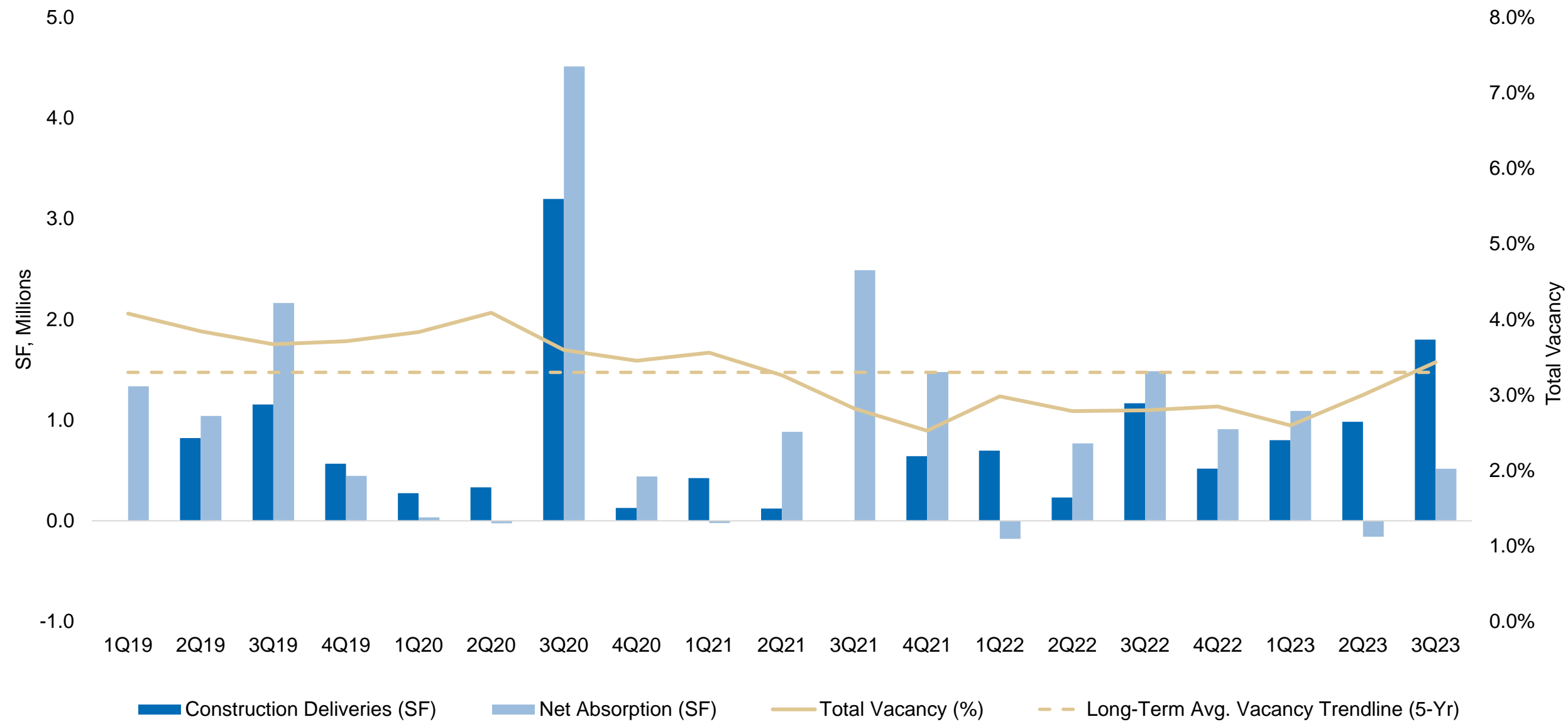
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

This past quarter, the availability rate rose to 6.0% from 5.0% and the vacancy rate rose to 3.4% from 2.9%. Over the year, the availability rate has risen to 6.0% from 4.5%, and the vacancy rate has risen to 3.4% from 2.8%. The market is recalibrating, with vacancy expected to continue to rise for the rest of the year as the economy slows and construction deliveries outpace net absorption, reversing the trend of the last two years.

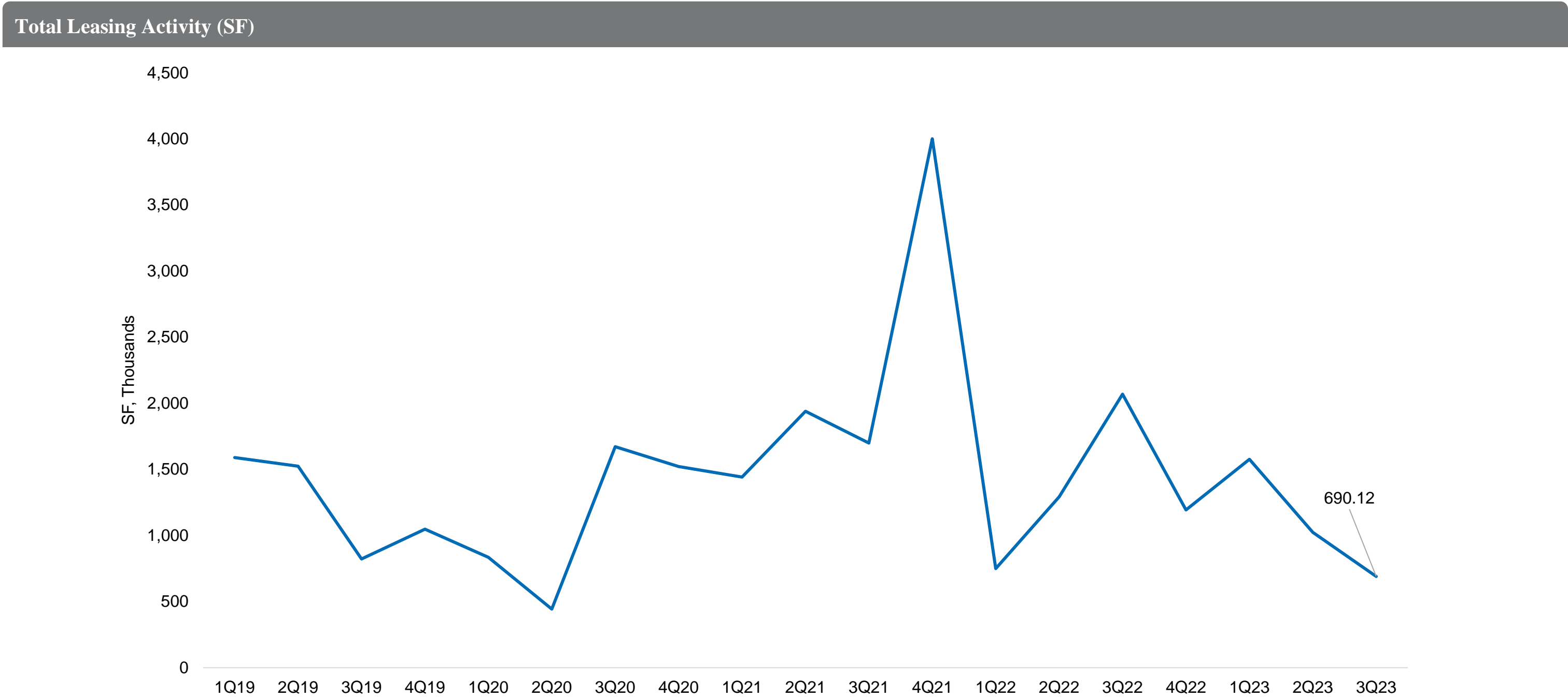
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

In the third quarter of 2023 large lease activity notably decreased with only one new lease signed over 100,000 SF. CNH Industrial America, LLC leased +/- 125,000 SF at 11201 Enterprise Way in Sturtevant.

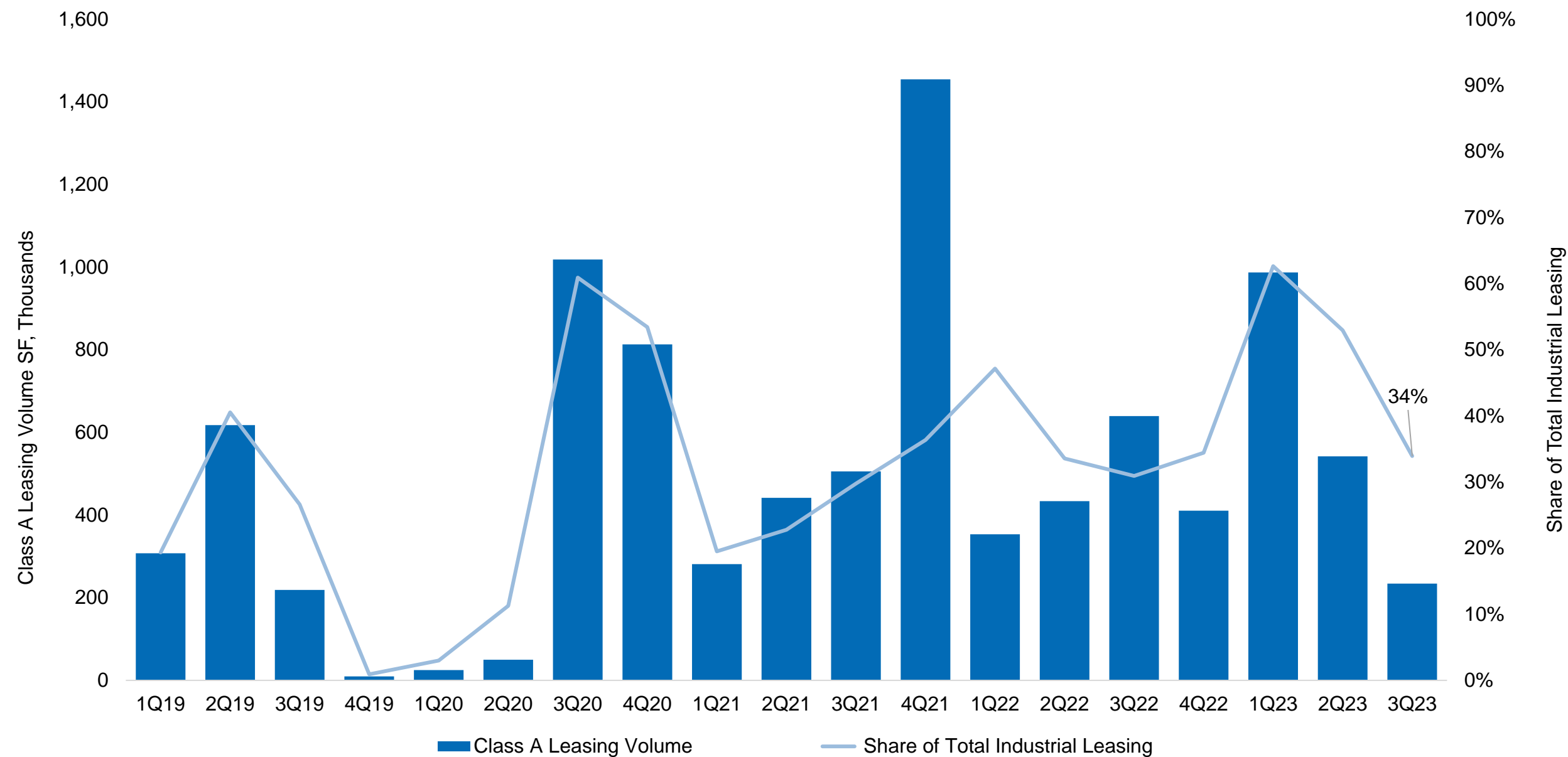


Source: Newmark Research, CoStar

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 34% of overall activity in the third quarter of 2023, down from a recent high of 63%.

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

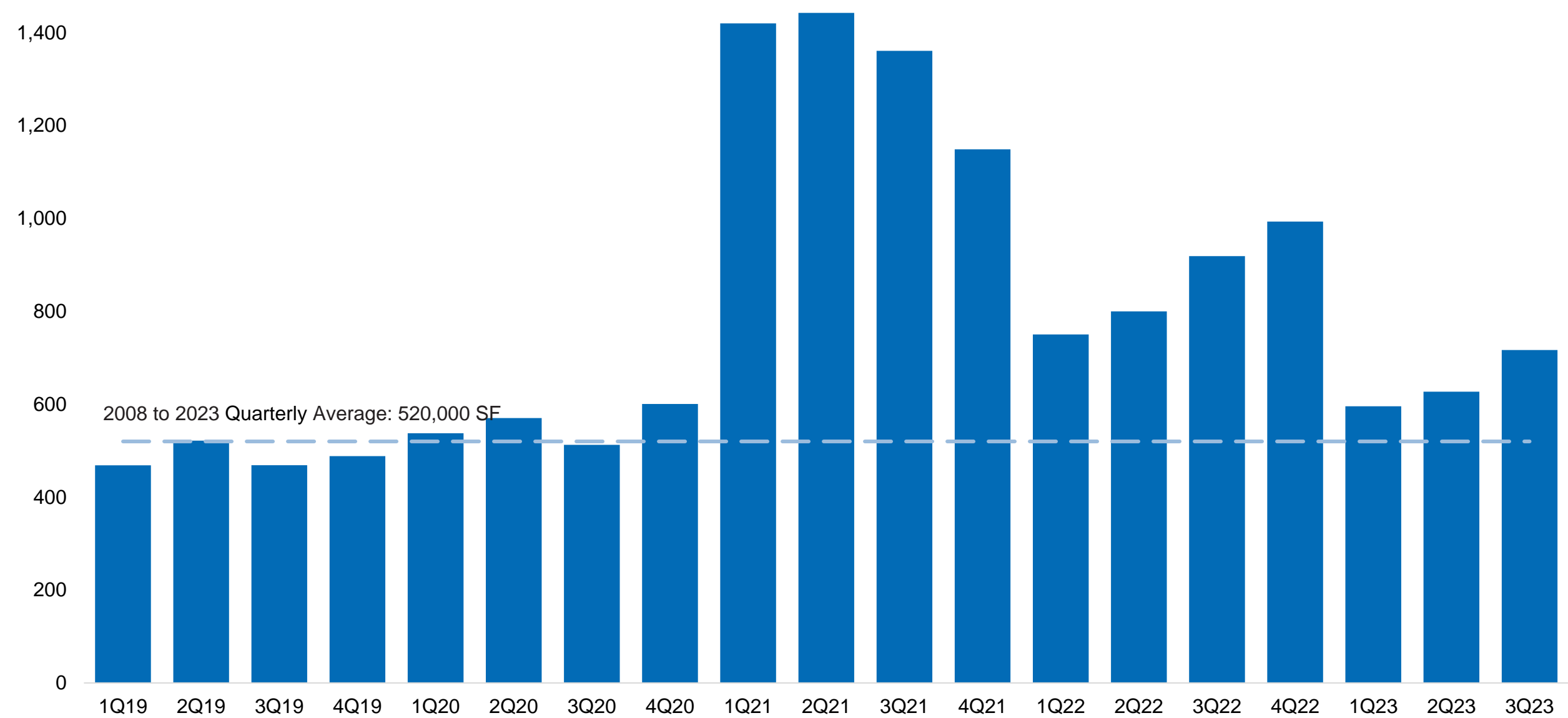


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains Above Average

The sublease availability rate increased to 0.3% this past quarter (716,689 SF), which is up slightly from the previous quarter of 0.2% (627,106 SF) but it still near the long-term pre-pandemic average.

Available Industrial Sublease Volume (Thousands SF)



Source: Newmark Research, CoStar

Speculative Construction Starts Shrinking

The construction pipeline trended downward slightly for the third consecutive quarter after reaching a recent high of 4.318 million SF in the first quarter of 2023. The construction pipeline will continue to decelerate throughout 2023, as nearly 1 million SF of speculative construction should be delivered by the end of the year.

Industrial Under Construction and % of Inventory

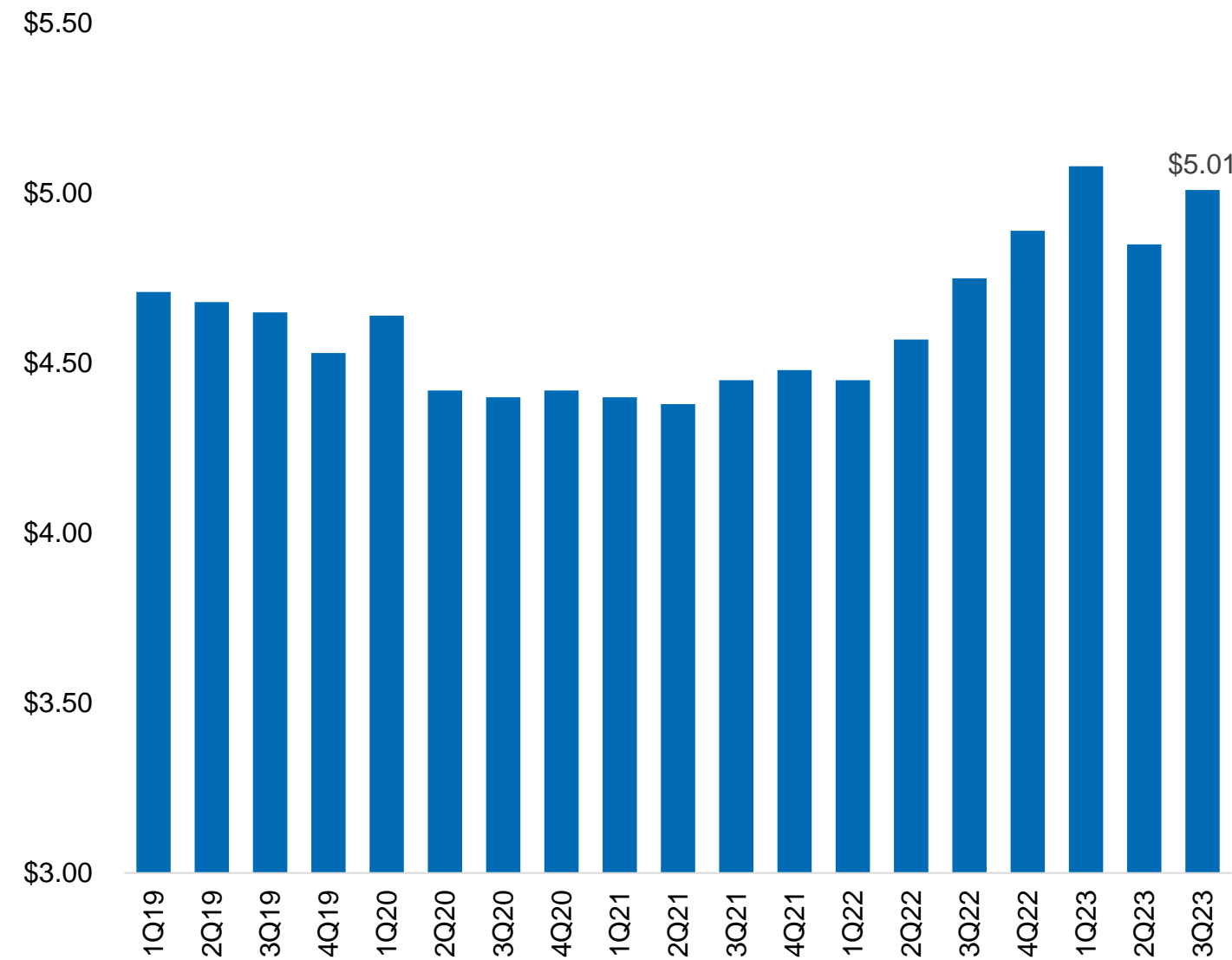


Source: Newmark Research, CoStar

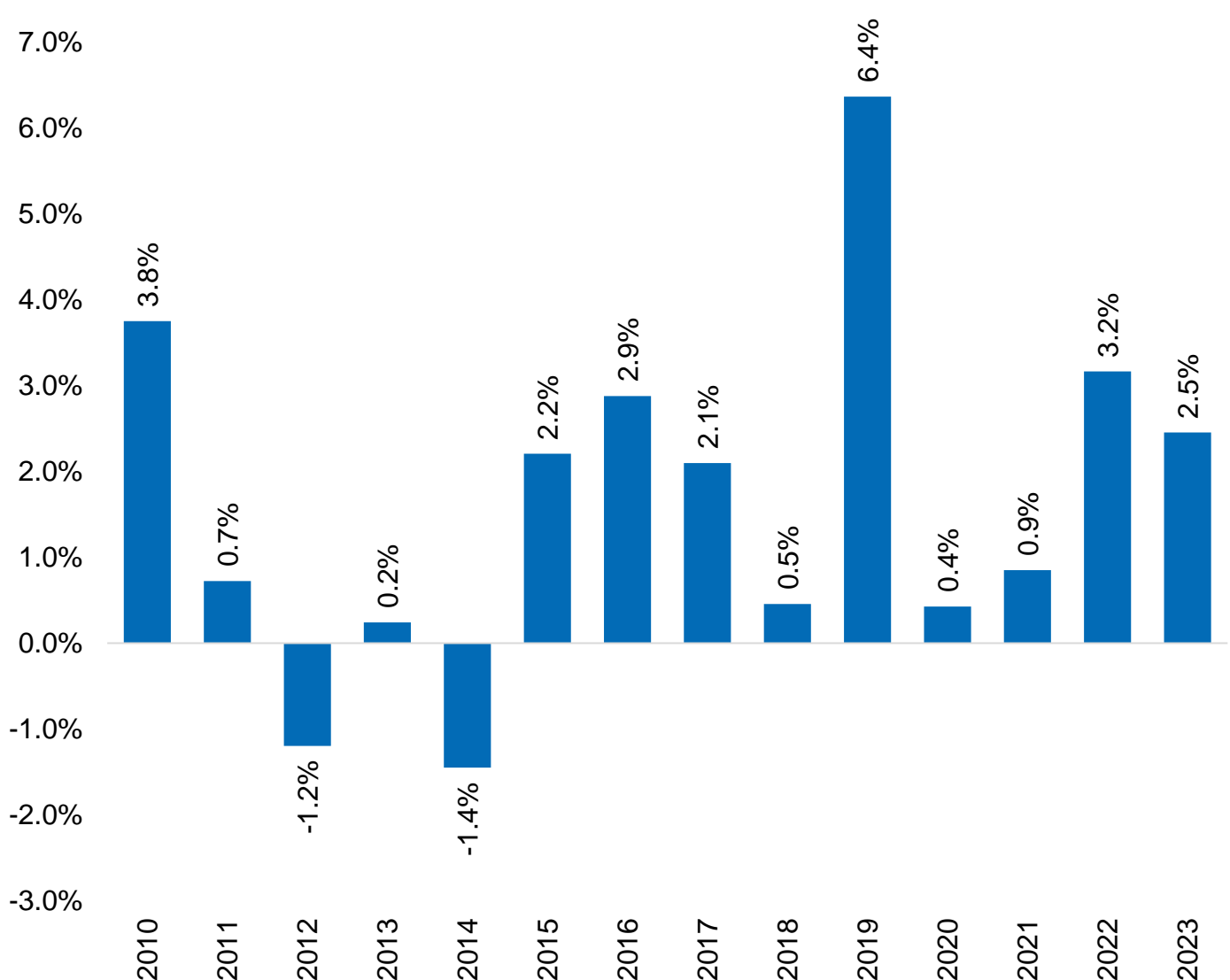
Industrial Asking Rents Near Historic Highs

The industrial asking rent average continues to grow year over year. While minimal yearly growth is shown on the chart below, it is believed that the reported average asking rate is lower than the true average, since most new constructed buildings are being advertised with a negotiable rate and higher asking rent properties being leased, while low asking rent properties remain on market.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 3Q23 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
Vilter Manufacturing LLC	5555 S Packard Ave Cudahy, WI	Milwaukee	Renewal	419,065
Almo Distrubuting Wisconsin	5401 W Donges Bay Rd Mequon, WI	Ozaukee	Renewal	280,395
CNH Industrial America	11201 Enterprise Way Sturtevant, WI	Racine	New	125,347
Goodwill Retail Services	14015 SW Grandview Parkway Sturtevant, WI	Racine	Renewal	97,073
Mission Productions	7300 S 10 th St, Oak Creek, WI	Milwaukee	New	71,488
Steel-Craft Corp. of Hartland	W165 N5761 Ridgewood Dr Menomonee Falls, WI	Waukesha	Direct New	62,020

Source: Newmark Research

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