

# Milwaukee Industrial Market Overview

# Market Observations



## Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. November's 3.6% unemployment rate remains 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 industrial-occupying sectors grown in 2023 with +/-3,000 jobs added.
- The Midwest Consumer Price Index has continued to fall after hitting a peak in June 2022 of 9.2%. As of December 2023, it now stands at 3.2%.



## Major Transactions

- Large lease activity for the quarter notably decreased with only two new lease signings over 100,000 SF. Green Bay Packaging leased +/- 205,000 SF at 5600 S Moorland Rd in New Berlin and Microbial Discovery Group, LLC leased +/- 117,000 SF at 3303 W Oakwood Rd in Franklin.
- Sale transaction volume for the quarter was \$117 million. For the year of 2023 the market experienced \$360 million in transactional volume far less than the \$1.0 billion recorded in 2022 and \$1.25 billion recorded in 2021.
- Westminster Capital sold N17W25045 Bluemound Rd in Pewaukee a 218,000 SF warehouse building to Sterling Management for \$25.0 million, or \$115/SF.
- ElmTree Funds sold 2 World Packaging Cir in Franklin a 207,814 SF manufacturing building to Yaskawa America for \$20.3 million, or \$98/SF.

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## Leasing Market Fundamentals

- This past quarter, the Milwaukee industrial market experienced 800,046 SF of absorption. Over the past year, the market has absorbed 2.35 million SF. Since the beginning of the first quarter of 2020, the market has experienced 16.0 million SF of absorption, representing market growth of 6.0%.
- This past quarter, the availability rate rose to 5.8% from 5.7% and the vacancy rate rose to 3.5% from 3.2%. Over the past year, the availability rate has risen to 5.8% from 4.3%, and the vacancy rate has risen to 3.5% from 2.7%. The market is recalibrating, with vacancy expected to continue to rise into the first two quarters of the new year as construction deliveries outpace net absorption.
- This past quarter 1.72 million SF of new construction which only 32% was preleased.
- There is 2.2 million SF in the construction pipeline, of which 50% is preleased.



## Outlook

- Milwaukee's rich history of 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 as interest rates show signs of stabilizing or potentially decreasing in 2024. This positive development is expected to stimulate investment opportunities for both investors and occupiers.
- Recent deliveries of new projects have experienced minimal preleasing and longer lease-up periods. As a result, fewer new projects are being announced, leading to limited availability of space throughout 2024. Coupled with strong demand, this scarcity of space will continue to drive average rental rates upwards.

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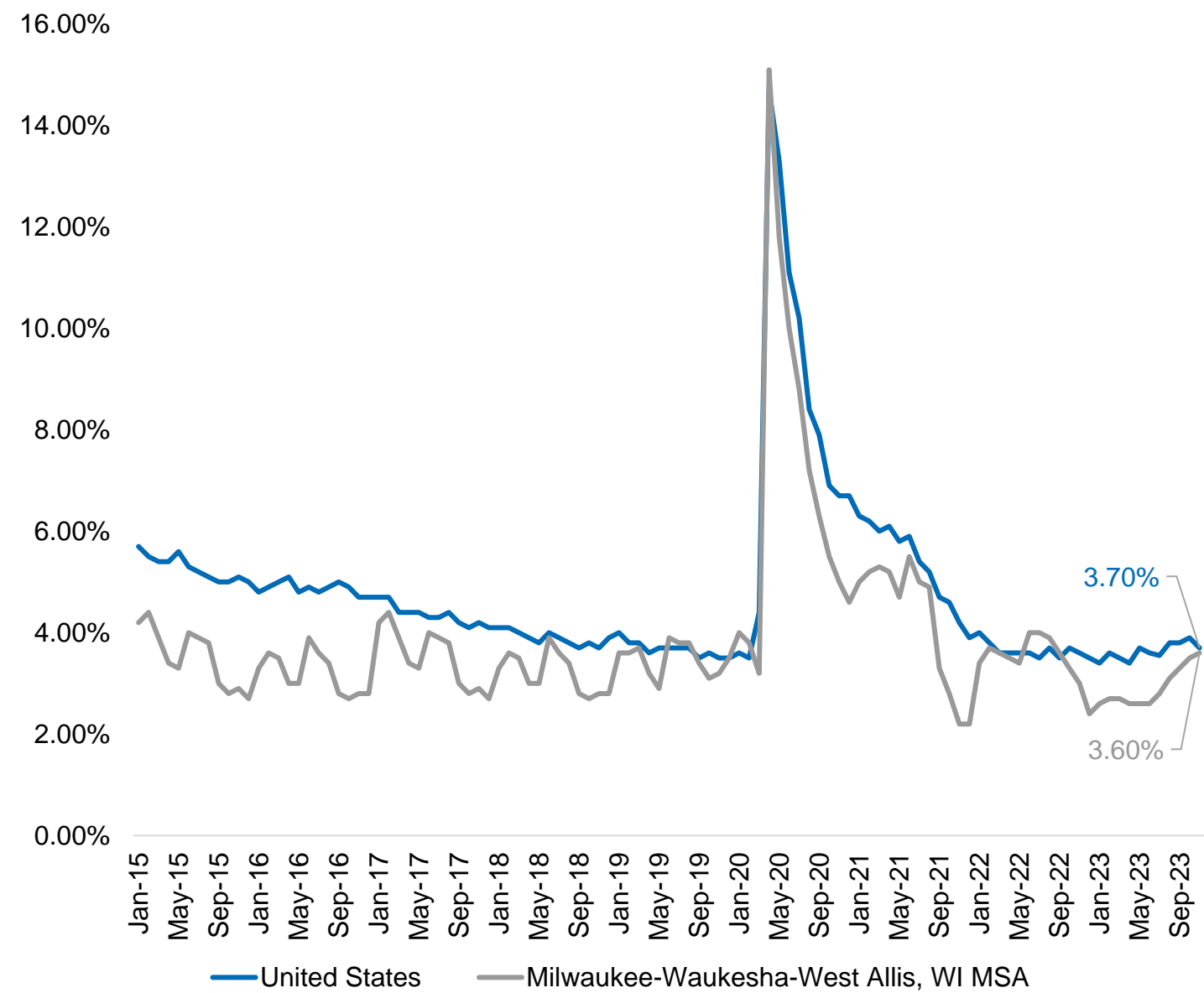
# Economy



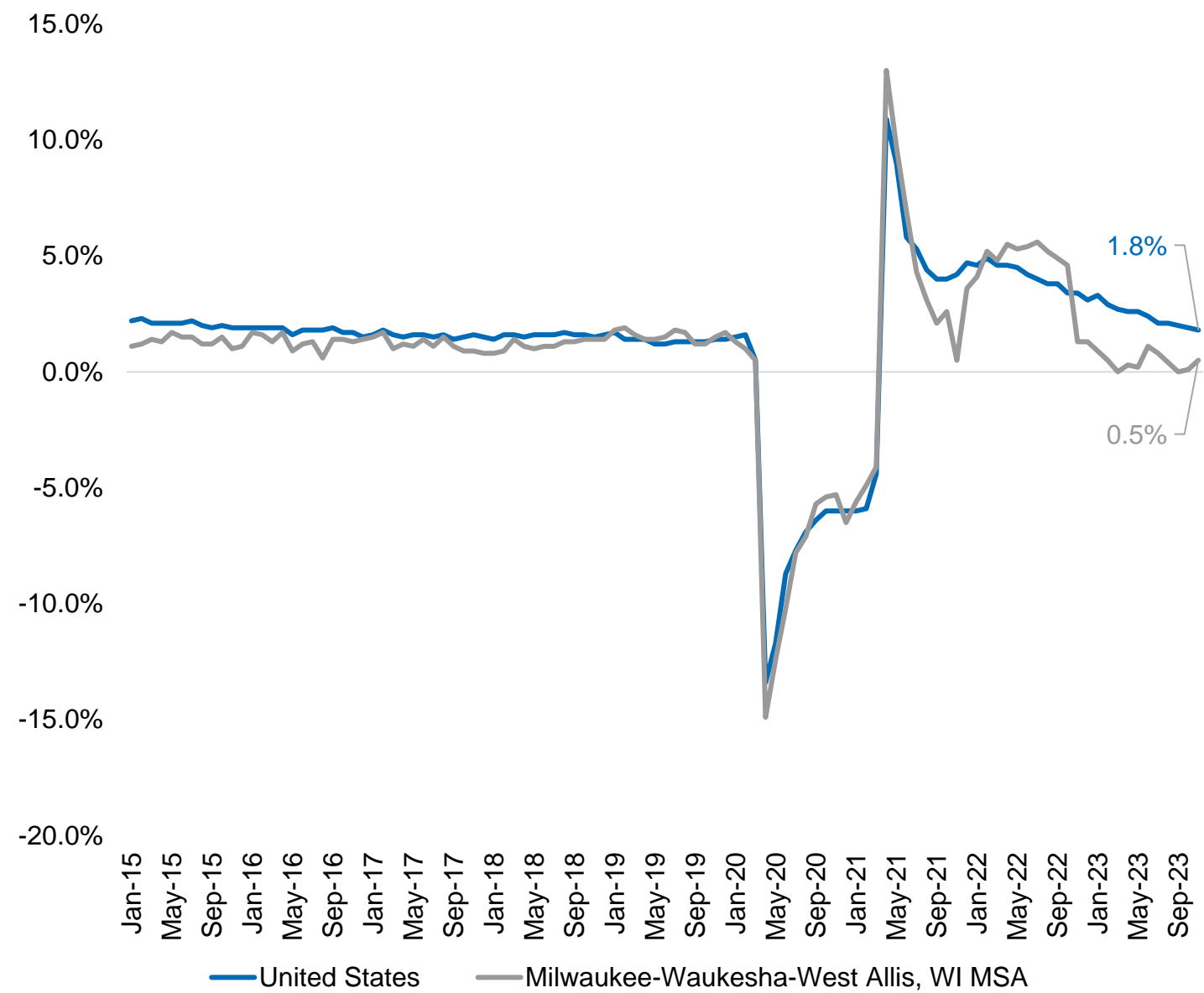
# Metro Employment Trends Signal A Slowing Economy

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 1.8%.

Unemployment Rate, Seasonally Adjusted



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



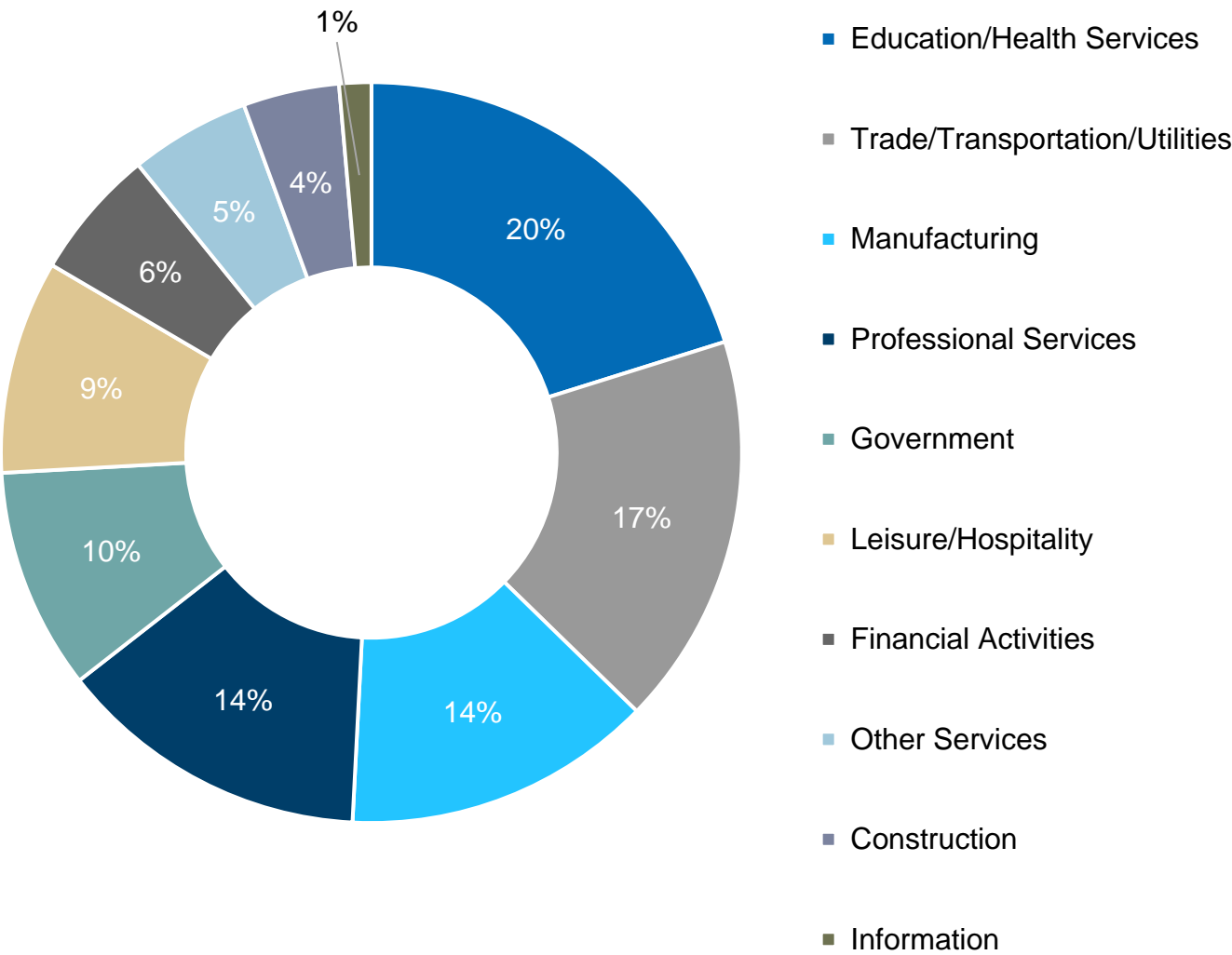
Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA



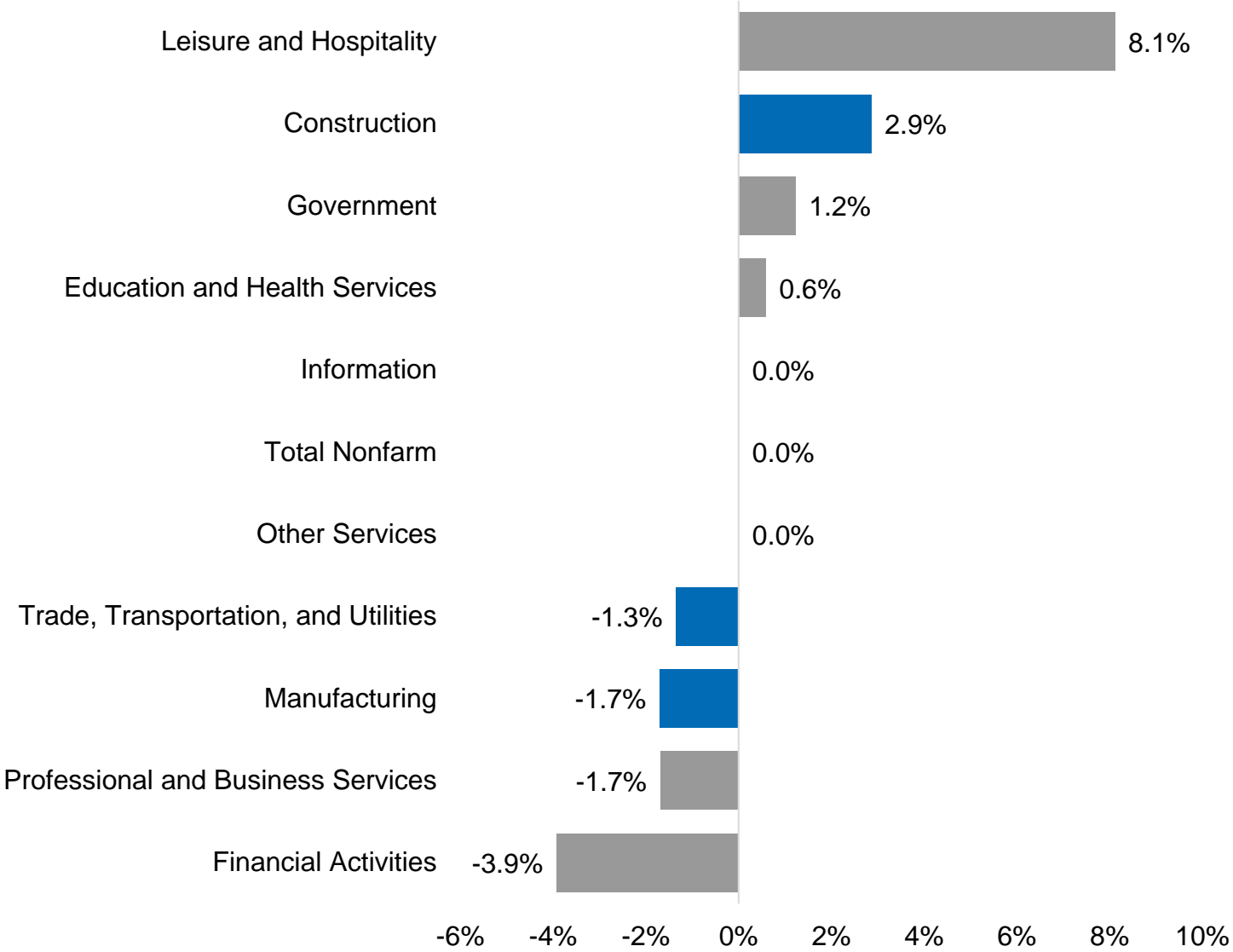
# Job Growth Driven in Large Part by Leisure and Hospitality Sector

The leisure and hospitality sector led all industries in regional annual job growth, with +/-6,000 jobs being added over the past year. Industrial-occupying and adjacent industries saw roughly +/- 3,000 jobs added over the past year.

Employment by Industry, November 2023



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

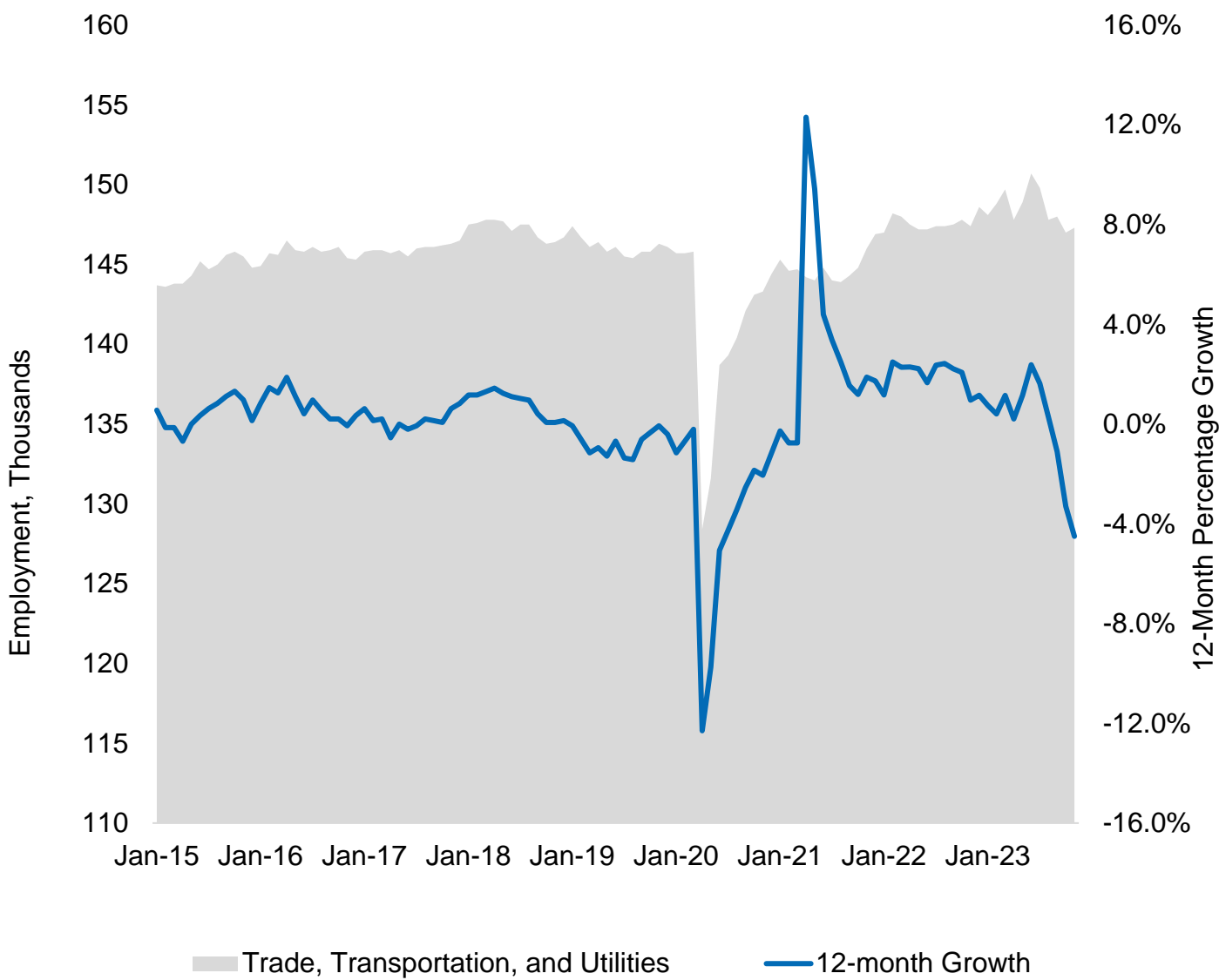


Source: U.S. Bureau of Labor Statistics, Milwaukee-Waukesha-West Allis, WI MSA

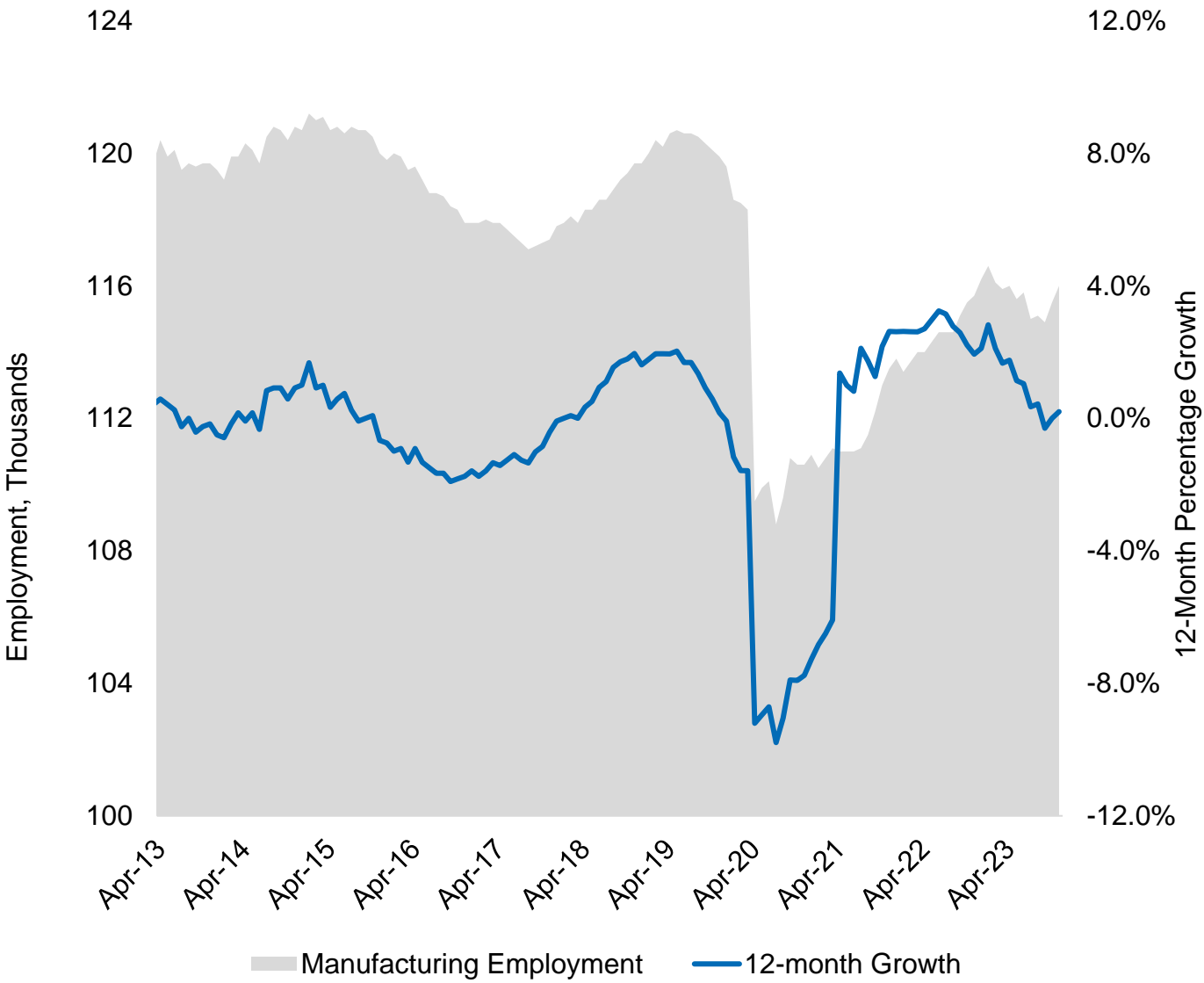
# Industrial Employment Strong but Not Immune to Softening Conditions

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 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

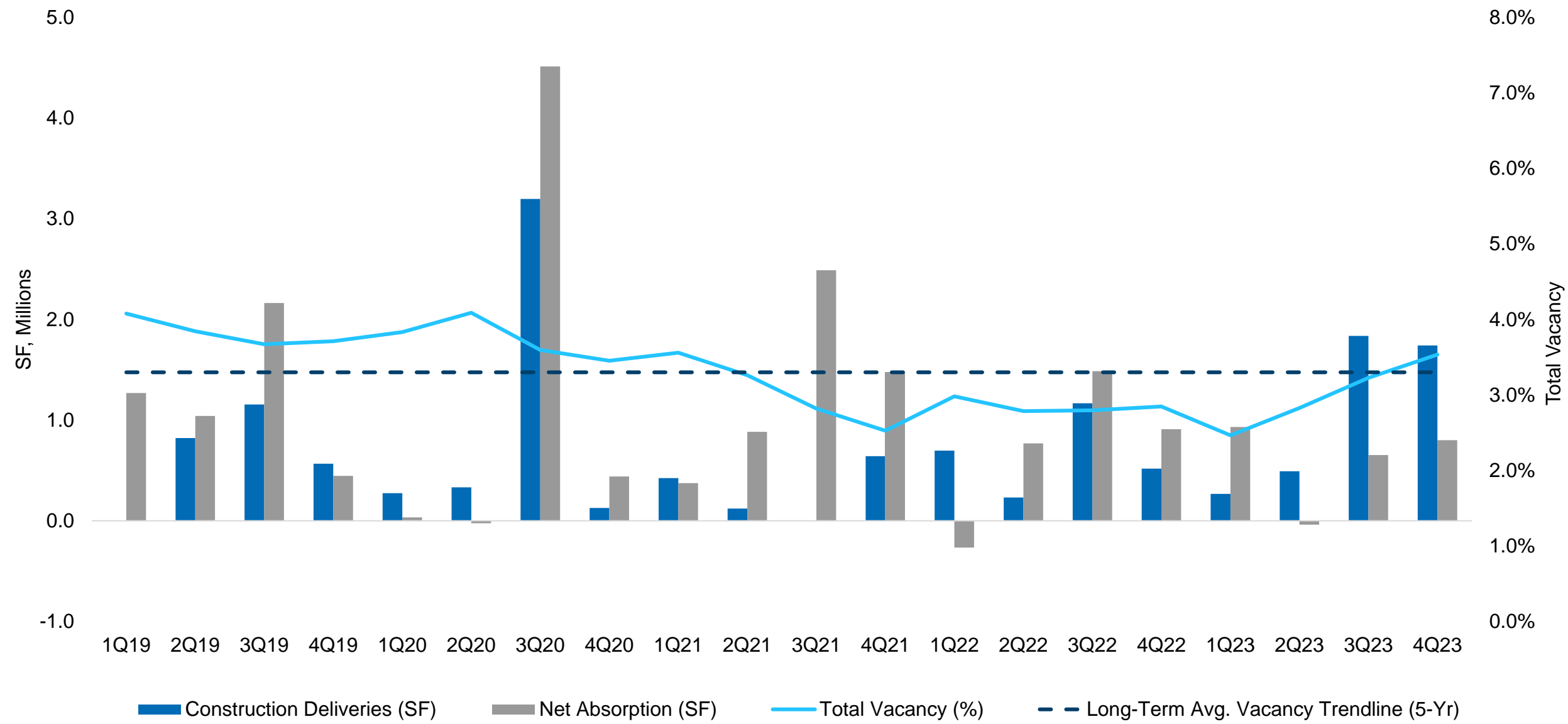




# Vacancy Rises as Construction Deliveries Outpace Net Absorption

This past quarter, the availability rate rose to 5.8% from 5.7% and the vacancy rate rose to 3.5% from 3.2%. Over the past year, the availability rate has risen to 5.8% from 4.3%, and the vacancy rate has risen to 3.5% from 2.7%. The market is recalibrating, with vacancy expected to continue to rise into the first two quarters of the new year as construction deliveries outpace net absorption.

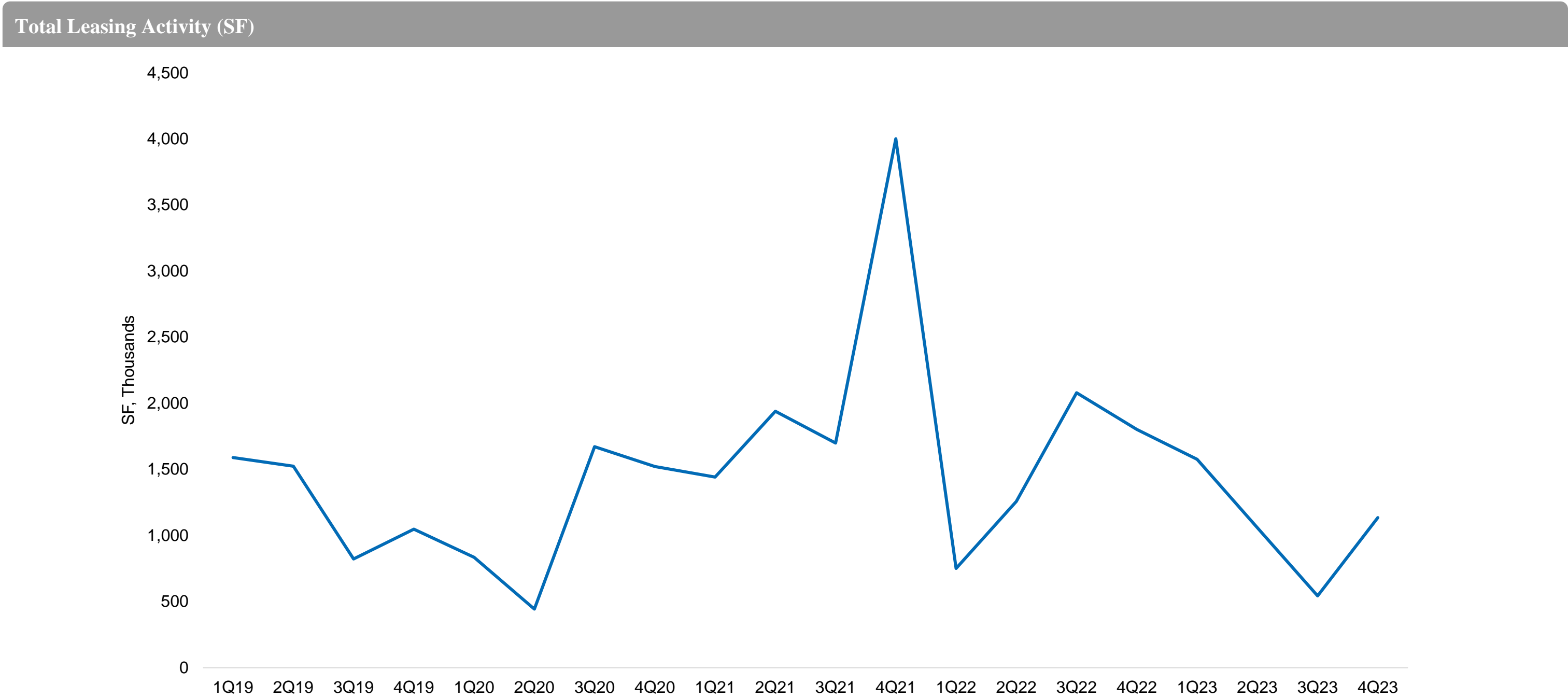
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

In the fourth quarter of 2023 large lease activity notably decreased with only two new lease signings over 100,000 SF. Green Bay Packaging leased +/- 205,000 SF at 5600 S Moorland Rd in New Berlin and Microbial Discovery Group, LLC leased +/- 117,000 SF at 3303 W Oakwood Rd in Franklin.



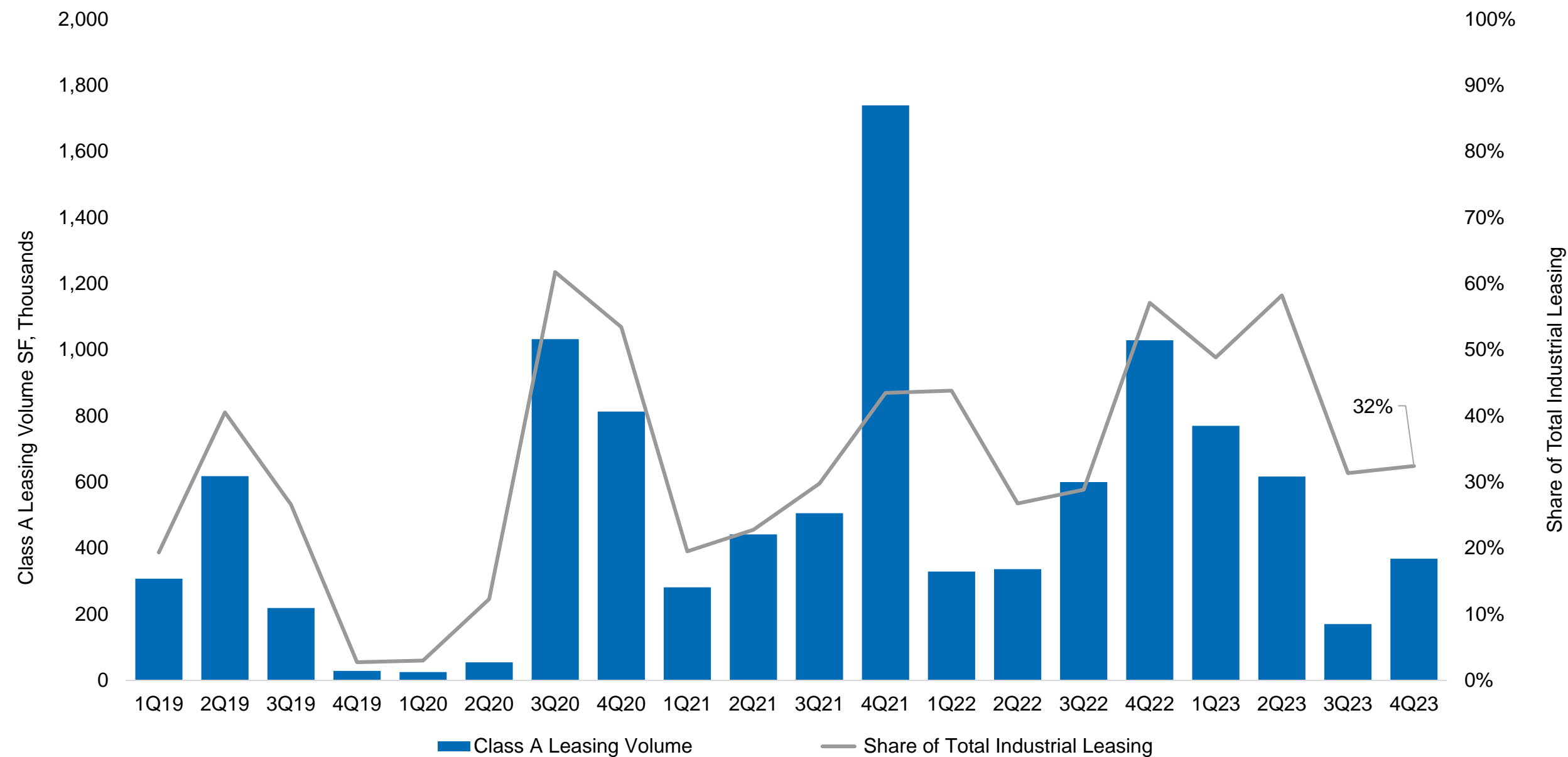
Source: Newmark Research, CoStar



# 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 32% of overall activity in the fourth quarter of 2023, down from a recent high of 63% (2Q23).

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

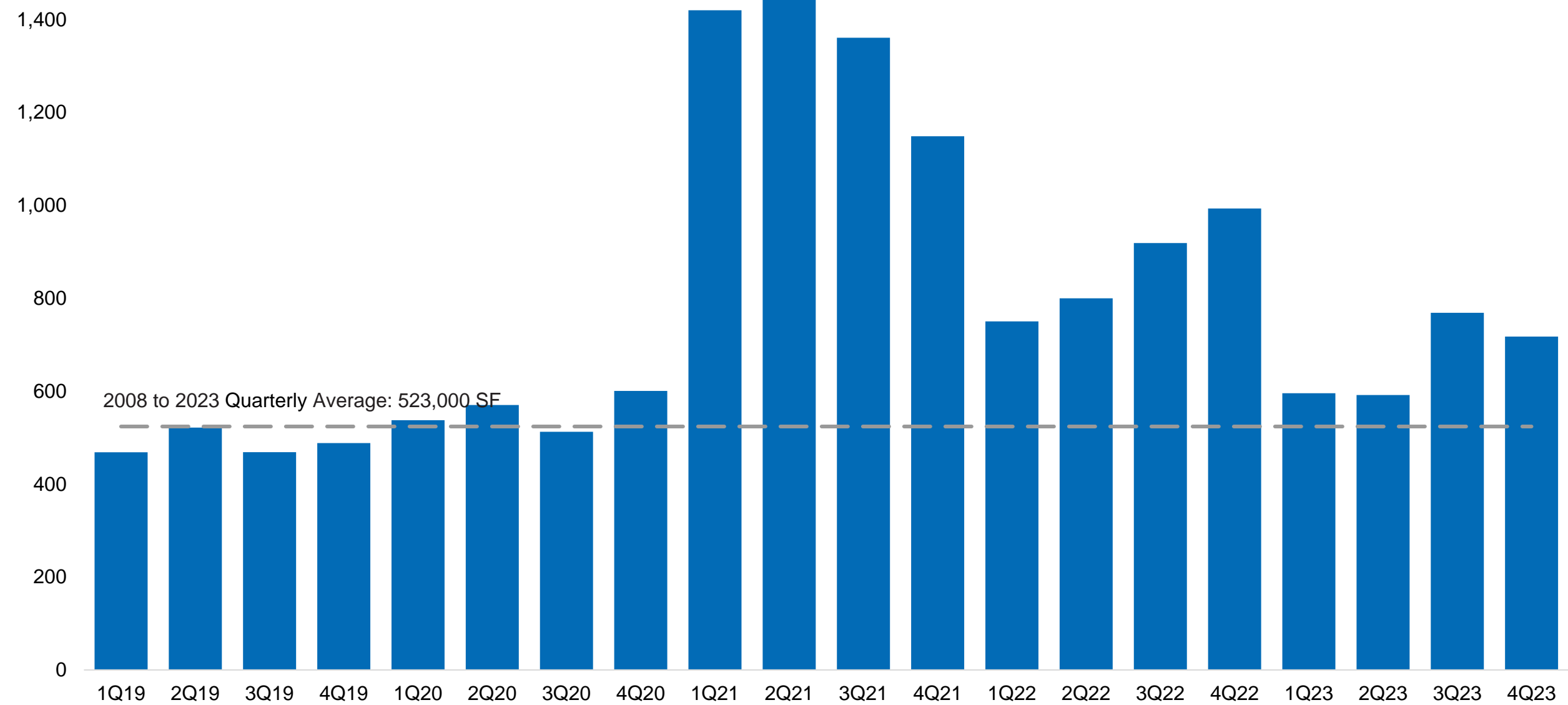


Source: Newmark Research, CoStar

# Industrial Sublease Availability Remains Above Average

The sublease availability rate remained steady at 0.3% this past quarter (717,489 SF) and is down from a year ago of 0.4% (993,369 SF).

Available Industrial Sublease Volume (Thousands SF)



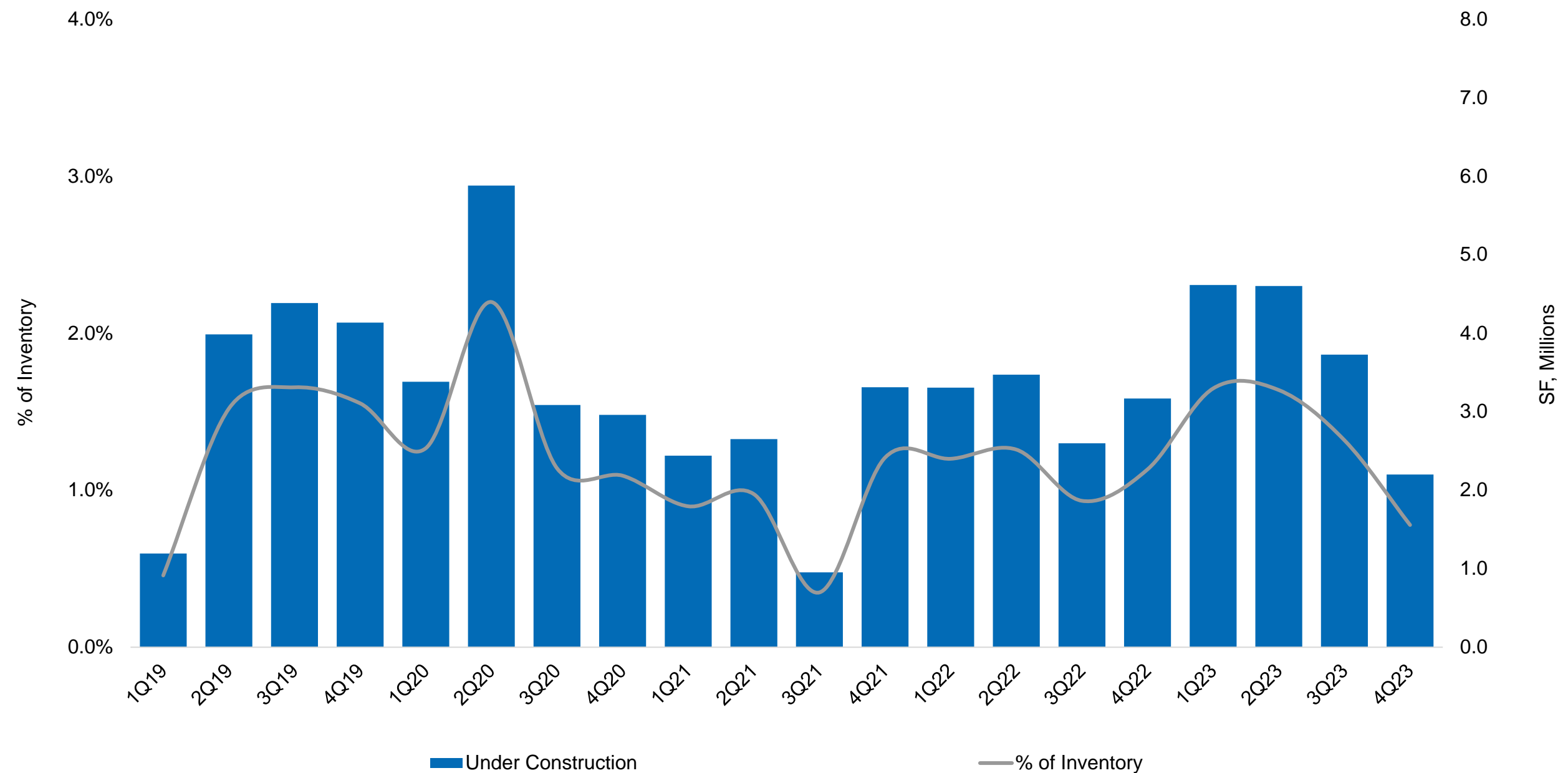
Source: Newmark Research, CoStar



# Speculative Construction Starts Shrinking

The construction pipeline trended downward for the third consecutive quarter after reaching a recent high of 4.6 million SF in the first quarter of 2023. 4.3 million SF of projects were delivered throughout 2023, however the pace of new projects being announced has slowed down due to lessening demand and construction costs.

Industrial Under Construction and % of Inventory

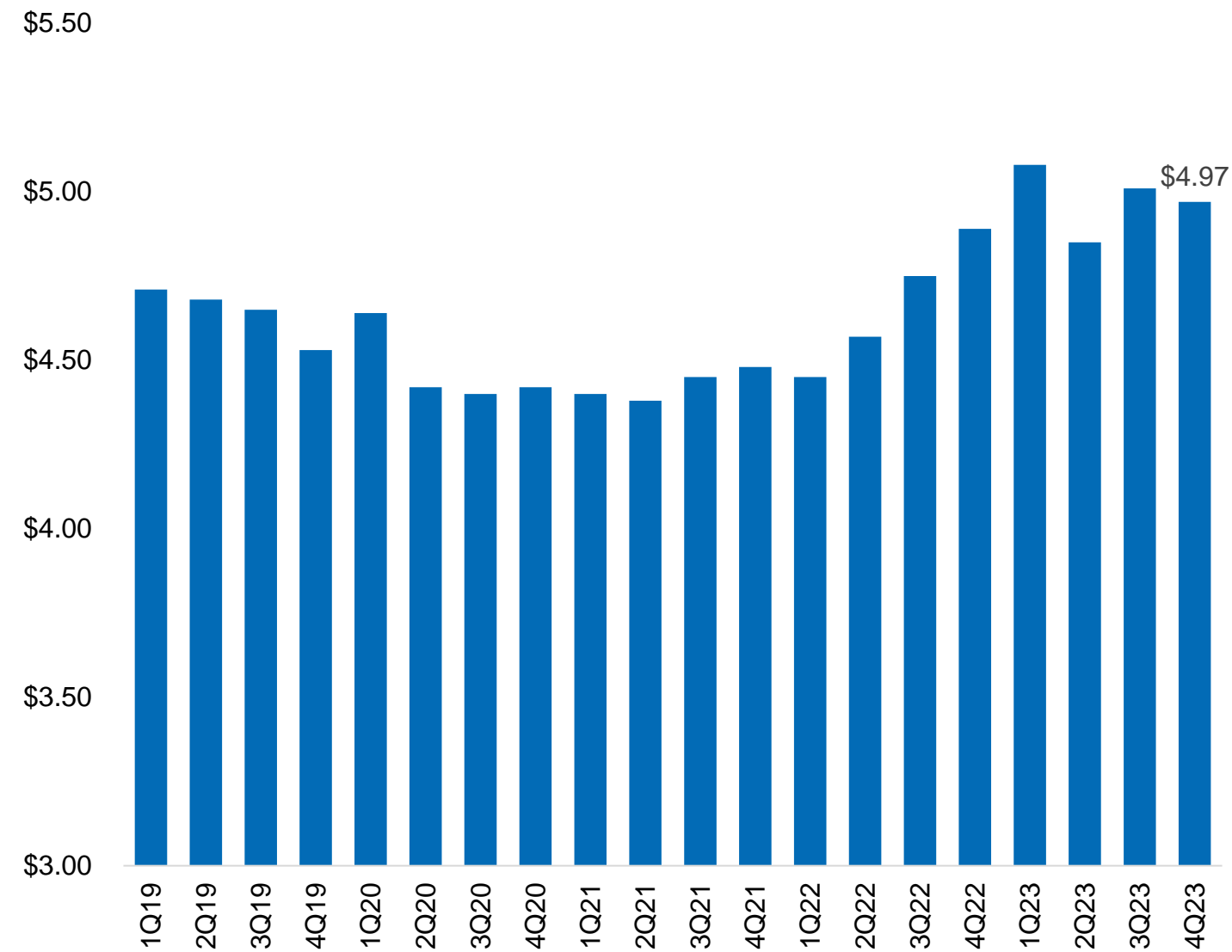


Source: Newmark Research, CoStar

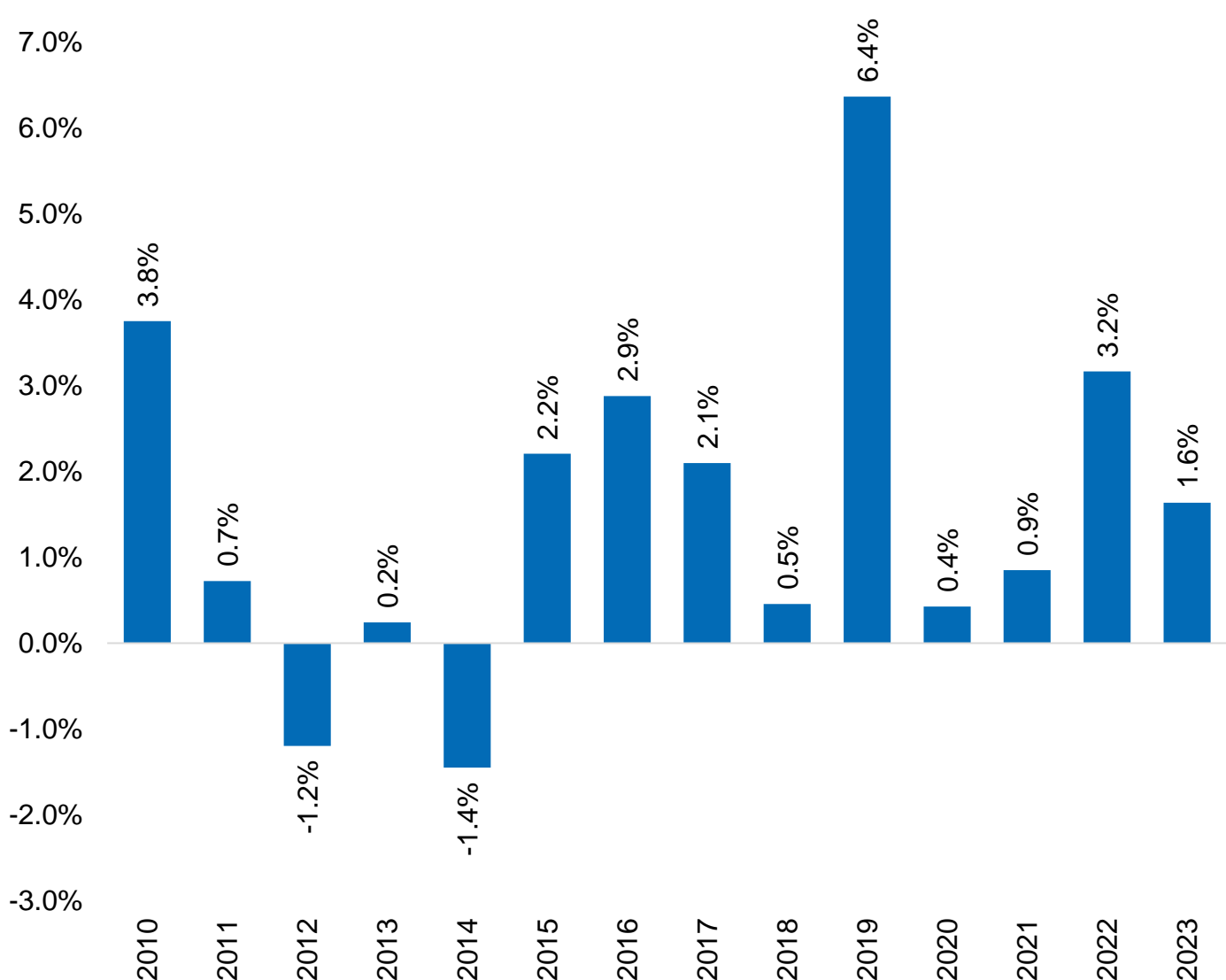
# Industrial Asking Rents Near Historic Highs

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 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
Green Bay Packaging	5600 S Moorland Rd, New Berlin	Waukesha Co	New	205,435
Microbial Discovery Group, LLC	3303 W Oakwood Rd, Franklin	Milwaukee Co	New	117,000
Takara	2207 S 114 <sup>th</sup> St, West Allis	Milwaukee Co	New	81,501
Dorner Mfg. Group	W251N5350 Business Dr, Sussex	Waukesha Co	New	68,453
Cable Master	5333 S Emmer Dr, New Berlin	Waukesha Co	New	57,804
Medline	700 W North Shore Dr, Hartland	Waukesha Co	Renewal	285,000

Source: Newmark Research

4Q23

# Supplemental Tables







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A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and glass panels, creating a geometric pattern of triangles and rectangles. The perspective draws the eye towards the top of the frame, where the structure seems to converge. The lighting is bright, suggesting a sunny day, and the overall color palette is dominated by the metallic greys of the steel and the light blues and whites of the glass and sky.

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A low-angle, upward-looking shot of a modern building's interior or exterior structure. The image features a complex network of steel beams and glass panels, creating a geometric pattern of triangles and rectangles. The perspective is from below, looking up towards the sky, which is visible through the glass. The overall color palette is dominated by light blues and greys, with a semi-transparent dark blue horizontal band across the middle containing white text.

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