

Top suburban office leasing drives market momentum in Q3

▼ 16.3%
Total Vacancy Rate

▲ 55,224
Sq. Ft. Net Absorption

▼ 91,840
Sq. Ft. Construction

▲ \$19.72
Average Asking / Lease Rate

Note: Arrows indicate change from previous quarter.

- The total vacancy rate in the Milwaukee market decreased 60 basis points (bps) to 16.3% and the availability rate decreased 20 bps to 21.2%. The average asking lease rate increased to \$19.72.
- The Milwaukee market experienced 55,224 sq. ft. of positive absorption for Q3 2024. The CBD experienced (19,787) sq. ft. of negative absorption while the suburbs experienced 75,011 sq. ft. of positive absorption.
- The West building of The Grain office at 525 Main St in Delafield delivered this quarter, while 91,000 sq. ft. of office space remains under construction.
- All five top leases signed in Q3 2024 by sq. ft. were signed in the Milwaukee suburban market. The largest lease was Market Service, Inc. signing 19,706 sq. ft. at Class A office Research One in Wauwatosa.
- The largest office sale of Q3 2024 was the \$17.4 million sale of the CityCenter office building in downtown Milwaukee. CBRE Milwaukee’s Capital Markets team represented the seller, Compass Properties.
- One significant CBD move-in this quarter included Steele Solutions, a manufacturer moving into 37,366 sq. ft. at Summit Place in West Allis.

FIGURE 1: Total Vacancy Rate and Asking Lease Rate



Source: CBRE Research, Q3 2024

Office Transactions

Office property sales volume increased in Q3 2024, totaling \$60 million. One portfolio sale in the Downtown East submarket, CityCenter at 735 N Wisconsin Ave and 731 N Water St., added \$17.4 million to the Q3 2024 sales volume. The total 448,087 sq. ft of office space from the portfolio was sold to E.A. Staples and Associates. Though there was a possibility of converting the office to multifamily, the buyer plans to keep the space as leasable office space, illustrating a confidence in the Milwaukee office market.

Milwaukee Market Office Trends

- Strong demand for office space in suburban Milwaukee emerged in Q3 2024 with the top five largest leases all signed in the suburban markets. Manufacturers have shown significant interest in larger office spaces in 2024. Last quarter, Milwaukee-based manufacturer Steel Solutions signed a 37,366 sq. ft. lease at 6737 W Washington St – Summit Place office in West Allis. In Q3 2024 Silgan Containers, a metal can manufacturer, purchased a 115,500 sq. ft. office building from Kalmbach Publishing that the company will use for office and lab space.
- Since 2020, tenants that have signed leases ~40,000 sq. ft. or greater in the Milwaukee CBD include Baird, Marcus Corp.*, Fiserv*, JP Morgan Chase*, Baker Tilly*, Allspring Global Investments* and Enerpac Tool Group*. All these tenants signed their leases at Class A towers, showing a demand for top-quality office buildings from companies looking for large office spaces in the CBD. In Q3 2024, only 30% of Class A buildings in Milwaukee’s CBD (including one prime office building) have max contiguous spaces larger than 40,000 SF.
- With a lack of large contiguous spaces in Class A office buildings in the CBD, plans and proposals for new offices have emerged in Q3 2024. Madison-based development firm, The Neutral Project, proposed a redevelopment project for the Marcus Center parking structure site, which would include a 190,000 sq. ft Class A office property. Additionally, Chicago-based firm North Wells Capital, working with the Milwaukee Bucks is also planning a new ~200,000 sq. ft Class A office building on Block 6 of the Deer District in downtown Milwaukee.
- CBRE Americas Consulting monitors the office attendance policies of U.S. companies to highlight the current stance on in-office versus remote work while uncovering shifts over time. 2024 attendance data from companies surveyed showed those that had a fully-remote policy had a turnover rate of 16.5%, while companies that had a hybrid or fully in-office attendance policy had lower turnover rates ranging from 11-13%. To prevent loss of talent, companies will continue to look for upgraded space with amenities to encourage office attendance. Recently, a top e-commerce company updated its return-to-office mandate to five days a week – while a department store retail chain doubled down on its commitment to hybrid work requiring employees to come into its corporate office in Menomonee Falls four days a week.

FIGURE 2: Milwaukee Office Market Sales

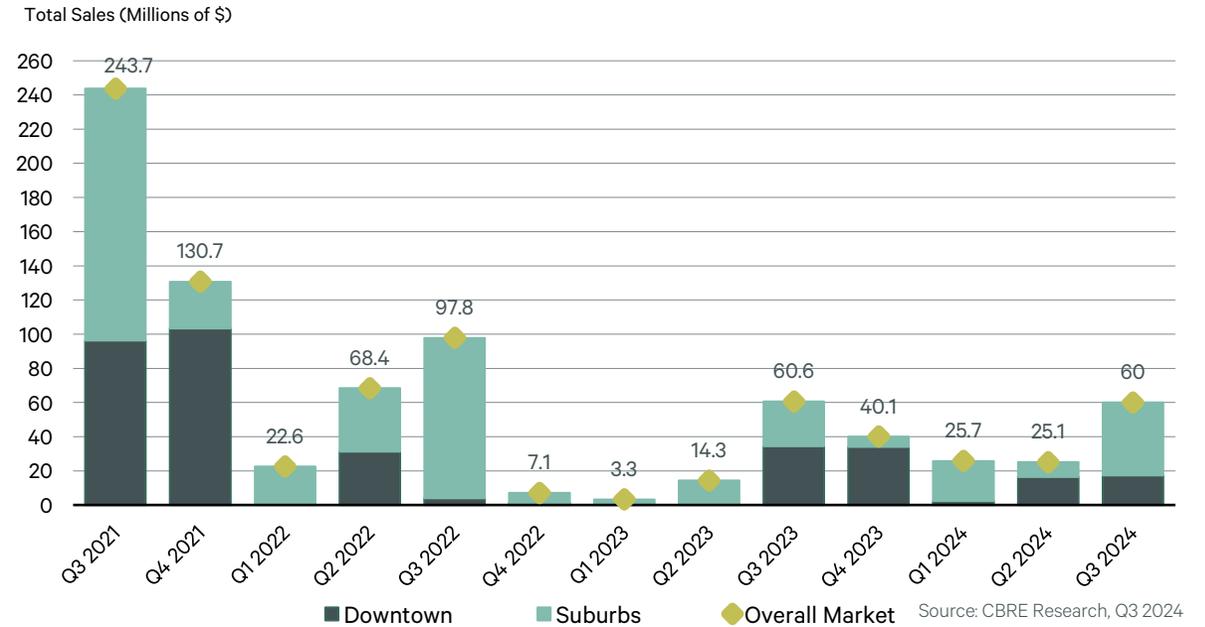
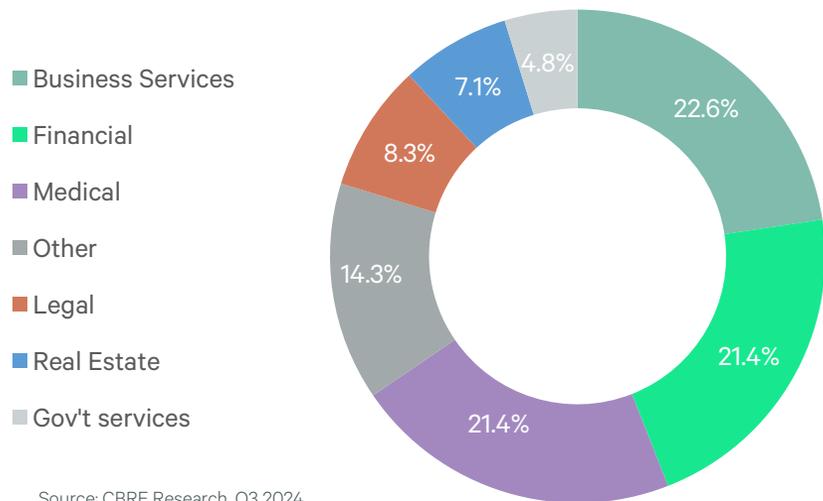


FIGURE 3: Top Lease Transactions, Q3 2024

Tenant	Sq. Ft.	Address	Business Sector	Type
Markel Service, Inc	19,706	10701 Research Dr, Wauwatosa	Business Services	New Lease
GSA – SSA Greenfield WI*	13,544	8455 W Layton Ave, Milwaukee	Government	New Lease
Founders 3 Property Management	13,400	13400 Bishops Lane, Brookfield	Real Estate	New Lease
Johnson Controls*	12,000	12000 W Wirth St, Milwaukee	Manufacturing	Renewal
Disability Rights Wisconsin, Inc*	10,829	1205 S 70th St, West Allis	Nonprofit	New Lease

*CBRE represented lease transaction.
Source: CBRE Research, Q3 2024.

FIGURE 4: Users in the Market by Count of Users



Source: CBRE Research, Q3 2024.

Users in the Market

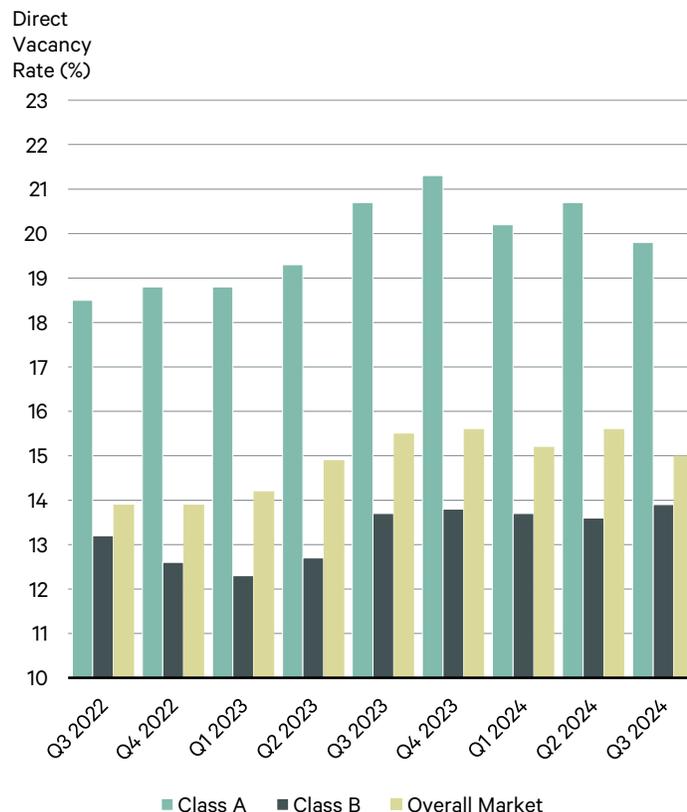
With a median space requirement of 4,000 sq. ft. of the known industry types, Business Services, Financial and Medical industries have the most users in the market with 55 total. Users in these three industries also have the largest sq. ft needs, collectively representing about 64% of the office space requirements in the market.

Of the 84 current users in the office market, 14% of are searching for space 20,000 sq. ft. or greater. The majority of users have space needs less than 20,000 sq. ft..

Office Trends by Class

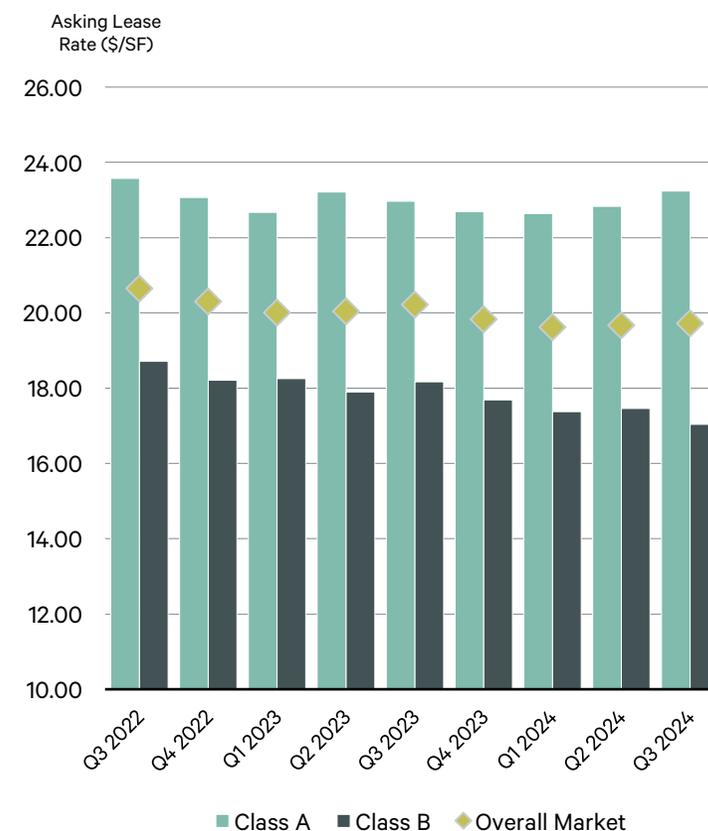
The Class A direct vacancy rate decreased to 19.8% while the average Class A lease rate increased to \$23.24. A significant Class A move-in this quarter was Cielo, relocating and downsizing from 35,534 sq. ft. at 200 S Executive Dr in Brookfield to 27,842 sq. ft. at Meadowland Research & Technology Center in Wauwatosa. The Class B direct vacancy rate decreased to 13.3% and the average Class A lease rate decreased to \$17.04. A significant Class B move-in this quarter was Steel Solutions moving into 37,366 sq. ft. at Summit Place office building in West Allis.

FIGURE 5: Direct Vacancy Rate Trends by Class



Source: CBRE Research, Q3 2024

FIGURE 6: Asking Lease Rate Trends by Class



Source: CBRE Research, Q3 2024

FIGURE 7: Milwaukee Market Office Statistics

Submarket	Market Rentable Area (sq. ft.)	Total Vacancy (%)	Direct Vacancy Rate (%)	Available Sublease (sq. ft.)	Availability Rate Total (%)	Q3 2024 Net Absorption (sq. ft.)	Year-to-date 2024 Net Absorption (sq.ft.)	Overall Gross Avg. Asking Lease Rate (\$/sq. ft./Yr)
Downtown East	9,217,991	17.7%	16.4%	228,065	20.7%	2,935	(19,819)	\$24.91
Downtown West	4,070,895	19.9%	17.8%	117,780	25.5%	(20,427)	182,055	\$17.58
Third Ward/Walker's Point	2,630,118	8.9%	8.9%	16,498	16.1%	(2,295)	3,188	\$21.75
CBD Subtotal	15,919,004	16.8%	15.5%	362,343	21.2%	(19,787)	165,424	\$22.18
Milwaukee North Shore	2,486,019	14.3%	14.3%	7,000	17.4%	(7,085)	(27,467)	\$12.29
Milwaukee Northwest	1,881,072	29.0%	29.0%	1,075	33.5%	31,546	21,483	\$15.01
Milwaukee Central	785,789	4.8%	4.8%	-	4.8%	6,200	5,100	\$15.62
Mayfair/Wauwatosa	4,276,089	22.5%	14.6%	362,014	26.0%	25,782	(301,485)	\$20.13
West Allis	1,889,744	22.0%	22.0%	51,158	31.0%	54,038	(67,268)	\$16.17
Milwaukee Southwest	872,344	8.3%	8.3%	1,200	13.1%	480	(7,275)	\$17.11
Milwaukee Southeast	1,008,162	18.7%	16.4%	23,578	19.5%	2,855	(8,539)	\$25.02
Brookfield	6,182,563	20.3%	19.8%	51,073	26.4%	(59,058)	(59,198)	\$20.16
Waukesha/Pewaukee	2,766,813	9.4%	9.4%	1,200	16.6%	(2,314)	6,950	\$20.20
Waukesha North	1,525,800	3.3%	3.3%	5,509	6.2%	11,695	38,014	\$17.27
Waukesha South	631,141	1.6%	1.6%	-	11.6	0	3,774	\$13.96
North Suburban	2,038,042	11.6%	11.6%	6,400	17.4%	10,584	3,739	\$13.91
South Suburban	1,791,018	6.6%	6.6%	-	7.5%	288	4,562	\$14.37
Suburban Subtotal	28,134,596	16.0%	14.6%	510,207	20.8%	75,011	(387,550)	\$18.17
TOTAL	44,053,600	16.3%	15.0%	872,550	21.0%	55,224	(222,126)	\$19.72

Source: CBRE Research, Q3 2024

National Economic Outlook

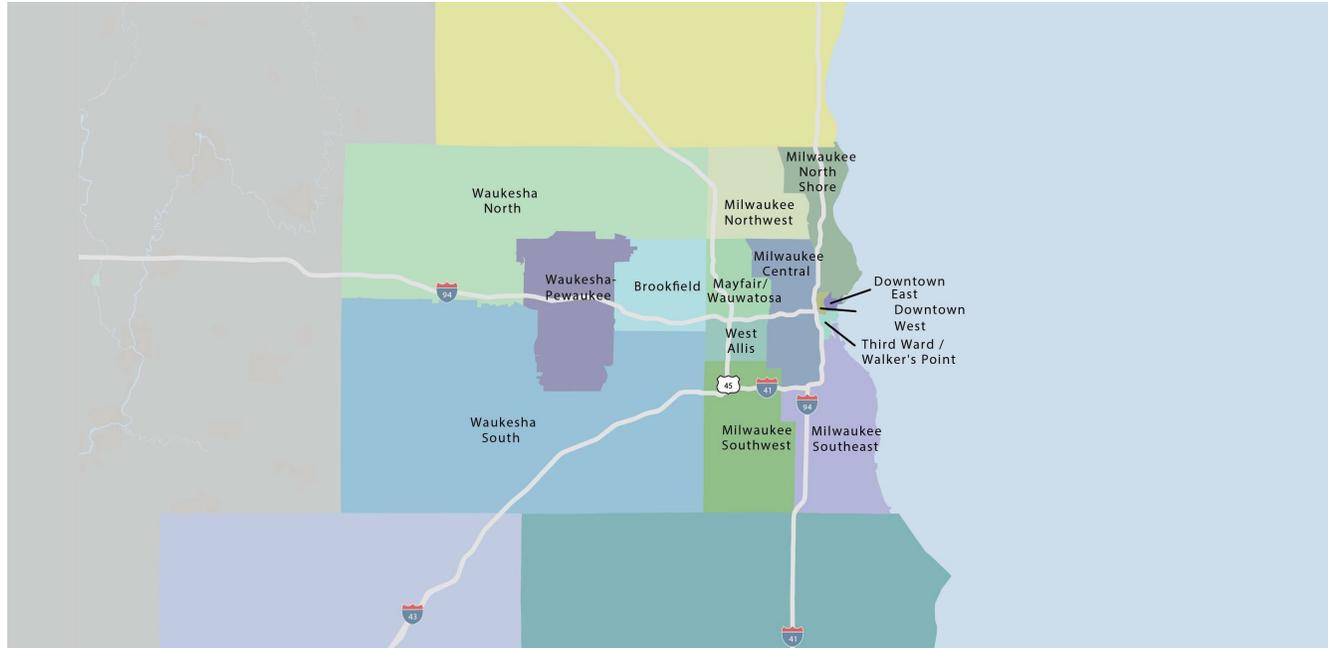
Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is steady and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a downturn in the labor market, although the recent bump in unemployment appears mainly driven by an increase in participation.

One reason for concern is the decline in the share of private industries that are creating jobs. The labor market has slowed but it is not slumping, and companies are not letting workers go at a particularly high rate.

While many are focused on November's election, the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

Sources: CBRE Research, Q3 2024

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 office buildings 5,000 sq. ft. or greater. Excludes single-tenant owner-occupied buildings, 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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