Research Market Report

SOUTHEASTERN WISCONSIN | INDUSTRIAL

2018 Quarter 4

Research | Wisconsin

Colliers INTERNATIONAL

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Introduction

2018 was another strong year for the industrial market in Southeastern Wisconsin. Unlike previous years, the strength of the market was not concentrated in the South submarket, rather other submarkets such as the Central and West had strong years as well. Throughout the year, industrial users announced plans to relocate, expand or open new locations across southeastern Wisconsin. In addition, multiple speculative buildings were proposed across the market. Briggs & Stratton announced plans to move out of the Central submarket into a consolidated 706,000 square-foot building in Germantown that is currently under construction. Amazon announced plans to build a 2.6 million-square-foot distribution center in Oak Creek. In Q4 various other companies proposed new space, including aerospace manufacturer Leornardo DRS, pet food manufacturer Stella & Chewy's, global bioscience company Chr Hansen, German machining center manufacturer Hermle and Klements Sausage.

Economic Activity

At the conclusion of 2018, employment numbers remained strong, following the trend seen in past quarters of the year. State and local employment continued to outperform the national average, with Wisconsin unemployment remaining unchanged from last quarter, and unemployment in the Milwaukee-Waukesha-West Allis MSA continuing on its decreasing trend, finishing tied at the lowest rate seen in 2018 for the area. Per the Chicago Federal Reserve's MEI, the Midwest continues to experience overall growth. The growth across all states is driven by manufacturing, as was the case in past quarters, however, the pace of manufacturing growth has slowed in Wisconsin and other Midwest states. While Wisconsin's contribution in the manufacturing sector has decreased in the quarter, it is still one of the strongest categories within the state.

MANUFACTURING JOBS

As of December 2018

490,400 Wisconsin

122,000 Milwaukee-Waukesha-West Allis MSA

Source: Bureau of Labor Statistics, December 2018

Market Indicators

	Q4 2018 in Comparison to Q3 2018 Qrt Over Qrt	Q4 2018 in Comparison to Q4 2017 Yr Over Yr
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↑

Economic Indicators

	Quarter over Quarter	
METRO MKE UNEMPL.	2.7%	↓
WISCONSIN UNEMPL.	3.0%	↔
NATIONAL UNEMPL.	3.9%	↔
WI MEI*	-0.01	↓

Source: Bureau of Labor Statistics, National (December 2018), State & Local (November & December 2018)
*Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Summary Statistics

Q4 2018 Industrial Market	OS	MF	WD
Vacancy Rate	4.25%	2.90%	5.34%
Change From Q3 2018 (basis points)	-39	-22	-46
Absorption (Square Feet)	164,733	293,908	734,379
New Construction (Square Feet)	0	0	172,271
Under Construction (Square Feet)	0	248,000	3,118,480

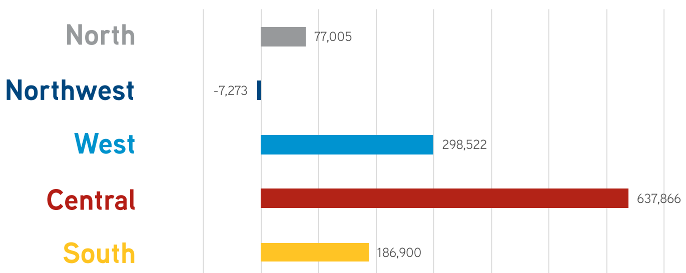
Sources: CoStar& Colliers | Wisconsin Research

OS = Office Services/Flex **MF** = Manufacturing
WD = Warehouse/Distribution

Net Absorption

In 2018, every quarter realized over one million square feet of absorption, with 1.19 million square feet absorbed in Q4. In past quarters, new construction assisted absorption to reach these levels, however, in Q4, multiple new leases for large users drove the strong performance. As was the case with the past two quarters, the Central submarket was the strongest performer, ending the fourth quarter with over 600,000 square feet of absorption. The West submarket was the second highest contributor to absorption for the quarter, with just under 300,000 square feet absorbed. In both the Central and West submarkets, a few large deals and multiple smaller users taking space resulted in the strong levels of absorption. In the Central submarket, Lube-Tech & Partners took over 110,000 square feet, and the West saw larger users like UMI and PM Plastics taking approximately 40,000 and 72,000 square feet of space. All submarkets but the Northwest saw positive absorption for the quarter.

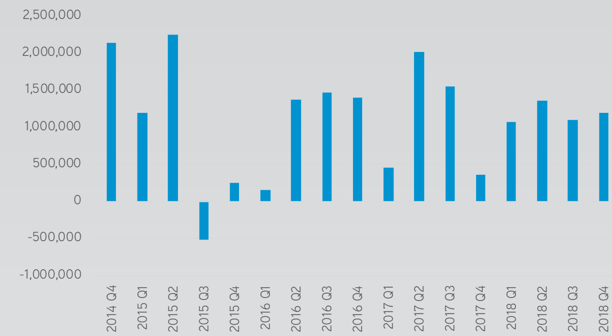
Going forward, absorption should continue to occur at a strong rate due to the high level of leasing activity seen across all submarkets in southeastern Wisconsin. Leasing activity is not concentrated in one specific submarket or within one type of building use, reflecting a wide variety of uses and needs among tenants in the market.



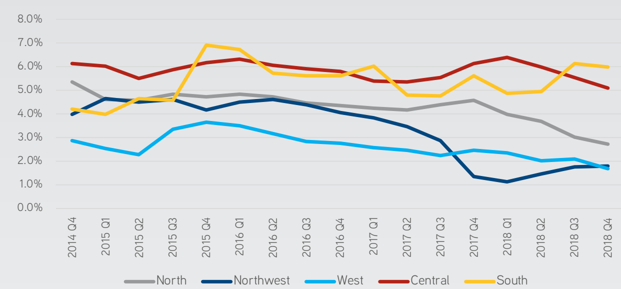
Vacancy & Availability

As market activity remained strong through the final quarter of the year, vacancy continued its descent, ending at 4.12 percent, which is down 44 basis points from the beginning of the year and down 60 basis points from a year ago. Similar to what was seen in past quarters, Washington and Waukesha counties remain the tightest markets, with vacancy of 1.8 percent and 1.7 percent. Manufacturing remains the tightest market when it comes to space use, at 2.9 percent vacant, while warehouse space has seen more room at 5.34 percent vacant. Vacancy has continued to decline despite nearly 3 million square feet of space being delivered this year. Although more space is expected to come online in coming quarters, strong demand should result in vacancy remaining relatively flat marketwide.

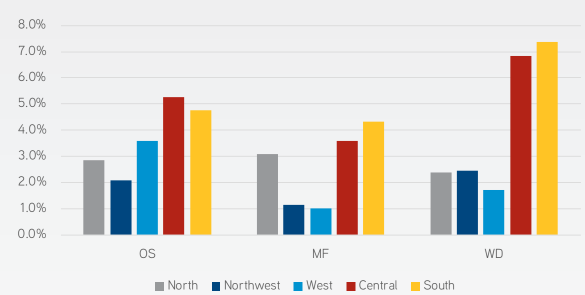
HISTORICAL NET ABSORPTION



HISTORICAL VACANCY
By Submarket



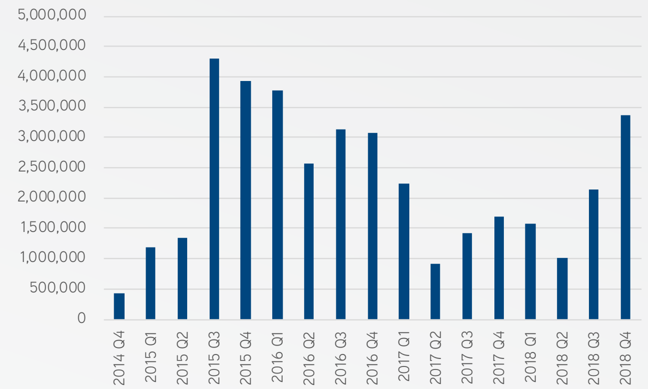
VACANCY
By Use



OS = Office Services/Flex **MF** = Manufacturing
WD = Warehouse/Distribution

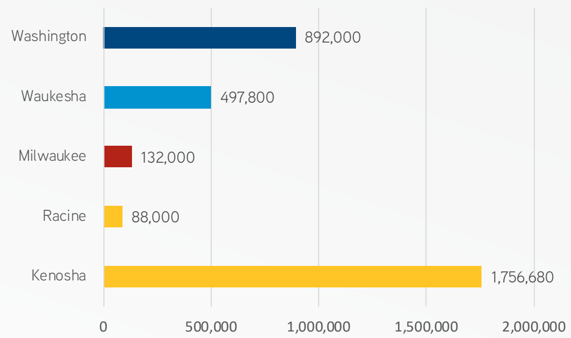
Source: Colliers | Wisconsin & CoStar

Historical Construction Activity

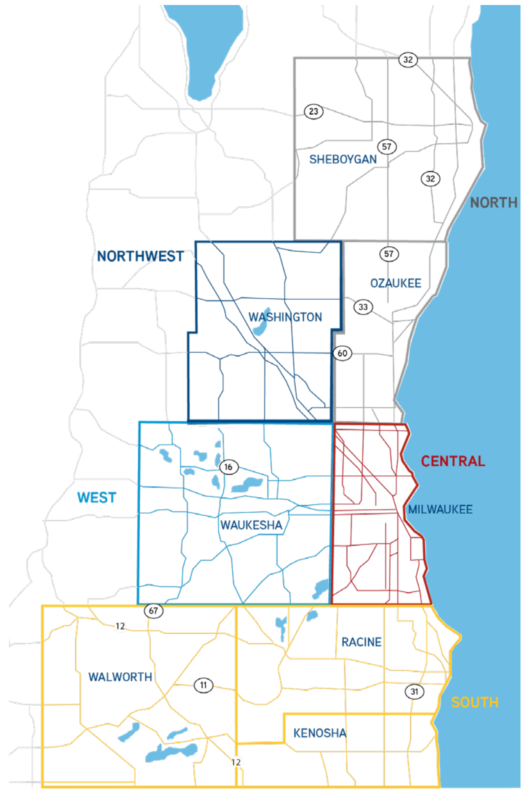


SF Under Construction

by County



Source: Colliers | Wisconsin & CoStar



Construction and New Deliveries

In 2018, southeastern Wisconsin enjoyed almost three million square feet of new industrial deliveries, coming from speculative industrial projects and build-to-suits. We expect 2019 to match or better 2018 deliveries, with the South submarket being the driver of new space. Kenosha County alone will likely account for over 2 million square feet, with 1.7 million square feet already under construction. The Northwest submarket, particularly the village of Germantown, will see over one million square feet of new industrial product delivered in 2019 as well. Zilber Property Group will deliver the new 706,000 square foot build-to-suit distribution center for Briggs & Stratton along with two speculative buildings totaling 425,000 square feet. It is encouraging to see that construction activity across nearly all submarkets.

Projects Under Construction

PROPERTY NAME / ADDRESS	CITY	TYPE	SIZE	SUBMARKET
94 Logistics Park - Building I	Kenosha	Warehouse/Distribution	748,300	South
Briggs & Stratton	Germantown	Warehouse/Distribution	706,000	Northwest
Kenosha Corporate Park	Kenosha	Warehouse/Distribution	524,000	South
94 Logistics Park - Building II	Kenosha	Warehouse/Distribution	287,741	South
Wangard Industrial	Pleasant Prairie	Warehouse/Distribution	196,300	South
6051 S Moorland Rd	New Berlin	Warehouse/Distribution	192,800	West

Source: Milwaukee Business Journal, BizTimes, CoStar, & Colliers | Wisconsin

Moving in 2019

Moving into 2019 the market remains tight. This will result in new construction continuing to drive absorption. A majority of the new construction projects remain concentrated in the South submarket specifically Kenosha county. Of these projects a good number are speculative projects and will result in a slight uptick in vacancy. However, marketwide, new construction is expected to be absorbed quickly which will result in vacancy remaining relatively flat and rental rates increasing slightly as concessions remain limited.

2018 Quarter 4 Industrial Market Statistics

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q4-18	Q4-17	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
OS	97	3,919,136	110,819	2.83%	1.22%	43,028	-28,784	-	37,370	-
MF	99	9,801,859	301,219	3.07%	8.00%	8,525	525,565	-	-	-
WD	196	11,468,774	271,688	2.37%	2.50%	25,452	5,876	-	-	-
Total	392	25,189,769	683,726	2.71%	4.58%	77,005	502,657	-	37,370	-
NORTHWEST MARKET: Washington County										
OS	101	3,506,466	73,058	2.08%	2.27%	9,571	5,371	-	-	-
MF	136	8,270,923	94,050	1.14%	0.01%	21,000	-92,950	-	-	-
WD	141	7,116,138	174,764	2.46%	2.46%	-37,844	200,317	-	200,000	892,000
Total	378	18,893,527	341,872	1.81%	1.35%	-7,273	112,738	-	-	892,000
WEST MARKET: Waukesha County										
OS	368	12,277,367	440,462	3.59%	4.65%	56,017	117,667	-	-	-
MF	617	33,549,931	335,118	1.00%	1.23%	42,129	187,743	-	109,000	248,000
WD	466	26,120,227	447,872	1.71%	3.09%	200,376	466,620	-	120,000	249,800
Total	1,451	71,947,525	1,223,452	1.70%	2.47%	298,522	772,030	-	229,000	497,800
CENTRAL MARKET: Milwaukee County										
OS	355	19,504,293	1,028,512	5.27%	4.93%	73,527	-71,556	-	-	-
MF	602	51,612,812	1,854,839	3.59%	4.53%	145,882	852,430	-	329,328	-
WD	720	43,419,173	2,961,816	6.82%	8.60%	418,457	1,350,746	99,681	556,181	132,000
Total	1,677	114,536,278	5,845,167	5.10%	6.14%	637,866	2,131,620	99,681	885,509	132,000
SOUTH MARKET: Racine County, Kenosha County and Walworth County										
OS	56	2,584,698	123,382	4.77%	4.38%	-17,410	-8,481	-	-	-
MF	418	29,142,753	1,254,721	4.31%	3.32%	76,372	376,546	-	663,850	-
WD	362	39,604,816	2,964,250	7.48%	7.42%	127,938	814,621	72,590	826,613	1,844,660
Total	836	71,332,267	4,342,353	6.09%	5.61%	186,900	1,182,686	72,590	1,490,463	1,844,660
GRAND TOTAL										
OS	977	41,791,960	1,776,233	4.25%	4.26%	164,733	14,217	-	37,370	-
MF	1,872	132,378,278	3,839,947	2.90%	3.43%	293,908	1,849,334	-	1,102,178	248,000
WD	1,885	127,729,128	6,820,390	5.33%	6.23%	734,379	2,838,180	172,271	1,702,794	3,118,460
Total	4,734	301,899,366	12,436,570	4.12%	4.72%	1,193,020	4,701,731	172,271	2,842,342	3,366,460
QUARTERLY COMPARISON TOTALS										
2018 Q4	4,734	301,899,366	12,436,570	4.12%	-	1,193,020	-	172,271	-	3,366,460
2018 Q3	4,737	302,253,241	13,384,729	4.43%	-	1,090,853	-	1,418,221	-	2,136,822
2018 Q2	4,740	301,860,162	13,057,361	4.33%	-	1,354,192	-	682,850	-	1,020,441
2018 Q1	4,734	300,877,360	13,728,703	4.56%	-	1,063,666	-	569,000	-	1,577,615
2017 Q4	4,734	300,439,755	14,223,369	4.72%	-	351,278	-	782,371	-	1,689,615

FOR MORE INFORMATION

MARKET CONTACT
Mike Fardy
President | Wisconsin
+1 414 278 6806
mike.fardy@colliers.com

RESEARCH CONTACT
Margaret Bruckner Blair
Director of Marketing & Research | Wisconsin
+1 414 278 6801
margaret.blair@colliers.com

Colliers International | Wisconsin
833 E Michigan St, Suite #500
Milwaukee, Wisconsin 53202
+1 414 276 9500
colliers.com/milwaukee

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