Research Market Report

SOUTHEASTERN WISCONSIN | INDUSTRIAL

2020 Quarter 2

Research | Wisconsin

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Introduction

After a slow first quarter, impacted by many large, new vacancies coming online, the Southeastern Wisconsin Industrial Market remained resilient in the second quarter, seeing the highest level of absorption in five years. Amazon's rapid expansion in the market is entirely to thank for the strong absorption numbers, as without the massive, new spaces the e-commerce and technology giant took this quarter, market-wide absorption would be negative. These new deals, along with a handful of other larger tenants taking space, assisted in countering some of the large move-outs in the market this quarter. Three of our five tracked submarkets experienced positive absorption, with the Central and South submarkets realizing over 1.5 million square feet absorbed.

The second quarter of the year saw the delivery of 3.8 million square feet, with 85 percent of this new space occupied. While a few new projects began construction in the second quarter, this large amount of new product delivered this quarter resulted in lower levels of current construction than have been seen over the past year.

The above commentary reflects market conditions prior to COVID-19 being declared a global pandemic. The last few months have brought uncertainty and a period of pause across the market. Demand dropped, with many occupiers electing to wait until they better understand how their realities might change. The preliminary impacts of the pandemic have been seen in some areas of the market and are expected to become more evident in the market data later this year.

Summary Statistics

Q2 2020 Industrial Market	OS	MF	WD
Vacancy Rate	5.84%	4.30%	7.92%
Absorption (Square Feet)	(225,352)	189,741	3,515,756
New Construction (Square Feet)	-	465,000	3,384,699
Under Construction (Square Feet)	-	1,919,000	2,610,870

Sources: CoStar, Catylist & Colliers | Wisconsin Research

OS = Office Services/Flex **MF** = Manufacturing

WD = Warehouse/Distribution

Market Indicators

	Q2 2020 in Comparison to	
	Q1 2020 Qrt Over Qrt	Q2 2019 Yr Over Yr
VACANCY	↑	↑
NET ABSORPTION	↑	↑
CONSTRUCTION	↓	↓

A Note Regarding COVID-19

As we publish this report, the U.S. and the world at large are facing a tremendous challenge, the scale of which is unprecedented in recent history. The spread of the novel coronavirus (COVID-19) is significantly altering day-to-day life, impacting society, the economy and, by extension, commercial real estate. The extent, length and severity of this pandemic is unknown and continues to evolve at a rapid pace. The scale of the impact and its timing varies between locations. To better understand trends and emerging adjustments, please subscribe to Colliers' COVID-19 Knowledge Leader page for resources and recent updates.

Vacancy and Availability

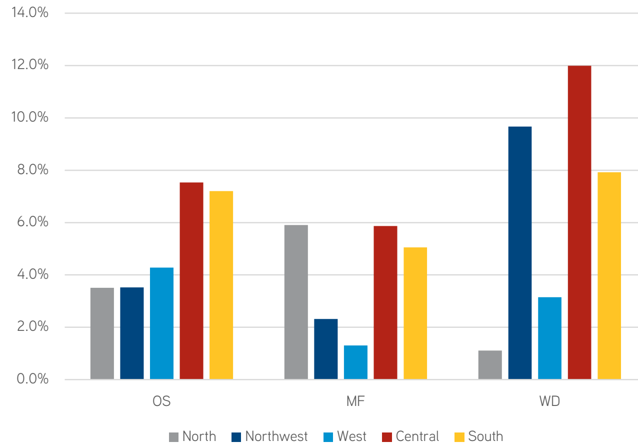
With newly delivered speculative construction and a handful of new vacancies coming online, all tracked submarkets but the South saw a slight increase in vacancy in Q2 2020. Although there was an increase across the majority of submarkets, overall market vacancy only increased by 4 basis points, now up to 6.10 percent.

Vacancy across warehouse and distribution space, which has been consistently climbing for the past five quarters, saw a decrease in vacancy, ending the quarter at 7.92 percent. Manufacturing and flex space each saw a minor increase in vacancy, but manufacturing product remains the most constrained when it comes to availability of space.

Due to tenants permanently closing or relocating to higher quality product in other submarkets, the Central submarket saw a continued increase in vacancy, with various, newly vacant spaces over 40,000 square feet coming online. While vacancy has been steadily increasing in Milwaukee County, the new vacancies are largely in low-quality buildings, with tenants flocking to newer product.

Q2 2020 VACANCY

By Use



For the second straight quarter, the South, consisting of Racine, Kenosha and Walworth counties, experienced a decrease in vacancy, thanks to a few new deals, ranging from 265,000 to 750,000 square feet, commencing this quarter. The remaining submarkets all saw minor increases in vacancy and availability.

Absorption

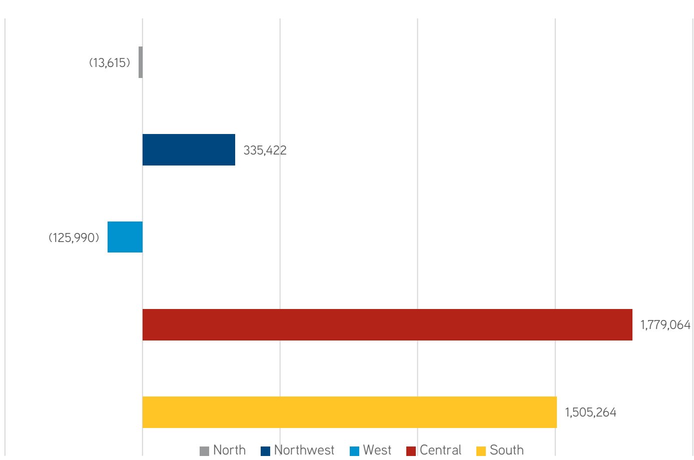
Thanks to Amazon's continuous activity in Southeastern WI, this quarter, three of the five tracked submarkets experienced positive absorption, with both the Central and South submarkets seeing over 1.5 million square feet absorbed. In the Central submarket, there were many larger move-outs, including Wacker Neuson vacating 226,000 square feet, Hangers Unlimited vacating 120,000 square feet and FPM Heat Treating leaving just under 70,000 square feet, but the completion of Amazon's new, 2.6 million square foot facility in Oak Creek resulted in significant, positive absorption for the submarket. Without this new delivery, absorption for Milwaukee County would have been negative 820,936 square feet. Amazon also had a major impact on the South submarket's absorption, taking 748,000 square feet in Kenosha County and 438,000 square feet in Racine County. Without these deals, the South still would have experienced positive absorption for the quarter, but at 20 percent of what is reported. The Northwest submarket was the third submarket realizing positive absorption, thanks to the delivery of new manufacturing facilities for Illing Co. and Dielectric Corp., accounting for just under 350,000 square feet of positive absorption.

The North and West submarkets both experienced negative absorption, although it was not at too significant of levels. In the West, Lauterbach Group, Cascio Music and Wildcard Gymnastics all vacated spaces over 20,000 square feet, contributing negative 124,000 square feet of absorption. In the North, a handful of smaller move-outs overpowered the few new deals.

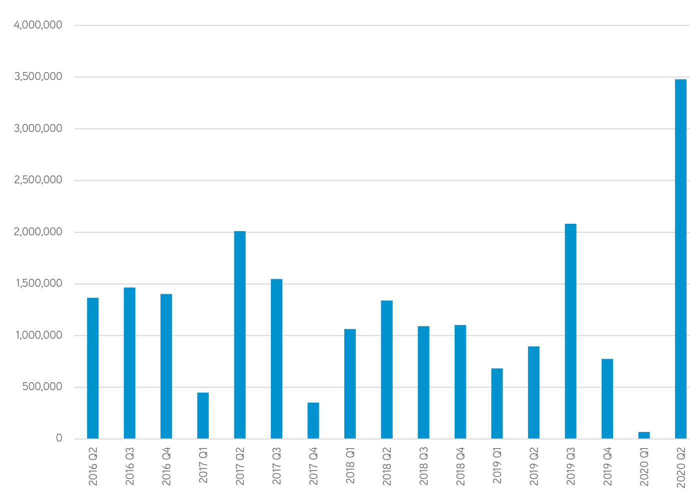
*Note, Colliers | Wisconsin calculates absorption based on occupancy not lease signing.

Q2 2020 ABSORPTION

By Submarket

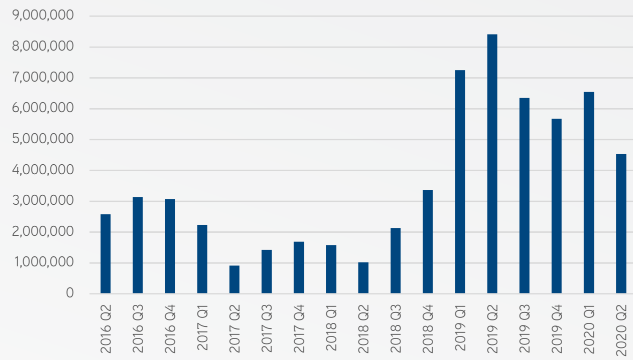


HISTORICAL NET ABSORPTION

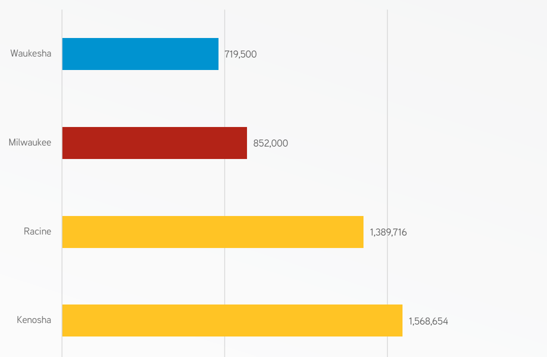


*Without Amazon's transactions, totaling 3,786,809 square feet, market absorption would be (306,664) square feet, Central absorption would be (820,936) square feet and South absorption would be 318,455 square feet.

Historical Construction Activity



SF Under Construction
by County



Source: CoStar, Catylist & Colliers | Wisconsin Research

Racine County's Impact on the South

Over the past few quarters, the South submarket has been a major driver of Southeastern Wisconsin's absorption and construction activity. Consisting of Kenosha, Racine and Walworth counties, the South makes up 24 percent of tracked inventory but has accounted for 55 percent of absorption over the past five quarters.

While this has been the case, Kenosha County has been the major driver in the submarket, and even the market as a whole, making up 34 percent of market absorption and 62 percent of absorption in the South over that time period.

Racine County has also positively impacted Southeastern Wisconsin's and the South submarket's vacancy and absorption trends, but at a lower level and with some caveats. Over the past five quarters, Racine County has accounted for 17 percent of marketwide absorption, which is a strong contribution considering the county has less than 10 percent of tracked inventory, but it has been largely due to a handful of sizable deals. Of Racine County's absorption over the past five quarters, responsible for 31 percent of positive absorption in the South, three deals make up 88 percent of that space removed. Amazon, Seda North America, and ND Paper all occupied space over 300,000 square feet, totaling 1,096,433 square feet. Absorption for Racine County over that same time period was 1.24 million square feet. Although nearly all absorption can be attributed to three tenants, there were not many significant move-outs in the micromarket, potentially indicating a desire by tenants to remain in the area.

Construction and New Deliveries

The second quarter of 2020 saw over 3.8 million square feet of new industrial space deliver, present in all but the North submarket. Driving this elevated level of new space coming online was the delivery of Amazon's 2.6 million square-foot fulfillment center in Milwaukee County, but seven other projects, all over 100,000 square feet, completed as well. Illing Co.'s new, 248,000 square-foot manufacturing facility was completed on Goldendale Rd in the Northwest submarket, as was Dielectric Corp.'s 100,000 square-foot manufacturing building. In the South, Hillwood Development's pair of twin, speculative distribution buildings, each 194,147 square feet, were completed, and out West, Briohn Building Corporation completed their 131,405 square-foot speculative building, with Paul Davis Restoration occupying over half of it.

Current projects underway include a warehouse/distribution building just shy of 600,000 square feet for pharmaceutical company Fresenius Kabi in Kenosha County, Komatsu's 430,000 sqaure-foot manufacturing facility in the Harbor District near downtown Milwaukee, and Ashley Capital has broken ground on their third building, which is just under 400,000 square feet, in Enterprise Business

Projects Under Construction

PROPERTY NAME / ADDRESS	COUNTY	TYPE	SIZE	SUBMARKET
Foxconn Array	Racine	Manufacturing	993,000	South
Fresenius Kabi Facility	Kenosha	Warehouse/Distribution	590,525	South
Bristol Highlands Commerce Center I	Kenosha	Warehouse/Distribution	472,216	South
Komatsu Manufacturing Facility	Milwaukee	Manufacturing	430,000	Central
Enterprise Business Park - Building 3	Racine	Warehouse/Distribution	396,716	South
Leonardo DRS HQ	Waukesha	Manufacturing	350,000	West
Western Building Products	Milwaukee	Warehouse/Distribution	326,000	Central

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

2020 Quarter 2 Industrial Market Statistics										
EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q2-20	Q2-19	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
OS	97	3,919,136	137,408	3.51%	1.47%	(11,600)	(17,300)	-	-	-
MF	99	9,801,859	578,773	5.90%	2.80%	-	-	-	-	-
WD	195	11,223,774	124,692	1.11%	0.71%	(2,015)	34,173	-	-	-
Total	**391**	**24,944,769**	**840,873**	**3.37%**	**1.65%**	**(13,615)**	**16,873**	**-**	**-**	**-**
NORTHWEST MARKET: Washington County										
OS	101	3,506,466	123,631	3.53%	3.78%	-	(10,000)	-	-	-
MF	139	8,735,923	202,550	2.32%	1.48%	348,000	348,000	465,000	465,000	-
WD	147	8,759,507	847,288	9.67%	4.35%	(12,578)	(172,578)	-	-	-
Total	**387**	**21,001,896**	**1,173,469**	**5.59%**	**3.01%**	**335,422**	**165,422**	**465,000**	**465,000**	**-**
WEST MARKET: Waukesha County										
OS	368	12,253,794	524,996	4.28%	3.28%	(39,562)	(27,038)	-	-	-
MF	619	33,797,931	442,091	1.31%	1.10%	(27,836)	(2,111)	-	-	400,000
WD	471	26,839,527	845,789	3.15%	1.90%	(58,592)	(35,495)	131,405	131,405	319,500
Total	**1,458**	**72,891,252**	**1,812,876**	**2.49%**	**1.76%**	**(125,990)**	**(64,644)**	**131,405**	**131,405**	**719,500**
CENTRAL MARKET: Milwaukee County										
OS	355	19,504,293	1,468,578	7.53%	5.00%	(184,190)	(182,354)	-	-	-
MF	603	51,743,649	3,036,079	5.87%	3.17%	(134,445)	(338,260)	-	-	526,000
WD	726	46,498,689	5,577,867	12.00%	6.88%	2,097,699	2,315,874	2,600,000	2,600,000	326,000
Total	**1,684**	**117,746,631**	**10,082,524**	**8.56%**	**4.89%**	**1,779,064**	**1,795,260**	**2,600,000**	**2,600,000**	**852,000**
SOUTH MARKET: Racine County, Kenosha County and Walworth County										
OS	56	2,584,698	186,181	7.20%	4.60%	10,000	10,354	-	-	-
MF	419	29,220,287	1,476,713	5.05%	5.07%	4,022	71,208	-	50,700	993,000
WD	376	43,825,157	3,473,007	7.92%	8.16%	1,491,242	1,553,995	653,294	653,294	1,965,370
Total	**851**	**75,630,142**	**5,135,901**	**6.79%**	**6.79%**	**1,505,264**	**1,635,557**	**653,294**	**703,994**	**2,958,370**
GRAND TOTAL										
OS	977	41,768,387	2,440,794	5.84%	3.94%	(225,352)	(226,338)	-	-	-
MF	1,879	133,299,649	5,736,206	4.30%	2.96%	189,741	78,837	465,000	515,700	1,919,000
WD	1,915	137,146,654	10,868,643	7.92%	6.14%	3,515,756	3,695,969	3,384,699	3,384,699	2,610,870
Total	**4,771**	**312,214,690**	**19,045,643**	**6.10%**	**4.46%**	**3,480,145**	**3,548,468**	**3,849,699**	**3,900,399**	**4,529,870**
QUARTERLY COMPARISON TOTALS										
2020 Q2	4,771	312,214,690	19,045,643	6.10%	-	3,480,145	-	3,849,699	-	4,529,870
2020 Q1	4,763	308,364,991	18,676,089	6.06%	-	68,323	-	50,700	-	6,544,424
2019 Q4	4,763	308,481,722	14,709,710	4.77%	-	774,021	-	1,797,535	-	5,678,599
2019 Q3	4,753	306,684,049	13,686,196	4.46%	-	2,081,875	-	2,984,114	-	6,352,924
2019 Q2	4,744	303,699,935	12,783,957	4.21%	-	896,114	-	1,188,739	-	8,413,573

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