



Introduction

The impact of the ongoing pandemic on the Metro Milwaukee office market was finally reflected in market activity during Q3, as negative absorption was seen for only the third time over the past two years. Coming on the heels of a strong Q2 that was aided by the delivery of new, pre-leased product, significant downsizes at current locations and consolidations among existing locations in the market were the driving forces behind the negative absorption for the quarter. While these large, negative movements occurred, a strong level of positive activity was seen in regard to tenants taking smaller spaces, indicating that operations are continuing for many tenants, and even growing in some cases, especially among suburban tenants. Given the smaller size of these deals, along with a near-equal amount of similarly sized move-outs, the impact on absorption of the larger, negative movements was amplified in the market. As a result, overall vacancy increased for the quarter, with the CBD, Central, Northwest and West submarkets all experiencing increases in vacancy.

Despite the Q3 drop, there is a solid pipeline of leasing activity coming at the end of the year and the first half of 2021, aided by deals signed both before and during the pandemic, as well as new deliveries on pace to complete in Q4. R1VER, a 202,000 square foot office being built in the Harbor District, and The Huron, nearly complete in the Downtown East submarket, are both on track to deliver by the end of the year, with The Huron welcoming anchor tenant Husch Blackwell in early November.

Summary Statistics

Q3 2020 Office Market	MKE	CBD	Suburban
Vacancy Rate	12.42%	12.11%	12.63%
Absorption (Square Feet)	(210,166)	(48,416)	(161,750)
New Construction (Square Feet)	-	-	-
Under Construction (Square Feet)	783,045	625,045	158,000

Source: CoStar, Catylist & Colliers | Wisconsin Research

COMPARED TO

	Q2 2020 Qrt Over Qrt	Q3 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.

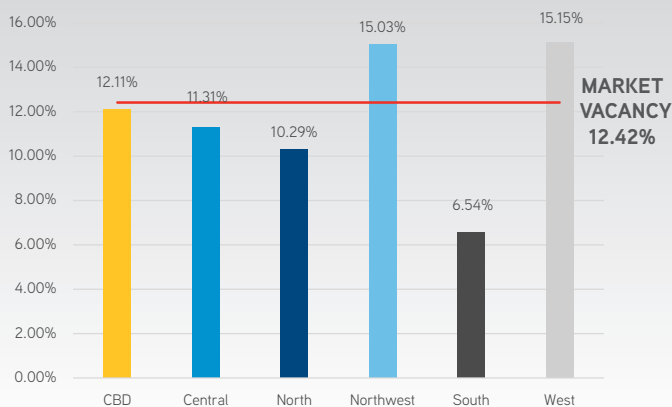
Vacancy and Availability

With tenants re-evaluating their space needs, vacancy and availability increased in Q3, with vacancy ending at 12.42 percent for all properties and 15.68 percent for multi-tenant properties. Four of the six tracked submarkets saw increases in vacancy, driven by a handful of large, newly vacant spaces coming online. The Northwest and West submarkets experienced the most significant increases in vacancy, and although the CBD has been outperforming the suburban submarkets consistently over recent years, it saw a slight uptick in vacancy, also driven by larger blocks of space being vacated. Vacancy in Downtown Milwaukee ended Q3 at 12.11 percent, with the most vacancy being seen in Class B product. The West submarket continues to have the highest vacancy rate at 15.15 percent. The North and South submarkets each saw slight decreases in vacancy due to limited, but positive, activity.

With the delivery of two new projects with remaining availability this year, and many real estate decisions temporarily on pause, vacancy may continue to moderately rise. Although those new deliveries will add just shy of 200,000 square feet of new, vacant space to the market, a handful of sizable leases, both new-to-market tenants and expansions for existing tenants, are set to commence in Q4 throughout the market. These new occupancies will largely negate the new vacancies coming online due to the delivery of the partially-leased speculative product, and barring any significant move-outs, will keep the impact on market-wide vacancy to a minimum. Even with these new deals commencing, vacancy has increased 139 basis points since Q1, and will likely continue to rise over coming quarters.

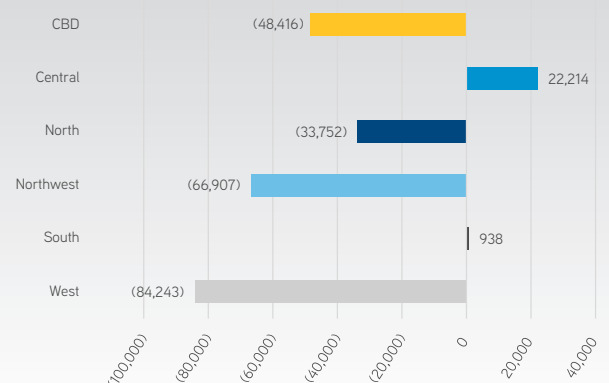
Q3 2020 VACANCY

By Submarket



Q3 2020 ABSORPTION

By Submarket



Absorption

The Milwaukee market realized 210,166 square feet of negative absorption in Q3, of which 225,235 square feet of negative absorption is accounted for by eight tenants who either vacated their entire space or had a sizable downsize. As a mid-size market, large movements such as these have a significant impact on absorption, as many new deals that are seen are generally in the range of 2,500 to 15,000 square feet. That was the case this quarter, as there was a strong amount of smaller, positive activity, but the larger move-outs, paired with a proportionate amount of smaller new deals and move-outs cancelling each other out, resulted in negative absorption more reflective of the new, significantly sized vacancies coming online.

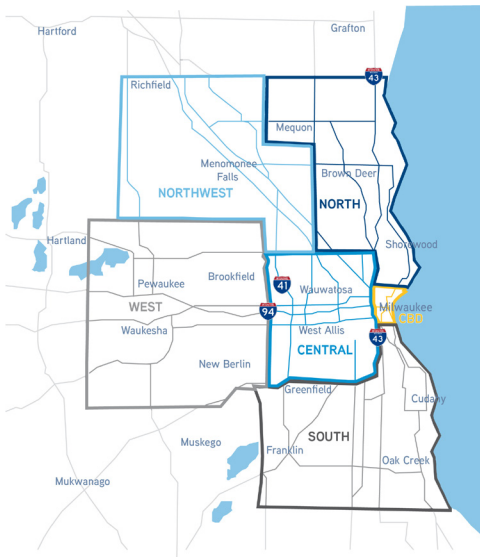
Software and technology company Dematic had both a positive and negative impact on the market in Q3, vacating 66,376 square feet in a quasi-flex building in the West to move to 39,000 square feet of new office in a newly constructed, mixed-use development in Wauwatosa. This helped the Central submarket greatly, and although this move impacted absorption in the West negatively, it illustrates the flight to quality we have been seeing among tenants over recent years.

Wells Fargo vacated 32,805 square feet in Menomonee Falls, and Restat's, a prescription claim processing and pharmacy benefit manager service provider, term ended on a space they marketed as available for sublease in Park Place office park, adding 36,522 vacant square feet. Legal Action of Wisconsin was one of the largest new deals in Q3, but it was a downsize. The non-profit law firm occupied 23,000 square feet in the Downtown West micromarket but downsized from roughly 26,000 square feet just down the block from their new space.

Even with a down quarter for absorption, year-to-date absorption is positive 116,888 square feet, and the new deals commencing in Q4, highlighted on the following page, will hopefully maintain that positive activity to end the year. In Q3, the market started to feel the impact of the ongoing pandemic, and that impact will likely continue in coming quarters. While tenants are, and will continue, to re-examine their space needs, the impact so far has been less drastic in Metro Milwaukee than has been seen in other markets throughout the United States.

*Note, Colliers | Wisconsin calculates absorption based on occupancy not lease signing. For leasing momentum, please refer to the leasing activity section

Leasing Activity & Tenant Movement



The final quarter of the year is currently set up to bounce back after the negative absorption experienced in Q3, with just under 180,000 square feet of new commencements in the final three months of the year currently known. Some of these deals are new-to-market tenants and some are relocations and expansions. With some of these new deals being relocations, the impact on absorption may not be the full 180,000 square feet, but all of these deals will have a net positive impact.

In December, Centene Management Company is expanding to 51,000 square feet in the Central submarket, moving from the Milwaukee County Research Park to West Allis, and in the CBD, the Milwaukee Journal Sentinel will be moving to 330 Kilbourn in October. In Downtown West, North Shore Healthcare will occupy just under 23,000 square feet in the newly renovated HUB640, and Mindful Staffing will occupy a full, previously vacant building in Park Place office park, contributing positive 32,334 square feet to absorption in December. The North Shore Healthcare and Mindful Staffing deals were signed in July and August, showing encouraging activity where new, sizable deals were finalized in the midst of the ongoing pandemic.

Construction

Currently, construction on two Class A projects, The Huron in Downtown East and R1VER in Walker's Point and the Harbor District, are both on track to deliver in the final quarter of the year. Landmark Credit Union's new, 158,000 square foot building in Brookfield is making progress as well, expected to be completed in Q2 2021. In addition to these new construction projects, the Historic Eagleknit Building in Walker's Point is under renovation and will have 84,000 square feet available in Q1 2021.

In the West, two new office buildings are planned at The Corridor, a mixed-use development between I-94 and W. Bluemound Rd. Milliman, a global risk management, benefits and technology firm currently in Brookfield, will occupy 118,300 square feet in a new, 186,000 square-foot building, and Hydrite Chemical Company, with offices in Brookfield and Milwaukee, will occupy their own 45,000 square-foot building, consolidating the operations at their two existing offices. Just North of the R1VER development, Komatsu has begun construction on their new manufacturing facility, with a 176,000 square-foot office to be completed in 2022 as well.

OFFICE CONSTRUCTION



783,045 SF
UNDER CONSTRUCTION

Sources: CoStar, Catylist & Colliers | Wisconsin Research

Under Construction				
PROJECT NAME	PROJECT TYPE	SUBMARKET	SIZE	EXPECTED OCCUPANCY
R1VER	Mixed-Use	Walker's Point	202,045 SF	December 2020
Komatsu Mining HQ	Mixed-Use	Walker's Point	176,000 SF	2022
The Huron	Mid-Rise Office	Downtown East	163,000 SF	December 2020
Landmark Credit Union	Mid-Rise Office	Brookfield	158,000 SF	Q2 2021
Historic Eagleknit Building	Mid-Rise Office	Walker's Point	84,000 SF	Q1 2021

Footnote Regarding COVID-19

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

2020 Quarter 3

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q3-20	Q3-19	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
CBD - Downtown North, Downtown East, Downtown West, Third Ward & Walker's Point										
A	31	8,620,107	1,008,244	11.70%	9.17%	(42,523)	145,060	—	380,817	541,045
B	100	10,763,520	1,413,820	13.14%	8.49%	(637)	167,685	—	290,000	84,000
C	13	781,322	19,754	2.53%	1.86%	(5,256)	(5,256)	—	—	—
Total	144	20,164,949	2,441,818	12.11%	8.51%	(48,416)	307,489	—	670,817	625,045
CENTRAL - Near West Side, Wauwatosa, West Allis										
A	22	3,038,557	353,880	11.65%	5.93%	(526)	(57,821)	—	—	—
B	60	3,816,206	498,109	13.05%	10.63%	22,740	10,510	—	—	—
C	21	1,061,179	42,984	4.05%	3.88%	—	(1,824)	—	—	—
Total	103	7,915,942	894,973	11.31%	7.89%	22,214	(49,135)	—	—	—
NORTH - Milwaukee East, North Shore, Mequon										
A	13	1,138,759	109,027	9.57%	1.49%	(40,899)	(40,537)	—	—	—
B	63	2,852,257	333,249	11.68%	8.25%	6,547	(37,079)	—	—	—
C	5	367,329	6,070	1.65%	1.33%	600	(1,200)	—	—	—
Total	81	4,358,345	448,346	10.29%	5.94%	(33,752)	(78,816)	—	—	—
NORTHWEST - Northwest Milwaukee, Menomonee Falls, Germantown										
A	17	2,659,419	289,666	10.89%	9.92%	(32,805)	(27,327)	—	—	—
B	40	1,637,177	365,437	22.32%	11.81%	(34,102)	(37,436)	—	—	—
C	2	61,199	—	—	—	—	—	—	—	—
Total	59	4,357,795	655,103	15.03%	10.49%	(66,907)	(64,763)	—	—	—
SOUTH - Greenfield, South Milwaukee, Oak Creek, Franklin										
A	7	1,181,358	12,790	1.08%	0	—	—	—	—	—
B	26	1,183,653	133,644	11.29%	10.18%	1,913	3,200	—	—	—
C	7	257,833	25,225	9.78%	4.62%	(975)	3,467	—	—	—
Total	40	2,622,844	171,659	6.54%	5.67%	938	6,667	—	—	—
WEST - Brookfield, Waukesha, New Berlin, Pewaukee										
A	44	3,674,614	447,996	12.19%	12.46%	(21,440)	94,889	—	116,300	158,000
B	145	6,559,311	1,123,908	17.13%	14.01%	(62,803)	(99,443)	—	—	—
C	7	197,791	8,780	4.44%	5.06%	—	—	—	—	—
Total	196	10,431,716	1,580,684	15.15%	13.30%	(84,243)	(4,554)	—	116,300	158,000
GRAND TOTAL										
A	134	20,312,814	2,221,603	10.94%	8.48%	(138,193)	114,264	—	497,117	699,045
B	434	26,812,124	3,868,167	14.43%	10.38%	(66,342)	7,437	—	290,000	84,000
C	55	2,726,653	102,813	3.77%	3.02%	(5,631)	(4,813)	—	—	—
Total	623	49,851,591	6,192,583	12.42%	9.22%	(210,166)	116,888	—	787,117	783,045
QUARTERLY COMPARISON TOTALS										
Q3 2020	623	49,851,591	6,192,583	12.42%	—	(210,166)	—	—	787,117	783,045
Q2 2020	622	49,755,939	5,943,417	11.94%	—	75,756	—	530,817	787,117	365,045
Q1 2020	622	49,755,939	5,488,356	11.03%	—	251,298	—	256,300	256,300	895,862
Q4 2019	620	49,499,639	4,806,046	9.71%	—	(154,661)	—	97,194	229,139	1,187,162
Q3 2019	618	49,401,445	4,553,191	9.22%	—	47,221	—	45,667	130,945	1,240,517

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