Research Market Report

SOUTHEASTERN WISCONSIN | INDUSTRIAL

2018 Quarter 2

Research | Wisconsin

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Introduction

As the first half of 2018 closed, the industrial market in Southeastern Wisconsin (SE WI) continued on its strong trajectory. Vacancy continues to drop despite limited availability. Additionally, positive net absorption was realized for the quarter, with the South and Central submarkets driving activity. Companies such as Norco Manufacturing in Caledonia, Glenn Rieder in West Allis, and A&V WaterJet Tech in Mequon delivered both new facilities and expansions on their existing facilities. Uline announced its intention to build a second distribution facility which will total 800,000-square-feet. Recall, Uline recently completed a 600,000-square-foot facility and a new office headquarters building less than a year ago. Another significant event from the quarter was Foxconn breaking ground on the first building of its $10 billion campus in Mount Pleasant. Around the location of the campus, other projects, both industrial and other, continue to be proposed. Although most projects will never come to fruition, in the South submarket alone, proposed industrial projects total nearly 14 million square feet. Outside of the industrial sector, Aurora and Advocate Healthcare announced plans for a $250 million hospital within close proximity to the future Foxconn Campus. As more of the campus takes shape, auxiliary development is expected to continue to grow.

Economic Activity

Moving into the second half of the year, the national economy remains strong. Unemployment dropped from Q1 at the national, state, and local levels. Compared to the region, Wisconsin continues to have one of the largest contributions to the Midwest economy, as measured by the Chicago Federal Reserve Bank. Driving Wisconsin's contribution is the manufacturing sector, which is also driving growth regionally. As manufacturing continues to be a driving force in SE Wisconsin, the demand for industrial space is expected to continue as well. This trend will persist through 2018 and is a good indicator of a healthy industrial market.

MANUFACTURING JOBS

May 2018

481,00
Wisconsin

120,700
Milwaukee-Waukesha-West Allis MSA

Source: Bureau of Labor Statistics, May 2018

Market Indicators

	Q1 2018 Qrt Over Qrt	Q2 2017 Yr Over Yr
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↓

Economic Indicators

	Quarter over Quarter	
METRO MKE UNEMPL.	2.8%	↓
WISCONSIN UNEMPL.	2.8%	↓
NATIONAL UNEMPL.	4.0%	↓
WI MEI*	0.16	↓

Source: Bureau of Labor Statistics, May 2018

*Relative Midwest Economy Index: Wisconsin's contribution to the Chicago FED Midwest Economy Index. A positive value signals above average performance

Summary Statistics

Q2 2018 Industrial Market	OS	MF	WD
Vacancy Rate	4.01%	2.74%	5.73%
Change From Q1 2018 (basis points)	-60	-19	+21
Absorption (Square Feet)	233,937	933,384	(314,044)
New Construction (Square Feet)	45,000	667,850	0
Under Construction (Square Feet)	0	260,271	760,170

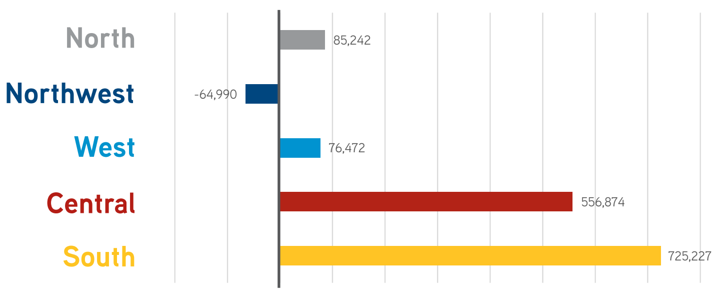
Sources: CoStar& Colliers | Wisconsin Research

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

Net Absorption

A quarter of healthy leasing activity resulted in 853,000-square-feet of Q2 net absorption. Following 1.2 million-square-feet of absorption in Q1, the first half of 2018 indicates that 2018 should finish at a similar level as 2016 and 2017. Large absorption changes in existing product were concentrated in the Central and South submarkets. In the South, SL Montevideo (MTI), a Minnesota based manufacturer, leased 113,000-square-feet of space in Kenosha County. Also in the South, Freseius USA Manufacturing leased over 62,000-square-feet in Enterprise Business Park.

Milwaukee County also had some significant new absorption for the quarter. Two users, Milwaukee-based Wantable and Used Cardboard Boxes, took space near the airport, leasing 70,000-square-feet and 58,500-square-feet respectively. Also in Milwaukee County, Danfoss Inc took a 78,000-square-foot building on Bradley Road. Other submarkets experienced smaller tenant activity during the quarter, with the Northwest submarket being the only submarket to realize negative net absorption.

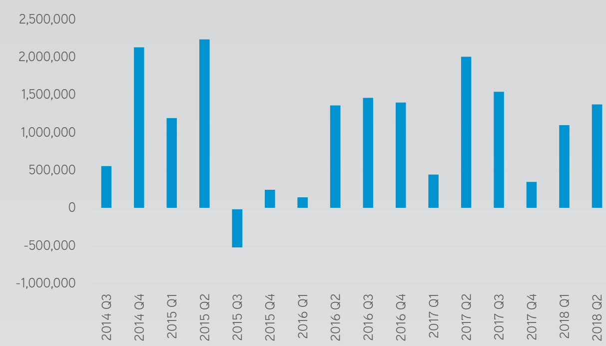


Vacancy & Availability

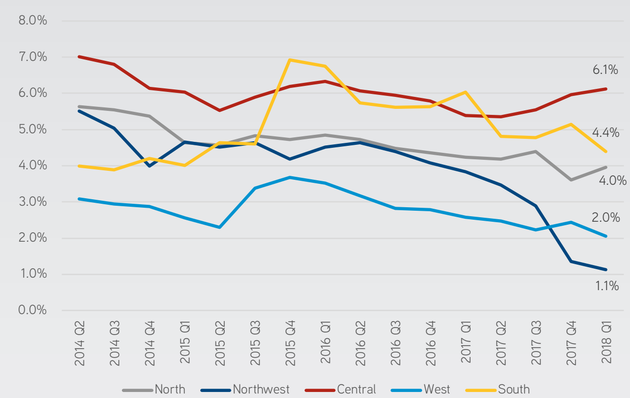
Vacancy continues to compress as 2018 hits the halfway mark. The limited vacant space availability is creating a slight upward pressure on vacancy rates. Despite the large deliveries this quarter, rates held strong. Down by 7 basis points quarter over quarter and only 14 basis points year over year, the limited vacant space in the market continues to prevent further rate compression. Space is limited within all submarkets across all types of space, especially for higher class, existing product. Washington County for instance, is an 18.8 million-square-foot submarket that has less than 300,000-square-feet vacant. Of this vacant space, the average square footage available is 16,000-square-feet.

Other submarkets are experiencing similar conditions across all property types. The limited availability has resulted in an increased likelihood of renewal and has also continued to drive strong construction activity. Moving into the second part of the year it is likely that vacancy will remain relatively flat, with a potential for a slight uptick as new speculative projects continue to deliver. Overall, the demand for space will continue to keep the market tight, driving the need for new projects.

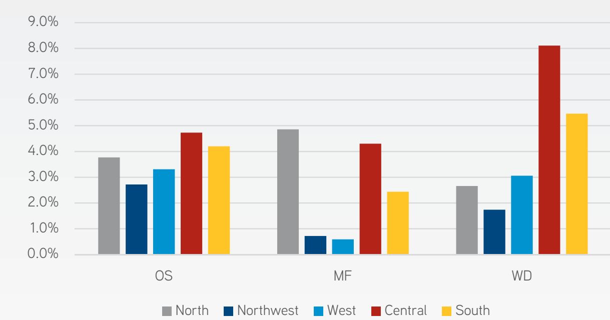
HISTORICAL NET ABSORPTION



HISTORICAL VACANCY
By Submarket



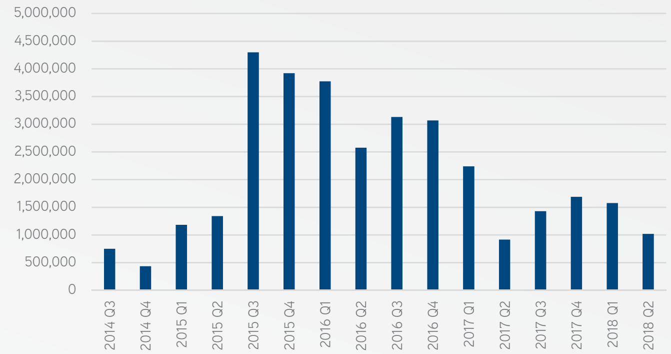
VACANCY
By Use



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

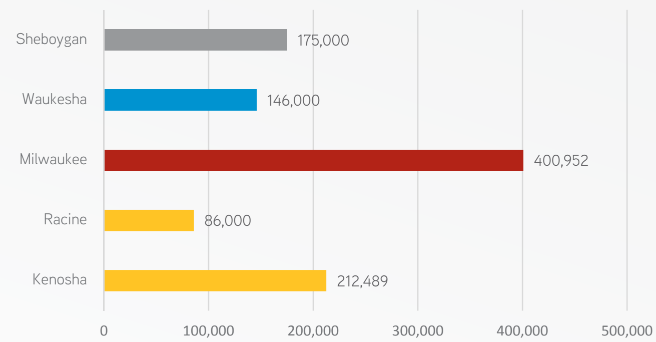
Source: Colliers | Wisconsin & CoStar

Historical Construction Activity

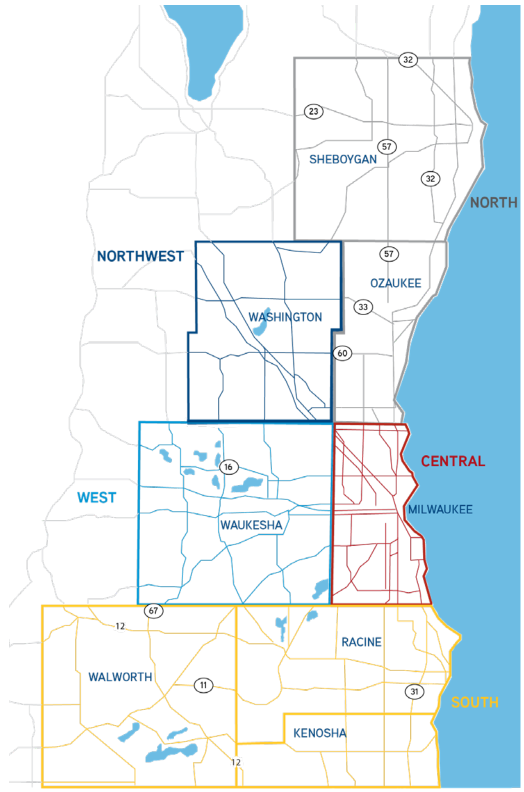


SF Under Construction

by county



Source: Colliers | Wisconsin & CoStar



Construction

With over half a million square feet of product delivered in Q2, construction activity dipped slightly from Q1. Racine County delivered the most product with both BTS and speculative projects completing. The dip in construction will likely be short lived as new projects move closer to construction. Foxconn broke ground on the first building that will be apart of their $10 billion manufacturing campus in Racine County. Surrounding the plant, speculative projects continue to be proposed. When these projects break ground will be determined by the strength of the demand to be located within close proximity to Foxconn. Prior to the Foxconn announcement last year, many of the projects had already been proposed, but what started as necessity due to limited buildable land in Kenosha County, may be turning into the preferred location.

Another location that is seeing increased demand is the airport submarket in Milwaukee County. Waukesha continues to lack buildable options, compressing ability for new ground up construction. While Washington County does not have any active projects, the submarket has seen an increase in the number of proposed speculative projects following the creation of new business parks in the submarket.

Projects Under Construction

PROPERTY NAME / ADDRESS	CITY	TYPE	SIZE	SUBMARKET
Doheny Enterprises	Pleasant Prairie	Warehouse/Distribution	212,489 SF	South
Masters Gallery Foods	Oostberg	Warehouse/Distribution	175,000 SF	North
Wetzel Brothers	Cudahy	Warehouse/Distribution	153,000 SF	Central
MillerCoors Building	Milwaukee	Manufacturing	127,595 SF	Central
Interstate 94 and Highway 16	Pewaukee	Warehouse/Distribution	120,000 SF	West
FedEx Terminal Headquarters	Oak Creek	Warehouse/Distribution	99,681 SF	Central
Foxconn	Sturtevant	Warehouse/Distribution	88,000 SF	South

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

2018 Quarter 2 Industrial Market Statistics

EXISTING PROPERTIES			TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER
BLDG TYPE	BLDGS	TOTAL SF	SF	Q2-18	Q2-17	CURRENT QUARTER	YEAR TO DATE	CURRENT QUARTER	YEAR TO DATE	CONST. SF
NORTH MARKET: Ozaukee County and Sheboygan County										
OS	95	3,854,256	144,871	3.76%	1.77%	-65,861	-85,206	15,000	15,000	-
MF	99	9,869,618	479,744	4.86%	6.99%	151,983	118,406	-	-	-
WD	196	11,350,318	302,140	2.66%	2.37%	-880	-37,140	-	-	175,000
Total	390	25,074,192	926,755	3.70%	4.18%	85,242	-3,940	15,000	15,000	175,000
NORTHWEST MARKET: Washington County										
OS	103	3,512,905	94,429	2.69%	3.58%	0	-16,000	-	-	-
MF	136	8,237,323	59,100	0.72%	0.12%	-58,000	-58,000	-	-	-
WD	141	7,083,256	122,896	1.74%	7.27%	-6,990	253,215	-	-	-
Total	380	18,833,484	276,425	1.47%	3.46%	-64,990	179,215	-	-	-
WEST MARKET: Waukesha County										
OS	369	12,300,786	406,326	3.30%	3.78%	223,097	168,836	-	-	-
MF	617	33,523,788	199,408	0.59%	1.09%	37,707	256,453	-	83,000	26,000
WD	464	25,934,999	794,560	3.06%	3.67%	-194,348	3,662	-	-	120,000
Total	1,450	71,759,573	1,400,294	1.95%	2.47%	66,456	428,951	-	83,000	146,000
CENTRAL MARKET: Milwaukee County										
OS	355	19,492,804	922,305	4.73%	3.09%	61,894	-9,219	-	-	-
MF	604	51,578,643	2,206,297	4.28%	5.28%	178,681	355,781	90,000	210,000	148,271
WD	723	43,671,303	3,638,889	8.33%	6.45%	89,281	140,759	-	166,000	252,681
Total	1,682	114,742,750	6,767,491	5.90%	5.35%	329,856	487,321	90,000	376,000	400,952
SOUTH MARKET: Racine County, Kenosha County and Walworth County										
OS	57	2,620,908	108,501	4.14%	5.51%	14,807	6,400	-	-	-
MF	419	29,273,013	687,495	2.35%	2.40%	623,013	633,037	577,850	577,850	86,000
WD	360	39,281,242	2,440,182	6.21%	6.64%	-201,107	330,159	-	-	212,489
Total	836	71,175,163	3,236,178	4.55%	4.81%	436,713	969,596	577,850	577,850	298,489
GRAND TOTAL										
OS	979	41,781,659	1,676,432	4.01%	3.37%	233,937	64,811	15,000	15,000	-
MF	1,875	132,482,385	3,632,044	2.74%	3.41%	933,384	1,305,677	667,850	870,850	260,271
WD	1,884	127,321,118	7,298,667	5.73%	5.62%	-314,044	690,655	-	166,000	760,170
Total	4,738	301,585,162	12,607,143	4.18%	4.32%	853,277	2,061,143	682,850	1,051,850	1,020,441
QUARTERLY COMPARISON TOTALS										
2018 Q2	4,738	301,585,162	12,607,143	4.18%	-	853,277	-	682,850	-	1,020,441
2018 Q1	4,732	300,602,360	12,777,570	4.25%	-	1,104,224	-	569,000	-	1,577,615
2017 Q4	4,741	301,581,968	13,575,876	4.45%	-	351,278	-	250,000	-	1,689,615
2017 Q3	4,736	300,799,597	13,176,210	4.32%	-	1,547,006	-	251,000	-	1,430,540
2017 Q2	4,731	299,206,597	13,039,379	4.32%	-	2,010,990	-	1,926,678	-	909,161

FOR MORE INFORMATION

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