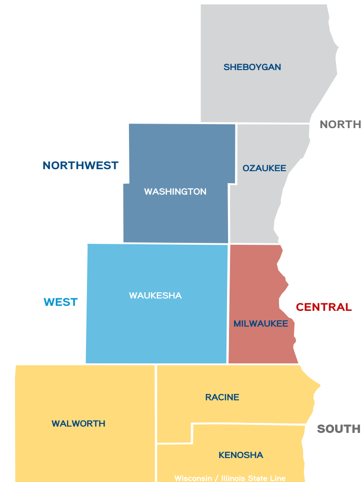
Market Overview



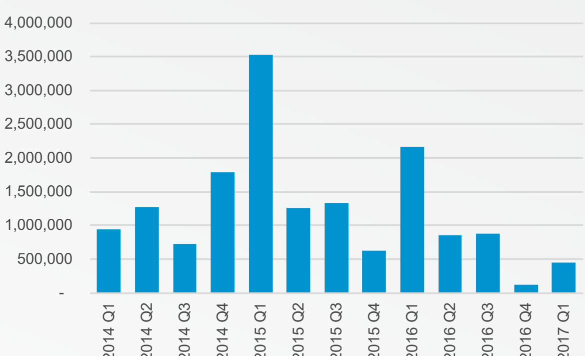
Several of the prospects who were testing the market renewed in place, thus not moving the needle on absorption or vacancy for their respective submarkets. Valspar Paints, who had been in the market for a two-location consolidation renewed in Menomonee Falls for 67,000 square feet. Versa Technologies also renewed their 70,000 square foot lease in Cudahy after a brief market evaluation. Additionally, ACS/Sterling Manufacturing toured the market briefly earlier in the year and renewed in place at their 178,000 square foot complex in New Berlin.

The primary driver for this strong renewal activity is a lack of quality options for users in the market, which continues to be a limiter for Southeastern Wisconsin's industrial companies looking to expand and or relocate. Every submarket is affected by this shortage, giving landlords a significant advantage. Additionally, we finally are seeing an uptick in rents, which is long overdue for our marketplace.

Although the development community is responding with new speculative buildings, these developments are still very measured. The locations for these projects are hand-picked after long evaluation and consideration of multiple options. Still, most of the speculative development activity continues to be in the I-94 corridor south to the state line through Racine and Kenosha Counties. There are several "proposed" speculative development projects in other submarkets, but we will be surprised if any of these projects become a reality in the near future.

It is expected that market conditions will remain relatively unchanged as we move into the 2nd quarter. Although there are several transactions in the market, we believe it will be difficult for these users to find suitable building alternatives to relocate. New construction continues to be the other alternative for many of these companies, but the cost of construction continues to climb, making a new facility a very expensive alternative and oftentimes a non-option for growing companies.

HISTORICAL NET ABSORPTION



Net Absorption

In the 1st quarter of 2017 there were five new leases exceeding 100,000 SF in Southeastern Wisconsin. Three of the five occured in the south submarket, with Gold Standard Baking and Cree, Inc entering the market and Seda North America expanding their current facility at Globe Drive. The northwest submarket also had a strong start to the year, seeing 117,487 SF of positive net absorption, which was driven by two expansions and a lack of move-outs.

Both the central and west submarkets had large lease activity that was offset by moveouts, resulting in both submarkets realizing negative net absorption for the quarter. Sellars Absorbant Materials occupied 138,480 SF on Calmut Road in the central submarket. Hallmark Building Supply and Kirby products signed leases at 901 Northview Road in Waukesha County, making this new development 73.8% leased. Despite the activity that was experienced in the quarter, absorption is down from a year ago. This is primarily due to smaller moveouts as well as a slowdown of overall activity. However, absorption is up significantly from the 4th quarter of 2016, and the quarter marked the 28th straight quarter of positive absorption.

Vacancy

Vacancy rates continue their downward trend. The west submarket remains the tightest market, with sub 4% vacancy rates across all property types. Of the 72.2 million SF that makes up the west submarket, only 2.1 million SF remain available.

The south submarkets vacancy rates have increased as a result of new product coming online in recent quarters. Last year, the south submarket delivered 1.7 million SF of space, with 1.1 million SF being warehouse and distribution space. Despite the delivery of space, the south saw vacancy rates lower than a year ago. In fact, the only submarket to not realize vacancy rates lower than Q1 2016 was the north submarket.

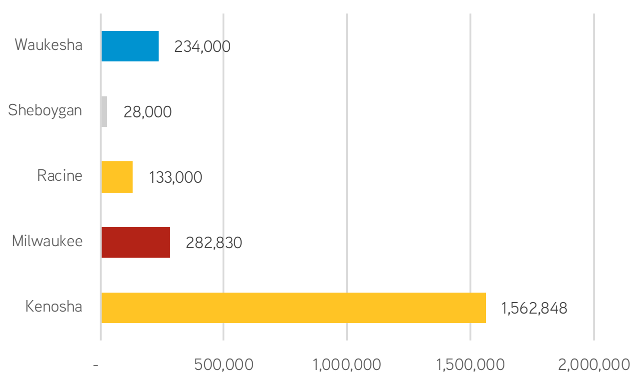
Construction Activity

Lease activity continues to drive new industrial construction across Southeastern Wisconsin. The south, west, and central submarkets continue to see increased construction activity. Kenosha County is seeing the majority of the activity with 1.56 million SF under construction. This includes Uline's 880,000 SF facility and the 600,000 SF First Park 94 Building, which remains fully available. Of the 2.24 million SF currently under construction, only 35% or 783,000 SF remain available.

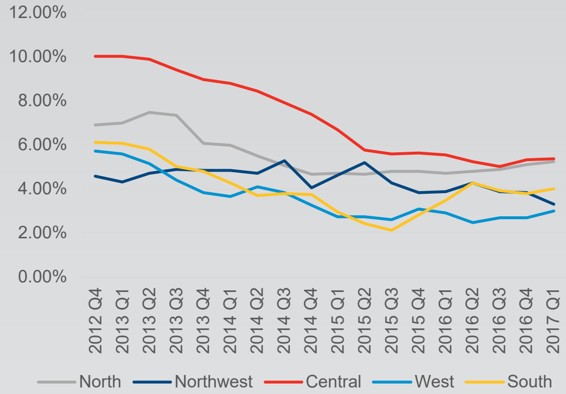
Notable projects include:

- Uline Midwest Distribution
- First Park 94 Building B
- Vonco Products
- Restaurant Depot
- Oakview Business Park
- Burnham Business Center
- Nordco
- Sheboygan Paper Box Expansion
- ER Wagner Facility
- 5250 N Executive Drive

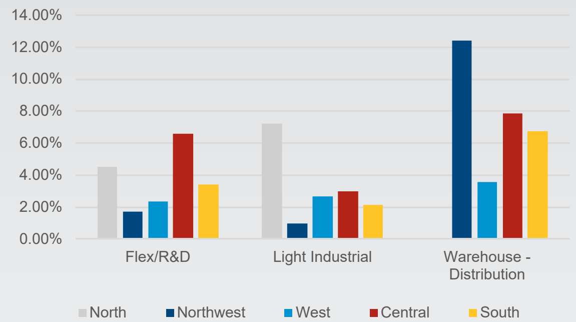
SF Under Construction
by county



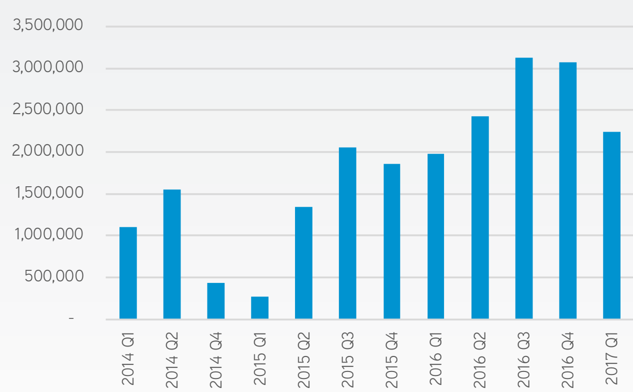
HISTORICAL VACANCY
By Submarket



VACANCY
By Use



Historical Construction Activity



68 countries

$2.6
billion in
annual revenue

2
billion square feet
under management

15,000
professionals
and staff

$105
billion in
total transaction value

*All statistics are for 2016, are in U.S. dollars and include affiliates.

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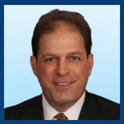

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