

Madison Office Snapshot | Q1 2023



MARKET INDICATORS

5.8%

VACANCY RATE



(53,172)

NET ABSORPTION



\$21.47

AVG MARKET RENT



446,800

SF UNDER CONSTRUCTION



ECONOMIC INDICATORS

2.4%

MADISON UNEMPLOYMENT RATE



3.4%

U.S. UNEMPLOYMENT RATE



While higher quality space has been the driving force behind a lot of the sales and leasing activity in the Madison market over previous quarters, this year is starting off as a more timid market. This is likely due to the continued rise in interest rates, coupled with the growing divide in price expectations from buyers and sellers, resulting in a slower start to 2023.

VACANCY & RENTAL RATES

The Madison market is now experiencing positive absorption numbers, bringing down overall vacancy to 5.8%, which is still drastically lower than the national average of 12.9%. Continued lower vacancy rates are likely due to the growth of the science and technology industries, while older office properties are being taken off the market by being redeveloped into multifamily properties. This year began with slightly lower average rental rates. Q1 rates are at \$21.47, while in Q4 2022, the rates were at \$22.58. This decrease is one we expect to continue to see for both the short- and long-term forecast.

LEASING & SALES

Leasing activity levels appear to have stabilized. This is likely correlated with the higher number of closures and downsizing occurring in the market than previously seen. As we saw in the latter half of 2022, significant lease sizes continue to be smaller than they have been in the past. Q1's largest lease size was 16,156 square feet, for an undisclosed tenant at 33 East Main at Block 89. This is close to the most significant lease size of

Q4 2022, which was 13,803 square feet. Most leases during Q1 ranged in the 7,000 – 10,000 square foot range, again proving that tenants are looking for more efficient space when leasing.

While the end of 2022 saw a small surge in investment activity, Q1 2023 sales activity has dropped significantly. At the end of the first quarter, less than \$7 million in total sales occurred, with significant sales being Applied Partners LLC purchase of 1930 Monroe Street and South Central Library System's purchase of 1650 Pankratz Street for \$3 million and \$2.1 million, respectively. Climbing interest rates and pricing expectations seem to be influencing the sales activity, but must be monitored to determine if this will lead to a lasting impact on activity for 2023.

CONSTRUCTION

Madison construction activity continues to remain at a more minimal level. There are currently six projects under construction, with two-thirds of these expected to be delivered in Q2 and Q3 of this year. The first expected deliveries are Block 1, a 162,800 square foot building at 4800 Madison Yards Way and the 6,000 square foot building at 6510 Watt Road, both slated for May completion. Only one new project was initiated this quarter, the Centro Hispano of Dane County at 812 W. Badger Road, expected to be delivered in February of 2024. We expect most new construction to be less than in previous years, with most coming from build-to-suit or owner-occupied developments.

Source: CoStar, Bureau of Labor Statistics

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Office Market Statistics

Submarket	Inventory	Available SF	Total Vacant SF	Total Absorption (SF)	YTD Total Absorption (SF)	Vacancy Rate	Total Under Construction	Average Market Rent
Central Campus	8,123,370	673,639	447,768	-38,010	-18,942	6.0%	101,000	\$24.83
Columbia County	543,295	55,310	55,310	0	12,617	10.2%	0	\$16.67
Iowa County	473,578	3,680	3,680	-3,680	-3,680	0.8%	0	\$20.70
Near West Madison	5,653,558	326,724	163,032	137	82,794	2.9%	309,800	\$21.77
Northeast Madison	6,729,627	928,865	483,608	37,340	160,412	7.2%	30,000	\$21.61
Northwest Madison	5,393,342	870,229	381,203	-17,146	-30,183	8.0%	0	\$24.42
Outlying Dane East	1,535,990	75,111	16,778	-9,106	-8,278	1.1%	0	\$19.80
Outlying Dane West	2,195,720	28,687	23,787	-7,223	-8,369	1.1%	0	\$22.95
S Central Madison	2,754,650	271,627	131,673	12,816	26,758	5.0%	0	\$21.27
Southeast Madison	2,322,366	317,876	181,942	12,024	-17,408	7.8%	0	\$20.29
Southwest Madison	2,253,352	275,766	212,922	-40,324	-20,244	9.4%	6,000	\$21.81
Madison Totals	37,978,848	3,827,514	2,101,703	(53,172)	175,477	5.53%	446,800	\$21.47

Significant Lease Transactions

Tenant	Address	Size (SF)	Submarket
Undisclosed	33 East Main at Block 89	16,156	Central Campus
Undisclosed	The American Center	10,311	Northeast Madison
Symphony Corp	Mullins Building	8,037	Central Campus
John Deere	Novation Tech Campus	7,651	Southeast Madison
American Risk Management	City Center West	6,341	Southwest Madison

Significant Sale Transactions

Buyer	Address	Size (SF)	Submarket
Applied Partners LLC	1930 Monroe St	\$3,000,000	Near West Madison
South Central Library System	1650 Pankratz St	\$2,100,000	Northeast Madison

Sources: CoStar

The above Milwaukee statistics include a select tracked set submarkets including an inventory of buildings considered to be competitive per CoStar. This does not include all buildings or building types, but focuses on the core properties to determine quarterly statistics. Data includes owner-occupied buildings and includes all property sizes including single and multitenant buildings.

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