

Madison

Office | Q4 2023 Market Report

Quarterly Snapshot

↑ Average Rent
23.35/SF

↔ Vacancy
6.3%

↑ Net Absorption
-168,000 SF

Occupier's Perspective

Although leasing volume has yet to recover, the number of lease transactions more closely resembles figures seen prior to the pandemic. Compared to 2019, the total number of leases signed in Madison's office market in 2022 was down only 6 percent. Overall space demands have dropped, with tenants gravitating toward smaller, higher-quality office spaces.

Coinciding with the increase in tenant activity, the number of companies announcing closures and downsizings has decreased, resulting in vacancy stabilizing. The market has had positive net absorption in four of the past six quarters. While Madison's current vacancy rate of 6.3 percent remains elevated, it is one of the lowest in the country among midsize and major markets.

The flight-to-quality is a common theme in Madison, with companies such as Elephas Bio, a healthcare tech company, which leased 38,000 square feet at 1302 Deming Way. The 127,000 square foot building was built in 2007 and is in the Old Sauk Trails Business Park.

Madison tenants are gravitating toward smaller, higher-quality office spaces, weakening demand in the market. Despite shrinking space needs, vacancies have largely stabilized, hovering between 5.5 and 6.0 percent since the second quarter of 2021, thanks to a lack of spec supply additions and the ceasefire of companies making office closure announcements that contributed to the spike in vacancies seen in 2021.

New construction presents little concern to the market. Currently, only 360,000 square feet of space is under construction, representing just 0.9 percent of the total inventory in the market. While development has leaned toward owner-occupied and build-to-suit developments in recent years, a small increase in spec projects has been observed.

The relative stability of Madison's office market has proven advantageous to property owners in the area, who have more leverage since the onset of the pandemic with setting lease rates compared to the national average. The delta in annual rent growth reached its widest point in the first quarter of 2022, when Madison's rate of growth of 3.8 percent outpaced the national average by 230 basis points. The current annual rent growth of 1.4 percent continues to outpace the nation, but that delta has considerably shrunk.

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Building
Stafford Rosenbaum, LLP	29,620 SF	Central Campus	Renewal	Office
Global Coin	14,028 SF	S. Central Madison	Sale	Office
Psychology Center	13,642 SF	Southwest Madison	Renewal	Office

Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent (\$/SF)	Submarket
1.0%	▼	\$19.84	Outlying Dane East
6.6%	▲	\$21.09	S. Central Madison
8.4%	▼	\$22.15	Southwest Madison
6.9%	▼	\$22.31	Northwest Madison
4.3%	▼	\$23.29	Near West Madison
0.9%	▲	\$23.57	Outlying Dane West
12.6%	▲	\$24.81	Northeast Madison
5.4%	▼	\$25.70	Central Campus