

Market Report

Madison's office market was on solid ground heading into the pandemic thanks to few speculative under construction projects, tight vacancies, and an already affordable rental market. Vacancy compression has been strong over the past decade, but the market has experienced vacancy softening over the past few quarters due to several move-outs and some minor new speculative supply additions. However, this impact has been relatively mild and the current average market vacancy rate of 5.8% remains well below the national average of 12.3%.

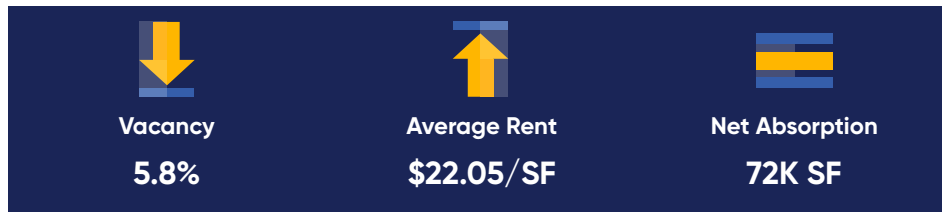
Most notably, Block 1 of the \$300 million Madison Yards development broke ground in 21Q4. The 165,000-SF office building will be home to the State of Wisconsin Investment Board, which signed on for close to 90,000 SF. Construction on the office building is set to complete in spring of 2023, but further phases will see additional offices as well as apartments, hotels, and retail built over the next several years.

Meanwhile, rent growth in the market remains muted compared to historic averages, but overall investment activity has picked up in recent quarters. Total sales saw a notable increase in 2021 thanks to a sharp uptick in the total number of transactions, but the bulk of deals continue to skew toward smaller investment deals and owner user transactions as institutional investors have been less active than in years past. Perhaps most telling of current office market conditions, the top two sales of 2021 were for planned conversions and redevelopments as older and outdated space becomes increasingly difficult to relet.

Occupier's Perspective



The pandemic has put a dampener on leasing activity and overall demand, resulting in weakened absorption levels since mid-2020. The market has now experienced negative absorption in five of the last six quarters, driving vacancies up to five-year highs. Despite this increase, Madison's current average vacancy rate of 5.8% remains one of the lowest in the country among major markets.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$23.94	Central Campus 5.9%	▲ 1.9%
\$21.54	Northeast Madison 9.6%	▲ 2.1%
\$23.92	Northwest Madison 6.9%	▲ 1.8%
\$21.59	Near West Madison 1.8%	▲ 1.6%
\$20.62	S Central Madison 6.9%	▲ 2.0%
\$22.54	Outlying Dane West .7%	▲ 1.2%
\$21.41	Southwest Madison 8.3%	▲ 1.7%
\$19.26	Southeast Madison 6.3%	▲ 2.5%
\$19.40	Outlying Dane East .7%	▲ 2.6%

Market Trends



Looking ahead, as office employers re-evaluate future space requirements amid growing work-from-home trends and a general push toward smaller and more efficient spaces, this could continue to have an impact on investment trends in the coming quarters.

New supply remains limited, with roughly 420,000 SF of space underway, representing just 1.1% of the total inventory in the market. Development has heavily leaned toward owner occupied and build-to-suit developments, but an uptick in speculative projects has been observed. Despite an overall weakened demand environment that has seen leasing levels trend well below pre-pandemic averages, demand for newer, higher quality, and more efficient space remains. Government agencies have been a large driver of this flight to quality, anchoring two of the largest speculative developments in recent years.

Recent Transactions

Tenant	Size	Submarket	Type	Address
1 Arrowhead	572,814 SF	Madison	Development	6591 County Highway M
2 Breakaway Sports	46,000 SF	Madison	Sale	5964 Executive Dr.
3 Elephas	38,286 SF	Madison	New Space	One Erdman Place
4 Eatstreet	5,259 SF	Madison	New Space	660 S. Whitney Way
5 Quest Consulting	4,873 SF	Madison	New Space	440 Science Dr.