

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 and absorption continues to outpace new supply in the market, even in the midst of the pandemic. The current market vacancy rate of 4.3% remains well below the national average of 10.9%. New supply is limited and few projects have broken ground this year. Fortunately, the few deliveries that have occurred so far this year have typically been build to suit, such as the new 138,000 SF corporate headquarters for Exact Sciences. Because of this, future supply side shocks are unlikely in the market and vacancies are projected to continue dropping in the long term.

Coming off one of the strongest years on record for investment activity in the market, 2020 got off to a decent start with more than \$25 million in sales volume recorded. Since then, sales have fallen considerably, registering just over \$3 million in the second quarter. Smaller investment deals and owner user transactions are still occurring, but larger deals are becoming even more heavily scrutinized by investors during these uncertain times.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$20.21	Milwaukee Class A 9.1%	▲ .20%
\$17.15	Green Bay Class A 11.00%	▲ .65%
\$19.14	Appleton Class A 9.8%	▲ 1.6%
\$15.03	Eau Claire Class A 4.6%	▼ .6%
\$15.62	Racine Class A 5.9%	▲ .3%
\$17.19	La Crosse- Onalaska Class A 2.9%	▲ 1.2%
\$15.73	Janesville-Beloit Class A 2.4%	▲ .6%
\$16.55	Sheboygan Class A 4.5%	▲ 2.7%
\$17.58	Wausau Class A 10.8%	▲ .9%

Recent Transactions

Tenant	Size	Submarket	Type	Address
1 Arrowhead	100,156 SF	Madison	Expansion	500 S Rosa Rd
2 Second Harvest Foodbank	28,400 SF	Stoughton	New Space	1600 Williams Drive
3 RSM US, LLP	12,682 SF	Middleton	Renewal	8020 Excelsior Drive
4 Foth Van & Dyke	6,980 SF	Madison	Renewal	5117 West Terrace Drive
5 Grace Coffee	3,352 SF	Middleton	New Space	1824 Parmenter Street

Occupier's Perspective



The coronavirus pandemic has put dampener on leasing activity in the market but the typically low volume of speculative supply additions have prevented any major increases in vacancies. Combined with several recent build-to-suit developments, such as Exact Sciences' new 138,000 SF headquarters location, these developments continue to add to the total occupied space of the market, further chipping away at vacancy rates.



Vacancies stood at just over 4.0% in the second quarter, more than half the national average. Of the more than 100 markets in the country that have total office inventories greater than 20 million SF, Madison's office market has the lowest overall vacancy rate.

Market Trends



Rent growth slowed in 2019, primarily from rent losses in 3 Star inventory. This slowdown followed strong gains in 2018 where 3 Star rents grew by more than 7%. Current market rent growth of 1.8% remains below the 5 year average of 3.3% and is anticipated to continue dropping in the coming quarters as leasing volume slows due to the coronavirus.

Gains have been strongest in the Northwest Madison and Northeast Madison submarkets in recent years. While the pace of growth has been almost identical between the two, properties in the Northwest Madison Submarket still command asking rents roughly 12% higher than in the Northeast Madison Submarket