

MARKETBEAT MADISON

Office Q2 2024

YoY Chg 12-Mo. Forecast

10.3%
Vacancy Rate



-155K
YTD Net Absorption, SF



\$23.90
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2024

YoY Chg 12-Mo. Forecast

426.6K
Madison
Employment



2.4%
Madison
Unemployment Rate



4.1%
U.S.
Unemployment Rate



Source: BLS, Moody's Analytics
Q2 2024 data are based on latest available data.

ECONOMY

As the state capital of Wisconsin and the home of the University of Wisconsin-Madison, government and education-related jobs have historically comprised the base of the local economy. Situated in Dane County, which boasts the fastest-growing county population in Wisconsin, the region has witnessed significant economic growth, driven by a diverse range of industries, including biotechnology, information and health technology, agribusiness/food, and precision manufacturing. Metro Madison's unemployment rate increased by 15 basis points (bps) year-over-year (YOY) to 2.4%, while overall employment in the region rose by 0.9% YOY.

MARKET OVERVIEW

The Madison office market's overall vacancy rate remained unchanged YOY at 10.3%, continuing a trend of stabilized market vacancy between 9-11% since the beginning of 2021. In the second quarter of 2024, the market experienced negative absorption of -22,956 square feet (sf), bringing year-to-date (YTD) totals to -154,523 sf. Despite stability in most submarkets, the Northwest/Middleton submarket saw the largest reduction in occupied space in 2024, with -154,059 sf of YTD negative absorption, primarily due to large corporate users vacating.

There were 42 lease transactions totaling 193,090 sf of leased space (new leases and renewals) in Q2, bringing YTD totals to 313,384 sf, a 14.7% increase YOY. However, new leasing activity decreased by 3.7% YOY, driven by fewer large users in the market for space and an increase in tenants with space needs of 5,000 sf or less.

Despite demand for Class A space, vacancies from large tenants increased Class A vacancy by 190 bps YOY to 12.7%. Class A absorption totaled -28,863 sf in Q2, bringing YTD totals to -80,188 sf. However, YTD Class A absorption in the CBD was positive at 16,298 sf, compared to -96,486 sf in non-CBD submarkets where most large tenant vacancies occurred. The lack of large tenants in the market led to a 12.2% YOY decrease in YTD new Class A leasing activity overall.

The overall market asking rate increased by 1.3% quarter-over-quarter (QOQ) to \$23.59 gross per square foot (psf). Asking rental rates have grown by 4.5% YOY, driven by inflationary effects on NNN expenses, along with continued demand for high-quality Class A space. Class A asking rates have increased by 3.2% YOY to \$26.49 psf.

OUTLOOK

Tenants in Madison's office market currently hold the advantage, showing little urgency to sign new deals given the plentiful options that meet their size requirements. They are more inclined to renew existing leases or downsize, rather than deal with uncertainties regarding space needs in the hybrid work era or rapidly increasing tenant improvement (TI) construction costs. Property owners with leases from large corporate tenants will face significant challenges in backfilling space in a market increasingly dominated by smaller tenants. However, owners across all building classes could see increased concessions to attract new tenants.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL AVAIL (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Madison Isthmus / CBD	3,600,164	502,953	339,297	9.4%	-6,443	-27,068	45,252	0	\$27.07	\$28.93
CBD TOTALS	3,600,164	502,953	339,297	9.4%	-6,443	-27,068	45,252	0	\$27.07	\$28.93
Near West Madison	3,538,593	350,547	183,775	5.2%	13,508	12,391	37,679	0	\$21.39	\$26.51
Northeast	2,587,123	538,341	329,650	12.7%	-7,438	1,157	62,039	0	\$21.19	\$22.31
Northwest / Middleton	4,111,627	1,288,901	626,047	15.2%	-20,685	-154,059	121,205	0	\$26.45	\$26.25
South Central	1,396,918	239,890	94,826	6.8%	1,918	-917	15,874	0	\$19.79	\$22.45
Southeast	502,402	95,567	62,678	12.5%	-2,876	17,778	23,238	0	\$15.84	N/A
Southwest	664,988	82,565	49,292	7.4%	-940	-3,805	8,097	0	\$23.91	\$24.10
NON-CBD TOTALS	12,801,651	2,595,811	1,346,268	10.5%	-16,513	-127,455	268,132	0	\$22.92	\$25.52
MADISON TOTALS	16,401,815	3,098,764	1,685,565	10.3%	-22,956	-154,523	313,384	0	\$23.90	\$26.49

BUILDING CLASS	INVENTORY (SF)	AVAILABLE SPACE (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT *
Class A	7,005,772	1,957,369	890,688	12.7%	-28,863	-80,188	179,396	0	\$26.49
Class B	8,958,130	1,102,723	756,205	8.4%	5,907	-57,985	133,323	0	\$21.57
Class C	437,913	38,672	38,672	8.8%	0	-16,350	665	0	\$17.58

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1800 Deming Way, Middleton	Northwest / Middleton	Sentry Insurance	70,781	Renewal & Expansion
1 S Pinckney Street, Madison	Madison Isthmus / CBD	HNTB	15,208	New
1242 Fourier Drive, Madison	Northwest / Middleton	Wisconsin Early Autism Project	9,733	New
8020 Excelsior Drive, Madison	Northwest / Middleton	Greenwood State Bank	6,531	New

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	BUYER / SELLER	SF	PRICE / \$ PSF
Pond I & II - 8309-8313 Greenway Boulevard, Middleton	Northwest / Middleton	Galway Companies, Inc / Artis REIT	29,536	\$2.2M / \$73

KEY CONSTRUCTION COMPLETIONS YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT(S)	SF	OWNER / DEVELOPER
N/A				

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