CARW
COMMERCIAL ASSOCIATION OF REALTORS®

2022 MID-YEAR SENTIMENT REPORT

PREPARED BY:

COMMERCIAL ASSOCIATION OF REALTORS

Introduction and Methodology:

CARW (Commercial Association of REALTORS Wisconsin) represents Commercial Real Estate brokerage in Wisconsin. Over 500 Wisconsin licensed REALTORS® are members of the Association. Members of CARW market and represent more than 29.5 MSF of commercial real estate available for sale and nearly 66.2 MSF available for lease in Wisconsin.

In 2022, the CARW Board of Directors set out to capture the sentiment of the industry broadly by asking members a set of questions trackable over time. The purpose of the survey is to capture insights that are not always reflected in the quarterly Moody's / Catylist reports.

- The 2022 Mid-Year release represents answers to questions about the past six months (Q1/Q2) and was conducted in Q2, 2022.
- The survey was sent to 498 Wisconsin Commercial REALTORS. 105 members completed the survey. They represent the following sectors: industrial, office, retail, land, multi-family and property management. The completed surveys represent 21% of CARW licensed REALTORS®.
- 68% of respondents indicated that they have been working in commercial real estate for more than five years. This suggests that respondents are experienced and have seen market cycles.

Respondents are conducting business across the state of Wisconsin*:

- 88% conduct business in the 7-county region (Milwaukee, Washington, Waukesha, Kenosha, Racine, Ozaukee, Walworth)
- 31% conduct business in the Madison Market
- 31% conduct business in the Fox Valley Market
- 24% conduct business in the Sheboygan Market
- 25% conduct business in the Green Bay Market

*note respondents could indicate multiple markets

The findings will be collected at the end of Q4, 2022 for the "Year-End 2022" Report that will also capture sentiment for the next six-months. We will do a comparative analysis and track changes to member sentiment over time.

Members of the Survey committee include:

Andy Hess; Founders 3 Commercial Real Estate
Tracy Johnson, RCE, CAE; CARW
Jim Larkin, SIOR; Colliers
Jenna Maguire; Founders 3 Commercial Real Estate
Marnie Noel; Noel Real Estate Advisors
Scott Satula; Mid-America Real Estate
Travis Tiede, SIOR; NEWMARK

About CARW: The Commercial Association of REALTORS® Wisconsin (CARW) works to advance the interests of individual practitioners and the commercial real estate industry through education, professional development, public affairs & advocacy, professional standards & ethics, and business networking. CARW supports more than 900 commercial real estate professionals at 400 companies in Wisconsin and the region.

Results:

Q1: How does current leasing activity compare to past six months?

51% = higher
35% = lower

Q2: How do current rents compare to past six months?

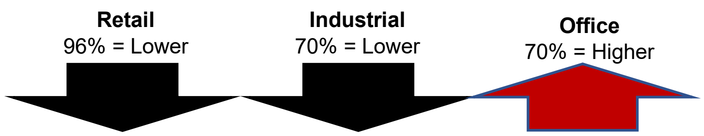
74% = higher
24% = lower
→ 99% of industrial respondents = higher

Q3: Are you currently discounting rents?

78% = no
22% = yes
→ 31% of office respondents = yes

Q4: How does current availability of space compare to the past six months?

24% = higher
56% = lower
19% = no change
→ 70% of industrial respondents = lower
→ 70% of office respondents = higher
→ 96% of retail respondents = lower



Q5: How does current sublease space availability compare to past six months?

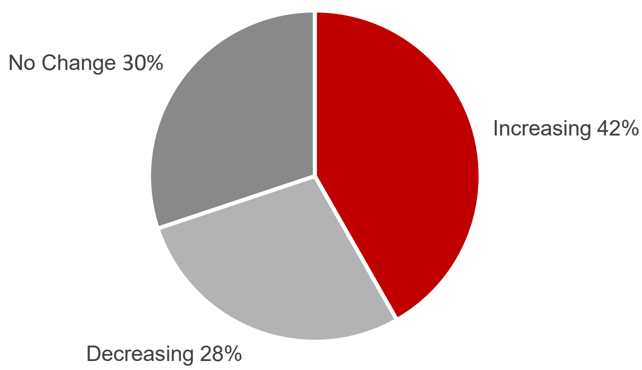
40% = same
30% = higher
30% = lower
→63% of office respondents = higher

Q6: For leasing, describe lease term lengths as compared to past six months?

45% = no change
34% = somewhat longer
20% = somewhat shorter

Q7: How is development activity compared to the past six months?

42% = increasing
28% = decreasing
30% = no change
→56% of industrial = increasing



Q8: How do current site acquisition costs and cost of construction compare to the past six months?

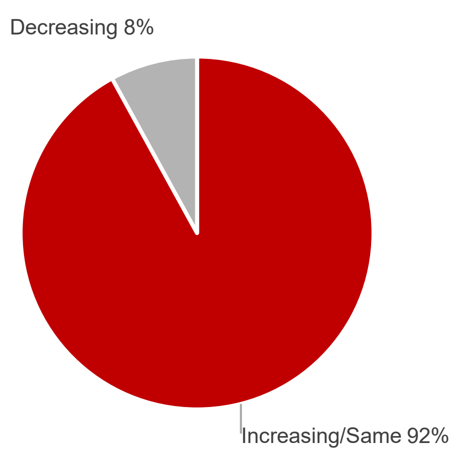
94% = higher

Q9: How do you view current investment pricing conditions compared to replacement costs?

36% = discount to replacement cost
46% = premium over replacement cost
18% = equal to replacement cost

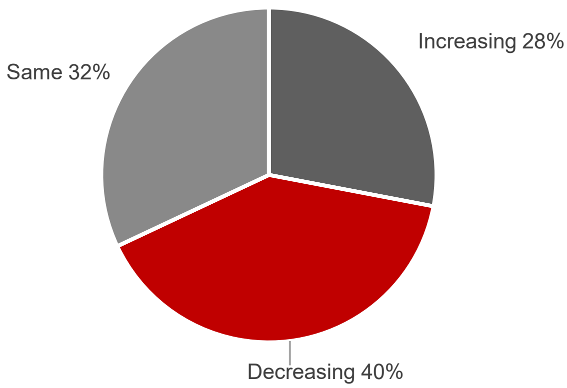
Q10: How does current investor activity compare to the past six months?

92% = increasing or staying the same
8% = decreasing



Q11: How do current cap rates compare to cap rates the past six months?

40% = decreasing
32% = staying the same
28% = increasing

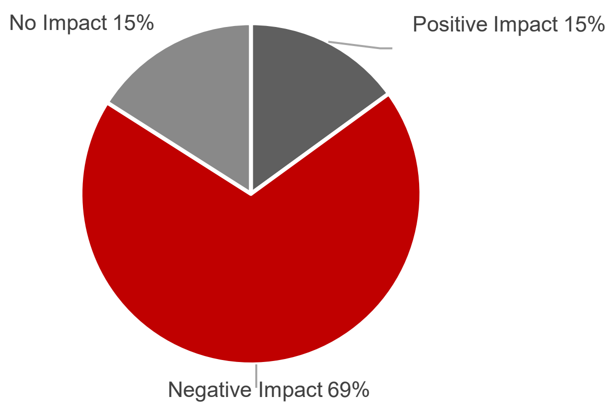


Q12: How do economic conditions today compare to the past six months?

67% = weaker
17% = stronger
16%= no change

Q13: What impact do you expect the economy to have on the CRE market in the upcoming quarter?

69% = negative impact
15% = positive impact
16% = no impact



Q14: Many economic factors will be impacting CRE over the next six months:

- **Rising Interest rates:** 94% = negative impact ↓
- **Cost of Construction:** 92% = negative impact ↓
- **Supply Chain Disruptions:** 84% = negative impact ↓
- **Affordability:** 81% = negative impact ↓
- **Political Environment:** 72% = negative impact ↓
- **Work from home / workforce mobility:** 71% = negative impact ↓
- **Capital Markets:** 48% = neutral or positive impact ↔
- **ESG Regulations:** 48% = no impact | 40% = negative impact ↔ ↓

Comments:

Several survey participants were asked to submit feedback on the data post-data collection.

- There are a lot of headwinds for the **office market** (working from home, gas prices, construction prices, growing availability) and while activity is up – it is yet to be seen if this uptick in activity is going to translate into 'pre-COVID quality signed leases' or if the activity is simply more tenants exploring the market and/or signing shorter term leases for less space to see when the economy gets better, or at least stabilizes.

- **Asking rents are remaining steady**, but effective rents are dropping due to the increased construction costs

- More availability/vacancy doesn't mean that transaction volume/activity will go down. **Even if more space is coming to market via direct vacancy or sublease, tenants are moving, which leads to transactions.**

- While the southeastern Wisconsin office vacancy rate is up, deal volume is getting back to pre-pandemic levels and although companies are generally downsizing to accommodate a hybrid work model, **we are still seeing firms commit to long term leases.** The increased vacancy rate creates landlord competition however, primarily due to high construction costs; rental rates are remaining relatively the same. **What we are seeing are larger incentive packages in the form of free rent and/or increased tenant improvement packages to accommodate the higher cost of construction.**

- The fact that rents are holding steady, and activity has increased despite the headwinds of rising construction costs and concerns over the economy in the near term is a testament to how much **people want to be back in the office**.

- Over the course of 2020 and 2021, many companies seemed to be looking for ways to avoid making decisions about or making investments in their office space. In 2022, it feels the opposite**.** Despite challenges with supply chain, construction costs, and the economy, **tenants are moving forward with both long-term decision making and major investments in their space.**

- **The market is trying to juggle inflation risks while trying to forecast future demand.**

- **Historically low cap rates and increases in interest rates are not impacting the demand for industrial investment properties**.

- **Higher leasing activity is forcing vacancy rates to all-time lows in some asset types**. This is pushing lease rates up and even spurring new development because of limited options for tenants. This also corelates to the higher lease rates because even though they are higher than we have seen in the past few years, they are still lower than the cost of leasing new construction. As a result, landlords can demand longer lease terms because of limited availability in certain markets, and multiple prospective tenants competing for vacancies.

- **Investors have been paying very low CAP rates due to limited product on the market and affordable interest rates.** Most good investment deals do not even hit the market due to the large pool of buyers and ability to put deals together when they are found. With interest rates now increasing, I would expect sale prices to get pushed down compared to what we have been seeing.

- Investors will still be in the market looking to place the cash they are sitting on into solid deals. **We continue to see a strong underlying current and demand for commercial real estate.**

- The investment market of Wisconsin continued to set record sale prices with low capital costs and increasing rental rates, especially in the multi-family and industrial sectors. With the cost of construction and **hefty demand from institutional buyers, we foresee a continued strong investment market in Wisconsin**.

Next Steps:

CARW will evaluate the reaction and success of the 'Mid-Year 2022' Survey and conduct a similar survey with the same questions at the end of Q4 2022 for a 'Year-End 2022' Survey. We will report trends as they emerge. If you would like to be contacted for anonymous comment or to offer feedback, please email CARW at tracy@carw.com