



The Middle of the Market Is Tightening: Why Falling Class B Vacancy May Matter More Than the Headline Number

EXECUTIVE SUMMARY

Milwaukee's multifamily market continues to tighten, with overall vacancy falling to **4.1%** as absorption continues to outpace new deliveries. But the headline vacancy rate may not be the most important signal. Vacancy in Milwaukee's 3-Star properties has fallen to just **3.3%**, while 1 & 2-Star vacancy remains similarly tight at 3.5%.

The trend is particularly visible in established submarkets. Downtown Milwaukee's 3-Star (Class B) vacancy has fallen to **4.0%**, while Shorewood/Whitefish Bay's stands at just 2.1%. As recently delivered Class A apartments continue to lease, tightening vacancy in the existing housing stock suggests renter demand is extending well beyond newly constructed properties.

KEY INSIGHT

The strongest signal in Milwaukee may not be falling overall vacancy. It may be where vacancy is falling.

New Class A developments naturally create temporary vacancy as hundreds of apartments enter the market and move through lease-up. Existing Class B inventory behaves differently: relatively little of it is being created, making changes in vacancy a useful indicator of demand for the existing housing stock.

Milwaukee's declining Class B vacancy suggests today's improvement is becoming broader than the absorption of recently delivered apartments. **Demand is increasingly tightening the middle of the market.**

MARKET FUNDAMENTALS SNAPSHOT

Milwaukee

Milwaukee continues to strengthen, with approximately **2,897 units absorbed compared with 1,194 deliveries** over the past 12 months. That imbalance has helped overall vacancy decline 140 basis points year over year to **4.1%**, while asking rents have grown 2.7%.

Milwaukee Market Stats			
	Milwaukee MSA	Downtown	Shorewood
Inventory:	124,953 ↓	19,221 ↓	2,446 ↓
Asset Value:	\$20.2 billion ↑	\$4.3 billion ↓	\$376 million ↑
Under Construction:	4,318 ↓	811 ↓	0
12 Mo Absorption:	2,897 ↓	744 ↓	40 ↓
Vacancy Rate:	4.1% ↓	4.7% ↓	3.2% ↓
Class-A Vacancy Rate:	6.8% ↓	5.4% ↓	4.6% ↓
Class-B Vacancy Rate:	3.3% ↓	4.0% ↓	2.1% ↓
Market Asking Rent/Unit:	\$1,513 ↓	\$1,715 ↑	\$1,530 ↑
Annual Rent Growth:	2.7%	2.3% ↓	3.9% ↓
12 Mo Sale Volume:	\$582 million ↑	\$137 million	\$19 million ↓



MARKET FUNDAMENTALS SNAPSHOT (cont.)

Milwaukee (cont.)

The composition of that improvement is particularly notable. **3-Star vacancy has fallen to 3.3%**, while 1 & 2-Star vacancy stands at 3.5%. Downtown Milwaukee reinforces the trend, where 3-Star vacancy has fallen to **4.0%**, down 170 basis points year over year. Tightening across existing inventory suggests Milwaukee's improving fundamentals extend beyond the lease-up of newly delivered Class A apartments.

Madison

Madison continues to demonstrate meaningful renter demand, but its larger construction cycle is keeping vacancy elevated. Approximately **2,391 units were absorbed over the past year**, but 3,879 new apartments were delivered, pushing overall vacancy to **7.7%**.

The pressure extends across property classes, with 3-Star vacancy at **8.0%** and 4 & 5-Star vacancy at 9.2%. Madison therefore provides an important contrast to Milwaukee: strong absorption alone does not create a tight market when new supply is arriving even faster.

The balance between demand and deliveries remains the key variable.

Madison Market Stats	
Inventory:	84,078 ↓
Asset Value:	\$16.3 billion ↑
Under Construction:	2,998 ↓
12 Mo Absorption:	2,391 ↑
Vacancy Rate:	7.7% ↑
Class-A Vacancy Rate:	9.2% ↑
Class-B Vacancy Rate:	8.0% ↑
Market Asking Rent/Unit:	\$1,660 ↓
Annual Rent Growth:	0.4%
12 Mo Sale Volume:	\$366 million ↓

Racine

Racine's headline vacancy rate has improved to **8.0%**, with 396 units absorbed against 600 deliveries over the past year. More recently, the market absorbed 130 units during the current quarter with no new deliveries, providing an opportunity for existing inventory to begin working through elevated vacancy.

Conditions vary considerably by property class. Vacancy remains elevated at **16.8% for 4 & 5-Star properties and 10.9% for 3-Star assets**, while 1 & 2-Star vacancy is just **3.5%**. Racine illustrates why headline vacancy can obscure very different supply-demand conditions within the same market.

Racine Market Stats	
Inventory:	9,831
Asset Value:	\$1.4 billion ↓
Under Construction:	626
12 Mo Absorption:	396 ↑
Vacancy Rate:	8.0% ↓
Class-A Vacancy Rate:	16.8% ↓
Class-B Vacancy Rate:	10.9% ↓
Class-C Vacancy Rate:	3.5%
Market Asking Rent/Unit:	\$1,359
Annual Rent Growth:	2.7% ↓
12 Mo Sale Volume:	\$46.7 million



MARKET THEMES

The middle of Milwaukee's market is increasingly tight.

Milwaukee's 3-Star vacancy of 3.3% is now below overall market vacancy. Downtown and Shorewood/Whitefish Bay show similar conditions, suggesting strength is increasingly evident across the existing apartment stock.

Headline vacancy doesn't tell the whole story.

Racine's 8.0% overall vacancy suggests a relatively soft market, but vacancy ranges from 16.8% in 4 & 5-Star properties to just 3.5% in 1 & 2-Star inventory. Property class can matter as much as the market-level number.

Supply and demand must be evaluated together.

Madison continues to generate substantial absorption, but deliveries have been even greater. Milwaukee's recent experience shows the opposite: as deliveries moderate and demand persists, vacancy can tighten quickly across multiple property classes.

INVESTOR PERSPECTIVE

Multifamily investors often begin with headline vacancy, but market-level statistics can conceal meaningful differences within the housing stock. New Class A supply, established Class B properties and older workforce housing can each experience very different competitive conditions within the same market.

For investors, understanding where vacancy is concentrated can be as important as the headline rate itself. Tightening Class B vacancy may provide a particularly useful signal because relatively little new inventory is being created in this segment. In Milwaukee, today's 3-Star vacancy suggests demand is increasingly competing for the existing housing stock, not simply filling newly constructed apartments.

INVESTMENT OUTLOOK

Milwaukee enters the next phase of its cycle with increasingly tight vacancy across its existing apartment stock. Downtown and Shorewood/Whitefish Bay reinforce that trend, while continued rent growth suggests demand remains healthy. Madison, by contrast, continues to work through a larger supply wave, while Racine's headline vacancy masks significant differences between newer and older properties.

The next phase of the cycle may increasingly be defined by what happens within individual property classes rather than at the market level. For investors, understanding where new supply competes—and where it does not—can provide a clearer picture of both risk and opportunity than headline vacancy alone.