RESEARCH Q2 2021

Chicago Industrial Market

Pandemic Fuels Record Quarter

Chicago's strongest performing asset type maintained its stellar performance this quarter. As the pandemic clouds cleared, the industrial leasing market was able to shine through. Thanks to record single-quarter absorption of 10 million square feet, the industrial market saw vacancy decline 20 basis points to 6.0%, also a new record. Availability fell 60 basis points to 8.4% as leasing volume continued to be extremely high. In fact, some tenants in flex industrial spaces are reporting landlords pushing them out in order to collect higher rents, forcing. some into Class C office properties. While these occurrences have not been common enough to impact the market yet, it is a trend to track.

Lion Electric signed the largest lease of the quarter for just over 900,000 square feet in Joliet. The truck maker says it will produce up to 20,000 electric yellow school buses and trucks each year at the facility, which is currently under construction. Kenco Logistics announced it will be taking over IKEA's current warehouse in Minooka. The logistics giant will be moving into the 850,000-square-foot warehouse later this year. As has come to be expected, Amazon announced plans for two new facilities this quarter. The online retailer will be building a new 630,000-square-foot warehouse in Huntley. In an effort to get closer to consumers, plans are underway to purchase the former Allied Metal facility at 1260 North Kostner Avenue in the Humboldt Park neighborhood of Chicago. Amazon will turn the facility into the ninth delivery station in Illinois bringing 500 new jobs. Orchard Gateway in Aurora scored its first tenant since its completion last year. Veritiv Corporation, a packaging company, will take 482,000 square feet of the 765,000-square-foot building.

Current Conditions

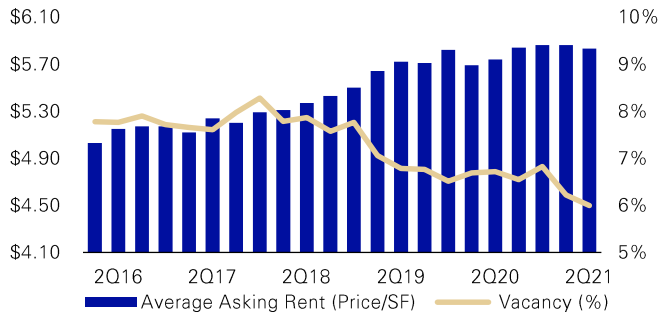
- Absorption hit a new high of 10 MSF.
- Vacancy recorded a decade low at 6.0%.
- Amazon continued to lease significant amounts of space in the market with two new deal announcements.
- Taking rents out paced asking rents in several submarkets.

Market Summary

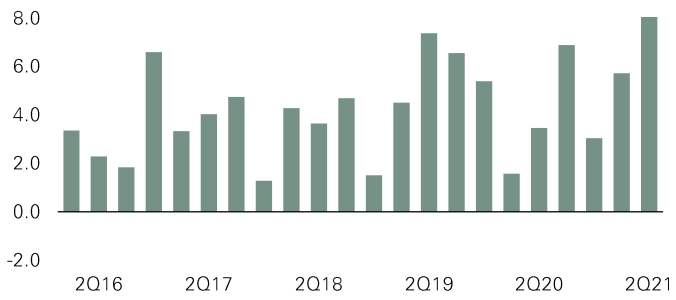
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	1.15B	1.15B	1.13B	↑
Vacancy Rate	6.0%	6.2%	6.7%	↓
Quarterly Net Absorption (SF)	10.06M	5.55M	3.45M	↑
Average Asking Rent/SF	$5.83	$5.86	$5.74	↑
Under Construction (SF)	16.8M	19.5M	13.8M	↑
Deliveries (SF)	3.1M	1.26M	4.8M	↑

Market Analysis

AVERAGE ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, MILLIONS)



This quarter, taking rents grew higher than asking rents in some submarkets. As vacancy has lowered, tenants are willing to pay premiums on spaces going above listed asking rates. This occurred in the West Cook I submarket, where the lease signed over 50,000 square feet averaged a rate of $7.11/SF, whereas the asking rate for available space was only $4.70/SF. This was the most significant difference but was present in five submarkets. In South Cook County, deals averaged $5.70/SF when the asking rate was $4.64/SF. In I-88, the asking rate was $5.18/SF and the average rate for closed deals was $6.41/SF. This is pushing some landlords not to post rents as a way to pressure tenants to come in above market averages. This trend also means that, in some cases, taking rents might be a better determinant of the market than asking rates. The market can expect rental rates to climb throughout the remainder of the year and into next year as the market adjusts for falling vacancy and rising construction costs.E-commerce giant Amazon, added 144,645 square feet to its vast Chicago leasing portfolio this quarter after signing a five-year lease at North Avenue Commerce Center in West Chicago. Akira Fashion announced a consolidation of several facilities and signed a lease with Prologis at 150 East Crossroads Parkway this quarter. The women's clothing company will occupy the entire 352,338-square-foot warehouse for the next five years.

Labor Market Struggles

Whether in the city or suburbs, employers across the U.S. are dealing with a tightening labor market after a year of layoffs. According to the Society for Human Resources Management, a case study it conducted showed that more than half of employees surveyed in North America plan to look for a new job in 2021. Typically, a high turnover rate is a sign of a strong economy and job market; with thousands of new positions being posted every day, employers will have a challenge ahead. In fact, according to BLS data, the average monthly quitting rate is 2.5%, higher than any other yearly average for the previous 10 years. In the industrial market where demand for some products returned quickly, employers have already been having a tough time finding labor, but now, couple with other sector shortages, there will be larger hurdles to cross.

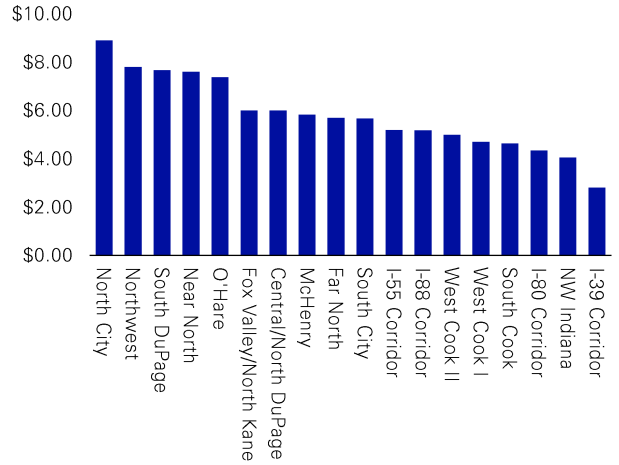
Rising Construction Costs

The U.S. is also facing a rising construction cost problem. The current shortage began at the start of the pandemic when factories worldwide halted production amid fears of a prolonged economic downturn. Yet demand for residential real estate and certain segments of the commercial markets flourished throughout much of the pandemic. This robust demand, combined with supply chain disruptions, natural disasters and labor shortages, has caused construction material prices in the U.S. to increase 23.8% over the past 12 months. These higher prices have been particularly tough on the industrial market. The market has experienced record-breaking amounts of new construction deliveries over the past decade, with 131.2 million square feet being completed and 30 consecutive quarters of more than 1 million square feet delivering. The accelerated demand for warehousing and logistics space created by the pandemic is in turn driving demand for new construction both by developers looking to build and tenants to seeking to move into new construction or complete build-to-suits. The current commodities shortage, soaring prices and long lead times are leaving many local developers to reconsider the scale and scope of their projects.

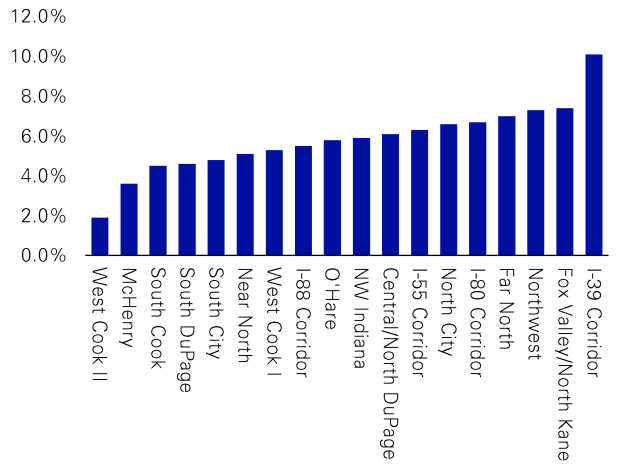
Investment Sales Remain Stable

Investment sales had a below average quarter with only $613.1 million done in deals, a decline of 13.1% year-over-year. In addition to lower total performance, the average price per square foot decreased by 35.7%. This quarter's low performance, coupled with first quarter's average performance, makes the total investment sales for the first half of 2021 $1.6 billion, less than half of 2020's first six months total. ML Realty Partners purchased a 32,500-square-foot Fulton Market warehouse for warehouse for $285/SF from Diamond Realty Holdings. The old Motorola Campus in Harvard went under contract with Green Data Center Real Estate. The four-building campus totals 1.5 million square feet. Amazon purchased the old Central Steel & Wire Plant from Ryerson Holdings for $325.0 million, or $23/SF. Low performance in the investment sales market has been common in the Chicago market over the past couple of quarters as investors have hesitancy; as the pandemic nears a hopeful end, expect the industrial market to be the first property type to make a full rebound in the sales department.

Average Asking Rent By Submarket



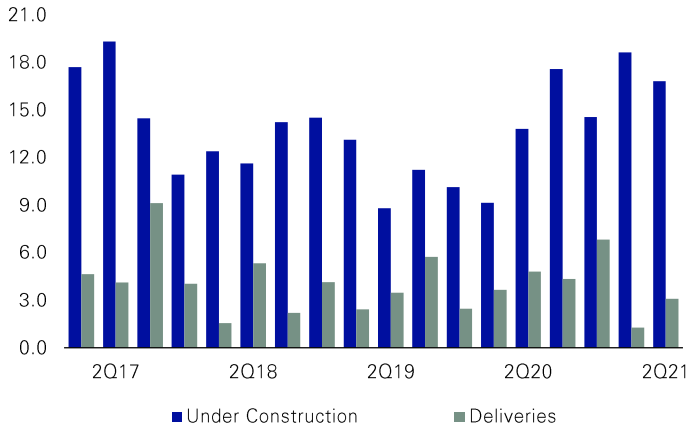
Vacancy By Submarket



Looking Forward

Demand for industrial space will likely surge throughout the remainder of the year and into 2022 as demand for ecommerce space continues. In addition to demand for ecommerce, the traditional retail market is picking up steam. This should translate in additional need for warehousing space. Chicago is poised to continue its historic performance on the construction front too, which is waiting on the construction pricing to course correct. Developers will need to adjust construction budgets and timelines to accommodate; with so much demand, no slowdown in development is expected anytime soon.

Construction and Deliveries (SF, Millions)



Lease/User Transactions

Tenant	Market	Building	Type	Square Feet
Lion Electric	I-80 Corridor	3835 Youngs Road	Direct	906,517
Kenco Logistic Services	I-80 Corridor	501 Internationale	Direct	849,691
Amazon	Fox Valley/North Kane	Freeman Road	Direct	629,186
Veritiv	I-80 Corridor	2000 Deerpath	Renewal	482,279
LG Electronics	I-80 Corridor	14746 Gougar	Renewal	363,224
Discount Tire	Fox Valley/North Kane	2451 Bath Road	Direct	326,272
Berlin Packaging	I-80	16230 W 163rd Street	Direct	302,588
Diamond Marketing	Central/North DuPage	900 Kimberly Drive	Renewal/Expansion	275,347
Signify	O'Hare	400 Busse Road	Renewal	179,586
Mac Wholesale	I-80 Corridor	425 Crossings	Direct	171,928

Select Sales Transactions

Buyer	Market	Building	Price Per SF	Square Feet
Green Data Center Real Estate	McHenry	2001 N Division Street	-	1,547,860
IRG, LLC	I-80 Corridor	2200 Channahon Road	$8	1,380,000
Synergy Flavors	South City	1465 W 37th Street	$22	465,900
Pritzker Realty Group	Far North	Badger Logistics Center (I)	$82	425,000
Exeter Property Group	I-55	1501 Remington Boulevard	$67	355,535
Black Creek Property Fund	Central/North DuPage	3005 4E Avenue	$230	259,835

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist. Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central/North DuPage	87,521,522	2,155,211	6.1 %	482,103	760,570	$4.71	$10.04	$6.00
Far North	122,888,515	2,879,489	7.0 %	1,994,120	2,887,033	$4.70	$8.90	$5.70
Fox Valley/North Kane	36,727,205	-	7.4 %	223,136	374,567	$4.87	$7.53	$6.00
I-39 Corridor	30,599,849	1,600,000	10.1 %	-312,750	-193,858	$2.77	$7.21	$2.81
I-55 Corridor	112,366,180	2,106,933	6.3 %	767,768	3,303,662	$4.94	$11.07	$5.20
I-80 Corridor	105,441,763	4,281,592	6.7 %	4,787,396	3,142,162	$3.61	$7.72	$4.35
I-88 Corridor	71,118,121	-	5.5 %	111,247	671,078	$4.18	$12.06	$5.18
McHenry	18,868,953	-	3.6 %	-37,023	-164,964	$6.33	$11.88	$5.84
Near North	54,851,581	-	5.1 %	69,858	240,861	$5.09	$11.83	$7.61
North City	72,600,430	-	6.6 %	208,943	-268,034	$7.08	$9.10	$8.91
Northwest	32,803,492	249,550	7.3 %	-385,475	174,063	$7.44	$8.95	$7.80
NW Indiana	22,993,237	-	5.9 %	285,421	468,513	$4.00	$10.00	$4.06
O'Hare	122,912,805	144,350	5.8 %	923,642	1,936,771	$6.04	$10.13	$7.38
South City	105,055,209	1,019,299	4.8 %	464,503	111,005	$6.84	$6.27	$5.68
South Cook	76,668,444	1,129,711	4.5 %	634,992	1,520,982	$4.32	$9.16	$4.64
South DuPage	8,814,737	-	4.6 %	-66,306	-105,901	$2.07	$12.37	$7.67
West Cook I	67,302,276	1,242,939	5.3 %	-91,547	176,589	$4.20	$8.35	$4.70
West Cook II	9,179,193	-	1.9 %	-	575,935	$5.00	-	$5.00
Total	1,158,713,512	16,809,074	6.0%	10,060,028	15,611,034	$5.08	$9.84	$5.83

Submarket Statistics By Subtype

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	457,734,491	13,975,359	7.1%	9,076,300	12,617,267	$5.90
Incubator	42,836,032	-	1.8%	68,827	197,856	$8.56
R&D/Flex	57,368,672	-	8.2%	77,167	221,293	$9.84
Warehouse/Distribution	600,774,317	2,833,715	5.3%	837,734	2,574,618	$5.08
Total	**1,158,713,512**	**15,611,034**	**6.0%**	**10,060,028**	**15,611,034**	**$5.83**

Economic Conditions

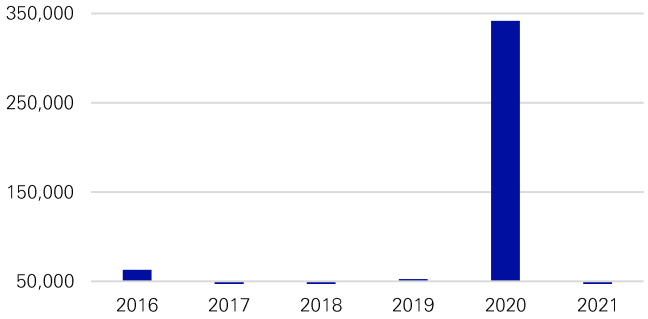
The pandemic has had a serious and long-lasting impact on the global and local economy. As the vaccine rollout continues, 63.0% of vaccine-eligible Americans are vaccinated and economic confidence is returning.

Chicago's unemployment rate also peaked in April 2020 at 16.4% but has since declined and held steady at 7.9% in April and May. While mass layoffs also recorded new highs, the number of job openings has hit record highs in June 2021. On a national scale there were 9.3 million openings, the highest number of openings since the BLS started tracking in December 2000. Unsurprisingly, the greatest increases were for accommodations and food services, which added 350,000 openings, other services, which added 115,000 openings, and durable goods manufacturing, which added 78,000 openings.

The city and metropolitan area will need to work together and be flexible in order to move forward through the recovery, which many are hoping will be faster than the 2008 recovery. There are challenges that the city was facing before the pandemic that will continue to be roadblocks, such as the state's fiscal situation and the Cook County tax issue. Chicago will have to lean on its position as a technology leader in the Midwest, transportation and warehousing hub and budding life science sector to help the long-term recovery.

Layoff Stats

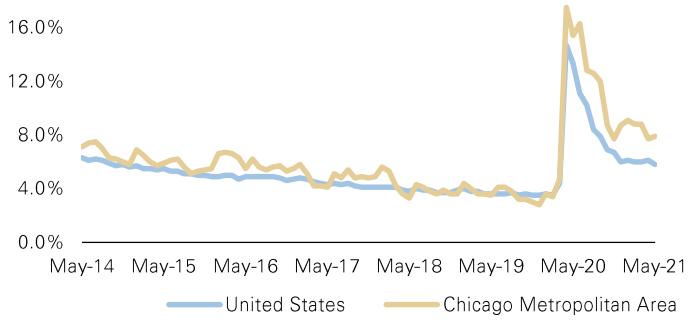
IL MASS LAYOFFS (INITIAL CLAIMS), FEBRUARY 2021



Source: Illinois Department of Employment Security, Economic Information and Analysis

Unemployment Rate

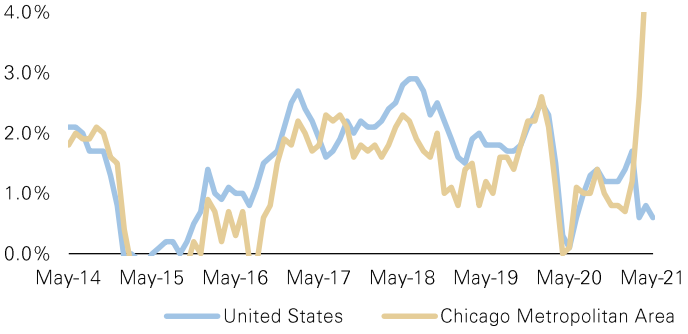
SEASONALLY ADJUSTED, FEBRUARY 2021



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

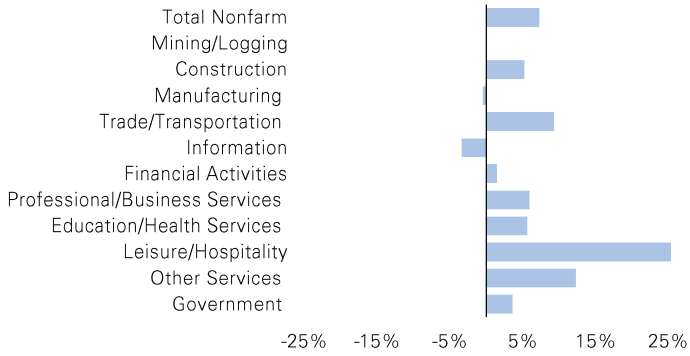
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



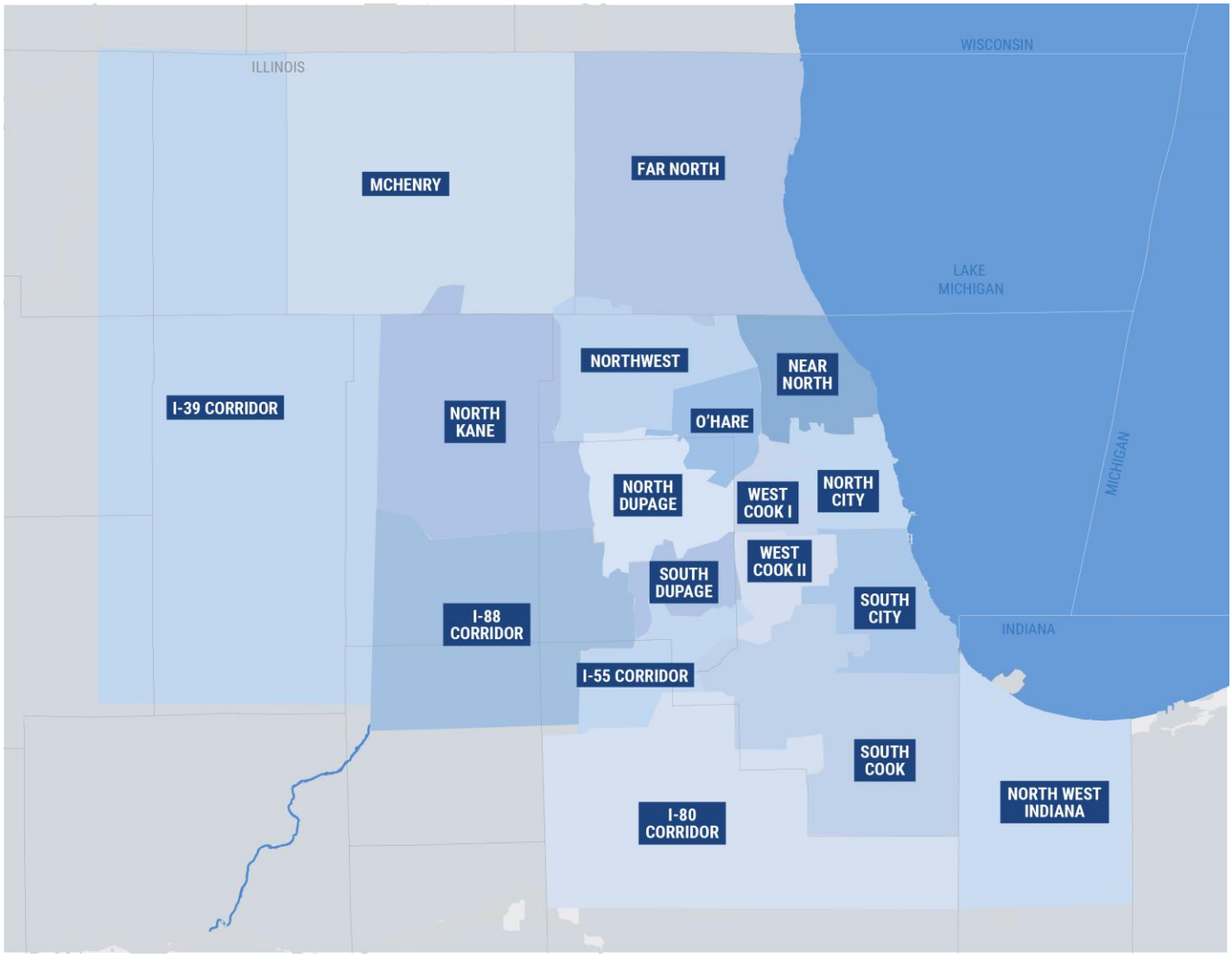
Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CHICAGO, MAY 2021, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics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