



Chicago Industrial Market

2022 Begins Another Strong Year for Chicago Industrial

Chicago's industrial market continues to set records and shows no signs of slowing. For another quarter, vacancy has hit record lows, falling 60 basis points this quarter and 180 basis points year-over-year to 4.4%. The historic run of positive quarterly absorption continues, with 10.8 million square feet of absorption in the first quarter of 2022. This is down from the previous few quarters, but with vacancy rates continuing to fall and renewals/extension still playing a large role in new deals, demand is greatly outweighing availability. Leasing volume reached 18.2 million square feet, pushing availability from 81.5 million square feet to 66.8 million square feet this quarter. Industrial construction continues to boom, despite no change in the material and pricing struggles as 25.1 million square feet are currently under construction and 2.3 million square feet of inventory has delivered so far in 2022.

Direct leasing velocity is higher than in previous quarters. The I-80 submarket dominated this quarter's leasing volume, with the largest deal of the quarter being Home Depot's direct lease at Bailly Ridge in Monee for 880,000 square feet. In Lockport, LG signed a new lease at Heritage Crossing for 543,000 square feet. Eaton Vance Corporation also signed a new deal in the submarket for 371,000 square feet at Internationale Centre business park in Woodridge. Outside of the I-80 market, SC Johnson & Son signed at Logiport 57-80 in Country Club Hills for 810,000 square feet. Symbia Logistics renewed and expanded into the full 453,000 square feet at Bolingbrook Corporate Center West, the largest renewal of the quarter.

Current Conditions

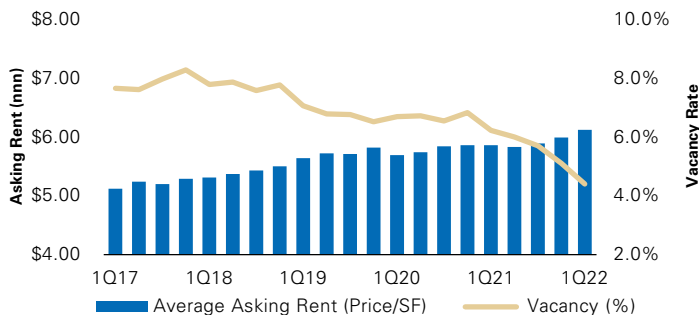
- Vacancy fell to a record low of 4.4% this quarter, a 1.8% year-over-year decline.
- 25.4 million square feet of industrial space is currently under construction.
- Taking rents increased by double digits from the end of 2021.

Market Summary

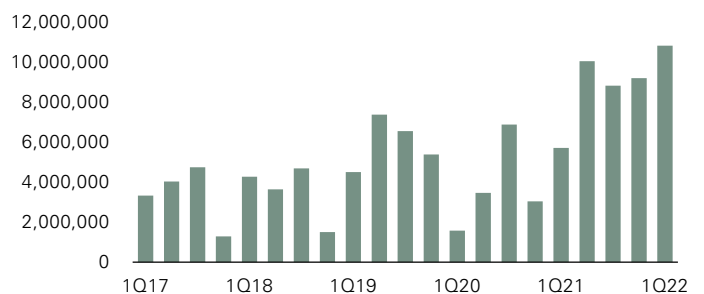
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	1.17B	1.16B	1.15B	↑
Vacancy Rate	4.4 %	5.0 %	6.2%	↓
Quarterly Net Absorption (SF)	10.84M	9.21M	5.47M	↑
Average Asking Rent/SF	\$6.12	\$6.02	\$5.91	↑
Under Construction (SF)	25.39M	18.34M	19.55M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Construction Still Booming

The task of catching up with industrial demand in Chicago has been a challenge, made more difficult by the impacts of COVID-19 on employment and supply chain constraints over the past two years. Deliveries slowed at the end of 2021, but the square footage of properties under construction hit record highs this quarter at over 25 million square feet. There is roughly 7.5 million square feet scheduled to begin construction this quarter. Only 1.0 million square feet have delivered so far.

The market’s demand for industrial space continues to be so robust that the high volatility for construction materials has not discouraged developers who hope to participate in the prosperous market. In fact, according to Mortenson Cost Index, construction costs for Chicago increased 2.6% quarterly and 16.1% over the past 12 months. In comparison to pre-pandemic prices, all major construction materials have increased, according to U.S. Bureau of Labor Statistics. Softwood lumber had the largest price increase, growing to 129.0% of its price in December 2019, while the smallest increase in that same period was construction machinery, up 11.0%. Longer material delivery times, in addition to higher prices, are continuing to push completion dates with newly planned construction completion dates now quoting end of 2024. Although construction of these properties has been pushed back, the trend for developers to pre-lease or pre-sell space has not returned. Developers continue to hold the belief that rents for industrial space will maintain growth. Many will not respond to sale or lease offers until the property nears completion.

Landlord Leverage

Industrial demand in the Chicago market has been a paradise for participating landlords. As vacancy rates continue to fall, rental rates continue to rise and new construction supply continues to lag, landlord leverage is at an all-time high. Tenant demand for space remains well above what is available; they are willing to pay higher rents, as well as accept fewer concessions in leases. While asking rent data has become a challenge to track due to landlord hesitancy to list an asking rate, taking rent data is showing rents increasing month-over-month. Taking rents increased \$0.15/SF just since the fourth quarter of 2021. This fast rise in taking rents has also meant some landlords are sending proposals back to tenants with higher

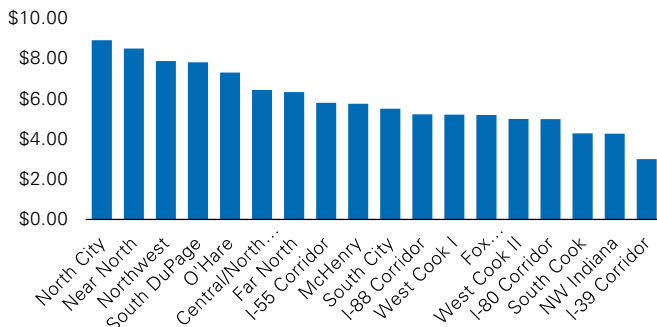
contract rates in as little as a week if the tenant hasn’t signed the contract already. This is pushing tenants into having to make faster decisions. Concessions have decreased in both tenant improvement allowance and abatement. Tenant improvement allowances on deals this quarter have dropped \$0.69/SF from the fourth quarter of 2021 to \$2.40/SF and \$0.31/SF year-over-year. Abatement has seen a similar decrease. This quarter, tenants signing new leases over 100,000 square feet with terms over five years have received three months of free rent, a two-month decrease from the five-month average for the same deal in the fourth quarter of 2021. Landlords are not only pulling back on concession packages in new deals, but additionally pushing typical landlord costs onto tenants. Many landlords have declined lease offers for demising space unless the tenant is willing to pay demising costs. The market has proven that in the time they wait for another offer, rents will have risen and another tenant with larger requirements will soon fill the space.

Investment Sales

Industrial sales to start 2022 have begun at a faster pace than 2021, totaling a 67.0% higher volume in the first two months than the same period last year. Average industrial cap rates have decreased 10 basis points since the previous quarter. The largest individual property sale this quarter was Exeter Property Group’s purchase of 916,000 square feet at Tinley Park Corporate Center for \$72/SF from Blackstone’s newly acquired Gramercy Property Trust. The largest overall transaction was the Taurus Investments Holdings portfolio purchase of 1,000,000 square feet over 15 Illinois properties for \$86/SF from Prologis. The second largest deal was Farallon Capital Management’s purchase of three properties totaling 814,000 square feet from Brennan Investment’s portfolio for \$94/SF. The warehouse market is a dream for many investors right now looking to deploy capital. This quarter, Hines, as trophy office tower landlords, closed on the purchase of 23 acres along the Chicago River in the popular Roscoe Village neighborhood. The property is currently home to tenants like Lil’ Kickers, Windy City Ninjas and Goldfish Swim School but could be a prime development site for tenants like Amazon in the future. Also joining the industrial world this quarter is Thor Equities. Long known as a retail owner, Thor Equities purchased a 6-acre site in Schaumburg where it plans to build a 109,000-square-foot industrial building.

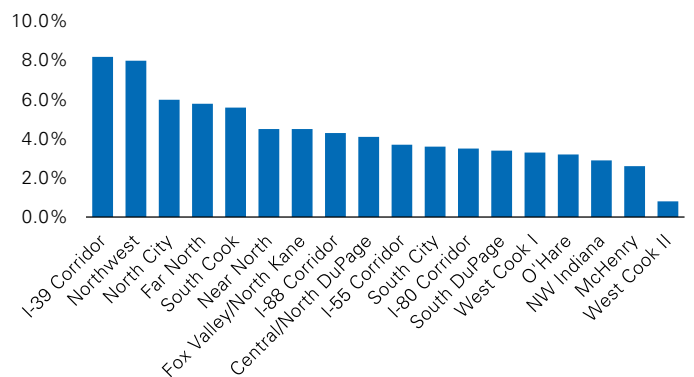
Average Asking Rent

BY SUBMARKET



Vacancy

BY SUBMARKET



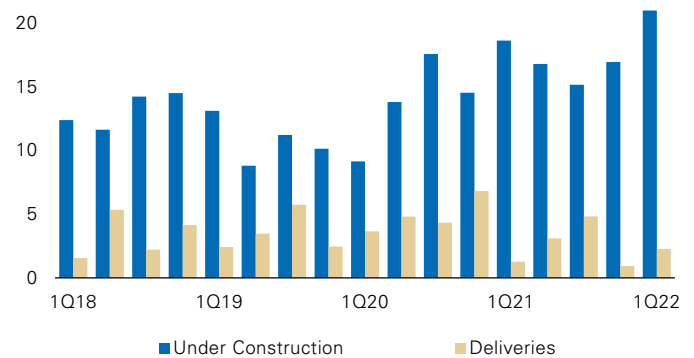
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Moving Forward

While there have only been 10 total quarters of negative industrial absorption since Newmark began tracking the statistic in the third quarter of 1999, this quarter marks the 48th straight quarter of positive absorption for the market, the longest period in our data. Record-setting absorption has led to record-setting vacancy rates; this quarter's rate of 4.4% is the lowest vacancy since Newmark began tracking the data. Moving forward, expect continued growth throughout the rest of 2022. With the global economic comeback now fully underway, expect demand to remain. The uncertainty of the COVID-19 situation in Asia, coupled with the conflict in Ukraine, means potential kinks in the supply chain. While online shopping sales were down in February due to the fastest growing inflation in 40 years, consumer confidence has not wavered. These factors will all contribute to continued demand for Class A facilities.

Construction and Deliveries

SF, MILLIONS



Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Home Depot	I-80 Corridor	25101 S Ridgeland Ave	Direct	879,040
SC Johnson & Son Inc	South Cook	0 Cicero Avenue	Direct	810,000
LG Electronics	I-80 Corridor	14532 S Gougar Rd	Direct	542,806
Symbia Logistics	I-55 Corridor	1150 115th St	Renewal/Expansion	453,090
Eaton Vance Corp.	I-55 Corridor	10000 Woodward Ave	Direct	370,973
Beko Technologies Corp.	I-55 Corridor	333 Gibraltar Dr	Direct	354,170
Weber-Stephen Products Co.	Fox Valley/North Kane	2708 Alft Lane	Renewal	319,043
Apex Logistics	O'Hare	IL Route 83 & Devon Ave	Direct	297,600
Kuehne & Nagel Inc.	O'Hare	IL Route 83 & Devon Ave	Direct	295,360

Investment Sales

Buyer	Submarket	Building	Price Per SF	Square Feet
Exeter Property Group	I-80 Corridor	18801 Oak Park Ave	\$72	915,643
Reich Brothers	South Cook	21800 S Cicero Ave	\$22	390,000
KKR	South Cook	1101 Arnold St	\$80	350,000
1600 Industrial Dr Owner LLC	McHenry	1600 Industrial Dr	\$42	267,134
Venture One	Far North	10221-10297 Co Hwy H	\$124	196,300
William R Lewellen Jr	Far North	5650 Centerpoint Ct	\$106	181,715

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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	89,317,422	1,370,412	4.1 %	891,698	891,698	\$4.83	\$10.37	\$6.44
Far North	125,622,838	2,345,334	5.8 %	1,142,290	1,142,290	\$5.34	\$9.90	\$6.34
Fox Valley/North Kane	37,190,411	2,064,136	4.5 %	228,888	228,888	\$4.14	\$7.38	\$5.20
I-39 Corridor	32,295,449	-	8.2 %	-154,871	-154,871	\$3.49	\$9.98	\$3.00
I-55 Corridor	114,602,207	2,395,093	3.7 %	4,796,237	4,796,237	\$4.96	\$11.95	\$5.80
I-80 Corridor	105,835,079	11,318,220	3.5 %	1,266,715	1,266,715	\$4.49	\$7.43	\$4.99
I-88 Corridor	72,103,443	1,160,969	4.3 %	1,148,041	1,148,041	\$4.44	\$10.74	\$5.23
McHenry	17,341,096	-	2.6 %	47,836	47,836	\$5.76	\$9.39	\$5.76
Near North	55,081,105	171,746	4.5 %	-64,394	-64,394	\$6.13	\$11.37	\$8.50
North City	72,260,632	-	6.0 %	-399,635	-399,635	\$7.14	\$9.05	\$8.92
Northwest	33,513,512	-	8.0 %	206,277	206,277	\$6.09	\$8.78	\$7.88
NW Indiana	23,317,211	511,238	2.9 %	363,971	363,971	\$3.72	\$10.00	\$4.27
O'Hare	123,101,082	1,312,344	3.2 %	639,748	639,748	\$5.44	\$10.07	\$7.31
South City	105,477,609	178,850	3.6 %	852,766	852,766	\$7.05	\$7.85	\$5.51
South Cook	77,627,470	1,688,650	5.6 %	-626,442	-626,442	\$3.79	\$9.81	\$4.28
South DuPage	8,814,737	126,445	3.4 %	32,510	32,510	\$2.95	\$12.61	\$7.82
West Cook I	67,072,387	744,904	3.3 %	366,667	366,667	\$5.06	\$9.36	\$5.22
West Cook II	9,041,193	-	0.8 %	100,000	100,000	\$5.00	-	\$5.00
Market	1,169,614,883	25,388,341	4.4 %	10,838,302	10,838,302	\$5.21	\$9.94	\$6.12

Economic Conditions

The pandemic has had a serious and long-lasting impact on the global and local economy. As the vaccine rollout continues, 66.0% of vaccine-eligible Americans are vaccinated. With Pfizer and Moderna both seeking approval for vaccines for kids under six, there is hope that April will bring a significant return to the office.

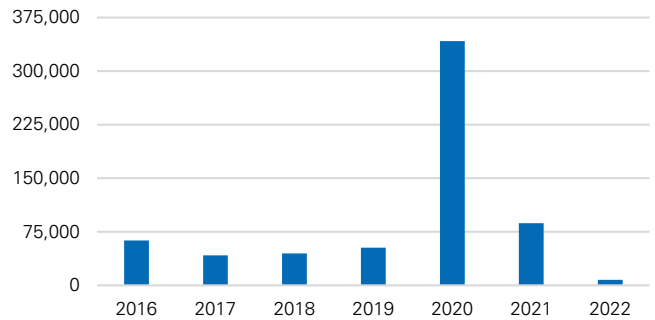
Chicago's unemployment rate fell 20 basis points in February from the start of the year to 4.9%, up 70 basis points from its lowest pandemic rate of 4.2% in December. Unemployment typically falls during the holidays as retail and hospitality increases staffing through the holiday season.

Job openings in the US hovered near-record level in February with 11.3 million available jobs, and the number of people quitting their jobs was also historically high, at 4.4 million.

The national economy has cooled somewhat as inflation has risen at its fastest rate in 40 years, 6.1% year-over-year in January. In February, retail sales increased by only 0.3%, below the estimate. Online sales fell the most, declining by 3.7%.

Layoff Statistics

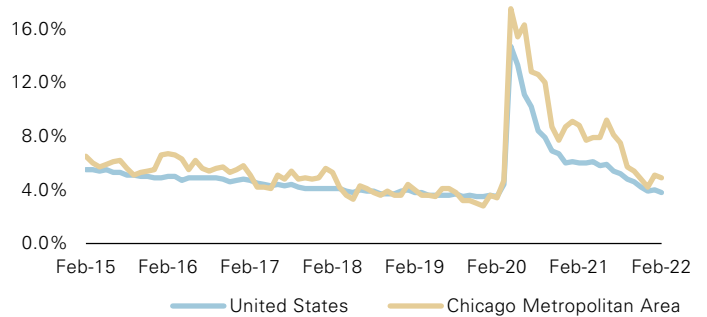
IL MASS LAYOFFS (INITIAL CLAIMS), FEBRUARY 2022



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

Unemployment Rate

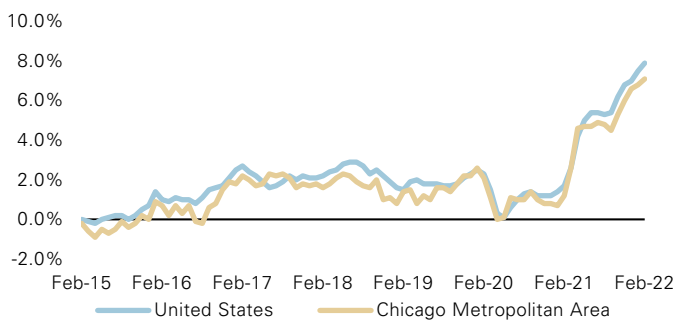
SEASONALLY ADJUSTED, FEBRUARY 2022



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

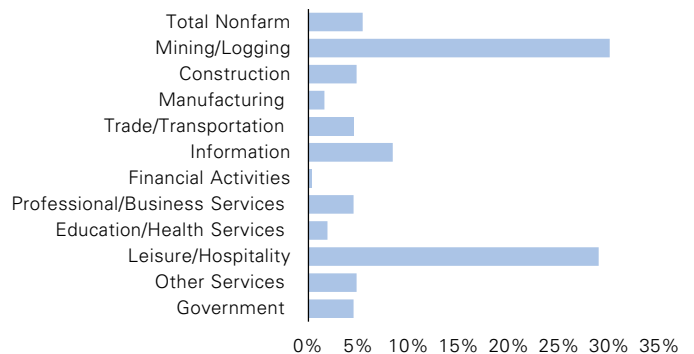
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CHICAGO, FEBRUARY 2022, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

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