
1Q24

Chicago Industrial Market Report

NEWMARK

Market Observations

Economy

- Chicago’s unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.
- The government and education and health sectors continued to lead all industries in regional annual job growth.
- Industrial-occupying or adjacent industries saw mostly negative results, with manufacturing experiencing a moderate gain. Construction and trade, transportation and utilities both saw negative growth.

Major Transactions

- Navistar International, the Illinois-based truck manufacturer, signed the largest deal of the quarter. The group renewed its 860,100-SF space within Cherry Hill Business Park in Joliet.
- Canon Inc renewed its 348,625-SF lease at 10350 N. Beaudin Blvd.
- Avergis’s purchase of the American Hotel Register was the largest sale of the quarter and represents the continuing trend of repurposing obsolete suburban office buildings. This proposed redevelopment would demolish a five-story, 202,000-SF office building to construct 900,000 SF of industrial space across as many as four buildings.

Leasing Market Fundamentals

- Absorption in the first quarter of 2024 totaled 3.1 million SF, the lowest quarterly total since the first quarter of 2020.
- The construction pipeline continues to empty, with 5.0 million SF delivering this quarter and 12.1 million SF still under construction. Construction starts have continued to slow as development financing remains difficult.
- Vacancy increased 30 basis points to 4.6% this quarter as new construction deliveries outpaced absorption for the third consecutive quarter. Vacancy levels still remain well below the 5.2% average since 2019. As tenants are expected to remain cautious and the remaining under-construction pipeline emptying over the next few quarters, vacancy will continue to be pressured upwards.
- Asking rates have increased to \$6.44/SF this quarter, the highest value in the market’s history as more new Class A deliveries add expensive availabilities to the market.

Outlook

- Many buyers and tenants remain cautious amid the uncertain interest rate environment. They will continue to wait and see how the market reacts in the coming quarters, hoping to take advantage of a potential softening in pricing and rents. While demand continues to slow, leasing fundamentals have remained at strong levels relative to past years.
- Market vacancy will increase further as record volumes of new construction deliver this year, but construction starts have begun to slow. As the remaining pipeline delivers and new inventory sits vacant, rents will continue to rise albeit at slower rates.
- Asking rent growth has slowed with slower leasing velocity and less leasing activity among new inventory. Submarkets with higher levels of inventory under construction will feel a greater proportion of the effects of slowing demand as the construction pipeline empties.

1. Economy
2. Leasing Market Fundamentals
3. Capital Markets Fundamentals

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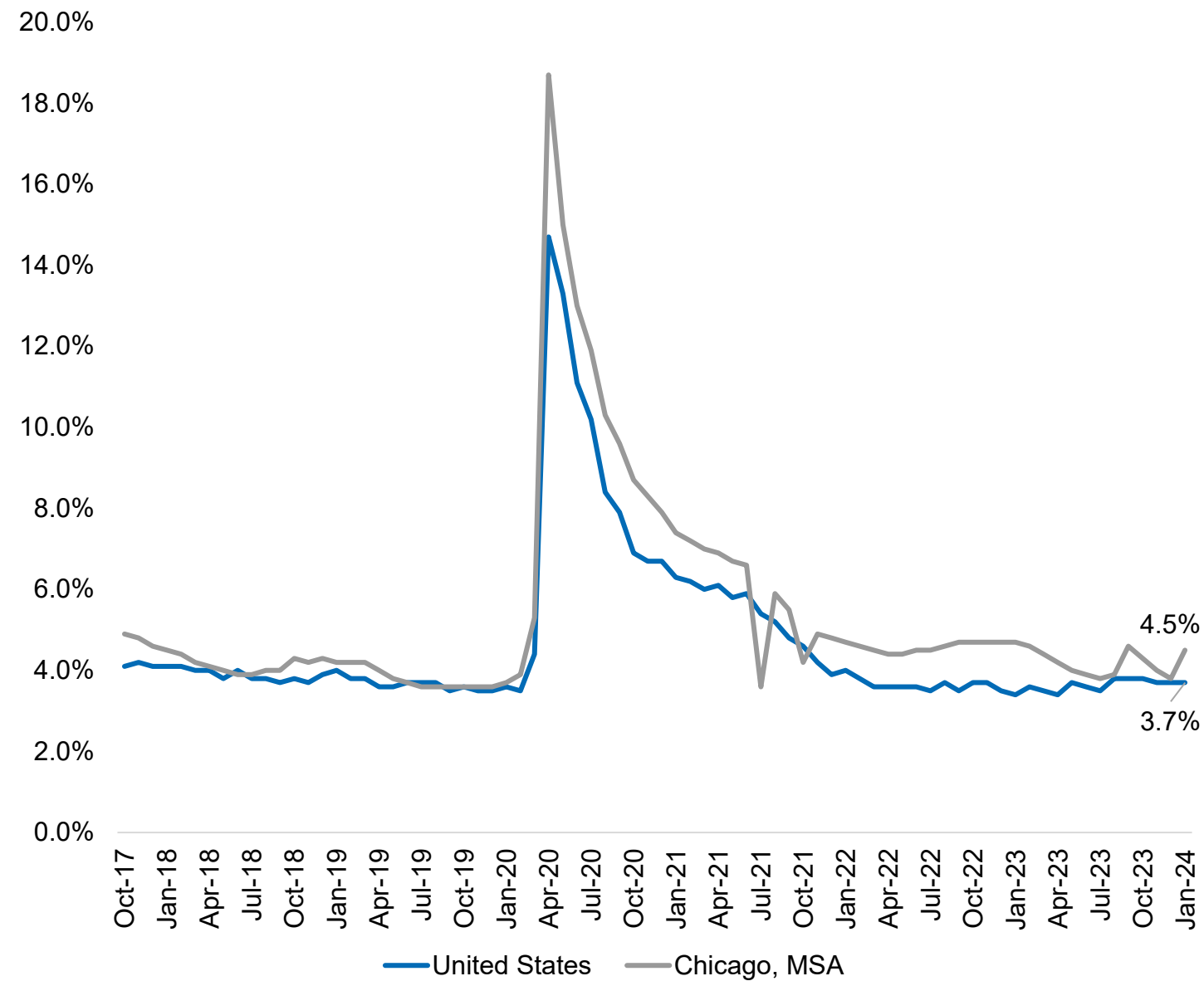
Economy



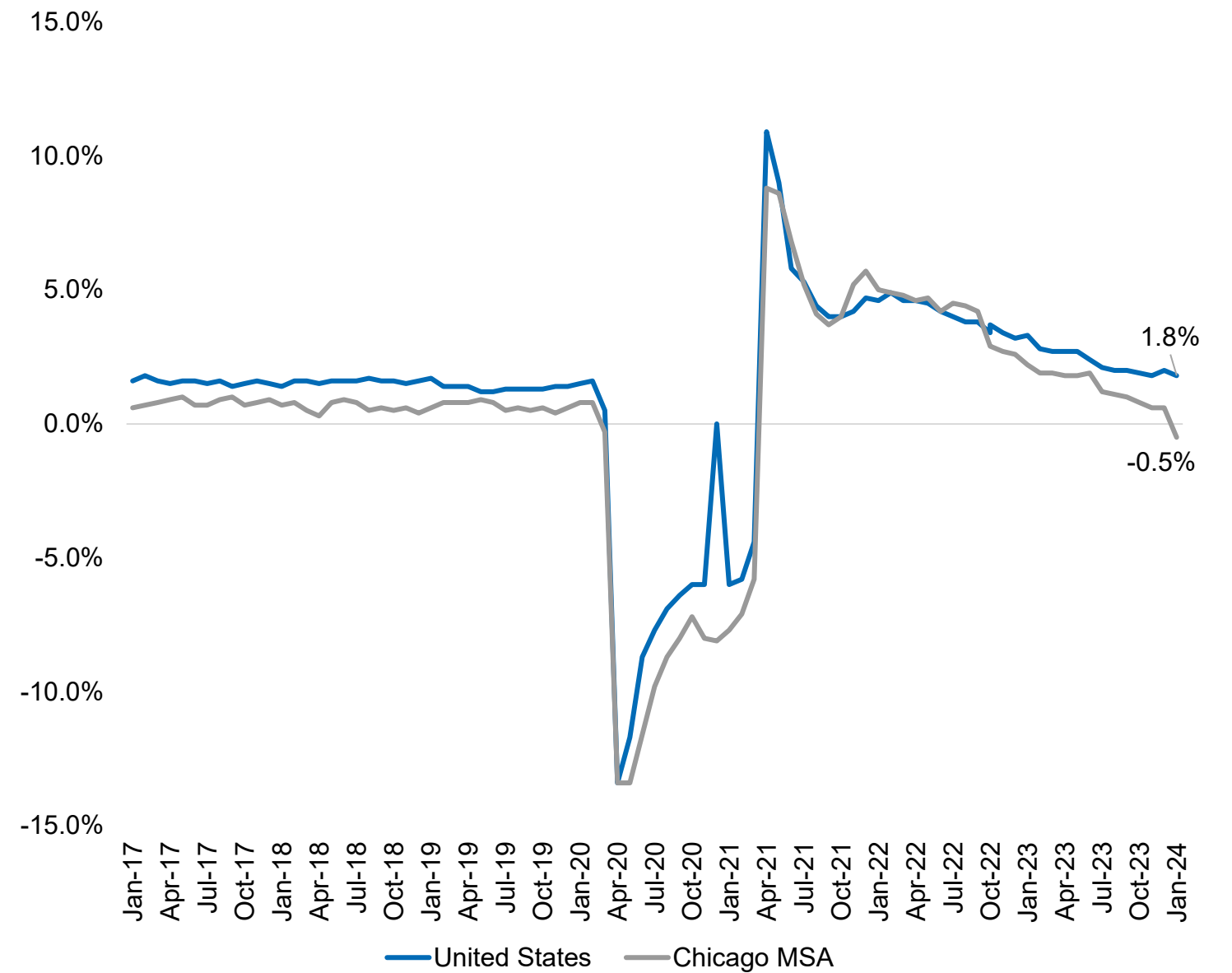
Metro Employment Trends Signal a Slowing Economy

Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

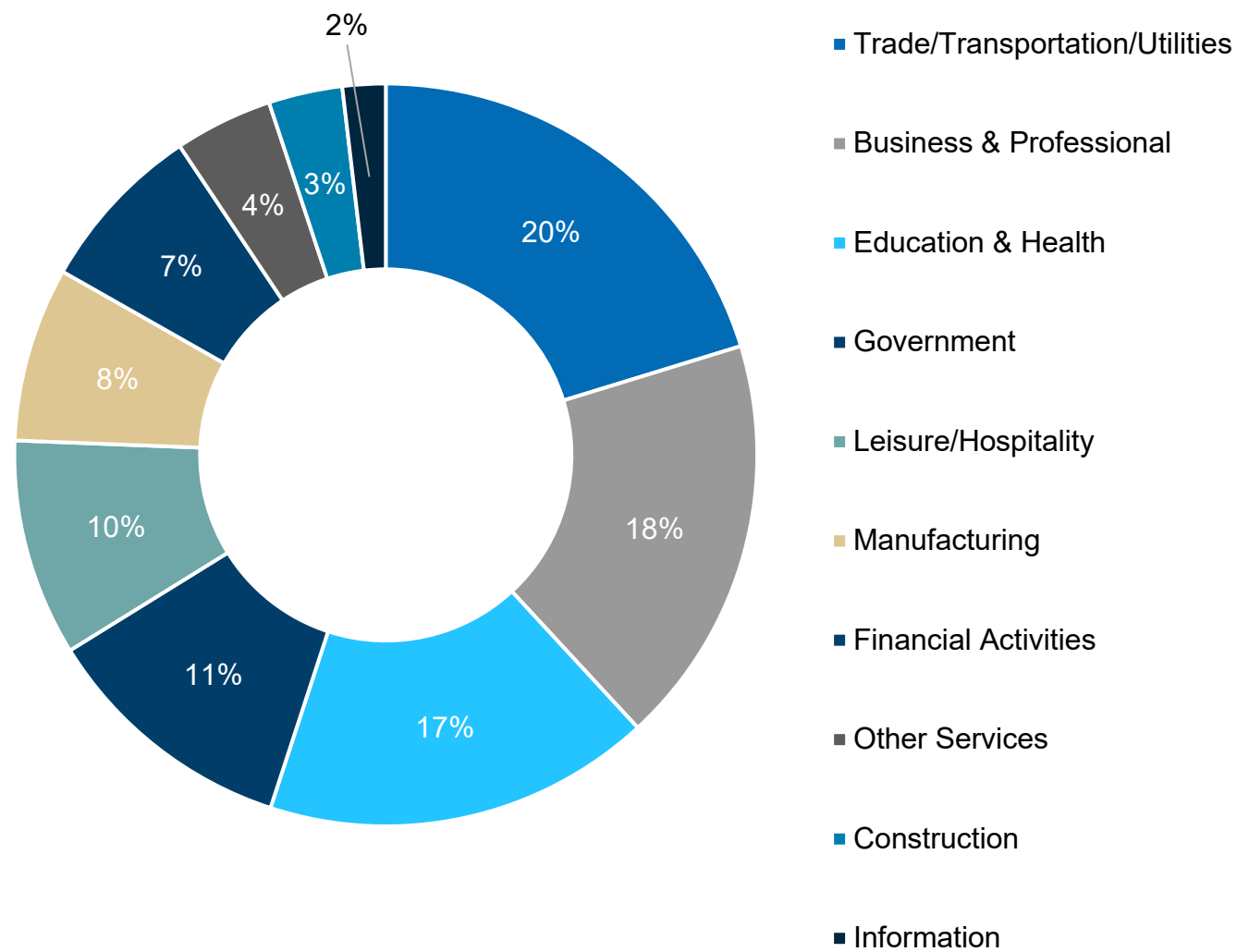


Source: U.S. Bureau of Labor Statistics, Chicago MSA

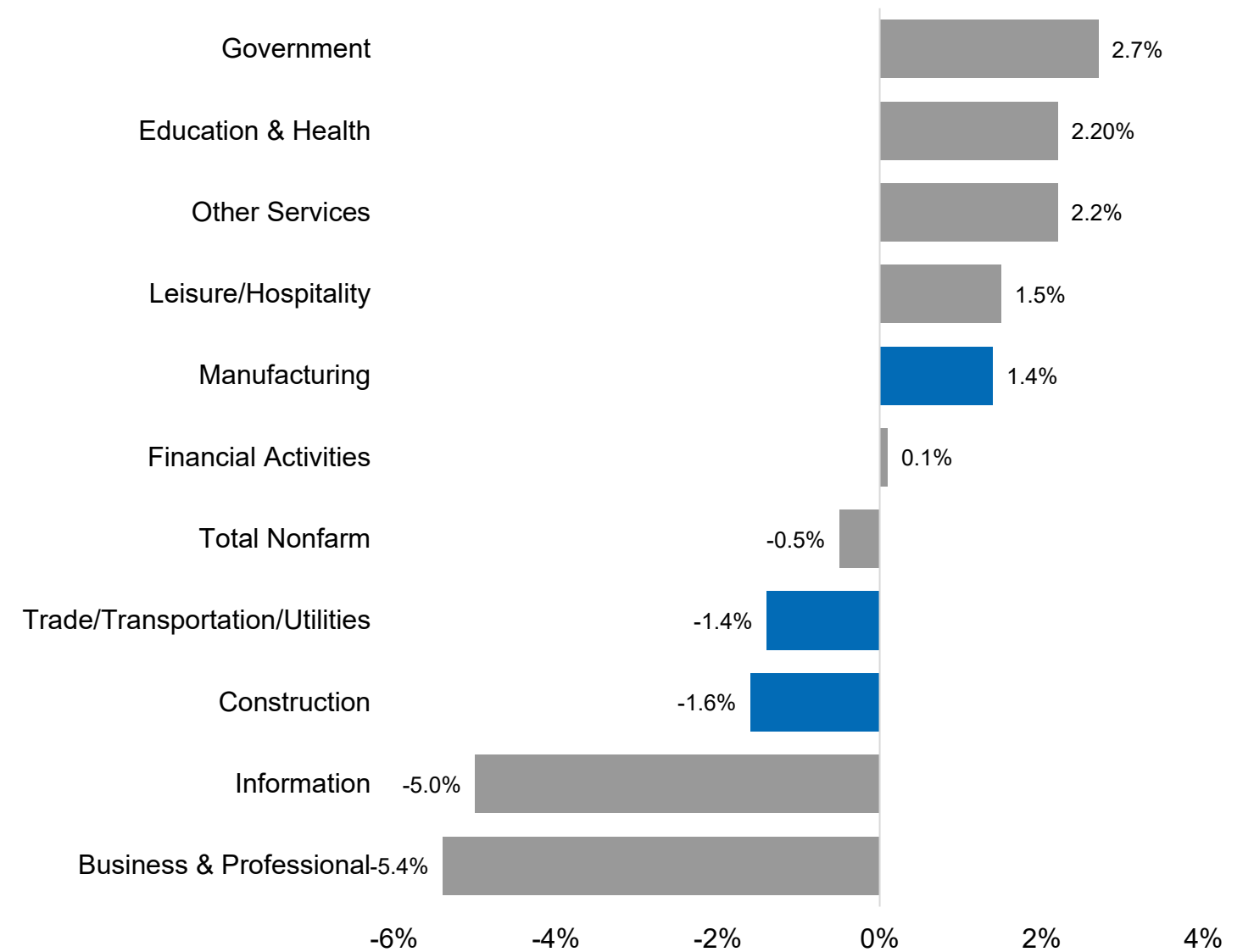
Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The government sector led all industries in regional annual job growth with education & health next. Industrial-occupying or adjacent industries saw mostly negative results, with manufacturing experiencing a moderate gain. Construction and trade, transportation, and utilities both saw negative growth.

Employment by Industry, January 2024



Employment Growth by Industry, 12-Month % Change, January 2024

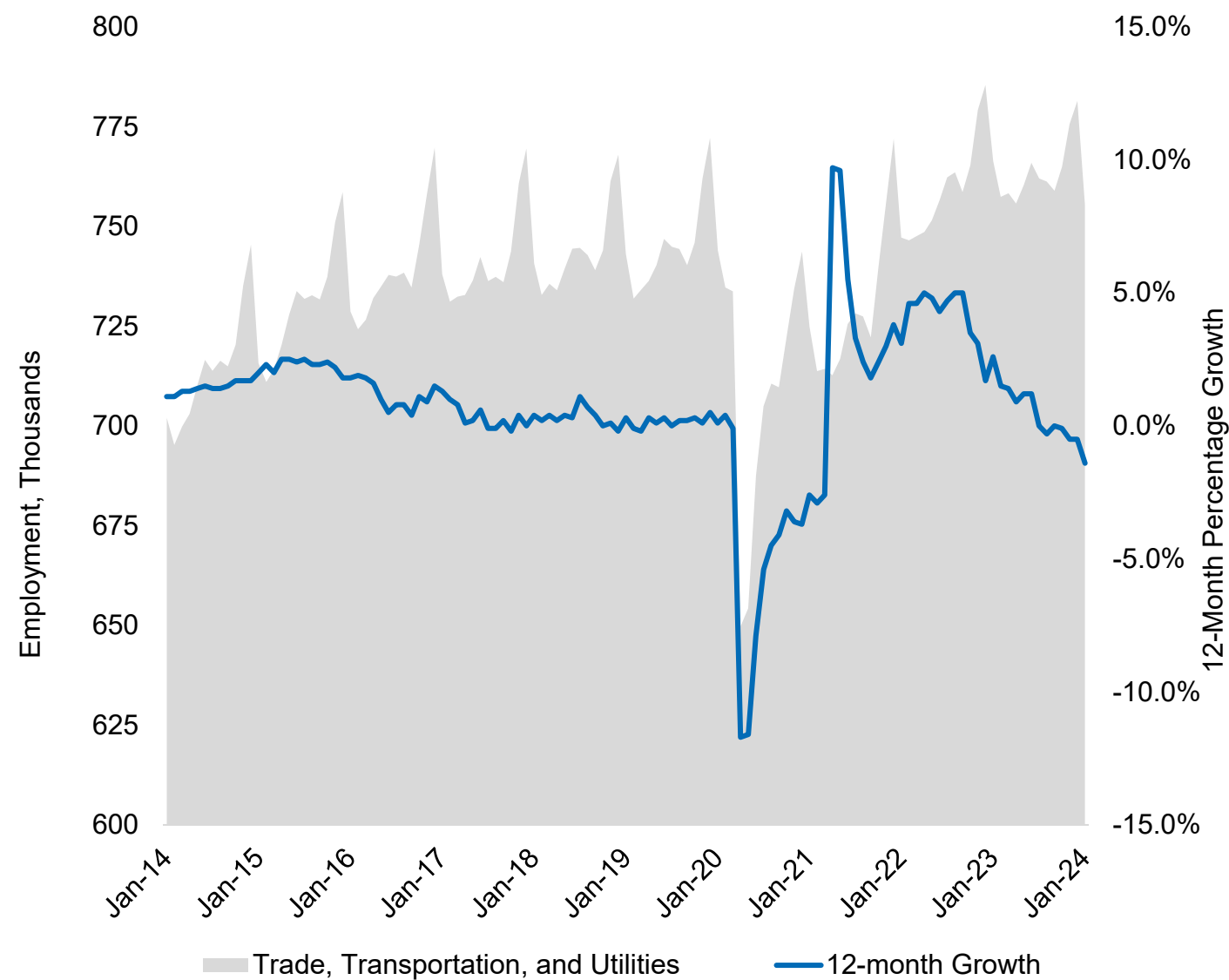


Source: U.S. Bureau of Labor Statistics, Chicago MSA

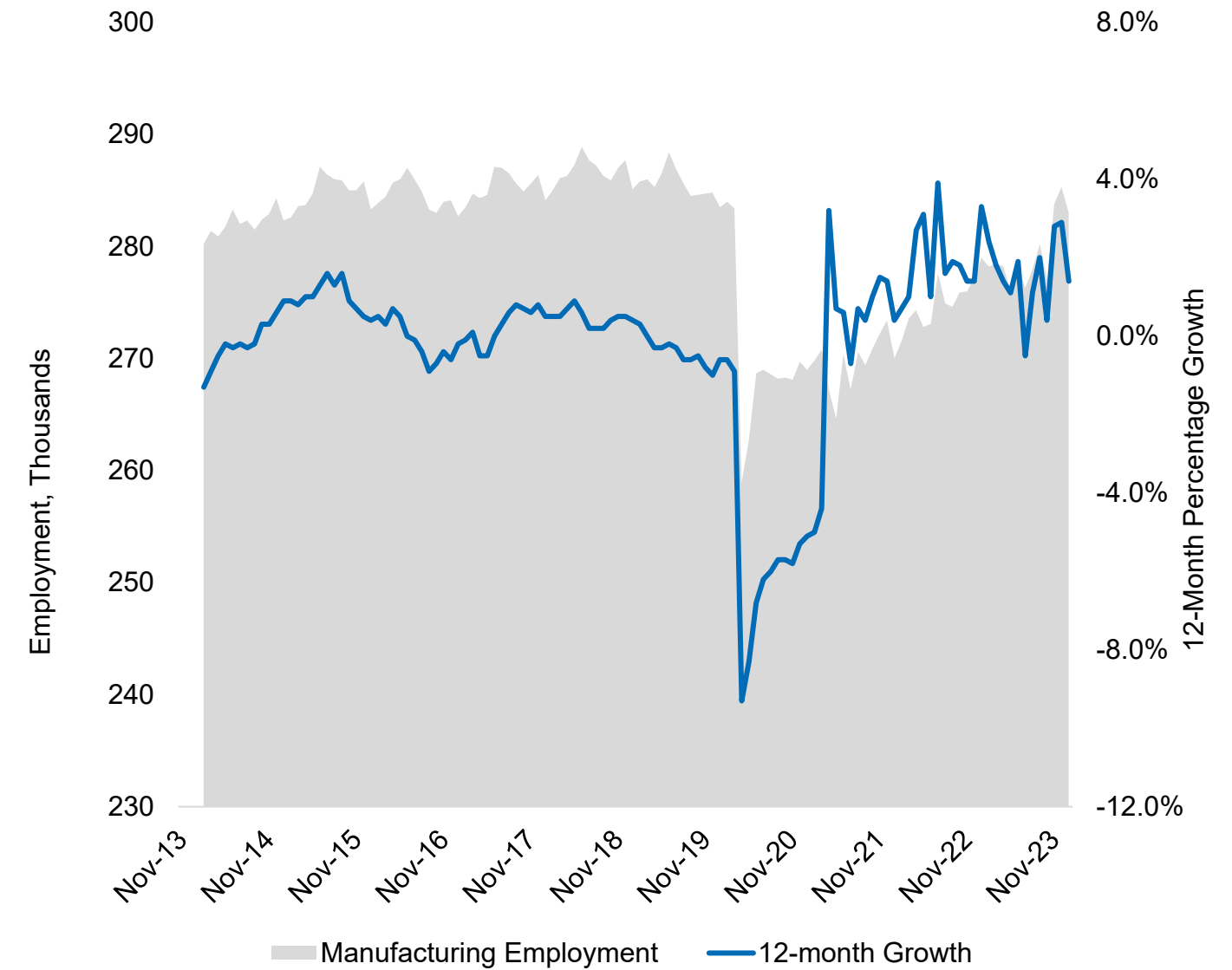
Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers in the market.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Chicago MSA

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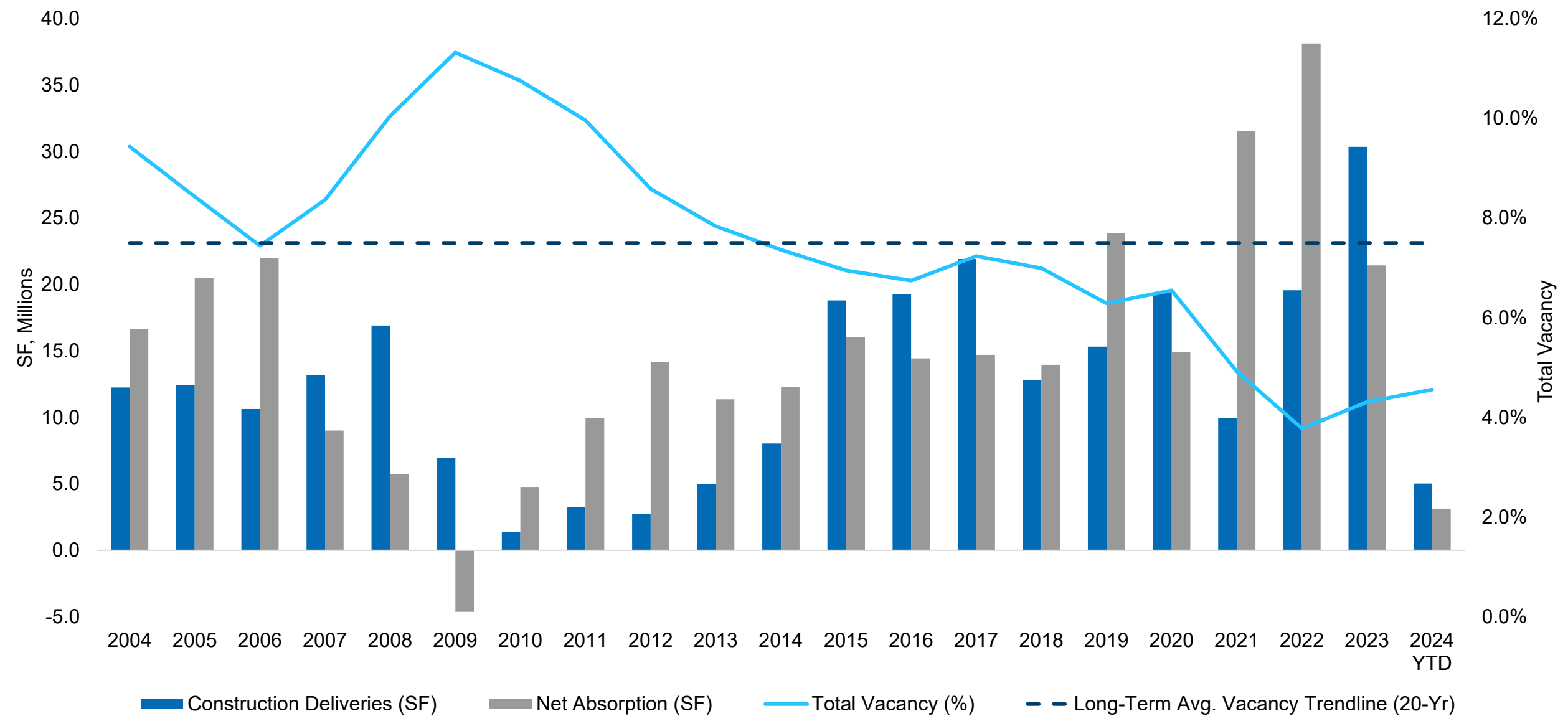
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased 30 basis points to 4.6% this quarter as new construction deliveries outpaced absorption for the third consecutive quarter. Vacancy levels still remain well below the 5.2% average since 2019. As tenants are expected to remain cautious and the remaining under-construction pipeline will empty over the next few quarters, vacancy will continue to be pressured upwards.

Historical Construction Deliveries, Net Absorption, and Vacancy

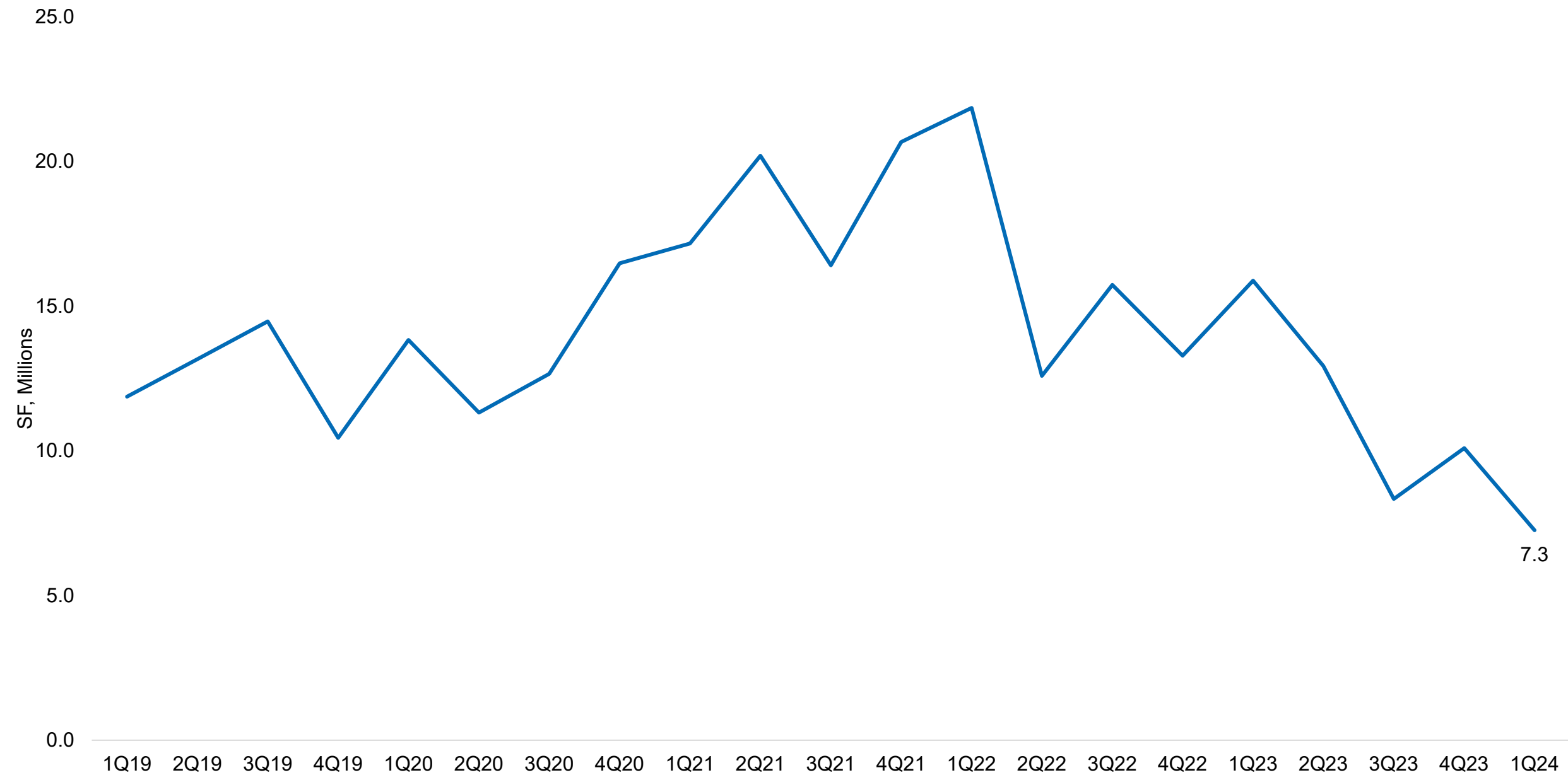


Source: Newmark Research

Industrial Leasing Activity Slows to Lowest Quarterly Mark in 10 Years

After jumping to 10.0 million SF to finish 2023, total leasing volume began 2024 with 7.3 million SF of leasing, the lowest quarterly volume in the last 10 years.

Total Leasing Activity (SF)

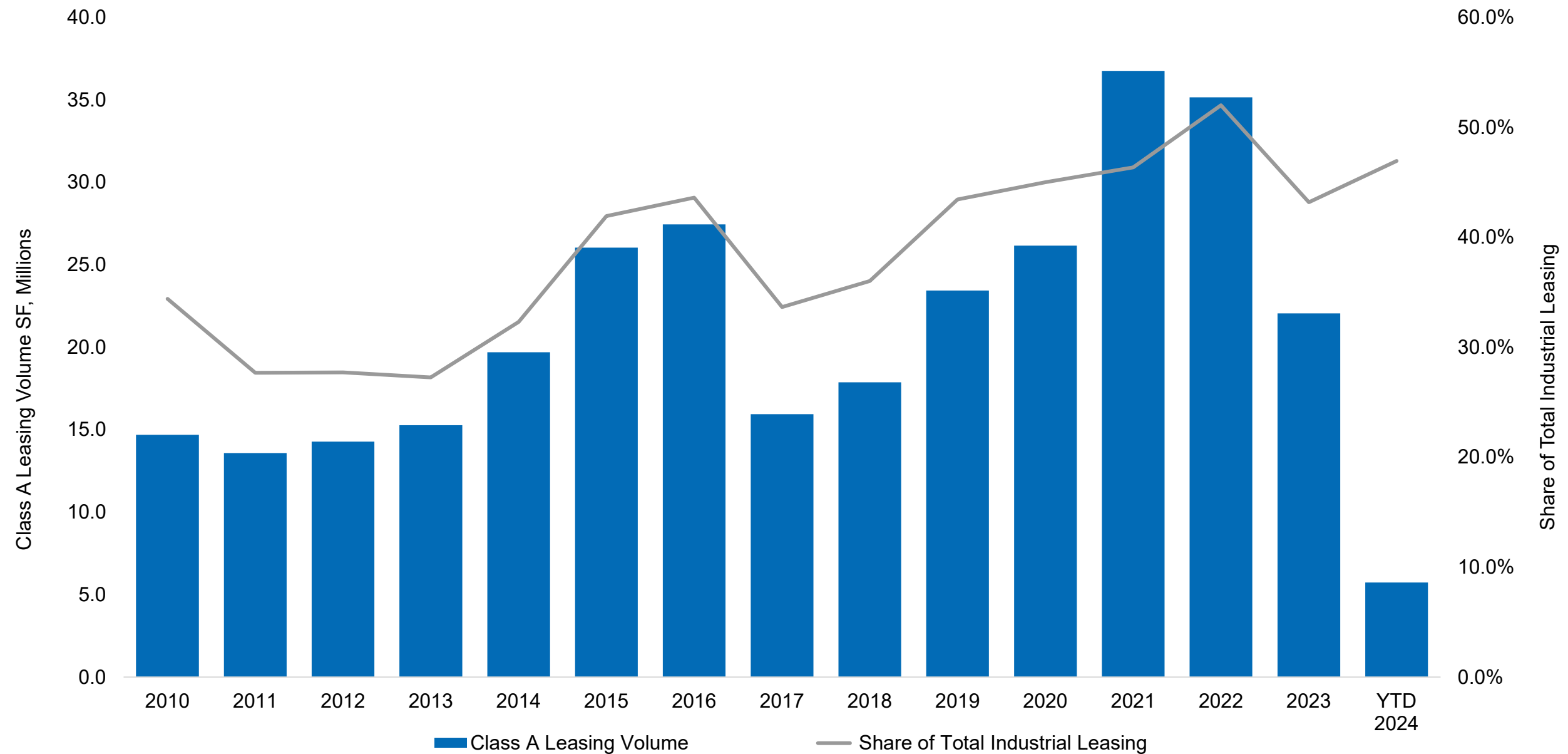


Source: Newmark Research, CoStar

Class A Warehouse Leasing Proportion above Long-Term Average

Quarterly Class A industrial leasing volume held steady relative to the slowdown in all class leasing volume, with Class A leasing rising above the 2023 average in the first quarter of 2024 to 47.0%. Class A leasing volume is on pace to match the total leasing volume of 2023.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

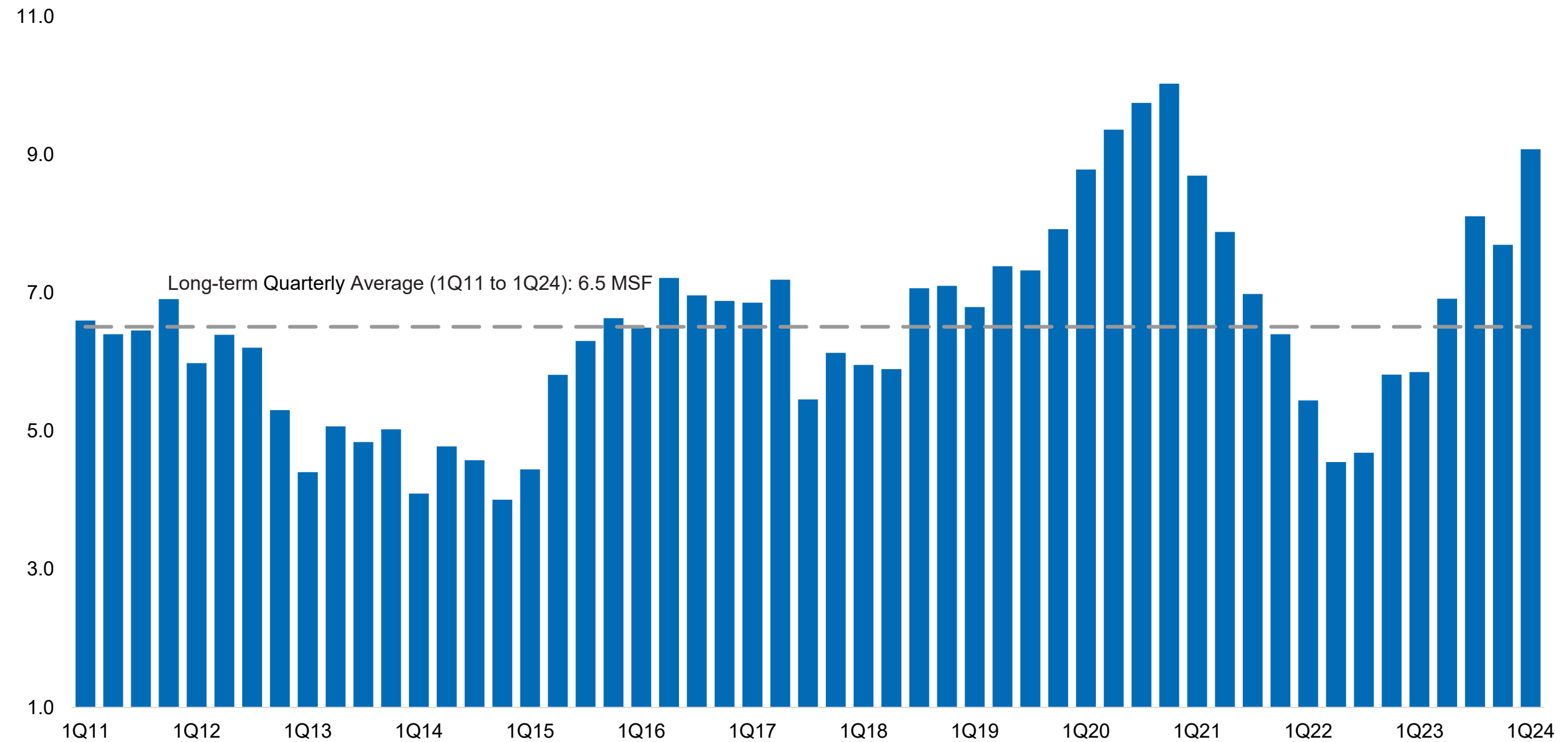


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains Well below Pre-Pandemic Levels

Total sublease availability increased by 18% quarter over quarter, to 9.1 million SF. Although the increase in volume is significant, as a share of total inventory, sublet availability only increased 10 basis points, to 0.7% of the market's inventory. Sublease space remains a small portion of the 7.2% total availability in Chicago's industrial market.

Available Industrial Sublease Volume (MSF)



Renewals and Sublease Deals Rise as Leasing Hesitancy Continues

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Small Deal Volume Rises as Total Leasing Volume Falls

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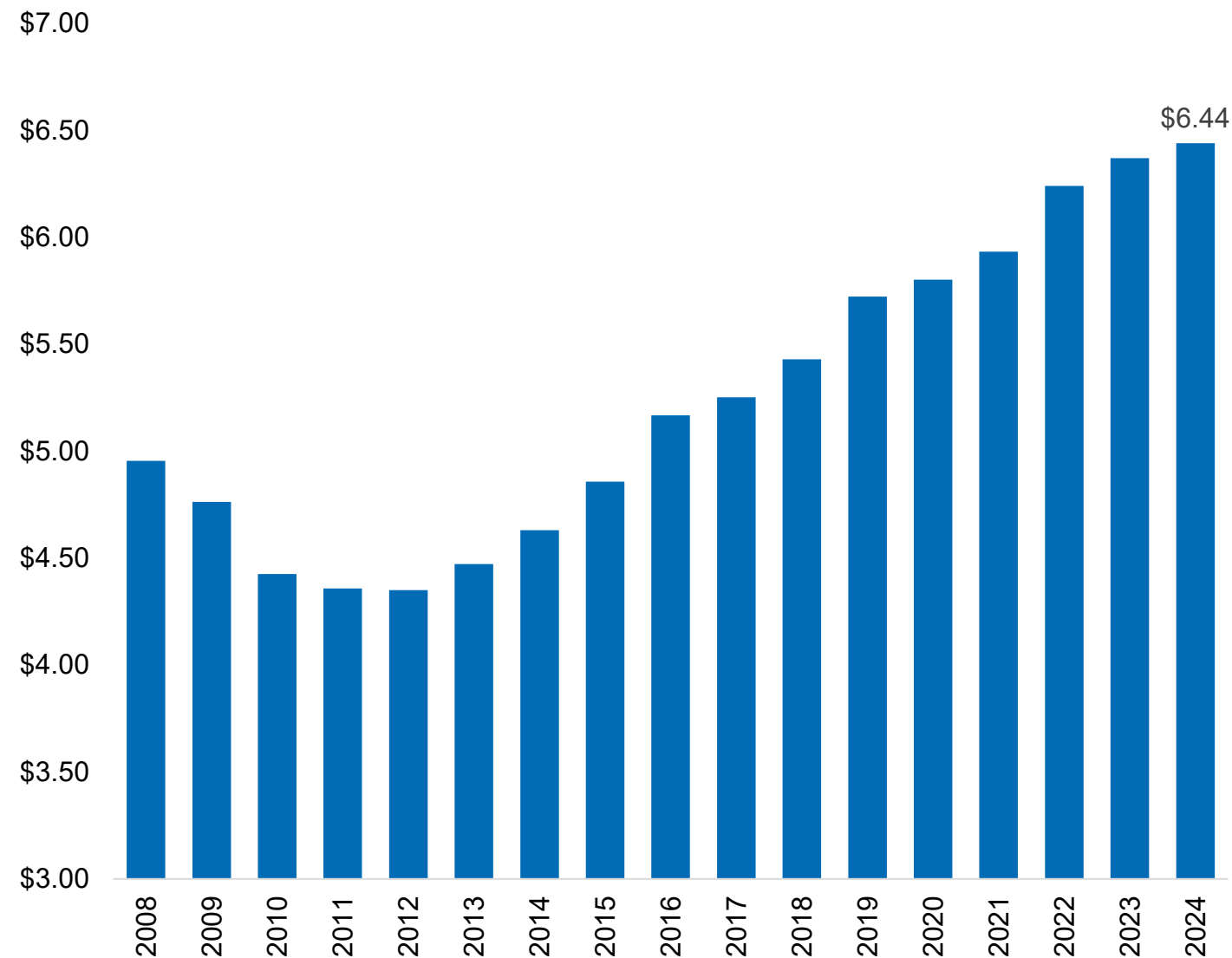
Landlords Have Boosted Concessions as Leasing Slows

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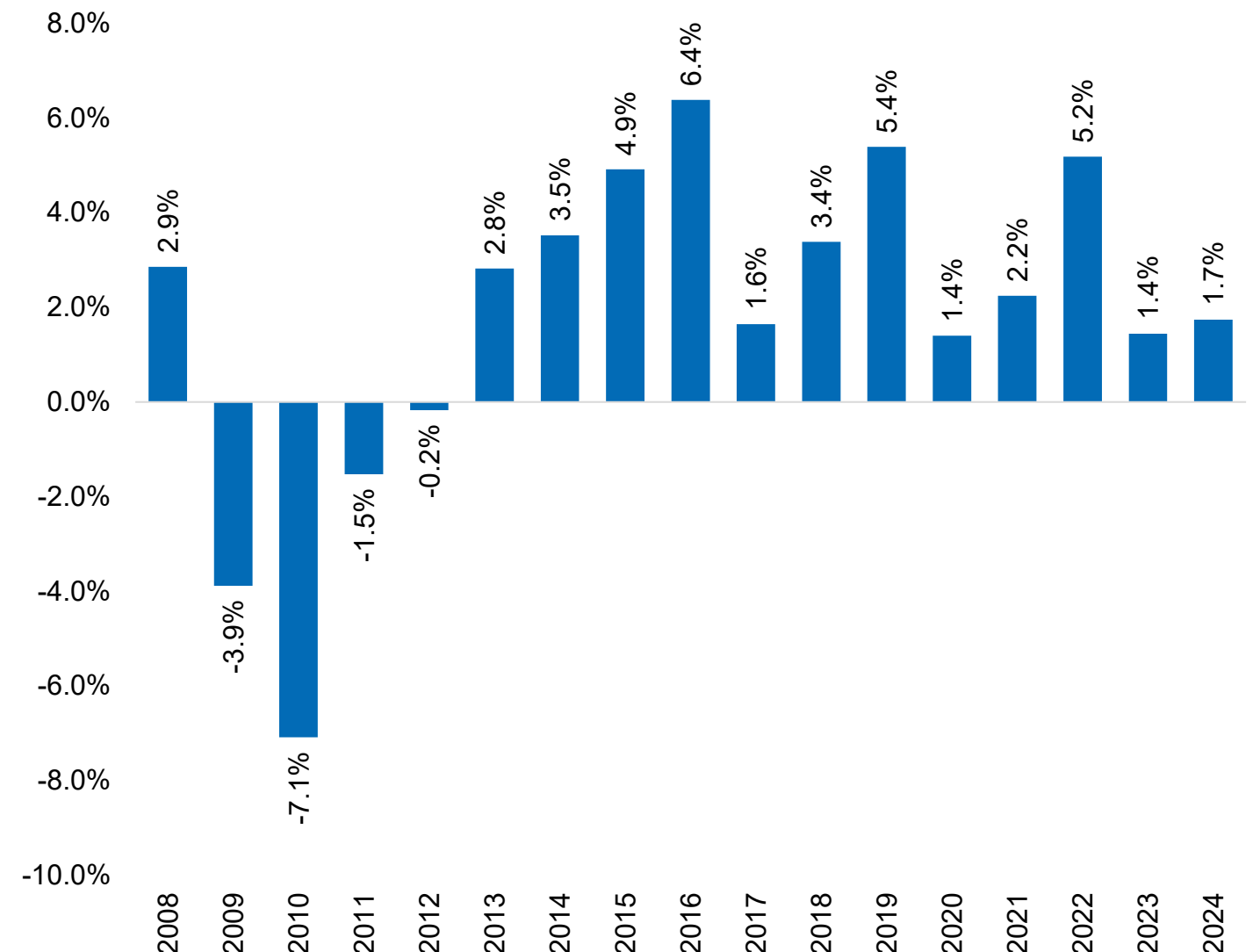
Record-Pace Industrial Asking Rent Continues to Decelerate

Asking rates have increased to \$6.44/SF this quarter, the highest value in the market's history as more new Class A deliveries add expensive availabilities to the market. Despite a slowdown in Class A leasing, year-over-year asking rates have grown. Asking rate growth will decelerate as occupiers remain cautious in leasing decisions and more available space decreases landlord leverage.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Expiring Leases Face Significant Increase in Rental Rates

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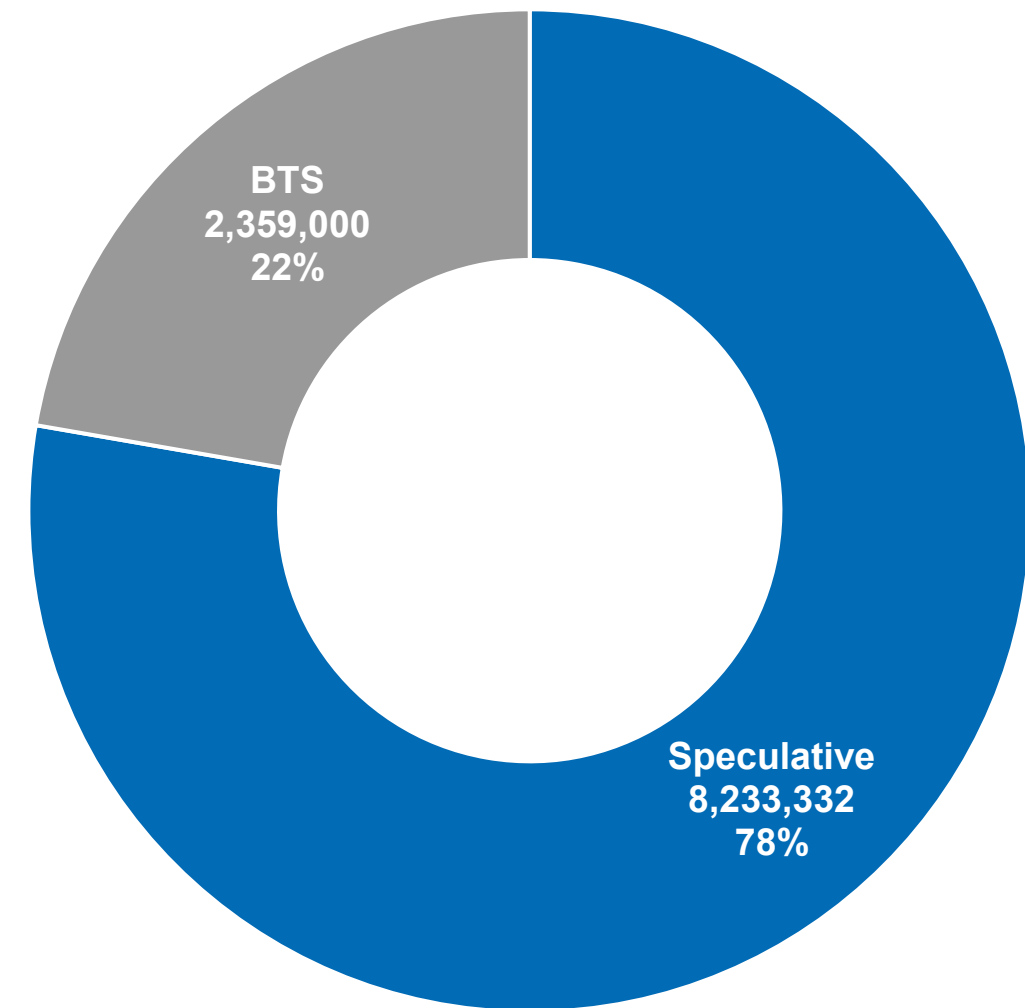
Industrial Supply Pipeline Eases as Construction Starts Dwindle

The construction pipeline began emptying out after reaching a record of 35.4 million SF at the start of 2023. With a record 30.3 million SF delivering in 2023, the amount of square footage currently under construction is at the lowest point it's been since early 2021. Of the 30.3 million SF that delivered since 2023, 51.5% is still vacant. Additionally, the market is now seeing the ratio of build-to-suit and speculative development shift towards build-to-suit projects as developers are pressing pause on speculative development.

Industrial Under Construction and % of Inventory



BTS vs Speculative Development



Source: Newmark Research, CoStar

Share of Build-to-Suit Construction on the Rise

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Notable 1Q24 Lease Transactions

Leasing pace has slowed the previous three quarters for larger direct deals. Navistar International, the Illinois-based truck manufacturer, signed the largest deal of the quarter. The group renewed at Cherry Hill Business Park in Joliet.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Navistar International	2700 W Haven Rd.	I-80 Corridor	Lease Renewal	860,100
Canon Inc	10350 N Beaudin Blvd.	I-55 Corridor	Lease Renewal	348,625
LaserShip	565 S Pinnacle Dr.	I-55 Corridor	Direct New	334,800
Tru Vue LLC	9400 W 55th St.	I-55 Corridor	Lease Renewal	299,200
Niven Marketing Group	815 Kimberly Dr.	Central/North DuPage	Direct New	218,464

Source: Newmark Research

Submarket Overview

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Capital Markets Fundamentals



Industrial Sales Volume Remains Slow

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Industrial Pricing Continues to Rise

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Buyer Breakdown

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Notable 1Q24 Sale Transactions

Avergis's purchase of the American Hotel Register was the largest sale of the quarter and represents the continuing trend of repurposing obsolete suburban office buildings. This proposed redevelopment would demolish a five-story, 202,000-SF office building to construct 900,000 SF of industrial space across as many as four buildings.

Select Sales Transactions

Buyer	Seller	Building	City	Price/SF	Square Feet
Avergis & Associates	Consolidated Hospitality Supplies	100 S Milwaukee Ave.	Vernon Hills	\$63	465,000
<i>American Hotel Register building to be converted to industrial</i>					
RIM Logistics	Midwest Industrial Funds	1303 Jack Ct.	Bartlett	\$110	400,112
DS Containers Inc	Blackstone	1789 Hubbard Ave.	Batavia	\$102	236,213
Brookfield AM	RREEF America	2425 Busse Rd.	Elk Grove Village	\$510	163,747
<i>Datacenter property</i>					
Component Management Group LLC	Seefried Properties	1655 Madeline Ln	Elgin	\$133	145,000

Source: Newmark Research, Real Capital Analytics

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