

Chicago Industrial Market

Industrial Demand Remains Strong while Supply Continues to Lag

The Chicago industrial market strengthens itself for another consecutive quarter. Industrial vacancy has decreased by 40 basis points this quarter and 190 basis points year-over-year to 4.0%. While net absorption for the quarter has fallen from the previous quarter, down from 11.1 million square feet to 8.3 million square feet, the deceleration is more a result of limited availability and delayed deliveries of new space than of slowing demand. Vacancy hits record lows quarter after quarter in Chicago, contributing to this deceleration. This quarter was the first quarter of decelerating absorption since the third quarter of 2021; while still above the five-year average of 5.6 million square feet, a larger portion of deals were renewals or expansions. Only 54.0% of this quarter's deals and 37.0% of this quarter's transaction volume were the result of direct new leases. Comparatively, the first quarter of 2022 had 73.0% of deals and 73.0% of leasing volume resulting from direct leases. There is less space available for new deals, and tenants are more willing to hold onto the space they have than compete with the high market demand.

The I-55 Corridor dominated leasing volume for this quarter. The largest deal of the quarter for the submarket and the entire metro market was Bridgestone's 764,000 square-foot renewal at 2100 Internationale Pkwy. in Woodridge.

Current Conditions

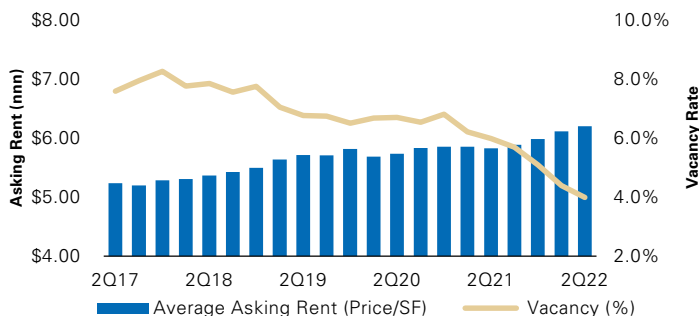
- Vacancy fell to a record low of 4.0% this quarter, a 1.9% year-over-year decline.
- 33.7 million square feet of industrial space is currently under construction.
- Taking rents continue to rise, up \$0.09/SF since last quarter.

Market Summary

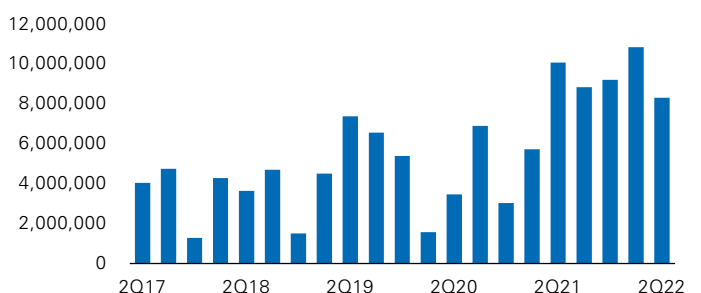
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	1.17B	1.17B	1.16B	↑
Vacancy Rate	4.0 %	4.4 %	5.9%	↓
Quarterly Net Absorption (SF)	8.30M	10.84M	10.34M	↑
Average Asking Rent/SF	\$6.21	\$6.12	\$5.85	↑
Under Construction (SF)	33.73M	25.39M	16.81M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q2 2022

In other submarkets, ULINE was active in the Far North, where it expanded into 757,000 square- feet at the Heartland 94 Logistics Center in Kenosha and renewed in 502,000 square- feet at LakeView XI in Pleasant Prairie. Raynor Garage Door signed into the largest industrial sublease deal of the quarter at 200 East Corporate Dr. in Dixon.

Stabilization

As industrial construction still booms in Chicago's market, it has yet to catch up to the levels of demand for space. In addition, demand for modern warehouse space has increased as tenants want to improve supply chain efficiencies where they can. Since 2016, the lease-up period, or the number of quarters it takes for a property to become 75.0% leased or stabilized from completion, has decreased on average 1.2 quarters per year. This stabilization timeline has accelerated since COVID-19 began, as deliveries fell and demand for industrial space changed. Today, delivered properties completed since the end of 2021 lease up within one quarter if not already pre-leased before completion. As construction delays continue, the gap between demand and supply for modern warehouse space will grow further. The longer that prospective tenants need to wait for new supply to the market, the more competitive that market gets for available space and the quicker newly delivered space stabilizes.

Construction Timelines

Chicago's industrial construction timelines are now the longest in the country. Since 2019, Chicago has had the largest increase in construction timelines, up 80.0% to 18 months in 2022, making it the longest completion timeline in the nation. Supply constraints, labor shortages, and rising costs due to inflation and interest rates are affecting all construction in the country. Chicago's steep increase in construction timelines can be largely attributed to the market's dependence on pre-cast construction. This type of construction requires pouring panels off-site and transporting

them to the construction area. In contrast, tilt-up construction pours and casts panels on-site, expediting the early construction stage.

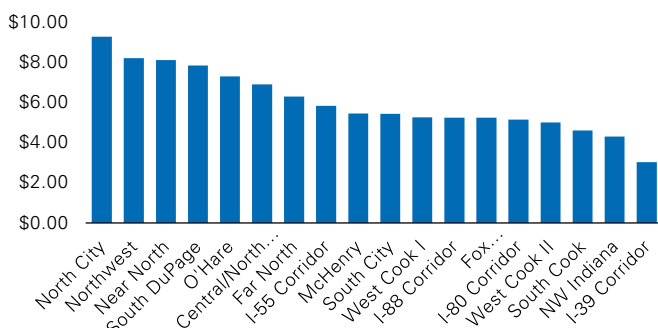
While pre-cast construction is the safer option for construction in harsher climates, Chicago's labor unions play just as large of a role in the timeline issues affecting the pre-cast construction market. As labor shortages and union labor costs continue to affect construction timelines in Chicago, developers will look toward new tactics to improve speed to market. Crow Holdings will be testing a 750,000-square-foot tilt-up construction project in Matteson to meet upcoming delivery expectations.

Investment Sales

Industrial sales in the second quarter of 2022 have slowed from the quick-starting first quarter of 2022. Average cap rates have fallen as well, down 70 basis points from the previous quarter, surely a result of the rising Federal interest rates. The largest transaction of the quarter was Cannon Commercial's purchase of the 1,032,000 square-foot warehouse at 700 Chase St. in Gary for \$33/SF. Unilever Capital purchased the second-largest building of the quarter in Morton Grove at 6244 Oakton St. for \$34/SF, a 516,216-square-foot property. Through the first half of 2022, REITs and private capital has made up over 2/3 of buyer and sellers. This is a significant increase of approximately 20% of the overall capital composition from the 10-years average of 50.0% for REIT and private capital buyers and sellers. This change in composition indicates that more risk-averse investors plan to see how the market changes over the next few months before allocating capital back into industrial properties. The most notable purchase of 2022 so far was Prologis's acquisition of rival Duke Realty for \$26.0 billion in June. Prologis, the largest U.S. industrial REIT, will be adding 153 million square feet of operating properties, 11 million square feet of development in progress, and 1,228 acres of land owned and under option.

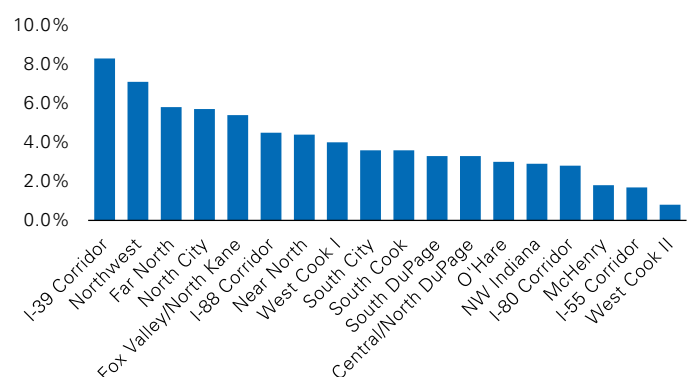
Average Asking Rent

BY SUBMARKET



Vacancy

BY SUBMARKET

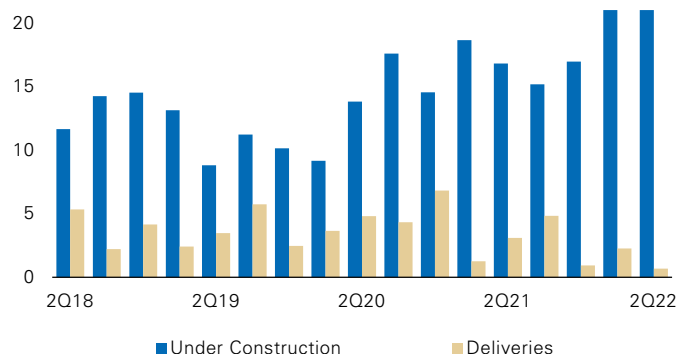


Outlook

The market is buzzing about a pending recession which may cause hesitancy for some, demand for industrial space looks to continue pulling down vacancy, potentially falling below 4% for the first time in Chicago's history. Deal volume is beginning to slow, and transaction timelines are lengthening on the coasts which is typically an indicator of what's to come for the Midwest markets. Solutions for construction delays do not look like they will come anytime soon, so continued demand for existing space will remain strong. The Federal Reserve has begun attempts to slow the economy by increasing interest rates and will continue to do so to rein in inflation. These rate increases could further complicate supply chain and labor issues and potentially further lengthen construction timelines. The hope for many is that the possible recession will be short, a slowdown of the rebuilding economy, and contained to the second half of 2022.

Construction and Deliveries

SF, MILLIONS



Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Bridgestone	I-55 Corridor	2100 Internationale Pkwy	Renewal	764,000
ULINE	Far North	8311 38 th St	Expansion	757,418
Raynor Garage Doors	Outside Metro Area	200 E Corporate Dr	Sublease	575,448
ULINE	Far North	11290 80th Ave	Renewal	502,033
Central American Group	I-55 Corridor	815 Bluff Rd	Renewal	490,420
Design Pac, LLC	South Cook	6510 W 73rd St	Direct	306,552
Menasha Packaging Company	I-55 Corridor	550 W North Frontage Rd	Extension	269,591
Walgreens	I-55 Corridor	370 W Crossroads Pky	Renewal	258,560
Target	O'Hare	635 W Lake Street	Direct	256,770

Investment Sales

Buyer	Submarket	Building	Price Per SF	Square Feet
Cannon Commercial	Northwest Indiana	700 Chase St	\$33	1,032,000
Unilev Capital	Near North	6244 Oakton St	\$34	516,266
IC Group	Central/North DuPage	365 E North Ave	\$50	381,600
TA Realty	Near North	4000 Commercial Ave	\$56	373,292
BCC West III LLC	I-55 Corridor	700 S Weber Rd	\$18	301,410
Onni Group	North City	700 W Chicago Ave	\$199	227,400
IC Group	I-55 Corridor	530 W North Frontage Rd	\$167	185,045

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	3.3 %	701,986	1,593,684	\$5.24	\$10.80	\$6.90
Far North	126,380,256	5,416,875	5.8 %	790,731	1,933,021	\$5.38	\$9.78	\$6.29
Fox Valley/North Kane	36,490,411	2,775,988	5.4 %	-310,273	-81,385	\$4.20	\$7.38	\$5.24
I-39 Corridor	32,295,449	907,000	8.3 %	-4,969	-159,840	\$3.49	\$10.65	\$3.02
I-55 Corridor	114,602,207	3,252,548	1.7 %	2,254,779	7,051,016	\$4.71	\$11.66	\$5.83
I-80 Corridor	107,135,242	11,070,094	2.8 %	1,904,582	2,578,764	\$5.16	\$7.43	\$5.15
I-88 Corridor	72,442,396	2,115,049	4.5 %	173,840	1,240,228	\$4.46	\$12.03	\$5.24
McHenry	17,341,096	-	1.8 %	135,296	183,132	\$5.60	\$8.29	\$5.44
Near North	55,081,105	171,746	4.4 %	63,115	-1,279	\$6.38	\$10.45	\$8.11
North City	72,260,632	-	5.7 %	251,309	-148,326	\$7.48	\$8.33	\$9.26
Northwest	33,263,962	821,648	7.1 %	69,148	524,975	\$5.68	\$9.14	\$8.20
NW Indiana	23,317,211	774,738	2.9 %	7,100	371,071	\$3.72	\$10.00	\$4.30
O'Hare	123,313,821	1,192,093	3.0 %	416,594	868,441	\$5.42	\$10.07	\$7.29
South City	105,656,459	112,000	3.6 %	186,427	1,039,193	\$7.46	\$7.56	\$5.43
South Cook	77,795,570	2,446,750	3.6 %	1,547,822	921,380	\$3.96	\$10.59	\$4.60
South DuPage	8,814,737	126,445	3.3 %	9,977	42,487	\$2.95	\$11.62	\$7.83
West Cook I	67,547,543	1,173,688	4.0 %	28,634	395,301	\$5.67	\$11.08	\$5.26
West Cook II	9,091,082	-	0.0 %	70,000	170,000	\$5.00	-	\$5.00
Market	1,172,146,601	33,727,074	4.0 %	8,296,098	18,521,863	\$5.42	\$9.87	\$6.21

Economic Conditions

The pandemic has had a serious and long-lasting impact on the global and local economy. As of June, 66.3% of Americans are fully vaccinated. As the country has adapted, many more are returning to the office with in-office occupancy reaching the highest levels since the pandemic began, at 44.2% of pre-pandemic occupancy levels.

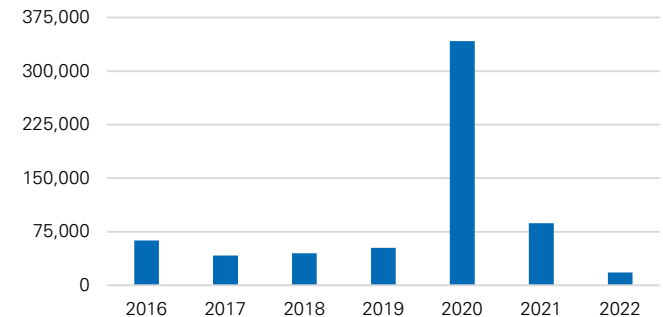
Chicago's unemployment rate fell 90 basis points in May from the start of the year to 4.2%, matching the lowest pandemic rate since last December. Despite indications of an economic slowdown, the labor market remains tight.

Job openings in the US hovered near-record levels in May with 11.4 million available jobs, and the number of people quitting their jobs was also historically high, at 4.4 million.

Pessimism about the future national economy has set in as inflation has risen at its fastest rate in 40 years, 8.6% year-over-year in May. Consumers reacted as retail sales fell from the previous month in May for the first time this year. The central bank's intentions to slow inflation led to the largest interest rate hike since 1994 of 0.75 percentage points. The Fed will continue to work to temper inflation without tipping the country into a recession.

Layoff Statistics

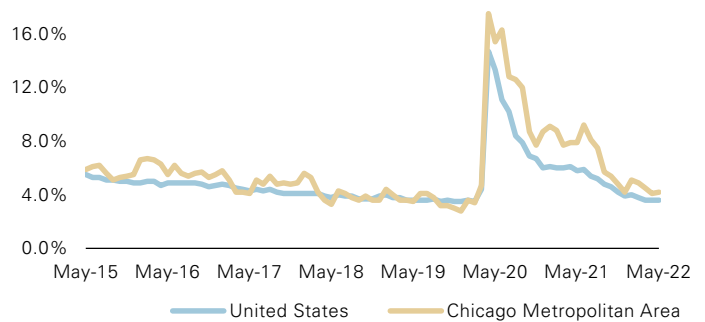
IL MASS LAYOFFS (INITIAL CLAIMS), MAY 2022



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

Unemployment Rate

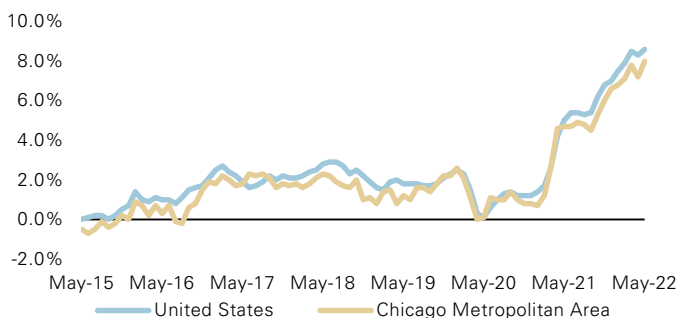
SEASONALLY ADJUSTED, MAY 2022



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

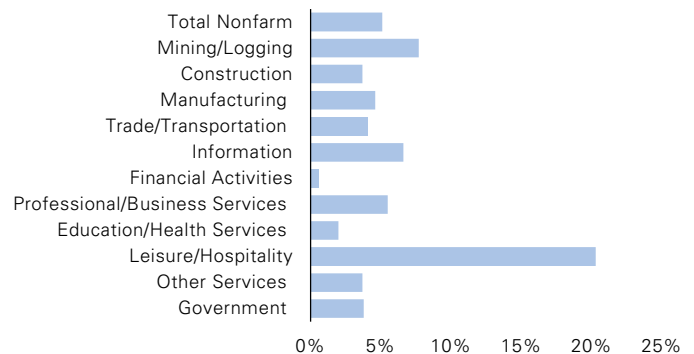
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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