

3Q23

Chicago Industrial Market Report



NEWMARK

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. August's 3.9% unemployment rate is significantly lower than the 6.2% 10-year historical average.
- The leisure/hospitality and education & health sectors continued to lead all industries in regional annual job growth.
- Industrial-occupying or adjacent industries registered mostly positive results, with manufacturing experiencing a moderate gain. Construction experienced a slight gain while trade/transportation/utilities lost employment year over year.

Major Transactions

- French logistics company Geodis signed the largest lease of the quarter, a renewal of its 672,080-SF space in Romeoville, the only deal over 500,000 SF signed this quarter.
- The Bradford Exchange renewed its 352,119-SF space at 794 Golf Ln. in Bensenville this quarter, the second-largest lease of the quarter.
- Blackstone's purchase of the 333,696 SF in Franklin Park from UBS in October for \$169.32/SF. The Class A logistics center is currently fully occupied by DVS.

Leasing Market Fundamentals

- Absorption in the third quarter of 2023 totaled 4.4 million SF, the lowest value since the fourth quarter of 2020 as tenants remain cautious amid the higher interest rate environment. Despite the slowdown in absorption, Chicago industrial has still maintained strong occupancy levels of over 96.0%.
- New construction has continued to deliver with 10.4 million SF added this quarter, the largest quarter for deliveries since this quarter last year. Construction starts have continued to slow as development financing remains difficult.
- Vacancy increased to 4.3% this quarter as the slowing leasing market could not keep up with the new deliveries. Vacancy levels remain well below the 5.5% average over the last five years. As tenants are expected to remain cautious and the majority of the remaining 25 million SF of under construction volume is expected to deliver over the next few quarters, vacancy will continue to be pressured upwards.
- Asking rates have declined to \$6.27/SF this quarter due to the slowing leasing market, matching the same rate from this quarter last year.

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 rents will continue to rise as available space remains scarce.
- Asking rent growth has stalled 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 new supply delivers the rest of the year, with only 30% preleased to date.

1. Economy
2. Leasing Market Fundamentals

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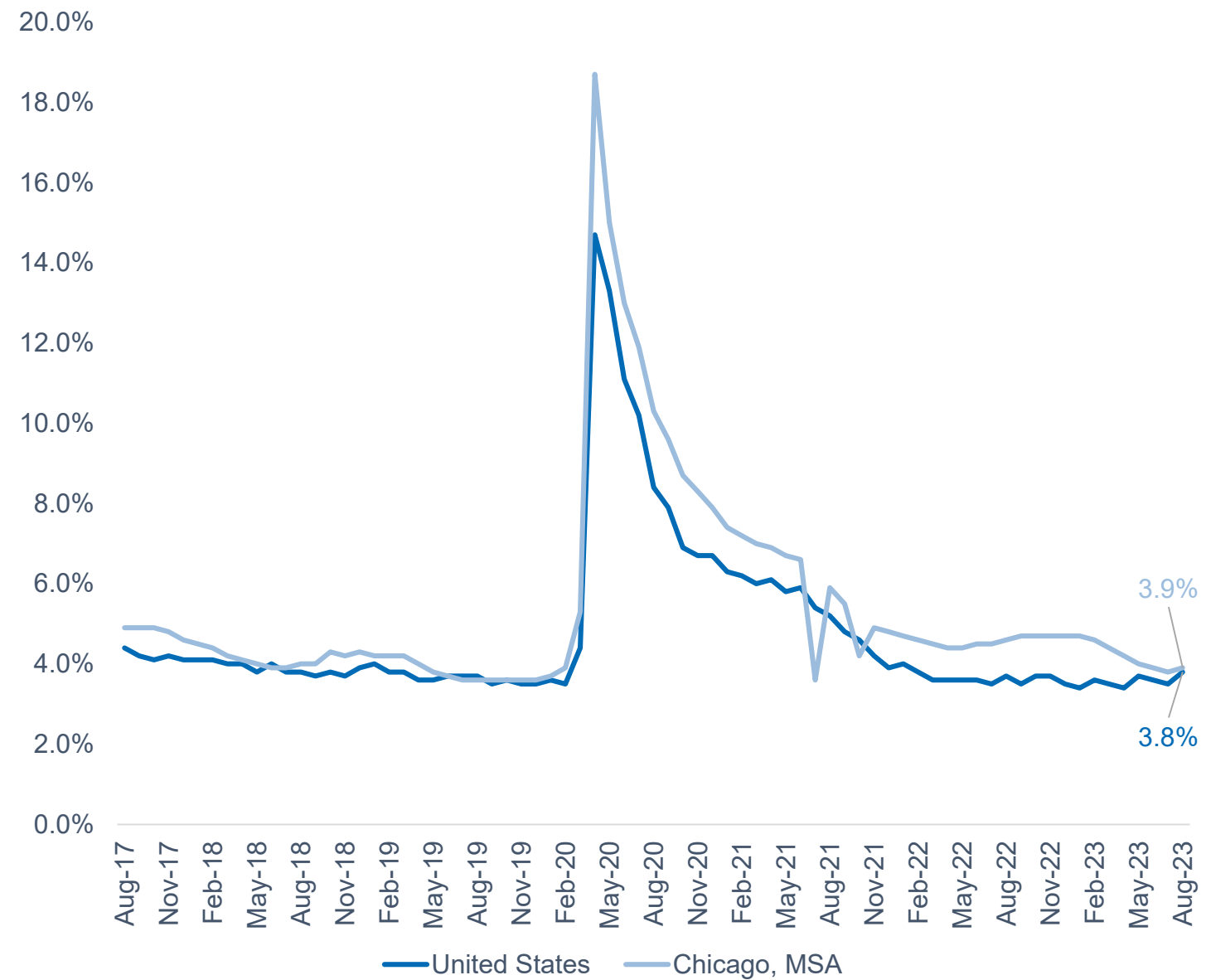
Economy



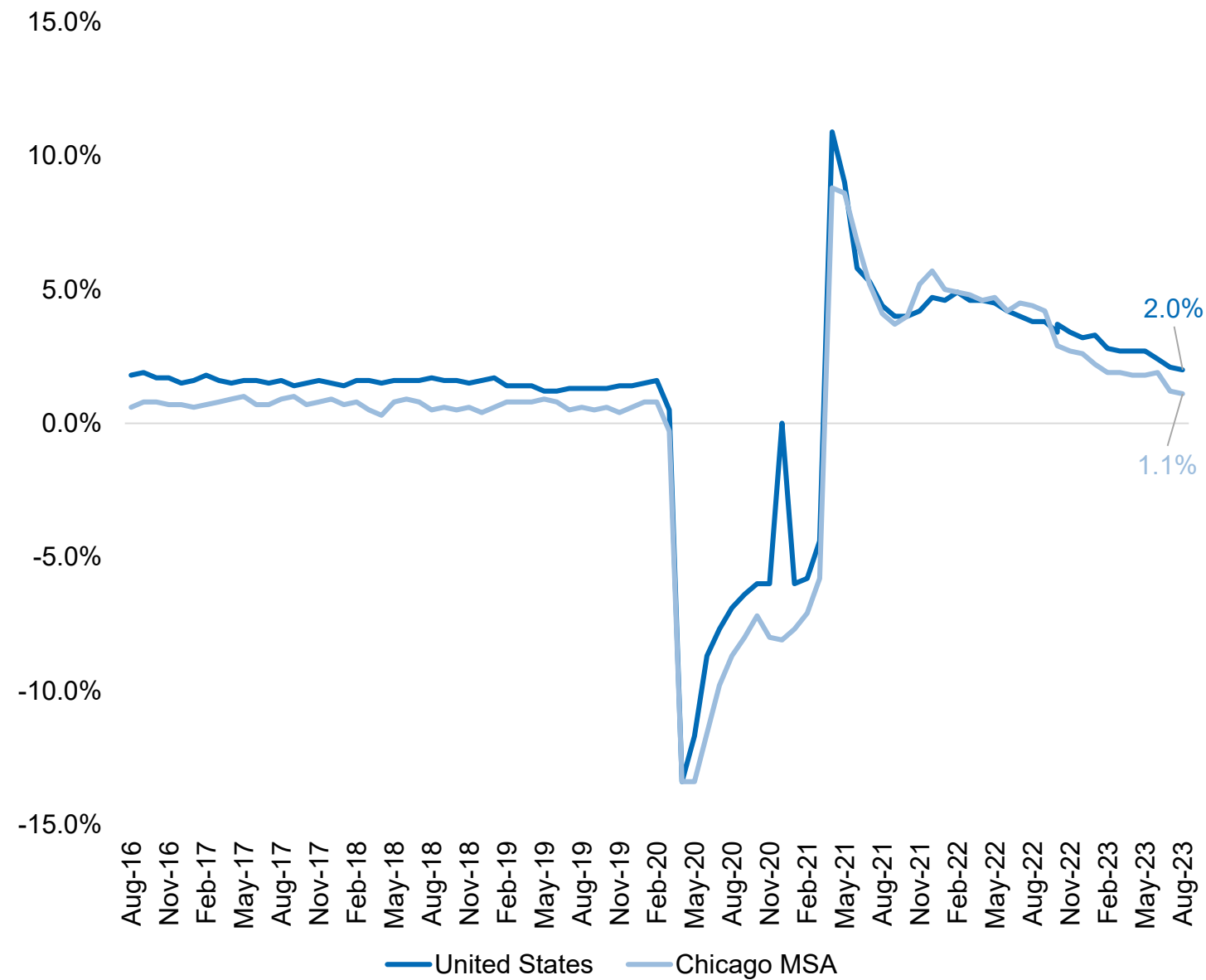
Metro Employment Trends Signal a Slowing Economy

Chicago’s unemployment rate is typically slightly higher than the national average and job growth has slowed in the last year. Persistently high inflation and increasing interest rates are placing stress on the labor market.

Unemployment Rate, Seasonally Adjusted



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

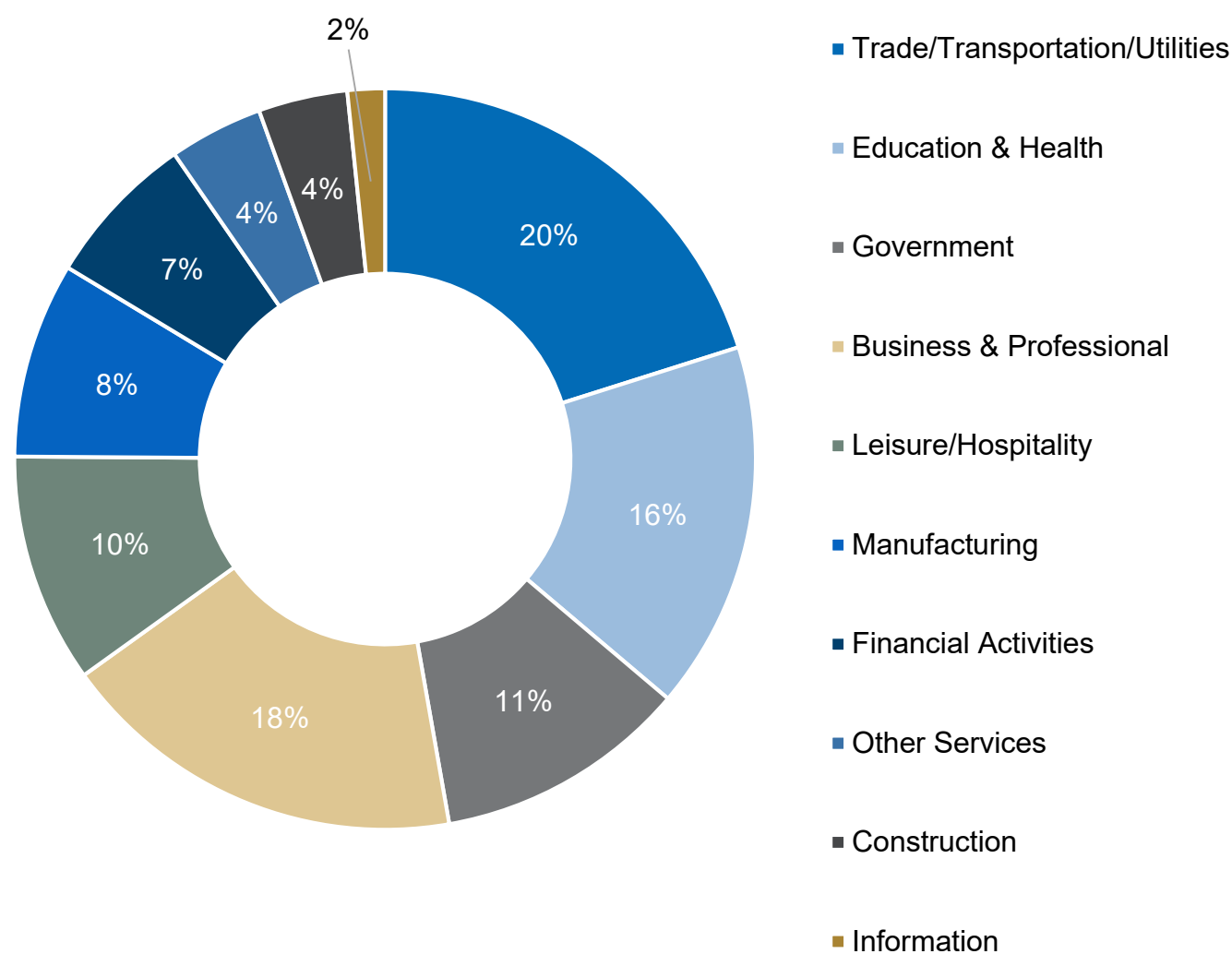


Source: U.S. Bureau of Labor Statistics, Chicago MSA

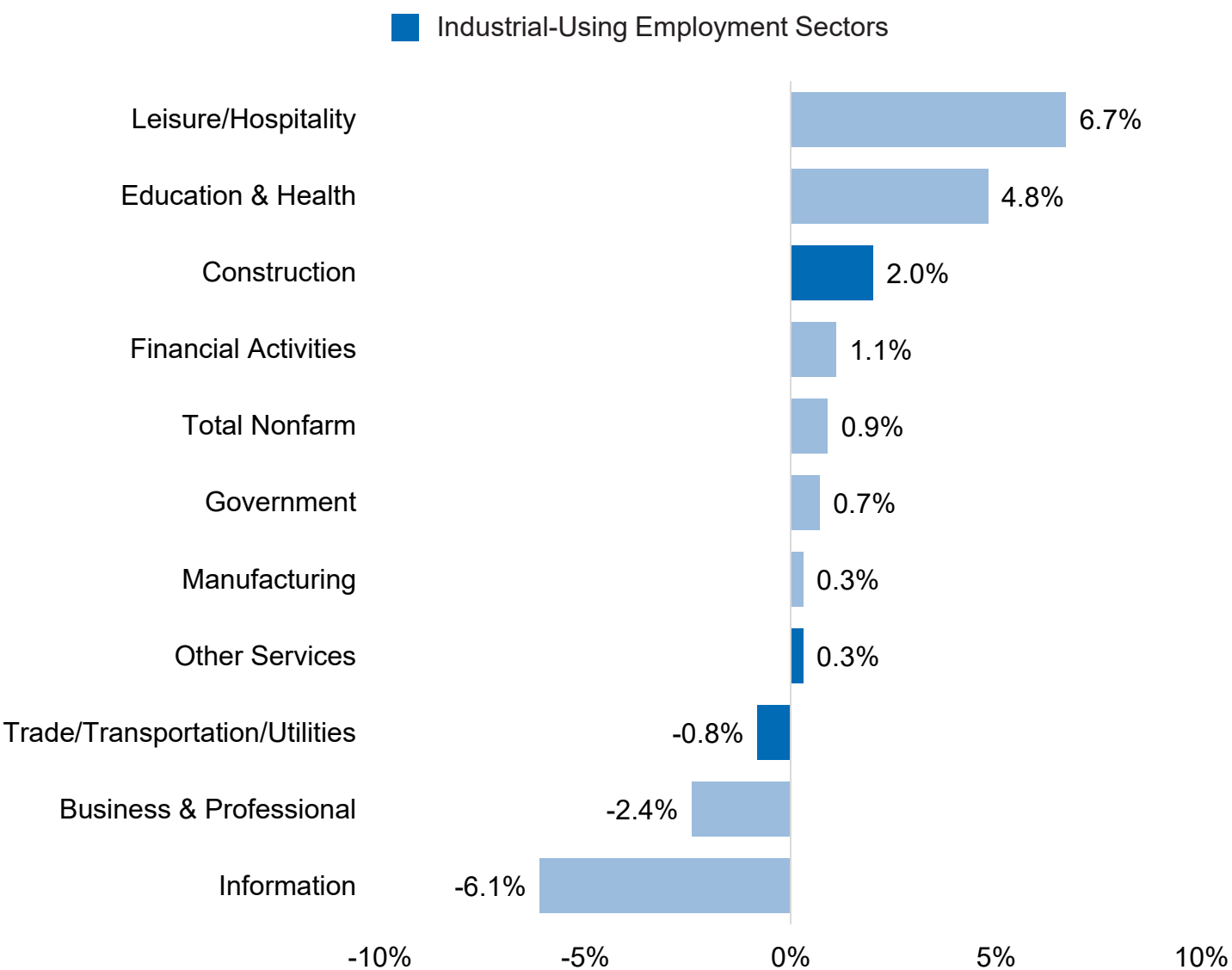
Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth with education & health next. Industrial-occupying or adjacent industries saw mostly positive results, with manufacturing experiencing a moderate gain. Construction saw a slight gain while trade/transportation/utilities saw no change.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

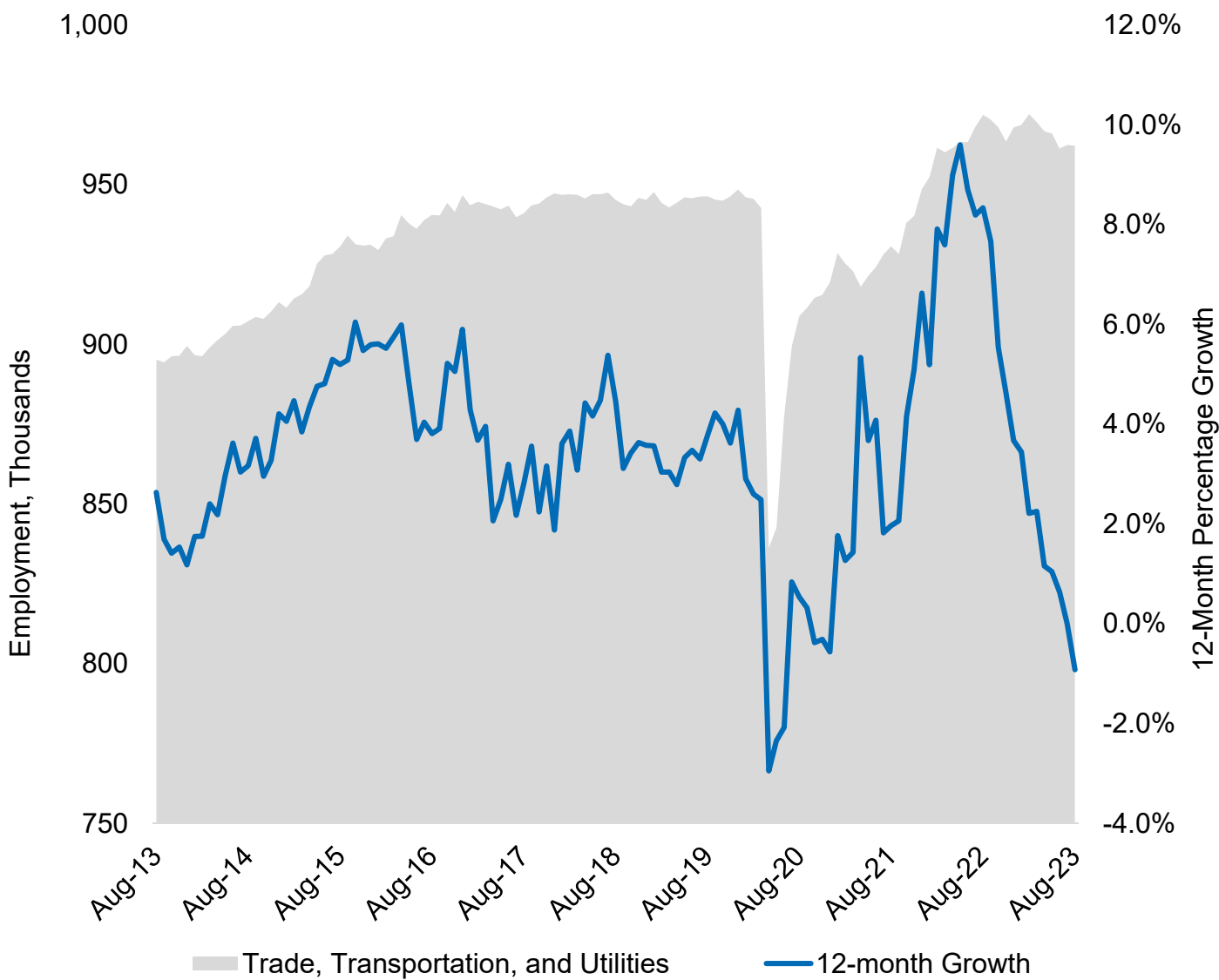


Source: U.S. Bureau of Labor Statistics, Chicago MSA

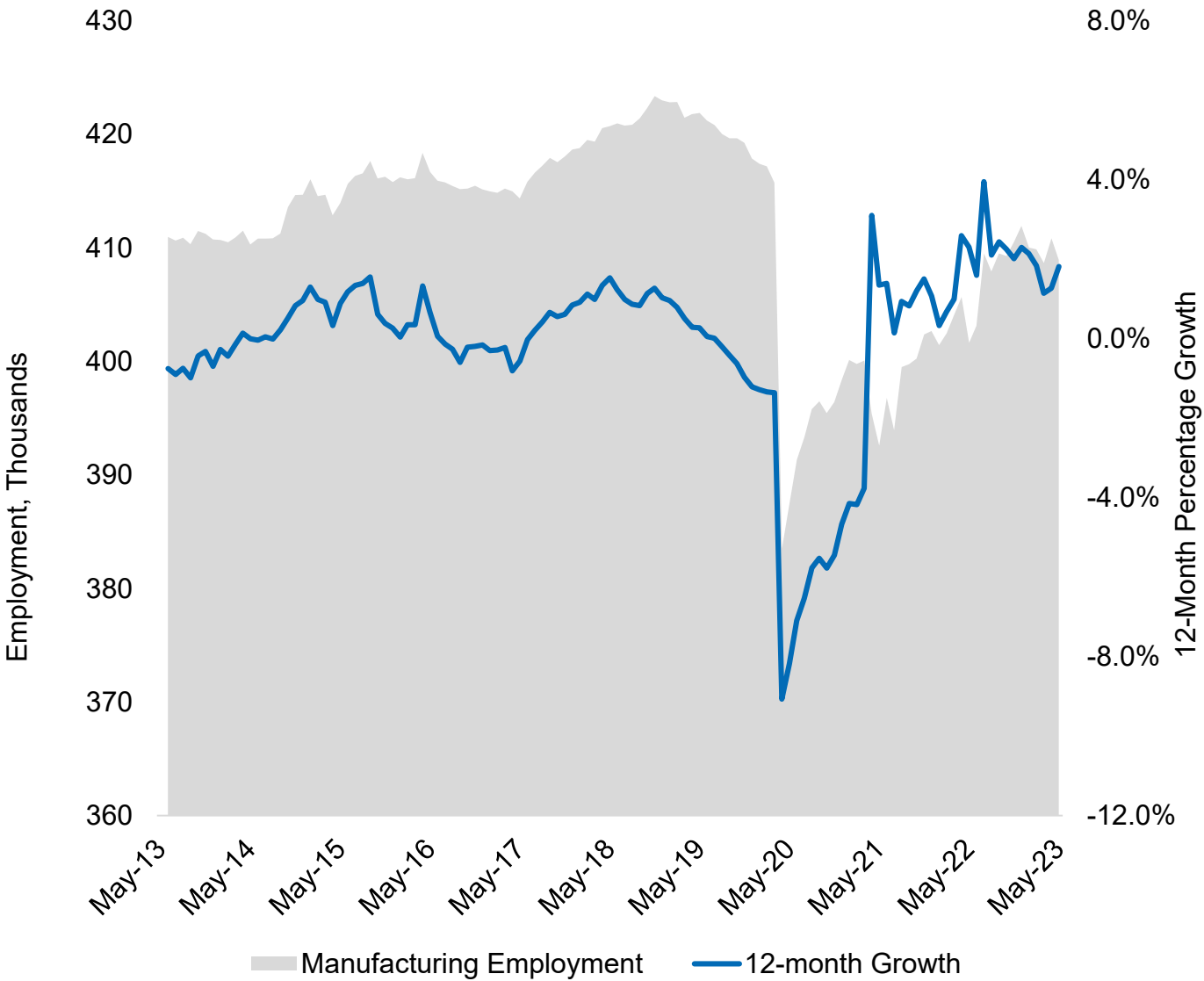
Industrial Employment Strong but Not Immune to Softening Conditions

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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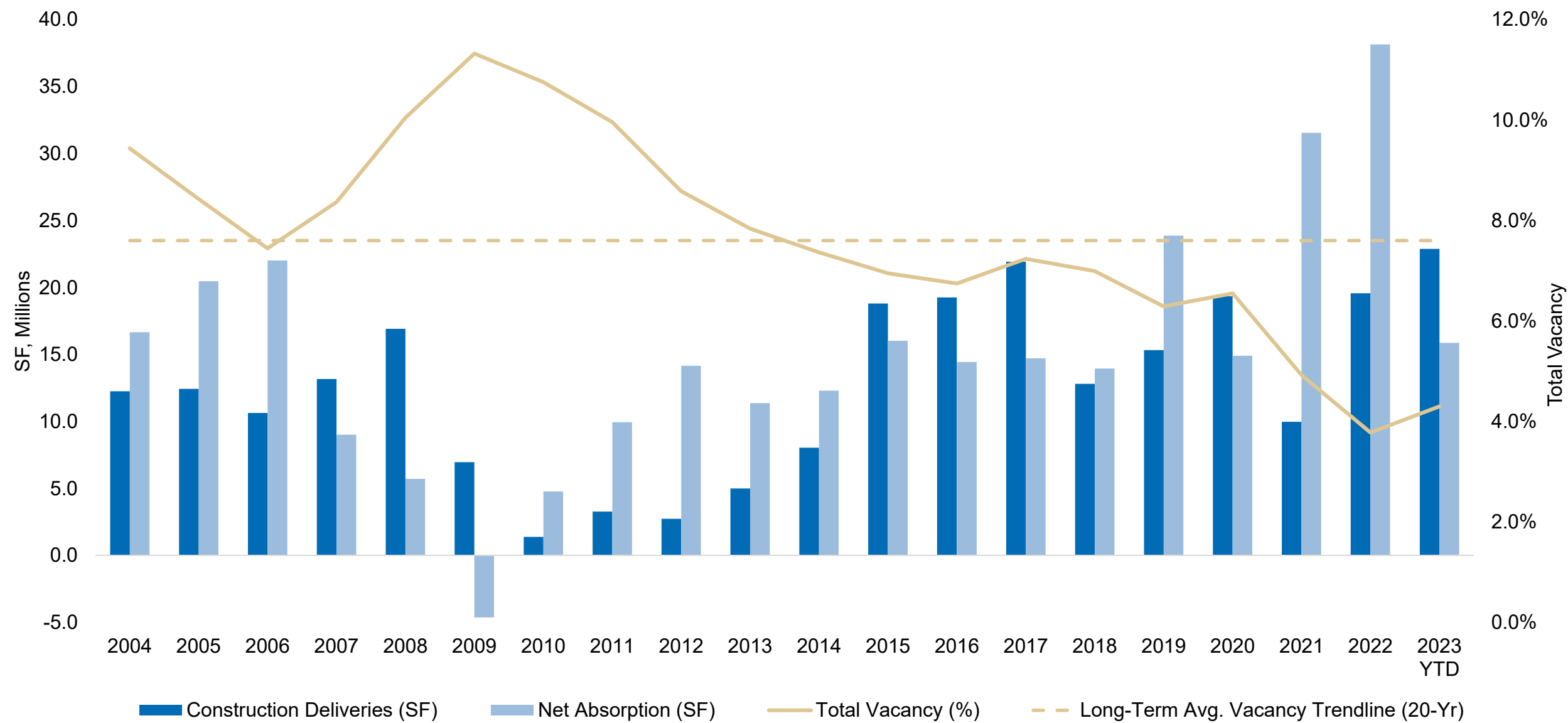
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased to 4.3% this quarter as the slowing leasing market could not keep up with the new deliveries. Vacancy levels still remain well below the 5.5% average over the last five years. As tenants are expected to remain cautious and the majority of the remaining 25 million SF of under-construction volume is expected to deliver over the next few quarters, vacancy will continue to be pressured upwards.

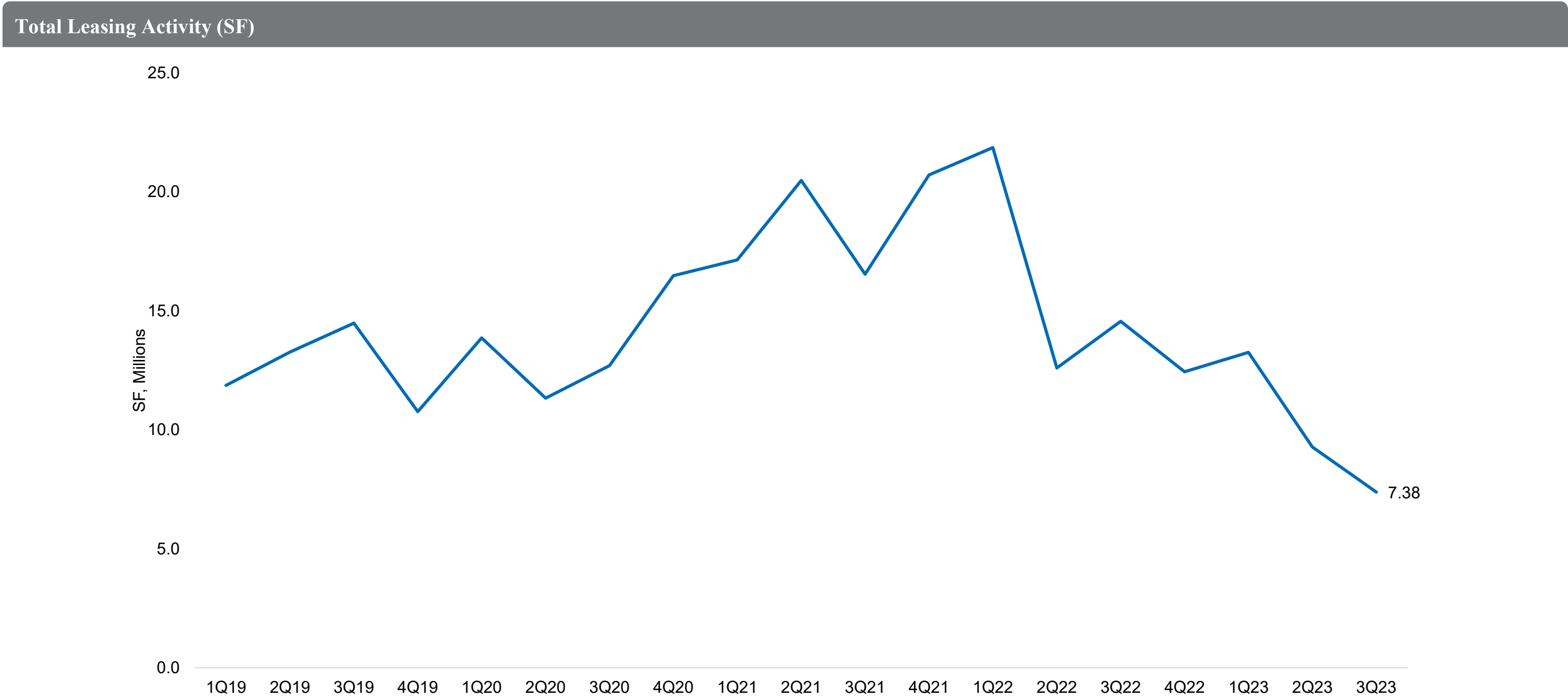
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Continues to Slow

After falling by nearly 50% in the second quarter of 2023, the decline in leasing activity continued but at a slower rate than the first half of the year, declining by 20% during the third quarter of 2023.



Source: Newmark Research, CoStar

Small Deal Volume Rises as Total Leasing Volume Falls

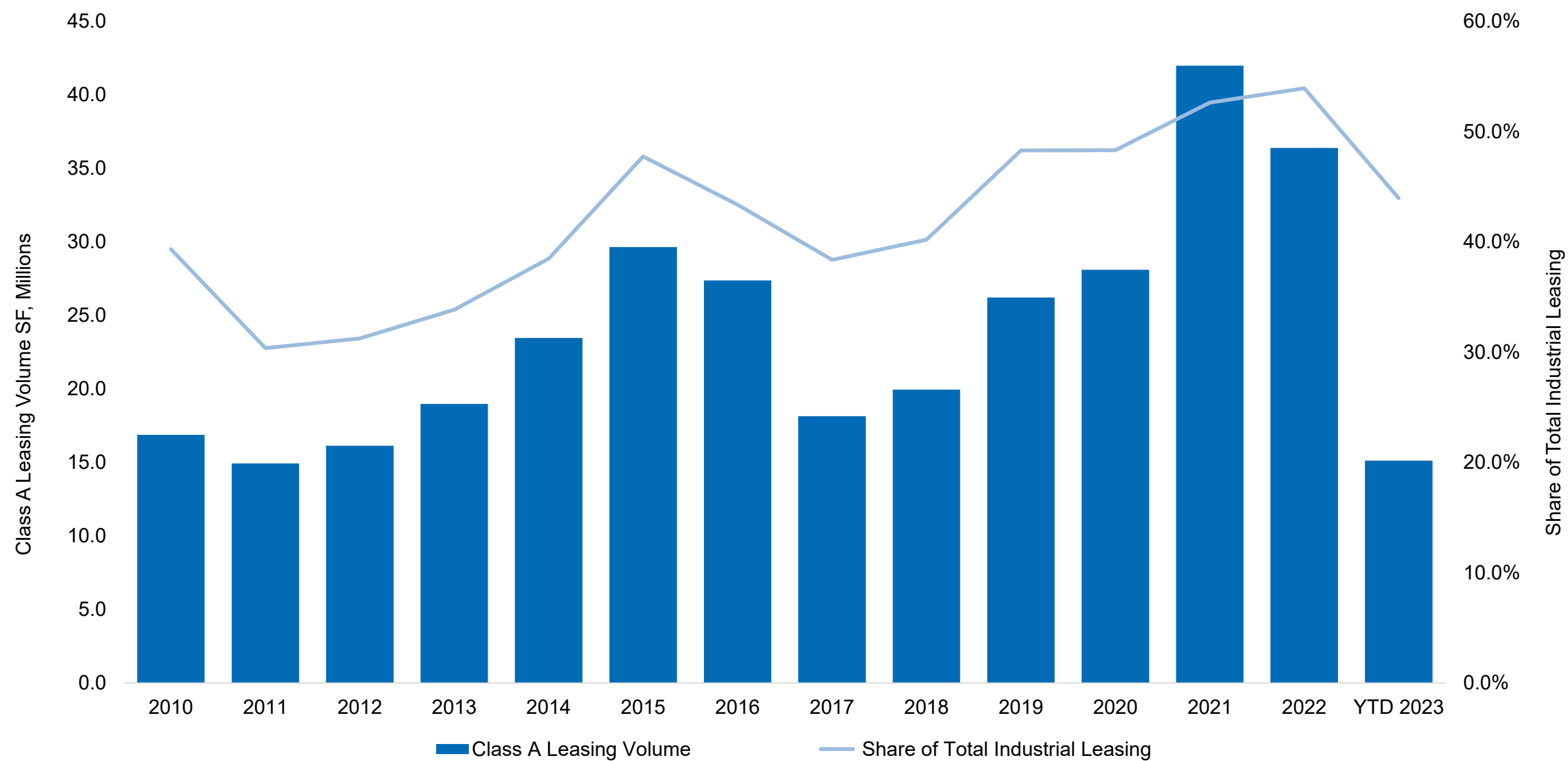


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Class A Warehouse Leasing Proportion above Long-Term Average

Class A leasing volume is on pace to total half of 2021 and 2022 annual volumes by the end of 2023. The share of Class A leasing has decreased to 44.0%, down nearly 10.0% from 2022 as the slowdown in leasing activity has hit larger, more expensive deal volume harder. Nevertheless, occupiers leasing space today need the higher clear heights and the more modern features available in Class A space. As the construction pipeline continues to deliver a record level of Class A space to the market over the next year, the share of Class A leasing is expected to continue to grow.

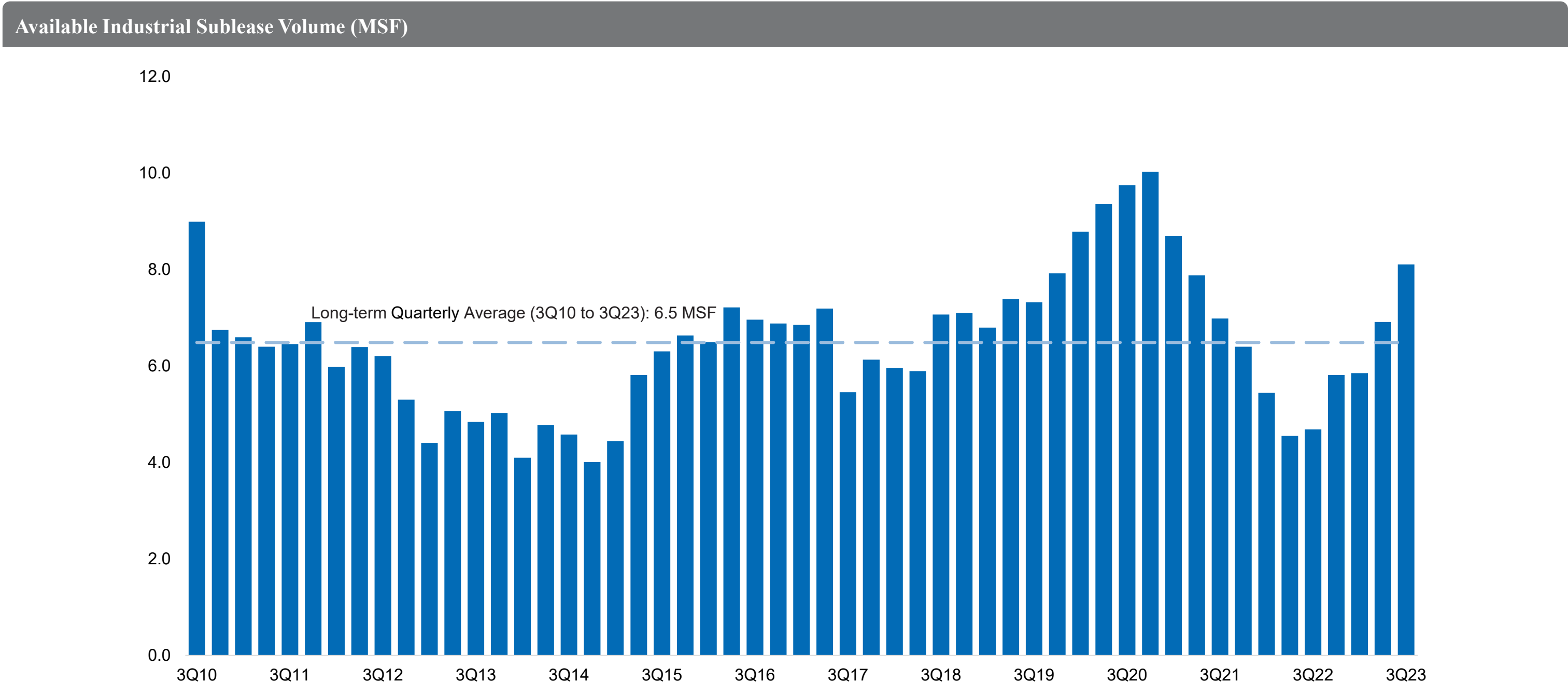
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes but Still Well below Pre-Pandemic Levels

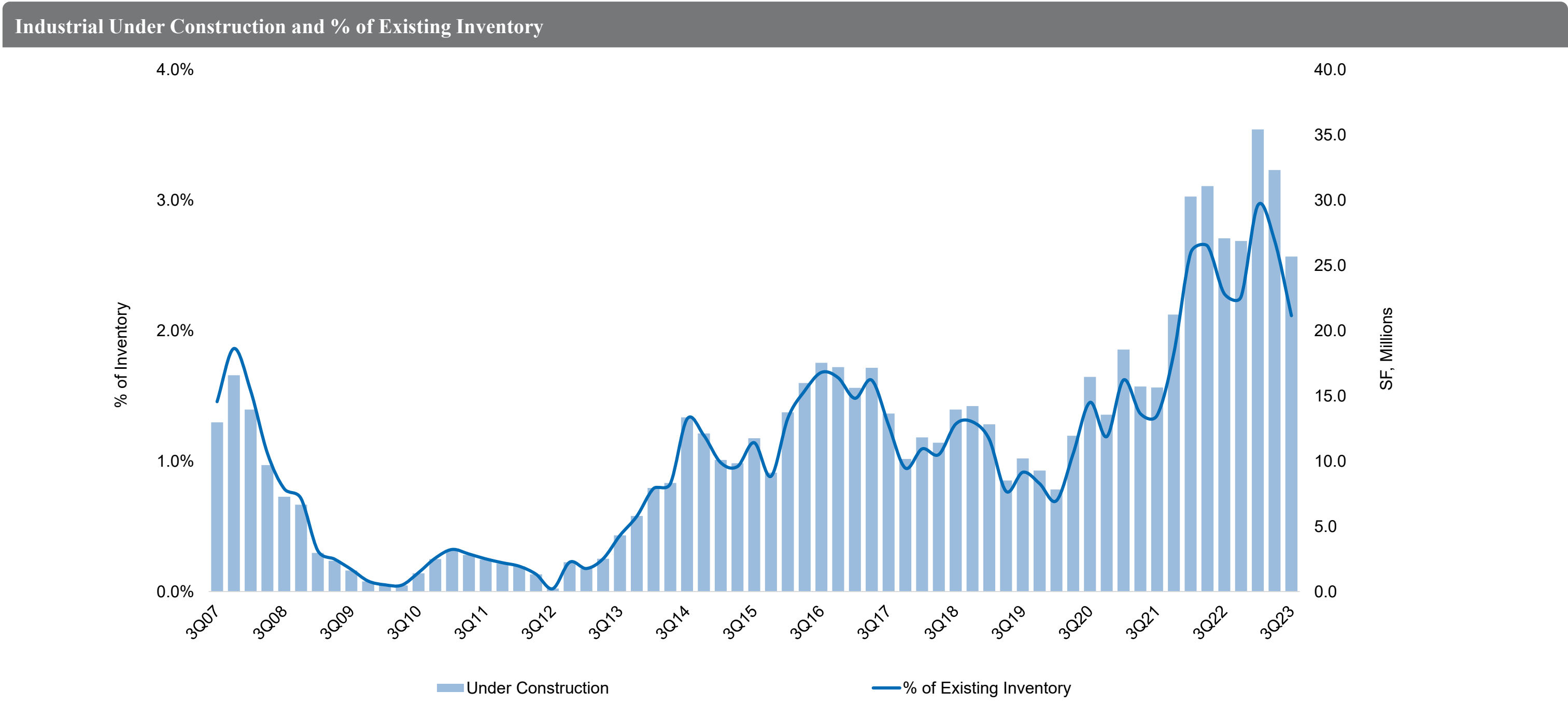
Sublease availability on average has increased 11.5% since its relative low of 4.6 million SF in the second quarter of 2022. In the second quarter of 2023, sublease availability surpassed the 13-year quarterly average for the first time since the third quarter of 2021. Although growth is significant, sublease availability only accounts for 0.6% of total industrial inventory, equal to the average proportion of inventory in that same 13-year time period. While some firms have begun to add excess or underutilized space up for sublease, the increase has not been significant enough to affect the market’s low vacancy.



Source: Newmark Research, CoStar

Industrial Deliveries Elevate Vacancy Rates and Construction Starts Dwindle

The construction pipeline has trended downward this quarter after a record level of 35.4 million SF began to deliver. Many developers are pausing new development, with some exiting land positions or attempting to extend purchasing contracts, amid slowing leasing activity and a challenging development financing environment. New construction starts will continue to decrease throughout the rest of the year, creating a possibility for potential supply constraints that may cause higher rent growth rates and lower vacancy as economic conditions improve in 2024 and 2025.



Source: Newmark Research

Pre-Leasing is Concentrated in the 1+ MSF Segment



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Lease Stabilization Rates Project to Rise for First Time since 2017

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Expiring Leases Face Significant Increase in Rental Rates

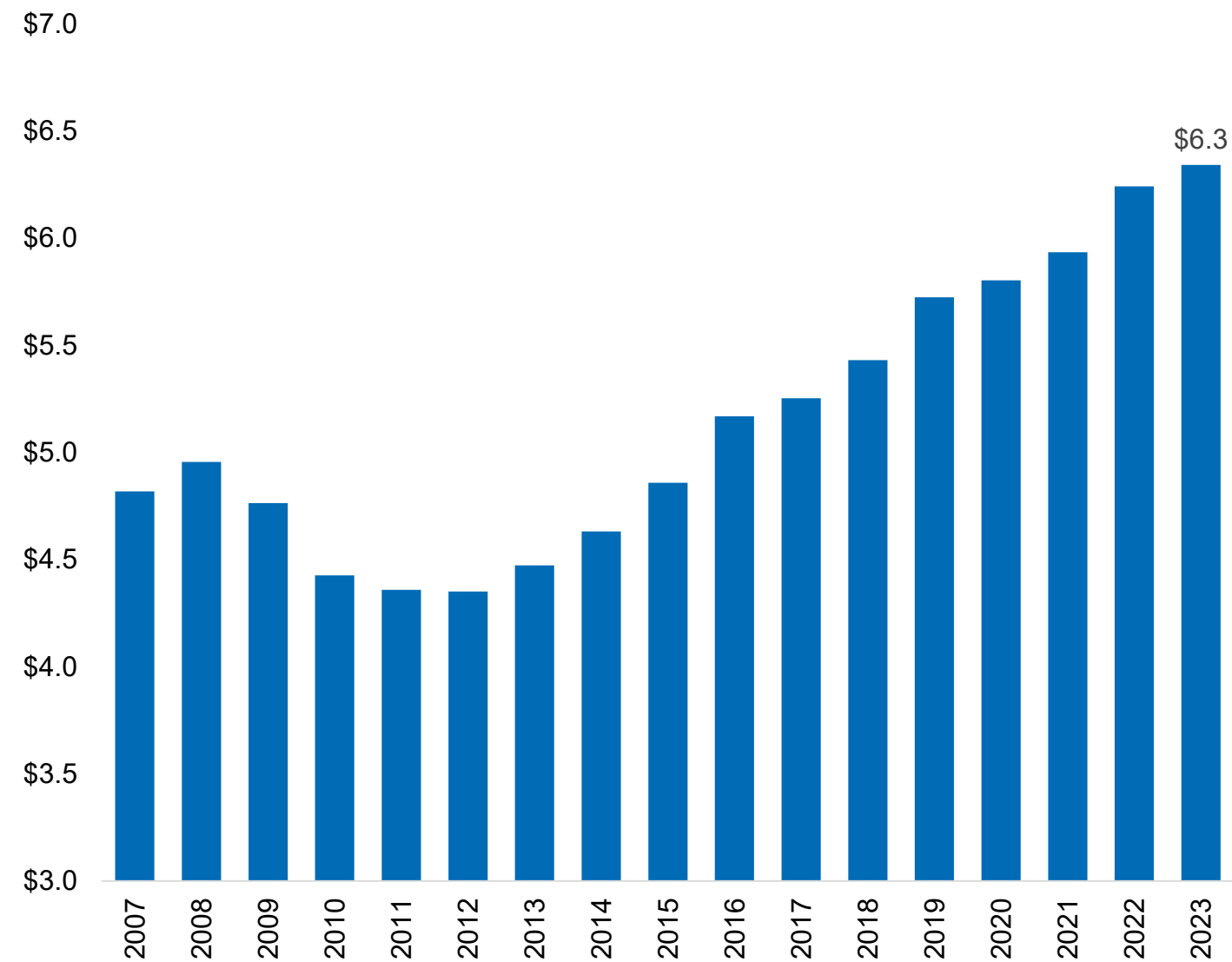


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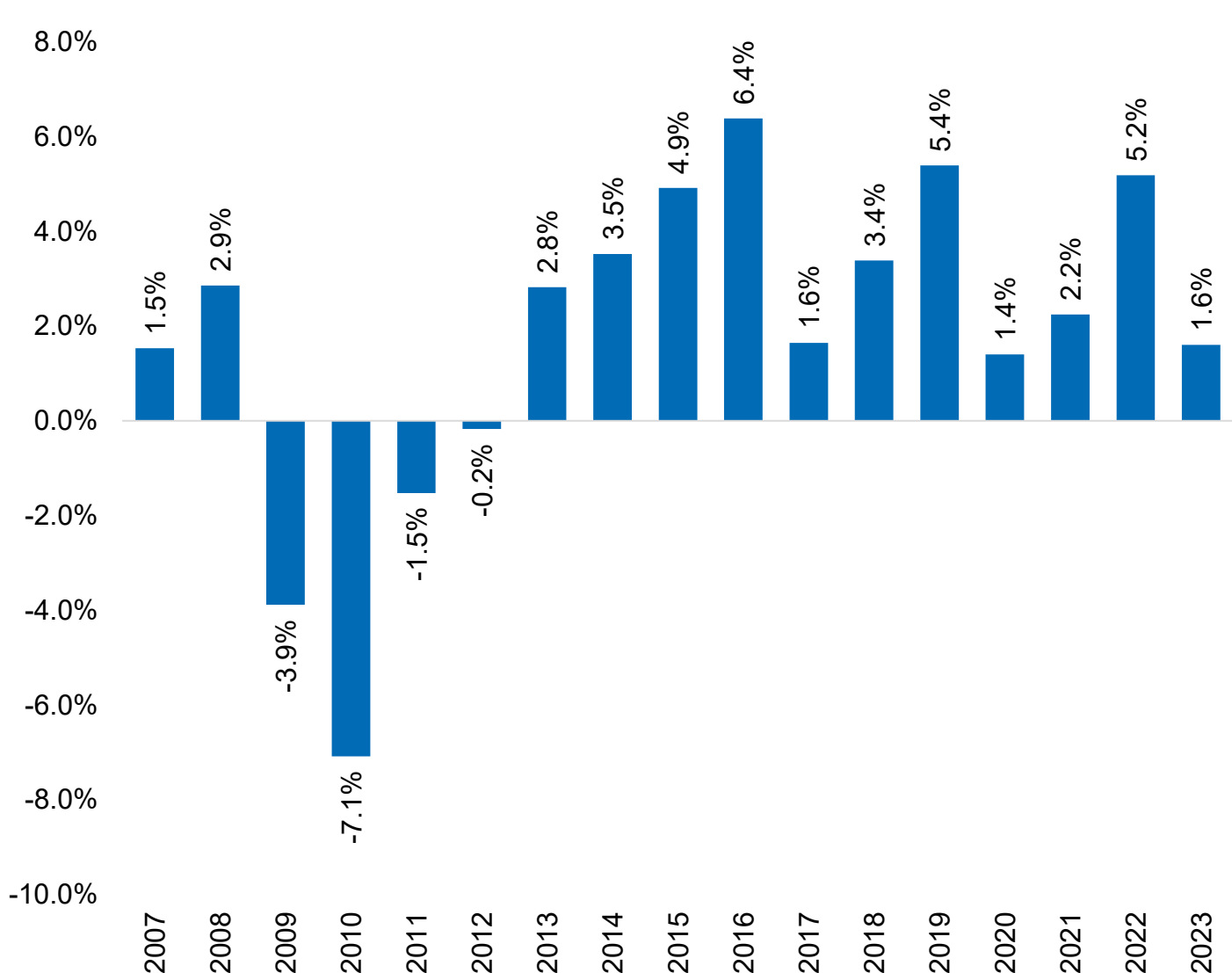
Record-Pace Industrial Asking Rent Continues to Decelerate

Asking rates have declined to \$6.27/SF this quarter, the second consecutive quarterly decline in two years resulting from slowing demand and more new Class A deliveries sitting vacant. Despite this slowdown, year-over-year asking rates are even with the \$6.27/SF rate this same time last year. Asking rates will continue to 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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Notable 3Q23 Lease Transactions

Leasing pace has slowed this quarter, with Geodis signing the only deal above 500,000 SF. The French logistics company will continue to occupy the entirety of the Pinnacle Business Center warehouse in Romeoville. Renewals made up 25.9% of the number of leases signed this quarter, just below the 29.0% of leases signed on average since the beginning of 2020.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Geodis	790 Taylor Rd.	I-55 Corridor	Lease Renewal	672,080
The Bradford Exchange	794 Golf Ln.	O'Hare	Lease Renewal	352,119
Kenco	290 Townline Rd.	I-80 Corridor	Direct New	320,365
Del Monte	501 Steward Rd.	I-39 Corridor	Direct New	312,750
Geodis	99 N Pinnacle Dr.	I-55 Corridor	Lease Renewal	280,962

Source: Newmark Research

Submarket Overview



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Capital Markets Fundamentals



Industrial Sales Volume Slows



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Industrial Pricing Continues to Rise



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Buyer Breakdown



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