



Chicago Industrial Market

Industrial Remains Well-Positioned to Sustain Healthy Growth

Despite a cooling national economy, Chicago's industrial sector remains a strength of the market's commercial real estate. Vacancy fell below its previous record level this quarter to 3.8%, a 20-basis-point decline from the previous quarter. The market seemed hesitant to make many moves as absorption fell to its lowest level since the end of 2020 at 3.7 million square feet, an 8.8-million-square-foot decline from the previous quarter. This drop in absorption is reflective of a slowdown in demand in line with the slowing economy, as well as the higher share of renewals signed over the last few quarters. Of deals that began in the fourth quarter of 2022, 70.3% were the result of direct leases. This share is up from the previous quarter's 61.1%. Construction activity remained steady this quarter, keeping the same level as the previous quarter with the 29.2 million square feet under construction. Only 1.0 million square feet delivered this quarter after the 12.0 million square foot boom of completions in the third quarter of 2022, when supply chain delays began to ease. Leasing volume slowed this quarter from the third quarter of 2022 as available space continues to dry up and rental rates increase. The top submarket by leasing was the I-80 Corridor for the second straight quarter, partly due to Home Depot's 990,000-square-foot direct lease at 3301 Brandon Rd. in Elwood, the largest deal in the market.

Current Conditions

- Vacancy fell to a record low to 3.8% this quarter, a 120 basis point decline year-over-year.
- 29.1 million square feet of industrial space is currently under construction.
- Absorption fell to 4.0 million square-feet this quarter, down 6.5 million square-feet from the previous quarter.

Market Summary

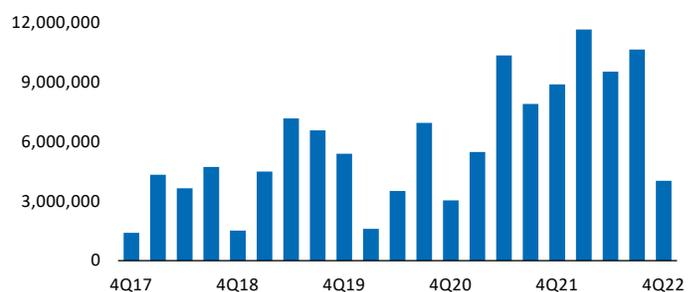
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	1.19B	1.19B	1.17B	↑
Vacancy Rate	3.8%	4.0%	5.0%	↓
Quarterly Net Absorption (SF)	4.02M	10.52M	8.77M	-
Average Asking Rent/SF	\$6.32	\$6.24	\$6.02	↑
Under Construction (SF)	29.13M	29.46M	21.10M	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



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In the O'Hare submarket, UPS signed the second-largest deal of the quarter, a direct lease of 364,650 square feet at Prologis Park in Bensenville. The largest lease renewal took place in the Far North submarket, where Madden Communications renewed its 301,174-square-foot space at 8725 31st St. in Somers, Wisconsin.

Construction

The ease of supply chain backlogs during the second half of 2022 enabled the restart of many halted projects and a surge of deliveries in the third quarter of 2022. 13.1 million square feet of new inventory delivered to Chicago in the second half of 2022, the largest two-quarter stretch of deliveries since 2017. The remaining backlog of projects will continue to deliver over the next year as the economy expects to slow. Of the current 29.1 million square feet of industrial space under construction in the market, half is expected to deliver over the next year. As the cost of capital continues its rise, new construction starts will slow as financing becomes more difficult. Since the Federal Reserve began increasing borrowing rates in 2022, construction starts averaged a 16.4% quarterly decline. This decline suggests a reduction in the delivery pipeline, potentially resulting in a scarcity of modern space for a market already grappling with historic lows in industrial vacancies. An economic slowdown, expected by many to be modest, may cause a marginal decrease in short-term demand, but Chicago's industrial market has proven to be fundamentally resilient over the past few years. As available space dries up and new inventory is not able to keep up with demand, industrial rents will continue to push strong levels of growth, especially for modern space. Chicago industrial rents have grown at record pace over the past two years, up by 9.1% year over year in the fourth quarter of 2022.

Year in Review

Although recent economic activity may suggest that real estate markets have slowed, 2022 concluded as the strongest year for industrial absorption since Newmark began tracking industrial data in 1999. Narrowly edging out 2021's then-record 32.5 million square feet of absorption, 2022 finished with 36.1 million square feet of positive net absorption. Of the 505 leases that began in 2022, 28.7 million square feet and 68.9% of industrial leasing volume were the result of direct deals, the largest of which was Amazon's 1.0-million-square-foot lease that began in August at the newly constructed CenterPoint Intermodal

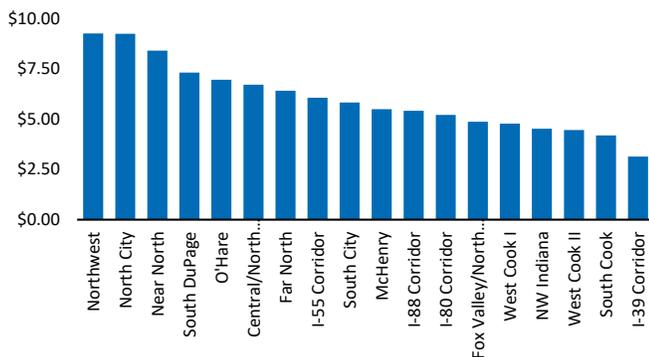
Center at 4300 Brandon Rd. in Elwood. The second-largest direct deal was Home Depot's lease in the same CenterPoint Intermodal Center, at 3301 Brandon Rd. for 990,000 square feet in October. Lease renewals made up the second-largest share of lease transactions, at 19.8% and 10.4 million square feet of leasing volume. The largest renewal of the year was the PAE Applied Technologies deal at 1070 Windham Pkwy. for 723,291 square feet in May. This year of leasing resulted in record low vacancy rates for the market, further cementing Chicago's position as a leading industrial hub in the United States.

Investment Sales

Investment sales for industrial properties in Chicago retained similar low volumes to the third quarter of 2022. Total sales volume fell 66.2% year over year from 4.3 million square feet to 1.5 million square feet in the fourth quarter of 2022. According to Green Street's data, cap rates have also continued to rise year over year as borrowing rates increase, up to 5.1% for Chicago industrial properties. The largest sales were concentrated in the city this quarter. The top sale belonged to Bally, who purchased the Chicago Tribune Freedom Center at 777 W. Chicago Ave. from Tribune Media in November. The 915,800-square-foot five-building property sold for \$199/SF, to be repurposed as a part of the upcoming Bally Casino. In October, Ivanhoe Cambridge purchased an 854,900-square-foot warehouse at 4115 W. Ogden Ave. in Chicago for \$20/SF from Ogden Development. The third-largest sale last quarter was TA Realty's purchase of a 757,557-square-foot warehouse at 2901 Old Higgins Rd. in Elk Grove Village from Stockbridge in November for \$92/SF. Private and institutional investors have retained most of the buyer composition at 77.7% to end 2022, with REITs falling to 12.6%. Acquisitions for Chicago industrial ended 2022 on a 26.4% decline year over year, in part due to more difficult financing scenarios caused by the surge in borrowing rates.

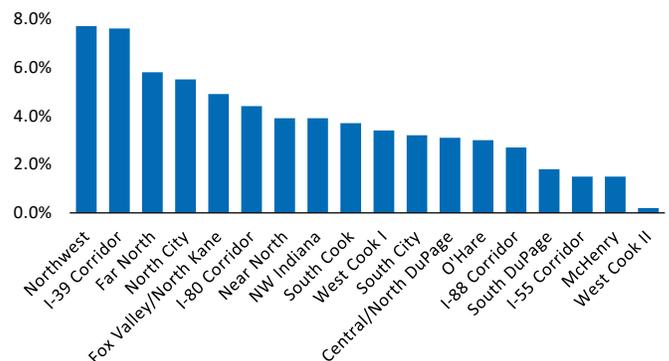
Average Asking Rent

BY SUBMARKET



Vacancy

BY SUBMARKET

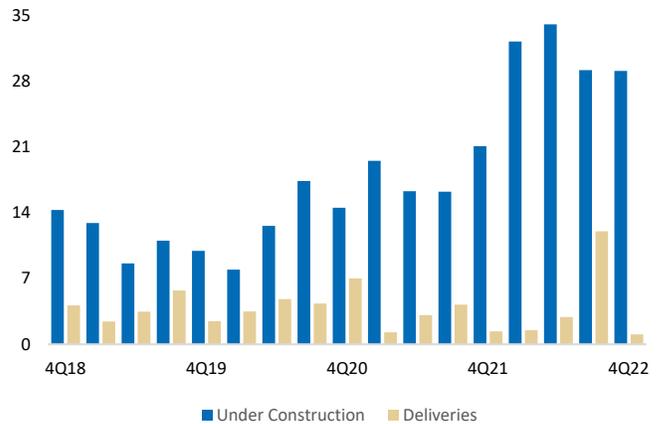


Outlook

Real estate fundamentals in Chicago's industrial market have remained strong even as markets have slowed. Vacancy rates have held record lows for another consecutive quarter even as absorption dropped to a two-year low. Construction starts have begun to slow as the rise in the cost of capital makes the path to development financing more difficult. This slowdown may lead to continued strong rent growth as the construction pipeline deliveries begin to taper off over the next few years and available space dries up. Investment sales fell over the final two quarters of 2022, along with cap rates, as borrowing rates rise. Experts still believe that an upcoming economic downturn will be mild. As industrial has demonstrated its resiliency, the industrial market in Chicago is believed to be well-positioned to sustain its healthy growth.

Construction and Deliveries

SF, MILLIONS



Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Home Depot	I-80 Corridor	3301 Brandon Road	Direct	990,000
UPS	O'Hare	Busse Road & Devon Road	Direct	364,650
Madden Communications	Far North	8725 31st Street	Renewal	301,174
Tailored Brands, Inc.	I-88 Corridor	2000 Deerpath Road	Direct	282,616
Hubbell Lighting	I-88 Corridor	945 Corporate Drive	Renewal	274,664
Walgreens	I-55 Corridor	370 W Crossroads Parkway	Renewal	258,560
JBS Logistics	I-55 Corridor	333 Gibraltar Drive	Direct	225,730
Sunland Logistics	I-88 Corridor	4394 Liberty Street	Renewal	200,200
UPS	I-88 Corridor	3700 S Morgan Street	Direct	178,850

Investment Sales

Buyer	Submarket	Building	Price Per SF	Square Feet
Bally	North City	777 W Chicago Avenue	\$199	915,800
Ivanhoe Cambridge	South City	4115 W Ogden Avenue	\$20	854,900
TA Realty	O'Hare	2901 Old Higgins Road	\$92	757,557
TA Realty	O'Hare	1485 Elmhurst Road	\$92	757,557
Carlson Labs	Far North	100 Schelter Road	\$56	386,072
Brookfield Asset Management	I-55 Corridor	2601 Internationale Parkway	\$90	356,541
Cabot Properties	North DuPage	230-260 E Lies Road	\$94	347,400

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	89,979,701	769,568	3.1 %	219,250	2,505,634	\$4.85	\$10.57	\$6.72
Far North	127,300,025	4,829,606	5.8 %	478,648	3,483,595	\$5.27	\$9.53	\$6.42
Fox Valley/North Kane	37,768,920	3,104,847	4.9 %	224,046	459,304	\$4.13	\$8.46	\$4.87
I-39 Corridor	32,295,449	2,400,000	7.6 %	118,305	60,551	\$3.70	\$10.71	\$3.14
I-55 Corridor	116,274,050	3,965,702	1.5 %	-483,684	8,876,070	\$4.38	\$11.67	\$6.07
I-80 Corridor	113,705,920	5,510,400	4.4 %	1,245,703	7,227,100	\$4.96	\$7.53	\$5.21
I-88 Corridor	77,308,912	1,020,329	2.7 %	457,544	3,319,606	\$4.46	\$11.42	\$5.42
McHenry	17,341,096	435,400	1.5 %	69,908	234,538	\$7.19	\$7.08	\$5.50
Near North	55,176,851	-	3.9 %	200,304	878,745	\$7.16	\$10.70	\$8.42
North City	72,231,352	1,184,800	5.5 %	218,621	-16,085	\$7.66	\$7.90	\$9.26
Northwest	33,456,495	1,956,291	7.7 %	-322,617	504,050	\$6.33	\$9.15	\$9.27
NW Indiana	23,566,811	525,138	3.9 %	-	373,931	\$4.27	\$10.00	\$4.53
O'Hare	123,806,725	1,199,510	3.0 %	-71,050	1,201,431	\$5.51	\$10.20	\$6.96
South City	106,348,459	130,614	3.2 %	590,334	2,081,345	\$8.19	\$7.53	\$5.83
South Cook	79,309,220	927,938	3.7 %	589,995	2,523,865	\$3.67	\$10.98	\$4.19
South DuPage	8,814,737	126,445	1.8 %	52,931	168,939	\$2.90	\$9.53	\$7.32
West Cook I	68,024,096	1,042,018	3.4 %	450,371	1,224,963	\$4.31	\$9.02	\$4.78
West Cook II	9,091,082	-	0.2 %	-20,417	149,583	\$4.46	-	\$4.46
Market	1,192,352,535	29,128,606	3.8 %	4,018,192	35,257,165	\$5.44	\$9.65	\$6.32

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Economic Conditions

As 2022 concludes, the global economy continues to face instability amidst converging factors, including residual COVID-19 impacts, European energy sanctions, China's housing market crisis, the war in Ukraine and widespread inflation. Perhaps the biggest focus for Americans is the increasing likelihood of a recession in the first half of 2023. The Fed's announcement of a 50 basis-point hike in mid-December has brought interest rates to a 15-year high at a target range of 4.25% to 4.5%, with no indication of rate cuts anytime soon.

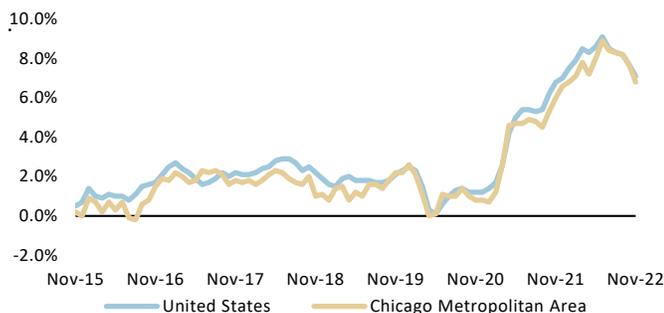
While the most recent US CPI measure of 7.1% is high relative to pre-pandemic levels, November's report is down significantly from June's peak of 9.0% and is an optimistic sign that the FOMC's monetary tightening efforts have been effective in decelerating price increases. Inflation rates in Chicago have mirrored this national decrease, with the latest CPI measured at 6.8%, a 210 basis-point reduction from June's peak.

Despite the economic slow down engineered by the Fed, the labor market has remained resilient in 2022, with the latest data from the BLS showing a national unemployment rate of 3.7%. Demand for workers is also outpacing supply in the Windy City with unemployment at 4.5%, perhaps fueled by strong job growth in the hospitality, manufacturing and tech industries. Illinois mass layoff claims are down more than 50% year-over-year, and workers who are being laid off are finding new jobs quicker than at the height of the pandemic. This workers market will not prevail in the long-term, however, as the Fed's future rate hikes will bring the labor market back into equilibrium, decreasing wage growth, and ultimately, prices.

The outlook for 2023 is one of slow GDP growth, a likely recessionary period, falling consumer sentiment and a softening in business investment. While the coming months may present some challenges, the US has historically been able to rebound from onerous periods of stagnant economic activity. The extent to which we'll begin to see a reversion to "normalcy" will largely be dependent on the efficacy of the Central Bank's monetary policy in conjunction with solutions to geopolitical frictions across the globe.

Consumer Price Index (CPI)

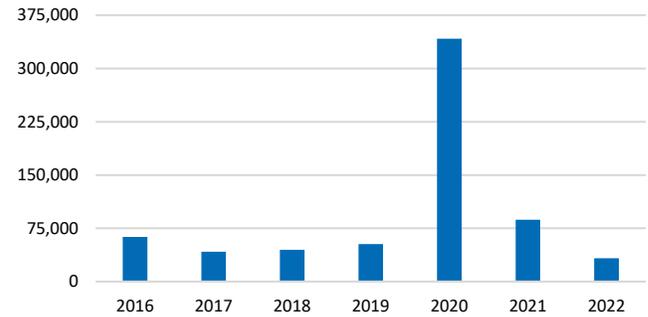
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

Layoff Statistics

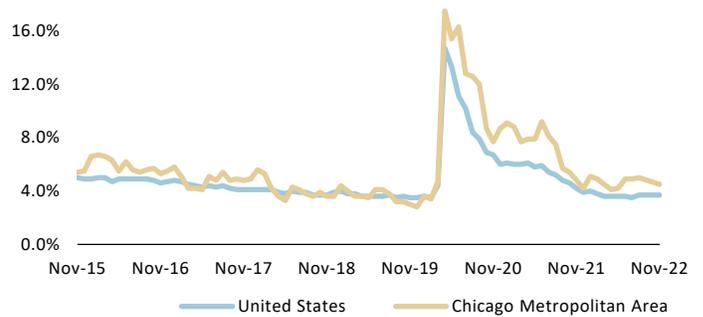
IL MASS LAYOFFS (INITIAL CLAIMS), NOVEMBER 2022



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

Unemployment Rate

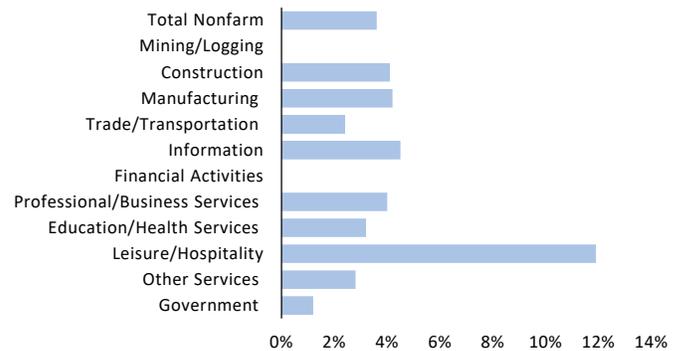
SEASONALLY ADJUSTED, NOVEMBER 2022



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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