

4Q23

Chicago Industrial Market Report

NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. November’s 4.6% 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 all positive results, with manufacturing and construction experiencing a moderate gains.

Major Transactions

- Life Fitness, the Illinois based training equipment producer, signed the largest direct deal of the quarter. The group signed a direct deal to stay in 464,400 SF at 3901 Rock Run Blvd after previously subleasing the Joliet space.
- Reynolds signed a 452,505 SF direct deal at 25100 S Ridgeland Ave.
- CalSTRS’s purchase of the 897,377 SF at Weber55 Logistics Park in Romeoville from Molto Properties in October for \$127/SF was the most expensive deal of the quarter. The 2 building, newly constructed Class A logistics center is currently partially occupied by RJW Logistics Group.

Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled 5.6 million SF, finishing 2023 with 2 straight quarters of positive quarter over quarter absorption growth despite tenants remaining cautious amid the higher interest rate environment.
- The construction pipeline continues to empty, with 7.6 million SF delivering this quarter and totaling 30.4 million SF of deliveries during 2023. Construction starts have continued to slow as development financing remains difficult.
- Vacancy increased 20 basis points to 4.5% this quarter as new construction deliveries outpaced absorption for the third time this year. 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 18 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 increased to \$6.37/SF this quarter, the highest value since the first quarter of 2023 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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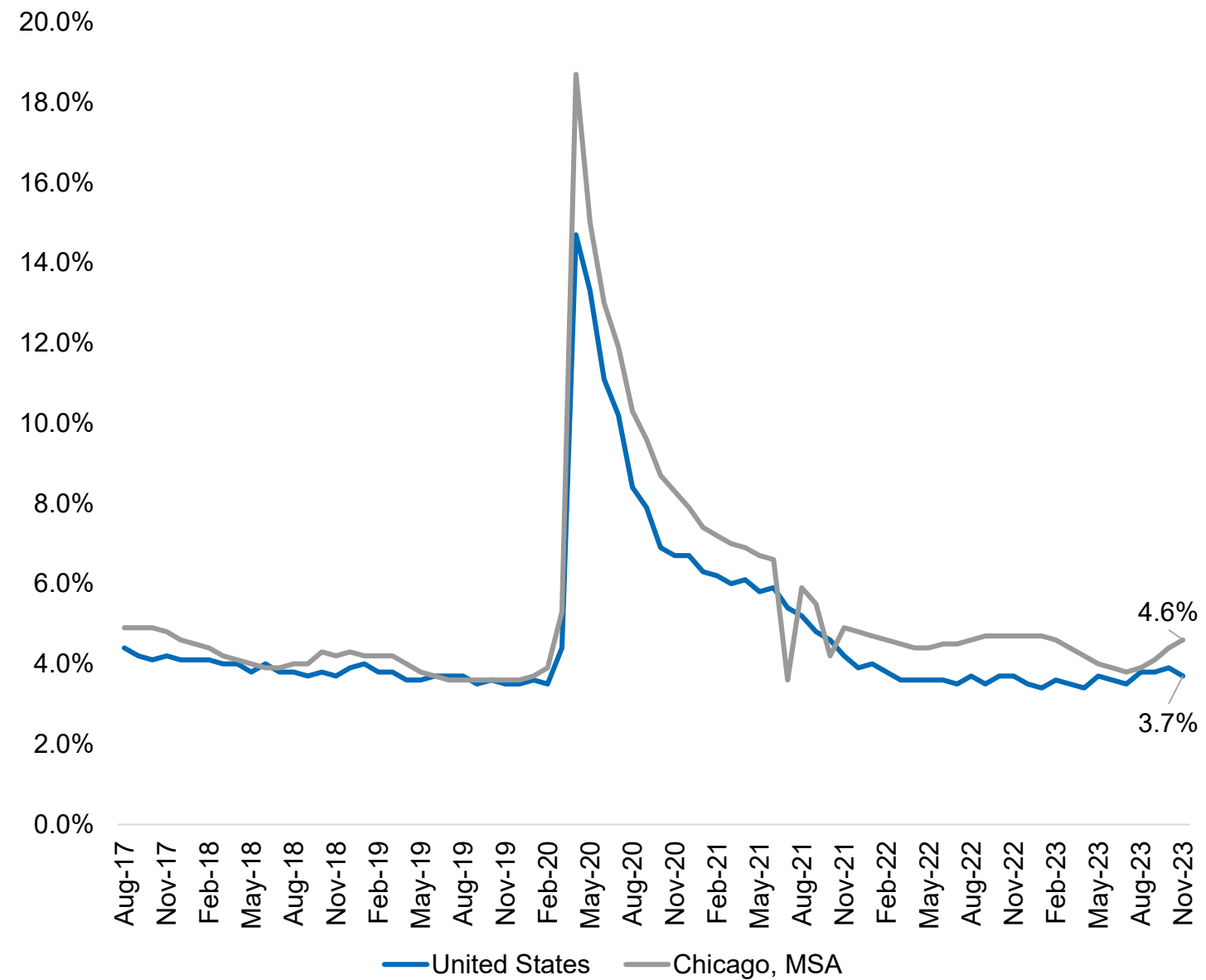
Economy



Metro Employment Trends Signal A Slowing Economy

Chicago’s unemployment rate is typically slightly higher than the national average, and job growth has slowed in the last year. Persistently high inflation and increasing interest rates are placing stress on the labor market. Chicago’s unemployment rate increased over the past several months losing any gains it had made in the first half of 2023.

Unemployment Rate, Seasonally Adjusted



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



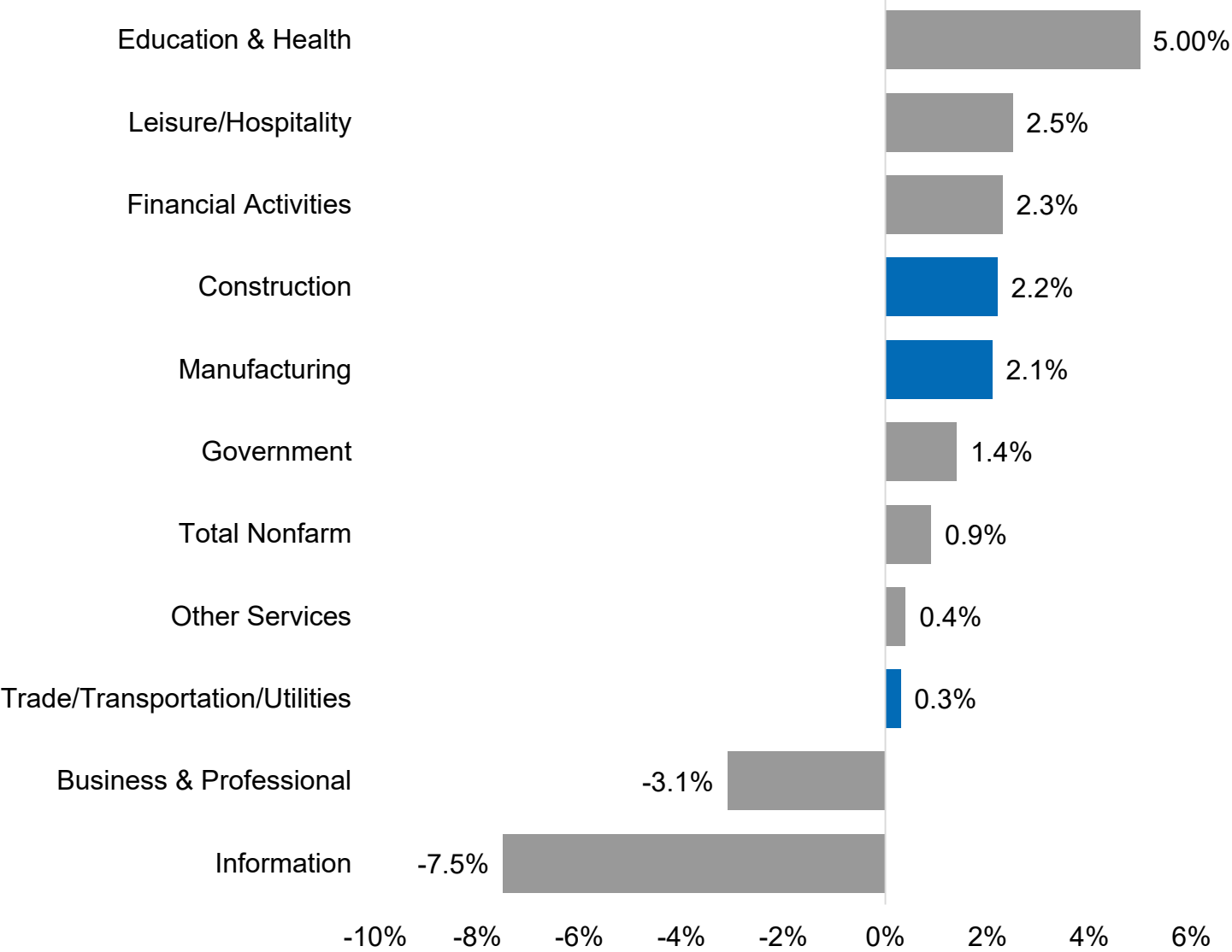
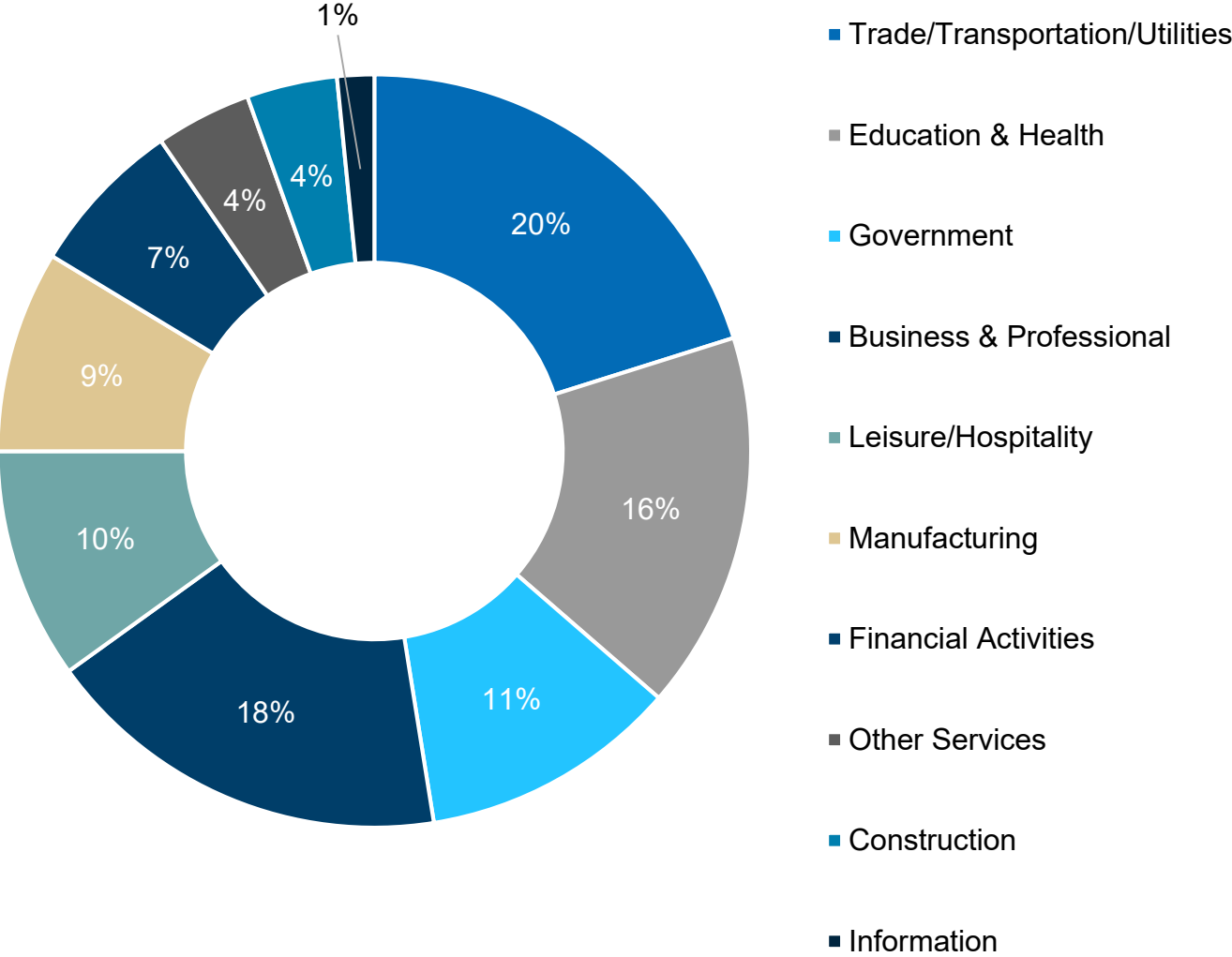
Source: U.S. Bureau of Labor Statistics, Chicago MSA

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, November 2023

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

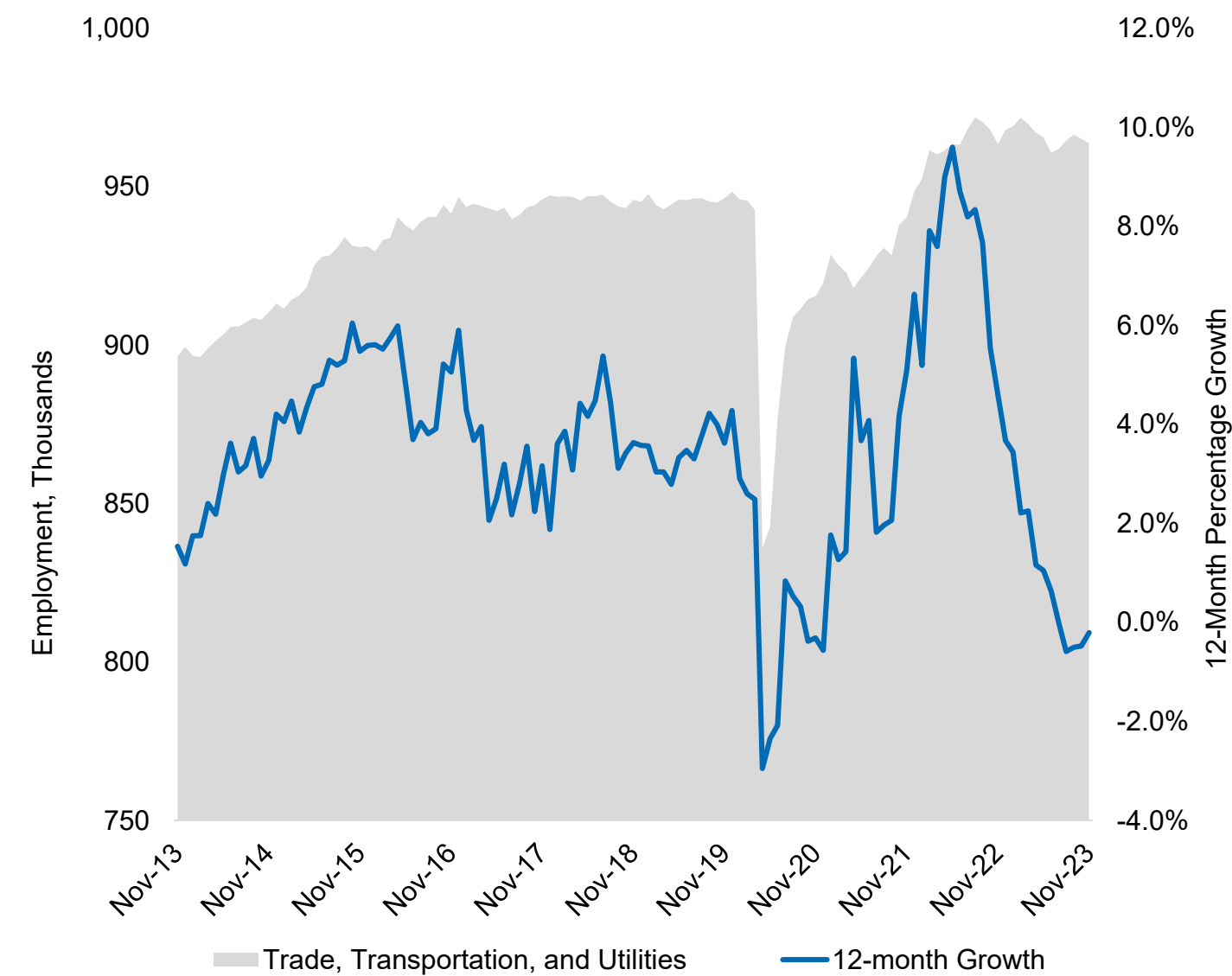


Source: U.S. Bureau of Labor Statistics, Chicago MSA

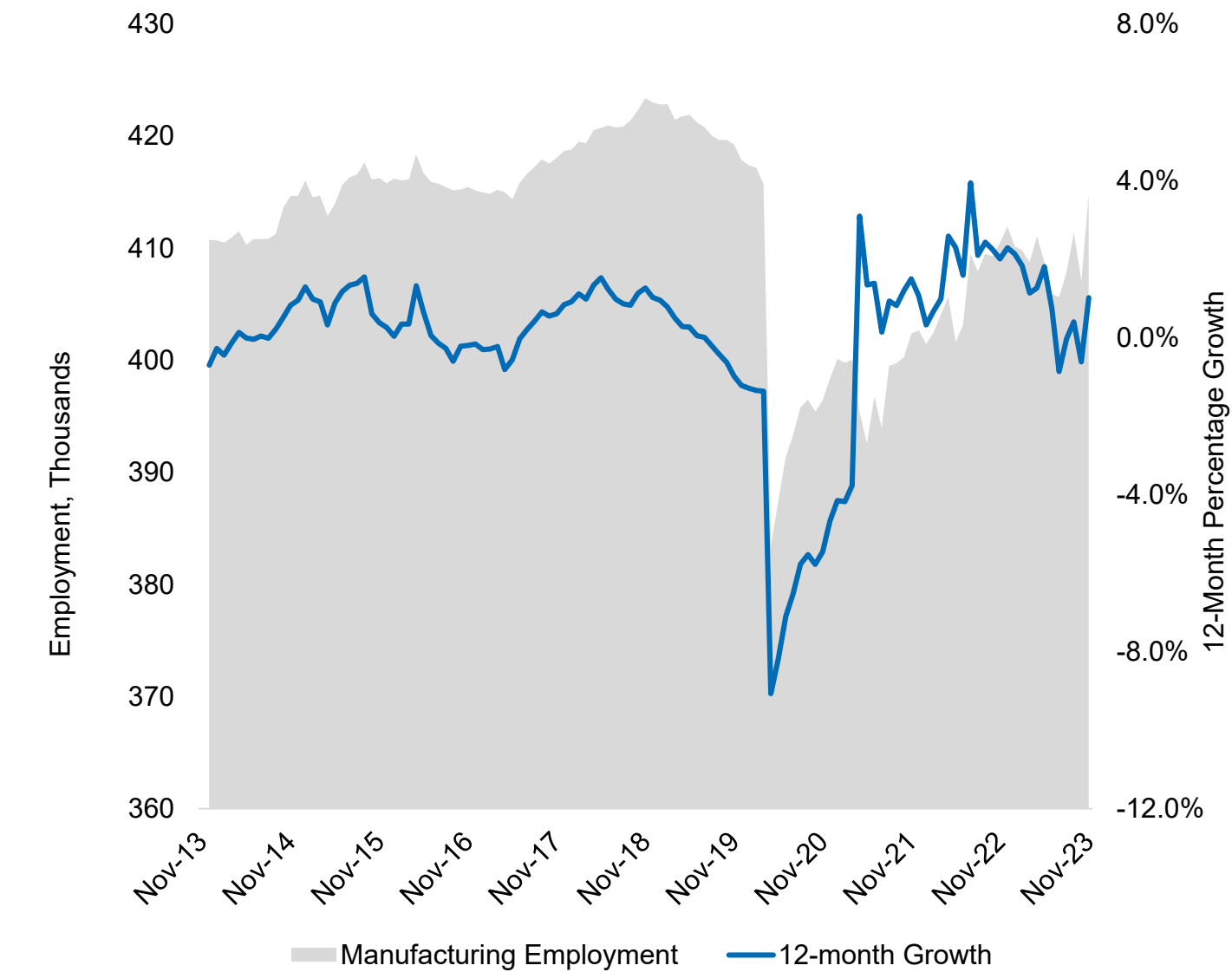
Industrial Employment Strong but Not Immune to Softening Conditions

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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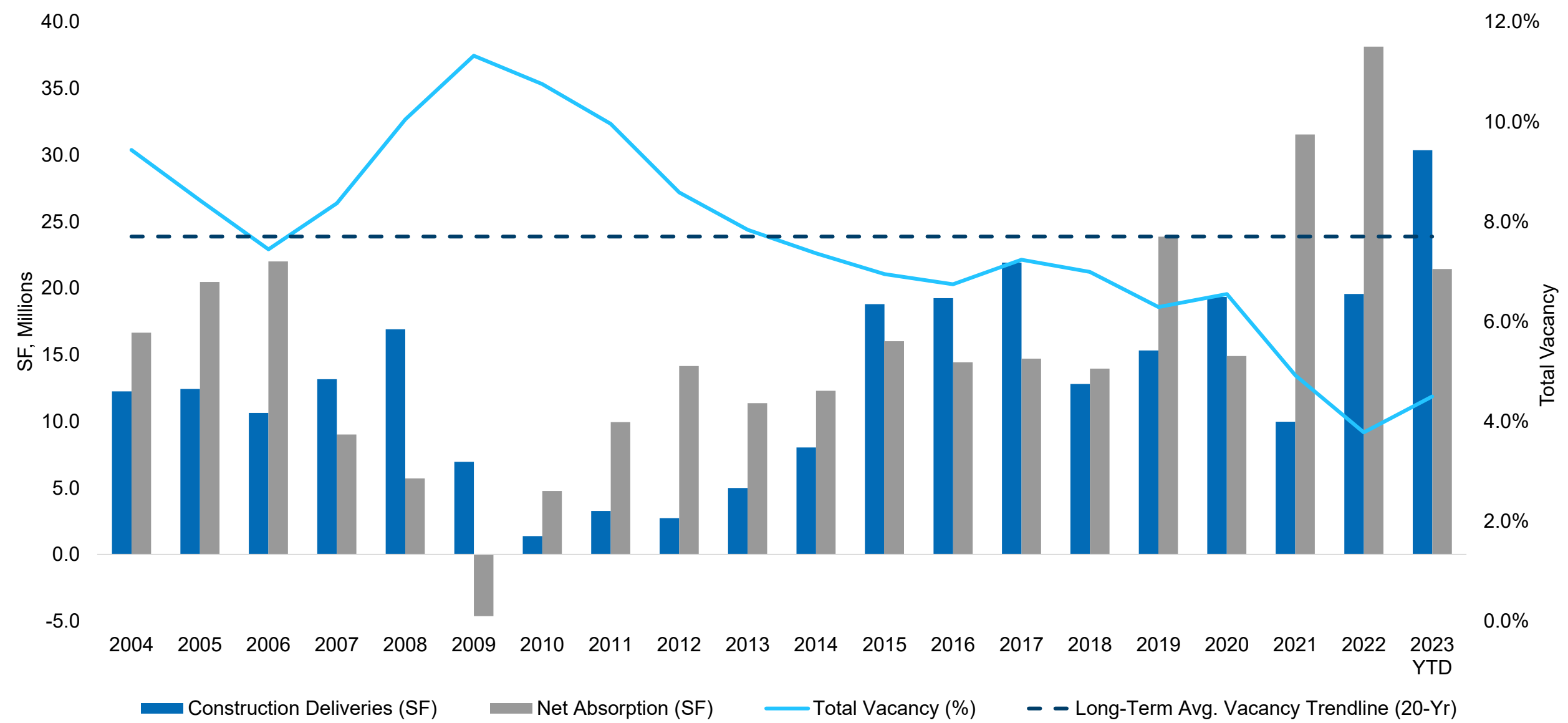
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased 20 basis points to 4.5% this quarter as new construction deliveries outpaced absorption for the third time this year. 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 18 million SF of under-construction volume is expected to deliver over the next few quarters, vacancy will continue to be pressured upwards.

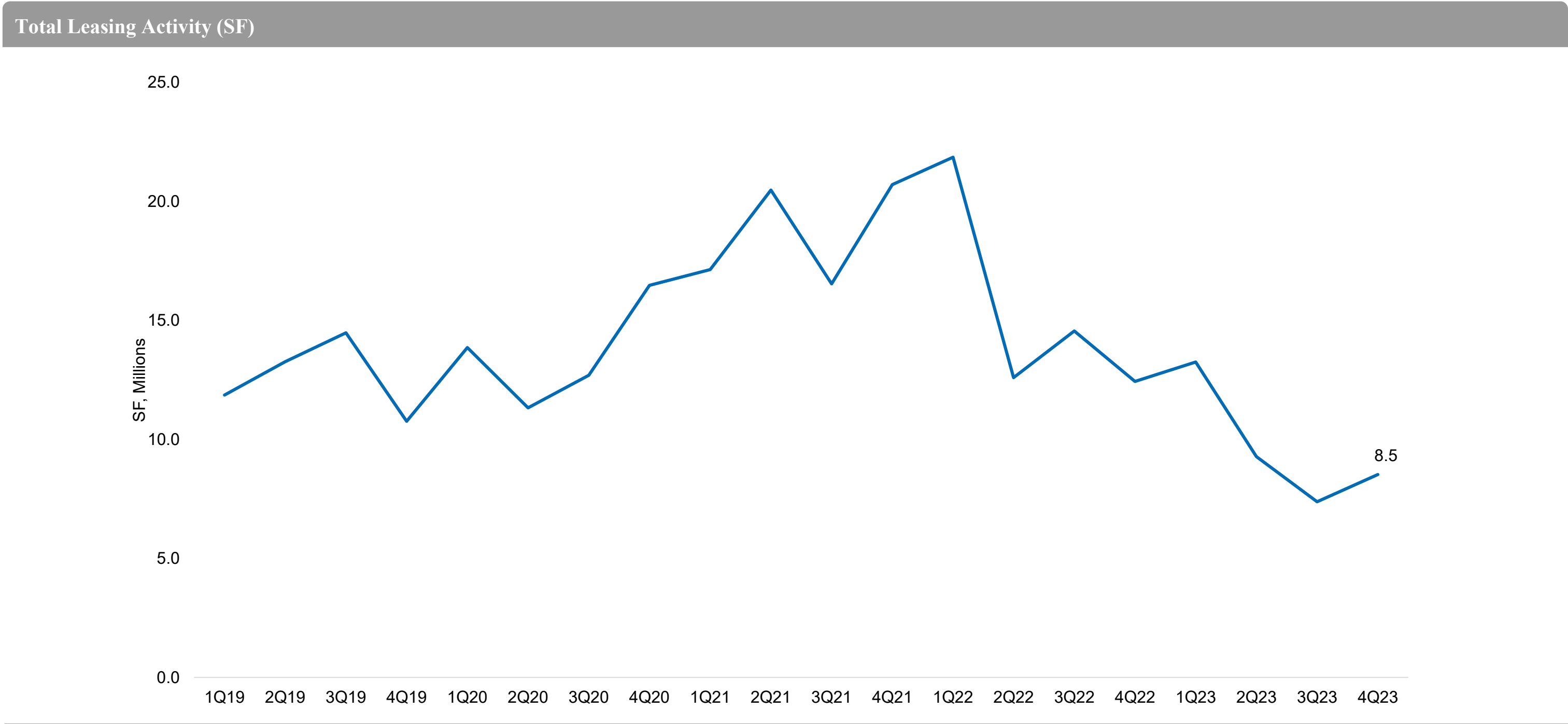
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Continues to Slow

After falling each quarter of 2023, the leasing activity jumped to 8.5MSF and finished 2023 on a positive note after its dramatic slowdown. 2023 finished with 38MSF of total leasing activity, 32% lower than the average total of the last 4 years.



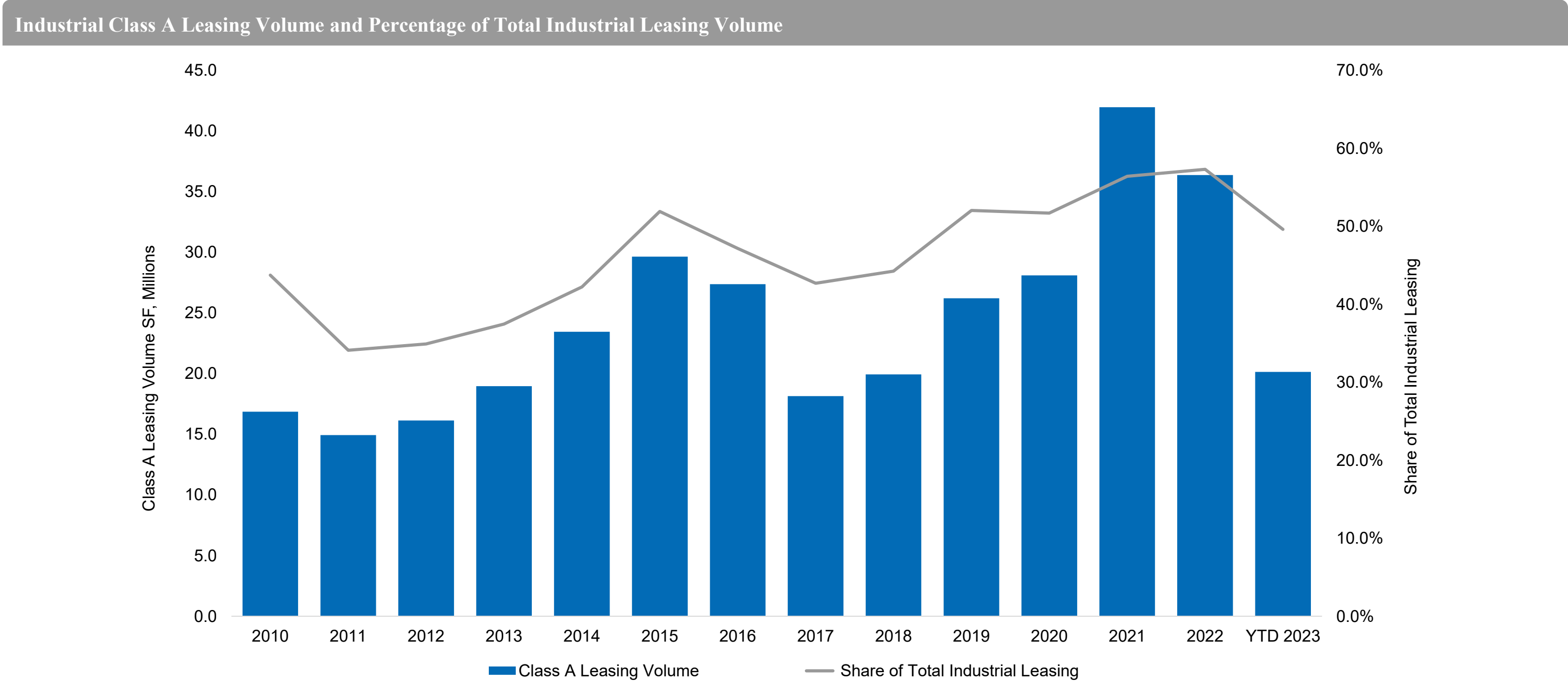
Source: Newmark Research, CoStar

Small Deal Volume Rises as Total Leasing Volume Falls

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Class A Warehouse Leasing Proportion above Long-Term Average

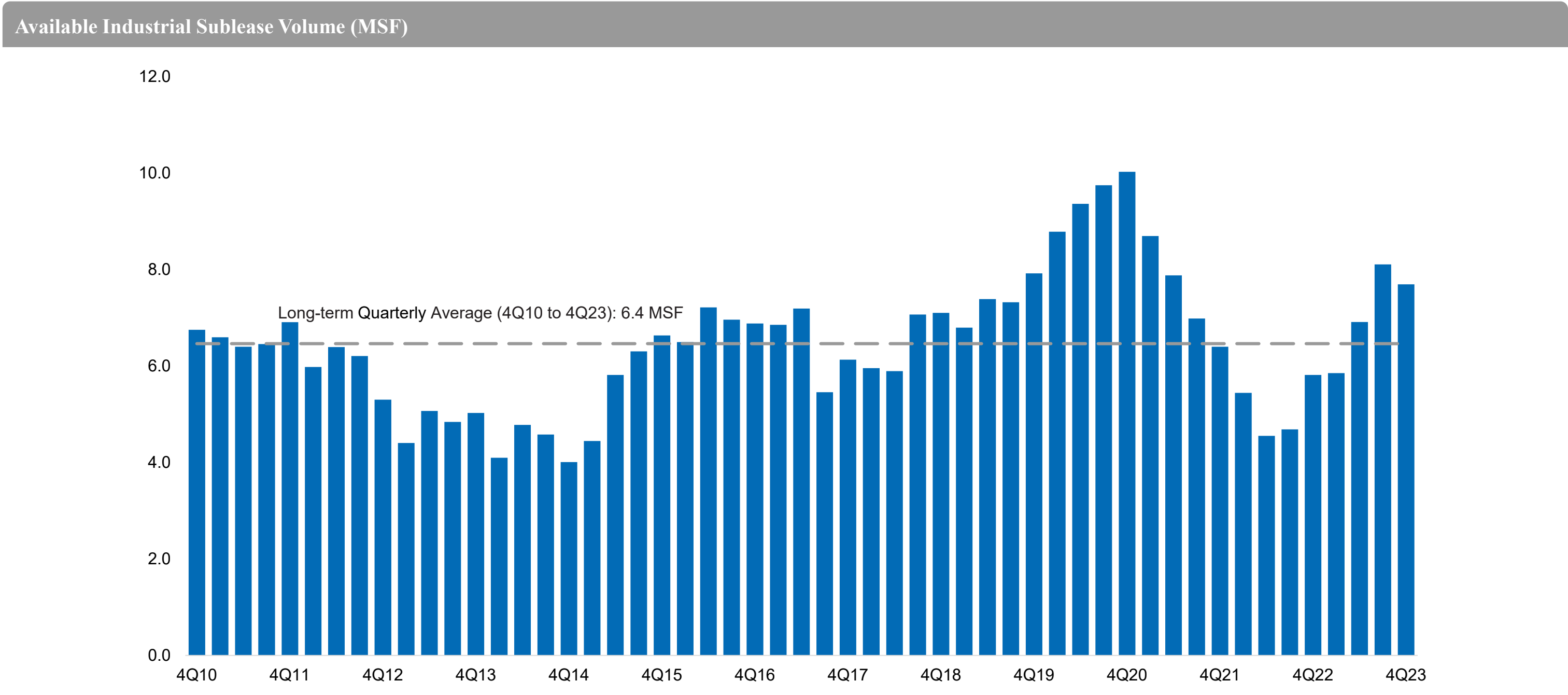
Class A leasing volume finished 2023 just above half the total square footage of 2022. The share of Class A leasing has decreased to 49.6%, down from 2022 as the slowdown in leasing activity has hit larger, more expensive deal volume harder. Nevertheless, occupiers leasing space today need the higher 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.



Source: Newmark Research, CoStar

Industrial Sublease Availability Remains 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 fourth quarter of 2023, sublease availability fell for the first time since 2Q22. Although the last year and a half of 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 place excess or underutilized space up for sublease, the increase has not been significant enough to affect the market’s low vacancy.

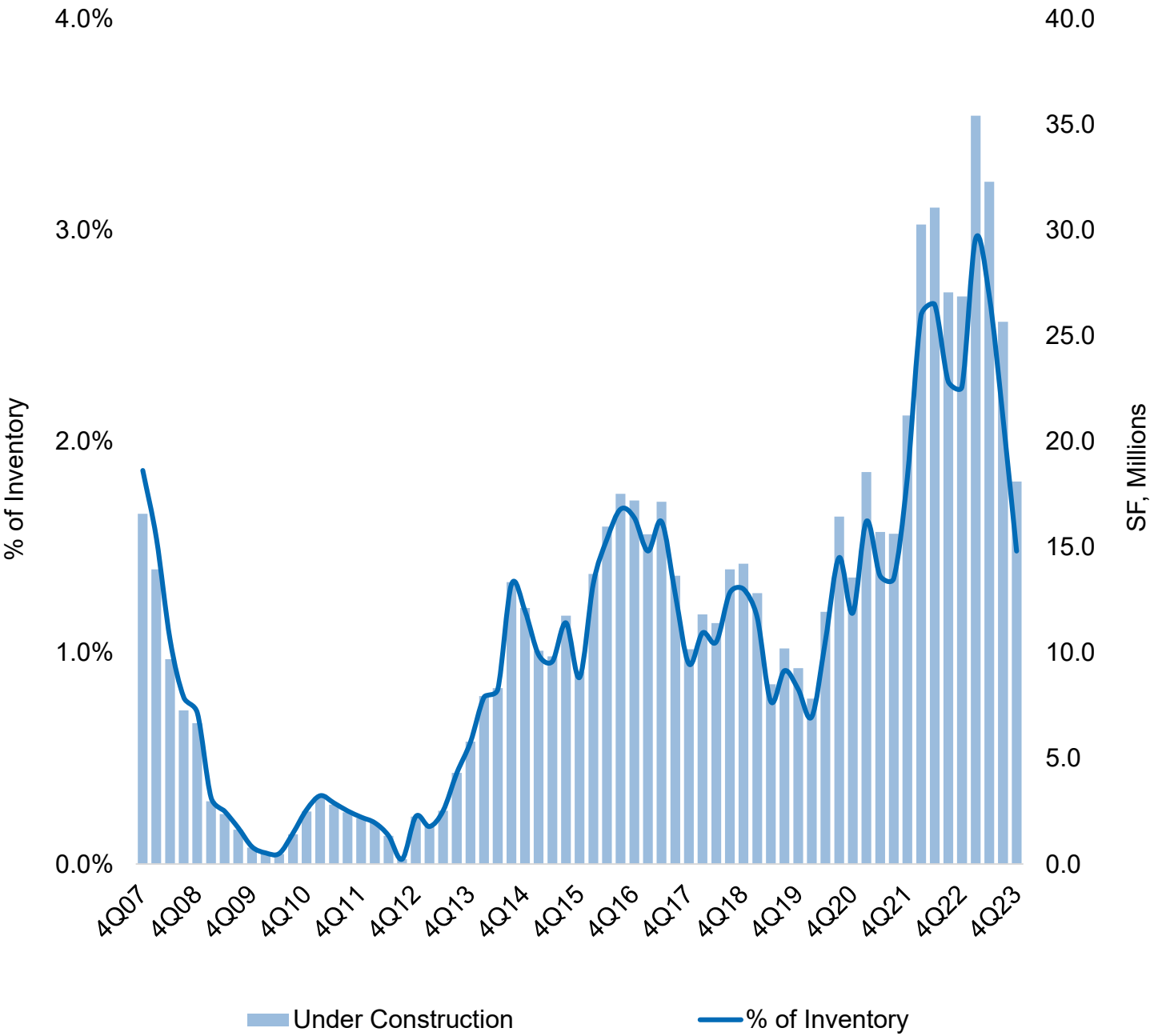


Source: Newmark Research, CoStar

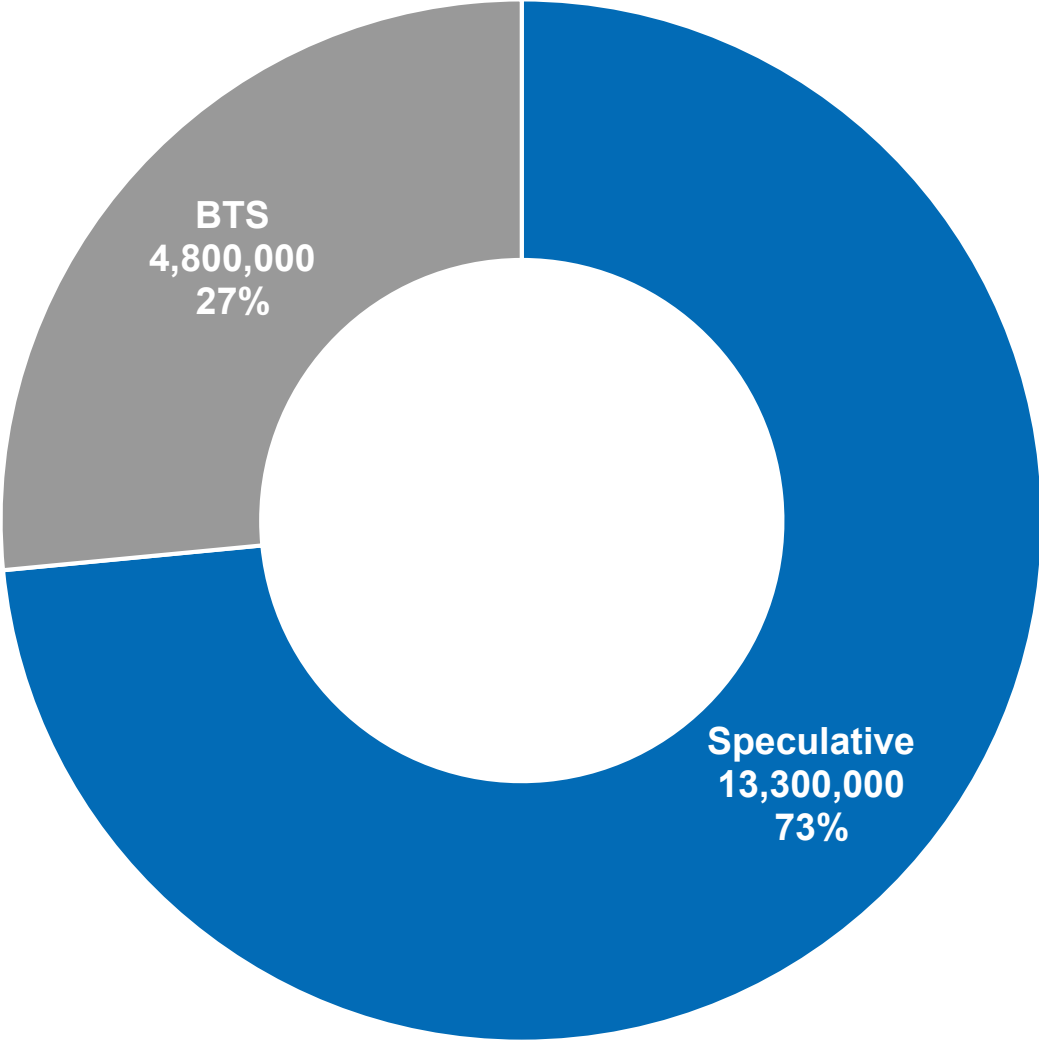
Industrial Supply Pipeline Eases as Construction Starts Dwindle

The construction pipeline began emptying out after reaching a record of 35.4 MSF at the start of the year. With a record 30.3 MSF 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 MSF that delivered 70% of it is still vacant. Additionally, the market is now seeing the ratio of BTS and speculative development shift back as developers are pressing pause on speculative development.

Industrial Under Construction and % of Inventory



BTS vs Speculative Development



Source: Newmark Research, CoStar

Lease Stabilization Rates Project to Rise for First Time since 2017

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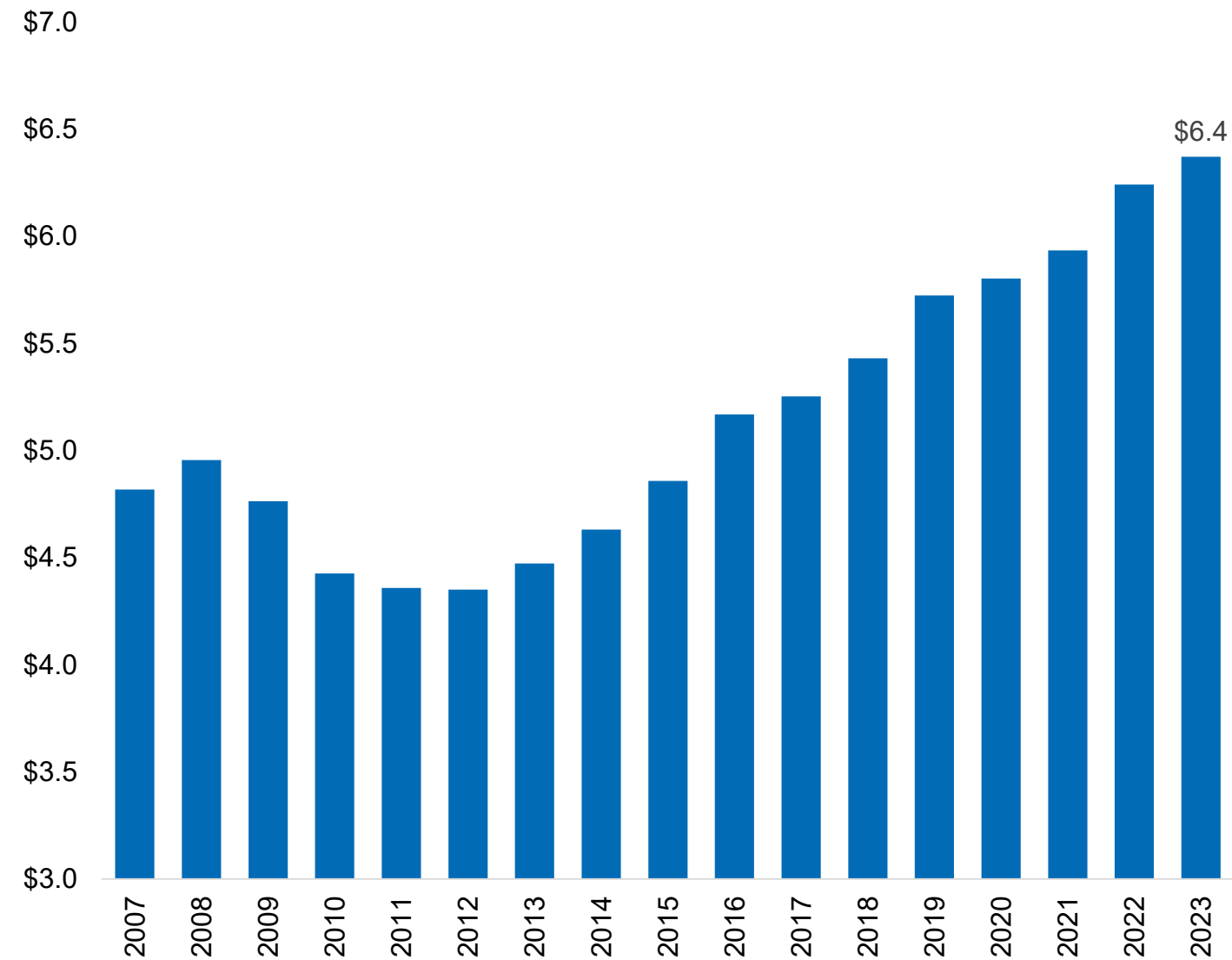
Lease Terms Fall as Transaction Volumes Decline

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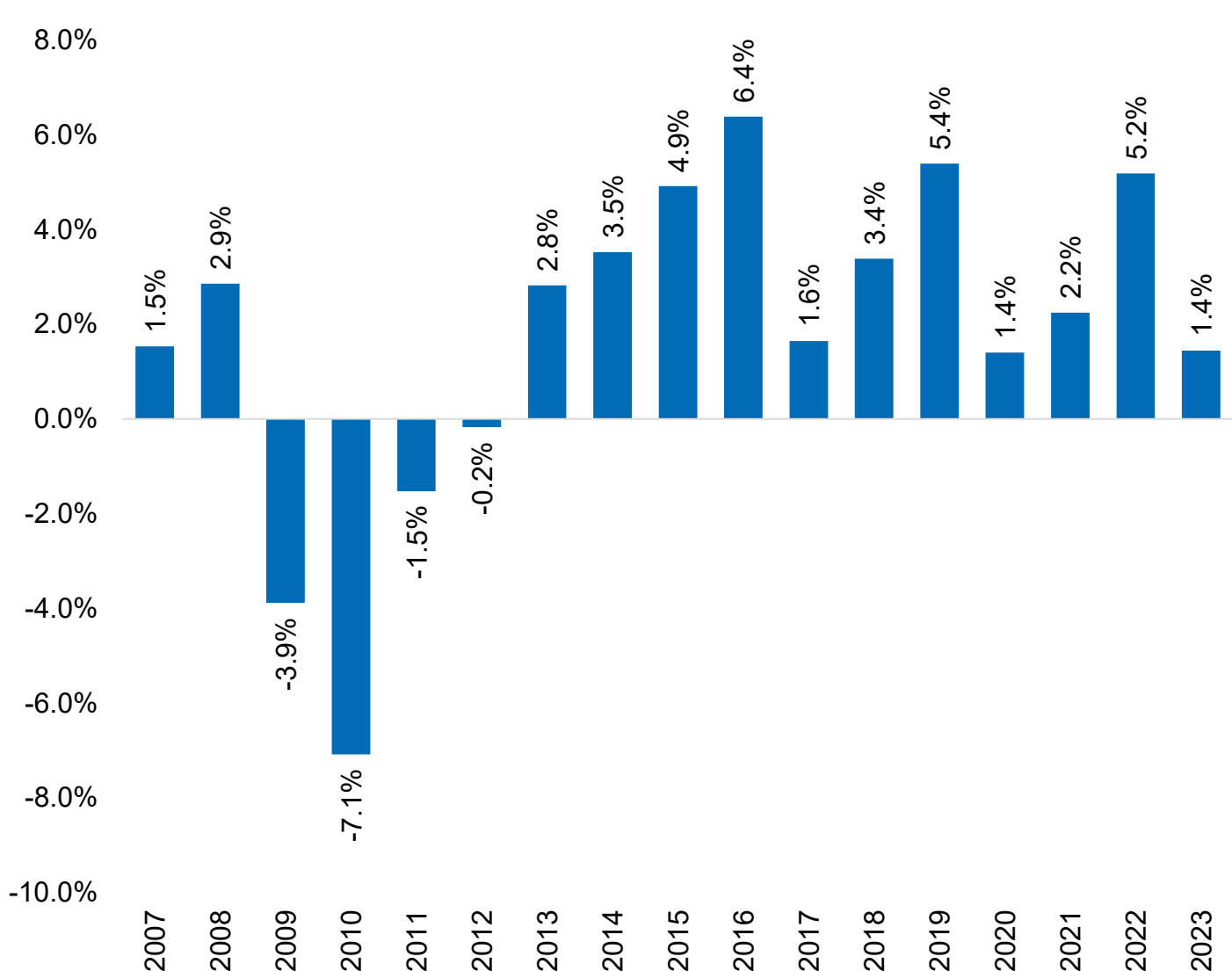
Record-Pace Industrial Asking Rent Continues to Decelerate

Asking rates have increased to \$6.37/SF this quarter, the highest value since the first quarter of 2023 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 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 4Q23 Lease Transactions

Leasing pace has slowed this quarter for larger deals. Life Fitness, the Illinois based training equipment producer, signed the largest direct deal of the quarter. The group signed a direct deal to stay after previously subleasing the space at 3901 Rock Run Blvd. Renewals made up 29.8% of leasing volume signed this quarter while direct deals accounted for 51.5% of leasing volume.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Life Fitness LLC	3901 Rock Run Blvd.	I-80 Corridor	Direct New	464,400
Reynolds	25100 S Ridgeland Ave.	I-80 Corridor	Direct New	452,505
ITL Supply Chain Solutions	5100 W 70th Pl.	South Cook	Lease Renewal	408,908
Norkol Converting Corp.	900 Knell Rd.	I-88 Corridor	Direct New	330,694
Saddle Creek Corporation	3351 Brandon Rd	I-80 Corridor	Lease Renewal/Expansion	277,760

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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For more information:

Amy Binstein

Midwest Research Director

Amy.Binstein@nmrk.com

Jared Morzinski

Senior Research Analyst

Jared.Morzinski@nmrk.com

Chicago

500 W Monroe Street

Chicago, IL 60661

t 312-224-3200

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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