

# CHICAGO INDUSTRIAL MARKET

Q1 2023



## TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
<b>UNEMPLOYMENT RATE</b>	4.4	4.9	↓	4.9	↑
<b>NET ABSORPTION (MSF)</b>	3.8	8.3	↓	5.8	↑
<b>OVERALL VACANCY RATE</b>	4.1%	4.7%	↓	5.6%	↑
<b>OVERALL VACANT SF (MSF)</b>	52.8	60.3	↓	66.5	↑
<b>UNDER CONSTRUCTION (MSF)</b>	40.5	37.4	↑	26.0	↓
<b>ASKING RENT, NNN (PSF)</b>	\$7.25	\$6.38	↑	\$6.19	↑
<b>SALES VOLUME (Millions)</b>	\$242	\$1,045	↓	\$745	↔
<b>SALES PRICE (PSF)</b>	\$99	\$85	↑	\$78	↑

Source: Transwestern, Bureau of Labor Statistics, CoStar, Real Capital Analytics

## INDUSTRIAL MARKET VERY TIGHT IN 2023

The Chicago industrial market remains extremely tight as net absorption continues to outpace the delivery of new inventory. Leasing activity has moderated in recent quarters, partly due to a lack of options for tenants in the market. Economic uncertainty and easing pressure from supply chains are also causing industrial users to pull back on aggressive expansion plans.

The tight conditions in the Chicago market have led to unprecedented, double-digit annual rent growth over the past two quarters. Tenants with leases up for renewal are facing significant rent increases with few options for relocation in the market.

There is currently 40.5 million square feet of industrial inventory under construction, a historic high for the market. This new inventory should return some balance to the market, bringing supply more in line with demand.

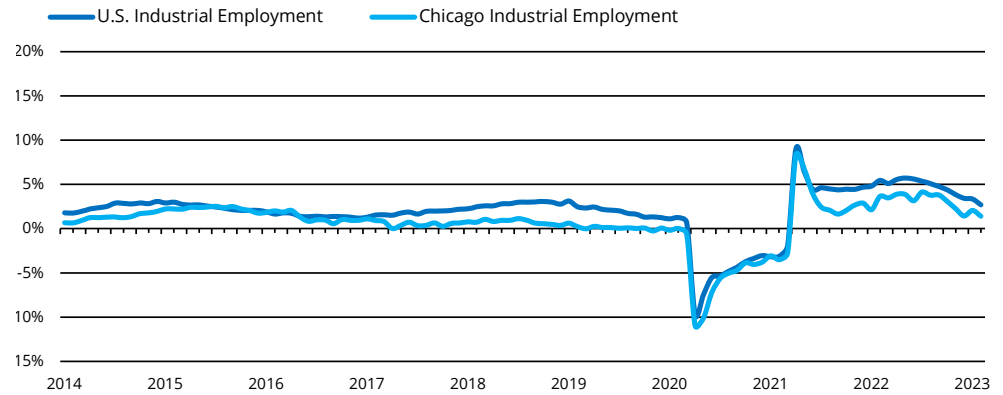


### ECONOMY

#### Bank Sector Turmoil Adds to Economic Anxiety

- The Federal Reserve (Fed) added two more interest rate hikes in the first quarter of 2023, bringing the current range of the federal funds rate up to 4.75% to 5.00%. The Fed's efforts to combat inflation were complicated in March when the collapse of Silicon Valley Bank, and then Signature Bank, sparked widespread concern about the banking sector as a whole and regional banks in particular. The Fed acted quickly to address the situation and protect the banking system, preventing the problem from spreading widely. However, the Fed will have to balance lingering concerns about the banking sector with ongoing concerns about inflation when they make their next decision about interest rates in May. Unfortunately for the commercial real estate industry, the troubles facing banks have led to a pullback in lending, which further exacerbates the existing problems with financing created by high-interest rates.
- The economy continues to add jobs at an impressive pace with an estimated one million jobs created in the U.S. the first quarter of 2023. Initial unemployment claims in the first quarter have been slightly higher than they were in the fourth quarter of 2022 but remain lower than pre-pandemic norms.
- Locally, the unemployment rate was 4.4% in February, slightly higher than the U.S. rate of 3.6%. Approximately 93,000 jobs were added to the local economy over the past year with Leisure and Hospitality jobs leading the pack.
- The number of industrial-using jobs in the U.S. increased 2.7% year over year in February; locally, industrial-using jobs increased by 1.4% during the same period, adding 21,300 jobs.

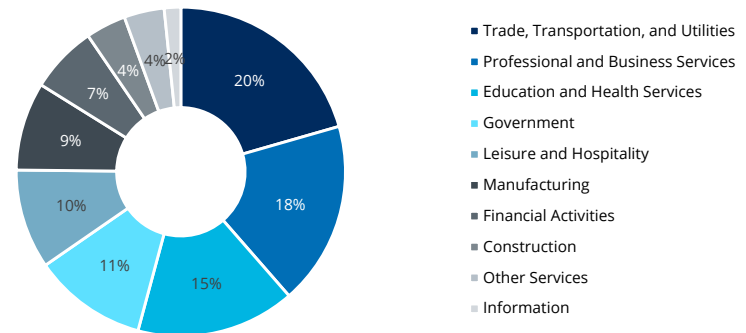
### Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

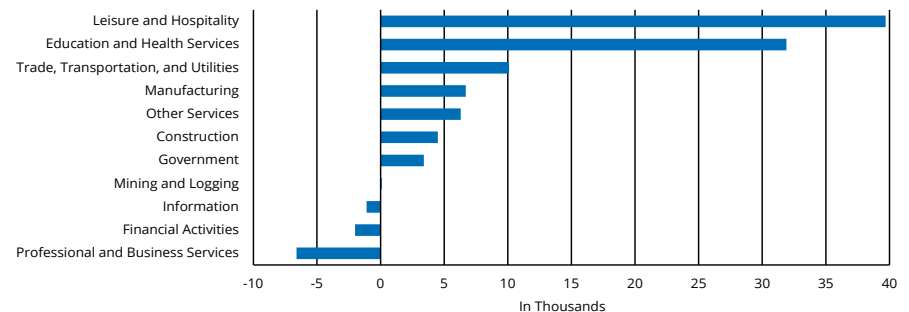
Chicago MSA | February 2023



Source: Bureau of Labor Statistics

### Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | February 2023



Source: Bureau of Labor Statistics

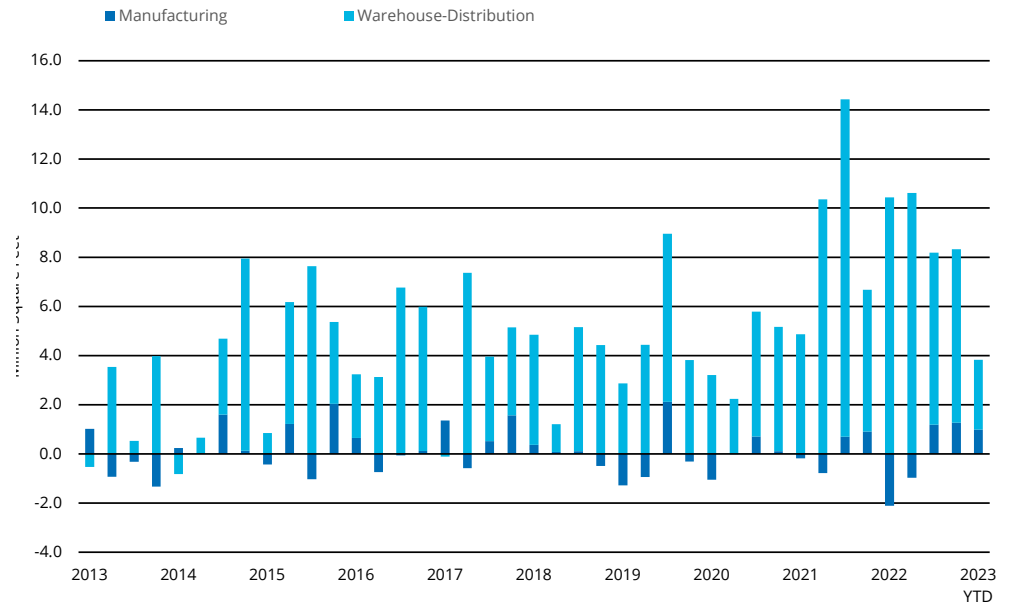


### NET ABSORPTION

#### Demand Falls from Historic Highs

- Softening economic conditions and the easing of supply chain problems is bringing demand for industrial space down from the historic highs seen recently. The current lack of available inventory is also constraining leasing activity and absorption.
- Net absorption totaled 3.8 million square feet in the first quarter with 2.8 million square feet of warehouse-distribution space and 1.0 million square feet of manufacturing space.
- The northwest submarket had the largest amount of absorption in the first quarter with 1.0 million square feet.
- There was 10.5 million square feet of leasing activity in the first quarter, down significantly from the historic high of 22.3 million square feet seen in the first quarter of 2022.

### NET ABSORPTION BY PRODUCT TYPE



Source: Transwestern, CoStar

### NOTABLE LEASES

Q1 2023

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
<b>SOLO CUP</b>	5000 W 183rd St, Country Club Hills	South Suburban	New	1,033,450
<b>TARGET</b>	SWC Millsdale & Route 53, Joliet	I55 / I80 Southwest Corridors	New	1,218,120
<b>TAGG LOGISTICS</b>	555 S Pinnacle Dr, Romeoville	I55 / I80 Southwest Corridors	New	795,965
<b>SADDLE CREEK LOGISTICS</b>	3351 Brandon Rd, Joliet	I55 / I80 Southwest Corridors	New	712,380
<b>GEODIS LOGISTICS</b>	1601 Remington Blvd, Bolingbrook	I55 / I80 Southwest Corridors	Sublease	591,748

Source: CoStar, Transwestern

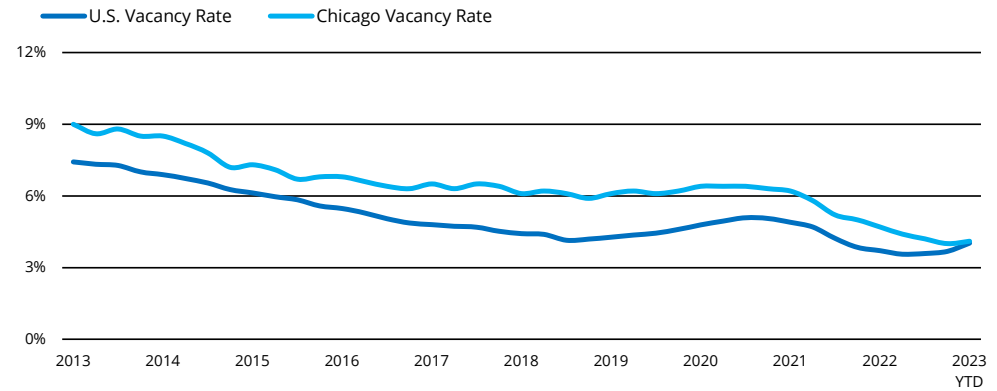


### VACANCY

#### Vacancy Rates Reach New Lows

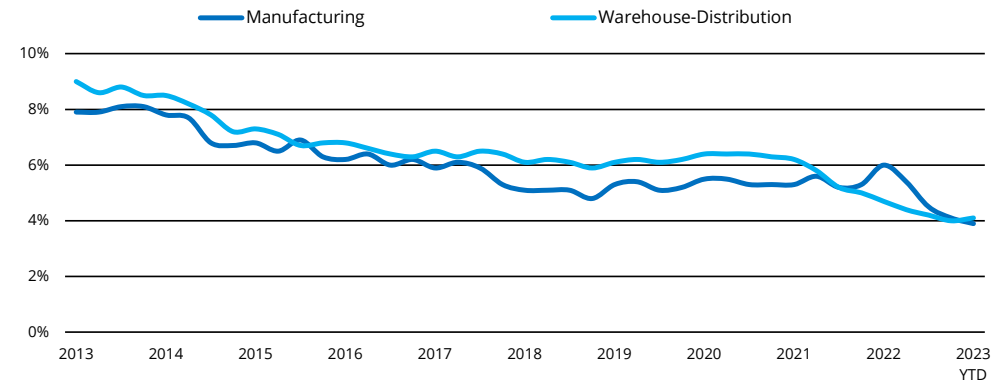
- Industrial vacancy remains extremely low. The direct vacancy rate remained at 3.8% in the first quarter, while the overall vacancy rate ticked up 10 basis points to 4.1%.
- Manufacturing space has a direct vacancy rate of 3.7% and an overall vacancy rate of 3.9%. Warehouse-distribution space has a direct vacancy rate of 3.8% and an overall vacancy rate of 4.1%
- The lowest vacancy rates, 1.7% direct and 2.2% overall, are in the I88 Corridor submarket. The highest vacancy rates, 9.3% direct and 9.4% overall, are in the Kenosha submarket.
- Vacancy is expected to rise slightly as more inventory is added to the market and demand moderates.

### OVERALL VACANCY RATE



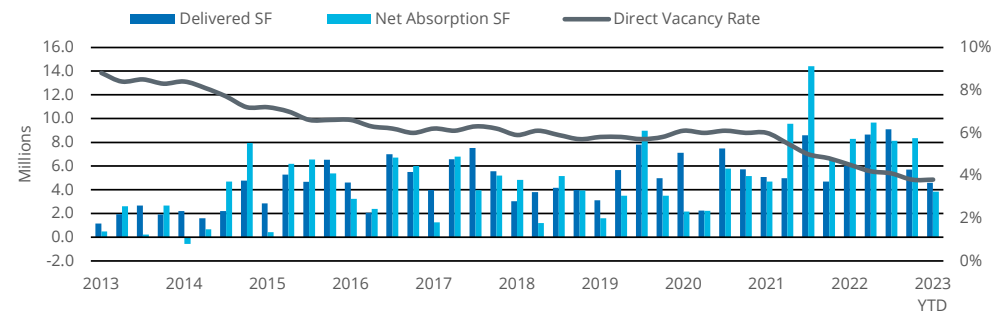
Source: Transwestern, CoStar

### OVERALL VACANCY RATE BY PRODUCT TYPE



Source: Transwestern, CoStar

### DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

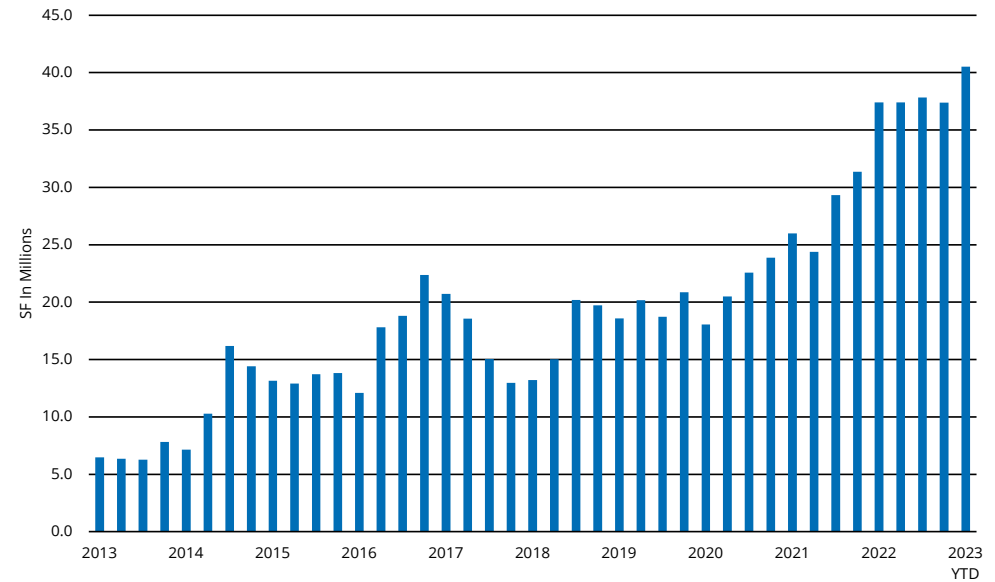


### UNDER CONSTRUCTION

#### Development Pipeline Grows

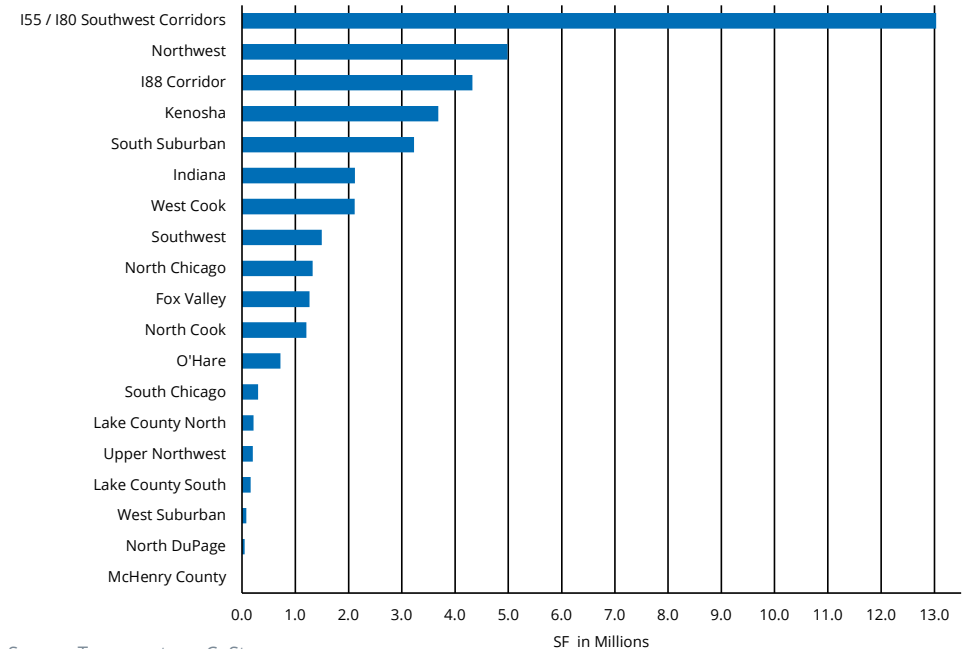
- There is currently 40.5 million square feet of industrial space under construction, more than twice as much as there was pre-pandemic.
- The development pipeline is comprised of 94% warehouse-distribution space and 6% manufacturing space.
- Approximately 30% of the inventory under construction has been pre-leased.
- New product is being developed in every submarket except McHenry County. Almost one-third of all inventory under construction is in the I55/ I80 Southwest Corridors submarket.
- Even if demand no longer outpaces the new supply as historic amounts of space are delivered over the next year, the market should remain strong as more availability offers tenants more opportunity.

### UNDER CONSTRUCTION



Source: Transwestern, CoStar

### UNDER CONSTRUCTION BY SUBMARKET



Source: Transwestern, CoStar

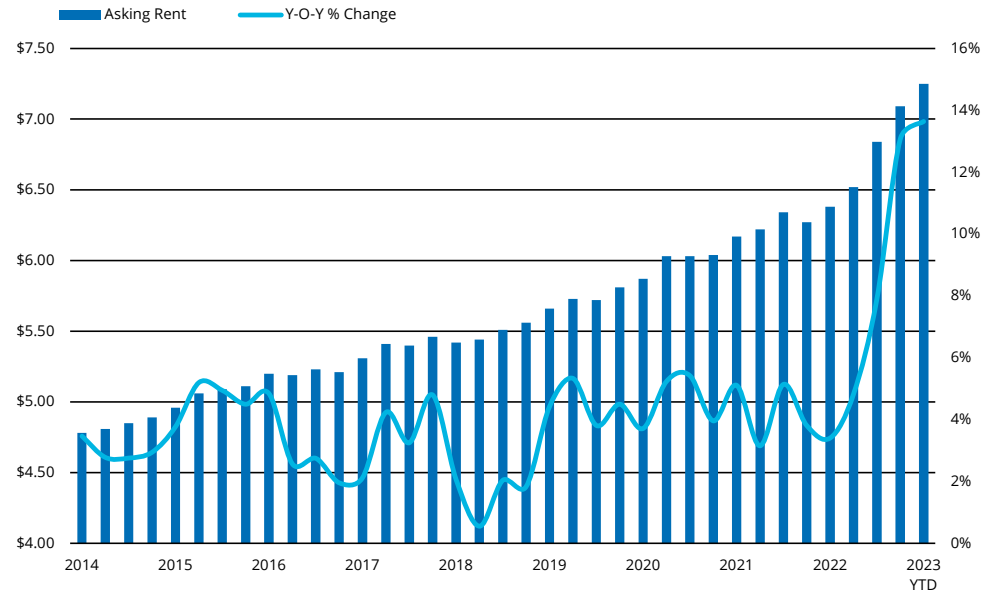


### RENTAL RATES

#### Rental Rates Grow by Double Digits

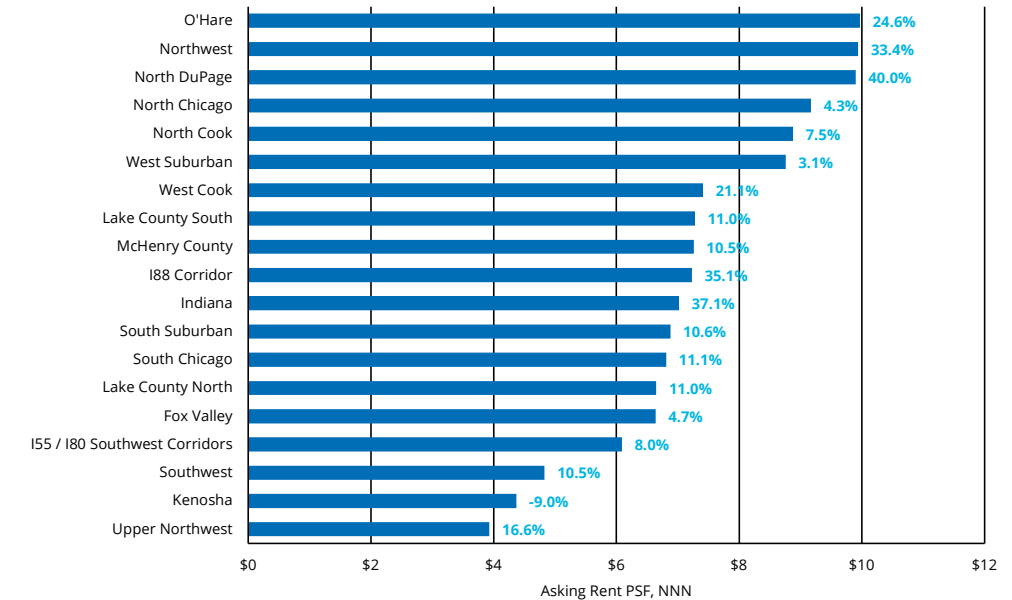
- Average asking rents for Chicago metro increased 13.6% year-over-year to \$7.25 PSF as of Q1 2023.
- Rent has grown significantly since the onset of the pandemic, increasing by 25.4% during that period.
- Rent increased in all but one of the Chicago area submarkets during the past 12 months, and 13 of 19 submarkets experienced double-digit growth.
- Rent can be expected to continue rising, but the rate of growth may decelerate slightly.

### ASKING RENT



Source: Transwestern, CoStar

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

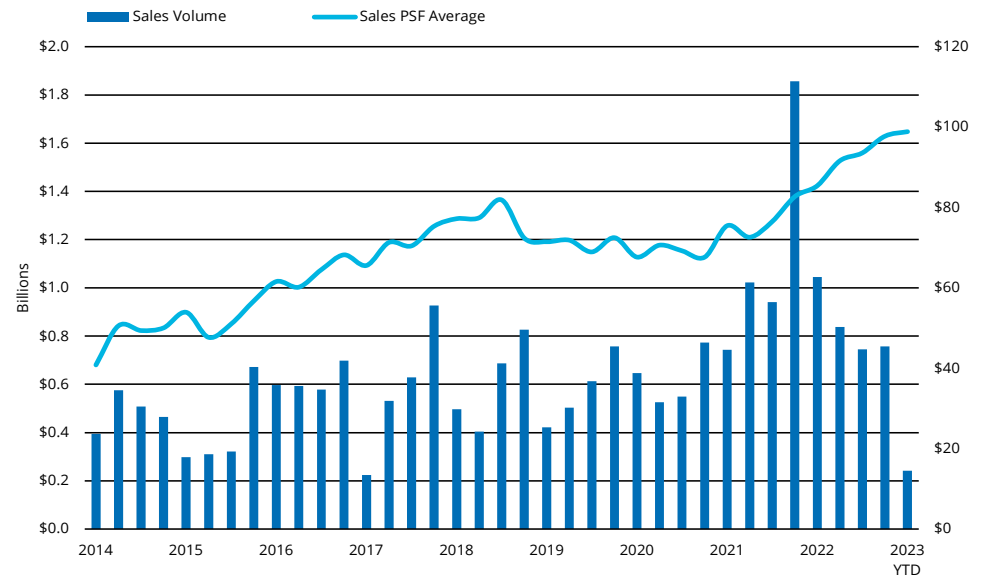


### SALES

#### Sales Volume Plummetts

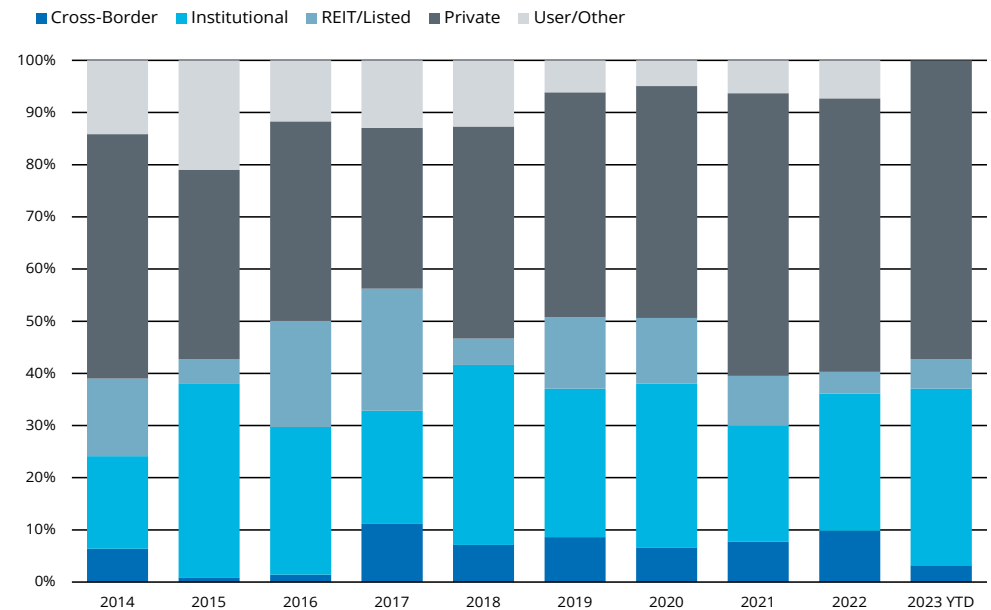
- Rapidly increasing interest rates and decreasing access to capital have led to a sharp drop off of all commercial investments. However, the industrial market is still the most attractive sector, as reflected in the fast-growing average sales price per square foot.
- There was only \$241.8 million of Chicago-area industrial investment sales in the first quarter, a sharp drop from the quarterly average of \$7.9 billion seen in 2021 and 2022. In contrast, the average sales price per square foot increased 15.7% year over year to \$99.

### SALES VOLUME



Source: Transwestern, Real Capital Analytics, CoStar

### BUYER CAPITAL COMPOSITION



Source: Transwestern, Real Capital Analytics, CoStar



**MARKET INDICATORS BY SUBMARKET - Q1 2023**

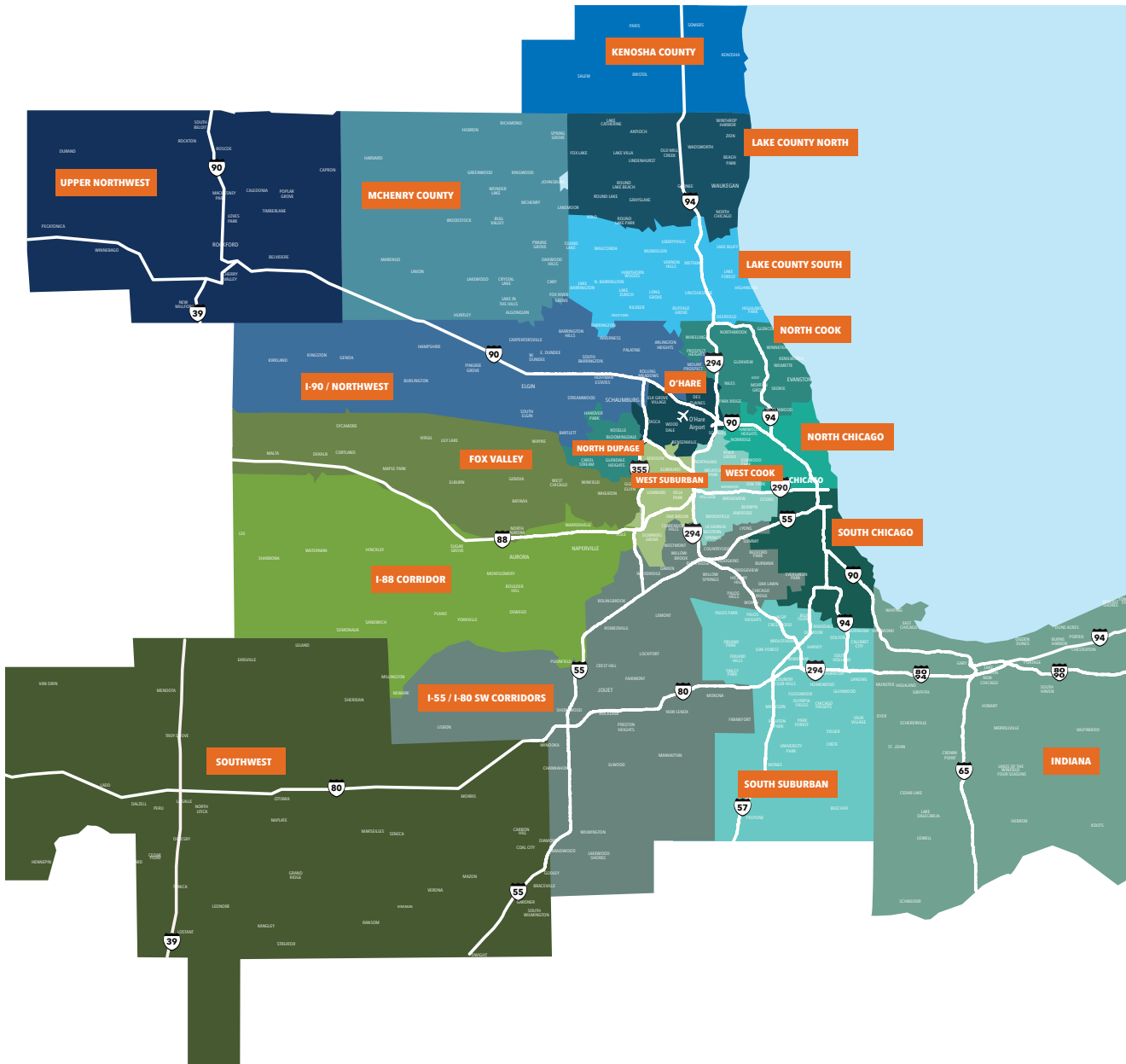
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	2021 ABSORPTION SF	ASKING RENT, PSF, NNN
FOX VALLEY	61,695,244	1,967,606	3.2%	3.3%	1,266,549	31,689	31,689	\$6.64
I55 / I80 SOUTHWEST CORRIDORS	249,287,912	6,709,916	2.7%	3.1%	13,034,361	887,571	887,571	\$6.09
I88 CORRIDOR	70,687,716	1,216,769	1.7%	2.2%	4,325,182	966,946	966,946	\$7.23
INDIANA	56,382,497	2,739,528	4.9%	5.0%	2,120,713	420,803	420,803	\$7.02
KENOSHA	46,383,815	4,319,800	9.3%	6.5%	3,685,706	730,265	730,265	\$4.37
LAKE COUNTY NORTH	41,740,067	1,424,348	3.4%	3.7%	218,500	(51,598)	(51,598)	\$6.65
LAKE COUNTY SOUTH	41,421,205	2,075,236	5.0%	5.2%	165,198	87,683	87,683	\$7.28
MCHENRY COUNTY	31,658,919	2,053,880	6.5%	6.7%	0	(95,653)	(95,653)	\$7.26
NORTH CHICAGO	63,291,657	4,896,115	7.7%	7.9%	1,326,160	(212,221)	(212,221)	\$9.17
NORTH COOK	46,431,080	1,359,098	2.9%	3.0%	1,209,020	147,897	147,897	\$8.88
NORTH DUPAGE	41,205,183	1,413,146	3.4%	3.4%	50,000	(426,537)	(426,537)	\$9.90
NORTHWEST	74,571,529	2,605,994	3.5%	3.7%	4,984,562	1,006,425	1,006,425	\$9.94
O'HARE	101,238,839	2,852,016	2.8%	3.2%	720,581	366,874	366,874	\$9.97
SOUTH CHICAGO	113,359,471	4,701,219	4.1%	4.2%	300,192	(251,324)	(251,324)	\$6.81
SOUTH SUBURBAN	85,686,483	2,653,608	3.1%	3.4%	3,227,217	198,094	198,094	\$6.88
SOUTHWEST	27,491,578	1,207,921	4.4%	4.4%	1,500,800	18,940	18,940	\$4.83
UPPER NORTHWEST	37,782,698	2,245,448	5.9%	6.3%	200,165	(7,280)	(7,280)	\$3.93
WEST COOK	74,014,663	1,937,283	2.6%	3.3%	2,116,292	77,999	77,999	\$7.41
WEST SUBURBAN	36,836,356	1,015,186	2.8%	2.9%	80,464	(58,050)	(58,050)	\$8.76
<b>TOTAL</b>	<b>1,301,166,912</b>	<b>49,394,117</b>	<b>3.8%</b>	<b>4.1%</b>	<b>40,531,662</b>	<b>3,838,523</b>	<b>3,838,523</b>	<b>\$7.25</b>

Source: Transwestern, CoStar

**MARKET INDICATORS BY PROPERTY TYPE - Q1 2023**

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NEW ABSORPTION SF	ASKING RENT, PSF, NNN
WAREHOUSE-DISTRIBUTION	984,887,394	37,717,347	3.8%	4.1%	38,089,587	2,857,586	2,857,586	\$7.79
MANUFACTURING	316,279,518	11,676,770	3.7%	3.9%	2,442,075	980,937	980,937	\$6.05
<b>TOTAL</b>	<b>1,301,166,912</b>	<b>49,394,117</b>	<b>3.8%</b>	<b>4.1%</b>	<b>40,531,662</b>	<b>3,838,523</b>	<b>3,838,523</b>	<b>\$7.25</b>

Source: Transwestern, CoStar



### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on industrial properties located in the Chicago metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency. Inventory is defined as existing Class A, B and C industrial /flex properties, 10,000 square foot minimum rentable base area.

### FOR MORE INFORMATION

**Caitlin Ritter**  
Research Director  
Caitlin.Ritter@transwestern.com  
312.881.7009

**Tanita Bradley**  
Market Research Manager  
Tanita.Bradley@transwestern.com  
312.558.3895

### ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](http://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).