

CHICAGO INDUSTRIAL MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.2	4.5	↓	5.7	↑
NET ABSORPTION (MSF)	6.6	9.3	↓	6.2	↓
OVERALL VACANCY RATE	4.2%	4.4%	↓	5.6%	↑
OVERALL VACANT SF (MSF)	54.3	57.7	↓	70.6	↑
UNDER CONSTRUCTION (MSF)	37.9	39.5	↓	27.9	↓
ASKING RENT, NNN (PSF)	\$7.48	\$6.52	↑	\$6.21	↑
SALES VOLUME (Millions)	\$346	\$868	↓	\$763	↔
SALES PRICE (PSF)	\$97	\$91	↑	\$79	↑

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

INDUSTRIAL MARKET REMAINS STRONG

The Chicago industrial market remains strong, with a direct vacancy rate at a historic low of 3.9%. There has been 11.9 million square feet of positive absorption so far this year, nearly keeping pace with the 13 million square feet of new inventory that has been delivered this year.

There are some signs of the market softening. The amount of available sublease space has been increasing for the past six quarters, from 4.2 million square feet in Q1 of 2022 to 7.7 million square feet in the current quarter. Furthermore, leasing activity has been on the decline since reaching record-high levels at the start of 2022.

As rising interest rates have led to fewer construction starts, the risk of overbuilding has diminished. With demand slowing, vacancy rates may rise slightly over the next year but are likely to remain relatively low for the foreseeable future.

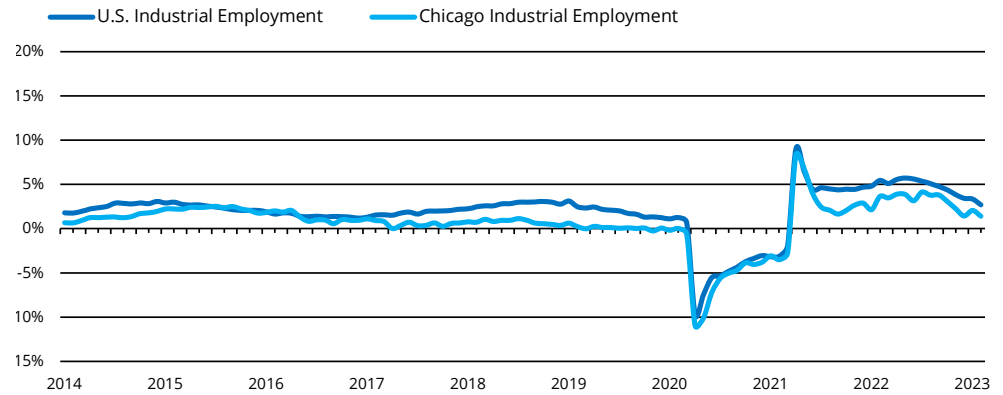


ECONOMY

Soft Landing May Be Possible After All

- The Federal Reserve (Fed) added one more interest rate hike in the second quarter of 2023, bringing the current range of federal funds rate up from 5.00% to 5.25%. In June, the Fed chose not to raise rates again for the first time since March 2022. The turmoil seen in the banking sector in the first quarter of 2023 seems to have subsided. After two bank failures in March, there was one additional failure in May, First Republic Bank, but there does not appear to be any immediate crisis on the horizon. However, there is still significant stress in financial markets and growing concerns about commercial real estate loan defaults. Meanwhile, the inflation problems that caused the Fed to raise rates seem to be subsiding. Annual inflation as measured by the consumer price index was down to 3.0% in June, the lowest it has been since reaching a high of 9.1% in June of 2022.
- The economy continues to add jobs at an impressive pace with an estimated 732,000 jobs created in the U.S. in the second quarter of 2023. Weekly initial unemployment claims reached 265,000 in mid-June, the highest level seen since October 2021, but have since returned to lower levels. The ongoing resiliency of the labor market is providing hope that the Fed’s efforts to rein in inflation may indeed end with a “soft landing” rather than the recession many have feared.
- Locally, the unemployment rate was 3.2% in May, slightly lower than the U.S. rate of 3.7%. Approximately 82,000 jobs were added to the local economy over the past year with Leisure and Hospitality jobs leading the pack, closely followed by Education and Health Services.
- The number of industrial-using jobs in the U.S. increased by 1.7% year over year in May; locally, industrial-using jobs increased by 0.9% during the same period, adding 8,400 jobs.

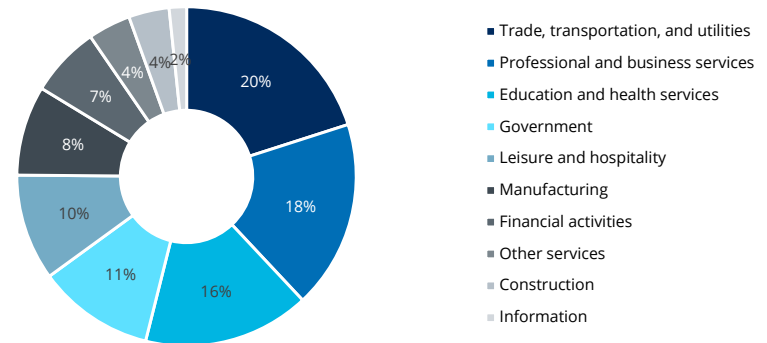
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

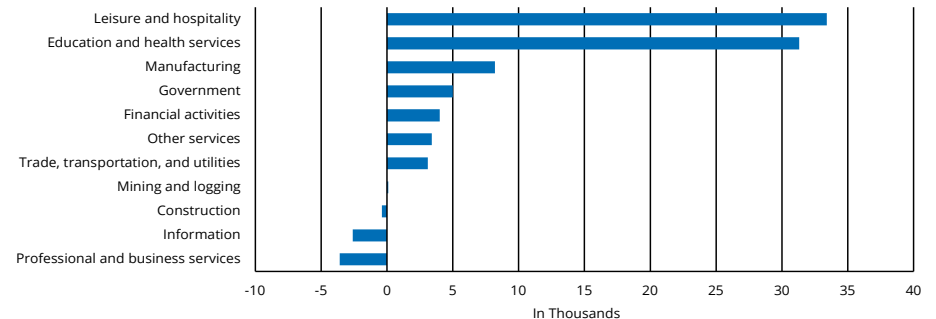
Chicago MSA | May 2023



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | May 2023



Source: Bureau of Labor Statistics

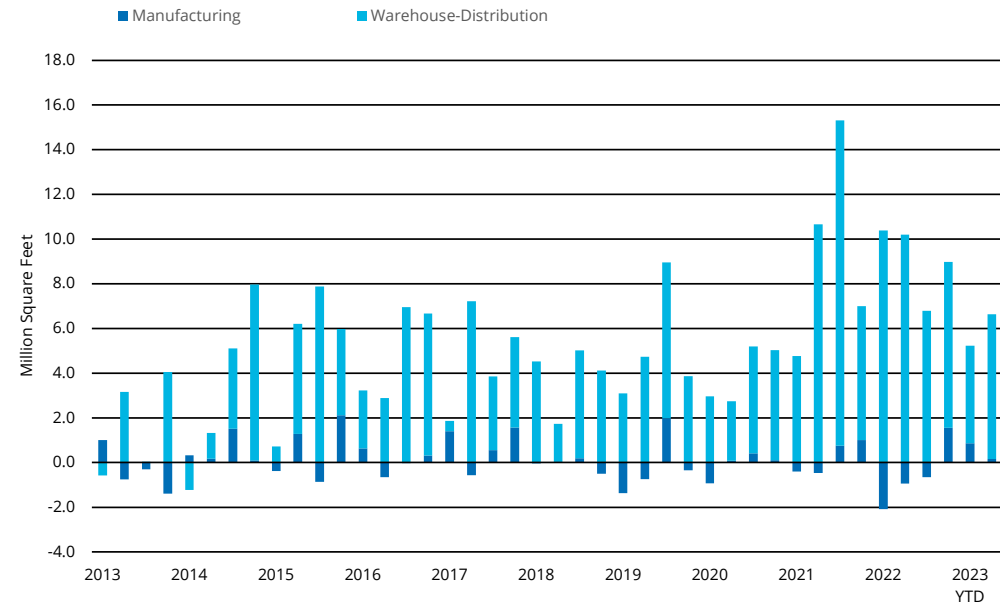


NET ABSORPTION

Demand Still Strong Despite Decline

- 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 6.6 million square feet in the second quarter with 6.5 million square feet of warehouse-distribution space and 155,285 square feet of manufacturing space.
- The Kenosha submarket had the largest amount of absorption in the second quarter with 1.1 million square feet.
- There was 9.2 million square feet of leasing activity in the second quarter, down significantly from the historic high of 23.5 million square feet seen in the first quarter of 2022.

NET ABSORPTION BY PRODUCT TYPE



Source: Transwestern, CoStar

NOTABLE LEASES

Q2 2023

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
UNILEVER	2250 Berens Court, New Lenox	I55 / I80 Southwest Corridors	New	1,159,200
PACTIV	870 W. Taylor Road, Romeoville	I55 / I80 Southwest Corridors	Renewal	898,560
DOMTAR	350 S. Rohlwing Road, Addison	West Suburban	Renewal	453,361
KANE LOGISTICS	14630 S. 147th Court, Lockport	I55 / I80 Southwest Corridors	Renewal	371,944
HD SUPPLY	175 Ambassador Drive, Naperville	I88 Corridor	Sublease	306,000

Source: CoStar, Transwestern

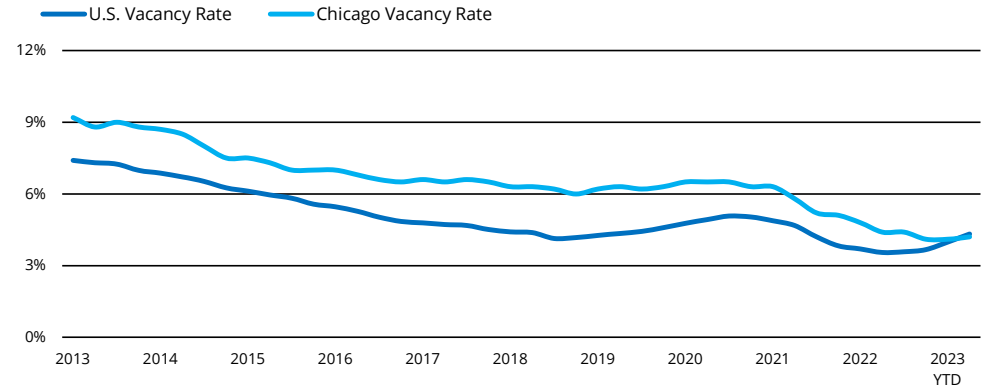


VACANCY

Vacancy Rates Remain Low

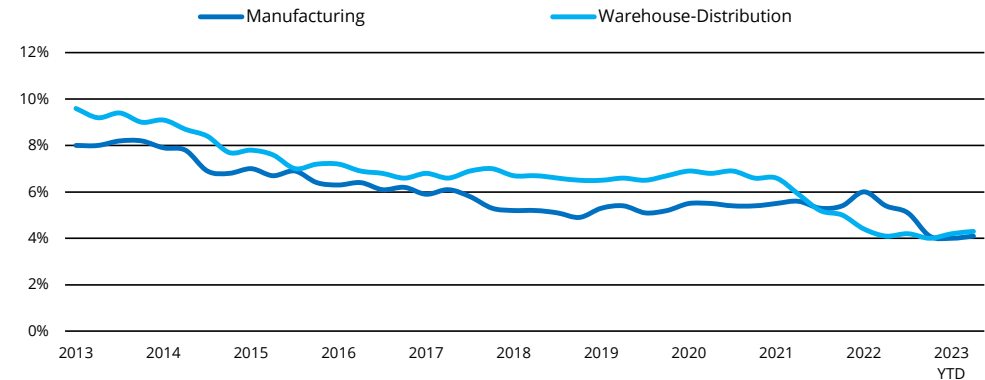
- Industrial vacancy remains extremely low. The direct vacancy rate remained at 3.9% in the second quarter, while the overall vacancy rate ticked up 10 basis points to 4.2%.
- Manufacturing space has a direct vacancy rate of 3.8% and an overall vacancy rate of 4.1%. Warehouse-distribution space has a direct vacancy rate of 4.0% and an overall vacancy rate of 4.3%
- The lowest vacancy rates, 2.2% direct and 2.3% overall, are in the West Suburban submarket. The highest vacancy rates, 7.9% direct and 8.2% overall, are in the North Chicago submarket.
- Vacancy is expected to rise slightly as more inventory is added to the market and demand moderates.

OVERALL VACANCY RATE



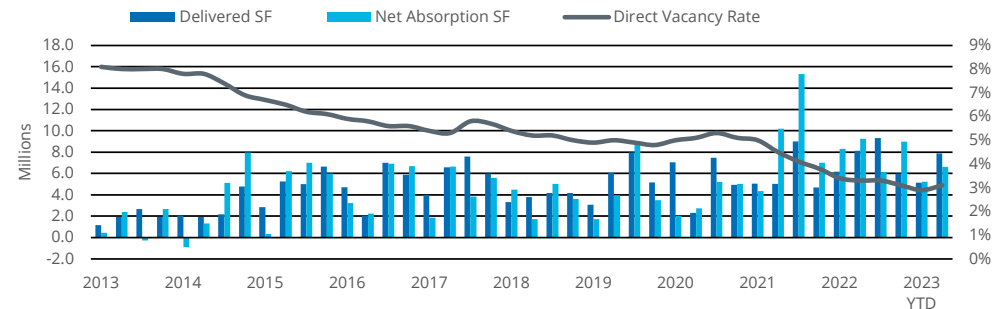
Source: Transwestern, CoStar

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

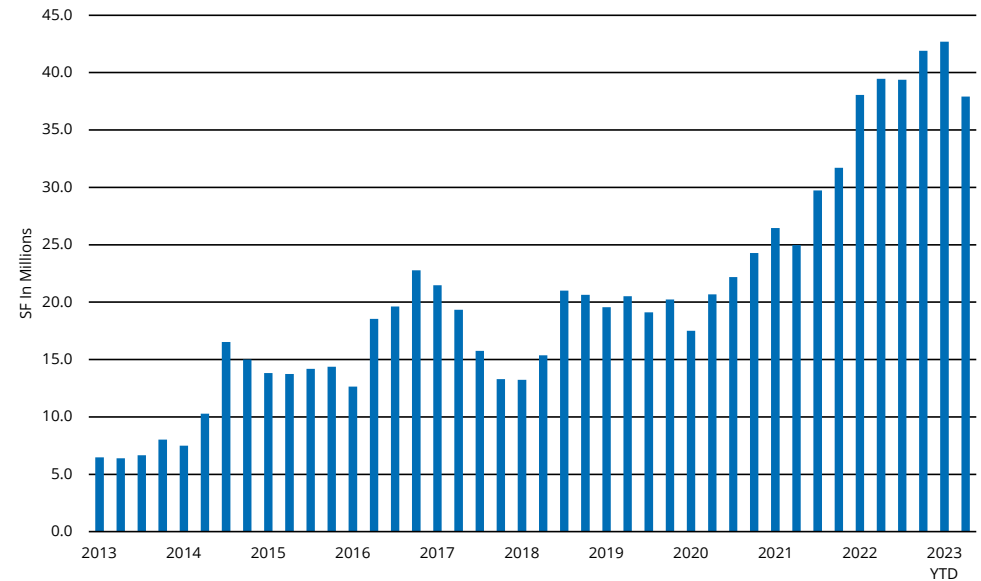


UNDER CONSTRUCTION

Development Pipeline Grows

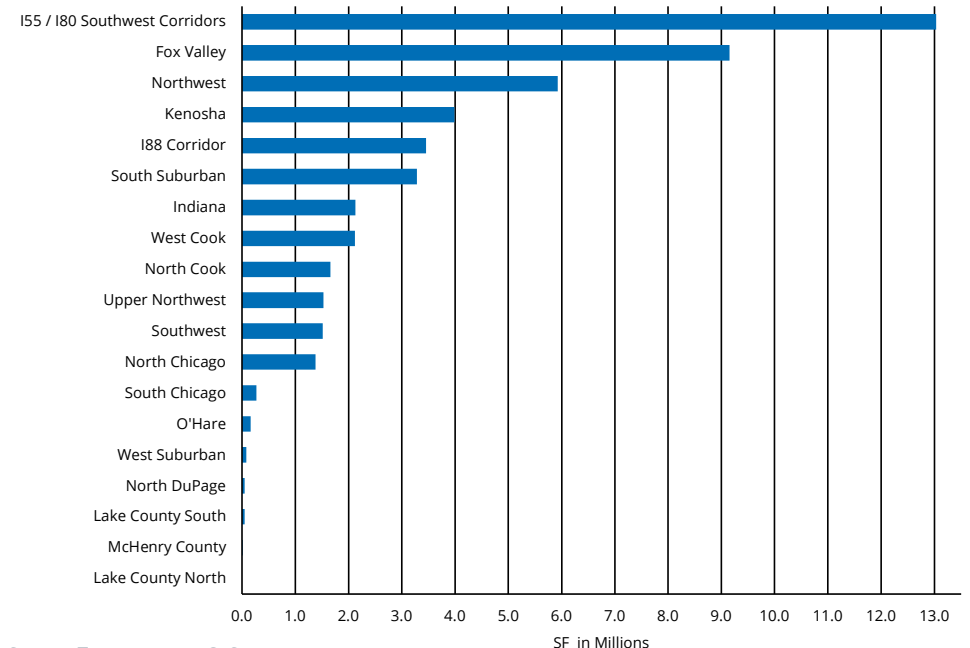
- There is currently 37.9 million square feet of industrial space under construction, nearly twice as much as there was pre-pandemic but less than the historic amount of 42.7 million square feet that was under construction last quarter.
- Nearly 7.9 million square feet of new inventory was delivered in the second quarter of 2023. Meanwhile, an additional 3.1 million square feet broke ground in the second quarter.
- The development pipeline is comprised of 10% warehouse-distribution space and 10% manufacturing space.
- Approximately 30% of the inventory under construction has been pre-leased.
- New product is being developed in every submarket except McHenry County and Lake County North. 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

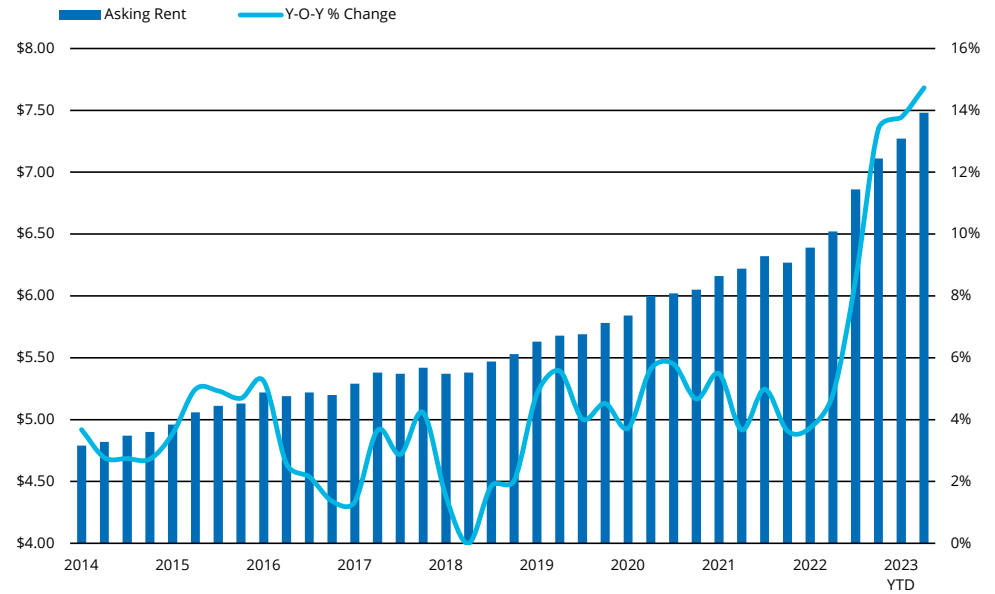


RENTAL RATES

Rental Rates Grow by Double Digits

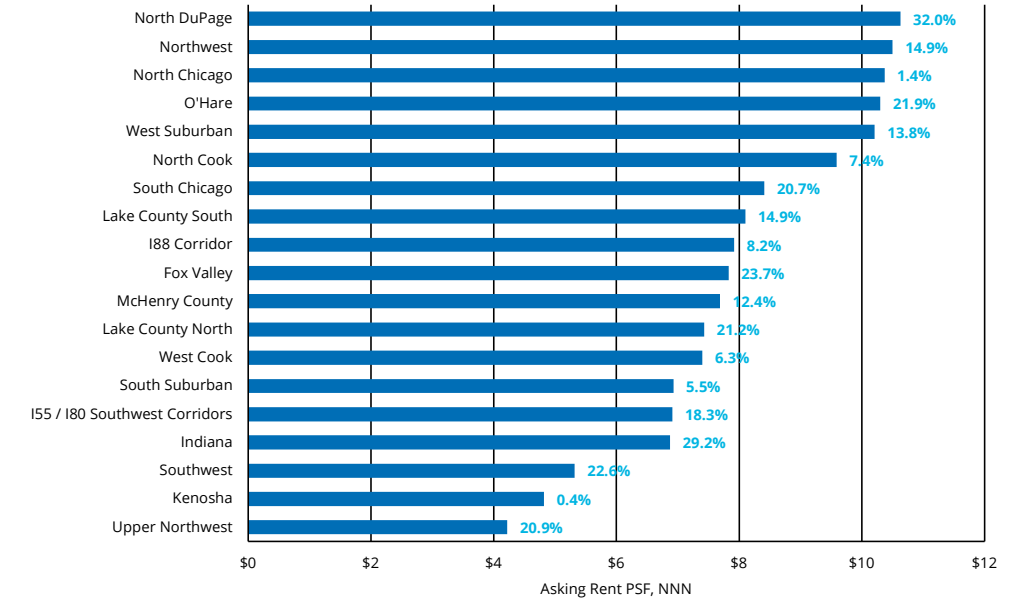
- Average asking rents for the Chicago metro area increased by an unprecedented 14.7% year over year to \$748 PSF as of Q2 2023.
- Rent has grown significantly since the onset of the pandemic, increasing by 29.4% during that period.
- Rent increased in all but one of the Chicago area submarkets during 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

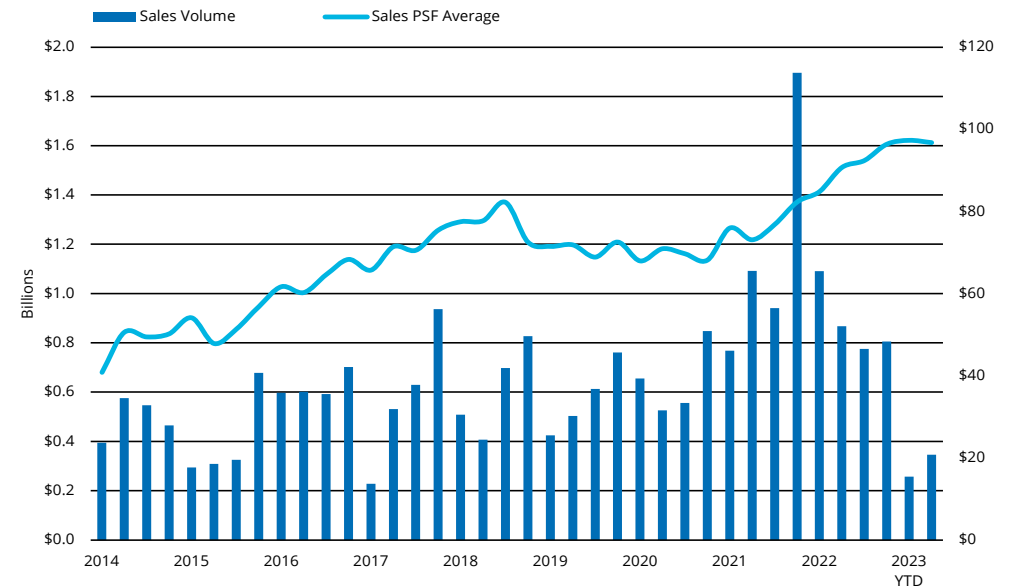


SALES

Sales Volume Plummetts

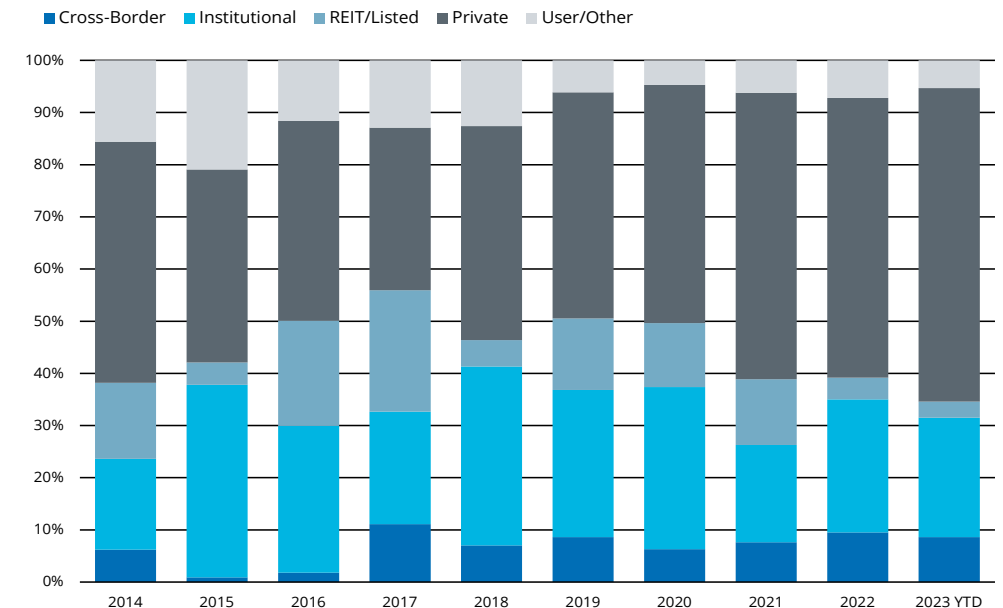
- Rapidly increasing interest rates and decreasing access to capital have led to a sharp drop in all commercial real estate investments. However, the industrial market is still the most attractive sector, as reflected in the still-high average sales price per square foot.
- There was only \$345.7 million of Chicago-area industrial investment sales in the second quarter, a sharp drop from the historic high of \$1.9 billion seen in the fourth quarter of 2021. In contrast, the average sales price per square foot has increased 17.6% since the fourth quarter of 2021 to \$97 at the end of the second quarter of 2023.

SALES VOLUME



Source: Transwestern, Real Capital Analytics, CoStar

BUYER CAPITAL COMPOSITION



Source: Transwestern, Real Capital Analytics, CoStar



MARKET INDICATORS TABLE

By Submarket | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	2023 NET ABSORPTION SF	ASKING RENT PSF, NNN
FOX VALLEY	65,051,930	2,099,643	3.2%	3.4%	1,135,824	463,038	531,918	\$7.83
IS5 / I80 SOUTHWEST CORRIDORS	256,974,297	6,448,940	2.5%	2.9%	9,153,439	3,315,643	4,056,523	\$6.91
I88 CORRIDOR	75,891,205	2,282,018	3.0%	3.6%	3,456,500	361,174	1,524,364	\$7.92
INDIANA	59,847,605	3,257,311	5.4%	6.1%	2,129,305	(185,056)	287,713	\$6.87
KENOSHA	48,217,641	3,489,129	7.2%	7.3%	3,988,896	1,106,069	2,217,783	\$4.82
LAKE COUNTY NORTH	43,866,304	1,707,459	3.9%	4.2%	0	53,229	19,181	\$7.43
LAKE COUNTY SOUTH	46,981,673	2,755,014	5.9%	6.4%	49,500	(120,922)	(12,497)	\$8.10
MCHENRY COUNTY	33,598,528	2,003,054	6.0%	6.2%	14,000	247,197	121,758	\$7.69
NORTH CHICAGO	69,305,019	5,505,198	7.9%	8.2%	1,379,022	20,512	(165,813)	\$10.37
NORTH COOK	50,999,632	1,753,809	3.4%	3.4%	1,660,868	(123,366)	59,017	\$9.59
NORTH DUPAGE	42,155,428	1,594,532	3.8%	3.8%	50,000	(106,007)	(496,336)	\$10.63
NORTHWEST	86,076,142	3,256,704	3.8%	4.1%	5,929,213	352,951	1,775,546	\$10.50
O'HARE	109,580,601	2,752,430	2.5%	3.0%	162,500	703,335	1,429,278	\$10.30
SOUTH CHICAGO	121,017,894	5,639,382	4.7%	4.7%	269,838	571,194	(133,353)	\$8.41
SOUTH SUBURBAN	87,719,803	2,808,030	3.2%	3.6%	3,285,470	209,036	620,109	\$6.93
SOUTHWEST	28,222,357	1,076,473	3.8%	3.8%	1,510,800	54,348	176,803	\$5.32
UPPER NORTHWEST	41,025,819	2,750,185	6.7%	7.3%	1,530,165	(145,825)	(256,802)	\$4.22
WEST COOK	76,042,760	2,281,082	3.0%	3.6%	2,118,449	(354,520)	(150,690)	\$7.40
WEST SUBURBAN	41,033,028	886,906	2.2%	2.3%	80,464	207,840	258,512	\$10.21
TOTAL	1,383,607,667	54,347,298	3.9%	4.2%	37,904,253	6,629,870	11,863,014	\$7.48

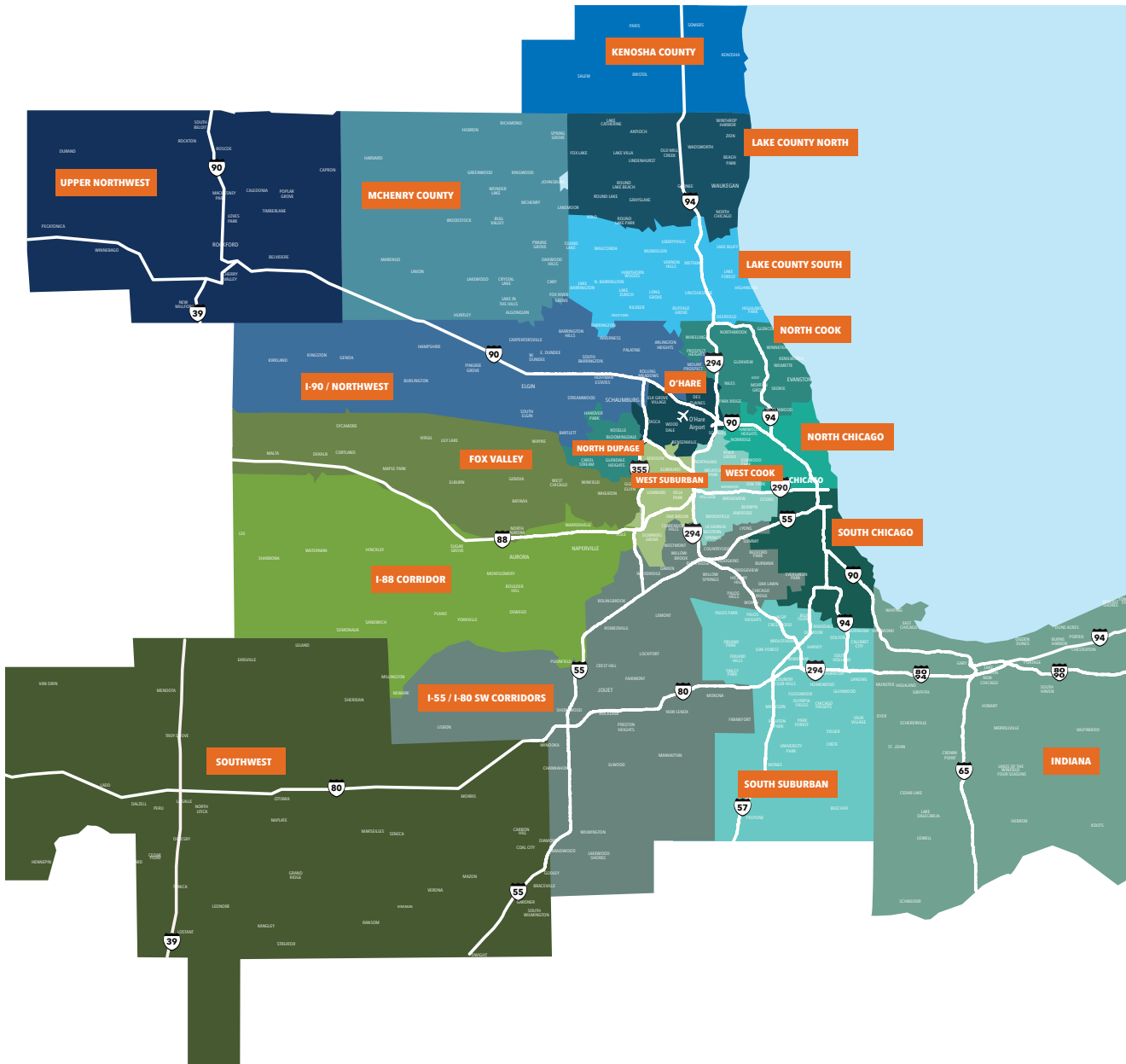
Source: CoStar, Transwestern

MARKET INDICATORS TABLE

By Property Type | Q2 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	2023 NET ABSORPTION SF	ASKING RENT PSF, NNN
WAREHOUSE-DISTRIBUTION	1,052,702,177	41,773,637	4.0%	4.3%	34,186,053	6,474,585	10,840,684	\$8.82
MANUFACTURING	330,905,490	12,573,661	3.8%	4.1%	3,718,200	155,285	1,022,330	\$6.97
TOTAL	1,383,607,667	54,347,298	3.9%	4.2%	37,904,253	6,629,870	11,863,014	\$7.48

Source: CoStar, Transwestern



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

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