



TRANSWESTERN

CHICAGO INDUSTRIAL MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.1	5.0	↑	5.7	↑
NET ABSORPTION (MSF)	6.4	6.9	↓	6.1	↓
OVERALL VACANCY RATE	4.5%	4.3%	↑	5.5%	↑
OVERALL VACANT SF (MSF)	63.2	59.2	↑	72.9	↑
UNDER CONSTRUCTION (MSF)	30.3	37.5	↓	27.4	↓
ASKING RENT, NNN (PSF)	\$8.67	\$7.62	↑	\$6.87	↑
SALES VOLUME (Millions)	\$432	\$769	↓	\$737	↔
SALES PRICE (PSF)	\$93	\$92	↔	\$79	↑

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

INDUSTRIAL MARKET REMAINS STRONG

The vacancy rate ticked up by 30 basis points to 4.5% in the third quarter due to nearly 12 million square feet of new inventory added to the market. Quarterly absorption of 6.5 million square feet indicates that demand is still robust, though not as high as it was in 2021. Asking rents increased 13.8% year over year to \$8.67 PSF.

There has been a decrease in leasing activity which could result in lower absorption levels over the coming year. However, the number of construction starts has also slowed down significantly due to higher interest rates. As a result, there is a possibility that the vacancy rates may increase somewhat when the inventory currently under construction is added to the market, but the risk of overbuilding has decreased.

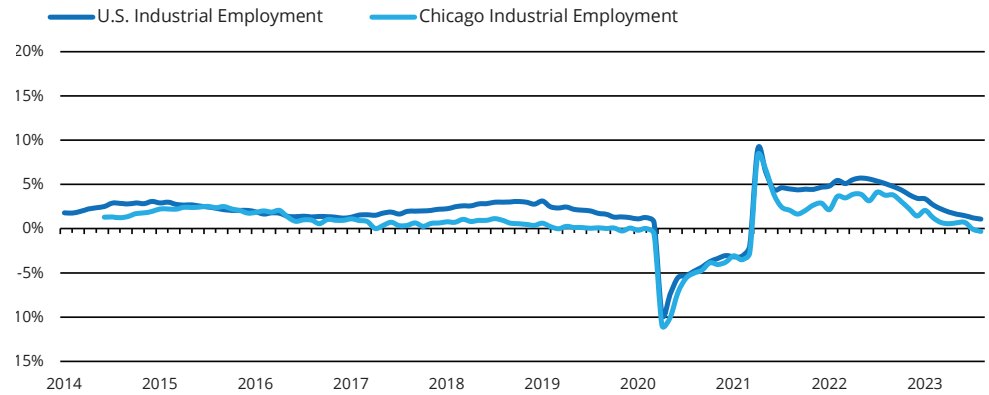


ECONOMY

Interest Rates Will Remain High

- The Federal Reserve (Fed) added one more interest rate hike in July, and choose to hold rates steady in September, leaving the current range of federal funds rate at 5.25% to 5.50%. The Fed has indicated that there is unlikely to be more than one additional hike in rates but has also signaled that rates are expected to remain high in the coming years.
- While economic indicators appear to show inflation gradually cooling, the Personal Consumption Expenditures (PCE) Index – the Fed’s preferred measure of inflation – increased 0.4% in the month of August. For comparison, the PCE Index increased 0.2% in June and 0.2% in July. On an annual basis, the index increased 3.5%. However, the more important core PCE index -excluding food and energy- increased only 0.1% in August, down from 0.2% in June and July. The core index increased 3.9% on an annual basis.
- The economy continues to add jobs at an impressive pace with an estimated 336,000 jobs created in the U.S. in September, bringing the total for the third quarter of 2023 up to 799,000. There were 209,000 weekly initial unemployment claims at the end of September, lower than historic averages.
- Locally, the unemployment rate increased 90 basis points in August to 5.1%, the highest it has been since February of 2022. The U.S. unemployment rate was 3.8% in August, just 30 basis points higher than it was in July. Approximately 50,000 jobs were added to the local economy over the past year with Education and Health Services jobs leading the pack, closely followed by Leisure and Hospitality.
- The number of industrial-using jobs in the U.S. increased by 1.1% year over year in August; locally, industrial-using jobs decreased by 0.3% during the same period, shedding 5,100 positions.

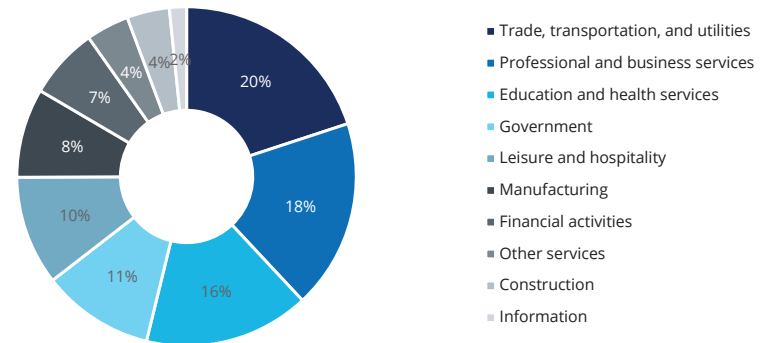
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

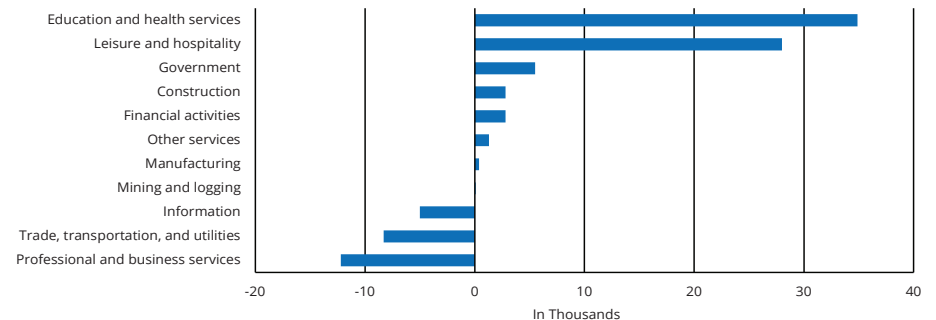
Chicago MSA | August 2023



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | August 2023



Source: Bureau of Labor Statistics

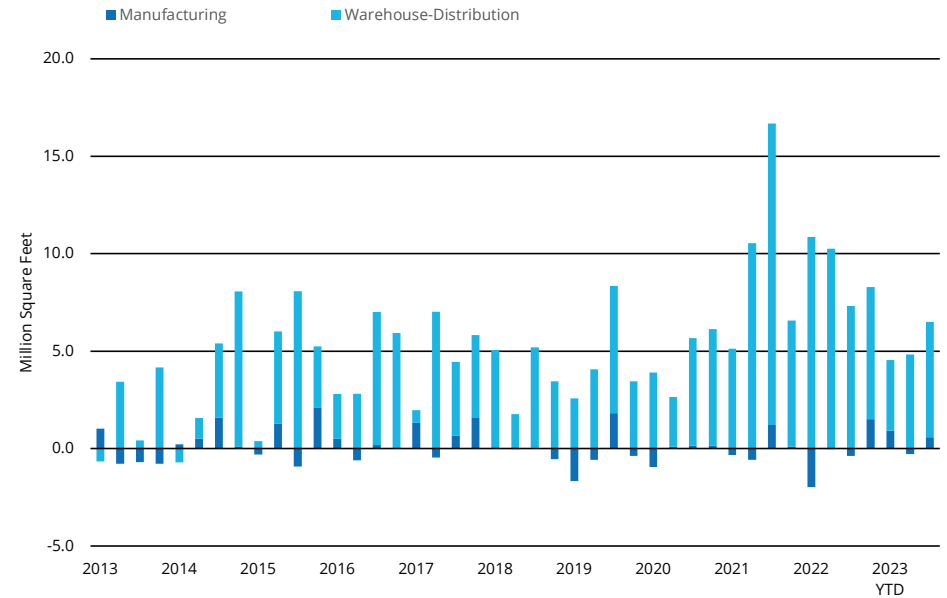


NET ABSORPTION

Demand Still Strong Despite Decline

- Softening economic conditions and the easing of supply chain problems are 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 6.4 million square feet in the third quarter with 5.8 million square feet of warehouse-distribution space and 578,521 square feet of manufacturing space.
- The I55 / I80 Southwest Corridors submarket had the largest amount of absorption in the third quarter with 4.7 million square feet.
- There was 8.3 million square feet of leasing activity in the third quarter, down significantly from the historic high of 23.6 million square feet seen in the first quarter of 2022.

NET ABSORPTION BY PRODUCT TYPE



Source: Transwestern, CoStar

NOTABLE LEASES

Q3 2023

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
PETSMART DISTRIBUTION CENTER	910 E. Stevenson Rd., Ottawa	Southwest	Renewal	1,190,150
KURIYAMA OF AMERICA	14200 Commerce Court, Huntley	Northwest	New	329,210
ULTA	925 Belle Lane, Bolingbrook	I55 / I80 Southwest Corridors	New	321,123
UNITED FACILITIES	2001 Baseline Rd., Montgomery	West Suburban	Renewal	295,620
UPSIDE FOODS	SWC of I-294 & Willow Rd., Glenview	North Cook	New	187,000

Source: CoStar, Transwestern

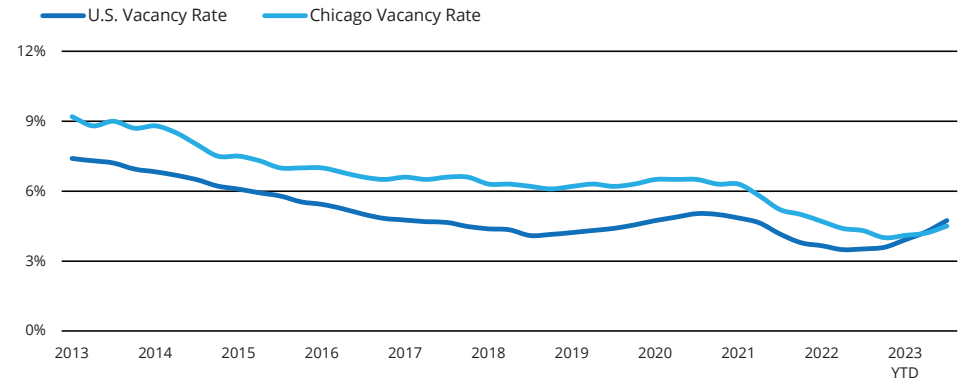


VACANCY

Vacancy Rates Remain Low

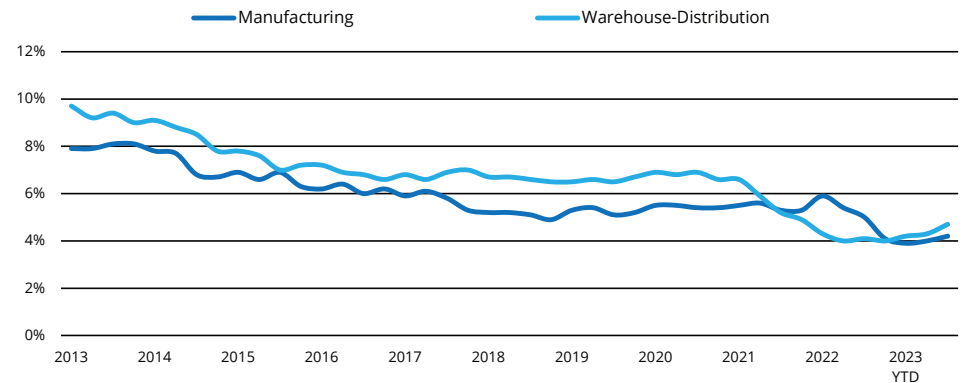
- The direct vacancy rate increased by 30 basis points to 4.2% in the third quarter, and the overall vacancy rate increased by 30 basis points to 4.5%.
- Manufacturing space has a direct vacancy rate of 3.9% and an overall vacancy rate of 4.2%. Warehouse-distribution space has a direct vacancy rate of 4.3% and an overall vacancy rate of 4.7%
- The lowest vacancy rates, 2.0% direct and 2.3% overall, are in the West Suburban submarket, where there has been very little new construction. The highest vacancy rates, 12.1% direct and 12.1% overall, are in the Kenosha submarket, which had 2 million square feet of new inventory added to the market in the third quarter.
- Vacancy is expected to rise slightly as more inventory is added to the market and demand moderates.

OVERALL VACANCY RATE



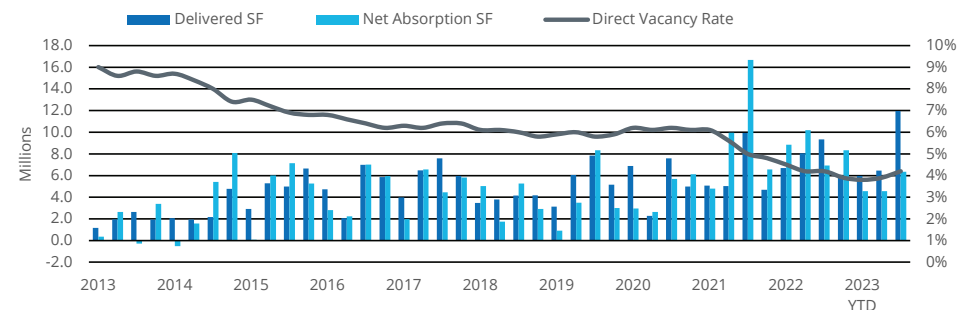
Source: Transwestern, CoStar

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

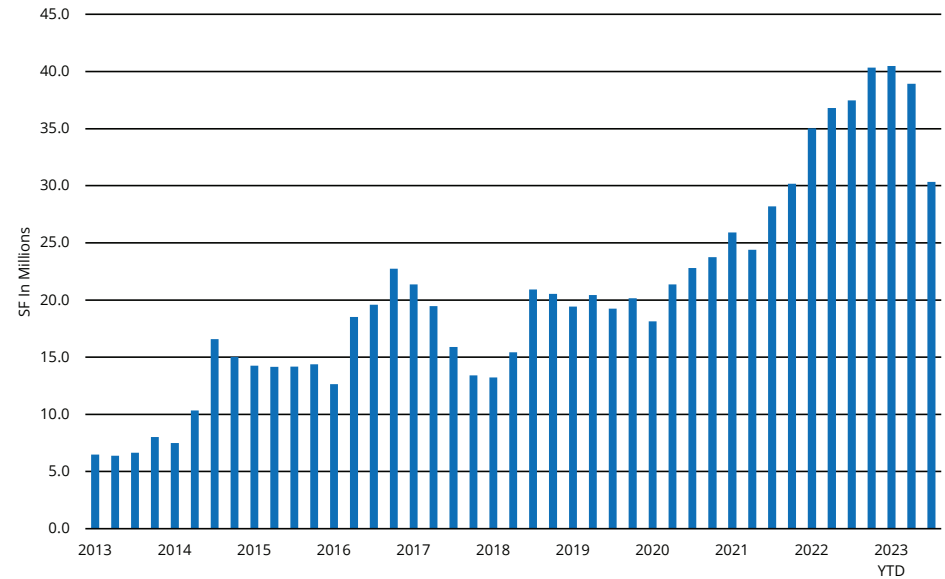


UNDER CONSTRUCTION

Development Pipeline Slows

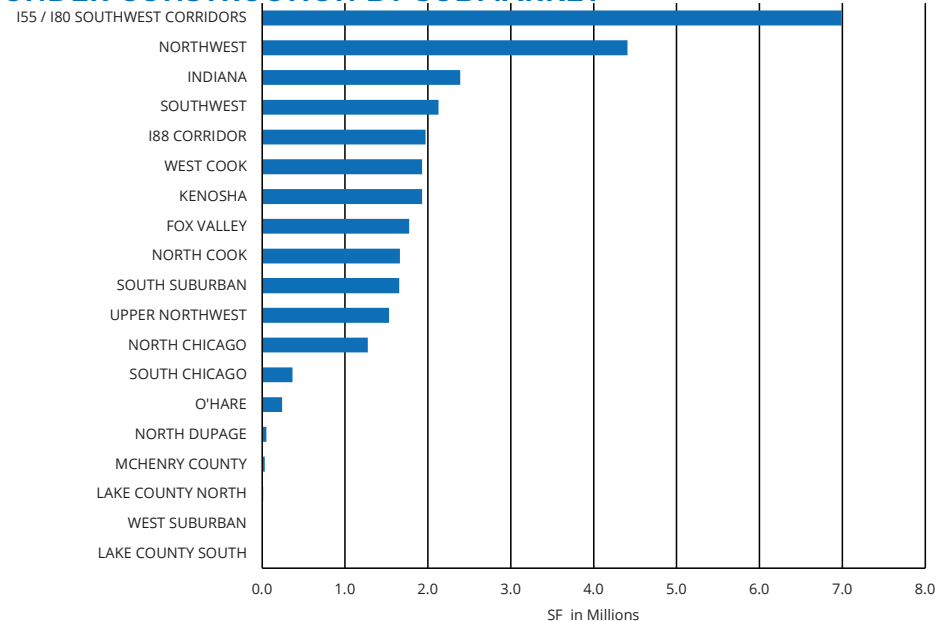
- In the third quarter, 11.9 million square feet of new industrial space was added to the market. Nearly 3.4 million square feet broke ground. There is now 30.3 million square feet of industrial space under construction, 10 million square feet less than there was at the peak in the first quarter of 2023.
- The development pipeline is comprised of 92% warehouse-distribution space and 8% manufacturing space.
- Approximately 58% of the inventory under construction has been pre-leased.
- Approximately one-quarter 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

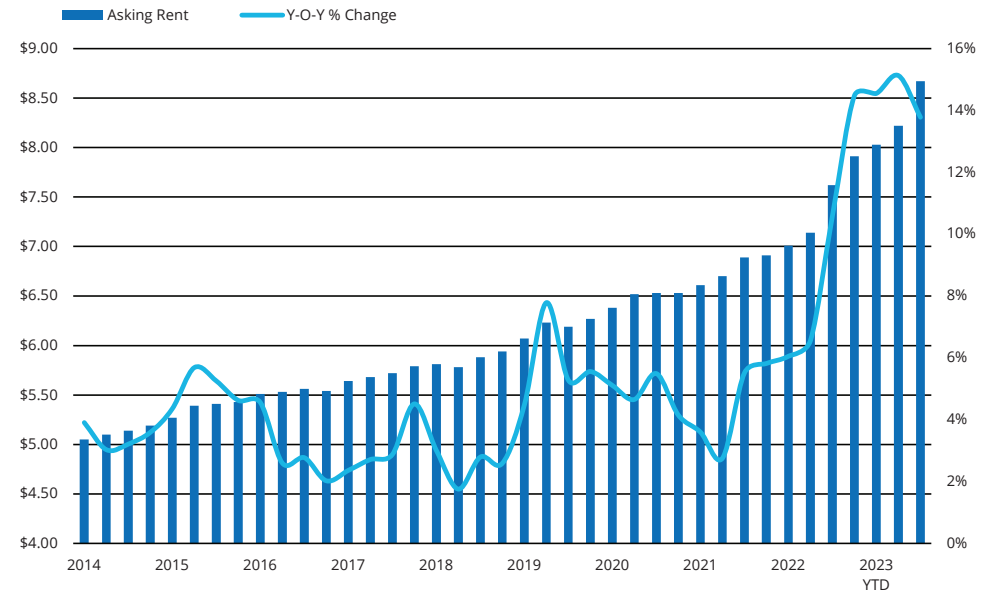


RENTAL RATES

Rental Rate Growth Slows Slightly

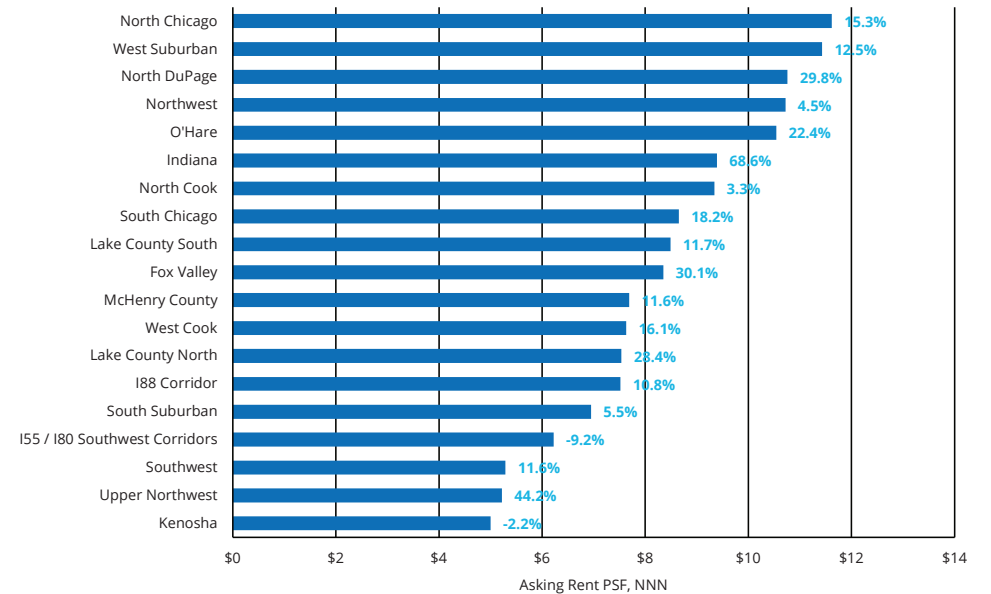
- Average asking rents for the Chicago metro area increased by 13.8% year over year to \$8.67 PSF as of Q3 2023.
- Rent has grown significantly since the onset of the pandemic, increasing by 38.3% during that period.
- Rent increased in all but one of the Chicago area submarkets during the past 12 months, and 14 of 19 submarkets experienced double-digit growth.
- Rent can be expected to continue rising, but the rate of growth should decelerate over the next year.

ASKING RENT



Source: Transwestern, CoStar

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

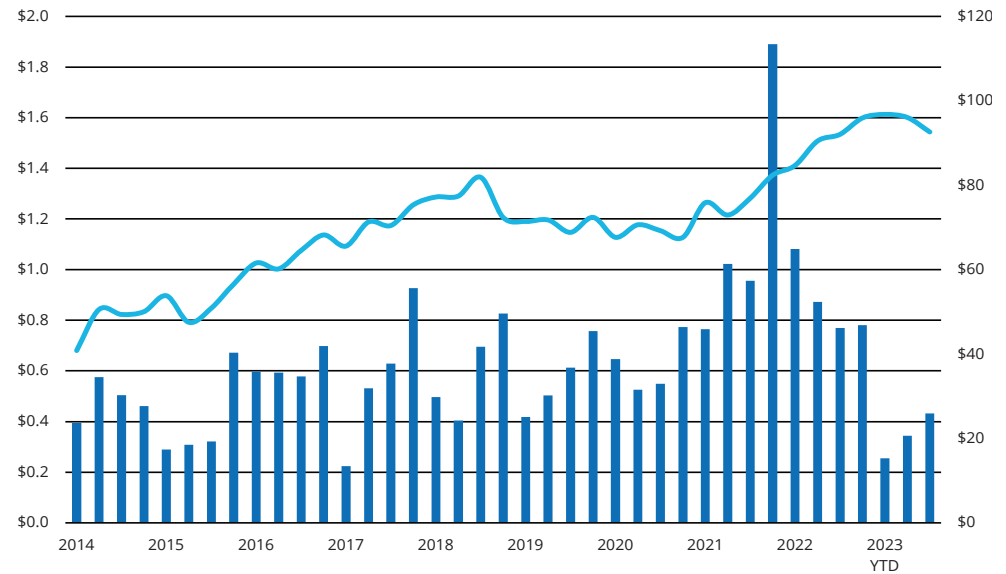


SALES

Sales Volume Plummetts

- Rapidly increasing interest rates and decreasing access to capital led to a sharp drop in all commercial real estate investments in 2023. However, the industrial market is still the most attractive sector, as reflected in the still-high average sales price per square foot.
- There was \$432 million of Chicago-area industrial investment sales in the third quarter, slightly more than the first two quarters of the year, but just a fraction of the \$1.9 billion historic high seen in the fourth quarter of 2021. In contrast, the average sales price per square foot was \$93 in the third quarter of 2023, 12.4% higher than it was in the fourth quarter of 2021.

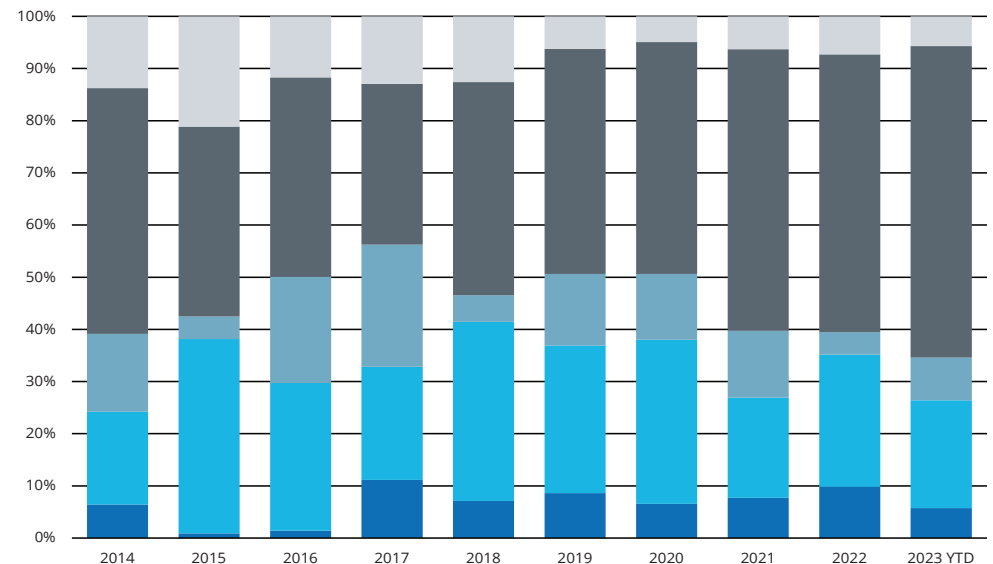
SALES VOLUME



Source: Transwestern, Real Capital Analytics, CoStar

BUYER CAPITAL COMPOSITION

■ Cross-Border ■ Institutional ■ REIT/Listed ■ Private ■ User/Other



Source: Transwestern, Real Capital Analytics, CoStar



MARKET INDICATORS TABLE

By Submarket | Q3 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	65,245,013	2,104,446	3.2%	3.4%	1,772,448	160,166	664,068	\$8.35
I55 / I80 SOUTHWEST CORRIDORS	259,552,867	5,920,517	2.3%	2.5%	6,990,022	4,713,973	7,440,320	\$6.22
I88 CORRIDOR	79,865,336	2,134,476	2.7%	2.9%	1,973,500	1,056,184	2,484,796	\$7.52
INDIANA	59,325,142	3,379,851	5.7%	6.4%	2,390,080	(112,353)	(129,388)	\$9.39
KENOSHA	50,586,175	6,140,523	12.1%	12.1%	1,929,504	(602,002)	2,086,223	\$5.00
LAKE COUNTY NORTH	43,296,635	1,636,835	3.8%	4.1%	12,000	48,024	37,922	\$7.54
LAKE COUNTY SOUTH	46,624,652	3,045,081	6.5%	6.9%	0	(224,003)	(377,349)	\$8.49
MCHENRY COUNTY	33,076,688	2,213,763	6.7%	6.9%	31,680	(213,959)	(88,951)	\$7.69
NORTH CHICAGO	68,434,578	5,431,705	7.9%	8.1%	1,274,800	106,105	(17,559)	\$11.62
NORTH COOK	50,885,483	1,640,399	3.2%	3.4%	1,660,868	(37,720)	21,331	\$9.34
NORTH DUPAGE	41,302,546	1,374,245	3.3%	3.3%	50,000	220,287	(242,617)	\$10.76
NORTHWEST	88,342,977	5,542,920	6.3%	6.6%	4,407,393	239,271	1,903,352	\$10.72
O'HARE	108,184,710	2,926,867	2.7%	3.4%	241,741	(375,925)	668,874	\$10.54
SOUTH CHICAGO	115,786,940	5,776,439	5.0%	5.1%	365,532	(200,152)	(376,060)	\$8.65
SOUTH SUBURBAN	88,866,156	2,522,923	2.8%	3.2%	1,654,966	1,906,870	1,883,272	\$6.95
SOUTHWEST	28,152,409	674,104	2.4%	2.4%	2,125,800	110,601	286,904	\$5.29
UPPER NORTHWEST	45,377,589	2,817,483	6.2%	6.4%	1,530,165	(207,726)	(578,728)	\$5.22
WEST COOK	74,809,736	2,682,617	3.6%	4.6%	1,931,569	(481,045)	(700,434)	\$7.63
WEST SUBURBAN	41,200,435	837,984	2.0%	2.3%	0	244,687	466,787	\$11.43
TOTAL	1,388,916,067	58,803,178	4.2%	4.5%	30,342,068	6,351,283	15,432,763	\$8.67

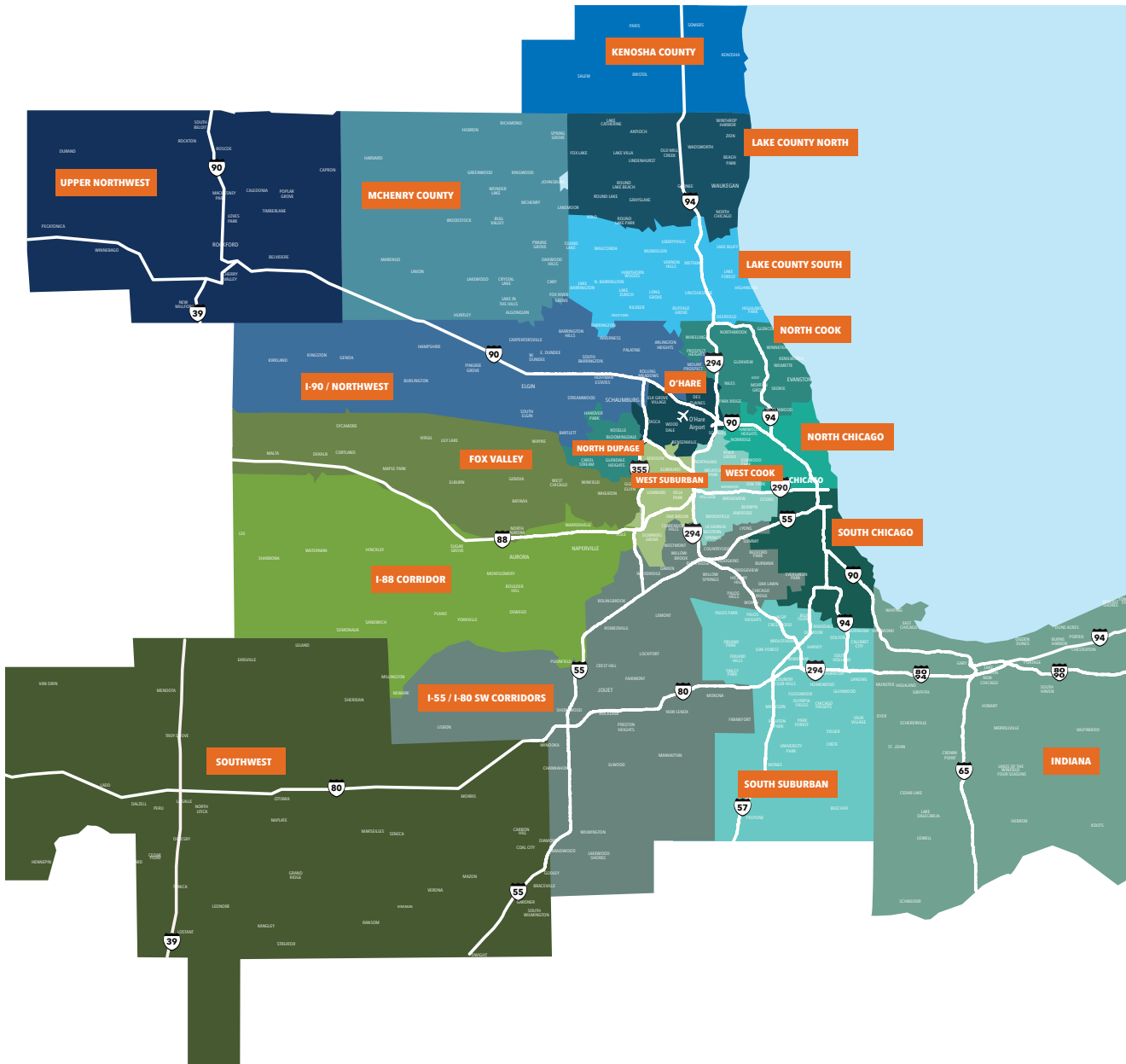
Source: CoStar, Transwestern

MARKET INDICATORS TABLE

By Property Type | Q3 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	1,055,691,635	45,771,608	4.3%	4.7%	27,957,823	5,772,762	14,227,810	\$9.17
MANUFACTURING	333,224,432	13,031,570	3.9%	4.2%	2,384,245	578,521	1,204,953	\$7.42
TOTAL	1,388,916,067	58,803,178	4.2%	4.5%	30,342,068	6,351,283	15,432,763	\$8.67

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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