TRANSWESTERN

# CHICAGO INDUSTRIAL MARKET

Q4 2023

## TRENDLINES

| | Q4 2023 | Q4 2022 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|---|---|---|---|---|---|
| **UNEMPLOYMENT RATE** | 4.3 | 4.2 | ↑ | 5.7 | ↑ |
| **NET ABSORPTION** (MSF) | 1.5 | 8.4 | ↓ | 6.1 | ↑ |
| **OVERALL VACANCY RATE** | 5.2% | 4.0% | ↑ | 5.4% | ↑ |
| **OVERALL VACANT SF** (MSF) | 69.4 | 52.6 | ↑ | 68.8 | ↑ |
| **UNDER CONSTRUCTION** (MSF) | 19.5 | 40.0 | ↓ | 27.5 | ↓ |
| **ASKING RENT, NNN** (PSF) | $8.53 | $7.92 | ↑ | $7.03 | ↑ |
| **SALES VOLUME** (Millions) | $710 | $1,089 | ↓ | $1,381 | ↔ |
| **SALES PRICE** (PSF) | $90 | $98 | ↓ | $83 | ↔ |

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

## INDUSTRIAL MARKET REMAINS STRONG

The Chicagoland industrial market underwent a shift in 2023. Absorption remained positive, but fell from 34 million square feet in 2022 to 17 million square feet in 2023. Meanwhile, leasing activity slowed 39% in 2023, while the amount of available sublease space increased by 40%.

These softening market conditions, combined with the delivery of over 36.5 million square feet of new inventory in 2023, have caused the total vacancy rate to reach 5.2%. However, constuction starts have waned and the amount of space under construction at the end of 2023 was less than half what there was at the beginning of 2023.

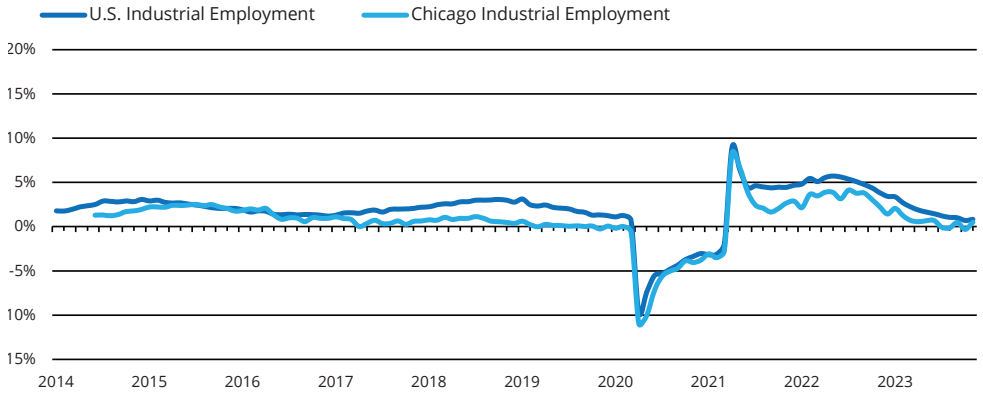
After the record-breaking activity seen in the industrial market over the past three years, a market slowdown was inevitable. At this point, it is difficult to tell if slowing demand is a cause for concern. In 2024 we will see if the market is simply normalizing or declining.

## ECONOMY

### Interest Rates May Decrease in 2024

- The Federal Reserve (Fed) held the range of federal funds rate at 5.25% to 5.50% in December and signaled that there could be three quarter-point rate cuts in 2024. This would be a welcome relief to the commercial real estate industry, which has been under considerable stress due to the most aggressive period of rate hikes in history.
- Economic indicators appear to show inflation gradually cooling. The Personal Consumption Expenditures (PCE) Index, the Fed's preferred measure of inflation, did not change in October and decreased 0.1% in November after increasing 0.4% in August and September. On an annual basis, the index increased 2.6%. The more important core PCE index, which excludes food and energy, increased 0.1% in both October and November, down from 0.3% in September. The core index increased 3.2% on an annual basis.
- The economy continues to add jobs at an impressive pace with an estimated 216,000 jobs created in the U.S. in December, bringing the total for the year up to 2,697,000. There were 202,000 weekly initial unemployment claims at the end of December, which remains lower than historic averages.
- Locally, the unemployment rate decreased 10 basis points in November to 4.3%, down from 5.1% in August. The U.S. unemployment rate was 3.7% in December. Approximately 43,300 jobs were added to the local economy over the past year, with Education and Health Services jobs leading the pack, followed by Government.
- The number of industrial space-using jobs in the U.S. increased by 0.8% year over year in November; locally, instrustrial space-using jobs increased by 0.5% during the same period.

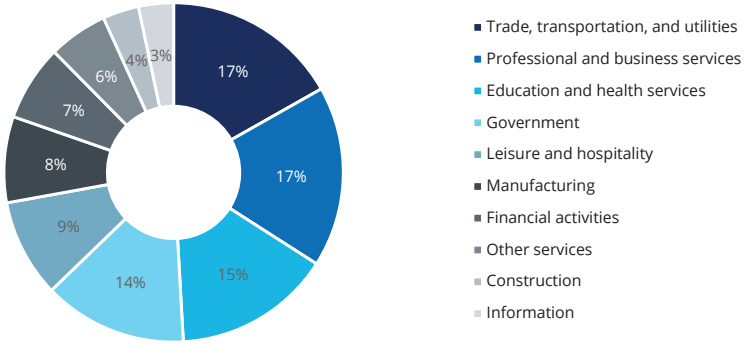
## Y-O-Y CHANGE IN INDUSTRIAL JOBS




Source: Bureau of Labor Statistics, Transwestern

## SHARE OF EMPLOYEES BY INDUSTRY

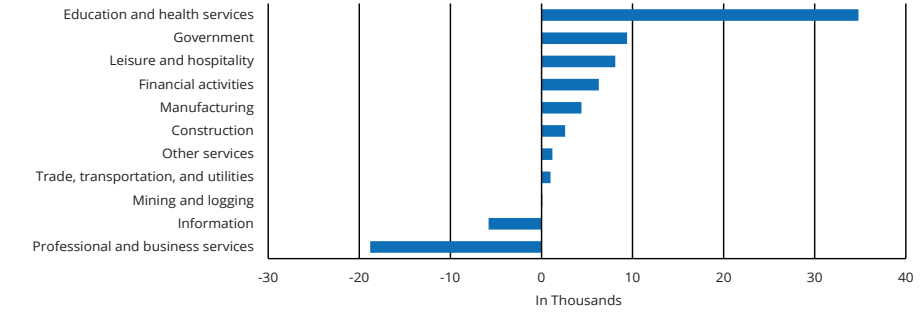
Chicago MSA | November 2023




Source: Bureau of Labor Statistics

## Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | November 2023



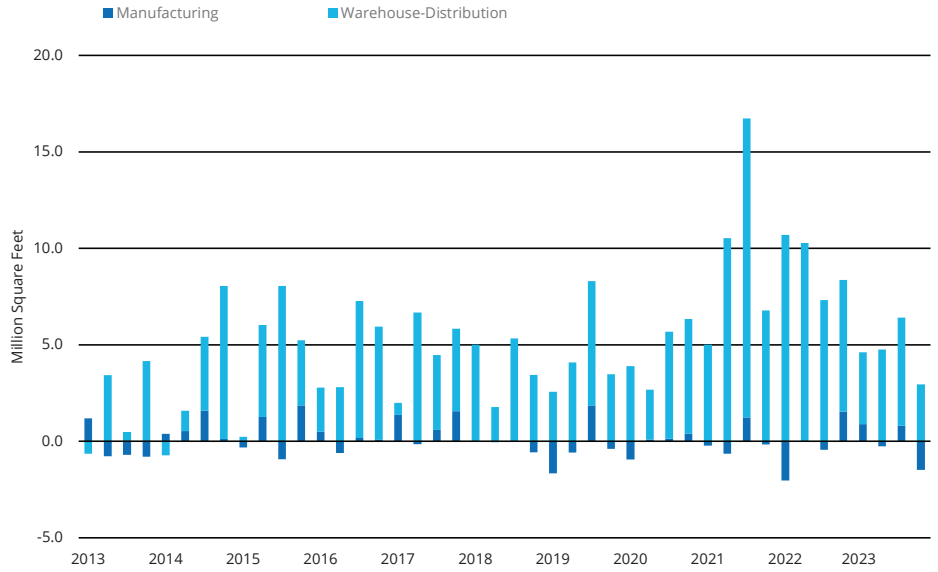

Source: Bureau of Labor Statistics

## NET ABSORPTION

### Demand Declines

- Net absorption totaled 1.5 million square feet in the fourth quarter with 2.9 million square feet of warehouse-distribution space and negative 1.5 million square feet of manufacturing space. This was the lowest level of total quarterly absorption since the first quarter of 2019. It was also the lowest level of quarterly warehouse-distribution space absorption since the second quarter of 2020.
- The Indiana submarket had the largest amount of absorption in the fourth quarter with 1.6 million square feet absorbed.
- There was 9 million square feet of leasing activity in the fourth quarter, which was similar to the third quarter. This level of leasing activity is significantly lower than 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

Q4 2023

| TENANT | ADDRESS | SUBMARKET | TYPE | SF LEASED |
|---|---|---|---|---|
| CRATE & BARREL | 443 Fort Hill Dr., Naperville, IL | I88 Corridor | Renewal | 368,047 |
| GEODIS | 900 W Renwick Rd., Romeoville, IL | I55 / I80 Southwest Corridors | New | 347,760 |
| NORKOL | 900 Knell Rd., Montgomery, IL | I88 Corridor | New | 326,166 |
| SADDLE CREEK LOGISTICS SERVICES | 3351 Brandon Rd., Joliet, IL | I55 / I80 Southwest Corridors | New | 277,760 |
| NFI INDUSTRIES | 9602 Georgia St., Crown Point, IN | Indiana | Sublease | 261,638 |

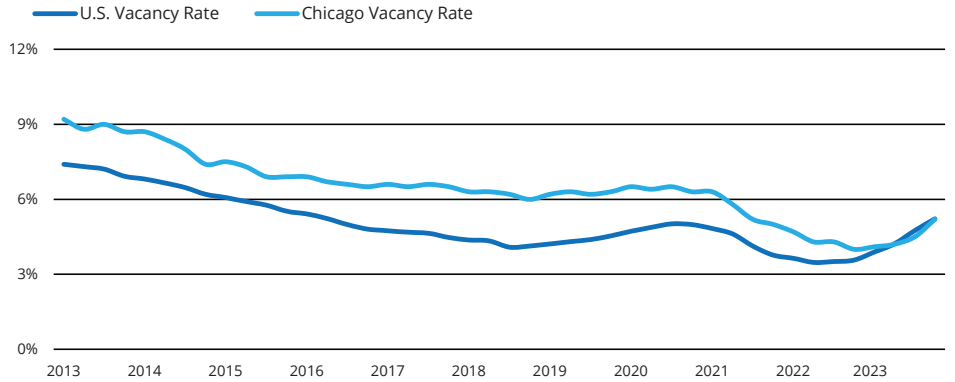
Source: CoStar, Transwestern

## VACANCY

### Vacancy Rates On the Rise

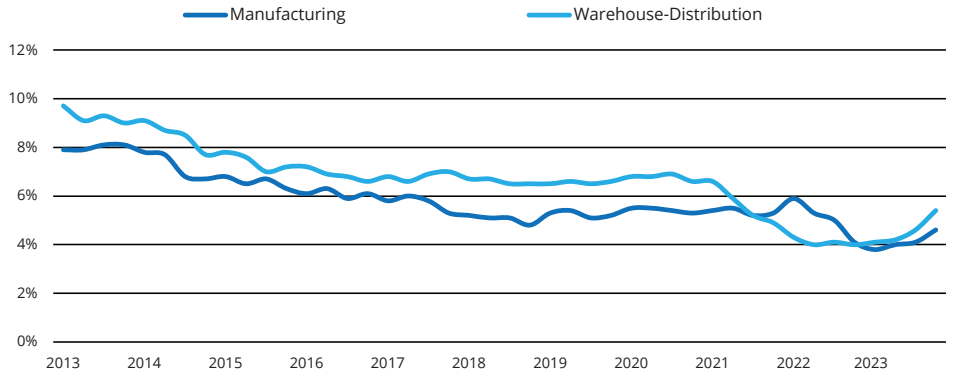
- The direct vacancy rate increased by 70 basis points to 4.9% in the fourth quarter, and the overall vacancy rate increased by 70 basis points to 5.2%.
- Manufacturing space has a direct vacancy rate of 4.3% and an overall vacancy rate of 4.6%. Warehouse-distribution space has a direct vacancy rate of 5.1% and an overall vacancy rate of 5.4%
- The lowest vacancy rates, 2.2% direct and 2.2% overall, are in the Southwest submarket. The highest vacancy rates, 14.5% direct and 14.5% overall, are in the Kenosha submarket, which has seen its inventory expand by nearly 50% over the past five years.
- Vacancy is expected to continue to rise in 2024 as more inventory is added to the market and demand weakens. Unless there is significant negative absorption, the direct vacancy rate should not rise over 6.2%.

## OVERALL VACANCY RATE



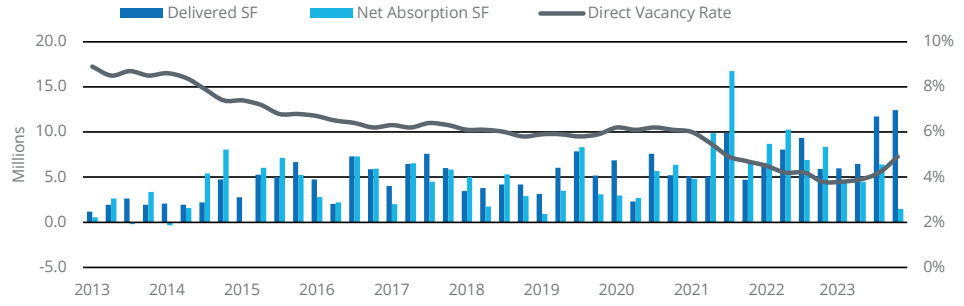

Source: Transwestern, CoStar

## OVERALL VACANCY RATE BY PRODUCT TYPE




Source: Transwestern, CoStar

## DELIVERY IMPACT ON KEY INDICATORS



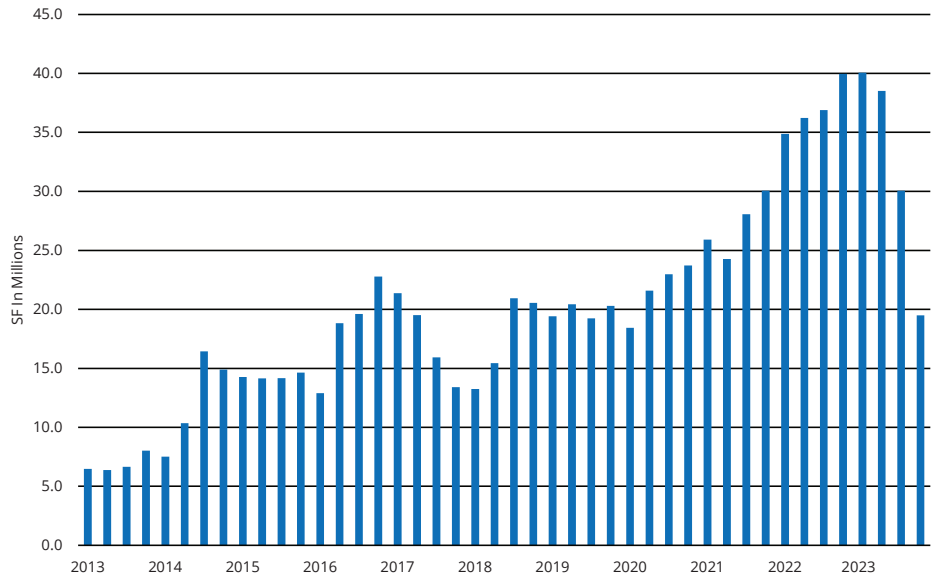

Source: Transwestern, CoStar

## UNDER CONSTRUCTION

### Development Pipeline Slows

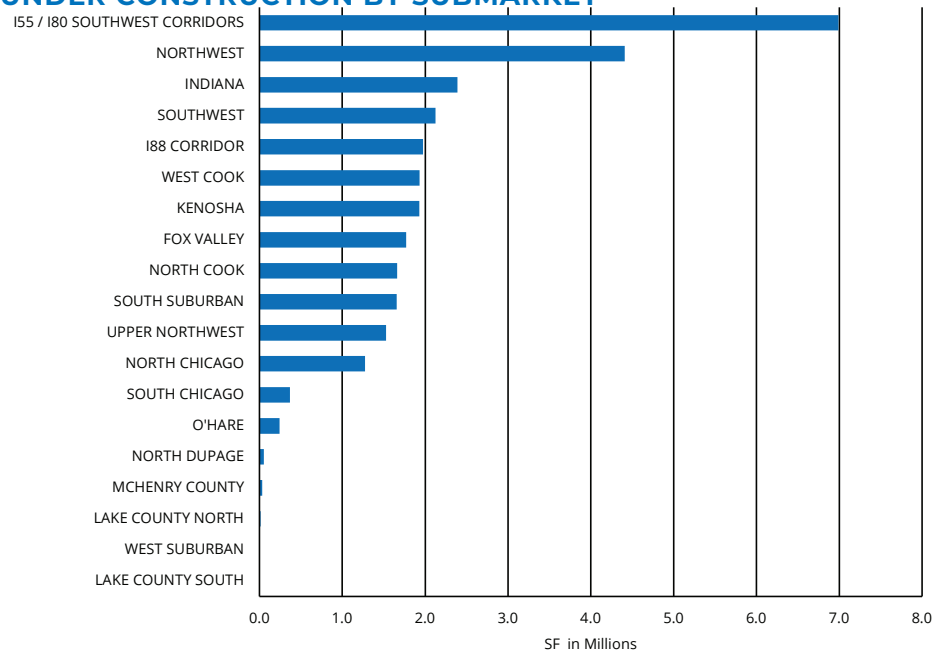
- In the fourth quarter, a historic high of 12.4 milllion square feet of new industrial inventory was added to the market, breaking the record of 11.7 million square feet, which was seen in the thrid quarter of 2023. However, only 9 projects with a combined total of 1.8 million square feet broke ground in the fourth quarter. There is now 19.4 million square feet of industrial space under construction, 20.6 million square feet less than there was at the peak in the first quarter of 2023.
- The development pipeline is comprised of 95.7% warehouse-distribution space and 4.3% manufacturing space.
- Approximately 60% of the inventory under construction has been pre-leased.
- Approximately one-fifth of all inventory under construction is in the I55/I80 Southwest Corridors submarket.

## UNDER CONSTRUCTION




Source: Transwestern, CoStar

## UNDER CONSTRUCTION BY SUBMARKET



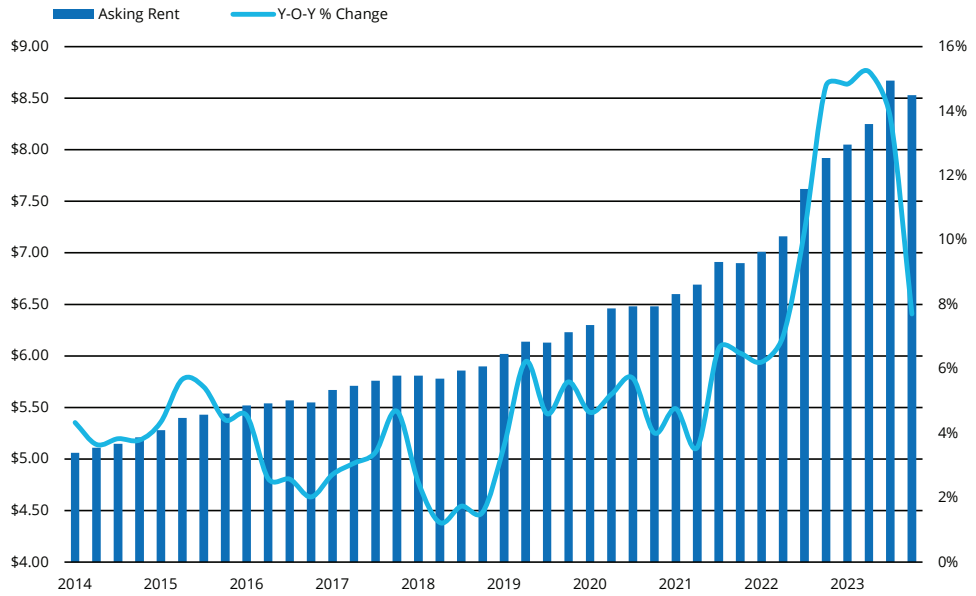

Source: Transwestern, CoStar

## RENTAL RATES

### Asking Rents Decrease

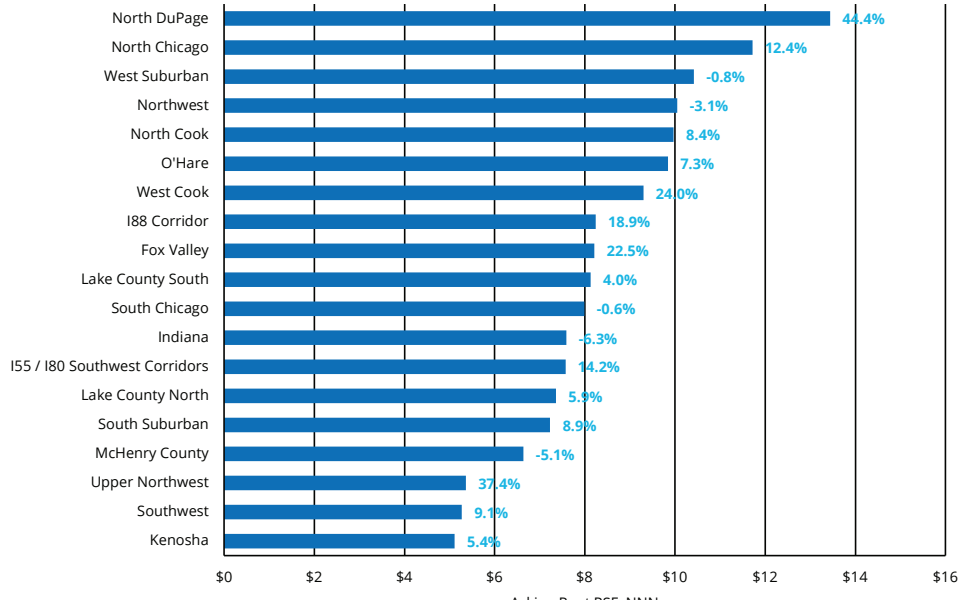
- The average asking rent for the Chicago metro area was $8.53 per square foot at the end of 2023, down 1.6% from the end of the third quarter. This was the first quarterly decrease over 1% seen over the past decade. However, year over year the average asking rent was up 7.7%.
- Rent has grown significantly since the onset of the pandemic, increasing by 36.9% during that period.
- Rent increased in all but five of the Chicago area submarkets during the past 12 months, and 7 of the 19 total submarkets experienced double-digit growth.
- Rents can be expected to grow in most submarkets in 2024, but growth rates are likely to return to pre-pandemic norms.

## ASKING RENT




Source: Transwestern, CoStar

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



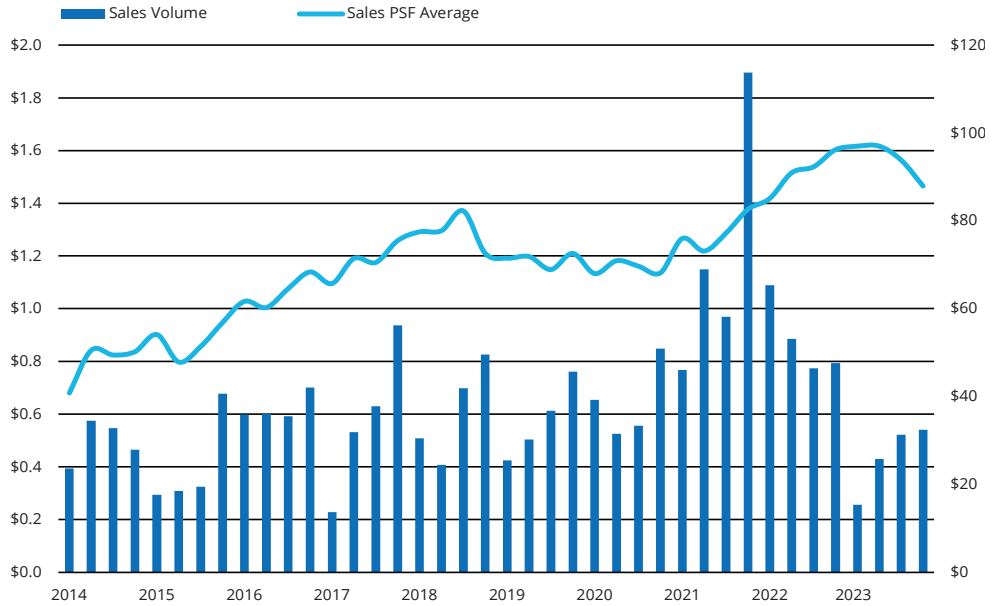

Source: Transwestern, CoStar

## SALES

### Sales Volume Constrained

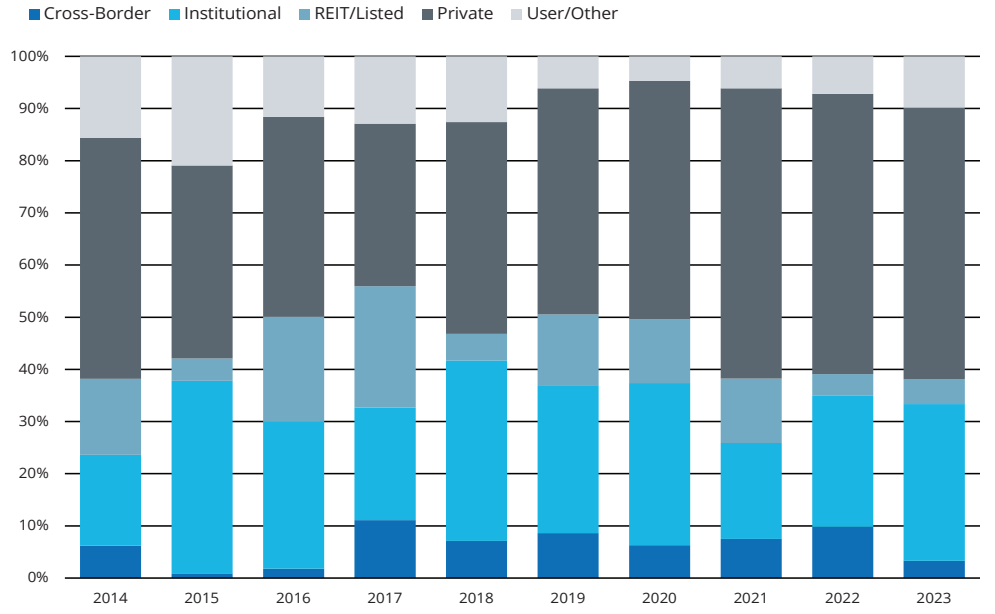
- Rapidly increasing interest rates and decreasing access to capital led to a sharp drop in all commercial real estate investments in 2023. However, the industrial market is still the most attractive sector, as reflected in the still-high average sales price per square foot.
- There was $541 million of Chicago-area industrial investment sales in the fourth quarter, bringing the year's total up to $1.75 billion. The average sales price per square foot was $88 in the fourth quarter of 2023, down 8.6% year over year.

## SALES VOLUME




Source: Transwestern, Real Capital Analytics, CoStar

## BUYER CAPITAL COMPOSITION




Source: Transwestern, Real Capital Analytics, CoStar

## MARKET INDICATORS TABLE

### By Submarket | Q4 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 | 66,193,005 | 2,430,601 | 3.7% | 3.7% | 973,213 | 533,080 | 1,203,148 | $8.21 |
| I55 / I80 SOUTHWEST CORRIDORS | 264,175,419 | 10,752,922 | 4.1% | 4.3% | 3,895,475 | (663,546) | 6,455,642 | $7.57 |
| I88 CORRIDOR | 80,066,690 | 2,047,889 | 2.6% | 2.7% | 1,892,000 | 253,660 | 2,738,456 | $8.24 |
| INDIANA | 61,424,423 | 4,087,513 | 6.7% | 7.0% | 301,000 | 1,595,016 | 1,465,628 | $7.59 |
| KENOSHA | 51,531,657 | 7,451,848 | 14.5% | 14.5% | 1,010,880 | (392,701) | 1,693,522 | $5.11 |
| LAKE COUNTY NORTH | 43,336,253 | 1,758,816 | 4.1% | 4.3% | 11,440 | (74,898) | (36,976) | $7.36 |
| LAKE COUNTY SOUTH | 46,400,845 | 2,363,664 | 5.1% | 5.3% | 334,299 | 578,301 | 445,791 | $8.13 |
| MCHENRY COUNTY | 32,982,138 | 2,381,720 | 7.2% | 7.4% | 55,880 | (162,957) | (251,908) | $6.64 |
| NORTH CHICAGO | 68,982,513 | 5,514,458 | 8.0% | 8.1% | 1,184,800 | 32,247 | (10,312) | $11.72 |
| NORTH COOK | 51,128,805 | 2,048,820 | 4.0% | 4.2% | 1,365,590 | (115,652) | (185,698) | $9.97 |
| NORTH DUPAGE | 41,297,104 | 1,119,475 | 2.7% | 3.0% | 57,100 | 139,857 | (112,760) | $13.44 |
| NORTHWEST | 88,907,464 | 5,247,191 | 5.9% | 6.2% | 3,554,932 | 616,982 | 2,550,945 | $10.05 |
| O'HARE | 108,073,603 | 3,506,404 | 3.2% | 3.9% | 239,629 | (709,941) | 118,958 | $9.84 |
| SOUTH CHICAGO | 117,848,351 | 5,633,230 | 4.8% | 4.9% | 365,532 | (239,986) | (616,046) | $7.99 |
| SOUTH SUBURBAN | 89,508,289 | 4,550,952 | 5.1% | 5.3% | 1,393,719 | (1,244,935) | 732,483 | $7.23 |
| SOUTHWEST | 29,914,525 | 665,954 | 2.2% | 2.2% | 615,000 | 1,518,950 | 1,805,854 | $5.27 |
| UPPER NORTHWEST | 47,612,533 | 3,558,960 | 7.5% | 8.2% | 230,165 | 325,944 | (270,184) | $5.36 |
| WEST COOK | 75,564,052 | 3,338,442 | 4.4% | 5.3% | 2,002,073 | (314,039) | (1,015,873) | $9.30 |
| WEST SUBURBAN | 41,224,841 | 931,081 | 2.3% | 2.8% | 0 | (207,050) | 259,737 | $10.42 |
| **TOTAL** | **1,406,172,510** | **69,389,940** | **4.9%** | **5.2%** | **19,482,727** | **1,468,332** | **16,970,407** | **$8.53** |

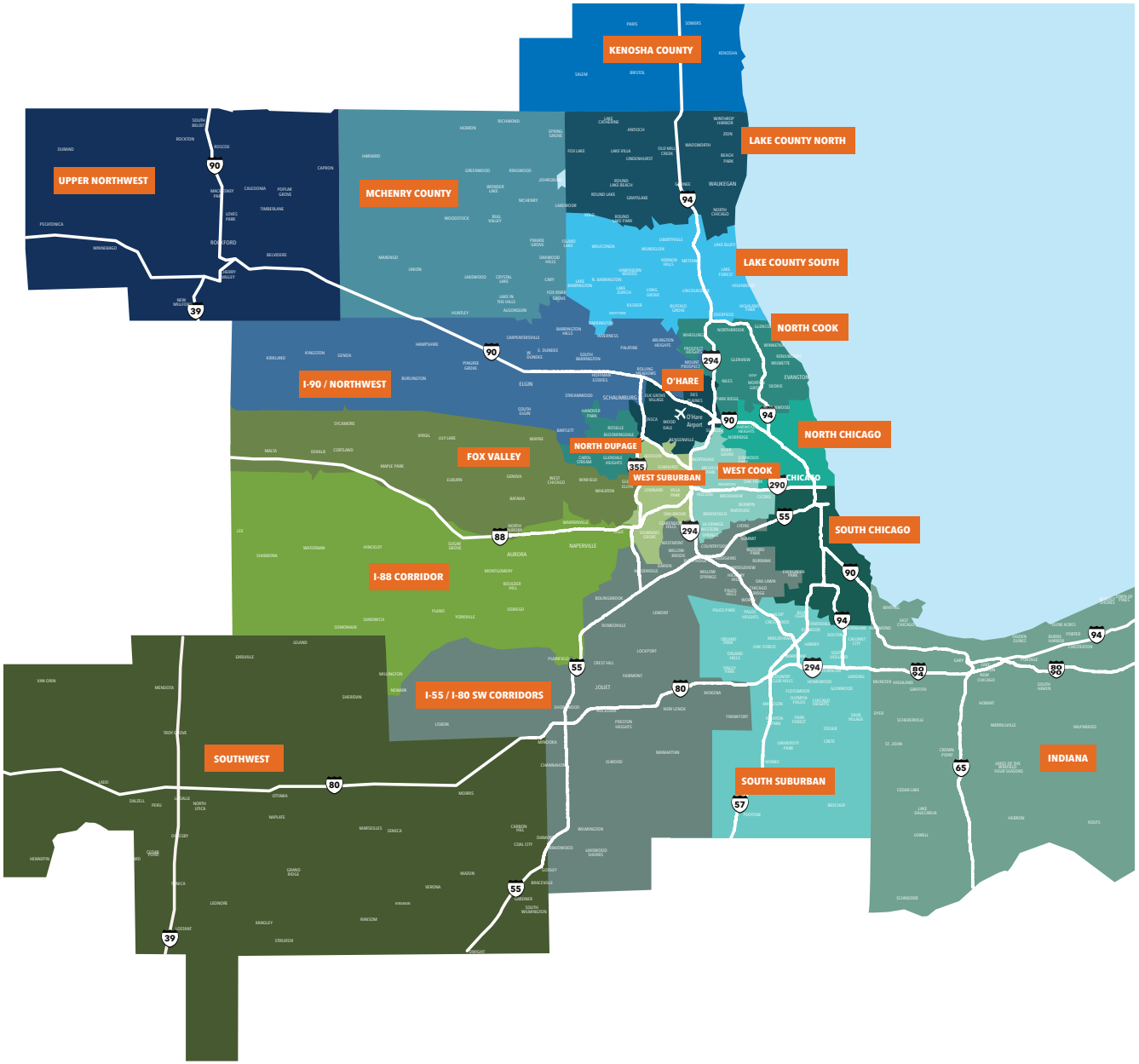
Source: CoStar, Transwestern

## MARKET INDICATORS TABLE

### By Property Type | Q4 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 | 1,070,619,119 | 54,924,224 | 5.1% | 5.4% | 18,640,595 | 2,949,026 | 17,029,690 | $9.08 |
| MANUFACTURING | 335,553,391 | 14,465,716 | 4.3% | 4.6% | 842,132 | (1,480,694) | (59,283) | $7.28 |
| **TOTAL** | **1,406,172,510** | **69,389,940** | **4.9%** | **5.2%** | **19,482,727** | **1,468,332** | **16,970,407** | **$8.53** |

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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