

CHICAGO INDUSTRIAL MARKET

Q1 2024



TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3	4.4	↑	5.7	↑
NET ABSORPTION (MSF)	2.7	3.8	↓	6.1	↓
OVERALL VACANCY RATE	5.5%	4.0%	↑	5.4%	↑
OVERALL VACANT SF (MSF)	73.4	52.3	↑	68.7	↑
UNDER CONSTRUCTION (MSF)	16.0	43.7	↓	28.3	↓
ASKING RENT, NNN (PSF)	\$9.27	\$8.75	↑	\$7.95	↑
SALES VOLUME (Millions)	\$330	\$252	↑	\$729	↔
SALES PRICE (PSF)	\$99	\$97	↑	\$82	↔

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

INDUSTRIAL MARKET SLOWING

The Chicago market's direct vacancy rate increased for the fifth consecutive quarter to 5.2%. The increased vacancy rate was due to the 5.6 million square feet of new inventory that was delivered in the first quarter, only 37.5% of which had been pre-leased. Net absorption totaled 2.7 million square feet, which is less than the Chicago industrial market has become accustomed to over the past three years, but still shows strong demand.

Two signs of concern in the first quarter were a noticeable drop off in leasing activity and a further increase in the amount of available sublease space. These may be early signs of the market softening more rapidly than expected.

Only 15.9 million square feet of space is currently under construction, down from the historic high of 43.6 million square feet that was under construction in the first quarter of 2023. This slowdown in new construction should allow the market to reach a new equilibrium following recent rapid growth in both supply and demand. However, if demand continues to diminish, vacancy rates may keep climbing.

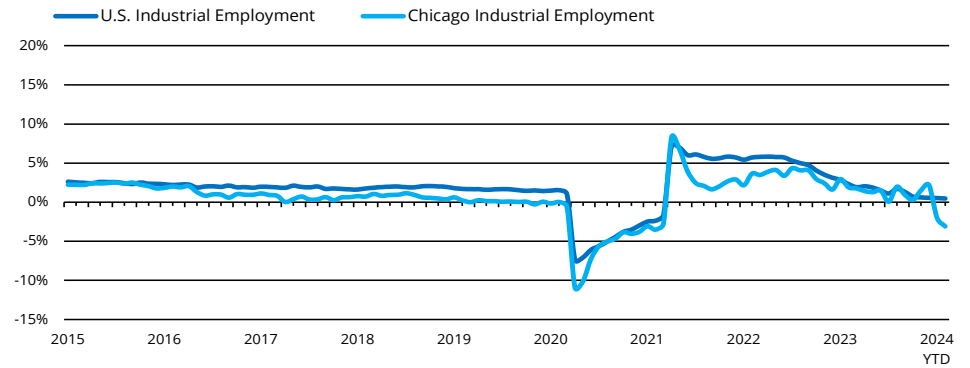


ECONOMY

Interest Rates Stay High For Now

- In March, the Federal Reserve (Fed) maintained the range of the federal funds rate at 5.25% to 5.50%, affirming its stance of refraining from rate cuts until witnessing sustained evidence of inflation reduction. Nonetheless, the ongoing economic expansion suggests that the Fed’s pursuit of a “soft landing” may be on track. The commercial real estate sector, eagerly anticipating rate cuts, will need to persevere in the high-rate environment for the time being.
- The U.S. economy sustained robust job growth, adding an estimated 303,000 jobs in March, bringing the quarterly total to 829,000. Weekly initial unemployment claims remained below historical averages, and the national unemployment rate stood at 3.8% in March.
- Locally, the unemployment rate increased 50 basis points in February to 5.3%, the highest it has been since August of 2021. Approximately 10,700 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 0.5% year over year in February; locally, industrial space-using jobs decreased by 3.1% during the same period.

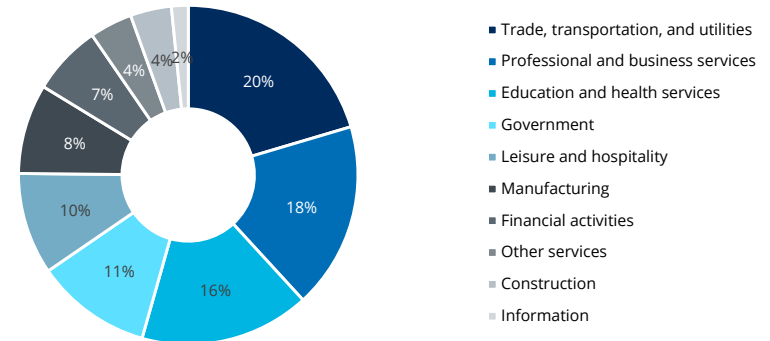
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

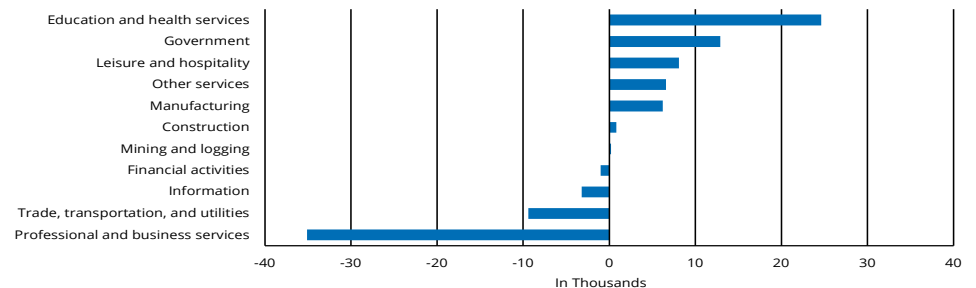
Chicago MSA | February 2024



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | February 2024



Source: Bureau of Labor Statistics

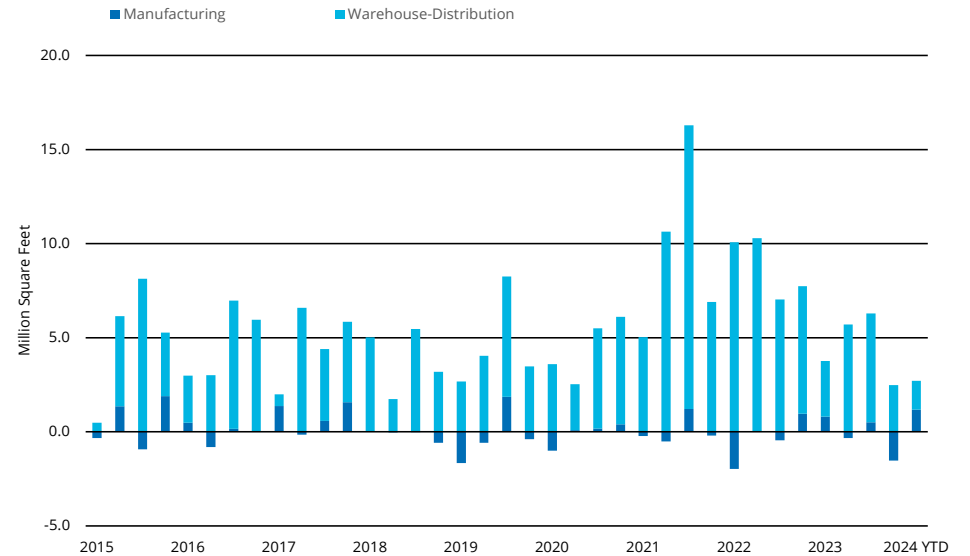


NET ABSORPTION

Demand Declines

- Net absorption totaled 2.7 million square feet in the first quarter with 1.5 million square feet of warehouse-distribution space and 1.1 million square feet of manufacturing space.
- The McHenry County submarket had the largest amount of absorption in the first quarter with 1.4 million square feet absorbed, which was due to US Medical Gloves moving into 1.5 million square feet at 2001 N. Division St. in Harvard, IL.
- There was 6.7 million square feet of leasing activity in the first quarter, which is the lowest level seen since 2008.

NET ABSORPTION BY PRODUCT TYPE



Source: Transwestern, CoStar

NOTABLE LEASES

Q1 2024

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Navistar	2700 W. Haven Ave., Joliet, IL	I55 / I80 Southwest Corridors	Renewal	860,100
Pactiv	1 Earl Ct., Woodridge, IL	I55 / I80 Southwest Corridors	Renewal	513,674
Haribo Of America, Inc.	9403 136th Ave., Kenosha, WI	Kenosha	New	447,216
Canon, Inc.	10350 N. Beaudin Blvd., Woodridge, IL	I55 / I80 Southwest Corridors	Renewal	348,625
Lasership, Inc.	565 S. Pinnacle Dr., Romeoville, IL	I55 / I80 Southwest Corridors	New	334,800

Source: CoStar, Transwestern

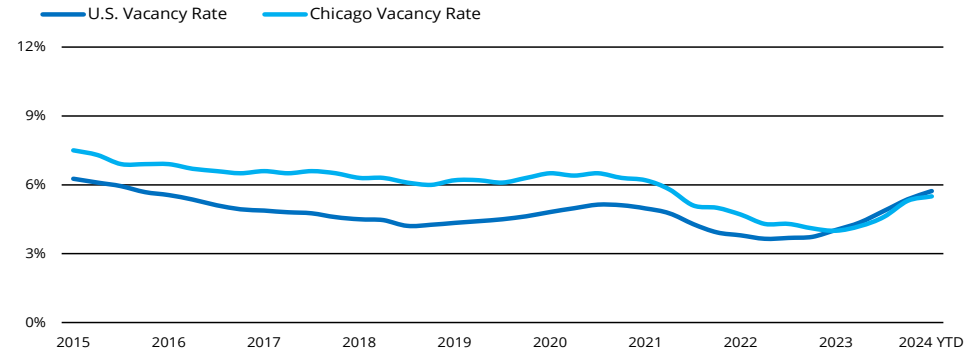


VACANCY

Vacancy Rates On the Rise

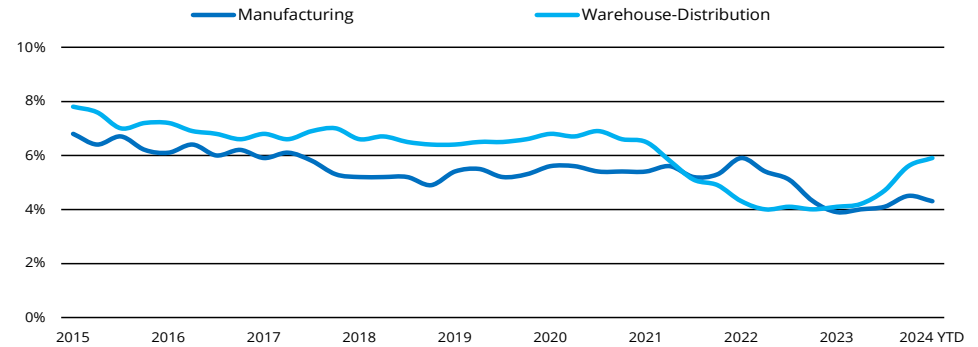
- The direct vacancy rate increased by 10 basis points to 5.2% in the first quarter. The overall vacancy rate, including sublease space, increased by 20 basis points to 5.5%.
- Manufacturing space has a direct vacancy rate of 3.9% and an overall vacancy rate of 4.3%. Warehouse-distribution space has a direct vacancy rate of 5.6% and an overall vacancy rate of 5.9%
- The West Suburban submarket has the lowest direct vacancy rate, 2%, and the Southwest and North Dupage submarkets have the lowest overall vacancy rate, 2.3%. The highest vacancy rates, 14.5% direct and 14.5% overall, are in the Kenosha submarket, which has seen its inventory expand by 48% 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 6.3%.

OVERALL VACANCY RATE



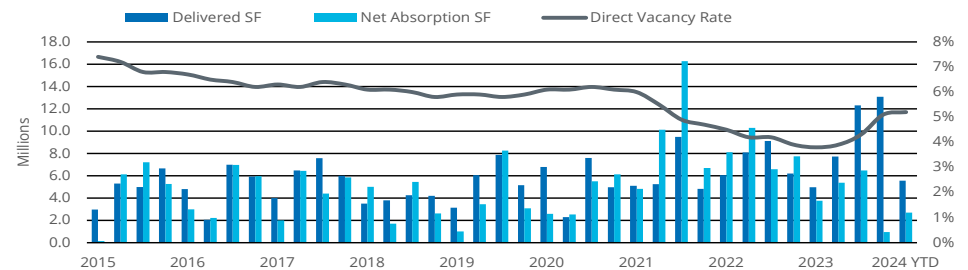
Source: Transwestern, CoStar

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

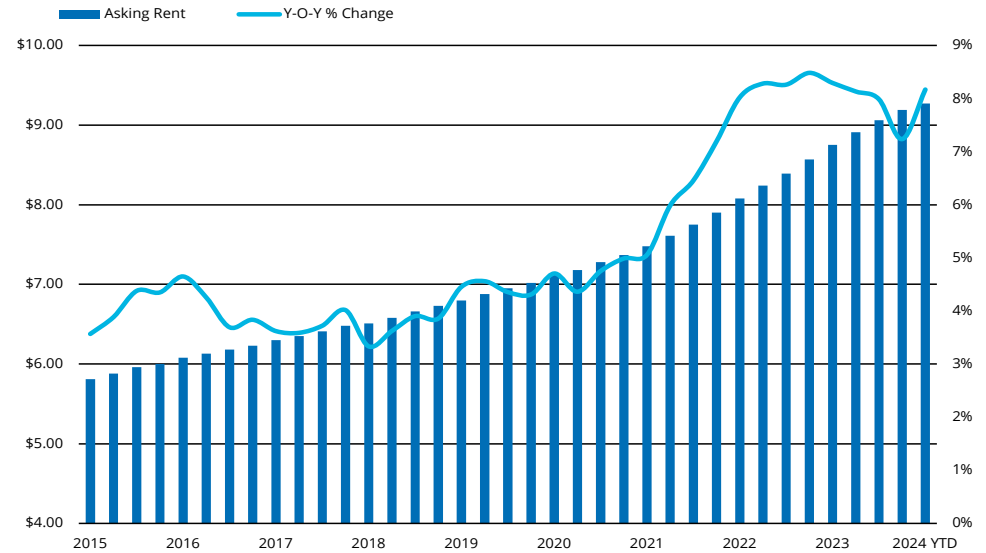


RENTAL RATES

Asking Rents Increase

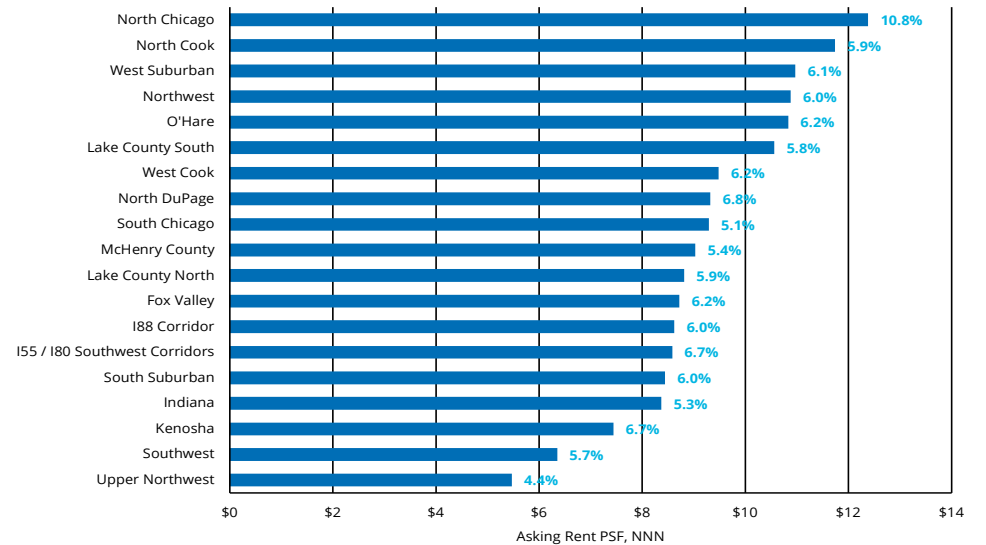
- The average asking rent for the Chicago metro area was \$9.27 per square foot in the first quarter of 2024, up 90 basis points from last quarter. Year over year the average asking rent was up 5.9%.
- Rent has grown significantly since the onset of the pandemic, increasing by 32.1% during that period.
- Rent increased in all of the Chicago area submarkets during the past 12 months. The slowest growth, 4.4%, was in the Upper Northwest submarket. The highest growth, 10.8%, was in the North Chicago submarket.
- 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

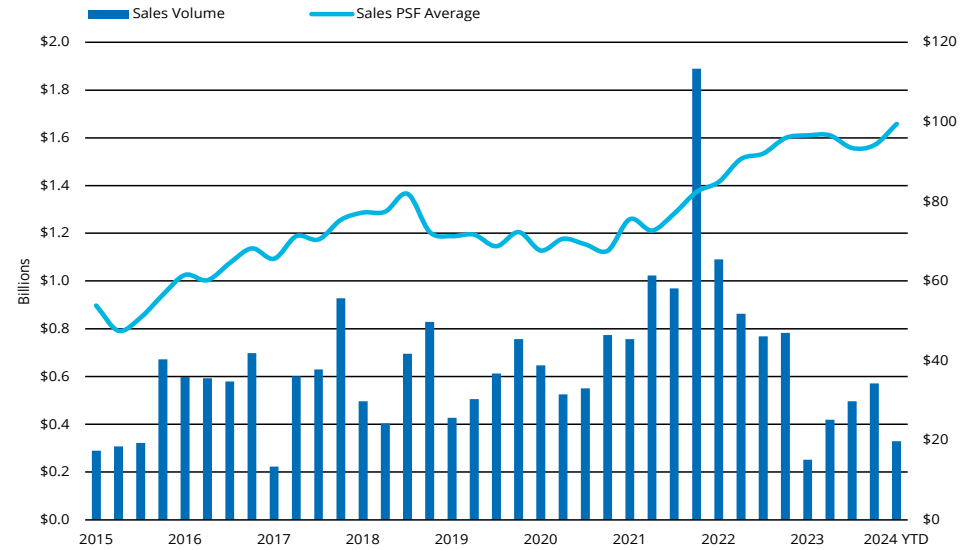


SALES

Sales Volume Constrained

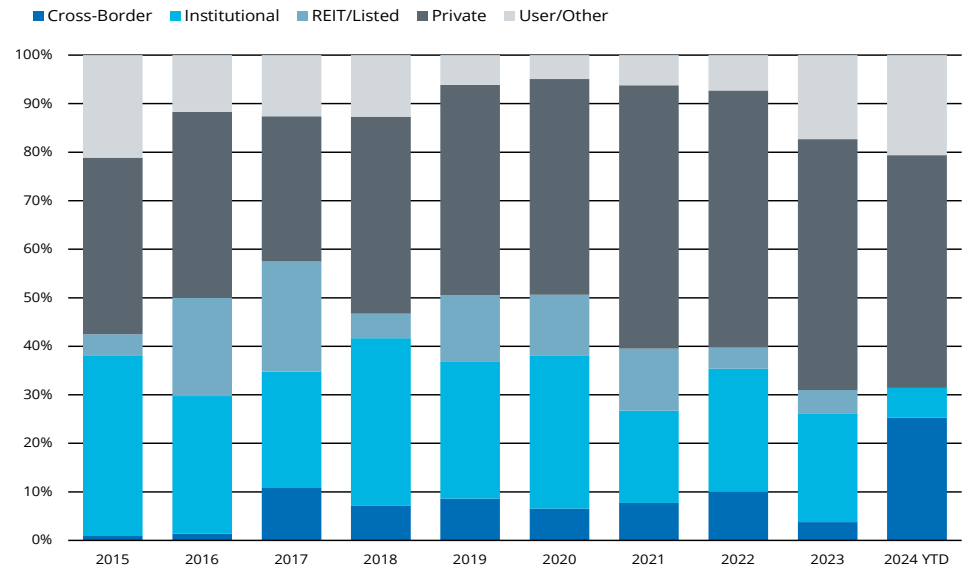
- Rapidly increasing interest rates and decreasing access to capital has led to a sharp drop in all commercial real estate investments since 2022. However, the industrial market is still the most attractive sector, as reflected in the still-high average sales price per square foot.
- There was \$329.6 million of Chicago-area industrial investment sales in the first quarter, a 42% drop from Q4 2023. However, the average sales price per square foot increased 2.9% year over year to \$99.

SALES VOLUME



Source: Transwestern, Real Capital Analytics, CoStar

BUYER CAPITAL COMPOSITION



Source: Transwestern, Real Capital Analytics, CoStar



MARKET INDICATORS TABLE

By Submarket | Q1 2024

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	2024 NET ABSORPTION SF	ASKING RENT PSF, NNN
FOX VALLEY	66,380,734	2,636,674	4.0%	4.3%	973,213	(361,791)	(361,791)	\$8.72
I55 / I80 SOUTHWEST CORRIDORS	264,735,245	11,656,536	4.4%	4.6%	3,148,625	(99,093)	(99,093)	\$8.58
I88 CORRIDOR	79,771,033	2,021,249	2.5%	2.8%	2,878,000	(26,338)	(26,338)	\$8.62
INDIANA	61,394,401	4,979,442	8.1%	8.4%	301,000	128,228	128,228	\$8.37
KENOSHA	51,988,127	7,533,722	14.5%	14.5%	1,010,880	108,126	108,126	\$7.44
LAKE COUNTY NORTH	43,332,519	2,269,917	5.2%	5.5%	0	(288,961)	(288,961)	\$8.81
LAKE COUNTY SOUTH	46,293,969	2,288,441	4.9%	5.2%	334,299	126,065	126,065	\$10.56
MCHENRY COUNTY	32,955,428	871,011	2.6%	2.8%	24,200	1,398,567	1,398,567	\$9.03
NORTH CHICAGO	68,393,517	5,822,733	8.5%	8.7%	1,184,800	(390,288)	(390,288)	\$12.38
NORTH COOK	51,293,151	2,450,873	4.8%	4.9%	917,270	(110,197)	(110,197)	\$11.74
NORTH DUPAGE	41,211,122	928,728	2.3%	2.6%	57,100	169,747	169,747	\$9.32
NORTHWEST	91,360,971	7,074,024	7.7%	7.9%	1,370,279	638,335	638,335	\$10.88
O'HARE	108,040,838	2,978,303	2.8%	2.9%	239,629	396,686	396,686	\$10.83
SOUTH CHICAGO	116,878,982	5,870,306	5.0%	5.2%	173,444	(84,745)	(84,745)	\$9.29
SOUTH SUBURBAN	90,608,962	5,058,113	5.6%	5.7%	1,372,998	245,282	245,282	\$8.44
SOUTHWEST	30,263,474	688,349	2.3%	2.3%	615,000	(22,395)	(22,395)	\$6.35
UPPER NORTHWEST	48,484,084	3,458,459	7.1%	7.8%	680,165	145,201	145,201	\$5.47
WEST COOK	75,788,584	4,009,027	5.3%	5.9%	669,914	632,843	632,843	\$9.48
WEST SUBURBAN	41,335,556	844,705	2.0%	2.6%	0	96,671	96,671	\$10.97
TOTAL	1,410,510,697	73,440,612	5.2%	5.5%	15,950,816	2,701,943	2,701,943	\$9.27

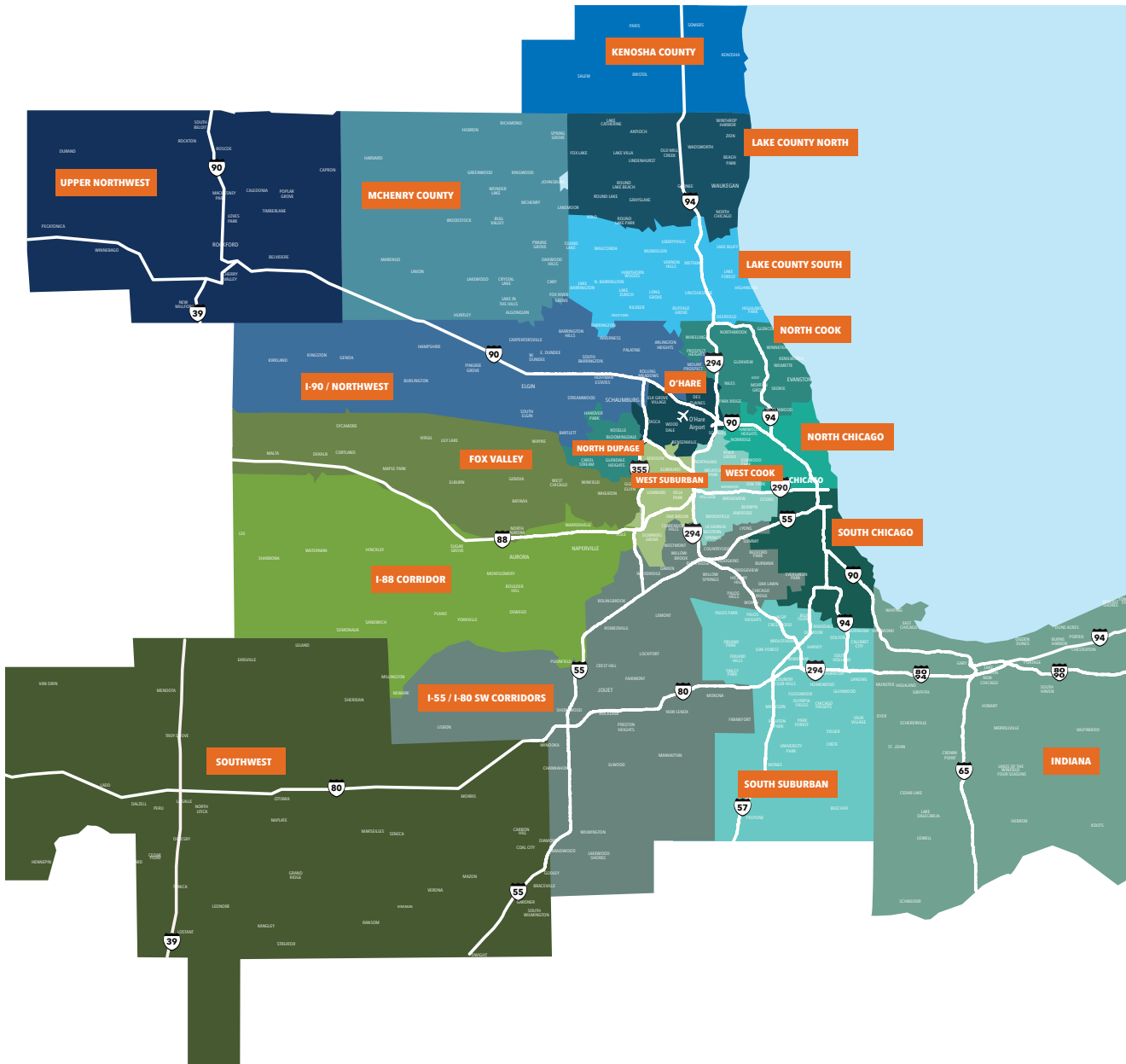
Source: CoStar, Transwestern

MARKET INDICATORS TABLE

By Property Type | Q1 2024

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	2024 NET ABSORPTION SF	ASKING RENT PSF, NNN
WAREHOUSE-DISTRIBUTION	1,076,450,691	60,345,542	5.6%	5.9%	15,225,716	1,544,522	1,544,522	\$9.31
MANUFACTURING	334,060,006	13,095,070	3.9%	4.3%	725,100	1,157,421	1,157,421	\$9.14
TOTAL	1,410,510,697	73,440,612	5.2%	5.5%	15,950,816	2,701,943	2,701,943	\$9.27

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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ABOUT TRANSWESTERN

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