TRANSWESTERN

CHICAGO INDUSTRIAL MARKET

Q2 2024

TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	3.9	↑	5.8	↑
NET ABSORPTION (MSF)	1.5	7.0	↓	5.9	↓
OVERALL VACANCY RATE	5.6%	4.3%	↑	5.4%	↑
OVERALL VACANT SF (MSF)	75.1	55.9	↑	70.3	↑
UNDER CONSTRUCTION (MSF)	17.5	38.6	↓	28.6	↓
ASKING RENT, NNN (PSF)	$9.33	$8.90	↑	$8.08	↑
SALES VOLUME (Millions)	$353	$419	↓	$717	↔
SALES PRICE (PSF)	$93	$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 sixth consecutive quarter to 5.6%. The increased vacancy rate was due to the 3.4 million square feet of new inventory that was delivered in the second quarter. While this is significanlty less new inventory than has been added in recent quarters, absorption is no longer outpacing the new supply. Net absorption totaled 1.5 million square feet, which is less than the Chicago industrial market has become accustomed to over the past three years.

Two signs of concern in the first quarter were a noticeable drop in leasing activity and a further increase in the amount of available sublease space. Leasing activity picked up in the second quarter, but the amount of available sublease space reached the highest level seen since 2010.

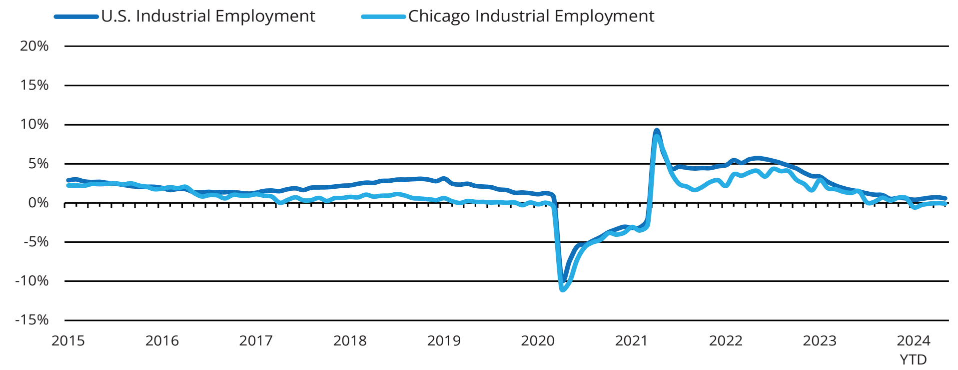
Only 17.5 million square feet of space is currently under construction, down from the historic high of 44.2 million square feet that was under construction in the first quarter of 2023. This slowdown in new construction should allow the market to reach a new equilibrium following recent rapid growth in both supply and demand. However, if demand continues to diminish, vacancy rates may keep climbing.

ECONOMY

Interest Rates Stay High For Now

- In June, the Federal Reserve (Fed) maintained the range of the federal funds rate at 5.25% to 5.50%, after inflation reports came in higher than expected. However, it is widely expected that rates will be lowered in September now that labor markets have cooled and more reassuring inflation data has been reported.
- The U.S. economy sustained robust job growth, adding an estimated 206,000 jobs in June, bringing the quarterly total to 532,000. Weekly initial unemployment claims remained below historical averages, and the national unemployment rate increased slightly from 3.8% in March to 4.1% in June.
- Locally, the unemployment rate increased 40 basis points in May to 4.8%. Approximately 12,700 jobs were added to the local economy over the past year, with Education and Health Services jobs leading, followed by Government.
- The number of industrial space-using jobs in the U.S. increased by 0.6% year over year in May; locally, industrial space-using jobs decreased by 0.1% during the same period.

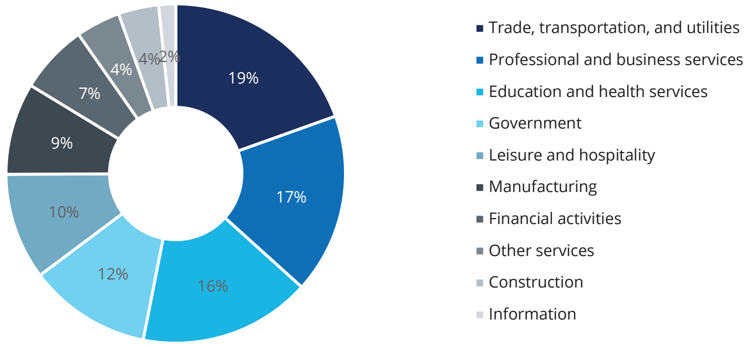
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

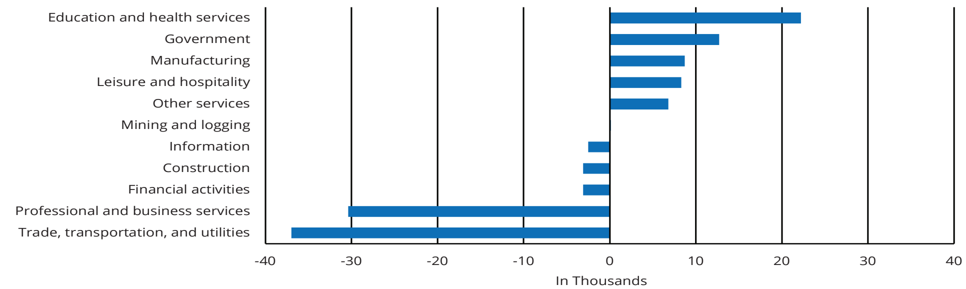
Chicago MSA | May 2024



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | May 2024



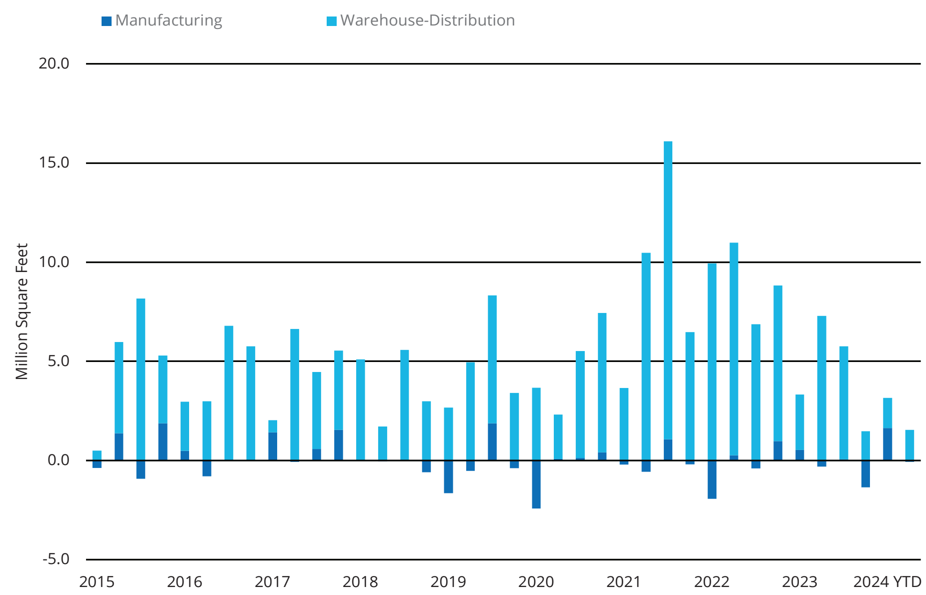
Source: Bureau of Labor Statistics

NET ABSORPTION

Demand Slows

- Net absorption totaled 1.47 million square feet in the second quarter with 1.5 million square feet of warehouse-distribution space and negative 76,050 square feet of manufacturing space.
- The I55 / I80 Southwest Corridors submarket had the largest amount of absorption in the second quarter with 1.1 million square feet absorbed.
- There was 11.9 million square feet of leasing activity in the second quarter, a 55% increase from the historic low of 7.7 million square feet last quarter. This large increase in leasing activity is only about half of 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

Q2 2024

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Samsung	701 Central Ave., University Park	South Suburban	New	1,552,475
Amazon	9820 Mississippi St., Crown Point	Indiana	New	1,001,662
WestRock	9423 Koessl Ct., Pleasant Prairie	Kenosha	New	593,565
The Central American Group	825 Bluff Rd., Romeoville	I55 / I80 Southwest Corridors	Renewal	500,160
John B. Sanfilippo & Sons Inc	12150 Jim Dhamer Dr., Huntley	Northwest	New	444,600

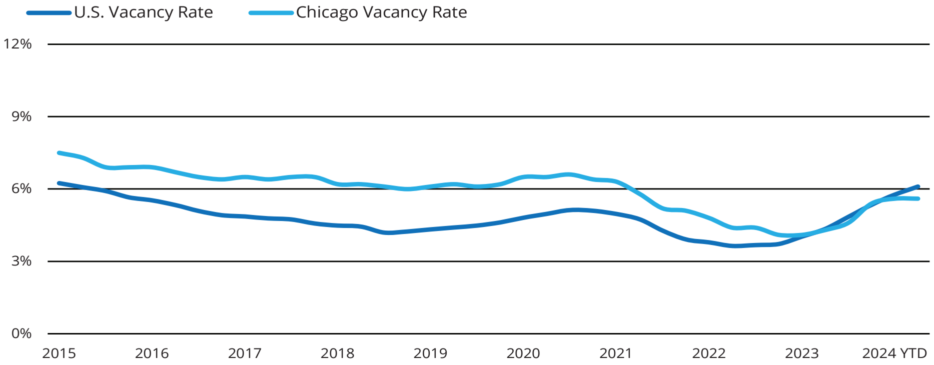
Source: CoStar, Transwestern

VACANCY

Vacancy Rates Unchanged

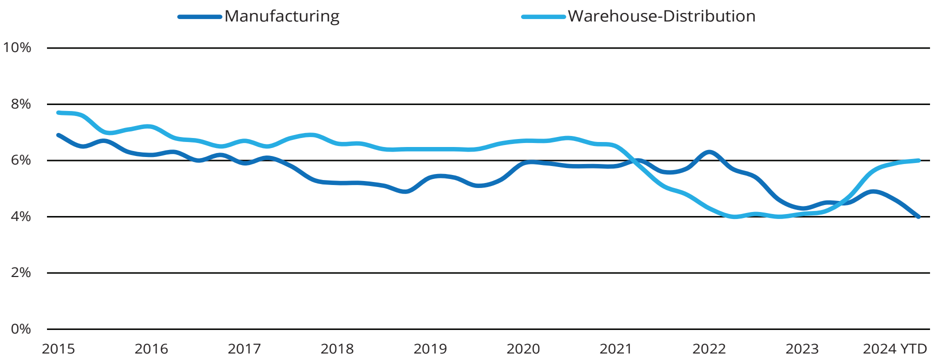
- Neither the direct or overall vacancy rates changed between the first and second quarters of 2024. The direct vacancy rate remained at 5.3%, while the overall vacancy rate, including sublease space, remained at 5.6%.
- Manufacturing space has a direct vacancy rate of 3.7% and an overall vacancy rate of 4%. Warehouse-distribution space has a direct vacancy rate of 5.7% and an overall vacancy rate of 6%.
- The lowest vacancy rates, 2% direct and 2.2% overall, are in the McHenry County submarket. The highest vacancy rates, 12.5% direct and 12.6% overall, are in the Kenosha submarket, which has seen its inventory expand by 40% over the past five years.
- Vacancy is expected to rise slightly as more inventory is added to the market and demand moderates. Unless there is significant negative absorption, the direct vacancy rate should not rise over 6.4%.

OVERALL VACANCY RATE



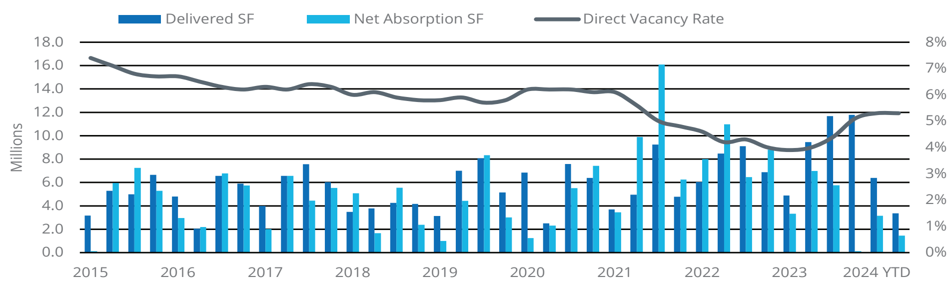
Source: Transwestern, CoStar

OVERALL VACANCY RATE BY PRODUCT TYPE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



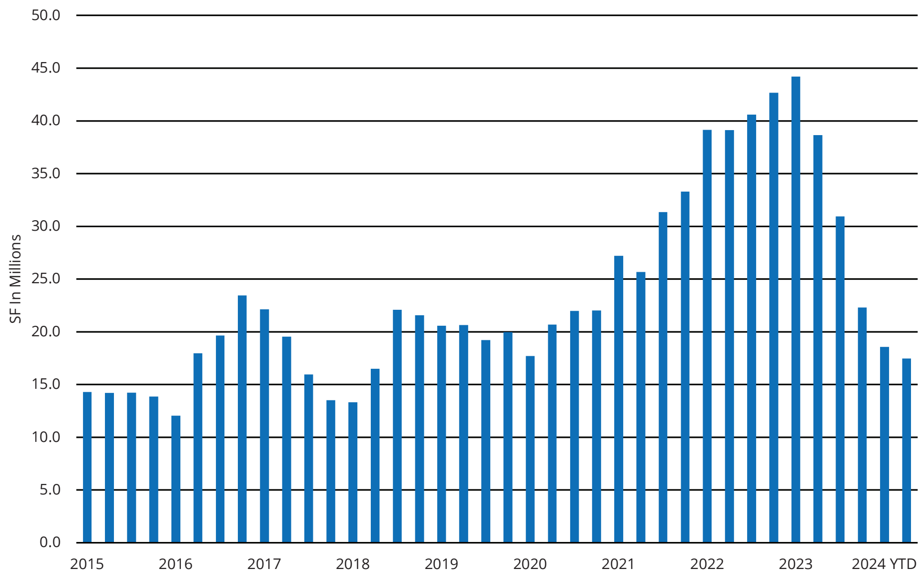
Source: Transwestern, CoStar

UNDER CONSTRUCTION

Development Pipeline Slows

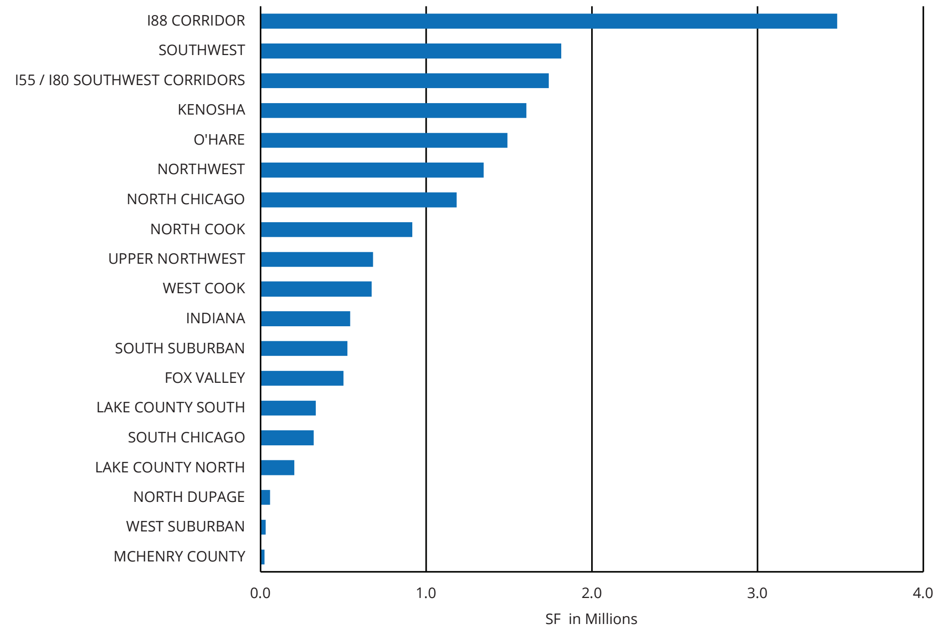
- There is currently 17.5 million square feet of industrial space under construction, the lowest amount under construction since the second quarter of 2018. Only 3.3 million square feet delivered in the second quarter of 2024, the lowest amount since the onset of the pandemic in Q2 2020.
- Approximately 2.3 million square feet broke ground in the second quarter.
- The development pipeline is comprised of 95.4% warehouse-distribution space and 4.6% manufacturing space.
- Approximately 54.5% of the inventory under construction has been pre-leased.
- Approximately one-fifth of all inventory under construction is in the I88 Corridor submarket.

UNDER CONSTRUCTION



Source: Transwestern, CoStar

UNDER CONSTRUCTION BY SUBMARKET



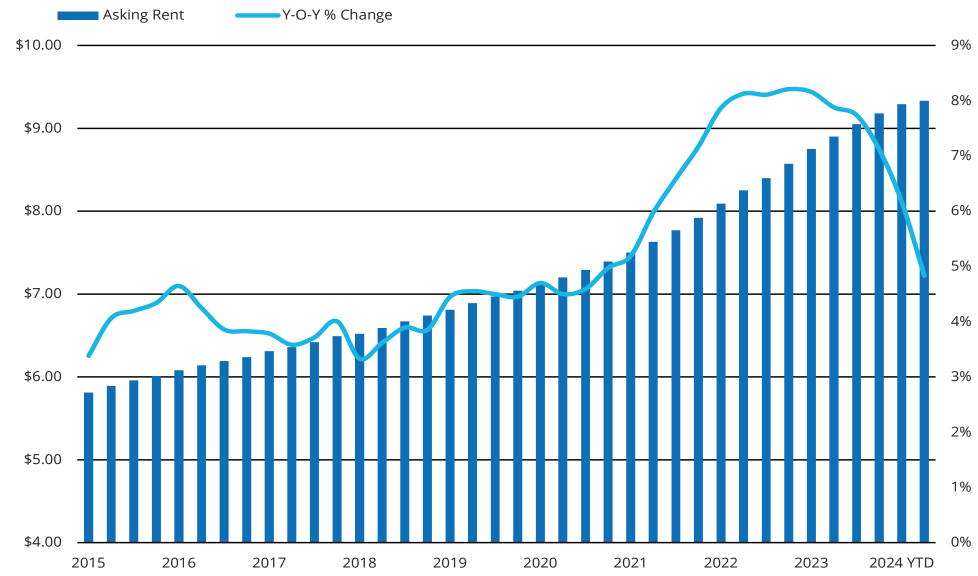
Source: Transwestern, CoStar

RENTAL RATES

Asking Rents Increase

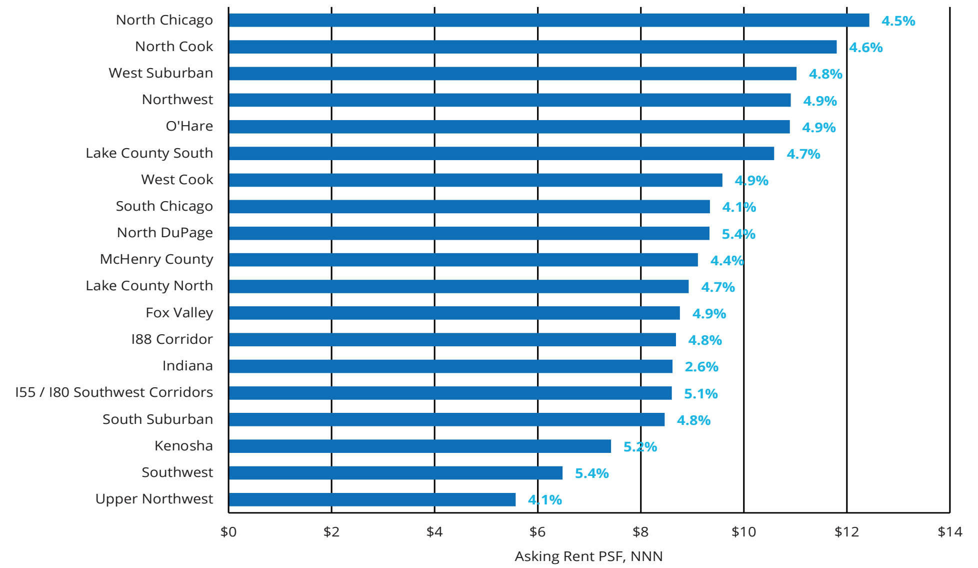
- The average asking rent for the Chicago metro area was $9.33 per square foot in the second quarter of 2024, up four basis points from last quarter. The average asking rent was up 4.8% year over year.
- Rent has grown significantly since the onset of the pandemic, increasing by 32.5% during that period.
- Rent increased in all of the Chicago area submarkets during the past 12 months. The slowest growth, 4.1%, was in the Upper Northwest submarket. The highest growth, 5.4%, was in the North DuPage 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



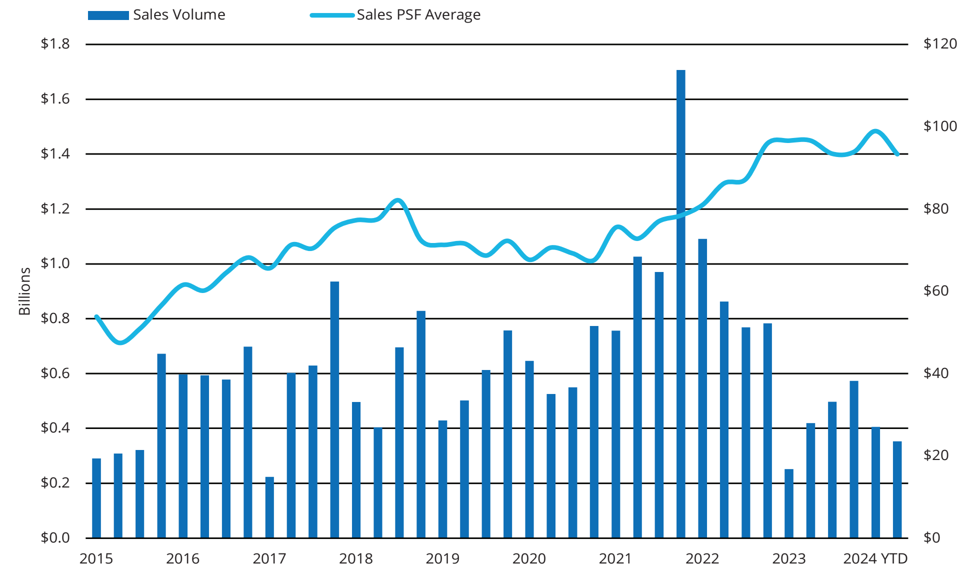
Source: Transwestern, CoStar

SALES

Sales Volume Constrained

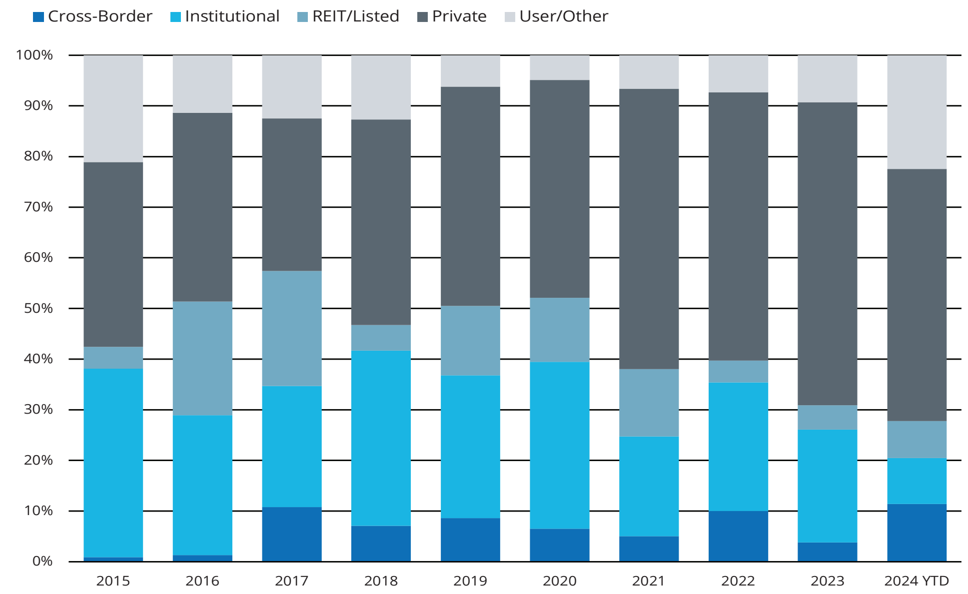
- Rapidly increasing interest rates and decreasing access to capital has led to a sharp drop in all commercial real estate investments since 2022. However, the industrial market is still the most attractive sector, as reflected in the still-high average sales price per square foot.
- There was $353.2 million of Chicago-area industrial investment sales in the second quarter, a 12.9% drop from the first quarter. The average sales price per square foot was $93 in the second quarter, down 3.4% year over year.
- With demand for industrial properties slowing, end users have been able to find properties to purchase after being all but shut out of the market during the high tide of investment interest.

SALES VOLUME



Source: Transwestern, Real Capital Analytics, CoStar

BUYER CAPITAL COMPOSITION



Source: Transwestern, Real Capital Analytics, CoStar

MARKET INDICATORS TABLE

By Submarket | Q2 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	68,023,576	3,906,651	5.7%	6.0%	500,728	(639,073)	(782,516)	$8.76
I55 / I80 SOUTHWEST CORRIDORS	268,342,885	14,164,766	5.3%	5.5%	1,740,505	1,125,402	790,310	$8.60
I88 CORRIDOR	80,755,824	2,396,296	3.0%	3.1%	3,480,440	(327,547)	(337,085)	$8.68
INDIANA	60,920,268	2,231,181	3.7%	3.9%	540,840	1,058,268	1,185,993	$8.61
KENOSHA	52,120,485	6,540,160	12.5%	12.6%	1,604,445	758,546	876,672	$7.42
LAKE COUNTY NORTH	44,058,543	2,617,604	5.9%	6.2%	203,257	74,714	(203,574)	$8.93
LAKE COUNTY SOUTH	46,768,451	2,550,468	5.5%	5.7%	334,299	(127,872)	(5,527)	$10.59
MCHENRY COUNTY	33,596,943	659,369	2.0%	2.2%	24,200	(74,540)	1,533,259	$9.11
NORTH CHICAGO	69,291,625	5,926,228	8.6%	8.8%	1,184,800	(110,609)	(429,697)	$12.43
NORTH COOK	51,867,838	2,583,798	5.0%	5.2%	917,270	(171,842)	(261,409)	$11.80
NORTH DUPAGE	42,020,252	1,060,199	2.5%	3.2%	57,100	(267,455)	(91,730)	$9.33
NORTHWEST	92,000,214	7,280,302	7.9%	8.2%	1,348,064	(317,584)	548,811	$10.91
O'HARE	109,451,723	3,836,612	3.5%	4.2%	1,490,340	126,764	(300,394)	$10.89
SOUTH CHICAGO	119,465,516	5,408,252	4.5%	4.7%	320,944	412,054	480,309	$9.34
SOUTH SUBURBAN	92,277,173	5,243,055	5.7%	5.8%	523,866	(255,372)	241,480	$8.46
SOUTHWEST	29,905,047	1,080,553	3.6%	3.6%	1,815,000	(412,204)	(414,599)	$6.48
UPPER NORTHWEST	49,812,969	3,160,950	6.3%	7.0%	680,000	183,611	541,277	$5.57
WEST COOK	77,790,078	3,560,978	4.6%	5.1%	669,914	549,547	1,279,603	$9.58
WEST SUBURBAN	41,244,362	939,797	2.3%	2.9%	31,510	(117,731)	(25,037)	$11.02
TOTAL	**1,429,713,772**	**75,147,219**	**5.3%**	**5.6%**	**17,467,522**	**1,467,077**	**4,626,146**	**$9.33**

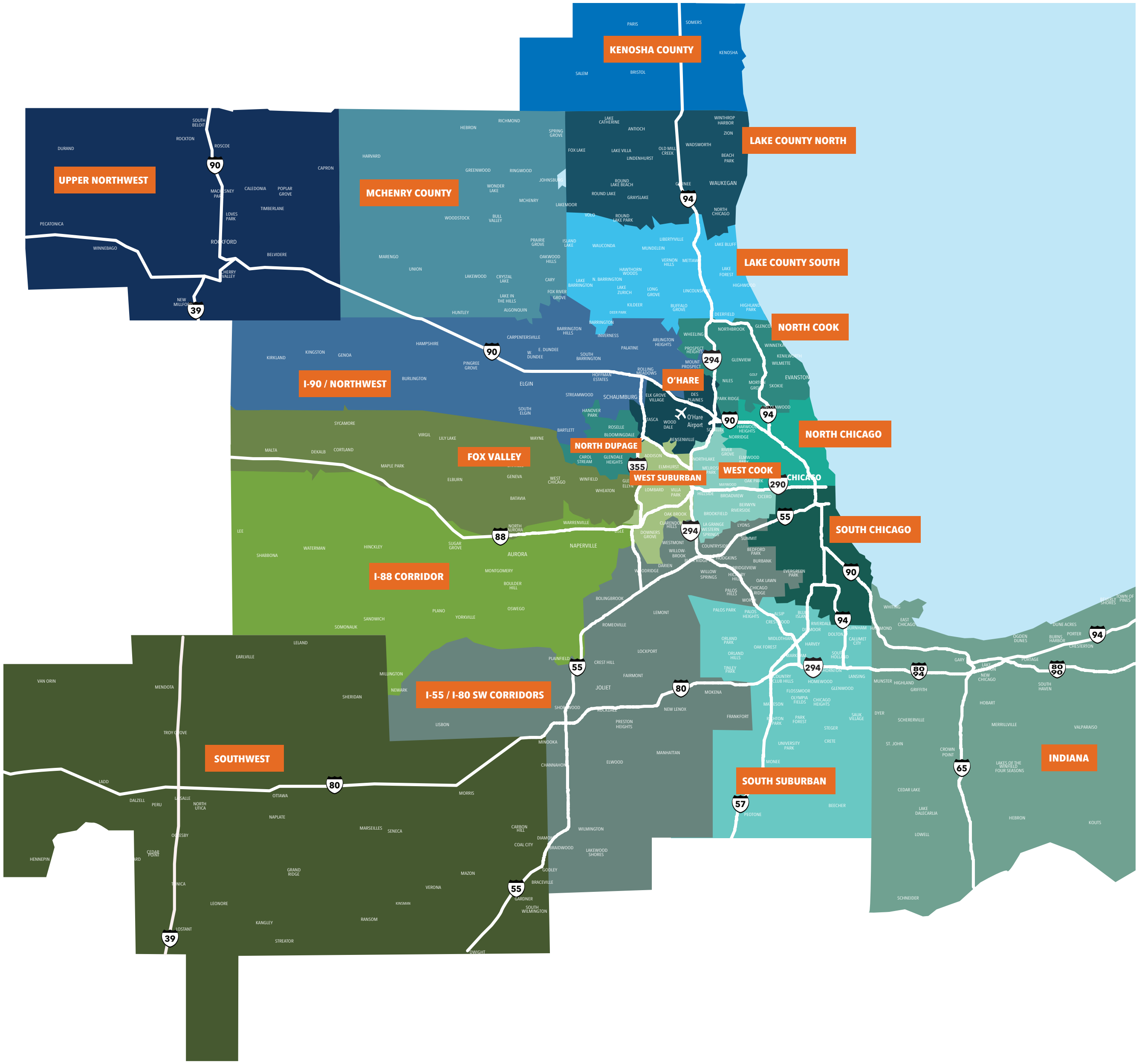
Source: CoStar, Transwestern

MARKET INDICATORS TABLE

By Property Type | Q2 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	1,095,591,483	62,628,024	5.7%	6.0%	16,656,857	1,543,127	3,070,945	$9.18
MANUFACTURING	334,122,289	12,519,195	3.7%	4.0%	810,665	(76,050)	1,555,201	$9.35
TOTAL	**1,429,713,772**	**75,147,219**	**5.3%**	**5.6%**	**17,467,522**	**1,467,077**	**4,626,146**	**$9.33**

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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