



Chicago industrial market report

Q2 2024

**AVISON
YOUNG**

Chicago industrial market trends

5.8%

Stabilized overall vacancy

Vacancy decreased 10 bps from the prior quarter and remains stable at 5.8% at the end of the first half of 2024. Southern Wisconsin, I-57 and I-90 west submarkets house the largest vacancies all over 10%. The amount of sublet vacancy reached an all time high of 4.9 million square feet (msf) however only represents a 0.4% sublet vacancy rate.

22.2 msf

First half 2024 leasing activity

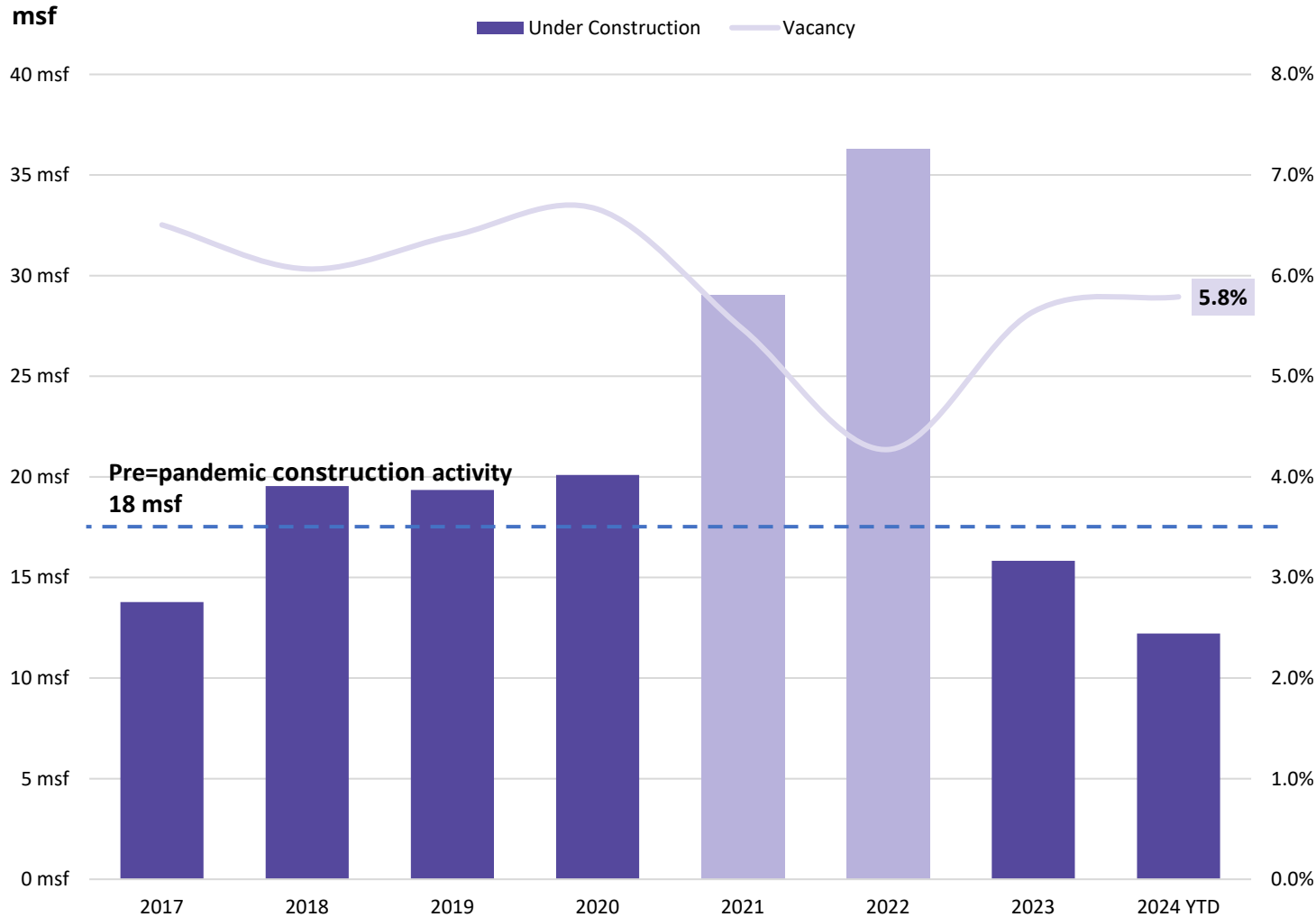
Leasing activity remains robust, with 22.2 msf leased in the first half of 2024, including 11.7 msf which leased in the second quarter of 2024. This marks a 53% increase when compared to the pre-pandemic first half average of 14.5 msf from 2017 through 2019, highlighting the strong market demand. Rental growth remains strong, increasing 5% in the first half of 2024, reaching \$8.48/nnn when compared to the year prior, another strong indicator of the overall health of the market.

-23%

Decline of construction pipeline

Construction activity has continued to decline, with 12 msf currently under development, down 23% from the year prior. This reduction in construction will continue to contribute to a stabilized vacancy rate and likely push rental rates as new inventory become scarce. A total of 1 msf broke ground in the second quarter of 2024, with the largest project being a 389,880-sf cold storage speculative building.

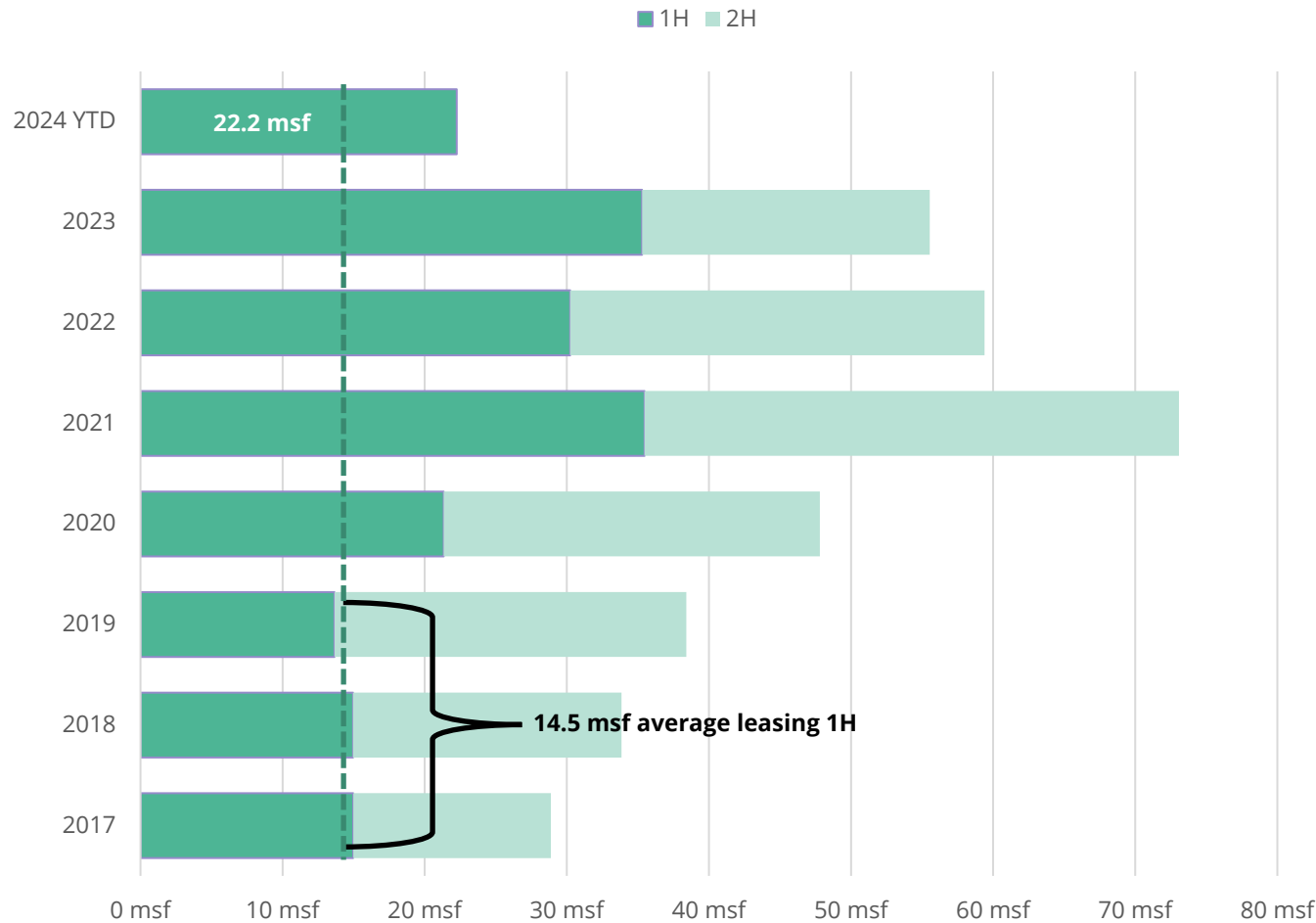
Vacancy remains stable as construction slows



Construction activity has slowed drastically from the all-time highs in 2021 and 2022. There is just over 12 msf of industrial space under development, a 32% decrease from the 18 msf pre-COVID average. This reduction is expected to continue to drive vacancy down and push rental growth as new inventory becomes scarce. So far in 2024, 1.4 msf has broken ground, mostly within the past quarter.

Development fundamentals are still holding as half the space is being built on a speculative basis.

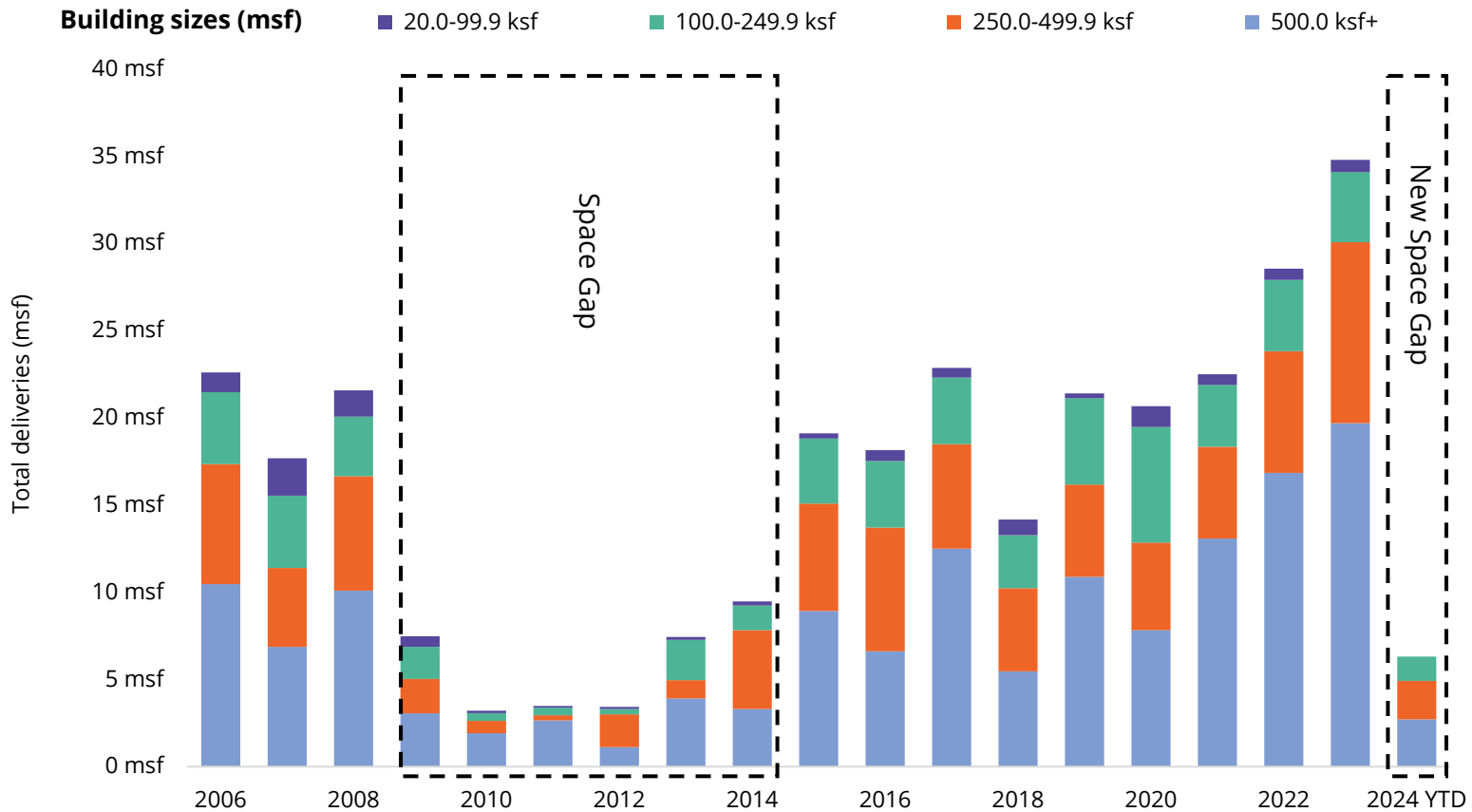
Leasing activity remains strong



Leasing activity in Chicago remains robust, with 22.2 msf leased in the first half of 2024, including 11.7 msf within the second quarter.

Market demand for space remained strong throughout the first half of 2024, with leasing volume reaching 53% higher than pre-pandemic first half averages of 14.5 msf recorded between 2017 and 2019.

Fluctuations in new inventory and the new norm for construction levels



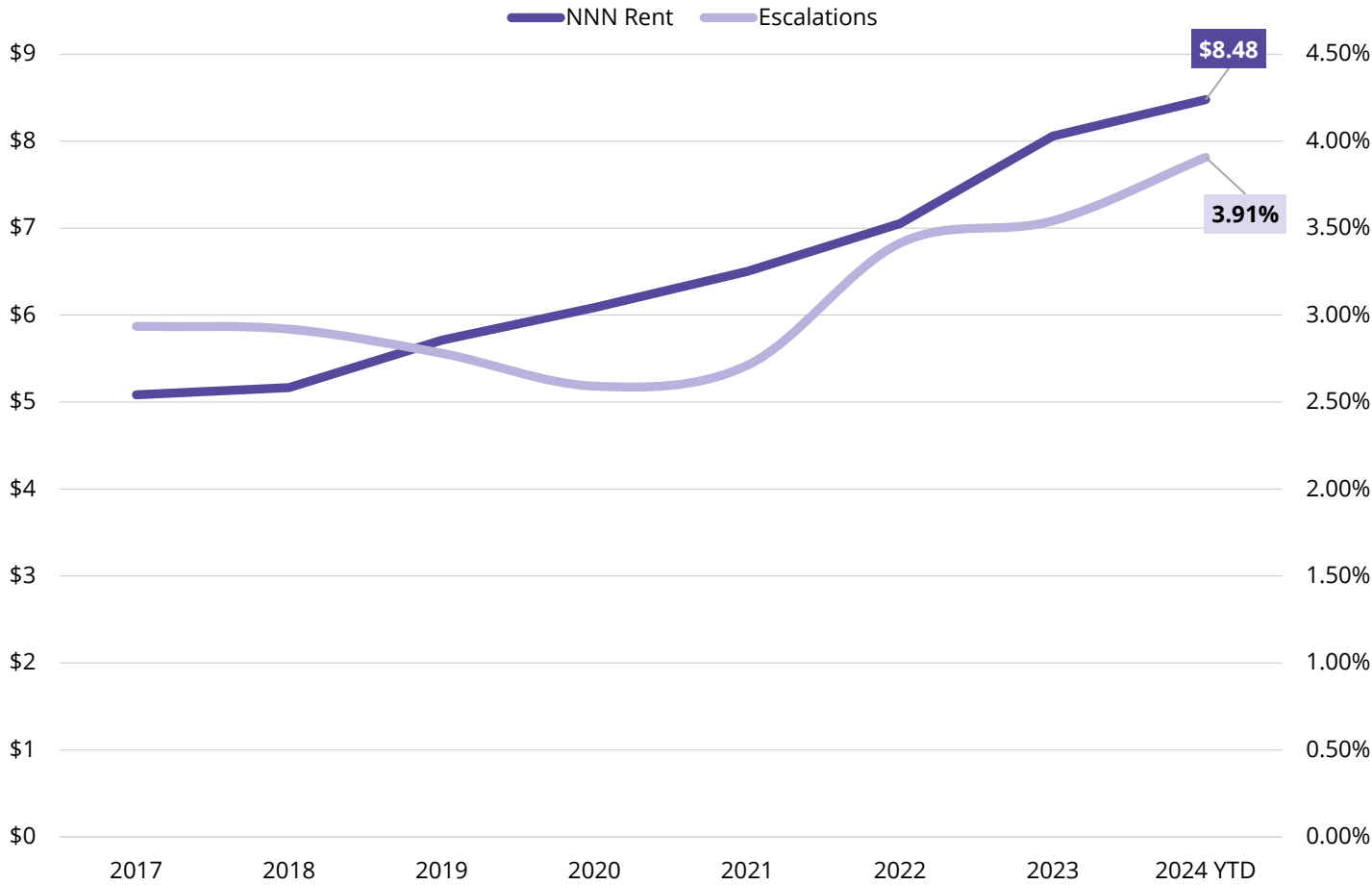
As construction slows the potential space gap the market is facing could be compared to the development levels seen from 2009 through 2014. From 2019 to 2022, there was a substantial increase in new inventory, peaking in 2023 with 35 msf. YTD a total of 6.3 msf delivered to the market with 12 msf under development, down 23% from the year prior.

Demand driven data

Let's examine more prevailing industrial trends

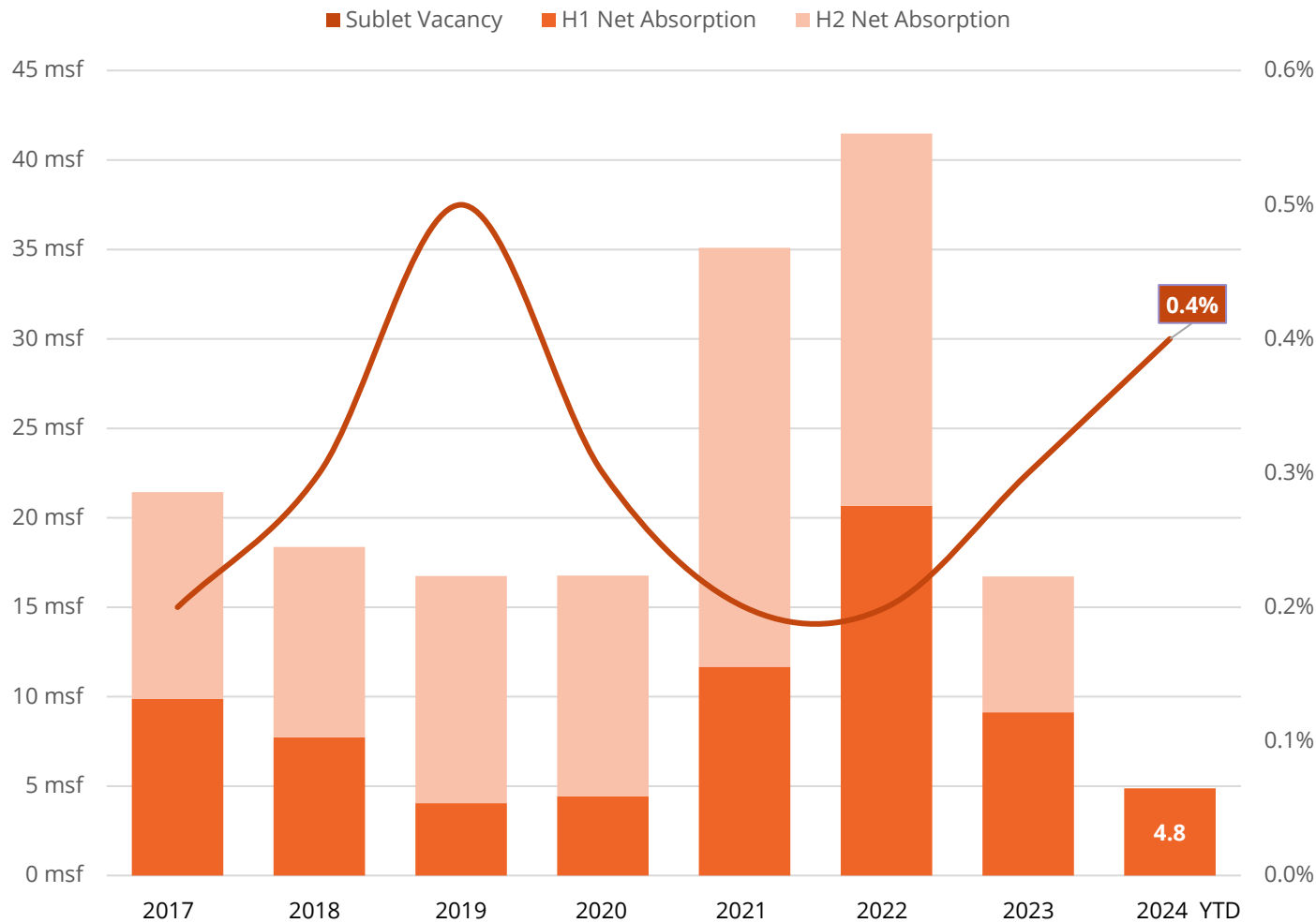


Rental growth and escalations continue to climb



Rental growth remains strong, increasing 5% in the first half of 2024 compared to the previous year, with the average NNN rent reaching \$8.48. Average escalations are also on the rise, now averaging 3.91%, marking a 10% increase from 2023. This upward trend in rents and escalations underscore robust market fundamentals for the Chicago industrial sector, driven by sustained demand.

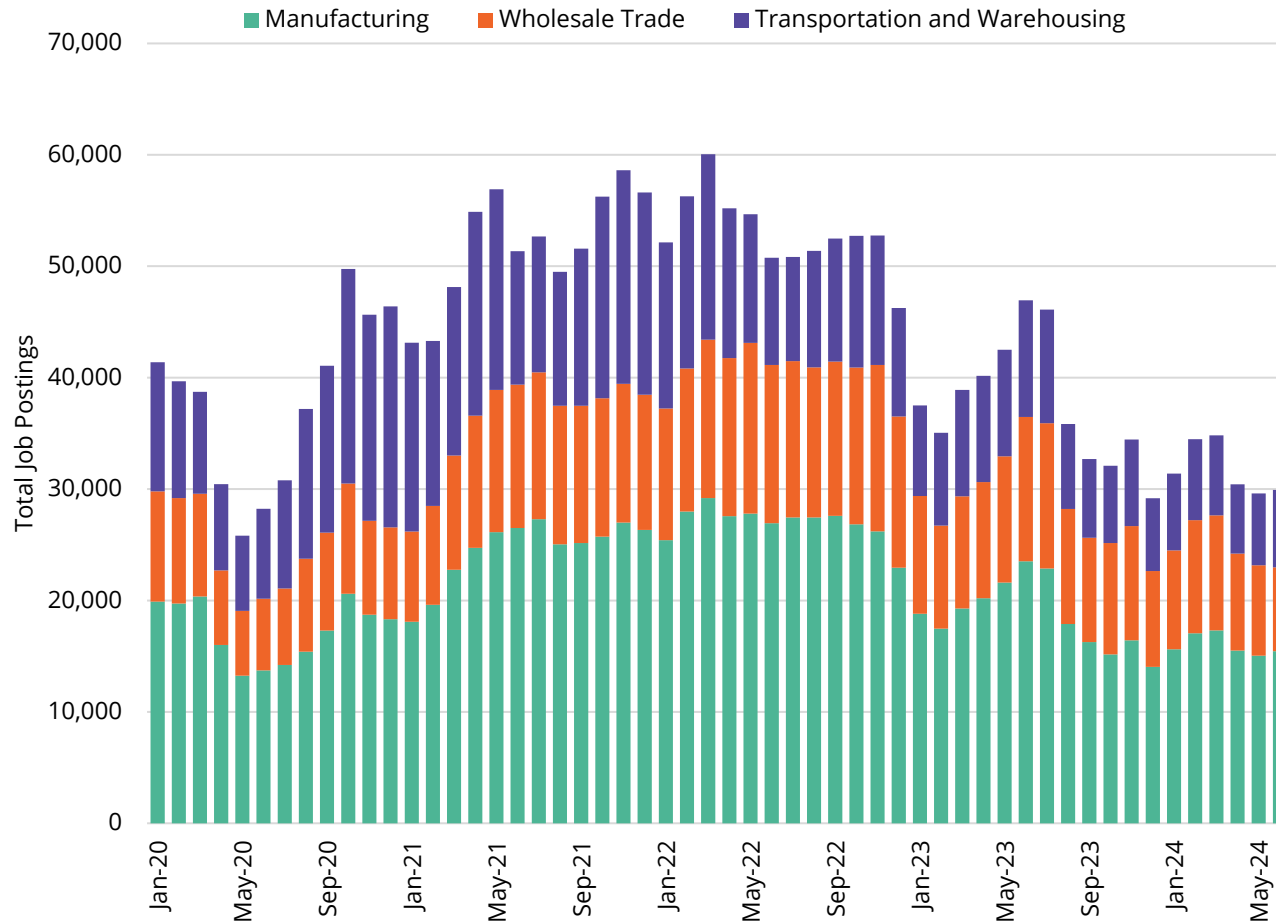
Decline in net absorption as sublet vacancy rises



In the first half of 2024, net absorption totaled 4.8 msf, representing a 25% decrease from the historical first-half averages of 6.5 msf from 2017 through 2020.

This decline in absorption can largely be attributed to the 17% increase in sublet vacancy seen in the second quarter of 2024.

Industrial job postings cooling off



There were 29.9K total industrial job postings across the Chicago MSA in June 2024.

Total industrial job postings last peaked in March 2022, with 60K total postings.

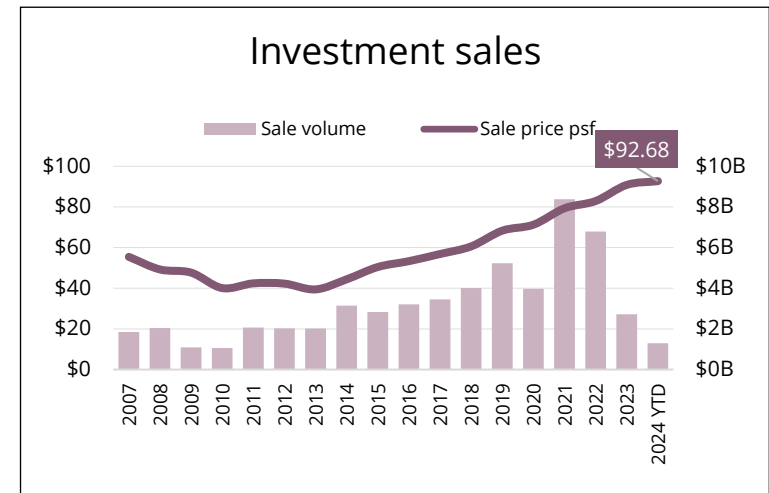
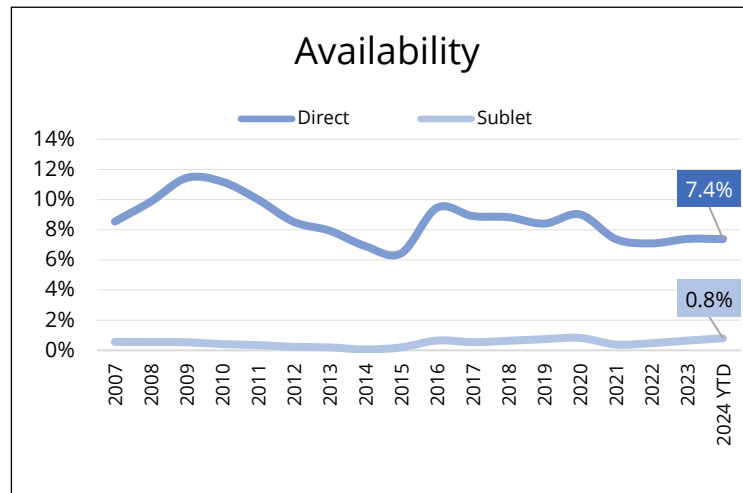
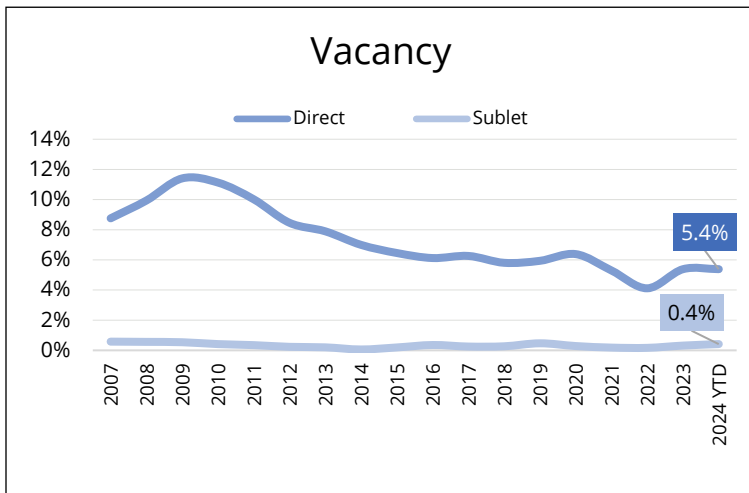
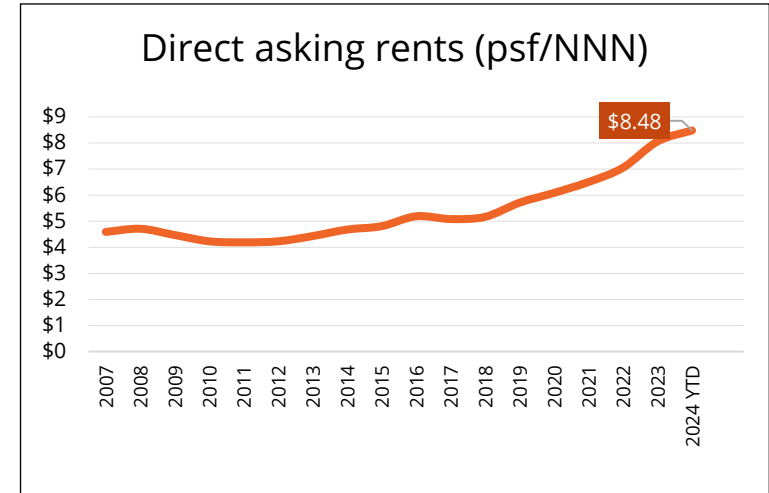
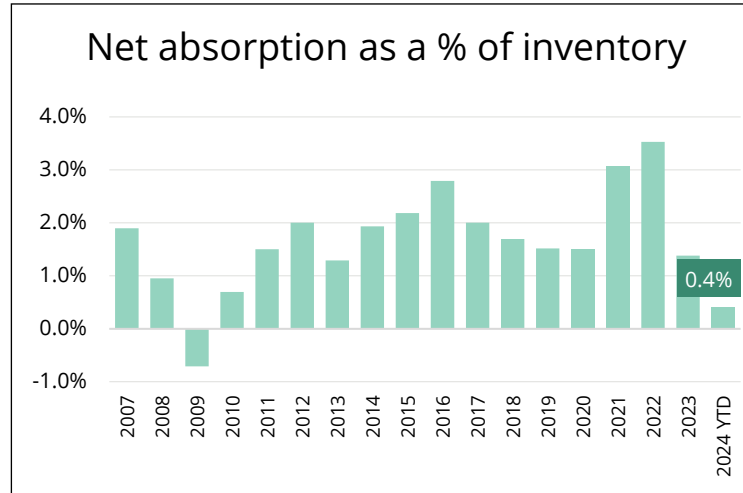
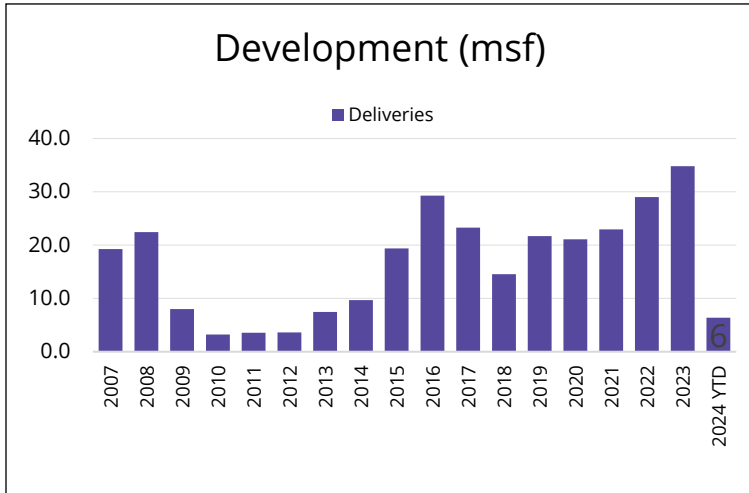
Industrial job postings across all three industries decreased in June 2024 when compared to the year prior.

Manufacturing decreased 34%, Wholesale down 41% and Transportation and warehousing reduced by 32%.

Source: Lightcast Note: Chicago MSA

Appendix

Chicago industrial market indicators



Chicago industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Samsung	701 Central Ave University Park, IL	I-57 Corridor	Apr 2024	1,552,475	New	Direct
Post Foods	30404 S Elion Blvd Wilmington, IL	I-80 Corridor	May 2024	1,004,000	New	Direct
WestRock	9423 Koessl Ct Pleasant Prairie, WI	Southern Wisconsin	May 2024	593,565	New	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Cabot Properties	2501 Galvin Dr Elgin, IL	May 2024	345,000	\$35,200,000	\$102	Zurich
Round Ground Metal	6300 Muirfield Dr Hanover Park, IL	May 2024	250,199	\$30,024,000	\$120	Cardinal Capital Partners
City of Chicago	4130 S Morgan St Chicago, IL	Apr 2024	168,350	\$20,800,000	\$123	TradeLane Properties

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
1508 Crosslink Pky Belvidere, IL	I-39 Corridor	Mar 2027	1,250,000	100% - Walmart	Walmart
I-80 & Brisbin Morris, IL	I-80 Corridor	May 2025	1,199,700	100%- GE Haier	Crow Holdings
1237 W Division St Chicago, IL	North Chicago	Aug 2024	1,184,800	0%	Logistics Property Company

Chicago Industrial development pipeline

43 properties

under development

12.2 million sf

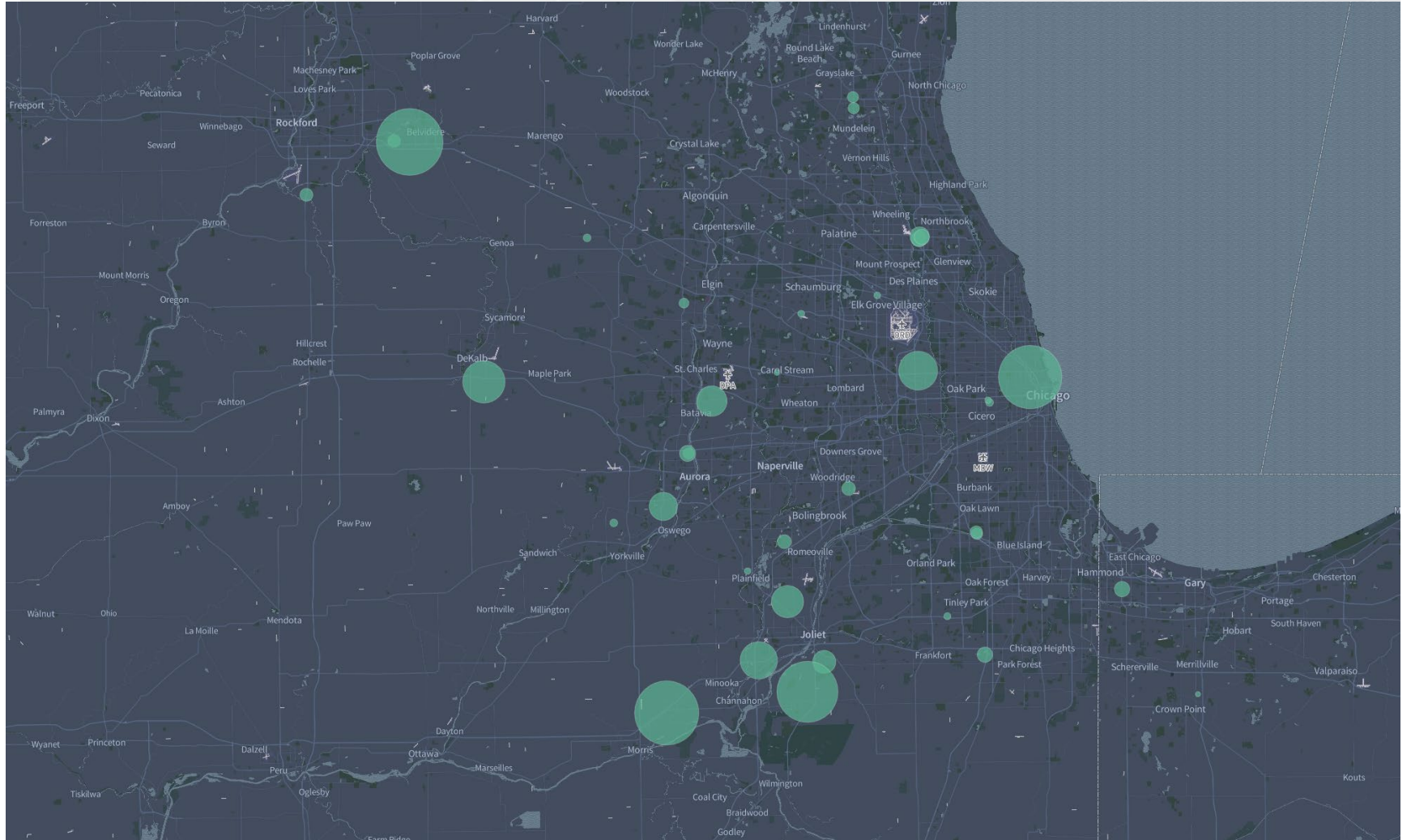
under construction

Major developments

1508 Crosslink Pky, Belvidere – 1.2 million sf (Walmart Grocery DC)

I-80 & Brisbin Rd, Morris - 1.1 million sf (GE Haier)

1237 W Division St. Chicago - 1.1 million sf (Speculative)



*Survey consists of industrial buildings greater than 20,000 sf.

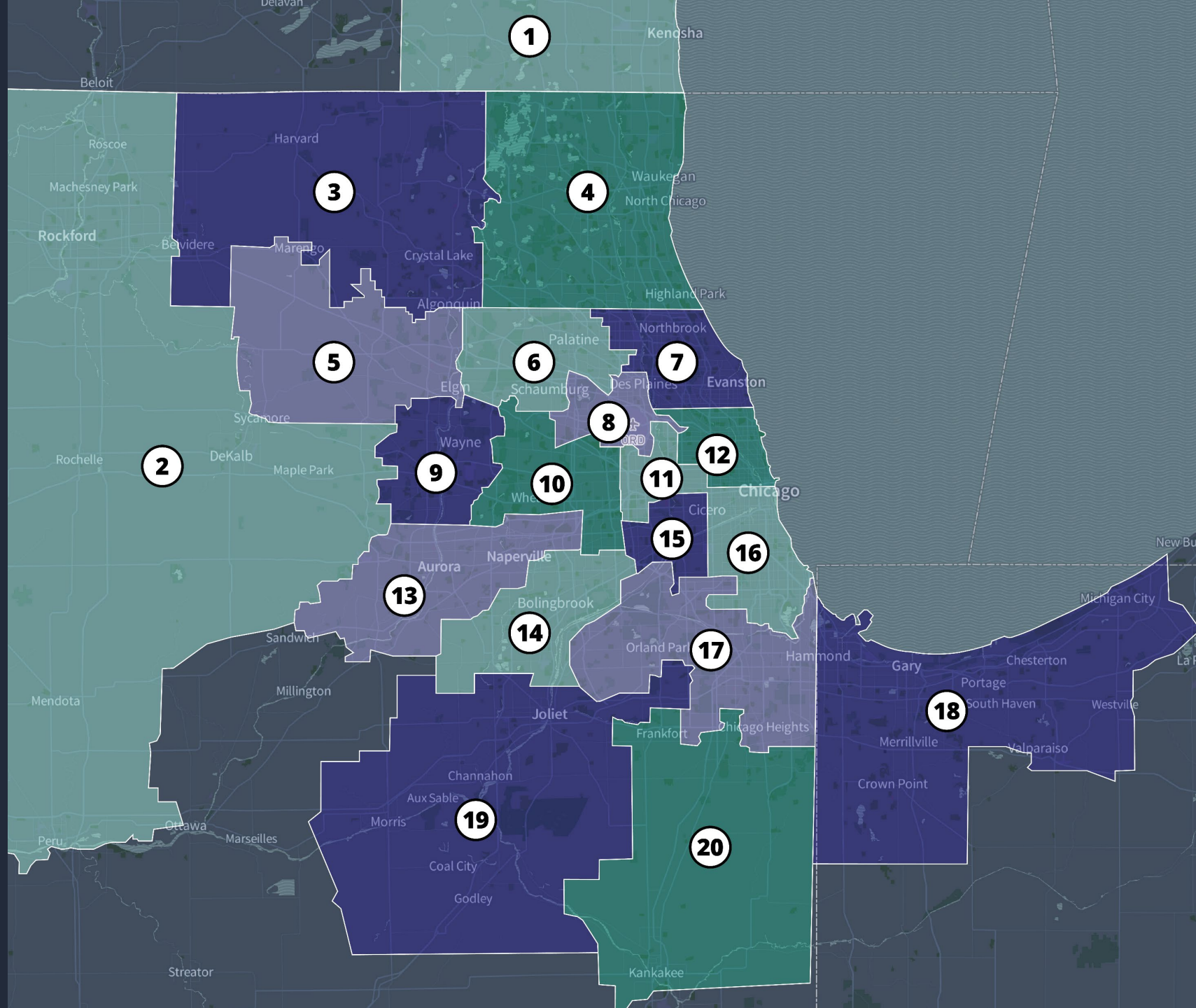
Chicago industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Net absorption % of inventory (YTD)
O'Hare	111,647,597	130,388	81,401	4.1%	1.0%	5.0%	-281,711	-0.25%
I-80 Corridor	106,159,698	898,541	2,439,431	6.4%	0.1%	6.6%	390,063	0.37%
South I-55 Corridor	103,478,004	641,639	1,195,133	3.1%	0.2%	3.3%	955,644	0.92%
South Chicago Industrial	93,528,059		320,944	4.1%	0.2%	4.3%	173,657	0.19%
South Cook	73,166,742	664,453	617,999	4.2%	0.1%	4.3%	194,256	0.27%
Lake County	72,653,839		537,556	6.1%	0.3%	6.4%	-414,764	-0.57%
Central DuPage	67,889,400		57,100	2.2%	0.6%	2.8%	-49,060	-0.07%
I-88 Corridor	65,270,207		1,029,610	3.7%	0.5%	4.2%	-490,326	-0.75%
I-39 Corridor	64,601,737	200,165	2,375,000	5.7%	0.5%	6.2%	-276,957	-0.43%
North I-55 Corridor	55,010,679	398,954		5.0%	0.6%	5.5%	-383,810	-0.70%
Northwest Indiana	51,066,386		476,520	7.1%	0.3%	7.3%	1,097,185	2.15%
Southern Wisconsin	48,891,159			12.6%	1.3%	13.9%	271,396	0.56%
West Cook	46,247,919	1,603,119		4.3%	0.3%	4.7%	1,799,859	3.89%
North Chicago Industrial	44,808,749		1,184,800	8.3%	0.3%	8.6%	-142,009	-0.32%
North Cook	44,104,427		824,844	4.4%	0.3%	4.7%	-150,769	-0.34%
Fox River Valley	44,073,650		617,903	4.8%	0.4%	5.3%	-150,124	-0.34%
I-90 West/Elgin Corridor	40,241,134	949,130	370,840	9.7%	0.6%	10.3%	94,312	0.23%
I-57 Corridor	31,692,793			11.2%	0.0%	11.2%	403,864	1.27%
McHenry County	24,899,393			2.0%	0.0%	2.0%	1,580,259	6.35%
I-90 East Corridor	23,582,103	879,577	83,124	6.0%	0.2%	6.2%	252,201	1.07%
Market total	1,213,013,675	6,365,966	12,212,205	5.4%	0.4%	5.8%	4,873,166	0.4%

Chicago Industrial Submarket Map

SUBMARKET KEY

- 1 Southern WI
- 2 I-39 Corridor
- 3 McHenry County
- 4 Lake County
- 5 I-90 West/Elgin
- 6 I-90 East
- 7 North Cook
- 8 O'Hare
- 9 Fox River Valley
- 10 Central DuPage
- 11 West Cook
- 12 North Chicago
- 13 I-88 Corridor
- 14 South I-55 Corridor
- 15 North I-55 Corridor
- 16 South Chicago
- 17 South Cook
- 18 NW IN
- 19 I-80 Corridor
- 20 I-57 Corridor



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship goods with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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