



Chicago industrial market report

Q3 2024

**AVISON
YOUNG**

Chicago industrial market trends

5.6%

Vacancy remains stable

Chicago's industrial sector continues to show resilience as overall vacancy decreased 20 basis points to 5.6% at the end of Q3 2024 from the prior quarter. The most notable change was in big box vacancies over 500,000 sf, which dropped significantly by 110 basis points to 6.9%. This trend highlights the strong demand for big box inventory within the market. Despite economic challenges, Chicago remains an attractive location for tenants in the market due to its central location and extensive transportation infrastructure.

33 msf

Leasing activity returns to pre-covid levels

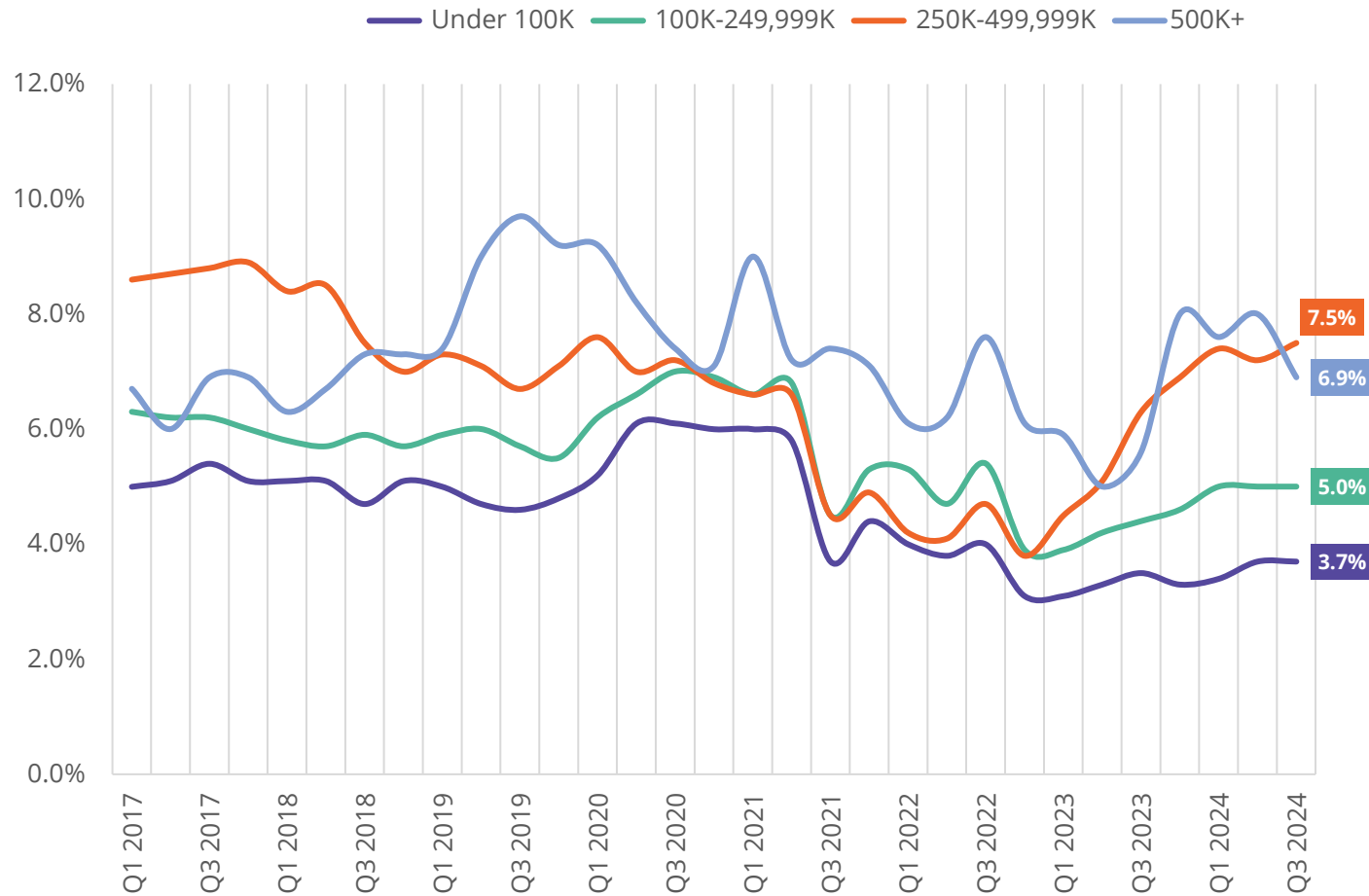
Although leasing activity has not reached the record highs seen during the pandemic, it is on track to surpass the average leasing volume of 33.6 msf from 2017 through 2019. So far this year, 33 msf has been leased, with 6.5 msf signed in Q3 2024, a noticeable decline from Q2 2024. Rental growth has plateaued, increasing only 4% year-to-date since year-end 2023, with the current average rent registering \$8.41/NNN.

-54%

Decreased construction pipeline

Construction activity continues to decline, down 54% from Q3 2023, with only 11.2 msf under development, marking its lowest level since 2013. The pipeline includes 5.1 msf of big-box inventory over 500,000 sf. Speculative construction activity as a percentage of total construction continues to decrease, dropping from 70% at year-end 2023 to 42% in Q3 2024. This shift in the market reflects the ongoing economic challenges and uncertainty over interest rates. As a result, developers are more cautious, focusing on projects with secured tenants to mitigate risk.

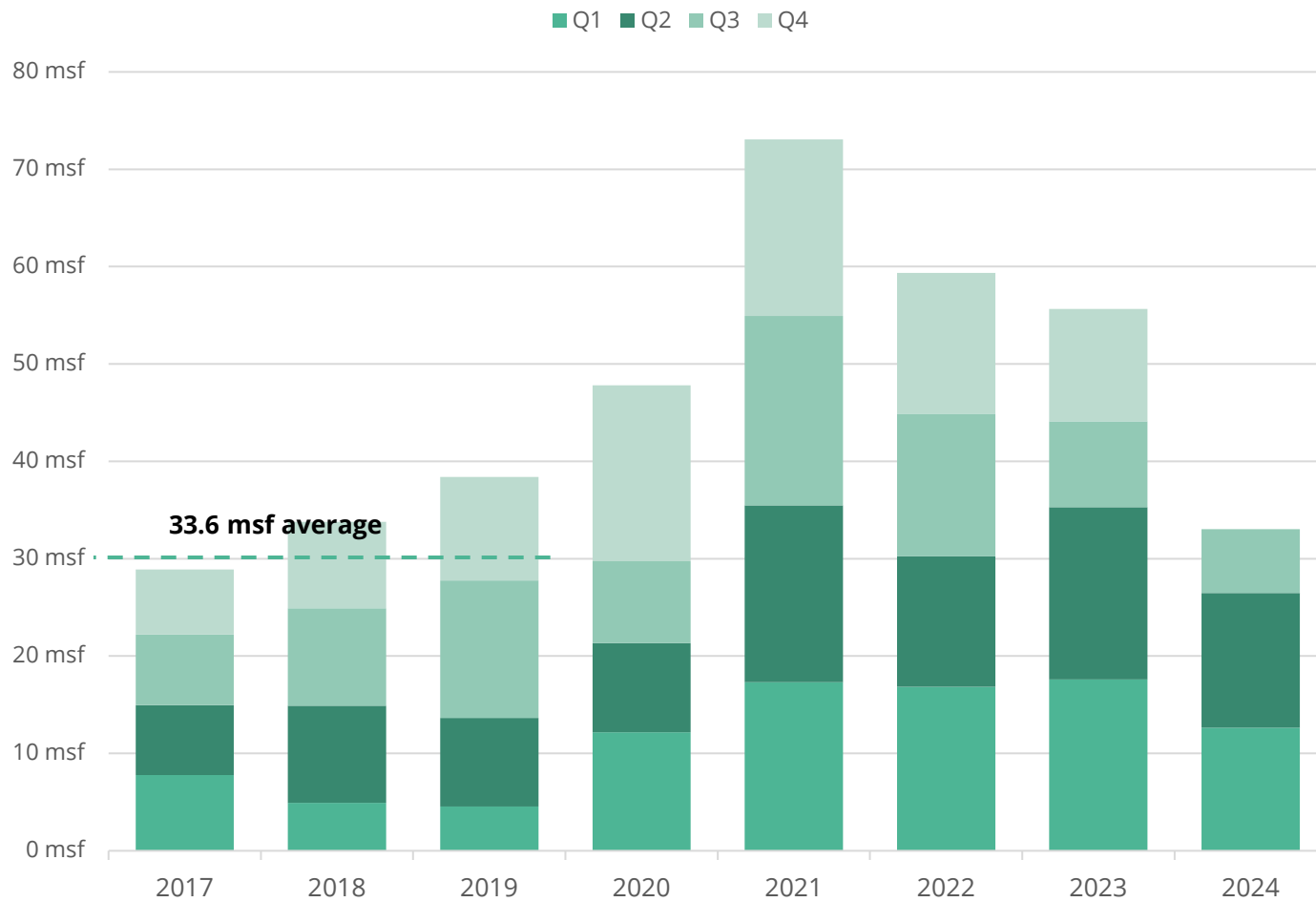
Vacancy by building size



Overall vacancy remains healthy, recorded at 5.6% at the end of Q3 2024, a decrease of 20 basis points from the prior quarter. Big box vacancy saw the most significant decrease from the prior quarter, down 110 basis points to 6.9%.

The Southern Wisconsin submarket registers the highest vacancy at 13%. This surge in vacancy is largely attributed to the recent construction boom within this submarket—a total of 15.7 msf delivered since 2020 which remains mostly vacant and available.

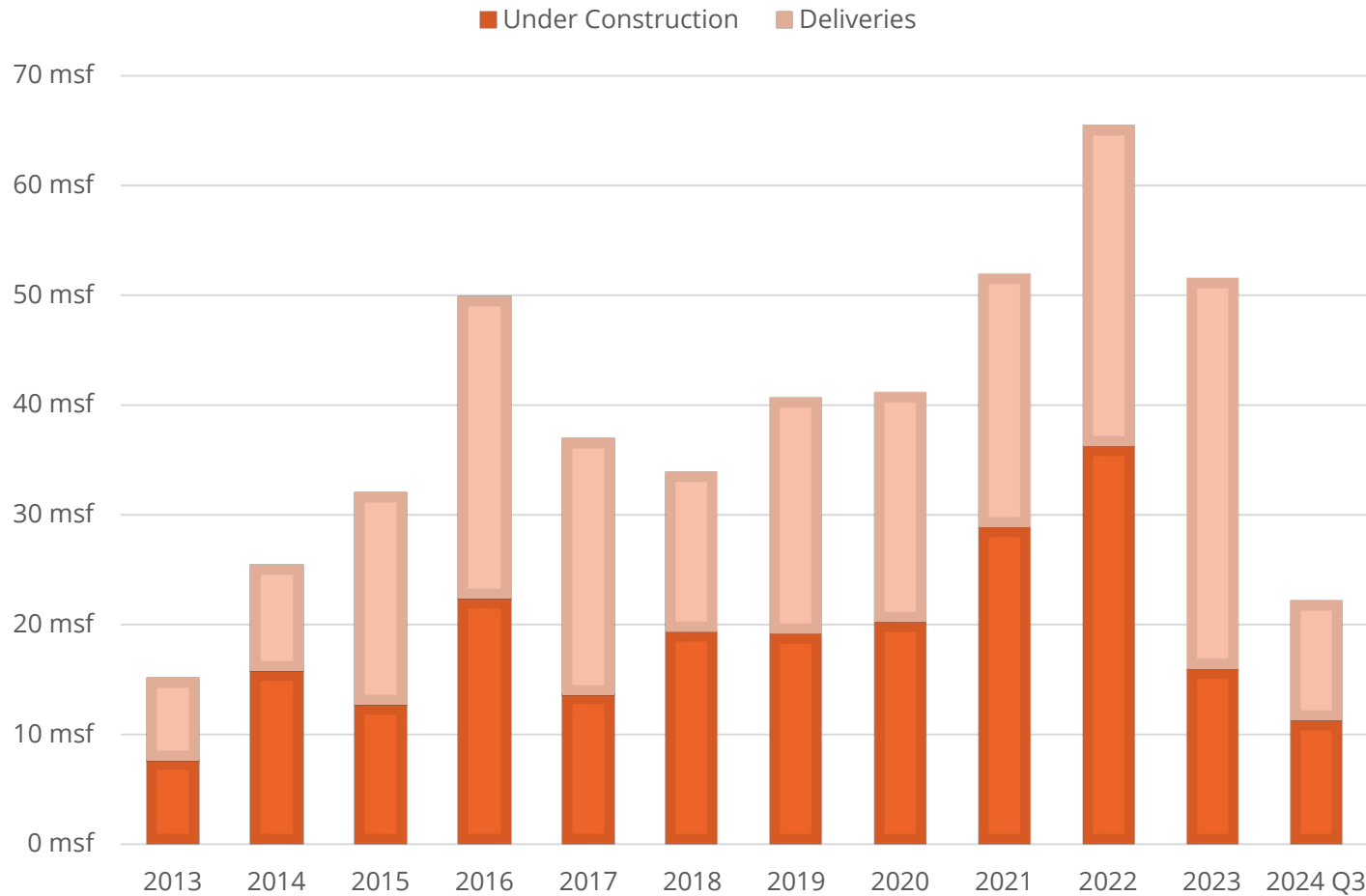
Leasing activity returns to pre-covid levels



Leasing activity, although down from the record highs seen during the pandemic, is still on pace to outperform the average leasing activity of 33.6 msf from 2017 through 2019. Year-to-date, 33 msf has leased, including 6.5 msf signed in Q3 2024, marking a noticeable decline from the prior quarter.

The South I-55 Corridor has dominated activity with a total of 7.4 msf leased, representing 22% of total leasing volume year-to-date.

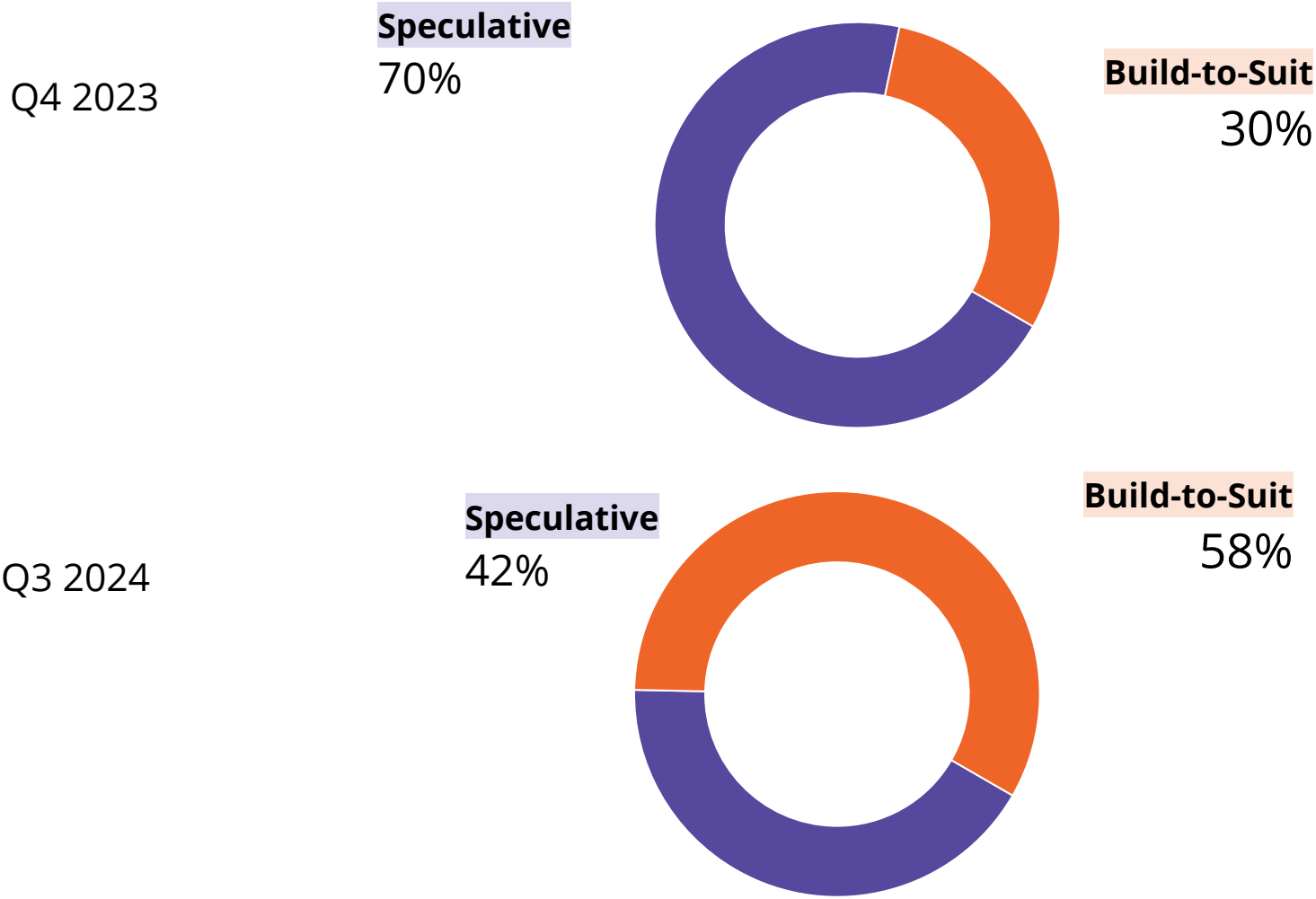
The new norm for construction levels



Currently, there is 11.2 msf under development, decreasing nearly 30% from Q4 2023 and all time low since 2013.

The I-80 corridor remains the most active in terms of development, with 3.3 msf currently under construction. Following closely is the I-39 corridor, with 2.3 msf in development.

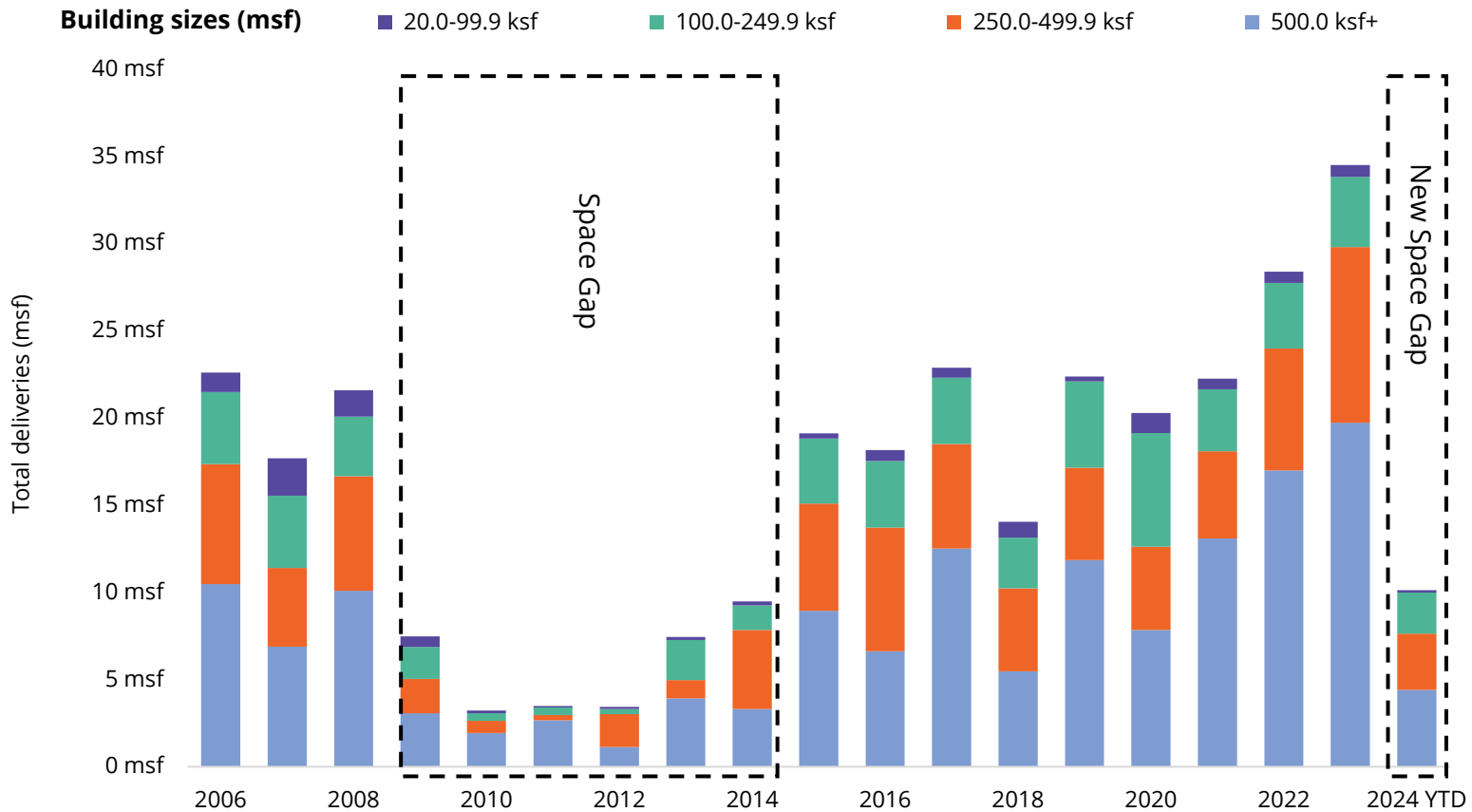
Speculative vs. BTS construction



The pendulum has shifted from 70% of the total construction pipeline to 42% speculative over the last three quarters at the end of Q3 2024.

This shift in the market reflects the ongoing economic challenges and uncertainty over interest rates. As a result, developers are more cautious, focusing on projects with secured tenants to mitigate risk.

Fluctuations in development continue



Construction activity continues to slow further highlighting the severity of a potential space gap the market will face over the next two years.

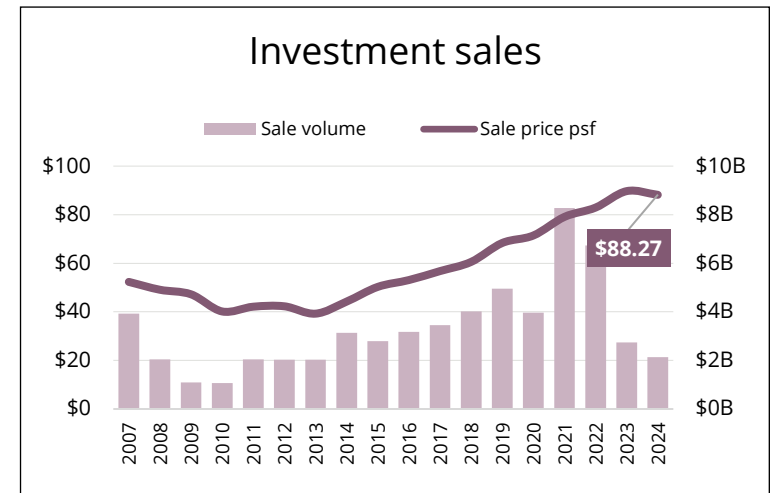
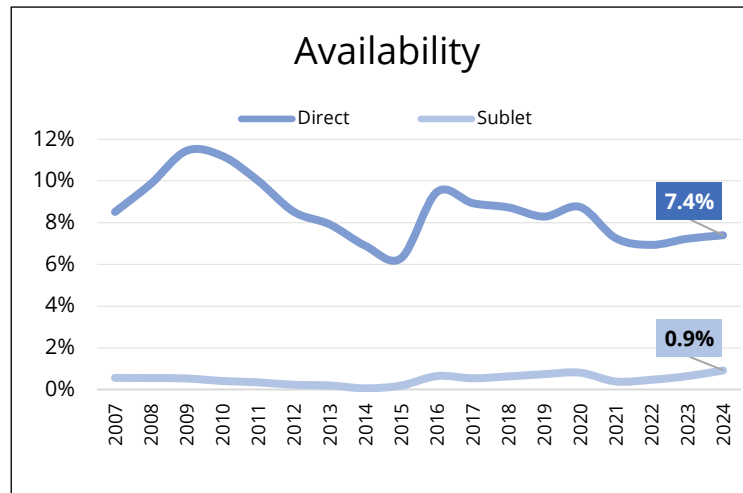
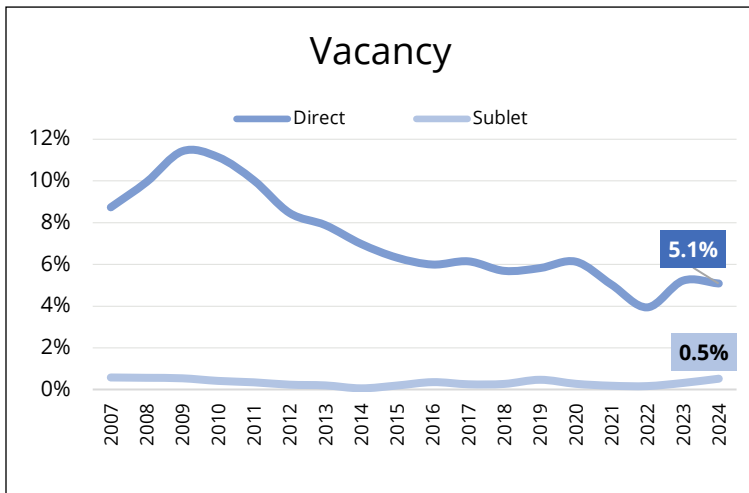
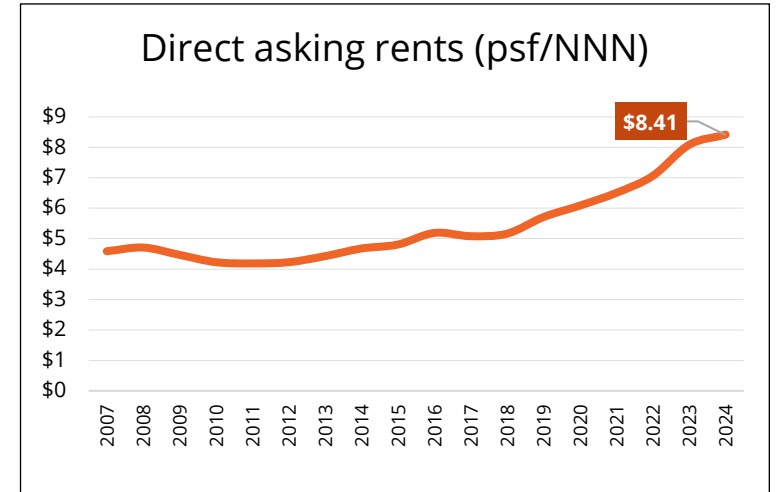
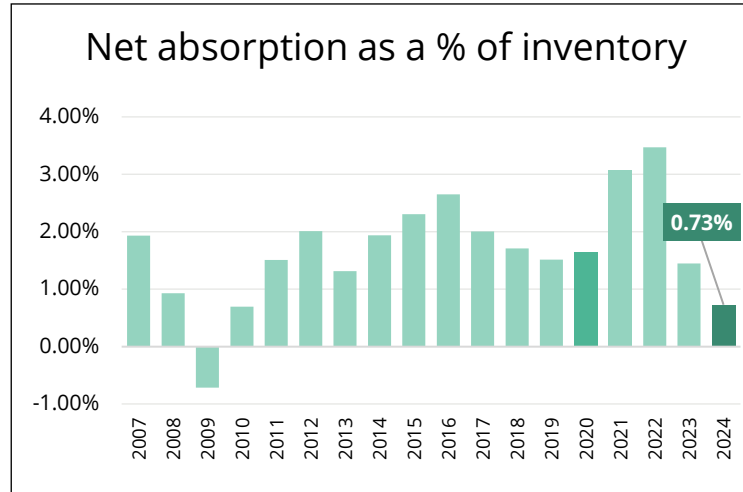
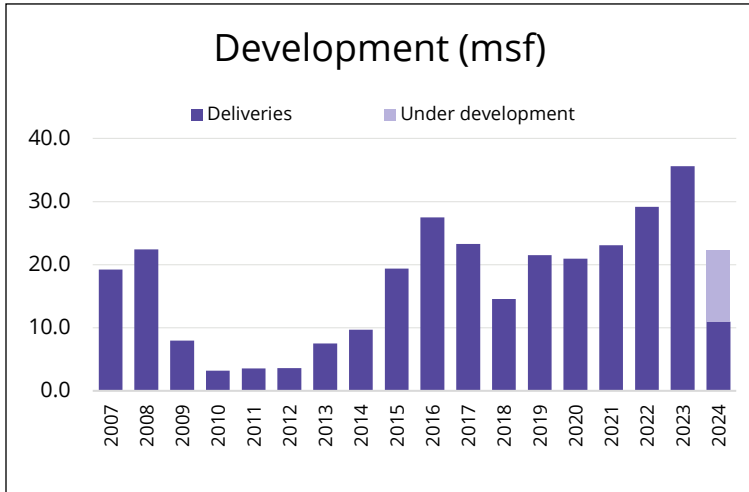
From 2019 to 2023, there was a substantial increase in new inventory, peaking in 2023 with 35 msf.

YTD a total of 10.9 msf delivered to the market with only 4.4 msf over 500,000 sf, down significantly from the year prior of 19.7 msf of big-box inventory.

Appendix



Chicago industrial market indicators



Chicago industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Building size (sf)	Transaction type	Lease type
Mondelez Interntional	100 Prologis Pky Morris, IL	I-80 Corridor	Sep 2024	806,400	Renewal	Direct
LSC Communications	1000 Windham Pky, Romeoville, IL	South I-55 Corridor	July 2024	659,157	Renewal	Direct
RJW Logistics	275 W Laraway Rd, Joliet, IL	I-80 Corridor	July 2024	639,917	New	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
AMSTAR	1860 W Jefferson Ave, Naperville, IL 1101 W Taylor Rd, Romeoville, IL	Sept 2024	829,078 541,123	\$54,400,000 \$52,100,000	\$65.61 \$96.28	Prologis
Venture One Real Estate	25850 S Ridgeland Ave, Monee, IL	Sept 2024	718,709	\$39,600,000	\$55.10	Ares Real Estate Management
Cabot Properties	845 W Lake St, Hanover Park, IL	Sept 2024	216,187	\$35,150,000	\$162.59	TA Realty

Top projects under development

Address	Submarket	Delivery date	Building size (sf)	% Preleased	Developer
1508 Crosslink Pky, Belvidere, IL	I-39 Corridor	Mar 2027	1,200,000	100%	Walmart
I-80 & Brisbin, Morris, IL	I-80 Corridor	May 2025	1,200,000	100%	Crow Holdings
1237 W Division St, Chicago, IL	North Chicago	Oct 2024	1,184,800	0%	Logistics Property Company

Chicago industrial market stats

Submarket name	Existing inventory (sf)	YTD Deliveries (sf)	Under development (sf)	Direct vacancy	Sublet vacancy	Total vacancy	YTD Net absorption (sf)	YTD Net absorption % of inventory
O'Hare	110,435,948	130,388		3.8%	1.0%	4.8%	-126,992	-0.11%
I-80 Corridor	108,002,268	2,124,961	3,398,451	6.5%	0.5%	6.9%	1,013,684	0.94%
South I-55 Corridor	103,916,672	1,079,839	756,933	3.1%	1.0%	4.1%	642,471	0.62%
South Chicago Industrial	93,292,963		490,944	4.0%	0.2%	4.2%	276,387	0.30%
Lake County	73,034,709	334,299	203,257	6.2%	0.2%	6.4%	-101,784	-0.14%
South Cook	72,201,632	1,282,452		4.7%	0.1%	4.8%	518,074	0.72%
Central DuPage	67,620,691		57,100	2.4%	0.6%	3.0%	-183,385	-0.27%
I-88 Corridor	65,458,767	263,682	998,307	4.1%	0.5%	4.6%	-500,053	-0.76%
I-39 Corridor	64,601,969	200,165	2,375,000	5.8%	0.5%	6.3%	-344,640	-0.53%
North I-55 Corridor	54,962,430	398,954		4.9%	1.0%	5.9%	-569,213	-1.04%
Northwest Indiana	49,351,869	246,000	425,520	3.5%	0.4%	3.9%	1,005,713	2.04%
Southern Wisconsin	49,126,595		593,565	12.9%	0.1%	13.0%	743,882	1.51%
West Cook	46,088,541	1,603,119		4.5%	1.1%	5.6%	1,374,169	2.98%
North Cook	44,775,284	824,844		6.2%	0.3%	6.4%	-138,592	-0.31%
Fox River Valley	44,640,574	566,924	409,100	4.8%	0.5%	5.3%	344,961	0.77%
North Chicago Industrial	44,418,604		1,227,896	7.2%	0.4%	7.6%	367,686	0.83%
I-90 West/Elgin Corridor	40,241,134	949,130	270,840	8.2%	0.7%	8.9%	677,154	1.68%
I-57 Corridor	29,616,867	55,000		4.8%	0.0%	4.8%	1,985,778	6.70%
McHenry County	24,899,393			1.7%	0.0%	1.7%	1,652,281	6.64%
I-90 East Corridor	23,307,982	879,577	83,124	5.9%	0.4%	6.3%	248,647	1.07%
Market total	1,209,994,892	10,939,334	11,290,037	5.1%	0.5%	5.6%	8,886,228	0.73%

Let's examine more prevailing industrial trends



Chicago industrial largest 20 leases signed in last 24 months

1 million sf

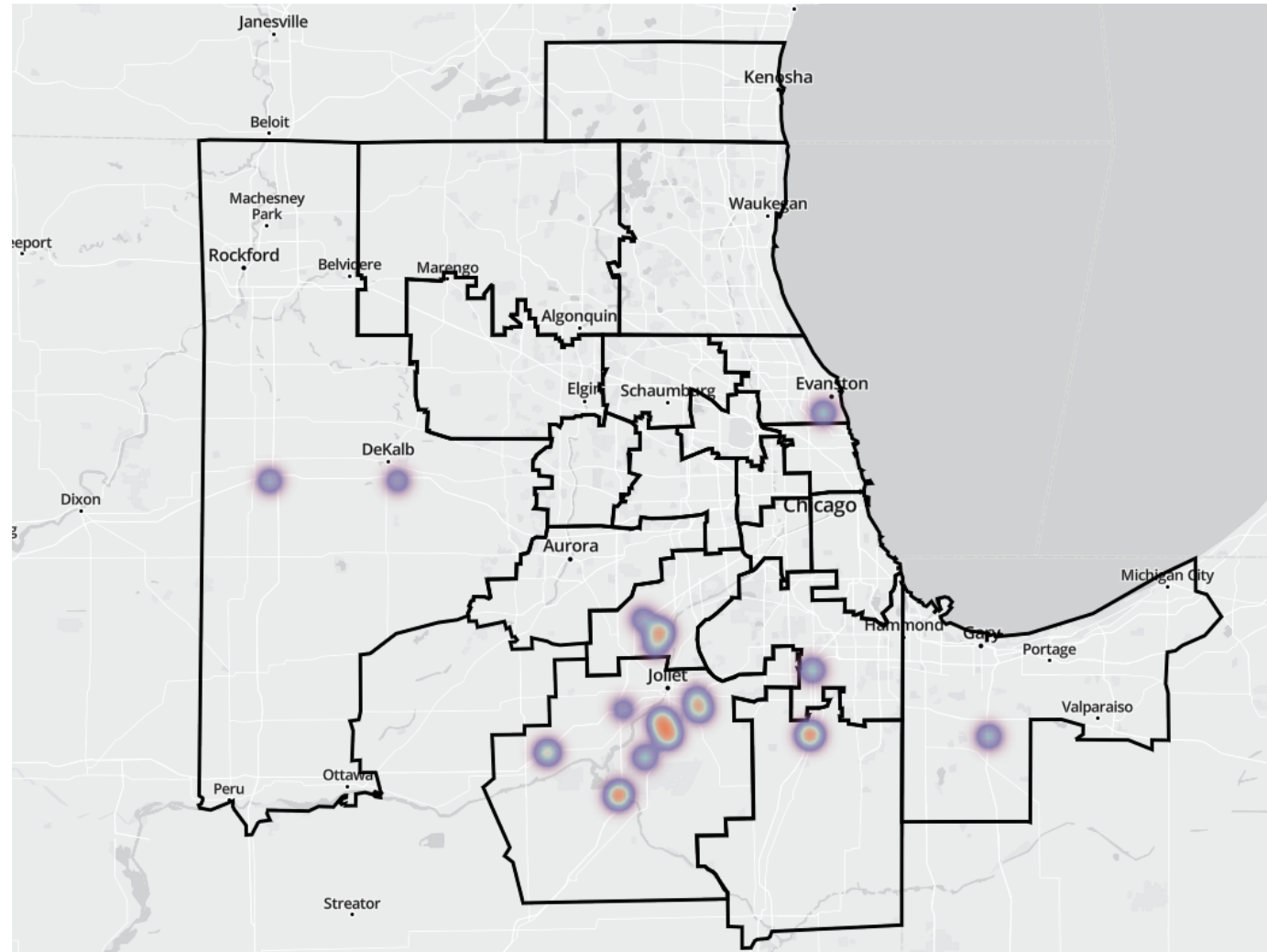
Average lease size

Over 1 million sf

9 of the 20 top deals were over 1 msf

Largest Tenants

Samsung – Distribution – I-57 Corridor
Target – Distribution – I-80 Corridor
GE – Distribution – I-80 Corridor
Unilever- Distribution - I-80 Corridor
Dart Container- Distribution – South Cook
CJ Logistics – Distribution – I-80 Corridor
PrimeSource – Distribution – I-80 Corridor
Post Foods – Distribution – I-80 Corridor



Chicago Industrial development pipeline

42 properties

under development

11.2 million sf

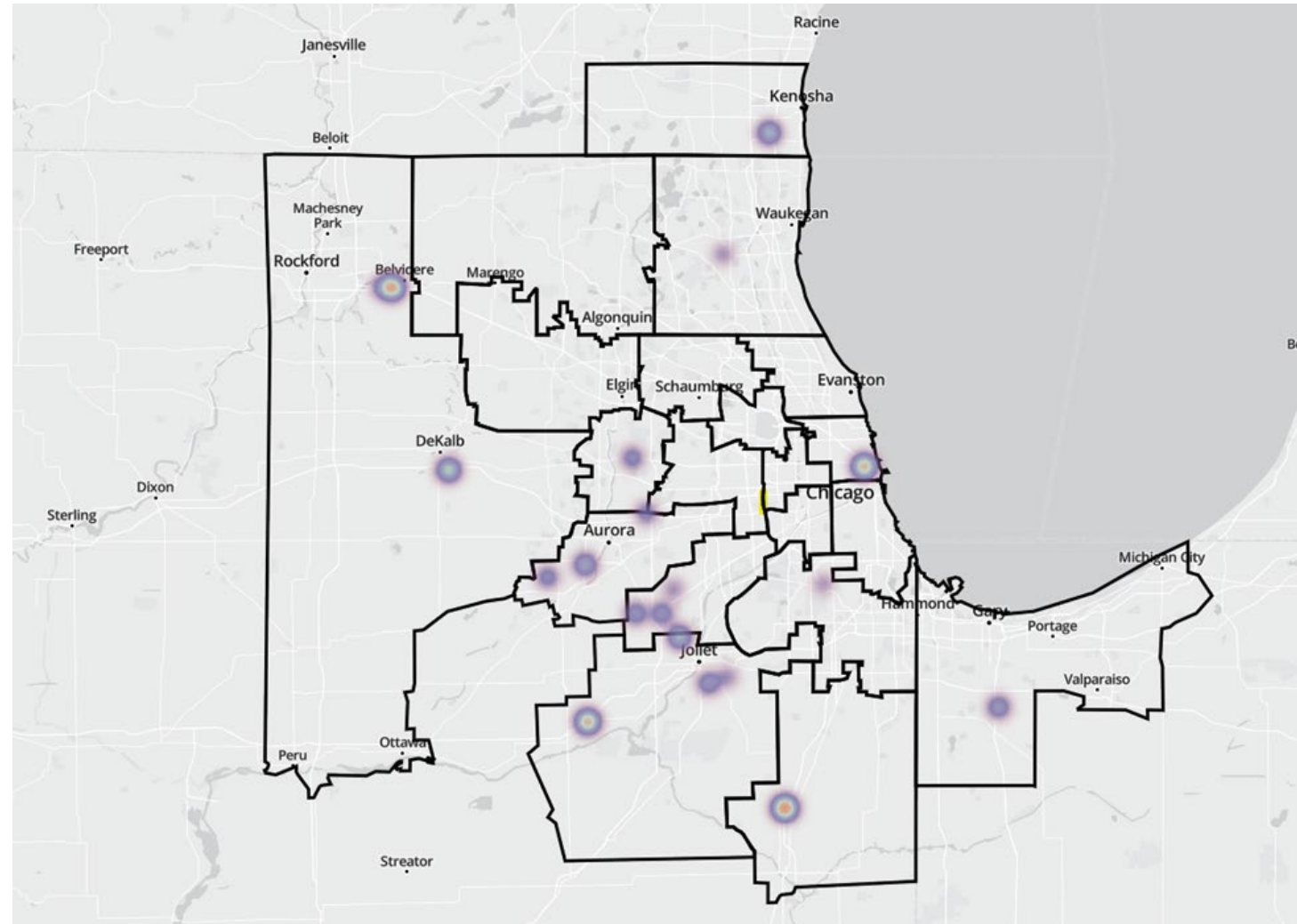
under construction

Major developments

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

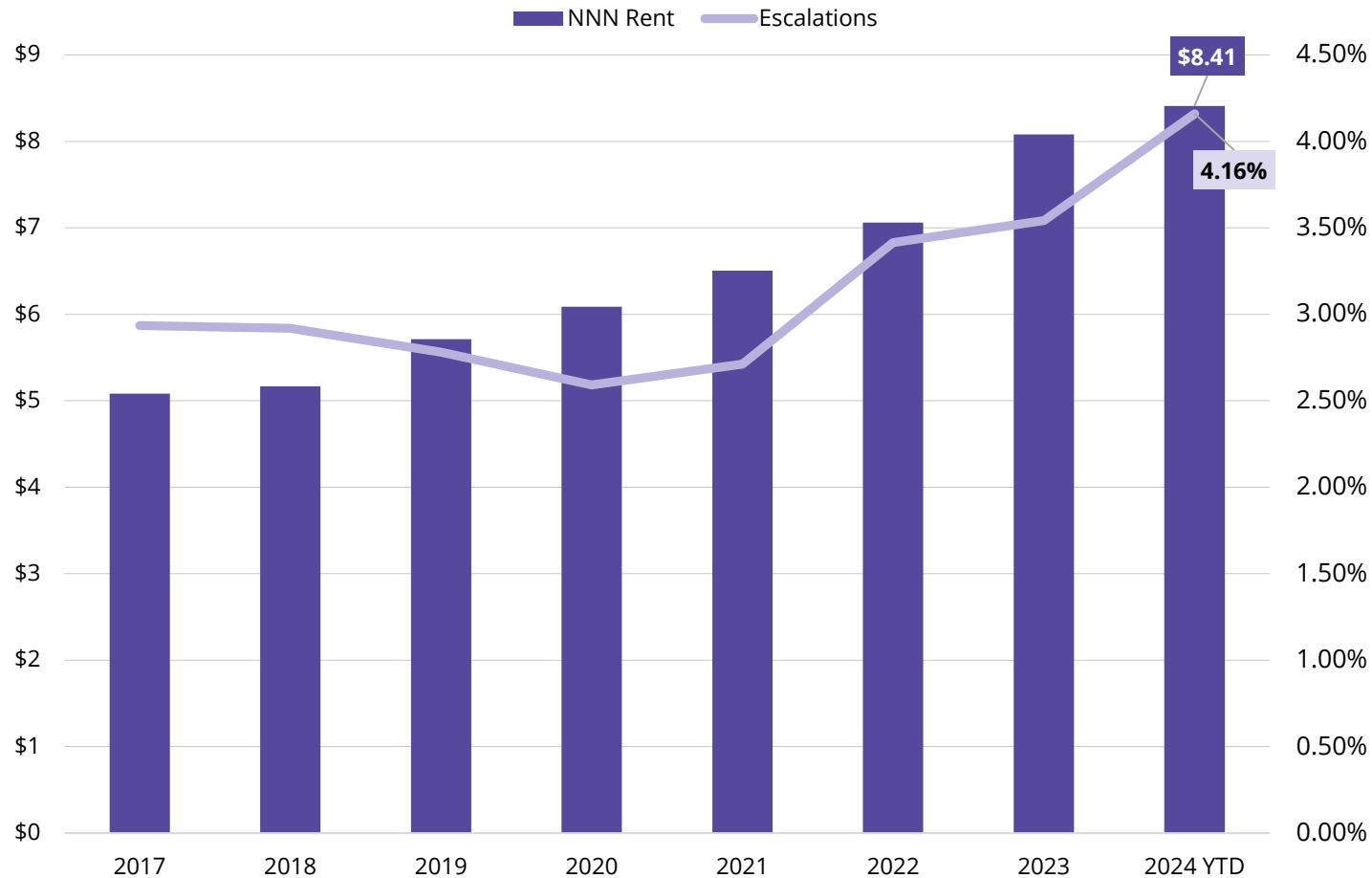
I-80 & Brisbin Rd, Morris - 1.2 million sf (GE Haier)

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



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

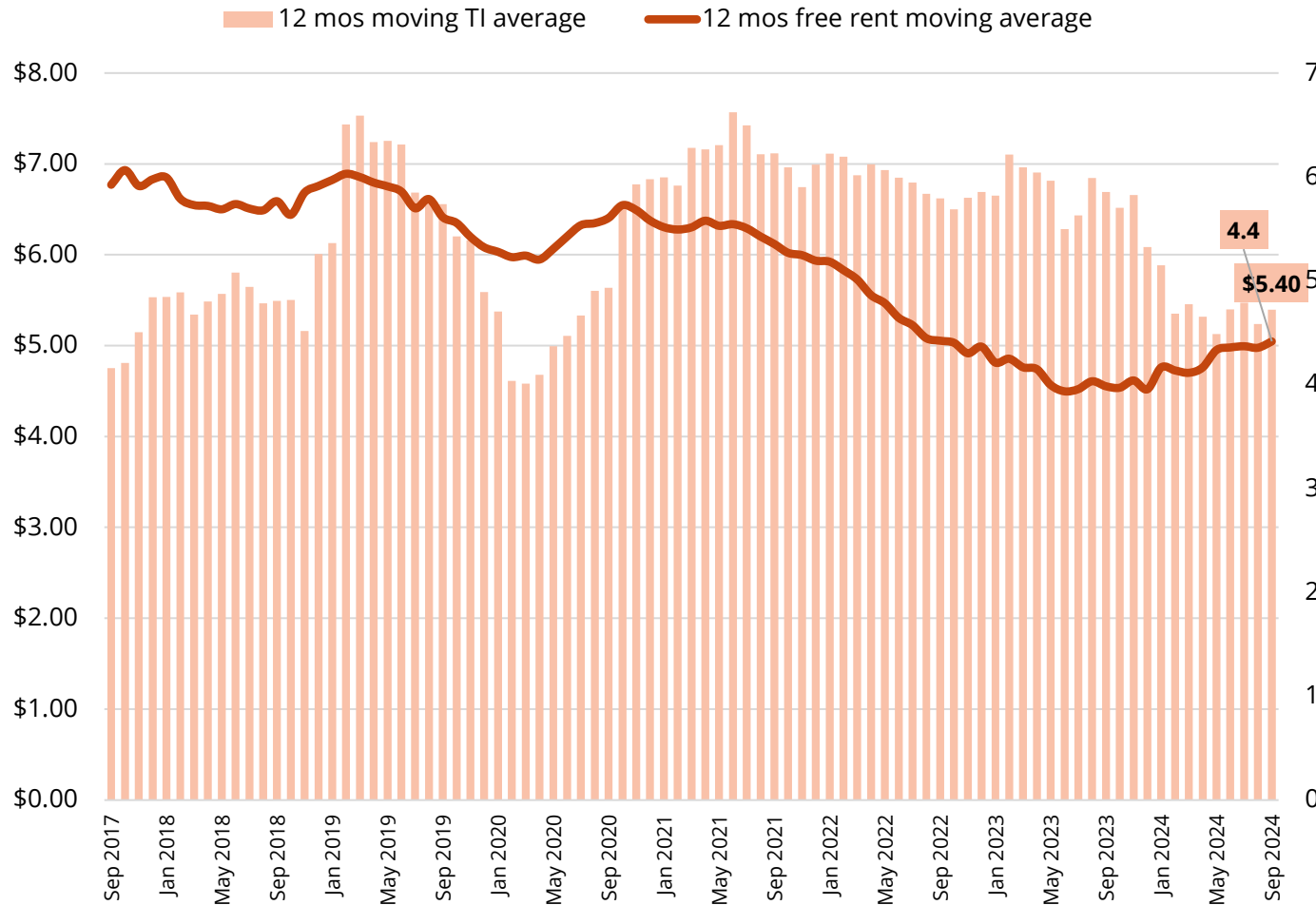
Rental growth has stabilized



Rental growth appears to have plateaued, increasing 4% in the first three quarters of 2024 compared to the previous year, with the average NNN rent reaching \$8.41.

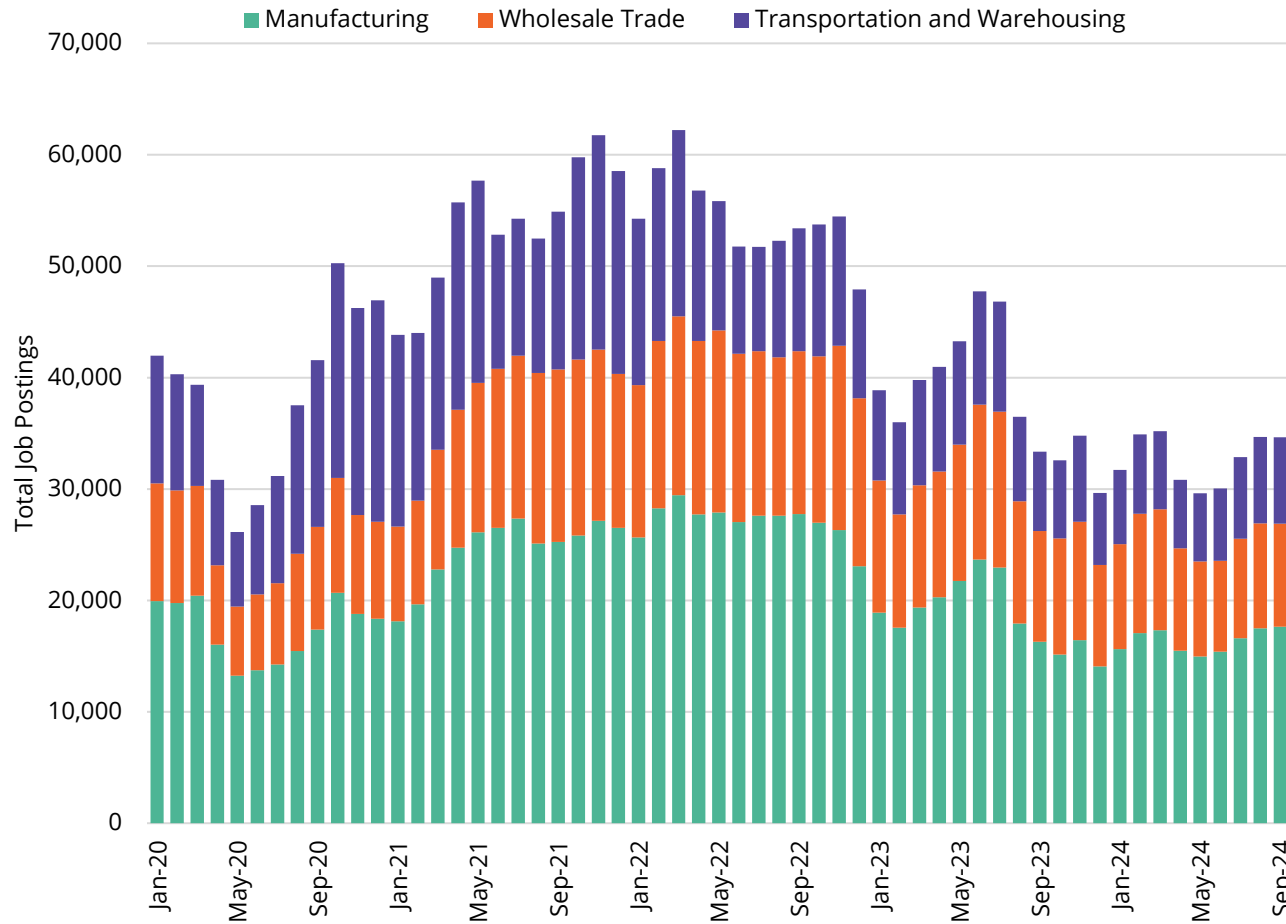
Average escalations are on the rise, now averaging 4.16%, marking a 17% increase from 2023. This stabilization in rental growth suggests a maturing market, where demand and supply are reaching equilibrium.

Concessions trending up



Although vacancy rates remain low and leasing activity has returned to pre-pandemic historical averages, some properties have remained vacant longer than landlords experienced during and after COVID. To attract tenants to these buildings, landlords are offering more incentives including TI allowances and free rent.

Industrial job postings leveling off



There were 34.6K total industrial job postings across the Chicago MSA in September 2024. Total industrial job postings last peaked in March 2022 at 62K.

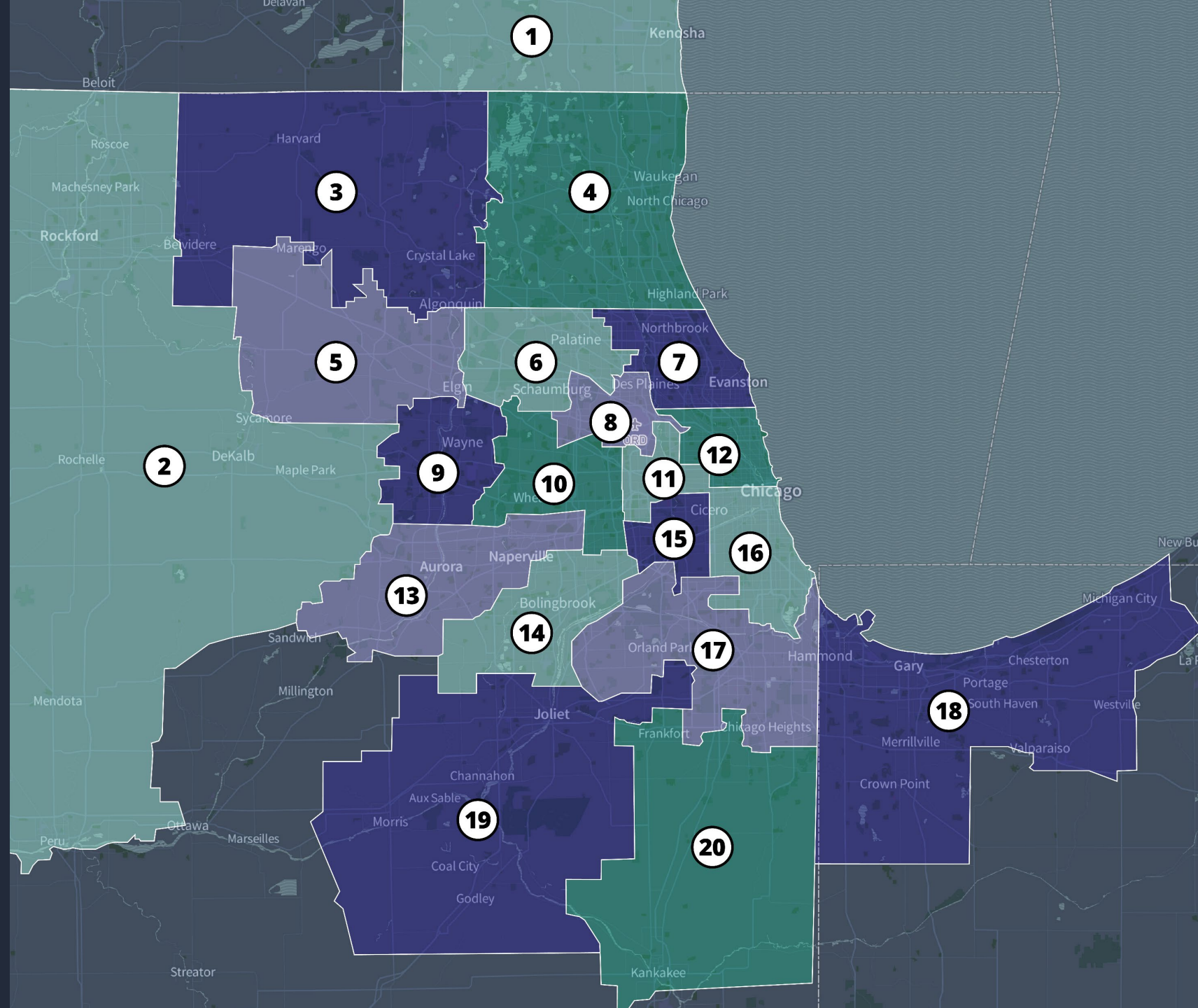
Industrial job postings remained relatively unchanged in September 2024 when compared to the year prior, Manufacturing increased 8.4%, Wholesale down 6.7% and Transportation and Warehousing increased by 8.6%.

Source: Lightcast Note: Chicago MSA

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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