

2Q25

Chicago Industrial Market Report

NEWMARK

Market Observations

Economy

- Despite maintaining a strong economic foundation, Chicago’s unemployment rate has consistently trended just above the national average. Hiring has slowed in response to inflationary pressures and sustained high interest rates.
- Job growth in industrial sectors remained muted over the past year. Construction saw a slight 0.3% uptick, while trade, transportation, and utilities declined 0.4%, and manufacturing dropped 0.8%.
- Chicago’s manufacturing sector contracted by 0.8% over the past year, falling short of the national rebound. The decline reflects ongoing challenges, including a shortage of skilled labor and the continued impact of recent factory closures and relocations.

Major Transactions

- Leasing activity continued improving after slumping in the second half of 2024, increasing to 11.2 MSF. This brings the YTD total leasing volume to over 22 MSF.
- The largest individual transaction of the quarter was RJW Logistics’ lease of 1.1 million square feet at NorthPoint’s Third Coast Intermodal Hub in Joliet.
- The largest sale transaction of the quarter, and year-to-date, was NorthPoint Development’s \$270 million acquisition of an 11-building, 2.8-million-square-foot Class A portfolio in Elgin’s Northwest Business Park.

Leasing Market Fundamentals

- Leasing activity has gained momentum in 2025, with year-to-date volume reaching 76% of last year’s total. Renewals have played a significant role, accounting for 7.5 million square feet, an above-average share of overall activity.
- After contracting in Q1 2025, sublease availability rose once again in the second quarter, with more than 600,000 square feet added to the market. Total sublease inventory now stands at 14.4 million square feet—up from 13.7 million last quarter, though still below the Q4 2024 peak of 15.3 million.
- Asking rates continued to climb in Q2 2025, reaching \$6.59 per square foot. While leasing activity has gained some traction this year, it remains below historical levels, contributing to a slower pace of rent growth—up just 0.6% year-over-year.

Outlook

- While demand has improved, it remains below peak levels, and rising sublease availability may temper momentum in the second half of the year. Landlords are adjusting by shifting concession strategies, and tenant leverage is likely to persist as recently delivered Class A space works through lease-up.
- Vacancy rose again in Q2, but the slowdown in groundbreakings is expected to ease pressure on the supply pipeline. With construction starts continuing to decline and asking rent growth moderating, the market is gradually recalibrating. Despite current softness, fundamentals remain relatively healthy compared to long-term averages.

1. Economy
2. Leasing Market Fundamentals
3. Capital Markets Fundamentals

2Q25

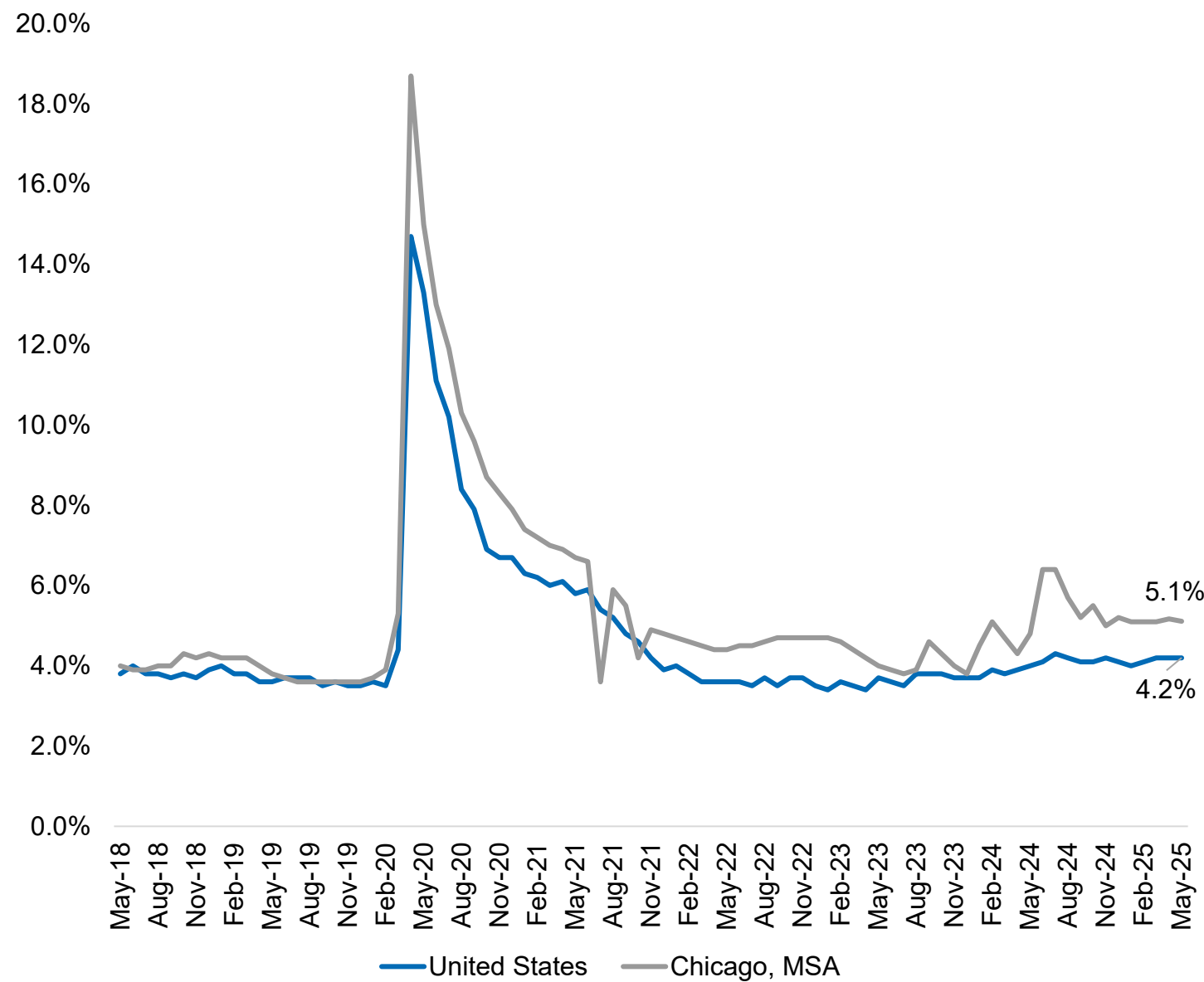
Economy



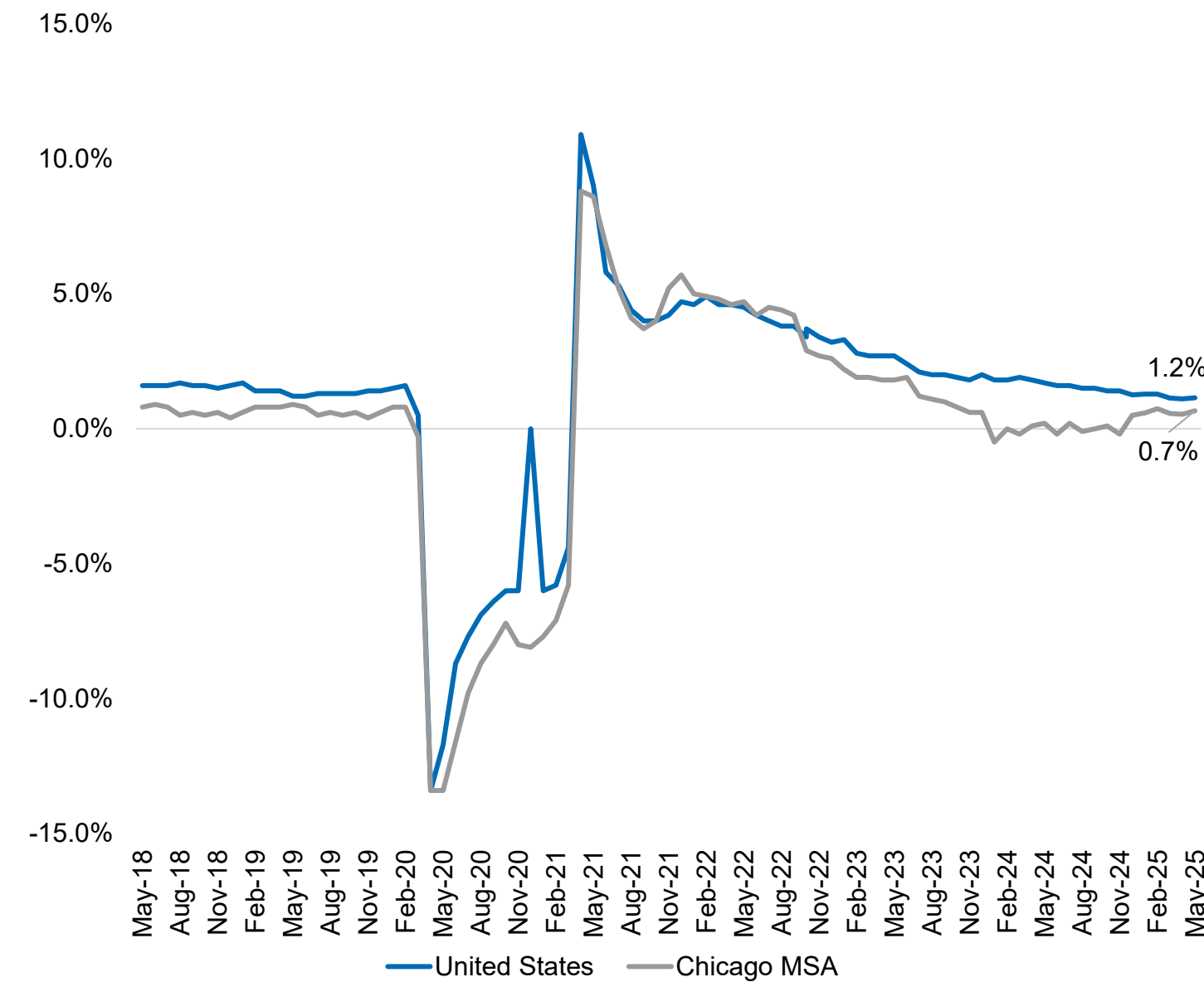
Unemployment Holds Above U.S. Average

Despite maintaining a strong economic foundation, Chicago’s unemployment rate has consistently trended just above the national average. Hiring has slowed in response to inflationary pressures and sustained high interest rates.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

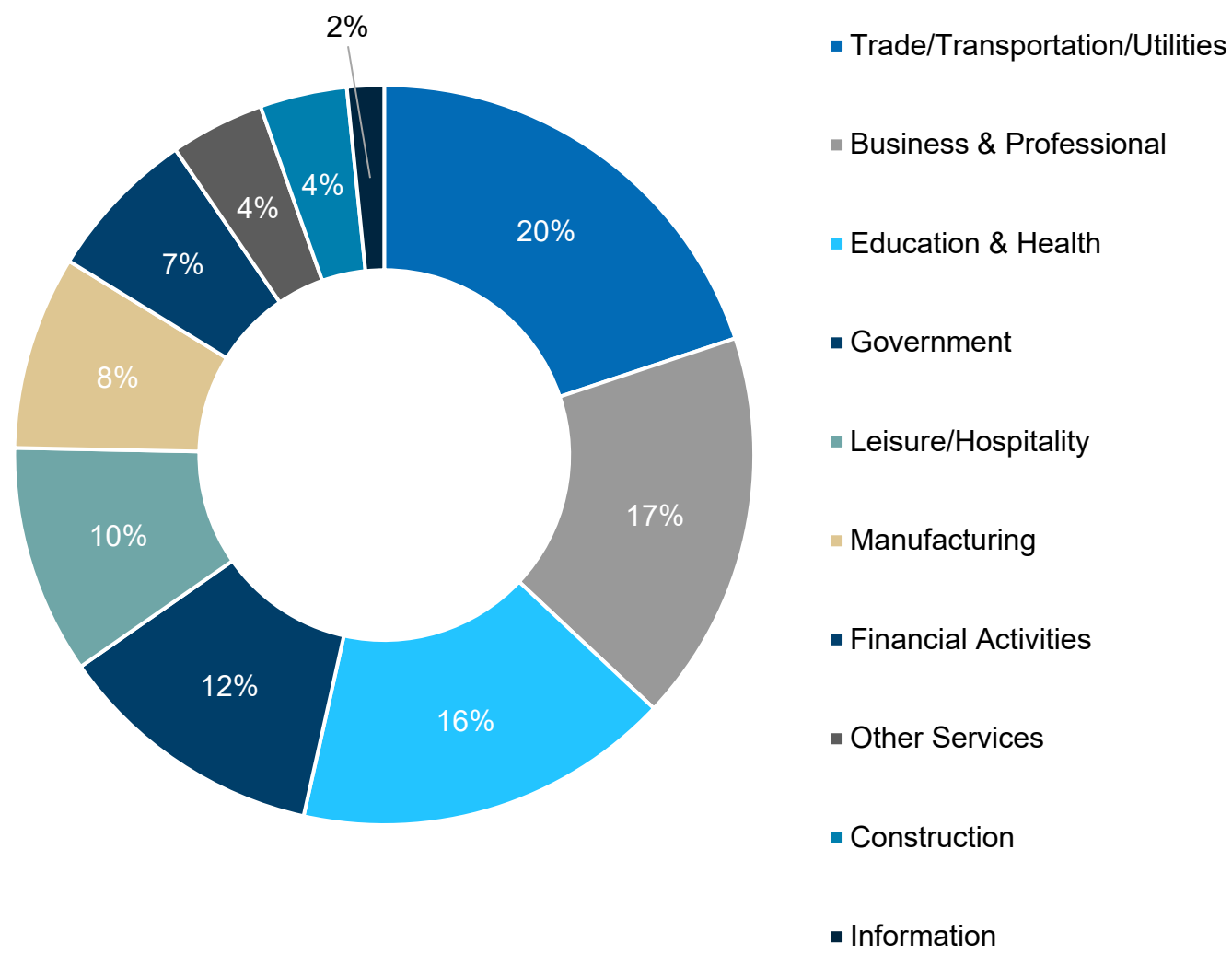


Source: U.S. Bureau of Labor Statistics, Chicago MSA

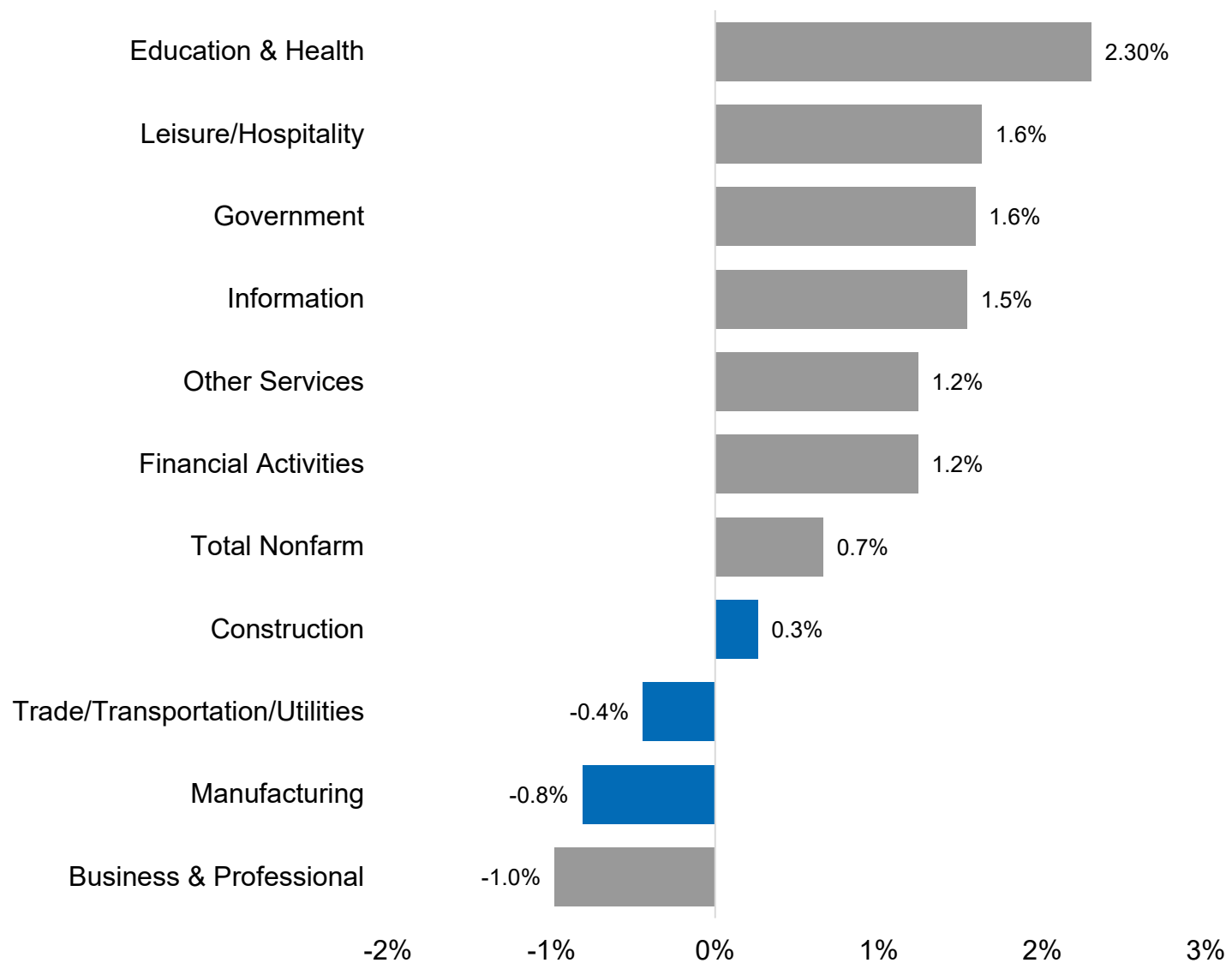
Industrial Job Growth Remains Subdued

Job growth in industrial sectors remained muted over the past year. Construction saw a slight 0.3% uptick, while trade, transportation, and utilities declined 0.4%, and manufacturing dropped 0.8%.

Employment by Industry, May 2025



Employment Growth by Industry, 12-Month % Change, May 2025

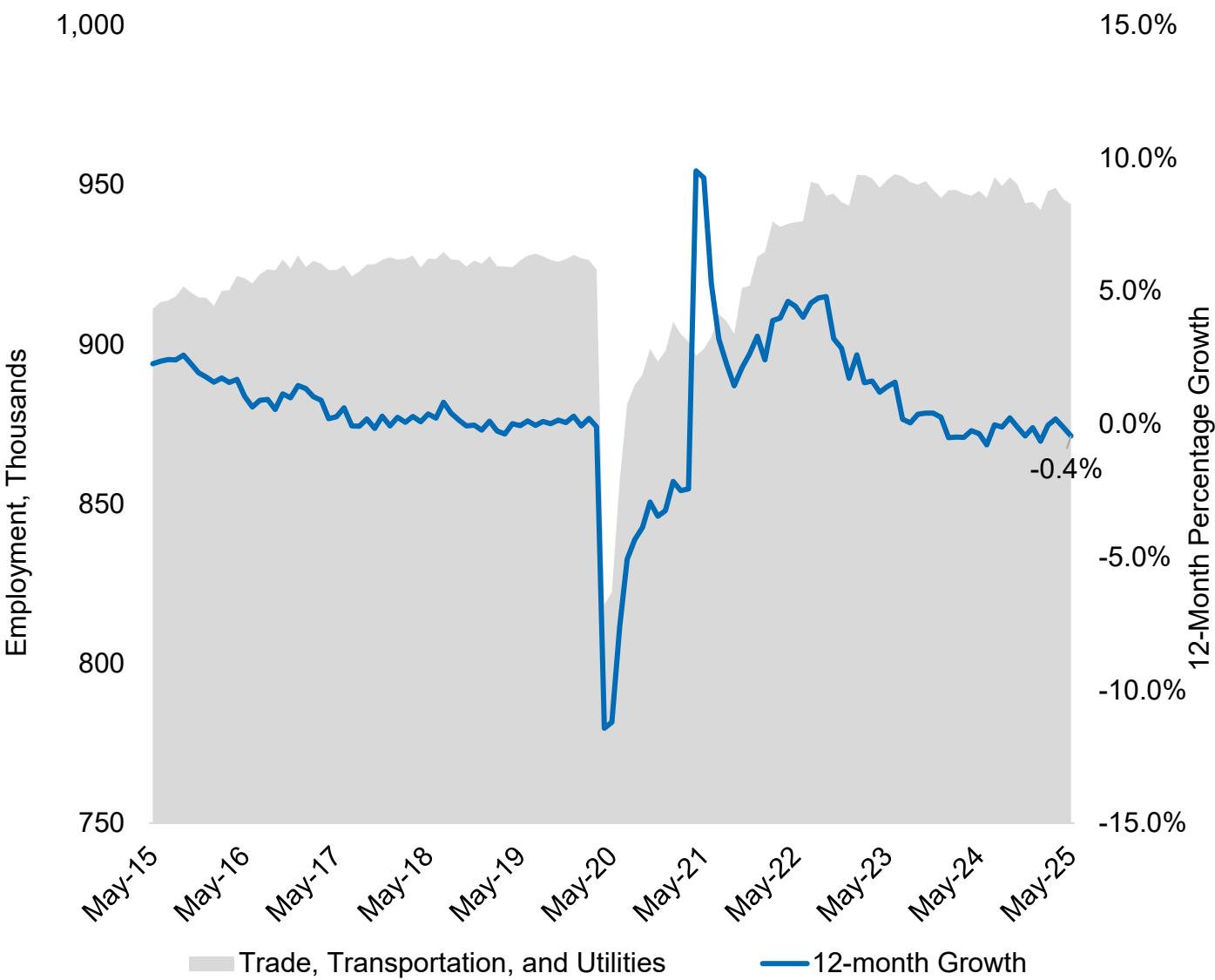


Source: U.S. Bureau of Labor Statistics, Chicago MSA

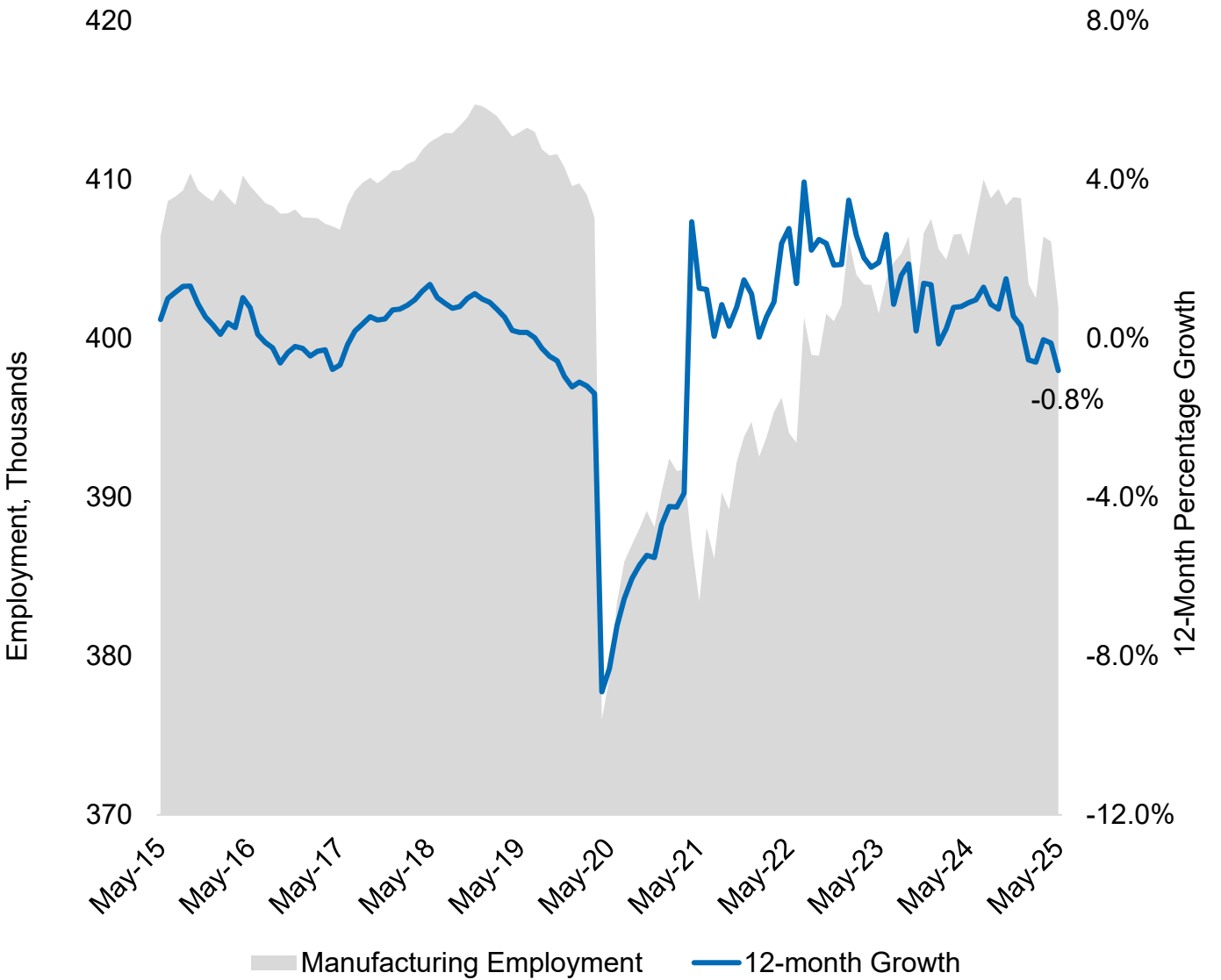
Industrial Sectors Struggle to Rebound

Chicago’s manufacturing sector contracted by 0.8% over the past year, falling short of the national rebound. The decline reflects ongoing challenges, including a shortage of skilled labor and the continued impact of recent factory closures and relocations.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Chicago MSA

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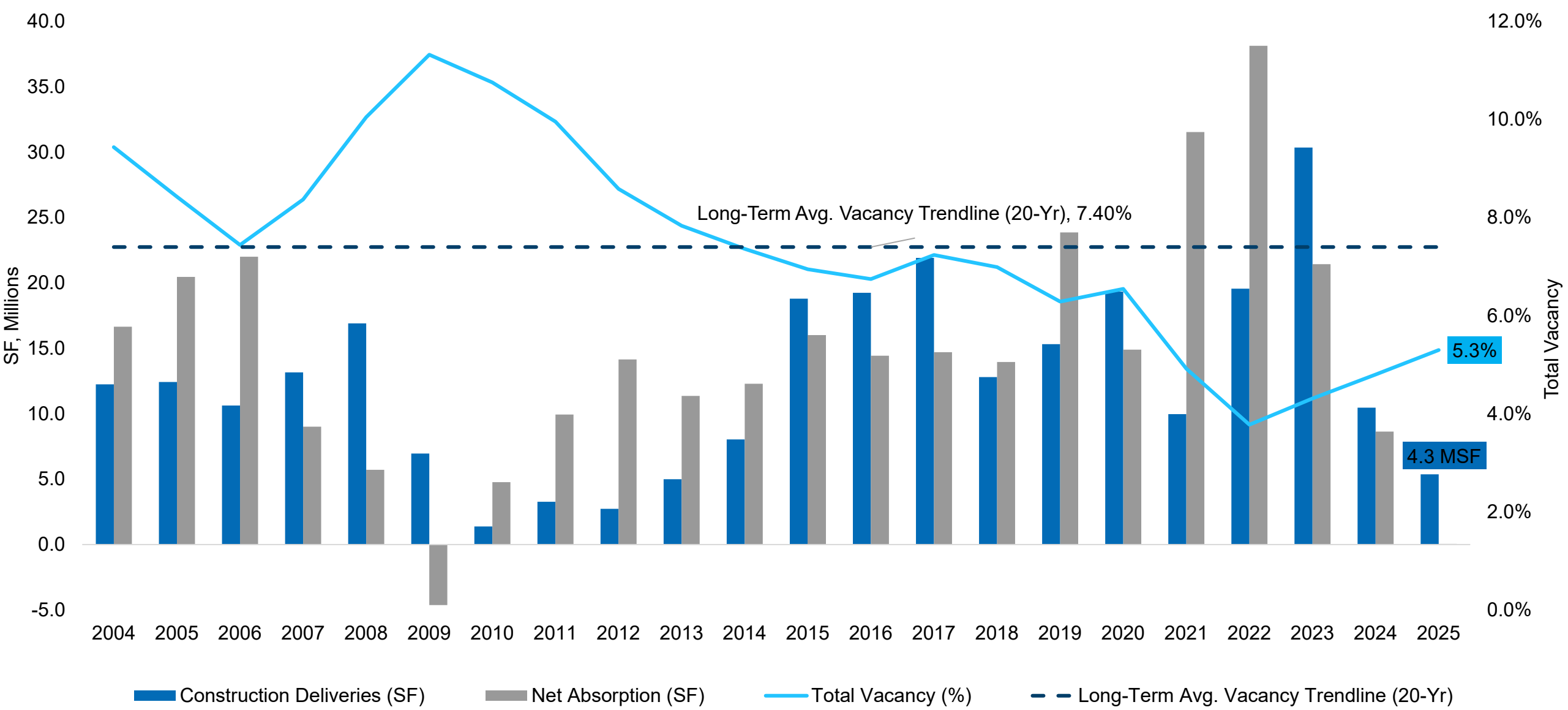
Leasing Market Fundamentals



Market Records First Quarter of Negative Absorption in 15 Years

The Chicago industrial market recorded just over 300,000 square feet of negative absorption, the first quarter of negative absorption the market has seen since 2010. This brings absorption for the first half of 2025 to positive 45,000 square feet and pushed vacancy to 5.3%. We expect absorption to bounce back in the second half of the year as the market has seen an uptick in new leasing during the second quarter.

Historical Construction Deliveries, Net Absorption, and Vacancy

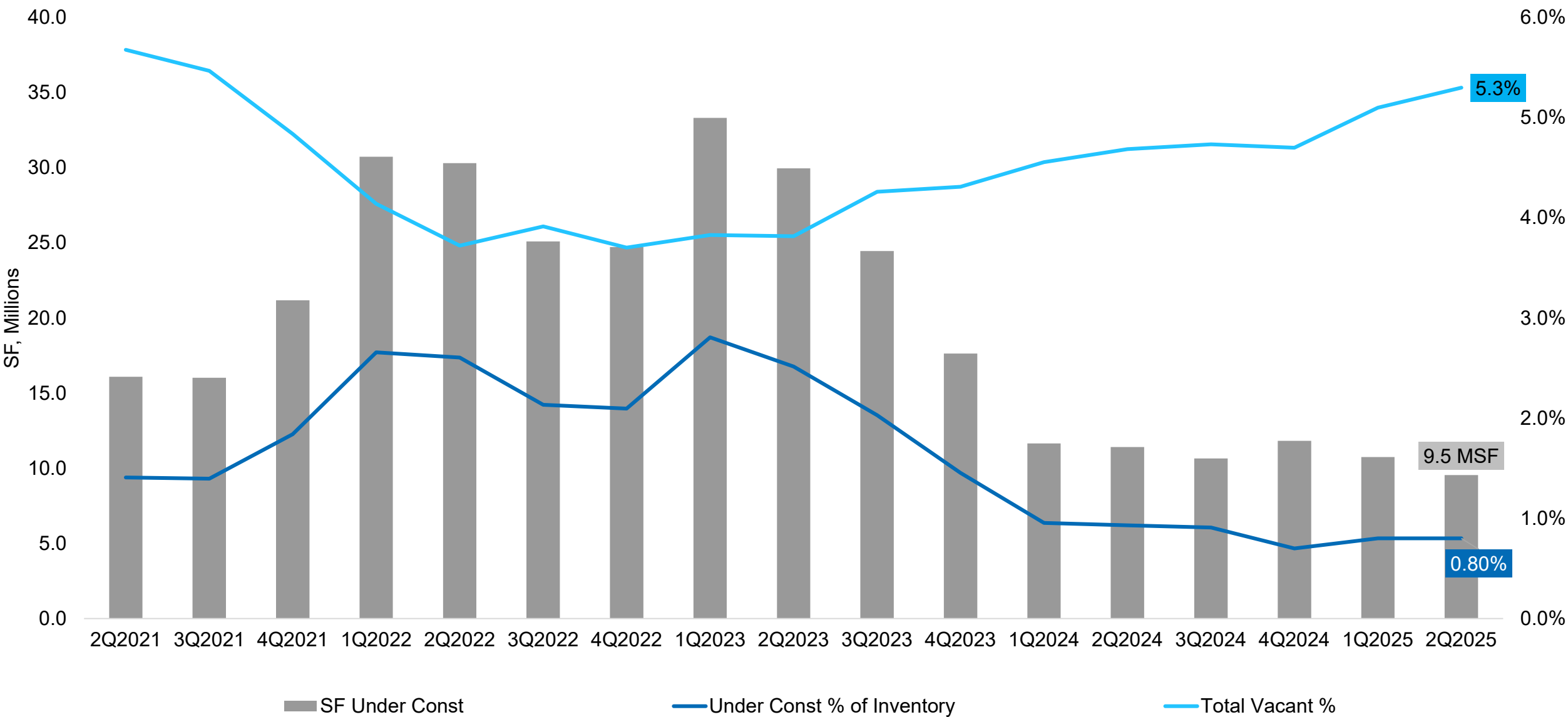


Source: Newmark Research

Development Remains Conservative

The market only has 9.5 MSF of inventory currently under construction, 66% of which is speculative. There was 1.7 MSF that delivered in the second quarter. Developers remain cautious and some groups that have traditionally only developed are now exploring existing options for acquisitions.

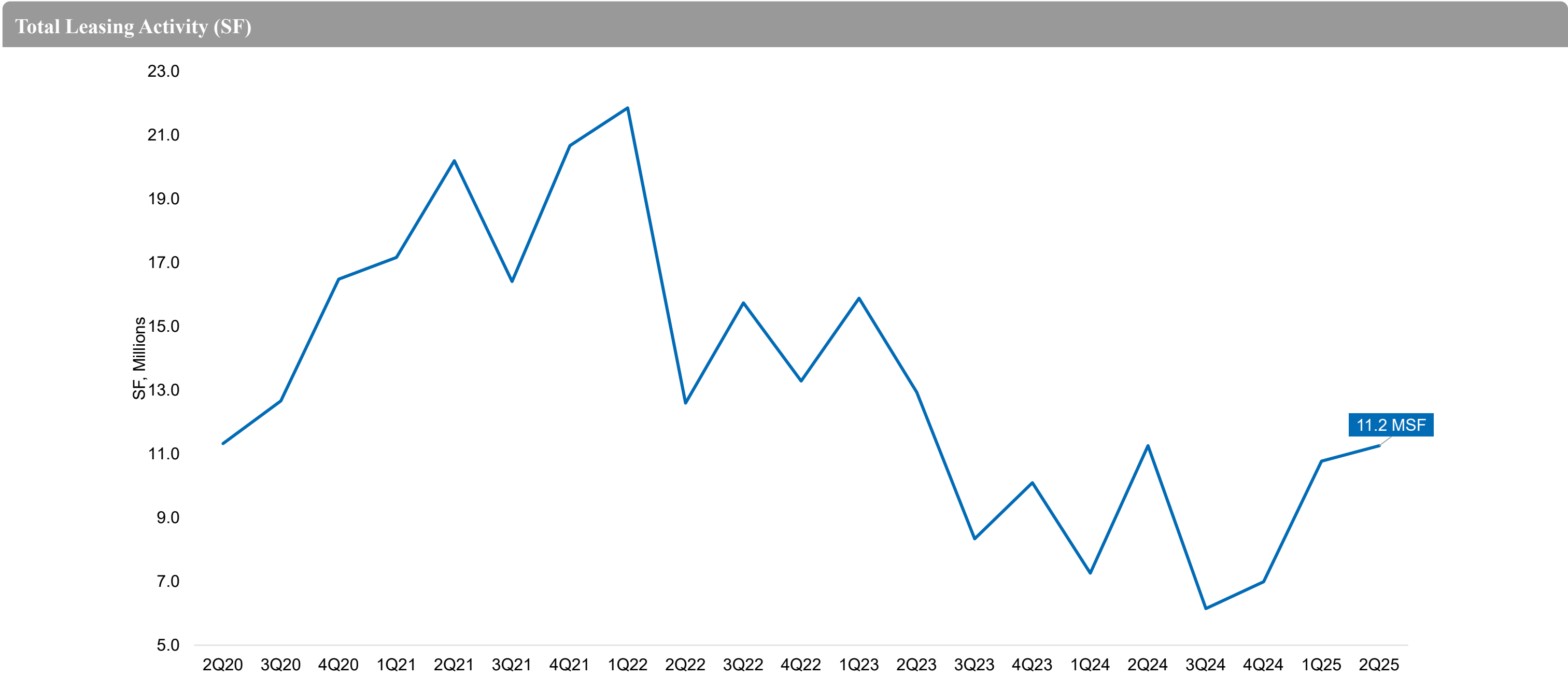
Historical Construction, Share of Total Inventory, and Vacancy



Source: Newmark Research

Industrial Leasing Continues Ascending Trajectory

Leasing activity continued improving after slumping in the second half of 2024, increasing to 11.2 MSF. This brings the YTD total leasing volume to over 22 MSF. We expect this momentum to carry into the second half of the year as deals that were stalled over tariff concerns make deals and owners emphasize high occupancy rates over high rental rates.



Source: Newmark Research, CoStar

Class A Product Commands Market Share



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Sublease Availability Climbs Back Toward Peak



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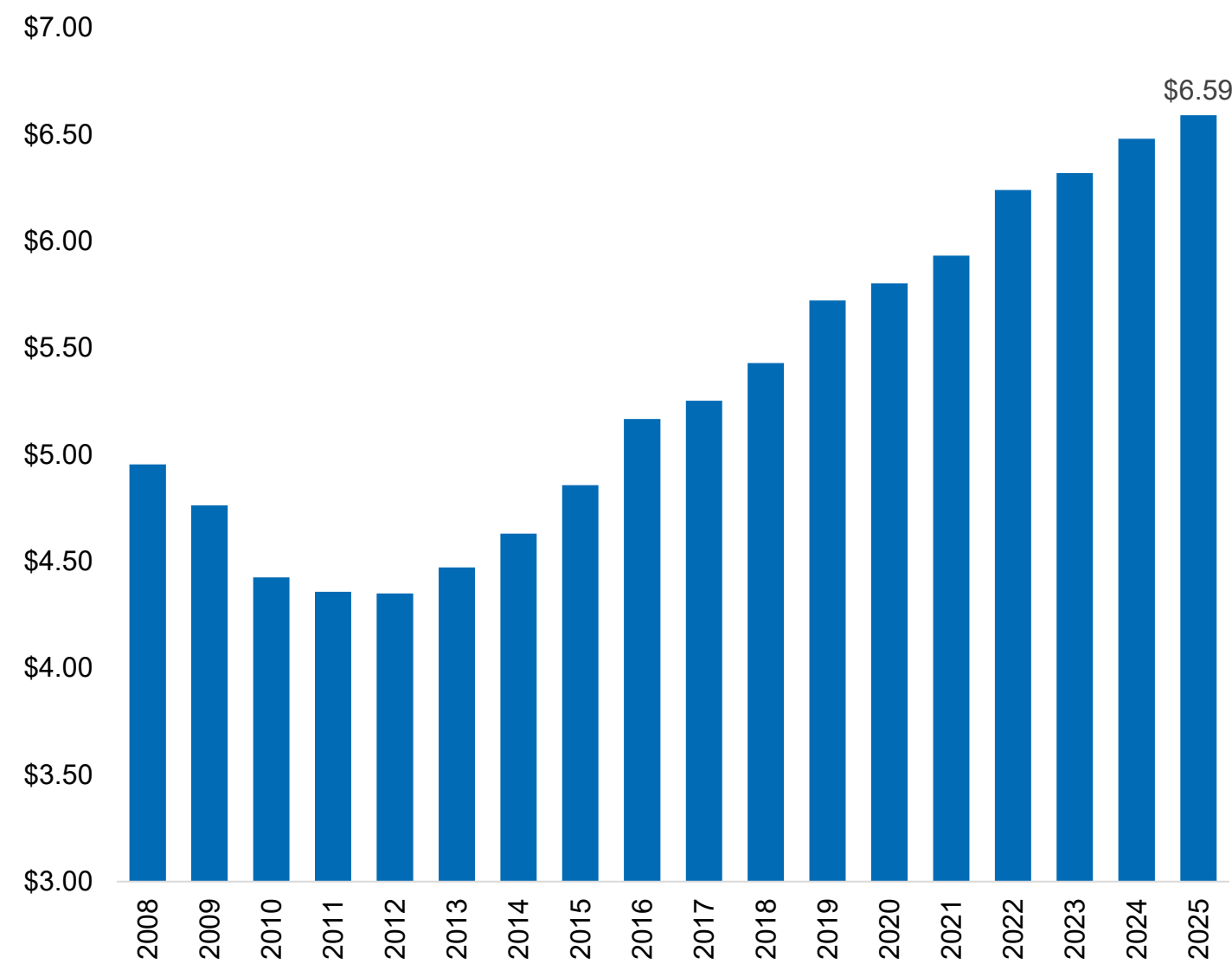
Leasing Activity Gains Momentum in 2025

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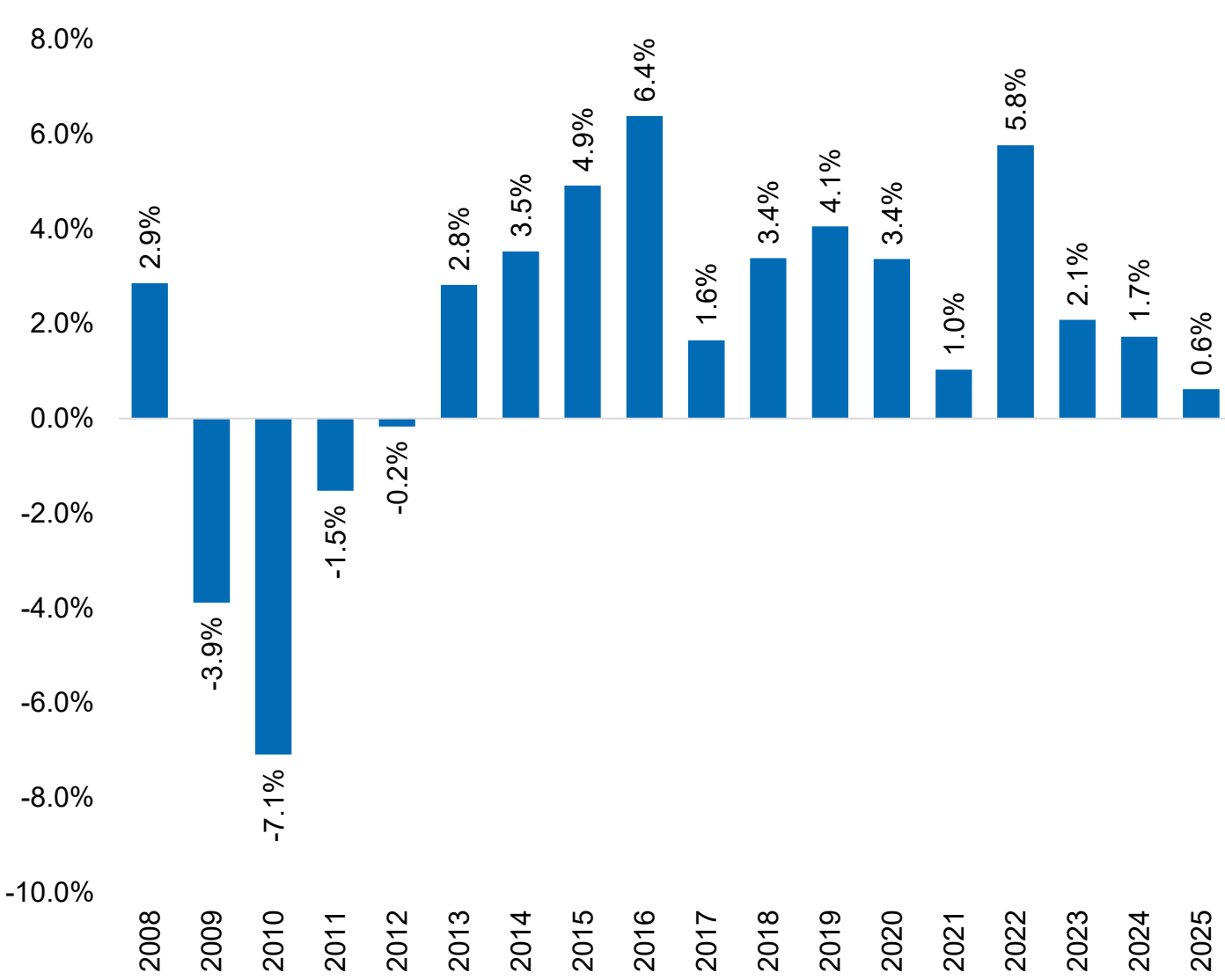
Asking Rents Rise, but Growth Slows

Asking rates continued to climb in Q2 2025, reaching \$6.59 per square foot. While leasing activity has gained some traction this year, it remains below historical levels, contributing to a slower pace of rent growth—up just 0.6% year-over-year.

Total Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Total Asking Rent Growth Rate % Change

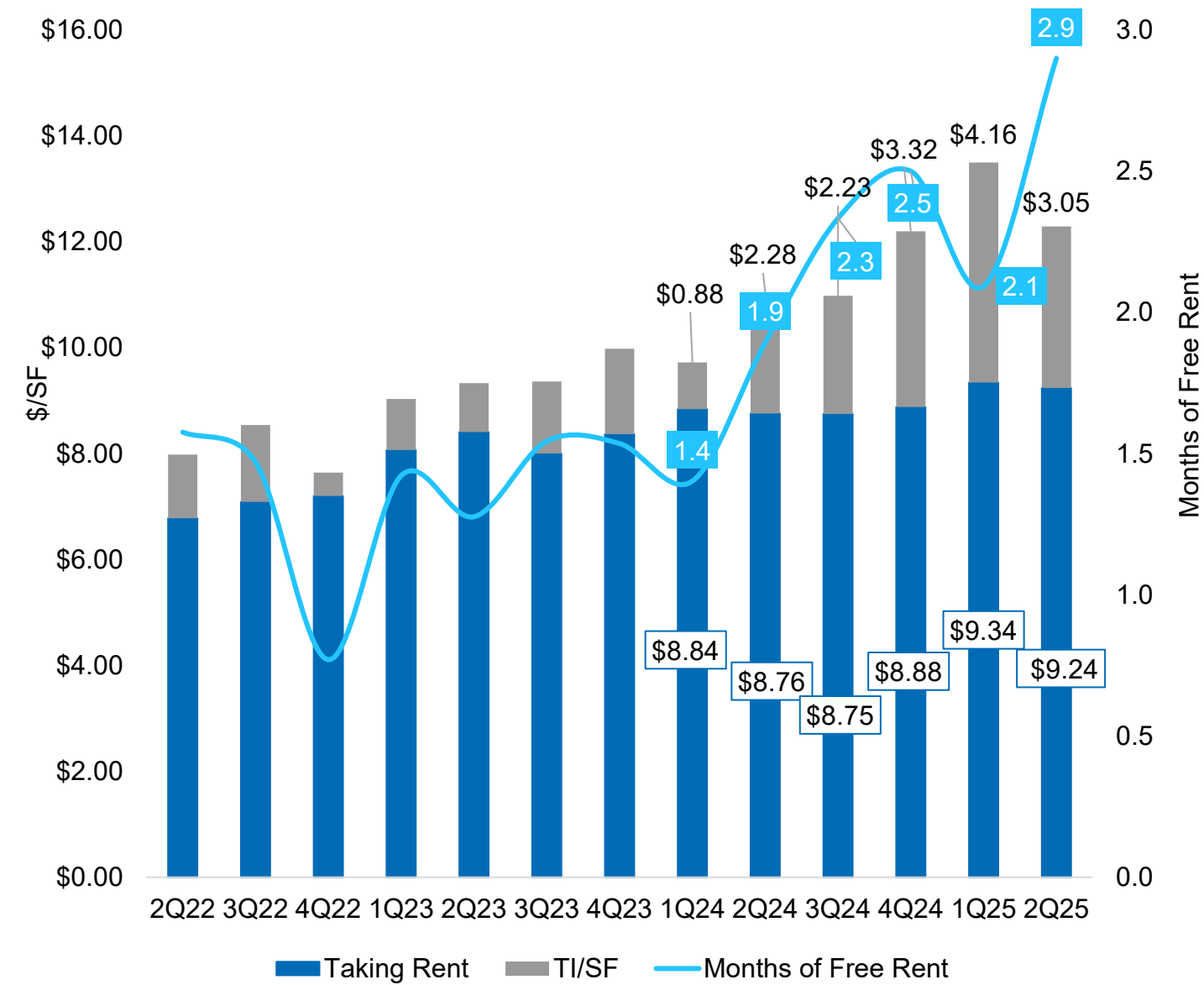


Source: Newmark Research, CoStar

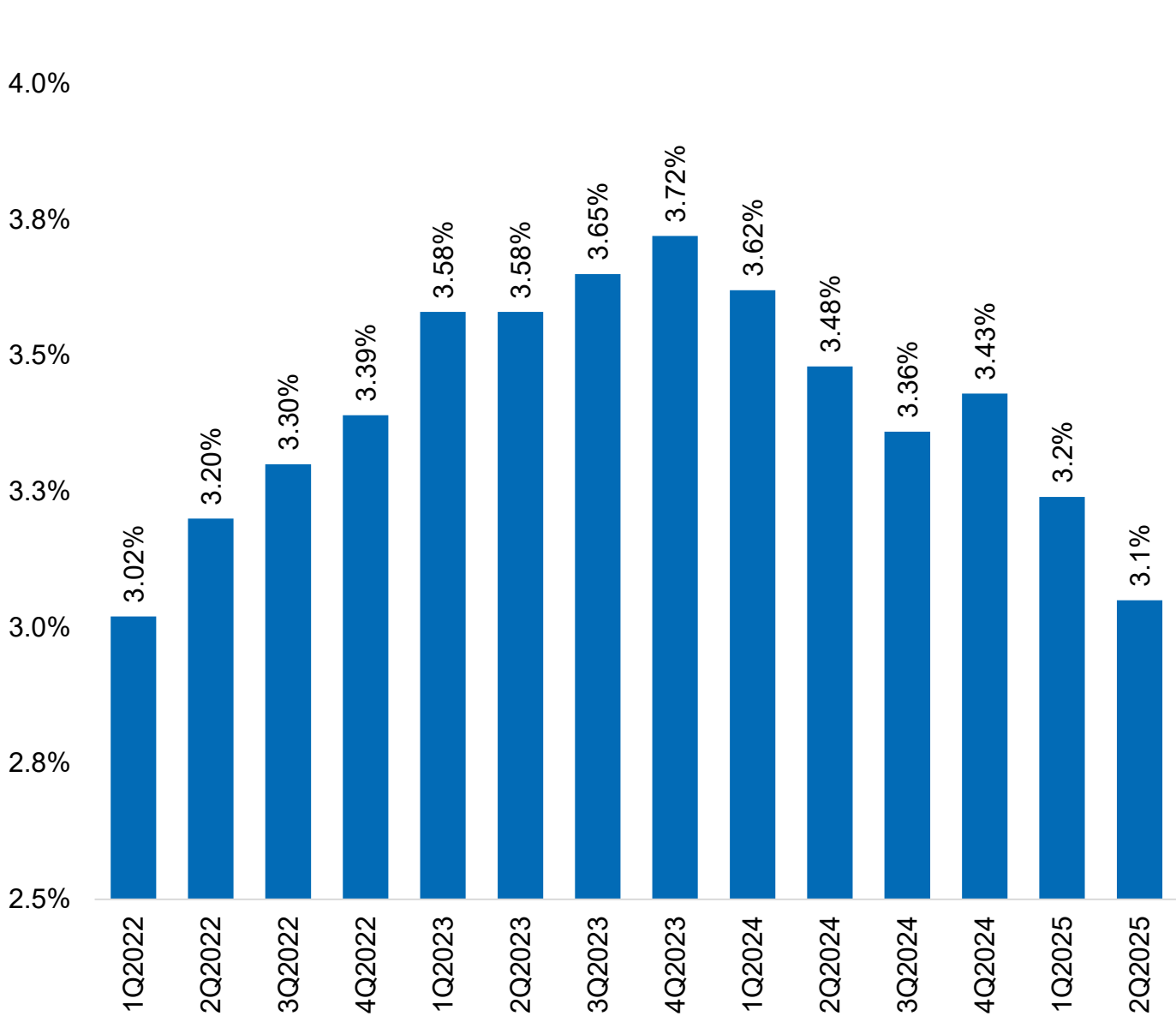
Q2 Sees Shift in Concession Strategy

In Q2 2025, average taking rents declined to \$9.24/SF, while TI allowances fell to \$3.05/SF, signaling reduced landlord investment in capital improvements. At the same time, free rent rose to 2.9 months, the highest level in two years, as landlords leaned on rent abatements to stay competitive. Average annual escalations also declined to 3.1%, continuing a downward trend from the late 2023 peak.

Triple-Net Deal Concession Analysis



Average Annual Escalation, 10-Year Term, NNN

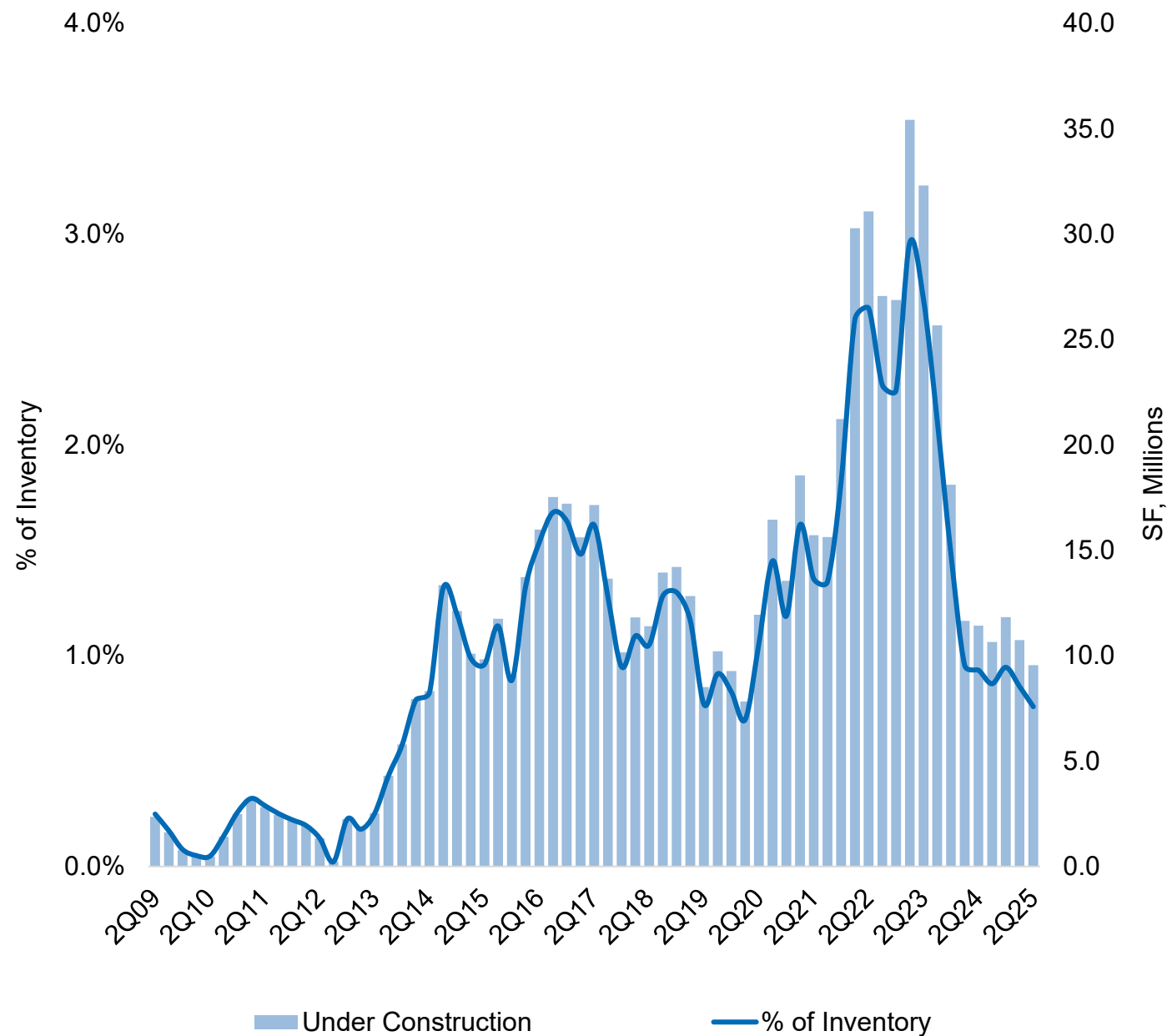


Source: Newmark Research

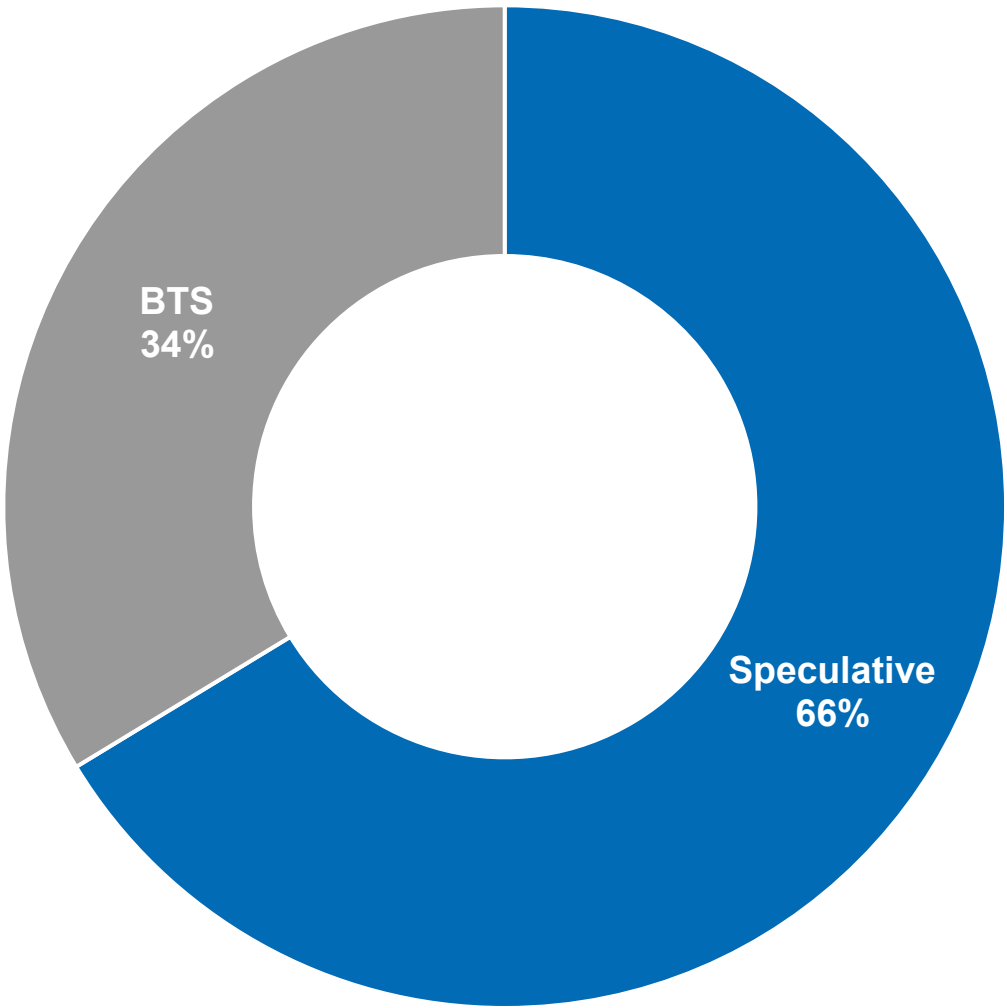
Construction Starts Remain Muted

Following the peak of 35.4 million SF under construction in early 2023, industrial construction starts have significantly declined, reaching near-decade lows. The balance between build-to-suit and speculative development has tilted, with developers increasingly favoring build-to-suit projects while scaling back on speculative ventures.

Industrial Under Construction and % of Inventory



BTS vs Speculative Development



Source: Newmark Research, CoStar

New Supply Vacancy Begins to Lessen



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3PL Demand Surges Year-to-Date

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Speculative Cold Storage Projects Signal Market Confidence

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Notable 2Q25 Lease Transactions

Leasing activity in Q2 was driven primarily by third-party logistics providers. Highlighted below are the top deals of the quarter.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
RJW Logistics	Third Coast Intermodal Hub	I-80	Direct New	1,138,717
Veyer, LLC	715 Theodore Ct	I-55	Direct New	421,361
Sabert Corp	Sungate Park	South City	Renewal	452,000
Jiufang E-Commerce Logistics	2727 W Diehl Rd	I-88	Direct New	381,000
LGSTX Services	2350 Frieder Ln	I-88	Renewal	335,000
Axis Warehouse	500 Country Club Dr	O'Hare	Renewal	300,000

Source: Newmark Research

Submarket Overview

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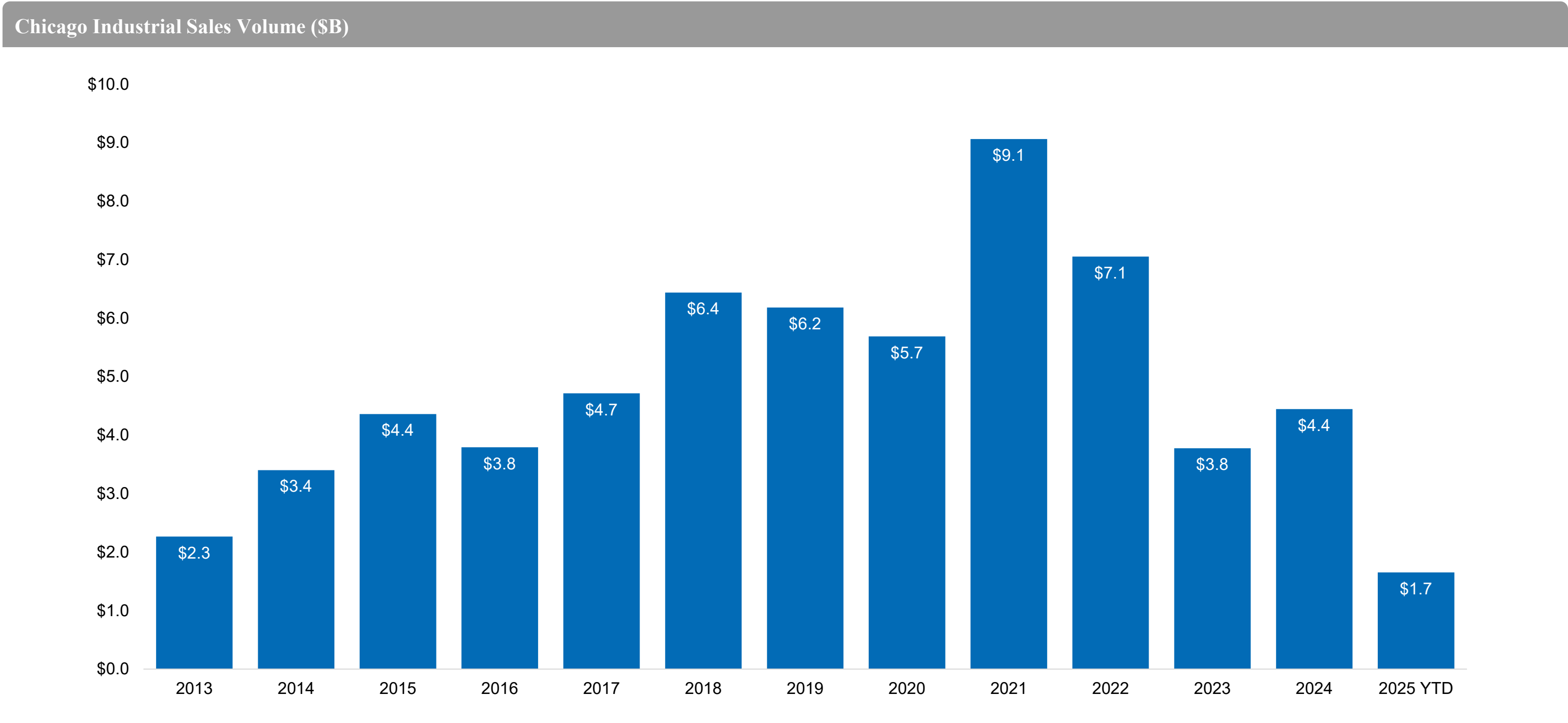
2Q25

Capital Markets Fundamentals



Transaction Volume Rises but Caution Lingers

While capital markets activity in the Chicago industrial market remains below historic averages, year-to-date transaction volume has climbed to nearly \$1.7 billion, the highest since 2022. This increase signals cautious investor confidence, driven by stabilizing industrial demand in key submarkets. However, investment activity is expected to remain subdued through the year, constrained by elevated financing costs, broader economic uncertainty, and softer tenant demand.



Source: Newmark Research, MSCI Real Capital Analytics

Pricing Rises Alongside Investor Confidence

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Private Investment Drives Buyer Activity



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Notable 2Q25 Sale Transactions

NorthPoint Development was a major driver of Q2 activity with its acquisition of the 11-building High Street portfolio in Elgin, leveraging the submarket’s robust logistics infrastructure. Another notable transaction was LaSalle Investment Management’s \$127.0 million purchase of a 1.1-million-square-foot, two-building Class A industrial asset in Romeoville from Panattoni Development.

Select Sales Transactions						
Buyer	Seller	Building	City	Sale Price	Price/SF	Square Feet
NorthPoint Development	High Street	Northwest Business Park	Elgin	\$270.0M	\$102	2,641,434
LaSalle	Panattoni Development	555 S Pinnacle Dr	Romeoville	\$127.0M	\$112	1,130,157
Brennan Investment Group	Investcorp	565 Busse Road	Elk Grove Village	\$61.2M	\$115	531,456
Ares Management	Tradelane Properties	Park 88 Logistics Center	North Aurora	\$58.2M	\$135	429,623
North Haven	Nissan	Nissan North America	Bedford Park	\$21.7M	\$121	180,262

Source: Newmark Research, CoStar, Real Capital Analytics

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