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3Q24

# Chicago Industrial Market Supplemental Report

**NEWMARK**

# Market Observations

## Economy

- Chicago’s unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.
- The “Other Services” sector led all industries in regional annual job growth with education & health second
- Construction experienced positive growth while trade, transportation, and utilities was the only industrial occupying or adjacent industry to see negative employment growth year-over-year.

## Major Transactions

- Leasing pace has slowed to the lowest quarterly value in 19 years. RJW Logistics continues to expand in Chicago, signing the largest deal of the quarter in the entirety of the recently completed PRG-owned distribution center in Joliet.
- Amstar’s purchase of Prologis’ two property portfolio contained two of the three largest properties sold this quarter. These properties were 827KSF at Crate & Barrel’s Chicago Distribution Center in Naperville and 541KSF at Ozburn Hesse Logistics’s distribution facility in Romeoville.

## Leasing Market Fundamentals

- After increasing to 11.3 million SF in the second quarter of 2024, total industrial leasing volume slowed to 6.1 million SF in the third quarter, the lowest quarterly volume in 19 years.
- Total sublease availability continues to increase quarter over quarter, this time by 6.1% to 10.3 million SF. Although the increase in volume is significant, the sublease market share of total inventory remains constant at a not-so-significant 0.8% of the market’s inventory, a small portion of the 7.5% total availability in Chicago’s industrial market.
- Quarterly Class A industrial leasing volume slowed significantly from the second quarter, but Class A leasing share rising past the all-time high set in 2023 with 58.7% year to date in 2024 . As many of the new Class A deliveries are sitting vacant, this share is expected to rise when availability in non-Class A space shrinks.

## Outlook

- Leasing hesitancy has continued as tenants are concerned by economic uncertainty and high lease rates but leasing fundamentals have held steady. Rent growth has slowed and concession packages heavily favor tenants, improving the attractiveness for new leases. Buyers have recognized resiliency in Chicago’s leasing fundamentals and increased sales activity in the last two quarters. Leasing and sales activity is expected to pick up over the next few quarters
- The vacancy rate held steady at 4.7% this quarter and reflects the market nearing the bottom of the leasing activity slowdown. Despite the recent uptick in vacancy, the market remains well below average long-term vacancy.
- 36% of total vacant space in the Chicago industrial market is in space built within the last 2 years. As leasing demand returns and lower-class availability dwindles, the absorption of Class A space will contribute significantly to strong taking rent growth.

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



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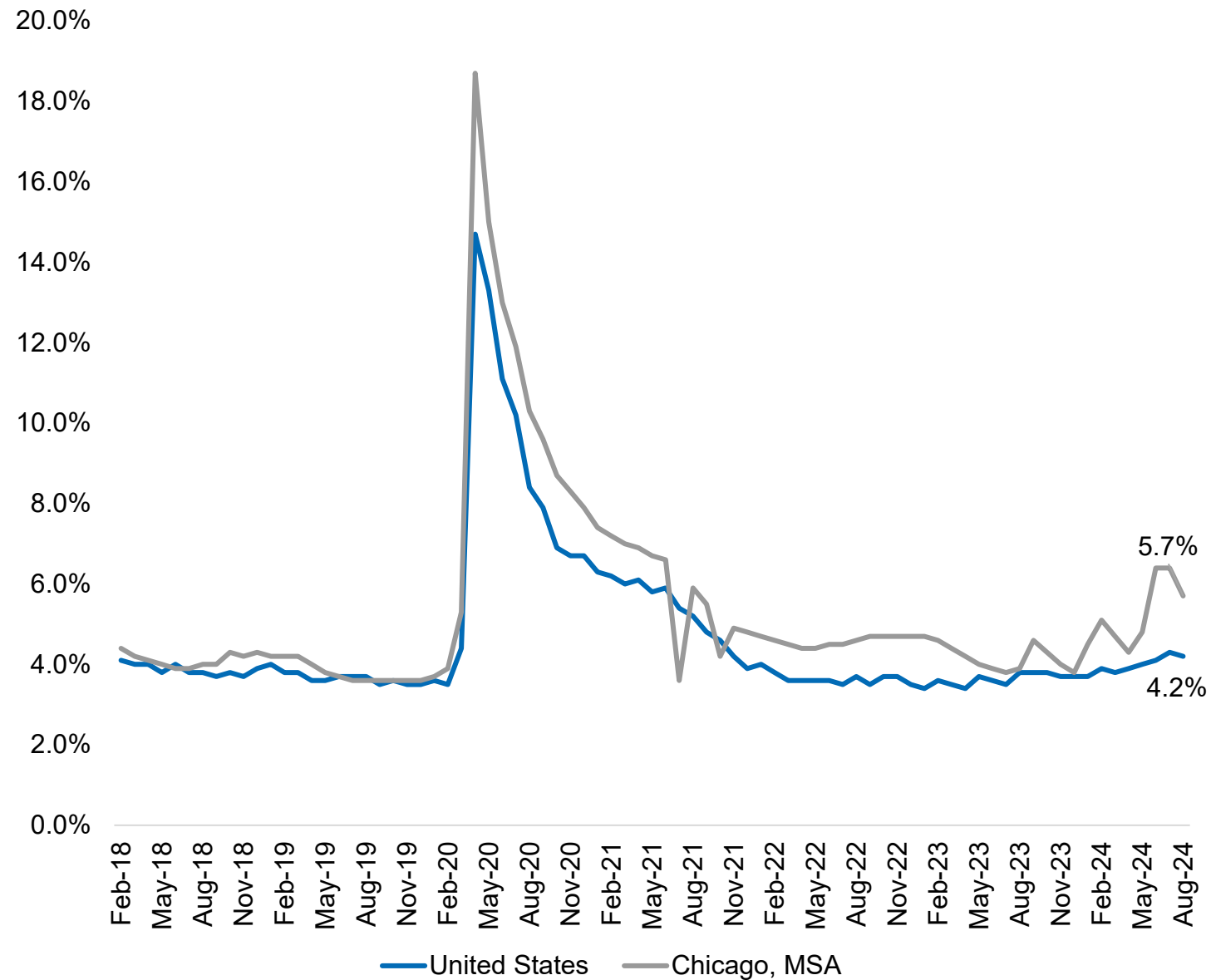
# Economy



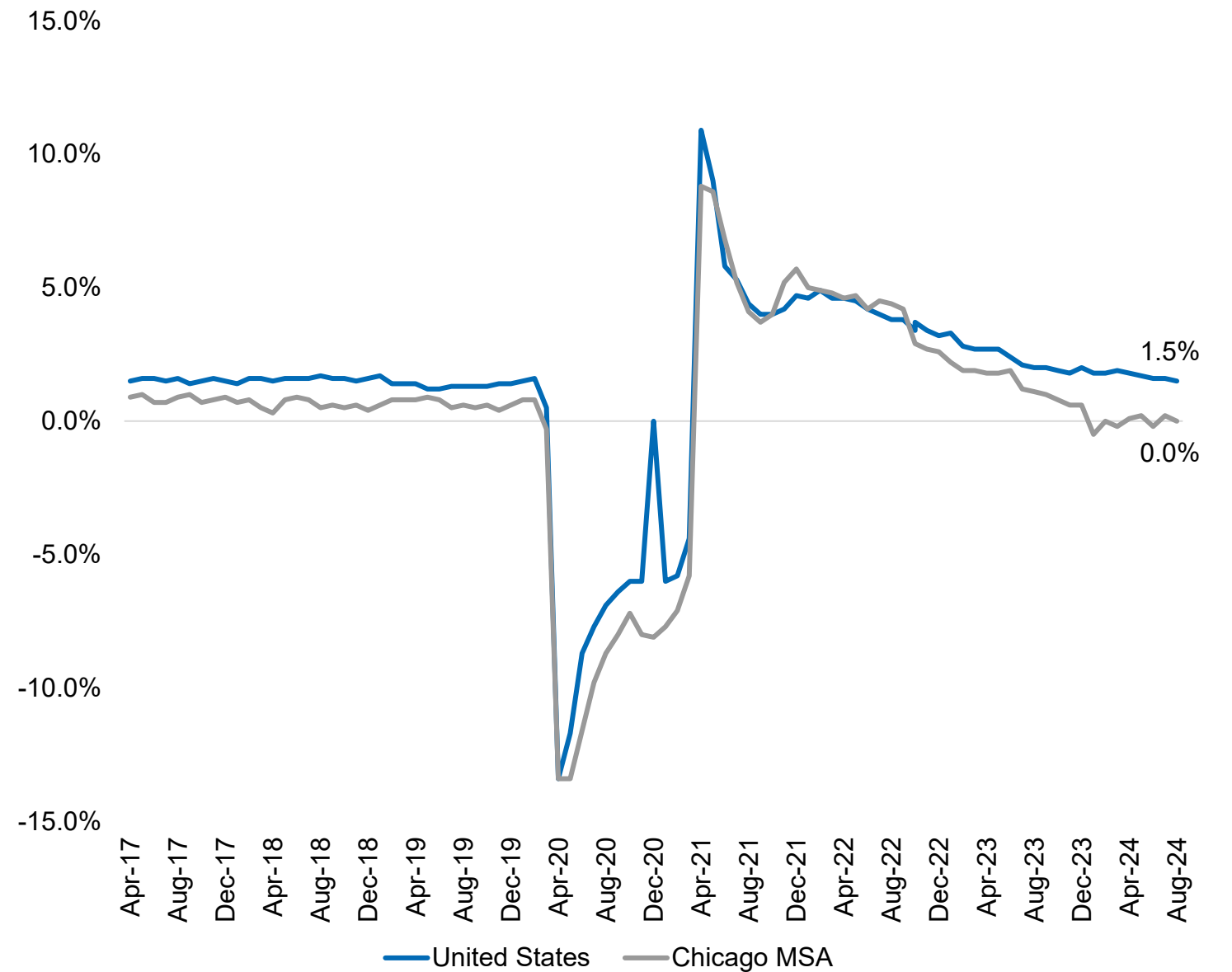
# Metro Employment Trends Signal A Slowing Economy

Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.

Unemployment Rate, Seasonally Adjusted



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



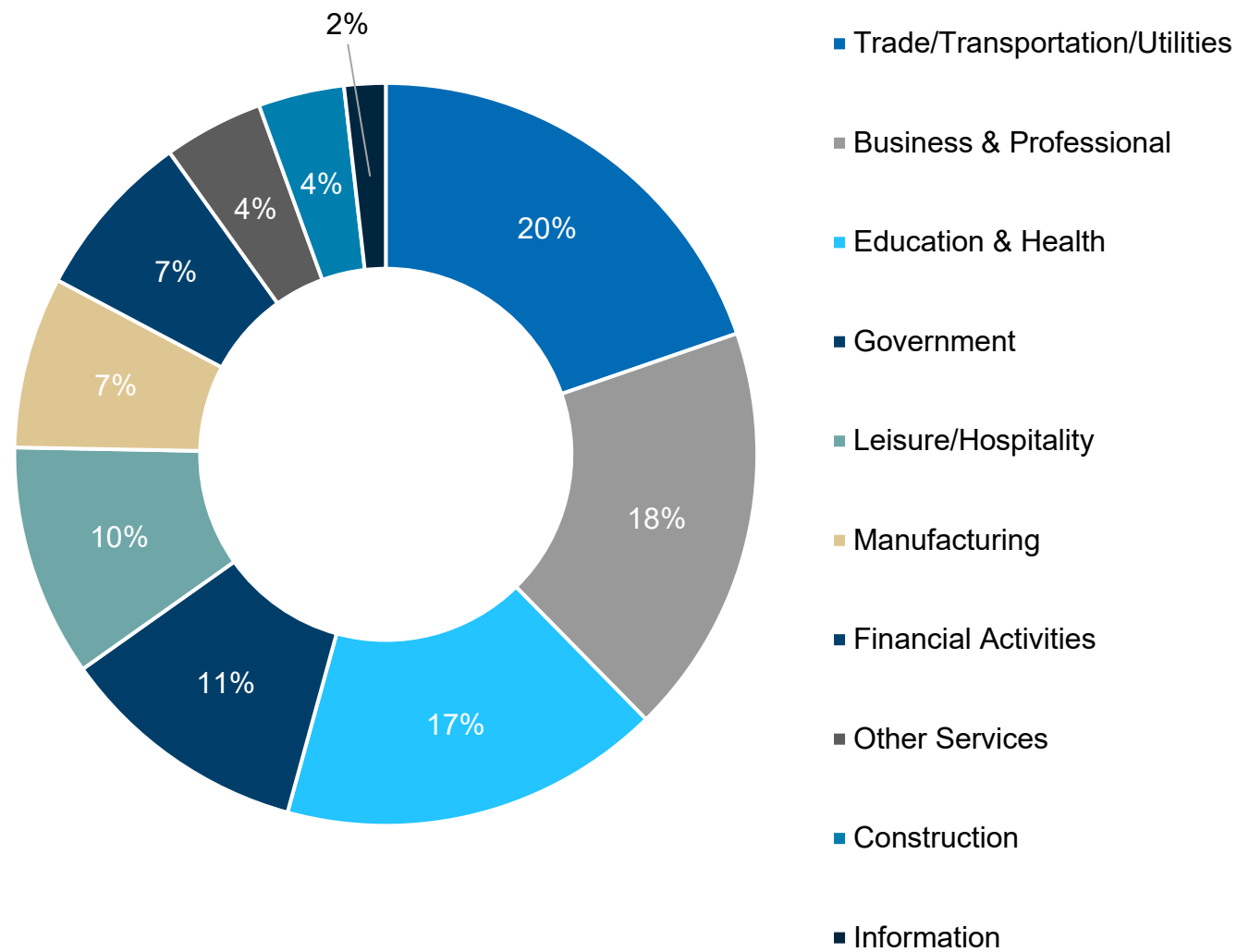
Source: U.S. Bureau of Labor Statistics, Chicago MSA



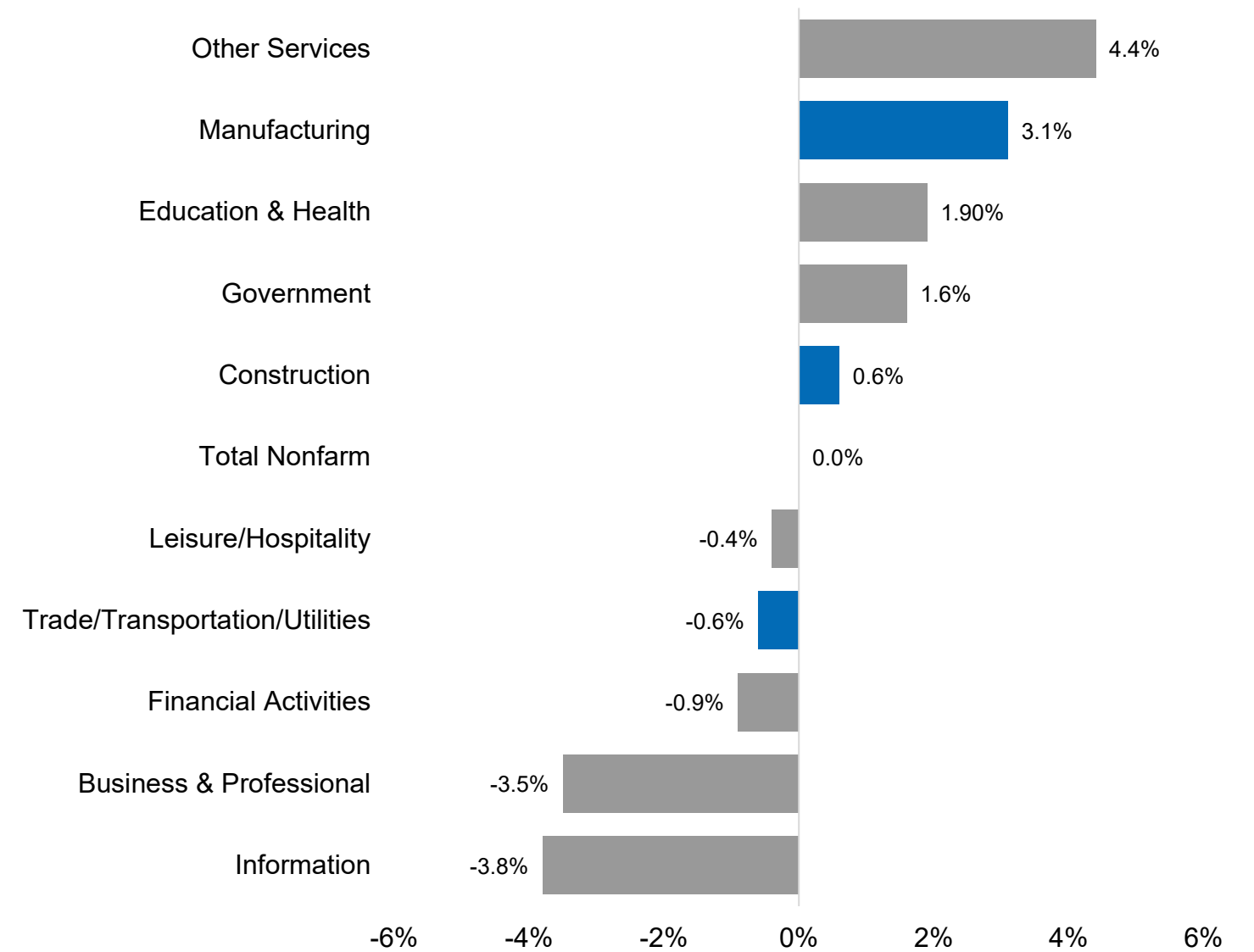
# Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The “Other Services” sector led all industries in regional annual job growth with manufacturing next. Construction also experienced positive growth while trade, transportation, and utilities was the only industrial occupying or adjacent industry to see negative employment growth year-over-year.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

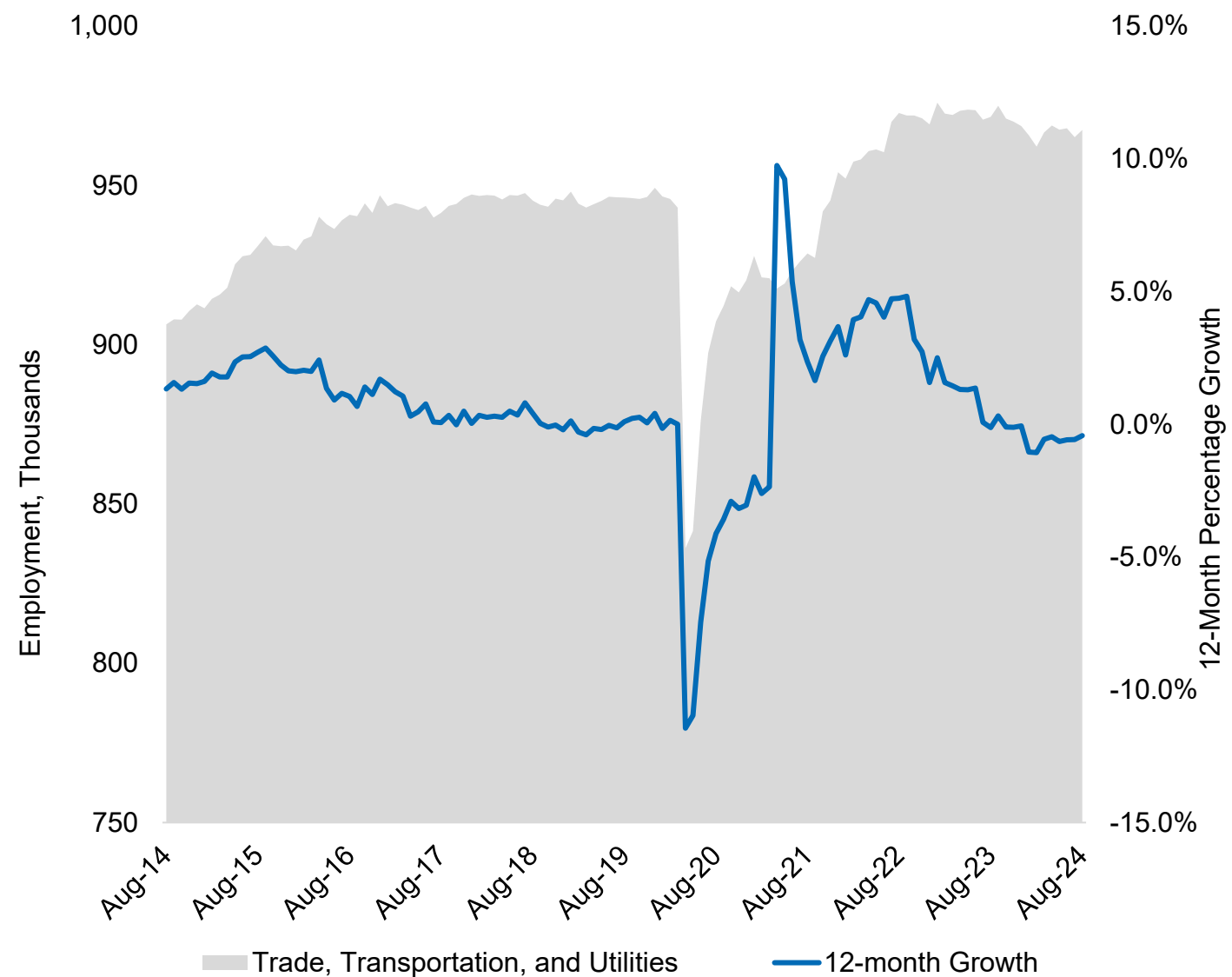


Source: U.S. Bureau of Labor Statistics, Chicago MSA

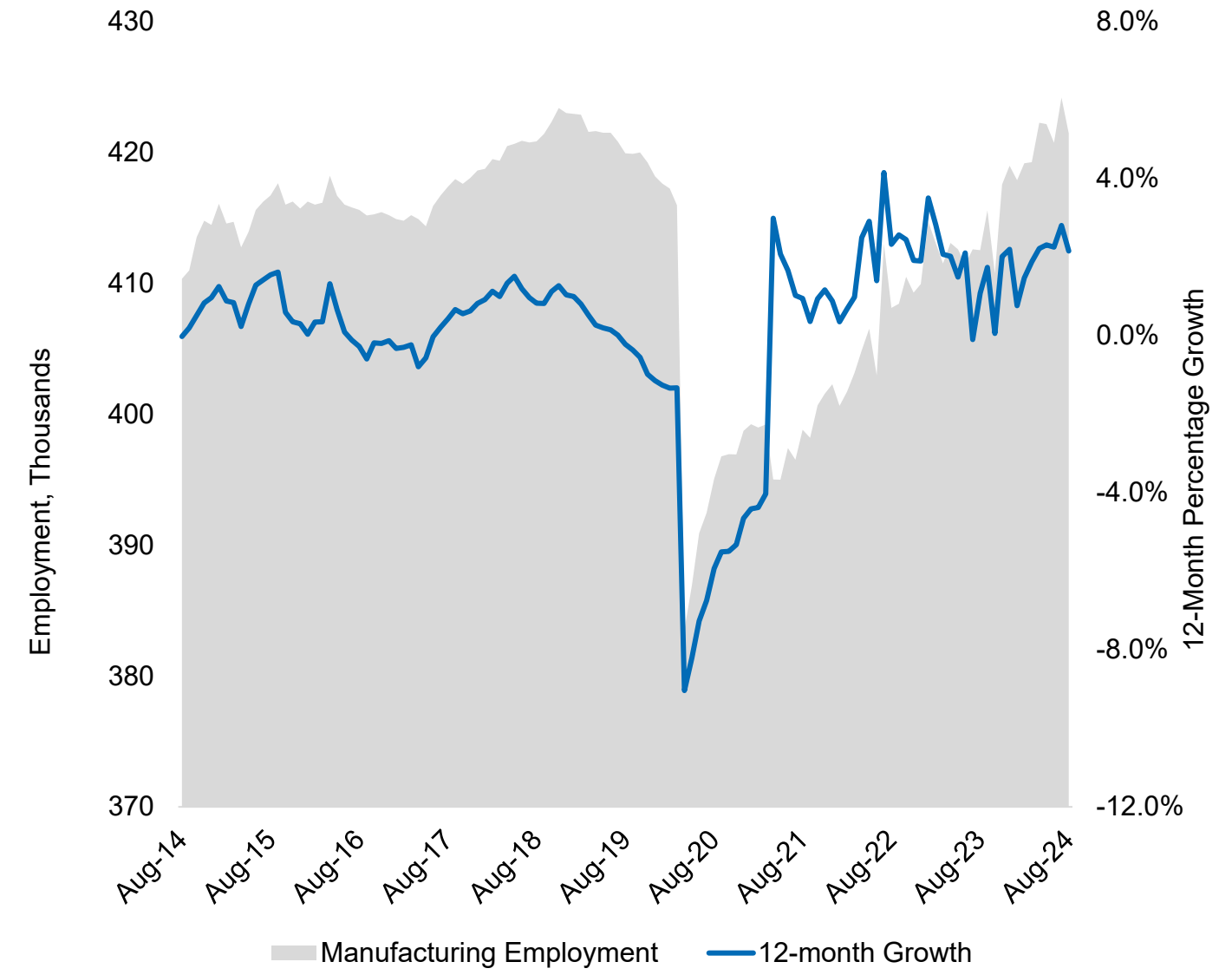
# Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers in the market.

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

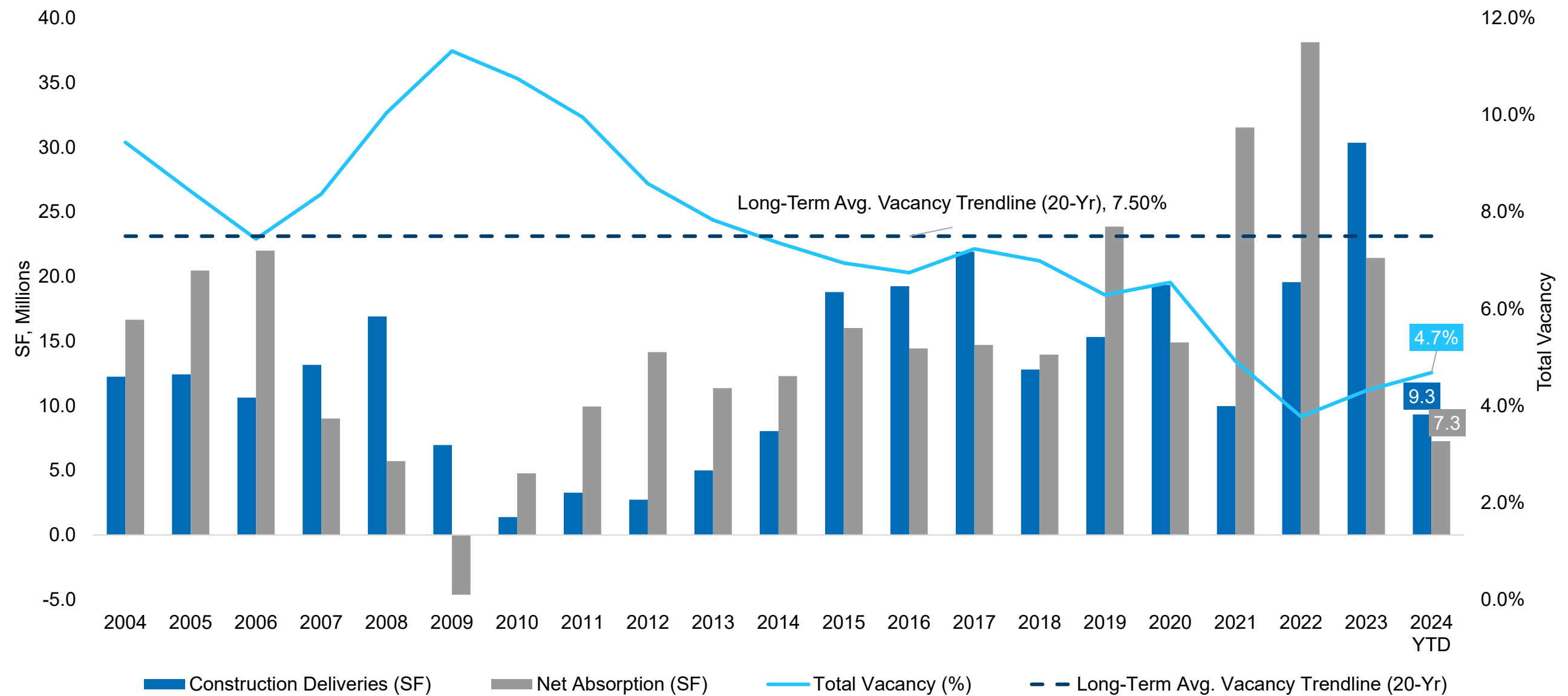




# Vacancy Growth Subsides Despite Persistently Slow Leasing Demand

The vacancy rate held steady at 4.7% this quarter and reflects the market nearing the bottom of the leasing activity slowdown. Despite the recent uptick in vacancy, the market remains well below average long-term vacancy.

## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

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## Conservative Development Keeps Chicago Insulated from Broader Vacancy Increases Nationally

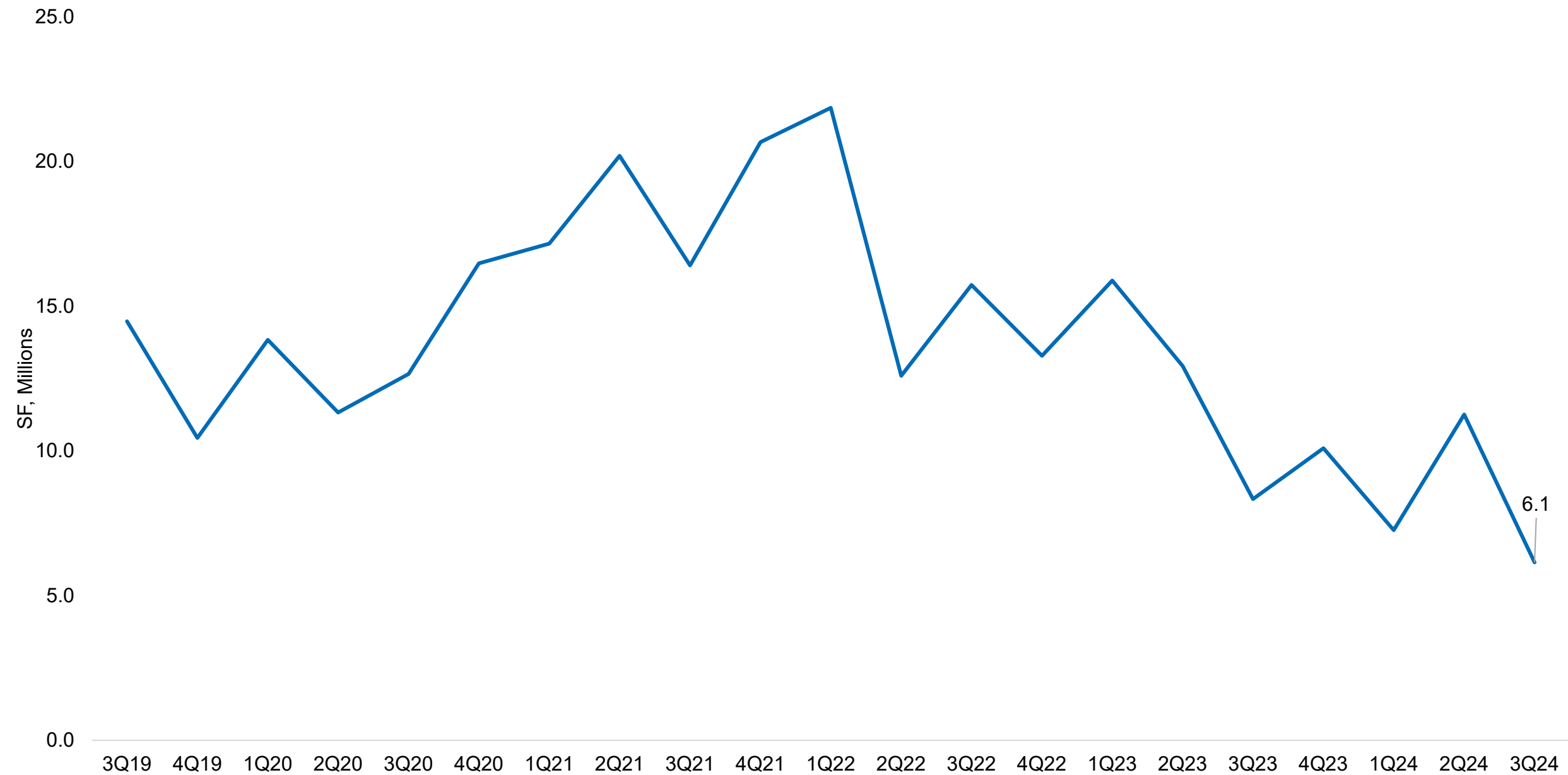
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# Industrial Leasing Activity Slows to Lowest Quarterly Mark since 2005

After increasing to 11.3 million SF in the second quarter of 2024, total industrial leasing volume slowed to 6.1 million SF in the third quarter, the lowest quarterly volume in 19 years.

Total Leasing Activity (SF)

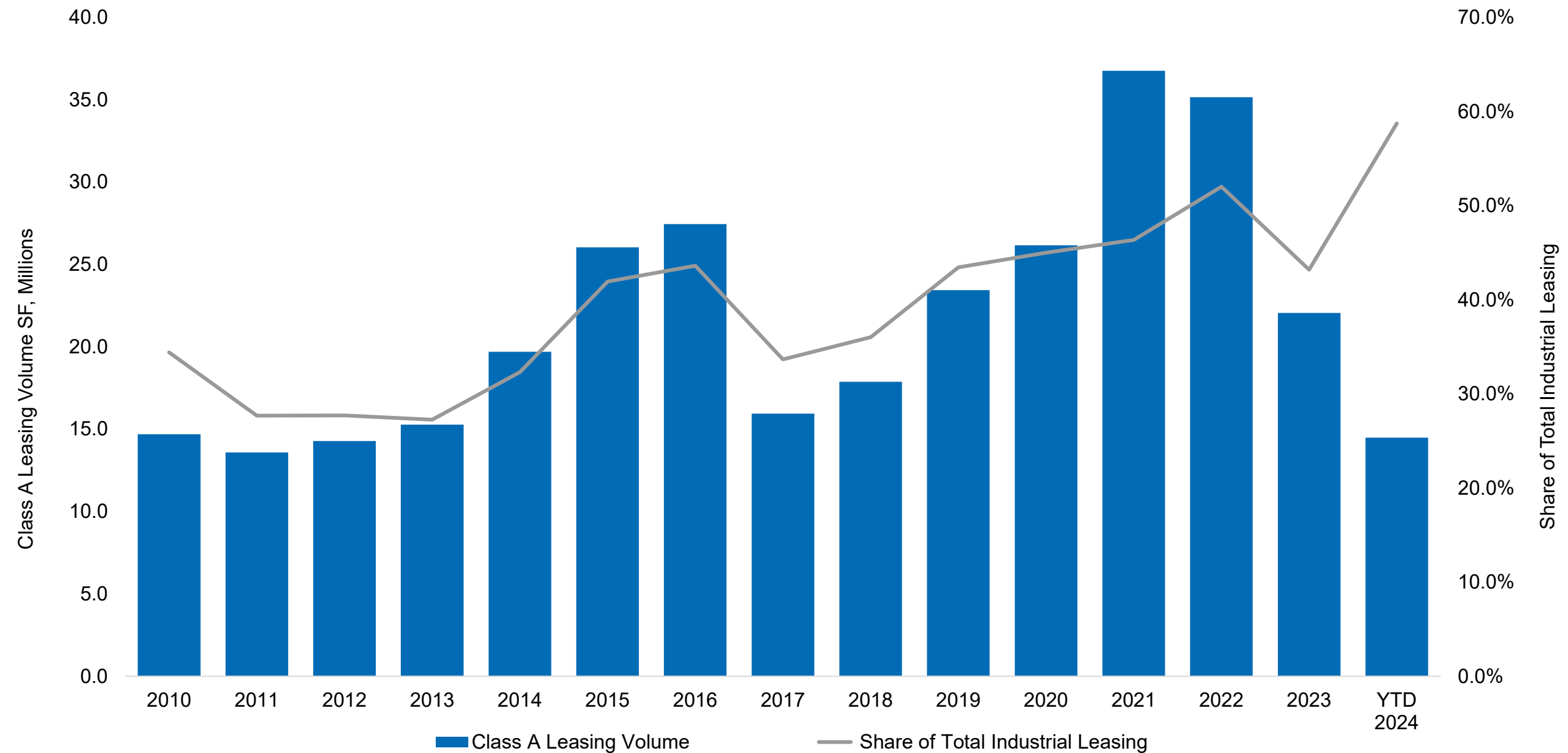


Source: Newmark Research, CoStar

# Total Leasing Volume Slows, but Class A Share of Reaches New Record

Quarterly Class A industrial leasing volume slowed significantly from the second quarter, but Class A leasing share rising past the all-time high set in 2023 with 58.7% year to date in 2024 . As many of the new Class A deliveries are sitting vacant, this share is expected to rise when availability in non-Class A space shrinks.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



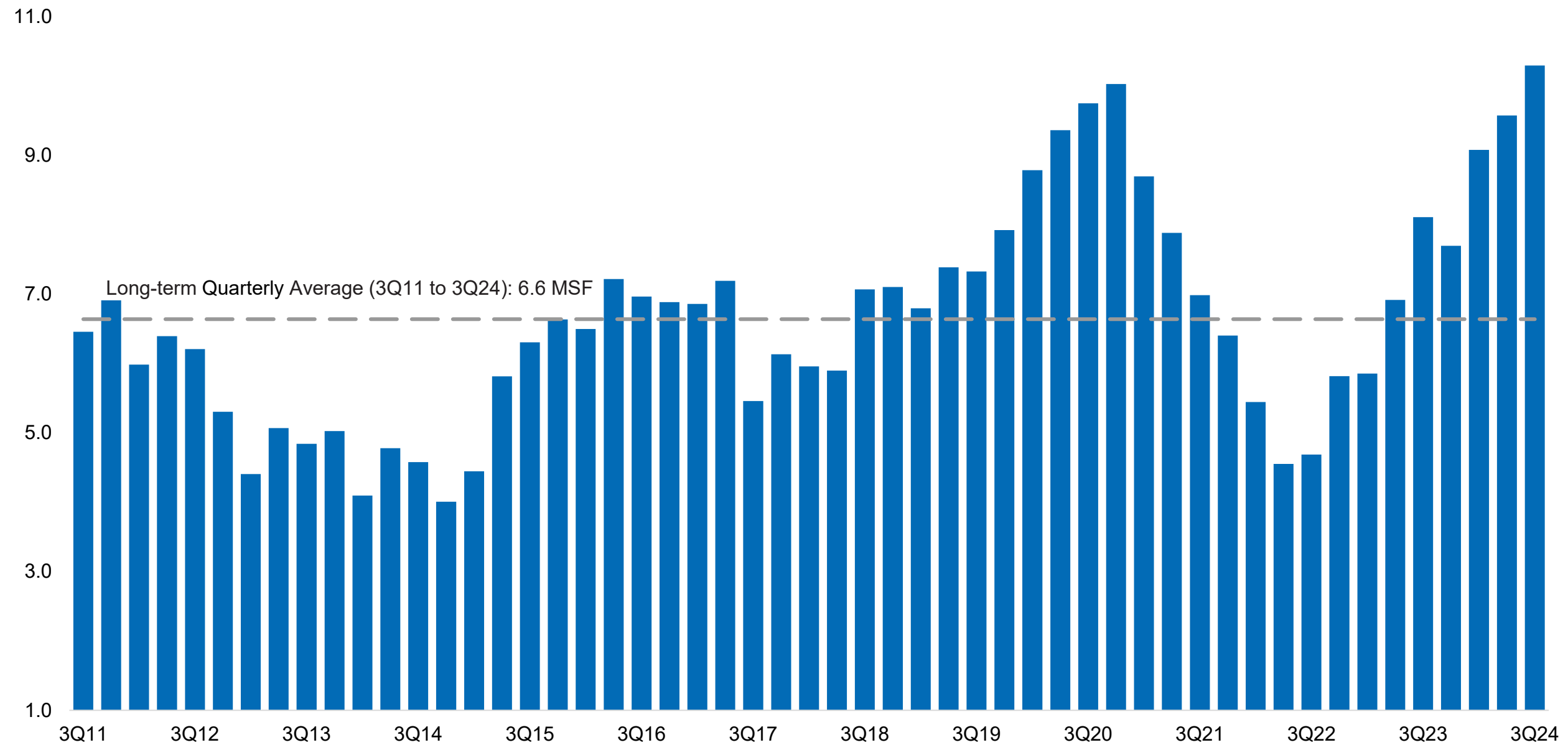
Source: Newmark Research, CoStar



# Industrial Sublease Availability Sets New All-Time High

Total sublease availability continues to increase quarter over quarter, this time by 6.1% to 10.3 million SF. Although the increase in volume is significant, the sublease market share of total inventory remains constant at a modest 0.8% of the market's inventory, a small portion of the 7.5% total availability in Chicago's industrial market.

Available Industrial Sublease Volume (MSF)



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## Sublease Market Takes a Larger Share of Leasing Activity

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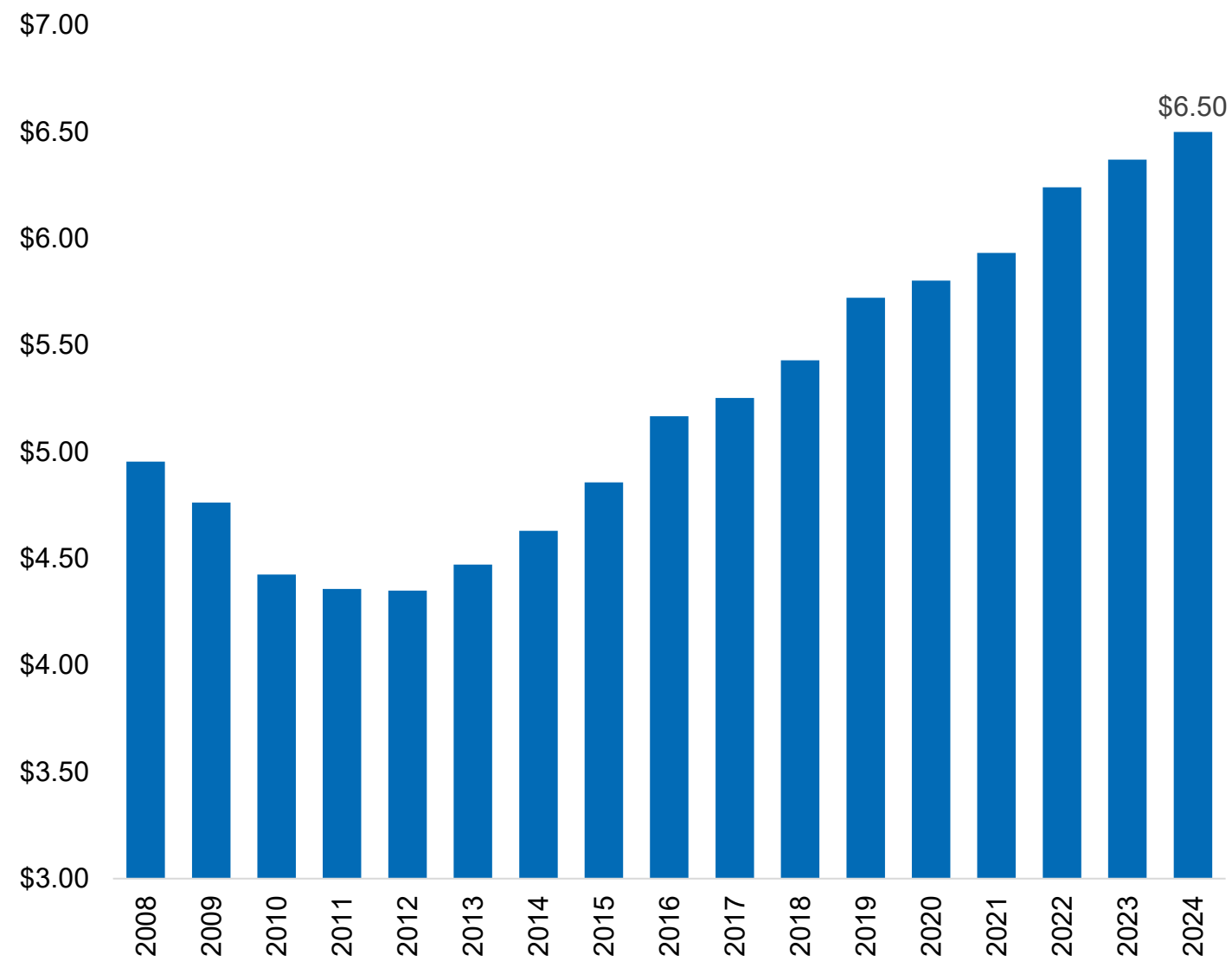
## Lease Type Shares Shift as Leasing Volume Slows

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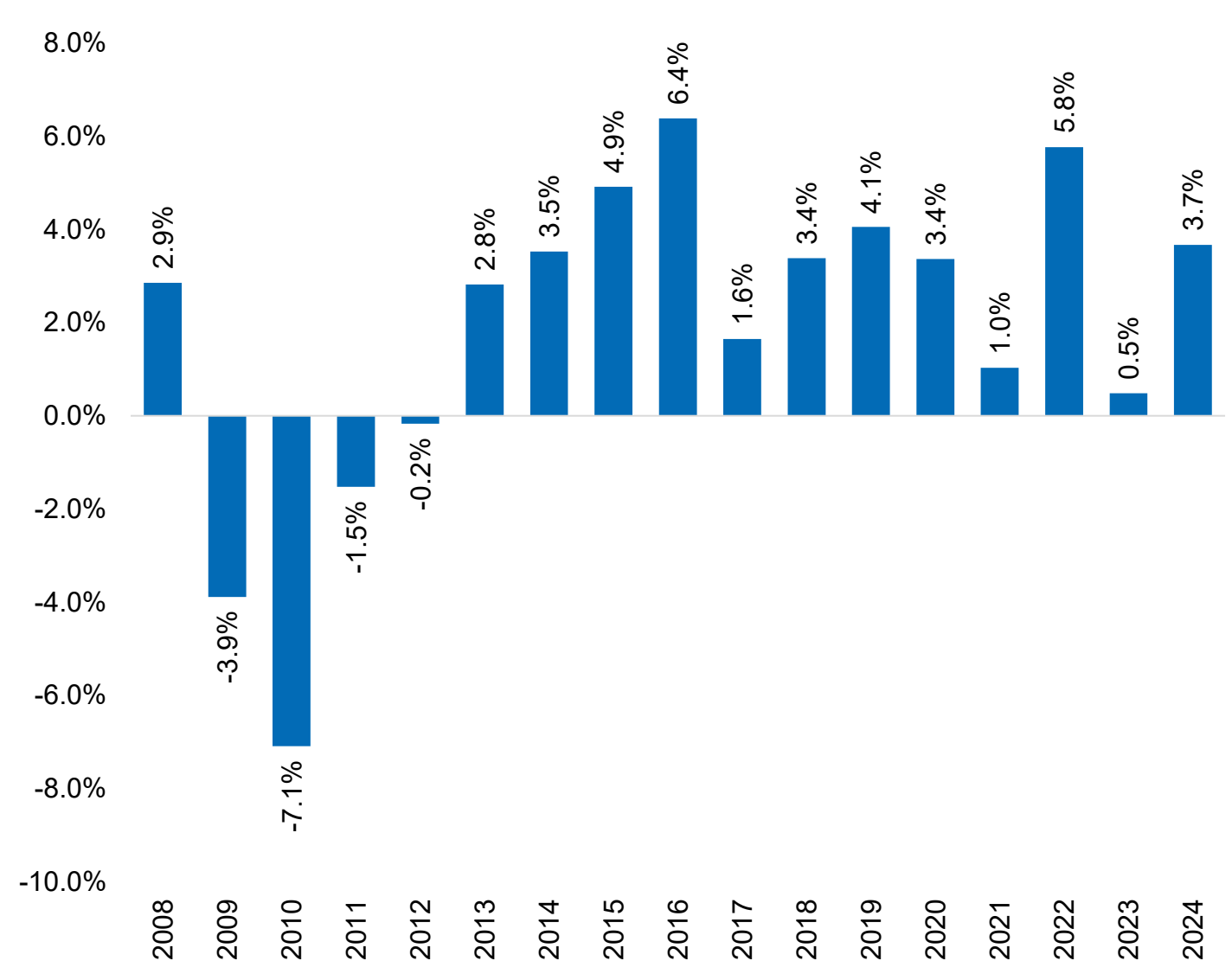
# Industrial Rent Growth Pauses

Asking rates fell from last quarter to \$6.50/SF as landlords attempt to incentivize hesitant tenant activity. Asking rates have moved inversely to taking rents as a large portion of deals done are in smaller, cheaper product. Due to slow activity in recent Class A deliveries, year-over-year asking rates have grown but at a much lower pace than previous quarters.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

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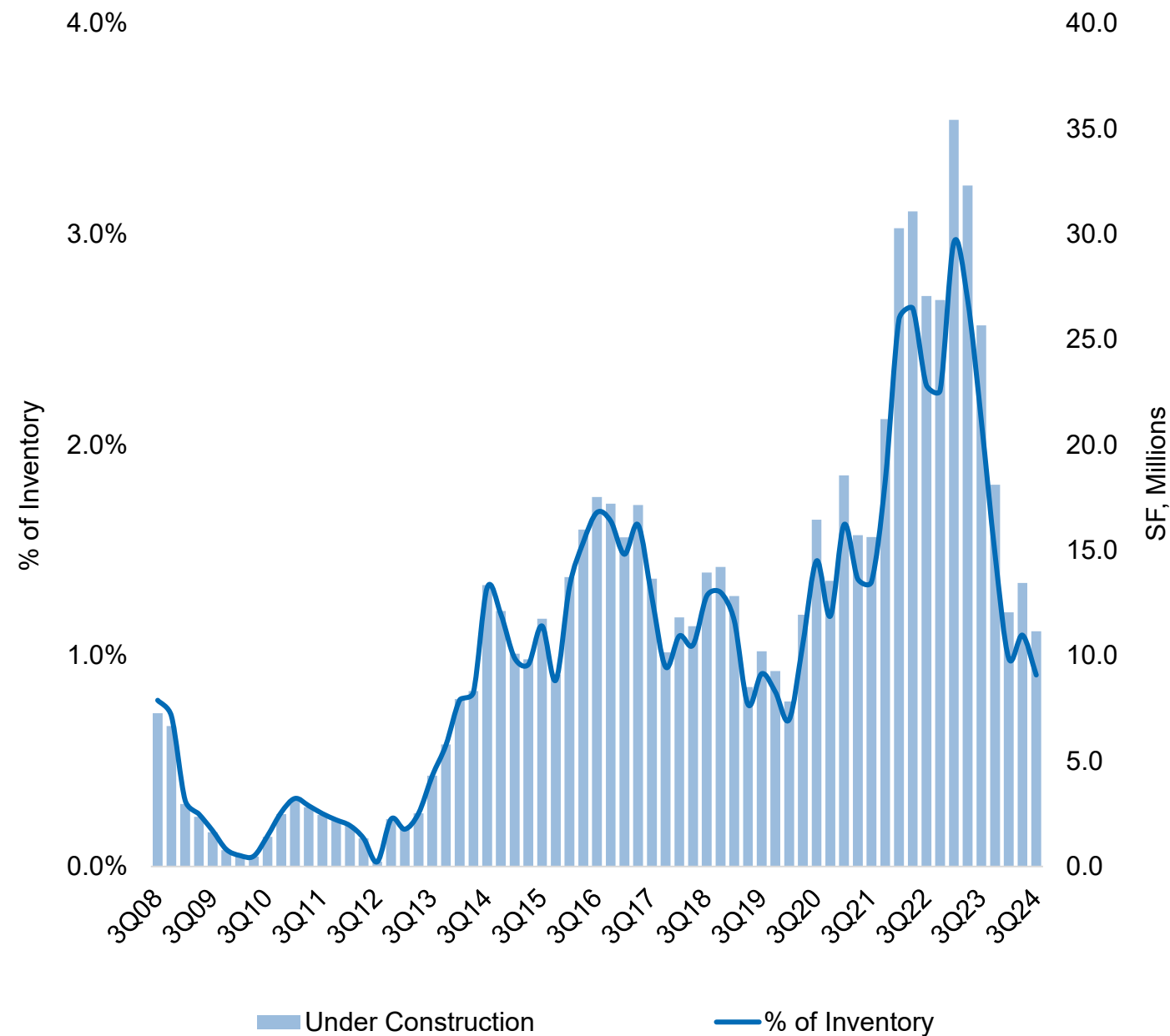
## Lease Concessions Prove That It's Still a Tenant's Market

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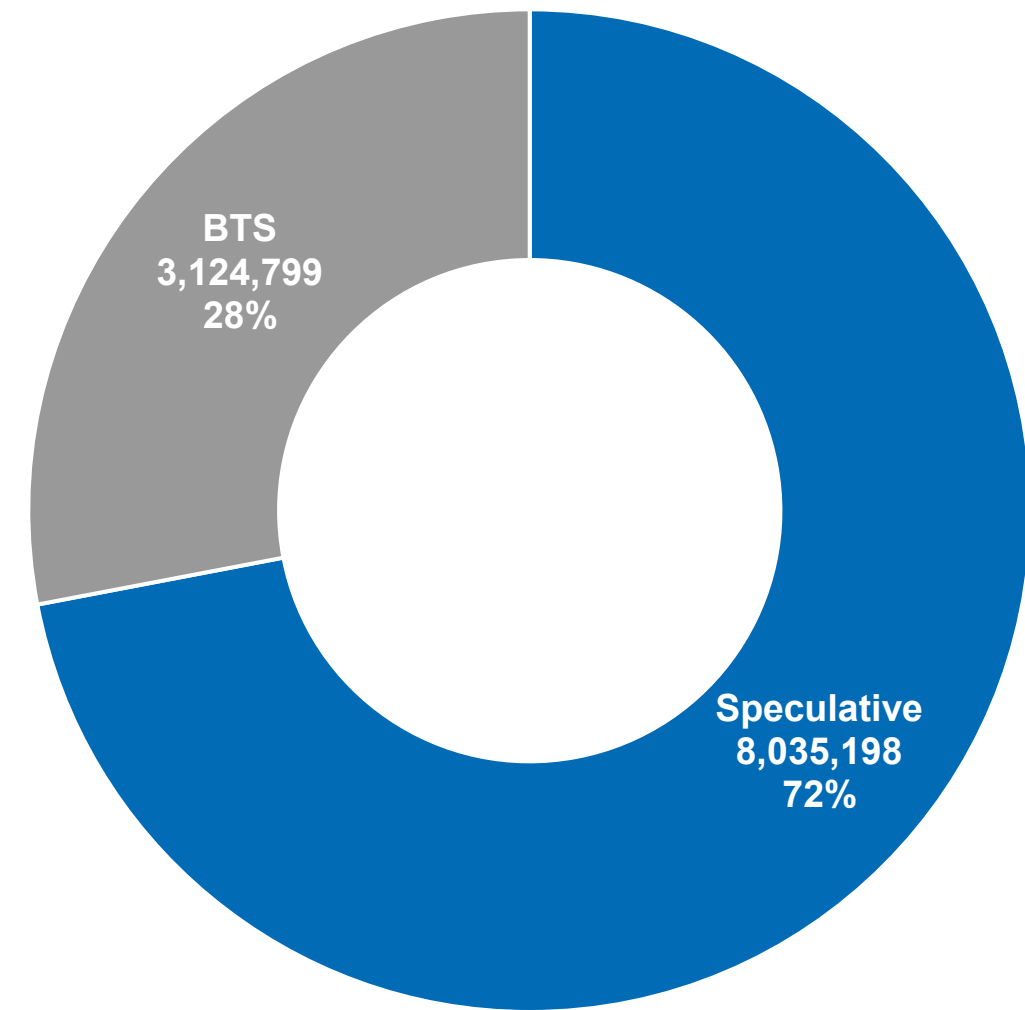
# Industrial Construction Takes a Pause

Since the record 35.4 million SF under construction at the start of 2023, the number of industrial construction starts have dwindled to near 10-year lows with total under construction inventory dropping to levels last seen around 2019. Additionally, the market is now seeing the ratio of build-to-suit and speculative development shift towards build-to-suit projects as developers are pressing pause on speculative development.

Industrial Under Construction and % of Inventory



BTS vs Speculative Development



Source: Newmark Research, CoStar



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## New Inventory Leading to Increases in Vacancy

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# Notable 3Q24 Lease Transactions

Leasing pace has slowed to the lowest quarterly value in 19 years. RJW Logistics continues to expand in Chicago, signing the largest deal of the quarter in the entirety of the recently completed PRG-owned distribution center in Joliet.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
RJW Logistics Inc.	275 W Laraway Rd.	I-80 Corridor	Direct New	639,917
Pregis	1451 Sheldon Dr.	Fox Valley/North Kane	Direct New	477,115
Bimbo Bakeries USA	300 Mitchell Rd.	I-88 Corridor	Direct New	429,756
Parceljet	900 Knell Rd.	I-88 Corridor	Direct New	239,190
Resource Plastics	5619 W 115th St.	South Cook	Lease Renewal	170,563

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## Submarket Overview

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# Capital Markets Fundamentals





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## Industrial Sales Volume Picking Up

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## Industrial Pricing Continues to Rise

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# Buyer Breakdown

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# Notable 3Q24 Sale Transactions

Amstar's purchase of Prologis' two property portfolio contained two of the three largest properties sold this quarter. These properties were 827KSF at Crate & Barrel's Chicago Distribution Center in Naperville and 541KSF at Ozburn Hessey Logistics's distribution facility in Romeoville.

## Select Sales Transactions

Buyer	Seller	Building	City	Price/SF	Square Feet
Amstar	Prologis	1860 W Jefferson Ave.	Naperville	\$66	827,268
Venture One	Ares Capital	25850 S Ridgeland Ave.	Monee	\$61	718,709
Amstar	Prologis	1101 W Taylor Rd.	Romeoville	\$96	541,123
Nuveen	TA Realty	255-270 Maden Dr.	Bloomington	\$130	276,250
High Street	Van Vlissingen	777 Hickoryhill Dr.	Vernon Hills	\$102	275,000

Source: Newmark Research, Real Capital Analytics



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