3Q25

# Chicago Industrial Market Supplemental 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 the most significant growth over the last twelve months increasing nearly 4.0%, while the manufacturing and trade and transportation sectors lost jobs.
- Chicago's manufacturing sector contracted by 0.98% over the past year, lagging behind the national rebound. Trade, transportation, and utilities also declined by 1.2% during the same period. These setbacks underscore persistent challenges, from skilled labor shortages to the lasting effects of recent factory closures and relocations.

## Leasing Market Fundamentals

- Leasing activity has maintained steady momentum in 2025, with year-to-date deal volume already reaching 79% of last year's total. Renewal activity, which spiked in 2024, has now normalized and accounts for 24% of leasing, on par with the long-term average. Direct deals have strengthened to represent two-thirds of year-to-date volume.
- After contracting in 1Q25, sublease availability has inched back up to 13.8 MSF, more than double the long-term quarterly average. Most of this space is concentrated in older, less functional facilities, with an average building age of 33 years across the available inventory.
- Average asking rents held flat at $6.46/SF, nearly unchanged from a year ago. In contrast, average taking rents are up just over 5% year-over-year. The gap between asking and taking rents shows that while posted rates have leveled off, tenants are willing to pay a premium for modern, well-located space.

## Major Transactions

- Leasing activity has steadily improved after slumping in the second half of 2024, with 3Q25 recording 13.4 million square feet of deal volume, nearly double that of 3Q24.
- The largest individual transaction of the quarter was Peopleworks' lease of 757,504 square feet at Matte57 Commerce Center in Matteson.
- The largest sale transaction of the quarter, and year-to-date, was Transport Properties' $49 million acquisition of a 30-acre IOS property at 5300 Joliet Road in McCook.

## Outlook

- With the development pipeline slowing, the market is gradually absorbing vacant space, setting the stage for tighter conditions once demand strengthens.
- Leasing momentum is expected to remain steady with tenant favorable conditions, while competition for well-located Class A space is likely to keep effective rates stable.
- Capital markets are expected to remain subdued into 2026, as elevated financing costs and broader economic uncertainty continue to weigh on activity despite steady pricing.

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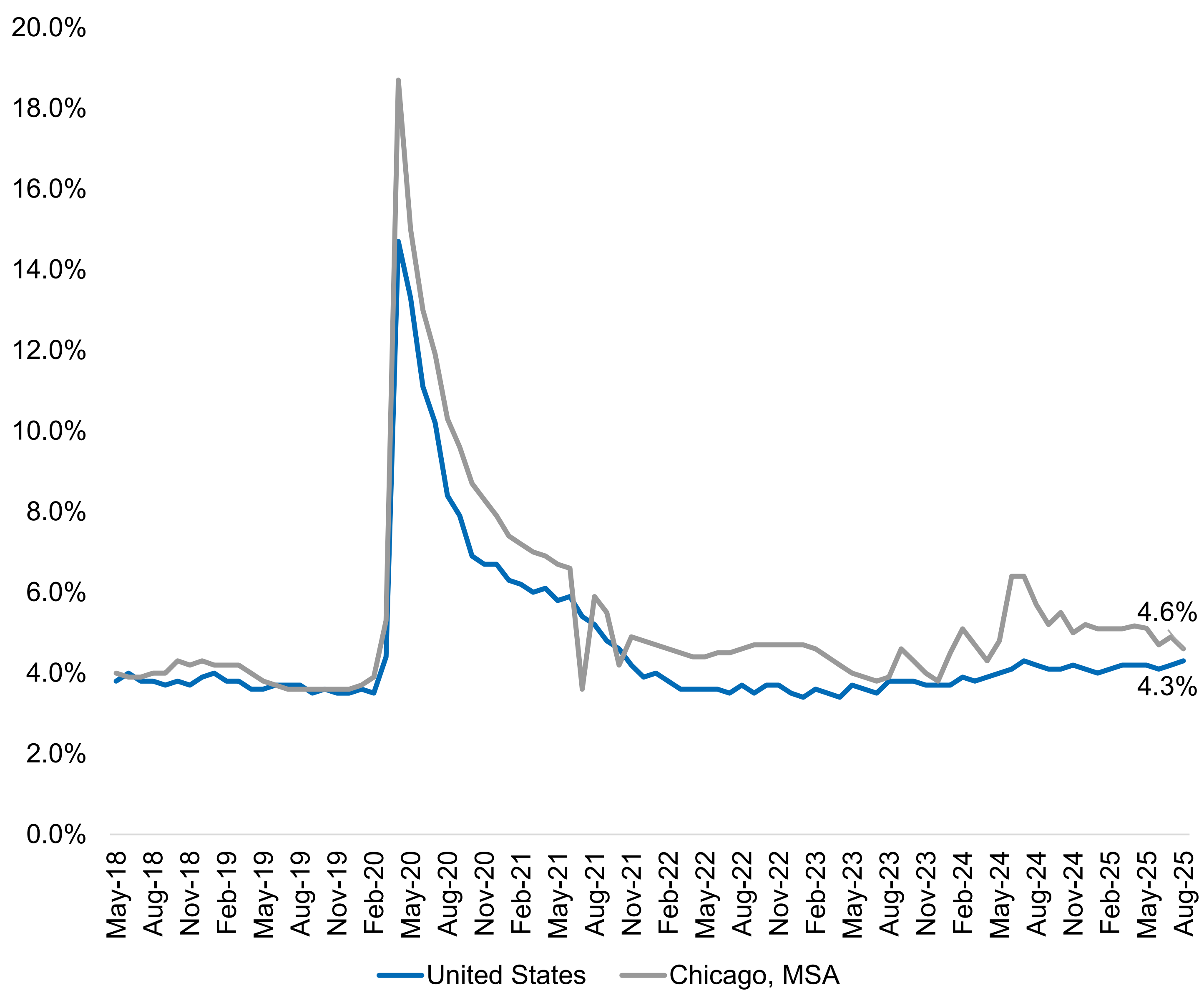
# Economy

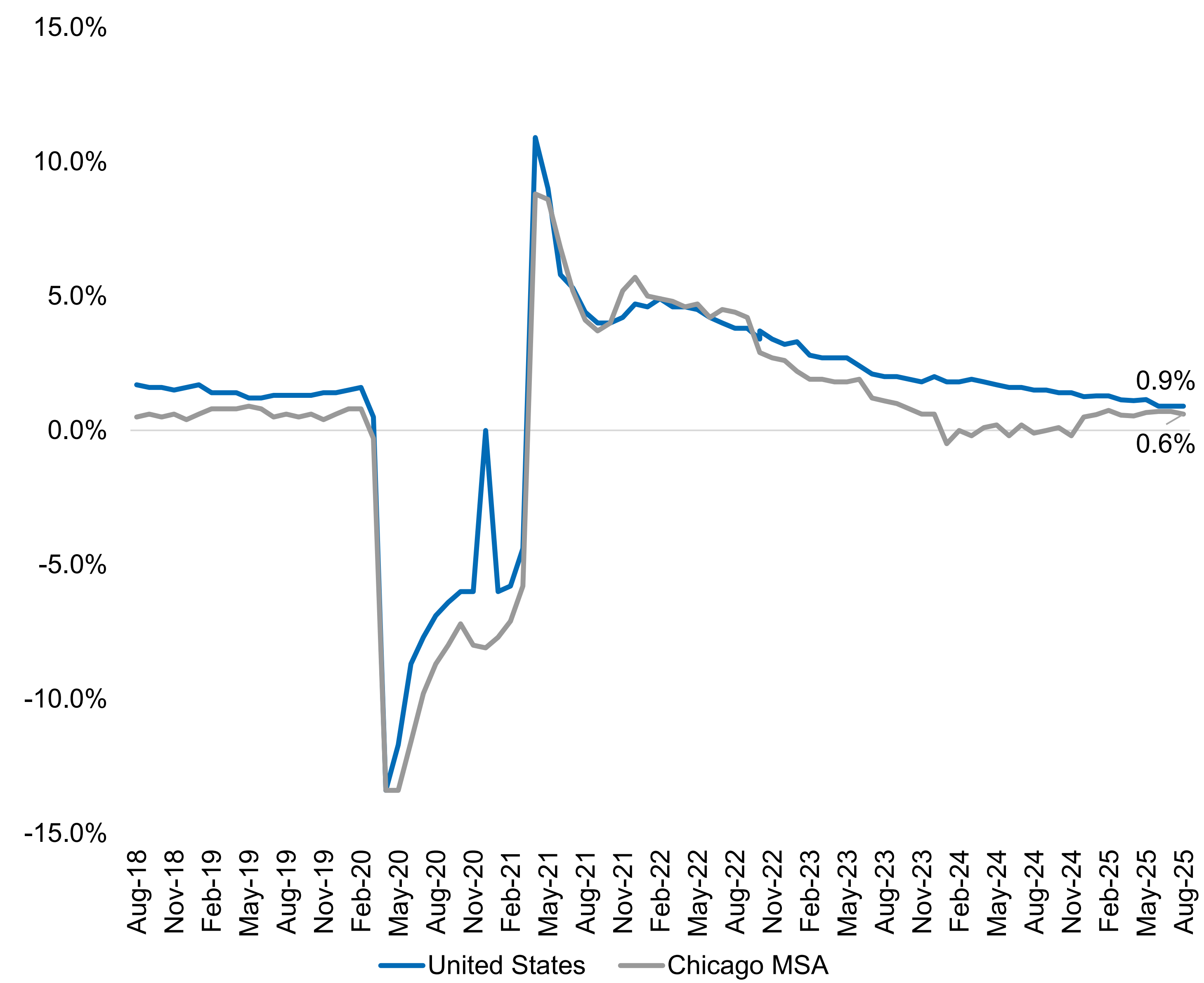
# Unemployment Holds Above U.S. Average

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

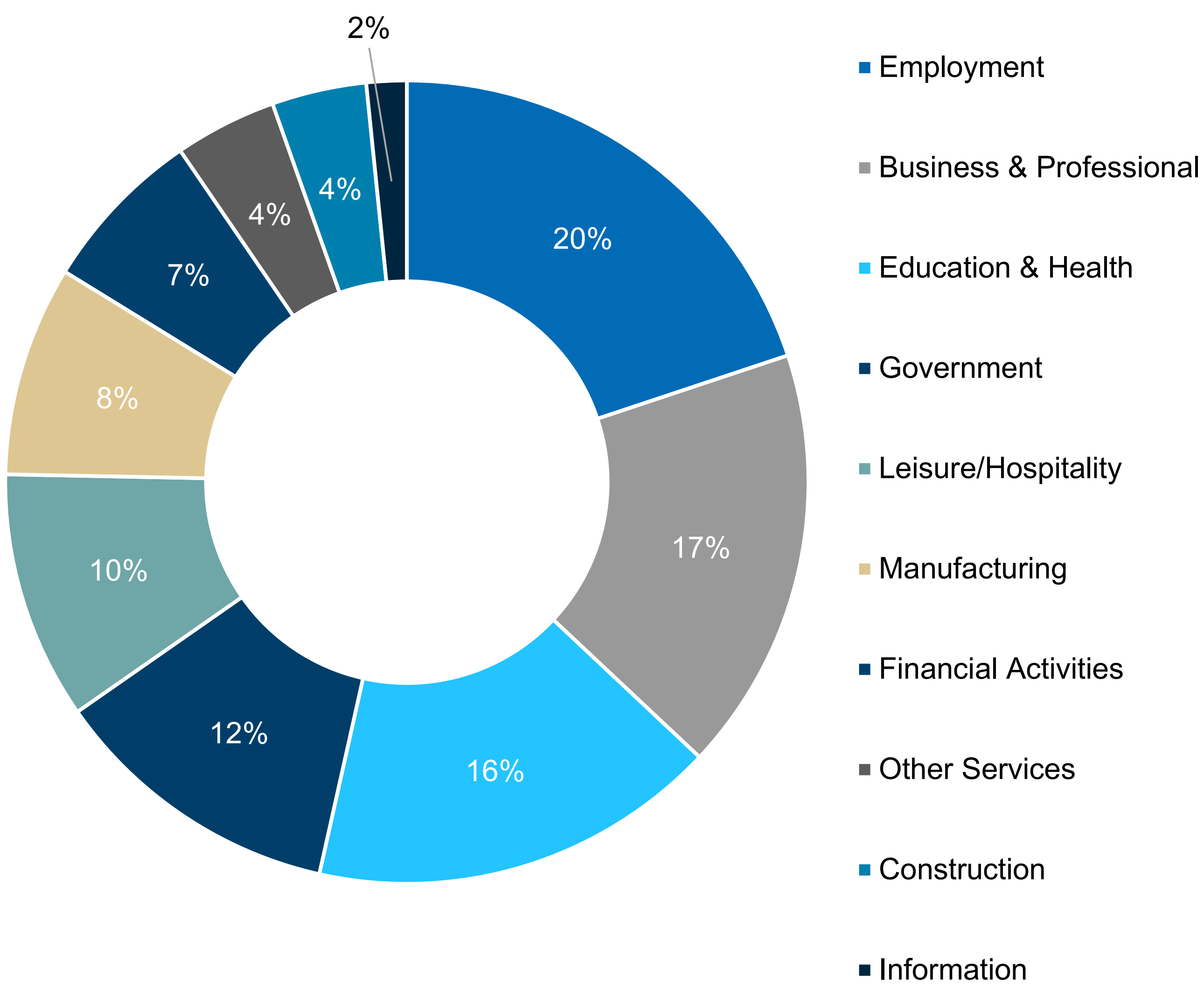



Source: U.S. Bureau of Labor Statistics, Chicago MSA

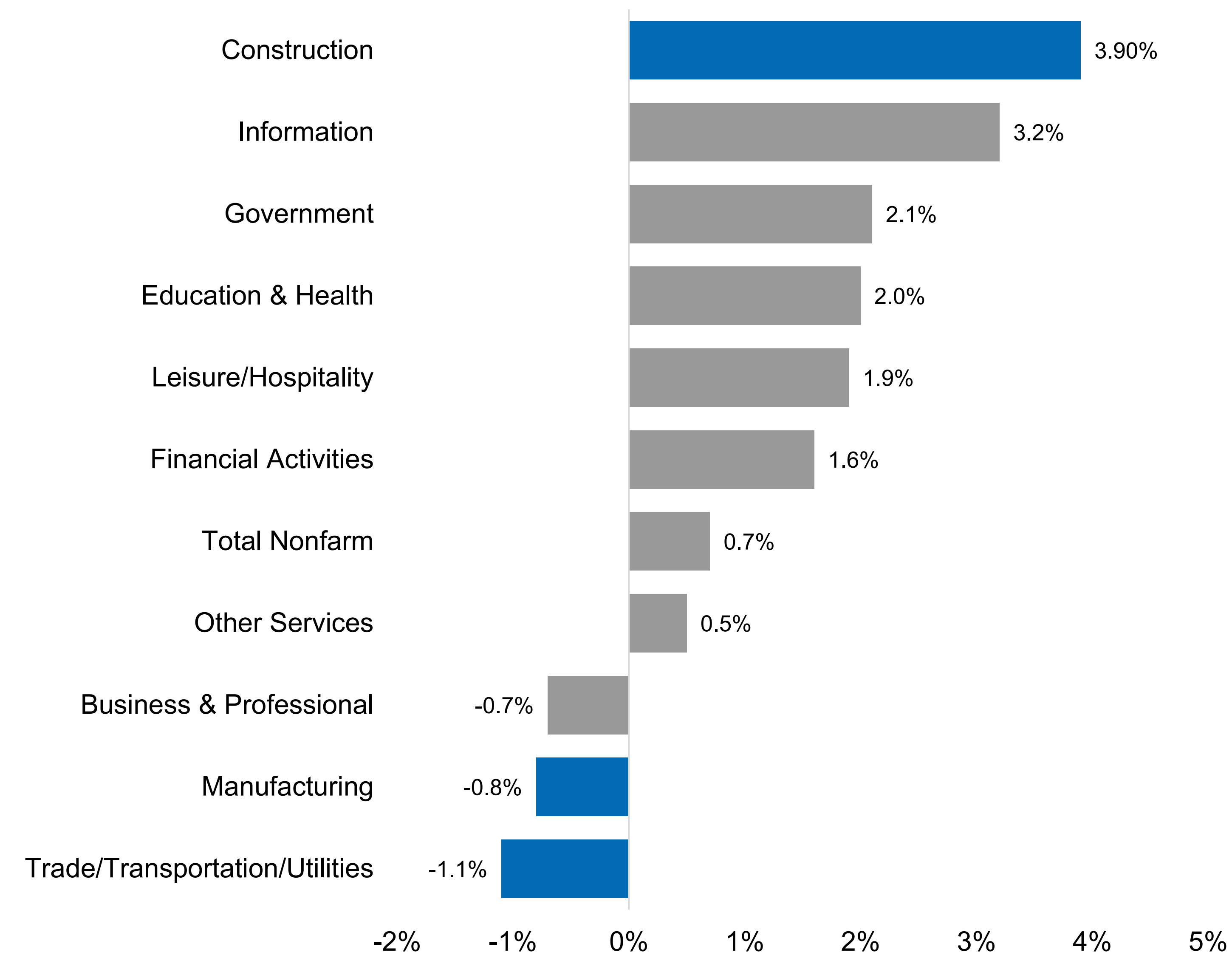
# Industrial Job Growth Net Neutral

Job growth in industrial sectors remained muted over the past year. Construction saw the most significant growth over the last twelve months increasing nearly 4.0%, while the manufacturing and trade and transportation sectors lost jobs.

## Employment by Industry, August 2025




## Employment Growth by Industry, 12-Month % Change, August 2025

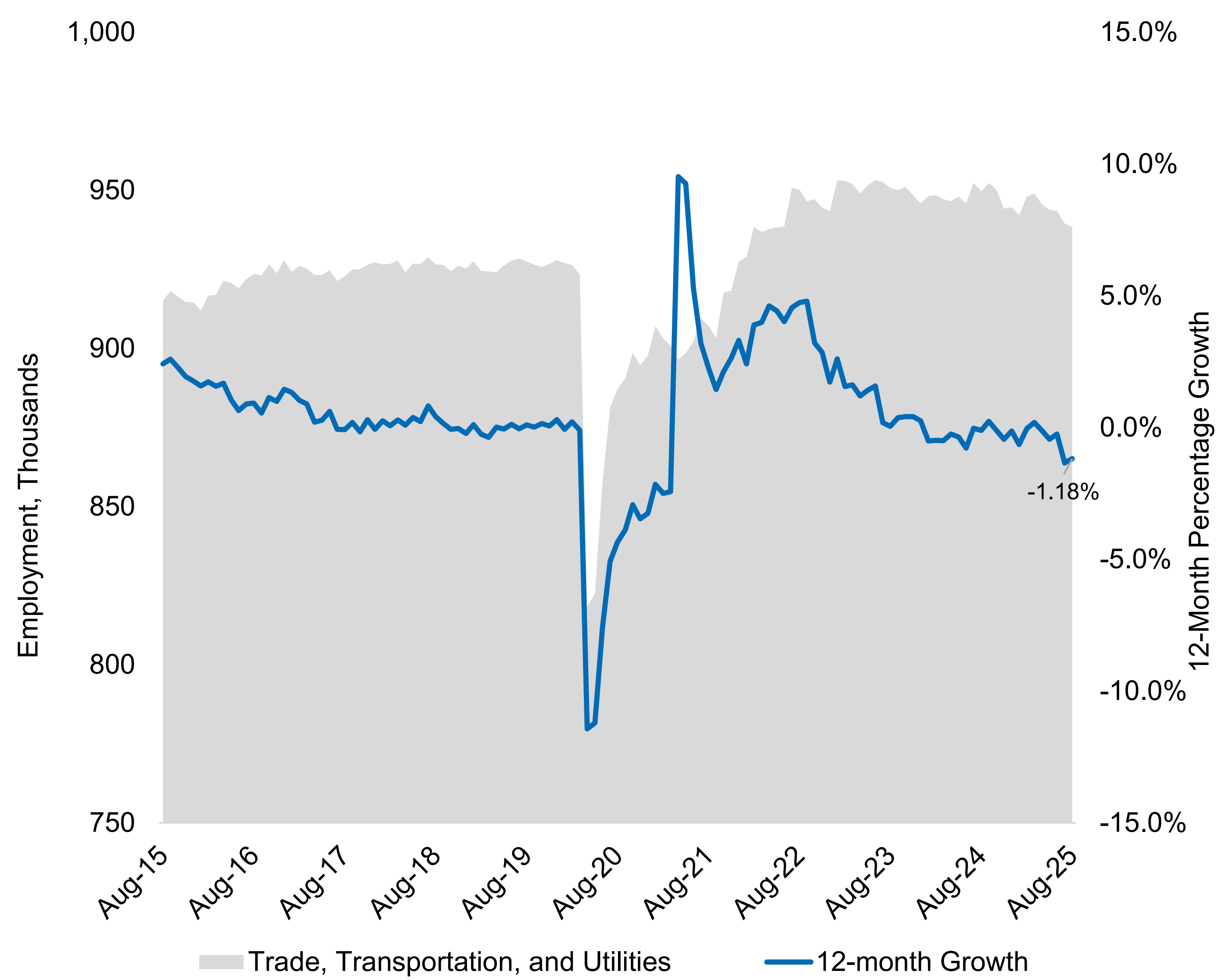



Source: U.S. Bureau of Labor Statistics, Chicago MSA

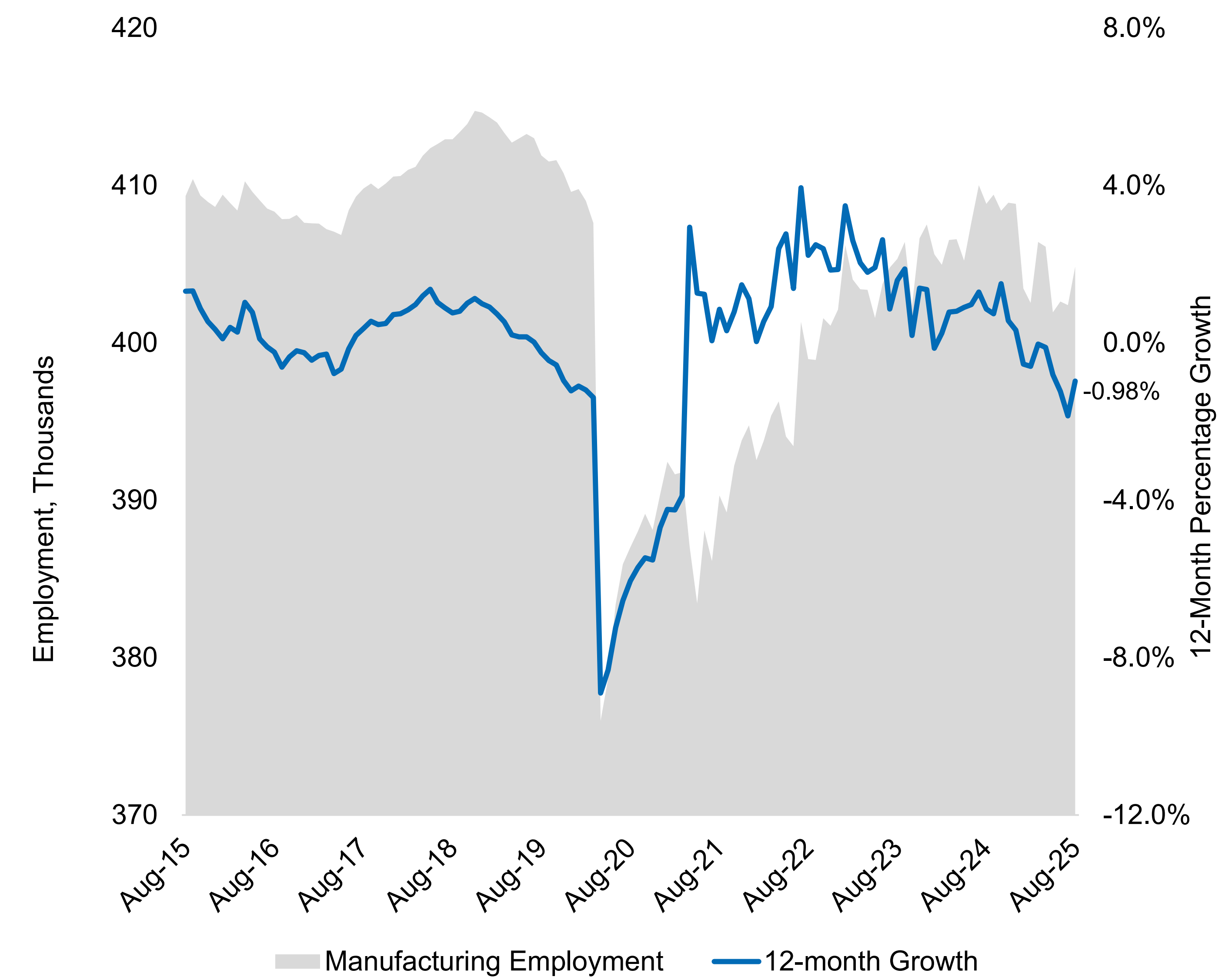
# Industrial Sectors Face Headwinds

Chicago's manufacturing sector contracted by 0.98% over the past year, lagging behind the national rebound. Trade, transportation, and utilities also declined by 1.2% during the same period. These setbacks underscore persistent challenges, from skilled labor shortages to the lasting effects 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

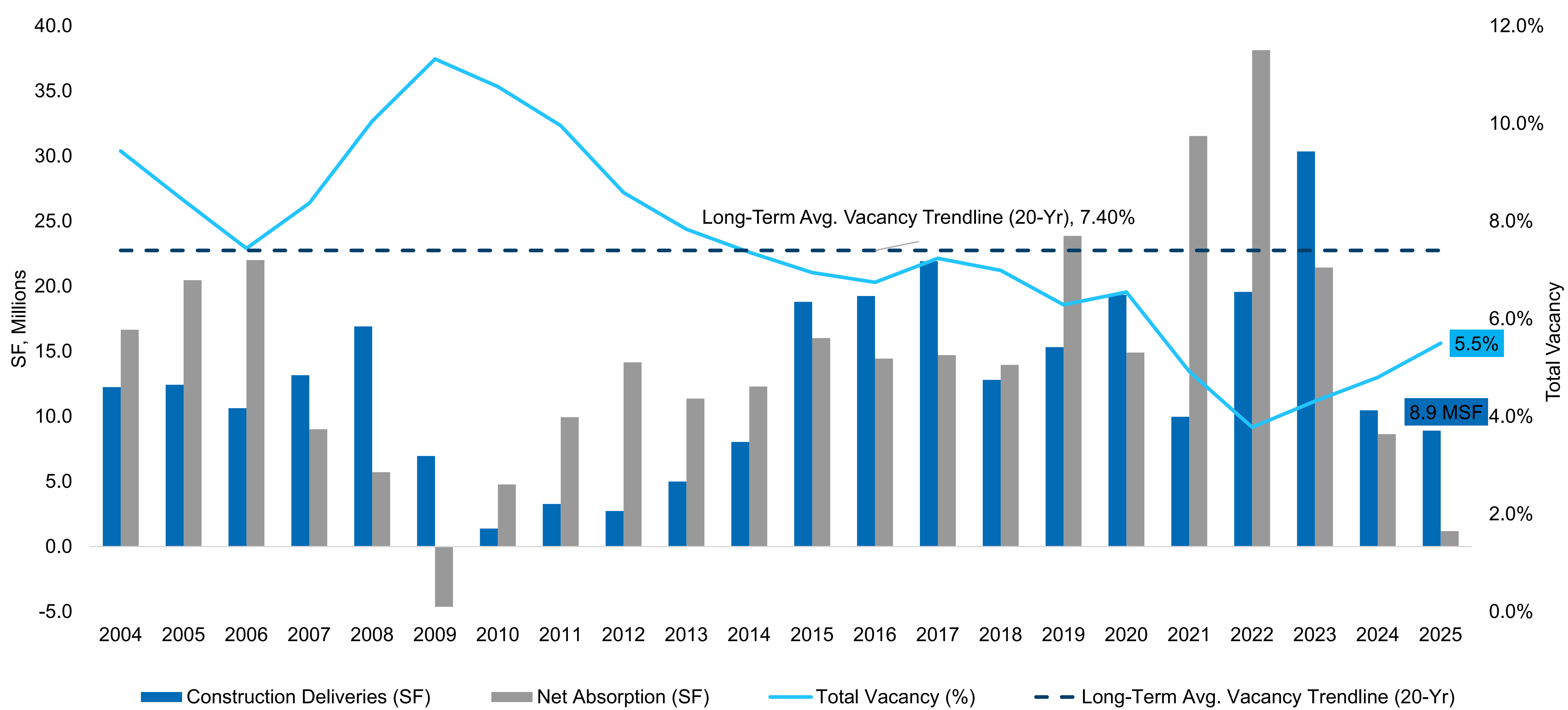
3Q25

# Leasing Market Fundamentals

# Absorption Rebound Highlights Market Resilience

Chicago's industrial market bounced back in 3Q25, posting 1.8 million square feet of absorption after a rare slowdown earlier this year. Vacancy has inched up since 2022 but remains healthy at 5.5%, well below the long-term average of 7.4%. The market's resilience shows that even with some caution, demand for space is holding steady.

**Historical Construction Deliveries, Net Absorption, and Vacancy**

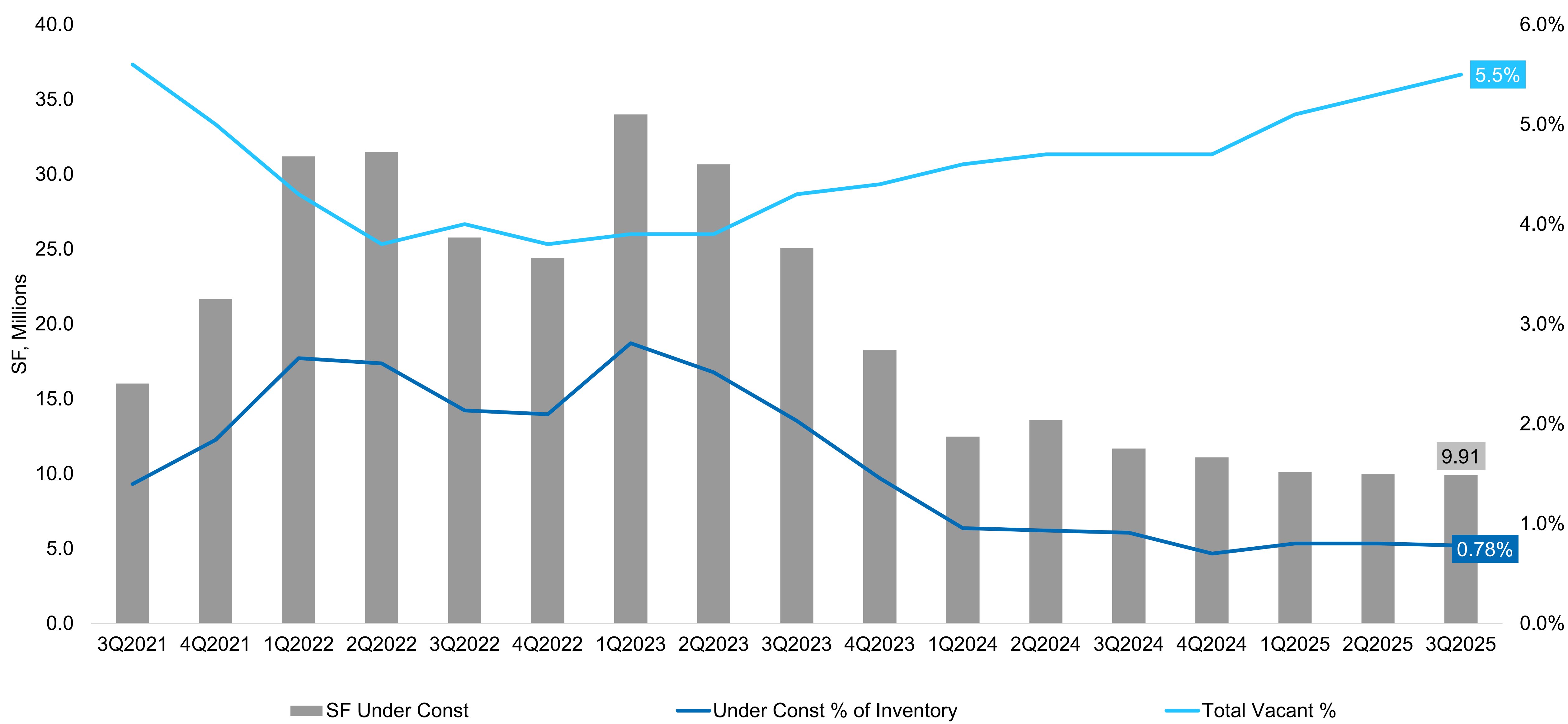



Source: Newmark Research

# Caution Shapes Development Pipeline

Chicago’s industrial pipeline totals 9.9 million square feet, with speculative projects making up 59%. The third quarter added 3.5 million square feet of new deliveries to the inventory. 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**

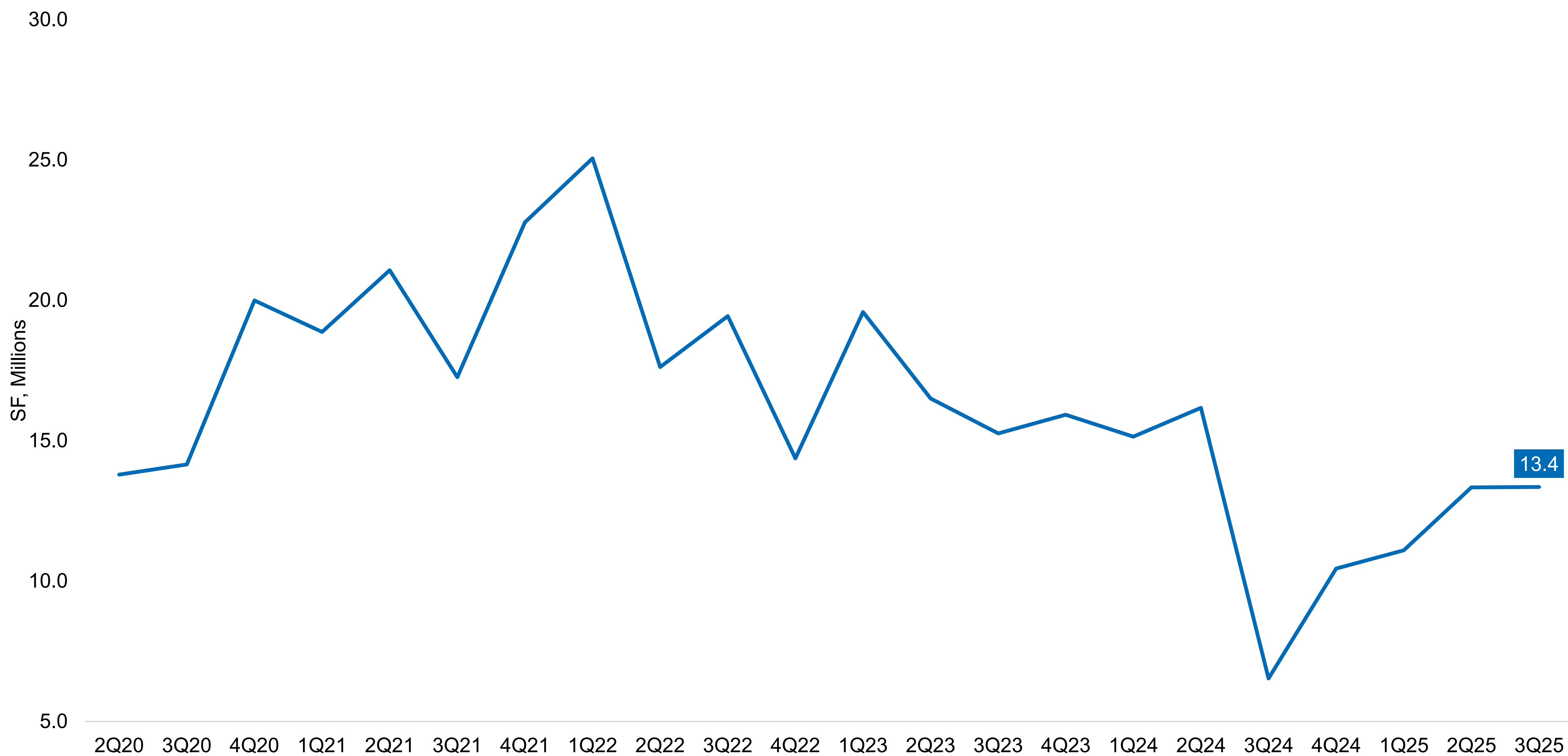



Source: Newmark Research

# Leasing Stabilizes as Tenants Return to the Market

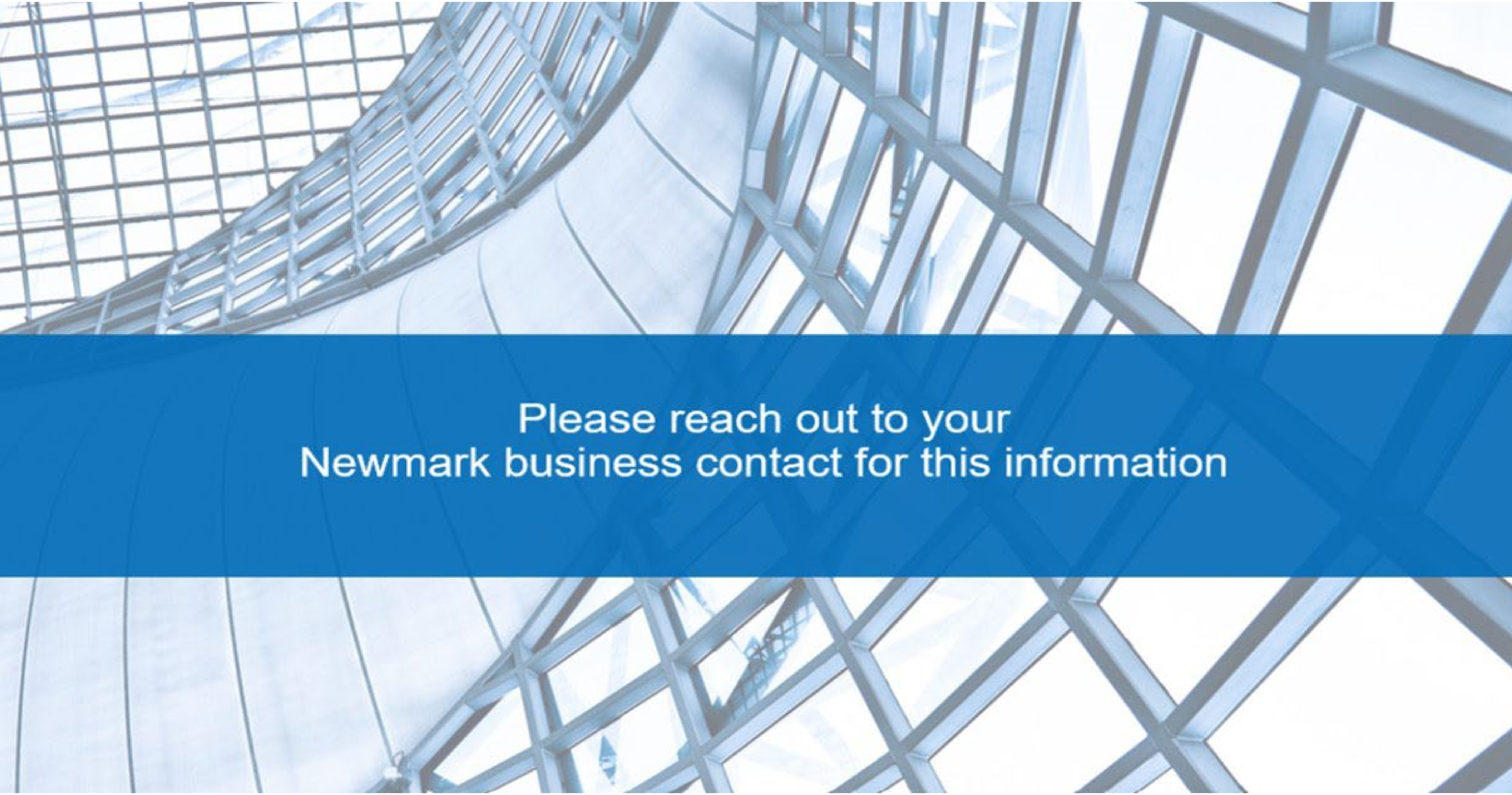
Leasing activity has steadily improved after slumping in the second half of 2024, with 3Q25 recording 13.4 million square feet of deal volume, nearly double that of 3Q24. This brings the year-to-date total activity to nearly 38 million square feet. Leasing momentum is likely to carry through year-end as transactions delayed by tariff concerns progress, and owners focus on maintaining occupancy rather than pushing rents higher.

**Total Leasing Activity (SF)**

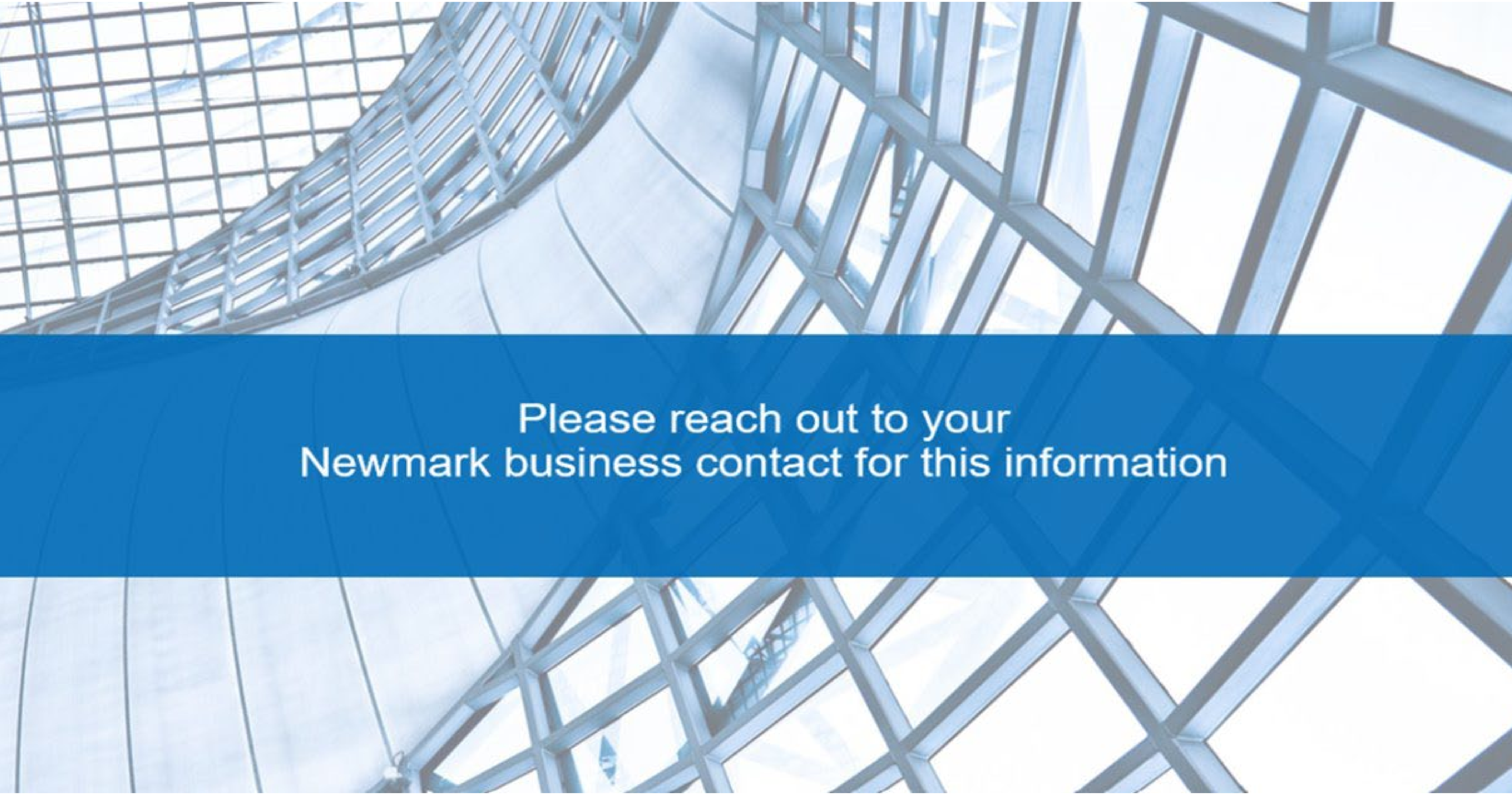



Source: Newmark Research, CoStar

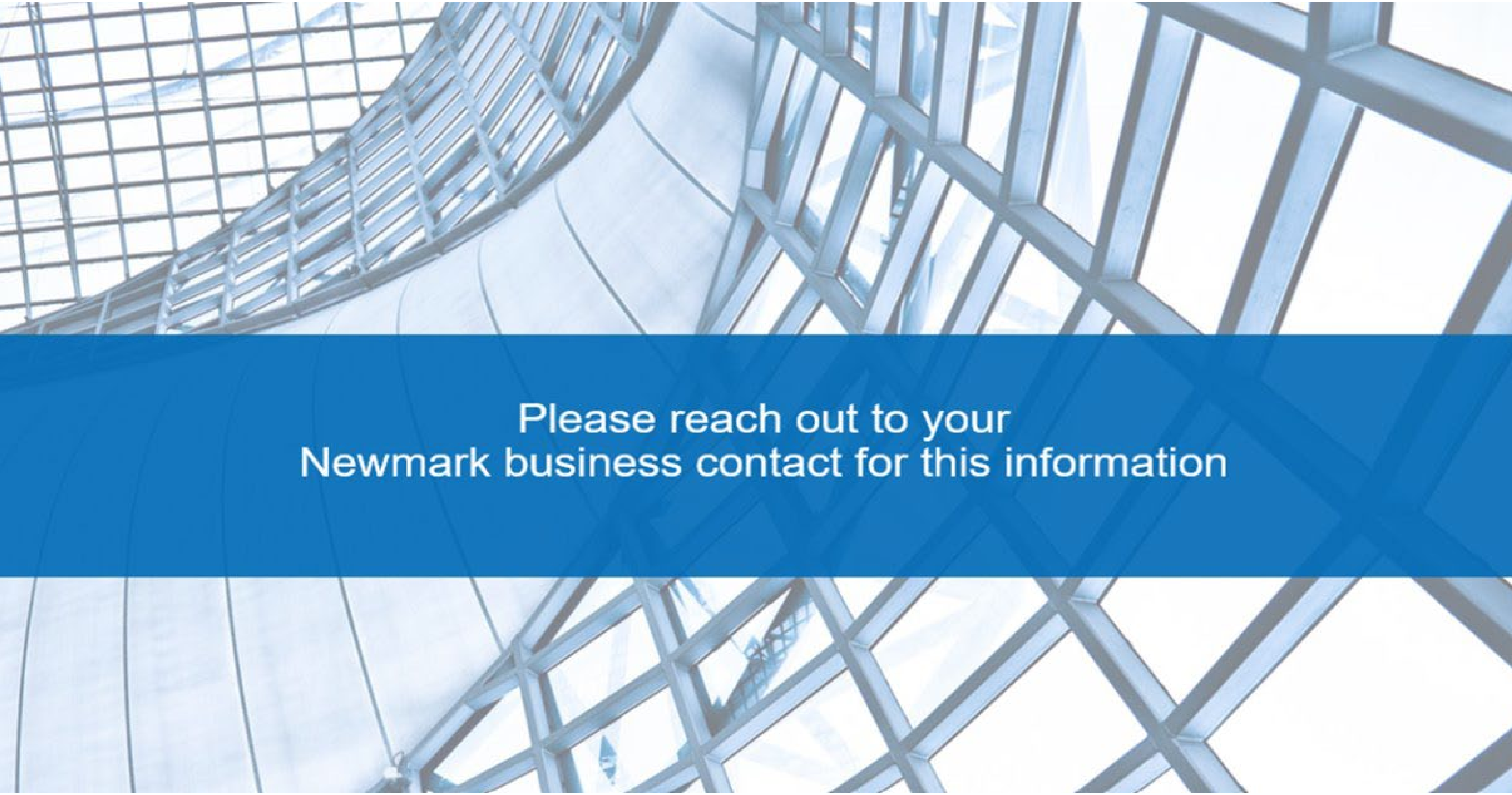
# Direct Deals Drive Leasing Momentum in 2025



# Class A Space Leads Leasing in Q3 2025



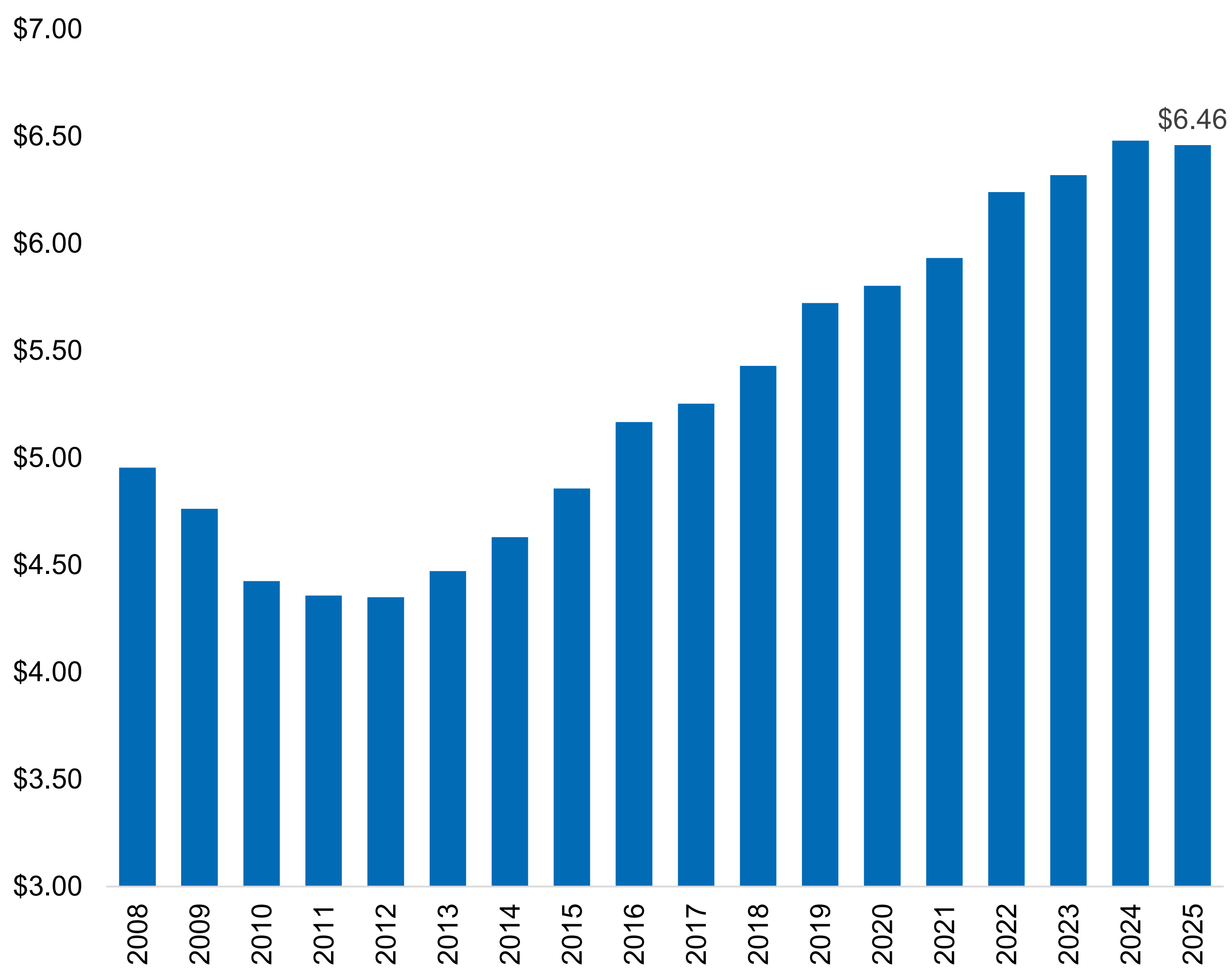
# Sublease Availability Elevated but Concentrated in Aging Stock



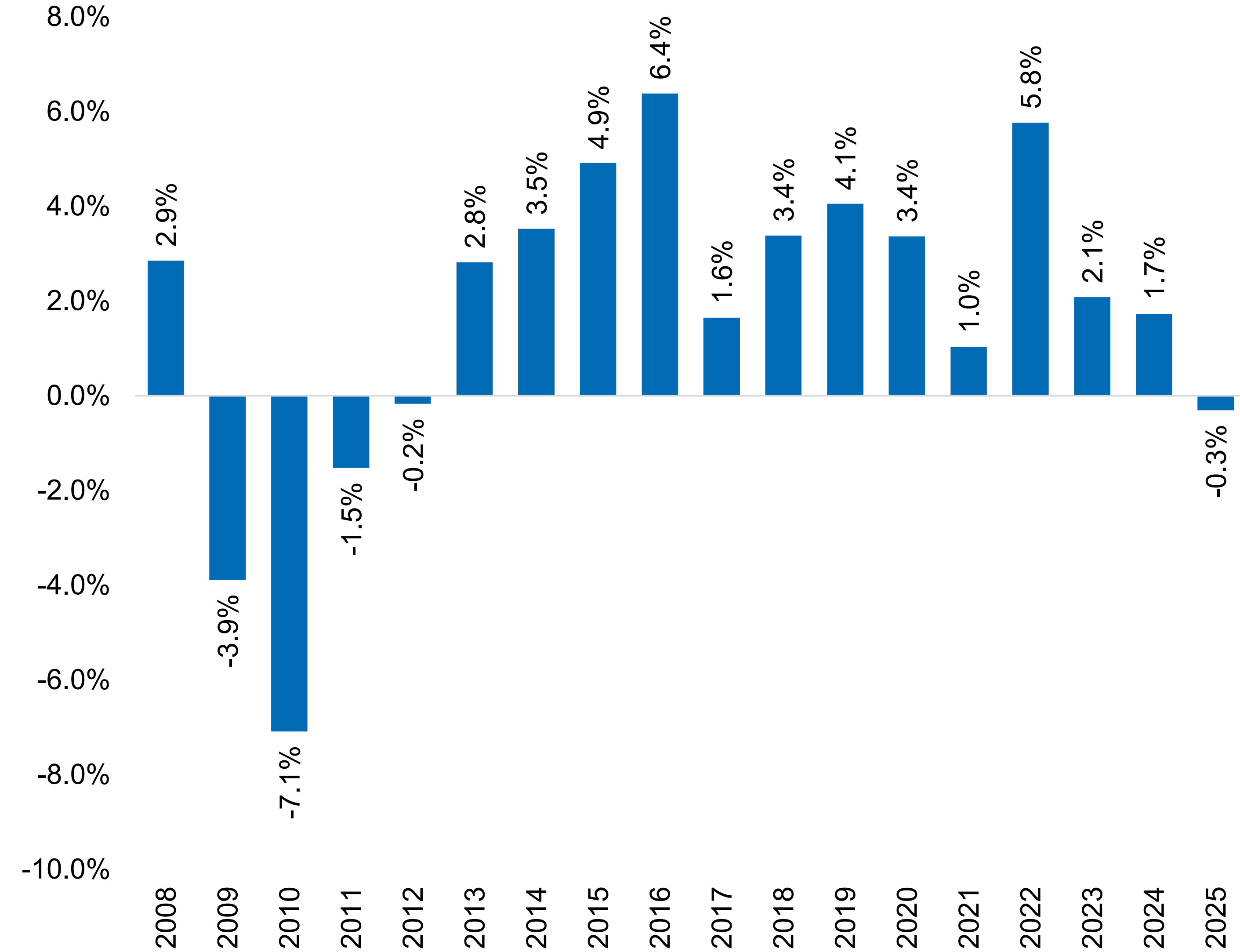
# Asking Rents Flat, but Premium Space Drives Stronger Taking Rents

Rent growth has cooled year-to-date, with average asking rents holding flat at $6.46/SF for 3Q25, nearly unchanged from a year ago. In contrast, average taking rents are up just over 5% year-over-year. The gap between asking and taking rents shows that while posted rates have leveled off, tenants are willing to pay a premium for modern, well-located space.

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




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

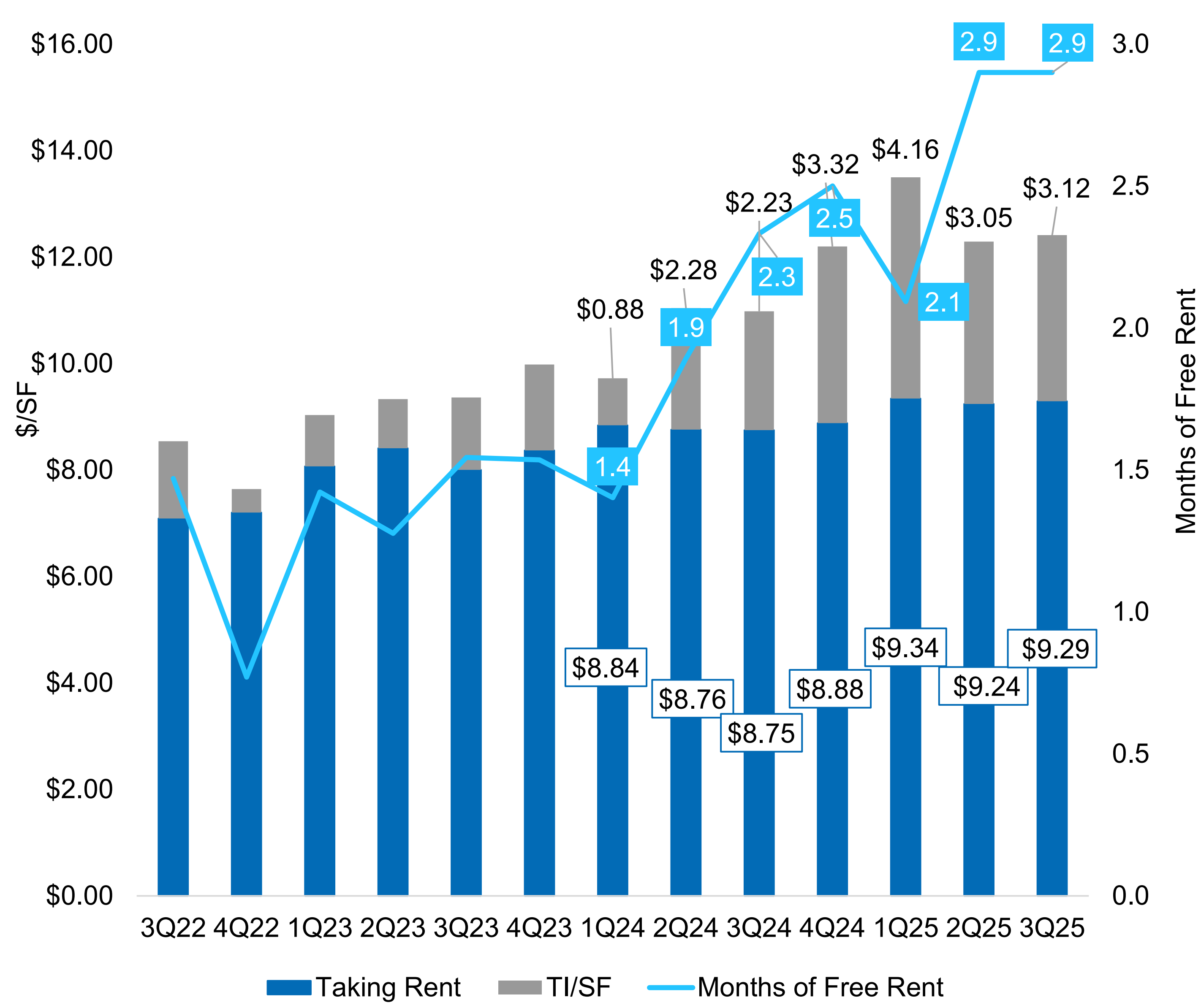



Source: Newmark Research, CoStar

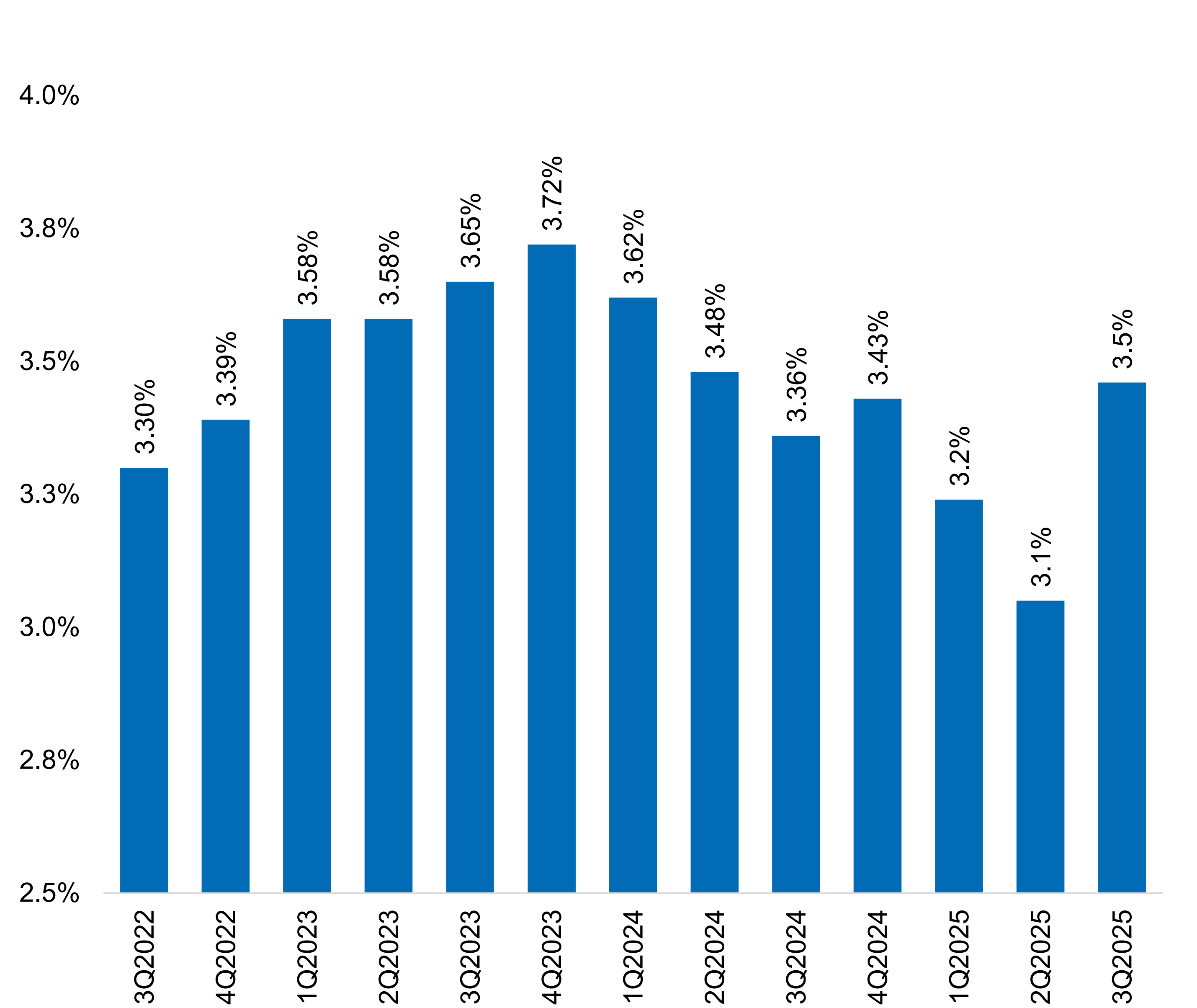
# Landlords Balance Higher Rents with Concessions

In 3Q25, average taking rents ticked back up to $9.29/SF, and TI allowances also rose slightly to $3.12/SF. Free rent held steady over the quarter at 2.9 months, the highest level in two years, as landlords leaned on rent abatements to stay competitive. Annual escalations rose to 3.5% after softening earlier in the year, signaling efforts to protect income growth despite more generous concessions.

## Triple-Net Deal Concession Analysis




## Average Annual Escalation, 10-Year Term, NNN

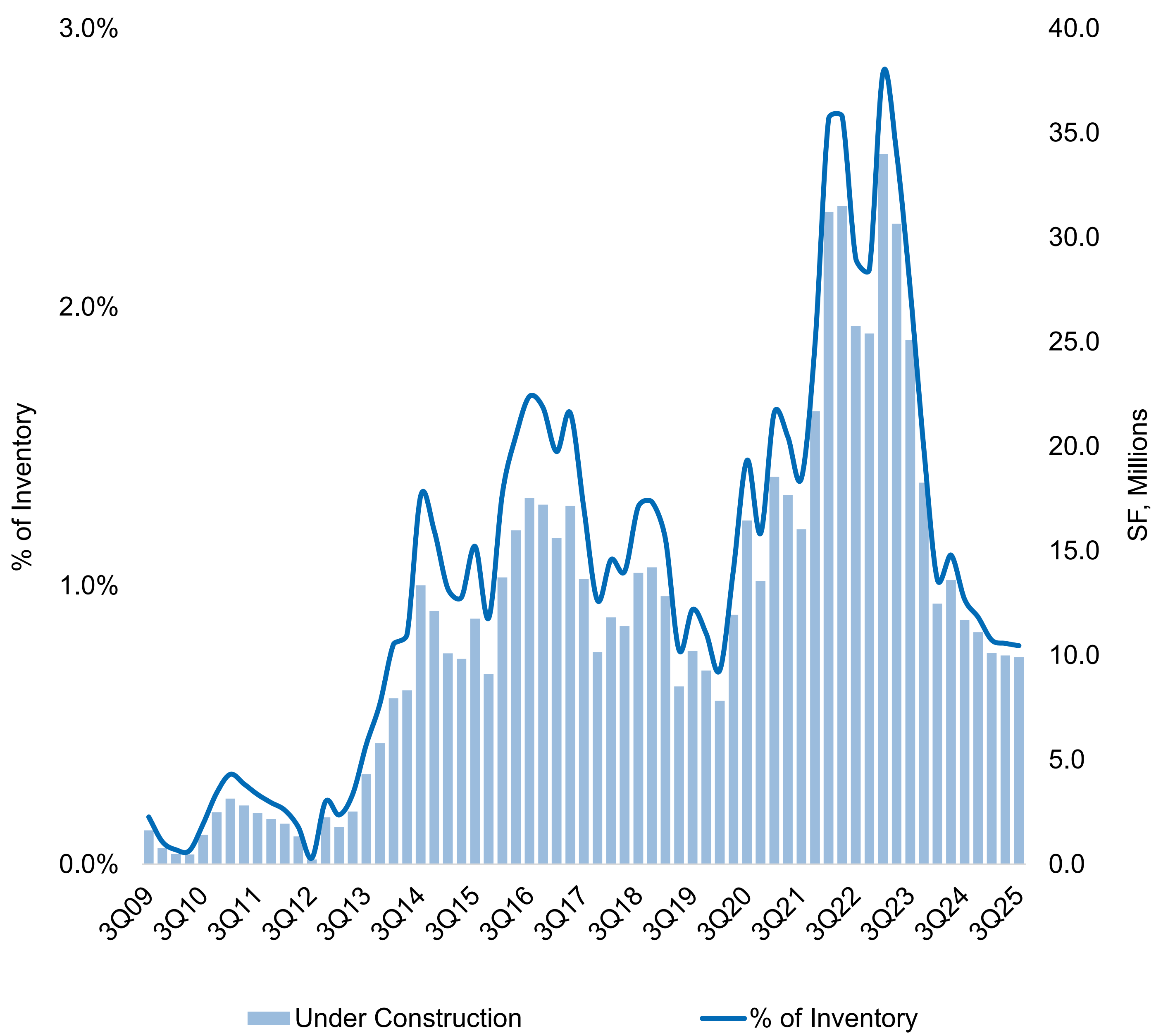



Source: Newmark Research

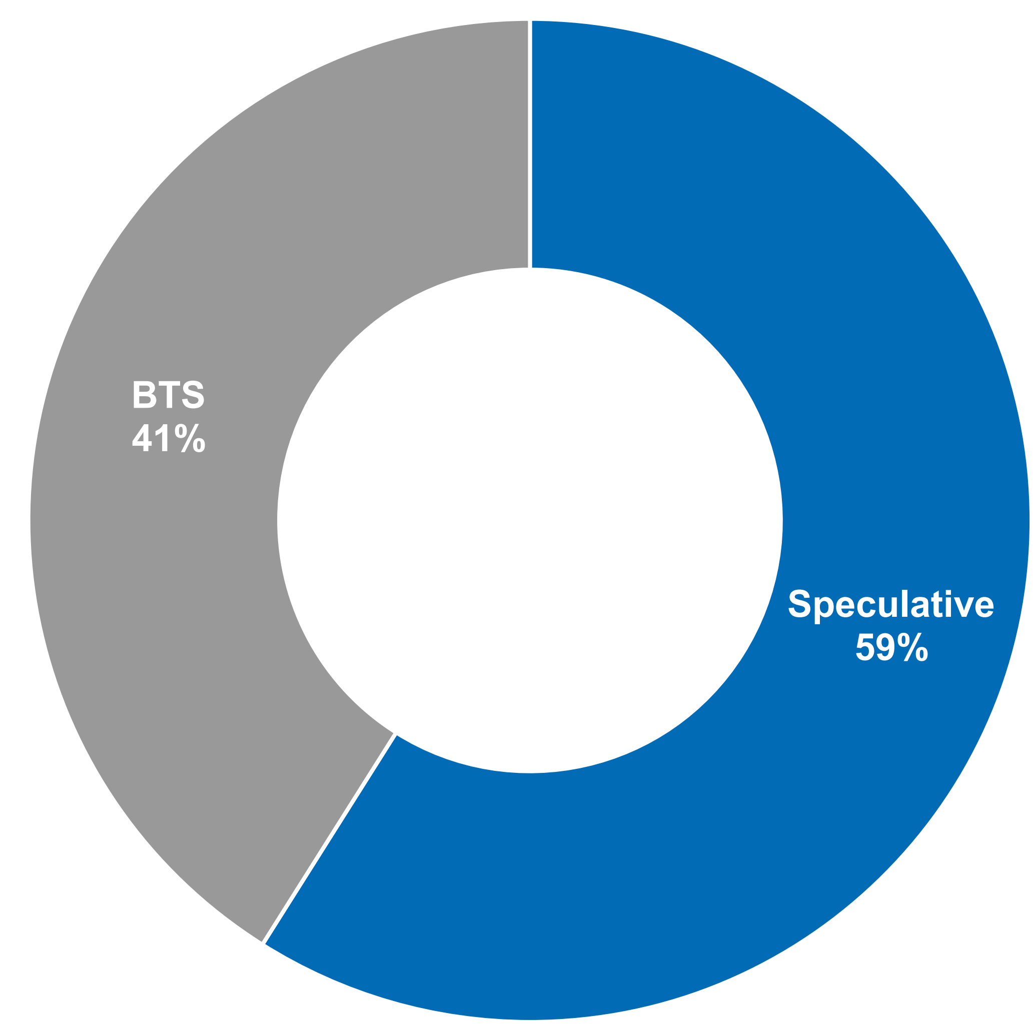
# Chicago Pipeline Reflects Slower, More Cautious Development

After peaking at 35.4 million square feet in early 2023, industrial construction has slowed dramatically, with the pipeline now sitting near decade lows. Speculative projects continue to dominate, but the share of build-to-suit activity is climbing as developers adjust strategies to reduce risk and align with committed tenant demand.

### Industrial Under Construction and % of Inventory

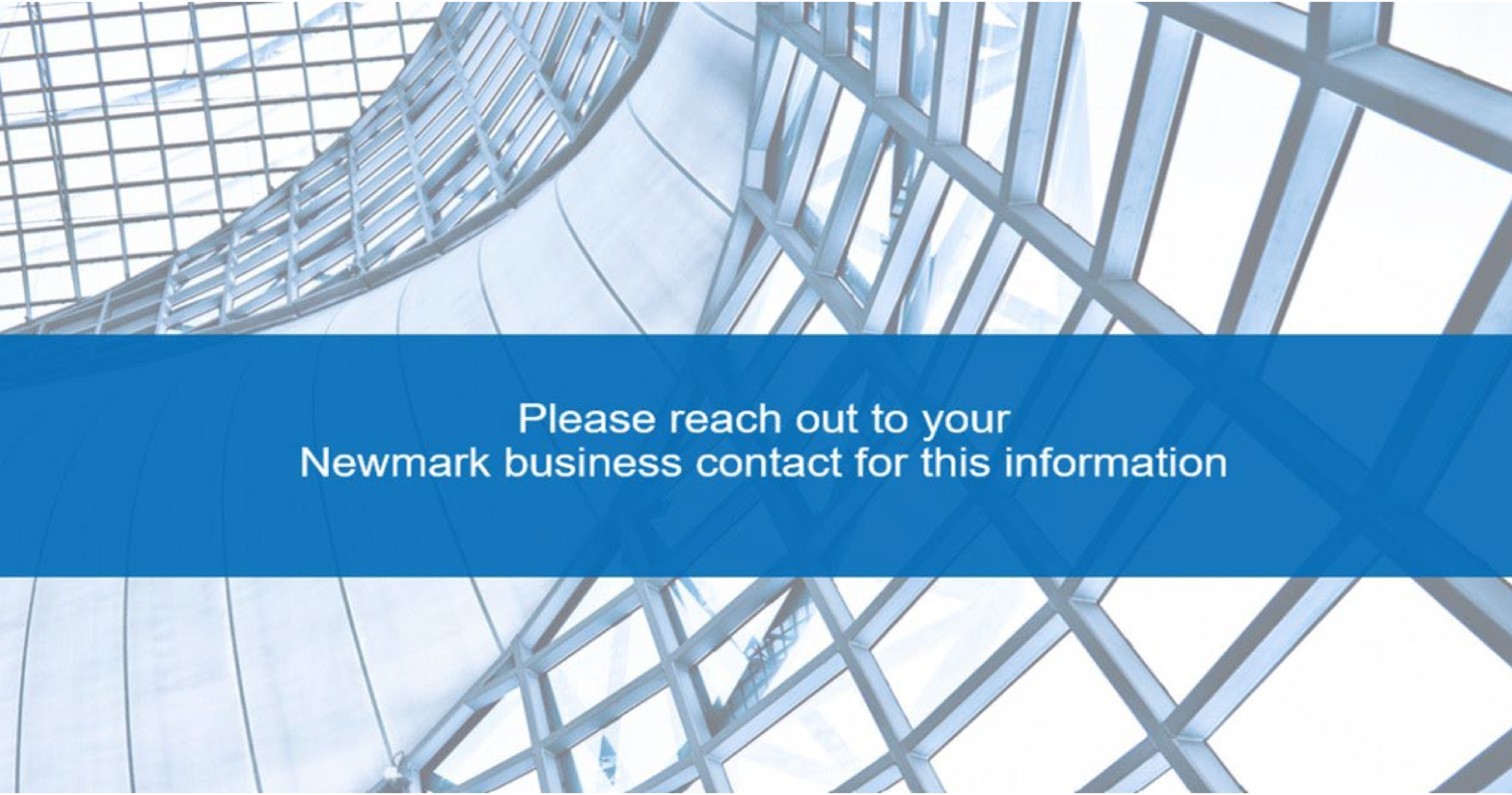



### BTS vs Speculative Development

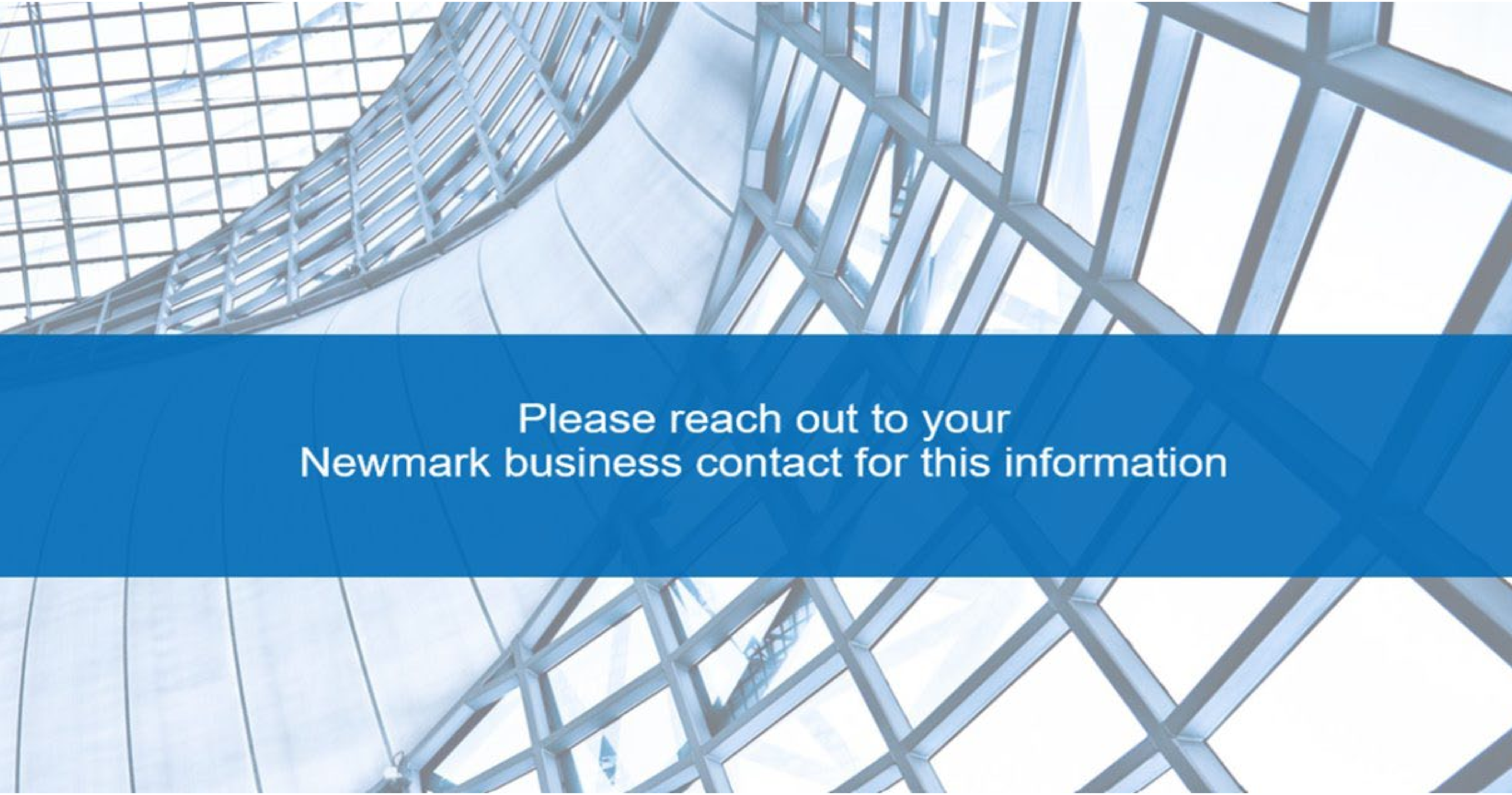



Source: Newmark Research, CoStar

# Vacancy Remains Elevated in Newest Inventory



# Chicago Market Captures Nearshoring Demand



# Notable 3Q25 Lease Transactions

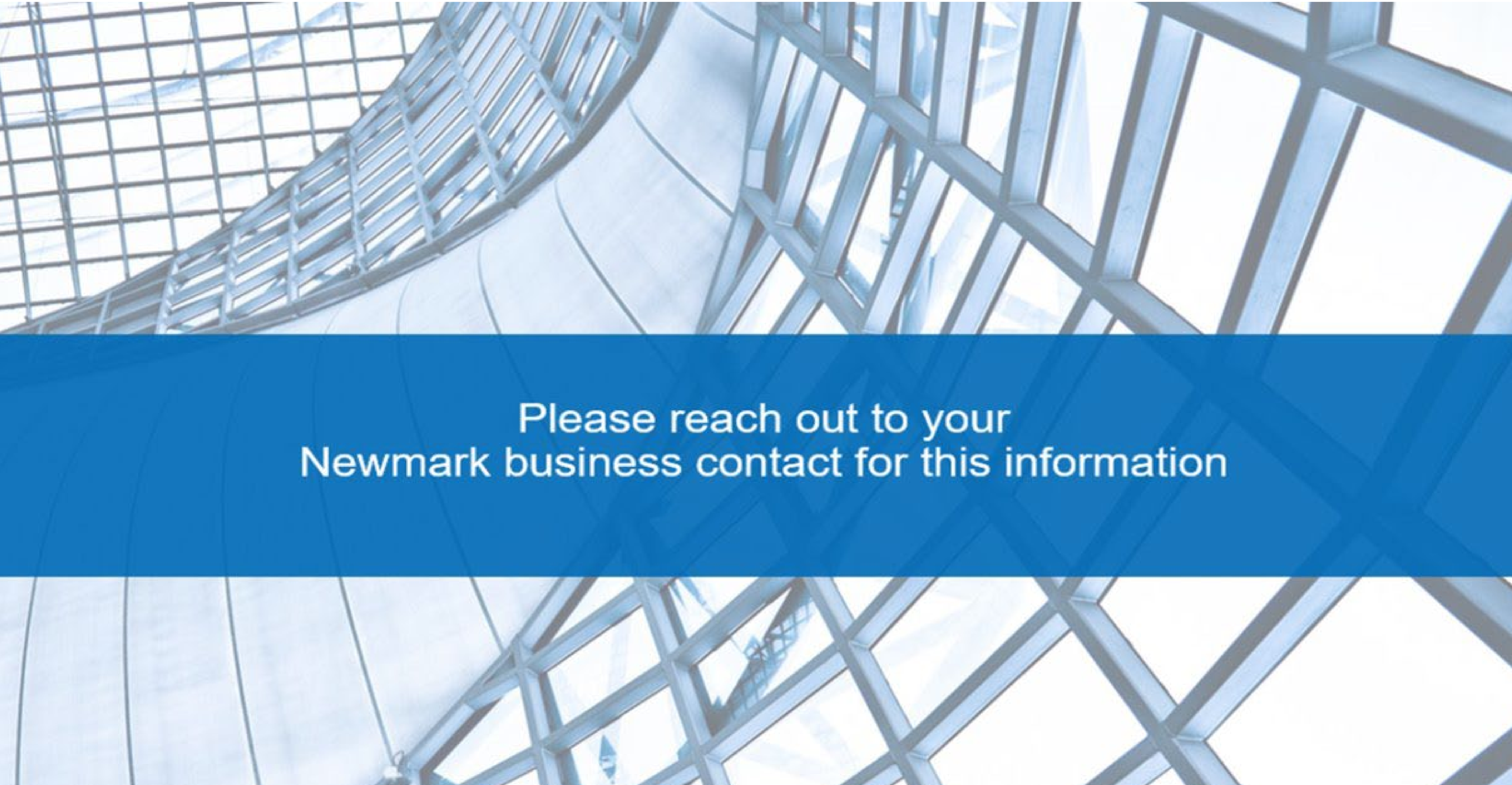
While average deal size was slightly smaller this quarter, overall direct leasing volume was elevated as tenants continued to favor long-term commitments in well-located space.

## Select Lease Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|---|---|---|---|---|
| Peopleworks | 21500 Gateway Dr | South Cook | Direct New | 757,504 |
| Estes Forwarding Worldwide | 1151 E Laraway Rd | 1-80 | Sublease | 420,520 |
| Western Post | 100 Compass Blvd | I-80 | Direct New | 303,521 |
| Aurora Logistics | 901 Bilter Rd | I-88 | Direct New | 291,552 |
| Bay Cities Container Corp | 16799 Cicero | South Cook | Direct Lease | 233,119 |
| Cardinal Health | 1360 Madeline Drive | Elgin-Fox Valley | Renewal | 217,845 |

Source: Newmark Research

# Submarket Overview




Source: Newmark Research

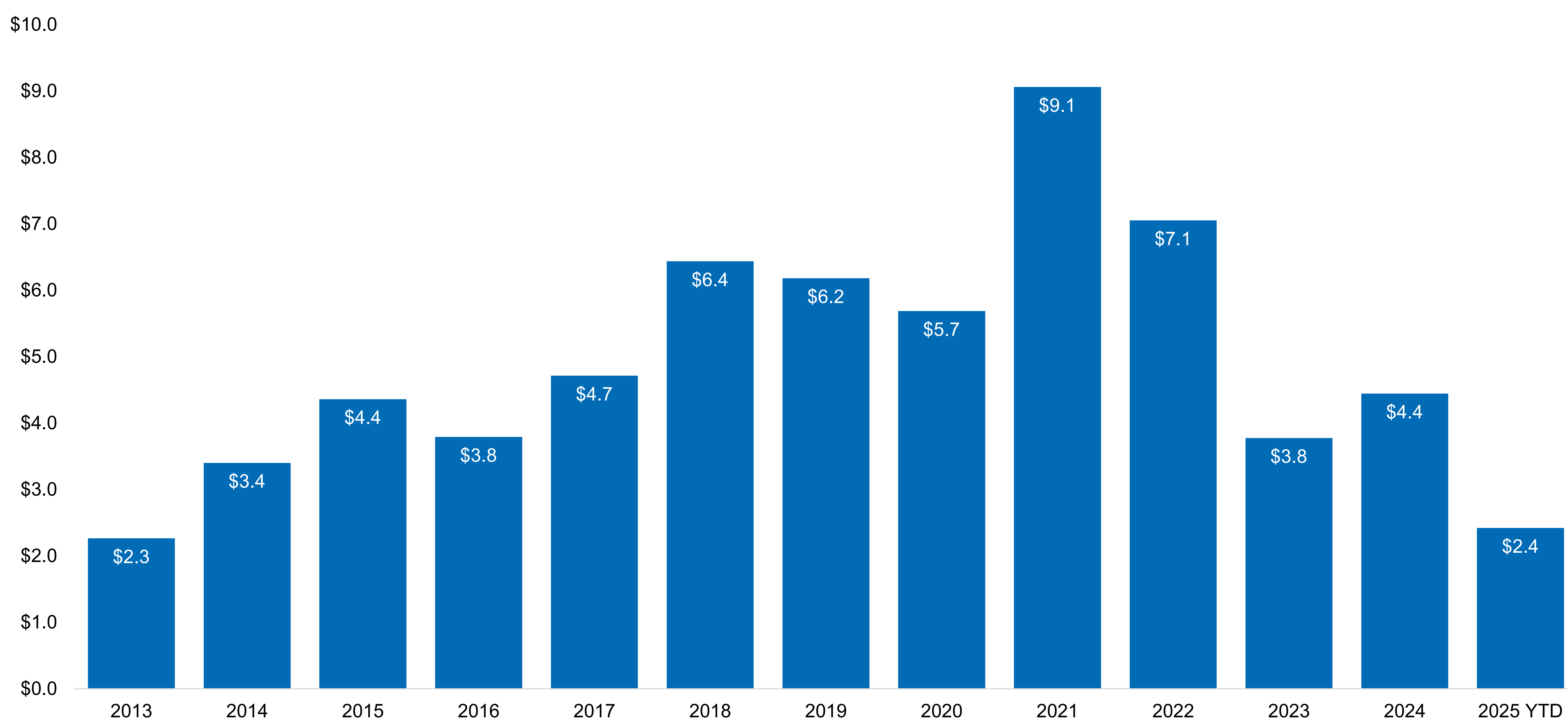
3Q25

# Capital Markets Fundamentals

# Capital Flows Remain Constrained

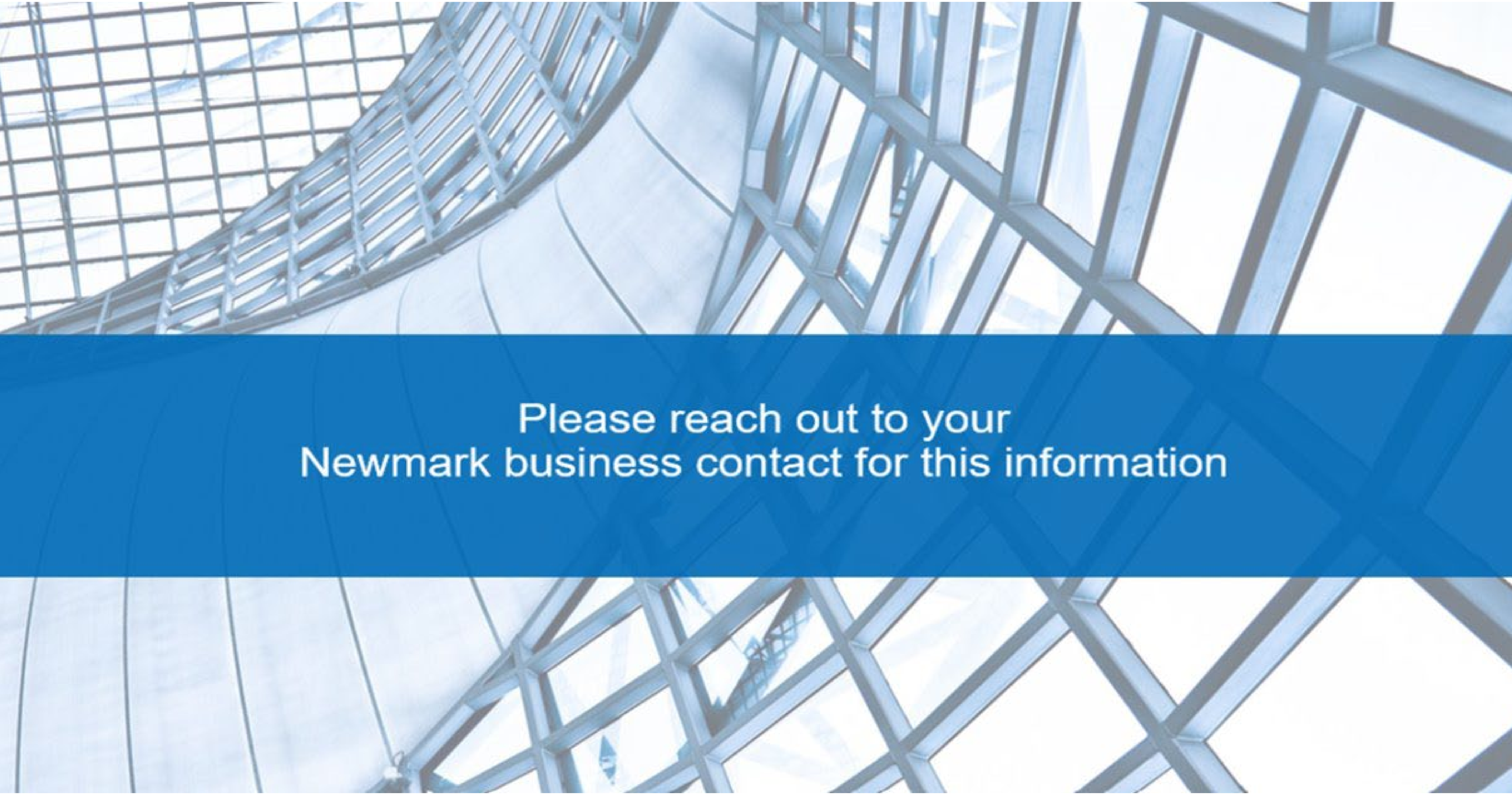
Although capital markets activity in Chicago's industrial sector remains below historic norms, year-to-date sales have reached nearly $2.4 billion, marking a 4.8% increase over the same period last year. Elevated financing costs, broader economic uncertainty, and muted tenant demand are expected to keep investment activity subdued for the remainder of the year.

**Chicago Industrial Sales Volume ($B)**

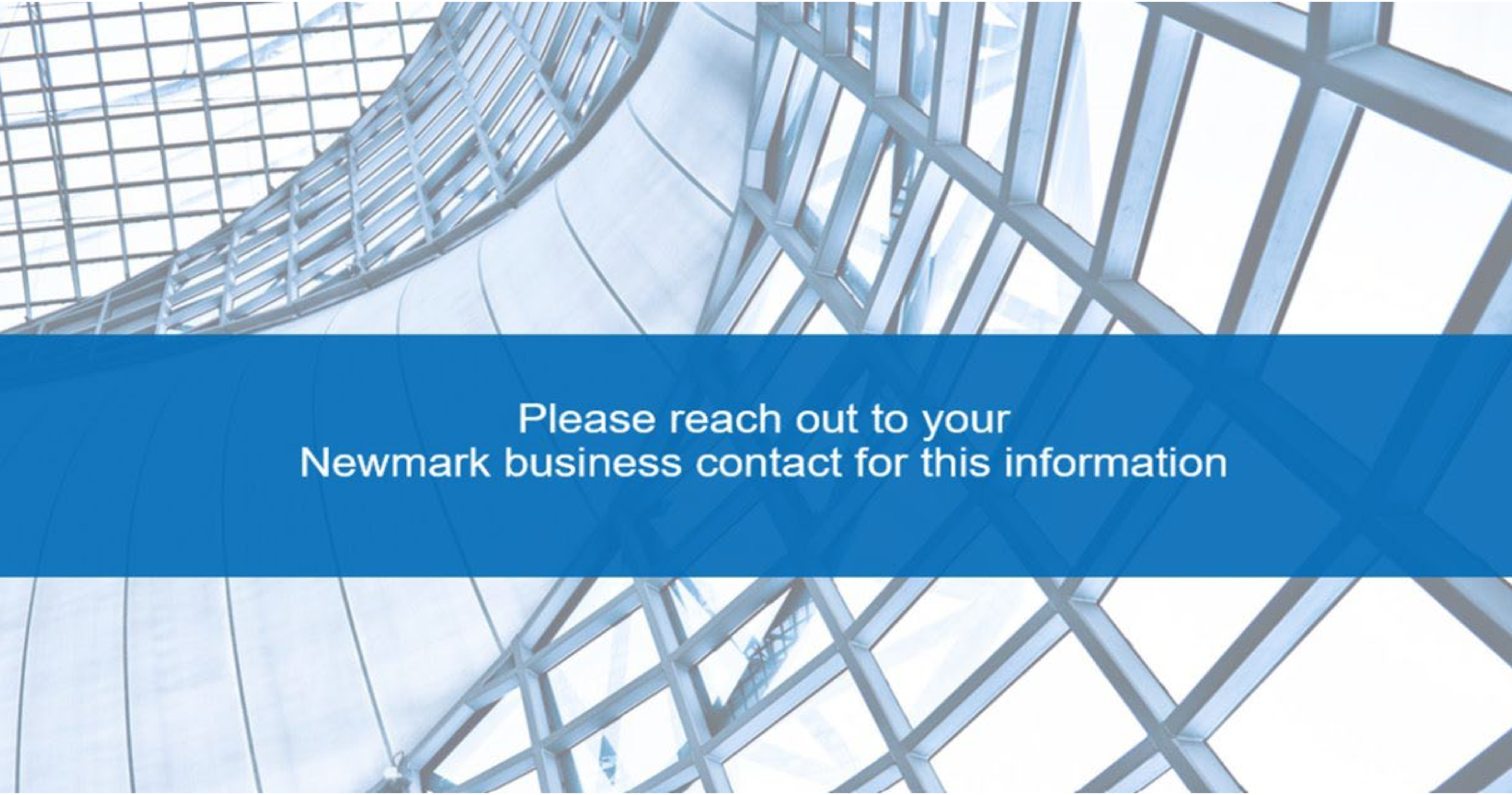



Source: Newmark Research, MSCI Real Capital Analytics

# Pricing Holds but Cap Rates Signal Caution



# Private Investment Continues To Drive Buyer and Seller Activity



# Notable 3Q25 Sale Transactions

Most of the 3Q25 transactions were on the smaller side, though key deals included an IOS property and a UPS sale-leaseback. UPS sold a $368 million portfolio of industrial and office buildings to Fortress Investment Group as part of its push to cut costs and adjust to softening shipping demand. Sale-leasebacks are gaining traction as they allow logistics companies to free up capital while giving investors stable returns tied to logistics assets.

## Select Sales Transactions

| Buyer | Seller | Building | City | Sale Price | Price/SF | Square Feet |
|---|---|---|---|---|---|---|
| Transport Properties | Kilpatrick Corporation | 5300 Joliet Road | McCook | $49.1M | - | 30.99 AC* |
| *The 31-acre IOS property consists of four parcels and includes an 8,000-square-foot office building along with a 6,000-square-foot warehouse.* | | | | | | |
| Fortress | United Parcel Services | 490 Supreme Drive | Bensenville | $36.5M | $158 | 230.178 |
| *The property was part of a four-building sale-leaseback portfolio acquired by Fortress for $368 million, tied to UPS’s broader cost-cutting and real estate restructuring strategy.* | | | | | | |
| G&W Electric Company | UBS Realty Investors | 1135 Arbor Drive | Romeoville | $36.4M | $149 | 244,140 |
| *The buyer, G&W Electric, specializes in power grid and electrical components and intends to occupy the space.* | | | | | | |
| GID Investment Advisors | AEW Capital | 551 Saint James Gate | Bolingbrook | $34.6M | $119 | 289,337 |
| *Built in 2000, the property features 32 docks with levelers and a 28-foot clear height. It was fully occupied at time of sale by LaGrou Distribution.* | | | | | | |
| Hines | Tradelane Properties | 555 Saint James Gate | Bolingbrook | $29.5M | $74 | 400,000 |
| *The property was purchased for renovation. At the time of sale, the facility was occupied by RR Donnelley.* | | | | | | |

Source: Newmark Research, CoStar, Real Capital Analytics

*For more information:*

**Amy Binstein**
*Midwest Research Director*
amy.binstein@nmrk.com

**Nora Leahy**
*Senior Research Analyst*
nora.leahy@nmrk.com

**Chicago**
500 W Monroe Street
Chicago, IL 60661
t 312-224-3200

**New York Headquarters**
125 Park Ave.
New York, NY 10017
t 212-372-2000

**nmrk.com**

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