
4Q24

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
- Manufacturing experienced positive growth while construction, trade, transportation, and utilities saw negative employment growth year-over-year.

Major Transactions

- Leasing volume increased slightly in the fourth quarter compared to the third quarter but the combination of the election and a tighter than normal holiday season kept leasing activity muted.
- Pioneer Technologies signed the largest lease of the quarter at 295 Southcreek Parkway for just under 500,000 SF.
- Data center sales were the priciest sales of the quarter but MDH Partner’s purchase of the 3 property Minook Interstate Logistics portfolio was the largest at over 2.2MSF

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 and crawled back up to 7.0 MSF in the fourth quarter. Third quarter was still the lowest quarterly volume in 19 years.
- Total sublease availability continues to increase quarter over quarter, this time by over 5.0 million SF to 15.0 million SF. Although the increase in volume is significant, the sublease market share of total inventory remains constant at a not-so-significant 1.2% of the market’s inventory, a small portion of the 7.9% total availability in Chicago’s industrial market. This uptick in sublease space was largely driven by three major tenants, Home Depot, UNIS and Samsung.

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 crept up another ten basis points to 4.8% 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.

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

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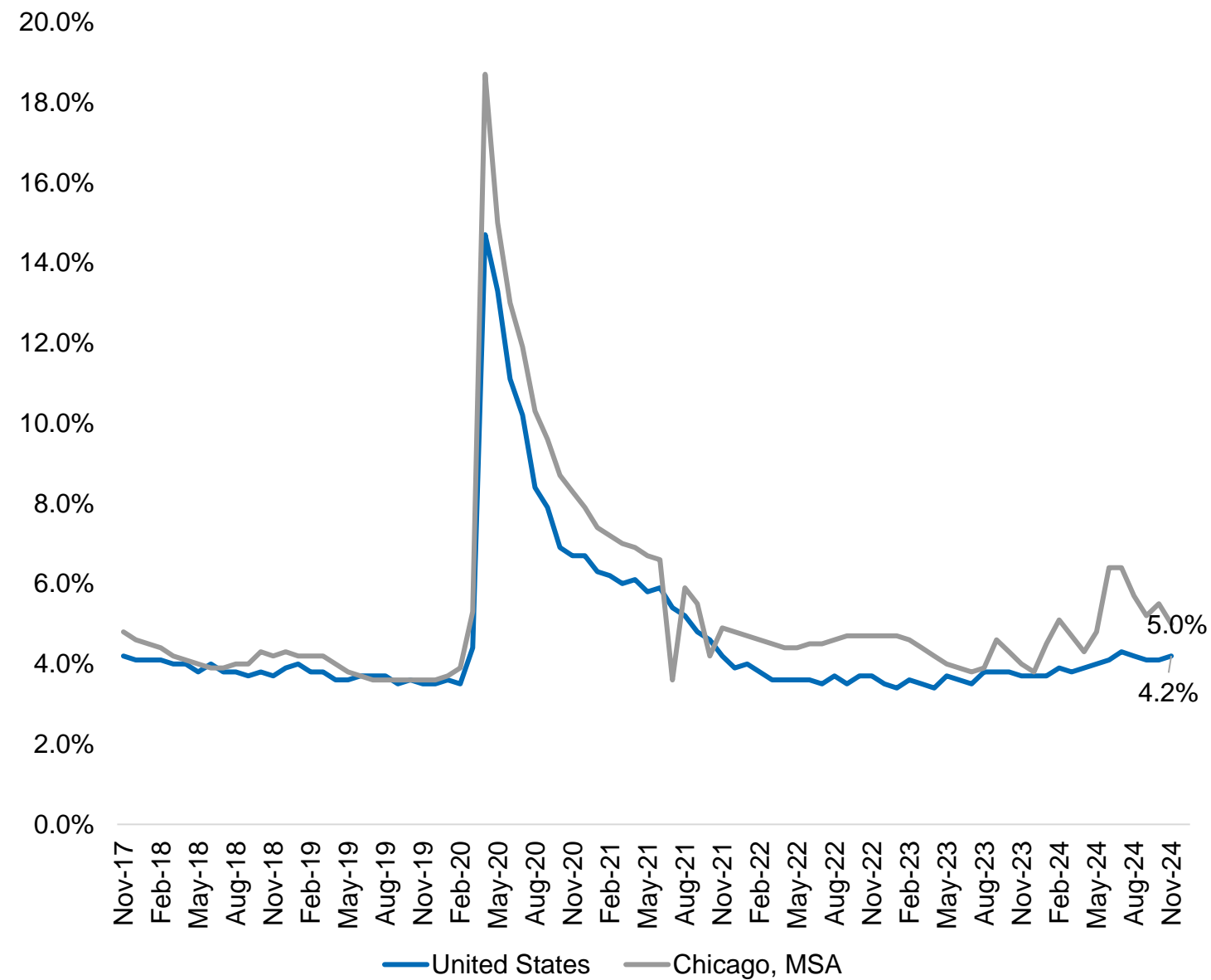
Economy



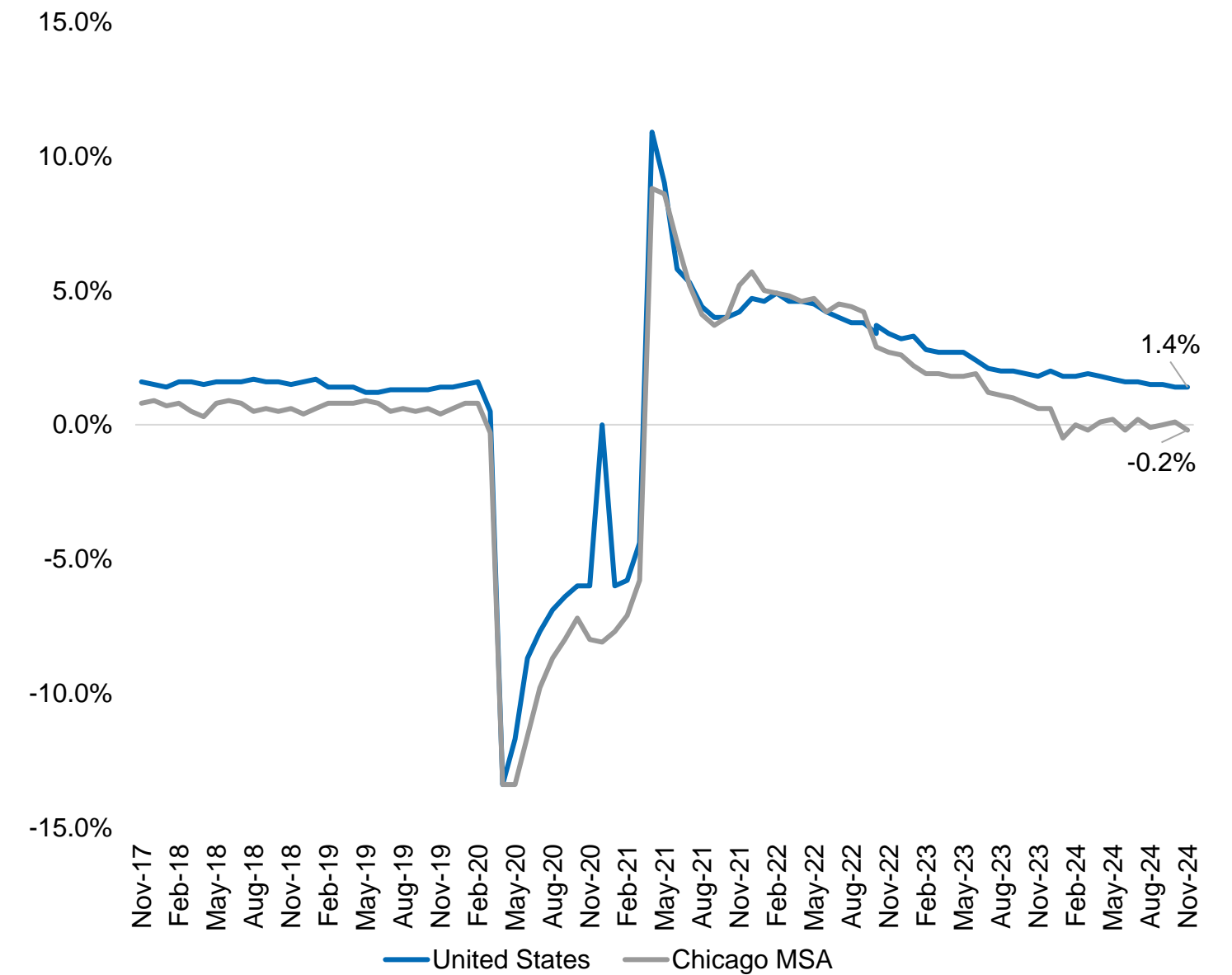
Metro Employment Trends Signal A Slowing Economy

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

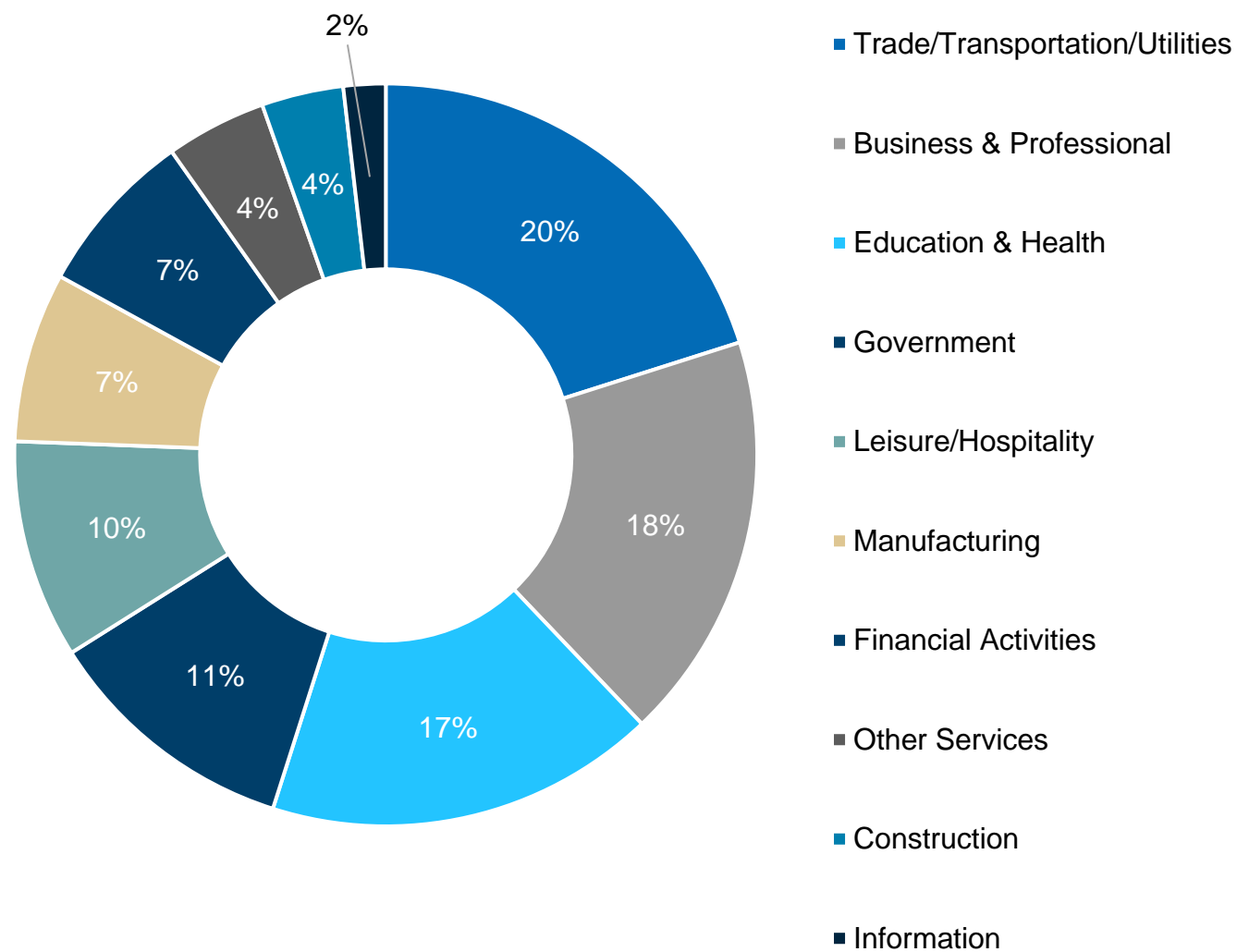


Source: U.S. Bureau of Labor Statistics, Chicago MSA

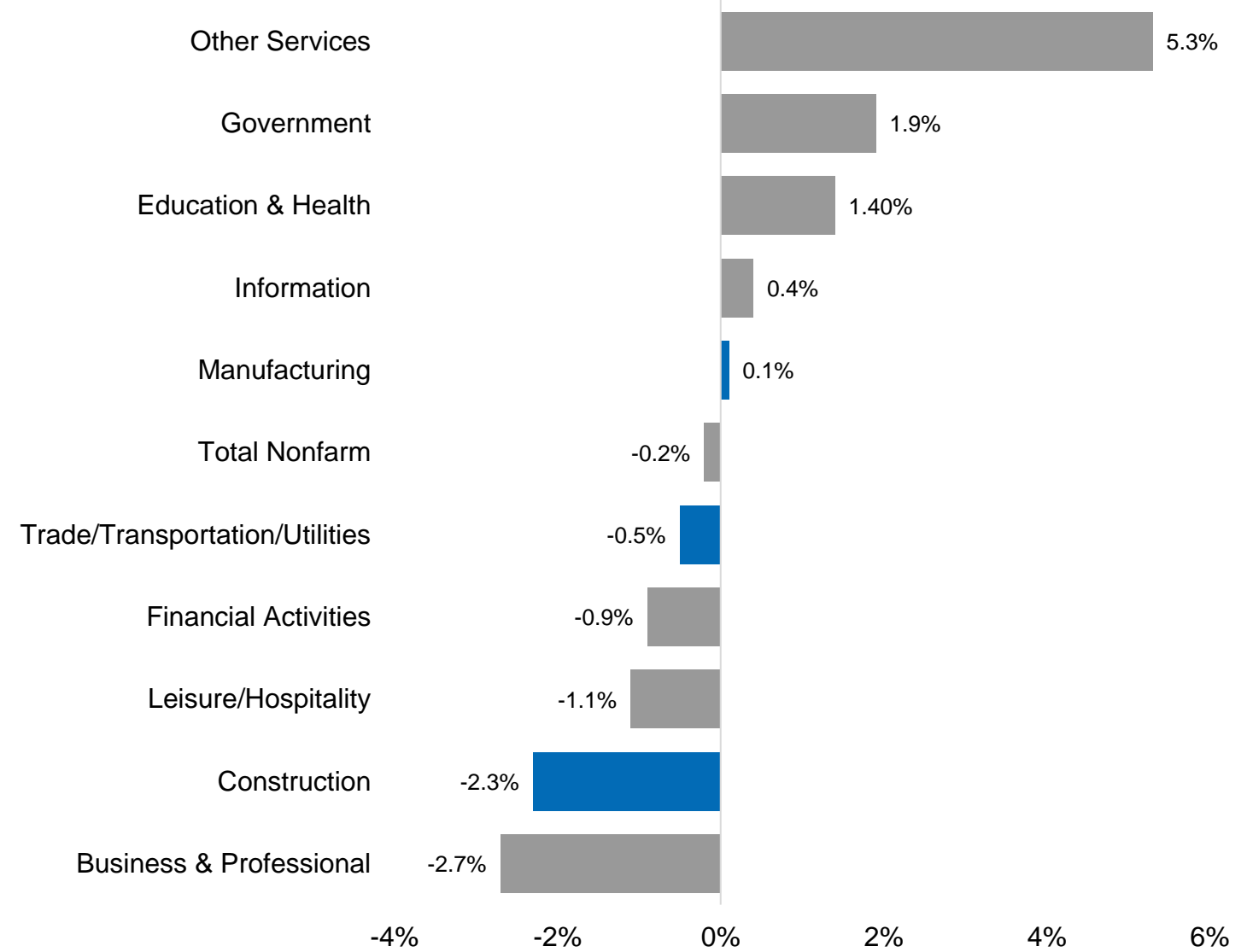
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The “Other Services” sector led all industries in regional annual job growth followed by the government sector. Industrial using sectors manufacturing and trade/transportation/utilities saw minimal losses in the past twelve months while construction saw more significant losses of 2.3%.

Employment by Industry, November 2024



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

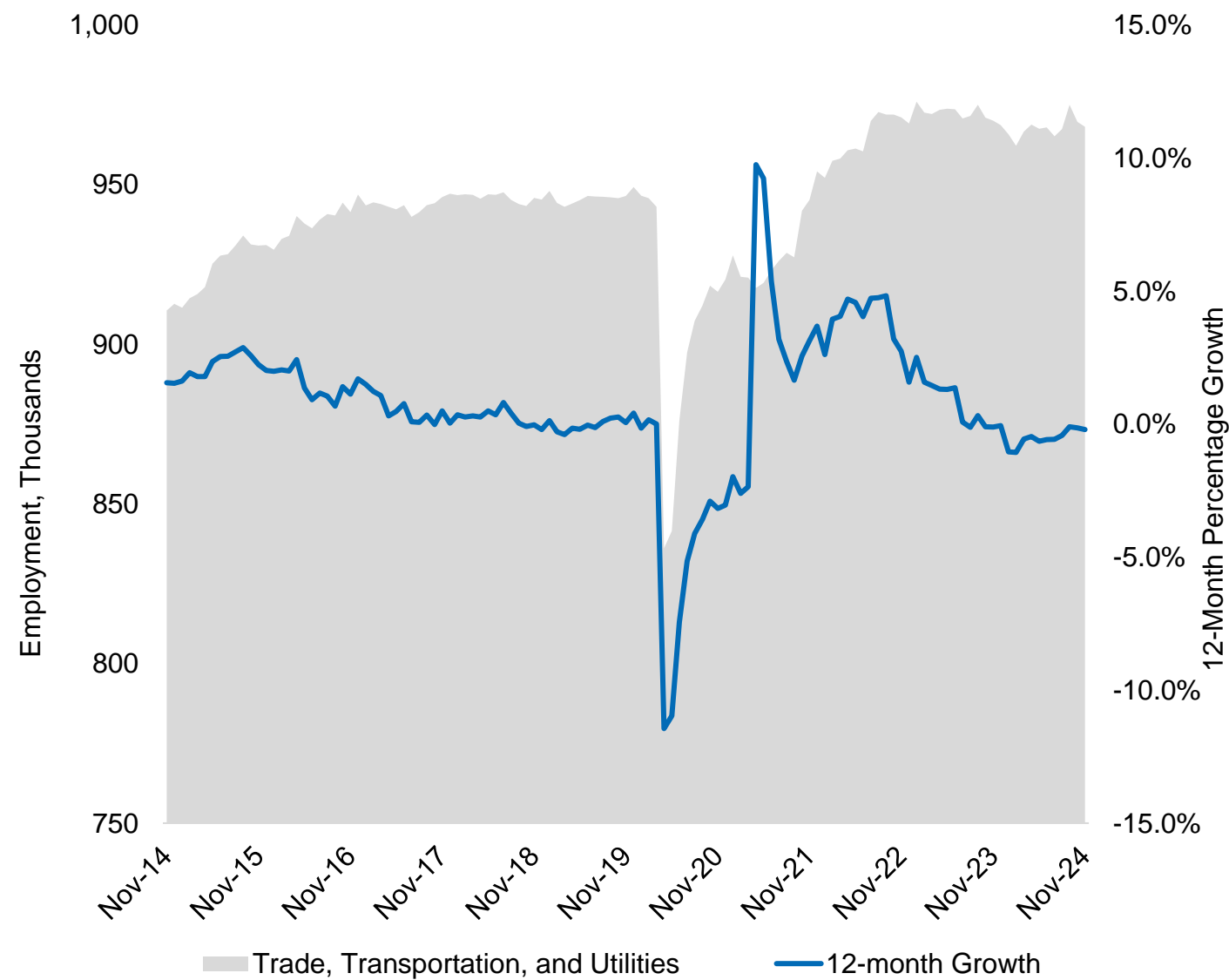


Source: U.S. Bureau of Labor Statistics, Chicago MSA

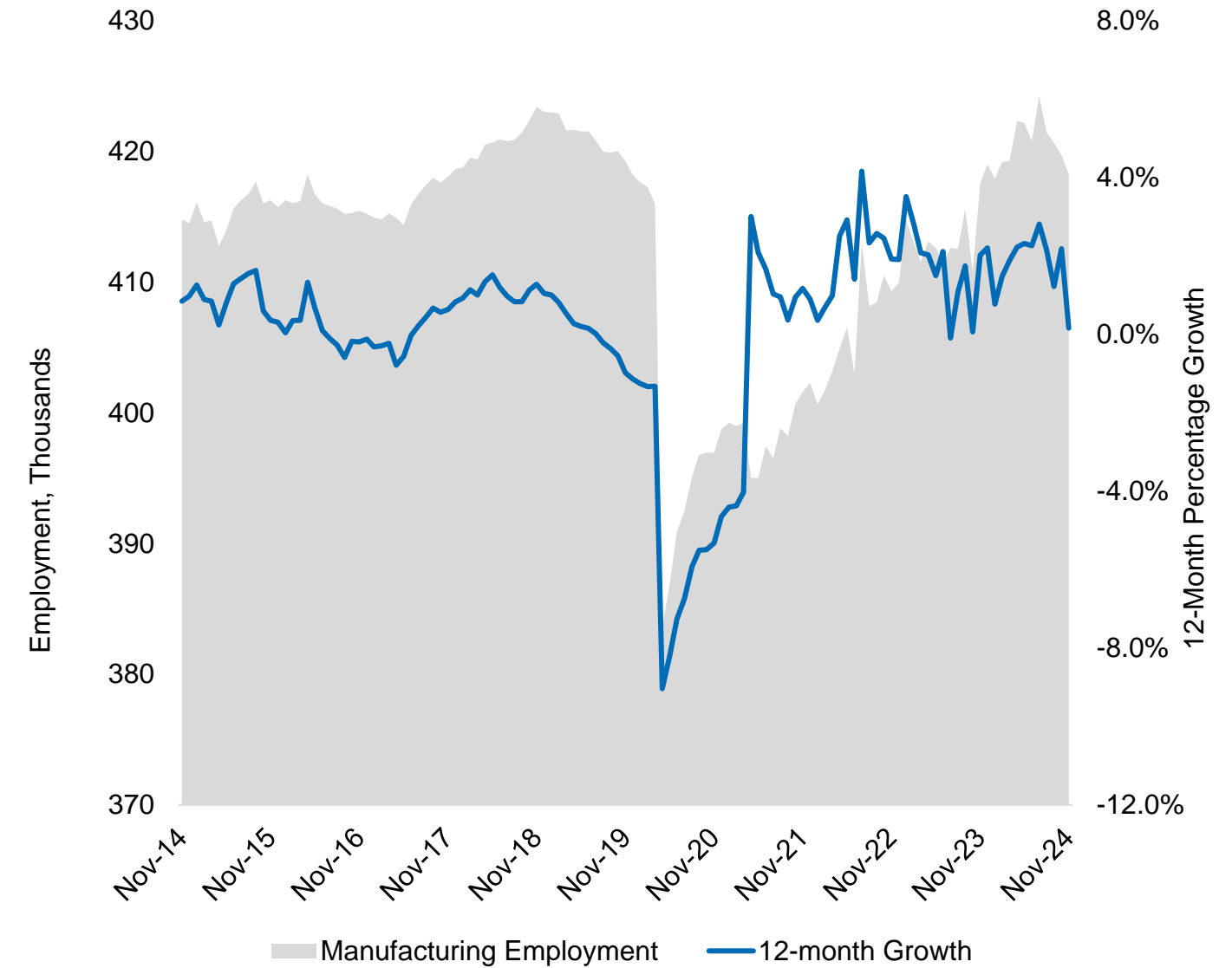
Industrial Employment Strong but Not Immune to Softening Conditions

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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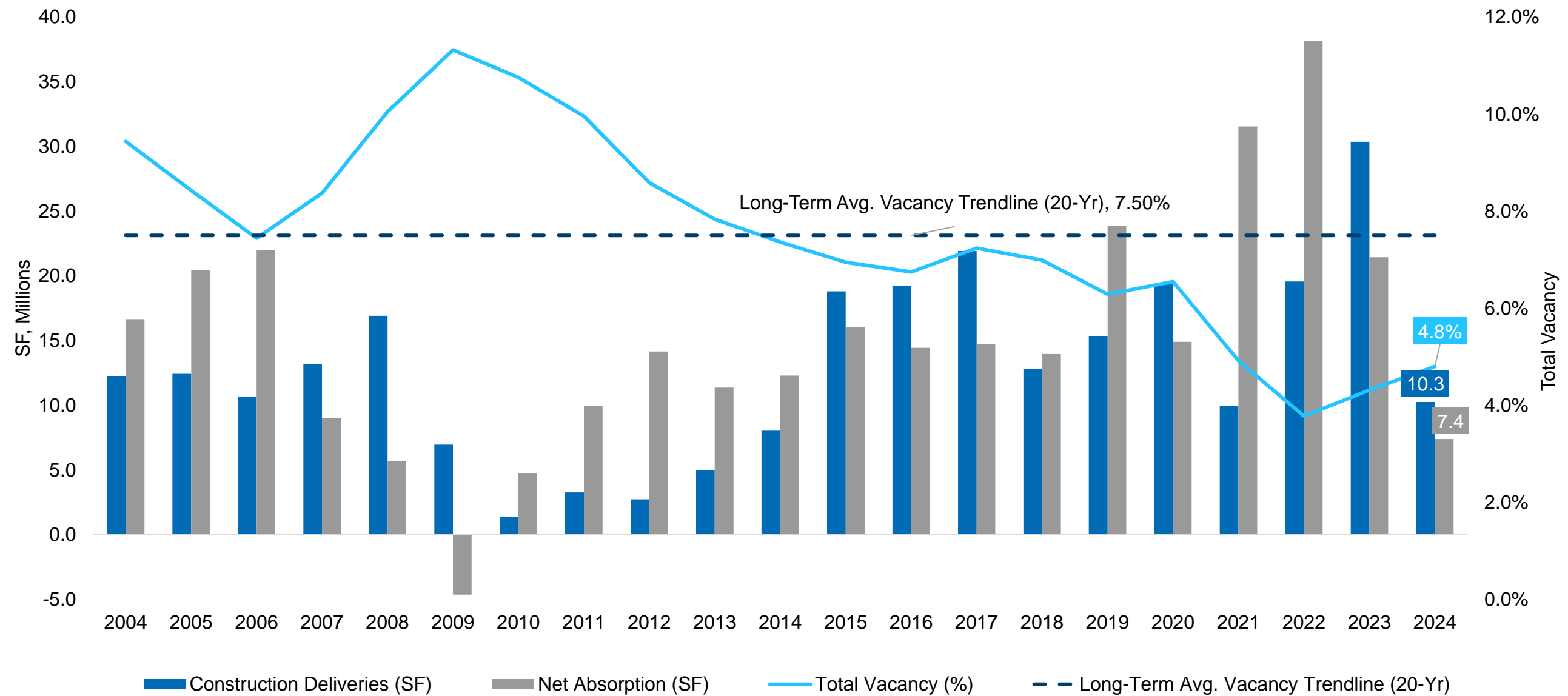
Leasing Market Fundamentals



Persistently Slow Leasing Demand Results in Lowest Annual Absorption in 14 Years

This quarter the market recorded the lowest annual net absorption since 2010 and with deliveries outpacing absorption by nearly 3.0 million SF vacancy increased 50 basis points year-over-year. Fourth quarter recorded particularly low absorption of only 131,621 square feet in part due to a significant amount of sublease space coming onto the market. We anticipate that activity levels will continue to be somewhat muted throughout 2025 and ramp back up in 2026.

Historical Construction Deliveries, Net Absorption, and Vacancy

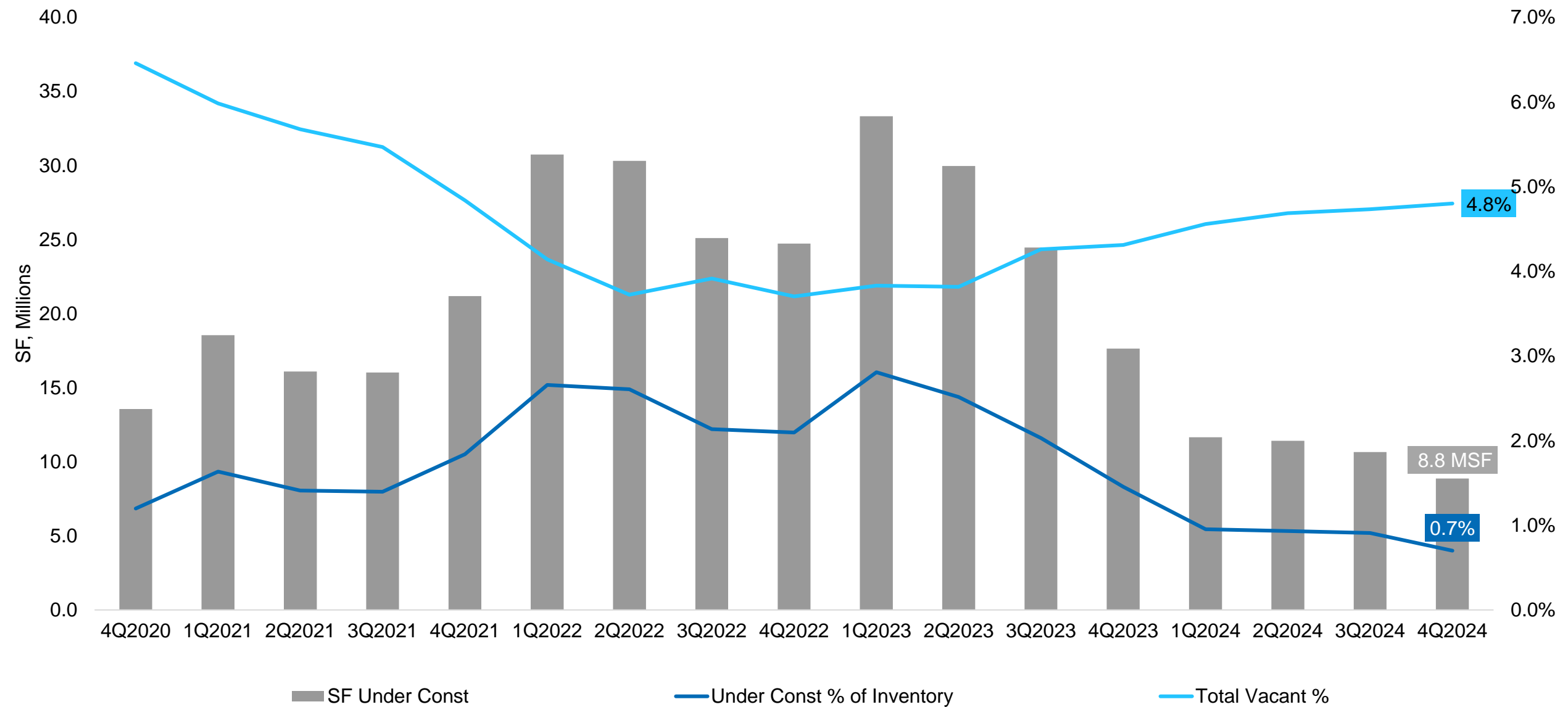


Source: Newmark Research

Conservative Development Keeps Chicago Insulated from Broader Vacancy Increases Nationally

Even at Chicago's industrial construction peak in Q1 2023, the development pipeline accounted for only 2.8% of the existing inventory. In contrast, a comparable Sunbelt market like Dallas peaked at around 8.5% over the last five years. Chicago's central location helps to shelter or at least delay impacts from events occurring on the coasts. The construction pipeline is now the lowest it has been since Q1 2020 with 43% vacancy in buildings completed in the last two years.

Historical Construction, Share of Total Inventory, and Vacancy

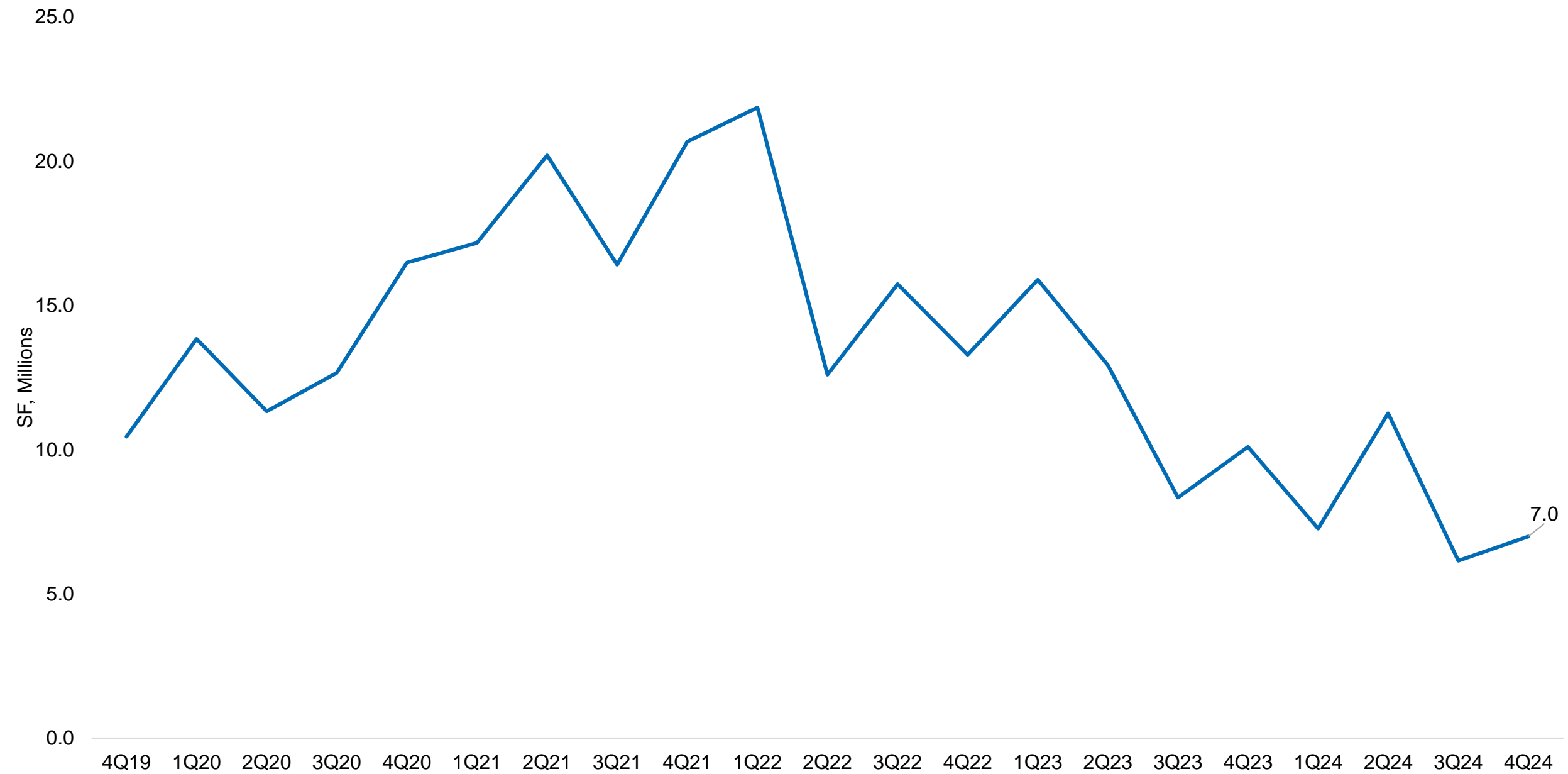


Source: Newmark Research

Industrial Leasing Activity Slows to Lowest Quarterly Mark since 2005

Leasing volume increased slightly in the fourth quarter compared to the third quarter but the combination of the election and a tighter than normal holiday season kept leasing activity muted.

Total Leasing Activity (SF)

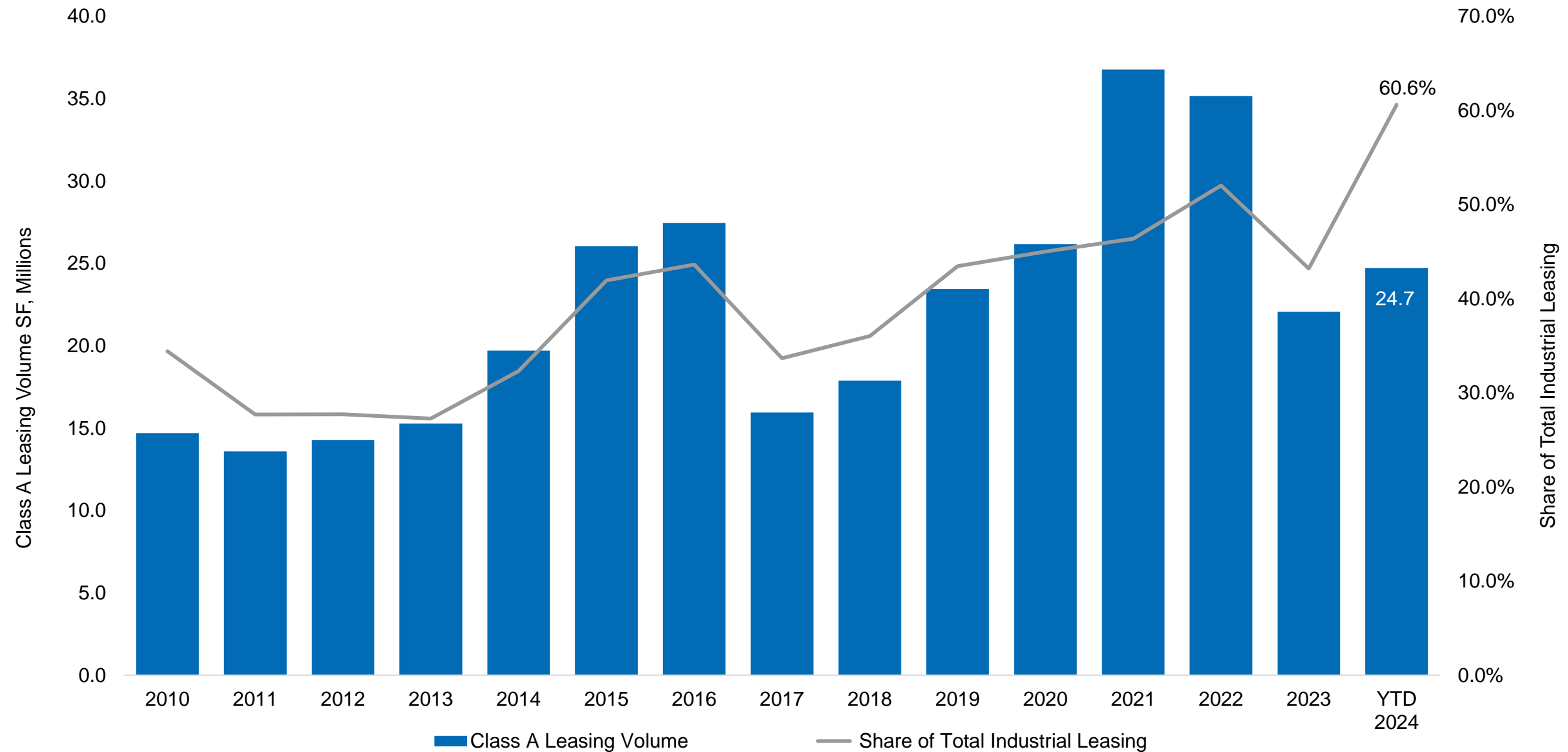


Source: Newmark Research, CoStar

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

While total leasing volume has slowed the inventory that is being leased is Class A warehouses, largely because they are the only buildings with availability. The percent of deals completed in Class A warehouses reached a new high for 2024 with 60.6% of total deal volume. While the construction pipeline is starting to empty the new buildings are where the availability remains, so we expect to see this number remain elevated.

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

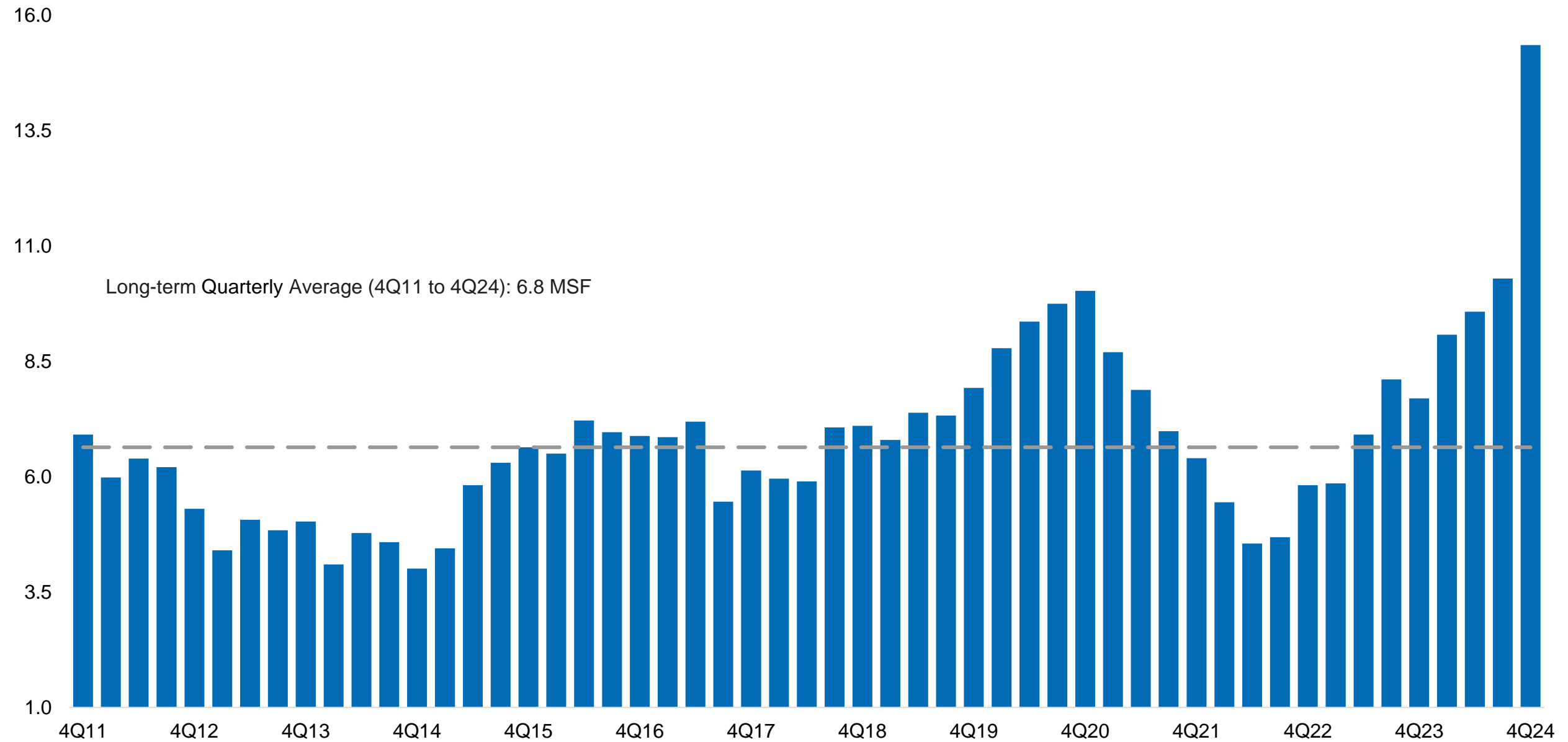


Source: Newmark Research, CoStar

Industrial Sublease Availability Balloons Increasing by Over 5.0MSF

Total sublease availability saw its most dramatic increase yet with more than 5.0MSF of sublease space being added to the market. Tenants such as Home Depot, Samsung and UNIS placed significant blocks of space on the sublease market. Home Depot also moved out of large spaces in other markets after absorbing hefty amounts of space during the home building surge of 2021 and 2022. The firm recently said their space shedding efforts will be completed in the first quarter of 2025.

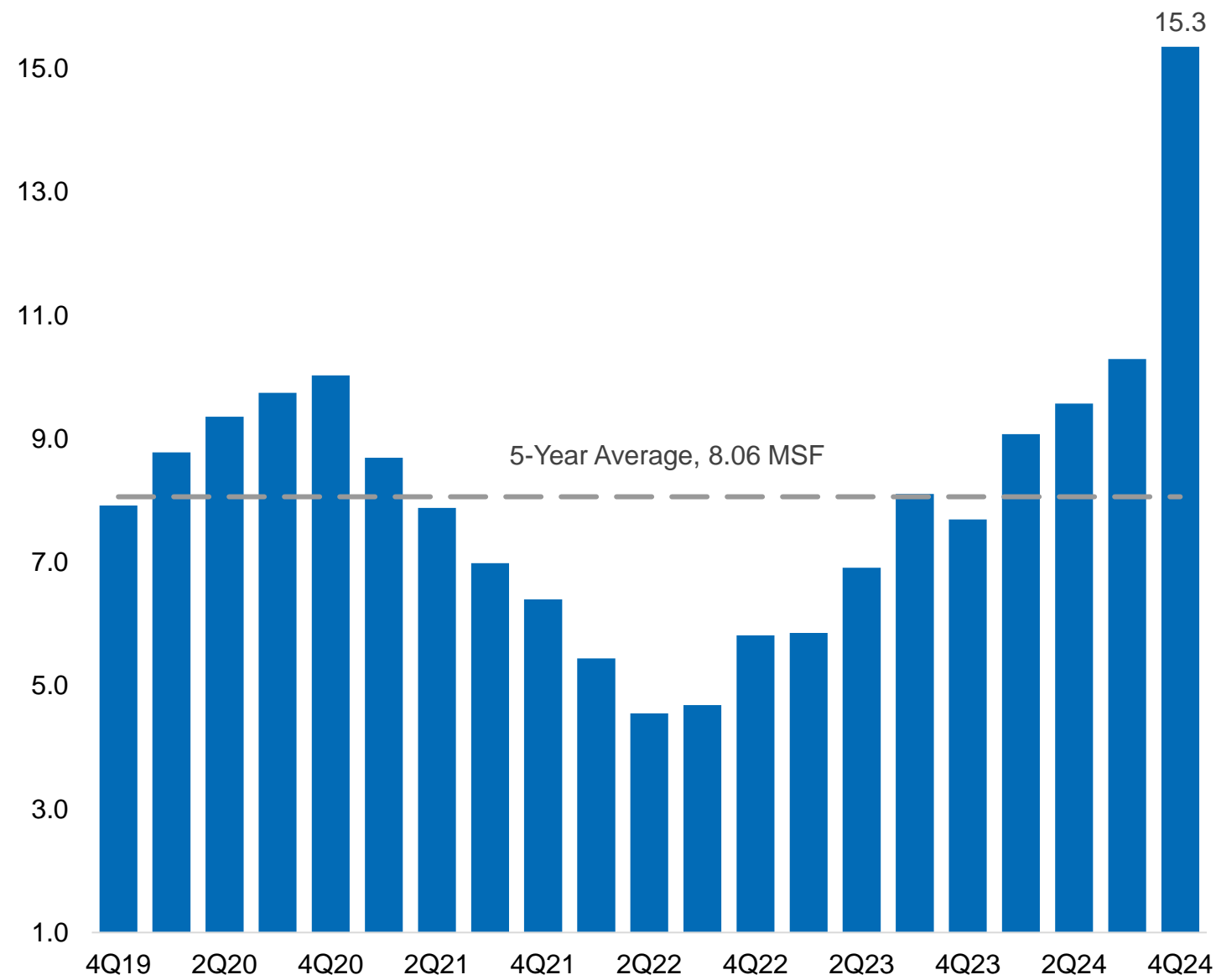
Available Industrial Sublease Volume (MSF)



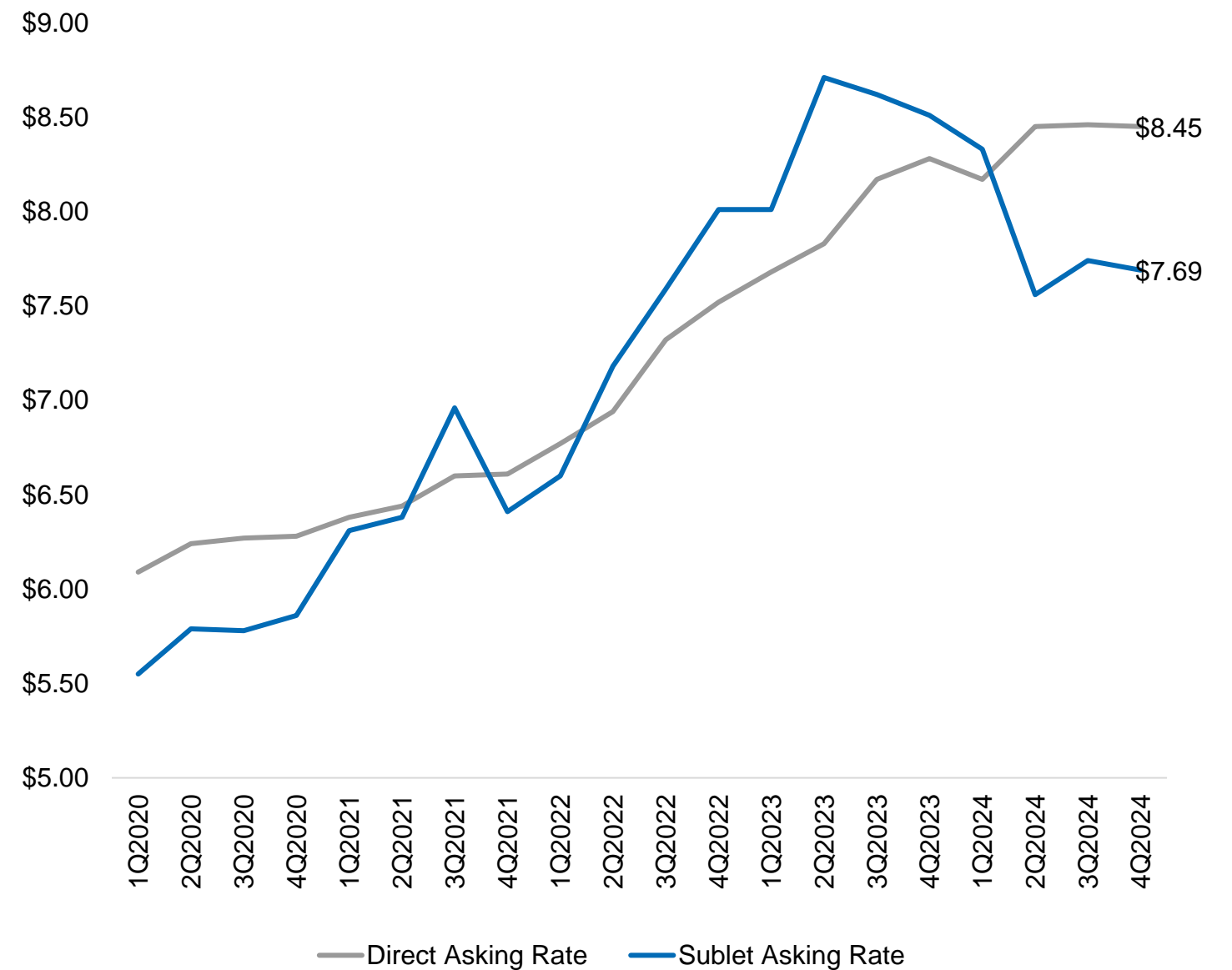
Sublease Market Takes a Larger Share of Leasing Activity

With increased sublease availability and lower asking rates than direct space, the share of sublease deals may continue to increase until demand returns. The spread between direct and sublet asking rates flipped at the end of 2023 and is currently \$0.76.

Available Industrial Sublease Volume (MSF)



Direct and Sublet Asking Rates



Source: Newmark Research, CoStar

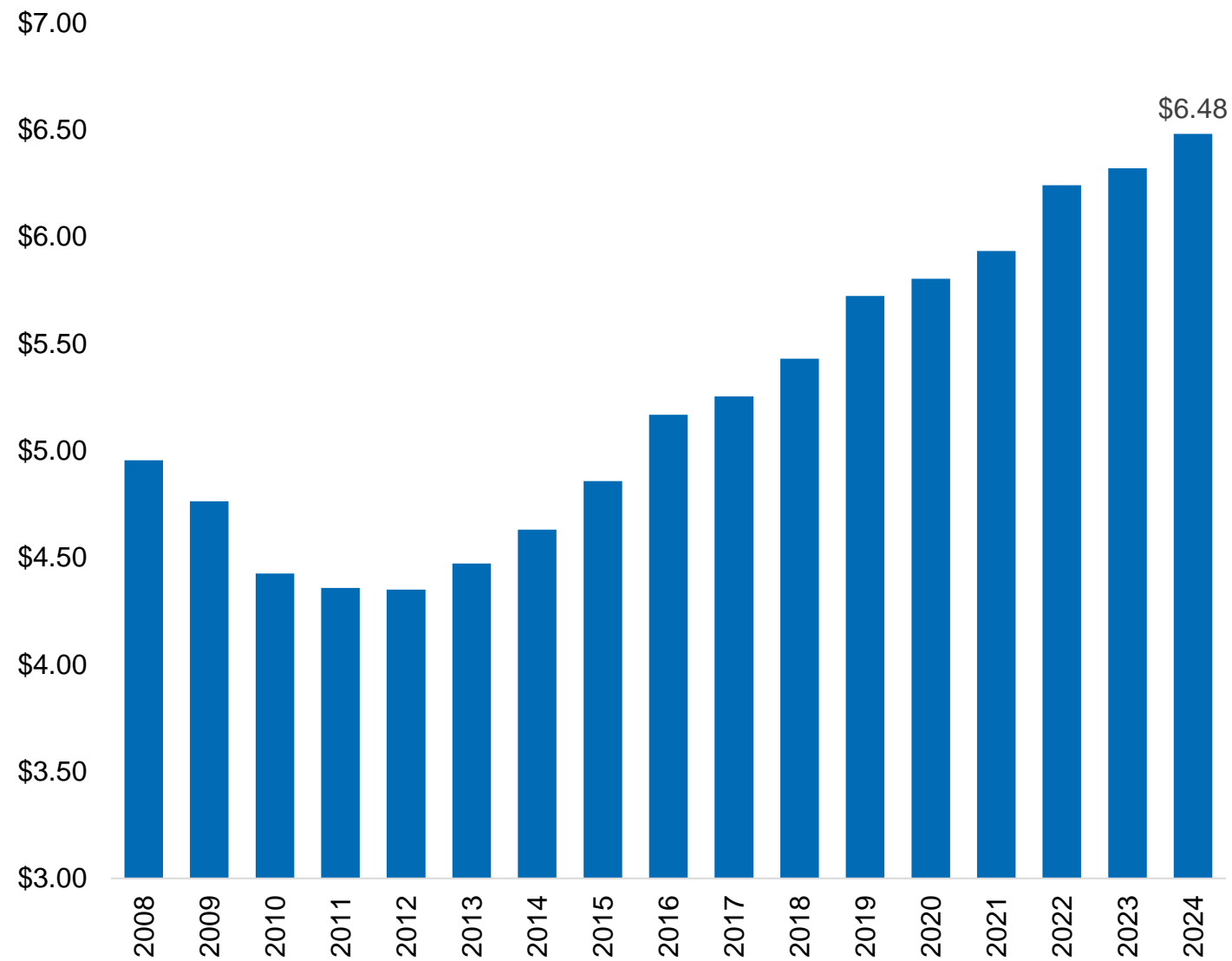
Lease Type Shares Shift as Leasing Volume Slows

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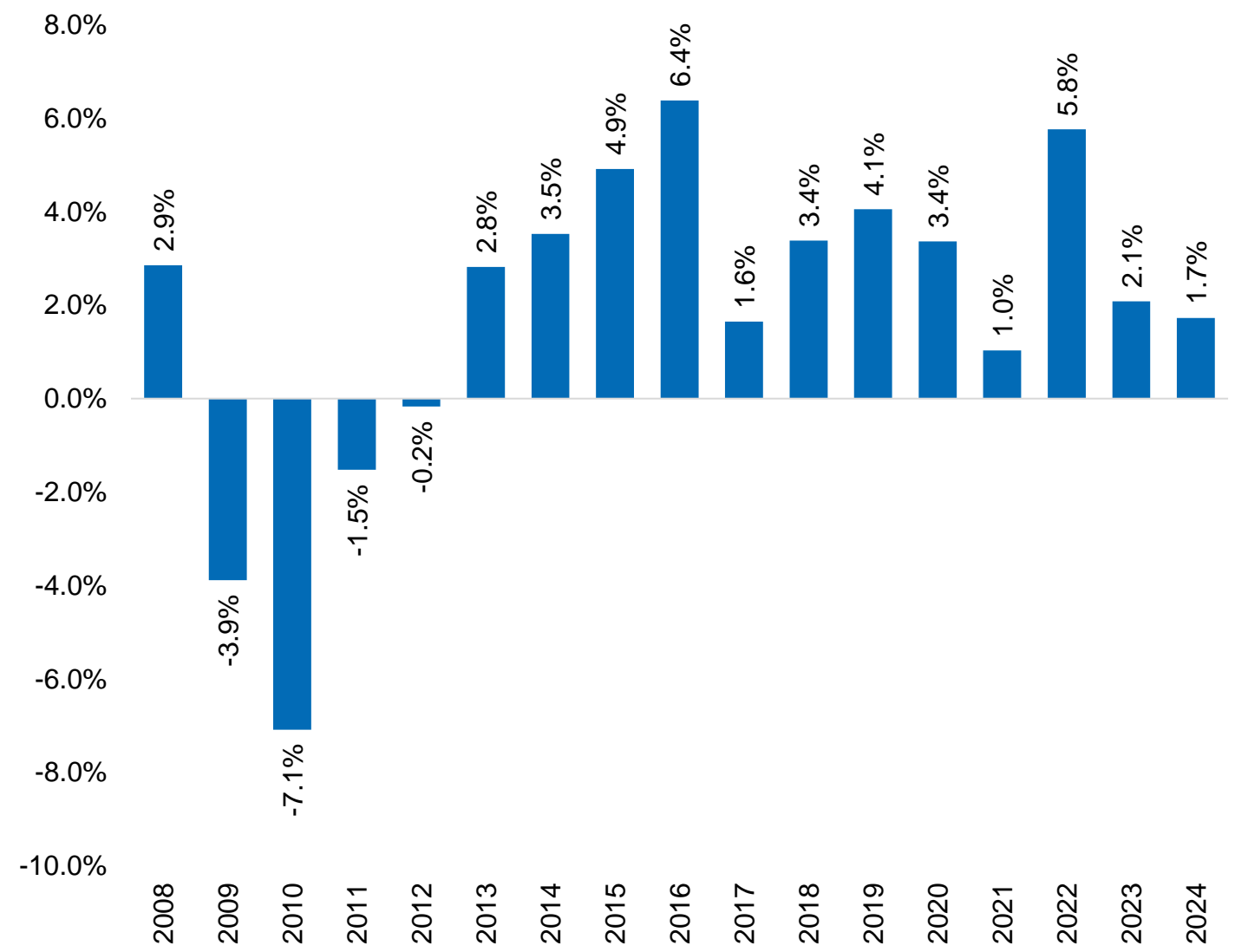
Industrial Rent Growth Pauses

Asking rates fell a nominal \$0.03/SF this quarter to \$6.47/SF but year-over-year rents are up 1.7%. Asking rates have moved inversely to taking rents and because of slower 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

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

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Construction Starts Still on Pause



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New Inventory Leading to Increases in Vacancy

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Notable 4Q24 Lease Transactions

There were no leases over 500,000 square feet signed this quarter, but a significant portion of leases signed were new deals.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Pioneer Technology	295 Southcreek Pky.	I-55	Direct New	497,717
MSI Express	1885 E State St.	Fox Valley/North Kane	Direct New	274,800
US Elogistics	4275 Ferry Rd.	I-88	Direct New	270,934
Trimark Marlinn	6100 W 73rd St.	South Cook	Renewal	232,000
Thermo Flex Corp	1725 S Waukegan Rd.	Far North	Direct New	172,542

Submarket Overview



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Capital Markets Fundamentals



Sales Volume Picking Up

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Pricing Continues to Rise

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Buyer Breakdown



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Notable 4Q24 Sale Transactions

Data center sales were the priciest sales of the quarter but MDH Partner's purchase of the 3 property Minook Interstate Logistics portfolio was the largest at over 2.2MSF.

Select Sales Transactions

Buyer	Seller	Building	City	Price/SF	Square Feet
MDH Partners	LXP	Minooka Interstate Logistics Portfolio	Minooka	\$61	2,213,141
R2 Companies	BECO Management	Innovation Park Lake County	Libertyville	\$31	1,136,311
WW Grainger	Prologis	501 International Parkway	Minooka	\$92	850,000
Venture One / DRA Advisors	CBRE Global Investors	2700 Ellis Road	Joliet	\$59	689,658
HMC Capital	Prologis / Skybox Datacenters	800 E Devon	Elk Grove Village	\$712	189,000

Source: Newmark Research, Real Capital Analytics

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