

Rockford, Illinois

Industrial Market Exploration

By Jack Brown

Market Overview

Rockford, IL is a **manufacturing-based** economy, specifically in the field of aerospace

- Manufacturing jobs account for over 20% of employment of labor force (US total is ~9%)

“The Screw Capital of the World”, specializes in:

Advanced Manufacturing, Aerospace, Automotive, Logistics & Distribution,
Food Processing, Data Centers, and Healthcare

Rockford, Illinois Industrial

- Total Population: 333,111
- Labor Force: 161,211

Notable Warehouses (via CoStar database)

- Lowe's Distribution Center - 1,511,576 sqft
- Berner Food & Beverage Distribution Center - 675,502 sqft
- Misc. industrial parts manufacturers - 558,000 sqft (27,180 sq ft vacant)
- Misc. companies - 523,758 sqft (326,260 sqft vacant)
 - including an Amazon Fulfillment Center - 140,000 sqft
- Amazon Air Hub - 192,000 sqft

Largest Employers in Rockford MSA
(As of Jan. 2022)

| Company | Industry | Number of Employees |
|---|-----------------------------|---------------------|
| Rockford Public Schools | Education | 4,075 |
| UW Health | Healthcare | 3,780 |
| Mercyhealthcare | Healthcare | 3,000 |
| OSF Healthcare | Healthcare | 2,200 |
| Collins Aerospace | Aerospace Manufacturing | 2,000 |
| Woodward | Aerospace Manufacturing | 2,000 |
| UPS | Logistics & Distribution | 2,000 |
| Amazon | Logistics & Distribution | 1,535 |
| Wal-Mart Stores | Retail | 1,470 |
| Stellantis (formerly Fiat Chrysler Automobiles) | Manufacturing | 1,459 |
| Winnebago County | Government | 1,429 |
| Lowe's | Distribution Center, Retail | 1,110 |

Year Built

- [2008]
- [2019]
- [1962]
- [1980]
- [moved-in 2021]
- [2019]



Industrial Overview

2022 Q2

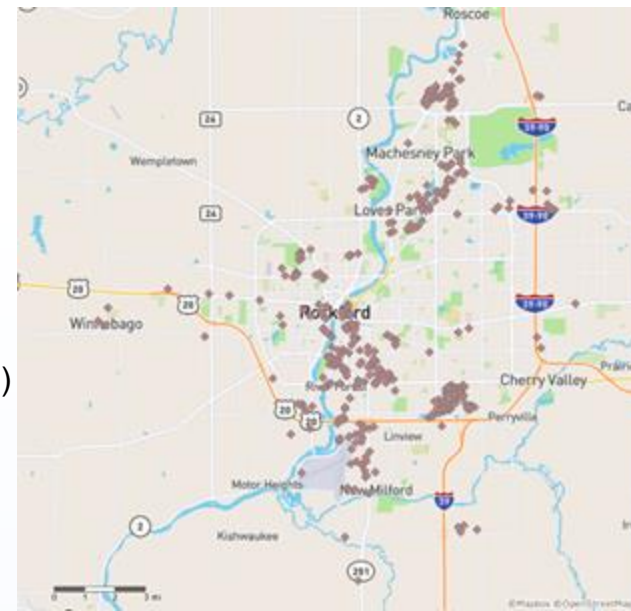
Rentable Building Area: 24,818,375 sqft
Vacancy Rate: ~6% ~1,500,000 sqft
Net Absorption: 206,868 sqft (679,344 sqft in last 12 mo.)

Under Construction: 109,000 sqft (total of 3 properties)
Average Rent: \$4.73 per sqft (7.7% growth in 12 mo.)

Existing Inventory Profile

| | Total Sqft | Year |
|--------|------------|------|
| Mean | 110,072 | 1976 |
| Median | 85,000 | 1980 |

Source: CoStar

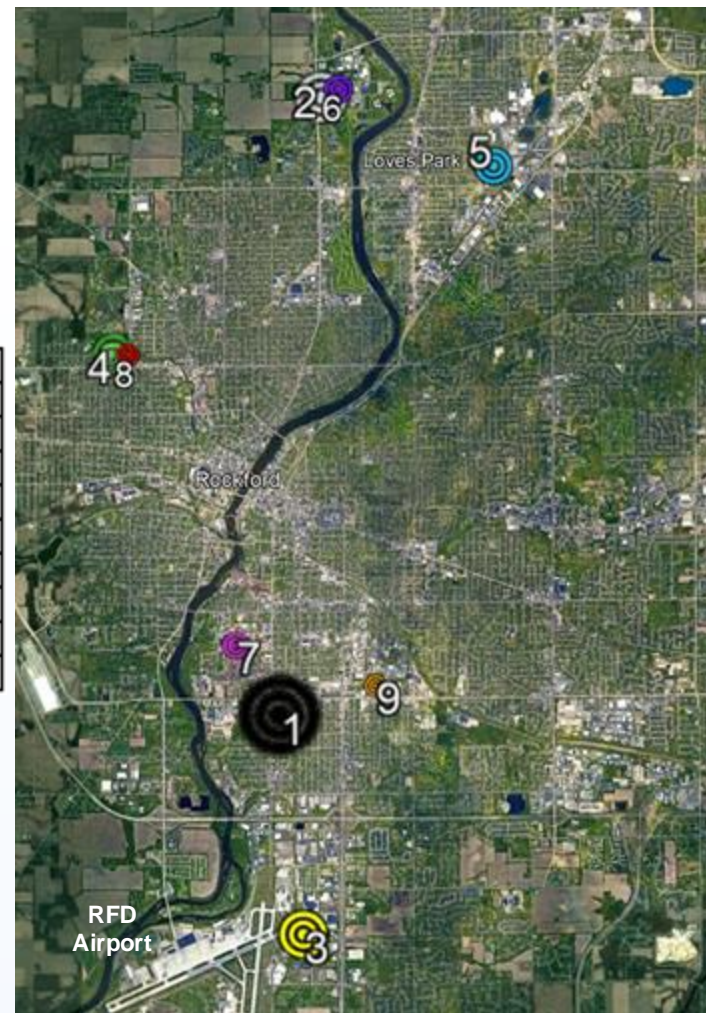


All Rockford warehouses >10,000 sq ft in total size

| Developer Name | # of Developments Owned in Rockford |
|---|-------------------------------------|
| STAG Industrial, Inc. | 9 |
| Stenstrom Real Estate Development Group | 6 |
| Ballard Properties | 4 |
| Phoenix Investors, LLC | 4 |

Warehouses for Lease

| # | Address | Available Sqft | Land Owner | Relation to RFD |
|---|----------------------------------|----------------|--------------------------------|-----------------|
| 1 | 707 Harrison Ave, Rockford | 581,000 | Sunil Family, LLC | 2 mi N |
| 2 | 4650 Shepherd Trail, Rockford | 326,260 | Phoenix Investors, LLC | 9 mi N |
| 3 | 1122 Milford Ave, Rockford | 305,000 | Meiborg, Inc. | <1 mi E |
| 4 | 4000 Auburn St, Rockford | 276,996 | Phoenix Investors, LLC | 6.5 mi N |
| 5 | 1354 Clifford Ave, Loves Park | 225,000 | Joseph Le Lense | 9 mi NE |
| 6 | 1818 Elmwood Rd, Rockford | 117,782 | Phoenix Investors, LLC | 9 mi N |
| 7 | 340 Blackhawk Park Ave, Rockford | 100,000 | Shanahowe Transportation, Inc. | 3 mi N |
| 8 | 1240 N Central Ave, Rockford | 91,000 | Phoenix Investors, LLC | 6.5 mi N |
| 9 | 2020 Harrison Ave, Rockford | 80,000 | Sunil Family, LLC | 3 mi NE |



Chicago-Rockford International Airport (RFD)

- In 2020, the Airports Council International named RFD as the fastest-growing airport in the world*
- In 2021, RFD was the 14th largest cargo airport in the United States for landed weight

RFD is home to:

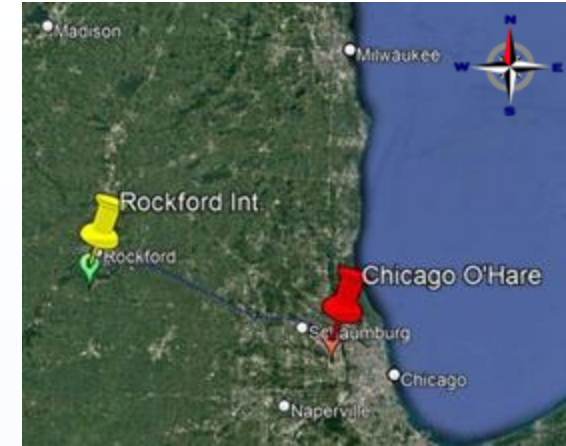
- The second largest of UPS's seven domestic air hubs
- A major base of operations for Amazon Air
- 15 international airlines

International tier one freight forwarders:

- DB Schenker, DSV, and Senator

Other international and domestic air cargo carriers:

- HAE, ABX Air, ATI, Atlas Air, National Airlines, Silk Way West, Emirates, Korean Air, Magma, and ASL



Chicago O'Hare International Airport (ORD)

- Chicago is a bottleneck in the global supply chain
- ORD is #1 in US for air cargo volume
- ORD experiences congestion due to high inflow of air cargo, but has been actively expanding to combat this
- RFD is located just 65 miles NW of ORD

ORD vs RFD Air Cargo Imports (in lbs.) by Year

| Year | ORD | YOY Increase | RFD | YOY Increase |
|------|-------------|--------------|-------------|--------------|
| 2017 | 4.3 Billion | --- | 1.4 Billion | --- |
| 2018 | 4.1 Billion | -4% | 2.1 Billion | 50% |
| 2019 | 3.9 Billion | -4% | 2.3 Billion | 10% |
| 2020 | 4.5 Billion | 15% | 2.7 Billion | 17% |
| 2021 | 5.5 Billion | 24% | 3.4 Billion | 26% |

Source: Federal Aviation Administration (FAA) and flychicago.com

Strengths

- Lower cost of operation, compared to Chicago (and sometimes quicker service)
 - Rockford region's cost of living is approx. 24% lower than the national average
 - Rockford Avg. Rent: ~\$5/sqft vs. US Avg. Rent: ~\$11/sqft
 - Lower median income than national average, so people will be willing to work for less
- Close proximity to other cities (measured in straight line distance to city centers)
 - Chicago, IL (80 miles) - Madison, WI (58 miles) - Milwaukee, WI (80 miles)
- Great interstate and railroad connections
 - 2 major interstates run through the region (I-39 and I-90)
 - High truck traffic volume
 - ~12,000-18,000 average daily truck traffic between Rockford and Chicago
 - ~17,000 average daily truck traffic between Rockford and north to Wisconsin
 - Business located here can reach 75% of U.S. businesses within a 24-hour truck drive
- Industrial economic base and increasingly-large air cargo volumes foster need for warehousing
- German freight forwarders Senator and DB Schenker are subleasing 60,000 and 50,000 sqft near RFD to escape ORD congestion
- Tax abatements may be awarded to new/redevelopments that result in substantial new job/economic growth, or meet goals set by local government



Rockford, IL Business Case

Assumed 1,000,000 SF building with 500 headcount and last mile delivery within 100 mile radius based on population density

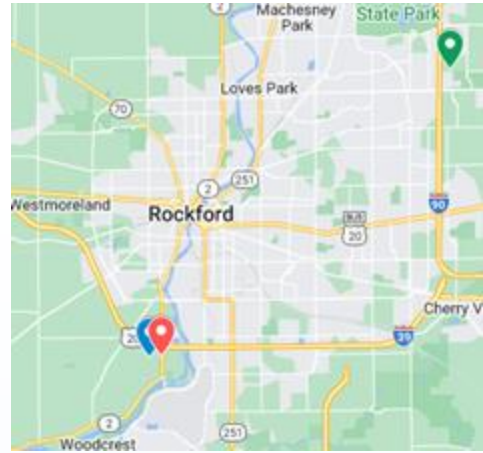
- Tenant Occupancy Cost Estimates; 10-Year Recurring, Non-Discounted (rent, logistics, payroll)



| Location | Total Costs | Payroll Costs | Rent Costs | Logistics Costs* |
|-----------------|----------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Rockford, IL | \$345,905,758 | \$256,628,449 | \$46,925,573 | \$42,351,737 |
| Elgin, IL | \$366,236,497 5.87% increase | \$265,669,130 3.52% increase | \$60,416,675 28.75% increase | \$40,150,693 5.19% decrease |
| O'Hare Airport | \$400,117,228 15.67% increase | \$277,881,979 8.28% increase | \$87,985,449 87.5% increase | \$34,249,800 19.13% decrease |

*Logistics Costs assumed shipment to high density zip codes (1,000+ per sq mile) around a 100 mile radius of each site. The higher the density of people in a zip code, the more shipments to that zip code was assumed.

Shortcomings

- Declining population growth (Rockford City - US Census Bureau)
 - 2010: 152,871
 - 2020: 148,655
 - 2021: 146,962
 - 2026: 144,321
 - Population projected to keep declining at 1.8%
- Low annual absorption rate (CoStar)
 - Historical average: only 146,925 sqft
 - Forecast average: only 147,257 sqft
- Lack of speculative development, including only 3 properties, in 2 locations, under construction
 -  planned to finish by July 2022,  &  planned to finish by January 2023
- Wide current availability of warehouse space, means there may not be a need for more
 - Already > 1.5 million total vacant sqft
 - Rockford Vacancy Rate: ~6%
 - Total US Vacancy Rate: ~4%
- Small volume and size of current sales
 - Only 19 sales in the past 12 months, with 180,060 sqft being the largest building sold/leased



 60,000 sqft
  30,000 sqft
  19,000 sqft

Total: 109,000 sqft

Notable Recent News

Solutions to congestion are being sought within Chicago (reported in March 2022)

- Alliance Ground International, the largest ground handler in Chicago, recently invested \$100,000 in a new cargo control system to its Chicago operations, as well as a 253,000 sqft import handling warehouse only 10 minutes west of O'Hare and close to many freight forwarders
- Maestro Cargo is leasing a 164,000 sqft warehouse only 5 minutes from the airport, for 5 years

New \$8 million dollar, 240,000 sqft building for cargo approved in RFD (June 2022)

- The Greater Rockford Airport Authority Board of Commissioners approved \$8 million in finances for a third cargo warehouse building, with a ground handling company making its debut in Illinois by leasing this new 240,000 sqft space

Rockford has been consistently losing jobs and labor force members in the past decade, specifically this year



Source: U.S. Bureau of Labor Statistics

Build-to-Suite Parks/Listings

1) Rock 39 Industrial Park - Build to Suits for Lease



Listed on: rockfordil.com

| | |
|------------------|------------------------------------|
| Address: | Baxter Road and South Mulford Road |
| City: | Loves Park |
| State: | IL |
| Building Type: | Industrial |
| Available SF: | 1,500,000 |
| Pricing Note: | \$3.50 - 6.50 PSF (Annual) |
| Lease Rate Note: | \$3.50 - 6.50 PSF (Annual) |
| Lease Terms: | Triple Net |
| Last Updated: | Jan 10, 2022 |

Land owned by:

- (1) US RE Company, LLC
- (2) Rock 39, LLC

Who Owns the Land in Rockford?

- Lots of Limited Liability Companies (LLCs) own most of the land with development potential in Rockford
- They are better primed to capitalize should the need for development in Rockford increase

2) Loves Park, IL Corporate Center - Build to Suits for Lease



Listed on: rockfordil.com

| | |
|------------------|-------------------------------|
| Address: | Beverage Blvd. and Harvey Rd. |
| City: | Loves Park |
| State: | IL |
| Building Type: | Industrial |
| Available SF: | 350,000 |
| Pricing Note: | \$4.50 - 6.50 PSF (Annual) |
| Lease Rate Note: | \$4.50 - 6.50 PSF (Annual) |
| Last Updated: | Jan 10, 2022 |

Land owned by:

- (1) Danfoss Power Solutions II, LLC

Which Companies Dominate Land Ownership?

- STAG Industrial Holdings, LLC
- Sunil Family, LLC
- Phoenix Investors, LLC
- Greater Rockford Airport Authority

Conclusion

After our thorough research, I do not recommend speculative development of the Rockford, IL area, as of July 2022

As covered throughout this presentation, the main findings and reasons for the recommendation above are as follows:

- Very low annual absorption trends; averaging far less than 200,000 sqft per year and not projected to increase much (Historical: 146,925 sqft, Forecast: 147,257 sqft)
- Poor and continually-weakening economy
- Shrinking population size and labor force
- High Vacancy (6%) / Existing warehouse inventory well over 1 million sqft already
- Low volume of sale and lease transactions
- Lack of proven speculative development in recent years
 - Only 3 developments currently under-construction, with a combined total of only 109,000 sqft