Rents continue to rise, leasing pulls back amid economic uncertainty

▲ 3.0%
Vacancy Rate

▼ 2.1 M
SF Net Absorption

▼ 36.0 M
SF Under Construction

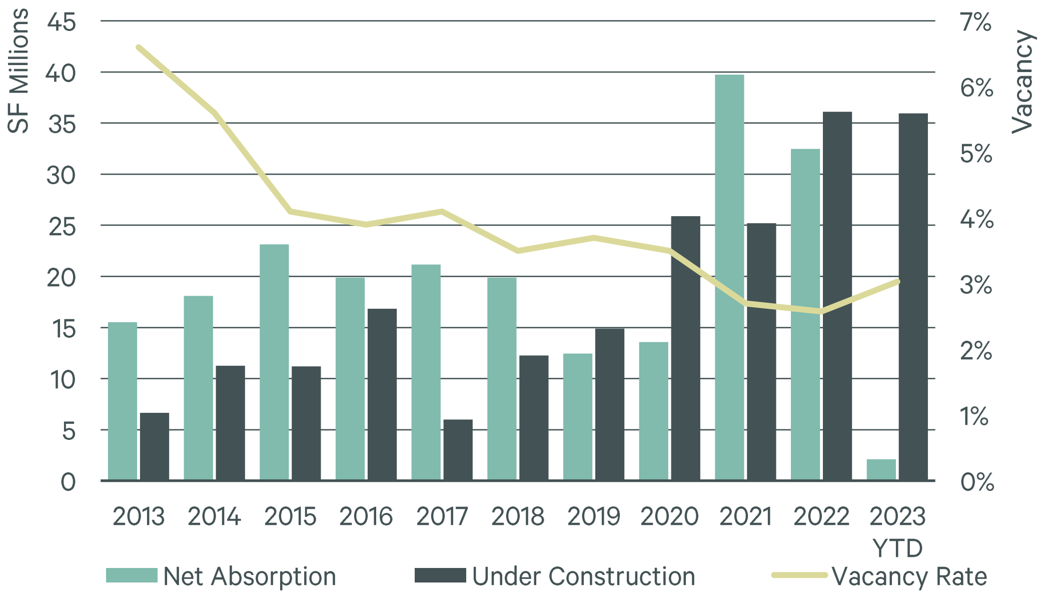
▲ $6.32
NNN/Lease Rate

Note: Arrows indicate change from previous quarter.

New construction starts up 59% year-over-year

- The Chicago market reported a 3.0% vacancy rate in the first quarter of 2023, a 45-basis point (bps) increase quarter-over-quarter.
- Average asking rental rates escalated to $6.32 PSF, up 8% from the $5.85 PSF recorded year-over-year. This rate is up nearly 29% from five years ago.
- Net absorption fell to 2.1 million SF in the first quarter. The occupancy rate in Chicago reached 97% as the market tightens.
- Construction activity stood at 36.0 million SF, consisting of 99 tracked projects currently underway. By SF, 89% of these developments are being built on a speculative basis and 11% are being constructed as build-to-suit projects. Year-over-year, overall construction activity increased 39% in Chicago, solidifying the metro as a significant and strong market nationwide.
- The industrial market in the United States could still face challenges in relation to the supply chain, inflation and economic anxiety. However, the outlook for Chicago is optimistic due to key drivers of the market – including its ability to reach 37.5 million people within a 250-mile radius of the city's core region and its extensive rail connectivity.

Figure 1: Net Absorption, Under Construction & Vacancy



Leasing Activity

The new year started off with 13.6 million SF in total leasing activity. As the economy remains uncertain and space availability is limited, tenants are opting to stay in their occupied space. A total of 28 transactions were signed in Chicago, recording 4.1 million SF, an increase from the 3.3 million SF quarter-over-quarter. Last year at this time, renewal activity stood at 3.4 million SF, proving that while the market continues to tighten, tenants are looking to secure their occupied space. The two largest renewal transactions included CJ Logistics for one million SF in Elwood and Hearthside for 443,010 SF in Bolingbrook. In total, 12 renewals exceeding 100,000 SF each were signed from January to March. All in all, renewal activity accounted for nearly 30% of overall leasing activity this quarter.

New lease transaction volume (including new leases and expansions) dropped for the fifth consecutive quarter to 8.2 million SF, consisting of 104 transactions greater than 10,000 SF. Quarter-over-quarter, the Chicago market new leasing total dipped 18.2% from nearly 10.0 million SF recorded at the end of 2022. The Far Southwest Suburbs submarket signed nine new lease transactions during the first quarter totaling 2.1 million SF, the most activity that took place in a submarket. The largest deal, inked by Solo Cup Company in Country Club Hills, exceeded one million SF. New leasing activity was strong in larger spaces as 16 new leases over 100,000 SF took place, reaching 5.4 million SF.

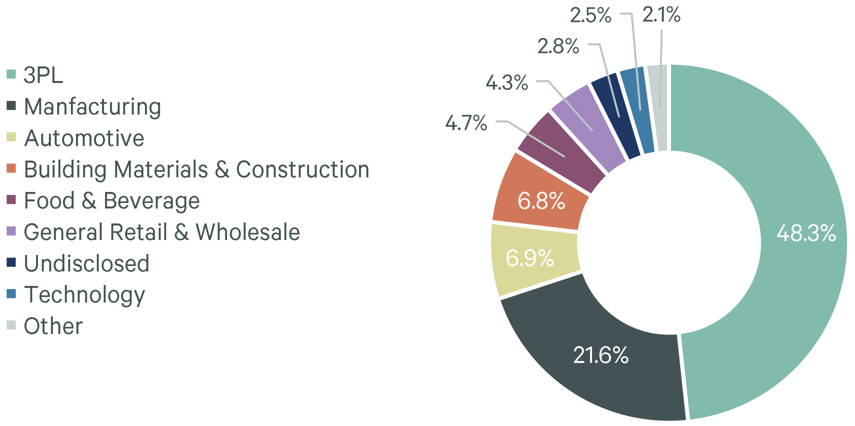
Sale Activity

User sales decreased in the first quarter, recording 1.0 million SF with a total of 28 transactions. Activity was down 54% from the 2.6 million SF recorded at the start of 2022. The most user sales took place in the O'Hare submarket, where eight properties covering 270,279 SF traded hands. The largest user sale of the quarter was signed in Northwest Indiana for 156,815 SF.

Figure 2: Q1 2023 Top Industrial Lease Transactions

SF	TYPE	ADDRESS	SUBMARKET	TENANT/BUYER
1,033,450	New Lease	5000 W 183rd St, Country Club Hills	South Suburbs	Solo Cup Company
1,027,072	Renewal	21705-21707 W Mississippi St, Elwood	Joliet Area	CJ Logistics
795,965	New Lease	555 S Pinnacle Dr, Romeoville	Far Southwest Suburbs	TAGG Logistics
592,539	Renewal	800 Bilter Rd, Aurora	Far West Suburbs	DSV Solutions
591,748	New sublease	1601 Remington Blvd, Bolingbrook	Far Southwest Suburbs	Geodis Logistics
443,010	Renewal	1100 Remington Blvd, Bolingbrook	Far Southwest Suburbs	Hearthside
442,978	New Lease	13300 Carol Ct, Caledonia	Southeast Wisconsin	Kenco
400,370	Renewal	11601 Copenhagen Ct, Franklin Park	Near West Suburbs	IAM Acquisition

Figure 3: Q1 2023 Leasing Activity by Industry Type (Share by SF)



Asking Rents

Despite the rise in vacancy, year-over-year average rents increased 8% across the Chicago region. Regardless of the delivery of new supply, the market is predicted to remain competitive, and rents are expected to moderately grow in the next year across Chicagoland. With limited availability for each occupier's unique requirements, tenants are staying put, even at higher rental rates. Given these circumstances, the average asking rate in Chicago increased to $6.32 from the previous quarter. Class A rates jumped to $6.60 PSF from $6.38 PSF. In comparison, Class B/C asking rents increased to $6.03, up from the $5.80 PSF reported at the end of 2022.

Absorption

Net absorption (a measure by which occupancies and vacancies fluctuate quarter-over-quarter), totaled 2.1 million SF, a decrease from the 3.9 million SF measured at year-end 2022. The biggest move-ins of the quarter included RJW Logistics occupying 814,848 SF in Romeoville and Uline occupying 757,418 SF in Kenosha. For the second consecutive quarter, the North Kane County submarket led all submarkets in Chicago totaling 502,680 SF of net absorption - accounting for 23.7% of the overall market net absorption recorded in the first quarter.

Gross absorption - accounting for new leases, lease expansions and user sales occupying for the quarter - totaled 12.4 million SF, down from the 14.0 million SF recorded at the end of 2022. The O'Hare and Far Southwest Suburbs submarkets both reported over 2.0 million SF in gross absorption during the first quarter.

Figure 5: Rent Growth Activity

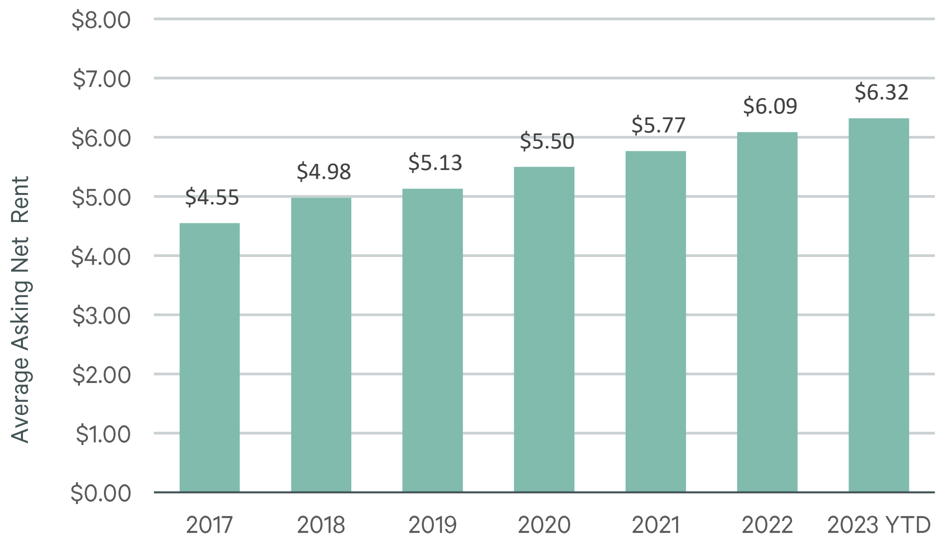
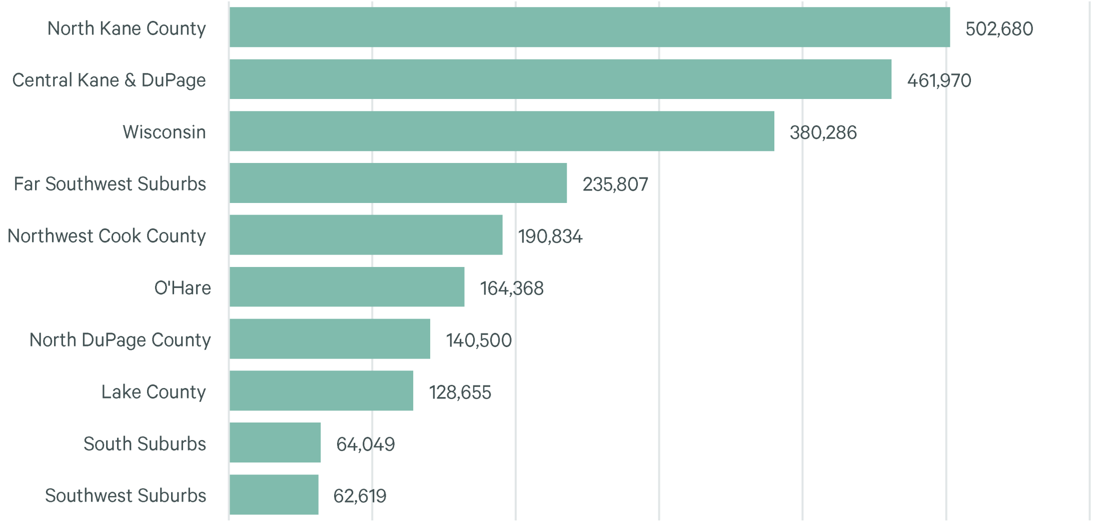


Figure 6: Top Submarkets by Net Absorption SF



Construction Activity

Activity in Chicago persisted during the first quarter with 99 construction projects underway, totaling 36.0 million SF. Quarter-over-quarter the overall construction total fell shy of the 36.1 million SF noted at the end of 2022. Of these building sites, 11% are constructed as build-to suits and 89% as speculative. If these speculative projects deliver vacant, the market could potentially see a significantly higher vacancy rate in the next year. Once again, the Joliet Area submarket led the Chicago market with the largest amount of active construction at 7.2 million SF with seven projects under development. The first multi-story industrial building is underway in Chicago at 1237 W Division Street for 1.2 million SF – one of six properties of these type currently under construction across the United States right now. An additional 18 new projects broke ground in the new year, totaling over 6.6 million SF, up 59% from the new construction starts measured last year at this time.

First quarter completions reached 6.5 million SF across 22 projects, up nearly 85%, from the 3.5 million SF reported year-over-year. The Southeast Wisconsin submarket witnessed the highest levels of new product delivered this quarter, recording over 2.3 million SF, including the market's largest project done for one million SF in Kenosha. The O'Hare submarket trailed Wisconsin with 1.0 million SF of new product, as one build-to-suit and three speculative facilities were built. The 6.5 million SF delivered this quarter makes up for 0.5% of the overall inventory in Chicago.

Looking ahead, nearly 31.4 million SF of new supply could deliver by year-end. However, as a result of the uncertainty in the economy and impacts of inflation, these factors could disrupt the amount of new construction starts in 2023 with the possibility of developers pressing pause on new projects.

Figure 7: Construction Starts vs. Completions

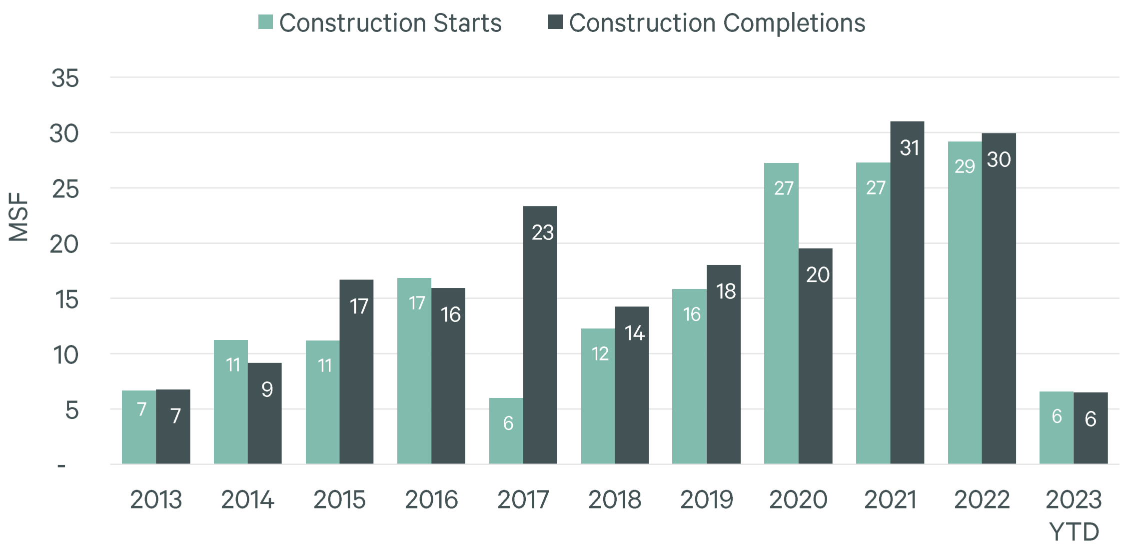
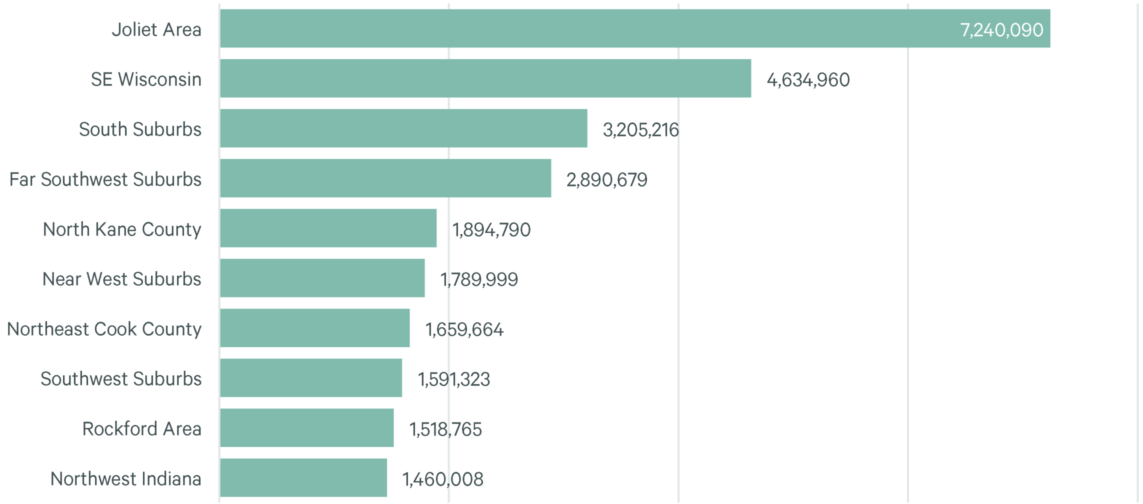


Figure 8: Top Submarket Gross SF Under Construction



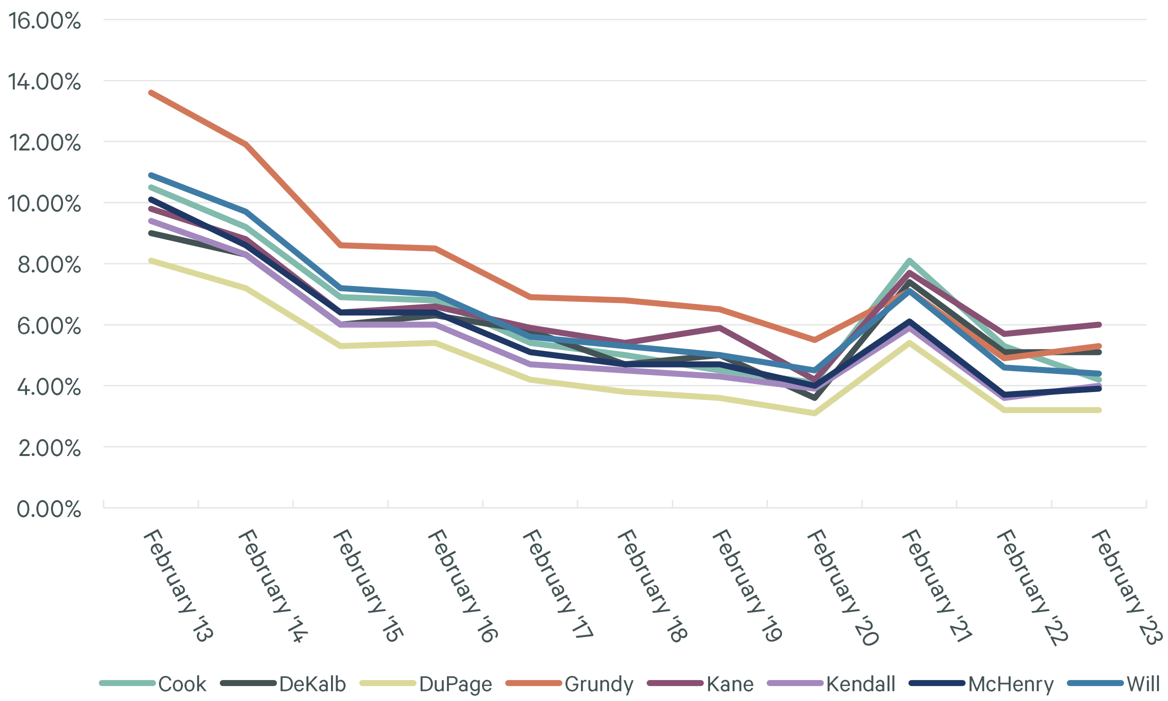
Economic Overview

Downstream consequences of the Fed's tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows.

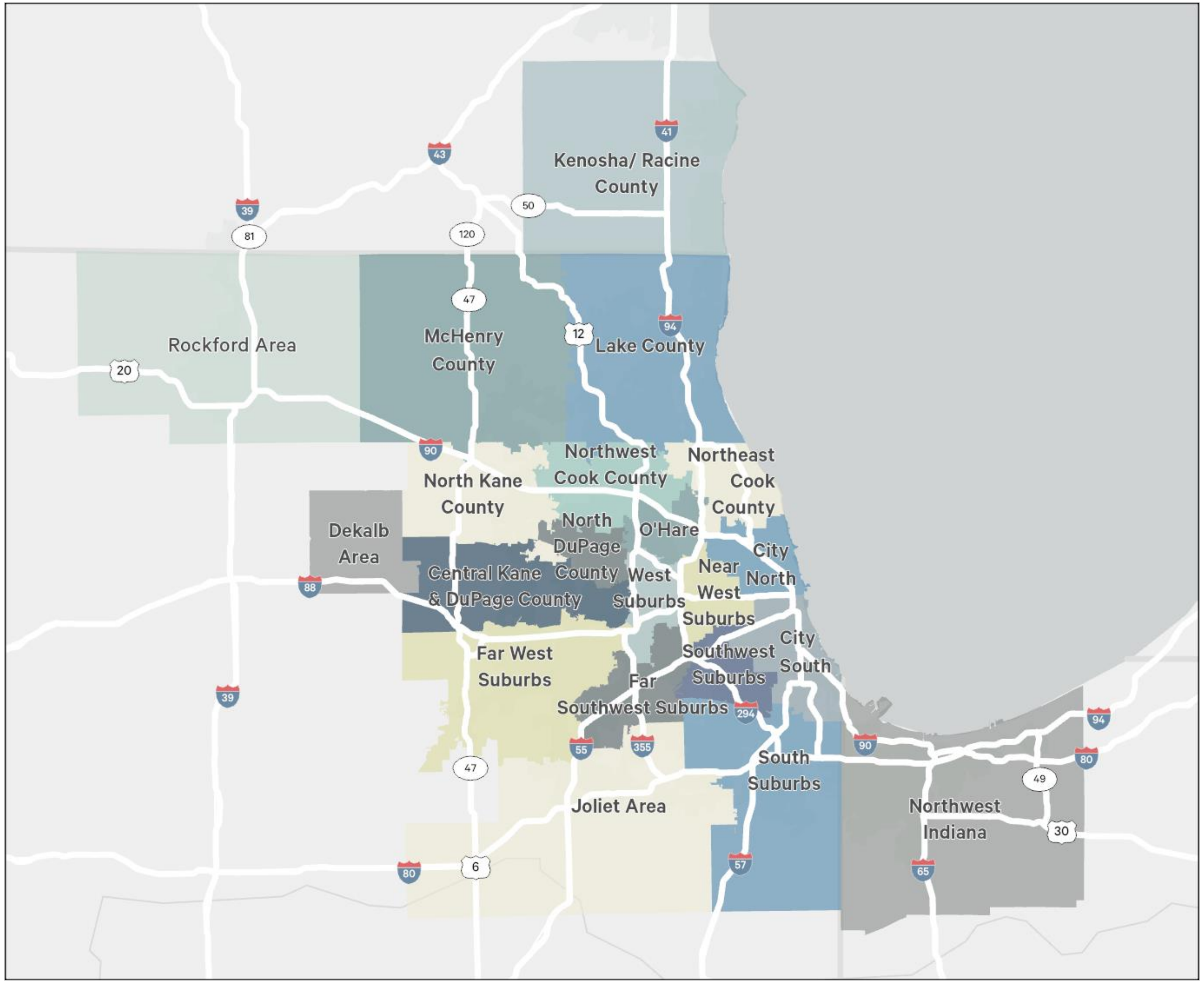
This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

Figure 9: Year-over-Year Unemployment Rates by County, not seasonally adjusted (as of February 2023)



SUBMARKET	Building Area (SF)	Vacancy Rate %	User Sales YTD (SF)	New Leasing Activity YTD (SF)	Net Absorption YTD (SF)	YTD Completions (SF)	Under Construction (SF)	Average Net Asking Lease Range ($/SF)
McHenry County	21,332,362	3.3%	0	30,000	-4,500	249,694	907,093	6.30 to 6.40
Lake County	78,747,222	3.5%	162,822	205,167	128,655	0	218,500	6.50 to 6.70
NE Cook County	49,019,036	1.6%	25,937	251,116	18,246	0	1,659,664	6.90 to 8.00
NW Cook County	29,940,535	3.8%	10,500	647,371	190,834	0	1,365,205	5.20 to 7.35
N Kane County	34,348,504	3.7%	86,239	198,100	502,680	508,315	1,894,790	5.63 to 6.28
N DuPage County	44,756,957	2.7%	0	109,515	140,500	153,000	812,050	6.90 to 7.00
O'Hare	100,580,028	2.8%	270,279	761,784	164,368	1,017,550	672,267	7.55 to 9.05
City North	60,202,756	2.5%	0	27,482	-56,585	0	1,184,800	7.80 to 8.30
Near West Suburbs	80,541,186	2.3%	51,800	161,990	-139,196	148,144	1,789,999	6.35 to 7.31
West Suburbs	38,556,146	2.4%	0	333,530	22,997	187,824	80,464	6.90 to 7.60
Central Kane & DuPage	38,872,344	2.7%	116,636	212,922	461,970	258,720	1,204,760	5.80 to 6.50
Far West Suburbs	68,057,136	3.6%	0	324,316	-44,033	392,973	952,761	5.80 to 5.87
Southwest Suburbs	62,821,879	1.6%	52,770	11,897	62,619	37,000	1,591,323	5.70 to 6.05
Far SW Suburbs	93,402,114	1.6%	0	2,095,030	235,807	795,965	2,890,679	6.17 to 6.55
City South	107,037,756	2.3%	0	138,875	-52,451	0	663,712	6.90 to 7.80
South Suburbs	65,737,773	3.4%	27,000	1,208,873	64,049	0	3,205,216	5.55 to 5.90
Joliet Area	96,125,522	5.0%	0	206,800	2,800	321,162	7,240,090	5.80 to 6.55
Northwest Indiana	30,442,486	2.0%	156,815	94,319	-19,514	134,145	1,460,008	4.85 to 6.15
Dekalb Area	14,048,233	1.9%	0	0	0	0	0	4.15 to 4.50
CHICAGO METRO SUBTOTAL	**1,114,569,975**	**2.8%**	**960,798**	**7,019,087**	**1,679,246**	**4,204,492**	**29,793,381**	**6.24 to 6.74**
Southeast Wisconsin	77,227,147	6.0%	18,128	798,090	380,286	2,295,454	4,634,960	4.40 to 5.80
Rockford Area	34,602,501	3.7%	39,910	354,000	61,500	0	1,518,765	3.80 to 4.73
TOTAL	**1,226,399,623**	**3.0%**	**1,018,836**	**8,171,177**	**2,121,032**	**6,499,946**	**35,947,106**	**6.03 TO 6.60**

Market Area Overview Map



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