

Rents continue to grow amid construction and leasing drop off

▲ 3.8%

Vacancy Rate

▼ 5.6 M

SF Net Absorption

▼ 23.4 M

SF Under Construction

▲ \$6.47

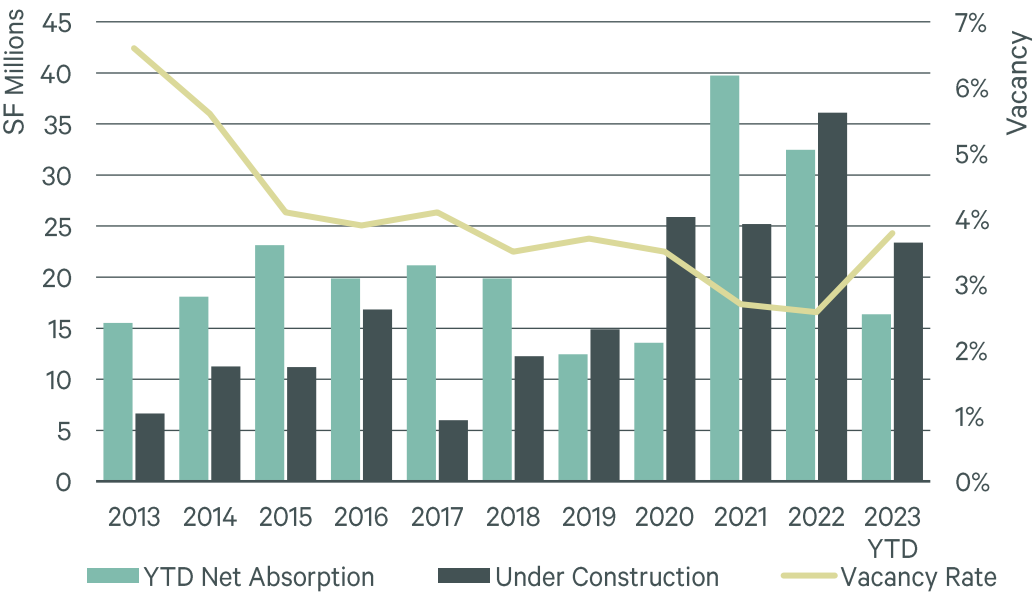
NNN/Lease Rate

Note: Arrows indicate change from previous quarter.

Ground breakings down 86% year-over-year

- The Chicago market reported a 3.8% vacancy rate in the third quarter of 2023, a 55 basis point (bps) increase quarter-over-quarter.
- Average asking rental rates were up 6.8% year-over-year. Asking rental rates reached \$6.47 PSF during the third quarter, compared to \$6.40 PSF measured at mid-year.
- Quarterly net absorption stood at 5.6 million SF in the third quarter. Due to new deliveries, though, the availability rate in Chicago increased to 7.0%, up from 5.9% measured quarter-over-quarter.
- Construction activity fell to 23.4 million SF consisting of 58 tracked projects underway. Among these developments, 69% are being built on a speculative basis and 31% are being constructed as build-to-suit projects.
- Construction deliveries will decline due to difficulties in financing. The United States has witnessed record high completions during the first half of 2023. As the construction pipeline tightens, we expect market vacancy rates to moderate.

Figure 1: YTD Net Absorption, Under Construction & Vacancy



Leasing Activity

The third quarter brought in 9.7 million SF in total leasing activity, bringing the overall year-to-date figure to 36.1 million SF. As the economy continues to remain uncertain and space availability is limited, tenants are opting to stay in their occupied space. A total of 35 renewal transactions were signed in Chicago, recording 4.3 million SF, a decrease from 5.7 million SF quarter-over-quarter. Of the top ten lease transactions of the quarter, seven of the deals were renewals. The largest deal of the quarter was a renewal signed by Geodis for 672,080 SF in Romeoville. In total, nine renewals exceeding 100,000 SF each were signed from July to September. All in all, renewal activity accounted for 44% of overall leasing activity this quarter.

New lease transaction volume (including new leases and expansions) declined for the seventh consecutive quarter to 5.2 million SF, consisting of 111 transactions greater than 10,000 SF. Year-over-year, the Chicago market new leasing total dipped 57% from nearly 12.1 million SF recorded in 2022. The largest new deal was a sublease done by FCA in Rockford for 336,204 SF. Overall, the O'Hare submarket signed 31 new lease transactions during the third quarter totaling 1.4 million SF, the most activity that took place in a submarket. New leasing activity was strong in smaller spaces as 100 new leases below 100,000 SF took place, totaling 3.1 million SF. For new leasing activity, the average deal size was 47,189 SF.

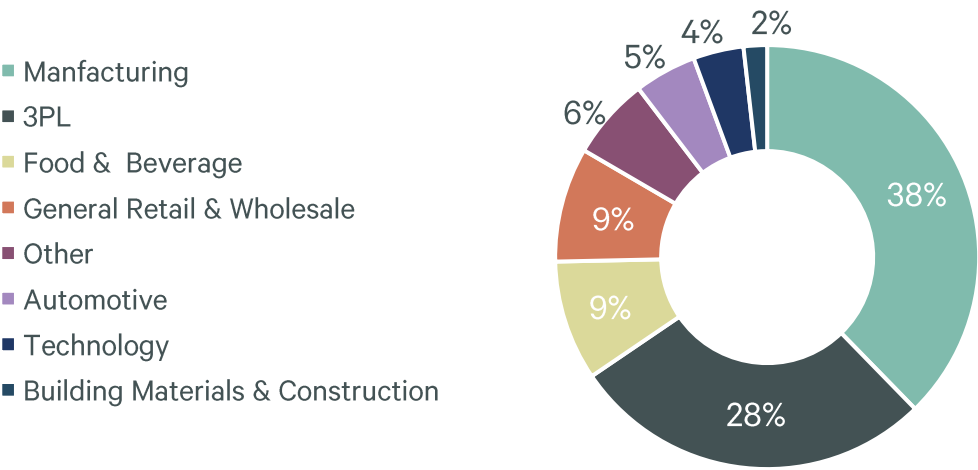
Sales Activity

User sales increased yet again in the third quarter, recording 1.9 million SF with a total of 31 transactions, up from the 1.5 million SF reported quarter-over-quarter. The most activity took place in the Southwest Suburbs submarket, where two properties totaling 318,839 SF changed hands. The largest user sale of the quarter was signed in Bedford Park for 306,552 SF. Year-to-date user sale activity reached 4.5 million SF.

Figure 2: Q3 2023 Top Industrial Lease Transactions

| SF | TYPE | ADDRESS | SUBMARKET | TENANT |
|---------|--------------|---------------------------------------|-----------------------|---------------------------|
| 672,080 | Renewal | 790 W Taylor Rd, Romeoville | Far Southwest Suburbs | Geodis |
| 486,868 | Renewal | 1340 Ridgeview Dr, McHenry | McHenry County | Follett Content Solutions |
| 352,119 | Renewal | 794-854 Golf Ln, Bensenville | O'Hare | Bradford Exchange |
| 336,204 | New Sublease | 775 Logistics Dr, Belvidere | Rockford | FCA US |
| 309,284 | New Lease | 2401-2501 Lunt Ave, Elk Grove Village | O'Hare | Hearthside |
| 295,620 | Renewal | 2001-2051 Baseline Rd, Montgomery | Far West Suburbs | United Facilities, Inc. |
| 280,962 | Renewal | 99 N Pinnacle Dr, Romeoville | Far Southwest Suburbs | Geodis |
| 268,645 | Renewal | 851-875 Devon Ave, Elk Grove Village | O'Hare | STG Logistics |
| 255,418 | Renewal | 705 Tri State Pkwy, Gurnee | Lake County | PurposeBuilt Brands |

Figure 3: Q3 2023 Leasing Activity by Industry Type (Share by SF)



Asking Rents

Average asking rental rates climbed to \$6.47 PSF by quarter-end, up 6.8% year-over-year from the \$6.06 PSF measured in 2022. Despite rising vacancy, rents are expected to moderately grow as landlords continue to push rents, even in markets with an abundance of Class A speculative deliveries. While Class A asking rents increased to \$6.82 PSF from \$6.70 PSF measured last quarter, Class B/C rents remained steady at \$6.11 PSF quarter-over-quarter. Year-over-year Class A asking rents increased 7.2% PSF.

Absorption

Following a quarter of high net absorption of 8.7 million SF (a measure by which occupancies and vacancies fluctuate quarter-over-quarter), activity dropped to 5.6 million SF, bringing the year-to-date total to 16.4 million SF. This figure is a 42% decrease from the 28.5 million SF measured last year at this time. The Southeast Wisconsin submarket recorded the most absorption with 1.6 million SF as Uline occupied over one million SF in Kenosha. Another significant move-in of the quarter was done by Solo Cup Company occupying over one million SF in Country Club Hills. In addition, seven other tenants occupied more than 200,000 SF each from July to September.

Figure 5: Rent Growth Activity

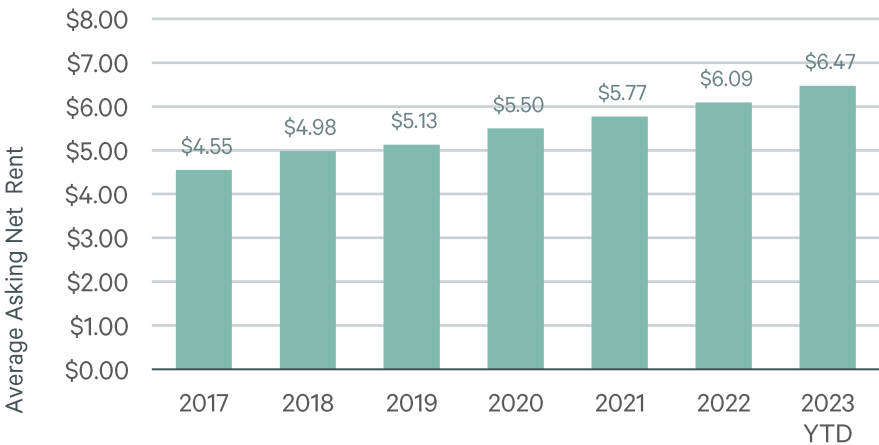
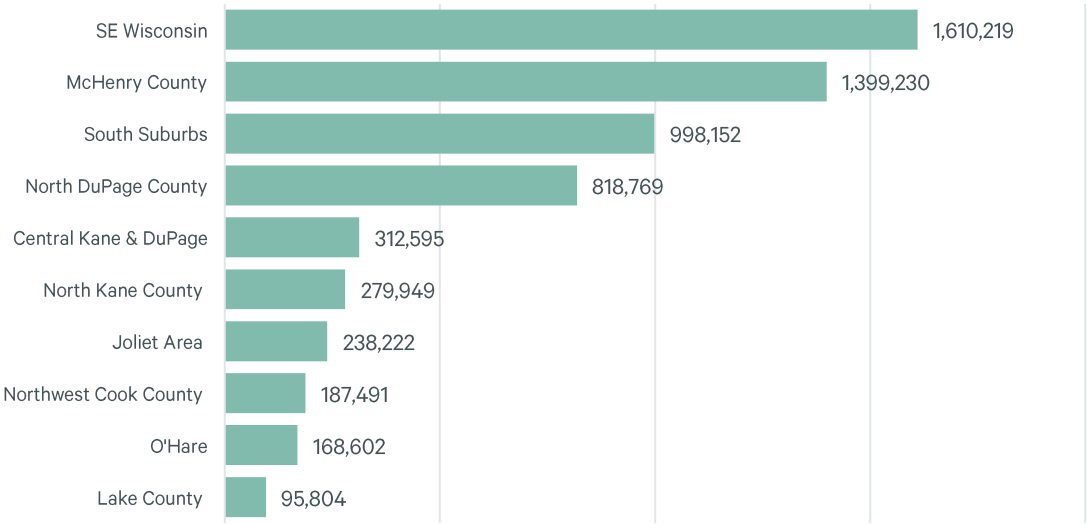


Figure 6: Q3 2023 Top Submarkets by Net Absorption SF



Construction Activity

The Chicago industrial market witnessed strong levels of construction completions during the third quarter, as 11 million SF delivered from July to September. Third quarter deliveries were up 20% compared to the previous quarter, however still down 22% year-over-year. As 9.8 million SF of vacant supply was brought to the market, the Chicago market vacancy rate increased 55 bps, rising from 3.2% to 3.8% quarter-over-quarter. The Joliet Area submarket accounted for over three million SF of new supply, as two speculative developments over one million SF each delivered. Both developments were delivered vacant, which has been a major factor driving higher vacancy rates. Vacancy rates will continue to climb into 2024, as substantial levels of vacant new supply are expected to deliver in the upcoming quarters.

Completions are expected to remain robust over the next six months as 58 projects totaling 23.4 million SF are in the construction pipeline. Speculative construction continued to dominate the overall development pipeline, accounting for 69% of ongoing projects, down from 80% measured at mid-year. The Southeast Wisconsin and Joliet Area submarkets reported the most construction activity with 3.5 million SF each, accounting for 30% of overall total market construction activity. Most projects are expected to deliver by year-end 2024.

As anticipated, the market witnessed a significant slowdown in construction starts with only 1.2 million SF that broke ground this quarter, a steep 83% decline from 6.8 million SF measured in the previous quarter, and 8.1 million SF recorded year-over-year. Trammell Crow’s 775,000 SF built-to-suit development in DeKalb was the largest construction start of the quarter. Construction activity will continue to decline resulting in significantly less first-generation space in the market in the later part of 2024 and into early 2025.

Figure 7: Construction Starts vs. Completions

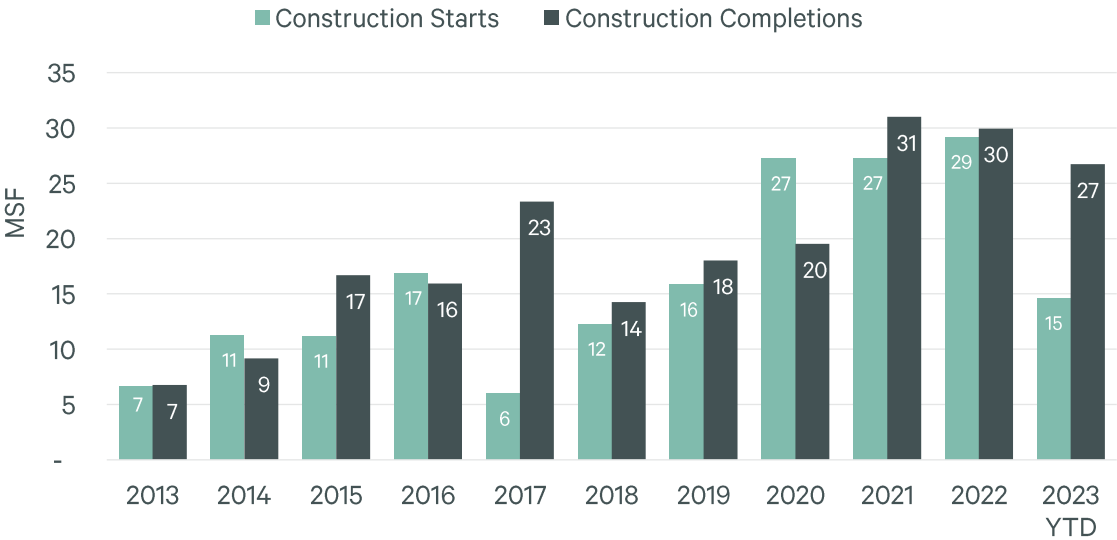
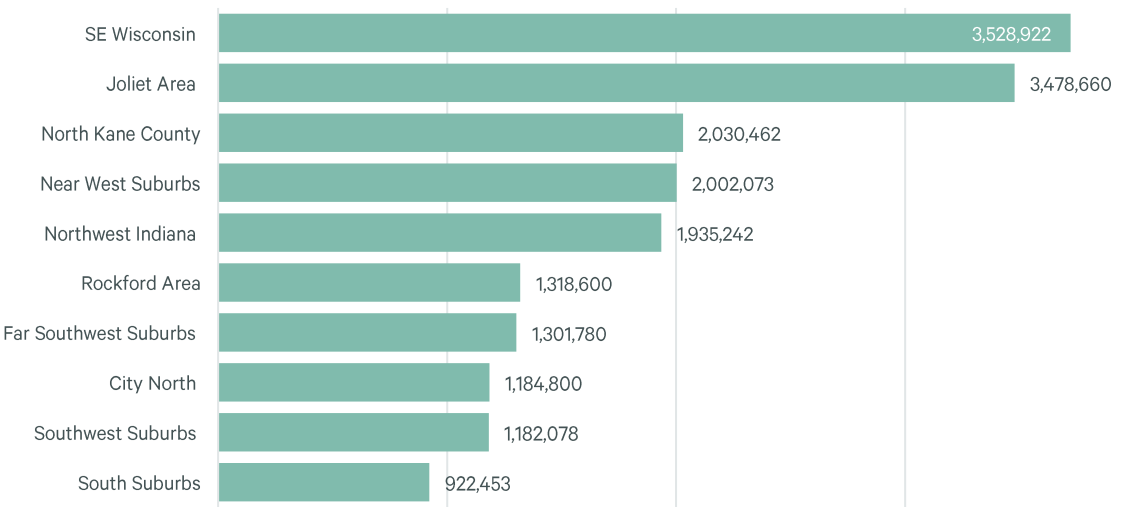


Figure 8: Q3 2023 Top Submarket Gross SF Under Construction

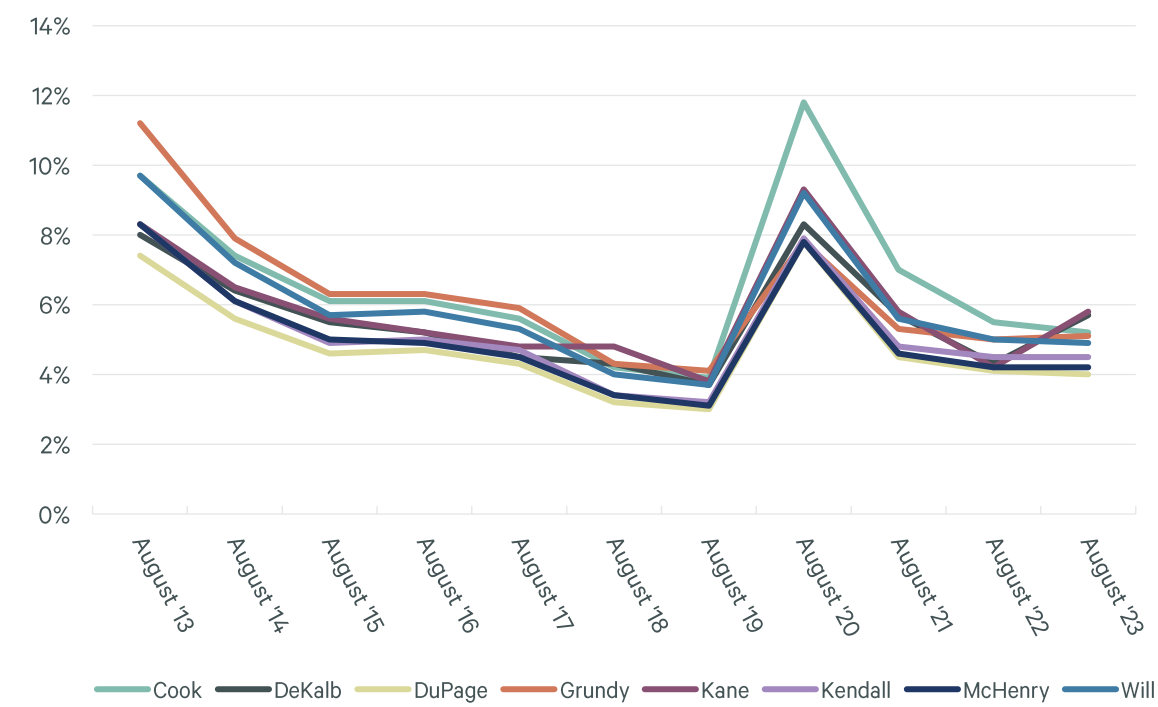


Economic Overview

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration, despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience is due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed and the FDIC have provided prompt and effective support for the banks, and; 3) consumers are in good shape from a balance sheet and income perspective. Nevertheless, headwinds are intensifying with higher oil prices, resumption of student loan payments, and a weakening global economy.

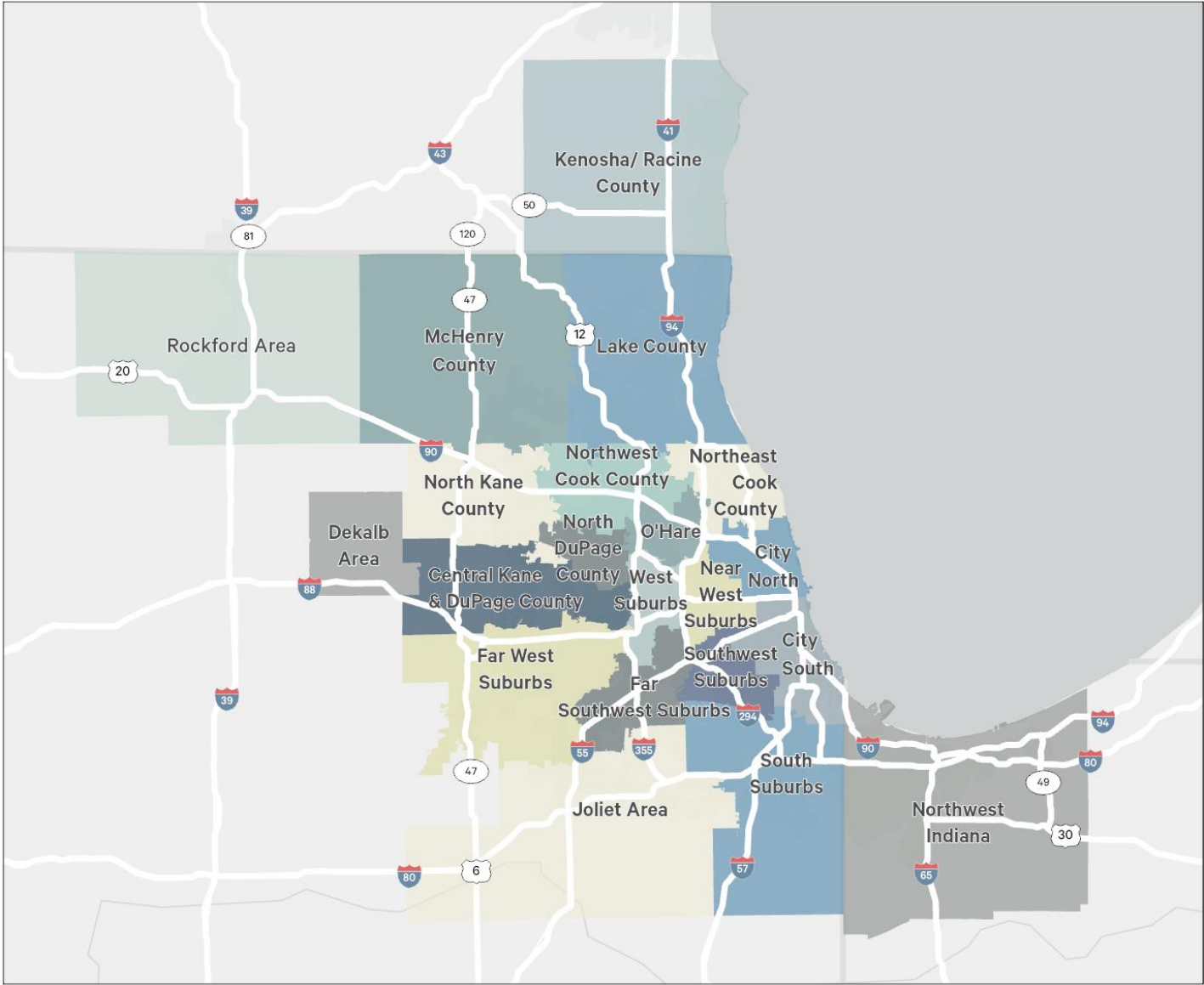
These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during H1 2024.

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



| SUBMARKET | Building Area (SF) | Direct Vacancy Rate (%) | Total 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 | 23,882,467 | 6.7% | 7.1% | 286,333 | 30,000 | 1,584,975 | 1,156,787 | 177,320 | 6.40 to 6.60 |
| Lake County | 79,764,348 | 4.5% | 4.6% | 661,770 | 1,494,701 | (351,580) | 525,145 | 0 | 6.75 o 6.80 |
| NE Cook County | 49,745,726 | 2.4% | 2.4% | 102,447 | 695,949 | 601,657 | 743,598 | 916,066 | 6.90 to 8.05 |
| NW Cook County | 31,013,650 | 5.6% | 5.7% | 10,500 | 893,498 | 534,247 | 997,509 | 516,096 | 5.05 to 7.40 |
| N Kane County | 34,463,122 | 3.4% | 3.9% | 186,605 | 508,038 | 850,293 | 608,315 | 2,030,462 | 5.85 to 6.45 |
| N DuPage County | 45,640,579 | 3.7% | 3.8% | 0 | 1,015,282 | 1,263,671 | 915,050 | 50,000 | 6.95 to 7.15 |
| O'Hare | 101,248,398 | 2.1% | 2.4% | 537,561 | 2,931,348 | 1,350,811 | 1,455,511 | 407,420 | 7.85 to 9.25 |
| City North | 60,388,064 | 2.5% | 2.7% | 162,138 | 158,023 | (24,641) | 0 | 1,184,800 | 7.90 to 8.50 |
| Near West Suburbs | 80,477,146 | 2.4% | 2.5% | 383,960 | 597,746 | (992,537) | 335,024 | 2,002,073 | 6.50 to 7.50 |
| West Suburbs | 38,831,656 | 1.2% | 1.4% | 37,472 | 691,405 | 443,844 | 268,288 | 0 | 7.10 to 7.80 |
| Central Kane & DuPage | 40,422,552 | 5.2% | 5.3% | 295,909 | 624,178 | 840,034 | 1,463,480 | 543,603 | 5.75 to 6.70 |
| Far West Suburbs | 69,513,643 | 2.9% | 3.0% | 174,300 | 1,017,791 | 1,058,346 | 1,082,158 | 837,786 | 5.15 to 6.35 |
| Southwest Suburbs | 63,482,488 | 1.9% | 2.4% | 468,101 | 490,264 | 344,440 | 446,245 | 1,182,078 | 5.75 to 6.10 |
| Far SW Suburbs | 95,564,638 | 2.6% | 2.7% | 187,794 | 2,929,535 | 1,604,598 | 3,248,958 | 1,301,780 | 6.45 to 6.90 |
| City South | 106,917,541 | 2.0% | 2.1% | 234,690 | 824,794 | 263,035 | 130,354 | 192,088 | 7.15 to 7.90 |
| South Suburbs | 61,783,043 | 4.0% | 4.0% | 188,600 | 1,627,233 | 2,142,371 | 2,300,332 | 922,453 | 5.60 to 6.06 |
| Joliet Area | 100,870,836 | 6.6% | 6.7% | 13,137 | 1,803,599 | 2,426,040 | 5,465,168 | 3,478,660 | 6.10 to 7.20 |
| Northwest Indiana | 30,561,572 | 3.1% | 4.0% | 318,721 | 251,625 | (507,532) | 397,991 | 1,935,242 | 4.95 to 6.30 |
| Dekalb Area | 14,045,738 | 1.8% | 1.8% | 0 | 0 | 9,819 | 0 | 775,000 | 4.25 to 4.60 |
| CHICAGO METRO SUBTOTAL | 1,128,617,207 | 3.3% | 3.5% | 4,250,038 | 18,585,009 | 13,441,891 | 21,539,913 | 18,551,141 | 6.30 to 6.96 |
| Southeast Wisconsin | 80,393,203 | 8.0% | 8.6% | 50,584 | 879,340 | 3,230,375 | 4,981,369 | 3,528,922 | 4.75 o 6.05 |
| Rockford Area | 35,724,076 | 3.4% | 4.1% | 203,134 | 690,204 | (304,349) | 200,165 | 1,318,600 | 3.90 to 4.85 |
| TOTAL | 1,244,734,486 | 3.6% | 3.8% | 4,503,756 | 20,154,553 | 16,367,917 | 26,721,447 | 23,398,663 | 6.11 TO 6.82 |

Market Area Overview Map



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