

Vacancy unchanged as construction deliveries double quarter-over-quarter

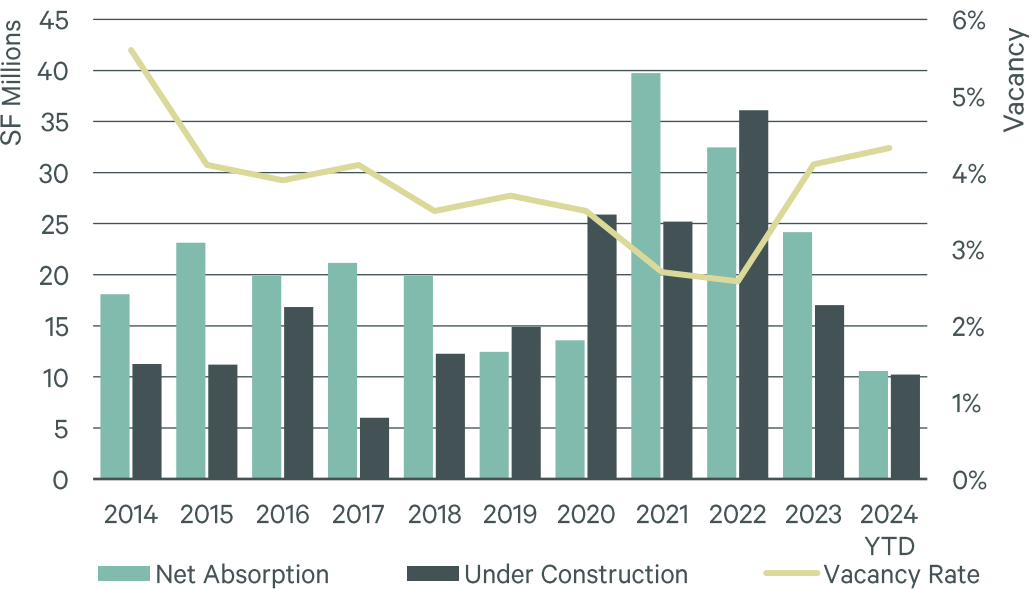


Note: Arrows indicate change from previous quarter.

Construction starts nearly tripled year-over-year

- The Chicago market reported a 4.3% vacancy rate in the third quarter, a six basis point (bps) decrease quarter-over-quarter. Average asking rental rates measured at \$8.11 PSF.
- Quarterly net absorption bounced back and increased to 3.5 million SF, up from the 2.1 million SF at mid-year. Heading into the final quarter of 2024, year-to-date net absorption reached 10.2 million SF, which is significantly down 37% year-over-year.
- The availability rate in Chicago rose 28 bps to 7.7% quarter-over-quarter. A total of 17 developments completed construction in Q3, delivering 4.4 million SF of new supply to the market. Construction activity fell to 10.2 million SF, as 3.4 million SF of new developments broke ground this quarter. Of the 35 tracked projects underway, 42% are being built on a speculative basis and 58% are being constructed as build-to-suit projects.
- Upcoming rate cuts and declining bond yields are likely to boost commercial real estate investment and asset values. CBRE anticipates a 5% increase in annual investment activity this year, with further growth next year. Despite slower job growth, a soft economic landing is expected to sustain occupier confidence and demand across all commercial property types.

Figure 1: Net Absorption, Under Construction & Vacancy



Leasing Activity

New lease transaction volume including new leases and expansions dropped in Q3 to 5.5 million SF, consisting of 94 transactions greater than 10,000 SF, following a strong quarter of deal activity reported at mid-year. This activity is down 38% quarter-over-quarter from the 8.9 million SF reported at the end of the second quarter. The largest deal this quarter was signed by Post Consumer Brands in Wilmington for one million SF. With this, the Joliet Area submarket reported the most activity, with 1.8 million SF of new deals signed from July to September. Year-to-date new leasing activity hit 19.8 million SF, a 2% dip from the 20.2 million SF recorded last year at this time.

Overall total leasing activity, including renewals, fell this quarter. With 9.5 million SF transacted, it was a 30% decrease from the 13.7 million SF quarter-over-quarter. However, renewal activity stayed consistent quarter-over-quarter and accounted for 41% of overall leasing activity, reporting 3.9 million SF compared to the 4.1 million SF last quarter. A total of 36 renewals were signed this quarter, including six of the top ten transactions. The largest renewal was signed by a confidential tenant for 806,400 SF at 100 Prologis Parkway in the Joliet Area submarket.

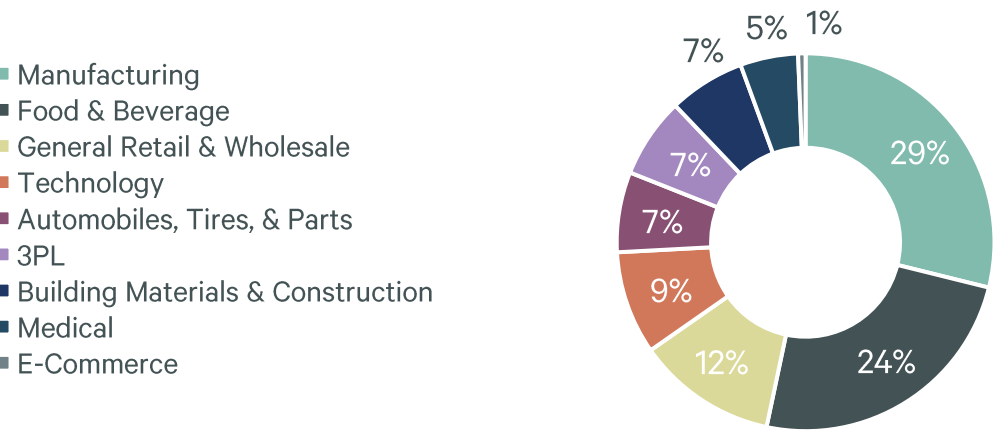
Sales Activity

User sale activity increased in Chicagoland for the third consecutive quarter, to measure 1.9 million SF with a total of 37 deals transacted. The most activity took place in the City South submarket, with four sale transactions totaling 492,623 SF. The largest user sale of the quarter was signed by Norfolk Southern Railway for 386,675 SF at 13535 S. Torrence Avenue in Chicago. Year-to-date user sale activity is up 20% year-over-year to 5.4 million SF, a boost from the 4.5 million SF reported a year ago.

Figure 2: Q3 2024 Top Industrial Lease Transactions

SF	TYPE	ADDRESS	SUBMARKET	TENANT
1,002,000	New Lease	30404 S. Elion Blvd, Wilmington	Joliet Area	Post Consumer Brands
806,400	Renewal	100 Prologis Pkwy, Morris	Joliet Area	Confidential tenant
659,157	Renewal	1000 Windham Pkwy, Bolingbrook	Far Southwest Suburbs	LSC Communications
639,917	New Lease	275 W. Laraway Rd, Joliet	Joliet Area	RJW Logistics
477,115	New Lease	1451 Sheldon Dr, Elgin	North Kane County	Pregis Corp.
239,190	New Lease	900 Knell St, Montgomery	Far West Suburbs	Parceljet Information Technologies
207,296	Renewal	801 W. Bryn Mawr Ave, Itasca	O'Hare	United Business Mail
183,415	Renewal	3818 Grandville Ave, Gurnee	Lake County	Metropolitan Graphic Arts

Figure 3: Q3 2024 Leasing Activity by Industry Type (Share by SF)



Asking Rents

Average asking rental rates climbed from \$7.65 PSF to \$8.11 PSF quarter-over-quarter. Class A asking rents increased to \$8.23 PSF, and Class B/C also grew to \$7.99 PSF. Well-located and functional Class A spaces have driven up the industrial asking rates, especially in infill submarkets. The City North and O’Hare submarkets continued to lead the market with the highest asking rates, ranging from \$11.99-\$15.00 PSF in City North and \$11.48-\$14.66 PSF in O’Hare.

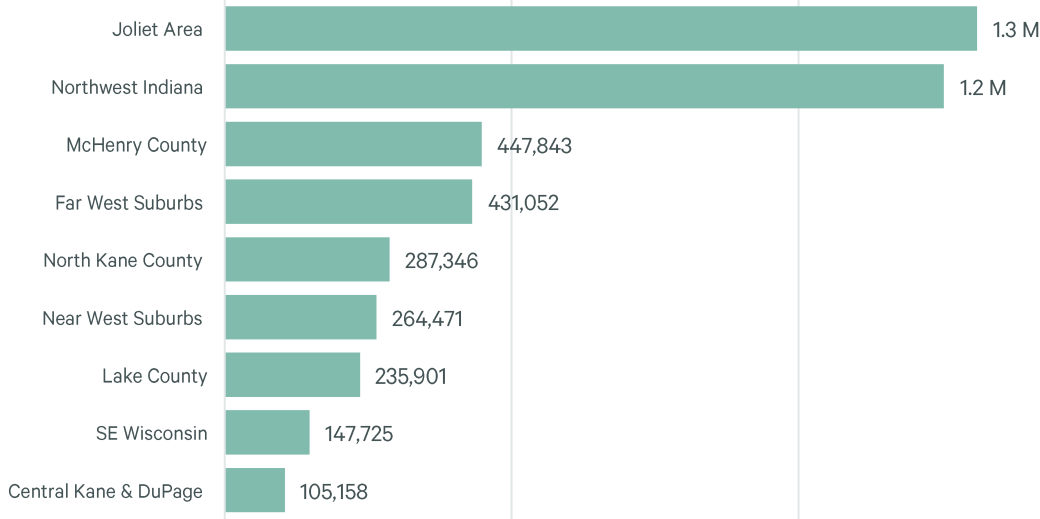
Absorption

Net absorption (a measure by which occupancies and vacancies fluctuate quarter-over-quarter) totaled 3.5 million SF. The industrial market recovered following a quarter in which absorption measured just 2.1 million SF, the lowest since Q3 2020. Two submarkets outpaced the rest of the market, with significant net absorption reported in the Joliet Area and Northwest Indiana submarkets, totaling more than one million SF each. These submarkets also tracked the two largest move-ins of the quarter, with Post Consumer Brands occupying one million SF in Wilmington along with an e-commerce user occupying one million SF in Crown Point. Year-to-date net absorption in Chicago dropped 35% to 10.6 million SF, as compared to the same period in 2023 which totaled 16.4 million SF.

Figure 4: Rent Growth Activity



Figure 5: Q3 2024 Top Submarkets by Net Absorption SF



Construction Activity

From July to September, construction activity experienced a significant uptick, with 3.9 million SF breaking ground — almost double the amount recorded in Q2. The most notable start of the quarter was Walmart’s 1.2 million SF built-to-suit facility in Rockford. In addition, Northern Builders kicked off an 802,440 SF speculative development in Cherry Hill Business Park, the largest speculative project to break ground since Q4 2022. In total, construction started on eight speculative projects, with 42% of the pipeline being built as speculative and 58% being built on a built-to-suit basis.

For the fourth consecutive quarter, the Joliet Area submarket led construction activity with 3.6 million SF, accounting for 36% of the pipeline. The Rockford submarket trailed with 1.4 million SF underway.

Construction deliveries also saw a significant increase, climbing from one million SF to 4.5 million SF by the end of the third quarter, bringing the year-to-date total to 12.7 million SF. The Logistics Property Company delivered the year’s largest speculative project, a 1.2 million SF multistory logistics facility in Chicago’s Goose Island neighborhood. In addition, all buildings within The Logistic Campus Building Park in Glenview have been completed, adding 729,420 SF of available space to the market. Currently, there are 35 developments totaling 10.2 million SF underway in the Chicago area, with 59% of the pipeline already pre-leased.

Figure 6: Construction Starts vs. Completions

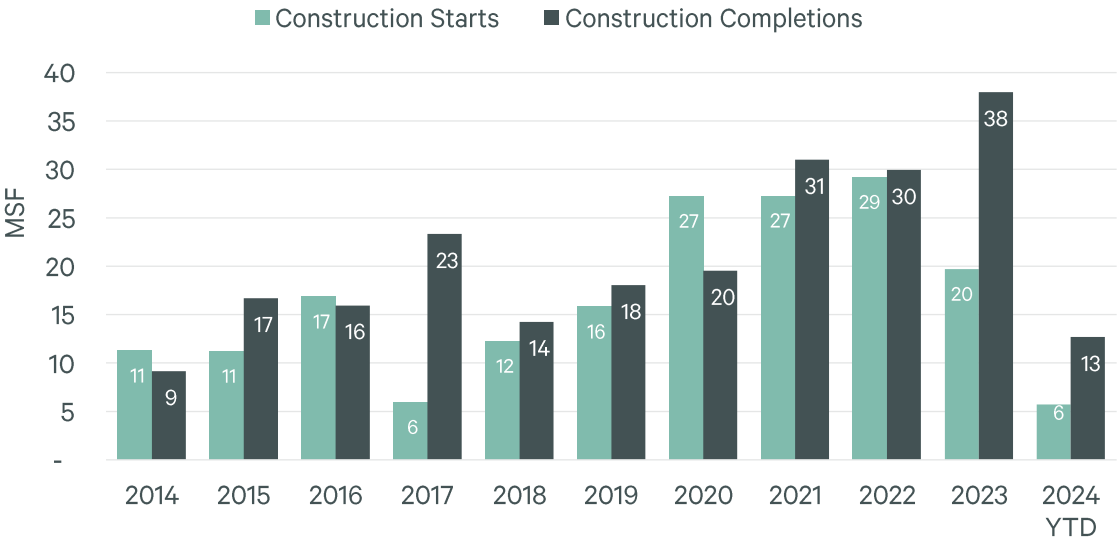
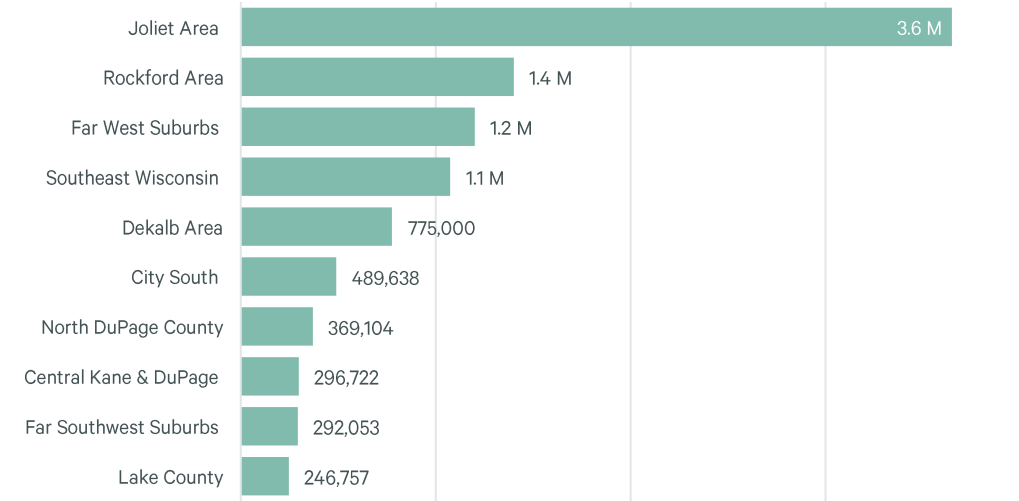


Figure 7: Q3 2024 Top Submarket Gross SF Under Construction



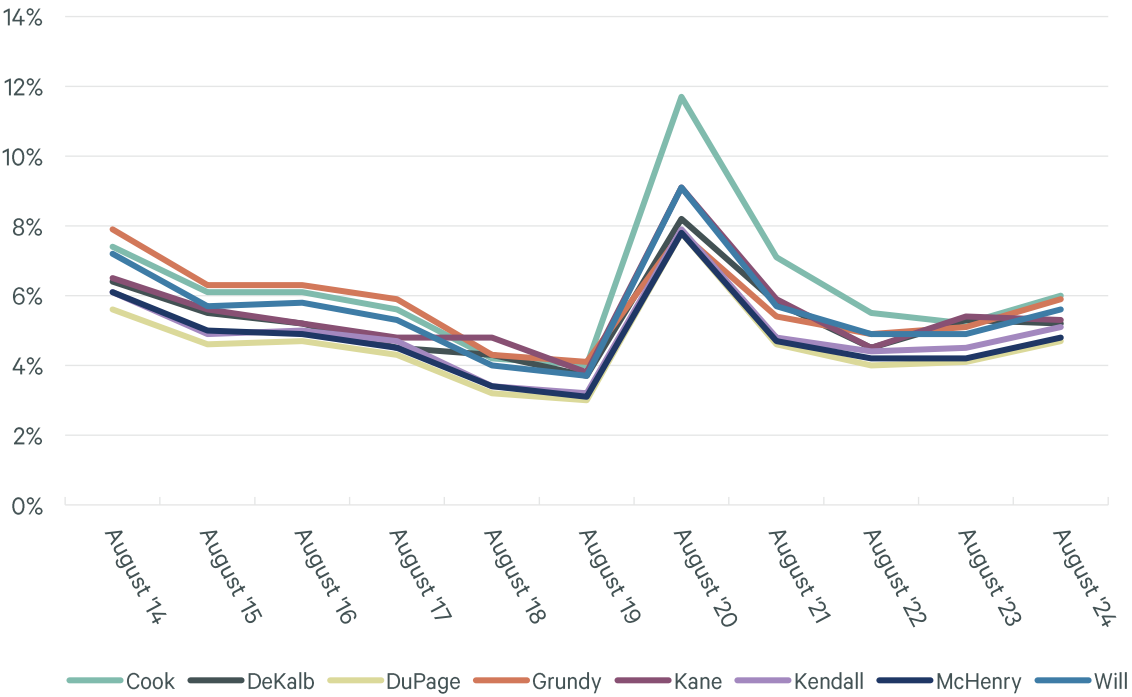
Economic Overview

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is steady and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a downturn in the labor market, although the recent bump in unemployment appears mainly driven by an increase in participation.

One reason for concern is the decline in the share of private industries that are creating jobs. The labor market has slowed but it is not slumping, and companies are not letting workers go at a particularly high rate.

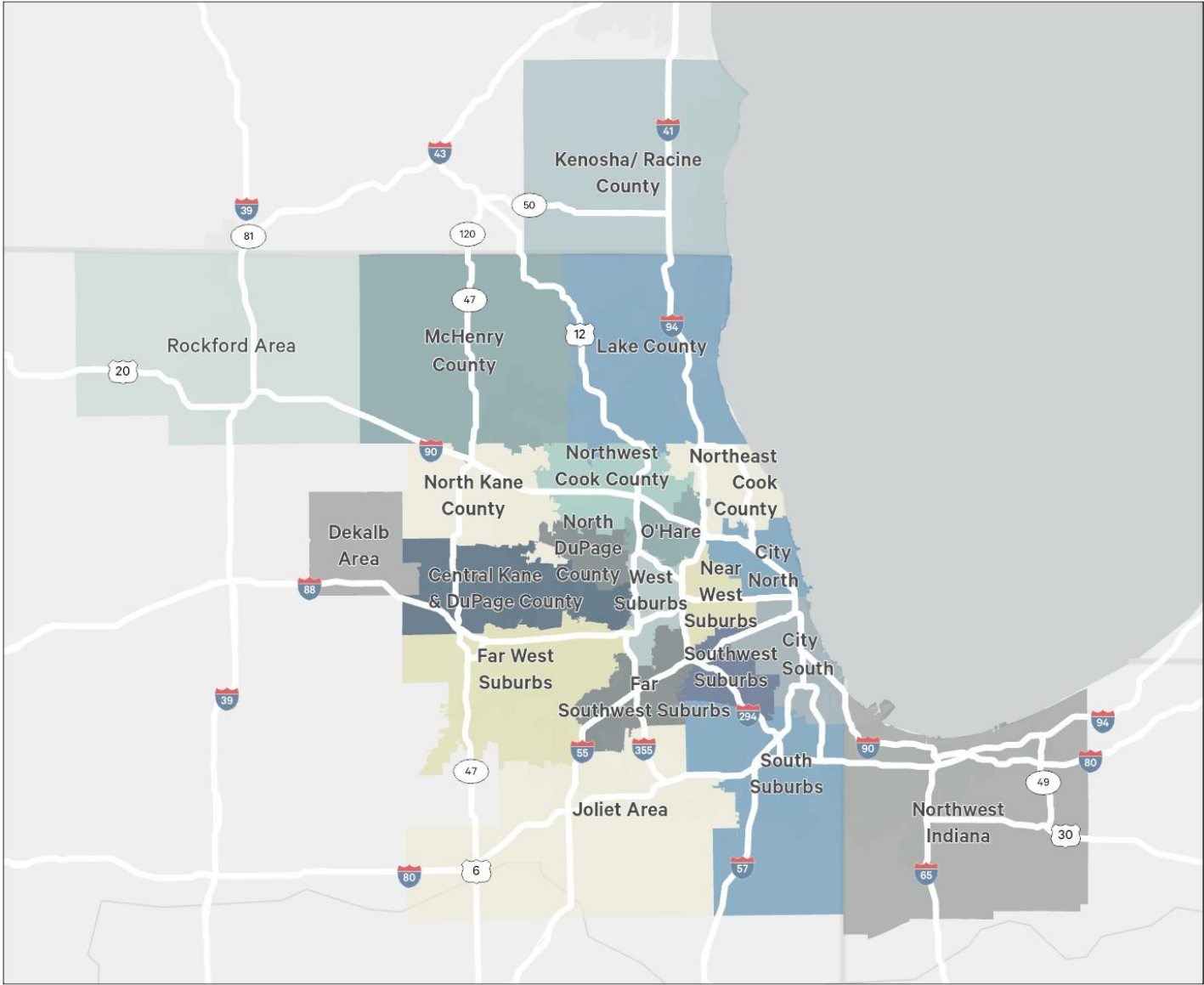
While many are focused on November’s election, the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

Figure 8: Year-over-Year Unemployment Rates by County, not seasonally adjusted (as of August 2024)



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	23,525,577	3.2%	3.5%	104,312	698,349	497,469	0	0	6.34 to 6.88
Lake County	81,156,442	4.6%	4.8%	441,871	1,040,834	(6,796)	345,739	246,757	6.54 to 6.73
NE Cook County	50,791,590	4.6%	4.6%	489,681	338,794	(356,662)	917,270	83,124	7.30 to 7.60
NW Cook County	32,212,152	4.4%	4.7%	188,401	336,362	440,595	0	48,000	7.98 to 8.90
N Kane County	36,764,355	6.3%	6.8%	166,464	1,081,512	246,949	833,205	0	7.31 to 7.38
N DuPage County	45,855,548	1.9%	2.6%	35,479	341,705	419,697	0	369,104	7.69 to 9.50
O'Hare	102,184,874	2.4%	3.1%	426,117	2,820,840	(1,101,084)	126,054	66,552	11.48 to 14.66
City North	61,768,616	3.8%	4.0%	184,944	324,303	18,477	1,184,800	0	11.98 to 15.00
Near West Suburbs	81,912,862	2.9%	3.2%	215,194	553,551	194,216	398,954	0	7.97 to 11.72
West Suburbs	38,973,426	0.9%	1.5%	319,320	242,549	28,529	0	31,510	9.81 to 14.00
Central Kane & DuPage	41,651,915	4.1%	4.3%	559,674	474,094	503,927	543,603	296,722	8.32 to 9.43
Far West Suburbs	70,296,064	2.5%	2.7%	324,532	983,128	915,379	429,610	1,199,880	6.74 to 7.07
Southwest Suburbs	66,188,092	4.3%	4.5%	118,173	481,638	(367,951)	359,999	0	7.80 to 11.76
Far SW Suburbs	97,350,333	3.0%	4.0%	0	1,868,754	81,575	745,039	292,053	8.04 to 8.52
City South	105,649,119	2.2%	2.4%	858,813	485,975	(346,678)	22,250	489,638	8.02 to 9.80
South Suburbs	62,673,068	5.2%	5.2%	76,115	2,018,011	587,519	50,000	0	7.74 to 11.27
Joliet Area	105,810,619	5.2%	5.4%	54,140	2,601,545	3,495,226	1,827,353	3,647,751	6.93 to 7.26
Northwest Indiana	33,226,689	4.8%	5.4%	0	1,118,698	1,348,855	876,520	215,000	9.98 to 10.43
Dekalb Area	14,046,789	0.3%	0.3%	0	182,750	(35,847)	0	775,000	4.30 to 6.50
Chicago Metro Subtotal	1,152,038,130	3.5%	3.9%	4,563,230	17,993,392	6,563,395	8,660,396	7,761,091	8.20 to 8.83
Southeast Wisconsin	84,287,115	10.1%	10.4%	25,900	1,764,343	2,494,478	2,719,594	1,074,201	5.45 to 5.54
Rockford Area	37,650,331	2.7%	3.6%	847,172	0	1,510,164	1,318,600	1,400,000	4.85 to 5.05
Total	1,273,975,576	4.0%	4.3%	5,436,302	19,757,735	10,568,037	12,698,590	10,235,292	7.99 TO 8.23

Market Area Overview Map



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