

FIGURES | CHICAGO INDUSTRIAL MARKET | Q2 2024

Construction increases as build-to-suit activity picks up

▼4.4%
Vacancy Rate

▼2.1 M
SF Net Absorption

▲11.8 M
SF Under Construction

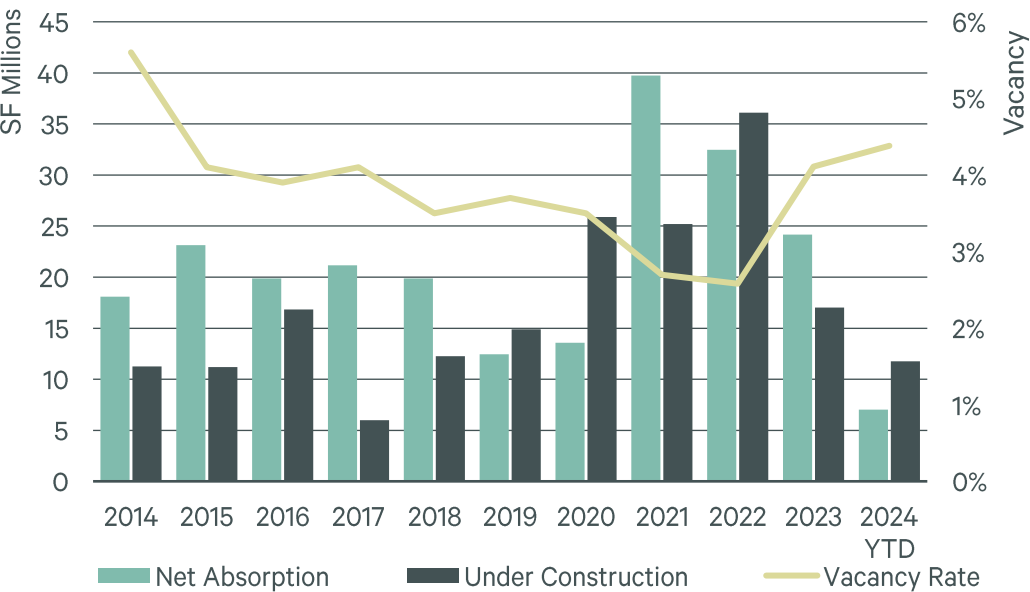
▲\$6.77
NNN/Lease Rate

Note: Arrows indicate change from previous quarter.

Construction deliveries down 88% year-over-year

- The Chicago market reported a 4.4% vacancy rate in the second quarter of 2024, a seven basis point (bps) decrease quarter-over-quarter.
- Average asking rental rates were up year-over-year, climbing to \$6.77 PSF during the second quarter of 2024.
- Quarterly net absorption decreased for the second consecutive quarter to 2.1 million SF, down from the 4.9 million SF quarter-over-quarter. Year-to-date net absorption surpassed seven million SF.
- The availability rate in Chicago dropped 23 bps to 7.4% quarter-over-quarter. A total of five developments completed construction this quarter, delivering one million SF of new supply to the market. Construction activity improved to 11.8 million SF at mid-year, as 2.1 million SF of new developments broke ground. Of the 42 tracked projects underway, 49% are being built on a speculative basis and 51% are being constructed as build-to-suit projects.

Figure 1: Net Absorption, Under Construction & Vacancy



Leasing Activity

New lease transaction volume including new leases and expansions improved this quarter to 8.9 million SF, consisting of 119 transactions greater than 10,000 SF. This activity is up 69% quarter-over-quarter from the 5.3 million SF reported at the start of the year. The largest deal this quarter was signed by Samsung in University Park for 1.6 million SF. A total of three submarkets surpassed one million SF of new leasing activity, including South Suburbs, Southeast Wisconsin and Northwest Indiana. Year-to-date, new leasing activity totaled 14.2 million SF, a 7% dip from the 15.3 million SF recorded in last year at this time.

Overall total leasing activity, including renewals, bounced back at mid-year with 13.7 million SF transacted, an increase from the 8.8 million SF quarter-over-quarter. Renewal activity accounted for 30% of overall leasing activity, reporting 4.1 million SF, an increase from 3.4 million SF quarter-over-quarter. A total of 38 renewals were signed from April to June, including four of the top ten transactions. The largest renewal was signed by a confidential tenant for 530,937 SF at 2380 Sullivan Road in Aurora in the Far West Suburbs submarket.

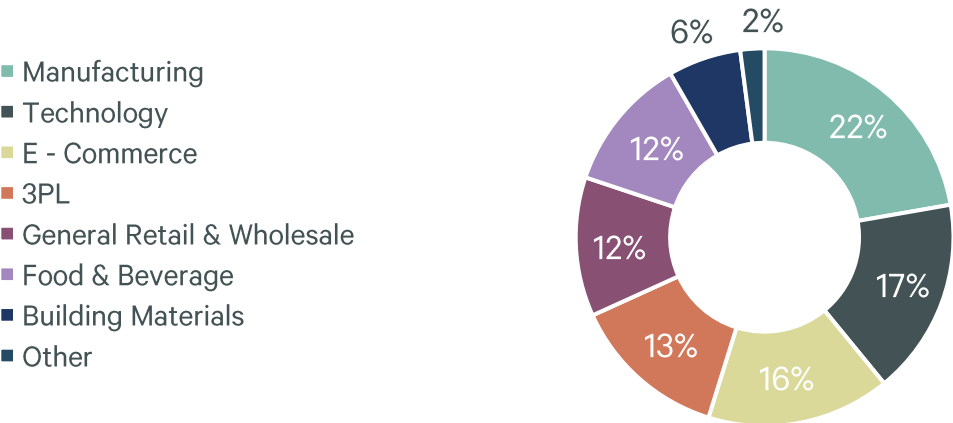
Sales Activity

For the second consecutive quarter, user sale activity increased in Chicagoland to 1.8 million SF, with a total of 30 deals transacted. The most activity took place in the Rockford submarket, with three sale transactions totaling 733,797 SF. The largest user sale of the quarter was signed by Walterscheid Powertrain Group for 556,547 SF at 1200 Windsor Road in Loves Park. Year-to-date user sale activity is up 18 percent year-over-year to 3.5 million SF, up from the three million reported at mid-year 2023.

Figure 2: Q2 2024 Top Industrial Lease Transactions

SF	TYPE	ADDRESS	SUBMARKET	TENANT
1,552,475	New Lease	701 Central Ave, University Park	South Suburbs	Samsung
1,001,662	New Lease	9820 Mississippi St, Crown Point	Northwest Indiana	Amazon
593,565	New Lease	9423 Koessl Ct, Pleasant Prairie	SE Wisconsin	WestRock
530,937	Renewal	2380 Sullivan Rd, Aurora	Far West Suburbs	Confidential tenant
500,160	Renewal	825 Bluff Rd, Romeoville	Far Southwest Suburbs	The Central American Group
444,600	New Lease	12150 Jim Dhamer Dr, Huntley	McHenry County	John B Sanfilippo & Son
385,372	Renewal	2601 Galvin Dr, Elgin	North Kane County	Box Partners
360,625	New Lease	2501 Davey Rd, Woodridge	Far Southwest Suburbs	Lecangs

Figure 3: Q2 2024 Leasing Activity by Industry Type (Share by SF)



Asking Rents

Average asking rental rates were up 5.8% year-over-year, climbing to \$6.77 PSF during the second quarter of 2024. As the market continues to experience construction slowdowns and availability begins to tighten, increased demand could drive rental rates up at a faster pace later in the year. Class A asking rents increased to \$7.01 PSF from \$7.25 PSF quarter-over-quarter, as Class B/C rents also grew from \$6.18 PSF to \$6.29 PSF.

Absorption

Net absorption (a measure by which occupancies and vacancies fluctuate quarter-over-quarter), totaled 2.1 million SF, down from the 4.9 million SF reported quarter-over-quarter. This figure marks the lowest net absorption activity in Chicagoland since Q3 2020 as twelve submarkets reported negative net absorption at mid-year 2024. In addition, four of the speculative facilities that completed construction this quarter were primarily vacant or only partially leased when delivered. Year-over-year, the year-to-date net absorption in Chicago has dropped 35% to seven million SF from the initial 10.8 million SF as the market witnessed a substantial number of renewals signed within the last year.

Figure 4: Rent Growth Activity

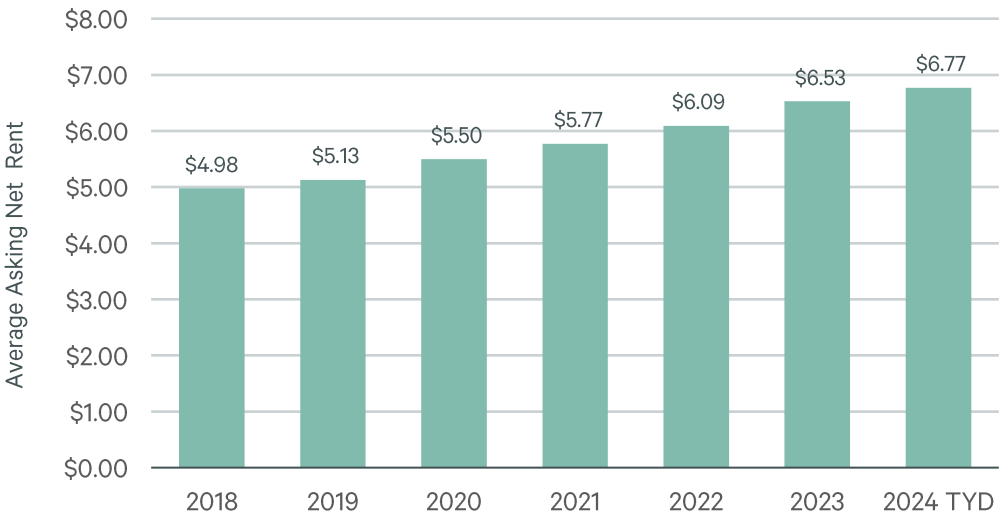
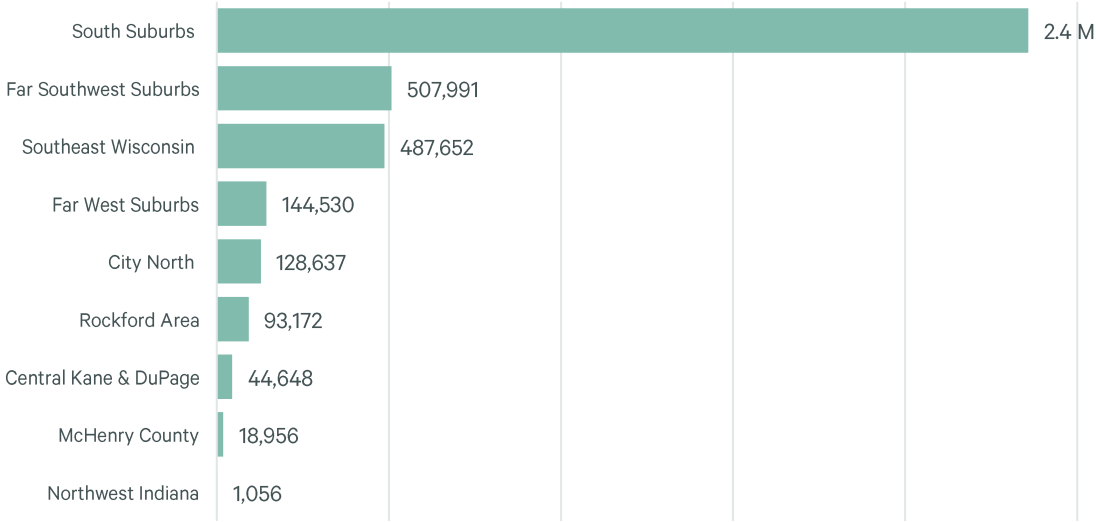


Figure 5: Q2 2024 Top Submarkets by Net Absorption SF



Construction Activity

Although construction starts were down by 70% compared to this time last year, groundbreakings improved from 290,265 to 2.1 million SF quarter-over-quarter. At mid-year, eleven developments broke ground, bringing the total space under construction to 11.8 million SF. Of all construction starts from April to June, 65% were build-to-suit developments, while the overall construction pipeline was split with 49% speculative projects and 51% build-to-suits. The SE Wisconsin submarket witnessed the most starts, including two build-to-suits totaling 693,201 SF. The largest speculative project to break ground was Chill Development’s cold storage facility in Plainfield, totaling 389,000 SF.

The Joliet submarket reported the most construction activity, with a total of 3.3 million SF underway. In Cherry Hill Business Park, two build-to-suits broke ground, adding 235,939 SF of new supply to the market.

After a record number of construction completions in 2023, deliveries continued trending downwards as five developments exceeding one million SF delivered during the second quarter, adding 939,070 SF of vacant supply to the market. Additionally, three other speculative projects completed, including both buildings of the Park 88 Logistics Center, totaling 429,610 SF.

Future supply constraints are expected to reduce vacancy rates as demand for new products increases, resulting in a more balanced equilibrium between supply and demand as groundbreakings continue to decrease significantly.

Figure 6: Construction Starts vs. Completions

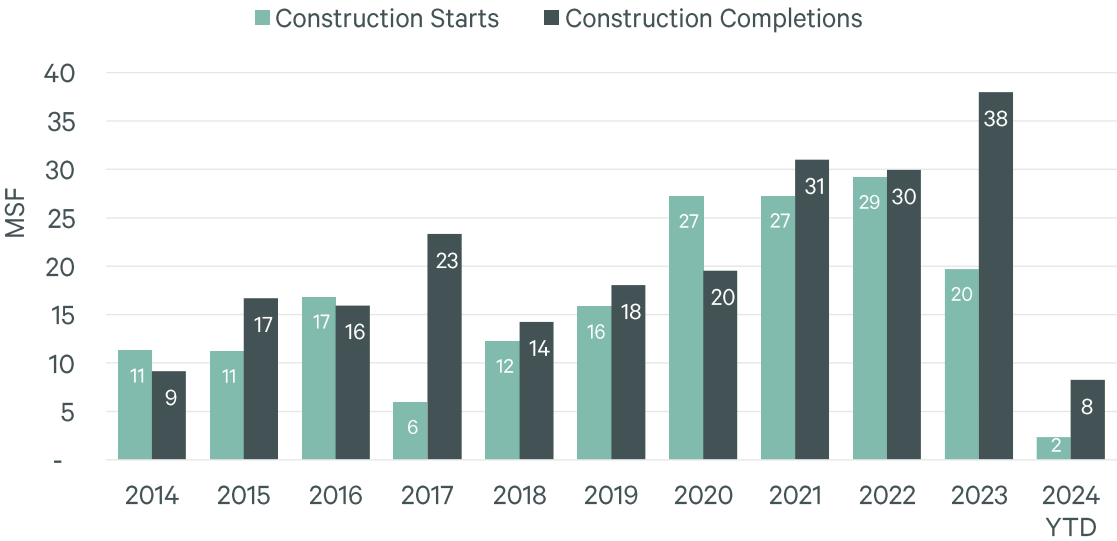
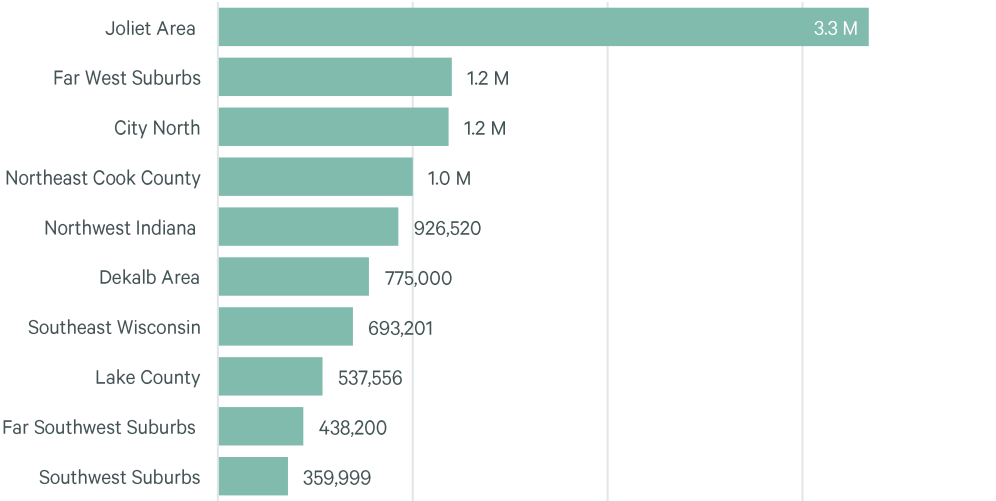


Figure 7: Q2 2024 Top Submarket Gross SF Under Construction



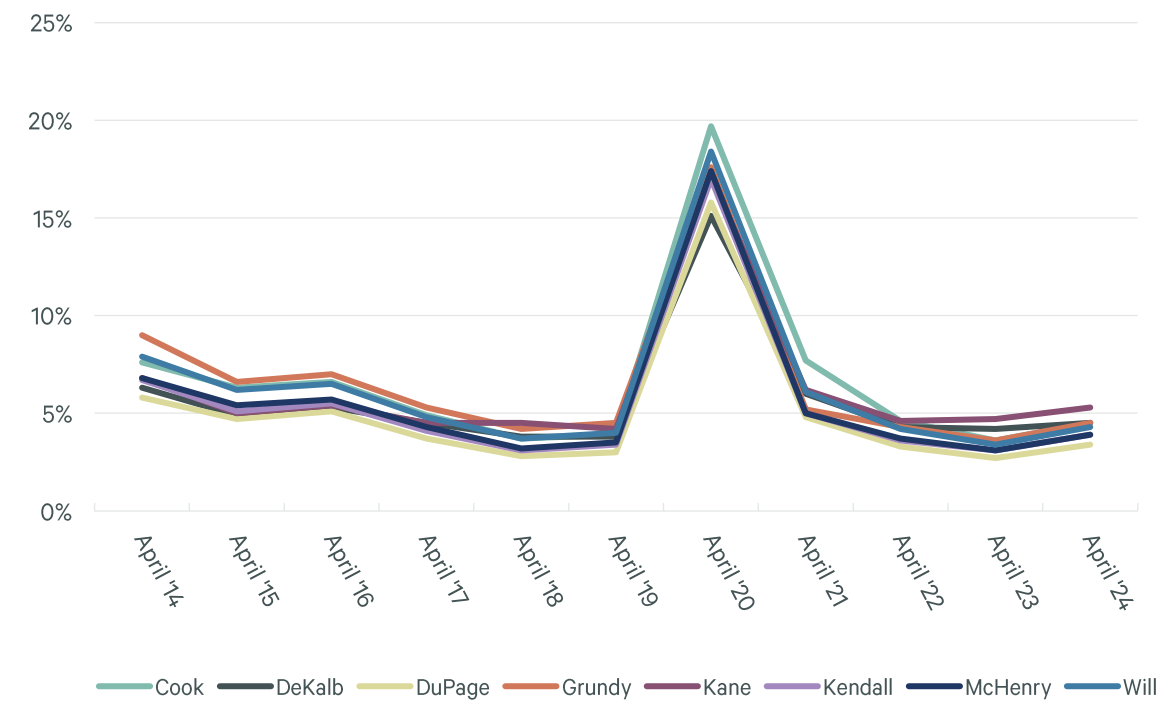
Economic Overview

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a “soft landing” in 2024. Last year’s expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption - a key driver of GDP growth in recent quarter - is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

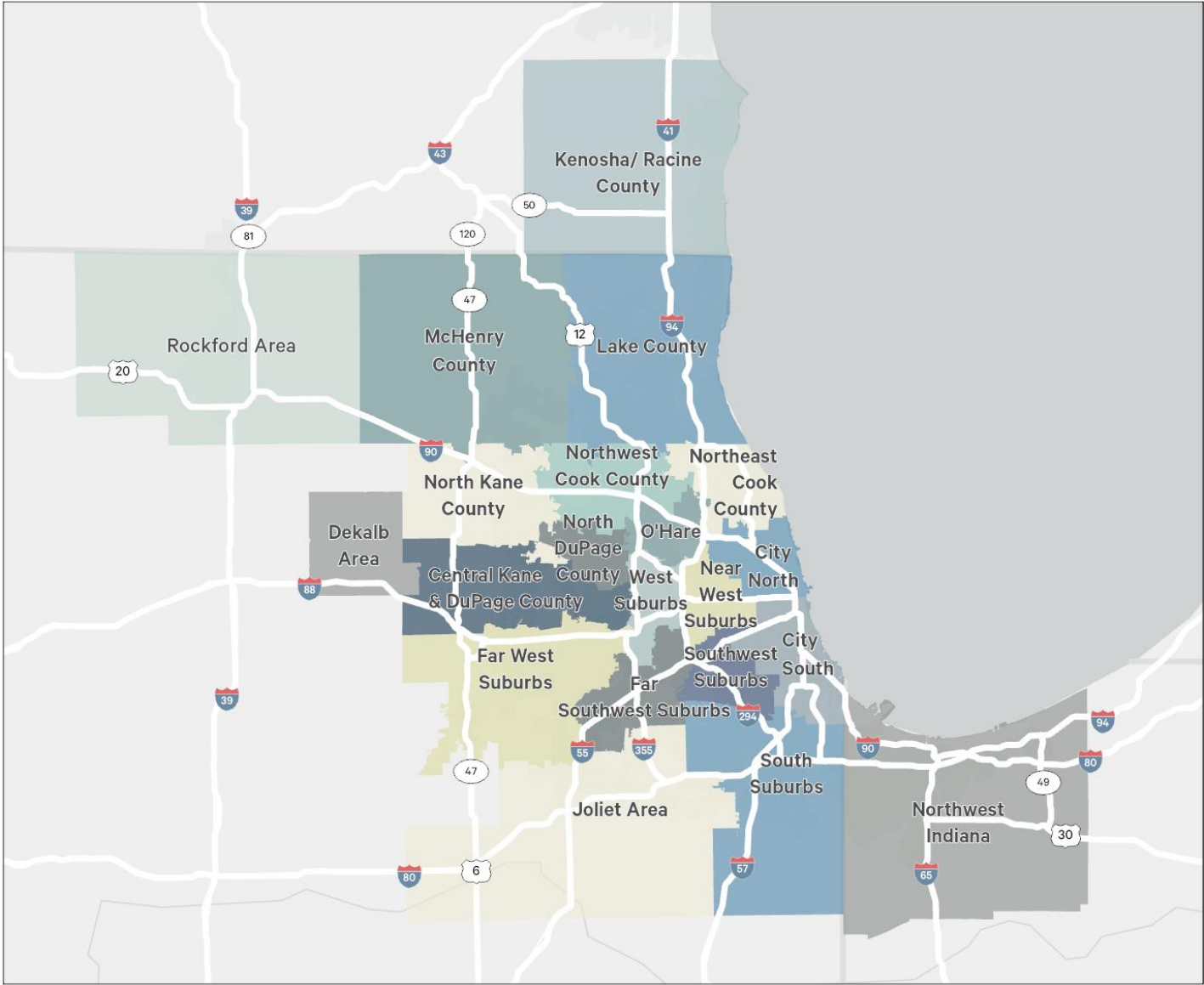
A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this autumn will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

Figure 8: Year-over-Year Unemployment Rates by County, not seasonally adjusted (as of April 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	23,371,706	5.0%	5.3%	93,512	624,612	49,626	0	0	6.45 to 6.65
Lake County	80,757,490	4.5%	4.7%	47,842	569,133	(242,697)	11,440	537,556	6.30 to 7.20
NE Cook County	49,873,827	3.0%	3.0%	471,628	248,483	(460,880)	0	1,000,394	7.00 to 8.25
NW Cook County	32,114,217	5.8%	6.0%	137,072	287,425	375,091	0	48,000	5.20 to 7.70
N Kane County	36,751,072	7.1%	7.6%	166,464	581,902	(40,397)	833,205	131,000	6.50 to 6.60
N DuPage County	45,947,385	2.0%	2.6%	0	199,348	390,523	0	49,300	7.30 to 7.80
O'Hare	101,858,319	2.2%	2.7%	202,666	1,987,720	(958,334)	126,054	147,953	8.30 to 10.15
City North	60,607,400	2.5%	2.6%	152,311	217,686	735	0	1,184,800	7.60 to 8.85
Near West Suburbs	81,859,273	2.8%	3.5%	159,891	414,510	(70,255)	398,954	0	7.00 to 8.15
West Suburbs	38,953,442	0.5%	1.1%	209,000	174,749	160,355	0	31,510	7.25 to 8.10
Central Kane & DuPage	41,442,255	4.2%	4.6%	424,447	269,050	398,769	543,603	334,800	6.00 to 7.15
Far West Suburbs	70,258,386	3.1%	3.3%	93,279	679,727	484,327	429,610	1,199,880	5.50 to 6.90
Southwest Suburbs	65,028,044	3.8%	4.3%	76,222	311,904	(299,650)	0	359,999	5.90 to 6.45
Far SW Suburbs	96,718,587	3.0%	3.2%	0	1,650,751	669,225	306,839	438,200	6.80 to 7.40
City South	105,108,639	2.1%	2.3%	366,190	352,898	(167,311)	22,250	320,944	8.00 to 8.15
South Suburbs	62,598,556	5.9%	5.9%	36,115	1,984,027	595,599	0	50,000	5.80 to 6.20
Joliet Area	104,225,292	5.9%	6.0%	54,140	833,300	2,184,064	1,139,153	3,339,011	6.30 to 7.65
Northwest Indiana	32,544,510	7.6%	7.9%	0	1,103,698	95,614	400,000	926,520	5.10 to 6.70
Dekalb Area	14,045,738	0.1%	0.1%	0	128,000	(19,500)	0	775,000	4.30 to 4.70
Chicago Metro Subtotal	1,144,064,138	3.6%	3.9%	2,690,779	12,618,923	3,144,904	4,211,108	10,874,867	6.45 to 7.41
Southeast Wisconsin	84,261,690	10.4%	10.8%	25,900	1,598,656	2,346,753	2,719,594	693,201	5.20 to 6.50
Rockford Area	37,742,181	2.6%	3.5%	810,653	0	1,529,509	1,318,600	200,000	4.05 to 5.05
Total	1,266,068,009	4.1%	4.4%	3,527,332	14,217,579	7,021,166	8,249,302	11,768,068	6.28 TO 7.25

Market Area Overview Map



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