

Vacancy increases while leasing and absorption remain strong

▲ 4.1%

Vacancy Rate

▲ 7.8 M

SF Net Absorption

▼ 17.0 M

SF Under Construction

▲ \$6.53

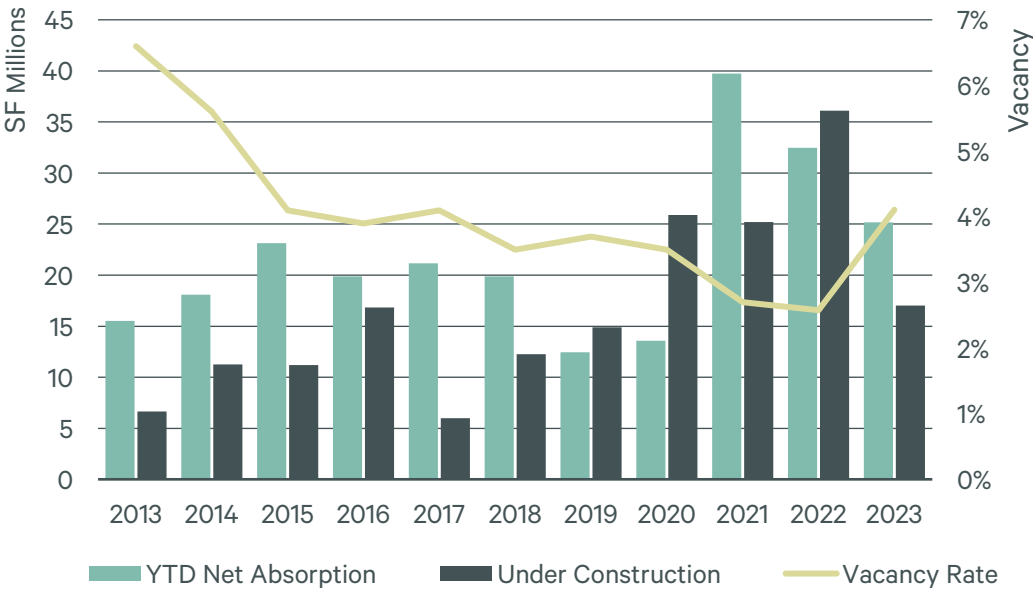
NNN/Lease Rate

Note: Arrows indicate change from previous quarter.

Construction deliveries up 27% year-over-year

- The Chicago market reported a 4.1% vacancy rate in the final quarter of 2023, a 33 basis point (bps) increase quarter-over-quarter.
- Average asking rental rates were up 7.2% year-over-year. Asking rental rates reached \$6.53 PSF during the fourth quarter, compared to \$6.47 PSF measured in the previous quarter.
- Quarterly net absorption stood at 7.8 million SF at year-end 2023. The availability rate in Chicago remained at 7.0% quarter-over-quarter, but increased 219 bps from 4.8% measured last year at this time.
- A record-breaking 38 million SF of construction delivered in Chicagoland at year-end, while construction activity dropped to 17 million SF during the fourth quarter. Of the 45 tracked projects underway, 59% are being built on a speculative basis and 41% are being constructed as build-to-suit projects.
- Record levels of construction completions in the U.S. will continue for the next few quarters, however the decline in construction starts will lead to a peak in vacancies and eventual decline starting in mid-2024.

Figure 1: Net Absorption, Under Construction & Vacancy



Leasing Activity

Total leasing activity improved quarter-over-quarter landing at 11.9 million SF, bringing the overall year-to-date figure to 48 million SF. New lease transaction volume (including new leases and expansions) increased for the first time since the third quarter of 2022, to 8.8 million SF, consisting of 108 transactions greater than 10,000 SF. Year-over-year, the Chicago market new leasing total dipped 12% from the ten million SF recorded at the end of 2022, however this quarter’s new leasing activity was the highest recorded throughout 2023. The largest new deal was done by a confidential tenant in Morris for 1.2 million SF, contributing to the Joliet Area submarket’s 2.3 million SF of new leases, which snagged the top spot at year-end reporting the most submarket activity.

A total of 26 renewal transactions totaling 2.7 million SF were signed in Chicago, a decrease from 4.3 million SF quarter-over-quarter. The second largest deal of the quarter was a renewal for 534,384 SF signed by Arvato Digital in Southeast Wisconsin. In total, nine renewals exceeding 100,000 SF each were signed from September to December. Additionally, 13 new subleases were signed at year-end totaling 848,180 SF, up from the 831,892 SF of sublease activity reported in the previous quarter.

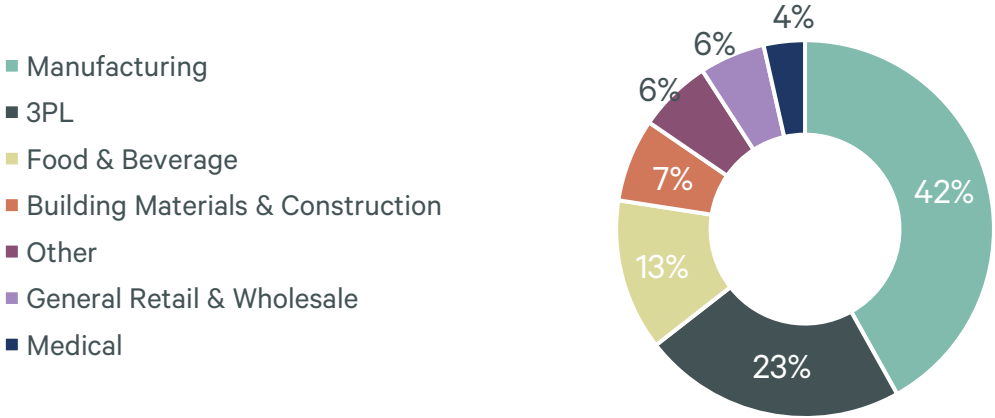
Sales Activity

User sale activity decreased for the first time since the beginning of 2023 due to the challenging financing environment. Fourth quarter user sale activity fell to 1.1 million SF with a total of 31 deals transacted. The most activity took place in the Northwest Cook County submarket with three different sale transactions in Schaumburg totaling 230,972 SF. The largest user sale of the quarter was signed in DeKalb for 146,740 SF. Year-to-date user sale activity reached 5.6 million SF.

Figure 2: Q4 2023 Top Industrial Lease Transactions

SF	TYPE	ADDRESS	SUBMARKET	TENANT
1,199,700	New Lease	I-80 and Brisbin Rd, Morris	Joliet Area	Confidential tenant
534,384	Renewal	11500 80th Ave, Pleasant Prairie	SE Wisconsin	Arvato Digital
464,400	New Lease	3901 Rock Creek Blvd, Joliet	Joliet Area	Life Fitness
452,505	New Lease	25498-24972 S Ridgeland Ave, Monee	South Suburbs	Reynolds Consumer Products
447,216	New Lease	9403 136th Ave, Kenosha	SE Wisconsin	Haribo of America
409,908	Renewal	5100 W 70th Pl, Bedford Park	Southwest Suburbs	International Transload Logistics
368,047	Renewal	443 Fort Hill Dr, Naperville	Far West Suburbs	Crate & Barrel
347,760	New Lease	900 W Renwick Rd, Romeoville	Joliet Area	Geodis
277,760	Expansion	3351 Brandon Rd, Joliet	Joliet Area	Saddle Creek Logistics

Figure 3: Q4 2023 Leasing Activity by Industry Type (Share by SF)



Asking Rents

Average asking rental rates climbed to \$6.53 PSF at year-end, up 7% year-over-year from the \$6.09 PSF measured in 2022. Despite a rise in vacancy rates, rents are expected to grow into 2024, but at a more modest pace. While Class A asking rents increased to \$6.92 PSF from \$6.82 PSF measured last quarter, Class B/C rents remained steady at \$6.14 PSF quarter-over-quarter. Year-over-year Class A asking rents increased 8.5% PSF.

Absorption

The fourth quarter brought 7.8 million SF of net absorption (a measure by which occupancies and vacancies fluctuate quarter-over-quarter), up from the 5.6 million SF quarter-over-quarter, bringing the year-to-date total to 24 million SF. This figure is a 26% decrease from the 32.5 million SF measured last year at this time. The Joliet Area submarket recorded the most absorption with 2.5 million SF, including the largest move-in of the quarter as PrimeSource Building Products occupied over one million SF in Wilmington. The Near West Suburbs also hit above the one million SF mark, totaling 1.3 million SF in net absorption. RJW Logistics reported the second largest move-in of the quarter with 627,602 SF in Romeoville. In addition, 14 other tenants occupied space of at least 100,000 SF each from September to December.

Figure 4: Rent Growth Activity

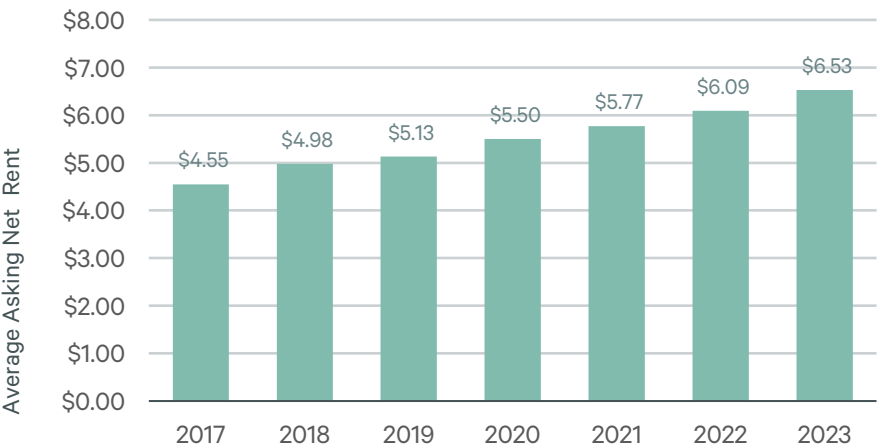
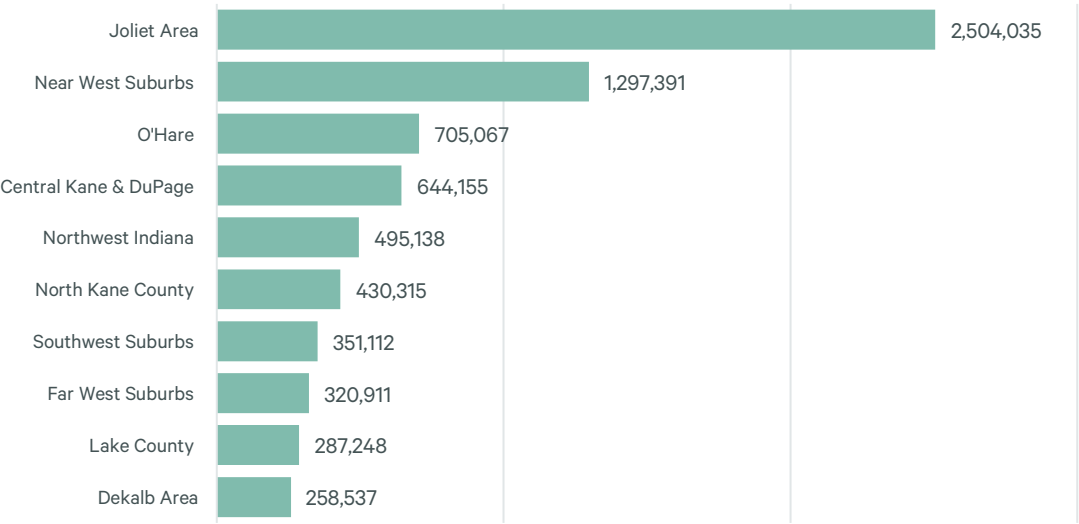


Figure 5: Q4 2023 Top Submarkets by Net Absorption SF



Construction Activity

To end a historic year, 38 million SF of construction delivered in the Chicago industrial market during 2023, surpassing the previous record of 30 million SF recorded at the end of 2022. The fourth quarter brought 7.5 million SF of vacant supply to the market, increasing the vacancy rate to 4.1%, up 153 bps year-over-year. This is the highest vacancy rate the market has witnessed since 2017. At year end, construction deliveries in the Joliet Area submarket totaled 7.1 million SF, leading the market with the most deliveries for the second consecutive year. The largest delivery of the year was Northpoint’s 1.4 million SF speculative building located at 101 Compass Blvd in Joliet. This building was fully leased upon completion.

Although construction activity was down 53% from this time last year, the pipeline remains active with 45 projects totaling 17 million SF underway. Of these developments, 59% are being constructed as speculative and 41% as built-to-suit. Three build-to-suit projects over 1.0 million SF are currently underway, all set to deliver in the next 16 months. The Joliet Area submarket and SE Wisconsin submarket continue to report the most construction activity, accounting for 41% of the overall total market construction activity.

Despite anticipated construction start slowdowns, the fourth quarter brought on the most groundbreakings of the year as construction starts increased from 1.2 million SF to 5.1 million SF quarter-over-quarter. The two largest ground breakings of the quarter are being developed in Joliet, which will add 1.7 million SF of supply to the market once completed. Fewer planned developments will contribute to the expected construction activity slowdown going into 2024.

Figure 6: Construction Starts vs. Completions

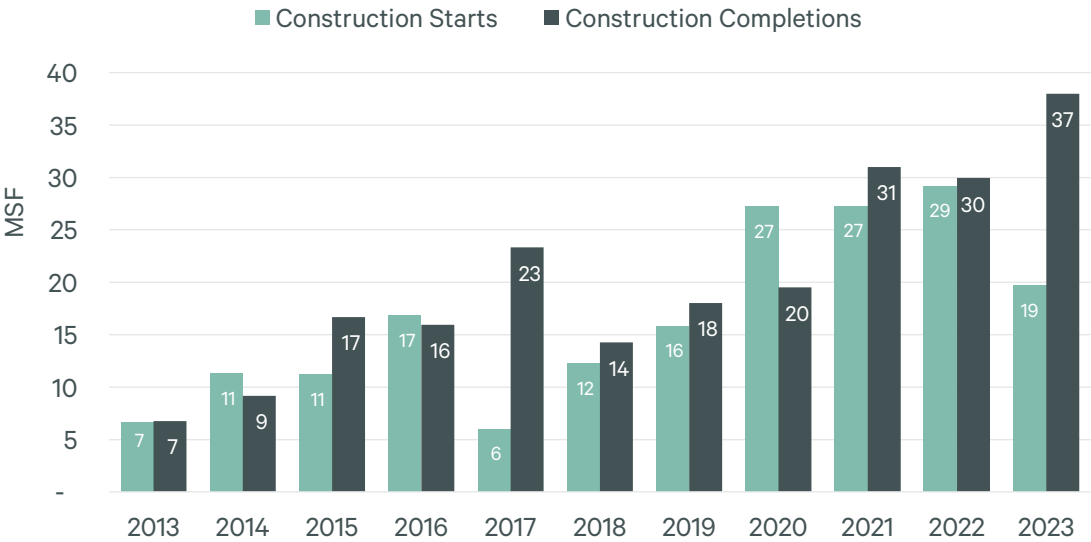
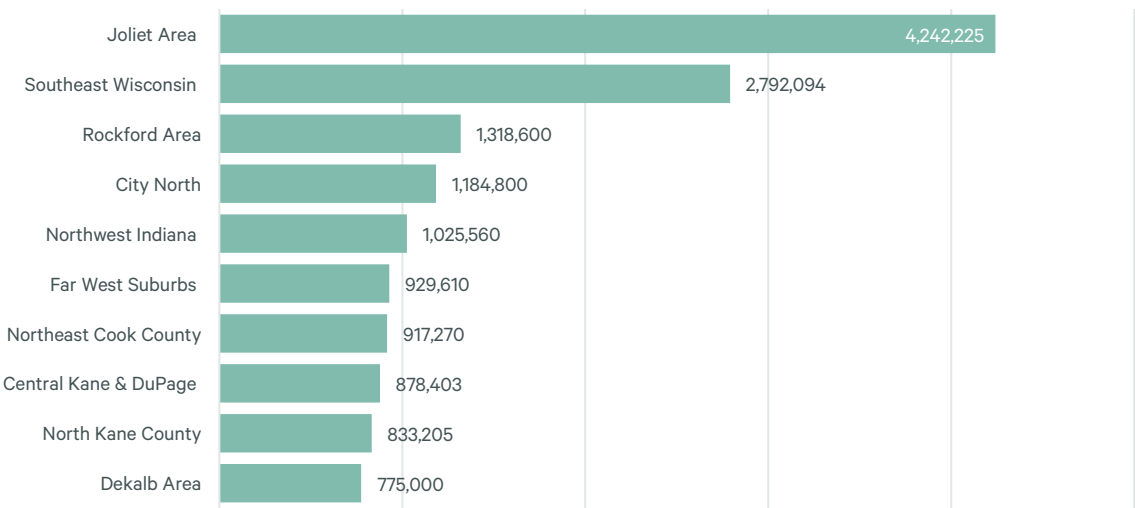


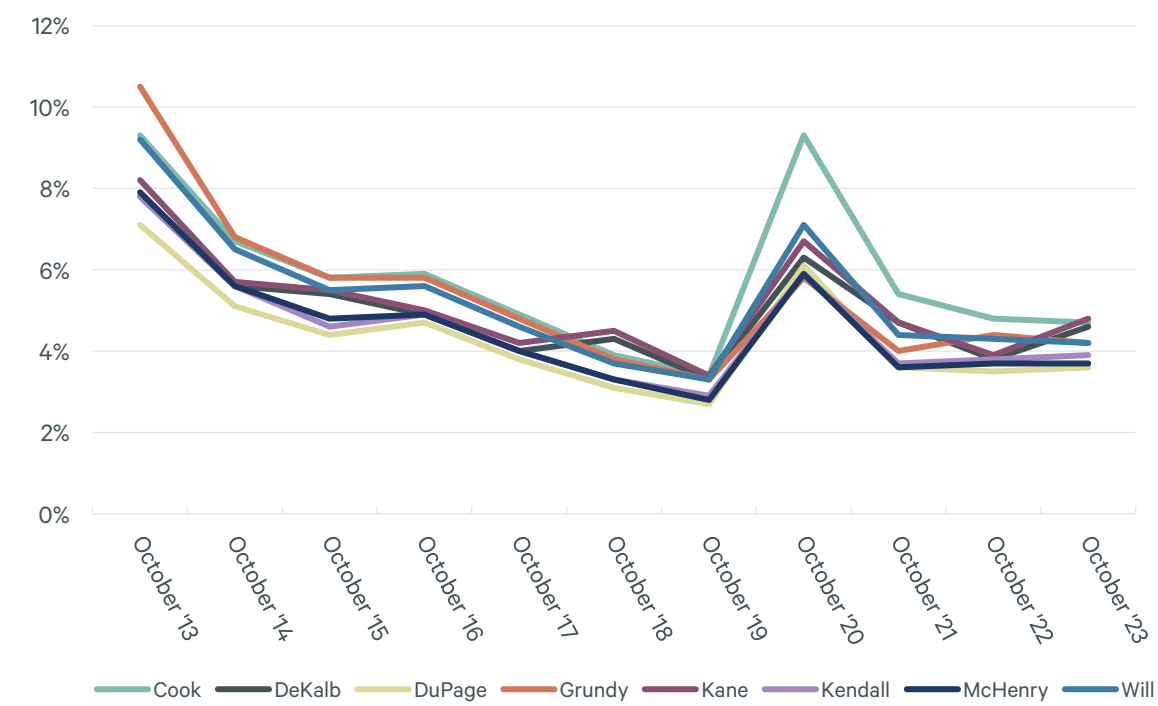
Figure 7: Q4 2023 Top Submarket Gross SF Under Construction



Economic Overview

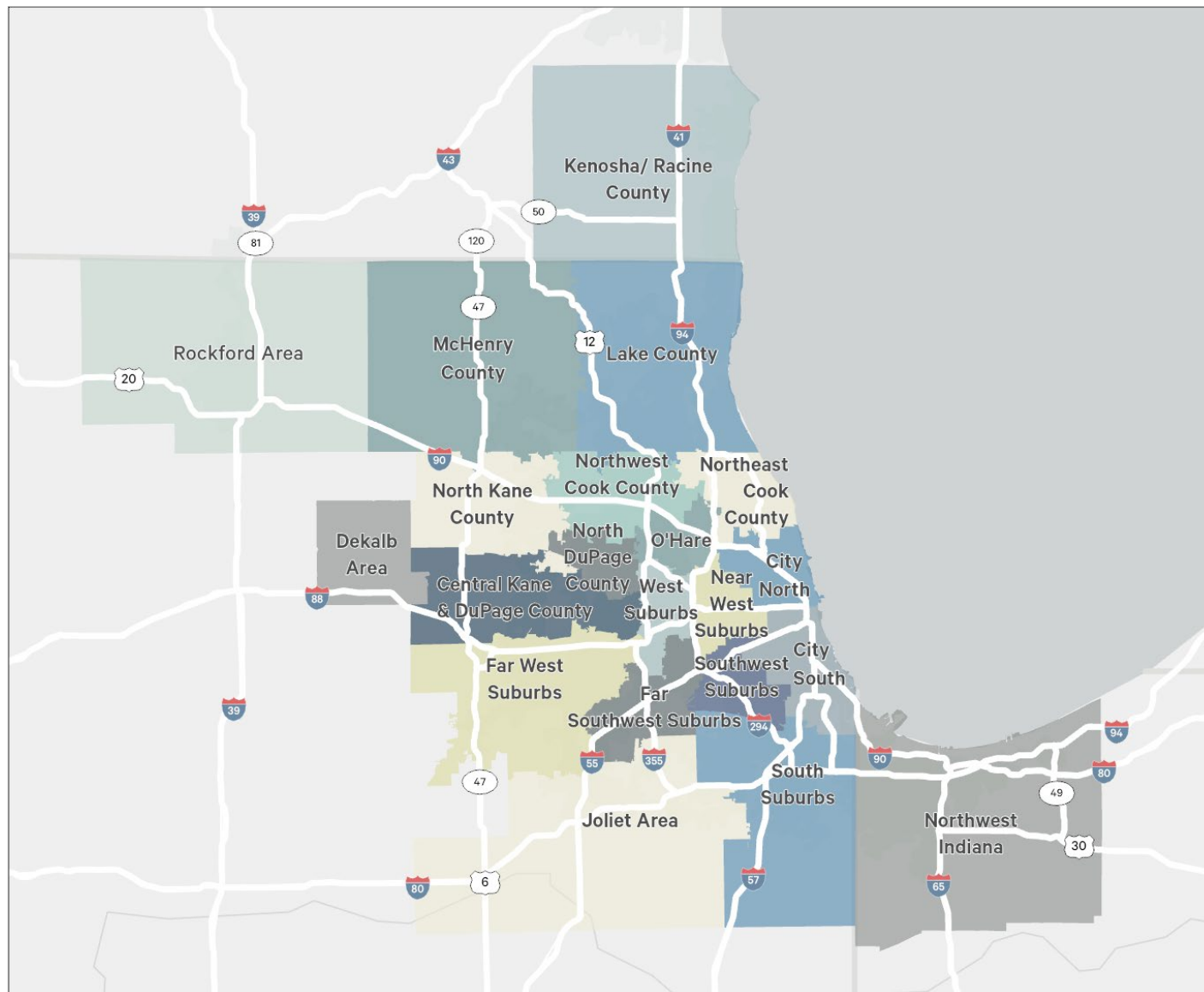
A soft landing appears likely for the U.S. economy as consumer momentum remains strong and the Fed’s tightening cycle probably comes to an end. The pace of growth in 2024 should be slower, however, with lower and middle-income households no longer having the same levels of excess savings and wage growth they benefited from in recent years while simultaneously dealing with the effects of higher core inflation. CBRE expects the Fed to remain wary of inflation and only lower its rates 75-100 basis points in 2024. Although conditions remain less than perfect for credit markets, increased clarity of the path forward combined with healthy fundamentals in many sectors provides some welcome upsides for real estate performance in 2024.

Figure 8: Year-over-Year Unemployment Rates by County, not seasonally adjusted (as of October 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	23,978,972	7.1%	7.4%	286,333	159,381	1,748,983	1,156,787	0	6.45 to 6.65
Lake County	80,286,595	4.1%	4.3%	772,199	1,903,166	(64,332)	525,145	345,739	6.85 to 6.95
NE Cook County	49,866,720	2.2%	2.2%	150,929	834,521	717,272	743,598	917,270	6.95 to 8.15
NW Cook County	31,478,033	7.1%	7.3%	241,472	903,498	481,621	1,465,605	48,000	5.05 to 7.45
N Kane County	35,421,189	3.8%	4.0%	199,735	681,508	1,280,608	1,830,456	833,205	5.95 to 6.50
N DuPage County	45,850,996	3.2%	3.4%	13,369	1,175,278	1,406,494	915,050	50,000	7.00 to 7.20
O'Hare	101,317,225	1.9%	2.0%	655,287	3,745,724	2,055,878	1,586,009	98,214	7.90 to 9.35
City North	60,680,095	2.51%	2.7%	256,981	225,557	(17,571)	0	1,184,800	7.50 to 8.65
Near West Suburbs	82,092,933	2.7%	2.9%	440,320	1,492,557	304,854	1,938,143	398,954	6.55 to 7.70
West Suburbs	38,914,315	0.9%	0.9%	50,152	1,053,725	624,671	268,288	0	7.15 to 7.90
Central Kane & DuPage	40,486,799	3.7%	3.7%	315,797	753,749	1,484,189	1,463,480	878,403	5.80 to 6.85
Far West Suburbs	69,977,080	3.2%	3.3%	188,602	1,569,572	1,379,257	1,490,334	929,610	5.15 to 6.40
Southwest Suburbs	64,852,596	3.1%	3.6%	468,101	671,096	695,552	1,628,323	359,999	5.80 to 6.25
Far SW Suburbs	96,521,301	3.6%	3.7%	240,694	3,342,250	1,562,878	4,244,038	745,039	6.55 to 7.05
City South	105,494,644	2.0%	2.1%	341,312	1,103,258	449,208	300,192	95,694	7.25 to 7.90
South Suburbs	62,423,134	6.6%	6.6%	188,600	2,305,438	1,622,948	2,964,785	0	5.60 to 6.10
Joliet Area	103,217,679	5.7%	5.7%	13,137	4,111,719	4,930,075	7,130,175	4,242,225	6.15 to 7.35
Northwest Indiana	32,451,546	8.1%	8.1%	330,721	590,840	(12,394)	2,262,071	1,025,560	5.00 to 6.45
Dekalb Area	14,045,738	0%	0%	146,740	0	268,356	0	775,000	4.30 to 4.65
CHICAGO METRO SUBTOTAL	1,139,357,590	3.6%	3.7%	5,300,481	26,622,837	20,918,547	31,912,479	12,927,712	6.32 to 7.07
Southeast Wisconsin	81,909,178	9.7%	9.8%	70,184	1,593,679	3,379,599	5,882,180	2,792,094	4.80 to 6.15
Rockford Area	35,880,891	3.7%	4.0%	240,244	716,943	(131,419)	200,165	1,318,600	3.95 to 4.90
TOTAL	1,257,147,659	4.0%	4.1%	5,610,909	28,933,459	24,166,727	37,994,824	17,038,406	6.14 TO 6.92

Market Area Overview Map



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