

# Construction levels slow significantly while rents still on the rise

▲ 4.5%  
Vacancy Rate

▼ 4.9 M  
SF Net Absorption

▼ 10.0 M  
SF Under Construction

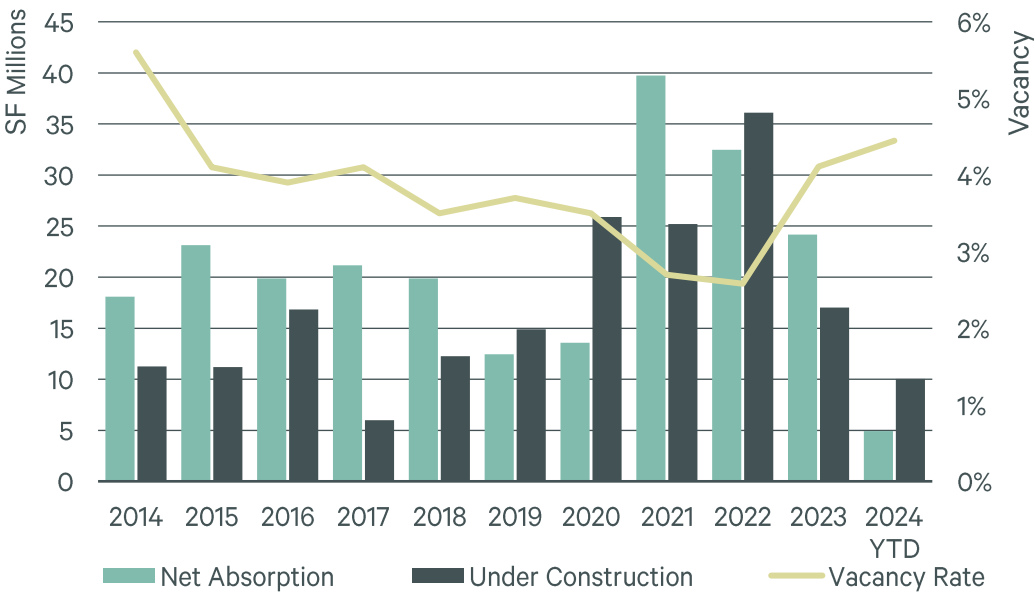
▲ \$6.59  
NNN/Lease Rate

*Note: Arrows indicate change from previous quarter.*

## Construction starts down 96% year-over-year

- The Chicago market reported a 4.5% vacancy rate in the first quarter of 2024, a 31 basis point (bps) increase quarter-over-quarter.
- Asking rental rates reached \$6.59 PSF during the first quarter, compared to \$6.53 PSF measured at the end of 2023. Average asking rental rates were up 4% year-over-year.
- Quarterly net absorption decreased from the 7.8 million SF reported at year-end 2023, but still held strong at 4.9 million SF. This absorption figure is up from the 2.1 million SF reported a year ago.
- The availability rate in Chicago increased 63 bps to 7.6% quarter-over-quarter. A total of 16 developments completed construction this quarter, delivering 7.2 million SF of new supply to the market. Construction activity dropped 41% quarter-over-quarter from 17 million SF to ten million SF. Of the 33 tracked projects underway, 59% are being built on a speculative basis and 41% are being constructed as build-to-suit projects.
- Average quarterly industrial construction starts are expected to drop this year due to high interest rates, a less robust lending environment and lower demand from occupiers.

Figure 1: Net Absorption, Under Construction & Vacancy



Leasing Activity

New lease transaction volume including new leases and expansions declined this quarter to 5.3 million SF, consisting of 111 transactions greater than 10,000 SF. This is the second lowest new leasing figure recorded since the start of the pandemic, with the lowest reported in Q3 2023 at 5.2 million SF. Year-over-year, the Chicago market new leasing total dipped 35% from the 8.1 million SF recorded in Q1 2023. The O’Hare submarket accounted for 21% of new leasing activity, reporting nearly 1.1 million SF with a total of 23 new deals. The largest new deal was done by LaserShip, Inc. in Romeoville for 334,800 SF.

Overall total leasing activity, including renewals, was also down to start off the new year, with 8.7 million SF transacted, a drop from the 11.9 million SF quarter-over-quarter. Renewal activity accounted for 38% of overall leasing activity, reporting 3.4 million SF, an increase from 2.7 million SF quarter-over-quarter. A total of 27 renewals were signed from January to March, including six of the top ten transactions. The two largest deals of the quarter were renewals, with Navistar International signing for 860,100 SF in Joliet, and a confidential tenant signing for 513,674 SF in Woodridge.

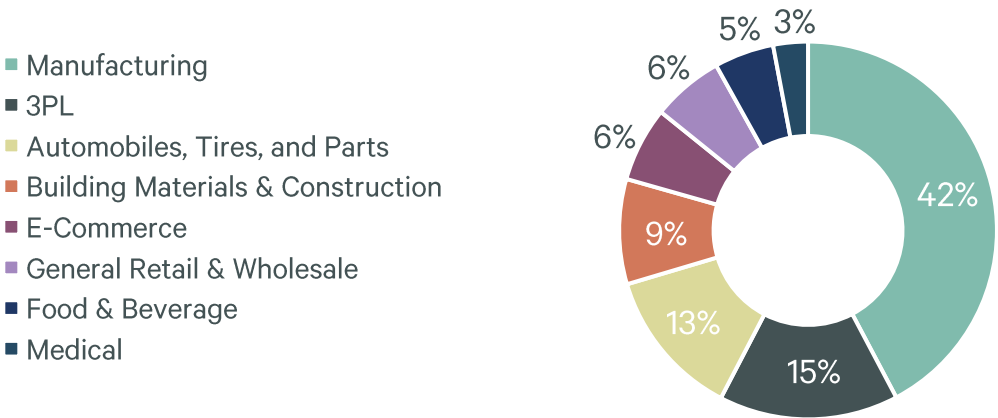
Sales Activity

User sale activity increased to 1.8 million SF in the first quarter with a total of 30 deals transacted. The most activity took place in the Central Kane & DuPage County submarkets with four sale transactions totaling 354,783 SF. The largest user sale of the quarter was signed by DS Containers for 235,000 SF at 1789 Hubbard Ave in Batavia. Year-over-year, user sales activity increased 72% from the one million SF reported in Q1 2023.

Figure 2: Q1 2024 Top Industrial Lease Transactions

SF	TYPE	ADDRESS	SUBMARKET	TENANT
860,100	Renewal	2700 W. Haven Ave, Joliet	Joliet Area	Navistar International
513,674	Renewal	1 Earl Ct, Woodridge	Far Southwest Suburbs	Confidential tenant
334,800	New Lease	565 S. Pinnacle Dr, Romeoville	Far Southwest Suburbs	LaserShip, Inc.
320,879	New Lease	100 W. Compass Blvd, Joliet	Joliet Area	Confidential tenant
299,200	Renewal	9400 W. 55th St, McCook	Southwest Suburbs	Tru Vue, Inc.
252,595	Renewal	4527 Columbia Ave, Hammond	Northwest Indiana	A.M. Castle and Co.
218,464	Renewal	815-915 Kimberly Dr, Carol Stream	North DuPage County	The Niven Marketing Group
179,318	Renewal	1717 Harvester Rd, West Chicago	Central Kane & DuPage County	FXI Inc.

Figure 3: Q1 2024 Leasing Activity by Industry Type (Share by SF)



Asking Rents

The average asking rental rate climbed to \$6.59 PSF, up 4% year-over-year from the \$6.32 PSF measured at the start of 2023. As the market anticipates construction slowdowns and availability is expected to tighten, rents are likely to still be on the rise this year but at a more modest pace. While Class A asking rents increased to \$7.01 PSF from \$6.92 PSF measured last quarter, Class B/C rents remained steady at \$6.18 PSF quarter-over-quarter. Year-over-year Class A asking rents increased 6%.

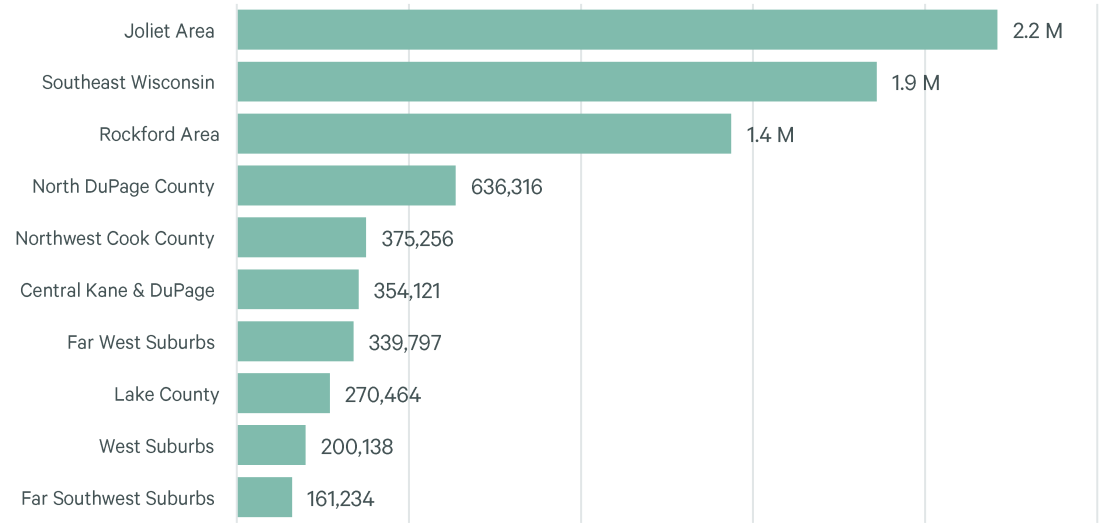
Absorption

Net absorption (a measure by which occupancies and vacancies fluctuate quarter-over-quarter), totaled 4.9 million SF, down from the 7.8 million SF reported quarter-over-quarter. Year-over-year, this absorption figure has doubled from the 2.1 million SF measured at the start of 2023. The Joliet Area submarket witnessed the most absorption for the second consecutive quarter, reporting 2.2 million SF. Two additional submarkets surpassed one million SF in net absorption this quarter with Southeast Wisconsin reporting 1.9 million SF and Rockford with 1.4 million SF, in large part to delivering pre-leased new construction. In addition, 16 other tenants occupied space of at least 100,000 SF each from January to March.

Figure 4: Rent Growth Activity



Figure 5: Q1 2024 Top Submarkets by Net Absorption SF



Construction Activity

Following a record-breaking year of construction completions in the Chicago market, the construction pipeline slowed down significantly during the first quarter of 2024 as economic uncertainty around interest rates continued to pose challenges for investors, developers and tenants. Overall construction starts fell this quarter as five projects totaling 290,265 SF broke ground, a steep decline from the 6.6 million SF of new starts measured a year ago. The O’Hare submarket witnessed the most starts of the quarter with two developments totaling 109,241 SF breaking ground. Overall, the largest project to break ground during the quarter was the 83,124 SF speculative development located at 1050 Albon Ave in Schaumburg.

Overall construction completions were up 10% year-over-year as 7.2 million SF was delivered in the first quarter. Construction completed on three developments over one million SF each, including Uline’s 1.4 million SF build-to-suit in Kenosha, General Mills’ 1.3 million SF build-to-suit in Rockford, and Northpoint Development’s 1.1 million SF speculative facility in Joliet. From January to March, 3.9 million SF of vacant new supply was added to the market, increasing the Chicago market’s vacancy rate to 4.5%. However, the slowdown in new construction may lead to tighter availability and could potentially lower vacancy rates in the second half of 2024.

Of the 33 tracked projects underway, 59% are being built on a speculative basis and 41% are being constructed as build-to-suit projects. The Joliet Area submarket reported the most construction activity with a total of 3.1 million SF underway, including a 1.1 million SF build-to-suit which is the largest project currently under construction in Chicagoland.

Figure 6: Construction Starts vs. Completions

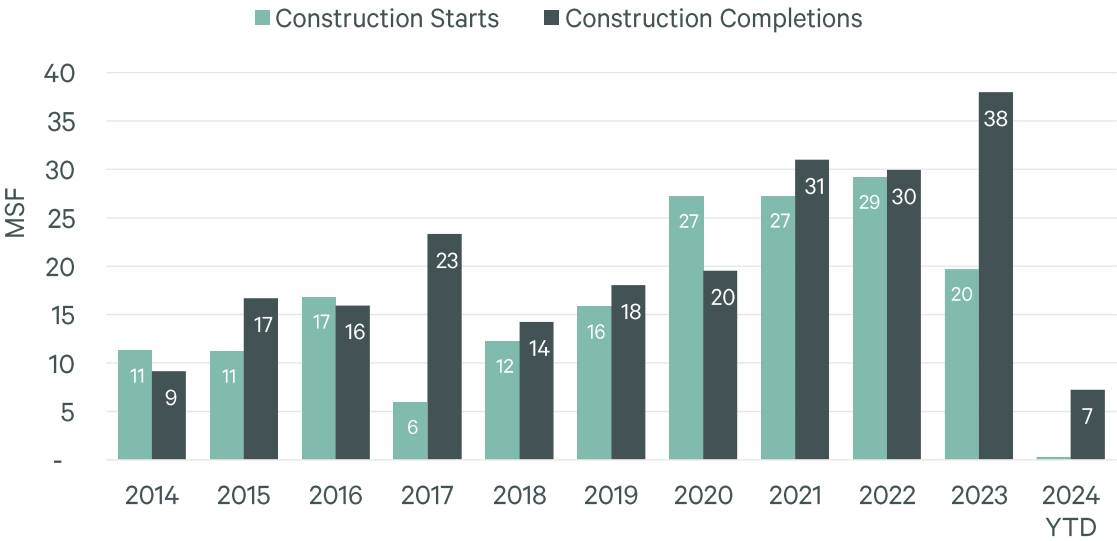
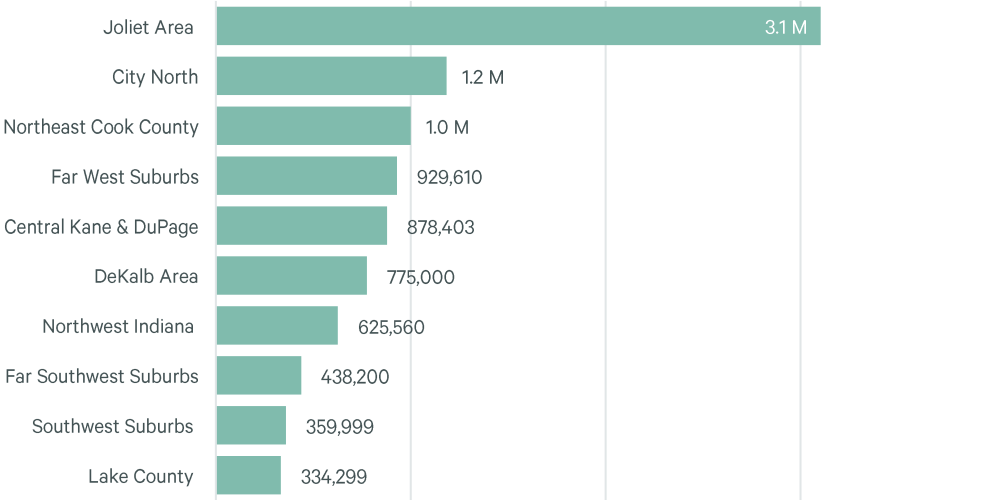


Figure 7: Q1 2024 Top Submarket Gross SF Under Construction



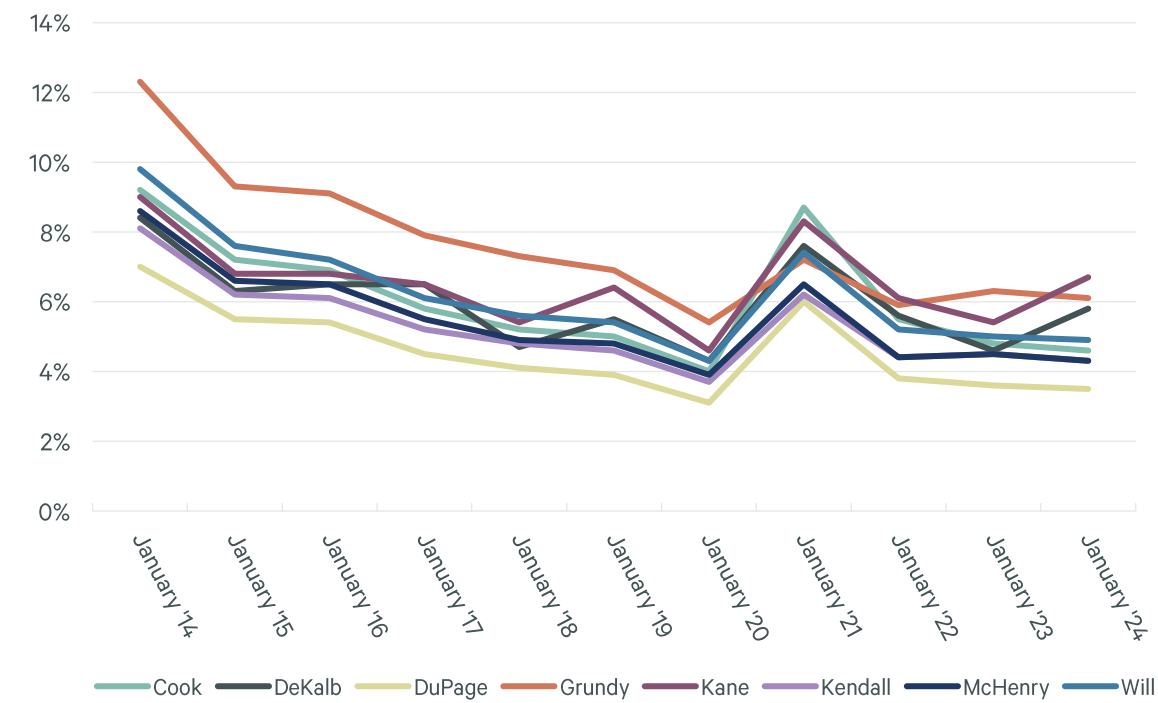
Economic Overview

The U.S. economy is on track for a 'soft landing', with continued growth but at a slower pace than the 3.0% measure seen last year. This slowdown is mostly due to cautious consumers and slower hiring, particularly in interest rate-sensitive sectors like tech start-ups and goods manufacturing. However, electric vehicle production and microchip manufacturing have thus far bucked the trend with increased investment.

Business caution means much of recent hiring has come from public sectors like education and healthcare, with leisure and hospitality being a notable exception due to continued demand for discretionary services. Job openings have dropped over 2.0% from last year and wage growth has slowed, but not enough to completely quiet inflationary fears.

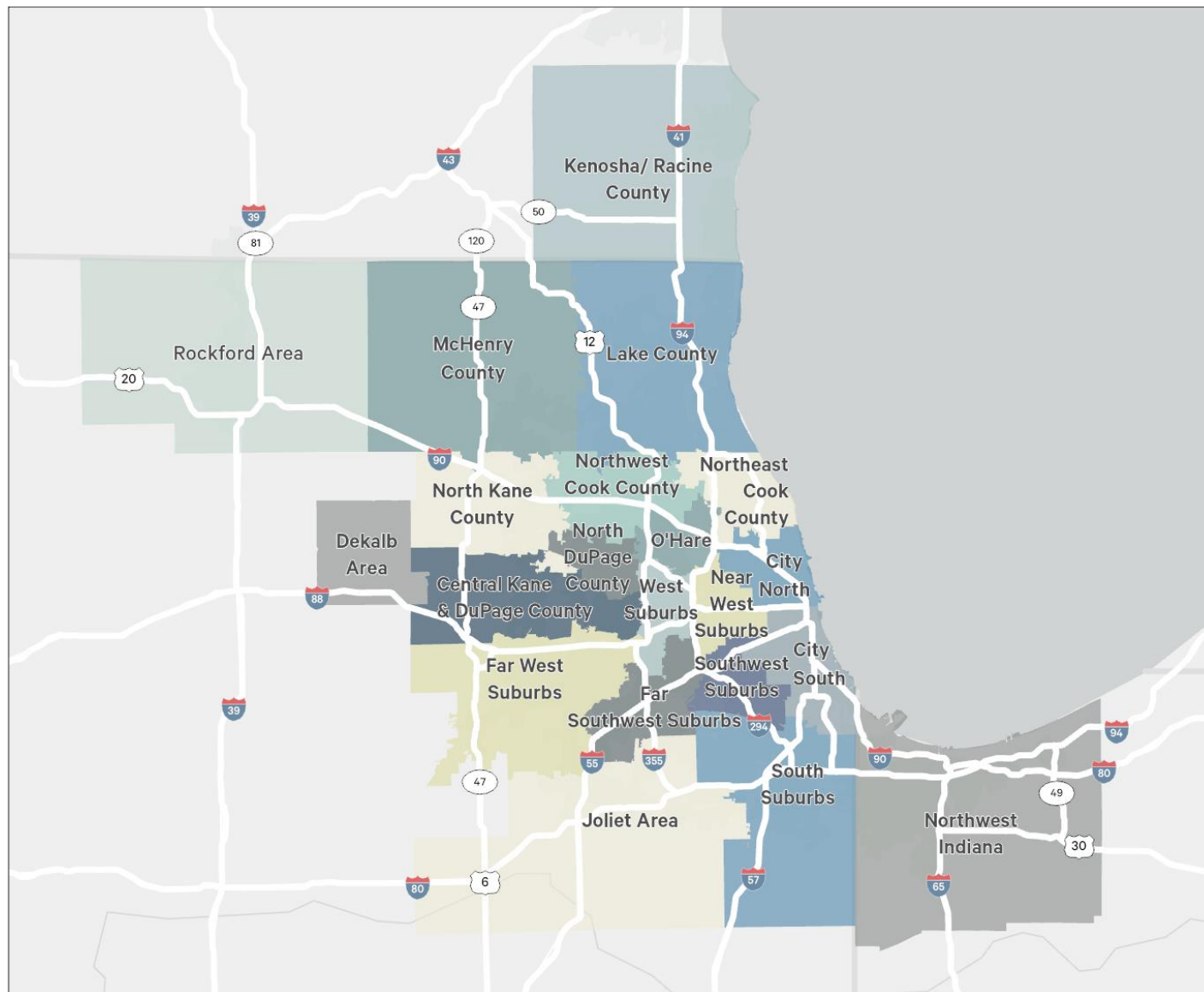
Given the persistent sub-4% unemployment rate and high-capacity utilization, we don't expect the Consumer Price Index (CPI) returning to its target until 2025. The Fed is likely to cut rates three times this year, providing some hope for real estate markets, though recovery won't kick-start until the drops go into effect. In the meantime, stronger-than-expected growth has kept real estate vacancies low in the last 18 months, specifically in the industrial, retail, and multifamily sectors. Those tailwinds combined with incoming aid from the central bank provide optimism for the market further into the year.

Figure 8: Year-over-Year Unemployment Rates by County, not seasonally adjusted (as of January 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	23,854,895	7.0%	7.3%	69,932	166,252	30,670	0	0	6.45 to 6.65
Lake County	80,395,551	3.8%	4.0%	47,842	233,854	270,464	11,440	334,299	6.10 to 7.00
NE Cook County	49,918,066	2.9%	2.9%	289,807	29,259	(377,692)	0	1,000,394	6.95 to 8.20
NW Cook County	32,084,989	5.8%	6.0%	127,072	235,533	375,256	0	48,000	5.10 to 7.50
N Kane County	36,263,095	6.0%	6.3%	166,464	269,689	(31,660)	810,960	22,245	6.00 to 6.50
N DuPage County	45,864,486	1.7%	2.0%	0	77,067	636,316	0	99,300	7.05 to 7.30
O'Hare	101,409,771	2.0%	2.3%	126,456	1,093,789	(562,050)	98,214	109,241	8.05 to 9.45
City North	60,604,061	2.8%	2.9%	106,446	95,790	(127,902)	0	1,184,000	7.55 to 8.70
Near West Suburbs	82,037,810	3.1%	3.4%	33,300	176,060	48,365	398,954	0	6.60 to 7.75
West Suburbs	39,058,406	0.4%	0.9%	197,000	71,983	200,138	0	0	7.20 to 8.00
Central Kane & DuPage	40,636,287	2.6%	2.9%	354,783	53,550	354,121	0	878,403	5.95 to 7.00
Far West Suburbs	69,923,215	2.8%	2.9%	79,544	183,932	339,797	0	929,610	5.20 to 6.50
Southwest Suburbs	65,062,236	3.7%	4.3%	63,982	301,176	(247,550)	0	359,999	5.85 to 6.30
Far SW Suburbs	96,812,879	3.7%	3.8%	0	870,979	161,234	306,839	438,200	6.60 to 7.15
City South	105,493,887	1.9%	2.1%	0	107,759	21,967	22,250	73,444	7.35 to 8.00
South Suburbs	62,388,302	9.6%	9.6%	16,585	163,586	(1,761,740)	0	48,600	5.75 to 6.10
Joliet Area	104,339,725	6.0%	6.0%	0	602,247	2,209,433	1,139,153	3,103,072	6.25 to 7.50
Northwest Indiana	32,490,204	7.6%	7.9%	0	55,359	94,558	400,000	625,560	5.05 to 6.55
Dekalb Area	14,045,738	0.0%	0.0%	0	0	0	0	775,000	4.30 to 4.65
Chicago Metro Subtotal	1,142,683,603	3.8%	4.0%	1,679,213	4,787,864	1,633,725	3,187,810	10,030,167	6.34 to 7.14
Southeast Wisconsin	84,634,550	11.0%	11.3%	0	499,616	1,859,101	2,719,594	0	5.05 to 6.40
Rockford Area	37,555,315	3.2%	3.5%	76,856	0	1,436,337	1,318,600	0	4.00 to 4.95
Total	1,264,873,468	4.3%	4.5%	1,756,069	5,287,480	4,929,163	7,226,004	10,030,167	6.18 TO 7.01

## Market Area Overview Map



## Contacts

Marissa Oberlander

Associate Research Director  
(312) 540-4686  
[marissa.oberlander@cbre.com](mailto:marissa.oberlander@cbre.com)

Michael Raleigh

Field Research Manager  
(312) 935-1003  
[michael.raleigh@cbre.com](mailto:michael.raleigh@cbre.com)

Jordan Goldberg

Senior Field Research Analyst  
(636) 233-2767  
[jordan.goldberg2@cbre.com](mailto:jordan.goldberg2@cbre.com)

Hannah Webster

Senior Field Research Analyst  
(630) 638-7308  
[hannah.webster@cbre.com](mailto:hannah.webster@cbre.com)

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## CBRE Chicago Offices

## Downtown

321 North Clark Street, Suite 3400  
Chicago, IL 60654

## Oak Brook

700 Commerce Drive, Suite 450  
Oak Brook, IL 60523