

# O'Hare Submarket



## Quick Stats

**3.5%**

The Chicago metro unemployment rate dropped 80 basis points from the previous quarter to **3.5%**

**\$65.58**

Crude oil reached a price of **\$65.58**/barrel in Q2 2019. These are the highest prices observed since October 2018.

**13.9%**

Sales prices in O'Hare have increased **13.9%** year-over-year. The average sales price in Q2 2019 was \$76.50/sf.

**3 MSF**

More than **3 million square feet** of industrial product has delivered in the last 4 quarters. In the same time period, the O'Hare submarket has seen over 4.5 msf of leasing activity.

## Economic Overview

Chicago's diverse economy continued to grow moderately throughout the second quarter of 2019. As of May 2019, unemployment stood at 3.5%, up 10 basis points (bps) year-over-year. The metropolitan area added more than 65,000 jobs as of May 2019, up 1.4% year-over-year. Lake County observed the largest decrease in unemployment, down 40 bps to 4.1%. The manufacturing sector witnessed an increase of 5,300 jobs, or 1.3% compared to May 2018. Trade, transportation and utilities gained 9,100 jobs, an increase of 1%.

During the first half of 2019, Chicago and airline officials broke ground on an upgrade and expansion of O'Hare International Airport's Terminal 5 rehabilitation. City officials have stated that this project will increase the space by approximately 350,000 square feet (sf) and add 10 new gates to the terminal by 2021. The continuing upgrades to both passenger and cargo facilities should keep O'Hare competitive as the busiest airport for years to come.

## O'Hare Submarket

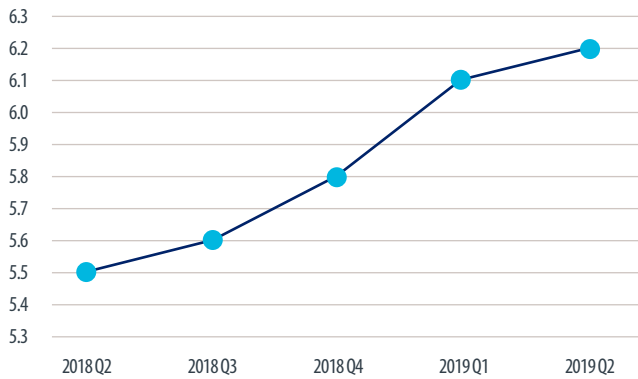
The O'Hare submarket, containing over 114 million square feet (msf), has historically been one of the most popular suburban submarkets within the Chicago industrial

market. Vacancy was recorded at 6.2% during the second quarter of 2019, down 10 bps from the prior quarter. Leasing activity remained strong throughout the first half of 2019 with approximately 1.9 msf of leased space. Average asking rents are currently posted at \$5.46 per square foot (psf). Year-to-date, there have been seven properties delivered to the market totaling 1.3 msf with an additional 650,000 sf still under construction. Notable second quarter lease transactions include Crane Worldwide Logistics, which leased 185,000 sf at 10801 Irving Park Rd in Chicago with an anticipated third quarter 2019 move-in date. The largest move-in of the quarter was SEKO Logistics moving into 103,000 sf at 1111 Chase Avenue.

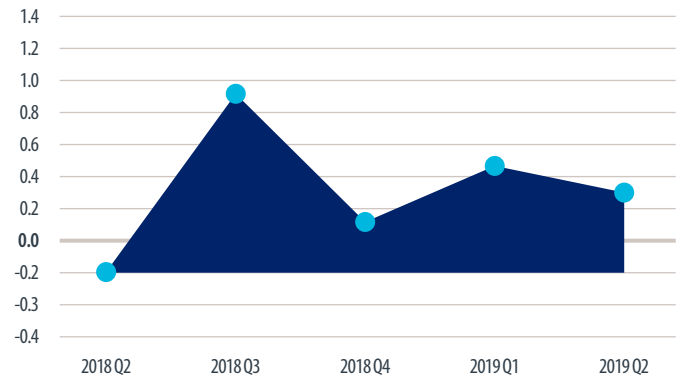
The O'Hare submarket continues to see a lack of available buildings for user sales, which will have a positive impact on the property values for class B and C assets moving forward. Class A assets remain in high demand for the institutional owners that continue to have demand for facilities located within the O'Hare submarket.

# Market Fundamentals

Vacancy Rate (%)



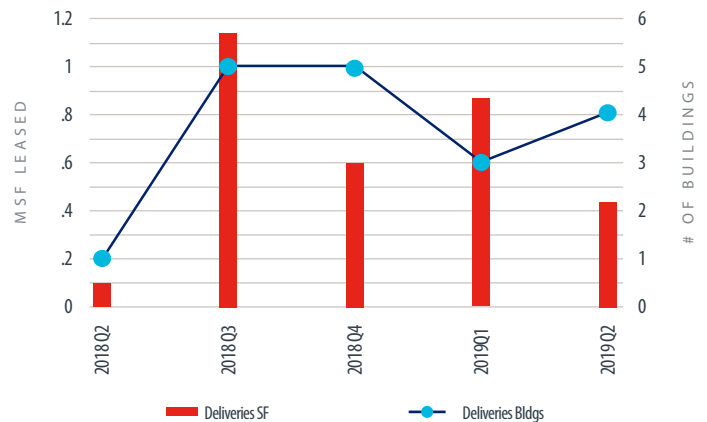
Net Absorption (MSF)



Leasing Activity



Buildings Delivered



## Industrial Sales

Low inventory and robust demand are pushing O'Hare industrial sales to record highs, reaching levels only seen once before during a rare spike in 2015. The past six quarters have witnessed significant pricing growth, climbing to an impressive \$75 psf. The average price psf grew more than 50.2% from Q1 2018 to current. This represents average annual growth of 33.5%. Current growth vastly outpaces historic pricing compared to the last five years, which had average annual growth of only 4.5%. Fueling this price growth was the demand of simply being in the O'Hare submarket there were more sales in 2018 than any other year before.

More than 60% of the sales in the O'Hare submarket over the last five years have been investor transactions, forcing user/owner purchasers to compete with large investment players. This dynamic significantly impacts pricing as investor demand drives value upward.

## Could users soon be priced out of the market for investment sales?

Since Q3 2013, there have been 325 industrial investment sales in the O'Hare submarket, totaling \$1.66 billion across 30.5 msf of space. The average building size was 94,059 sf.

With the majority of class A assets in the O'Hare submarket controlled by institutional owners who are not looking to sell, other investors and users are required to shift their focus to class B and class C assets. Given this dynamic, values for class B and class C assets should continue to rise. Both users and investors are also watching the Chicago area property tax situation and its potential to affect operating costs. Due to the property tax situation in Cook County, along with the current demand from potential purchasers, sellers of class B and class C industrial assets located in DuPage County may see a 25% to 35% premium in pricing compared to Cook County assets.

## O'Hare Historical Sales Comparison



avisonyoung.com



### Contact Information:

Kathleen Cavanaugh  
 Research Manager  
 312.940.6266  
 kathleen.cavanaugh@avisonyoung.com

George Susral III  
 Research Analyst  
 312.796.0379  
 george.susral@avisonyoung.com