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Chicago industrial market report

Q3 2021

AVANT
by AVISON YOUNG



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U.S. and Midwest industrial drivers

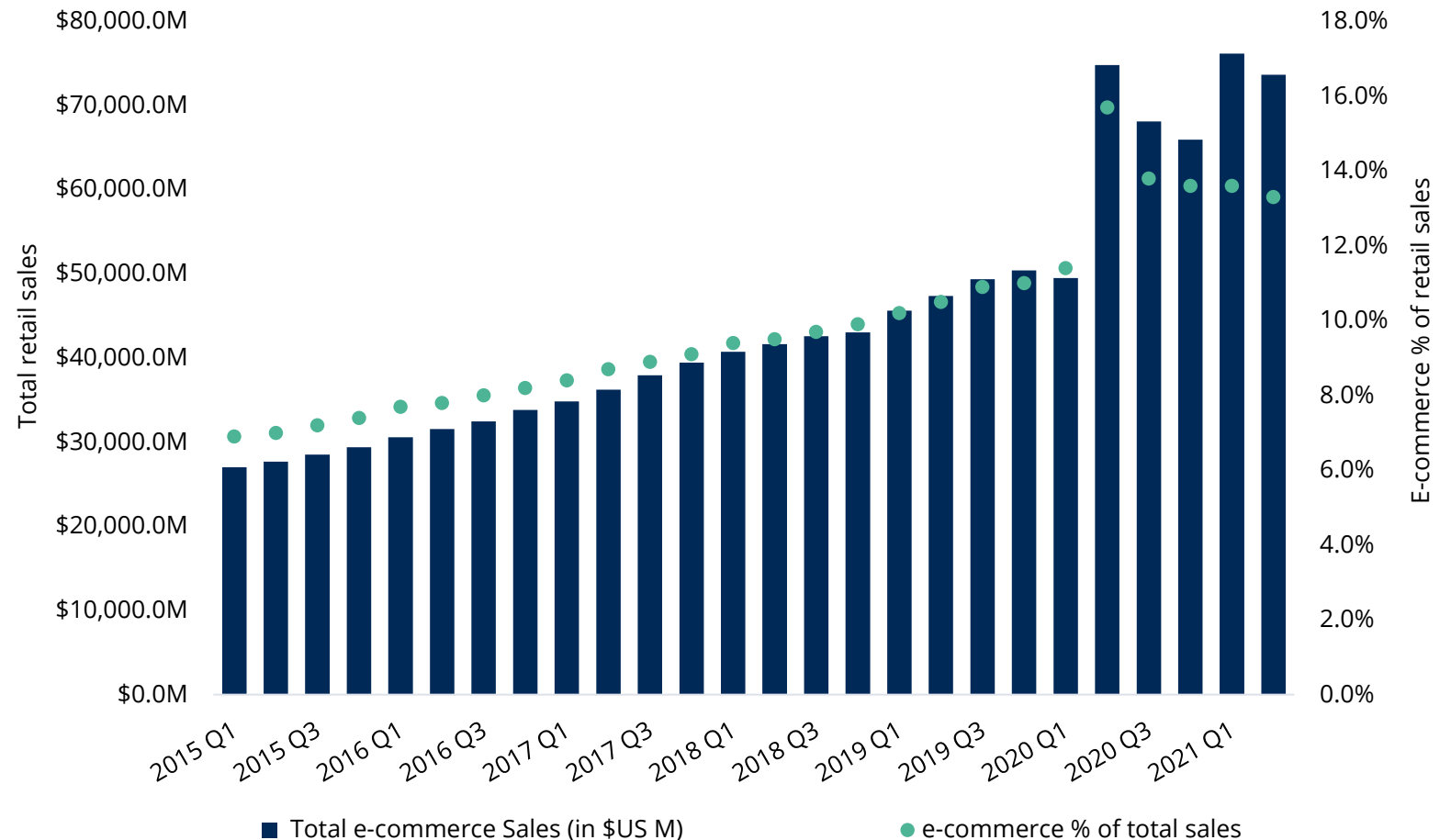
MIDWEST INDUSTRIAL MARKET REPORT
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



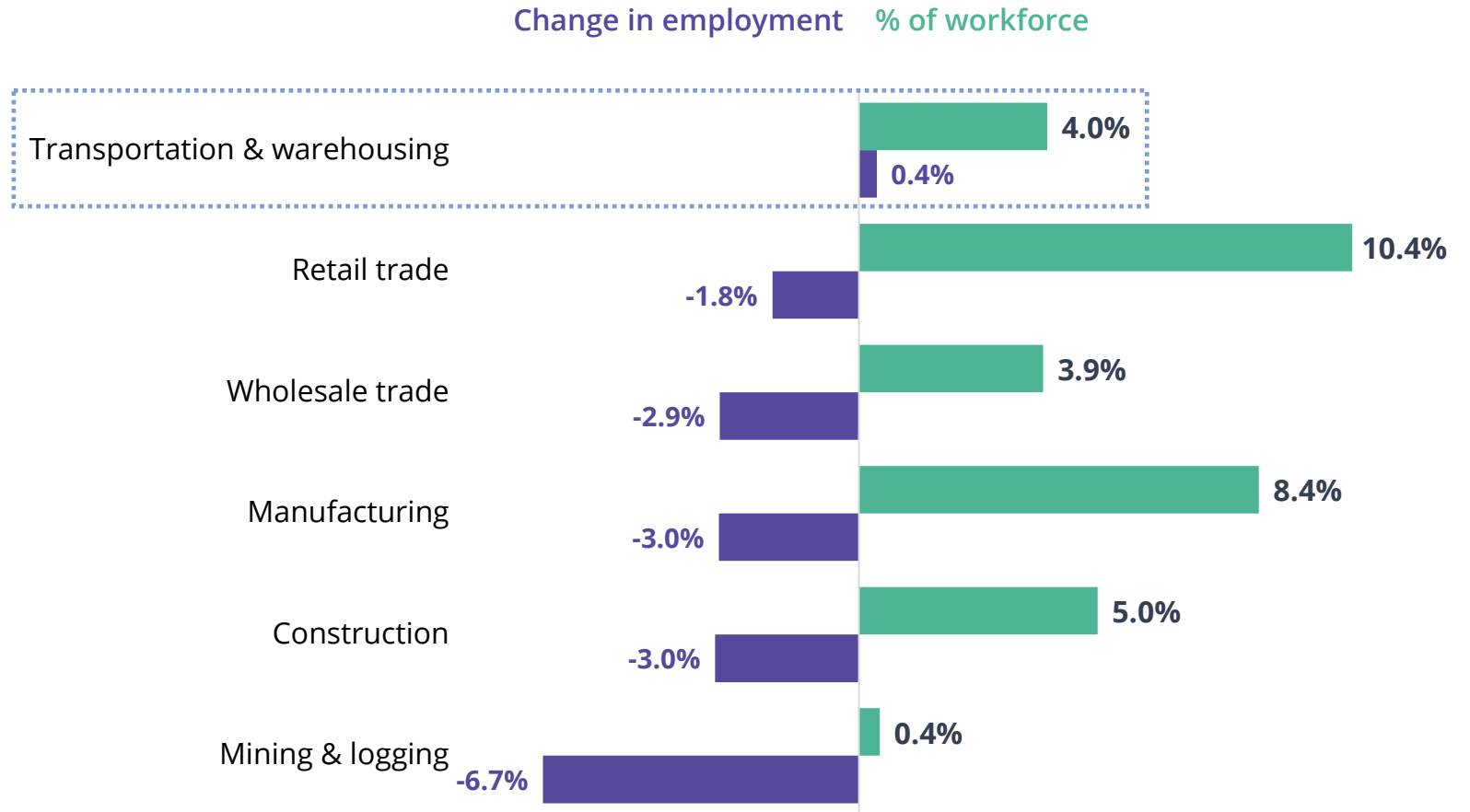
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



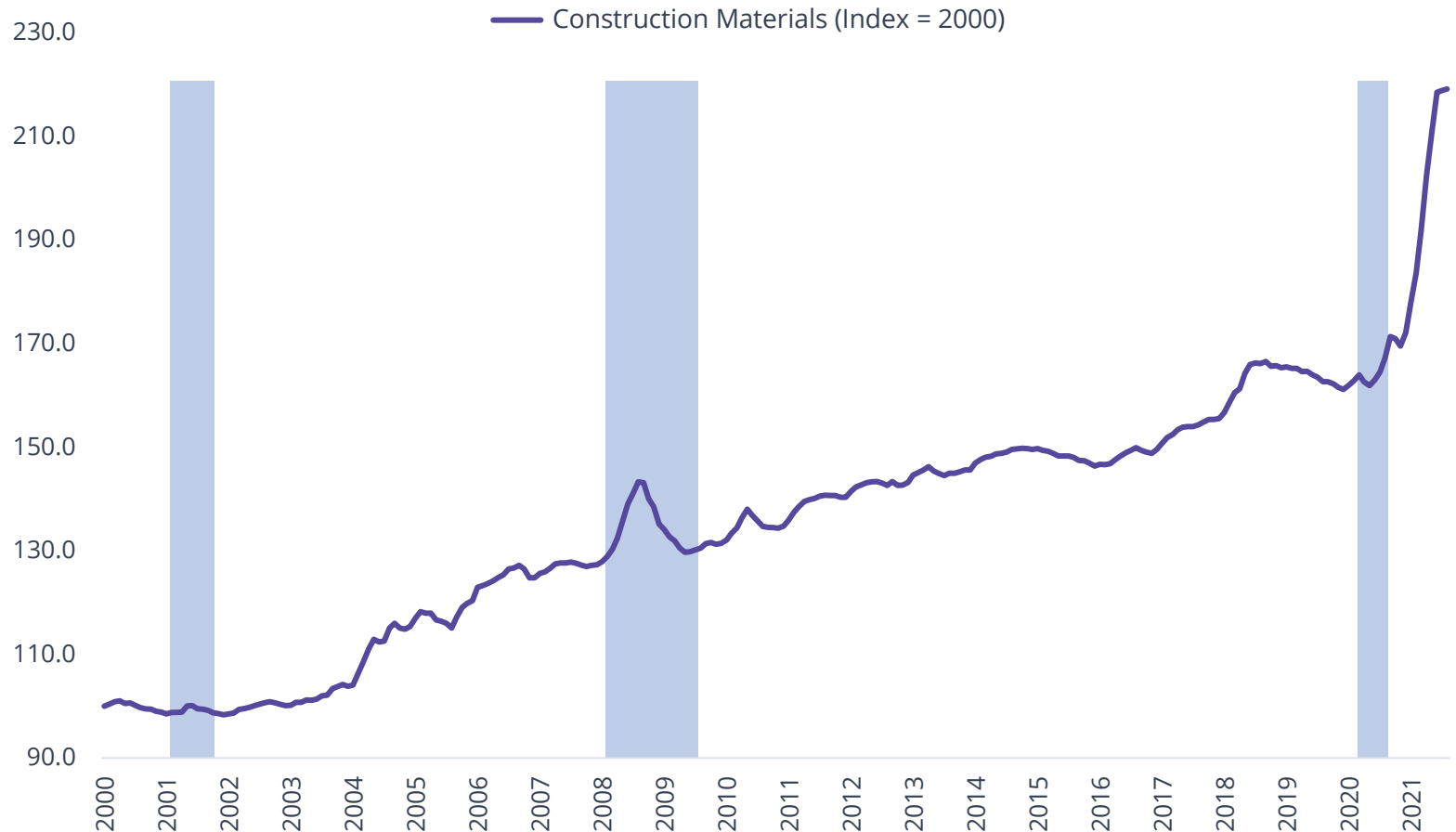
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

**Construction Material
Index cost from year-end
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



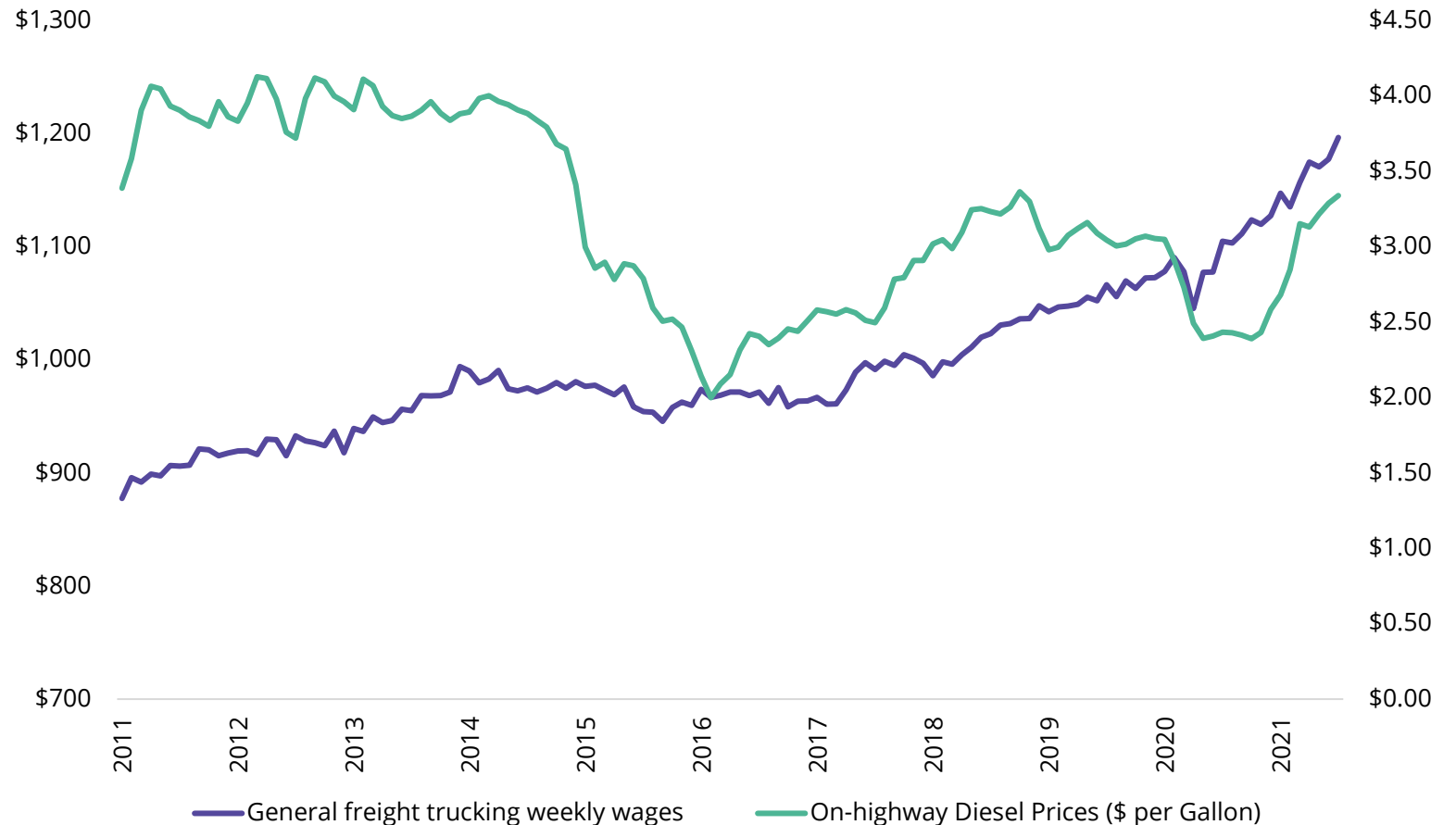
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



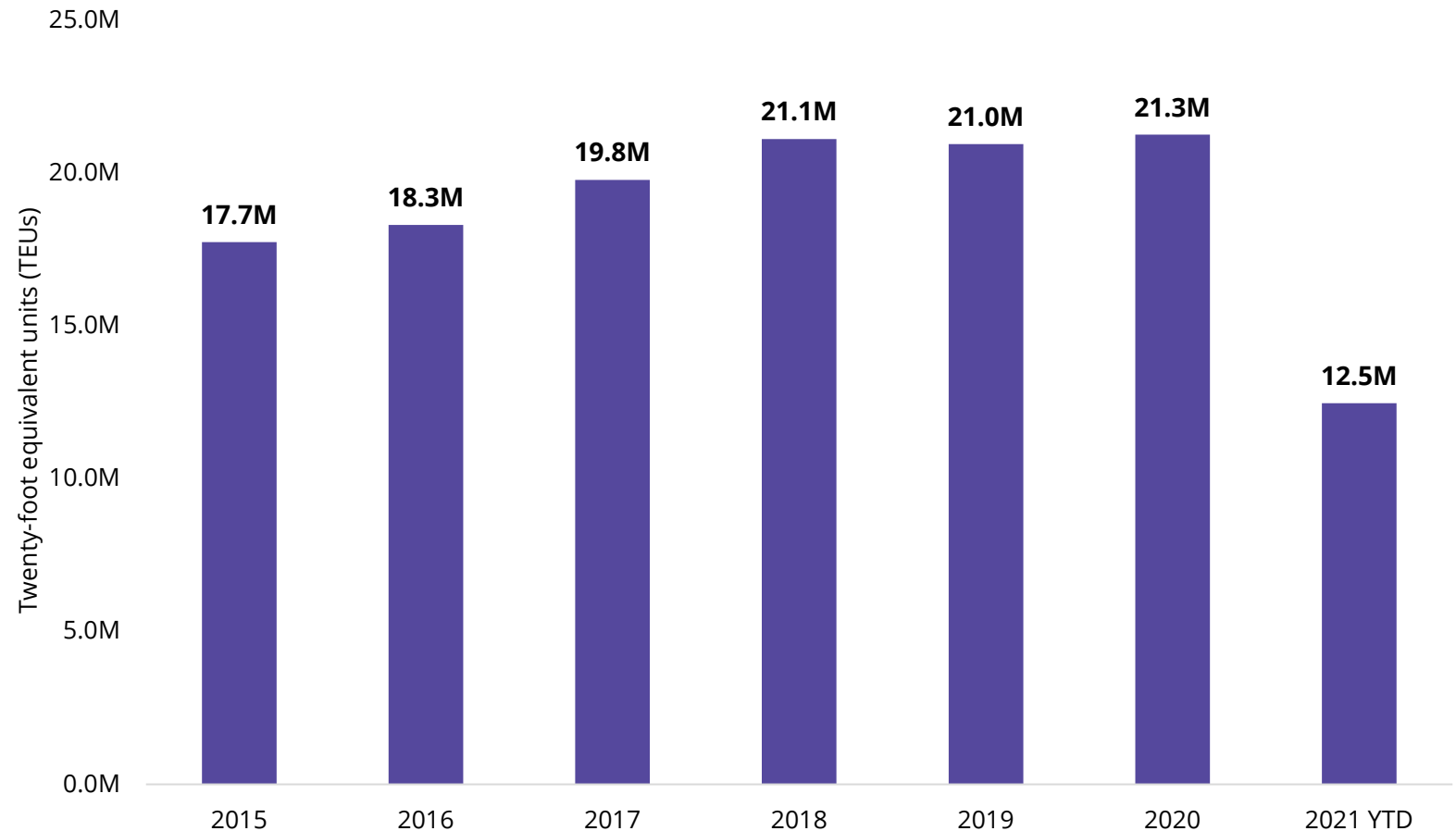
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Loaded import container volumes

+24.0%

**Change in cargo volumes,
H1 2020 vs. H1 2021**

Through June, loaded imports at major U.S. seaports are up significantly over the same period last year. While activity in 2020 was impacted by the pandemic, freight flows this year have been marred by supply chain disruptions at ports.



Note: Includes Los Angeles, Long Beach, New York / New Jersey, Savannah, Virginia, Houston, Charleston, Oakland, Seattle / Tacoma, Miami, Baltimore, Jacksonville ports.
Source: individual port authority websites

A man wearing a white baseball cap, safety glasses, and yellow overalls is pouring beer from a tap. He is holding a dark glass bottle under the tap. The background shows a blurred industrial setting with white structural elements.

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Chicago market fundamentals

MIDWEST INDUSTRIAL MARKET REPORT
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Key industrial takeaways



Economic conditions

- Essential workers, a logistics hub and a sharp but entrenched rise in e-commerce spending have helped bring Chicago unemployment figures down to **7.1%**. Other supply chain shocks throughout 2021 have done little to impede growth in leasing fundamentals, especially for Class A space.
- Local employment in Transportation, warehousing & utilities rose by **15,700 jobs** since July 2020 as of August. These job gains have remained steady this year, with the transportation, warehousing & utilities sector up **6.1%** since July 2020.



Inflation rate

- The Chicago metropolitan area has experienced a rapid rise in base inflation, at **4.8%** year-over-year change in Consumer Price Index for the MSA, for all items.
- Despite stabilizing this summer, lingering supply chain disruptions and severe weather have impacted many sectors and could keep inflation at **higher-than-normal levels**.



Industrial demand

- Overall leasing activity has been sustained throughout the pandemic, currently sitting at **+55.5%** of the long-term annual average of the last 20 years of historical data.
- At **19.8M sf** through the first three quarters, aggregate 2021 net absorption could actually outpace totals for the past 2-3 years.

Key industrial takeaways



Industrial supply

- As national, regional and local logistics and e-commerce businesses continue to expand throughout the market, developers are working to meet demand. Through the third quarter, there were **37 properties** larger than 50,000 sf totaling **15.8M sf** delivered to the market.
- The overall vacancy rate for the Chicago industrial market exhibited a record **6.3%**, reaching a post-2000 low, and falling by nearly half from its high in 2009.



Pricing trends

- Base rents have increased by **11.3%** since 2015 and have continued a steady upward trajectory since 2017.
- Base rents initially **softened slightly** in the beginning of COVID but are **surging past pre-pandemic pricing**.



Capital markets

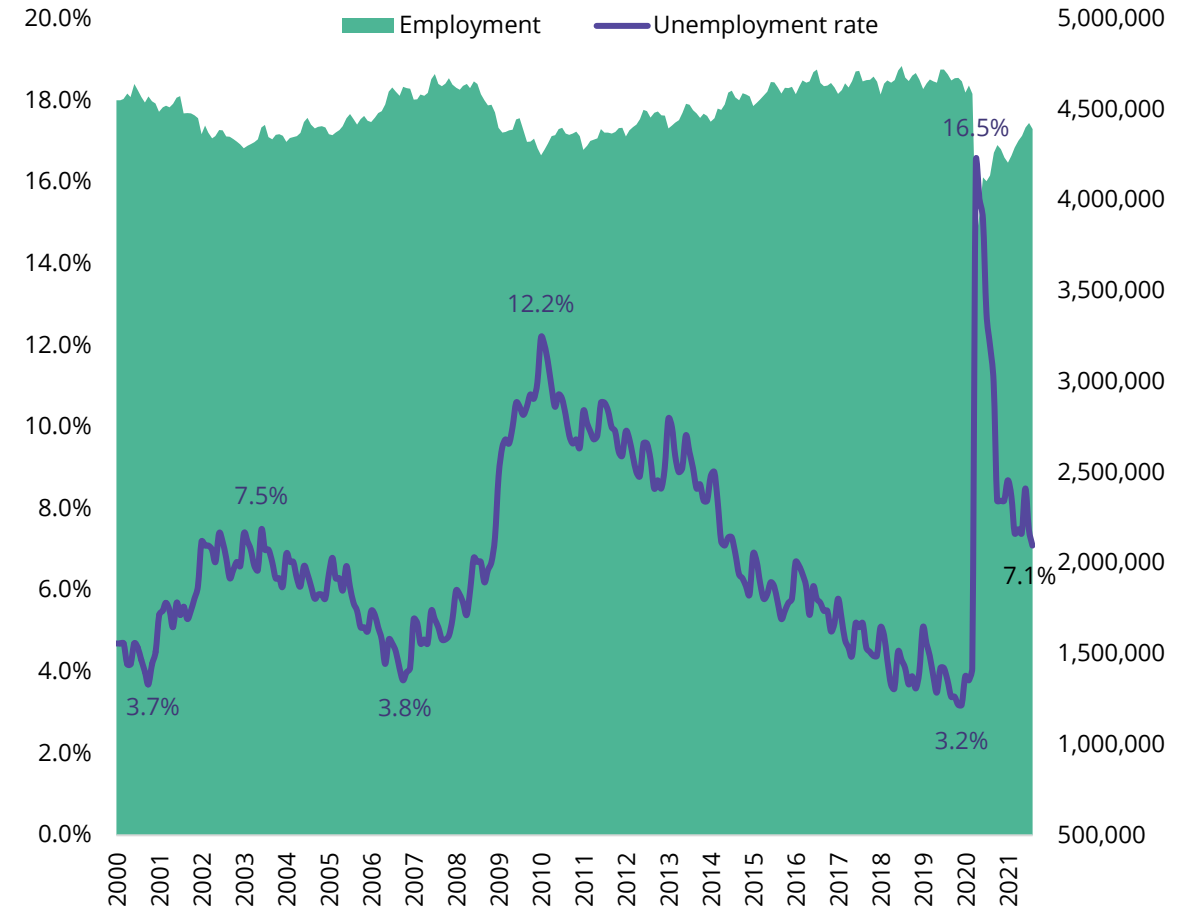
- Chicago Industrial investment activity surges to **\$4.2B year-to-date** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- 2021 is **outpacing** the five-year average through the first three quarters of sales transaction activity by **16.2%**.
- It also translated into higher valuations for Chicago industrial assets, with a **58.0%** higher per-square-foot rate than the trailing five-year average, to \$83 psf through the first three quarters of 2021.

Employment and unemployment rate

7.1%

Chicago MSA unemployment rate as of August 2021, dipping below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with nearly 860,000 job losses between February and April 2020. However, reopening efforts enabled the economy to add 16.4% jobs since April 2020.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

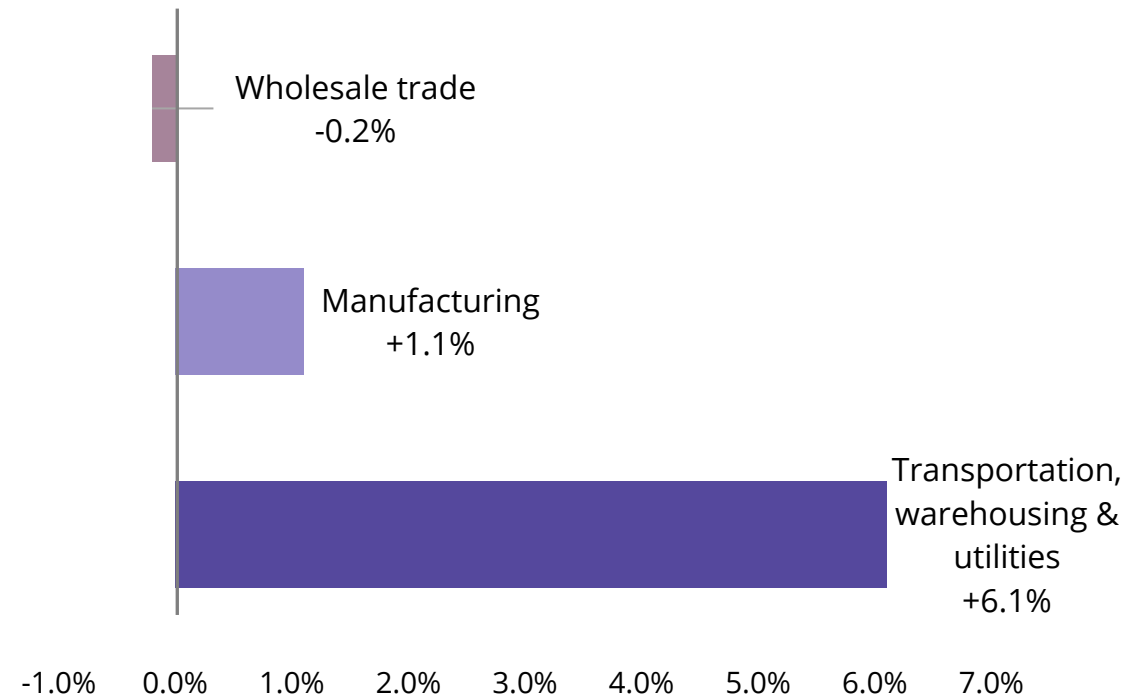
+2.2%

Change in industrial employment from July 2020 to August 2021

The Chicago metro area has experienced job additions totaling 1.7% in the last year, especially in the critical areas of transportation and logistics. These job gains have remained steady this year, with the transportation, warehousing & utilities sector up 6.1% since July 2020.

Total change in Chicago MSA* job gains/(losses)

July 2020 to August 2021



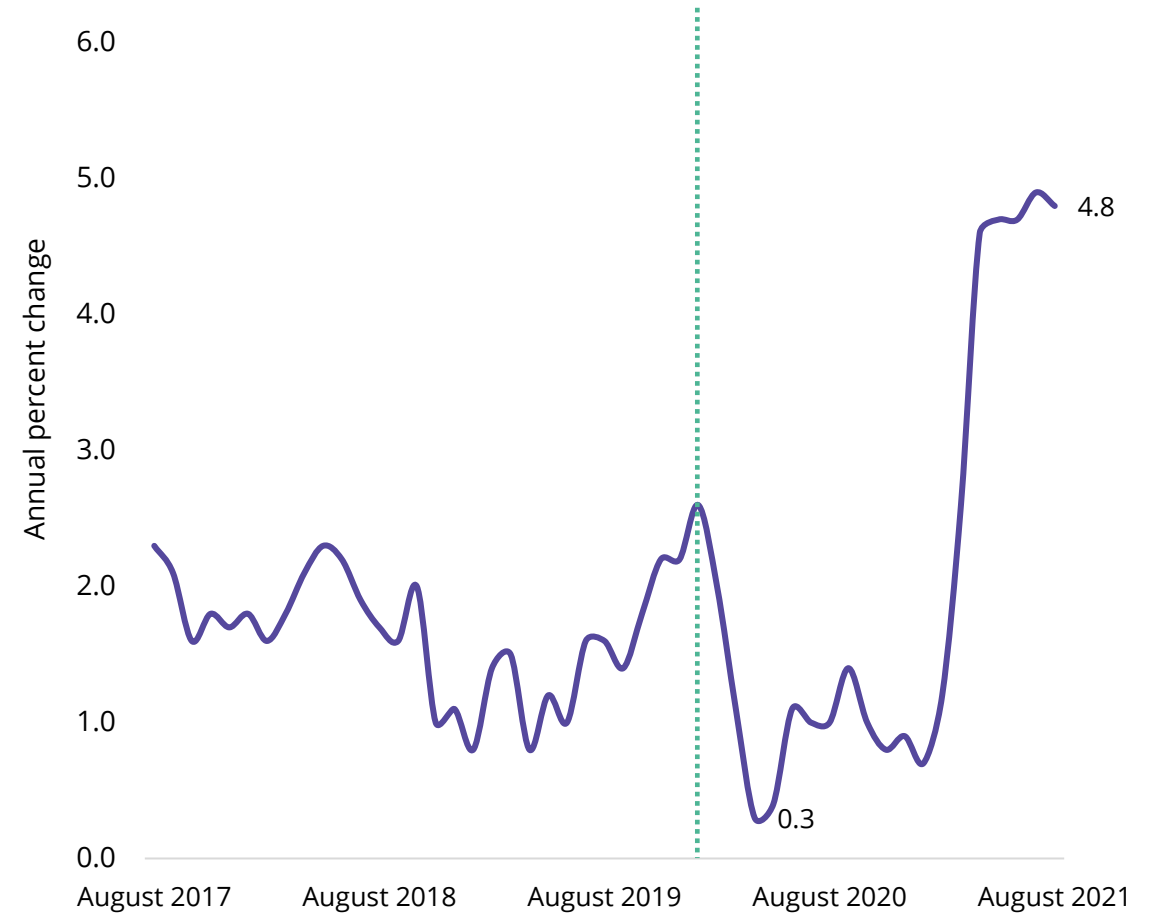
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Inflation rates

+4.8%

Year-over-year change in Consumer Price Index for Chicago, all items

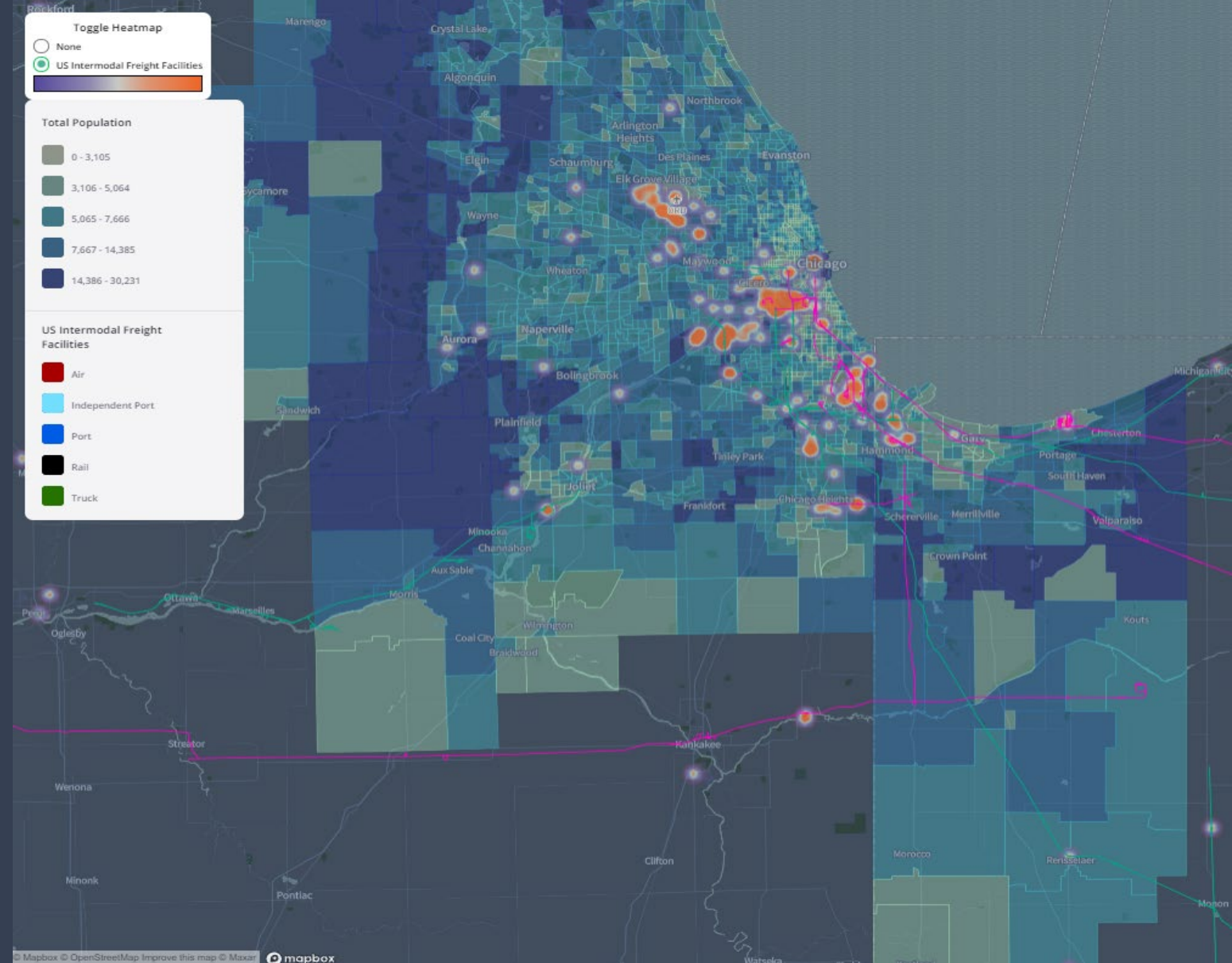
Chicago-area consumer prices have been increasing sharply as the local economy has reopened. Despite stabilizing this summer, lingering supply chain disruptions and severe weather have impacted many sectors and could keep inflation at higher-than-normal levels. Chicago food prices spiked by 1.1% in August, though CPI less food & energy decreased by 0.2%.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Freight rail & intermodal facilities

Source: AVANT by Avison Young, ESRI
Intermodal facilities are clustered around seaport submarkets and major throughout corridors, with Class I rail lines providing connectivity throughout the country

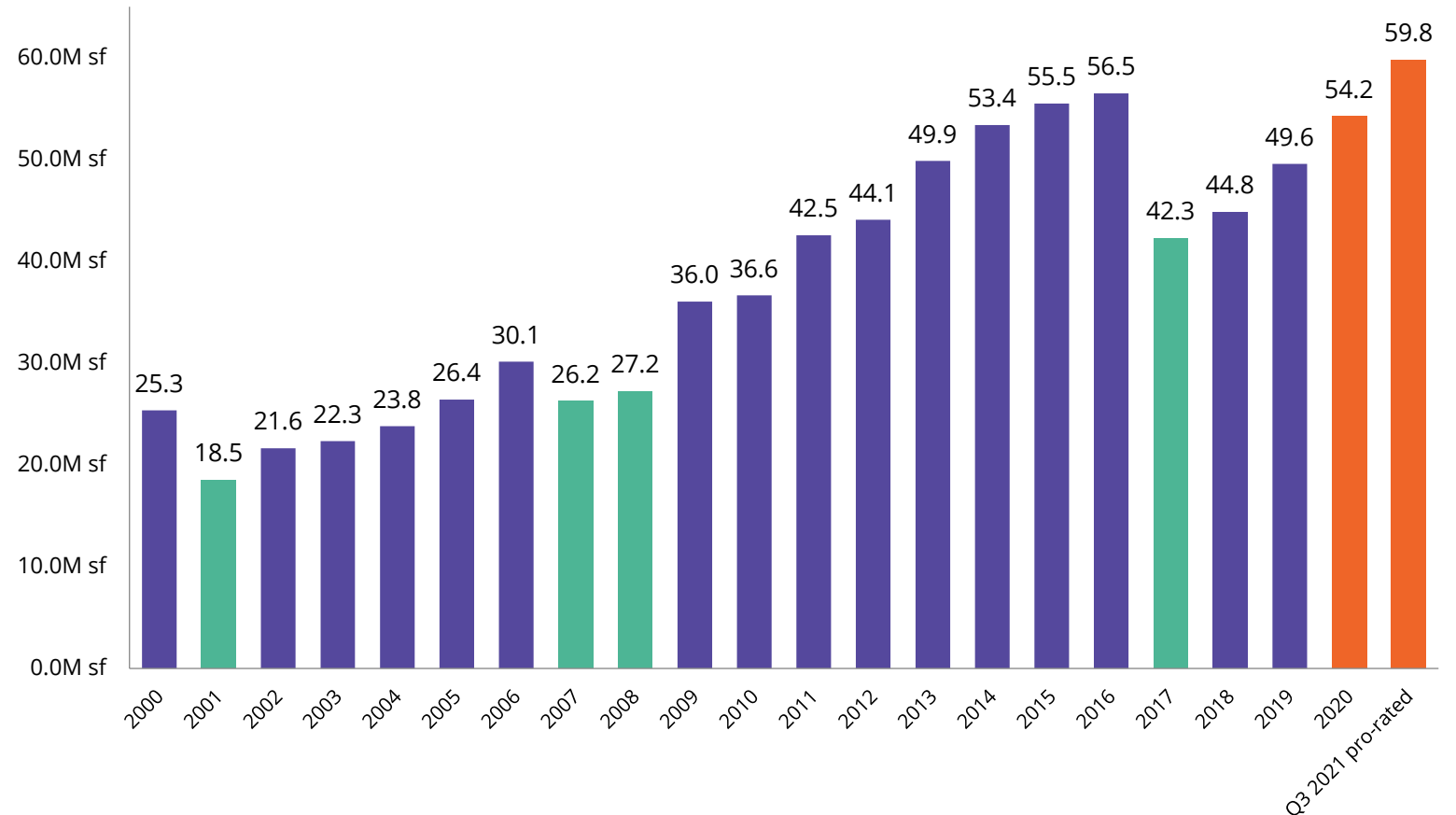


Industrial leasing activity

+55.5%

**2020-pro-rated 2021 vs.
prior 20-year annual
average leasing activity**

Leasing has not let up during the pandemic and is projected to set a historic high in Chicago.



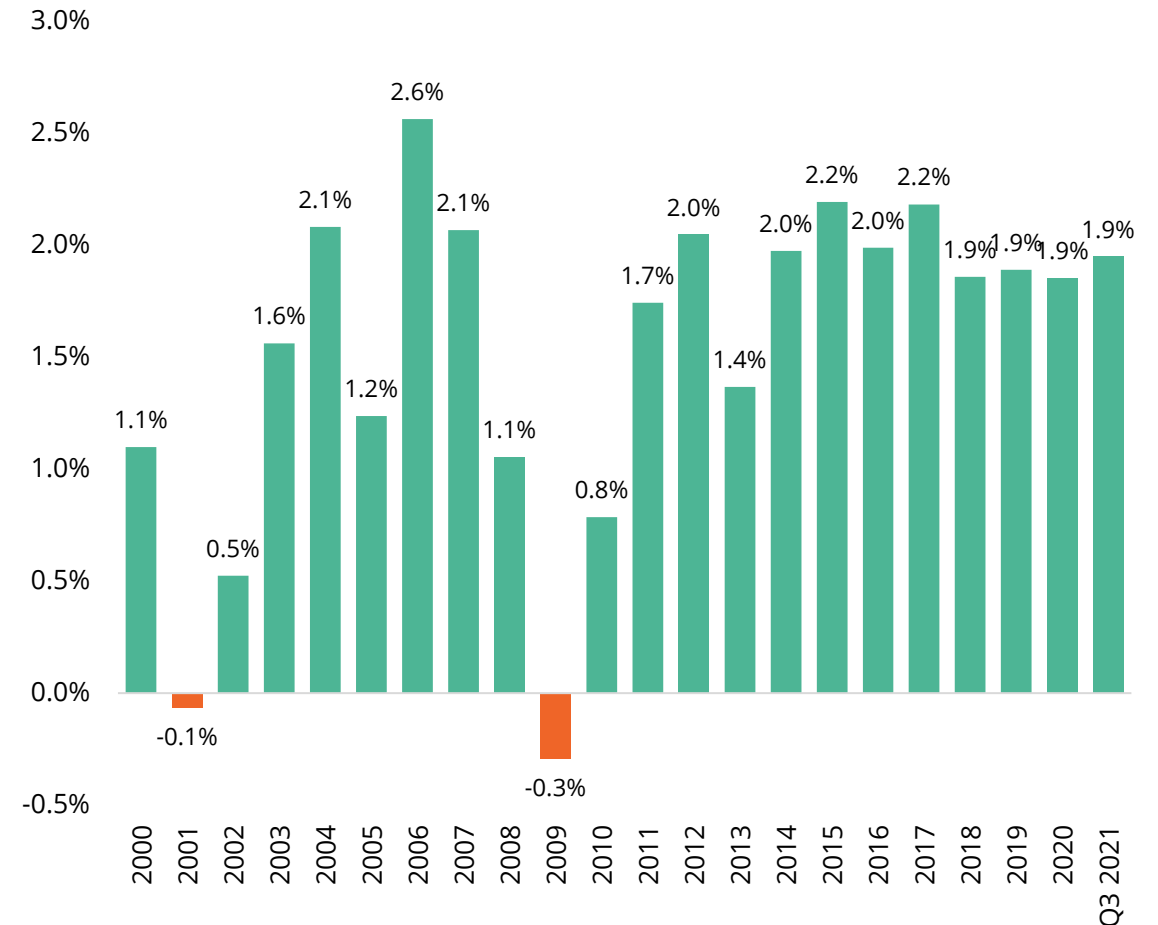
Source: CoStar

Industrial net absorption

3.0%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through the third quarter remains quite healthy and on pace with levels throughout the prior decade. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development. At 19.8M sf through the first three quarters, aggregate 2021 net absorption could actually outpace totals for the past 2-3 years.



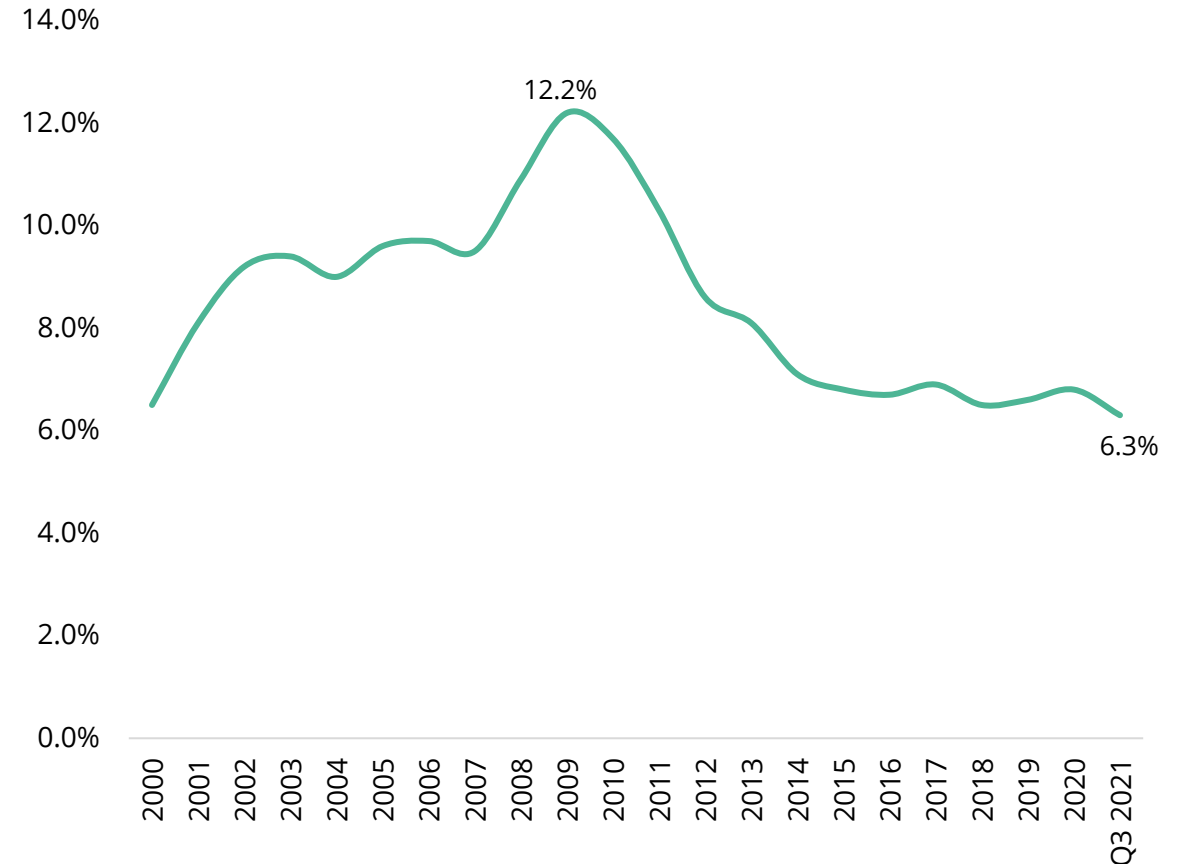
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

6.3%

20-year record low
vacancy as of Q3 2021

The Q3 2021 total vacancy rate reached a post-2000 low, falling by nearly half from its high in 2009. Average asking rents have increased 16.3% over that same time period, underscoring how industrial demand has outstripped supply in Chicago.



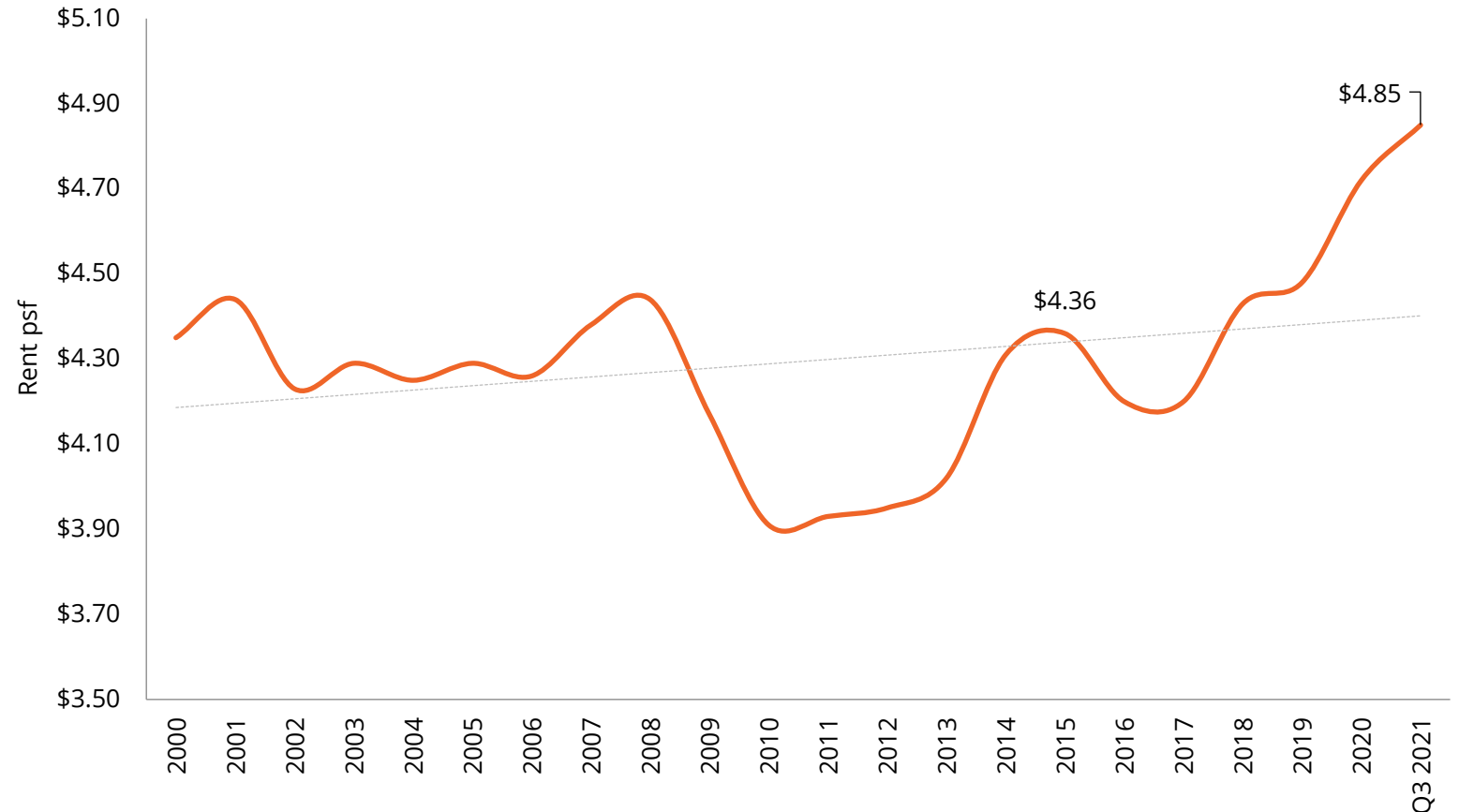
Source: CoStar

Base rents

+11.3%

Base rents since 2015

Base rents initially softened slightly in the beginning of COVID but are surging past pre-pandemic pricing. The overall trend upward since 2015 has increased by 11.3% over the last six years.



Source: AVANT by Avison Young

Industrial development pipeline

248 properties

Proposed, under construction or
under renovation

101.2M sf

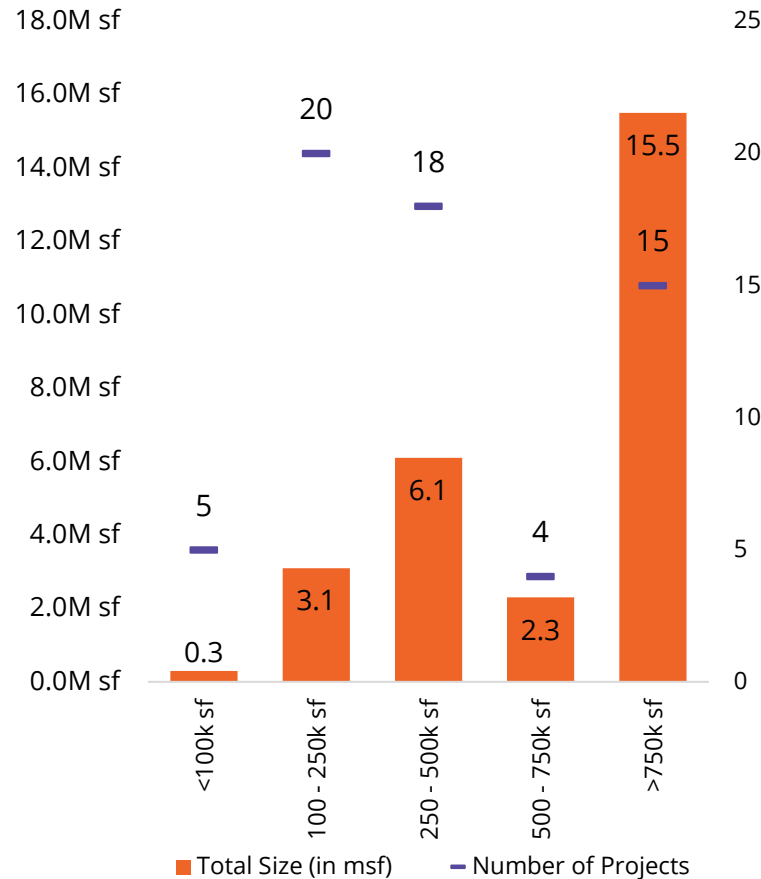
proposed or under
construction

9.0%

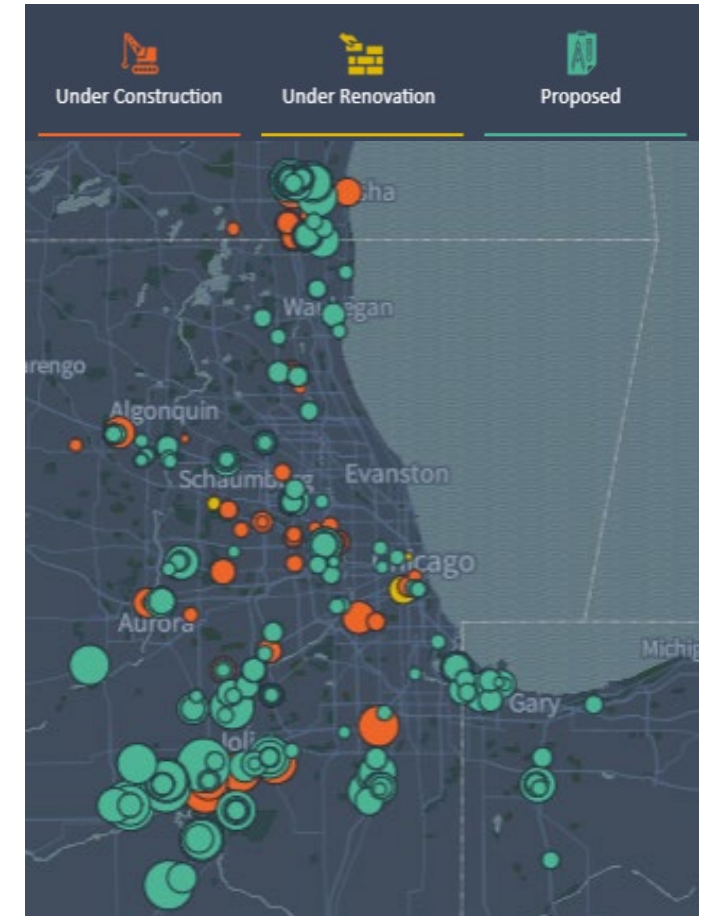
share of industrial
inventory

Southern Wisconsin

Submarket with most ground-broken
projects at 10



Source: AVANT by Avison Young

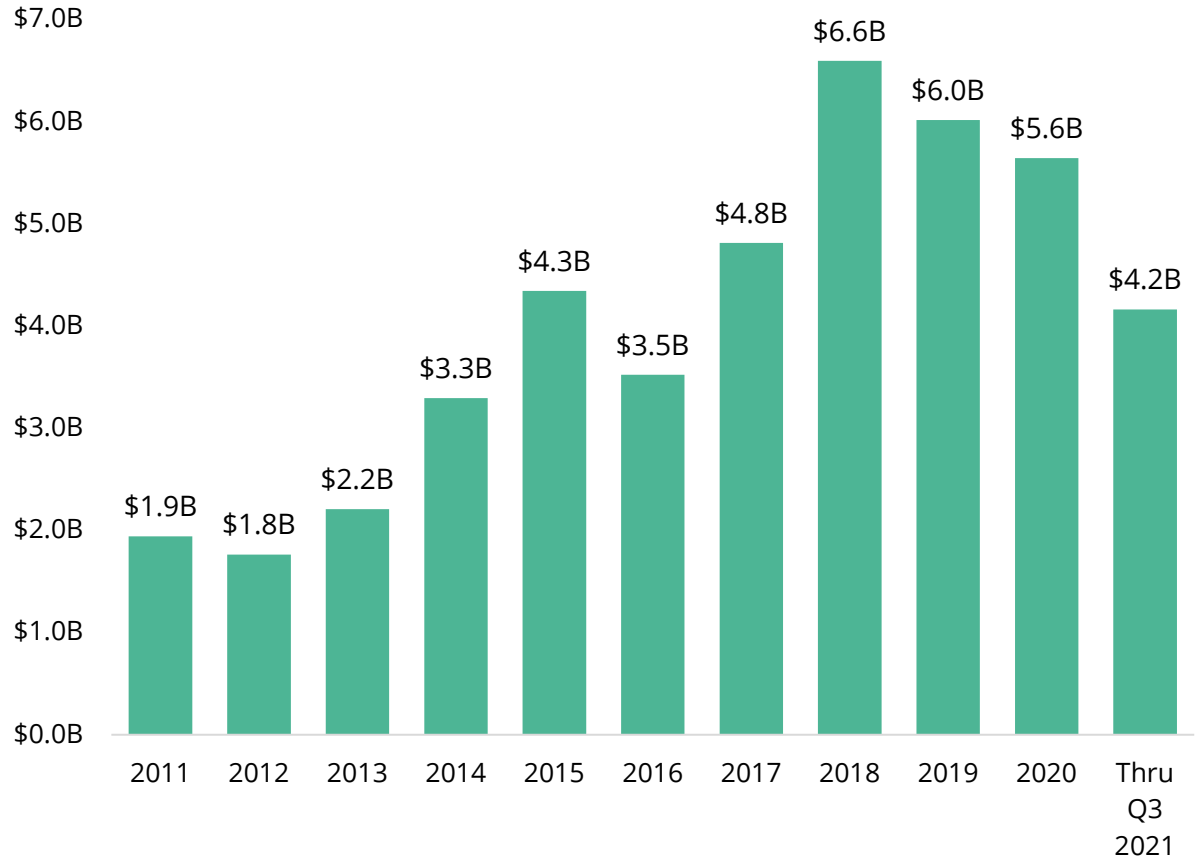


Investment dollar volume

\$4.2B

**Industrial dollar volume,
year-to-date 2021**

Chicago industrial sales volumes through Q3 2021 have the warehouse & logistics sector outpacing the five-year average through the first three quarters activity by 16.2%. Over that same time period, the fourth quarter accounts for 33.2% of total annual volumes, and a strong finish to the year is expect to boost volumes further.



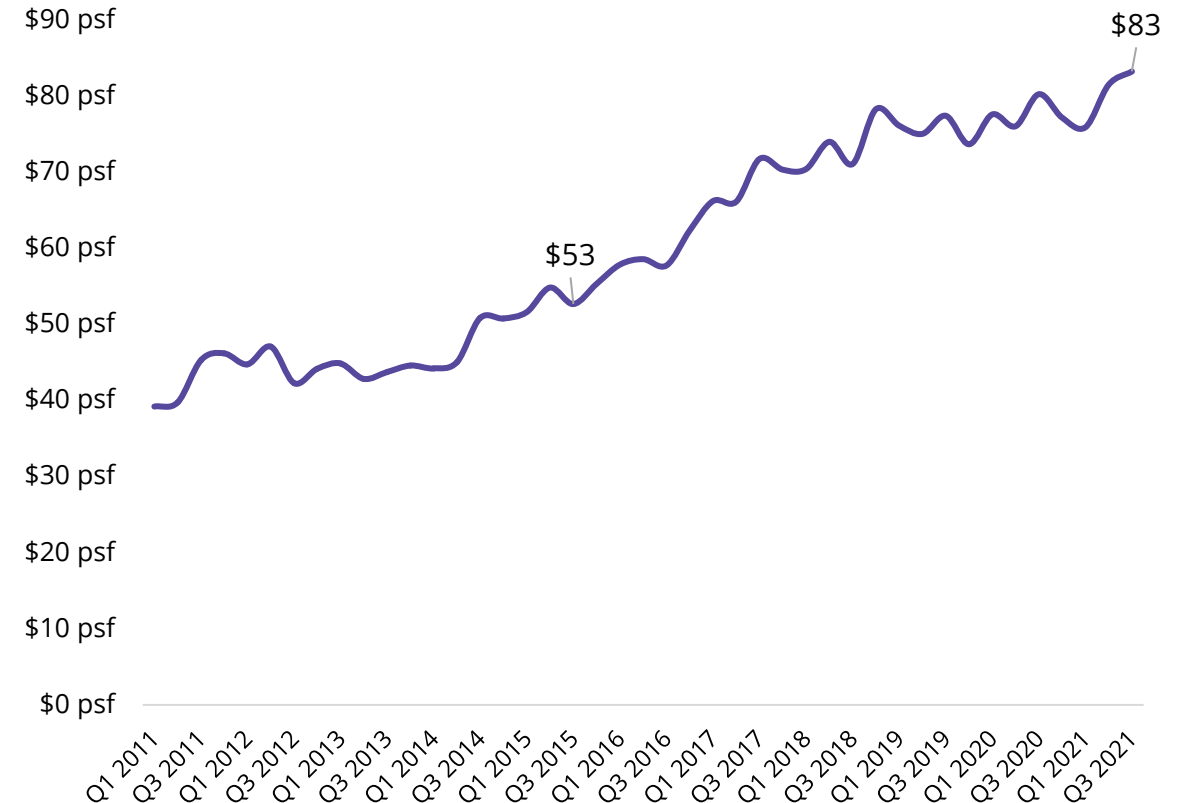
Source: AVANT by Avison Young
RCA

Industrial asset pricing

+58.0%

Chicago industrial pricing,
Q3 2015 to Q3 2021

Pricing for Chicago industrial assets has continued to swell since 2015, and particularly since the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young
RCA (4-Quarter Moving Avg.)

Get in touch



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Let's talk

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