



Chicago industrial market report

Q1 2024

**AVISON
YOUNG**

Chicago industrial market trends

7.4%

Vacancy in big box inventory

Vacancy in product over 500,000 sf spiked in Q4 2023 and remains the highest across all size ranges; however it is down 50 bps to 7.4% at the end of Q1 2024. This increase in vacancy is largely attributed to the substantial growth in large-scale development in recent years, with 21.5 msf of new inventory over 500,000 sf added to the market in the past 12 months alone. Big-box vacancy should continue to rebound throughout 2024 as construction activity slows coupled with several tenants in the market currently under lease negotiations for large space requirements.

9.9 msf

Q1 2024 leasing activity

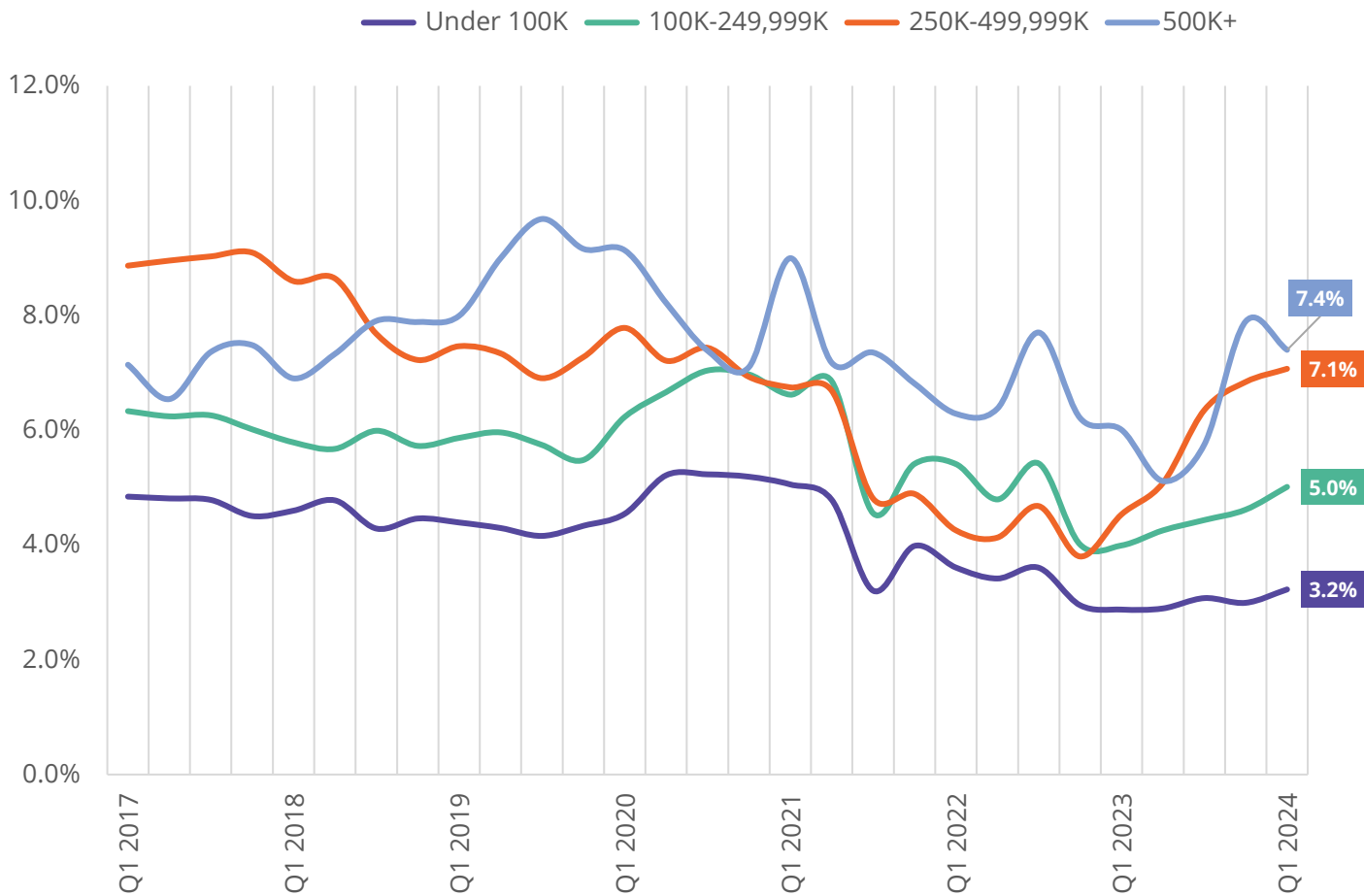
A total of 9.9 msf was leased in Q1 2024, down from the unprecedented demand seen in the previous 3 years, particularly in 2021. While down, this quarter's leasing volume was 73% higher than the first quarter averages from 2017, 2018 and 2019, which was 5.7 msf, indicating a market stabilization. While activity stabilizes, demand remains strong enough to continue to drive rental growth, as shown by the nearly 20% rent increase recorded this quarter since Q1 2023.

11.9 msf

Currently under development

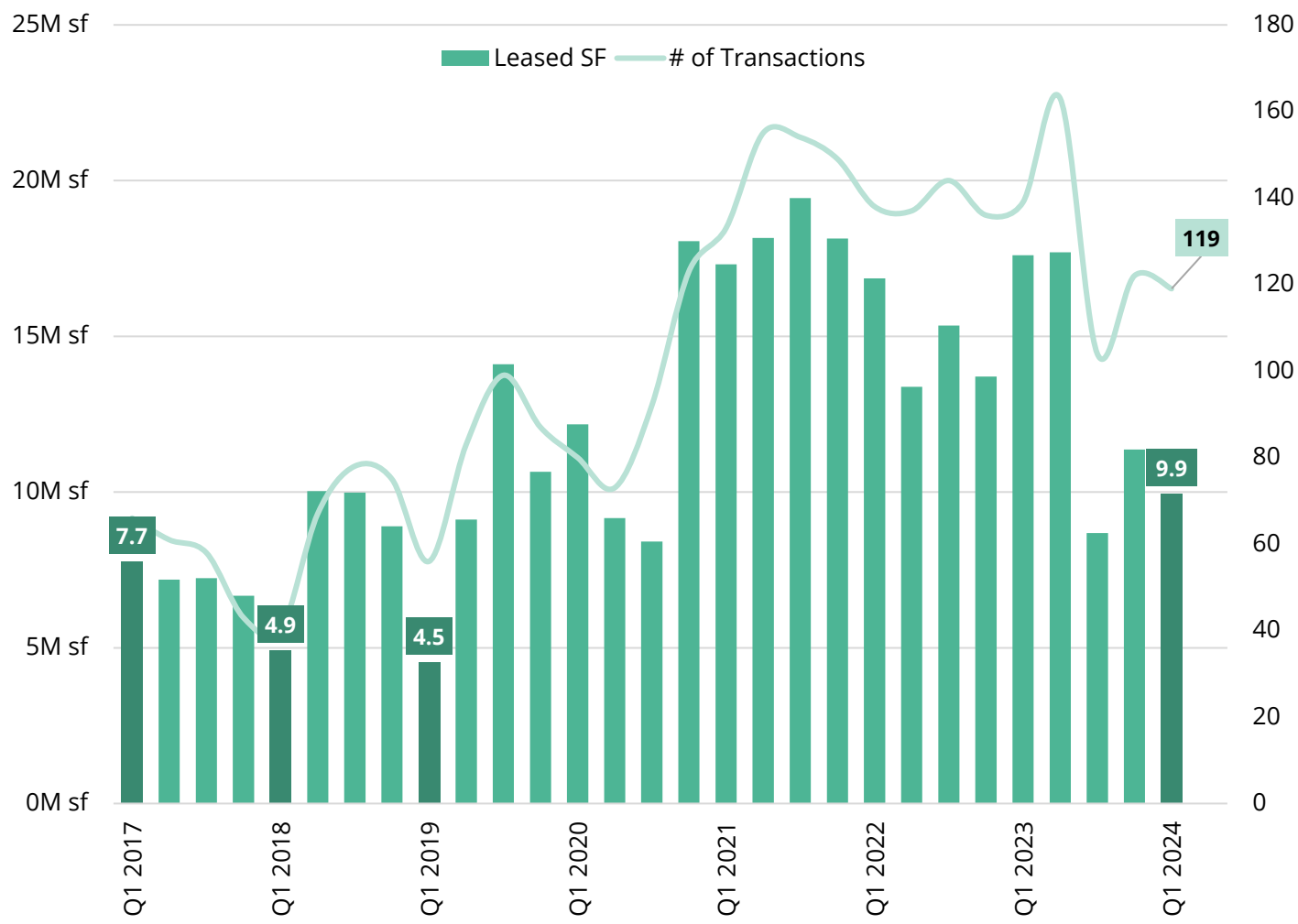
Construction activity has decreased 66% at the end of Q1 2024 from the 2022 peak of 36 msf. This reduction in construction activity will help keep the vacancy rate stable as the development pipeline normalizes. Currently, there is 11.9 msf under construction, with only 51% being built on a speculative basis, down from the 70% recorded in Q4 2023. This shift in the market reflects ongoing economic challenges, as build-to-suit projects entail less financial risk for developers and owners.

Uptick in big box inventory vacancy



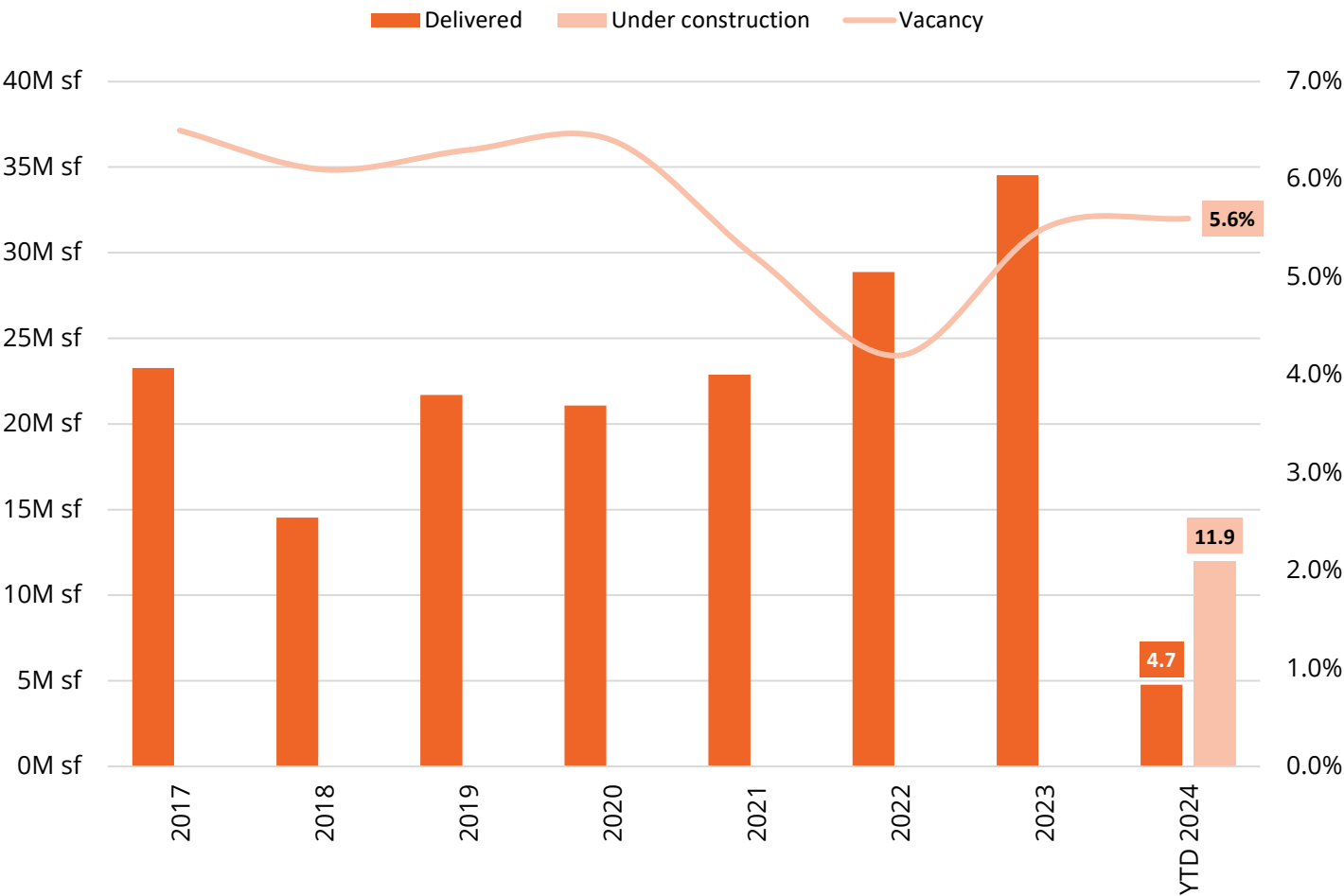
Overall vacancy in inventory 500,000 sf and up has increased due to the 21.5 msf of big box product delivered to the market over the past 12 months. The I-80 corridor and Southern Wisconsin submarkets have the largest amount of availability of new class A big box product, totaling 6.3 msf.

Leasing activity stabilizing



Leasing activity totaled 9.9 msf in Q1 2024, with the South I-55 Corridor, I-80 Corridor and O'Hare submarkets accounting for 50% or 4.9 msf. Although activity is down from unprecedented levels recorded in 2021 through 2023, demand remains healthy, pointing towards market stabilization.

Balancing supply vs. demand



Construction activity has decreased significantly as developers remain cautious due to the challenging economic environment. A total of 11.9 msf is currently under construction and, of that, 10 msf is expected to deliver to the market by year-end. Anticipating 2024 deliveries to total 14.7 msf, results in a 57% decrease from the prior year. Overall Q1 2024 vacancy remains healthy at 5.6%, down 10 bps from the prior quarter.

Speculative vs. BTS construction



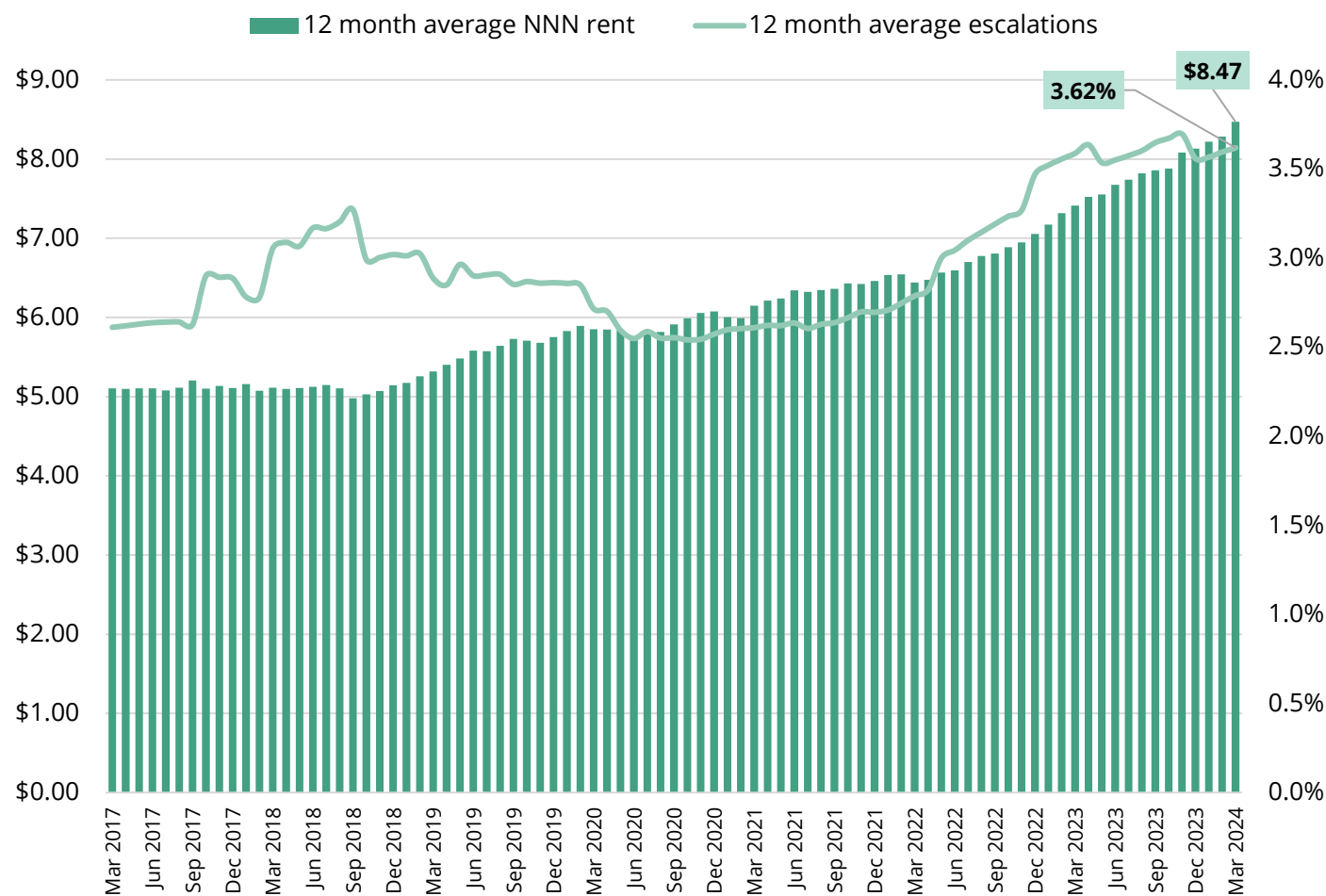
Development type has shifted from the historically dominant speculative market to a balanced division with BTS activity. Speculative activity is down to 51% from the 70% observed in Q4 2023. This shift in the market reflects ongoing economic challenges, leading to a decrease in speculative development and an uptick in build-to-suit projects, which entails less financial risk for developers and owners.

Pricing considerations

Let's examine more
prevailing industrial trends

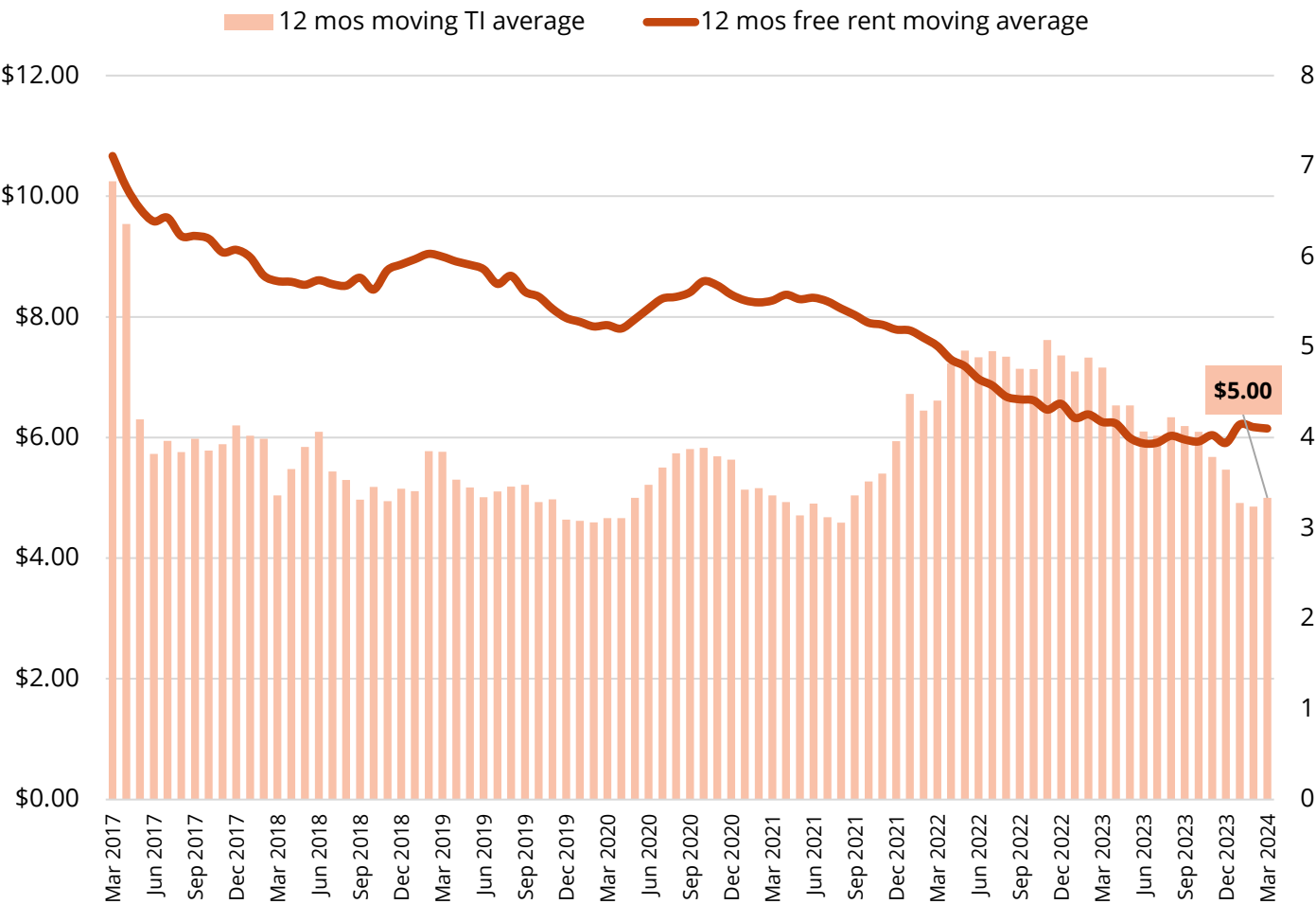


Rental rates and escalations on the rise



Chicago industrial rent, driven by healthy tenant demand and new construction, continue to rise over the past 3 years, commanding significantly higher rents. Average starting rents reached \$8.47/NNN at the end of Q1 2024, up 20% since Q1 2023. Escalations are also on the rise, increasing nearly 27% since Q1 2020 as landlords remain watchful of inflation and bullish on continual rental growth.

Analyzing concession trends



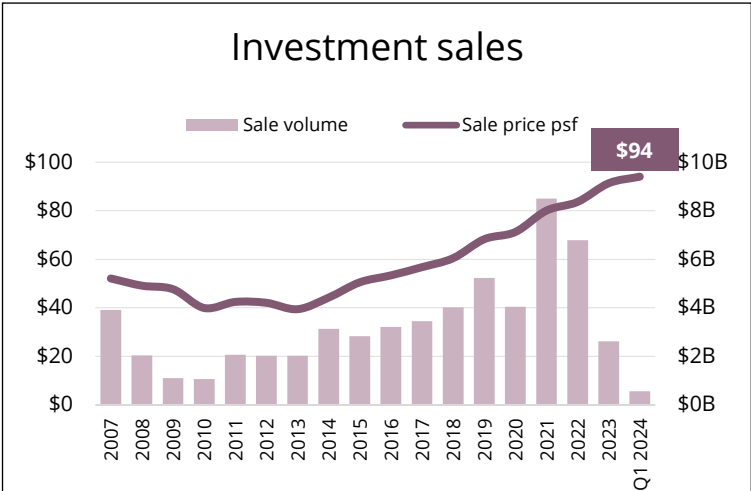
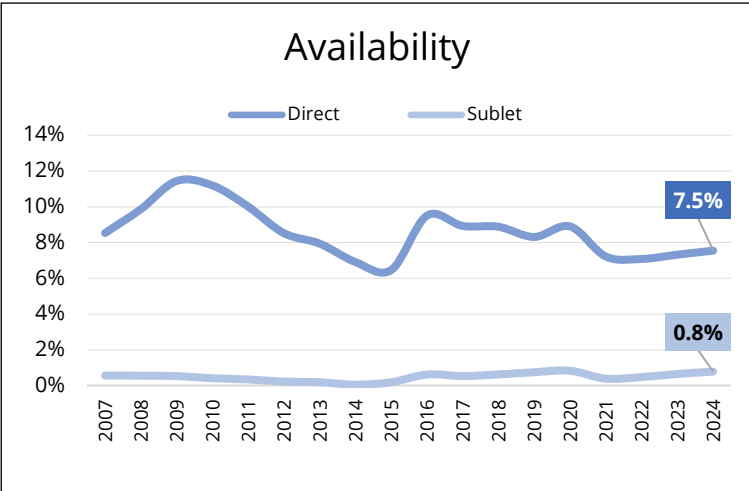
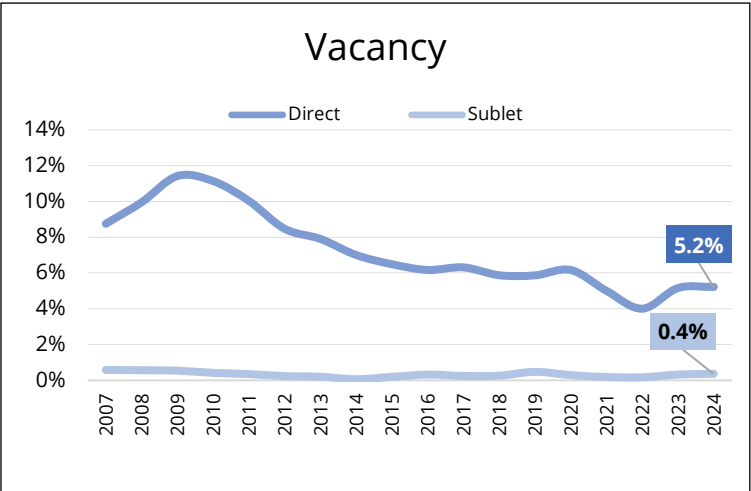
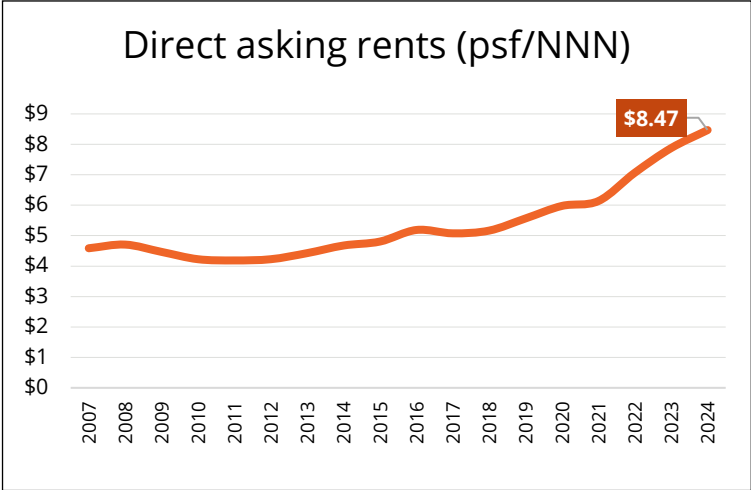
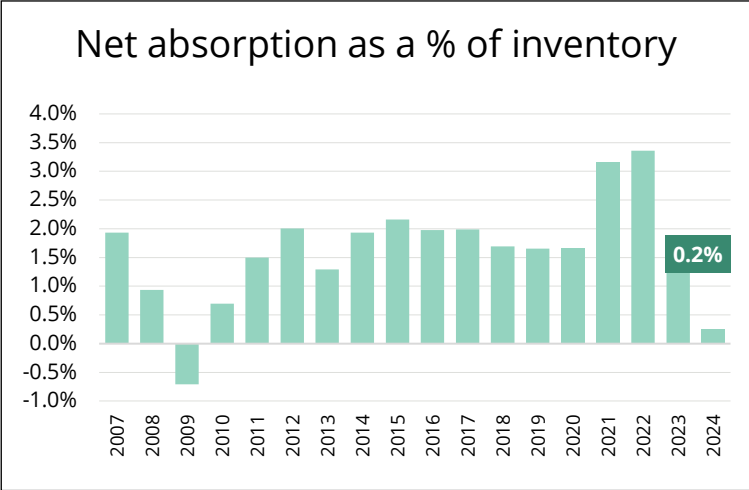
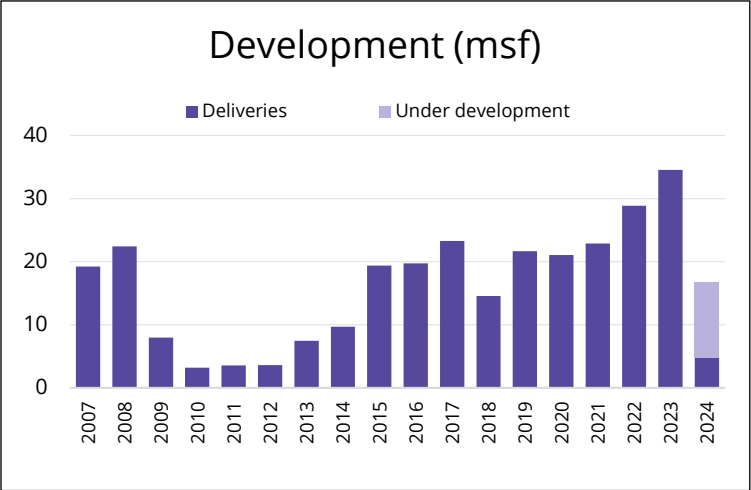
Landlord concessions continue to trend downward from the highs seen in the aftermath of COVID. This decline is attributed to the strength of the Chicago industrial market, rising interest rates, borrowing restrictions and cashflow conservation by Owners.

TI allowance has decreased 30% since March of 2023, now averaging \$5.00/sf while free rent is hovering around 4 months.

Appendix



Chicago industrial market indicators



Chicago industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Navistar International	2700 W Haven Ave Joliet, IL	I-80 Corridor	Jan 2024	860,100	Direct	Renewal
Haribo	9403 136 th Ave Kenosha, WI	Southern Wisconsin	Jan 2024	447,216	Direct	New
Canon	10350 N Beaudin Blvd Woodridge, IL	South I-55 Corridor	Mar 2024	348,625	Direct	Renewal

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Brookfield Corporation	1125 Remington Blvd Romeoville, IL 555 Remington Bvd Bolingbrook, IL 340 W Crossroads Pky Bolingbrook, IL	Mar 2024	1,279,014	\$98,750,000	\$77.21	DWS
RIM Logistics	1303 Jack Court Bartlett, IL	Jan 2024	400,112	\$44,000,000	\$110.00	Midwest Industrial Fund
Venture One Real Estate	609 Kirk Rd St. Charles, IL 1750 Wallace Ave St. Charles, IL	Jan 2024	785,181	\$32,000,000	\$63.47	RR Donnelly

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased - Tenant	Developer
1508 Crosslink Parkway, Belvidere, IL	I-39 Corridor	Mar 2027	1,250,000	100% - Walmart	Walmart
I-80 & Brisbin Road, Morris, IL	I-80 Corridor	Sep 2025	1,199,700	100% - GE Haier	Crow Holdings
1237 W Division Street, Chicago, IL	North Chicago	Aug 2024	1,184,800	0%	Logistics Property Company

Chicago industrial market stats

Submarket name	Existing inventory (sf)	Deliveries YTD (sf)	Under development (sf)	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption YTD (sf)	Net absorption YTD (% of inventory)
O'Hare	111,970,612	130,388	81,401	3.9%	0.9%	4.8%	-109,705	-0.1%
I-80 Corridor	105,939,297	221,541	2,880,492	5.0%	0.1%	5.1%	-100,091	-0.1%
South I-55 Corridor	103,567,675	641,639	513,200	4.0%	0.2%	4.2%	43,262	0.0%
South Chicago Industrial	94,116,932	-	173,444	4.2%	0.2%	4.4%	36,918	0.0%
South Cook	73,473,202	664,453	609,999	4.1%	0.1%	4.2%	283,214	0.4%
Lake County	72,708,368	-	334,299	5.6%	0.3%	5.9%	-461,900	-0.6%
Central DuPage	67,687,244	-	57,100	2.0%	0.2%	2.2%	354,783	0.5%
I-88 Corridor	65,599,644	-	1,029,610	3.4%	0.5%	3.9%	-285,350	-0.4%
I-39 Corridor	63,614,904	-	2,425,165	5.5%	0.6%	6.0%	-318,548	-0.5%
North I-55 Corridor	55,217,985	398,954	-	4.5%	0.8%	5.3%	-257,743	-0.5%
Northwest Indiana	50,850,536	-	301,000	9.1%	0.4%	9.5%	8,539	0.0%
Southern Wisconsin	48,891,159	-	-	14.0%	0.0%	14.0%	260,546	0.5%
West Cook	45,796,234	895,166	707,953	4.9%	0.4%	5.3%	706,149	1.5%
Fox River Valley	45,060,445	-	543,603	3.9%	0.4%	4.3%	205,900	0.5%
North Chicago Industrial	45,051,284	-	1,184,800	8.3%	0.2%	8.5%	-110,019	-0.2%
North Cook	44,087,999	-	824,844	4.0%	0.2%	4.2%	72,777	0.2%
I-90 West/Elgin Corridor	40,241,134	949,130	239,840	9.5%	0.6%	10.1%	76,469	0.2%
McHenry County	24,899,393	-	-	1.6%	0.0%	1.6%	1,687,324	6.8%
I-90 East Corridor	23,659,603	879,577	83,124	5.6%	0.2%	5.8%	349,320	1.5%
*I-57 Corridor	22,303,525	-	-	8.6%	0.0%	8.6%	474,565	2.1%
Market total	1,204,737,175	4,780,848	11,989,874	5.2%	0.4%	5.6%	2,916,410	0.2%

Chicago Industrial development pipeline

38 properties

under development

11.9 million sf

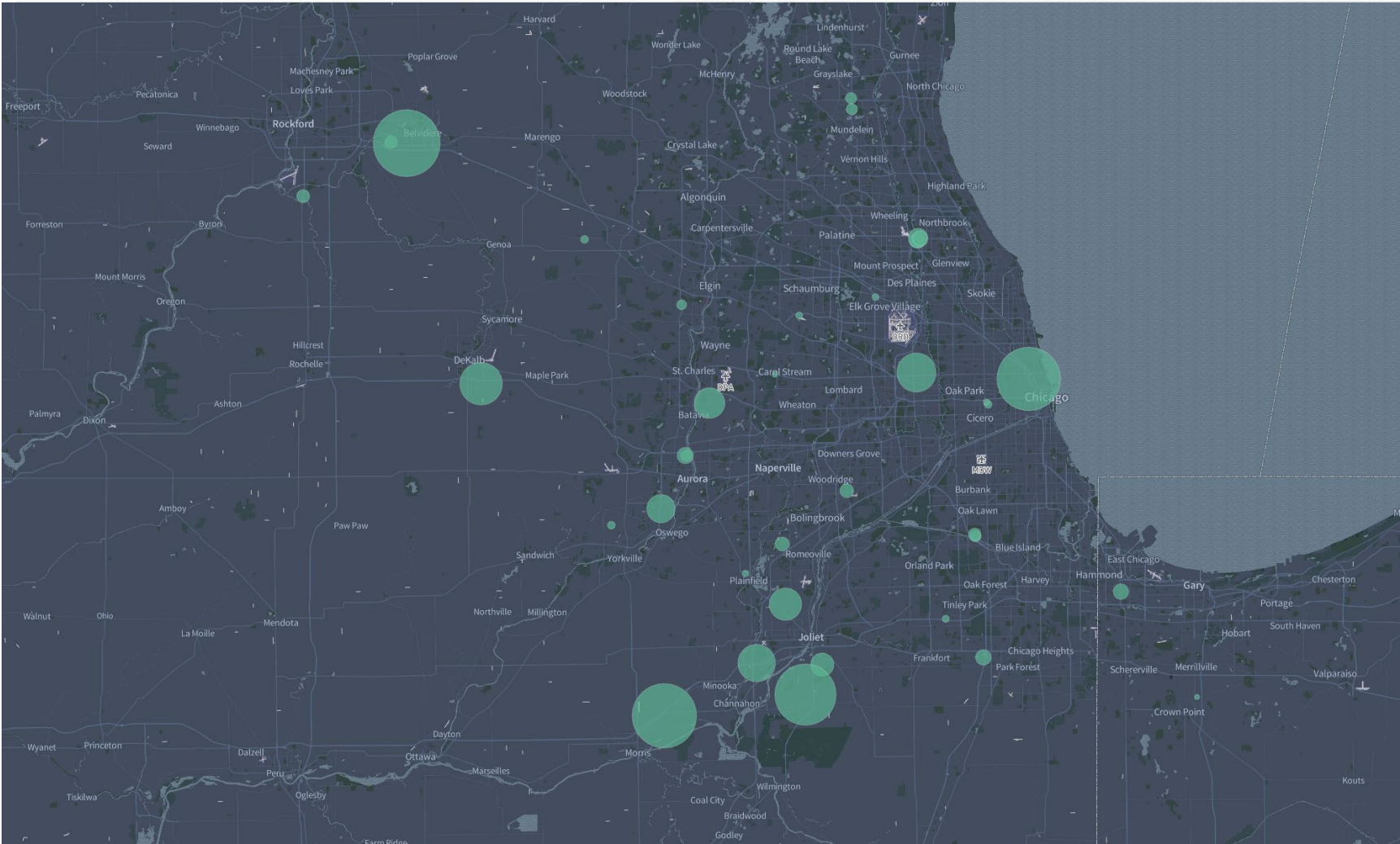
under construction

Major developments

1508 Crosslink Pky Belvidere – 1.2 million sf (Walmart Grocery DC)

I-80 & Brisbin Rd Morris - 1.1 million sf (GE Haier)

1237 W Division St Chicago - 1.1 million sf

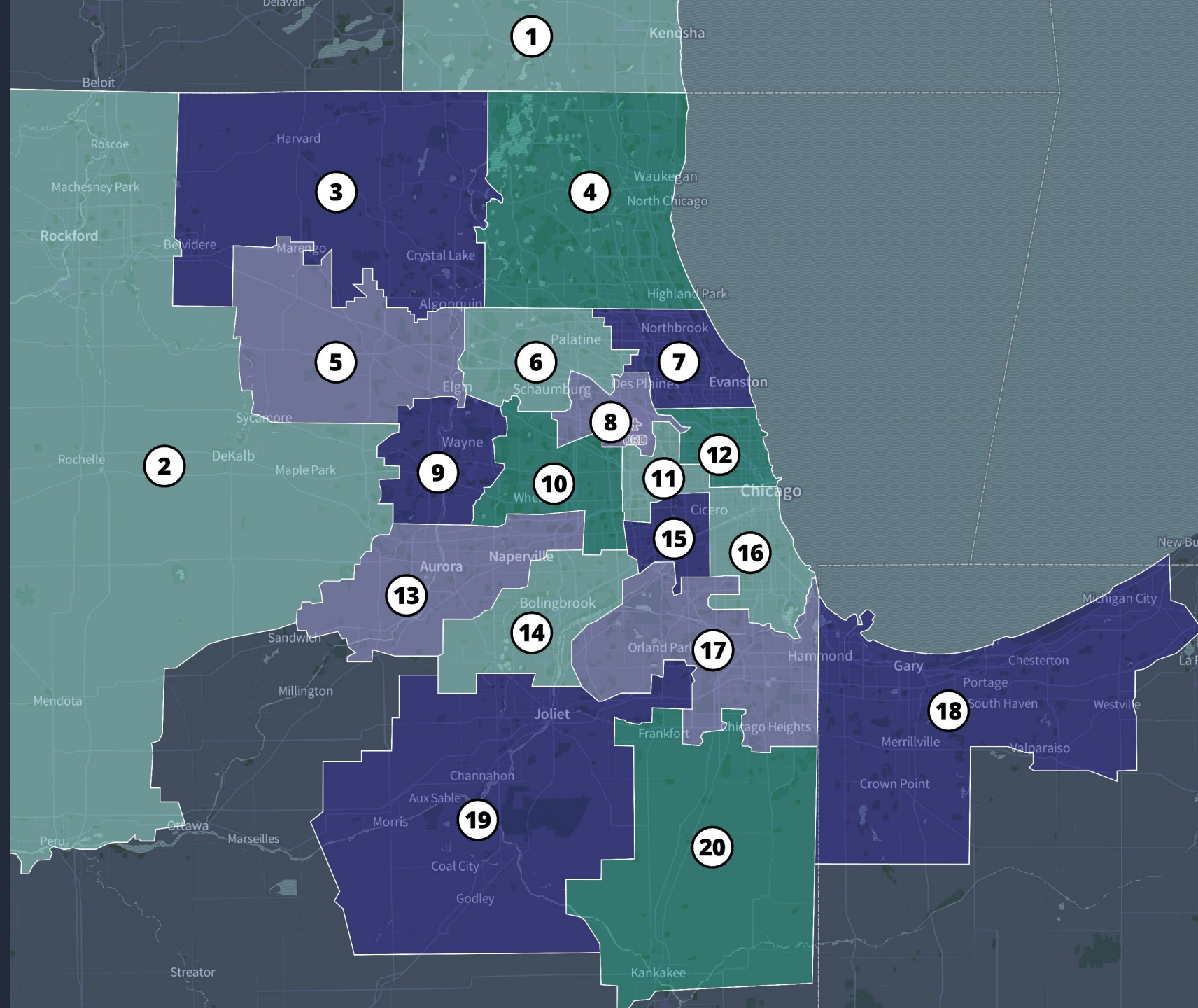


*Survey consists of industrial buildings greater than 20,000 sf.

Chicago Industrial Submarket Map

SUBMARKET KEY

- 1 Southern WI
- 2 I-39 Corridor
- 3 McHenry County
- 4 Lake County
- 5 I-90 West/Elgin
- 6 I-90 East
- 7 North Cook
- 8 O'Hare
- 9 Fox River Valley
- 10 Central DuPage
- 11 West Cook
- 12 North Chicago
- 13 I-88 Corridor
- 14 South I-55 Corridor
- 15 North I-55 Corridor
- 16 South Chicago
- 17 South Cook
- 18 NW IN
- 19 I-80 Corridor
- 20 I-57 Corridor



Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

Jeremy Krotz

Central Regional Manager
Jeremy.Krotz@avisonyoung.com

Kathleen Cavanaugh

Market Intelligence Analyst
Kathleen.Cavanaugh@avisonyoung.com