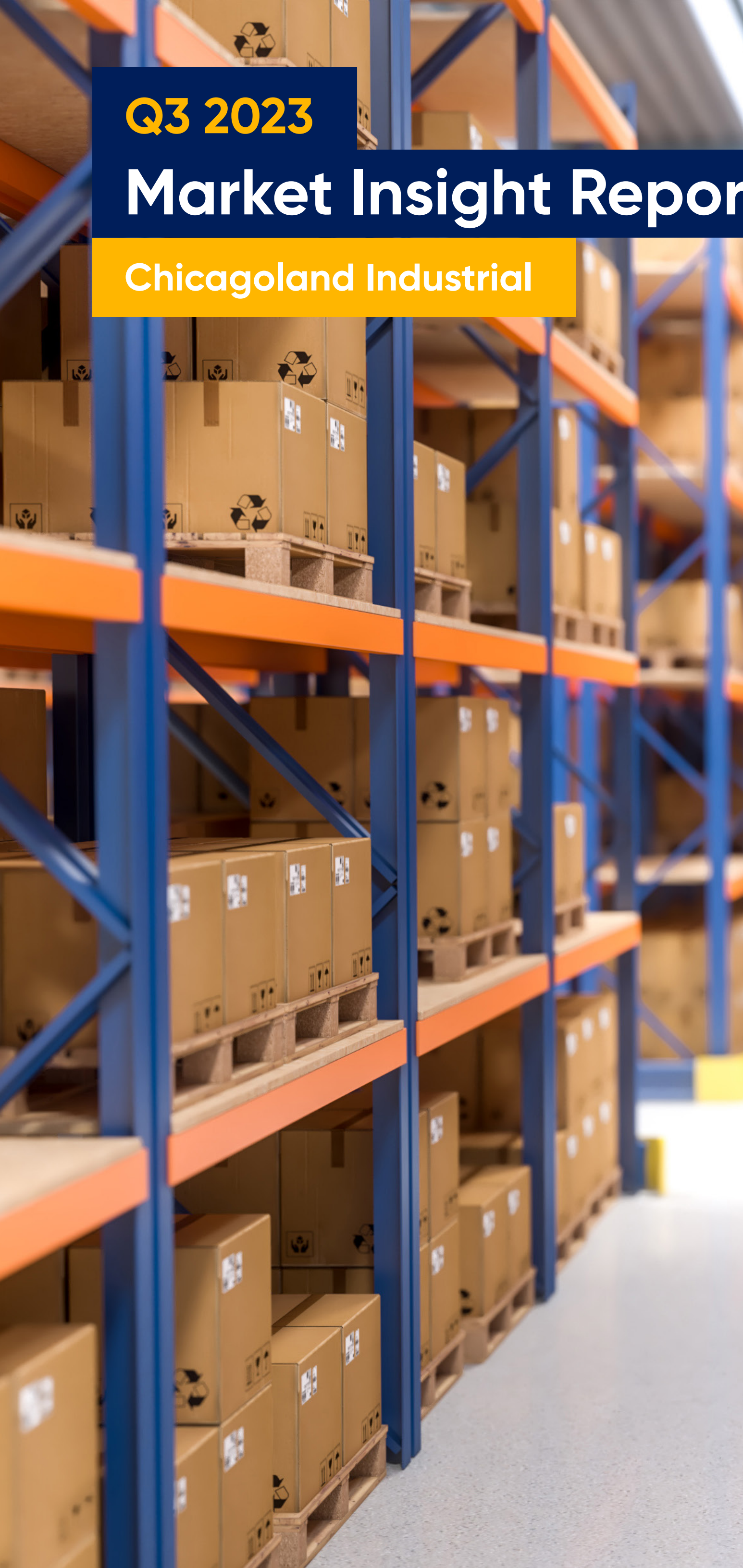
Q3 2023

Market Insight Report

Exclusive Insights for Chicagoland Industrial Occupiers



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Summary

As we wrap up the third quarter of 2023, the Chicagoland industrial market is beginning to soften. The third quarter saw leasing totals below 10 million for the second straight quarter. Despite low leasing, the market has strong indicators elsewhere. Vacancy is still near the record low, sitting at 4.3%, and net absorption remains in line with the ten-year average, with 5.9 million square feet of move-ins, and triple net rents increasing to $7.90. If leasing volume continues to wane, there will be immense pressure on landlords who bet on the hot market. Notable users taking occupancy this quarter are G3 Enterprises (306,552 SF) at 6510 W 73rd St, Bedford Park, Wolf Home Products (1,019,200 SF) at 30350 S Graakamp Blvd, Wilmington, and Amazon (700,000 SF) at 1401 E Gurler, Dekalb. Additionally, ULINE moved out of 502,033 square feet at 11290 8th Ave in Pleasant Prairie. There are 91 buildings under construction, totaling in over 29.0 million square feet of new space – most of which is being built on spec. Anticipated new product, coupled with limited options, has pushed rents further into uncharted territory as NNN rents across all sizes and submarkets increased. Building sales for the quarter totaled $600 million in volume, with the average price increasing to $85 per RSF. The average cap rate for these transactions ticked up 30 basis points to 6.9%. With many predicting that an economic downturn in 2023 will persist, investors could further look to industrial real estate as a haven to park assets, although the tight lending market may make deal financing a challenge.

1 Costar. 2023. www.costar.com

Inventory
1,385,376,759 SF

Net Absorption
5,914,352

Direct Vacancy Rate
4.0%

NNN Rents
$7.90

Direct Availability Rate
6.9%

Cap Rates
6.9%

Select Core Submarket Breakdown

Submarket	NNN Rent	Net Absorption	Direct Vacancy
O'Hare	$8.58	(304,585)	2.7%
Joliet	$6.14	2,668,857	3.2%
South Suburban	$7.12	1,913,866	2.8%
I-55 Corridor	$8.47	1,571,171	2.1%
I-88 Corridor	$6.97	829,796	2.5%

Tertiary Markets

Submarket	NNN Rent	Net Absorption	Direct Vacancy
I-39 Corridor	$4.45	(649,676)	4.6%
North West Indiana	$7.33	(65,560)	5.6%
Kenosha	$6.72	(632,002)	12.1%

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Macro Trends

1 The labor market enters the third quarter with gains across most sectors. Manufacturing and general laborer's demand will be in focus over the next several months as the holiday season approaches and demand spikes for temporary labor. There are currently 161,000 jobs for workers in the Chicagoland area making $38k annually. The number of jobs is forecasted to increase by 4.0% year over year for the next two years as more facilities open in the collar counties. Companies who are looking to enact effective hiring plans would be well served by closely evaluating the labor before making any real estate decisions.

2 The capital markets environment continues to be complex as we hit the end of the third quarter. The rapid increase in interest rates has led to a bout of uncertainty in the lending market, halting transaction volume in its tracks. It appears that some repricing has taken place as owners grapple with the current debt environment. Transaction totals are down from last quarter, to $7.9 billion, with average price per square foot inching up 2.0%. While there are certain to be a few that trickle in after the close of the quarter, this is a worrying sign. Optimists are hoping for a strong fourth quarter. In Chicago, sales volume was $600 million, averaging $85 per square foot.[1]

3 The third quarter of 2023 saw 161.5 million square feet of new product deliver for buildings over 100,000 square feet. This number represents both speculative and build-to-suit projects. Construction starts have fallen off, leading some to believe that there is enough product on the market to serve existing demand. Deliveries are beginning to pick up pace as projects complete, with a record amount expected by the end of the year. Many of these buildings locked in construction prices at their all-time high. There are signs that pricing is beginning to dip, providing hope that future projects will be underwritten with lower rents. However, these effects will lag in the current environment. Average asking NNN rental rates across the country have increased to $7.10 for buildings over 100,000 square feet.[1]

4 From a leasing perspective, 2023 is on track for its worst year since 2012, when there were 661 million square feet of transactions. There were only 135 million square feet of transactions completed in the quarter nationwide. This is the first time in four years that there have been consecutive quarters of leasing decline. If economic headwinds of inflation and high-interest rates persist, we could see a level dip below the 10-year average. If leasing volume falls off, it would be a welcome change for users as the market changes to be more tenant favorable. Coupled with an expected record number of deliveries, the market could pivot substantially.[1]

1 Costar. 2023. www.costar.com

Beyond space.

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