
2Q24

Chicago Industrial Market Report

NEWMARK

Market Observations

Economy

- Chicago’s unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.
- The “Other Services” sector led all industries in regional annual job growth with education & health next.
- Industrial-occupying or adjacent industries saw mostly negative results, with manufacturing experiencing a moderate gain. Construction and trade, transportation, and utilities both saw negative growth.

Major Transactions

- WestRock Company, the Georgia-based packaging product manufacturer, expanded in Kenosha county and the I-55 Corridor, signing the largest deal of the quarter in Kenosha at the Logistcenter of Pleasant Prairie and a renewal at Corporate Crossing Business Park in Bolingbrook.
- STAG Industrial’s purchase of a 431,318 SF warehouse at 305-325 Corporate Dr was the largest property sold of the quarter. Part of Prologis’ Elgin Growth portfolio, STAG Industrial acquired a total of 5 Elgin industrial properties in the transaction. At the time of the sale, the 5 properties were 98.8% leased among 12 tenants with a 4.11 years of WALT remaining.

Leasing Market Fundamentals

- Increases to the vacancy rate slowed to 10 basis points this quarter, up to 4.7%. Vacancy levels remain well below the 5.1% average since 2019. Tenants have exercised caution in their leasing decisions, resulting in moderated absorption levels.
- The construction pipeline continues to empty, with 2.8 million SF delivering this quarter and 13.5 million SF still under construction. Construction starts have continued to slowed to a near 10-year low as development financing remains difficult.
- After falling to 7.3 million SF in the first quarter of 2024, total leasing volume accelerated to 11.3 million SF of in the second quarter, the highest quarterly volume in a year.
- Asking rates continue to increase, up to \$6.52/SF this quarter as more new Class A deliveries add expensive availabilities to the market. Asking rates have moved inversely to taking rents as a large portion of deals done are in smaller, cheaper product. Due to slow activity in recent Class A deliveries, year-over-year asking rates have grown. Asking rate growth will decelerate as occupiers remain cautious in leasing decisions and more available space decreases landlord leverage.

Outlook

- Caution among any buyers and tenants due to economic uncertainty has led to continued hesitation to get deals done. They will continue to wait and see how the market reacts in the coming quarters in hopes to get a better understanding of their space needs. Despite this persistent slow down, leasing fundamentals have remained at strong levels relative to past years.
- The rise in vacancy rates have begun to decelerate as deliveries of new inventory slow and leasing demand remains healthy. Construction starts have reached a 10-year low, and as demand returns, available space will become scarce again.
- Currently 35% of total vacant space in the Chicago industrial market is newly built Class A space. If leasing demand returns and lower-class availability dwindles, the absorption of Class A space will contribute significantly to strong taking rent growth just as they are currently contributing to the continued growth in asking rates.

1. Economy
2. Leasing Market Fundamentals
3. Capital Markets Fundamentals

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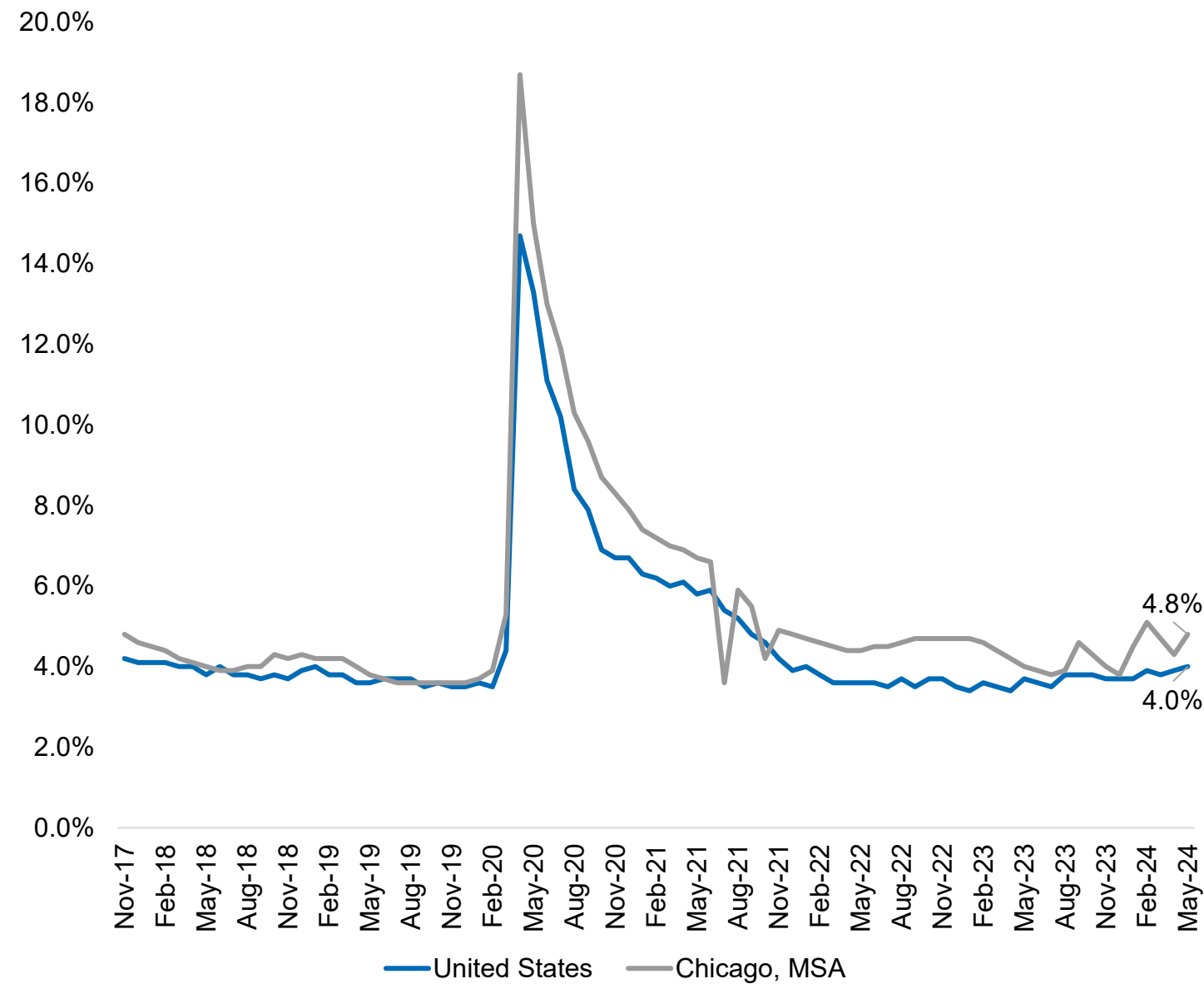
Economy



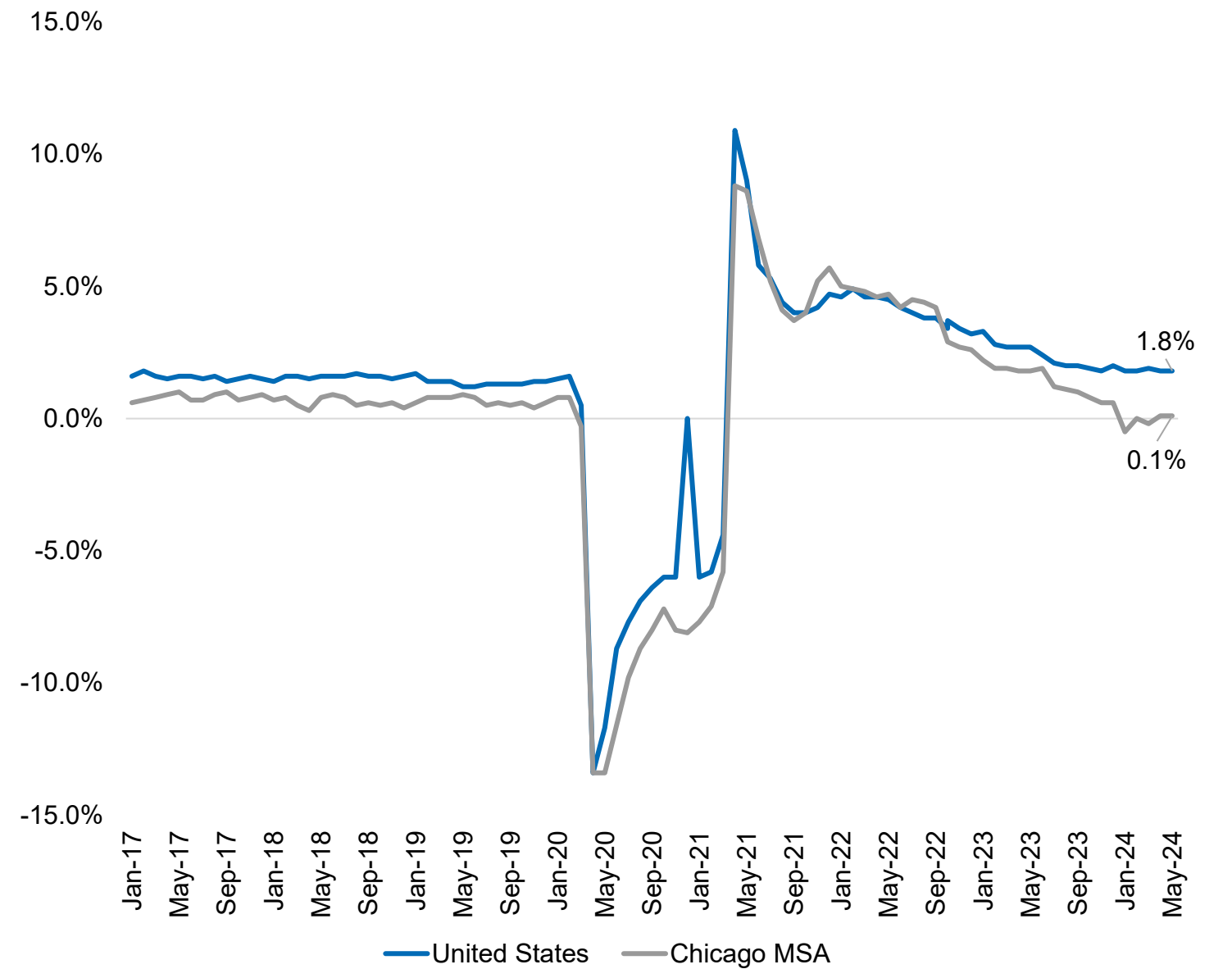
Metro Employment Trends Signal A Slowing Economy

Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

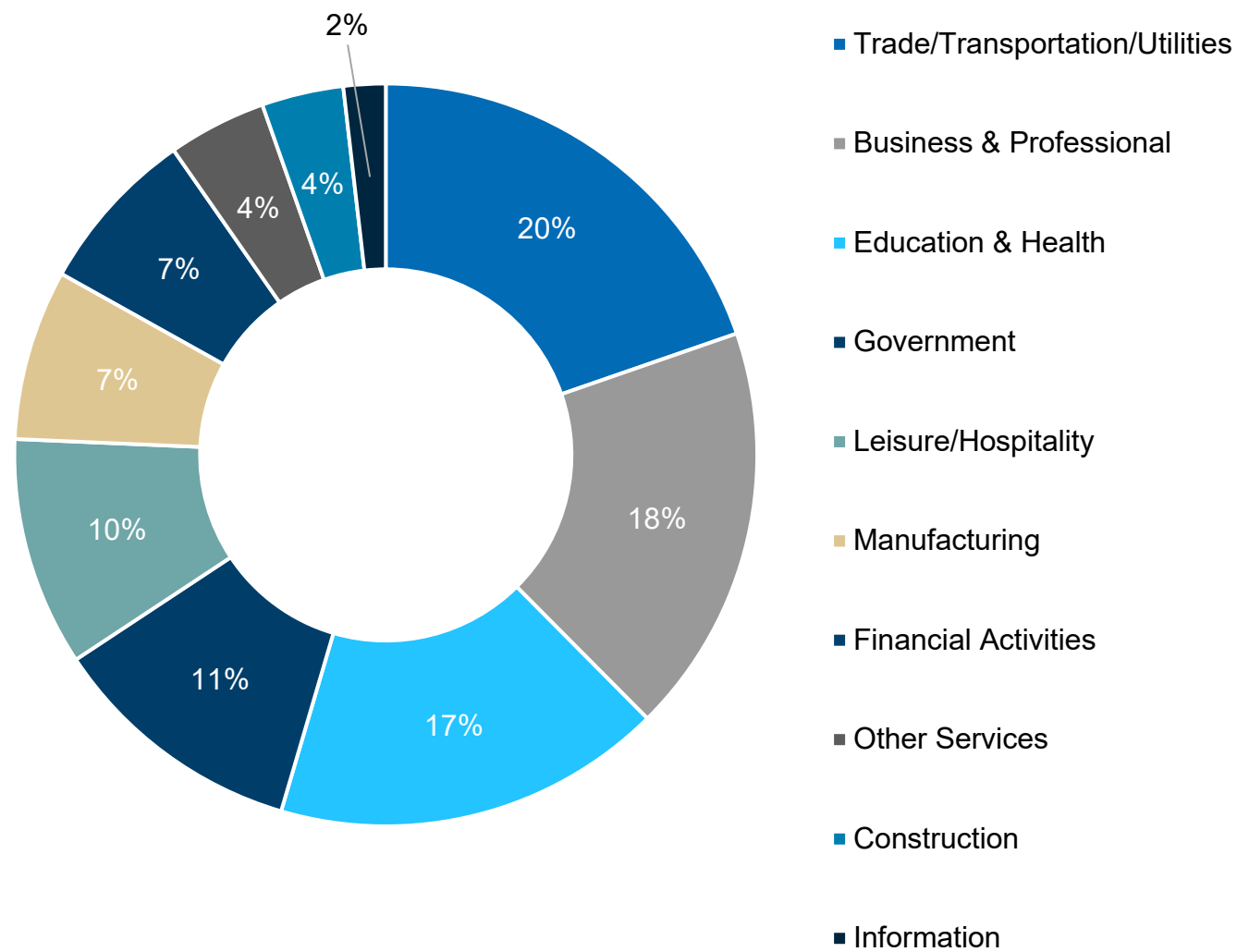


Source: U.S. Bureau of Labor Statistics, Chicago MSA

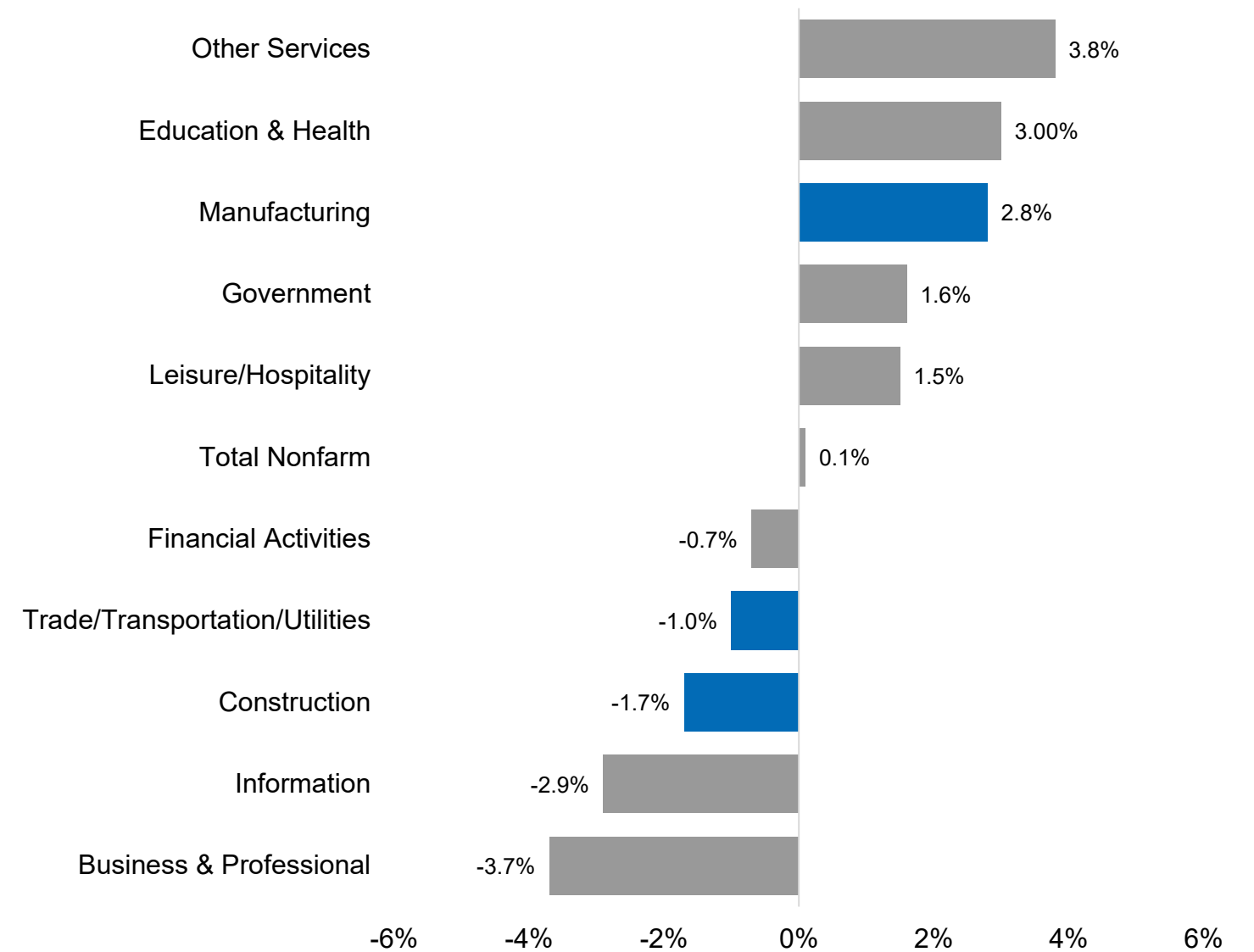
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The “Other Services” sector led all industries in regional annual job growth with education & health next. Industrial-occupying or adjacent industries saw mostly negative results, with manufacturing experiencing a moderate gain. Construction and trade, transportation, and utilities both saw negative growth.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

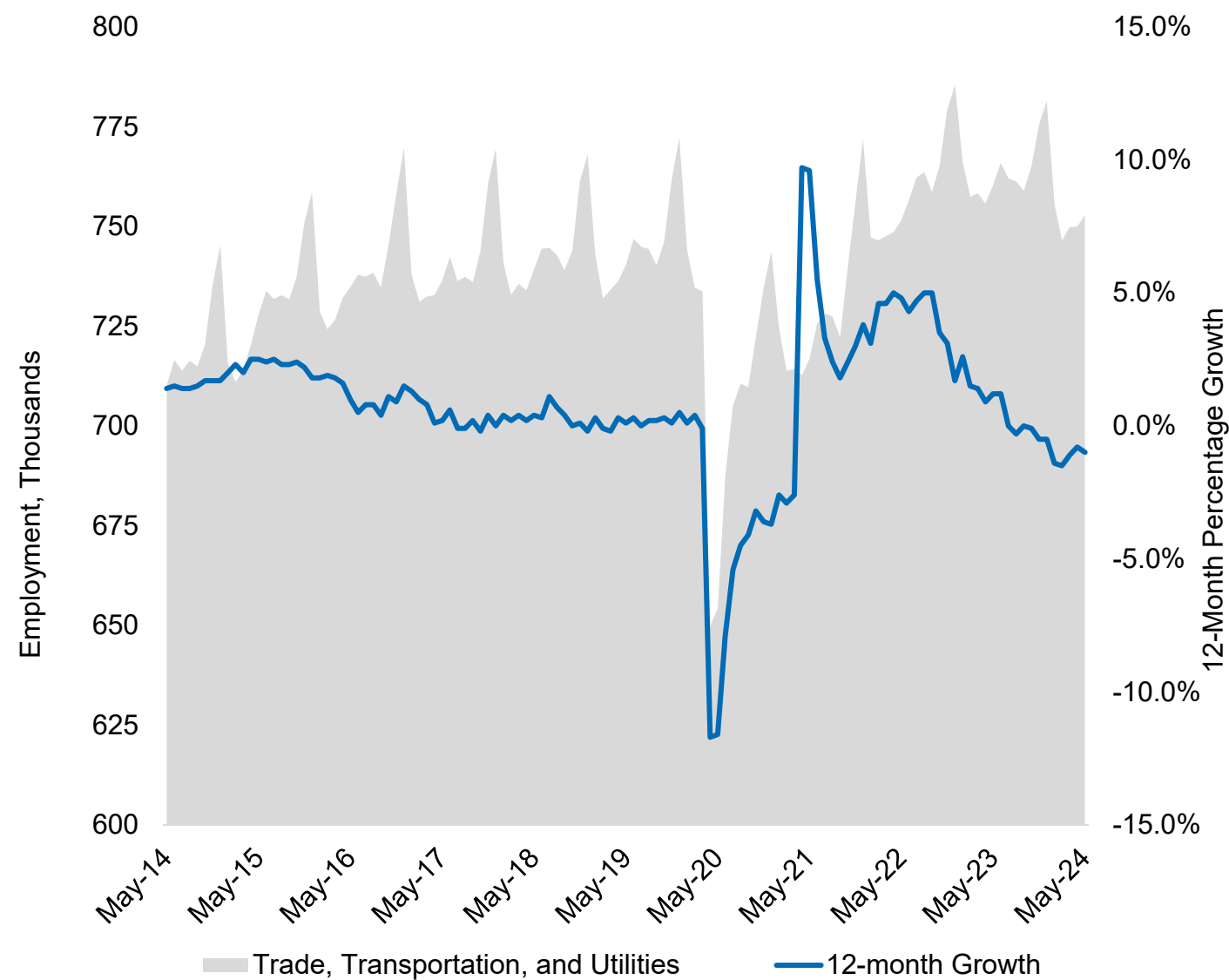


Source: U.S. Bureau of Labor Statistics, Chicago MSA

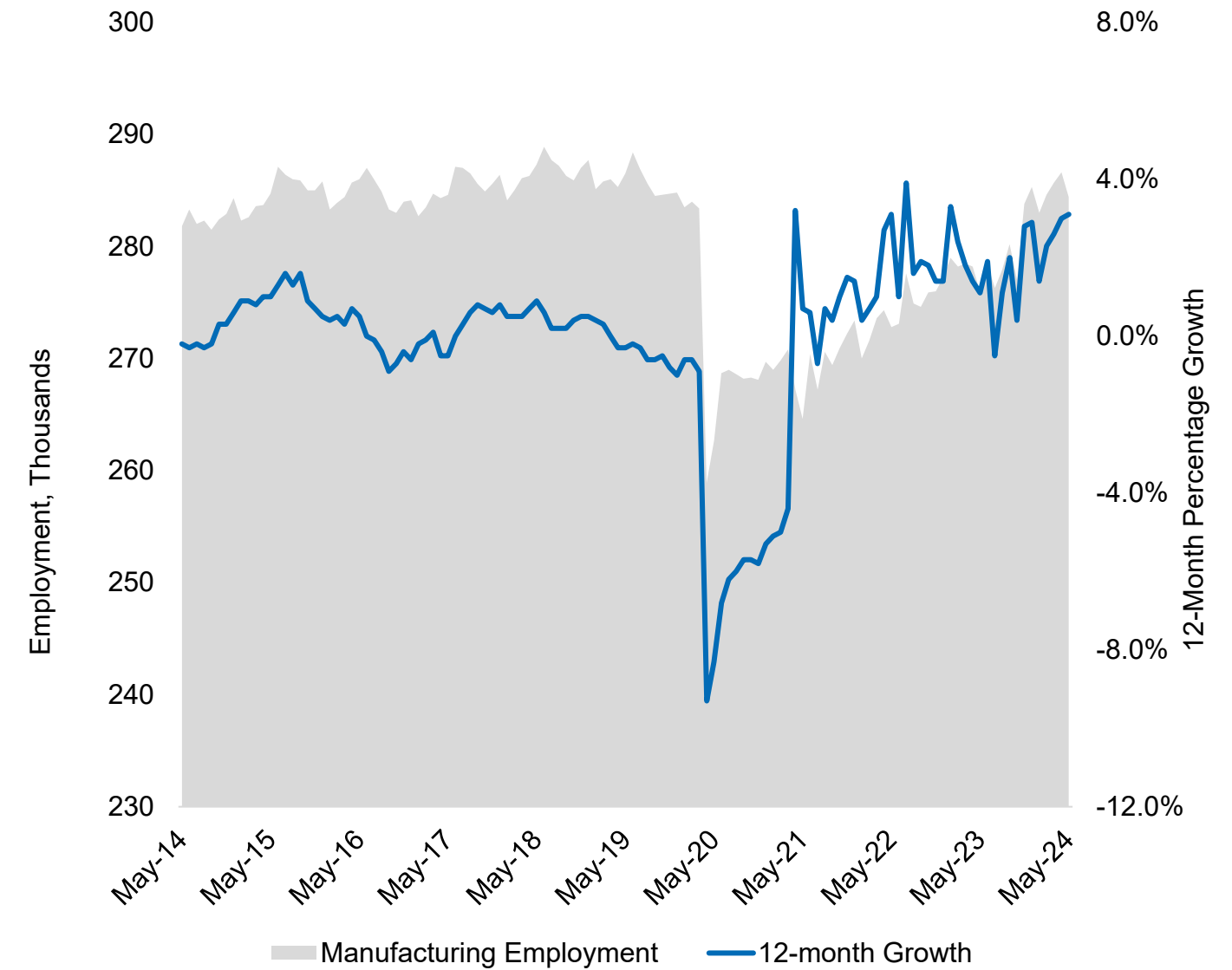
Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers in the market.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Chicago MSA

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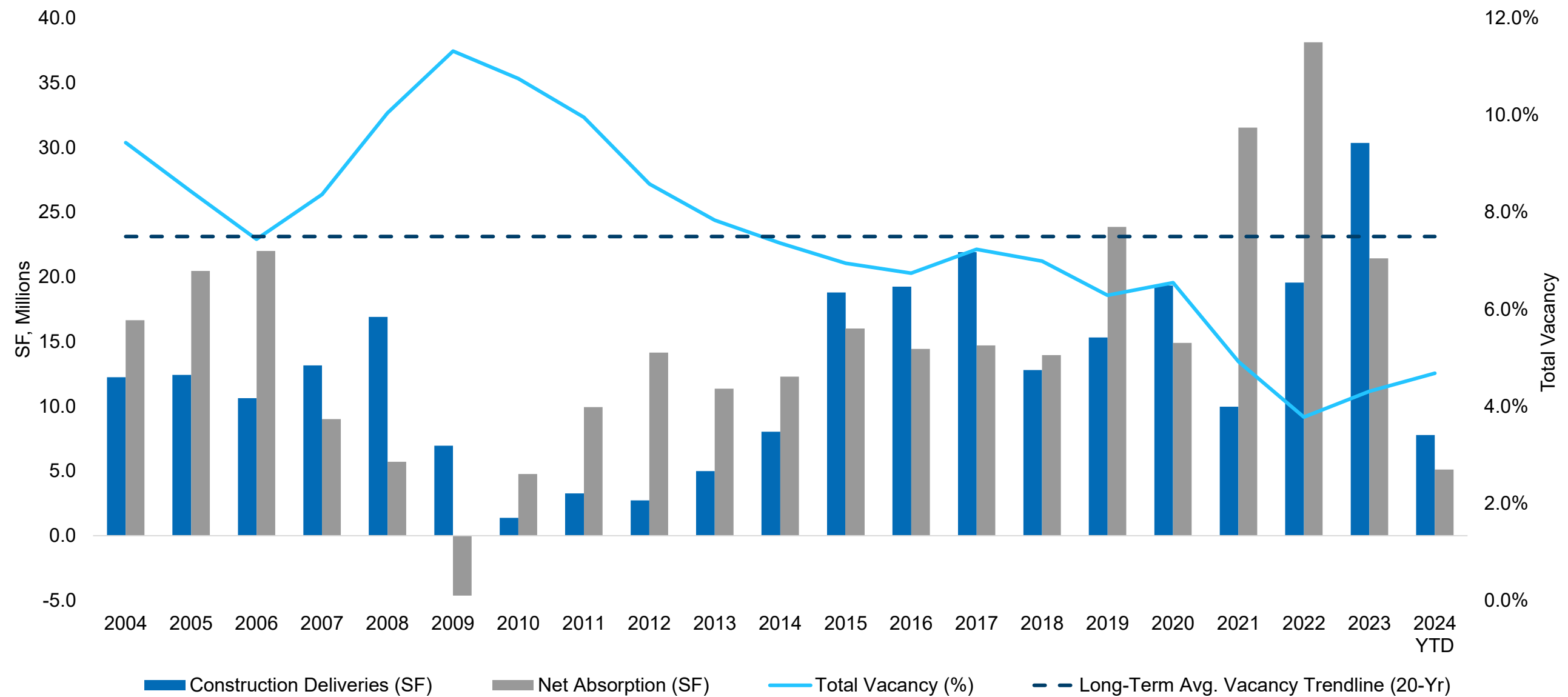
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

Increases to the vacancy rate slowed to 10 basis points this quarter, up to 4.7%. Vacancy levels remain well below the 5.1% average since 2019. Tenants have exercised caution in their leasing decisions, resulting in moderated absorption levels.

Historical Construction Deliveries, Net Absorption, and Vacancy

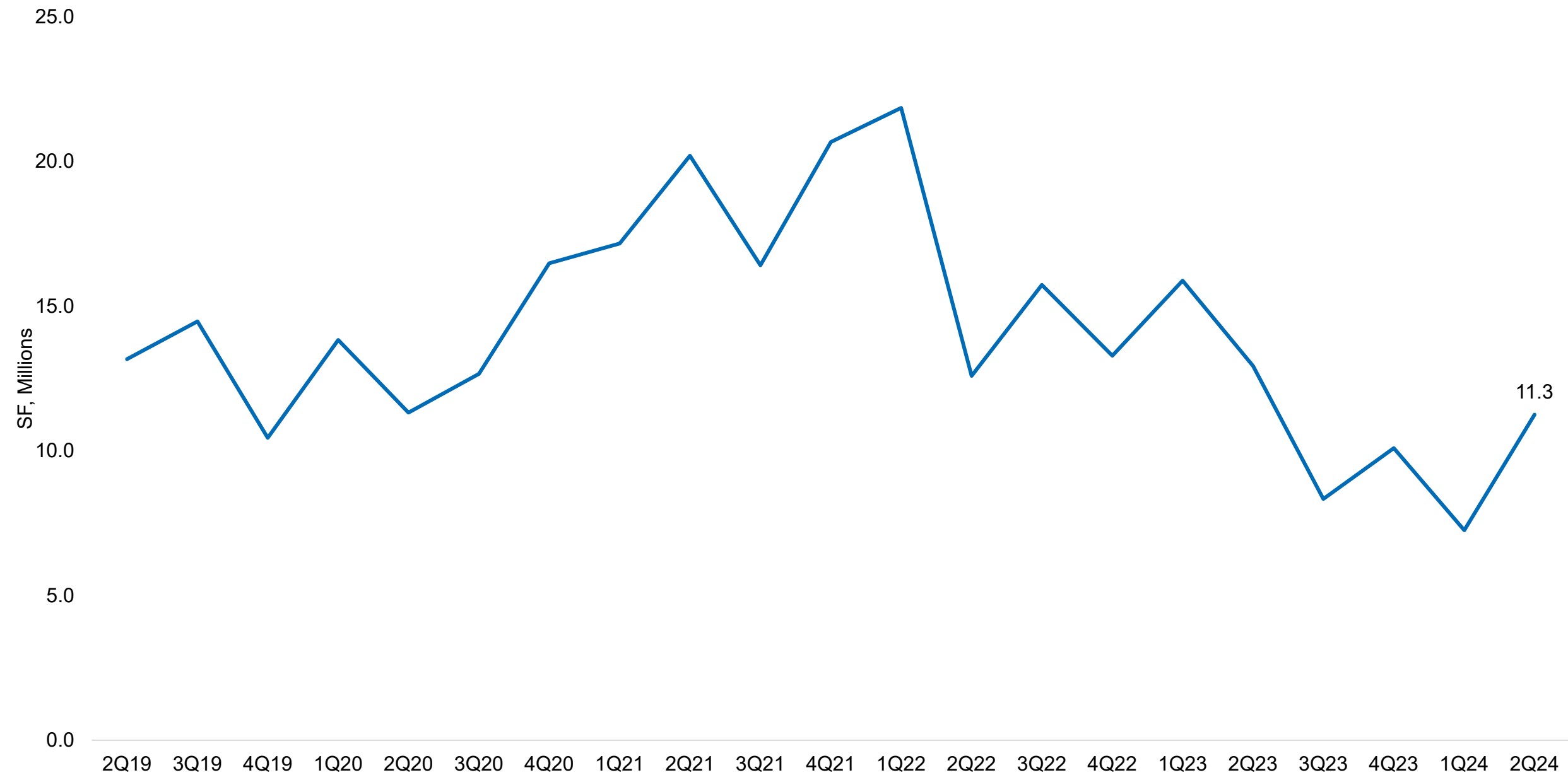


Source: Newmark Research

Industrial Leasing Activity Accelerates After Lowest Quarterly Mark in 10 Years

After falling to 7.3 million SF in the first quarter of 2024, total leasing volume accelerated to 11.3 million SF in the second quarter, the highest quarterly volume in a year.

Total Leasing Activity (SF)

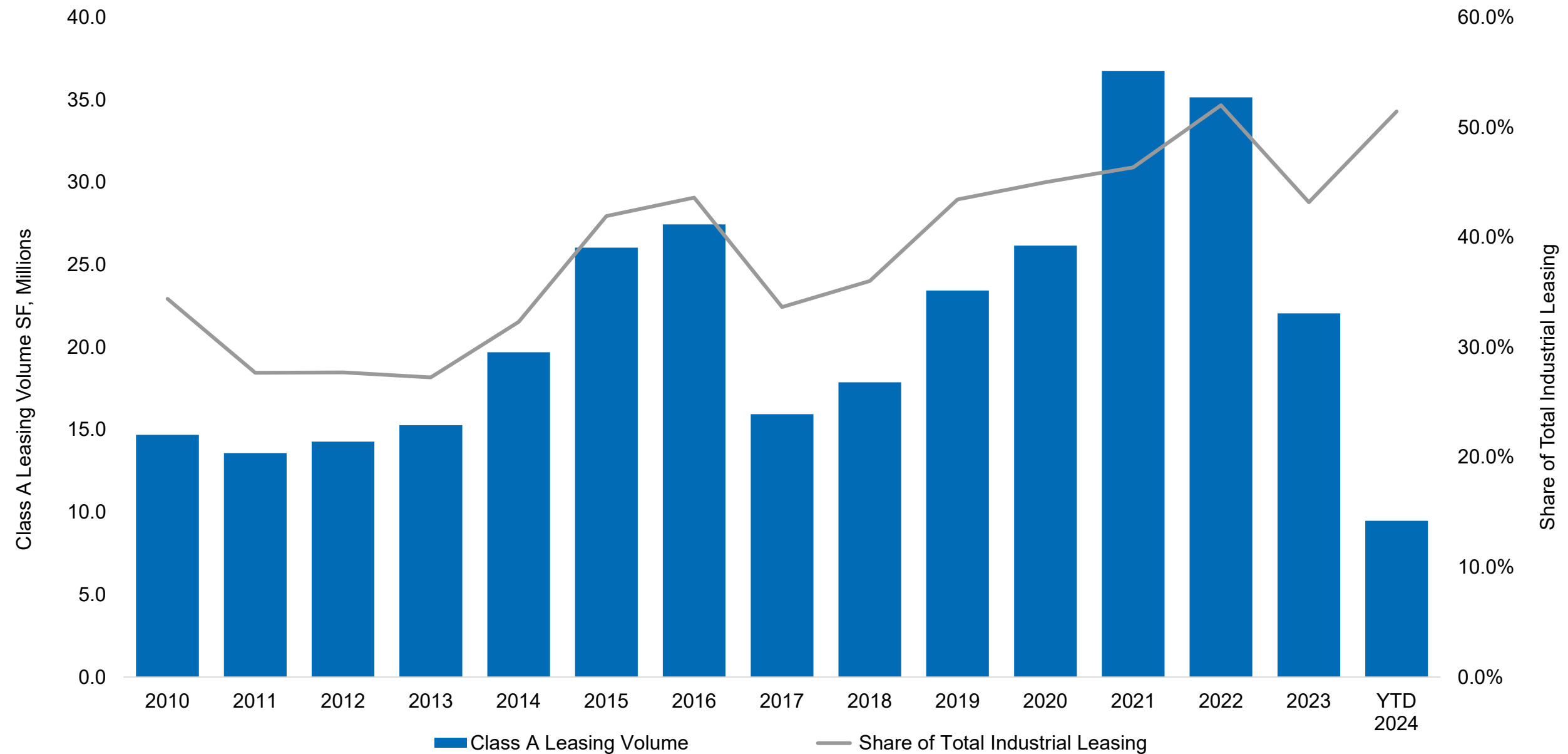


Source: Newmark Research, CoStar

Class A Warehouse Leasing Proportion Keeps Rising

Quarterly Class A industrial leasing volume held steady relative to the slowdown in all class leasing volume, with Class A leasing share rising near the all-time high set in 2023 with 51.5% in the first half of 2024 . As many of the new Class A deliveries are sitting vacant, this share is expected to rise when availability in non-Class A space shrinks.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

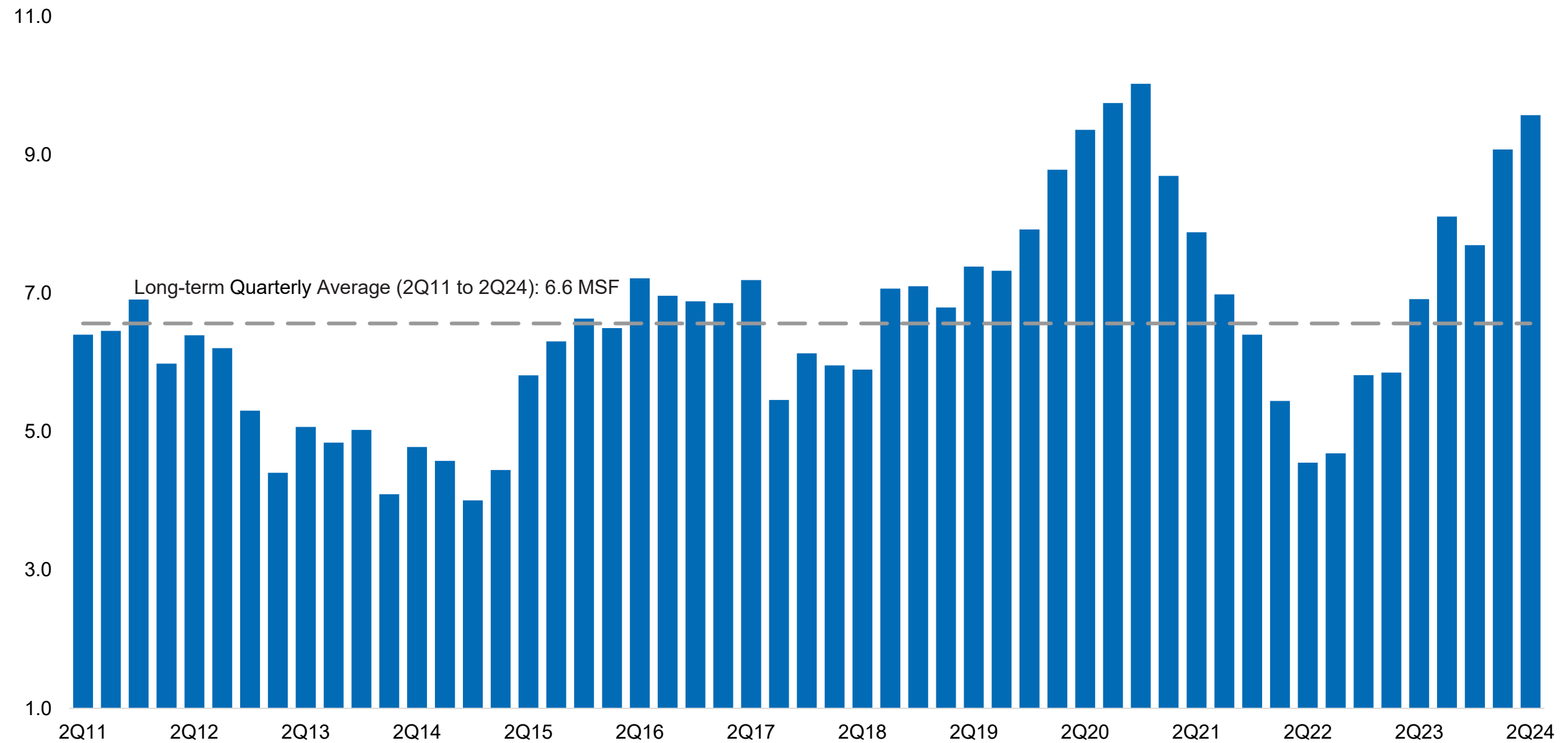


Source: Newmark Research, CoStar

Industrial Sublease Availability Remains below Pre-Pandemic Levels

Total sublease availability continues to increase quarter over quarter, this time by 6.1% to 9.5 million SF. Although the increase in volume is significant, the sublease market share of total inventory remains constant at a not-so-significant 0.7% of the market's inventory, a small portion of the 8.0% total availability in Chicago's industrial market.

Available Industrial Sublease Volume (MSF)



Source: Newmark Research, CoStar

Smaller Deal Share Dominates Leasing Activity

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Renewals and Sublease Deals Rise as Leasing Hesitancy Continues

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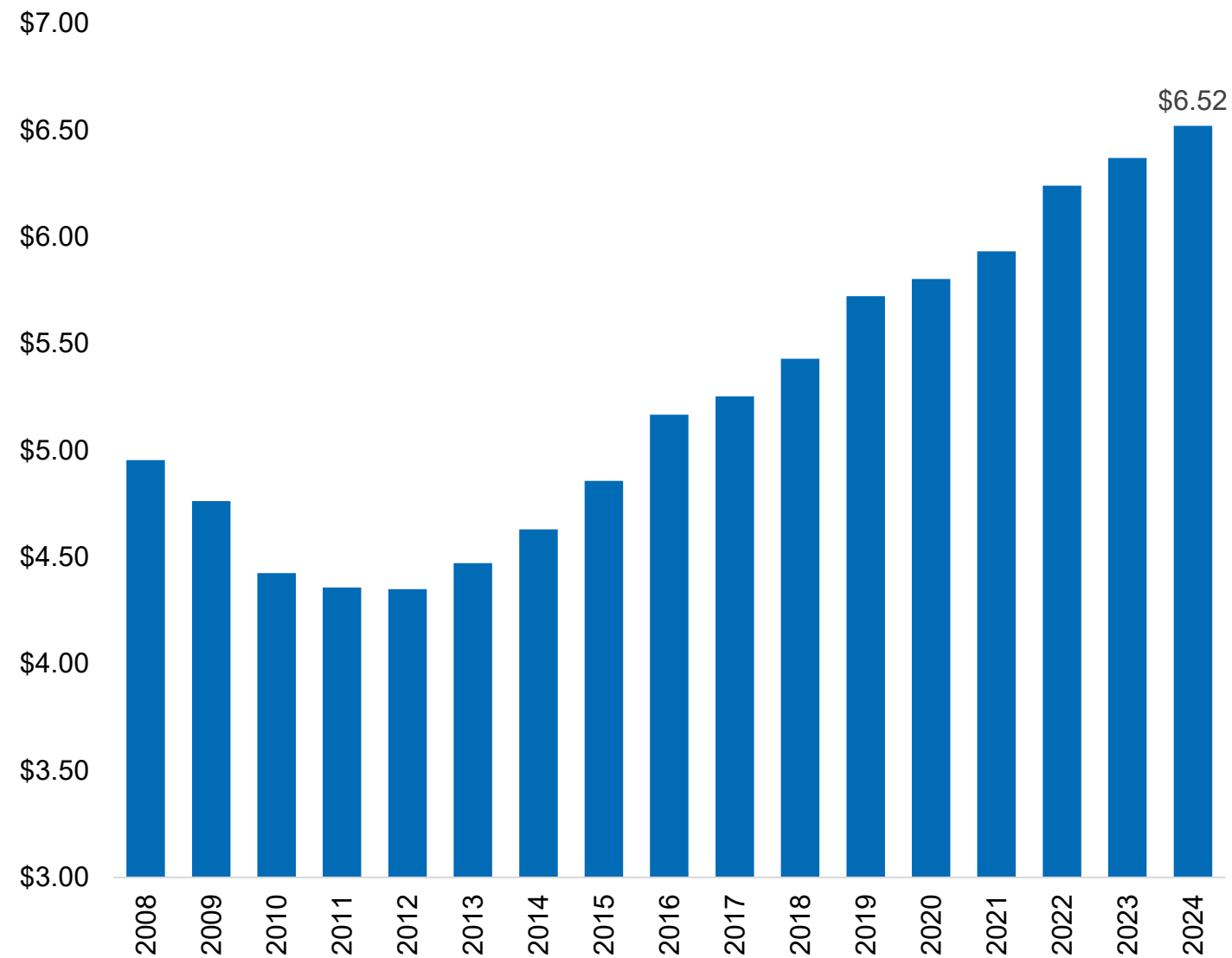
Landlords have Boosted Concessions as Moderated Leasing Persists

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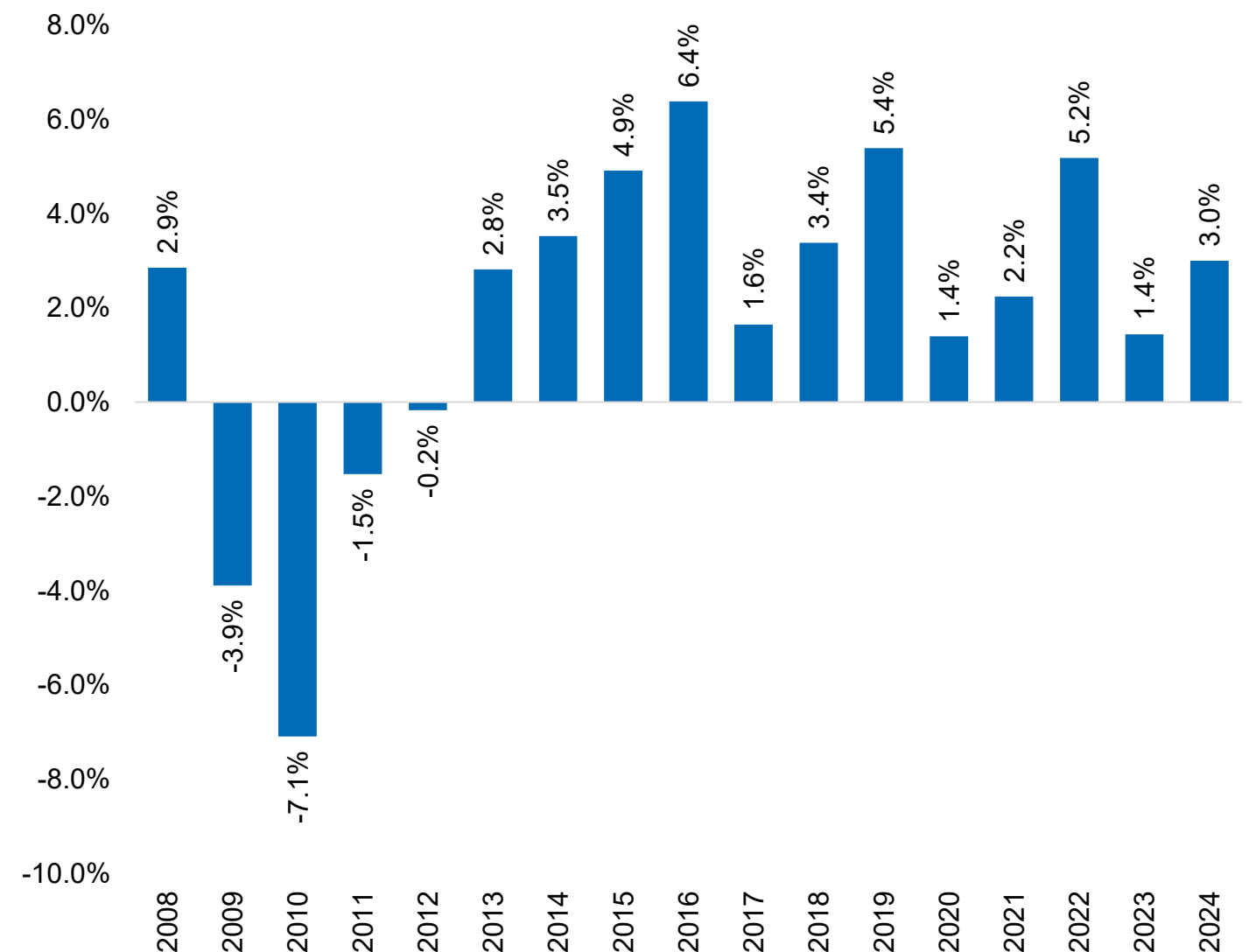
Record-Pace Industrial Asking Rent Climb Slows

Asking rates continue to increase, up to \$6.52/SF this quarter as more new Class A deliveries add expensive availabilities to the market. Asking rates have moved inversely to taking rents as a large portion of deals done are in smaller, cheaper product. Due to slow activity in recent Class A deliveries, year-over-year asking rates have grown. Asking rate growth will decelerate as occupiers remain cautious in leasing decisions and more available space decreases landlord leverage.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Expiring Leases Face Significant Increase in Rental Rates

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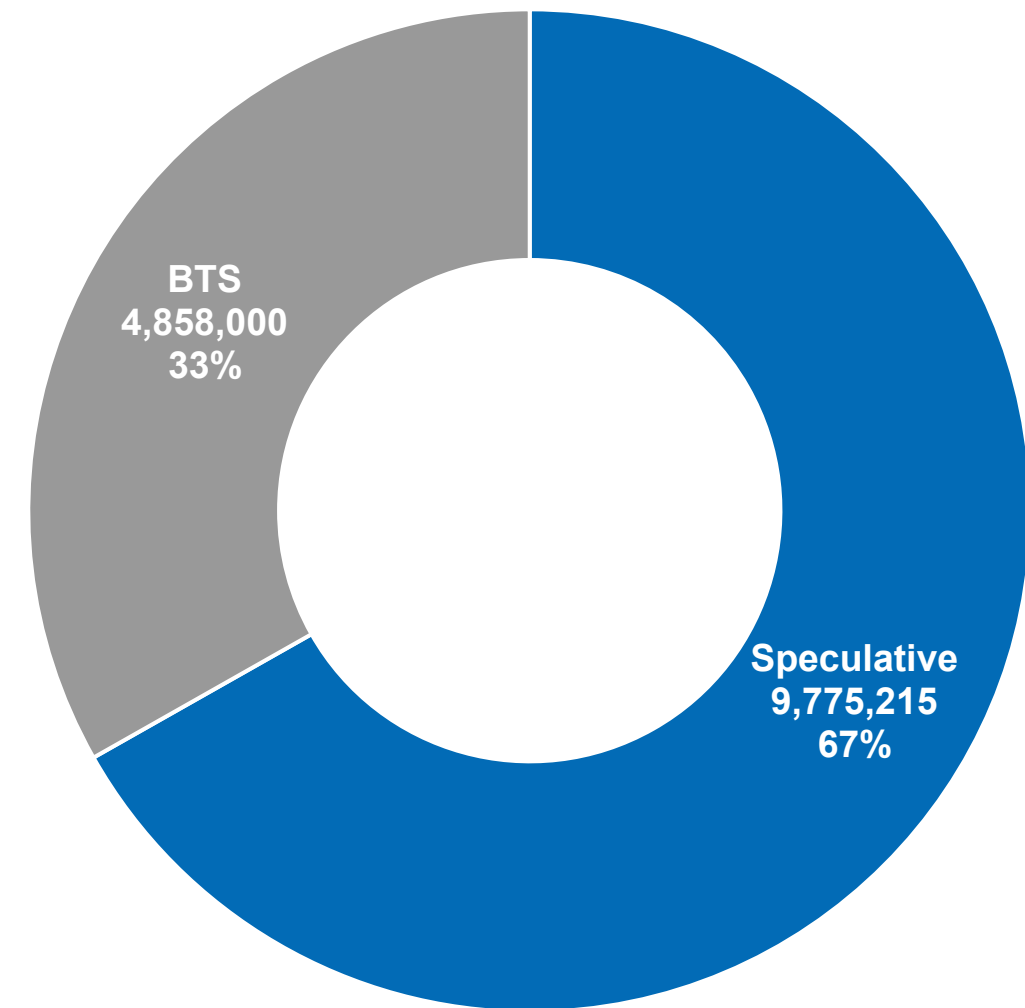
Industrial Supply Pipeline Eases as Construction Starts to Dwindle

The construction pipeline began emptying out after reaching a record of 35.4 million SF at the start of 2023. With a record 30.3 million SF delivering in 2023, the amount of square footage currently under construction is at the lowest point it's been since early 2020. Of the 30.3 million SF that delivered since 2023, 47.5% is still vacant. Additionally, the market is now seeing the ratio of build-to-suit and speculative development shift towards build-to-suit projects as developers are pressing pause on speculative development.

Industrial Under Construction and % of Inventory



BTS vs Speculative Development



Source: Newmark Research, CoStar

New Inventory Leading to Increases in Vacancy

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Notable 2Q24 Lease Transactions

Leasing pace has slowed the previous three quarters for larger direct deals. WestRock Company, the Georgia-based packaging product manufacturer, expanded in Kenosha county and the I-55 Corridor, signing the largest deal of the quarter in Kenosha at the Logisticenter of Pleasant Prairie and a renewal at Corporate Crossing Business Park in Bolingbrook.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
WestRock	9423 Koessl Ct.	Kenosha County	Direct New	593,565
John B. Sanfilippo & Sons, Inc.	12150 Jim Dahmer Dr.	Fox Valley/North Kane	Direct New	444,600
Lecangs, LLC	11131 Katherine's Crossing	I-80 Corridor	Direct New	360,625
ZF Industries	777 Hickory Hill Dr.	Far North	Lease Renewal	294,834
WestRock	365 Crossings Rd.	I-55 Corridor	Lease Renewal	259,744

Source: Newmark Research

Submarket Overview

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Capital Markets Fundamentals



Industrial Sales Remain Slow

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Industrial Pricing Continues to Rise

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Buyer Breakdown

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Notable 2Q24 Sale Transactions

STAG Industrial's purchase of a 431,318 SF warehouse at 305-325 Corporate Dr was the largest property sold of the quarter. Part of Prologis' Elgin Growth portfolio, STAG Industrial acquired a total of 5 Elgin industrial properties in the transaction. At the time of the sale, the 5 properties were 98.8% leased among 12 tenants with a 4.11 years of WALT remaining.

Select Sales Transactions

Buyer	Seller	Building	City	Price/SF	Square Feet
STAG Industrial	Prologis	305-325 Corporate Dr.	Elgin	\$85	431,318
Cabot Properties	Zurich Alternative Asset Management	2501 Galvin Dr.	Elgin	\$103	342,620
Stream Realty	Westcore Properties	2445 S Rockwell St.	Chicago	\$192	174,536
City of Chicago	Tradelane Properties	4130 S Morgan St.	Chicago	\$124	168,350
Stream Realty	Westcore Properties	850 Asbury Dr.	Buffalo Grove	\$127	157,000

Source: Newmark Research, Real Capital Analytics

For more information:

Amy Binstein

Midwest Research Director

Amy.Binstein@nmrk.com

Jared Morzinski

Senior Research Analyst

Jared.Morzinski@nmrk.com

Chicago

500 W Monroe Street

Chicago, IL 60661

t 312-224-3200

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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