

Q4 2023

Market Insight Report

Exclusive Insights for Chicagoland Industrial Occupiers



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Chicagoland Industrial

Summary

2023 ended with the Chicagoland industrial market softening as developer and landlords realize that they have overshot their predictions for demand, leaving an abundance of high rent, speculative space empty. The fourth quarter saw leasing totals below 10 million for the third straight quarter. With lower leasing volume and the lowest net absorption figures since 2011 (with 1.2 million square feet of positive absorption) the market is in flux. Vacancy is still near the record low, sitting at 4.3% with triple net rents increased to \$8.01. Notable users moving out this quarter are Dart at 701 Central Ave, University Park and CommScope at 27000 Ellis Dr,

¹ Costar. 2023. www.costar.com

Joliet. Additionally, Walmart (1,500,800 SF) moved into 201 S McLindon Rd in Minooka. There are 70 buildings under construction, totaling in over 18.0 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 triple net rents across all sizes and submarkets increased. Building sales for the quarter totaled \$802 million in volume, with the average price per square foot increasing to \$88 per RSF. The average cap rate for these transactions ticked up 90 basis points to 7.8%.¹



Inventory
1,399,602,463 SF



Net Absorption
1,254,213



Direct Vacancy Rate
4.7%



NNN Rents
\$8.01



Direct Availability Rate
7.0%



Cap Rates
7.7%

Select Core Submarket Breakdown

Submarket	NNN Rent	Net Absorption	Direct Vacancy
O'Hare	\$8.36	(735,380)	3.0%
Joliet	\$6.14	(466,832)	5.1%
South Suburban	\$7.38	(1,246,338)	5.0%
I-55 Corridor	\$8.53	(182,631)	3.8%
I-88 Corridor	\$7.01	250,309	2.4%

Tertiary Markets

Submarket	NNN Rent	Net Absorption	Direct Vacancy
I-39 Corridor	\$4.93	505,258	5.6%
North West Indiana	\$7.26	1,360,972	6.6%
Kenosha	\$7.45	(404,226)	14.4%



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Macro Trends

1 Manufacturing and general laborer's demand will remain in focus over the next year as more large distribution centers open their doors around Chicagoland. There are currently 161,000 jobs for laborers 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 evaluating the labor more before making any new real estate decisions.

2 The capital markets environment continues to be complex as we end 2023. 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 is 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 2024 will see a drop in interest rates which will unlock the financial markets. In Chicago, sales volume was \$800 million, averaging \$88 per square foot. ¹

3 The fourth quarter of 2023 saw 171 million square feet of new product deliver for buildings over 100,000 square feet nationwide. This number represents both speculative and build-to-suit projects. Construction starts have fallen off to their lowest levels since 2014 with 49.8 million square feet, leading some to believe that there are significantly overbuilt markets. Deliveries hit a record amount to end the year with 668 million square feet. 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 \$7.55 for buildings over 100,000 square feet. ¹

4 From a leasing perspective, 2023 ended with 699 million square feet of transactions. There were 178 million square feet of transactions completed in the quarter nationwide. 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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