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Q1 2024

Market Insight Report

Exclusive Insights for Chicagoland Industrial Occupiers

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Chicagoland Industrial

Summary

The Chicagoland industrial market started 2024 in the same fashion that 2023 ended, with developers and landlords realizing they have overshot their predictions for demand, leaving an abundance of high rent, speculative space empty. The first quarter saw leasing totals drop to the lowest levels since 2009, with just 8.4M square feet signed. Net absorption rebounded from the end of 2023, hitting 2.8M square feet. Direct vacancy increased this quarter as more speculative buildings delivered to the market, sitting at 5.0% with triple net rents increased to $8.18. Notable users moving this quarter include Kuriyama (329,210 square feet at 14200 Commerce Ct), CEVA (707,953 square feet at 2050 Cornell Ave), and US Medical Gloves (1,547,857 square feet at 2001 N Division St). There are 62 buildings under construction, totaling over 15.6M 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 $590 million in volume, with the average price per square foot decreasing to $83 per RSF. The average cap rate for these transactions ticked down 20 basis points to 7.7%

1 **Costar.** 2024.www.costar.com

Inventory
1,405,416,894 SF

Net Absorption
2,851,437

Direct Vacancy Rate
5.0%

NNN Rents
$8.18

Direct Availability Rate
7.4%

Cap Rates
7.3%

Select Core Submarket Breakdown

Submarket	NNN Rent	Net Absorption	Direct Vacancy
O'Hare	$9.95	(380,704)	3.4%
Joliet	$7.29	10,155	5.2%
South Suburban	$7.03	250,990	5.5%
I-55 Corridor	$9.73	18,065	4.2%
I-88 Corridor	$7.17	30,959	2.3%

Tertiary Markets

Submarket	NNN Rent	Net Absorption	Direct Vacancy
I-39 Corridor	$4.97	97,478	5.4%
North West Indiana	$7.35	122,598	8.5%
Kenosha	$7.77	112,357	14.1%

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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 163,000 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 labor before making any real estate decisions.

2 The capital markets environment continues to be complex as we start 2024. 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 $5.8 billion, with average price per square foot staying flat. While a few will trickle in after the close of the quarter, this is a worrying sign. Optimists hope to see rate cuts in 2024, unlocking the financial markets. In Chicago, sales volume was $590 million, averaging $83 per square foot [1]

3 The first quarter of 2024 saw 138M square feet of new product deliver for buildings over 100,000 square feet nationwide, down from a record number in Q4 2023. This number represents both speculative and build-to-suit projects. Construction starts have fallen to their lowest levels since 2014 to 48.3M square feet, leading some to believe there are significantly overbuilt markets. Many of these assets 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 $7.68 for buildings over 100,000 square feet.[1]

4 From a leasing perspective, 2024 started with 133M square feet of transactions nationwide. This is well below the ten-year average and the lowest since the fourth quarter of 2014. If economic headwinds of inflation and high-interest rates persist, in addition to rising rental rates, the industrial market could see more of a drop off as tenants elect to renew in place. Falling leasing volume would create a more tenant-favorable market. Coupled with an expected record number of deliveries, the market could pivot substantially.[1]

1 Costar. 2024 www.costar.com

Beyond space.

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