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Q1 2023

Market Insight Report

Exclusive Insights for Chicagoland Industrial Occupiers

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Chicagoland Industrial

Summary

In the start of 2023, the market for industrial users in the Chicagoland area continues to remain in the hands of landlords as vacancy continues to fall, net absorption remains positive, and rents climb to new heights. With a vacancy rate of 3.6%, the market is tighter than ever for users looking to expand their logistical footprints. Net absorption for the first quarter was just shy of 6.0 million square feet, marking a third consecutive quarter of declining figures, but still right in line with the quarterly average over the past decade. Notable users taking occupancy this quarter are Uline (1,048,961 square feet) at Bristol Crossing 94, MAI Fulfillment (246,967 square feet) at 2500 Galvin Drive, and Lineage Logistics (320,433 square feet) at 2088 Geneva Drive. Appetite for space has been relentless. Despite transaction volume slipping, users are taking 30% more space than they have over the past 10 years. Additionally, over 112 buildings are under construction, totaling in over 39.5 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 ended the fourth quarter at $7.23 per square foot. Building sales for the quarter totaled $307 million in volume, with the average price per square foot reaching $94. Average cap rate for these transactions ticked up 50 basis points to 6.6%. 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 a tight lending market may make financing deals a challenge.[1]

Inventory	Net Absorption	Direct Vacancy Rate	NNN Rents	Direct Availability Rate	Cap Rates
1,352,580,686 SF	5,953,598	3.6%	$7.23	6.8%	6.6%

Select Core Submarket Breakdown

Submarket	NNN Rent	Net Absorption	Direct Vacancy
O'Hare	$8.11	718,744	2.5%
Joliet	$5.80	1,030,505	3.9%
South Suburban	$6.53	339,822	3.0%
I-55 Corridor	$6.75	(22,272)	1.9%
I-88 Corridor	$6.08	1,170,434	1.7%

Tertiary Markets

Submarket	NNN Rent	Net Absorption	Direct Vacancy
I-39 Corridor	$4.85	269,945	5.0%
North West Indiana	$6.23	438,565	4.7%
Kenosha	$4.86	1,878,773	6.3%

1 *Costar.* 2023. www.costar.com

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Macro Trends

1 After the supply chain crisis that enveloped the country throughout most of 2021 and 2022, industrial users have a new hurdle at ports: **looming labor discussions**. With inflation turning the corner and heading in the right direction, any blockage at the ports threatens to upend the progress that has been made. While these labor issues are centered around the ports of Los Angeles and Long Beach, it could spell trouble for the future of other ports.[1]

2 The **capital markets environment** has become complex to start 2023. The rapid increase in interest rates has led to a bout of uncertainty in the lending market, halting transaction volume in its tracks. The first quarter has the lowest volume for industrial transactions on record, with just 1.7 billion being completed. While there will certainly be a few that trickle in after the close of the quarter, this is a worrying sign. Lenders are going through a repricing period. Optimists believe that the second half of the year will see the gears loosen and pick up volume. In Chicago, sales volume was also down, with just $207 million in transaction volume, averaging at $94 per square foot.[2]

3 **Construction** of new industrial buildings seems to have leveled out after the meteoric rise in both 2021 and early 2022. The first quarter of 2023 has just over 800 million square feet of new product on the market across the country, consisting of 2,262 buildings over 100k 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 begging to pick up pace as projects complete. 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 $6.31 for buildings over 100,000 square feet.[2]

4 From a **leasing** perspective, the year started on a sour note, as total volume was the lower it has been in over five years. As this expansion begins to lose steam, leasing volume is predicted to fall off and return nearer to normal. There are indications that this is happening before our eyes. If economic headwinds of inflation and high-interest rates persists, we could see levels 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.[2]

1 "Port Labor Disputes Raise New Fears Over U.S. Import Disruptions." *Wall Street Journal.* April 14, 2023. https://www.wsj.com/articles/port-labor-disputes-raise-new-fears-over-u-s-import-disruptions-579e0239

2 *Costar.* 2023. www.costar.com

Beyond space.

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