cresa

Q4 2022

Market Insight Report

Exclusive Insights for Chicagoland Industrial Occupiers

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Chicagoland Industrial

Summary

The market for industrial users in Chicagoland 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 3.8%, the market is as tight as it has ever been for users looking to expand their logistical footprints. Net absorption for the fourth quarter topped 7.6 million square feet, the highest fourth quarter total since 2015, capping a record annual absorption figure of 40.3 million square feet. Notable users taking occupancy this quarter are Amazon (1,004,400 sf) at Commerce 94, Tailored Brands (282,616 sf) at Orchard Gateway, and Nanophase technology (222,935 sf) at 400 Crossroads Pkwy. 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 104 buildings are under construction, totaling over 37.1 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 $6.98 per square foot. Building sales for the quarter totaled $2.5 billion in volume, with the average price per square foot reaching $92. Average cap rate for these transactions ticked up 10 basis points to 6.1%. With many predicting an economic downturn in 2023, investors could further look to industrial real estate as a haven to park assets.[1]

Inventory	Net Absorption	Direct Vacancy Rate	NNN Rents	Direct Availability Rate	Cap Rates
1,348,656,550 SF	7,678,728	3.8%	$6.98	6.7%	6.1%

Select Core Submarket Breakdown

Submarket	NNN Rent	Net Absorption	Direct Vacancy
O'Hare	$7.87	130,499	2.6%
Joliet	$6.66	1,189,320	4.1%
South Suburban	$6.39	623,472	3.4%
I-55 Corridor	$6.41	(321,146)	1.9%
I-88 Corridor	$6.03	239,614	3.8%

Tertiary Markets

Submarket	NNN Rent	Net Absorption	Direct Vacancy
I-39 Corridor	$4.85	217,486	5.7%
North West Indiana	$5.62	(62,179)	5.5%
Kenosha	$4.86	1,286,626	8.4%

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

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Macro Trends

1 **Supply chains** across the country will be catching their breath to start 2023, a good sign for the industry that has been heavily scrutinized since 2020. Supply chains have been under immense pressure to compete with demand since the ecommerce boom and goods have been bottlenecked at key junctures across the nation. Container ships at seaports and inland rail ports have been cleared, allowing for a steadier flow of goods across the country. Observers in the industry are expecting container shipments to decline to pre-pandemic levels – perhaps even falling lower as consumers pull back spending in the face of inflation.[1]

2 With **inflation** easing and the Federal reserve scaling back interest rates to end 2022, pressure on capital markets has eased slightly. While 2022 saw transaction volume decline to $121.6 billion nationally, cap rates held steady at 6.1% year over year. This showcases the resilience of the industrial asset class as a source of steady cash flow for investors seeking to weather the predicted economic downturn. In Chicago, sales volume was also down, with just under $7.1 billion in transaction volume, averaging at $92 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. There is currently 675 million square feet of industrial space being built across the nation, representing 3.7% of the national inventory. 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. 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 $5.99 for buildings over 100,000 square feet.[2]

4 2022 provided yet another bumper year for **industrial leasing,** with volume reaching 785 million square feet, ranking third all-time behind 2021 and 2020. As this expansion begins to lose steam, leasing rates are predicted to fall off and return to more normal, pre-pandemic levels where the ten-year average volume is 550 million. If 2023 leasing volume falls off, it would be a welcome change for users as the market changes to be more tenant favorable.[2]

1 "U.S. Container Imports Tumbled Close to Prepandemic Levels in December." *Wall Street Journal*. January 10, 2023. https://www.wsj.com/articles/u-s-container-imports-tumbled-close-to-prepandemic-levels-in-december-11673373778

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

Beyond space.

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