

Chicago

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Chicago market not yet clear of downcycle as fundamentals remain out of balance

A flurry of occupier move-outs, combined with an environment of softened demand, pushed vacancy higher throughout the Chicago industrial market in the second quarter of 2024. Market vacancy increased 220 basis points (bps) from a year ago to 6.9%, the fourth consecutive quarter of growth, although vacancy remained in line with observed pre-pandemic levels. Net absorption was barely positive at the year's midpoint as some occupiers reevaluated their space requirements. Meanwhile, subleases increased to levels not seen in more than a decade, with more than 9.3 million square feet (msf) available, although the pace of sublease stock growth exhibited a slowdown.

Decline in spec construction expected to aid market stabilization

Construction activity has decreased 66.7% from the 2022 peak of 38.2 msf. Developers sharply cut back on new starts as development costs soared while demand wavered. In the quarters to come vacancy is likely to tighten and net absorption to improve as the development pipeline normalizes and occupier demand rebounds. Asking rents exhibited a modest 2.1% retreat from a year ago, to \$7.40 per square foot (psf). Face rents nevertheless remained historically elevated, with many landlords providing greater tenant improvement allowances for new deals, although some were reported to be less generous with concessions on renewal transactions. Additionally, some landlords were increasingly reluctant to grant short-term extensions, having reverted to the pre-pandemic motivation for longer-term security.

Healthy deal activity signals potential market stabilization

While second quarter market fundamentals remained soft, the region nevertheless witnessed a handful of significant finalized transactions. Samsung SDS executed the period's largest transaction, leasing nearly 1.6 msf at the former Dart Container distribution center in University Park. Separately, while Kenosha County exhibited the highest vacancy of all Chicago submarkets (14.9%), packaging solutions provider WestRock selected Pleasant Prairie for a 580,000 sf build-to-suit facility to serve as its new regional operations hub.

Key Statistics

	Q2 2023	Q2 2024	Y-0-Y
Inventory	973.0 msf	1,015.8 msf	+42.8 msf
Vacancy Rate	4.7%	6.9%	+220 bps
Asking Rental Rate	\$7.56	\$7.40	-2.1%
Net Absorption	5.4 msf	0.5 msf	-4.9 msf
Under Construction	34.8 msf	12.7 msf	-22.1 msf
Deliveries	5.7 msf	2.9 msf	-2.8 msf

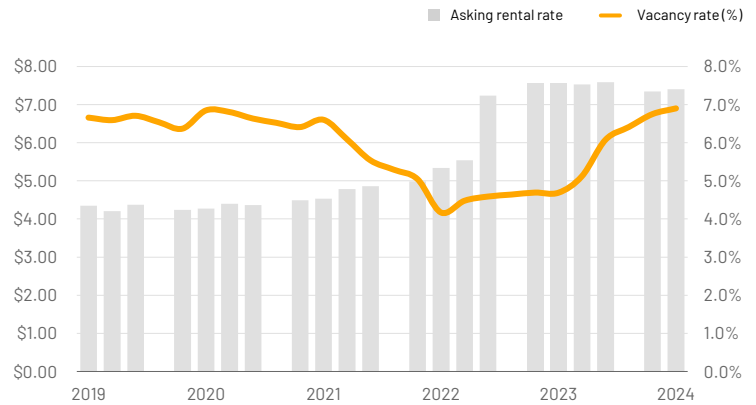
Outlook

01 Vacancy should stabilize and may even turn lower in upcoming quarters as occupier demand recovers and reduced construction helps to return the market to equilibrium

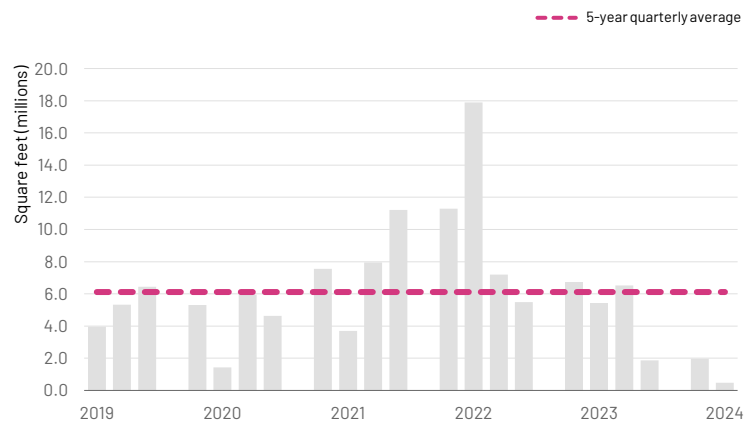
02 Despite softened market conditions, options for large users will remain in limited supply in many of the best located and most desirable locales, including the I-55 Corridor and O'Hare

03 Foreign e-commerce companies are likely to actively seek additional space in the run up to the November presidential election as the future of trade relations becomes murky

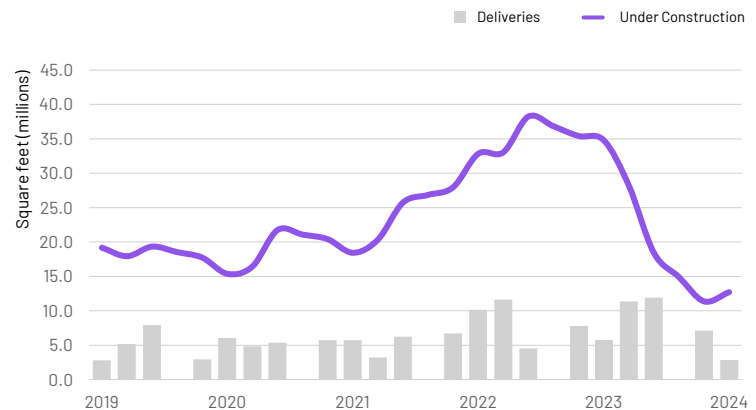
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

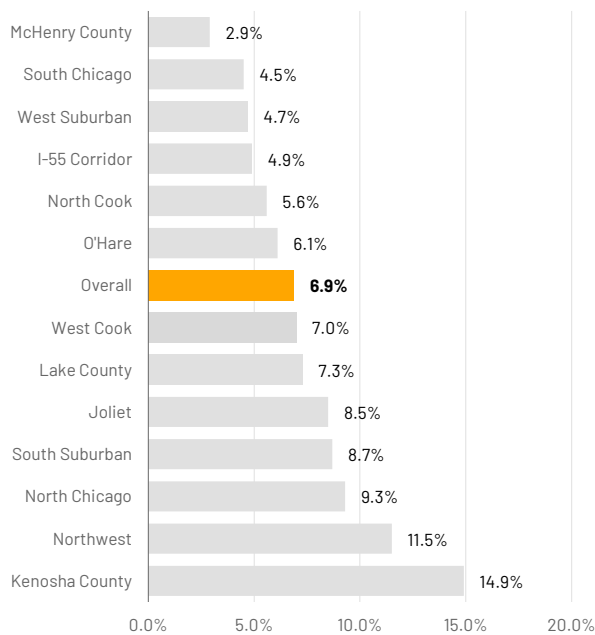
TENANT	SIZE (SF)	SUBMARKET	ADDRESS	TRANSACTION TYPE	INDUSTRY
Samsung SDS	1,552,000	South Suburban	701 Central Avenue	New Lease	Communications / Media / Tech
WestRock	594,000	Kenosha County	9423 Koessl Court	New Lease	Paper & Packaging
Central American Group	500,000	I-55 Corridor	825 Bluff Road	Renewal	Logistics & Distribution/3PLs
John B. Sanfilippo & Sons	445,000	Northwest	12150 Jim Dhamer Drive	New Lease	Food & Beverage
Bimbo Bakeries	429,000	West Suburban	300 Mitchell Road	New Lease	Food & Beverage

Top Sales

OWNER/BUYER	SIZE (SF)	SUBMARKET	ADDRESS	PRICE / \$/SF	SELLER
Stonepeak Partners	1,700,000	Joliet	Elwood Intermodal Center	\$125.0 M / \$74	CenterPoint Properties
Stream Realty Partners	446,000	Multiple	8905 187 th Street in Mokena; 850 Asbury Drive in Buffalo Grove; 2545 W 24 th Street in Chicago	\$83.5 M / \$187	Brutten Global
Cabot Properties	343,000	Northwest	2501 Galvin Drive	\$35.2 M / \$103	Zurich
Round Ground Metal	250,000	West Suburban	6300 Muirfield Drive	\$30.0 M / \$120	Cardinal Capital Partners
Wafra	215,000	West Suburban	805-925 Enterprise Street	\$28.0 M / \$130	Distribution Realty JV Crow Holdings

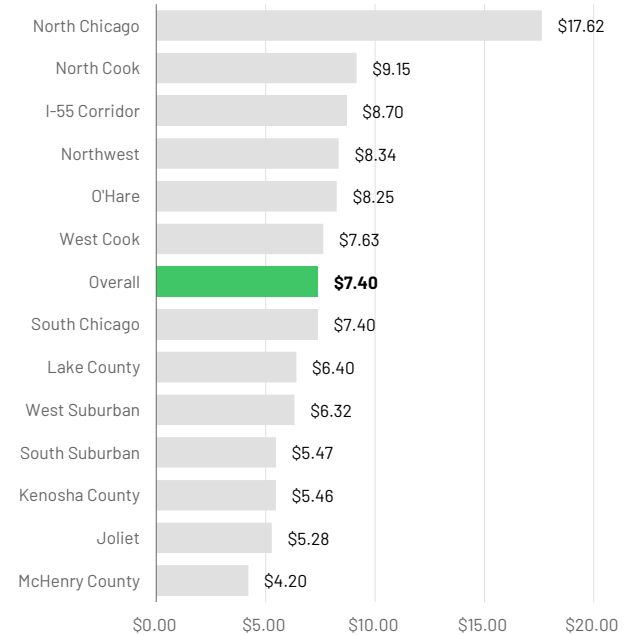
Vacancy Rate Comparison (%)

CHICAGO SUBMARKETS



Rental Rate Comparison (\$/sf)*

CHICAGO SUBMARKETS



*based on all classes of available inventory

Chicago Q2 2024 - Industrial

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Unless otherwise noted, all rents quoted throughout this report are average asking net (NNN) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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