

Chicago

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Vacancy up, absorption down as winds shift across Chicago industrial market

Vacancy shot up in the Chicago industrial market at the close of 2023, although conditions remained marginally tighter than what was typically observed in 2020 and earlier. Market vacancy increased 100 basis points (bps) from Q3 2023, to 6.1%, and has either risen or held steady for six straight quarters. Of the more than 37.0 million square feet (msf) of 2023 new development across the market, over half remained vacant. Of note, Kenosha County saw vacancy increase 760 bps from the start of the year to 14.9%, largely a result of slackening demand for the 13.4 msf of new product delivering there in 2023. While the secondary market had been responsible for some of the market softening earlier in the year, available sublease supply declined in Q4 but remained above the long-term average.

Developers cut way back, but infill sites remain in demand

In the wake of slackened levels of absorption and the current lending environment, developers have sharply cut back on new construction. However, given solid leasing activity still observed across the Chicago market, landlords overall have not yet retreated on deal terms, for now holding firm to their pro forma. Owners have instead been inclined to offer tenants relief via concessions, including tenant improvement allowances and greater flexibility. Meanwhile, developers continue to explore opportunities at infill sites, as newer product in infill locations remains in high demand and continues to command record-high pricing.

Capital markets activity shows improvement in second half of year

While the investment market remains partially stalled due to high interest rates and overarching questions about asset valuations, sales volumes nevertheless accelerated in the second half of 2023 across Chicago, increasing by approximately 89%. Properties trading in 2023 were often among the highest-quality and well-located buildings. This quarter, LBA Realty acquired 190 East Touhy Avenue in Des Plaines, a fully leased, 68,000-sf development adjacent to O'Hare International Airport that delivered in 2023. The sale marked the year's most expensive sale per square foot (psf), at \$241 psf.

Key Statistics

	Q4 2022	Q4 2023	Y-0-Y
Inventory	954.4 msf	1,003.8 msf	+49.3 msf
Vacancy Rate	4.6%	6.1%	+150 bps
Asking Rental Rate	\$5.68	\$6.43	+13.2%
Net Absorption	3.9 msf	1.8 msf	-2.1 msf
Under Construction	38.2 msf	18.4 msf	-19.8 msf
Deliveries	2.9 msf	11.9 msf	+9.0 msf

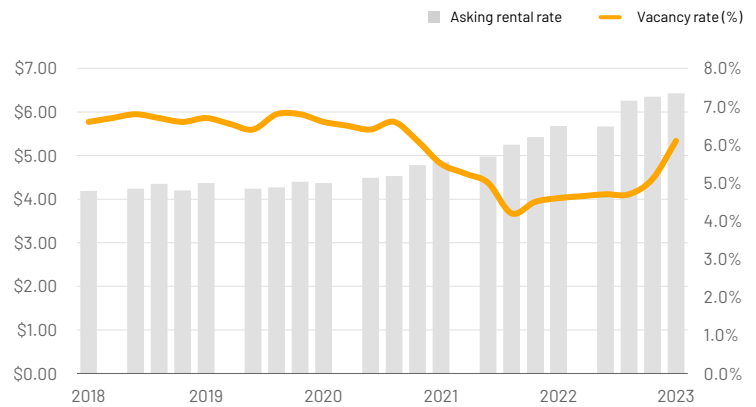
Outlook

01 While overall vacancy is likely to rise in the near term as more new development delivers, supply may tighten in the most desirable submarkets longer term as the construction pipeline declines

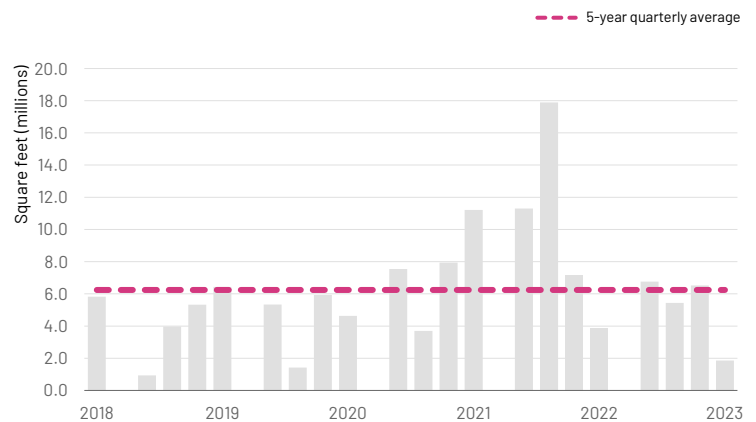
02 Asking rents are expected to stay elevated as demand remains healthy and vacancy holds below historical lows; however, should vacancies mount and leasing volumes decline, landlords will be forced to adjust taking rents

03 Manufacturing employment across the Chicago MSA in October 2023 was 1% below the level a year prior, a potential warning sign of weakening manufacturing growth

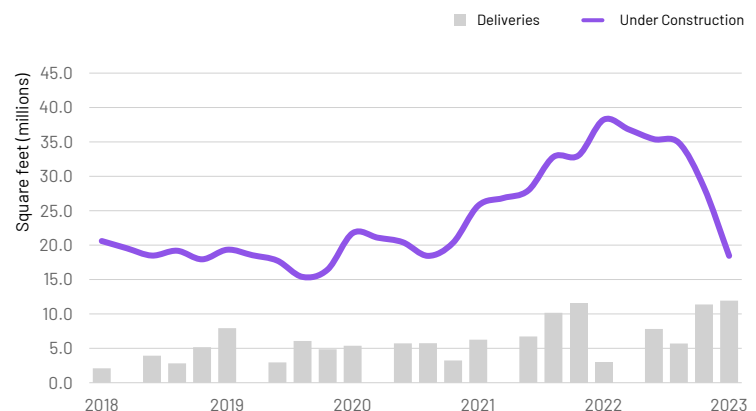
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

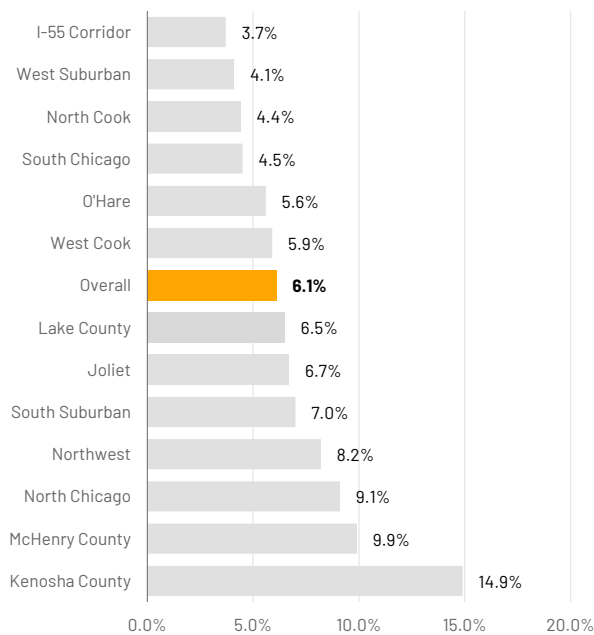
TENANT	SIZE (SF)	SUBMARKET	ADDRESS	TRANSACTION TYPE	INDUSTRY
Crate & Barrel	368,000	West Suburban	443 Fort Hill Drive	Renewal	Retailer (Brick & Mortar)
Geodis	348,000	I-55 Corridor	900 W Renwick Road	New Lease	Logistics & Distribution/3PLs
Norkol	326,000	West Suburban	900 Knell Road	New Lease	Paper & Packaging
Hearthside Food Solutions	309,000	O'Hare	2401-2501 Lunt Avenue	Renewal	Food & Beverage
Nu-Way Industries	260,000	O'Hare	2301 Lunt Avenue	New Lease	Manufacturing

Top Sales

OWNER/BUYER	SIZE (SF)	SUBMARKET	ADDRESS	PRICE / \$/SF	SELLER
CalSTRS	897,000	I-55 Corridor	21-81 & 121-151 N Weber Road	\$114.0M / \$127	Molto Properties
Hines	1,134,000	West Cook	4700-4800 & 5000 Provisio Drive	\$87.7M / \$77	AEW Capital Management
Bank of America	544,000	West Suburban	310 Overland Drive	\$59.8M / \$110	Principal JV The Opus Group
LBA Realty	68,000	O'Hare	190 Touhy Avenue	\$16.3M / \$241	Seefried Properties
Freedman Seating Company	277,000	North Chicago	900-914 N Kilbourn Avenue	\$11.0M / \$40	Walnut Street Properties

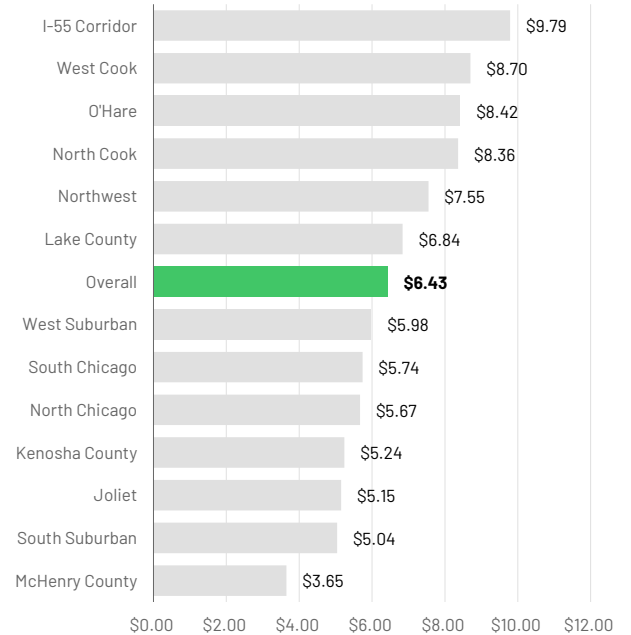
Vacancy Rate Comparison (%)

CHICAGO SUBMARKETS



Rental Rate Comparison (\$/sf)*

CHICAGO SUBMARKETS



*based on all classes of available inventory

Chicago Q4 2023 - 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.

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