

# CHICAGO INDUSTRIAL MARKET

## MARKET REMAINS STABLE THROUGH PANDEMIC

The second quarter of 2020 was one unlike anything the market has experienced before with the start of the pandemic. The Chicago industrial market continues to contend with the effects of the global pandemic, ranging from the initial shutdown of the economy, widespread layoffs and financial uncertainty. Overall, the industrial market weathered the global pandemic storm better than other commercial property types. Absorption remained positive for a 41<sup>st</sup> consecutive quarter, but vacancy still fluctuated, ticking up slightly to 7.0% as new construction deliveries were greater than the amount of space absorbed. With only 3.3 million square feet absorbed for the year, it's the lowest amount of year-to-date absorption for the first half of a year since 2010. Government-mandated shelter-in-place orders prevented some companies from moving into new buildings and halted some leasing activity as tenants signed fast extensions during uncertain times. Rental rates increased slightly to \$5.74/SF.

The pandemic has already and will continue to change many aspects of life and the utilization of space. Supply chains are one of the things that have been disrupted and driven the demand for warehouse space up. The disruption that occurred with so many components, as well as finished products coming from China and other countries where shutdowns and virus outbreaks differ, has led some manufacturers to look at reshoring or near-shoring operations. Additionally the stay-at-home orders have caused consumer demand to shift to at-home delivery, again increasing the amount of warehouse and distribution space needed as less goods are kept in physical retail locations. Cold storage facilities in particular have seen the already-high demand surge as people are increasingly having groceries delivered to their homes and dining in. The pandemic is also pushing manufacturers into robotics and AI as a way to both have better data and prevent employees from coming to work in the midst of an outbreak. Overall, this is trending in a positive direction for industrial real estate.

In the midst of the global pandemic, Amazon continues to drive the Chicagoland industrial market. The company signed four new leases this quarter and announced plans for two new, state-of-the-art fulfillment centers. The total impact of this activity is around 3.64 million square feet. On the leasing side, the ecommerce giant completed transactions for 810,000 square feet in Wilmington, 750,000 square feet in Channahon, 215,000 square feet in Arlington Heights and 162,000 square feet in Rolling Meadows. The Two new fulfillment centers will each be roughly 855,000 square feet in Matteson and Markham. The buildings will be the first in Cook County to feature

## CURRENT CONDITIONS

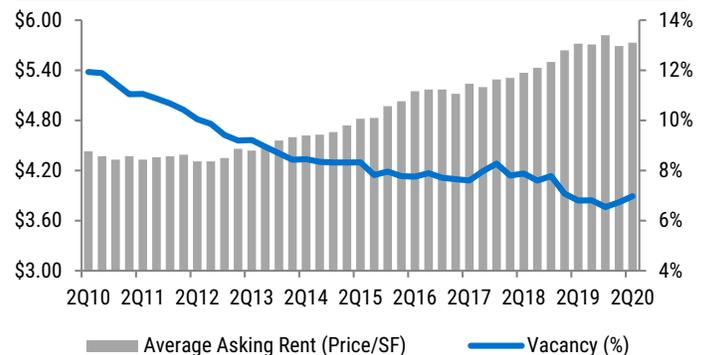
Vacancy increased slightly to 7.0% this quarter due to low absorption and significant new construction deliveries

Absorption hit 1.56 MSF this quarter, lower than the past several quarters.

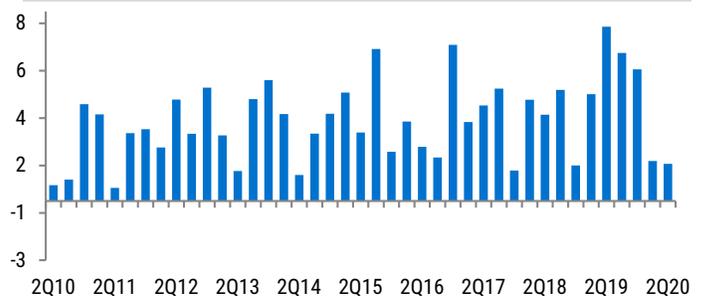
4.8 MSF of new construction delivered

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	1.13 BSF	1.13 BSF	1.11 BSF	↑
Vacancy Rate	7.0%	6.7%	6.8%	↓
Quarterly Net Absorption	1.56 MSF	1.68 MSF	7.35 MSF	↓
Average Asking Rent	\$5.73	\$5.69	\$5.72	↑
Under Construction	15.3 MSF	9.5 MSF	8.8 MSF	↑
Deliveries	4.8 MSF	3.6 MSF	3.5 MSF	↑

robotics technology for employees to pick, pack and ship smaller items. The addition of these fulfillment centers is estimated to bring 2,000 new fulltime jobs. Amazon is either operating in or committed to 37 locations totaling over 16.6 million square feet of industrial space in the Chicago Metro, including Southeastern Wisconsin. That comes to a total of 1.5% of Chicago's total industrial inventory, which is a staggering amount for a single user when considering the fact that the Chicago industrial market has over 1.13 billion square feet.

Leasing activity saw a minor slowdown at the start of the quarter while nonessential business was forced to be done from home, but the industrial market still managed to get roughly 10 million square feet of leasing done, only 2.6 million square feet less than the first quarter. Besides the leases completed by Amazon mentioned earlier, there were some other notable leases. SC Johnson signed a lease at the newly completed Pullman Crossings in Chicago, where it will be occupying the entire 400,000-square-foot space. Logistics and asset management group LGSTX Services signed a new lease for 335,000 square feet at 2350 Frieder Lane in Aurora. Tire maker Camso will be taking the 252,000-square-foot warehouse at 24601 South Bradley Street in Channahon, where it signed a lease for five years.

Construction deliveries were higher than they have been for the last couple quarters, despite the pandemic, with about 4.8 million square feet of new inventory becoming available. These new deliveries were evenly spread out throughout the metro, with the larger projects delivering in the typical big-box submarkets of I-55 and I-80. The South City also saw some of its first new construction delivered with the completion of buildings in Pullman Crossings and NorthPoint Development's Avenue O. Of the 4.8 million square feet that delivered, about 3 million of it is still vacant. There was also an increase in properties under construction, with roughly 15.3 million square feet currently underway. A few of these new projects are over 1 million square feet, such as the Ferrara Candy property in DeKalb and Medline Industries project in Grayslake. There are also several large projects scheduled to be completed next quarter still looking for tenants, which, if the market continues to see increasing demand for additional warehouse spaces, should help these properties.

At the beginning of the pandemic, many anticipated a significant rise in sublease space; while there was an uptick in sublease space, the increase was only about 420,000 square feet, not even enough to move the sublease availability rate upwards 10 basis points.

In the industrial market, as the pandemic continues, the market could see the sublease situation go both ways with companies who aren't surviving placing space onto the sublease market and companies whose businesses are being pushed to the limit needing additional space quickly and seeking out sublease options.

## CAPITAL MARKETS

As was the case across most property sectors this quarter, investment sales fell to record low numbers. The Chicago metro industrial market saw just \$377.6 million in transactions following a record high first quarter with \$2.6 billion. This quarterly total is the lowest amount since third-quarter 2013. At a year-to-date level, the total of \$2.9 billion is significantly higher than any other year-to-date total for the first half of a year in the last 10 years. This high year-to-date total and increased interest in the property type from investors looking for strong investments during this uncertain time means the industrial market could still have a strong second half of the year to counter the weak second-quarter activity.

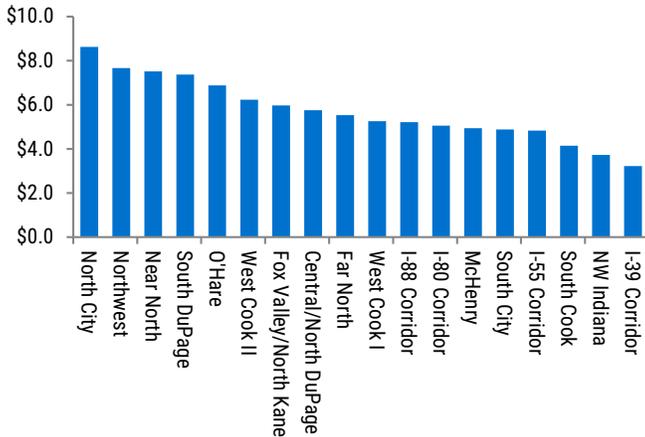
One of the larger transactions during the quarter came from Lineage Logistics purchasing a three-property cold storage portfolio from Investcorp and Bridge Development Partners. The buildings totaled 715,000 square feet in Lyons, Bartlett and Chicago. Investcorp paid about \$102 million for the three properties. High Street Logistics Properties purchased four industrial buildings in Tinley Park and Frankfort from Gramercy in April, the 540,000-square-foot portfolio was sold for \$44.0 million. The Tesla building at 2201 Arthur Avenue in Elk Grove Village sold this quarter. LBA Realty purchased the building from Prologis for \$141/ SF.

## LOOKING FORWARD

The Chicago industrial market remained steady during the challenges presented by the pandemic. While Chicago and Illinois seem to be on the right track in taking precautions while reopening the economy, rising cases both globally and in other areas of the U.S., further supply chain issues, a global recession and a second wave of infection locally are all lingering concerns for real estate decision makers. While the length and depth of this market correction remains unknown, Chicago is in a strong position thanks to early action and its diverse economy. The industrial market in particular stands to benefit and continues to perform strongly through these unclear times.

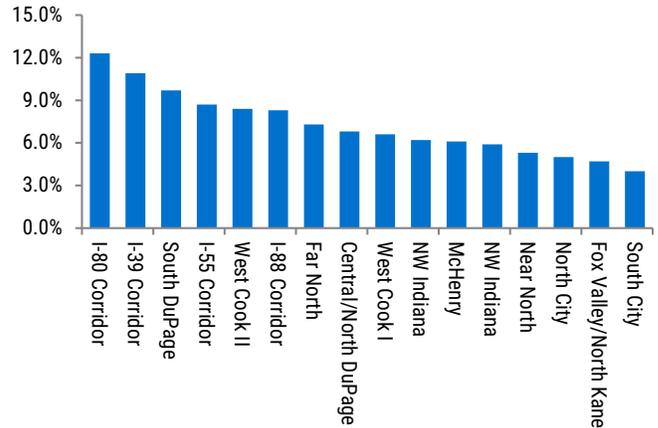
## AVERAGE ASKING RENT BY SUBMARKET

Average Asking Rent (\$/SF)



## VACANCY BY SUBMARKET

Vacancy Rate (%)



## LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Amazon	30260 S Graaskamp Blvd	I-80	Direct	810,000
Amazon	23700 Bluff	I-80	Direct	750,000
Mazda	900 Bilter Rd	I-88	Extension	463,000
SC Johnson & Son Inc	Pullman Crossings	South City	Direct	400,000
LGSTX Services	2350 Frieder Ln	I-88	Direct	335,000
Camso Usa Inc	24601 S Bradley St	I-80	Direct	252,000
Amazon	1455 W Shure Dr	Northwest	Direct	214,000

## SELECT SALES TRANSACTIONS

Building	Submarket	Buyer	Price/SF	Square Feet
Investcorp Portfolio	Various	Lineage Logistics	\$146	715,000
Gramercy Portfolio	I-80	High Street Logistics	\$81	539,000
1500 Harvester Rd	North Central DuPage	AJR Group / Siemens	\$41	152,000
2201 Arthur Ave	O'Hare	LBA Realty	\$141	101,265
1200 Humbracht Cir	North Central DuPage	High Street Equity	\$112	66,340

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central/North DuPage	86,558,049	976,835	6.80%	145,007	(357,664)	\$4.55	\$10.56	\$ 5.75
Far North	118,579,939	3,486,607	7.30%	137,120	547,309	\$4.60	\$8.18	\$ 5.53
Fox Valley/North Kane	35,530,059	697,487	4.70%	33,346	196,593	\$5.30	\$8.07	\$ 5.97
I-39 Corridor	30,599,849	1,600,000	10.90%	(7,500)	62,500	\$3.84	\$3.50	\$ 3.23
I-55 Corridor	109,631,641	1,754,697	8.70%	(118,431)	406,327	\$4.43	\$10.77	\$ 4.84
I-80 Corridor	98,214,215	5,300,357	12.30%	283,372	(283,154)	\$4.67	\$6.77	\$ 5.06
I-88 Corridor	70,820,494	-	8.30%	380,128	645,368	\$4.37	\$11.28	\$ 5.21
McHenry	17,951,030	-	6.10%	31,814	53,339	\$5.50	\$5.50	\$ 4.94
Near North	54,851,581	-	5.30%	55,260	220,595	\$5.47	\$9.22	\$ 7.52
North City	72,423,242	-	5.00%	(153,514)	27,992	\$6.34	\$8.50	\$ 8.63
Northwest	32,770,388	174,704	6.10%	25,391	350,373	\$7.23	\$8.94	\$ 7.67
NW Indiana	22,665,816	-	5.90%	84,520	57,412	\$3.84	\$10.00	\$ 3.73
O'Hare	121,576,463	887,191	6.20%	27,615	(318,493)	\$5.74	\$9.72	\$ 6.88
South City	103,650,585	195,637	4.00%	360,770	516,493	\$5.75	\$4.54	\$ 4.88
South Cook	75,108,824	-	4.70%	(25,336)	(58,503)	\$3.57	\$9.33	\$ 4.15
South DuPage	8,814,737	-	9.70%	(24,556)	(37,030)	\$1.95	\$12.44	\$ 7.37
West Cook I	67,535,141	224,135	6.60%	361,650	1,199,668	\$4.60	\$12.57	\$ 5.26
West Cook II	9,149,193	-	8.40%	(29,600)	24,793	\$6.56	\$9.00	\$ 6.23
<b>Total</b>	<b>1,136,431,246</b>	<b>15,297,650</b>	<b>7.00%</b>	<b>1,567,056</b>	<b>3,253,918</b>	<b>\$4.88</b>	<b>\$9.16</b>	<b>\$5.73</b>

## SUBMARKET STATISTICS BY SUBTYPE

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	437,752,436	5,312,913	9.3%	2,203,687	5,312,913	\$5.80
Incubator	42,749,145	79,026	1.9%	(62,123)	79,026	\$8.97
R&D/Flex	57,126,755	219,180	8.1%	67,622	219,180	\$9.16
Warehouse/Distribution	598,802,910	(2,357,201)	5.5%	(642,130)	(2,357,201)	\$4.88
<b>Totals</b>	<b>1,136,431,246</b>	<b>15,297,650</b>	<b>7.0%</b>	<b>1,567,056</b>	<b>3,253,918</b>	<b>\$5.73</b>

## ECONOMIC CONDITIONS

The pandemic has had a serious and potentially long-lasting impact on the global and local economy. The measures that governments have taken to stem the spread of the virus are being felt at every level, and the U.S. record-long bull run has officially come to an end. The U.S. saw unemployment spike at record high levels, with 20.5 million jobs lost in April alone, the most since the Great Depression. The national unemployment rate hit its peak in April at 14.7%.

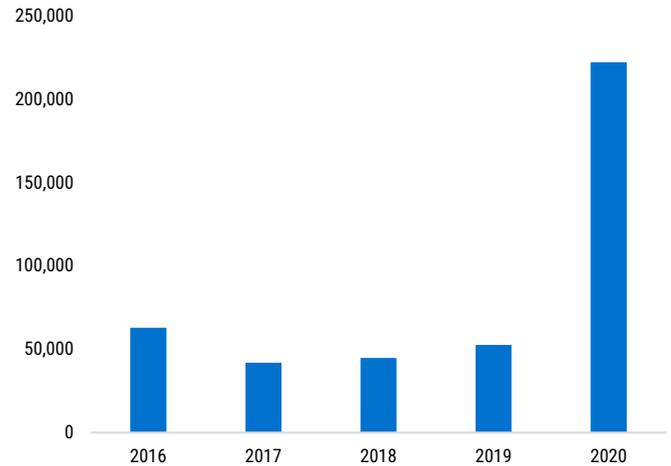
As May closed out, many were surprised to see that unemployment fell to 2.5 million jobs, driving the unemployment rate down to 13.3%. Chicago's unemployment rate fell by 2.1% to 15.4%. Additionally, consumer spending surged as people started leaving their homes again and regulations in some states were lifted. The debate remains open on if this will be a U-shaped recovery or if it will look more like a Nike 'swoosh' with a quick fall and slow climb up.

In Chicago at the end of 2019, unemployment was at a record low of 2.8% and quickly jumped more than six times that to 17.5% for April and then falling to 15.4% in May. Mass layoffs for the first six months of the year are already higher than they were for the last four years, combined with 222,354 layoffs occurring in Illinois. As expected, with business and leisure travel coming to a total halt, the leisure and hospitality industry have taken the hardest hit in Chicago, with employment falling 48.7% year-over-year.

As Chicago and the rest of Illinois enters Phase 4 of reopening at the start of the third quarter, there remains hope that the city and state will be able to keep infections rates low so that the economy can continue what is sure to be a long and difficult recovery. While the hit to summer tourism and conventions will certainly hurt the economy, Chicago is well positioned as a diverse economy with no dependence on a single industry.

## LAYOFF STATS

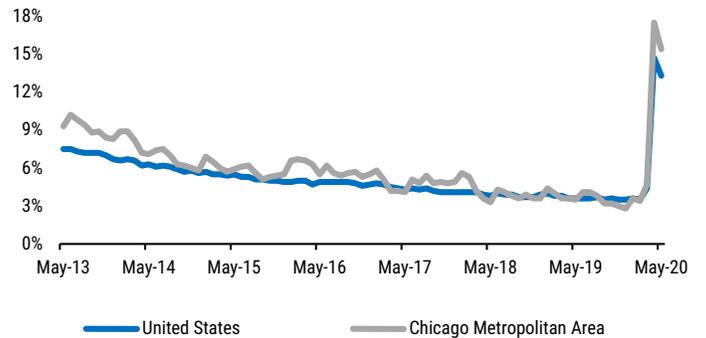
### IL Mass Layoffs (Initial Claims), May 2020



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

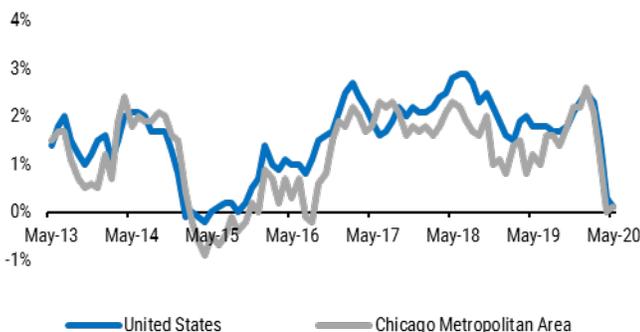
### Seasonally Adjusted, May 2020



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

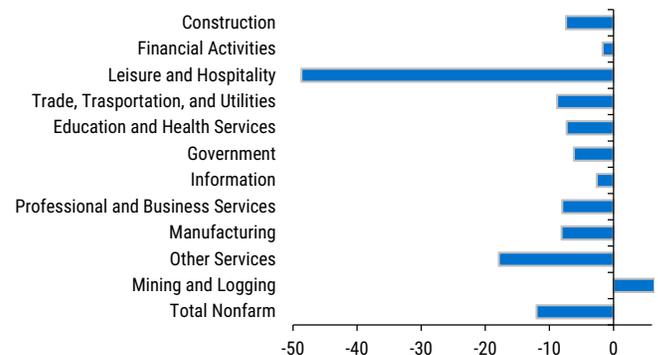
### All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

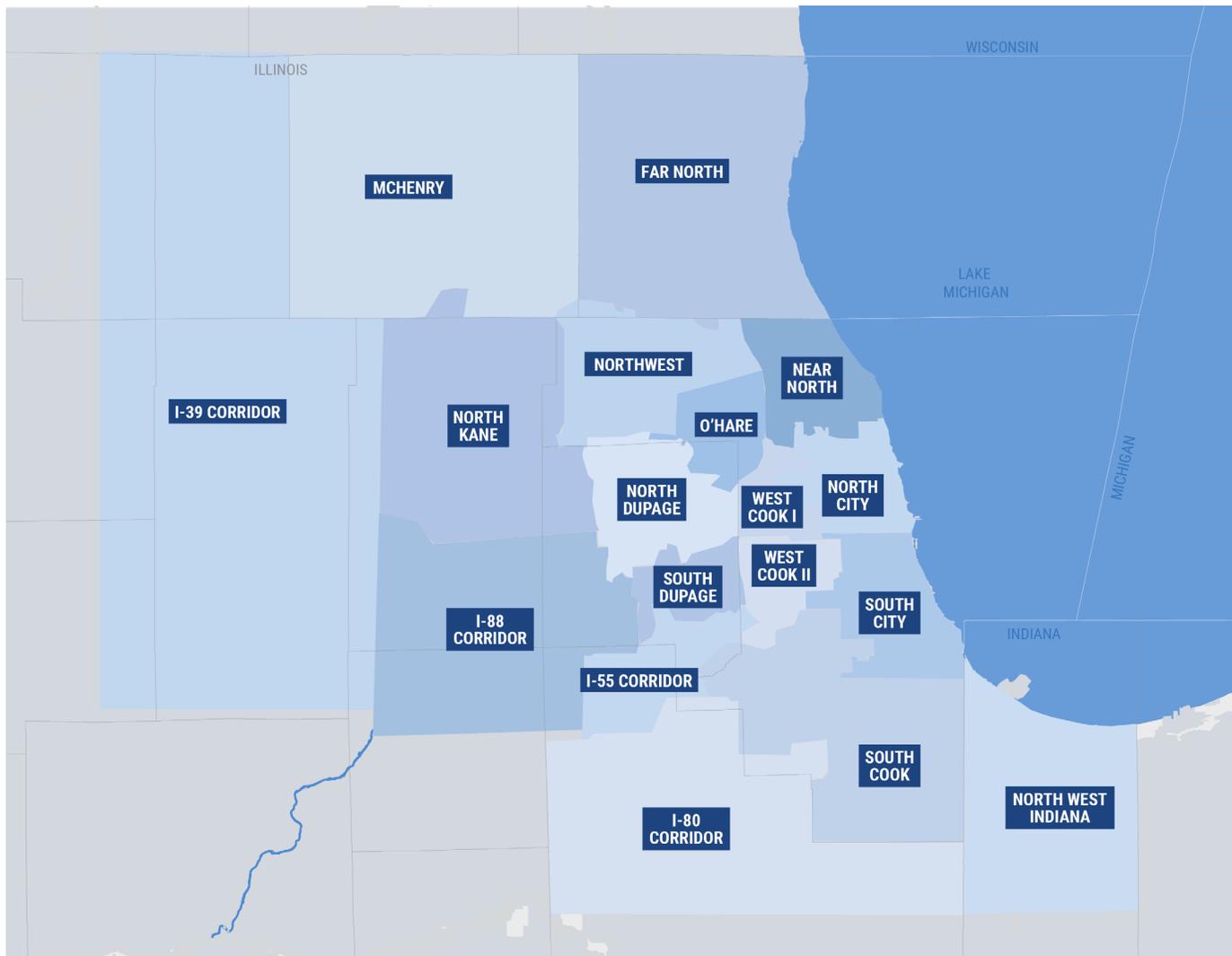
## EMPLOYMENT GROWTH BY INDUSTRY

### Chicago, May 2020, 12-Month % Change, Seasonally Adj.



Source: Bureau of Labor Statistics

## CHICAGO INDUSTRIAL MARKET



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