INVESTMENT FORECAST

Industrial

Chicago

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Global Supply Chain Uncertainty Aids Chicagoland; Firms Add Space in Nation's Largest Central Economy

Skyrocketing demand unlikely to let up. Chicago has played a key spot in the domestic supply chain, and the metro's role is increasingly essential amid global bottlenecks. Firms view the market as a central location capable of servicing many consumers, leading to the absorption of 34 million square feet last year. O'Hare International Airport has seen rising activity corresponding with growing e-commerce sales, aiding demand for nearby properties and slashing vacancy in the submarket 470 basis points last year to 2.8 percent. Developers have ramped up construction, but a lack of buildable land in interior areas has pushed projects farther from the core. This year, construction is concentrated in Kenosha and the Interstate 55 Corridor near Joliet. The latter has seen net absorption outpace completions by 9 million square feet since the start of 2019, resulting in a 460-basis-point vacancy retreat over the same period. Kenosha recorded a 330-basis-point drop since 2020, and provides tenants access to both the Chicago and Milwaukee metros.

Tenants and investors targeting key shipping arteries. As the performance of assets improved in 2021, so did the sales market, with more trades occurring last year than in either 2019 or 2020. This was driven by an uptick in institutional and foreign buyers. Most submarkets have robust liquidity, especially in the corridors where leasing velocity is the strongest. The O'Hare and Southwest I-55 Corridor submarkets have led in trading, as investors benefit from logistics demand tied to the airport, and the recent leasing surge along I-55. This interstate allows access to markets like Springfield, and also runs south to New Orleans. Firms here often require large spaces, evidenced by signings from Walmart, Best Buy and others, prompting investors to target assets over 100,000 square feet. In the core, demand for last-mile distribution is supporting trading for smaller facilities.

2022 Market Forecast

Employment up 3.6% — The creation of 164,000 jobs in 2022 is a slight slowdown from last year, but is still well ahead of the pre-pandemic norm.

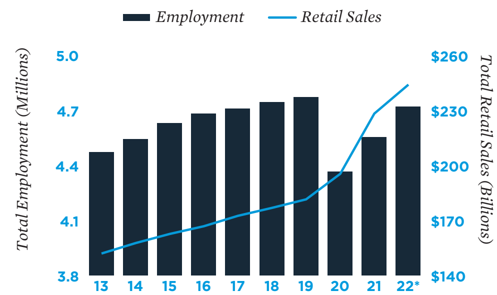
Construction 25 million sq. ft. — Construction exceeds the prior five-year average of 19.5 million square feet finalized. Developers have shifted projects to favor large floor plans, in response to demand from logistics firms.

Vacancy down 30 bps — The vacancy rate is set to drop 30 basis points by year-end, after falling 140 basis points in 2021. Chicago's central location and air cargo capacities have driven a surge in net absorption.

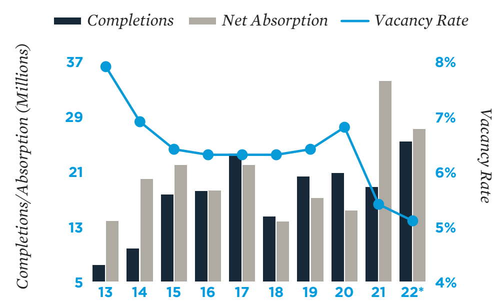
Rent up 6.9% — The average asking rent will reach $6.95 per square foot in 2022. This represents another acceleration, after rising 3.9 percent in 2020 and 5.2 percent in 2021.

Investment — Amazon's move into northern Kane County is likely to result in a larger number of transactions and tenants seeking nearby space in the future, as the firm provides auxiliary opportunities.

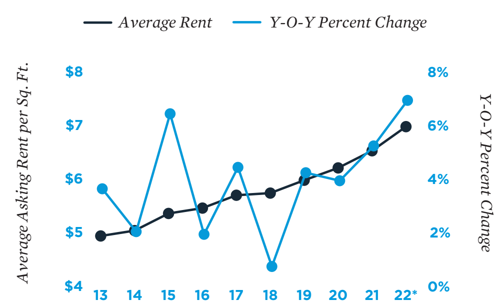
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius
Senior Vice President
Director IPA Industrial
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.