MARKET REPORT
INDUSTRIAL
Chicago Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Rent Growth Headlines Healthy Chicago Industrial Market; Yield-Driven Buyers Finding Opportunities

Persistent space demand pushes rent growth to highest level this cycle. Chicago remains a key component to many supply-chain networks around the country, powering its status as one of the nation's primary distribution hubs. This continues to fuel robust space demand, benefiting rent growth as the average asking rent is on pace to expand more than 15 percent in 2019, boosting NOIs and sparking an influx of speculative projects. About two-thirds of the new supply in 2019 was developed as speculative space, illustrating the growth potential builders see in Chicago's industrial market. Western sections remain highly targeted by developers, including those within the Southwest I-55 corridor like Bolingbrook and Romeoville. Over the past year ended in October, this submarket recorded 4.1 million square feet of new supply, more than any other part of the metro. Regions farther north around the DuPage Airport as well as West Chicago and north Aurora also garnered significant interest. Relatively low vacancy in these areas has accentuated the need for more industrial space.

Investors mold strategies around airport proximity. Transaction velocity moderated by roughly 20 percent over the past four quarters amid some increased economic uncertainty and concerns of cycle maturity. Despite this, investor interest in the Windy City is still strong as sustained supply growth and robust demand drivers appeal to a diverse group of buyers. The metro's two major airports were focal points for investment, attracting a number of institutional investors, although assets around 50,000 square feet were heavily targeted by yield-driven private buyers as cap rates extended into the mid-8 percent range. Some of these investors also scoured inner-ring suburbs straight west of downtown Chicago as first-year returns reached up to 9 percent and sale prices hovered near $50 per square foot for smaller warehouses and manufacturing assets. While most of these deals involved local buyers, out-of-state investment remains a large part of sales volume, with many investors coming from the East Coast and major cities across Canada.

2019 Market Forecast

Employment up 1.0% — Employers will slow hiring plans this year as 49,000 new workers are added to payrolls. In 2018, job creation clocked in at 67,700.

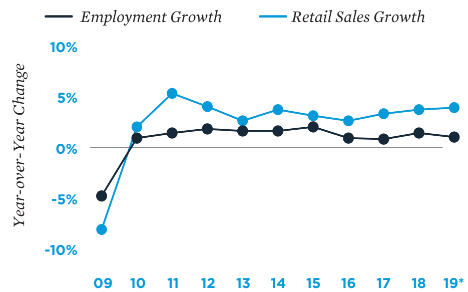
Construction 14 million sq. ft. — Development is expected to dip slightly in 2019 following the completion of 14.5 million square feet last year. New supply will be most prevalent in the metro's northwest suburbs.

Vacancy down 20 bps — With 12.7 million square feet already absorbed through the first three quarters of 2019, vacancy is on track to decrease to 5.7 percent. This will mark the ninth time in the past 10 years that vacancy has fallen.

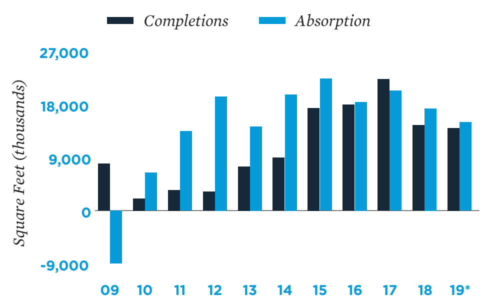
Rent up 15.4% — Chicago will post one of the strongest growth rates in the nation as the market's average asking rent climbs to $6.30 per square foot.

Investment — Strong NOI growth will continue to keep a wide range of investors interested in Chicago, particularly the southwestern suburbs, where developers are sustaining strong activity.

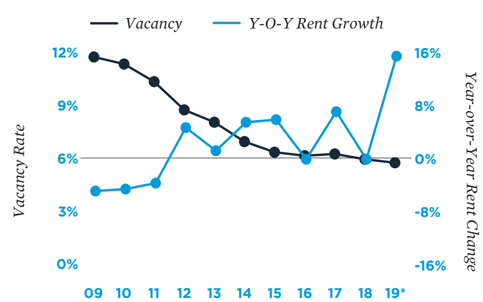
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third 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.