

MARKET REPORT

INDUSTRIAL

Chicago Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

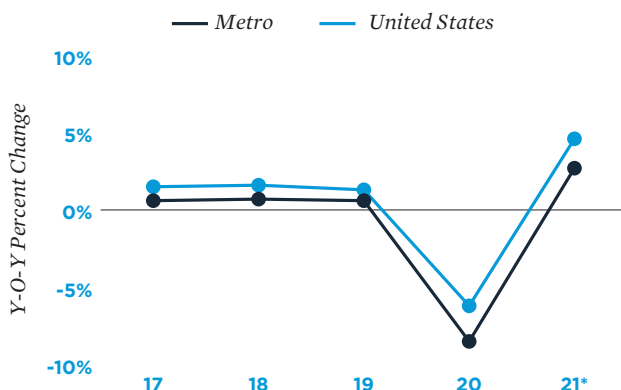
2Q/21

Boost in E-Commerce Activity Drives Demand; Speculative Deliveries Pose Headwinds

Distribution facilities for retailers bolster leasing. As the primary logistics center in the Midwest, Chicago's e-commerce activity is booming, generating industrial demand in Chicago. More companies, especially in retail trade, are establishing a presence in the metro while many existing businesses are expanding. Leases for more than 1 million square feet by General Motors, Scotts Miracle-Gro, Harbor Freight and Wayfair helped to push net absorption to one of the highest totals in the nation during the past four quarters. The largest move-in expected in 2021 is Ferrara Candy for 1.7 million square feet in a build-to-suit facility that is expected to bring 500 new jobs to DeKalb. Access to major transit routes and intermodal facilities make the West and South-west suburbs prime targets for companies seeking logistics space.

Speculative projects could create challenges in some areas. Net absorption of more than 15 million square feet in each of the past seven years has kept developers active. More than 123 million square feet was completed during that period and as of May, builders had nearly 20 million square feet of inventory underway with deliveries extending into 2022. The majority of space is composed of large distribution and warehouse facilities, roughly 40 percent being built on speculation. Properties finalizing without a tenant in tow could impact vacancy rates, especially in outlying counties including Lake, Will and DuPage where many speculative projects are under construction.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Industrial 2021 Outlook



**120,000
JOBS**

will be created

EMPLOYMENT:

The 48,700 positions created in the first quarter are helping to build the employment base back from last year's 8.5 percent reduction. This year, a 2.7 percent gain will only partially replace the 404,700 jobs lost in 2020.



**18,000,000
SQ. FT.**

will be completed

CONSTRUCTION:

Inventory climbs 1.5 percent during 2021, down slightly from the past two years when at least 20 million square feet was added. More than 5 million square feet of this year's total is being built without a lease signed.



**20 BASIS
POINT**

increase in vacancy

VACANCY:

Speculative inventory entering the market is expected to bump vacancy up to 6.5 percent during 2021. Despite elevated deliveries in recent years, the vacancy rate has held in the high-5 to mid-6 percent range since early 2015.



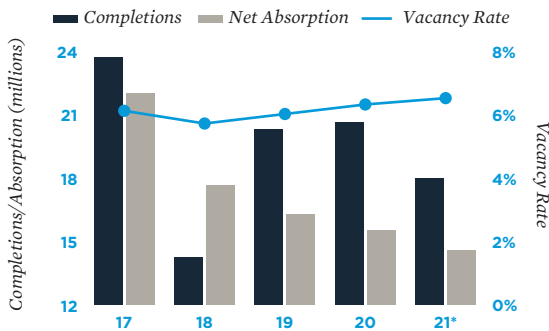
**6.2%
INCREASE**

in asking rent

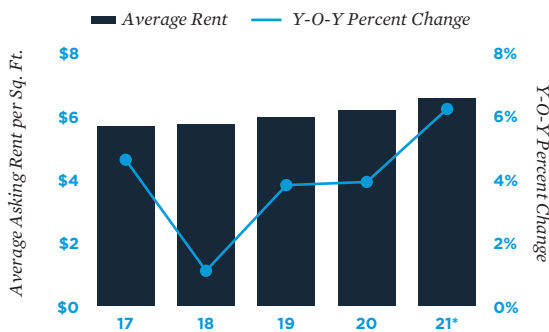
RENT:

New inventory being offered for lease will contribute to rent rising for the 10th consecutive year. The average asking rate will advance to a new high of \$6.55 per square foot, following a 3.9 percent jump last year.

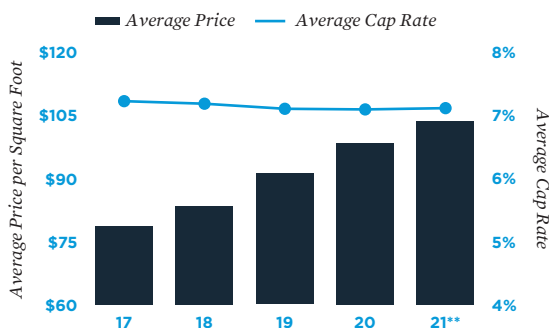
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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1Q21 – 12-Month Period



CONSTRUCTION

19,038,000 square feet completed

- Developers completed 4 million square feet in the first three months of 2021, raising the year-over-year sum to 19 million square feet. This is down from nearly 24 million square feet one year earlier.
- The SW-I-55 Corridor and Lake County submarkets received the bulk of the deliveries made since April 2020.



VACANCY

10 basis point decrease in vacancy Y-O-Y

- Net absorption surpassed deliveries, lowering vacancy to 6.2 percent in the first quarter, well below the prior period's 50-basis-point gain.
- Strong demand for space produced cuts of at least 220 basis points over the past four quarters in Kenosha County and the western portion of Cook County, lowering local vacancies below the metro rate.



RENT

4.5% increase in the average asking rent Y-O-Y

- New speculative inventory is assisting in boosting rents. During the past 12 months ending in March, the average asking rent jumped to \$6.30 per square foot, setting a new high.
- The average asking rent rose in all submarkets except Lake County. Here, a 270-basis-point surge in vacancy produced an 0.8 percent cut.

Investment Highlights

- Transaction activity picked up in the fourth quarter of 2020 after slowing due to the health crisis. Still, trading was down 25 percent year over year in the first quarter of 2021. Institutional investors remained active as evidenced by deal flow for assets \$20 million and above slipping just 10 percent.
- Although fewer properties changed hands, buyers focusing on quality buildings in desired locations contributed to the average price per square foot jumping 12 percent over the past 12 months that ended in March to \$103 per square foot. The mean cap rate has held in the low-to mid-7 percent span since 2014.
- The boost in e-commerce generated demand for warehouses near O'Hare Airport. These assets traded at an average of \$75 per square foot but some newer buildings garnered more than \$110 per square foot. Cap rates were typically in the 5 percent to 7 percent span.
- Investors seeking higher returns and price points lower than the metro average may find opportunities in Class B/C warehouses more than 30 years old in the collar counties.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics