

# Chicago



## Market Facts

**5.3%**

Chicago's unemployment rate continued to trend downward. Recorded at 5.3% as of February 2017.

**17 MSF**

The number of completed projects increased to 5.1 msf and projects currently under construction jumped 23% to 17 msf.

**0.9%**

The metro Chicago area added over 40,000 jobs year-over-year. Up 0.9%

**11,200 jobs**

The most active industry in the Chicagoland area during the first quarter of 2017 was the professional and business service.

## Economic Overview

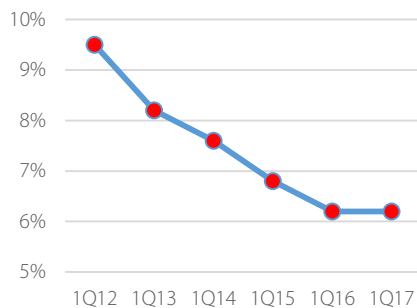
Chicago's diverse economy continued to improve throughout the first quarter of 2017. The metropolitan area added more than 40,000 jobs as of February 2017, up 0.9% year-over-year. The strong job market has pushed the unemployment rate down to 5.3% over the same period. The super sectors that recorded the highest year-over-year growth in employment were construction; financial services; and education and health services, up 4.7%, 3.8%, and 1.3% respectively. The manufacturing sector continued to see minimal growth. Site Selection Magazine has named the Chicagoland area 2016's top metropolitan area for corporate investment. Notable relocation announcements include German candy maker Haribo's intentions to build a 500,000-sf plant in the Southern Wisconsin submarket which is expected to generate 400 jobs, and China based CRRC is building a \$100 million,

400,000-sf manufacturing facility in South Chicago submarket.

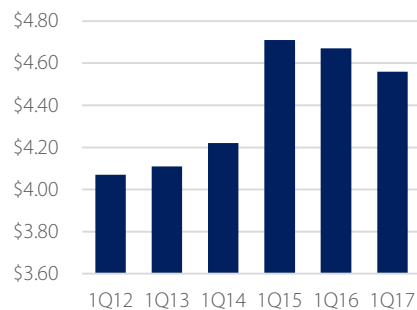
The Chicago housing market recorded an increase in sale prices. As of February 2017, there have been 5,891 home sales—down 5.2%. Median sale prices rose 12% over the same period to \$210,000. Rents across the city are expected to rise considerably with the proposed tax increase for the Chicago Public Schools. Looking forward, home sales in certain suburban areas are expected to pick up throughout 2016 as home prices in the city of Chicago keep rising.



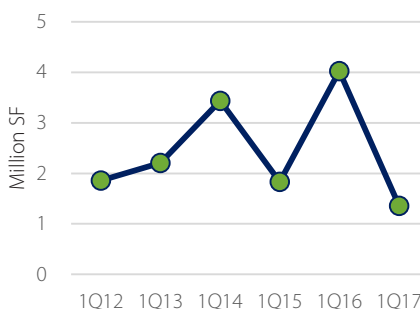
## Historical Vacancy Rates



## Average Asking Rental Rates



## Historical Net Absorption



## Industrial Market Overview

The Chicago industrial market started 2017 off with strong demand spurring construction activity across the market, while overall vacancy continued to shift downward. Rental rates in key submarkets remain competitive. Infill development continued to track investor/developer interest, especially within submarkets in urban areas inundated with older buildings and short on available land. This follows the trend of users preferring locations closer to workforce and transportation hubs. The Chicago market benefits from a highly-centralized location with a strong infrastructure in place which fits into most supply chain models. Coupled with explosive growth within the E-commerce industry, Chicago's industrial market is poised for further growth throughout the remainder of 2017.

## Vacancy & Availability

The vacancy rate dropped 30 basis points (bps) year-over-year and is currently posted at 6.2%. Most major submarkets have recorded declining vacancies as space continued to be absorbed throughout the first quarter of 2017. Submarkets with the largest year-over-year decreases were I-80 East Corridor, North Cook County, and South Chicago Industrial—down 200 bps to 4.6%, 150 bps to 4.5%, and 130 bps to 6.6% respectively. Demand within the Lake County submarket has picked up steam prompting several quarters of declining vacancy, which is currently recorded at 6.3%—down 110 bps year-over-year.

Submarkets which have recorded the largest influx of new construction have seen vacancy rates shift upwards due to speculative space which remains vacant. This is happening

most notably in both the I-55 and I-88 Corridor submarkets which saw vacancy rates rise 260 bps to 8.6% and 190 bps to 6.0%. With several large facilities becoming available for sublease within the O'Hare submarket, vacancy trended upward slightly to 6.0% during the first quarter. As newly delivered space is leased up, the overall vacancy rate should continue to decline.

## Absorption & Demand

Demand across the market remains strong with first quarter net absorption recorded at 1.3 msf, a sharp drop from this time last year due to an unusually large amount of sublease space becoming available. Submarkets witnessing the most activity include the I-90 West/Elgin Corridor, South Chicago Industrial, and the I-80 West Corridor, which recorded a combined 1 msf having been absorbed. As stated above, submarkets which have recorded large amounts of speculative construction have seen a dip in net absorption. Once this space is absorbed, net rates should shift upwards.

Notable first quarter lease transactions include CTDI leasing 501,000 sf at newly completed speculative building within the I-80 East Corridor's CenterPoint Intermodal Center. Restaurant equipment distributor, Parts Town, is relocating into 263,000 sf at 1200 Greenbriar Drive within the East DuPage submarket. SG360 leased a total of 456,000 sf during the first quarter with two transactions. One located within the North Cook submarket the other within the West Cook submarket. "Apollo" Flow Controls leased 226,000 sf in Molto Capital's speculative project within the I-55 Corridor. The building had been

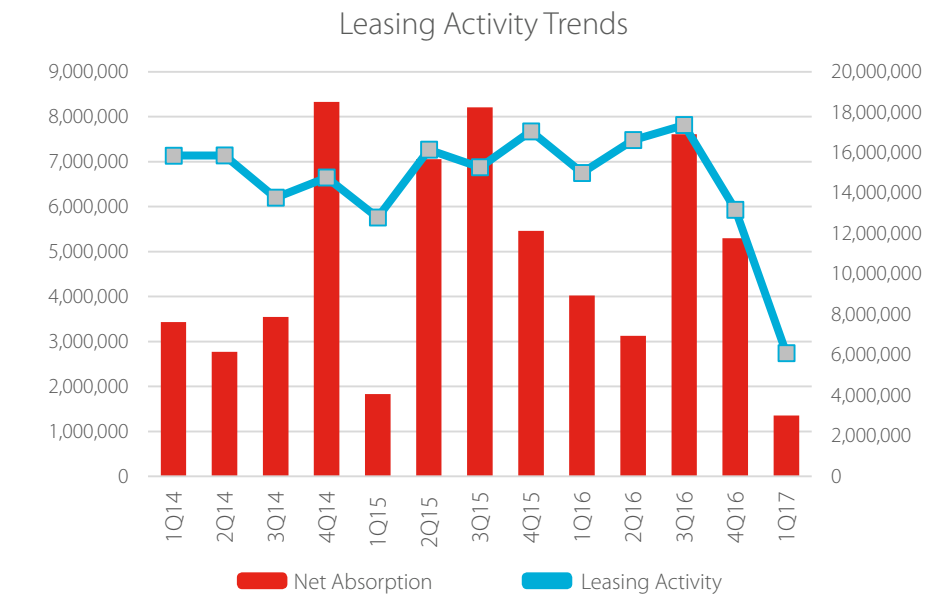
vacant since it was completed in early 2016. With a healthy deal pipeline, overall demand is expected to remain strong throughout the remainder of 2017.

## Rental Rates

Improving fundamentals across the market have caused average asking rental rates in key submarkets to trend upward over the past several years. The overall market average rate is currently posted at \$4.56 psf. The South Chicago Industrial, North Chicago Industrial, and the US-64 Corridor submarkets have witnessed the greatest year-over-year increase in rental rate growth due to strong leasing activity—up 57% to \$7.77 psf, 21% to \$9.17 psf, and 14% to \$5.49 psf respectively. These submarkets have seen a wealth of infill activity, driving rents within both existing product and newer developments.

## Investment

Industrial product continued to record high pricing as market fundamentals propel investor appetite. Transactional volume during the first quarter was recorded at \$360.5 million with an average psf price of \$50.00. Year-to-date, the largest two buyer types of industrial product were Private and Institutional investors, accounting for 48% and 41% respectively. Investors continue to focus on class B product due to potentially higher returns. Notable first quarter investment sale transactions included the sale of 165 W Lake St in Northlake, the 112,000-sf property was purchased by North American Terminal Management from



a private investor for \$19.4 million, or \$173 psf. GLP purchased 1502 N 25th Ave, Melrose Park, IL from Principal Global Investors; the 139,000-sf property traded for \$10.7 million or \$76 psf.

## Construction

The Chicago industrial market continued to witness tremendous growth in construction volume. There was 5.1 msf was delivered during the first quarter with an additional 17 msf under construction—up an impressive 23% from the first quarter of 2016. Much of this space is build-to-suit or has been preleased with just 45.6% being speculative. The higher amount of preleased space can be attributed to the six build-to-suit projects over 200,000 sf and four over 1 msf currently underway. Both the I-88 East and I-55 corridor submarkets continued to record the highest amount construction activity. The development pipeline is expected to remain strong throughout the remainder of 2017, particularly the development of infill projects located in submarkets close to the CBD, notably the O'Hare and Southern Chicago submarkets.

The most notable projects currently under construction include the 1.5-msf build-to-suit for an unnamed user. The project is located at 30131 Ridgeway Boulevard within I-80 East Corridor's Wilmington and being developed by Ridge Development. The largest speculative development currently underway is the 1.2-msf Core5 Logistics Center also within the I-80 East Corridor. Construction continues on Amazon's two new distribution facilities which total 1.8 msf within the I-55 and I-80 East Corridor submarkets.

Recent new deliveries include the 1.3-msf Mars/Wrigley build-to-suit which was developed by CenterPoint Properties and located within the I-80 East Corridor. IDI Gazeley's, 23700 West Bluff Road speculative project was completed, adding 749,000 sf to the I-80 East Corridor. This is a prime example of speculative infill development within the O'Hare submarket. 3400 Wolf Road in Franklin Park was completed with Panattoni Development Company buying the original building in 2015 and demolishing it, erecting a 491,000-sf class A distribution facility.

## Top Lease

| Tenant                 | Address                   | Submarket          | Size (SF) | Type |
|------------------------|---------------------------|--------------------|-----------|------|
| CTDI                   | 3900 Brandon Road         | I-80 East Corridor | 501,313   | New  |
| Parts Town             | 1200 Greenbriar Drive     | East Dupage        | 263,490   | New  |
| SG360                  | 1351 South Wheeling Road  | North Cook         | 244,300   | New  |
| *Apollo* Flow Controls | 1881 West Normantown Road | I-55 Corridor      | 226,102   | New  |
| SG360                  | 1900 South 25th Avenue    | West Cook          | 212,000   | New  |

## Top Sales

| Address                                | Size (SF) | Buyer  | Seller                         | Sales Price                    |
|--|-----------|--|--------------------------------|--------------------------------|
| 165 W Lake Street<br>Northlake, IL     | 112,233   | North American Terminals<br>Management, Inc. | Tomasz Rzedian                 | \$19,450,000<br>(\$173.30 PSF) |
| 1502 N 25th Avenue<br>Melrose Park, IL | 139,331   | GLP US Management LLC                        | Principal Global Investors LLC | \$10,700,000<br>(\$60.90 PSF)  |
| 3500 Oakton Street<br>Skokie, IL       | 179,201   | ROC Inc.                                     | Special Assets, Inc.           | \$6,600,000<br>(\$76.80 PSF)   |
| 6200 West Howard Street<br>Niles, IL   | 176,949   | LSL Healthcare, Inc.                         | The M&R Companies              | \$6,401,414<br>(\$47.75 PSF)   |

## Under Construction

| Address/Name              | Developer                           | Submarket          | Size (SF) | Type          |
|---------------------------|-------------------------------------|--------------------|-----------|---------------|
| 30131 Ridgeway Boulevard  | Ridge Development                   | I-80 East Corridor | 1,508,425 | Build-to-suit |
| 1 Duke Parkway            | Duke Realty Corporation             | I-88 Corridor      | 954,720   | Build-to-suit |
| 30260 Graaskamp Boulevard | Ridge Development                   | I-80 East Corridor | 810,000   | Speculative   |
| 999 Remington Boulevard   | Northern Builders, Inc.             | I-55 Corridor      | 615,000   | Build-to-suit |
| 8418 38th Street          | First Industrial Realty Trust, Inc. | Southern Wisconsin | 602,348   | Speculative   |

## Recently Completed

| Address                | Developer                     | Submarket                | Size (SF) | Type          |
|------------------------|-------------------------------|--------------------------|-----------|---------------|
| 4005 Cedar Creek Drive | CenterPoint Properties        | I-80 East Corridor       | 1,388,000 | Build-to-suit |
| 3900 Brandon Road      | CenterPoint Properties        | I-80 East Corridor       | 751,769   | Speculative   |
| 23700 West Bluff Road  | IDI Gazeley                   | I-80 East Corridor       | 749,554   | Speculative   |
| 3400 Wolf Road         | Panattoni Development Company | O'Hare                   | 491,089   | Speculative   |
| 2801 Alft Lane         | Lee & Associates              | I-90 West/Elgin Corridor | 308,553   | Speculative   |

## Market By The Numbers

| Submarket                | Inventory (sf) | Vacancy (sf) | Vacancy (%) | Net Absorption | Under Construction | Avg Asking Rent |
|--------------------------|----------------|--------------|-------------|----------------|--------------------|-----------------|
| North Cook               | 41,511,833     | 1,880,166    | 4.5%        | -69,528        | 0                  | \$6.74          |
| O'Hare                   | 114,099,967    | 6,809,781    | 6.0%        | 6,911          | 248,807            | \$5.76          |
| I-90 East Corridor       | 20,526,575     | 1,794,526    | 8.7%        | 29,468         | 50,000             | \$5.56          |
| I-90 West/Elgin Corridor | 31,513,994     | 3,086,821    | 9.8%        | 610,302        | 482,249            | \$4.79          |
| Lake County              | 65,514,028     | 4,124,623    | 6.3%        | 73,762         | 442,758            | \$5.64          |
| McHenry County           | 22,820,376     | 1,594,909    | 7.0%        | 174,085        | 0                  | \$3.53          |
| West Cook                | 68,880,691     | 5,510,293    | 8.0%        | 80,400         | 72,825             | \$4.21          |
| East DuPage              | 33,139,685     | 1,159,464    | 3.5%        | 123,274        | 185,850            | \$5.56          |
| US-64 Corridor           | 67,504,138     | 4,005,235    | 5.9%        | -69,145        | 1,108,126          | \$5.49          |
| I-88 Corridor            | 54,840,672     | 3,277,269    | 6.0%        | -261,224       | 954,720            | \$4.58          |
| South Cook               | 76,429,745     | 3,976,864    | 5.2%        | -322,149       | 0                  | \$4.02          |
| I-55 Corridor            | 90,058,926     | 7,774,732    | 8.6%        | -346,809       | 3,137,129          | \$4.74          |
| I-80 East Corridor       | 69,271,389     | 3,168,711    | 4.6%        | 131,670        | 6,850,870          | \$3.79          |
| I-80 West Corridor       | 11,323,323     | 846,612      | 7.5%        | 211,139        | 255,996            | \$4.04          |
| I-57 Corridor            | 14,686,795     | 519,899      | 3.5%        | 103,528        | 1,000,560          | \$6.08          |
| I-39 Corridor            | 48,130,951     | 3,312,886    | 6.9%        | 153,829        | 336,000            | \$3.06          |
| South Chicago Industrial | 102,988,292    | 6,811,670    | 6.6%        | 218,980        | 529,043            | \$7.77          |
| North Chicago Industrial | 57,149,091     | 4,555,971    | 8.0%        | -98,219        | 40,700             | \$9.17          |
| Southern Wisconsin       | 28,737,186     | 860,948      | 3.0%        | 45,000         | 1,682,848          | \$4.12          |
| Overall Market           | 1,082,680,914  | 66,727,253   | 6.2%        | 1,341,648      | 17,099,407         | \$4.56          |

## Trends to Watch

**Infill Development:** Should continue to track developer/investor demand in submarkets with high demand and a scarcity of modern buildings.

**Rental Rates:** Average asking rental rates are expected to continue to rise in select submarkets where demand remains high.

**Active Markets:** South Chicago Industrial, O'Hare, and the I-90 West Corridor



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