



Q1 2022 CHICAGO INDUSTRIAL REPORT

A Quarterly Newsletter by Brown Commercial Group

Chicago Market Still Heated: Robust Demand, Limited Supply

Chicago's industrial market continues to see surging demand for space and strong construction deliveries, along with some supply chain and economic headwinds. This environment is leaving many tenants and investors scrambling to find space. Here's a look at Q1 2022 activity, with insights on how to navigate current conditions.

O'Hare Overview

The O'Hare submarket continues to dominate Chicago's industrial market due to its proximity to O'Hare International Airport, which is a major international cargo and freight transportation hub. Logistics, warehouse and e-commerce tenants of all sizes are focused on the airport location and its connection to major transportation routes throughout the region.

Net absorption reached 4.3 msf over the past 12 months, ending with Q1 2022. While construction deliveries jumped to about 1.5 msf in 2020, they have tapered off since then to about 621,000 in 2021, not nearly enough to meet demand. The vacancy rate is at a super low 2.9%, significantly below average for the Chicago area.

These market dynamics have pushed up average rental rates by 8.1% to around \$9.30, about 20% higher than the \$7.70 average for the overall Chicago market. Over the past 10 years, rents have risen by 50.2%. Rents are expected to increase to \$10.92 by 2026, according to CoStar data.

	Vacancy	12 Mo. Net Absorption	12 Mo. Rent Growth
O'Hare	2.9%	4.3 M	8.1%
North DuPage	3.4%	1.1 M	8.0%
Central Kane/DuPage	3.6%	2.3 M	7.5%
North Cook	4.1%	685 K	8.2%
South Lake Co.	7.0%	1.1 M	8.4%



As a coveted submarket, O'Hare has seen significant demand in recent years, coupled with a constrained supply. There is no end in sight for this demand and we expect to see strong rent growth for the foreseeable future.

Dan Brown, President,
Brown Commercial Group





Industrial Construction Can't Keep Pace

The **O'Hare submarket** has recorded nearly 2.7 msf of new construction deliveries over the past eight quarters, as developers have tried to keep pace with tenant and investor demand. Most of that space, however, was completed in mid-2020.

Tenants looking for modern warehouse and logistics space will have additional options over the next few years, but the demand is expected to continue outpacing supply in the near term. There is 1.57 msf of space proposed for the next eight quarters, with three buildings totaling 832,600 sf under construction and slated for delivery by the third quarter of 2022. Those buildings range from 135,000 sf to 400,000 sf. The proposed buildings range from 50,875 sf to 362,900 sf.

As an infill location, O'Hare has some of the most diverse sizes of buildings under development of any of Chicago's submarkets. The submarket's nine proposed new buildings range from 50,875 sf to 362,900 sf and are spread through Elk Grove Village, Wood Dale and Bensenville. Completion dates are projected for Q2 through Q4 2023.

The **Central Kane/DuPage County submarket** has also seen notable construction activity, with 1.72 msf of construction completed over the past eight quarters, ending with Q1 2022 and another 2.62 million square feet in the pipeline. Approximately 2 million square feet is slated for delivery during 2022, which should help the market reach more moderate levels of vacancy and rent growth.

	Deliveries Past 8 Quarters	Deliveries 12 Mos.	Under Construction
O'Hare	2.7 MSF	490K SF	833K SF
Central Kane/DuPage	1.73 MSF	724K SF	2.62 MSF
South Lake Co.	956K SF	831K SF	536K SF
North DuPage	880K SF	316K SF	293K SF
North Cook	691K SF	430K SF	172K SF

The **South Lake County** submarket has nearly 540,000 square feet of new construction underway across three buildings, a continuation of new development that has expanded the supply by 1.4 million square feet over the past three years.

There is an additional 1.6 msf of space proposed over the next eight quarters. Those buildings range from 80,000 square feet to 355,643 square feet.



As an infill location, O'Hare has some of the most diverse sizes of buildings under construction of any of Chicago's submarkets. This offers tremendous flexibility for tenants as they weight their space utilization needs.

*Dan Brown, President,
Brown Commercial Group*



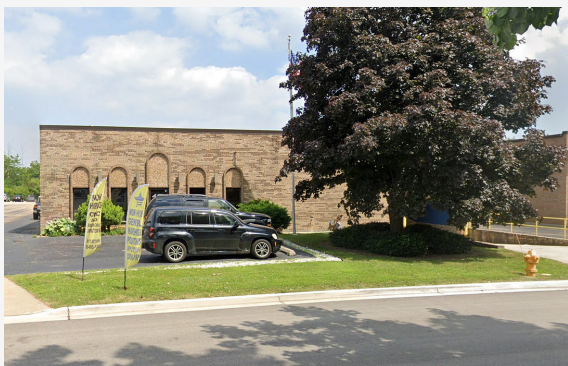


North DuPage and North Cook Overview: Rent Growth Tops 8%

The **North DuPage County submarket** is one of Chicago's most active submarkets, recording 1.1 million square feet of absorption over the past 12 months and closing out the first quarter with a 3.4% vacancy rate. The 42.4 million-square-foot submarket is attracting record activity, particularly from logistics users.

Over the past year, the leases closed in the most active buildings, as tracked by CoStar, ranged from under 5,000 square feet to about 160,000 square feet, with many in the 40,000 to 65,000-square-foot range.

Average rents in the submarket have increased by 8% over the last year, reaching about \$7.90 per square foot, up from 7.3% in 2021 and the more typical 3% to 4.3% range seen from 2012 to 2020. There was 830,000 square feet of new space added to the inventory over the past three years: another 290,000 square feet is in the pipeline. Industrial sales volume in this submarket reached \$256 million over the past 12 months, exceeding the five-year average of \$167 million.



1395 Jeffrey Rd., Addison, IL

The **North Cook County submarket** has a 4.1% vacancy rate and recorded 680,000 square feet of net absorption over the past year. This activity is substantially above the five-year average.

Rents grew by 8.2% over the past 12 months, easily exceeding the 3.9% average annual change over the past decade. Industrial rents in North Cook average \$10.40 per square foot, considerably above the metro average.

The submarket's most prominent industrial subtype commands a premium, with pricing for logistics space averaging about \$10.00 per square foot compared to \$7.70 in the overall market. In the past 10 years, rents have risen cumulatively by 48.6%, an increase that is in keeping with the entire Chicago area.

The 170,000 square feet currently underway in North Cook is only a fractional increase to the inventory. This represents a turnabout from the overall trend as inventory contracted over the past 10 years when demolition activity outpaced new construction.

Industrial properties have been trading with regularity, averaging \$191 million per year over the past five years -- and reaching \$349 million in the past 12 months.



Tips for Negotiating in Today's Market

By *Partner Mike Antonelli*

Today's robust industrial market has left some tenants and investors looking for creative ways to cut through the competition and secure the space they need. Some might consider approaching landlords directly in hopes of finding a better deal, for example.

While that approach sounds tempting, it can be fraught with pitfalls. In today's competitive market, and with outside forces changing market dynamics quickly, it is more important than ever to work with professional representation. Here are just a few reasons:

- **Market knowledge.** Brokers who work in the market every day build deep knowledge of the product, ownership, and local conditions regarding taxes, economic growth, transportation infrastructure and more. They are a valuable and objective resource to help clients navigate complex transactions and secure favorable terms.
- **Advance knowledge of inventory shifts.** Experienced brokers track historical market activity and are aware of upcoming vacancies, new construction starts and other factors that impact space usage. This can lead to an early entry into a new space or getting the first look at an off-market deal.
- **Expert Negotiation.** Good brokers work as advisors to their clients, using their market intel and relationships with landlords and investors to structure offers that fit client needs. They are able to spot hidden fees or onerous lease terms and work around those obstacles. These skills combined with an in-depth understanding of what drives a business ensure a client-friendly transaction.

Evaluating Unsolicited Offers

The robust industrial market is prompting users and investors to approach property owners with unsolicited offers that may look good on paper-- but do not provide enough value for the seller. Before accepting that offer, turn to Brown Commercial Group for guidance.

A seller recently engaged Partner Mike Antonelli to complete a market evaluation after receiving what seemed like a favorable offer for an industrial building in DuPage County. Antonelli completed a detailed market analysis and determined that the offer did not account for the full market value of the property, which included outdoor storage, a coveted feature in today's market. He then identified another buyer who subsequently purchased for 20% more than the first offer.

Mike Antonelli joined Brown Commercial Group in 2010 and was promoted to Partner in 2018. He primarily assists clients throughout DuPage, Cook and Will counties and has completed more than 500 transactions totaling over \$150 million in value.

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Relationships are the key to successful negotiations. Brokers build strong relationships with each transaction and those relationships can translate to better opportunities for clients.

*Mike Antonelli, Principal
Brown Commercial Group*

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Spotlight on Elk Grove Village

By *Brokers Candace Scurto and Mason Hezner*

With its proximity to O'Hare International Airport, the City of Chicago, and major transportation routes, Elk Grove Village remains a highly sought-after location for many industrial businesses. The village is home to 3,600 businesses, with many located in its five-acre business park, the largest in the country. Nearly 600 businesses in the village are active in the manufacturing and transportation sectors.

The industrial market has shifted notably over the last two years to become a seller's market. This has created significant value for landlords and investors -- and challenges for tenants and buyers looking for space. At Q1 2022, the vacancy rate in the village was a super low 2.3%.

A Look at Solutions

The solution for many businesses is working with professionals who understand market dynamics and have a solid track record. Brown Commercial Group is based in Elk Grove Village and has many long-term relationships with landlords/owners and tenants/users. We can identify opportunities before they come to market and provide clients with speed-to-market space options.

From an acquisition or investment perspective, we advise clients that it is most effective to have a comprehensive acquisition plan in place, including offer strategy, timing expectations for identifying acquisitions, pricing thresholds, and any financing pre-approvals.

Pre-approvals, which weren't as necessary previously, allow buyers to move quickly as new properties become available and strengthen their offer. In today's market, however, cash offers are preferred, as it allows sellers to move quickly and avoid delays with appraisals or other contingencies. And, before committing to a building sale, consider the cost of what you'll buy on the other end.

Mason joined in Brown Commercial Group in 2012 and has completed about 400 transactions including 85 sales; Candace joined as a broker in 2018 and has completed approximately 160 transactions.



119 Bond St., Elk Grove Village, IL



Recent Notable Transactions



1550-1558 Todd Farm Rd., Elgin
26,346 SF Multi-tenant Industrial Bldg

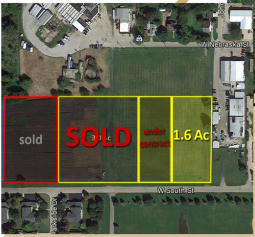


61 Polaris Dr., Lake in the Hills
8,000 SF Multi-tenant Neighborhood Center

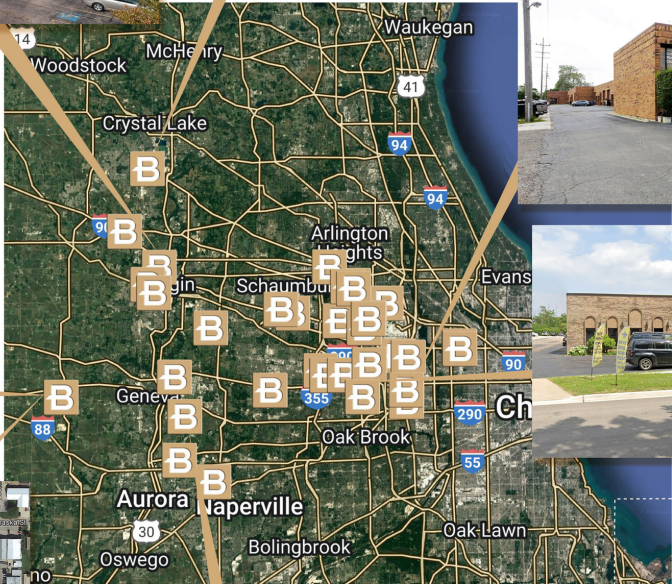
500 Mannheim, Hillside
26,401 SF Multi-tenant Industrial Blvd



700 South St., Elburn
6 Acre Industrial Site



400 South St., Elburn
3 Acre Industrial Site



1395 Jeffrey Dr., Addison
17,735 SF Industrial Bldg

1306-1330 Pierson Dr., Batavia
18,238 SF Multi-tenant Industrial Bldg

