

### 2023 Outlook: Strong Demand, Low Vacancy Despite Persistent Headwinds

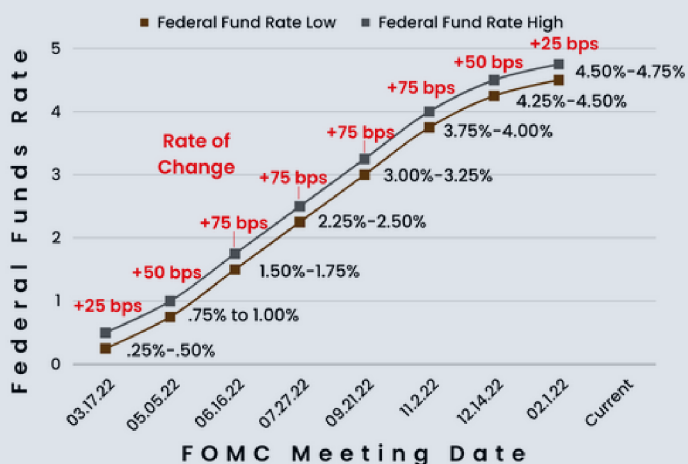
Despite a challenging economic climate, Chicago's industrial market continues to show resilience, with strong tenant demand and low vacancy rates characterizing the market. Landlords remain in the driver's seat as tenants search the market for space, particularly in the 100K SF and under category. Tenants are advised to start early, have financing in place and be ready to move forward quickly as space becomes available.



Left to Right: Mike Antonelli, SIOR/Partner; Daniel Brown, Managing Broker; Trinity Scurto, SIOR/Partner

### Top Trends

#### Rising Interest Rates Create Headwinds for CRE



#### Limited supply/strong demand

A lack of supply across the Chicago market is still impacting space decisions. Tenants should be prepared with financing in hand and be ready to commit quickly.

#### Rental rates rising

Rates continue to climb in the near term due to the lack of supply and other factors.

#### New construction catching up

Construction starts have been slow due to material shortages and higher costs, but are starting to catch up.

#### Investment sales slow

Sales have slowed due to rising capital costs and a lack of inventory. There is plenty of capital waiting to invest in industrial when the economic climate moderates.

#### Cash is king

Some buyers are using cash to work around the tighter lending environment.

## What's Top of Mind For Clients Today?

By Mike Antonelli, SIOR, Partner

- **Concerns About a Recession.** There is a lot of talk about a recession but, from the industrial standpoint, there may be a little bit of a softening in the market later this year, but I don't think it will be that bad. So far demand is still there. We are seeing a negative impact in the capital markets due to rising capital costs.
- **Construction flow** -- too much? not enough? Demand has ticked back a little. There is a lot of construction coming online but even if construction stopped and our vacancy increased by a couple points, we'd still be in a good shape.
- **Lack of inventory.** There are still companies that want to buy, but capital costs are much higher than a year ago and supply is limited. We're advising some clients and look at a 3 to 5-year lease instead to get them through until more product is available and they feel more comfortable with where the economy is.

## What's Ahead For Supply-Demand

By Trinity Scurto, SIOR, Partner

Strong demand and limited supply have been a common theme for several years. How long can this last? That's the question I'm asked the most for businesses looking to secure space.

Here are some key market insights:

- We are still seeing strong activity, with many clients looking for inventory.
- Bidding wars are still here, but the number of bidders has dropped.
- Interest rates are not scaring people away. There is still a lot of institutional money and many people are paying cash.
- Once there is more product available, more deals will flow.

## Rents Keep Rising

Long-term industrial rent growth in both the North DuPage submarket and the Chicago metro at large have been sensational, notes CoStar. In the past 10 years, rents in the North DuPage submarket have cumulatively risen by 61.5%, a performance essentially matched for the broader market.

Rent growth over the past 12 months reached 8.9% in Central Kane/DuPage, 8.8% in O'Hare, 8.6% in North Kane/I-90, 8.4% in the Western Suburbs, 8.3% in South Lake County, and 8.1% in North Cook.

## Transaction Highlight

Brown Commercial Group Broker Collin Tyrrell overcame several challenges in helping his client sell a 25,600-SF building in Lake County, including negotiating the lease on an office space to help the business during the transition and adding a termination clause to protect the client if any issues arose before the sale closed.

### Property Details

- Location: 2910 Falling Waters Blvd, Lindenhurst, IL
- Client represented: Falling Waters Development LLC.
- Sales price: \$1.85 M

### Market Overview

South Lake County has historically seen large institutional and private equity sales, but small owners/users are currently making up the bulk of the buying pool, given their focus on securing space for their long-term needs.



Collin Tyrrell, Broker

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Brown Commercial offers many benefits for brokers looking to expand their presence in the Chicago market. There is a tremendous sense of comradery among the brokerage teams and the many opportunities to learn from proven professionals. The strong community and access to mentors like Dan Brown is unparalleled in our industry.

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# Submarket Overview

## Developers Try to Keep up, Despite Rising Costs, Economic Uncertainty

The O'Hare submarket remains one of the top locations for industrial space in the Chicago market. At the close of 2022, the submarket had 690,000 square feet of absorption for the year and a low vacancy rate of 3.1%, according to CoStar. Demand continues to exceed supply, making it a challenge for tenants. Construction picked up during 2022 after lackluster supply growth over the previous two years.

- Approximately 1.3 million SF is currently under construction.
- Rents are increasing at a brisk 8.8% rate.
- Vacancy is expected to remain at low levels for 2023, near the 3.1% recorded at Q4 2022.

During 2022, there was 1.5 msf of absorption in the North Kane/I-90 submarket, 1.4 msf in the South Lake County submarket, 852K in the Western Suburbs, and 477K in the North Cook submarket. Market fundamentals remain strong, despite rising interest rates and the uncertainty

Industrial development has been on a strong streak for many years, but new starts tapered in the latter part of 2022 as interest rates rose. A look at key submarkets shows:

### Central Kane/DuPage

This development surge continues in this submarket, which has seen 5.2 msf of new inventory over the past three years, an 8.6% increase in total inventory. There is another 1.5 msf under construction and slated for delivery in 2023. Much of the new space was built on spec and about 40% of it is preleased. Despite all the new inventory, the submarket has a 3.0 % vacancy rate.

### North Kane/I-90

There is 4.2 msf underway in this submarket, almost triple the 10-year average. The current pipeline is 9.5% of the submarket's overall inventory. More than half of the square footage under construction is being developed on speculation without any preleasing announced. There was about 1.5 msf delivered over the past 12 months and another 3 msf is set to deliver by the end of 2023.

### North DuPage

The 50,000 SF currently underway is the lowest construction count in more than three years. This represents a continuation of new development in the submarket, which had already seen 1.1 MSF deliver over the past three years.

