

CHICAGO INDUSTRIAL

Economic Indicators

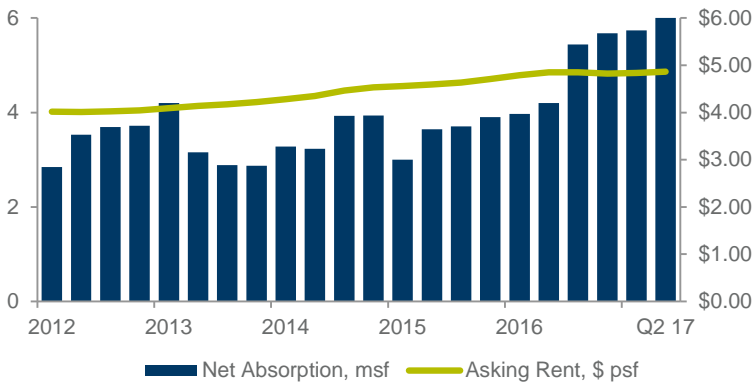
	Q2 16	Q2 17	12-Month Forecast
Chicago Employment	4.6 M	4.7 M	▲
Chicago Unemployment	5.9%	4.4%	▼
U.S. Unemployment	4.9%	4.4%	■

Market Indicators

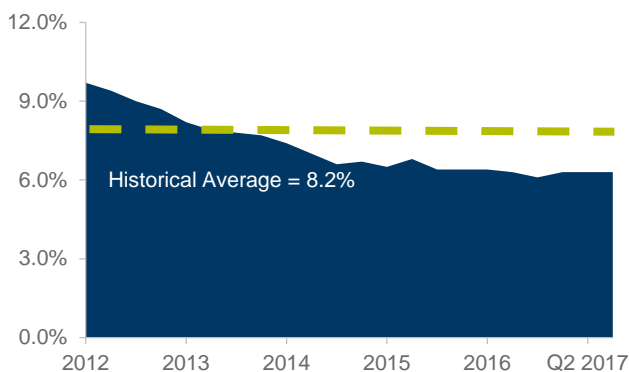
	Q2 16	Q2 17	12-Month Forecast
Overall Vacancy	6.3%	6.3%	▲
Overall Net Absorption (sf YTD)	8.1 M	9.8 M	■
Under Construction	16.7 M	18.4 M	▲
Overall Average Asking Rent (psf)	\$4.88	\$4.98	■

Overall Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Federal Reserve Bank of Chicago reported a sharp increase in economic growth in the Midwest region from January through mid-March. Chicago continues to be a hub for manufacturing, ranking second nationally for overall manufacturing employment and first in a number of different manufacturing industries for GRP including food, metal, electrical, paper, and plastic. The MNI Chicago Business Barometer averaged 60.1 in the second quarter, the highest level in two years.

Market Overview

New leasing activity for the Chicago industrial market totaled just under 9.2 million square feet (msf) in the first half of 2017, 53.7% below the mid-year 2016 total. New leasing demand was strongest in the Interstate 55 Corridor submarket, beating out I-80 for the first time since Q2 2016, with over 1.7 msf of leasing activity. The two largest transactions of the quarter were both lease renewals, with Kimberley-Clark and Clearwater Paper renewing 716,000 sf in Interstate 55 Corridor and 625,000 square feet (sf) in Interstate 80 Corridor, respectively. Year-to-date, the four largest lease transactions have been renewals, totaling just under 2.7 msf.

The second quarter of 2017 saw an upswing in sales activity after the wait-and-see market approach seen in the first quarter. Investment transactions totaled 8.9 msf year-to-date, 47.6% below the 17.0 msf traded in the first half of 2016. Despite this decrease, investment sales picked up 90.3% from the first to second quarter of 2017 totaling just under \$261.5 million traded.

Despite slower leasing and sales activity year-over-year, new construction continues to demonstrate investor confidence in the market. Over 18.4 msf were under construction at the end of June with 56.0% being built on a speculative basis. Year-to-date completions totaled just under 8.7 msf with build-to-suit and speculative construction accounting for 3.9 msf and 4.8 msf, respectively. 2016's high tenant demand was encouraging to developers, but vacancy is anticipated to rise as new product hits the market at a faster rate than demand increases. Tenant flow into the Chicago market will remain steady, but average deal size has declined year-over-year, requiring higher deal volume to combat smaller deal size.

Outlook

The remaining two quarters of 2017 should see tenant activity pick up, but the question remains if the leasing pipeline will be enough to fill the 9.1 msf of speculative construction set to hit the market by year end. Investors are optimistic as speculative proposals continue to push forward throughout the market.

Submarkets such as the O'Hare should maintain lower vacancies with minimal speculative construction and limited no available land to grow inventory. At the same time, the City of Chicago will likely see a spike in construction and leasing activity to appease the demand for industrial inventory for last mile delivery.

MARKETBEAT

Chicago

Industrial Q2 2017



SUBMARKET	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTRUCTION COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (W/D)
Chicago North	104,271,595	50,439	216,872	3.7%	(70,017)	117,200	0	\$5.97	\$17.50	\$5.86
Chicago South	134,448,670	478,103	319,698	4.1%	168,827	682,994	393,413	\$4.76	\$9.23	\$5.35
Western Cook County	106,025,555	1,118,652	262,692	9.6%	133,022	262,825	84,700	\$3.93	N/A	\$4.92
South Suburbs	89,116,967	498,578	29,920	5.4%	558,122	0	0	\$3.31	\$7.00	\$3.46
Northern Cook County	54,122,113	172,799	109,969	5.8%	(61,299)	417,961	135,650	\$6.37	\$10.50	\$6.31
Northwest Cook County	34,792,827	79,499	304,800	6.5%	(65,992)	50,000	0	\$7.42	\$9.11	\$5.33
Northern Fox Valley	35,906,479	346,941	108,100	9.6%	449,953	0	0	\$6.11	\$10.81	\$4.81
Northeast DuPage	31,395,491	432,759	13,680	5.1%	37,413	0	0	\$5.38	\$10.10	\$5.91
Southern DuPage	15,439,518	89,523	41,050	6.0%	(103,076)	0	185,600	\$5.49	\$10.86	\$6.61
Central DuPage	45,554,936	342,333	300,608	7.3%	142,814	803,003	167,650	\$5.37	\$6.72	\$4.77
Southern Fox Valley	87,458,590	453,373	24,483	6.3%	1,177,847	1,092,293	0	\$3.96	\$19.32	\$4.58
Lake County	81,857,037	467,119	32,436	5.1%	732,869	442,758	0	\$4.72	\$11.57	\$5.37
McHenry County	22,609,923	62,184	0	12.7%	(55,819)	0	0	\$3.58	N/A	\$5.17
Western Kane County	7,365,039	0	0	5.0%	(295,620)	0	0	\$5.38	N/A	\$4.25
Interstate 55 Corridor	85,565,039	1,798,718	46,289	9.7%	2,166,715	3,288,690	1,193,246	\$5.44	\$8.87	\$4.58
Interstate 80 Corridor	83,197,909	1,565,011	0	6.4%	3,876,643	9,649,975	2,501,883	\$2.91	\$6.50	\$3.83
Interstate 39 Corridor	17,685,571	24,800	0	5.5%	24,800	0	0	\$2.79	N/A	\$3.10
Southeast Wisconsin	43,355,586	534,147	0	6.8%	519,507	1,417,384	602,348	\$3.79	\$6.22	\$4.09
O'Hare	100,820,392	670,519	403,231	5.0%	492,560	203,731	0	\$4.60	\$7.34	\$5.30
CHICAGO TOTALS	1,180,989,237	9,185,497	2,213,828	6.3%	9,829,269	18,428,814	8,723,232	\$4.64	\$10.67	\$4.76

Rental rates reflect asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET
1401-1465 W Normantown Road, Romeoville*	716,000	Kimberly-Clark	Warehouse/Distribution	Interstate 55 Corridor
21561 W Drummond Road, Elwood*	625,000	Clearwater Paper	Warehouse/Distribution	Interstate 80 Corridor
16284 Enterprise Boulevard, Crest Hill	438,000	E-commerce Tenant	Warehouse/Distribution	Interstate 55 Corridor

*Renewal – not included in leasing activity statistics

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PROPERTY TYPE	PRICE / PSF	SUBMARKET
Portfolio Sale, 17 Buildings, Illinois	1,397,000	High Street Realty/ Blackstone	Multiple	\$117,115,383/ \$84	Multiple
Portfolio Sale, 8 Buildings, Illinois	1,187,000	Colony Realty Partners/ Torchlight Investors	Multiple	\$31,400,000/ \$26	Multiple
Portfolio Sale, 3 Buildings, Illinois	685,000	Bridge Development Partners/ Investcorp International	Warehouse/Distribution	\$72,589,000 / \$110	Multiple

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