

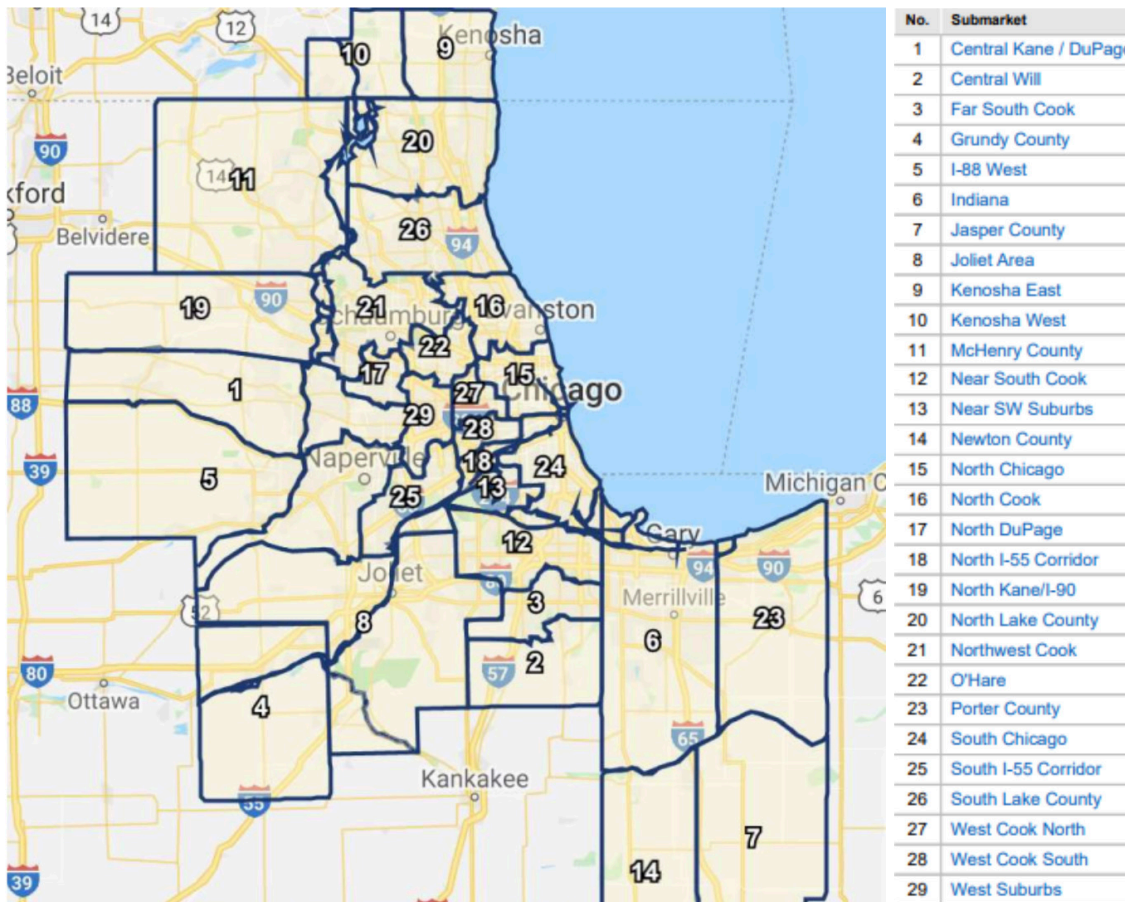
2020 Q2 INDUSTRIAL MARKET REPORT

Chicago, IL

OVERVIEW

THE CHICAGO MARKET consists of nine counties in northeastern Illinois, anchored by the city of Chicago. The city of Chicago is the most populous city in the Midwestern United States and the third most populous city in the country. The city of Chicago is the county seat of Cook County, the second most populous county in the United States. The city of Chicago has an estimated population of 2.7 million and the Chicago MSA has a population of nearly 10 million. The Chicago market consists of the following counties: McHenry, Lake, DeKalb, Kane, DuPage, Cook, Kendall, Grundy, and Will.

Chicago has a diverse economy which benefited from the long national economic growth cycle as well as its position as a national distribution hub. Trade & Transportation, Professional & Business Services, and



Health services all employ over 750,000 Chicagoans. Unemployment was at a 50-year low at 3.6% at the start of 2020. While Chicago created thousands of jobs over the past decade, the coronavirus pandemic has brought an end to what was a record-long employment growth streak. As of April 24 2020, there have already been 800,000 new unemployment claims in the state of Illinois. Retail, leisure, and hospitality sectors have been damaged the most by this ongoing pandemic and hotel occupancy rates have plunged by 90%. McCormick Place, the nation's largest convention center by square footage, has seen numerous cancellations and was being used as a temporary hospital for Coronavirus patients.

Employment growth is expected to fall sharply as Chicago is expected to lose over 750,000 jobs in Q2 2020. This is more than twice the 325,000 jobs that Chicago lost during the 2008 recession. According to Oxford Economics, Chicago is not expected to recover lost jobs until the end of 2023. Overall population was steadily growing before the coronavirus pandemic, due primarily to millennial demand. Some neighborhoods in the city, such as Fulton Market, have seen such growth that over 70% of the total population within the zip code consists of millennials with a bachelor's degree. The portion of the MSA with a declining population overwhelmingly comes from Chicago's Far West and South sides which are dealing with poverty, crime, and lack of economic opportunity.

MARKET REVIEW

Chicago is the nation's largest industrial market by square footage with 1.3 billion square feet of inventory; 860 million of which is warehouse/distribution space. There had been an unprecedented wave of demand in 2019 with absorption of over 17 million square feet. This level of absorption ranks third in the US, behind only the Inland Empire and Dallas. Nearly 14.5 million square feet of this absorption was applicable to warehouse/distribution properties. This strong pace of demand is expected to significantly slow in 2020. There have been some large leases already signed within the last 12 months; this includes Amazon's 1.1 million square foot site and Target's 1.2 million square foot distribution center. Warehouse/distribution vacancy is currently at 6.9%. Vacancy has stayed around this figure since 2016.

Average NNN rent for warehouse/distribution space is in the \$7.00 to \$8.00 range. This number is above \$8.00 in more expensive areas such as O'Hare where average rents are \$8.32 per square foot. Rent growth increased 4.4% over the last 12 months. However, industrial rents are expected to fall by over 7% throughout the remainder of the year as supply greatly outpaces demand.

Cook County has recently undergone a major change in tax assessment. In 2019, the new Cook County Tax Assessor determined that the previous regime had undervalued many commercial real estate properties.

Leases Signed (May 2019-May 2020)

Tenant	Address	City	Submarket	SF	Date Signed
Target	3300 Channahon Rd	Joilet	Joilet Area	1,220,140	Aug-19
Amazon	2401 S Bradley Rd	Channahon	Joilet Area	1,100,000	Aug-19
Amazon	23257 S Central Ave	University Park	Far South Cook	1,015,000	Feb-20
Target	3501 S Pulaski Rd	Chicago	South Chicago	999,900	Dec-19
UNIS	3901 Brandon Rd	Joilet	Joilet Area	826,755	Aug-19

This resulted in many properties seeing their assessed values skyrocket; some more than 100%. Cook County's tax system does not rely on a millage rate like most counties in the United States. Real Estate taxes are based on an equalized assessed value of the township, which takes into account a number of factors, including concentration of residential and commercial properties. While the increase in assessed values does not necessarily directly correlate to an increase in taxes, the properties that see a higher assessment will pay a greater share of the burden. Most new construction in Cook County has a 6B qualification which helps combat the rapid tax increase. 6B is a twelve-year tax abatement where taxes are 50% abated for the first 10 years and then the abatement slowly dissipates over the remaining two years.

The Chicago market has approximately 20.7 million square feet under construction. Previously, Chicago's healthy absorption numbers had supported this consistent level of construction. About half of this construction is built on a speculative basis and nearly half of this space is currently unleased as of May 2020. There is expected to be a large amount of supply available in 2021. Developers have been targeting the Joliet submarket due to its location near I-55 and I-80. There are four projects underway that will exceed 1 million square feet. The largest project currently underway is Ferrara Candy's 1.6 million square foot distribution center in far-western Dekalb which is expected to deliver in Q2 2021. Also exceeding 1 million square feet is the Amazon facility in Channahon; this will bring Amazon's Chicago industrial footprint to nearly 10 million square feet.

Under Construction (2020)						
Developer	Tenant	Address	City	Submarket	SF	Estimate Completion
Trammell Crow	Ferrara Candy	801 E. Gurler Rd	Dekalb	I-88 West	1,600,000	Apr-21
Seefried Industrial Properties	Diageo	143rd and Steiner Rd	Plainfield	I-88 West	1,500,150	May-20
Venture One Real Estate	Amazon	2401 S Bradley Rd	Channahon	Joliet Area	1,100,000	Oct-20
Centerpoint	N/A - Spec	3124 Brandon Rd	Joliet	Joliet Area	1,100,000	Dec-20

While Chicago's industrial real estate market is not expected to emerge from the coronavirus pandemic and potential recession without some immediate harm, certain segments could benefit. Online food delivery services like Instacart, Walmart Grocery, and Shipt reported millions of new subscribers nationwide in March. This increased level of online shopping combined with the already booming e-commerce market could lead to an increased need for big box, last mile, cold storage, and warehouse and distribution space throughout Chicago over the long term.

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SUBMARKET SUMMARY – WAREHOUSE/DISTRIBUTION

South Chicago		O'Hare		South I-55 Corridor	
Inventory SF	117 M	Inventory SF	108 M	Inventory SF	94.3 M
Under Construction SF	2.1 M	Under Construction SF	1.8 M	Under Construction SF	1.0 M
12 Mo Net Absorp SF	632 K	12 Mo Net Absorp SF	(678 K)	12 Mo Net Absorp SF	3.2 M
Vacancy Rate	4.9%	Vacancy Rate	6.2%	Vacancy Rate	8.4%
Market Rent/SF	\$7.16	Market Rent/SF	\$8.32	Market Rent/SF	\$6.72
Annual Rent Growth	4.8%	Annual Rent Growth	4.4%	Annual Rent Growth	4.4%

Joliet Area		I-88 West	
Inventory SF	87.3 M	Inventory SF	72.8 M
Under Construction SF	3.7 M	Under Construction SF	3.1 M
12 Mo Net Absorp SF	142 K	12 Mo Net Absorp SF	(582 K)
Vacancy Rate	11.0%	Vacancy Rate	7.3%
Market Rent/SF	\$6.19	Market Rent/SF	\$6.48
Annual Rent Growth	4.3%	Annual Rent Growth	4.4%