

2019: A Tale of Two Halves

CHICAGO INDUSTRIAL MARKET OVERVIEW

MARCH 27, 2019

Agenda

Macro-level Industrial Insights

Geoffrey Kasselmann, SIOR, LEED AP

Chicagoland Industrial Overview

Amy Binstein

Select Submarket Reports

O'Hare

South City

SE Wisconsin

I-80

George Desloge

The Tenant's Perspective

Corey Chase

Q&A

MACRO-LEVEL **INDUSTRIAL INSIGHTS**



GEOFFREY KASSELMAN
SIOR, LEED AP
executive managing director

MACRO-LEVEL INDUSTRIAL INSIGHTS



MACRO-LEVEL INDUSTRIAL INSIGHTS



“Without data
you’re just
another person
with an opinion.”

- W. Edwards Deming,
Data Scientist



MACRO-LEVEL INDUSTRIAL INSIGHTS

Conflicting Indicators, Endless Variables, Uncharted Territory

- ✓ Industry 4.0
- ✓ Global Economic Challenges
- ✓ Domestic Dynamics
- ✓ Supply/Demand Equation
- ✓ 'X' Factors



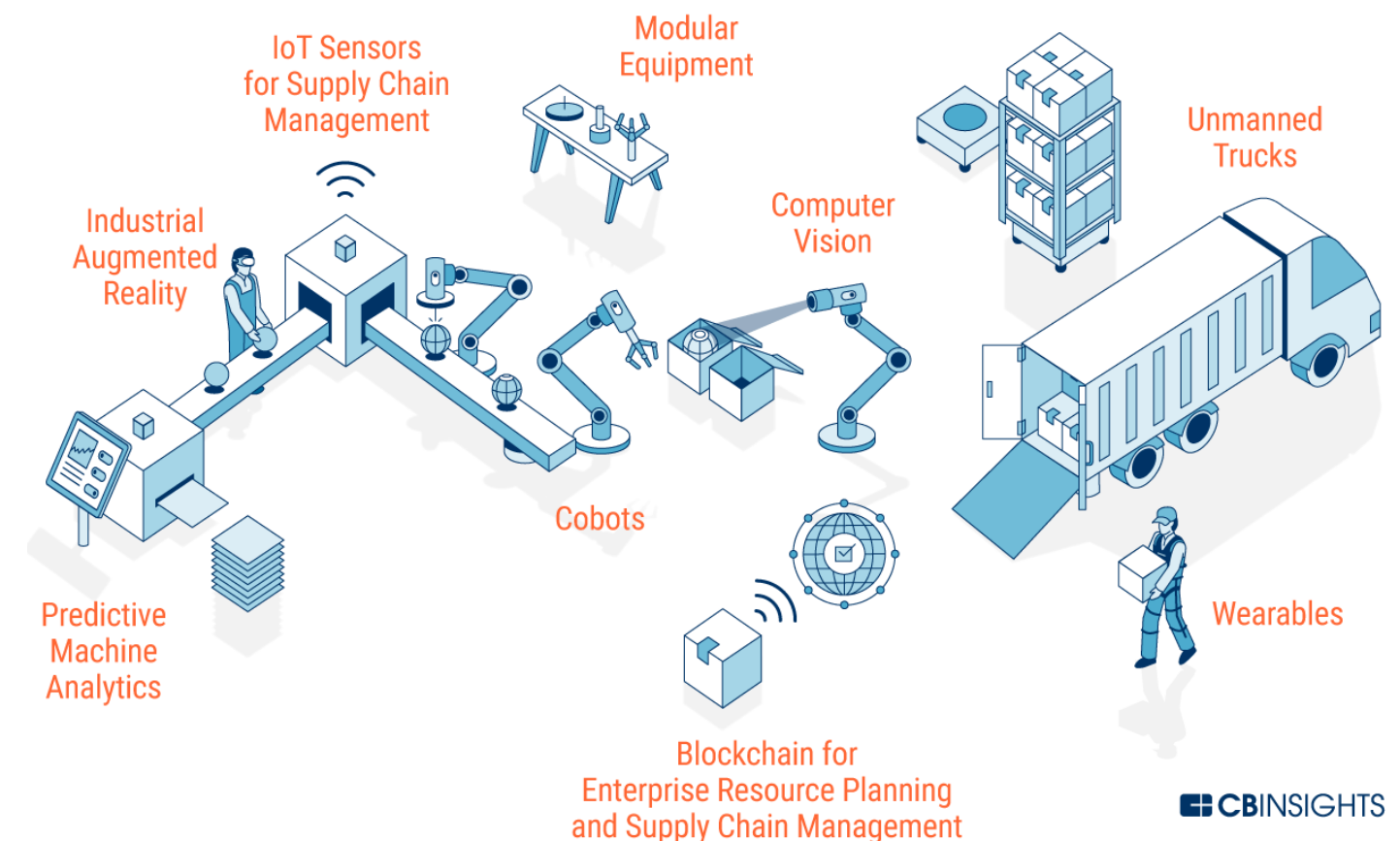
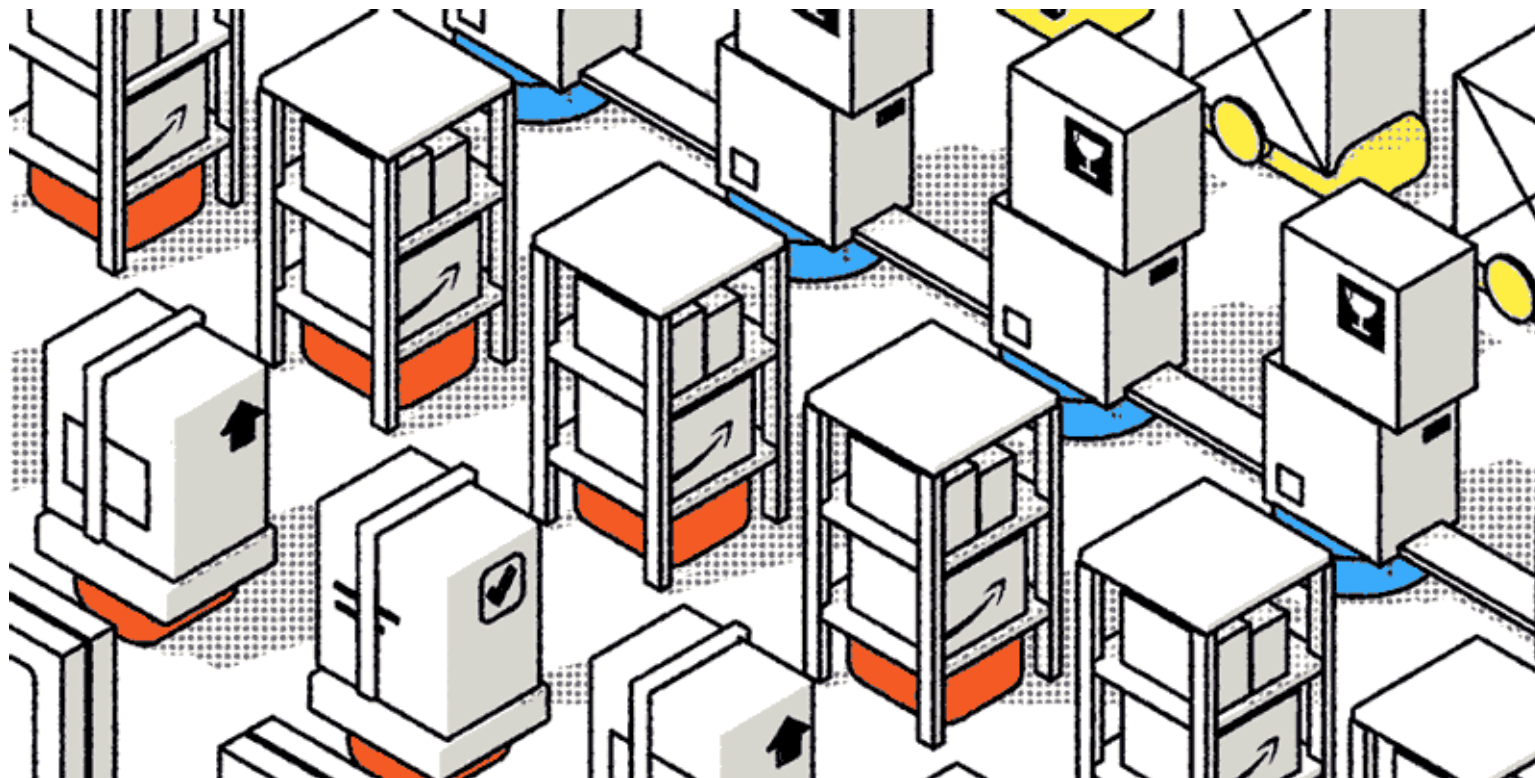
MACRO-LEVEL INDUSTRIAL INSIGHTS

Industry 4.0

- ✓ Exponential, transformative technologies
- ✓ E-commerce & supply chain retrenchment
- ✓ Reinvention of retail



FACTORY OF THE FUTURE



CBINSIGHTS

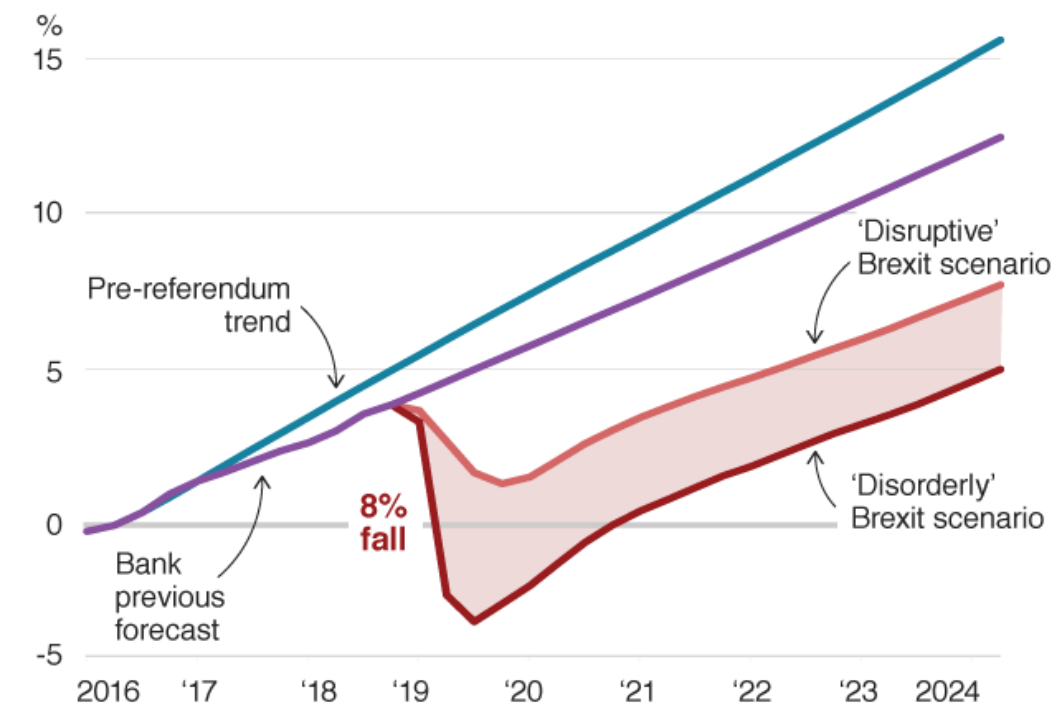
MACRO-LEVEL INDUSTRIAL INSIGHTS

Global Economic Challenges

- ✓ Brexit & the EU economic uncertainty
- ✓ Chinese economic slowdown
- ✓ Free-trade & tariffs

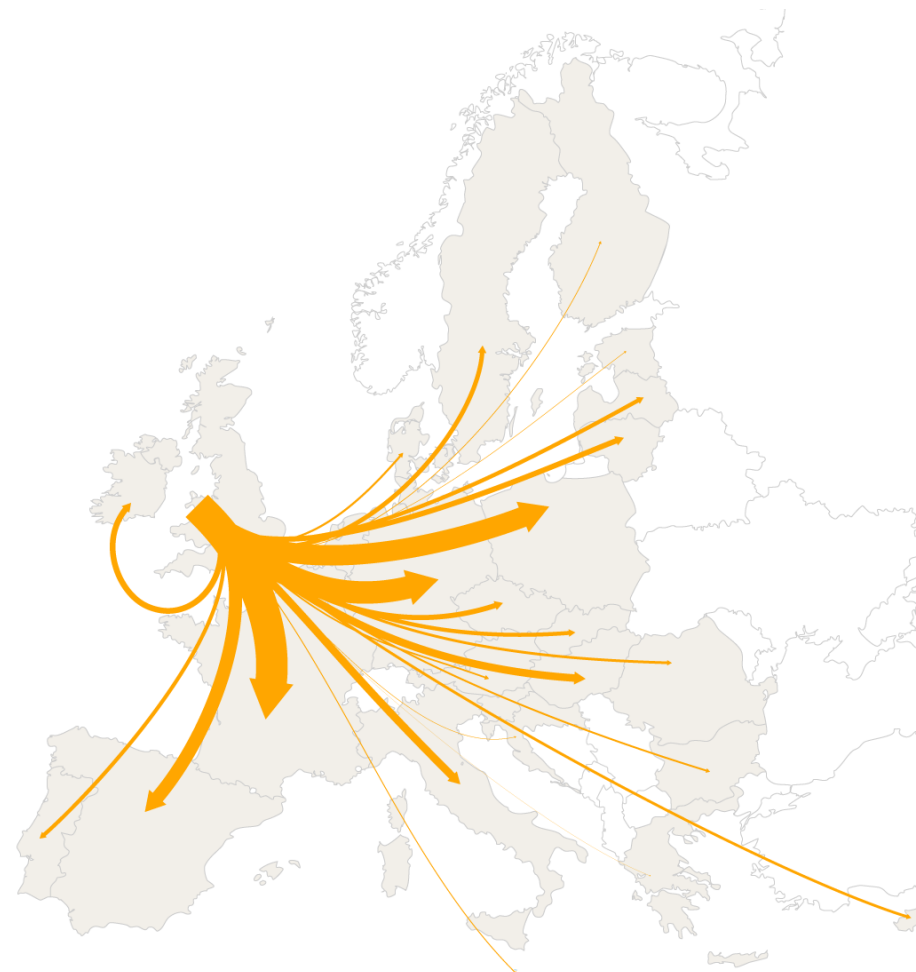
What does the Bank think could happen to UK growth?

UK GDP under different scenarios



Source: Bank of England

BBC



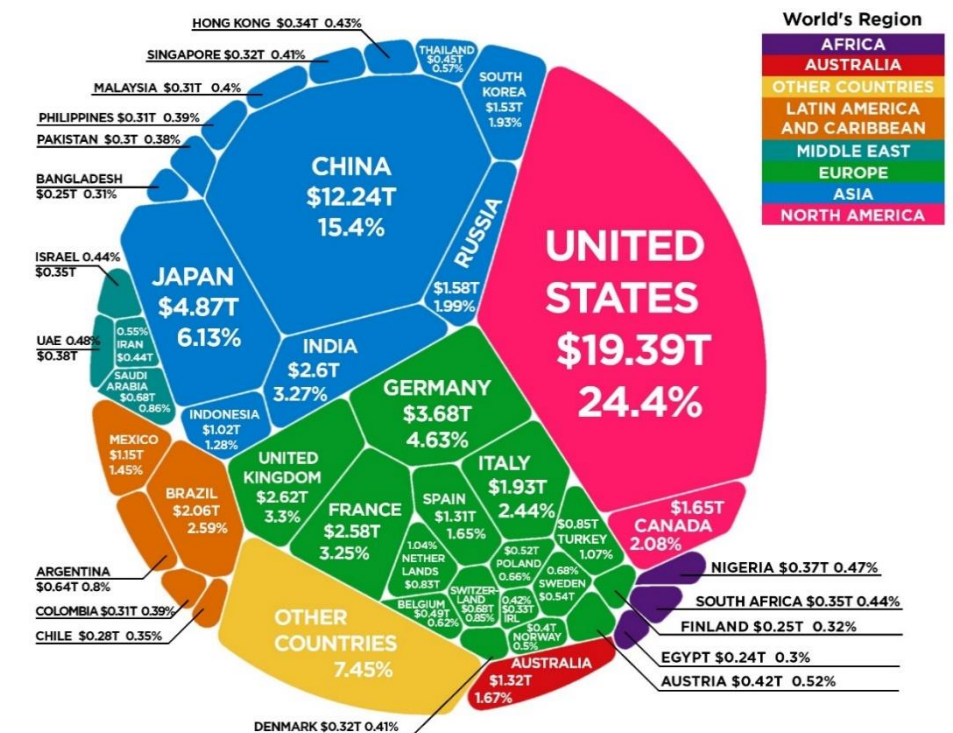
Key indicators point to worsening Chinese slowdown

Annual % growth, monthly



*Year to date

Sources: National Bureau of Statistics; CEIC
© FT



Article and Sources:
<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

howmuch.net

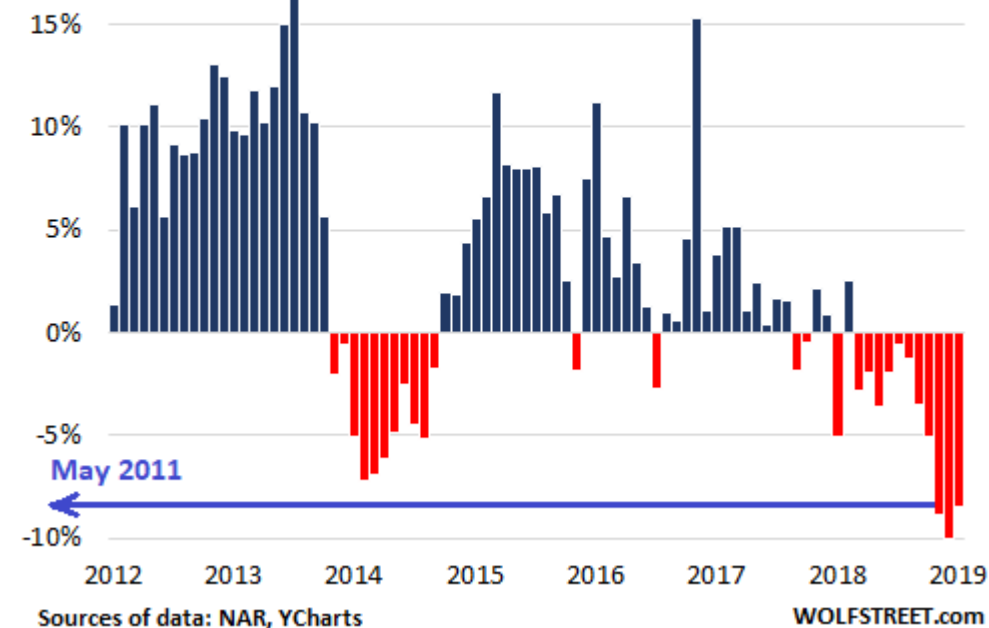
MACRO-LEVEL INDUSTRIAL INSIGHTS

Domestic Dynamics

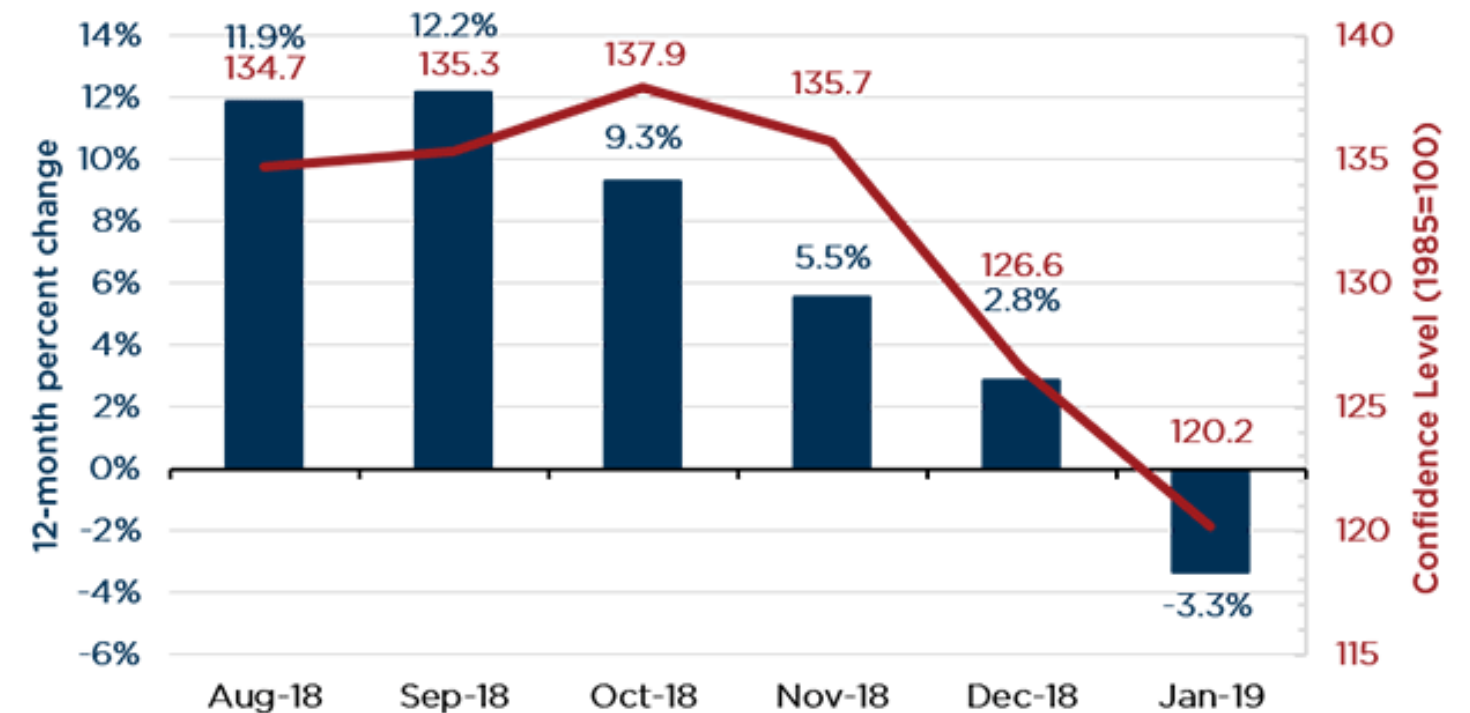
- ✓ Labor shortages
- ✓ Housing market slowdown
- ✓ Consumer confidence
- ✓ Election season



Existing Home Sales Drop Relentlessly
% Change fr Same Month a Year Ago, SAAR



Consumer Confidence

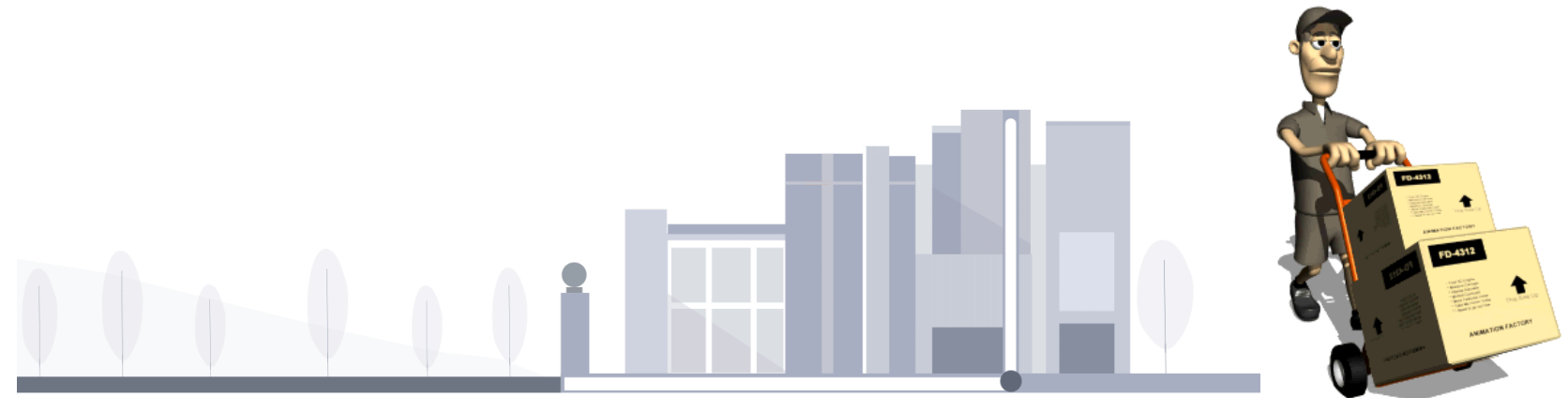


Source: Conference Board

MACRO-LEVEL INDUSTRIAL INSIGHTS

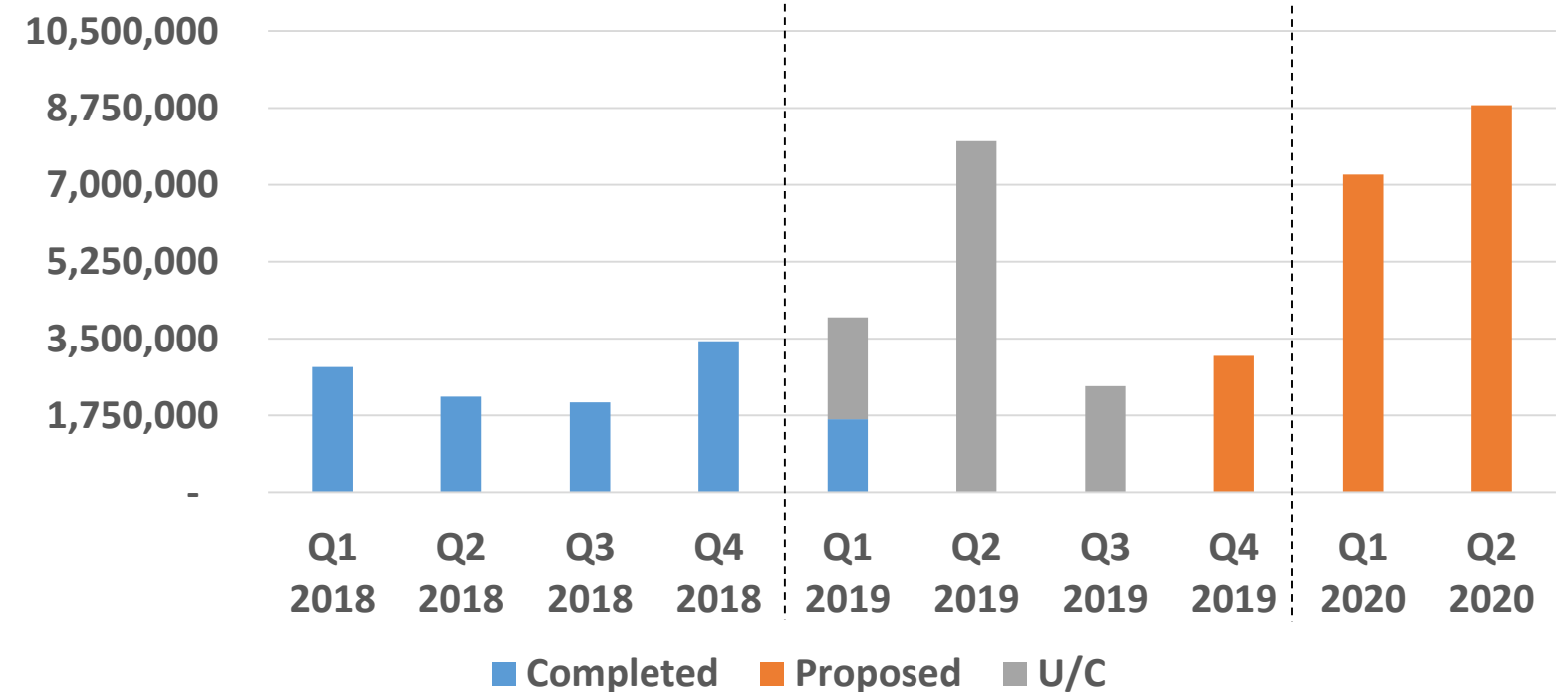
Supply/Demand Dynamics

- ✓ E-commerce / Cannabis / F&B
- ✓ Early indicators
- ✓ New construction
- ✓ Net vs. gross absorption



MARKET SUMMARY

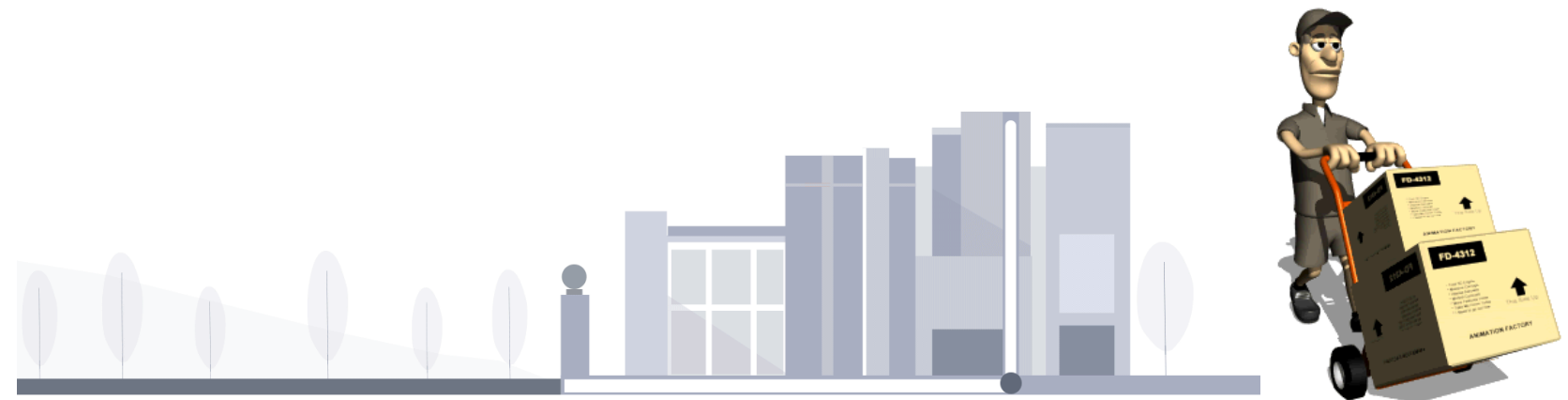
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	1.14 BSF	1.13 BSF	1.12 BSF	↑
Vacancy Rate	7.7%	7.8%	7.9%	↓
Quarterly Net Absorption	1.97 MSF	4.60 MSF	2.23 MSF	↓
Average Asking Rent	\$5.50	\$5.43	\$5.32	↑
Under Construction	15.5 MSF	15.2 MSF	10.5 MSF	↑
Deliveries	4.15 MSF	2.21 MSF	4.05 MSF	↑



MACRO-LEVEL INDUSTRIAL INSIGHTS

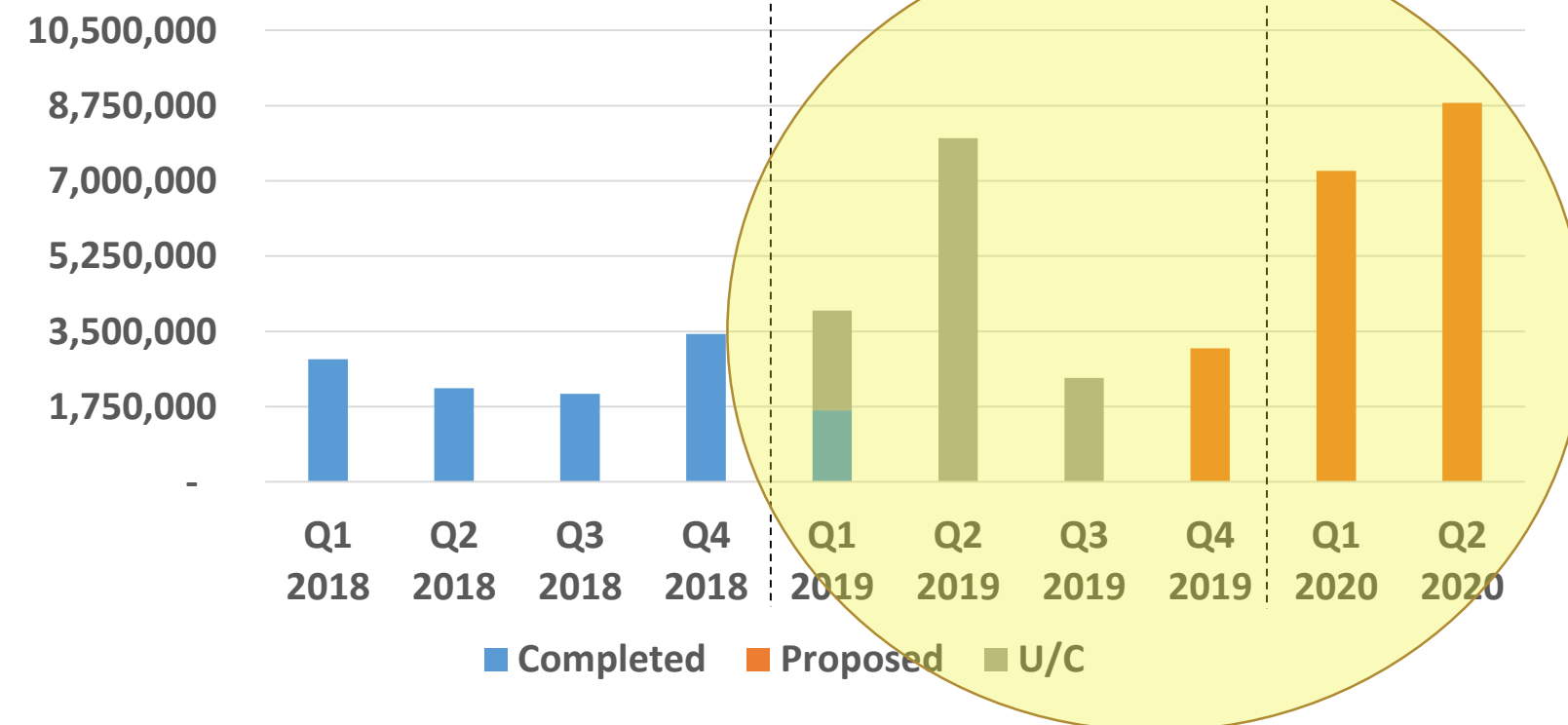
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- ✓ Early indicators
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MACRO-LEVEL INDUSTRIAL INSIGHTS

'X' Factors

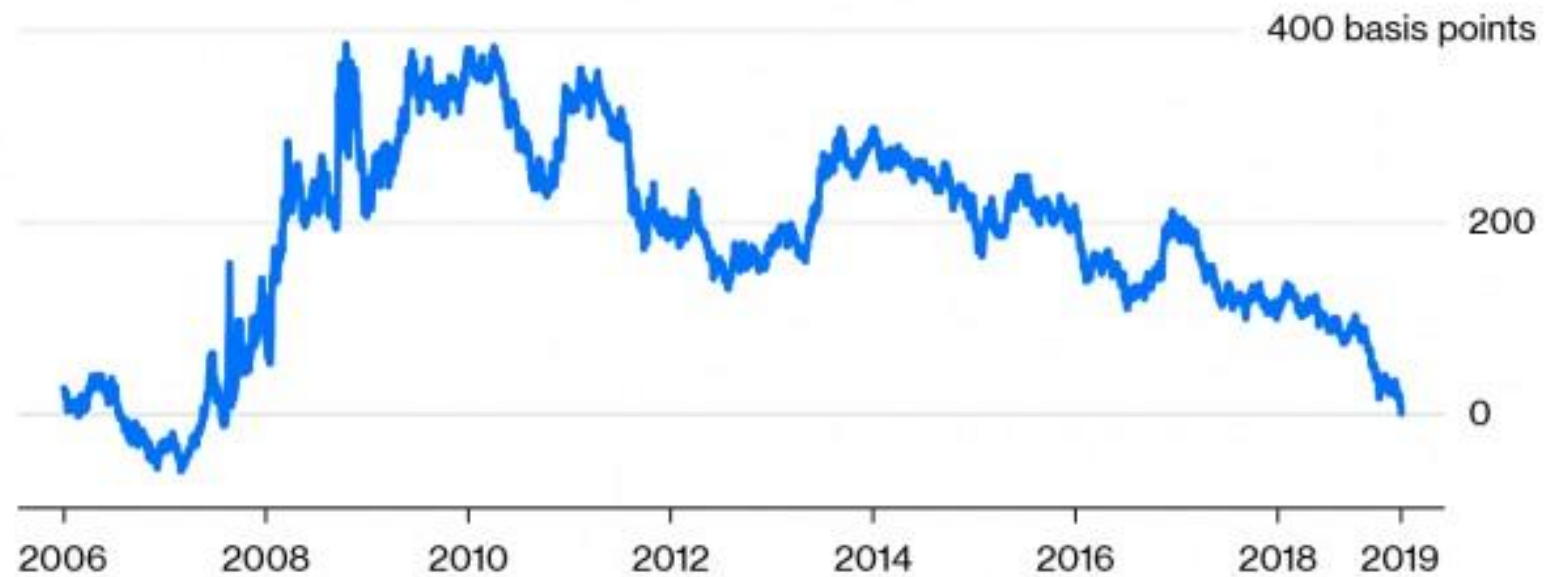
- ✓ Availability/Cost of Capital
- ✓ Climate Change
- ✓ 5G & Cybersecurity



Inversion Accomplished

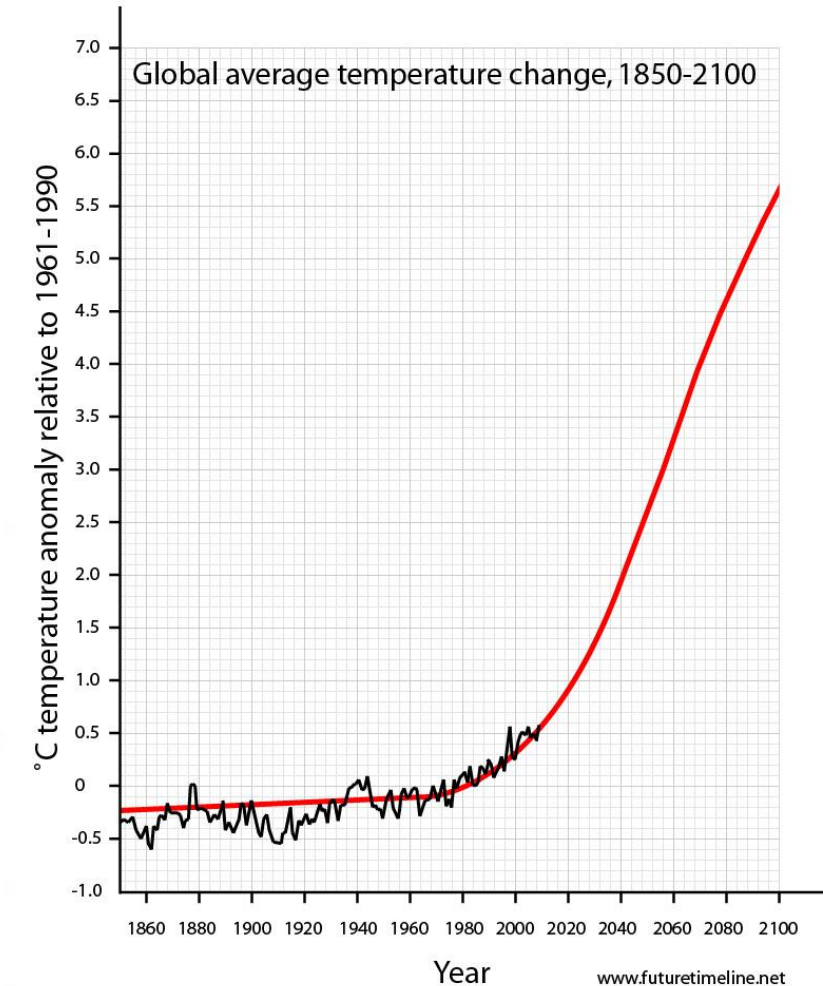
One of the most-watched U.S. yield curves drops below zero

Yield spread between 3-month and 10-year Treasuries



Source: Bloomberg

BloombergOpinion



MACRO-LEVEL INDUSTRIAL INSIGHTS

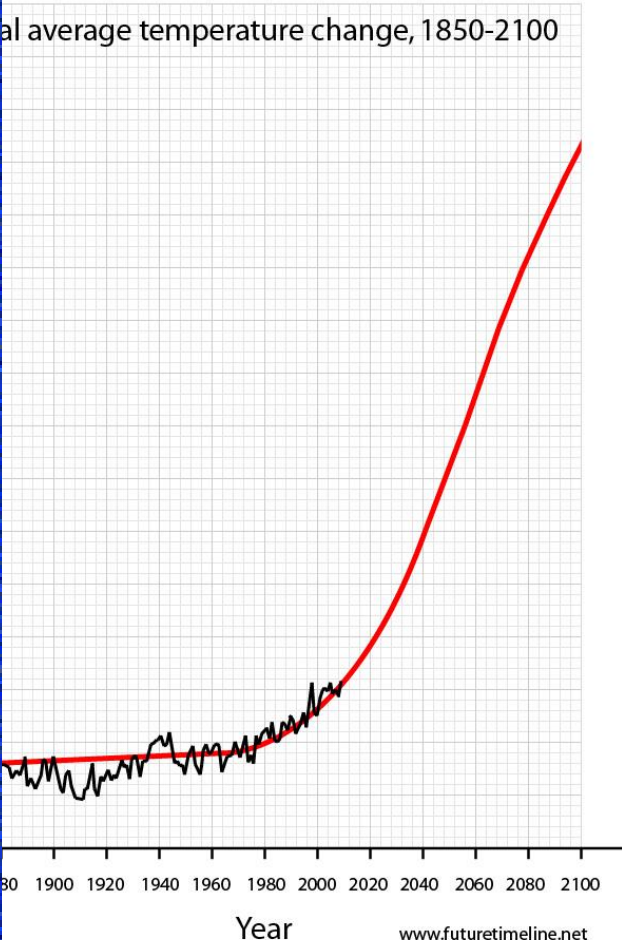
'X' Factor

- ✓ Availability
- ✓ Climate
- ✓ 5G & Cy

THE ENEMY
KNOWS THE
SYSTEM.

Source: Bloomberg

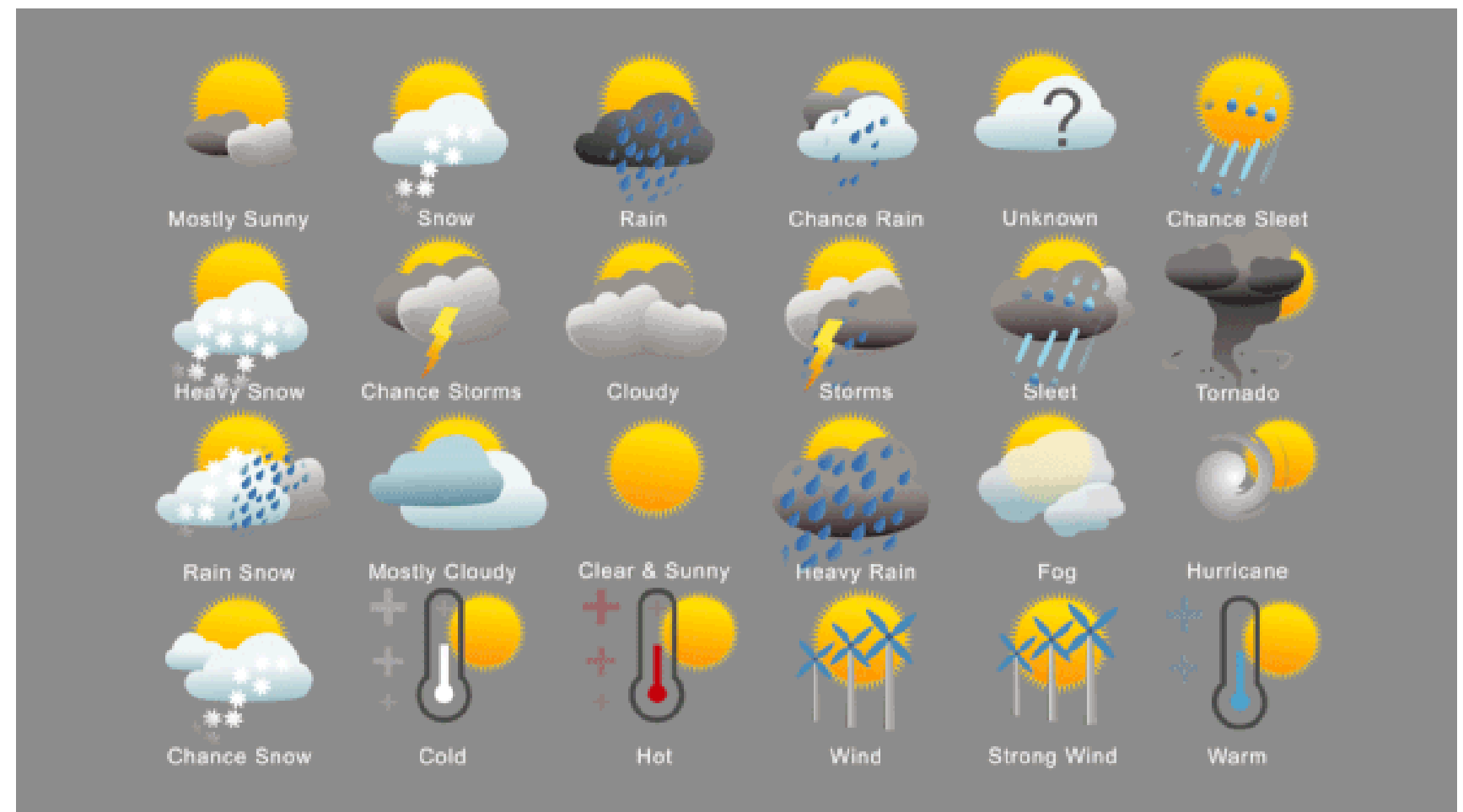
bloomberg opinion



MACRO-LEVEL INDUSTRIAL INSIGHTS

What Does It All Mean In 2019?

- ✓ 1Q & 2Q feel good...
- ✓ 3Q market confidence takes a hit...
- ✓ 4Q slowdown kicks in



MACRO-LEVEL INDUSTRIAL INSIGHTS

So, Am I Crazy?!



“No, your dad isn’t crazy. He’s in commercial real estate.”

RESEARCH TEAM

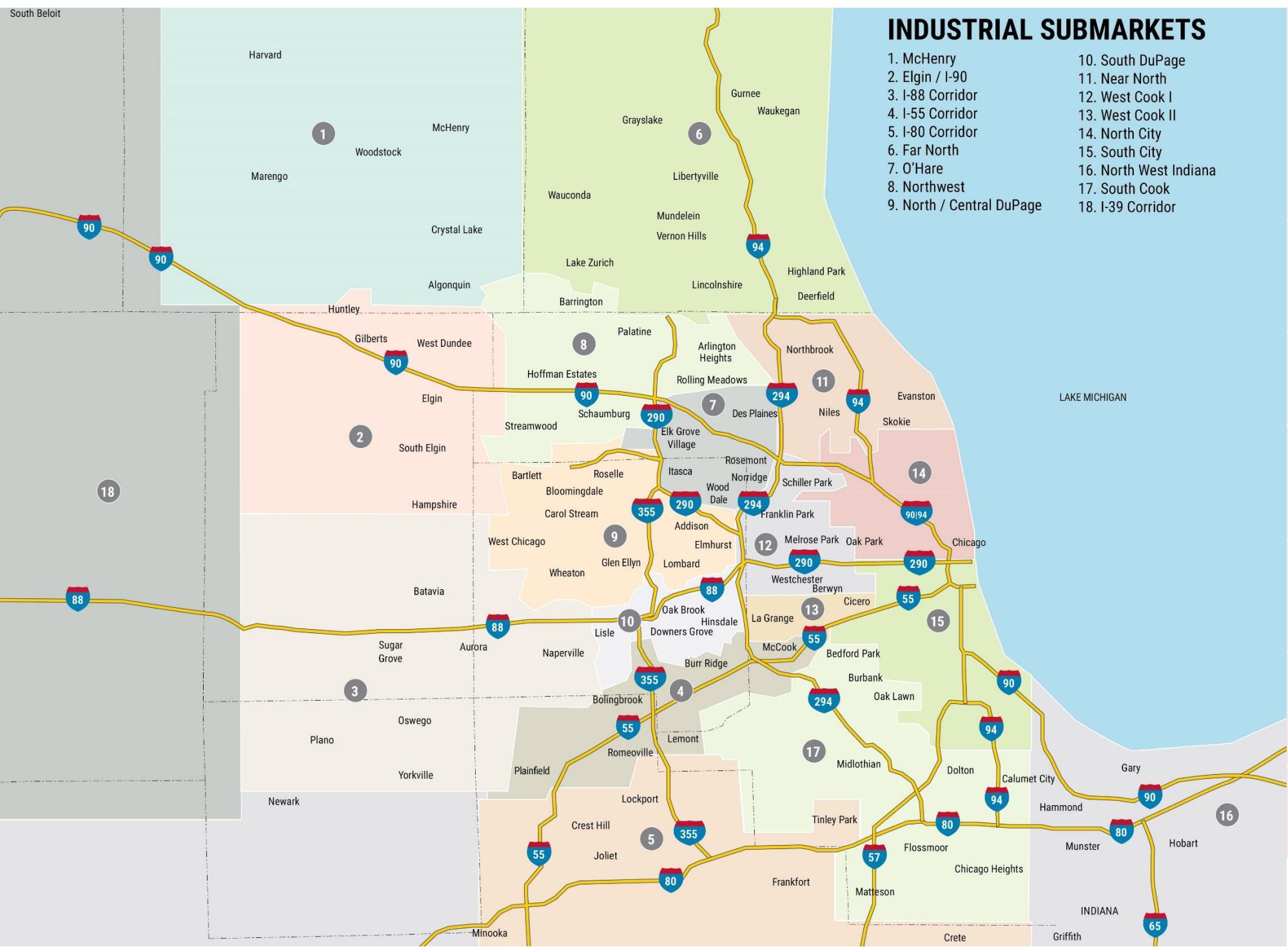


AMY BINSTEIN
research manager



GEORGE DESLOGE
senior research analyst

CHICAGO INDUSTRIAL: MARKET AREA



	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	1.14 B	1.13 B	1.12 B	↑
Vacancy Rate	7.7%	7.6%	7.9%	↓
Qtr Net Absorption (SF)	1.97 M	4.6 M	2.23 M	↓
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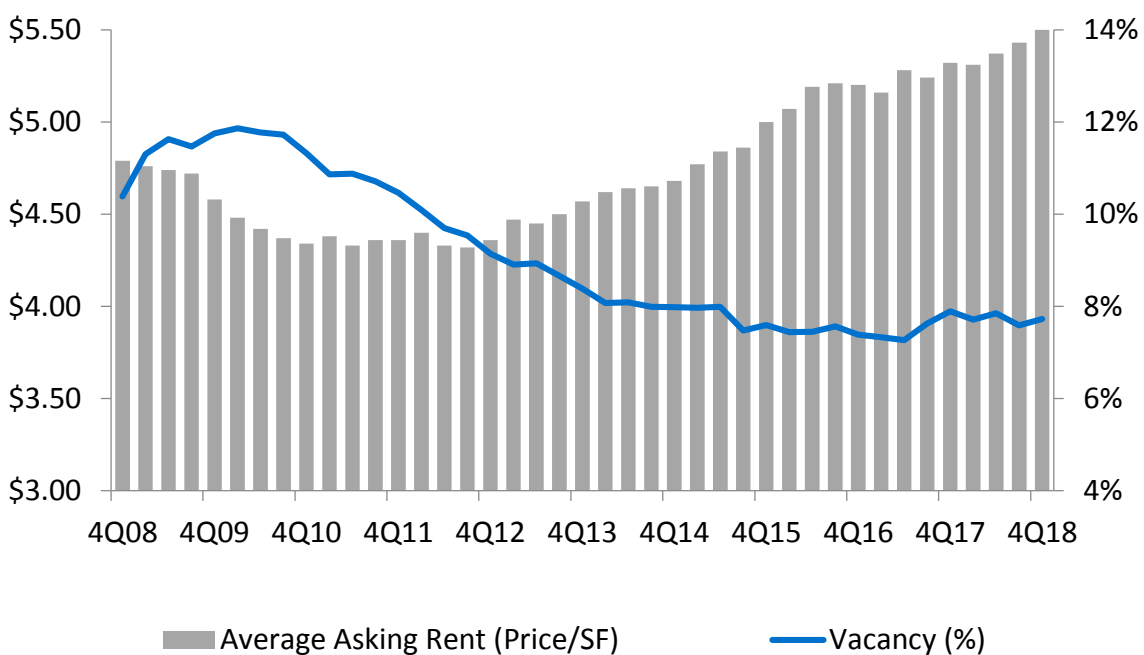
CHICAGO INDUSTRIAL: MARKET OVERVIEW

The metro Chicago industrial market has experienced a record 35 consecutive quarters of positive absorption.

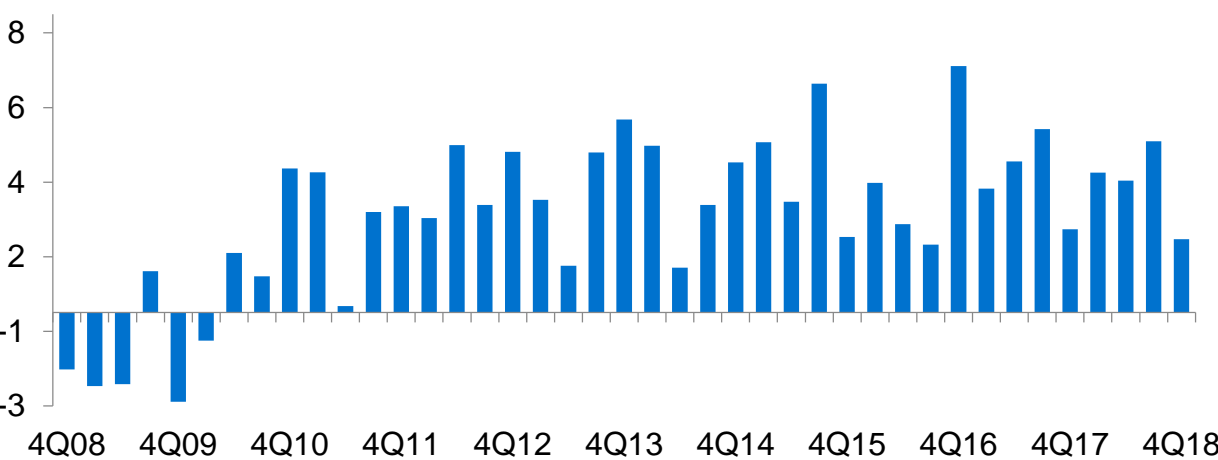
The market has seen a slight uptick in vacancy due to volume of new construction delivering.

Rental rates continue to rise, reaching record levels of \$5.50 PSF

Asking Rent and Vacancy



Net Absorption (SF, Millions)

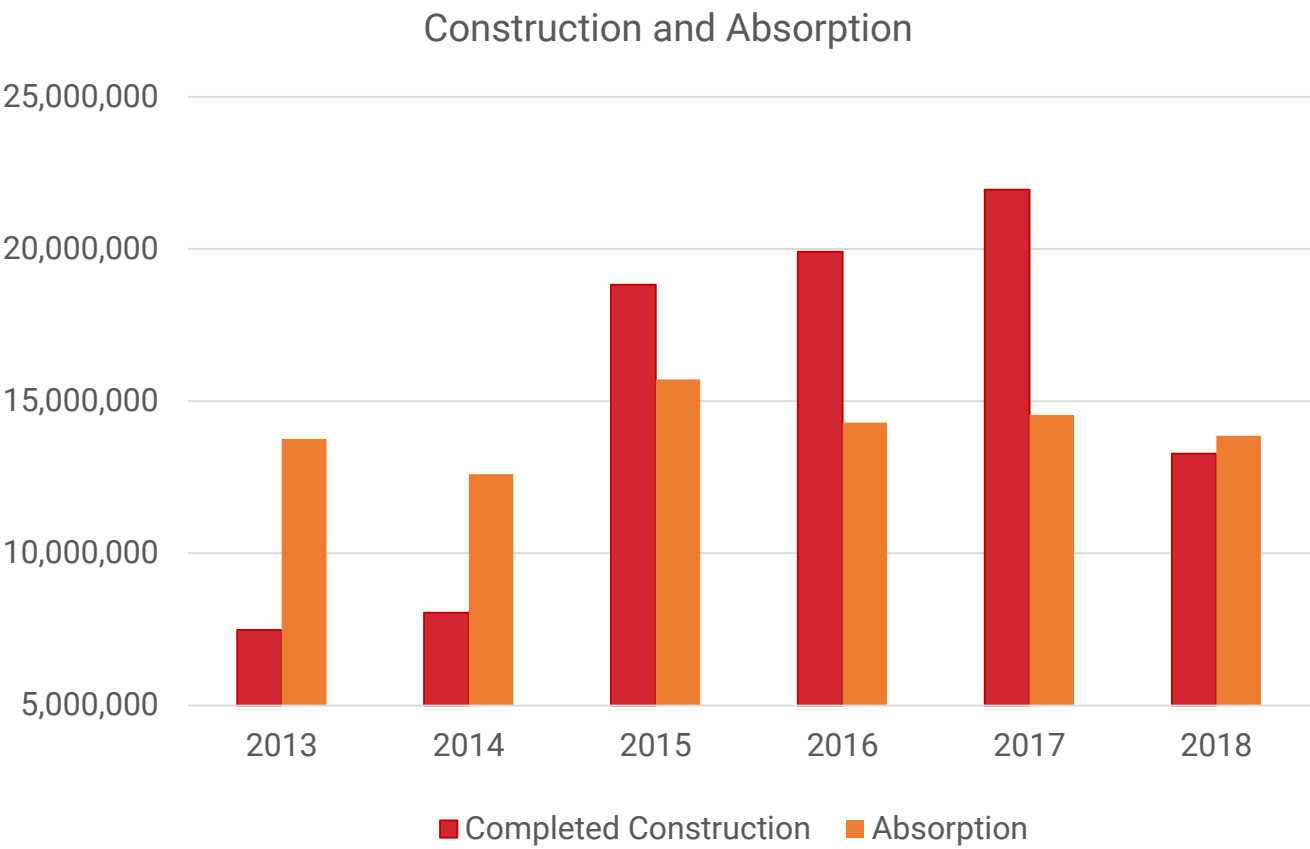


Net absorption has dipped below 1 Million SF, just once, since 2011

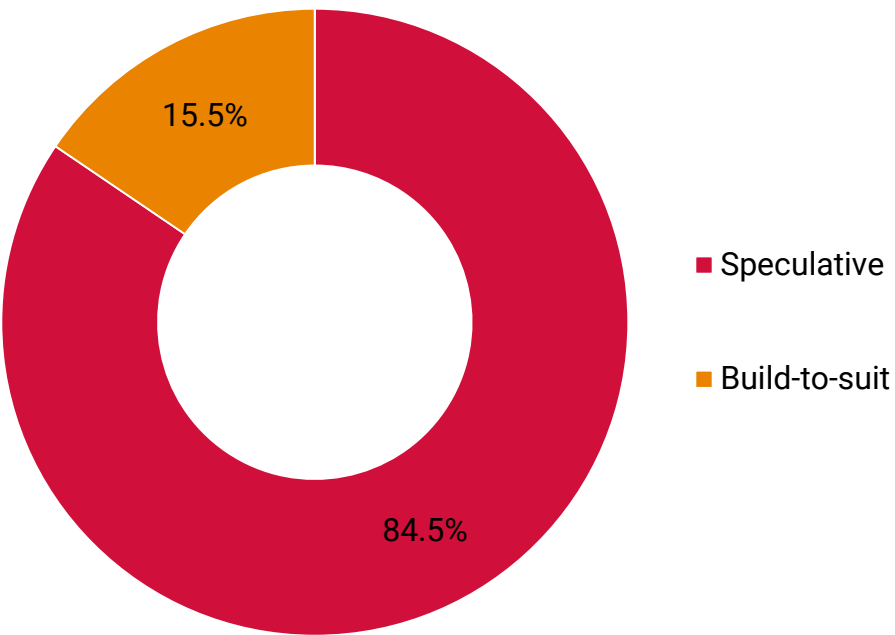
CHICAGO INDUSTRIAL: CONSTRUCTION

Record Construction Numbers

Heavy Spec Development

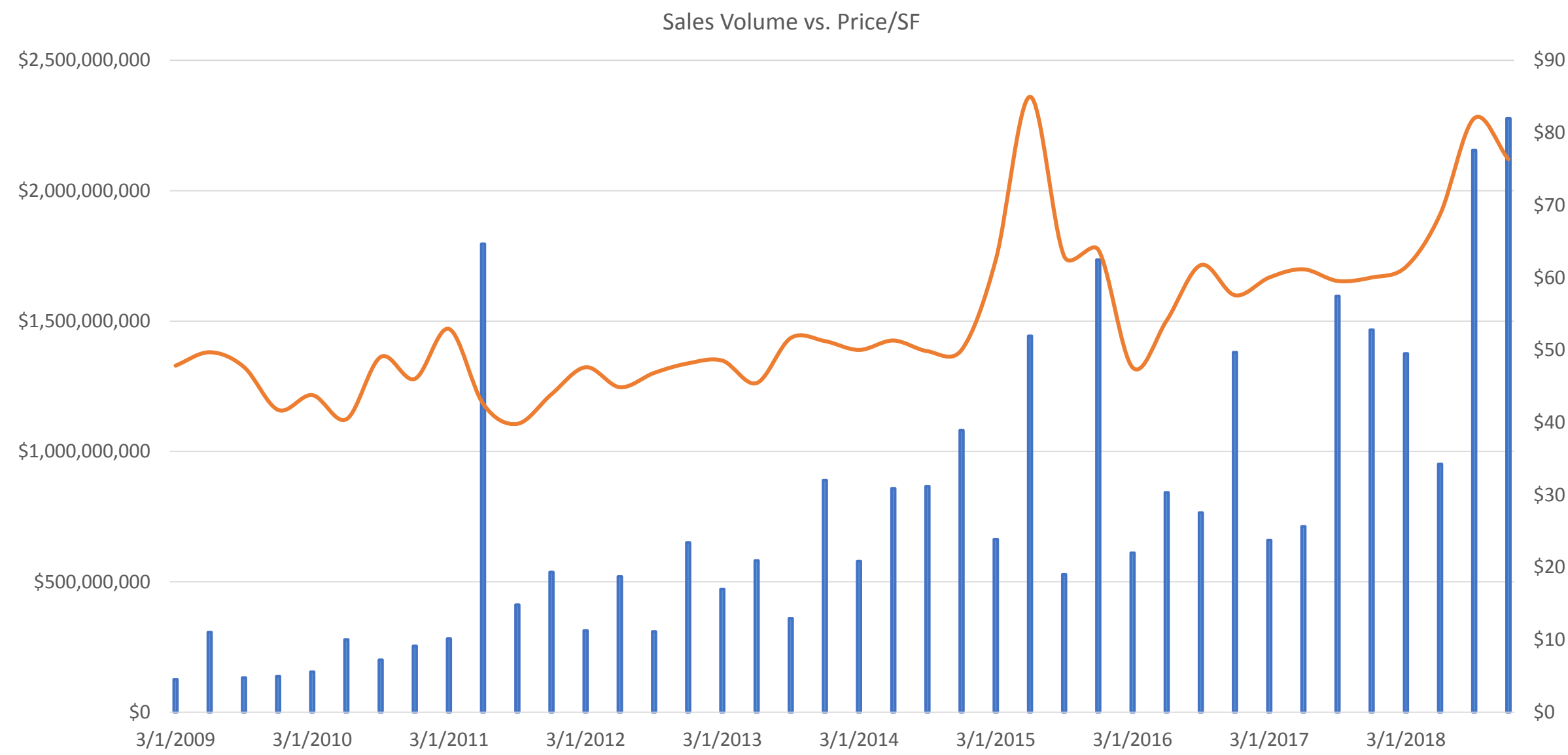


Completed Industrial Construction Projects



CHICAGO INDUSTRIAL: SALE VOLUME VS. PRICE/SF

2018 was a record breaking year for Chicago industrial capital markets
\$6.2 billion in sales



CHICAGO INDUSTRIAL: **ACTIVE PLAYERS**

The largest sellers were:



The largest buyers were:



Blackstone

maple^{tree}

CHICAGO INDUSTRIAL DRIVERS: **FOOD-RELATED BUSINESS**

Chicago’s central location and access to water make it an ideal market

Has also led to increased need for freezer cooler space

Neighborhoods within the city limits of Chicago like, Pullman and Pilsen, are drawing these tenants

Tenant	SF	Address	Submarket
Legacy Foods	51,128	1550 Greenleaf	O’Hare
Frozen Foodies	52,871	16500 W 103 rd St	I-55
Bloomer Chocolate Co	68,473	5600 Proviso Dr	West Cook I
Snyders of Hanover	69,942	1500 N Michael Dr	O’Hare
United Foods	80,127	1925 Holmes Rd	Fox Valley / North Kane
Griffith Foods	81,675	4300 S Morgan St	South City
Pepperidge Farm	87,602	15901 W 147 th St	I-80
Eagle Foods	98,281	2431 N Delany Rd	Far North
Woodland Foods	103,156	3731 Sunset Ave	Far North
Arytza Foods	101,135	11746 S Austin Ave	South Cook
Kelloggs Co.	116,000	2700 McDonough Rd	I-80
Vital Proteins	180,631	3400 Wolf Rd	West Cook I
iHerb	257,344	2640 Auto Mall Dr	Fox Valley / North Kane
Del Monte Foods	312,750	501 Steward Rd	I-39
Kelloggs Co.	1,072,576	6225 E Minooka Rd	I-80

6 MILLION SF
Leased in the last 24 months

O'HARE SUBMARKET: OVERVIEW

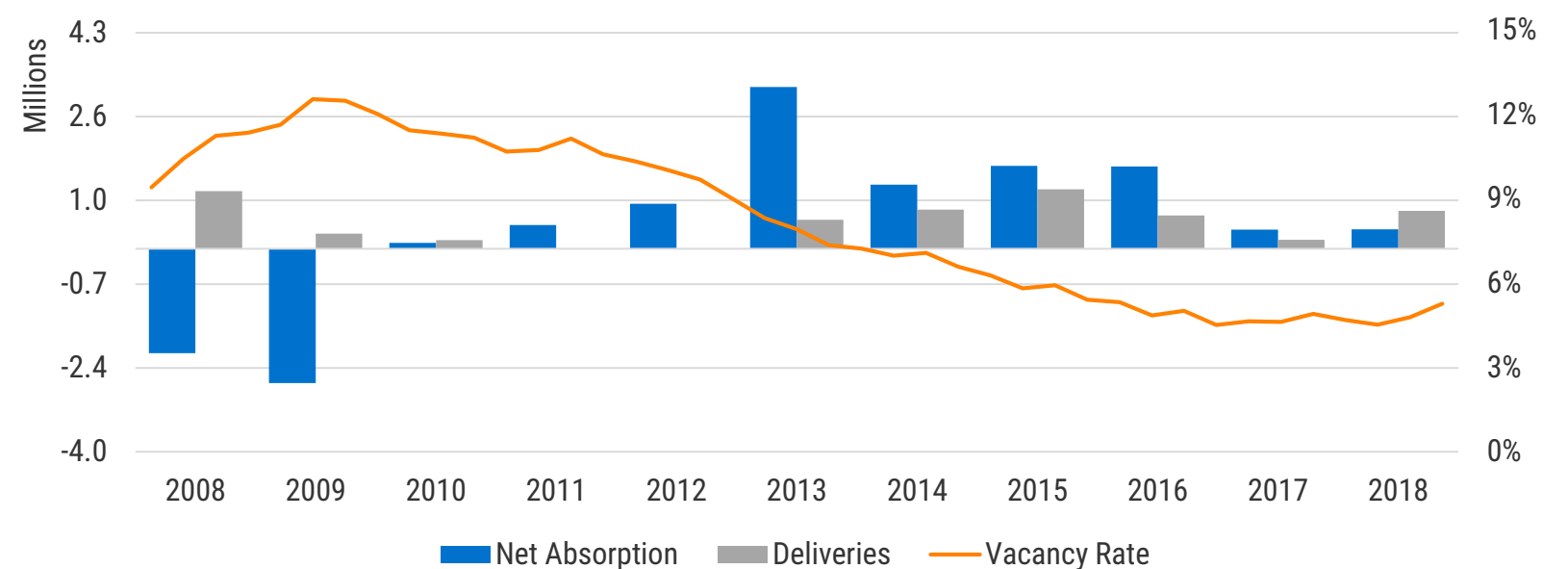


Midland Paper
Packaging + Supplies



QUARTER	VACANCY RATE	NET ABSORPTION	UNDER CONSTRUCTION	NEW SUPPLY	RENTS
Q4 2018	5.3%	(235,969)	784,365	480,252	\$6.84
Q3 2018	4.8%	(220,258)	1,237,070	95,962	\$6.61
Q2 2018	4.5%	269,364	566,205	65,780	\$6.63
Q1 2018	4.7%	567,279	607,621	101,506	\$6.65
Q4 2017	4.9%	(272,390)	476,017	-	\$6.78

ABSORPTION, DELIVERIES, AND VACANCY RATE

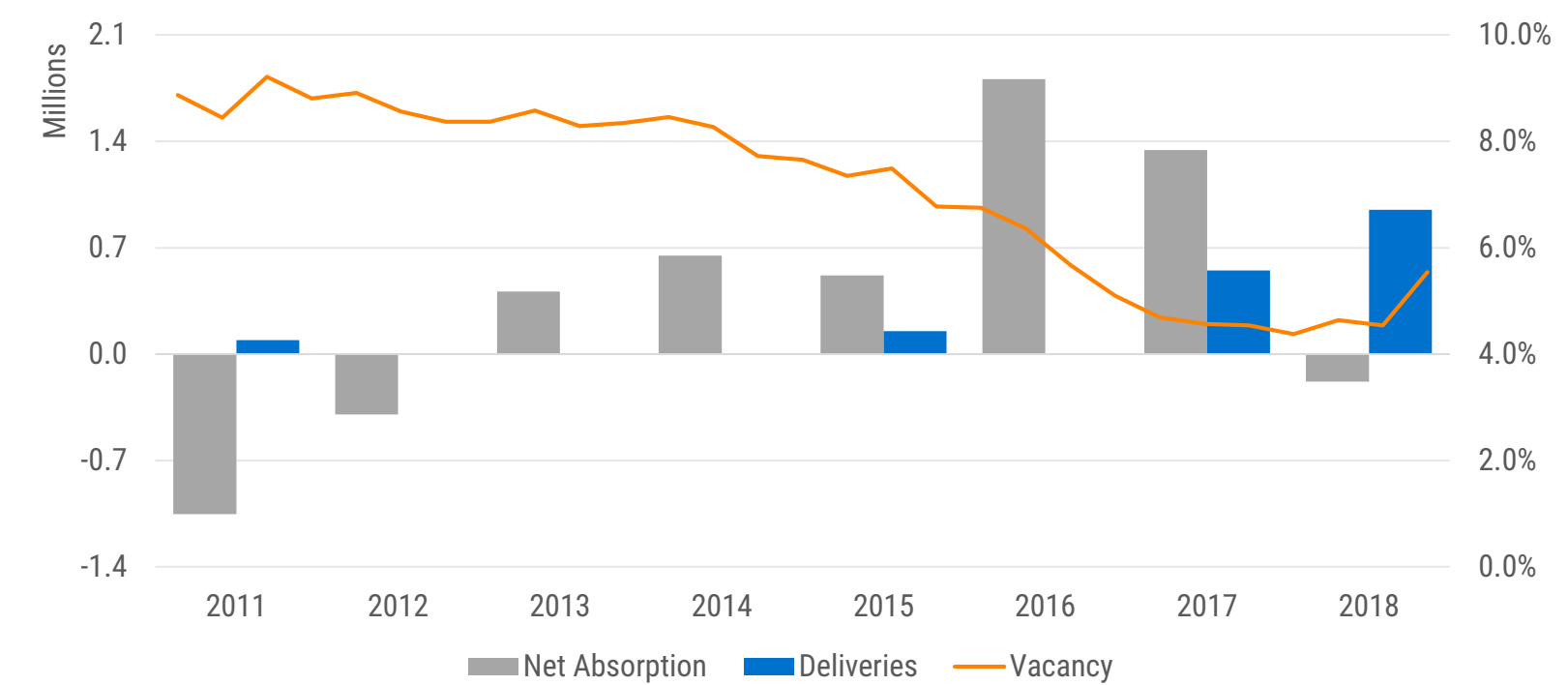


SOUTH CITY SUBMARKET: OVERVIEW



QUARTER	VACANCY RATE	NET ABSORPTION	UNDER CONSTRUCTION	NEW SUPPLY	RENTS
Q4 2018	5.5%	(181,046)	480,173	949,607	\$4.92
Q3 2018	4.5%	102,826	1,429,780	-	\$4.94
Q2 2018	4.6%	(280,453)	1,124,143	-	\$5.03
Q1 2018	4.4%	176,536	-	-	\$5.06
Q4 2017	4.5%	26,746	140,000	-	\$4.80

ABSORPTION, DELIVERIES, AND VACANCY RATE

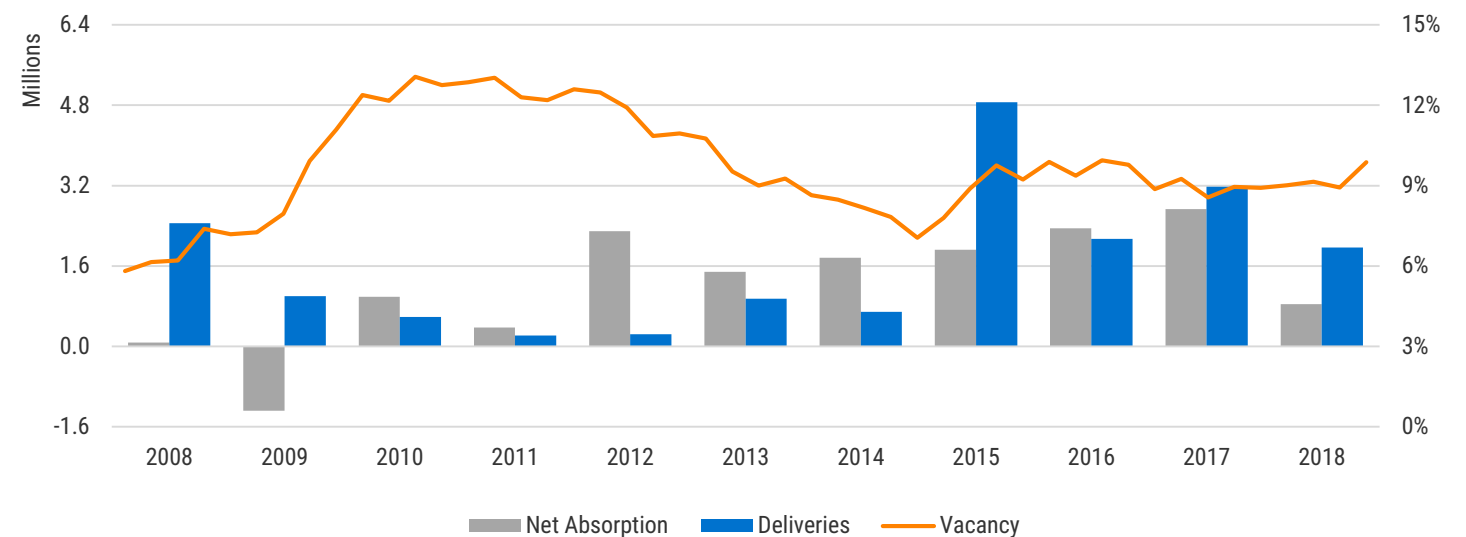


FAR NORTH SUBMARKET: OVERVIEW



QUARTER	VACANCY RATE	NET ABSORPTION	UNDER CONSTRUCTION	NEW SUPPLY	RENTS
Q4 2018	9.9%	(83,179)	3,039,784	1,077,438	\$5.65
Q3 2018	8.9%	369,625	3,516,726	163,578	\$5.67
Q2 2018	9.1%	120,510	3,117,898	307,850	\$5.62
Q1 2018	9.0%	436,946	1,938,028	417,384	\$5.41
Q4 2017	8.9%	363,552	725,234	367,046	\$5.46

ABSORPTION, DELIVERIES, AND VACANCY RATE



I-80 SUBMARKET: OVERVIEW

amazon.com

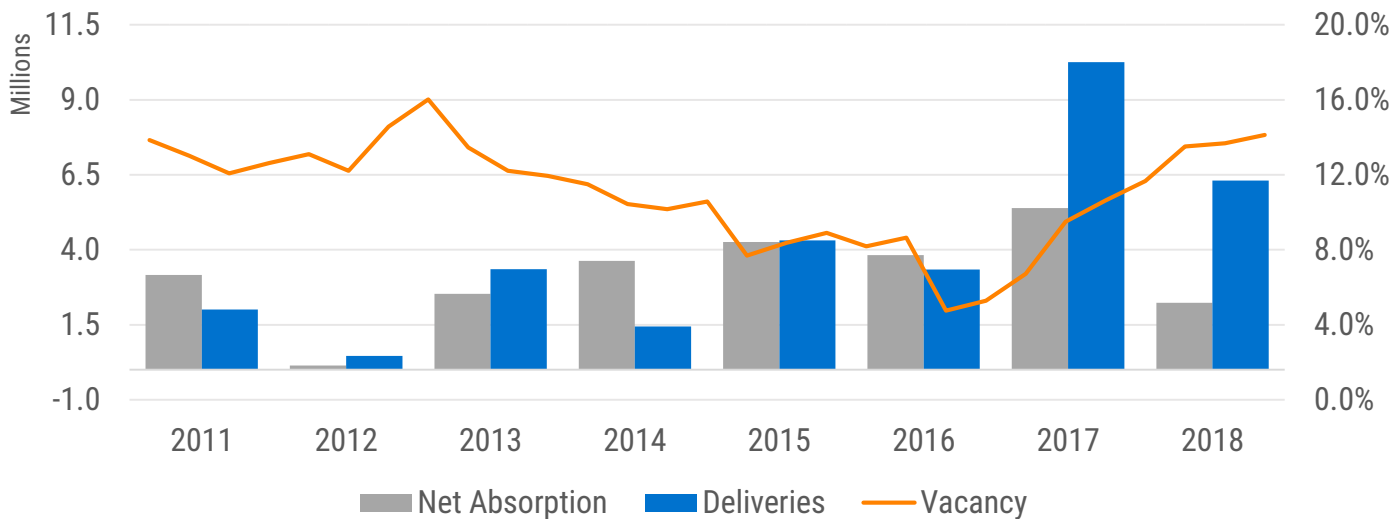


BATORY FOODS



QUARTER	VACANCY RATE	NET ABSORPTION	UNDER CONSTRUCTION	NEW SUPPLY	RENTS
Q4 2018	14.1%	(70,756)	3,342,465	613,394	\$4.24
Q3 2018	13.7%	148,727	3,329,277	355,199	\$4.42
Q2 2018	13.5%	2,331,416	968,593	4,531,222	\$4.36
Q1 2018	11.7%	(172,375)	5,057,815	810,900	\$4.24
Q4 2017	10.6%	1,688,772	5,868,715	1,903,414	\$3.96

ABSORPTION, DELIVERIES, AND VACANCY RATE



TENANT'S PERSPECTIVE



Corey Chase
senior managing director

Agenda **TIPS FOR TENANTS**

It's a tighter market overall...the vacancy rate for the entire 1.14 billion square foot marketplace is 7.7%.

Landlords are charging higher rents given the lack of product in certain submarkets and are giving less in concessions such as free rent and TI allowances.

Don't wait too long to make a decision, as you may lose your opportunity...as some buildings are leasing very quickly given the high demand for industrial space in certain submarkets.

Landlords are no longer doing short term leases. They are looking for longer terms: 5, 7 & 10 year leases.

Landlords are focused on better credit tenants and can be choosy picking tenants with such credit.

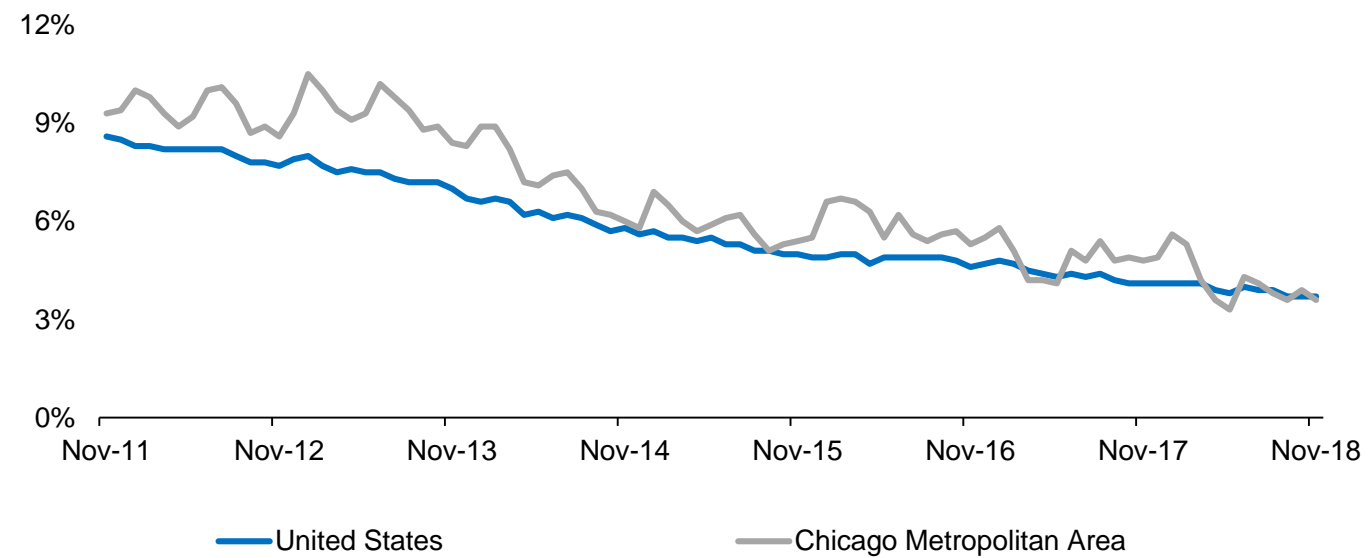


Agenda **TODAY'S TIPS FOR TENANTS**

- Labor

UNEMPLOYMENT RATE

Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



TOMORROW'S TIPS FOR TENANTS

- Economic slowdown in the next 12-18 mos
- Subleases
- Fannie May example
- What are RE companies doing to retain tenants?
- Doing Our Magic

