



# 2Q13 CHICAGO INDUSTRIAL MARKET

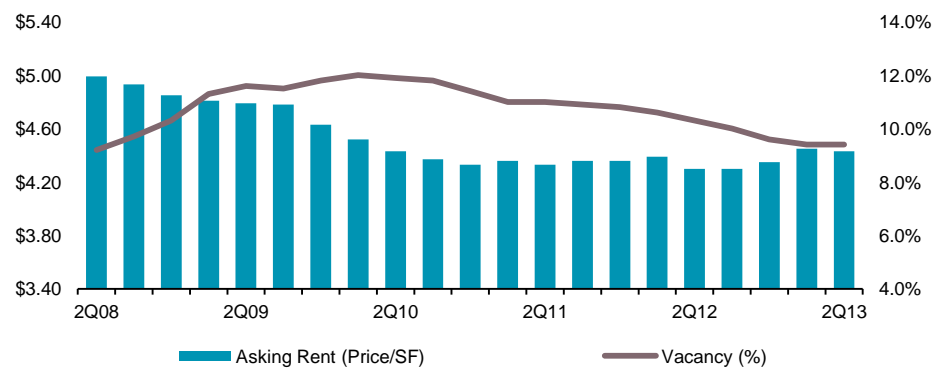
## Newmark Grubb Knight Frank

### TRUCKING ALONG

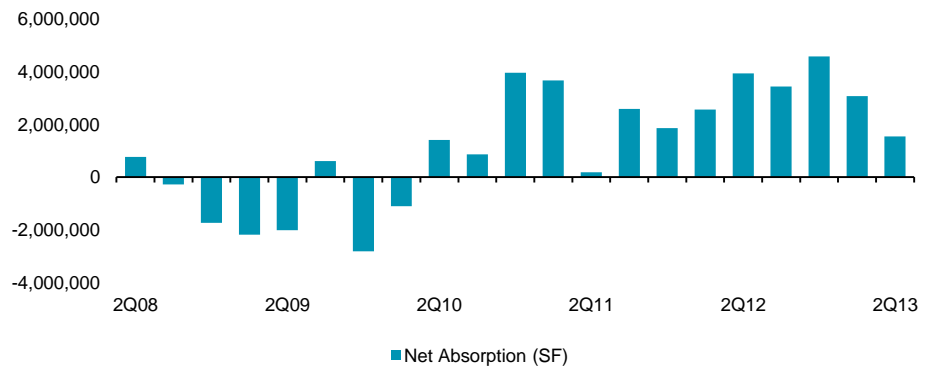
Record high stock levels, sustained low mortgage interest rates, and tepid personal and business spending levels set the national backdrop for a quarter in which Chicago's industrial market experienced 1.5 million square feet of positive net absorption. The completion of two speculative projects – one in the I-80 Corridor and the other in the Fox Valley/North Kane submarket – supplied 1.4 million square feet of empty warehouse space to the market, counterbalancing the positive demand and leaving vacancy unchanged at 9.4%. Renewals dominated second-quarter leasing activity, accounting for five of the region's six largest leases. Impugning the trend was Peacock Engineering's new 532,560-square-foot lease at 1001 West Crossroads in the I-55 Corridor. Overall average asking rental rates mirrored the quarterly leasing market performance, remaining virtually unchanged at \$4.43/sf, triple net.

While the rate at which tenants absorbed space slowed for the second consecutive quarter, developers demonstrated confidence as the under-construction inventory reached 5.2 million square feet – its highest level since 2008. The pull-back in occupancy was attributed to relatively slow leasing activity earlier in the year as businesses struggled to foresee possible effects of the fiscal cliff and sequestration spending cuts. These concerns now are fading, and when combined with a second-quarter boost in leasing activity, both absorption and under-construction rates – primarily in the surging warehouse sector – are expected to continue rebounding into the latter half of 2013. Tenants across

Asking Rent and Vacancy



Absorption



Key Indicators			
Total Inventory (SF)		1,061,045,128	
	2Q13	1Q13	2Q12
Asking Rent (Price/SF)	\$4.43	\$4.45	\$4.30
Vacancy Rate (%)	9.4%	9.4%	10.3%
Under Construction (SF)	5,307,717	3,512,971	1,330,056
	2Q13	1Q13	YTD
Net Absorption (SF)	1,531,815	3,064,271	4,596,086
Deliveries (SF)	1,574,352	1,114,074	2,688,426

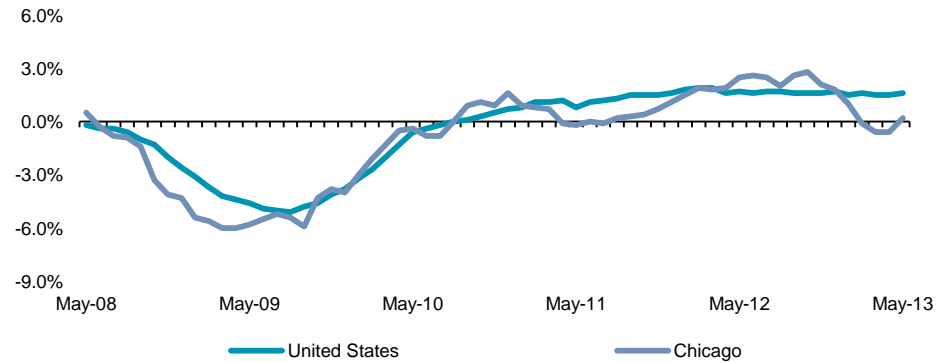


various industries (such as food processing, online retailing building products and food packing) requiring over 600,000 square feet were seen touring distribution space in “hot” submarkets like the Far North, I-55 Corridor and O’Hare during the second quarter. The glut of obsolete USDA food-processing facilities and shortage of large quality high-bay warehouse spaces may encourage several of these tenants to purchase and repurpose, or sign build-to-suit leases.

An improvement in leasing market conditions, coinciding with loosening underwriting, is expected to fuel both user and investment sale activity throughout the remainder of the year. The increase will primarily come as tenants and landlords seek to invest itchy capital into the perceivably less risky real estate asset class. In the longer term, however, Illinois’ \$100 billion unfunded pension liability will likely translate into tax hikes in 2014. This soon will begin to deter both monetary and human capital investment in the region unless elected officials quickly develop a promising altruistic solution.

### Payroll Employment

Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

### Construction and Deliveries

Square Feet, millions



### Select Lease Transactions

Tenant	Building	Submarket	Square Feet
UTI Logistics	800 Bilter Rd	I-88 Corridor	592,672
Peacock Engineering	1001 W Crossroads Pky	I-55 Corridor	532,560
Exel Logistics	1151 E Laraway Rd	I-80 Corridor	420,500
Exel Logistics	875 W Crossroads	I-55 Corridor	395,000
New Breed	850 Veterans Pky	I-55 Corridor	361,176

### Select Sales Transactions

Building	Submarket	Square Feet	Sale Price	Price/SF
450 Central Ave	I-80 Corridor	517,887	\$40,000,000	\$77
702 Commerce Ctr	I-80 Corridor	696,540	\$31,850,000	\$46
8374 N 4000e Rd	I-80 Corridor	1,400,000	\$24,000,000	\$17
4800 S Central Ave	I-55 Corridor	843,157	\$14,600,000	\$17
5100 W 70th Pl	South Cook	433,469	\$6,700,000	\$15



Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central/North DuPage	80,121,683	66,617	7.9%	156,274	276,276	\$3.97	\$9.32	\$4.64
Far North	100,574,719	629,349	10.6%	-15,140	450,297	\$4.25	\$8.20	\$4.89
Fox Valley/North Kane	29,548,057	279,217	8.1%	138,626	71,622	\$4.61	\$9.33	\$4.82
I-39 Corridor	31,474,987	1,800,000	11.9%	58,010	68,818	\$2.44	NA	\$2.70
I-55 Corridor	91,073,407	1,231,710	7.2%	275,333	1,033,731	\$3.78	\$8.79	\$4.38
I-80 Corridor	63,780,121	695,500	16.5%	-693,347	-245,566	\$3.10	\$5.93	\$3.37
I-88 Corridor	65,056,742	0	5.6%	147,959	347,177	\$3.70	\$10.15	\$4.39
McHenry	18,290,768	0	15.3%	-144,900	-368,760	\$3.91	\$4.04	\$4.14
Near North	55,210,920	0	8.1%	194,972	-103,242	\$5.29	\$8.21	\$6.10
North City	82,383,160	0	9.5%	6,236	25,547	\$4.83	\$7.36	\$5.68
Northwest	31,988,567	0	9.1%	586,090	440,231	\$5.00	\$6.69	\$5.66
NW Indiana	22,705,541	0	12.6%	4,750	5,924	\$3.14	\$7.74	\$3.24
O'Hare	120,180,994	420,324	9.2%	1,009,618	1,770,485	\$4.58	\$8.02	\$5.35
South City	108,361,056	0	9.0%	308,703	683,965	\$4.22	\$4.18	\$3.75
South Cook	74,773,412	0	9.2%	-127,275	194,977	\$3.45	\$7.56	\$3.68
South DuPage	8,126,988	185,000	9.2%	-29,468	-26,069	\$4.04	\$11.06	\$7.84
West Cook I	67,781,242	0	8.0%	-365,833	-45,534	\$4.06	\$4.72	\$4.05
West Cook II	9,612,764	0	12.0%	21,207	16,207	\$4.94	\$5.93	\$4.90
<b>Chicago</b>	<b>1,061,045,128</b>	<b>5,307,717</b>	<b>9.4%</b>	<b>1,531,815</b>	<b>4,596,086</b>	<b>\$3.97</b>	<b>\$7.68</b>	<b>\$4.43</b>

Submarket Statistics – By Class					
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)
General Industrial	371,686,550	397,828	9.1%	-146,701	248,237
Incubator	43,679,644	0	4.0%	-262,163	-226,632
R&D/Flex	58,032,073	185,000	12.6%	268,823	249,736
Warehouse/Distribution	587,646,861	4,724,889	9.7%	1,671,856	4,324,745
<b>Chicago</b>	<b>1,061,045,128</b>	<b>5,307,717</b>	<b>9.4%</b>	<b>1,531,815</b>	<b>4,596,086</b>



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## Glossary of Terms

### Absorption

A measure of the change in occupied space

### Availability

Space marketed for lease regardless of when the space will be available or whether the space is vacant or occupied

### Deliveries

The total RBA of properties added to the inventory once construction has been completed

### Direct Space

Available space offered for lease by the building owner, landlord, or owner representative

### Leasing Activity

The volume of leases signed including new leases, direct and sublet leases, extensions and renewals, and leases signed in proposed or under construction buildings

### Occupancy

Any space physically occupied by a tenant, regardless of lease status of the space

### Rentable Building Area (RBA)

A measurement of the total square feet in a building including the tenant and common areas such as the lobby and hallways

### Sublet Space

Available space offered for lease by a building tenant seeking a subtenant to fulfill the remaining lease obligation

### Under Construction

Buildings under construction are defined by the time the foundation is poured through the time the building is certified for occupancy

### Vacancy

Space not physically occupied by a tenant, regardless of the lease status or availability of space

### Weighted Average Rent

Rental rate data refer to space that is available on the market at the end of the quarter. Rates are per square foot, quoted on a triple net basis. Rates for each building are weighted by the amount of available space within the building.

Industrial inventory includes all multi-tenant and single tenant buildings at least 10,000 square feet in total rentable building area. Owner occupied buildings are included in the inventory.

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