

Warehouse/Distribution

McHenry County

🏠 Chicago

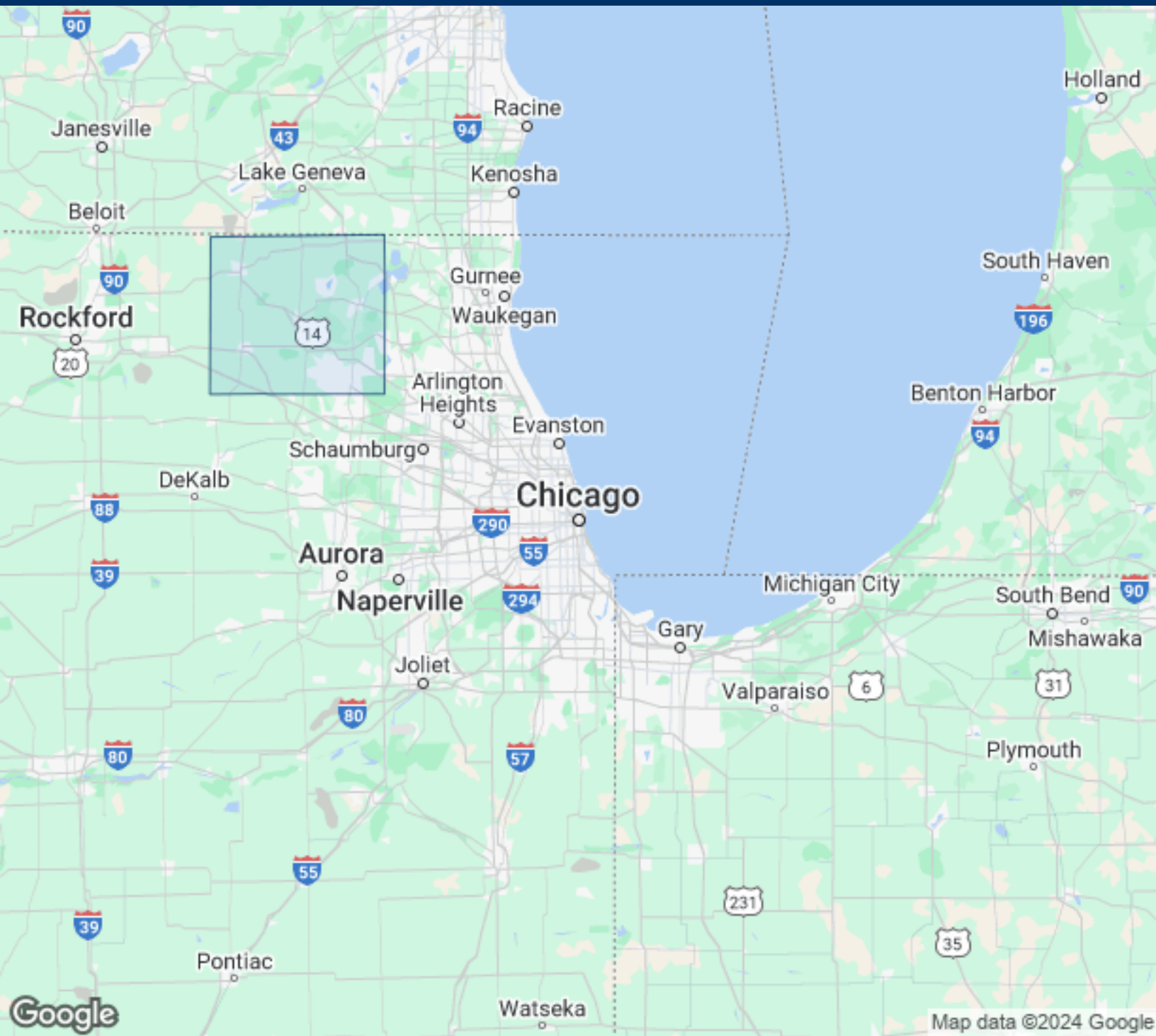
🗺️ Midwestern Region

🇺🇸 United States

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CRE

REPORT GENERATED
October 18, 2024
DATA AS OF Q2 2024



Warehouse/Distribution

McHenry County

McHenry County

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I. EXECUTIVE BRIEFING

AVERAGE ASKING RENT **\$5.55/sqft**

AVERAGE VACANCY **0.9%**

(Published August 2024)

- Rent in the McHenry County submarket was up 0.2% from July.
- Rent is expected to finish 2024 at \$5.66 in the McHenry County submarket.
- Vacancy in the McHenry County submarket drifted upward by 10 basis points.
- The McHenry County submarket had the highest vacancy level since September 2023.

Submarket Overview

With 11.0 million square feet, amounting to 1.7% of the total metro inventory, the McHenry County submarket is the smallest of the thirteen unique Chicago submarkets identified by Reis's researchers. In the ten-year period beginning with Q3 2014, there have been no additions to the submarket, and no space has been removed by developer activity. Although the submarket inventory has remained flat, the metro inventory has grown at an annualized rate of 2.5%.

Asking and Effective Rent

During August, asking rents built upon July's 0.2% increase, rising by an additional 0.2% to \$5.55, higher than only the Southwest Cook County submarket's \$5.16. Over the past twelve months, asking rents have climbed a total of 5.3%, up from \$5.27. The McHenry County submarket's August asking rent levels are lower than the metro's average of \$6.73, while asking rent growth in August compares favorably to the unchanged metro average.

Competitive Inventory, Employment, Absorption

Total employment in the Chicago metropolitan area grew by 14,100 jobs during the second quarter, while industrial employment grew by 4,400. Since the beginning of Q3 2014, the average growth rate for industrial-using employment in Chicago has been 0.3% per year, representing the average annual addition of 1,800 jobs. Over the same time period, the metro posted an average annual absorption rate of 18.1 million square feet. Although metropolitan absorption totaled 113,000 square feet during August, the McHenry County submarket did not contribute to this demand; in fact, tenant outmigration returned a small number of square feet to the available stock. This is the second consecutive month during which this submarket recorded negative absorption, amounting to 4,000 square feet since July 2024. Over the last 12 months, submarket absorption totaled negative 1,000 square feet; by comparison, the average annual absorption rate recorded since the beginning of Q3 2014 is 83,300 square feet. The submarket's average vacancy rate drifted upward by 10 basis points during August to 0.9%, which is 4.2 percentage points lower than the long-term average, and 4.7 percentage points lower than the current metro average.

Executive Briefing (cont.)

Outlook

Reis's new construction observation team reports that no competitive warehouse/distribution stock will be introduced to the submarket through the end of 2026. Between now and year-end, net total absorption will be positive 10,000 square feet. As a result, the vacancy rate will drift downward by 0.1 percentage points to 0.8%. During 2025 and 2026, no additional competitive stock is projected to be introduced to the submarket inventory. Industrial employment growth at the metro level during 2025 and 2026 is expected to average -0.1% annually, but over the same period positive absorption will average 7.8 million square feet per year. The McHenry County submarket will claim virtually none of this demand. The submarket vacancy rate will finish 2025 at 0.8% and will fall 0.1 percentage points to 0.7% by year end 2026. Between now and year-end 2024 asking rents are expected to rise 2.0% to a level of \$5.66, while effective rents will increase by 2.3% to \$5.33. On an annualized basis, asking and effective rents are expected to advance at a rate of 4.2% through year end 2026, reaching average rates of \$6.15 and \$5.79 per square foot, respectively.

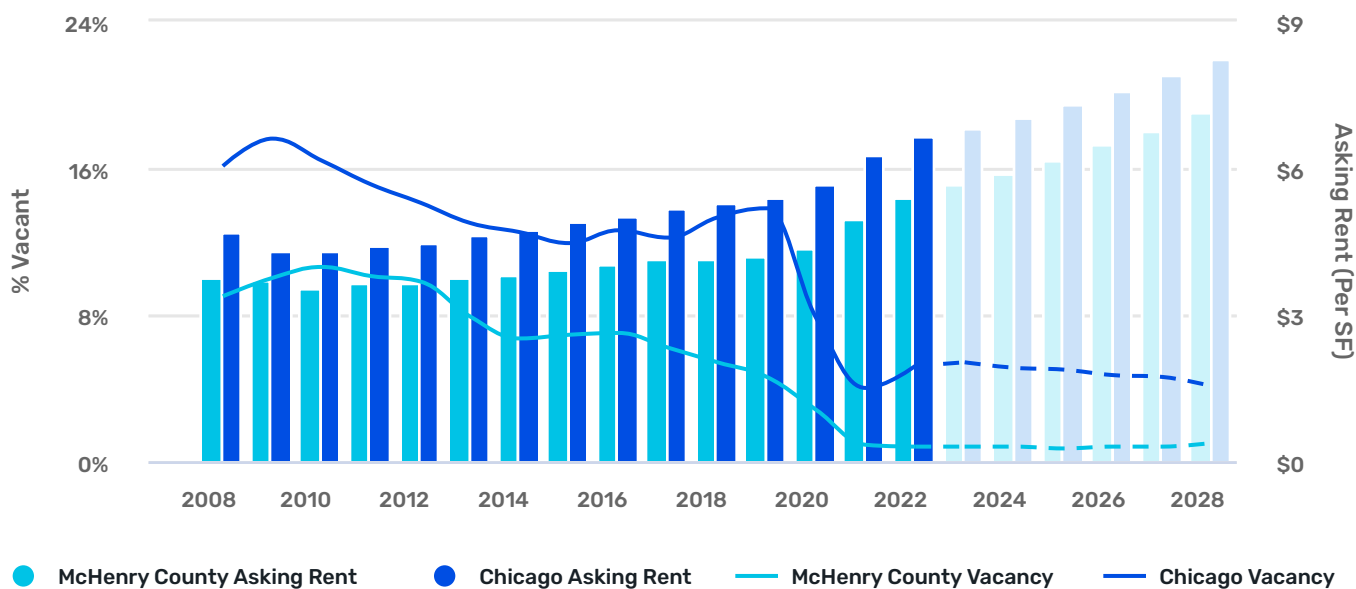
II. OVERVIEW

Key Performance Indicators

<p>Effective Rent PER SF</p> <p>\$5.21</p> <p>↑ from 0.4% Q1 2024</p>	<p>Vacancy Rate</p> <p>0.8%</p> <p>– from 0 Q1 2024</p>	<p>Income Growth PER HOUSEHOLD</p> <p>0.9%</p> <p>↓ vs 0.9% national</p>	<p>Job Growth</p> <p>0.3%</p> <p>↓ vs 0.4% national</p>
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Asking Rent and Vacancy Trends

[View Full Table in Appendix](#)



Year	McHenry County		Chicago	
	Asking Rent per SF	Vacancy Rate %	Asking Rent per SF	Vacancy Rate %
2024	\$5.66	0.8%	\$6.84	5.4%
2025	\$5.90	0.8%	\$7.06	5.1%
2026	\$6.15	0.7%	\$7.31	5.0%
2027	\$6.48	0.8%	\$7.59	4.7%
2028	\$6.78	0.8%	\$7.89	4.6%
2029	\$7.16	1.0%	\$8.22	4.1%

Submarket Performance

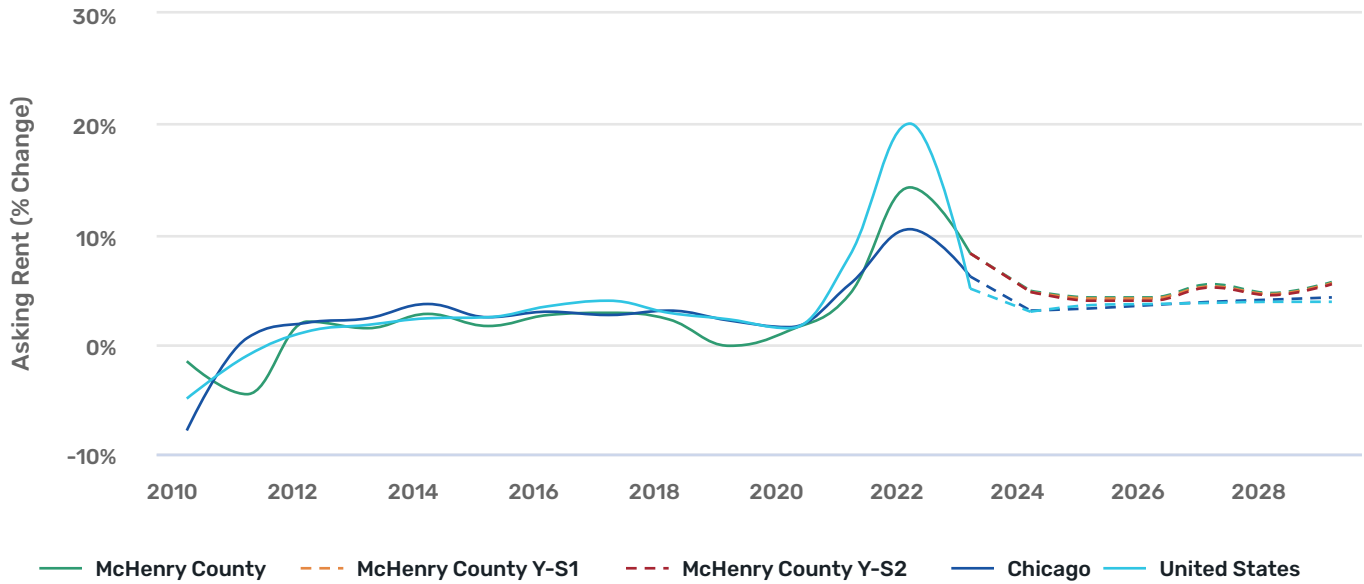
Year	Quarter	Asking Rent Per SF	Asking Rent % Change	Effective Rent Per SF	Effective Rent % Change	% Vacant	% Vacant Change in BPS
2021	Q1	\$4.17	-0.2%	\$3.79	-0.5%	5.0%	40
2021	Q2	\$4.17	0.0%	\$3.82	0.8%	4.9%	-10
2021	Q3	\$4.28	2.6%	\$3.96	3.7%	3.4%	-150
2021	Q4	\$4.37	2.1%	\$4.07	2.8%	2.8%	-60
2021	Y	\$4.37	4.5%	\$4.07	6.8%	2.8%	-180
2022	Q1	\$4.50	3.0%	\$4.18	2.7%	2.0%	-80
2022	Q2	\$4.72	4.9%	\$4.41	5.5%	1.2%	-80
2022	Q3	\$4.88	3.4%	\$4.58	3.9%	0.9%	-30
2022	Q4	\$4.99	2.3%	\$4.68	2.2%	0.9%	0
2022	Y	\$4.99	14.2%	\$4.68	15.0%	0.9%	-190
2023	Q1	\$5.10	2.2%	\$4.79	2.4%	0.9%	0
2023	Q2	\$5.24	2.7%	\$4.93	2.9%	0.9%	0
2023	Q3	\$5.36	2.3%	\$5.04	2.2%	0.9%	0
2023	Q4	\$5.40	0.7%	\$5.08	0.8%	0.8%	-10
2023	Y	\$5.40	8.2%	\$5.08	8.5%	0.8%	-10
2024	Q1	\$5.51	2.0%	\$5.19	2.2%	0.8%	0
2024	Q2	\$5.53	0.4%	\$5.21	0.4%	0.8%	0

Submarket Inventory

Year	Quarter	Inventory Per SF	Completions Per SF	Inventory % Growth	Vacant Stock In SF	Occupied Stock In SF	Net Absorption In SF
2021	Q1	11,036,000	0	0.0%	550,000	10,486,000	-44,000
2021	Q2	11,036,000	0	0.0%	537,000	10,499,000	13,000
2021	Q3	11,036,000	0	0.0%	373,000	10,663,000	164,000
2021	Q4	11,036,000	0	0.0%	306,000	10,730,000	67,000
2021	Y	11,036,000	0	0.0%	306,000	10,730,000	200,000
2022	Q1	11,036,000	0	0.0%	221,000	10,815,000	85,000
2022	Q2	11,036,000	0	0.0%	128,000	10,908,000	93,000
2022	Q3	11,036,000	0	0.0%	95,000	10,941,000	33,000
2022	Q4	11,036,000	0	0.0%	97,000	10,939,000	-2,000
2022	Y	11,036,000	0	0.0%	97,000	10,939,000	209,000
2023	Q1	11,036,000	0	0.0%	97,000	10,939,000	0
2023	Q2	11,036,000	0	0.0%	96,000	10,940,000	1,000
2023	Q3	11,036,000	0	0.0%	95,000	10,941,000	1,000
2023	Q4	11,036,000	0	0.0%	93,000	10,943,000	2,000
2023	Y	11,036,000	0	0.0%	93,000	10,943,000	4,000
2024	Q1	11,036,000	0	0.0%	92,000	10,944,000	1,000
2024	Q2	11,036,000	0	0.0%	92,000	10,944,000	0

Scenarios: Asking Rent Per SF

[View Full Table in Appendix](#)



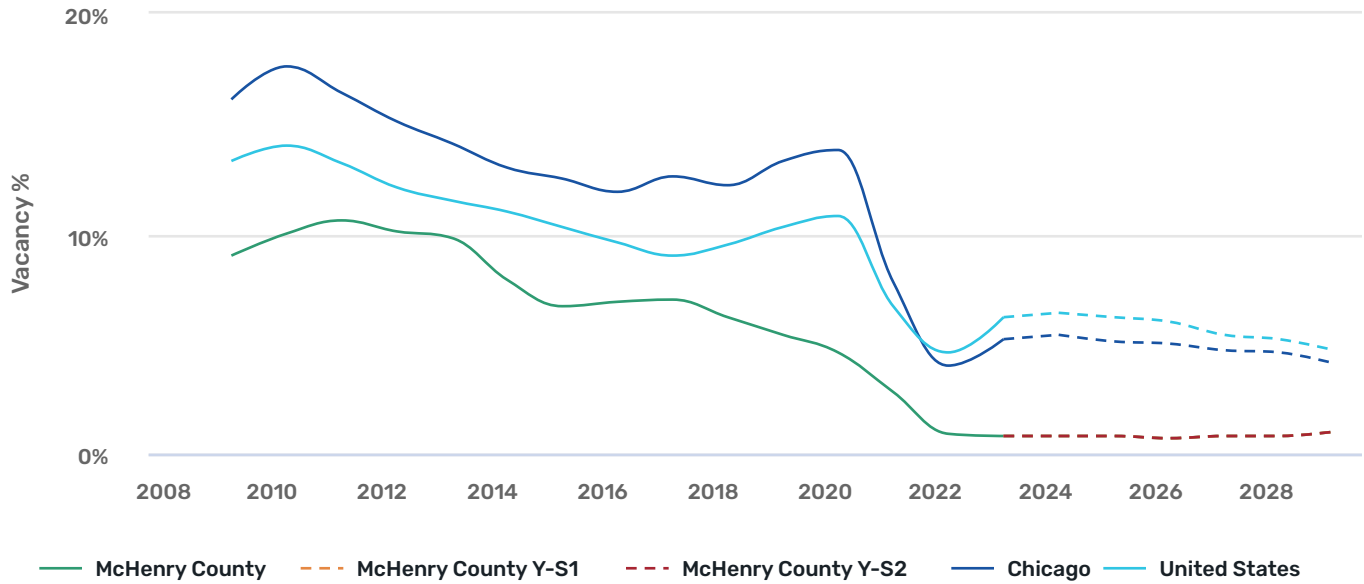
Year	McHenry County			Chicago	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2024	4.8%	4.7%	4.7%	3.0%	2.9%
2025	4.2%	4.1%	3.9%	3.2%	3.5%
2026	4.2%	4.1%	3.9%	3.5%	3.6%
2027	5.4%	5.2%	5.1%	3.8%	3.7%
2028	4.6%	4.5%	4.4%	4.0%	3.8%
2029	5.6%	5.5%	5.4%	4.2%	3.8%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Vacancy

[View Full Table in Appendix](#)



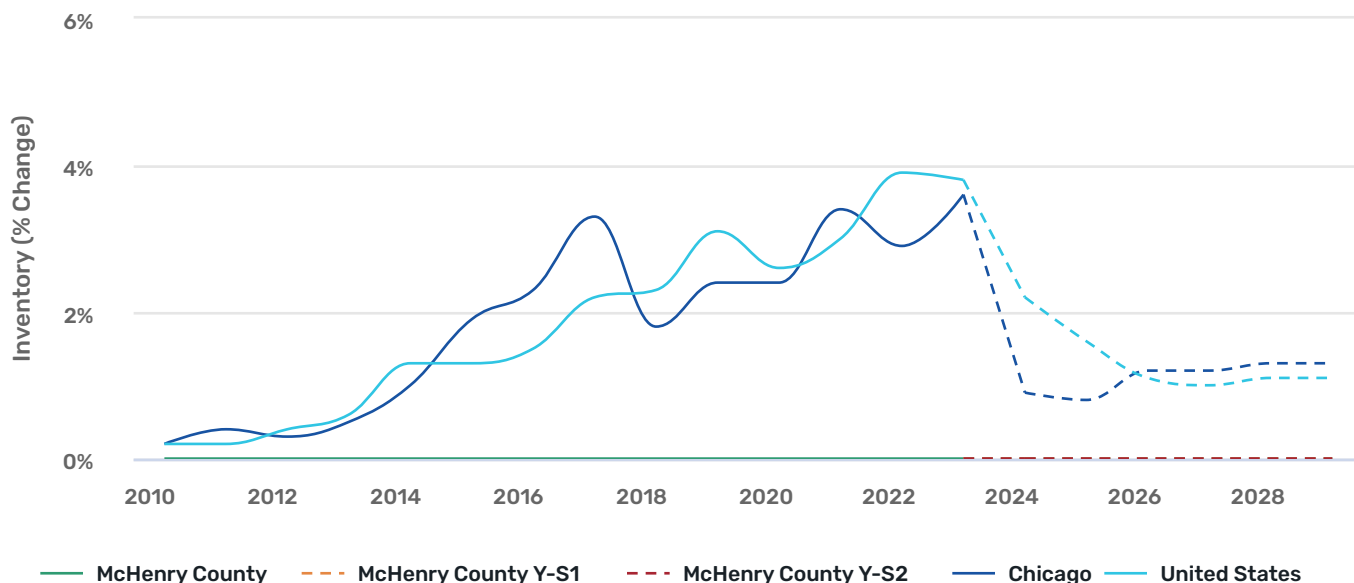
Year	McHenry County			Chicago	United States
	% Vacant	S1 - % Vacant ¹	S2 - % Vacant ²	% Vacant	% Vacant
2024	0.8%	0.8%	0.8%	5.4%	6.4%
2025	0.8%	0.8%	0.8%	5.1%	6.2%
2026	0.7%	0.7%	0.7%	5.0%	6.0%
2027	0.8%	0.8%	0.8%	4.7%	5.4%
2028	0.8%	0.8%	0.8%	4.6%	5.2%
2029	1.0%	1.0%	1.0%	4.1%	4.7%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Inventory

[View Full Table in Appendix](#)



Year	McHenry County			Chicago	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2024	0.0%	0.0%	0.0%	0.9%	2.2%
2025	0.0%	0.0%	0.0%	0.8%	1.6%
2026	0.0%	0.0%	0.0%	1.2%	1.1%
2027	0.0%	0.0%	0.0%	1.2%	1.0%
2028	0.0%	0.0%	0.0%	1.3%	1.1%
2029	0.0%	0.0%	0.0%	1.3%	1.1%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Annualized Construction/Absorption (Historical 1 Year and 3 Year)

	1 Year History			3 Year History		
	SF Built Ending 12/31/2023	SF Absorbed Ending 12/31/2023	Con/Abs Ratio Ending 12/31/2023	SF Built Ending 12/31/2023	SF Absorbed Ending 12/31/2023	Con/Abs Ratio Ending 12/31/2023
McHenry County	-	-	-	-	-	-
Chicago	-	-	-	-	-	-
Midwestern Region	-	-	-	-	-	-

Annualized Construction/Absorption (Historical 5 Year and Forecasted)

	5 Year History			5 Year Forecast		
	SF Built Ending 12/31/2023	SF Absorbed Ending 12/31/2023	Con/Abs Ratio Ending 12/31/2023	SF Built Ending 12/31/2028	SF Absorbed Ending 12/31/2028	Con/Abs Ratio Ending 12/31/2028
McHenry County	-	-	-	0	400	0
Chicago	-	-	-	7,348,400	7,805,800	0.94
Midwestern Region	-	-	-	23,307,400	25,806,400	0.9

Quarterly Construction/Absorption (Current and Previous Quarters)

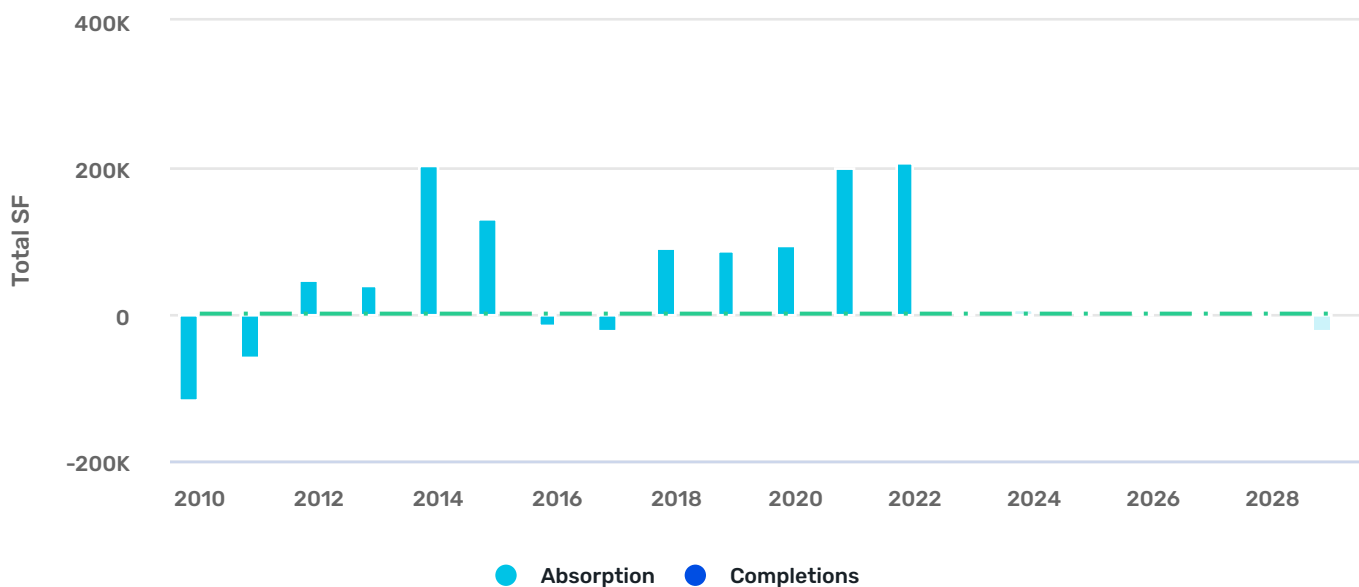
	Q2 2024			Q1 2024		
	SF Built Ending 6/30/2023	SF Absorbed Ending 6/30/2023	Con/Abs Ratio Ending 6/30/2023	SF Built Ending 3/31/2023	SF Absorbed Ending 3/31/2023	Con/Abs Ratio Ending 3/31/2023
McHenry County	0	0	-	0	1,000	0
Chicago	1,001,000	-1,035,000	-1	1,383,000	790,000	1.8
Midwestern Region	3,969,000	1,204,000	3.3	5,066,000	3,992,000	1.3

Quarterly Construction/Absorption (YTD)

	YTD Average		
	SF Built	SF Absorbed	Con/Abs Ratio
McHenry County	0	500	0
Chicago	1,192,000	-122,500	-9.7
Midwestern Region	4,517,500	2,598,000	1.7

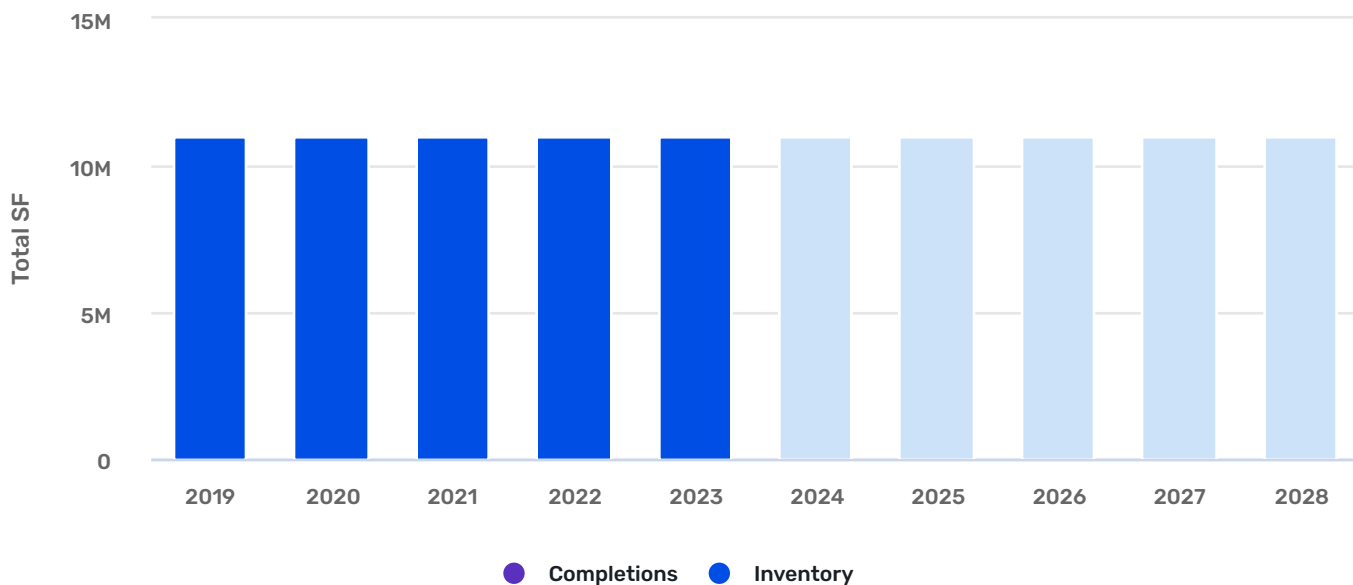
Absorption Trends

[View Full Table in Appendix](#)



New Construction Trends

[View Full Table in Appendix](#)

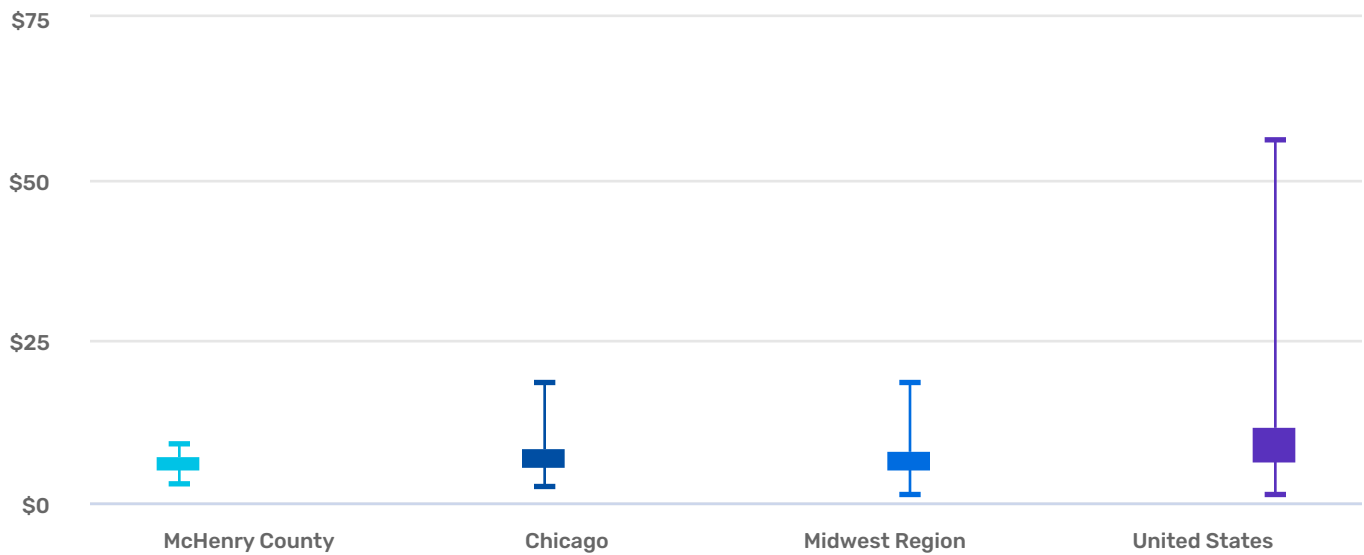


III. PERFORMANCE

Performance By Vintage

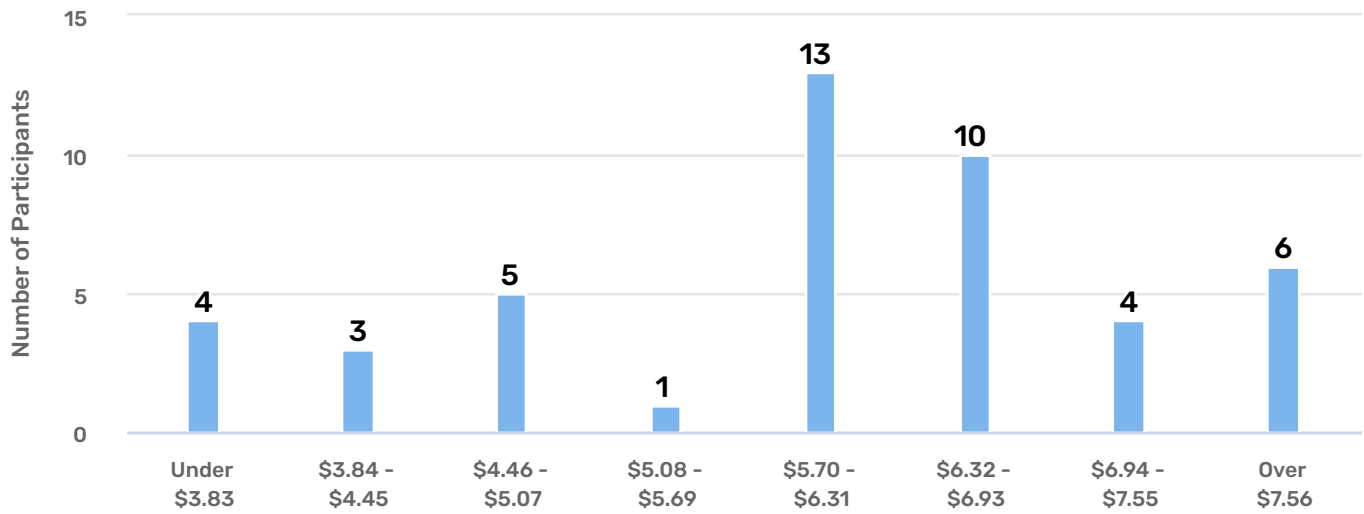
Year Built	Asking Rent (Per SF)	% Vacant	Inventory %
Before 1970	\$6.39	5.3%	12.0%
1970-1979	\$5.13	0.0%	5.0%
1980-1989	\$5.60	10.8%	8.0%
1990-1999	\$5.89	0.9%	24.0%
2000-2009	\$4.09	2.0%	51.0%
2010-2019	-	-	0.0%
After 2019	-	-	0.0%
All	\$5.55	0.9%	100.0%

Rent Distribution Benchmark (Per SF)



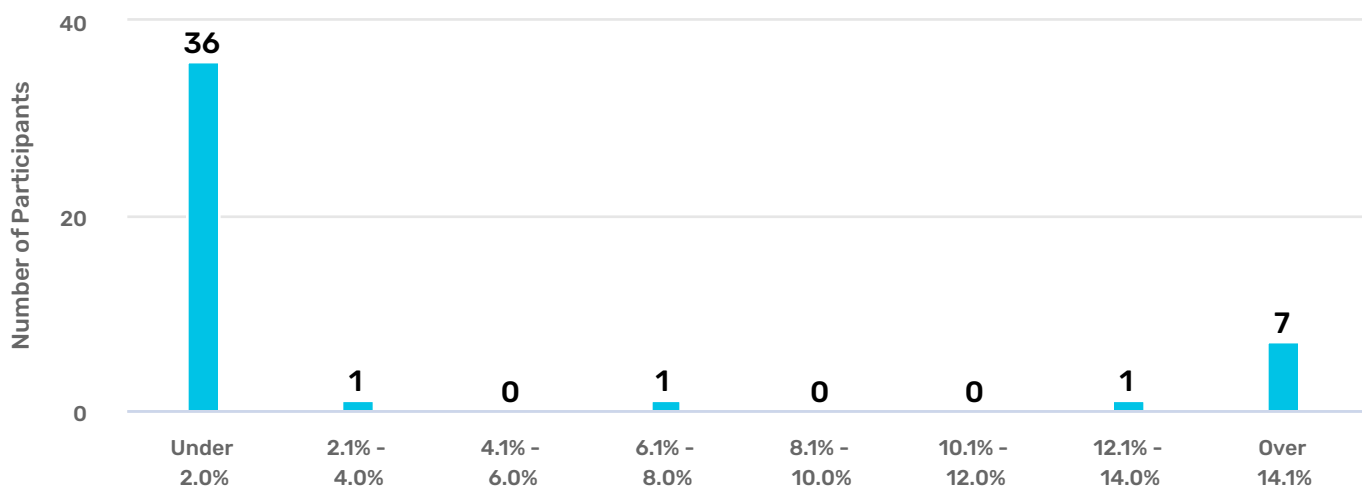
	Minimum Rent	Lower Quartile Rent	Median Rent	Upper Quartile Rent	Maximum Rent
McHenry County	\$2.68	\$5.08	\$6.08	\$6.64	\$8.96
Chicago	\$2.27	\$5.71	\$6.83	\$8.10	\$18.45
Midwest Region	\$0.88	\$5.05	\$6.16	\$7.44	\$18.45
United States	\$0.88	\$6.26	\$8.35	\$11.40	\$55.70

Asking Rent Distribution Per SF



Low	25%	Mean	Median	75%	High
\$3.21	\$3.21	\$5.55	\$5.01	\$6.40	\$7.51

Vacancy Distribution



Low	25%	Mean	Median	75%	High
0.0%	0.0%	0.9%	0.0%	0.0%	23.4%

IV. SUBMARKETS

CRE Fundamentals: REIS Rank, Asking Rent, Vacancy, Inventory

Submarket Name	REIS Rank*	Inventory SF	Inventory Buildings	Asking Rent SF	Vacancy	Vacancy % Change bps
Dupage County	272	105,344,000	1,081	\$7.12	2.2%	50
I-55 N/Will County	443	74,747,000	303	\$6.70	8.7%	180
Kane County	92	49,932,000	484	\$6.88	6.8%	160
Lake County	363	43,874,000	640	\$6.92	5.0%	20
McHenry County	41	11,036,000	118	\$5.55	0.9%	-10
North Chicago	200	39,409,000	558	\$7.31	6.3%	-30
North Cook County	187	22,993,000	305	\$7.79	5.5%	-30
North O'Hare	509	35,223,000	493	\$6.25	10.0%	340
O'Hare	332	66,687,000	1,086	\$7.63	3.9%	70
South Chicago	98	71,910,000	530	\$5.88	3.9%	-20
South Will County	81	68,991,000	244	\$6.63	8.7%	-50
Southwest Cook County	116	28,354,000	178	\$5.16	5.0%	30
West Cook County	304	48,262,000	389	\$6.37	5.8%	120

Concessions: CRD, Effective Rent, Expenses, Free Rent, Lease Term

Submarket Name	CRD %	Free Rent Mos	Expenses \$	Effective Rent SF	Lease Terms Years
Dupage County	-2.2%	6.3	\$1.30	\$6.80	2.4
I-55 N/Will County	-3.0%	6.6	\$1.60	\$6.41	2.29
Kane County	-2.5%	6.3	\$2.10	\$6.53	2.29
Lake County	-0.5%	6.4	\$2.60	\$6.52	2.2
McHenry County	-4.1%	4.09	\$5.00	\$5.21	2.29
North Chicago	-2.8%	6.9	\$6.20	\$6.86	1.9
North Cook County	-7.3%	6.7	\$6.70	\$7.27	2.29
North O'Hare	-4.1%	6.6	\$4.30	\$5.73	2.4
O'Hare	-3.7%	6.3	\$1.90	\$7.14	2.4
South Chicago	-3.5%	7.5	\$4.40	\$5.60	2.9
South Will County	-6.2%	6.6	\$2.80	\$6.25	3.6
Southwest Cook County	-6.9%	6.7	\$2.80	\$4.76	3.4
West Cook County	-4.6%	7.1	\$3.60	\$6.00	2.2

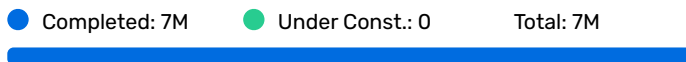
*There are 568 submarkets in the Warehouse/Distribution sector nationally.

V. NEW CONSTRUCTION

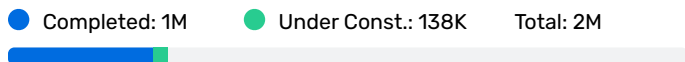
Submarket Project Tally (as of 10/08/2024)

[View Full Table in Appendix](#)

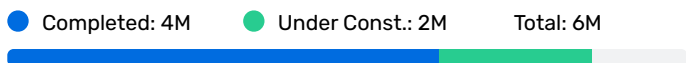
South Will County



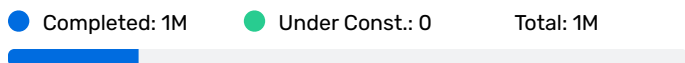
Southwest Cook County



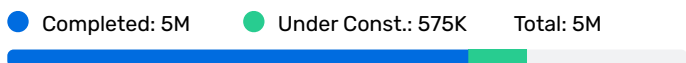
I-55 N/Will County



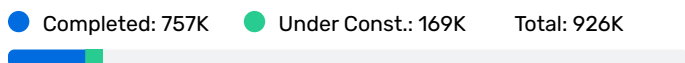
North Chicago



Kane County



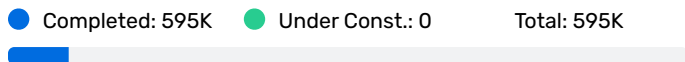
South Chicago



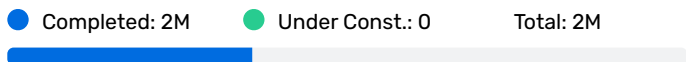
West Cook County



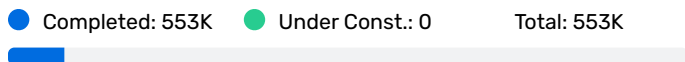
O'Hare



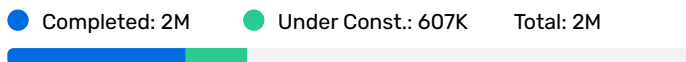
North O'Hare



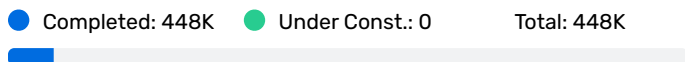
Lake County



Dupage County



North Cook County



VI. TRANSACTIONS

Key Performance Indicators (2024 YTD)

Transaction Volume
MCHENRY COUNTY

\$3.175M

Number of Transactions
MCHENRY COUNTY

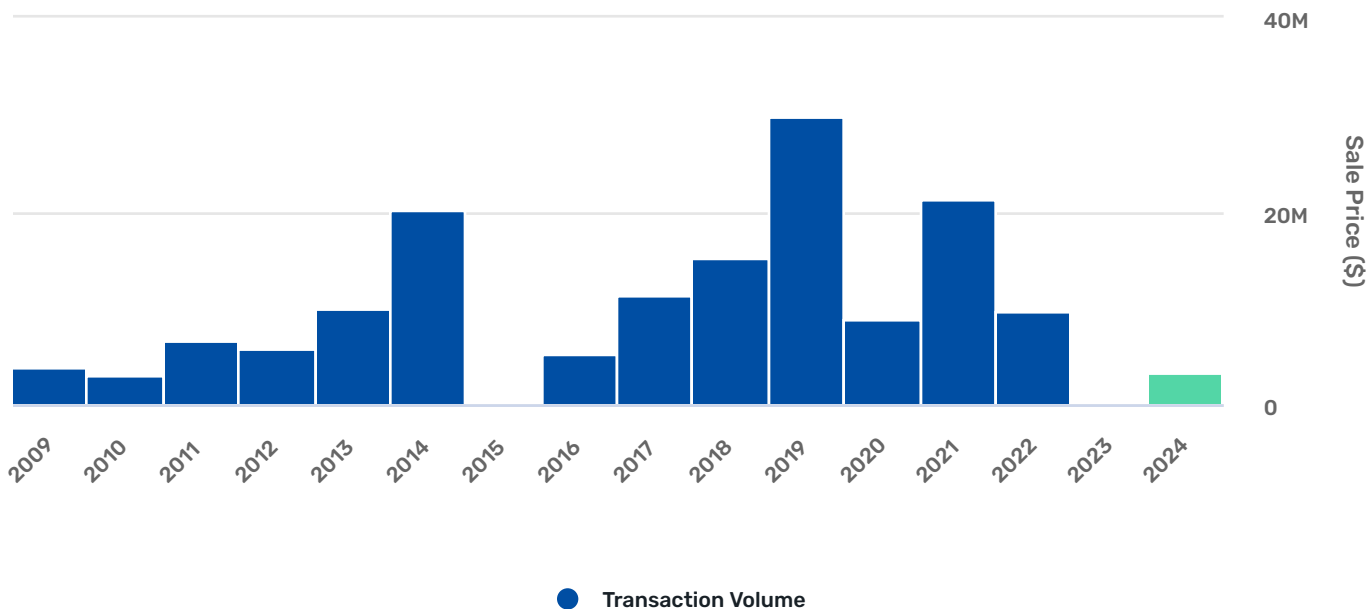
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12 Month Rolling Cap Rate
MCHENRY COUNTY

-

Sales Trends

[View Full Table in Appendix](#)



Sales Trends - Quarterly

Year	Quarter	Transaction Volume (\$)	Number of Transactions	Mean Sale Price	Median Sale Price	Mean Transaction Cap Rate	Median Transaction Cap Rate
2021	Q1	\$2.55M	1	\$86.75	\$86.75	-	-
2021	Q2	\$4.255M	1	\$58.77	\$58.77	-	-
2021	Q3	\$14.415M	1	\$101.42	\$101.42	-	-
2022	Q1	\$6.5M	1	\$47.17	\$47.17	-	-
2022	Q2	\$3.25M	1	\$102.24	\$102.24	2.8%	2.8%

10 Largest Transactions (2024 YTD)

Address	City	State	Sale Price ¹²	Sale Price Per SQFT	Sale Date	Size sf
11921 Smith Dr	Huntley	IL	\$3,174,500	\$127.00	09/04/2024	24,844

1: Only includes transactions that are verified

2: Any transactions missing a sale price did not have their sale price disclosed at time of sale

10 Most Recent Transactions

Address	City	State	Sale Price ¹	Sale Price Per SQFT	Sale Date	Size sf
11921 Smith Dr	Huntley	IL	\$3,174,500	\$127.00	09/04/2024	24,844
470 Jennings Dr	Lake In The Hills	IL	\$950,000	\$66.37	12/05/2023	14,314
1258 N Rose Farm Rd	Woodstock	IL	\$740,000	\$48.00	08/29/2023	15,239
4019 High Street	Richmond	IL	\$1,200,000	\$29.52	05/31/2023	40,647
111 Erick Street	Crystal Lake	IL	\$168,500	\$3.13	03/01/2023	53,912
480 Scotland Road	Lakemoor	IL	\$728,500	\$48.16	02/20/2023	15,126
1258 N Rose Farm Rd	Woodstock	IL	\$390,000	\$25.59	12/06/2022	15,239
5712 Weatherstone Way	Johnsburg	IL	\$600,000	\$32.39	11/12/2022	18,526
2309 N Ringwood Rd	McHenry	IL	\$120,000	\$2.52	07/29/2022	47,591
690 Stanford Dr	Marengo	IL	\$250,000	\$16.14	07/26/2022	15,485

¹: Any transactions missing a sale price did not have their sale price disclosed at time of sale

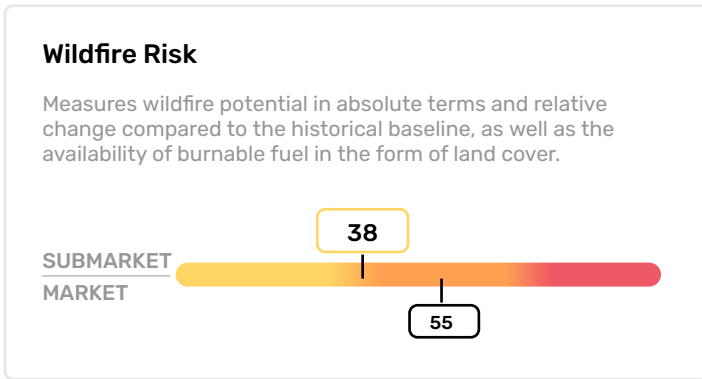
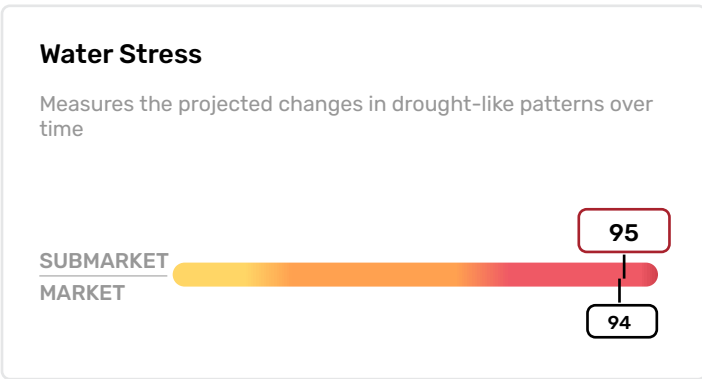
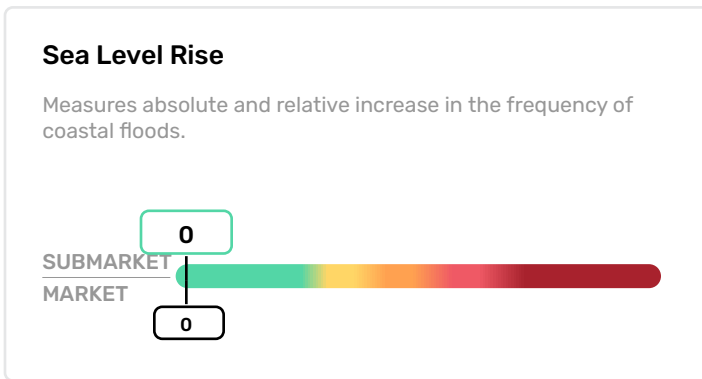
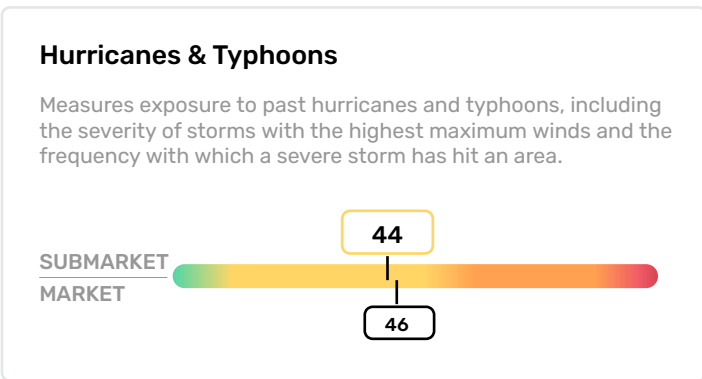
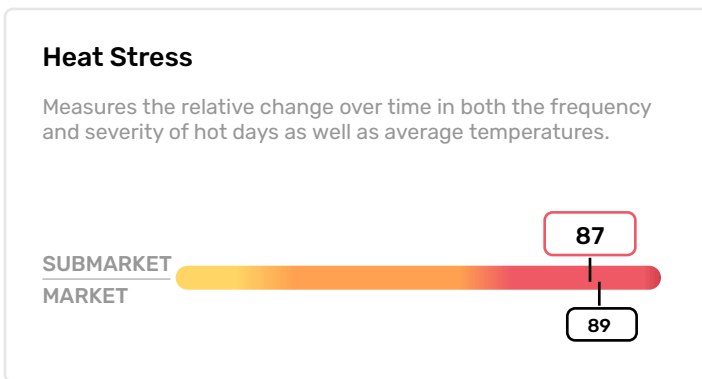
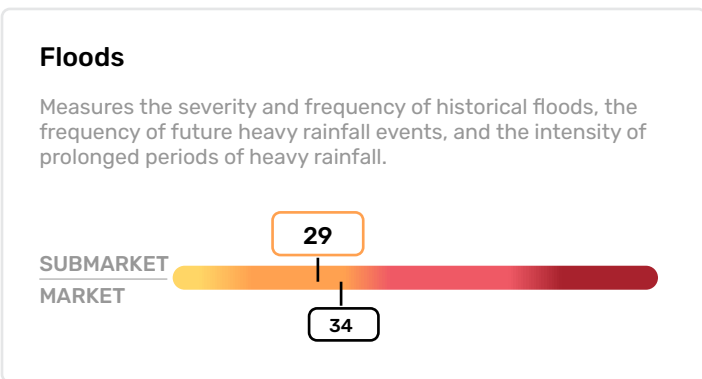
VII. CLIMATE RISK

Highest Risk Category

Water Stress
RED FLAG

Highly exposed to historical and/or projected risks, indicating high potential for negative impacts

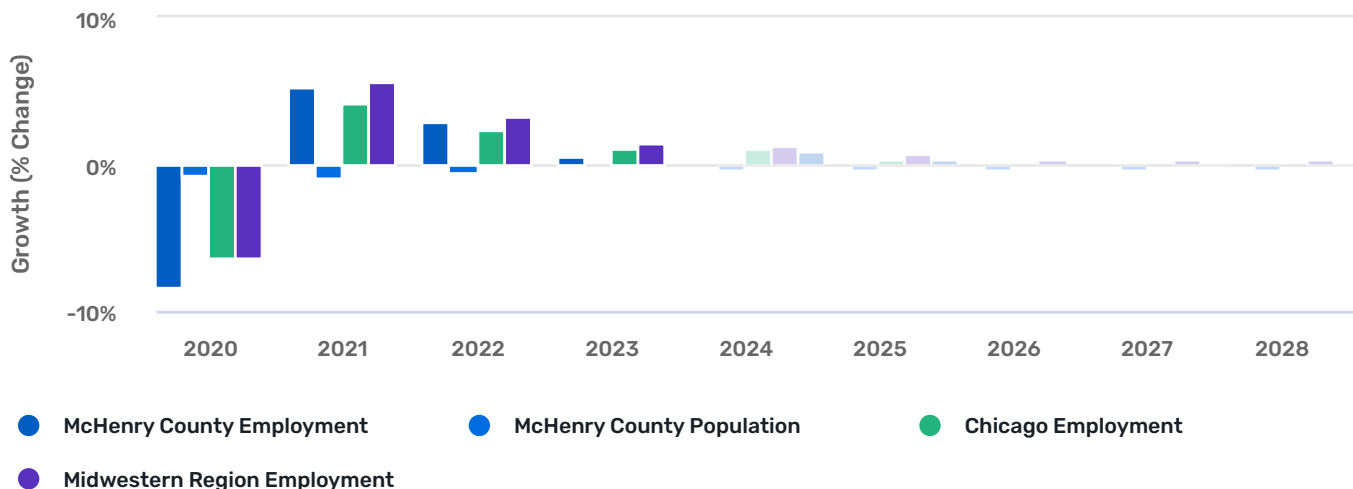
Risk Categories



VIII. DEMOGRAPHICS

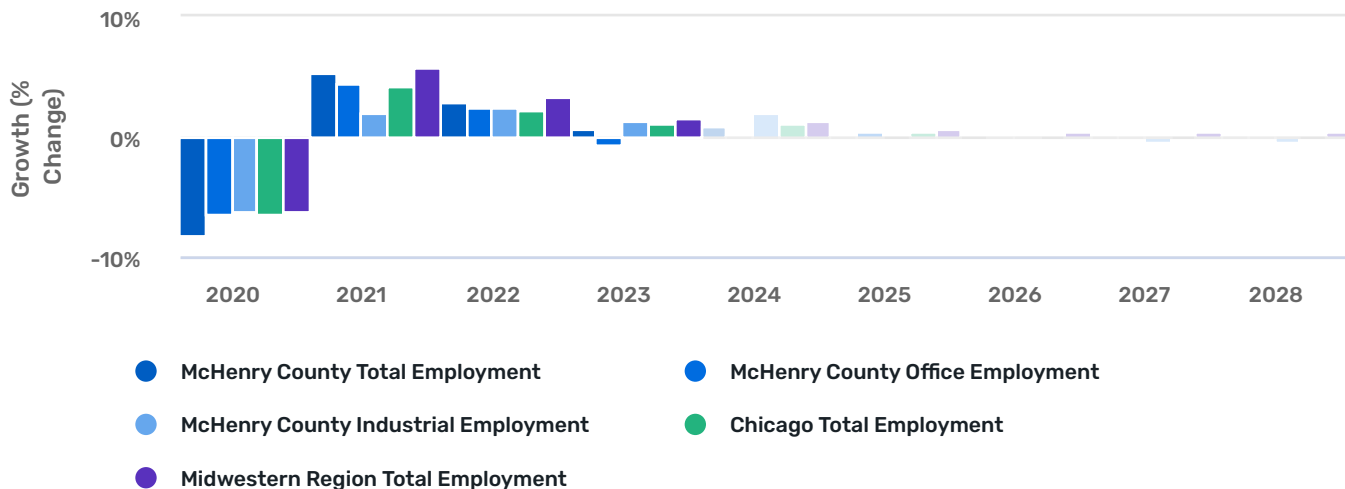
Employment and Population Growth

[View Full Table in Appendix](#)



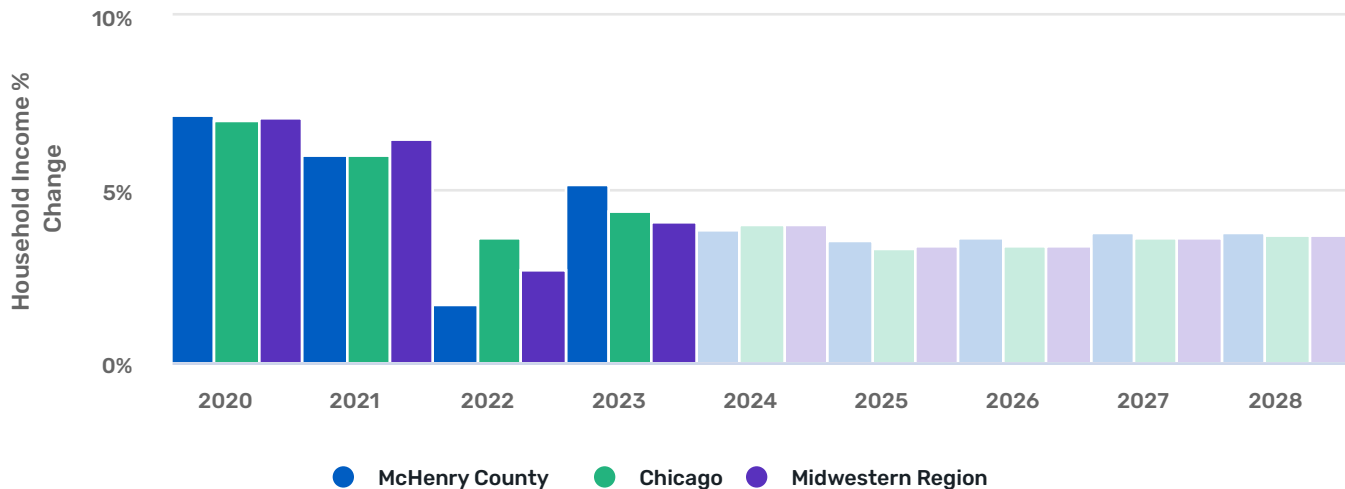
Employment Growth

[View Full Table in Appendix](#)



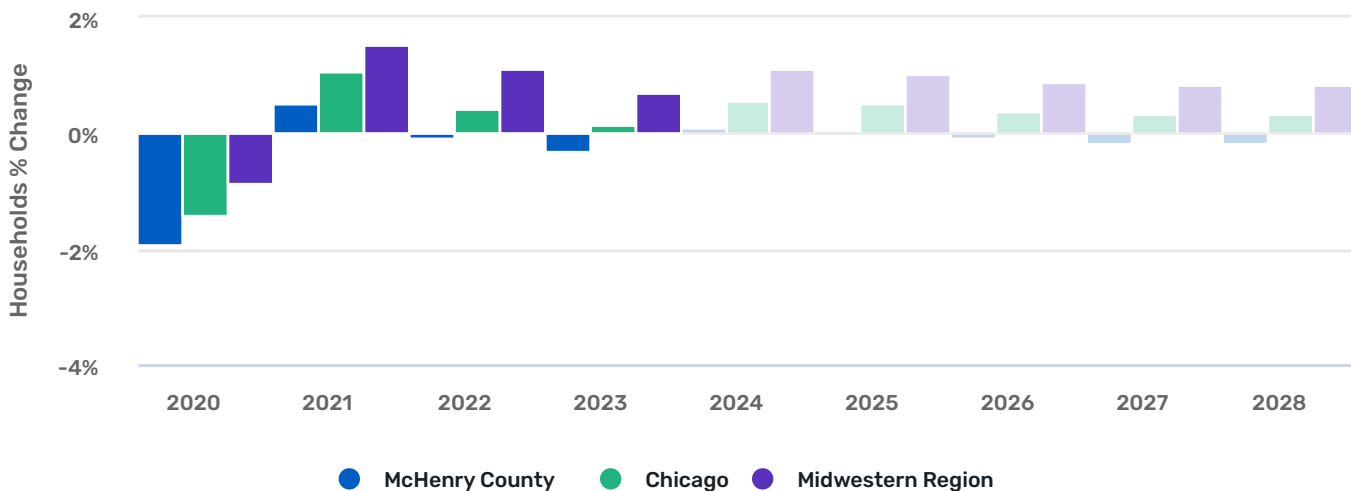
Household Income Growth

[View Full Table in Appendix](#)



Household Growth

[View Full Table in Appendix](#)



IX. THE INSIGHT

Last Updated: 08/18/2024

Key Performance Indicators

<p>Effective Rent PER SF</p> <p>\$5.21</p> <p>↑ from 0.4% Q1 2024</p>	<p>Vacancy Rate</p> <p>0.8%</p> <p>– from 0 Q1 2024</p>	<p>Income Growth PER HOUSEHOLD</p> <p>0.9%</p> <p>↓ vs 0.9% national</p>	<p>Job Growth</p> <p>0.3%</p> <p>↓ vs 0.4% national</p>
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Economic Overview

Author: Nick Villa, Associate Director, Economist

After falling by 25 basis points (bps) to end 2023, Chicago's total employment rebounded in the first half of 2024, increasing by nearly half a percentage point, which translates into almost 20,000 jobs. Chicago has been able to fully recover the substantial job losses that were incurred during the early days of the pandemic, with the metro's total employment currently higher by 47-bps / 19,200 jobs – relative to Q4 2019. For context, total employment at the national level increased by 455-bps over this period, highlighting Chicago's sluggish recovery. In addition to lagging behind the ensuing U.S. recovery, over the first half of 2024, Chicago's employment growth also fell short of its regional benchmark, the Midwest. Albeit, the differential was smaller with employment growth for Midwestern Region increasing by 56-bps over the first six months of the year. Moreover, industrial employment in Chicago has fared better than office with job losses for the latter not quite back to its pre-pandemic level. That said, concerns linger for the effects of persistent out-migration; although, we expect the growth of the logistics industry to continue to prop up the local economy as well as have knock on effects for other sectors. Quality infrastructure and prime location make Chicago well positioned to maintain its comparative advantages in logistics, and multinational goods producing firms will continue to find it advantageous to locate professional and business services jobs nearby.

Economic Overview (cont.)

Beginning with the apartment sector, asking and effective rents in Chicago declined annually by 50-bps and 110-bps, respectively, in 2023. In particular, the fourth quarter of 2023 reported the worst rent growth in three and a half years with asking rents declining by 160-bps. Over the first half of 2024, however, asking and effective rents rebounded slightly – up 74-bps and 88-bps year-to-date (YTD) – in particular due to a stronger second quarter. Moreover, Chicago's vacancy rate held steady in the second quarter at 5.2%, which ranks it around the middle of the pack among our top 82 primary multifamily markets with the 43rd lowest vacancy rate. Additionally, we continue to see a large differential in the vacancy rates between Class A and Class BC properties. For example, Class A properties had a vacancy rate of 8.6% in Q2 while class BC properties had a vacancy rate of 2.9% – corresponding to a differential of 5.7%, which was tied with last quarter for the highest on record. For context, since 1999, the Class A – BC vacancy differential has averaged about 1.87%. While the latest vacancy rate differential between class types is clearly elevated relative to historical standards, the trend of higher-occupancy BC units can effectively be traced back to 2013. The reasons behind the delta are likely twofold. First, completions for class A units have far outpaced those of class BC. For instance, from 2020 to YTD 2024 completions totaled 26,927 class A units yet only 1,739 class BC units. Furthermore, in 1999, class BC units accounted for 69% of Chicago's inventory, yet by the second quarter of 2024, this ratio has fallen by just over ten percentage points to 58.7%. The limited supply of more affordable BC units brings me to my next point, wage growth. The median household income in Chicago increased at a compound annual growth rate (CAGR) of 4.0% since the end of 2019, yet multifamily asking rents outpaced wages – with a CAGR of 4.3% instead. Hence, the limited supply of class BC units coupled with an erosion of purchasing power has helped boost the demand for lower end housing units. Ultimately, the gap in vacancy rates is likely to persist until we see a meaningful increase in new construction especially on the lower end of the housing market. In a similar vein, among the Tier 1 markets that we track rent-to-income (RTI) ratios for, Chicago ranked #16 in terms of least affordable metro with a RTI ratio of 24.5%. Turning to submarkets, the quarterly change in effective rent was positive for 18 of Chicago's 25 submarkets. City West was the top performing submarket with 2.8% quarterly effective rent growth despite having the highest vacancy rate among submarkets at 9.3%.

Economic Overview (cont.)

Moving to office, the market has largely stagnated since the beginning of the pandemic with several large companies such as Tyson Foods, Boeing, Caterpillar, and Citadel exiting the metro. Despite these headlines, however, leasing activity in 2022 was the strongest since 1994 with net absorption increasing by 5.7 million square feet. In 2023, however, net absorption of 267 thousand square feet was well-below the metro's long-term average. Additionally, over the first half of 2024, net absorption was negative -1.7 million square feet in particular due to a weak second quarter. Given weak second quarter leasing activity, its vacancy rate rose by 90-bps to 19.0%, ranking Chicago #29 in terms of the lowest vacancy rate across our top 82 primary office metros. This puts Chicago's vacancy rate as 110-bps lower than the national average of 20.1% and 150-bps higher than its pre-pandemic level. Class A properties have maintained lower vacancy rates since the pandemic; although, the relative outperformance over class BC offices has narrowed from 620-bps in 2019 to 170-bps as of Q2 2024. Specifically, class A office vacancy rates increased by 260-bps from 2019 to Q2 2024 while class BC office vacancy rates actually decreased by 160-bps over this period. In short, class performance has been nuanced with flight to quality effects diminishing. Turning to asking rents, they were slightly positive (at 37-bps) quarter-over-quarter and as of Q2 2024, they were 1.8% higher than Q4 2019. Lastly, there has been substantial divergence in performance among submarkets. For instance, among Chicago's 13 office submarkets, the Northwest Suburbs had the highest vacancy rate in the second quarter at 31.7% yet North Michigan Avenue and South Loop were significantly lower at 9.2%.

Chicago's retail sector has been more resilient than expected especially considering how worsening crime rates have besieged the city - especially flagship stores on the Magnificent Mile. Retailers such as Old Navy, Macy's, and Gap (among others) have all vacated space there since the COVID-19 shutdowns and ensuing riots back in 2020. Nonetheless, given outmigration and e-commerce, a decline in brick-and-mortar's performance in the "Windy City" would not have shocked many. Instead, space market performance has been more resilient-than-expected. Net absorption, for example, was positive over the last three years - although, at the midpoint of 2024, it was down approximately 250 thousand square feet. Still, despite Chicago's first half weakness in leasing activity, its retail vacancy rate only moved 20-bps higher YTD to 13.2%. Notably, its vacancy rate is still 90-bps above its year-end 2019 level. Consequently, this ranked Chicago's retail vacancy rate as the 13th highest across our top 80 primary retail metros - for additional context, the national average was 10.4%. Further, effective rents were essentially flat mid-way through the year and nearly at parity with pre-pandemic levels. With respect to submarkets, 9 out of 13 reported flat or positive quarterly effective rent growth. Submarket dispersion was minimal considering the top performing submarket, Far Northwest, saw effective rents grow 70-bps QoQ, while the bottom performing submarket, South, reported a QoQ decline of 50-bps.



Economic Overview (cont.)

Finally, after stellar performance for the industrial sector over the past few years, there were further signs of deceleration this quarter; albeit the fundamentals are still solid. Recall, the vacancy rate declined precipitously in 2021 by 6 percentage points and nearly another 4 percentage points in 2022. In 2023, however, completions hit a record of nearly 23 million square feet which helped to push the vacancy rate higher by just over 1 percentage point. Over the first half of 2024, the vacancy rate for warehouse and distribution (W&D) properties increased by 30-bps YTD and was higher by 60-bps YoY. Still, the Q2 vacancy rate of 5.5% is well-below its long-run historical average and a resounding 780-bps below its pre-pandemic level. Consequently, Chicago has likely been shocked toward a new and tighter long-run market equilibrium; although, growth has not just been limited to W&D properties. Flex/R&D has also performed very well over the past three years, just not quite to the caliber of W&D. After declining 190-bps in 2022 to 5.6%, then rising 30-bps in 2023 to 5.9%, Chicago's Flex/R&D vacancy rate has since remained relatively unchanged at 6.0% as of the second quarter of 2024. Meanwhile, effective rent growth was up 10% annually in 2022 (11.9% W&D) and slowed to a still robust 4.3% (5.9% W&D) in 2023. Halfway through 2024, and effective rents were up by 66-bps YTD for Flex/R&D (96-bps W&D) again illustrating the slight edge W&D properties have had over Flex/R&D.

Outlook

While we anticipate a continued battle between outmigration, remote work, and weak public finances on one side, and growing logistics and a rebound in urban desires on the other, we maintain a cautiously optimistic outlook for Chicago's commercial real estate industry and expect average growth moving forward. Specific to the apartment sector, we continue to forecast a slow and steady decline in the vacancy rate throughout this decade. This will help rent growth maintain a level around 3% annually. As for office and retail, in the short term they are still likely to be haunted by the evolutions affecting the related industries. As such, we anticipate the office and retail sectors to face continued headwinds, but importantly with less downside risk for the retail sector. The exception to these lackluster forecasts is the industrial sector. While demand for industrial properties has slowed since its peak in 2022, it remains robust and we expect this to keep the vacancy rate subdued over the next several years consequently leading to moderate rent growth.

(Next Update: November 2024)

X. APPENDIX

Asking Rent and Vacancy Trends

 [View Chart in Overview](#)

Year	McHenry County		Chicago	
	Asking Rent per SF	Vacancy Rate %	Asking Rent per SF	Vacancy Rate %
2009	\$3.79	9.0%	\$4.67	16.1%
2010	\$3.73	10.0%	\$4.30	17.6%
2011	\$3.56	10.6%	\$4.32	16.4%
2012	\$3.63	10.1%	\$4.40	15.1%
2013	\$3.68	9.8%	\$4.50	14.1%
2014	\$3.78	7.9%	\$4.66	13.0%
2015	\$3.84	6.7%	\$4.77	12.5%
2016	\$3.94	6.9%	\$4.91	11.9%
2017	\$4.05	7.0%	\$5.04	12.6%
2018	\$4.14	6.2%	\$5.19	12.2%
2019	\$4.13	5.4%	\$5.30	13.3%
2020	\$4.18	4.6%	\$5.38	13.8%
2021	\$4.37	2.8%	\$5.67	7.8%
2022	\$4.99	0.9%	\$6.26	4.0%
2023	\$5.40	0.8%	\$6.64	5.2%
2024	\$5.66	0.8%	\$6.84	5.4%
2025	\$5.90	0.8%	\$7.06	5.1%
2026	\$6.15	0.7%	\$7.31	5.0%
2027	\$6.48	0.8%	\$7.59	4.7%
2028	\$6.78	0.8%	\$7.89	4.6%
2029	\$7.16	1.0%	\$8.22	4.1%

Scenarios: Asking Rent Per SF

 [View Chart in Overview](#)

Year	McHenry County			Chicago	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2010	-1.6%	--	--	-7.9%	-5.0%
2011	-4.6%	--	--	0.5%	-1.1%
2012	2.0%	--	--	1.9%	1.1%
2013	1.4%	--	--	2.3%	1.7%
2014	2.7%	--	--	3.6%	2.3%
2015	1.6%	--	--	2.4%	2.4%
2016	2.6%	--	--	2.9%	3.4%
2017	2.8%	--	--	2.6%	3.9%
2018	2.2%	--	--	3.0%	2.8%
2019	-0.2%	--	--	2.1%	2.2%
2020	1.2%	--	--	1.5%	1.4%
2021	4.5%	--	--	5.4%	8.0%
2022	14.2%	--	--	10.4%	20.0%
2023	8.2%	--	--	6.1%	5.0%
2024	4.8%	4.7%	4.7%	3.0%	2.9%
2025	4.2%	4.1%	3.9%	3.2%	3.5%
2026	4.2%	4.1%	3.9%	3.5%	3.6%
2027	5.4%	5.2%	5.1%	3.8%	3.7%
2028	4.6%	4.5%	4.4%	4.0%	3.8%
2029	5.6%	5.5%	5.4%	4.2%	3.8%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Vacancy

 [View Chart in Overview](#)

Year	McHenry County			Chicago	United States
	% Vacant	S1 - % Vacant ¹	S2 - % Vacant ²	% Vacant	% Vacant
2009	9.0%	--	--	16.1%	13.3%
2010	10.0%	--	--	17.6%	14.0%
2011	10.6%	--	--	16.4%	13.2%
2012	10.1%	--	--	15.1%	12.1%
2013	9.8%	--	--	14.1%	11.5%
2014	7.9%	--	--	13.0%	11.0%
2015	6.7%	--	--	12.5%	10.3%
2016	6.9%	--	--	11.9%	9.6%
2017	7.0%	--	--	12.6%	9.0%
2018	6.2%	--	--	12.2%	9.5%
2019	5.4%	--	--	13.3%	10.3%
2020	4.6%	--	--	13.8%	10.8%
2021	2.8%	--	--	7.8%	6.7%
2022	0.9%	--	--	4.0%	4.6%
2023	0.8%	--	--	5.2%	6.2%
2024	0.8%	0.8%	0.8%	5.4%	6.4%
2025	0.8%	0.8%	0.8%	5.1%	6.2%
2026	0.7%	0.7%	0.7%	5.0%	6.0%
2027	0.8%	0.8%	0.8%	4.7%	5.4%
2028	0.8%	0.8%	0.8%	4.6%	5.2%
2029	1.0%	1.0%	1.0%	4.1%	4.7%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Scenarios: Inventory

 [View Chart in Overview](#)

Year	McHenry County			Chicago	United States
	% Change	S1 - % Change ¹	S2 - % Change ²	% Change	% Change
2010	0.0%	--	--	0.2%	0.2%
2011	0.0%	--	--	0.4%	0.2%
2012	0.0%	--	--	0.3%	0.4%
2013	0.0%	--	--	0.5%	0.6%
2014	0.0%	--	--	1.0%	1.3%
2015	0.0%	--	--	1.9%	1.3%
2016	0.0%	--	--	2.3%	1.5%
2017	0.0%	--	--	3.3%	2.2%
2018	0.0%	--	--	1.8%	2.3%
2019	0.0%	--	--	2.4%	3.1%
2020	0.0%	--	--	2.4%	2.6%
2021	0.0%	--	--	3.4%	3.0%
2022	0.0%	--	--	2.9%	3.9%
2023	0.0%	--	--	3.6%	3.8%
2024	0.0%	0.0%	0.0%	0.9%	2.2%
2025	0.0%	0.0%	0.0%	0.8%	1.6%
2026	0.0%	0.0%	0.0%	1.2%	1.1%
2027	0.0%	0.0%	0.0%	1.2%	1.0%
2028	0.0%	0.0%	0.0%	1.3%	1.1%
2029	0.0%	0.0%	0.0%	1.3%	1.1%

1: Y-S1 is Moody's Analytics CRE "downside scenario 1". That corresponds to, and is consistent with, Moody's Analytics "Downside - 90th Percentile (S3)".

2: Y-S2 is Moody's Analytics CRE "downside scenario 2". That corresponds to, and is consistent with, Moody's Analytics "Downside - 96th Percentile (S4)".

Absorption Trends

 [View Chart in Overview](#)

Year	Absorption (SF)	Completions (SF)
2010	-116,000	0
2011	-59,000	0
2012	47,000	0
2013	41,000	0
2014	205,000	0
2015	131,000	0
2016	-16,000	0
2017	-21,000	0
2018	91,000	0
2019	88,000	0
2020	93,000	0
2021	200,000	0
2022	209,000	0
2023	4,000	0
2024	7,000	0
2024 YTD	-3,000	0
2025	3,000	0
2026	2,000	0
2027	-5,000	0
2028	-5,000	0
2029	-22,000	0

Submarket Project Tally: Proposed And Planned

 [View Chart in Overview](#)

	Warehouse/Distribution
McHenry County	-
Dupage County	3,116,183
I-55 N/Will County	14,939,289
Kane County	6,755,086
Lake County	3,344,815
North Chicago	223,404
North Cook County	41,000
North O'Hare	2,040,128
O'Hare	1,394,175
South Chicago	2,623,184
South Will County	31,905,021
Southwest Cook County	1,699,435
West Cook County	345,000

Size of Projects is in SF.

Submarket Project Tally: Under Construction

 [View Chart in Overview](#)

	Warehouse/Distribution
McHenry County	-
Dupage County	606,722
I-55 N/Will County	1,500,800
Kane County	574,768
Lake County	-
North Chicago	-
North Cook County	-
North O'Hare	-
O'Hare	-
South Chicago	169,064
South Will County	-
Southwest Cook County	138,000
West Cook County	229,110

Size of Projects is in SF.

Submarket Project Tally: Complete

 [View Chart in Overview](#)

	Warehouse/Distribution
McHenry County	-
Dupage County	1,745,873
I-55 N/Will County	4,233,864
Kane County	4,521,744
Lake County	552,799
North Chicago	1,281,000
North Cook County	448,320
North O'Hare	2,402,292
O'Hare	595,354
South Chicago	757,243
South Will County	6,670,171
Southwest Cook County	1,422,564
West Cook County	3,109,174

Size of Projects is in SF.

Sales Trends

 [View Chart in Transactions](#)

Year	Transaction Volume (\$)	Number of Transactions	Mean Sale Price Per SF	Median Sale Price Per SF	Mean Transaction Cap Rate	Median Transaction Cap Rate
2009	\$4,000,000	1	\$75.76	\$75.76	-	-
2010	\$3,000,000	1	\$12.49	\$12.49	-	-
2011	\$6,583,552	2	\$38.22	\$44.76	-	-
2012	\$5,705,000	1	\$44.65	\$44.65	-	-
2013	\$10,000,000	2	\$30.08	\$33.17	8.8%	8.8%
2014	\$20,200,000	2	\$14.07	\$17.17	11.0%	11.0%
2015	-	0	-	-	-	-
2016	\$5,300,000	2	\$49.00	\$66.56	8.6%	7.6%
2017	\$11,200,000	1	\$40.08	\$40.08	-	-
2018	\$15,257,000	4	\$67.14	\$73.89	7.4%	7.4%
2019	\$29,694,136	2	\$22.19	\$202.03	-	-
2020	\$8,912,000	3	\$46.90	\$45.82	7.0%	7.0%
2021	\$21,219,500	3	\$86.99	\$86.75	-	-
2022	\$9,750,000	2	\$57.50	\$74.71	2.8%	2.8%
2023	-	0	-	-	-	-
2024	\$3,174,500	1	\$127.78	\$127.78	4.0%	4.0%

Includes sales of \$2M and greater only

Employment and Population

 [View Chart in Demographics](#)

	2020	2021	2022	2023	2024	2025	2026	2027
Employment								
Chicago Total Employment	-8.3%	5.3%	2.9%	0.6%	0.9%	0.3%	-0.0%	-0.1%
Chicago Office Employment	-6.5%	4.5%	2.4%	-0.8%	0.2%	0.4%	0.2%	0.1%
Chicago Industrial Employment	-6.2%	1.9%	2.5%	1.3%	2.0%	0.1%	-0.3%	-0.5%
Midwestern Region Total Employment	-6.4%	4.2%	2.3%	1.2%	1.1%	0.4%	0.1%	0.0%
Midwestern Region Office Employment	-4.8%	3.4%	1.5%	-0.1%	0.5%	0.4%	0.3%	0.3%
Midwestern Region Industrial Employment	-5.9%	2.8%	3.0%	0.8%	1.2%	0.1%	-0.2%	-0.3%
United States Total Employment	-6.3%	5.7%	3.3%	1.5%	1.4%	0.7%	0.4%	0.4%
United States Office Employment	-4.5%	5.0%	2.8%	0.8%	1.0%	0.7%	0.7%	0.7%
United States Industrial Employment	-6.4%	4.1%	3.5%	1.0%	0.8%	0.4%	0.1%	0.0%
Population								
Chicago Population	-0.8%	-0.9%	-0.5%	-0.0%	-0.3%	-0.3%	-0.3%	-0.4%
Midwestern Region Population	-0.2%	-0.2%	0.1%	0.4%	0.2%	0.1%	0.1%	0.1%
United States Population	0.1%	0.2%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%

% change from previous year.

Households

 [View Chart in Demographics](#)

	2020	2021	2022	2023	2024	2025	2026	2027
Household Growth								
Chicago Households	-1.9%	0.5%	-0.1%	-0.3%	0.1%	0.0%	-0.1%	-0.1%
Midwestern Region Households	-1.4%	1.1%	0.4%	0.2%	0.6%	0.5%	0.4%	0.3%
United States Households	-0.9%	1.5%	1.1%	0.7%	1.1%	1.0%	0.9%	0.9%
Household Income								
Chicago Household Income	7.2%	6.0%	1.7%	5.2%	3.9%	3.5%	3.6%	3.8%
Midwestern Region Household Income	7.0%	6.0%	3.6%	4.4%	4.0%	3.3%	3.4%	3.6%
United States Household Income	7.1%	6.4%	2.7%	4.1%	4.0%	3.4%	3.4%	3.6%

% change from previous year.