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Industrial landlords end strong 2015 on weak note

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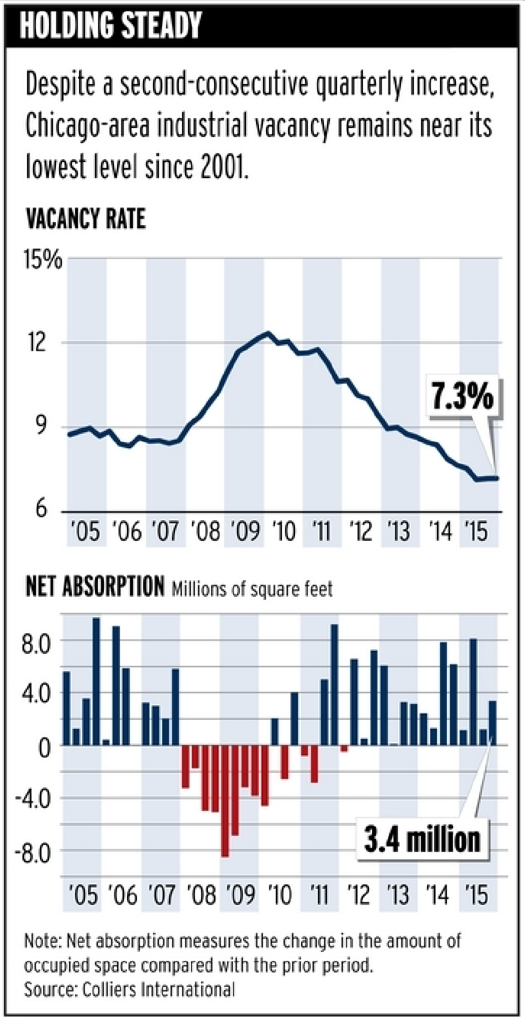

The local industrial vacancy rate ticked up in the fourth quarter, but landlords still had reason to celebrate 2015.

Industrial vacancy in the Chicago area rose to 7.32 percent in the quarter, up from 7.26 percent in the **previous period** but down from 7.73 percent a year earlier, according to Seattle-based Colliers International. The rate also rose slightly in the third quarter after hitting a 14-year low of 7.23 percent in mid-2015 but is well below the post-crash peak of 12.24 percent in 2010.

The expanding economy has fueled demand for warehouse space, but it's still too early to tell how falling stock values, China's economic slowdown and plunging oil prices will affect the Chicago market.

“People have gone from ecstatic and exuberant to cautiously optimistic,” said David Bercu, a principal in Colliers' Rosemont office. “Real estate usually lags the overall economy by six to nine months. We haven't seen anything definitive in the (industrial real estate) market that shows the conditions are going to soften. But historically, there is a relationship between what happens in the financial markets and real estate. We hope it's just a blip on the screen.”

Demand, as measured by net absorption—the change in the amount of occupied space from the previous period—rose for the 15th period in a row. There was 13.8 million square feet of positive absorption in 2015, the second-highest total since 2007.

The vacancy rate rose slightly because developers completed 3.6 million square feet of new space in the area on speculation, or without tenants signed in advance, in the fourth quarter, according to Colliers. Of that, 69 percent is vacant.

Supply will continue to rise this year. At the end of 2015, another 15.4 million square feet of space was under construction, more than half on spec, according to Colliers.

Yet leasing activity has remained strong, including a 1.4 million-square-foot build-to-suit lease that candy maker **Mars signed** in the quarter at the CenterPoint Intermodal Center in Joliet, the largest industrial lease of 2015.

“I don't think we're overbuilt,” Bercu said. “I think there's a good equilibrium between supply and demand. Activity levels are strong. There's certainly an appetite for Class A industrial product. That's where there's been the most leasing activity and where rents are rising the most.”

In one example of demand for modern buildings, Eden Prairie, Minn.-based logistics giant **C.H. Robinson Worldwide** leased a new 235,781-square-foot warehouse in Des Plaines, which will serve as a major hub for North American and international freight consolidation.

Sale transactions included Heitman's $30.3 million deal for a fully leased **South Side warehouse** whose largest tenant is online retailer Amazon.com. Chicago-based Heitman bought the property from a joint venture between Lincolnshire-based Venture One Real Estate and New York-based DRA Advisors.