CUSHMAN & WAKEFIELD

# MIDWEST INDUSTRIAL INSIDERS

## 2024 YEAR-END INSIGHTS

Better never settles

# What to Expect: 2025 Midwest Key Trends to Watch by Market


## MIDWEST

- Vacancy rate forecasted to decrease
- Asking rental rates expected to increase
- Possible supply constraints

## CHICAGO

- Disciplined construction pipeline should drive vacancy lower
- Continued asking rental rate growth
- Minimal impact from increased sublease vacancy

## DETROIT

- EV industry shifts benefiting ICE production
- Construction activity expected to rebound
- Asking rental rates projected to hit record highs

## MINNEAPOLIS

- Continued higher vacancies in secondary markets
- Manufacturing and life sciences sectors will drive new leasing
- Speculative construction likely to resume

## CINCINNATI

- Vacancy expected to decrease
- Increased build-to-suit projects
- Large lease transactions expected to boost absorption

## COLUMBUS

- Vacancy expected to decrease
- Third-party logistics and home product retail users drive leasing activity
- Speculative projects to slow

## KANSAS CITY

- Build-to-suit projects will continue to drive absorption
- Overall vacancy expected to normalize near historical levels
- Johnson County expected to lead large-scale development projects

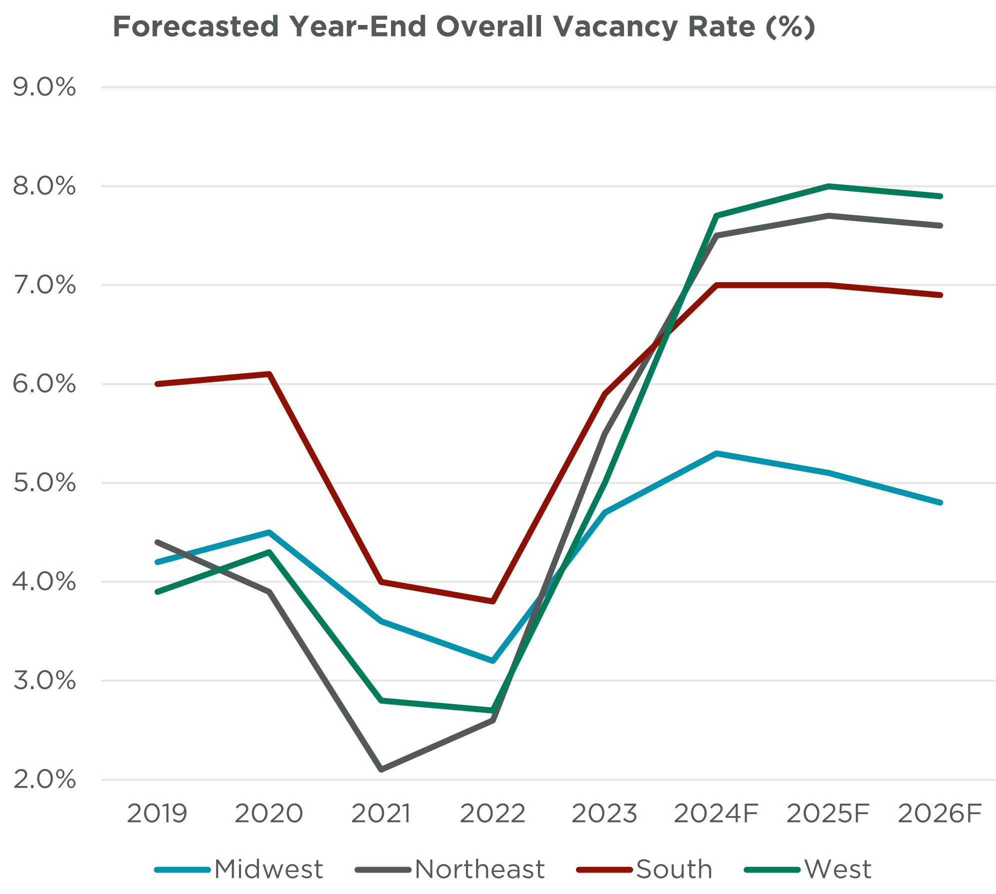
## INDIANAPOLIS

- Overall vacancy expected to decrease
- Development pipeline driven by built-to-suit construction
- Leasing momentum expected to grow for larger spaces

## ST. LOUIS

- Demand for newer space will drive vacancy reductions
- Disciplined development in Metro East should prompt absorption
- West Port submarket expected to lead speculative construction

# Midwest *Overview*




*Source: Cushman & Wakefield Research*

## The Midwest Industrial Year-End Insights

The Midwest industrial market is poised for an active 2025 and beyond as market fundamentals are forecasted to improve**. According to Cushman & Wakefield's latest Industrial Market Forecast, the overall vacancy rate in the Midwest will reach 5.3% by year-end 2024, which is 210 basis points (bps) less than the average vacancy rate across all other regions**. Additionally, the region's vacancy rate is expected to decrease 50 bps by 2026 to 4.8%, the largest decrease amongst all other regions.

The Midwest region will likely experience supply constraints as construction completions decrease by 59.2% from the 2023 peak to 46.8 million square feet (msf) by year-end 2024. This moderated pipeline will continue through 2026, with the average new supply between 2025-2026 totaling 45.2 msf, 60.5% down from the 2023 peak. As the market tightens in the coming quarters, the average net asking rental rates should continue to record consistent rent growth. **By year-end 2024, the average net asking rental rates are expected to increase 8.0% to $6.59 per square foot (psf) with an additional 2.5% projected increase to $7.01 psf by year-end 2026.**

The Midwest Industrial Year-End Insights Report analyzes key trends likely to impact each individual major Midwest industrial market which include Chicago, Indianapolis, Kansas City, Columbus, Cincinnati, Detroit, St. Louis and Minneapolis.

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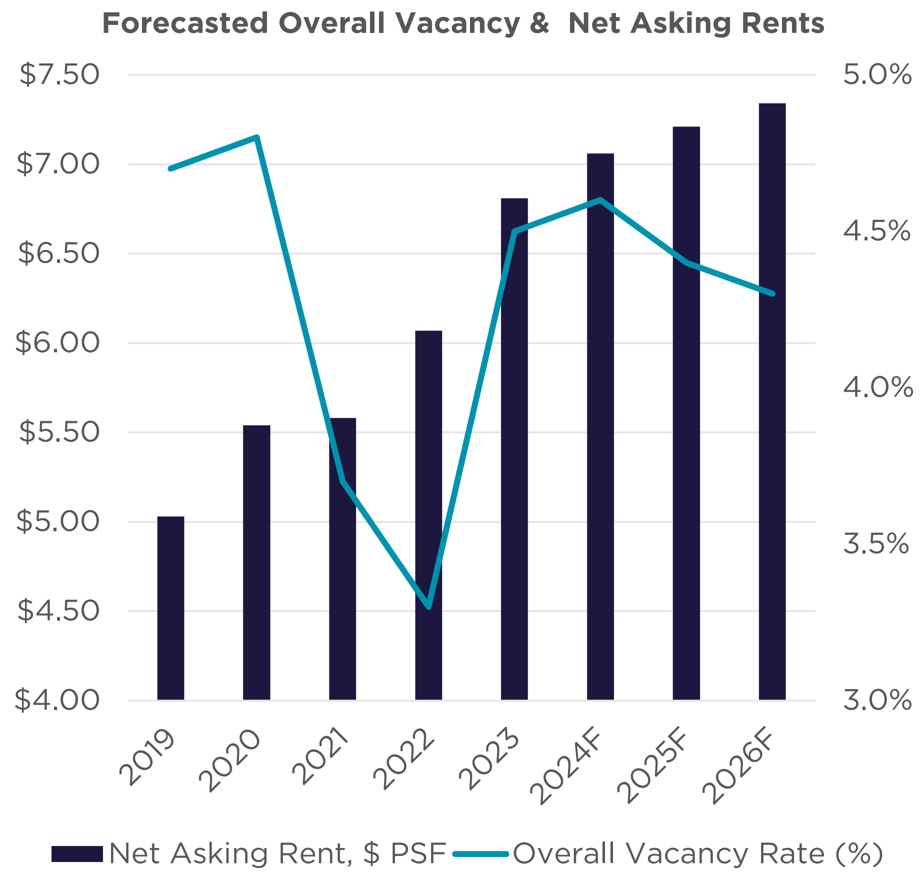
# Chicago *Q4 2024*

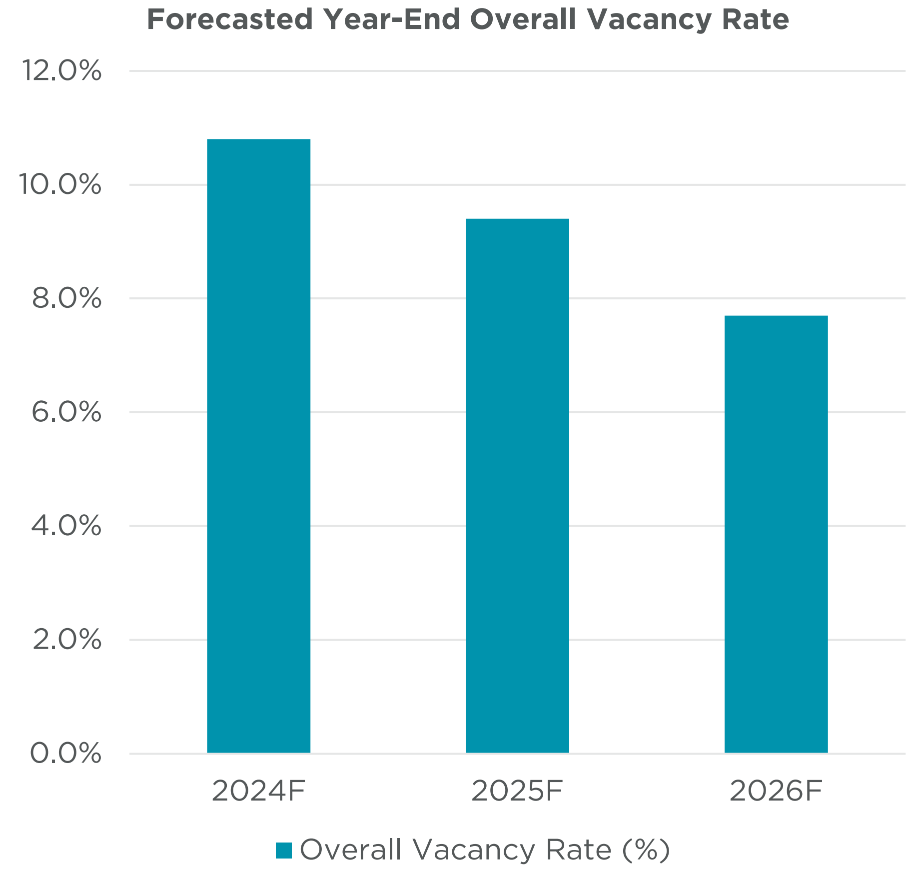



*Source: Cushman & Wakefield Research*

## Looking Ahead

- **According to Cushman & Wakefield's latest Industrial Market Forecast for Chicago, construction activity has slowed when compared to the record-breaking activity that was recorded in 2023.** By year-end 2024, new construction is expected to total just 52.4% of what was recorded in 2023. As of Q3 2024, there were just 16 construction starts compared to the 46 starts during that same period in 2023. **As demand improves, future absorption is projected to increase 40.7% through 2026 which will drive vacancy rates lower as new supply will be limited**.
- Chicago has continued to post strong year-over-year (YOY) rent growth over the last five years, increasing most significantly in 2022 and 2023, with an average growth rate of 10.5% YOY. **While average rental rates remain elevated across the overall market, the growth rate has begun to normalize.** As of Q3 2024, the asking net rental rate increased just 0.8% YOY to $7.14 psf, which is more in line with the historical pre-pandemic growth rate of 2.3%. **Asking rental rates will continue to increase, though at a more moderate pace. By year-end 2026, the asking rental rate is expected to grow 4.0% to $7.34 psf.**
- **Sublease vacancy reached a record high as of Q3 2024, totaling 5.3 msf. However, this vacant sublease space has had minimal impact on overall vacancy, representing just 9.1% of the overall market's vacant inventory.** Sublease vacancy is spread out geographically and no single submarket accounts for more than 25% of the total. More than half (65.8%) of all sublease availabilities are for spaces below 75,000 square feet (sf) and nearly half (49.2%) are in buildings built before 1999. **While sublease availability is expected to increase over the next several quarters, they will have little impact on overall vacancy.**

# Indianapolis *Q4 2024*

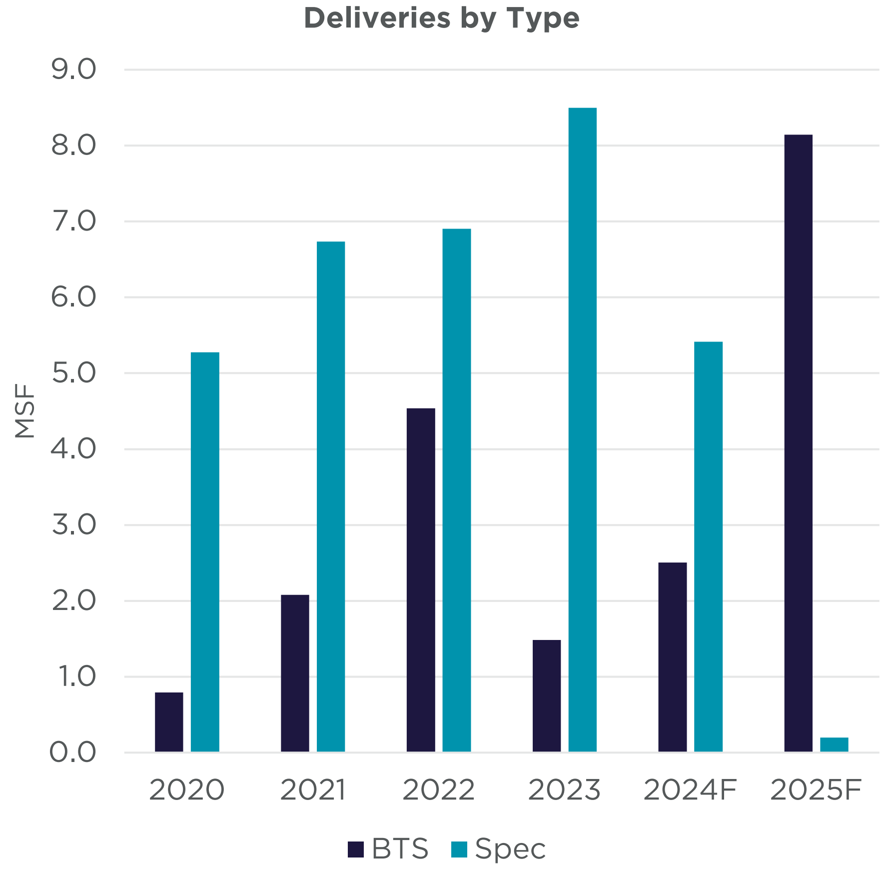



*Source: Cushman & Wakefield Research*

## Looking Ahead

- **According to Cushman & Wakefield's latest Industrial Market Forecast for Indianapolis, the market's overall vacancy rate is forecasted to peak in 2024 before declining in both 2025 and 2026 amidst a thinning construction pipeline and accelerating tenant demand.** Overall vacancy in 2025 is expected to remain elevated when compared to historical levels at 9.4% but will fall below 2023's levels by the end of the year and will continue to decline into 2026 and beyond as supply and demand come into balance.
- **Build-to-suit (BTS) construction will comprise a majority of construction completions in 2025, with 90.8% of the current under construction pipeline BTS space, equaling 3.9 msf.** Construction starts will continue to remain muted in 2025 as speculative (SPEC) construction completions from the past several years get leased up. **However, new BTS properties will still begin construction if existing SPEC options do not fit the specifications and desired locations of occupiers.**
- **While new leasing activity in the midsized size range (100,000-300,000 sf) rebounded in 2024, activity in the largest size range (400,000 sf and greater) has lagged, with vacancy in buildings of this size range equaling 15.5%, well above the market's average.** However, the amount of prospects touring spaces in the 400,000 sf and up size range increased in the latter portion of 2024 and it is expected that leasing velocity in these buildings will increase in 2025 as tenants make long-term space decisions.

# Kansas City *Q4 2024*

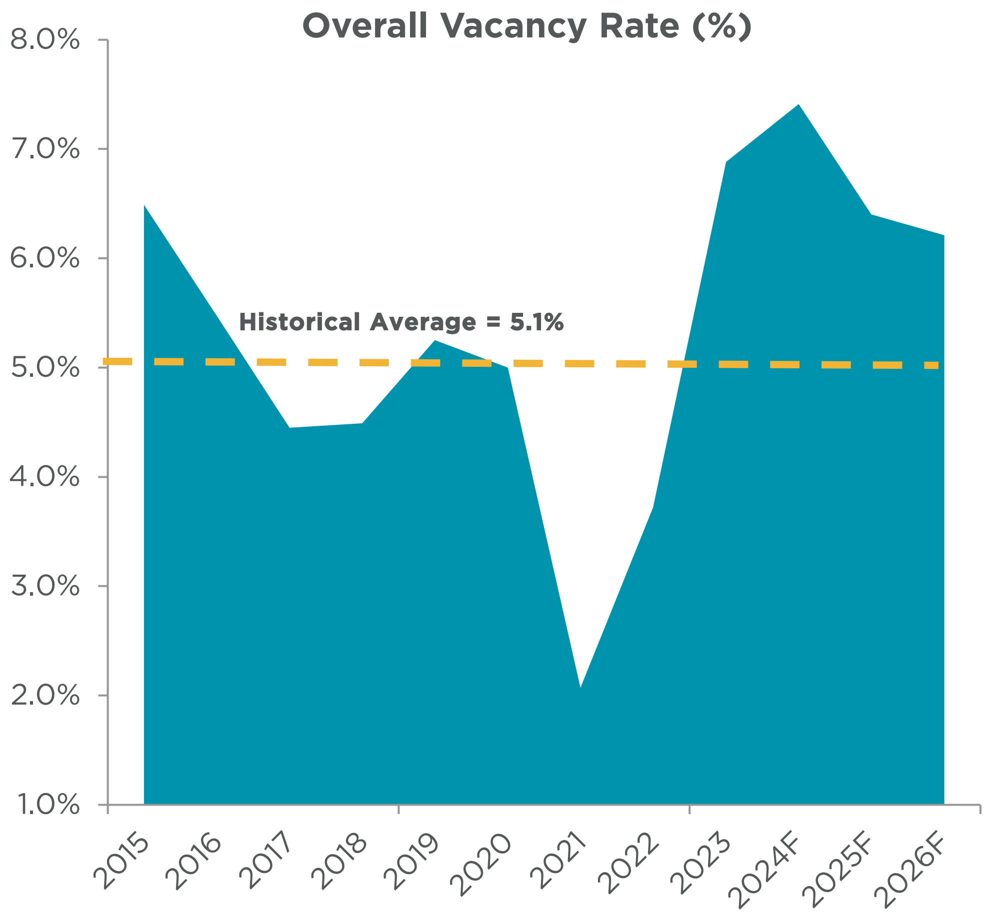



*Source: Cushman & Wakefield Research*

## Looking Ahead

- **As the leasing market cooled over the latter part of 2023 and the early part of 2024, Kansas City's overall absorption remained positive driven in large part by the completion of a 1.0-msf data center, the first development in that category of that size in the market.** BTS activity will continue to power absorption totals for the market next year, with eight different BTS projects of more than 300,000 sf under construction in the fourth quarter of 2024. The most significant of these are Panasonic's 2.7-msf manufacturing facility and a 1.5-msf distribution center just north of the KCI airport.
- Kansas City's overall vacancy rate dropped to as low as 4.2% in the middle of 2022 and the third quarter of 2023 marked the end of a 12-quarter run where the vacancy rate was below 5.0%. Since then, the delivery of large SPEC buildings has pushed the vacancy rate back up to just above 7.1%. **Cushman & Wakefield has forecasted the delivery of more than 7.0 msf of BTS space in 2025 that will push the vacancy rate back under 7.0%, before stabilizing between 6.8% and 7.2% over the next several years. This aligns with the average historical vacancy rate between 2010 and 2023, which was 6.9%**
- **The expansion boom that took place over the last decade was started in Johnson County, which went from 51.4 msf of inventory at the start of 2013 to 84.5 msf by the end of 2023.** While no other submarket recorded that much new space delivered, during the second half of the expansion the Northland/Northland Park, Jackson County, and Wyandotte County submarkets all had years where they outpaced Johnson County in terms of deliveries. **While Jackson County and Wyandotte County have proposed sites for significant new construction, Johnson County will continue to be the main driver for large-scale industrial development in the Kansas City Market.**

# Columbus *Q4 2024*

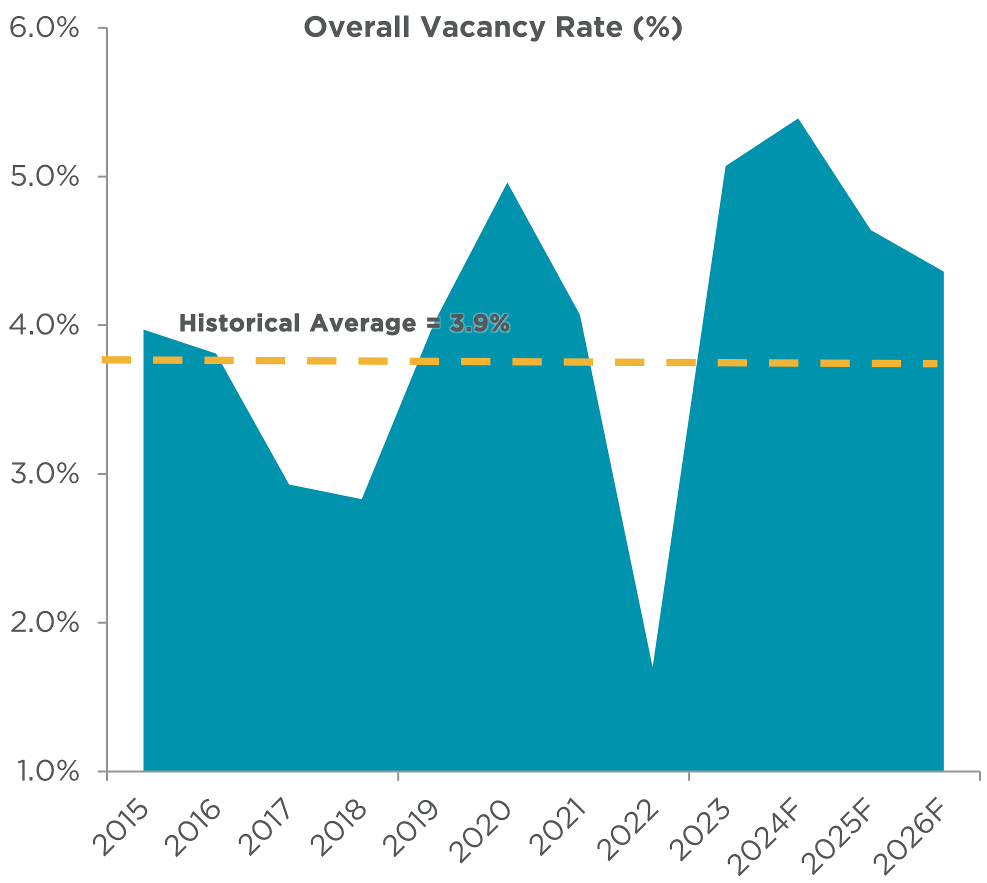



*Source: Cushman & Wakefield Research*

## Looking Ahead

- **The overall vacancy rate appeared to reach its high point in 2024.** Following two sharp increases in year-end vacancy between 2021 and 2023, Cushman & Wakefield forecasted a 2024 year-end vacancy rate of 7.4%. **Vacancy in 2025 (6.4%) and 2026 (6.2%) is estimated to decrease slowly. In the near-term, it appears that vacancy will remain above the historical average of 5.1%.**
- **Between 2022 and 2024, the largest new leases were signed by third-party logistics companies (3PL) or home product retailers/suppliers.** Over a three-year period, four major 3PLs (ODW, Maersk, Geodis and DB Schenker) absorbed a combined 4.3 msf. Simultaneously, Home Depot, Lowes and Stanley Black & Decker each signed new leases for buildings larger than 1.0 msf. One of the largest transactions of 2024 was Tarkett Flooring, which leased more than 600,000 sf of first-generation bulk warehouse space in the Madison County submarket. **These industries will continue to account for the largest lease transactions.**
- **SPEC construction projects will remain rare until existing first-generation space is leased.** Since 2022, nearly 39.0 msf of new construction has been delivered market-wide. This construction alone accounted for a 12.0% growth in the market's total industrial inventory. Nearly 29.0 msf or 75.0% of the recently-delivered space was built on SPEC. This space has been absorbed at a slower pace than prior years. As of Q3 2024, 45.0% of the SPEC deliveries were still vacant. **With an abundance of available space, developers have scaled back plans for new SPEC projects. Only 500,000 sf of space currently under construction is being built on SPEC.**

# Cincinnati *Q4 2024*

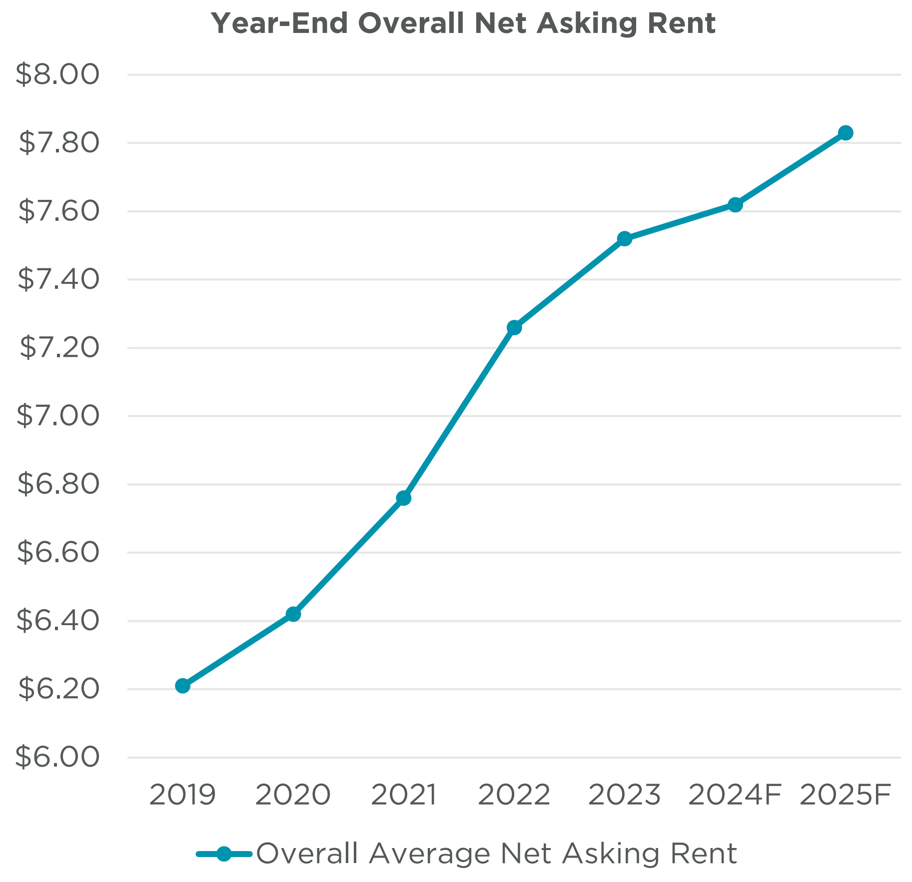



*Source: Cushman & Wakefield Research*

## Looking Ahead

- **The overall vacancy rate appeared to reach its high point in mid-2024.** After a sharp increase in year-end vacancy between 2022 and 2023, Cushman & Wakefield forecasted a 2024 year-end vacancy rate of 5.4%. **Vacancy in 2025 (4.6%) and 2026 (4.4%) are estimated to decrease slowly as the overall rate normalizes closer to the historical average of 3.9%.**
- **Significant growth in absorption will hinge on large new lease transactions.** Between 2018 and 2022, overall net absorption averaged 6.8 msf. In 2023 through Q3 2024, total net absorption was less than 1.0 msf. This was largely prompted by the lack of large new lease transactions. Since the end of 2022, the largest new lease signed in Greater Cincinnati was 285,000 sf. During that same period, only seven new leases greater than 200,000 sf were executed. **Several sale and lease transactions larger than 300,000 sf are expected to close by year-end 2024 and the beginning of 2025, which will have a positive effect on absorption.**
- **Large BTS projects are becoming more common. While most of the delivered buildings since 2018 have been speculative, BTS projects were not uncommon.** BTS projects completed since 2018 were likely to be less than 250,000 sf. **However, four major new BTS projects have been announced since July 2024.** The smallest of the four projects, a 300,000-sf Northern Kentucky distribution center for Chick-Fil-A broke ground in Q3 2024. Next door, a 600,000-sf facility for Niagara Bottling is projected to commence early in 2025. In the Northwest (Ohio) submarket, Alro Steel will build 400,000 sf in Monroe, while Hit Promotional Products is planning an 800,000-sf building in Fairfield. Once completed, these four buildings will account for more than 2.0 msf of net absorption.

# Detroit *Q4 2024*

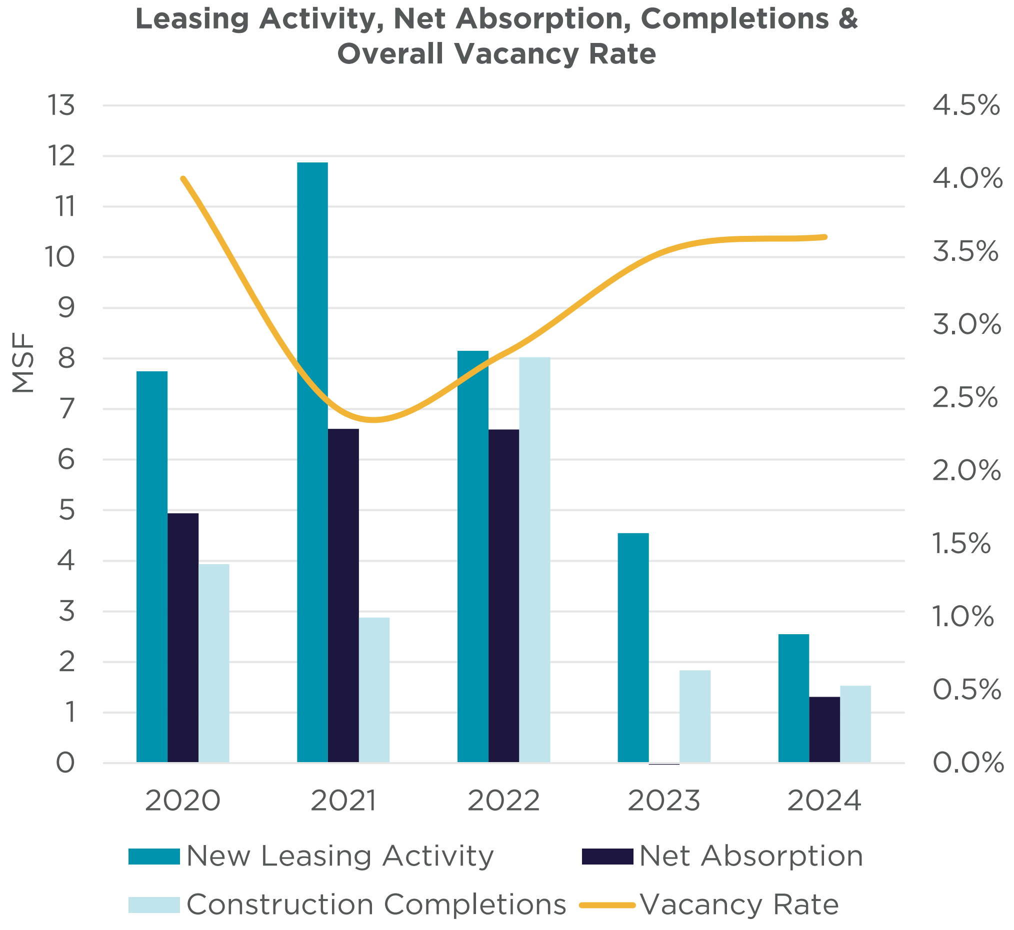



*Source: Cushman & Wakefield Research*

## Looking Ahead

- **The focus on Electric Vehicles (EVs) in Michigan has intensified. The state's recent withdrawal of subsidies for Ford's large-scale EV battery plant has raised concerns amid shifting economic conditions.** Initially, Michigan approved a significant financial package to support the facility, but plans have shifted due to Ford's scaled-back investment and cautious EV production approach, driven by rising costs and global market uncertainties. Projections for registered EVs are now 28.0% lower than the initial estimate of 60,000 vehicles. These developments are expected to benefit Internal Combustion Engine (ICE) vehicle production heading into 2025. **The reduction in subsidies highlights the challenges of fostering a sustainable and competitive EV industry in a changing market.**
- **The Detroit industrial market remains resilient despite challenges such as high interest rates, rising construction costs, and political uncertainty.** While investment sales and new construction have slowed from the 2020–2022 boom, demand for existing industrial properties persists. High construction costs have been a key factor in this slowdown, limiting the availability of new industrial buildings. **Looking ahead, the outlook for development activity to pick up in 2025 is positive, with an expected 50.0% increase in new supply delivered to the market YOY.** The Detroit market can expect a rebound in new construction by spring 2025, as potential Federal Reserve rate cuts take effect. Growth in sectors like engineering and healthcare, along with continued investment in downtown Detroit, is expected to boost demand and drive industrial development. Despite slower SPEC development, Detroit's strong workforce, technological base, and economic resilience position it for continued industrial growth.
- **Average net asking rental rates are forecasted to rise 2.7% by the end of 2025, reaching a record high of $7.83 psf.** Over the past five years, the average YOY growth rate has been 4.8%, with each year surpassing the last.

# St. Louis *Q4 2024*



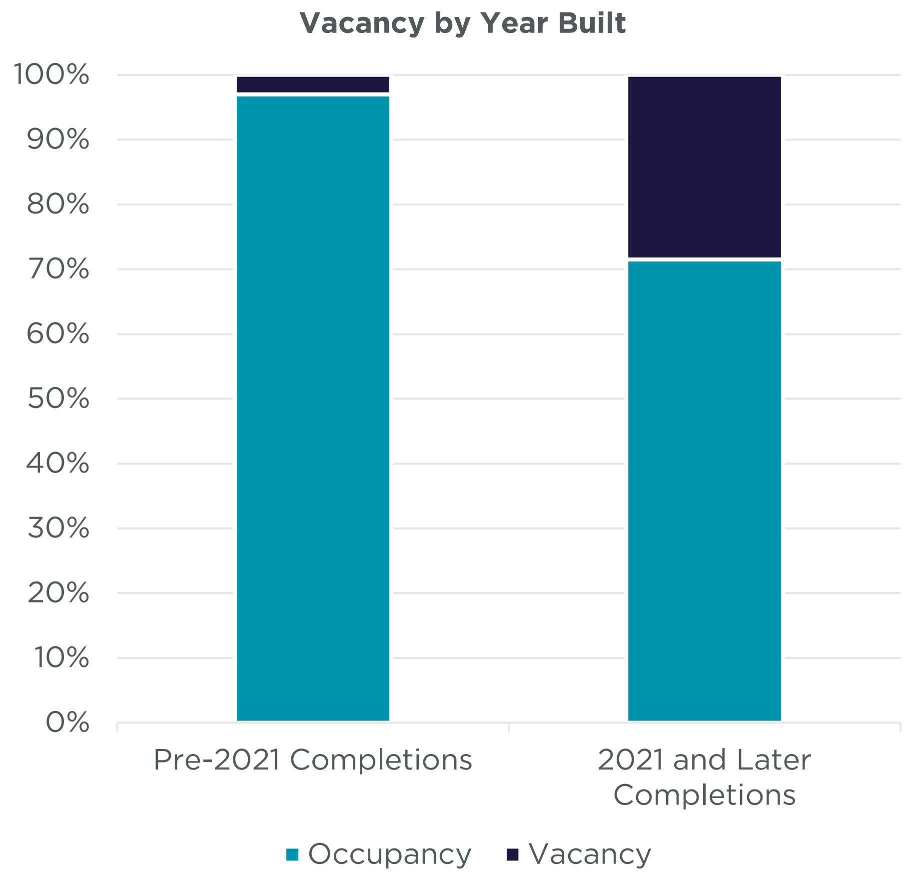

*Source: Cushman & Wakefield Research*

## Looking Ahead

- **The St. Louis industrial market demonstrated resilience in 2024, driven by strong fundamentals and a disciplined approach to new construction.** This kept supply levels healthy and vacancy rates near historic lows. The market recorded four consecutive quarters of positive net absorption, with 2.5 msf of new leasing activity through Q3 2024. As occupiers reassess their space needs, tenant right-sizing is expected to persist, particularly among those in second-generation space. **Demand for newer, more functional space is anticipated to increase the availability of second-generation inventory in the coming year.**
- **Annual new deliveries are on track to fall below 2.0 msf in 2024.** The market delivered three speculative buildings totaling just over 1.0 msf, including two 256,024-sf buildings in the now-complete Westport Commerce Center in the Howard Bend Levee District. **Heading into 2025, the West Port submarket is slated for continued speculative development, with nine proposed buildings across four industrial parks, adding 3.2 msf of speculative inventory upon completion.**
- **At the close of Q3 2024, St. Louis industrial vacancy stood at 3.6%.** The Metro East submarket accounted for roughly 30.0% of vacant inventory, ending Q3 with a 7.0% vacancy rate. While Metro East's vacancy declined throughout 2024, it reflects the lingering impact of several big-box vacancies from 2023. **With no active construction in the submarket, further positive occupancy movement and declines in available space are expected.**

# Minneapolis-St. Paul

*Q4 2024*




*Source: Cushman & Wakefield Research*

## Looking Ahead

- **Minneapolis-St. Paul is experiencing challenges in parts of the new construction market, particularly in secondary and tertiary submarkets.** Many projects launched in 2023 missed their market window, completing with minimal preleasing. While inventory built before 2021 comprises nearly 94.0% of the 346.7 msf market, it only accounts for 57.0% of the 15.1 msf direct vacancy. Conversely, the 6.0% of inventory delivered since 2021 accounts for 43.0% of market vacancies. **Despite healthy tenant activity expected into 2025, surplus space in newly delivered assets in non-traditional submarkets is likely to persist.**
- **Speculative construction slated for late 2024 and 2025 slowed due to rising costs and high interest rates, which disrupted developers' exit strategies.** Should positive trends in inflation and debt markets continue, new projects in traditional industrial corridors and speculative developments could resume in 2025 and 2026. While tenant demand remains robust, deal lifecycles have lengthened and are expected to stay protracted through 2025. **These extended leasing periods and ongoing vacancies in tertiary markets could slightly increase overall vacancy before improving in 2026.**
- **New leasing volumes in Minneapolis have decreased from historic highs but remain strong, driven by manufacturing and life science users in the Twin Cities.** Since 2021, 46.1 msf of new leasing has been recorded, with 34.3 msf from deals of 20,000 sf or greater, of which manufacturing and life sciences represent 40.0%. Annual leasing activity for manufacturing and life sciences increased from 2.9 msf in 2021 to 3.7 msf in 2022 and 4.7 msf in 2023, with 2.3 msf year-to-date in 2024. **Those sectors are expected to remain key drivers of leasing activity in 2025 and beyond.**

MIDWEST
# INDUSTRIAL INSIDERS

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