



INDUSTRIAL MARKET ANALYSIS CITY OF ELGIN, ILLINOIS

PREPARED FOR THE
CITY OF ELGIN, ILLINOIS

By the

Elgin Development Group

A division of the Elgin Area Chamber

31 South Grove Elgin IL 60120

847-741-5660 info@elgindevelopment.com

www.elgindevelopment.com

www.elginchamber.com

Industrial Market Analysis for the City of Elgin, Illinois

Executive Summary

Elgin is well positioned in the industrial market today to take advantage of the future. Four new speculative industrial projects have recently been completed or are under construction totaling approximately 1.2 million square feet of Class A space. This adds to Elgin's inventory of 27 million square feet of existing industrial space. These new, speculative buildings give Elgin a competitive advantage over other communities where no new, speculative space is being built. Company location and expansion decision making in today's market happens quickly and Elgin has suitable space to meet the need.

With 1.2 million square feet, and an annual net absorption of industrial space averaging 1.2 million square feet, Elgin now has a 1 year supply of industrial space. With the average deal size at 75,000 square feet, Elgin could expect up to 16 new businesses moving into Class A space providing possibly hundreds of jobs. The existing supply of shovel ready industrial land is just over 200 acres. This land could accommodate 3.2 million square feet of new industrial development, and would represent a plus or minus 3 year supply.

To keep and grow net absorption, the rising cost of development and property taxes must be mitigated. Fast track permitting, incentives and the waiving of building permit fees as an incentive have proven successful in attracting new businesses to Elgin.

Purpose of the Analysis

- Provide recommendations and information to local decision-makers and stakeholders as a part of the City of Elgin Existing Conditions Report.
- Retain and expand the manufacturing base of the City of Elgin.
- Attract new industries and employment opportunities for Elgin citizens.
- Continue to develop a skilled workforce connecting to the local employment base.
- Provide useful site selection data for potentially new manufacturers and industrial developers searching for opportunities.
- Provide existing manufacturers contemplating redevelopment market information.
- Provide local manufacturers thinking about expanding or opening a new location within Elgin information about their location options.
- Provide lenders and investors market information about the industrial sector in Elgin.

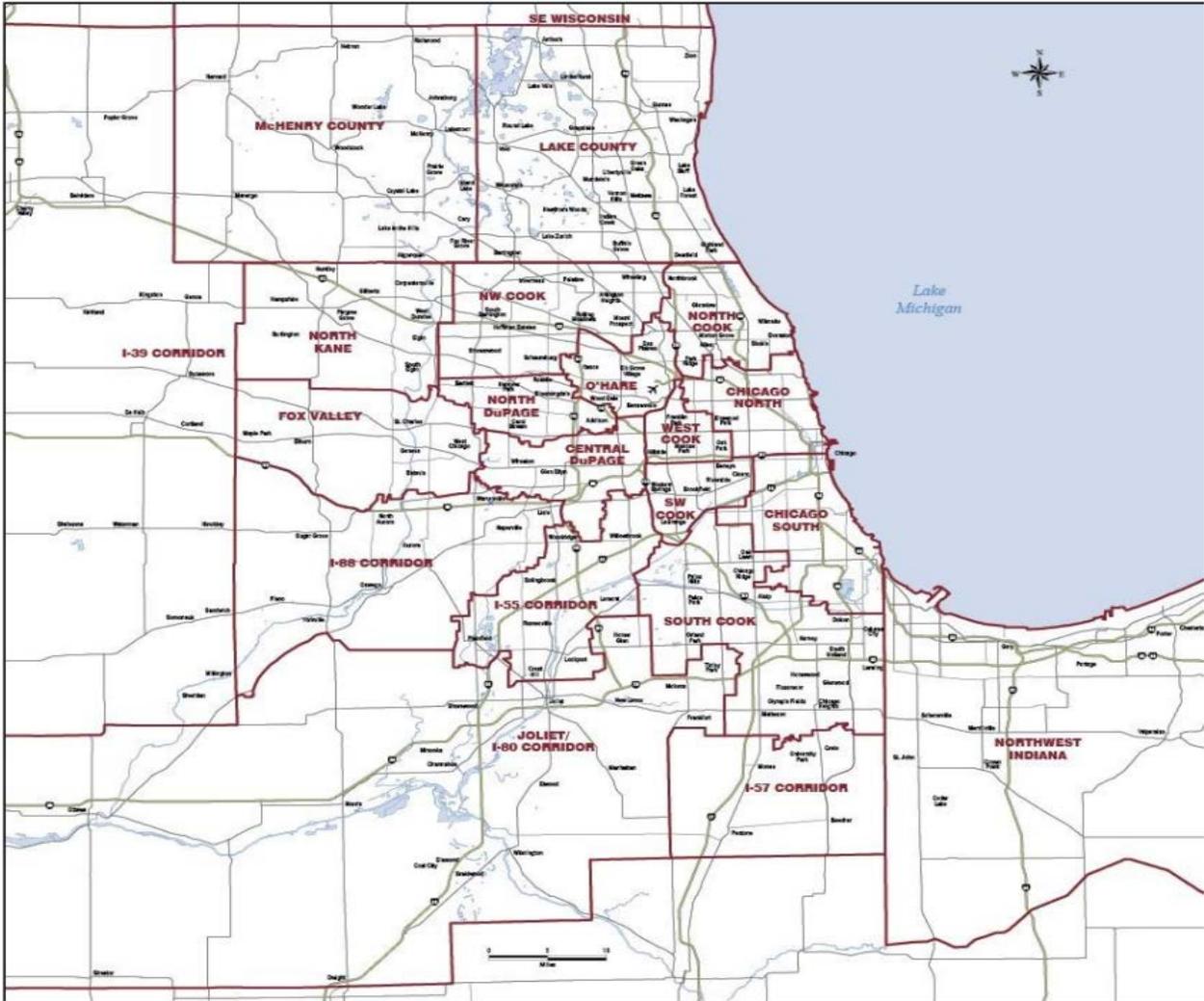
U. S. and Chicago Area Industrial Market

There is approximately 12.2 billion square feet of industrial space in the U.S. The Chicago Industrial Market, the largest in the U. S., has 1.26 billion square feet of space and approximately 16,455 industrial buildings. The Chicago market has the second highest net annual absorption rate of 5.2 million square feet, second only to Atlanta. The market also has the second highest number of square feet, 16.9 million, under construction, second only to the Dallas/Fort Worth area.

This was the 24th consecutive quarter of positive absorption of industrial property in the Chicago market with 3.8 million square feet that came online in the first quarter of 2016 and 3.8 million square feet absorbed by new and expanding tenants. The vacancy rate dropped to 7.7%, which was the lowest rate recorded since 2006. The average rental rate in the overall Chicago market has crossed the \$5 per square foot mark for the first time ever. All signs for the next 12 months point upwards as total inventory, net absorption, average asking rent, new building square feet under construction, square footage of new deliveries of space are up, while the vacancy rate will continue to decline.

Chicago Industrial Markets

<u>Market Area</u>	<u>Available Inventory (SF)</u>	
Central DuPage	22,461,764	
Chicago North	72,055,469	
Chicago South	113,170,670	
Fox Valley	36,679,108	
I-39 Corridor	63,555,737	
I-55 Corridor	88,224,031	
I-57 Corridor	18,330,254	
I-88 Corridor	61,928,670	
Joliet/I-80 Corridor	74,611,613	
Lake County	79,398,907	
McHenry County	30,565,105	
North Cook	37,865,492	
North DuPage	61,959,606	
North Kane	34,527,020	2.8% of the Total Market
Northwest Cook	46,502,409	
Northwest Indiana	49,003,856	
O'Hare	102,566,287	
South Cook	84,530,696	
Southeastern Wisconsin	59,182,899	
Southwest Cook	28,342,792	
West Cook	70,367,900	
TOTAL INDUSTRIAL BASE =	1,235,830,285 SF	



Elgin Manufacturing

Elgin is home to over 23 industrial parks, 27 million square feet of industrial space and approximately 5,700 businesses of various types including 600 manufacturing businesses. Historically a center for industrial development, Elgin maintains over 72% of the existing inventory of manufacturing space in the northern Kane County sub-market. Elgin’s location along I-90 with three full access points and proximity to major roads, the Chicago market and O’Hare airport make it an ideal location for domestic and international businesses. Elgin also provides an abundant, skilled labor pool for manufacturers.

The Elgin Industrial Sub-Market, which includes Northern Kane County and the I-90 Northwest Corridor, have all exhibited good and solid fundamentals in occupancy rates, rental rates and disciplined supply. The market is enjoying steady growth.

Elgin Business and Industrial Parks

The current inventory in the North Kane submarket is approximately 2.0 million SF. This represents an approximate 15 month supply. The existing supply of business and industrial park land, which totals about 234 acres, is capable of accommodating the construction of just over 4.0 million SF of new industrial space. Future industrial development alternatives, considered as farmland or “raw” land, is estimated at 345-500 acres of vacant land. This amount of land could accommodate 6.0 to 8.5 million SF of industrial space. This represents a five to seven year supply based on historical annual demand. Taking into account all current and future land supplies in the North Kane submarket, the corridor may be depleted of new space in nine to twelve years.

- Burnidge Brothers Industrial Park
- Capital Corporate Center
- Chicago White Metal
- Elgin Corporate Center
- Elgin Industrial Park
- DCT Business Center
- Fox Bluff Corporate Center
- Fox River Business Center
- IDI Subdivision
- Jaynes Industrial Park
- Miller-Davis Research & Industrial Center
- North Elgin Industrial Park
- Northwest Business Park
- Northwest Corporate Park
- Randall Crossing Business Park
- Randall Point
- Randall Point West
- Randall Road Executive Park
- Slough Business Center
- Tollgate Industrial Center
- Westfield Business Park
- Windsor Commerce Center
- Zilber Industrial I

Elgin Economy at a Glance

The Elgin economy in 2016 remains healthy and is expanding in some areas. Various economic indicators show that the economy continued to grow at a modest pace. Developers and businesses are cautiously optimistic about their prospects for the remainder of the year. Unemployment rates have remained low. Also, people that had sat out of the market after the last recession of 2008 reentered the market expanding the total Elgin **labor force** to 58,311 workers. The largest labor force since 2008! Never in Elgin’s history have more people been employed than today.

Overall housing numbers look mixed in Elgin. The number of detached single family homes sold have fallen from the same time in 2015 and 2014. Some housing experts contribute this drop due to the lack of real wage increases and rising home prices. During peak construction years, the Chicago market reached nearly 35,000 new home starts, with 45% of the activity priced under \$250,000. Today, just 35% of new home starts are priced under \$250,000. The positive side is that dollar values of detached single family homes increased approximately 9.0% across all zip codes in Elgin.

The 2016 outlook for the City of Elgin economy remains to be a good even though most parts of Illinois are not fairing as well. Developers and businesses in Elgin are continuing to hire and are optimistic. Labor shortages however are a hindrance to growth as employers are finding it continuously difficult to find quality employees. The economic outlook indicates that the Elgin economy will continue to grow at a steady pace and is robust.

Census Based Demographics

Census figures include 2016 current-year estimates and 5-year projection of U.S. demographics data including population, households, income, age, and housing for locations within 1, 3 and 5-mile distances.

Population	1 Mile	3 Mile	5 Mile
2016 Total Population:	11,276	71,460	142,579
2020 Population:	11,602	73,473	146,096
Pop Growth 2016-2021:	2.89%	2.82%	2.47%
Average Age:	35.6	36.6	35.9
Households			
2016 Total Households:	3908	23751	46377
HH Growth 2016-2021:	2.79%	2.76%	2.51%
Median Household Income	\$ 87,094	\$ 82,495	\$ 73,933
Avg. Household Size:	2.9	2.9	3
2015 Avg. HH Vehicles:	2	2	2
Housing			
Median Home Value:	\$ 279,629	\$ 222,239	\$ 193,470
Median Year Built:	1996	1990	1979

Industrial Statistics for Elgin

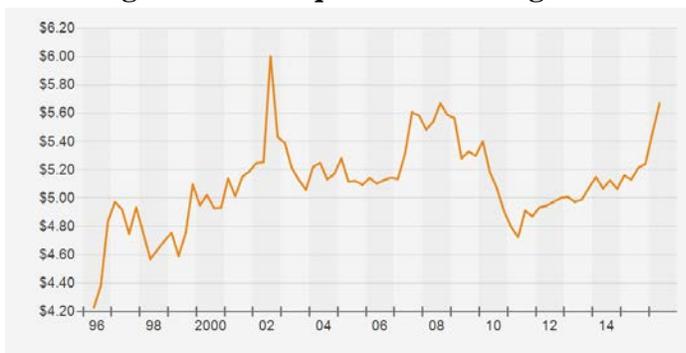
Industrial developers and investors tend to look at a number of factors before investing their resources into a specific location. These factors include competition, lease rates per square foot, historical vacancy rates, net absorption figures, probability of leasing in months, employment statistics and the number of month’s properties stands vacant.

Over the past five years, the figures in all categories have improved. Average rental rates have climbed from \$4.80 per square foot to around \$5.60 per square foot. The annual net absorption for the North Kane submarket is approximately 1.2 million square feet. With 1.2 million SF of speculative construction or in the pipeline in Elgin, it leaves about a one year supply to absorb. Vacancy rates have dipped considerably for Class A buildings to around 3.0% driving speculative new construction. Class B and C vacancy rates continue to hover at around historic levels of 10%. The probability of

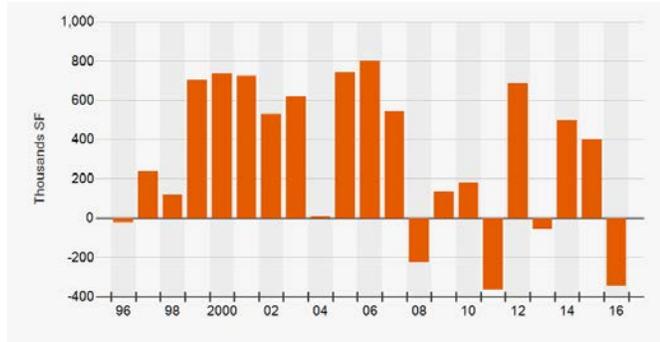
leasing a space has improved on average, and the number of months a building stands vacant has decreased in the past few years. These are all good signs of a healthy industrial market. Below are some of the figures for the Elgin market:

Availability	<u>Survey</u>	<u>5-Year Avg.</u>
Rent Per SF	\$5.67	\$5.03
Vacancy Rate	10.10%	10.00%
Vacant SF	2,090,852	2,010,929
Availability Rate	14.20%	14.80%
Available SF	2,989,497	2,996,952
Sublet SF	102,399	130,032
Months on Market	15.3	15
Demand	<u>Survey</u>	<u>5-Year Avg.</u>
12 Mo. Absorption SF	41,108	150,445
12 Mo. Leasing SF	1,803,001	1,450,968
Inventory	<u>Survey</u>	<u>5-Year Avg.</u>
Existing Buildings	345	343
Existing SF	20,607,542	20,035,902
12 Mo. Const. Starts	713,999	260,176
Under Construction	467,553	197,096
12 Mo. Deliveries	246,446	250,564
Sales	<u>Past Year</u>	<u>5-Year Avg.</u>
Sale Price Per SF	\$53	\$51
Asking Price Per SF	\$57	\$46
Sales Volume (Mil.)	\$91	\$82
Cap Rate	6.90%	7.20%

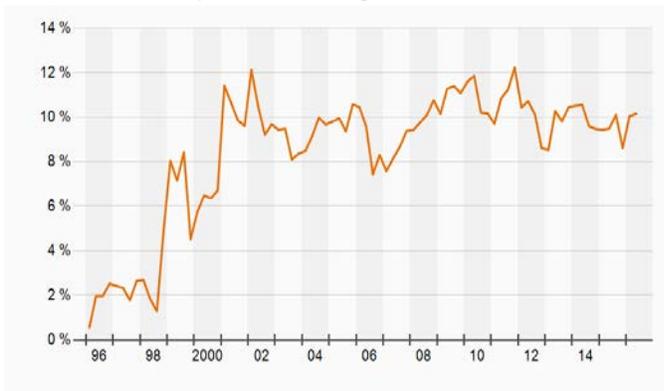
Average Rent Per Square Foot in Elgin



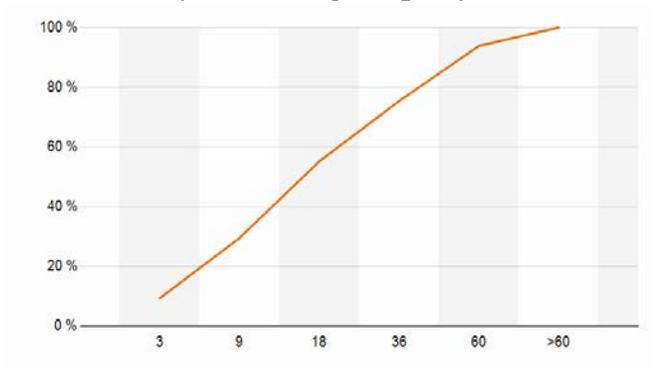
Net Absorption in Elgin



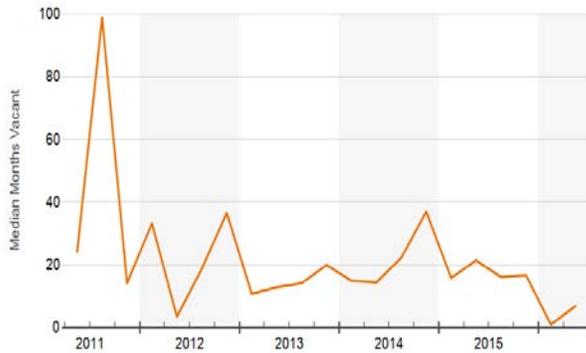
Vacancy Rate in Elgin



Probability of Leasing Property



Months Vacant in Elgin



Industrial Development Recommendations

- With greater competition from developers in the I-90 submarket area, it is critical for Elgin to maintain its competitive advantage by continuing a business friendly permit review process. A developer of a recent project stated:

“We are very excited to be starting yet another project in the City of Elgin and look forward to the successful completion of Zilber 1. Morgan Harbour does work in most of the suburbs and City of Chicago and the City of Elgin has been a great municipality for us to work in. Everyone we interact with from top to bottom has always been extremely cooperative and accommodating. In order for a construction project to be successful, you need everyone involved working together towards the same goal. To have the municipality participate in that mentality like Elgin has is not only refreshing but also instrumental in the project’s success. We appreciate all that you do and look forward to continuing to build in Elgin going forward. Thanks.”

- Ben Warriner, Exec VP/Partner, Morgan/Harbour Construction LLC

- According to national surveys, a quality workforce is one of the top three factors businesses look at when making a site selection decision. To develop a globally competitive workforce, we must continue to work closely together with our educational partners such as U46, Elgin Community College and other workforce partners.
- Since many real estate transactions are broker driven, we need to continue to develop and maintain relationships and promote Elgin’s advantages to members of the development and real estate brokerage community.
- Older industrial parks, such as Miller-Davis Research and Industrial Center, should revisit strategies to make them more competitive including the establishment of TIF districts.
- Promote Elgin’s Quality of Life through EDG’s Enhancing Elgin initiatives.
- Explore strategic opportunities for future business park sites in Elgin.
- Develop strategies to help keep older industrial parks competitive, relevant, and viable. Some strategies include being a liaison between property owners and potential redevelopers, allow for less constrictive zoning in older industrial parks, and provide financial incentives for signature projects.
- Continue to work with governmental officials regarding any negative consequences of rapid increases in property taxes and high cost of impact fees, particularly to manufacturers. Developers, manufacturers and investors look for predictability in local units of government.
- Provide and maintain high quality infrastructure such as roads, sewer, and storm water.

Methodology

The approach was to identify market forces, which either directly or indirectly affect the market potential for vacant and existing industrial properties in Elgin. Sources of information include:

- U.S. Census Demographic Information
- City of Elgin Existing Conditions Report
- Illinois Department of Employment Security Data
- City of Elgin Comprehensive Plan
- City of Elgin Land Use Plan
- Costar Industrial Net Absorption, Vacancy, Occupancy, and Rental Rates
- Developer and Broker Publications
- List of Industrial Parks in Elgin, City of Elgin

Steering Committee Members

Rachel Agba, Zilber Property Group

John Cassidy, Lee & Associates

Frank Griffin, Jones Lang LaSalle

Todd Heitman, Cushman & Wakefield

Pete Nelson, PANCOR

Michael Robinson, DCT Industrial

Brendan Sheahan, Darwin Realty

Chris Zannis, Arthur J. Rogers

Definitions

Categorization of Industrial Buildings: Class A, Class B and Class C

Class A. These buildings represent the highest quality buildings in their market. They are generally the best looking buildings with the best construction, and possess high quality building infrastructure. Class A buildings also are well-located, have good access, and are professionally managed. There are approximately 37 Class A industrial buildings in Elgin.

Class B. Class B buildings are generally a little older, but still have good quality management and tenants. Often times, value-added investor's target these buildings as investments since well-located Class B buildings can be returned to their Class A glory through renovation such as facade and common area improvements. Class B buildings should generally not be functionally obsolete and should be well maintained. There are approximately 160 industrial Class B buildings in Elgin.

Class C. The lowest classification of office building and space is Class C. These are older buildings (usually more than 20), and are located in less desirable areas and are in need of extensive renovation. Architecturally, these buildings are the least desirable and building infrastructure and technology is

out-dated. As a result, Class C buildings have the lowest rental rates, take the longest time to lease, and are often targeted as redevelopment opportunities. There are approximately 173 industrial Class C buildings in Elgin.

The items above are general guidelines to building classifications. There are no formal standards when classifying a building. A Class A Building in Peoria may not necessarily be a Class A building in Philadelphia. One of the most important things to consider about building classifications is that buildings should be viewed in context and relative to other buildings within the sub-market.

Keep the following items in mind when considering a classification of an Industrial Property:

Visual Appeal	Amenities (Battery Chargers, Wash Bays, etc.)
Location	Office Space
Access (Major roadways, public transportation)	Trailer Parking – Car Parking
Infrastructure	Water and Sewer Capacity
Data and IT Infrastructure	Construction, Common Area Improvements
Docks	Backup Power
Overhead Door Access	HVAC Capacity
Column Spacing	Floor load capacity
Ceiling Heights	Security and life safety infrastructure
	Lighting

Property Type

Investment

Investment quality properties are those that are unique in their location in the best metropolitan markets in the world, their design and construction quality, the solidity of the tenants and the tenant markets that they serve and the outstanding building management that is responsible for operating and maintaining them. These properties stand out as leaders not only within their own metropolitan areas but also within the international investment community.

Investment properties usually contain state of the art mechanical, electrical, life safety, elevator and communications systems. Their finishes are of the highest standards and they often provide the occupants with a mix of amenities - in variety and quality - that is exceptional. Often they house a lead tenant for whom the property is named and usually they are located in a premier metropolitan area. Investment grade properties need not be considered to be "trophy" material but trophy properties are usually investment grade.

Institutional

Institutional grade properties are those of sufficient size and stature that they merit attention by large national or international investors, hence the name. These properties are of good design and

construction, although they are rarely monumental in design or the use of construction materials. They are typically large. They may be located in secondary metropolitan areas, but invariably they will have a very stable tenant base

Speculative

Speculative properties usually will conform to popular design conventions (at the time that they are constructed), but without the use of exceptional materials or construction methods. The design and construction of these properties emphasizes functionality, in contrast with aesthetics or image and the design rarely reflects the image of any particular tenant or occupant. To attract national or international attention, speculative properties must be relatively large, although minimum size requirements are lower for properties located in premier office markets. They are often occupied by multiple tenants.