

For Chicago warehouse owners, Amazon effect is already big



A conveyor belt carries filled boxes to trucks Aug. 1, 2017, at an Amazon fulfillment center in Romeoville. Amazon signed five of the area's 13 largest leases during the one-year period through mid-2017, including two in Aurora plus deals in Monee, Waukegan and Crest Hill. (Brian Cassella/Chicago Tribune)



By **Ryan Ori**
Chicago Tribune

SEPTEMBER 18, 2017, 2:37 PM

It could be several months before Chicago finds out if it lands Amazon's 50,000-job second headquarters, but the e-commerce company is already making a big impact on the area's economy.

Led by Amazon leases, there's been more warehouse space gobbled up in the Chicago area over the past year than anywhere in the country.

In the past four quarters, through the end of June, a combined 22.3 million square feet of manufacturing and distribution space was absorbed in the greater Chicago area, according to Colliers International.

"The industrial market, particularly in Chicago, has benefited greatly from e-commerce demand," said Carter Andrus, who oversees the Chicago market for the area's largest industrial landlord, San Francisco-based Prologis, which owns 41 million square feet of warehouses in the metro area.

Net absorption, a key gauge of demand, measures the change in occupied space from one period to the next.

Amazon signed five of the area's 13 largest leases during the one-year period through mid-2017, including two in Aurora. It also signed deals in Monee, Waukegan and Crest Hill. The five new deals are for about 4.8 million square feet combined.

Amazon and similar companies are disrupting other businesses, such as traditional retailers, but the shift has created an overall rise in warehouse demand, Andrus said. Online retailers need three times the amount of warehouse space as a traditional retailer because they stock a broader range of products and also take in large numbers of returned products, he said.

"There are some traditional retailers whose business isn't as strong as a result (of more online orders), and there's a reduction of space for those companies," said Andrus, Prologis' head of operations for the central region, which stretches from Texas to the Chicago area. "But that pales in comparison to the increased demand we're seeing from e-commerce companies."

Online retailers also typically require lots of manpower, which is a boon to the local economy.

Amazon already has more than 7,000 employees in Illinois, and the new distribution facilities are expected to add thousands of additional jobs.

Chicago and Illinois officials said they plan to bid on Amazon's recently announced "HQ2," where it could eventually have 50,000 new, high-paying office jobs.

While Chicago office developers fine-tune their pitches, industrial property owners already have responded to increased demand.

Developers completed 22.8 million square feet of new industrial space in the Chicago area in the past year, second-highest of any U.S. market, according to Colliers. The Dallas area led the nation with 26.4 million square feet of completed projects during that time.

The greater Chicago area, which includes small pockets of Wisconsin and Indiana, is the nation's second-largest industrial market, with 1.37 billion square feet of space. Southern California is the largest, with 1.81 billion square feet.

Chicago is a coveted distribution and manufacturing market because of its central location, large labor pool and access to multiple modes of transportation.

The area's overall industrial vacancy was 6.7 percent in the second quarter, just above the 6.6 percent in the previous quarter that set a 16-year low.

Other recent big industrial deals have included candy-maker Mars' new 1.4 million-square-foot facility in Elwood, near Joliet, and a 1 million-square-foot facility built for tissue, paper and building materials company Georgia-Pacific in University Park.

During the second quarter, there was another 14.8 million square feet of industrial space under construction in the area, according to Colliers. Landlords and brokers are keeping a close eye on the Interstate 80 corridor, where four warehouses of more than 1 million square feet are under construction on speculation, or without leases signed in advance, said David Bercu, a principal in Colliers' Rosemont office.

"We've got to watch and see if that's absorbed without Amazon adding more space," Bercu said. "Other large users have got to step up."

"Amazon has skewed the numbers a little bit because they've taken down so many large spaces. I think, for the most part, they've put their dots on the map around Chicago."

For companies such as Amazon that have built networks of large warehouses in the area, the next frontier could be a wave of small facilities in heavily populated areas of the city where land is scarce, in order to make speedier deliveries directly to consumers.

In order to get closer to neighborhoods, some companies are willing to accept older, less functional buildings that they can retrofit, Bercu said.

Andrus said the Chicago market could even see vertical development in areas of the city where land is costly. That phenomenon is now mostly limited to ultra-dense areas of Asia, such as in Hong Kong.

Prologis already is constructing the country's first vertical warehouse in Seattle — which will be three levels — and it plans another in San Francisco, Andrus said.

"Chicago's on our list where we're investigating" other vertical warehouses, he said.

rori@chicagotribune.com

Twitter @Ryan_Ori

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