

CHICAGO SUBURBAN OFFICE MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.4	4.9	↓	4.9	↑
YTD NET ABSORPTION (Thousands SF)	-4.0	-28.6	↑	(411.8)	↑
DIRECT VACANCY RATE	21.3%	21.3%	↔	19.3%	↑
DIRECT VACANT SF (MSF)	27.0	27.2	↓	24.7	↑
AVAILABLE SUBLET SF (MSF)	3.6	3.3	↑	2.9	↔
UNDER CONSTRUCTION (MSF)	0.0	0.1	↓	0.2	↔
MARKET RENT, FULL SERVICE (PSF)	\$25.07	\$24.80	↑	\$24.72	↔
YTD SALES VOLUME (Millions)	\$223	\$251	↓	\$242	↔

Source: Transwestern , Bureau of Labor Statistics, CoStar, Real Capital Analytics

The fundamentals of Chicago’s suburban office market held relatively steady in the first quarter of 2023. There was very little negative absorption and the direct vacancy rate decreased by 60 basis points to 21.3%. Direct leasing activity measured 1.1 million square feet, significantly less than the quarterly average of 1.9 million square feet seen in the ten years prior to COVID-19. The amount of available sublease space decreased by 95,394 square feet to 3.6 million square feet due to the expiring leases of tenants that have been unsuccessfully trying to sublease space.

The suburban office market would be in much worse condition were it not for the fact that over 5 million square feet of Class B and C inventory has been demolished or converted to other uses over the past 15 years. It appears the future of the market is also dependent on significant amounts of inventory being removed, perhaps even large Class A properties. Three of the six largest suburban office investment sales in the first quarter were to investors that are likely to convert the properties to other, more industrial uses.

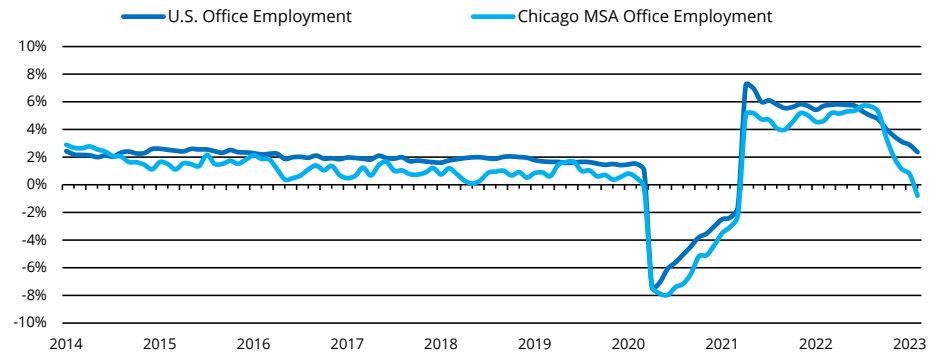


ECONOMY

Bank Sector Turmoil Adds to Economic Anxiety

- The Federal Reserve (Fed) added two more interest rate hikes in the first quarter of 2023, bringing the current range of the federal funds rate up to 4.75% to 5.00%. The Fed's efforts to combat inflation were complicated in March when the collapse of Silicon Valley Bank, and then Signature Bank, sparked widespread concern about the banking sector as a whole and regional banks in particular. The Fed acted quickly to address the situation and protect the banking system, preventing the problem from spreading widely. However, the Fed will have to balance lingering concerns about the banking sector with ongoing concerns about inflation when they make their next decision about interest rates in May. Unfortunately for the commercial real estate industry, the troubles facing banks have led to a pullback in lending, which further exacerbates the existing problems with financing created by high interest rates.
- The economy continues to add jobs at an impressive pace with an estimated 1 million jobs created in the U.S. the first quarter of 2023. Initial unemployment claims in the first quarter have been slightly higher than they were in the fourth quarter of 2022 but remain lower than pre-pandemic norms.
- Locally, the unemployment rate was 4.4% in February, slightly higher than the U.S. rate of 3.6%. Approximately 93,000 jobs were added to the local economy over the past year with Leisure and Hospitality jobs leading the pack.
- The number of office-using jobs in the U.S. increased 3.7% year over year in February; locally, office-using jobs decreased by 0.8% during the same period. The Professional and Business Services industry lost 6,600 jobs in the Chicago area year over year, while the Financial Activities industry lost 2,000 jobs and the Information industry lost 1,100 jobs.

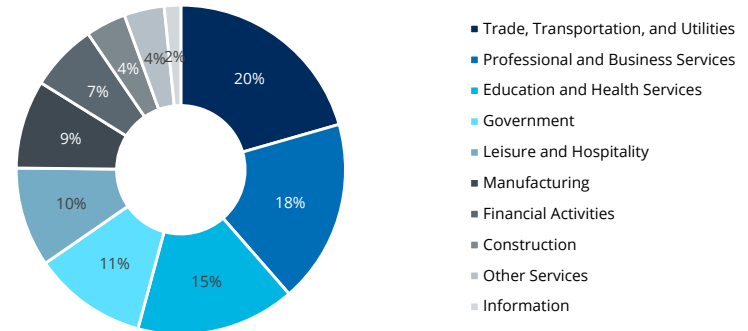
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

SHARE OF EMPLOYEES BY INDUSTRY

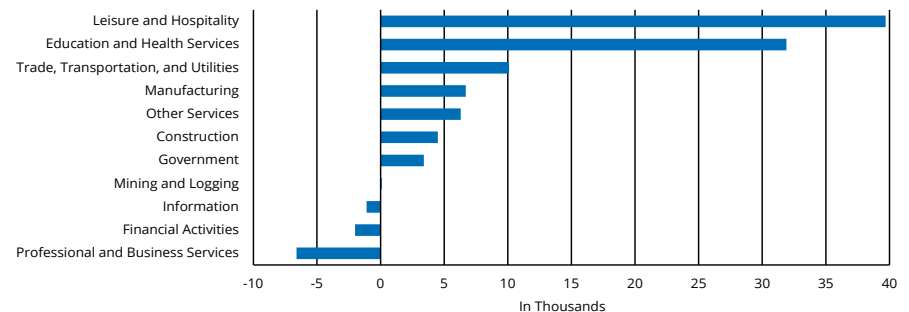
Chicago MSA | February 2023



Source: Bureau of Labor Statistics

JOB GROWTH BY INDUSTRY

Chicago MSA | February 2023



Source: Bureau of Labor Statistics



NET ABSORPTION

Little Change in Occupancy

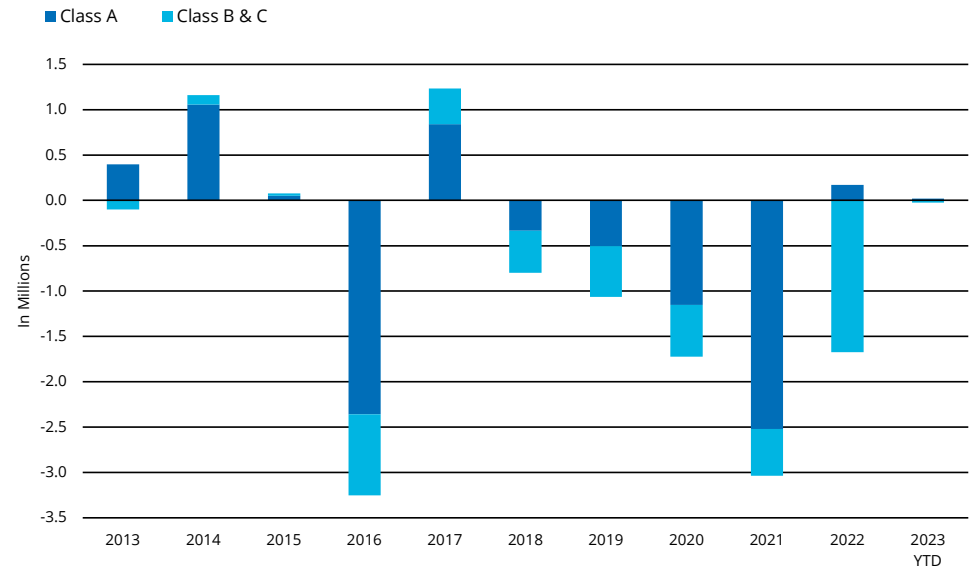
- Net absorption totaled negative 4,018 square feet during the first quarter of 2023, with positive 20,148 square feet in the Class A sector and negative 24,166 square feet in the Class B and C sectors.
- The only submarkets with positive absorption were the Northwest Suburban submarket with 192,952 square feet and the O'Hare submarket with 44,559 square feet.
- The dearth of leasing activity in recent years can be expected to lead to more negative absorption in the coming years, especially since much of the leasing activity that has taken place represents significant contractions in space usage.

LEASING ACTIVITY

Deal Volume Remains Sluggish

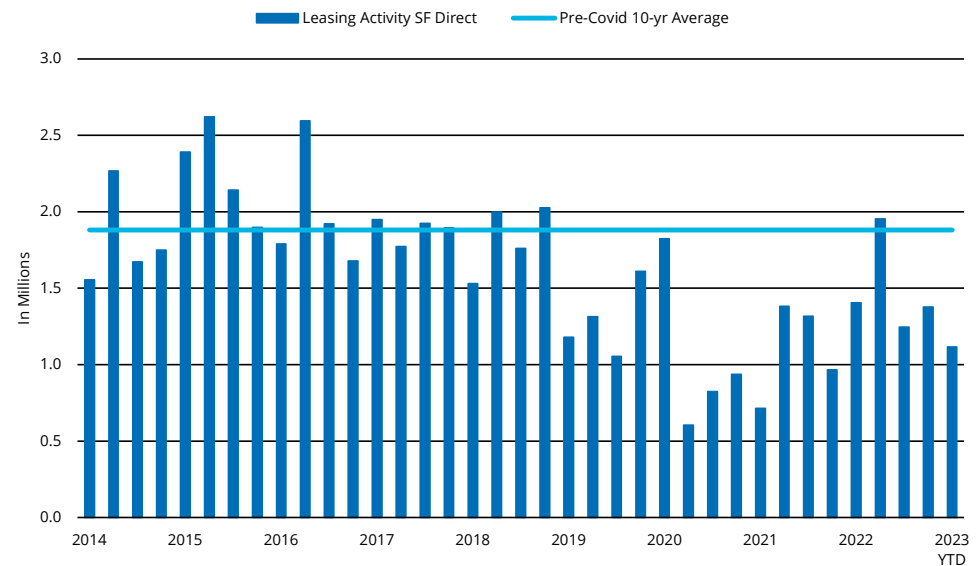
- Direct leasing activity measured 1.1 million square feet during the first quarter of 2023, still significantly less than the quarterly average of 1.9 million square feet seen in the 10 years prior to COVID-19.
- The largest deal of the first quarter was CF Industries' lease of 77,863 square feet at 2375 Waterview Drive in Northbrook. The lease is the largest new direct deal signed in the North submarket since the onset of the pandemic. Unfortunately, it is also a significant downsize from the company's current 176,000-square-foot space at 4 Parkway North in Deerfield.
- Not all suburban office tenants are downsizing. AIT Worldwide Logistics' 56,808-square-foot lease at 2 Pierce Place in Itasca is nearly double the office space it is currently using at 701 N Rohlwing Road, an industrial building it owns in Itasca. Additionally, Baxter and Woodman Engineering, Tecta America and Weaver Consultants Group each signed leases for expansions of approximately 20,000 square feet in the first quarter.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar



DIRECT VACANCY

Vacancy Rate Decreases Slightly

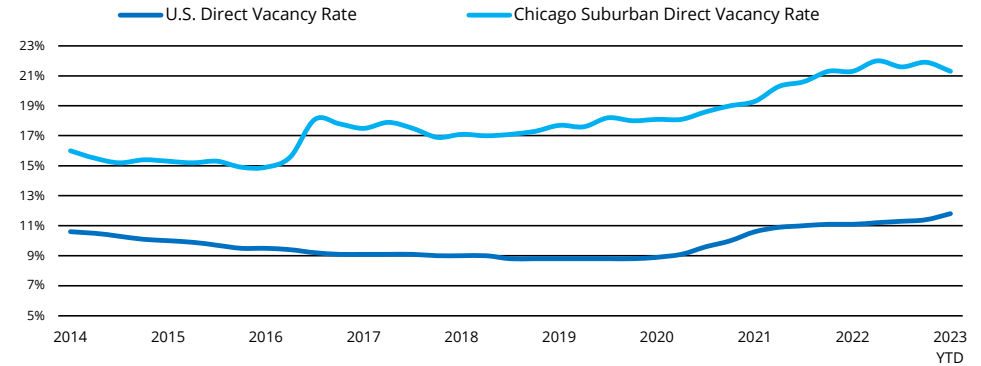
- The direct vacancy rate in Chicago's Suburban office market decreased 60 basis points during the first quarter to 21.3%.
- The Suburban office market's Class A direct vacancy rate decreased 90 basis points during the first quarter to 22.9%, while the Class B and C rate stayed at 19.1%. Class A vacancy rates are higher than Class B and C vacancy rates because of the large corporate tenants that have vacated entire Class A office campuses in recent years. Additionally, Class B and C rates have remained lower because, since 2008, over 5 million square feet of inventory has been slowly but surely removed from the market as it is demolished or converted to other uses.

SUBLEASE AVAILABILITY

Sublease Market Shrinks Due to Attrition

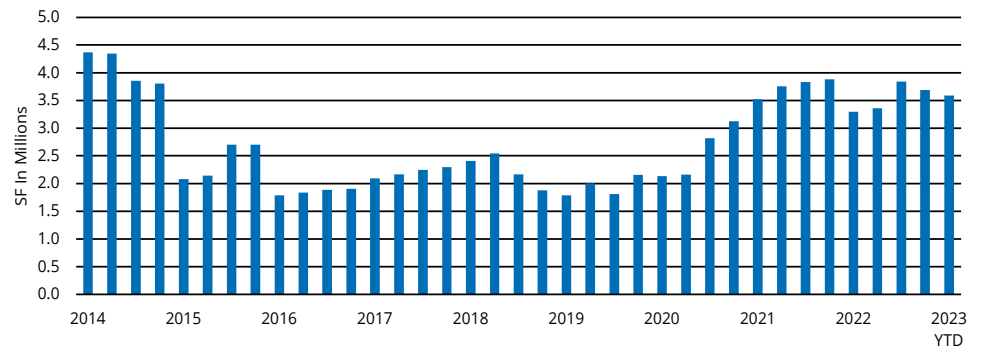
- The amount of available sublease space decreased by 95,394 square feet in the first quarter of 2023 to 3.6 million square feet. The decreasing availability of sublease space is not due to subleasing activity, as only 36,344 square feet of suburban office space was subleased in the first quarter. Rather, it is due to the expiring leases of tenants that have been unsuccessfully trying to sublease space, which causes the available space to transfer from the sublease market to direct availability.
- No blocks of suburban sublease space larger than 50,000 SF were added to the market in the first quarter.
- The Eastern East-West Corridor submarket has 976,532 square feet of available sublease space, which accounts for the largest proportion of the total available suburban sublease space, 27.2%. It is also the submarket with the largest percentage of its inventory available as sublease space, 3.8%.

DIRECT VACANCY RATE



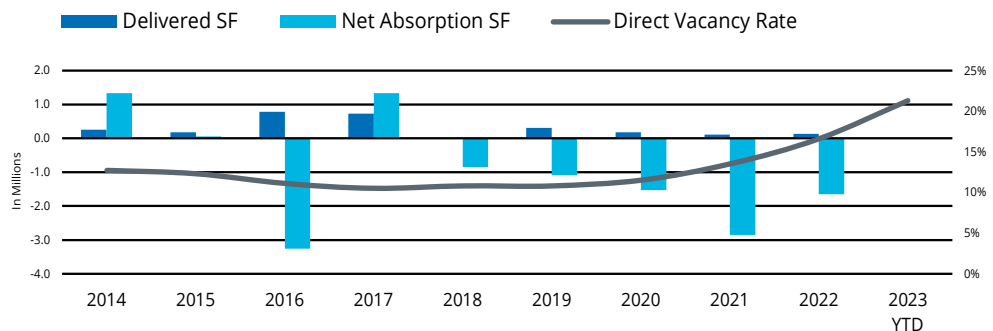
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

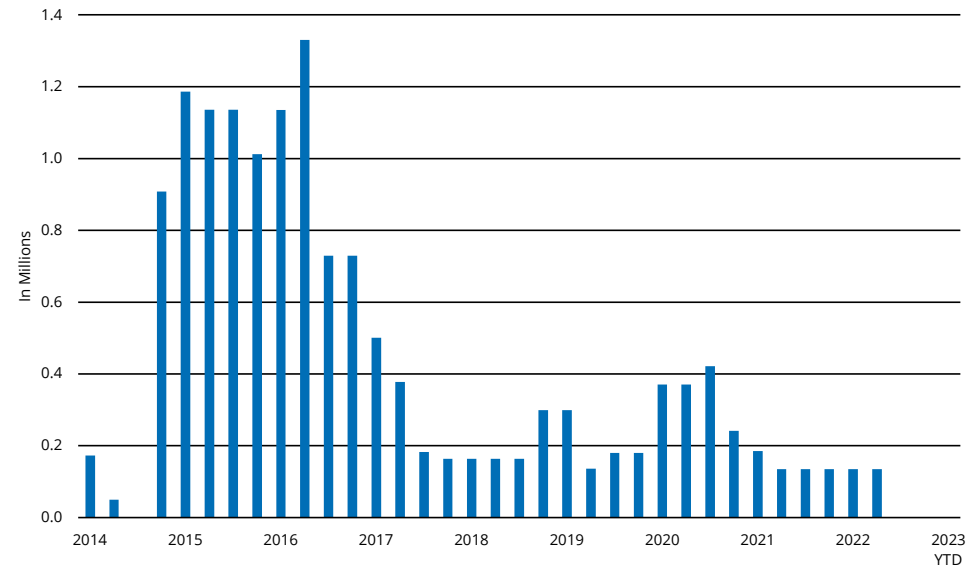


UNDER CONSTRUCTION

Office Pipeline Runs Dry

- There has been very little office space constructed in Chicago's suburban market since 2016. Almost everything that has been built during that time has been build-to-suit for owner occupancy.
- There are no office buildings larger than 40,000 square feet currently under construction in Chicago's suburban market.
- The most recent office development that has been built in Chicago's suburban market is 2000 Clearwater Dr, a 135,000-square-foot addition to HUB Group's headquarters in Oak Brook.
- The largest proposed suburban office development is Glenstar Properties' 600,000-square-foot built-to-suit opportunity at 8601 W Higgins Rd, Chicago in the O'Hare submarket.

UNDER CONSTRUCTION



Source: Transwestern, CoStar

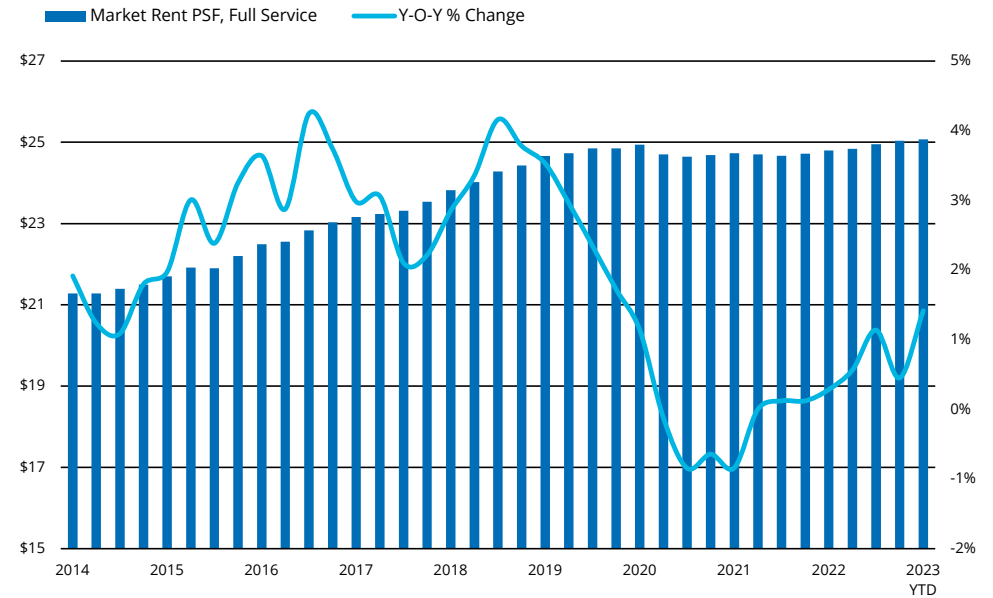


RENTAL RATES

Market Rents Hold Steady

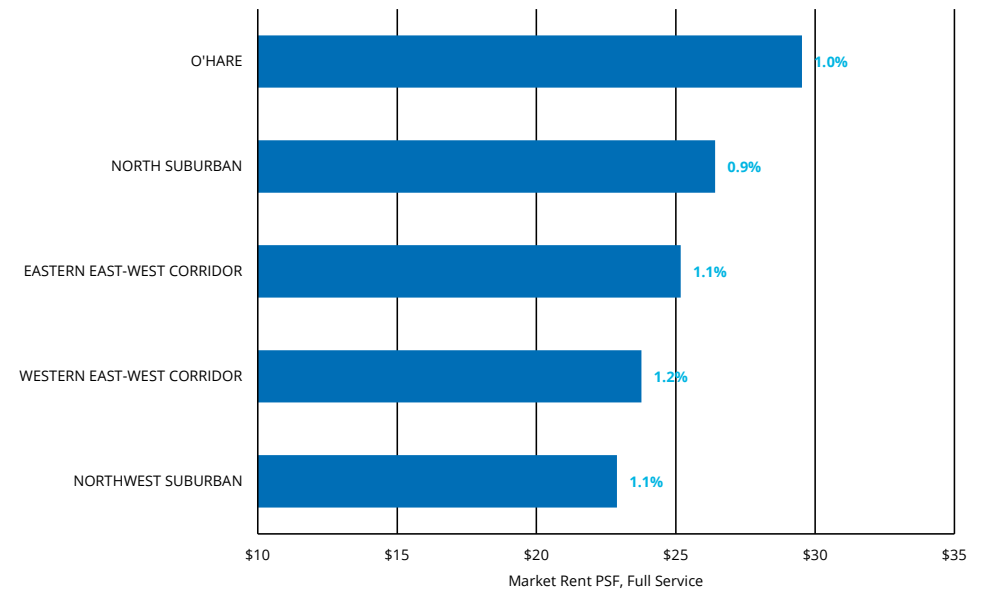
- Market rents continue to hold firm, up 1.4% year over year to \$25.07 per square foot in the first quarter.
- Average Class A market rents rose 1.1% YOY to \$28.01 per square foot in the first quarter. Average Class B and C market rents rose 1.0% year over year to \$20.74 per square foot in the same time period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is \$34.75 per square foot, Class B and C average is \$19.99 per square foot, and the total submarket average is \$29.52 per square foot.

MARKET RENT



Source: Transwestern, CoStar

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

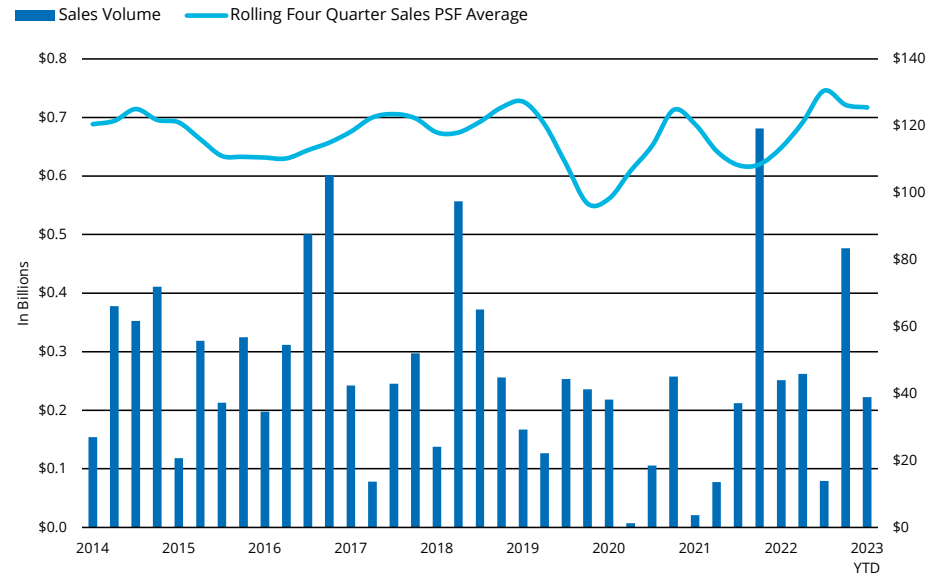


SALES

Sales Appear to be Driven by Conversion Plans

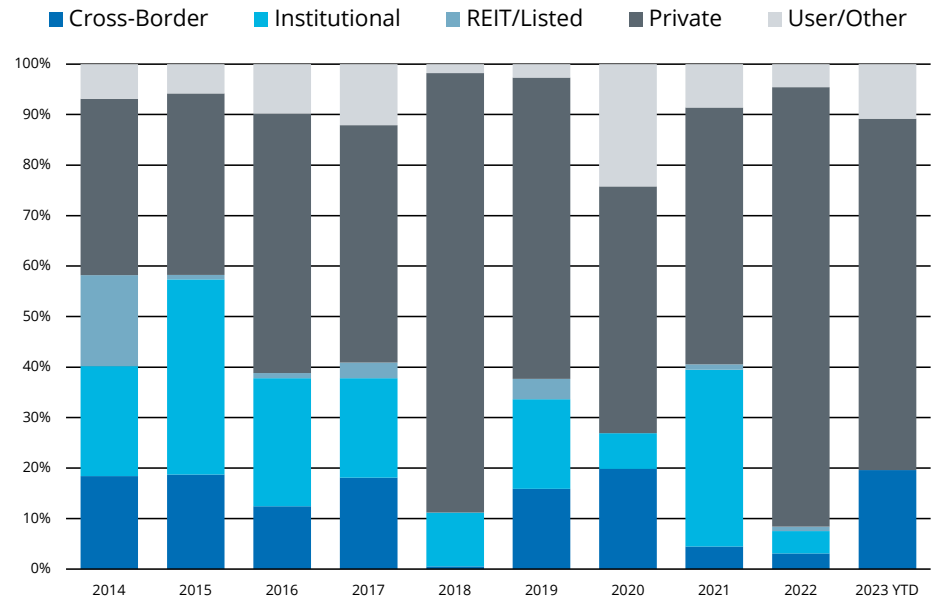
- According to Real Capital Analytics, there were \$223 million in office investment sales in Chicago’s suburban office market in the first quarter of 2023, with an average per-square-foot sales price of \$122.
- The largest transaction in the first quarter was MBARK Global’s purchase of the leasehold interest at 21440 Lake Cook Road in Deer Park, known as The Reserve in Deer Park, for \$59 million or \$173 per square foot. The 341,092-square-foot property is a 100%-leased multi-tenant lab and R&D office building on more than 57 acres. According to CoStar, MBARK is considering developing a second building on the property.
- Two suburban office properties in Elk Grove Village were purchased by Aligned Data Centers, presumably to be converted into data centers.
- IndustPAD purchased 1500 & 1600 McConner Pkwy in Schaumburg at auction for \$9.2 million or \$19 per square foot. The seller, Bridge Investment Group, purchased the properties as part of a 13-property portfolio in 2018 for \$71.5 million, or \$146 per square foot. According to IndustPAD’s website, the company typically offers high-end manufacturing space for uses such as advanced manufacturing, indoor farming, food science, cryptocurrency mining, research labs, assembly, warehousing, and smart logistics.

SALES VOLUME



Source: Real Capital Analytics, Transwestern


BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



Q1 2023 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
CF Industries 	2375 Waterview Dr, Northbrook	North	New	77,863
Quill Corporation	300 Tri State International, Lincolnshire	North	New	61,518
AIT Worldwide Logistics	2 Pierce Pl, Itasca	Northwest	New	56,808
State of Illinois	7301-7337 N Lincoln Ave, Lincolnwood	North	New	28,086
Network Services Co.	1400 & 1450 American Ln, Schaumburg	Northwest	New	40,000
Experian Marketing Solutions	1515 Woodfield Rd, Schaumburg	Northwest	New	24,700
Primient	20 N Martingale Rd, Schaumburg	Northwest	New	23,725
Middough Inc	2650 Warrenville Rd, Downers Grove	Eastern East-West Corridor	New	23,046
Weaver Consultants	1316 Bond St, Naperville	Western East-West Corridor	Exp	22,250
Genuine Cable Group	8550 W Bryn Mawr Ave, Chicago	O'Hare	New	20,189
Baxter Woodman Engineering	8430 W Bryn Mawr Ave, Chicago	O'Hare	Exp	20,000
Tecta America	9450 W Bryn Mawr Ave, Rosemont	O'Hare	Exp	20,000
UL Research Institutes	8045 Lamon Ave, Skokie	North	New	19,366
Rogers Behavioral Health	5750 Old Orchard Rd, Skokie	North	New	18,087
Crawford, Murphy & Tilly, Inc.	550 N Commons Dr, Aurora	Western East-West Corridor	Ren	18,000
Lee & Associates	9450 W Bryn Mawr Ave, Rosemont	O'Hare	Ren	17,337
Wells Lamont	5215 Old Orchard Rd, Skokie	North	Ren	16,891

 = Transwestern deal

Source: Transwestern, CoStar



Q1 2023 NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
21440 Lake Cook Rd, Deer Park	Northwest	\$59,000,000	341,092	\$173	MBARK Global	Arzan Wealth/ 90 North RE Partners
1700 & 1900 E Golf Rd, Schaumburg	Northwest	\$52,000,000	488,087	\$107	Joel Yacoob	Sovereign Partners
50 NW Point Blvd, Elk Grove Village	Northwest	\$29,120,000	176,848	\$165	Aligned Data Centers	Franklin Street Properties
101 NW Point Blvd, Elk Grove Village	Northwest	\$13,000,000	50,000	\$260	Aligned Data Centers	Brennan Investment Group
1500 & 1600 McConnor Pkwy, Schaumburg	Northwest	\$9,200,000	489,587	\$19	IndustPAD	Bridge Investment Group
1200 Roosevelt Rd, Glen Ellyn	Western East-West Corridor	\$4,174,667	48,960	\$85	Stahelin Properties	Richard Nasatir

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS TABLE

All Classes of Space | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
NORTH SUBURBAN	32,153,481	6,242,659	19.4%	20.4%	0	-146,000	-146,000	\$26.41
O'HARE	12,757,243	2,500,383	19.6%	20.7%	0	44,559	44,559	\$29.52
NORTHWEST SUBURBAN	34,011,945	8,691,784	25.6%	26.6%	0	192,952	192,952	\$22.89
EASTERN EAST-WEST CORRIDOR	25,601,800	5,069,289	19.8%	21.1%	0	-76,181	-76,181	\$25.18
WESTERN EAST-WEST CORRIDOR	22,115,398	4,498,614	20.3%	21.2%	224,000	-19,348	-19,348	\$23.77
TOTAL	126,639,867	27,002,729	21.3%	22.4%	224,000	-4,018	-4,018	\$25.07

Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class A | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
NORTH SUBURBAN	20,195,660	4,426,912	21.9%	22.7%	0	-144,907	-144,907	\$28.88
O'HARE	8,239,482	1,637,562	19.9%	21.1%	0	93,373	93,373	\$34.75
NORTHWEST SUBURBAN	21,537,029	5,512,186	25.6%	26.9%	0	215,430	215,430	\$24.92
EASTERN EAST-WEST CORRIDOR	15,023,392	3,355,756	22.3%	23.9%	0	-122,094	-122,094	\$28.55
WESTERN EAST-WEST CORRIDOR	10,209,711	2,261,730	22.2%	23.6%	224,000	-21,654	-21,654	\$26.60
TOTAL	75,205,274	17,194,146	22.9%	24.1%	224,000	20,148	20,148	\$28.01

Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class B & C | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
NORTH SUBURBAN	11,957,821	1,815,747	15.2%	16.5%	0	-1,093	-1,093	\$22.24
O'HARE	4,517,761	862,821	19.1%	19.9%	0	-48,814	-48,814	\$19.99
NORTHWEST SUBURBAN	12,474,916	3,179,598	25.5%	26.2%	0	-22,478	-22,478	\$19.37
EASTERN EAST-WEST CORRIDOR	10,578,408	1,713,533	15.1%	18.0%	0	45,913	45,913	\$20.39
WESTERN EAST-WEST CORRIDOR	11,905,687	2,236,884	18.8%	19.1%	0	2,306	2,306	\$21.28
TOTAL	51,434,593	9,808,583	19.1%	19.9%	0	-24,166	-24,166	\$20.74

Source: Transwestern, CoStar

