

# CHICAGO SUBURBAN OFFICE MARKET

Q2 2023



## TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
<b>UNEMPLOYMENT RATE</b>	3.2	4.5	↓	5.7	↑
<b>YTD NET ABSORPTION</b> (Thousands SF)	-2,156.7	-1,162.1	↓	(990.0)	↑
<b>DIRECT VACANCY RATE</b>	22.7%	21.4%	↑	19.3%	↑
<b>DIRECT VACANT SF</b> (MSF)	28.8	27.3	↑	24.6	↑
<b>AVAILABLE SUBLET SF</b> (MSF)	3.6	3.4	↑	2.9	↔
<b>UNDER CONSTRUCTION</b> (MSF)	0.0	0.1	↓	0.2	↔
<b>MARKET RENT, FULL SERVICE</b> (PSF)	\$25.31	\$25.05	↑	\$24.95	↔
<b>YTD SALES VOLUME</b> (Millions)	\$228	\$465	↓	\$244	↔

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

Chicago's suburban office market is undergoing significant change as property values plummet and plans to redevelop into alternative uses proliferate. Net absorption totaled negative 2,249,771 square feet during the second quarter due to the 2.3 million-square-foot Sears Campus at 3333 Beverly Road in Hoffman Estates being officially vacated. This negative absorption caused the direct vacancy rate to jump 170 basis points to 22.7%. There are already plans to convert the building into a data center, exemplifying the overarching trend in the suburban office market.

A sharp reduction in inventory appears to be the most realistic path to a market recovery at this point, as a massive increase in leasing activity seems unlikely. Out of the 10 suburban office properties larger than 100,000 square feet that were sold in the second quarter, two will be replaced with multi-family developments, one will become an industrial development, and two appear to be destined to become data centers. Suburban municipalities are grappling with residents that are adamantly against these land-use changes. Industrial uses are often seen as incompatible with the suburban landscape and multi-family developments can strain public resources. Nonetheless, reducing the overall inventory of suburban offices would benefit the remaining office properties, and new uses for under-utilized offices would generate tax revenue.

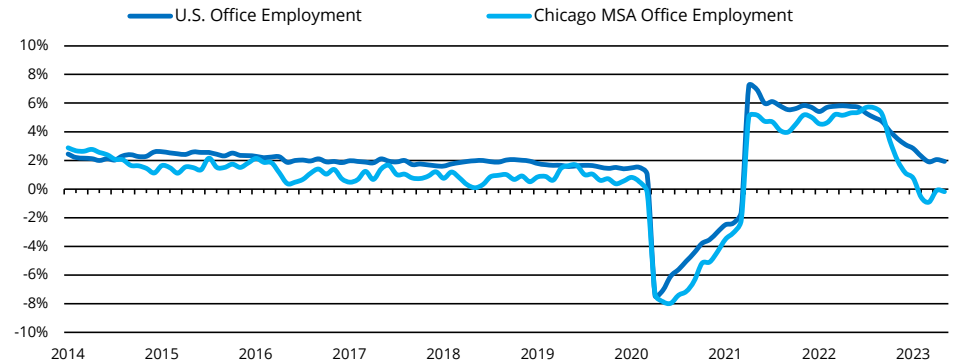


### ECONOMY

#### Soft Landing May Be Possible After All

- The Federal Reserve (Fed) added one more interest rate hike in the second quarter of 2023, bringing the current range of federal funds rate up to 5.00% to 5.25%. In June, the Fed chose not to raise rates again for the first time since March 2022. The turmoil seen in the banking sector in the first quarter of 2023 seems to have subsided. After two bank failures in March, there was one additional failure in May, First Republic Bank, but there does not appear to be any immediate crisis on the horizon. However, there is still significant stress in financial markets and growing concerns about commercial real estate loan defaults. Meanwhile, the inflation problems that caused the Fed to raise rates seem to be subsiding. Annual inflation as measured by the consumer price index was down to 3.0% in June, the lowest it has been since reaching a high of 9.1% in June of 2022.
- The economy continues to add jobs at an impressive pace with an estimated 732,000 jobs created in the U.S. in the second quarter of 2023. Weekly initial unemployment claims reached 265,000 in mid-June, the highest level seen since October 2021, but have since returned to lower levels. The ongoing resiliency of the labor market is providing hope that the Fed’s efforts to rein in inflation may indeed end with a “soft landing” rather than the recession many have feared.
- Locally, the unemployment rate was 3.2% in May, slightly lower than the U.S. rate of 3.7%. Approximately 82,000 jobs were added to the local economy over the past year with Leisure and Hospitality jobs leading the pack, closely followed by Education and Health Services.
- The number of office-using jobs in the U.S. increased by 1.9% year over year in May; locally, office-using jobs decreased by 0.2% during the same period. The Professional and Business Services industry lost 3,600 jobs in the Chicago area year over year, the Information industry lost 2,600 jobs and the Financial Activities industry gained 4,000 jobs.

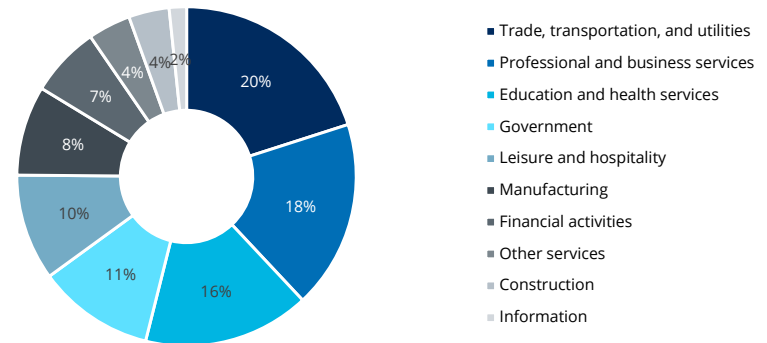
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

### SHARE OF EMPLOYEES BY INDUSTRY

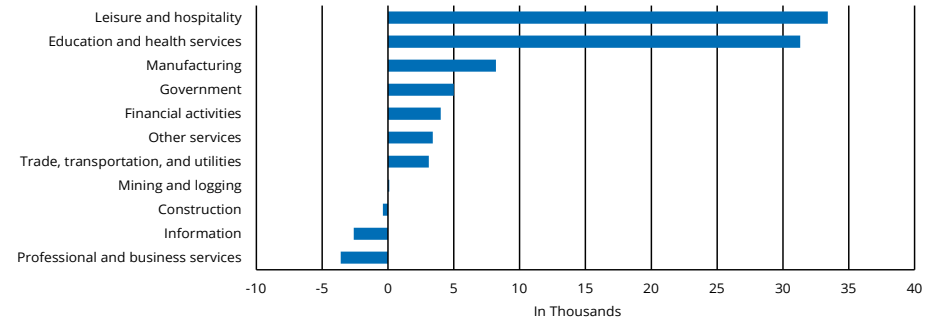
Chicago MSA | May 2023



Source: Bureau of Labor Statistics

### Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | May 2023



Source: Bureau of Labor Statistics



### NET ABSORPTION

#### Sears Campus Goes Dark

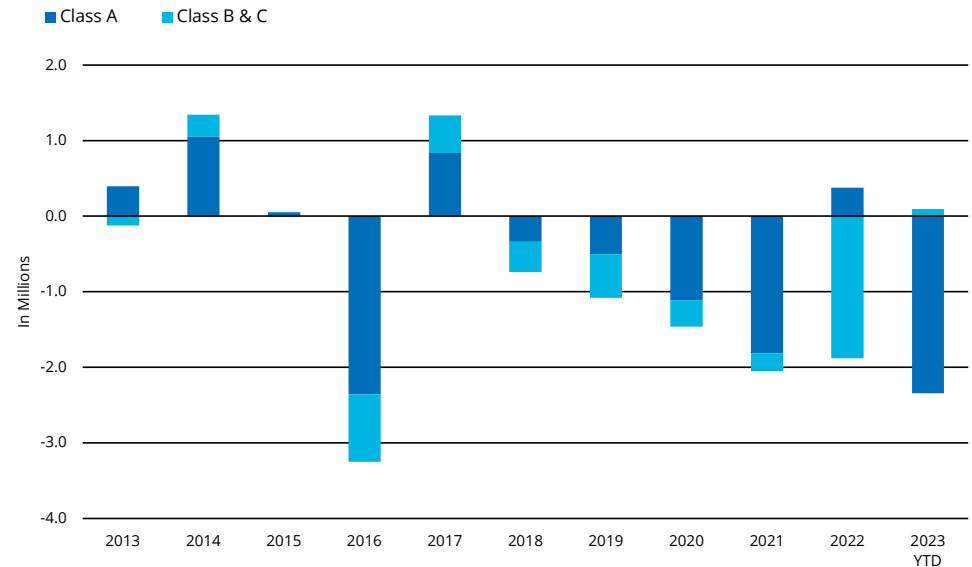
- Net absorption totaled negative 2,249,771 square feet during the second quarter of 2023, with negative 2,342,992 square feet in the Class A sector and positive 93,221 square feet in the Class B and C sectors.
- The huge amount of negative absorption is due to the 2.3 million-square-foot Sears Campus at 3333 Beverly Road in Hoffman Estates, which has long been listed as available, now being listed as vacant and available. However, there are already plans for the massive property to be purchased and converted into a data center.
- 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

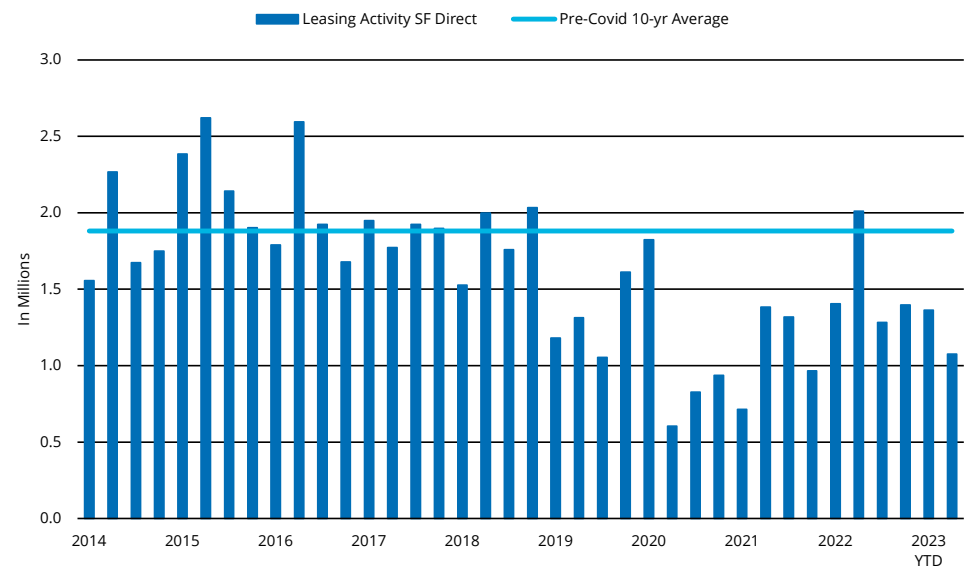
- Direct leasing activity measured 1.1 million square feet during the second quarter of 2023, still significantly less than the quarterly average of 1.9 million square feet seen in the 10 years prior to COVID-19.
- The largest deal of the first quarter was Nagase Holdings' lease of 48,472 square feet at 300 Park Blvd. in Itasca, where it plans to co-locate multiple US entities.
- The largest suburban renewal of the second quarter was also a contraction. Sikich renewed 42,895 square feet of its space at 1415 W. Dielh Road. in Naperville.
- Enesco leased 23,689 square feet at 500 Park Blvd. in Itasca. This lease is notable because it is a significant downsize from its current 101,579-square-foot space at 225 Windsor Drive in Itasca, which was sold for \$3.25 million, or \$32 per square foot, in the second quarter.

### NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

### LEASING ACTIVITY



Source: Transwestern, CoStar



### DIRECT VACANCY

#### Vacancy Rate Reaches Historic High

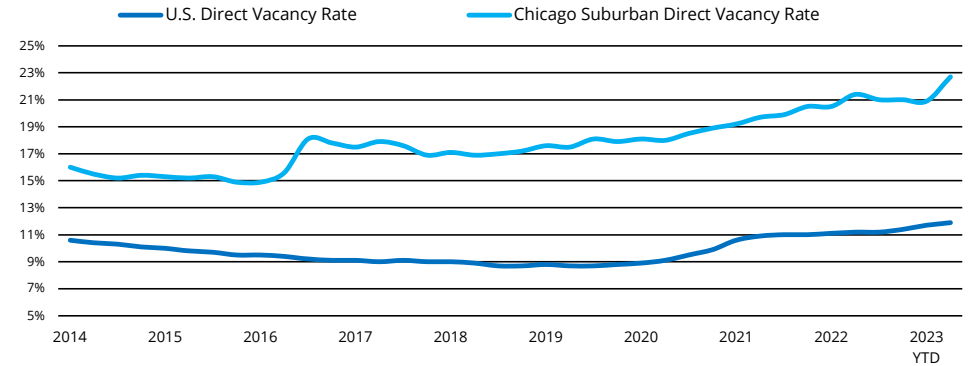
- The direct vacancy rate in Chicago's Suburban office market increased by 180 basis points during the second quarter to an all-time high of 23.7%.
- The Suburban office market's Class A direct vacancy rate increased 310 basis points during the second quarter to 25.4%, while the Class B and C rate stayed 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. There are now plans to demolish or convert some of the large, vacant Class A office campuses as well, which should bring the Class A vacancy rate down in the coming years.

### SUBLEASE AVAILABILITY

#### Sublease Market Shrinks Due to Attrition

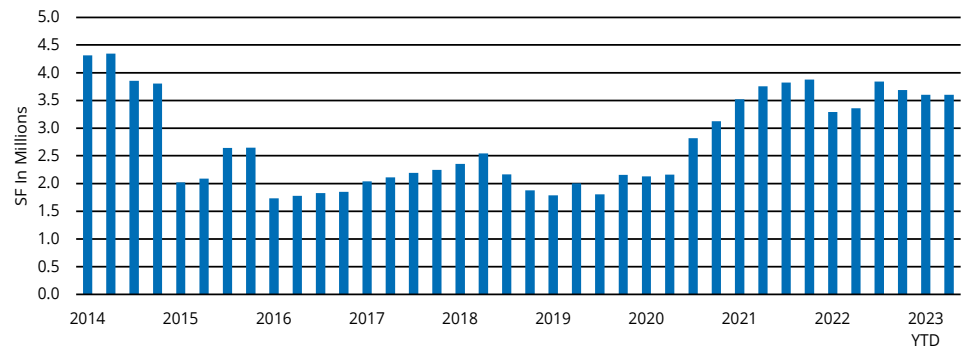
- The amount of available sublease space remained at 3.6 million square feet in the second quarter of 2023. The availability of sublease space has decreased over the past year due to the expiring leases of tenants that have been unsuccessfully trying to sublease space, which causes the available space to transfer from the sublease market to direct availability.
- One block of suburban sublease space larger than 50,000 square feet was added to the market in the second quarter, Sg2's 85,131 square feet at 5250 Old Orchard Road in Skokie.
- The Eastern East-West Corridor submarket has 969,859 square feet of available sublease space, which accounts for the largest proportion of the total available suburban sublease space, 26.9%. It is also the submarket with the largest percentage of its inventory available as sublease space, 3.7%.

### DIRECT VACANCY RATE



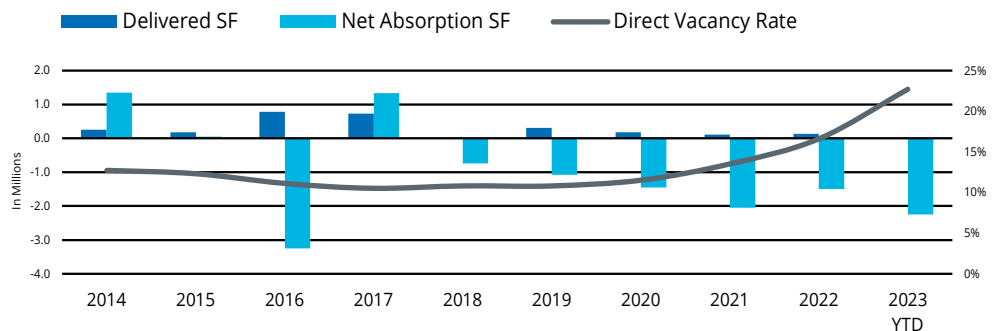
Source: Transwestern, CoStar

### AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

### DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

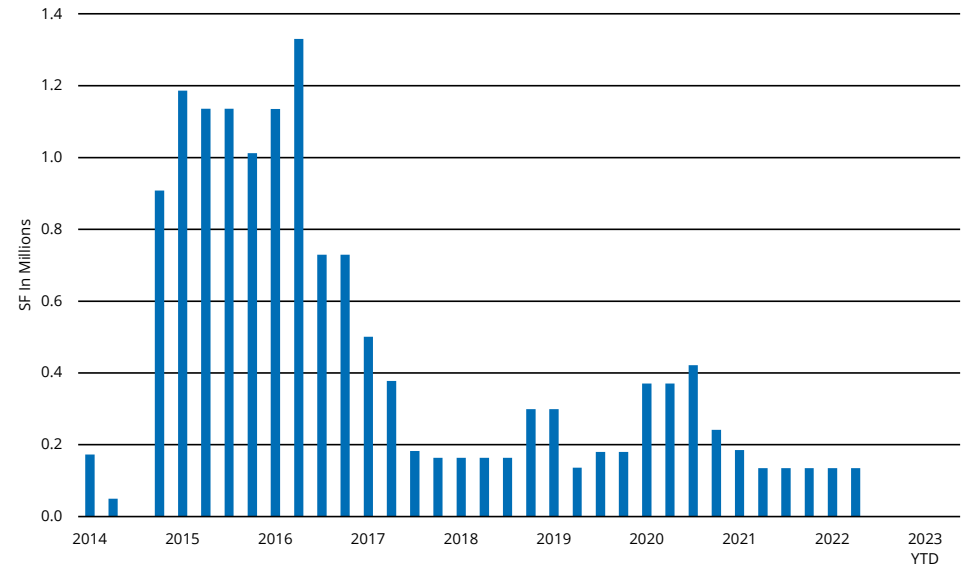


## UNDER CONSTRUCTION

### 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 Drive, 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 Road, Chicago in the O'Hare submarket.

## UNDER CONSTRUCTION



Source: Transwestern, CoStar

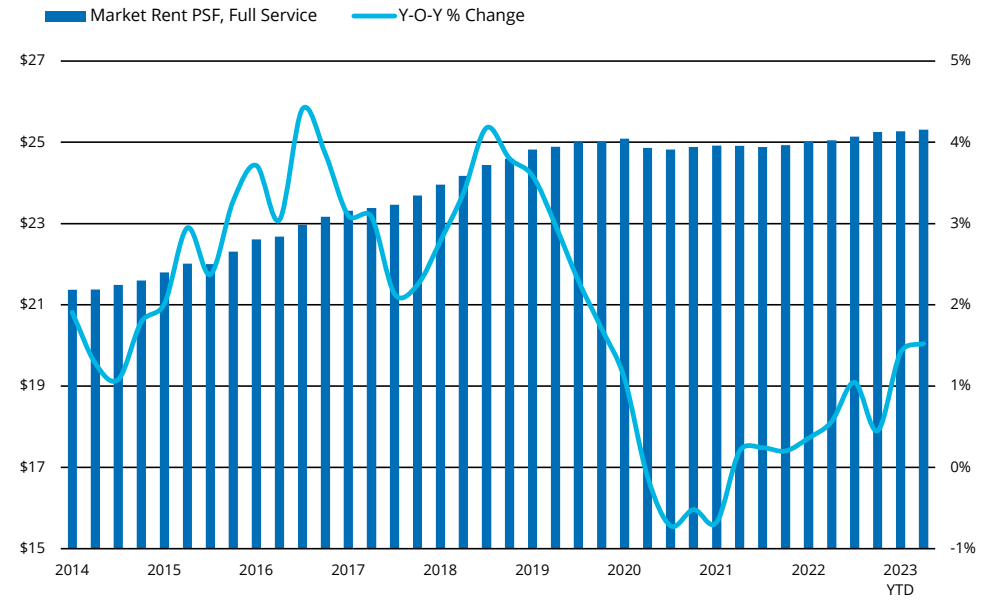


### RENTAL RATES

#### Market Rents Hold Steady

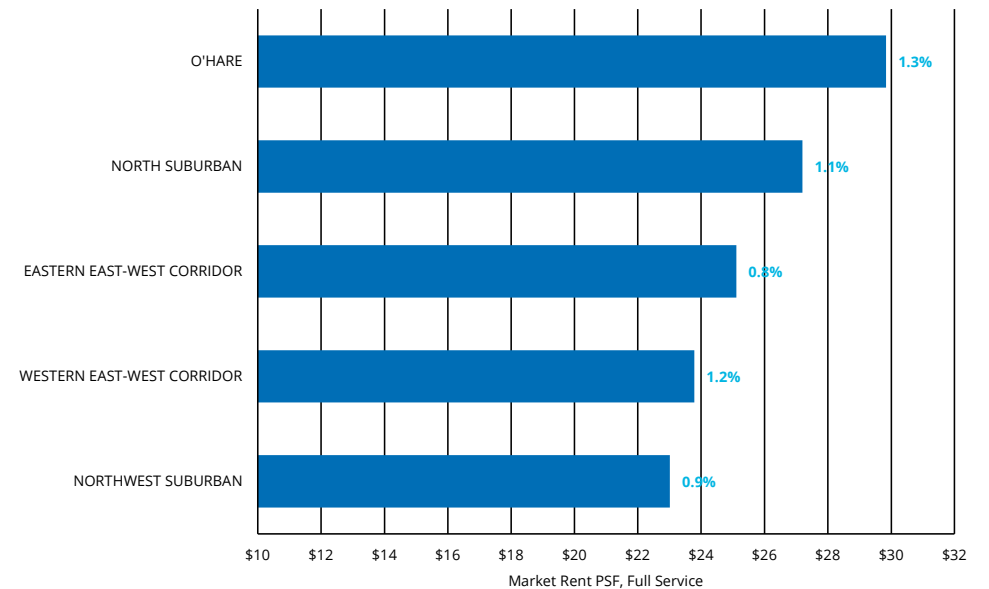
- Market rents continue to hold firm, up 1.0% year over year to \$25.31 per square foot in the second quarter.
- Average Class A market rents rose 1.0% year over year to \$28.41 per square foot in the first quarter. Average Class B and C market rents rose 1.1% year over year to \$20.77 per square foot in the same time period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is \$35.30 per square foot, Class B and C average is \$20.24 per square foot, and the total submarket average is \$29.84 per square foot.

### MARKET RENT



Source: Transwestern, CoStar

### MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

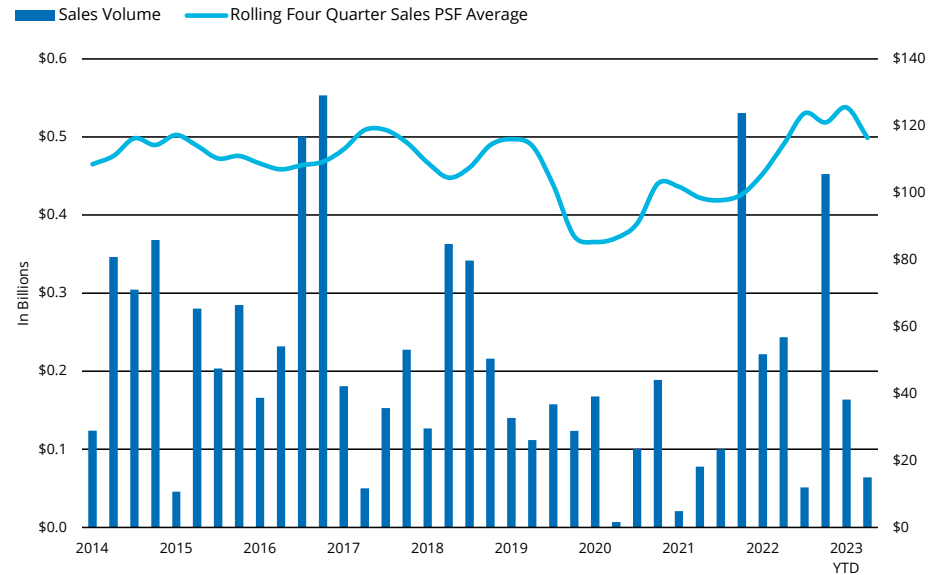


### SALES

#### Office Campuses Sold for Land Value

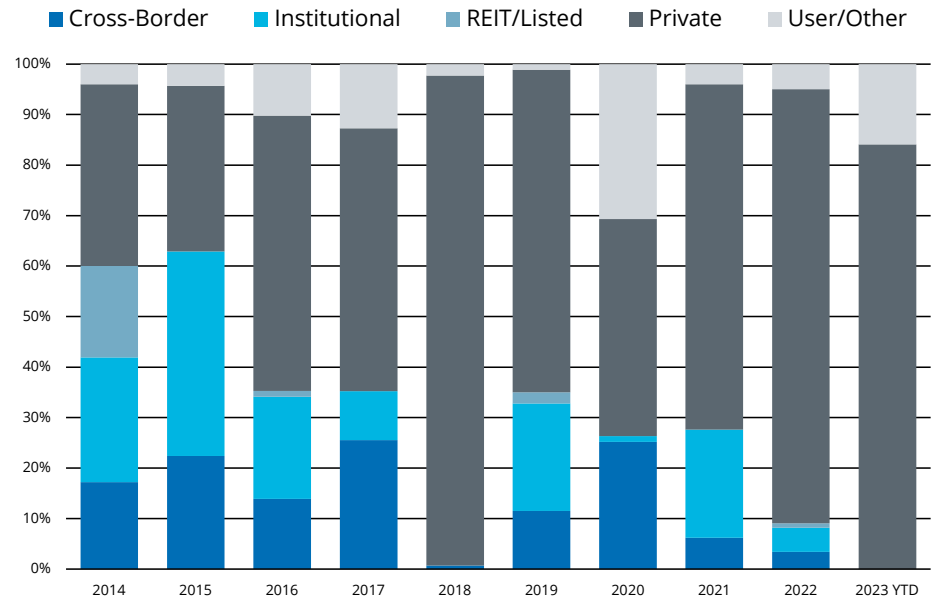
- In the CBD there were no office sale transactions, in part because it is difficult to determine just how low property values have fallen. In the suburban markets, many transactions are proving that values for some office buildings are essentially zero, with properties being sold for no more than the value of the land. The suburban municipalities where these buildings are located will have to decide what types of redevelopments will be allowed, as many plans for industrial or multi-family uses have proven to be unpopular with existing residents.
- Two office buildings were purchased in the second quarter with plans announced for residential conversion. Tucker Development purchased 5400-5420 Old Orchard Road in Skokie for \$13.3 million, or \$29 per square foot, and plans to replace it with nearly 300 residential units. Natraj Investments bought 1699 E. Woodfield Road in Schaumburg for \$2 million, or \$19 per square foot, and plans to convert the asset into apartments.
- Brennan Investment Group purchased a 467,000-square-foot office property at 3800 Golf Road in Rolling Meadows in a short sale for an undisclosed price. The building was once named “one of the five most important buildings of the 21st Century” by the American Institute of Architects. The buyer has announced plans to demolish the building and replace it with an industrial property.
- Two office properties in close proximity to each other were purchased by Aligned Data Centers in the second quarter: 150 NW Point Blvd. and 141 NW Point Blvd. in Elk Grove Village. Aligned Data Centers also bought two other office properties in the immediate area in the first quarter: 50 NW Point Blvd. and 101 NW Point Blvd.
- One suburban office investment appears to be for the value of the office itself. Sentinel Net Lease purchased the 209,421-square-foot office property at 3000 Lakeside Drive in Bannockburn for \$28.55 million, or \$136 per square foot. According to CoStar, the property was 91.5% occupied and was purchased at a cap rate of 9.75%.

### SALES VOLUME



Source: Real Capital Analytics, Transwestern

### BUYER CAPITAL COMPOSITION




Source: Real Capital Analytics, Transwestern



## Q2 2023 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
<b>Nagase Holdings</b>	300 Park Blvd., Itasca	Northwest	New	48,472
<b>Sikich</b>	1415 W. Diehl Rd., Naperville	Western East-West Corridor	Ren/Con	42,895
<b>Hartford Fire Insurance Company</b>	1415 W. Diehl Rd., Naperville	Western East-West Corridor	New	42,895
<b>Univar</b>	3075 Highland Parkway, Downers Grove	Eastern East-West Corridor	Ren	37,779
<b>Cambium Networks</b>	2000 Center Drive, Hoffman Estates	Northwest	New	35,000
<b>Haribo of America</b>	9500 W. Bryn Mawr Ave., Rosemont	O'Hare	Ren	29,544
<b>AHI Travel</b>	8550 W. Bryn Mawr Ave., Chicago	O'Hare	Ren/Exp	27,000
<b>Primient</b>	20 N. Martingale Rd., Schaumburg	Northwest	New	23,725
<b>Enesco</b>	500 Park Blvd., Itasca	Northwest	New	23,689
<b>KONE</b>	3333 Warrenville Rd., Lisle	Western East-West Corridor	New	22,238
<b>Weaver Boos Consultants</b>	1316 Bond St., Naperville	Western East-West Corridor	Ren/Exp	22,178
<b>Crowe</b>	1 Mid America Plaza, Oak Brook	Eastern East-West Corridor	Ren	20,500
<b>Genuine Cable Group</b>	8550 W. Bryn Mawr Ave., Chicago	O'Hare	New	20,000
<b>University of Chicago Medicine Network</b>	400 Skokie Blvd., Northbrook	North	New	19,417
<b>Venture X</b>	570 Lake Cook Rd., Deerfield	North	New	19,000
<b>Lifetime Brands</b>	2311 W. 22nd St., Oak Brook	Eastern East-West Corridor	Ren	17,831
<b>International Contractors</b>	1 Mid America Plaza, Oakbrook Terrace	Eastern East-West Corridor	Ren	17,746
<b>AmpliFi Loyalty Solutions</b>	1240 E. Diehl Rd., Naperville	Western East-West Corridor	New	17,709
<b>Mariner Wealth Advisors</b>	1 Mid America Plaza, Oak Brook	Eastern East-West Corridor	New	16,108
<b>Kimley-Horn</b>	570 Lake Cook Rd., Deerfield	North	Exp	16,000
<b>Brightstar Franchising</b>	2275 Half Day Rd., Bannockburn	North	New	15,364
<b>Hampton, Lenzini &amp; Renwick</b>	1707 N. Randall Rd., Elgin	Northwest	New	15,129

 = Transwestern deal

Source: Transwestern, CoStar



## Q2 2023 NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<a href="#">1960 Lucent Lane, Naperville</a>	Western East-West Corridor	\$4,750,000	516,120	\$9	Franklin American	Nokia Corporation
<a href="#">3800 Golf Rd., Rolling Meadows</a>	Northwest	Undisclosed	467,000	NA	Brennan Investment Group	Partners Group AG
<a href="#">5400-5420 Old Orchard Rd., Skokie</a>	North	\$13,250,000	456,944	\$29	Tucker Development	Barco Land Development
<a href="#">2 Overlook Point, Lincolnshire</a>	North	\$2,900,000	321,320	\$9	Micheal Sahli	Twenty Lakes Holdings
<a href="#">440 N. Fairway Drive, Vernon Hills</a>	North	\$2,825,000	314,503	\$9	Daigger Scientific	Office Properties Income Trust
<a href="#">3000 Lakeside Drive, Bannockburn</a>	North	\$28,550,000	209,421	\$136	Sentinel Net Lease	Axial Real Estate Advisors
<a href="#">150 NW Point Blvd., Elk Grove Village</a>	Northwest	\$14,422,000	176,844	\$82	Aligned Data Centers	Topco Associates
<a href="#">141 NW Point Blvd., Elk Grove Village</a>	Northwest	\$22,000,000	114,642	\$192	Aligned Data Centers	Co-Optim
<a href="#">1699 E. Woodfield Rd., Schaumburg</a>	Northwest	\$2,000,000	103,546	\$19	Natraj Investments	Bloomfield Capital Partners
<a href="#">225 Windsor Drive, Itasca</a>	Northwest	\$3,250,000	101,579	\$32	Bruce Garner	Jonathan Victor

Source: CoStar, Real Capital Analytics, Transwestern



## MARKET INDICATORS TABLE

## All Classes of Space | Q2 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	31,754,246	6,273,621	19.8%	20.3%	0	-185,344	-275,266	\$27.20
O'HARE	12,872,544	2,464,556	19.1%	20.3%	0	40,371	84,738	\$29.84
NORTHWEST SUBURBAN	34,059,280	10,747,379	31.6%	32.8%	0	-2,297,542	-2,065,729	\$23.01
EASTERN EAST-WEST CORRIDOR	25,930,822	4,898,326	18.9%	20.3%	0	165,542	91,124	\$25.11
WESTERN EAST-WEST CORRIDOR	22,055,668	4,384,073	19.9%	20.7%	0	27,202	8,395	\$23.78
<b>TOTAL</b>	<b>126,672,560</b>	<b>28,767,955</b>	<b>22.7%</b>	<b>23.7%</b>	<b>0</b>	<b>-2,249,771</b>	<b>-2,156,738</b>	<b>\$25.31</b>

Source: Transwestern, CoStar

## MARKET INDICATORS TABLE

## Class A | Q2 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	20,211,821	4,420,774	21.9%	22.5%	0	-133,096	-237,073	\$30.17
O'HARE	8,239,482	1,700,311	20.6%	22.0%	0	-38,511	30,624	\$35.30
NORTHWEST SUBURBAN	21,596,910	7,596,263	35.2%	36.8%	0	-2,297,593	-2,033,884	\$24.97
EASTERN EAST-WEST CORRIDOR	15,441,596	3,334,372	21.6%	23.2%	0	33,472	-100,710	\$28.39
WESTERN EAST-WEST CORRIDOR	10,218,779	2,158,504	21.1%	22.6%	0	92,736	49,582	\$26.63
<b>TOTAL</b>	<b>75,708,588</b>	<b>19,210,224</b>	<b>25.4%</b>	<b>26.6%</b>	<b>0</b>	<b>-2,342,992</b>	<b>-2,291,461</b>	<b>\$28.41</b>

Source: Transwestern, CoStar

## MARKET INDICATORS TABLE

## Class B &amp; C | Q2 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	11,542,425	1,852,847	16.1%	16.3%	0	-52,248	-38,193	\$22.21
O'HARE	4,633,062	764,245	16.5%	17.2%	0	78,882	54,114	\$20.24
NORTHWEST SUBURBAN	12,462,370	3,151,116	25.3%	25.9%	0	51	-31,845	\$19.54
EASTERN EAST-WEST CORRIDOR	10,489,226	1,563,954	14.9%	16.0%	0	132,070	191,834	\$20.27
WESTERN EAST-WEST CORRIDOR	11,836,889	2,225,569	18.8%	19.1%	0	-65,534	-41,187	\$21.32
<b>TOTAL</b>	<b>50,963,972</b>	<b>9,557,731</b>	<b>18.8%</b>	<b>19.3%</b>	<b>0</b>	<b>93,221</b>	<b>134,723</b>	<b>\$20.77</b>

Source: Transwestern, CoStar

