

CHICAGO SUBURBAN OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.1	5.0	↑	5.6	↑
YTD NET ABSORPTION (Thousands SF)	-2,118	-1,314	↓	-1,364	↑
DIRECT VACANCY RATE	22.9%	21.0%	↑	19.6%	↑
DIRECT VACANT SF (MSF)	28.9	26.6	↑	25.0	↑
AVAILABLE SUBLET SF (MSF)	4.1	3.9	↑	3.1	↔
UNDER CONSTRUCTION (MSF)	0.0	0.0	↓	0.2	↔
MARKET RENT, FULL SERVICE (PSF)	\$25.51	\$25.27	↑	\$25.12	↔
YTD SALES VOLUME (Millions)	\$509	\$551	↓	\$381	↓

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

The direct vacancy rate in Chicago's suburban office market increased by 10 basis points in the third quarter of 2023 to a new historic high of 22.9%. Net absorption was negative 113,340 square feet, bringing the year-to-date absorption total down to 2.1 million square feet. The amount of available sublease space has grown to 1.4 million square feet, accounting for 3.3% of total suburban office market inventory. Leasing activity remains well below pre-pandemic norms, which means vacancy rates can be expected to remain high for the foreseeable future.

The possibilities for adaptive reuse or redevelopment of office space continue to draw attention. The industrial market has been thriving while the office market has been rapidly declining since the onset of the pandemic. In the Chicago suburbs, developers have been very interested in the possibilities for replacing office buildings with industrial uses, but residents and community leaders are wary of such changes. In at least one case, this opposition has worked in the community's favor. Baxter recently announced that it will remain at and reinvest in its Deerfield headquarters. This announcement comes after being met with overwhelming opposition to its plan to sell the campus to Bridge Industrial, which wanted to replace the office campus with an industrial warehouse development. It is unlikely that other vacant office buildings in similar situations, with strong community opposition to industrial redevelopment plans, will end up with such a favorable outcome.

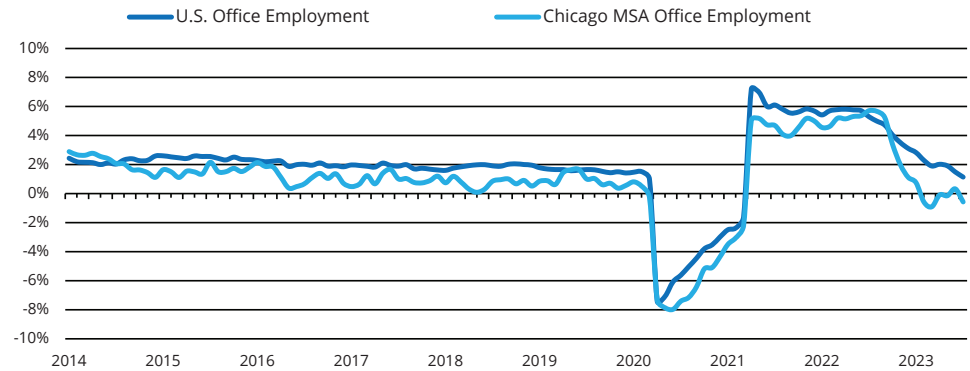


ECONOMY

Interest Rates Will Remain High

- The Federal Reserve (Fed) added one more interest rate hike in July, and chose to hold rates steady in September, leaving the current range of federal funds rate at 5.25% to 5.50%. The Fed has indicated that there is unlikely to be more than one additional hike in rates but has also signaled that rates are expected to remain high in the coming years.
- While economic indicators appear to show inflation gradually cooling, the Personal Consumption Expenditures (PCE) Index – the Fed’s preferred measure of inflation – increased 0.4% in the month of August. For comparison, the PCE index increased 0.2% in June and 0.2% in July. On an annual basis, the PCE index increased 3.5%. However, the more important core PCE index, excluding food and energy, increased only 0.1% in August, down from 0.2% in June and July. The core PCE index increased 3.9% on an annual basis.
- The economy continues to add jobs at an impressive pace with an estimated 336,000 jobs created in the U.S. in September, bringing the total for the third quarter of 2023 up to 799,000. There were 209,000 weekly initial unemployment claims at the end of September, lower than historic averages.
- Locally, the unemployment rate increased 90 basis points in August to 5.1%, the highest it has been since February of 2022. The U.S. unemployment rate was 3.8% in August, just 30 basis points higher than it was in July. Approximately 50,000 jobs were added to the local economy over the past year with Education and Health Services jobs leading the pack, closely followed by Leisure and Hospitality.
- The number of office-using jobs in the U.S. increased by 1.0% year over year in August; locally, office-using jobs decreased by 1.1% during the same period. The Professional and Business Services industry lost 12,200 jobs in the Chicago area year over year, the Information industry lost 8,300 jobs and the Financial Activities industry gained 2,800 jobs.

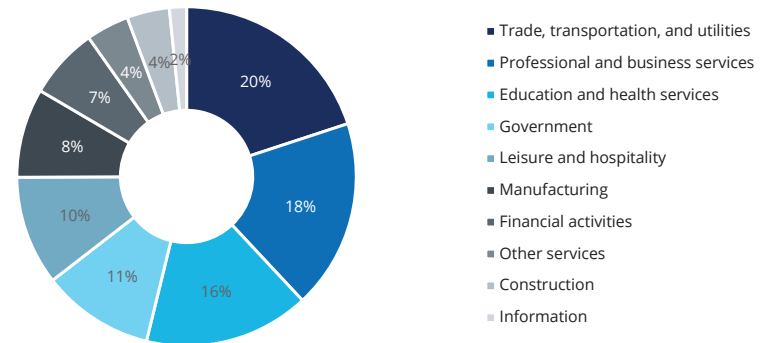
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

SHARE OF EMPLOYEES BY INDUSTRY

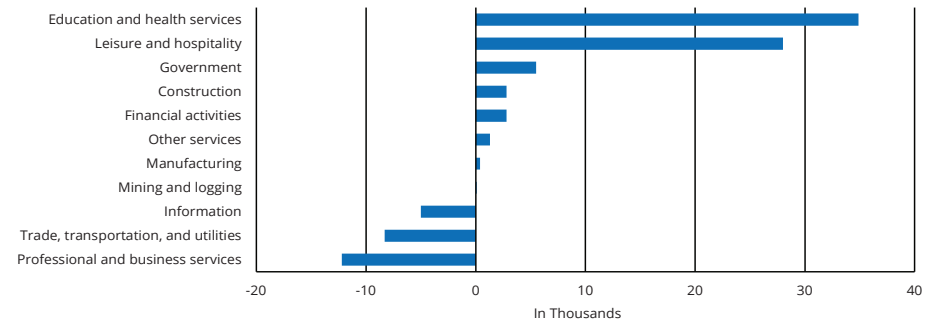
Chicago MSA | August 2023



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | August 2023



Source: Bureau of Labor Statistics



NET ABSORPTION

More Negative Absorption

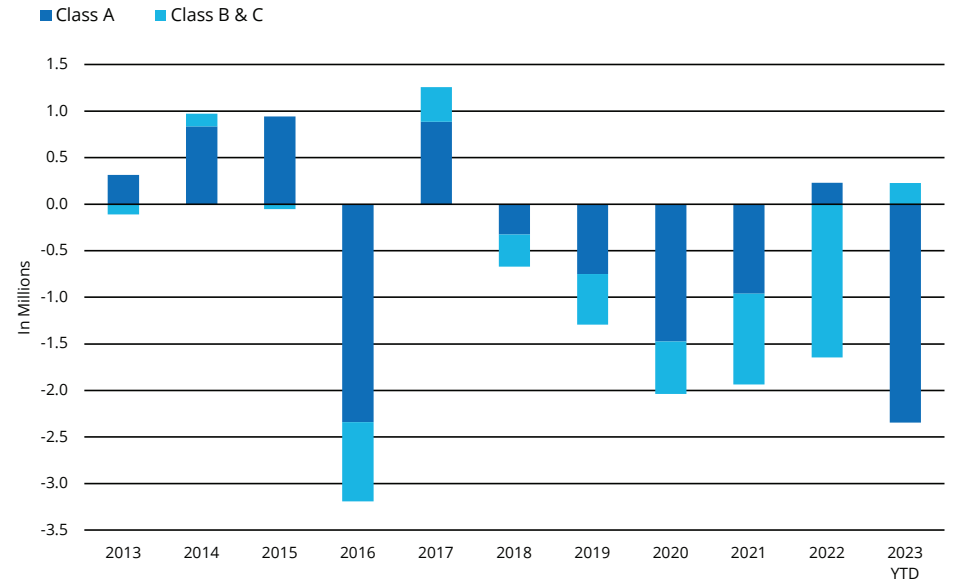
- Net absorption totaled negative 113,340 square feet during the third quarter of 2023, with negative 10,777 square feet in the Class A sector and negative 102,563 square feet in the Class B and C sectors.
- The dearth of leasing activity in recent years can be expected to lead to more negative absorption in the future, especially since much of the leasing activity that has taken place represents significant contractions in space usage.

LEASING ACTIVITY

Deal Volume Remains Sluggish

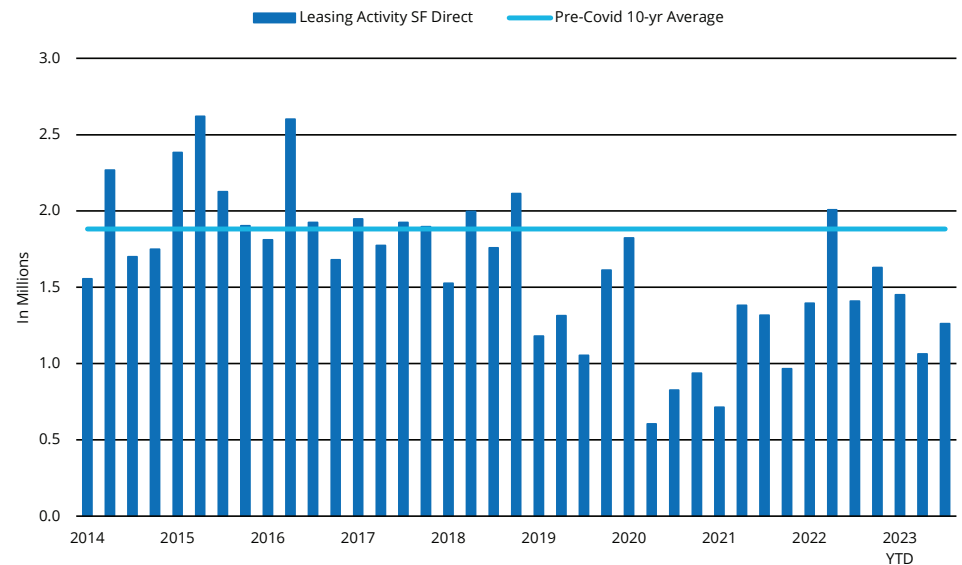
- Direct leasing activity measured 1.3 million square feet during the third quarter of 2023, still significantly less than the quarterly average of 1.9 million square feet seen in the 10 years prior to COVID-19.
- The largest deal of the third quarter was Travelers Insurance’s lease of 70,890 square feet at 3010 Highland Parkway in Downers Grove.
- The largest suburban renewal of the third quarter was True Group’s 33,444-square-foot renewal at 1211 W. 22nd St. in Oak Brook.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar



DIRECT VACANCY

Vacancy Rate Reaches Another Historic High

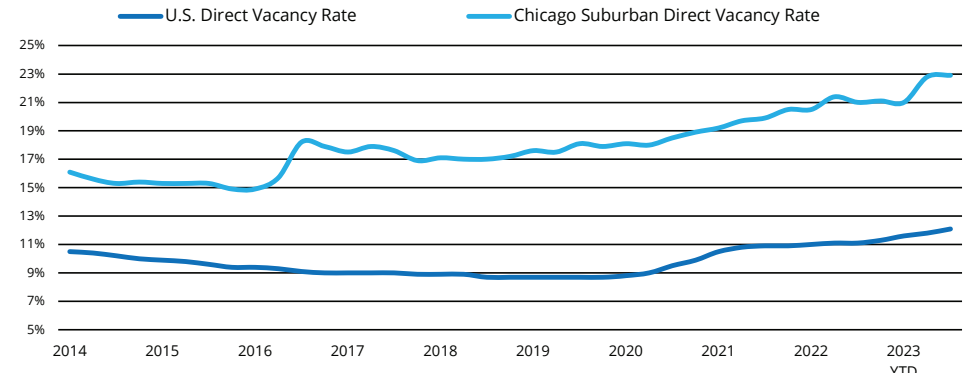
- The direct vacancy rate in Chicago's suburban office market increased by 10 basis points during the third quarter to an all-time high of 22.9%.
- The suburban office market's Class A direct vacancy rate remained at 25.2% in the third quarter, while the Class B and C rate increased by 20 basis points to 19.5%. 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 slowly been 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 Grows Again

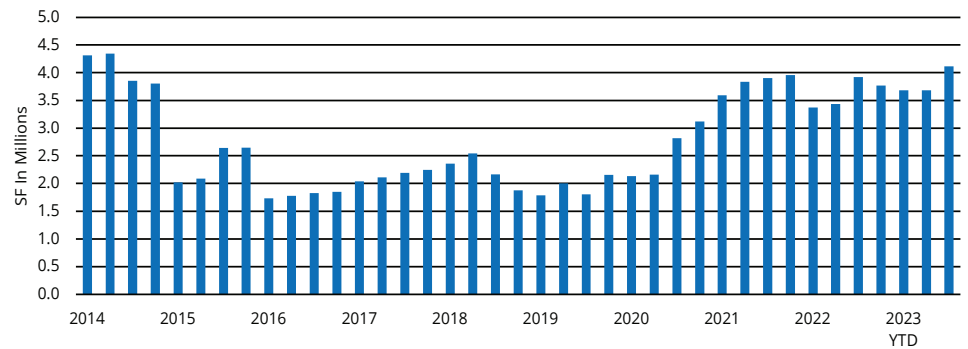
- The amount of available sublease space increased by 433,087 square feet in the third quarter of 2023, to a post-pandemic high of 4.1 million square feet.
- Three blocks of sublease space larger than 50,000 square feet were added to the sublease market in the third quarter. Zurich put 362,974 square feet of its North American headquarters at 1299 Zurich Way in Schaumburg on the sublease market. CDW put its 104,864 square feet at 75 Tri-State International in Lincolnshire on the sublease market. True Value put 89,232 square feet of its space at 8600 W. Bryn Mawr Ave. in Chicago on the sublease market.
- According to CoStar records, 106,096 square feet of suburban office space was subleased in the third quarter, none of which was comprised of a deal larger than 20,000 square feet.

DIRECT VACANCY RATE



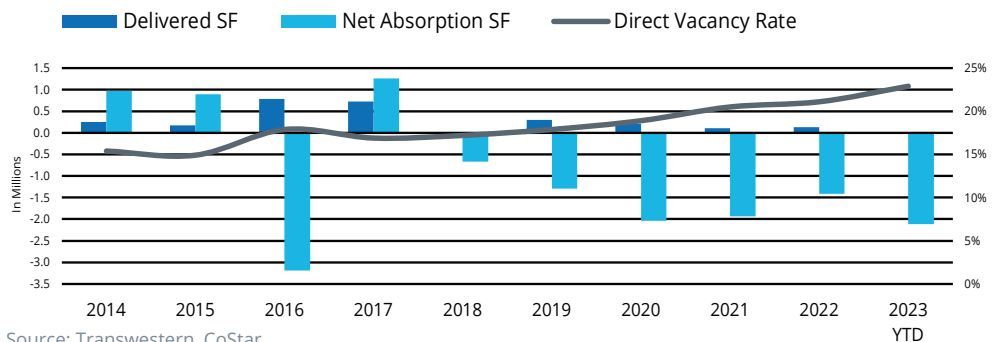
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

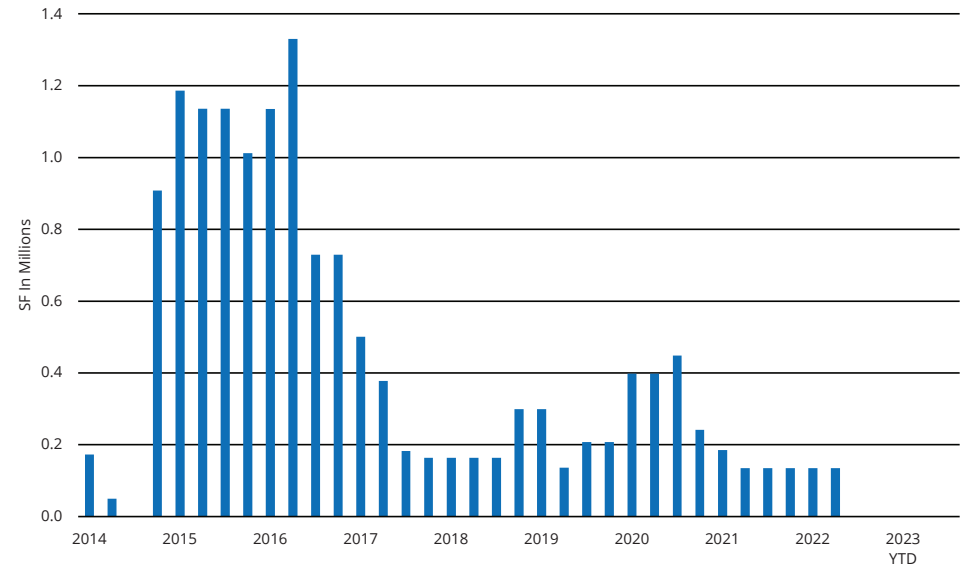


UNDER CONSTRUCTION

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, which was completed in 2022.
- 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

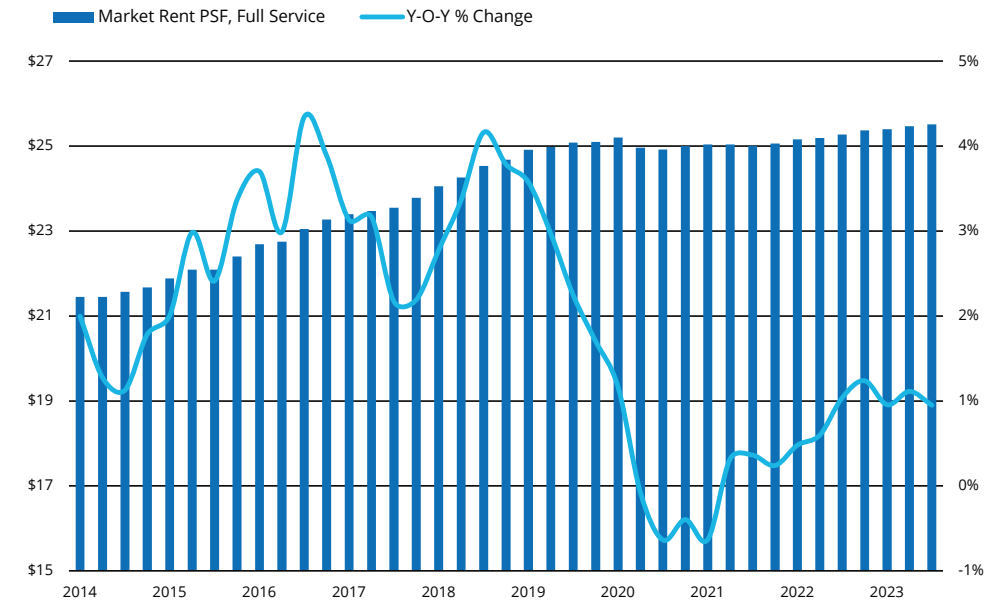


RENTAL RATES

Market Rents Hold Steady

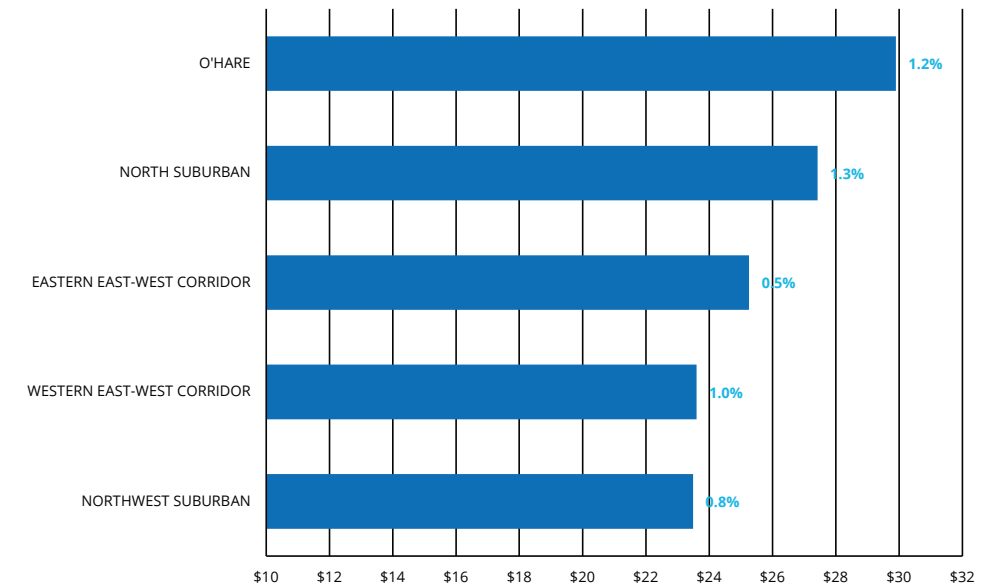
- Market rents continue to hold firm, up 0.9% year over year to \$25.51 per square foot in the third quarter.
- Average Class A market rents rose 1.0% year over year to \$28.51 per square foot in the third quarter. Average Class B and C market rents rose 1.3% year over year to \$21.21 per square foot in the same time period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is \$35.25 per square foot, Class B and C average is \$20.43 per square foot, and the total submarket average is \$29.90 per square foot.

MARKET RENT



Source: Transwestern, CoStar

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

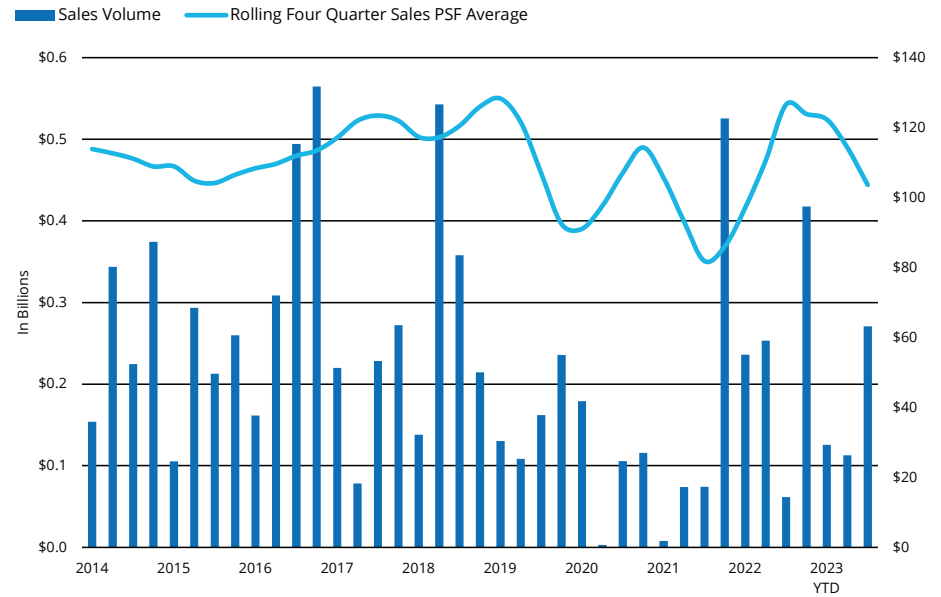


SALES

Sears Headquarters to be Demolished

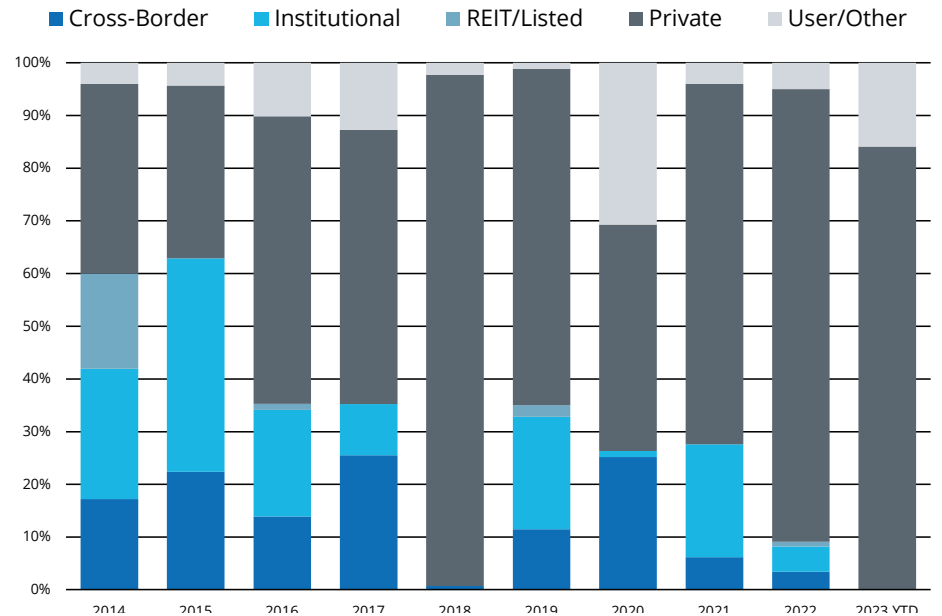
- The largest sales transaction in Chicago’s suburban office market in the third quarter was Compass Datacenters’ purchase of what was once Sears’ 2.3 million-square-foot headquarters at 3333 Beverly Rd. in Hoffman Estates for \$194 million. Compass Datacenters reportedly plans to demolish the office campus and replace it with high-powered data centers.
- A distressed office property in the O’Hare submarket at 8550 W. Bryn Mawr Ave. in Chicago was purchased by a venture led by local investor Gene Staples in the third quarter. The 302,089-square-foot building was acquired for \$29 million, or \$96 per square foot, from Bridge Investment Group. Bridge had provided a \$43.4 million loan to Golub & Company, the previous owner, in 2019 and assumed control of the property in 2022.
- United Airlines bought a 205,000-square-foot building at 1421 W. Shure Drive in Arlington Heights for \$27.9 million, or \$136 per square foot, from Guardian Realty in the third quarter. United purchased the property to expand the networks-operations centers that are currently operating out of 1501 W. Shure Drive, which United purchased in 2021.
- Gallagher, an insurance company that is the owner-occupant of 2850 W. Golf Rd. in Rolling Meadows, purchased the nearby 138,000-square-foot office building at 2800 Golf Rd. for \$15.3 million, or \$111 per square foot. Gallagher plans for the property have not been reported, but Gallagher also purchased 2550 W. Golf Rd. in 2022 with plans to demolish it. Reportedly, Gallagher’s goal is to control the properties surrounding its headquarters in to prevent industrial redevelopment. The office property at 3800 Golf Rd. was purchased earlier this year by Brennan Investment group, with plans to demolish the building and replace it with a massive warehouse facility.
- The 137,000-square-foot office property at 1300 E. Woodfield Rd. in Schaumburg was purchased at auction by WRESI Inc. for \$4.1 million, or \$31 per square foot, after a deed in lieu of foreclosure transaction in 2022.

SALES VOLUME



Source: Real Capital Analytics, Transwestern


BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



Q3 2023 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Travelers Insurance	3010 Highland Parkway, Downers Grove	Eastern East-West Corridor	New	70,890
Topco	2 Pierce Place, Itasca	Northwest	New	68,629
Citigroup	1515 E. Woodfield Rd., Schaumburg	Northwest	New	49,400
General Services Administration	8135 River Drive, Morton Grove	North	New	37,960
True Group	1211 W. 22nd St., Oak Brook	Eastern East-West Corridor	Ren	33,444
Carelon	8600 W. Bryn Mawr Ave., Chicago	O'Hare	Ren	31,000
Experian Marketing Solutions	1515 E. Woodfield Rd., Schaumburg	Northwest	New	24,700
Mahoney Environmental	1200 Internationale Parkway, Woodridge	Western East-West Corridor	New	24,674
Avalon Risk Management	200 N. Martingale Rd., Schaumburg	Northwest	New	21,651
Legacy Professionals	4 Westbrook Corporate Center, Westchester	Eastern East-West Corridor	Ren	20,673
Truist Bank	150 N. Field Drive, Lake Forest	North	Ren	18,500
Cozzini Brothers	8430 W. Bryn Mawr Ave., Chicago	O'Hare	Ren	15,568
Kuriyama	150 N. Martingale Rd., Schaumburg	Northwest	New	15,165
Federal Reserve Bank of Chicago 	360 E. 22nd St., Lombard	Eastern East-West Corridor	Ren	15,143

 = Transwestern deal

Source: Transwestern, CoStar

**Q3 2023 NOTABLE SALES**

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
3333 Beverly Rd., Hoffman Estates	Northwest	\$194,000,000	2,300,000	\$84	Compass Datacenters	Transformco
8550 W. Bryn Mawr Ave., Chicago	O'Hare	\$29,000,000	302,089	\$96	Gene Staples	Bridge Investment Group
1421 W. Shure Drive, Arlington Heights	Northwest	\$27,866,667	205,639	\$136	United Airlines	Guardian Realty
2800 Golf Rd., Rolling Meadows	Northwest	\$15,300,000	138,000	\$111	Gallagher	LCN Capital Partners
1300 Woodfield Rd., Schaumburg	Northwest	\$4,126,000	134,000	\$31	WRESI Inc	Rialto Capital Management

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS TABLE

All Classes of Space | Q3 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	31,474,745	6,285,337	20.0%	20.5%	0	-25,394	-104,916	\$27.43
O'HARE	12,952,168	2,393,864	18.5%	19.6%	0	66,148	173,486	\$29.90
NORTHWEST SUBURBAN	34,485,290	10,845,911	31.5%	32.7%	0	-65,652	-2,155,757	\$23.49
EASTERN EAST-WEST CORRIDOR	25,968,367	5,123,035	19.7%	21.0%	0	-198,754	-86,015	\$25.26
WESTERN EAST-WEST CORRIDOR	21,682,495	4,293,649	19.8%	21.1%	0	110,312	55,683	\$23.60
TOTAL	126,563,065	28,941,796	22.9%	23.9%	0	-113,340	-2,117,519	\$25.51

Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class A | Q3 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	20,021,869	4,279,602	21.4%	22.1%	0	-13,258	-204,646	\$30.28
O'HARE	8,279,125	1,685,423	20.4%	21.6%	0	20,129	71,287	\$35.25
NORTHWEST SUBURBAN	21,046,431	7,368,869	35.0%	36.6%	0	-104,341	-2,196,401	\$25.22
EASTERN EAST-WEST CORRIDOR	15,433,861	3,344,296	21.7%	23.1%	0	13,811	-86,711	\$28.32
WESTERN EAST-WEST CORRIDOR	9,694,771	2,094,098	21.6%	23.0%	0	72,882	71,118	\$26.57
TOTAL	74,476,057	18,772,288	25.2%	26.5%	0	-10,777	-2,345,353	\$28.51

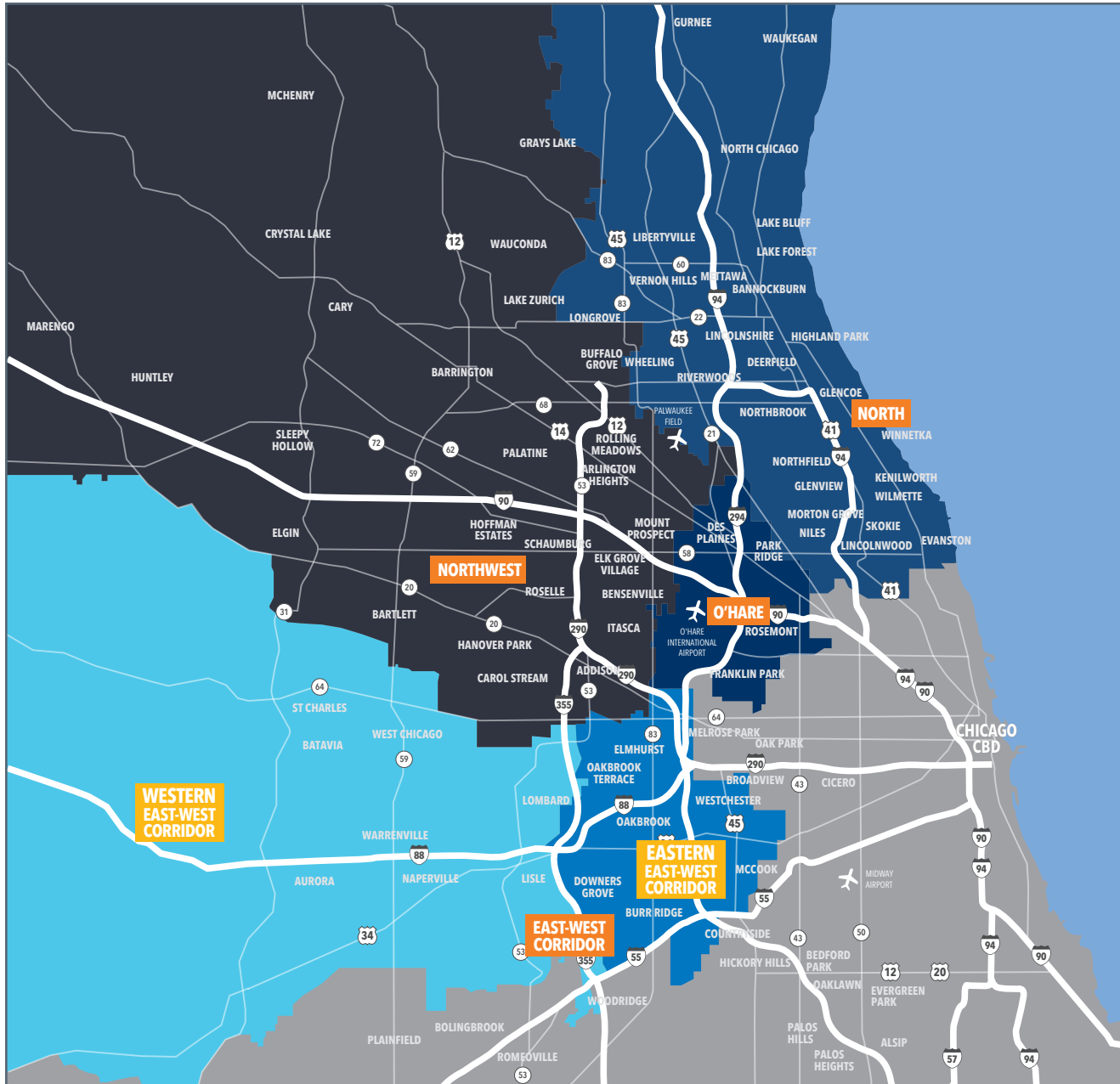
Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class B & C | Q3 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	11,452,876	2,005,735	17.5%	17.6%	0	-12,136	99,730	\$22.45
O'HARE	4,673,043	708,441	15.2%	16.1%	0	46,019	102,199	\$20.43
NORTHWEST SUBURBAN	13,438,859	3,477,042	25.9%	26.4%	0	38,689	40,644	\$20.78
EASTERN EAST-WEST CORRIDOR	10,534,506	1,778,739	16.9%	18.0%	0	-212,565	696	\$20.76
WESTERN EAST-WEST CORRIDOR	11,987,724	2,199,551	18.3%	19.5%	0	37,430	-15,435	\$21.19
TOTAL	52,087,008	10,169,508	19.5%	20.2%	0	-102,563	227,834	\$21.21

Source: Transwestern, CoStar



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Chicago metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

FOR MORE INFORMATION

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