TRANSWESTERN

REAL ESTATE SERVICES

CHICAGO SUBURBAN OFFICE MARKET

Q4 2023

TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.3	4.2	↑	5.7	↑
YTD NET ABSORPTION (Thousands SF)	-2,485	-1,541	↓	-1,709	↑
DIRECT VACANCY RATE	22.9%	21.1%	↑	19.8%	↑
DIRECT VACANT SF (MSF)	29.0	26.6	↑	25.1	↑
AVAILABLE SUBLET SF (MSF)	4.0	3.8	↑	3.1	↔
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.2	↔
MARKET RENT, FULL SERVICE (PSF)	$25.54	$25.34	↑	$25.12	↔
YTD SALES VOLUME (Millions)	$780	$1,156	↓	$796	↑

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

The direct vacancy rate in Chicago's suburban office market remained at the historic high of 22.9% in the fourth quarter of 2023. Net absorption was negative 159,574 square feet, bringing the year's total absorption down to 2.5 million square feet. The amount of available sublease space decreased by 65,275 square feet in the fourth quarter of 2023 after reaching a post-pandemic high of 4.1 million square feet in the third quarter.

Leasing activity remains well below pre-pandemic norms, which means more negative absorption can be expected in the future. Vacancy rates are also expected to remain high but may begin to fall as more buildings are demolished and replaced with data centers and other industrial uses.

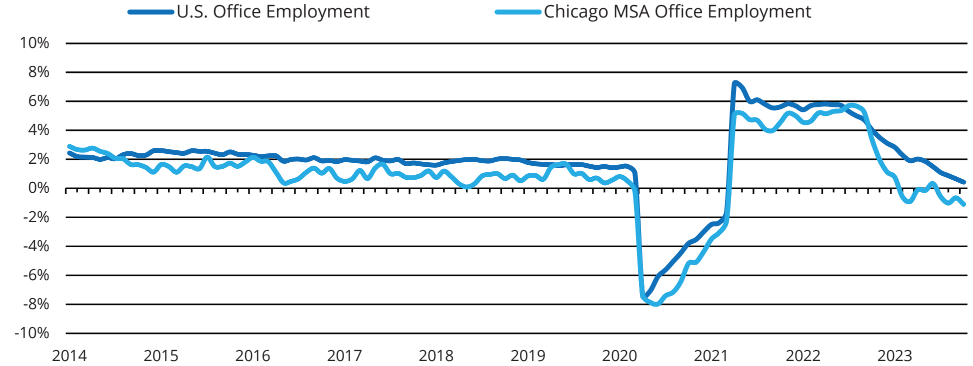
There were more investment sales transaction in Chicago's suburban office market than Chicago's Central Business District (CBD) in 2023. This is likely because the suburban market has been closer to rock bottom than the CBD and suburban office buildings in good condition are trading for as little as $8 per square foot. Transactions have also been spurred by high demand for industrial redevelopment, which is possible in the suburbs but not in downtown Chicago. Regardless of the plans for suburban office properties that have been sold, the transactions have all represented dramatic loss of value.

ECONOMY

Interest Rates May Decrease in 2024

- The Federal Reserve (Fed) held the range of federal funds rate at 5.25% to 5.50% in December and signaled that there could be three quarter-point rate cuts in 2024. This would be a welcome relief to the commercial real estate industry, which has been under considerable stress due to the most aggressive period of rate hikes in history.
- Economic indicators appear to show inflation gradually cooling. The Personal Consumption Expenditures (PCE) price index, the Fed's preferred measure of inflation, did not change in October and decreased 0.1% in November after increasing 0.4% in September. On an annual basis, the index increased 2.6%. The more important core PCE index, which excludes food and energy, increased 0.1% in both October and November, down from 0.3% in September. The core index increased 3.2% on an annual basis.
- The economy continues to add jobs at an impressive pace with an estimated 216,000 jobs created in the U.S. in December, bringing the total for the year up to 2,697,000. There were 202,000 weekly initial unemployment claims at the end of December, which remains lower than historic averages.
- Locally, the unemployment rate decreased 10 basis points in November to 4.3%, down from 5.1% in August. The U.S. unemployment rate was 3.7% in December. Approximately 43,300 jobs were added to the local economy over the past year, with Education and Health Services jobs leading the pack, followed by Government.
- The number of office-using jobs in the U.S. increased by 0.4% year over year in November; locally, office-using jobs decreased by 1.4% during the same period. The Professional and Business Services industry lost 18,800 jobs in the Chicago area year over year, and the Information industry lost 5,800 jobs, while the Financial Activities industry gained 6,300 jobs.

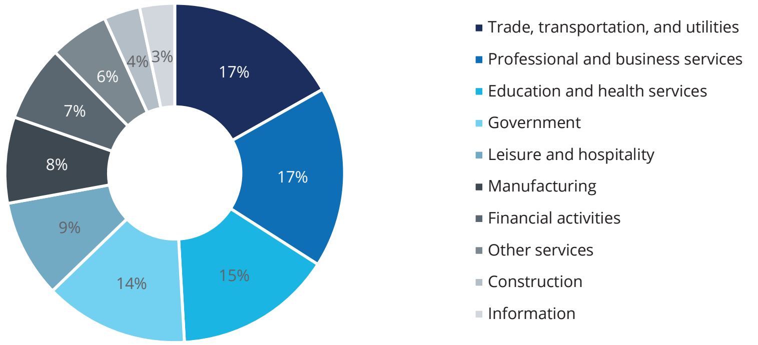
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

SHARE OF EMPLOYEES BY INDUSTRY

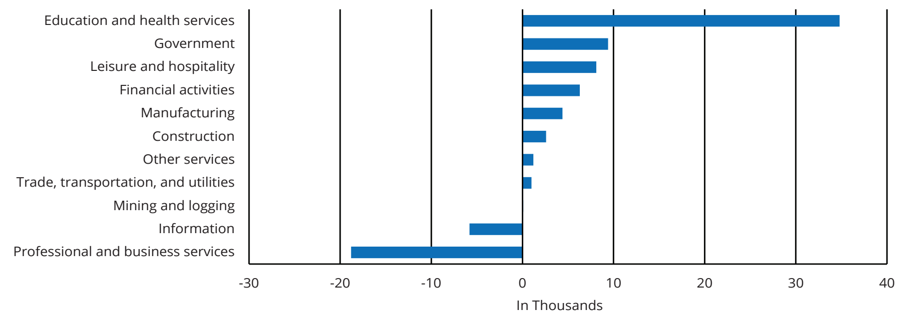
Chicago MSA | November 2023



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | November 2023



Source: Bureau of Labor Statistics

NET ABSORPTION

More Negative Absorption

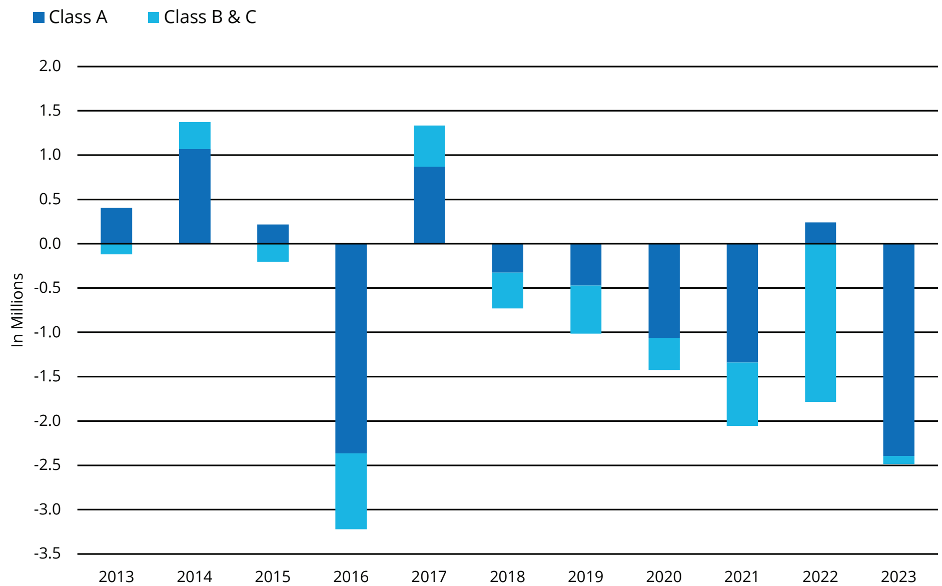
- Net absorption totaled negative 159,574 square feet during the fourth quarter of 2023, bringing the year's total down to negative 2.5 milion square feet.
- The Class A sector had negative 96,477 square feet of absorption in the fourth quarter, and the Class B and C sectors had negative 63,097 square feet.
- 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

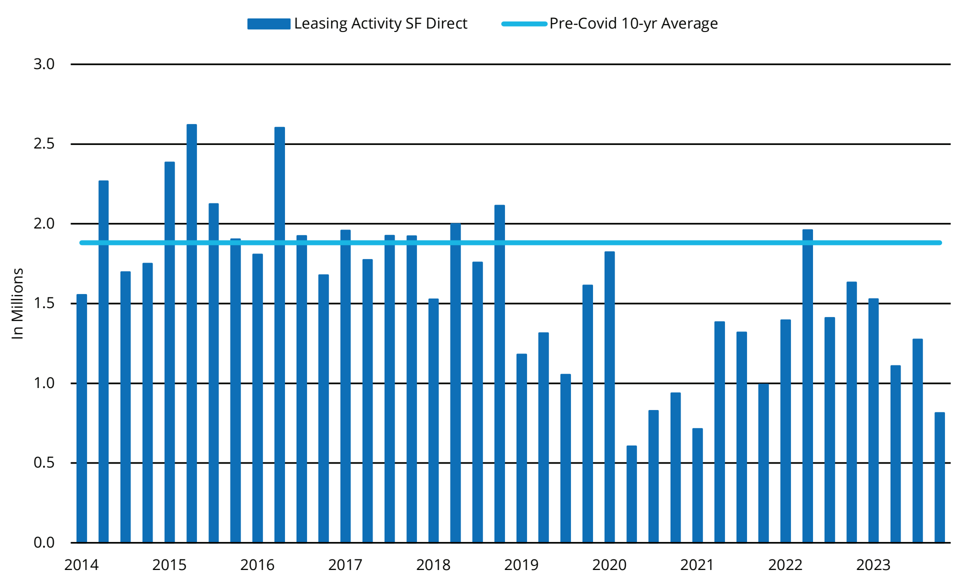
- Direct leasing activity measured 813,551 square feet during the fourth quarter of 2023, still significantly less than the quarterly average of 1.9 million square feet seen in the 10 years prior to COVID-19. Total direct leasing activity for the year reached 4.7 million square feet, much less than the yearly average of 7.5 million squre feet seen in the 10 years before the pandemic.
- The largest suburban new deal of the fourth quarter was also the largest new lease of the year in the suburban office market. The Federal Aviation Administration leased 108,094 square feet at 9600 W. Bryn Mawr Ave. in Rosemont. The agency will be relocating from 185,754 square feet at 2300 E. Devon Ave. in Des Plaines.
- The largest suburban renewal of the fourth quarter was Culligan's lease of 66,000 square feet at 9399 W. Higgins Rd. in Rosemont, an expansion from 56,677 square feet.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar

DIRECT VACANCY

Vacancy Rate Reaches Another Historic High

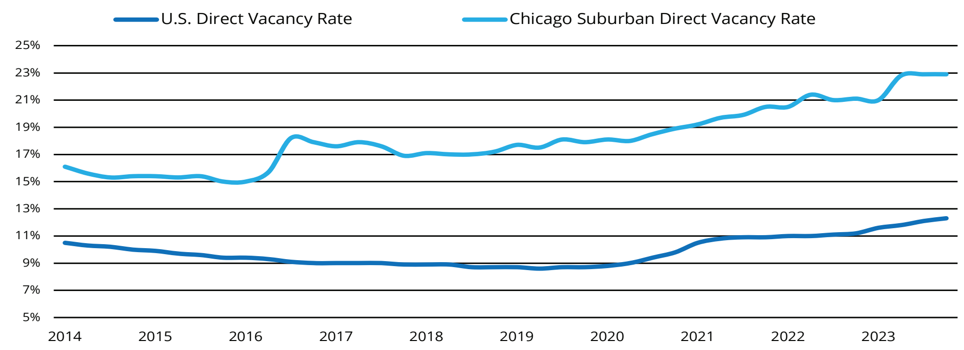
- The direct vacancy rate in Chicago's suburban office remained at an all-time high of 22.9% during the fourth quarter, while the overall vacancy rate increased by 20 basis points to 24.1%.
- The suburban office market's Class A direct vacancy rate increased by three basis points to 20.3% in the fourth quarter, while the Class B and C rate remained the same at 19.7%. 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

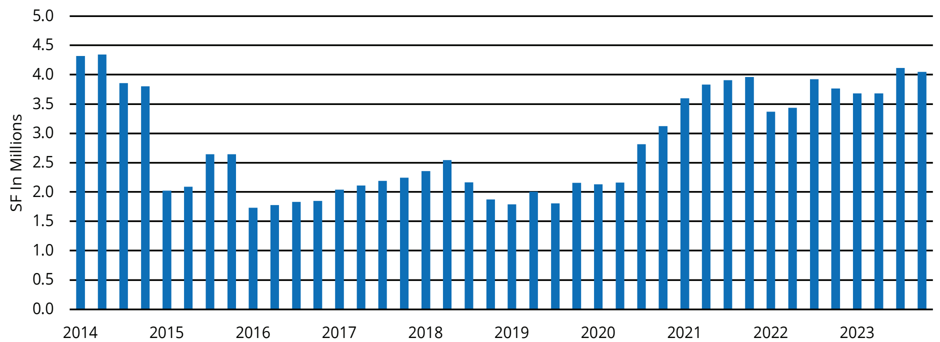
- The amount of available sublease space decreased by 65,275 square feet in the fourth quarter of 2023 after reaching a post-pandemic high of 4.1 million square feet in the third quarter.
- The only block of sublease space larger than 50,000 square feet added to the sublease market in the fourth quarter was 81,911 square feet of Old World Indutries' 164,982-square-foot space at 3100 Sanders Rd. in Northbrook.
- According to CoStar records, 136,150 square feet of suburban office space was subleased in the fourth quarter. The largest sublease signed was Continental Casualty Company's sublease of 25,331 square feet from Ensono at 3333 Finley Rd. in Downers Grove.

DIRECT VACANCY RATE



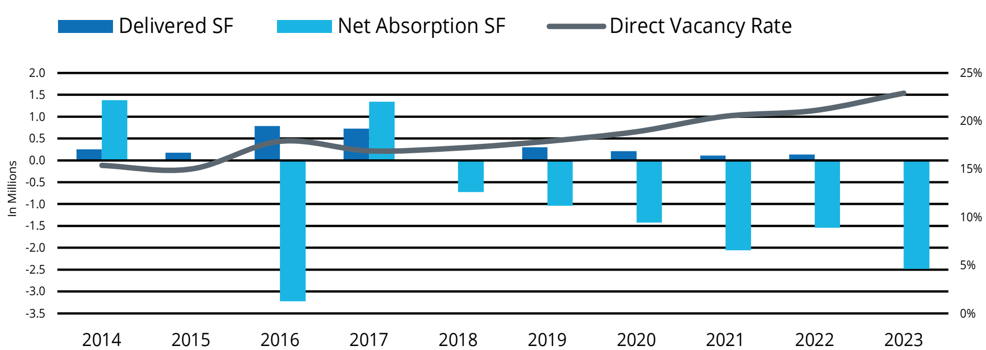
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



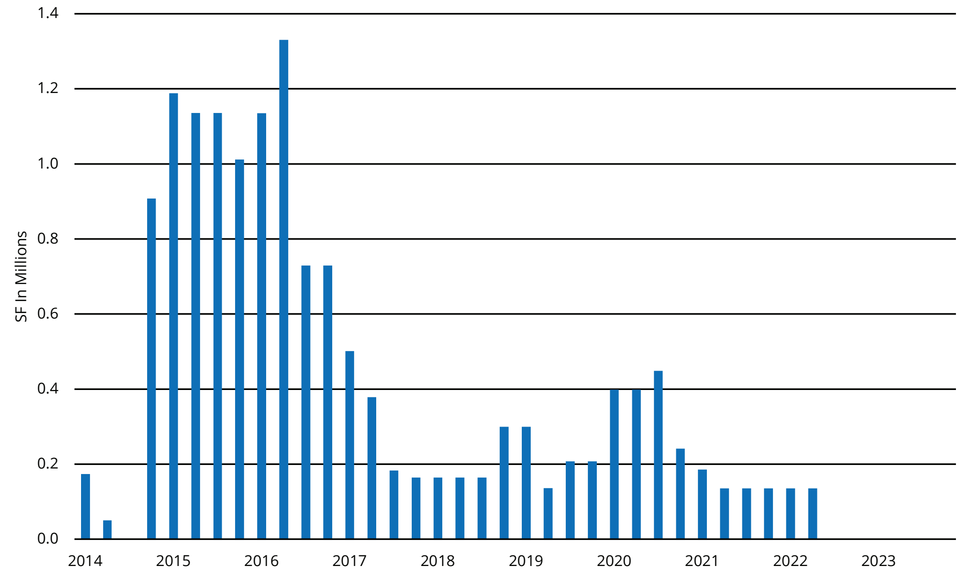
Source: Transwestern, CoStar

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



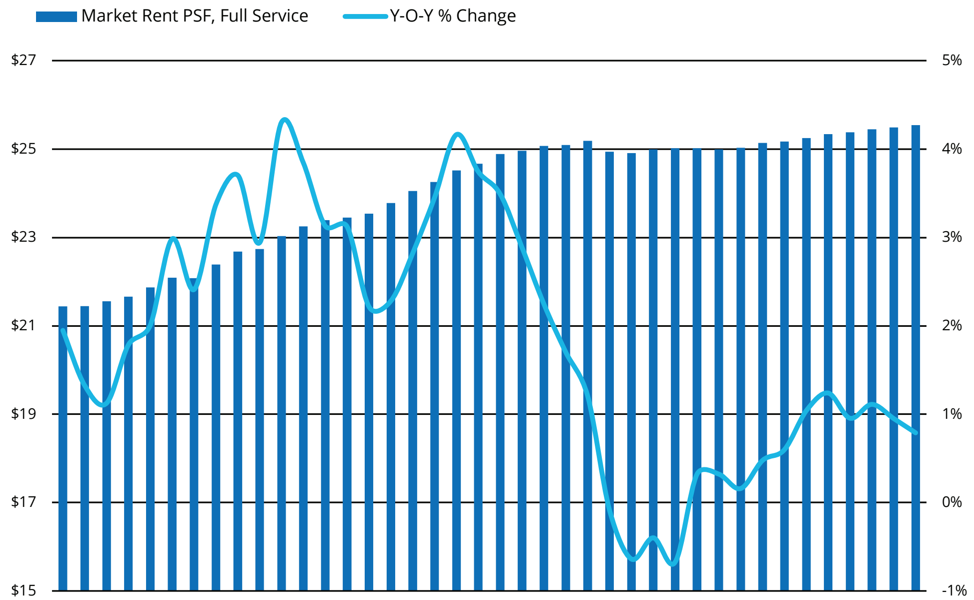
Source: Transwestern, CoStar

RENTAL RATES

Market Rents Hold Steady

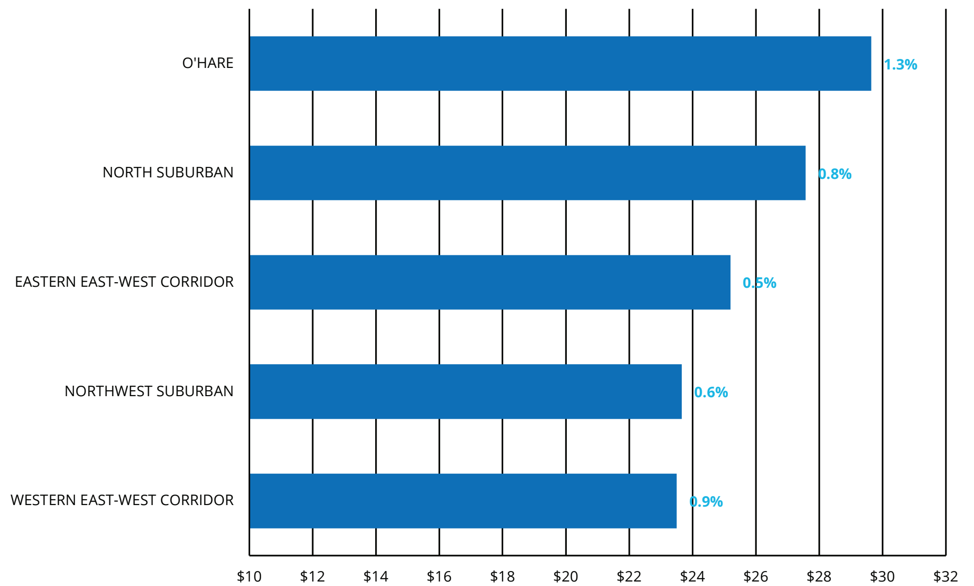
- Market rents continue to hold firm, up 0.8% year over year to $25.54 per square foot in the fourth quarter.
- Average Class A market rents rose 0.5% year over year to $28.61 per square foot in the fourth quarter. Average Class B and C market rents rose 1.3% year over year to $21.26 per square foot in the same time period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is $35.00 per square foot, Class B and C average is $20.16 per square foot, and the total submarket average is $29.64 per square foot.

MARKET RENT



Source: Transwestern, CoStar

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



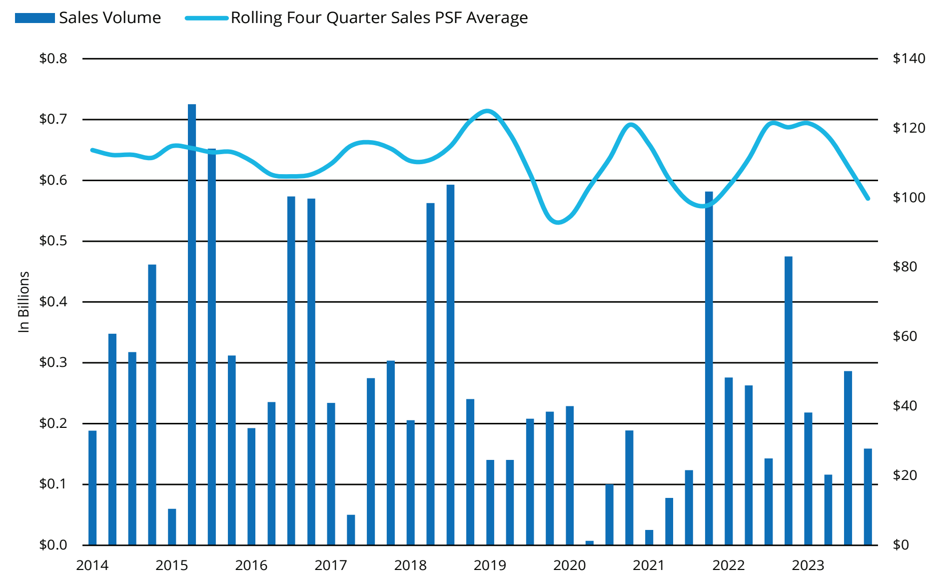
Source: Transwestern, CoStar

SALES

Tallest Suburban Building Sold

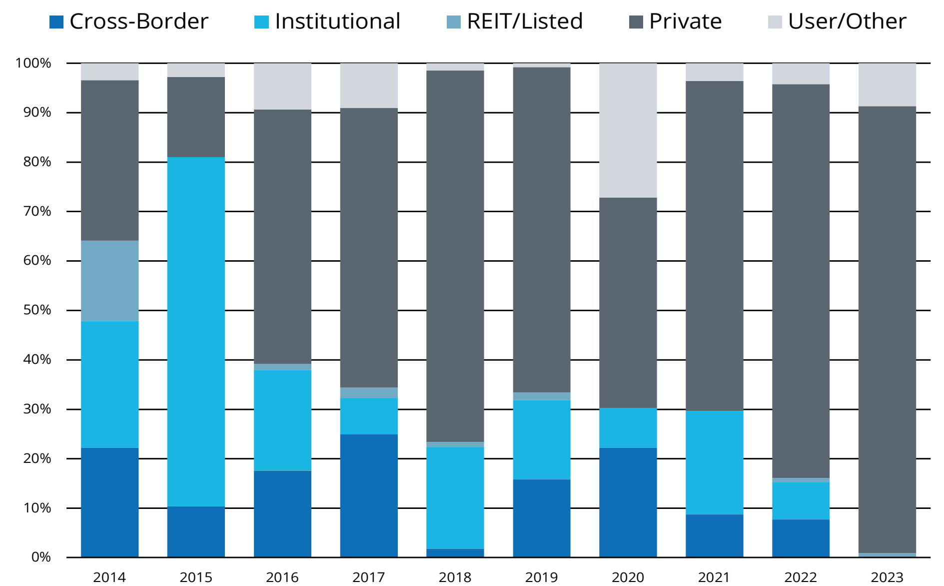
- The largest sales transaction in Chicago's suburban office market in the fourth quarter was Napleton Automotive Group's purchase of 1 Tower Lane in Oakbrook Terrace, which is the tallest building in the Chicago suburbs. Napleton paid $60 million in cash for the 757,257-square-foot property, significantly less than the $89 million valuation the building had when Blackstone purchased it as part of a portfolio in 2015.
- The two office buildings located at 1200 and 1250 N. Arlington Heights Rd. in Itasca were puchased by NTT Global Data Centers for $27.5 million, or $122 per square foot. Though NTT has not made its plans for the property public, it will presumably demolish the buildings and replace them with data centers, as it has already done with another adjacent property.
- IndusPAD purchased the vacant 177,892-square-foot building at 955 American Lane in Schaumburg, which was previously Experian's headquarters, for $1.375 million or $8 per square foot. The building was lat sold for $30 million in 2010. This is the second acquisition of an office property in the Chicago suburbs for IndusPAD. It purchased the buildings at 1500 and 1600 McConnor Parkway in Schaumburg in January of 2023, and has since rebranded it as Braveheart by IndusPAD.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern

Q4 2023 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Federal Aviation Administration	9600 W. Bryn Mawr Ave., Rosemont	O'Hare	New	108,094
TopCo Associates	2 Pierce Pl., Itasca	Northwest	New	83,613
Culligan	9399 W. Higgins Rd., Rosemont	O'Hare	Renewal/Expansion	66,000
Sasser Family Holdings, Inc.	700 Commerce Dr., Oak Brook	Eastern East-West Corridor	New	65,000
ICU Medical, Inc.	600 N. Field Dr., Lake Forest	North	Renewal/Contraction	54,250
Millennium Trust	2001 Spring Rd., Oak Brook	Eastern East-West Corridor	Renewal	51,000
True Group	1211 W. 22nd St., Oak Brook	Eastern East-West Corridor	Renewal	34,000
Transdev	720 E. Butterfield Rd., Lombard	Eastern East-West Corridor	Renewal/Expansion	30,500
Abbott	1350 E. Touhy Ave., Des Plaines	O'Hare	Renewal/Contraction	30,000
Sargent & Lundy	4320 Winfield Rd., Warrenville	Western East-West Corridor	Renewal	29,245
Envista Forensics	111 Deer Lake Rd., Deerfield	North	Renewal	27,000
McShane Construction Company	9500 W. Bryn Mawr Ave., Rosemont	O'Hare	Renewal	26,302
Continental Casualty Company	3333 Finley Rd., Downers Grove	Eastern East-West Corridor	Sublease	25,331
Mahoney Environmental Solutions	1200 Internationale Pkwy., Woodridge	Western East-West Corridor	New	25,000
Illinois Department of Central Management	3 Westbrook Corporate Ctr., Westchester	Eastern East-West Corridor	New	22,806
KemperSports	500 Skokie Blvd., Northbrook	North	Renewal	22,000
Power Wellness Management	801-851 Oak Creek Dr., Lombard	Eastern East-West Corridor	Renewal	19,924
RXO	707 Skokie Blvd., Northbrook	North	New	18,401
Northwest Mutual Life Insurance	3 Hawthorn Pky., Vernon Hills	North	Renewal	16,630

= 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 | Q4 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	31,684,502	6,231,768	19.7%	20.2%	0	-43,241	-349,465	$27.57
O'HARE	12,988,626	2,539,943	19.6%	21.0%	0	-146,079	9,351	$29.64
NORTHWEST SUBURBAN	34,639,585	11,113,571	32.1%	33.5%	0	-267,660	-2,399,792	$23.66
EASTERN EAST-WEST CORRIDOR	25,709,429	4,844,057	18.8%	20.0%	0	228,490	98,266	$25.19
WESTERN EAST-WEST CORRIDOR	21,279,658	4,243,152	19.9%	21.3%	0	68,916	156,816	$23.50
TOTAL	**126,301,800**	**28,972,491**	**22.9%**	**24.1%**	**0**	**-159,574**	**-2,484,824**	**$25.54**

Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class A | Q4 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	20,032,283	4,265,879	21.3%	22.1%	0	16,492	-208,762	$30.39
O'HARE	8,309,270	1,838,841	22.1%	23.9%	0	-153,418	-107,906	$35.00
NORTHWEST SUBURBAN	20,848,724	7,365,926	35.3%	37.4%	0	-186,148	-2,306,685	$25.48
EASTERN EAST-WEST CORRIDOR	15,259,958	3,118,158	20.4%	21.9%	0	179,011	68,377	$28.28
WESTERN EAST-WEST CORRIDOR	9,391,557	2,046,512	21.8%	23.2%	0	47,586	161,574	$26.43
TOTAL	**73,841,792**	**18,635,316**	**25.2%**	**26.7%**	**0**	**-96,477**	**-2,393,402**	**$28.61**

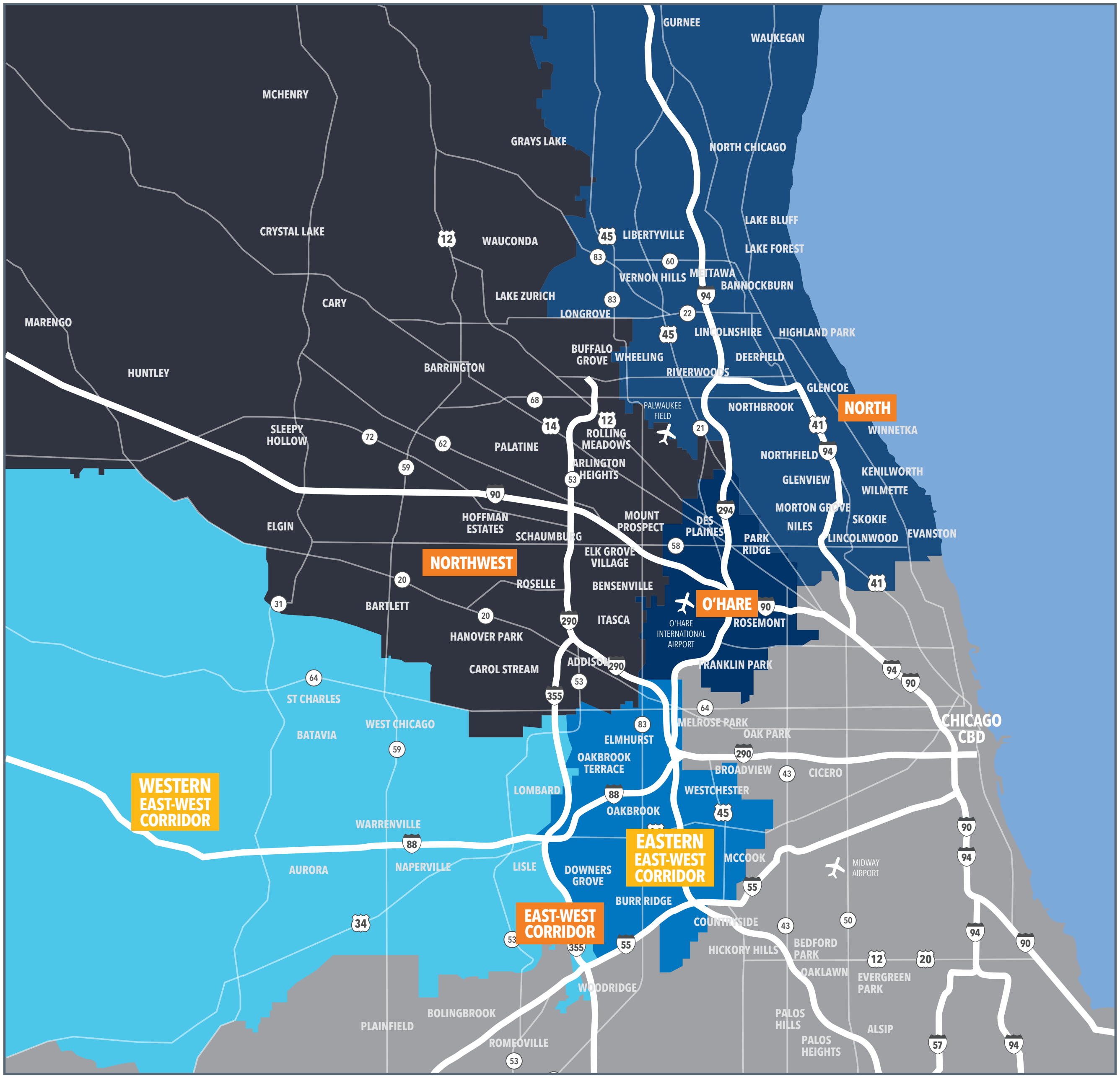
Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class B & C | Q4 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	11,652,219	1,965,889	16.9%	16.9%	0	-59,733	-140,703	$22.68
O'HARE	4,679,356	701,102	15.0%	15.9%	0	7,339	117,257	$20.16
NORTHWEST SUBURBAN	13,790,861	3,747,645	27.2%	27.7%	0	-81,512	-93,107	$20.95
EASTERN EAST-WEST CORRIDOR	10,449,471	1,725,899	16.5%	17.2%	0	49,479	29,889	$20.68
WESTERN EAST-WEST CORRIDOR	11,888,101	2,196,640	18.5%	19.8%	0	21,330	-4,758	$21.19
TOTAL	**52,460,008**	**10,337,175**	**19.7%**	**20.4%**	**0**	**-63,097**	**-91,422**	**$21.26**

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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