

CHICAGO SUBURBAN OFFICE MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	3.9	↑	5.8	↑
YTD NET ABSORPTION (Thousands SF)	-119	-2,227	↑	-1,510	↓
DIRECT VACANCY RATE	21.6%	22.5%	↓	20.0%	↑
DIRECT VACANT SF (MSF)	26.6	28.5	↓	25.4	↑
AVAILABLE SUBLET SF (MSF)	3.2	3.5	↓	3.2	↔
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.1	↔
MARKET RENT, FULL SERVICE (PSF)	\$25.42	\$25.13	↑	\$24.94	↔
YTD SALES VOLUME (Millions)	\$180	\$242	↓	\$229	↓

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

Chicago's suburban office market continues to limp along. Vacancy rates have gone down, but only because inventory is being removed from the market, not because of increased demand.

However, there are some promising signs. The Bell Works Chicagoland redevelopment in Hoffman Estates signed on three new tenants with a combined total of 100,000 square feet in the second quarter. This has brought the occupancy rate of the development to around 80%.

On the downside, as more buildings encounter severe financial difficulties, tenants in Chicago's suburban office market will find that properties with financially stable owners are limited. As more buildings are acquired at low prices for replacement or conversion, the values will fall to a point where buyers can afford to reinvest in office buildings. This could potentially lead to the availability of higher-quality office spaces for tenants at more affordable rents.

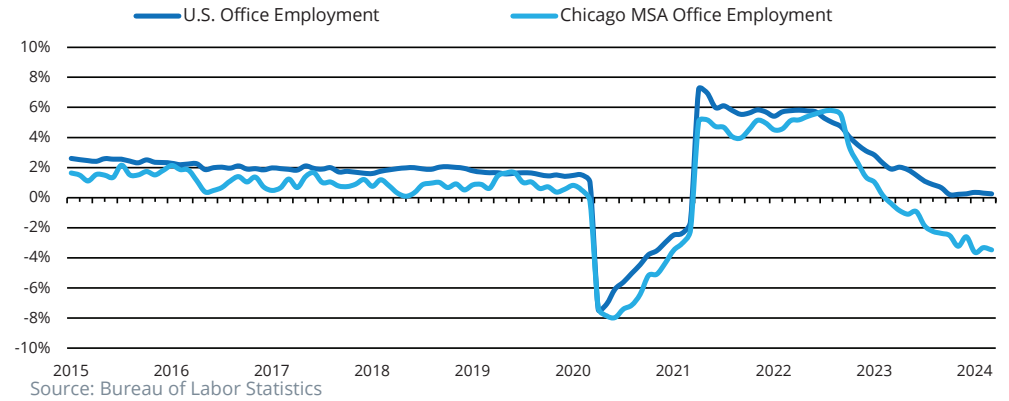


ECONOMY

Interest Rates Stay High

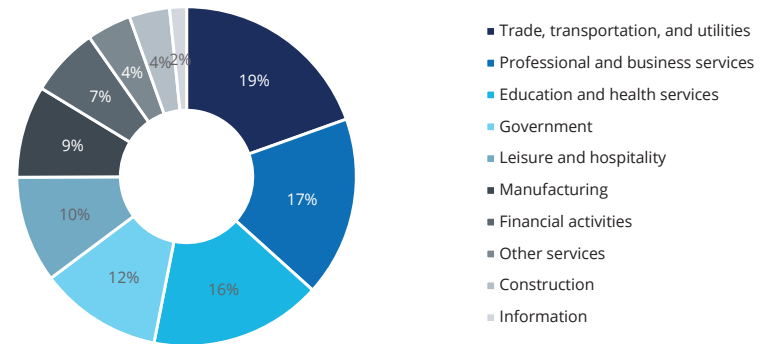
- In June, the Federal Reserve (Fed) maintained the range of the federal funds rate at 5.25% to 5.50% after inflation reports came in higher than expected. However, it is widely expected that rates will be lowered in September now that labor markets have cooled and more reassuring inflation data has been reported.
- The U.S. economy sustained robust job growth, adding an estimated 206,000 jobs in June, bringing the quarterly total to 532,000. Weekly initial unemployment claims remained below historical averages, and the national unemployment rate increased slightly from 3.8% in March to 4.1% in June.
- Locally, the unemployment rate increased 40 basis points in May to 4.8%. Approximately 12,700 jobs were added to the local economy over the past year, with Education and Health Services jobs in the lead, followed by Government.
- The number of office-using jobs in the U.S. decreased by 0.2% year over year in May; locally, office-using jobs decreased by 2.9% during the same period. The Professional and Business Services industry lost 30,400 jobs in the Chicago area year over year, the Financial Activities industry lost 3,100 jobs, and the Information industry lost 2,500 jobs.

Y-O-Y CHANGE IN OFFICE JOBS



SHARE OF EMPLOYEES BY INDUSTRY

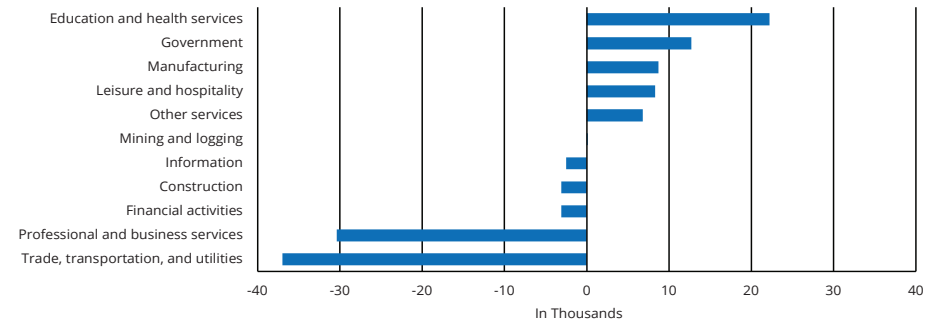
Chicago MSA | May 2024



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | May 2024



Source: Bureau of Labor Statistics



NET ABSORPTION

Negative Absorption Continues

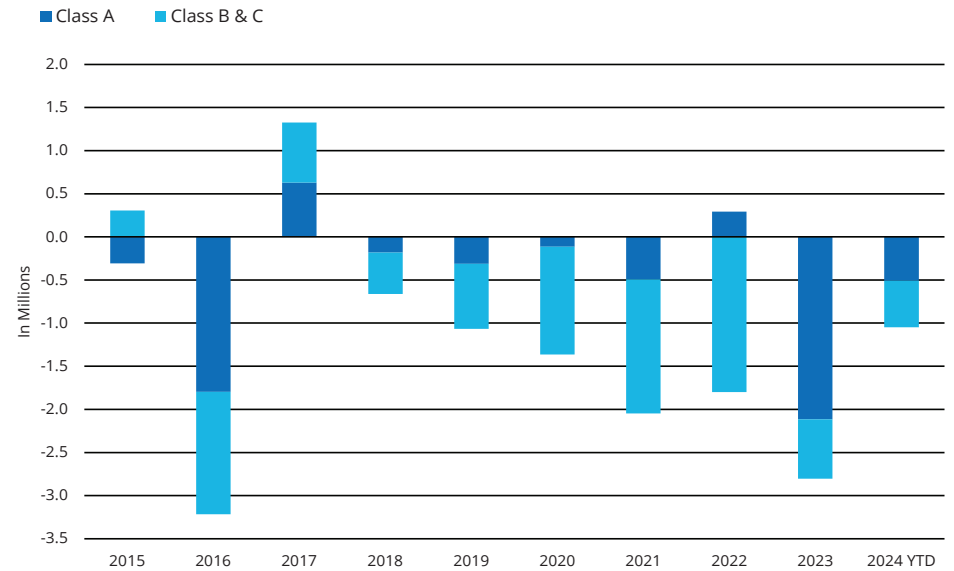
- Net absorption totaled negative 118,712 square feet during the second quarter of 2024, bringing the year-to-date total down to 1.1 million square feet of negative absorption.
- The Class A sector had negative 21,640 square feet of absorption in the second quarter, and the Class B and C sectors had negative 97,072 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

Sublease is Largest Deal in Years

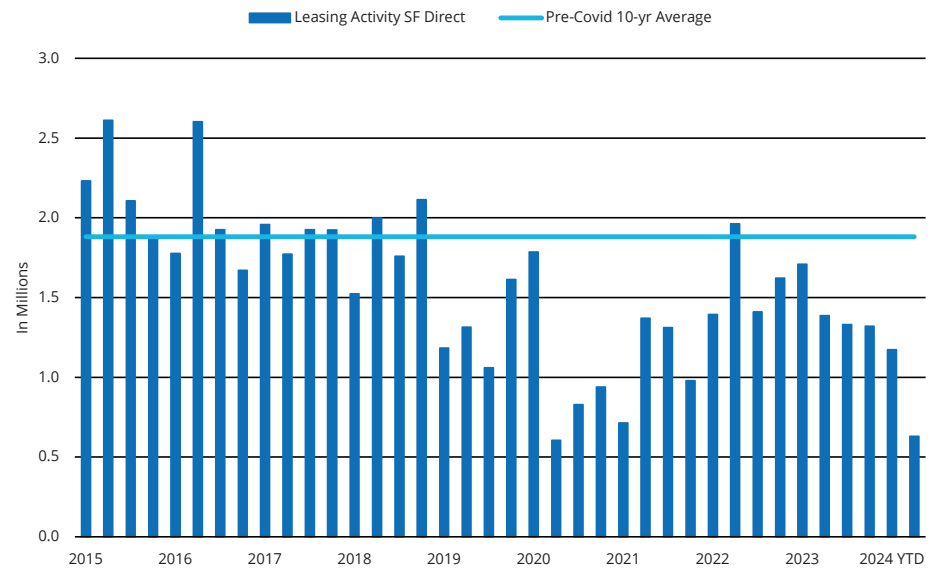
- The largest lease deal in Chicago’s suburban office market in the second quarter was Wheels’ sublease of 214,108 square feet from Zurich’s 755,857-square-foot North American Headquarters at 1299 Zurich Way in Schaumburg. This is the largest suburban office lease in over two years.
- The redevelopment of AT&T’s former campus at 2000 Center Drive in Hoffman Estates, known as Bell Works Chicagoland, signed leases with three new tenants in the second quarter. Convergent Technologies leased 65,000 square feet, FirstService Residential leased 20,000 square feet, and Identiti Resources leased 15,690 square feet.
- The largest suburban reported renewal of the second quarter was Hanover Insurance Group’s lease of 25,147 square feet at 333 Pierce Road in Itasca.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar



DIRECT VACANCY

Inventory Removal Brings Vacancy Rates Down

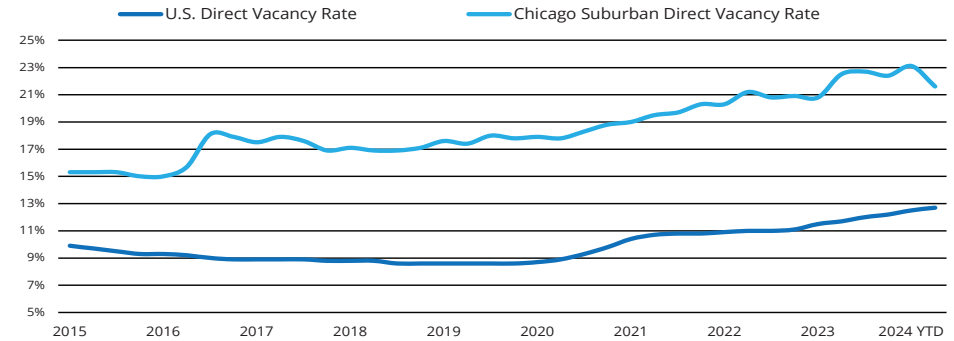
- The direct vacancy rate in Chicago's suburban office market decreased by 150 basis points during the second quarter to 21.6%. The vacancy rate decreased despite negative absorption because the total inventory decreased, primarily due to Sears's 2.3 million-square-foot former headquarters at 3333 Beverly Road in Hoffman Estates being demolished to make way for a massive new data center.
- The suburban office market's Class A direct vacancy rate decreased by 4.8% to 22.9% in the second quarter, while the Class B and C rate increased by 10 basis points to 21.1%. The Class A vacancy rate is expected to decrease further as more buildings are taken out of the office inventory and converted or replaced with logistics facilities or data centers. The Class B and C vacancy rate would be much higher if not for the four million square feet of obsolete inventory that has been slowly removed from the market over the past decade.

SUBLEASE AVAILABILITY

Subleasing Activity Picks Up

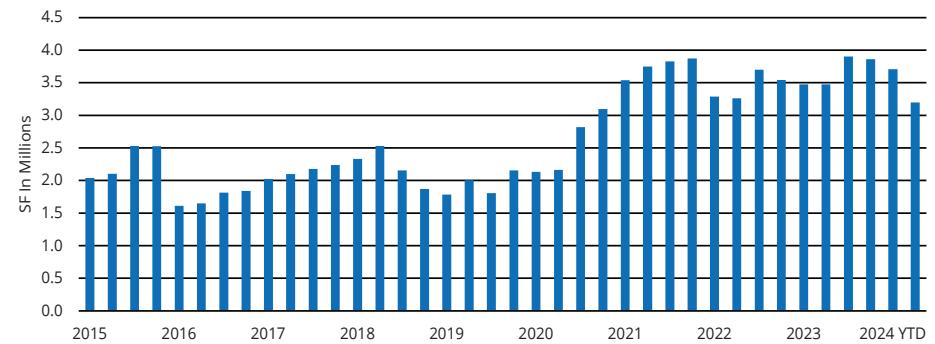
- The amount of available sublease space decreased by 13.7% in the second quarter to 3.2 million square feet, the lowest amount of available sublease since the fourth quarter of 2020.
- According to CoStar records, 319,063 square feet of suburban office space was subleased in the second quarter, with four sublease deals over 15,000 square feet. The largest sublease signed in the suburban office market was Wheels' sublease of 214,108 square feet from Zurich's space at 1299 Zurich Way in Schaumburg. Zurich is still advertising 148,866 square feet of its North American headquarters on the sublease market.
- The only block of sublease space larger than 50,000 square feet added to the sublease market in the second quarter was Arjo's 62,000-square-foot space at 2349 W. Lake St. in Addison.

DIRECT VACANCY RATE



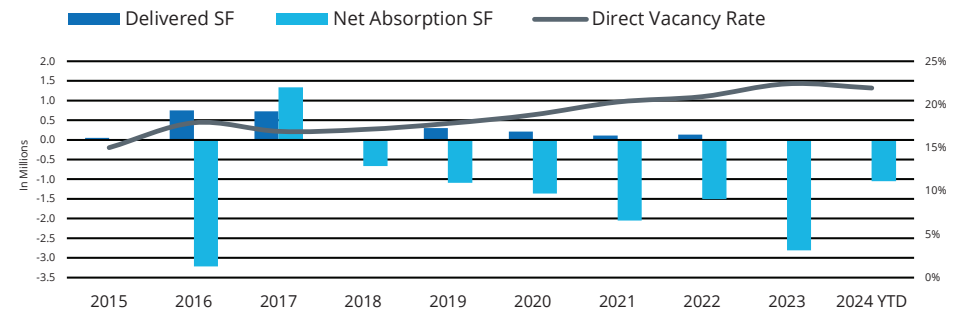
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

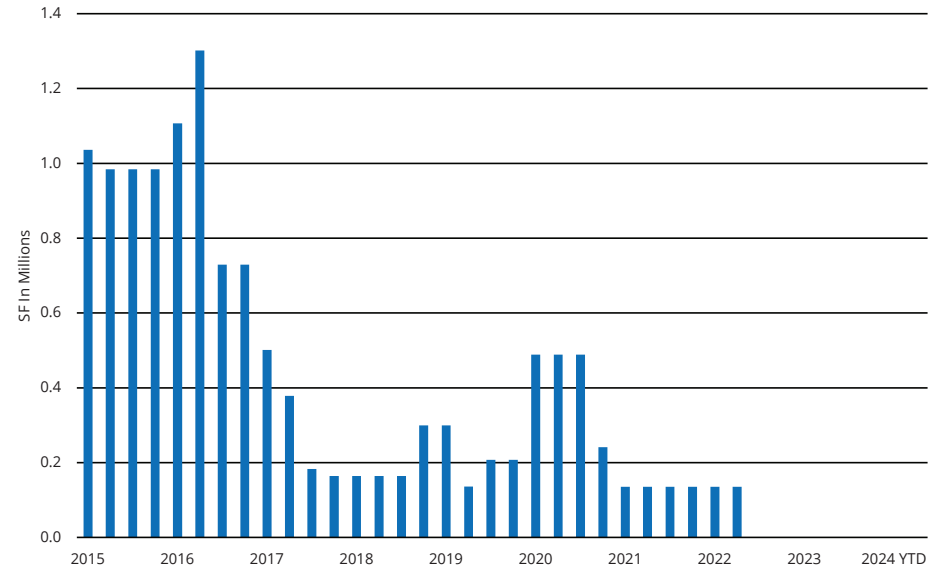


UNDER CONSTRUCTION

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's 600,000-square-foot, build-to-suit opportunity at 8601 W. Higgins Road, Chicago in the O'Hare submarket.

UNDER CONSTRUCTION



Source: Transwestern, CoStar

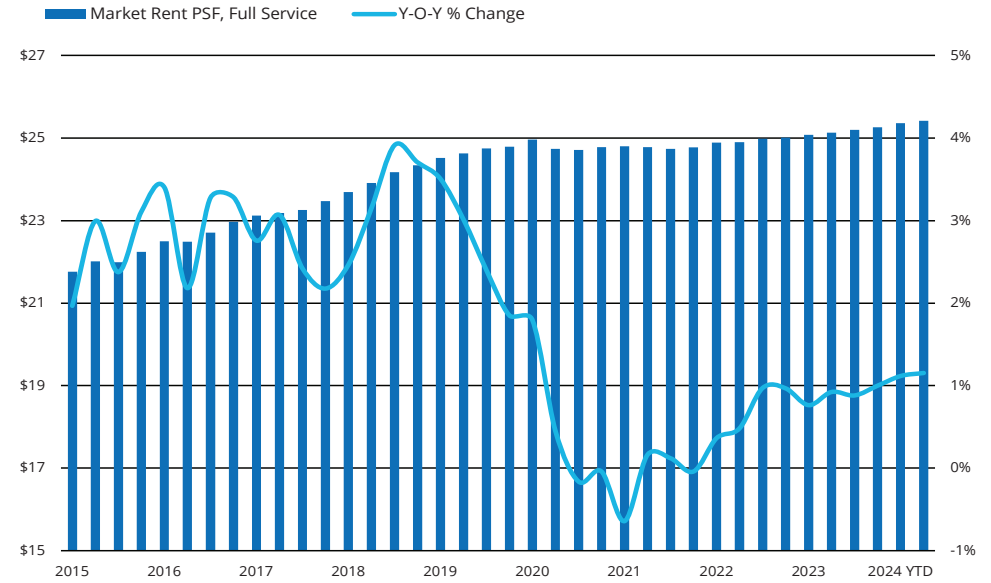


RENTAL RATES

Market Rents Hold Steady

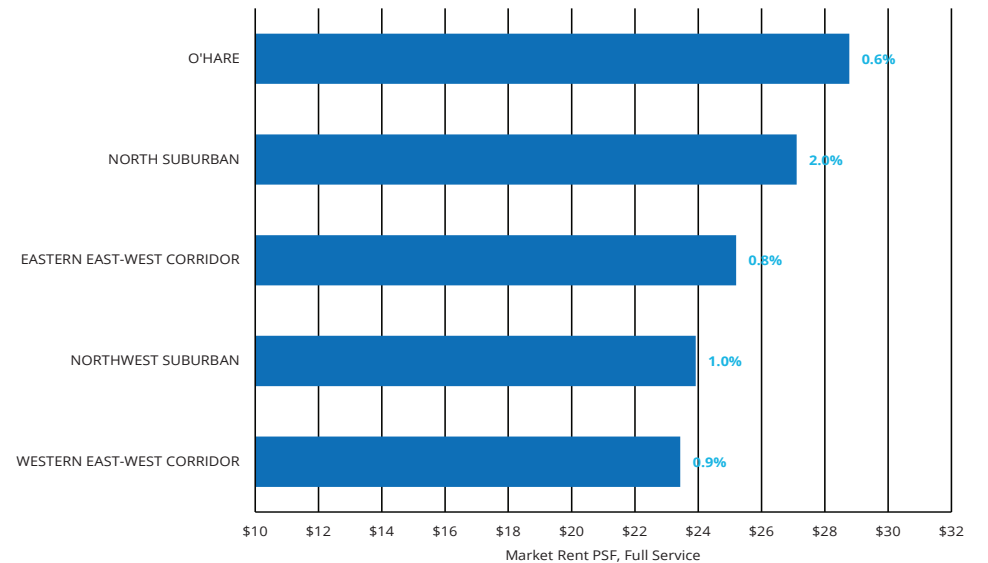
- Market rents continue to hold firm, up 1.2% year over year to \$25.42 per square foot in the second quarter.
- Average Class A market rents rose 0.86% year over year to \$30.34 per square foot in the second quarter. Average Class B and C market rents rose 1.3% year over year to \$23.28 per square foot in the same time period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is \$34.06 per square foot, Class B and C average is \$24.94 per square foot, and the total submarket average is \$28.77 per square foot.

MARKET RENT



Source: Transwestern, CoStar

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

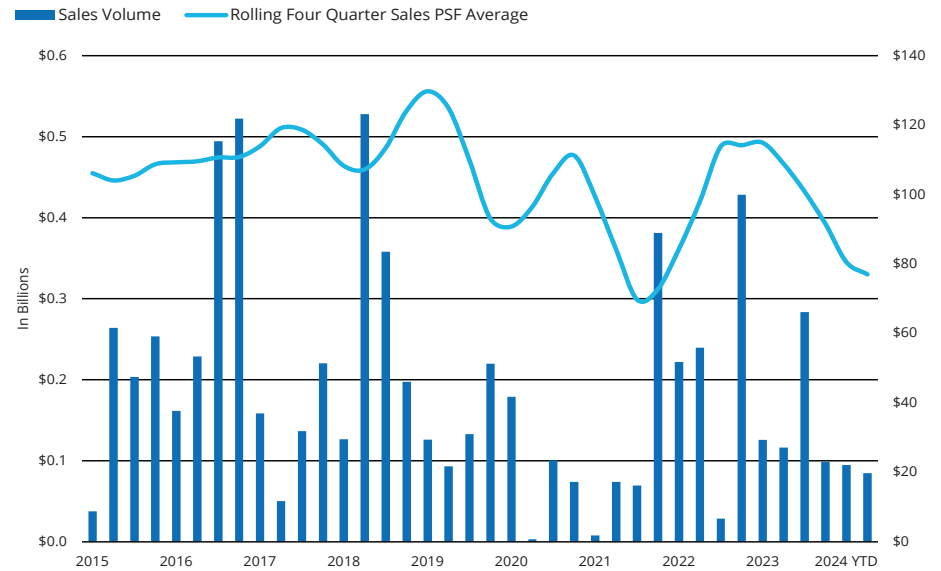


SALES

Handful of Investment Sales Prove More Value Lost

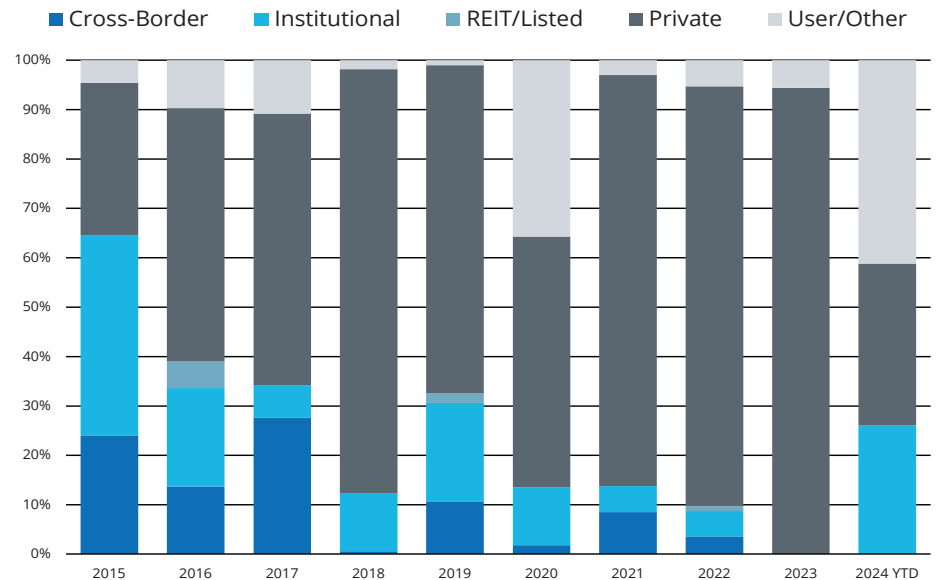
- The largest sales transaction in Chicago’s suburban office market in the second quarter was Franklin Partners’ purchase of Oak Brook 22 for \$46 million from Heitman. The four-building complex at 1211-1315 W. 22nd St. in Oak Brook was sold by the lender after the previous owner, Golub & Company, transferred the properties via deed in lieu of foreclosure earlier this year. Golub purchased the properties for \$57.5 million in 2014.
- The 116,500-square-foot office property at 2349 W. Lake St. in Addison was purchased at auction by Stotan Industrial for \$8.18 million, or \$70 per square foot, from EQT Exeter. Though the property was 100% leased at the time of sale, the building’s oldest tenant, Arjo, put its 62,000-square-foot space on the sublease market. EQT Exeter purchased the property in 2019 for \$26.1 million.
- Urban Commercial Property Group purchased 900 National Parkway in Schaumburg for \$1.7 million or \$17 per square foot. The seller, Rabine Group, purchased the property for \$3,125,000 in 2010. The office building was approximately 55% vacant at the time of sale, and the buyer is listing the vacant office space for lease.
- A vacant property in the North submarket at 1955 W. Field Court in Lake Forest was purchased by a private investor, Todd Altounian, in the second quarter. The 59,130-square-foot building was acquired for \$2.9 million, or \$49 per square foot, from Blackbird Investment Group.

SALES VOLUME



Source: Real Capital Analytics, Transwestern


BUYER CAPITAL COMPOSITION




Source: Real Capital Analytics, Transwestern



Q2 2024 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Wheels	1299 Zurich Way, Schaumburg	Northwest	Sublease	214,108
Convergent Technologies	2000 Center Dr., Hoffman Estates	Northwest	New	65,000
Littelfuse	6133 N. River Rd., Rosemont	O'Hare	New	53,039
Transdev	720 E. Butterfield Rd., Lombard	Eastern East-West Corridor	New	30,498
Producer's National	8725 W. Higgins Rd., Chicago	O'Hare	Sublease	26,022
Hanover Insurance Group	333 Pierce Rd., Itasca	Northwest	Renewal	25,147
AZ Nurses Association	1375 E. Woodfield Rd., Schaumburg	Northwest	New	25,030
FGM Architects	1 Westbrook Corporate Ctr., Westchester	Eastern East-West Corridor	New	22,674
FirstService Residential	2000 Center Dr., Hoffman Estates	Northwest	New	20,000
Health Care Service Corporation	3500 Lacey Rd., Downers Grove	Eastern East-West Corridor	Expansion	19,884
Regus	2140 E. Lake Cook Rd., Buffalo Grove	North	New	19,380
Local 881 UFCW	1350 E. Touhy Ave., Des Plaines	O'Hare	Renewal	18,890
Alight	510 Lake Cook Rd., Deerfield	North	New	18,019
Identiti Resources	2000 Center Dr., Hoffman Estates	Northwest	New	15,690
RTM Engineers 	1933 N. Meacham Rd., Schaumburg	Northwest	New	15,452

 = Transwestern deal
 Source: Transwestern, CoStar



Q2 2024 NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1211-1315 W. 22nd St., Oak Brook	Eastern East-West Corridor	\$46,000,000	389,111	\$118	Franklin Partners	Heitman
2349 W. Lake St., Addison	Northwest	\$8,180,000	116,550	\$70	Stotan Industrial	EQT Exeter
900 National Pkwy., Schaumburg	Northwest	\$1,700,000	100,287	\$17	Urban Commercial Property Group	Rabine Group
1955 W. Field Ct., Lake Forest	North	\$2,900,000	59,130	\$49	Todd Altounian	Blackbird Investment Group

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS TABLE

All Classes of Space | Q2 2024

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	31,537,790	6,522,696	20.7%	21.3%	0	-19,118	-548,478	\$27.11
O'HARE	12,839,261	2,552,863	19.9%	21.4%	0	58,602	-141,496	\$28.77
NORTHWEST SUBURBAN	32,105,902	8,760,401	27.3%	28.8%	0	12,479	10,538	\$23.92
EASTERN EAST-WEST CORRIDOR	25,503,310	5,034,550	19.7%	20.4%	0	11,247	-168,826	\$25.19
WESTERN EAST-WEST CORRIDOR	20,906,835	3,711,929	17.8%	18.4%	0	-181,922	-197,743	\$23.43
TOTAL	122,893,098	26,582,439	21.6%	22.6%	0	-118,712	-1,046,005	\$25.42

Source: Transwestern, CoStar

Class A | Q2 2024

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	10,545,682	2,232,073	21.2%	22.0%	0	-8,266	-421,344	\$32.82
O'HARE	4,852,605	969,539	20.0%	22.0%	0	-2,475	-24,629	\$35.06
NORTHWEST SUBURBAN	12,429,588	3,437,794	27.7%	30.6%	0	1,706	50,940	\$27.11
EASTERN EAST-WEST CORRIDOR	4,726,326	890,102	18.8%	19.1%	0	-11,671	-63,415	\$30.63
WESTERN EAST-WEST CORRIDOR	4,725,285	1,008,943	21.4%	22.2%	0	-934	-47,270	\$28.14
TOTAL	37,279,486	8,538,451	22.9%	24.5%	0	-21,640	-505,718	\$30.34

Source: Transwestern, CoStar

Class B & C | Q2 2024

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	20,992,108	4,290,623	20.4%	21.0%	0	-10,852	-127,134	\$24.24
O'HARE	7,986,656	1,583,324	19.8%	20.9%	0	61,077	-116,867	\$24.94
NORTHWEST SUBURBAN	19,676,314	5,322,607	27.1%	27.7%	0	10,773	-40,402	\$21.90
EASTERN EAST-WEST CORRIDOR	20,776,984	4,144,448	19.9%	20.6%	0	22,918	-105,411	\$23.95
WESTERN EAST-WEST CORRIDOR	16,181,550	2,702,986	16.7%	17.3%	0	-180,988	-150,473	\$22.05
TOTAL	85,613,612	18,043,988	21.1%	21.7%	0	-97,072	-540,287	\$23.28

Source: Transwestern, CoStar

