

# CHICAGO SUBURBAN OFFICE MARKET

Q3 2024



## TRENDLINES

	Q3 2024	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
<b>UNEMPLOYMENT RATE</b>	5.6	5.0	↑	5.3	↑
<b>YTD NET ABSORPTION</b> (Thousands SF)	-1,347	-2,815	↑	-1,529	↓
<b>DIRECT VACANCY RATE</b>	22.0%	22.8%	↓	20.2%	↑
<b>DIRECT VACANT SF</b> (MSF)	27.1	28.8	↓	25.7	↑
<b>AVAILABLE SUBLET SF</b> (MSF)	3.1	3.9	↓	3.2	↔
<b>UNDER CONSTRUCTION</b> (MSF)	0.0	0.0	↔	0.1	↔
<b>MARKET RENT, FULL SERVICE</b> (PSF)	\$25.59	\$25.25	↑	\$25.02	↔
<b>YTD SALES VOLUME</b> (Millions)	\$259	\$525	↓	\$342	↓

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

Chicago’s suburban office market continues to face many challenges, but the third quarter brought some hope with several large leases signed. The direct vacancy rate has decreased by 80 basis points year-over-year, primarily due to inventory being removed from the market. Available sublease space has also decreased, down 21.6% from last year’s third quarter.

Medline Industries signed the largest new suburban lease since 2022, taking 214,560 square feet at 2375 Waterview Dr. in Northbrook. Additionally, several large tenants recommitted to their suburban offices in the third quarter. However, overall leasing activity remains much lower than what is needed for a market turnaround.

Suburban office investment sales were slow in the third quarter. Interestingly, two of the four completed transactions involved municipalities purchasing office buildings to convert into police stations and other municipal uses. After investors’ plans to convert offices to industrial uses upset many municipalities, they are now beginning to realize the potential benefits that obsolete office properties can offer.

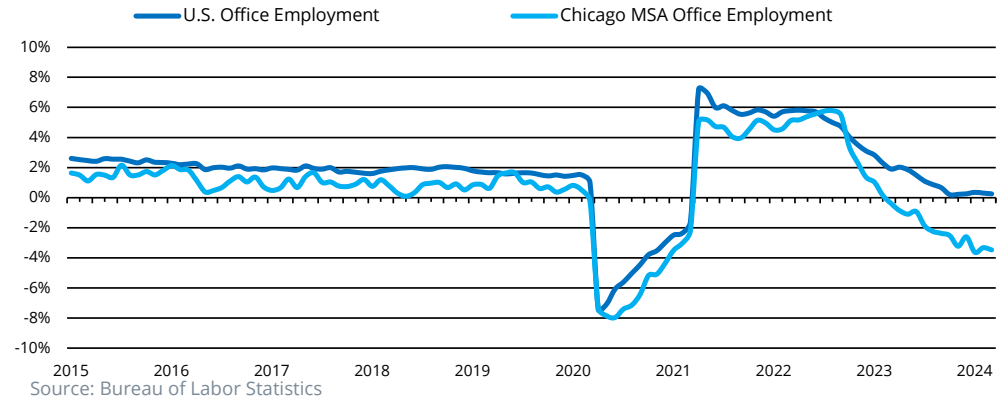


### ECONOMY

#### Interest Rates Cut by 0.50%

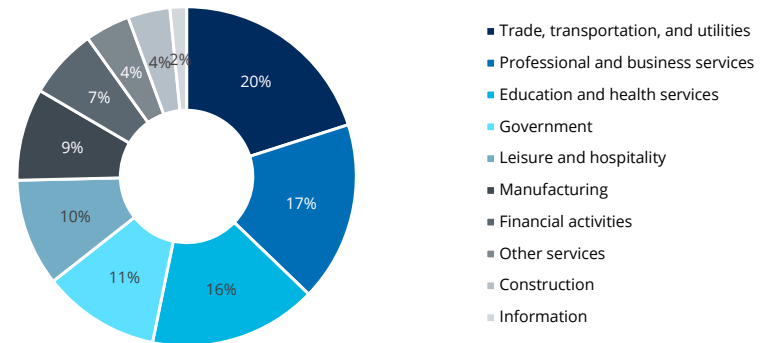
- In September, the Federal Reserve (Fed) lowered the federal funds rate by half a percentage point to a range of 4.75% to 5.0%. This adjustment was a relief for the commercial real estate industry, which has been significantly impacted by the recent rapid rate increases. The Fed has indicated that additional cuts are possible, but the timing and extent of these cuts will depend on upcoming economic indicators.
- The U.S. economy sustained robust job growth, adding an estimated 254,000 jobs in September, bringing the quarterly total to 557,000. Weekly initial unemployment claims remained below historical averages, and the national unemployment rate was 4.1% at the end of the third quarter.
- Locally, the unemployment rate decreased by 60 basis points in August to 5.6%. Approximately 5,800 jobs were added to the local economy over the past year, with Education and Health Services jobs leading, followed by Government.
- The number of office-using jobs in the U.S. increased by 0.1% year over year in August; locally, office-using jobs decreased by 3.0% during the same period. The Professional and Business Services industry lost 31,200 jobs in the Chicago area year over year, the Financial Activities industry lost 3,700 jobs, and the Information industry lost 3,100 jobs.

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



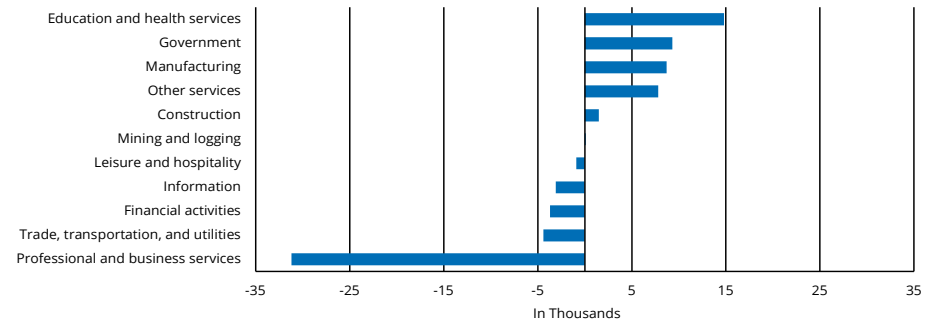
### SHARE OF EMPLOYEES BY INDUSTRY

#### Chicago MSA | August 2024



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

#### Chicago MSA | August 2024





### NET ABSORPTION

#### Negative Absorption Continues

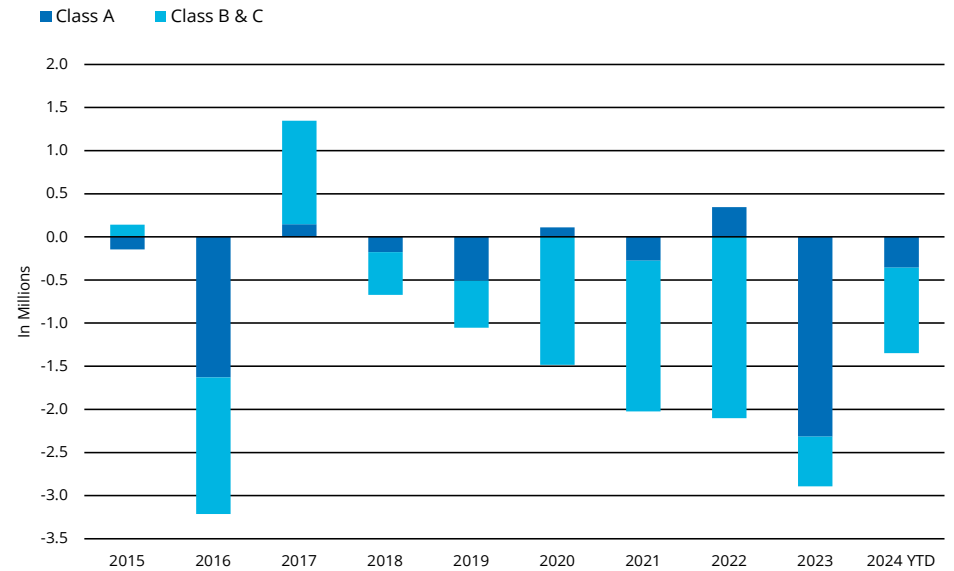
- Net absorption totaled negative 282,627 square feet during the third quarter of 2024, bringing the year-to-date total down to 1.35 million square feet of negative absorption.
- The Class A sector had 86,240 square feet of positive absorption in the third quarter, and the Class B and C sectors had negative 368,867 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

#### Largest New Deal in 2024

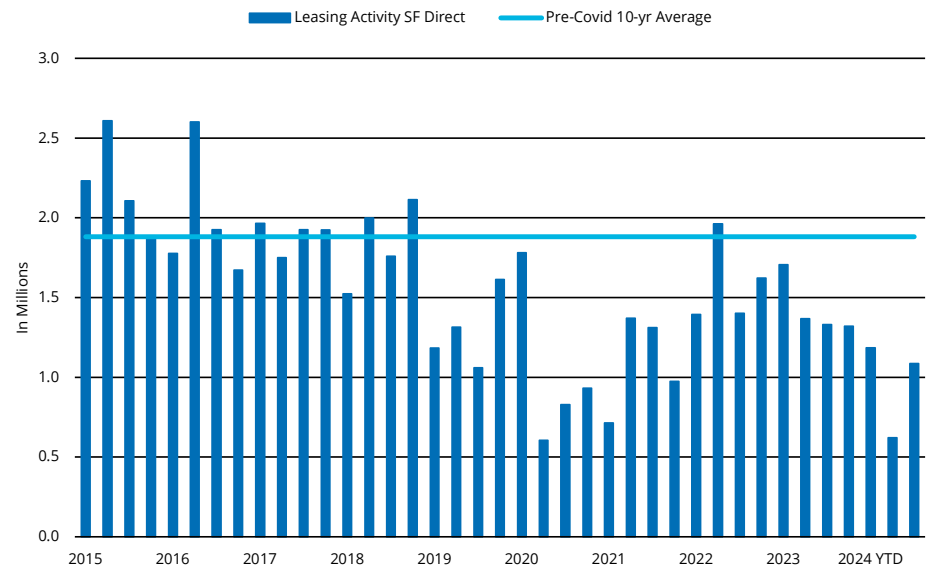
- Direct leasing activity totaled 1.1 million square feet in the third quarter of 2024, well below the pre-pandemic quarterly average of 1.9 million square feet from the 10 years prior to the second quarter of 2020.
- The largest new lease deal in Chicago’s suburban office market in the third quarter was Medline Industries’ 214,560-square-foot lease at 2375 Waterview Dr. in Northbrook. This is the largest new lease signed in the suburban market since the second quarter of 2022.
- The largest suburban reported renewal of the third quarter was KeHE Distributors’ 91,102-square-foot renewal and expansion at 1245 E. Diehl Rd. in Naperville.

### NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

### LEASING ACTIVITY



Source: Transwestern, CoStar



### DIRECT VACANCY

#### Vacancy Rates Back on the Rise

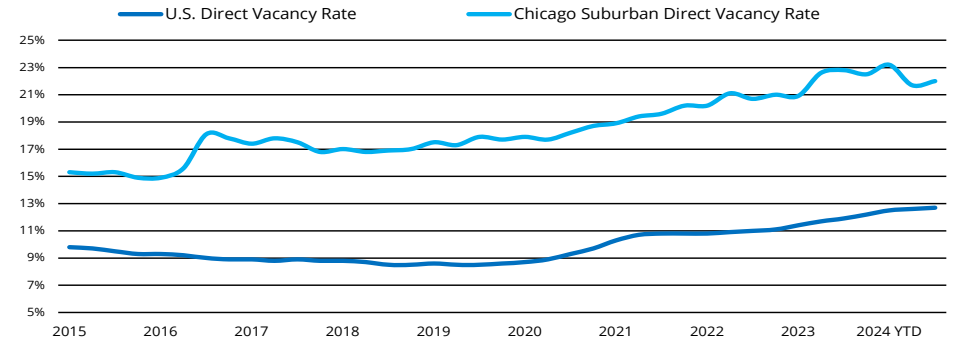
- Chicago's suburban office direct vacancy rate increased by 30 basis points to 22% during the third quarter, while the overall vacancy rate increased by 10 basis points to 22.8%, reversing the decline seen last quarter due to inventory removal.
- The suburban office market's Class A direct vacancy rate decreased by 30 basis points to 23.1% in the third quarter, while the Class B and C rate increased by 40 basis points to 21.6%.

### SUBLEASE AVAILABILITY

#### Sublease Market Shrinks Due to Attrition

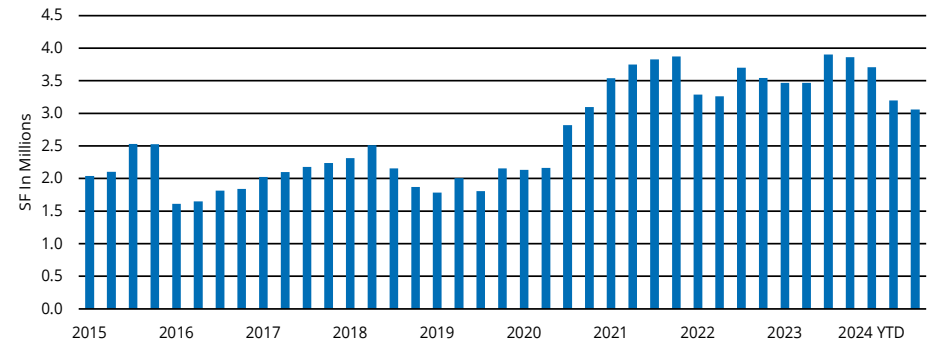
- The amount of available sublease space decreased for the fourth consecutive quarter, by 4.4% in the third quarter to 3.1 million square feet, the lowest amount of available sublease since the third quarter of 2020.
- No blocks of suburban sublease space larger than 50,000 square feet were added to the market in the third quarter.
- Sublease space availability decreased as expiring leases transferred to direct availability, driven by tenants' unsuccessful attempts to sublease. In the third quarter, 44,229 square feet of suburban office space was subleased, representing only one-third of the sublease space removed between the second and third quarter, according to CoStar.

### DIRECT VACANCY RATE



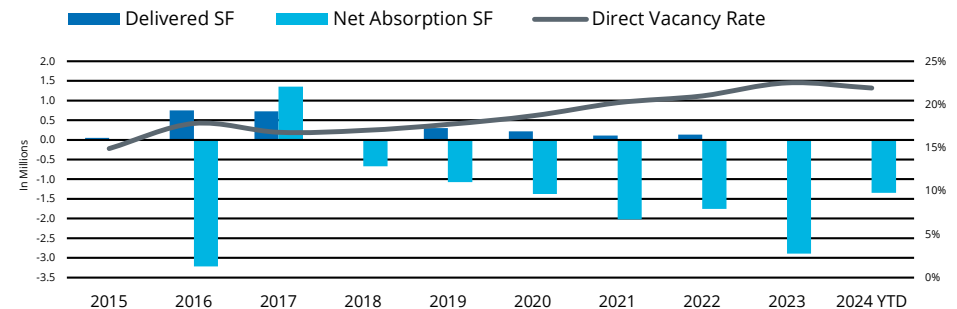
Source: Transwestern, CoStar

### AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

### DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

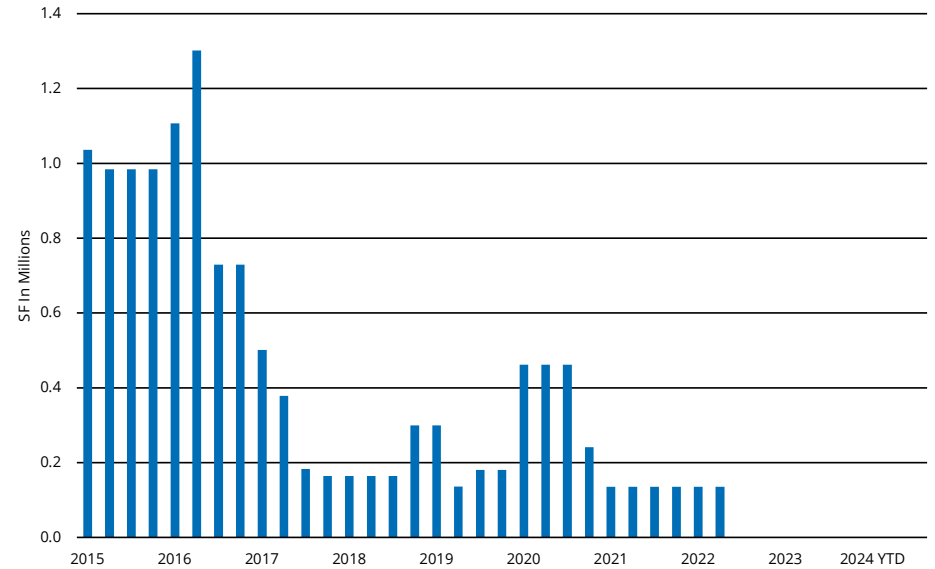


## UNDER CONSTRUCTION

### 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

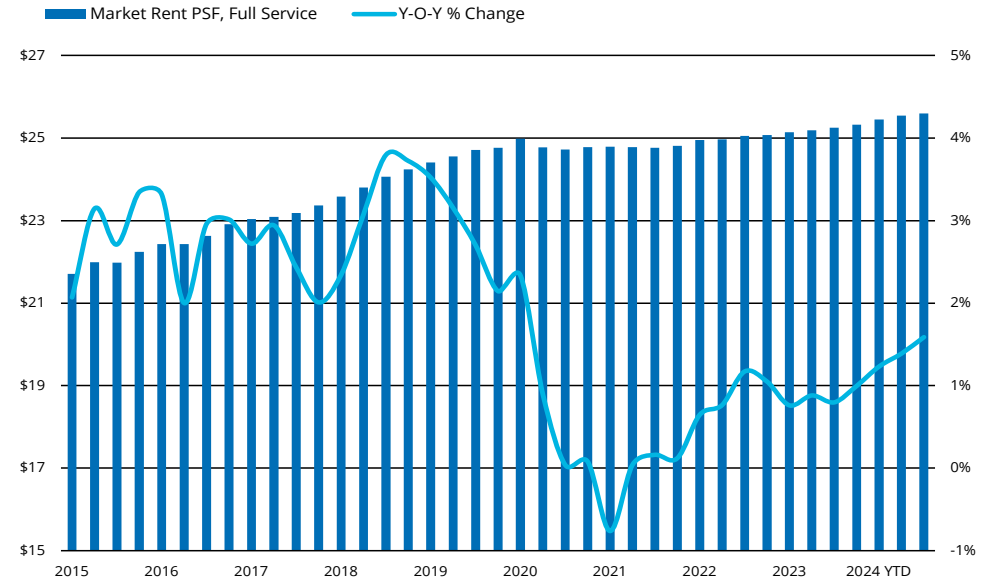


### RENTAL RATES

#### Market Rents Hold Steady

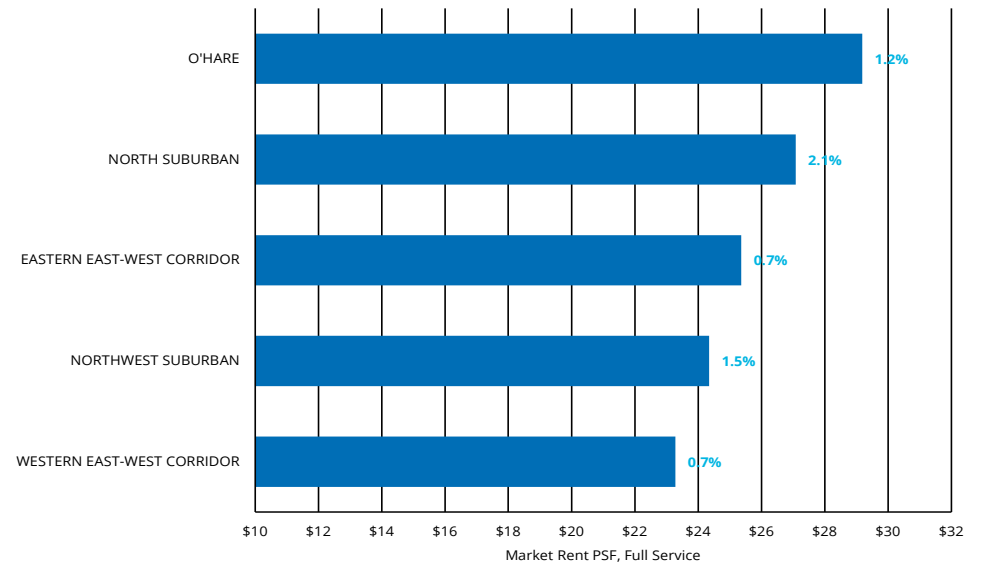
- Market rents continue to hold firm, up 1.6% year over year to \$25.59 per square foot in the third quarter.
- Average Class A market rents rose 0.92% year over year to \$31.65 per square foot in the third quarter. Average Class B and C market rents rose 1.5% year over year to \$23.67 per square foot in the same period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is \$37.07 per square foot, Class B and C average is \$25.22 per square foot, and the total submarket average is \$29.18 per square foot.

### MARKET RENT



Source: Transwestern, CoStar

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



Source: Transwestern, CoStar

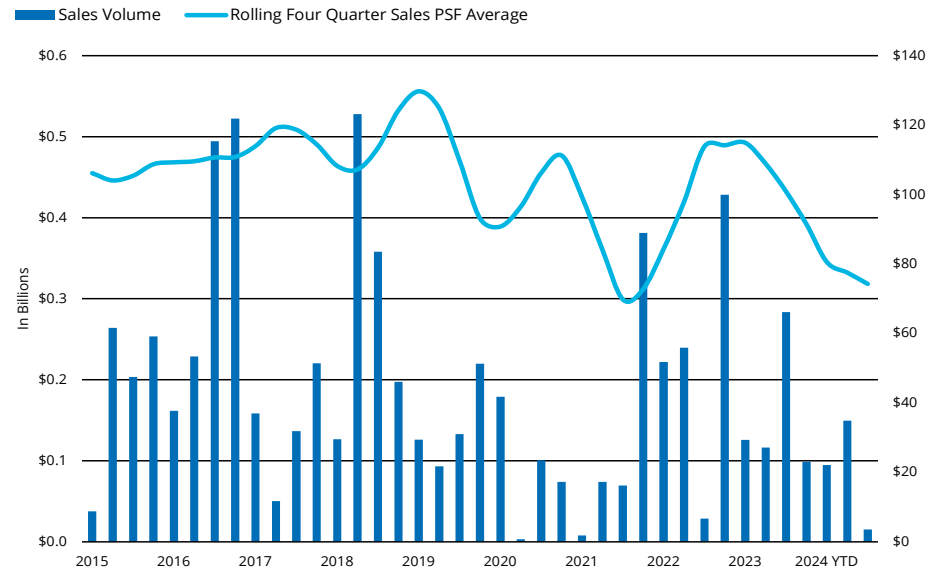


### SALES

#### Sales Volume Declines

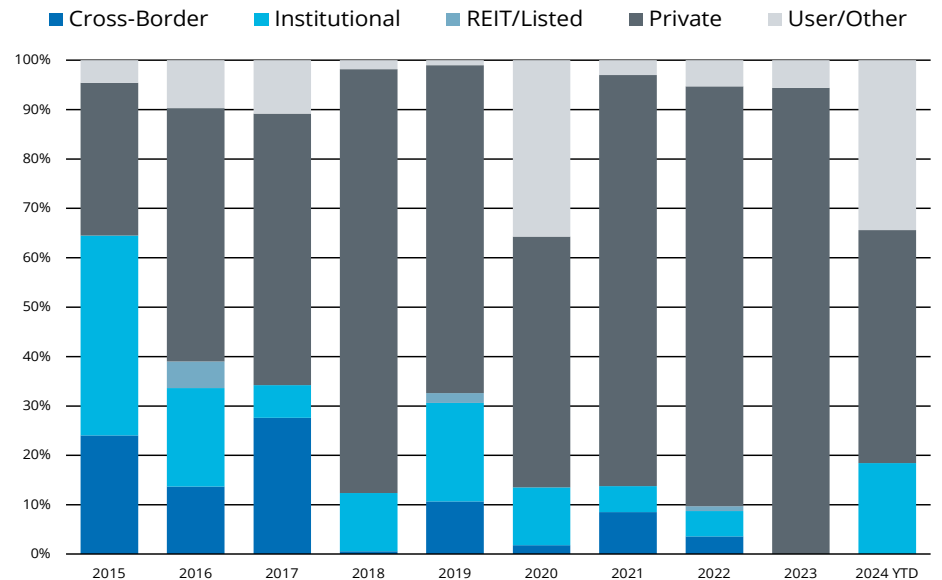
- The largest sales transaction in Chicago’s suburban office market in the third quarter was Globe Trade Hub’s purchase of 900 N. Arlington Heights Rd. in Itasca for \$7.75 million or \$74 per square foot. The 105,318-square-foot property was 59% leased at the time of sale, according to CoStar.
- Teamsters Local 700 purchased the 52,564-square-foot office property at 1910 S. Highland Ave. in Lombard for \$4.4 million, or \$84 per square foot. The property was 85% occupied and purchased at an 8% cap rate, according to CoStar.
- The Village of Schaumburg purchased 1000 E. Woodfield Rd. in Schaumburg for \$5.4 million or \$26 per square foot from Vinakom. The 204,345-square-foot building will serve as a temporary village hall, with plans to redevelop it into a new police station.
- A vacant property in the North submarket at 1925 W. Field Court in Lake Forest was purchased by the City of Lake Forest, in the third quarter. The 59,130-square-foot building was acquired for \$3.33 million, or \$41 per square foot, from Link Logistics Real Estate. The building will be converted into the City of Lake Forest’s new police headquarters.

### SALES VOLUME



Source: Real Capital Analytics, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



**Q3 2024 NOTABLE LEASES**

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Medline Industries	2375 Waterview Dr., Northbrook	North	New	214,560
KeHE Distributors	1245 E. Diehl Rd., Naperville	Western East-West Corridor	Renewal/Expansion	91,102
Zachry Engineering	1411 Opus Pl., Downers Grove	Eastern East-West Corridor	Renewal	76,761
Accertify	2 Pierce Pl., Itasca	Northwest	Renewal	40,451
AON	3000 Lakeside Dr., Bannockburn	North	New	38,788
Unite Here Health	2715 Jorie Blvd., Oak Brook	Eastern East-West Corridor	New	32,375
Total Quality Logistics	700 E. Butterfield Rd., Lombard	Eastern East-West Corridor	Renewal	29,749
Sagent Pharmaceuticals	1515 E. Woodfield Rd., Schaumburg	Northwest	New	24,700
Skyway Behavioral Helath	2001 Butterfield Rd., Downers Grove	Eastern East-West Corridor	New	23,392
Burns & McDonnell	1431 Opus Pl., Downers Grove	Eastern East-West Corridor	Renewal	22,640
Plante Moran	200 N. Martingale Rd., Schaumburg	Northwest	Renewal	21,592
Tyler Lane Construction	6250 N. River Rd., Rosemont	O'Hare	Sublease	18,375
Securitas	1333 Butterfield Rd., Downers Grove	Eastern East-West Corridor	Renewal	18,122

= Transwestern deal

Source: Transwestern, CoStar



**Q3 2024 NOTABLE SALES**

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<a href="#">900 N. Arlington Heights Rd., Itasca</a>	Northwest	\$7,750,000	105,318	\$74	Global Trade Hub	Arlington Thorndale LLC
<a href="#">1000 E Woodfield Rd., Schaumburg</a>	Northwest	\$5,400,000	204,305	\$26	Village of Schaumburg	Vinakom
<a href="#">1910 S Highland Ave., Lombard</a>	Eastern East-West Corridor	\$4,400,000	52,564	\$84	Teamsters Local 700	Bradford Allen Realty Services
<a href="#">1925 W. Field Ct., Lake Forest</a>	North	\$3,500,000	98,304	\$36	City of Lake Forest	Link Logistics Real Estate
<a href="#">650 Algonquin Rd., Schaumburg</a>	Northwest	\$3,330,000	81,522	\$41	Dr. Jays Health Options LLC	Meridian Lakewoods LLC

Source: CoStar, Real Capital Analytics, Transwestern



**MARKET INDICATORS TABLE**

All Classes of Space | Q3 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	31,840,402	6,567,415	20.6%	21.2%	0	-48,719	-597,197	\$27.08
O'HARE	13,060,402	2,608,740	20.0%	21.5%	0	-55,877	-197,373	\$29.18
NORTHWEST SUBURBAN	32,084,658	9,088,715	28.3%	29.7%	0	-62,456	-68,421	\$24.35
EASTERN EAST-WEST CORRIDOR	25,447,947	4,900,361	19.3%	19.5%	0	124,377	-44,249	\$25.36
WESTERN EAST-WEST CORRIDOR	20,850,752	3,931,546	18.9%	19.4%	0	-239,952	-439,263	\$23.28
<b>TOTAL</b>	<b>123,284,161</b>	<b>27,096,777</b>	<b>22.0%</b>	<b>22.8%</b>	<b>0</b>	<b>-282,627</b>	<b>-1,346,503</b>	<b>\$25.59</b>

Source: Transwestern, CoStar

Class A | Q3 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	7,747,296	1,604,189	20.7%	21.2%	0	-39,247	-314,235	\$33.74
O'HARE	4,361,234	737,352	16.9%	18.3%	0	-17,960	-35,720	\$37.07
NORTHWEST SUBURBAN	10,171,131	3,026,993	29.8%	32.9%	0	-19,734	-18,397	\$28.58
EASTERN EAST-WEST CORRIDOR	4,453,632	916,191	20.6%	21.3%	0	153,894	50,885	\$31.02
WESTERN EAST-WEST CORRIDOR	3,006,790	576,235	19.2%	20.5%	0	9,287	-39,551	\$29.67
<b>TOTAL</b>	<b>29,740,083</b>	<b>6,860,960</b>	<b>23.1%</b>	<b>24.7%</b>	<b>0</b>	<b>86,240</b>	<b>-357,018</b>	<b>\$31.65</b>

Source: Transwestern, CoStar

Class B & C | Q3 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	24,093,106	4,963,226	20.6%	21.2%	0	-9,472	-282,962	\$24.94
O'HARE	8,699,168	1,871,388	21.5%	23.1%	0	-37,917	-161,653	\$25.22
NORTHWEST SUBURBAN	21,913,527	6,061,722	27.7%	28.2%	0	-42,722	-50,024	\$22.39
EASTERN EAST-WEST CORRIDOR	20,994,315	3,984,170	19.0%	19.2%	0	-29,517	-95,134	\$24.16
WESTERN EAST-WEST CORRIDOR	17,843,962	3,355,311	18.8%	19.2%	0	-249,239	-399,712	\$22.20
<b>TOTAL</b>	<b>93,544,078</b>	<b>20,235,817</b>	<b>21.6%</b>	<b>22.2%</b>	<b>0</b>	<b>-368,867</b>	<b>-989,485</b>	<b>\$23.67</b>

Source: Transwestern, CoStar

