TRANSWESTERN

REAL ESTATE SERVICES

CHICAGO SUBURBAN OFFICE MARKET

Q4 2024

TRENDLINES

	Q4 2024	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.9	4.0	↑	5.2	↑
YTD NET ABSORPTION (Thousands SF)	-2,343	-2,904	↑	-2,112	↓
DIRECT VACANCY RATE	22.9%	22.7%	↑	20.6%	↑
DIRECT VACANT SF (MSF)	27.7	28.1	↓	25.7	↑
AVAILABLE SUBLET SF (MSF)	2.8	3.8	↓	3.3	↔
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.1	↔
MARKET RENT, FULL SERVICE (PSF)	$25.66	$25.21	↑	$25.00	↔
YTD SALES VOLUME (Millions)	$507	$777	↓	$669	↓

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

Chicago's suburban office market remains sluggish. The overall vacancy rate in 2024 was 23.7%, unchanged from 2023, due to the removal of inventory rather than increased demand. Direct leasing activity in the fourth quarter of 2024 totaled 1.38 million square feet, significantly below the quarterly average of 1.9 million square feet observed in the decade leading up to 2020.

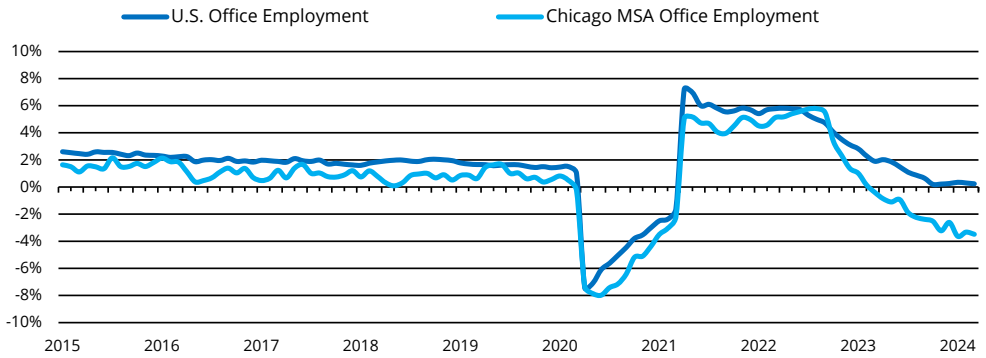
A sharp reduction in inventory remains the most realistic path to market recovery, as a significant increase in demand seems unlikely. Since the fourth quarter of 2022, approximately 3.9 million square feet of office space has been removed from the suburban market, a trend expected to continue with redevelopment-focused purchases. For the suburban office market to improve, more outdated inventory must be removed, and remaining property owners need to invest in property improvements, spec suite build-outs, and tenant improvement allowances for new leases. This may be challenging, as more buildings face financial difficulties, leaving tenants with fewer properties owned by financially stable entities. As buildings are acquired at low prices for replacement or conversion, values will fall, potentially leading to higher-quality office spaces at more affordable rents.

ECONOMY

Fed Expected to Hold Interest Rates Steady

- In September 2024, the Federal Reserve (Fed) lowered the federal funds rate by half a percentage point for the first time since rapidly raising them in response to inflation. There were two subsequent quarter percentage point cuts in November and December, bringing the current rate down to 4.25% to 4.5%. These adjustments have been a relief for the commercial real estate industry, which was significantly impacted by higher rates. The Fed is expected to hold rates steady in the coming months.
- The U.S. economy sustained robust job growth, adding an estimated 256,000 jobs in December, bringing the quarterly total to 511,000. Weekly initial unemployment claims remained below historical averages, and the national unemployment rate was 4.1% at the end of the fourth quarter.
- Locally, the unemployment rate decreased by 40 basis points in November to 4.9%. The local economy lost approximately 7,500 jobs over the past year, with the largest declines in professional and business services.
- 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 2.2% during the same period. The Professional and Business Services industry lost 23,400 jobs in the Chicago area year over year, the Financial Activities industry lost 3,900 jobs, and the Information industry gained 200 jobs.

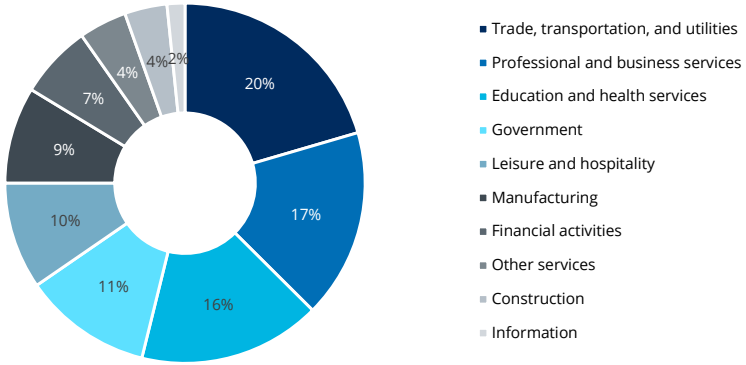
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

SHARE OF EMPLOYEES BY INDUSTRY

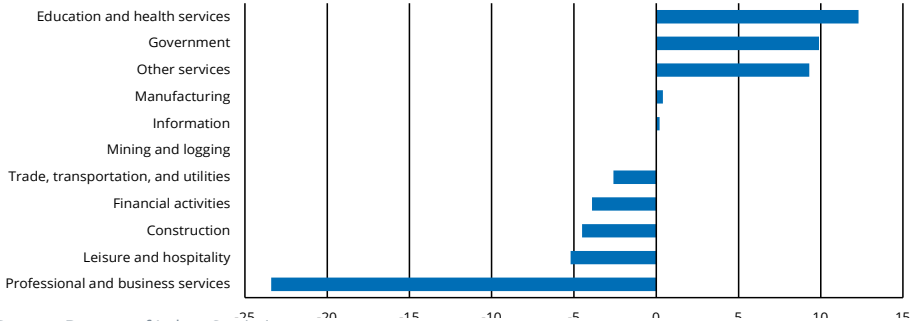
Chicago MSA | November 2024



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | November 2024



Source: Bureau of Labor Statistics

NET ABSORPTION

Negative Absorption Continues

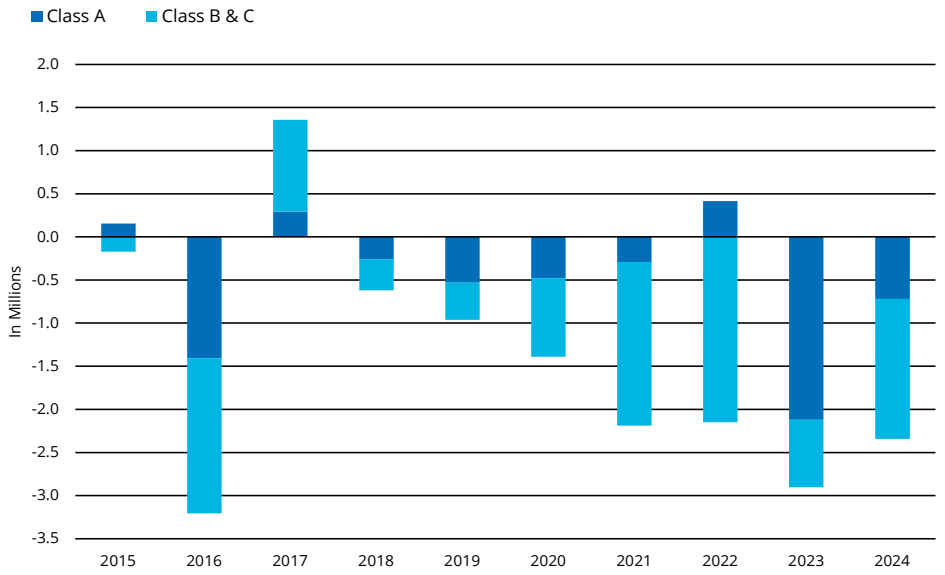
- Net absorption totaled negative 960,055 square feet during the fourth quarter of 2024, bringing the year's total down to 2.34 million square feet of negative absorption. This marked the seventh consecutive year of negative absorption in Chicago's suburban office market.
- The Class A sector had 252,540 square feet of negative absorption in the fourth quarter, and the Class B and C sectors had negative 707,515 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

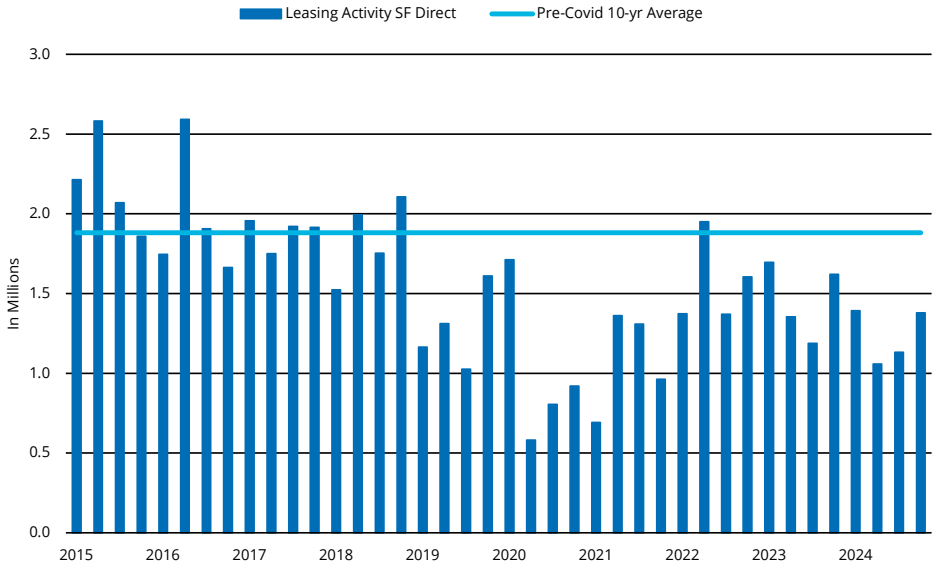
- Direct leasing activity totaled 1.38 million square feet in the fourth quarter of 2024, well below the pre-pandemic quarterly average of 1.9 million square feet seen in the 10 years prior to COVID-19. Total direct leasing activity for the year reached 4.96 million square feet, much less than the yearly average of 7.5 million square feet seen in the 10 years before the pandemic.
- The largest new lease deal in Chicago's suburban office market in the fourth quarter was Chicago Department of Aviation's 99,421-square-foot lease at 8420 W. Bryn Mawr Ave. in the O'Hare submarket. The CDA is relocating from the Aviation Administration Building on airport property to accommodate O'Hare's expansion.
- The largest suburban reported renewal of the fourth quarter was Invesco's 69,474-square-foot renewal at 3000 Lacey Road in Downers Grove.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar

DIRECT VACANCY

Vacancy Rates Continue to Rise

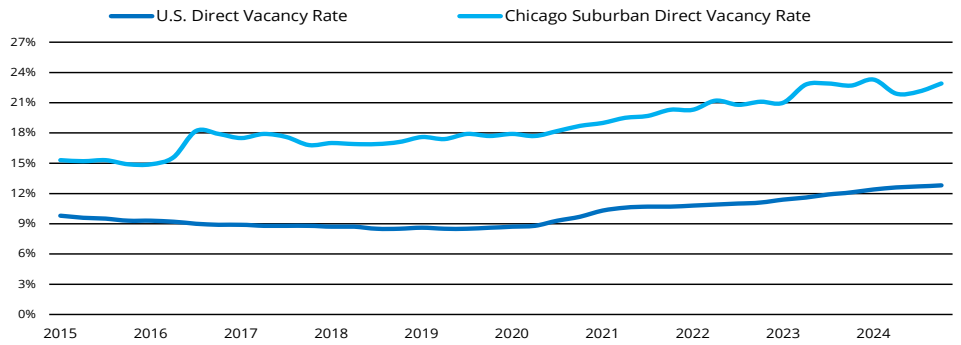
- Chicago's suburban office direct vacancy rate increased by 80 basis points to 22.9% during the fourth quarter, while the overall vacancy rate also increased by 80 basis points to 23.7%.
- The suburban office market's Class A direct vacancy rate increased by 70 basis points to 25.3% in the fourth quarter, while the Class B and C rate increased by 70 basis points to 23.1%. Class A vacancy rates are higher than Class B and C rates due to large corporate tenants vacating entire Class A office campuses in recent years. Additionally, Class B and C rates have remained lower because over 5.8 million square feet of inventory has been removed from the market since 2008 through demolition or conversion. Plans are now in place to demolish or convert some of the large, vacant Class A office campuses, which should reduce the Class A vacancy rate in the coming years.

SUBLEASE AVAILABILITY

Sublease Market Shrinks Due to Attrition

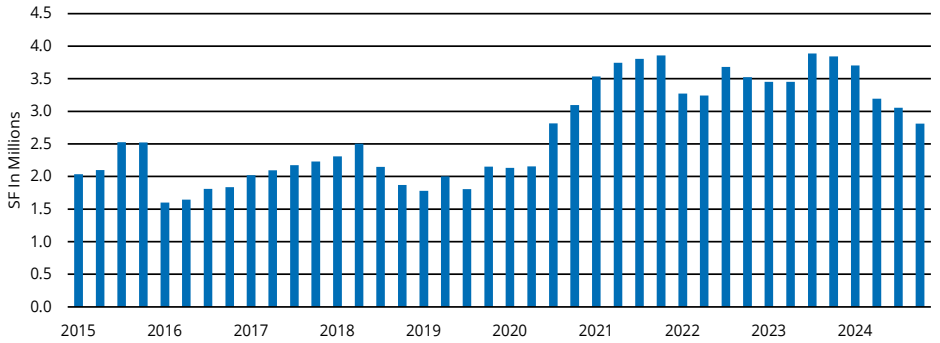
- The amount of available sublease space decreased by 8% in the fourth quarter to 2.8 million square feet, the lowest amount of available sublease space since the third quarter of 2020.
- No blocks of suburban sublease space larger than 50,000 square feet were added to the market in the fourth quarter.
- The Northwest submarket has 1.1 million square feet of available sublease space, which accounts for the largest proportion of the total available suburban sublease space, 38%.

DIRECT VACANCY RATE



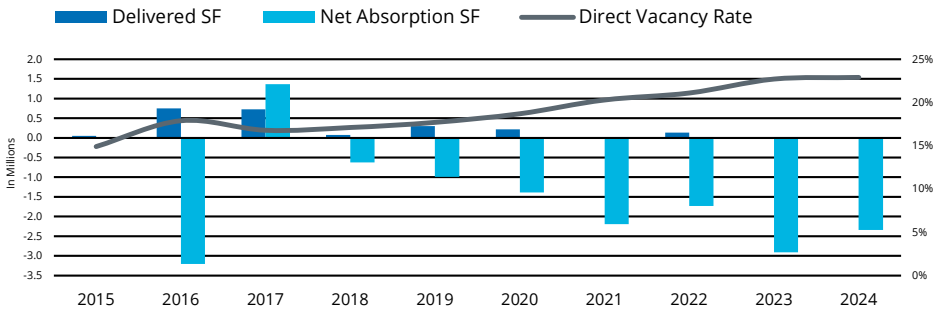
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



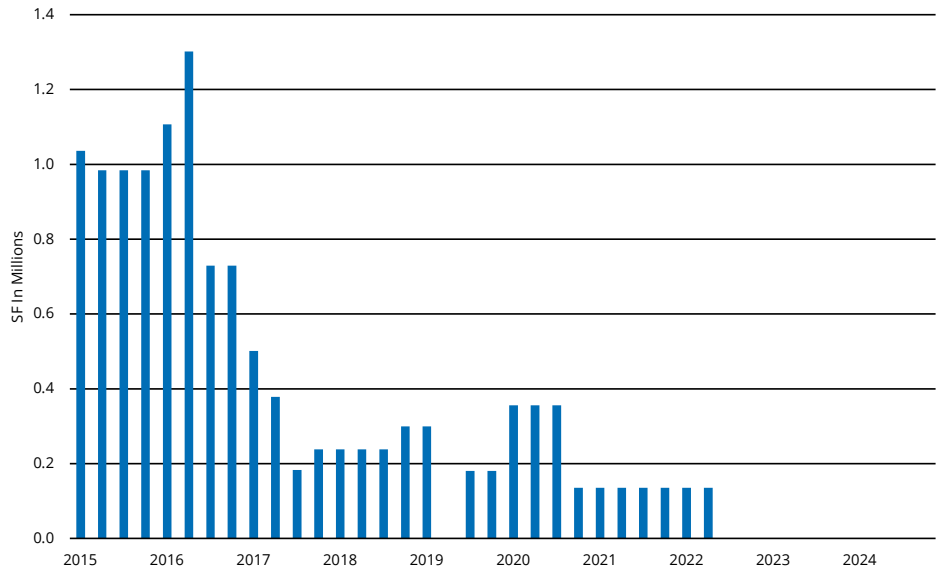
Source: Transwestern, CoStar

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 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



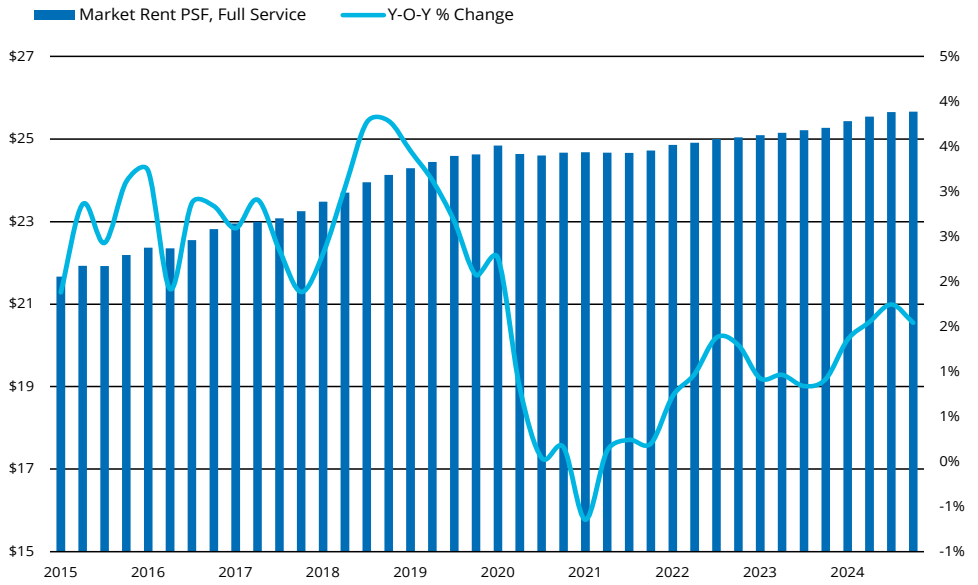
Source: Transwestern, CoStar

RENTAL RATES

Market Rents Hold Steady

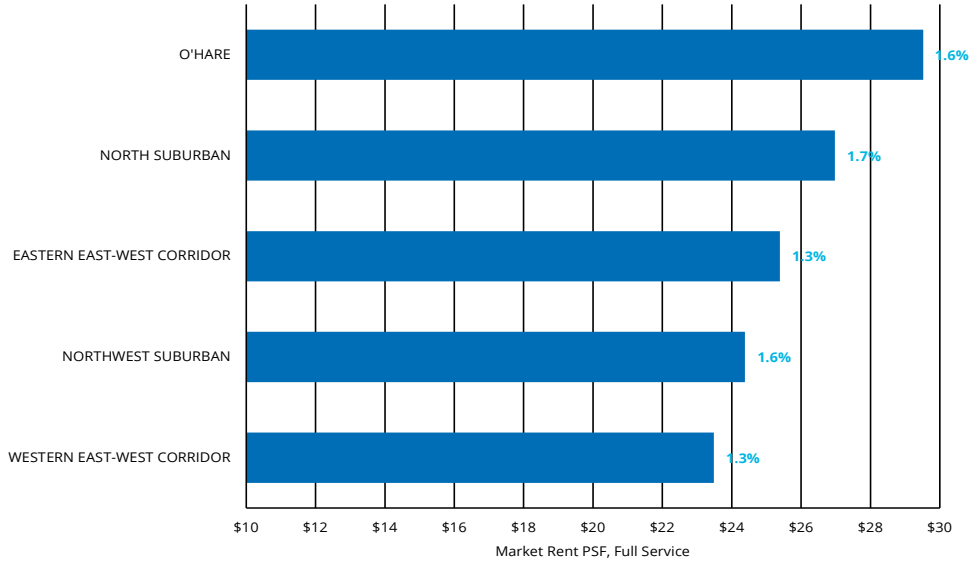
- Market rents continue to hold firm, up 1.5% year over year to $25.66 per square foot in the fourth quarter.
- Average Class A market rents rose 0.92% year over year to $31.74 per square foot in the fourth quarter. Average Class B and C market rents rose 1.8% year over year to $23.66 per square foot in the same period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is $37.25 per square foot, Class B and C average is $25.08 per square foot, and the total submarket average is $29.52 per square foot.

MARKET RENT



Source: Transwestern, CoStar

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



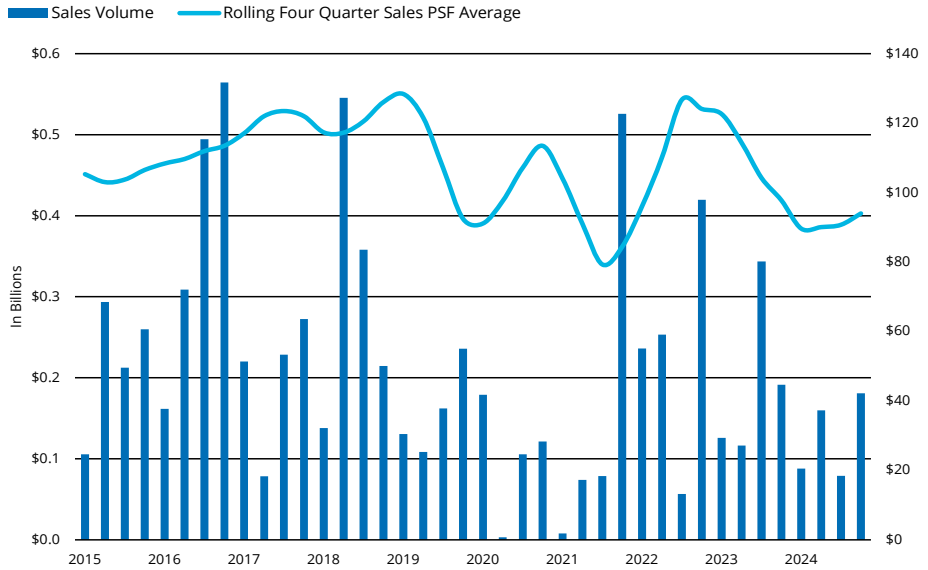
Source: Transwestern, CoStar

SALES

Sales Volume Remains Low

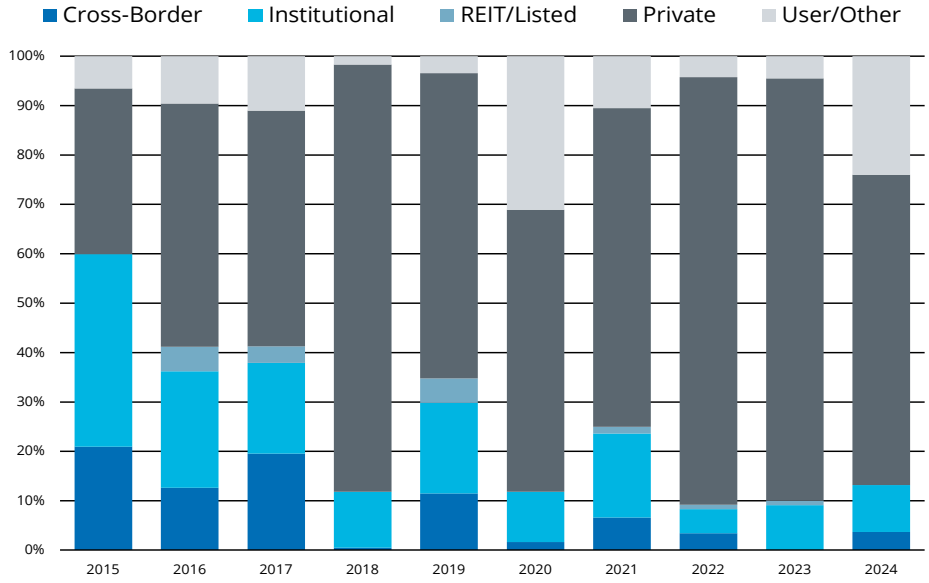
- The largest sales transaction in Chicago's suburban office market in the fourth quarter was Wayzata Investment Partners' purchase of President's Plaza, 8600-8700 W. Bryn Mawr Ave. in Chicago, for $62.1 million square feet or $75 per square foot. The two office towers were traded in a recapitalization, with Glenstar continuing as the operating partner.
- Onward Investors purchased the 380,360-square-foot office property at 6250 N. River Road in Rosemont for $53.25 million, or $140 per square foot. The property was 96% leased and purchased at a 14% cap rate, according to CoStar.
- R2 Companies and JDI Realty purchased the former Motorola campus at 1910-1950 Innovation Way in Libertyville for $35 million, or $33 per square foot. This purchase price is notably lower than the estimated $47 million that Berman Enterprises spent on purchasing and renovating the five-building portfolio into a multitenant office and research complex.
- PulteGroup purchased a section of Walgreens Boots Alliance's headquarters campus in Deerfield for $6.75 million. The home builder intends to demolish the obsolete office buildings at 300-304 Wilmot Road to develop 42 single-family homes on the site.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern

Q4 2024 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Chicago Department of Aviation	8420 W. Bryn Mawr Ave., Chicago	O'Hare	New	99,421
Invesco	3500 Lacey Rd., Downers Grove	Eastern East-West Corridor	Renewal	69,474
Pivotal Home Solutions	1415 W. Diehl Rd., Naperville	Western East-West Corridor	Renewal	56,472
Comcast	1475 E. Woodfield Rd., Schaumburg	Northwest	New	49,400
Mizkan America	200 N. Martingale Rd., Schaumburg	Northwest	New	43,091
NTN Bearing Corporation	1501 E. Woodfield Rd., Schaumburg	Northwest	New	37,359
Arjo	2000 Center Dr., Hoffman Estates	Northwest	New	35,604
Rittal	425 N. Martingale Rd., Schaumburg	Northwest	Expansion	32,195
Magnetar Capital	1603 Orrington Ave., Evanston	North	Renewal	27,888
Misumi	1475 E. Woodfield Rd., Schaumburg	Northwest	New	24,700
C.H. Robinson Company	1701 W. Golf Rd., Rolling Meadows	Northwest	New	23,608
USI	2001 Spring Rd., Oak Brook	Eastern East-West Corridor	New	17,274

= Transwestern deal

Source: Transwestern, CoStar

Q4 2024 NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
8600-8700 W. Bryn Mawr Ave., Chicago	O'Hare	$62,100,000	831,442	$75	Wayzata Investment Partners & GlenStar Properties	TPG Angelo Gordon & GlenStar Properties
6250 N. River Rd., Rosemont	O'Hare	$53,250,000	380,360	$140	Onward Investors	Nicola Wealth Management & MDC Realty Advisors
1910-1950 Innovation Way, Libertyville	North	$35,000,000	1,074,199	$33	R2 Companies & JDI Realty	Berman Enterprises
2250 W. Pinehurst Blvd., Addison	Northwest	$6,350,000	103,522	$61	Costco Wholesale	EQT Exeter
300, 302 & 304 Wilmot Rd., Deerfield	North	$6,750,000	261,820	$26	PulteGroup	Walgreens Boots Alliance
953 American Ln., Schaumburg	Northwest	$3,950,000	109,486	$36	IndusPAD	Atlas Financial Holdings, Inc.
8030 Lamon Ave., Skokie	North	$3,300,000	135,851	$24	Singerman Real Estate	American Landmark Properties
3750 W. Deerfield Rd., Riverwoods	North	$3,000,000	70,000	$43	Village Of Riverwoods	Federal Life Insurance
2170 Point Blvd., Elgin	Northwest	$2,800,000	46,073	$61	Kane County	COUNTRY Financial

Source: CoStar, Real Capital Analytics, Transwestern

MARKET INDICATORS TABLE

All Classes of Space | Q4 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	31,570,448	7,202,088	22.8%	23.3%	0	-728,675	-1,311,849	$26.97
O'HARE	13,026,541	2,612,425	20.1%	21.5%	0	-21,615	-218,988	$29.52
NORTHWEST SUBURBAN	31,861,137	9,010,726	28.3%	29.7%	0	-3,387	-114,034	$24.38
EASTERN EAST-WEST CORRIDOR	24,707,511	5,112,770	20.7%	21.1%	0	-258,368	-312,183	$25.39
WESTERN EAST-WEST CORRIDOR	20,125,825	3,802,599	18.9%	19.3%	0	51,990	-386,166	$23.48
TOTAL	**121,291,462**	**27,740,608**	**22.9%**	**23.7%**	**0**	**-960,055**	**-2,343,220**	**$25.66**

Source: Transwestern, CoStar

Class A | Q4 2024

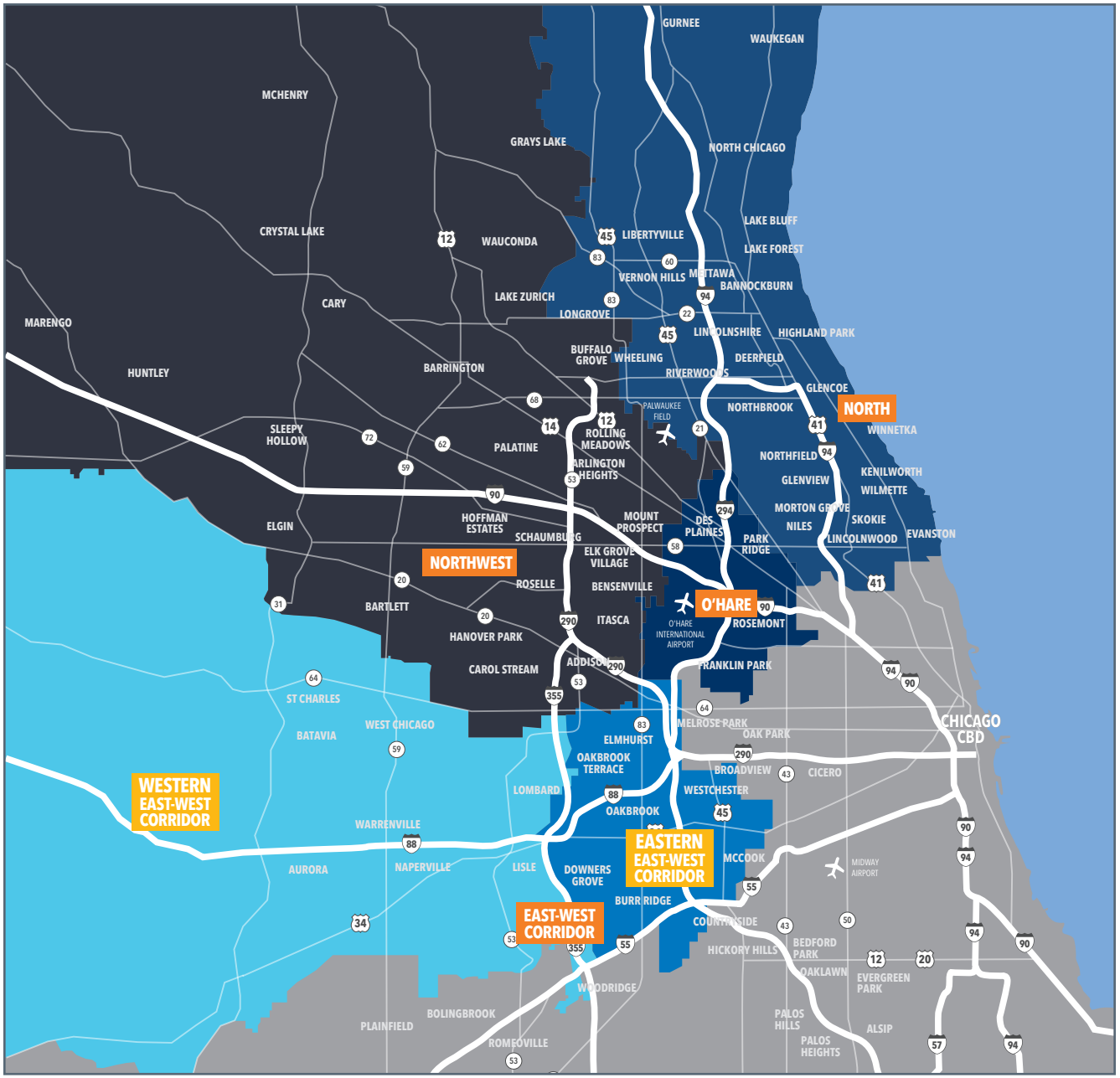
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
NORTH SUBURBAN	6,142,938	1,368,356	22.3%	22.5%	0	-166,855	-484,461	$34.75
O'HARE	4,751,397	807,018	17.0%	18.0%	0	5,626	-30,130	$37.25
NORTHWEST SUBURBAN	10,331,668	2,978,704	28.8%	32.0%	0	-32,428	-63,320	$28.47
EASTERN EAST-WEST CORRIDOR	5,167,184	1,089,930	21.1%	21.6%	0	-8	5,449	$31.15
WESTERN EAST-WEST CORRIDOR	3,596,020	924,894	25.7%	25.7%	0	-58,875	-146,676	$29.70
TOTAL	**29,989,207**	**7,168,902**	**23.9%**	**25.3%**	**0**	**-252,540**	**-719,138**	**$31.75**

Source: Transwestern, CoStar

Class B & C | Q4 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	25,427,510	5,833,732	22.9%	23.5%	0	-561,820	-827,388	$25.09
O'HARE	8,275,144	1,805,407	21.8%	23.6%	0	-27,241	-188,858	$25.08
NORTHWEST SUBURBAN	21,529,469	6,032,022	28.0%	28.5%	0	29,041	-50,714	$22.42
EASTERN EAST-WEST CORRIDOR	19,540,327	4,022,840	20.6%	21.0%	0	-258,360	-317,632	$23.87
WESTERN EAST-WEST CORRIDOR	16,529,805	2,877,705	17.4%	17.9%	0	110,865	-239,490	$22.13
TOTAL	**91,302,255**	**20,571,706**	**22.5%**	**23.1%**	**0**	**-707,515**	**-1,624,082**	**$23.66**

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 40,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

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