

CHICAGO SUBURBAN OFFICE MARKET

Q1 2024



TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3	4.4	↑	5.7	↑
YTD NET ABSORPTION (Thousands SF)	-753	63	↓	-292	↑
DIRECT VACANCY RATE	23.4%	21.0%	↑	20.1%	↑
DIRECT VACANT SF (MSF)	29.3	26.5	↑	25.5	↑
AVAILABLE SUBLET SF (MSF)	3.8	3.6	↑	3.2	↔
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.1	↔
MARKET RENT, FULL SERVICE (PSF)	\$25.61	\$25.39	↑	\$25.18	↔
YTD SALES VOLUME (Millions)	\$91	\$126	↓	\$125	↑

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

The direct vacancy rate in Chicago's suburban office market continues to grow, increasing by 60 basis points to a historic high of 23.4% in the first quarter of 2024. Net absorption was negative 752,727 square feet.

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.

Over the past two years, approximately 2 million square feet of office space has been taken out of inventory in the suburban market. This trend is sure to continue, as most recent suburban office purchases have been made with redevelopment intentions. In order for Chicago's suburban office market to improve, even more outdated inventory will need to be taken out of circulation and the remaining office property owners will need to invest in property improvements, spec suite build outs, and tenant improvement allowances for new leases.

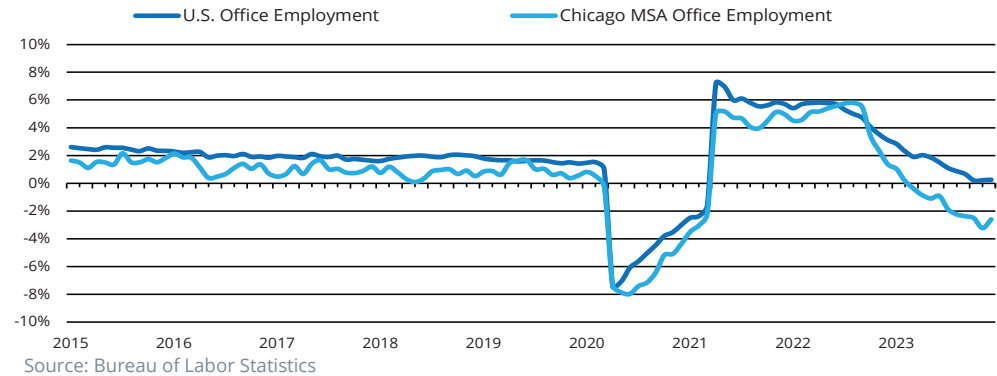


ECONOMY

Interest Rates May Decrease in 2024

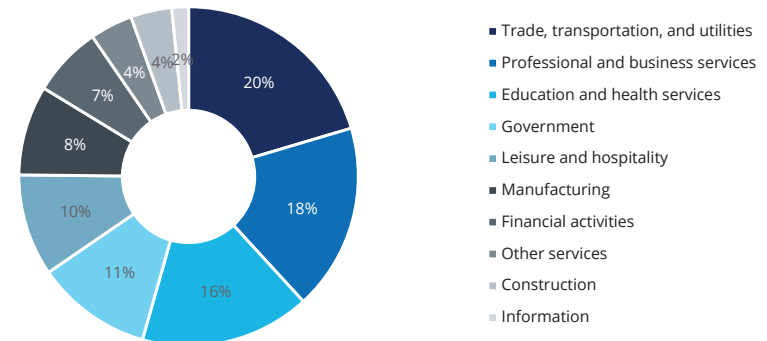
- The Federal Reserve (Fed) held the range of federal funds rate at 5.25% to 5.50% in December and signaled that there could be three quarter-point rate cuts in 2024. This would be a welcome relief to the commercial real estate industry, which has been under considerable stress due to the most aggressive 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



SHARE OF EMPLOYEES BY INDUSTRY

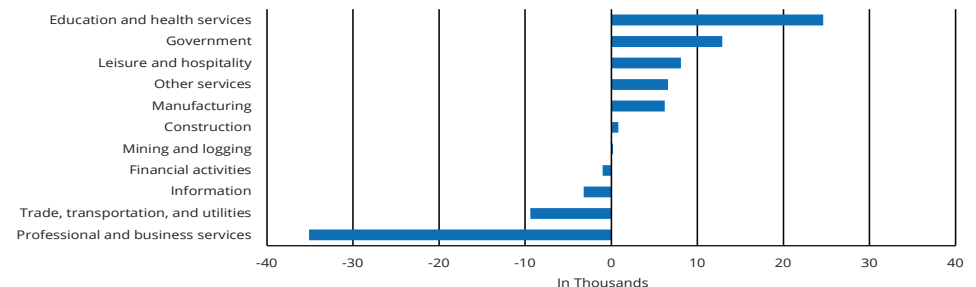
Chicago MSA | February 2024



Source: Bureau of Labor Statistics

Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | February 2024



Source: Bureau of Labor Statistics



NET ABSORPTION

Negative Absorption Continues

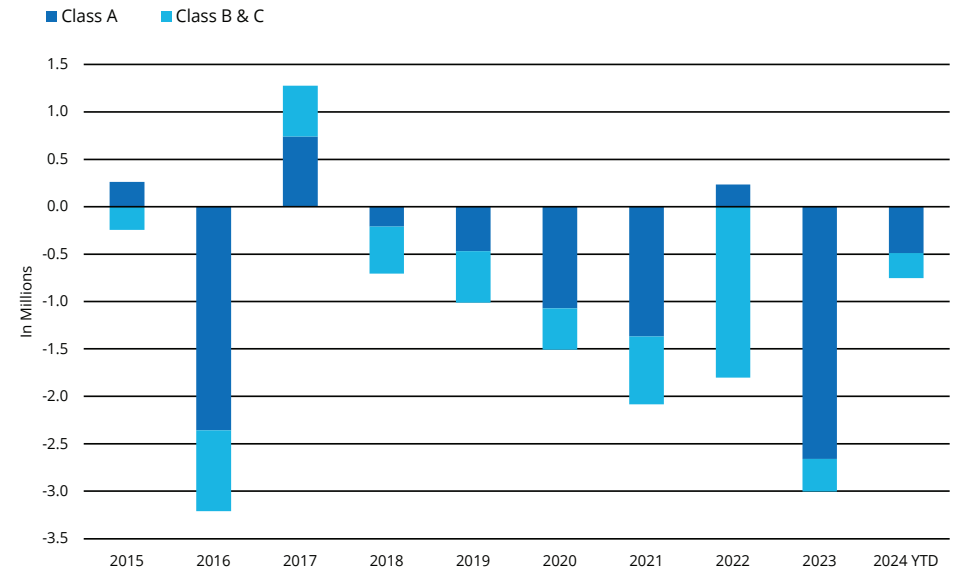
- Net absorption totaled negative 752,727 square feet during the first quarter of 2024, with negative 487,936 square feet in the Class A sector and negative 264,791 square feet in the Class B and C sectors.
- The only submarket with positive absorption was the Northwest Suburban submarket with 62,698 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

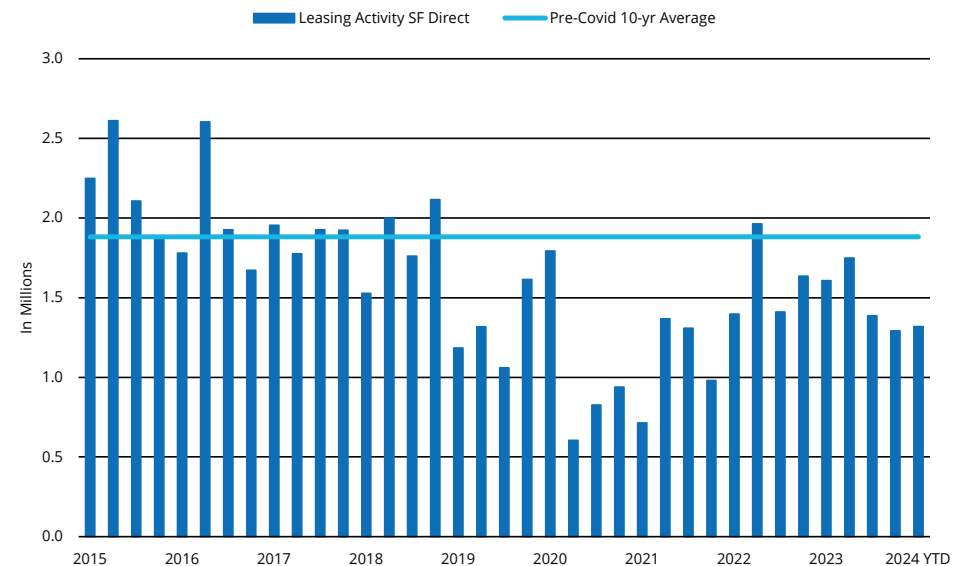
- Direct leasing activity measured 1.32 million square feet during the first quarter of 2024, still significantly less than the quarterly average of 1.9 million square feet seen in the 10 years prior to COVID-19.
- The largest suburban new deal of the first quarter was Sasser Family Companies' lease of 64,883 square feet at 700 Commerce Drive in Oak Brook.
- The largest suburban renewal of the first quarter was Dover Corporation's lease of 79,801 square feet at 3005 Highland Parkway in Downers Grove.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar



DIRECT VACANCY

Vacancy Rate Reaches Another Historic High

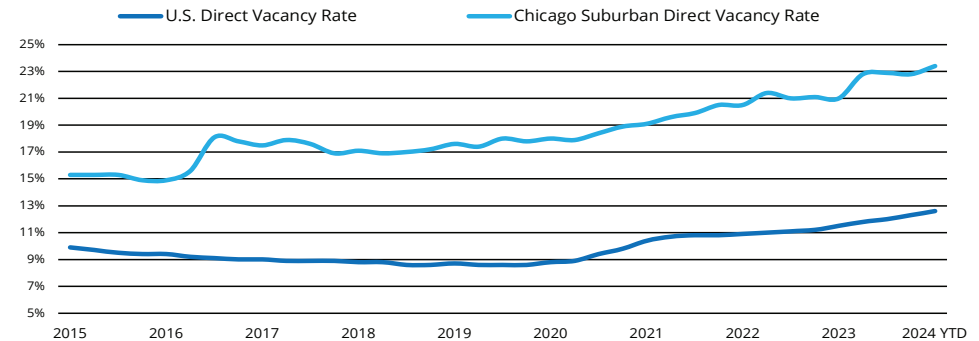
- The direct vacancy rate in Chicago's suburban office remained at an all-time high of 23.4% during the first quarter, while the overall vacancy rate increased by 60 basis points to 24.5%.
- The suburban office market's Class A direct vacancy rate increased by 70 basis points to 26.3% in the first quarter, while the Class B and C rate increased by 40 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 Shrinks Due to Attrition

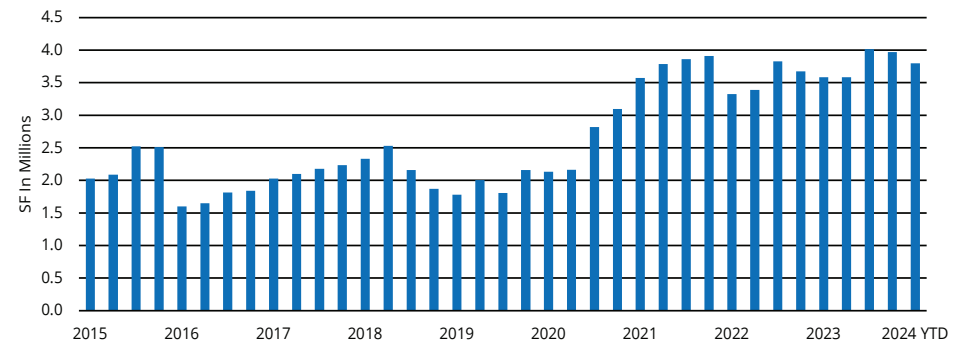
- The amount of available sublease space decreased by 173,953 square feet in the first quarter of 2024. The availability of sublease space has decreased over the past year due to the expiring leases of tenants that unsuccessfully tried to sublease space, causing the available space to transfer from the sublease market to direct availability.
- No blocks of suburban sublease space larger than 50,000 square feet were added to the market in the first quarter.
- The Northwest submarket has 1.4 million square feet of available sublease space, which accounts for the largest proportion of the total available suburban sublease space, 36%. It is also the submarket with the largest percentage of its inventory available as sublease space, 4%.

DIRECT VACANCY RATE



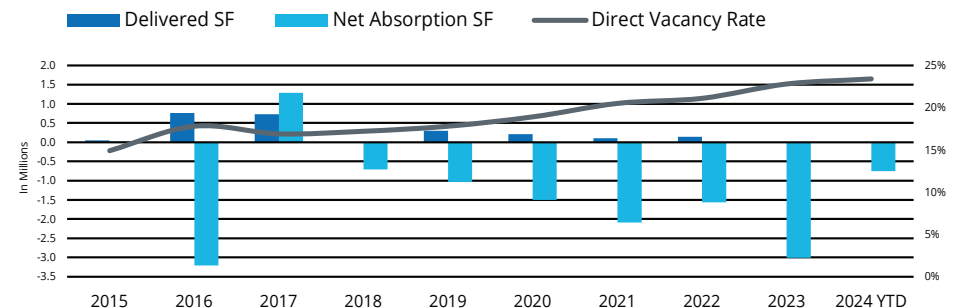
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

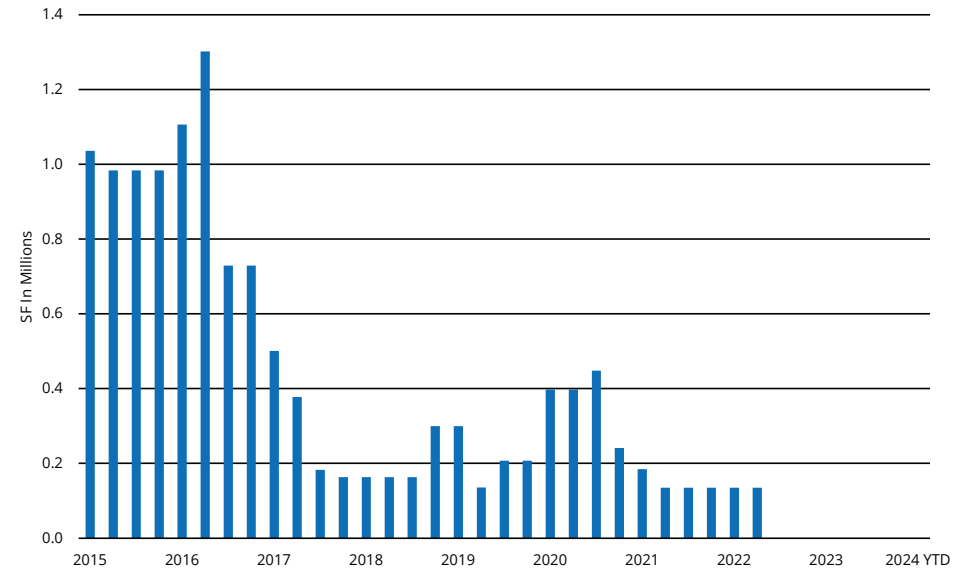


UNDER CONSTRUCTION

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 Road, Chicago in the O'Hare submarket.

UNDER CONSTRUCTION



Source: Transwestern, CoStar

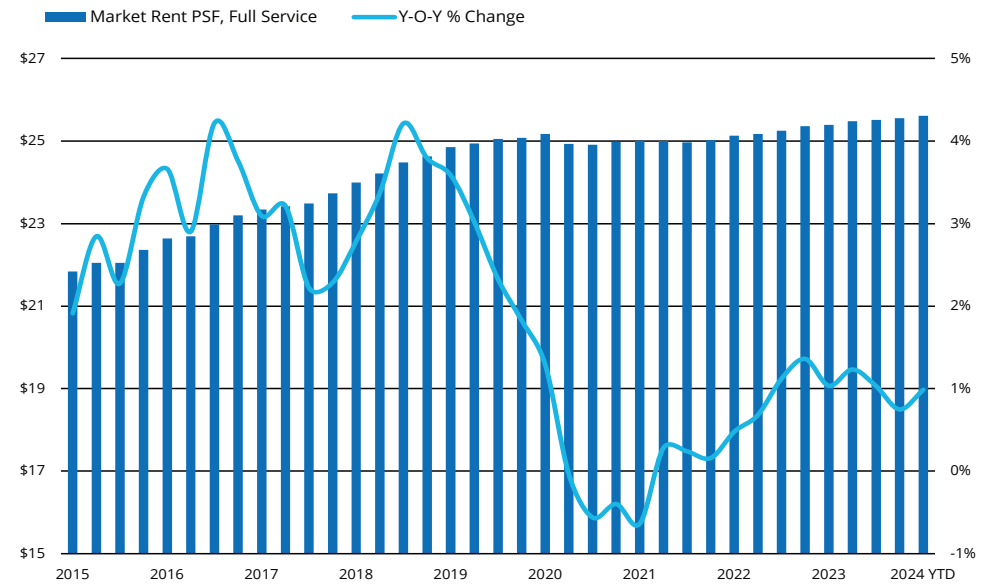


RENTAL RATES

Market Rents Hold Steady

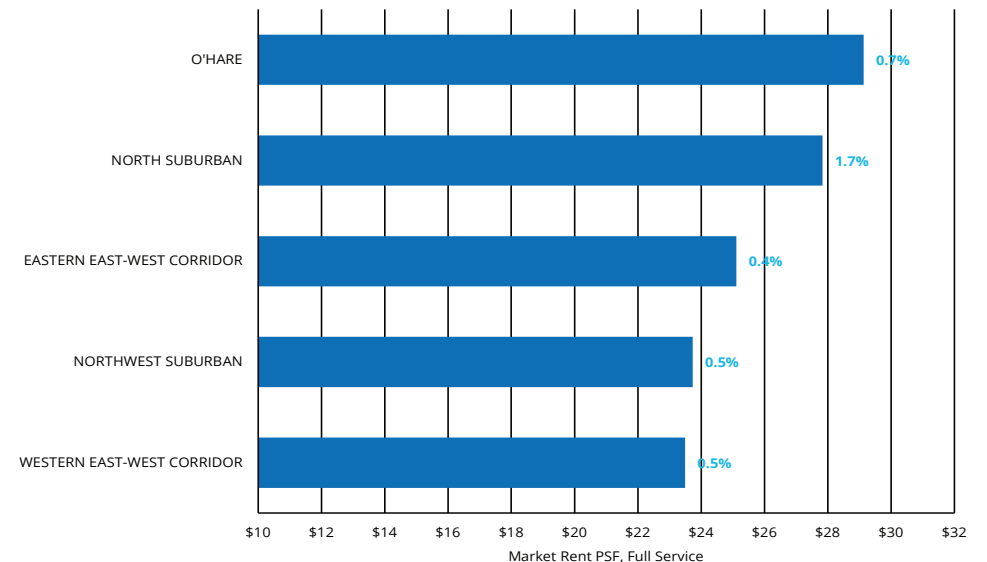
- Market rents continue to hold firm, up 0.9% year over year to \$25.61 per square foot in the first quarter.
- Average Class A market rents rose 0.6% year over year to \$28.80 per square foot in the first quarter. Average Class B and C market rents rose 1.3% year over year to \$21.50 per square foot in the same time period.
- The highest market rents are found in the O'Hare submarket, where the Class A average is \$34.77 per square foot, Class B and C average is \$21.97 per square foot, and the total submarket average is \$29.13 per square foot.

MARKET RENT



Source: Transwestern, CoStar

MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

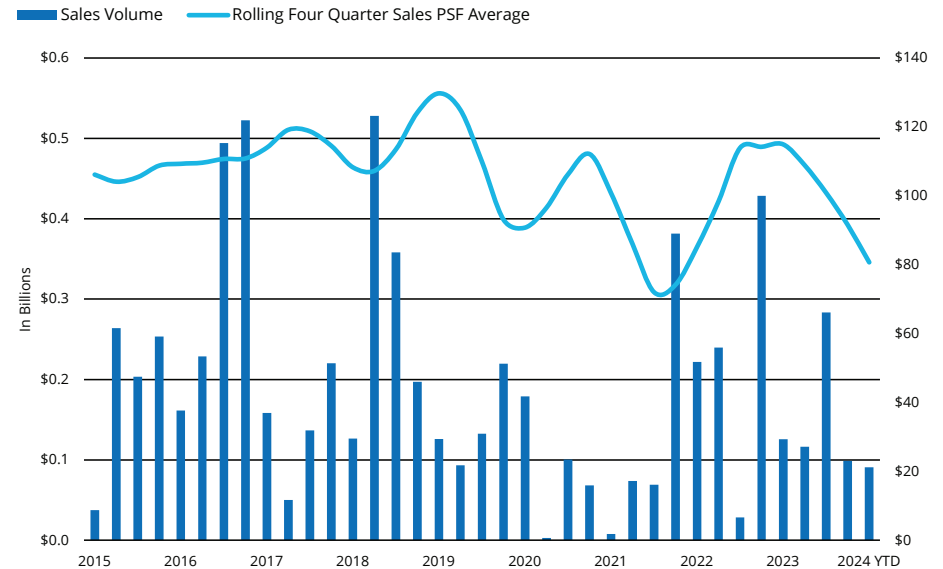


SALES

Sales Driven by Conversion Plans

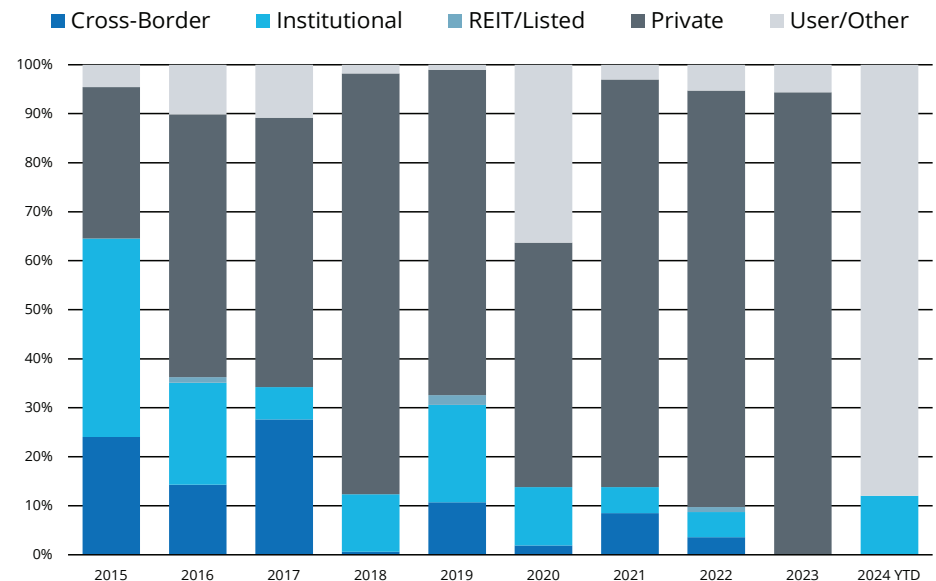
- The largest sales transaction in Chicago's suburban office market in the first quarter was Sigma Plastics Group's purchase of 1400 & 1450 American Lane in Schaumburg for \$74 million from Prime Finance Partners. Previously owned by American Landmark Properties, the 808,000-square-foot complex went through foreclosure in February 2024. The property was last sold in 2018 for \$86 million.
- The two buildings located at 100 and 210 S. Milwaukee Ave. in Vernon Hills were purchased by Avgeris & Associates for \$29.5 million. Sold as a redevelopment project, the seventy acre site is comprised of a 257,000-square-foot warehouse and a 208,000-square-foot office building. The office building is planned to be demolished in favor of an all industrial site.
- DIR Development purchased Old Orchard Towers, 5202 & 5250 Old Orchard Road in Skokie, for \$7.85 million from Zeller. The property last sold for \$63.5 million in 2007. Working with GW Properties and Drake Group, DIR has a \$90 million plan to convert the two office buildings into mixed-use residential, featuring 245 luxury apartments, high-end amenities, and 30,000 square feet of office space.
- IndustPAD purchased 4245 Meridian Parkway in Aurora at auction for \$2 million or \$14 per square foot. The seller, GH Financial Group, purchased the properties as part of a 9-property portfolio in 2018 for \$127.7 million, or \$236 per square foot. This is the fourth building IndustPAD has purchased in Chicago's suburban office market. According to IndustPAD's website, the company typically offers high-end manufacturing space for uses such as advanced manufacturing, indoor farming, food science, cryptocurrency mining, research labs, assembly, warehousing, and smart logistics.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



Q1 2024 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Dover Corporation	3005 Highland Pky., Downers Grove	Eastern East-West Corridor	Renewal	79,801
Sasser Family Companies	700 Commerce Dr., Oak Brook	Eastern East-West Corridor	New	64,883
City of Evanston	909 Davis St., Evanston	North Suburban	New	51,508
STERIS Corporation	75 N. Fairway Dr., Vernon Hills	North Suburban	New	49,052
Honda	5120 Prairie Stone Pky., Hoffman Estates	Northwest	Renewal	44,960
Wilton Brands	535 E. Diehl Rd., Naperville	Western East-West Corridor	Renewal	43,000
A.M. Castle & Co	1520 Kensington Rd., Oak Brook	Eastern East-West Corridor	Renewal	39,361
American Academy of Dermatology	9500 W. Bryn Mawr Ave., Rosemont	O'Hare	Renewal	38,000
Instant Brands	3025 Highland Pky., Downers Grove	Eastern East-West Corridor	Renewal	36,885
Winland Foods	2015 Spring Rd., Oak Brook	Eastern East-West Corridor	Renewal	36,000
Sedgwick	1833 Centre Point Cir., Naperville	Western East-West Corridor	Renewal	27,280
Riddell	1700 W. Higgins Rd., Des Plaines	O'Hare	Renewal	26,750
Merrill Lynch	2021 Spring Rd., Oak Brook	Eastern East-West Corridor	Renewal	26,342
STMicroelectronics	200 N. Martingale Rd., Schaumburg	Northwest	Renewal/Expansion	16,500
National Insurance Crime Bureau	1515 W. 22nd St., Oak Brook	Eastern East-West Corridor	New	15,909
Kenneth Young Center	650 E. Algonquin Rd., Schaumburg	Northwest	Renewal	15,254

 = Transwestern deal

Source: Transwestern, CoStar



Q1 2024 NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1400 & 1450 American Ln., Schaumburg	Northwest	\$74,000,000	808,000	\$92	Sigma Plastics Group	Prime Finance Partners
100 & 210 S. Milwaukee Ave., Vernon Hills	North Suburban	\$29,500,000	465,000	\$63	Avgeris & Associates, Inc.	American Hotel Register Company
5202 & 5250 Old Orchard Rd., Skokie	North	\$7,850,000	350,559	\$22	DIR Development	Zeller
4245 Meridian Pkwy., Aurora	Western East-West Corridor	\$2,000,000	140,383	\$14	IndusPad	GFH Financial Group

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS TABLE

All Classes of Space | Q1 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	31,674,137	6,602,969	20.8%	21.4%	0	-321,360	-321,360	\$27.83
O'HARE	12,945,162	2,834,137	21.9%	23.3%	0	-294,194	-294,194	\$29.13
NORTHWEST SUBURBAN	34,339,839	11,049,016	32.1%	33.5%	0	62,698	62,698	\$23.73
EASTERN EAST-WEST CORRIDOR	25,696,814	5,123,354	19.9%	21.1%	0	-184,050	-184,050	\$25.11
WESTERN EAST-WEST CORRIDOR	20,613,473	3,691,323	17.9%	19.0%	0	-15,821	-15,821	\$23.49
TOTAL	125,269,425	29,300,799	23.4%	24.5%	0	-752,727	-752,727	\$25.61

Source: Transwestern, CoStar

Class A | Q1 2024

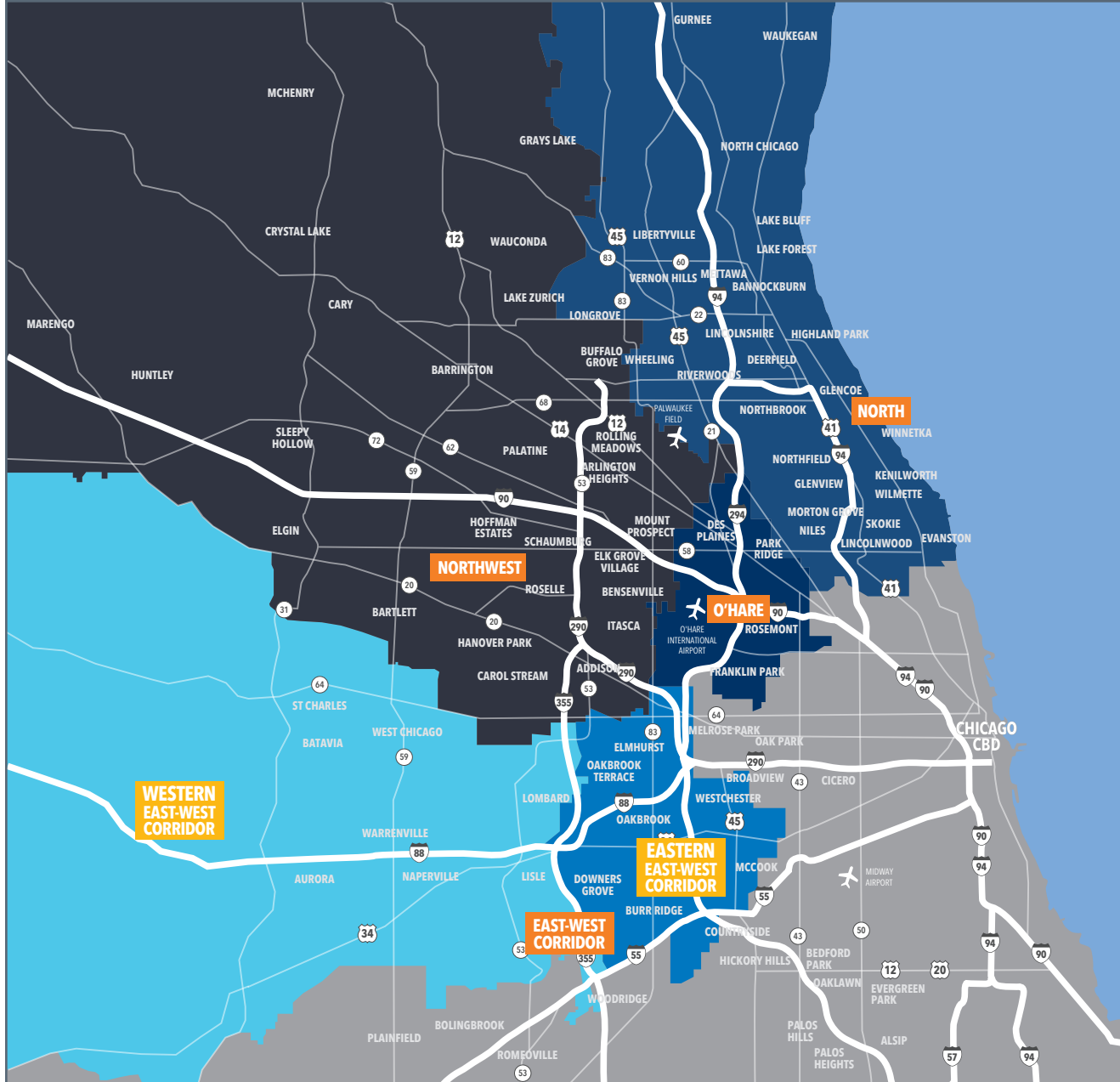
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
NORTH SUBURBAN	19,512,244	4,324,099	22.2%	23.0%	0	-212,928	-212,928	\$31.00
O'HARE	7,243,294	1,758,766	24.3%	26.3%	0	-101,994	-101,994	\$34.77
NORTHWEST SUBURBAN	20,444,304	7,234,694	35.4%	37.2%	0	29,088	29,088	\$25.76
EASTERN EAST-WEST CORRIDOR	15,039,929	3,417,659	22.7%	24.2%	0	-213,236	-213,236	\$28.36
WESTERN EAST-WEST CORRIDOR	9,272,388	2,075,798	22.4%	23.3%	0	11,134	11,134	\$26.19
TOTAL	71,512,159	18,811,016	26.3%	27.7%	0	-487,936	-487,936	\$28.80

Source: Transwestern, CoStar

Class B & C | Q1 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	12,161,893	2,278,870	18.7%	18.8%	0	-108,432	-108,432	\$22.34
O'HARE	5,701,868	1,075,371	18.9%	19.5%	0	-192,200	-192,200	\$21.97
NORTHWEST SUBURBAN	13,895,535	3,814,322	27.4%	28.0%	0	33,610	33,610	\$21.09
EASTERN EAST-WEST CORRIDOR	10,656,885	1,705,695	16.0%	16.7%	0	29,186	29,186	\$20.40
WESTERN EAST-WEST CORRIDOR	11,341,085	1,615,525	14.2%	15.6%	0	-26,955	-26,955	\$21.31
TOTAL	53,757,266	10,489,783	19.5%	20.1%	0	-264,791	-264,791	\$21.50

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.

FOR MORE INFORMATION

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