

Q2 2023

Market Insight Report

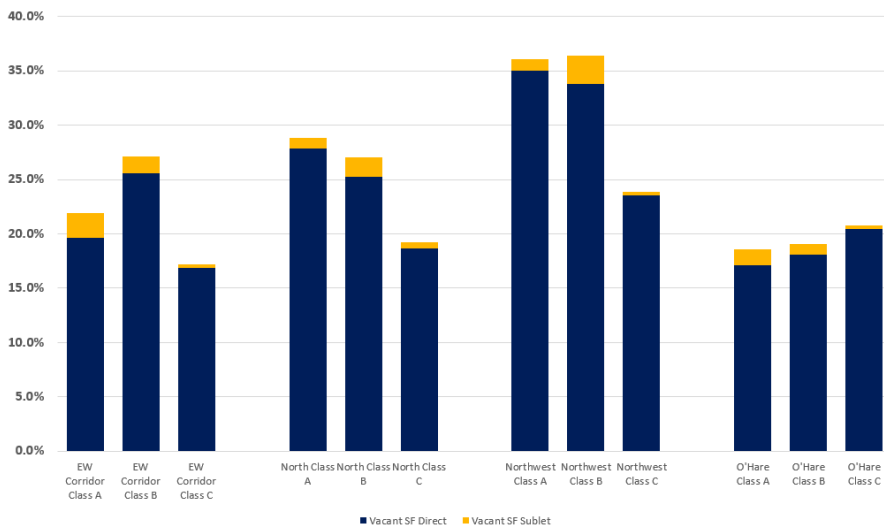
Exclusive Insights for Suburban Chicago Office Occupiers

Q2 2023

Market Insight Report

Suburban Chicago

Total Vacancy by Submarket & Asset Class



Gross Rent PSF Per Year



Vacancy

As we hit the midway point of 2023, the vacancy rate in the Chicago suburbs continues to trend upward as it hit a new height of 26.5% (24.5M square feet) of vacant product. This increase in vacancy reflects not only the trends of occupiers rethinking their space, but also the economic headwinds facing both tenants and landlords. All asset types were

impacted, with A, B, and C class buildings all experiencing an increase in vacancy. From a submarket perspective, the East West Corridor and O'Hare submarkets experienced a decrease in vacancy. The combined increase in vacancy in both the Northwest and North submarkets caused the entire suburbs to experience an increased in vacant space.

Market Rent & Lease Volume

Rental rates in the suburbs increased marginally as more buildings updated their operating expenses and real estate taxes, with average gross asking rents increasing \$0.17 across the entire market. Average direct gross asking rates for all building types ended at \$25.10 for the first quarter. Class A rents closed at \$32.04, up slightly from the first quarter. Class B rental rates ended the first quarter at \$24.51, also up from the first quarter. Class C rental rates ended at \$19.61. Rates continue to bob up and down marginally as landlords drop their base rent but increase expenses (for inflation) or

taxes (for higher assessments). Completed transaction volume is slightly down, with users downsizing and renewing or relocating to the tune of 1.05 million square feet. Landlords are facing more pressure than ever to secure existing or new tenants, as loan maturities, interest rates, and dropping valuations begin to weigh heavily on the market. Most transactions being completed carry above market concessions packages to entice tenants. Average net effective rents across the market have dropped \$0.75 over the past year as the control of the market continues to rest firmly in occupiers' hands.

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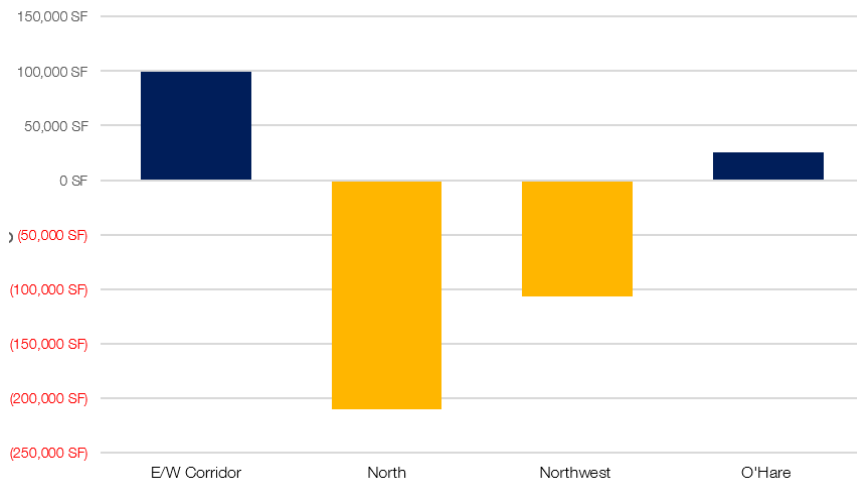
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Q2 2023 Large Transactions

| Tenant | Size | Size | Deal Type |
|----------------------------|------------------------|--------|-----------|
| CF Industries | 1 Astellas Way | 77,800 | New Lease |
| AIT | Two Piece Place | 57,000 | New Lease |
| Morgan Stanley | The Drake | 40,500 | Renewal |
| Network Services Group | Schaumburg Towers | 40,000 | Expansion |
| Experian | Schaumburg Corp Center | 24,800 | New Lease |
| Primient | 20 N Martingale | 23,800 | New Lease |
| Baxter Woodman Engineering | UC Cellular | 20,000 | Renewal |
| TranSystems | Schaumburg Corp Center | 15,500 | Renewal |

Q2 Direct Net Absorption by Submarket



Absorption

Net absorption was negative again in the second quarter, with 192,322 square feet of space returning to the market. As with vacancy, all asset classes were impacted, with Class B being the hardest hit with just over 218 thousand square feet of negative movement. The East West Corridor and O'Hare markets both saw

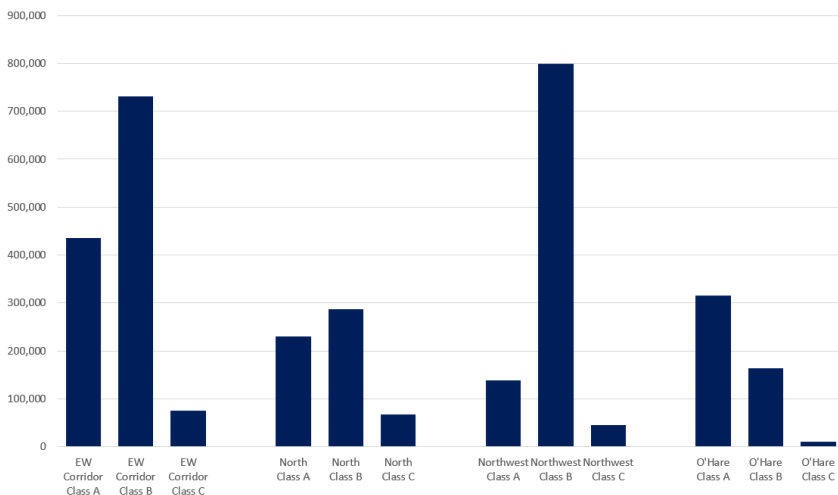
their absorption figures turn positive while the Northwest and North markets were negative. Notable tenants vacating space include CF Industries (176,185 square feet) at 4 Parkway Blvd in Deerfield, and DuPage Medical Group (43,086 square feet) at 801 Ogden Ave in Lisle.

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Total Available Sublease SQF



Subleasing

While the downtown office market grapples with a glut of sublease space, the suburban office market has yet to experience the surge that downtown owners have had to compete with. In fact, vacant sublease space remains effectively unchanged from the onset of the pandemic to date – with the vacancy rate never going above 1.7% (Q4 2020) or below 1.4% (Q2 2023). The same can be said of available sublease space, which includes both vacant space and space still occupied but on the market. The availability rate has never been above 4.0% (Q3 2022) or below 3.1% (Q3 2020 & Q2 2023). It now sits at 3.1%. This has had the effect of relieving the pressure on landlords to drop their rates to compete with subleases in the market. With that said, sublease space provides both flexibility and below market rates for the right user.

Buildings Recently Sold

| Property Address | Property City | Building SF | Sale Price | Price PSF |
|----------------------|-------------------|-------------|--------------|-----------|
| 21440 Lake Cook Road | Deer Park | 351,425 | \$59,000,000 | \$167.89 |
| 1902 Golf Rd | Schaumburg | 273,413 | \$28,400,000 | \$103.87 |
| 50 NW Point Blvd | Elk Grove Village | 177,095 | \$29,100,000 | \$164.32 |

Sales

Given the challenging interest rate environment for lenders, the capital situation in the Chicago suburbs has become a front-and-center issue for the majority of landlords. Building values are dwindling as vacancies rise and demand falls. This has caused several buildings to become distressed. There are currently 53 buildings under the watch of a special servicer and an additional 39 on the watchlist, resulting in 11.5% of the market in dire financial circumstances. It is likely that this will continue to increase, with a substantial amount of CMBS loans coming due over the next three years. As values fall, buildings will begin to trade hands below their prior sale totals, allowing for, in some cases, a reset of the market in terms of rent. There are currently 42 buildings in the suburbs for sale, with an average vacancy of 44.5%. Some buildings are experiencing instability from another perspective. As even renewing tenants can be untenable, funding concessions (such as TI) has become difficult as construction costs remain stubbornly high. Occupiers with lease expirations over the next several years would be well advised to examine their current building and market options with an advisor that is unencumbered by fiduciary obligations to building investors.

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| Submarket/ Class | Total # of Buildings | Total RBA SF | Direct Vacant SF | Direct Vacancy Rate | Sublease Vacancy Rate | Total Vacancy Rate | Q2 Net Absorption SF | Under Construction SF | Gross Rent PSF Per Year |
|---------------------------|-------------------------|-------------------|---------------------|---------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|-------------------------------|
| East West Corridor | 237 | 33,021,931 | 7,554,824 | 22.9% | 1.5% | 24.4% | 99,800 | 0 | \$26.18 |
| Class A | 31 | 9,023,852 | 1,855,233 | 20.6% | 2.3% | 22.9% | 117,356 | 0 | \$32.18 |
| Class B | 125 | 18,872,522 | 4,833,339 | 25.6% | 1.5% | 27.1% | (39,244) | 0 | \$25.00 |
| Class C | 81 | 5,125,557 | 866,252 | 16.9% | 0.3% | 17.2% | 21,688 | 0 | \$19.99 |
| North | 234 | 23,242,378 | 5,530,244 | 23.8% | 1.3% | 25.1% | (210,818) | 0 | \$25.34 |
| Class A | 25 | 3,416,587 | 953,057 | 27.9% | 0.9% | 28.8% | (12,959) | 0 | \$29.60 |
| Class B | 79 | 13,226,691 | 3,343,755 | 25.3% | 1.8% | 27.1% | (218,638) | 0 | \$26.37 |
| Class C | 130 | 6,599,100 | 1,233,432 | 18.7% | 0.5% | 19.2% | 20,779 | 0 | \$21.07 |
| Northwest | 190 | 27,245,330 | 8,805,992 | 32.3% | 1.5% | 33.8% | (107,112) | 0 | \$21.70 |
| Class A | 17 | 6,039,969 | 2,234,758 | 37.0% | 1.1% | 38.1% | (34,800) | 0 | \$28.07 |
| Class B | 57 | 12,304,165 | 4,473,938 | 36.4% | 2.6% | 39.0% | 24,157 | 0 | \$21.07 |
| Class C | 116 | 8,901,196 | 2,097,296 | 23.6% | 0.3% | 23.9% | (96,469) | 0 | \$18.26 |
| O'Hare | 144 | 14,349,618 | 2,633,704 | 18.4% | 1.0% | 19.3% | 25,808 | 0 | \$28.69 |
| Class A | 21 | 5,118,651 | 874,820 | 17.1% | 1.5% | 18.6% | 15,127 | 0 | \$38.12 |
| Class B | 42 | 5,429,600 | 980,059 | 18.1% | 1.0% | 19.1% | (15,642) | 0 | \$26.06 |
| Class C | 81 | 3,801,367 | 778,825 | 20.5% | 0.3% | 20.8% | 26,323 | 0 | \$19.74 |
| Total Suburban | 805 | 97,859,257 | 24,524,764 | 25.1% | 1.4% | 26.5% | (192,322) | 0 | \$25.10 |
| Class A | 94 | 23,599,059 | 5,917,868 | 25.1% | 1.6% | 26.7% | 84,724 | 0 | \$32.04 |
| Class B | 303 | 49,832,978 | 13,631,091 | 27.4% | 1.8% | 29.1% | (249,367) | 0 | \$24.51 |
| Class C | 408 | 24,427,220 | 4,975,805 | 20.4% | 0.4% | 20.7% | (27,679) | 0 | \$19.61 |

Beyond space.

Contact

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