

Q3 2023

Market Insight Report

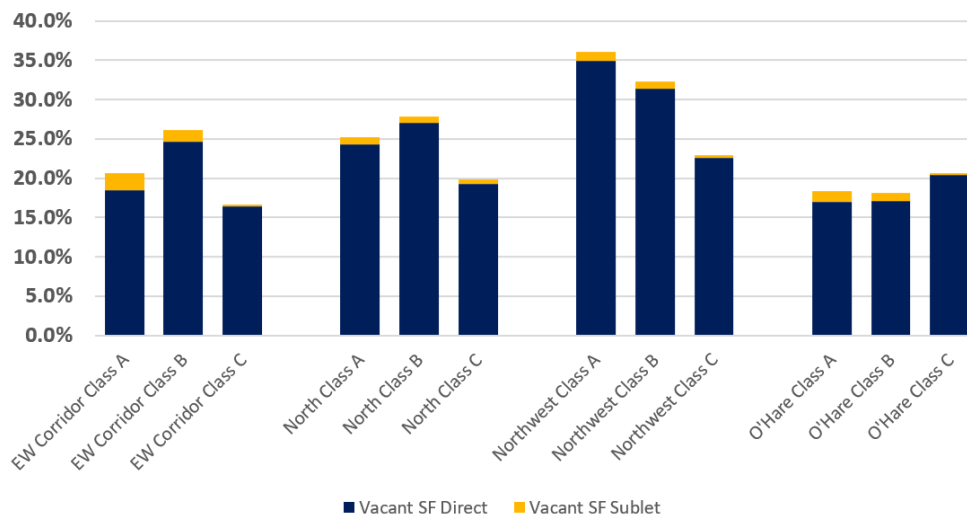
Exclusive Insights for Suburban Chicago Office Occupiers

Q3 2023

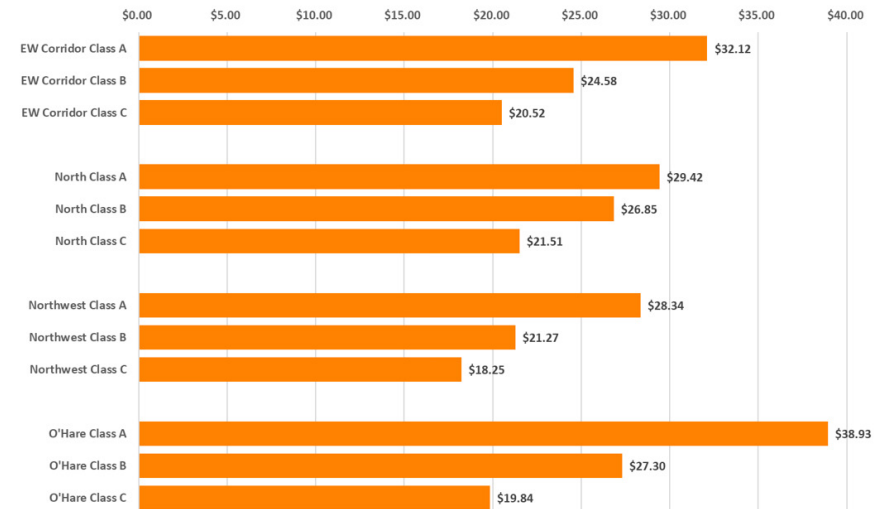
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Suburban Chicago

Total Vacancy by Submarket & Asset Class



Gross Rent PSF Per Year



Vacancy

The third quarter saw vacancy increase yet again in the suburbs, ending the quarter at 25.6%. Several buildings have been taken out of the inventory this past quarter as they have been marked for secondary uses such as medical or industrial. The Northwest submarket cluster continues to be the most impacted by rising vacancy with near 32.0% of the market vacant.

The O'Hare market continues to be the strongest market with vacancy just shy of 19.0%. Class A space was the only asset class that saw vacancy decrease in the quarter, ending at 25.7%, while both B & C buildings saw vacancy increase.

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 \$0.23 across the entire market. Average direct gross asking rates for all building types ended at \$25.33 for the third quarter. Class A rents closed at \$32.22, up \$0.18 from the second quarter. Class B and C rental rates ended the third quarter at \$24.72 and \$19.86 respectively, both up from the second quarter. 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 1.17 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 above market concessions packages to entice tenants. Average net effective rents across the market have dropped \$0.67 over the past year as the control of the market continues to rest firmly in occupiers' hands.

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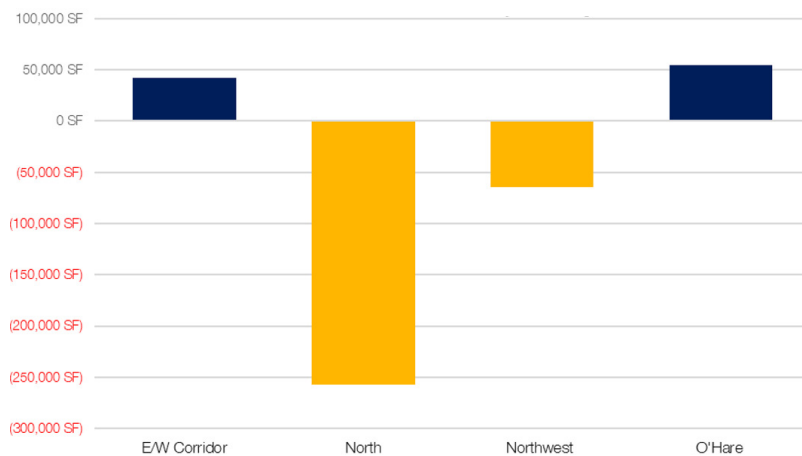
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Q3 2023 Large Transactions

Tenant	Address	Size	Deal Type
UL Research	1603 Orrington Ave	53,705 SF	New Lease
CitiGroup	1515 Woodfield Rd	49,400 SF	New Lease
Harford Insurance	1415 Diehl Rd	42,895 SF	New Lease
Sikich	1415 Diehl Rd	40,000 SF	Renewal
Old Second National Bank	3010 Highland Pky	31,844 SF	New Lease
Cozzini Brothers	8430 W Bryn Mawr Ave	16,395 SF	New Lease

Q3 Direct Net Absorption by Submarket



Absorption

Net absorption was negative again in the third quarter, with 224,768 square feet of space returning to the market. Class A buildings experienced 94,681 square feet of positive absorption while Class B & C buildings were both negative. The East West Corridor and O'Hare markets both saw their absorption figures turn positive

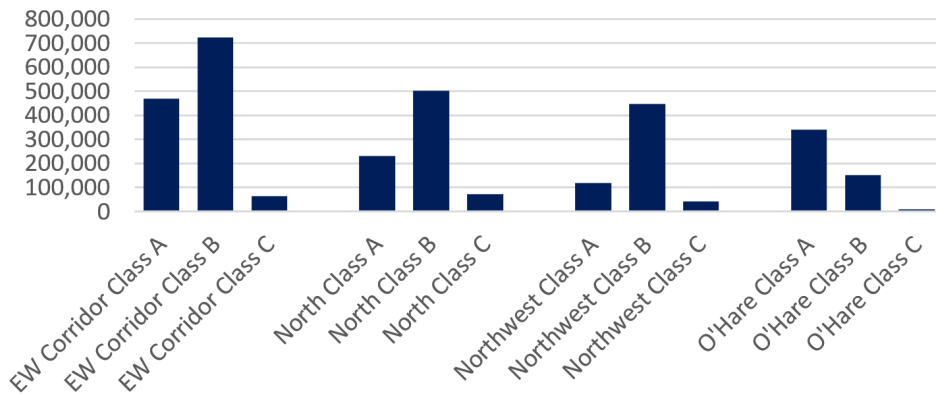
while the Northwest and North markets were negative. Notable tenants moving into new space include AIT Worldwide (56,808 square feet) at 2 Pierce Place in Itasca, AVI-SPL & Cetera Financial (42,000 square feet) moving in to 150 N Martingale in Schaumburg, and Multi-Color Corporation (32,000 square feet).

Q3 2023

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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 has declined to near the all-time low of 0.8%, resting at 1.0% for the quarter. Available sublease space has remained steady throughout the past two years at 3.3%, down from its peak in 2021 (3.6%). 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
Centennial Center	1902 Golf Rd	273,412	\$28,400,000	\$103.87
50 NW Point Blvd	Elk Grove Village	177,095	\$29,100,000	\$164.32

Capital Perspective

Given the challenging interest rate environment for lenders, the capital situation in the Chicago suburbs has become a front-and-center issue for most landlords. Building values are dwindling as vacancies rise and demand falls. This has caused several buildings to become distressed. There are currently 57 buildings under the watch of a special servicer and an additional 26 on the watchlist, resulting in 10.3% 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 43 buildings in the suburbs for sale, with an average vacancy of 49.0%. Some buildings are experiencing instability from another perspective. As even renewing tenants can be untenable, funding concessions (such as tenant improvements) 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.

Q3 2023

Market Insight Report

Suburban Chicago

Submarket/ Class	Total # of Buildings	Total RBA SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Q3 Net Absorption SF	Under Construction SF	Gross Rent PSF Per Year
East West Corridor	237	33,198,857	7,513,033	22.6%	1.4%	24.0%	41,791	0	\$26.00
Class A	31	9,016,117	1,758,120	19.5%	2.1%	21.6%	97,113	0	\$32.12
Class B	125	19,024,758	4,853,825	25.5%	1.4%	26.9%	(20,486)	0	\$24.58
Class C	81	5,157,982	901,088	17.5%	0.2%	17.7%	(34,836)	0	\$20.52
North	234	23,295,422	5,689,026	24.4%	0.8%	25.2%	(257,086)	0	\$25.73
Class A	25	3,527,684	856,064	24.3%	0.9%	25.2%	(1,311)	0	\$29.42
Class B	79	13,166,440	3,558,228	27.0%	0.9%	27.9%	(214,473)	0	\$26.85
Class C	130	6,601,298	1,274,734	19.3%	0.6%	19.9%	(41,302)	0	\$21.51
Northwest	185	26,383,267	8,155,543	30.9%	0.8%	31.7%	(64,094)	0	\$21.88
Class A	17	6,067,159	2,236,743	36.9%	1.2%	38.1%	(1,985)	0	\$28.34
Class B	54	11,467,892	3,915,278	34.1%	0.9%	35.0%	(10,691)	0	\$21.27
Class C	114	8,848,216	2,003,522	22.6%	0.3%	22.9%	(51,418)	0	\$18.25
O'Hare	144	14,381,436	2,579,073	17.9%	1.0%	18.9%	54,631	0	\$29.50
Class A	21	5,127,046	873,956	17.0%	1.4%	18.4%	864	0	\$38.93
Class B	42	5,493,803	938,215	17.1%	1.0%	18.1%	41,844	0	\$27.30
Class C	81	3,760,587	766,902	20.4%	0.3%	20.7%	11,923	0	\$19.84
Total Suburban	800	97,258,982	23,936,675	24.6%	1.0%	25.6%	(224,758)	0	\$25.33
Class A	94	23,738,006	5,724,883	24.1%	1.5%	25.7%	94,681	0	\$32.22
Class B	300	49,152,893	13,265,546	27.0%	1.1%	28.1%	(203,806)	0	\$24.72
Class C	406	24,368,083	4,946,246	20.3%	0.4%	20.7%	(115,633)	0	\$19.86

Beyond space.

Contact

For more information,
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