

MID-YEAR 2023 OFFICE MARKET REPORT

Suburban Chicago



CONTENTS

Market Overview	4
Comparisons, Indicators, & Trends	6
East-West Corridor	10
Northern Suburbs	12
Northwest Suburbs	14
O'Hare	16
Suburban Chicago Submarkets Map	18

ROBUST LEASING VELOCITY & ADAPTIVE RE-USE IMPROVE MARKET DYNAMICS

Through the first half of 2023, leasing velocity surpassed pre-pandemic levels as companies continue to emphasize the need for collaborative workspaces in Chicago's suburban office market. Deal activity continues to improve, though absorption levels remained negative. The 332,000 square feet of negative net absorption so far in 2023 is a slight improvement relative to the 350,000 square feet of negative net absorption through the first six months of 2022.

Asking rental rates remained relatively unchanged from year-end 2022, at just below \$27 per square foot. The direct vacancy rate is 26.9% at mid-year 2023, which is lower than year-end 2022, but is still above pre-pandemic levels.

The flight-to-quality trend remains a pillar of Chicago's suburban office market as tenants look to right-size their workspaces in well-located, Class A offices with superior amenities. Owners of older Class B and C product have struggled to keep their buildings occupied, leading to distress and, in some instances, foreclosures. Oversupply pressures have led investors to pursue a wide array of adaptive reuse projects, which should ultimately help mitigate inventory problems by converting vacant office product to its highest and best use.

Leasing Activity

Leasing volume remains strong in the Chicago suburbs, as nearly 2.6 million square feet of office space was leased in the first six months of 2023, surpassing the 2.5 million square feet leased in the first half of 2019, before the pandemic began. This comes at a time when leasing velocity in the CBD has struggled to reach pre-pandemic levels as the amount of office space leased through mid-year 2023 was nearly 50% less than the first half of 2019. Companies continue to sign major leases across every suburban submarket, but office owners must be willing and able to inject capital into their assets to attract and retain tenants. A prime example of this dynamic is the newly renovated office building at 6300 N. River Road in Rosemont.

Farpoint Development originally purchased the building for \$5 million in 2017. Since the acquisition, the owners have invested an additional \$6 million for renovations to attract and retain tenants. This decision led to one of the most notable leases signed in 2023: Feldco's decision to occupy 36,000 square feet at the newly renovated office near O'Hare. The O'Hare submarket continues to outperform, as it has the lowest vacancy rate and highest rental rate of any suburban submarket in the Chicagoland area.

The sublease market has been active as companies balance the need for office space with the overhead expenses that come with it. In the suburbs, the sublease availability rate plateaued in 2022, and has begun to slowly, but steadily, tick down. There is now just under 3.6 million square feet on the market. Meanwhile, the CBD continues to see record-high levels of available sublease space on the market, now sitting at more than 7.8 million square feet in Q2/23.

Investment Sales

Sales volume slowed year-to-date, with deals totaling only \$237 million compared to \$740 million transacted through the first half of 2022. However, the suburb's declining sales volume pales in comparison to the CBD, which only saw \$67 million trade hands over the same period. Rising interest rates and low occupancy levels have sidelined many investors.

In this capital markets environment, many of the transactions have been vacant buildings poised for redevelopment—more than a third of all office purchases in the suburbs this year are likely to be converted to an alternative use.

The most notable buyer of distressed office product in 2023 is Aligned Data Centers, which purchased four office sites in the Schaumburg area this year for more than \$78 million. The developer has yet to release their official plans for these sites, but many expect the buildings to be converted into industrial product. However, for any adaptive reuse project, investors must be able to navigate

the structural, financial, and political hurdles associated with the redevelopment. Distressed sales and redevelopment projects of Chicago's suburban offices have seemingly dominated the market, but some investors still see value in purchasing stabilized office product.

A venture of Sentinel Net Lease recently purchased a 210,533-square-foot office building in Bannockburn for \$28.6 million—just below the seller's purchase price of \$29 million in 2016. The property is currently 91.5% leased, and existing tenants have

a weighted average lease term of more than five years. Even for stabilized offices, lenders have been hesitant to provide financing due to the increase in loan delinquencies and foreclosures nationally. Still, Sentinel secured a \$20 million loan to finance the acquisition.

SUBURBAN CHICAGO

MID-YEAR 2023 SNAPSHOT



(332,563) SF

Direct Net Absorption 1H/23



26.9%

Direct Vacancy Rate



\$26.67/PSF

Direct Gross Rental Rate

Property data were compiled from CoStar with these parameters: existing and under-renovation office property type; within Central, East and West Loops, N. Michigan Avenue, River North, and Fulton Market. Excluded properties include those with under 20,000 s.f. of office space; non-conforming and owner-occupied properties, including those owned by coworking firms. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

FIGURE 01

Sublease Trends: Available Sublease Space

Source: CoStar

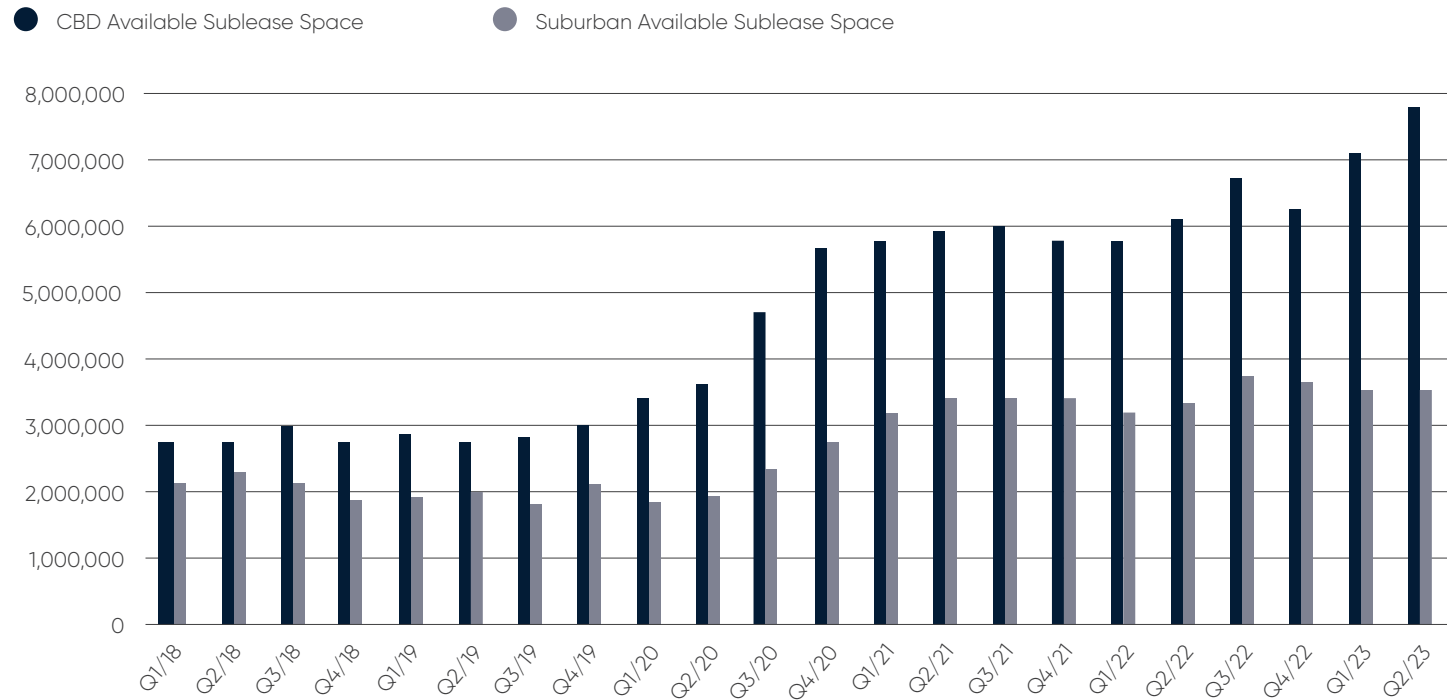


FIGURE 02

Investment Sales

Source: CoStar

PROPERTY ADDRESS	BUILDING SF	CLASS	SUBMARKET	SALE PRICE	\$/SF	SALE DATE	BUYER	SELLER
50 NW POINT BLVD	177095	A	Schaumburg Area	\$29,125,000	\$164	3/10/23	Aligned Data Centers	Franklin Street Properties Corporation
3000 LAKESIDE DR	209,421	A	Central North	\$28,550,000	\$136	4/25/23	Sentinel Net Lease	Axial Real Estate Advisors, LLC
141 NW POINT BLVD	114,642	A	Schaumburg Area	\$22,000,000	\$192	4/10/23	Aligned Data Centers	Co-Optim
150 NW POINT BLVD	176,844	A	Schaumburg Area	\$14,422,000	\$82	5/31/23	Aligned Data Centers	Bridge Industrial
5400-5420 OLD ORCHARD RD	130,359	B	Near North	\$13,250,000	\$102	5/24/23	Tucker Development Wingspan Development Group	Barco Land Development, LLC
101 NW POINT BLVD	50,000	B	Schaumburg Area	\$13,000,000	\$260	4/7/23	Aligned Data Centers	Brennan Investment Group

FIGURE 03

Suburban Chicago Submarket Comparison Summary

Source: CoStar

SUBMARKET/ ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION 1H/23 (SF)	DIRECT NET ABSORPTION 2022 (SF)
ALL SUBURBAN	90,988,241	104,705	34.3%	3.9%	26.9%	1.4%	\$26.67	(332,563)	(600,620)
CLASS A	56,486,790	190,191	35.4%	4.8%	25.8%	1.6%	\$30.00	168,546	(595,854)
CLASS B	34,501,451	60,317	32.5%	2.6%	28.7%	1.0%	\$20.73	(501,109)	(4,766)
E/W CORRIDOR	35,719,119	94,531	29.0%	3.7%	24.0%	1.6%	\$25.46	(163,080)	(455,914)
EAST	21,511,357	105,967	27.9%	4.4%	22.5%	1.7%	\$26.50	(97,864)	(379,773)
CLASS A	12,973,443	202,710	28.6%	5.6%	22.1%	1.9%	\$30.54	(92,597)	(165,703)
CLASS B	8,537,914	61,424	26.9%	2.5%	23.1%	1.3%	\$19.98	(5,267)	(214,070)
WEST	14,207,762	77,216	30.5%	2.5%	26.4%	1.4%	\$23.87	(65,216)	(76,141)
CLASS A	8,285,933	150,653	32.7%	3.7%	27.6%	2.1%	\$25.75	93,159	90,655
CLASS B	5,921,829	45,906	27.5%	0.9%	24.8%	0.4%	\$20.75	(158,375)	(166,796)
NORTHERN	19,990,892	90,899	32.9%	4.2%	29.3%	0.9%	\$28.24	(382,290)	(315,778)
NORTH	14,972,729	91,857	34.3%	2.7%	30.2%	0.9%	\$28.22	(162,545)	(501,419)
CLASS A	9,956,272	142,232	36.6%	3.2%	30.1%	0.9%	\$30.32	(16,470)	(574,866)
CLASS B	5,016,457	53,940	29.8%	1.6%	30.3%	0.8%	\$23.09	(146,075)	73,447
SOUTH	5,018,163	88,038	28.4%	8.8%	26.8%	1.0%	\$28.31	(219,745)	185,641
CLASS A	2,359,131	168,509	26.0%	13.6%	26.8%	0.9%	\$34.87	(99,504)	60,165
CLASS B	2,659,032	61,838	30.5%	4.6%	26.8%	1.2%	\$23.35	(120,241)	125,476
NORTHWEST	23,677,331	130,026	46.7%	4.0%	31.8%	1.5%	\$26.08	151,777	52,044
I-355	3,507,077	109,596	33.2%	2.8%	29.0%	0.5%	\$26.14	96,471	45,338
CLASS A	2,645,130	203,472	36.4%	2.4%	31.0%	0.6%	\$27.69	84,699	24,996
CLASS B	861,947	45,366	23.2%	4.1%	22.7%	0.1%	\$18.69	11,772	20,342
SCHAUMBURG	20,170,254	133,578	49.1%	4.2%	32.3%	1.7%	\$26.06	55,306	6,706
CLASS A	12,795,283	278,158	49.6%	4.2%	26.7%	2.2%	\$29.47	134,597	(147,915)
CLASS B	7,374,971	70,238	48.1%	4.2%	42.0%	1.0%	\$19.96	(79,291)	154,621
O'HARE	11,600,899	146,847	27.9%	4.3%	21.5%	1.3%	\$29.56	61,030	119,028
CLASS A	7,471,598	213,474	26.8%	5.6%	20.7%	1.3%	\$35.40	64,662	116,814
CLASS B	4,129,301	93,848	30.0%	1.9%	23.0%	1.3%	\$20.10	(3,632)	2,214

FIGURE 04

Suburban Comparisons, Economic Indicators, & Trends

Source: CoStar

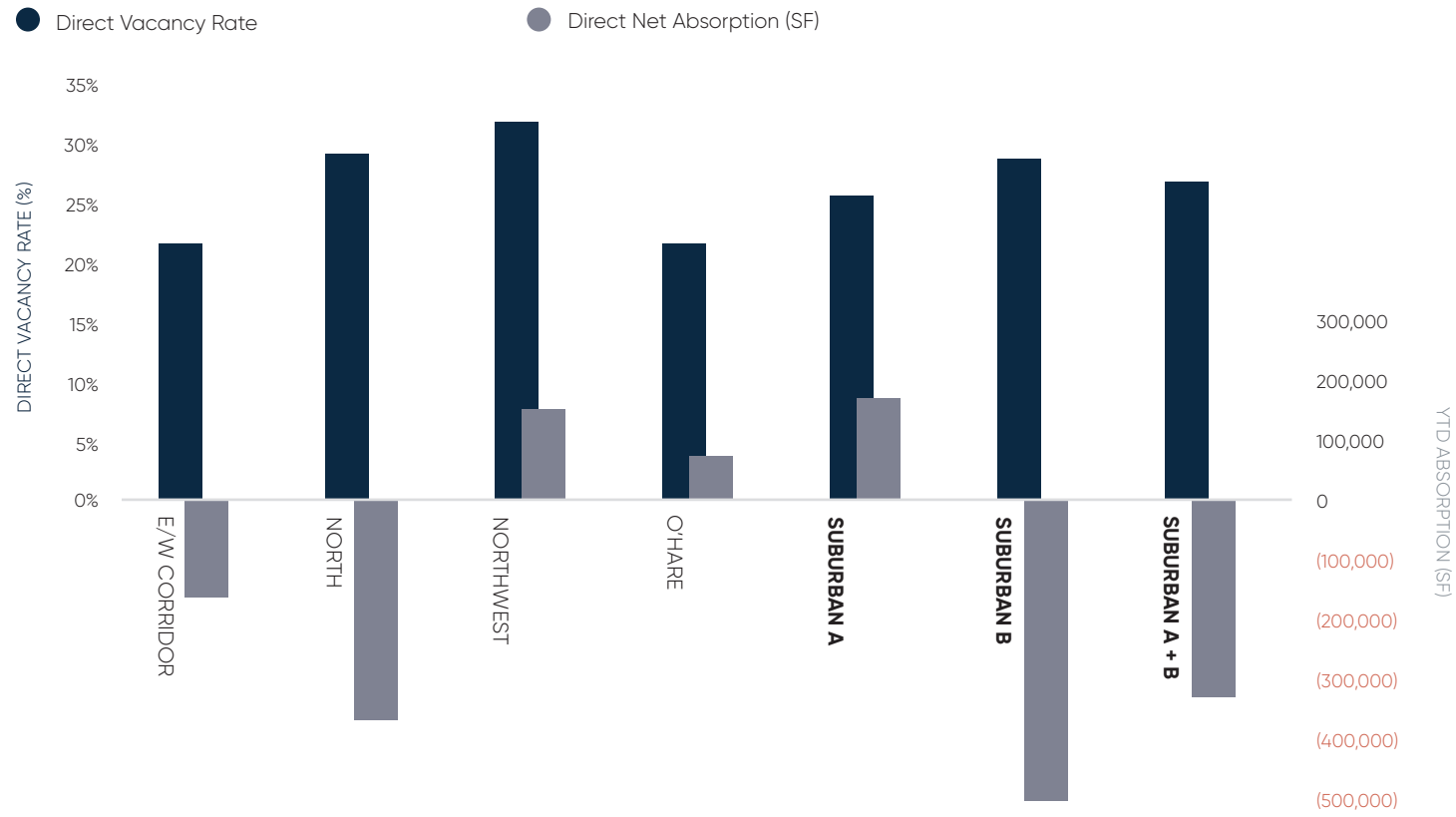


FIGURE 05

New Office Construction: Producer Price Index

Source: Bureau of Labor Statistics (BLS)

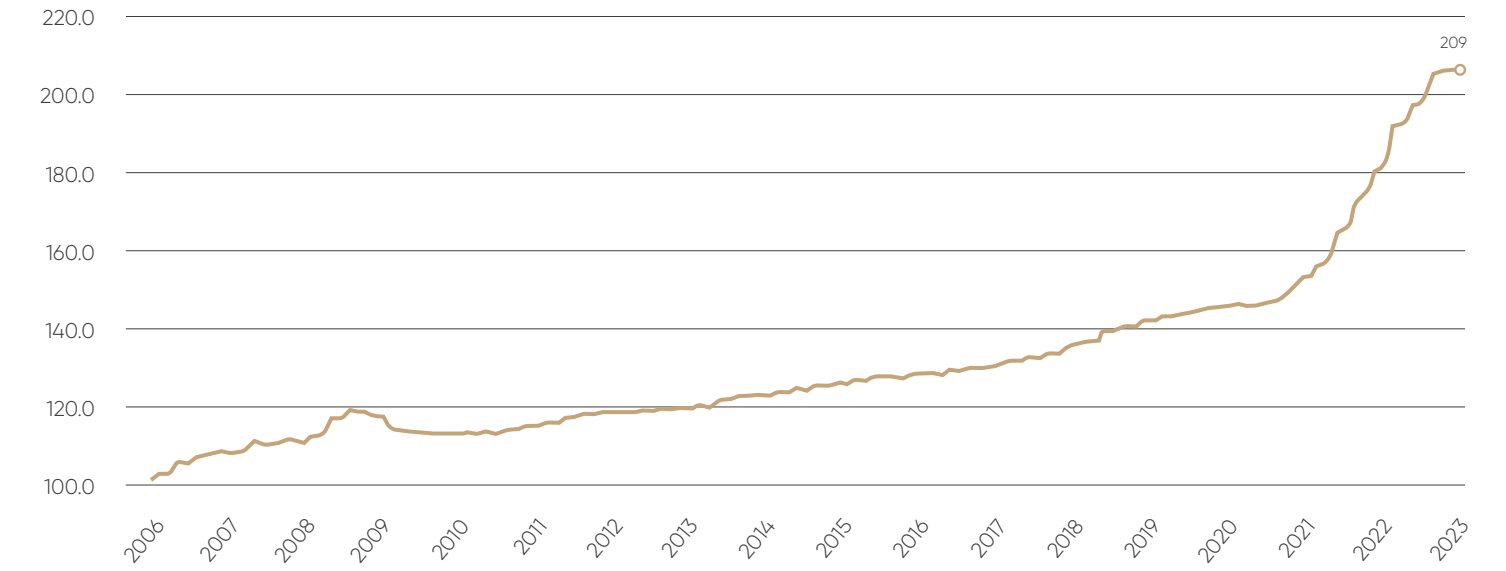
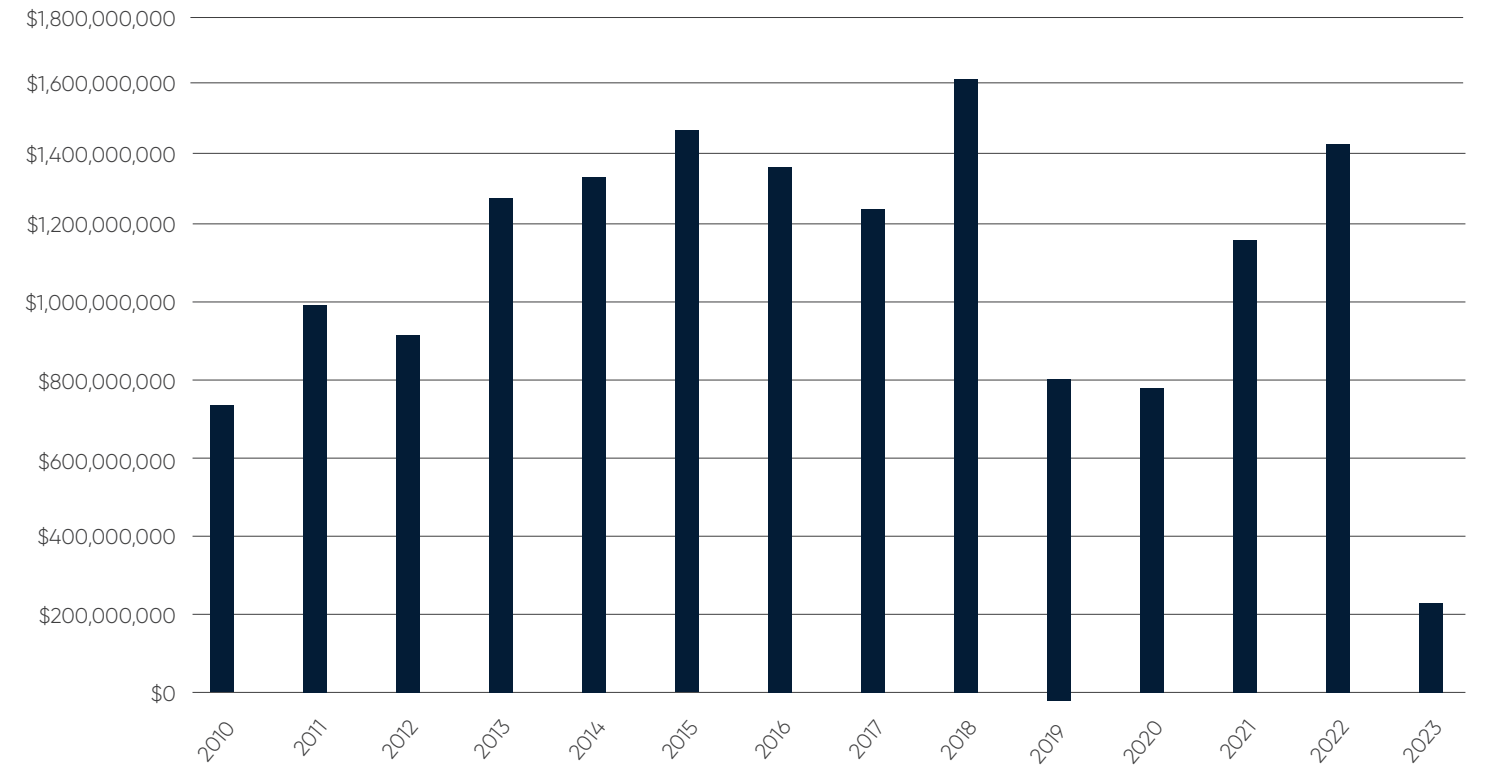


FIGURE 06

Sales Volume

Source: CoStar



EAST WEST CORRIDOR

- In Q2/23, the direct vacancy rate dipped to 24.0% while the sublease availability rate remained unchanged at 3.7%. The East-West Corridor has the lowest sublease availability rate in the suburban office market.
- Absorption levels remained negative, with -163,080 of office space absorbed through the first half of 2023.
- Notable lease deals include Crowe LLP's decision to occupy more than 20,000 square feet at 1 Mid America in Oakbrook Terrace.

MARKET MOVEMENT

NEW LEASE

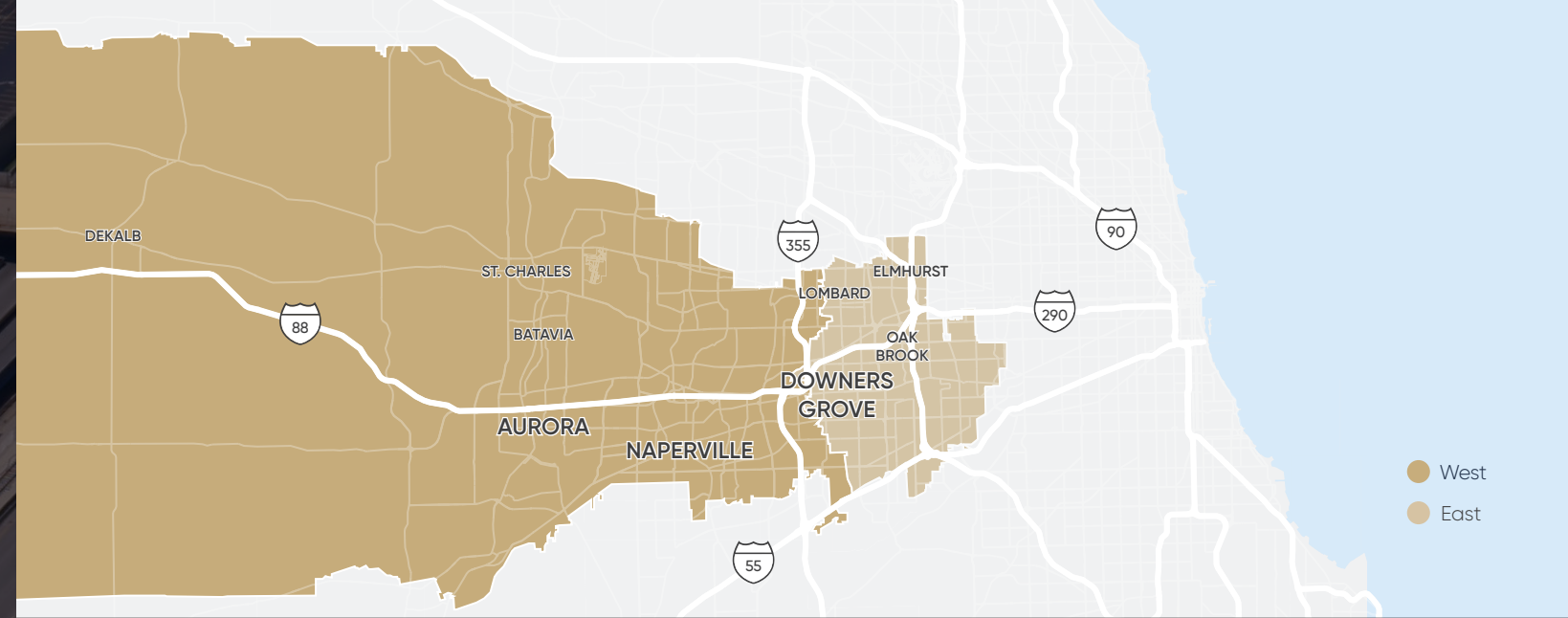
OLD SECOND NATIONAL BANK
(31,808 SF)
3010 Highland

NEW LEASE

CROWE LLP
(20,652 SF)
1 Mid America

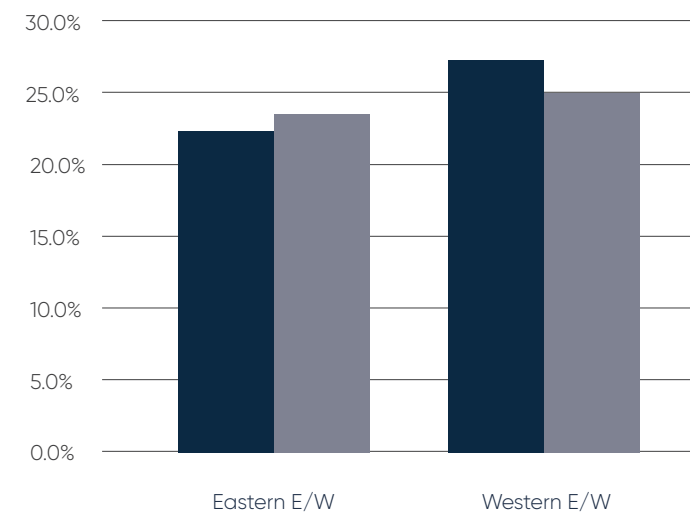
NEW LEASE

ADT
(18,946 SF)
1111 Pasquinelli



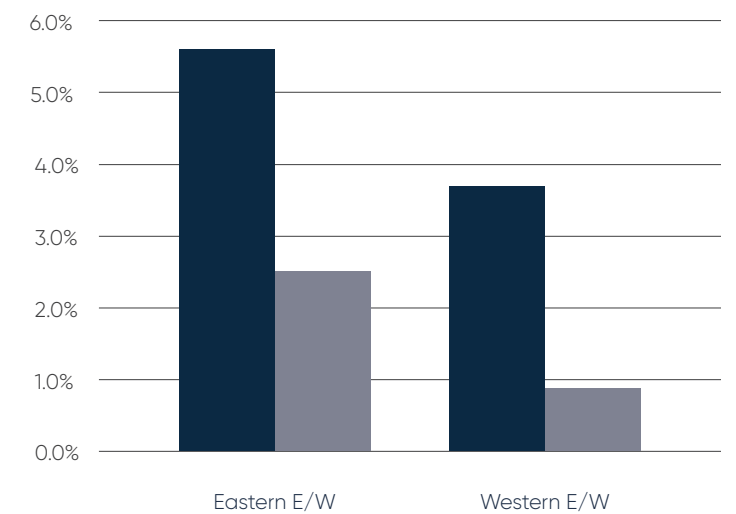
Direct Vacancy Rate

● Class A ● Class B



Sublet Availability Rate

● Class A ● Class B



SUBMARKET/ ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION 1H/ 23 (SF)	DIRECT NET ABSORPTION 2022 (SF)
E/W CORRIDOR	35,719,119	94,531	29.0%	3.7%	24.0%	1.6%	\$25.46	(163,080)	(455,914)
EAST	21,511,357	105,967	27.9%	4.4%	22.5%	1.7%	\$26.50	(97,864)	(379,773)
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CLASS A	8,285,933	150,653	32.7%	3.7%	27.6%	2.1%	\$25.75	93,159	90,655
CLASS B	5,921,829	45,906	27.5%	0.9%	24.8%	0.4%	\$20.75	(158,375)	(166,796)

NORTHERN SUBURBS

- In Q2/23, the direct vacancy rate declined to 29.3%; the sublease availability rate also decreased from 5.4% at year-end 2022 to 4.2% at mid-year 2023.
- Absorption figures remained negative, posting -382,290 of net absorption so far this year.
- The largest lease signed in the suburbs so far this year was by CF Industries, which will occupy nearly 78,000 square feet at 2375 Waterview in Northbrook.
- A venture of Sentinel Net Lease recently purchased a 210,533-square-foot office building in Bannockburn for \$28.6 million—just below the seller’s purchase price of \$29 million in 2016.

MARKET MOVEMENT

NEW LEASE

CF INDUSTRIES
(77,863 SF)
2375 Waterview

NEW LEASE

ILLINOIS DEPARTMENT OF
CENTRAL MANAGEMENT
(28,086 SF)
7301 - 7337 N. Lincoln

NEW LEASE

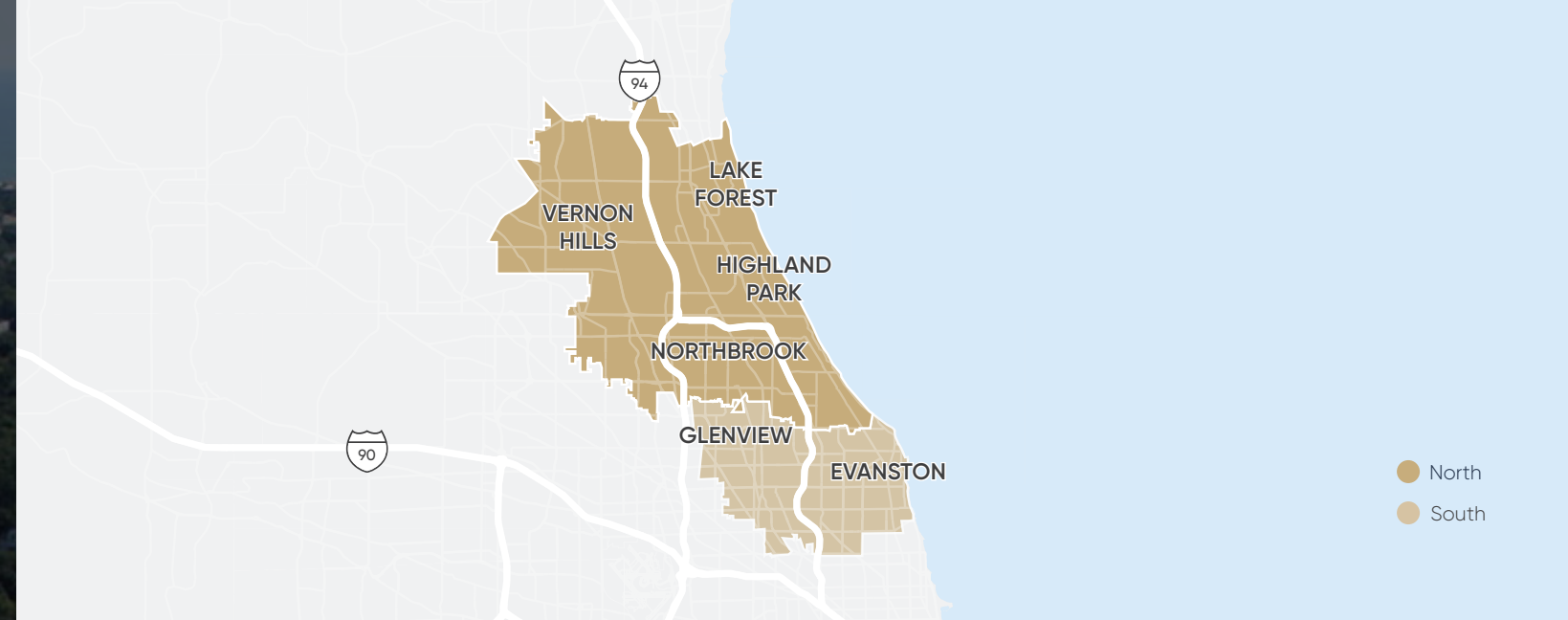
VENTURE X
(19,000 SF)
570 Lake Cook

SALE

SENTINEL NET
LEASE
(209,421 SF)
3000 Lakeside

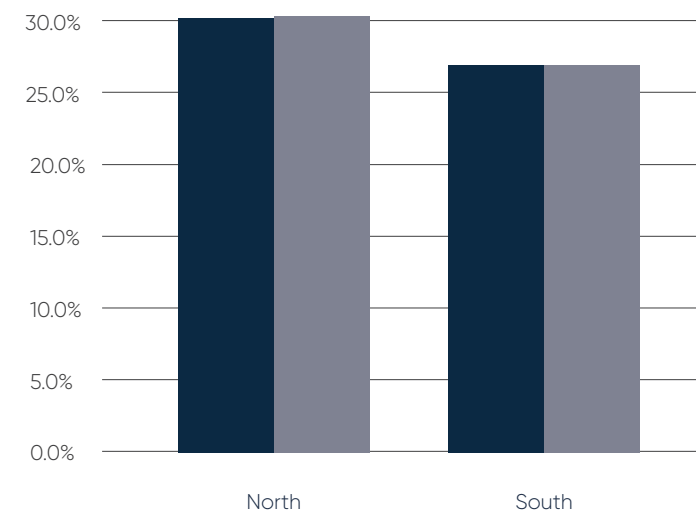
SALE

TUCKER
DEVELOPMENT
(130,359 SF)
5400 - 5420 Old
Orchard



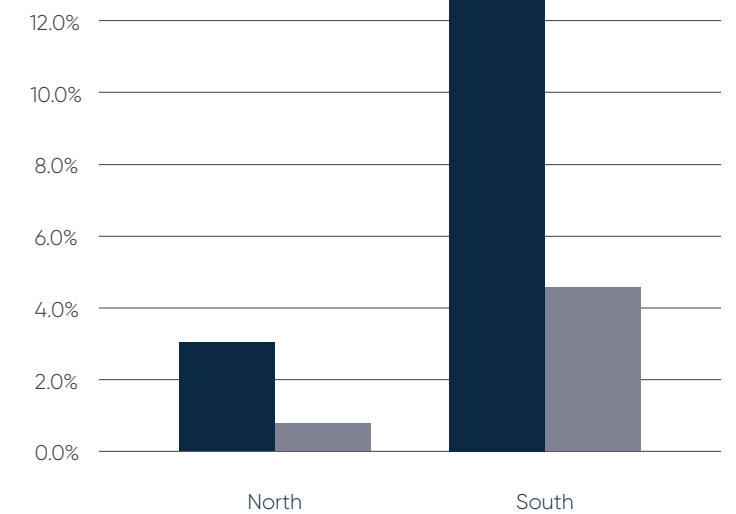
Direct Vacancy Rate

● Class A ● Class B



Sublet Availability Rate

● Class A ● Class B



SUBMARKET/ ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION 1H / 23 (SF)	DIRECT NET ABSORPTION 2022 (SF)
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CLASS A	2,359,131	168,509	26.0%	13.6%	26.8%	0.9%	\$34.87	(99,504)	60,165
CLASS B	2,659,032	61,838	30.5%	4.6%	26.8%	1.2%	\$23.35	(120,241)	125,476

NORTHWEST SUBURBS

- In Q2/23, the direct vacancy rate declined to 31.8%; however, the northwest suburbs still has the highest vacancy rate of any submarket in the Chicagoland suburbs.
- Sublease availability remained relatively unchanged at 4.0%.
- The northwest suburbs outperformed the rest of the suburban market in respect to absorption, posting 151,777 square feet of positive net absorption so far this year.
- Notable lease deals include AIT Worldwide Logistics' new lease at 2 Pierce Place in Itasca for more than 56,000 square feet.
- Aligned Data Centers purchased four buildings in the Schaumburg area for \$78.5 million.

MARKET MOVEMENT

NEW LEASE

AIT WORLDWIDE LOGISTICS
(56,808 SF)
2 Pierce

NEW LEASE

NETWORK SERVICES CO.
(24,939 SF)
1400 American

NEW LEASE

EXPERIAN MARKETING SOLUTIONS
(24,700 SF)
1515 Woodfield

SALE

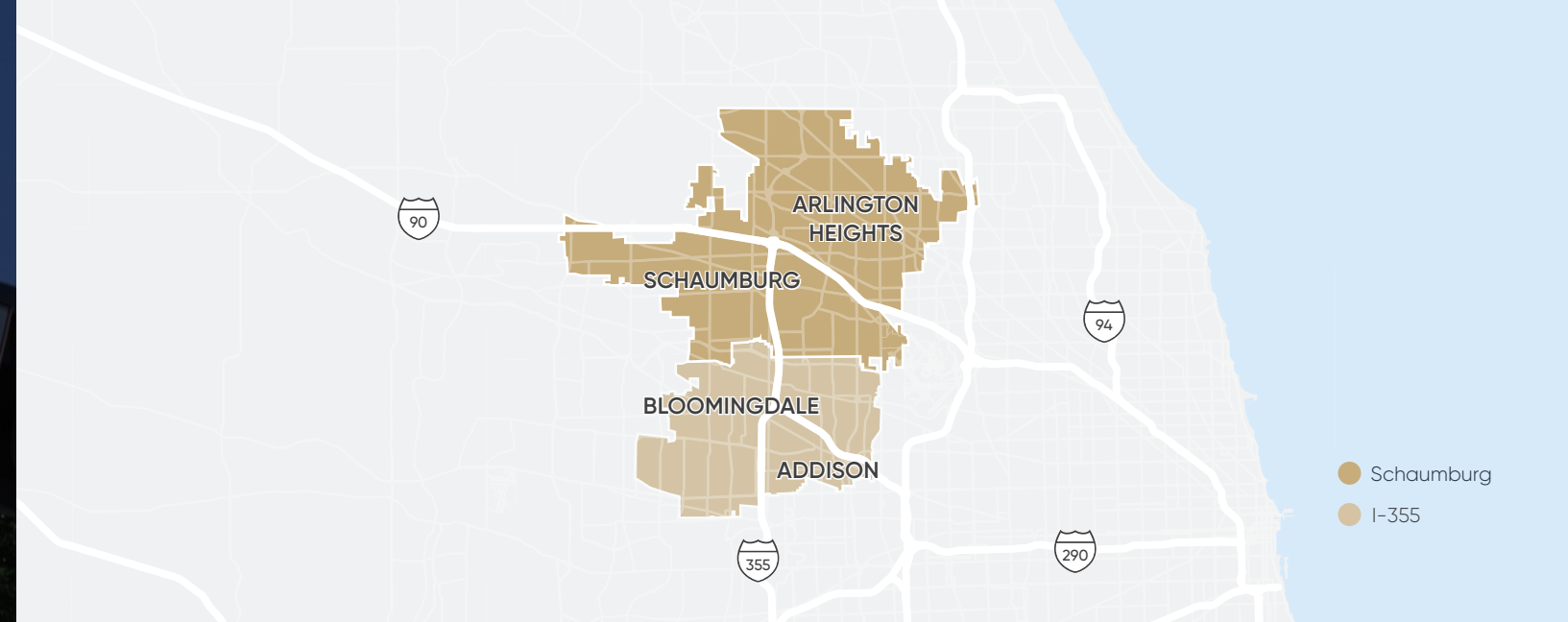
ALIGNED DATA CENTERS
(177,095 SF)
50 NW Point Blvd

SALE

ALIGNED DATA CENTERS
(114,642 SF)
141 NW Point Blvd

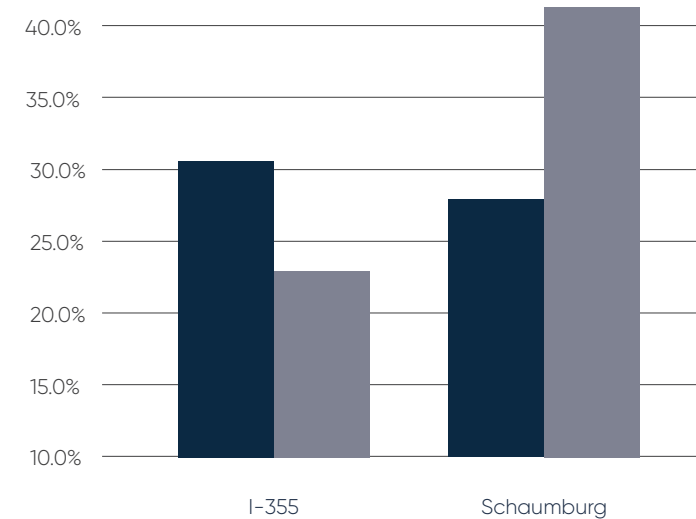
SALE

ALIGNED DATA CENTERS
(176,844 SF)
150 NW Point Blvd



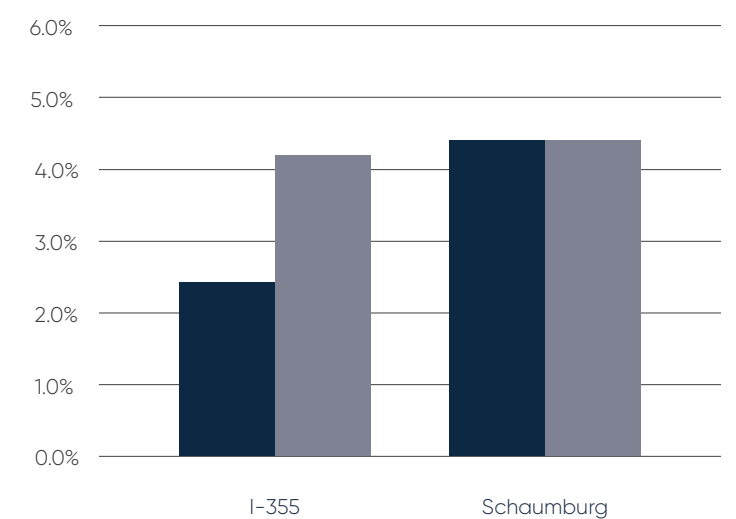
Direct Vacancy Rate

● Class A ● Class B



Sublet Availability Rate

● Class A ● Class B



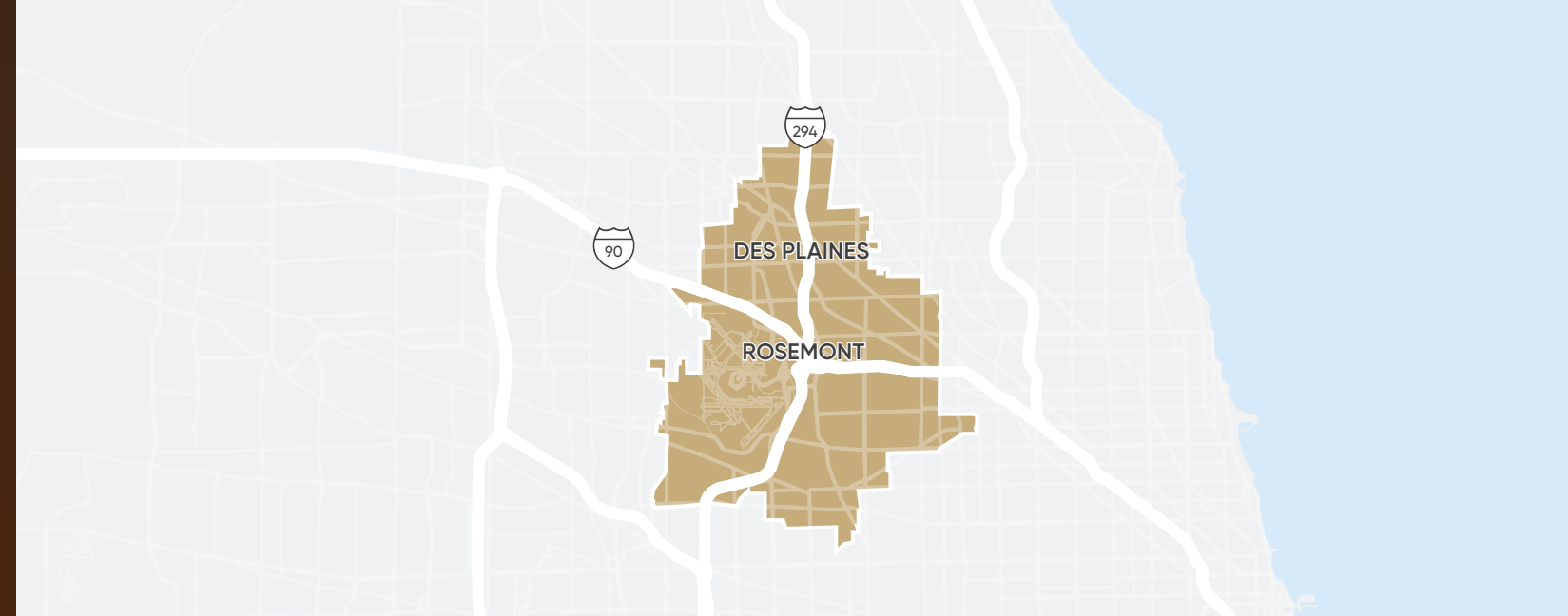
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CLASS B	7,374,971	70,238	48.1%	4.2%	42.0%	1.0%	\$19.96	(79,291)	154,621

O'HARE

- The direct vacancy rate remains lower in O'Hare than its suburban counterparts, sitting at 21.5% in Q2/23. The sublease availability rate increased to 4.3%.
- Absorption levels remained positive, with more than 60,000 square feet of net absorption so far this year.
- O'Hare commands the highest rental rate of any submarket in Chicago's suburbs, with an average gross asking rate of nearly \$30 per square foot.
- Notable lease deals include Feldco's decision to occupy 36,000 square feet at 6300 N. River Road in Rosemont.

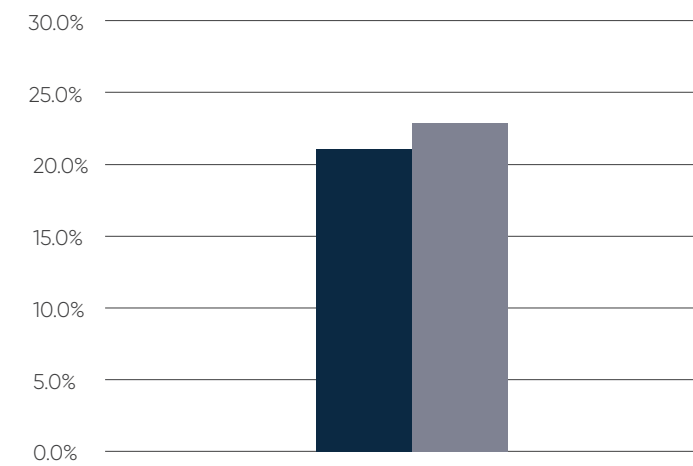
MARKET MOVEMENT

NEW LEASE	NEW LEASE	NEW LEASE	NEW LEASE
GENUINE CABLE GROUP LLC (20,189 SF) 8550 W. Bryn Mawr	ONEDIGITAL (13,370 SF) 8700 W. Bryn Mawr	BAXTER WOODMAN ENGINEERING (19,897 SF) 8430 W. Bryn Mawr	FELDCO (36,000 SF) 6300 N. River Road



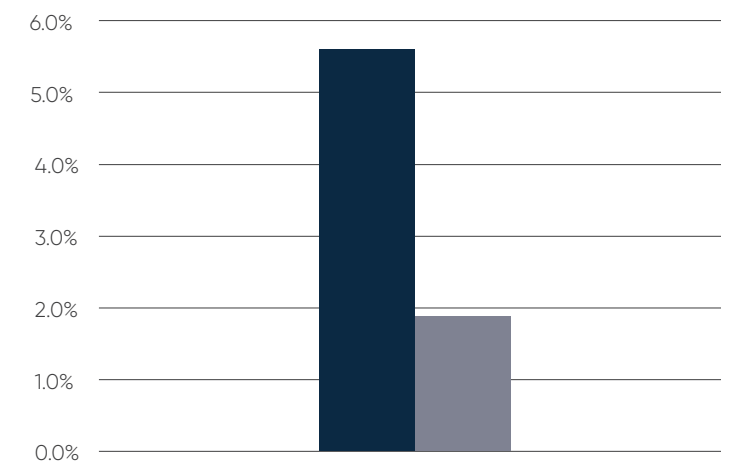
Direct Vacancy Rate

● Class A ● Class B



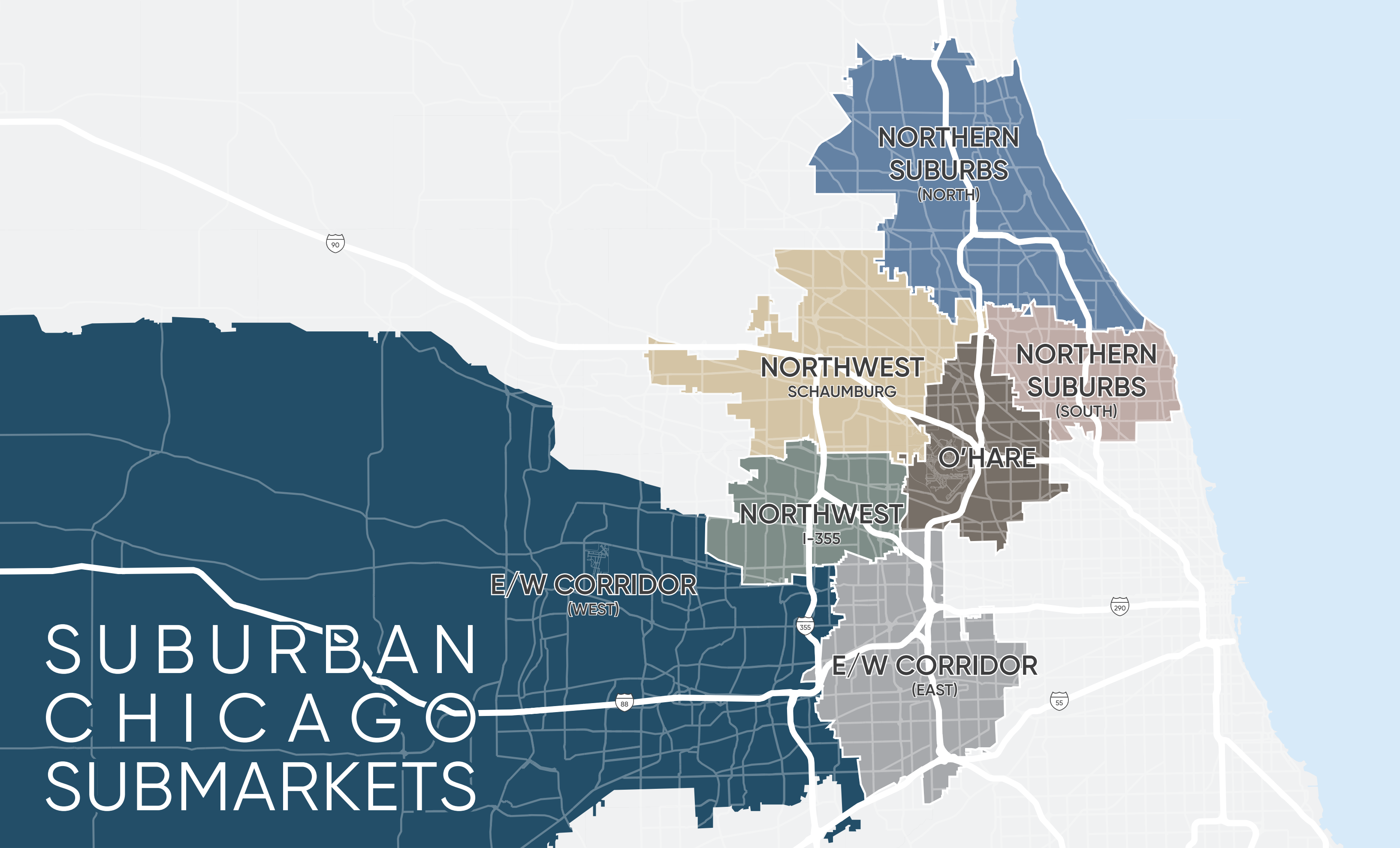
Sublet Availability Rate

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SUBMARKET/ ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION 1H/ 23 (SF)	DIRECT NET ABSORPTION 2022 (SF)
O'HARE	11,600,899	146,847	27.9%	4.3%	21.5%	1.3%	\$29.56	61,030	119,028
CLASS A	7,471,598	213,474	26.8%	5.6%	20.7%	1.3%	\$35.40	64,662	116,814
CLASS B	4,129,301	93,848	30.0%	1.9%	23.0%	1.3%	\$20.10	(3,632)	2,214

SUBURBAN CHICAGO SUBMARKETS



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