

MID-YEAR 2024 OFFICE MARKET REPORT

Suburban Chicago



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WELL-LOCATED BUILDINGS IN GOOD FINANCIAL POSITION ATTRACTING TENANTS

In the first half of 2024, vacancy rates held steady at 24%. Rental rates were also unchanged from year-end 2023, sitting at \$27 per square foot. Absorption trends were notably poor with negative 814,000 square feet absorbed so far this year. This is more than double the negative 411,000 square feet absorbed through the entirety of 2023.

Despite these conditions, Chicago's suburban office market is more competitive than headline figures suggest. Our most recent [Office Pulse](#) shows that nearly 75% of the vacant space is concentrated in approximately 20% of the properties. If these largely vacant properties are removed from the data, the remaining 80% of suburban office properties, which generally are actively being marketed, have an average vacancy rate of 10%.

Poorly located, 1980s-era office buildings are weighing down the headline figures and have themselves become increasingly distressed, resulting in multiple foreclosures through the first half of 2024. The distress will likely continue as \$1.5 billion of Chicago's suburban office debt is scheduled to mature within the next two years. However, this creates opportunities for new ownership groups to enter the market at a low basis and either improve or redevelop these properties, helping stabilize the market in the long term.

Many investors have taken advantage of these office redevelopment opportunities, as more than half of all transactions in 2023 were for conversion projects. Suburban offices are seemingly more conducive to redevelopment compared to their downtown counterparts, which is one reason why the suburbs saw more than four times the sales volume of Chicago's CBD last year despite having 40% less inventory. This should ultimately help the suburban market stabilize in a shorter time frame.

Leasing Activity

Leasing velocity in the suburbs slowed with only 2.5 million square feet leased through the first half of 2024. This is below the 3.1 million square leased through H1/23 and the 3.4 million square feet leased through H1/19.

Despite the leasing slowdown, many landlords are effectively navigating today's competitive market by reinvesting in their properties, which attracts new tenants and retains existing ones. Companies looking for office space are more often seeking move-in-ready suites rather than funding their own custom buildouts. Additionally, most tenants are seeking less than 10,000 square feet of office space, so owners with large contiguous vacant spaces must invest in breaking up these suites to remain competitive.

Tenants require financially committed ownership in good-standing with lenders, as lease deals in today's market are increasingly falling through due to financing concerns. Landlords' decisions to pre-build suites or provide favorable concession packages are now setting them apart, allowing them to perform well in today's market.

Even properties which have struggled after the pandemic have proven to rebound when new capital is invested into the asset. A prime example is the story of 6133 N. River Road near O'Hare, which was one of [suburban Chicago's largest foreclosures](#) just months ago. Since the foreclosure, the receiver and special servicer have continued a multi-million dollar capital improvement plan which was initiated by Ameritus, the owner, resulting in a [new 53,000-square-foot lease](#) signed by Littelfuse. The company will be relocating from their 54,000-square-foot suite at 8755 W. Higgins.

Sales Volume

Through the first half of 2024, sales volume in Chicago's suburban office market was \$197 million. This figure is above both the \$133 million that traded in the first half of last year and the \$163 million that traded in the first half of 2019. High interest rates and hesitancy from lenders have generally slowed transactions in the market, but some investors are taking advantage of the conditions by purchasing product at a significant discount.

Most notably, Chicago-based Franklin Partners recently purchased the Oak Brook 22 campus for \$46 million—a discount to the previous loan of \$58 million. The 389,000-square-foot campus, which signed 66,000 square feet of new leases since last summer, is one of several purchases Franklin Partners has made in recent months. The firm also [bought 20 W. Kinzie in partnership with Bixby Bridge Capital](#) and 1960 Lucent Lane in Naperville—the latter has since been demolished for a conversion project.

Demolitions of zombie office product are becoming commonplace in today's market, as many investors are looking to convert these buildings to a higher and better use. For some, that has led to industrial and data center developments. For others, like local developer D.I.R., conversions to multifamily are more suitable for these types of projects. In April, a venture led by DIR Development purchased an office complex near Old Orchard Mall for \$79 million—88% less than the seller's 2007 purchase price. Considering one-third of the property is vacant and ownership was unable to service its debt, developers felt it was best to pivot and cater to the area's need for residential housing. The proposed redevelopment is expected to deliver 245 new apartments to the area.

SUBURBAN CHICAGO

MID-YEAR 2024 SNAPSHOT



(814,441) SF

Direct Net Absorption H1/24



24.1%

Direct Vacancy Rate



\$26.79/PSF

Average Gross Asking Rate

Property data were compiled from CoStar with these parameters: existing and under-renovation office property type; within the East-West Corridor, Central North, Near North, North DuPage, Schaumburg Area, and O'Hare submarkets; Excluded properties include those with under 20,000 square feet 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 over the last four quarters.

FIGURE 01

Sublease Trends: Available Sublease Space

Source: CoStar

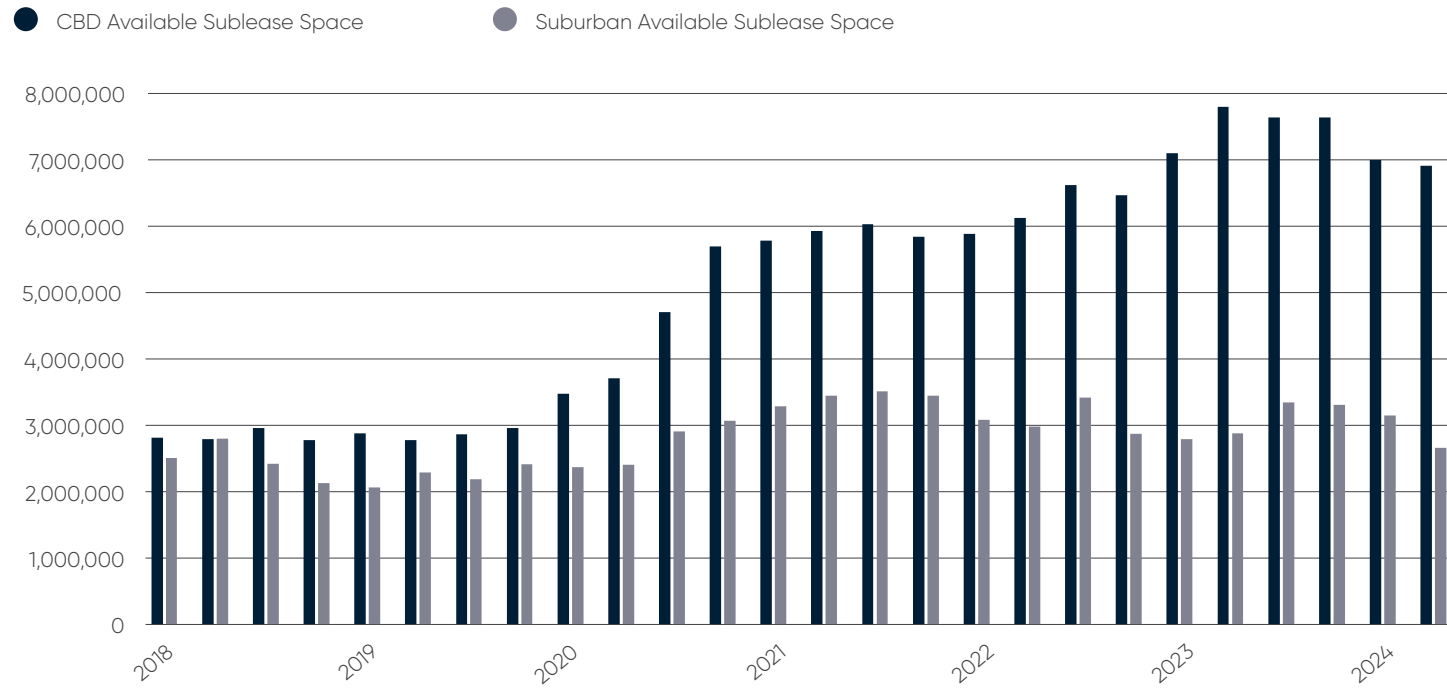


FIGURE 02

Investment Sales

Source: CoStar

PROPERTY ADDRESS	BUILDING SF	CLASS	SUBMARKET	SALE PRICE	PSF	SALE DATE	BUYER	SELLER
1400-1450 AMERICAN LANE	441,533	A	Schaumburg Area	\$74,000,000	\$168	3/29/24	Sigma Plastics Group	Prime Finance Partners
1211-1315 W. 22ND STREET	391,515	A	Eastern East/ West Corridor	\$46,000,000	\$117	5/15/24	Franklin Partners	Heitman
2349 W. LAKE STREET	116,550	B	North DuPage	\$8,180,000	\$70	6/12/24	Stotan Industrial	EQT Exeter
5202 & 5250 OLD ORCHARD ROAD	336,632	B	Near North	\$7,850,000	\$23	3/21/24	D.I.R. Development	Zeller
800 BURR RIDGE PARKWAY	91,000	B	Eastern East/ West Corridor	\$6,750,000	\$74	1/3/24	800 Burr Ridge Parkway LLC	Huntington National Bank
799 ROOSEVELT ROAD	150,000	B	Western East/ West Corridor	\$5,500,000	\$37	4/2/24	Mohawk Medical	Clark Street Real Estate

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 H1/24	DIRECT NET ABSORPTION 2023 (SF)
ALL SUBURBAN	94,915,796	103,620	29.1%	2.8%	24.1%	0.9%	\$26.79	(814,441)	(410,587)
CLASS A	33,181,182	206,094	30.8%	3.4%	25.3%	1.0%	\$31.08	(500,171)	337,302
CLASS B	61,734,614	81,768	28.1%	2.5%	23.4%	0.8%	\$24.27	(314,270)	(747,889)
E/W CORRIDOR	36,703,745	91,097	28.1%	2.5%	21.5%	0.8%	\$25.93	(383,863)	200,431
EAST	21,924,311	103,907	29.3%	2.8%	21.7%	0.7%	\$27.33	(196,782)	152,606
CLASS A	5,101,513	175,914	26.5%	3.1%	23.2%	0.2%	\$31.85	(56,998)	221,622
CLASS B	16,822,798	92,433	30.1%	2.7%	21.2%	0.9%	\$26.12	(139,784)	(69,016)
WEST	14,779,434	72,095	26.4%	2.0%	21.2%	0.8%	\$23.84	(187,081)	47,825
CLASS A	4,045,028	183,865	32.5%	1.7%	21.7%	1.0%	\$26.90	(69,669)	73,086
CLASS B	10,734,406	58,658	24.1%	2.1%	21.0%	0.8%	\$22.29	(117,412)	(25,261)
NORTHERN	23,065,197	98,151	29.7%	2.5%	24.9%	0.8%	\$27.08	(371,205)	(540,027)
NORTH	17,925,263	97,952	30.0%	3.0%	23.5%	1.0%	\$26.63	(286,676)	(236,697)
CLASS A	5,020,704	152,143	34.3%	3.9%	29.2%	1.3%	\$32.76	(261,504)	(159,289)
CLASS B	12,904,559	86,030	28.4%	2.7%	21.3%	0.9%	\$23.75	(25,172)	(77,408)
SOUTH	5,139,934	98,845	28.5%	0.7%	29.5%	0.3%	\$28.62	(84,529)	(303,330)
CLASS A	2,884,724	192,315	26.6%	1.2%	27.1%	0.6%	\$34.69	(46,280)	(53,655)
CLASS B	2,255,210	60,952	30.9%	0.0%	32.6%	0.0%	\$21.92	(38,249)	(249,675)
NORTHWEST	23,189,981	124,420	32.2%	2.8%	30.6%	0.7%	\$25.25	45,855	(114,385)
I-355	4,165,969	101,609	20.6%	3.0%	21.1%	0.3%	\$25.46	70,236	146,009
CLASS A	2,616,153	218,013	26.9%	2.2%	21.3%	0.2%	\$26.61	71,286	128,582
CLASS B	1,549,816	53,442	10.1%	4.4%	20.7%	0.4%	\$20.26	(1,050)	17,427
SCHAUMBURG	19,024,012	129,415	34.7%	2.8%	32.6%	0.8%	\$25.21	(24,381)	(260,394)
CLASS A	8,257,231	305,823	38.1%	4.0%	31.2%	1.2%	\$29.08	(56,834)	29,980
CLASS B	10,766,781	89,723	32.1%	1.8%	33.7%	0.5%	\$21.68	32,453	(290,374)
O'HARE	11,956,873	155,284	24.7%	4.3%	18.1%	1.6%	\$32.85	(105,228)	43,394
CLASS A	5,255,829	228,514	23.2%	5.2%	18.3%	1.9%	\$37.76	(80,172)	96,976
CLASS B	6,701,044	124,093	25.9%	3.6%	18.0%	1.3%	\$29.40	(25,056)	(53,582)

FIGURE 04

Absorption

Source: CoStar

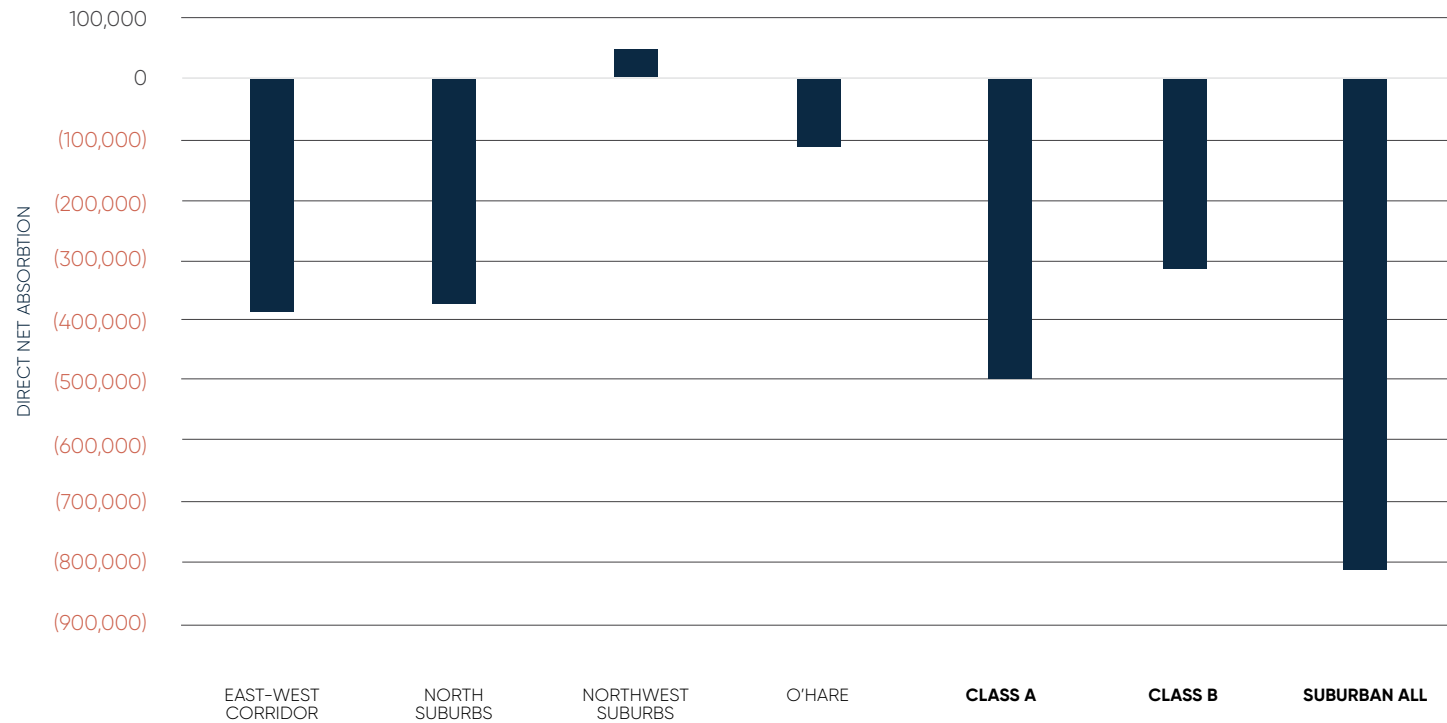
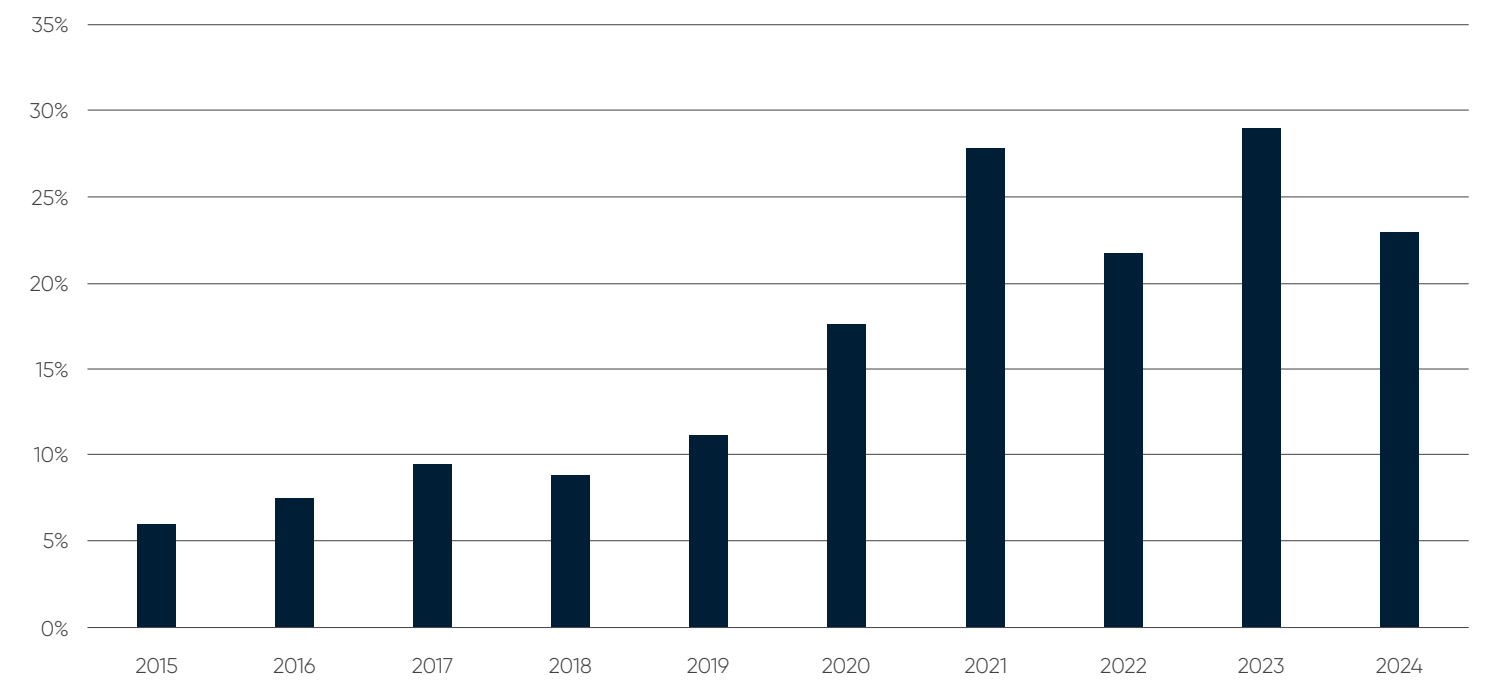


FIGURE 06

Move-In Ready Suites: Leasing Activity

Source: CoStar

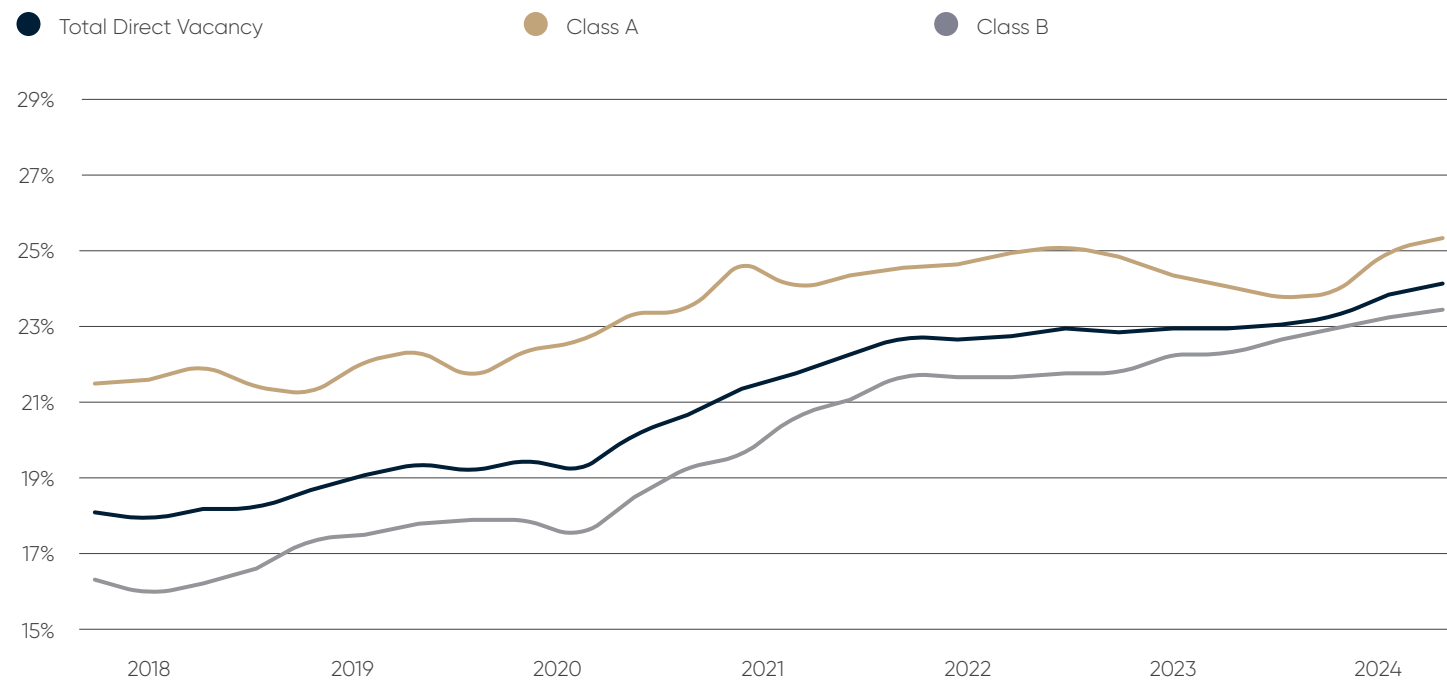


This chart shows the percentage of square footage leased for move-in ready suites year over year, which are deals classified as fully builtout or spec suites in CoStar.

FIGURE 05

Direct Vacancy Rate

Source: CoStar



EAST/WEST CORRIDOR

- In the first half of 2024, the direct vacancy rate remained below the suburban average, sitting at less than 22%.
- Absorption levels were worse in the East/West Corridor than any other submarket in the CBD, as more than -380,000 square feet was absorbed through H1/24. Despite the submarket's recent performance, it's important to highlight that the submarket had the highest absorption of any submarket in 2023.
- One of the largest local transactions of 2024 happened in this submarket with Franklin Partners' purchase of the Oak Brook 22 office campus for \$46 million.
- Notable leases include the Dover Corporation's renewal for 79,000 square feet at 3005 Highland Parkway.

MARKET MOVEMENT

RENEWAL

DOVER CORPORATION
(79,000 SF)
3005 Highland Parkway

NEW LEASE

SASSER FAMILY COS
(65,000 SF)
700 Commerce Drive

RENEWAL

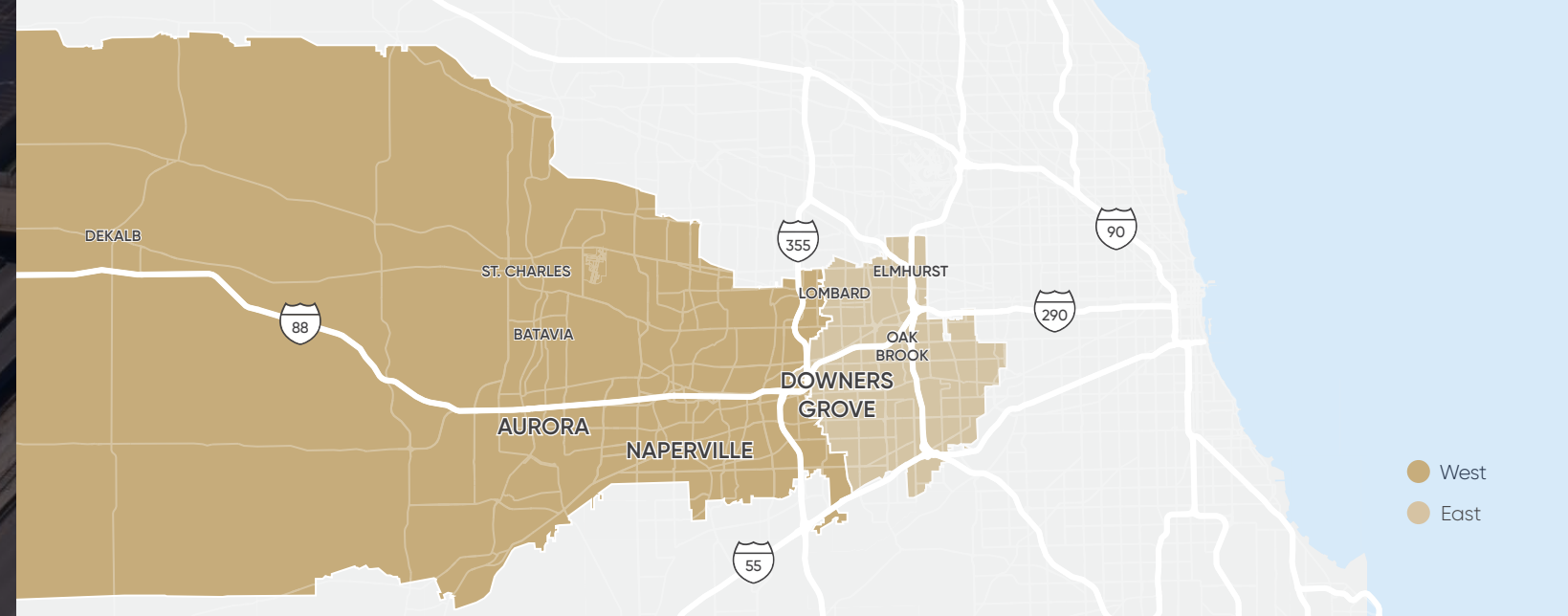
SEDGEWICK
(27,000 SF)
1833 Centre Point Circle

RENEWAL

MERRILL
(26,000 SF)
2021 Spring Road

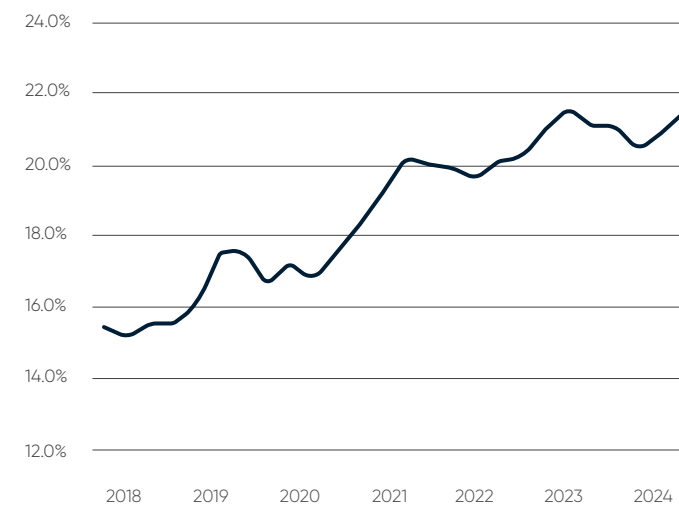
INVESTMENT SALE

FRANKLIN PARTNERS
(391,515 SF)
1211-1315 W. 22nd Street

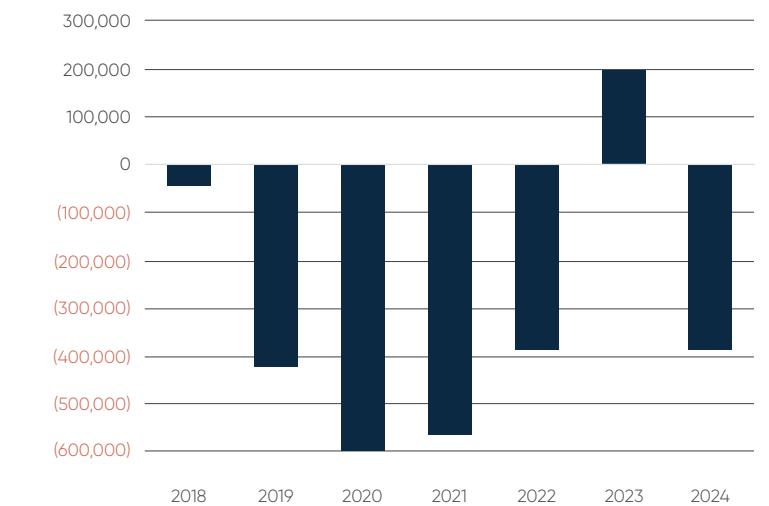


DIRECT VACANCY RATE

Quarter Over Quarter



DIRECT NET ABSORPTION



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 H1/24	DIRECT NET ABSORPTION 2023 (SF)
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CLASS B	10,734,406	58,658	24.1%	2.1%	21.0%	0.8%	\$22.29	(117,412)	(25,261)

NORTHERN SUBURBS

- The direct vacancy rate is relatively in line with the suburban average, slightly less than 25%.
- Absorption levels worsened in the northern suburbs with -371,000 square feet absorbed through the first half of 2024.
- Notable transactions include D.I.R. Development's purchase of 5202 & 5250 Old Orchard Road for just below \$8 million—a pair of office buildings poised for redevelopment.
- The largest lease of the year so far in the north suburbs was signed by the City of Evanston at 909 Davis Street.

MARKET MOVEMENT

NEW LEASE

REGUS
(19,000 SF)
2150 E. Lake Cook
Road

NEW LEASE

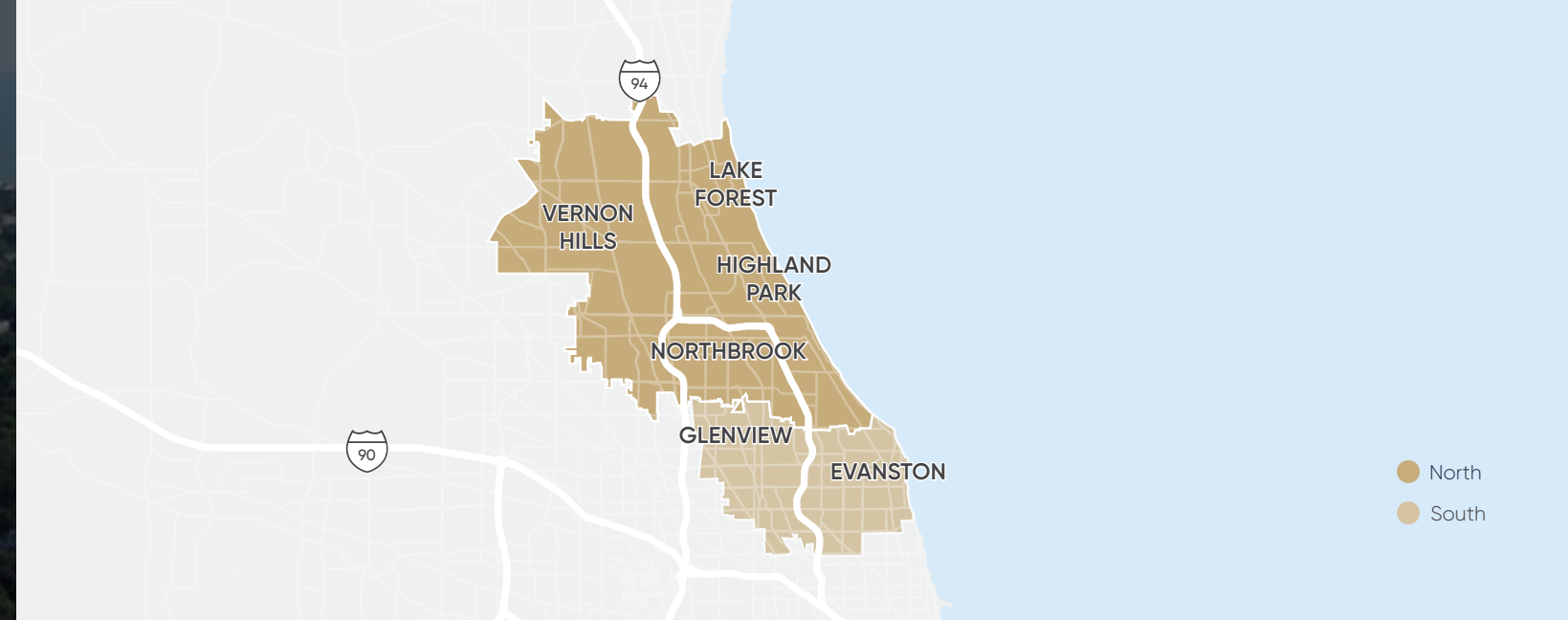
CITY OF
EVANSTON
(51,508 SF)
909 Davis Street

NEW LEASE

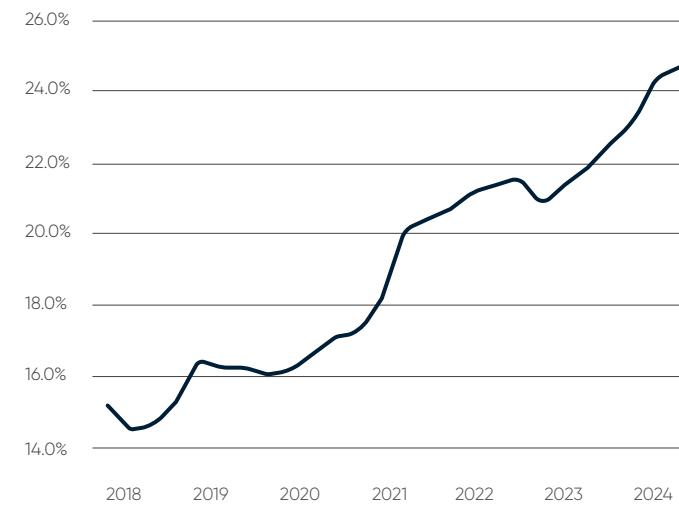
MORGAN
STANLEY
(14,341 SF)
111 S. Pfingsten Road

INVESTMENT SALE

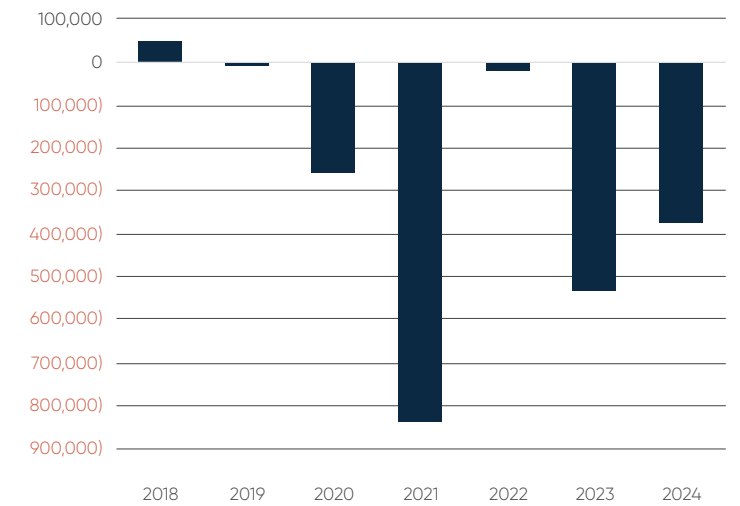
D.I.R.
DEVELOPMENT
(336,632 SF)
5202 & 5250
Old Orchard Road



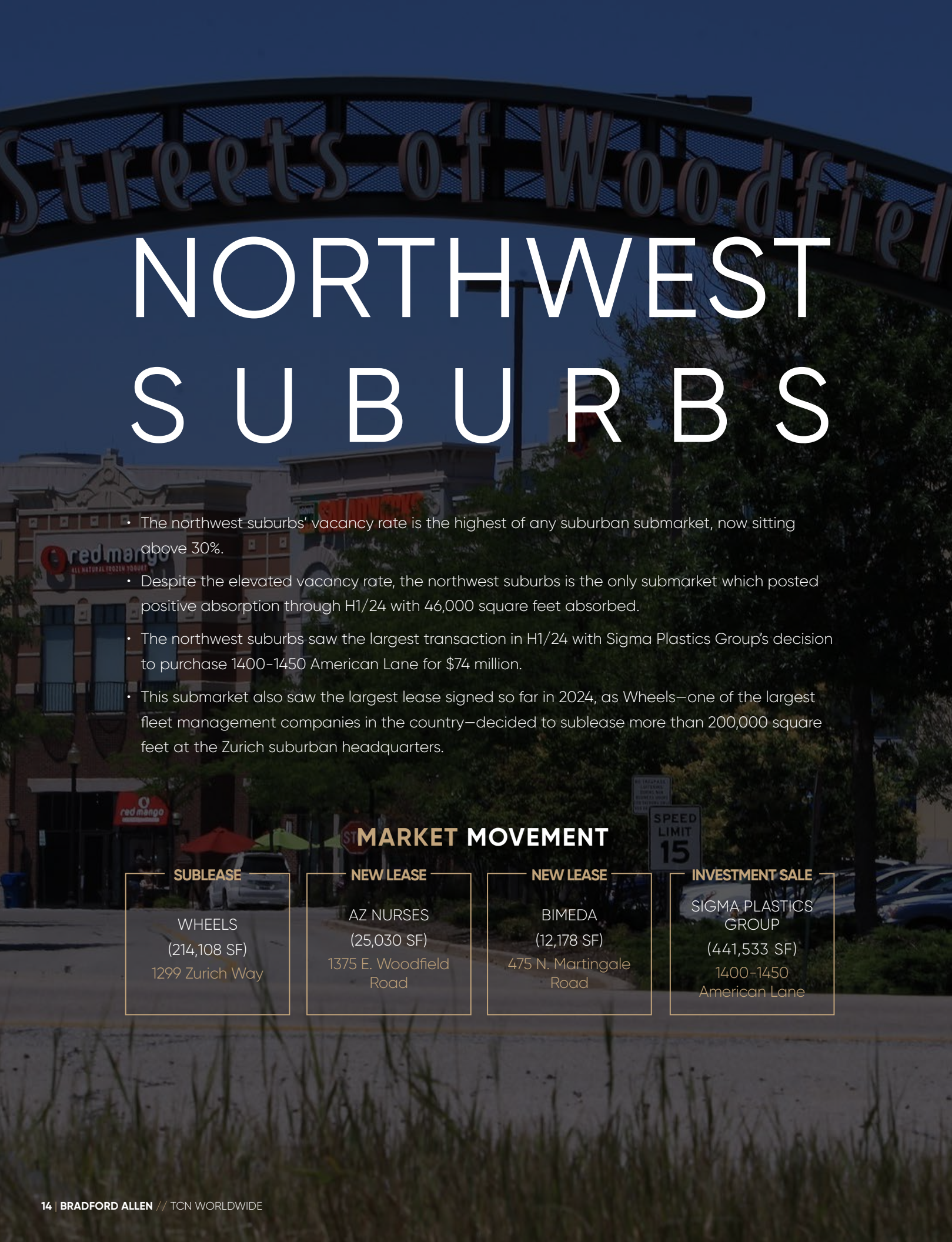
DIRECT VACANCY RATE
Quarter Over Quarter



DIRECT NET ABSORPTION



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 H1/24	DIRECT NET ABSORPTION 2023 (SF)
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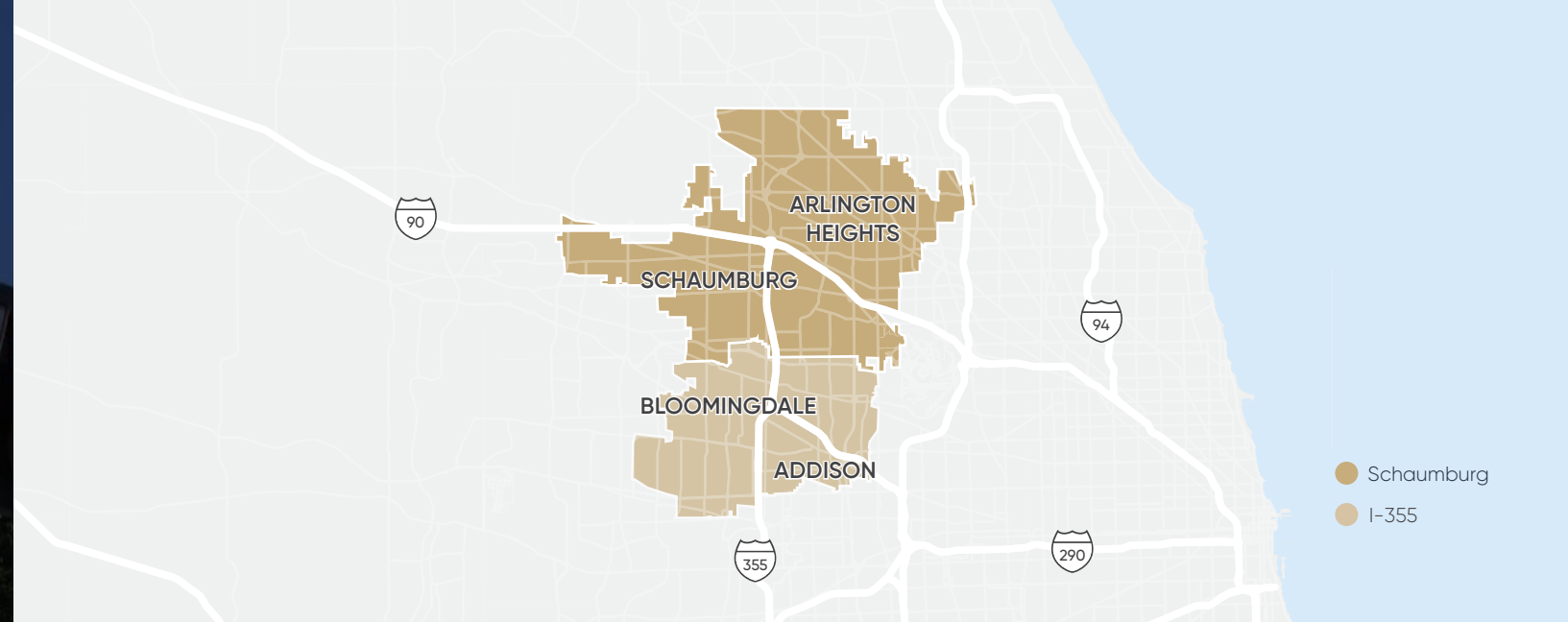


NORTHWEST SUBURBS

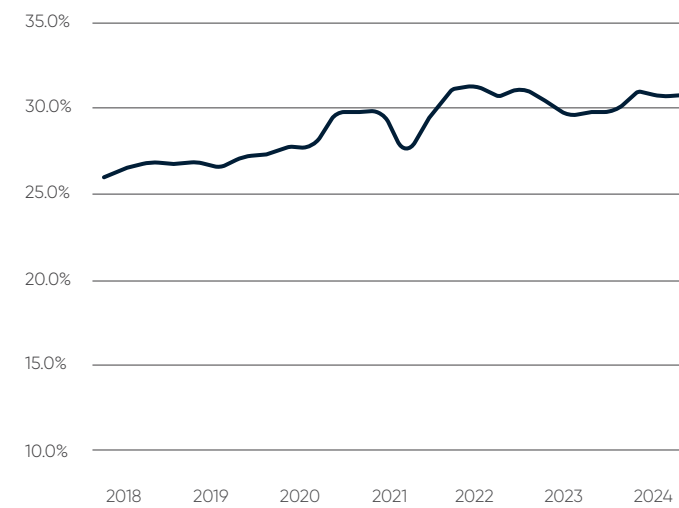
- The northwest suburbs' vacancy rate is the highest of any suburban submarket, now sitting above 30%.
- Despite the elevated vacancy rate, the northwest suburbs is the only submarket which posted positive absorption through H1/24 with 46,000 square feet absorbed.
- The northwest suburbs saw the largest transaction in H1/24 with Sigma Plastics Group's decision to purchase 1400-1450 American Lane for \$74 million.
- This submarket also saw the largest lease signed so far in 2024, as Wheels—one of the largest fleet management companies in the country—decided to sublease more than 200,000 square feet at the Zurich suburban headquarters.

MARKET MOVEMENT

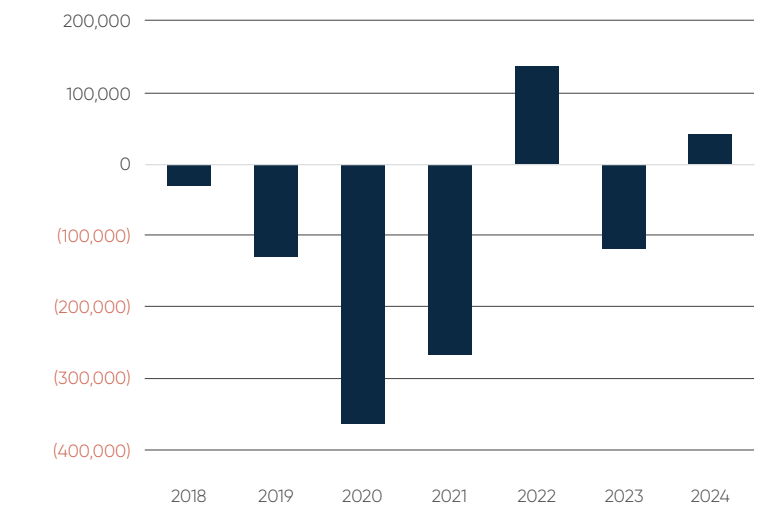
SUBLEASE	NEW LEASE	NEW LEASE	INVESTMENT SALE
WHEELS (214,108 SF) 1299 Zurich Way	AZ NURSES (25,030 SF) 1375 E. Woodfield Road	BIMEDA (12,178 SF) 475 N. Martingale Road	SIGMA PLASTICS GROUP (441,533 SF) 1400-1450 American Lane



DIRECT VACANCY RATE
Quarter Over Quarter



DIRECT NET ABSORPTION



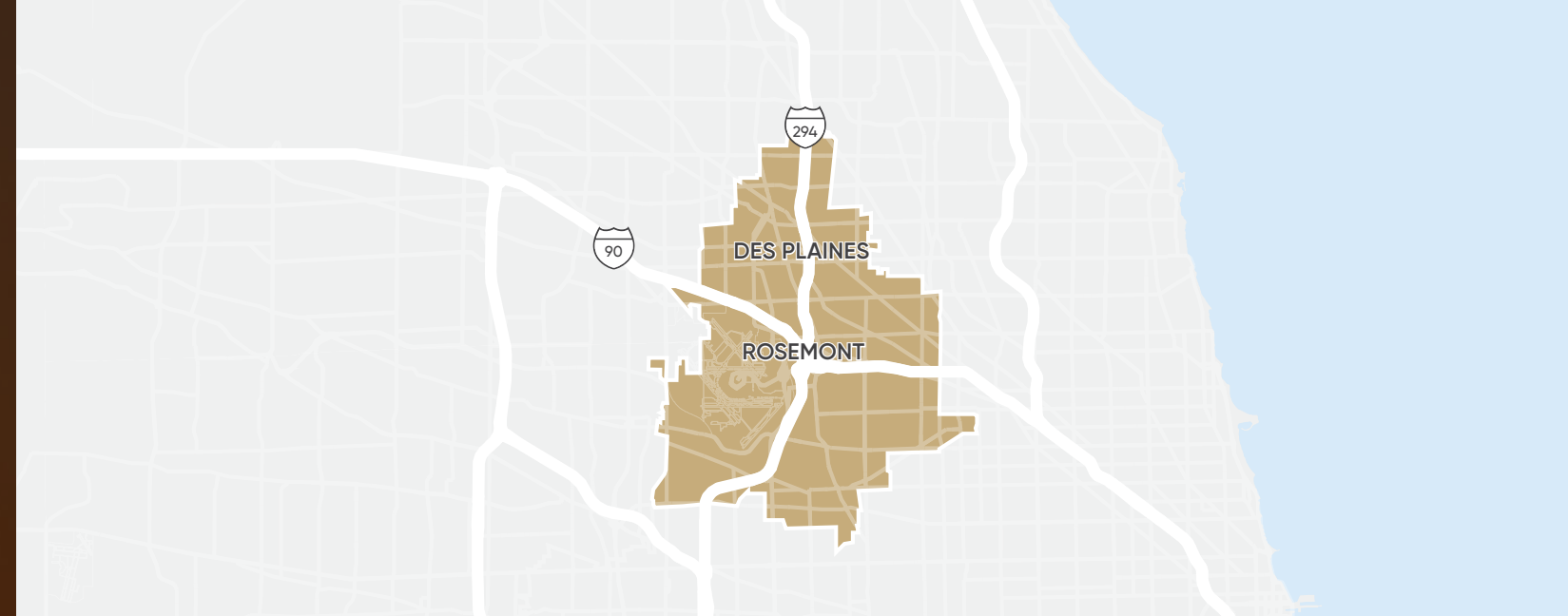
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CLASS B	1,549,816	53,442	10.1%	4.4%	20.7%	0.4%	\$20.26	(1,050)	17,427
SCHAUMBURG	19,024,012	129,415	34.7%	2.8%	32.6%	0.8%	\$25.21	(24,381)	(260,394)
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CLASS B	10,766,781	89,723	32.1%	1.8%	33.7%	0.5%	\$21.68	32,453	(290,374)

O'HARE

- O'Hare remains the lowest vacancy submarket in the Chicagoland suburbs, sitting just above 18%—approximately 6% less than the suburban average.
- After positive absorption in 2023, the trend reversed with -105,000 square feet of net absorption through the first half of 2024.
- Notable leases include Honeywell and Fifth Third Bank, both signed at 6111 N. River Road. These tenants signed for a combined 160,000 square feet.

MARKET MOVEMENT

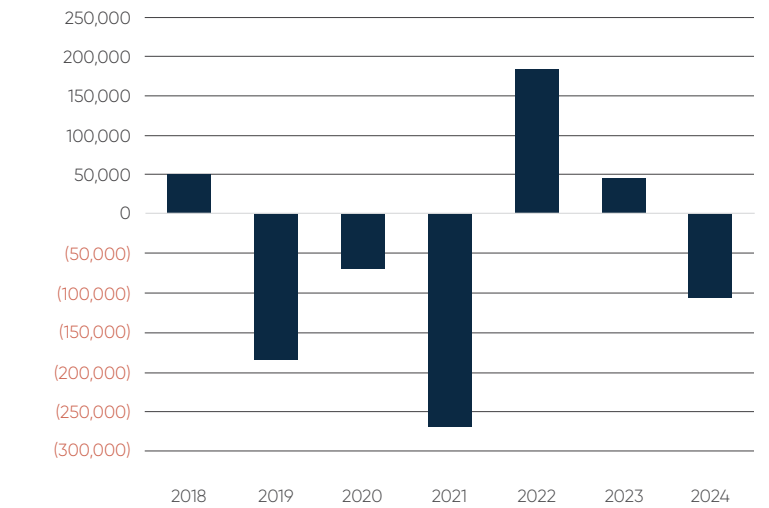
RENEWAL	NEW LEASE	NEW LEASE	NEW LEASE
FIFTH THIRD BANK (55,000 SF) 6111 N. River Road	PHILLIPS (14,000 SF) 8725 W. Higgins Road	LITTELFUSE (53,000 SF) 6133 N. River Road	HONEYWELL (105,000 SF) 6111 N. River Road



DIRECT VACANCY RATE
Quarter Over Quarter

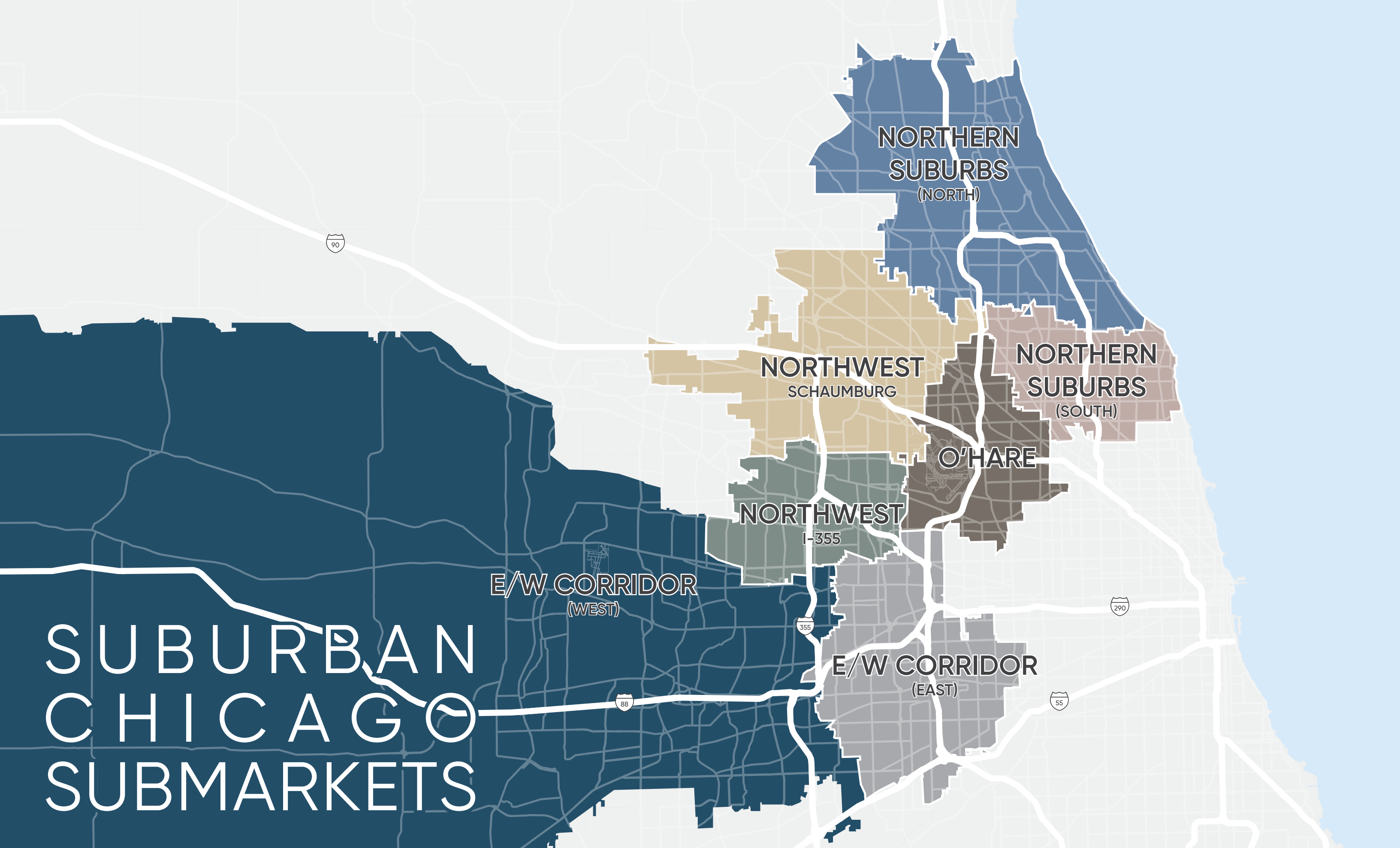


DIRECT NET ABSORPTION



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 H1/24	DIRECT NET ABSORPTION 2023 (SF)
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CLASS B	6,701,044	124,093	25.9%	3.6%	18.0%	1.3%	\$29.40	(25,056)	(53,582)

SUBURBAN CHICAGO SUBMARKETS



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