
2Q24

Chicago Suburban Office Market Report



NEWMARK

Market Observations

Economy

- Chicago’s unemployment rate is 80 bps higher than the national average, and job growth has slowed in the last year. Chicago’s unemployment rate increased during the last several months, reaching 4% for the first time since January 2022.
- Office-occupying or adjacent industries saw all negative results. Financial activities experienced the smallest drop, while business and professional services and information saw significant declines for several quarters in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Major Transactions

- Wheels signed the largest lease of the quarter with a renewal at 1299 Zurich Way for 215K SF.
- A few properties traded hands this quarter. Oak Brook 22, a four-property portfolio consisting of nearly 400K SF sold for \$46 million.

Leasing Market Fundamentals

- Leasing volume had a slight decline from historical second quarter averages. Even though total volume was down the Wheels deal in Schaumburg was the largest lease completed in the metro.
- Additionally, Crate & Barrel agreed to stay at its longtime home in Northbrook, preventing a significant amount of space from being added to the market.

Outlook

- The suburbs continue to face an uphill battle as owners struggle with financing challenges that continue to threaten deals and tenants deliberate on their space requirements. The Suburban market has a surplus of inventory which will need to be absorbed or repurposed to maintain a competitive market.
- Leasing and investment activity continues to be impacted by uncertainty in the office market. Deals are getting through the finish line, but with less velocity as occupiers and investors approach transactions with greater caution.
- Chicago has always been able to ride the waves of the market, but with no surge in demand for office space expected to return, the market will have to scrape by with lower demand and be creative.

1. Economy
2. Leasing Market Fundamentals

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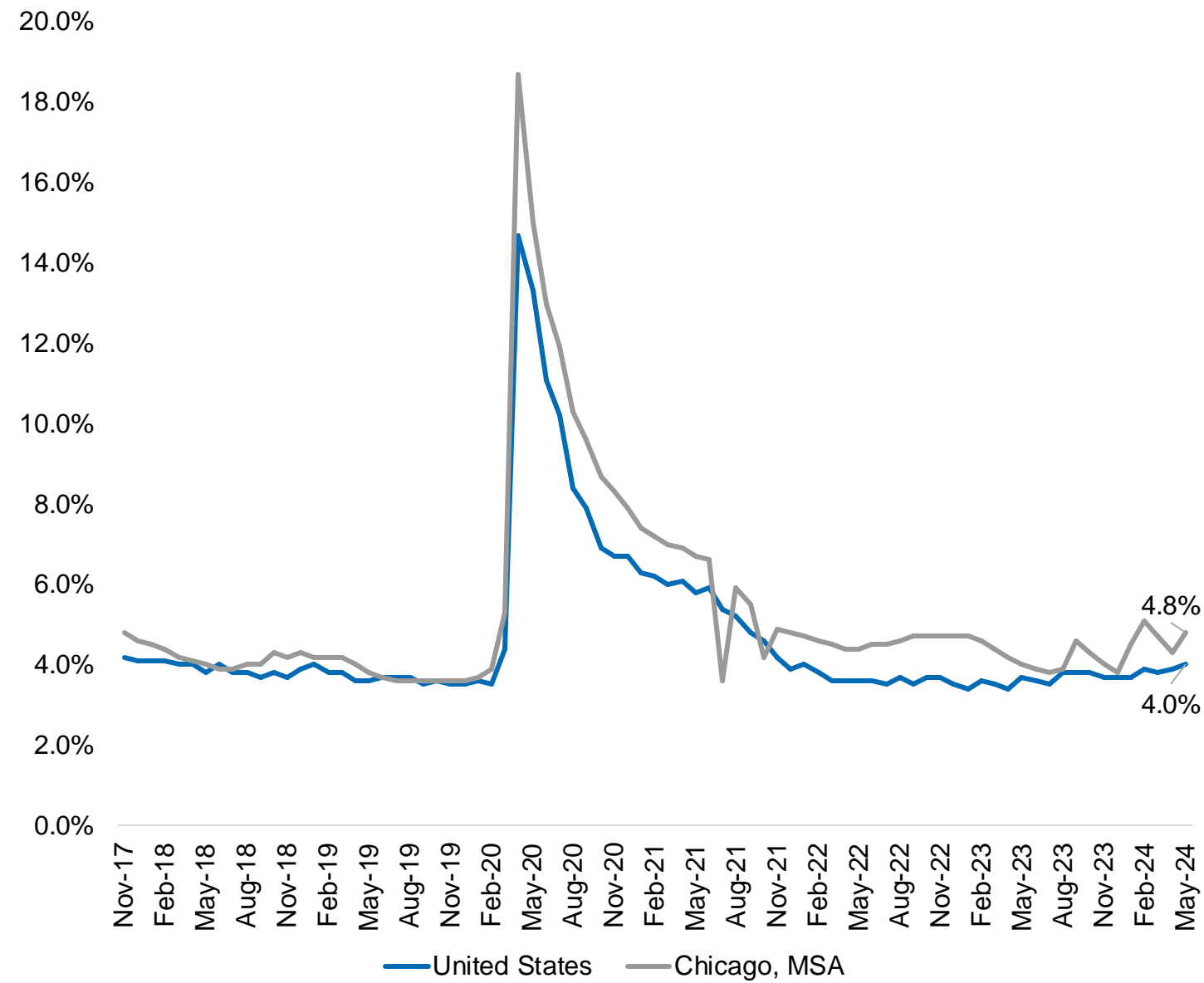
Economy



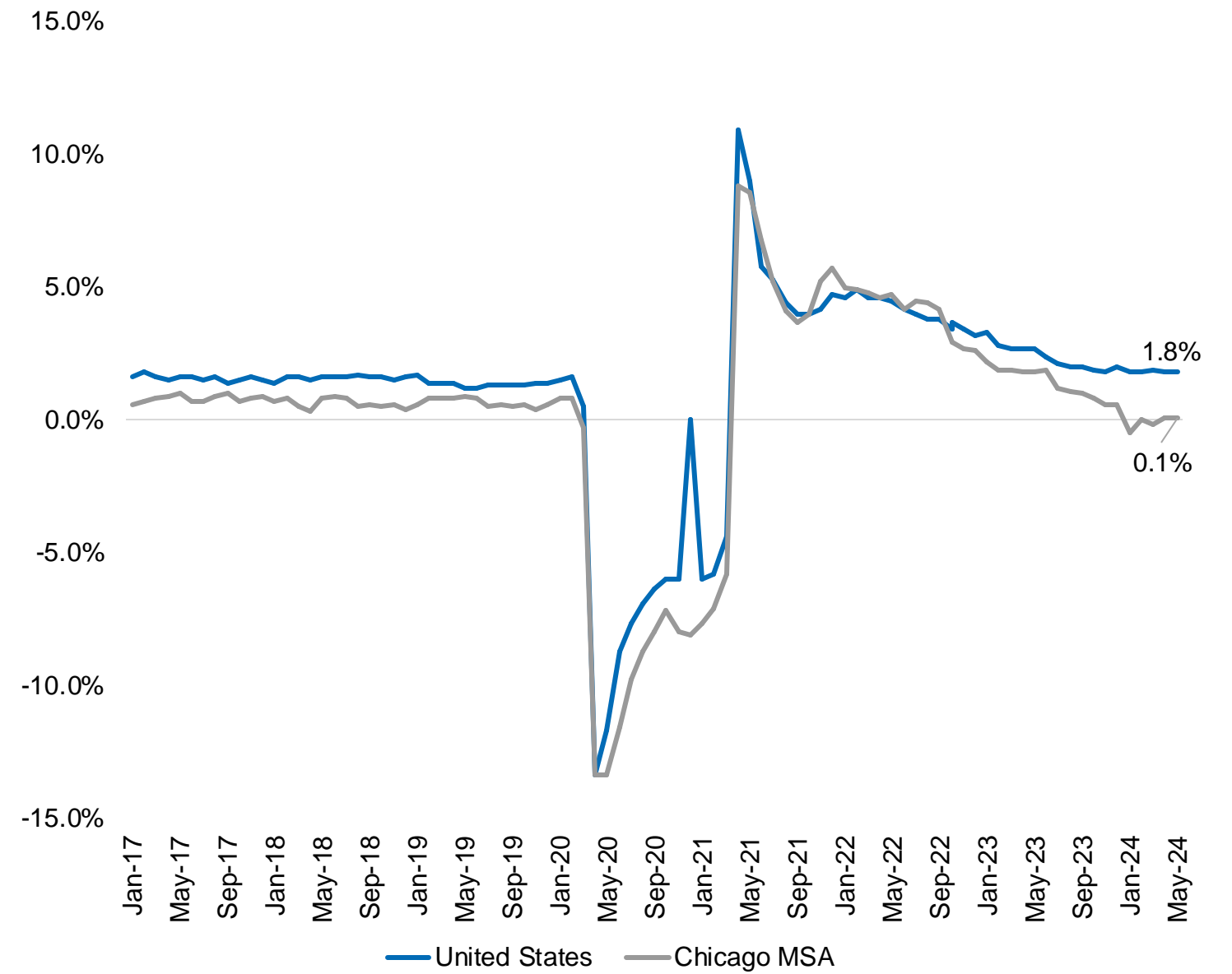
Metro Employment Trends Signal A Slowing Economy

Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed during the last couple of years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

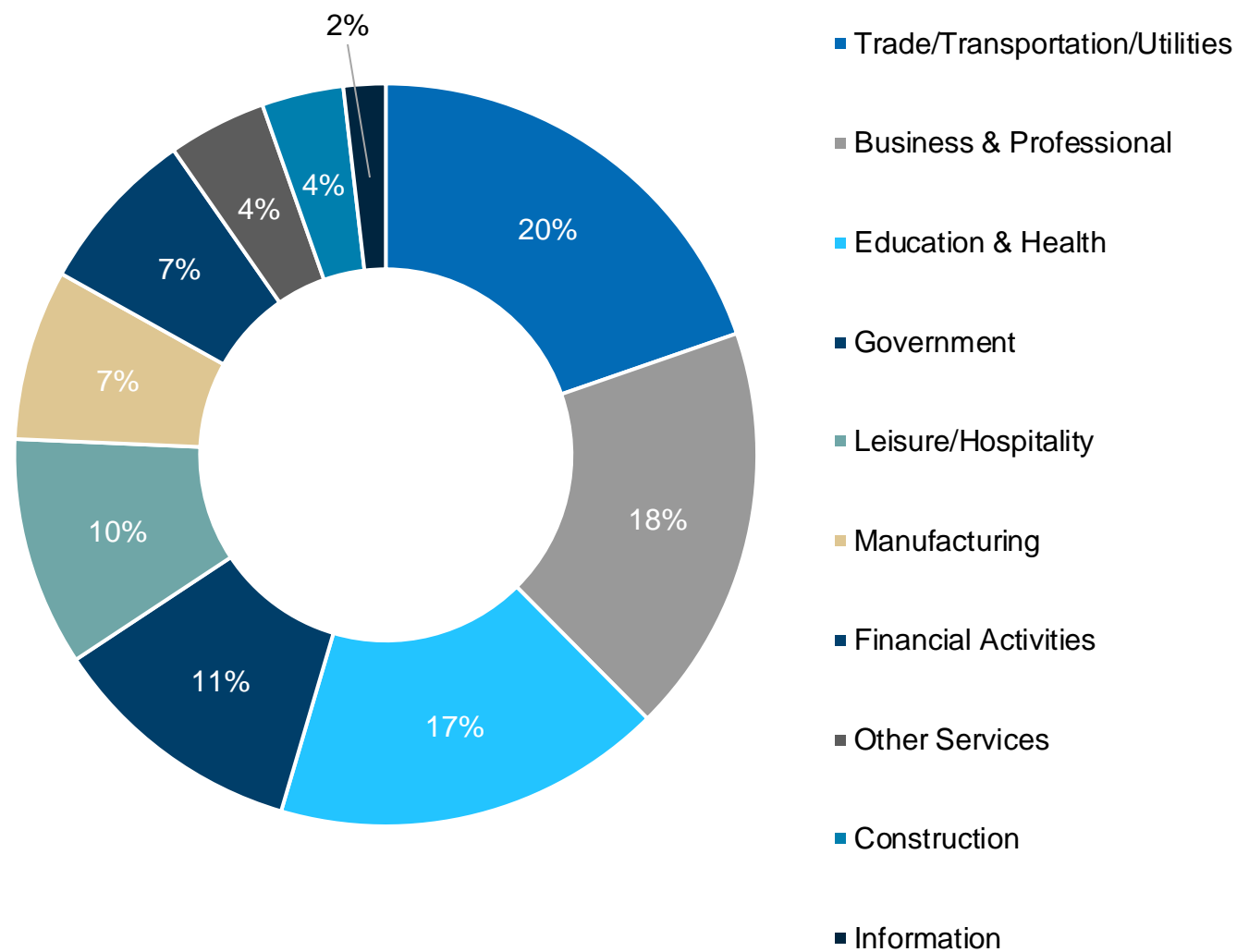


Source: U.S. Bureau of Labor Statistics, Chicago MSA

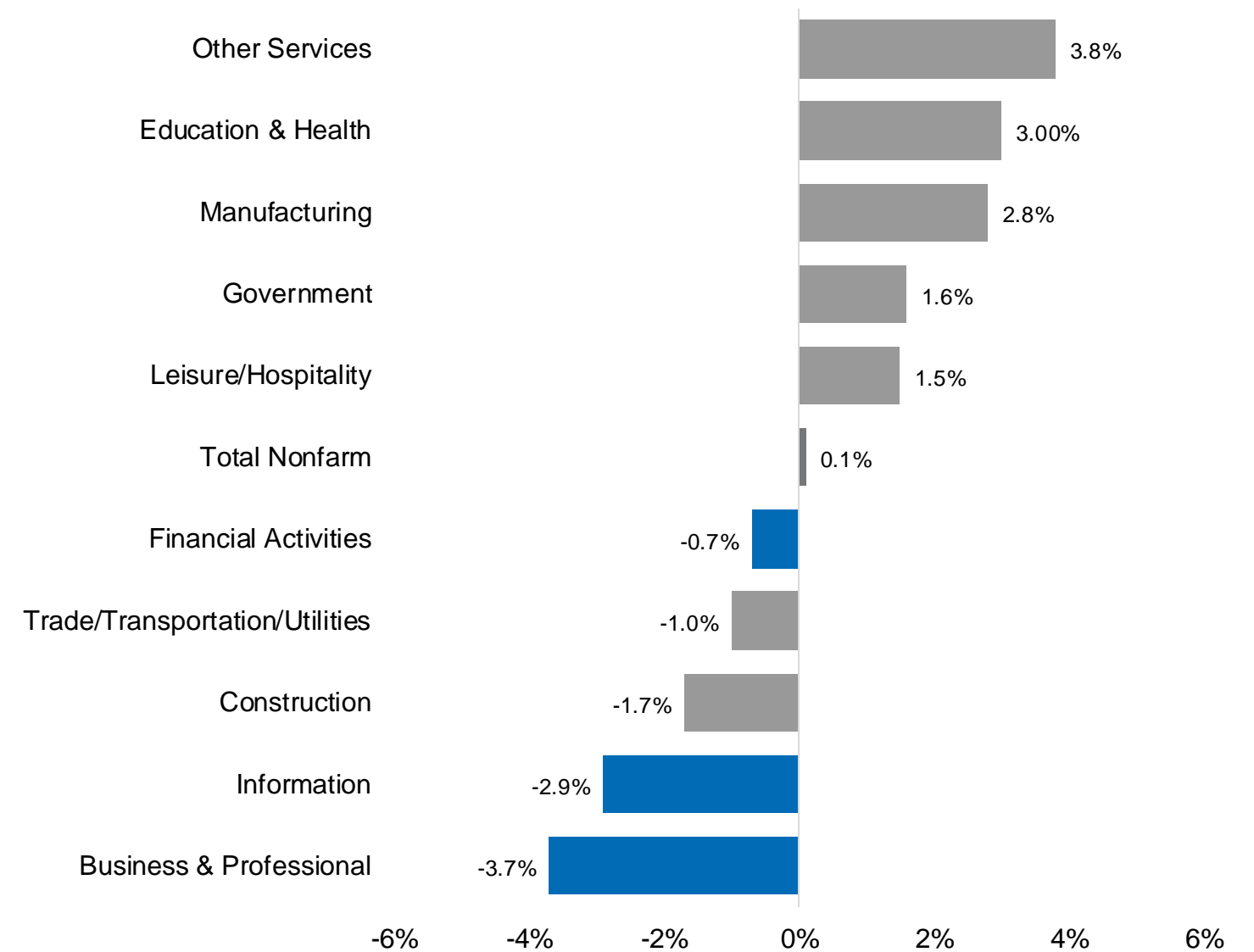
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The “Other Services” sector led all industries in regional annual job growth. Office-occupying or adjacent industries saw all negative results. Financial activities experienced the smallest drop, while business and professional services and information saw significant declines for several quarters in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

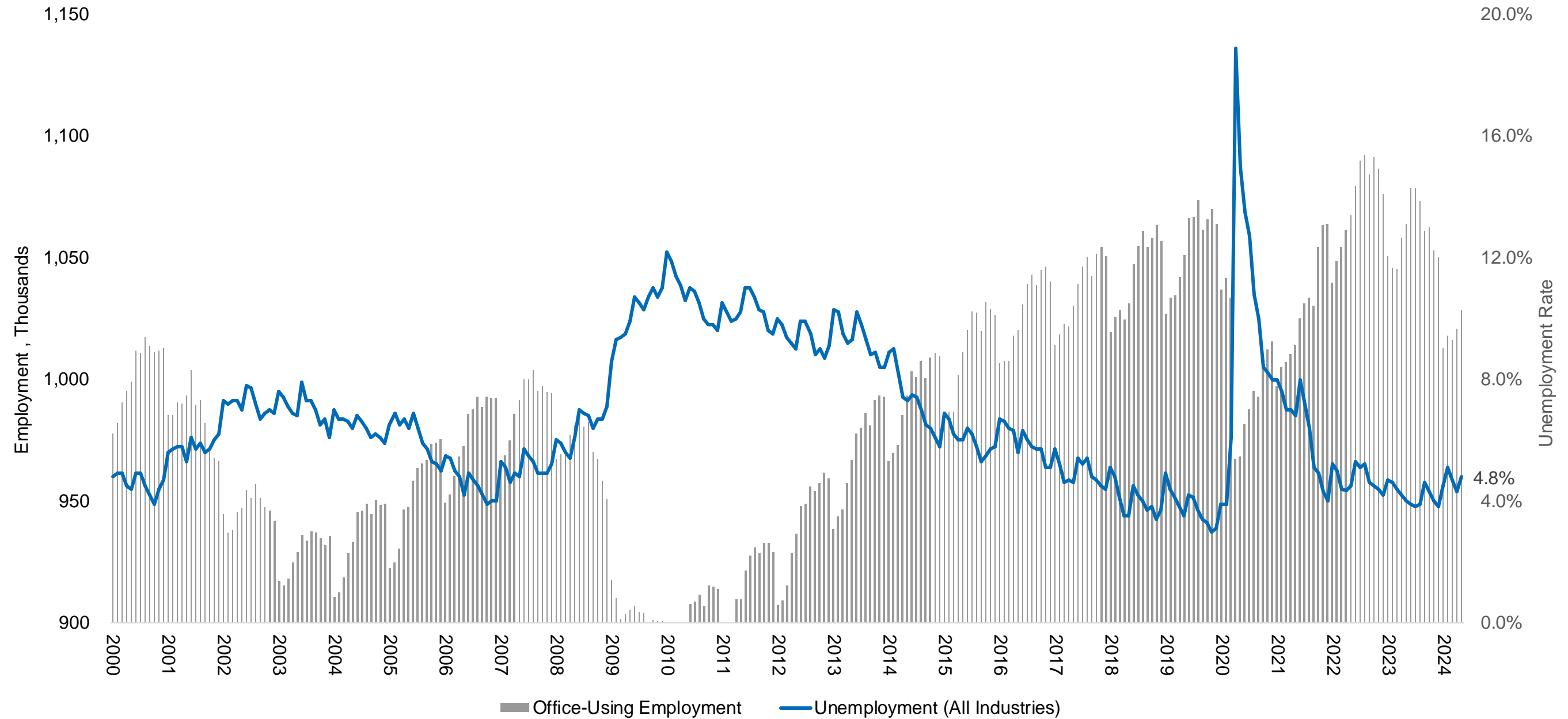


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Overall Office-Using Employment Holds Steady

The number of office jobs has rebounded to pre-pandemic levels but fallen slightly year over year.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Chicago MSA

Note: *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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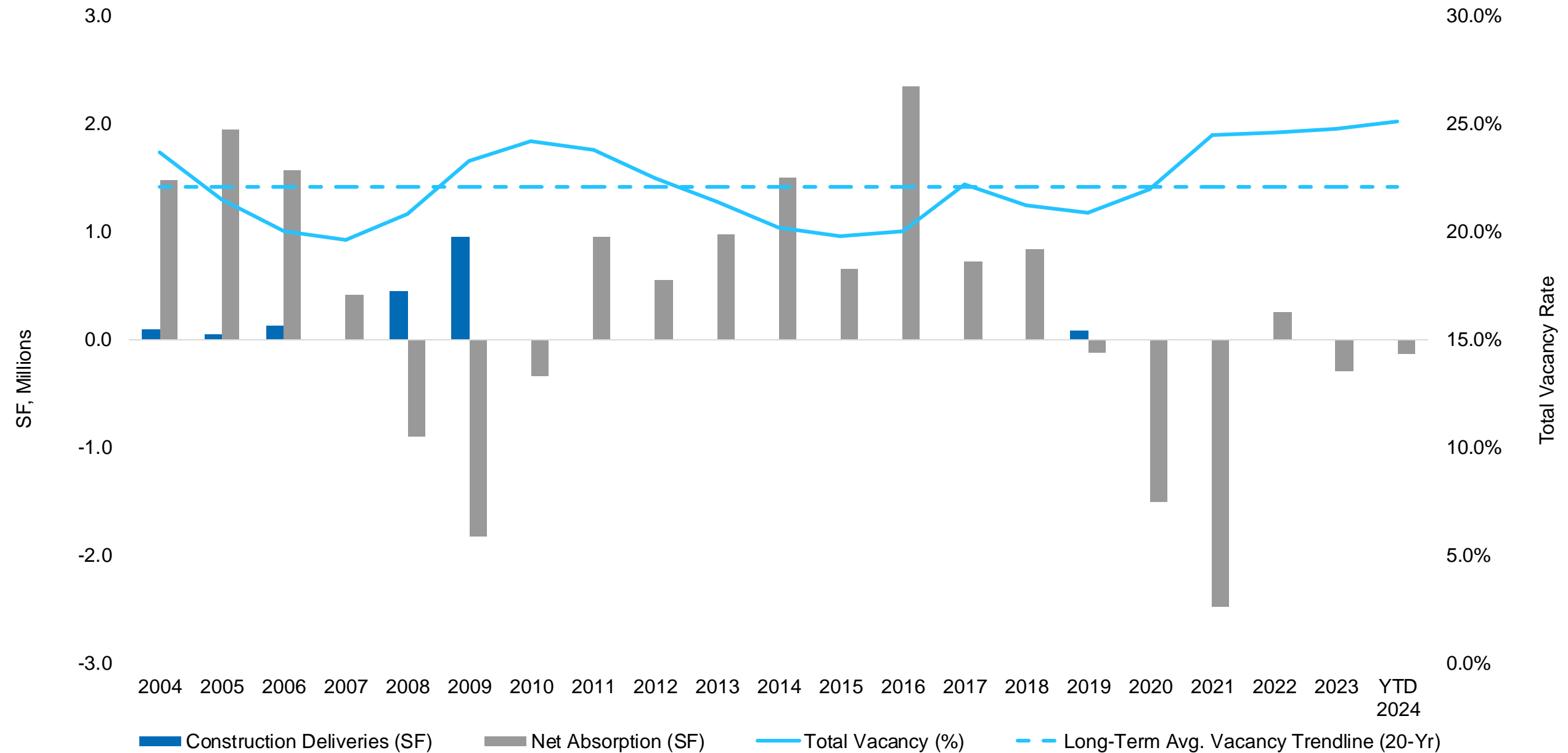
Leasing Market Fundamentals



Total Vacancy and Net Absorption Stay Relatively Flat

Quarter-over-quarter vacancy increased 20 basis points to 25.1%; year over year, vacancy has increased 90 basis points. With no new suburban office buildings in the pipeline, the current inventory has held relatively steady.

Historical Construction Deliveries, Net Absorption, and Vacancy

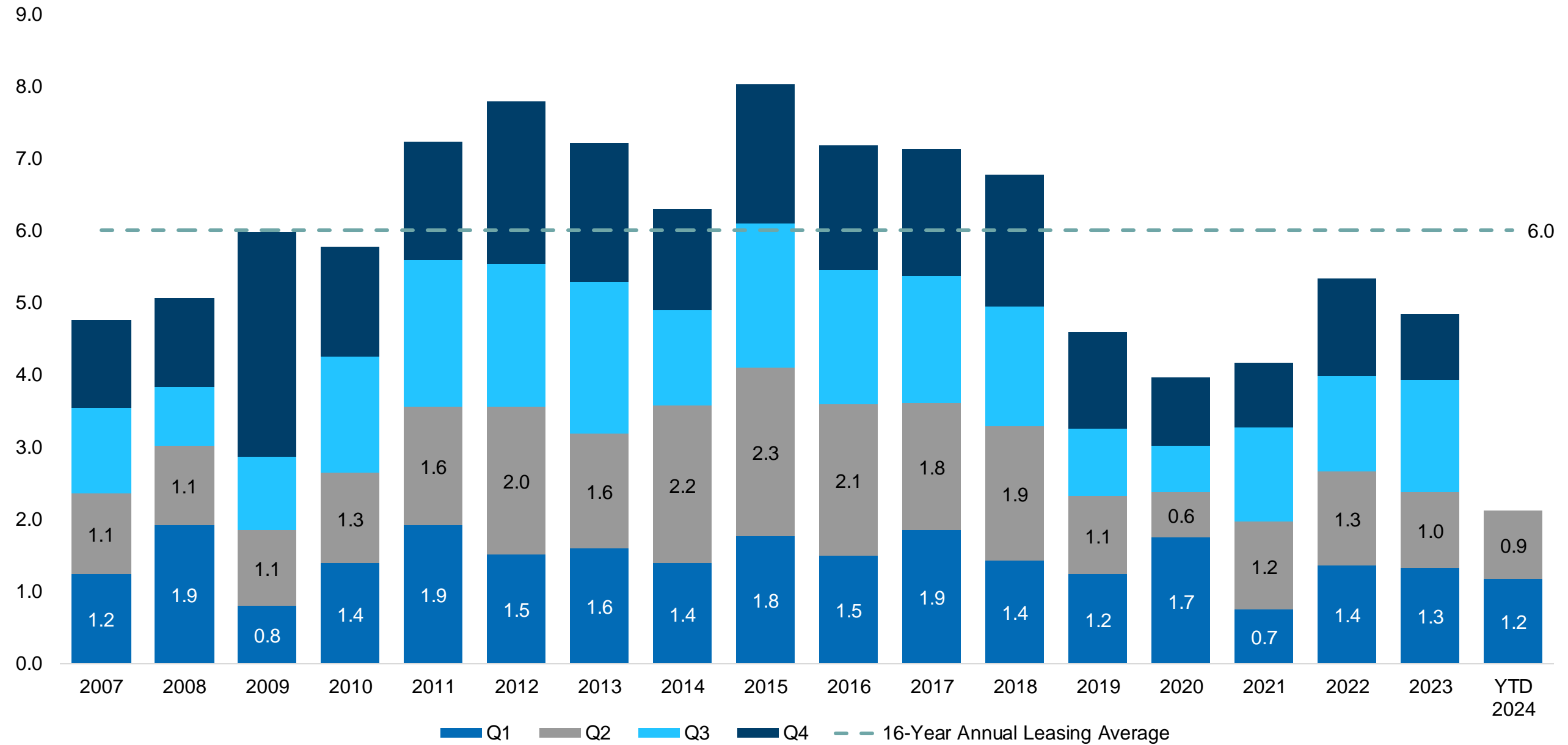


Source: Newmark Research

Slight Dip in Leasing Volume Recorded in Second Quarter

Leasing volume fell just under the typical second quarter volume despite several significant leases being completed in the suburbs, including the largest metro lease signed by Wheels at the Zurich headquarters building in Schaumburg.

Total Leasing Activity (msf)

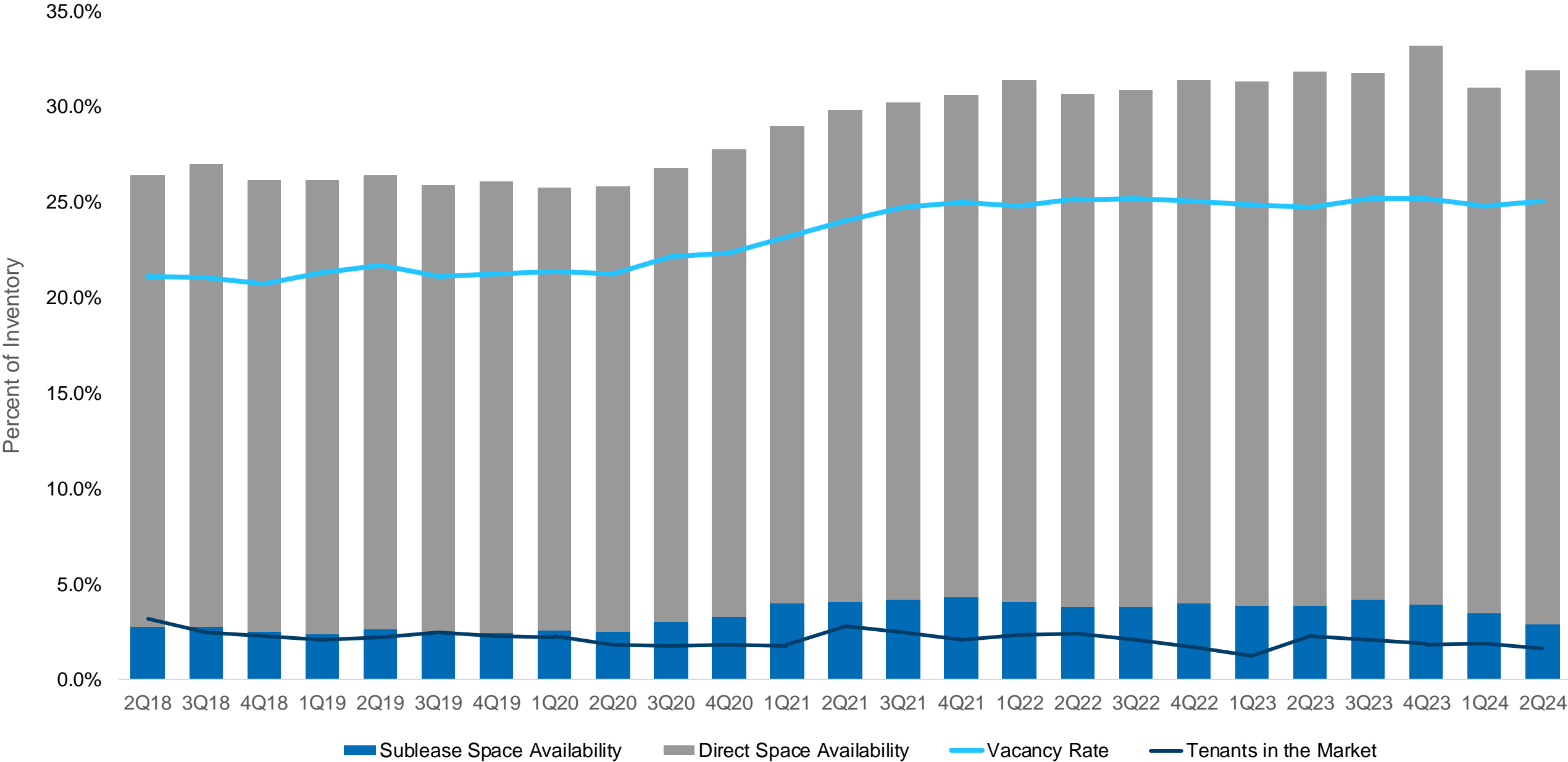


Source: Newmark Research, CoStar

Vacancy Holds Steady

Total availability increased this quarter to 31.9% from 31.0%. Additionally, tenants in the market account for 1.7% of total inventory, compared to 1.9% last quarter.

Available Space and Tenant Demand as Percent of Overall Market

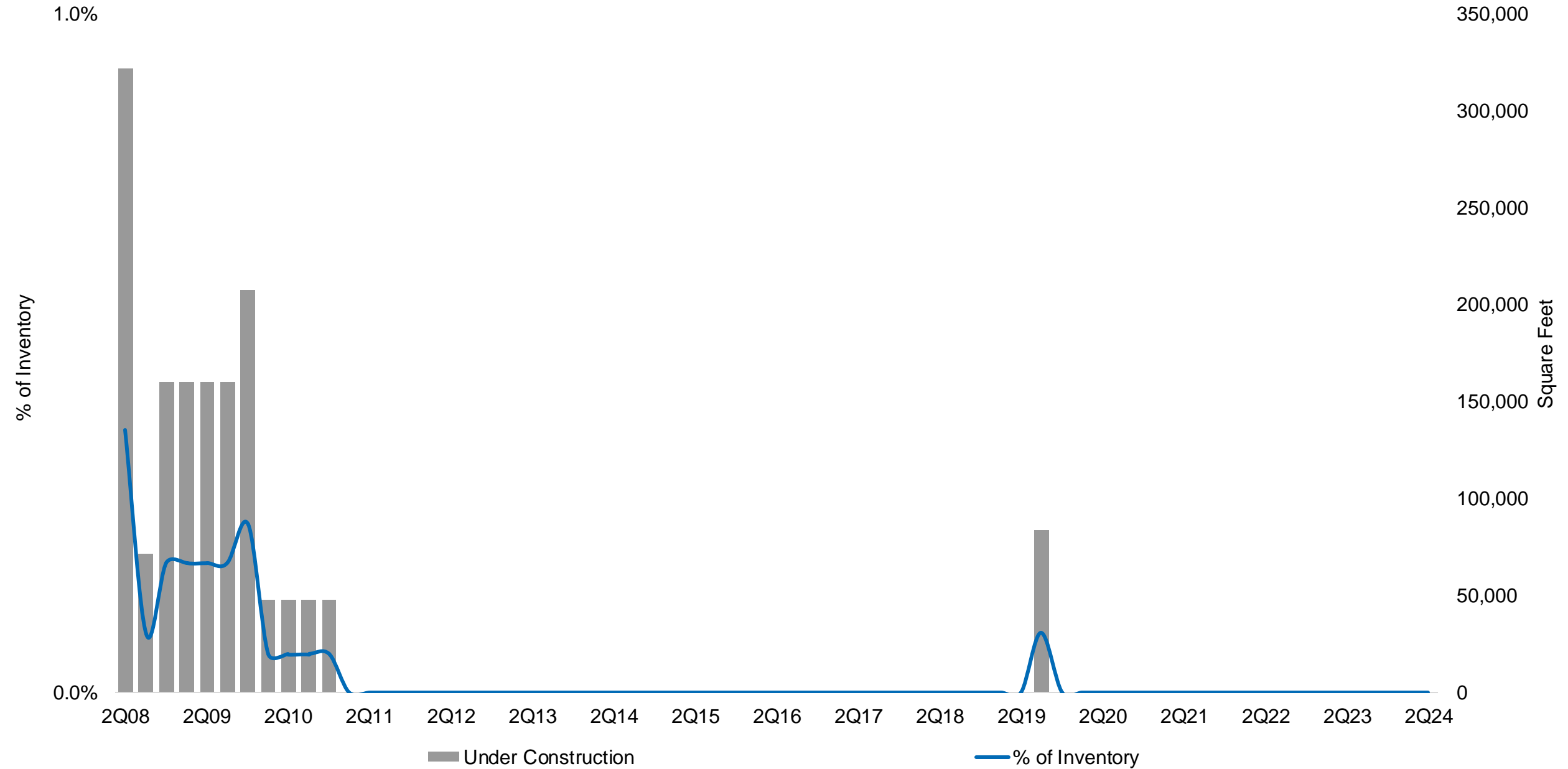


Source: Newmark Research

Developers Continue to Steer Clear of New Office Development in the Suburbs

With many second-generation office buildings stressed with high vacancies, demand for new office product in the suburbs remains at zero.

Office Under Construction and % of Inventory

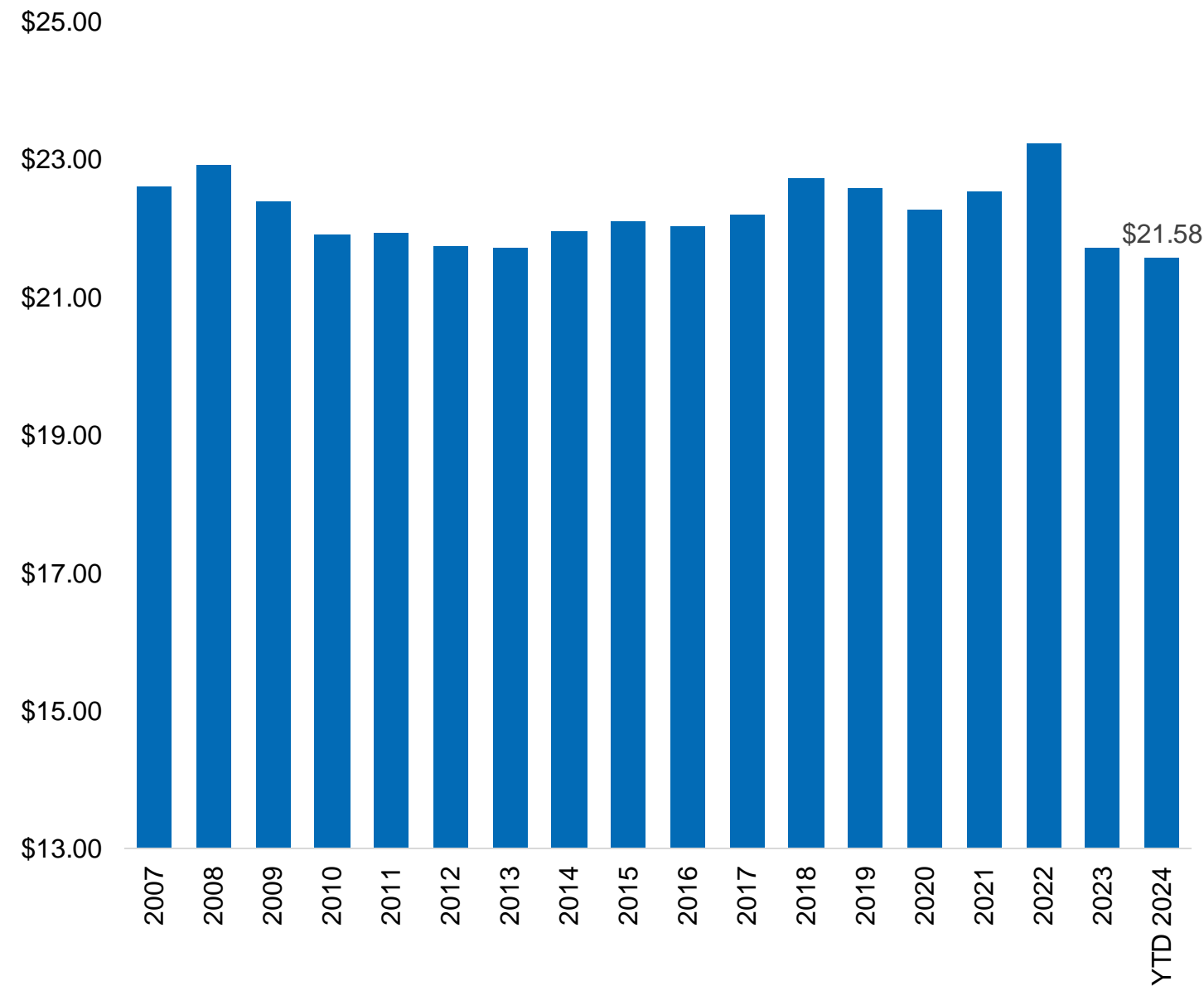


Source: Newmark Research, CoStar

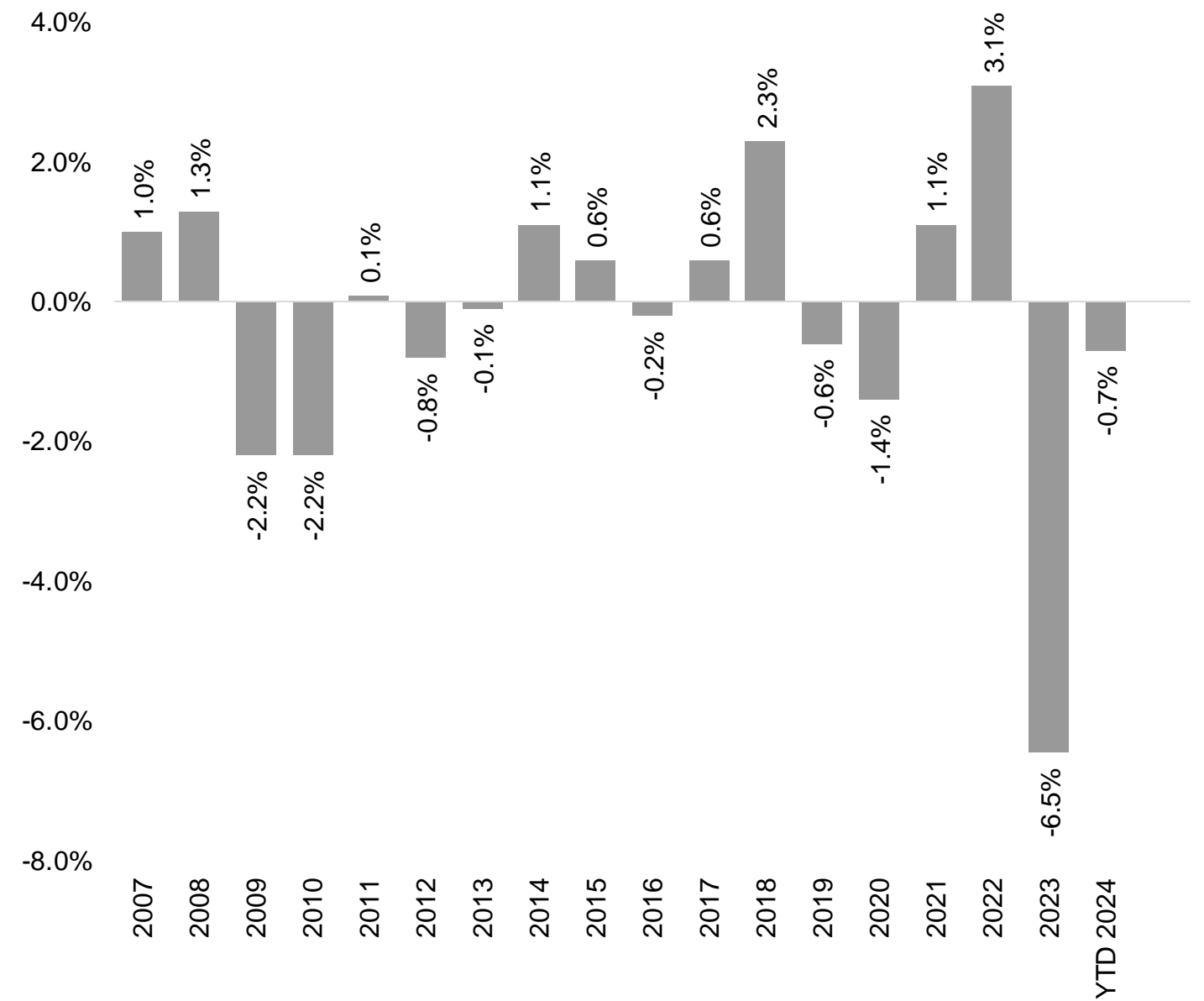
Rental Rates Fall off Amidst Capital Challenges

Asking rates dropped \$0.16/SF year-to-date and \$0.19/SF year over year in the suburbs as landlords struggle to retain capital to complete transactions. Rents are now below pre-pandemic levels due to distressed assets. Well-financed owners are still demanding pre-pandemic rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

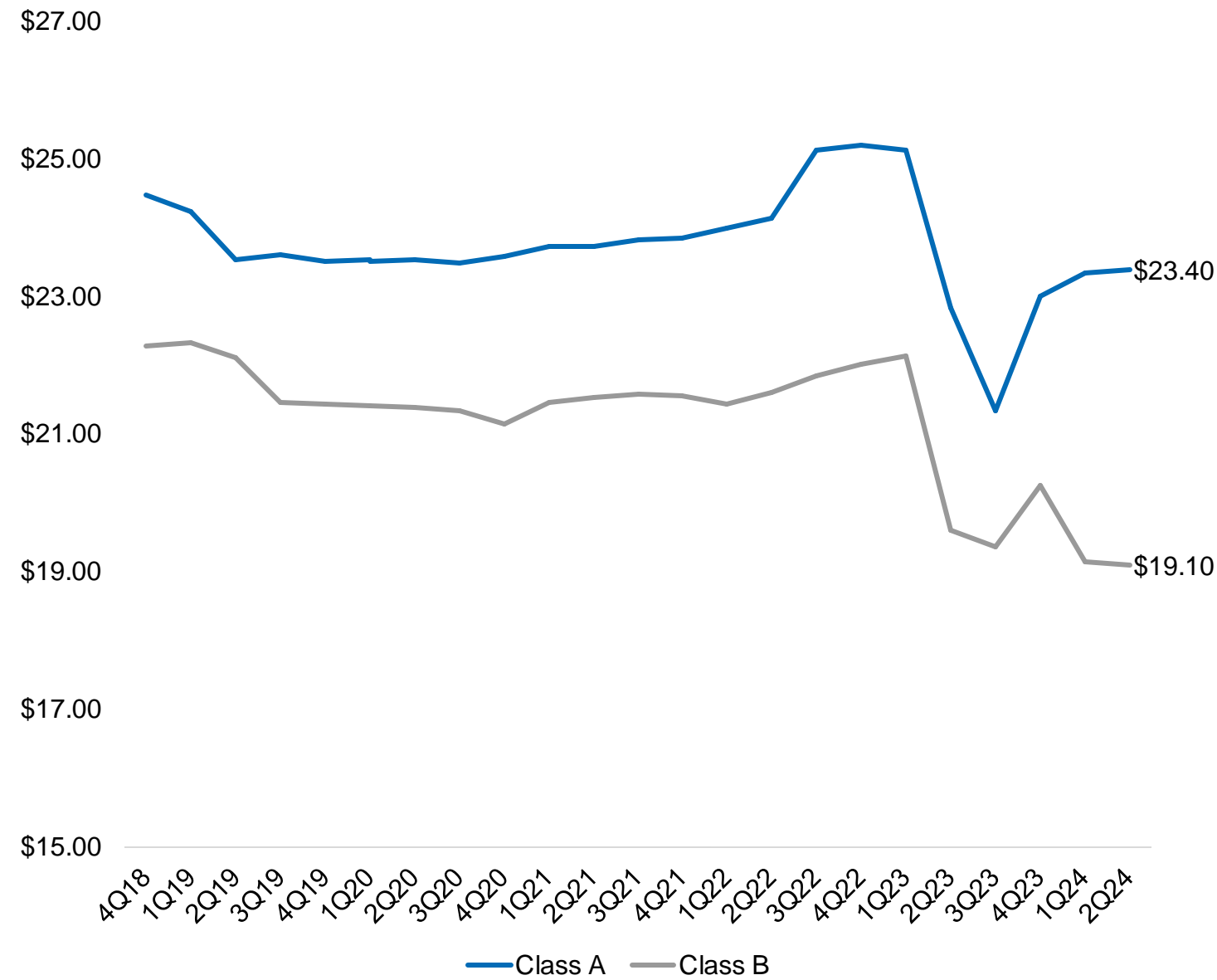


Source: Newmark Research, CoStar

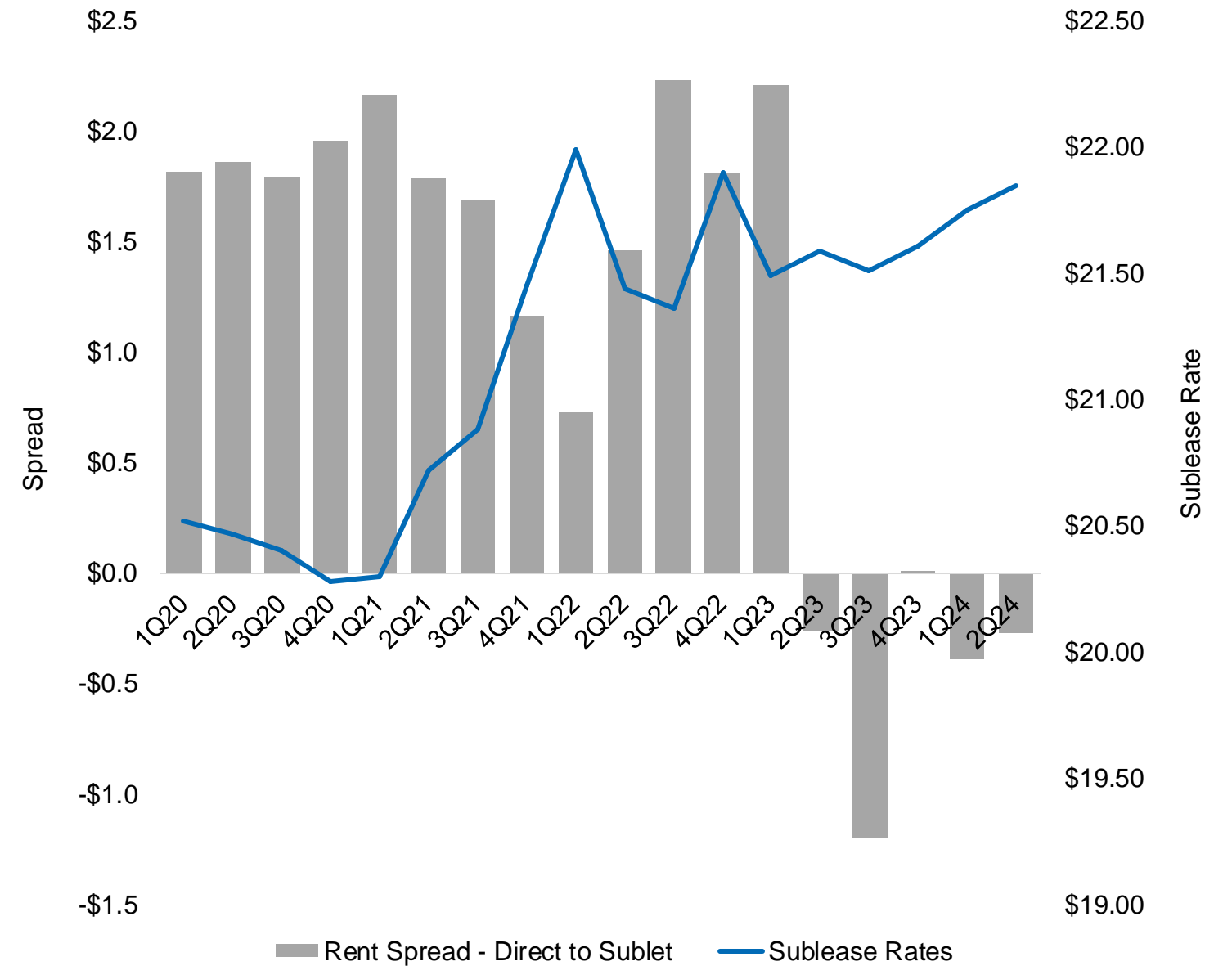
Rental Rates Increase for Class A

Rental rates held steady this quarter, slightly increasing in Class A buildings and barely decreasing in Class B buildings. Sublease rental rates also climbed higher.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Shifts to Larger Deals

For the first quarter in several quarters the suburbs had multiple leases completed over 100,000 SF.. Fleet management firm Wheels, signed a lease for over 200,000 SF at the Zurich North America headquarters building in Schaumburg. The firm will be subleasing the space from Zurich.

Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Wheels	1299 Zurich Way	Northwest	Sublease	215,000
Crate & Barrel	1250 Techny Rd	North	Renewal	150,000
Comcast	Schaumburg CC	Northwest	New Lease	60,000
Littlefuse	6133 N River Rd	O'Hare	New Lease	53,000
Producer's National	8725 W Higgins Rd	O'Hare	Sublease	26,000

Submarket Overview

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