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1Q24

# 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, losing any gains made in the fourth quarter of 2023.
- Office-occupying or adjacent industries saw mostly negative results, with financial activities experiencing almost no change, 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

- Consumer Credit Union signed the largest lease of the quarter for about 140,000 SF at 300 N. Field Rd.
- A few properties traded hands this quarter. Schaumburg Towers was the largest transaction, which sold for \$74 million.
- 100 S. Milwaukee Ave. and 210 S. Milwaukee Ave. sold for about \$29.5 million to be demolished with the intention that the 70-acre site will be redeveloped as industrial properties.

## Leasing Market Fundamentals

- Leasing volume recorded its strongest first quarter in the suburbs since 2018. Quarter-over-quarter vacancy decreased 40 basis points to 24.8%, while year over year, vacancy decreased only 10 basis points.
- The sublease market in the suburbs has not seen the large jump in availability that has plagued the Central Business District market as total available sublease SF declined from last quarter.

## 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



1Q24

# Economy

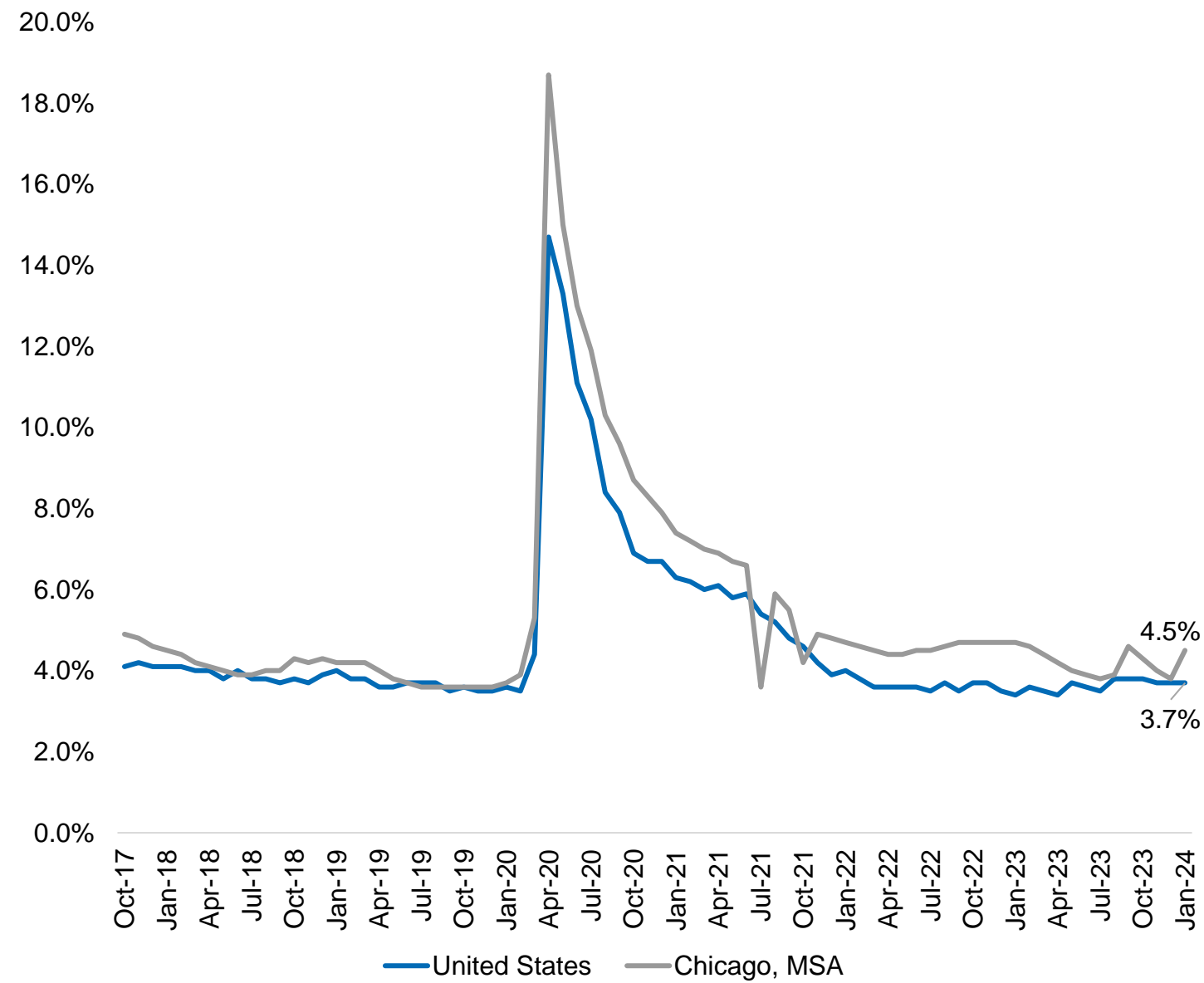




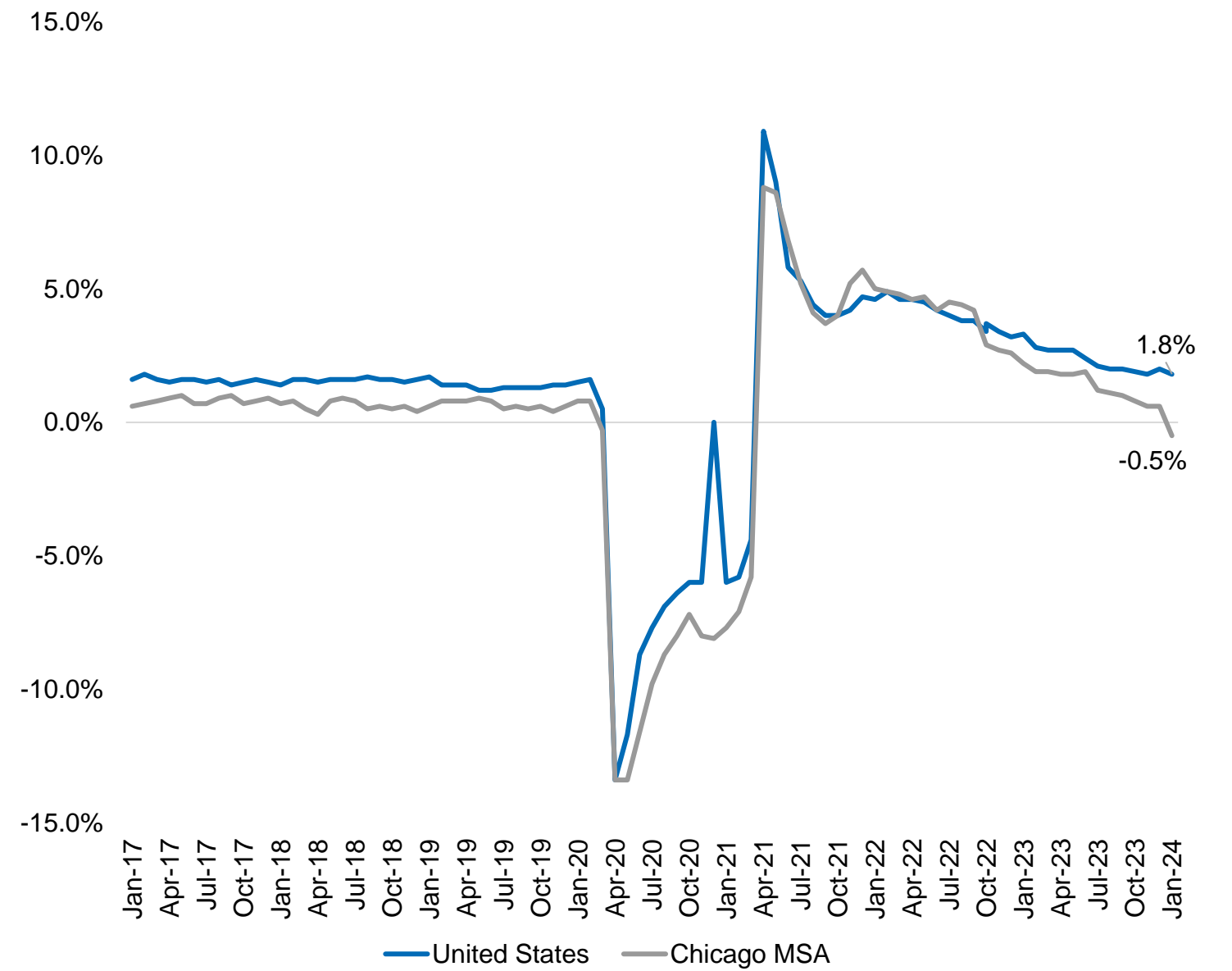
# Metro Employment Trends Signal A Slowing Economy

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

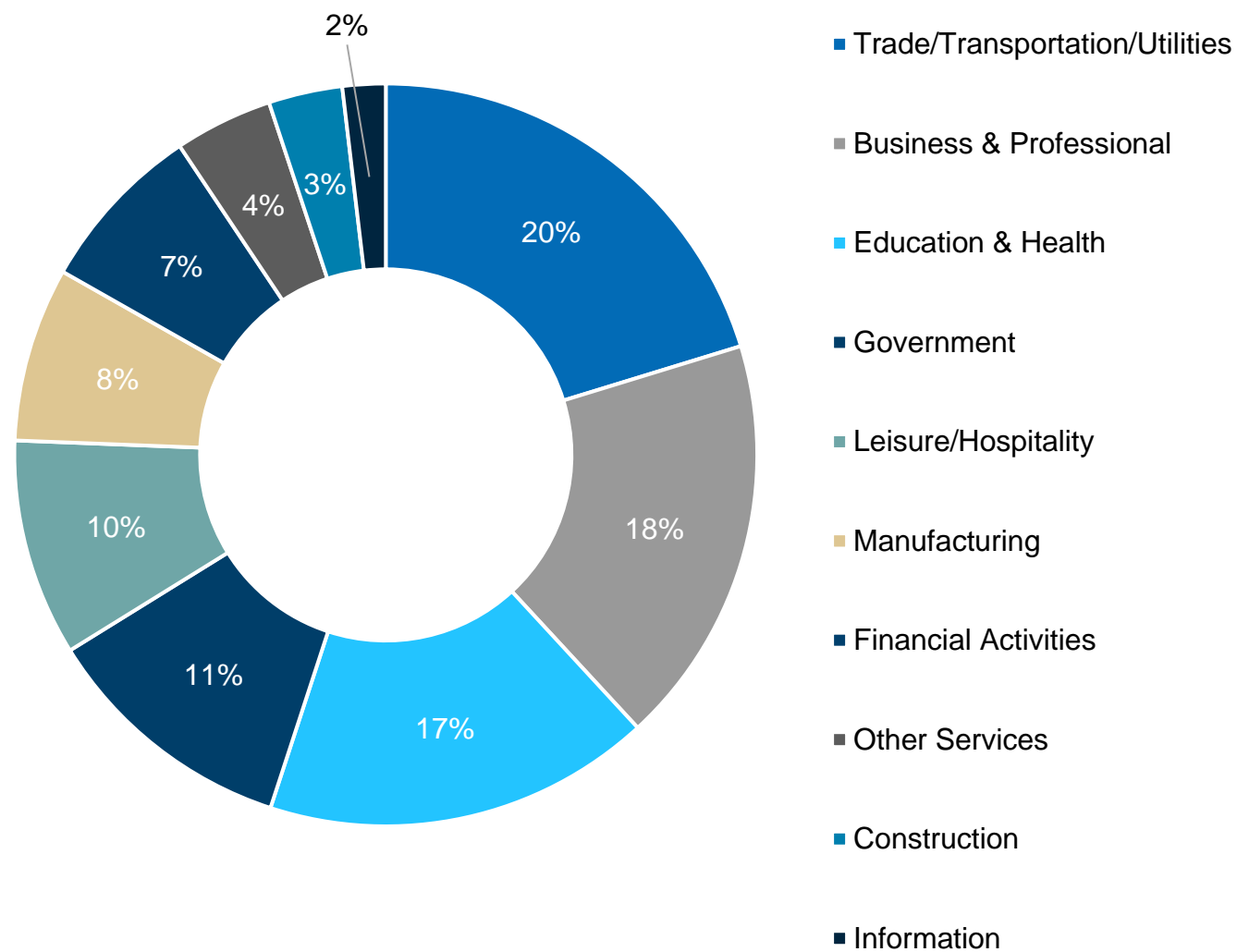


Source: U.S. Bureau of Labor Statistics, Chicago MSA

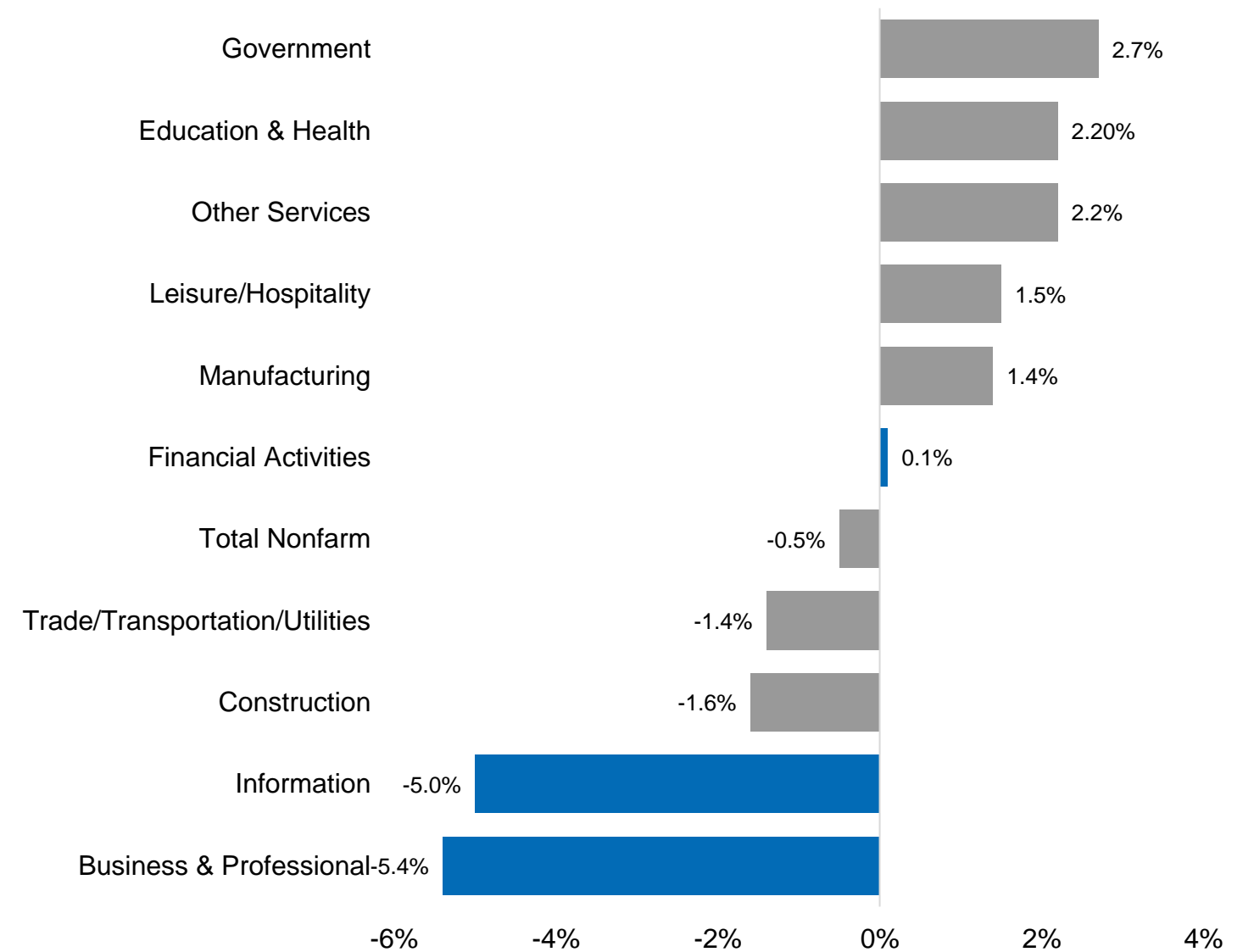
# Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The government sector led all industries in regional annual job growth. Office-occupying or adjacent industries saw mostly negative results, with financial activities experiencing almost no change, 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, January 2024



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

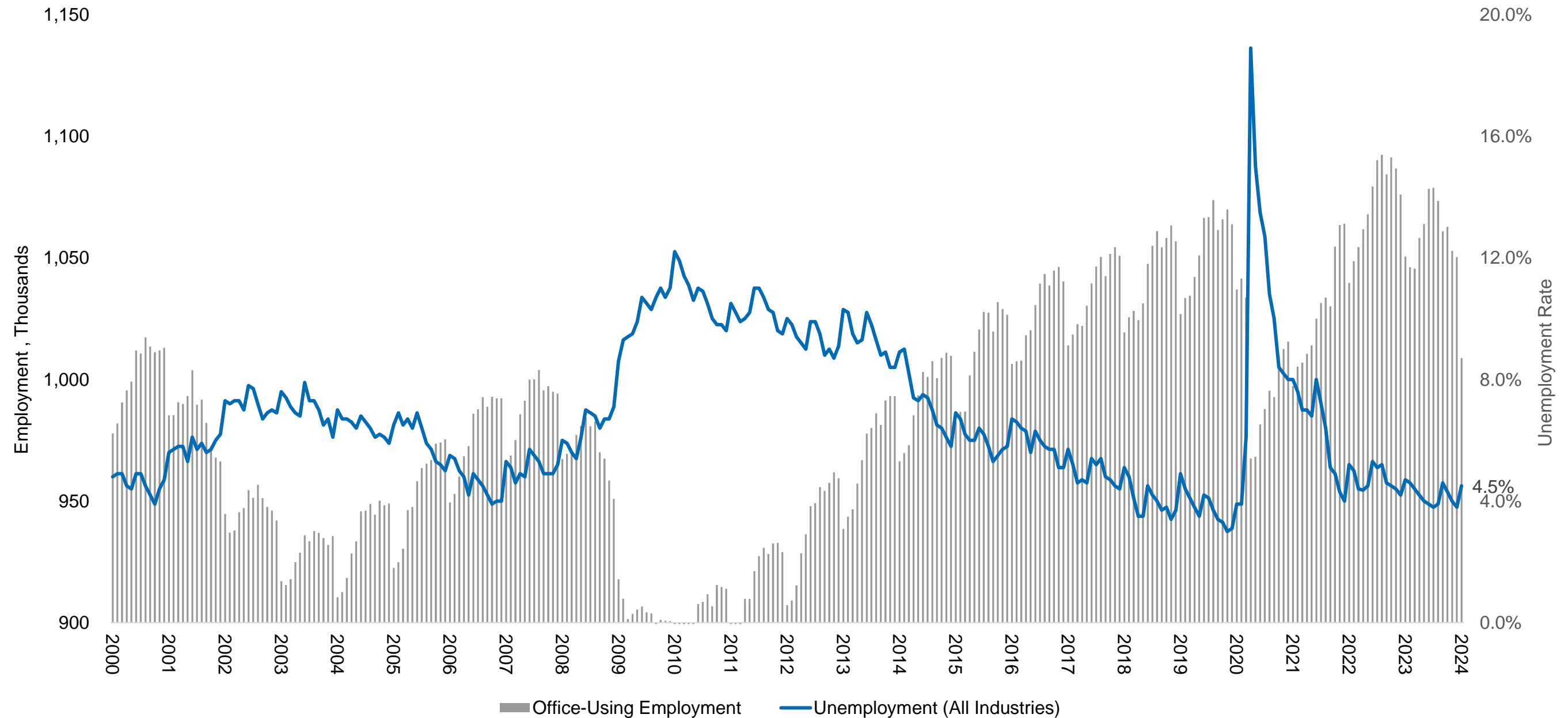


Source: U.S. Bureau of Labor Statistics, Chicago MSA

# Overall Office-Using Employment Holds Steady

Quarter-over-quarter vacancy decreased 40 basis points to 24.8%, but while year over year, that vacancy decreased was only 10 basis points. The suburban submarkets started the year with approximately 85,000 SF of positive absorption.

## 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

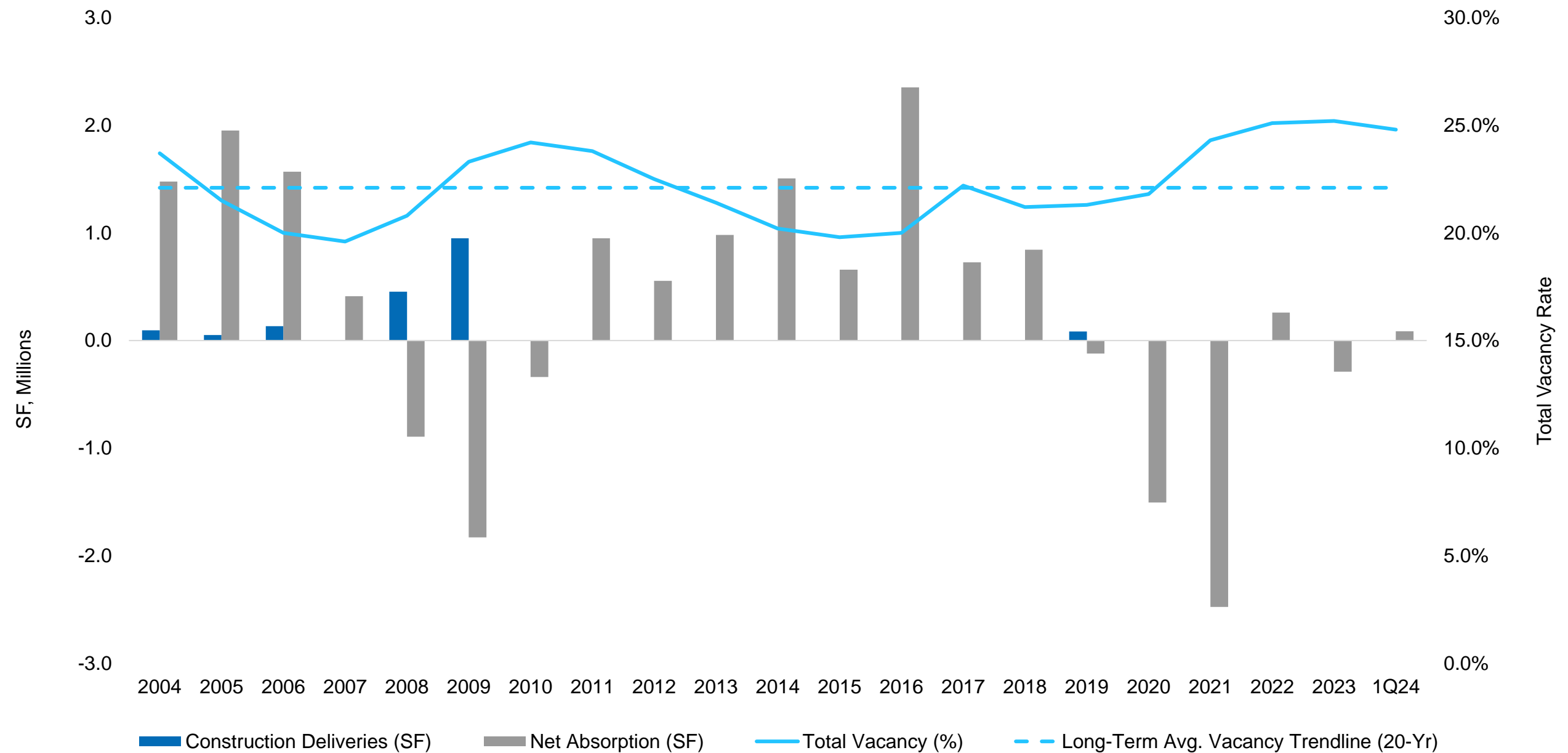




# 2024 Begins with Lower Vacancy and Positive Absorption

Quarter-over-quarter vacancy decreased 40 basis points to 24.8%; year over year, vacancy has decreased 10 basis points. The suburban submarkets started the year with positive absorption, finishing around 85,000 SF.

## Historical Construction Deliveries, Net Absorption, and Vacancy

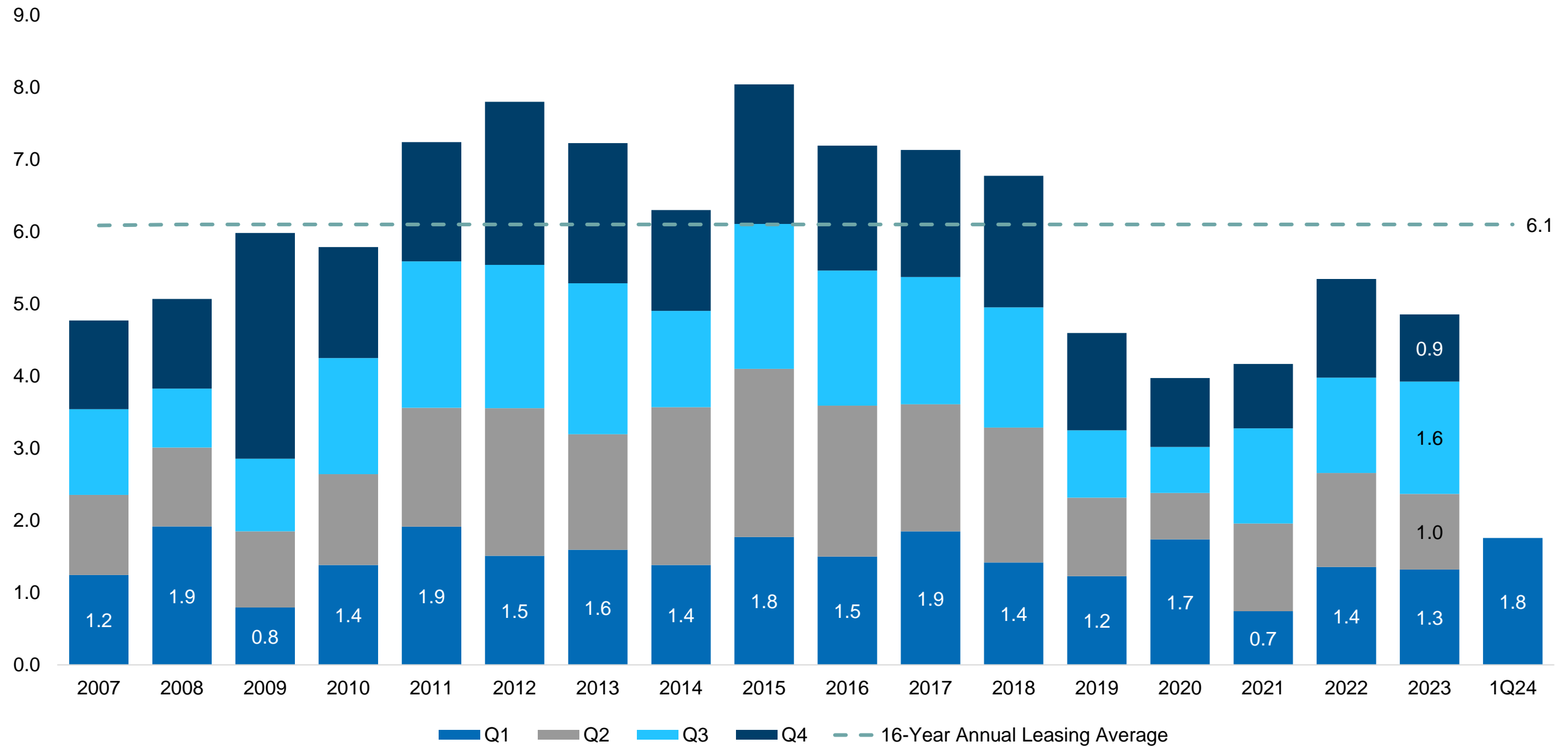


Source: Newmark Research

# Leasing Activity Records Strong Quarter

Leasing volume recorded its strongest first quarter in the suburbs since 2018. The largest lease of the quarter was signed by the Consumers Credit Union for 140,000 SF in the North submarket.

Total Leasing Activity (msf)



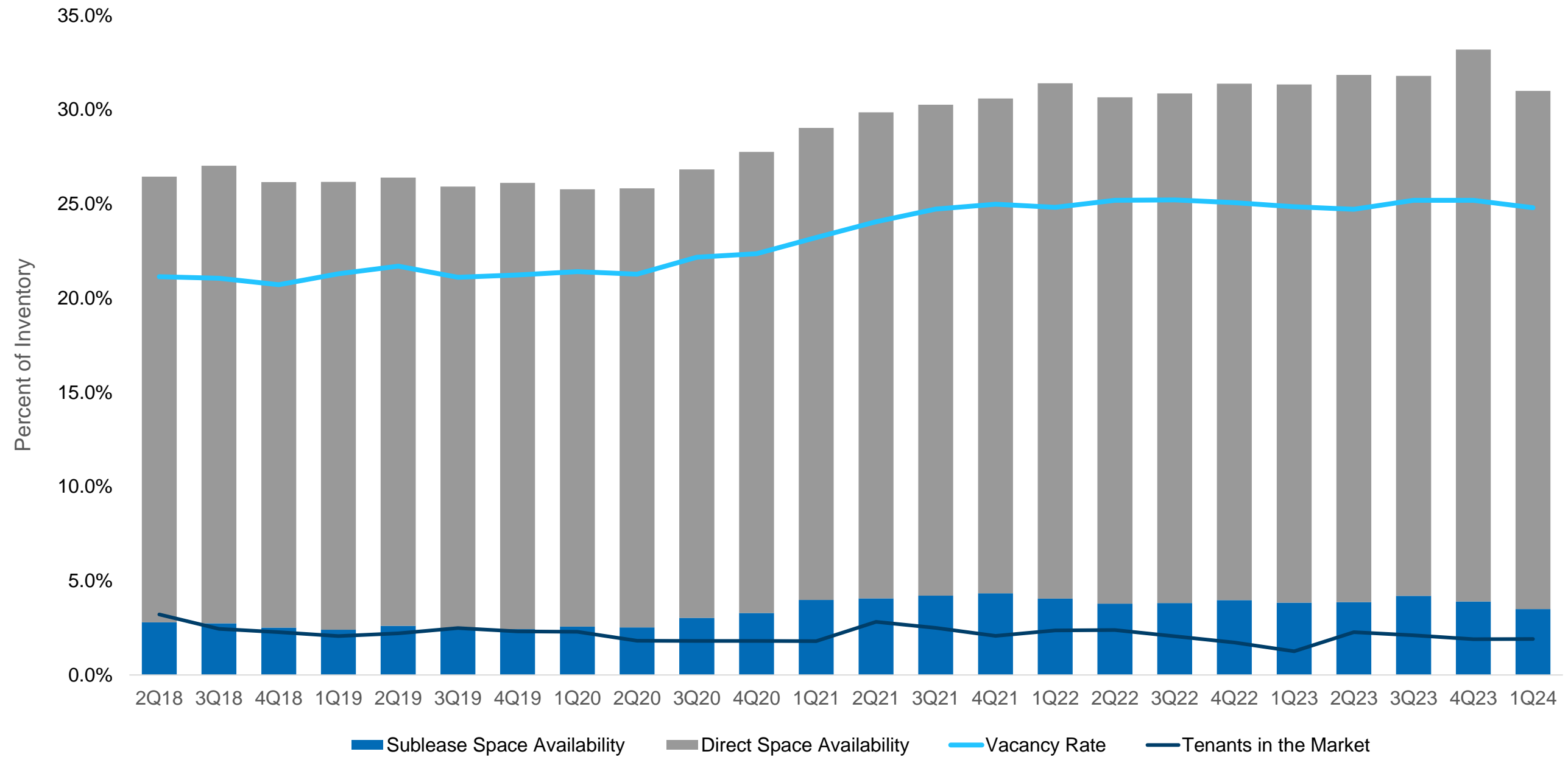
Source: Newmark Research, CoStar



# Vacancy Holds Steady

Total availability decreased this quarter to 31.0% from 32.8%, with strong leasing volume to start the year. Additionally, total vacancy held steady at 24.8%.

## Available Space and Tenant Demand as Percent of Overall Market

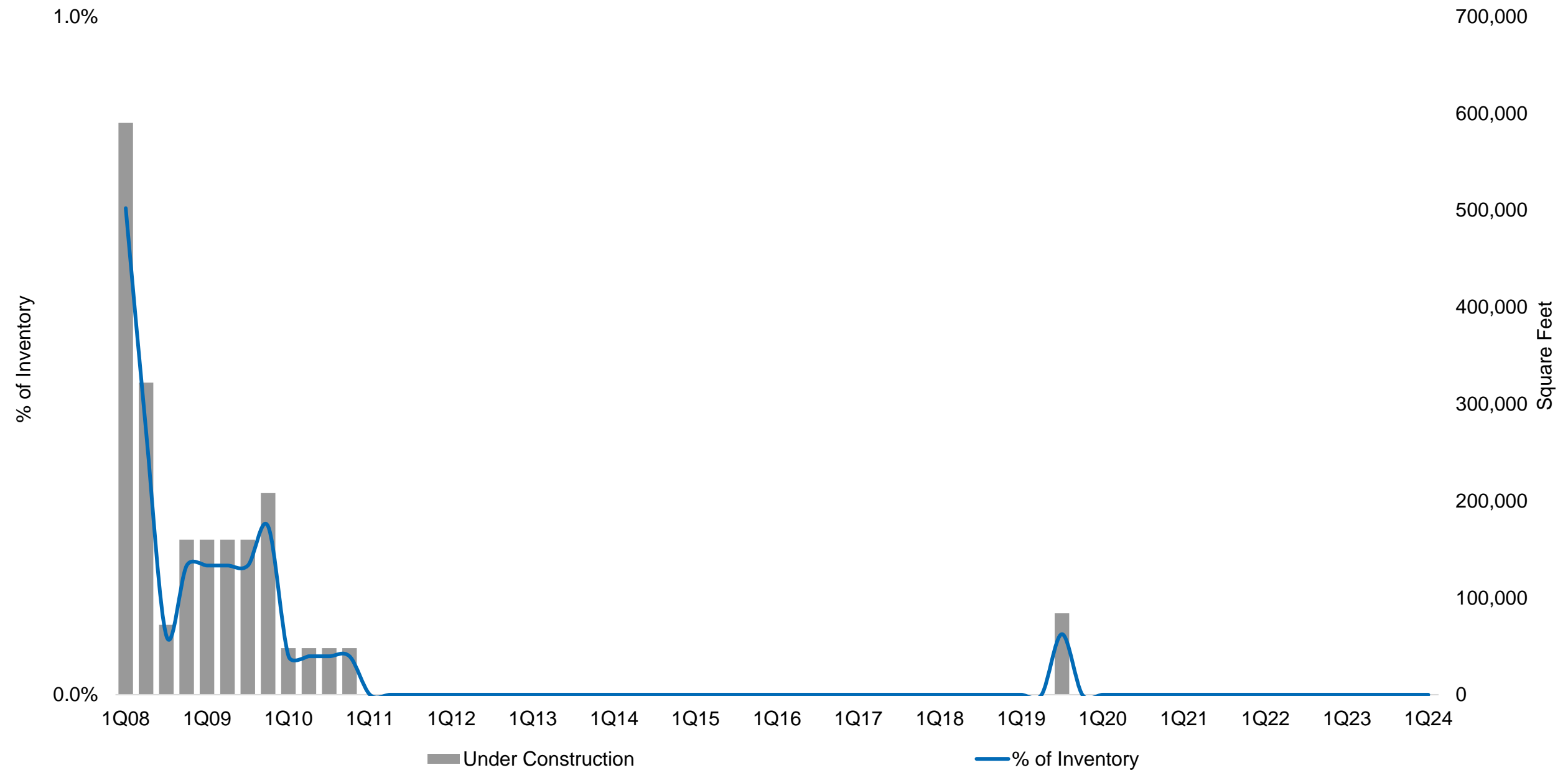


Source: Newmark Research

# 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



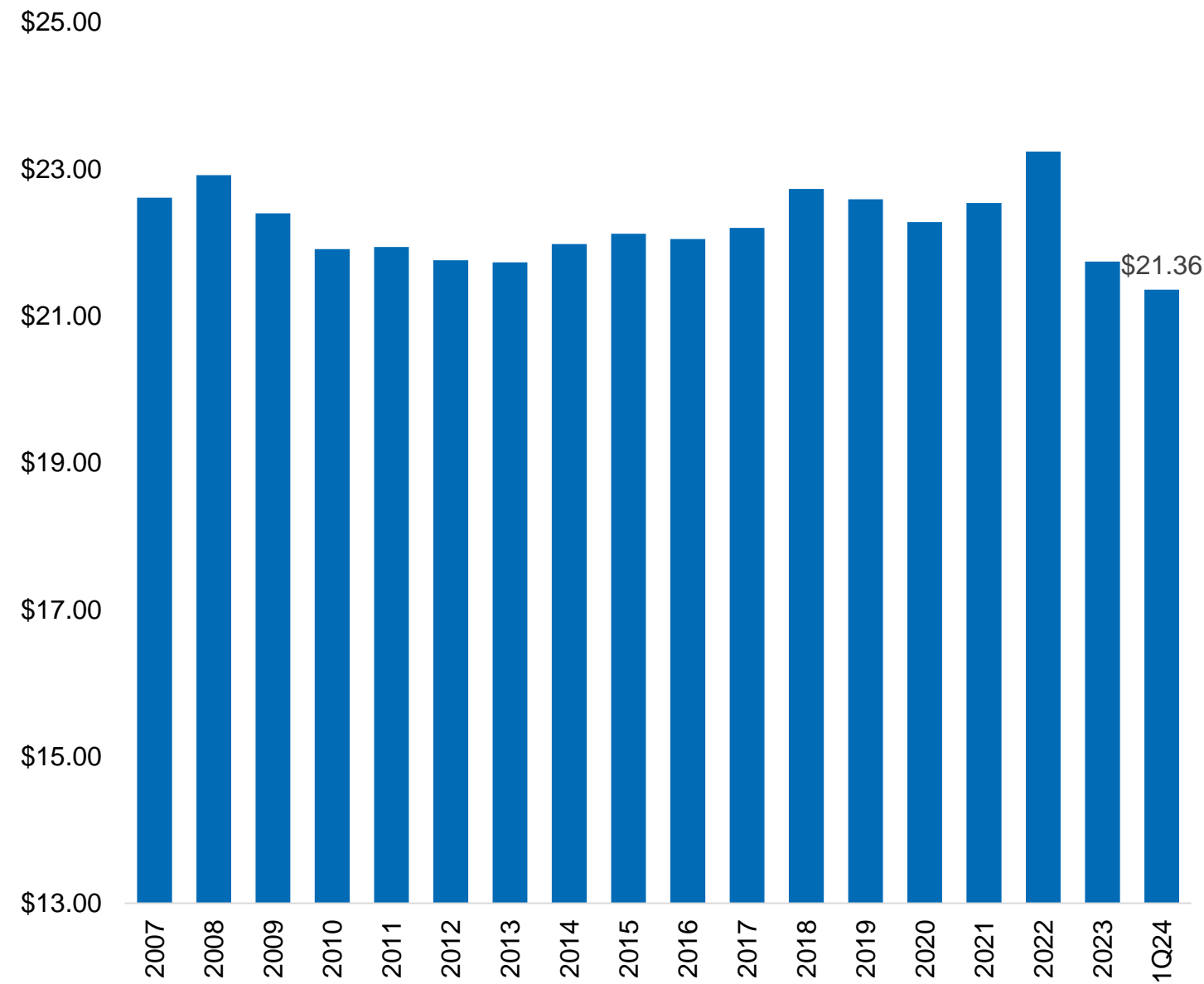
Source: Newmark Research, CoStar



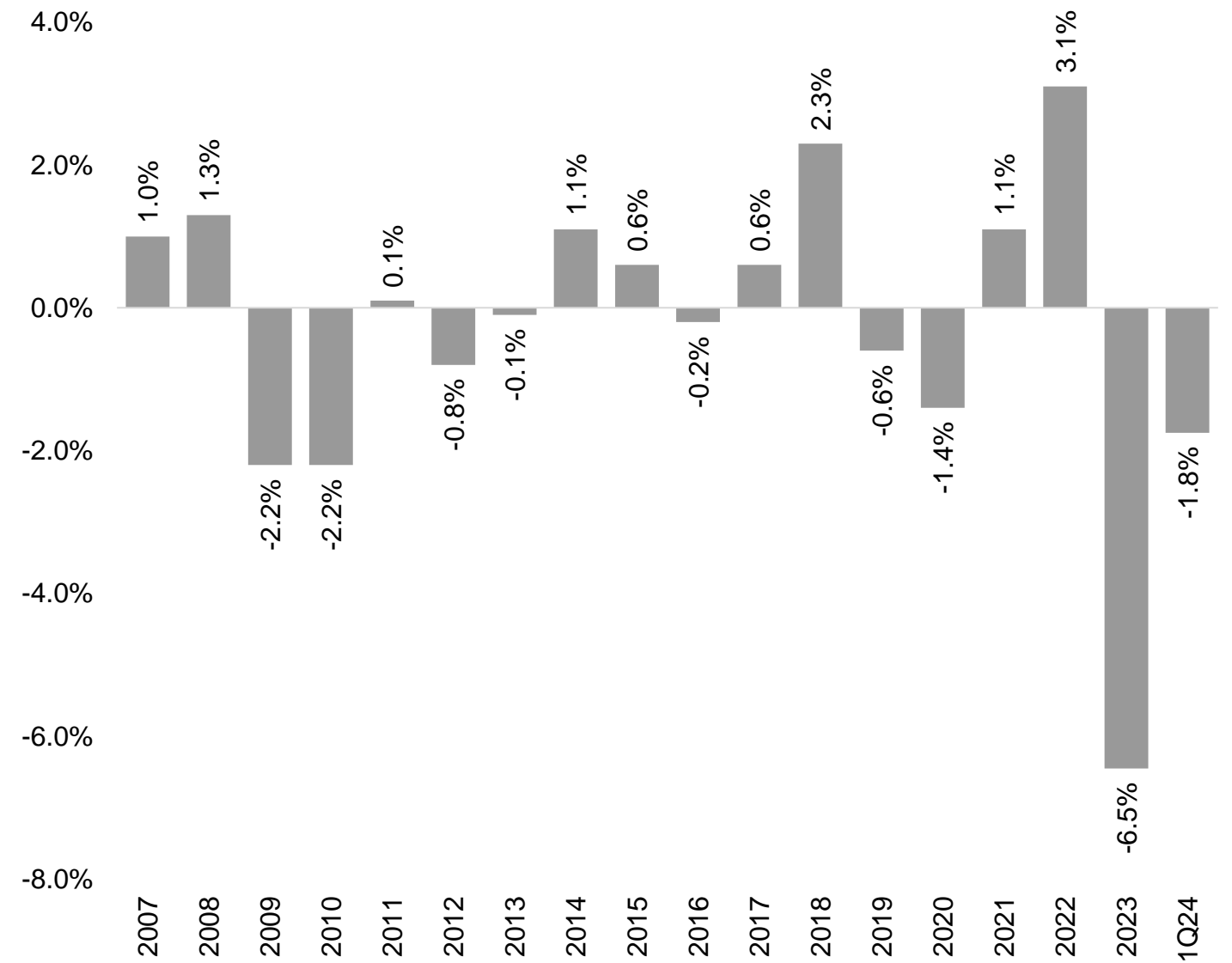
# Rental Rates Fall off Amidst Capital Challenges

Asking rates dropped \$0.27/SF this quarter and \$2.42/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

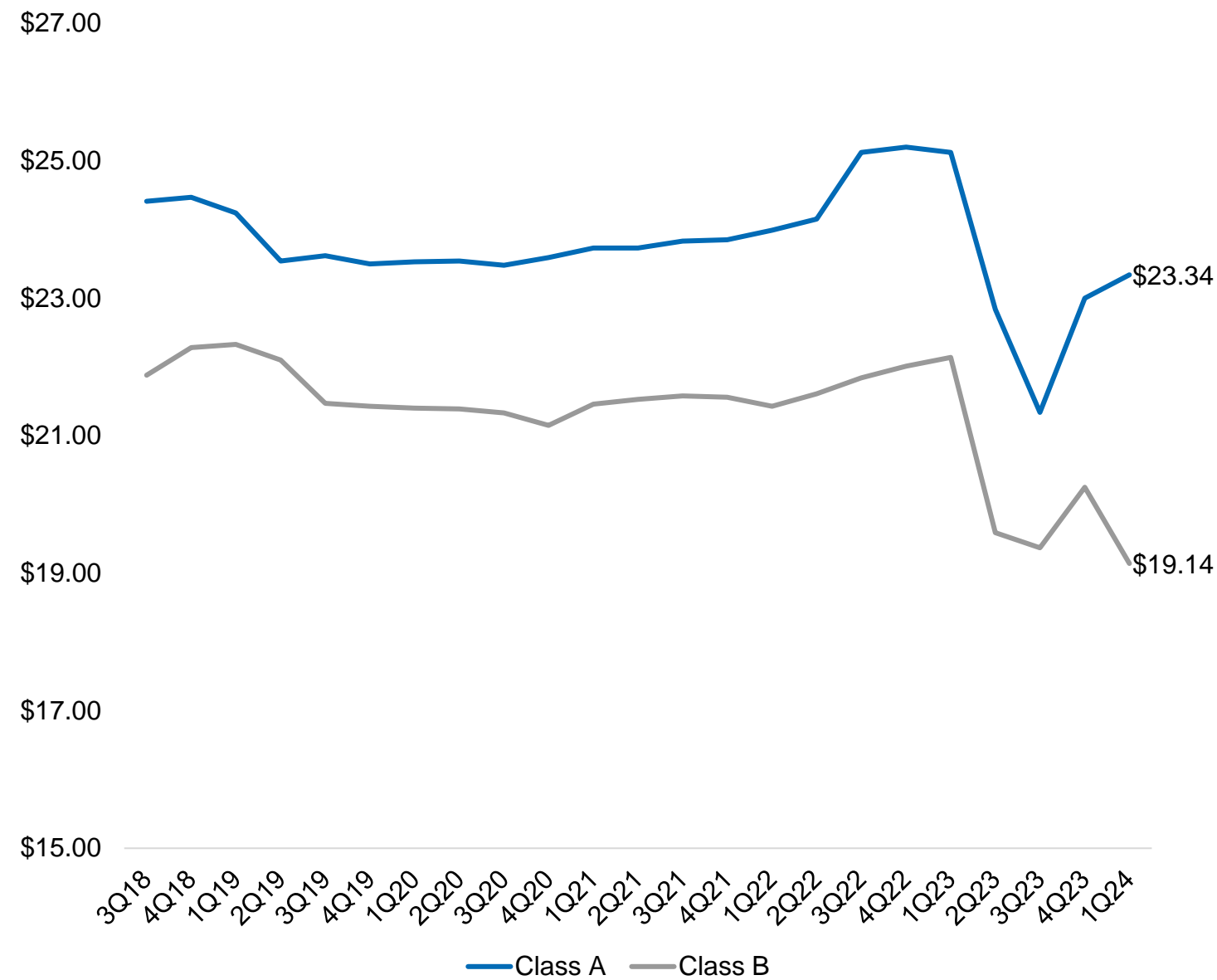


Source: Newmark Research, CoStar

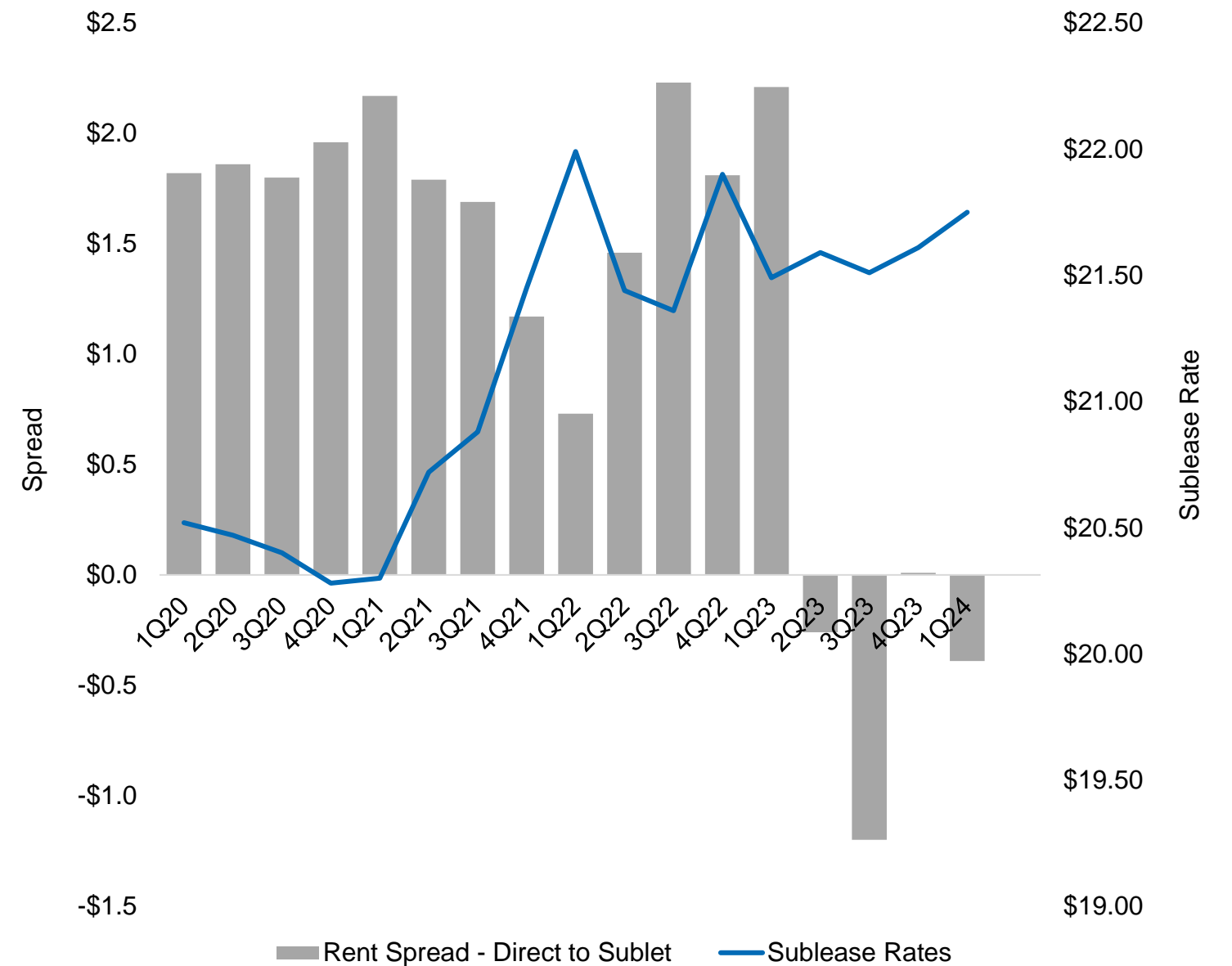
# Rental Rates Increase for Class A

Rental rates increased this quarter in Class A buildings but decreased in Class B buildings. Sublease rental rates also increased.

### Class A and Class B Asking Rents



### Sublease Rates



Source: Newmark Research, CoStar



# Leasing Activity Picks Up

Although a significant portion of the leases that did get completed had some type of contractionary component, leasing activity recorded a strong first quarter.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Consumer Credit Union	300 N Field Dr	North	New Lease	140,000
Dover Corp	3005 Highland Pky	I-88 East	Lease Renewal	80,000
Steris Corporation	75 N Fairway Dr	North	New Lease	50,000
Trans Dev	700 Butterfield Rd	I-88 East	Lease Renewal	40,000
Arrow	2001 Butterfield Rd	I-88 East	New Lease	25,000

Source: Newmark Research

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## Submarket Overview

Please reach out to your  
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