



# Chicago Suburban Office Market

## Suburban Office Heads in a Positive Direction to Begin 2022

With loosening pandemic mandates and returns to the office, there is optimism regarding the office market for 2022. Traffic increased tremendously compared to the beginning of the pandemic, with foot traffic up 129%, vehicle traffic up 52.0% and public transit activity up 21.0%. This optimism, though, has not translated into market fundamentals in the first quarter of 2022. The overall metro saw a rise in vacancy of almost a full percent, bringing the total to 21.3%. Net absorption was positive at 77,487 square feet. Availability increased 80 basis points, bringing the total to 27.0%, with sublet availability dropping 10 basis points to 4.2%. Despite the rise in vacancy and availability, the direct rental rates increased by \$0.61/SF to \$32.07/SF. These stabilized rates are thanks in large part to Fulton Market's continued success, as the submarket has seen its rates rise to a market high of \$51.00/SF.

### Suburban Overview

Despite the frequent pessimism regarding the office market in the suburbs, this quarter brought some positive light. For the first time in six quarters, both vacancy and absorption headed in positive directions as vacancy dropped 20 basis points. Net absorption was 294,737 square feet. The strong hold on rental rates continued this quarter with a nominal \$0.10/SF increase,

### Current Conditions

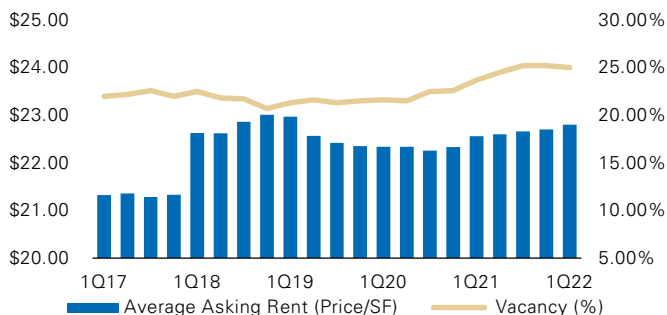
- Vacancy declined 20 basis points to 25.0% in the suburbs, which comes after its lowest increase of 2021 in the fourth quarter.
- Rental rates remained steady for another quarter with a slight increase of \$0.10/SF totaling \$22.80/SF.
- Opal Holdings carried its spending spree into the new year as they purchased Highland Landmark II in Downers Grove.
- After six quarters of negative absorption the suburbs saw nearly 300,000 square feet of positive absorption this quarter.

### Market Summary

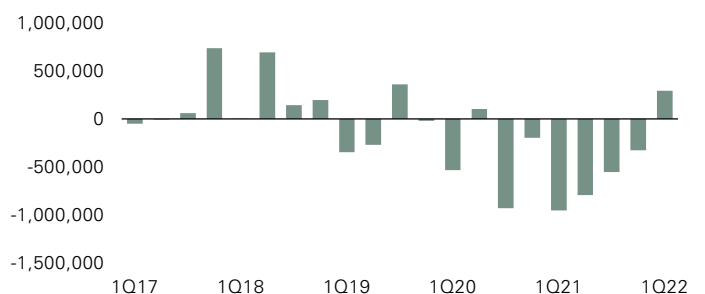
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	97.8M	96.9M	95.7M	↓
Vacancy Rate	25.0%	25.2%	23.5%	↑
Quarterly Net Absorption (SF)	294,737	(326,665)	(952,372)	↓
Average Asking Rent/SF	\$22.80	\$22.70	\$22.56	↓
Under Construction (SF)	-	-	-	↔

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



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## RESEARCH Q1 2022

bringing the total to \$22.80/SF. This total is the highest seen in the suburbs since the first quarter of 2019. This quarter, I-88 East was the driving force in the leasing activity, accounting for over 70% of the nearly 660,000 square feet of activity in the suburbs. This 70% was mostly accounted for with two 100,000+ square foot leases: Millennium Trust Company renewed at 2001 Spring Rd. for 160,085 square feet, and Health Care Service Corporation leased 133,077 square feet at 3500 Lacey Rd.

Even before the start of the pandemic, the use of suburban corporate campuses was being evaluated by companies for necessity and efficiency. The pandemic forced many companies to make decisions around the future of these campuses. While many companies have agreed that campus culture is dead, they have taken varying approaches to the offloading of this space and creative reuses. Companies like Sears, McDonald's and AT&T abandoned their campuses prior to the pandemic. At the end of 2021, Allstate announced that it would be leaving behind its campus in Northbrook. The campus was purchased by an industrial developer, Dermody Partners, for \$232.0 million. This quarter, a few owner-occupied buildings placed space in their campuses on the market. Zurich Insurance has placed roughly 100,000 square feet of its 750,000-square-foot headquarters in Schaumburg on the market. Astellas Pharma in Northbrook placed both of its buildings on the market. These properties were not formally counted in the Newmark suburban office inventory as they were owner-occupied but are now in the inventory to track availability. In 2014, Arthur J. Gallagher & Co decided to renovate one of the buildings in Meadows Corporate Center, a three-building multi-tenant complex, into a new headquarters space. Now the second building went on the market and received offers by industrial developers. In a dual effort to avoid becoming neighbors with an industrial tenant and take care of the company's need for additional space, the company has agreed to purchase the building.

### Investment Sales

Investment sales in Metro Chicago have had a strong start to the year, with well over \$800 million closing in the first quarter of 2022, with an average price of \$225/SF. Sales are getting to the closing table, although at a lower rate than has been seen in the

past. Renovated and well-leased properties are still capturing the highest amounts, with some interest still in properties that need to be renovated and flipped. But with the current delays in construction timelines and rising material costs, some owners are wary about taking on those types of projects.

To close out the month of February, Opal Holdings continued its spending spree as it secured the 1.2-million-square-foot Leo Burnett Building at 35 West Wacker Dr. from UBS Realty. At \$415.0 million or \$352.00/SF, this property arrives in Opal's portfolio at 100% leased as it looks to increase its ownership in the CBD. In the suburbs, Sovereign Partners acquired the nearly 500,000-square-foot Gallagher Center from Piedmont REIT for \$49.00/SF. Recently announced, 110 North Wacker Dr. has changed hands wrapping up investment sales in in the first quarter of 2022 in a historic way. Chicago and New York partnered on one of the largest transactions for Chicago as Callahan Capital Partners and Oak Hill Advisors paid \$210.0 million for the property.

### Outlook

Market conditions remain tenuous within Greater Chicago. While tenant demand is improving, the fact remains that tenants are using office space differently after the pandemic and, technology and healthcare tenants aside, most tenants will be focused on downsizing as they adjust for the permanence of hybrid work models. Downtown, there is a serious flight-to-quality trend still occurring as tenants take advantage of a market that heavily favors them. In the suburbs, creative reuses of corporate campuses will continue to be top of mind as businesses grapple with how to shed excess space. Heading into the spring, optimism is high but the road through the rest of 2022 likely remains uneven.

## RESEARCH Q1 2022

### Suburban Lease Transactions

Tenant	Market	Building	Type	Square Feet
Millennium Trust Company	I-88 East	2001 Spring Rd	Renewal	160,085
Health Care Service Corporation	I-88 East	3500 Lacey Rd	Direct	133,077
iRhythm Technologies	North	3 Parkway Blvd N	Direct	45,009
Intellihot Inc.	North	750 E Bunker Ct	Direct	26,888
Link Industrial Properties	O'Hare	9550 W Higgins Rd	Expansion	18,288

### Suburban Sale Transactions

Buyer	Market	Building	Price Per SF	Square Feet
Sovereign Partners	O'Hare	2 Pierce Place	\$49	487,027
Opal Holdings	I-88 East	3025 Highland Pkwy	\$188	274,107
Consumers Cooperative CU	North	300 N Field Drive	\$82	138,153
Fulton Westmontil LLC	I-88 East	740 Pasquinelli Drive	\$109	110,299

### Chicago Life Science Inventory

Address	Location	Total Size	Rental Rates	Tenants
Innovation Park	Libertyville	350,000 SF of Lab	\$15 - \$18 PSF Gross	Valent Bio Sciences Avexis
Illinois Science and Technology Park	Skokie	556,650 SF	\$35 - \$47 PSF Net	NorthShore Vetter LanzaTech
2430 N Halsted Street	Chicago (Lincoln Park)	120,000 SF	\$35 - \$45 PSF Net	Evozyne Excicure Solvd Health
West End on Fulton	Chicago (Fulton Market)	301,260 SF	\$45 - \$55 PSF Net	Talis Biomedical Xeris Pharmaceuticals Portal Innovations

### Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Suburban Total</b>	<b>97.8M</b>	-	<b>32.3%</b>	<b>294,737</b>	<b>294,737</b>	<b>\$23.98</b>	<b>\$21.44</b>	<b>\$22.80</b>
I-88 East	22.2M	-	28.0%	218,313	218,313	\$25.99	\$22.05	\$24.39
I-88 West	13.5M	-	27.7%	218,128	218,128	\$21.87	\$20.77	\$21.48
North	25.3M	-	31.0%	(24,990)	(24,990)	\$24.24	\$21.24	\$22.95
Northwest	24.0M	-	42.6%	50,188	50,188	\$21.69	\$20.61	\$21.20
O'Hare	12.8M	-	28.1%	(166,902)	(166,902)	\$28.58	\$24.74	\$25.47

## ECONOMIC CONDITIONS

The pandemic has had a serious and long-lasting impact on the global and local economy. As the vaccine rollout continues, 66.0% of vaccine-eligible Americans are vaccinated. With Pfizer and Moderna both seeking approval for vaccines for kids under six, there is hope that April will bring a significant return to the office.

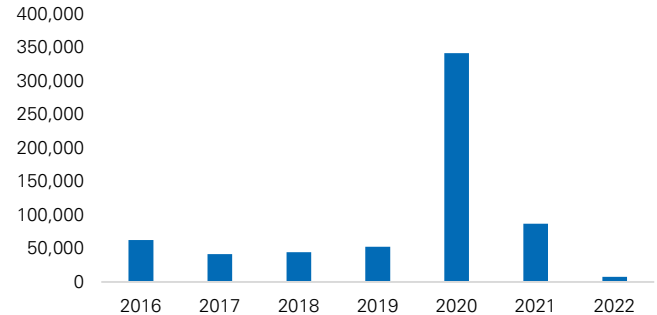
Chicago's unemployment rate fell 20 basis points in February from the start of the year to 4.9%, up 70 basis points from its lowest pandemic rate of 4.2% in December. Unemployment typically falls during the holidays as retail and hospitality increases staffing through the holiday season.

Job openings in the US hovered near record level in February with 11.3 million available jobs, and the number of people quitting their jobs was also historically high, at 4.4 million.

The national economy has cooled somewhat as inflation has risen at its fastest rate in 40 years, 6.1% year-over-year in January. In February, retail sales increased only 0.3%, below the estimate. Online sales fell the most, declining by 3.7%.

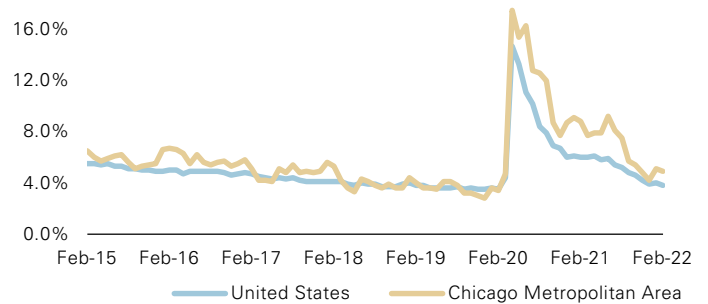
## Layoff Stats

IL MASS LAYOFFS (INITIAL CLAIMS), FEBRUARY 2022



## Unemployment Rate

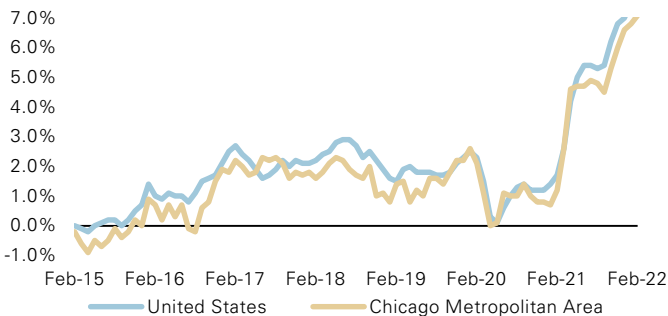
SEASONALLY ADJUSTED, FEBRUARY 2022



Source: U.S. Bureau of Labor Statistics

## Consumer Price Index (CPI)

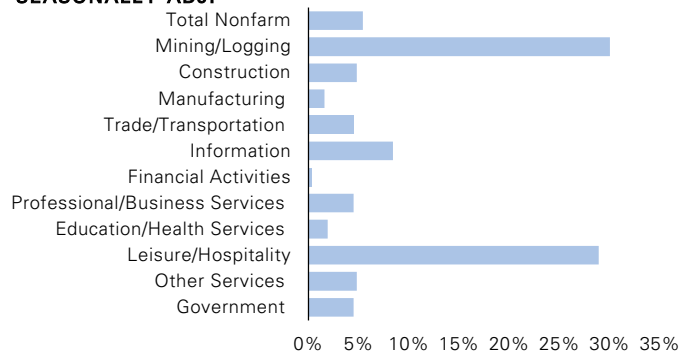
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



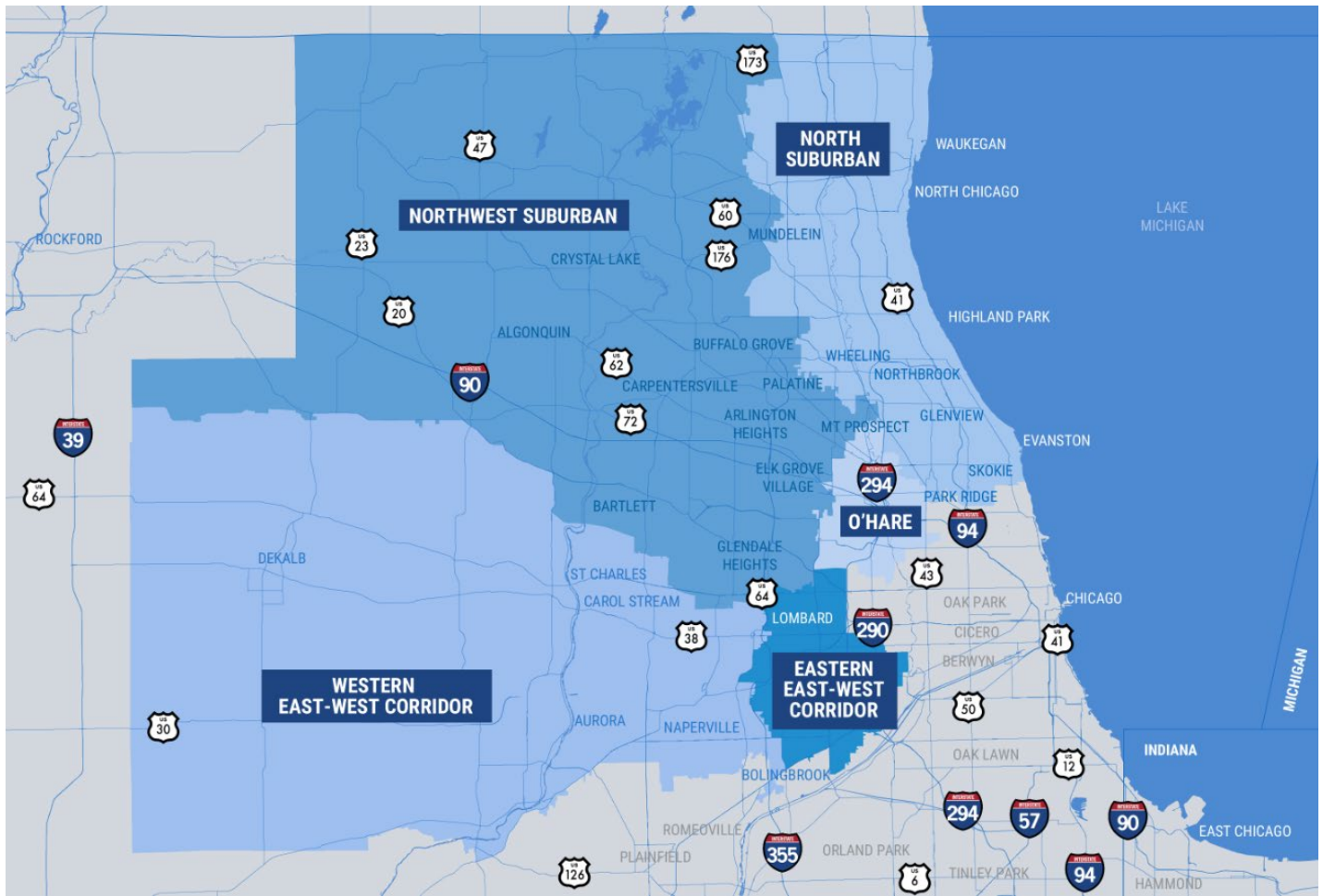
Source: U.S. Bureau of Labor Statistics

## Employment Growth By Industry

CHICAGO, FEBRUARY 2022, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics



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