



# Chicago Suburban Office Market

## Activity Levels Remain Moderate in 2Q22

### Metro Overview

Despite the high hopes of many, the office market's performance in the second quarter of 2022 was lackluster. Employees did not return to the office en masse, and activity vacillated with transactions by some for growth and deals for reduction by others. Tenants that are expanding or choosing to lease enough space for all their employees are citing a belief that eventually, their employees will be back in the office. At the end of June, the Kastle Security Systems office occupancy data reached its highest rate since March 2020, with the 10-city average reaching 44.2%. Chicago fell just slightly below this at 41.9%.

At a metro level this quarter, vacancy increased 40 basis points to 21.6% due to just over 800,000 square feet of negative absorption. Rental rates were up slightly, at \$32.36/SF. Sublease availability jumped up 200,000 square feet at the metro level, while direct availability fell by 500,000 square feet, a potentially positive sign indicating some significant lease transactions.

### Current Conditions

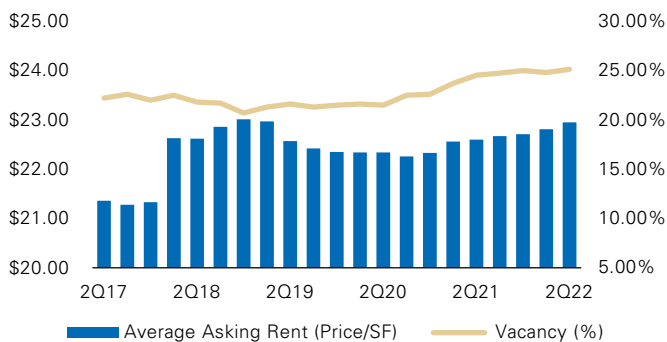
- Vacancy was back up this quarter rising to 25.1% after falling in the first quarter.
- Rental rates had a slight increase to \$22.95/SF.
- Sublease availability dropped 30 basis points to 40.0%, the lowest amount of sublease space available since 4Q20.

### Market Summary

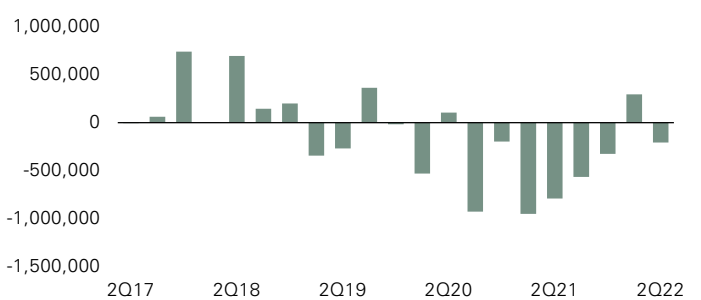
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	97.5M	97.5M	96.0M	↓
Vacancy Rate	25.1%	24.8%	24.5%	↑
Quarterly Net Absorption (SF)	(207,738)	294,737	(791,366)	↓
Average Asking Rent/SF	\$22.95	\$22.81	\$22.60	↓
Under Construction (SF)	-	-	-	↔

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## Suburban Overview

The suburban market's activity levels carried on at a slower pace this quarter, with negative 207,000 square feet of absorption pushing vacancy up 30 basis point to 25.1%. Sublease availability fell almost 800,000 square feet in the submarket due to sublease transactions from tenants such as ND Paper, Penske and Everlake Insurance, as well as some spaces converting to direct vacancy.

Leasing activity was moderate in the suburbs. Consumers Credit Union agreed to lease all of 300 North Field Dr. in Lake Forest. In Rolling Meadows, the FAA has agreed to lease 115,000 square feet at 3800 Golf Rd. Out West, heart failure management company Endotronix is growing. The company leased 75,000 square feet at 1415 W. Diehl Rd. in Naperville. Also expanding is Heritage Crystal Clean. The company is growing by 10,000 square feet and moving to Bell Works Chicago for 40,000 square feet. The company is now the third major tenant at the 1.3-million-square-foot converted campus.

## Investment Sales

The investment sales market in Chicago hit a speedbump following two very strong quarters in the second quarter with \$436.8 million dollars at the end of June. Year-to-date the total investment sales volume hit \$2.6 billion, a number the market didn't reach until November of 2021 and never reached in 2020. After consistently falling for several quarters, average office capitalization rates pushed up to 7.1%, a 30-basis point climb, for the quarter. At the halfway point of the year, institutional capital has made up over 50% of buyers and sellers so far. At 58.2% of buyers, it is a significantly higher number than the past 10 years, when the second highest year was 2016 with 54.0%.

## Creative Reuses

In Mount Prospect this quarter, the former United Airlines headquarters campus cleared a final hurdle in its reuse plans. CloudHQ received approval from the village to move ahead with

its data center development at 1200 E Algonquin Rd.: three 84-megawatt data centers, which would include a total of about 100,000 square feet of office space between the three. Plans also include a ComEd substation at 1200 Dempster St. The project is expected to cost \$2.5 billion and create about 1,000 construction jobs each year over the next six years and 450 fulltime jobs upon completion. Creative reuses for properties like this are crucial in the suburbs, where there is a significant amount of outdated office space.

## Outlook

With recessionary headwinds starting to blow at the end of the quarter, the second half of 2022 might look a bit different than anticipated. While the challenges ahead are significant, the hope is that this downturn will be short and not a total halting of the economy; rather, a slowing of the rebounding that has been occurring. But COVID-19 is not over. The virus is circulating and mutating; a stronger variant could further stifle the economy. All of this means the office market will remain volatile, with tenants remaining uncertain about the future.

RESEARCH Q2 2022

**Suburban Lease Transactions**

Tenant	Market	Building	Type	Square Feet
Consumers Credit Union	North	300 N Field Dr	Direct	137,000
FAA	Northwest	3800 Golf Rd	Direct	115,000
Endotronix	I-88 West	1415 W Diehl Rd	Direct	74,000
Heritage Crystal Clean	Northwest	Bell Works Chicago	Direct	40,000
Penske	I-88 West	1000 E Warrenville Rd	Sublease	20,000

**Suburban Sale Transactions**

Buyer	Market	Building	Price Per SF	Square Feet
Northeast Capital Group	North	1 Corporate Drive	\$173/SF	1.1 MSF
Arthur J Gallagher & Co	Northwest	2550 W Golf Rd	\$45/SF	280,471

**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, Exicure Solvd Health
Fulton Labs	Chicago (Fulton Market)	423,450 SF	\$40 - \$50 PSF Net	Portal Innovations
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>97.6M</b>	-	25.1 %	<b>-207,738</b>	<b>86,999</b>	<b>\$24.14</b>	<b>\$21.62</b>	<b>\$22.95</b>
I-88 East	22,205,140	-	22.0 %	-147,026	71,287	\$25.95	\$22.44	\$24.37
I-88 West	13,470,532	-	22.2 %	-109,837	108,291	\$22.55	\$20.64	\$21.80
North	25,391,807	-	23.8 %	-164,621	-189,611	\$25.19	\$21.31	\$23.57
Northwest	23,743,367	-	33.5 %	40,882	91,070	\$21.34	\$20.64	\$21.04
O'Hare	12,831,579	-	20.8 %	172,864	5,962	\$28.56	\$25.50	\$25.68

### ECONOMIC CONDITIONS

The pandemic has had a serious and long-lasting impact on the global and local economy. As of June, 66.3% of Americans are fully vaccinated. As the country has adapted, many more are returning to the office with in-office occupancy reaching the highest levels since the pandemic began, at 44.2% of pre-pandemic occupancy levels.

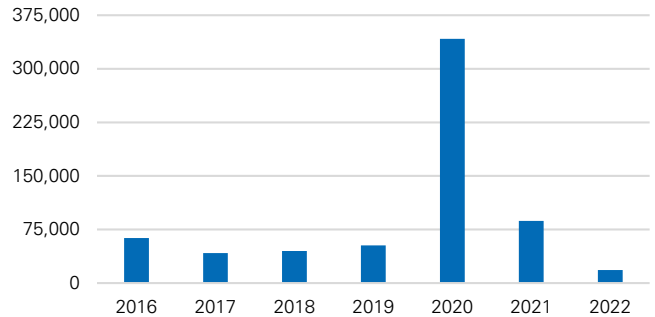
Chicago’s unemployment rate fell 90 basis points in May from the start of the year to 4.2%, matching the lowest pandemic rate since last December. Despite indications of an economic slowdown, the labor market remains tight.

Job openings in the US hovered near-record levels in May with 11.4 million available jobs, and the number of people quitting their jobs was also historically high, at 4.4 million.

Pessimism about the future national economy has set in as inflation has risen at its fastest rate in 40 years, 8.6% year-over-year in May. Consumers reacted as retail sales fell from the previous month in May for the first time this year. The central bank’s intentions to slow inflation led to the largest interest rate hike since 1994 of 0.75 percentage points. The Fed will continue to work to temper inflation

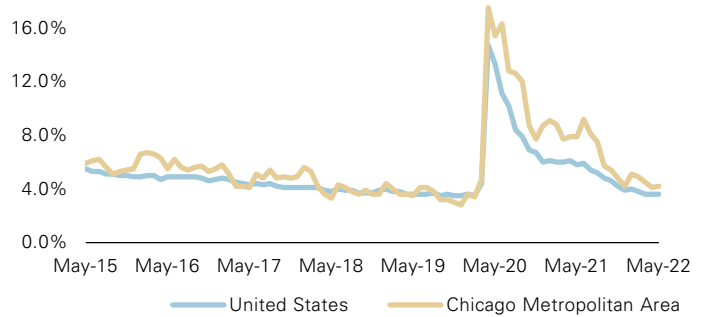
### Layoff Stats

IL MASS LAYOFFS (INITIAL CLAIMS), MAY 2022



### Unemployment Rate

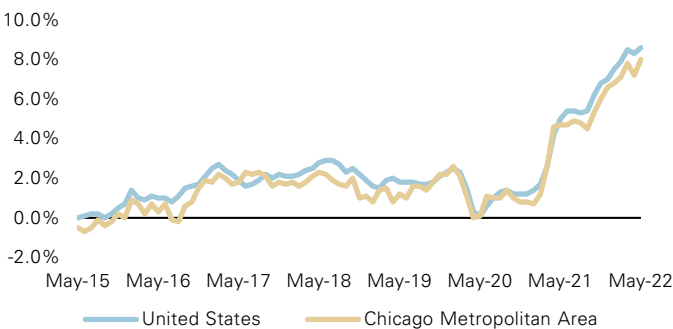
SEASONALLY ADJUSTED, MAY 2022



Source: U.S. Bureau of Labor Statistics

### Consumer Price Index (CPI)

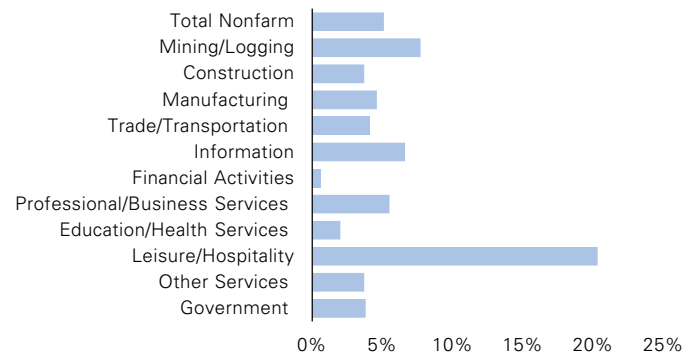
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

### Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics



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## RESEARCH Q2 2022

*For more information:*

**Chicago**

500 W Monroe St  
Suite 2900  
Chicago, IL 60661

8750 W Bryn Mawr Ave  
Suite 350  
Chicago, IL 60631

**Amy Binstein**

*Research Manager*

amy.binstein@nrmk.com

[nrmk.com](http://nrmk.com)

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