3Q23

Chicago Suburban Office Market Report

NEWMARK

Market Observations

Economy

- Chicago's unemployment rate is slightly higher than the national average, and job growth has slowed in the last year due to persistently high inflation and layoffs.
- Office-occupying or adjacent industries saw mixed results, with financial activities experiencing a moderate gain, while business and professional services and information saw significant declines for the second quarter in a row. This decline is not completely shocking, as layoff announcements have come from BMO, Northern Trust and Guaranteed Rate this summer.

Leasing Market Fundamentals

- Leasing volume in the third quarter of 2023 outpaced the two previous quarters at 1.6 million SF, although a significant portion of this activity was contractionary activity. With a few remaining large tenants in the market, expect this volume to hold steady through the end of 2023.
- Quarter-over-quarter vacancy increased 50 basis points to 25.2%, but year over year, that increase was 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 tenants have either renewed or waited out lease expirations.

Major Transactions

- Travelers Insurance signed one of the largest leases of the quarter at Highland Landmark III for 70,000 SF.
- Citigroup cut its space in half, signing a lease for 50,000 SF at Schaumburg Corporate Center.
- In an owner/user sale, 1421 W. Shure Dr. in Arlington Heights was purchased by United Airlines for $134/SF. The site was formerly occupied by Motorola, and United already owns the building across the street where it houses its network operations.
- In the O'Hare submarket, Bridge Investment Group sold 8550 W. Bryn Mawr Ave. for $96/SF. The building is 75% leased.

Outlook

- The suburbs continue to face an uphill battle as owners face financing challenges which continue to threaten deals and tenants battle work-from-home trends. The Suburban market has a surplus of inventory which will need to be reduced to maintain a competitive market.
- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- 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.

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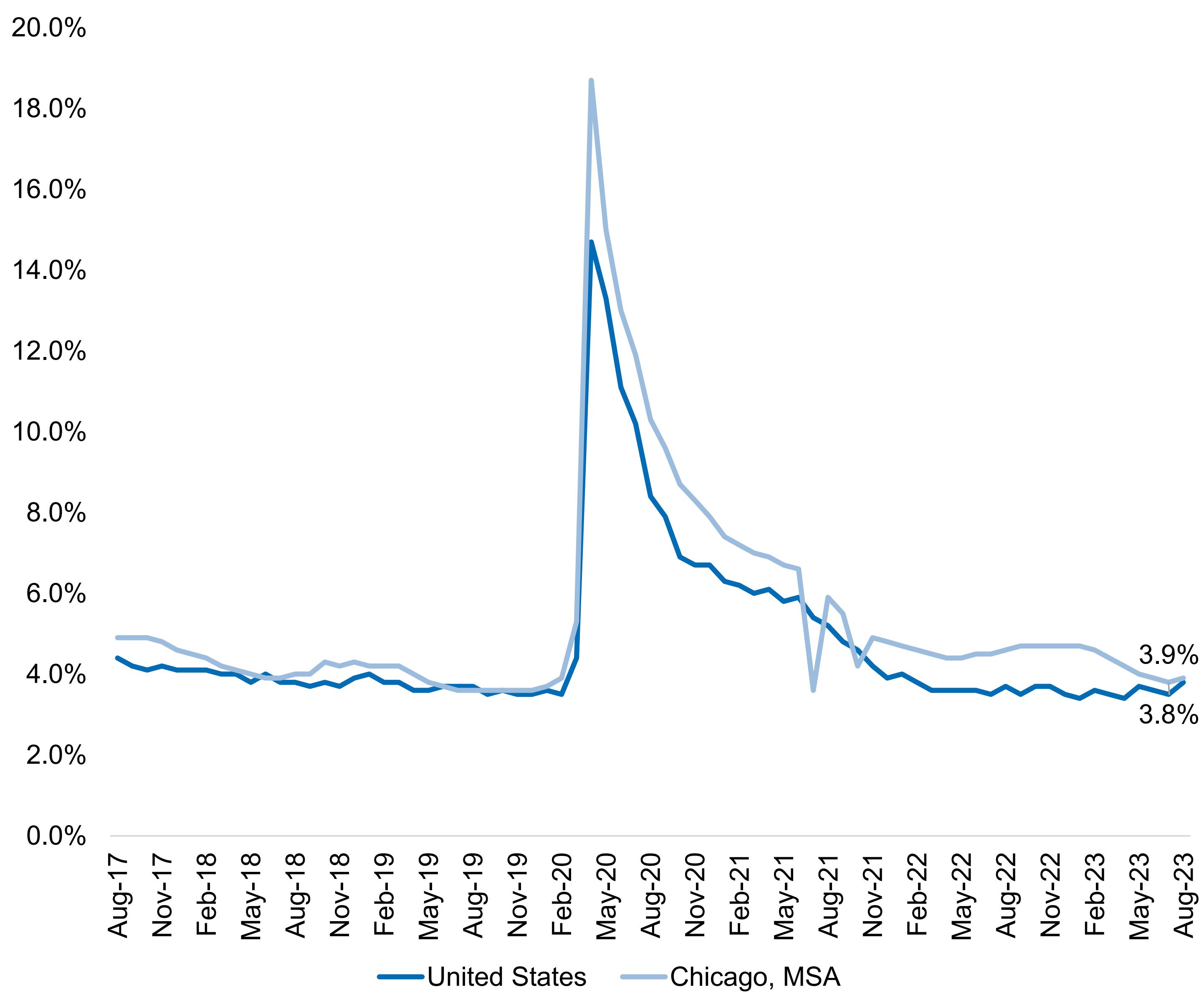
Economy

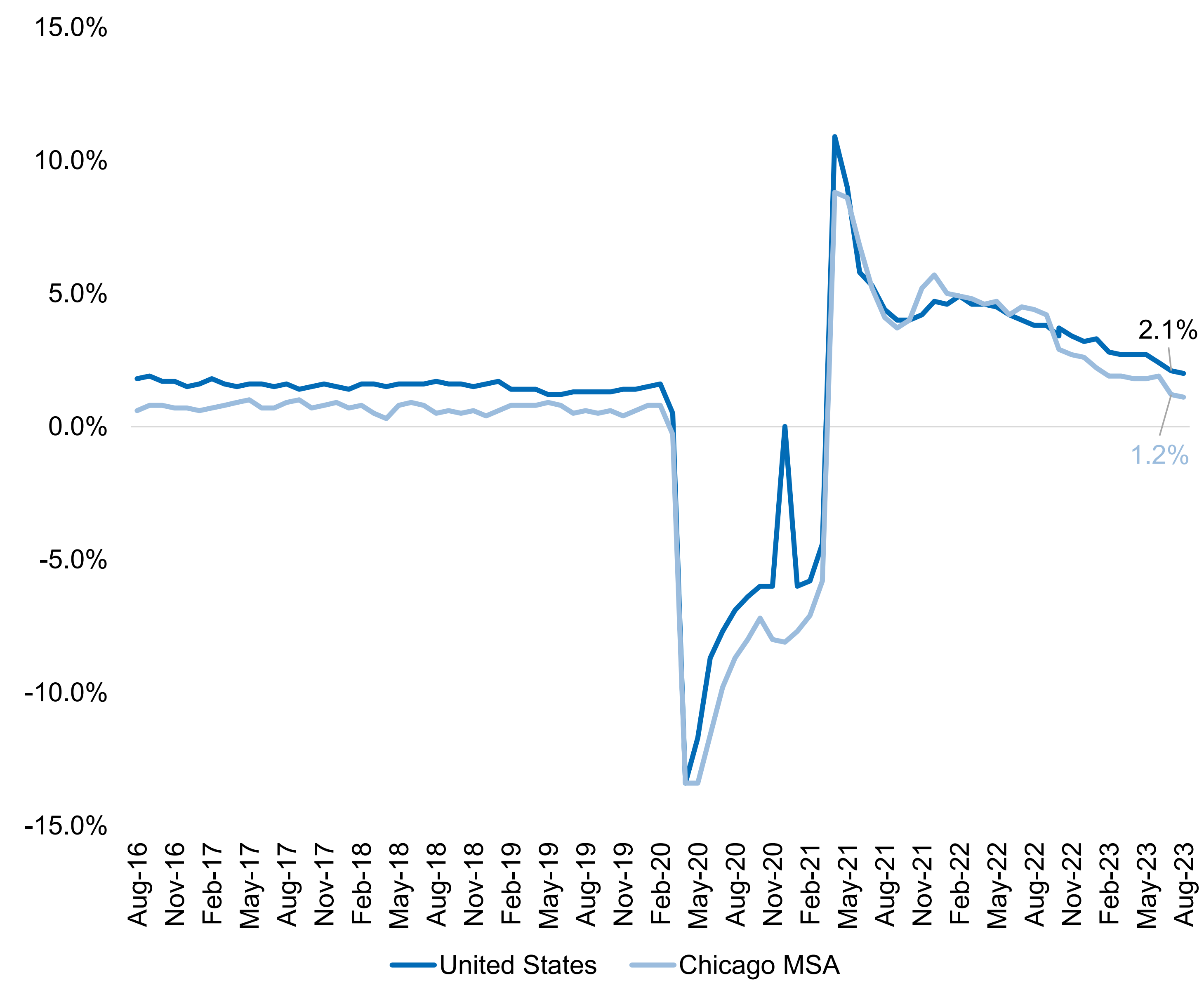
Metro Employment Trends Signal A Slowing Economy

Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed in the last year. Persistently high inflation and increasing interest rates are placing stress on the labor market.

Unemployment Rate, Seasonally Adjusted



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

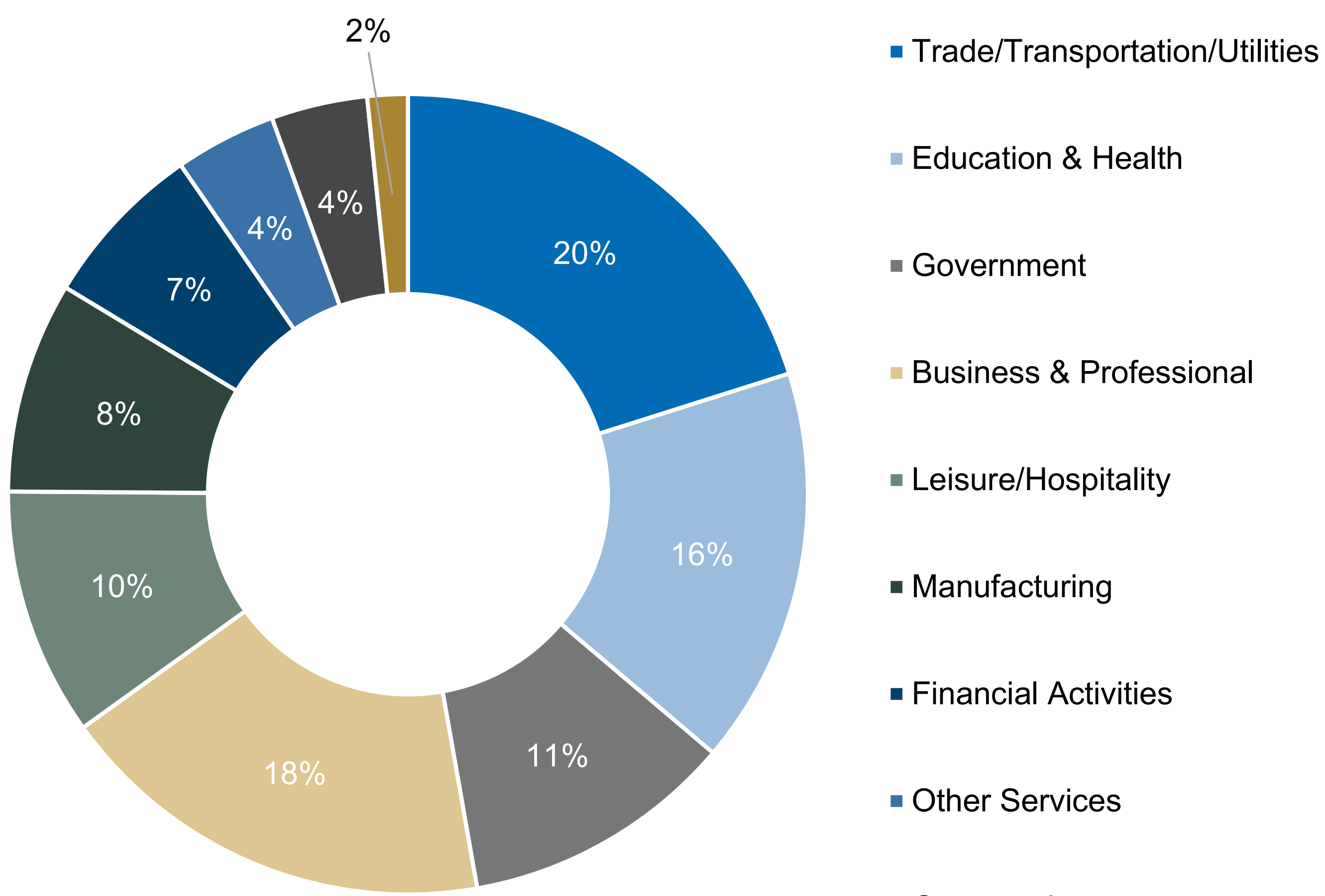


Source: U.S. Bureau of Labor Statistics, Chicago MSA

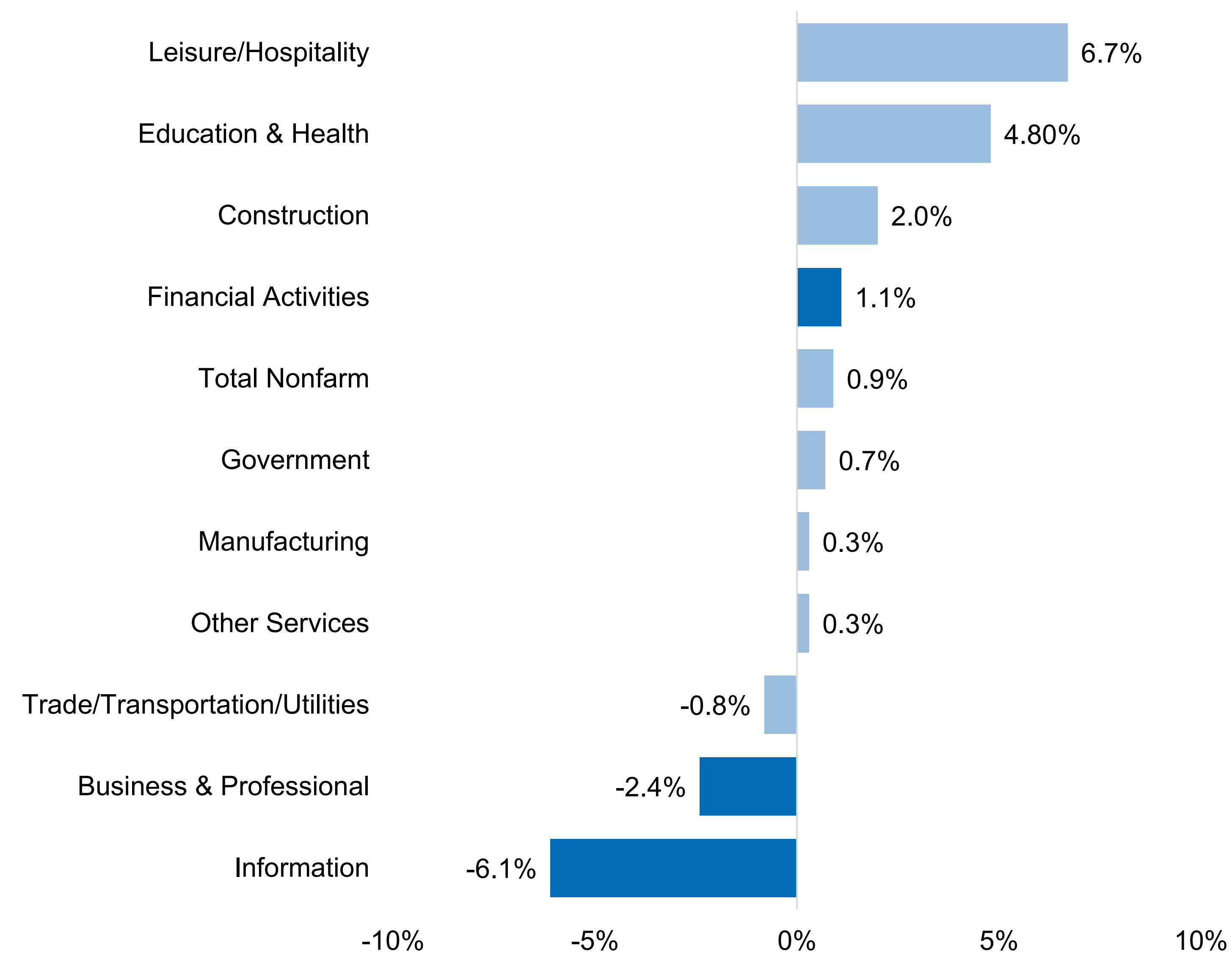
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The leisure/hospitality sector continued to lead all industries in regional annual job growth. Office-occupying or adjacent industries saw mixed results, with financial activities experiencing a moderate gain, while business and professional services and information saw significant declines for the second quarter in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

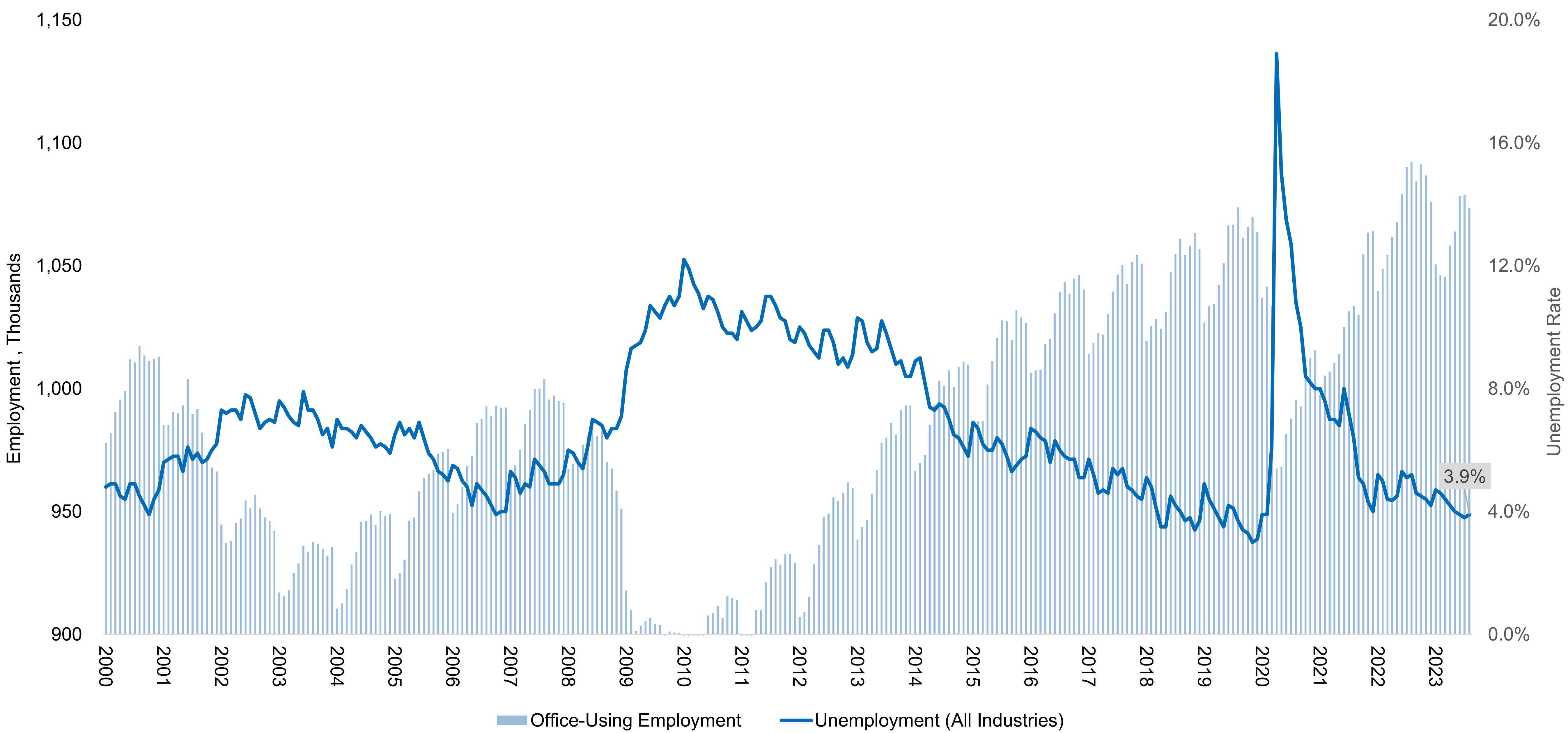


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to pre-pandemic levels but fallen significantly year over year, with layoff announcements coming from major financial tenants like BMO, Amount, Guaranteed Rate and Northern Trust.

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.

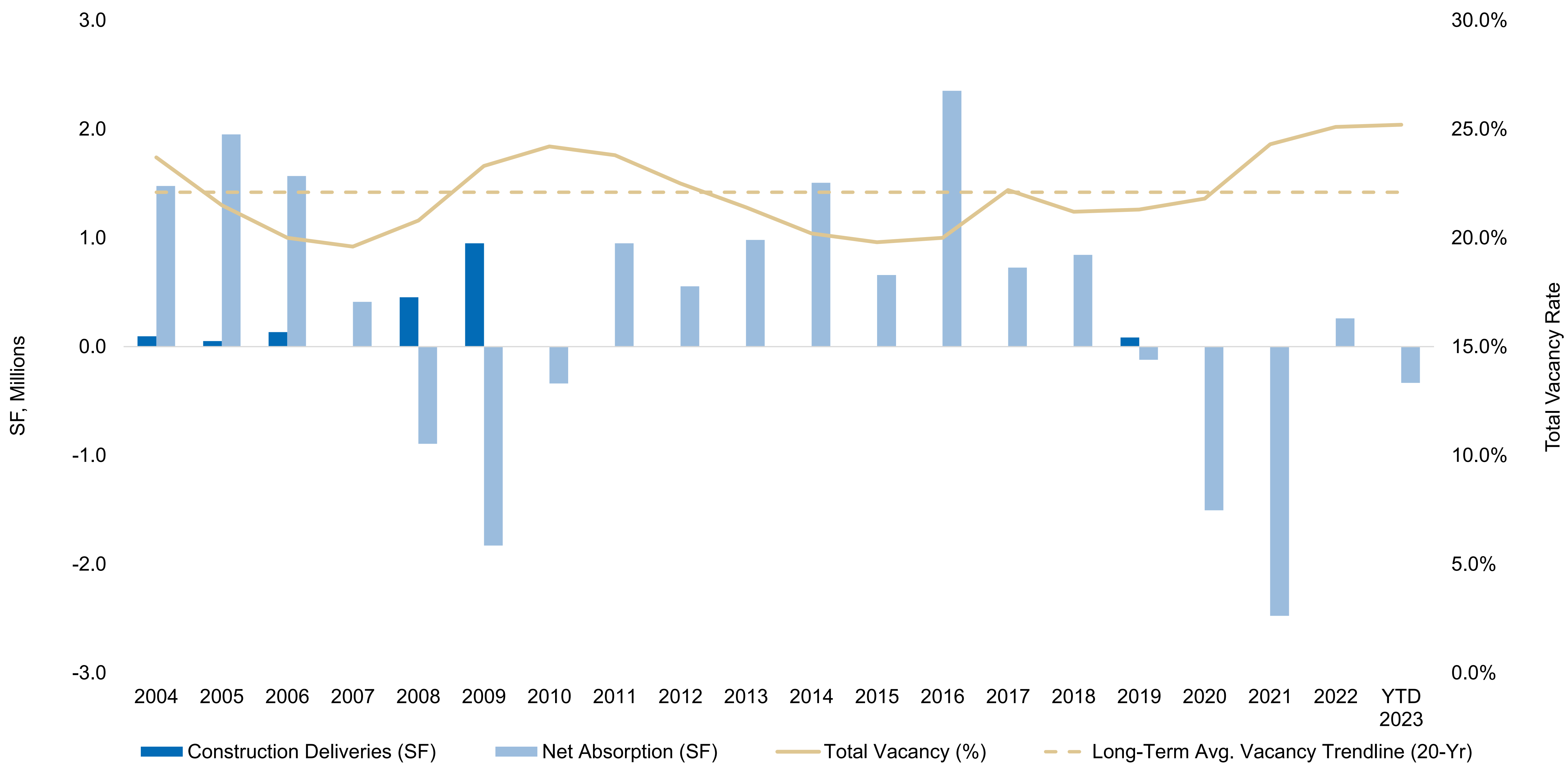
3Q23

Leasing Market Fundamentals

Vacancy Flatlined This Quarter with Positive Absorption

Quarter-over-quarter vacancy increased 50 basis points to 25.2%, but year over year, that increase was only 10 basis points. Absorption dipped to negative 493,935 SF due to contractions by tenants across the suburbs. There continues to be no demand for new office space in the suburbs as tenants struggle to draw employees back into the office and financing remains a challenge.

Historical Construction Deliveries, Net Absorption, and Vacancy

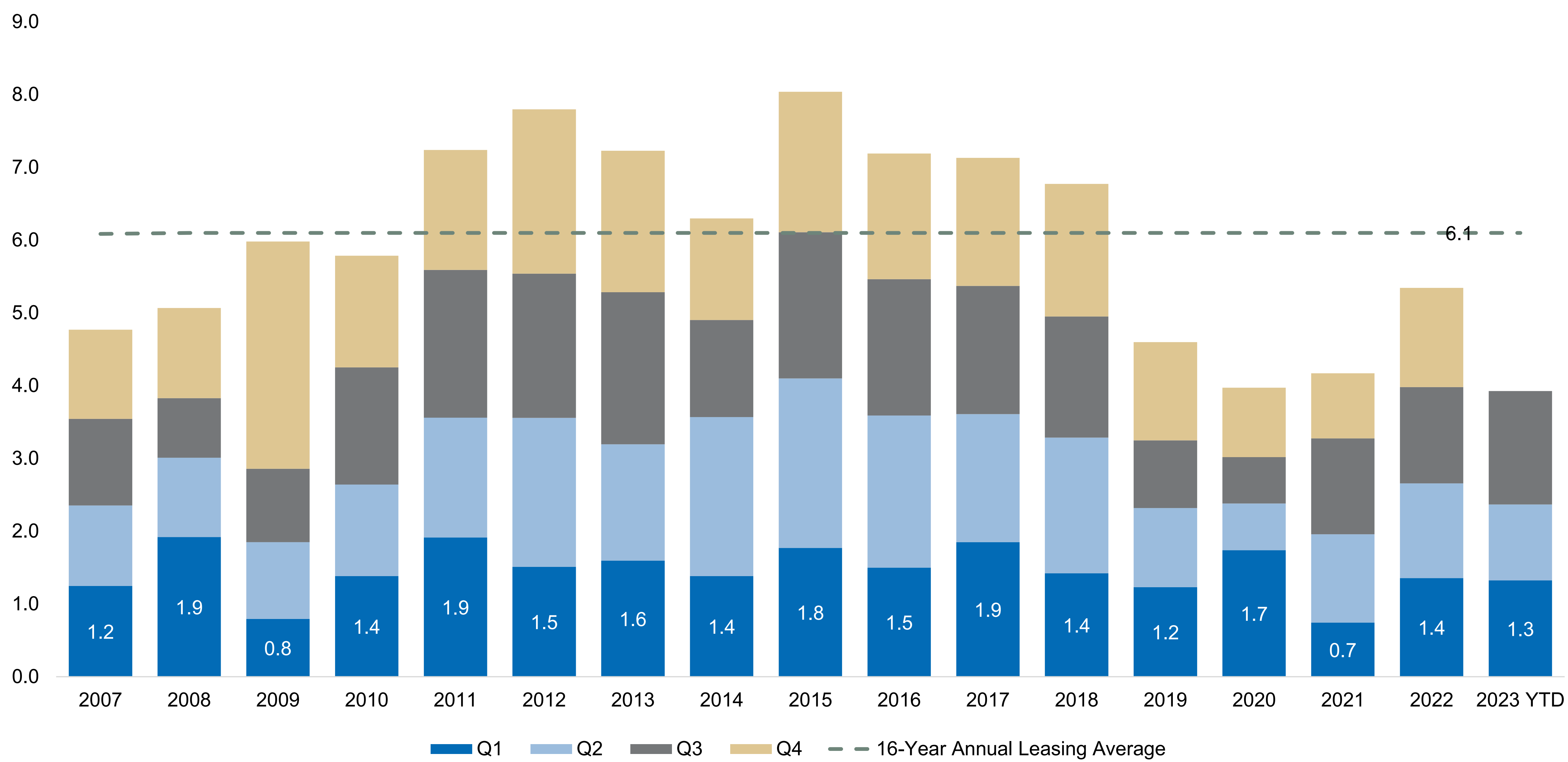


Source: Newmark Research

Leasing Activity Records Strong Quarter

Leasing volume in the third quarter of 2023 outpaced the two previous quarters at 1.6 million SF, although a significant portion of this activity was contractionary activity. With a few remaining large tenants in the market, expect this volume to hold steady through the end of 2023.

Total Leasing Activity (msf)

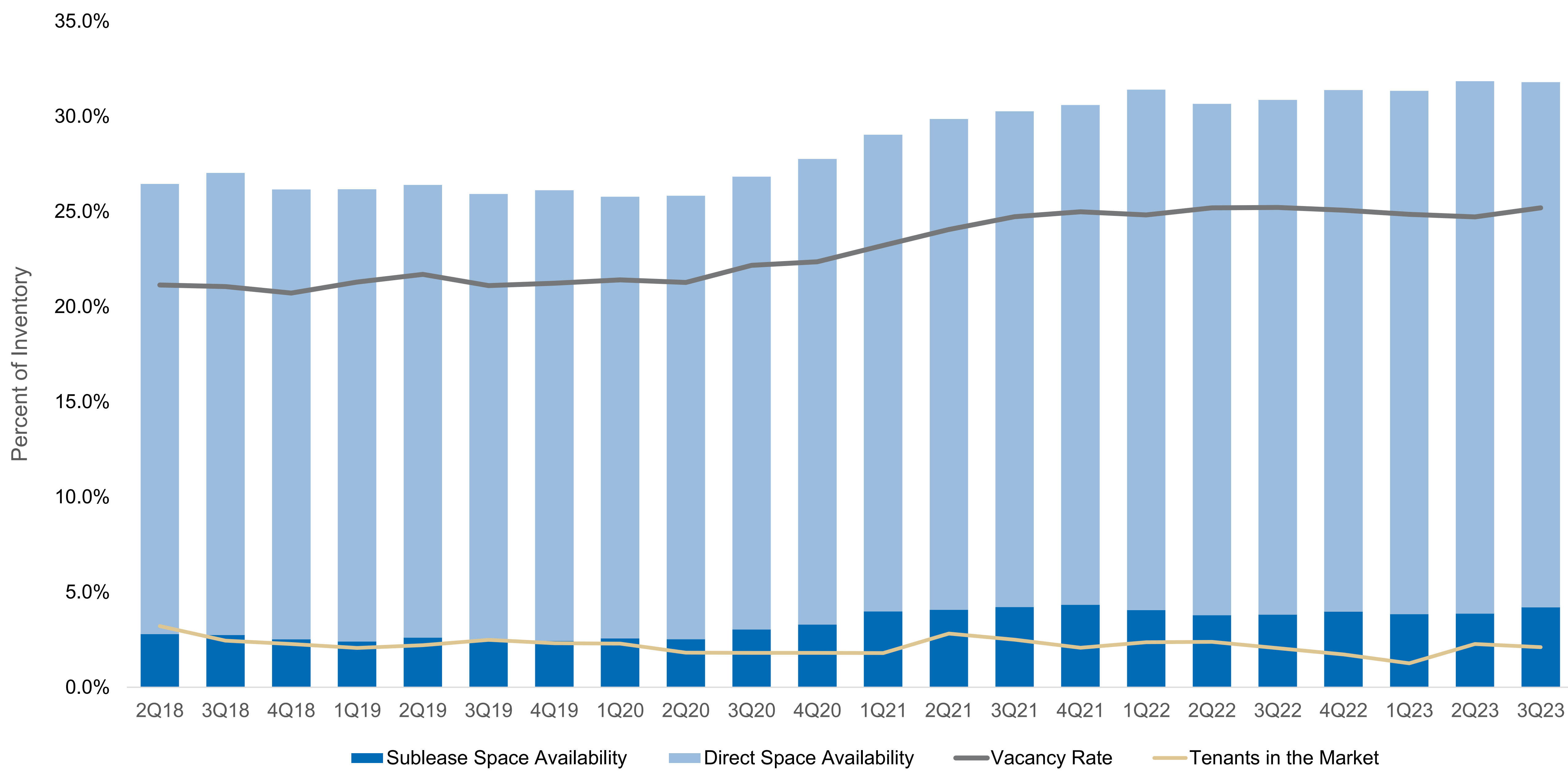


Source: Newmark Research, CoStar

Availability Holds Steady

Total availability held this quarter at 31.8% of the suburban market driven by rising sublease availability but declining in direct availability. Sublease availability ticked up 30 basis points this quarter to 4.2%, the highest it has been since the fourth quarter of 2021.

Available Space and Tenant Demand as Percent of Overall Market

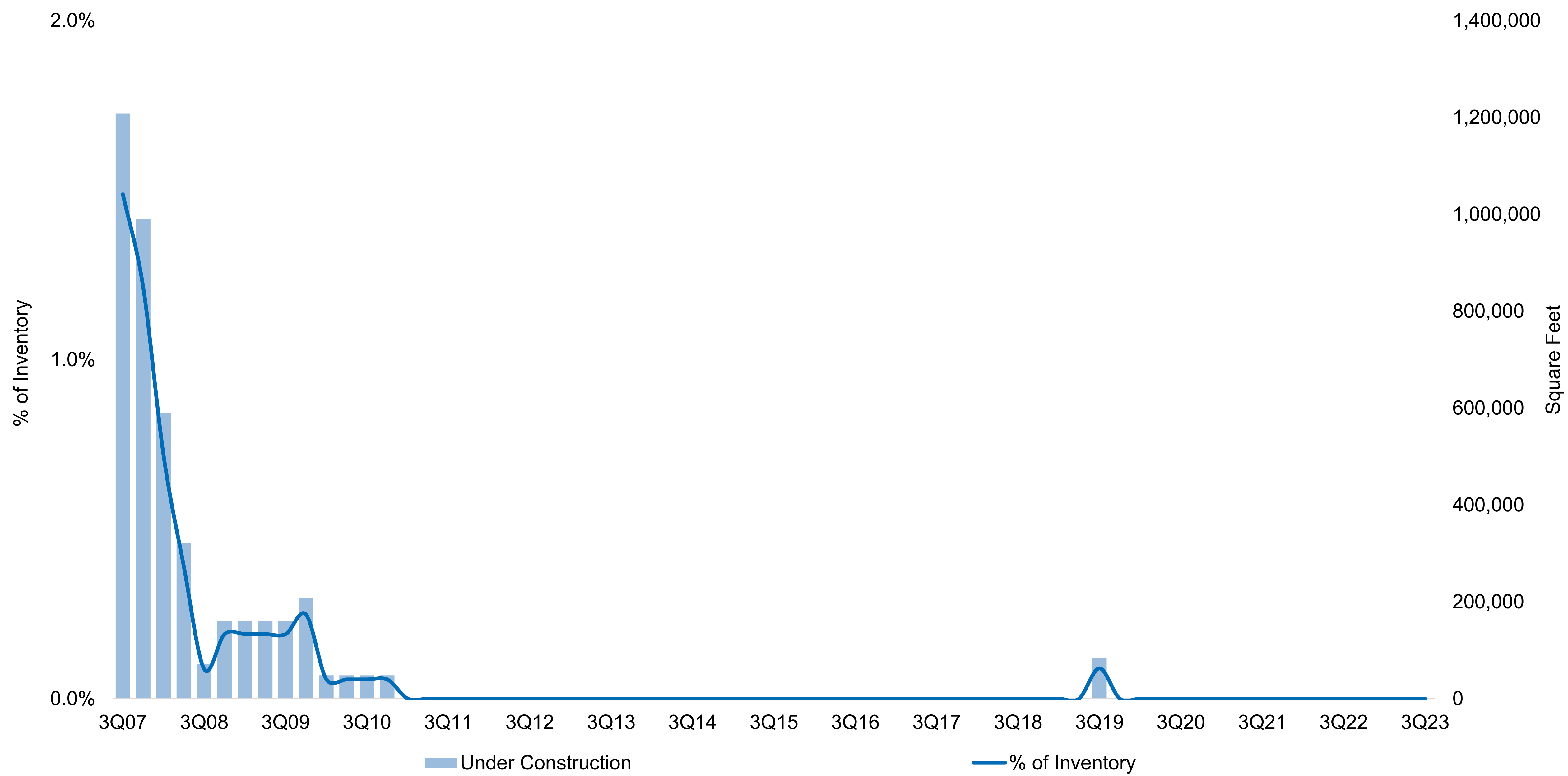


Source: Newmark Research

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

With many second-generation office buildings stressed, demand for new office product in the suburbs remains flat.

Office Under Construction and % of Inventory

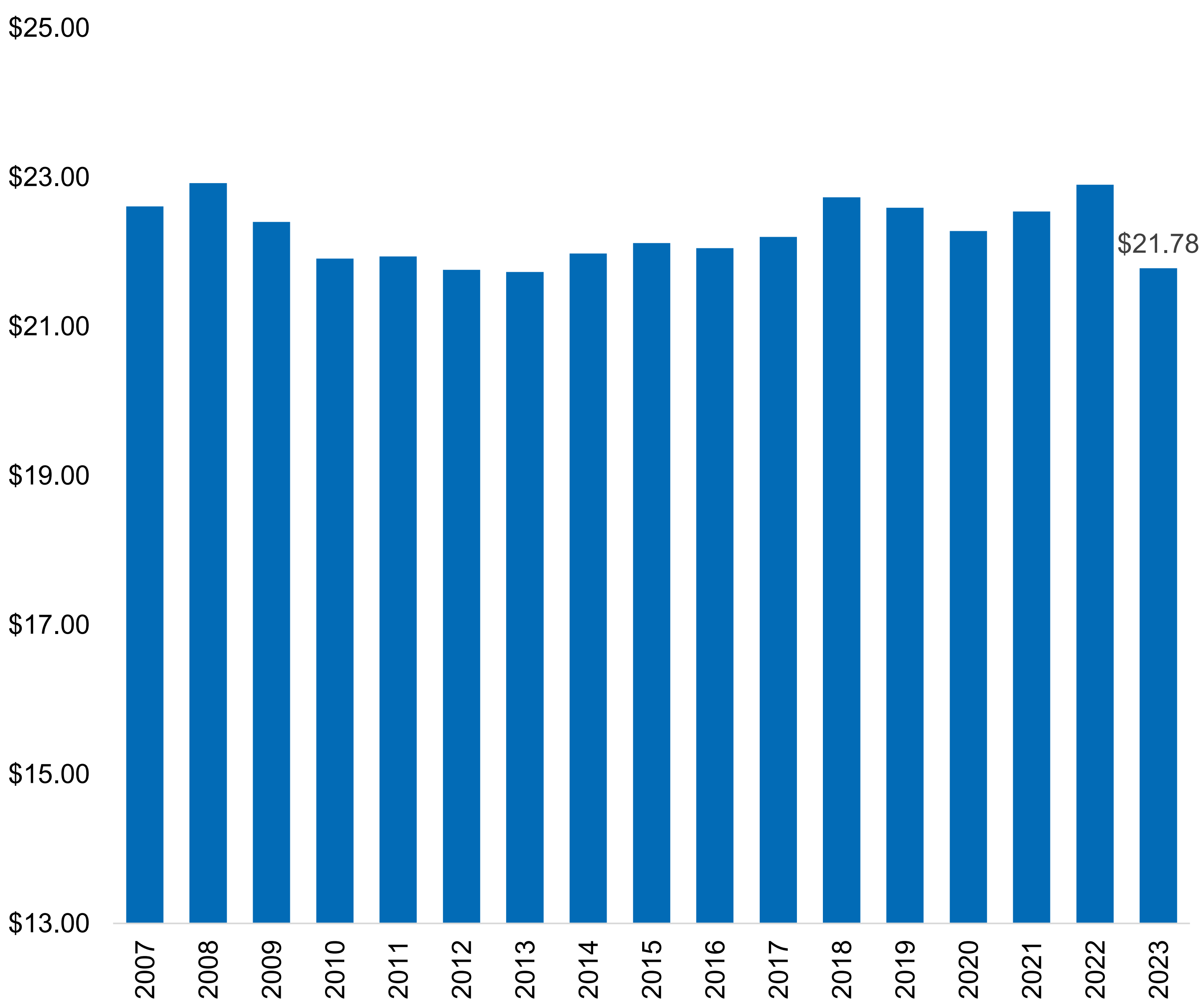


Source: Newmark Research, CoStar

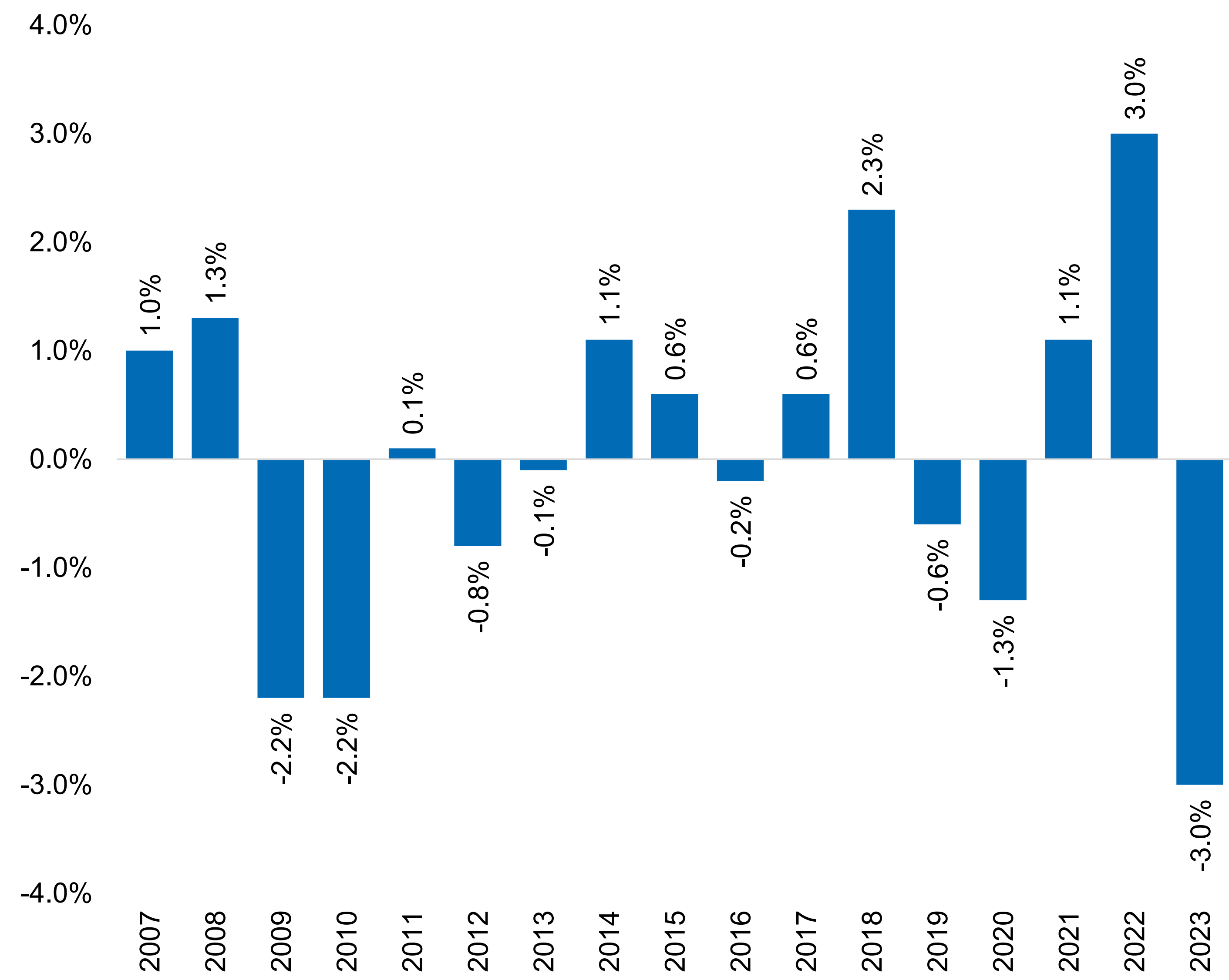
Rental Rates Fall Off Amidst Capital Challenges

Asking rate growth hit the brakes this quarter, falling 3.0% 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

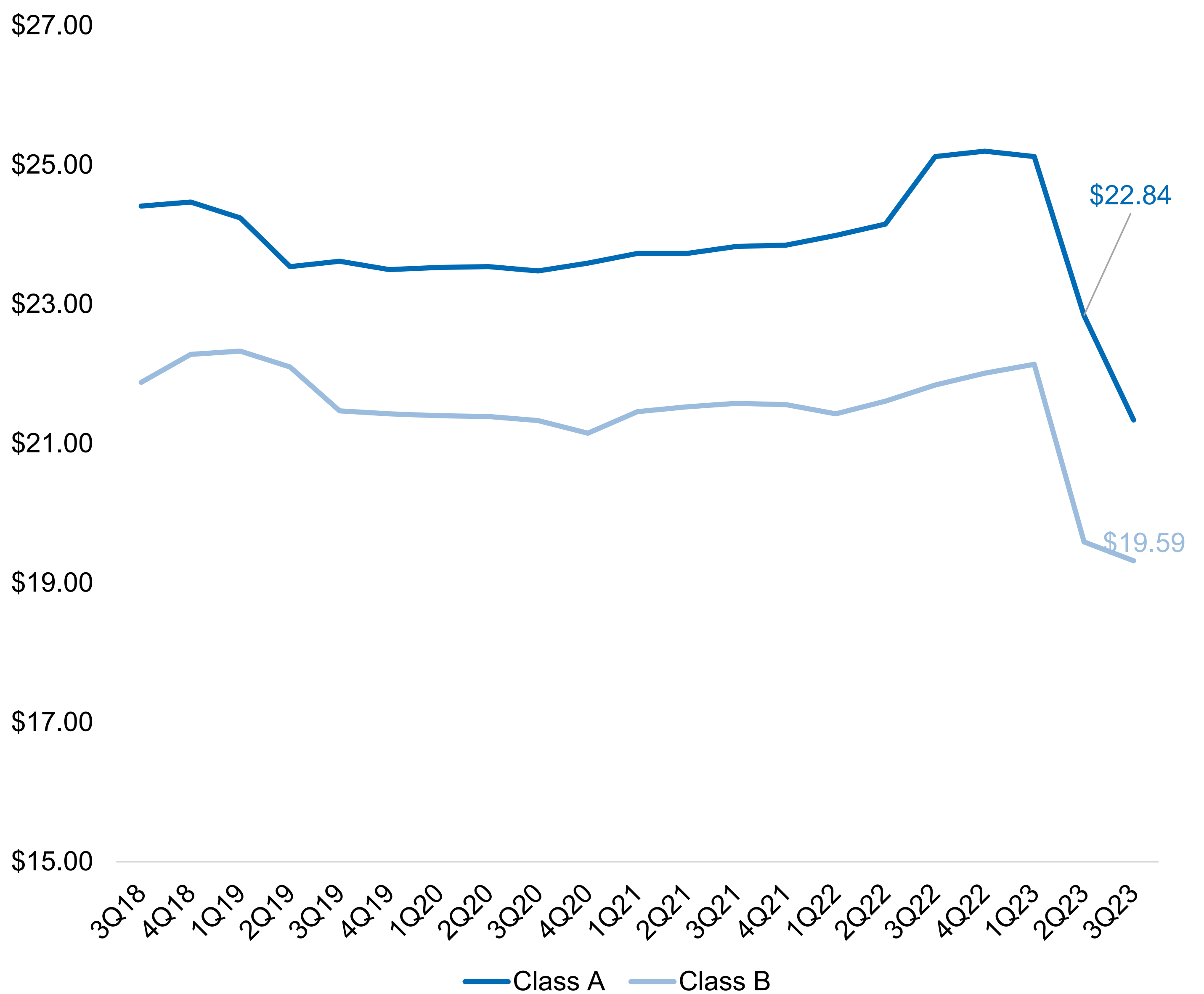


Source: Newmark Research, CoStar

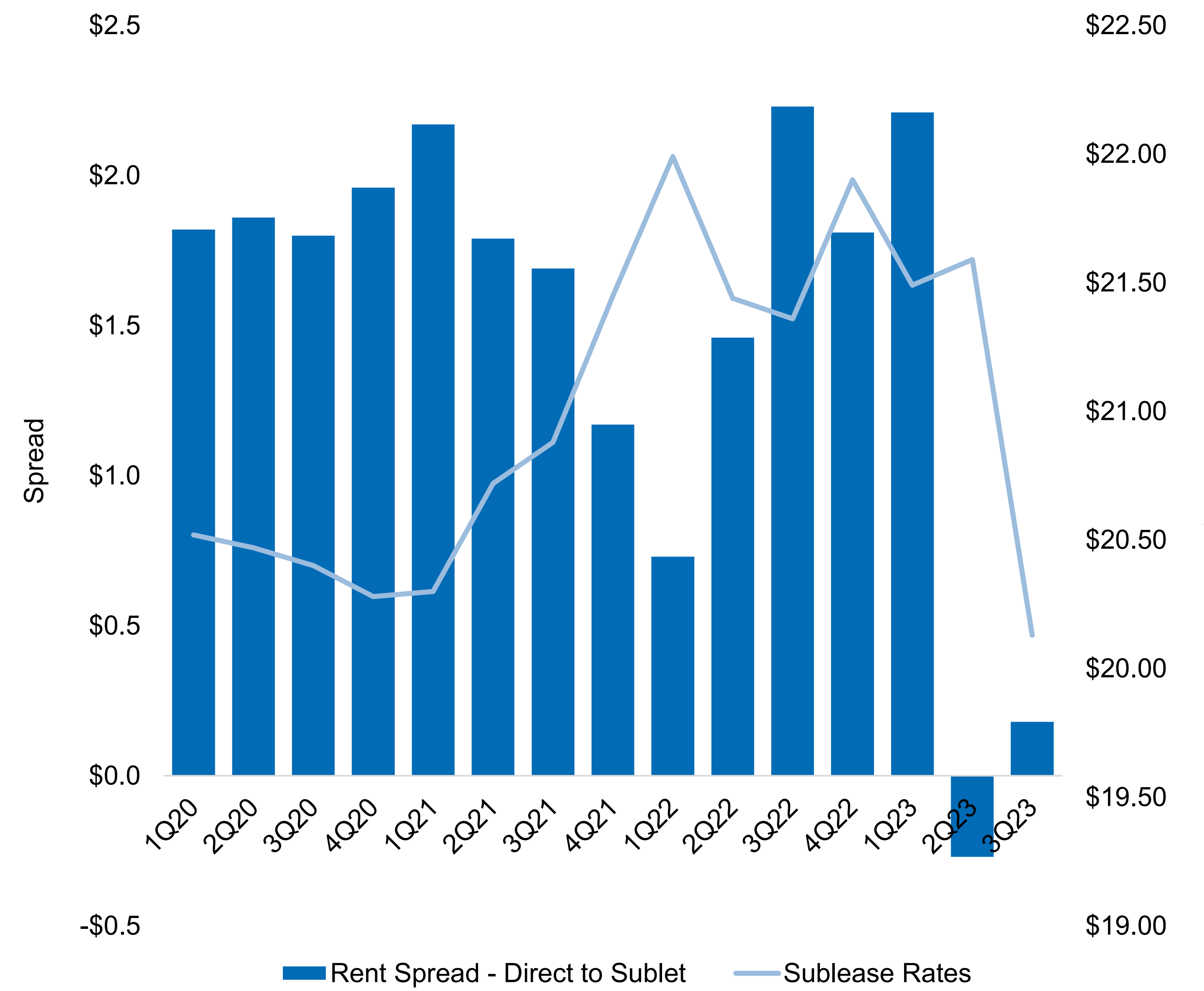
Sublease Rates Fall Too

Rental rates fell off this quarter in both Class A and Class B buildings after showing a slight increase mid-2022. Sublease rental rates also declined.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Leasing volume was up quarter over quarter, although a significant portion of the leases that did get completed had some type of contractionary component.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Travelers Insurance Company	3010 Highland Landmark	I-88 East	Direct Lease	71,000
Citigroup	1515 E Woodfield	I-88 West	Renewal	40,000
Haribo	9500 W Bryn Mawr	O'Hare	Renewal	25,000
Federal Reserve Bank of Chicago	360 E 22nd Street	I-88 East	Direct Lease	15,000
Venture One	9500 W Bryn Mawr	O'Hare	Renewal	12,000

Source: Newmark Research

Suburban Market Office Statistics

Please reach out to your
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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