



# Chicago Suburban Office Market

## Tenants Maintain Advantage

### Suburban Overview

Conditions failed to improve in Chicago's suburban office market during the fourth quarter of 2022. Vacancy rates increased 30 basis points quarter-over-quarter to 25.5%, and occupancy losses have surpassed 2.2 million square feet since the onset of the pandemic in early 2020. Sublease inventory rose to a record high of 4.1 million square feet, with recessionary headwinds incentivizing companies to cut costs by offloading unutilized space into the secondary market. Leasing velocity is up year-over-year, but still significantly below pre-pandemic activity. Leasing transactions in the fourth quarter remained concentrated on amenity-rich Class A assets, and tenants are taking advantage of favorable concessions from landlords amidst an oversaturated market. Investment activity was more prominent in the suburbs relative to its CBD counterpart, with 14 deals made this quarter. As 2023 approaches, it is expected that contractions will continue to dominate the Suburban office leasing market, requiring both tenants and landlords to develop innovative solutions to accommodate a workforce that has embraced hybrid working arrangements.

### Current Conditions

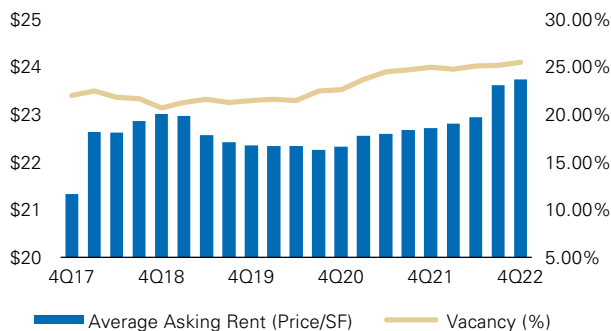
- Vacancy in the suburbs went up this quarter rising 30 basis points to 25.5%.
- Rental rates had a slight increase to \$23.74/SF.
- All State's Corporate headquarters in Northbrook was sold to Dermody Properties, who will be converting the 232-acre campus into a logistics park.

### Market Summary

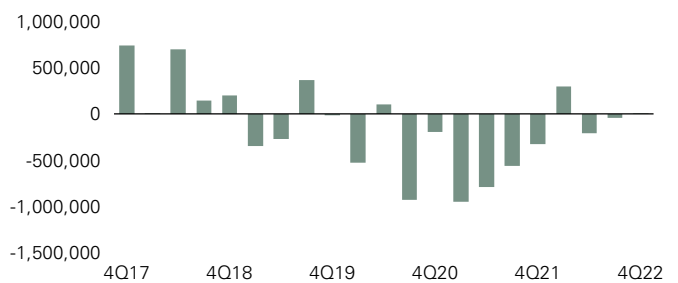
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	97.4M	97.5M	96.0M	↓
Vacancy Rate	25.5%	25.2%	25.1%	↑
Quarterly Net Absorption (SF)	3,668	(45,430)	(553,879)	↓
Average Asking Rent/SF	\$23.74	\$23.62	\$22.66	↓
Under Construction (SF)	-	-	-	↔

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



### Leasing Activity

The Suburban office market's activity levels carried on at a steady pace this quarter with a minimal 3,668 square feet of positive absorption, positively contributing to a year-to-date absorption of negative 47,085 square feet. Overall leasing activity in the Suburban market was around 1.3 million square feet this quarter, bringing the year's total to 5.9 million square feet. The North and Northwest submarkets made up nearly 61% of total leasing transactions, with 324,000 square feet and 410,000 square feet, respectively. Most transactions being completed in the Suburban submarkets are tenants looking to downsize into higher-class, amenity-rich spaces that incentivize and boost in-office participation among employees. Among all new Suburban office leases signed in 2022, 73.0% were Class A properties. Landlords are offering generous perks to high-credit tenants in hopes of locking down long-term lease contracts, including extended rent abatement, and generous tenant improvement concessions. Although net absorption was positive in the fourth quarter, total availability in the suburbs is at a record high of 31.3 million square feet, with a vacancy rate of 25.5%. Sublease availability also persisted at a record level this quarter at over 4.1 million square feet, caused by tenants looking to cut costs and offloading unutilized space into the secondary market. Average asking rates across all submarkets were practically unchanged from the previous quarter, with a weighted average rate of \$23.74/SF.

### Capital Markets

The investment sales market in the Chicago metropolitan region reached \$402.2 million in the fourth quarter. The total investment sales volume for 2022 was \$2.76 billion, which is the highest it has been since the onset of the pandemic. This year, private capital accounted for the majority of buyers at 53.9%, followed by institutional capital at 35.0%. In terms of sales, institutional capital made up 56.7% of transactions and private capital accounted for 28.1%. Sales in the Central Business District were relatively subdued this quarter, making up only two of the 16 total transactions in the Chicago metropolitan area. Investors are currently reticent to make any commitments to downtown office space until interest rates begin to decrease, and the costs of debt become more stable.

Perhaps the most significant transaction in the Chicago Metro area this quarter was the acquisition of Allstate's former HQ campus by Nevada-based developer Dermody Properties for a reported \$232.0 million. The company plans on converting the 232-acre property into a 10-building logistics park, with 3.2 million square feet of available build-to-suit space. Other notable sales this quarter include Pointe O'Hare for \$38.7 million, DuPage Corporate Center for \$14.0 million, and Rosemont Corporate Center for \$13.0 million. As interest rate hikes are expected to continue and expand capitalization rates in the coming year, it is likely that buyers and sellers will remain at odds over asset valuations. Furthermore, both lenders and investors will be closely monitoring the work-from-home trends, and whether office occupancy rates will begin to return to pre-pandemic levels in 2023, before making any significant purchase or sale decisions.

### Outlook

2023 will undoubtedly be a unique year filled with challenges as well as creative solutions for the recovering office market. Employers will be forced to assess what to do with underutilized space as they balance the need for office attendance with the growing popularity of working from home. The new year will likely remain a tenant's market, as the supply of available space will continue to outpace demand, and more companies will look to offload space in the secondary market. Additionally, it is likely that tenants will continue to seek amenity-rich class A buildings to retain talent and bolster collaboration, while Class B assets may struggle to fill vacant space in the months ahead.

## RESEARCH Q4 2022

### Suburban Lease Transactions

Tenant	Market	Building	Type	Square Feet
M/I Homes	I-88 West	2135 City Gate Ln	Direct	27,000
CliftonLarsonAllen	I-88 East	2021 Spring Rd	Direct	25,000
JMG Financial Group	I-88 East	2001 Butterfield Rd	Extension	23,000
Byline Bank	Northwest	10 N Martingale Rd	Direct	21,000
Sasser Family Holdings	Northwest	425 N Martingale	Renewal	20,000

### Suburban Sale Transactions

Buyer	Market	Building	Price Per SF	Square Feet
Dermody Properties	North	2775 Sanders Rd	\$232/SF	1,900,000
Bradford Allen Realty	O'Hare	9550 W Higgins Rd	\$147/SF	263,000
Slate	North	275 N Field Dr	\$100/SF	198,000

### 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>97.4M</b>	-	<b>25.5 %</b>	<b>3,668</b>	<b>(47,085)</b>	<b>\$25.19</b>	<b>\$22.05</b>	<b>\$23.74</b>
I-88 East	22,205,140	-	22.6%	(96,580)	(70,878)	\$25.93	\$23.21	\$24.75
I-88 West	13,470,532	-	22.2 %	33,143	110,512	\$22.92	\$20.76	\$22.08
North	25,341,257	-	23.2 %	111,840	(67,902)	\$24.63	\$21.12	\$23.28
Northwest	23,892,170	-	35.4 %	(64,469)	(62,837)	\$24.93	\$21.45	\$23.30
O'Hare	12,561,659	-	20.0 %	19,734	44,020	\$28.95	\$25.80	\$25.91

## RESEARCH Q4 2022

### Economic Conditions

As 2022 concludes, the global economy continues to face instability amidst converging factors, including residual COVID-19 impacts, European energy sanctions, China's housing market crisis, the war in Ukraine and widespread inflation. Perhaps the biggest focus for Americans is the increasing likelihood of a recession in the first half of 2023. The Fed's announcement of a 50 basis-point hike in mid-December has brought interest rates to a 15-year high at a target range of 4.25% to 4.5%, with no indication of rate cuts anytime soon.

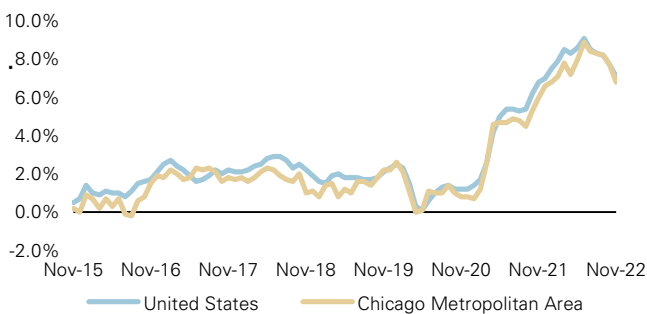
While the most recent US CPI measure of 7.1% is high relative to pre-pandemic levels, November's report is down significantly from June's peak of 9.0% and is an optimistic sign that the FOMC's monetary tightening efforts have been effective in decelerating price increases. Inflation rates in Chicago have mirrored this national decrease, with the latest CPI measured at 6.8%, a 210 basis-point reduction from June's peak.

Despite the economic slow down engineered by the Fed, the labor market has remained resilient in 2022, with the latest data from the BLS showing a national unemployment rate of 3.7%. Demand for workers is also outpacing supply in the Windy City with unemployment at 4.5%, perhaps fueled by strong job growth in the hospitality, manufacturing and tech industries. Illinois mass layoff claims are down more than 50% year-over-year, and workers who are being laid off are finding new jobs quicker than at the height of the pandemic. This workers market will not prevail in the long-term, however, as the Fed's future rate hikes will bring the labor market back into equilibrium, decreasing wage growth, and ultimately, prices.

The outlook for 2023 is one of slow GDP growth, a likely recessionary period, falling consumer sentiment and a softening in business investment. While the coming months may present some challenges, the US has historically been able to rebound from onerous periods of stagnant economic activity. The extent to which we'll begin to see a reversion to "normalcy" will largely be dependent on the efficacy of the Central Bank's monetary policy in conjunction with solutions to geopolitical frictions across the globe.

### Consumer Price Index (CPI)

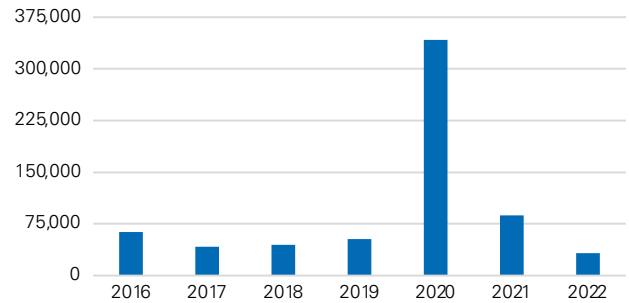
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

### Layoff Statistics

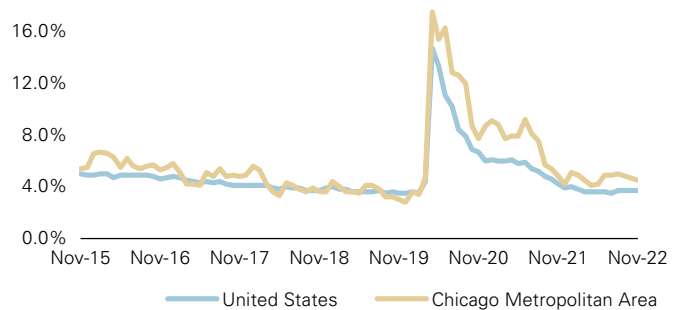
IL MASS LAYOFFS (INITIAL CLAIMS), NOVEMBER 2022



Source: Illinois Department of Employment Security, Economic Information and Analysis

### Unemployment Rate

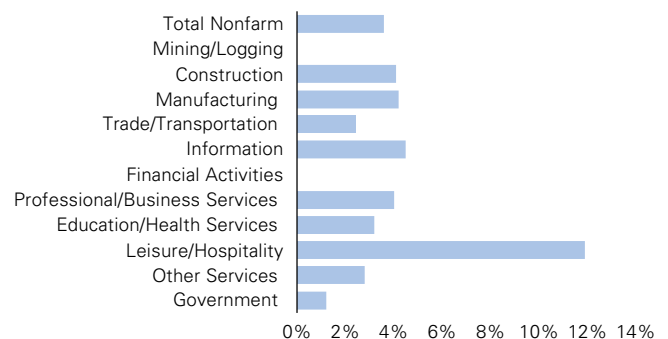
SEASONALLY ADJUSTED, NOVEMBER 2022



Source: U.S. Bureau of Labor Statistics

### Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics



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