

Savills Studley Report

Chicago Suburbs office sector

Q2 2018



SUMMARY

Market Highlights

JUMP IN LEASING

Leasing activity rose for the second quarter in a row, pushing to 1.5 million square feet (msf). Tenants have leased 4.4 msf in the four most recent quarters, still well under the market's long-term average.

CLASS A AVAILABILITY RISES

The overall availability rate remained at 26.6%. The Class A availability rate rose by 50 basis points to 26.9%.

RENT PUSHES HIGHER

Suburban Chicago's overall asking rent rose by 1.4% to \$23.48. The Class A asking rent jumped by 2.0% to \$26.81.

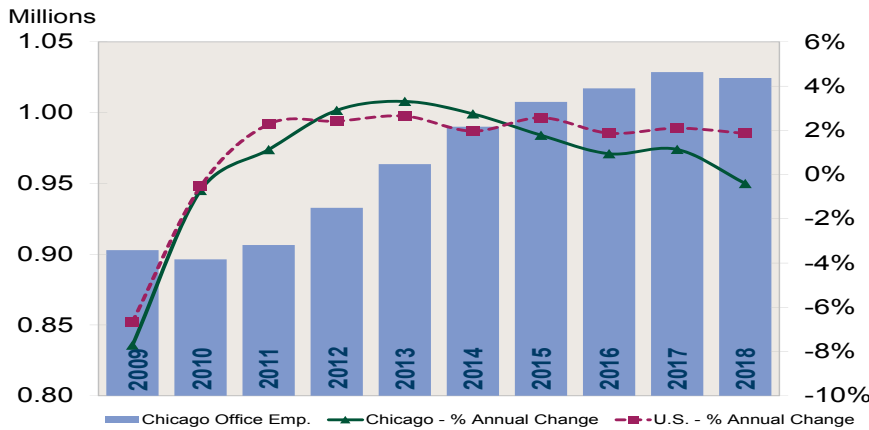
SALES UP

Office property sales during the last six months (through May 2018) totaled \$2.9 billion, a 51% increase compared to the previous six month total of \$1.9 billion. Sales in Chicago's suburban market totaled \$1.5 billion while Chicago CBD witnessed sales of \$1.36 billion during this period.

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"Suburban Chicago's office market continues to see major shifts in ownership. A few investors are cashing out after a sometimes extended period of stabilizing their assets. Another set of buyers are entering the market, taking on the next group of value-add and opportunistic redevelopment projects."

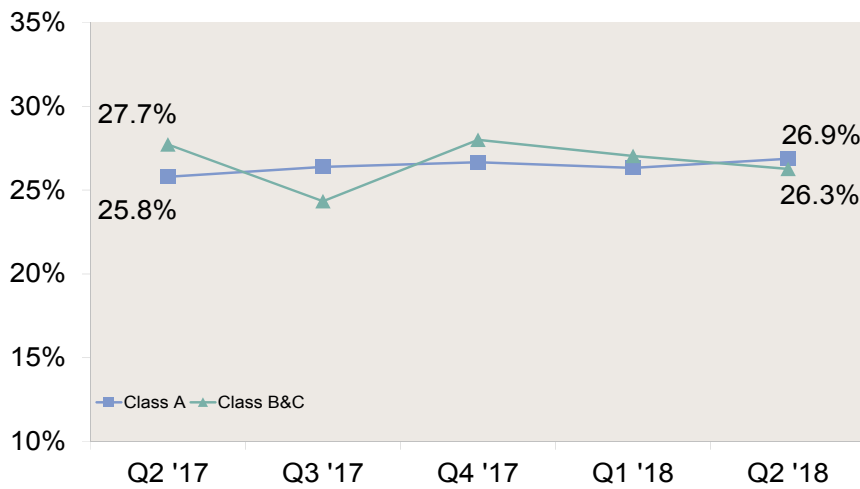
Jon Azulay,
Corporate Managing Director

Office-Using Employment Trends

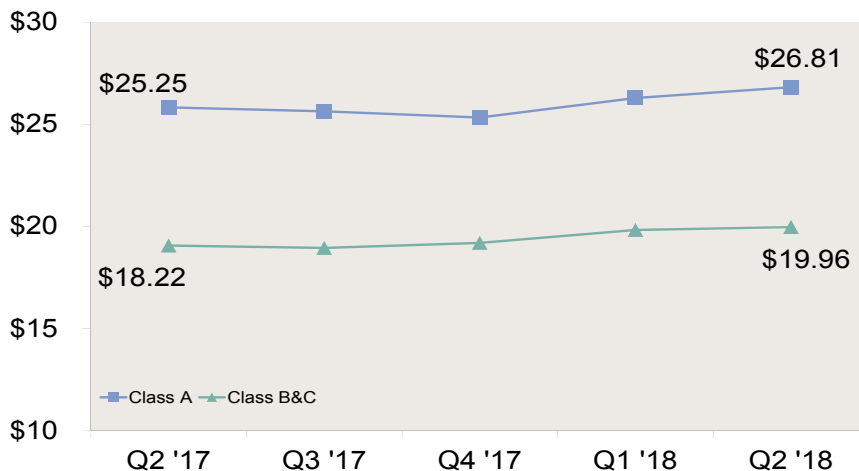


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Shifting Ownership

Suburban Chicago witnessed significant changes in property ownership during the second quarter. Sales are being driven by investors cashing out on stabilized assets as well as the purchase of some major high-vacancy redevelopment projects. Several owners who have successfully repositioned buildings are now cashing out and capturing a significant gain on their principal. Walton Street and Glenstar are selling Continental Towers in Rolling Meadows for nearly \$125 million (\$137/sf), more than twice the \$58.5 million they paid for it in 2013. The property achieved a big gain even as Komatsu announced plans to relocate from the building to Triangle Plaza in Chicago. Glenstar and Walton spent \$23 million on capital improvements and pushed occupancy from 55% to 90%.

Buying former corporate headquarters, particularly entirely vacant facilities, is a big risk, but these assets typically sell well below replacement cost. A venture led by Franklin Partners paid an undisclosed price for 263 Shuman Boulevard in Naperville. The former OfficeMax headquarters has been vacant for three years. The prior owner defaulted on its loan nearly a year ago. Franklin Partners plans to redevelop the building – redesigning the lobby, adding new dining options, a new fitness center, coworking lounges and a conference center. Former owner Wells RE Funds paid \$55.3 million for the 354,000-sf building in 2006.

Repositioning a 300,000 to 400,000-sf building is challenging enough. Somerset Development, which has had success recapturing these facilities in New Jersey, is undertaking one of the most daunting challenges – the rebirth of the former AT&T campus in Hoffman Estates. The plan envisions a campus to be called City Works. The four-level, 1.3-msf main building would house offices. Plans call for about 175 townhouses and 375 multifamily units around the edge of the complex.

The plight of the suburban campus has captured the attention of even state legislators. State Representative Fred Crespo has proposed the "Big Empties Site Act" that would offer tax breaks for developers. In the absence of such assistance owners are coming up with creative solutions. Some are repurposing these sprawling projects entirely. The former Motorola Solutions campus in Schaumburg, for example, is to be redeveloped into a Topgolf location and possibly residential projects. In contrast,

the former Zurich Insurance headquarters at 1400 and 1450 American Lane is filling up slowly as smaller tenants take occupancy.

East-West Corridor

The availability rate inched up from 23.9% to 24.1% during the quarter. Leasing volume during the last four quarters totaled 2.1 msf. The East-West Corridor has accounted for 48% of all leasing activity over the past four quarters. Average asking rent in the East-West Corridor increased by 1.3% year-on-year to \$23.34.

The East-West Corridor saw fewer large leases in the second quarter. No leases over 50,000 sf were signed, but the submarket nevertheless captured more than half of the top 10 leases. The University of Illinois took 26,437 sf at 1100 E Warrenville Rd. Healthcare companies continue to be active in the market – Hummingbird Pediatric Therapies (740-750 Pasquinelli Dr) and Fresenius Medical Care (501 W Lake St) were among healthcare firms signing deals.

North Corridor

Availability declined for the first time since 2017 in the North Corridor, dipping by 190 basis points to 28.7% during the second quarter. The Class A availability rate dropped from 29.3% to 28.9%. The average Class A asking rent rose by 1.5% to \$26.99, while overall asking rent rose by 1.8% to \$24.53 psf.

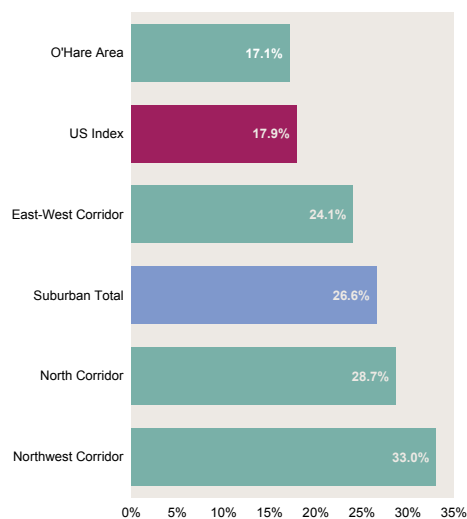
Deal volume totaled just under 700,000 sf in the North Corridor during the last four quarters, well below the submarket's long-term annual average of 1.3 msf. CVS Health's 140,807-sf renewal at 2100 E Lake Cook Road was the only notable lease completed during the quarter in the North Corridor.

In Evanston, GEM Realty acquired a majority stake in Orrington Plaza. The deal values the tower, located at 1603 Orrington Ave., at \$91 million. This marks a significant increase in value from 2013, when Investcorp and Golub paid \$62 million for the 307,000 sf building.

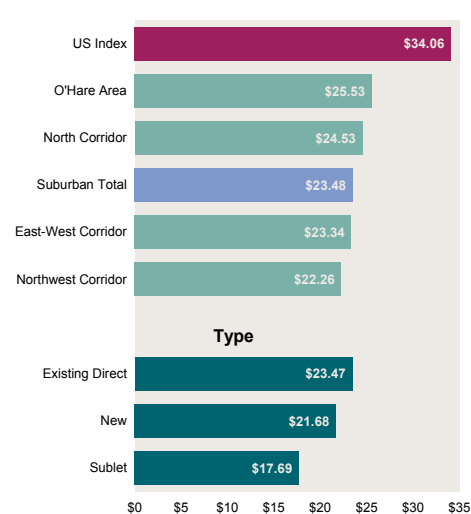
Northwest Corridor

The Class A availability rate in the Northwest Corridor continued to soar, jumping by 390 basis points to 34.8% in the second quarter. Deal volume has failed to gain traction as some companies shift to other areas with better access to transportation routes. Average Class A asking rent nevertheless increased, rising by 4.6% year over year

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
CVS Health *	140,807	2100 E Lake Cook Rd	North Corridor
Career Education Corporation *	104,309	1750 E Golf Rd	Northwest Corridor
Komatsu	90,000	8770 W Bryn Mawr	O'Hare Area
University of Illinois	26,437	1100 E Warrenville Rd	East-West Corridor
Capgemini	25,454	2441 Warrenville Rd	East-West Corridor
Hummingbird Pediatric Therapies *	23,021	740-750 Pasquinelli Dr	East-West Corridor
Fresenius Medical Care	22,699	501 W Lake St	East-West Corridor
Hub Group *	22,280	700 Commerce Dr	East-West Corridor
Beachwaver	16,246	850-868 Technology Way	North Corridor
Carlson Wagonlit Travel	14,519	901 Warrenville Rd	East-West Corridor
	485,772	Sum of 2nd Qtr Leasing Activity	1.5 MSF

*Renewal

to \$25.06. Tenants have leased 1.0 msf in during the last four quarters, just under the submarket's long-term annual average of 1.3 msf. Career Education Corporation renewed its 104,309-sf lease at 1750 E Golf Road. Other than this, there were few material leases completed.

O'Hare

O'Hare continued to run counter to trends in much of suburban Chicago. The submarket's overall availability rate decreased by 60 basis points from 17.7% to 17.1%. The Class A availability rate also fell by 60 basis points, dropping to 15.0%. Deal volume totaled 618,000 sf in the last four quarters, on par with the market's long-term average. Komatsu announced plans to move from 105,000 sf at Continental Towers to about 90,000 sf at 8770 W Bryn Mawr.

Blackstone continues to unload its suburban assets. The investment firm is looking for about \$145/sf for O'Hare International

Center in Rosemont — a two-building complex that is currently 82% occupied. Most recently, Blackstone sold Westbrook Corporate Center in Westchester for \$132 million. The five-building campus sold for \$113/sf, a slight gain from what Blackstone paid when it bought the building as part of a portfolio. Westbrook was purchased by Group RMC, a local real estate investor that has been very active recently, having acquired the 11-building Oak Creek portfolio in Lombard in February.

Angelo, Gordon & Co expanded its Chicago holdings, paying \$147 million (\$125/sf) for the two-building 825,000-sf Presidents Plaza located just east of O'Hare Airport. The sellers, PGIM Real Estate and GlenStar Properties, spent \$15 million on capital improvements— adding new building systems, lobby and entrances as well as a gym, conference center, cafe, hair salon, tenant lounge and full-service car wash.

Map	Submarket	Total	Leasing Activity			Available SF			Availability Rate			Asking Rents Per SF		
			Inventory SF (1000's)	Four Quarter Leasing	Four Quarter Net Abs.	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	North Corridor	24,107	682	227	6,911	-6.1%	7,080	28.7%	-1.9%	29.4%	\$24.53	1.8%	\$24.68	
	North Corridor - Class A	14,332	433	12	4,147	-1.4%	4,289	28.9%	-0.4%	29.9%	\$26.99	1.5%	\$26.58	
2	East-West Corridor	38,842	2,104	973	9,346	-0.1%	9,279	24.1%	0.2%	23.7%	\$23.34	0.4%	\$23.05	
	East-West Corridor - Class A	19,716	995	365	4,606	-2.4%	4,467	23.4%	-0.6%	22.7%	\$27.19	0.9%	\$26.35	
3	O'Hare Area	14,741	618	457	2,526	-3.2%	3,050	17.1%	-0.6%	20.7%	\$25.53	3.0%	\$23.98	
	O'Hare Area - Class A	7,772	451	36	1,163	-3.6%	1,221	15.0%	-0.6%	15.7%	\$31.97	4.2%	\$29.42	
4	Northwest Corridor	29,103	1,007	302	9,618	-3.7%	9,915	33.0%	1.8%	31.0%	\$22.26	1.9%	\$21.28	
	Northwest Corridor - Class A	16,589	612	122	5,778	-3.0%	5,785	34.8%	3.9%	30.0%	\$25.06	3.1%	\$23.79	
1-4	Suburban Chicago Total	106,793	4,411	1,959	28,400	-3.1%	29,324	26.6%	0.0%	26.6%	\$23.48	1.4%	\$22.94	
	Suburban Chicago Total - Class A	58,410	2,491	535	15,693	-2.5%	15,762	26.9%	0.5%	25.8%	\$26.81	2.0%	\$25.82	

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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.
^Unless otherwise noted, source for data is Savills Studley.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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