MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Suburban Chicago

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Signs of optimism in Suburban Chicago office market despite entrenched high availability

The overall fundamentals of Suburban Chicago's office market continued to exhibit softness that has become the new normal. However, the market in 2022 year to date has shown signs of a modest revival. Leasing volumes were up by more than 70.0% over the same period in 2021. With nearly 1.7 million square feet (msf) leased, this quarter marked the best period for transaction activity since the start of the pandemic. In addition, the region witnessed the highest price paid for a suburban office property in nearly two decades with Northeast Capital Group acquiring Kemper Lakes Business Center in Lake Zurich for $190 million.

Large leases bolster deal volumes; tenant effective rents fall

The Suburban Chicago market observed availability fall for the second straight quarter, declining by 80 basis points (bps) since the close of 2021 to 31.1%. The Northwest Corridor observed the largest quarterly decline in availability, falling 220 basis points to 35.0% available. While the second quarter was strong from a leasing perspective, more than 40% of the tally was a result of the three largest deals this period. Ace Hardware inked the quarter's biggest lease, relocating its headquarters to 297,000 sf at the former McDonald's campus in Oak Brook. In addition, Zebra Technologies extended its 283,000 sf lease in Lincolnshire for an additional six years. Landlords continued to hold firm on pricing, with the overall asking rents inching up slightly to $25.55 per square foot (psf). However, negotiated rents and concessions have been generous among deals being completed, pushing tenant effective rents lower.

Fundamental challenges remain in the short and long terms

Despite a solid start to the year from a transactional standpoint, long-term challenges for the Suburban Chicago market have not abated. While the phenomenon of Suburban Chicago companies relocating to the Downtown market has markedly slowed in past years, the market received unwelcomed news in June when Deerfield-based Caterpillar announced its corporate headquarters relocation to the Dallas Metroplex. Separately, some Suburban Chicago office properties are by some standards obsolete, with tenants finding many buildings to be too large and sprawling, lacking basic amenities, and located in low-demand areas. Meanwhile, Suburban Chicago faces the same issue as nearly all other office markets as companies shrink or eliminate their workplace requirements. As for the Suburban Chicago office market forecast, tenant favorable conditions will persist as occupier demand remains stymied.

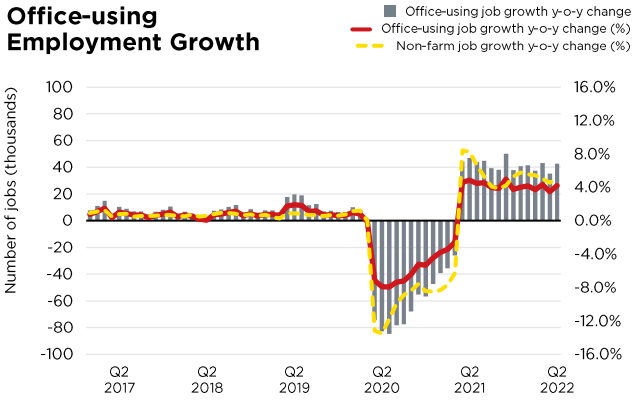
Outlook

- With record inflation and rising interest rates clouding the picture, increasing economic headwinds are possible and could negatively alter market dynamics
- Rent abatement and improvement allowances remain elevated as suburban landlords must aggressively compete for occupancy and to retain existing tenants
- Facing weak demand and a shifted paradigm in how companies utilize space, Suburban landlords must focus on the tenant experience to both attract and retain occupants

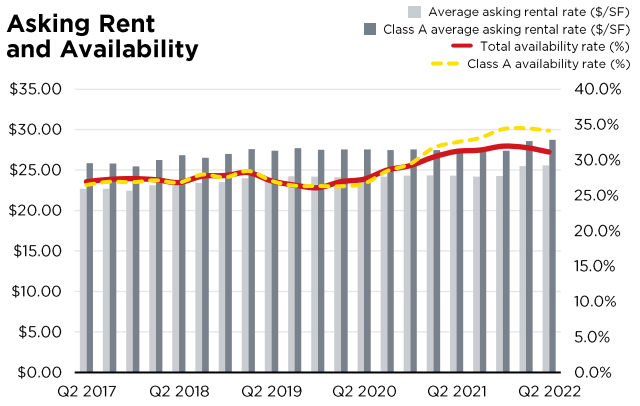
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	98.8 MSF	98.9 MSF	▲
Availability Rate	31.2%	31.1%	▼
Asking Rental Rate	$24.30	$25.55	▲
Class A Asking Rental Rate	$27.47	$28.73	▲
Quarterly Leasing Activity	1.0 MSF	1.7 MSF	▲
Available Sublease Space	4.3 MSF	3.9 MSF	▼

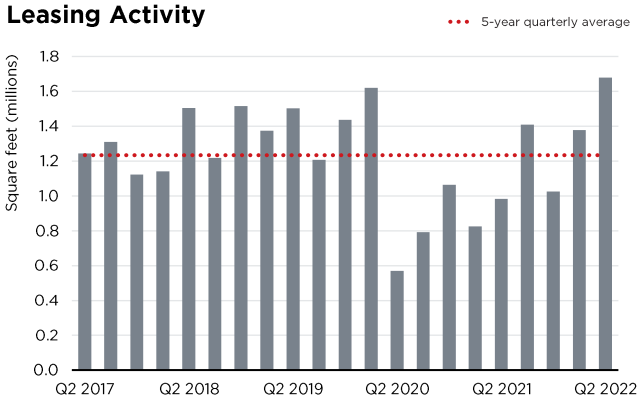
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

4.2%
Chicago-Naperville-Arlington Heights, IL MSA unemployment rate (as of May 2022)

4.2%
Office-using employment growth year over year (as of May 2022)

51.9%
Share of Q2 2022 Suburban Chicago lease deals occurring in the East-West Corridor

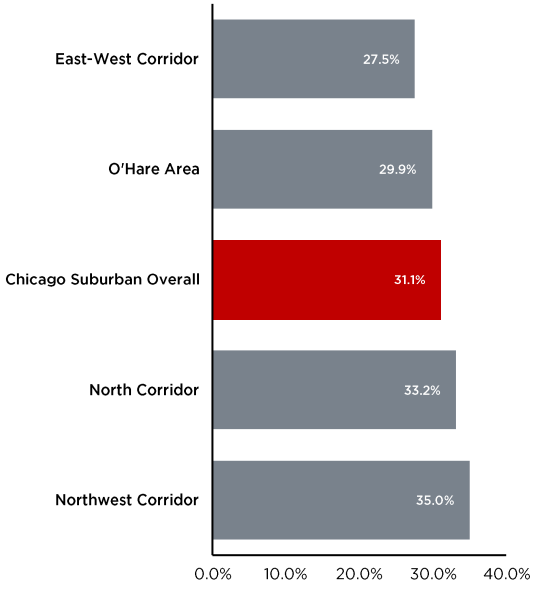
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Ace Hardware Corporation	297,000	2915 Jorie Boulevard	Relocation	East-West Corridor	Retail
Zebra Technologies	283,000	3 Overlook Point	Renewal	North Corridor	TAMI
CNH Industrial	155,000	711 Jorie Boulevard	Relocation	East-West Corridor	Manufacturing
Endotronix	82,916	1415 W Diehl Road	Relocation	East-West Corridor	Manufacturing
Heritage-Crystal Clean	39,000	2000 W AT&T Center Drive	Relocation	Northwest Corridor	Business Services
ND Paper*	24,384	2001 Spring Road	Relocation	East-West Corridor	Manufacturing
Mesirow	23,763	600-610 Central Avenue	Renewal	North Corridor	Financial Services
TravelClick	20,904	300 N Martingale Road	Renewal	Northwest	TAMI
Penske*	19,585	1000 E Warrenville Road	New Location	East-West Corridor	Retail
Hirose Electric USA	18,145	2001 Butterfield Road	Relocation	East-West Corridor	Manufacturing

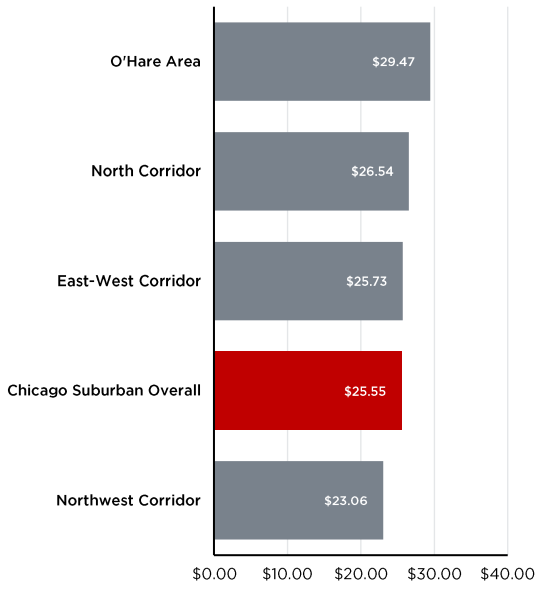
*Sublease

Source: Savills Research

Availability Rate Comparison (%)
Suburban Chicago Submarkets



Rental Rate Comparison ($/SF)
Suburban Chicago Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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