

Q4 2023

Market Insight Report

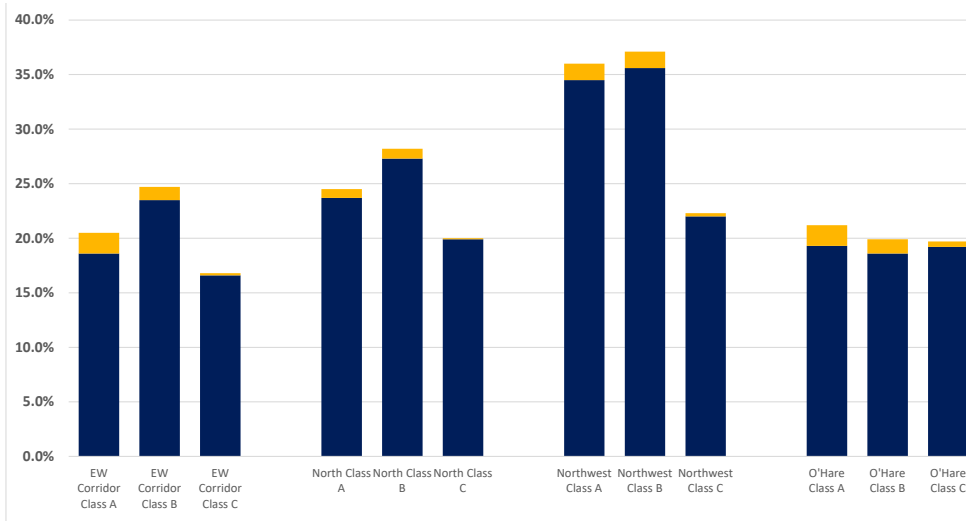
Exclusive Insights for Suburban Chicago Office Occupiers

Q4 2023

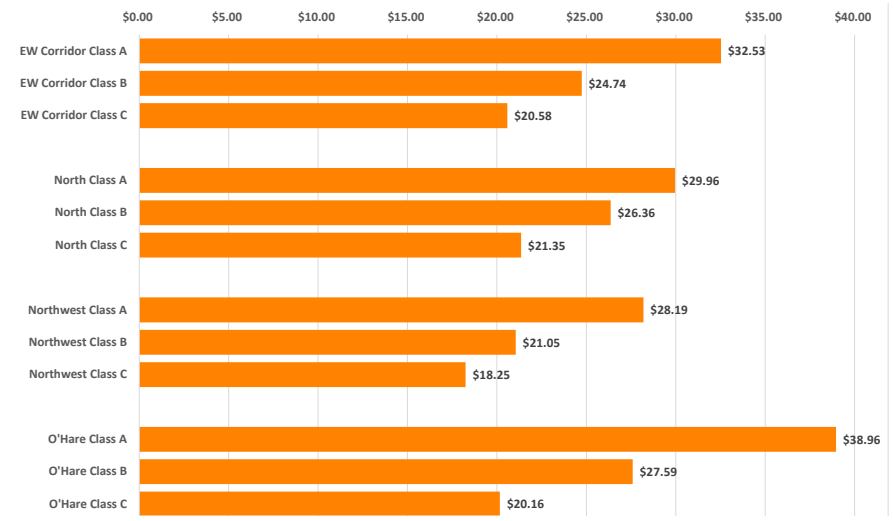
Market Insight Report

Suburban Chicago

Total Vacancy by Submarket & Asset Class



Gross Rent PSF Per Year



Vacancy

The Chicago suburbs ended 2023 on a sour note as vacancy again ticked upwards, landing at 26.1% to close the fourth quarter. Several buildings have been taken out of the inventory this past quarter as the have been marked for secondary uses such a medical or industrial. The Northwest submarket cluster continues to be the most impacted by rising vacancy

with near 33.6% of the market vacant. The O'Hare market continues to be the strongest, but experienced an increase in vacancy up to 20.3%. Class C space was the only asset class that saw vacancy decrease in the quarter, ending at 20.3%, while both A & B buildings saw vacancy increase to 26.1% and 28.9% respectively.

Market Rent & Lease Volume

Rental rates in the suburbs are essentially unchanged to close out 2023, with gross asking rates inching up to \$25.34 (an increase of \$0.01). Class A rents closed at \$32.41, up \$0.19 from the third quarter. Class B and C rental rates ended the third quarter at \$24.64 & \$19.88, with Class B rents declining \$0.08 and Class C rents increasing \$0.02. Rates continue to bob up and down marginally as landlords drop their base rent but increase expenses (for inflation) or taxes (for higher assessments). Completed transaction volume is down to

its lowest level since the end of 2021, with just over 850,000 square feet of transactions completed. Landlords are facing more pressure than ever to secure existing or new tenants, as loan maturities, interest rates, and dropping valuations begin to weigh heavily on the market. Most transactions carry above market concessions packages to entice tenants. Average net effective rents across the market have dropped \$1.01 over the past year, as the control of the market continues to rest firmly in occupiers' hands.

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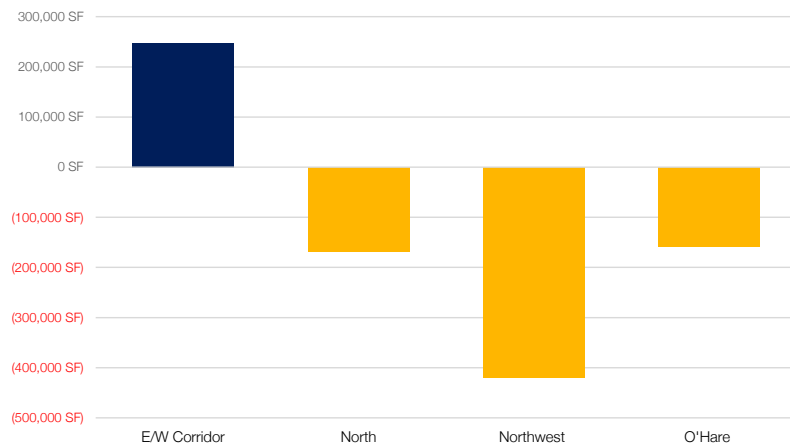
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Suburban Chicago

Q4 2023 Large Transactions

| Tenant | Address | Size | Deal Type |
|-------------------------|----------------------|------------|----------------------|
| FAA | 9600 W Bryn Mawr Ave | 108,094 SF | New Lease |
| Topco Associates | 2 Pierce Pl | 83,613 SF | New Lease |
| Haribo | 9500 W Bryn Mawr Ave | 29,000 SF | Renewal |
| MultiColor | 6111 N River Rd | 26,000 SF | New Lease |
| Wells Fargo | 9377 W Higgins | 24,225 SF | Renewal |
| Triump Higher Education | 150 N Martingale | 21,640 SF | Downsize & Extension |

Q4 Direct Net Absorption by Submarket



Absorption

Net absorption was negative again in the fourth quarter, with 498,183 square feet of space returning to the market. Class C buildings experienced 69,616 square feet of positive absorption while Class B & C buildings were both negative. The East West Corridor saw absorption figures turn positive while the North, Northwest, and O'Hare markets were all negative.

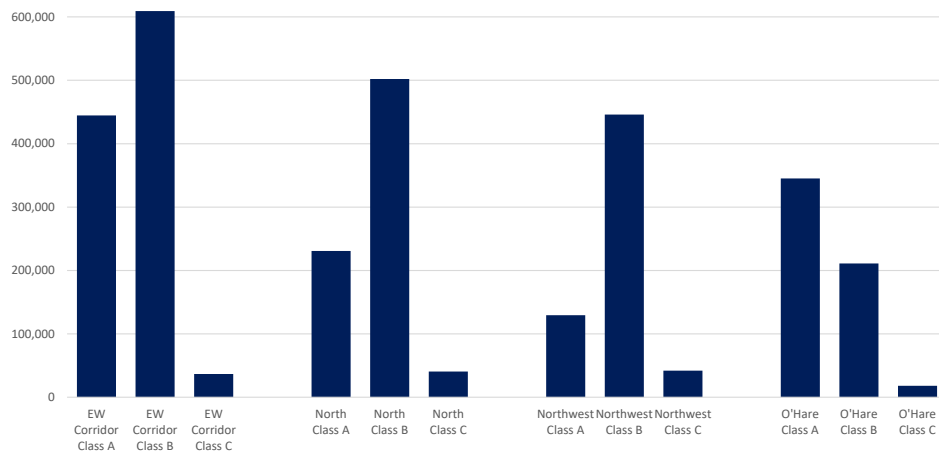
Notable tenants moving into new space or moving out include Amplifi Solutions (17,000 square feet) moving in at 1240 Diehl, Deluxe (30,000 square feet) moving out of 8430 W Bryn Mawr, Turtle Wax (44,000 square feet) moving out of 2250 W Pinehurst, and NICB (32,000 square feet) at 1111 W Touhy.

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Total Available Sublease SQF



Subleasing

While the downtown office market grapples with a glut of sublease space, the suburban office market has yet to experience the surge that downtown owners have had to compete with. In fact, vacant sublease space has declined to near the all-time low of 0.8%, resting at 1.1% for the quarter. Available sublease space has declined to the same level as 2021, ending at 3.2% down from its peak in 2021 (3.6%). This has had the effect of relieving the pressure on landlords to drop their rates to compete with subleases in the market. With that said, sublease space provides both flexibility and below market rates for the right user.

Buildings Recently Sold

| Property Address | Property City | Building SF | Sale Price | Price PSF |
|---------------------|---------------|-------------|-------------|-----------|
| 2300 Cabot Dr | Lisle | 54,000 | \$2,675,000 | \$49.54 |
| 930 National Pky | Schaumburg | 106,380 | \$3,520,000 | \$33.09 |
| 7400 N Caldwell Ave | Niles | 54,000 | \$2,675,000 | \$49.54 |
| 1800 Holliser Dr | Libertyville | 57,585 | \$6,242,714 | \$108.43 |
| 1900 Holliser Dr | Libertyville | 34,233 | \$4,756,286 | \$138.94 |

Capital Perspective

Given the challenging interest rate environment for lenders, the capital situation in the Chicago suburbs has become a front-and-center issue for most landlords. Building values are dwindling as vacancies rise and demand falls. This has caused several buildings to become distressed. There are currently 59 buildings under the watch of a special servicer, up two buildings since the third quarter, and an additional 26 on the watchlist, resulting in 10.6% of the market in dire financial circumstances. It is likely that this will continue to increase, with a substantial amount of CMBS loans coming due over the next three years. As values fall, buildings will begin to trade hands below their prior sale totals, allowing for, in some cases, a reset of the market in terms of rent. There are currently 45 buildings in the suburbs for sale, with an average vacancy of 52.1%. Some buildings are experiencing instability from another perspective. As even renewing tenants can be untenable, funding concessions (such as TI) has become difficult as construction costs remain stubbornly high. Occupiers with lease expirations over the next several years would be well advised to examine their current building and market options with an advisor that is unencumbered by fiduciary obligations to building investors.

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| Submarket/ Class | Total # of Buildings | Total RBA SF | Direct Vacant SF | Direct Vacancy Rate | Sublease Vacancy Rate | Total Vacancy Rate | Q4 Net Absorption SF | Under Construction SF | Gross Rent PSF Per Year |
|---------------------------|-------------------------|-------------------|---------------------|---------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|-------------------------------|
| East West Corridor | 237 | 32,931,773 | 7,237,044 | 22.0% | 1.2% | 23.2% | 247,281 | 0 | \$26.19 |
| Class A | 31 | 8,885,214 | 1,740,864 | 19.6% | 1.9% | 21.5% | 17,256 | 0 | \$32.53 |
| Class B | 125 | 18,905,657 | 4,589,897 | 24.3% | 1.2% | 25.5% | 216,801 | 0 | \$24.74 |
| Class C | 81 | 5,140,902 | 906,283 | 17.6% | 0.2% | 17.8% | 13,224 | 0 | \$20.58 |
| North | 233 | 23,349,775 | 5,757,097 | 24.7% | 0.7% | 25.3% | (167,650) | 0 | \$25.49 |
| Class A | 25 | 3,554,728 | 841,499 | 23.7% | 0.8% | 24.5% | 14,565 | 0 | \$29.96 |
| Class B | 78 | 13,193,749 | 3,598,832 | 27.3% | 0.9% | 28.2% | (140,183) | 0 | \$26.36 |
| Class C | 130 | 6,601,298 | 1,316,766 | 19.9% | 0.1% | 20.0% | (42,032) | 0 | \$21.35 |
| Northwest | 185 | 26,415,352 | 8,574,711 | 32.5% | 1.1% | 33.6% | (419,168) | 0 | \$21.77 |
| Class A | 17 | 6,122,142 | 2,233,500 | 36.5% | 1.5% | 38.0% | 3,243 | 0 | \$28.19 |
| Class B | 54 | 11,440,451 | 4,393,009 | 38.4% | 1.5% | 39.9% | (477,731) | 0 | \$21.05 |
| Class C | 114 | 8,852,759 | 1,948,202 | 22.0% | 0.3% | 22.3% | 55,320 | 0 | \$18.25 |
| O'Hare | 144 | 14,420,871 | 2,737,719 | 19.0% | 1.3% | 20.3% | (158,646) | 0 | \$29.69 |
| Class A | 21 | 5,127,046 | 988,095 | 19.3% | 1.9% | 21.2% | (114,139) | 0 | \$38.96 |
| Class B | 42 | 5,523,948 | 1,025,826 | 18.6% | 1.3% | 19.9% | (87,611) | 0 | \$27.59 |
| Class C | 81 | 3,769,877 | 723,798 | 19.2% | 0.5% | 19.7% | 43,104 | 0 | \$20.16 |
| Total Suburban | 799 | 97,117,771 | 24,306,571 | 25.0% | 1.1% | 26.1% | (498,183) | 0 | \$25.34 |
| Class A | 94 | 23,689,130 | 5,803,958 | 24.5% | 1.6% | 26.1% | (79,075) | 0 | \$32.41 |
| Class B | 299 | 49,063,805 | 13,607,564 | 27.7% | 1.2% | 28.9% | (488,724) | 0 | \$24.64 |
| Class C | 406 | 24,364,836 | 4,895,049 | 20.1% | 0.3% | 20.3% | 69,616 | 0 | \$19.88 |

Beyond space.

Contact

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