

Chicago Suburban Occupier's Guide

The suburban office market saw an increase in inventory to 218,033,504 square feet, up from the second to third quarter. Of this existing inventory, 1,905 buildings, consisting of 110,167,638 square feet, have 37,700,490 square feet of available space consisting of 29,827,067 square feet of vacancy; a rate of 27.1%. This rate represents an all-time high for vacancy in the suburbs. Net absorption was negative again, with 591,187 square feet leaving the market. This is the 5th straight quarter of negative movement, further enforcing the reality that the suburban market is in decline. Total leasing activity dipped below 380 deals for the first time since 2009 with only 367 reported deals completed. Based on the current vacancy, it would take over 10 years of net absorption to reach full occupancy. This seemingly dire situation for Landlords is further compounded by the fact that 72% of current vacant space has been on the market for over 2 years. Rental rates have started to react to this realization, dropping to \$20.35, down \$0.30 from the second quarter. Sales volume was up to \$155M for the quarter, with an average per RSF amount of \$155. Development remains low with only 2 buildings under construction and only 1 building being delivered in the quarter. These sales figures, combined with low leasing and development numbers, indicate that real estate cycle in the suburbs.



Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	QoQ Change
\$23.29	O'Hare Class A 16.2%	▲ 0.9%
\$20.47	O'Hare Class B 13.8%	▼ 0.2%
\$23.64	East West Corridor Class A 21.5%	▲ 0.3%
\$19.03	East West Corridor Class B 23.2%	▲ 1.6%
\$22.39	North Class A 28.7%	▲ 0.2%
\$19.42	North Class B 29.7%	▲ 0.4%
\$21.02	Northwest Class A 35.0%	▲ 0.8%
\$17.38	Northwest Class B 37.4%	▲ 0.8%

Recent Transactions

Tenant	Size	Address	Submarket	Deal Type
1 Crown Castle	38,687	3025 Highland Pky	Eastern East/ West Corr	New Lease
2 N/A	38,555	1930 Innovation Way	Central North	New Lease
3 Valent BioSciences	35,024	1910 Innovation Way	Central North	New Lease
4 N/A	26,172	3333 Finley Rd	Eastern East/ West Corr	New Lease
5 REX	25,461	1333 Butterfield Rd	Eastern East/ West Corr	New Lease
6 National Daycare	22,000	NWC Greenwood & Busse	O'Hare	New Lease

Occupier's Perspective

↑ Vacancy rates have continued to tick upwards as net absorption has been negative over the past 6 consecutive quarters.

↑ After review of the first round of assessments from the new assessor's office, property assessments and real estate taxes, are going to increase dramatically. Both Occupiers and Landlords need to be weary of this moving forward.

↓ More companies have been relocating to the CBD from the suburbs. This trend looks set to continue in 2020, forcing landlords to drop rates.

Market Trends



Amenities remain a focal point for landlord renovations as a younger workforce demands a more "lifestyle" driven office environment.

Class A product continues to be the most sought-after property type. Expect developers to follow suite and begin more high-end construction projects.

Median cap rates across all suburban markets have been consistent between 7.0% & 6.0% over the past 5 years. However, the Chicago suburbs have been between 8.0% & 7.0%, showing that the market is soft in terms of investment.