

Q1 2023

Market Insight Report

Exclusive Insights for Suburban Chicago Office Occupiers



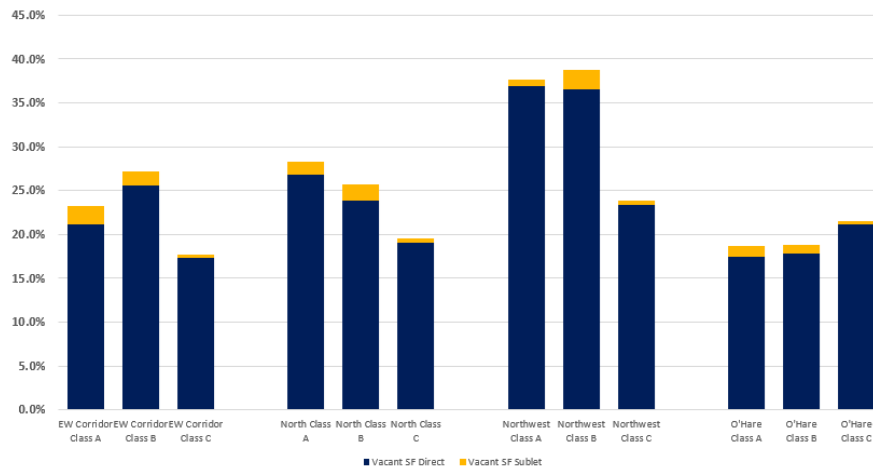
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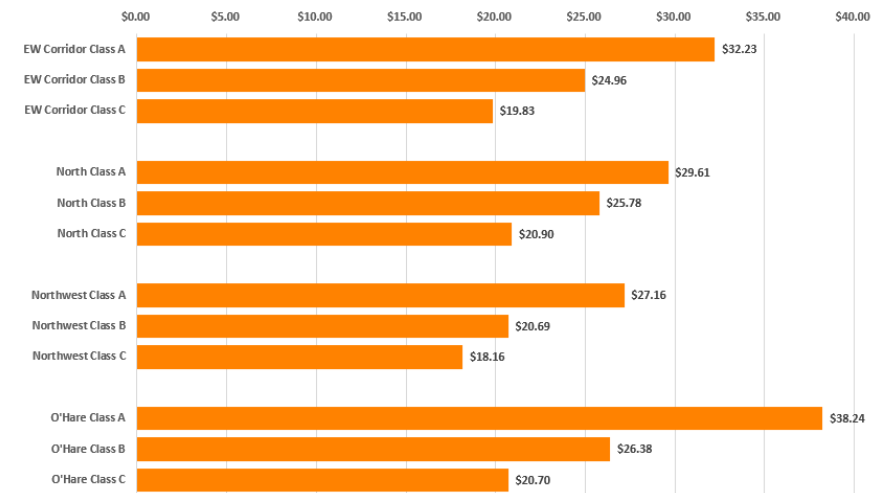
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Suburban Chicago

Total Vacancy by Submarket & Asset Class



Gross Rent PSF Per Year



Vacancy

Vacancy continues to push into uncharted territory to start 2023, as first quarter total vacancy ended at 26.3% (24.5M square feet) of vacant product. This increase in vacancy reflects not only the trends of occupiers rethinking their space, but also the economic headwinds facing both tenants and landlords. All asset types

were impacted, with A, B, and C class buildings all experiencing an increase in vacancy. From a submarket perspective, the Northwest and O'Hare submarkets experienced marginal dips in vacancy while the East West Corridor and North markets took the brunt of increased vacancy rates.

Market Rent & Lease Volume

Rental rates in the suburbs dropped to start 2023, with average gross asking rents dropping (\$0.19) across the entire market. Completed transaction volume remains consistent at 1.2M square feet of transactions, as users downsized and renewed or relocated. Average direct gross asking rates for all building types ended at \$24.93 for the first quarter. Class A rents closed at \$31.85, up slightly from the end of 2022. Class B rental rates ended the first quarter

at \$24.26, down \$0.16 from the prior quarter. Class C rental rates ended at \$19.64. While rates have yet to decrease dramatically, landlords are facing more pressure than ever to secure existing or new tenants as loan maturities and dropping valuations begin to weigh heavily on the market. On a surface level, dropping rental rates has worked, as Class B buildings have the lion's share of transaction volume for the quarter, with 44% of all transactions.

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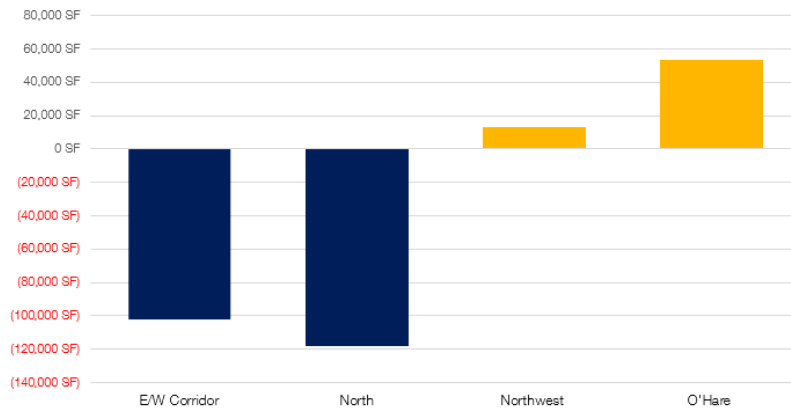
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Q1 2023 Large Transactions

Tenant	Size	Size	Deal Type
CF Industries	1 Astellas Way	77,800	New Lease
AIT	Two Piece Place	57,000	New Lease
Morgan Stanley	The Drake	40,500	Renewal
Network Services Group	Schaumburg Towers	40,000	Expansion
Experian	Schaumburg Corp Center	24,800	New Lease
Primient	20 N Martingale	23,800	New Lease
Baxter Woodman Engineering	UC Cellular	20,000	Renewal
TranSystems	Schaumburg Corp Center	15,500	Renewal

Q1 Direct Net Absorption by Submarket



Absorption

Net absorption was negative in the first quarter, with 153,928 square feet of space returning to the market. As with vacancy, all asset classes were impacted, with Class A being hit hardest with near 75,000 square feet of negative movement. The Northwest and O'Hare markets both saw their absorption figures turn positive while the East West Corridor

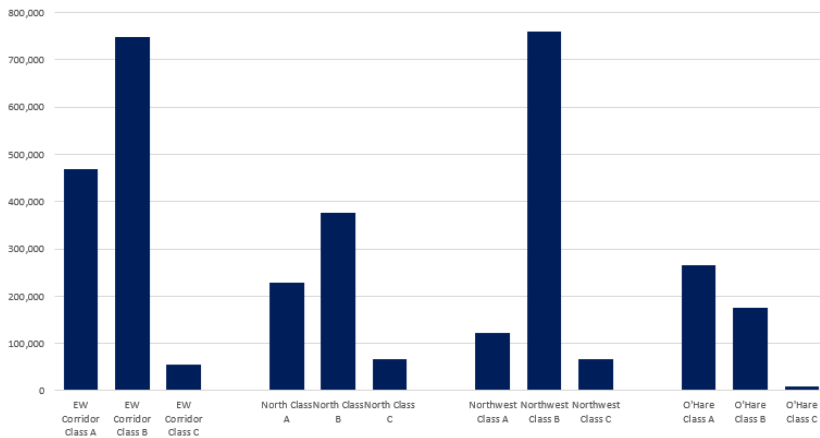
and North markets were negative. Notable tenants taking possession of office space include OptumRX (56,594 square feet) at 1600 McConnor Pky and Middough (23,000 square feet) at 2650 Warrenville Rd. Notable tenants vacating space include SAP (31,572 square feet) at 3010 Highland Pky, and Loan Depot (12,907 square feet) at 4225 Naperville Rd.

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Total Available Sublease SQF



Buildings Recently Sold

Property Address	Property City	Building SF	Sale Price	Price PSF
21440 Lake Cook Road	Deer Park	351,425	\$59,000,000	\$167.89
1902 Golf Rd	Schaumburg	273,413	\$28,400,000	\$103.87
50 NW Point Blvd	Elk Grove Village	177,095	\$29,100,000	\$164.32

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 remains effectively unchanged from onset of the pandemic to date – with the vacancy rate never going above 1.7% (Q4 2020) or below 1.4% (Q1 2023). The same can be said of available sublease space, which includes both vacant space and space still occupied but on the market. The availability rate has never been above 4.0% (Q3 2022) or below 3.1% (Q3 2020). It now sits at 3.4%. This has had the effect of relieving pressure on landlords to drop their rates to compete with sublease on the market. With that said, sublease space provides both flexibility and below market rates for the right user.

Sales

Sales volume fell from the end of 2022 to the close of the first quarter, marking six consecutive quarters of declining volume. Many investors see the suburbs as a value play, purchasing assets that are suffering from lowering values due to inflation, in some cases struggling with their own capital and debt issues. Average per square foot prices are just above \$95 per square foot, with cap rates ticking up and resting at 8.4%.

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Submarket/ Class	Total # of Buildings	Total RBA SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Q1 Net Absorption SF	Under Construction SF	Gross Rent PSF Per Year
East West Corridor	237	32,935,864	7,599,714	23.1%	1.6%	24.7%	(102,373)	0	\$26.14
Class A	31	8,940,153	1,886,589	21.1%	2.2%	23.3%	(141,581)	0	\$32.23
Class B	125	18,876,851	4,825,185	25.6%	1.6%	27.2%	3,653	0	\$24.96
Class C	81	5,118,860	887,940	17.3%	0.4%	17.7%	35,555	0	\$19.83
North	234	23,322,403	5,354,560	23.0%	1.4%	24.3%	(117,860)	0	\$24.97
Class A	25	3,509,618	940,098	26.8%	1.5%	28.3%	(83,564)	0	\$29.61
Class B	79	13,209,799	3,157,136	23.9%	1.8%	25.7%	(15,539)	0	\$25.78
Class C	130	6,602,986	1,257,326	19.0%	0.5%	19.5%	(18,757)	0	\$20.90
Northwest	190	27,553,709	8,904,726	32.3%	1.3%	33.6%	12,896	0	\$21.28
Class A	17	6,039,969	2,229,428	36.9%	0.7%	37.7%	149,470	0	\$27.16
Class B	57	12,522,913	4,571,015	36.5%	2.2%	38.7%	(102,599)	0	\$20.69
Class C	116	8,990,827	2,104,283	23.4%	0.5%	23.9%	(33,975)	0	\$18.16
O'Hare	144	14,348,343	2,659,512	18.5%	0.9%	19.5%	53,409	0	\$29.11
Class A	21	5,118,651	889,947	17.4%	1.3%	18.7%	1,165	0	\$38.24
Class B	42	5,428,324	964,417	17.8%	1.0%	18.8%	84,362	0	\$26.38
Class C	81	3,801,368	805,148	21.2%	0.3%	21.5%	(32,118)	0	\$20.70
Total Suburban	805	98,160,319	24,518,512	25.0%	1.4%	26.3%	(153,928)	0	\$24.93
Class A	94	23,608,391	5,946,062	25.2%	1.5%	26.7%	(74,510)	0	\$31.85
Class B	303	50,037,887	13,517,753	27.0%	1.7%	28.8%	(30,123)	0	\$24.26
Class C	408	24,514,041	5,054,697	20.6%	0.4%	21.1%	(49,295)	0	\$19.64



Beyond space.

Contact

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