

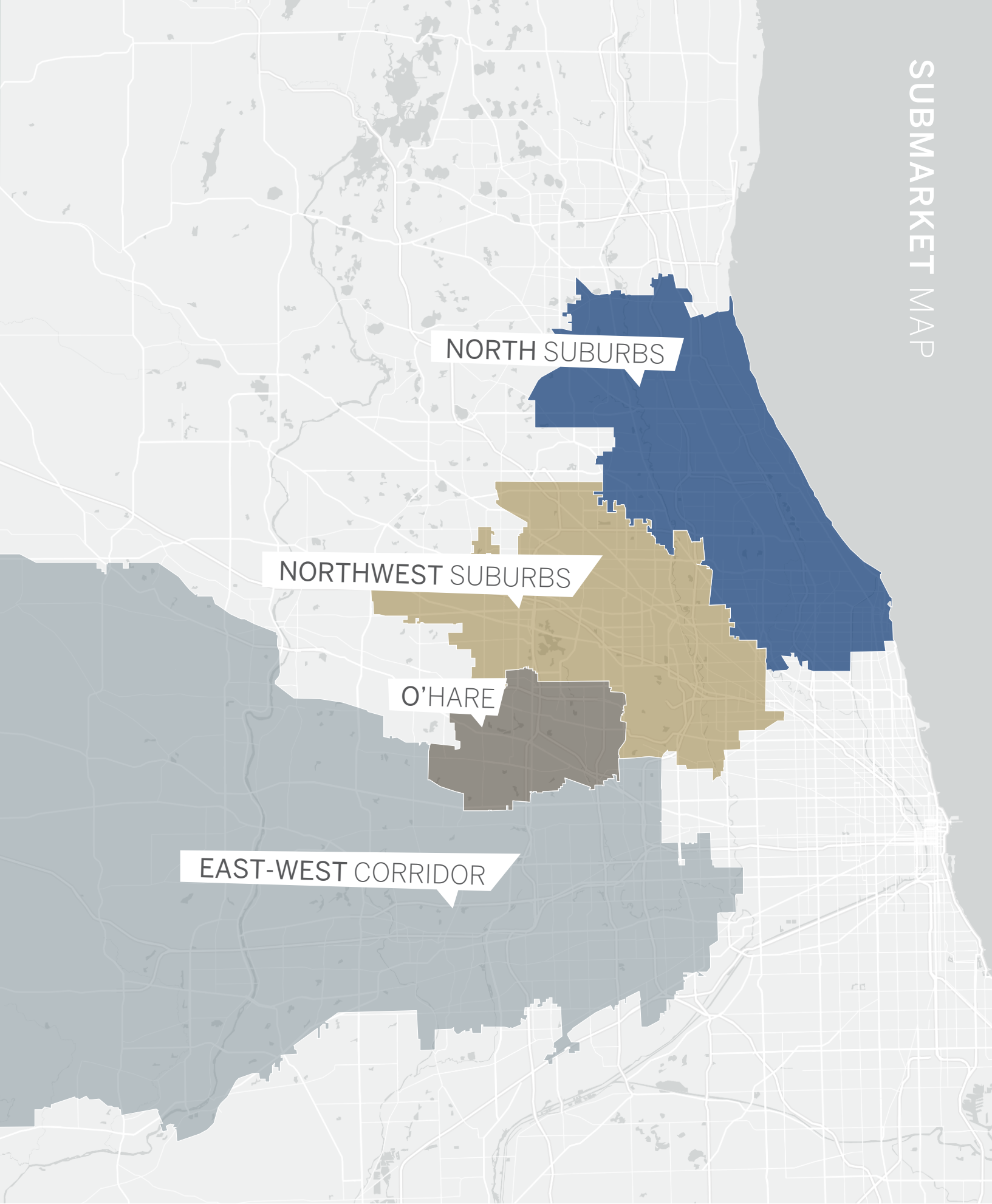
# MID-YEAR 2022 OFFICE MARKET REPORT CHICAGO SUBURBS







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# FLIGHT-TO-QUALITY CREATES MORE DEMAND THAN MEETS THE EYE

Amid an increasingly uncertain economic environment, including generational highs in inflation and rapidly rising interest rates, the Chicago suburban office market is performing relatively well. Absorption figures improved in the first half of 2022 and leasing activity was steady. Although net absorption is still negative, the -350,000 s.f. for the first half of 2022 is a significant improvement over the -1.9 million s.f. in the first half of 2021. Suburban office vacancy rates are beginning to stabilize, but at record-high levels. Yet, these marketwide statistical averages obscure fundamental strength in some parts of the market and amplify weaknesses in others. For example, there is a demonstrable flight-to-quality dominating leasing activity, with tenants having to compete for in-demand locations. From the landlord perspective, owners who are unable or unwilling to adapt to the evolving office environment continue to struggle, while active owners who are investing in their space and negotiating with tenants are thriving. As seen in **FIGURE 02**, occupancy levels for properties that are currently well-occupied (80% or more leased) have remained steady – if not improved – throughout the pandemic. The same has not been true for properties that are currently less than 80% leased, where vacancy rates are rising, and signs of distress were apparent before the pandemic even began. As the flight-to-quality trend continues, active owners who are willing to invest in their space and navigate the hurdles brought on by the pandemic will continue to outperform the overall market.

## LEASING ACTIVITY

In the first half of 2022, leasing activity remained below pre-pandemic levels while vacancy rates reached record highs. Landlords are continuing to offer impressive concessions to backfill vacancies without lowering rental rates. Still, many tenants are hesitant to sign new leases for large office spaces as remote work schemes provide opportunities to reduce overhead costs, leading to an increasingly competitive market for smaller lease deals—particularly among the most in-demand locations.

With smaller spaces increasingly in demand, landlords may be looking to carve up larger spaces to attract tenants. But the costs of construction materials and office furnishings have dramatically increased (**FIGURE 06**), creating a new set of challenges for owners. When major tenants

like Caterpillar—who announced a move from their long-time suburban headquarters to Dallas—decide to vacate their office space, owners are faced with a tough decision. Some are accepting the additional costs of dividing their space and adapting to the changing market dynamics, while others are unwilling to demise their larger spaces in hopes of landing a major tenant.

The latter approach may still be successful considering recently signed suburban leases by Ace Hardware (300,000 s.f.) and Abbott (160,000 s.f.); however, major tenants of that size are few and far between. Regardless of which route owners take, the major theme remains true: active owners who are willing to invest in their assets and adapt to the evolving office market can keep their properties well occupied and outperform the overall market.

## INVESTMENT SALES

Sales volume has returned to pre-pandemic levels, as 16 office buildings greater than 100,000 s.f. traded for a total of more than \$500 million in the first half of 2022. Of the major sales seen this year, the most notable was the multi-building transaction between Apollo (seller) and Northeast Capital Group (buyer) where the Kemper Lakes Business Center in Long Grove was sold for \$190 million. This deal is representative of a larger emerging trend—large, publicly-traded institutional investors exiting the suburban office market while private, more specialized firms attempt to take advantage of what the suburbs have to offer. Institutional investors managing multi-billion-dollar portfolios are sometimes unwieldy organizations and can overlook the important nuances of the evolving office market environment; they tend to be less knowledgeable about the on-the-ground conditions. Leasing up suburban office properties is becoming more dependent on extra effort by the owner to meet the needs of potential tenants, which may not be a core competency of the less-nimble institutional buyers. On the other hand, more-specialized firms value the opportunity this evolving market has to offer, as nearly 70% of all buyers over the past 12 months were private firms and more than half of all sales were by publicly traded institutional investors. These private firms tend to do a better job meeting the needs of tenants and embracing the active-owner approach needed to maximize asset values.

Current and historical property data were compiled from CoStar with these parameters: 20,000 square feet or more; representative cities within each submarket; and Class A and B, existing and under renovation office property type, excluding non-conforming and owner-occupied properties. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

# CHICAGO SUBURBS MID-YEAR 2022 SNAPSHOT



**35.7%**  
DIRECT AVAILABILITY  
RATE



**28.6%**  
DIRECT VACANCY  
RATE



**\$25.42**  
DIRECT GROSS  
ASKING RATE



FIGURE 01  
MID-YEAR INVESTMENT SALES

Source: CoStar

PROPERTY ADDRESS	BUILDING SF	CLASS	SUBMARKET	SALE PRICE	\$/SF	SALE DATE	BUYER	SELLER
1-4 CORPORATE DRIVE	1,028,504	A	Central North	\$190,000,000	\$185	5/18/22	Northeast Capital Group	Apollo Global Real Estate Management, L.P
263 SHUMAN BLVD	357,347	A	Western East-West Corridor	\$73,250,000	\$205	3/23/22	Opal Holdings	Franklin Partners
3010 HIGHLAND PKY & 2650 WARRENVILLE ROAD	498,922	A	Eastern East-West Corridor	\$54,250,000	\$109	1/19/22	Group RMC	Hudson Advisors L.P.
3025 HIGHLAND PKY	285,792	A	Eastern East-West Corridor	\$51,500,000	\$180	1/10/22	Opal Holdings	James Campbell Company LLC
2611 CORPORATE WEST DRIVE	187,000	B	Western East-West Corridor	\$28,200,000	\$151	2/8/22	Universal Technical Institute, Inc.	iStar Inc.
2 PIERCE PLACE	489,876	A	North DuPage	\$24,000,000	\$49	1/25/22	Sovereign Partners	Piedmont Office Realty Trust, Inc.
3310 W. MAIN ST (PART OF PORTFOLIO)	45,381	A	Western East-West Corridor	\$14,700,000	\$324	4/14/22	NorthWest Healthcare Properties	Harrison Street Capital
2550 W. GOLF ROAD	267,516	B	Schaumburg	\$13,000,000	\$49	4/5/22	Gallagher	Marc Realty
300 N. FIELD DRIVE	139,915	A	Central North	\$11,397,500	\$81	2/25/22	Consumers Credit Union	The Missner Group Company
2501 COMPASS ROAD (PART OF PORTFOLIO)	30,000	A	Near North	\$10,300,000	\$343	1/28/22	Kayne Anderson Real Estate	Remedy Medical Properties

FIGURE 02  
DIRECT VACANCY RATE

Source: CoStar

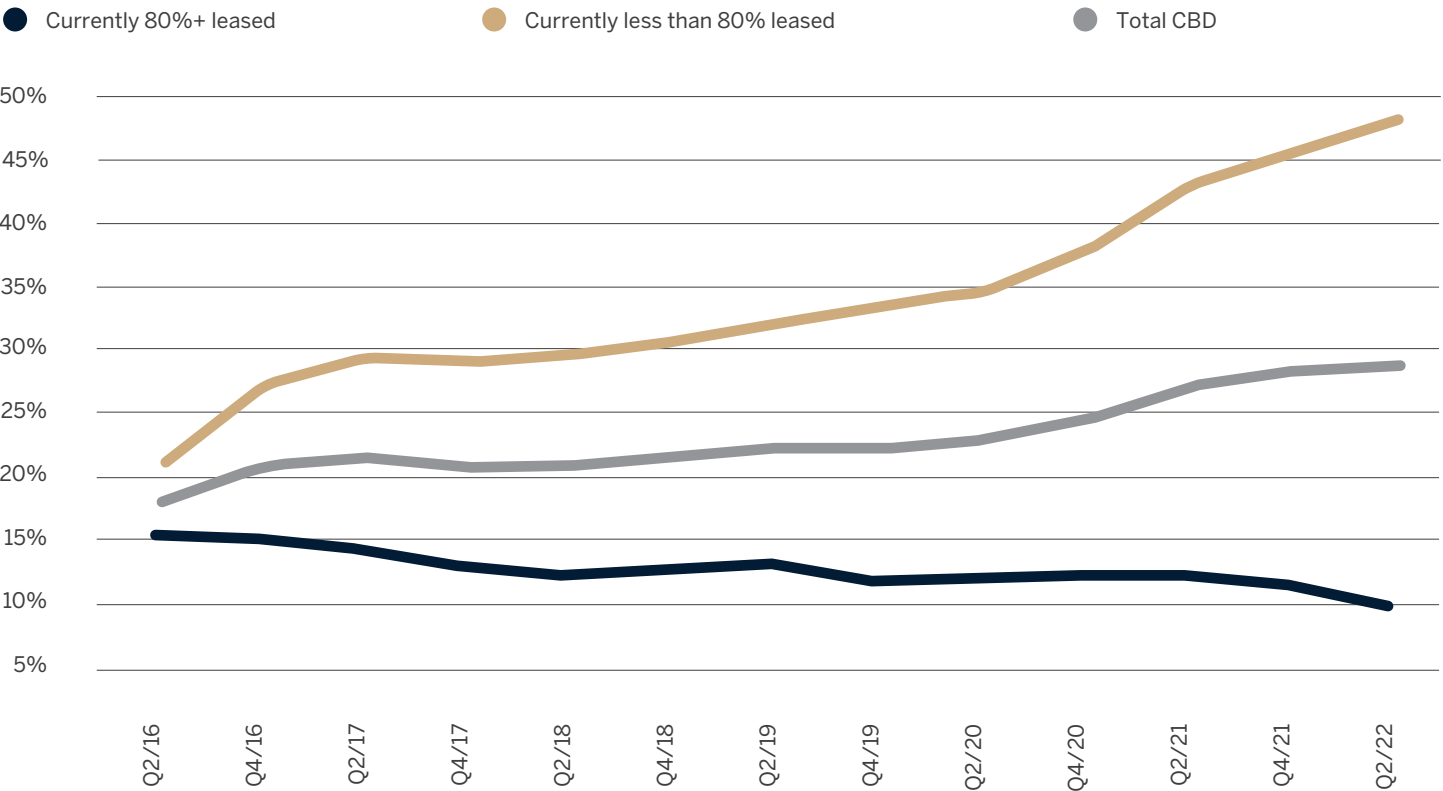


FIGURE 03  
CHICAGO SUBURBS SUBMARKET COMPARISON SUMMARY

Source: CoStar

SUBMARKET/ ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY & AVAILABILITY RATE	SUBLET VACANCY RATE (%)	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION YTD (SF)	DIRECT NET ABSORPTION 2021 (SF)
ALL SUBURBAN	91,013,084	140,093	35.7%	4.3%	24.5%	1.9%	\$25.42	(354,539)	(3,677,042)
CLASS A	55,952,646	189,670	38.6%	4.5%	25.2%	2.1%	\$27.62	(412,699)	(2,361,220)
CLASS B	35,060,438	60,975	31.0%	4.0%	23.5%	1.6%	\$21.03	58,160	(985,472)
EAST-WEST CORRIDOR	34,069,313	129,203	28.7%	3.9%	20.7%	2.3%	\$25.06	(47,704)	(999,272)
EAST	20,645,730	146,454	26.1%	4.9%	17.7%	3.2%	\$26.26	(58,264)	(378,712)
CLASS A	12,251,658	204,194	26.6%	6.6%	16.8%	3.9%	\$30.14	(92,991)	(330,519)
CLASS B	8,394,072	62,178	25.3%	2.4%	19.0%	2.2%	\$20.30	34,727	(48,193)
WEST	13,423,583	102,671	32.7%	2.3%	25.4%	1.0%	\$23.77	10,560	(620,560)
CLASS A	7,749,580	143,511	37.1%	3.2%	28.2%	1.2%	\$25.39	101,474	(381,065)
CLASS B	5,674,003	46,893	26.7%	1.0%	21.6%	0.7%	\$20.69	(90,914)	(239,495)
NORTH	19,766,435	106,412	34.7%	5.6%	26.6%	1.8%	\$26.74	(500,415)	(946,309)
NORTH	14,858,144	107,640	35.6%	6.3%	28.1%	2.0%	\$26.23	(463,762)	(742,554)
CLASS A	9,525,217	138,047	40.5%	3.6%	34.3%	1.5%	\$27.47	(506,484)	(387,464)
CLASS B	5,332,927	53,329	26.9%	11.1%	16.9%	3.0%	\$22.91	42,722	(355,090)
SOUTH	4,908,291	102,695	32.1%	3.6%	22.3%	1.2%	\$30.00	(36,653)	(203,755)
CLASS A	2,175,705	155,408	35.3%	4.7%	23.8%	1.1%	\$35.92	(70,374)	(156,376)
CLASS B	2,732,586	60,724	29.6%	2.7%	21.1%	1.3%	\$24.37	33,721	(47,379)
NORTHWEST	25,833,661	197,878	47.7%	4.6%	30.4%	1.7%	\$23.14	103,955	(960,097)
I-355	3,365,585	176,172	39.1%	3.4%	32.5%	1.3%	\$22.03	29,674	(87,008)
CLASS A	2,591,434	215,953	39.7%	3.6%	32.1%	1.4%	\$23.31	5,054	(75,332)
CLASS B	774,151	43,008	36.9%	3.0%	33.9%	0.8%	\$17.39	24,620	(11,676)
SCHAUMBURG	22,468,076	201,130	49.0%	4.8%	30.1%	1.8%	\$23.50	74,281	(873,089)
CLASS A	14,499,822	273,582	51.9%	5.0%	26.8%	2.1%	\$24.96	99,914	(700,114)
CLASS B	7,968,254	69,289	43.7%	4.3%	36.2%	1.1%	\$20.32	(25,633)	(172,975)
O'HARE	11,343,675	174,567	30.6%	3.0%	19.0%	1.2%	\$30.24	107,797	(771,364)
CLASS A	7,159,230	216,946	31.5%	3.2%	18.7%	1.0%	\$35.11	47,613	(441,014)
CLASS B	4,184,445	102,060	29.1%	2.6%	19.5%	1.4%	\$21.22	60,184	(330,350)



FIGURE 04  
SUBMARKET COMPARISONS, ECONOMIC INDICATORS, & TRENDS

Source: CoStar

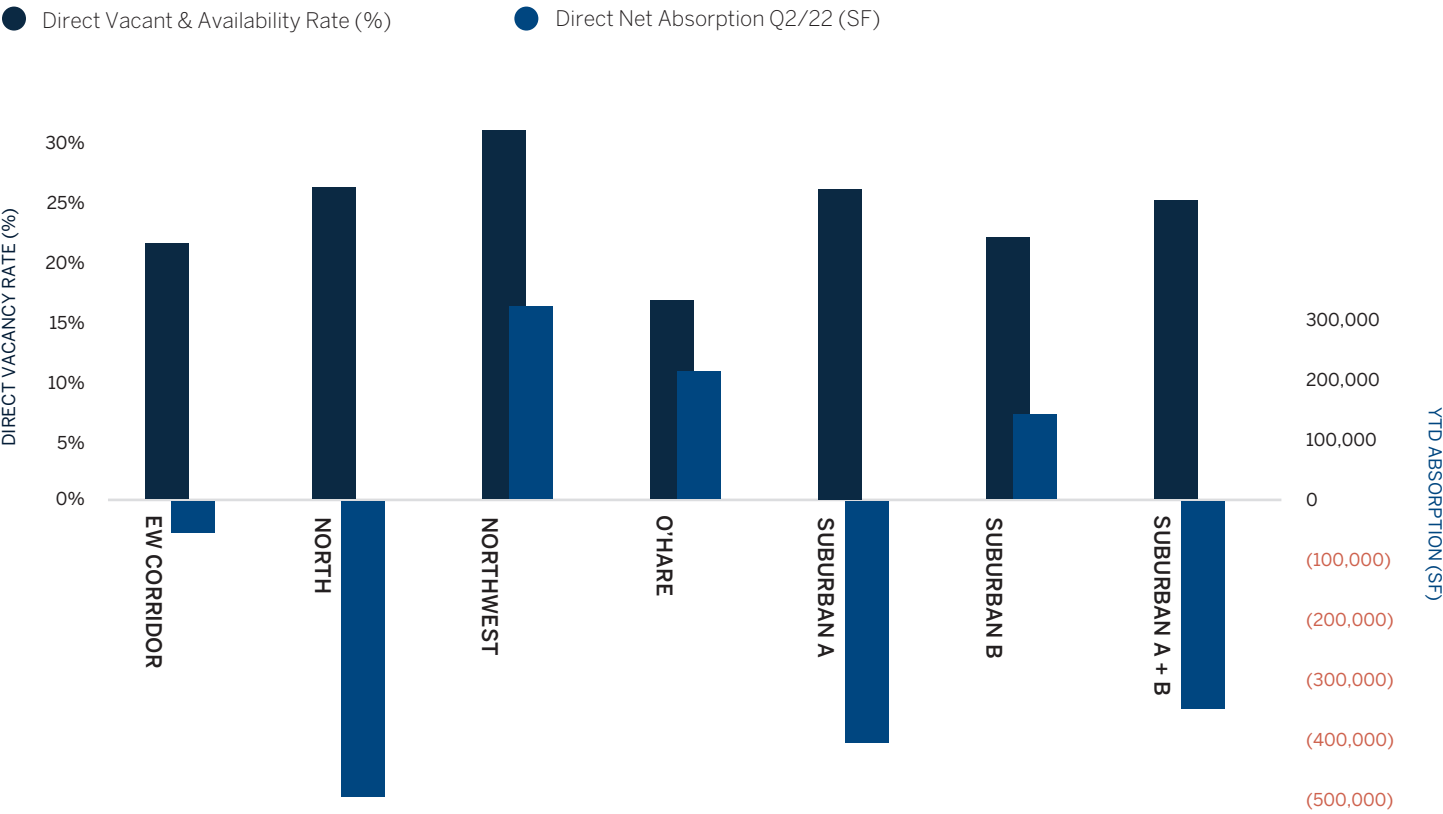


FIGURE 05  
PRODUCER PRICE INDEX: NEW OFFICE BUILDING CONSTRUCTION COSTS

Source: BLS

(YEAR-OVER-YEAR % CHANGE)

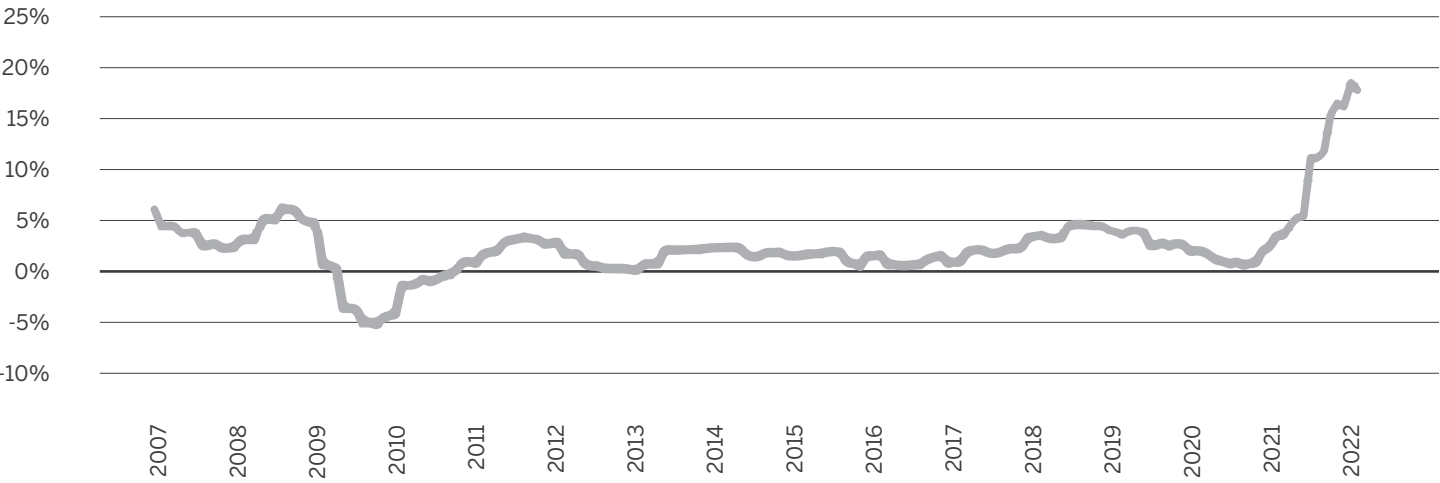
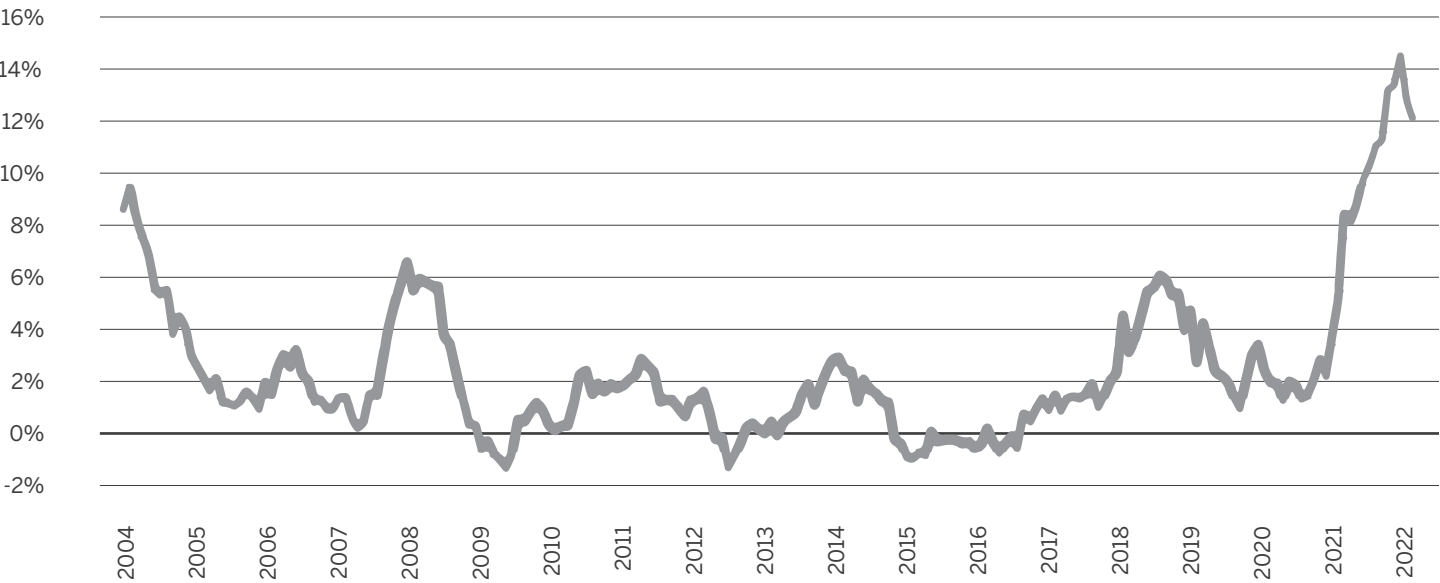


FIGURE 06  
PRODUCER PRICE INDEX: OFFICE FURNITURE

Source: BLS

(YEAR-OVER-YEAR % CHANGE)





# EAST WEST CORRIDOR

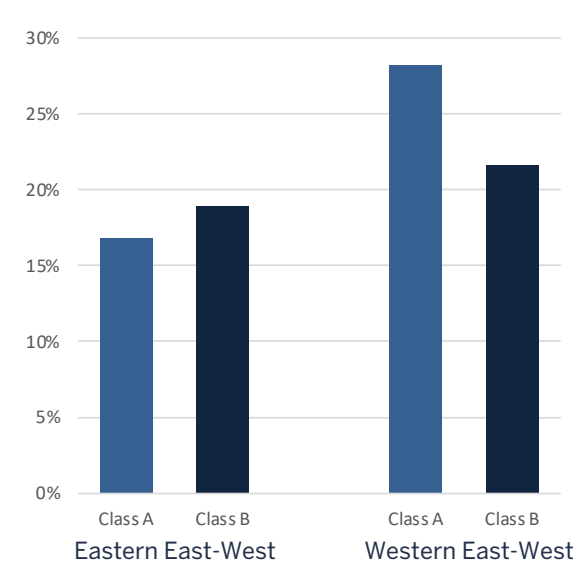
- The direct vacancy and availability rate was 20.7% in Q2/22, which is well below the overall market figure of 24.5%. Sublease availability has remained unchanged compared to levels seen at year-end 2021.
- Net absorption has remained negative but has significantly improved compared to the second half of 2021.
- Leasing activity was strong throughout the first half of 2022, led by ACE Hardware who occupied nearly 300,000 s.f. of the former McDonald's Campus in Oak Brook.
- Four of the top five investment sales of 2022 have occurred in this submarket, led by Opal Holding's acquisition of 263 Shuman Blvd. for \$73 million (\$205/s.f.).



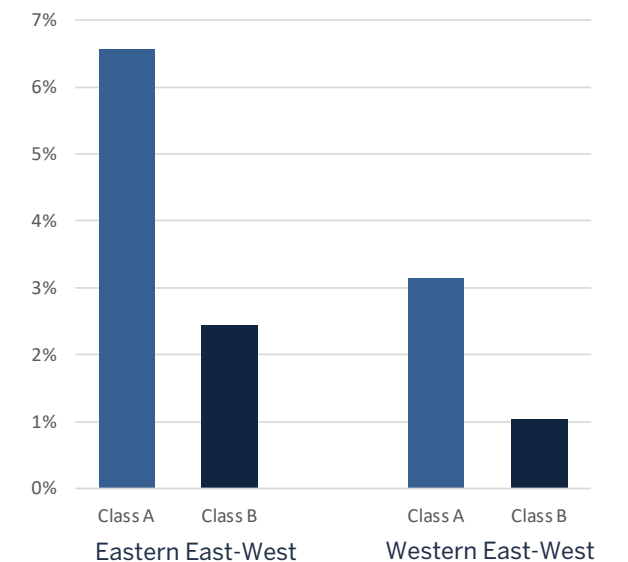
## MARKET MOVEMENT

NEW LEASE	NEW LEASE	SALE	SALE	SALE
ACE HARDWARE CORPORATION (297,127 SF) 2915 Jorie Blvd, Oak Brook	HEALTH CARE SERVICES CORPORATION (133,077 SF) 3500 Lacey Rd, Downers Grove	263 SHUMAN BLVD (357,347 SF) Buyer: Opal Holdings	3010 HIGHLAND PKY & 2650 WARRENVILLE RD (498,922 SF) Buyer: Group RMC	3025 HIGHLAND PKY (285,792 SF) Buyer: Opal Holdings

Direct Vacancy & Availability Rate



Sublet Availability Rate



ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY & AVAILABILITY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION YTD (SF)	DIRECT NET ABSORPTION 2021 (SF)
EAST	20,645,730	146,454	26.1%	4.9%	17.7%	3.2%	\$26.26	(58,264)	(378,712)
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CLASS B	8,394,072	62,178	25.3%	2.4%	19.0%	2.2%	\$20.30	34,727	(48,193)
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CLASS A	7,749,580	143,511	37.1%	3.2%	28.2%	1.2%	\$25.39	101,474	(381,065)
CLASS B	5,674,003	46,893	26.7%	1.0%	21.6%	0.7%	\$20.69	(90,914)	(239,495)
TOTAL	34,069,313	129,203	28.7%	3.9%	20.7%	2.3%	\$25.06	(47,704)	(999,272)



# NORTH SUBURBS

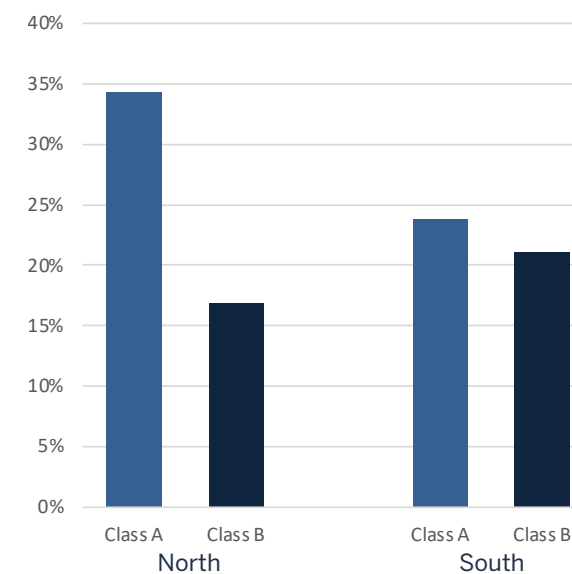
- The direct vacancy and availability rate has decreased from 28.6% to 26.6% through 2022. Sublease availability has also declined from 6.8% to 5.6%.
- The North Suburbs were responsible for nearly all of the suburban market's negative net absorption through 2022 thus far with approximately -500,000 s.f.
- Although absorption levels became increasingly negative, leasing activity remained strong as Abbott signed an 8-year lease to occupy 160,000 s.f. at 150 S. Saunders Road in Lake Forest.
- The largest transaction of 2022 was the acquisition of the Kemper Lakes Business Center in Long Grove for a purchase price of \$190 million.



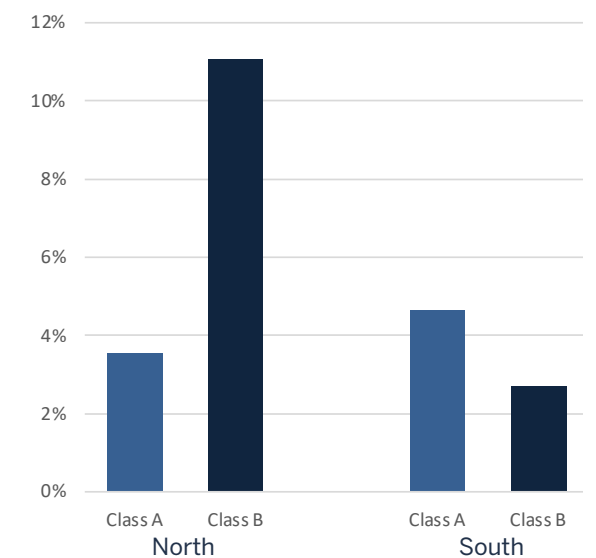
## MARKET MOVEMENT

<b>NEW LEASE</b>  <b>ABBOTT</b> <b>(160,085 SF)</b> 150 S. Saunders Rd, Lake Forest	<b>SALE</b>  <b>KEMPER LAKES BUSINESS CENTER</b> <b>(1,028,504 SF)</b> Buyer: Northeast Capital Group	<b>SALE</b>  <b>300 N. FIELD DRIVE</b> <b>(139,915 SF)</b> Buyer: Consumers Credit Union	<b>SALE</b>  <b>2501 COMPASS ROAD</b> <b>(30,000 SF)</b> Buyer: Kayne Anderson Real Estate
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Direct Vacancy & Availability Rate



Sublet Availability Rate



ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY & AVAILABILITY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION YTD (SF)	DIRECT NET ABSORPTION 2021 (SF)
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CLASS B	5,332,927	53,329	26.9%	11.1%	16.9%	3.0%	\$22.91	42,722	(355,090)
SOUTH	4,908,291	102,695	32.1%	3.6%	22.3%	1.2%	\$30.00	(36,653)	(203,755)
CLASS A	2,175,705	155,408	35.3%	4.7%	23.8%	1.1%	\$35.92	(70,374)	(156,376)
CLASS B	2,732,586	60,724	29.6%	2.7%	21.1%	1.3%	\$24.37	33,721	(47,379)
TOTAL	19,766,435	106,412	34.7%	5.6%	26.6%	1.8%	\$26.74	(500,415)	(946,309)



# NORTHWEST SUBURBS

- The direct vacancy and availability rate was 30.4% in Q2/22, a significant improvement from the 35.4% seen in Q4/21. Sublease availability has remained relatively steady compared to 2021.
- Absorption levels have significantly improved compared to the back half of 2021, changing from negative 739,127 s.f. to positive 103,955 s.f.
- Notable lease deals include the Federal Aviation Administration and Heritage-Crystal Clean Inc, who signed leases to occupy 116,000 s.f. and 39,000 s.f., respectively.
- Sovereign Partners purchased 2 Pierce Place from Piedmont Office Realty Trust in Itasca for \$24 million (\$49/s.f.).



## MARKET MOVEMENT

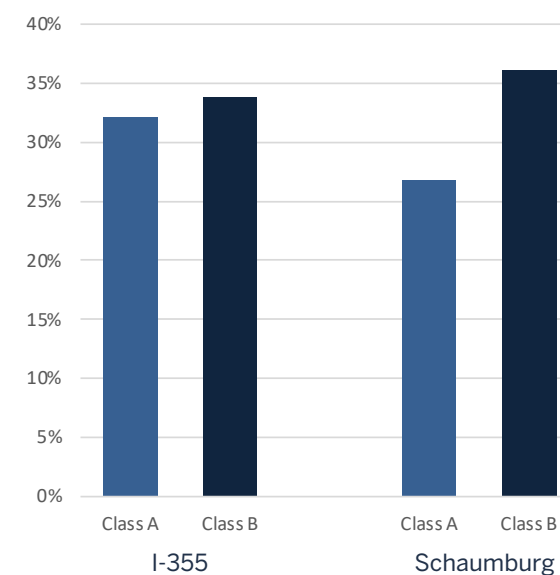
**NEW LEASE**  
**FEDERAL AVIATION  
ADMINISTRATION**  
**(115,937 SF)**  
3800 Golf Road,  
Rolling Meadows

**NEW LEASE**  
**HERITAGE-  
CRYSTAL CLEAN  
INC.**  
**(39,000 SF)**  
2000 Center Drive,  
Hoffman Estates

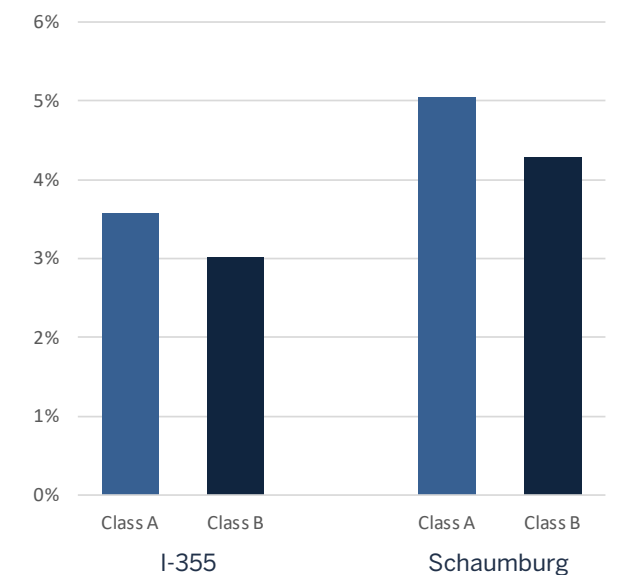
**SALE**  
**2 PIERCE PLACE**  
**(489,876 SF)**  
Buyer: Sovereign  
Partners

**SALE**  
**2550 W. GOLF  
ROAD**  
**(267,516 SF)**  
Buyer: Gallagher

Direct Vacancy & Availability Rate



Sublet Availability Rate



ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY & AVAILABILITY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION YTD (SF)	DIRECT NET ABSORPTION 2021 (SF)
I-355	3,365,585	176,172	39.1%	3.4%	32.5%	1.3%	\$22.03	29,674	(87,008)
CLASS A	2,591,434	215,953	39.7%	3.6%	32.1%	1.4%	\$23.31	5,054	(75,332)
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SCHAUMBURG	22,468,076	201,130	49.0%	4.8%	30.1%	1.8%	\$23.50	74,281	(873,089)
CLASS A	14,499,822	273,582	51.9%	5.0%	26.8%	2.1%	\$24.96	99,914	(700,114)
CLASS B	7,968,254	69,289	43.7%	4.3%	36.2%	1.1%	\$20.32	(25,633)	(172,975)
TOTAL	25,833,661	197,878	47.7%	4.6%	30.4%	1.7%	\$23.14	103,955	(960,097)



# O'HARE

- The direct vacancy and availability rate was 19.0% in Q2/22, as O'Hare continues to outperform the rest of the suburban market; however, sublease availability has increased from 1.9% to 3.0%.
- Net absorption has improved to positive 108,000 s.f. compared to the negative 79,000 s.f. seen in the back half of 2021.
- No leases greater than 36,000 s.f. were signed in 2022 so far, but the market for small office space remains extremely competitive in the O'Hare submarket, which is reflected by the low vacancy and positive absorption figures.



## MARKET MOVEMENT

### SALE

**1555 TIMES DRIVE  
(39,273 SF)**

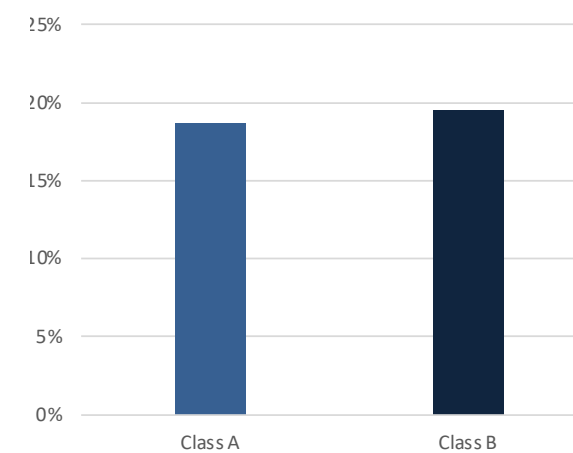
Buyer: M/I Homes

### NEW LEASE

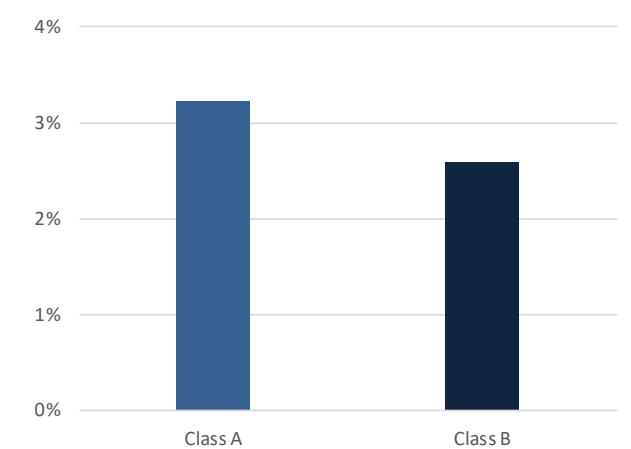
**INTERFIRST  
(27,502 SF)**

9525 W. Bryn Mawr Ave

Direct Vacant & Availability Rate



Sublet Availability Rate



ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY & AVAILABILITY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION YTD (SF)	DIRECT NET ABSORPTION 2021 (SF)
CLASS A	7,159,230	216,946	31.5%	3.2%	18.7%	1.0%	\$35.11	47,613	(441,014)
CLASS B	4,184,445	102,060	29.1%	2.6%	19.5%	1.4%	\$21.22	60,184	(330,350)
TOTAL	11,343,675	174,567	30.6%	3.0%	19.0%	1.2%	\$30.24	107,797	(771,364)



