

CHICAGO SUBURBS

Office Market Report

2Q 2018

DIRECT AVAILABILITY RATE



DIRECT VACANCY RATE



GROSS ASKING RENT (DIRECT)



Relief for Suburban Chicago Office Market as Availabilities & Vacancies Compress Overall

As the federal government tries its best to monitor growth and stem inflation (see box below), local village and city economies continue on their paths to recovery from the great recession which began over a decade ago. Quietly and assuredly, overall direct suburban vacancy and availability rates compressed over the past year from 19.45% to 17.06% and 21.35% to 21.25%, respectively, while gross asking rents increased by almost a dollar and half to \$24.24psf. Although the first half of 2018 saw only 2.5 million sf of leasing deals inked, it also witnessed its first string of three, consecutive, half-way marks/six-month periods of positive net absorption since 2013 with 456,280 sf added to the metro's ledgers*. Contributing to this boon were Amita Health moving into its committed 225,000 sf in Lisle, and Fresenius Kabi expanding into 156,502 sf at its 1893 Sheridan Road location in Highland Park. Sales volume in the first half of 2018 was particularly noteworthy with \$1.2 billion/nine million sf in closed transactions occurring, a high not seen since 2007.

Notable Trends

Re-imagined Redevelopments Unlike the CBD which is nervously expecting an additional six million square feet of office space to hit the market over the next three years, suburban plans underway to convert empty, single-tenant, office campuses to multi-tenant office parks with work-play amenities are welcome resolutions to the demand imbalance their vacancies caused over the past decade. The success of prominent turnarounds in the region from American Retail Properties, Blackstone and Equity Office emboldened developers to successfully pitch to village and city boards to invest public funds into infrastructure improvements and to make zoning concessions.

The End of Class Wars (at least as we know it) In Chicago's suburban office market, there is no clear-cut method to evaluate office quality. It is generally known that C buildings ≠ A nor B. The ease of standardization ends there as the contest to lure commercial tenants to commit to new facilities creates an interesting paradigm where high "A"s ("Trophies") outshine standard "A"s, low "A"s appear to be B properties, and C properties are literally disappearing from the marketplace. At last count, Class C office buildings represented less than 3% of the overall suburban market.

Millennials in Suburbia A recent poll gathered young tech workers prefer suburban Chicago to the CBD for their greenspace access, neighboring restaurant choices, and a less stressful commute. Research from the USDOT supports this latter claim as it rated Chicago's average commute time to be one of the highest in the country. Specifically, the study cited the Jane Byrne Interchange as its worst bottleneck. In addition, according to Esri's Shift-Share Analysis Tool, there were 17% more jobs in DuPage County, 17% more jobs in Lake County, and 8.5% more jobs in Cook County from 2010 to 2015. Simultaneously, more young adults were living with their parents (32.1%) than with a romantic partner (31.4%). This imbalance, which has not occurred in the US in over 130 years, appears to be a consequence between the disparities between rent, wage and job growth, according to Pew Research.

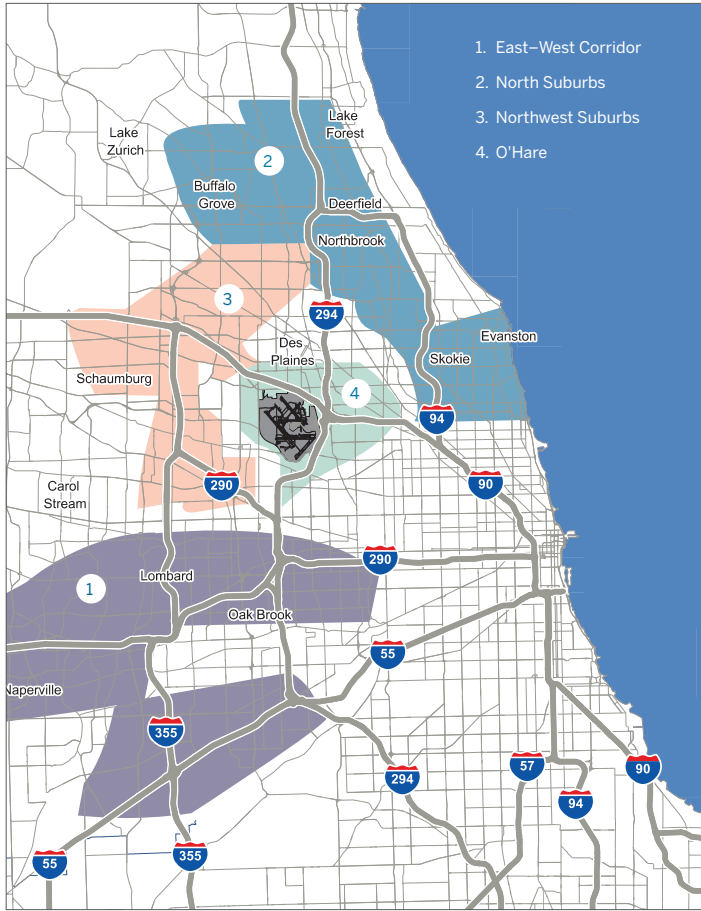
ECONOMIC INDICATORS

	2Q17	2Q18
CCI	118.9	126.4
Employment Trends Index	103.61	107.69
US Unemployment	4.10%	3.60%
Cook County Unemployment	4.70%	3.40%
DuPage County / Arlington Heights Unemployment	3.60%	2.60%
Lake County/ Kenosha	3.60%	3.10%
Prime Rate	4.25%	5.00%

CHICAGO SUBURBS 2Q 2018

	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABLE RATE (%)	SUBLET AVAILABLE RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	MAX AVAILABLE FLOOR CONTIGUOUS SPACE (SF)	MAX AVAILABLE BUILDING CONTIGUOUS SPACE (SF)	GROSS WEIGHTED ASKING RENTS (DIRECT)	DIRECT NET ABSORPTION 2Q18 (SF)	DIRECT NET ABSORPTION 1H18 (SF)
ALL SUBURBAN	121,363,476	112,896	21.25%	2.48%	17.06%	1.27%	325,000	1,300,000	\$24.24	617,701	456,280
CLASS A	73,608,565	205,038	22.52%	2.92%	18.57%	1.33%	325,000	1,300,000	\$27.10	494,113	358,833
CLASS B	47,754,911	66,697	19.28%	1.79%	14.73%	1.18%	183,973	568,382	\$19.15	123,588	97,447
EAST-WEST CORRIDOR	48,109,691	99,400	18.20%	2.62%	13.68%	1.96%	79,999	354,000	\$23.83	310,911	119,150
EAST	24,196,536	105,202	16.06%	2.84%	12.14%	2.00%	66,451	130,000	\$24.88	243,524	366,077
CLASS A	13,911,851	210,786	15.05%	2.62%	11.90%	1.43%	56,507	130,000	\$28.55	241,106	401,984
CLASS B	10,284,685	62,711	17.44%	3.13%	12.46%	2.77%	66,451	127,446	\$19.89	2,418	(35,907)
SOUTH	5,995,211	67,362	22.58%	0.16%	17.41%	0.16%	79,999	250,000	\$22.15	(3,302)	(111,660)
CLASS A	2,708,744	150,486	21.40%	0.35%	21.56%	0.35%	79,999	250,000	\$27.16	12,481	(110,407)
CLASS B	3,286,467	46,288	23.55%	0.00%	13.99%	0.00%	73,828	136,000	\$22.15	(15,783)	(1,253)
WEST	17,917,944	108,594	19.62%	3.14%	14.51%	2.50%	78,000	354,000	\$22.90	70,689	(135,267)
CLASS A	11,075,534	212,991	21.14%	3.77%	14.82%	3.41%	78,000	354,000	\$25.30	46,719	(12,244)
CLASS B	6,842,410	60,552	17.16%	2.12%	14.00%	1.03%	71,157	194,954	\$18.97	23,970	(123,023)
NORTHERN	29,562,844	111,139	20.17%	3.50%	16.73%	1.28%	183,973	405,039	\$24.97	155,019	164,104
CENTRAL	8,822,298	114,575	17.02%	1.00%	13.76%	0.80%	183,973	405,039	\$26.27	30,177	70,562
CLASS A	3,879,559	161,648	25.38%	1.98%	24.86%	1.54%	78,496	405,039	\$27.75	(5,608)	(20,778)
CLASS B	4,942,739	93,259	10.46%	0.23%	5.05%	0.23%	183,973	205,724	\$21.91	35,785	91,340
NORTH	16,176,671	112,338	24.33%	4.91%	20.53%	1.52%	174,886	302,678	\$24.16	114,492	75,267
CLASS A	10,879,941	164,848	29.62%	5.07%	26.41%	0.89%	174,886	302,678	\$25.20	123,697	107,247
CLASS B	5,296,730	67,907	13.45%	4.57%	8.44%	2.82%	98,105	105,486	\$20.25	(9,205)	(31,980)
SOUTH	4,563,875	101,419	11.55%	3.32%	8.99%	1.31%	23,807	90,500	\$28.03	10,350	18,275
CLASS A	2,374,504	169,607	5.98%	4.36%	4.60%	2.27%	20,346	20,346	\$35.20	17,586	15,722
CLASS B	2,189,371	70,625	17.58%	2.18%	13.75%	0.27%	23,807	90,500	\$23.78	(7,236)	2,553
NORTHWEST	30,574,484	127,394	28.06%	1.98%	23.92%	0.51%	325,000	1,300,000	\$22.82	97,714	144,773
I-355	4,559,864	106,043	31.48%	0.18%	29.01%	0.00%	125,523	290,679	\$22.39	(47,018)	(54,135)
CLASS A	2,985,468	199,031	30.51%	0.28%	30.14%	0.00%	34,191	290,679	\$25.49	(40,168)	(60,473)
CLASS B	1,574,396	56,228	33.33%	0.00%	26.89%	0.00%	125,523	125,523	\$16.99	(6,850)	6,338
SCHAUMBURG	26,014,620	132,054	27.46%	2.29%	23.03%	0.60%	325,000	1,300,000	\$22.95	144,732	198,908
CLASS A	17,083,044	275,533	27.13%	3.00%	22.30%	0.68%	325,000	1,300,000	\$25.78	62,429	70,030
CLASS B	8,931,576	66,160	28.10%	0.93%	24.42%	0.45%	54,641	568,382	\$17.89	82,303	128,878
O'HARE	13,116,457	154,311	18.98%	0.82%	14.21%	0.49%	53,427	161,676	\$27.80	54,057	28,253
CLASS A	8,709,920	207,379	19.19%	1.22%	12.99%	0.73%	53,427	161,676	\$32.27	35,871	(32,248)
CLASS B	4,406,537	102,478	18.56%	0.04%	16.64%	0.01%	31,809	59,711	\$19.12	18,186	60,501

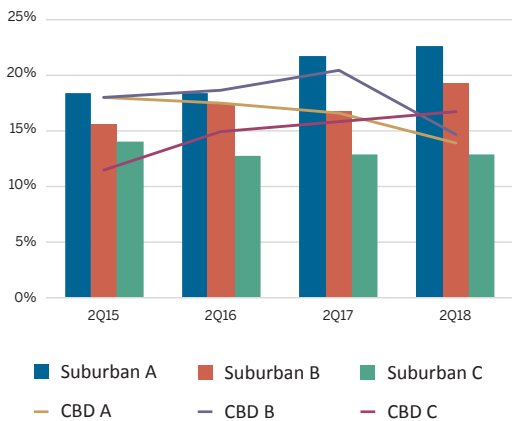
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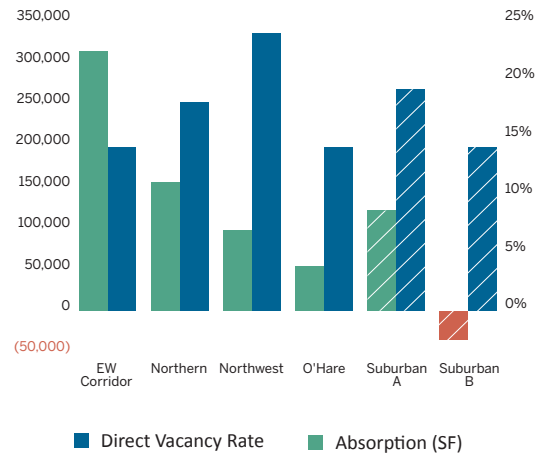
BY THE NUMBERS

	CBD A & B ONLY		SUBURBAN A & B ONLY
Average Age	1949	▼	1986
Average Size	451,854	▼	112,896
Direct Availability	14.13%	▲	21.25%
Sublet Availability	2.02%	▲	2.48%
Direct Vacancy	11.88%	▲	17.06%
Sublet Vacancy	0.93%	▲	1.27%
Gross Asking Rent	\$40.25	▼	\$24.24
Current Quarter Absorption	1,021,106	▼	617,701
Max Contiguous Space	417,282	▲	1,300,000
Inventory Change, YOY	1.79%	▼	0.11%

DIRECT AVAILABILITY: SUBURBS VS. CBD



SUBMARKET VACANCY & ABSORPTION



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MAX BUILDING AVAILABLE CONTIGUOUS SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE CONTIGUOUS SPACE
AT&T Center Hoffman Estates	Schaumburg	A	1,300,000
Innovation Park Lake County Libertyville	North Northern	A	459,757
Lakewood Building Hoffman Estates	Schaumburg	B	568,382

SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SPACE
215 W Diehl Road Naperville	West / East-West Corridor	A	162,000
Oak Brook Office Center Oak Brook	East / East-West Corridor	B	120,156
440 N Fairway Drive Vernon Hills	North Northern	B	99,579

NOTEWORTHY LEASES

TENANT	PROPERTY	SUBMARKET	SF	TYPE
Amita Health	2601 Navistar Drive, Lisle	West / East-West Corridor	225,000	Move-In
Fresenius Kabi USA	1893 Sheridan Road, Highland Park	North Northern	156,502	Expansion
Caterpillar	510 Lake Cook Road, Deerfield	North Northern	116,071	Move-In
United Healthcare	Corridors Two, Downers Grove	East / East-West Corridor	92,727	Move-In
Arjo Huntleigh	2349 W Lake Street, Addison	I-355	62,000	Renewal/Expansion
T-Mobile	Executive Towers West, Downers Grove	East / East-West Corridor	54,492	New

SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
Westbrook Corporate Center Westchester	East / East-West Corridor	1,156,393	Group RMC	Blackstone Group	\$114.00
Continental Towers Rolling Meadows	Schaumburg	932,854	Rubenstein Partners	Walton Street Capital, GlenStar Properties	\$134.00
Schaumburg Towers (Former Zurich NA HQ) Schaumburg	Schaumburg	882,071	American Landmark Properties	Retail Properties of America	\$107.00
Presidents Plaza Chicago	O'Hare	835,000	Angelo Gordon	PGIM & GlenStar Properties	\$176.00

CUMULATIVE MONTHLY SALES VOLUME

