

CHICAGO SUBURBS Office Market Report

4Q 2018

DIRECT AVAILABILITY RATE

2Q18 4Q18 4Q17
21.25% 20.41% 21.60%

DIRECT VACANCY RATE

2Q18 4Q18 4Q17
17.06% 16.52% 18.18%

GROSS ASKING RENT (DIRECT)

2Q18 4Q18 4Q17
\$24.24 \$24.38 \$23.59

Suburban Office Market Rallies, As Micro-Markets Achieve Record Low Vacancy

As 2018 came to a close, the suburban office market continued its multi-year trend of shrinking vacancy and record investment sales. Direct availability and vacancy both fell from 21.60% to 20.41% and 17.06% to 16.52%, respectively, while direct weighted asking rents climbed to \$24.38 from \$23.59, year over year. The 2018 year-end total space absorption was a net positive 438,780 sf.

Activity in the Northern submarket accounted for nearly 50% of the area's year-end positive absorption. Contributing factors included Baxford Credit Union moving into the Continental Executive Parke III (75,444 sf) and Astellas Pharma moving into the West Plaza (39,244 sf). Although large subleases (like Walgreens') and potential availabilities (like Takeda and Shire) created an atmosphere of uncertainty, new ownership and redevelopments along the I-94/I-294 4-way interchanges performed well due to their location and low, Lake County taxes.

The O'Hare submarket posted the lowest vacancy rates of the region at 12.80% for all properties, and 8.22% for properties with vacant space under 50,000 sf (see *ALL PROPERTIES V. <50K SF*). Revealing the submarket's health are completely leased buildings like 2800 & 2860 S River Road and 6400 Shafer Court, where occupancy levels struggled in the past. Trepidation was present when tenants like Wilson Sporting Goods vacated Triangle Plaza for the CBD, but was alleviated when the space was quickly re-let.

Reasonable fear about the future health of the Oakbrook Mall Office micro-market of the EW Corridor abounded when McDonald's announced its intention to vacate its campus for Chicago's Fulton Market. Yet the move triggered much needed plans to repurpose its acreage and develop new office supply. To this point, many of the Class A and B+ properties in the Greater Oakbrook area are 90% occupied with gross asking rates well over \$30psf, a first since the "dot-com" economic boom of the late 1990s.

Notable Trends

Pressure to Modernize Hits the Suburbs. The amenities' race witnessed in the CBD for years is now present in suburban submarkets, too. Office landlords are learning they need to continually make common area improvements, offer fitness/wellness centers and tenant lounges, and create move-in ready suites to compete for the attention and investment of the area's entrepreneurial and emerging tenants in the market.

Sales Volume High; Leasing Lag-Time Low. According to CoStar, 2018 recorded the third-highest year in gross sales volume in the area (\$1.32 billion), behind the sales volume only of 2006 (\$1.89 billion) and 2007 (\$2.02 billion). For example, office properties in the EW Corridor (Westbrook Corporate Center, Executive Towers, and Central Park of Lisle) the Northern Suburbs (Arbor Lake Centre) and O'Hare (Triangle, Presidents Plaza and O'Hare International Center) all sold at historically high prices this past year. In addition, CoStar reported leases took on average only 14 months to close, a low not seen since 2010

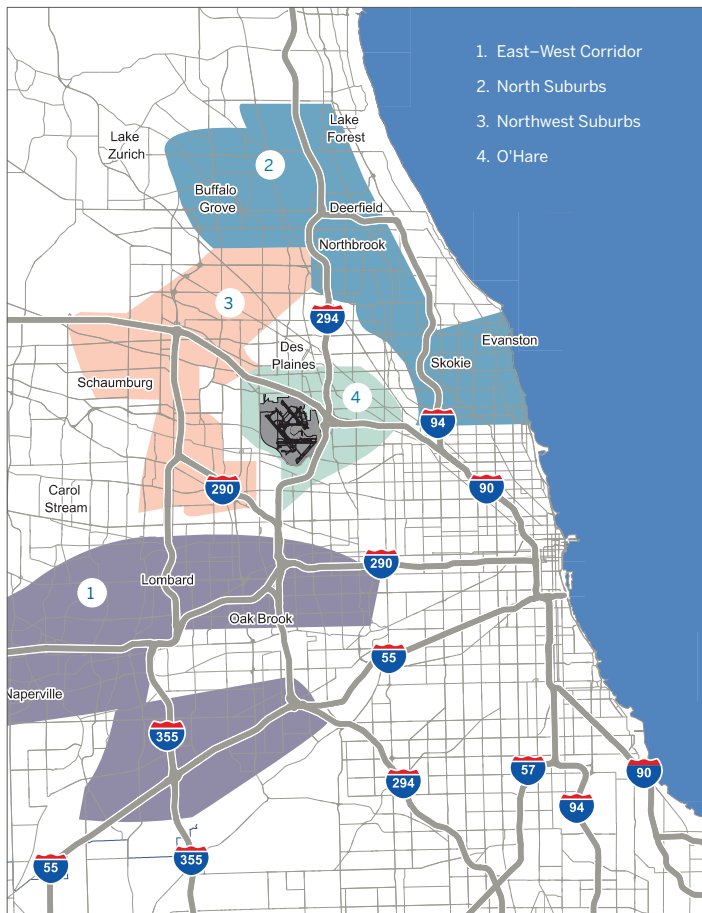
ECONOMIC INDICATORS

	4Q17	4Q18
Consumer Confidence Index	122.1	138.4
Employment Trends Index	122.1	128.8
US Unemployment	4.10%	3.70%
Cook County Unemployment	4.50%	3.80%
DuPage County/Arlington Heights Unemployment	4.70%	2.90%
Lake County/Kenosha Unemployment	3.90%	4.20%
Prime Rate	4.50%	5.25%

CHICAGO SUBURBS 4Q 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 4Q18 (SF)	DIRECT NET ABSORPTION 2018 (SF)
ALL SUBURBAN	122,858,159	113,442	20.41%	1.97%	16.52%	0.98%	325,000	1,300,000	\$24.38	258,690	438,780
CLASS A	74,033,592	205,649	21.36%	2.13%	17.65%	0.93%	325,000	1,300,000	\$27.38	279,802	140,133
CLASS B	48,824,567	67,531	18.96%	1.73%	14.81%	1.06%	183,973	568,382	\$19.68	(21,112)	298,647
EAST-WEST CORRIDOR	48,910,558	100,227	17.39%	2.00%	13.83%	1.45%	79,999	329,783	\$24.33	13,920	(53,939)
EAST	24,115,606	104,397	16.64%	2.30%	12.93%	1.71%	66,451	163,254	\$25.59	(123,365)	185,659
CLASS A	14,064,202	209,913	15.89%	1.63%	12.55%	0.74%	52,344	163,254	\$29.82	(119,681)	216,992
CLASS B	10,051,404	61,289	17.67%	3.23%	13.46%	3.08%	66,451	127,446	\$19.99	(3,684)	(31,333)
SOUTH	3,777,869	59,966	18.16%	0.18%	14.64%	0.00%	79,999	147,740	\$22.42	(5,766)	(188,888)
CLASS A	1,548,756	140,796	18.18%	0.45%	18.66%	0.00%	79,999	147,740	\$27.64	4,414	(218,282)
CLASS B	2,229,113	42,868	18.15%	0.00%	11.85%	0.00%	46,624	46,624	\$20.18	(10,180)	29,394
WEST	21,017,083	108,335	18.11%	1.98%	14.71%	1.40%	73,828	329,783	\$23.15	143,051	(50,710)
CLASS A	12,269,960	204,499	19.54%	2.36%	16.57%	1.97%	69,974	329,783	\$25.57	130,510	(118,475)
CLASS B	8,747,123	65,277	16.10%	1.45%	12.10%	0.59%	73,828	194,954	\$19.33	12,541	67,765
NORTHERN	30,126,390	113,257	18.45%	3.41%	15.23%	1.11%	183,973	302,678	\$25.10	30,622	212,633
CENTRAL	9,303,923	120,830	11.20%	1.40%	9.01%	0.77%	183,973	205,724	\$25.59	48,245	117,777
CLASS A	4,358,601	181,608	12.73%	1.97%	11.95%	1.48%	77,902	168,167	\$27.93	39,766	17,126
CLASS B	4,945,322	93,308	9.84%	0.90%	6.42%	0.15%	183,973	205,724	\$22.14	8,479	100,651
NORTH	16,179,308	112,356	22.57%	4.55%	19.97%	1.16%	174,886	302,678	\$22.05	32,504	184,375
CLASS A	10,882,578	164,888	27.14%	4.72%	24.95%	0.69%	174,886	302,678	\$25.84	32,703	252,658
CLASS B	5,296,730	67,907	13.20%	4.22%	9.73%	2.11%	98,105	105,486	\$19.82	(199)	(68,283)
SOUTH	4,643,159	103,181	18.61%	3.44%	11.21%	1.65%	160,000	160,000	\$29.28	(50,127)	(89,519)
CLASS A	2,374,069	169,576	10.81%	4.83%	5.64%	3.22%	25,383	25,383	\$35.98	(21,667)	(6,404)
CLASS B	2,269,090	73,196	26.78%	1.99%	17.04%	0.00%	160,000	160,000	\$23.84	(28,460)	(83,115)
NORTHWEST	30,945,916	126,310	28.09%	0.95%	23.58%	0.40%	325,000	1,300,000	\$22.60	93,727	160,351
I-355	4,598,914	104,521	31.92%	0.27%	29.39%	0.00%	125,523	284,094	\$22.15	16,963	(89,353)
CLASS A	2,985,468	199,031	30.19%	0.42%	29.83%	0.00%	34,191	284,094	\$25.23	16,963	(96,911)
CLASS B	1,613,446	55,636	35.11%	0.00%	28.58%	0.00%	125,523	125,523	\$16.88	0	7,558
SCHAUMBURG	26,347,002	131,080	27.42%	1.06%	22.57%	0.47%	325,000	1,300,000	\$22.73	76,764	249,704
CLASS A	17,081,200	275,503	27.11%	1.21%	21.53%	0.53%	325,000	1,300,000	\$25.09	121,470	152,845
CLASS B	9,265,802	66,660	27.99%	0.79%	24.49%	0.36%	54,641	568,382	\$19.41	(44,706)	96,859
O'HARE	12,875,295	153,277	18.01%	0.94%	12.80%	0.30%	53,427	143,001	\$28.68	120,421	119,735
CLASS A	8,468,758	206,555	18.93%	1.37%	12.32%	0.42%	53,427	143,001	\$32.94	75,324	(59,416)
CLASS B	4,406,537	102,478	16.24%	0.11%	13.72%	0.08%	31,809	47,847	\$19.66	45,097	179,151

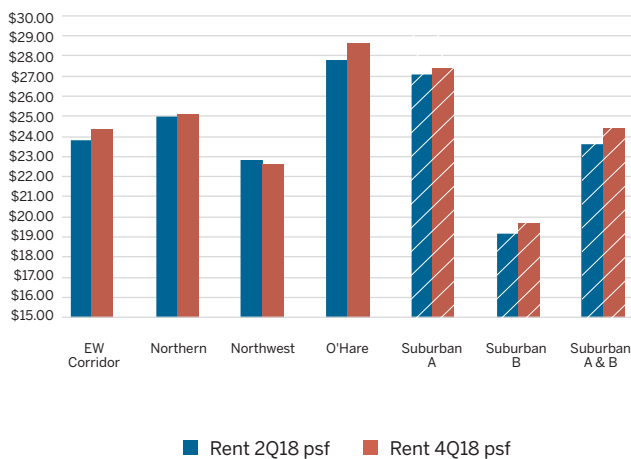
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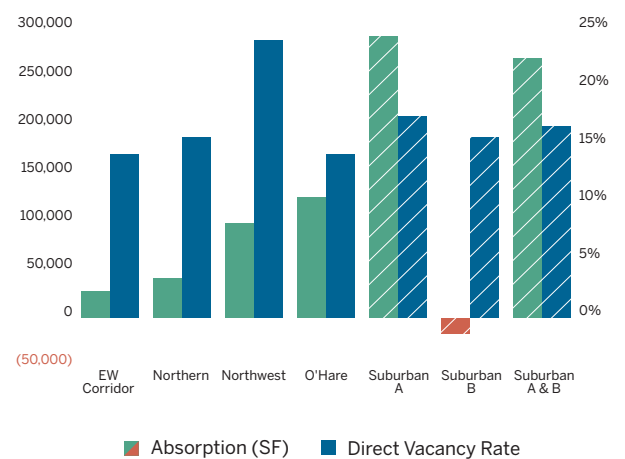
BY THE NUMBERS

	CBD A & B ONLY		SUBURBAN A & B ONLY
Direct Available	13.93%	▲	20.41%
Direct Availability % <50,000 SF	6.12%	▲	10.04%
Sublet Available	2.05%	▼	1.97%
Direct Vacancy	11.84%	▲	16.52%
Direct Vacancy % <50,000 SF	5.66%	▲	8.22%
Average Months to Lease	10	▲	14
Gross Asking Rate	\$43.67	▼	\$24.38
Current Quarter Absorption	165,704	▲	258,690
Max Contiguous Space	363,204	▲	1,300,000
Inventory Change, YOY	4.10%	▼	2.10%

RENT PSF, QUARTER CHANGE



SUBMARKET VACANCY & ABSORPTION



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MAX BUILDING AVAILABLE CONTIGUOUS SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE CONTIGUOUS SPACE (SF)
AT&T Center / Lakewood Center, Hoffman Estates	Schaumburg	A	1,300,000
2001 Lakewood Boulevard, Hoffman Estates	Schaumburg	B	281,382
1450 American Lane, Schaumburg	Schaumburg	A	327,726

SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SPACE (SF)
Walgreens (1411,1415,1417 & 1419 Lake Cook), Deerfield	North Northern	A/B	425,961
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

NOTEWORTHY LEASES

TENANT	PROPERTY	SUBMARKET	SF	TYPE
Aldi	Naperville Woods Office Center, Naperville	West / East-West Corridor	113,389	New
Stericycle	Bannockburn Lakes, Bannockburn	North Northern	100,000	New
Assurance Legacy	Woodfield Preserve Office Corridor, Schaumburg	Schaumburg	75,000	New
Arris Group	2400 Ogden, Lisle	West / East-West Corridor	71,000	Renewal
GCG Financial	Three Parkway North, Deerfield	North Northern	45,000	Expansion/Extension

SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
Continental Towers, Rolling Meadows	Schaumburg	910,000	CT Acquisitions	Walton Street Capital	\$134.00
Triangle Plaza, Chicago	O'Hare	631,145	Shidler Group	Equity Commonwealth	\$223.00
26525 N Riverwoods Boulevard, Mettawa	North Northern	560,000	AbbVie	UBS Realty Advisors	\$275.00
O'Hare International Center, Rosemont	O'Hare	517,640	Bridge Investment Group	Simon Property Group and Blackstone	\$120.00

ALL PROPERTIES V. PROPERTIES WITH < 50,000 SF AVAILABLE SPACE

PROPERTY	ALL PROPERTIES' AVAILABILITIES	PROPERTIES WITH <50,000 SF AVAILABLE	PERCENT DIFFERENCE	ALL PROPERTIES' VACANCIES	PROPERTIES WITH <50,000 SF VACANT	PERCENT DIFFERENCE
Suburban All	20.41%	10.04%	10.37%	16.52%	8.22%	8.30%
Suburban A	21.36%	8.10%	13.26%	17.65%	6.92%	10.73%
Suburban B	18.96%	12.22%	6.74%	14.81%	9.68%	5.13%
East-West Corridor	17.39%	10.76%	6.63%	13.83%	8.72%	5.11%
North	18.45%	8.44%	10.01%	15.23%	6.92%	8.32%
Northwest	28.09%	10.04%	18.05%	23.58%	8.22%	15.36%
O'Hare	18.01%	10.04%	7.97%	12.80%	8.22%	4.58%