



DIRECT AVAILABILITY RATE: **24.73%**



DIRECT VACANCY RATE: **20.56%**



DIRECT GROSS ASKING RATE: **\$25.03**

DESPITE STANDSTILL, SUBURBAN OFFICE MARKET SHOWS SIGNS OF LIFE

During Q1/20, Chicago's suburban office market appeared to continue the previous year's momentum with over 1.3 million s.f. of leasing transactions completed. Then Covid-19 hit, and the market's course was substantially altered, causing leasing and sales activity to come to a virtual halt. As a result, the second quarter posted only 569,000 s.f. of leasing transactions. From year-end 2019 to mid-year 2020, direct vacancy and availability rose from 19.55% to 20.56% and 24.16% to 24.73%, respectively. Due to an increase in the availability of Class A product, overall direct gross asking rents increased from \$24.73 p.s.f. to \$25.03 p.s.f. The second quarter's 77,400 s.f. of positive absorption marginally softened the first quarter's nearly 500,000 s.f. of negative absorption, leaving the mid-year to post 422,822 s.f. of negative net absorption in total.¹ Impacted by the shelter-in-place order, in May, Bosch moved into only 76,000 s.f. of the 110,000 s.f. it leased back in November 2019. In contrast, Sonova entered a new 64,000-s.f. lease at 750 N. Commons in Aurora in January and took occupancy of 100% of the premises in June.

The Northwest and Northern submarkets continued to lag the East/West Corridor and O'Hare submarkets with higher vacancy and negative net absorption numbers. In particular, the northern suburbs' direct vacancy was adversely hit by Horizon Therapeutics vacating its 190,000 s.f. of leased space in Lake Forest to become the owner-occupier of the former Takeda Pharmaceuticals Campus in Deerfield. In addition, Mondelez vacated 60,000 s.f. in Deerfield to relocate its operations to Fulton Market.

Predicted Impacts of COVID-19 on the Office Market

Leasing activity and rates. The second quarter saw over 80% of its leasing activity occur within Class B assets, and we expect this trend to continue. Tenants under 5,000 s.f. will drive demand for move-in ready spaces with three- to five-year terms. Due to the economic uncertainty created by the pandemic, we see larger tenants renewing at an above-average rate — either for shorter terms or on a long-term basis through blend-and-extend deals to generate immediate cost savings.

Investment sales. The largest office sales transactions (by RSF and price PSF) during the first half of 2020 closed in February. Horizon acquired the former Takeda Campus (660,000 s.f. at \$174 p.s.f.), and Arch Street purchased the Sysmex Corporate Center (162,739 s.f. at \$283 p.s.f.) in Lincolnshire. While sales were scarce during Q2/20, a handful did close, including 4255 Meridian Pkwy in Aurora and 709 Enterprise in

Oak Brook. To gauge Covid-19's lasting impact on the utilization of office product, we foresee buyers and sellers more closely analyzing tenants' financial wherewithal, as well as their likelihood of needing office space when their leases expire.

Suburban resurgence. Once the shelter-in-place order was lifted during the second quarter, activity picked up in the suburbs as tenants displayed a demand for spacious, prebuilt suburban offices in low-rise properties featuring ample parking lots, generous lobbies, and sparsely populated elevators. As an indicator of a market's health, we saw the CBD sublet availability rates climb from 1.90% in year-end 2019 to 2.47% in mid-year 2020. In the suburbs, however, the sublet availability rate ticked up only 0.04% between Q4/19 and Q2/20 from 1.94% to 1.98% (see BY THE NUMBERS). We anticipate the hub-and-spoke operations model (Loop HQ, suburban satellite office) will increase in popularity, with the Eastern E/W Corridor and O'Hare submarkets — both transportation centers — continuing their leads on office demand.

¹ 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

BY THE NUMBERS

	CBD - A&B ONLY		SUBURBAN - A&B ONLY
Direct Availability (%)	15.69%	<	24.73%
Sublet Availability (%)	2.47%	>	1.98%
Direct Vacancy %	10.17%	<	20.56%
Sublet Vacancy %	1.13%	>	0.75%
Asking Rent, Low	\$20.93, Class B, East Loop	>	\$9.38, Class B, Arlington Heights
Asking Rent, High	\$70.99, Class A, River North	>	\$43.05, Class A, Rosemont
Q2/20 Direct Net Absorption	(456,541)	<	77,400

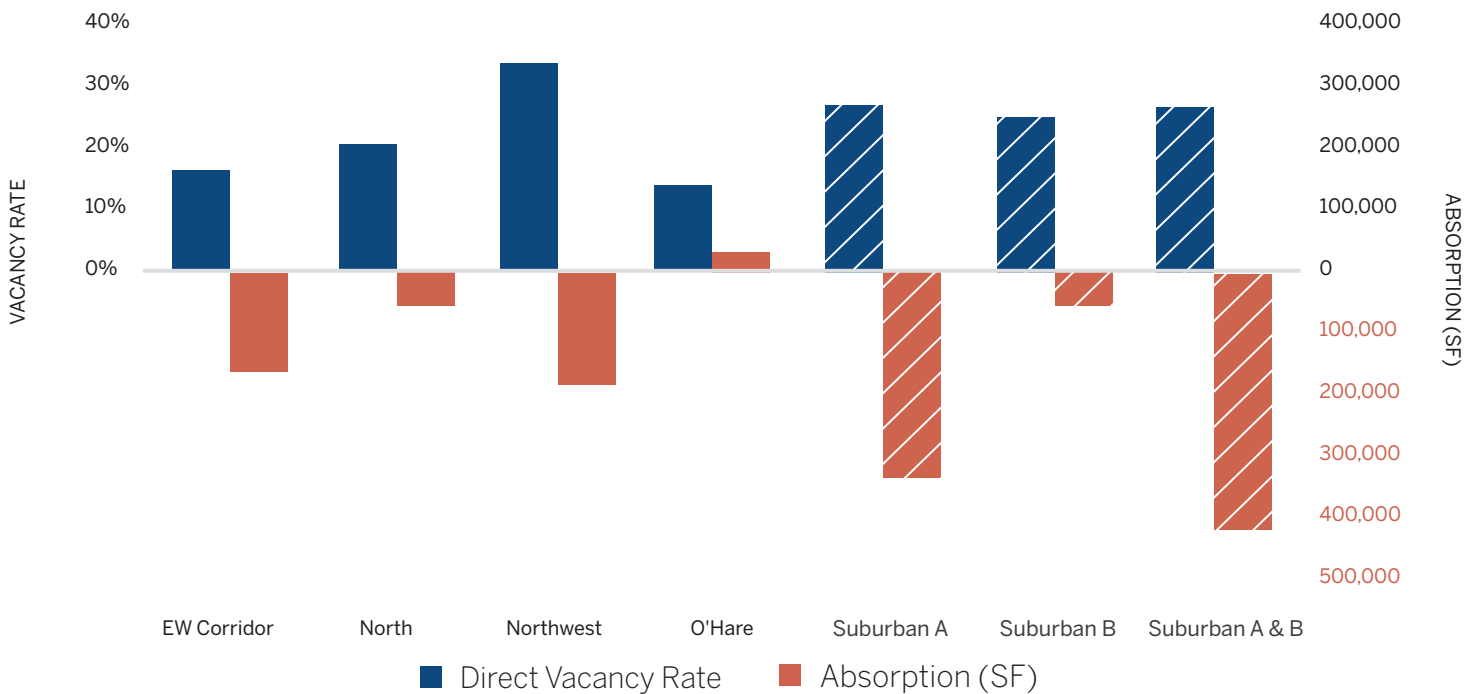
CHICAGO SUBURBS MID-YEAR 2020

	INVENTORY (SF)	AVG BLDG SIZE (SF)	DIRECT AVAIL RATE (%)	SUBLET AVAIL RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	MAX CONTIG SPACE (SF)	GROSS ASKING RENT (DIRECT)	DIRECT NET ABSORPTION 2020 2Q (SF)	DIRECT NET ABSORPTION YTD (SF)
ALL SUBURBAN	93,177,480	104,576	24.73%	1.98%	20.56%	0.75%	1,300,000	\$25.03	77,400	(422,822)
CLASS A	57,245,663	194,713	25.12%	2.59%	20.27%	1.02%	1,300,000	\$27.75	(37,473)	(357,046)
CLASS B	35,931,817	60,187	24.11%	1.01%	21.01%	0.33%	360,206	\$20.38	114,873	(65,776)
EAST-WEST CORRIDOR	35,498,269	94,662	20.05%	1.90%	16.19%	0.99%	297,127	\$24.88	135,250	(186,523)
EAST	21,189,299	104,381	19.79%	1.71%	17.29%	1.33%	297,127	\$25.82	95,451	(85,621)
CLASS A	12,555,041	202,501	20.10%	2.51%	17.51%	1.91%	297,127	\$29.56	45,256	(132,685)
CLASS B	8,634,258	61,236	19.34%	0.54%	16.97%	0.48%	66,451	\$19.80	50,195	47,064
SOUTH	1,538,974	59,191	10.57%	0.10%	10.43%	0.10%	20,000	\$20.81	10,957	(25,763)
CLASS A	575,108	143,777	3.08%	0.00%	3.08%	0.00%	14,533	\$27.05	(1,776)	(1,776)
CLASS B	963,866	43,812	15.04%	0.15%	14.82%	0.15%	20,000	\$19.84	12,733	(23,987)
WEST	12,769,996	87,466	21.62%	2.45%	15.05%	0.54%	161,820	\$23.73	28,842	(75,139)
CLASS A	7,391,063	171,885	24.15%	2.95%	16.04%	0.66%	161,820	\$25.71	16,737	24,317
CLASS B	5,378,933	52,223	18.15%	1.76%	13.70%	0.37%	41,000	\$20.24	12,105	(99,456)
NORTHERN	20,259,292	88,469	23.11%	3.35%	19.36%	1.06%	175,545	\$26.01	(100,684)	(96,601)
CENTRAL	4,305,881	76,891	19.29%	3.94%	16.96%	1.24%	74,641	\$26.24	(18,243)	(72,973)
CLASS A	2,169,586	127,623	21.93%	7.74%	19.62%	2.46%	74,641	\$30.87	(16,706)	(49,908)
CLASS B	2,136,295	54,777	16.60%	0.07%	14.26%	0.00%	28,000	\$21.66	(1,537)	(23,065)
NORTH	13,367,409	94,804	23.35%	3.53%	19.98%	0.86%	175,545	\$25.70	(103,331)	(22,561)
CLASS A	10,029,953	149,701	25.25%	3.15%	21.72%	0.93%	175,545	\$26.82	(121,280)	(111,947)
CLASS B	3,337,456	45,101	17.61%	4.69%	14.76%	0.67%	51,237	\$21.99	17,949	89,386
SOUTH	2,586,002	80,813	28.24%	1.45%	20.16%	1.76%	90,500	\$27.24	20,890	(1,067)
CLASS A	934,841	155,807	18.41%	4.02%	6.21%	4.02%	44,314	\$33.60	4,996	(1,065)
CLASS B	1,651,161	63,506	33.80%	0.00%	28.06%	0.48%	90,500	\$23.50	15,894	(2)
NORTHWEST	24,397,373	125,760	35.73%	1.44%	31.55%	0.40%	1,300,000	\$23.46	(30,712)	(161,535)
I-355	2,967,128	148,356	28.45%	2.15%	26.30%	0.53%	142,488	\$24.79	19,214	22,181
CLASS A	2,565,158	213,763	30.42%	2.49%	28.81%	0.61%	142,488	\$25.19	1,729	6,086
CLASS B	401,970	50,246	15.90%	0.00%	10.30%	0.00%	14,717	\$19.92	17,485	16,095
SCHAUMBURG	21,430,245	123,162	36.74%	1.34%	32.27%	0.38%	1,300,000	\$23.31	(49,926)	(183,716)
CLASS A	13,356,622	284,183	34.20%	1.74%	29.01%	0.42%	1,300,000	\$25.63	13,142	(83,508)
CLASS B	8,073,623	63,572	40.94%	0.67%	37.67%	0.33%	360,206	\$19.75	(63,068)	(100,208)
O'HARE	13,022,546	140,027	19.41%	1.06%	13.73%	0.29%	112,105	\$29.26	73,546	21,837
CLASS A	7,668,291	213,008	19.88%	1.71%	12.11%	0.50%	112,105	\$34.57	20,429	(6,560)
CLASS B	5,354,255	93,934	18.73%	0.12%	16.06%	0.00%	47,847	\$21.04	53,117	28,397

RENT PSF, CLASS A & B OFFICE



SUBMARKET VACANCY & ABSORPTION



ECONOMIC INDICATORS

	Q2/2019		Q2/2020
Consumer Confidence Index (CCI)	121.5	>	98.1
US Unemployment	3.40%	<	13.00%
Cook County Initial Claims, June	14,776	<	93,559
DuPage County Initial Claims, June	1,986	<	11,093
Lake County Initial Claims, June	1,629	<	7,750

SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	SALES PRICE
1 Takeda Pkwy, Deerfield	N-North	660,000	Horizon Therapeutics	Takeda Pharmaceuticals	\$174 PSF
Systemx Corporate Center, Lincolnshire	N-North	162,739	Arch Street Cap Advisors	VEREIT	\$283 PSF
2 TransAm Plaza, Oakbrook Terrace	E-EW Corridor	117,759	RE Development Solutions	American Landmark Properties	\$124 PSF
750 Warrenville, Lisle	E-EW Corridor	94,380	RE Development Solutions	American Landmark Properties	\$101 PSF
885 Sunset Ridge, Barilla NA HQ, Northbrook	C-North	78,000	Trike Property	Moyer Properties	\$176 PSF

MAJOR LEASE TRANSACTIONS

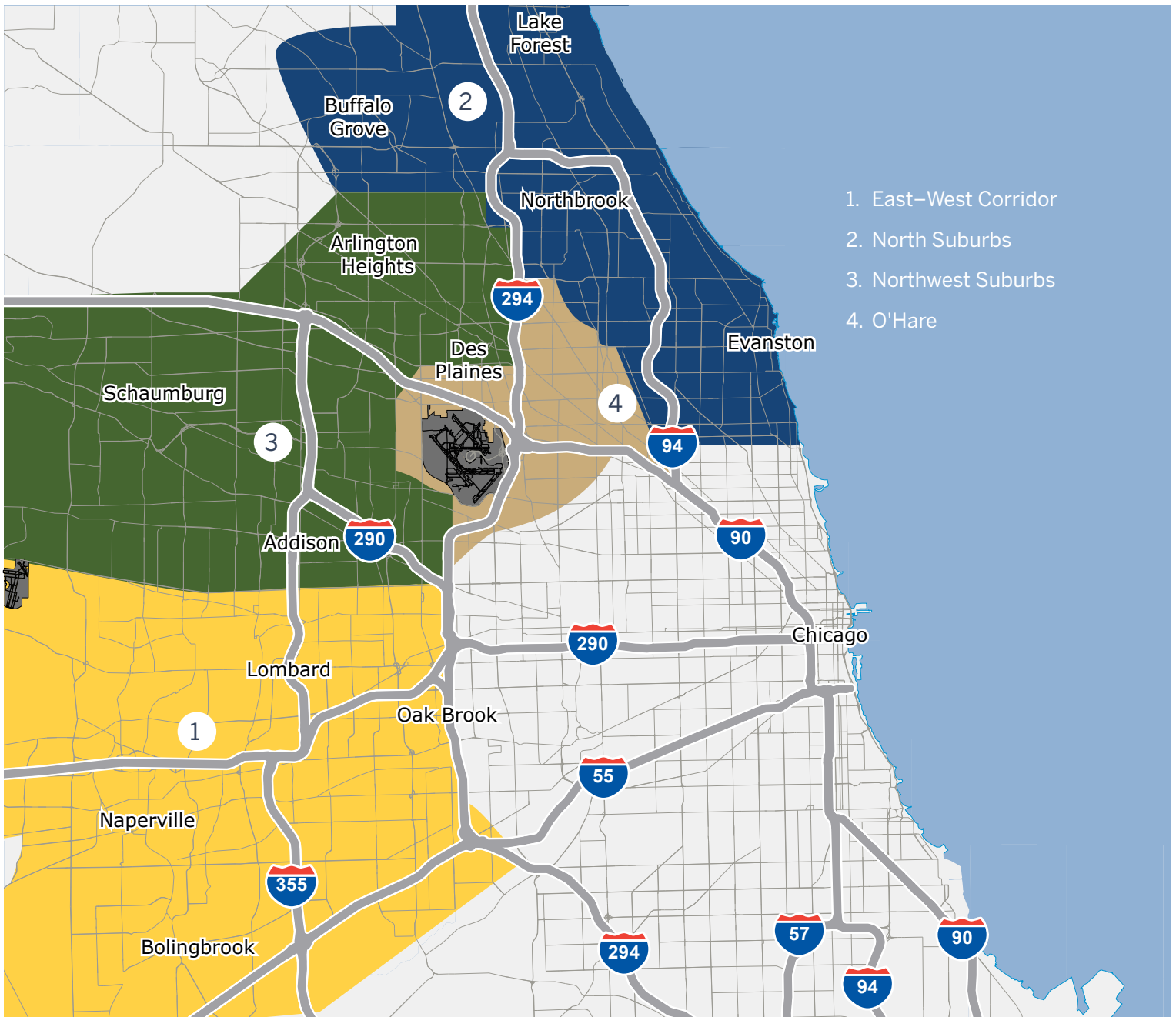
ADDRESS	CITY	SUBMARKET	TENANT	SIZE (SF)	DEAL TYPE
Innovation Park (former Motorola Mobility Campus)	Libertyville	N-North	Medline	140,000	New
Oakbrook Terrace Tower	Oakbrook Terrace	E-EW Corridor	Bosch	110,000	Move-In
750 N Commons	Aurora	W-EW Corridor	Sonova	63,647	New
O'Hare Plaza II	Chicago	O'Hare	Littlefuse	54,838	Renewal
The Shuman	Naperville	W-EW Corridor	XPO Logistics	50,000	New
Schaumburg Center	Schaumburg	Schaumburg	Misumi	44,000	New/Move-in
3900 Sanders	Northbrook	C-North	IDEX Corp	40,000	New
The Shuman	Naperville	W-EW Corridor	Life Time Fitness	40,000	New

MAX DIRECT VACANT & CONTIGUOUS SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE CONTIGUOUS SPACE
AT&T Center / Lakewood Center	Schaumburg	A	1,300,000
1301 Algonquin	Schaumburg	B	360,206
2915 Jorie	E-EW Corridor	A	297,127

MAX SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SUBLET SPACE
Landmark of Lake Forest II	N-NORTH	A	160,085
Windy Point II	Schaumburg Area	B	114,000
1419 Lake Cook	N-NORTH	A	105,402



1. East–West Corridor
2. North Suburbs
3. Northwest Suburbs
4. O'Hare