

# Chicago Suburban

## Office Q1 2019

### CHICAGO SUBURBAN OFFICE

#### Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Chicago Employment	4.7M	4.7M	▲
Chicago Unemployment	4.9%	4.0%	▼
U.S. Unemployment	4.1%	3.8%	▼

\*Numbers above are quarterly averages

#### Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	21.9%	24.6%	▲
YTD Net Absorption (sf)	262k	-135k	■
YTD Leasing Activity (sf)	1.1M	1.0M	■
Average Asking Rent*	\$23.78	\$23.32	■

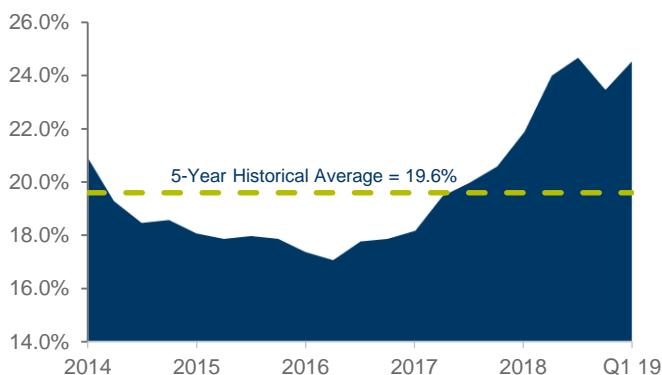
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

The Chicago-Naperville-Elgin MSA population has slowly declined since 2015 according to U.S. Census Bureau data. In fact, Chicagoland has been the only area to report an outflow of residents out of the 10 largest metro areas in the U.S. The relatively small population shift is not expected to stunt overall growth in the near term for office-using employers according to Moody's Analytics.

### Market Overview

New leasing activity changed incrementally since this time last year, totaling just over 1.0 million square feet (msf), declining 9.1% year-over-year (YOY) and down 16.8% from the five-year average. Though availability of quality and well-located space is shrinking, new Class A leasing accounted for roughly 51% of the market's total activity with an average deal size of 7,100 square feet (sf). Historically, the market has averaged 10 new leases over 50,000 sf per year. Only one new deal over 50,000 sf closed in Q1, evidence of a slightly slower pace in 2019 and signaling a possible shift in space demand for large suburban users. Following the Komatsu and Sysmex contraction deals from last year, Baxter Credit Union also recently reduced its footprint by more than 25%, though remaining in the Central North submarket.

Overall net absorption fell to negative 135,000 sf in Q1 due to smaller-sized occupiers vacating Class B and C space. The Class A segment recorded positive 237,000 sf of overall net absorption with over 105,000 sf absorbed by the Central Northwest submarket. The Central Northwest, O'Hare and the Western East/West Corridor were the only markets to report positive net absorption. Overall vacancy rose to 24.6% in Q1 approaching the 20-year high of 25.3% recorded in 2011, though the market today is more greatly bifurcated. Class B direct vacancy reached 27.1% while Class A finished the quarter at 15.6%. Demand bifurcation is happening across building class and geography. When comparing submarkets closer to the Central Business District (CBD) versus submarkets further away from the CBD, the Class A direct vacancy rate was 12.9% and 17.8%, respectively.

The gross overall asking rent softened over the last 12 months and fell to \$23.32 per square foot (psf) due to an influx of sublease space and supply pressure in the Class B market. The average sublet unit price on the overall market declined \$1.70 psf to \$18.78 psf, while direct rents fell \$0.33 psf YOY to \$23.59 psf. The average gross overall Class A asking rent (includes sublease availabilities) was measured at \$28.30 psf and the average direct gross asking rent at \$29.08 psf.

Following the widely robust year of investment sale activity in 2018, the market totaled \$80.2 million in transaction volume in Q1. Buyers from last year are near ready to deliver their highly amenitized repositioned assets such as Franklin Partners' "The Shuman" (former Office Max HQ) in Naperville and Angelo, Gordon & Co.'s President Plaza in O'Hare.

### Outlook

Rising vacancy has been offsetting moderate leasing activity over the last couple of years. Though vacancy has been rising overall, a more granular look at the market reveals landlords are capturing demand, increasing occupancy and signing lease terms above the market average of six years, given they offer above average tenant allowances. Cost burden is emerging as a concern for tenants considering that 37% of the market's availability is in buildings up for reassessment this year under the new assessor. Still, at the forefront of tenant requirements remain flexibility, building quality and parking accessibility.

## MARKETBEAT

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SUBMARKET	INVENTORY (SF)*	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT***	OVERALL AVERAGE ASKING RENT (CLASS A)***
<b>Northwest Corridor</b>	<b>28,202,237</b>	<b>456,427</b>	<b>7,864,993</b>	<b>29.5%</b>	<b>-26,299</b>	<b>-26,299</b>	<b>243,583</b>	<b>0</b>	<b>\$22.38</b>	<b>\$26.51</b>
Far Northwest	3,903,581	24,569	1,194,147	31.2%	-69,773	-69,773	5,109	0	\$20.86	N/A
Central Northwest	20,528,386	427,269	5,394,737	28.4%	55,005	55,005	172,985	0	\$22.41	\$26.74
North DuPage	3,770,270	4,589	1,276,109	34.0%	-11,531	-11,531	65,489	0	\$23.33	\$25.85
<b>North Corridor</b>	<b>22,514,556</b>	<b>707,176</b>	<b>5,580,117</b>	<b>27.9%</b>	<b>-31,687</b>	<b>-31,687</b>	<b>234,663</b>	<b>0</b>	<b>\$24.15</b>	<b>\$28.51</b>
Far North	997,009	0	287,409	28.8%	0	0	0	0	\$14.66	N/A
Central North/Tri-State	16,119,762	510,893	4,388,462	30.4%	-22,143	-22,143	259,804	0	\$24.91	\$28.50
Near North	5,397,785	196,283	904,246	20.4%	-9,544	-9,544	13,559	0	\$24.89	\$28.53
<b>East / West Corridor</b>	<b>34,699,822</b>	<b>792,285</b>	<b>6,639,929</b>	<b>21.4%</b>	<b>-98,514</b>	<b>-98,514</b>	<b>389,570</b>	<b>0</b>	<b>\$23.12</b>	<b>\$28.37</b>
Eastern East / West	21,599,387	403,034	3,812,264	19.5%	-126,290	-126,290	321,480	0	\$23.62	\$30.48
Western East / West	13,100,435	389,251	2,827,665	24.6%	27,776	27,776	68,090	0	\$22.49	\$25.10
<b>O'Hare</b>	<b>12,657,213</b>	<b>62,467</b>	<b>2,133,776</b>	<b>17.4%</b>	<b>40,277</b>	<b>40,277</b>	<b>109,245</b>	<b>0</b>	<b>\$26.03</b>	<b>\$33.36</b>
<b>Southwest Corridor</b>	<b>2,192,190</b>	<b>5,000</b>	<b>467,330</b>	<b>21.5%</b>	<b>-18,325</b>	<b>-18,325</b>	<b>4,992</b>	<b>0</b>	<b>\$22.06</b>	<b>N/A</b>
<b>TOTALS</b>	<b>100,266,018</b>	<b>2,023,355</b>	<b>22,686,145</b>	<b>24.6%</b>	<b>-134,548</b>	<b>-134,548</b>	<b>1,020,753</b>	<b>0</b>	<b>\$23.32</b>	<b>\$28.30</b>

\*Inventory adjustments made by Cushman &amp; Wakefield Research beginning of Q1 2019

\*\*Leasing activity does not include renewals

PROPERTY CLASS	INVENTORY (SF)*	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT***	YTD INVESTMENT SALE ACTIVITY (SF)
Class A	38,297,626	1,008,421	5,971,901	18.2%	236,842	236,842	519,668	0	\$28.30	396,287
Class B	45,056,995	948,266	12,212,354	29.2%	-255,623	-255,623	403,297	0	\$22.80	400,244
Class C	16,911,397	66,668	4,501,890	27.0%	-115,767	-115,767	97,788	0	\$17.50	140,991

\*\*\*Rental rates reflect gross asking \$psf/year

## KEY LEASE TRANSACTIONS Q1 2019

PROPERTY	SF	TENANT	CITY	TRANSACTION TYPE	SUBMARKET
300 North Milwaukee Avenue	75,400	Baxter Credit Union	Vernon Hills	New Lease	Central North
2122 York Road	52,000	Great Lakes Dredge & Dock	Oak Brook	Renewal	Eastern East/West
7325 Janes Avenue	44,100	V3 Companies	Woodridge	Renewal	Southwest Corridor
2895 Greenspoint Parkway	41,200	Clinical Computer Systems	Hoffman Estates	New Lease	Central Northwest
600 North US Highway 45	38,700	AveXis	Libertyville	Expansion	Central North
1520 Kensington Road	37,100	Molina Healthcare	Oak Brook	Consolidation, Renewal	Eastern East/West
10 North Martingale Road	36,200	Regus	Schaumburg	Renewal	Central Northwest
555 Pierce Road	34,200	Werner Ladder	Itasca	New Lease	North DuPage

## KEY SALES TRANSACTIONS Q1 2019

PROPERTY	SF	SELLER / BUYER	CITY	PRICE / \$PSF	SUBMARKET
Washington Pointe 535 East Diehl Road	164,000	The Davis Companies / Valley Equity Group	Naperville	\$24,000,000 / \$146	Western East/West

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