MARKETBEAT

CHICAGO SUBURBAN

Office Q4 2019

	YoY Chg	12-Mo. Forecast
23.0% Vacancy Rate	▼	▼
-389K YTD Net Absorption, SF	▼	▲
$24.16 Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
3.8M Chicago Employment	▲	▲
3.6% Chicago Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS, Moody's Analytics

ECONOMIC OVERVIEW

Overall non-farm employment in the Chicago Metropolitan Area was 3.8 million for Q4 2019, increasing 0.8% from one year ago. Chicago's unemployment rate dipped 10 basis points (bps) year-over-year (YOY) to 3.6%. Gains in the Financial Services sector (+1,626 jobs, 0.5% YOY) and High-Tech sector (+3,018 jobs, 1.3% YOY) offset losses in the Business and Professional Services sector (-4,936 jobs, -0.6% YOY) and the Information sector (-1,978, -2.6% YOY).

DEMAND

The suburban Chicago office market reported continued deceleration in the fourth quarter. Annual leasing activity declined 8.5% YOY to 4.4 million square feet (msf). Despite the overall slowdown in the suburban market, there were some bright spots. The Eastern East/West submarket recorded the highest leasing activity of all submarkets, with 1.3 msf of new leasing in 2019. In the fourth quarter, US Foods inked the largest suburban lease since 2017, renewing 275,901 sf in the O'Hare submarket. The largest new lease of the quarter was signed by Crown Castle who leased 38,687 sf in the Eastern East/West corridor.

Absorption rates dropped in Q4 2019 compared to the steady pace recorded during the first three quarters. A little under half of the -389,639 sf of negative absorption for the fourth quarter is attributed to Central States Funds vacating Riverway Central and moving into their own building*. The largest positive absorption came from United Airlines moving into Northwest Crossings in the Central Northwest submarket and Edward-Elmhurst Health occupying 4201 Winfield in the Western East/West submarket.

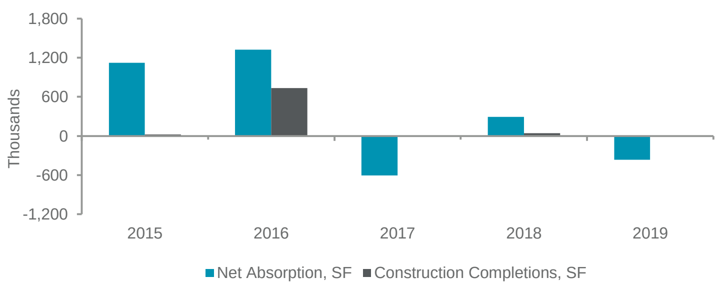
Demand bifurcation between Class A and Class B product strengthened in Q4 2019. Class A overall vacancy dropped 230 basis points (bps) YOY to 18.3% whereas Class B vacancy soared 180 bps YOY to 26.5%.

PRICING

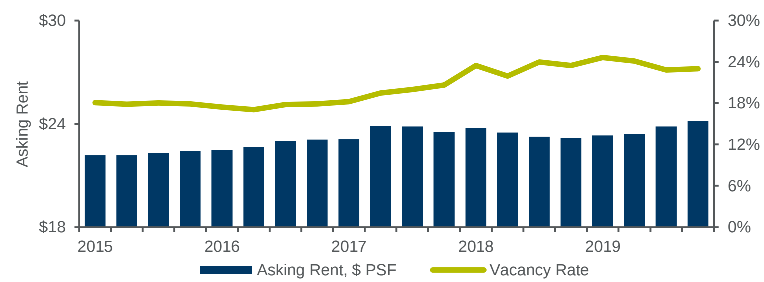
Overall gross asking rents ticked up 4.2% YOY to $24.16 per square foot (psf). Near North led all submarkets in rent growth recording a 24.6% increase YOY to $29.58. Class A rent growth followed the continued bifurcation of the market. Class A product in inner submarkets – those closer to the CBD – reported average rent growth of 18.9% YOY to $34.49 psf; in contrast, Class A product in outer submarkets recorded a relatively mild 7.2% YOY increase to $27.09 psf.

**C&W does not track owner-occupied*

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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An Evolving Marketplace

As tenants and landlords braced for pending tax reassessments in an environment of maturing economic growth, there was a noticeable change in lease terms and size in 2019. Average term for new leases in 2019 was four years, 32.9% below the five-year average and a 36.5% decrease YOY. The average size of new leases in Class A and B assets was 6,513 sf – 9.0% below the five-year average and a 9.5% decrease YOY. Only 38 new leases over 20,000 sf were signed in 2019, a 19.5% drop YOY and the lowest count of the past five years. Lease terms for renewals dropped from 93 months to 50 months, a 45.8% decrease YOY. The right-sizing trend is on full display in the suburbs, as tenants seek out the ability to nimbly respond to outside economic factors which may interfere with business plans calibrated for organic growth

Investment Sales

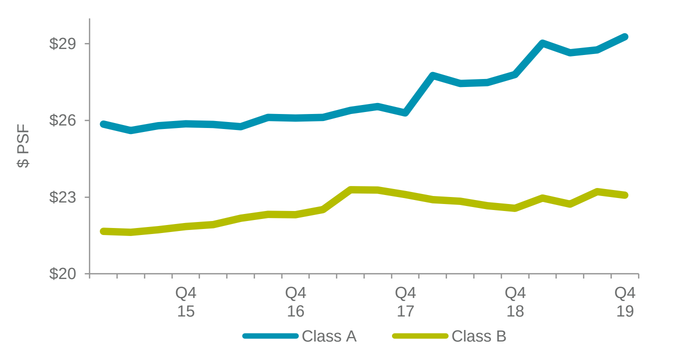
Suburban investment sales activity accelerated in the fourth quarter with total sales volume increasing from $171.3 million in Q4 2018 to $234.8 million in Q4 2019 (37.0% YOY). The robust fourth-quarter sales were buoyed by the sales of 3500 Lacey to KORE Real Estate for $128.5 million and One Lincoln Center to Balfour Pacific for $45.0 million. The East/West Corridor accounted for the majority (62.0%) of 2019 suburban activity with $306.1 million in sales volume for the year. Despite 2019 finishing strong, investment activity remained well below 2018's figures. Total cumulative sales volume reached $496 million – down 65.9% YOY – and the number of sales decreased 63.1% YOY from 84 in 2018 to 31 in 2019. 2019 was one of the slowest of the decade – only 2012 and 2013 recorded lower sales volume. Suburban cumulative sales in 2019 remain 52.6% below the five year average.

Outlook

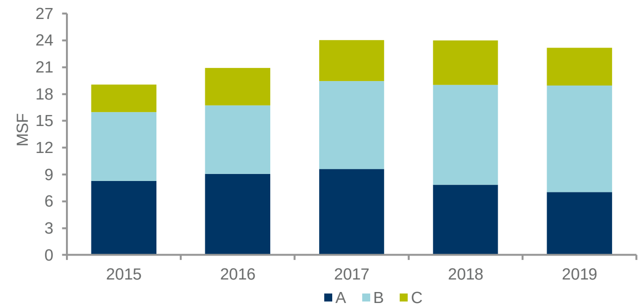
The suburban office market is currently experiencing an overall lack of velocity due to several factors: a dearth of new supply of high-quality product, impending 2020 tax rates, and suburban-to-urban migration. As the bifurcation of demand persists between high-quality infill product and the rest of the suburban office stock, landlords are faced with the question of whether to invest in renovations, new amenities, and build-to-suits to attract tenants. Class A assets in desirable locations are well-positioned to maintain favorable leasing activity going into 2020.

SUBMARKET CLUSTER ASKING RENT

ASKING RENT COMPARISON



VACANT SPACE BY CLASS



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Office Q4 2019

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Far Northwest	3,881,081	2,069	1,260,754	32.5%	-33,856	-155,890	32,336	0	$21.04	N/A
Central Northwest	20,908,166	147,286	5,510,585	27.1%	-6,111	62,047	721,606	0	$22.98	$26.83
North DuPage	3,717,954	5,419	1,138,194	30.8%	-7,208	47,102	164,378	0	$23.50	$26.34
NORTHWEST TOTALS	**28,507,201**	**154,774**	**7,909,533**	**28.3%**	**-47,175**	**-46,741**	**918,320**	**0**	**$22.80**	**$26.72**
Far North	997,009	0	261,692	26.2%	15,181	13,995	19,820	0	$15.03	N/A
Central North/Tri-State	16,012,408	408,399	4,011,493	27.6%	-139,998	129,077	776,267	0	$25.41	$28.75
Near North	5,284,534	80,656	969,050	19.9%	-67,758	-149,823	69,441	0	$29.58	$37.63
NORTH TOTALS	**22,293,951**	**489,055**	**5,242,235**	**25.7%**	**-192,575**	**-6,751**	**865,528**	**0**	**$25.52**	**$30.62**
Eastern East / West	21,591,938	373,655	3,825,545	19.4%	-76,456	-262,857	1,277,902	0	$24.14	$30.70
Western East / West	13,087,305	85,911	2,305,755	18.3%	209,996	276,028	666,511	0	$23.06	$26.44
EAST / WEST TOTALS	**34,679,243**	**459,566**	**6,131,300**	**19.0%**	**133,540**	**13,171**	**1,944,413**	**0**	**$23.69**	**$28.93**
O'Hare	**12,841,697**	**61,091**	**2,297,169**	**18.4%**	**-278,157**	**-246,379**	**489,691**	**0**	**$28.09**	**$35.14**
Southwest	**2,192,190**	**0**	**420,549**	**19.2%**	**-5,272**	**-75,690**	**175,314**	**0**	**$19.91**	**N/A**
SUBURBAN TOTALS	**100,514,282**	**1,164,486**	**22,000,786**	**23.0%**	**-389,639**	**-362,390**	**4,393,266**	**0**	**$24.16**	**$29.27**

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
9399 Higgins Road	O'Hare	US Foods	275,901	Renewal*
950 Technology Way	Central North/Tri-State	Snap-on Credit LLC	52,077	Renewal*
3025 Highland Parkway	Eastern East/West	Crown Castle	38,687	New

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/$ PSF
3500 Lacey Road	Eastern East/West Corridor	Bentall Kennedy / KORE Real Estate	583,982	$128,500,000 / $220
18W140 Butterfield Road	Eastern East/West Corridor	Blackstone / Balfour Pacific	317,525	$45,000,000 / $142
5100 North River Road	O'Hare	Colony Capital / Group RMC	140,730	$16,800,000 / $119

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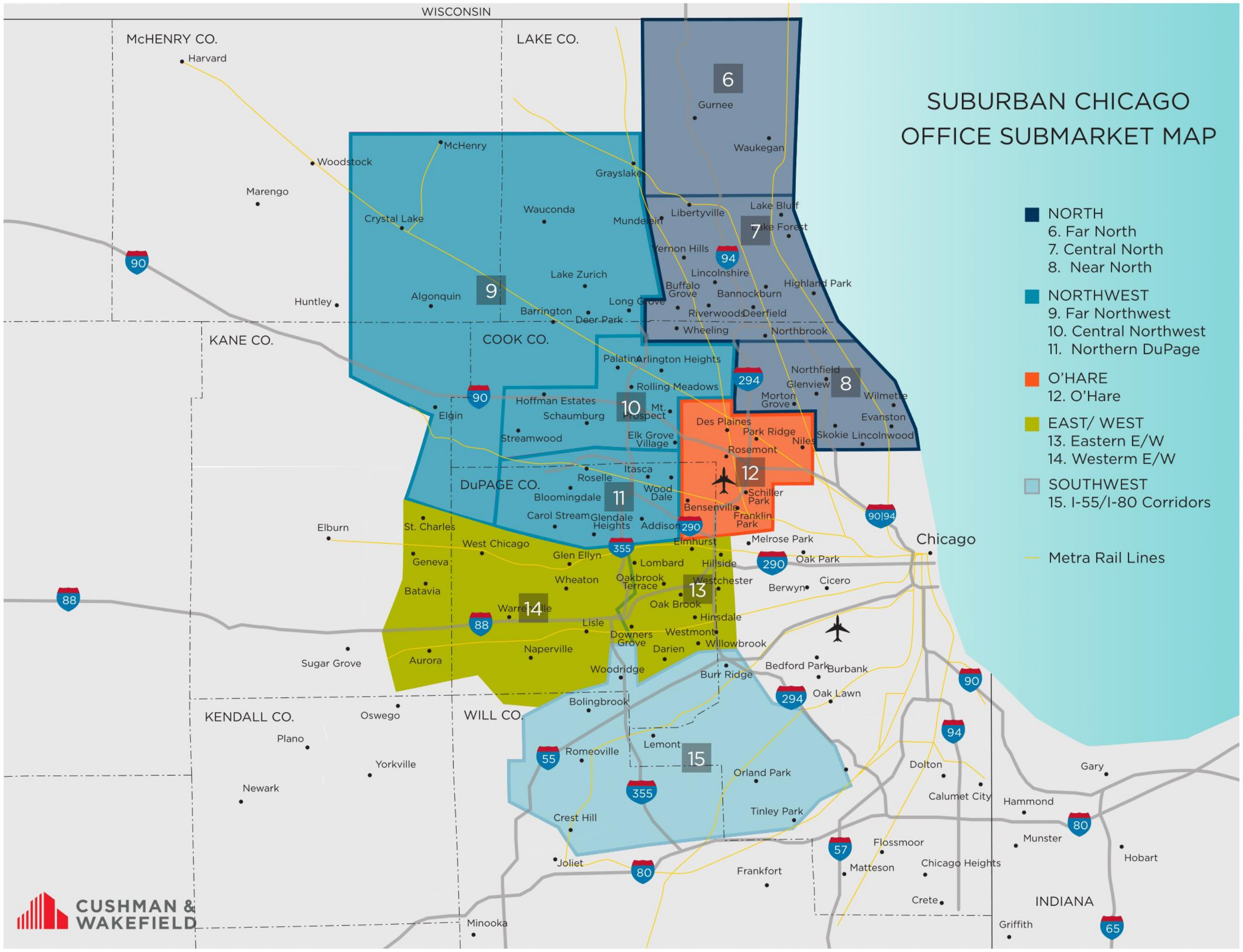
OFFICE SUBMARKETS



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