

# Chicago Suburban Office Market Report

Half Year 2020



Photos & Data Courtesy of CoStar

## Overview

The Chicago Metropolitan Statistical Area (MSA) is the third largest metropolitan area in the United States and is a global epicenter of diverse economic activity. In recent years, the Suburban market has seen higher vacancy rates mostly due to tenants moving to Chicago's CBD. The pendulum was in the very early stages of swinging from a tenant's market to equilibrium, with vacancy rates slowly declining, when COVID-19 hit. Suburban landlords are hopeful, given the emphasis on the "spoke" portion of the expanding "hub and spoke" environment that both occupancy rates and rental rates will increase after the initial delaying of transactions due to the pandemic. The theory is the lack of density existing in Suburban office spaces and the availability of on-site parking (many times free) is seen as beneficial in comparison to the Chicago CBD. However, the crisis has pointed out to employers that it may be easier to attract the best talent by bringing the job **to** the employee versus requiring the employee to relocate or commute long distances and this might offset this optimism.

The Chicago Suburban market is comprised of four major submarkets and various submarkets within: North Suburbs (Near North, Central North, Far North), Northwest Suburbs (Schaumburg, North DuPage, Central Northwest, Far Northwest), O'Hare, and the East/West Corridor (Western and Eastern Portions). The Suburban market is home to over 125 million RSF dedicated to office space, and is located on the north, south and west sides of Chicago. Slightly less than three percent of all buildings in the Suburban Market are over 250,000 RSF compared to the CBD, in which over 30 percent of its buildings are over 250,000 RSF.



Market rent, with a lagging response to immediate adjustments, is expected to follow the inverse trend to vacancy rates: it is expected to fall as vacancy rates increase. In the first half of 2020 the average asking rent remained relatively stable. Future expected percentage increases are unknown due to landlord hesitancy to change asking rates, the lack of transactions, and the unknown long term impact of the pandemic.

As shown in the chart below, the rent gap between the CBD and Suburbs is significant (it is almost twice as much). Although the Suburban overall average asking rate from end of last year has only decreased slightly, both the O'Hare and Northwest submarkets have shown a significant decrease (over \$1.20/RSF).

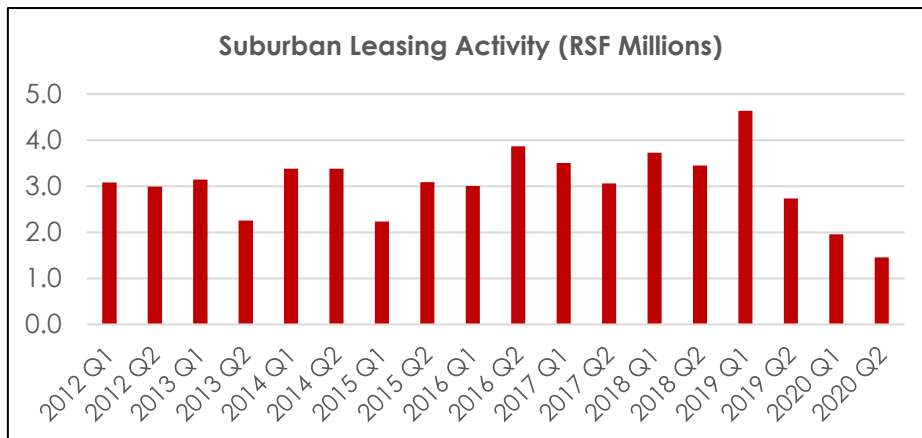
Chicago Submarkets	Average Market Rent/RSF in Q2 2020	Average Market Rent/RSF in Q4 2019
CBD	\$42.44	\$41.00
Suburbs	\$23.32	\$23.54
O'Hare	\$26.94	\$28.42
North Suburbs	\$24.06	\$24.98
East / West Corridor	\$22.48	\$23.63
Northwest Suburbs	\$19.98	\$21.20

The net consensus is that the impact will be less in the Suburban market than in the Chicago CBD given the most likely addition of satellite offices and the significantly lower starting rental rates which existed pre-pandemic.

### Leasing Overview

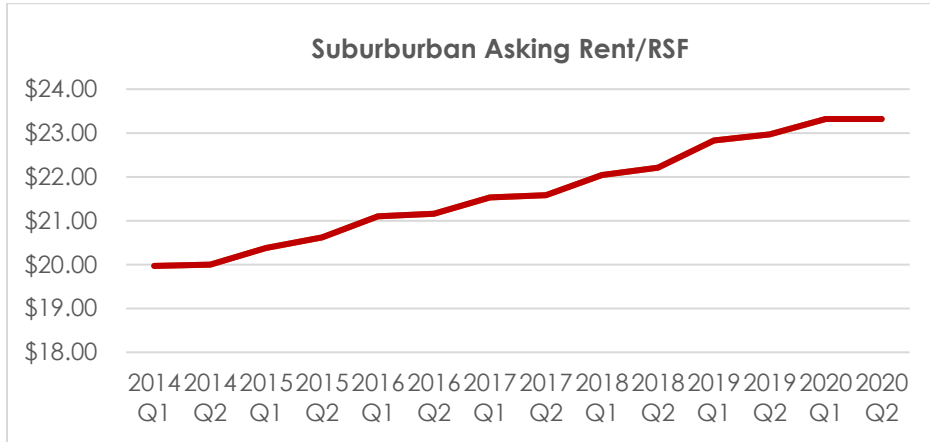
Not surprisingly, leasing activity in Q2 2020 was the lowest of any quarter of the previous decade. Many organizations are opting to delay returning to the office full time in favor of working partially from home throughout the rest of the year or even into 2021. Additionally, with the technological advances of the last several years, and as COVID-19 has extended longer than expected, companies have found they can have a larger than expected part of their employees work from home effectively, and possibly, even permanently. The question remains once offices start going back to work, how will it impact people who are still working from home.

There have been a limited number of transactions to note in the first half of 2020, but some highlights include: Medline taking 152,000 RSF at 1950 Innovation Way in the North Suburbs, US Foods moving their HQ from one Riverway Plaza building to another at 9377 W Higgins Rd into 98,000 RSF in the



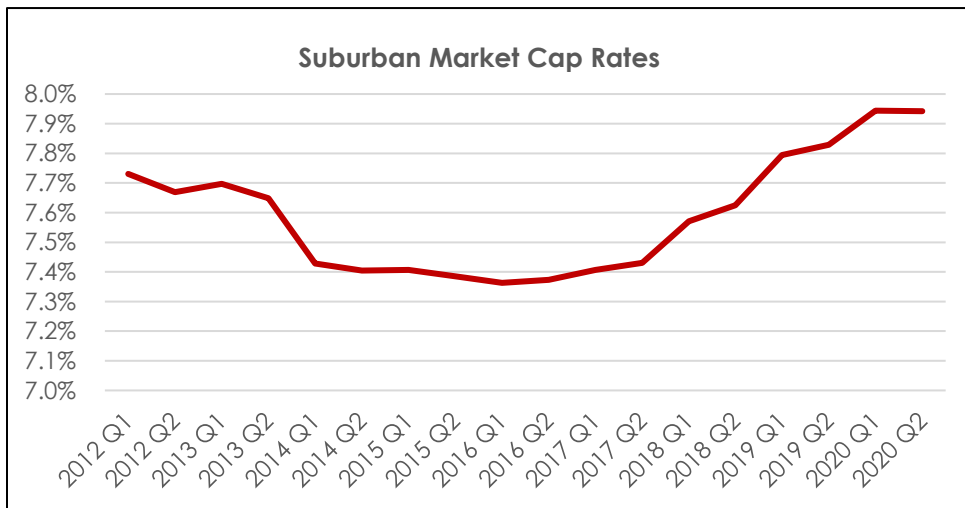
O'Hare submarket, and Misumi moving into 45,000 RSF at 1515 E Woodfield Rd in the Northwest Suburbs. In contrast to the CBD, the Suburban market has not experienced a significant increase in subleases.

The average asking rent has been increasing slowly from its low in 2014. Asking rents are remaining stable as landlords do not want to change pricing due to the pandemic until competing landlords reduce asking rents.

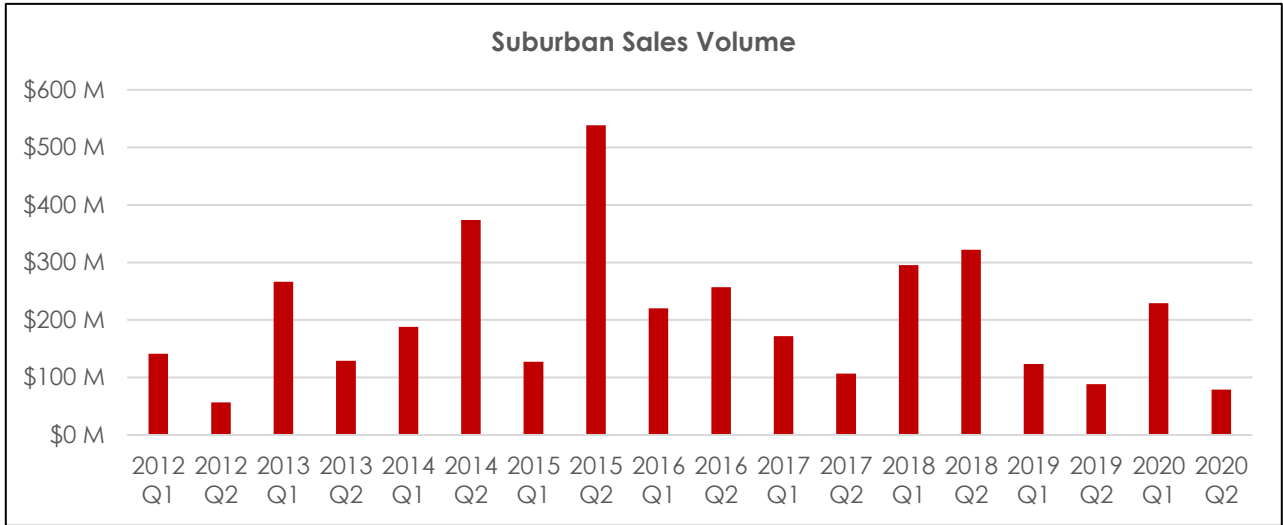


**Sales History**

Reflecting favorable tenant market conditions, market capitalization rates had been steadily increasing over the past three years. Although the below chart shows stabilization in 2<sup>nd</sup> Q 2020, it is because there have been no major transactions during Q2.



Sales velocity has been weak in the Suburban market over the past year and has not been strong for the past several years other than in 2015. Q2 2020 accounted for the lowest sales volume in the market since Q2 2012.



The Suburban market over the past year has had only 6 significant transactions (over \$40 million), three of which happened in the first half of 2020:

- 1) 2650 Warrenville Rd. in Downers Grove (East-West Corridor) by Lone Star Funds from Columbia Property Trust in June 2020.
- 2) The user purchase of the Takeda Pharmaceutical campus (3 buildings) at 150 S. Saunders Rd. in Lake Forest (North Suburbs) by Horizon Pharma in February 2020.
- 3) 577 Aptakasic Rd. When Vereit sold 80% of its interest to Gatehouse Capital which is Kuwait based. This property is a single tenant user (Sysmex with a lease expiration of over 6 years) in January 2020.

The lack of suburban sales is reflective of the lower tenant rental rates and the long term holds of many of the suburban landlords.