

2Q25

Chicago Suburban Office Supplemental Market Report

NEWMARK

Market Observations

Economy

- The Chicago MSA's unemployment rate declined to 4.9% in May 2025, an improvement from 5.3% earlier in the year.
- Office-occupying industries posted mostly positive results. Financial activities and the information sector saw a 1.5% annual incline. The business & professional services sector contracted by -0.9%.

Major Transactions

- Carefusion signed the largest lease in the suburbs this quarter, with a 79,000 SF renewal at 75 N Fairway Dr.
- 1 York Rd was the largest office building sold in the suburbs this quarter. The 111,000 square foot building sold for \$9.7 million.

Leasing Market Fundamentals

- Chicago's suburban office market recorded 1.9 million square feet of leasing in the first quarter and 1.2 million square feet in the second quarter of 2025, totaling 3.1 million square feet year-to-date. This marks the first time since 2018 that leasing volume is tracking on pace with the long-term annual average of 6.1 million square feet. The strong start to the year highlights renewed confidence and active engagement from suburban tenants as the market regains pre-pandemic momentum.
- In the first half of 2025, the suburban Chicago office market experienced a notable 935,000 square feet of positive net absorption. The overall vacancy rate decreased from last quarter to 26.0% but is still up 0.8% from the first quarter of 2024.

Outlook

- The Chicago Suburbs are likely to encounter continued challenges as property owners face persistent financing hurdles and tenants continue to reassess and downsize their space needs.
- Although leasing and investment activities persist, the office market's uncertainty contributes to a cautious transaction environment. The pace of deal closures is slower as both occupiers and investors exercise increased scrutiny in their decision-making processes.
- Chicago's office market resilience is tested as it navigates an environment lacking a surge in demand. Innovative approaches and adaptive reuse of office spaces will be essential to addressing ongoing lower demand and stabilizing the market.

1. Economy
2. Leasing Market Fundamentals

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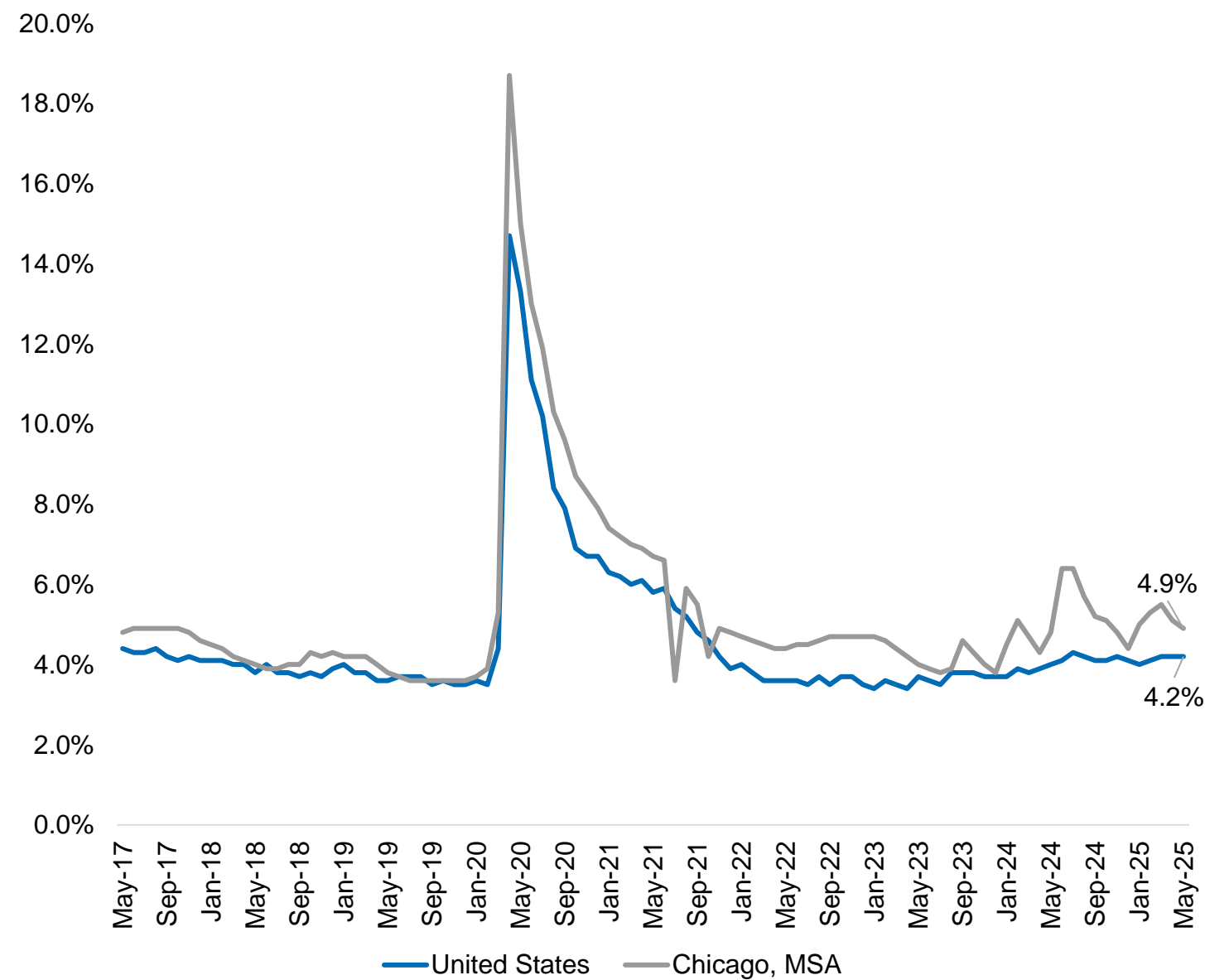
Economy



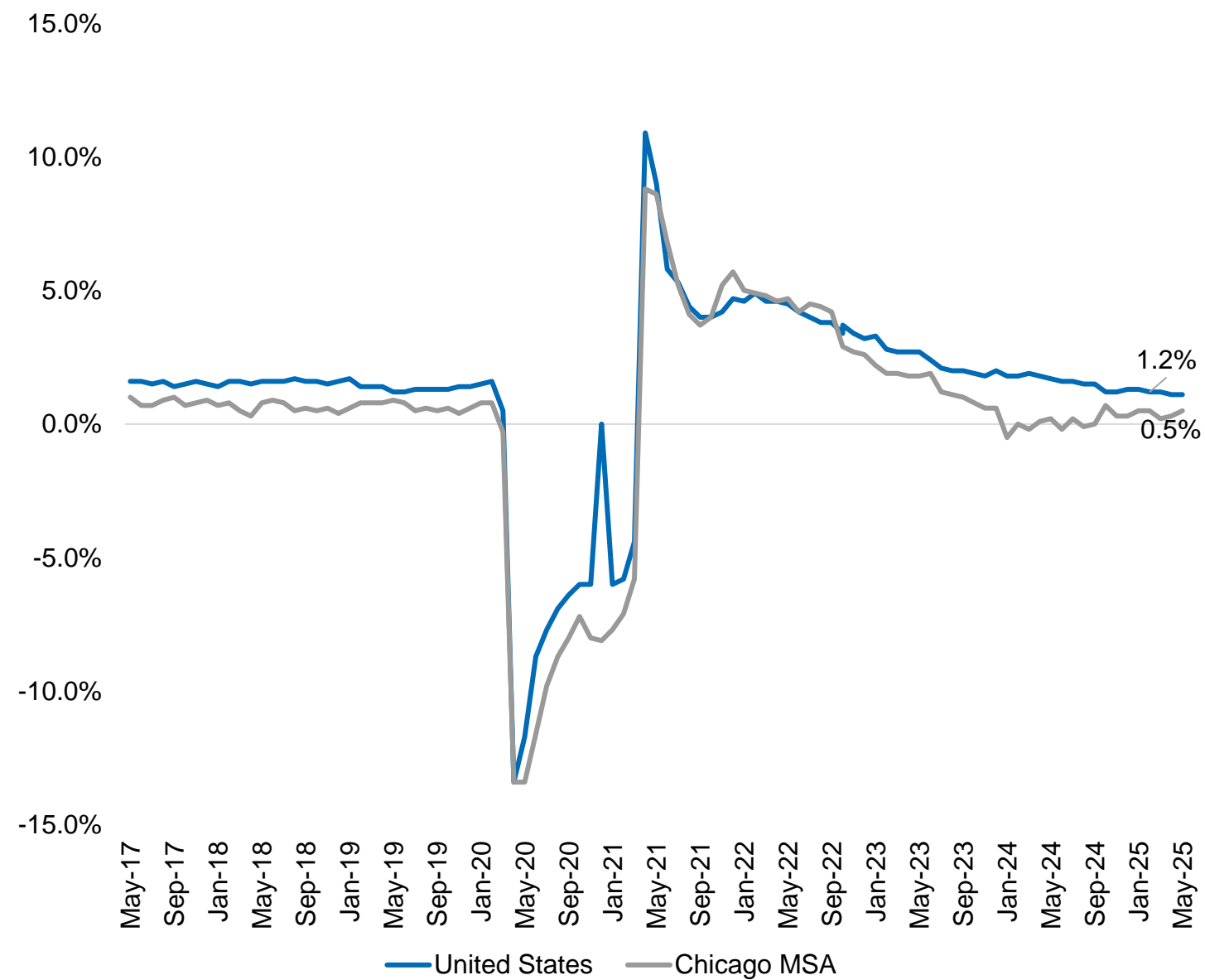
Labor Market Shows Steady Recovery with Gradual Job Growth

The Chicago MSA's unemployment rate declined to 4.9% in May 2025, an improvement from 5.3% earlier in the year, while the U.S. rate remained steady at 4.2%. Meanwhile, Chicago's annual nonfarm payroll employment growth returned to positive territory at 0.5% in May, continuing a gradual upward trend after stagnating in late 2023 and early 2024. While local labor market conditions remain more challenging than the national average, recent data reflects a slow but consistent recovery in both employment and job creation across the region.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

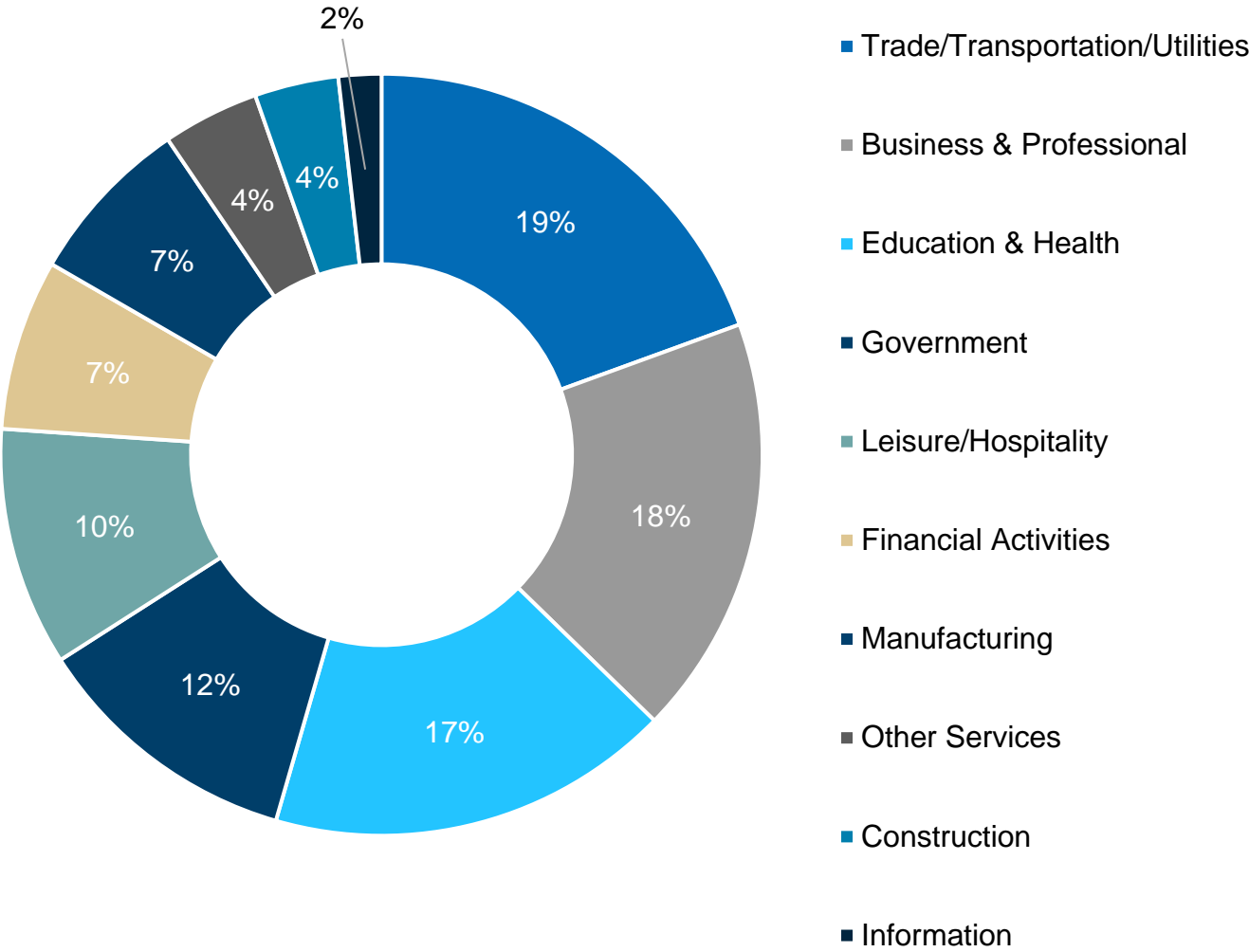


Source: U.S. Bureau of Labor Statistics, Chicago MSA

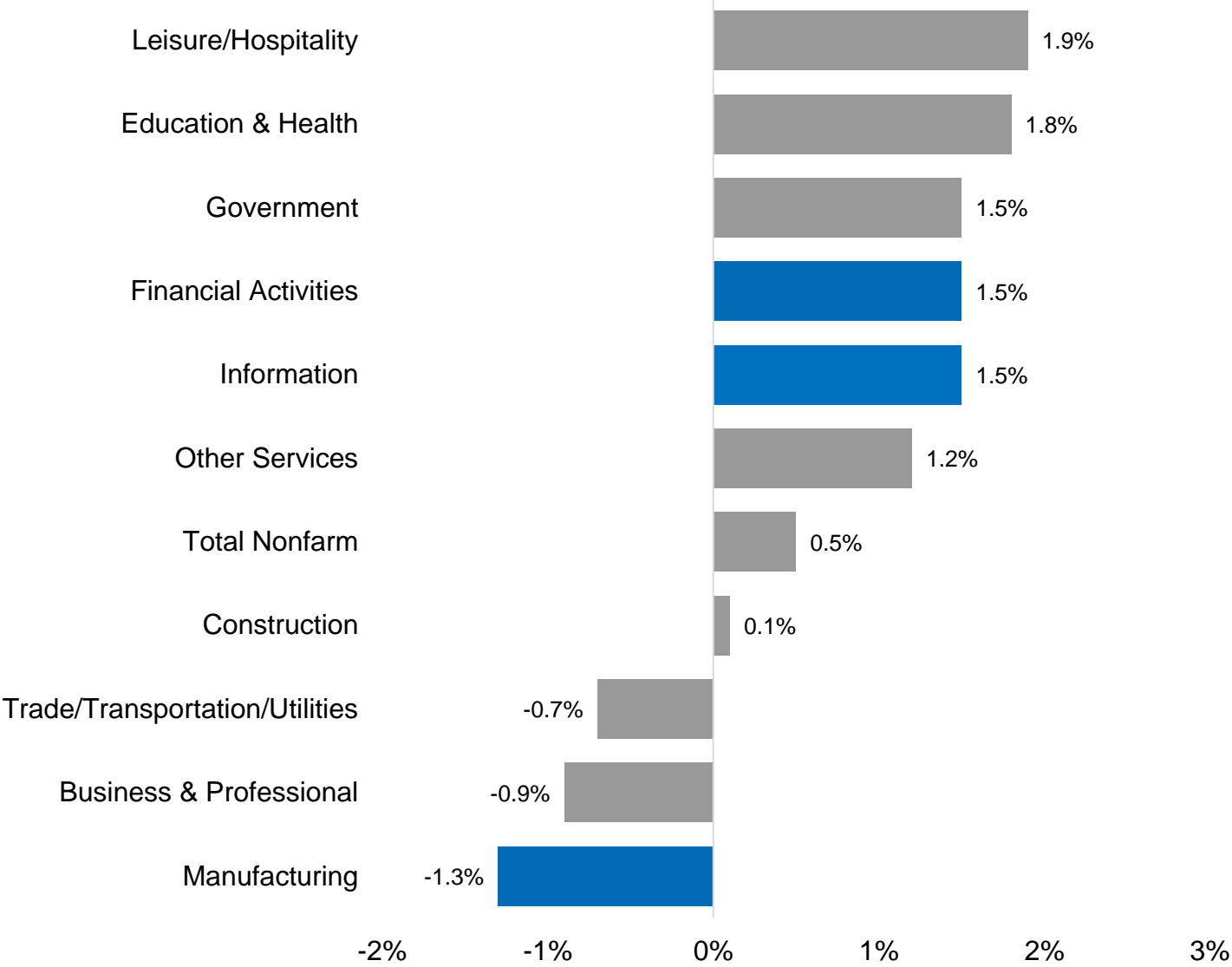
Sustained Growth in Service Sectors Offsets Office and Manufacturing Losses

In the Chicago MSA, May 2025 employment data shows continued gains in leisure and hospitality (+1.9%), education and health (+1.8%), and government (+1.5%). Financial activities and information also posted steady 1.5% annual growth. However, declines in trade/transportation/utilities (-0.7%), business & professional services (-0.9%), and manufacturing (-1.3%) highlight ongoing challenges in office-occupying and industrial sectors. Despite this, the overall labor market remains resilient, with service sectors helping to offset losses elsewhere.

Employment by Industry, May 2025



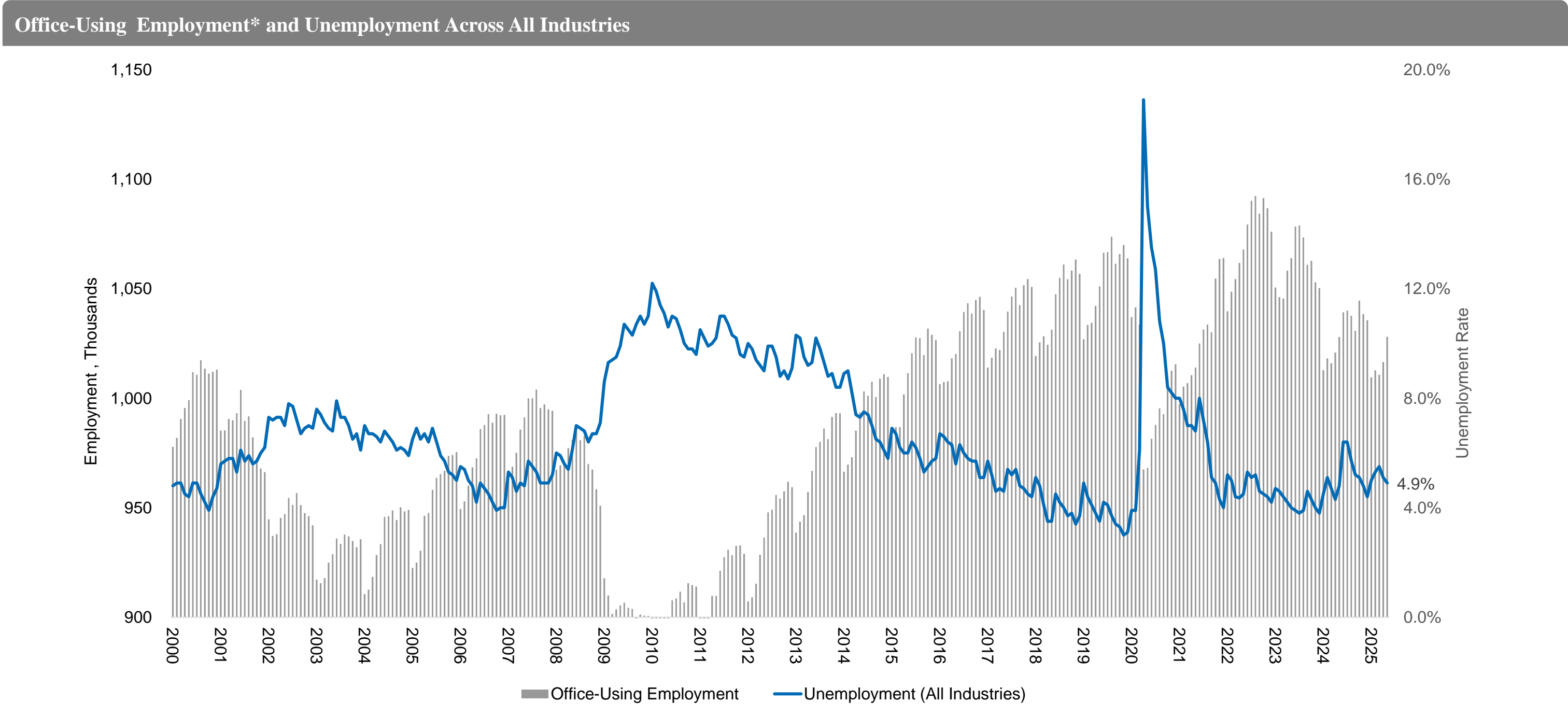
Employment Growth by Industry, 12-Month % Change, May 2025



Source: U.S. Bureau of Labor Statistics, Chicago MSA

Office-Using Employment Stabilizes as Unemployment Rate Moderates

Office-using employment in the Chicago MSA has shown early signs of stabilization in 2025, averaging just above one million positions after declining from its post-pandemic highs in 2022 and 2023. Meanwhile, the unemployment rate for all industries, while still elevated at 4.9% in May 2025, has edged down from its recent peak of 5.5% in March. This combination of steady office-sector employment and a moderating unemployment rate reflects renewed resilience in a sector critical to the region’s office market, though overall labor market conditions remain more challenging than in prior years.



Source: U.S. Bureau of Labor Statistics, Chicago MSA
Note: *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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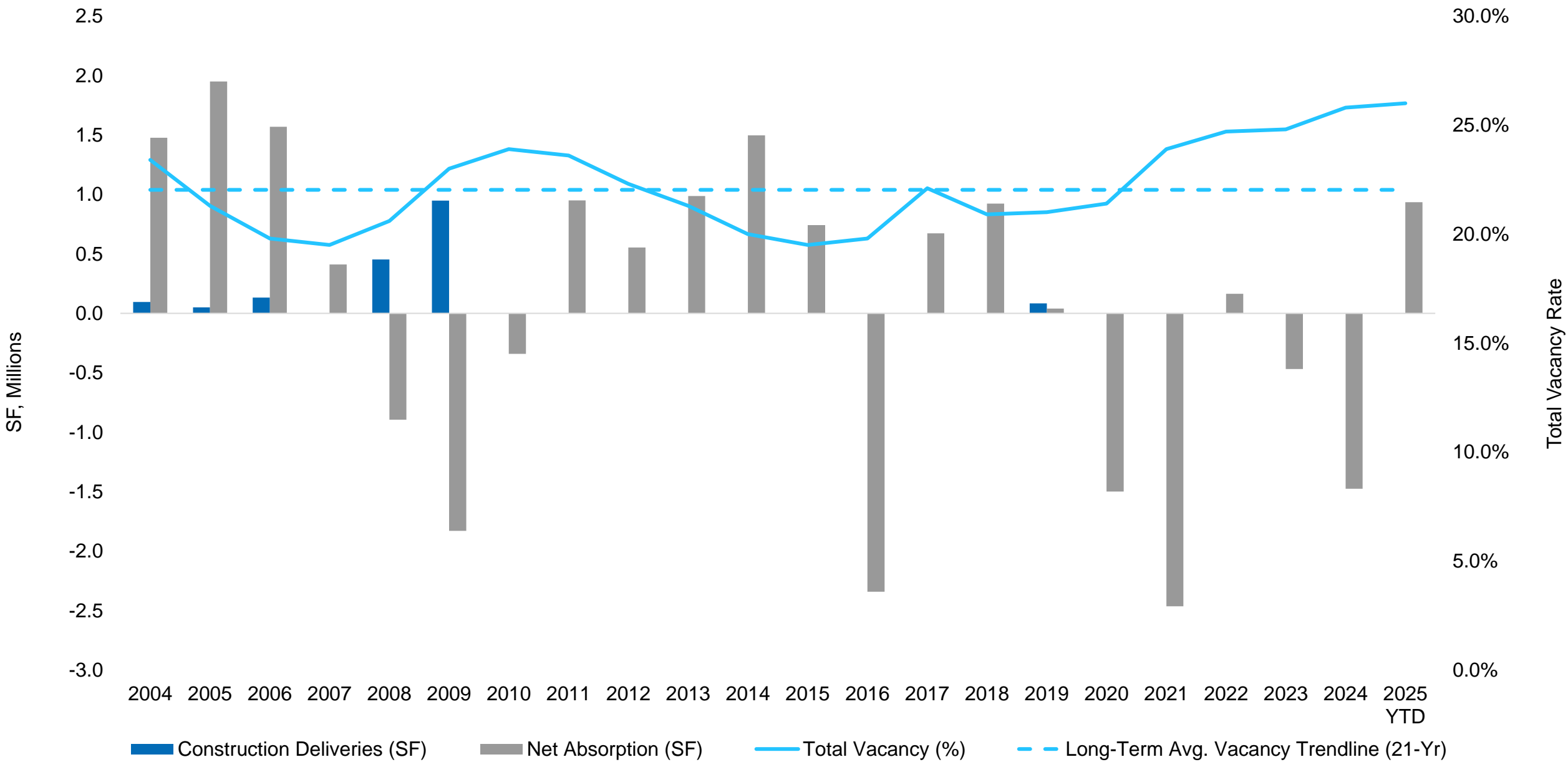
Leasing Market Fundamentals



Momentum Continues with Positive Absorption

In the second quarter of 2025, the suburban Chicago office market posted over 90,000 square feet of positive net absorption, building on the recovery seen earlier this year. The total vacancy rate held steady at 26.0%, dropping 10 basis points from last quarter and remaining elevated above the long-term average. While vacancy remains a challenge, sustained positive absorption reflects improving tenant activity and signals renewed stability in the suburban office sector.

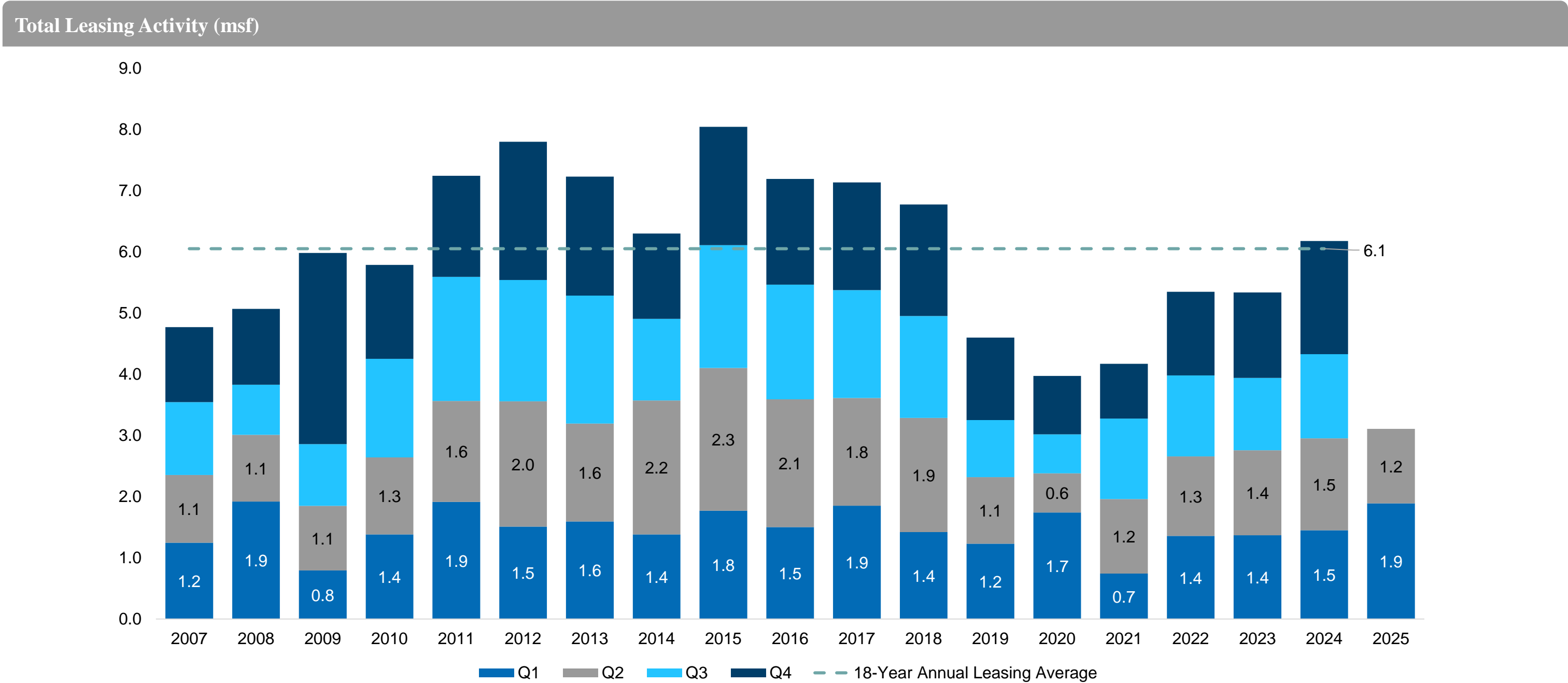
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Returns to Historical Average for the First Time Since 2018

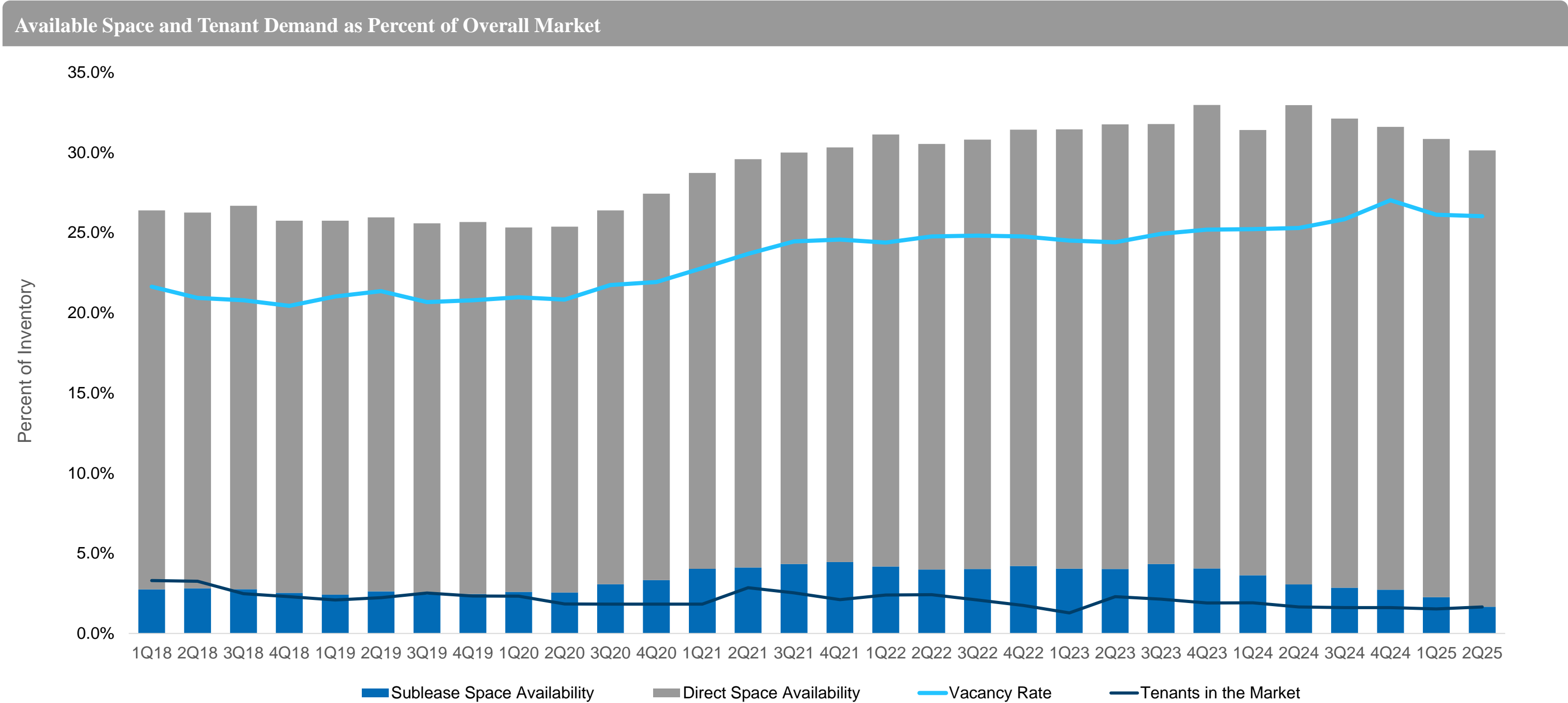
Chicago’s suburban office market recorded 1.9 million square feet of leasing in the first quarter and 1.2 million square feet in the second quarter of 2025, totaling 3.1 million square feet year-to-date. This marks the first time since 2018 that leasing volume is tracking on pace with the long-term annual average of 6.1 million square feet. The strong start to the year highlights renewed confidence and active engagement from suburban tenants as the market regains pre-pandemic momentum. Most of the activity this quarter has been fueled by renewals.



Source: Newmark Research, CoStar

Availability and Vacancy Maintain Improvement

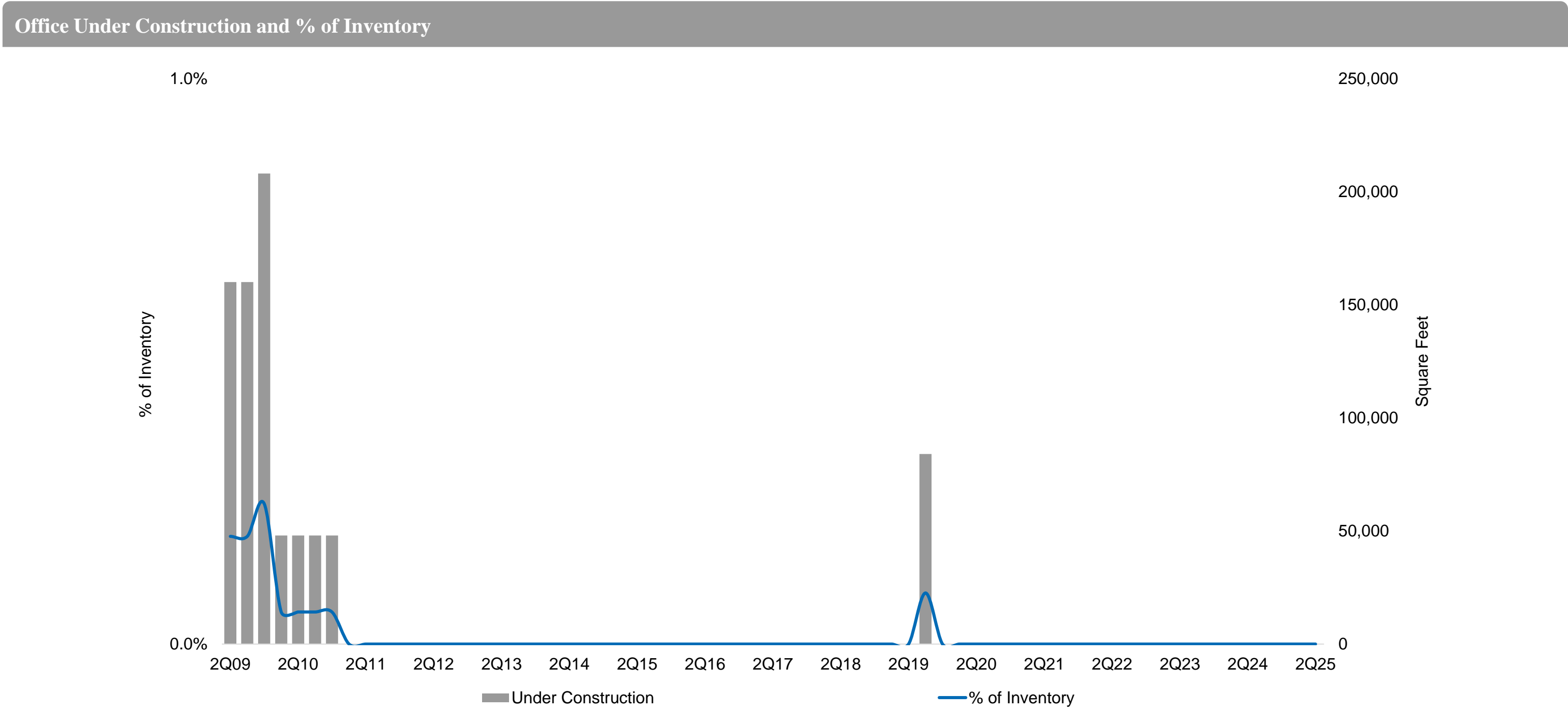
This quarter, total availability remained stable as direct space availability edged down slightly to 28.5%, while sublease availability continued its significant downward trend, falling to its lowest level in over six years. The overall vacancy rate also held steady at 26.0%. Notably, tenant demand in the market measured 1.7% of inventory, marking a modest increase from the previous quarter. These figures reflect ongoing incremental progress in the absorption of space and reduction of excess availability in the Chicago suburban office market.



Source: Newmark Research

Suburban Office Construction Remains Inactive

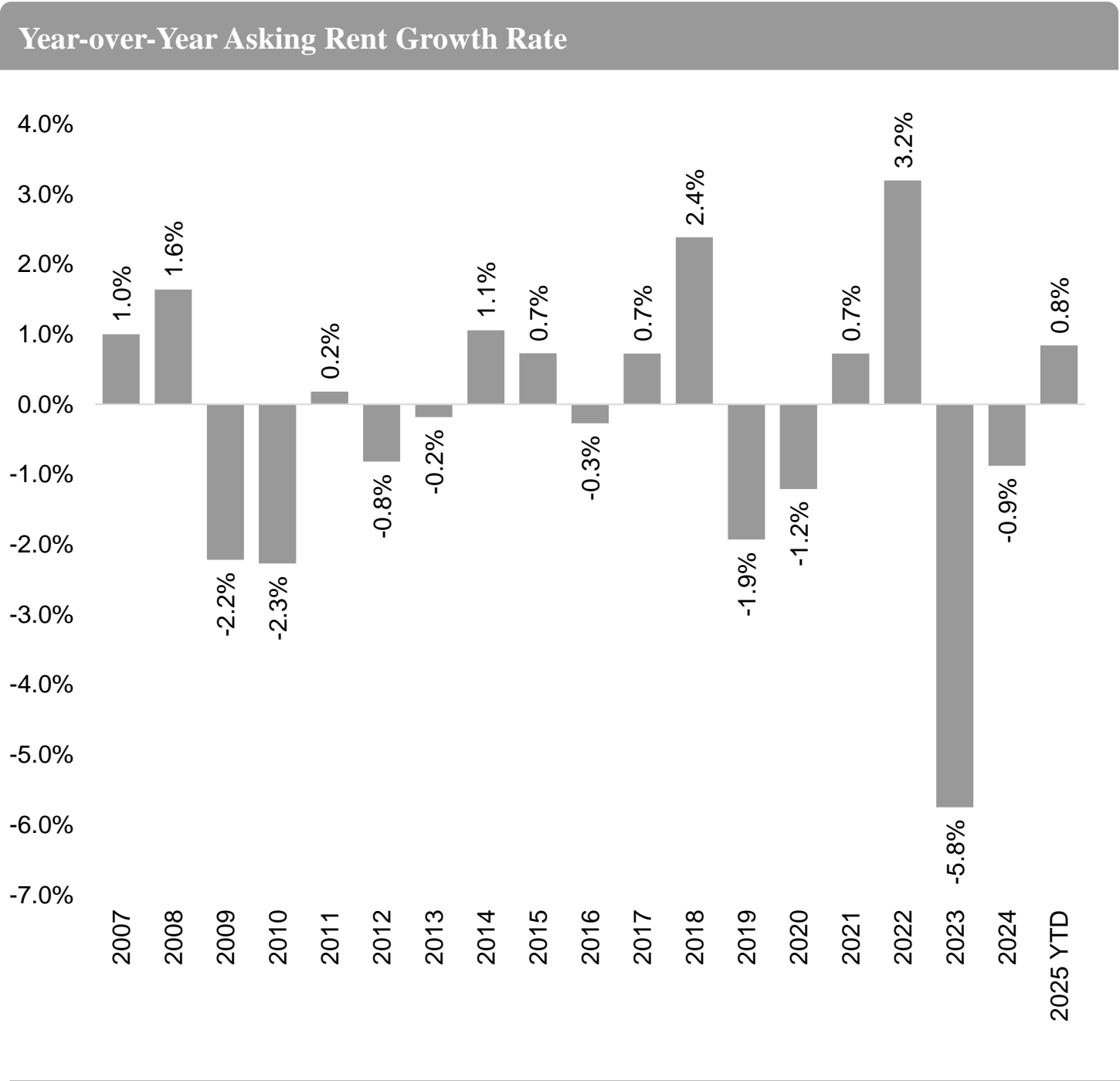
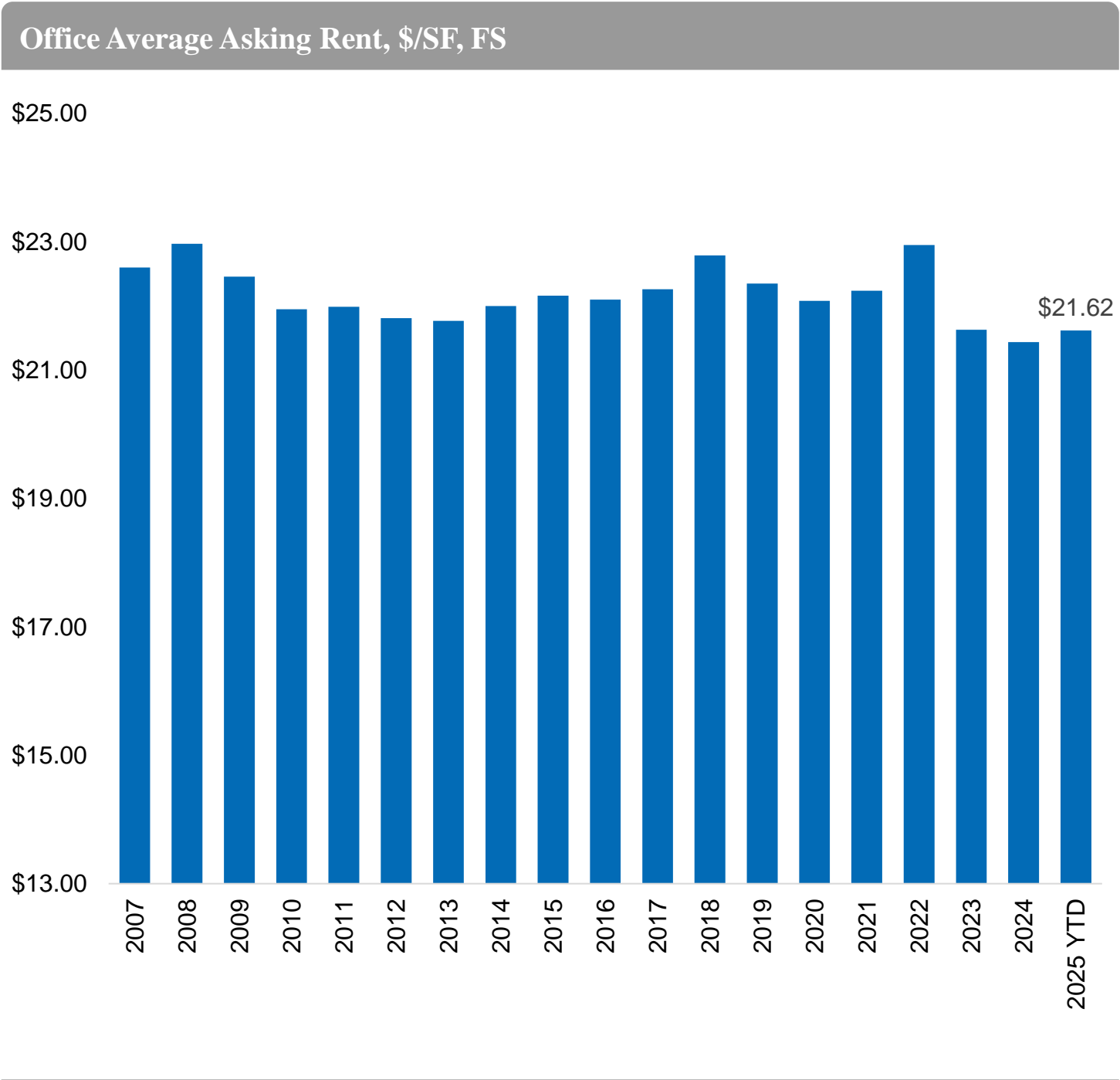
New office development in Chicago’s suburbs stayed at a standstill in the second quarter of 2025, with no space under construction for the 17th consecutive quarter. Elevated vacancy levels and continued absorption of existing space continue to suppress demand for new projects, reinforcing a prolonged period with no new office product underway.



Source: Newmark Research, CoStar

Suburban Rents Show Modest Growth after Recent Declines

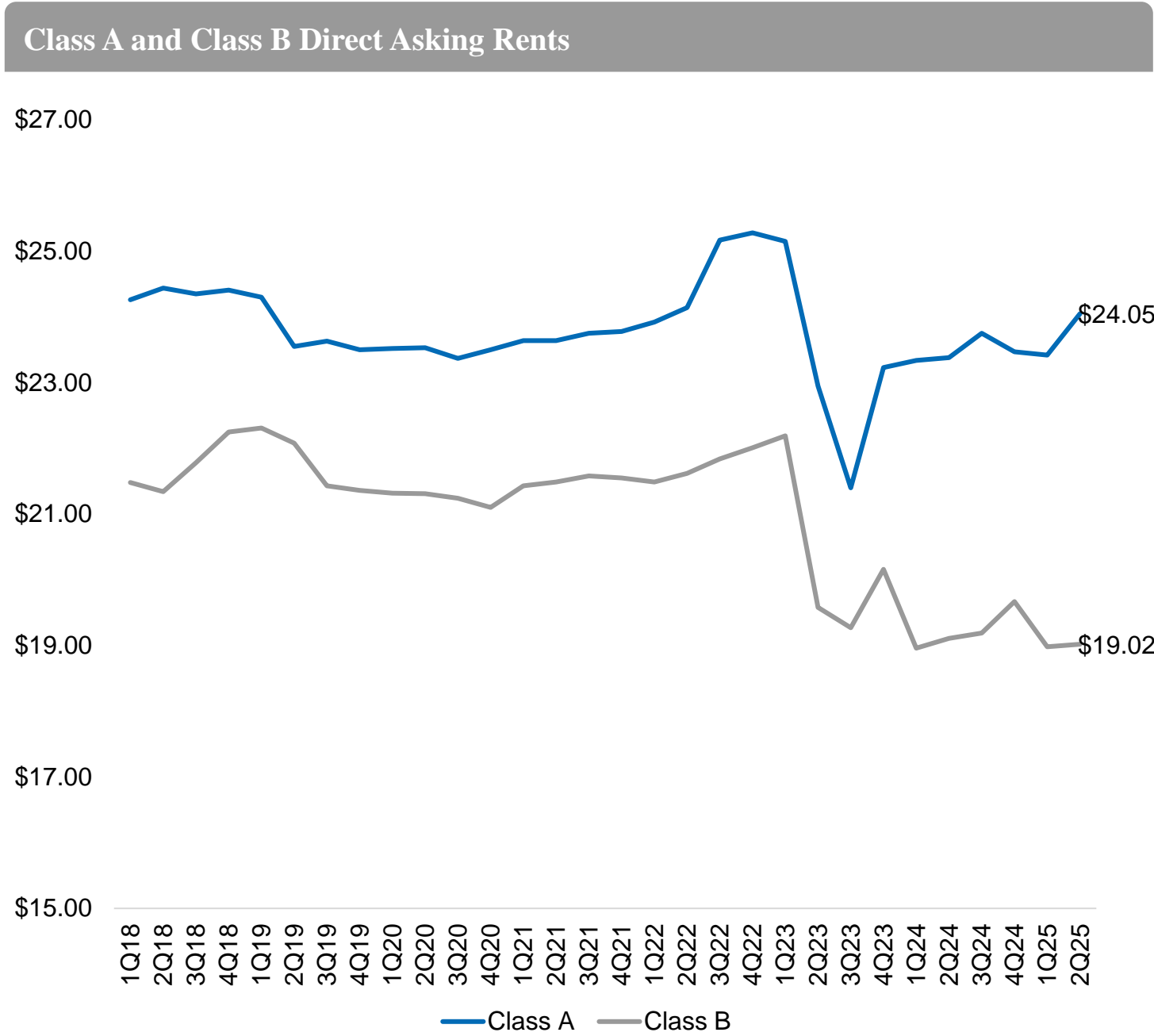
Average suburban office rents are up slightly from 2024 but still below pre-pandemic and peak 2022 values. After a sharp -5.8% decline in 2023, year-over-year rent growth turned positive at 0.8% through the first half of 2025, signaling minor stabilization in the market. The recent shift to modest rent growth reflects early signs of recovery and ongoing competition for quality space in the suburbs.



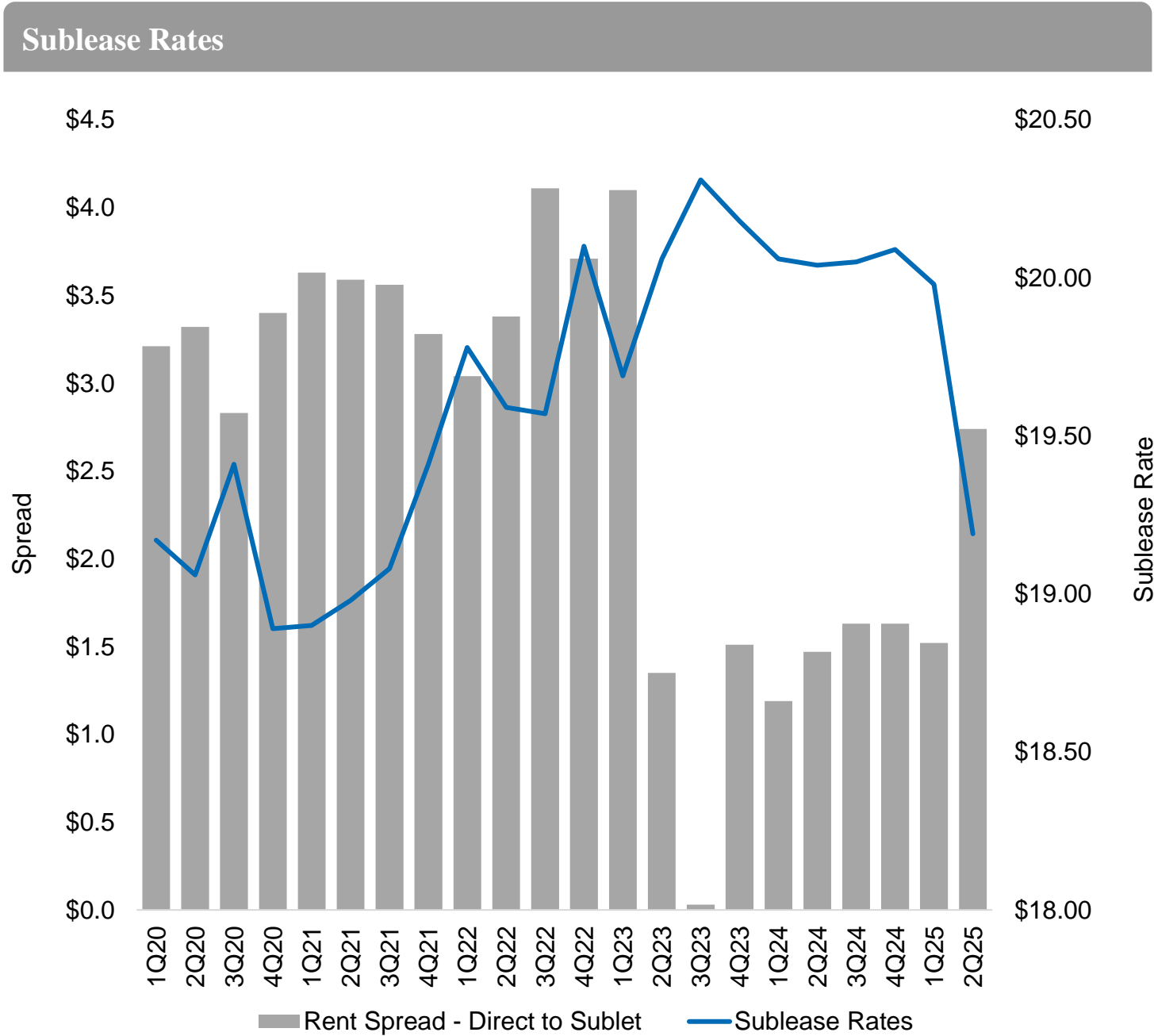
Source: Newmark Research, CoStar

Recovery in Class A Rents While Sublease Discounts Re-Emerge

Class A office direct asking rents rose to their highest since late 2022, while Class B rents were nearly unchanged, widening the gap between the two classes. Sublease rates decreased after two years where the premium over sublease space narrowed and at times disappeared. The direct-to-sublease rent spread expanded this quarter. This divergence underscores the improved relative performance of higher-quality assets and renewed selectiveness in tenant demand in the suburban office market.



Source: Newmark Research, CoStar



Leasing Activity Outpaces Recent Years for a Strong Start in 2025

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Notable 2Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Carefusion	75 N Fairway Dr	North	Lease Renewal	79,000
The medical technology corporation has renewed for just under 80,000 square feet at 75 N Fairway Dr.				
Follett Higher Education	1 Westbrook Corporate Ctr	I-88 East	Lease Renewal	45,000
The education company will be contracting its presence at the building from 128,000 SF.				
Do It Best	8600 W Bryn Mawr	O’Hare	Lease Renewal	41,000
Do It Best signed a deal to keep its subsidiary True Value in the building but will be reducing its footprint from 90,000 SF.				
Regal Rexnord	6133 N River Rd	O’Hare	Lease Renewal	40,000
The manufacturing company renewed its lease for 40,000 SF at 6133 N River Rd.				

Submarket Overview

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