

3Q24

Chicago Suburban Office Supplemental Market Report

NEWMARK



Market Observations

Economy

- Chicago’s unemployment rate is 1.5% higher than the national average, with job growth slowing over the past year. The unemployment rate has risen in recent months, surpassing 6% for the first time since June 2021.
- Office-occupying industries have been hit hard, with all sectors seeing negative results. Financial activities experienced the smallest decline, while business, professional services, and information sectors posted significant downturns for consecutive quarters. In response to workforce reductions, some office tenants are downsizing their space.

Major Transactions

- Medline signed the second-largest lease in the CBD and the largest lease in the suburbs this quarter. They extended their downtown lease by 110,000 SF and secured a 215,000 SF lease in the suburbs.
- Several properties traded hands this quarter. A 390,000 SF medical office at 13331 W 75th St in Naperville sold for \$28 million.

Leasing Market Fundamentals

- Leasing volume increased compared to last quarter but remained below typical third-quarter levels, despite several significant suburban deals, including the largest metro lease by Medline at 2375 Waterview Drive in the North submarket.
- Suburban vacancy rates rose this quarter. With no buildings currently under construction, vacancy rates for the rest of 2024 will largely depend on tenant activity.

Outlook

- The suburbs continue to face challenges as owners grapple with financing issues, and tenants reassess their space requirements. With a surplus of inventory, the suburban market will need to absorb or repurpose space to stay competitive.
- Uncertainty in the office market continues to slow leasing and investment activity. Deals are closing, but at a slower pace as occupiers and investors proceed with caution.
- Chicago has weathered market fluctuations in the past, but with no significant surge in office demand on the horizon, the market will need to adapt to lower demand and find creative solutions.

1. Economy
2. Leasing Market Fundamentals

3Q24

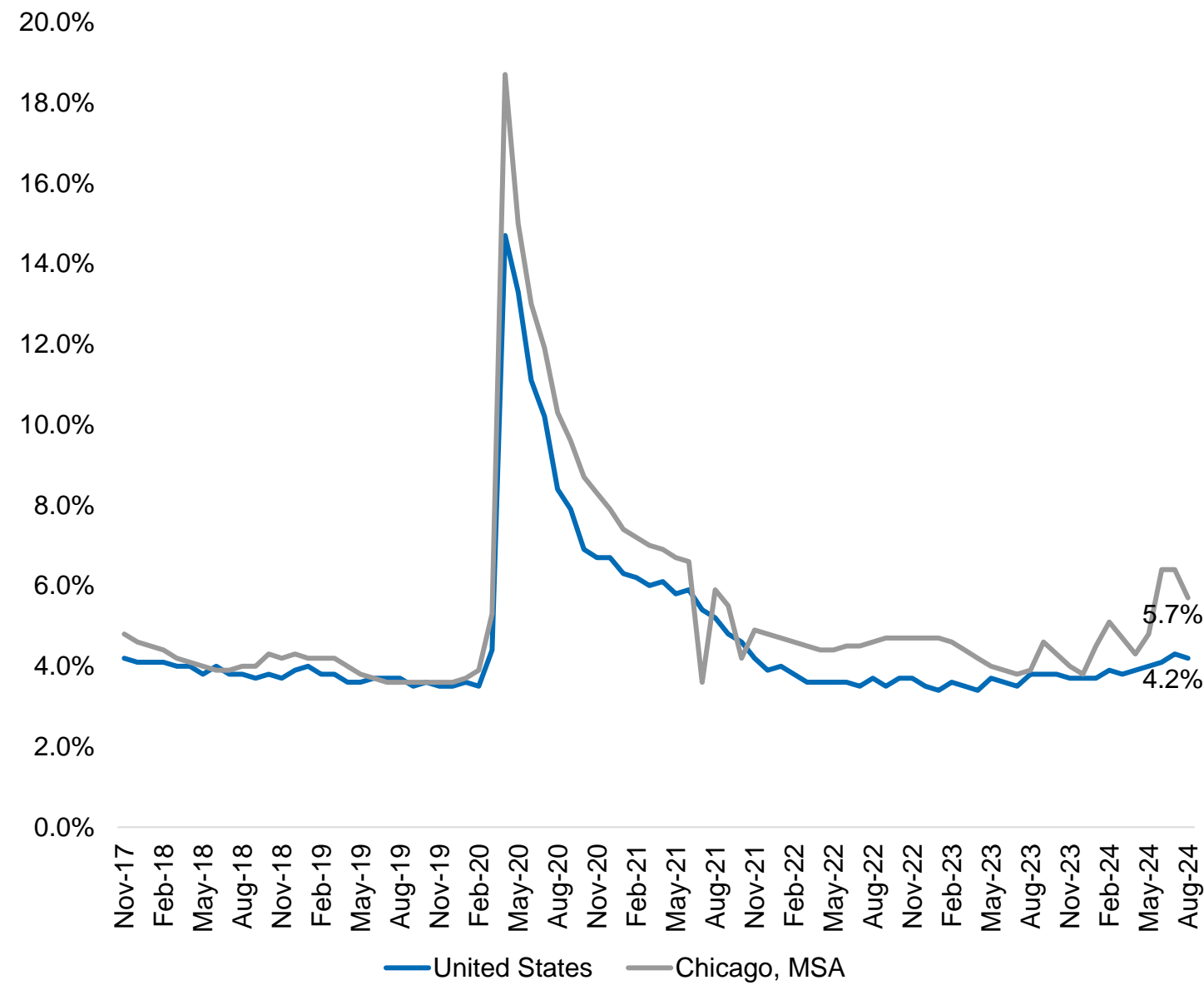
Economy



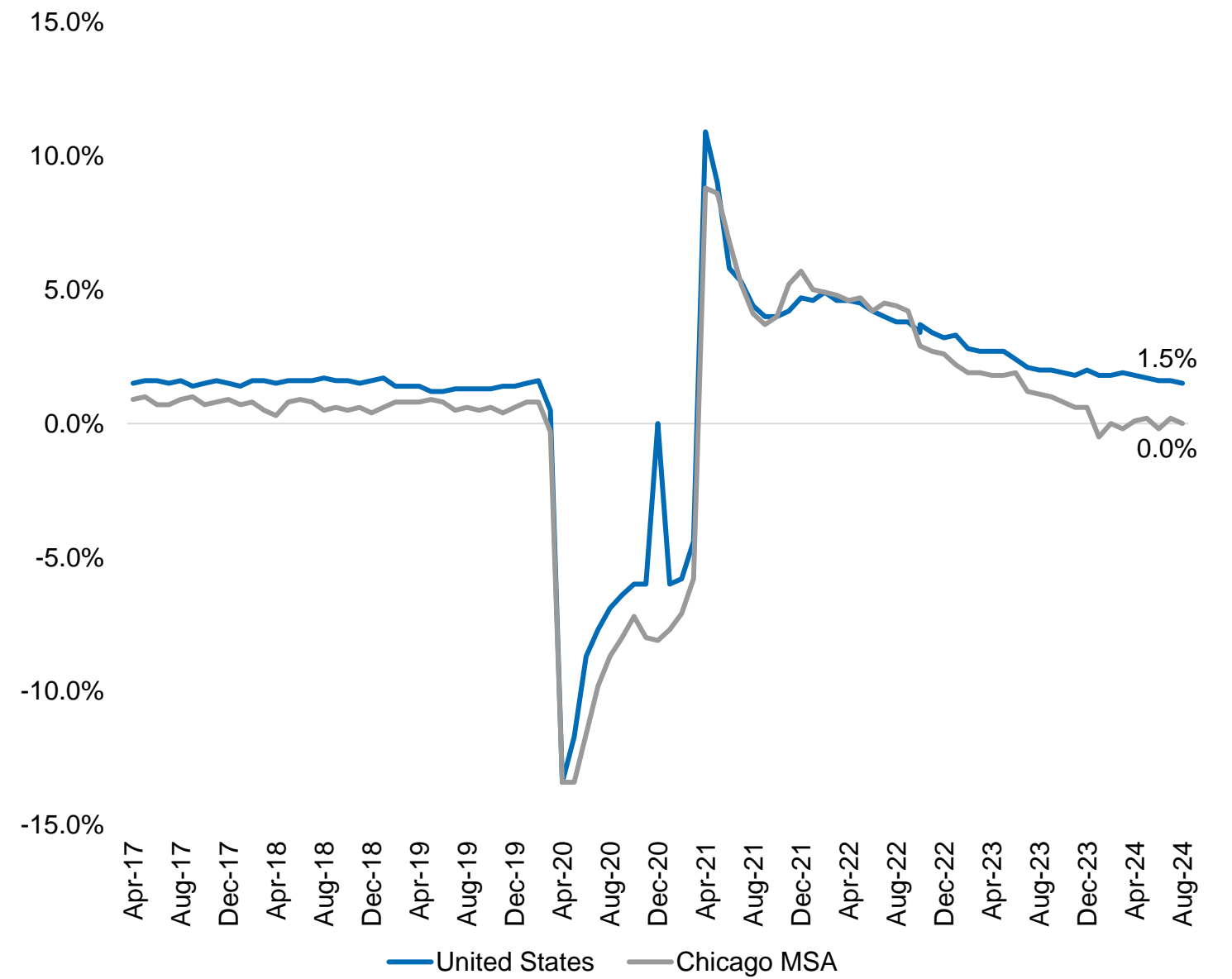
Metro Employment Trends Signal Slowing Economy

Chicago's unemployment rate typically trends slightly above the national average, with job growth slowing over the past couple of years. Persistently high inflation and elevated interest rates have strained the labor market. The Federal Reserve's rate cut in September offers hope for a turnaround.

Unemployment Rate, Seasonally Adjusted



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

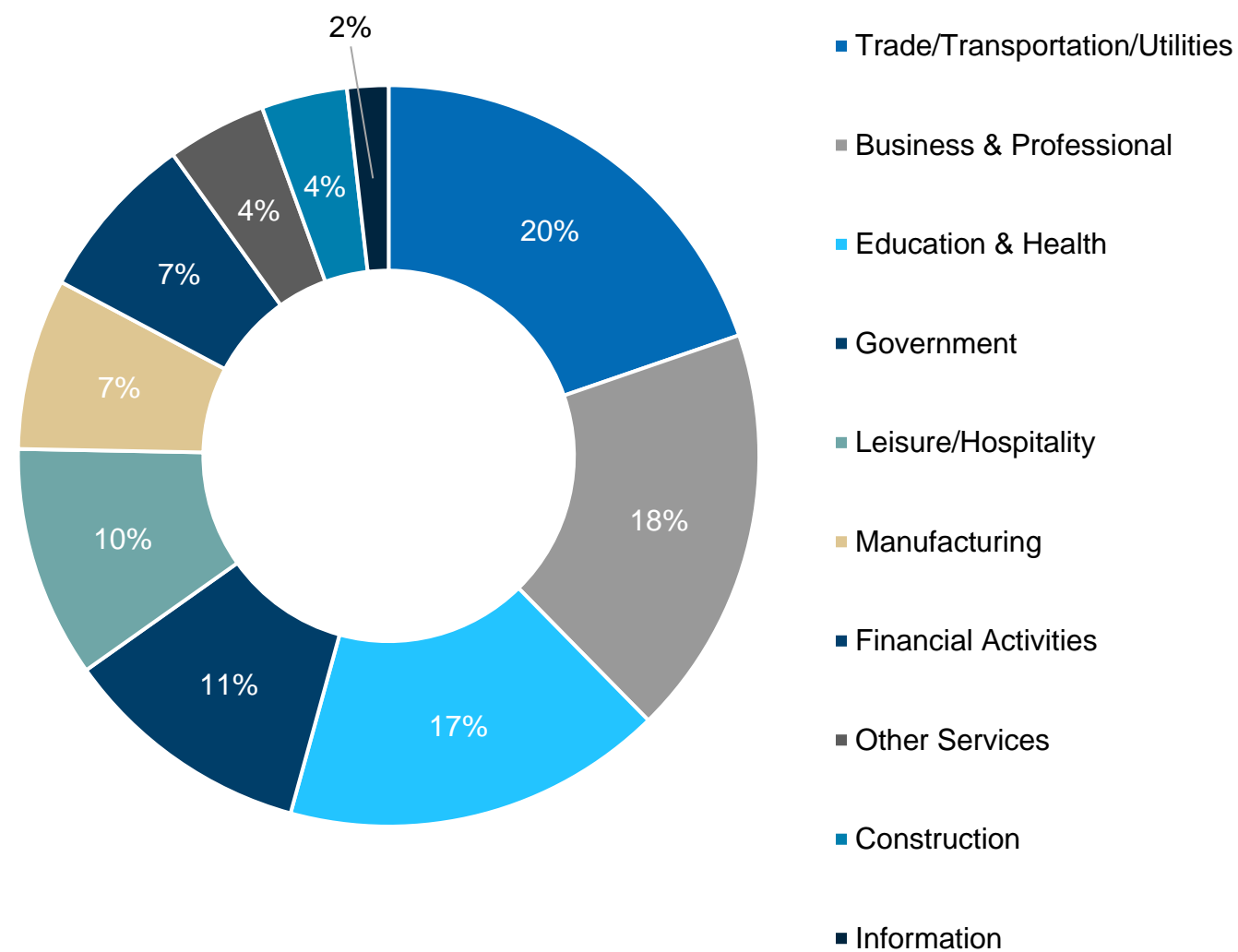


Source: U.S. Bureau of Labor Statistics, Chicago MSA

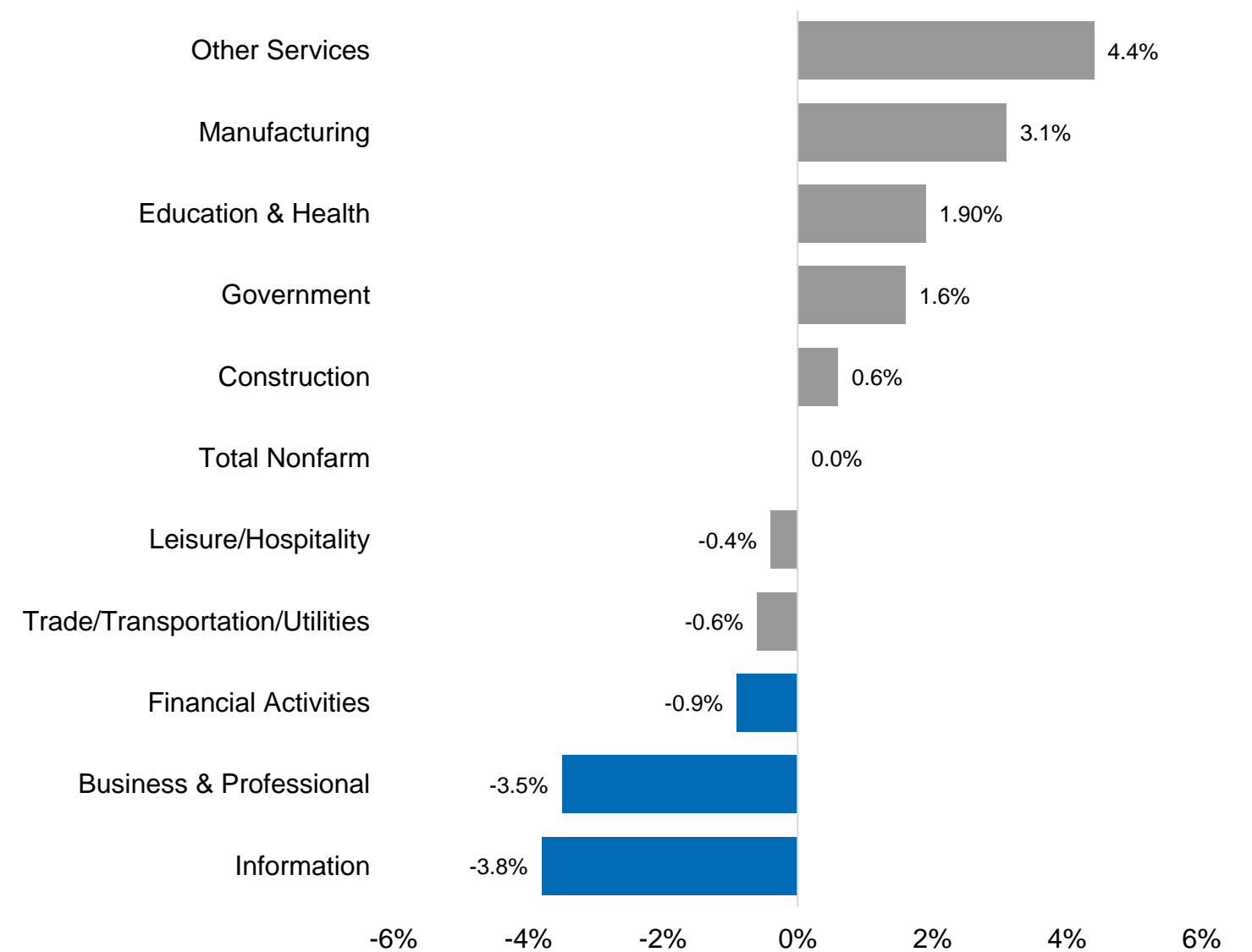
Services Sector Drives Job Gains; Office Industries Contract

The “Other Services” sector led regional annual job growth, driven largely by the continued recovery from pandemic losses. Office-occupying industries, however, posted negative results across the board. Financial activities saw the smallest decline, while business, professional services, and information sectors faced significant drops for several consecutive quarters. In some cases, office tenants are downsizing due to workforce reductions.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

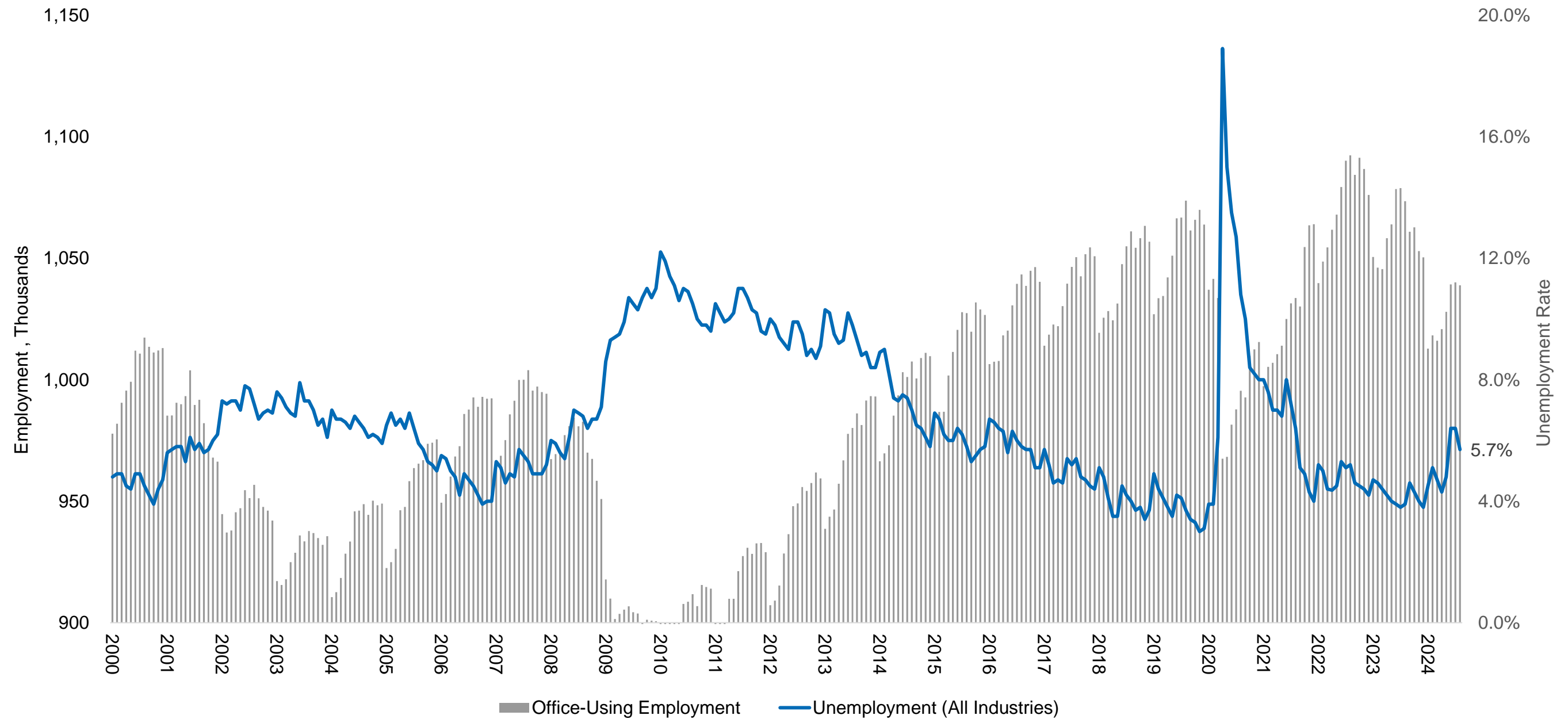


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Overall Office-Using Employment Holds Steady

The number of office jobs has rebounded to pre-pandemic levels but fallen slightly year-over-year.

Office-Using Employment* and Unemployment Across All Industries



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.

3Q24

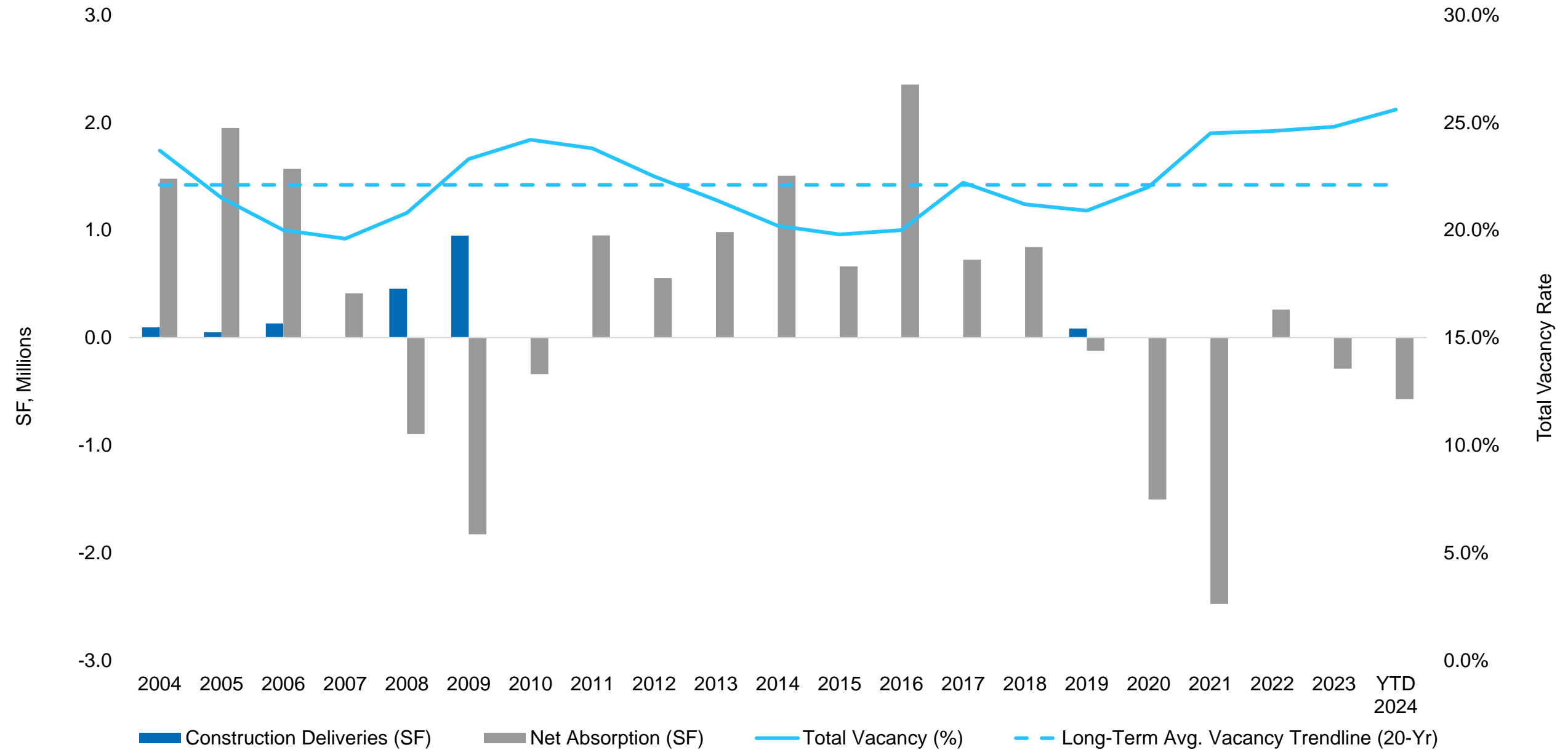
Leasing Market Fundamentals



Negative Absorption Continues

Quarter-over-quarter vacancy increased by 0.5% to 25.6%, with a 90-basis-point increase year-over-year. With no new suburban office developments in the pipeline, the existing inventory has remained relatively stable.

Historical Construction Deliveries, Net Absorption, and Vacancy

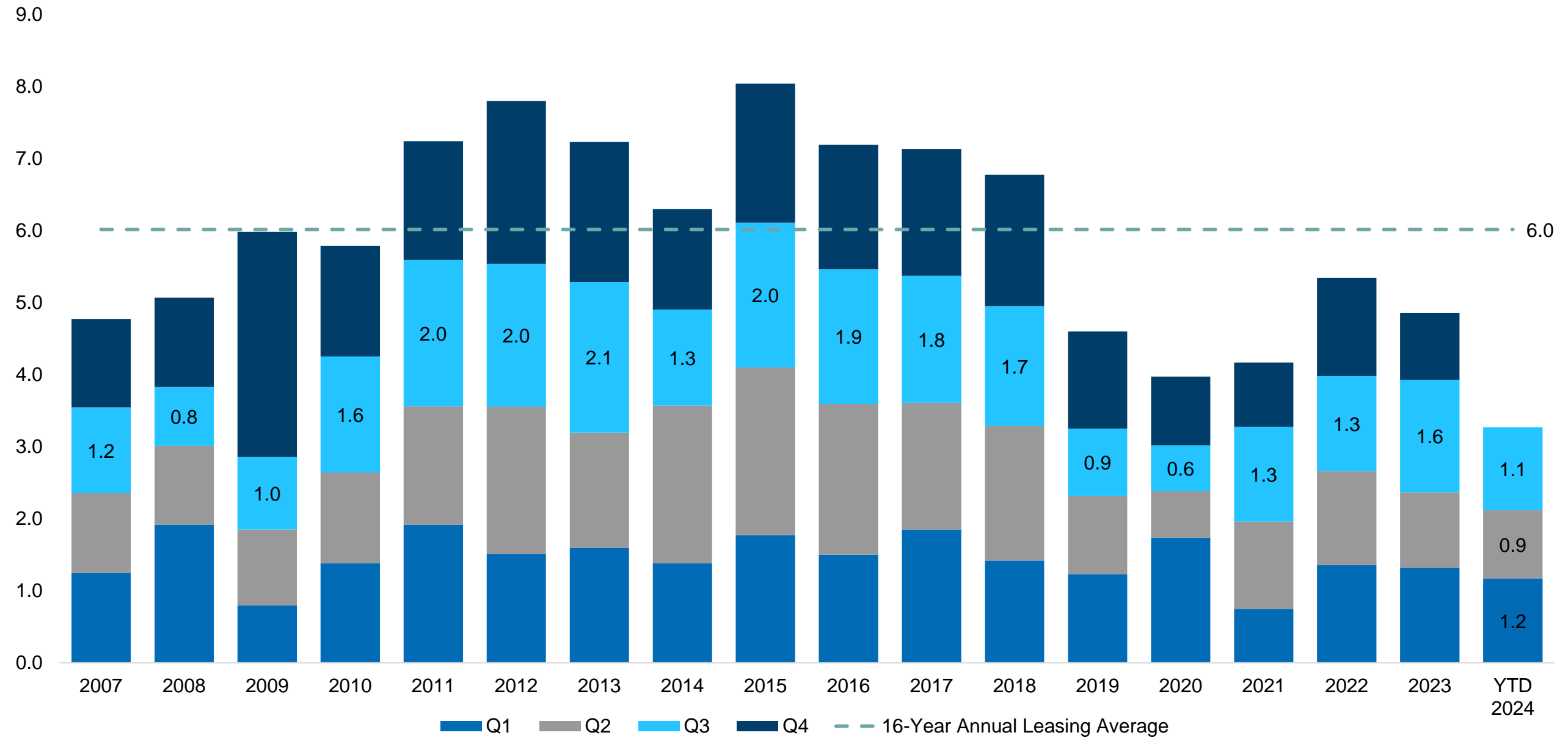


Source: Newmark Research

Leasing Volume Grows But Falls Short of Typical Q3

Leasing volume increased from last quarter but remained below typical third-quarter levels, despite several significant suburban leases, including the largest metro lease by Medline at 2375 Waterview Drive in the North submarket.

Total Leasing Activity (msf)

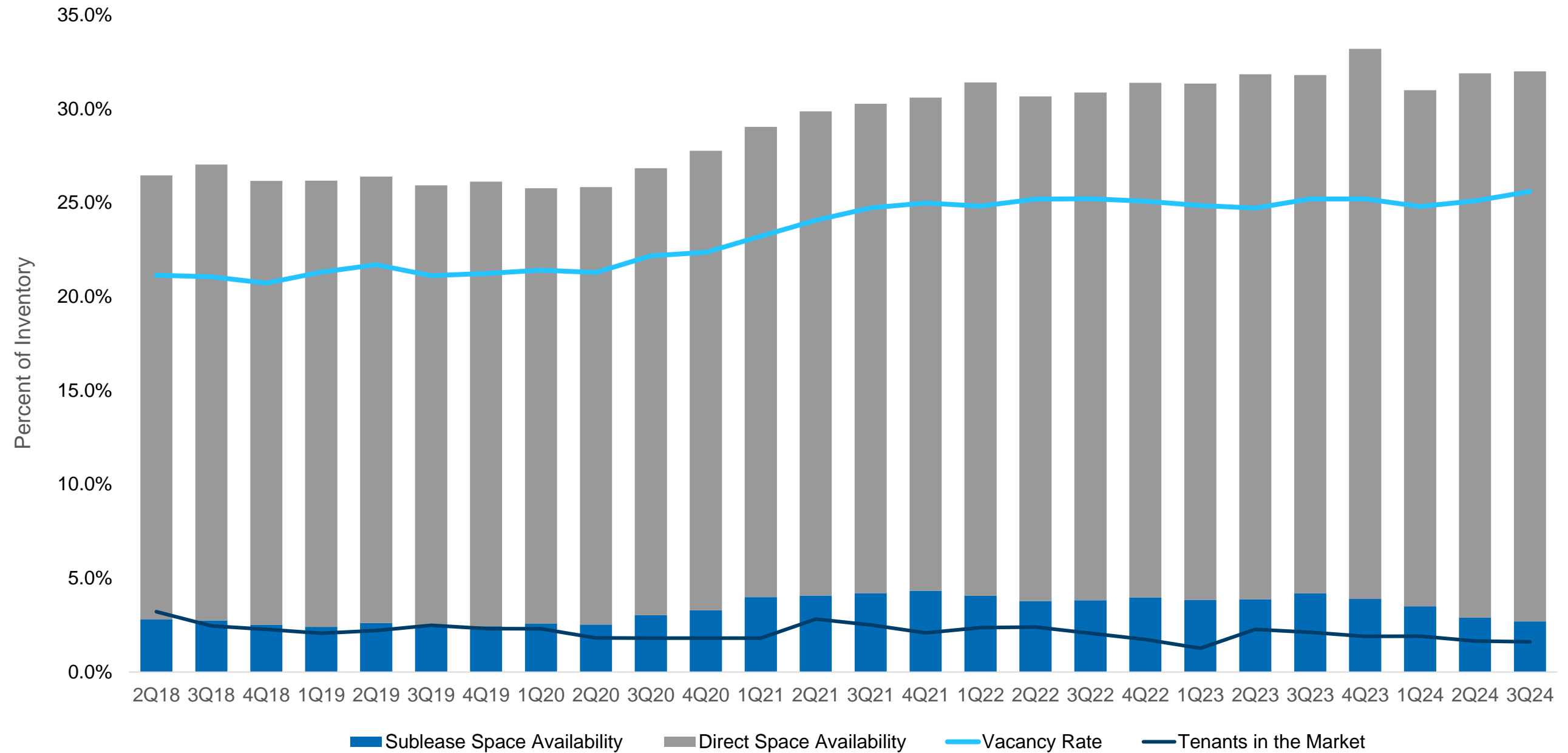


Source: Newmark Research, CoStar

Availability Holds Steady

Total availability increased by 0.1% this quarter to 32%, while vacancy rose by 0.5% to 25.6%. Tenants in the market now account for 1.6% of total inventory, down from 1.7% last quarter.

Available Space and Tenant Demand as Percent of Overall Market

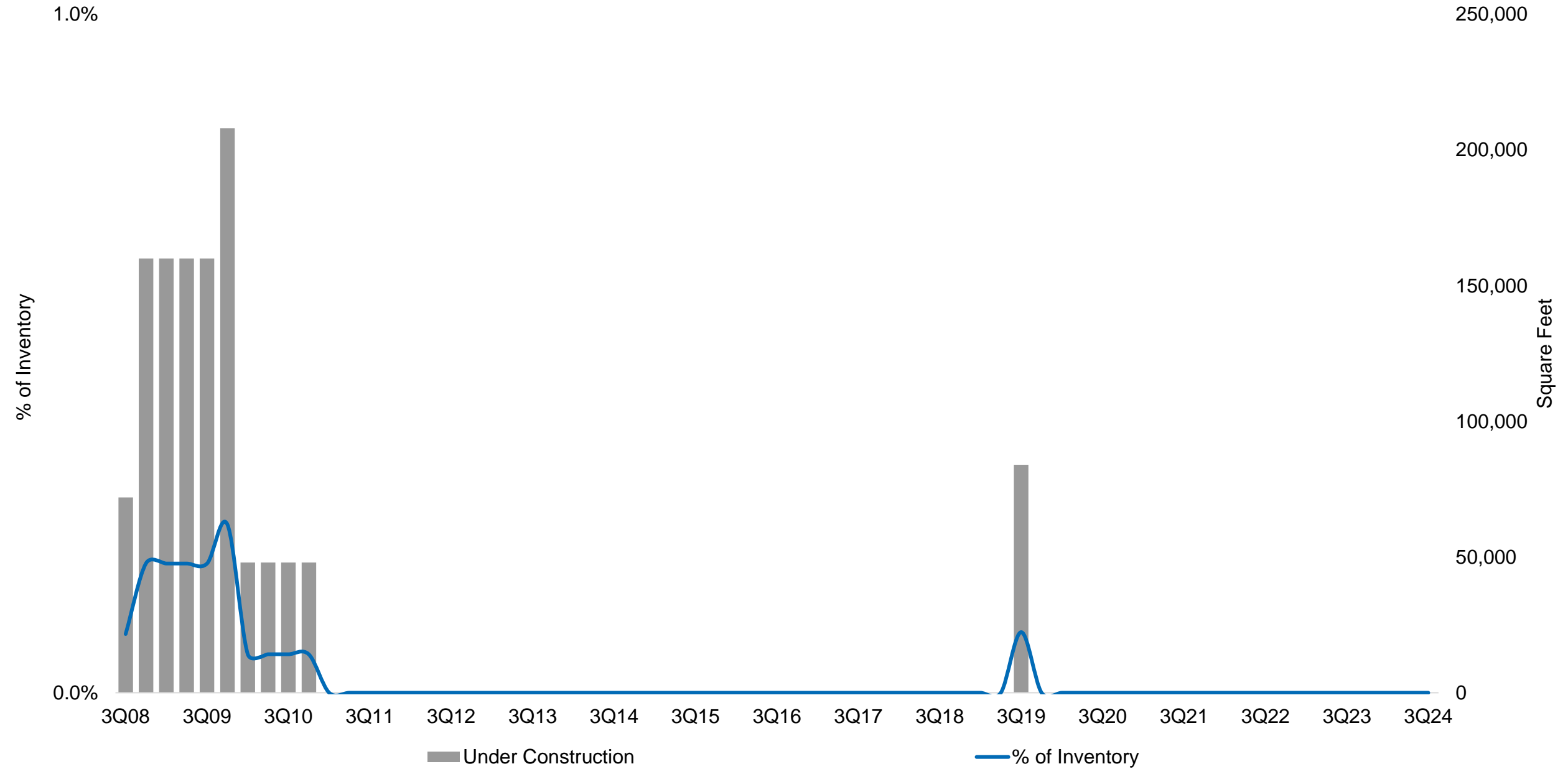


Source: Newmark Research

Vacancy Levels Keep Suburban Office Development on Hold

With many second-generation office buildings facing high vacancies, demand for new office developments in the suburbs remains nonexistent.

Office Under Construction and % of Inventory

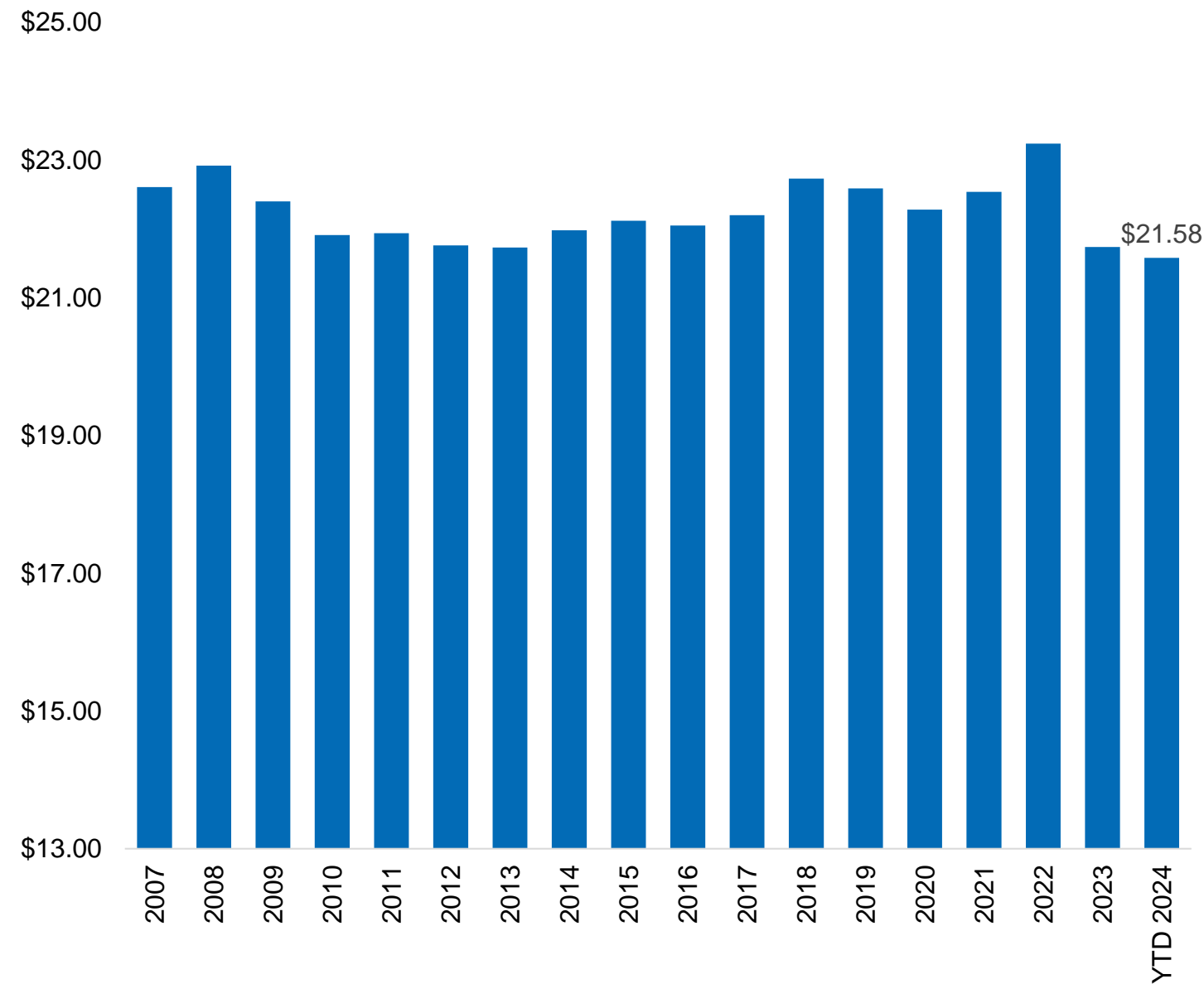


Source: Newmark Research, CoStar

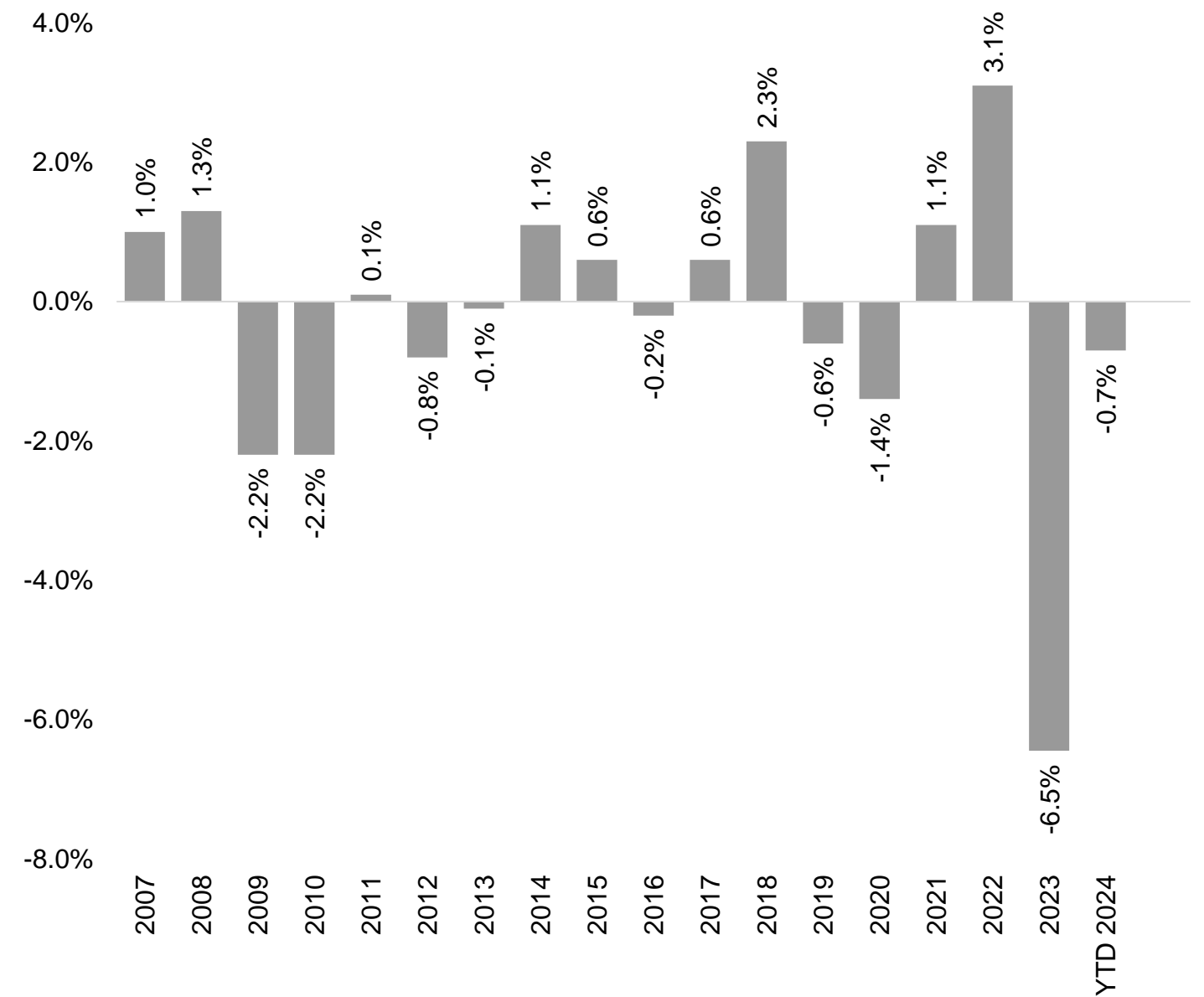
Suburban Rents Decline Amidst Capital Challenges

Asking rental rates have dropped by \$0.16/SF year-to-date and \$1.46/SF year over year in the suburbs, as landlords face capital challenges in completing transactions. Rents have fallen below pre-pandemic levels for distressed assets, while well-capitalized owners continue to demand pre-pandemic rates.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

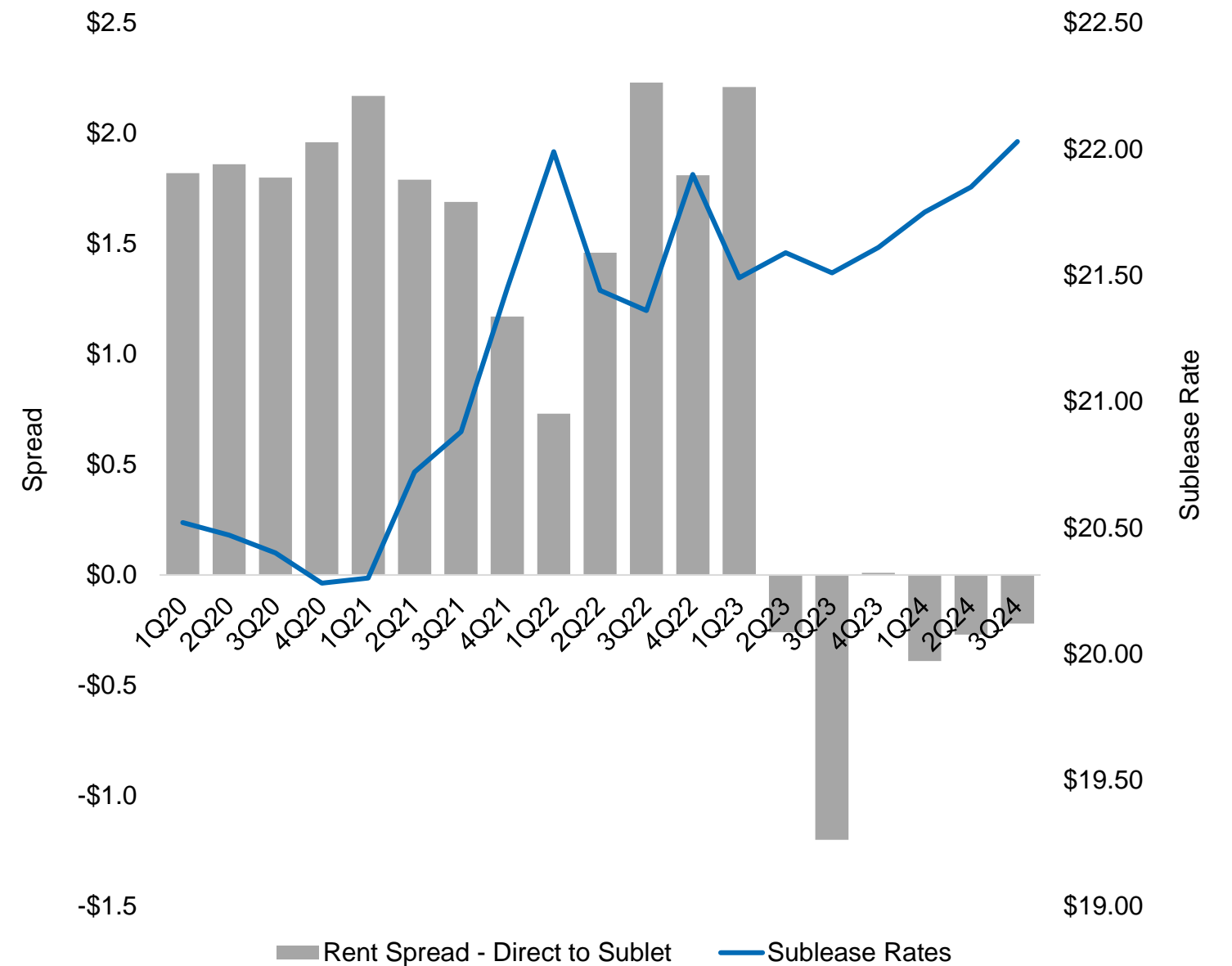
Class A Rental Rates Increase

Class A rental rates increased by \$0.53/SF this quarter, while Class B rates saw a slight decrease of \$0.02/SF. Sublease rental rates also trended upward.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Volume Increases

For the fourth consecutive quarter, the suburbs saw the largest lease signed in the Chicago metro area. Medline secured a 215,000 SF lease at 2375 Waterview Drive in Northbrook.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Medline	2375 Waterview	North	New Lease	215,000
Department of Aviation	8420 W Bryn Mawr	O'Hare	Sublease	90,000
Mizkan	150 N Martingale	Northwest	New Lease	50,000
AON	3000 Lakeside	North	New Lease	40,000



Please reach out to your
Newmark business contact for this information

For more information:

Amy Binstein

Midwest Research Director

amy.binstein@nmrk.com

Max Fisher

Research Analyst

max.fisher@nmrk.com

Chicago

500 W Monroe Street

Chicago, IL 60661

t 312-224-3200

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK