3Q25

Chicago Suburban Office Supplemental Market Report

Market Observations

Economy

- Although September employment data was delayed by the government shutdown, the Chicago MSA's unemployment rate is estimated to have eased to 4.6%, down from a 2025 peak of 5.5%, reflecting gradual improvement in labor market conditions.
- Office-using industries recorded modest gains in building visitation activity but continued to see declines in overall employment. The financial activities and information sectors posted annual increases of 1.6% and 3.2%, respectively, while the professional and business services sector contracted again year over year, down 0.7% this quarter.

Leasing Market Fundamentals

- Leasing momentum in Chicago's suburban office market lost steam in the third quarter, totaling just above 0.8 million square feet, marking its softest stretch since 2020 after a strong first half that had briefly pointed toward pre-pandemic levels of 6.1 million square feet annually.
- Year to date, the suburban Chicago office market experienced a notable 779,000 square feet of positive net absorption. The overall vacancy rate increased from last quarter and 3Q2024, but it's important to caveat this with the nearly 1.1 million square feet that has been removed since last year.

Major Transactions

- Carefusion signed the largest lease in the suburbs this quarter, with a 79,000 SF renewal at 75 N Fairway Dr.
- Dry Creek Capital Partners purchased a $47.5 million distressed loan tied to the 530,000 SF O'Hare International Center in Rosemont after the property's owner, Bridge Investment Group, defaulted on the debt when it matured in 2023.

Outlook

- With demand growth projected to remain constrained, suburban office landlords will need to rely on innovative repositioning and enhanced amenity strategies to sustain competitiveness and support market stability.
- 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.

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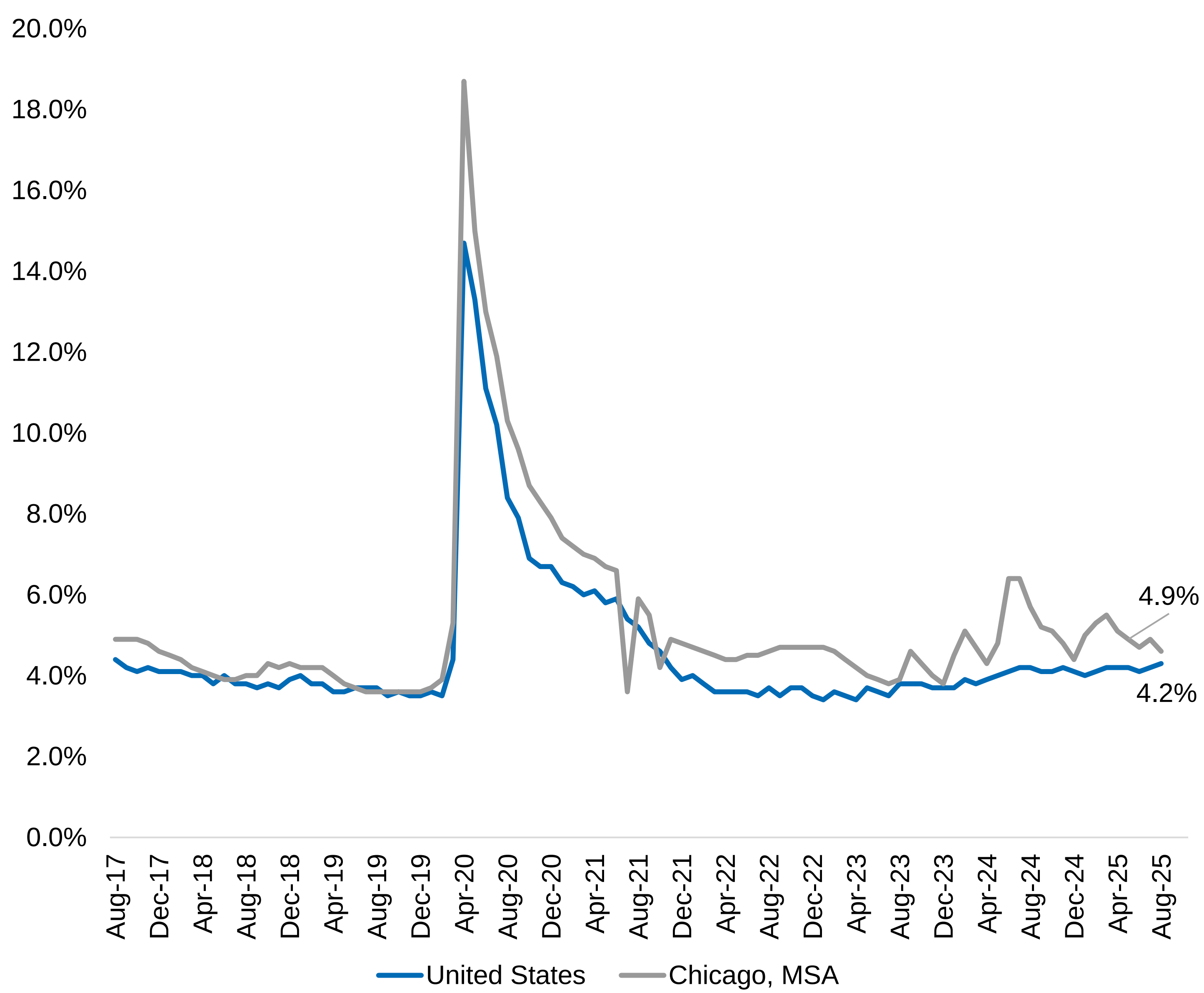
Economy

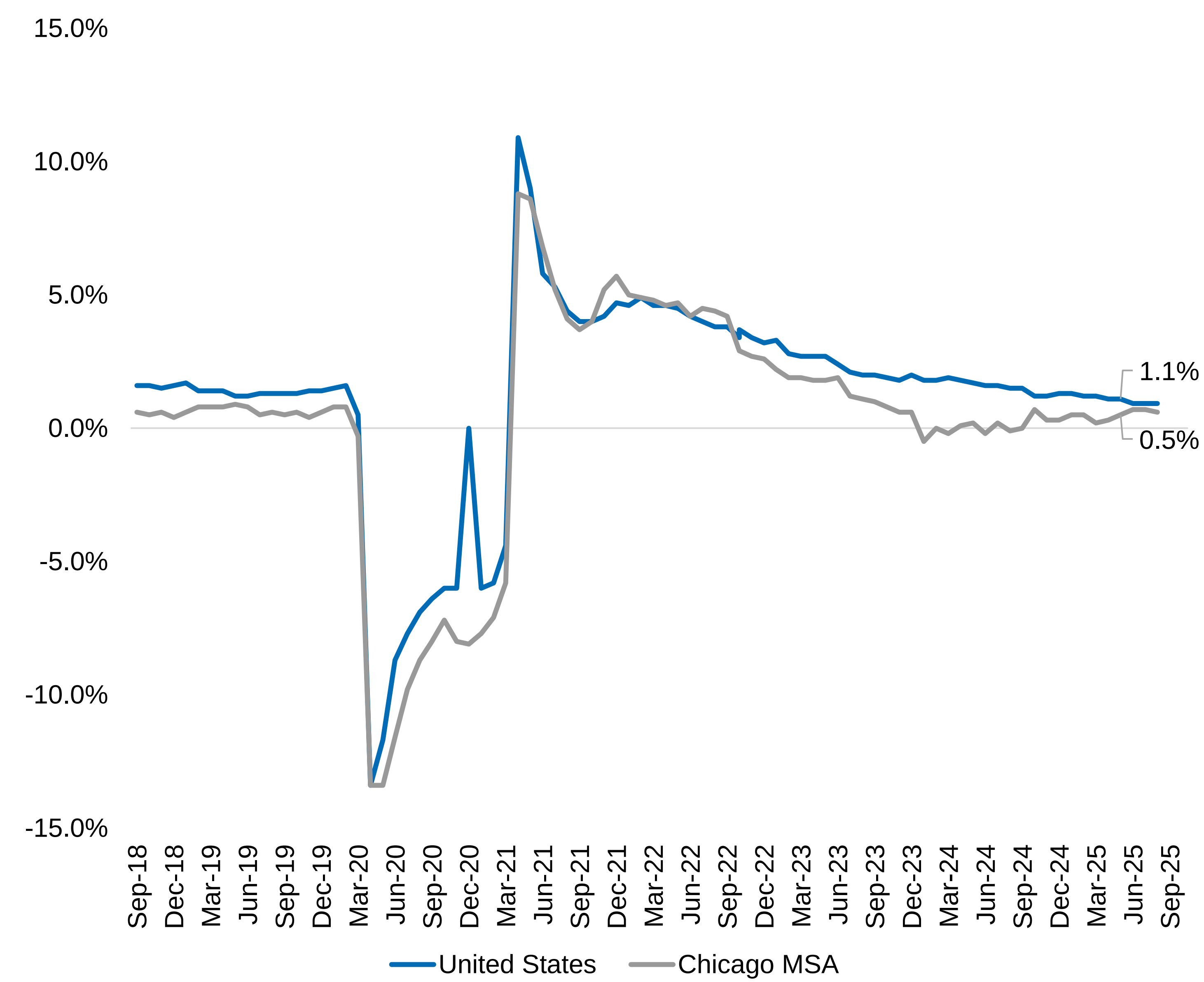
Labor Market Continues Steady Recovery with Gradual Job Growth

The Chicago MSA's unemployment rate continued to decline in the third quarter, falling to 4.6%—down nearly a full percentage point from this year's high of 5.5%. Annual nonfarm payroll employment growth also strengthened throughout the summer months, reaching consistent and substantial highs not seen in the MSA since Q3 2023. Though, the labor market fairs worse than the national average, Chicago's job creation continues to be a bright spot amid consistent dampening in the year-over-year growth of the national nonfarm payroll employment figures.

Unemployment Rate, Seasonally Adjusted



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

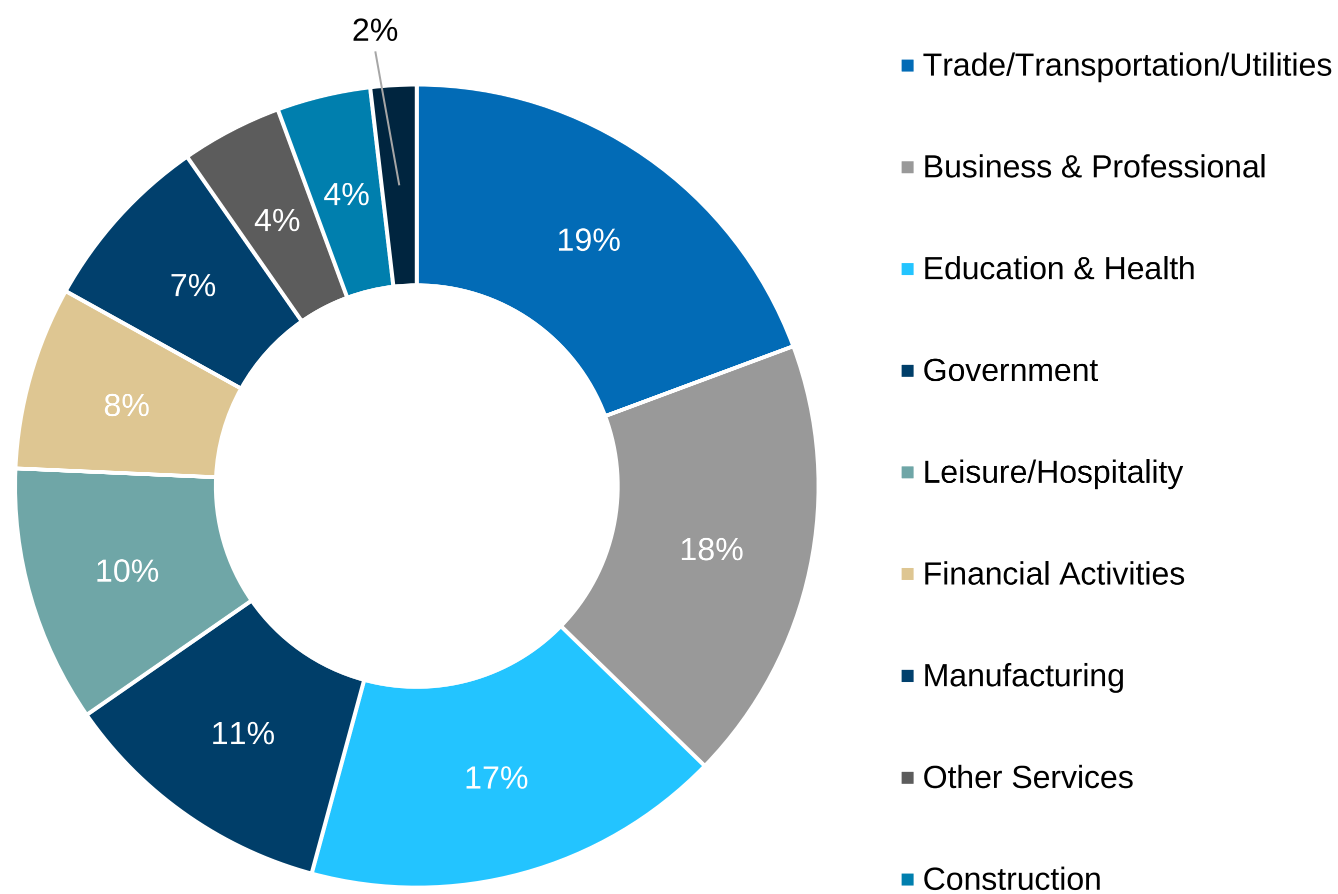


Source: U.S. Bureau of Labor Statistics, Chicago MSA

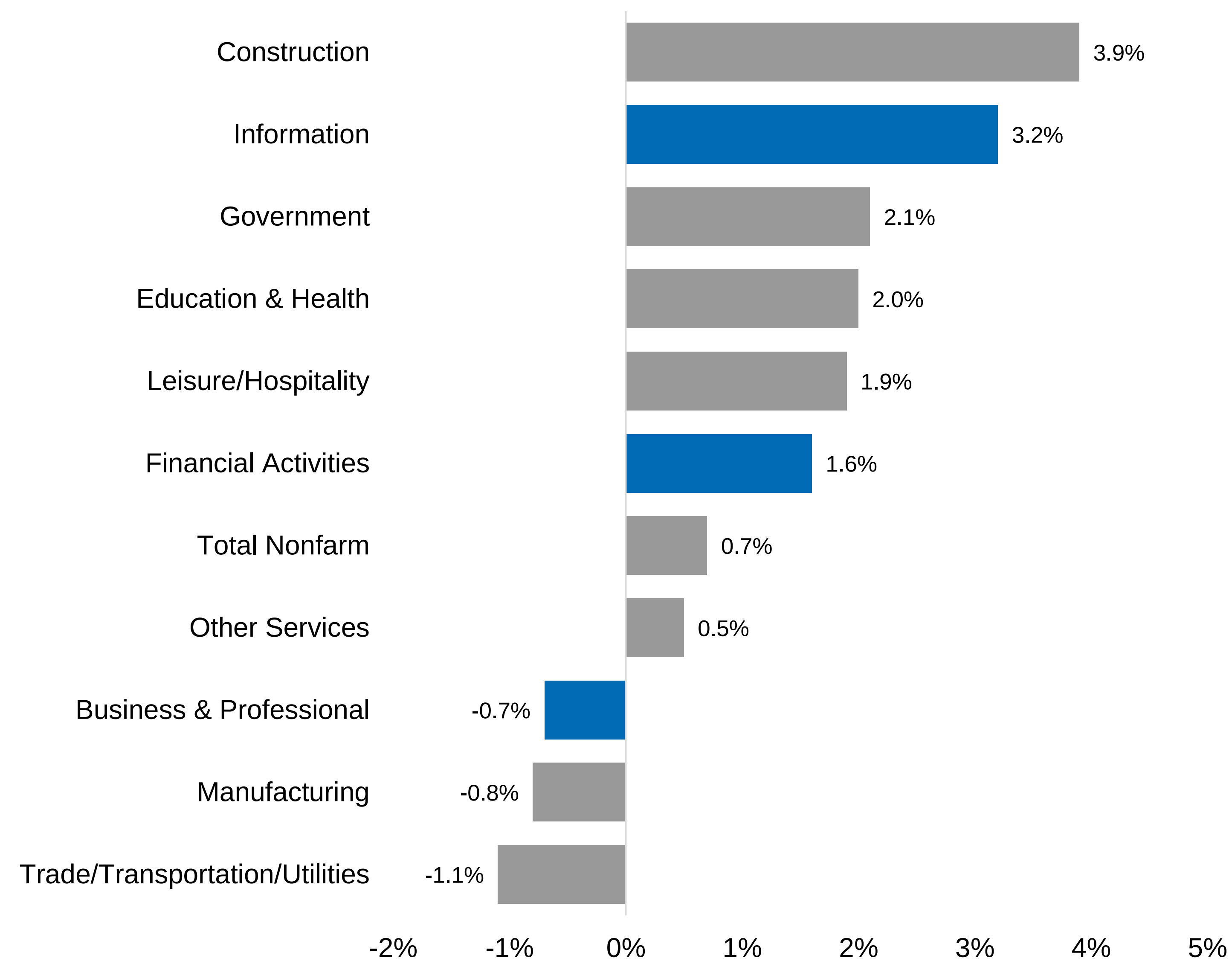
Substantial Growth Trumps Trade Related and Layoff Losses

In August 2025, the Chicago MSA maintained its year-to-date momentum, with total nonfarm employment up 0.7% from August 2024. Growth was led by Construction (+3.9%), Information (+3.2%), Government (+2.1%), Education and Health Services (+2.0%), Leisure and Hospitality (+1.9%), and Financial Activities (+1.6%). However, challenges persist in sectors that drive office and industrial demand, as Professional and Business Services, and Manufacturing and Trade, Transportation, and Utilities both declined during the third quarter.

Employment by Industry, August 2025



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

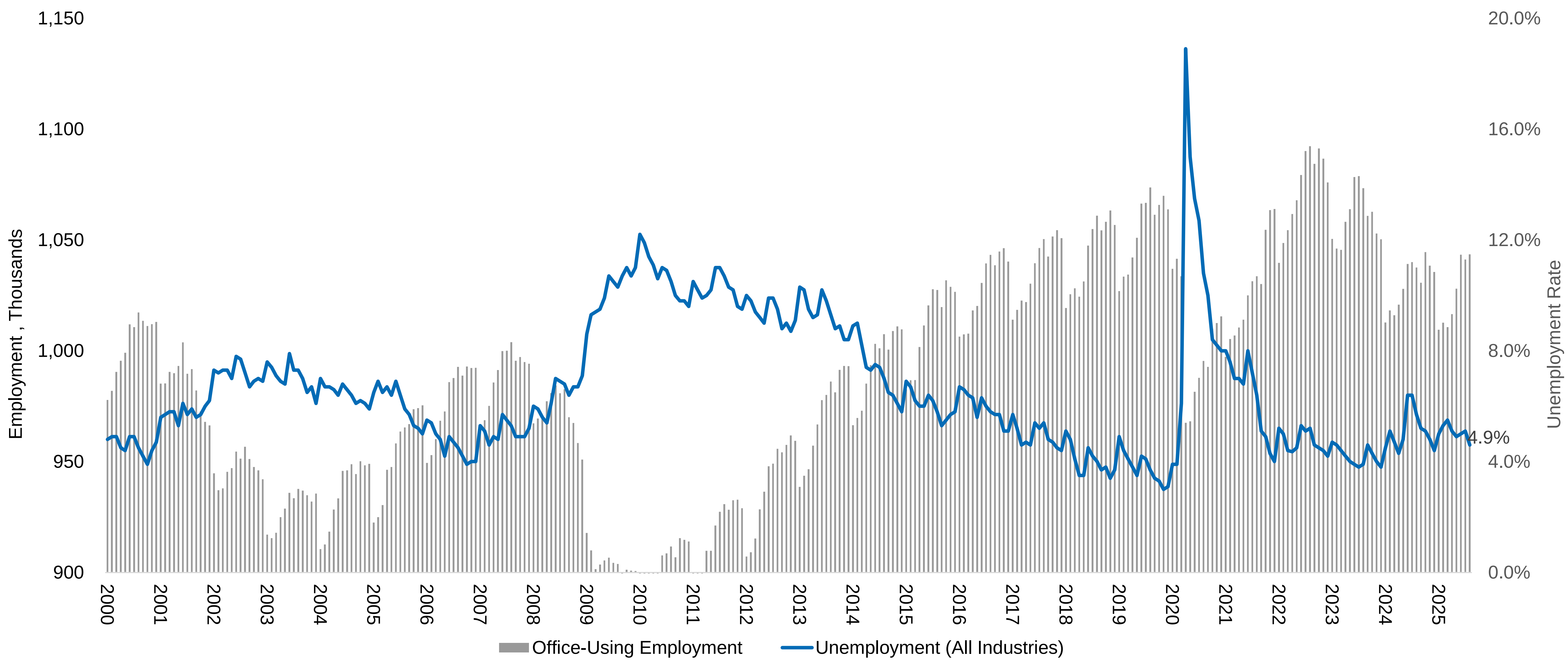


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Office-Using Employment Stabilizes as Unemployment Rate Moderates

With data through August, office using employment in the Chicago MSA has steadied, averaging roughly 1.026 million positions YTD and remaining essentially flat compared with the same period in 2024, while the summer months showed a modest uptick. August employment reached 1,043.5 thousand, a 0.6% increase from August 2024, with Professional and Business Services edging higher by 0.3% YoY to 689.2 thousand, Financial Activities rising 0.7% to 283.1 thousand, and Information rebounding more notably by 3.0% to 71.2 thousand. Momentum has improved since the spring, as the June through August average of about 1,042.7 thousand sits meaningfully above the March through May average of roughly 1,018.4 thousand. Overall, the office using employment base remains just above the one million mark, with modest sector tailwinds suggesting a cautious but firmer footing heading into 4Q2025.

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.

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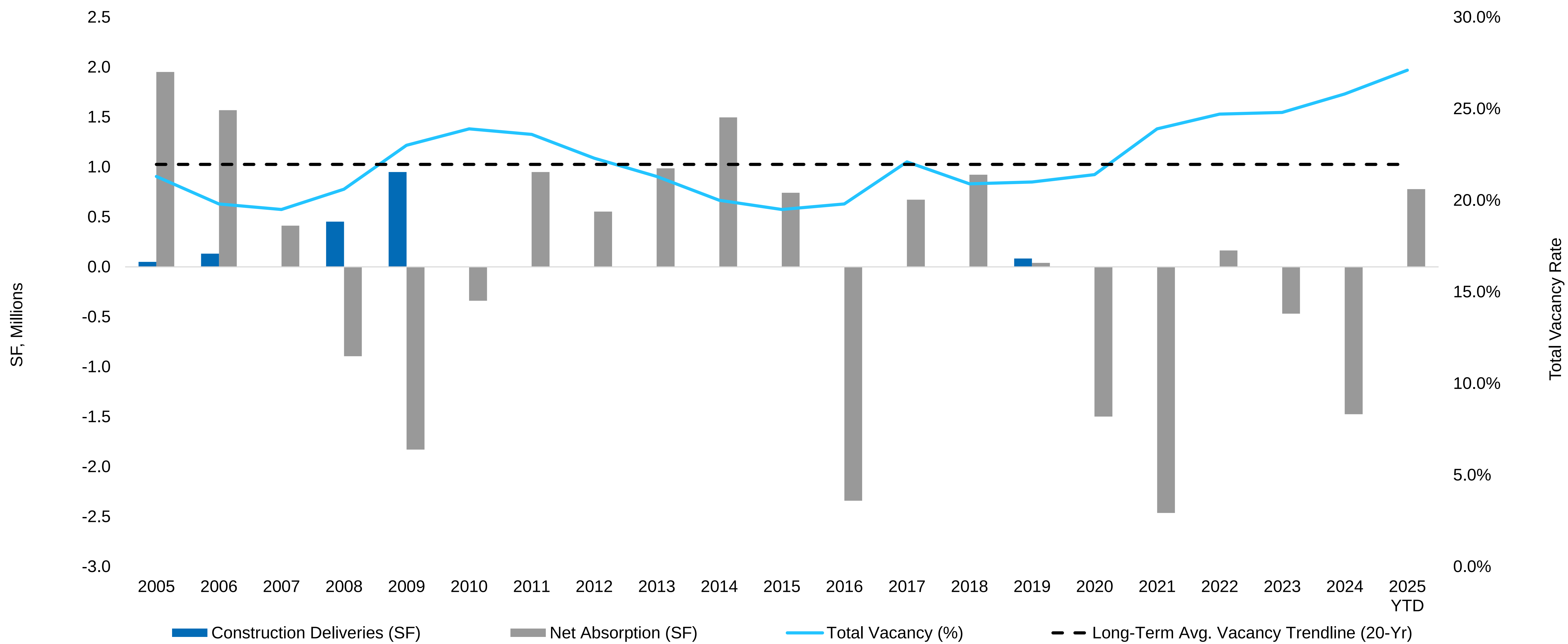
Leasing Market Fundamentals

Stability Shifts As Vacancy Rises

In the third quarter of 2025, the suburban Chicago office market posted over 97,000 square feet of negative net absorption, reeling from the positive recovery seen earlier this year. The total vacancy rate rose above 27%, adding 30 basis points from last quarter and remaining elevated above the long-term average. Though a change in market RSF could be the cause of this vacancy increase, relatively minimal negative absorption cast doubts on the renewed stability in the suburban office sector seen since the beginning of the year.

Historical Construction Deliveries, Net Absorption, and Vacancy

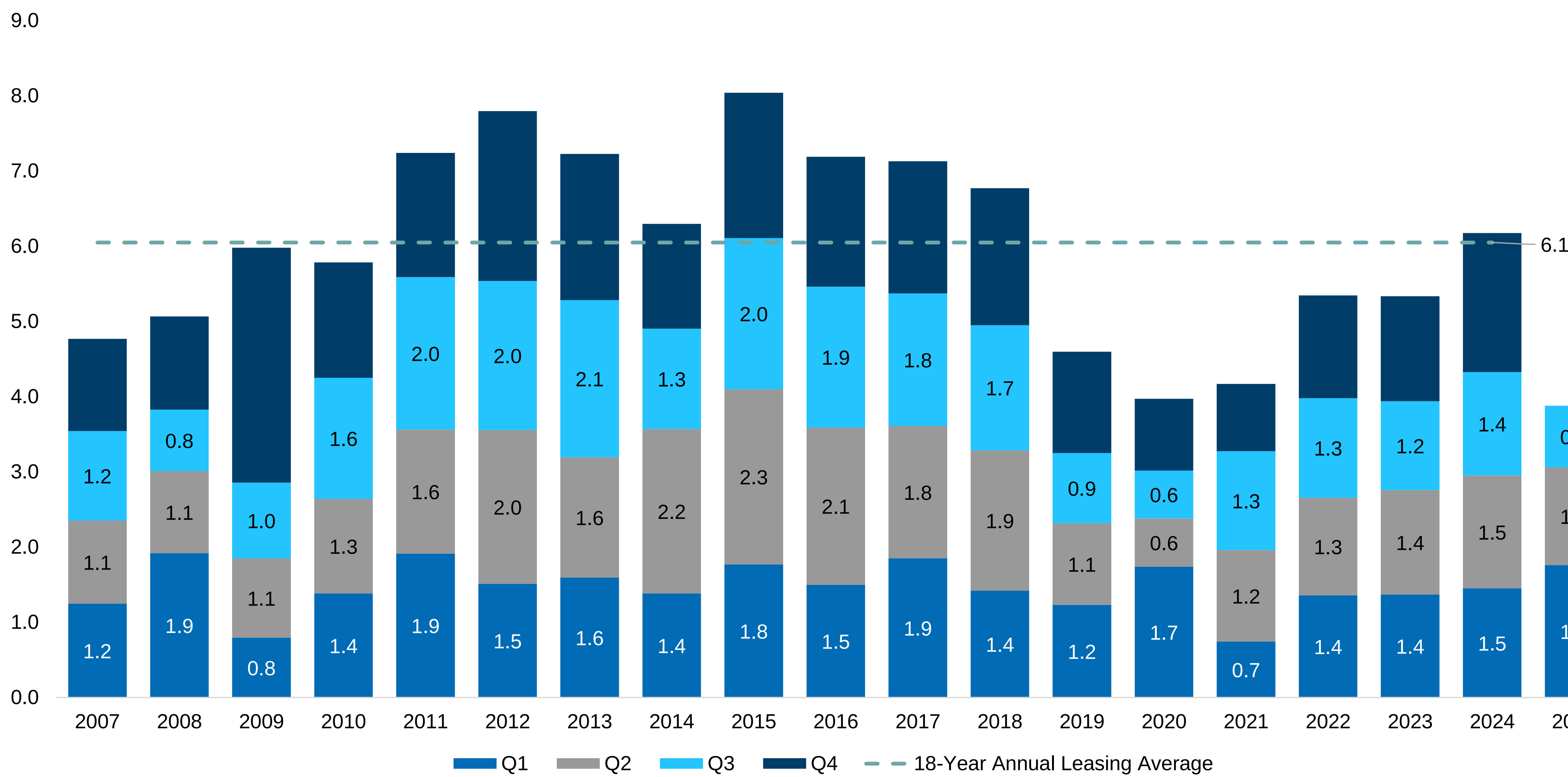


Source: Newmark Research

Leasing Market Sees First Pullback Since 2020

Chicago's suburban office market logged 3.1 million square feet of leasing in the first half and 0.8 million in the third quarter, bringing year-to-date volume to roughly 4.0 million square feet. First-half momentum had activity tracking toward pre-pandemic levels last seen in 2018, but the pace cooled in the third quarter, which was the softest Q3 since 2020. With three months remaining in 2025, a late-year uptick could still lift totals back toward recent annual averages.

Total Leasing Activity (MSF)

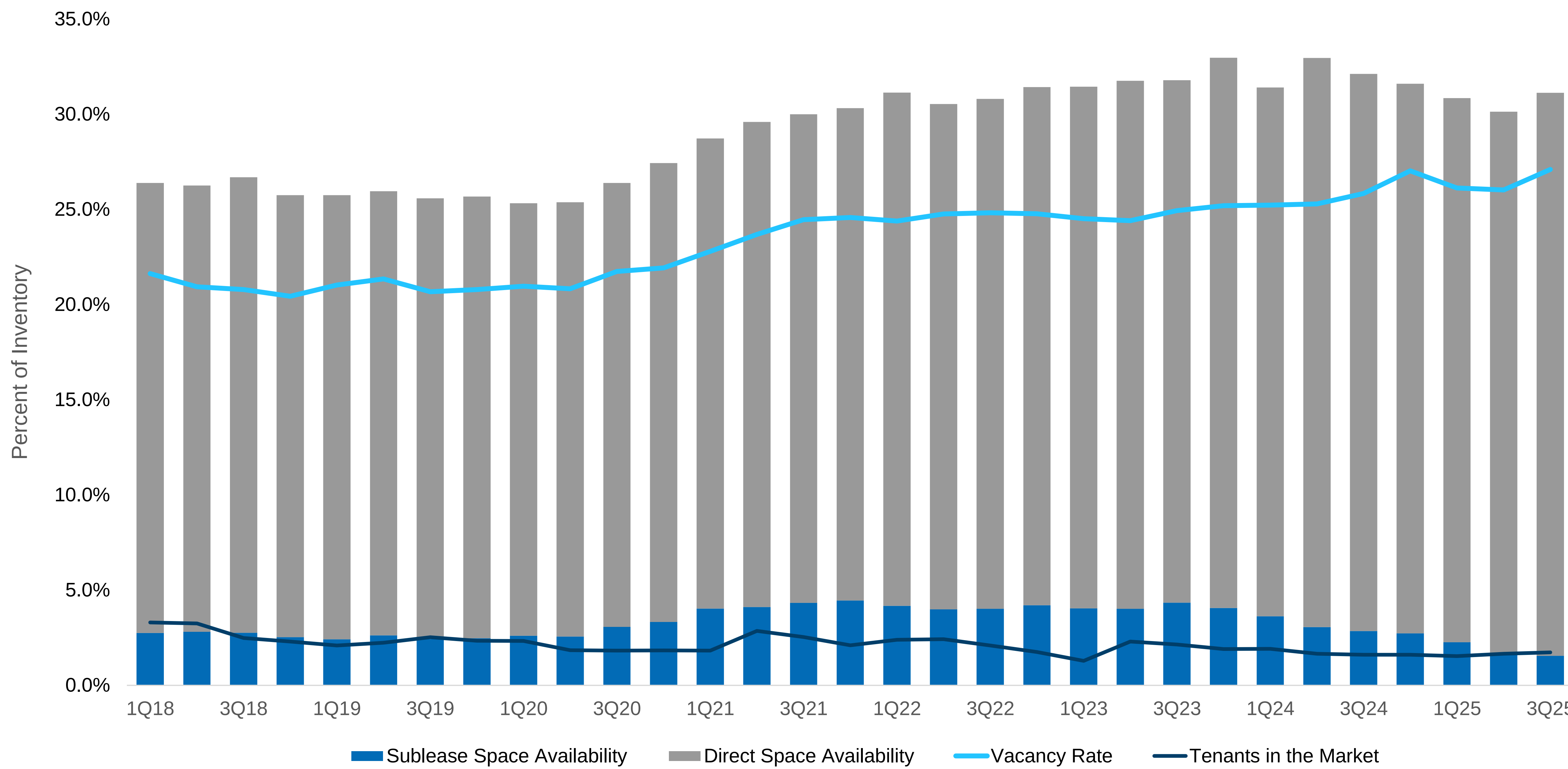


Source: Newmark Research, CoStar

Decrease in Inventory Causes False Increase in Vacancy

In the third quarter, total availability increased slightly to 31.1%, while sublease availability continued its significant downward trend, falling to its lowest level in over six years. The overall vacancy rate also increased slightly to 27.1%. Tenant demand in the market measured 1.7% of inventory, marking no change from the previous quarter. The modest change within the suburban office market are not indictments on the overall health, as increases in availability and vacancy are related to decreases in the rentable inventory.

Available Space and Tenant Demand as Percent of Overall Market

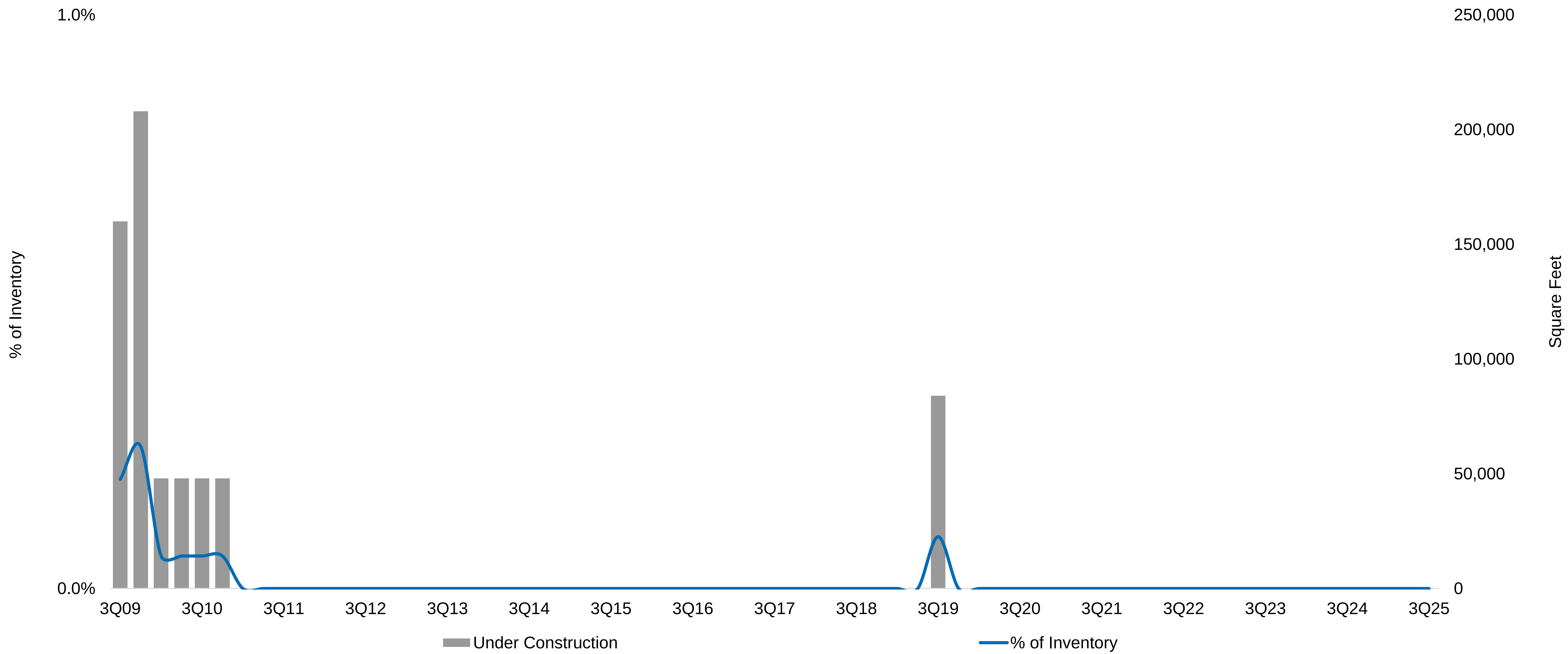


Source: Newmark Research

Suburban Office Construction Remains Inactive

Chicago's suburban office development pipeline remained empty in the third quarter of 2025, with no projects under construction for the 18th consecutive quarter. Elevated vacancy and the continued absorption of existing inventory are still curbing demand for ground-up development, extending the multi-year pause in new office starts.

Office Under Construction and % of Inventory

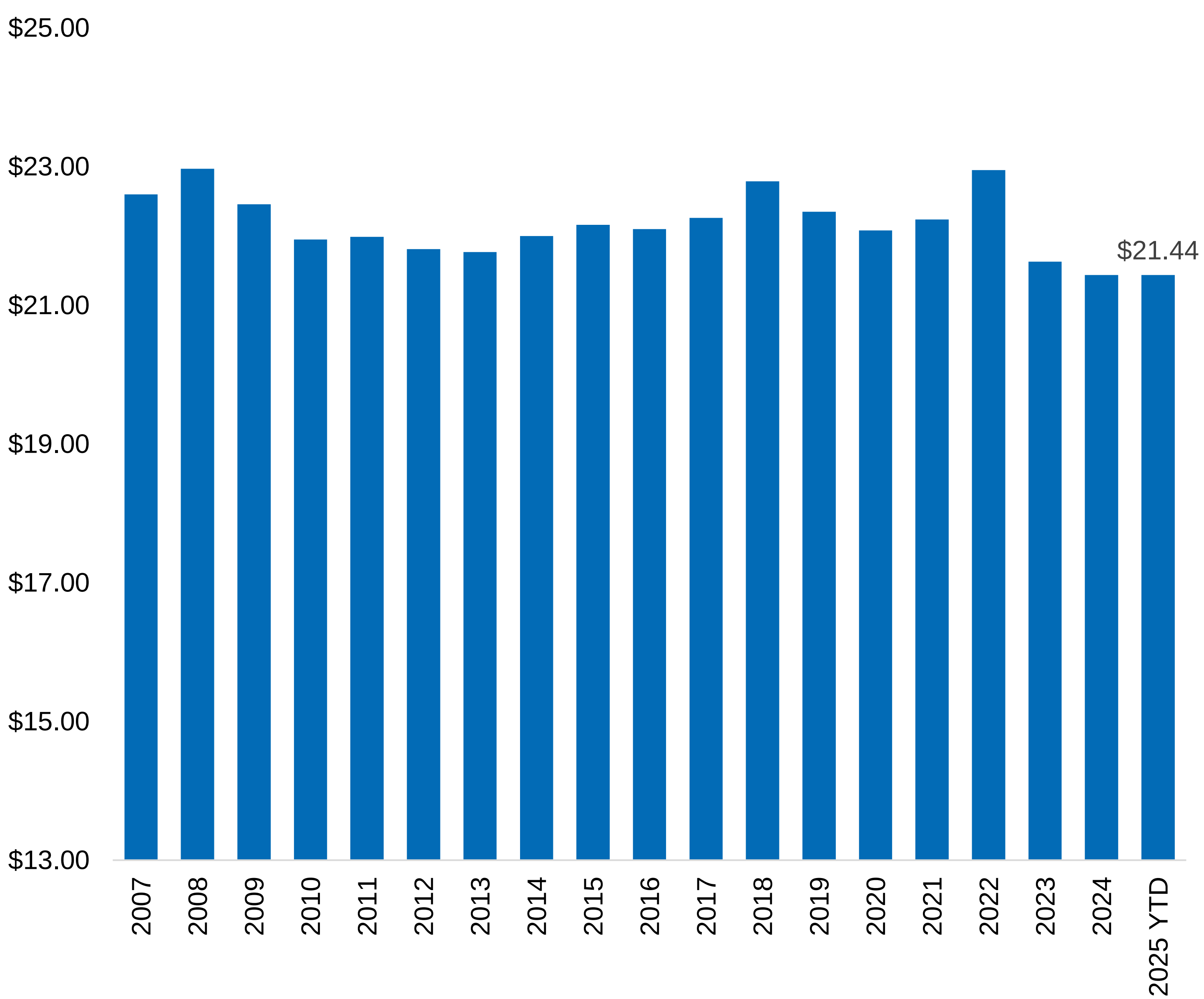


Source: Newmark Research, CoStar

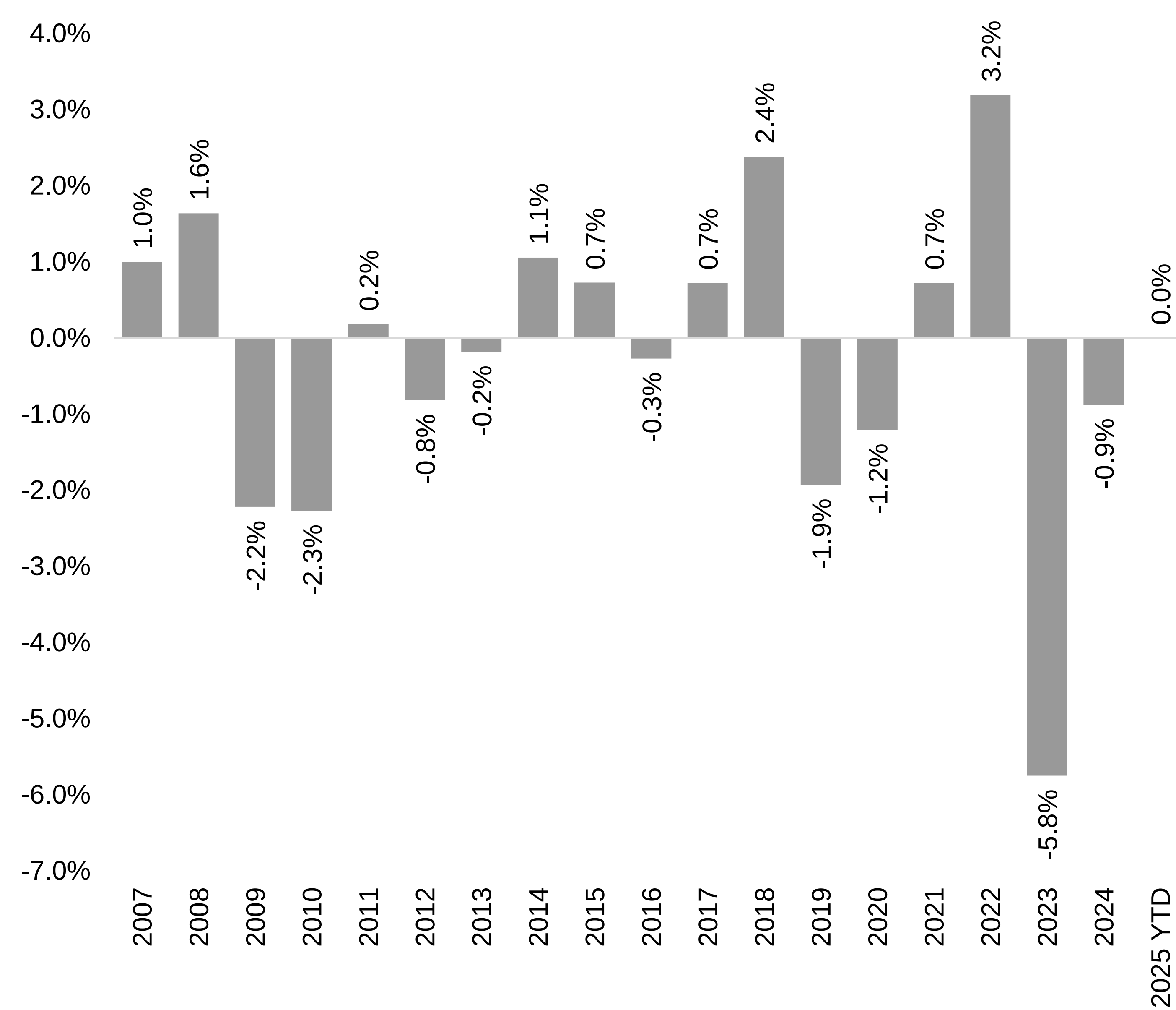
Early Rent Recovery in Suburbs Loses Momentum

Suburban office rents have shown only marginal gains since 2024, still falling short of pre-pandemic and 2022 peak levels. Following a sharp 5.8% decline in 2023, rents posted modest improvement, with year-over-year growth peaking at 0.8% in the first half of 2025, hinting at early market stabilization. That momentum faded in the third quarter as softening rents stalled the recovery and tempered optimism for a sustained rebound in the suburbs.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

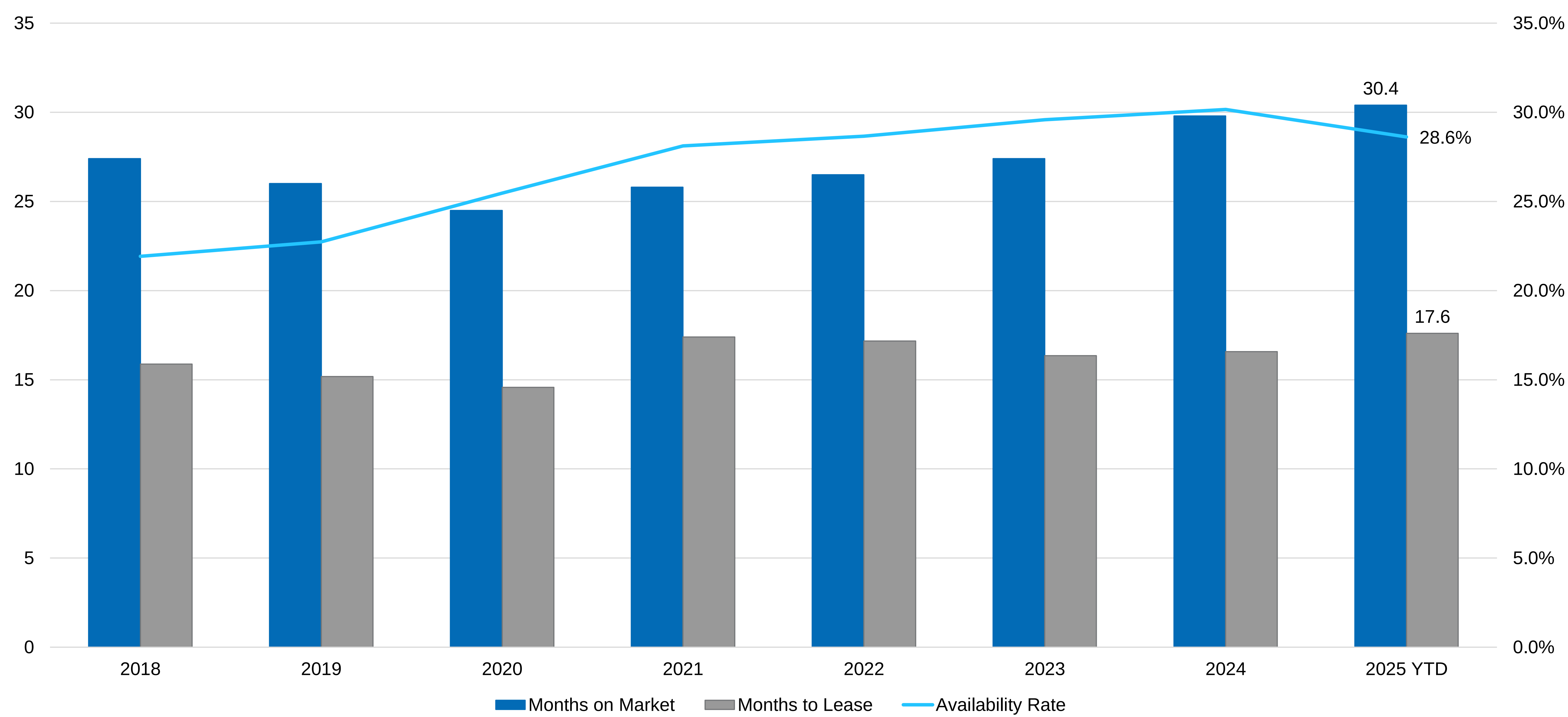


Source: Newmark Research, CoStar

Leasing Timelines Lengthen Amid Stagnant Tenant Demand

With tenant demand largely stagnant, the average time required to market and lease office space has reached new highs. The tenant-favorable environment, characterized by elevated availability, continues to pressure landlords to hold vacant space longer and offer increasingly aggressive concession packages to attract occupiers. Since 2020, the growth in time-on-market has closely mirrored the rise in availability rates, underscoring ongoing softness in absorption. To mitigate prolonged vacancies and maintain cash flow, landlords are should prioritize deal velocity over rent growth, focusing on competitive terms and flexibility to secure commitments.

Average Time on Market & Time to Lease Direct Spaces



Source: Newmark Research, CoStar

Leasing Activity Slows Down in Q3 for First Time Since 2020

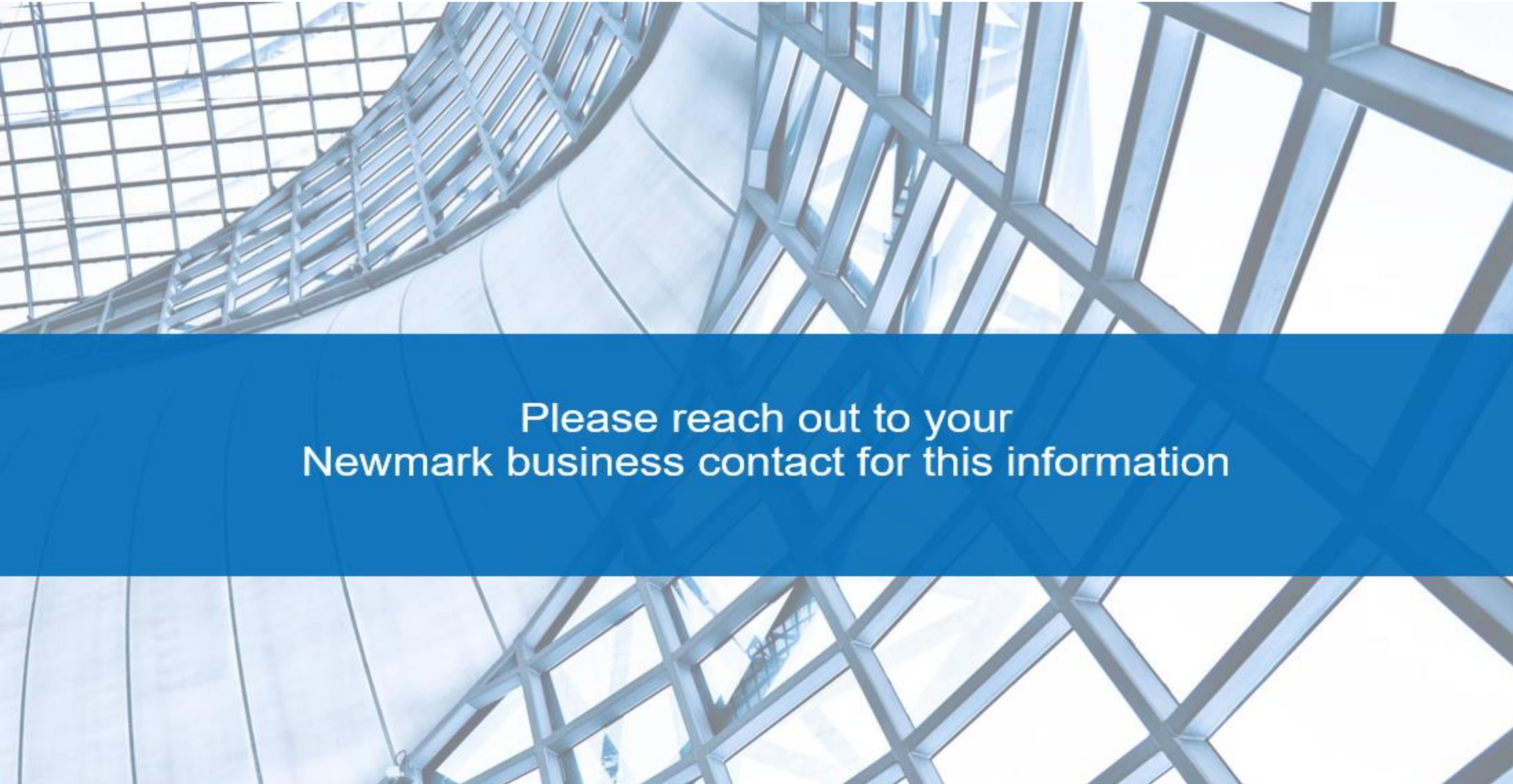
Chicago's suburban office market logged roughly 4.0 million square feet of leasing through the third quarter of 2025, with renewals and short-term extensions comprising the bulk of activity. Many tenants continued to reassess long-term space strategies, with some smaller users capitalizing on favorable conditions to occupy full buildings while others weigh consolidation or relocation to the CBD. The market's evolving dynamics highlight a cautious but adaptive tenant base focused on flexibility, quality, and value.

Notable 3Q25 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.				
Zachry Engineering	1411 Opus Pl	I-88 East	Lease Renewal	69,000
The engineering design company renewed its lease for nearly 70,000 SF at 1411 Opus Pl.				
Total Sweetners Inc.	10255 W Higgins Rd	O'Hare	Lease Extension	29,303
The wholesale food ingredient distributor extended its lease in place for another eleven months.				
Old Second National Bank	1515 W 22nd St	I-88 East	Lease Extension	24,000
The financial services firm extended in place for 24,000 SF at Oak Brook Regency Tower.				
Sedgwick Claims Mgmt. Services	3500 Lacey Rd	I-88 East	New Lease	24,000
The claims management company leased 24,000 SF at 3500 Lacey Rd.				

Source: Newmark Research

Submarket Overview



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