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4Q24

# Chicago Suburban Office Market Report



**NEWMARK**

# Market Observations

## Economy

- Chicago’s unemployment rate is 0.8% higher than the national average, with job growth slowing over the past year. After several quarters of increasing and surpassing 6% for the first time since June 2021, the unemployment rate has fallen in the last couple of months coming back down to 5%.
- Office-occupying industries posted mostly negative results. The Information sector saw a slight increase, while financial activities saw a decline. The business & professional services sector faced the most significant drop contracting by -2.7%.

## Major Transactions

- ADP signed the largest lease in the suburbs this quarter, with a 150,000 SF sublease at 1299 Zurich.
- Several properties traded hands this quarter. Presidents Plaza, two buildings making up over 800,000 SF sold for \$62.1 million.

## Leasing Market Fundamentals

- Leasing volume increased from last quarter and posted the strongest fourth quarter in the suburbs since 2018. Despite the surge in leasing activity, 2024 marked the sixth year in a row with leasing volume coming in below the historical average.
- Quarter-over-quarter vacancy increased by 0.2% to 25.8%, with a 120-basis-point increase year-over-year. Although there has been no new suburban office deliveries in years, move-outs have continued to outpace move-ins.

## 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

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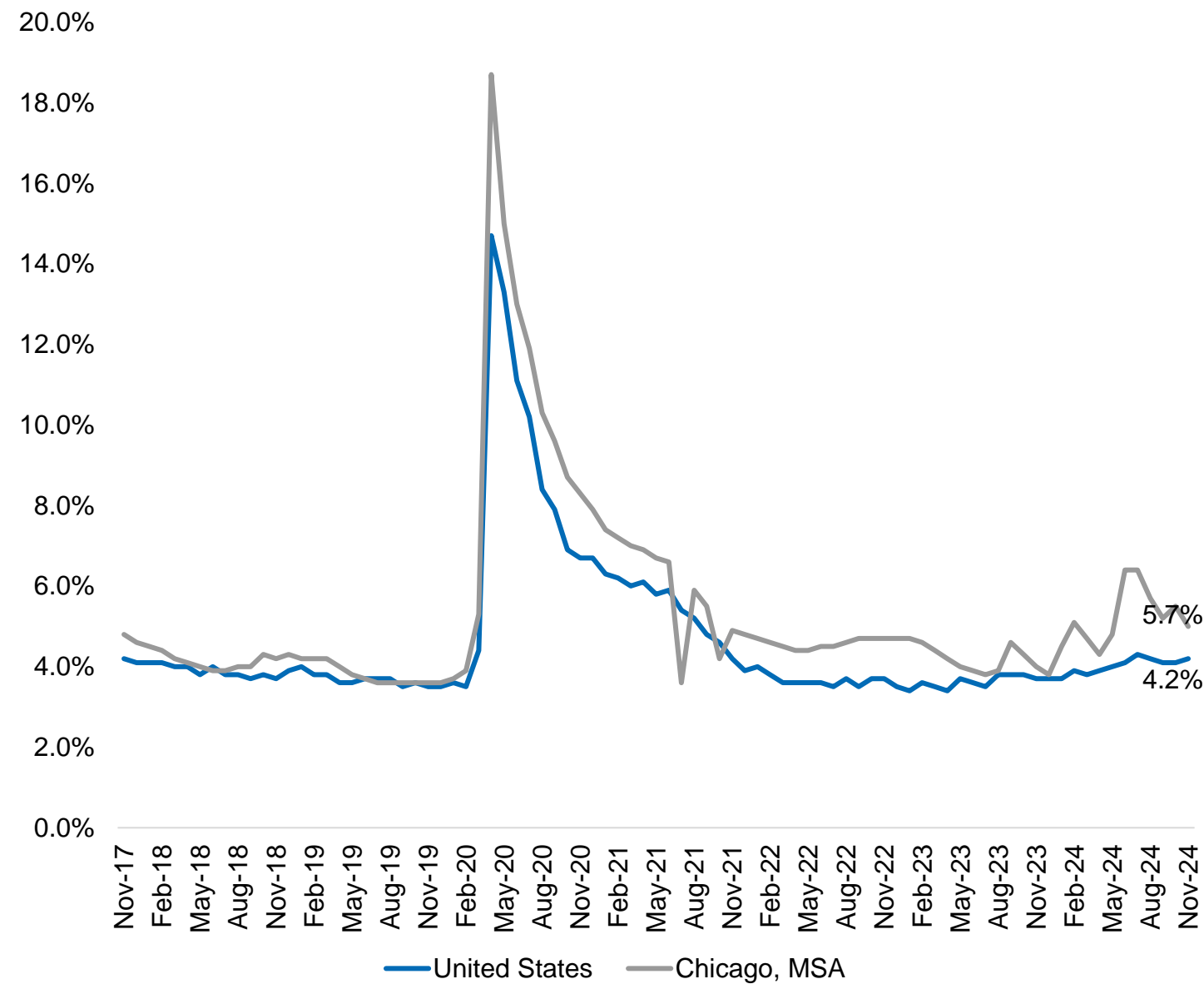
# Economy



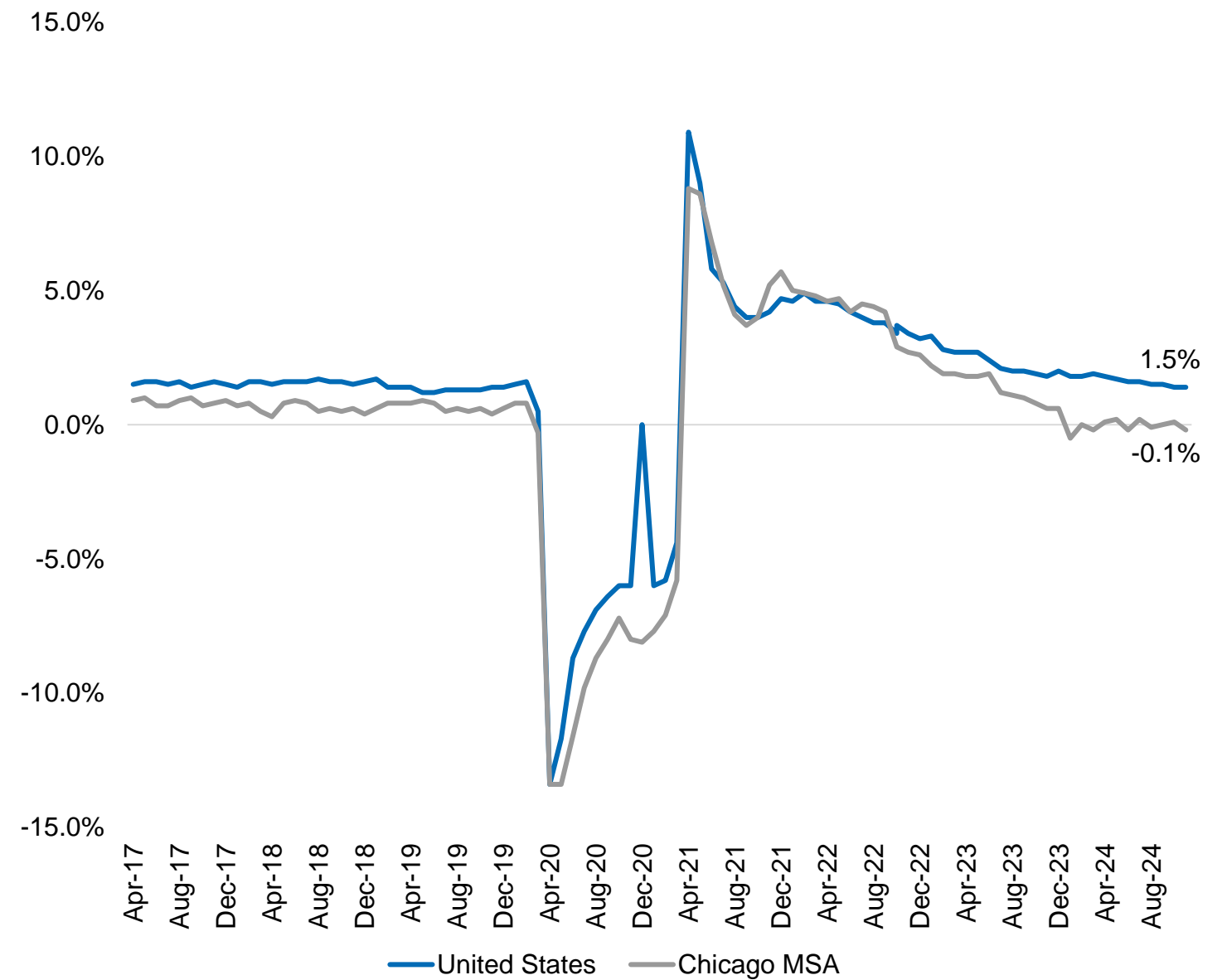
# Economic Indicators Show Divergent Trends for Chicago and U.S.

Chicago's unemployment has sharply increased, diverging from a more stable national trend. The city faces challenges with job retention, shown by weak payroll employment growth compared to the national uptick. While recovery trends are visible, Chicago continues to grapple with significant labor market strains.

Unemployment Rate, Seasonally Adjusted



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

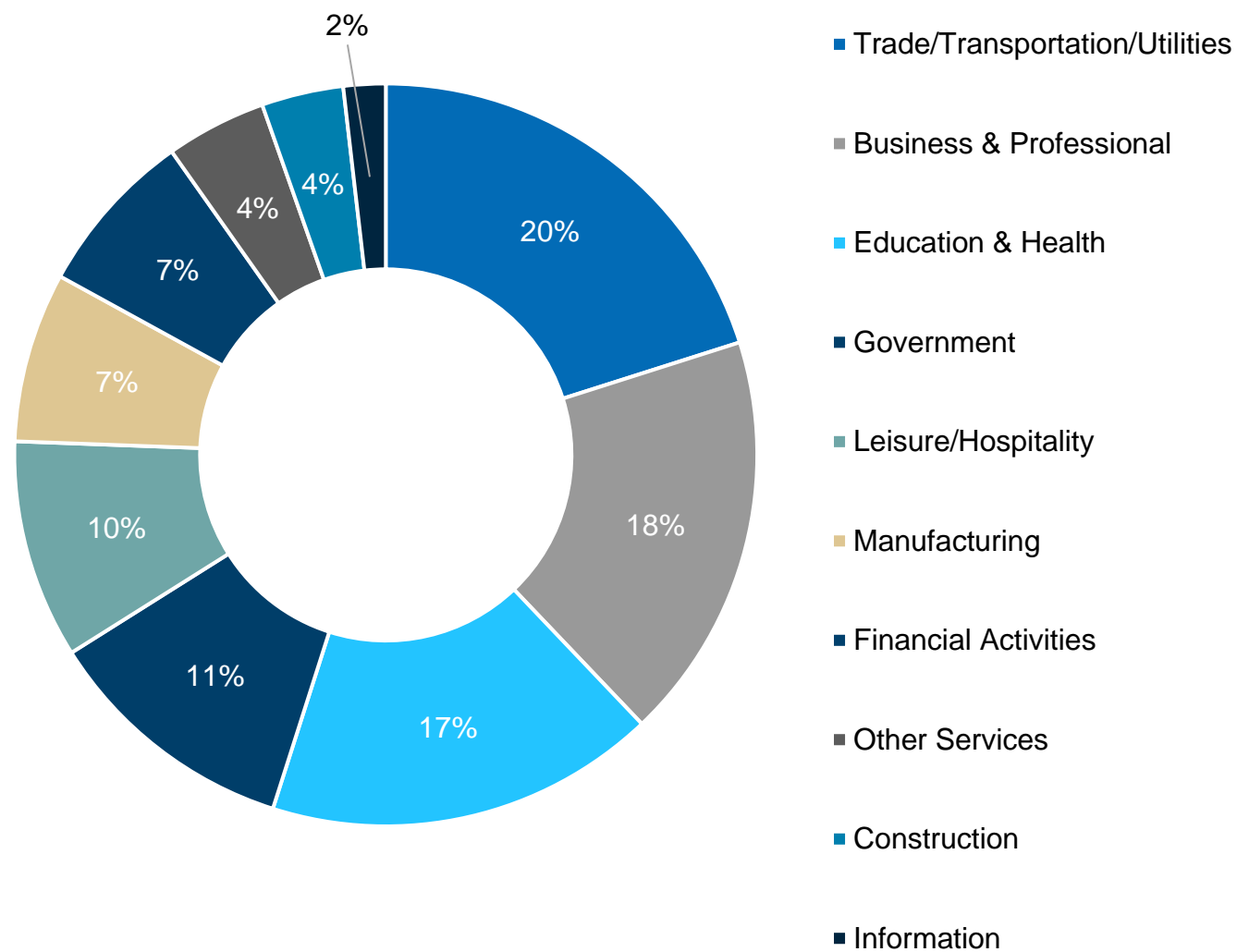


Source: U.S. Bureau of Labor Statistics, Chicago MSA

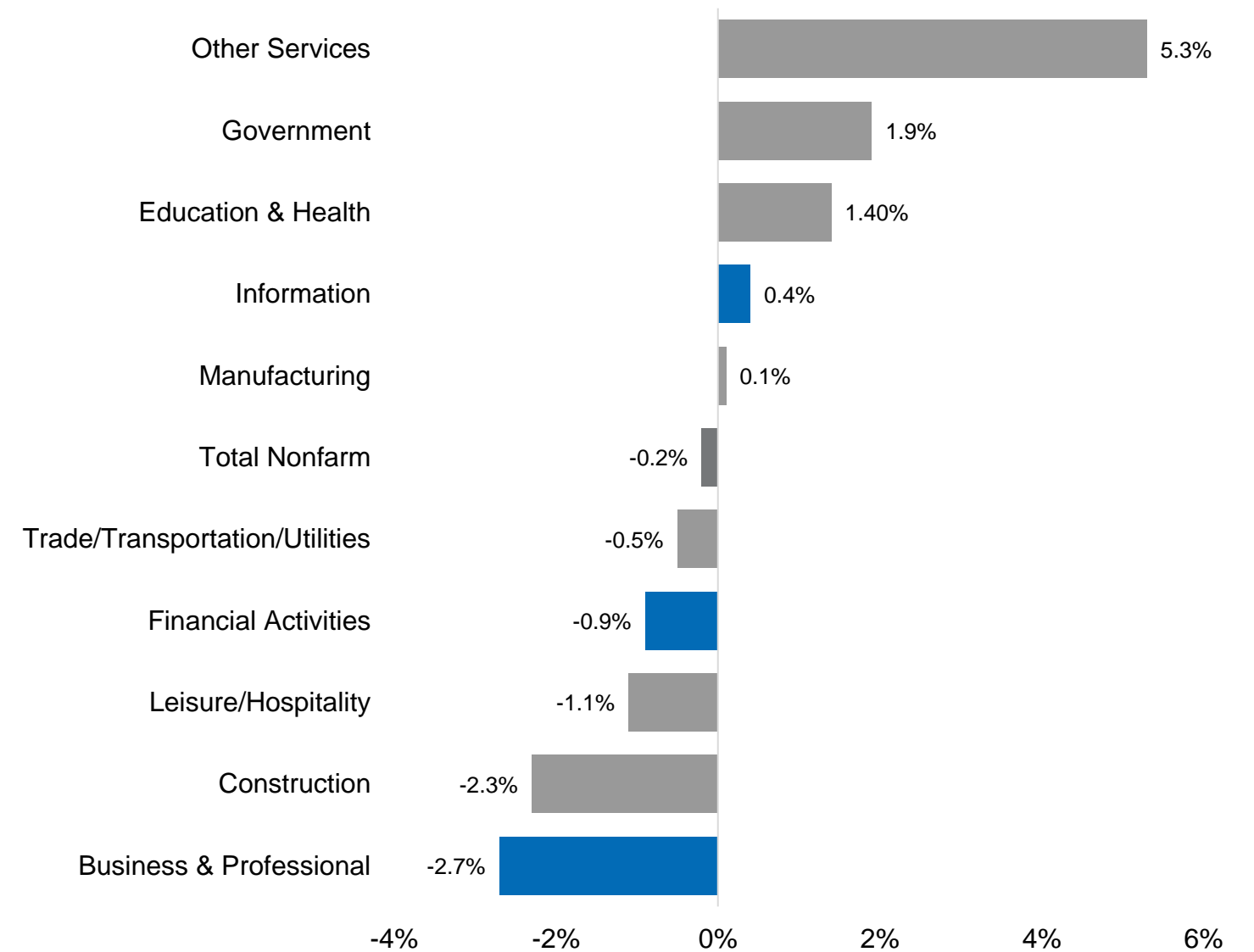
# Services Sector Drives Job Gains; Office Industries Mostly Contract

The “Other Services” sector led regional annual job growth, driven largely by the continued recovery from pandemic losses. Office-occupying industries, however, posted mostly negative results. The “Information” sector saw a slight increase of 0.4%, while “Financial Activities” saw a decline of -0.9%. The “Business & Professional Services” sector faced the most significant drop contracting by -2.7%.

Employment by Industry, August 2024



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

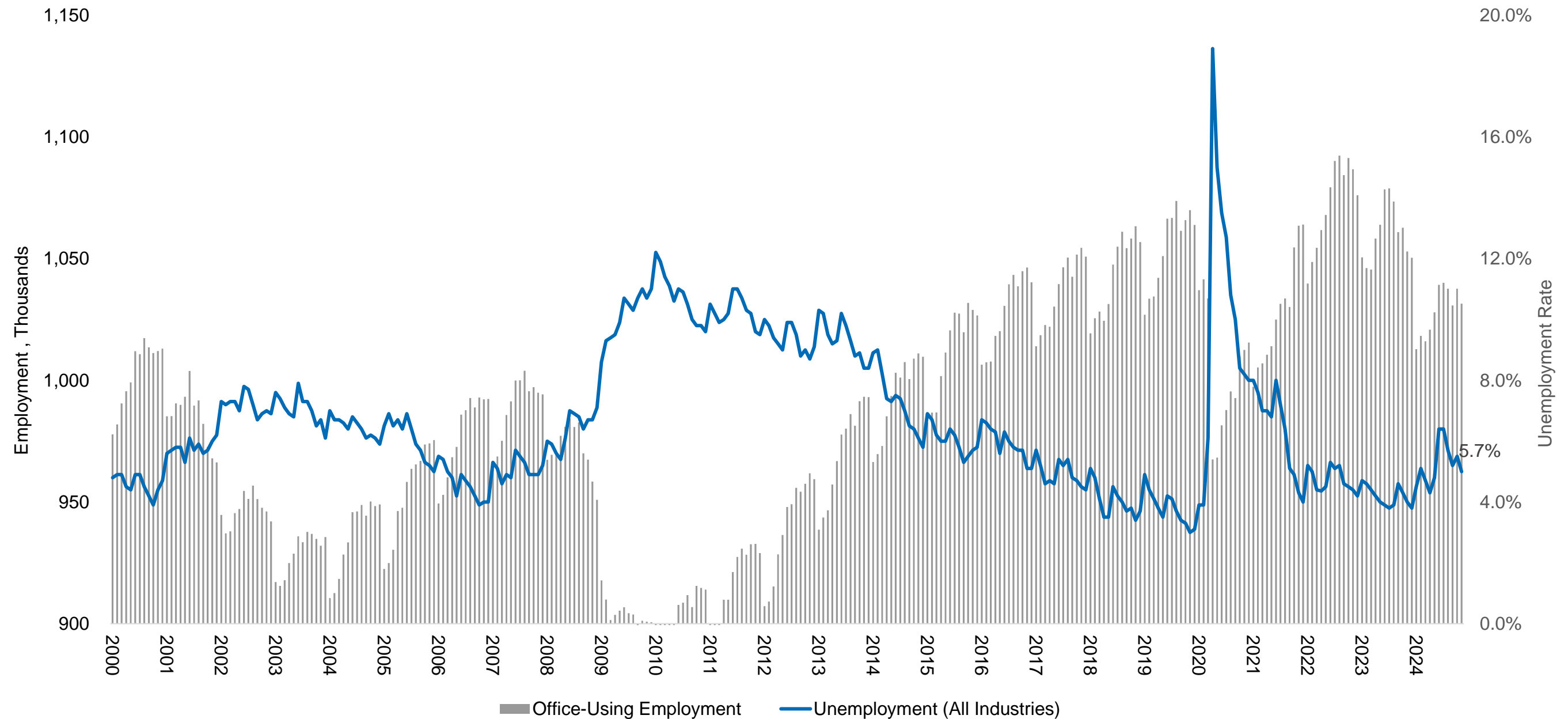


Source: U.S. Bureau of Labor Statistics, Chicago MSA

# Office-Using Employment Shows Resilience Amid Economic Challenges

While office-using employment has not fully rebounded to recent highs, it remains a resilient sector amid rising unemployment across all industries. Although recent months have shown fluctuations, the sector demonstrates potential for steady recovery, positioning itself as a pivotal element in economic stabilization.

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

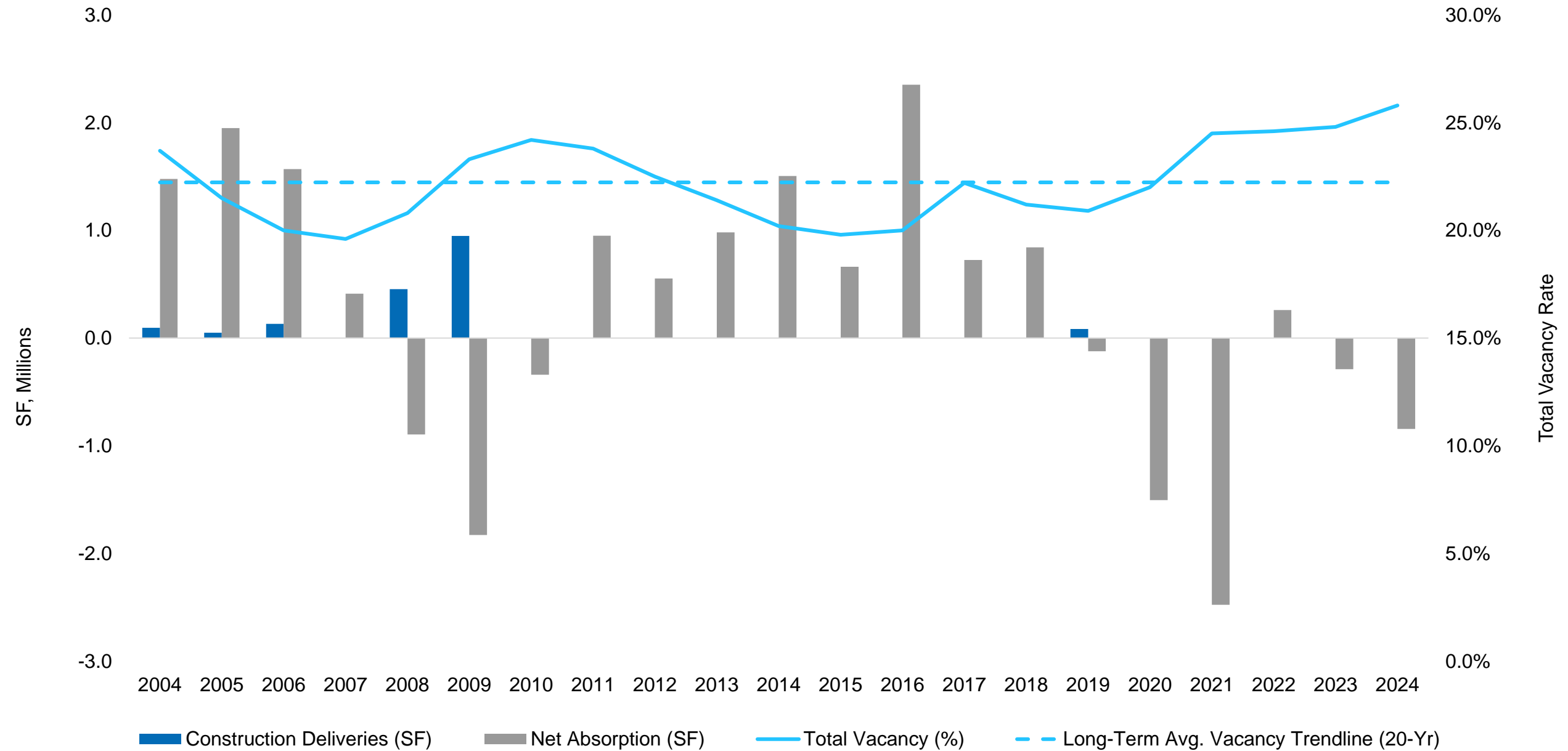




# Negative Absorption Continues

Quarter-over-quarter vacancy increased by 0.2% to 25.8%, with a 120-basis-point increase year-over-year. Although there has been no new suburban office deliveries in years, move-outs have continued to outpace move-ins.

## Historical Construction Deliveries, Net Absorption, and Vacancy

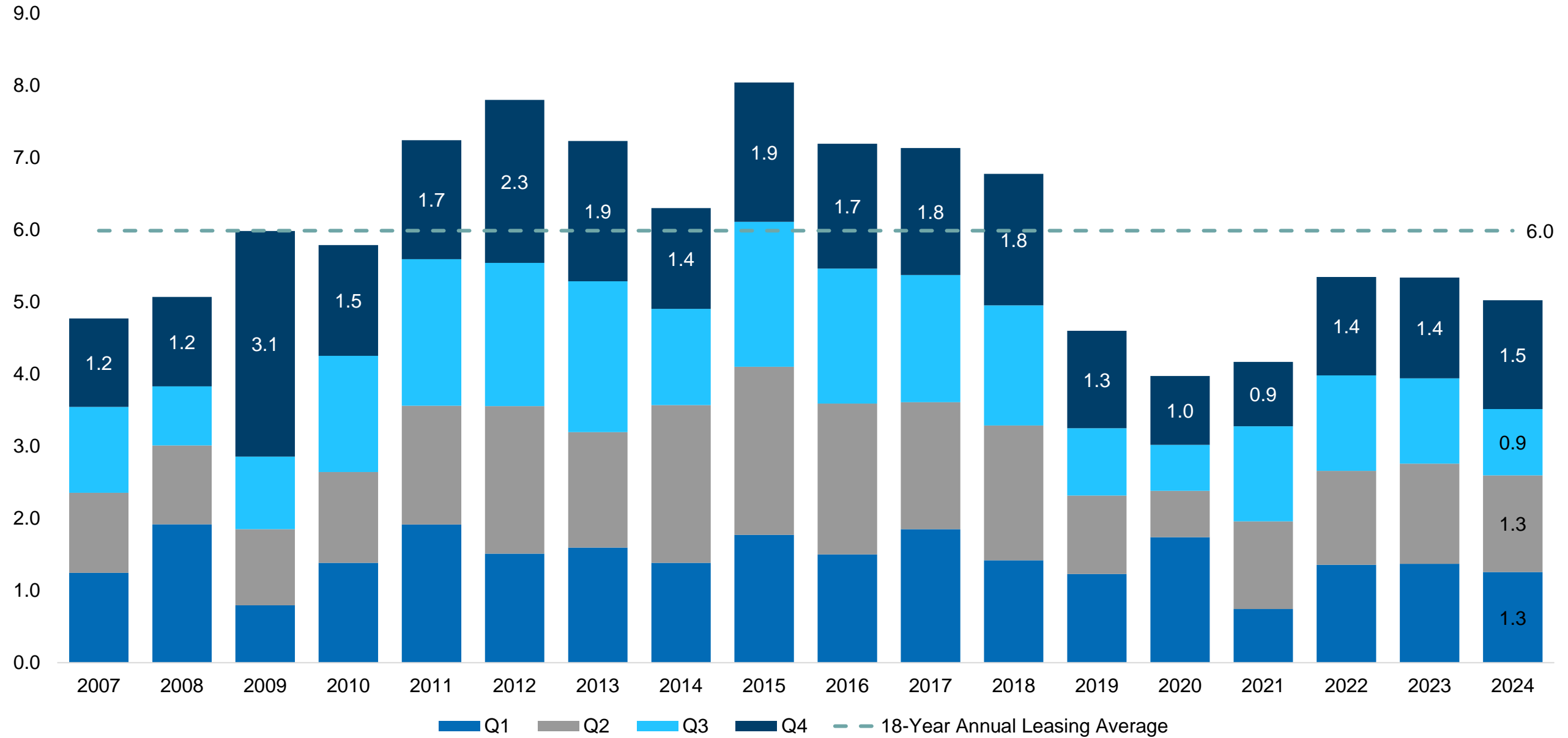


Source: Newmark Research

# Leasing Volume Grows

Leasing volume increased from last quarter and posted the strongest fourth quarter in the suburbs since 2018. Despite the surge in leasing activity, 2024 marked the sixth year in a row with leasing volume coming in below the historical average.

Total Leasing Activity (msf)

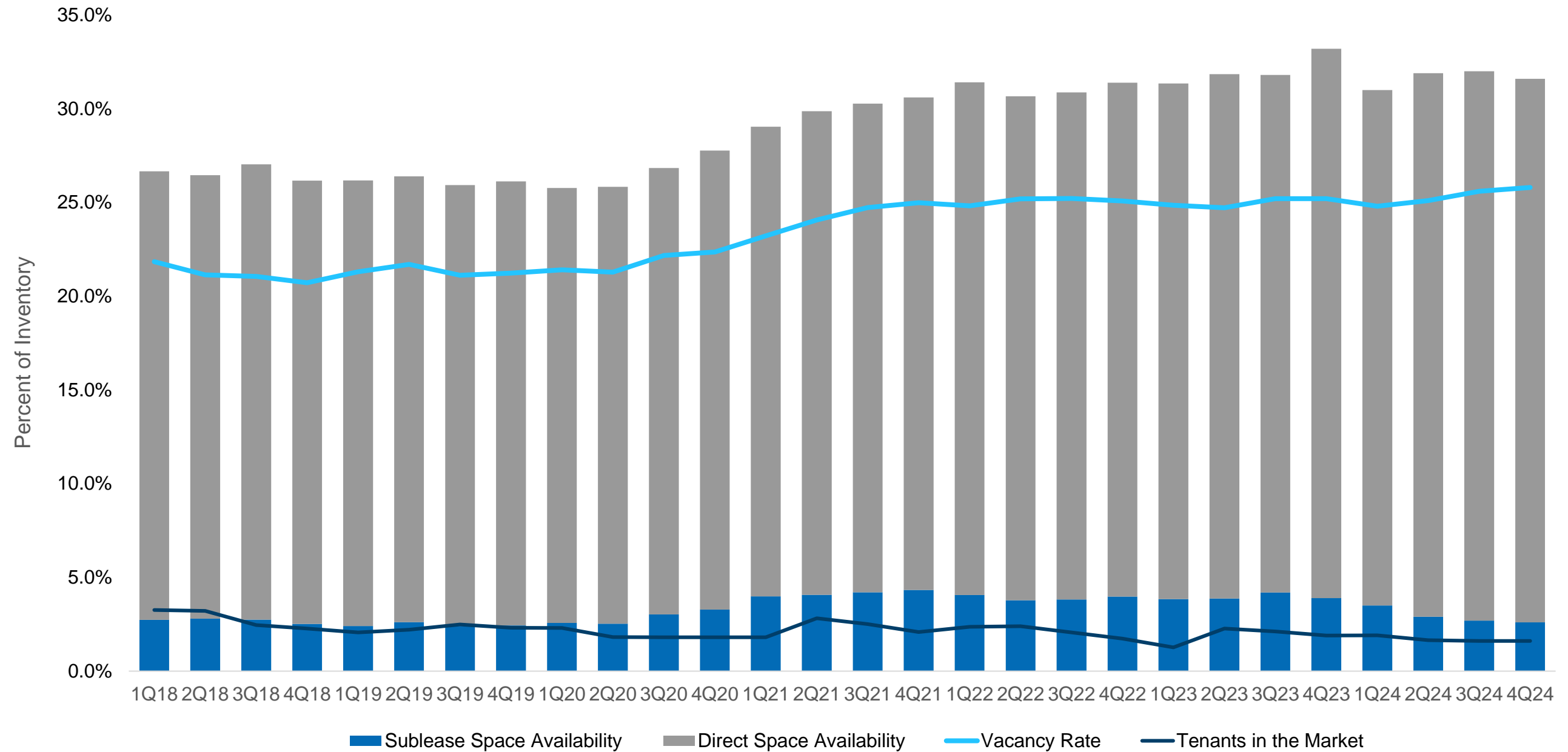


Source: Newmark Research, CoStar

# All Availability Decreased

Total availability decreased by 0.4% this quarter to 31.6%. The total decrease was thanks to direct availability decreasing 30 basis points to 29.0% and sublet availability falling 0.1% to 2.6%. Vacancy rose by 0.2% to 25.8%. Tenants in the market account for 1.6% of total inventory, same as last quarter.

Available Space and Tenant Demand as Percent of Overall Market

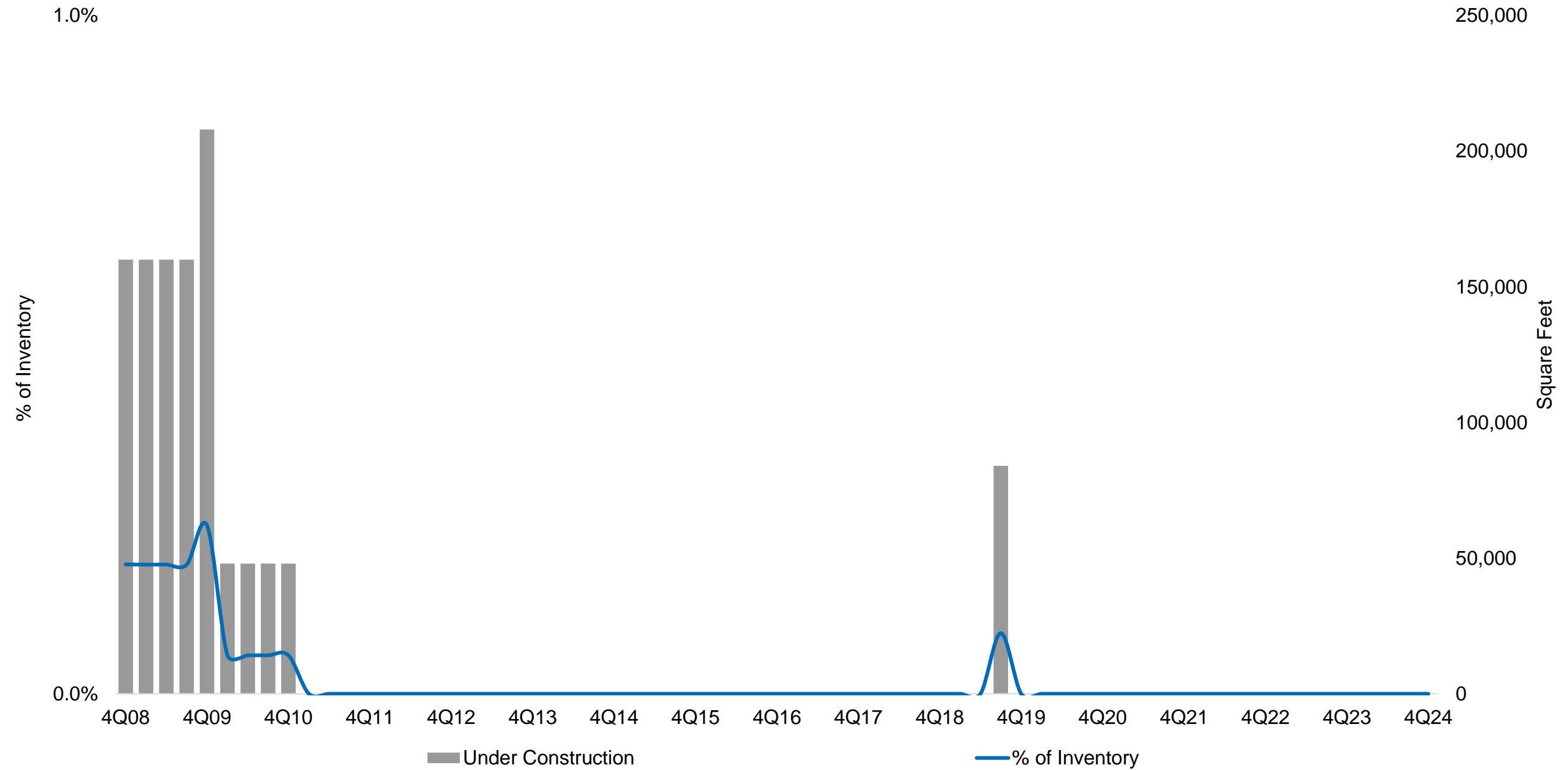


Source: Newmark Research

# 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

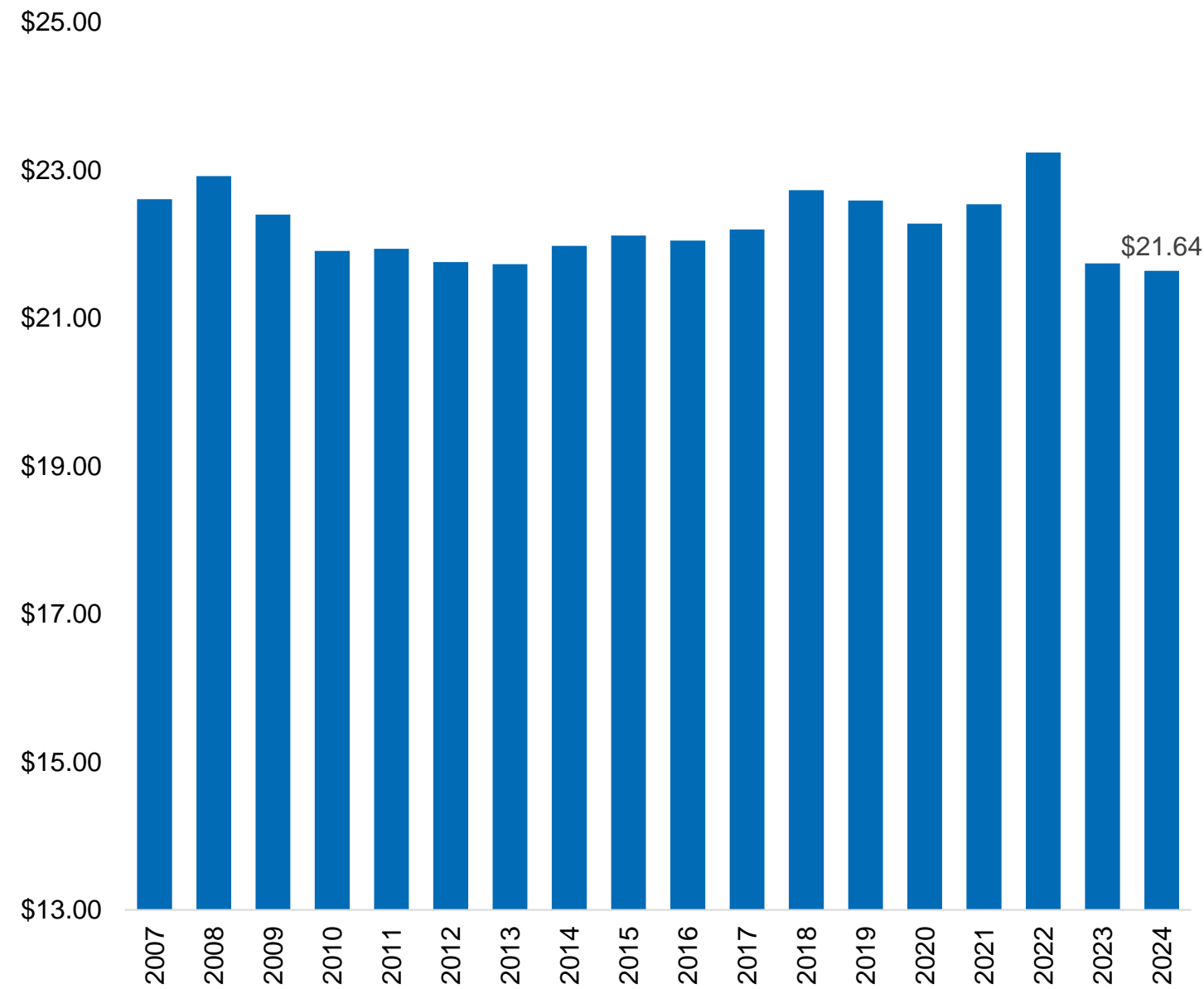


Source: Newmark Research, CoStar

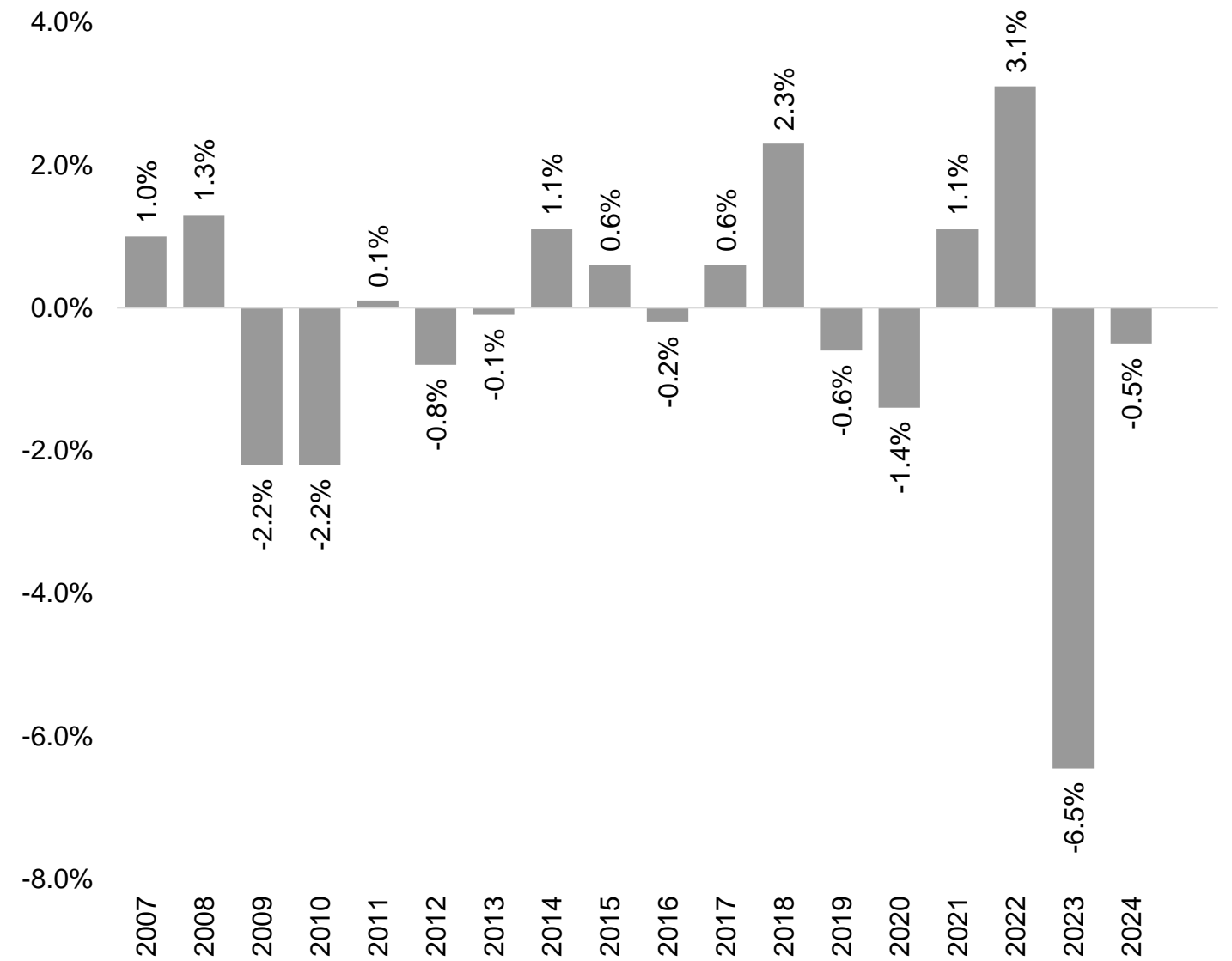
# Suburban Rents Below Pre-Pandemic Levels

Asking rental rates have increased \$0.14/SF year over year in the suburbs. While landlords face capital challenges in completing transactions, rents remain 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

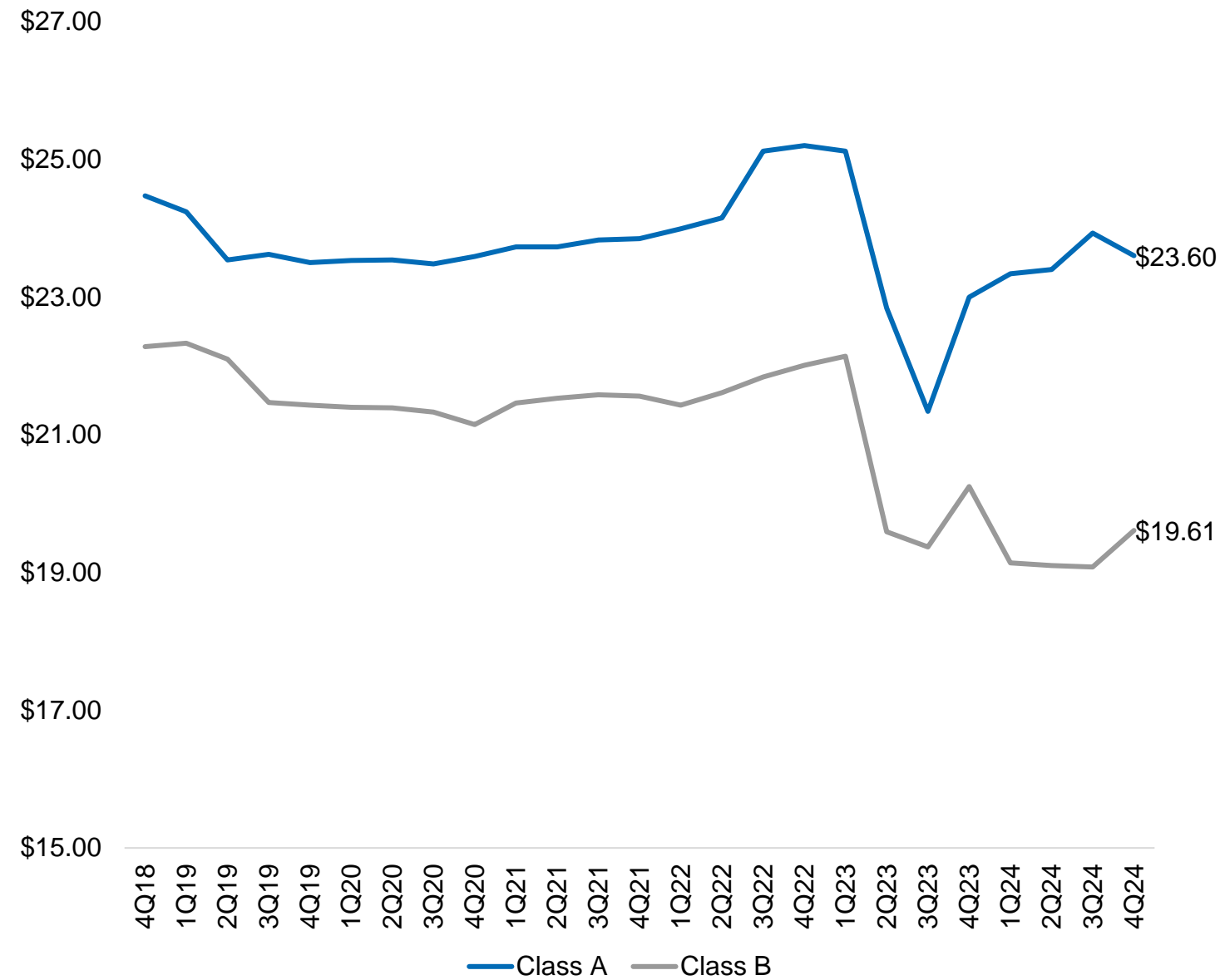


Source: Newmark Research, CoStar

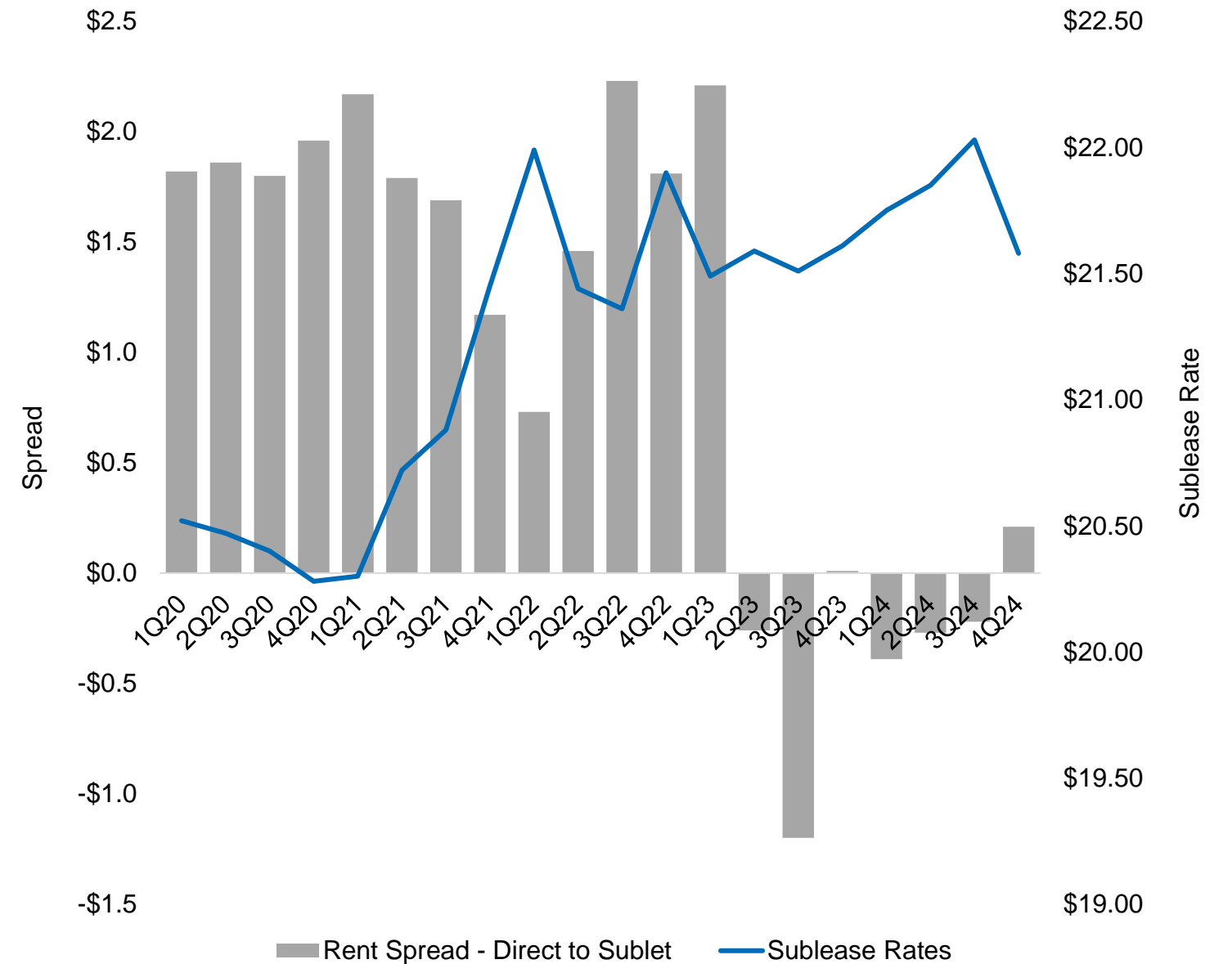
# Direct Rates Surpass Sublease Rates

Class A rental rates decreased by \$0.33/SF this quarter, while Class B rates saw an increase of \$0.53/SF. Additionally, for the first time in several quarters, direct rates are back above sublease rates in the suburbs.

### Class A and Class B Asking Rents



### Sublease Rates



Source: Newmark Research, CoStar

# Leasing Volume Increases

Leasing volume surged in the suburbs to end the year posting 1.5 million SF of activity in the fourth quarter compared to just 900,000 SF last quarter and 1.4 million in the fourth quarter in 2023.

## Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
ADP	1299 Zurich	Northwest	Sublease	150,000
KeHE	1245 E Diehl	I-88 West	Lease Renewal	91,000
Comcast	1475 E Woodfield	Northwest	New Lease	55,000
Mizkan	200 N Martingale	Northwest	New Lease	43,000

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## Submarket Overview



Please reach out to your  
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