

1Q25

Chicago Suburban Office Market Report

NEWMARK

Market Observations

Economy

- Recently, the Chicago MSA's unemployment rate increased to 5.3%, contrasting with the U.S. rate of 4.1%, highlighting persistent regional labor market challenges.
- Office-occupying industries posted mostly negative results. Financial activities saw a slight increase, while the information sector saw a decline. The business & professional services sector faced the most significant drop contracting by -1.8%.

Major Transactions

- Fortune Brands signed the largest lease in the suburbs this quarter, with a 392,000 SF sublease at 1 Horizon Way.
- 4 Overlook Point was the largest office building sold in the suburbs this quarter. The 863,000 SF building sold for \$6.5 million.

Leasing Market Fundamentals

- Leasing volume increased from last quarter and posted the strongest first quarter in the suburbs since 2020. With 2024 finishing right below the 18-year average, 2025 is on pace to get back to pre-pandemic levels.
- In early 2025, the suburban Chicago office market experienced a notable 800,000 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.
- There were several significant move-ins scheduled for the beginning of this year from leases signed through the last couple of years which largely contributed to the significant positive absorption. We do not expect this to be a trend going forward.

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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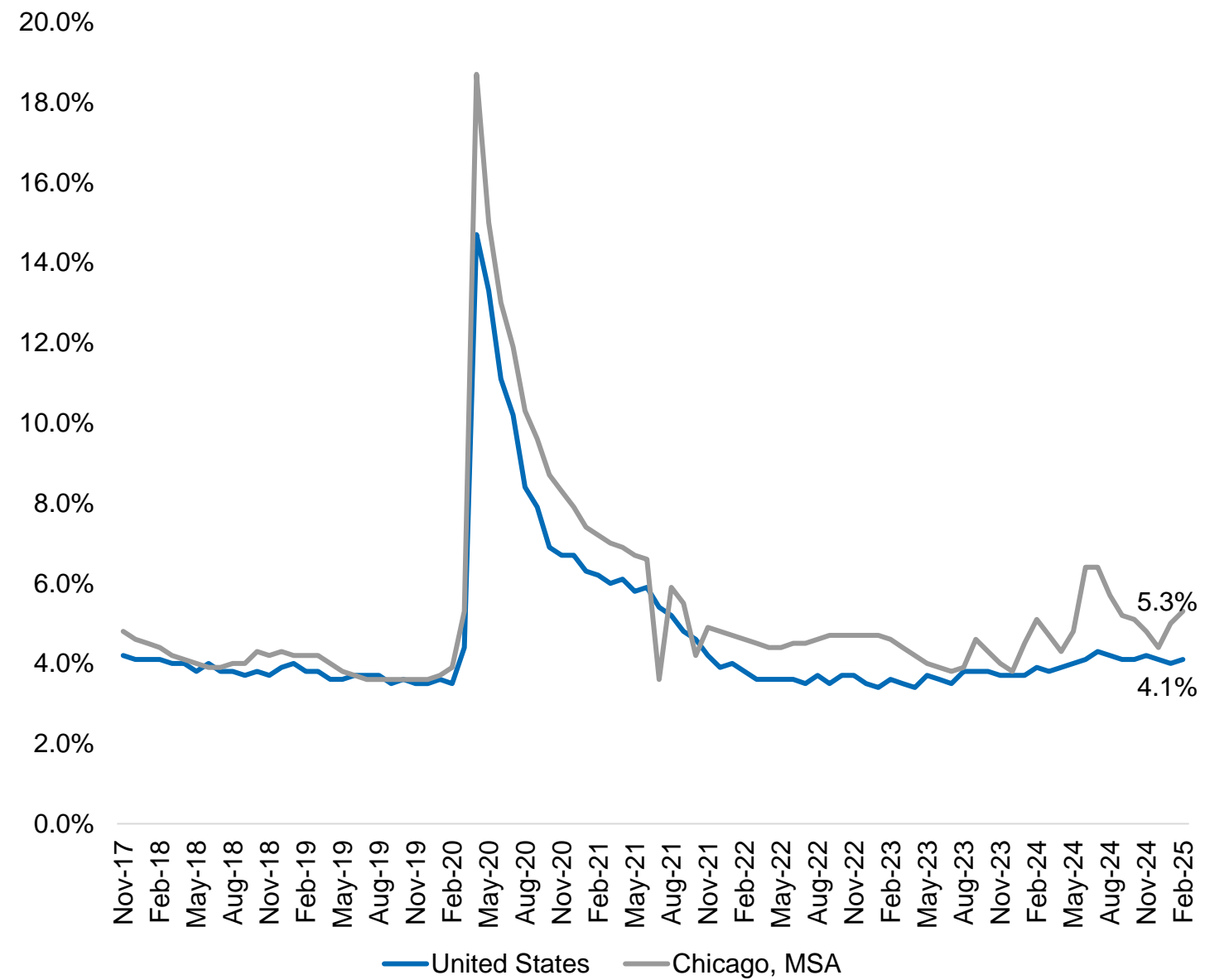
Economy



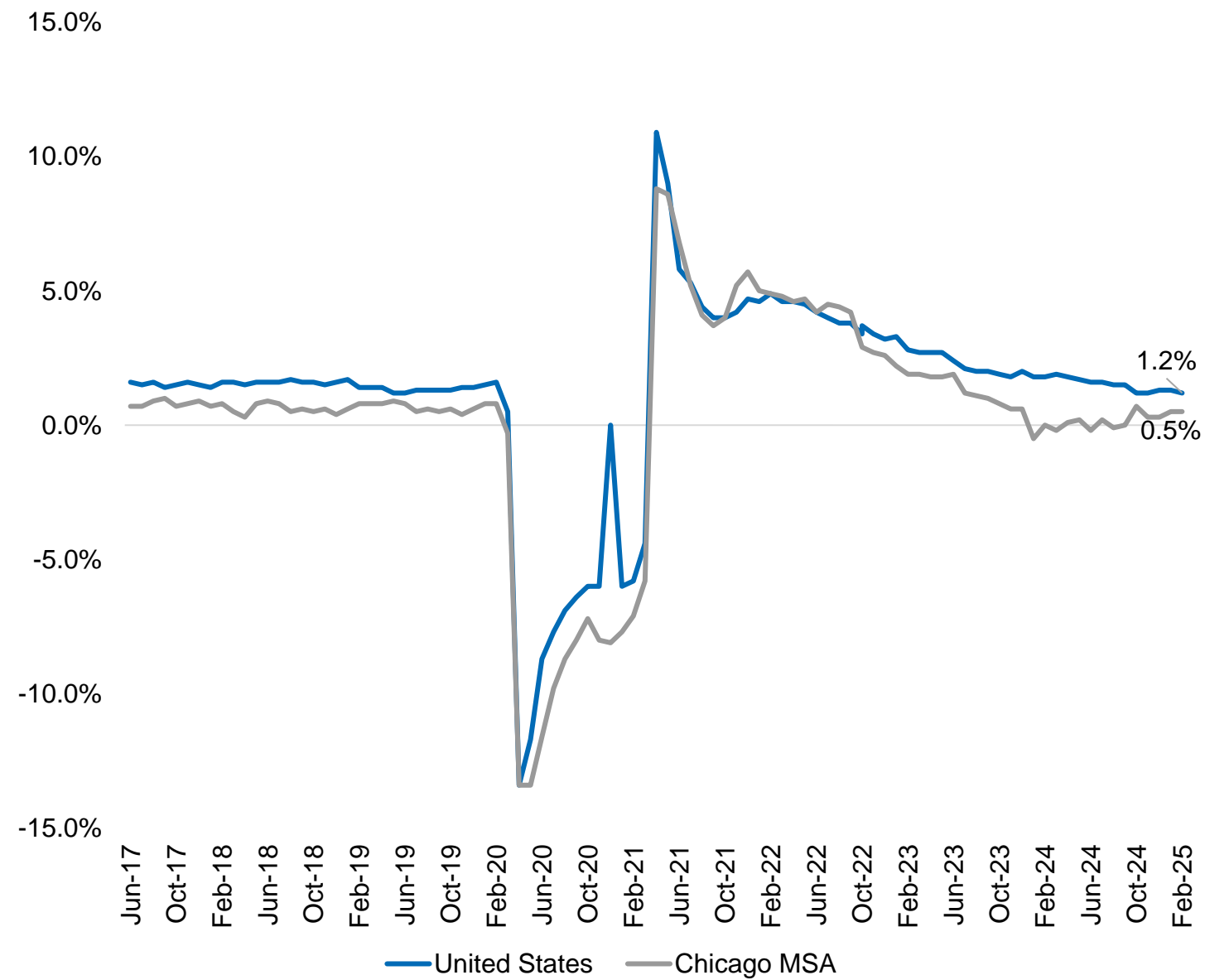
Emerging Stability Amid Continued Labor Market Strain

Recently, the Chicago MSA's unemployment rate increased to 5.3% in February 2025, contrasting with the U.S. rate of 4.1%, highlighting persistent regional labor market challenges. Despite national nonfarm payroll employment stabilizing with a 1.2% year-over-year increase, Chicago shows marginal improvement at 0.5%, underscoring enduring employment growth hurdles. The area's gradual recovery reflects ongoing efforts to stabilize job markets amidst national progress.

Unemployment Rate, Seasonally Adjusted



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

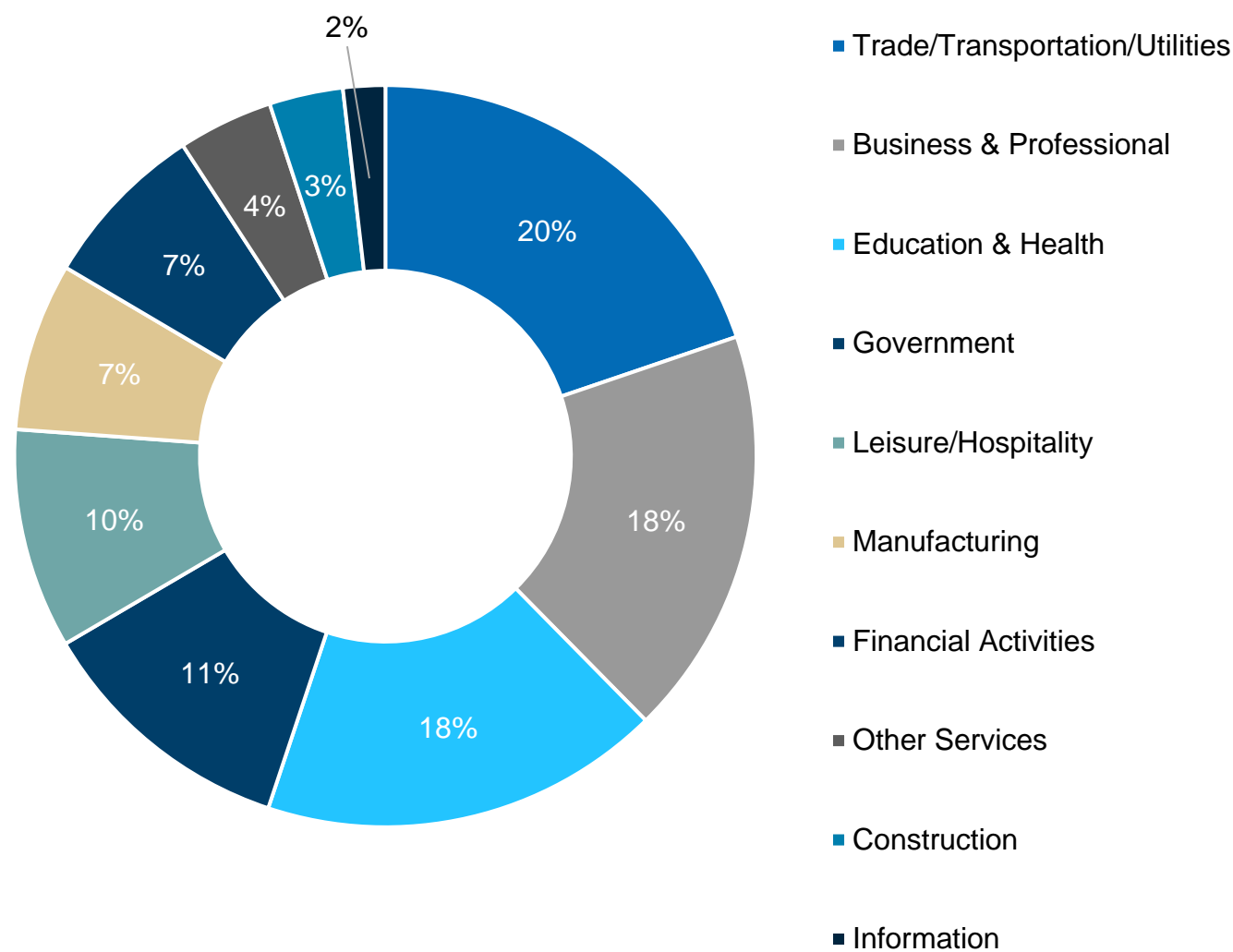


Source: U.S. Bureau of Labor Statistics, Chicago MSA

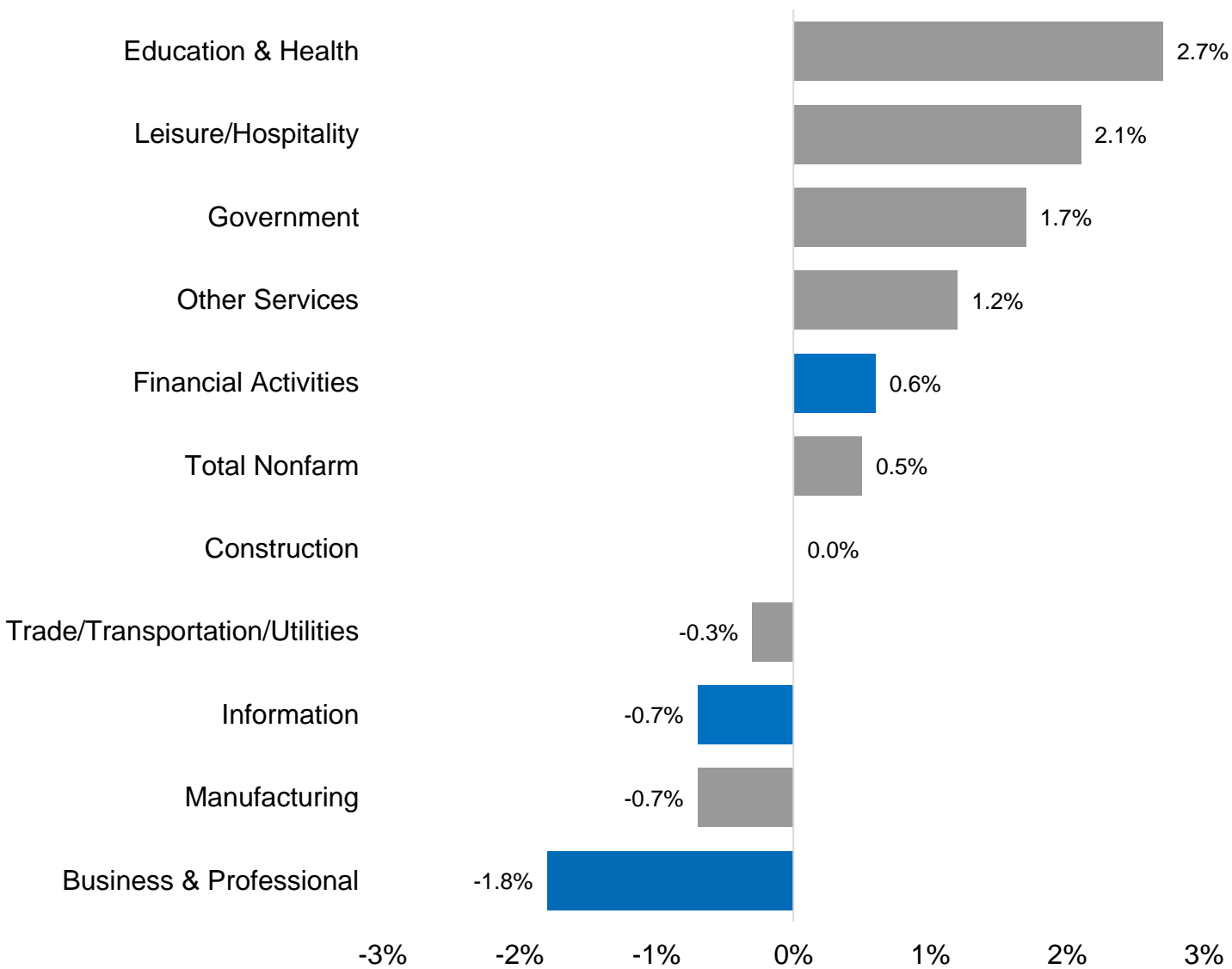
Healthcare and Leisure Drive Employment Gains; Office-Related Sectors Under Pressure

The Education & Health sector led job growth with a 2.7% increase, reflecting strong demand and recovery in these areas. Leisure & Hospitality and Government sectors also posted significant gains, contributing positively to regional job numbers. In contrast, the Business & Professional Services sector saw a substantial decline of -1.8%, highlighting ongoing difficulties in office-occupying industries. The Information and Manufacturing sectors each experienced declines of -0.7%, underscoring persistent pressures in these fields.

Employment by Industry, February 2025



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

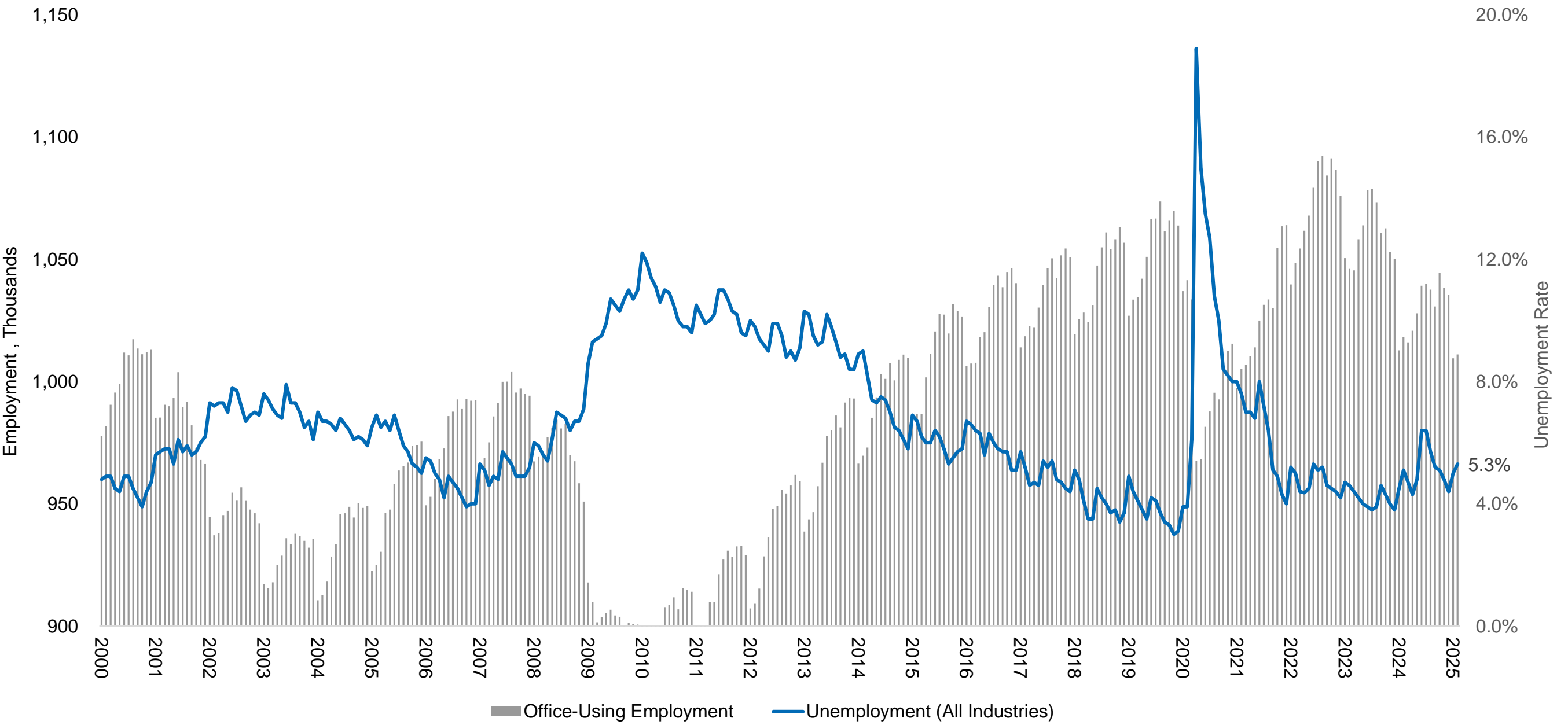


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Office-Using Employment Faces Headwinds Amid Rising Unemployment

Office-using employment continues to struggle, with levels declining from recent highs, exacerbating challenges in a sector critical to economic recovery. Unemployment across all industries has risen to 5.3% in early 2025 from levels seen in previous years, indicating broader economic pressures. Despite the sector’s potential for stability, persistent headwinds suggest a cautious outlook as the market seeks to regain momentum.

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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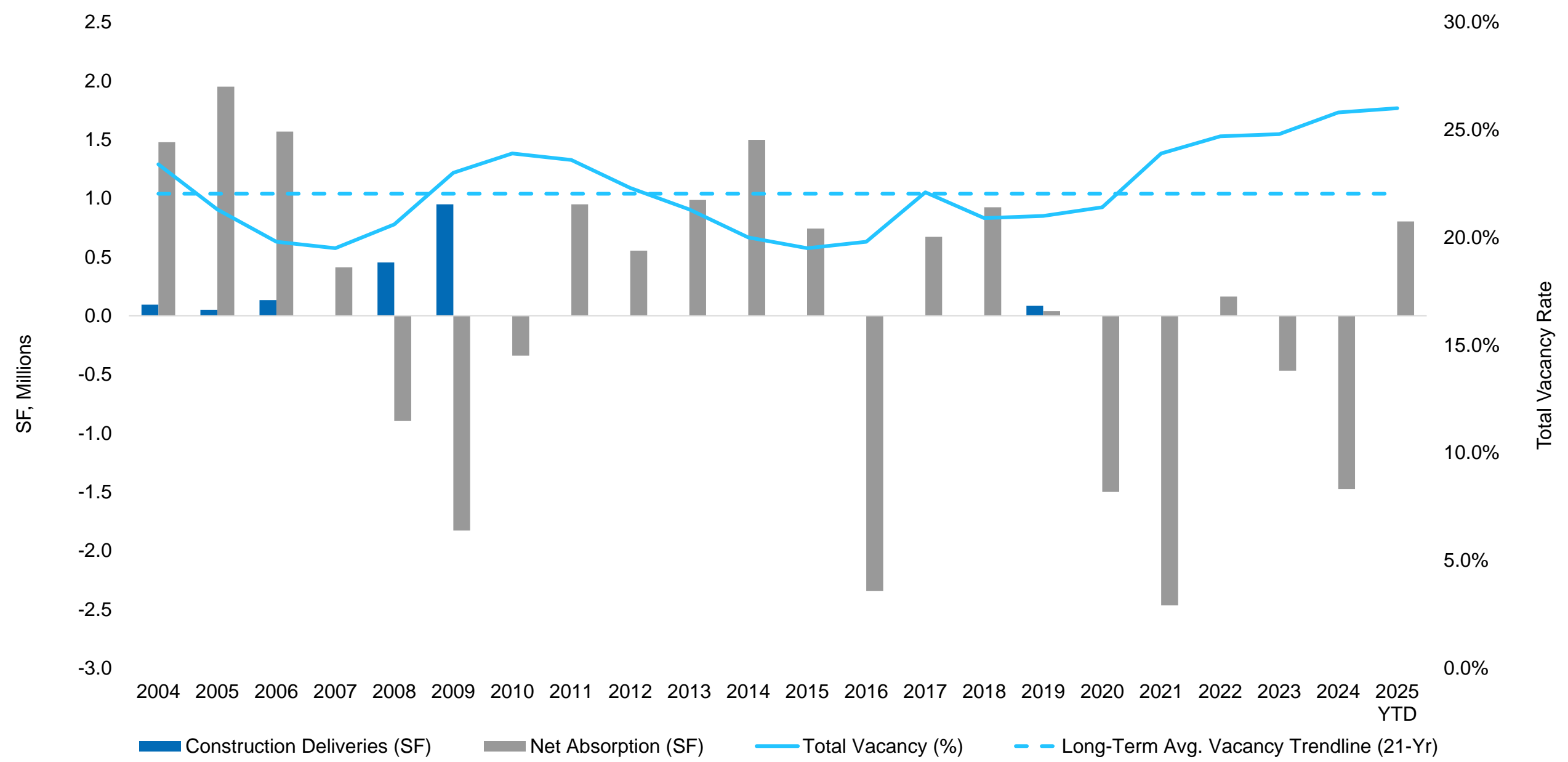
Leasing Market Fundamentals



Signs of Life Amidst Vacancy Growth

In early 2025, the suburban Chicago office market experienced a notable 800,000 square feet of positive net absorption, reversing the trend of negative absorption over the past two years. The overall vacancy rate decreased from last quarter to 26.0% but is still up 0.8% from the first quarter of 2024.

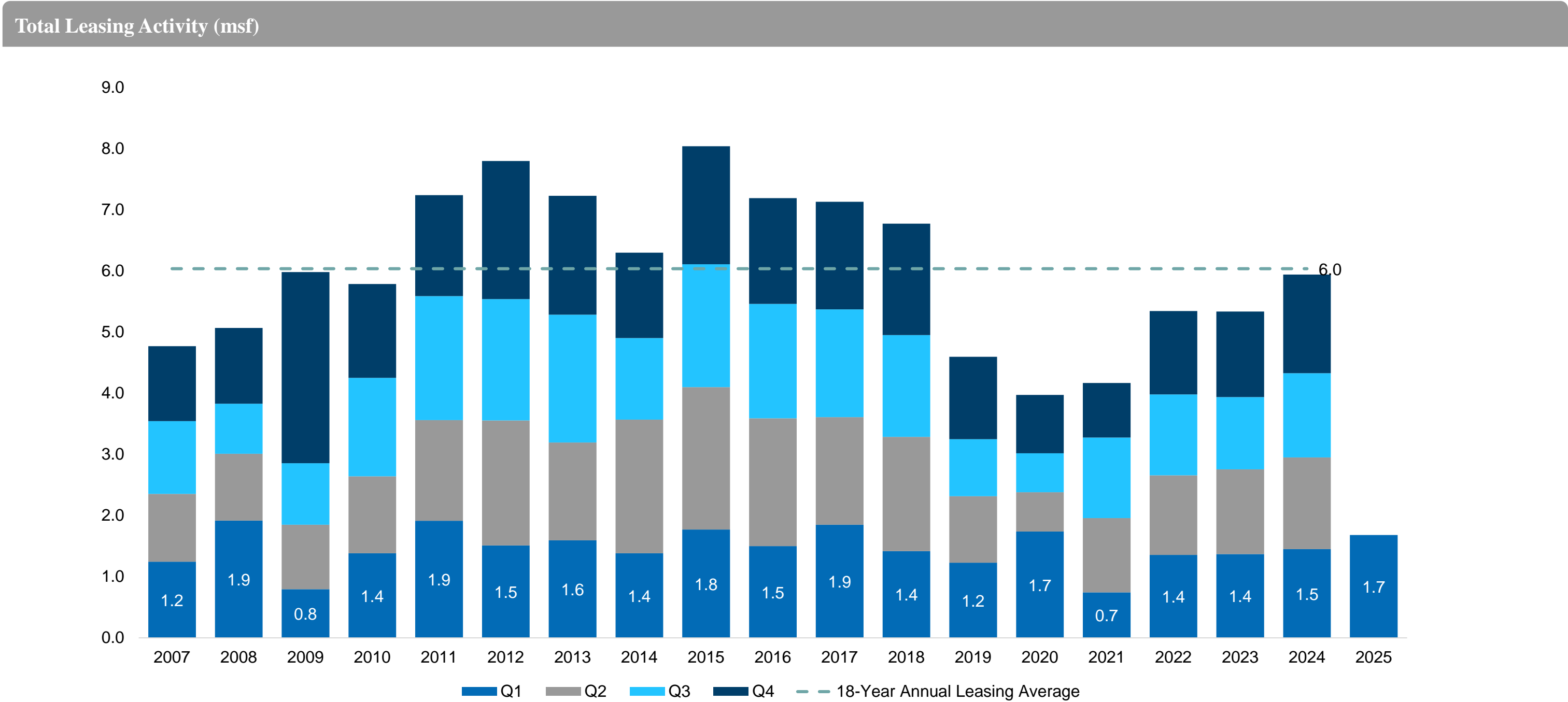
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Volume Grows

Leasing volume increased from last quarter and posted the strongest first quarter in the suburbs since 2020. With 2024 finishing right below the 18-year average, 2025 is on pace to get back to pre-pandemic levels.

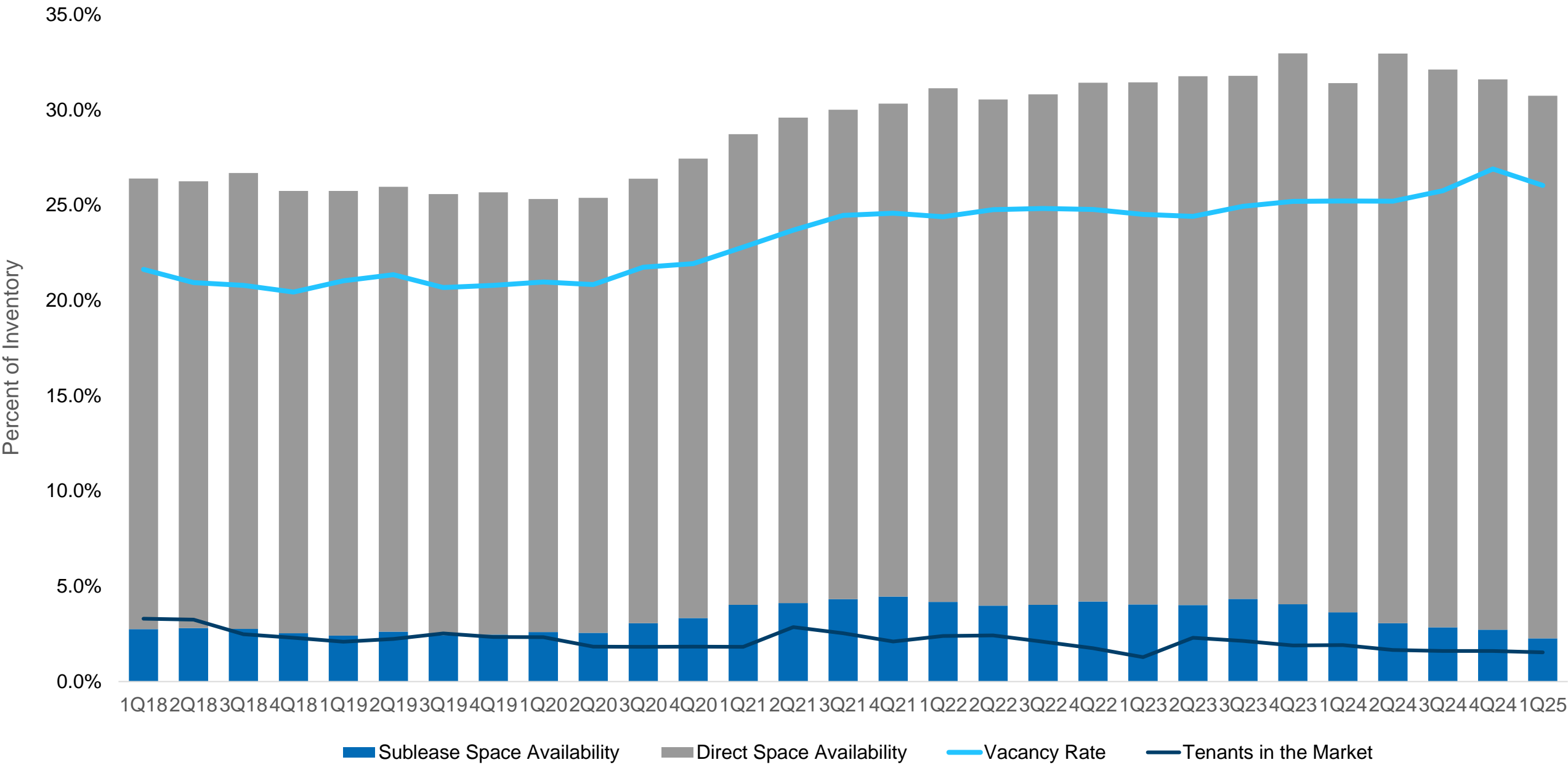


Source: Newmark Research, CoStar

Availability and Vacancy Decreased

Total availability decreased by 0.8% this quarter to 30.7%. The total decrease was thanks to direct availability decreasing 40 basis points to 28.5% and sublet availability falling 0.4% to 2.3%. Vacancy dropped by 0.9% to 26.0%. Tenants in the market account for 1.5% of total inventory, down 0.1% from last quarter.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

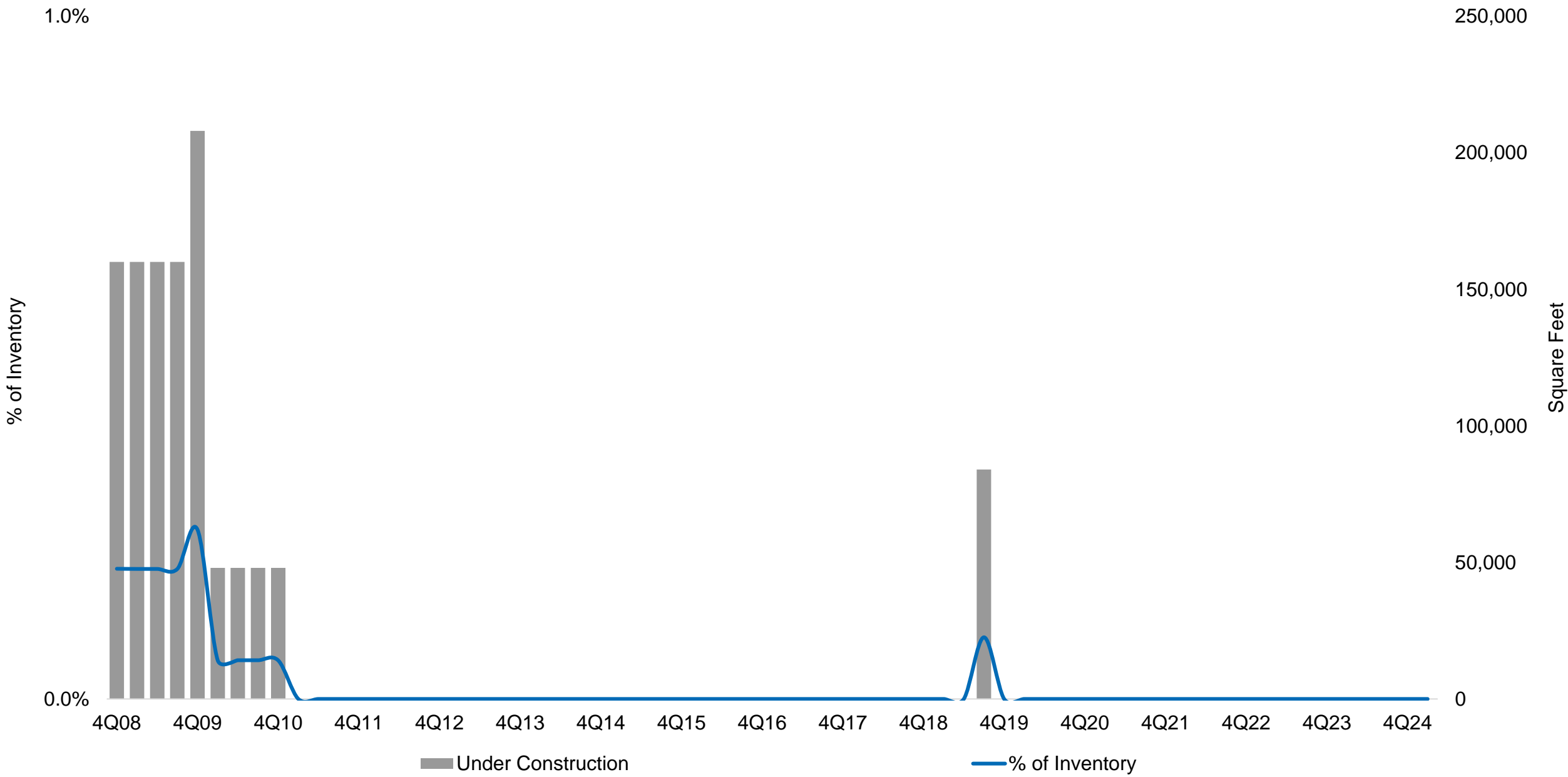
Analysis of Size Adjustments Among Metro Chicago's Largest Tenants Since 2020

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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. Although vacancy dropped this quarter, so did the percent of tenants in the market to total inventory.

Office Under Construction and % of Inventory

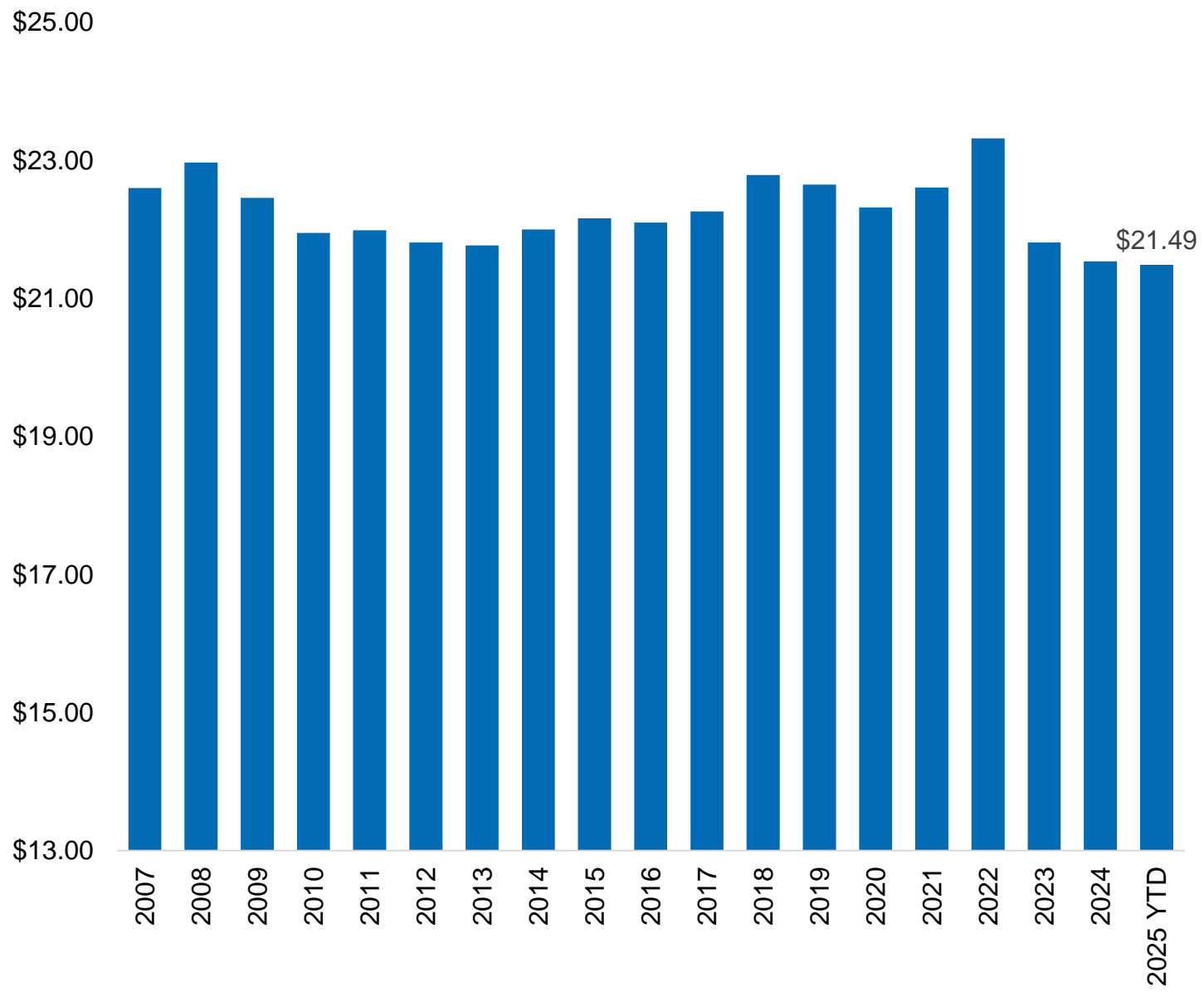


Source: Newmark Research, CoStar

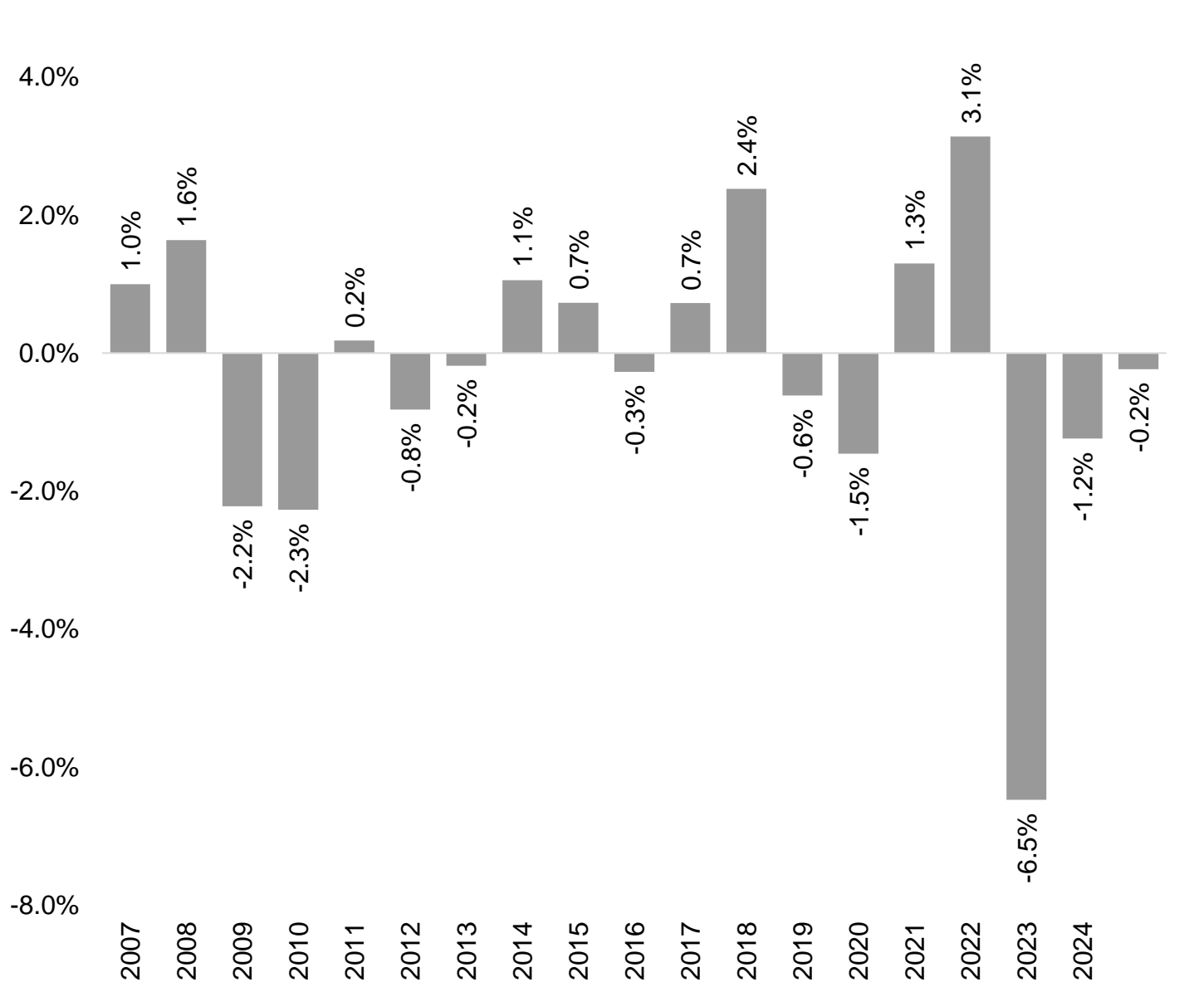
Suburban Rents Below Pre-Pandemic Levels

Asking rental rates have increased \$0.24/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



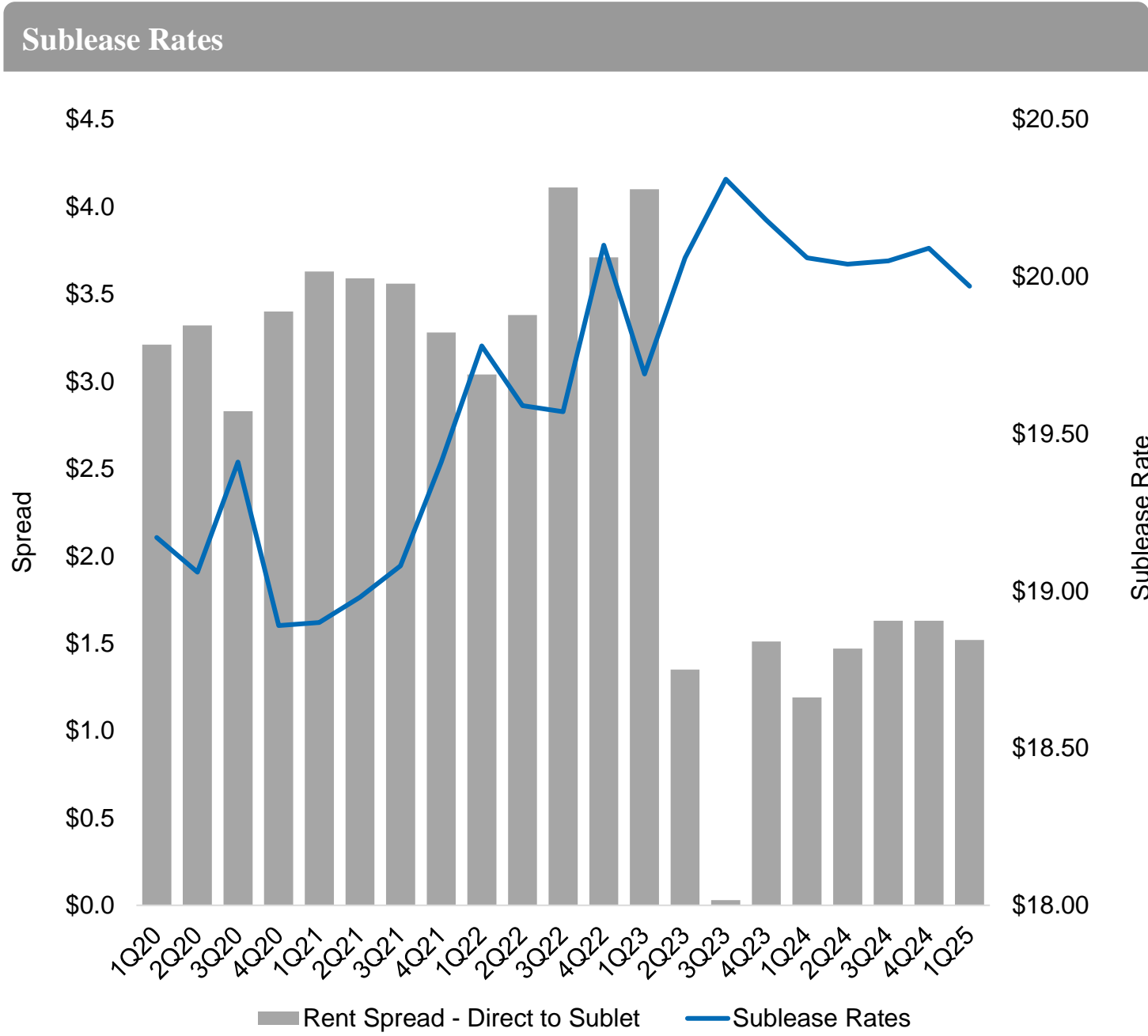
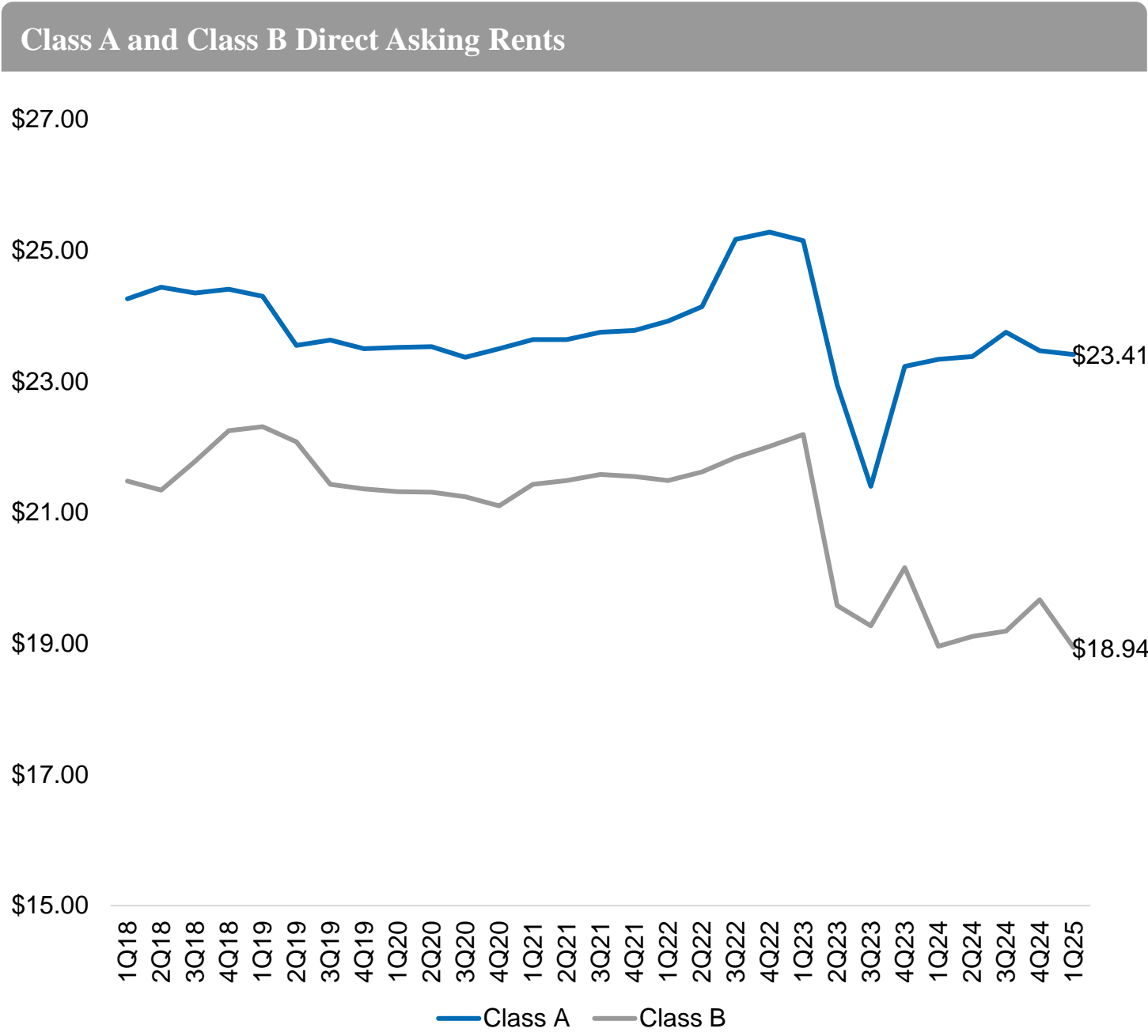
Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

The Gap Widens Between Class A and B Rents

Class A rental rates decreased by \$0.06/SF this quarter, while Class B rates saw a decrease of \$0.73/SF. Additionally, the spread between direct and sublease rates in the suburbs is at \$1.52/SF.



Source: Newmark Research, CoStar

Leasing Volume Increases

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Submarket Overview



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