

CHICAGO SUBURBS

Office Market Report

▼ YTD Net Absorption
(518,096) SF

▲ Availability
24.4%

▲ Asking Rent
\$19.51

Suburban Office Market: Vacancy and Availability Numbers Don't Tell True Story

The suburban Chicago office market saw mixed statistical conditions during the first part of the year. Demand improved significantly in 2Q. 493,984 SF of net absorption was recorded decreasing YTD net absorption to -518,096 SF. This positive absorption in 2Q was not enough to decrease the vacancy rate, as it stands at 18.9% overall compared to 18.6% at year-end 2013. However, these current statistical conditions do not tell the entire story in suburban Chicago. Another large tenant migration to the CBD had a great impact on the overall vacancy and availability numbers since year-end 2013. Taking out the single 1,121,186 SF that Motorola left vacant, the net absorption for the year would jump to 603,090 SF; a very positive statistic.

The recurring theme of the “last mile” of vacant space for buildings remains stagnant. During the recession period of 2009-2011, many of the best existing spaces were absorbed during the “flight to quality” stage; coupled with new owners investing capital to improve building aesthetics and amenities. The current market, has stagnated because the capital investments have stopped, and the remaining vacant units show poorly. This is represented by vacant space continuing to sit on the market for longer periods of time.

On a positive note one large available space was taken off the market in the first half of the year. AbbVie sublet 558,859 SF from Capital One at 26525 N Riverwoods Blvd in the North submarket. Other large transactions include AT&T renewing/expanding its lease to 104,508 SF at 95 W Algonquin and IBM signing a new lease for 63,483 SF at 10 N Martingale Rd., both in the Schaumburg submarket. These deals reemphasize that large suburban deals can still be achieved with an owner that's willing to spend some capital to attract and retain tenants.

Asking rent increased 0.7% since 2013 mid-year. Overall weighted-average asking rent is now \$19.51/psf. Class A buildings positioned by major expressways and amenities are driving the slight increase. Another factor is the “last mile” of vacant space which owners are not lowering the rent on. Until owners see the value of leasing that space, the market will continue to see slight increases or decreases in rent YOY.

The suburban office sales market saw few transactions up to mid-year 2014. Numerous owners are looking to either sell or refinance their assets instead of chasing the last deal. On the other end, buyers are also not willing to take the chance on a low occupied building and redevelop it due to the inherent risks involved. Sale transactions up to mid-year include Beacon Investment Properties purchasing Riverwalk II in the Northwest submarket for \$45 million and a joint venture of Sam Zell's Equity Group and Fulcrum Asset Advisors paying \$13.1 million for One Conway Park in the North submarket.

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Suburban Outlook

- Tenants will continue to look to the CBD as an alternative to having a suburban office.
- Since the “flight to quality” stage has passed there's a limited supply of Class A space that still shows well and attracts tenants. Until capital improvements happen these spaces will remain vacant.
- Asking rent will stay stagnant as many owners can't raise or lower rates due to spaces not showing well or no urgency to lease the “last mile” of vacant space.
- The capital market will remain sluggish compared to the downtown Chicago office market.

Suburban Summary

		Mid 2014	Mid 2013
Total Inventory (SF)	▼	120,111,408	120,710,837
Overall Vacancy	▲	18.9%	18.3%
Direct Vacancy	▲	17.9%	17.4%
Sublease Vacancy	▲	1.0%	0.8%
Overall Available	▲	24.4%	24.0%
Direct Available	▲	21.8%	21.3%
Sublease Available	▲	2.9%	2.7%
Gross Average Asking Rate (Direct)	▲	\$19.51	\$19.36
Current Net Absorption (SF)	▲	493,984	25,757
YTD Net Absorption (SF)	▼	(518,096)	18,346

Economic Indicators

	Mid 2014	Mid 2013
IL Unemployment	7.9%	9.1%
US Unemployment	6.1%	7.5%
US Consumer Confidence Index	85.2	81.4
West TX Intermediate Price Per Barrel	\$104.51	\$102.43

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1. North Suburbs

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	Average Asking Rent (Overall)	YTD Absorption (SF)
Central									
Class A	26	4,373,830	9.4%	1,337,725	30.6%	7,058	\$19.04	\$17.20	20,166
Class B	50	4,812,108	6.8%	395,142	8.2%	(17,480)	\$20.71	\$20.86	(7,019)
Class C	12	522,671	18.7%	176,205	33.7%	(10,416)	\$16.75	\$16.75	(14,284)
TOTALS	88	9,708,609	8.6%	1,909,072	19.7%	(20,838)	\$19.31	\$17.91	(1,137)
Southern									
Class A	13	2,607,285	10.1%	355,840	13.6%	(9,414)	\$25.79	\$24.63	6,290
Class B	28	2,021,194	12.1%	363,064	18.0%	14,028	\$18.00	\$17.97	23,299
Class C	6	204,063	6.0%	51,308	25.1%	3,100	\$16.88	\$14.10	3,100
TOTALS	47	4,832,542	10.8%	770,212	15.9%	7,714	\$21.17	\$20.43	32,689
Northern									
Class A	63	10,999,982	29.9%	3,256,221	29.6%	40,209	\$17.97	\$20.05	(1,233,458)
Class B	77	5,402,884	9.0%	703,697	13.0%	523	\$18.10	\$17.78	(2,549)
Class C	7	246,597	12.4%	30,538	12.4%	0	\$18.34	\$18.34	1,960
TOTALS	147	16,649,463	22.8%	3,990,456	24.0%	40,732	\$18.01	\$19.54	(1,234,047)
TOTALS	282	31,190,614	14.1%	6,669,740	21.4%	27,608	\$18.90	\$19.17	(1,202,495)

Noteworthy Leases

Tenant	Property	SF	Type
AbbVie	26525 N Riverwood Boulevard	558,859	Sublease
Nanosphere	4088 Commercial Avenue	42,742	Expansion
Consumer Digest Communications	520 Lake Cook Road	9,987	Renewal
Iron Financial	630 Dundee Road	8,075	Renewal

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
600 N US Highway 45	Highway 45	1,121,186	A	Motorola Mobility Holdings, Inc
1000 Milwaukee Avenue	Former AON	405,039	A	Capital Lease Funding
25 Tri State International	Tri State Int'l Office Center	181,807	A	Principal Real Estate Investors LLC
1200 Lakeside Drive	Bannockburn Centre	171,000	A	Commonwealth REIT
2355 Waukegan Road	Bannockburn Lake Plaza	107,000	A	Columbia Property Trust

*Survey method includes primary office buildings with more than 20,000 SF in each submarket.

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2. Northwest Suburbs

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	Average Asking Rent (Overall)	YTD Absorption (SF)
I-355 Corridor									
Class A	15	2,977,069	23.7%	882,134	29.6%	3,966	\$21.51	\$21.32	37,761
Class B	27	1,445,251	36.1%	634,655	43.9%	(13,310)	\$17.86	\$17.86	(4,128)
TOTALS	42	4,422,320	27.7%	1,516,789	34.3%	(9,344)	\$20.11	\$20.03	33,633
Schaumburg Area									
Class A	56	15,207,329	16.2%	4,353,543	28.6%	84,678	\$20.22	\$20.12	179,879
Class B	129	8,956,045	23.5%	2,773,566	31.0%	(229,085)	\$16.01	\$16.05	(73,721)
Class C	11	628,730	22.9%	170,474	27.1%	206,437	\$17.06	\$16.76	200,284
TOTALS	196	24,792,104	19.0%	7,297,583	29.4%	62,030	\$19.16	\$18.91	306,442
TOTALS	238	29,214,424	23.4%	8,814,372	30.2%	52,686	\$19.30	\$19.08	340,075

Noteworthy Leases

Tenant	Property	SF	Type
AT&T	95 W Algonquin Road	104,508	Renewal/Expansion
IBM	10 N Martingale Road	63,483	New
PPM America	300 N Martingale Road	13,391	Renewal/Expansion
Chemi-Con	1701 Golf Road	12,002	New
Dex One	300 N Martingale Road	11,000	New

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
2000 W AT&T Drive	AT&T Business Park	1,207,245 (Sublease)	A	Inland American Real Estate Trust
2850 W Golf Road	West Tower	279,286	A	John Buck Co.
200 N Martingale Road	Woodfield Corporate Center	196,026	A	Columbia Property Trust
1000 E Woodfield Road	One Woodfield Lake	182,600	B	Westport Capital
1701 Golf Road	Continental Towers - I	159,824	A	GlenStar Realty

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3. East–West Corridor

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	Average Asking Rent (Overall)	YTD Absorption (SF)
Eastern									
Class A	64	13,536,036	20.5%	3,163,473	23.4%	249,755	\$22.85	\$22.59	197,114
Class B	151	9,821,269	19.0%	2,171,440	22.1%	66,511	\$18.01	\$17.91	32,196
Class C	22	1,113,416	10.3%	234,535	21.1%	(600)	\$14.15	\$14.15	9,799
TOTALS	237	24,470,721	19.4%	5,569,448	22.8%	315,666	\$20.49	\$20.30	239,109
Western									
Class A	51	10,001,367	14.6%	2,542,030	25.4%	25,961	\$20.46	\$18.85	92,462
Class B	116	8,099,191	15.9%	1,774,346	21.9%	23,254	\$17.61	\$17.33	(24,807)
Class C	8	923,578	4.9%	49,935	5.4%	2,455	\$13.50	\$13.50	(194)
TOTALS	175	19,024,136	14.7%	4,366,311	23.0%	51,670	\$18.92	\$18.08	67,461
Southern									
Class A	9	1,189,697	12.5%	236,903	19.9%	(14,375)	\$26.06	\$26.06	467
Class B	53	2,226,359	20.3%	562,325	25.3%	5,752	\$17.46	\$16.28	16,018
Class C	9	281,769	26.6%	76,250	27.1%	8,093	\$13.73	\$13.73	8,093
TOTALS	71	3,697,825	18.3%	875,478	23.7%	(530)	\$19.87	\$18.89	24,578
TOTALS	483	47,192,682	17.4%	10,811,237	22.9%	366,806	\$19.81	\$19.29	331,148

Noteworthy Leases

Tenant	Property	SF	Type
Sandford LP	3500 Lacey Road	55,874	New
ComEd	1 Lincoln Center	45,000	New
WiTronix	631 E Boughton Road	21,662	Expansion
Fidelity Information Systems	270 Remington Boulevard	21,000	New
Residential Home Health	1431 Opus Drive	17,000	New

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
263 Shuman Boulevard	Former Office Max	354,000	A	Columbia Property Trust
700 Oakmont Lane	Former Sirva	256,767	A	Griffin Capital
4201 Winfield Road	Former Navistar	249,996	A	Barrington Venture
2400 Cabot Drive	Former Computer Associates	205,633	B	HDG Mansur Investment Services
2655 Warrenville Road	Corridors Two	149,896	A	Transwestern

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4. O'Hare

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	Average Asking Rent (Overall)	YTD Absorption (SF)
Class A	37	8,110,986	17.6%	1,785,632	22.0%	30,094	\$21.56	\$21.51	(83,472)
Class B	43	4,402,702	26.5%	1,202,957	27.3%	16,790	\$18.55	\$18.52	96,648
TOTALS	80	12,513,688	20.7%	2,988,589	23.9%	46,884	\$20.38	\$20.35	13,176

Noteworthy Leases

Tenant	Property	SF	Type
Advocate Health Care	8550 W Bryn Mawr Avenue	27,484	Expansion
Cole Taylor Bank	9550 W Higgins Road	17,130	Expansion
Kantar Media	5600 N River Road	12,073	New
Signature Bank	9701 W Higgins Road	10,500	New
VHT	6400 Shafer Court	9,000	New

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
5450 N Cumberland Avenue	Cumberland Centre	143,525	B	GlenStar Properties LLC
2350-2360 E Devon Avenue	O'Hare Lake Office Park	142,596	B	Robert Kozonis
5500 Pearl Street	Balmoral Business Campus	133,237	A	TA Associates Realty
8420 Bryn Mawr Avenue	US Cellular Plaza	119,228	A	Faison LLC
8725 W Higgins Road	O'Hare Plaza I	78,060	A	Herbco

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