

CHICAGO SUBURBS

Office Market Report

▲ YTD Net
Absorption
(283,863)

▼ Availability
23.5%

▲ Gross Average
Asking Rate (Direct)
\$22.29

Suburban Market Sees Leasing Activity Increase, Vacancy Rates Drop

MARKET CONDITIONS: Despite misleading press on the state of the suburban office market, the Chicago suburbs stayed very healthy and had a strong first half of 2016. The market remained tight particularly for tenants under 20,000 square feet. Leasing activity reached over 2.5 million square feet in the first 6 months, assisted by the large transactions completed by Paylocity, AIM Specialty Health, US Cellular and Combined Insurance. While year-to-date absorption numbers fell, largely due to Kraft-Heinz vacating over 650,000 square feet of space in the North Central submarket, vacancy ended the second quarter falling ten basis points from the end of 2015 to 17.0 percent.

LARGE BLOCK VACANCIES: The fate of the suburban office market largely depends on the future use of corporate campuses and large single-tenant office buildings. The current momentum of the multi-tenant leasing market, particularly for spaces under 20,000 square feet is very strong, but when factoring in some of the abandoned or underutilized campuses such as Navistar, Office Max, Lucent, AT&T, Medline and Aon the vacancy rate spikes. These large campuses account for over 10 million square feet of vacant space and looking ahead, companies like Zurich and Gallagher will be vacating space later in 2016 and 2017. The question remains to be answered: what will happen to these spaces? Whether another single tenant user comes into the picture, they are redeveloped for a different use or remain abandoned is yet to be determined.

A prime example of this will be the McDonald's campus in Oak Brook. The fast-food giant announced in June that it will be moving its corporate headquarters downtown to the former Harpo Studios in Fulton Market. Sterling Bay will be developing the project that will become the company's new home in 2018. McDonald's owns several parcels of land in Oak Brook totaling roughly 150 acres. The corporate campus office building is 704,000 square feet.

INVESTMENT SALES SLOW: The investment sales market is having an average year following a record breaking 2015. Although buildings are still trading hands, in certain suburbs, prices have leveled off. For example, Mid America Plaza went under contract with Equus Capital Partners for \$80 million or \$190-per-square foot in June. Back at the height of the market in 2007 the towers traded hands for \$99.4 million. Also sold at \$80 million this quarter were three of the Parkway North buildings in Deerfield. Fulcrum Asset Advisors purchased the three buildings from John Buck. While the total complex is home to 6 Class A buildings only 3, 6, and 9 Parkway Boulevard traded hands. In 2008 when John Buck purchased the 6 buildings the sale price per square foot was \$214, Fulcrum paid \$163 per square foot. Tenants in those buildings include Mondelez International, Lundbeck, Meridian Group International and GCG Financial.

LOOKING AHEAD: This speculative development comes at a time, despite state fiscal woes, local suburban economies are growing. From April to May of 2016 DuPage County experienced a drop in the unemployment rate of 70 basis points to 4.4 percent and the Lake County unemployment rate saw a similar decline of 50 basis points to 5.0. If companies in the suburbs continue to expand, Class A opportunities should shrink driving rents up, Class B buildings will have an opportunity to fill in vacancies.

Developing Story – Spec Development Returns to the Suburbs



In a sign of confidence in the office market, development sites have been marketed for new offices in the E-W Corridor, for the first time in several years. REM Builders is working on a 60,000-square-foot speculative office redevelopment at 2100 Swift Road in Oak Brook. The three story building will undergo a major renovation including; replacement of all vital building systems, upgraded interiors and exteriors and additional amenities to bring it to class A quality. The parking will undergo some changes too. The parking ratio will increase to six spaces per 1,000, in order to address one of the largest problems with the out dated inventory in the suburbs.

MID-YEAR 2016

Suburban Outlook

- New developments will be marketed in specific submarkets.
- Large blocks vacated by major corporations will be repurposed.

Suburban Summary

		Mid-Year 2015	Mid-Year 2016
Total Inventory (SF)	▲	121,858,569	122,089,030
Overall Vacancy	▼	17.8%	17.0%
Direct Vacancy	◀▶	16.7%	16.1%
Sublease Vacancy	▼	1.1%	0.8%
Overall Available	▲	22.3%	23.5%
Direct Available	▲	20.3%	20.8%
Sublease Available	▲	2.0%	2.4%
Gross Average Asking Rate (Direct)	▼	\$22.58	\$22.29
Current Net Absorption (SF)	▲	190,643	296,921
YTD Net Absorption (SF)	▼	(27,182)	(283,863)

Economic Indicators

	Mid-Year 2015	Mid-Year 2016
IL Unemployment	6.0%	6.4%
US Unemployment	5.3%	4.9%
US CCI	93.1	101.4
Case Shiller Index	128.97	132.97



MID-YEAR 2016

1. North Suburbs

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	YTD Absorption (SF)
Central								
Class A	28	4,461,587	17.8%	1,373,954	30.8%	(22,347)	\$28.84	(13,322)
Class B	52	5,088,952	20.4%	1,099,600	21.6%	10,801	\$23.49	(640,579)
Class C	13	545,671	12.6%	81,720	15.0%	16,232	\$18.46	11,364
TOTALS	93	10,096,210	13.7%	2,555,274	25.3%	4,686	\$26.69	(642,537)
Southern								
Class A	14	2,825,315	8.8%	341,440	12.1%	7,762	\$32.10	(319)
Class B	29	2,295,535	12.3%	382,596	16.7%	3,520	\$23.71	(28,821)
Class C	6	214,462	2.2%	35,220	16.4%	0	\$21.50	0
TOTALS	49	5,335,312	9.6%	759,256	14.2%	11,282	\$28.00	(29,140)
Northern								
Class A	66	11,254,203	26.3%	3,617,105	32.1%	70,112	\$22.28	(254,228)
Class B	76	5,257,155	8.7%	538,663	10.2%	(20,767)	\$19.88	(34,176)
Class C	10	358,866	11.3%	50,311	14.0%	(3,845)	\$17.90	(3,151)
TOTALS	152	16,870,224	19.7%	4,206,079	24.9%	45,500	\$21.90	(291,555)
TOTALS	294	32,301,746	16.2%	7,520,609	23.3%	61,468	\$23.71	(963,232)

Noteworthy Leases

Tenant	Property	SF	Type
AIM Specialty Health	540 Lake Cook Road	93,678	Direct
HMH	909 Davis Street	58,938	Direct
Lundbeck	4 Parkway Boulevard North	49,067	Direct
Experient	1 Overlook Point	17,037	Direct
Sedgwick Claims Management Services	570 Lake Cook Road	14,388	Direct

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
600 N US Highway 45	Innovation Park Lake County	972,531	A	BECO Management, Inc
1000 Milwaukee Avenue	AON Office Building	405,039	A	American Realty Capital Properties, Inc.
300 Tower Parkway	Lincolnshire Corporate Center	175,545	A	Van Vlissingen & Company
200 N Field Drive	N/A	169,000	A	Duke Realty Corporation
150 S Saunders Road	Landmark of Lake Forest II	143,161	A	Newsweb Corporation

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

MID-YEAR 2016

2. Northwest Suburbs

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	YTD Absorption (SF)
I-355 Corridor								
Class A	15	2,984,685	22.4%	955,776	32.0%	(4,020)	\$23.72	15,246
Class B	30	1,572,297	37.2%	611,064	28.9%	(371)	\$16.99	(60,658)
TOTALS	45	4,556,982	26.3%	1,566,840	34.4%	(4,391)	\$20.47	(45,412)
Schaumburg Area								
Class A	58	15,598,068	14.2%	4,619,401	29.6%	338,569	\$23.44	366,064
Class B	132	8,699,646	23.1%	2,515,011	28.9%	2,146	\$17.05	(82,916)
Class C	13	912,870	6.8%	154,447	16.9%	137,795	\$18.20	139,166
TOTALS	203	25,210,584	18.7%	7,288,859	28.9%	478,510	\$20.57	422,314
TOTALS	248	29,767,566	19.9%	8,855,699	29.7%	474,119	\$20.54	376,902

Noteworthy Leases

Tenant	Property	SF	Type
Paylocity	1400 American Lane	309,000	Direct
Healthcare Financial Resources	2500 Westfield Drive	31,505	Direct
MECU	1501 E Woodfield Road	28,000	Direct
Wistron Mobil Solutions	2550 W Golf Road	27,074	Direct
Turtle Wax	2250 W Pinehurst Boulevard	25,115	Direct

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
1450 American Lane	Zurich Towers II	440,538	A	Retail Properties of America, Inc.
1421 W Shure Drive	Northwest Crossings	218,662	A	Gc Net Lease Arlington Heights
2550 W Golf Road	East Tower	216,592	A	John Buck Company
700 N Wood Dale Road	Oakwood Commerce Centre III	125,323	B	UBS Realty Investors, LLC

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MID-YEAR 2016

3. East-West Corridor

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	YTD Absorption (SF)
Eastern								
Class A	63	13,277,215	16.2%	2,395,942	18.0%	47,816	\$26.59	30,122
Class B	155	9,960,964	17.8%	2,077,603	18.7%	87,334	\$17.42	127,053
Class C	19	902,624	13.4%	94,842	14.5%	(6,992)	\$12.58	(4,538)
TOTALS	237	24,140,803	17.7%	4,568,387	18.9%	128,158	\$22.53	152,637
Western								
Class A	57	11,628,806	14.7%	2,734,279	23.5%	20,203	\$24.37	30,222
Class B	120	7,359,886	16.6%	1,379,153	18.7%	(324,730)	\$19.37	194,231
Class C	10	324,434	16.6%	57,961	20.9%	(8,643)	\$14.01	(1,479)
TOTALS	187	19,313,126	13.0%	4,171,393	21.6%	(313,170)	\$21.72	222,974
Southern								
Class A	11	1,429,611	15.4%	413,775	28.9%	6,731	\$26.18	(3,181)
Class B	51	2,192,736	14.6%	459,783	21.0%	(2,700)	\$18.21	(21,928)
Class C	10	326,308	16.5%	68,056	20.9%	(5,311)	\$14.01	(6,102)
TOTALS	72	3,948,655	14.3%	941,614	23.8%	(1,280)	\$20.76	(31,211)
TOTALS	496	47,402,584	15.5%	9,681,394	20.4%	(186,292)	\$22.11	344,400

Noteworthy Leases

Tenant	Property	SF	Type
Bway Corporation	1515 W 22nd Street	34,432	Direct
Sterigenics	2015 Spring Road	27,506	Direct
T-Systems	1901 Butterfield Road	26,000	Direct
Paychex	27545 Diehl Road	22,218	Direct
Treehouse Foods	2001 Spring Road	24,384	Direct

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
2701 Navistar Drive	N/A	593,360	A	JLL
263 Shuman Boulevard	Shuman Boulevard 263	354,000	A	JLL
700 Oakmont Lane	Oakmont Center	256,767	A	CBRE
4201 Winfield Road	International	249,996	A	JLL
1000 Remington Boulevard	Tallgrass Corporate Center	124,369	A	Colliers

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MID-YEAR 2016

4. O'Hare

	Number of Buildings	Total Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent (Direct)	YTD Absorption (SF)
Class A	42	8,446,130	13.2%	1,462,706	17.3%	(1,822)	\$28.18	35,222
Class B	44	4,344,139	24.5%	1,162,739	26.8%	(50,552)	\$18.05	(75,905)
Class C	4	155,724	3.1%	7,942	5.1%	0	\$15.50	(1,250)
TOTALS	90	12,945,993	17.4%	2,633,387	20.3%	(52,374)	\$23.62	(41,933)

Noteworthy Leases

Tenant	Property	SF	Type
US Cellular	8420 W Bryn Mawr Avenue	119,369	Direct

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
9600 Bryn Mawr Avenue	O'Hare Gateway Office Center	156,832	A	Higgins Development Partners
5450 N Cumberland Avenue	Cumberland Centre	143,525	A	President's Plaza c/o Glenstar Properties, LLC
1350 E Touhy Avenue	1350 Touhy Plaza	123,176	B	Steinco
8750 Bryn Mawr Avenue	East Tower	92,166	A	Equity Commonwealth

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