

CHICAGO SUBURBS

Office Market Report

▼ YTD Net
Absorption
(1,919,191)

▲ Availability
24.1%

▼ Gross Average
Asking Rate (Direct)
\$20.43

Big Moves Create Negative Absorption Driving Vacancy Rates Higher

MARKET CONDITIONS: The suburbs had several major real estate occurrences in the second half of 2016. Woodland Falls Corporate Center in the North submarket re-leased the entire 160,000-square-foot building after becoming vacant when CDW moved to Tri State International. Two companies, Brunswick Corporation and Vyaire, signed leases to relocate to the building in 2017. Brunswick Corporation will be moving into 55,000 square feet, downsizing from over 100,000 square feet at 1 North Field Court. Vyaire, a respiratory health company, will be taking almost 90,000 square feet moving from Lake Forest. The quick re-leasing of this building after CDW moved out is a testament to the trend in the suburbs of true Class A buildings performing well as there are limited options. Zurich North American Insurance's new headquarters in Schaumburg was completed and the company relocated down the street from its former headquarters. Paylocity has already committed to take over half of one of the two 400,000-square-foot former Zurich buildings. They are scheduled to move in at the end of 2017. Unfortunately, this positive activity was not enough to reverse the other negative moves this year bringing year-to-date absorption to negative 1.9 million square feet. All of this movement resulted in vacancy increasing from 17.0 percent to 19.2 percent and average asking rents dropping from \$22.29 to \$20.43 per-square-foot.

LONG AWAITED REDEVELOPMENT PROJECTS BEGINNING: In the second half of 2016 one of the largest suburban campuses, the Motorola Solutions campus in Schaumburg, was sold. UrbanStreet Group purchased about 215 acres of the 260 acre campus. Earlier in the year the group sold the remaining 45 acres to Oak Street Real Estate Capital and leased back two buildings in which they have started an \$83 million renovation with the intent to keep about 1,600 employees at the site. The new owners have announced plans to turn the site into a suburban destination. Hotel, office, retail and housing are all being discussed. This type of corporate campus redevelopment in the suburbs has been debated for many years as the trend of headquarters moving downtown continues. McDonald's Oak Brook campus and the AT&T headquarters in Hoffman Estates are two more that have been targeted for potential multi-purpose redevelopments as well.

MULTIFAMILY MARKET HEATS UP: Thanks to a healthy job market, moderate new supply and low interest rates; suburban multifamily sales activity broke the previous record of \$1.17 billion set in 2007 at the end of the third quarter with \$1.27 billion in sales. Marquette real estate has been actively involved in the trend: purchasing City View at the Highlands in Lombard and partnering with Heitman of Chicago to purchase River Run in Naperville from CBRE this month for \$47.8 million. Year-over-year net asking rents have increased 3.8 percent as of the end of third quarter.

OUTLOOK: The diversity of the economy in the Chicago suburbs will help keep the market strong in 2017. Vacancy and absorption rates in the suburbs will continue to fluctuate as some large leases commence and a few major companies contemplate moves downtown. True Class A buildings will continue to see the tightest vacancy rates allowing Class B properties to see some spillover from tenants being priced out of Class A properties. A boost in vacancy numbers should come with the redevelopment of some obsolete corporate campus buildings. Although foreign investment is predicted to slow in 2017 the suburban office investment sales should continue to benefit from investors being priced out of the coasts and CBD.

Economic Snapshot – Jobs Number Surpass 2001 Levels

This quarter the Chicago metro area number of jobs reached 3.51 million, surpassing our previous high of 3.49 million in 2001. In December the Federal Reserve moved interest rates for the first time since 2015. The rates were increased a quarter of a percentage point assisted by low unemployment rate and signs of growth among workers' wages. The Federal Reserve also announced a plan to raise the rates three more times throughout 2017.

YEAR-END 2016

Suburban Outlook

- Class A multi-tenant buildings will continue to outperform the rest of the market as large vacant blocks remain plentiful.
- The investment sales market will slow down as foreign investment decreases and interest rates grow.

Suburban Summary

		Year-End 2015	Year-End 2016
Total Inventory (SF)	▲	121,270,276	124,556,411
Overall Vacancy	▲	17.1%	19.2%
Direct Vacancy	▲	16.2%	18.8%
Sublease Vacancy	▲	0.8%	1.0%
Overall Available	▲	23.1%	24.1%
Direct Available	▲	21.0%	22.6%
Sublease Available	◀▶	2.4%	2.4%
Gross Average Asking Rate (Direct)	▼	\$22.29	\$20.43
Current Net Absorption (SF)	▼	352,094	(449,081)
YTD Net Absorption (SF)	▼	952,311	(1,919,191)

Economic Indicators

	Year-End 2015	Year-End 2016
IL Unemployment	6.0%	5.6%
US Unemployment	5.0%	4.6%
US CCI	100.44	100.35
Case Shiller Index	129.1	134.4



YEAR-END 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	29	4,487,731	19.5%	1,363,235	30.4%	9,724	\$18.60	(123,228)
Class B	51	5,047,305	14.8%	431,641	86.0%	318,126	\$20.71	(343,230)
Class C	11	476,438	16.0%	82,389	17.3%	(15,167)	\$18.46	(3,462)
TOTALS	91	10,011,474	14.4%	1,877,265	18.8%	312,683	\$19.14	(469,920)
Southern								
Class A	14	2,825,313	6.9%	207,349	7.3%	10,057	\$24.08	112,100
Class B	28	2,268,828	12.7%	381,246	16.8%	8,967	\$24.46	(34,562)
Class C	6	214,462	17.2%	43,874	20.5%	(27,030)	\$21.50	(32,148)
TOTALS	48	5,308,603	8.5%	632,469	11.9%	(8,006)	\$24.24	45,390
Northern								
Class A	66	11,252,691	26.4%	3,761,289	33.4%	(64,356)	\$20.24	(215,308)
Class B	76	5,263,457	8.0%	534,438	10.2%	(3,457)	\$19.10	(2,061)
Class C	10	358,866	10.6%	53,228	14.8%	3,846	\$17.90	(751)
TOTALS	152	16,875,014	20.5%	4,348,955	25.8%	(63,967)	\$20.06	(218,120)
TOTALS	291	32,195,091	16.6%	6,858,689	21.3%	240,710	\$20.28	(642,650)

Noteworthy Leases

Tenant	Property	SF	Type
Vyaire	26125 N Riverwoods Boulevard	88,572	Direct
Brunswick Corporation	26126 N Riverwoods Boulevard	55,552	Direct
Fresenius Medical Care	101 Waukegan Road	45,000	Direct
Honor Finance	909 Davis Street	39,130	Direct
AveXis, Inc.	2275 Half Day Road	31,758	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.

YEAR-END 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	2,973,707	20.3%	968,763	32.6%	29,503	\$20.82	71,895
Class B	30	1,572,297	36.3%	598,788	38.1%	270	\$17.22	(46,588)
TOTALS	45	4,546,004	24.4%	1,567,551	34.5%	29,773	\$19.08	25,307
Schaumburg Area								
Class A	60	16,485,775	26.4%	4,425,685	26.8%	(685,073)	\$22.98	(953,519)
Class B	134	9,314,084	25.5%	3,321,192	35.7%	(95,338)	\$17.59	(419,870)
Class C	13	912,870	10.4%	148,385	16.3%	4,347	\$18.20	107,018
TOTALS	207	26,712,729	24.5%	7,895,262	29.6%	(776,064)	\$20.55	(1,266,371)
TOTALS	252	31,258,733	24.5%	9,462,813	30.3%	(746,291)	\$20.20	(1,241,064)

Noteworthy Leases

Tenant	Property	SF	Type
Citigroup	50 Northwest Point Boulevard	146,000	Direct
Plante Moran	200 N Martingale Road	21,592	Direct
Athenex Specialty Products	10 Martingale Road	13,000	Direct

Largest Available Spaces

Building Address	Building Name	SF	Class	Landlord
1400 American Lane	Zurich Towers I	441,531	A	Retail Properties of America, Inc.
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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YEAR-END 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	66	13,721,248	19.3%	2,651,475	19.3%	6,534	\$21.74	(157,743)
Class B	154	9,851,592	16.0%	1,920,414	19.5%	(19,908)	\$17.80	198,917
Class C	20	998,144	8.6%	89,042	8.9%	(4,809)	\$12.58	29,577
TOTALS	240	24,570,984	18.8%	4,660,931	19.0%	(18,183)	\$19.85	70,751
Western								
Class A	58	11,636,518	22.7%	3,538,338	30.4%	(35,059)	\$21.95	(285,265)
Class B	122	7,494,006	14.6%	1,667,332	22.2%	27,117	\$19.83	194,231
Class C	10	324,434	14.5%	51,281	15.8%	948	\$15.34	5,160
TOTALS	190	19,454,958	18.6%	5,256,951	27.0%	(6,994)	\$20.78	(85,874)
Southern								
Class A	11	1,415,526	8.4%	484,087	32.4%	(442)	\$26.55	105,837
Class B	52	2,227,746	15.2%	519,754	23.3%	(21,786)	\$17.56	(38,306)
Class C	10	326,308	13.2%	58,138	17.8%	8,289	\$14.01	3,957
TOTALS	73	3,969,580	11.7%	1,061,979	26.8%	(13,939)	\$20.54	71,488
TOTALS	503	47,995,522	18.1%	10,979,861	22.9%	(39,116)	\$20.22	56,365

Noteworthy Leases

Tenant	Property	SF	Type
Abercrombie & Kent USA, LLC	1411 Opus Place	42,239	Direct
CBRE	700 Commerce Drive	24,752	Direct
PLZ Aeroscience	2651 Warrenville Road	24,400	Direct
Thomson Reuters	1111 W 22nd Street	22,699	Direct
K5 Construction	999 Oakmont Plaza Drive	15,541	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
2400 Cabot Drive	N/A	205,633	A	Glenstar

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YEAR-END 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	44	8,558,658	13.1%	1,451,227	17.0%	77,283	\$23.48	29,954
Class B	46	4,639,018	26.9%	1,284,678	27.7%	18,333	\$19.74	(121,446)
Class C	5	238,248	1.6%	5,842	2.5%	900	\$12.76	(350)
TOTALS	95	13,435,924	16.2%	2,741,747	20.4%	95,616	\$21.80	(91,842)

Noteworthy Leases

Tenant	Property	SF	Type
Chipman Design Architecture	1350 E Touhy Avenue	39,457	Direct
Redfin	8725 W Higgins Road	26,000	Direct
BDO USA	9500 W Bryn Mawr Avenue	16,169	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
8420 Bryn Mawr Avenue	US Cellular Plaza	119,228	A	Ohio Public Employees Retirement System
8750 Bryn Mawr Avenue	East Tower	92,166	A	Equity Commonwealth

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