

# Savills Studley Report

## Chicago Suburbs office sector

Q3 2017



## SUMMARY

### Market Highlights

#### LEASING EXCEEDS LONG-TERM AVERAGE

Deal volume during the third quarter totaled 1.5 msf, just above the long-term historical average (1.4 msf). During the four most recent quarters tenants have leased 4.9 million square feet, more than 10% below the long-term average of 5.8 msf.

#### AVAILABILITY RATES PUSH HIGHER

Suburban Chicago's availability rate declined by 20 basis points to 24.2% in the third quarter. The Class A availability rate declined by 60 basis points to 25.6%. As the flight to quality continues, Class B and C properties registered a 30 basis point jump to 22.6%.

#### RENTS DECLINE

Overall asking rent dropped by 0.7% to \$22.82 during the third quarter. Class A asking rent also declined by 0.6% to \$25.63.

#### SALES FALL

In the first seven months of 2017 office property sales totaled \$566 million, decreasing by 20.4% compared to the \$711 million sold during the same period in 2016.

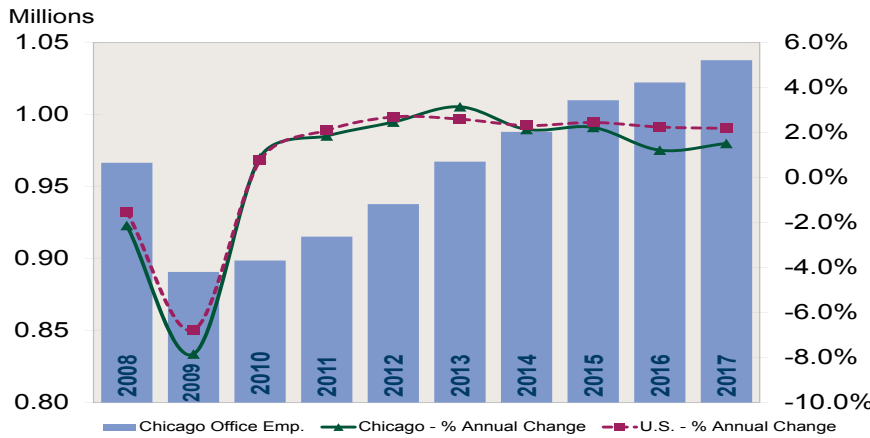
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*"Landlords have been able to sustain a bit of rental rate growth in several different sections of Suburban Chicago. Even in the most sought-after micro-markets, such as O'Hare and Oak Brook, these rents have been offset by rising concessions."*

Jon Azulay, Corporate Managing Director

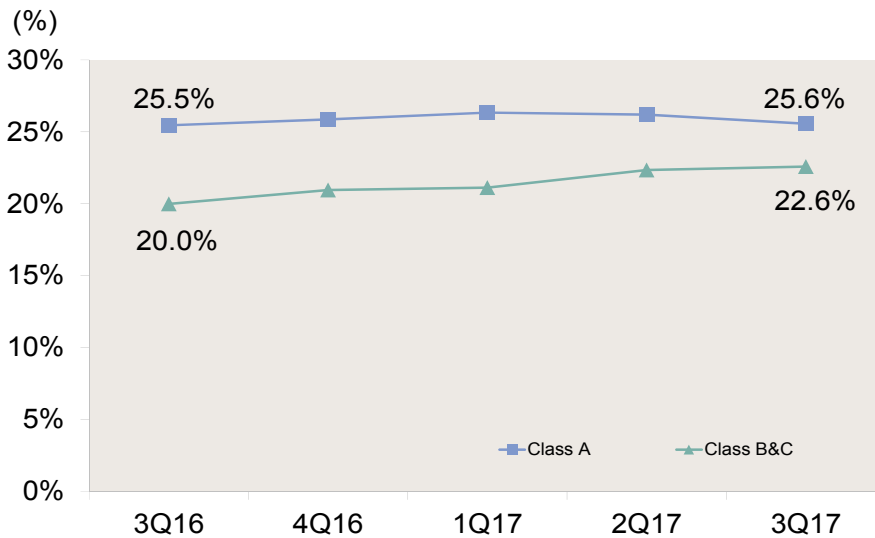
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## Office-Using Employment Trends

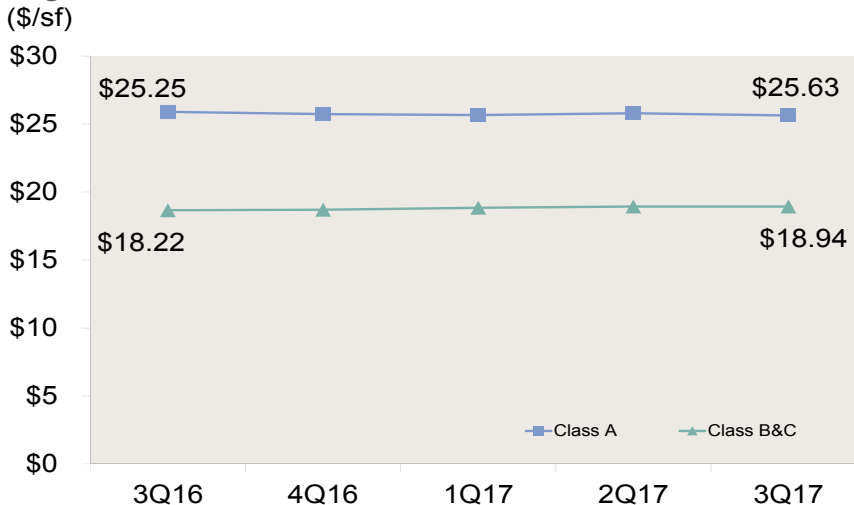


Source: Bureau of Labor Statistics

## Availability Rate Trends



## Asking Rent Trends



## Flight to Value Continues

Conditions in suburban Chicago still vary significantly from one submarket to the next. The highest-caliber buildings and office complexes are benefitting from the effort among many firms to improve the experience and workplace of their employees. Expanding sectors include healthcare and medical tech. Amita Health and American Imaging Management accounted for two of the largest transactions in the quarter. Traditional office space sectors – law firms, banks and general professional services - remain a bit more conservative in terms of hiring and space-use needs, but due to the favorable leasing conditions many of these companies are also upgrading their location and the quality of their space.

Tenants are showing a clear preference for high-quality office product. Landlords in some buildings – particularly the top-tier properties in O’Hare and the East-West Corridor – are achieving modest rent growth. However, most owners must extend generous concessions to induce tenants to move and pay increased rent. Businesses trying to recruit and retain talent are willing to pay a premium for best-in-class space that is conveniently located and loaded with amenities.

Conditions generally remain favorable to tenants. Most can find multiple options to consider. Landlords know that space options are still quite deep, particularly the further north and west a tenant is willing to locate. For example, a business unwilling to pay higher rent in the heart of the O’Hare corridor can consider Itasca. This area west of I-83 has ample quality product and is still quite close to O’Hare. Schaumburg likewise has a deep pool of space, but taxes are significantly higher than in surrounding areas.

The North Corridor has the potential to capture some demand, particularly as landlords upgrade amenities, and add retail and residential product in the areas surrounding properties. The Northwest Corridor, on the other hand, has a tougher road to travel and needs to cover much lost ground. The list of companies that have moved some or all of their operations is quite long, including Motorola, RIM Technologies/BlackBerry, Sears, and US Robotics. Repositioning the complexes that these companies left behind will be a long, expensive and risky process. Recent leasing traction at Navistar’s former campus and Innovation Park Lake County

(Motorola’s old home) provides some hope to investors willing to take on a big task. Other developers are not willing to take on the most opportunistic redevelopment projects, but they are buying value-add projects in need of varying degrees of renovation. Excluding the very highest-caliber office buildings, assets in suburban Chicago are generally selling for well under \$300/sf – in fact most fall below \$250/sf.

### East-West Corridor

The Class A availability rate in the East-West Corridor dropped by 310 basis points from 25.5% to 22.4%. Leasing activity jumped in the third quarter to just under 800,000 sf, the biggest quarterly total in a year and accounting for 52.5% of suburban Chicago’s leasing volume in the third quarter. Despite the increased leasing, average Class A asking rent dipped slightly from \$26.46 to \$26.27 during the quarter. The leasing of higher-priced spaces continues to push rents lower.

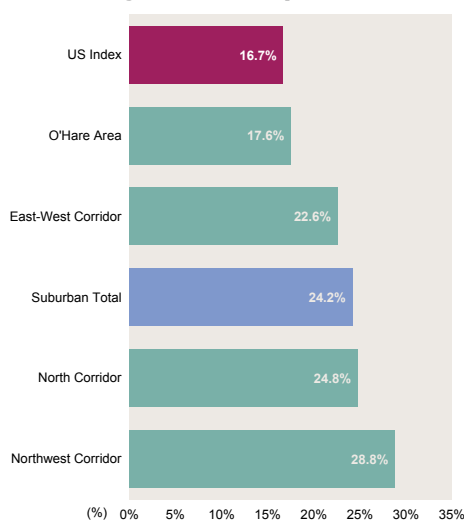
Healthcare once again accounted for suburban Chicago’s biggest lease in the quarter – Amita Health signed a 225,000-sf lease at 2601 Navistar Drive. Amita will move 1,100 employees to the building and will consolidate employees from Bolingbrook, Arlington Heights, Elk Grove Village and Hoffman Estates. In August the hospital system said it will add 10 Presence Health hospitals to the network as part of a nationwide acquisition of the Catholic health system.

### North Corridor

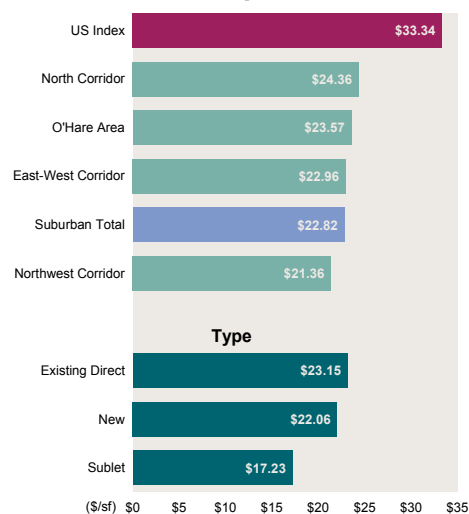
Despite some recent increase in tenant tours and a few notable leases, availability pushed higher in the North Corridor during the quarter. The Class A availability rate rose for the second consecutive quarter, jumping by 50 basis points from 26.4% to 26.9%.

Leasing volume fell by nearly 45%, dropping from just over 400,000 sf in the second quarter to nearly 225,000 sf in the third quarter. Following a trend seen in other submarkets, the Class A asking rent decreased by 1% to \$26.39. Innovation Park Lake City (Motorola’s former campus) signed its second tenant – securing a deal appropriately enough with mobile services provider Brightstar Corporation. Brightstar plans to move its U.S. regional headquarters and about 340 employees to a 64,000-sf space, which is roughly equal to what they currently occupy at nearby 850 Technology Way. New owner BECO Management has promised to invest \$10 million on

### Availability Rate Comparison



### Rental Rate Comparison



### Major Transactions

Tenant	Sq Feet	Address	Market Area
Amita Health	225,000	2601 Navistar Dr	East-West Corridor
American Imaging Management*	78,073	8600 W Bryn Mawr Ave	O'Hare Area
Jewel-Osco	69,000	150 E Pierce Rd	Northwest Corridor
McCain Foods	67,422	1 Tower Ln	East-West Corridor
Brightstar Corp	64,000	600 N US Highway 45	North Corridor
NEC Display	47,000	3250 Lacey Rd	East-West Corridor
Glanbia	34,971	4255 Meridian Pky	East-West Corridor
Dashiell	30,532	720 E Butterfield Rd	East-West Corridor
REX Electric	25,461	1333 Butterfield Rd	East-West Corridor
Charles Industries	22,269	1450 American Ln	Northwest Corridor
<b>663,728 Sum of 3rd Qtr Leasing Activity</b>			<b>1.5 MSF</b>

\*Renewal

renovations, including amenities such as a fitness center, dry cleaner, chiropractor and massage therapist, as well as a shuttle bus and bicycle rentals.

### Northwest Corridor

The Class A availability rate in the Northwest Corridor reversed directions, jumping by 110 basis points from 30.3% to 31.4%. The Class A rate has increased by 170 basis points year-on-year. Class A rent was flat, inching down by 0.1% from \$23.56 to \$23.54.

The Northwest Corridor continues to struggle to sustain leasing momentum. A few tenants are taking a look at the heavily discounted space, but traffic and touring activity pales compared to most other submarkets. Grocer Jewel-Osco committed to 69,000 sf at 150 E Pierce Road. Also, Charles Industries leased 22,269 sf at 1450

American Ln. Otherwise, few tenants took space.

### O'Hare Area

O'Hare’s Class A availability rate rose for the second consecutive quarter, spiking by 200 basis points to 16.7%. Of note, though, the Class A rate is still well below its mark of 19.0% in the third quarter of 2016. Tenants leased nearly 250,000 sf in the quarter, exceeding the long-term average by more than 10%.

Map	Submarket	Total	Leasing Activity		Available SF			Availability Rate			Asking Rents Per SF		
			Inventory SF (1000's)	Four Quarter Leasing	Four Quarter Net Abs.	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. <sup>(1)</sup>	Year Ago	This Quarter	% Change from Last Qtr.
1	<b>North Corridor</b>	23,826	1,126	(547)	5,903	1.6%	5,549	24.8%	2.2%	22.1%	\$24.36	-1.3%	\$25.06
	North Corridor - Class A	14,842	786	(554)	3,992	-3.9%	3,910	26.9%	0.5%	26.1%	\$26.39	-1.0%	\$26.78
2	<b>East-West Corridor</b>	40,322	1,988	(303)	9,118	-3.8%	9,189	22.6%	-0.3%	22.7%	\$22.96	-1.7%	\$23.45
	East-West Corridor - Class A	20,708	1,065	(578)	4,642	-8.2%	5,094	22.4%	-3.1%	24.9%	\$26.27	-0.7%	\$26.63
3	<b>O'Hare Area</b>	16,647	683	(175)	2,922	-6.2%	2,886	17.6%	-0.1%	18.6%	\$23.57	-1.1%	\$22.93
	O'Hare Area - Class A	7,781	419	56	1,296	1.6%	1,042	16.7%	2.0%	19.0%	\$29.69	0.9%	\$28.70
4	<b>Northwest Corridor</b>	35,014	1,086	(2,919)	10,087	1.9%	9,684	28.8%	1.0%	27.1%	\$21.36	1.0%	\$21.17
	Northwest Corridor - Class A	19,764	850	(2,563)	6,196	2.6%	5,967	31.4%	1.1%	29.7%	\$23.54	-0.1%	\$23.73
1-4	<b>Suburban Chicago Total</b>	<b>115,809</b>	<b>4,883</b>	<b>-3,944</b>	<b>28,030</b>	<b>-1.0%</b>	<b>27,307</b>	<b>24.2%</b>	<b>-0.2%</b>	<b>22.9%</b>	<b>\$22.82</b>	<b>-0.7%</b>	<b>\$23.02</b>
	Suburban Chicago Total - Class A	63,095	3,120	-3,638	16,125	-2.4%	16,013	25.6%	-0.6%	25.5%	\$25.63	-0.6%	\$25.90

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(1) Percentage point change for availability rates.  
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.  
Statistics are calculated using both direct and sublease information.  
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.  
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