

# Savills Studley Report

## Chicago Suburbs office sector

Q3 2018



## SUMMARY

### Market Highlights

#### LEASING DROPS

Leasing activity fell for the first time since the fourth quarter of 2017, dropping by more than 20% to 1.1 msf. Tenants have leased 5.0 msf in the four most recent quarters, falling well short of the market's long-term average.

#### AVAILABILITY RATE RISES

The overall availability rate jumped by 170 basis points to 28.3%. The Class A availability rate rose by 60 basis points to 27.4%.

#### RENT INCHES LOWER

Suburban Chicago's overall asking rent dipped by 0.4% to \$23.39. The Class A asking rent dipped by 0.8% to \$26.60.

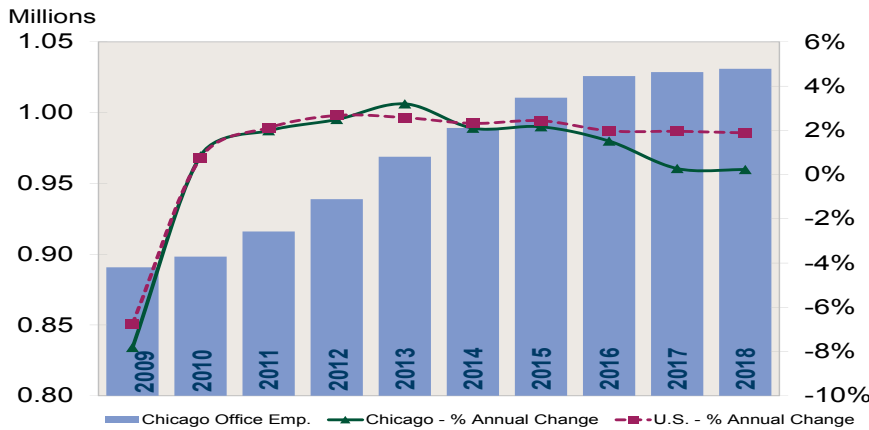
#### SALES UP

Office property sales during the last six months (through August 2018) totaled \$2.9 billion, a 51% increase compared to the previous six-month total of \$1.9 billion. Sales in Chicago's suburban market totaled \$1.5 billion while Chicago CBD witnessed sales of \$1.36 billion during this period.

*"The current market offers both tenants and investors some strong opportunities. Asking rent growth has levelled off, even in stronger areas such as O'Hare and Oak Brook. Similarly, excluding the most stable AAA assets, buyers can still find reasonably priced assets for sale."*

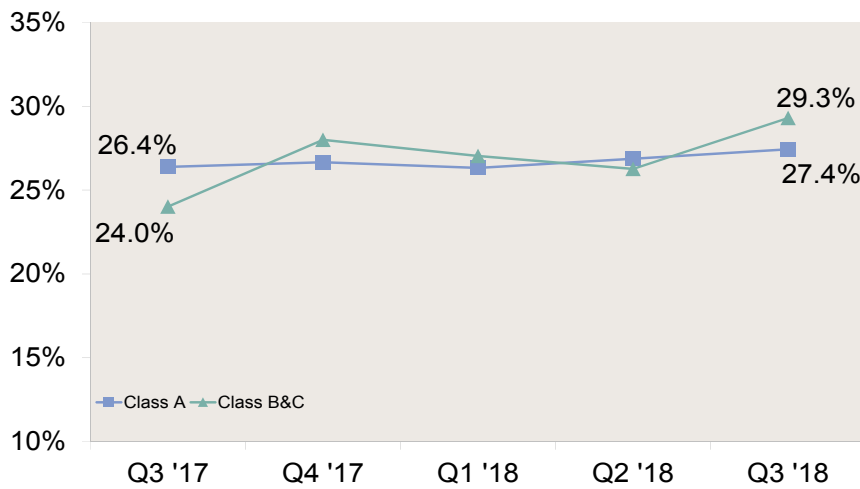
Jon Azulay,  
Corporate Managing Director

## Office-Using Employment Trends

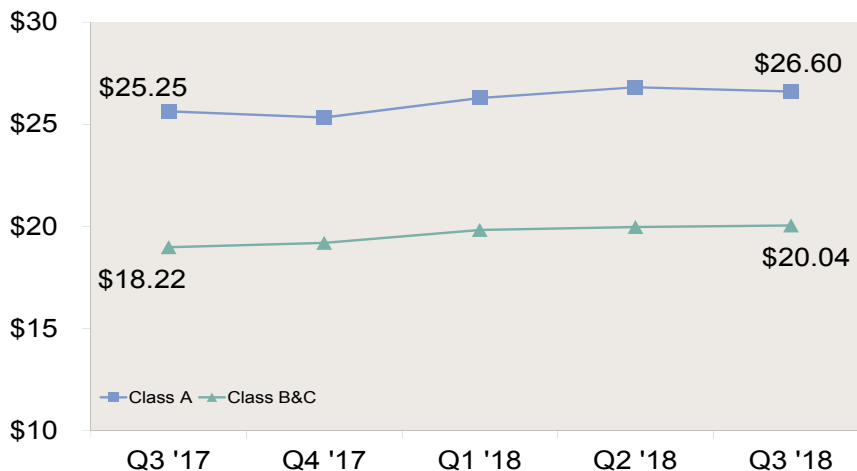


Source: Bureau of Labor Statistics^

## Availability Rate Trends



## Asking Rent Trends (\$/sf)



## Options Aplenty for Tenants and Investors

The current cycle has been a struggle at times for Suburban Chicago. Expansion and leasing in some quarters has been overshadowed by relocations Downtown. In the latest potential move, Ferrara Candy is in talks to move its headquarters from Oakbrook Terrace to the newly completed 625 W. Adams Street in Chicago's West Loop. The candy maker may lease about 60,000 sf. Ferrara is still occupying 42,000 sf at 1 Tower Lane in Oakbrook Terrace, with an expiration in 2022.

Additionally, the region has seen the loss of some top employers to other states. Most recently, Takeda Pharmaceuticals announced plans to close its location in Deerfield. The company will relocate to the Boston area in 2019 once its merger with Shire is finalized.

Conditions have tightened steadily in select areas of Suburban Chicago. O'Hare's Class A availability rate rose in the third quarter, but with a rate of 16.1% was still well below Suburban Chicago's average of 27.4%.

Some suburban companies are benefiting from the recent increase in economic growth seen in the U.S. economy. A few firms are adding payroll and investing in their workplace. German grocery store chain Aldi expanded to 113,000 sf at Naperville Woods Office Center (1000-1100 E. Warrenville Road). Aldi announced a major U.S. expansion in 2017, unveiling plans to invest \$3.4 billion in the U.S., growing from 1,700 to 2,500 stores by 2022. Some banks and financial services firms have also been expanding. GCG Financial signed a 44,986-sf lease extension and expansion at Three Parkway North, Deerfield. The national insurance and wealth management firm will use the extra space to accommodate recent growth.

Current conditions are ideal for suburban businesses that want to improve the quality of their space and lock in favorable lease terms and concessions. Most areas in suburban Chicago offer ample options, with at least 35 contiguous blocks of 50,000 sf or more available in all submarkets except for O'Hare.

The ownership landscape in Suburban Chicago is still in flux. Long-standing owners are exiting the market. They are being replaced by a mix of local investors and new entrants to the market. Equity Commonwealth recently sold its last

suburban asset. Honolulu-based Shidler Group is about to acquire Triangle Plaza for approximately \$143 million (\$226/sf), a 49% spike from the \$96 million that Sam Zell's firm paid in 2010 for the twin buildings at 8750 and 8770 W. Bryn Mawr Avenue. The building was 95% leased at the end of the quarter.

### East-West Corridor

The availability rate rose for the second quarter in a row, increasing from 24.1% to 24.8%. The Class A rate spiked by 240 basis points to 25.7%. Among new large blocks of space coming to market was 163,000 sf at 2001 York Rd. in Oak Brook, which is currently occupied by Comcast. Also, 94,000 sf formerly occupied by McCain Foods came available this quarter at 2275 Cabot Dr. in Lisle. Leasing volume during the last four quarters totaled 2.0 msf, right on par with the market's long-term average. Average asking rent in the East-West Corridor was essentially flat during the quarter, inching up by 0.2% to \$23.38, but has jumped by 1.7% year-on-year.

In addition to Aldi's 113,389-sf lease in Naperville, ARRIS Solutions signed a 71,000-sf renewal at 2400 Ogden Avenue. Meanwhile, Blue Cross Blue Shield renewed its lease for a combined 40,842 sf at 1000-1100 E. Warrenville Rd. in Naperville.

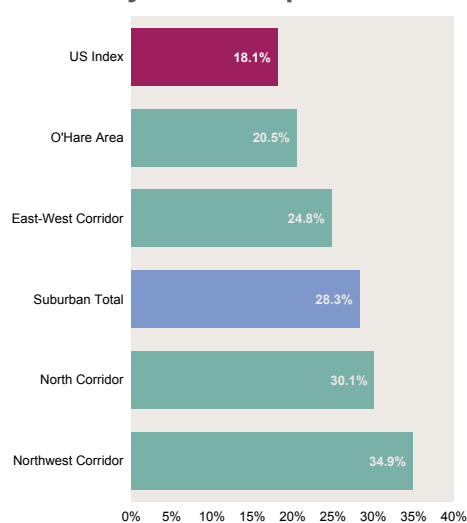
In Downers Grove, Group RMC agreed to pay \$84 million (\$120/sf) for Executive Towers West. The three buildings totaling 700,000 sf are 89% leased. A few investors are concluding that there is too much office product in some spots. Hines is proposing to demolish McDonald's old building in Oak Brook and replace it with a mix of office, residential, retail and hospitality space – building a “village center” on the site. The Houston-based developer's agreement to buy the 328,000-sf complex is contingent upon the approval of the redevelopment plan.

### North Corridor

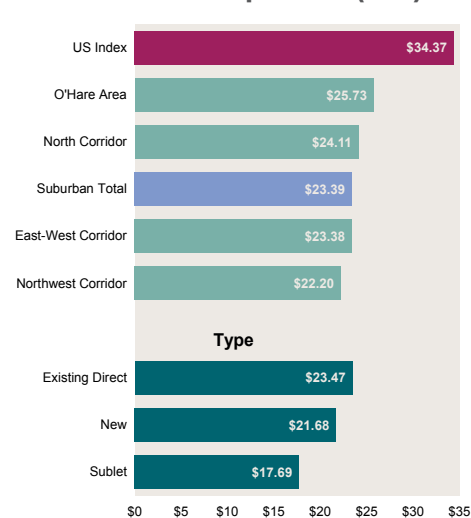
Availability pushed back above 30%, rising by 140 basis points to 30.1% in the quarter. The Class A availability rate fell from 28.9% to 27.7%. The average Class A asking rent rose by 0.9% to \$27.24, but overall asking rent fell by 1.7% to \$24.11 psf.

Leasing activity remains subpar. Deal volume totaled just over 800,000 sf in the North Corridor during the last four quarters, well below the submarket's long-term annual average of 1.3 msf. Two renewals accounted for much of this quarter's activity. Aim Specialty Health signed a 93,678-sf renewal

## Availability Rate Comparison



## Rental Rate Comparison (\$/sf)



## Major Transactions

Tenant	Sq Feet	Address	Market Area
Aldi	113,389	1100 E Warrenville Rd	East-West Corridor
Aim Specialty Health *	93,678	540 Lake Cook Rd	North Corridor
ARRIS Solutions *	71,000	2400 Ogden Ave	East-West Corridor
GCG Financial Inc **	44,986	3 Parkway Blvd N	North Corridor
Blue Cross Blue Shield **	40,842	1000-1100 E Warrenville Rd	East-West Corridor
Aim Specialty Health	38,940	8600 W Bryn Mawr Ave	O'Hare Area
SMS Assist	33,237	2135 CityGate Ln	East-West Corridor
Auguste Escoffier School of Culinary Arts	21,640	150 N Martingale Rd	Northwest Corridor
Advocate Health Care	17,937	3025 Highland Pky	East-West Corridor
Gerber National Claim Services *	15,751	120-160 W Center Ct	Northwest Corridor
	<b>491,400</b>	<b>Sum of 3rd Qtr Leasing Activity</b>	<b>1.1 MSF</b>

\*Renewal

at 540 Lake Cook Road. Meanwhile, GCG Financial Inc. inked a 44,986-sf renewal and expansion at 3 Parkway Boulevard North.

### Northwest Corridor

Northwest Corridor continues to offer tenants ample options. The submarket's overall availability rate jumped by 180 basis points to 34.9%. Average Class A rent fell by 0.9% to \$24.83 and is priced nearly 10% below the market average of \$26.60. Reasonably priced space and generous concessions have done little to jumpstart leasing. Tenants have leased 1.0 msf in the last four quarters, well below the submarket's long-term annual average of 1.3 msf. Among the larger leases in the Northwest Corridor this quarter, Auguste Escoffier School of Culinary Arts took more than 21,000 sf at Woodfield Corporate Center in Schaumburg. The school will occupy space previously occupied by Nielsen, which moved its operations to downtown Chicago in 2017.

### O'Hare

O'Hare's availability rate posted its sharpest increase since the first quarter of 2017, jumping by 330 basis points to 20.5%. The Class A availability rate jumped by 120 basis points to 16.1%. Deal volume totaled just over 600,000 sf in the last four quarters, shy of the market's long-term average. Aim Specialty Health's 38,940-sf lease at 8600 W Bryn Mawr Avenue was the top lease signed in O'Hare during the quarter.

The gap in pricing between Downtown and suburban properties remains very wide. Even buildings with sub-10% vacancy rates, such as Triangle Plaza, are selling for mid-\$200/sf. A few are selling well below \$200/sf. Presidents Plaza, for example, changed hands for merely \$177/sf. And in late September, Blackstone sold O'Hare International Center for \$64 million, or \$124/sf.

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.	Year Ago
1	<b>North Corridor</b>	23,830	1,001	227	7,176	3.8%	5,900	30.1%	1.4%	24.5%	\$24.11	-1.7%	\$24.36	
	North Corridor - Class A	14,141	764	12	3,919	-5.5%	3,992	27.7%	-1.2%	27.9%	\$27.24	0.9%	\$26.39	
2	<b>East-West Corridor</b>	37,304	2,256	973	9,257	-1.0%	9,042	24.8%	0.8%	23.1%	\$23.38	0.2%	\$22.98	
	East-West Corridor - Class A	18,599	1,177	365	4,787	3.9%	4,639	25.7%	2.4%	23.5%	\$26.61	-2.1%	\$26.27	
3	<b>O'Hare Area</b>	12,689	555	457	2,597	2.8%	2,903	20.5%	3.3%	19.7%	\$25.73	0.8%	\$23.72	
	O'Hare Area - Class A	7,551	417	36	1,218	4.8%	1,296	16.1%	1.2%	16.7%	\$31.90	-0.2%	\$29.69	
4	<b>Northwest Corridor</b>	27,653	1,134	302	9,650	0.3%	10,025	34.9%	1.8%	31.3%	\$22.20	-0.3%	\$21.41	
	Northwest Corridor - Class A	15,900	795	122	5,488	-5.0%	6,196	34.5%	-0.3%	32.1%	\$24.83	-0.9%	\$23.54	
1-4	<b>Suburban Chicago Total</b>	<b>101,475</b>	<b>4,946</b>	<b>1,959</b>	<b>28,680</b>	<b>1.0%</b>	<b>27,870</b>	<b>28.3%</b>	<b>1.7%</b>	<b>25.3%</b>	<b>\$23.39</b>	<b>-0.4%</b>	<b>\$22.86</b>	
	Suburban Chicago Total - Class A	56,191	3,153	535	15,413	-1.8%	16,123	27.4%	0.6%	26.4%	\$26.60	-0.8%	\$25.63	

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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.

^Unless otherwise noted, source for data is Savills Studley.

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