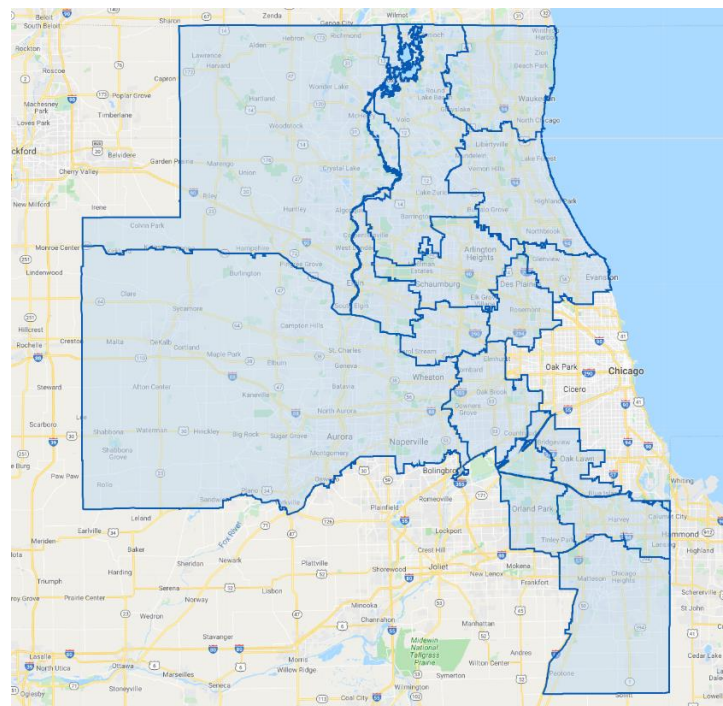


Chicago Suburbia Office Market Analysis Report

Q3 2019



Overview

The Chicago Metropolitan Statistical Area ("MSA") is the third largest metropolitan area in the country. In recent years, continuous job growth has fueled development and decreased vacancy for office space within the CBD. In the suburbs, however, demand for office space has been relatively low. This trend has pushed vacancy rates in these suburban submarkets far above other MSA averages, with rates in the Northwest suburbs reaching 19.5% as of Q3 2019. Market rent growth in the Chicago suburbs has declined since 2015 and is currently at a five-year low of 1.5 %. This low rent growth has kept suburban office space significantly more

affordable than the CBD's average market rent of \$40.29/ RSF. For reference, the suburban market with the highest rents in Q3 2019 was O'Hare, with an average price of \$26.45 / RSF.

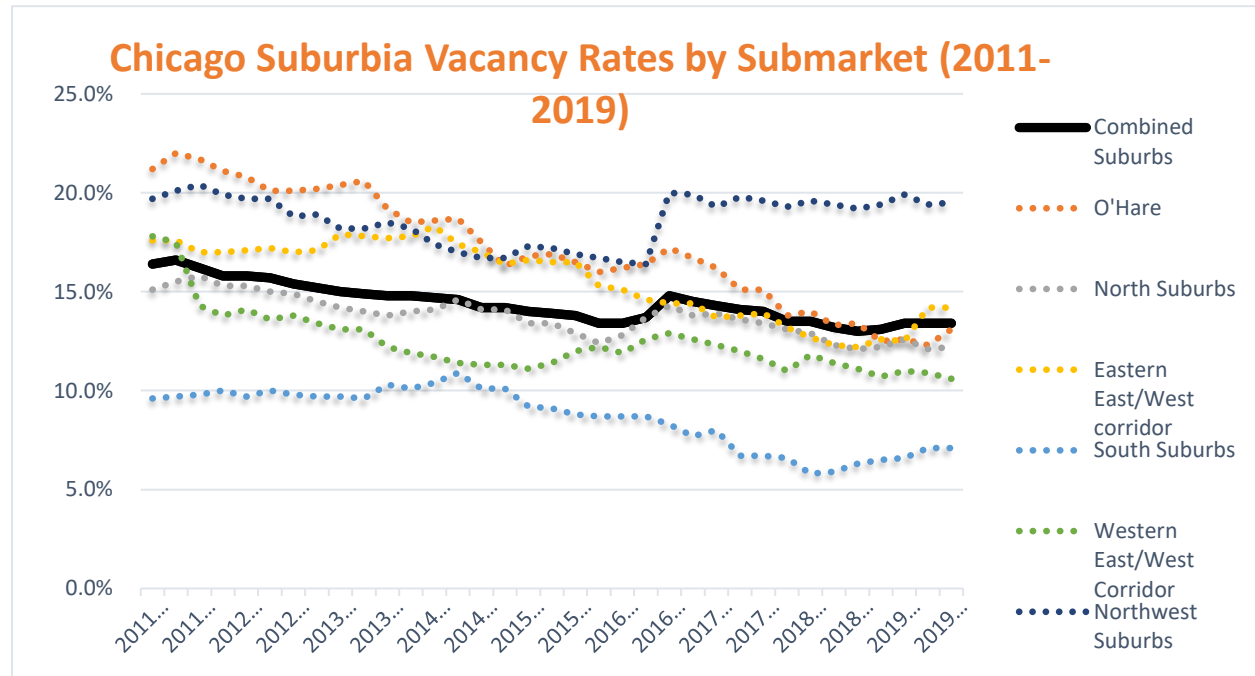
Submarket(s)	Average Market Rent/RSF in Q3 2019
Chicago CBD	\$40.29 /RSF
Chicago Suburbs	\$22.49
O'Hare	\$26.45
North Suburbs (Central North, Far North, Near North)	\$23.86
Eastern East/ West Corridor	\$22.97
South Suburbs (Far South, South Chicago, South Route 45)	\$22.79
Western East / West Corridor	\$21.28
Northwest Suburbs (Schaumburg, North DuPage, Central Northwest, Far Northwest)	\$20.36

Data Courtesy of CoStar

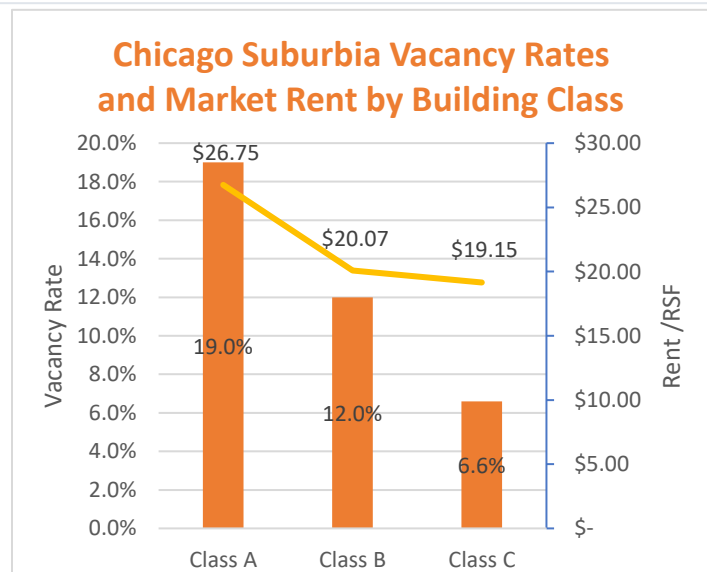
The high vacancy rates, lack of consistent development, and relatively low demand of Chicagoland's suburban office space is in part due to the national trend of major corporate tenants relocating their offices from suburbia to the CBD's in order to attract young, new talent. For example, McDonalds, Motorola Solutions, Walgreens Boots and Kraft Heinz have all moved their headquarters from the Suburbs into the Chicago CBD within the past four years.

Rent, Vacancy and Inventory

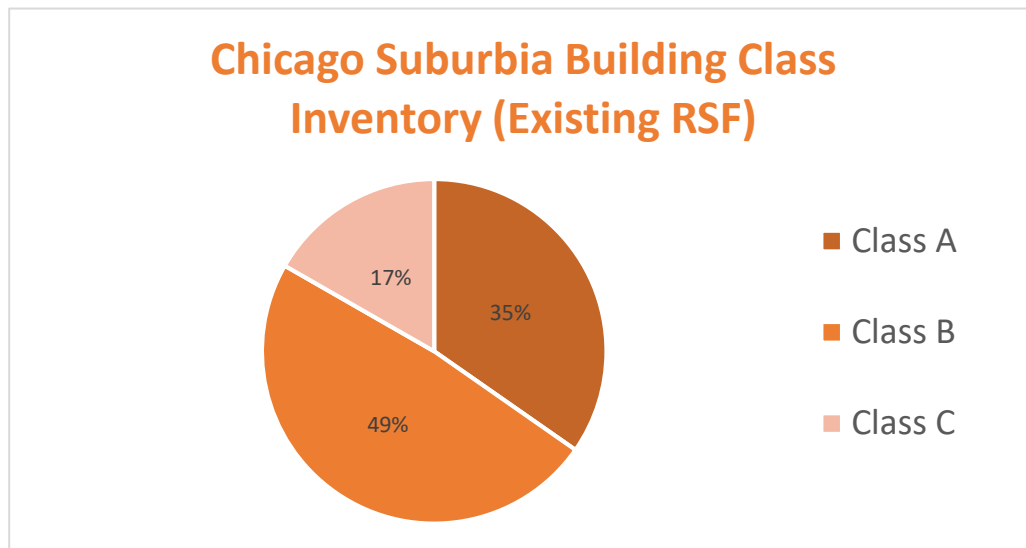
As of Q3 2019, Chicago suburban office space has an overall vacancy rate of 13.4%. This rate is higher than the Chicago MSA average of 11.7%, but still over a full percentage point lower than the suburbia's ten-year average of 14.5%. While most suburban submarkets' vacancy rates fall within a few percentage points of the entire suburbia's rate, the Northwest suburbs stand out as an outlier with a current vacancy rate of 19.5%. This inconsistency demonstrates the diversity of demand for office space amongst the different Chicago suburbia submarkets.



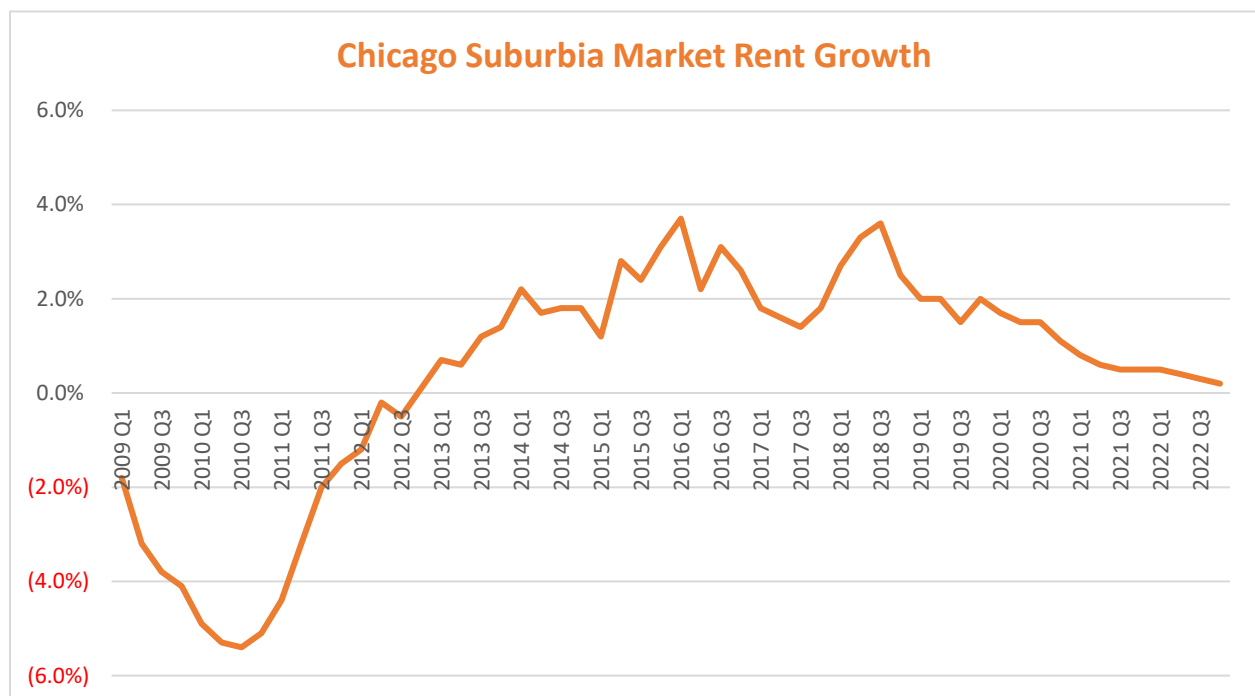
Looking at the Chicago suburban office market holistically, there is a significant rent and vacancy delta between Class A, B, and C buildings. Class A buildings have a vacancy rate of 19.0% and an average rent/RSF of \$26.75. These figures drop for Class B buildings and plunge for Class C buildings, which have average rents/RSF of \$20.07 and \$19.15 as well as vacancy rates of 12.0% and 6.6%, respectively. This sharp drop in vacancy rates between building classes correlates with the national trend of corporate tenants who can afford high-quality office space leasing in CBD's instead of suburbia.



As measured by existing RSF, nearly half of office space in Chicago suburbia is Class B, while 35% is Class A and 17% is Class C.

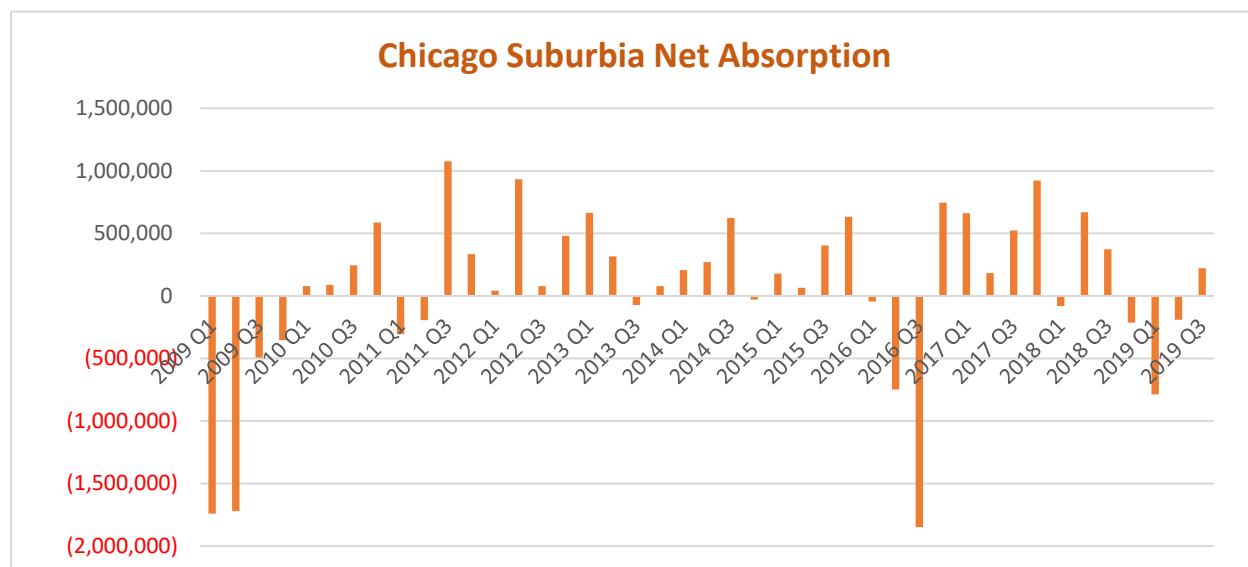


Market rent growth is currently at a four-year low of 1.5%. This low follows a recent peak of 3.6% in Q3 of 2018. CoStar data projects suburban market rent growth to keep decreasing over the next few years, reaching as low as 0.2% by the end of 2022. This decline is most likely due to uncertain economic conditions, outflow of suburban tenants, and new property tax assessment policies being instituted in Cook County, in particular.



Leasing History

Low demand for office space in the Chicago suburbs and the exit of several large corporate tenants has left net absorption in the area inconsistent over the past decade. While Q3 2019 had a positive net absorption rate of 222,377 RSF, the two quarters before it had negative net absorption rates, leaving overall absorption in the first three quarters of 2019 negative. The suburbs' five-year average net absorption rate is 118,838 RSF and the ten-year average is 66,253 RSF.



Data Courtesy of CoStar

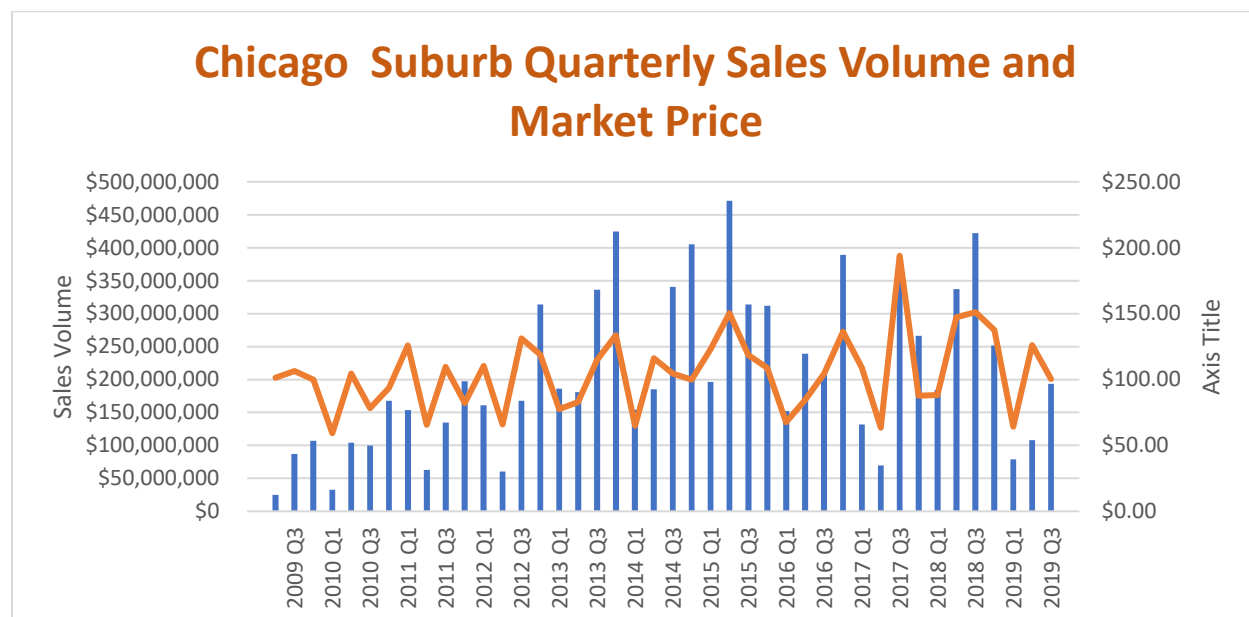
Looking forward, net absorption is likely to turn negative or remain low. Given how inconsistent absorption figures have been since 2009, the departure or arrival of one large tenant can make-or-break this figure for the entire suburbia.

Most Notable (>100,00 RSF) Lease Signings in Chicago Suburbia since 2017:

Sign Date	Start Date	Address	City	RSF Leased	Tenant	Deal Type
Oct - 18	Jul - 19	1501 W Shure Dr	Arlington Heights	200,000	United Airlines	New
May - 19	Nov -19	4201 Winfield Rd	Warrenville	190,029	Edward-Elmhurst Health	New
Oct -17	Jul -19	8647 W Higgins Rd	Chicago	163,524	TeamCare	New
Apr - 19	Apr - 19	777 Big Timber Rd	Elgin	127,280	U-Haul	Renewal
Sep -18	Jul -19	2355 Waukegan Rd	Bannockburn	107,631	Stericycle	New
Apr -18	Oct - 20	150 W Warrenville Rd	Naperville	106,000	BP America Inc	New
Jan -19	Jan - 19	2200 Kensington Ct	Oak Brook	103,015	Ace Hardware Corp	Renewal
Apr - 19	Apr - 19	340 N Milwaukee Ave	Vernon Hills	101,352	Baxter Credit Union	Renewal

Sales History

Over the past decade, sales volume in the Chicago MSA generally increased from 2009 to 2015 and decreased from 2015 to the present. As seen in the graph below, however, sales in Chicago suburban submarkets have only loosely followed this trend. The diversity of sales activity in these markets has caused volatility in terms of both sales price and volume.



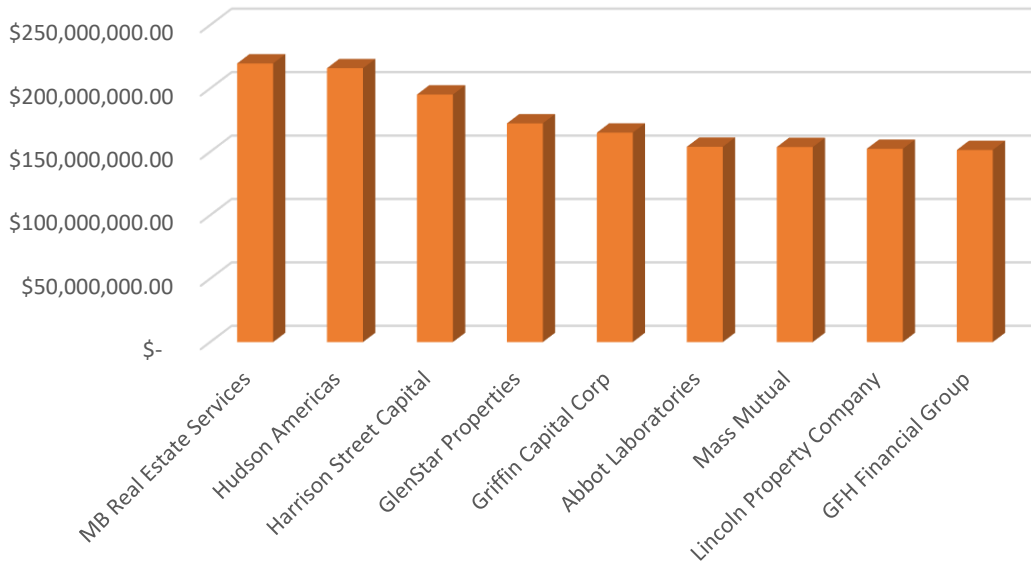
Looking forward, sales volumes in the suburbs is expected to continue to decline over the next few years. This is due to both general market and demographic trends as well as economic uncertainty in light of the new Cook County Assessor's property valuation methods since other counties are expected to follow suit. According to a recent article by Crain's Chicago Business, Cook County has now assessed the total value of all commercial and industrial real estate in north suburban Cook County at a figure 74.4% above what it was in 2018. While individual landlords will not know the details of how the higher valuations will change their individual building's property taxes until summer 2020, they are preparing for them to increase significantly. Uncertain of how large these increases may be, investors will be more risk-averse when it comes to buying commercial real estate in Cook County.

The largest purchasers of Chicago suburban office space by sales volume during the last five years have been MB Real Estate Services, Hudson Americas, and Harrison Street Capital. Together, these three companies have bought over \$629 million in office space across the suburbs. The largest seller of office space has been the Blackstone Group, who has sold over \$235 million in Chicago suburban office buildings since 2016. According to a Crain's Chicago Business article, Blackstone has bought and sold buildings in this area with a value-add strategy in mind. For example, Blackstone sold the Executive Towers West Complex in Downers Grove for \$84 million in 2018 after purchasing the building in 2011 for \$60 million and spending \$5 million on renovations and new amenity spaces.

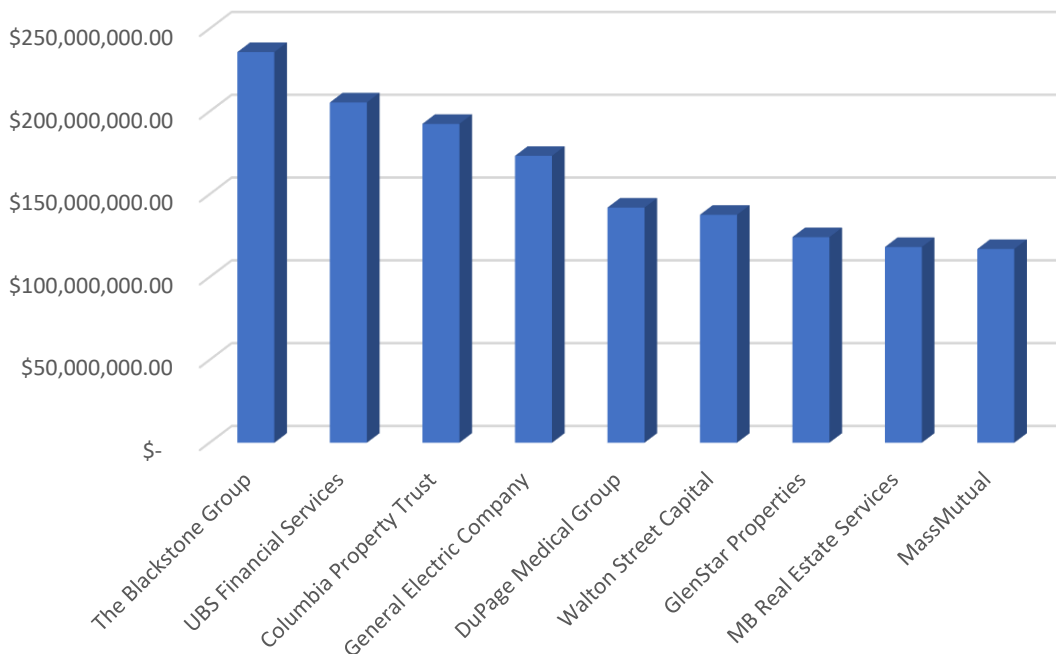
The largest single office building purchase for a user within the last five years has been Abbott Laboratories' \$154 million acquisition of the Mettawa Building at Riverwoods Blvd, Mettawa, IL in 2018. They had been subleasing the space since 2014. The largest single office building purchase

for an investor the past five years has been Adventus Realty Trust's \$71.6 million acquisition of a 255,000 RSF office building at 3005 Highland Parkway, Downers Grove in 2015.

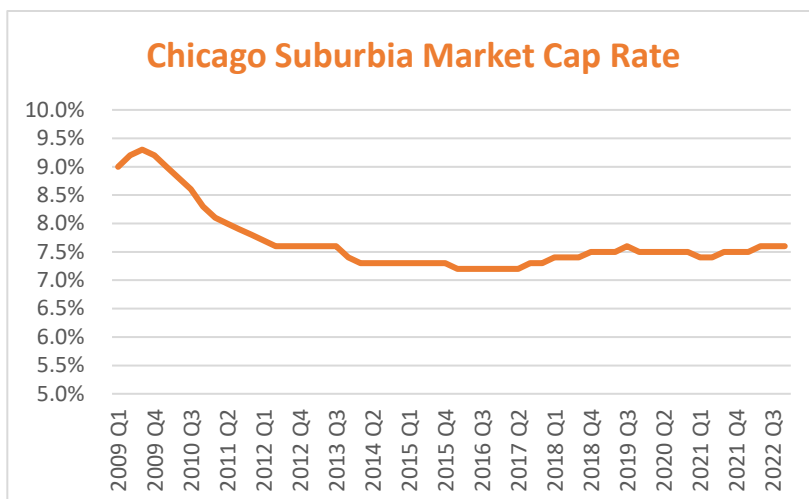
Top Buyers of Chicago Suburban Office Space During Previous Five Years



Top Sellers of Chicago Suburban Office Space During Previous Five Years



Suburban market capitalization rates have remained relatively steady over the past two years, with a Q3 2017 rate of 7.28% and a Q3 2019 rate of 7.56%. After declining in the years following the Great Recession, market capitalization rates have stabilized and are expected to remain that way in the near future. Lower, stable capitalization rates signal less risk and lower returns for investors in the area.



Construction

According to CoStar data, there is currently one major multi-tenant office building under construction in Chicago Suburbia. Owned by Rosalind Franklin University, 3333 Green Bay Rd in North Chicago is a 100,000 RSF medical research facility that is set to open by the end of 2019. While 2/3 of the space in the building will be occupied by the University, 1/3 of the space will be leased out to research firms and startups which will all be medically related.

Although construction activity for large office buildings is slow in the suburbs, there are over a dozen proposals for suburban office buildings with RSF over 150,000 in the works. Most of these proposed projects are concentrated in South Chicago, O'Hare, Central North, and Central Northwest Submarkets. The 10 largest proposed multi-tenant suburban office buildings are listed below:

Most Notable Proposed Office Developments in Chicago Suburbs

Address/Building Name	Class	Submarket	Delivery	Size (RSF)	Owner
8601 W Higgins Rd	A	O'Hare	2021	600,000	GlenStar Properties
8201 W Higgins Rd	A	O'Hare	2021	500,000	Friedman Properties
100 S Milwaukee Ave	B	Central North	2021	405,920	American Hotel Register Company
21440 Lake Cook Rd	A	Central Northwest	2021	300,000	Global Securitization Services
8 Parkway Blvd N	A	Central North	2022	250,000	Quadrangle Development Company
600 S Damen Ave	A	South Chicago	2021	240,000	Illinois Medical District Commission
6600 N Mannheim Rd	A	O'Hare	2022	229,240	DRI/Oak Tree
I-90 at Randall Rd	B	Far Northwest	2022	225,900	Parkway Bank & Trust
Oak Brook Commons	B	Eastern East/West Corridor	2021	220,000	Hines
600 E Butterfield Rd	B	Eastern East/West Corridor	2021	207,995	Northern Baptist Theological Seminary