BRADFORD ALLEN

YEAR-END 2022 OFFICE MARKET REPORT

CHICAGO SUBURBS

TCN WORLDWIDE REAL ESTATE SERVICES

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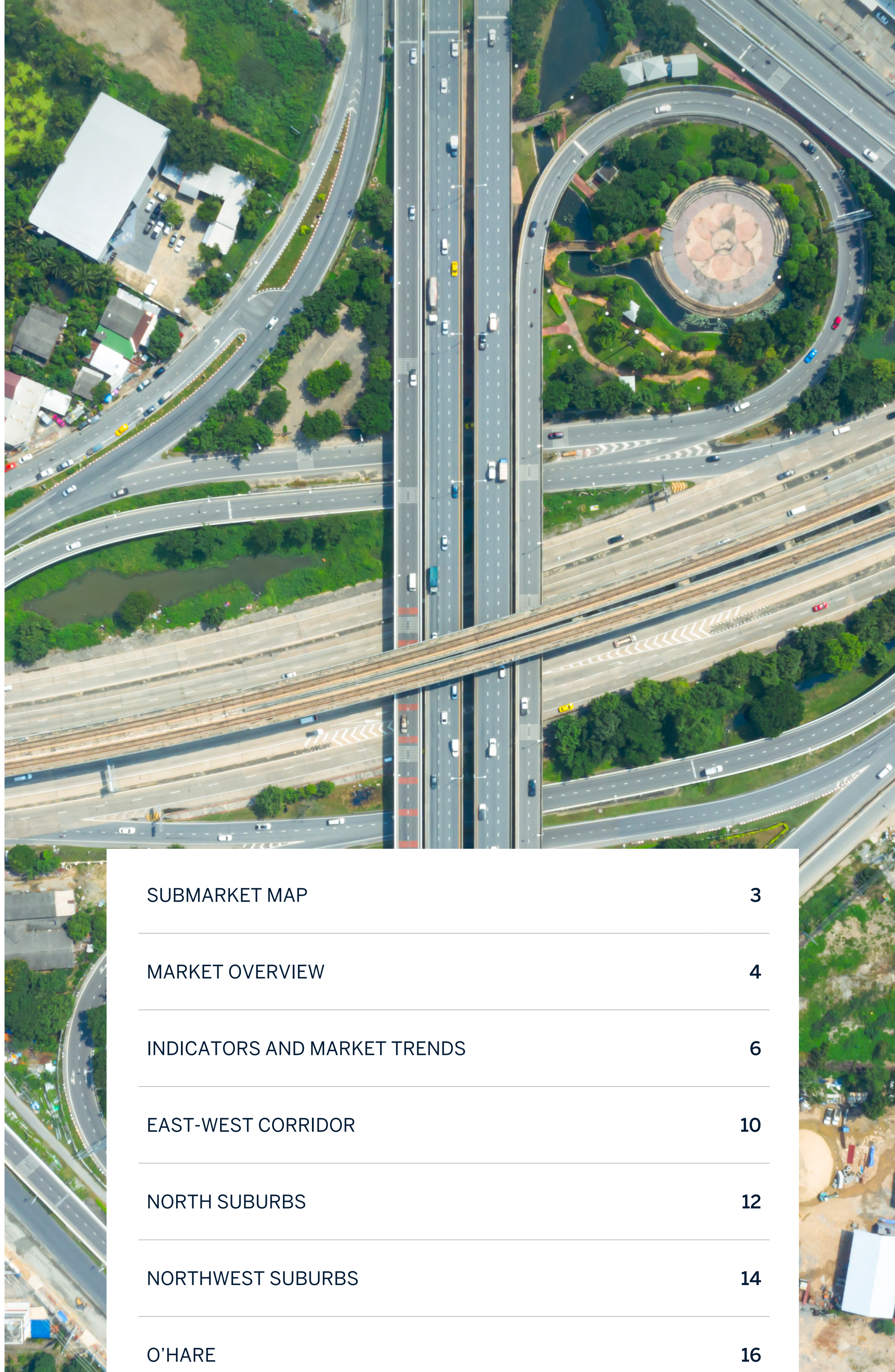
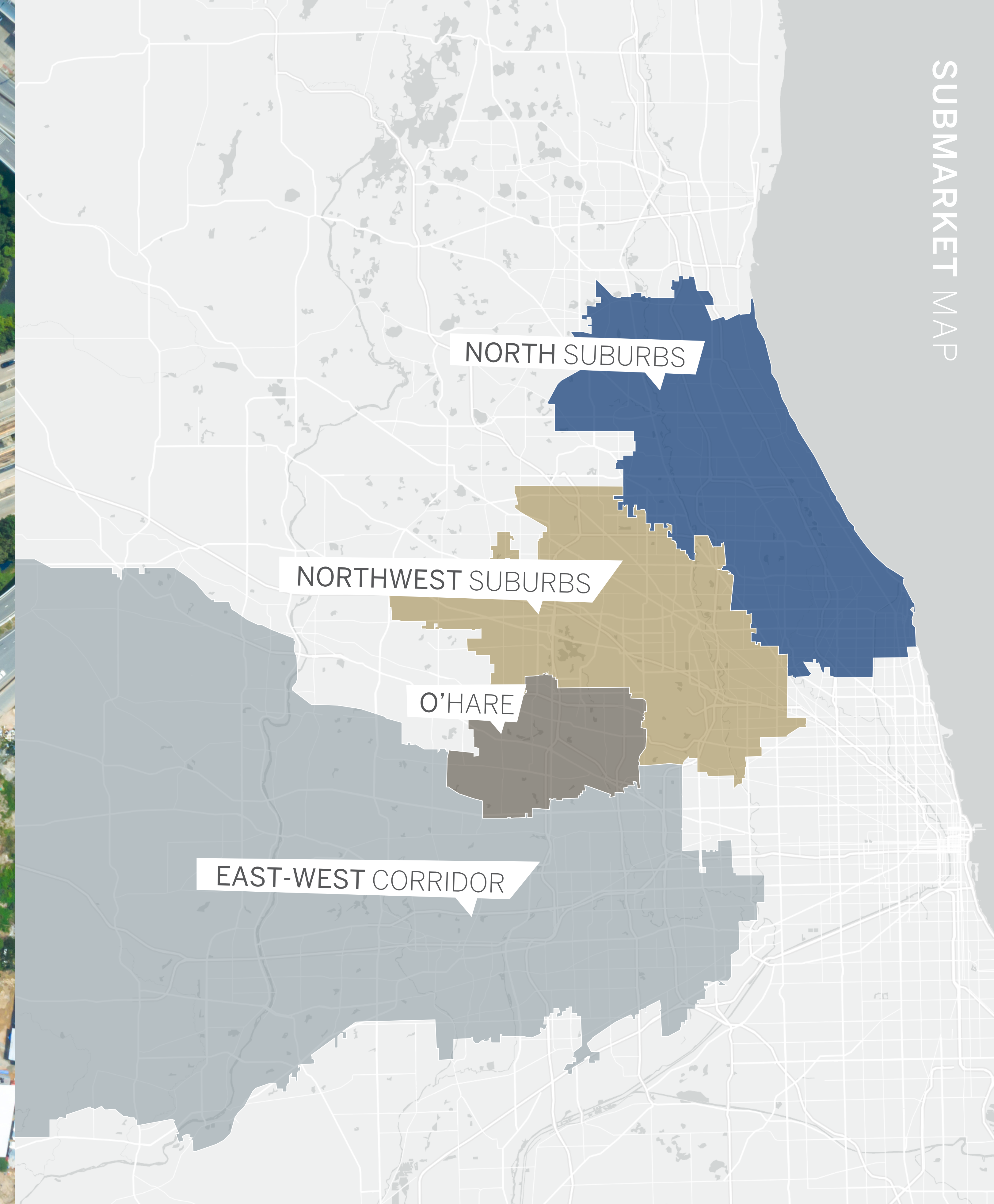


SUBMARKET MAP



WELL-LOCATED, AMENITY-RICH, AND RIGHT-SIZED SPACES IN DEMAND

The Chicago suburban office market showed signs of strength through the second half of 2022 as rental rates increased, absorption levels turned positive, and vacancy rates stabilized at approximately 27%. Although the vacancy rate is at a record high, the data remains distorted by zombie offices (typically outdated corporate campuses); one of which was sold in October for more than $230 million. The 1.4 million-square-foot-campus in Northbrook, formerly the long-time home of Allstate, is being redeveloped into an industrial mega site. Developers must determine the highest and best use for these vacant office campuses, whether into more digestible-sized office product or into an entirely new asset class. These decisions will help mitigate oversupply issues while contributing to the long-term stability of Chicago's suburban market.

As discussed in our previous Suburban Office Market Report, many of today's struggling properties were showing signs of distress prior to the pandemic. These struggles have been exacerbated by new hybrid work models, rising interest rates, and an uncertain economic climate. However, as the flight-to-quality trend continues, owners in the financial position to reinvest in their properties and right-size their tenants can remain competitive and potentially outperform the overall market.

LEASING ACTIVITY

Unlike the CBD, leasing velocity in the suburbs has returned to pre-pandemic levels at a time when suburban tenants are returning to the office more frequently than their urban counterparts. In 2022, suburban Chicago office leasing velocity reached nearly 5 million square feet, a level not seen since 5.1 million square feet was leased in 2019. While available sublease space has more than doubled since the pandemic began (**Figure 01**), transaction activity overall has remained robust as tenants have moved up in quality to well-located and highly amenitized buildings in an effort to retain and attract top talent.

Oversupply concerns have not dissuaded tenants from paying premium prices for well-located, high-quality office product. Rental rates continued to increase, now sitting at an average gross asking rate of nearly $25 per square foot in Q4/22 compared to the $21 per square foot seen in Q4/19, according to CoStar. The suburban office market has become increasingly competitive for smaller lease deals as companies look to right-size their current office space, leaving owners with contiguous vacancies over 30,000 square feet struggling to bring in new tenants.

Not all office properties can be reconfigured to accommodate smaller square footage requirements, leaving some owners with limited options when attempting to backfill vacant suites. Owners must determine whether it is both physically and financially viable to carve up large vacancies to increase the likelihood of attracting new tenants.

One prime example is Bell Works Chicagoland, the former AT&T suburban campus. The 1.2 million-square-foot office was abandoned in 2016 and foreclosed on by the lender soon thereafter. A new investor purchased the vacant property at a significantly lower basis, providing them with the financial flexibility to carve up and renovate the space, which brought in multiple small-footprint tenants. Bell Works now has high-quality common area amenities and a strong pipeline of leasing opportunities.

INVESTMENT SALES

Investment sales in Chicago's suburbs have significantly outpaced the CBD with more than $400 million trading hands in the back half of 2022, resulting in over $900 million of investment sales through the year. The single largest office transaction of 2022 was Apollo's sale of the Kemper Lakes Business Center at 1-4 Corporate Drive for $190 million ($185 PSF), and it reflects an emerging trend in the suburbs—large, institutional investors with national portfolios selling off their office assets to locally based investors that are willing and able to adapt to the nuances of an evolving office market.

As sales volume struggled in the CBD, transaction activity in the suburban office market returned to pre-pandemic levels, more than doubling the $430 million of sales seen in 2019. Even though current market conditions have placed additional pressures on investors, transaction activity has remained robust.

Current and historical property data were compiled from CoStar with these parameters: 20,000 square feet or more; representative cities within each submarket; and Class A and B, existing and under renovation office property type, excluding non-conforming and owner-occupied properties. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

CHICAGO SUBURBS

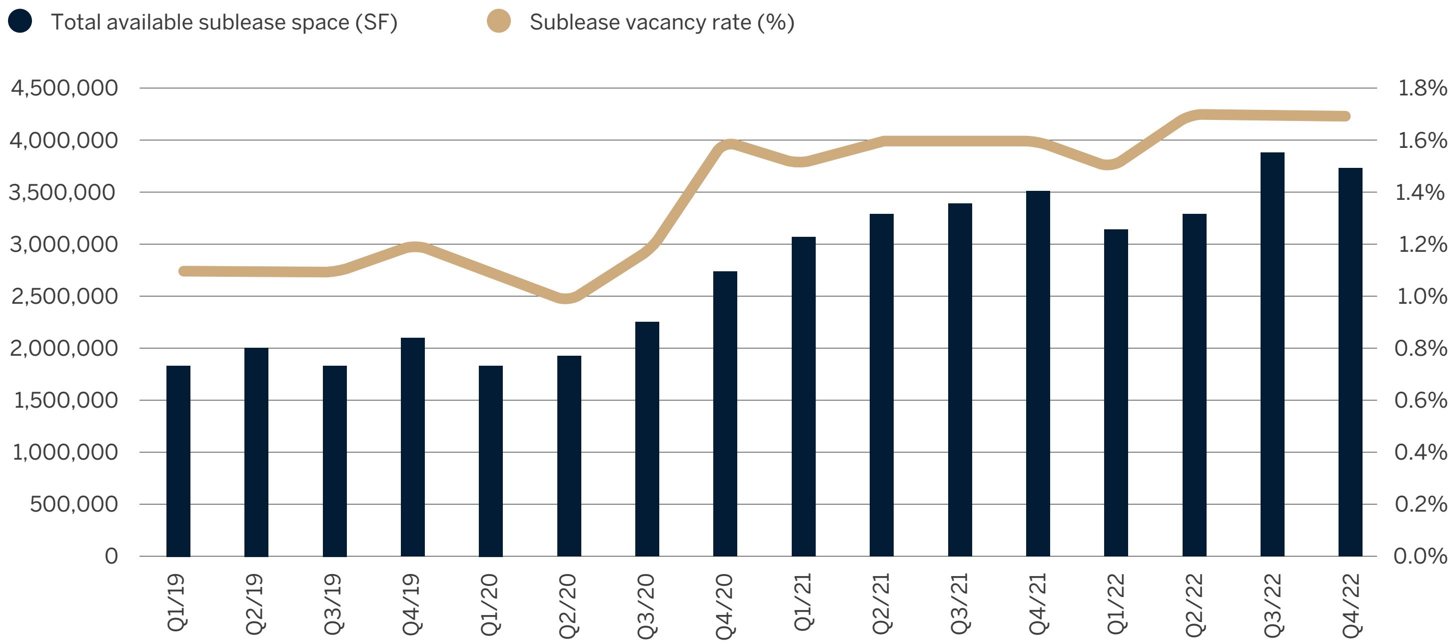
YEAR-END 2022 SNAPSHOT

35.2%	28.9%	$26.22
DIRECT AVAILABILITY RATE	DIRECT VACANCY RATE	DIRECT GROSS RENTAL RATE (PSF)

FIGURE 01

SUBLEASE TRENDS

Source: *CoStar*

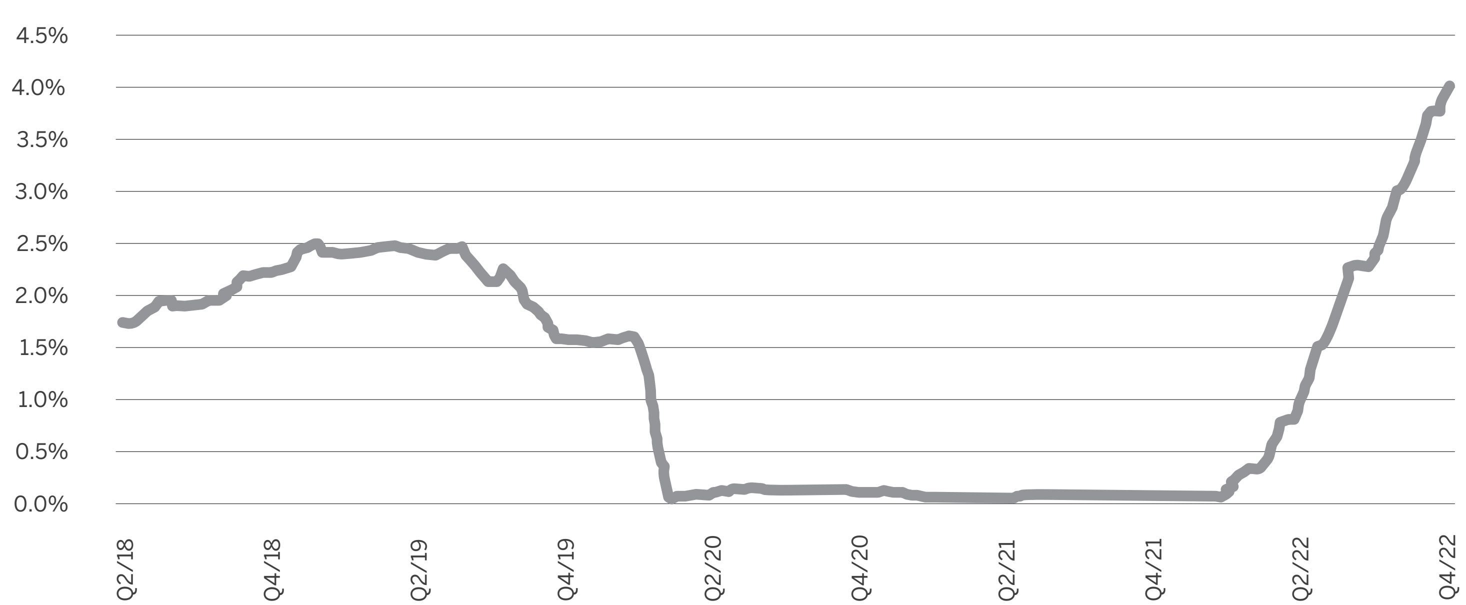


As tenants re-evaluate their office space needs, many have decided to offer some or all of their existing office space to subtenants. Sublease available space has doubled since the onset of the pandemic, represented by total sublease inventory by quarter starting in 2019.

FIGURE 02

FLOATING-RATE LOANS: THIRTY-DAY AVERAGE SOFR (%)

Source: *St. Louis Federal Reserve*



The majority of commercial buildings are financed using floating-rate loans, which means mortgage payments fluctuate alongside changing interest rates. This chart references the 30-day average secured overnight financing rate, which is the interest rate that commercial loans are tied to. As interest rates, mortgage payments rise commensurately.

FIGURE 03

CHICAGO SUBURBS SUBMARKET COMPARISON SUMMARY

Source: *CoStar*

SUBMARKET/ ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS RENTAL RATE (PSF)	DIRECT NET ABSORPTION 2H 2022	DIRECT NET ABSORPTION 1H 2022
ALL SUBURBAN	**92,720,149**	**105,244**	**35.2%**	**4.1%**	**28.9%**	**1.7%**	**$26.22**	**(246,081)**	**(354,539)**
CLASS A	56,765,361	189,218	38.6%	5.0%	29.6%	1.9%	$28.47	(183,155)	(412,699)
CLASS B	35,954,788	61,884	30.0%	2.7%	27.6%	1.4%	$21.67	(62,926)	58,160
EAST-WEST CORRIDOR	**34,992,851**	**92,008**	**28.4%**	**3.7%**	**24.8%**	**1.6%**	**$25.41**	**(408,210)**	**(47,704)**
EAST	**21,027,347**	**107,282**	**26.7%**	**4.5%**	**22.5%**	**1.8%**	**$26.53**	**(321,509)**	**(58,264)**
CLASS A	12,487,255	201,407	27.5%	6.1%	21.9%	2.2%	$30.13	(72,712)	(92,991)
CLASS B	8,540,092	63,732	25.4%	2.3%	23.4%	1.2%	$20.83	(248,797)	34,727
WEST	**13,965,504**	**76,734**	**31.0%**	**2.4%**	**28.3%**	**1.2%**	**$23.72**	**(86,701)**	**10,560**
CLASS A	8,046,532	146,301	35.5%	3.9%	31.8%	1.8%	$25.11	(10,819)	101,474
CLASS B	5,918,972	46,606	24.9%	0.5%	23.6%	0.5%	$21.04	(75,882)	(90,914)
NORTH	**20,184,379**	**90,069**	**33.2%**	**5.4%**	**30.9%**	**2.3%**	**$28.31**	**184,637**	**(500,415)**
NORTH	**14,875,323**	**90,153**	**35.5%**	**4.6%**	**33.0%**	**2.6%**	**$27.70**	**(37,657)**	**(463,762)**
CLASS A	9,884,129	143,248	40.1%	4.9%	36.3%	2.3%	$28.81	(68,382)	(506,484)
CLASS B	4,991,194	51,992	26.3%	4.0%	26.5%	3.3%	$24.32	30,725	42,722
SOUTH	**5,309,056**	**89,984**	**26.9%**	**7.6%**	**24.9%**	**1.2%**	**$30.04**	**222,294**	**(36,653)**
CLASS A	2,547,098	169,807	27.2%	11.0%	25.9%	1.1%	$34.18	130,539	(70,374)
CLASS B	2,761,958	62,772	26.6%	4.4%	23.9%	1.3%	$26.14	91,755	33,721
NORTHWEST	**26,258,680**	**121,356**	**48.7%**	**3.8%**	**35.9%**	**1.6%**	**$24.73**	**(51,911)**	**103,955**
I-355	**3,434,107**	**110,778**	**38.9%**	**2.0%**	**34.5%**	**0.5%**	**$21.76**	**15,664**	**29,674**
CLASS A	2,645,130	203,472	39.7%	2.3%	34.2%	0.6%	$22.90	19,942	5,054
CLASS B	788,977	43,832	36.2%	0.9%	35.4%	0.0%	$17.54	(4,278)	24,620
SCHAUMBURG	**22,824,573**	**131,934**	**50.2%**	**4.1%**	**36.1%**	**1.7%**	**$25.18**	**(67,575)**	**74,281**
CLASS A	14,218,582	258,520	55.5%	4.3%	34.6%	2.2%	$27.15	(247,829)	99,914
CLASS B	8,605,991	72,932	41.5%	3.8%	38.6%	1.0%	$20.82	180,254	(25,633)
O'HARE	**11,284,239**	**150,457**	**28.7%**	**3.9%**	**21.5%**	**1.4%**	**$30.50**	**11,231**	**107,797**
CLASS A	6,936,635	223,762	28.8%	5.0%	21.2%	1.1%	$35.84	69,201	47,613
CLASS B	4,347,604	98,809	28.4%	2.1%	22.0%	1.9%	$21.85	(57,970)	60,184

FIGURE 04

VACANCY & ABSORPTION

Source: *CoStar*

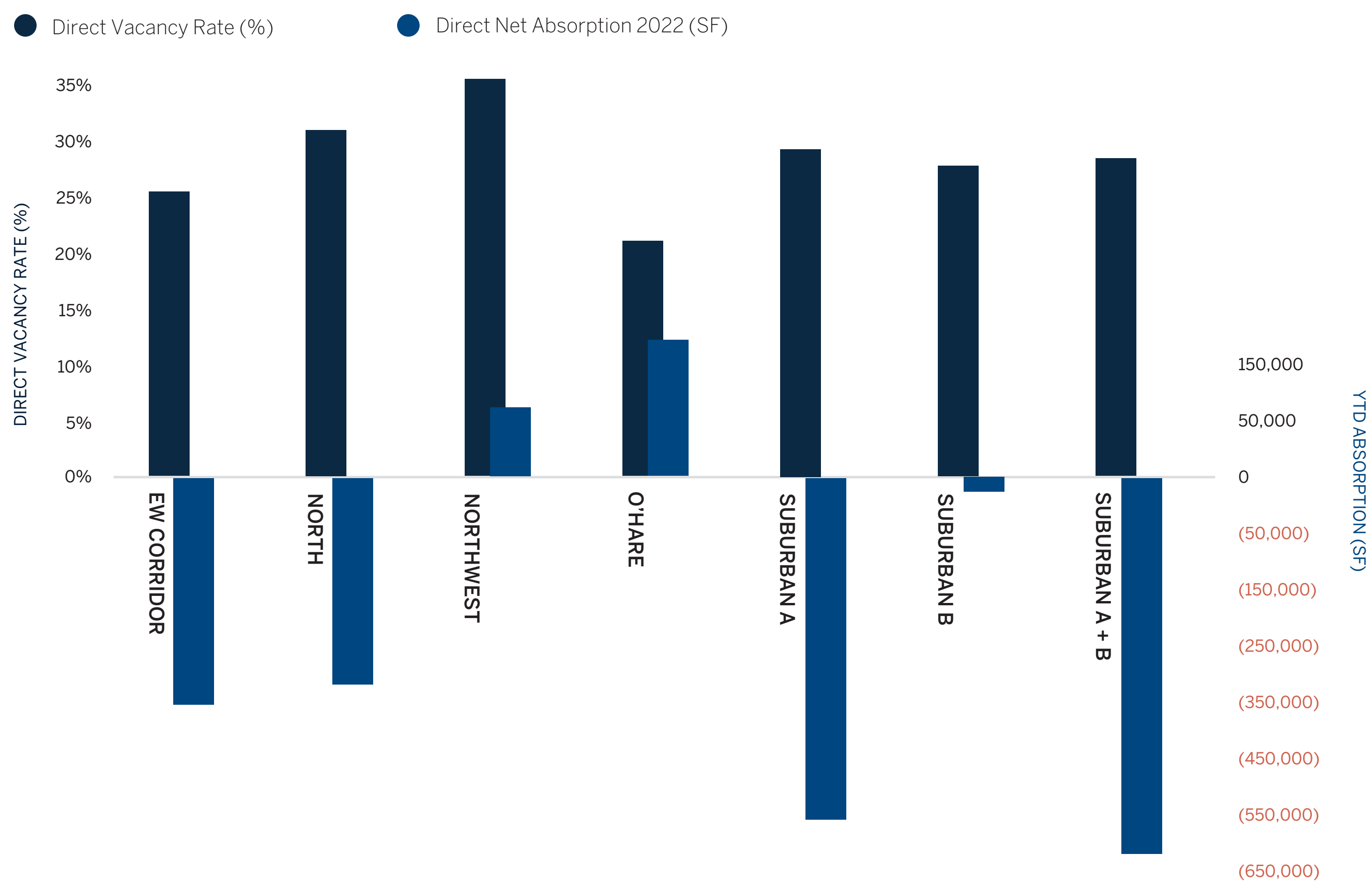


FIGURE 05

VACANCY RATE TIME SERIES

Source: *CoStar*

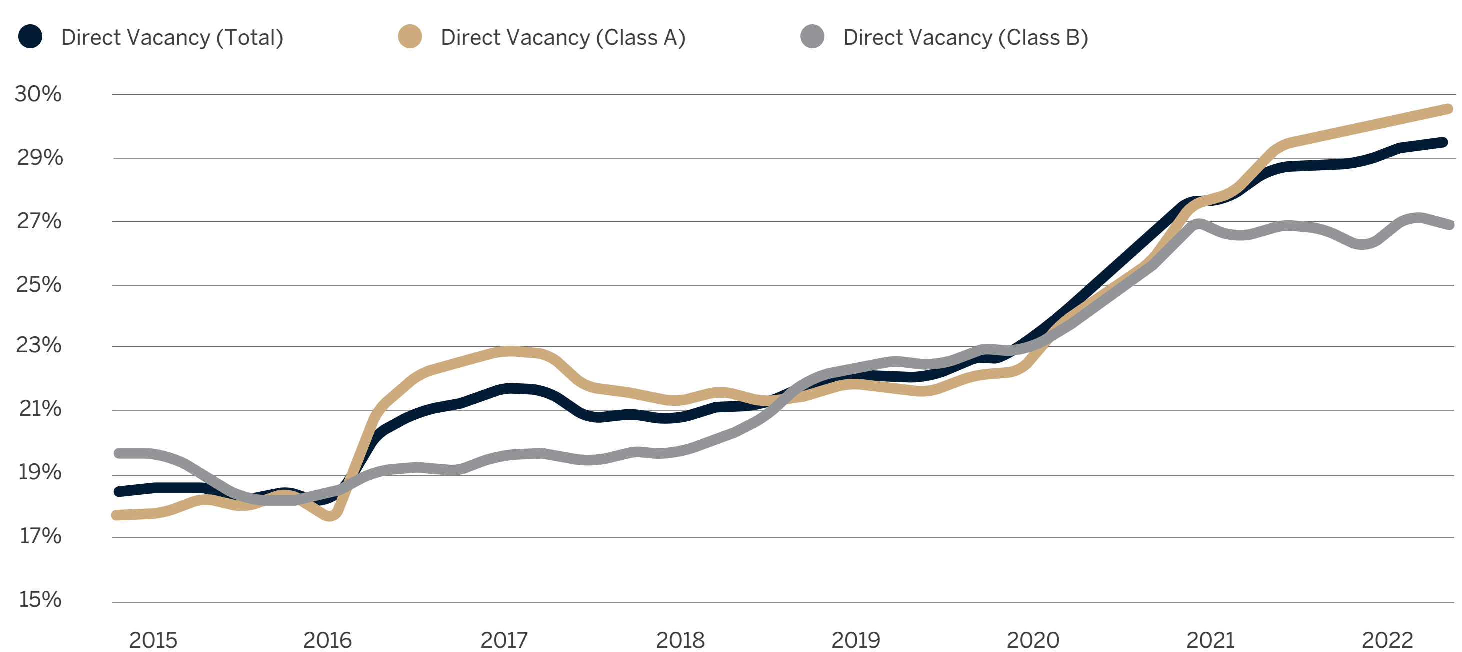


FIGURE 06

INVESTMENT SALES

Source: *CoStar*

PROPERTY ADDRESS	BUILDING SF	CLASS	SUBMARKET	SALE PRICE	$/SF	SALE DATE	BUYER	SELLER
9550 W. HIGGINS	270,512	A	O'Hare	$38,800,000	$143	11/10/22	BAIA	Blackstone Inc.
4 PARKWAY BLVD	176,187	A	Central North	$34,898,000	$198	8/26/22	GIC Real Estate	Griffin Realty Trust
340 N. MILWAUKEE AVENUE	101,353	A	Central North	$26,336,040	$260	9/30/22	Baxter Credit Union	JMS Capital Group
2200 – 2222 KENSINGTON	206,030	B	Eastern East/West Corridor	$20,922,297	$102	8/26/22	GIC Real Estate	Griffin Realty Trust
275 N. FIELD DRIVE	197,527	A	Central North	$19,800,000	$100	11/1/22	Slate Office REIT	Pfizer Inc.
300 N. MILWAUKEE AVENUE	75,444	A	Central North	$15,163,960	$201	9/30/22	Baxter Credit Union	JMS Capital Group
2700 W. HIGGINS	21,201	B	Schaumburg Area	$12,500,000	$590	7/8/22	Four Corners Property Trust	Storebuild LLC
887 DEERFIELD PARKWAY	107,086	B	Central North	$6,280,000	$59	7/7/22	Venture One Real Estate	Orion Office REIT

EAST WEST CORRIDOR

- In Q4/22, the direct vacancy rate remained relatively unchanged at 24.8%. The sublease availability rate decreased from 3.9% in Q2/22 to 3.7% at year-end.
- Absorption levels remain negative in the second half of 2022, resulting in negative 455,914 square feet of net absorption through the year. However, this figure improved relative to the negative 1 million square feet of net absorption seen in 2021.
- Notable lease deals include Endotronix and Pivotal Home Solutions who now occupy a combined 125,000 square feet at 1415 W. Diehl Road.
- GIC Real Estate purchased a 206,030-square-foot office complex at 2200–2222 Kensington Road.

MARKET MOVEMENT

NEW LEASE
ENDOTRONIX
(82,916 SF)
1415 W. Diehl

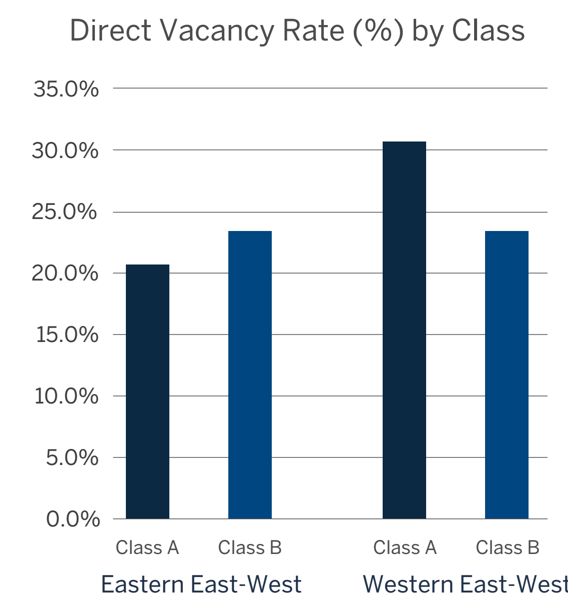
NEW LEASE
GRIFFITH FOODS
(27,779 SF)
2050 Finley

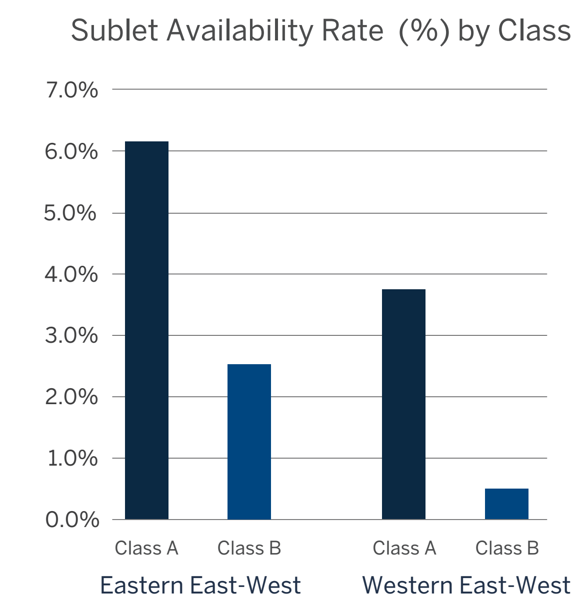
NEW LEASE
ILLINOIS DEPARTMENT OF EMPLOYMENT SERVICES
(21,175 SF)
747 E. 22nd Street

SUBLEASE
PIVOTAL HOME SOLUTIONS
(42,106 SF)
1415 W. Diehl

RENEWAL
BCN FINANCIAL CORP
(26,233SF)
2 Mid America Plaza

SALE
2200 – 2222 KENSINTON
(206,030 SF)
Buyer: GIC Real Estate





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CLASS B	5,918,972	46,606	24.9%	0.5%	23.6%	0.5%	$21.04	(75,882)	(90,914)
TOTAL	34,992,851	92,008	28.4%	3.7%	24.8%	1.6%	$25.41	(408,210)	(47,704)

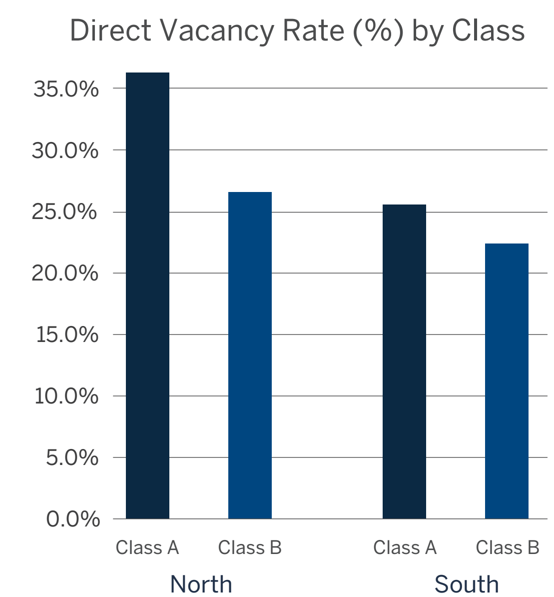
NORTH SUBURBS

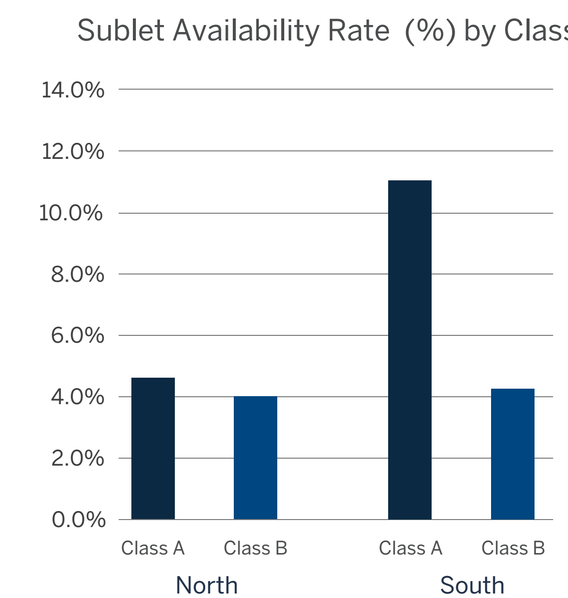
- In Q4/22, the direct vacancy rate was 30.9%. The sublease availability rate decreased from 5.6% in Q2/22 to 5.4% at year-end.
- Absorption levels turned positive in the second half of 2022, posting nearly 185,000 square feet of net absorption—an improvement relative to the 946,000 square feet of negative net absorption seen in 2021.
- The largest lease signed in the North suburbs was a renewal by Grumman Butkus Associates for 26,000 square feet at 820 Davis.
- The Central North submarket saw the most sales activity in the back half of 2022 as five buildings totaling more than 650,000 square feet traded hands for $102.5 million.

MARKET MOVEMENT

NEW LEASE	NEW LEASE	RENEWAL
LANZATECH (20,083 SF) 8045 Lamon	**RESIDENTIAL HOME HEALTH** (17,000 SF) 630 Dundee	**GRUMMAN BUTKUS ASSOCIATES** (26,000 SF) 820 Davis

SALE	SALE	SALE
4 PARKWAY (176,187 SF) Buyer: GIC Real Estate	**340 N. MILWAUKEE** (101,353 SF) Buyer: Baxter Credit Union	**275 N. FIELD** (197,527 SF) Buyer: State Office REIT





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NORTH	14,875,323	90,153	35.5%	4.6%	33.0%	2.6%	$27.70	(37,657)	(463,762)
CLASS A	9,884,129	143,248	40.1%	4.9%	36.3%	2.3%	$28.81	(68,382)	(506,484)
CLASS B	4,991,194	51,992	26.3%	4.0%	26.5%	3.3%	$24.32	30,725	42,722
SOUTH	5,309,056	89,984	26.9%	7.6%	24.9%	1.2%	$30.04	222,294	(36,653)
CLASS A	2,547,098	169,807	27.2%	11.0%	25.9%	1.1%	$34.18	130,539	(70,374)
CLASS B	2,761,958	62,772	26.6%	4.4%	23.9%	1.3%	$26.14	91,755	33,721
TOTAL	20,184,379	90,069	33.2%	5.4%	30.9%	2.3%	$28.31	184,637	(500,415)

NORTHWEST SUBURBS

- The direct vacancy rate is the highest of the suburban submarkets, sitting at 35.9% in Q4/22. The sublease availability rate decreased from 4.6% in Q2/22 to 3.8% at year-end.
- Absorption levels were slightly negative since July but remained positive through the year with 52,000 square feet of net absorption through 2022.
- The largest lease since July was signed by Albertsons which decided to occupy more than 32,000 square feet at 1 Pierce.
- Four Corners Property Trust purchased a 21,000-square-foot office at 2700 W. Higgins.

MARKET MOVEMENT

NEW LEASE
SIEMENS
(24,000 SF)
1701 Golf

NEW LEASE
LAND TRUST NATIONAL TITLE
(22,000 SF)
425 N. Martingale

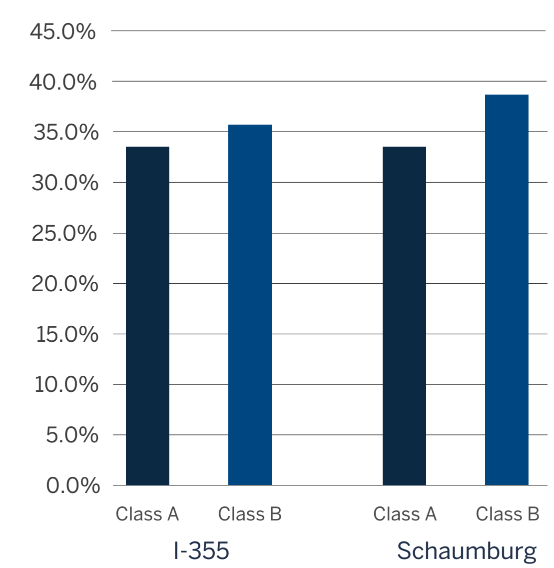
NEW LEASE
AEROTEK
(16,905 SF)
1501 E. Woodfield

RENEWAL
T-MOBILE
(20,775 SF)
1901 N. Roselle

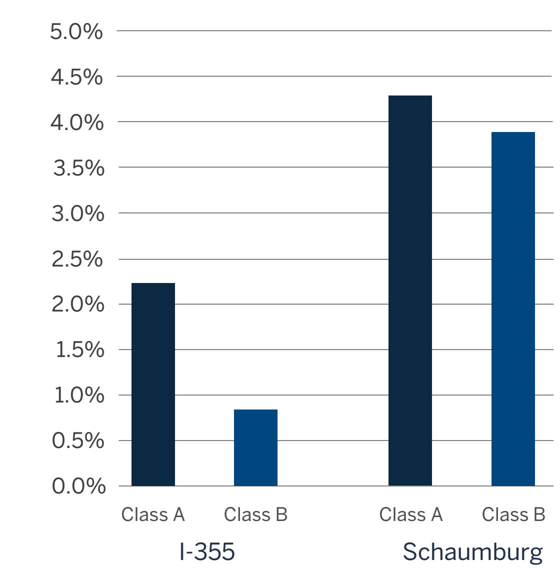
SUBLEASE
ALBERTSONS
(32,392 SF)
1 Pierce

SALE
2700 W. HIGGINS
(21,201 SF)
Buyer: Four Corners Property Trust

Direct Vacancy Rate (%) by Class



Sublet Availability Rate (%) by Class



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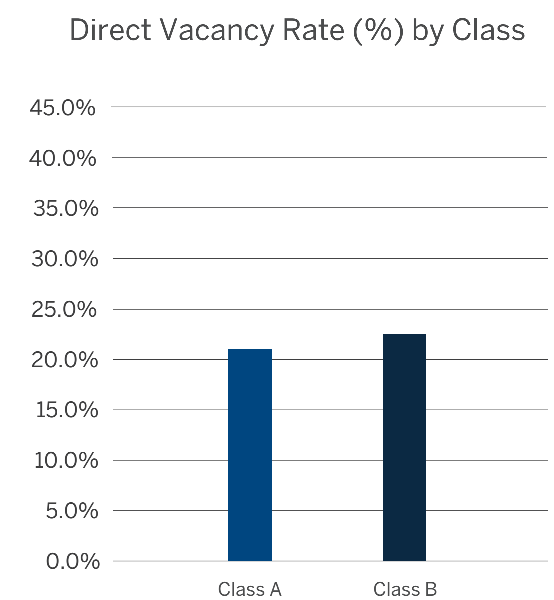
SCHAUMBURG	22,824,573	131,934	50.2%	4.1%	36.1%	1.7%	$25.18	(67,575)	74,281
CLASS A	14,218,582	258,520	55.5%	4.3%	34.6%	2.2%	$27.15	(247,829)	99,914
CLASS B	8,605,991	72,932	41.5%	3.8%	38.6%	1.0%	$20.82	180,254	(25,633)
TOTAL	26,258,680	121,356	48.7%	3.8%	35.9%	1.6%	$24.73	(51,911)	103,955

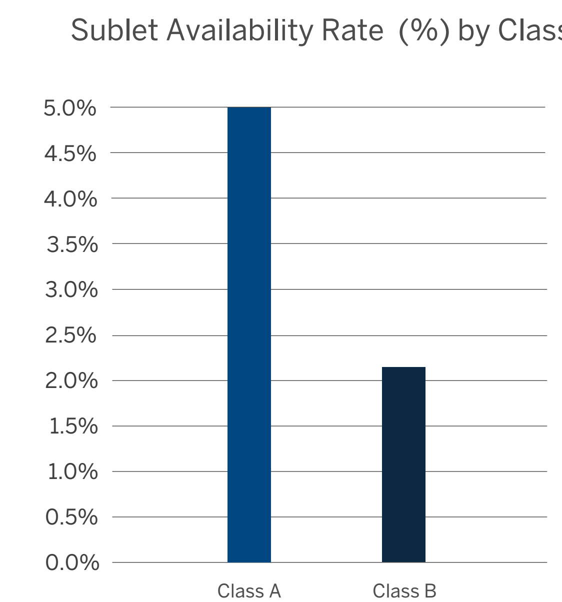
O'HARE

- The direct vacancy rate remains lower in O'Hare than its suburban counterparts, sitting at 21.5% in Q4/22. The sublet availability rate increased to 3.9%.
- Absorption levels continued trending upward, as nearly 120,000 square feet of positive net absorption was observed through 2022.
- Notable lease deals include Family Dollar's decision to occupy 25,000 square feet at 4500 N. Harlem.
- The largest office transaction since July was BAIA's acquisition of Pointe O'Hare, a 270,000-square-foot property at 9550 W. Higgins for $12.5 million.

MARKET MOVEMENT

NEW LEASE	NEW LEASE	SALE	RENEWAL/ EXPANSION
FAMILY DOLLAR (25,000 SF) 4500 N. Harlem	**DELUXE CHECKS (22,841 SF)** 5450 N. Cumberland	**9550 W. HIGGINS (270,512 SF)** Buyer: BAIA	**AIRLINE PILOTS ASSOC. (37,000 SF)** 9550 W. Higgins





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TOTAL	11,284,239	150,457	28.7%	3.9%	21.5%	1.4%	$30.50	11,231	107,797