Shifting Office Dynamics
Don’t panic. Suburban vacancy is always high.

- The 10-year running average vacancy rate is 23%.
- This is not a new phenomenon.

Healthcare and service industries are growing.

- Three of the top five leases in the suburbs were by healthcare or insurance providers.

As development slows, conditions will improve.

- Office construction peaked in 1988 and is now near zero.

But now is the time to get creative.

- Adaptive reuse is feasible in many locations, and demand is rising for alternative property uses.
Total Illinois Suburban Office Vacancy Rate

Ten-year average is quite consistent
Healthcare and Service Industries are Growing

Top Leases of 2017 (and don’t forget Caterpillar!)

1. **Amita Health, Lisle**
   - 220,000 SF at the Navistar Campus.
   - Over 1,100 employees with potential to expand further.

2. **HCSC, Naperville**
   - 118,000 SF Renewal.
   - Commitment to the western suburbs after evaluating all options.

3. **Caterpillar, Deerfield**
   - 116,071 SF at 510 Lake Cook Road.
   - Headquarters relocation to the Chicago suburbs, moving in Q1 2018.

4. **United Healthcare, Downers Grove**
   - 92,787 SF at 2655 Warrenville Road.
   - Commitment to the western suburbs after evaluating options.
Buildings are Trading (at a Discount)

Top Office Sales of 2017

1. **Schaumburg Corporate Center**
   - 1 million SF campus, sold at 75% occupancy, for **$75 million**.
   - GlenStar acquired at $136 per SF and plans enhancements.

2. **1007 Church Street, Evanston**
   - 155,000 SF office sold for **$26.8 million** ($172 per SF).
   - Huge return for the seller (Farbman) in a short time frame.

3. **701 E 22nd Street, Oak Brook**
   - Stabilized building, sold at **$23 million** for 174,000 SF ($132 per SF).
   - Low price for such a building in a top suburb, reflecting investor concerns.
As Development Tapers, Conditions Will Improve

Illinois Suburban Office Buildings Built by Decade

![Bar chart showing the number of buildings built in each decade from 1950-1959 to 2010-2019. The chart indicates a significant increase in building development during the decade of 1980-1989, followed by a decline in subsequent decades.](chart.png)
Now Let’s Get Creative

New Visions for Suburban and Rural Offices Present Redevelopment Opportunities

Office → Senior Housing

Brush Creek Office Park
- Two-building campus, in suburban Kansas City
- Now being converted into high-end assisted living
- Local demand for senior housing exceeds office demand

Giant Industries Corporate HQ
- Four acre campus in suburban Phoenix
- Now being converted into high-end assisted living community
- Demographics driving the economic viability
Now Let’s Get Creative

New Visions for Suburban and Rural Offices Present Redevelopment Opportunities

Office → Public School → Self Storage

**EFS HQ, Fairfax, VA**
- Dated corporate headquarters, converted into elementary school
- One of the top rated schools in a fast growing suburb
- Family formation exceeds local office demand

**LifeStorage, Naperville**
- Conversion of an abandoned office building
- Now housing 845 storage units
- Similar conversions of 9 other office buildings around Illinois
Rent Gap Between City and Suburbs Keeps Growing

If employment growth slows, rent costs may return as a factor
Space needs are changing. Is your town adapting?

<table>
<thead>
<tr>
<th>Floor plates</th>
<th>Personal space</th>
<th>Interaction</th>
<th>Building features</th>
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<tbody>
<tr>
<td><strong>Desired floor plates</strong> are up from 25,000 square feet before the recession to 50,000 square feet.</td>
<td><strong>Before the recession, employees had around 300 s.f. per person; now they have 200 s.f.</strong></td>
<td><strong>Employees have gone from rarely running into others to a nine-in-ten chance of bumping into a coworker.</strong></td>
<td><strong>Aesthetic and building features such as increased roof heights and floor-to-ceiling windows are “in.”</strong></td>
</tr>
</tbody>
</table>

Source: JLL Research
Thank You