



Chicago Office Market

2022 Brings New Deliveries, Loosening Mandates, and Positive Outlooks

With loosening pandemic mandates and returns to the office, there is optimism regarding the office market for 2022. Traffic increased tremendously compared to the beginning of the pandemic, with foot traffic up 129%, vehicle traffic up 52.0% and public transit activity up 21.0%. This optimism, though, has not translated into market fundamentals in the first quarter of 2022. The overall metro saw a rise in vacancy of almost a full percent, bringing the total to 21.3%. Net absorption was positive at 77,487 square feet. Availability increased 80 basis points, bringing the total to 27.0%, with sublet availability dropping 10 basis points to 4.2%. Despite the rise in vacancy and availability, the direct rental rates increased by \$0.61/SF to \$32.07/SF. These stabilized rates are thanks in large part to Fulton Market’s continued success, as the submarket has seen its rates rise to a market high of \$51.00/SF.

CBD Overview

Chicago’s Downtown market regressed after a sound fourth quarter of 2021, with vacancy increasing to 18.9% due to the delivery of a few buildings, including 320 South Canal. Absorption, a rear-facing stat not reflective of this quarter’s leasing volume, was -222,250 square feet. The Central Loop felt the impact of BMO Harris’s exit the most, with 670,000 square feet of negative absorption as the bank occupied the newly-opened West Loop Tower. Transaction volume remained strong

Current Conditions

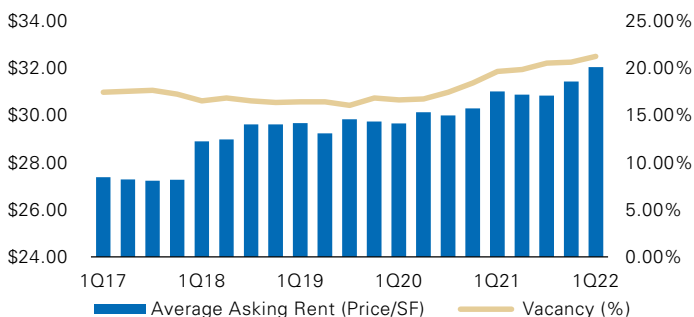
- Metro vacancy rose once again, this time 80 basis points to 21.3%, continuing the streak to nine straight quarters.
- 2022 saw the beginning of a post-pandemic “back to work” as mandates loosened, and traffic increased.
- Even with increased vacancy, the metro saw its first quarter of positive absorption since the first half of 2020.

Market Summary

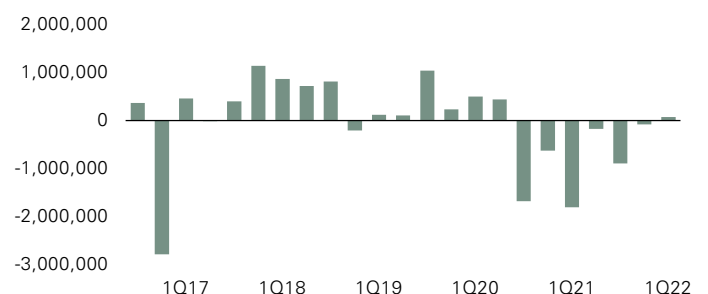
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	250.9M	247.6M	243.7M	↑
Vacancy Rate	21.3%	20.5%	20.0%	→
Quarterly Net Absorption (SF)	72,487	(77,978)	(1.78M)	↓
Average Asking Rent/SF	\$32.07	\$31.45	\$31.03	↑
Under Construction (SF)	1.2M	3.5M	3.9M	→
Deliveries (SF)	1.6M	-	923,356	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2022

in Fulton Market. With continued uncertainty around the Chicago tax situation, rental rates increased an additional \$1.00/SF, now topping \$40.00/SF. Fulton Market's hot streak was a factor in the rising rental rates for the Central Business District as the submarket saw an increase to \$50.94/SF with the delivery of 400 North Aberdeen's 423,454 square feet of office and lab space. In addition to 400 North Aberdeen, the West Loop saw two deliveries itself with 1.5 million square feet at 320 South Canal and 87,873 square feet at 609 W. Randolph St. Total CBD deliveries for the quarter sit at just under 2 million square feet.

Leasing activity this quarter remained on course with previous quarters as transactions were small to mid-size, rather than of the "mega-deal" variety. Like last year, leasing activity is down well below the established norm for Chicago office space, reaching around 1.7 million square feet. This is on par with the average 1.7 million square feet of activity per quarter since the beginning of 2020. Between the first quarter of 2012 and the last quarter of 2019, however, leasing activity was nearly double on a quarterly basis at 3.0 million square feet. Tyree & D'Angelo Partners became the third tenant to expand in the Illinois Center as of late, adding nearly 35,000 square feet to its already-existing footprint of 14,000 square feet. River North was able to capture around 140,000 square feet of leasing activity this quarter, thanks to deals at 311 West Huron, 350 North Orleans and 303 West Erie. Spins, LLC will be anchoring North Wells Capital's \$88.0-million project at 311 West Huron with 48,000 square feet. Stripe will take 45,000 square feet at 350 North Orleans, another example of a Bay Area-based technology firm establishing themselves in Downtown Chicago. Medical Dermatology Associates of Chicago wrapped up the activity in River North with a lease expansion, for a total of just under 45,000 square feet.

Fulton Market recorded another quarter with more than 200,000 square feet in leasing volume, pushing the total to over 500,000 square feet in the last six months for the submarket. Tech-related companies continue to drive the leasing activity in the submarket, seeking cool spaces to attract employees back to the office. VTS,

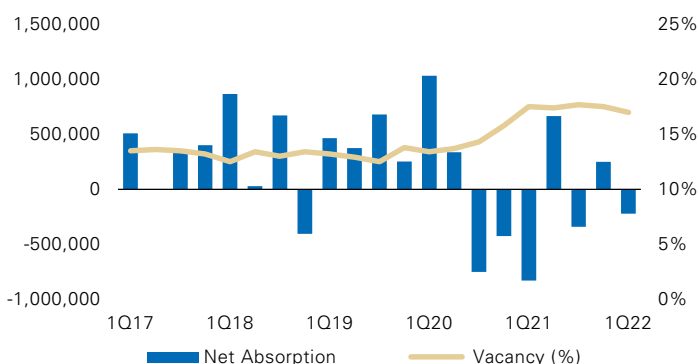
a real estate software and data company, is leasing 36,000 square feet at 320 North Sangamon. Roku leased a single floor, adding to a tech tenant base that already features Hazel Technologies and Tock Corporation. 167 North Green recently had Molo Solutions take just under 100,000 square feet alone last quarter. Builders Vision and Cresa took 47,000 and 21,000 square feet, respectively. Outside of technology, 167 North Green also welcomes Mark Anthony Brands, parent company of Mike's Hard Lemonade, into 42,000 square feet as it establishes a headquarters in Fulton Market.

Suburban Overview

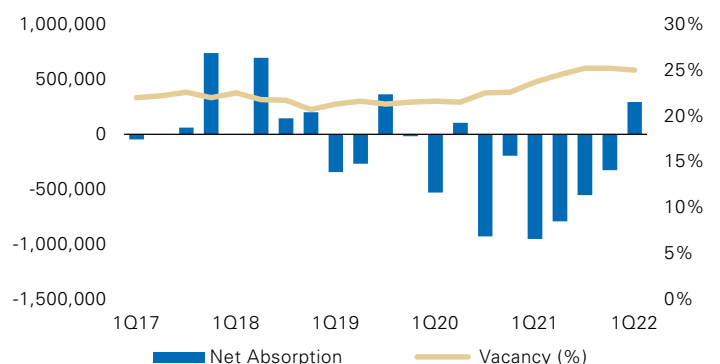
Despite the frequent pessimism regarding the office market in the suburbs, this quarter brought some positive light. For the first time in six quarters, both vacancy and absorption headed in positive directions as vacancy dropped 20 basis points. Net absorption was 294,737 square feet. The strong hold on rental rates continued this quarter with a nominal \$0.10/SF increase, bringing the total to \$22.80/SF. This total is the highest seen in the suburbs since the first quarter of 2019. This quarter, I-88 East was the driving force in the leasing activity, accounting for over 70% of the nearly 660,000 square feet of activity in the suburbs. This 70% was mostly accounted for with two 100,000+-square-foot leases: Millennium Trust Company renewed at 2001 Spring Rd. for 160,085 square feet; and Health Care Service Corporation leased 133,077 square feet at 3500 Lacey Rd.

Even before the start of the pandemic, the use of suburban corporate campuses was being evaluated by companies for necessity and efficiency. The pandemic forced the hand of many companies to make decisions around the future of these campuses. While many companies have agreed that campus culture is dead, they have taken varying approaches to the offloading of this space and creative reuses. Companies like Sears, McDonald's and AT&T abandoned their campuses prior to the pandemic. At the end of 2021, Allstate announced that it

CBD Net Absorption and Vacancy



Suburban Net Absorption and Vacancy



would be leaving behind its campus in Northbrook. The campus was purchased by an industrial developer, Dermody Partners, for \$232.0 million. This quarter, a few owner-occupied buildings placed space in their campuses on the market. Zurich Insurance has placed roughly 100,000 square feet of its 750,000-square-foot headquarters in Schaumburg on the market. Astellas Pharma in Northbrook placed both of its buildings on the market. These properties were not formally counted in the Newmark suburban office inventory as they were owner-occupied but are now in the inventory to track availability. In 2014, Arthur J. Gallagher & Co renovated one of the buildings in Meadows Corporate Center, a three-building multitenant complex, into new headquarters space. Now the second building went on the market and received offers by industrial developers. In a dual effort to avoid becoming neighbors with an industrial tenant and take care of the company’s need for additional space, the company has agreed to purchase the building.

Investment Sales

Investment sales in Metro Chicago have had a strong start to the year, with well over \$800 million closing in the first quarter of 2022, with an average price of \$225/SF. Renovated and well-leased properties are still capturing the highest amounts, with some interest still in properties that need to be renovated and flipped. But with the current delays in construction timelines and rising material costs, some owners are wary about taking on

those types of projects. After purchasing 35 West Wacker Dr. at the end of 2021, Opal Holdings continued its spending spree as it secured Highland Landmark II in Downers Grove. At \$188/SF, this property arrives in Opal’s portfolio at 95.6% leased. In the suburbs, Sovereign Partners acquired the nearly 500,000-square-foot Gallagher Center from Piedmont REIT for \$49/SF. Recently announced, 110 North Wacker Dr. has changed hands; Chicago-based Callahan Capital Partners and New York-based Oak Hill Advisors purchased the controlling stake in the building from Howard Hughes for \$210.0 million. The property was valued at more than \$1 billion, the second-highest valuation for a Chicago office building behind Willis Tower’s \$1.3 billion in 2015.

Outlook

Market conditions remain tenuous within Greater Chicago. While tenant demand is improving, the fact remains that tenants are using office space differently after the pandemic and, technology and healthcare tenants aside, most tenants will be focused on downsizing as they adjust for the permanence of hybrid work models. Downtown, there is a serious flight-to-quality trend still occurring as tenants take advantage of a market that heavily favors them. In the suburbs, creative reuses of corporate campuses will continue to be top of mind as businesses grapple with how to shed excess space. Heading into the spring, optimism is high but the road through the rest of 2022 likely remains uneven.

Chicago Life Science Inventory				
Address	Location	Total Size	Rental Rates	Tenants
Innovation Park	Libertyville	350,000 SF of Lab	\$15 - \$18 PSF Gross	Valent Bio Sciences Avexis
Illinois Science and Technology Park	Skokie	556,650 SF	\$35 - \$47 PSF Net	NorthShore Vetter LanzaTech
2430 N Halsted Street	Chicago (Lincoln Park)	120,000 SF	\$35 - \$45 PSF Net	Evozyne Excicure Solvd Health
West End on Fulton	Chicago (Fulton Market)	301,260 SF	\$45 - \$55 PSF Net	Talis Biomedical Xeris Pharmaceuticals Portal Innovations

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Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD Total	153,126,636	1,240,000	18.9%	(261,644)	(261,644)	\$42.90	\$38.01	\$40.10
Central Loop	37,003,615	-	20.5%	(669,060)	(669,060)	\$41.74	\$39.71	\$40.04
East Loop	25,510,592	-	21.7%	(197,886)	(197,886)	\$40.45	\$37.44	\$38.17
Fulton Market	7,935,217	40,000	28.5%	238,048	238,048	\$61.52	\$32.12	\$50.94
North Michigan Avenue	10,496,574	-	13.2%	(67,102)	(67,102)	\$39.27	\$36.44	\$36.94
River North	16,343,502	1,200,000	14.4%	19,600	19,600	\$38.68	\$30.15	\$35.45
West Loop	55,837,136	-	17.5%	414,756	414,756	\$42.52	\$38.76	\$41.23
Suburban Total	97,773,994	-	25.0 %	294,737	294,737	\$23.98	\$21.44	\$22.80
I-88 East	22,205,140	-	21.3%	218,313	218,313	\$25.99	\$22.05	\$24.39
I-88 West	13,470,532	-	21.4%	218,128	218,128	\$21.87	\$20.77	\$21.48
North	25,253,376	-	22.7%	(24,990)	(24,990)	\$24.24	\$21.24	\$22.95
Northwest	24,013,367	-	34.4%	50,188	50,188	\$21.69	\$20.61	\$21.20
O'Hare	12,831,579	-	22.1%	(166,902)	(166,902)	\$28.58	\$24.74	\$25.47
Chicago Metro	250,940,024	1,240,000	21.3 %	72,487	72,487	\$33.47	\$31.03	\$32.07

CBD Lease Transactions				
Tenant	Market	Building	Type	Square Feet
Spins, LLC	River North	311 W Huron St	Direct	48,000
Vivid Seats	East Loop	24 E Washington St	Direct	47,881
Builders Vision	Fulton Market	167 N Green St	Direct	47,000
Stripe	River North	350 N Orleans St	Direct	45,000

Suburban Lease Transactions				
Tenant	Market	Building	Type	Square Feet
Millennium Trust Company	I-88 East	2001 Spring Rd	Renewal	160,085
Health Care Service Corporation	I-88 East	3500 Lacey Rd	Direct	133,077
iRythmn Technologies	North	3 Parkway Blvd N	Direct	45,009
Intellihot Inc.	North	750 E Bunker Ct	Direct	26,888

Metro Sale Transactions				
Buyer	Market	Building	Price Per SF	Square Feet
Nightingale Properties	West Loop	200 W Jackson Blvd	\$270/SF	487,436
Allstate	West Loop	29 N Wacker Dr	\$228/SF	130,022
Opal Holdings	I-88 East	Highland Landmark II	\$188/SF	274,107

Economic Conditions

The pandemic has had a serious and long-lasting impact on the global and local economy. As the vaccine rollout continues, 66.0% of vaccine-eligible Americans are vaccinated. With Pfizer and Moderna both seeking approval for vaccines for kids under six, there is hope that April will bring a significant return to the office.

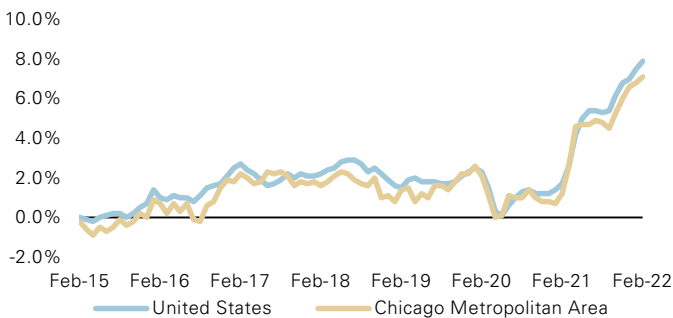
Chicago's unemployment rate fell 20 basis points in February from the start of the year to 4.9%, up 70 basis points from its lowest pandemic rate of 4.2% in December. Unemployment typically falls during the holidays as retail and hospitality increases staffing through the holiday season.

Job openings in the US hovered near record level in February with 11.3 million available jobs, and the number of people quitting their jobs was also historically high, at 4.4 million.

The national economy has cooled somewhat as inflation has risen at its fastest rate in 40 years, 6.1% year-over-year in January. In February, retail sales increased only 0.3%, below the estimate. Online sales fell the most, declining by 3.7%.

Consumer Price Index (CPI)

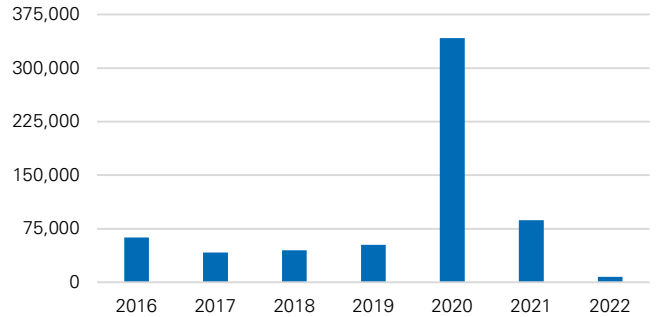
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

Layoff Statistics

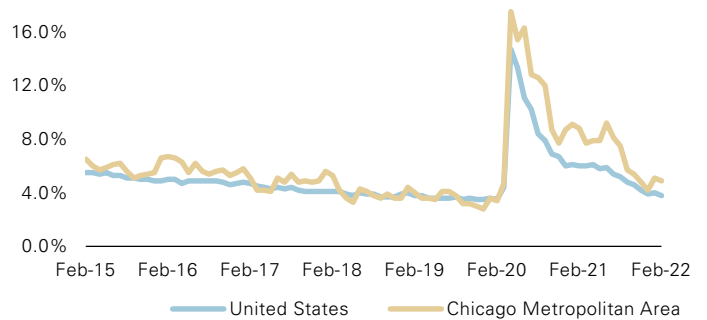
IL MASS LAYOFFS (INITIAL CLAIMS), FEBRUARY 2022



Source: Illinois Department of Employment Security, Economic Information and Analysis

Unemployment Rate

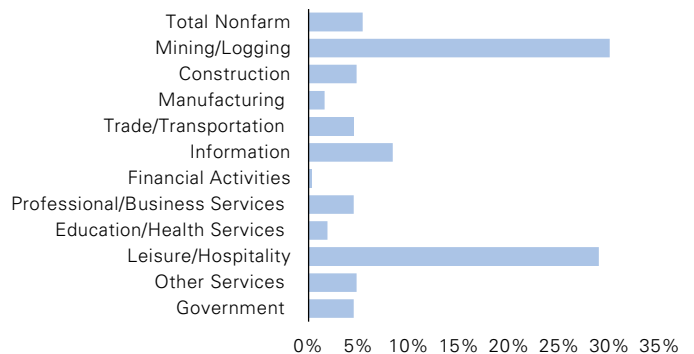
SEASONALLY ADJUSTED, FEBRUARY 2022



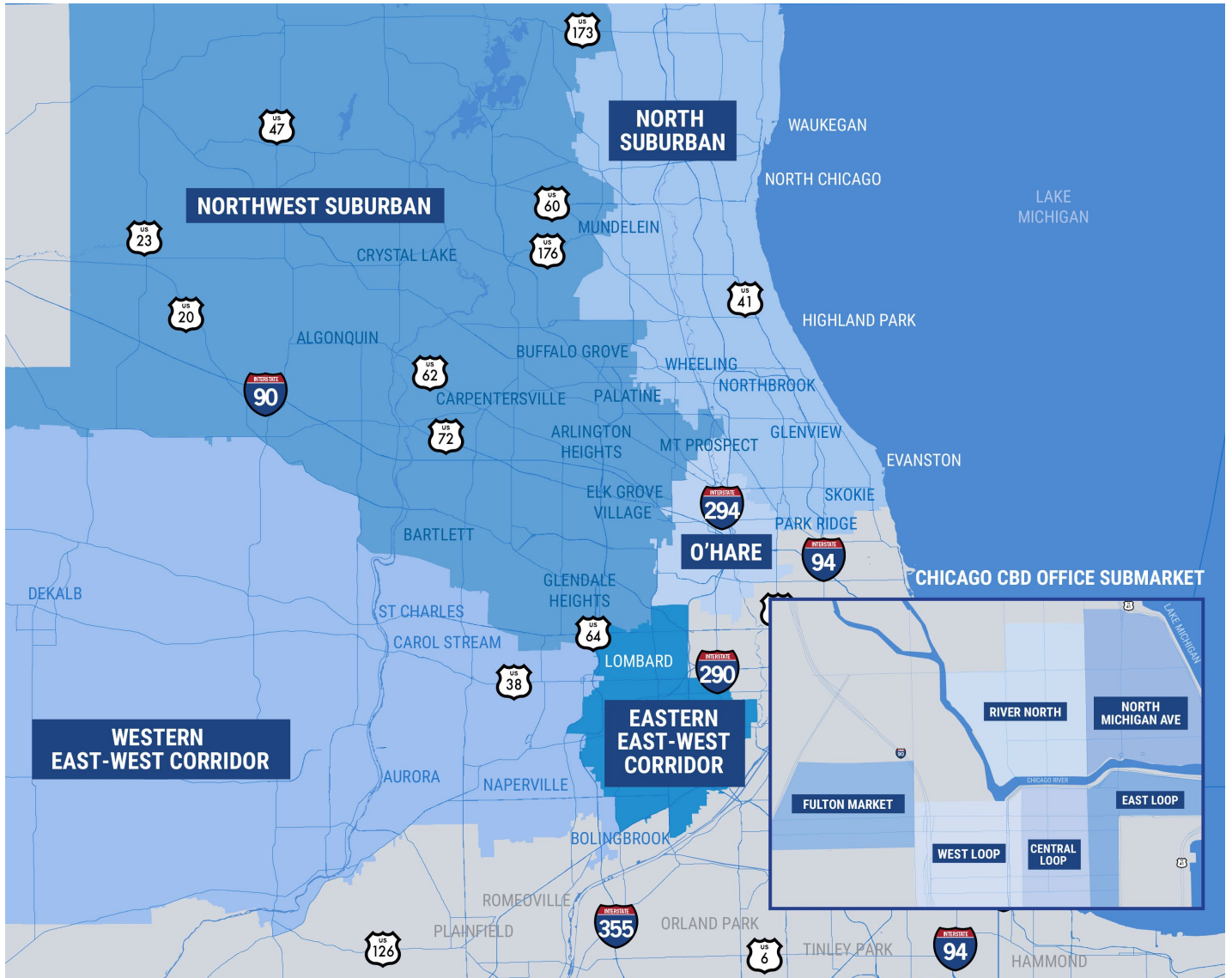
Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CHICAGO, FEBRUARY 2022, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics



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