RESEARCH Q3 2021

Chicago CBD Office Market

Market Hits Delta Speed Bumps

CBD Overview

Chicago's Central Business District office market saw vacancy increase 30 basis points to 17.7% this quarter, due to -340,000 square feet of absorption. Like the metro-wide vacancy rate, the Downtown total and direct vacancy numbers are now the highest they have been since 2010. With the increase in the vacancy rate this quarter, rental rates dropped to $38.00/SF, a $0.15/SF drop. Sublease availability continued to hover around 6 million square feet as a substantial amount of sublease space that became available at the start of the pandemic had terms that ended during the third quarter, converting those spaces into direct vacancy. With the large push to return to the office scheduled to occur after Labor Day, many anticipated seeing a drop in sublease space as tenants reoccupied space; however, the further postponement in that return has halted the removal of sublease space from the market.

Leasing across the metro saw moderate levels of activity, except for Kirkland & Ellis mega lease announcement.

Current Conditions

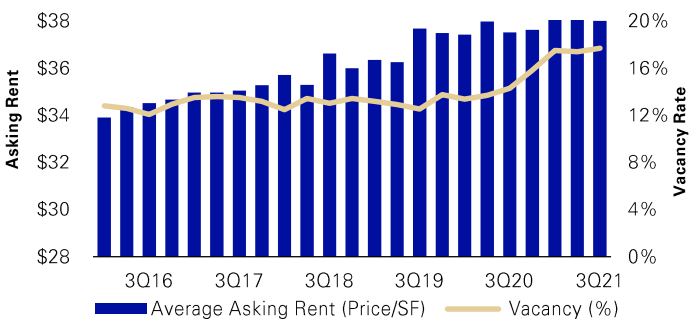
- Negative absorption pushed vacancy up to 17.7% downtown, the highest it has been since 2010.
- Sublease availability remained at 6.0 million.
- Technology tenants signed several leases throughout the CBD this quarter.

Market Summary

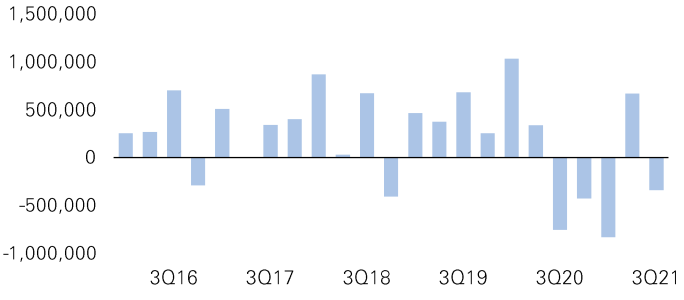
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	148.1M	148.0M	145.0M	↑
Vacancy Rate	17.7%	17.4%	14.3%	↓
Quarterly Net Absorption (SF)	(341,304)	666,596	(753,384)	↓
Average Asking Rent/SF	$38.00	$38.15	$37.51	↑
Under Construction (SF)	3.5M	3.6M	6.4M	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



The law firm will be moving roughly 1,700 local employees from 300 North LaSalle to the new Salesforce Tower on Wolf Point. The group will be the largest tenant in the building, taking about 600,000 square feet. Outside of the Kirkland & Ellis transaction, deal size remained modest. Downtown 320 North Sangamon Street secured its first two tenants. Tock, a restaurant software company, signed a lease to more than double its current footprint in Fulton Market, expanding from 20,000 square feet to 53,000 square feet. Additionally, Hazel Technologies signed a lease to move its 35 employees from Illinois Institute of Technology tech park to 53,000 square feet at the building. In River North, Medline Industries will lease 51,000 square feet at the Merchandise Mart. The office will serve as an additional office to its home base in Northfield.

Investment Sales

Investment sales saw a bump up in activity this quarter as 2021 total sales reached over $1.0 billion in August and pushed to $1.3 billion at the end of the third quarter. Still, the market's investment sales total through the third quarter was down for the same time period in 2020. The largest sale of the quarter was Deka Immobilien's purchase of Google's Midwest Headquarters, 210 North Carpenter, from Sterling Bay. The 206,000-square foot building traded hands for $169.0 million, or $819/SF. This is one of the highest sales in the CBD market in the last couple of years. Also, in the Fulton market, the Herman Miller showroom at 1100 West Fulton went under contract with Zagame Corporation for $584/SF. In River North, there were two notable building sales: 232 East Ohio Street was purchased by a private investor; and North Wells Capital purchased 720 North Wells. Both properties sold for about $200/SF. In the suburbs, Edens Corporate Center, a two-building complex in Northbrook, was purchased by Bradford Allen for $23.0 million.

VC Funding

Chicago has performed extremely well in the venture capital funding arena in the last several years and is currently rebounding after the pandemic derailed funding deals in 2020. As of July 2021, Chicago startups had already raised $1.0 billion more in venture funding than in all of 2020. This funding has been spread across 175 deals, with 99 deals occurring in the first quarter, the most in a single quarter in Chicago since at least 2014, the earliest data available. This funding totaled $3.8 billion, a 239% increase year-over-year. Additionally, Chicago has seen a 125% increase in mega rounds, or investments of $100.0 million or more. Nine mega deals have been completed thus far in 2021, compared to only four in all of 2020. Chicago is on track to have one of its best years of funding, with 11 new companies reaching unicorn status, a private equity company valued at over $1 billion, this year.

Outlook

After a summer of rising activity levels, it was believed that fall would bring a renewed sense of confidence and vibrancy to the office market as workers returned to the office. But the COVID-19 Delta variant had other plans in mind and has halted that return. Many remain hopeful that increased vaccination rates will not derail this plan for too much longer but there is no certainty in this pandemic-driven time. The same problems outside of the pandemic continue to plague the market: tax challenges, employee demands for a hybrid work schedule, an intense war for talent, investor hesitancy, rising material costs and construction timelines. Despite this, Chicago's office market has always been resilient and will remain a top tier market. But as the fourth quarter begins, expect to see vacancy rate continue a slow climb. A break in the rental rates, which have held strong throughout the pandemic, might also be seen.

CBD Lease Transactions

Tenant	Market	Building	Type	Square Feet
Hazel Technologies	Fulton Market	320 N Sangamon Street	Direct	53,000
Tock Corporation, et al	Fulton Market	320 N Sangamon Street	Direct	53,000
Medline Industries, Inc.	River North	222 Merchandise Mart	Direct	51,000
Industrious	East Loop	24 E Washington Street	Direct	50,000
Tegus	Central Loop	200 N LaSalle Street	Sublease	47,000
US Xpress	River North	306 Arie Street	Direct	40,000
Cooley LLP	West Loop	110 Wacker Drive	Direct	29,872
ShopperTrak	West Loop	433 W Van Buren Street	Direct	28,217
Jet Support Services	Fulton Market	167 N Green Street	Direct	25,000

CBD Sale Transactions

Buyer	Market	Building	Price Per SF	Square Feet
Deka Immobilien	Fulton Market	210 North Carpenter Street	$819/SF	206,315
Farbman Group	Central Loop	100 North LaSalle Street	$103/SF	163,708
North Wells Capital	River North	720 N Franklin Street	$197/SF	47,000
Phil Chen	North Michigan Avenue	232 East Ohio Street	$200/SF	29,500

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 Exicure Solvd Health
West End on Fulton	Chicago (Fulton Market)	301,260 SF	$45 - $55 PSF Net	Talis Biomedical Xeris Pharmaceuticals Portal Innovations

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	**148,130,235**	**3,610,000**	**17.7 %**	**(341,304)**	**(504,631)**	**$40.12**	**$36.10**	**$38.00**
Central Loop	37,003,331	-	18.4 %	113,408	(14,003)	$39.92	$38.48	$38.66
East Loop	25,352,415	-	20.2 %	(200,852)	(795,164)	$36.82	$32.61	$34.59
Fulton Market	7,355,746	653,878	27.4 %	286,426	662,622	$45.86	$33.71	$40.76
North Michigan Avenue	10,496,574	-	11.2 %	40,551	43,728	$39.37	$36.27	$36.91
River North	14,128,502	1,200,000	16.9 %	(253,547)	(166,001)	$38.32	$30.49	$35.31
West Loop	53,793,667	1,610,000	16.2 %	(327,290)	(235,813)	$40.76	$35.41	$39.57

Economic Conditions

The pandemic has had a serious and long-lasting impact on the global and local economy. As the vaccine rollout continues, 64.8% of vaccine eligible Americans are vaccinated, economic confidence is returning.

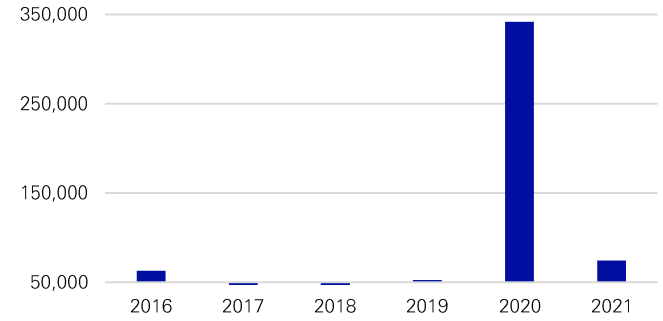
Chicago's unemployment rate fell to the lowest rate it has been since the start of the pandemic at 7.5% in August after climbing slightly throughout the summer. At the end of July, the number of job openings in the U.S. had hit a series high with 10.9 million job openings.

The national economy has cooled somewhat but remains resilient and forecasts predict GDP growth for 2021 and 2022. Supply chain issues are the leading cause of the slowing economic growth as goods remain stuck on the coasts and unable to travel to their final destinations.

The city and metropolitan area will need to work together and be flexible in order to move forward through the recovery which many are hoping will be faster than the 2008 recovery. There are challenges that the city was facing before the pandemic that will continue to be roadblocks such as the state's fiscal situation and the Cook County tax issue. Chicago will have to lean on its position as a technology leader in the Midwest, transportation and warehousing hub and budding life science sector to help the long-term recovery.

Layoff Stats

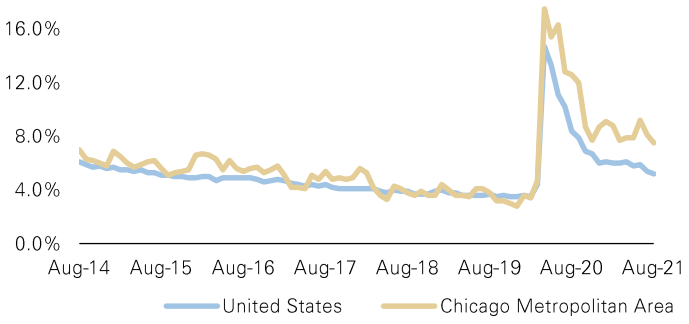
IL MASS LAYOFFS (INITIAL CLAIMS), AUGUST 2021



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

Unemployment Rate

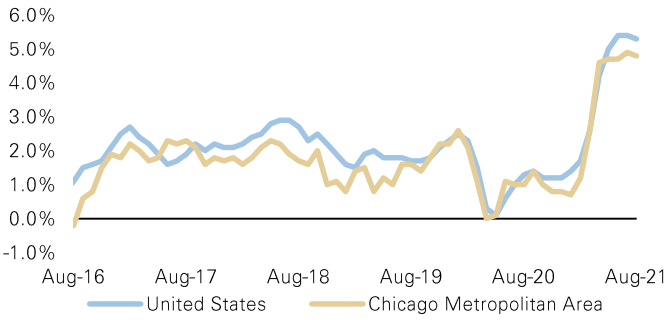
SEASONALLY ADJUSTED, AUGUST 2021



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

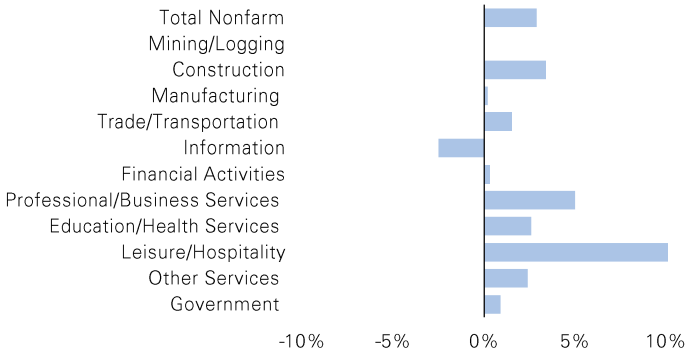
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



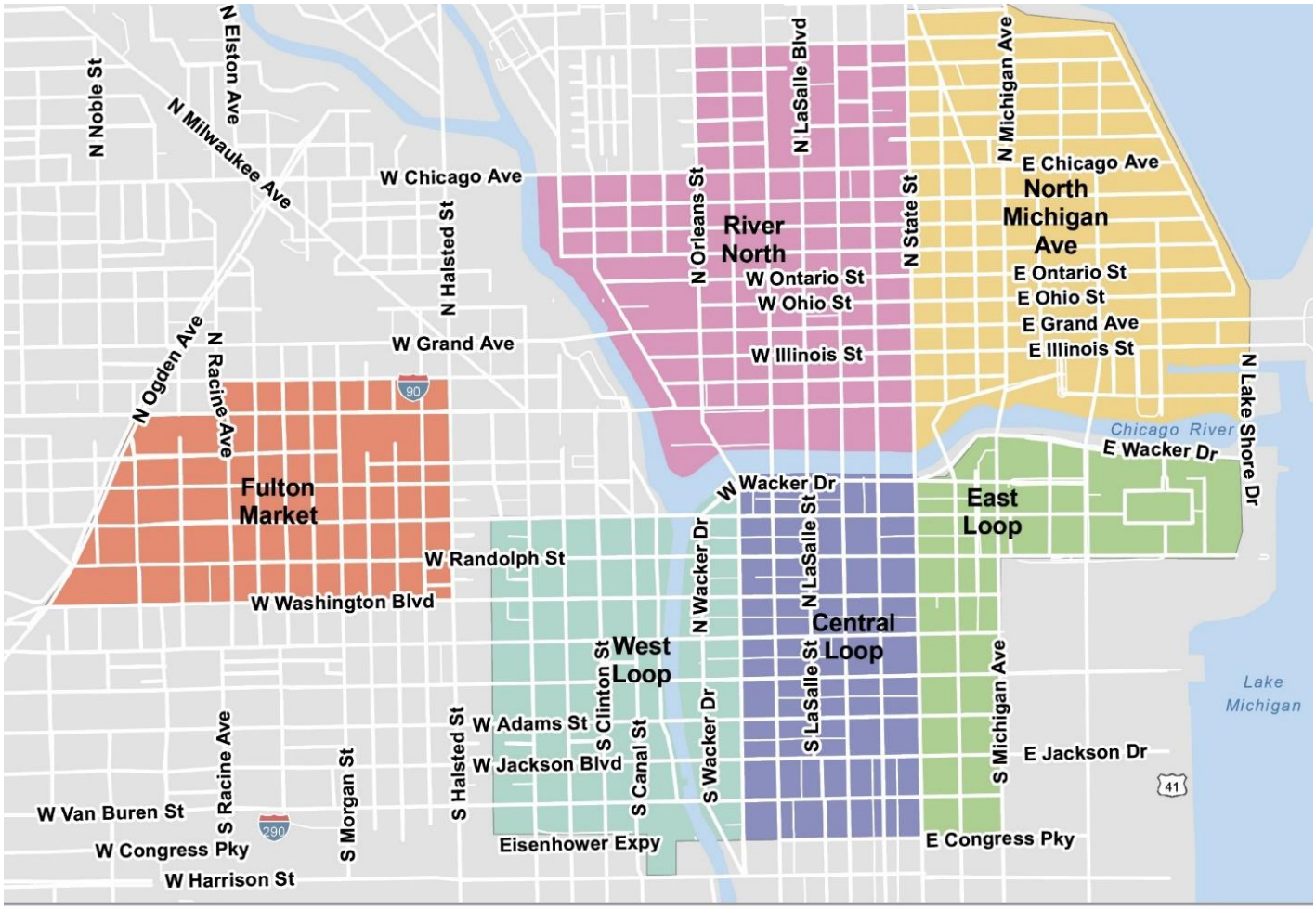
Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

CHICAGO, MAY 2021, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics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N Racine Ave
N Lake Shore Dr
Chicago River
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Fulton Market
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N LaSalle St
Central Loop
West Loop
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Lake Michigan
W Adams St
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S Canal St
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