

# Chicago Office Market

## Supply Outweighs Demand

The Chicago Metro office market finished 2020 similar to most major U.S. markets that experienced the stress and ramifications of the pandemic. The market suffered the greatest loss in annual absorption since 2009, with approximately 1.6 million square feet of negative absorption this year. The loss is primarily attributed to remote working, increased sublease space, layoffs and financial uncertainty. As a result, vacancy climbed to 18.4% in the fourth quarter of 2020, an increase of 170 basis points from the start of 2020. Average rental rates held steady at \$30.32/SF across all classes, a 1.8% increase year over year, revealing landlords aren't budging on rates.

### Central Business District Overview

Vacancy increased 130 basis points this quarter to an eight-year high of 15.6% in Downtown. This was largely due to the negative 613,305 square feet of absorption and the sublease inventory that has nearly doubled since the beginning of the pandemic. Despite two consecutive quarters of negative absorption, year-end absorption remained positive, totaling 6,500 square feet. Average rental rates increased \$0.12/SF to \$37.63/SF.

### Current Conditions

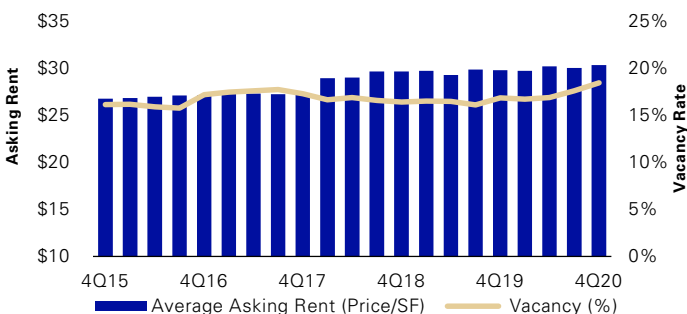
- Metro vacancy increased to 18.4%, up 170 basis points from the first quarter of 2020.
- The new Bank of America Tower at 110 North Wacker Avenue delivered this quarter.
- Sublease availability surpassed the peak during the Great Recession of 2009.
- Sterling Bay sold McDonald's Global HQ in Fulton Market for \$717/SF.

### Market Summary

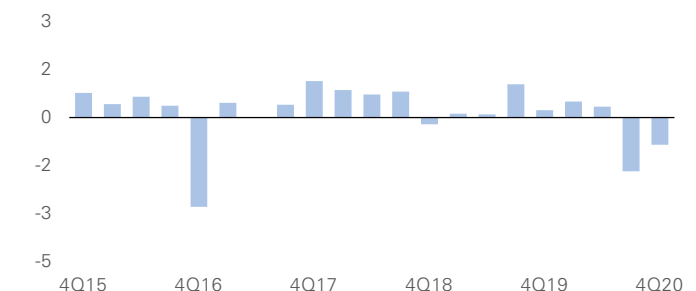
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	242.1M	241.0M	239.0M	↑
Vacancy Rate	18.4%	17.6%	16.9%	↑
Quarterly Net Absorption (SF)	(844,558)	(1.68M)	234,771	↓
Average Asking Rent/SF	\$30.32	\$30.02	\$29.76	↓
Under Construction (SF)	4.6M	6.1M	3.4M	↑

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF, MILLIONS)



Similar to the third quarter, Downtown leasing activity was minimal, with only a few notable transactions. The Warranty Group signed a renewal for 68,000 square feet at 175 West Jackson Boulevard, making it the largest transaction of the quarter. In October, Industrious announced its plan to add more co-working space to the Willis Tower after it signed a 52,000-square-foot lease, joining New York-based Convene. Downtown's tallest and second largest office building in the last three decades, Bank of America Tower, delivered this quarter. The new building at 110 North Wacker Drive was close to 80% pre-leased, with tenants representing various industries at the beginning of 2020. Many tenants took immediate occupancy when the tower was completed in October, including Morgan Lewis, Regus, Lincoln International, Bank of America and Brookfield Investment Management.

### Suburban Overview

Suburban absorption recorded negative 231,253 square feet this quarter, driving vacancy up 20 basis points to 22.8%. The suburbs ended the year with an annual absorption total of negative 1.6 million square feet and average rental rates decreased \$0.01/SF to \$22.33/SF since the start of 2020. The increase in vacancy is unsurprising, as many tenants have continued to encourage work-from-home policies throughout the pandemic, leaving most buildings vacant. However, there may be renewed interest in suburban office properties in the upcoming year from companies facing the challenges of social distancing guidelines in large Downtown office buildings where most employees primarily commute via public transit. The option to sign a short-term lease at a lower rate where employees have the opportunity to drive to work and avoid crowded areas could be an appealing solution for those tenants wanting to get employees back in the office. Amidst the nominal leasing activity during the fourth quarter, Reyes Holdings signed a 140,000-square-foot renewal at One O'Hare Centre in late October, making it one of the largest transactions of 2020.

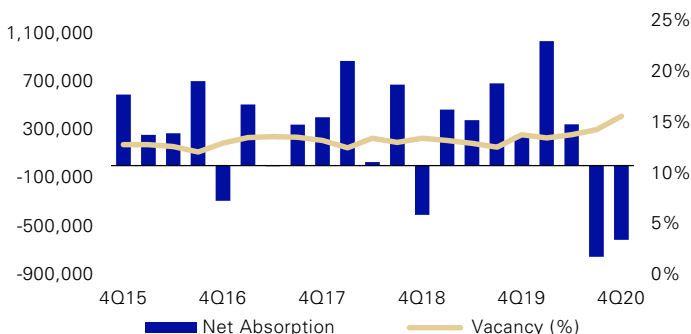
### Sublease Availability Surpasses the Great Recession

Sublease space in Chicago has grown exponentially in 2020, especially since the beginning of the outbreak. The Chicago Metro reported over 9.1 million square feet of available sublease space at the end of the fourth quarter. Availability surpassed the sublease peak during the Great Recession of 2009 and recorded a record high of 3.2%, an increase of 110 basis points since the start of COVID-19. Tenants placing new sublease space on the market have represented all major industries, including business services, healthcare, hospitality, retail, and technology. Chicago ranks fifth behind Los Angeles, Manhattan, Boston and San Francisco on total sublease availability. Tenants are still proceeding with caution on future office space plans and are testing the market.

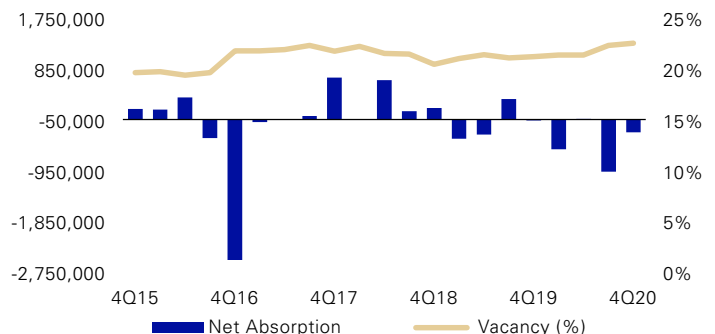
This quarter, Downtown totaled over 5.5 million square feet of available sublease space, a mere 600,000-square-foot increase from the third quarter. Asking sublease rental rates reported in the mid \$28.00/SF range, while the average term length remaining on available subleases is six years. The West Loop submarket makes up close to 42.0% of the space available, and Class A buildings represent 63.0% percent of the sublease inventory. A variety of tenants have added space to the market in the fourth quarter, including Facebook, Braintree (PayPal), TTX, Intersport, and InnerWorkings, Inc.

In the suburbs, close to 700,000 square feet was added to the market, totaling over 3.6 million square feet of available sublease space this quarter. Similar to Downtown, 63.0% of the spaces available are from Class A buildings. The North submarket reported the highest amount of sublease space, with over 1.3 million square feet available, followed by the I-88 East submarket at 840,000 square feet. Currently, Capital One has the largest sublease available in the suburban market at 3800 Golf Road, with hopes to shed almost 165,000 square feet.

### CBD Net Absorption and Vacancy



### Suburban Net Absorption and Vacancy



The company plans to move employees that are required to be on-site to its Downtown office at 77 West Wacker Drive. Other notable tenants that have added space include True Value Company, Middough Inc., Evolent Health and RR Donnelley.

### Capital Markets

Uncertain market dynamics and frail demand for office space in the metro area due to the pandemic have created a major slowdown in sales volume. Although 2020 investment sales are at an all-time record low, the market saw more activity in the fourth quarter than any other quarter this year. In fact, the market nearly doubled in sales volume this quarter, growing from \$1.2 billion to \$2.2 billion, down 28.0% compared to 2019. In Fulton Market, Pittsburgh-based Normandy Properties LLC acquired McDonalds Global HQ located at 110 North Carpenter Street from Sterling Bay this quarter. The property sold for \$412.5 million, the highest price paid for an office building this year and the highest the submarket has ever seen. Sterling Bay also sold its single-tenant building located at 1515 West Webster Avenue to Apex Capital Investments for \$110.0 million in November. C.H. Robinson will continue to occupy the 207,000-square-foot building until August of 2033 when its lease is set to expire. TA

Realty's acquisition of the two vacant buildings at Commerce Point I & II in Arlington Heights, totaling over 236,000 square feet marked the largest transaction in the suburban market. Previously, Midland Loan Services took control of the property in August through a deed, in-lieu of foreclosure, with intentions of selling both buildings.

### Looking Forward

2020 will be marked as one of the most significant economic slowdowns the United States has ever experienced. The Chicago market faced major challenges including the wide adoption of work-from-home advisories, continued layoffs and financial uncertainty, all of which left many companies' future office space needs in flux. The market should anticipate a continued rise in vacancy and prepare for more challenges and uncertainties ahead. While a slow recovery process is expected, the recent rollout of the Pfizer and Moderna COVID-19 vaccines provides hope for minimizing the current health crisis and getting employees back into offices. Additionally, Chicago's diversified economy, resilient infrastructure and highly-educated workforce will propel the market into better days.

#### CBD Lease Transactions

Tenant	Market	Building	Type	Square Feet
The Warranty Group	Central Loop	175 West Jackson Boulevard	Renewal	67,687
Industrious	West Loop	233 South Wacker Drive	Direct	52,000
Primera Engineers, Ltd.	West Loop	550 West Jackson Boulevard	Direct	25,569
Ninja Trading	Central Loop	222 North LaSalle Street	Sublease	19,581
Covenant Trust	Central Loop	141 West Jackson Boulevard	Direct	19,226

#### Suburban Lease Transactions

Tenant	Market	Building	Type	Square Feet
Reyes Holdings	O'Hare	6250 North River Road	Renewal	140,831
Canon Medical Systems	North	704-708 Deerpath Drive	Renewal	71,089
Ajinomoto North America	Northwest	250 East Devon Avenue	Direct	58,301
Corelle Brands	I-88 East	3025 Highland Parkway	Direct	36,885
Abbott Diagnostics	O'Hare	1350 East Touhy Avenue	New	23,543

#### Metro Sale Transactions

Buyer	Market	Building	Price Per SF	Square Feet
Normandy Properties LLC	Fulton Market	110 N Carpenter Street	\$717/SF	575,018
TA Realty	Northwest	3800-3850 Wilke Road	\$29/SF	236,789
Apex Capital Investments	North Branch/Goose Island	1515 W Webster Avenue	\$532/SF	207,000

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)
<b>CBD Total</b>	<b>146,562,380</b>	<b>4,653,235</b>	<b>15.6 %</b>	<b>(613,305)</b>	<b>6,494</b>	<b>\$39.77</b>	<b>\$35.88</b>	<b>\$37.63</b>
Central Loop	37,003,331	-	16.3 %	(451,551)	(770,606)	\$39.01	\$36.70	\$37.37
East Loop	25,352,415	-	17.1 %	(130,311)	(75,473)	\$36.49	\$35.71	\$35.58
Fulton Market	5,658,069	1,723,080	21.0 %	(22,056)	288,807	\$35.49	\$33.90	\$33.42
North Michigan Avenue	10,496,574	-	11.6 %	(173,125)	(235,467)	\$40.51	\$35.23	\$37.04
River North	13,834,718	1,430,155	14.1 %	(77,601)	(477,169)	\$38.00	\$29.80	\$34.70
West Loop	54,217,273	1,500,000	15.0 %	241,339	1,276,402	\$41.21	\$36.58	\$40.13
<b>Suburban Total</b>	<b>95,581,743</b>	<b>-</b>	<b>22.8 %</b>	<b>(231,253)</b>	<b>(1,685,025)</b>	<b>\$24.00</b>	<b>\$21.72</b>	<b>\$22.33</b>
I-88 East	21,533,745	-	18.0 %	95,826	(230,983)	\$25.64	\$21.09	\$23.36
I-88 West	13,480,084	-	21.0 %	(192,558)	(357,830)	\$21.75	\$20.54	\$21.29
North	24,816,855	-	20.6 %	(31,399)	(504,821)	\$24.21	\$21.53	\$22.79
Northwest	22,756,658	-	32.3 %	(55,018)	(580,348)	\$21.92	\$20.34	\$21.07
O'Hare	12,994,401	-	20.2 %	(48,104)	(11,043)	\$27.74	\$23.94	\$24.88
<b>Chicago Metro</b>	<b>242,144,123</b>	<b>4,653,235</b>	<b>18.4 %</b>	<b>(844,558)</b>	<b>(1,678,531)</b>	<b>\$31.86</b>	<b>\$28.89</b>	<b>\$30.32</b>

## Economic Conditions

The pandemic has had a serious and potentially long-lasting impact on the global and local economy. The measures that governments have taken to stem the spread of the virus are being felt at every level, and the U.S. record-long bull run has officially come to an end. The U.S. saw unemployment spike at record high levels, with 20.5 million jobs lost in April alone, the most since the Great Depression. The national unemployment rate hit its peak in April at 14.7%.

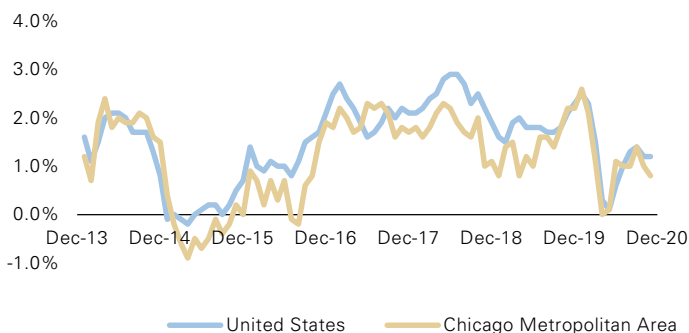
The summer months brought some relief to the unemployment rate as some tourist destinations, retailers and nonessential healthcare services reopened. These re-openings helped drive the U.S. rate down to 8.4% in August, still significantly higher than the start of the year when it was at 3.5%. According to the Moody's Analytics Back-to-Normal Index, the national economy is still only operating at 76.0% of its pre-pandemic levels.

In Chicago at the end of 2019, unemployment was at a record low of 2.8% and quickly jumped more than six times that to its peak of 17.5% for April. The rate has fluctuated since falling in May and then rising again in June as limited restrictions and social unrest have rocked the city. Since then, unemployment has decreased to 7.7% at the end of December.

During the fourth quarter, recommendations were announced for holiday gatherings, travel, and shopping to minimize the spread of the virus. Currently COVID-19 vaccine rollout is being delivered to front-line health-care workers and the elderly. The pandemic will continue to drag on the economy, while a slow recovery is expected as more people receive the vaccine. With the New Year ahead, Chicago will have to lean on its position as a technology leader in the Midwest, diverse economy and transportation hub to help the long-term recovery.

## Consumer Price Index (CPI)

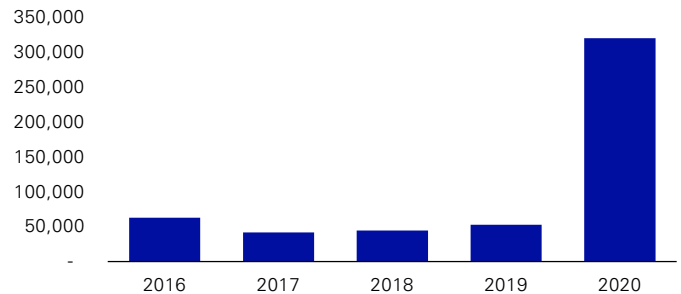
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

## Layoff Stats

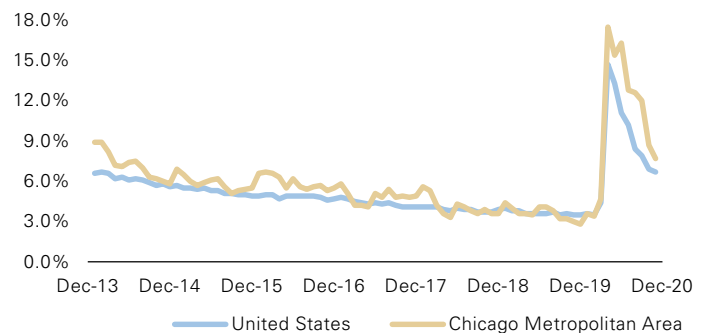
IL MASS LAYOFFS (INITIAL CLAIMS), DECEMBER 2020



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

## Unemployment Rate

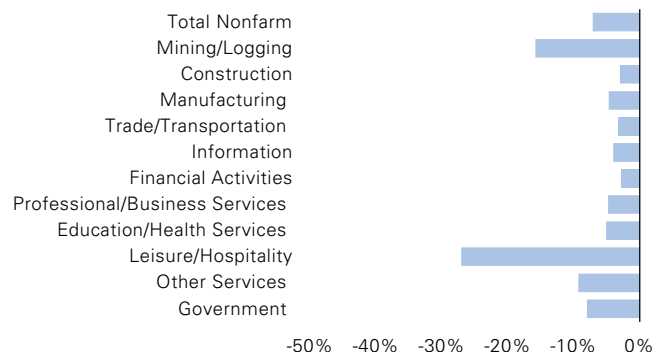
SEASONALLY ADJUSTED, DECEMBER 2020



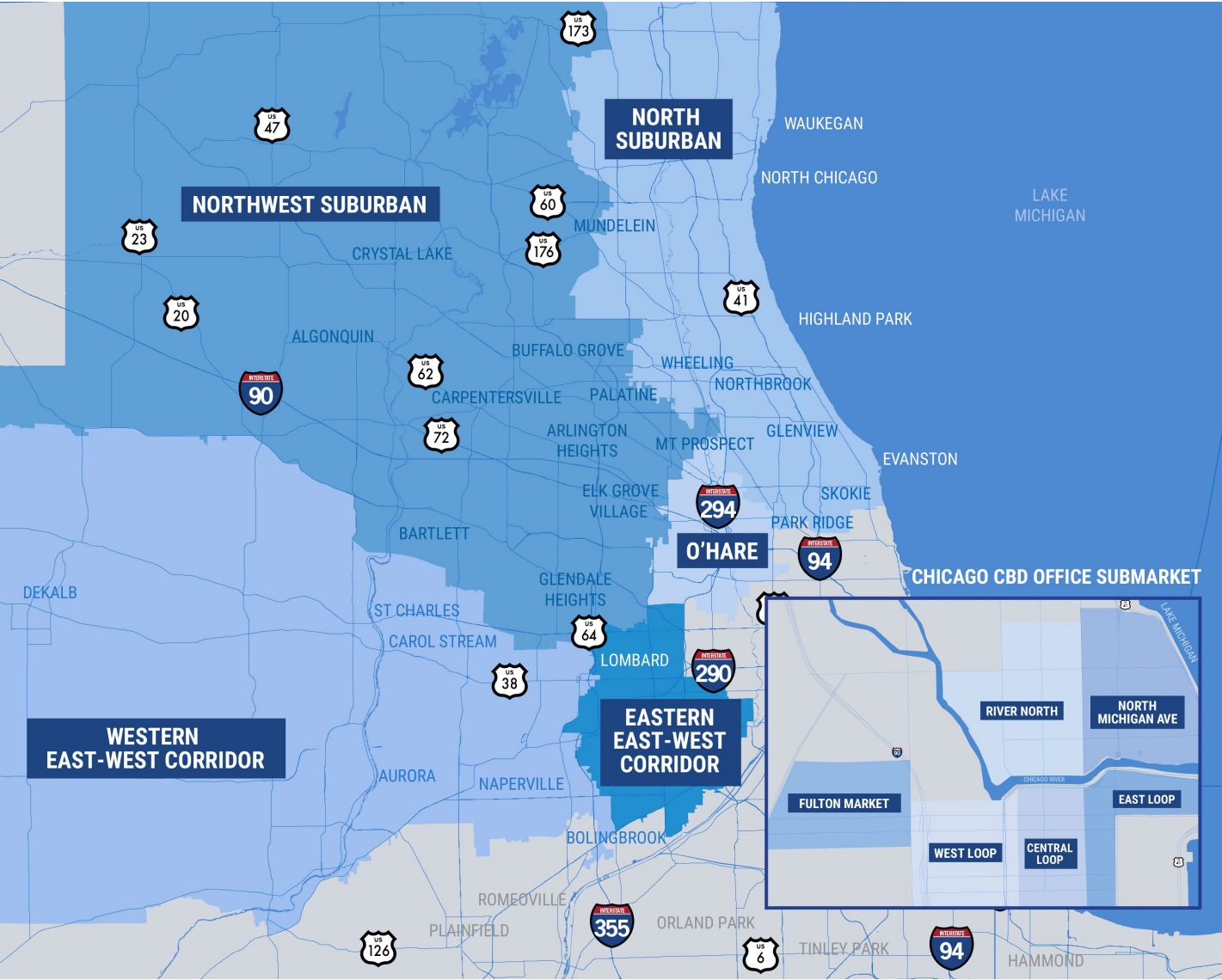
Source: U.S. Bureau of Labor Statistics

## Employment Growth By Industry

CHICAGO, DEC. 2020, 12-MONTH % CHANGE, SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics





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