



YoY
Chg

12-Mo.
Forecast

15.2%

Vacancy Rate

**-220K**

YTD Net Absorption, SF

**\$41.21**

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2020

YoY
Chg

12-Mo.
Forecast

3.3MChicago
Employment**15.6%**Chicago
Unemployment Rate**13.0%**U.S.
Unemployment Rate

Source: BLS, Moody's Analytics
2020Q2 data are based on latest available data

ECONOMIC OVERVIEW

Overall non-farm employment in the Chicago Metropolitan Area was 3.3 million for Q2 2020, decreasing 12% from one year ago. Chicago's unemployment rate increased 1,180 basis points (bps) year-over-year (YOY) to 15.6%. The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

DEMAND: New Leasing Slows, Renewals Heat Up

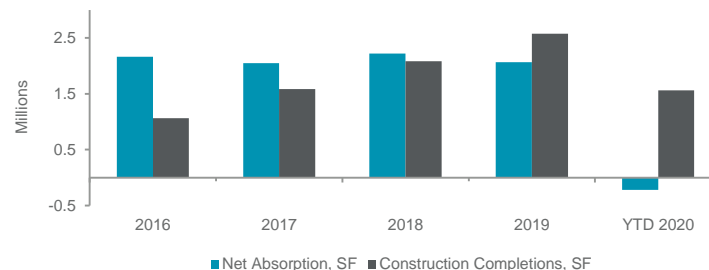
Through the first half of 2020, Chicago's Central Business District (CBD) recorded a slowdown in new leasing activity with just 3.5 million square feet (msf) of new lease transactions, a 30.7% decrease from one year ago. Renewals were on the rise as tenants delayed expansion or relocation plans in the face of uncertainty; renewal activity accounted for 45.8% of total leasing, up from 15.9% of total leasing one year ago.

After a record year of absorption in 2019, the CBD saw 220,000 sf of negative absorption in the first half of 2020, a 116.9% decrease YOY and the first time the market recorded mid-year negative absorption since 2010. This was due in part to mandated office closures, which delayed tenants from moving into newly leased spaces. The bulk of negative absorption came from Class B and Class C product (-612,000 sf) while Class A recorded 392,000 sf of positive absorption. This negative absorption, coupled with major construction completions over the last year, drove the CBD's overall vacancy rate up to 15.2% in Q2 (+240 bps YOY). East Loop and Fulton Market recorded the highest vacancy rates in Q2 – at 17.9% and 18.5%, respectively – due in large part to construction completions in those submarkets during the first half of the year (333 North Green Street in Fulton Market and the Macy's building in the East Loop).

PRICING: Fulton Market Leads in Rent Growth

Gross overall asking rents increased \$0.62 (1.5%) YOY to \$41.21 per square foot (psf). As a result of new quality space being delivered this year, Fulton Market recorded the largest jump in overall gross asking rents – up \$7.81 (23.57%) YOY to \$40.93 psf. Class A gross average asking rents grew 1.2% YOY to \$46.41 psf, Class B gross average asking rents increased 4.6% YOY to \$39.34 psf, and Class C gross average asking rents decreased 2.9% YOY to \$28.87 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



CHICAGO CBD

Office Q2 2020



CUSHMAN & WAKEFIELD

Construction Pipeline

New construction deliveries totaled 953,000 sf through Q2 2020, increasing the CBD's office inventory by 0.7%. Notable deliveries for the first half of 2020 include the Macy's Building (652,000 sf), 333 North Green (514,000 sf), and 1375 West Fulton Street (300,224 sf). In the CBD, 5.9 msf of office space under construction is slated to deliver by the end of 2023 with West Loop, Fulton Market, and River North accounting for the entirety of inventory under construction. The largest projects include the West Loop's BMO Tower (1.5 msf) at 320 South Canal Street, Bank of America Tower (1.4 msf) at 110 North Wacker Drive, and Salesforce Tower (1.2 msf) at 333 West Wolf Point Plaza. Up to this point new developments have enjoyed healthy pre-leasing activity, underscoring the demand for high-quality modern space this past cycle; Bank of America Tower was just over 67% pre-leased and BMO Tower was 54% pre-leased through Q2 2020. The market will be watching whether demand for new product continues in the current environment.

Sublease Activity

Sublease activity increased in Q2 2020 as tenants began to reassess space needs. Available sublease space soared to 3.5 msf in Q2 2020, a 30.4% increase quarter-over-quarter (QOQ) and a 78.0% increase YOY; sublease space now accounts for 15.2% of total available space, up from just 9.2% in Q4 2019. West Loop, Central Loop, and Fulton Market saw the largest increases in available sublease square footage since the end of Q1 2020, recording increases of 283,000 sf, 199,000 sf, and 128,000 sf, respectively. Sublet leasing also increased modestly as tenants began to seek out shorter-term space commitments in this period of uncertainty: subleases accounted for 11.1% of total leased sf this quarter, up from 7.1% for the entire year of 2019.

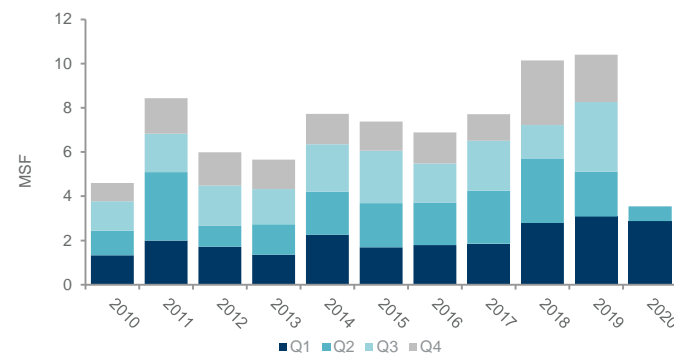
Investment Sales

The Chicago CBD office market recorded approximately \$440 million of investment sales through the first half of 2020, a 42% increase YOY but still down significantly from earlier years in the past economic cycle. Transaction activity has been weighed down by investor uncertainty surrounding the overall economy and the ongoing property tax reassessments in Cook County and the City of Chicago. Mirae Global Asset Management's sale of 225 West Wacker to Spear Street Capital closed in the second quarter and marks the largest office sale transaction YTD at \$210 million (\$323 per square foot (psf)). Thor Equities' sale of 905 West Fulton to Deka Immobilien also closed during the second quarter and set a new office sale price per square foot record for a standalone office building in Chicago at \$892 psf. With continued uncertainty in the marketplace, the velocity of investment activity is expected to remain low relative to previous years, but some investors are and will continue to view the current environment as a buying opportunity for the right assets.

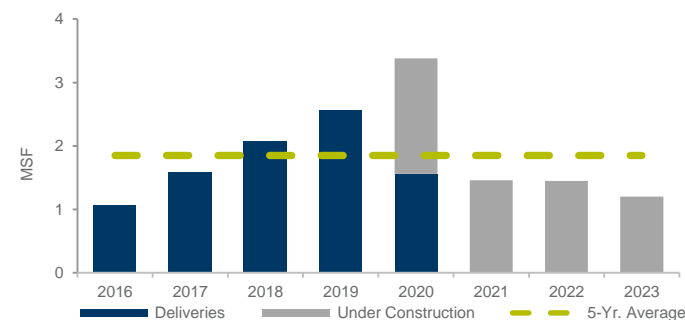
Outlook

- With uncertainty in the market, subleases, renewals, and short-term deals will allow tenants to remain nimble as they look to reevaluate long-term workplace strategies.
- Shifting office real estate demand coupled with a sizeable amount of inventory set to deliver over the next three years will place pressure on vacancy and rental rates.

OVERALL NEW LEASING ACTIVITY



NEW SUPPLY



SUBLEASE AVAILABILITY





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY* (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)**	OVERALL AVG ASKING RENT (CLASS A)**
Central Loop	34,203,492	311,442	5,133,723	15.9%	-195,945	-144,203	1,007,165	0	\$41.10	\$47.44
West Loop	51,746,286	655,935	6,613,814	14.0%	-40,884	234,063	1,167,177	2,882,052	\$43.47	\$46.54
East Loop	23,495,943	262,293	3,943,053	17.9%	-18,717	-115,525	297,132	0	\$37.46	\$41.32
North Michigan Avenue	7,000,980	163,452	782,749	13.5%	-90,074	-99,271	56,438	0	\$41.10	\$44.28
River North	15,283,835	318,397	1,716,679	13.3%	30,053	-371,413	671,950	1,446,801	\$42.16	\$49.42
Fulton Market District	4,119,068	114,571	645,398	18.5%	-39,921	309,971	321,112	1,598,418	\$40.93	\$45.28
Far West Loop	1,674,805	12,696	203,798	12.9%	-4,001	-33,862	17,145	0	\$34.24	N/A
DOWNTOWN TOTALS	137,524,409	1,838,786	19,039,214	15.2%	-359,489	-220,240	3,538,119	5,927,271	\$41.21	\$46.41

*Renewals not included in leasing statistics

**Rental rates reflect gross asking

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
155 North Wacker Drive	West Loop	American Hospital Association	129,933	Renewal*^
1 North Dearborn Street	Central Loop	Old Mission Capital LLC	38,000	New Lease^
500 West Madison Street	West Loop	NFP Corporate Services	37,414	Renewal*^
350 North Orleans Street	River North	Nitel	34,369	New Lease
200 East Randolph Street	New Lease	PHD Media	33,000	New Lease

*Renewals not included in leasing statistics

^Cushman & Wakefield Transaction

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
225 West Wacker Drive	West Loop	Mirae Asset Management/ Spear Street	650,812	\$210.0M / \$323^
905 West Fulton Street	Fulton Market	Thor Equities JV QuadReal Property Group/ Deku Immobilien	97,186	\$86.7M / \$892^

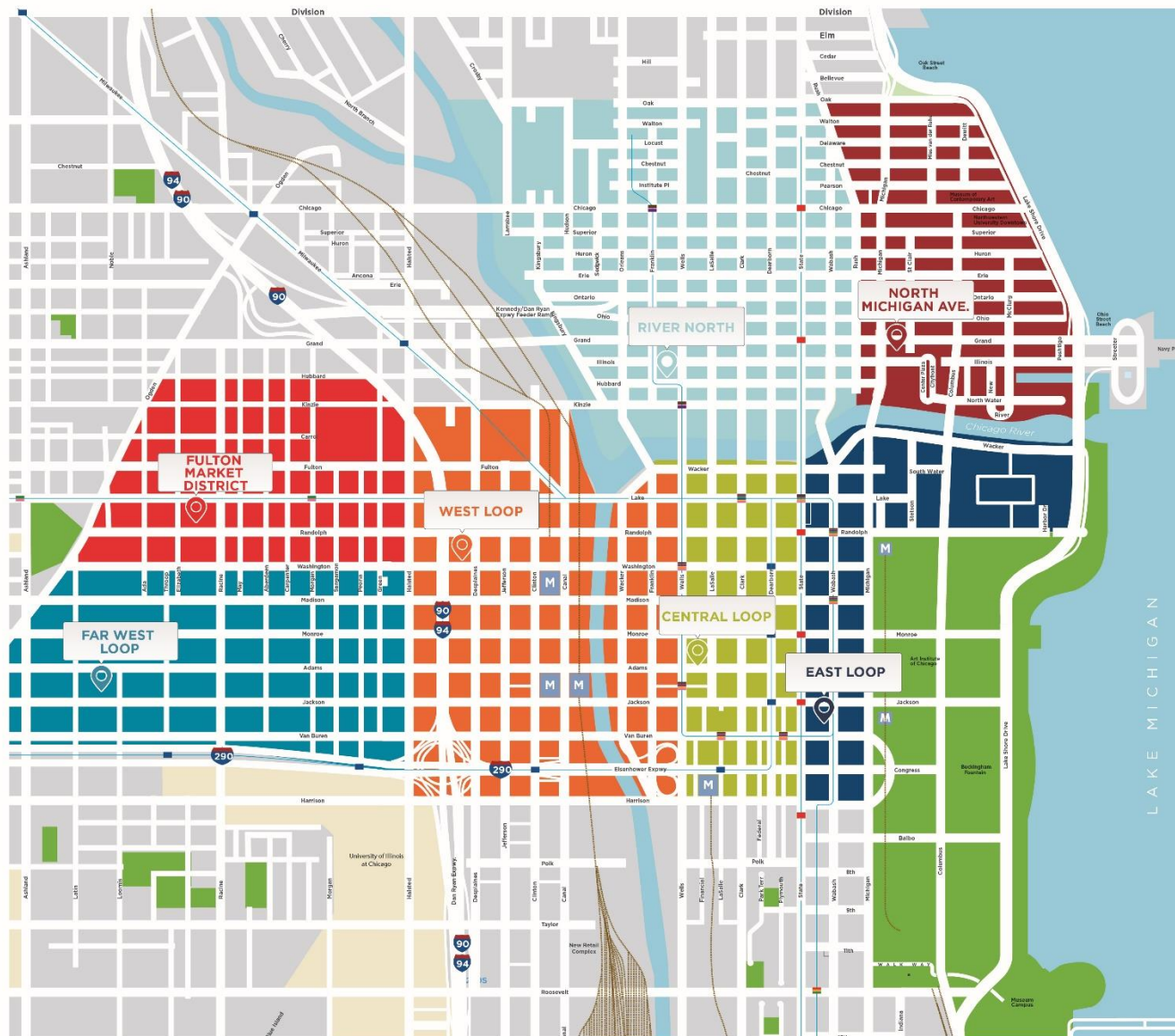
^Cushman & Wakefield Transaction

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
24 East Washington Street	East Loop	Numerator	652,452	Brookfield Asset Management, Inc.
333 North Green Street	Fulton Market	WPP Group	514,018	Sterling Bay Companies
1375 West Fulton Street	Fulton Market	Glassdoor	300,224	Reliable Contracting & Equipment Co. / Trammell Crow Company
1133 West Fulton Street	Fulton Market	WeWork	93,256	Domus Group / Barnett Capital



OFFICE SUBMARKETS

**Andrew Salzer***Research Analyst*

Tel: +1 312 424 8164

andrew.salzer@cushwake.com**Linsey Smith, PhD***Research Director*

Tel: +1 312 424 8045

linsey.smith@cushwake.com**A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of \$8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com