MARKETBEAT

CHICAGO CBD

Office Q4 2020

	YoY Chg	12-Mo. Forecast
16.4% Vacancy Rate	▲	▲
-809K YTD Net Absorption, SF	▼	▼
$41.42 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
3.5M Chicago Employment	▼	▲
8.2% Chicago Unemployment Rate	▲	▼
6.7% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics
2020Q4 data are based on latest available data

ECONOMIC OVERVIEW

Total nonfarm employment in the Chicago metro division declined by nearly 507,000 jobs (13.3%) from March to April but steadily increased over the second half of 2020, adding 226,500 jobs from May to November. The office-using sector was less impacted than other industries, losing 6.7% of jobs (70,000 jobs) from peak to trough. The region regained nearly 24,600 office-using jobs from May to November. The unemployment rate fell from a peak of 16.1% in June to 8.2% in the fourth quarter.

While the Chicago economy has shown signs of recovery, until there is a public health resolution to the COVID-19 pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident.

DEMAND: Demand Fails to Gain Traction in Q4

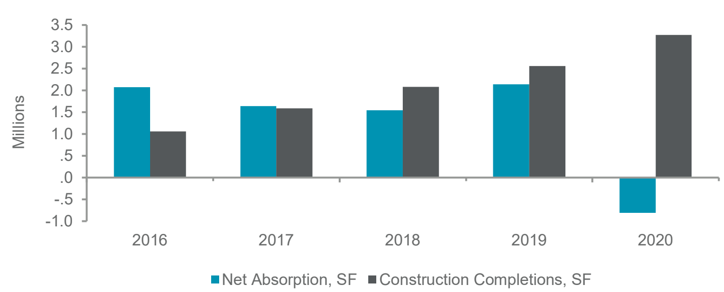
Chicago's Central Business District (CBD) recorded continued deceleration of demand in Q4 2020 with just 4.5 million square feet (msf) of new leasing year-to-date (YTD), a 59.5% drop year-over-year (YOY). The Board of Trustees of the University of Illinois signed the largest new deal of the quarter, leasing 22,560 square feet (sf) in the West Loop. As tenants postponed plans for relocations, new requirements, and expansions, renewals dominated the leasing landscape, accounting for 57.2% of all lease transactions in Q4, up from 18.0% one year ago.

Following a record year of absorption in 2019, the CBD recorded 809,000 sf of negative absorption in 2020 – the first time in 10 years the market recorded negative absorption at year-end. Negative absorption came primarily out of Class B and Class C product, totaling -2.3 msf, while Class A recorded 1.4 msf of positive absorption. The largest tenant move-in during Q4 was Bank of America who occupied 517,000 sf at the newly delivered 110 North Wacker Drive. Negative absorption coupled with major construction completions over the past year drove overall vacancy up 260 basis points (bps) YOY to 16.4%. Several construction completions with little-to-no preleasing in Fulton Market caused vacancy in the submarket to surge to 22.6% – the highest in the CBD – up from 5.8% one year ago.

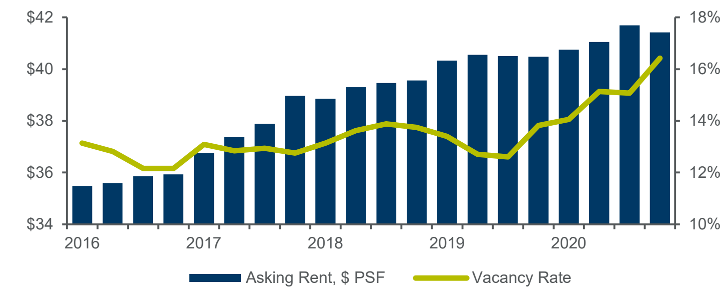
PRICING: Rents Start to Flatten

After continuing to increase through the third quarter, rents started to soften in the fourth. Gross overall average asking rents decreased $0.26 (-0.6%) quarter-over-quarter (QOQ) to $41.42 per square foot (psf). Class B inventory recorded the sharpest QOQ decline, dropping 1.9% ($0.76) QOQ to $38.92 psf. Asking rents will continue to soften until demand for office space returns to pre-COVID-19 levels.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Construction Pipeline

Construction deliveries totaled 3.3 msf in 2020, increasing the CBD's office inventory by 2.4% since Q4 2019. Notable Q4 deliveries included 110 North Wacker Drive (1.4 msf), 318 North Carpenter Street (95,000 sf), and 215 North Peoria Street (85,000 sf). West Loop, Fulton Market, and River North account for the entirety of the CBD's development pipeline, with 4.8 msf of office space under construction (3.5% of inventory) slated to deliver by the end of 2023. The largest projects under construction include the West Loop's BMO Tower (1.5 msf) at 320 South Canal Street, Fulton Market's 167 North Green Street (575,000 sf), and River North's Salesforce Tower (1.2 msf) at 333 West Wolf Point Plaza. These three major developments boast healthy pre-leasing figures, ending the year at 50.9% pre-leased; all other under-construction projects were 20.4% pre-leased at year-end.

Sublease Activity

Sublease vacancy increased for the fifth consecutive quarter to 3.2 msf – the highest figure recorded since Cushman & Wakefield began tracking sublease space in 2004. Vacant sublease supply more than doubled over the course of the pandemic, ending the year 108% above Q1 2020's figure. As of Q4, sublease space accounted for 14.0% of total vacant space in the CBD, up from just 6.4% one year ago. The West Loop and Central Loop submarkets recorded the largest increases in sublease space since Q1 2020 adding 785,000 sf and 376,000 sf, respectively, of sublease supply. Vacant sublease space is expected to continue to grow in 2021 as tenants re-evaluate their office space needs for the future.

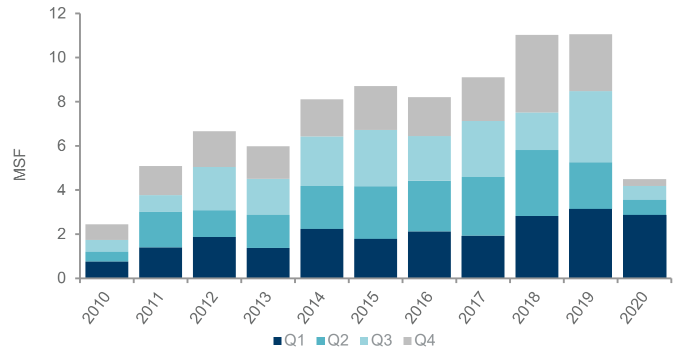
Investment Sales

The CBD office market recorded approximately $1.1 billion of investment sales in 2020, a 25.1% decrease YOY. Investment sales activity slowed significantly due to investor uncertainty surrounding the overall economy. Sterling Bay and JP Morgan's sale of 110 North Carpenter Street to Normandy Properties closed in Q4 and marks the largest office sale transacted in 2020 at $412.5 million ($717 per square foot (psf)).Thor Equities' sale of 905 West Fulton Street to Deka Immobilien in the second quarter set a new office record for sale price per square foot ($892 psf) of a standalone office building. With continued uncertainty in the marketplace, the velocity of investment activity is expected to remain low relative to previous years. Looking forward, investors may view this anemic sales environment as a potential cost-effective buying opportunity for the right assets.

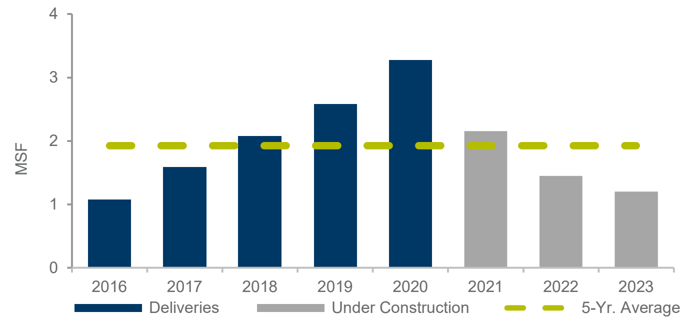
OUTLOOK

- With continued uncertainty in the market, subleases and short-term deals will allow tenants to remain nimble as they look to reevaluate workplace needs.
- Shifting office real estate demand coupled with a sizeable amount of inventory set to deliver over the next three years will place upward pressure on vacancy rates.
- Asking rents are expected to decline in the near term in an effort to reinvigorate tenant's demand for office space.

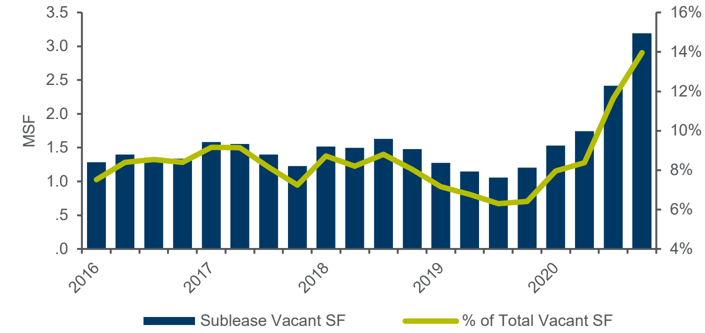
OVERALL NEW LEASING ACTIVITY



NEW SUPPLY



SUBLEASE VACANCY



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET 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	34,202,143	5,491,270	665,475	18.0%	-328,465	-851,326	1,206,427	0	$40.24	$47.35
West Loop	53,133,356	6,833,725	1,294,786	15.3%	7,632	493,532	1,422,570	1,450,000	$44.85	$48.58
East Loop	23,517,862	3,563,063	380,446	16.8%	-138,503	153,860	444,249	0	$37.73	$42.48
North Michigan Avenue	7,025,210	836,890	184,100	14.5%	-69,896	-190,676	122,937	0	$40.62	$44.00
River North	15,376,396	1,909,241	460,004	15.4%	-53,485	-710,151	764,153	1,586,301	$40.97	$48.35
Fulton Market District	4,395,775	798,036	194,686	22.6%	97,093	388,076	500,298	1,770,921	$47.09	$52.03
Far West Loop	1,686,155	259,077	15,691	16.3%	-26,489	-91,896	17,145	0	$31.52	N/A
DOWNTOWN TOTALS	**139,336,897**	**19,691,302**	**3,195,188**	**16.4%**	**-512,113**	**-808,581**	**4,477,779**	**4,807,222**	**$41.42**	**$47.89**

**Rental rates reflect gross asking $/psf*

CLASS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVG ASKING RENT*	OVERALL AVG ASKING RENT*
Class A	73,887,926	9,638,524	1,372,431	14.9%	296,882	1,445,794	2,398,482	4,749,808	$48.44	$47.89
Class B	52,237,003	8,037,671	1,573,689	18.4%	-615,357	-1,770,272	1,675,480	57,414	$39.33	$38.92
Class C	13,211,968	2,015,107	249,068	17.1%	-193,638	-484,103	403,817	0	$29.52	$29.15
DOWNTOWN TOTALS	**139,336,897**	**19,691,302**	**3,195,188**	**16.4%**	**-512,113**	**-808,581**	**4,477,779**	**4,807,222**	**$41.86**	**$41.42**

**Rental rates reflect gross asking $/psf*

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
233 North Michigan Avenue	East Loop	United States Of America (GSA)	175,837	Renewal*
200 South Wacker Drive	West Loop	The Board of Trustees of the University of Illinois	22,560	New
230 South LaSalle Street	Central Loop	Simplex Trading, LLC	19,905	Renewal*
222 North LaSalle Street	Central Loop	Ninja Trading	19,581	New
141 West Jackson Boulevard	Central Loop	Covenant Trust	19,226	New

**Renewals nor extensions are included in leasing statistics*

KEY CONSTRUCTION COMPLETIONS Q4 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
110 North Wacker Drive	West Loop	Bank of America	1,432,052	The Howard Hughes Corporation | Riverside Investment & Development
318 North Carpenter Street	Fulton Market District	N/A	95,445	ASB Capital Management | John Murphy
215 North Peoria Street	Fulton Market District	N/A	85,000	Shapack Partners | Shapack Partners

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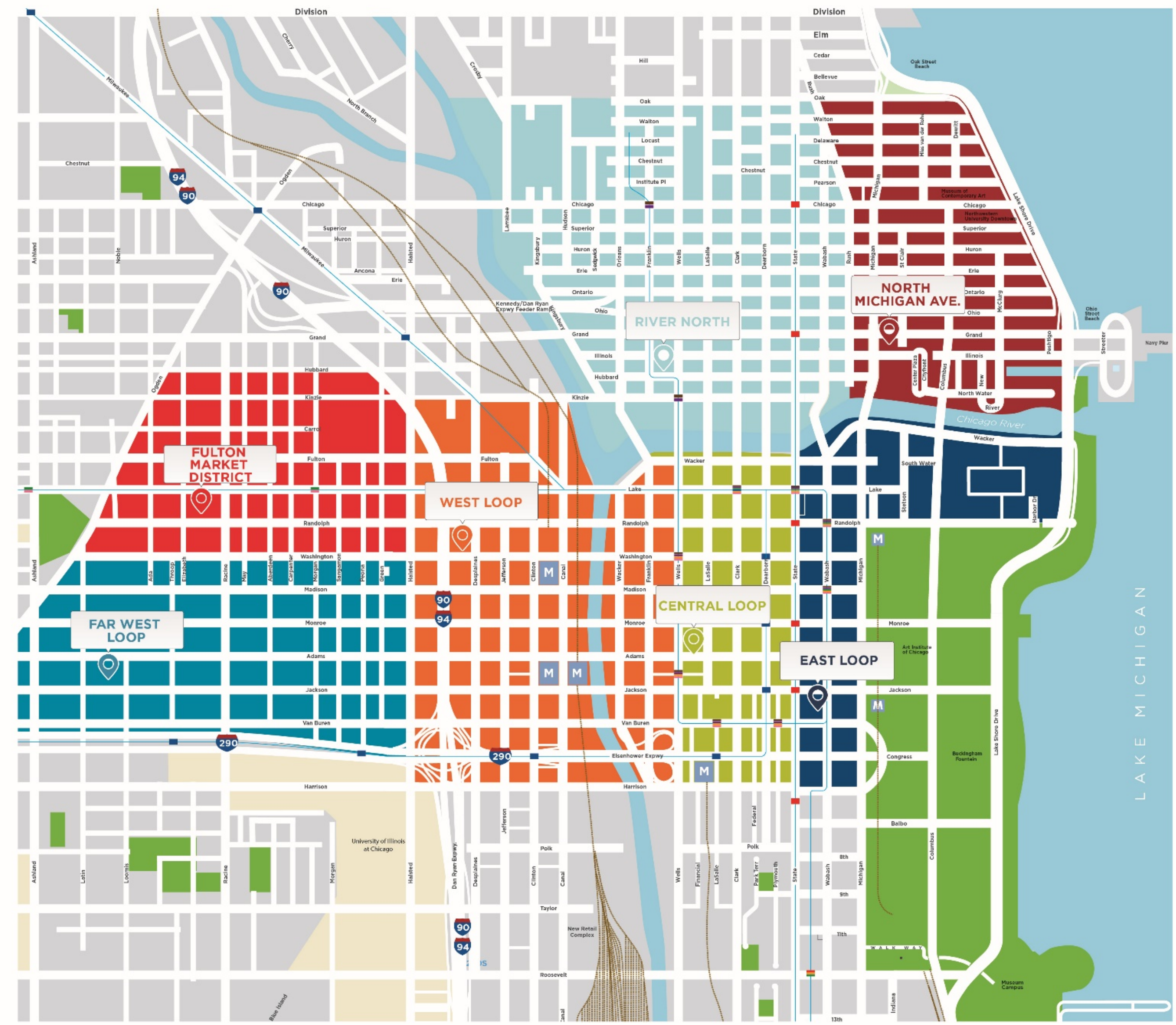
OFFICE SUBMARKETS



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