

|   | YoY Chg | 12-Mo. Forecast |
|---|---------|-----------------|
| <b>24.1%</b><br>Vacancy Rate              | ▲       | ▲               |
| <b>-690,586</b><br>YTD Net Absorption, SF | ▼       | ▼               |
| <b>\$24.51</b><br>Asking Rent, PSF        | ▲       | ▼               |

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q1 2021

|  | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| <b>3.5M</b><br>Chicago Employment        | ▼       | ▲               |
| <b>8.8%</b><br>Chicago Unemployment Rate | ▲       | ▼               |
| <b>6.0%</b><br>U.S. Unemployment Rate    | ▲       | ▼               |

Source: BLS, Moody's Analytics  
2021Q1 data are based on latest available data

## ECONOMY: Employment Continues to Strengthen

Total nonfarm employment in the Chicago Metropolitan Division has slowly rebounded since bottoming out in April 2020, increasing by 211,000 jobs from April through February 2021. Nonfarm employment reached 3.5 million jobs, 8.5% below the peak recorded in February 2020. Office-using employment reached 1.0 million jobs, down 52,000 jobs (4.9%) from its February 2020 peak. The professional and business services sector has rebounded most quickly amongst office-using industries, adding 30,000 jobs (+4.8%) since the bottom but still 42,000 jobs below its pre-pandemic peak in February 2020. The financial services sector added 7,000 jobs since its trough and sits just 1.3% below its pre-pandemic peak. After peaking at 16.4% in April 2020, unemployment has dropped to 8.8%. This downward trend is likely to persist as economic recovery continues unencumbered.

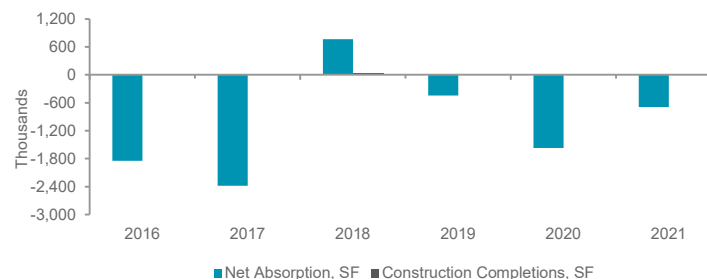
## DEMAND: Leasing Activity Remains Low in Q1 2021

Despite gradual signs of improvement in the Chicago metro area labor market, new leasing activity in the suburban market continued to decline and totaled 442,837 square feet (sf) at the end of Q1—a 33.6% decline quarter-over-quarter (QOQ). Taking a broader view, new leasing activity dropped 71.8% year-over-year (YOY) and stands well below its five-year quarterly average of 1.2 million square feet (msf). Renewals accounted for 21.2% of total leasing activity in Q1 2021, up from 7.3% in Q1 2020. The largest transaction recorded in the quarter was Appleton Group's 38,000-sf renewal in O'Hare. The largest new deal was Dovenmuehle's 35,000-sf lease in the Far Northwest. The suburban office market ended the first quarter of 2021 with 690,586 sf of negative absorption, marking the third consecutive quarter of negative absorption. Medline Industries took up occupancy at 152,312 sf at Innovation Park—the largest move-in for the quarter. Tellabs had the largest move-out of the quarter vacating 138,380 sf at 1415 West Diehl. All submarket clusters reported negative absorption, except the North corridor which recorded 70,421 sf of positive absorption due to a surge in leasing activity during Q4 2020.

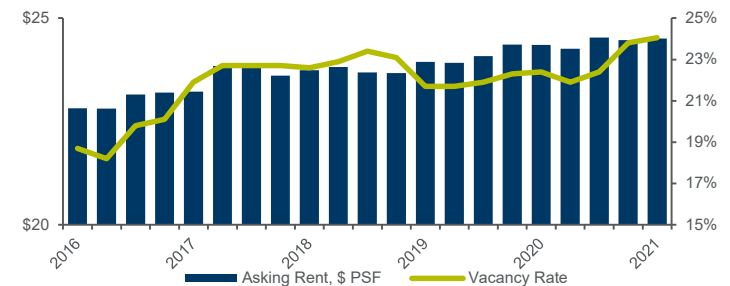
## SUPPLY: Vacancy Climbs Across the Market

Overall vacancy continued to increase in Q1 with 691,000 sf of vacant space added in the quarter, 13.3% of which was sublease space. Vacancy rose 70 basis points (bps) QOQ to 24.1% as new supply met muted demand. Vacant space currently stands at 24.5 msf, up 10.8% from the five-year quarterly average of 22.1 msf. Class A overall vacancy jumped 400 bps to 23.0%—the most significant vacancy hike among all classes—as a substantial amount of both direct vacancy (1.2 msf, +17.1% YOY) and sublease vacancy (476,000 sf, +75.1% YOY) was added in Class A space since Q1 2020. All submarket clusters recorded YOY vacancy increases, but the Northwest Corridor was impacted most significantly with vacancy rising 270 bps to 30.2%.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# CHICAGO SUBURBAN

Office Q1 2021



## Sublease Velocity Slows in Q1 After a Major Jump at the End of 2020

While sublease vacancy continued to increase in the quarter, just 92,000 sf of sublease supply was added—a 5.4% increase QOQ and substantially below the 605,000-sf added in Q4 2020. The sublease vacancy rate in Q1 was 1.8% and amounted to 7.3% of total vacant space. The North Corridor and the East/West Corridor submarkets accounted for the lion’s share of vacant sublease space—with 37.8% and 35.6% of total sublease vacancy, respectively. Most of the sublease space added over the last year was in Class A product, which accounted for 66.1% of the vacant sublease space added since Q1 2020. Currently there is 1.8 msf of vacant sublease supply and an additional 1.8 msf currently being marketed for future occupancy, bringing the total available sublease space in the market to 3.6 msf.

## PRICING: Rents Continue to Soften

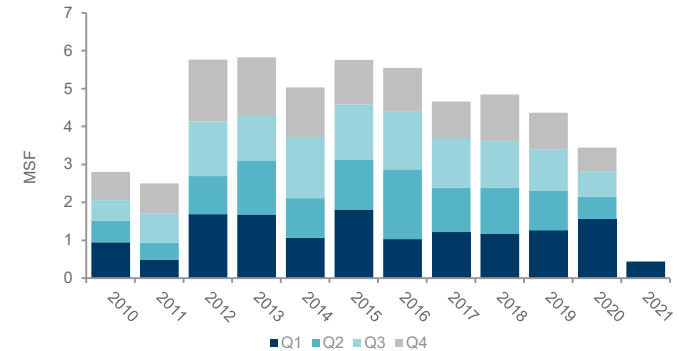
Prices softened modestly this quarter as increasing vacancy was met with diminishing demand. While up 0.6% YOY, overall gross rents peaked in the third quarter and have been declining ever since, dropping 0.2% QOQ to \$24.51 per square foot (psf) due to a substantial drop in sublease rates, which fell 3.1% QOQ to \$21.84 psf. In contrast, direct gross rents increased 1.0% YOY to \$24.63 psf but were flat QOQ, signaling that direct rent adjustments are on the horizon.

Class A sublease rates recorded significant declines over the last year, dropping 16.0% YOY to \$24.32 psf. The O’Hare submarket experienced the sharpest decline in overall sublease rates, recording a 23.6% decline YOY and 14.5% QOQ to \$27.54 psf. Despite the general decline in sublease rates, the Northwest was an outlier, with sublease rates jumping 15.9% to \$22.80 due to the shift in sublease composition over the last year: 92.7% of the space added was higher-priced, Class A space.

## OUTLOOK

- A surplus of sublease supply combined with limited demand will exert more downward pressure on asking rents in 2021
- Expect vacancy to increase at a more accelerated pace as 1.8 msf of sublease space available for future occupancy could potentially hit the market over the next several months
- Although employment is gaining momentum, substantial job growth will likely not occur until mid-to-late 2021
- Leasing momentum will pick up towards the end of 2021 and into 2022 as the economy regains its footing, office reoccupancy increases, and occupiers who sat on the sidelines during the pandemic reenter the market.

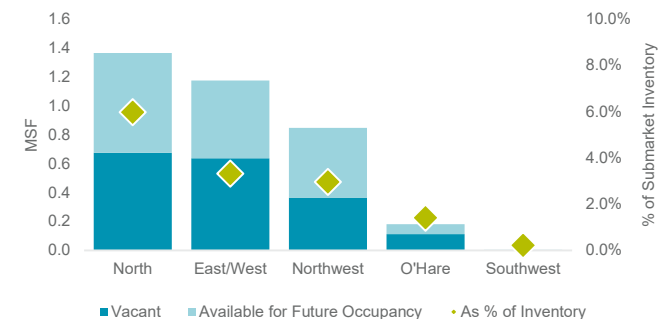
## OVERALL NEW LEASING ACTIVITY



## OVERALL VACANCY



## CURRENT SUBLEASE AVAILABILITY



**MARKET STATISTICS**

| SUBMARKET                 | INVENTORY (SF)     | DIRECT VACANT (SF) | SUBLET VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION(SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | OVERALL AVG ASKING RENT (ALL CLASSES)* | OVERALL AVG ASKING RENT (CLASS A)* |
|---------------------------|--------------------|--------------------|--------------------|----------------------|--|---------------------------------|---------------------------|------------------|--|------------------------------------|
| Far Northwest             | 3,762,484          | 1,043,254          | 0                  | 27.7%                | -17,182                                | -17,182                         | 37,312                    | 0                | \$20.89                                | N/A                                |
| Central Northwest         | 21,184,039         | 6,088,024          | 292,189            | 28.7%                | -317,061                               | -317,061                        | 93,476                    | 0                | \$23.08                                | \$26.94                            |
| North DuPage              | 3,719,668          | 1,170,858          | 73,390             | 31.5%                | -11,304                                | -11,304                         | 9,867                     | 0                | \$24.27                                | \$26.30                            |
| <b>NORTHWEST TOTALS</b>   | <b>28,666,191</b>  | <b>8,302,136</b>   | <b>365,579</b>     | <b>30.2%</b>         | <b>-345,547</b>                        | <b>-345,547</b>                 | <b>140,655</b>            | <b>0</b>         | <b>\$23.06</b>                         | <b>\$26.80</b>                     |
| Far North                 | 1,042,009          | 266,596            | 0                  | 25.6%                | -6,266                                 | -6,266                          | 6,870                     | 0                | \$15.37                                | N/A                                |
| Central North/Tri-State   | 16,441,834         | 3,644,094          | 567,423            | 22.2%                | 96,672                                 | 96,672                          | 31,782                    | 0                | \$26.21                                | \$29.59                            |
| Near North                | 5,366,715          | 784,679            | 108,802            | 14.6%                | -19,985                                | -19,985                         | 14,336                    | 0                | \$26.53                                | \$35.13                            |
| <b>NORTH TOTALS</b>       | <b>22,850,558</b>  | <b>4,695,369</b>   | <b>676,225</b>     | <b>23.5%</b>         | <b>70,421</b>                          | <b>70,421</b>                   | <b>52,988</b>             | <b>0</b>         | <b>\$25.60</b>                         | <b>\$30.47</b>                     |
| Eastern East / West       | 21,878,777         | 4,318,669          | 563,015            | 19.7%                | -161,534                               | -161,534                        | 82,103                    | 84,000           | \$24.96                                | \$30.31                            |
| Western East / West       | 13,528,067         | 2,934,717          | 74,503             | 21.7%                | -155,004                               | -155,004                        | 67,297                    | 0                | \$23.75                                | \$26.76                            |
| <b>EAST / WEST TOTALS</b> | <b>35,406,844</b>  | <b>7,253,386</b>   | <b>637,518</b>     | <b>22.3%</b>         | <b>-316,538</b>                        | <b>-316,538</b>                 | <b>149,400</b>            | <b>0</b>         | <b>\$24.48</b>                         | <b>\$28.80</b>                     |
| <b>O'Hare</b>             | <b>12,785,850</b>  | <b>2,124,989</b>   | <b>111,686</b>     | <b>17.5%</b>         | <b>-93,387</b>                         | <b>-93,387</b>                  | <b>90,741</b>             | <b>0</b>         | <b>\$28.62</b>                         | <b>\$35.69</b>                     |
| <b>Southwest</b>          | <b>2,269,542</b>   | <b>363,667</b>     | <b>0</b>           | <b>16.0%</b>         | <b>-5,535</b>                          | <b>-5,535</b>                   | <b>9,053</b>              | <b>0</b>         | <b>\$20.30</b>                         | <b>N/A</b>                         |
| <b>SUBURBAN TOTALS</b>    | <b>101,978,985</b> | <b>22,739,547</b>  | <b>1,791,008</b>   | <b>24.1%</b>         | <b>-690,586</b>                        | <b>-690,586</b>                 | <b>442,837</b>            | <b>84,000</b>    | <b>\$24.51</b>                         | <b>\$29.14</b>                     |

\*Rental rates reflect gross asking \$psf/year

| CLASS   | INVENTORY (SF) | DIRECT VACANT (SF) | SUBLET VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION(SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | DIRECT AVG ASKING RENT | OVERALL AVG ASKING RENT (CLASS A)* |
|---------|----------------|--------------------|--------------------|----------------------|--|---------------------------------|---------------------------|------------------|------------------------|------------------------------------|
| CLASS A | 39,909,129     | 8,053,969          | 1,110,124          | 23.0%                | -374,792                               | -374,792                        | 172,943                   | 0                | \$29.51                | \$29.14                            |
| CLASS B | 45,038,313     | 10,664,525         | 671,822            | 25.2%                | -177,375                               | -177,375                        | 174,091                   | 84,000           | \$23.09                | \$22.89                            |
| CLASS C | 17,031,543     | 4,021,053          | 9,062              | 23.7%                | -138,419                               | -138,419                        | 95,803                    | 0                | \$17.77                | \$17.77                            |

**KEY LEASE TRANSACTIONS Q1 2021**

| PROPERTY                   | SUBMARKET                  | TENANT                                   | RSF    | TYPE     |
|----------------------------|----------------------------|--|--------|----------|
| 9377 West Higgins Road     | O'Hare                     | Appleton Electric-E G S Electrical Group | 38,003 | Renewal* |
| 2 Corporate Drive          | Far Northwest              | Dovenmuehle Mortgage, Inc.               | 35,383 | New      |
| 10 North Martingale Road   | Central Northwest          | Costco                                   | 29,385 | New      |
| 9525 West Bryn Mawr Avenue | O'Hare                     | Interfirst Mortgage Solutions            | 27,041 | New      |
| 3025 Highland Parkway      | Eastern East/West Corridor | Sevan Multi-Site Solutions               | 25,887 | Renewal* |

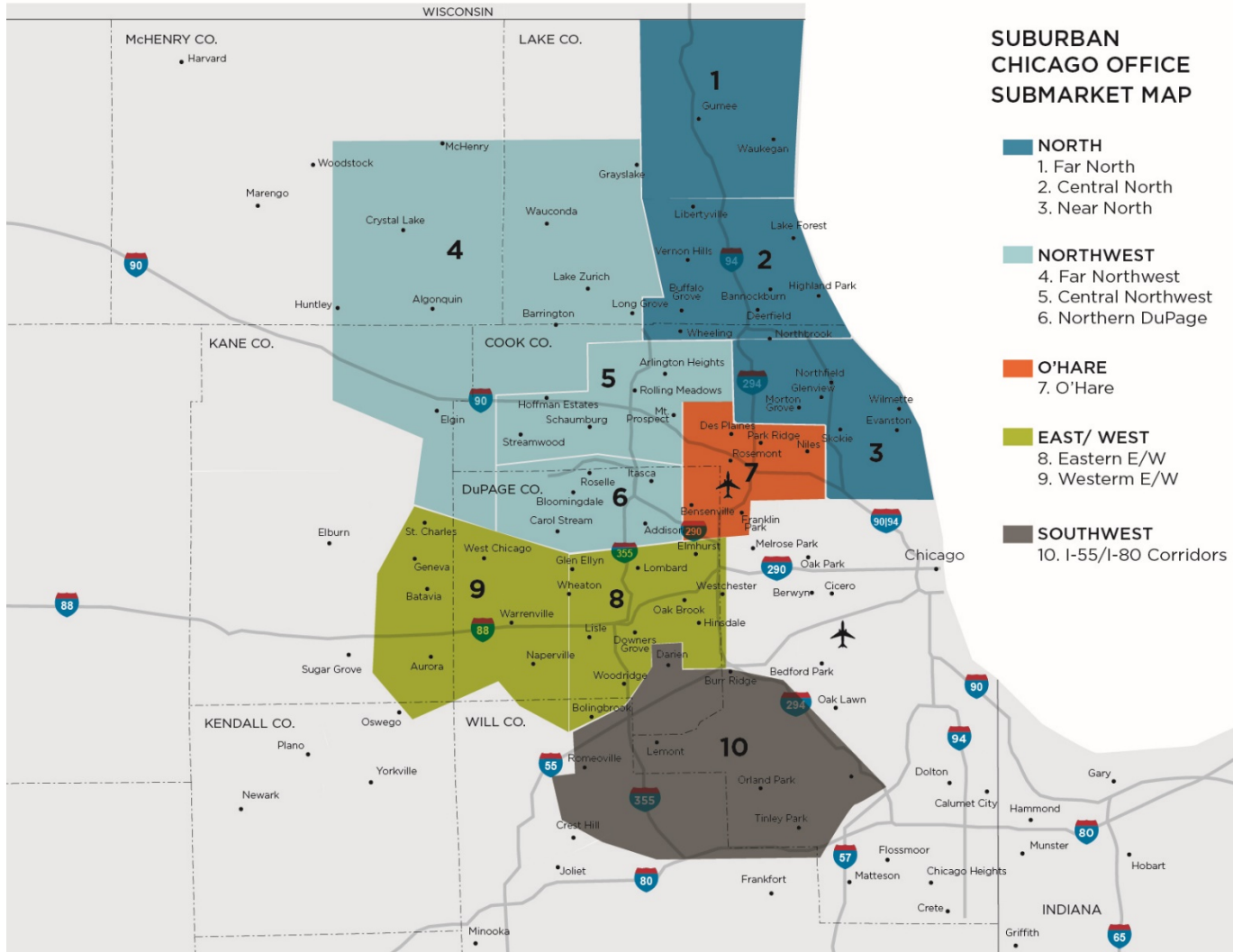
\*Renewals not included in leasing statistics



# CHICAGO SUBURBAN

Office Q1 2021

OFFICE SUBMARKETS



SUBURBAN CHICAGO OFFICE SUBMARKET MAP

- NORTH
  1. Far North
  2. Central North
  3. Near North
- NORTHWEST
  4. Far Northwest
  5. Central Northwest
  6. Northern DuPage
- O'HARE
  7. O'Hare
- EAST/ WEST
  8. Eastern E/W
  9. Western E/W
- SOUTHWEST
  10. I-55/I-80 Corridors

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