

	YoY Chg	12-Mo. Forecast
<b>20.7%</b> Vacancy Rate	▲	▼
<b>-5.0M</b> YTD Net Absorption, SF	▼	▲
<b>\$41.71</b> Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
<b>3.6M</b> Chicago Employment	▲	▲
<b>8.1%</b> Chicago Unemployment Rate	▼	▼
<b>5.2%</b> U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics  
2021Q3 data are based on latest available data

## ECONOMIC OVERVIEW

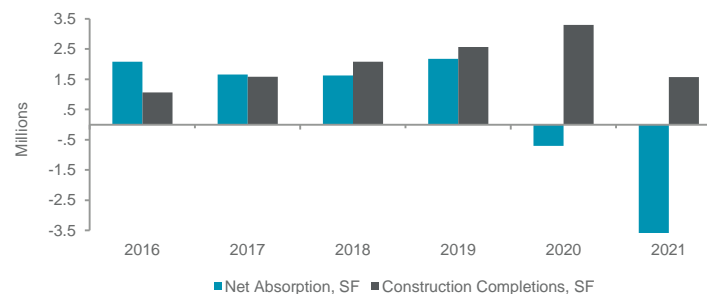
Total nonfarm employment in the Chicago Metropolitan Division has slowly rebounded since bottoming out in May 2020, adding 278,400 jobs from the bottom through August 2021. Nonfarm employment reached 3.6 million jobs, 6.9% below the February 2020 peak. Office-using employment reached just over 1.0 million jobs in the quarter, up 37,200 jobs (3.9%) from its pandemic low. Financial services sector employment is 2.6% below its pre-pandemic peak, professional services employment is 3.1% below its peak, and information sector employment is 11.3% below its peak. After peaking at 16.4% in April 2020, unemployment has dropped to 8.1% by August 2021. This downward trend is likely to persist if economic recovery continues unencumbered.

## SUPPLY & DEMAND: New Leasing Doubles in the Quarter

Chicago's Central Business District (CBD) recorded accelerated office demand in Q3 2021 with 2.2 million square feet (msf) of new leasing, a 262.2% increase year-over-year (YOY) and an 107.4% increase quarter-over-quarter (QOQ). Kirkland & Ellis signed the largest new lease of the year—and largest in over a decade—for 613,800 sf at Salesforce Tower in River North. Flight to quality persists with Class A assets accounting for 71.6% of quarterly leasing. Tenants have also actively taken Class B space on the secondary market: almost half (44.5%) of Class B new leasing occurred in sublease space, compared to the pre-COVID average of 14.6%. At the end of 2020, renewal activity dominated the leasing landscape, but as new leasing picked up in the third quarter of 2021 that trend has reversed. In Q3 2020, renewals accounted for 47.6% of total leasing, while in Q3 2021 renewals accounted for just 8.5%. Another signal that the market is in recovery mode is short-term renewal rates have dropped; from Q2 2020 to Q4 2020, tenants were reluctant to make long-term space commitments and as a result short-term renewals accounted for 32.2% of total renewal activity. Through the first three quarters of 2021, short-term renewals accounted for 21.3% of renewal activity.

The market recorded 1.8 million square feet (msf) of negative absorption in the third quarter of 2021—the largest amount of quarterly negative absorption on record. Robert Morris University's move out at 401 South State Street (395,000 sf) coupled with 515,000 sf of vacant sublease space hitting the market accounted for 50.2% of negative absorption in Q3. Substantial negative absorption combined with major construction deliveries over the last year elevated overall vacancy 570 basis points (bps) YOY to 20.7%. All submarkets recorded YOY vacancy increases, but Fulton Market was impacted most significantly: several construction completions with little-to-no preleasing in the submarket pushed vacancy to 39.8%—the highest in the CBD—up from 20.5% one year ago and 11.3% pre-pandemic.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# CHICAGO CBD

Office Q3 2021



## Supply Pressure: Construction Pipeline

The CBD recorded one completion for the quarter totaling 78,535 sf at 306 West Erie Street in River North. The asset delivered at 78.3% pre-leased. West Loop, Fulton Market, and River North account for the entirety of the CBD's development pipeline, with 3.9 msf of office space under construction or under renovation (2.8% of current inventory) slated to deliver by the end of 2024. The largest developments under construction include the West Loop's BMO Tower (1.5 msf) at 320 South Canal Street, River North's Salesforce Tower (1.2 msf) at 333 West Wolf Point Plaza, and Fulton Labs at 400 North Aberdeen Street (408,000 sf). BMO Tower and Salesforce ended the quarter at 72.8% pre-leased, while other projects under construction recorded no pre-leasing activity so far. Deliveries in Fulton Market with little-to-no preleasing were the primary driver of Fulton Market's high vacancy rates.

## Supply Pressure: Sublease Activity

Sublease vacancy increased for the eighth consecutive quarter to 4.4 msf—the highest figure for sublease space recorded since Cushman & Wakefield began tracking sublease space. Vacant sublease supply more than doubled over the course of the pandemic, ending the quarter 195% higher than Q1 2020. As of Q3, sublease space accounted for 15.0% of total vacant space in the CBD—up from just 11.7% one year ago—placing significant downward pressure on rental rates. West Loop and River North recorded the largest YOY increases in vacant sublease supply, adding 892,000 sf and 344,000 sf, respectively. In addition to the 4.4 msf of sublease vacancy, there is another 2.1 msf currently being marketed for future occupancy, bringing total available sublease space in the CBD to 6.4 msf—up 146.3% since the start of the pandemic. As vacant sublease space continues to hit the market, tenants may find subleases to be a viable option for cheaper, short-term office space.

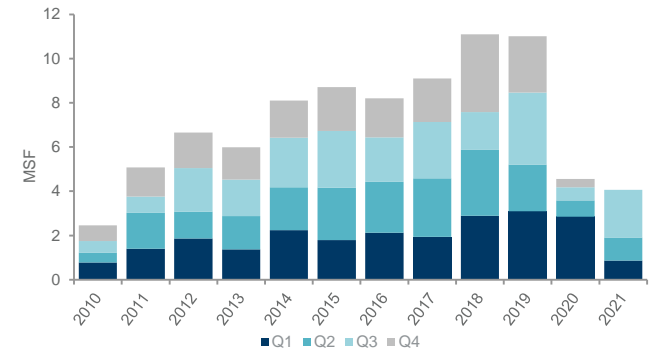
## Pricing: Rents Still Softening

Overall gross asking rents reached \$41.71 per square foot (psf), down \$0.13 from Q2 2021. Since Q2, Class A asking rents increased \$0.10 (0.2%) to \$48.10 psf, Class B decreased \$0.06 (0.02%) to \$38.82 psf, and Class C increased \$0.84 (2.9%) to \$30.14. East Loop and River North recorded the largest QOQ decreases in gross asking rents, dropping \$0.64 psf (1.7%) and \$0.16 psf (0.3%), respectively.

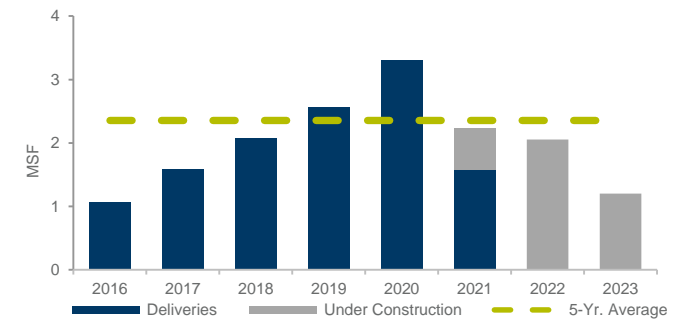
## OUTLOOK

- Accelerated new leasing in the quarter indicates that demand for new office space is returning to the market, but we expect greater leasing momentum towards the end of 2021 and into 2022.
- As demand returns to the market and tenants regain confidence in making long-term space commitments, short-term renewals will continue to decrease.
- With vacancies reaching record highs, tenants have significant leverage in negotiating their leases across the CBD. Older office product will face serious competition as new developments continue to attract occupiers taking advantage of an extremely tenant-favorable market.

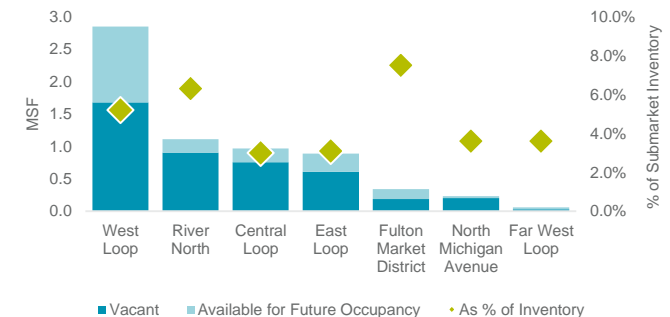
## OVERALL NEW LEASING ACTIVITY



## NEW SUPPLY



## CURRENT SUBLEASE AVAILABILITY



## 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	34,311,054	6,657,723	756,453	21.6%	-205,937	-1,409,719	710,229	0	\$39.99	\$47.40
East Loop	23,550,267	4,604,216	606,410	22.1%	-762,248	-1,284,986	567,559	0	\$37.15	\$41.75
Far West Loop	1,686,155	297,726	26,983	19.3%	-34,661	-52,728	23,692	0	\$30.40	N/A
Fulton Market District	5,644,842	2,058,309	189,278	39.8%	-38,542	-70,591	395,085	787,811	\$49.54	\$53.50
North Michigan Avenue	7,052,629	828,782	204,133	14.7%	-52,836	-85,001	87,017	0	\$41.42	\$45.19
River North	15,734,400	2,473,656	904,144	21.5%	-69,705	-643,438	1,013,955	1,200,202	\$40.57	\$46.91
West Loop	52,786,908	7,908,377	1,679,729	18.2%	-650,419	-1,463,731	1,266,816	1,544,000	\$45.25	\$48.63
<b>DOWNTOWN TOTALS</b>	<b>140,766,255</b>	<b>24,828,789</b>	<b>4,367,130</b>	<b>20.7%</b>	<b>-1,814,348</b>	<b>-5,010,194</b>	<b>4,064,353</b>	<b>3,532,013</b>	<b>\$41.71</b>	<b>\$48.10</b>

\*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	75,019,407	12,266,649	2,175,777	19.3%	-901,234	-2,037,883	2,595,398	3,438,013	\$48.72	\$48.10
Class B	52,356,343	9,798,071	1,980,294	22.5%	-392,692	-2,127,089	1,033,886	94,000	\$39.11	\$38.82
Class C	13,390,505	2,764,069	211,059	22.2%	-520,422	-845,222	435,069	0	\$30.08	\$30.14
<b>DOWNTOWN TOTALS</b>	<b>140,766,255</b>	<b>24,828,789</b>	<b>4,367,130</b>	<b>20.7%</b>	<b>-1,814,348</b>	<b>-5,010,194</b>	<b>4,064,353</b>	<b>3,532,013</b>	<b>\$42.07</b>	<b>\$41.71</b>

\*Rental rates reflect gross asking \$/psf

## KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
333 West Wolf Point Plaza	River North	Kirkland & Ellis LLP	613,800	New Lease
130 East Randolph Street	East Loop	SMS Assist LLC	114,383	New Lease
200 North LaSalle Street	Central Loop	Tegus	70,000	New Lease
320 North Sangamon Street	Fulton Market District	Hazel Technologies	53,400	New Lease
320 North Sangamon Street	Fulton Market District	Tock	51,000	New Lease

\*Renewals nor extensions are included in leasing statistics

## KEY SALES TRANSACTIONS Q3 2021

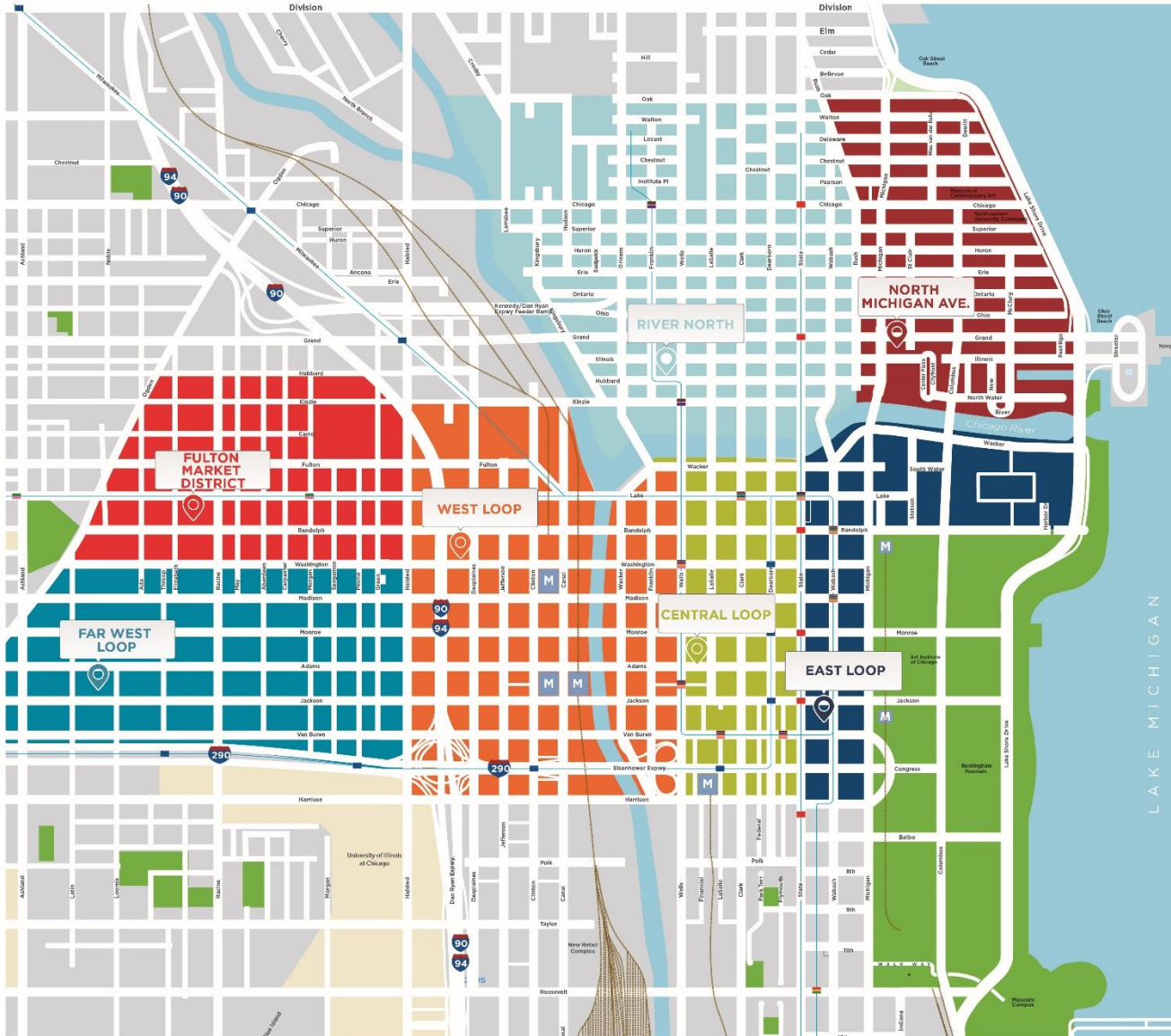
PROPERTY	SUBMARKET	SELLER   BUYER	SF	PRICE/\$ PSF
210 North Carpenter Street	Fulton Market District	Sterling Bay Companies   Deko Immobilien	203,589	\$169.0M   \$830
100 North LaSalle Street	Central Loop	Sun Life Assurance Company of Canada   The Farbman Group	160,000	\$17.0M   \$106



# CHICAGO CBD

Office Q3 2021

## OFFICE SUBMARKETS



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