



TRANSWESTERN

CHICAGO OFFICE MARKET

Q3 2021



TRENDLINES

	Q3 2021	Q3 2020	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	7.1	12.0	↓	6.4	↓
NET ABSORPTION (Thousands SF)	(1,708.1)	496.5	↓	(31.1)	↑
OVERALL VACANCY RATE	17.0%	12.8%	↑	12.4%	↔
OVERALL VACANT SF (MSF)	28.5	21.1	↑	20.1	↔
UNDER CONSTRUCTION (MSF)	2.2	3.3	↓	4.1	↑
ASKING RENT (PSF)	\$42.90	\$40.38	↑	\$35.31	↔
SALES VOLUME (Millions)	\$590.5	\$554.5	↓	\$950.1	↔

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OFFICE MARKET COOLS

Chicago's office market fundamentals softened during the third quarter with negative 1.7 million SF of net absorption. The overall vacancy rate increased to 17.0% during the quarter from 16.0% the quarter prior. Asking rents continue to tick up modestly up 0.3% from the second quarter of \$42.90/SF.

The office sector continues to face strong headwinds, as traditionally office-using tenants evaluate employee productivity while working remotely, delaying a return to the office. A pause in leasing activity during 2020, along with a significant amount of sublease space on the market, has created a supply and demand imbalance through the first three quarters of 2021.

The net outcome is still to be determined, as it will take a sizable amount of demand to absorb the current market oversupply. In the meantime, the market will remain in tenant favor, as landlords offer generous concession packages to keep and attract tenants.

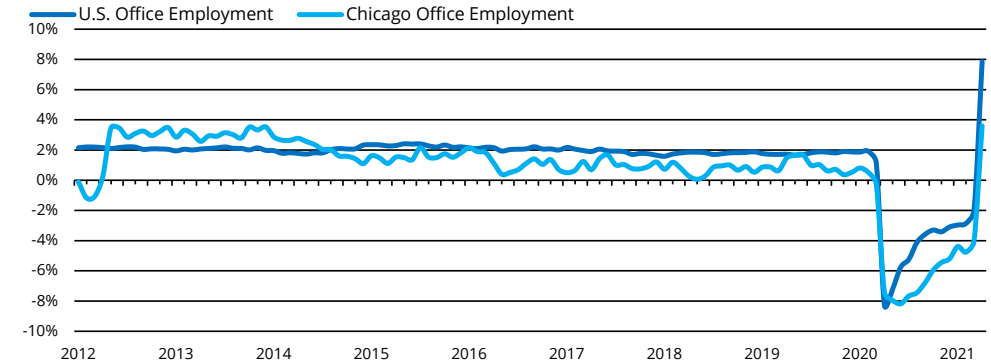


ECONOMY

Job Growth Remains Consistent

- During the third quarter, the U.S. labor market has continued to recover from the COVID-19 pandemic with gains in nearly every sector, while the unemployment rate dropped from 5.8% in May to 4.8% in August.
- Chicago's economy continues to improve since the pandemic hit the region in March 2020, with a significant portion of this growth occurring within the Leisure and Hospitality industry – the sector hardest hit by the pandemic.
- The unemployment rate for Chicago is currently at 7.1% as of August 2021 and has averaged 7.7% for the past three months. The rate has improved notably over the year, declining 390 basis points from 12.0% during August 2020.
- Locally, office-using jobs have grown 3.6% during the past 12 months, with the Professional and Business Services industry adding 30,800 jobs year-over-year.

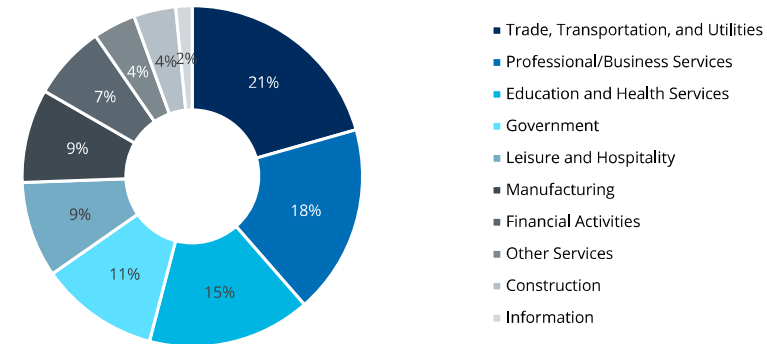
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

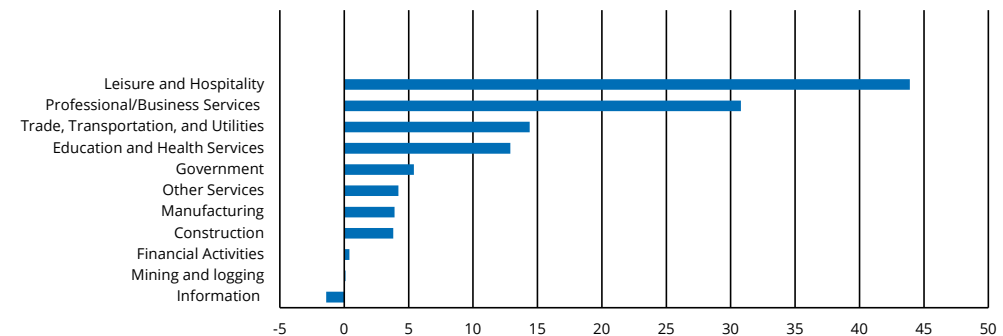
Chicago | August 2021



Source: Bureau of Labor Statistics, Transwestern

JOB GROWTH BY INDUSTRY

Chicago | August 2021



Source: Bureau of Labor Statistics, Transwestern

In Thousands

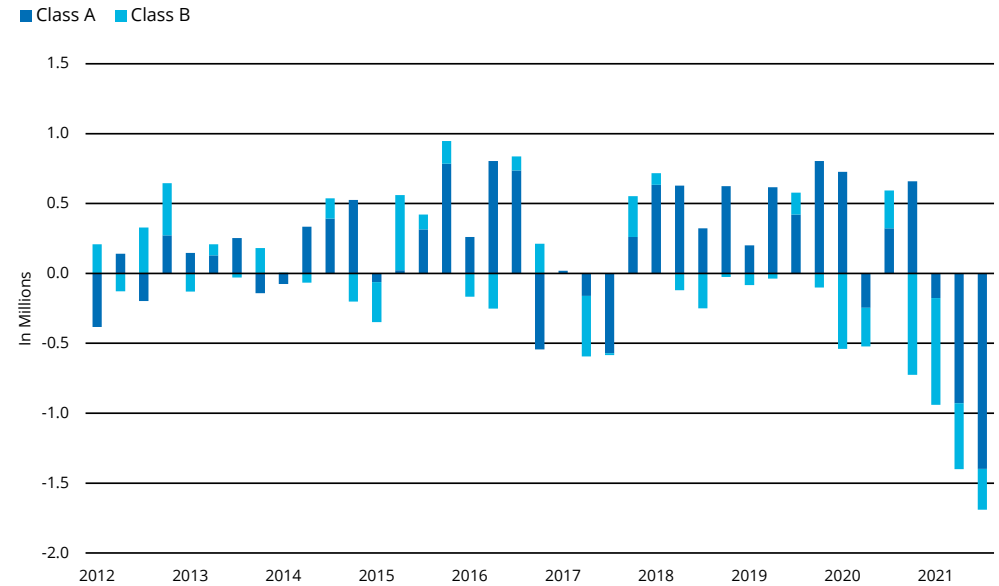


NET ABSORPTION

Supply Begins to Outpace Demand

- Net absorption totaled negative 1.7 million SF during the third quarter of 2021, with year-over-year totaling negative 4.5 million SF. This is the fourth consecutive quarter with negative net absorption as the pandemic paused most significant real estate decisions.
- Class A product saw negative 1.4 million SF of absorption during the third quarter with several notable contractions in the CBD. However, looking forward, there are signs of optimism for the office market. Flight to quality is expected to continue as employers compete to attract and retain top talent. Tenants historically priced out of Class A space in the CBD may look to take advantage of reduced market conditions.
- The Central Loop contracted 960,081 SF in total during the quarter, with Bank of America vacating 750,000 SF at 135 S. LaSalle and relocating to 525,000 SF at 110 North Wacker in the West Loop.
- During the third quarter, Kirkland & Ellis leased 600,000 SF at Salesforce Tower, representing the largest deal in the CBD in over a decade. The Chicago-based law firm will join Salesforce, who will occupy 500,000 SF at 333 Wolf Point Plaza after its completion in 2023.
- Cisco Systems inked the second-largest deal of the third quarter, as it will be relocating the Rosemont office to the CBD, leasing nearly 135,000 SF at the Old Main Post Office at 433 W Van Buren. This move will create significant positive absorption in the West Loop submarket upon occupancy.
- Net absorption should begin to moderate in the coming quarters as widespread vaccine distribution allows for an increased return to the office. Leasing activity is expected to tick up, with new potential tenants evaluating the market.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

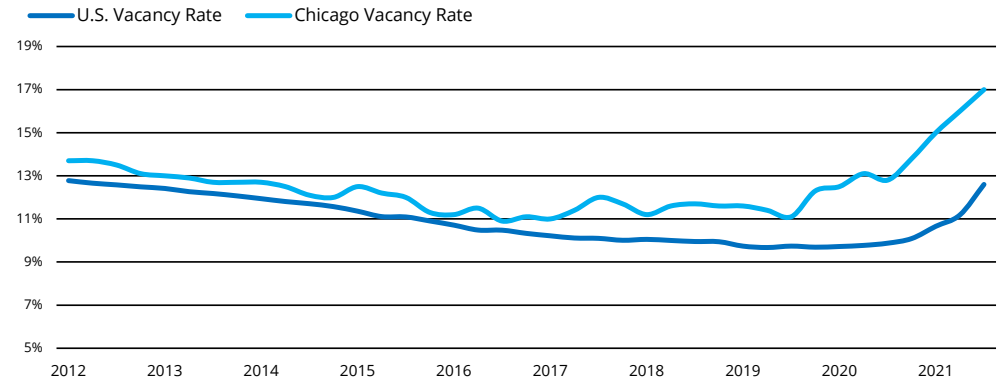


VACANCY

Vacancy Rate Ticks Up

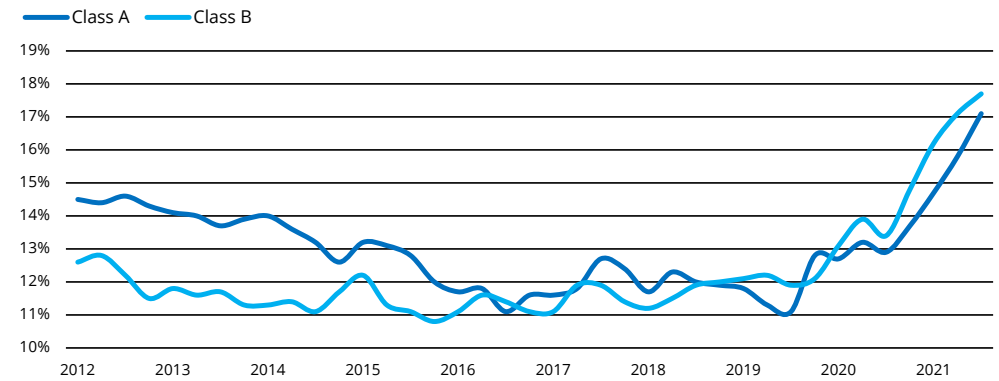
- The overall vacancy rate, including sublease space, increased 100 bps quarter-over-quarter (QOQ) and 420 bps YOY to 17.0% in Q3 2021.
- Class A vacancy increased 420 bps from 12.9% to 17.1% YOY, while Class B vacancy increased 430 bps from 13.4% to 17.7%.
- Vacancies have risen as tenants look to shrink their physical footprints to mitigate costs and risk as well as to keep their employees safe and healthy during the pandemic.
- Class A vacancy increased by nearly a point finishing the quarter at 14.2%. Class B vacancy, at 12.5%, saw the most significant change from the previous quarter, increasing by nearly 3.5%.
- The vacancy rate should begin to stabilize in the coming year, though it remains to be seen whether the market can attract enough leasing activity to absorb the 2.3 million SF set to deliver by the end of 2022.

OVERALL VACANCY RATE



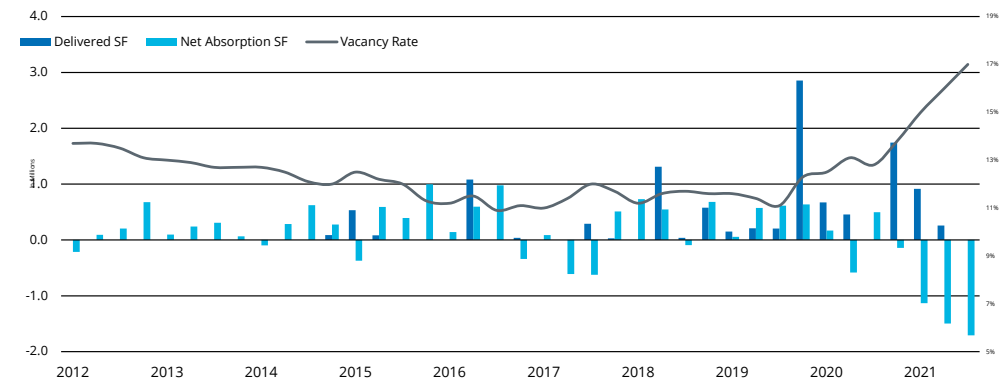
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

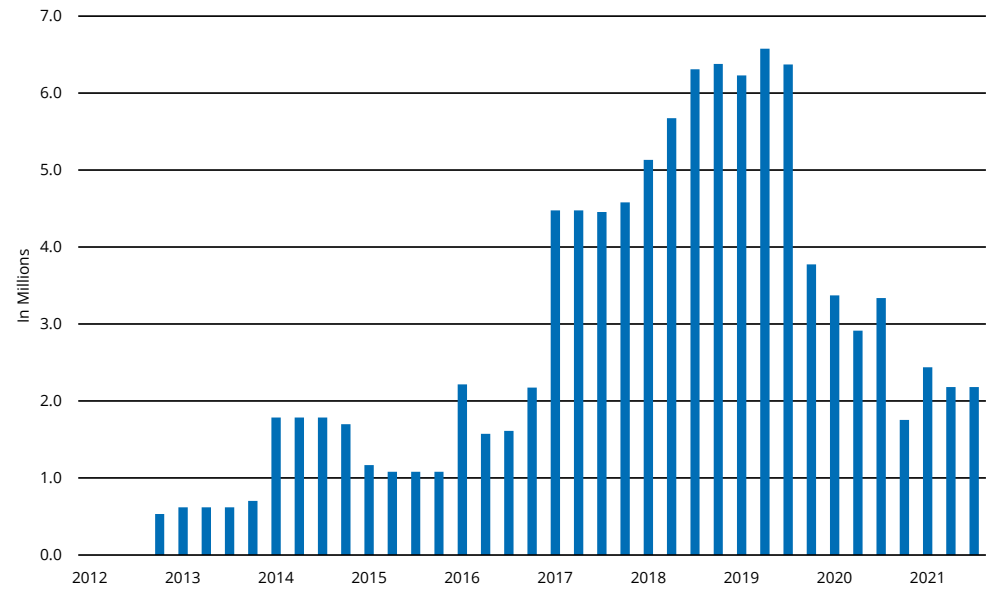


UNDER CONSTRUCTION

Development Pipeline Remains Limited

- Chicago's office development pipeline has slowed over the past 24 months, as softening market fundamentals and supply-chain issues continue to persist during the pandemic.
- There is 2.2 million SF under construction in the Chicago market, with all construction taking place in the West Loop and Fulton Market.
- BMO Tower, a 1.5-million SF trophy office building in the West Loop, is currently under construction, with BMO Financial taking 500,000 SF when the project delivers in early 2022.
- 400 N Aberdeen, a 423,454 SF speculative Class A property in Fulton Market, is set to deliver during the fourth quarter.
- The office pipeline is likely to remain limited as developers grapple with rising construction costs and labor shortages. However, opportunity remains in rapidly expanding submarkets such as Fulton Market where the lower land costs and growing population may appeal to investors.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

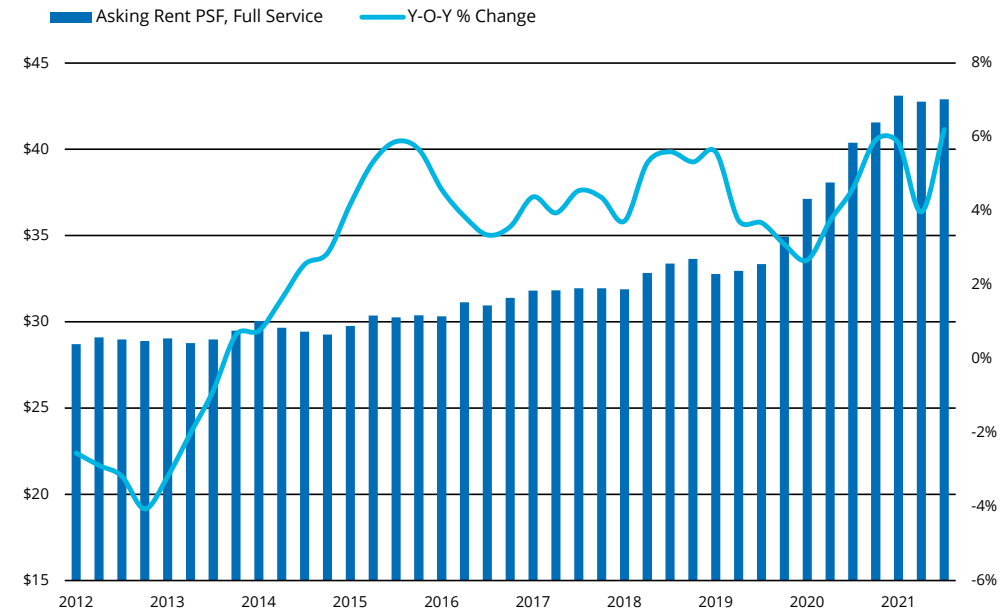


RENTAL RATES

Rents Reach All-Time Highs

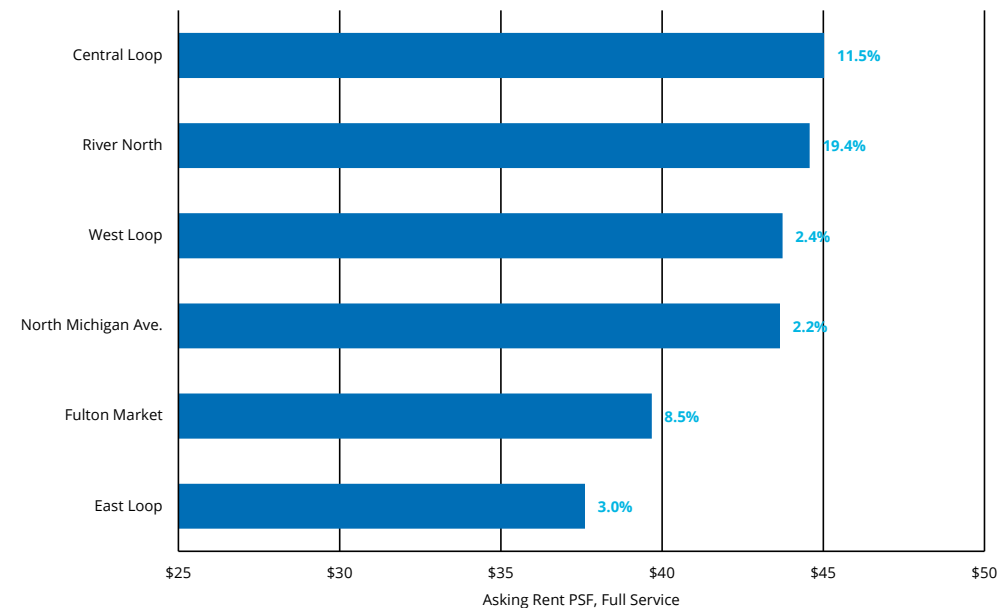
- Asking rents continue to hold firm despite elevated vacancy, rising 6.2% YOY to \$42.90 PSF
- While landlords face increased exposure due to a softening market, tenant preference for well-located, amenity-rich Class A product should drive rents upward as new product delivers and conditions stabilize.
- Rents are up across all asset classes, but the most substantial gains have been in Class A assets with asking rates finishing the quarter at \$45.51 PSF, up 7.7% YOY. Class B rates have also improved, up 1.1% YOY and finishing at a new cyclical high of \$27.58 PSF.
- Office rents are expected to continue to tick up over the next 12 months. Newer space will continue to achieve higher rent and more robust growth due to continued demand. However, older properties could feel downward pressure as these tenants vacate space for higher quality product.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

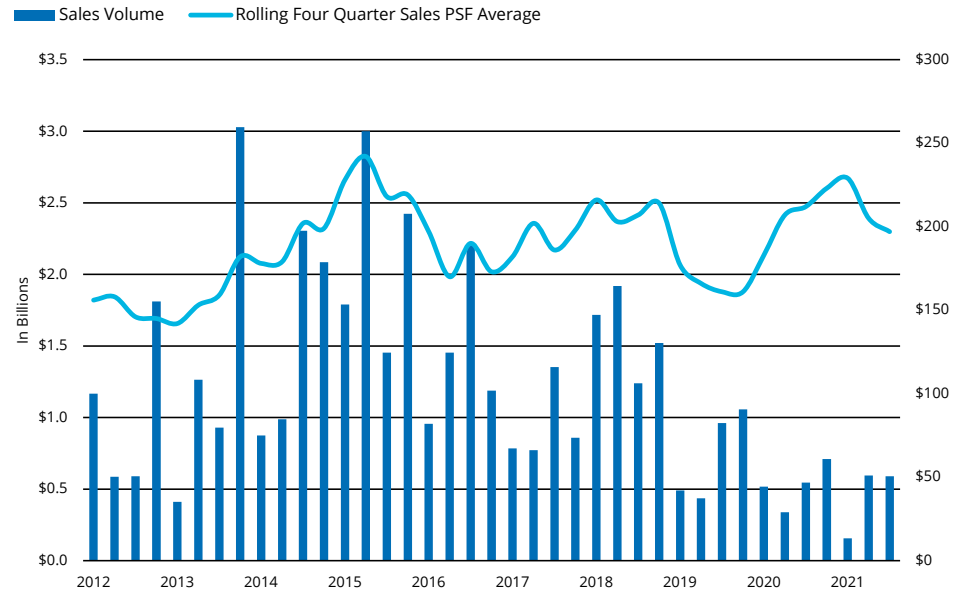


SALES

Sales Volume Down

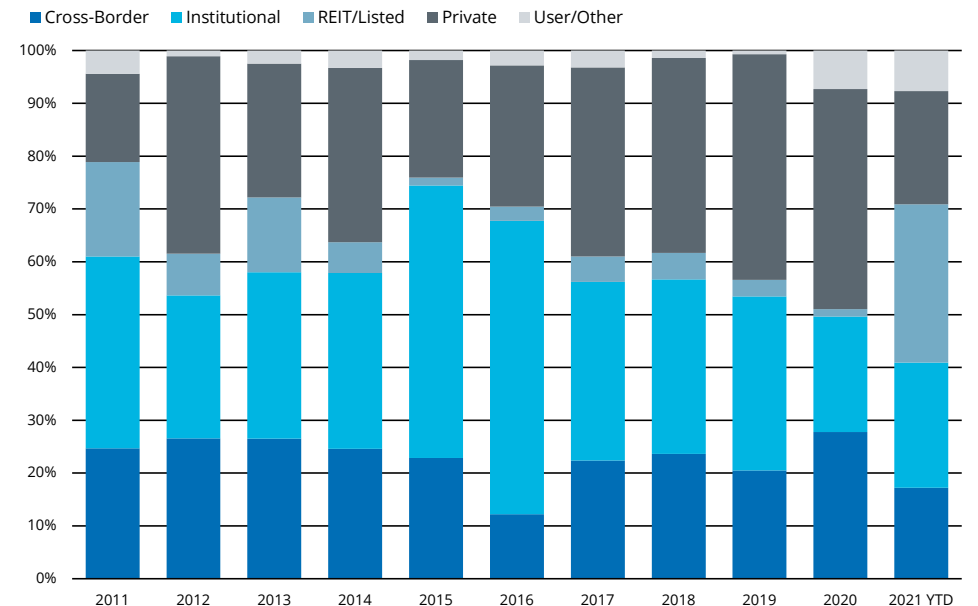
- Sales activity remains lowered in 2021, totaling \$1.3 billion, including \$591 million during the third quarter. While volume is in line with the \$1.4 billion through the same period in 2020, the Chicago investment market is still well below pre-pandemic levels.
- Despite limited activity, pricing has held firm at \$210/SF in 2021. Well located Class A product remains in demand, while the Class B market has seen the largest drop in sales volume.
- The most notable sale of the quarter was 210 North Carpenter, a 207,000-square-foot office building in Fulton Market. German real estate firm Deka Immobilien purchased the property for \$169 million or \$816/SF. The building was 100% leased at the time of sale, with Google occupying 120,000 SF.
- The number of investment sales is likely to increase as confidence in the market gains traction throughout the remainder of 2021 and into 2022, although unlikely to reach pre-pandemic levels in the near future.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
KIRKLAND & ELLIS	333 W Wolf Point	River North	New	662,400
CISCO SYSTEMS	433 W Van Buren	West Loop	New	135,000
SMS ASSIST	130 E Randolph	East Loop	New	114,000
EDELMAN	111 N Canal	West Loop	New	92,000
VENTAS	353 N Clark	River North	Renewal	56,648
MEDLINE INDUSTRIES	222 Merchandise Mart	River North	New	51,000
HAZEL TECHNOLOGIES	320 N Sangamon	Fulton Market	New	50,000
TOCK	320 N Sangamon	Fulton Market	New	50,000
COOLEY	110 N Wacker	West Loop	New	29,231
SHOPPERTRAK	433 W Van Buren	West Loop	New	28,217

Source: Transwestern, Crains, CoStar

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
210 N CARPENTER	Fulton Market	\$169,000,000	206,314	\$819	Deka Immobilien	Sterling Bay
100 N LASALLE	Central Loop	\$16,850,000	163,708	\$103	Farbman Group	Sun Life Assurance Co.

Source: Transwestern, Crains, CoStar



MARKET INDICATORS

All Classes of Space | Q3 2021

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLET VACANT SF	SUBLET VACANCY RATE	OVERALL VACANCY RATE	SF UNDER CONSTRUCTION	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
CENTRAL LOOP	41,339,685	6,905,571	16.7%	472,032	1.1%	17.8%	0	(960,081)	(1,917,306)	\$45.03
EAST LOOP	27,490,337	5,008,889	18.2%	490,519	1.8%	20.0%	0	(273,299)	(1,079,980)	\$37.61
NORTH MICHIGAN AVE	15,323,945	1,357,421	8.9%	166,777	1.1%	9.9%	0	35,859	(79,724)	\$43.66
RIVER NORTH	17,812,680	2,276,680	12.8%	544,859	3.0%	15.8%	0	(51,644)	(446,503)	\$44.58
FULTON MARKET	8,874,957	1,941,126	21.9%	96,601	1.1%	23.0%	583,354	54,889	245,541	\$39.68
WEST LOOP	56,855,513	8,298,569	14.6%	963,326	1.7%	16.3%	1,597,211	(513,903)	(1,198,738)	\$43.74
TOTAL	167,697,117	25,788,256	15.4%	2,734,114	1.6%	17.0%	2,180,565	(1,708,179)	-4,476,710	\$42.90

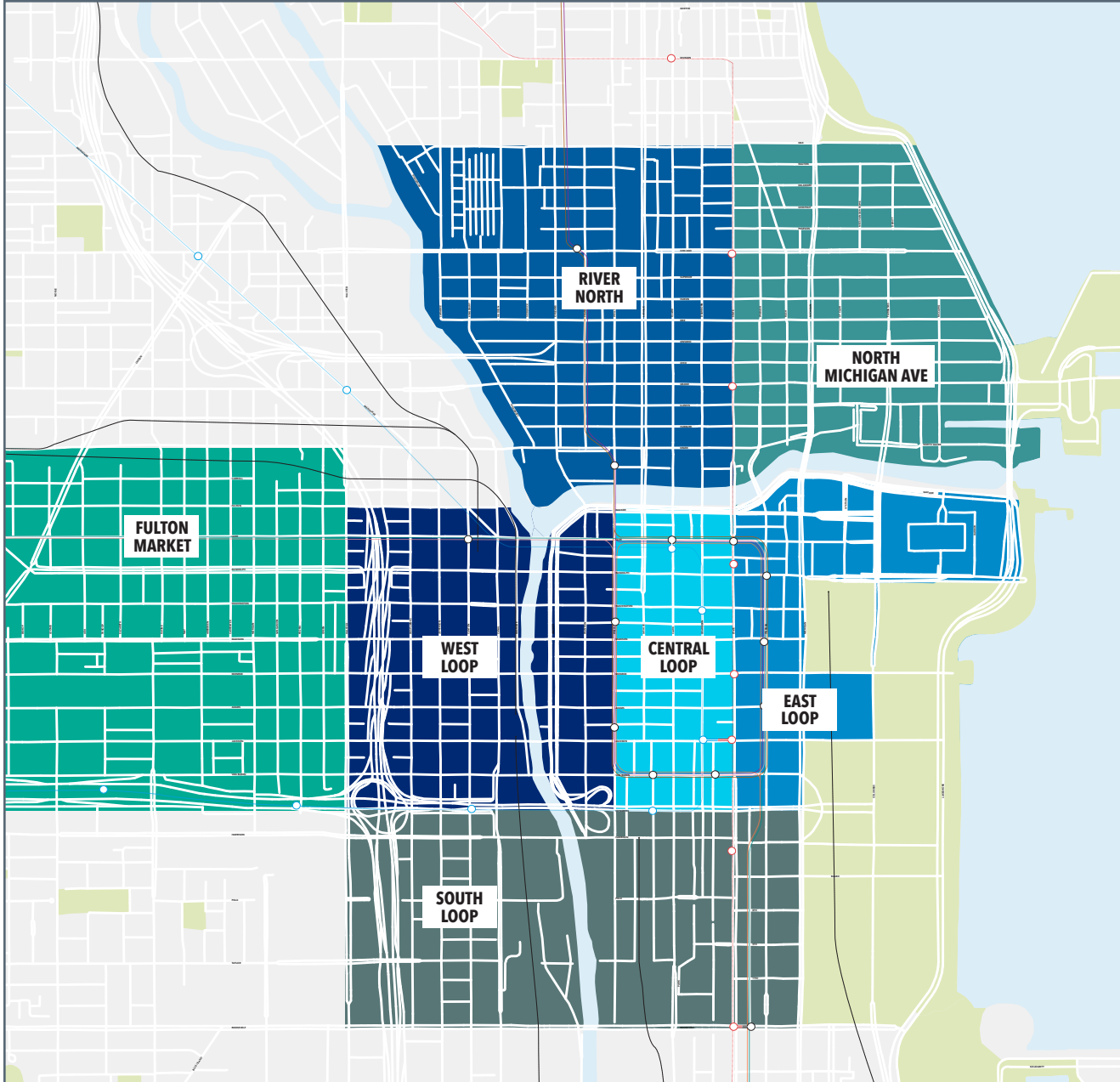
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Q3 2021

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLET VACANT SF	SUBLET VACANCY RATE	OVERALL VACANCY RATE	SF UNDER CONSTRUCTION	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
CENTRAL LOOP	21,771,686	3,783,348	17.4%	284,069	1.3%	18.7%	0	(760,840)	(1,106,414)	\$49.92
EAST LOOP	17,563,529	2,961,209	16.9%	282,917	1.6%	18.5%	0	(198,265)	(623,788)	\$37.49
NORTH MICHIGAN AVE	8,440,547	859,504	10.2%	137,410	1.6%	11.8%	0	(9,417)	(95,811)	\$44.09
RIVER NORTH	9,587,135	1,065,567	11.1%	116,615	1.2%	12.3%	0	(33,460)	(36,328)	\$47.48
FULTON MARKET	3,836,029	1,069,816	27.9%	41,406	1.1%	29.0%	583,354	34,540	582,078	\$46.26
WEST LOOP	42,518,835	6,395,293	15.0%	746,923	1.8%	16.8%	1,597,211	(430,586)	(563,604)	\$45.62
TOTAL	103,717,761	16,134,737	15.6%	1,609,340	1.5%	17.1%	2,180,565	(1,398,028)	-1,843,867	\$45.51

Source: CoStar, Transwestern



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Chicago metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

FOR MORE INFORMATION

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