MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Downtown Chicago

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Leasing activity tails off in Downtown Chicago even as return to office strengthens

Office occupancy in Chicago exhibited steady, albeit gradual, improvement during the third quarter, while public transit agencies reported post-pandemic highs in ridership. Despite these favorable signals, the Downtown Chicago office market witnessed slackened leasing activity in the third quarter, with 1.8 million square feet (msf) transacted. The tally was the lowest in five quarters but remained well above levels observed during the pandemic's peak. While some companies elected to take advantage of favorable market conditions and an abundance of quality options, others have been more reticent to transact space in the current environment. Some firms executing deals have reduced both their occupancies, whether due to hybrid work policies and hoteling, or leasing space in newer, more efficient properties. Among them, National Futures Association leased 55,000 sf at BMO Tower, shrinking by 22% from its current footprint at 300 South Riverside Plaza.

Elevated buildout costs give occupiers pause

With new buildouts averaging $250 per square foot (psf) and ongoing supply chain issues often triggering delays, many firms are reluctant to take on a significant construction project. Several large leases signed this period included firms that had reportedly been out exploring the market, but instead opted to stay in place in the near term. Others, including US Soccer which leased 33,000 sf at 303 East Wacker Drive, have elected to minimize risk by leasing furnished spec suites. Given current market conditions and global economic uncertainty, tenants seeking space across most Downtown submarkets should expect favorable terms, flexibility, and substantial concessions packages as landlords are forced to aggressively compete in the current environment.

Demand increasingly skewed in favor of newer, amenitized properties

The downtown market was further bifurcated between Class A and B office buildings this period. Average asking rents for Class A properties increased by 0.4% from last quarter, to $49.27 psf, an all-time high. With the market experiencing softened demand and elevated buildout costs, landlords have provided value through generous lease concessions, rent abatement, and beneficial occupancy. Class A availability retreated slightly to 19.3%. Conversely, Class B availability rose 70 basis points (bps) to an all-time high of 29.0%. Across all asset classes, availability rose 210 bps from a year ago, to 24.5%. Sublease availability continued to mount, rising to 6.6 msf on the market and showing no signs of waning.

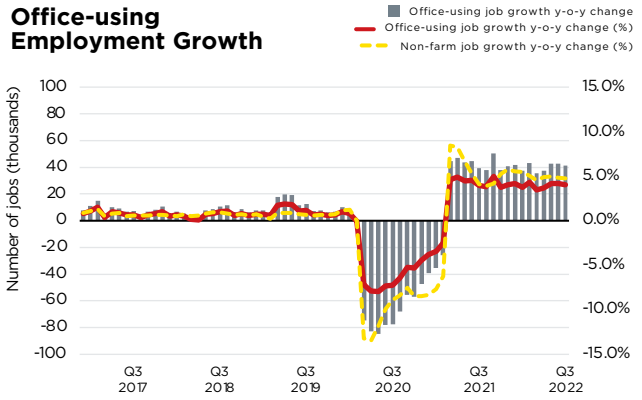
Outlook

- For numerous reasons including a wobbling global economy, continued weakened demand, and buildout construction costs, landlord concessions are expected to remain at or near all-time highs for the foreseeable future
- With quality sublease options at an all-time high, tenants will continue to hold leverage over landlords to secure more advantageous direct deals
- Office occupancy levels in Chicago should continue to inch upward through the end of the year as more employers codify their return-to-work policies

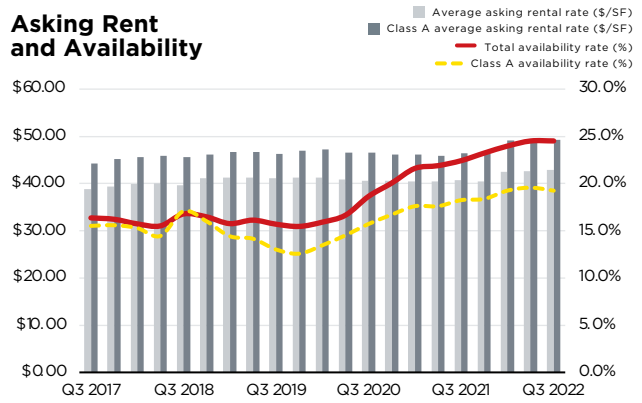
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	148.1 MSF	149.4 MSF	▲
Availability Rate	22.4%	24.5%	▲
Asking Rental Rate	$40.70	$42.83	▲
Class A Asking Rental Rate	$46.43	$49.27	▲
Quarterly Leasing Activity	2.2 MSF	1.8 MSF	▼
Available Sublease Space	5.6 MSF	6.6 MSF	▲

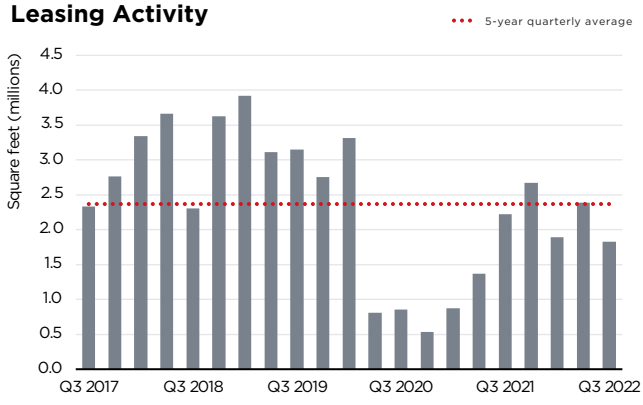
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

5.0%
Chicago-Naperville-Arlington Heights, IL MSA unemployment rate (as of August 2022)

6.4%
Office-using employment growth year over year (as of August 2022)

2.1 msf
Office space currently under construction

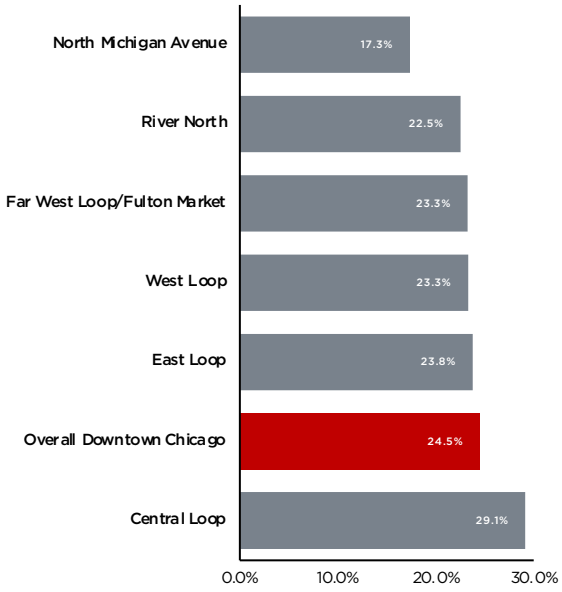
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Morningstar	230,000	22 W Washington Street	Renewal	Central Loop	Financial Services & Insurance
Cook County	106,472	161 N Clark Street	Relocation	Central Loop	Government
Chubb Insurance	100,000	525 W Monroe Street	Renewal	West Loop	Financial Services & Insurance
National Futures Association	55,364	320 S Canal Street	Relocation	West Loop	Not For Profit
Headlands Technologies	46,981	110 N Wacker Drive	Relocation	West Loop	Financial Services & Insurance
Constellation Energy *	44,379	100 N Riverside Plaza	Relocation	West Loop	Energy
Ferrero	44,357	24 E Washington Street	New Location	East Loop	Manufacturing
State of Illinois *	34,472	115 S LaSalle Street	New Location	Central Loop	Government
US Soccer	33,000	303 E Wacker Drive	New Location	East Loop	Not For Profit
Paper Source	28,520	125 S Clark Street	Renewal	Central Loop	Retail

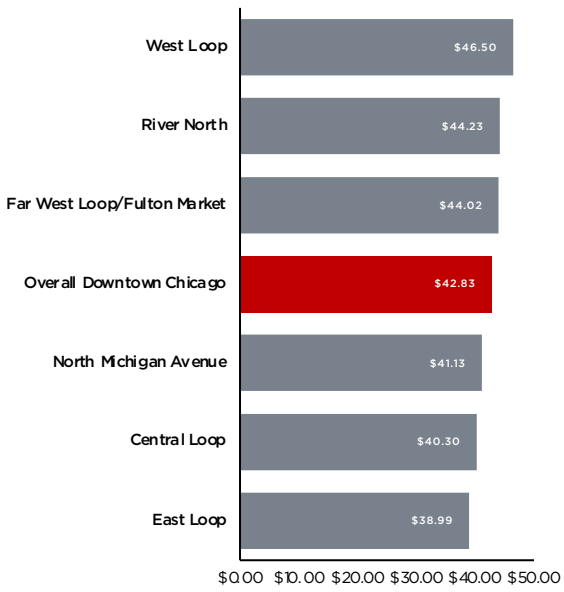
* Sublease

Source: Savills Research

Availability Rate Comparison (%)
Downtown Chicago Submarkets



Rental Rate Comparison ($/SF)
Downtown Chicago Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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