

Downtown Chicago



Solid leasing activity endures in Downtown Chicago despite continued hesitancy among some occupiers

The Downtown Chicago office market observed its second-best quarter for leasing since the pandemic's onset, with 2.4 million square feet (msf) transacted in the second quarter. Some companies have exhibited readiness to take advantage of favorable market conditions and an abundance of quality options. Others, however, continued to contemplate their occupancy needs in the face of stubbornly low office utilization rates and reluctance from some employees to return. Leases signed within the quarter included a mix of expansions and contractions; some organizations significantly increased space while others reduced footprints. Companies in expansion mode included IMC Financial Markets at 233 South Wacker Drive (160,000 square feet (sf), 45% increase), while both Echo Global Logistics at 600 West Chicago Avenue (185,000 sf, 18% reduction) and Blue Cross Blue Shield Association at 200 East Randolph Street (95,070 sf, 56% reduction) each significantly contracted from their prior occupancies.

Market availability stays elevated as demand remains uneven

Class A office product remained in markedly better health this period than its Class B counterparts. Average asking rents for Class A properties stood at \$49.05 per square foot (psf), just below all-time highs, as landlords held face rents steady while providing value through generous lease concessions, rent abatement, and beneficial occupancy. Meanwhile, Class B demand remained weakened, with availability rising to an all-time high of 29.0%. Overall availability rose 260 basis points (bps) from a year ago, to 24.5%. After a period of decline, sublease availability spiked in the first half of 2022 – rising to 6.2 msf available and impacting all classes of office buildings.

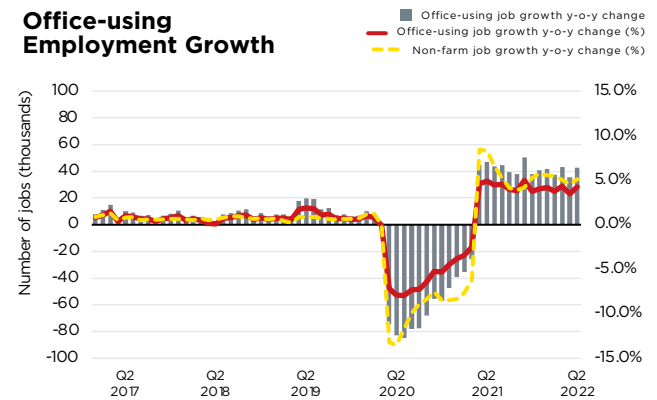
Downtown submarkets face vastly different market conditions

Fulton Market remained the most in-demand Downtown submarket, further bolstered this period by Boston Consulting Group's 250,000-sf lease at 360 North Green Street. Availability in Fulton Market has plummeted 900 bps in the past year, to 24.2%. Meanwhile, options in the West Loop surged this period, and availability spiked to 23.0%. This was partly a consequence of more than 800,000 sf coming available at 225 West Randolph Street, which is currently undergoing renovations. With the highest overall availability rate of 29.4%, the Central Loop's weakened fundamentals have endured since before the pandemic's start. While value space is difficult to find in Fulton Market and in new developments, tenants seeking space across many Downtown properties should expect favorable terms, flexibility, and substantial concessions packages as landlords are forced to aggressively compete in the current environment.

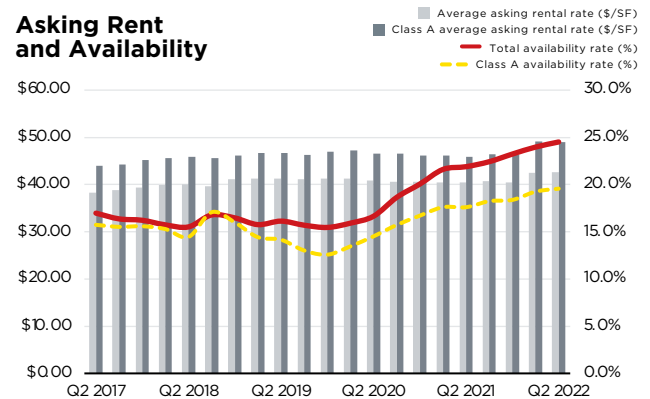
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	148.0 MSF	148.2 MSF	▲
Availability Rate	21.9%	24.5%	▲
Asking Rental Rate	\$40.40	\$42.55	▲
Class A Asking Rental Rate	\$45.90	\$49.05	▲
Quarterly Leasing Activity	1.4 MSF	2.4 MSF	▲
Available Sublease Space	5.7 MSF	6.2 MSF	▲

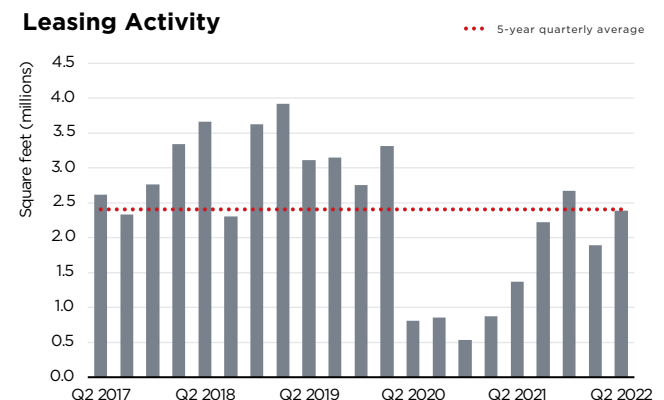
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Outlook

- While overall face rents have remained steady, concessions including rental abatement and tenant improvement allowance remain near all-time highs
- Bloated levels of sublease space on the market are providing tenants leverage over landlords to agree to more compelling direct deals
- As reported by Kastle Systems, Chicago witnessed its highest level of weekly office occupancy in late June, reaching 42% for the first time since the March 2020 shutdown

By the Numbers

4.2%

Chicago-Naperville-Arlington Heights, IL MSA unemployment rate (as of May 2022)

4.2%

Office-using employment growth year over year (as of May 2022)

1.5 msf

Office space currently under construction

Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Boston Consulting Group	250,000	360 N Green Street	Relocation	Far West Loop / Fulton Market	Business & Professional Services
Echo Global Logistics	185,000	600 W Chicago Avenue	Renewal	River North	Business & Professional Services
IMC Financial Markets	160,000	233 S Wacker Drive	Renewal / Expansion	West Loop	Financial Services & Insurance
Abbott Laboratories	106,000	233 S Wacker Drive	New Location	West Loop	Healthcare
Blue Cross Blue Shield Association	95,070	200 E Randolph Street	Relocation	East Loop	Financial Services & Insurance
Microsoft	63,888	200 E Randolph Street	Renewal	East Loop	TAMI
Amata Office Suites	39,998	161 N Clark Street	Renewal / Expansion	Central Loop	Coworking
Snap	38,000	800 W Fulton Street	Relocation	Far West Loop / Fulton Market	TAMI
The Scion Group	34,500	401 N Michigan Avenue	Relocation	North Michigan Avenue	Real Estate
CBIZ Gibraltar	33,077	225 W Wacker Drive	Renewal	West Loop	Real Estate

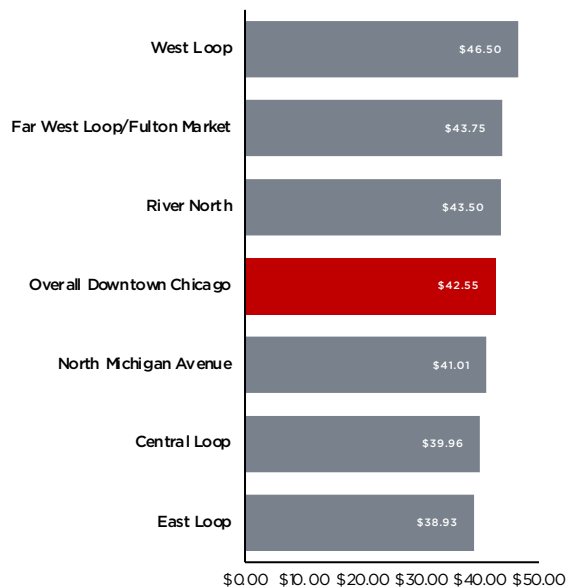
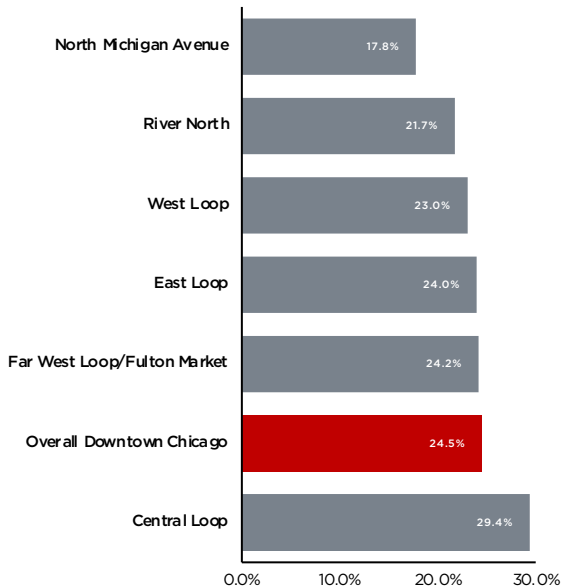
Source: Savills Research

Availability Rate Comparison (%)

Downtown Chicago Submarkets

Rental Rate Comparison (\$/SF)

Downtown Chicago Submarkets



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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.