

## Tenant options increase at start of 2020; COVID-19 likely to significantly alter market fundamentals

By mid-March, the rapidly evolving COVID-19 spread brought business in Chicago to a halt, closing storefronts and emptying office buildings as stay-at-home orders were implemented to slow coronavirus spread. No one knows what the market impact will be on the other side of this event, and severity will depend on how long businesses are shut before activity can resume. Prior to recent events, overall availability in Downtown Chicago increased to 16.0% in the first quarter – rising 50 basis points over the quarter, and 20 basis points annually. Overall rents were flat at \$41.28 when compared quarterly. In the face of economic uncertainty, availability in the near term is likely to increase. There is strong potential for rental rate repricing throughout the market as occupiers dramatically economize and the market evaluates the aftermath of current events.

### Leasing activity steady in Q1, likely to see dramatic drop in Q2

Quarterly leasing activity totaled a healthy 3.3 million square feet (msf) prior to stalling in March. Demand for space was spread out across several submarkets, with leasing activity most concentrated in the West Loop (32.4%), Central Loop (27.5%), and River North (19.5%). The quarter's largest transaction occurred in Fulton Market, where Aspen Dental Management leased nearly 197,000 square feet (sf) at 800 West Fulton Street, which is set to deliver in early 2021. Meanwhile, PayPal renewed for almost 150,000 sf at Merchandise Mart, and Faegre Drinker Biddle & Reath committed to 105,000 sf at BMO Tower. Transaction activity is likely to slow in the second quarter as occupiers regroup.

### Dynamics for Fulton Market, River North remain solid, but outlook abruptly turns opaque

With sustained demand for space in River North and Fulton Market over several years, both submarkets have witnessed strong rental rate growth and, in the case of Fulton Market, a total transformation through development. In the first quarter River North exhibited the tightest Class A availability (9.7%), while Fulton Market commanded the highest Class A asking rents (\$54.50 psf). Tech companies have fueled recent growth, which may slow as the sector faces a marked slowdown, decreased funding, and the potential for contraction. Construction projects that have yet to kick off are likely to be sidelined in the immediate term as demand cools and a shortage in labor and materials is anticipated.

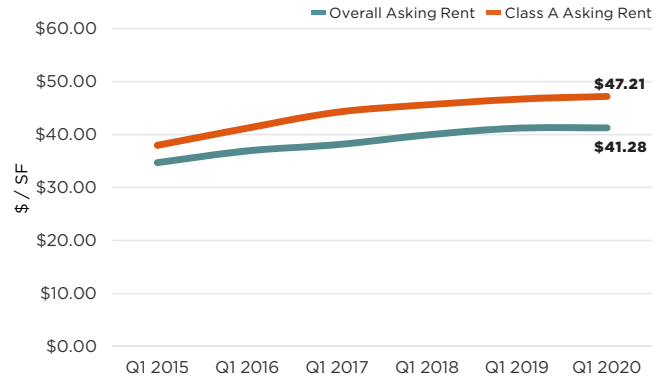
### Outlook

- Landlord concessions are likely to be generous, particularly for tenants with strong balance sheets, and short-term renewals may be increasingly amenable to owners
- With nearly 10.0 msf of new construction delivering between 2020-2023 and occupier demand suddenly in serious flux, near-term downward pressure on Class A rents is likely to be significant
- Sublease opportunities in Downtown Chicago remain above average with more than 3.5 msf available, yet this number is expected to climb in the wake of an economic pullback in most industries

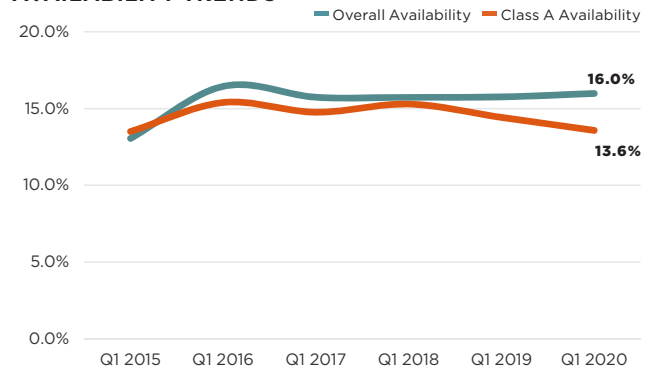
### KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	142.5 MSF	<b>143.7 MSF</b>	▲
Availability Rate	15.8%	<b>16.0%</b>	▲
Asking Rental Rate	\$41.21	<b>\$41.28</b>	▲
Class A Asking Rental Rate	\$46.69	<b>\$47.21</b>	▲
Quarterly Leasing Activity	3.9 MSF	<b>3.3 MSF</b>	▼

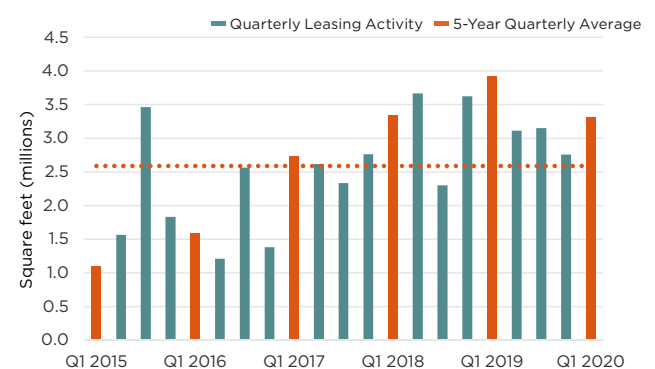
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

66.5%

of major transactions were new locations

34.3%

top transactions occurred in the West Loop submarket

24.7%

TAMI represented 24.7% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Aspen Dental Management	196,961	800 W Fulton Street	New Location	Far West Loop/Fulton Market	Professional Services
PayPal	148,262	222 Merchandise Mart Plaza	Renewal	River North	TAMI
Citadel	105,600	131 S Dearborn Street	Expansion	Central Loop	Financial Services
Faegre Drinker Biddle & Reath LLP	105,000	320 S Canal Street	New Location	West Loop	Legal Services
iManage	96,514	71 S Wacker Drive	New Location	West Loop	TAMI
Ropes & Gray LLP	78,000	191 N Wacker Drive	Renewal	West Loop	Legal Services
Help at Home	76,313	1-35 S State Street	New Location	Central Loop	Healthcare
WeWork	62,000	448 N LaSalle Street	New Location	River North	Coworking
Feeding America	61,324	161 N Clark Street	New Location	Central Loop	Non-profit
Heltman	60,262	110 N Wacker Drive	New Location	West Loop	Real Estate

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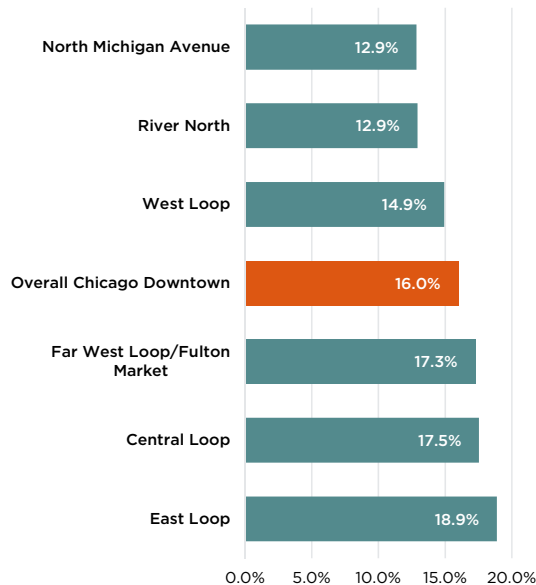
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AVAILABILITY RATE COMPARISON

Chicago Downtown Submarkets



RENTAL RATE COMPARISON (\$/SF)

Chicago Downtown 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.

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