



Downtown Chicago leasing demand remains largely dormant, market fundamentals weaken

As the state economy gradually reopened in phase four of Illinois' "Restore Illinois" plan, and as further widespread outbreaks of COVID-19 were avoided, a trickle of Downtown Chicago employees returned to the office during the third quarter. Nevertheless, most occupiers continued to postpone decisions concerning their long-term real estate requirements. As a result, short-term extensions accounted for many of the top deals this quarter. While the downtown market observed a modest 3.2% increase in leasing over last quarter, deal activity remained below one million square feet (msf). Leasing volumes sagged 73.3% compared to a year ago.

Availability surges to highest level in a decade, sublease supply balloons as companies reevaluate occupancy requirements

Overall availability in Downtown Chicago surged 200 basis points to 18.6%, the highest level witnessed since the economic malaise of the late 2000s. The supply of available sublease space surpassed 5.0 msf, increasing by more than 25% from just a quarter ago. Several sublease blocks in excess of 50,000 square feet (sf) became available this quarter, including 76,000 sf occupied by Trunk Club at 333 West Ohio Street, 72,000 sf at 350 North Orleans Street vacated by Ronin Capital, and a full floor controlled by Cars.com at 300 South Riverside Plaza totaling 53,000 square feet. The glut of newly available space, both direct and sublease, placed added downward pressure on overall asking rents, which slid 0.7% to \$40.63 per square foot (psf).

Improving economic conditions unlikely to have immediate impact on market dynamics

Pockets of optimism sprouted in the third quarter as some economic indicators showed improvement. For one, the Chicago MSA observed a steadily improving employment rate, falling to 12.6% in August from a high of 17.5% in April. However, until an effective vaccine is widely available, and workers return to the office en masse, market inactivity is almost certain to persist. Market fundamentals are expected to further soften for the next several quarters before a stabilization occurs later in 2021. However, a new wave of infections in the coming winter would likely prolong the downturn. Those occupiers in a position to transact space remain in an advantageous position and should expect favorable terms and flexibility.

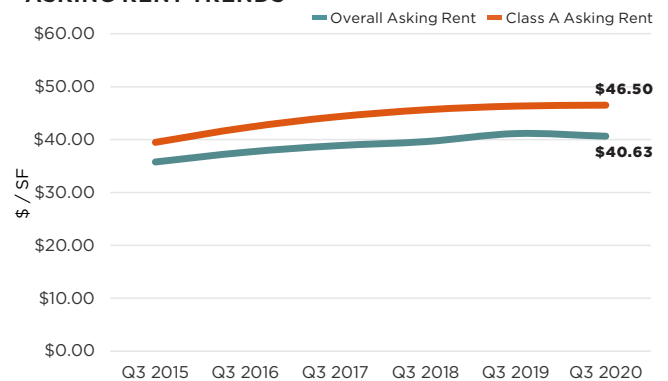
Outlook

- While many landlords have been reluctant to adjust pricing and have instead offered record-level concession packages, increasing market pressure should soon force motivated owners to lower taking rents
- Significant opportunity exists for occupiers amenable to Downtown Chicago's Class B buildings, where availability has surged 320 basis points year over year to 21.3%
- As evidenced by KDM Engineering's lease of 38,000 sf at 1308 North Elston Avenue, the core downtown market could face pressure from developments in non-traditional submarkets as tenants increasingly consider less densely occupied areas of the city

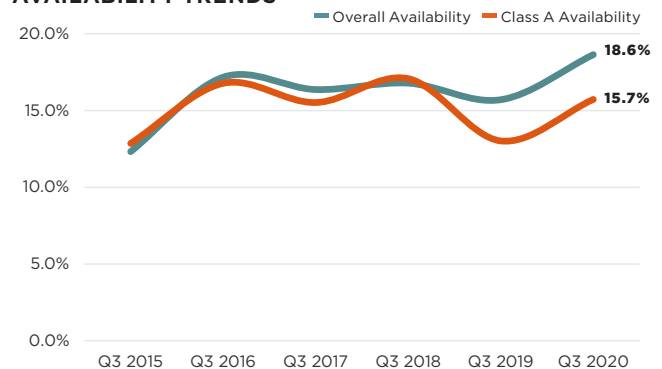
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	142.2 MSF	145.4 MSF	▲
Availability Rate	15.7%	18.6%	▲
Asking Rental Rate	\$41.14	\$40.63	▼
Class A Asking Rental Rate	\$46.34	\$46.63	▲
Quarterly Leasing Activity	3.1 MSF	0.8 MSF	▼

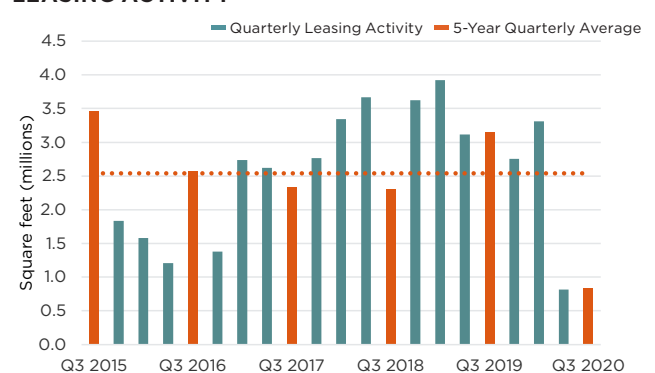
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

45.5%

of major transactions were renewals by square footage

36.6%

top transactions occurred in the Far West Loop/Fulton Market submarket by square footage

32.6%

TAMI represented 32.6% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
CCC Information Systems	125,000	167 N Green Street	New Location	Far West Loop/Fulton Market	TAMI
Sedgwick Claims Management Services	59,950	175 W Jackson Boulevard	Renewal	Central Loop	Professional Services
Adtalem Global Education	57,110	500 W Monroe Street	Expansion	West Loop	Education
Lewis Brisbois Bisgaard & Smith LLP	55,417	550 W Adams Street	Renewal	West Loop	Legal Services
Eimer Stahl LLP	42,868	224 S Michigan Avenue	Restructure	East Loop	Legal Services
Regus	29,982	203 N LaSalle Street	Renewal	Central Loop	Coworking
MTV Networks*	21,491	401 N Michigan Avenue	Renewal	North Michigan Avenue	TAMI
Sloan Valve Company	20,000	333 N Green Street	New Location	Far West Loop/Fulton Market	Manufacturing
Herman Miller*	19,451	300 N Elizabeth Street	Renewal	Far West Loop/Fulton Market	Manufacturing
Kelley Drye & Warren LLP	18,552	333 W Wacker Drive	Renewal	West Loop	Legal Services

*indicates short-term transaction

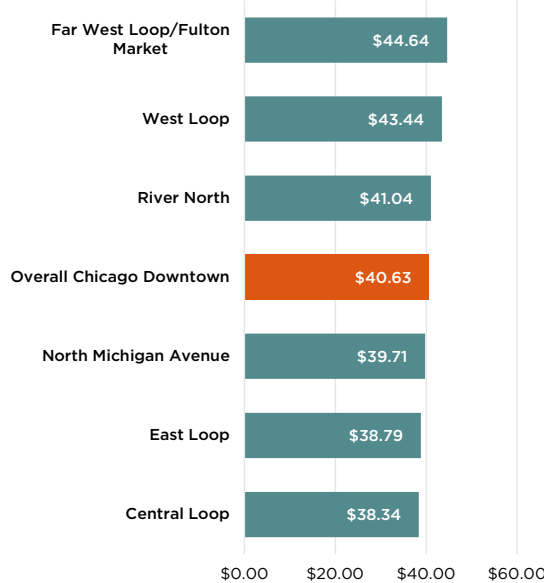
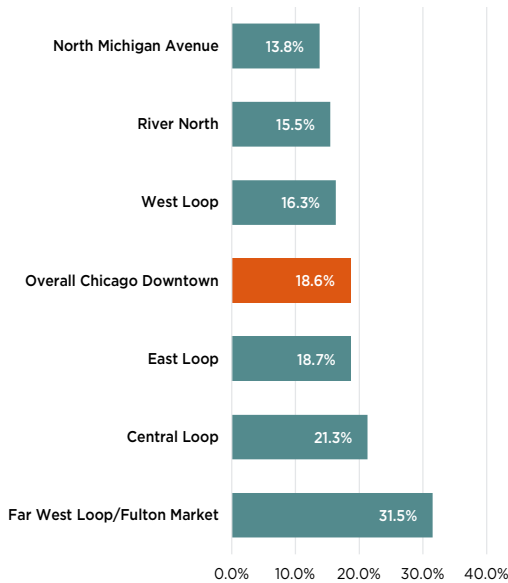
Source Savills Research

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.

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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