



Transaction volume accelerates in Downtown Chicago as firms codify post-pandemic occupancy plans

The Downtown Chicago office market is exhibiting early signs of recovery, with weakened fundamentals beginning to stabilize and leasing activity accelerating. Companies seeking to capitalize on favorable market conditions and ample quality space options have shown readiness to re-engage the market. This is despite the impact of the Delta variant, which has prompted companies in select industries to postpone office re-openings to 2022. With more than 2.2 million square feet (msf) leased in the third quarter, Downtown Chicago observed its highest quarterly level of transaction volume since the start of the pandemic. The deal tally was bolstered by Kirkland & Ellis, which announced its intention to relocate in 2023 to 600,000 square feet (sf) at Salesforce Tower, currently rising over Wolf Point South. In addition, Kraft Heinz recommitted to 162,000 sf across five floors at Aon Center.

Availability remains at record levels, but best-quality buildings remain in demand

While the Downtown Chicago office market remained moderately stymied this quarter by the ongoing effects of the pandemic and work-from-home, overall gross asking rents nevertheless ticked upward, increasing 0.7% this period to \$40.70 per square foot (psf). The market remains highly bifurcated between Class A properties whose asking rents increased by 1.2% this quarter, and Class B buildings that witnessed rents fall by 0.4%. While effective rents have declined across all properties apart from trophy and new construction, they have fallen more precipitously in Class B buildings, where availability sits at 26.1%, up 800 basis points (bps) since the start of the pandemic. Availability across all downtown buildings rose 50 bps this quarter to 22.4%, its highest level in decades.

Tenant-favorable conditions to persist as landlords remain motivated to tamp down vacancies

Effective rental rates continue to trend lower - apart from trophy and A+ buildings, as well as new construction in Fulton Market. Many owners have shown willingness to slash rents once in the negotiation process, offer substantial concessions, and provide significant flexibility for occupiers who are ready to close deals. Landlords have also felt competitive pressure from the secondary market. Sublease supply remained elevated but declining in the third quarter, with approximately 5.7 msf available for occupiers seeking discounted office space. While new subleases continue to come to market, the best quality sublease spaces are regularly observed to be quickly claimed by opportunistic tenants.

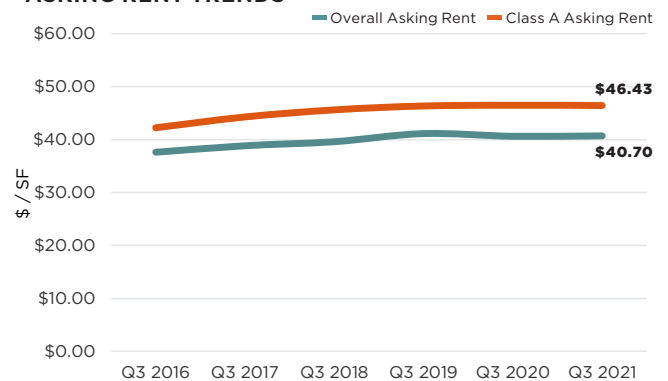
Outlook

- While the local economy has largely recovered from the effects of the pandemic, the long-term impact of work-from-home policies is likely to hinder chances for a rapid recovery in the Downtown Chicago office market
- Oversupply is expected to endure in the medium-term, particularly in older, less amenitized properties, and leasing conditions should remain tenant favorable until demand increases
- As downtown workers slowly return to the office, Chicago area commuters have recently shown a strong preference for passenger vehicles over public transportation, as evidenced by Chicago traffic volume that is reported to be up as much as 31% over pre-pandemic levels, versus August Metra ridership that was just 24% of August 2019 levels

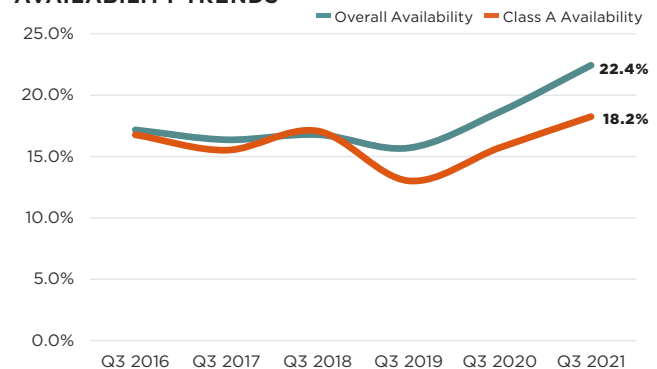
KEY STATISTICS

	Q3 2020	Q3 2021	y-o-y Change
Inventory	145.6 MSF	146.0 MSF	▲
Availability Rate	18.6%	22.4%	▲
Asking Rental Rate	\$40.63	\$40.70	▲
Class A Asking Rental Rate	\$46.50	\$46.43	▼
Quarterly Leasing Activity	0.9 MSF	2.2 MSF	▲

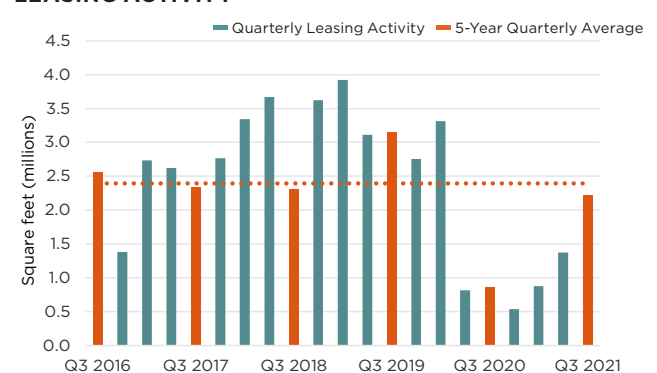
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

60.5%

of major transactions were relocations by square footage

58.6%

top transactions occurred in the River North submarket by square footage

5.7M

Sublease availability totaled 5.7M SF, a 5.0% decrease from the previous quarter

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Kirkland & Ellis	600,000	333 W Wolf Point Plaza	Relocation	River North	Legal Services
Kraft Heinz	162,000	200 E Randolph Street	Renewal	East Loop	Retail
Hazel Technologies	52,000	320 N Sangamon Street	New Location	Far West Loop/Fulton Market	TAMI
Medline	51,000	222 Merchandise Mart Plaza	New Location	River North	Healthcare
Tock	51,000	320 N Sangamon Street	New Location	Far West Loop/Fulton Market	TAMI
Tegus	47,000	200 N LaSalle Street	New Location	Central Loop	Professional Services
CoinFlip	44,000	433 W Van Buren Street	New Location	West Loop	Financial Services
Built In	39,562	203 N LaSalle Street	Relocation	Central Loop	TAMI
International Fellowship of Christians and Jews	33,217	303 E Wacker Drive	Relocation	East Loop	Non-profit
Benesch, Friedlander, Coplan & Aronoff LLP	31,719	71 S Wacker Drive	Expansion	West Loop	Legal Services

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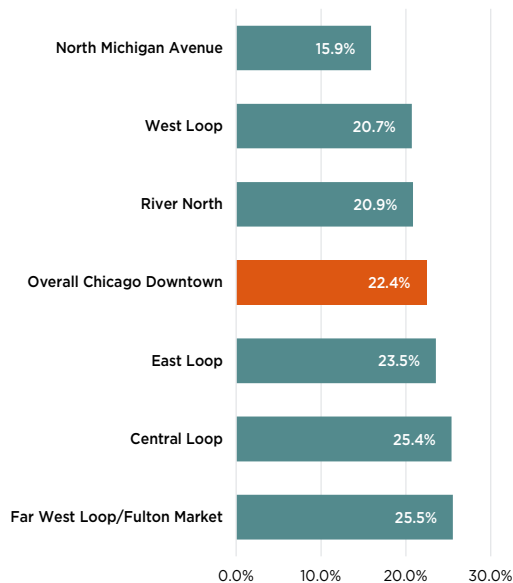
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AVAILABILITY RATE COMPARISON

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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