

Downtown Chicago slowdown persists; vaccine hopes have yet to spur leasing activity

At the close of 2020, the Chicago region contended both with prolonged gloom and burgeoning optimism. While COVID-19 cases surged entering the winter months, newly approved vaccines finally began reaching frontline workers and vulnerable populations, providing hope for an eventual return to a new version of normalcy. Still, remote work for most office-using employees appears likely to last until spring. Companies in downtown Chicago are either strategizing around their future office requirements or playing “wait-and-see” until 2021 or beyond. Overall leasing activity in 2020 was down considerably, falling 57.5% from 2019 by square feet (sf) transacted. The 5.5 million square feet (msf) leased this year marked the lowest annual tally on record for Downtown Chicago.

Availability further balloons; options aplenty in West Loop as sublease supply continues to increase

Availability continued to swell this quarter, rising by another 150 basis points to close the year at 20.1%. In stark contrast, a year ago availability stood at a relatively healthy 15.5%. More than half of all new available space this quarter was located in the West Loop, where availability surged 250 basis points to 18.8%. The West Loop submarket posted more than 550,000 sf of new sublease stock this period, including 107,000 sf of TTX’s headquarters at 101 North Wacker Drive and 104,000 sf occupied by Facebook at 191 North Wacker Drive. The supply of available sublease supply in Downtown Chicago has swelled to 5.6 msf, having doubled from 12 months ago. Despite the glut of new availability, asking rents are holding steady at \$40.60 per square foot (psf). Class A asking rents exhibited greater softening, declining 0.7% to \$46.17 psf.

Softening conditions, market inactivity provide significant opportunity for able occupiers

While the fourth quarter was comparatively dormant from a transactional standpoint, the medium- to long-term outlook for occupiers in the market remains bright. For one, the Chicago regional unemployment rate continues to show improvement, as November unemployment stood at 7.3%, down from a high of 17.5% in April. Barring any additional shocks, many experts expect a strengthening national economy in the year to come. Meanwhile, Downtown Chicago currently has record levels of available space, along with more than 5.0 msf currently under construction, much of which is currently unclaimed. While leasing activity will likely remain slow in the near term as distributed work endures, occupiers in a position to transact for space will have the upper hand and should expect ample options, greater flexibility and aggressive concessions.

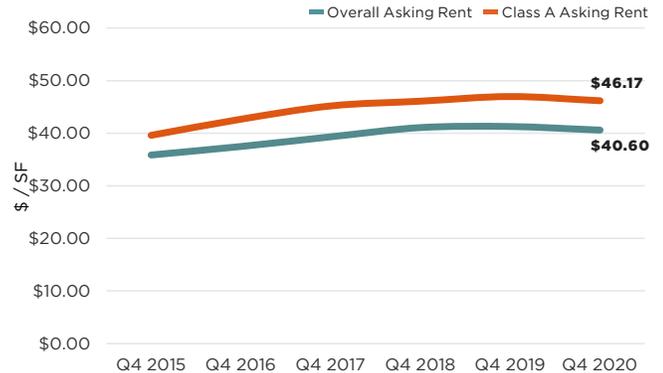
Outlook

- Face rental rates will continue to experience downward pressure in the wake of market inactivity, ballooning availability, new construction, and competition from subleases
- As occupiers have so far exhibited no appetite for relocating to the suburbs, Downtown Chicago is positioned to remain desirable for both young workers to live and corporations to locate
- Current market conditions are wholly unique in that they provide opportunistic tenants the ability to seek and obtain high quality space while simultaneously allowing them to conserve capital

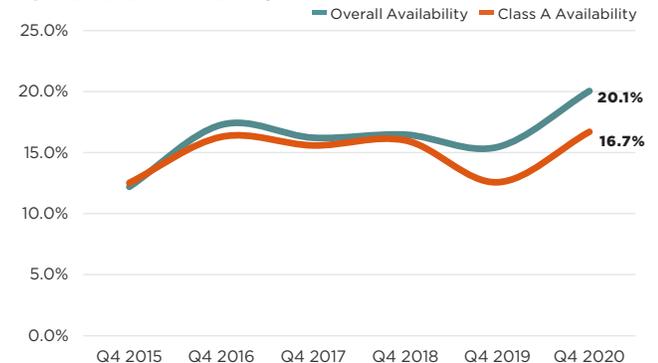
KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	142.2 MSF	145.4 MSF	▲
Availability Rate	15.5%	20.1%	▲
Asking Rental Rate	\$41.28	\$40.60	▼
Class A Asking Rental Rate	\$46.97	\$46.17	▼
Quarterly Leasing Activity	2.8 MSF	0.5 MSF	▼

ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

50.1%

of major transactions were renewals by square footage

58.0%

top transactions occurred in the Central Loop submarket by square footage

57.5%

Decline in 2020 overall leasing activity as compared to 2019 transaction volume

Tenant	Square feet	Address	Transaction type	Submarket	Industry
The Warranty Group	67,687	175 W Jackson Boulevard	Renewal	Central Loop	Financial Services
Industrious	52,000	233 S Wacker Drive	New Location	West Loop	Coworking
Simplex Investments	26,000	230 S LaSalle Street	Relocation	Central Loop	Financial Services
Ninja Trading	19,581	222 N LaSalle Street	New Location	Central Loop	Financial Services
Blackstone Group Inc	15,837	332 S Michigan Avenue	Renewal	East Loop	Real Estate
Elite Staffing	14,298	1400 W Hubbard Street	Renewal	Far West Loop/Fulton Market	Professional Services

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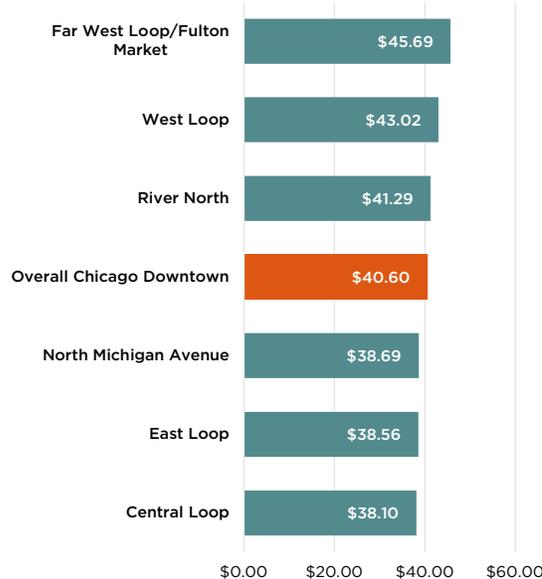
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AVAILABILITY RATE COMPARISON

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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