

Downtown Chicago office market continues to soften as a growing number of occupiers prepare for re-engagement, reopening

As a growing percentage of the population became fully vaccinated in early 2021, many Chicago companies felt a renewed sense of urgency to re-engage in strategic planning. Following almost a year of playing “wait and see” as it related to office occupancy needs, the number of active tenants in the market appears to be on the rise and transaction activity increased from last quarter’s low. First-quarter leasing activity increased 63.9% from Q4 2020 but remained down by 73.5% as compared to a year ago, before the pandemic impact had hit the market. Fundamentals remain wholly altered from a year ago as the sublease market further swelled, and availability reached new highs.

Availability surges as certain submarkets fare better than others

Chicago’s rise in availability exhibited no signs of a slowdown, increasing 150 basis points (bps) this quarter to 21.6%. Almost 1.0 million square feet (msf) of space became available in the Central Loop in this quarter alone, where availability increased to 24.2%. Several large Central Loop subleases contributed to this increase including Morgan Lewis’ 55,000-square-foot (sf) space at 77 West Wacker Drive, and Merkle’s 36,000-sf office at 125 South Clark Street. In contrast, Fulton Market exhibited stability this period, with availability ticking down 10 bps to 33.2%. Talis Biomedical leased more than 26,000 sf at 1375 West Fulton Market in one of the quarter’s larger deals completed. Foxtrot Market and Calamos Investments were reported to be in lease negotiations for large blocks at new Fulton Market developments, and an unnamed occupier was said to be considering some or all of the 102,000-sf development at 1155 West Fulton Street.

Tenant favorable conditions exist despite asking rents holding steady

Despite the pandemic’s jarring impact on occupancy and availability, Downtown Chicago landlords have largely held the line on asking rents. Asking rates declined 0.3% over last quarter, to \$40.48 per square foot (psf). Class A asking rents were essentially unchanged. Despite this, tenants have a unique opportunity to capitalize on current conditions, given the lack of demand and unprecedented number of sublease options. Many landlords have shown inclination for heavily discounted rents, increased concessions, and significant flexibility for occupiers who are active and ready to make leasing decisions. As leasing activity is expected to remain slow in the near term as work-from-home endures and companies strategize over future occupancy needs, companies that are in a position to transact space hold the advantage and should expect ample options, flexibility, and aggressive concessions.

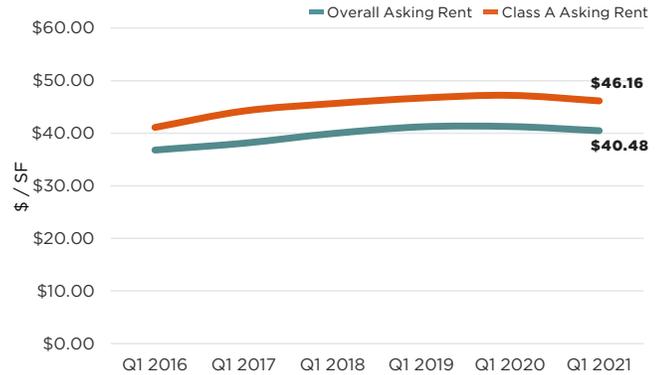
Outlook

- While face rents may exhibit only slight downward movement in the months to come, effective rents will continue to decline as landlords acknowledge market realities and concessions remain high
- Occupiers’ flight to quality will create continued bifurcation in the market; quality buildings that promote and encourage health and wellness will be in high demand, at the expense of those buildings that do not measure up
- Developers continue to aggressively plan apartment towers and other residential projects in and around downtown as the market remains attractive for corporate occupiers and younger workers

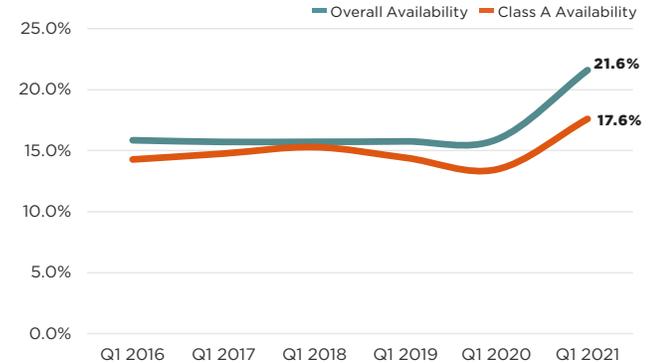
KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	142.8 MSF	145.8 MSF	▲
Availability Rate	15.9%	21.6%	▲
Asking Rental Rate	\$41.28	\$40.48	▼
Class A Asking Rental Rate	\$47.21	\$46.16	▼
Quarterly Leasing Activity	3.3 MSF	0.9 MSF	▼

ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

44.1%

of major transactions were new locations by square footage

37.5%

top transactions occurred in the East Loop submarket by square footage

27.2%

TAMI represented 27.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Nixon Peabody	72,049	70 W Madison Street	Relocation	Central Loop	Legal Services
James Hardie	67,734	303 E Wacker Drive	New Location	East Loop	Manufacturing
Fox 32 / WFLD	64,283	205 N Michigan Avenue	Renewal	East Loop	TAMI
Ice Miller	36,112	200 W Madison Street	Renewal and Expansion	West Loop	Legal Services
Lactalis	35,000	540 W Madison Street	New Location	West Loop	Manufacturing
TradeLink	31,719	71 S Wacker Drive	Renewal	West Loop	Financial Services
HIMSS	29,993	350 N Orleans Street	New Location	River North	Non-profit
Talis Biomedical Co.	26,307	1375 W Fulton Street	New Location	Far West Loop/Fulton Market	Healthcare
Fusion92	25,560	440 W Ontario Street	Renewal	River North	TAMI
ViacomCBS	22,000	130 E Randolph Street	New Location	East Loop	TAMI

Source Savills Research

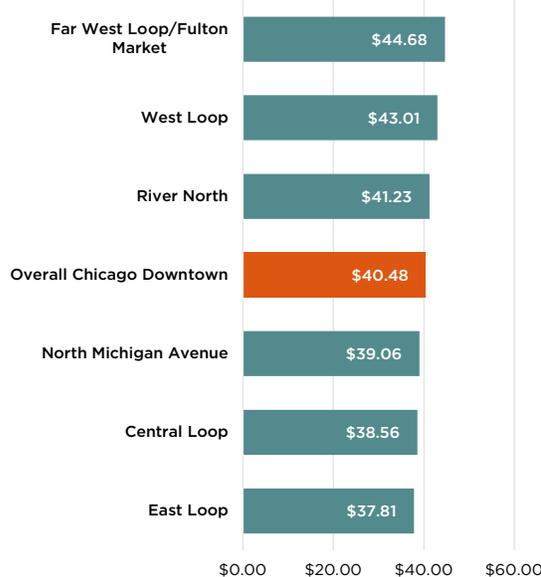
AVAILABILITY RATE COMPARISON

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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