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
MAJOR TRANSACTIONS

44.1% of major transactions were new locations by square footage

37.5% of major transactions occurred in the East Loop submarket by square footage

27.2% of major transactions were Top Transactions in the East Loop submarket by square footage

TAMI represented 27.2% of major transactions by square footage

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Square feet</th>
<th>Address</th>
<th>Transaction type</th>
<th>Submarket</th>
<th>Industry</th>
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<tbody>
<tr>
<td>Nixon Peabody</td>
<td>72,049</td>
<td>70 W Madison Street</td>
<td>Relocation</td>
<td>Central Loop</td>
<td>Legal Services</td>
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<td>James Hardie</td>
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<td>503 E Wacker Drive</td>
<td>New Location</td>
<td>East Loop</td>
<td>Manufacturing</td>
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<td>Fox 32 / WFLD</td>
<td>64,283</td>
<td>205 N Michigan Avenue</td>
<td>Renewal</td>
<td>East Loop</td>
<td>TAMI</td>
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<td>Ice Miller</td>
<td>36,112</td>
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<td>Renewal and Expansion</td>
<td>West Loop</td>
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<td>Lactalis</td>
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<td>HIMSS</td>
<td>29,993</td>
<td>350 N Orleans Street</td>
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<td>Tails Biomedical Co.</td>
<td>26,307</td>
<td>1375 W Fulton Street</td>
<td>New Location</td>
<td>Far West Loop/Fulton Market</td>
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<td>Fusion92</td>
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<td>440 W Ontario Street</td>
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<tr>
<td>ViacomCBS</td>
<td>22,000</td>
<td>130 E Randolph Street</td>
<td>New Location</td>
<td>East Loop</td>
<td>TAMI</td>
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</tbody>
</table>

Source: Savills Research

AVAILABILITY RATE COMPARISON

Chicago Downtown Submarkets

- North Michigan Avenue: 15.1%
- River North: 18.9%
- West Loop: 19.6%
- Overall Chicago Downtown: 21.6%
- East Loop: 21.9%
- Central Loop: 24.2%
- Far West Loop/Fulton Market: 33.2%

RENTAL RATE COMPARISON ($/SF)

Chicago Downtown Submarkets

- Far West Loop/Fulton Market: $44.68
- West Loop: $43.01
- River North: $41.23
- Overall Chicago Downtown: $40.48
- North Michigan Avenue: $39.06
- Central Loop: $38.56
- East Loop: $37.81

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