

CHICAGO OFFICE MARKET

PANDEMIC CONTINUES TO STRAIN CHICAGO OFFICE MARKET

In the third quarter of 2020, office users in Chicago continued to deal with the ramifications of the global pandemic. Working from home, continued layoffs and financial uncertainty have left many companies' office space needs in flux. The Chicago metro reported over 1.6 million square feet of negative absorption this quarter, largely due to stalled leasing activity and increased sublease space. As a result, the overall metro office vacancy increased 70 basis points this quarter to 17.6%, making it the fifth consecutive quarter of increased vacancy at a metro level. Rental rates responded to this increase in vacancy, decreasing by \$0.15/SF to \$30.02/SF.

Downtown Chicago saw negative 750,000 square feet of absorption this quarter, driving total vacancy up 50 basis points to 14.3%, the highest it's been since 2014. Direct vacancy only increased 30 basis points to 13.0%, indicating sublease space was a major factor in this rise. Rental rates also came down, decreasing nearly \$0.50/SF to \$37.51/SF. Most notable was the increase in total availability, which increased 140 basis points to 19.5%, signaling that there will be more vacancy in upcoming quarters. Leasing activity was minimal, with a number of leases signed outside of the Central Business District and activity within the Loop favoring renewals and extensions. CCC Information Systems signed the largest transaction of the quarter, finalizing a lease it had pre-COVID-19 at 167 North Green Street for 140,000 square feet.

New construction starts in the CBD are expected to take a pause with the current office supply and demand being thrown off due to the pandemic and 6.1 million square feet already actively under construction. Next quarter, there is roughly 2.5 million square feet of new construction set to deliver, between the new Bank of America Tower at 110 North Wacker Drive and several projects in Fulton Market. This will likely cause vacancy to rise even further Downtown as many tenants moving into the West Loop high-rise are downsizing in their moves and there is still significant space available at many of the properties delivering in Fulton Market.

The suburbs also continued to be plagued by the pandemic, with absorption reaching negative 930,000 square feet, the most since the end of 2016. This drove vacancy in the suburbs up 100 basis points to 22.6% and average asking rental rates decreased by more than \$1.00/SF to \$22.26/SF. Leasing activity was well below average, with most completed transactions being renewals.

CURRENT CONDITIONS

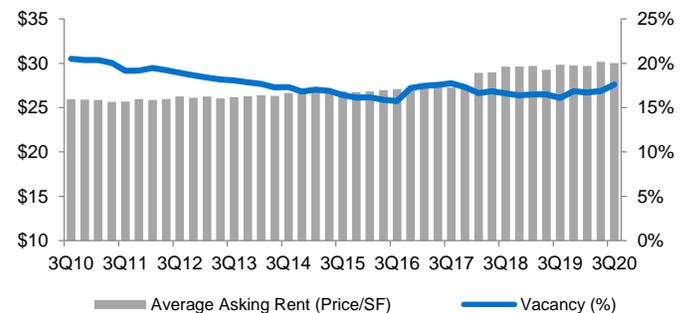
Metro absorption was negative 1.6 MSF this quarter, the most negative absorption that's occurred since 2016.

Metro vacancy increased to 17.6%

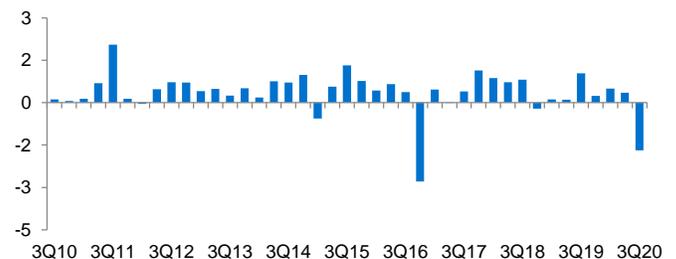
Sublease availability skyrocketed this quarter to 3.3%, the highest it has been in seven years.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	241.1 MSF	241.1 MSF	236.4 MSF	↑
Vacancy Rate	17.6%	16.9%	16.1%	↑
Quarterly Net Absorption	(1.68 MSF)	348,431	1.04 MSF	↓
Average Asking Rent	\$30.02	\$30.17	\$29.85	↓
Under Construction	6.16 MSF	6.02 MSF	6.00 MSF	↓
Deliveries	-	1.04 MSF	224,300	↑

SUBLEASE SPACE

As many anticipated would occur at the beginning of the pandemic, sublease space saw a noteworthy jump in availability during the third quarter, increasing 50 basis points at a metro level, 50 basis points in the suburbs and 60 basis points in the CBD. The Chicago metro now ranks amongst the highest of the other large office markets behind San Francisco and Manhattan.

Downtown, the amount of sublease space available rose to 4.9 million square feet. This is higher than the sublease rate was during the previous recession. A significant amount of the new space added to the Downtown sublease market continues to be from technology companies, such as Cars.com, Expedia, Everi Games, Sandbox and Screenshot. Some tenants are still unclear on future work plans and are testing the sublease market by placing space that is not currently being used on the market. The West Loop has by far the most available sublease space with 2.1 million square feet of sublease space on the market, more than double the next closest submarket, Central Loop with 975,000 square feet. Despite the significant addition of new space added the average length of the terms has remained consistent, averaging six years.

In the suburbs, there is 2.9 million square feet of available sublease space up about 500,000 square feet from the previous quarter. Similar to the situation Downtown, the North submarket has double the amount of available sublease space compared to the next highest submarket with 1.26 million available square feet. But unlike the Downtown market, the suburban tenants placing sublease space on the market vary widely, with new additions this quarter coming from tenants such as Old World Industries, Oneida Hospitality Group, Adtalem Global Education, HSBC and United Healthcare.

ACTIVITY RETURNS TO THE LOOP

With the shelter-in-place ordinance in full effect, activity in the CBD slowed to a minimum. As that order ended and the summer months continued, some activity has picked up, although it is still significantly less than typical. According to data from the Chicago Loop Alliance, from July to August, the number of companies in the Loop stating that they were open with all staff working in the office or onsite increased from 17.0% to 25.0%, shifting the number of companies claiming to be open with some staff working in the office and some working remote from 50.0% to 38.0%. The number of companies that claimed to be permanently closed showed no change, remaining at 15.0%. The number of employees working in offices also increased. In July, no respondents claimed to have more than 50 employees in their offices. In August, 6.0% were said to have between 51 and 100 employees and 3.0% were said to have more than 100. The number of companies with no employees working in the office decreased from 30.0% to 25.0%. Outside of work visits to the Loop, the number of people dining increased significantly from July to August, increasing from 33.0% to 48.0%. While these numbers are moving slowly, they are moving in the right direction.

DEMAND FOR LAB SPACE GROWS

Lab space in Chicago has always been limited to the Northern Suburbs, where many of the large pharmaceutical and biotechnology companies are located, such as Abbott, Abbvie, Astellas, Baxter and Takeda. But recently, there has been a growing demand for more of this space, both in the suburbs and Downtown. As COVID-19 continues to threaten office landlords, it is also further pushing the need for lab space in Chicago for companies looking to get in the race for testing and a vaccine. In the last few months, four biotech and pharma companies have announced deals for new lab space in Downtown Chicago. One of the most notable decisions came from Xeris Pharmaceuticals, an injectable drug maker. Not only did the company sign a lease at 1375 West Fulton Street, but it will also be relocating its research and development team from San Diego to Chicago. There seems to be plenty of biotech to go around, as private investors have put more than \$16 billion into these companies in the first half of 2020. Some of Chicago's most prominent developers are all getting in the game now, with Sterling Bay entering the life science scene with its research building by the former Lurie Children's site in Lincoln Park, where it recently signed leases with three groups: Northwestern University group Exicure, a molecular engineering firm Evozyne and neurological disorder research group Vanqua Bio. Trammel Crow is also working to attract tenants to its new lab building, Fulton Labs, a \$250.0-million, 425,000-square-foot lab building.

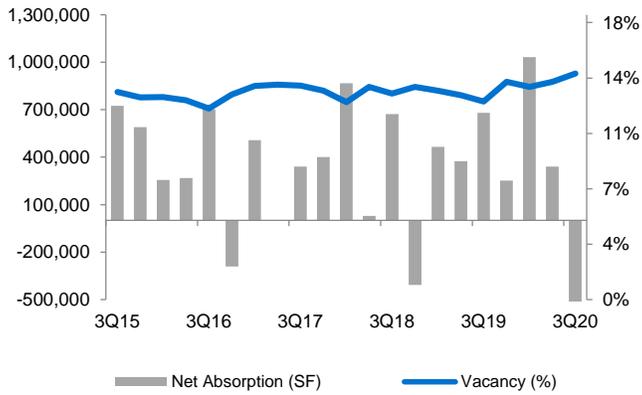
CAPITAL MARKETS

Similar to leasing activity this quarter, office investment sales volume has been nearly cut in half compared to years past. The market had completed \$2.0 billion in sales by the end of September 2019 but only \$1.2 billion through third-quarter 2020. This marks the lowest sales volume in the market through the end of the third quarter since 2010. The largest transaction of the third quarter was Deutsche Finance Group and SHVO's acquisition of Northern Trust's recently-occupied location Downtown, 333 South Wabash Avenue, for \$370 million, or \$323/SF. The building is currently 95.5% leased.

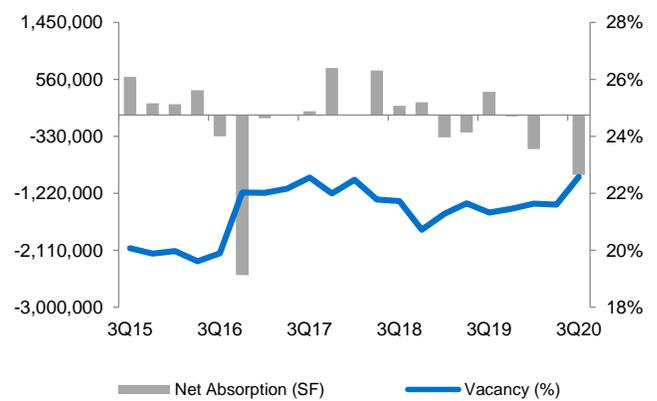
LOOKING FORWARD

The fundamentals of the Chicago office market will continue to fluctuate in upcoming quarters as the impact of the current health crisis lingers. While many tenants were originally aiming to get workers back into offices by Labor Day, many seem to have pushed that deadline to after the election or even at the start of the New Year. The market should anticipate a further rise in vacancy and softening of rental rates as tenants deal with the ramifications of employees working from home, new construction delivering and additional sublease space. While restrictions on the local economy have been lightened, the recovery has been slow. With many health experts warning of additional outbreaks throughout the winter months, there remains challenges in the months ahead. But Chicago's diverse economy and highly educated workforce will help push the market into better days.

CBD NET ABSORPTION AND VACANCY



SUBURBAN NET ABSORPTION AND VACANCY



CBD LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
CCC Information Services	167 N Green St	Fulton Market	Direct	140,000
Lewis Brisbois Bisgaard & Smith LLP	550 W Adams St	West Loop	Renewal	55,417
Pritzker Military Museum	104 S Michigan Ave	East Loop	Renewal	40,500
Evozyne	2430 Halsted St	Lincoln Park	Direct	30,087
Motorola Solutions	500 W Monroe St	West Loop	Expansion	26,732

SUBURBAN LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Ajinomoto	250 E Devon Ave	Northwest	Direct	58,301
Comcast	1415 W Diehl Rd	I-88 West	Renewal	58,000
Season's Hospice and Palliative Care	6400 Shafer Ct	O'Hare	Renewal	38,069
Olivet Nazarene University	2809 Butterfield Rd	I-88 East	Renewal	23,468

METRO SALE TRANSACTIONS

Buyer	Building	Submarket	Price Per SF	Square Feet
Deutsche Finance Group / SHVO	333 S Wabash Ave	East Loop	\$323	1,207,380
Twenty Lake Holdings	27501 Bella Vista Pkwy	I-88 West	\$60	148,000
Caymus Capital	28301 Ferry Rd	I-88 West	\$36	136,234

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
CBD Total	145,051,383	6,164,232	14.3%	(753,384)	614,639	\$39.45	\$36.14	\$37.51
Central Loop	37,003,331	-	15.0 %	(520,793)	(319,055)	\$38.37	\$37.32	\$37.55
East Loop	25,352,415	-	16.6 %	(57,159)	54,838	\$35.63	\$34.49	\$34.73
Fulton Market	5,568,069	1,813,080	19.4 %	(63,925)	305,703	\$35.87	\$31.58	\$32.30
North Michigan Avenue	10,496,574	-	10.0 %	28,402	(62,342)	\$40.33	\$36.36	\$37.45
River North	13,834,718	1,430,155	13.6 %	(269,782)	(399,568)	\$38.12	\$30.09	\$35.16
West Loop	52,796,276	2,920,997	13.2 %	129,873	1,035,063	\$41.17	\$36.76	\$40.14
Suburban Total	95,959,582	-	22.6%	(929,822)	(1,453,772)	\$23.84	\$21.72	\$22.26
I-88 East	21,963,464	-	18.6 %	(329,068)	(326,809)	\$25.58	\$21.32	\$23.39
I-88 West	13,480,084	-	19.5 %	(47,084)	(165,272)	\$22.36	\$20.54	\$21.63
North	24,766,832	-	20.5 %	(319,205)	(473,422)	\$23.98	\$21.45	\$22.39
Northwest	22,754,801	-	32.0 %	(166,291)	(525,330)	\$21.45	\$20.78	\$20.97
O'Hare	12,994,401	-	19.8 %	(68,174)	37,061	\$27.59	\$23.99	\$24.88
Chicago Metro	241,010,965	6,164,232	17.6 %	(1,683,206)	(839,133)	\$31.57	\$28.77	\$30.02

ECONOMIC CONDITIONS

The pandemic has had a serious and potentially long-lasting impact on the global and local economy. The measures that governments have taken to stem the spread of the virus are being felt at every level, and the U.S. record-long bull run has officially come to an end. The U.S. saw unemployment spike at record high levels, with 20.5 million jobs lost in April alone, the most since the Great Depression. The national unemployment rate hit its peak in April at 14.7%.

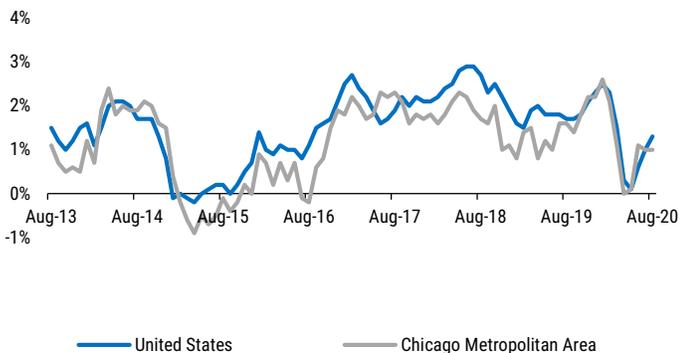
The summer months brought some relief to the unemployment rate as some tourist destinations, retailers and nonessential healthcare services reopened. These reopenings helped drive the U.S. rate down to 8.4% in August, still significantly higher than the start of the year when it was at 3.5%. According to Moody's Analytics's Back-to-Normal Index, the national economy is still only operating at 76.0% of its pre-pandemic levels.

In Chicago at the end of 2019, unemployment was at a record low of 2.8% and quickly jumped more than six times that to its peak of 17.5% for April. The rate has fluctuated since falling in May and then rising again in June as limited restrictions and social unrest have rocked the city. Unemployment has fallen the last four months to its current level of 12.6%.

At the end of the third quarter, additional easing of the restrictions were announced, particularly for gyms and indoor dining. This comes just as the weather is starting to turn and questions about how the economy will fare through the winter months are on everyone's mind. The pandemic will certainly remain a drag on the economy as the lack of events, conferences, tourism and in-person school for Chicago Public School Students continues throughout the remainder of 2020. Chicago will have to lean on its position as a technology leader in the Midwest, diverse economy and transportation hub to help the long-term recovery.

CONSUMER PRICE INDEX (CPI)

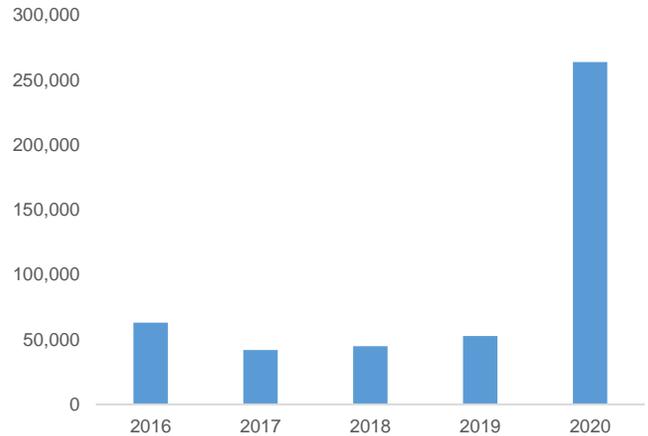
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

LAYOFF STATS

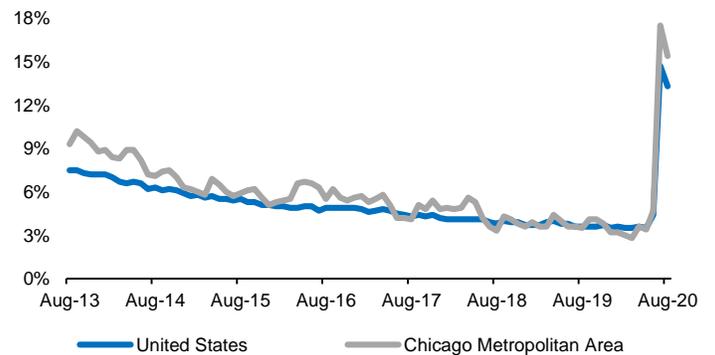
IL Mass Layoffs (Initial Claims), August 2020



Source: Illinois Department of Employment Security, Economic Information and Analysis

UNEMPLOYMENT RATE

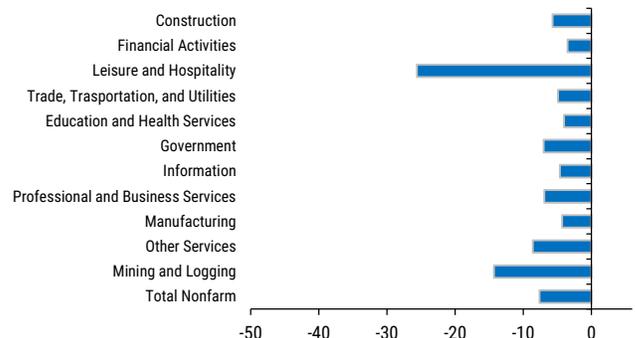
Seasonally Adjusted, August 2020



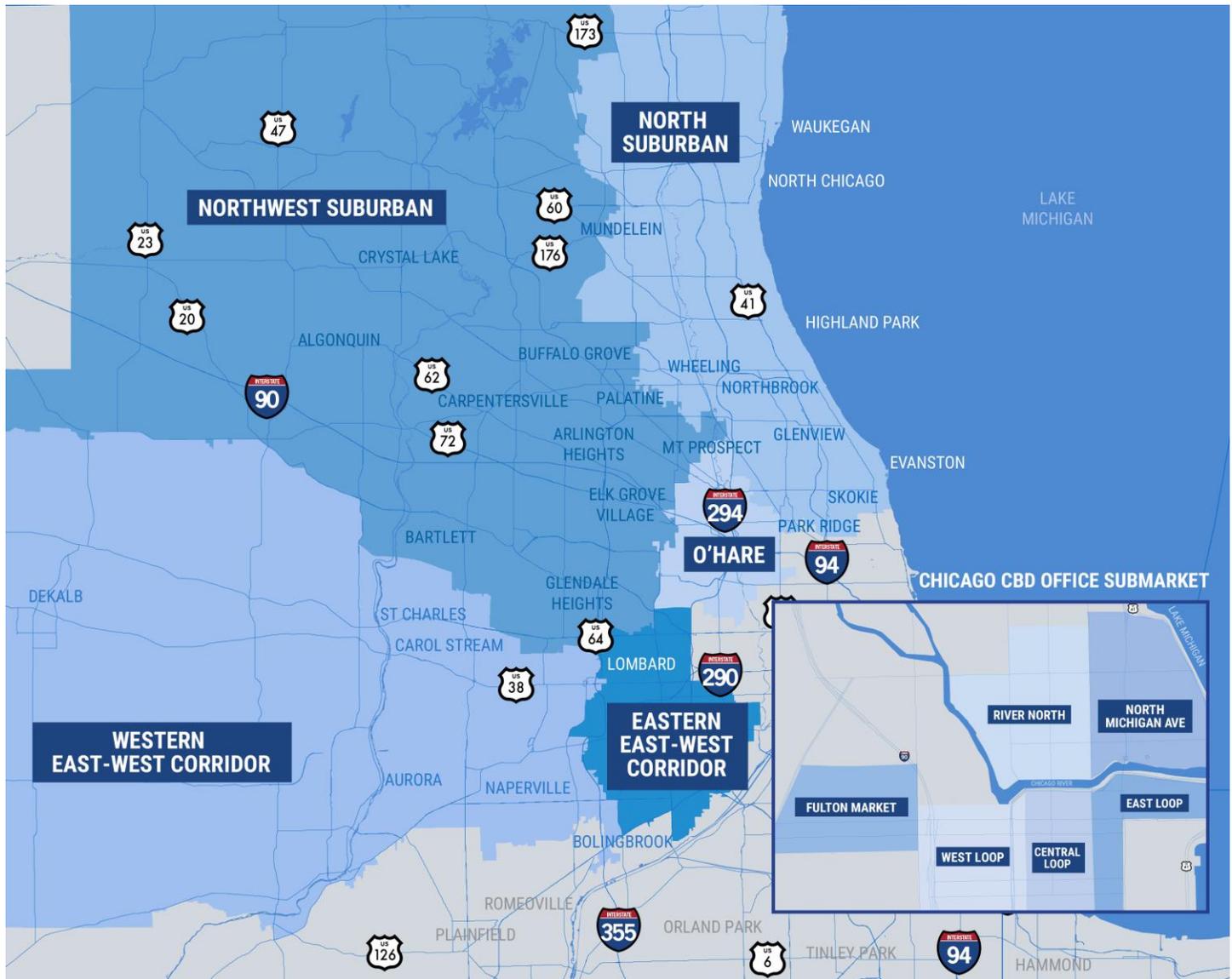
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Chicago, Aug. 2020, 12-Month % Change, Seasonally Adj.



Source: Bureau of Labor Statistics



CHICAGO

500 West Monroe
Suite 2900
Chicago, IL 60661

8750 West Bryn Mawr
Suite 350
Chicago, IL 60631

AMY BINSTEIN

Research Manager
312.224.3144
amy.binstein@ngkf.com

ERIC GESKERMANN

Research Analyst
312.224.3145
eric.geskermann@ngkf.com

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