

MARKET REPORT

OFFICE

Chicago Metro Area

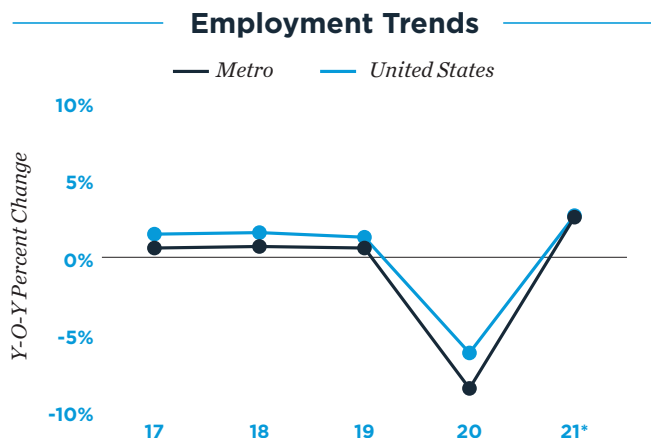
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2Q/21

Performance Uneven Among Metro's Submarkets As Available Inventory Reaches New High

Health crisis produces varied results across the metro. The uncertainty brought upon by the pandemic substantially cut leasing activity during the past year, while move outs and space consolidations rose. As a result, available inventory in Chicagoland hit a historical high of 84 million square feet at the end of 2020, an annual jump of nearly 13 million square feet, which drove vacancy to a new high. Not all areas of the metro fared equally, however. The rate in outlying submarkets including the Far Northwest, Indiana and North DuPage County fell more than 100 basis points due in part to few inventory additions amid a rise in demand from firms seeking lower-cost office space close to their employees' homes. In contrast, availability surged more than 300 basis points year over year in the submarkets that comprise Chicago's core.

Deliveries will weigh on performance in the city. After receiving the bulk of 2021 completions, elevated construction in the Chicago core will continue over the next two years as underway projects are finalized. During 2022, the 1.5 million-square-foot BMO Tower in the Union Station development is scheduled for delivery and in 2023, the 1.2-million-square-foot Salesforce Tower in the River North neighborhood will be ready for tenants. As of the first quarter of 2021, roughly half of the space in these facilities had yet to be leased. Once delivered, vacancy in other buildings will be affected as the towers' namesakes consolidate their aggregate footprints in the market.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**113,800
JOBS**

will be created

EMPLOYMENT:

After the loss of 404,700 jobs last year, employment rises 2.6 percent in 2021 as widespread inoculations allow more businesses to open to full capacity. Hiring in traditionally office-using sectors, meanwhile, is expected to increase 2.1 percent this year.



**2,010,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries are cut in half from last year's total and are concentrated in the Fulton Market/Near West Side neighborhood, limiting the marketwide impact on vacancy. The largest project due this year is 800 West Fulton Market at 480,500 square feet.



**80 BASIS
POINT**

increase in vacancy

VACANCY:

New speculative inventory and additional vacated space keep net absorption in negative territory for a second consecutive year. As a result, the vacancy reaches the highest rate since at least 2007 as it advances to 18.8 percent.



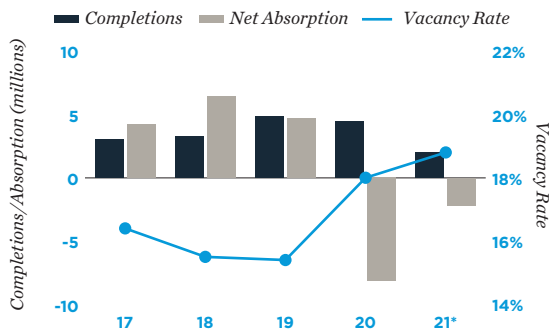
**1.7%
DECREASE**

in asking rent

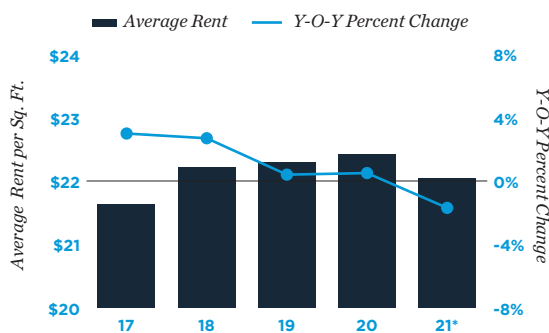
RENT:

The jump in vacancy will expand the use of concessions this year as operators try to fill empty floor plates. Although the average asking rent declines to \$22.04, the rate is just 1.7 percent below the recent peak reached in mid-2020.

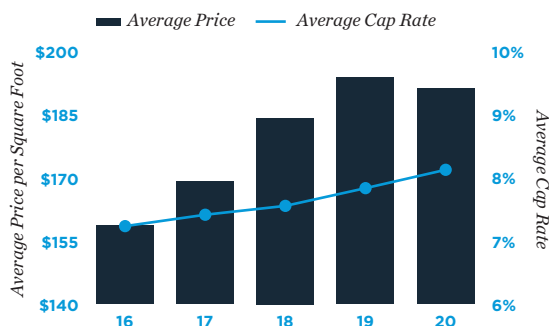
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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2020



CONSTRUCTION

4,470,000 square feet completed

- Deliveries dropped 367,000 square feet from the 2019 level, as inventory expanded 1 percent.
- The city of Chicago received nearly 3.7 million square feet, including the 1.5 million-square-foot Bank of America Tower as well as 167 N. Green St. and 24 E. Washington St., each over 642,000 square feet.



VACANCY

260 basis point increase in vacancy Y-O-Y

- Vacant stock grew by 12.6 million square feet as firms gave up space during the health crisis, boosting availability to 18.0 percent, the highest rate in more than 13 years. The rate in the city rose to 18.6 percent.
- At year end, suburban vacancy of 17.5 percent fell below the city rate for the first time since at least 2007.



RENT

0.5% increase in the average asking rent Y-O-Y

- Despite the rise in vacancy, the average asking rent inched up to \$22.42 per square foot, nearly matching the prior year's change.
- During 2020, rent in the city advanced 0.9 percent to \$28.15 per square foot, while the suburban rate dipped 0.4 percent to \$17.75 per square foot on average.

Investment Highlights

- Trading activity throughout the metro retreated 24 percent year over year in 2020. Buyers were most active in the \$1 million to \$10 million price range with transactions in this segment down just 11 percent during the same period.
- Fewer premium buildings transacting contributed to the average price declining 1 percent to \$191 per square foot in 2020. In the previous period a 5 percent jump was registered. The average cap rate, meanwhile, climbed 30 basis points to 8.1 percent at the end of 2020.
- Trading of medical office buildings decreased 18 percent year over year in 2020. Assets changed hands at an average price of \$206 per square foot, 12 percent lower than in 2019. Since the onset of the health crisis, cap rates have started in the low-6 percent span.
- Local buyers have been especially active in suburban DuPage County, focusing on multi-tenant buildings less than 100,000 square feet. Assets 15 years of age or older typically trade at a per square foot price below the metro average.