MARKET REPORT

OFFICE

Chicago Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

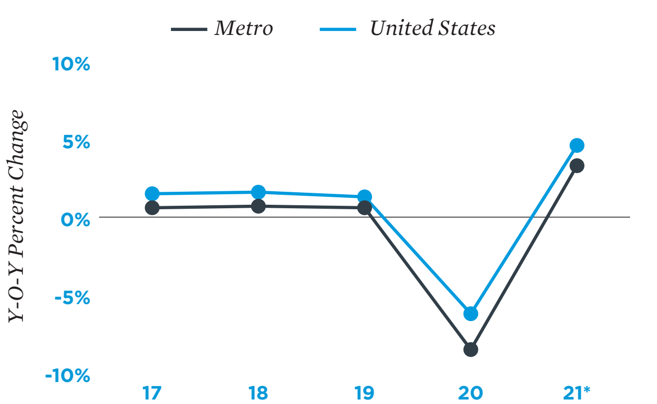
4Q/21

Space Demand Yet to Turn Corner in Chicago; Return to Office Timeline Remains Murky

Office fundamentals continue to weaken. Uncertainty regarding both the economic climate and workers' return to offices made tenants reluctant to renew current agreements or expand operations in the metro. This accelerated the pace of move-outs and consolidations while move-ins tapered, which has driven a sharp increase in available space on the market. Over the past six quarters, the metro observed nearly 13 million square feet of negative net absorption, the most significant decline in office demand in at least 15 years. As a result, vacancy rose 380 basis points to 19.2 percent, the highest level in over a decade. Vacancy will continue to elevate in the second half; however, demand should begin to stabilize over the next few quarters. A rebound in leasing activity is likely on the horizon as pent-up demand resulting from a year of indecision plays out.

Central Business District faces supply pressure. Recent development in the metro has been largely concentrated in the city core, which has placed upward pressure on urban office fundamentals. Over the last four quarters, 88 percent of the new supply was delivered in the CBD, contributing to vacancy rising 390 basis points, compared with a 210-basis-point increase in the suburbs. This trend is likely to continue into 2022. Over 90 percent of the market's office space currently under construction is scheduled to deliver in the urban core, and only 42 percent of that space was pre-leased as of August.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook

144,000 JOBS
will be created

EMPLOYMENT:

Total employment in Chicago will increase by 3.3 percent in 2021, following an 8.5 percent decline last year. Hiring in the metro's traditional office-using sectors will increase by 2.1 percent this year with the addition of 25,000 jobs.

2,800,000 SQ. FT.
will be completed

CONSTRUCTION:

Deliveries this year will fall short of the 3.8 million square feet completed in 2020. Supply additions will expand the metro's inventory by 0.6 percent and mark the smallest annual increase since 2015.

180 BASIS POINT
increase in vacancy

VACANCY:

Uncertainty from the pandemic continues to depress demand in Chicago's office market. The metro's vacancy rate will rise to 19.8 percent in 2021, following a spike of 260 basis points during the previous year.

0.8% DECREASE
in asking rent

RENT:

More available space will increase competition for tenants in the office sector. As a result, landlords will need to offer concessions or discounts to attract tenants, which will lower the average asking rent to $22.25 per square foot this year.

2Q21 — 12-Month Period

Construction

4,165,000 sq. ft. completed

- Chicago's office inventory increased 0.9 percent over the past four quarters. The majority of new supply was delivered in the urban core, particularly in the West Loop and River West submarkets.
- As of August, construction was underway on over 4 million square feet of office space, with completions extending into 2023.

Vacancy

290 basis point increase in vacancy Y-O-Y

- Vacant stock in the metro increased by 14 million square feet over the past four quarters, pushing availability in Chicago to 19.2 percent, the highest rate in more than 15 years.
- Class A vacancy jumped 510 basis points to 24.3 percent while the Class B/C rate rose 120 basis points to 15.4 percent.

Rent

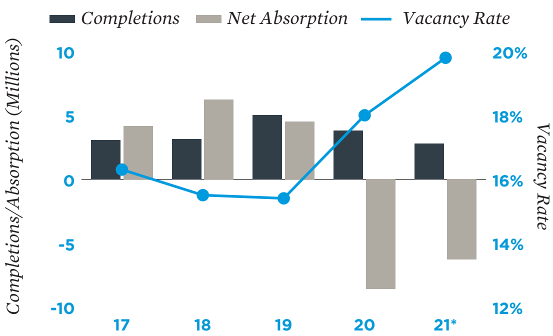
0.9% decrease in the average asking rent Y-O-Y

- Six consecutive quarters of negative net absorption contributed to the metro's asking rent dropping to $22.28 per square foot.
- The average asking rent in the urban core fell 1.9 percent to $27.76 per square foot, while the suburban rate remained relatively steady over the past year at $17.75 per square foot.

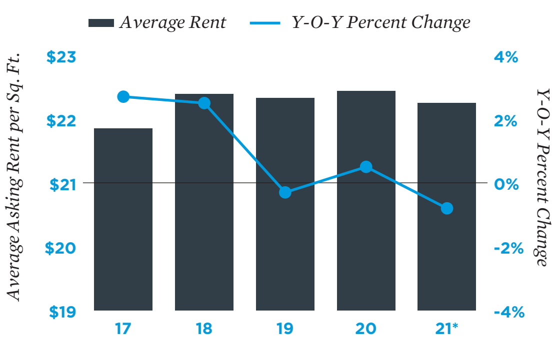
Investment Highlights

- Near-term uncertainty stemming from the pandemic and record levels of vacant space on the market kept some investors on the sidelines. Transaction velocity declined 30 percent year over year in June.
- Fewer closings of Class A assets contributed to the overall average sale price decreasing 4 percent to $185 per square foot over the past four quarters. The average cap rate inched up 10 basis points to 7.7 percent during the same period.
- In contrast to the rest of the office sector, medical offices traded more frequently during the past year. The number of transactions in this segment rose 15 percent in the 12-month period ended in June. Properties traded at an average price above $200 per square foot, with cap rates in the low 8-percent span.
- Investors seeking lower entry-costs were active in the East-West corridor, targeting multi-tenant properties less than 50,000 square feet. Multi-tenant assets in this submarket traded at $160 per square foot.

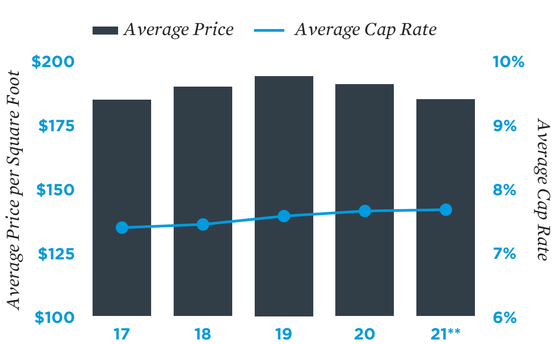
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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