

INVESTMENT FORECAST

Office
Chicago

IPA

INSTITUTIONAL
PROPERTY
ADVISORS






2022

Downsizing Drives Tenant Losses; Investors Wait for Recovery Inflection Point

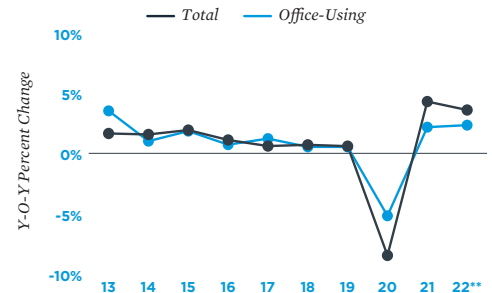
Host of firms downsize into suburban areas as CBD tenant demand slumps. Leasing activity in the metro has yet to fully rebound, as space available for sublease reaches its highest level since the pandemic began, entering this year. Employment figures are below pre-pandemic totals, due to many of the metro's employers dropping staff. United Airlines recently cut 150,000 square feet downtown as some workers moved into an already leased site, while Schiff Hardin and Peoples Gas also made space available for sublease in 2021. Meanwhile, Centene reversed plans to fill 90,000 square feet in Naperville, opting instead to take its workers remote. Some signs of strength have emerged in the form of new plans from Amazon and John Deere to take on space in the core. The latter will open next year in Fulton Market but the former is simply adding to its current footprint in the CBD. Adding 2.1 million square feet of space will place pressure on rents and vacancy in 2022, but the market is beginning to stabilize.

Investment market is tepid as high-quality, single-tenant assets drive volume. Investment trends have yet to begin movement toward a recovery. Last year recorded the smallest annual sales volume in the metro since the global financial crisis, with the majority of this volume being a few large trades. The transactions that have occurred involve Class A, single-tenant properties due to investors viewing these already filled properties as a safe investment amid a dearth of tenant demand. Fulton Market in the near west side is the top locale for these trades. Multiple buildings occupied by Google have changed hands here in recent months, with cap rates in the mid-4 percent range. Due to stronger fundamentals within suburban areas, investors have also been targeting sub-100,000-square-foot properties here with regularity. Western suburbs, between Westchester and Aurora to the south and Schaumburg and DuPage to the north, see the most such deals with first-year yields between 8 percent and 9 percent.

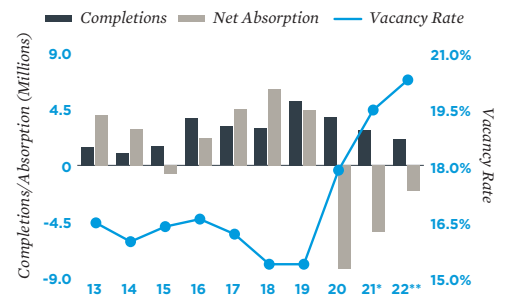
2022 Market Forecast

- Employment** up 3.6%  Job creation is expected to slow this year, with 164,000 roles set to hit payrolls, 28,000 of these being traditional office-using.
- Construction** 2,100,000 sq. ft.  Builders will add 2.1 million square feet of office space in the coming year. While this is a slight drop from the previous couple years, new space will increase competition for tenants.
- Vacancy** up 80 bps  The vacancy rate will inflate to 20.3 percent by the end of 2022. This is the highest level in at least 15 years in the Chicagoland office market.
- Rent** down 1.6%  The average asking rent will fall to \$21.85 per square foot as demand remains muted. Downsizing and return-to-office delays will keep downward pressure on rents throughout 2022.
- Investment**  Fulton Market and West Loop have retained more tenant demand than other central areas. These areas are likely to lead core submarkets in transaction volume during the recovery.

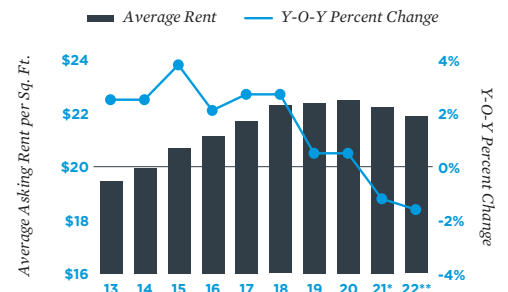
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.