

MARKET REPORT

Office
Chicago Metro Area

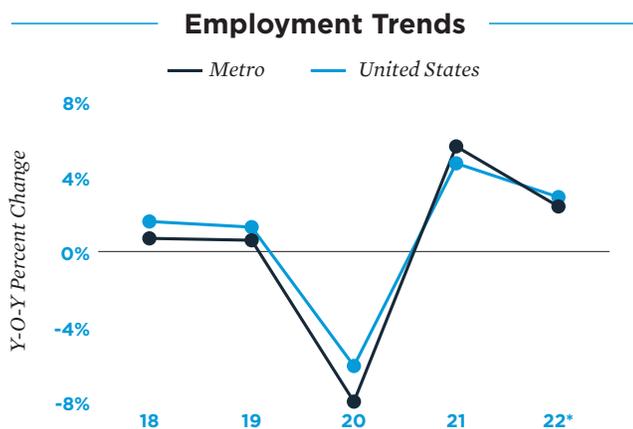
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4Q/22

Headwinds Subside Across the Metro; Fulton Market Proves Fastest-Growing Business District

Downward pressure on fundamentals slowing. Office availability continues to trend up in Chicago, however, the pace of attrition is retreating. Vacancy climbed just 60 basis points over the past four quarters ending in June, paling in comparison to the combined 390-basis-point escalation during 2020 and 2021. Furthermore, annual net absorption in 2022 is projected to return to positive figures, after a substantial net loss throughout the previous two years. This marketwide recovery is bolstered by suburban demand from a variety of healthcare-centric companies, many of which require in-person interaction. Of all the new suburban leases signed in the trailing 12 months ending in June, nearly 10 percent were comprised of healthcare-related businesses, the most of any industry.

Urban submarket leading the way. While the majority of downtown locales continue to experience record-high vacancy with triple-digit basis point expansions year-over-year, Fulton Market is seeing the opposite. Positive absorption in each of the last six quarters here has helped availability compress by more than 1,000 basis points year-over-year in the second quarter. Backed by Google's commitment to a 200,000-square-foot office expansion, the submarket continues to attract businesses ranging from a multitude of industries. Inventory in the locale is set to increase 7.5 percent by year-end, over 80 percent of which is already pre-leased. This will be the metro's largest inventory expansion, and will further establish Fulton Market as one of Chicago's top business districts.



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook


110,000
JOBS
will be created

EMPLOYMENT:

The total jobs figure in the Chicago metro will expand 2.4 percent by year-end. Of this increasing employment pool, traditional office-using jobs will grow by 2.6 percent to its highest point on record.


3,250,000
SQ. FT.
will be completed

CONSTRUCTION:

Strong development in the first quarter bolsters the construction total, with inventory scheduled to grow by 0.7 percent. The Fulton Market and West Loop areas will see the majority of remaining additions.


50
BASIS POINT
increase in vacancy

VACANCY:

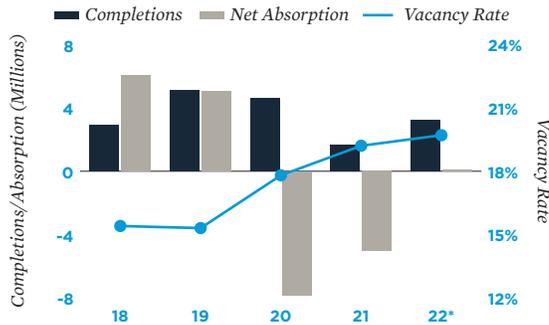
Availability will expand yet again this year, however, at a much slower rate. Vacancy will reach 19.7 percent by year-end, the highest point on record and 440 basis points above the pre-pandemic mark.


0.7%
INCREASE
in asking rent

RENT:

The average asking rent in Chicago will increase this year to \$22.50 per square foot. Working back from declines felt throughout 2021, the year-end 2022 rate will realign with the first quarter 2020 average.

Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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2Q 2022 - 12-Month Period



CONSTRUCTION

2,449,000 sq. ft. completed

- Supply additions over the previous 12 months ending in June were the lowest since 2017-2018, with inventory expanding just 0.5 percent.
- The Loop accounted for the majority of new space added during the year, with a development near Union Station leading the way, bringing 1.4 million square feet online.



VACANCY

60 basis point increase in vacancy Y-O-Y

- Year-over-year vacancy expansion slowed in each of the last four quarters ending in June, however, the rate remained at a record high of 19.7 percent.
- Heightened leasing activity in the Northwest City submarket resulted in a triple-digit basis point vacancy compression year-over-year in the second quarter to 12.5 percent, the lowest rate within Chicago proper.



RENT

0.3% increase in the average asking rent Y-O-Y

- The average asking rate inched up year-over-year in the second quarter for the first time since 2020, reaching \$22.41 per square foot.
- Pandemic-driven suburban migration continues to attract firms seeking access to these talent pools, helping the mean rate in suburban locales grow 0.7 percent compared to 0.2 percent in the central business district.

Investment Highlights

- Chicago transaction velocity jumped over 90 percent during the previous 12 months ending in June compared to the same period in 2021. Western locales spanning Oak Brook-Downers Grove, Naperville and Aurora accounted for nearly one quarter of all trades across the metro. Of these trades, many were part of multi-property portfolio trades, and nearly 50 percent were completed to out-of-state purchasers.
- Heightened trading activity contributed to a 100-plus percent hike in total dollar volume from the prior period. This amounted to a 1 percent increase in the average sale price, bringing the metric to \$198 per square foot. Higher prices affected the average cap rate, which descended slightly during the year. The mean first-year return fell 10 basis points to 7.5 percent, matching its 2019 mark as optimism for office-usage gains momentum.
- Deal flow in the CBD during the yearlong span was up nearly four times relative to the same period in 2021. The Fulton Market neighborhood experienced notable activity, with trades up almost 100 percent and an average sale price exceeding \$12 million. This equated to over \$480 per square foot, the highest of any submarket.