



MARKET REPORT

The coronavirus pandemic rocked the Chicago office market in Q2 decimating demand and continuing to create uncertainty. Current vacancy is 12.6%, an eight-year high. Two pertinent factors that will contribute to climbing downtown vacancy – new construction and companies looking to unload space on the sublease market.

- ⊕ More than 7.8 million SF of office space is under construction, where over 50% has zero pre-leasing.
- ⊕ As of mid-August, more than 8.2 million SF of office space was available for sublease.

While there are rumblings that the office real estate market is plunging in value, as tenants try to negotiate their rent contracts, overall, it is still too soon in the cycle to see a dramatic decrease in rents. We are seeing pockets of real value with landlords looking towards what the market will look like over the next 18-36 months. Rents have remained stable in the short term, but are predicted to decrease as larger construction projects come online within 24 months, lack of business growth and additional sublease space availability.

SUBURBAN STIMULATION

There is talk of a suburban revival fueled by an uptick in the suburban residential market, as some business owners exploring options outside of downtown. Capitalizing on cost, room to social distance, and avoiding public transit, landlords are offering short-term leases on move-in ready spaces in the suburbs to lure tenants. Compared to downtown, prime suburban Class A office space is deeply discounted, up to 30%. The issue we see is if the migration to the suburbs materializes, good supply/options will be hard to come by. A suburban shift would upend the long-running trend of businesses consolidating their Chicago-area offices downtown due to culture trends, and to be better positioned for recruiting young, top talent.

WORK-FROM-HOME ENTHUSIASM IS WANING

More than two-thirds of Americans have been forced to work remotely, but given the option, many business owners (and teams) would prefer to be back in the office safely sooner, rather than later. Some employers say their workers appear less connected and bosses fear that younger professionals aren't developing at the same rate as they would in offices, sitting next to colleagues and absorbing how they do their jobs. Many were unprepared to manage a team remotely, much less the challenging task of on-boarding a new employee. Additionally, technology and cyber security issues persist, at a high cost.

Collaboration, communication, efficiency, and culture are all taking a hit. There are benefits to face-to-face communication and teamwork, innovation being key, that no number of Zoom meetings or Slack channels can replicate. Telecommuting is critical now and is unlikely to vanish entirely when the pandemic passes. We expect and envision that we will strike a new balance -- a hybrid future, with time spent working remote, yet with opportunities to regularly convene teams -- as we re-establish office camaraderie and culture lost in 2020.

12 Mo Deliveries in SF

5.3 M

12 Mo Net Absorption in SF

(59.8 K)

Vacancy Rate

12.6%

12 Mo Rent Growth

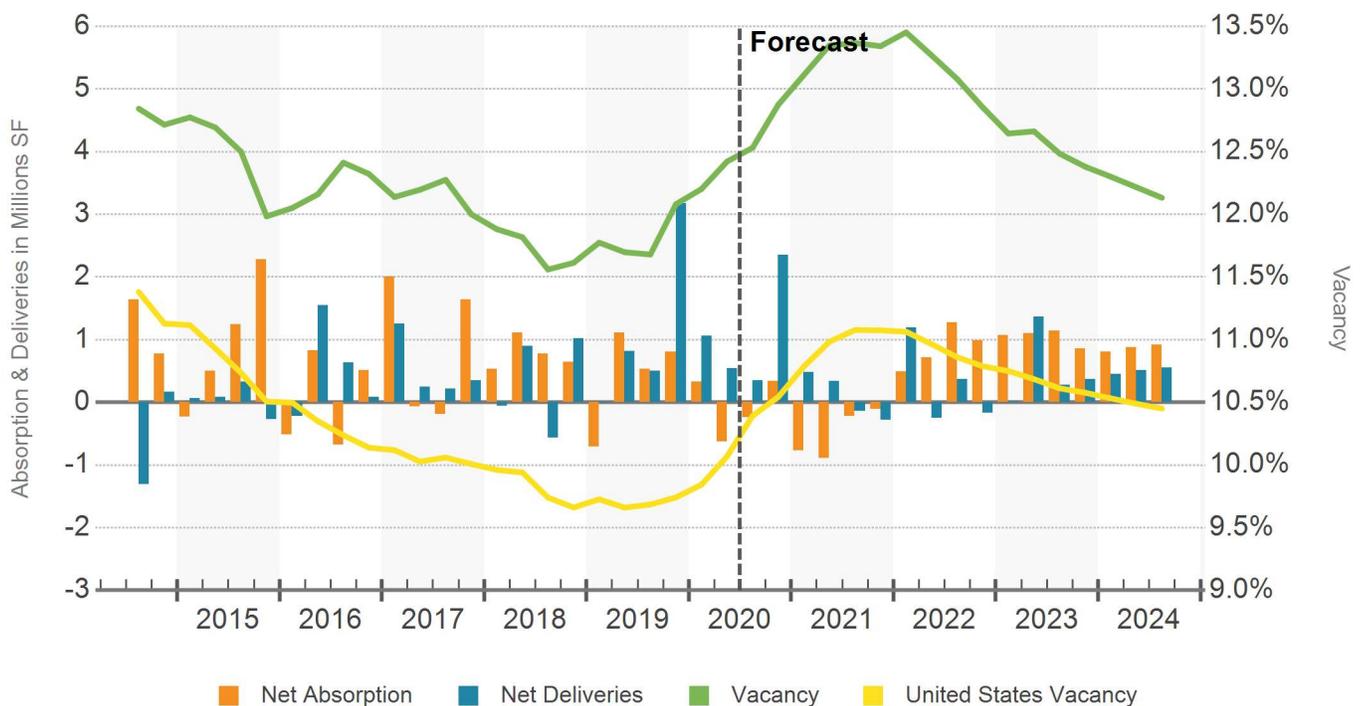
1.6%

KEY INDICATORS

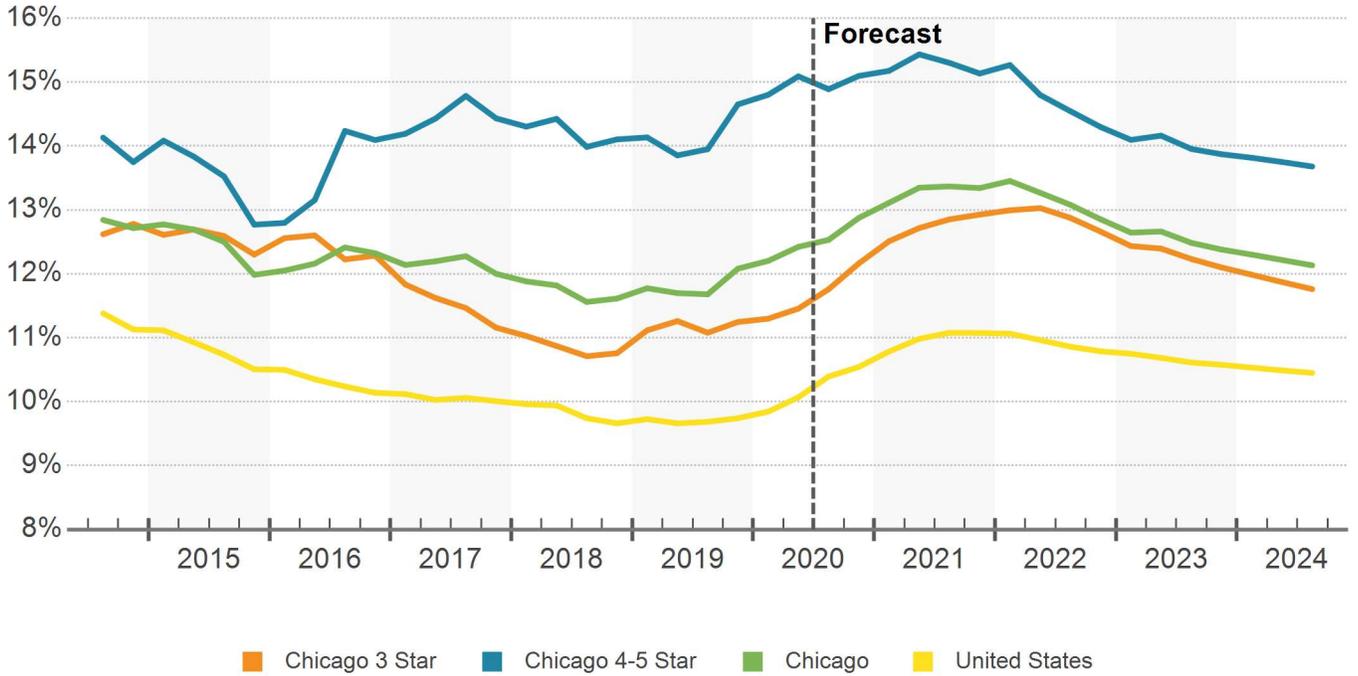
Current Quarter	RBA	Vacancy Rate	Market Rent	Availability Rate	Net Absorption SF	Deliveries SF	Under Construction
4 & 5 Star	220,894,324	15.2%	\$37.91	20.4%	(226,200)	0	7,552,944
3 Star	201,172,453	11.7%	\$23.65	15.0%	(536,302)	24,942	176,584
1 & 2 Star	77,287,093	7.5%	\$19.04	9.9%	(173,751)	0	54,840
Market	499,353,870	12.6%	\$29.37	16.7%	(936,253)	24,942	7,784,368

Annual Trends	12 Month	Historical Average	Forecast Average	Peak	When	Trough	When
Vacancy Change (YOY)	0.9%	12.1%	12.7%	15.2%	2010 Q1	7.3%	1999 Q2
Net Absorption SF	(59.8 K)	2,392,601	1,909,165	10,463,270	1998 Q1	(9,419,123)	2009 Q3
Deliveries SF	5.3 M	4,475,849	2,785,763	11,546,056	2001 Q3	562,130	2011 Q3
Rent Growth	1.6%	2.2%	1.5%	8.9%	1998 Q3	-5.9%	2009 Q4
Sales Volume	\$2.7 B	\$4.1B	N/A	\$9.6B	2007 Q3	\$640.1M	2010 Q1

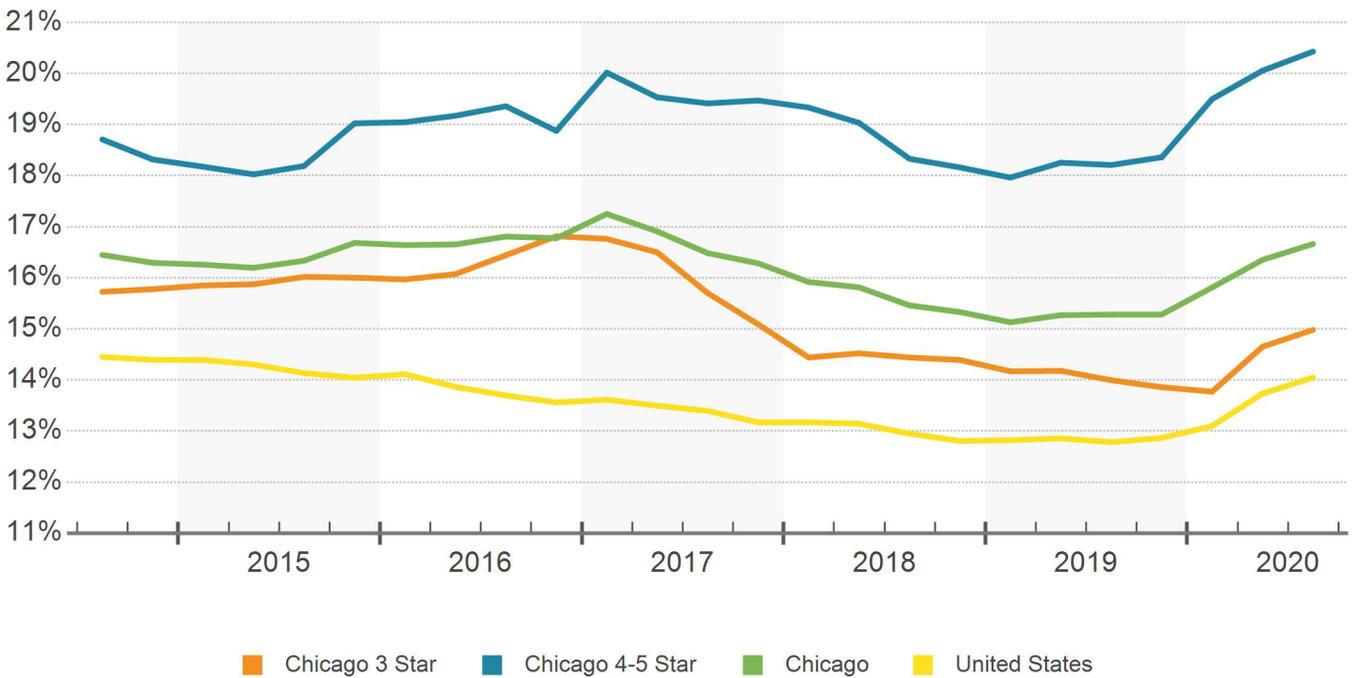
NET ABSORPTION, NET DELIVERIES & VACANCY



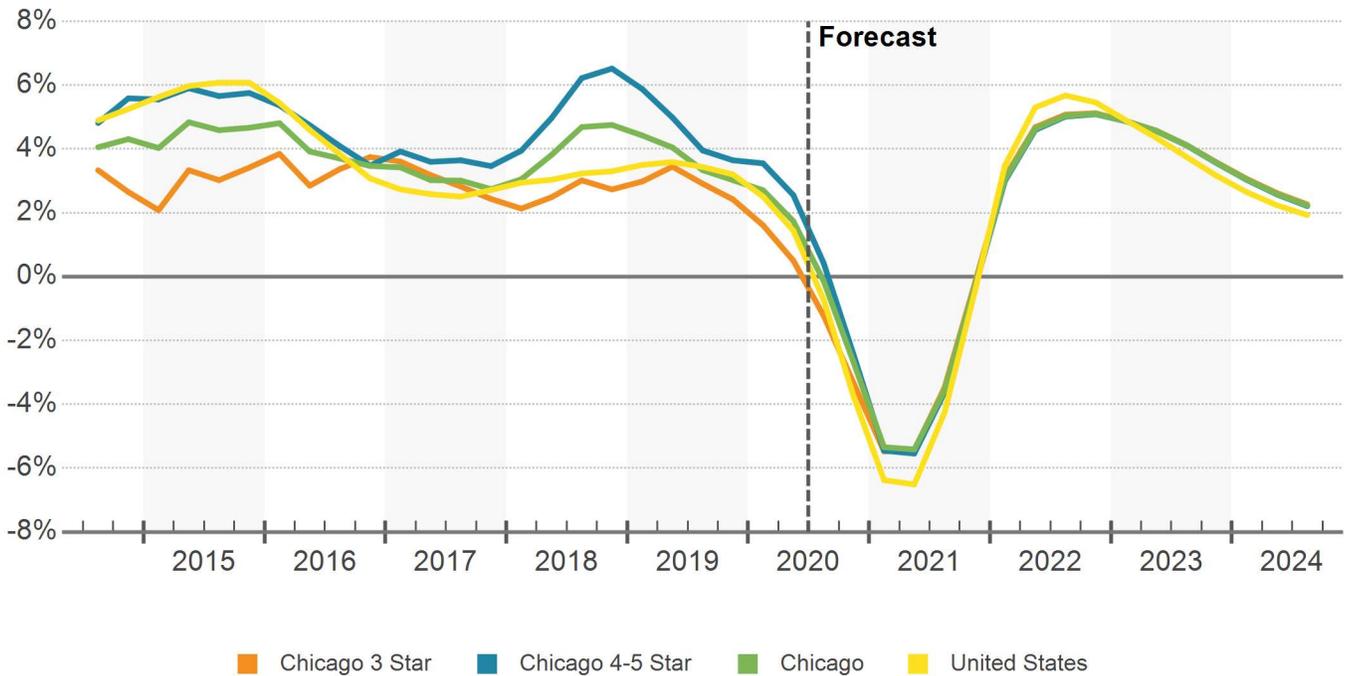
VACANCY RATE



AVAILABILITY RATE



MARKET RENT GROWTH (YOY)



The workplace is critical for culture, innovation, and the well-being of your employees. It is essential for business owners to successfully navigate through the return to the office, and we stand ready to help as you take the next step forward into your new normal.

Be prepared. Be resilient. Bespoke.