



DIRECT AVAILABILITY RATE: **14.69%**



DIRECT VACANCY RATE: **9.11%**



DIRECT GROSS ASKING RATE: **\$42.18**

COVID-19 CONTAINMENT UPENDS MARKET TRAJECTORY

At the beginning of 2020, Chicago's Central Business District's (CBD) office market appeared to be headed toward the further reduction in available supply and increase of average asking rents among its amenity-rich product. This forecast significantly fell in mid-March when the COVID-19 health crisis resulted in shelter-in-place orders and brought the nation's economic engine to a standstill.

The CBD's first quarter rates revealed the contradictory nature of a robust economy besieged by a pandemic. Direct availability ticked up only 0.34% to 14.35%; direct vacancy declined 0.38% to 9.11%; and rental rates rose almost a dollar to \$42.18 from last quarter. Yet, the overall sublet availability rate rose to 2.24% — an 18% increase from year-end 2019. Last year's strong leasing activity (over 13.5M s.f.) contributed to both the reduction of vacant space and to the positive 693,731 s.f. absorbed into the market this quarter.¹ The first quarter saw its own large lease signings throughout the Loop: Aspen Dental committed to almost 200,000 s.f. at 800 W. Fulton; Faegre Drinker Biddle & Reath agreed to lease 105,000 s.f. at the BMO Tower; and Help at Home signed a lease for 76,000 s.f. at the Sullivan Center. While at the same time, Uber Freight put 65,000 s.f. at the Old Post Office on the sublease market, along with a significant number of tenants under 10,000 s.f. whose businesses may or may not be able to withstand the current economic turmoil.

Predicted Impacts of COVID-19 on the Office Market

Leasing activity and rates. Once Illinois's shelter-in-place order is lifted, activity should resume; although, at a slower pace. We foresee tenants with leases expiring over the next year being more focused on ramping up their businesses onsite again, resulting in a larger percentage renewing in place and delaying any relocation decisions to the future. Continuing the trend we saw during the second half of March, we anticipate many more subleases being brought to the market, causing an increase in sublease availability. Rising direct and sublet vacancy rates should effectively cause both the direct and overall asking rates to lower over the next six months.

Investment sales. Looking forward, we anticipate sales volume to reach historic lows while both buyers and sellers evaluate the COVID-19 impact to values. The buyers' pool will be limited to those with meaningful cash on hand. History has shown that times of great economic uncertainty have provided some of the best buying opportunities, and we believe this time will be no different. Stabilized Class A product leased to credit tenants should combat this uncertainty and is expected to be the best-performing sector in the near term. Conversely, those properties leased predominantly to non-credit tenants will be challenging to value for the foreseeable future.

Reconfiguration. The Illinois shelter-in-place order revealed that most office tenants can operate remotely. It also proved that employees desire human interaction, collaboration, and a company culture. In order to provide the latter, a reconfiguration of the modern office design will be necessary. Benching will become less prevalent and independent workstations, along with private offices, will become commonplace once again. We anticipate seeing companies increase average square footage allocation per employee. We also see common areas being reconfigured to accommodate fewer people and allow for adequate social distancing. Similarly, co-working companies will need to modify their open designs or they will be left behind. The companies offering a more-traditional office setup (Regus) may re-emerge as the industry standard.

1. Property data were compiled from CoStar with these parameters: existing and under-renovation office property type, excluding non-conforming and owner-occupied properties; and within Central, East, South, and West Loop, N. Michigan Avenue, River North, and Fulton Market/River West. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

ECONOMIC INDICATORS

	Q1/19		Q1/20
Consumer Confidence Index	124.1	>	120
U.S. Unemployment (Week ending March 28)	211,000	<	6,648,000
U.S. Unemployment (4 Week Moving Average, March)	217,250	<	2,612,000
Cook County Unemployment (Week ending March 28)	978	<	178,000
Prime Rate	5.50%	>	3.25%

BY THE NUMBERS

	CHICAGO		NATIONAL
Market Sales Price	\$360 PSF	>	\$322 PSF
Cap Rate	6.20%	<	6.80%
Asking Rate	\$42.18 PSF	>	\$34.25 PSF
Gross Availability Rate	16.93%	>	13.30%

	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABLE RATE (%)	SUBLET AVAILABLE RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	MAX BUILDING CONTIGUOUS SPACE (SF)	DIRECT NET ABSORPTION Q1/20 (SF)
CBD	151,013,711	358,702	14.69%	2.24%	9.11%	0.88%	\$42.18	190,000	693,731
CLASS A	94,317,556	820,153	15.42%	1.91%	8.74%	0.64%	\$45.53	190,000	904,441
CLASS B	49,782,832	231,548	13.29%	2.85%	9.55%	1.31%	\$36.84	150,000	(177,033)
CLASS C	6,913,323	75,971	14.91%	2.36%	10.93%	1.13%	\$28.93	22,646	(33,677)
CENTRAL LOOP	36,156,443	547,825	19.49%	1.56%	10.91%	0.84%	\$41.38	68,044	(40,716)
CLASS A	21,475,321	859,013	22.04%	0.95%	11.50%	0.52%	\$43.31	67,803	82,299
CLASS B	13,861,798	433,181	15.60%	2.52%	9.99%	1.38%	\$37.91	68,044	(110,701)
CLASS C	819,324	91,036	18.67%	1.39%	11.08%	0.07%	\$28.37	16,000	(12,314)
EAST LOOP	26,217,585	485,511	16.38%	1.80%	10.30%	1.18%	\$38.88	117,851	51,026
CLASS A	16,489,476	1,030,592	17.51%	1.58%	10.17%	0.96%	\$41.44	117,851	(51,992)
CLASS B	7,319,055	365,953	15.80%	2.59%	11.33%	1.86%	\$34.97	54,768	102,595
CLASS C	2,409,054	133,836	10.43%	0.86%	8.11%	0.64%	\$27.44	22,646	423
FULTON MARKET/ RIVER WEST	5,233,238	95,150	12.03%	2.11%	8.82%	0.91%	\$35.06	40,732	236,989
CLASS A	2,336,918	259,658	6.25%	2.99%	4.56%	0.76%	\$46.26	40,732	264,294
CLASS B	1,978,423	65,947	16.54%	1.81%	12.05%	1.32%	\$35.26	28,522	(23,941)
CLASS C	917,897	57,369	17.04%	0.55%	12.69%	0.38%	\$27.61	22,000	(3,364)
N. MICHIGAN AVENUE	11,782,679	336,648	10.32%	1.79%	7.82%	0.89%	\$41.59	31,331	(138,147)
CLASS A	7,525,152	537,511	9.36%	1.35%	6.40%	0.87%	\$44.11	31,331	51,859
CLASS B	4,257,527	202,739	12.02%	2.56%	10.34%	0.91%	\$38.13	30,000	(190,006)
RIVER NORTH	16,726,930	167,269	10.81%	2.12%	7.96%	1.34%	\$42.44	150,000	(125,823)
CLASS A	5,320,571	760,082	11.39%	2.04%	8.91%	0.63%	\$53.19	89,515	(145,719)
CLASS B	9,960,693	155,636	9.66%	2.01%	6.62%	1.75%	\$38.53	150,000	39,539
CLASS C	1,445,666	49,851	16.53%	3.21%	13.64%	1.12%	\$30.42	21,000	(19,643)
SOUTH LOOP	1,312,050	109,338	14.29%	0.37%	13.26%	0.37%	\$25.44	10,308	(384)
CLASS B	1,087,151	135,894	15.21%	0.44%	13.97%	0.44%	\$25.71	10,308	(384)
CLASS C	224,899	56,225	9.87%	0.00%	9.87%	0.00%	\$23.37	8,216	0
WEST LOOP	53,584,786	541,260	13.07%	3.11%	7.87%	0.63%	\$46.06	190,000	710,786
CLASS A	41,170,118	935,685	13.27%	2.57%	7.37%	0.53%	\$48.93	190,000	703,700
CLASS B	11,318,185	282,955	11.75%	4.70%	9.27%	0.71%	\$36.83	58,725	5,865
CLASS C	1,096,483	73,099	19.07%	7.29%	12.15%	3.84%	\$30.95	17,170	1,221

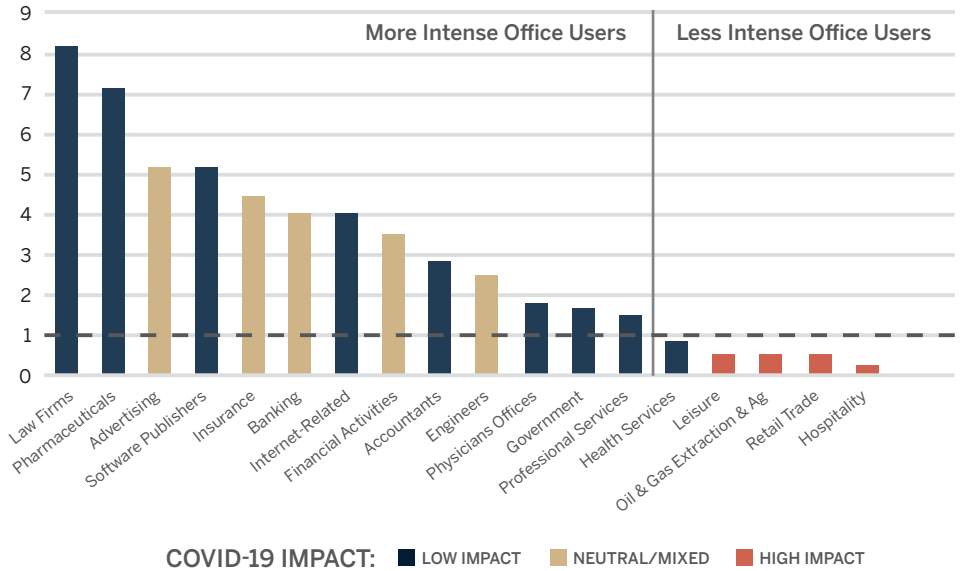
Vulnerable Jobs to COVID-19, % of Economy

INDUSTRY	US	CHICAGO-NAPERVILLE-ELGIN-KENOSHA MSA
Share of Workers Not in an immediate-risk industry	77%	78%
Share of workers vulnerable	23%	22%
Restaurants & Bars	6%	6%
Retail	4%	3%
Transportation (air, trains, supporting industries)	2%	3%
Entertainment & Tourism	2%	2%
Accommodations	1%	1%

Source: Brookings, 2019/2020 Data

COVID-19'S DIRECTLY IMPACTED SECTORS ARE NOT HEAVY OFFICE USERS

Office-User Quotient (Average = 1)



Source: ©2020, CoStar Portfolio Strategy

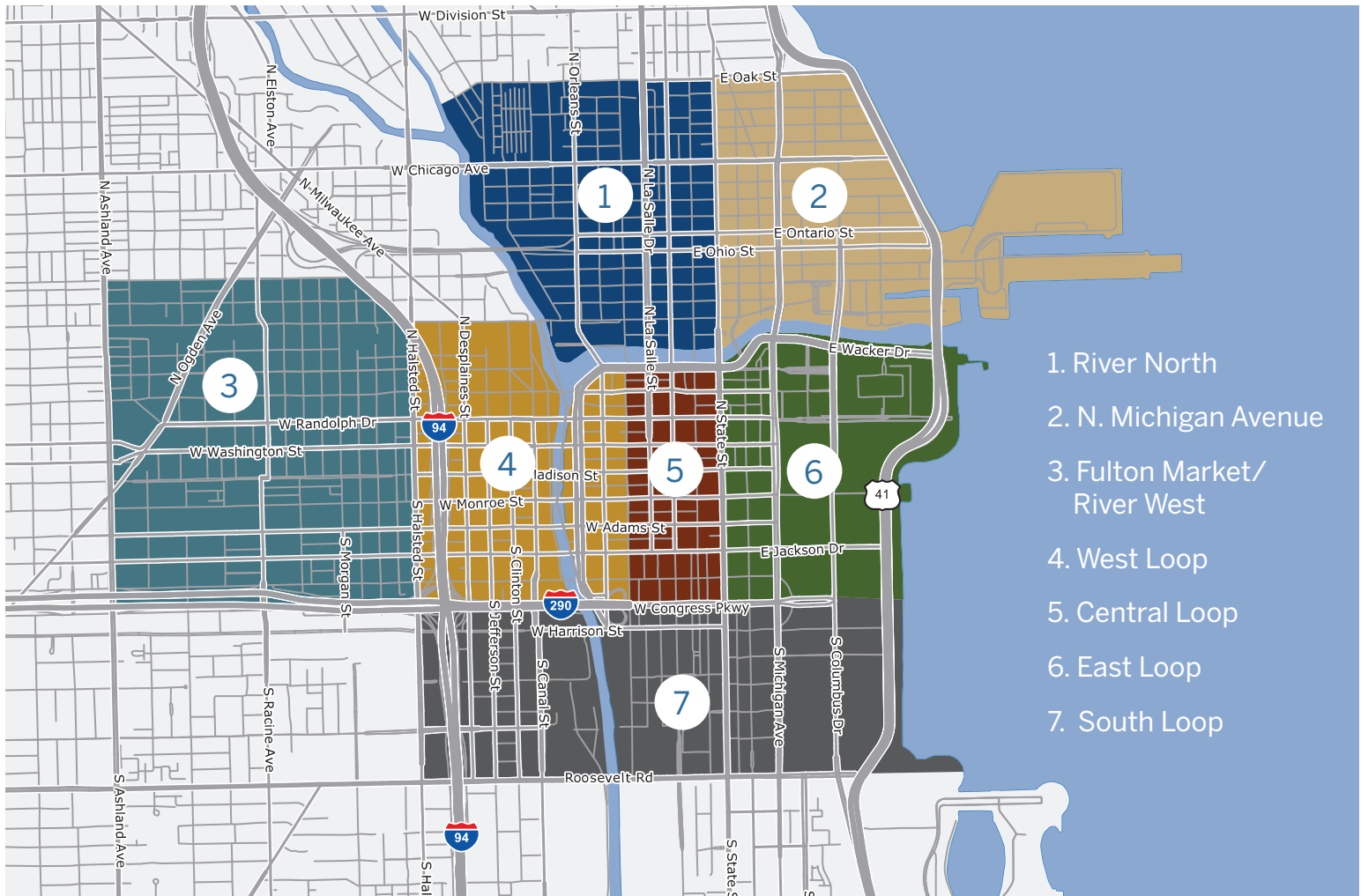
SUBMARKET VACANCY & ABSORPTION



MAJOR LEASE TRANSACTIONS

TENANT	LOCATION	SUBMARKET	SIZE (SF)	TYPE
Citadel Enterprises America	Citadel Center	Central Loop	534,000	Renewal
Aspen Dental	*800 W. Fulton	Fulton Market	197,000	New
Faegre Drinker Biddle & Reath	*BMO Tower	West Loop	105,000	New
Help at Home	Sullivan Center	Central Loop	76,313	New
Feeding America	161 N. Clark	Central Loop	61,324	New
CA Ventures	*448 N. LaSalle	River North	60,000	New
Affirm	350 N Orleans	River North	57,000	New

* Under Construction



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