BRADFORD ALLEN

Q3/20 OFFICE MARKET REPORT
DOWNTOWN CHICAGO

DIRECT AVAILABILITY RATE: **16.51%**

DIRECT VACANCY RATE: **10.86%**

DIRECT GROSS ASKING RATE: **$41.51**

GROWING INVENTORY, LOW LEASING VELOCITY COUPLED WITH RISING DIRECT & SUBLET AVAILABILITY PLAGUE CBD OFFICE MARKET Q3/20

The lack of recorded gross leasing activity (just over 525,000 s.f.) during 2020's third quarter in Chicago's Central Business District (CBD) office market impacted the overall market with increased direct availability and vacancy rates from 15.71% to 16.51% and from 10.26% to 10.86%, respectively, while direct asking rates remained essentially unchanged at $41.51 p.s.f., quarter over quarter.[1] Deals signed pre-Covid-19 like Northern Trust (400,000 s.f.) moving to 333 S Wabash, West Monroe Partners (270,000 s.f.) relocating to 311 W Monroe, and Cboe (185,000 s.f.), Cisco (185,000 s.f.) and CMAP (47,000 s.f.) all moving into the Old Post Office allowed the quarter to post 150,562 s.f. of misleading positive absorption.

As is consistent with any recession, the sublease availability rates rose across the CBD. The third quarter posted an overall sublet availability rate of 3.18% – a 30% and 59% increase, respectively, from the previous quarter (2.46%) and the year-over-year (2.0%) markers. During the last week of September, Conversent put its entire 107,000 s.f. up for sublease at 101 N Wacker. In addition, Flashpoint Chicago offered its 38,000 s.f. at the Burnham Center for sublease to consolidate into its parent company's footprint at Roosevelt University; Snapsheet placed its 52,000 s.f. footprint at 1 N Dearborn on the sublease market to continue its Work From Home (WFH) model; while Ronin Capital is marketing its 72,000 s.f. at 350 N Orleans for sublease.

Leasing transactions were predictably sluggish during the summer of 2020 as companies continued to lack conviction about their office space needs going forward. However, there were a few local businesses that looked beyond the current economic and healthcare crisis and imagined a productive future for themselves. The Discovery Partners Institute agreed to double its footprint into 45,000 s.f. at 200 S Wacker as it hopes to expand into the South Loop's "the 78" in 2026.

Office Market Forecasts

Leasing activity and rates. Within most submarkets in the CBD, the $12.19 p.s.f. delta between direct and sublease asking rental rates this quarter were on par with historical trends – with one notable exception contained within the Fulton Market/Near West submarket (see RENTAL RATES). Here, the high-end buildouts and barely-used subleases presumably could command a higher asking rate from those offered on a direct basis. Outside of this trendy area, however, we believe this rent differential should create an upward pressure on availability and vacancy rates while also increasing landlord concessions. In addition to the five million s.f. of available sublet space on the market at the end of September, we believe the almost three million s.f. of new construction scheduled to be delivered by the end of the year combined with the additional four million s.f. expected to be delivered by 2023 will put additional downward pressure on asking rates heading into 2021.

Seven months into the Covid-19 crisis, only a fraction of those who work in the Loop appeared to be physically returning to their offices. Suburban workforces, however, began to reemerge from the WFH mode at the end of the second quarter and we continued to see this trend grow throughout the third quarter. Correspondingly, by the end of the third quarter, downtown office leasing was more sluggish than its suburban counterparts. Tenants during the summer of 2020 further explored the hub and spoke model (Loop HQ, suburban satellite) or surveyed relocations less reliant on public transportation than their current downtown offices. For example, KDM Engineering agreed to occupy 35,000 s.f. in April 2021 at Goose Island's 1308 N Elston. The firm noted private entrances, outdoor space, and highway access as primary drivers to leave its current 20,000 office at 35 E Wacker.

Investment sales. As expected, overall sales volume was historically low during 2020's third quarter, with the purchase of "Big Red" from John Buck by SHVO and Deutsche Finance America as the only sizeable deal completed. At the time of purchase, the property was 96% occupied with the newly moved-in Northern Trust as its largest tenant. Until the supply and demand of office space can be ascertained with some certainty from future investors, we anticipate sales volume in the CBD to continue its muted course.

[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

	Q3/19		Q3/20
Consumer Confidence Index	125.1	>	101.8
U.S. Unemployment (4 Week Moving Average, September)	218,000	<	837,000
Pandemic Emergency Unemployment Compensation Claims (Last Week of September)	N/A	<	650,120
Cook County Unemployment Rate	4.00%	<	13.70%
Prime Rate	5.50%	>	3.25%

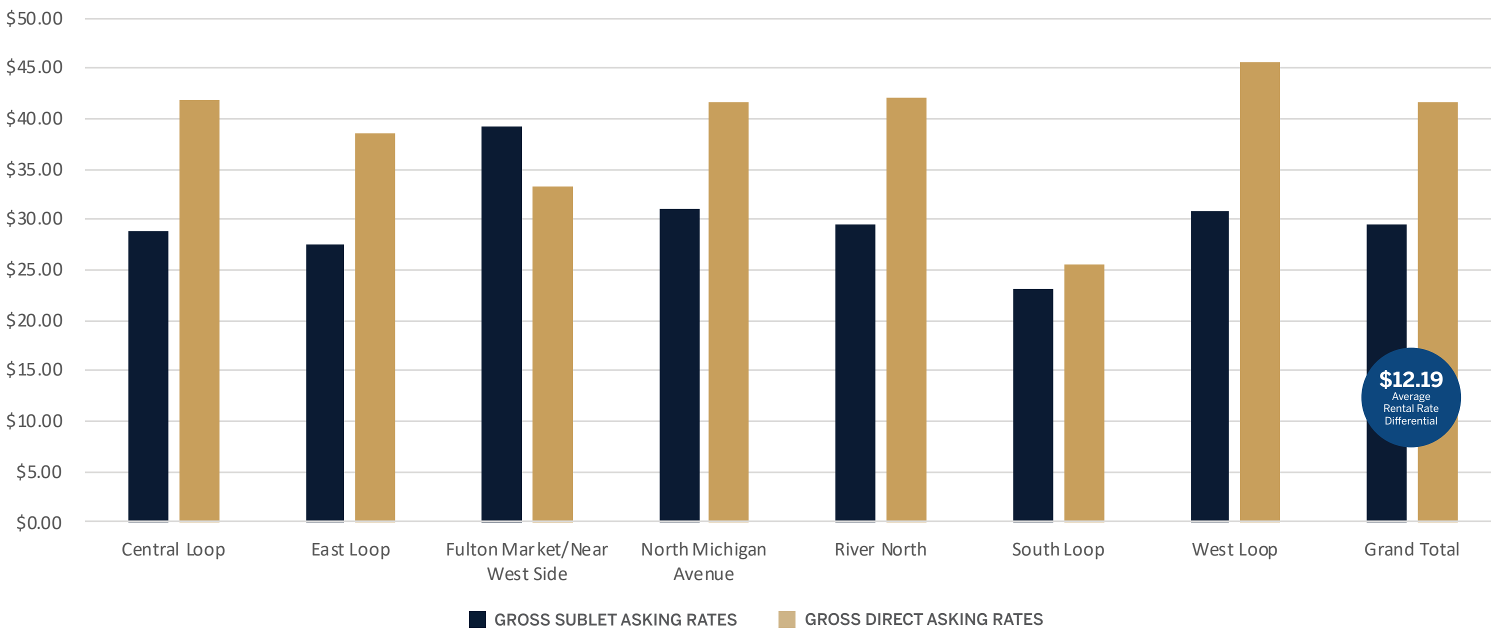
ILLINOIS JOB SECTORS WITH LEAST/MOST LOSSES (IN THOUSANDS)

	AUGUST 2020	% CHANGE, YOY
Total Nonfarm	4,430.40	-9.80%
Financial Activities	310.9	-3.80%
Manufacturing	696.8	-4.0%
Mining & Logging	1.7	-10.50%
Leisure & Hospitality	386.3	-25.00%

	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABLE RATE (%)	SUBLET AVAILABLE RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	MAX BUILDING CONTIGUOUS SPACE (SF)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q3/20 (SF)	YTD DIRECT NET ABSORPTION (SF)
CBD	**150,725,478**	**359,727**	**16.51%**	**3.18%**	**10.86%**	**1.25%**	**899,738**	**$41.51**	**150,562**	**303,703**
CLASS A	94,247,096	819,540	16.29%	3.03%	9.94%	1.15%	672,618	$45.13	490,888	1,288,326
CLASS B	49,572,937	231,649	16.83%	3.56%	12.27%	1.46%	899,738	$36.76	(273,527)	(800,098)
CLASS C	6,905,445	76,727	17.34%	2.42%	13.29%	1.02%	40,221	$28.78	(66,799)	(184,525)
CENTRAL LOOP	**36,144,098**	**547,638**	**20.92%**	**2.50%**	**13.68%**	**0.98%**	**672,618**	**$41.60**	**(461,592)**	**(570,108)**
CLASS A	21,475,321	859,013	22.77%	1.90%	12.86%	0.75%	672,618	$43.20	(237,590)	(111,751)
CLASS B	13,876,280	433,634	18.25%	3.56%	14.80%	1.38%	226,500	$39.29	(207,638)	(411,053)
CLASS C	792,497	88,055	17.67%	0.23%	16.44%	0.23%	11,050	$27.74	(16,364)	(47,304)
EAST LOOP	**26,473,314**	**490,247**	**17.42%**	**2.17%**	**13.69%**	**1.09%**	**601,561**	**$38.54**	**468,288**	**525,176**
CLASS A	17,709,779	1,041,752	17.77%	1.87%	13.60%	0.94%	601,561	$41.15	467,393	528,286
CLASS B	6,354,481	334,446	17.19%	3.54%	14.83%	1.77%	105,000	$34.76	15,605	72,942
CLASS C	2,409,054	133,836	15.43%	0.82%	11.36%	0.40%	22,646	$27.50	(14,710)	(76,052)
FULTON MARKET/ RIVER WEST	**5,425,435**	**93,542**	**12.56%**	**5.17%**	**9.25%**	**2.31%**	**52,209**	**$32.35**	**2,444**	**328,413**
CLASS A	2,361,332	236,133	5.84%	7.05%	6.00%	3.99%	52,209	$37.65	29,142	279,802
CLASS B	2,146,206	67,069	17.37%	4.45%	11.27%	0.90%	50,988	$31.58	(14,932)	66,686
CLASS C	917,897	57,369	18.57%	2.03%	12.88%	1.31%	40,221	$29.75	(11,766)	(18,075)
N. MICHIGAN AVENUE	**11,550,312**	**339,715**	**11.16%**	**2.73%**	**9.16%**	**1.28%**	**82,646**	**$41.69**	**(50,387)**	**(260,738)**
CLASS A	7,321,195	563,169	10.54%	3.11%	8.08%	1.72%	79,761	$44.63	(43,876)	(60,561)
CLASS B	4,229,117	201,387	12.23%	2.08%	11.04%	0.51%	82,646	$39.16	(6,511)	(200,177)
RIVER NORTH	**16,605,284**	**171,188**	**13.69%**	**3.66%**	**9.79%**	**2.26%**	**304,815**	**$42.01**	**(113,740)**	**(364,324)**
CLASS A	5,319,001	759,857	12.06%	3.30%	10.42%	1.58%	164,136	$51.84	(48,331)	(202,303)
CLASS B	9,833,547	158,606	14.13%	4.11%	8.87%	2.91%	304,815	$39.52	(70,673)	(155,363)
CLASS C	1,452,736	51,883	16.69%	1.93%	13.66%	0.35%	21,503	$29.49	5,264	(6,658)
SOUTH LOOP	**1,620,211**	**135,018**	**53.14%**	**0.30%**	**18.34%**	**0.30%**	**899,738**	**$25.39**	**(243,622)**	**(368,185)**
CLASS B	1,395,312	174,414	59.78%	0.35%	19.51%	0.35%	899,738	$25.46	(243,622)	(365,414)
CLASS C	224,899	56,225	11.95%	0.00%	11.10%	0.00%	8,216	$22.98	0	(2,771)
WEST LOOP	**52,906,824**	**539,866**	**14.39%**	**3.98%**	**8.16%**	**1.10%**	**422,000**	**$45.67**	**549,171**	**1,013,469**
CLASS A	40,060,468	931,639	14.38%	3.88%	7.27%	1.13%	422,000	$48.39	324,150	854,853
CLASS B	11,737,994	293,450	13.67%	3.88%	10.52%	0.74%	88,754	$37.57	254,244	192,281
CLASS C	1,108,362	73,891	22.18%	8.90%	15.53%	3.80%	39,324	$30.60	(29,223)	(33,665)

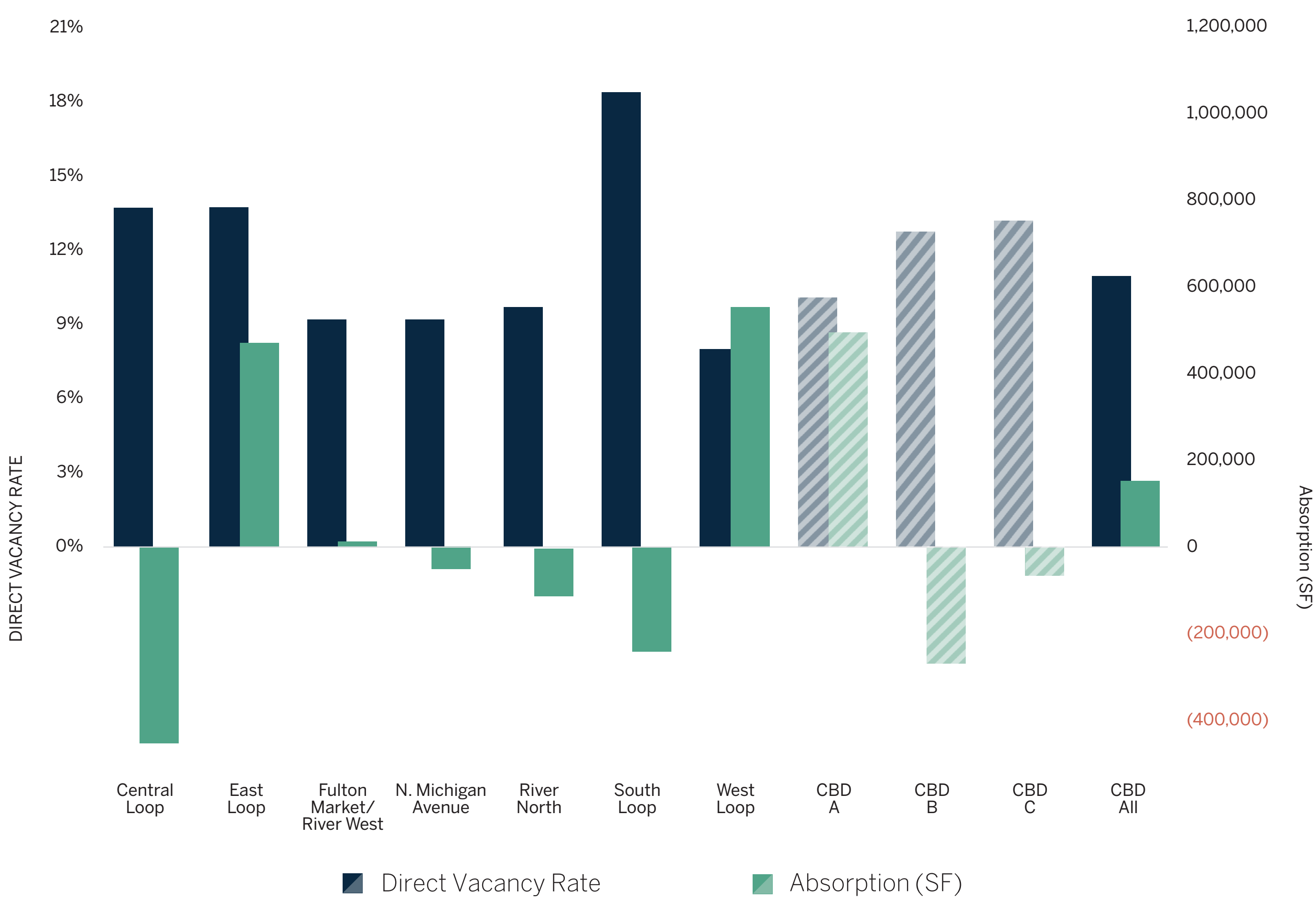
RENTAL RATES

Sublet vs Direct[1]



[1] Averages calibrated between direct and sublet rates to the submarkets' available sublet supply. Results based solely on CoStar's published asking rates.

SUBMARKET VACANCY & ABSORPTION



BRADFORD ALLEN

MAJOR SALES TRANSACTIONS

SUBMARKET	LOCATION	SIZE (SF)	BUYER	SELLER	PRICE PSF
Central Loop	333 S. Wabash, "Big Red"	1,200,000	SHVO, Deutsche Finance America	John Buck	$311 PSF
West Loop	1436 W. Randolph	43,292	RE Development	WFLP Randolph LLC	$127 PSF

MAJOR LEASE TRANSACTIONS

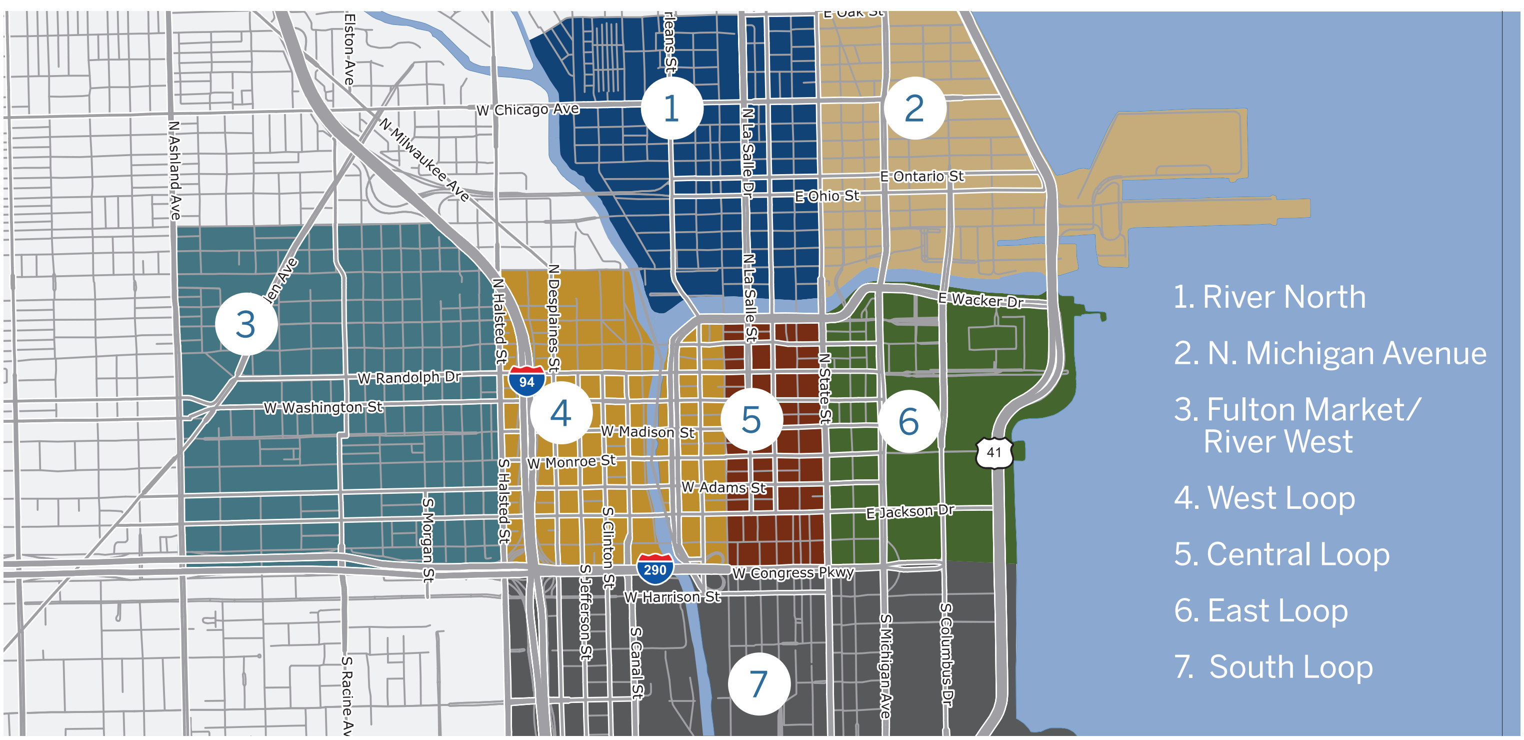
TENANT	LOCATION	SUBMARKET	SIZE (SF)	TYPE
Adtalem Global Education (DeVry)	500 W. Monroe	West Loop	57,000	Sublease
Discovery Partners Institute	200 S. Wacker	West Loop	45,000	Expansion
KDM Engineering	1308 N. Elston	Goose Island	35,000	New
Marmon Group	181 W. Madison	Central Loop	21,000	Renewal/Contraction
Sloan Valve	333 N. Green	Fulton Market	20,000	New

MAJOR AVAILABLE SUBLEASES

TENANT	LOCATION	SUBMARKET	SIZE (SF)
Conversent	101 N Wacker	West Loop	106,732
Ronin Capital	350 N Orleans	River North	72,000
Snapsheet	1 N Dearborn	Central Loop	52,165
Cars.com	300 S Riverside	West Loop	52,000
SAC Wireless	540 W Madison	West Loop	41,371

BY THE NUMBERS

	CHICAGO		NATIONAL
Market Sales Price	$316 PSF	<	$319 PSF
Cap Rate	6.40%	<	6.90%
Asking Rate	$41.51 PSF	>	$34.40 PSF
Gross Availability Rate	19.69%	>	14.80%



TCN WORLDWIDE REAL ESTATE SERVICES