

A photograph of a Chicago downtown street at night. On the left, a multi-story brick building with ornate architectural details and several external fire escapes is illuminated by warm streetlights. A train is visible on an elevated track in the foreground, moving towards the viewer with its headlights on. The street is lined with other buildings, and a tall, modern skyscraper is visible in the background against the dark night sky.

AVISON
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Chicago downtown office market report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Chicago unemployment rate to rebound from a high of 16.4 percent at the height of the pandemic to **7.1 percent as of August 2021**.
- Office-using job losses have totaled **3.7 percent** compared with 4.7 percent for other industries' job losses, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Recovery rate

- There is a significant dichotomy between Chicago return-to-work efforts and other representative areas of interest. Office visitor volumes are **-72.5 percent** while healthcare **(-17.5 percent)** and education **(-13.4 percent)** have largely returned to pre-COVID levels compared with the same period in 2019.
- Overall office visitor volume throughout the CBD is up **27.8 percent** since this summer's Fourth of July.



Office activity

- Leasing activity continues to rebound from last year. Closed deals totaled **1.3M sf**, up for the third quarter in a row.
- Available sublease space sits at record highs totally over **6M sf**. Sublease vacancies, however, remain at slightly lower levels than during the Global Financial Crisis (GFC).
- Fulton Market remains a beacon for Chicago investment. Average on Class A buildings are trading **2.6x** higher per square foot than the rest of the CBD.

01.

Economic and demographic trends

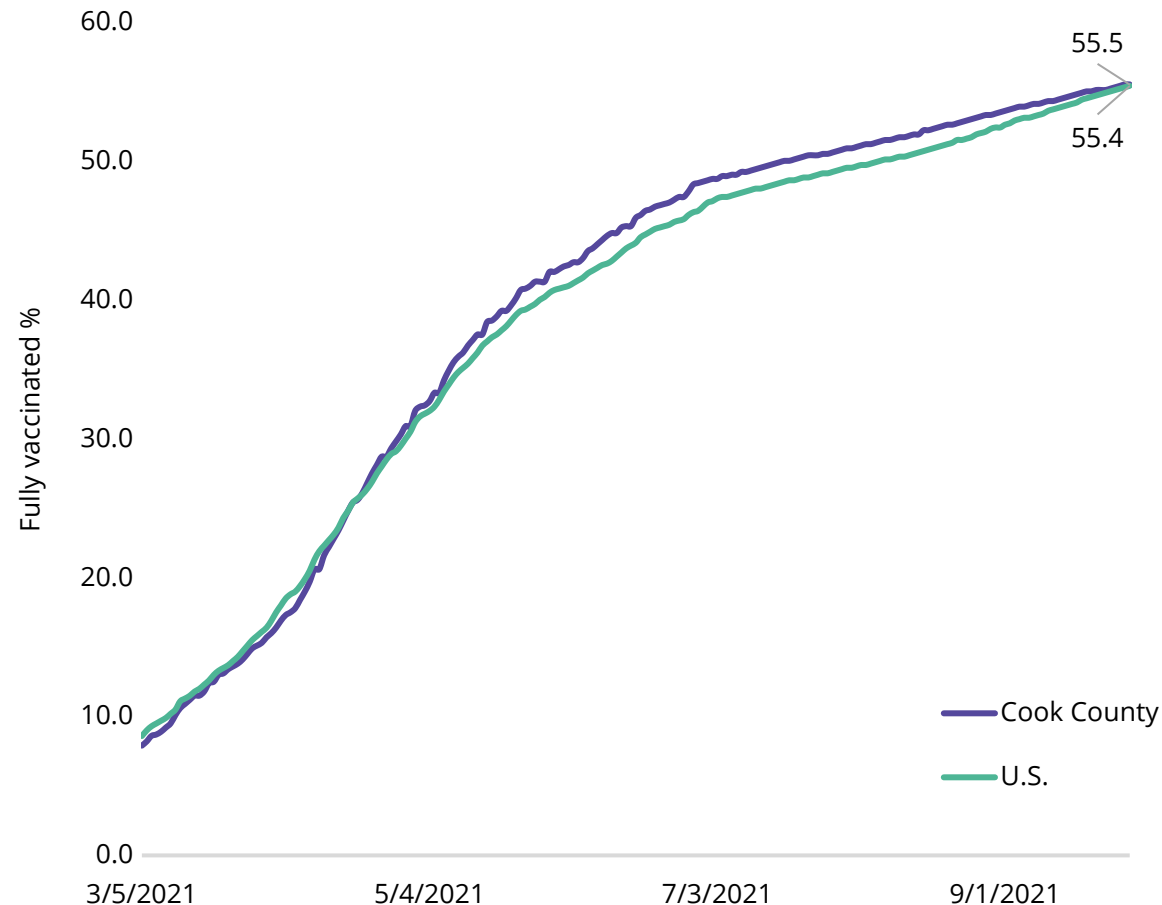
The pandemic immediately shocked the Chicago economy, though there have been incremental signs of a recovery as the city reopens.

Vaccination rates

55.5%

Share of total Cook County population that is fully vaccinated

Cook County proportionate vaccination rates have surpassed U.S. averages, an important metric that has allowed the city to loosen restrictions.



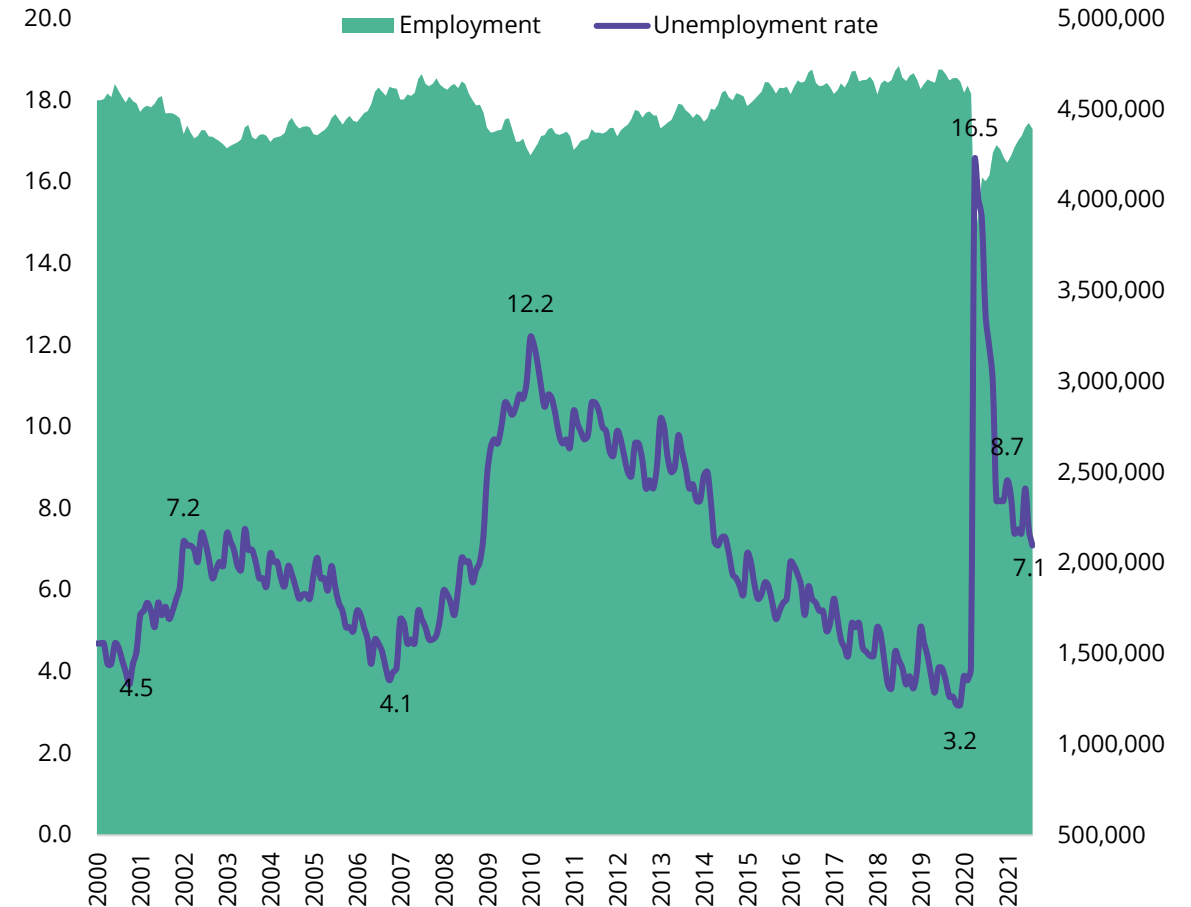
Source: CDC

Employment and unemployment rate

7.1%

Chicago MSA unemployment rate as of August 2021, dipping below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with nearly 860 thousand job losses between February and April 2020. However, reopening efforts have enabled the economy to add 16.4% jobs since April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-3.7%

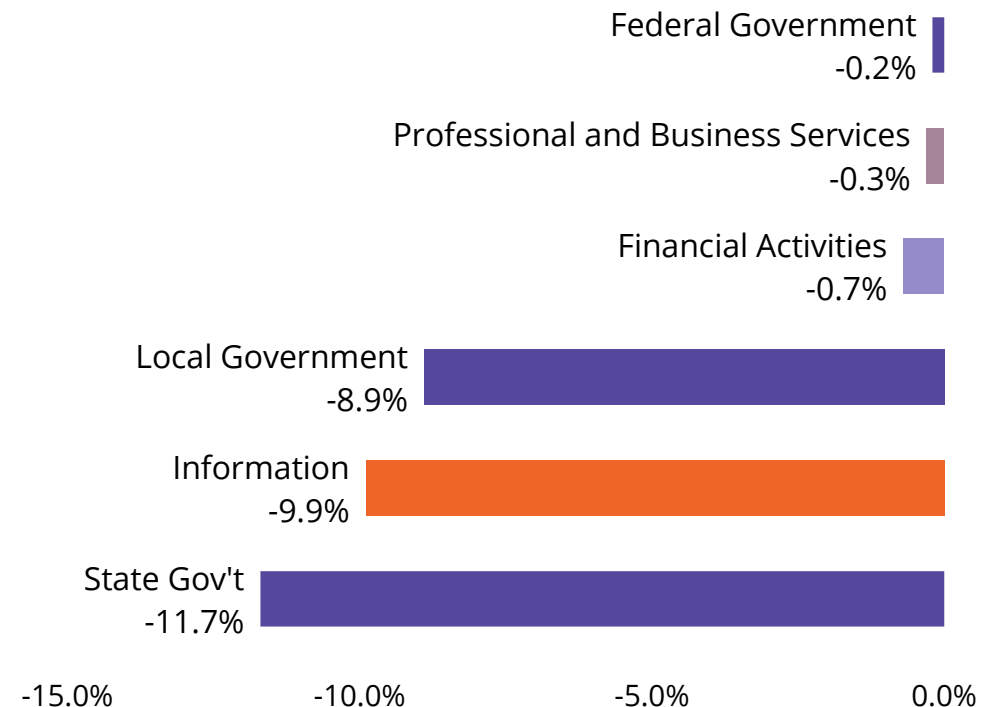
Change in office-using employment during the pandemic

Chicago Metro job losses have declined by 4.1% since the start of the pandemic, though office-using jobs contracted by just 3.7%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when Financial Activities job losses totaled 8.9%.

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Total change in Chicago Metro* job gains/(losses)

February 2020 to July 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

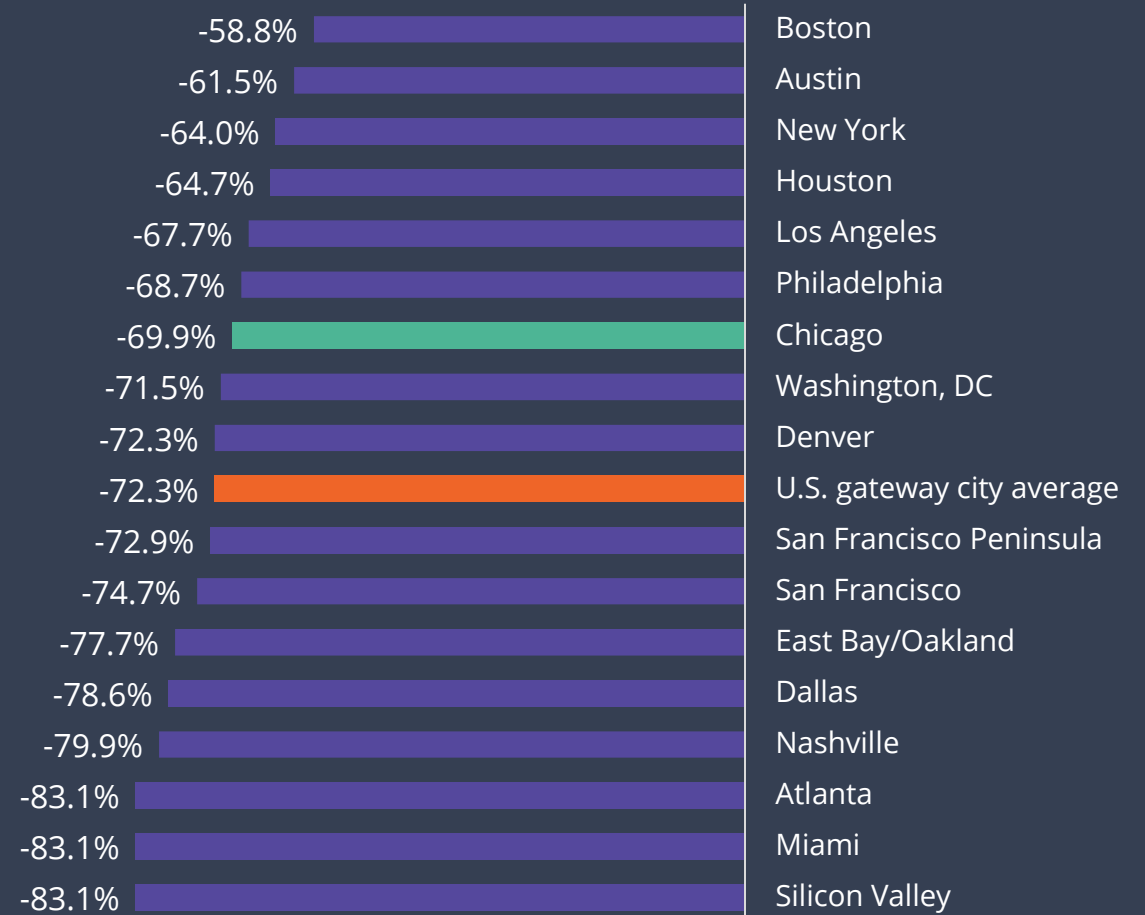
U.S. return-to-work rates since start of COVID

-72.3%

Average office visitor volumes across
U.S. gateway cities, March 2, 2020 vs.
September 20, 2021

Return-to-work efforts across cities have been influenced
by governmental regulations (informed by infection and
vaccination rates), office-using industry composition and
employees' reliance on mass transit.

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Note: Representative full-building office occupiers only.
Weekdays only. Data as of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

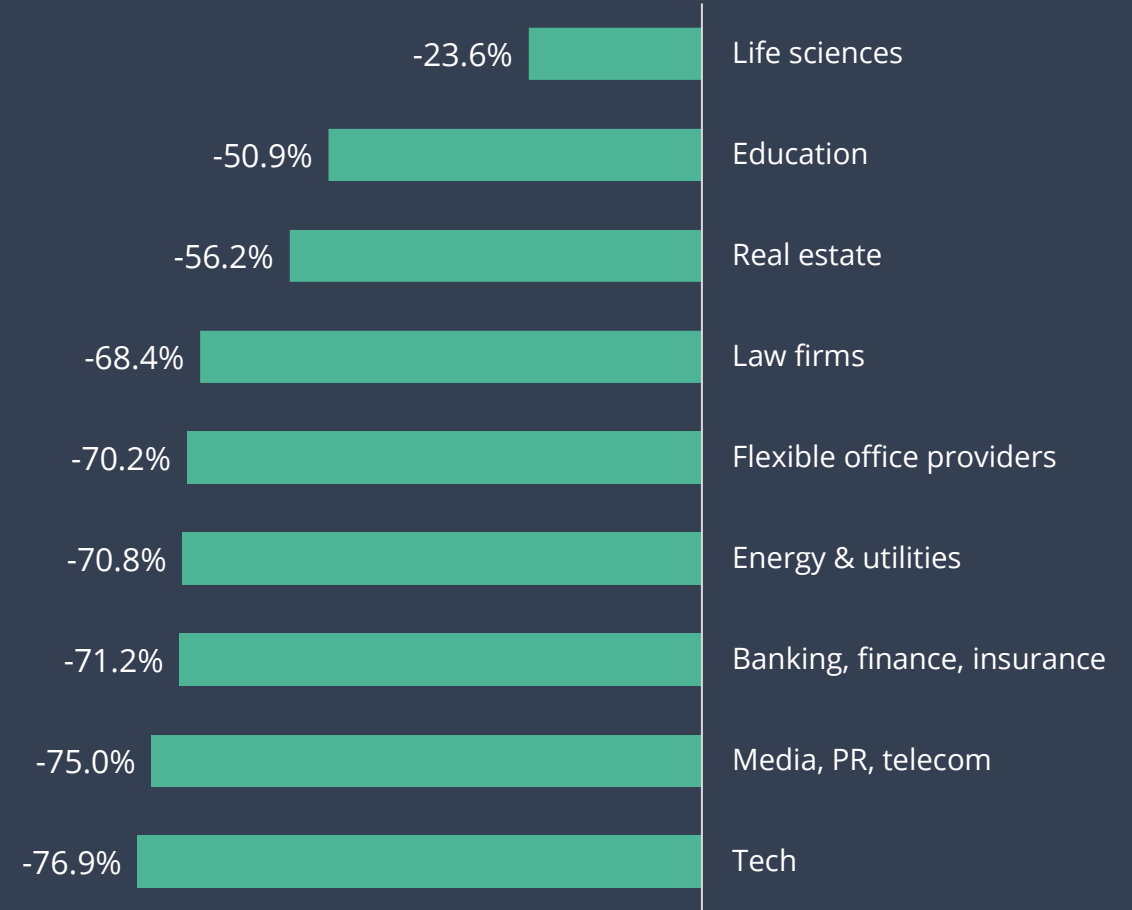
U.S. return-to-work rates since start of COVID

-76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

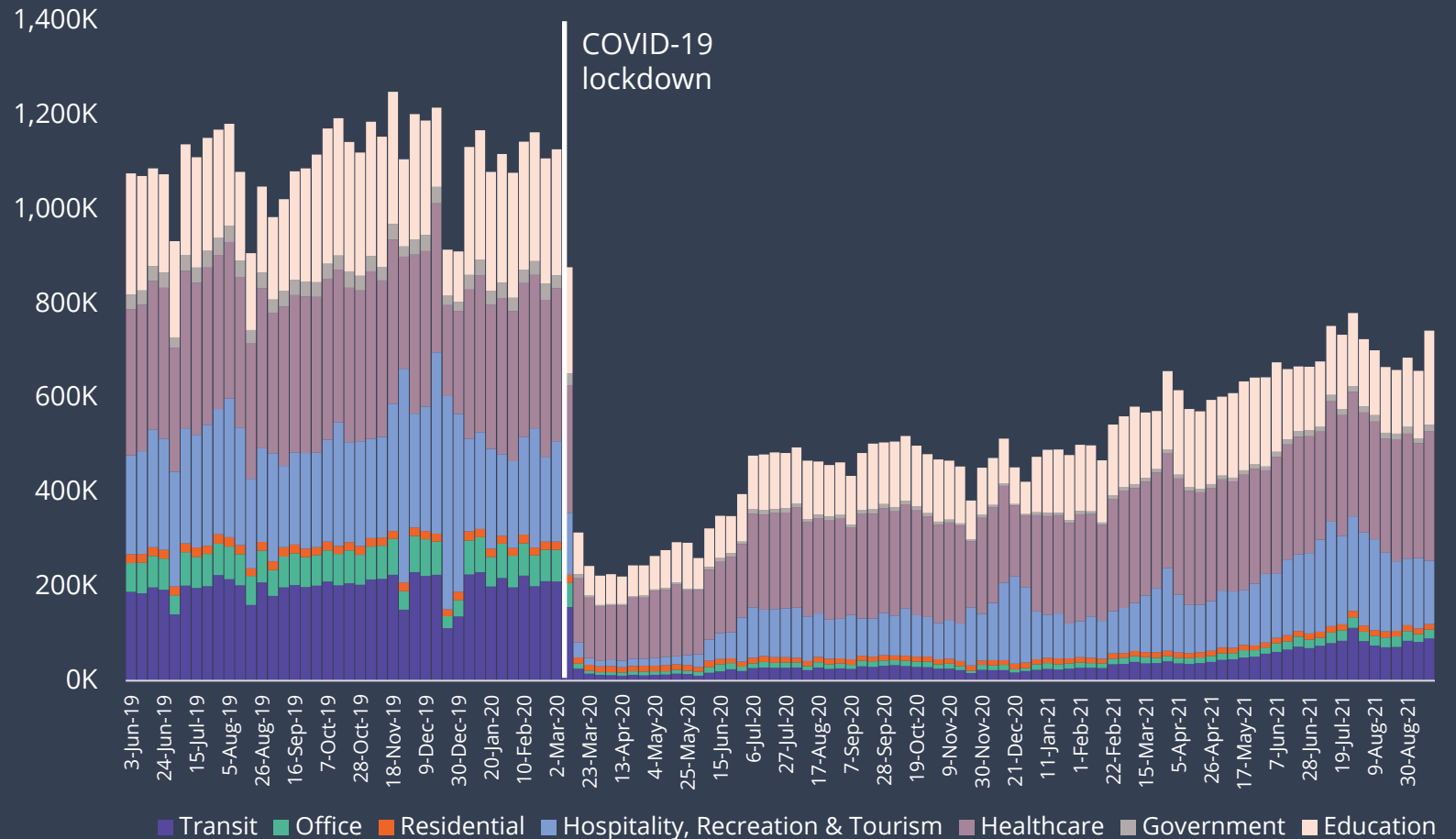
Local historical visitor volumes

-31.3%

Total visitor volume,
September 16, 2020 vs.
September 13, 2021

Healthcare (-13.4%) and education
(-17.5%) have nearly returned to pre-
COVID activity levels, though office
(-72.5%) has lagged all other property
types.

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Note: Representative areas of interest. Weekdays only.
Weekly visitor volumes referenced above.
Source: Orbital Insight, AVANT by Avison Young

Change in local activity levels, 2019 vs. 2021

-72.5%

Office

-15.8%

Retail

-56%

Transit

-17.5%

Healthcare

-13.4%

Education

-59.9%

Government

-36.4%

Residential

-31.0%

Hospitality &
Tourism

Note: Select, representative areas of interest only. Weekdays only.
Week of September 16, 2019 vs. week of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

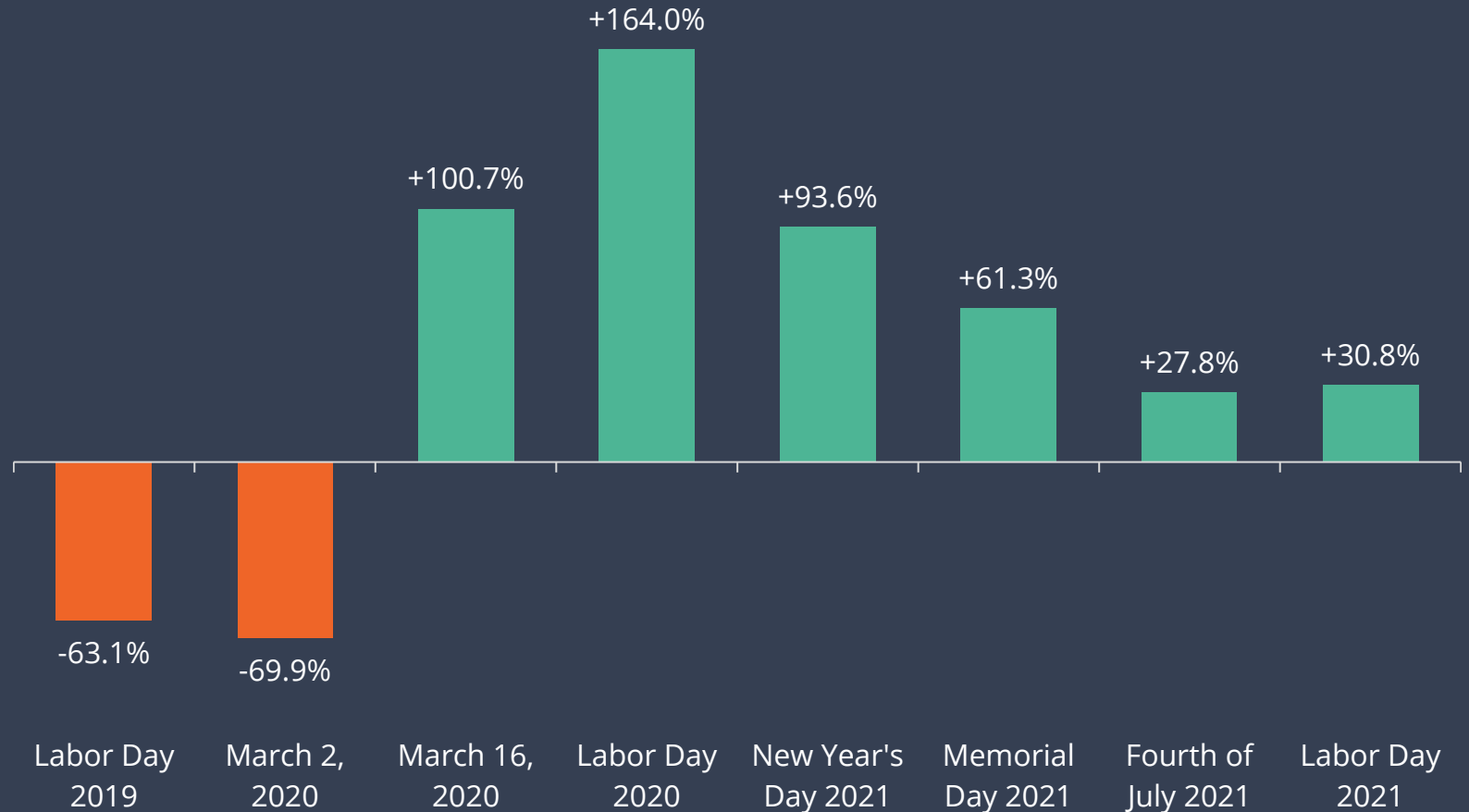
Evolution of local return-to-work efforts

+27.8%

Chicago office visitor volume
since Fourth of July 2021

Chicago return-to-work efforts to rise
throughout 2021, albeit at levels that
were lower than previously anticipated
due to the spread of the delta variant in
the summer months.

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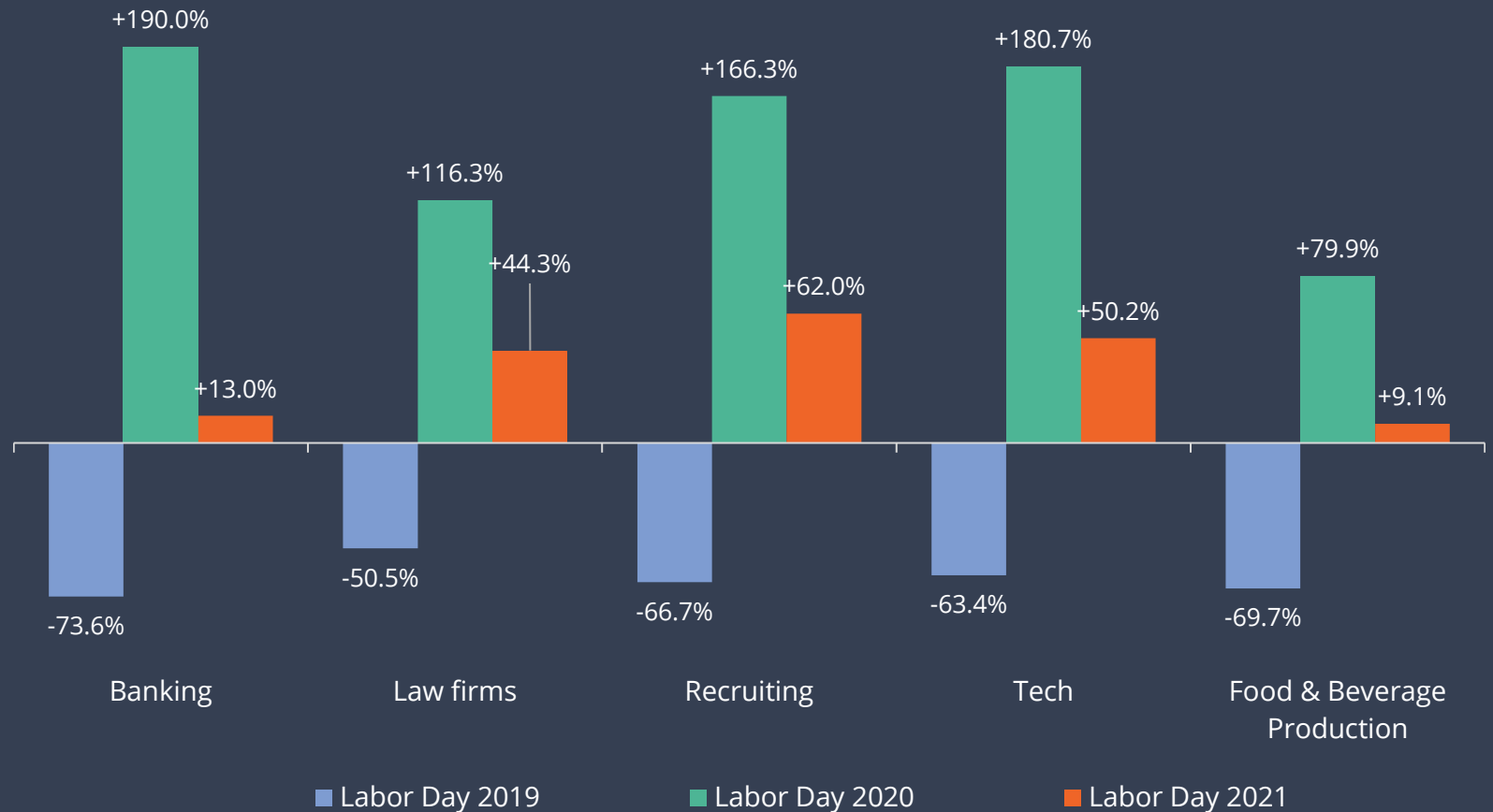
Note: Select, representative occupiers only. Weekdays only.
Data as of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

Local return to work efforts by industry

-50.5%

Law firm office visitor volume
since Labor Day 2019

Chicago law firms have reinforced
hybrid remote/in-person work
schedules, though creative companies
have adopted remote work strategies.



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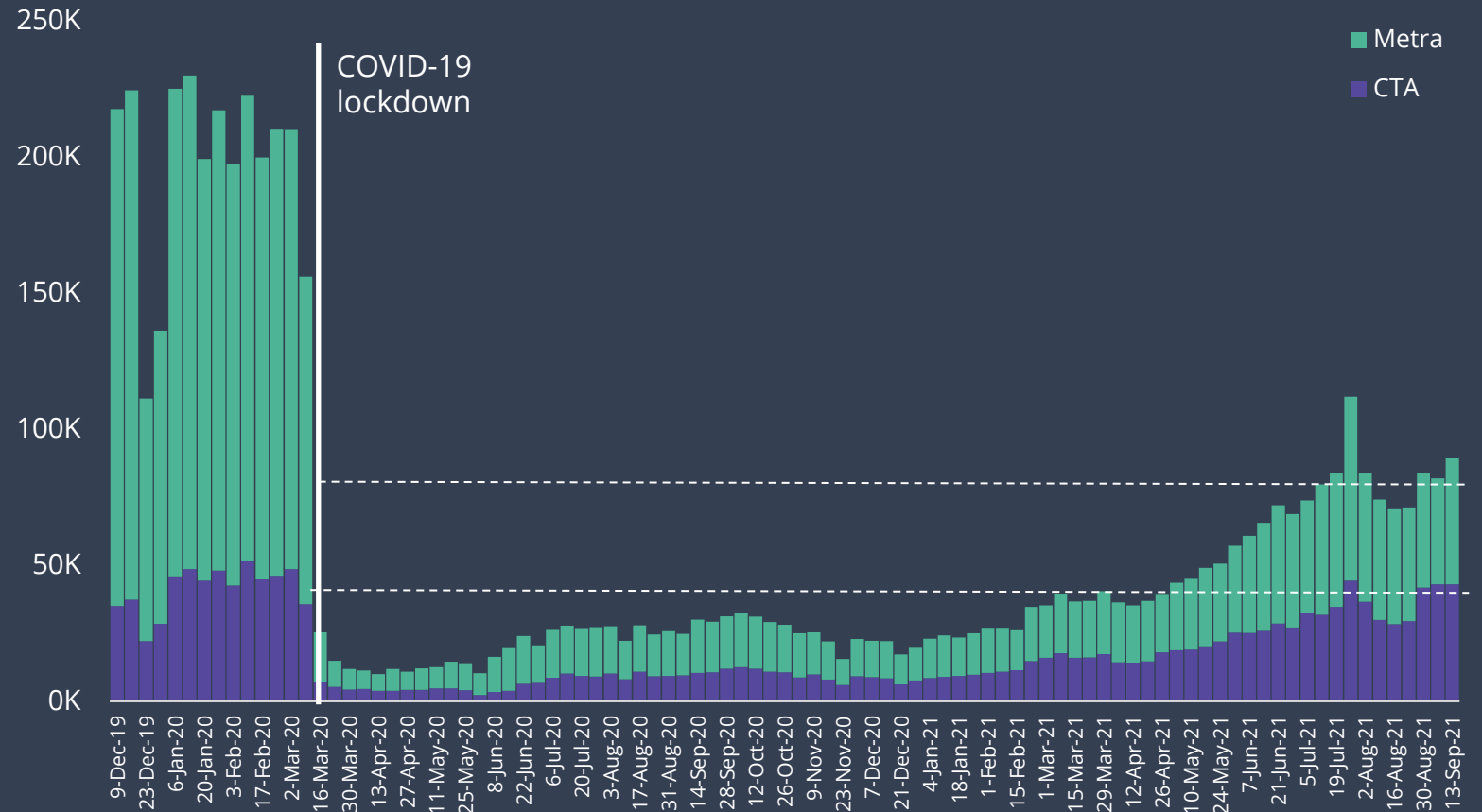
Note: Representative full-building office occupiers only.
Weekdays only. Data as of September 20, 2021.
Source: Orbital Insight, AVANT by Avison Young

Public transit recovery

41.8%

Post-COVID quarterly ridership recovery of CBD Metra/CTA stations through 9/17/21

Looking specifically at this past quarter, total CTA ridership was a promising 78.3% of what it was in Q3 2019. Metra, however, was only 30.8%.



Note: Stations tracked include Ogilvie Transportation Center (Metra), Union Station (Metra), LaSalle St Station (Metra), Millennium Station (Metra), Morgan Station (CTA), Fullerton Station (CTA), Roosevelt Station (CTA), Damen Station (CTA).

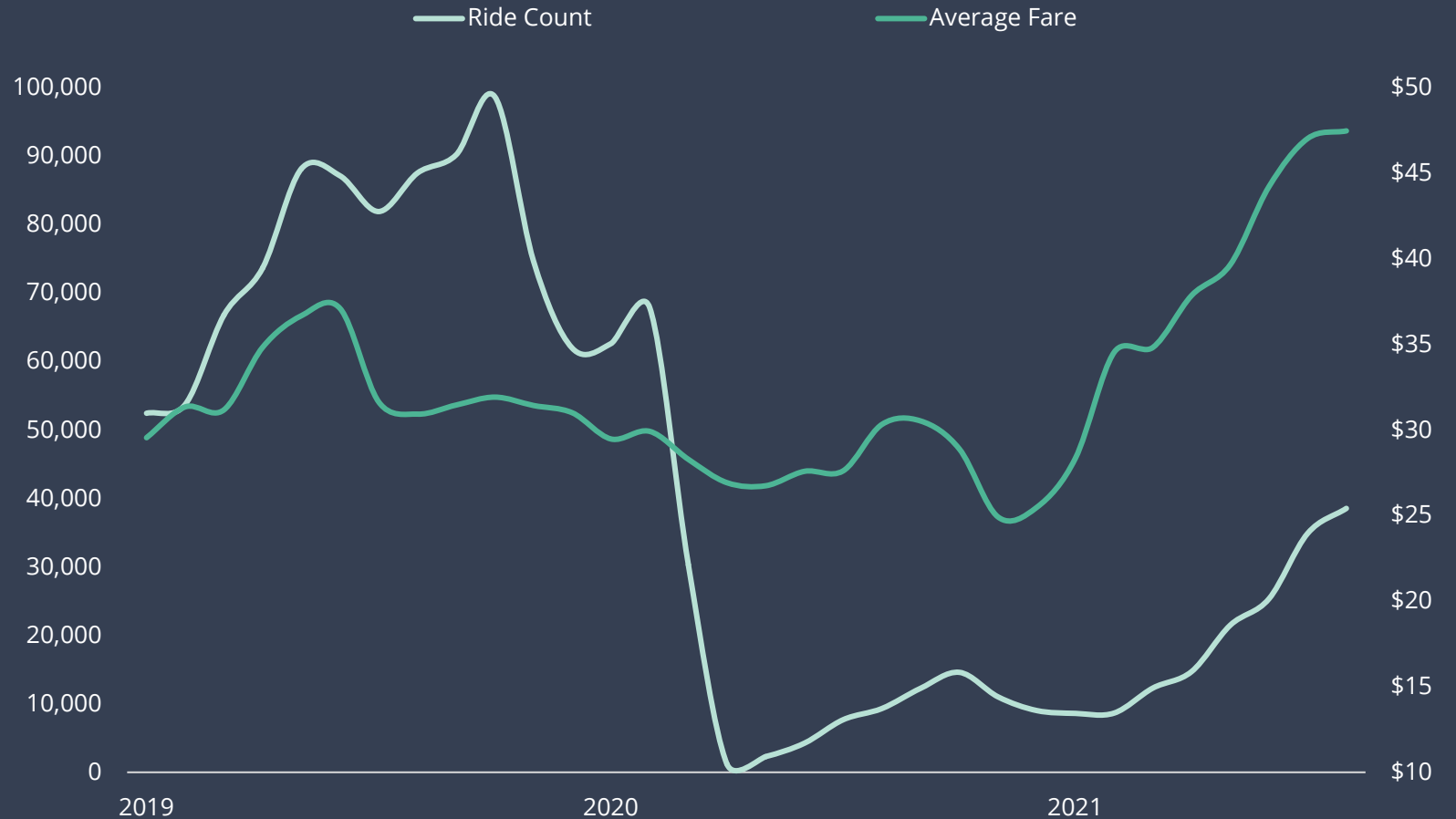
Source: Orbital Insight, AVANT by Avison Young

Ride share prices surge

+67.4%

Change in average fare for rideshares between O'Hare and the Loop since January 2021

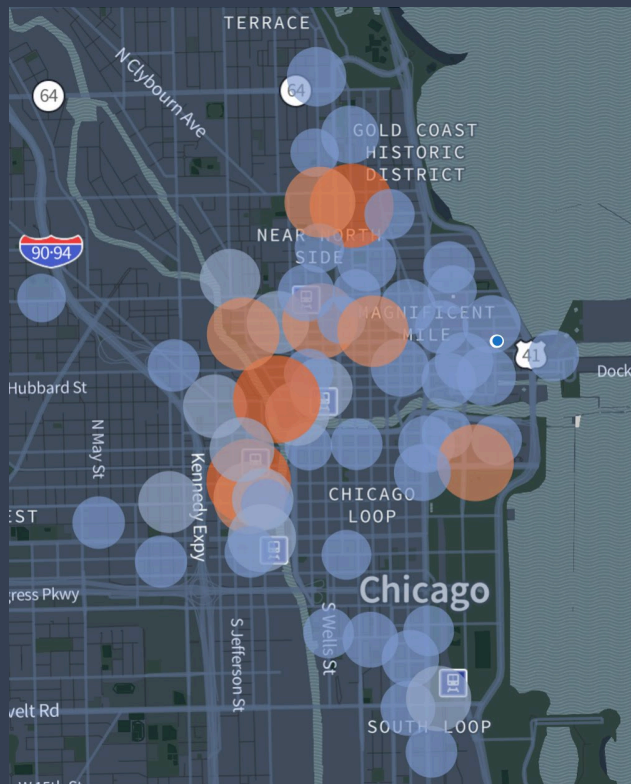
Decreases in drivers coupled with new public-ownership responsibilities have caused prices to surge citywide. If continued, the importance of personal parking for office tenants may rise.



Source: AVANT by Avison Young, City of Chicago

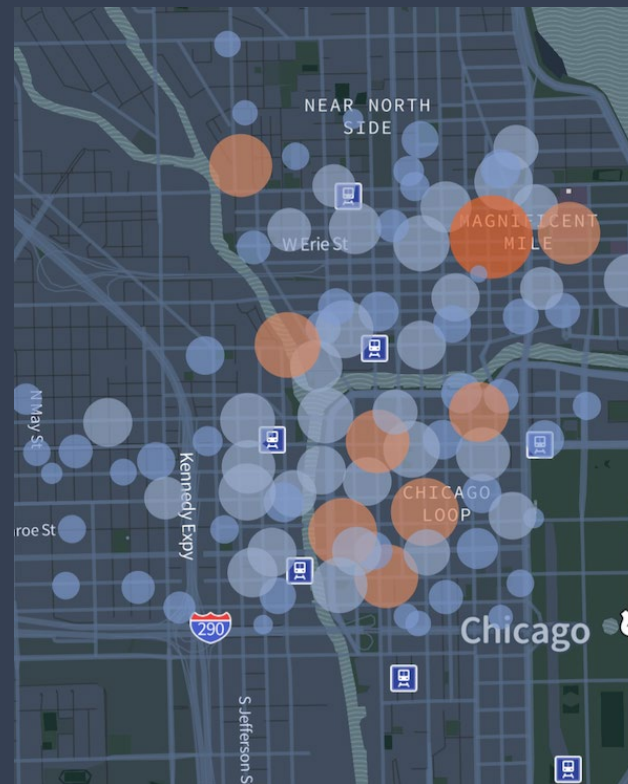
Growth of shared bikes

As commuters look toward other options besides mass public transit, Divvy single-use bike rentals have grown tremendously since the start of April at 77.5%. Stations in River North and West Loop have felt the most activity.



Starting Commute Locations 2021YTD

- Kingsbury & Kinzie
- Clinton St & Washington
- Clark & Elm
- Columbus & Randolph
- Wells & Huron
- Kinsbury & Erie
- Clinton & Madison



Ending Commute Locations 2021YTD

- St. Clair & Erie
- Franklin & Monroe
- Dearborn & Monroe
- Kingsbury & Kinzie
- LaSalle & Jackson
- Clark & Randolph
- Larabee & Kingsbury

Note: Rides taken weekdays between 5:00AM and 11:00AM.

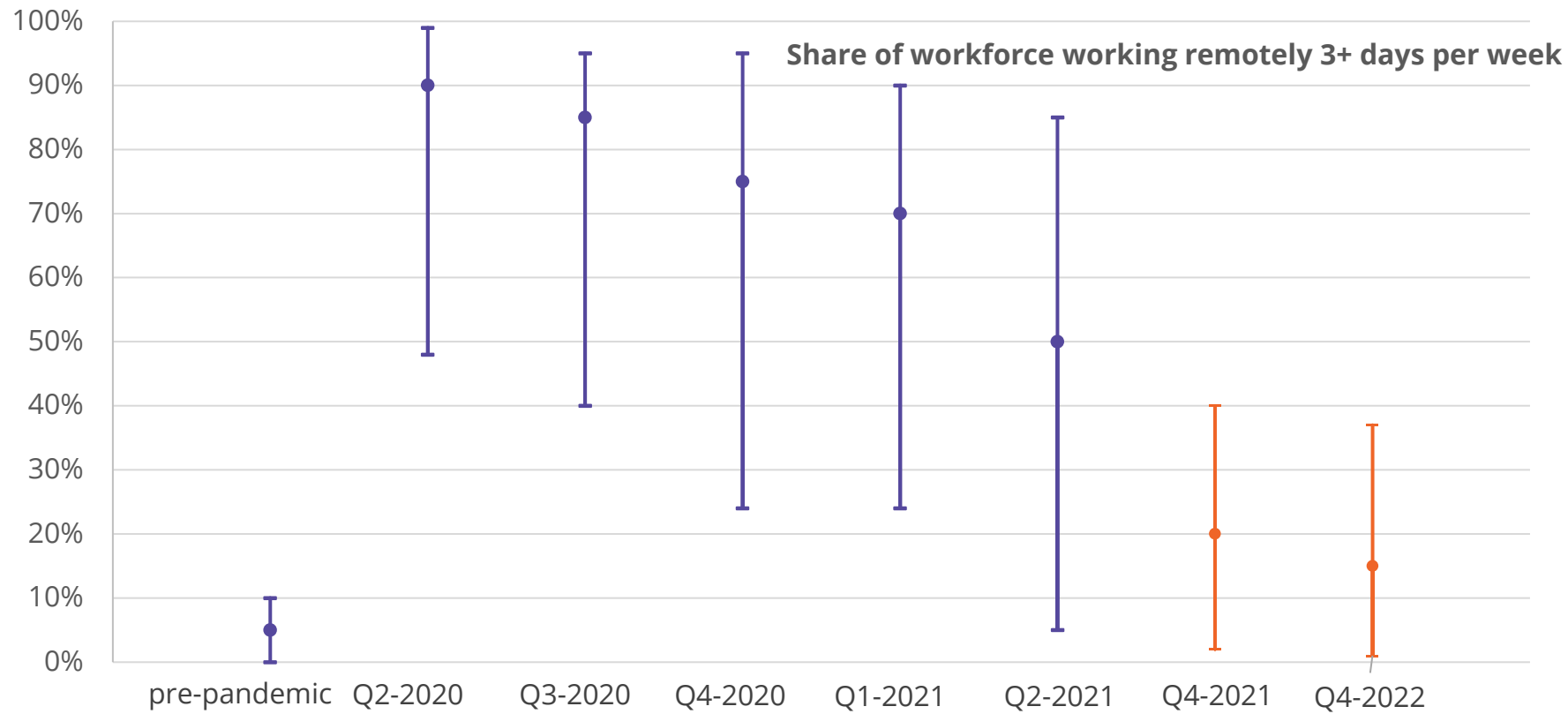
Minimum 1000 rides per station.

Green stations are in River North, Purple are in West Loop, Blue are in East Loop

Source: Divvy, AVANT by Avison Young

Employers are embracing hybrid work models

According to an August 2021 survey conducted by the Chicago Fed, most Chicago employers are allowing their workforce to work on rotating or hybrid work shifts with a gradual return to full-time on-site schedules. The growing spread indicates no consistent strategy has been adopted; companies remain operating on their own unique situations.



Note: Circle represents median value, high and low ends represent 75th and 25th percentiles, respectively.
Source: Federal Reserve Bank of Chicago (August 2021)

02.

Market conditions

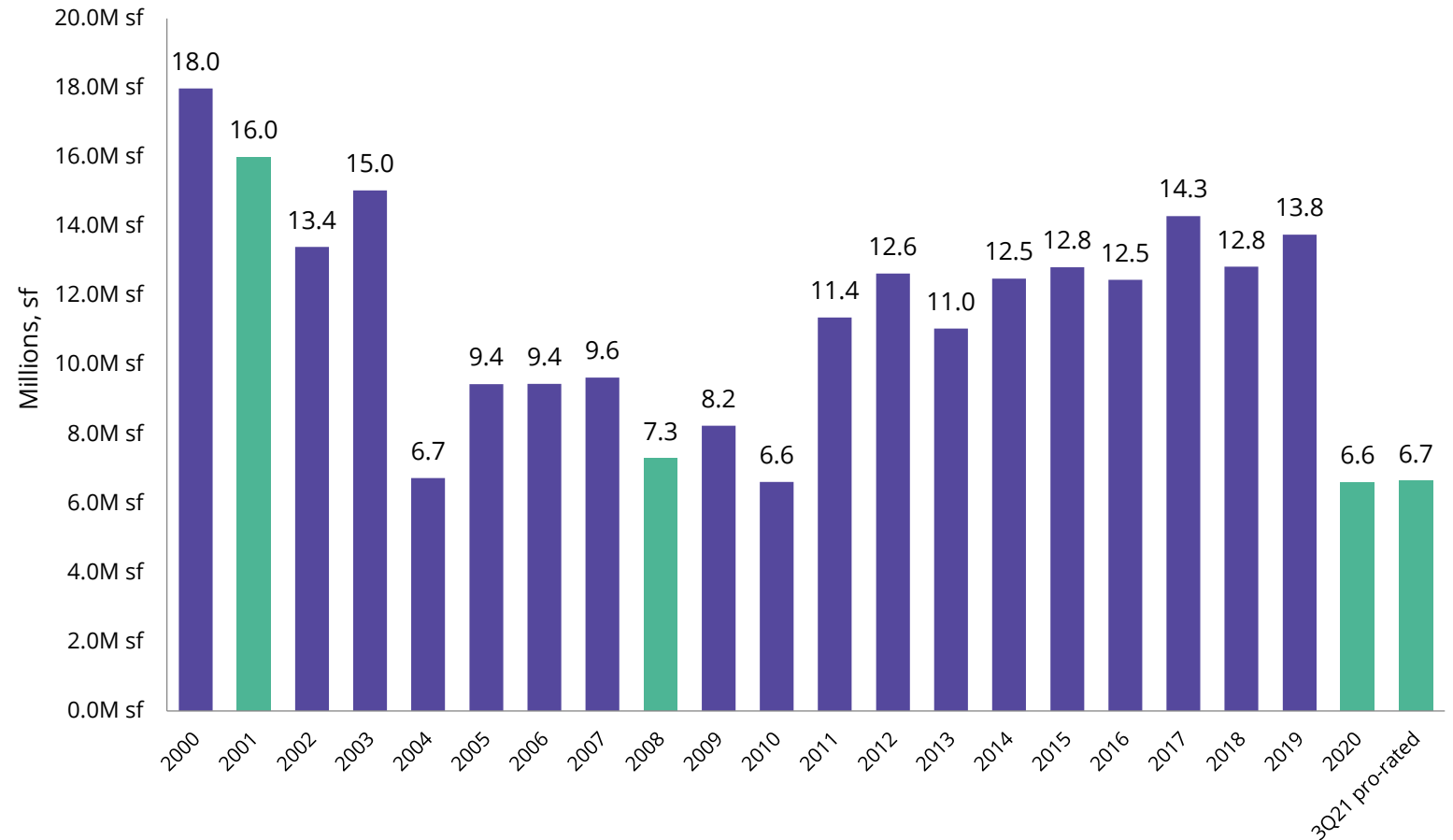
Demand temporarily paused, allowing supply to reach record levels. While cautious, tenants are navigating the market with more conviction, indicating potential recovery signs in select market segments.

Office leasing activity

-43.2%

**2020/pro-rated 2021 vs.
prior 20-year annual
average leasing activity**

Leasing activity showed signs of life after a slow first half of 2021, increasing from 1.3M sf in Q1 2021 to 1.4M sf in Q2 2021 to 2.3M sf in Q3 2021. Annual deal volume is on pace to eclipse 2020, but otherwise remains at its weakest point since 2007.

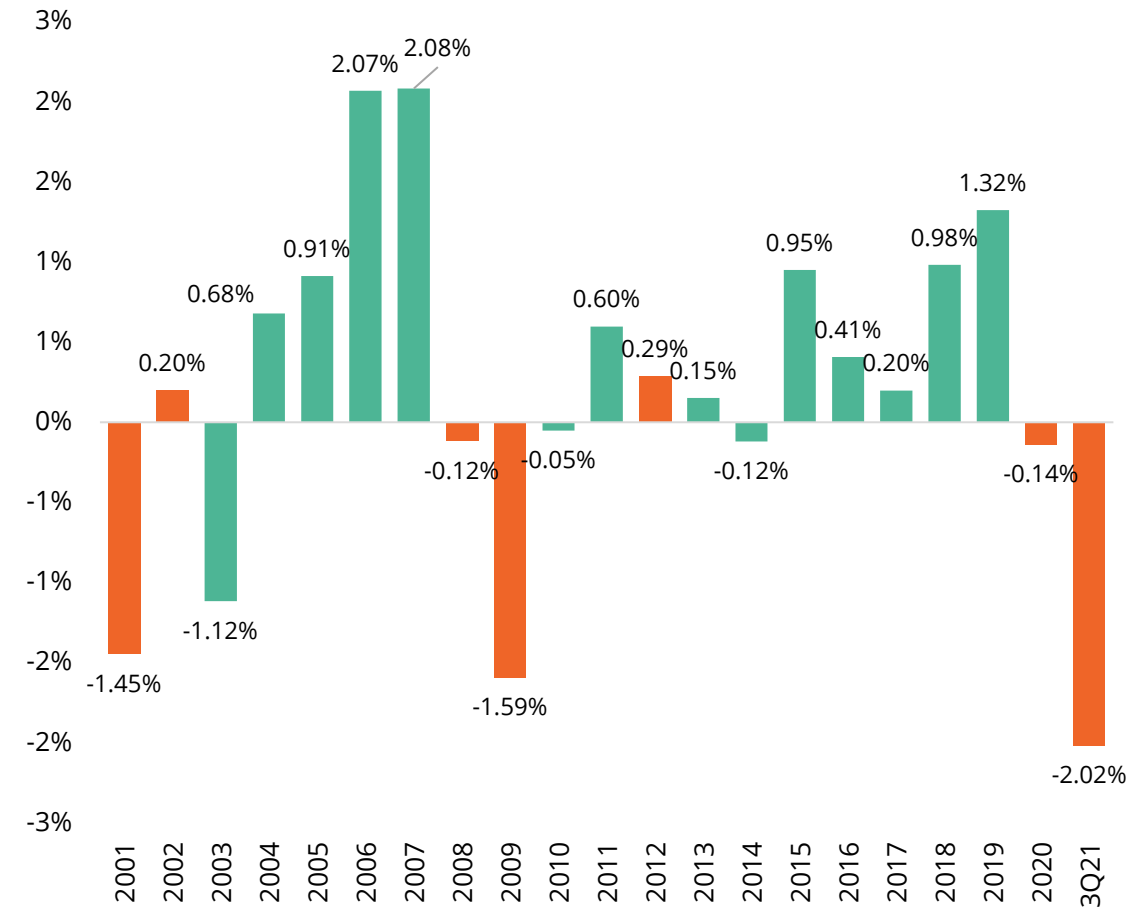


Source: AVANT by Avison Young, CoStar

-2.02%

2021 net absorption as a percentage of inventory, through Q3

Negative absorption YTD has totaled 3.7 million sf, totaling -2.02% of the existing stock. This negative absorption surpasses the lows of the early 2000's recession (-1.45%) and global financial crisis (-1.59%).



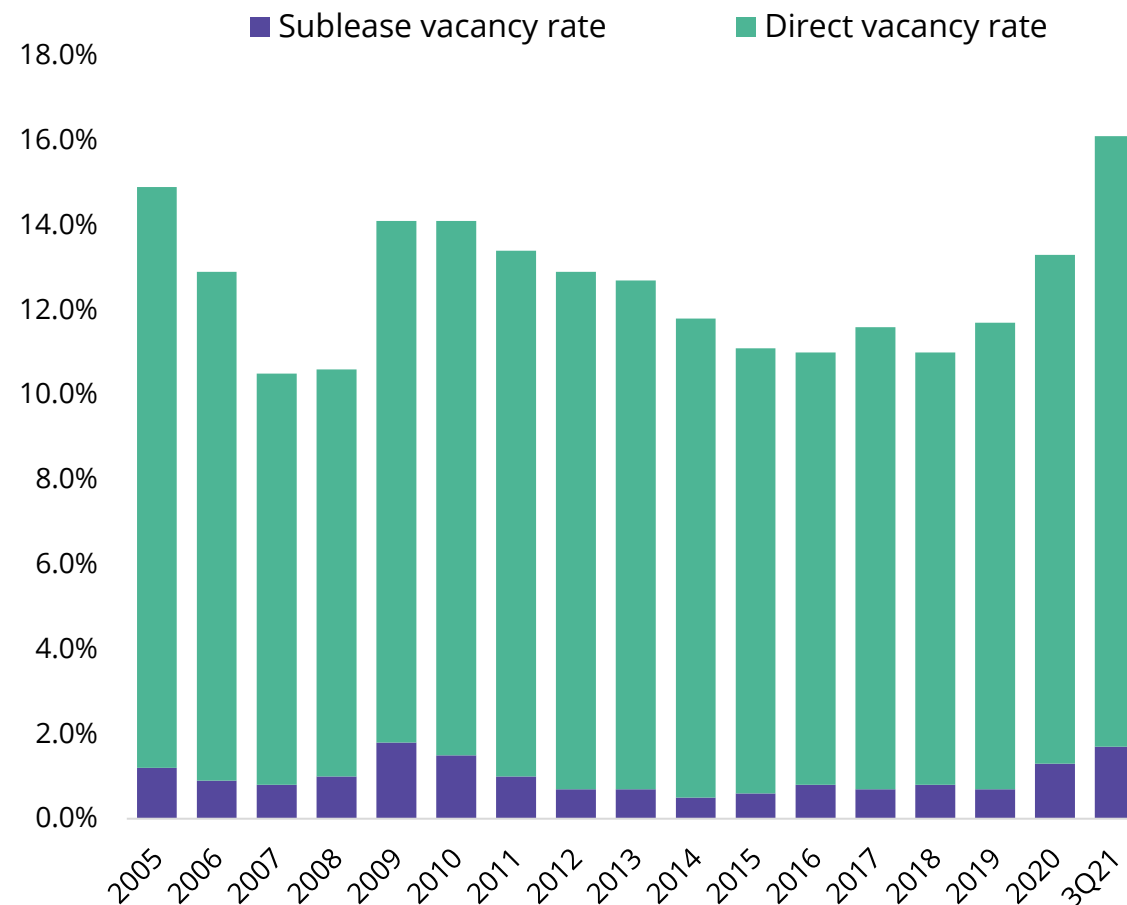
Source: AVANT by Avison Young, CoStar

Vacancy rate

16.1%

**Record high Chicago
vacancy as of Q3 2021**

Direct vacancy rates of 14.4% in Q3 2021 remained at an all time high. Looking away from new construction, Class-A buildings built before 2015 have a slightly lower collective vacancy of 15.2%.



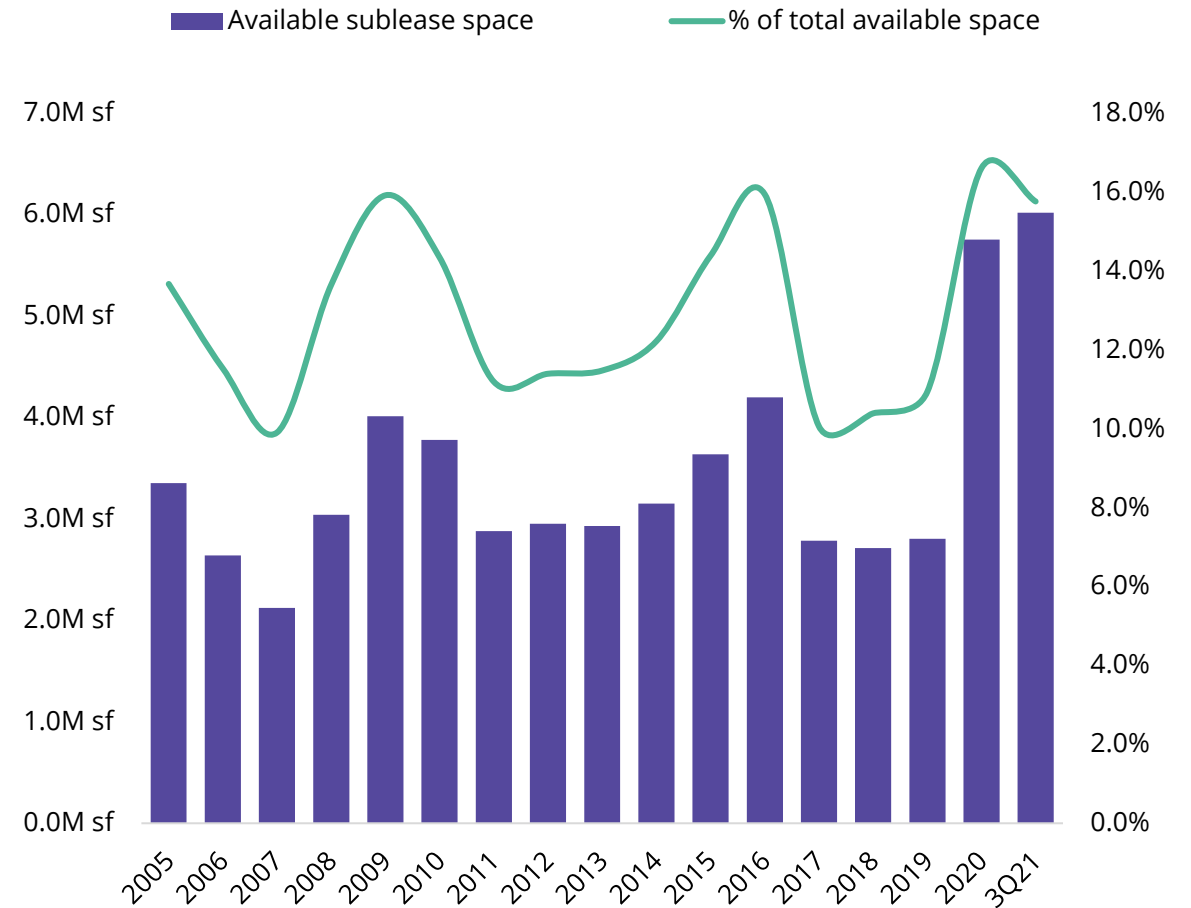
Source: AVANT by Avison Young, CoStar

Available sublease space

6.02M sf

Record level of sublease vacant space

Tenants have more sublease optionality in the current environment compared with the Global Financial Crisis. The scale of sublease availabilities has no modern precedent and the proportionate 15.8% share of sublease availabilities remains at post-2016 highs.



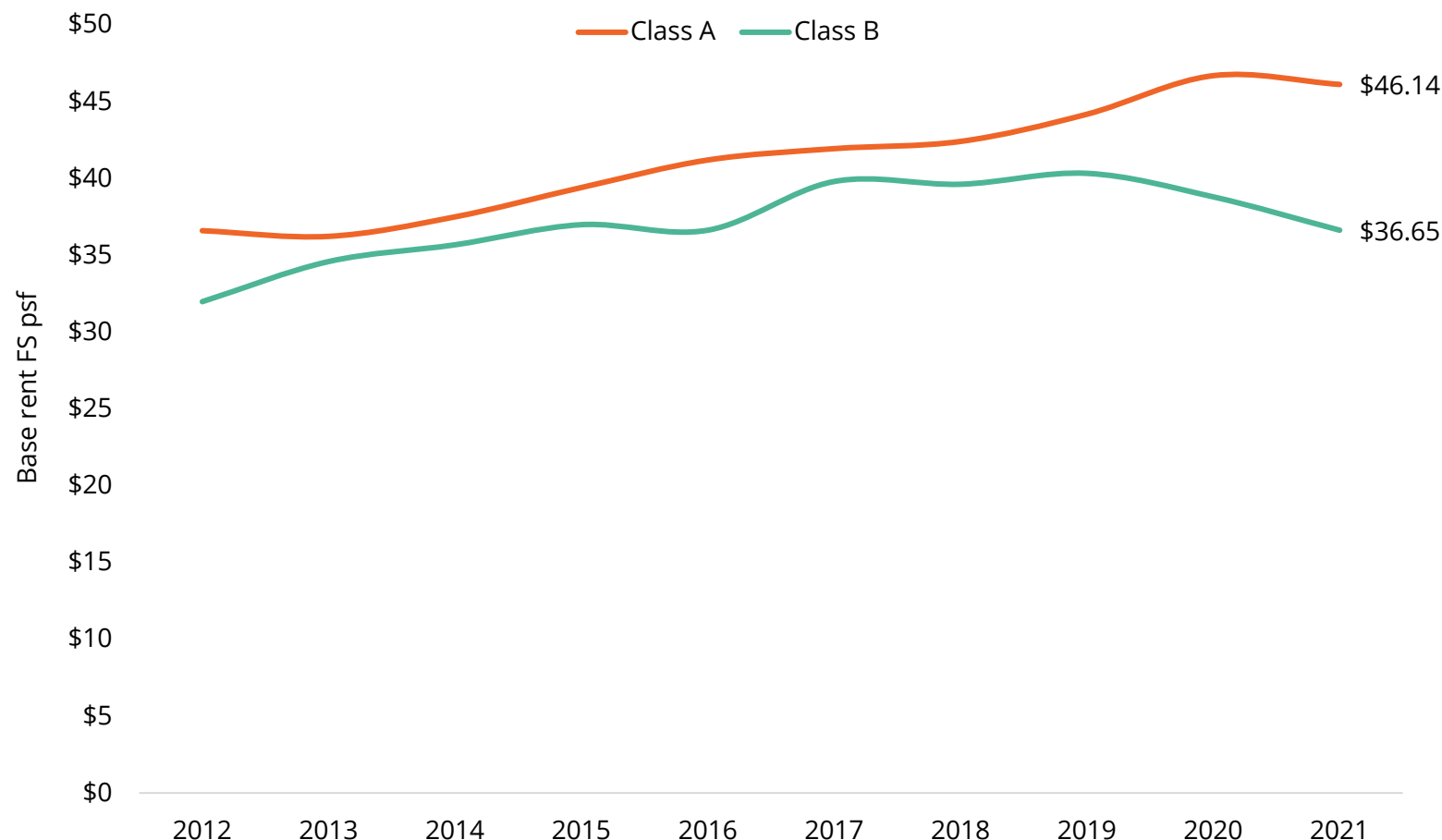
Source: AVANT by Avison Young, CoStar

Gross rents

+4.3%

Change in gross Class A rents since pre-pandemic

While overall deal volume is still recovering, top quality buildings remain in demand. Lower class buildings continue to struggle as space quality and amenities appear to be driving activity.



Note: Excludes subleases
Source: AVANT by Avison Young

Office development pipeline

33 properties

proposed or under construction

13.1M sf

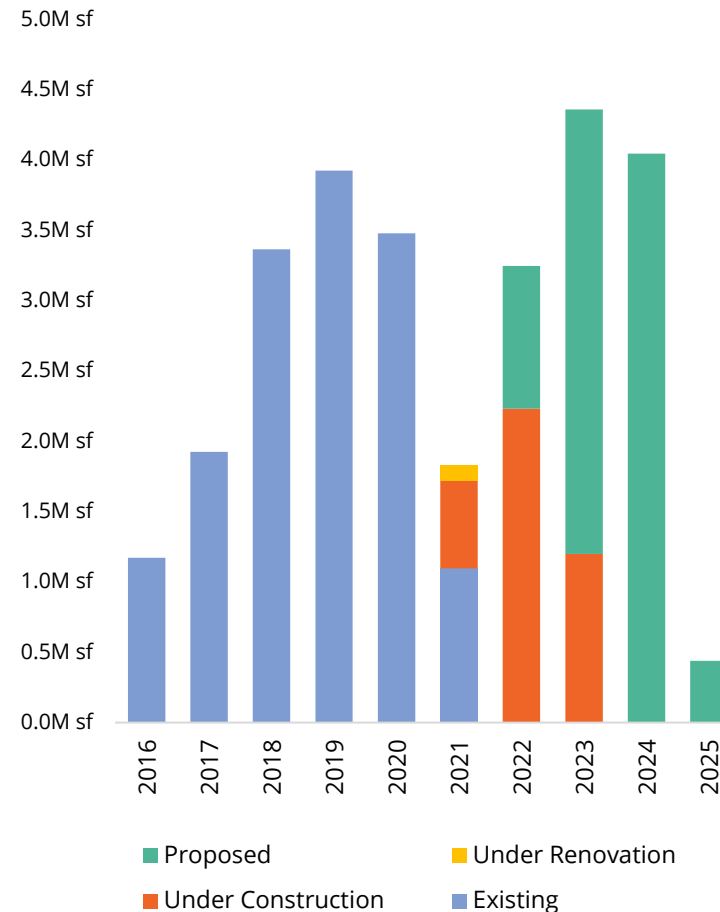
proposed or under construction

6.7%

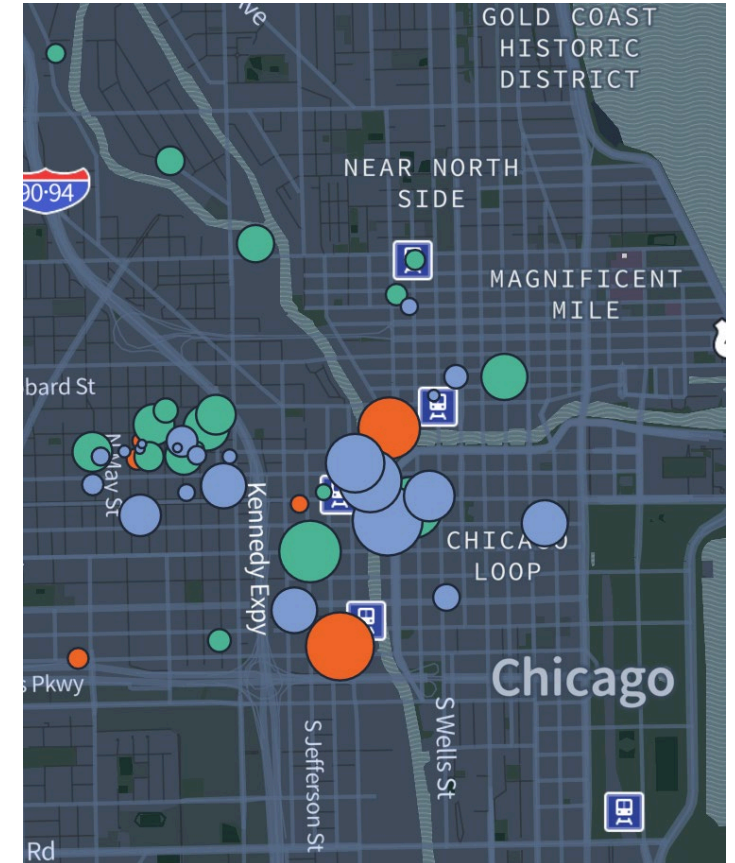
share of office inventory

1943

average delivery date of existing Chicago offices



Source: AVANT by Avison Young

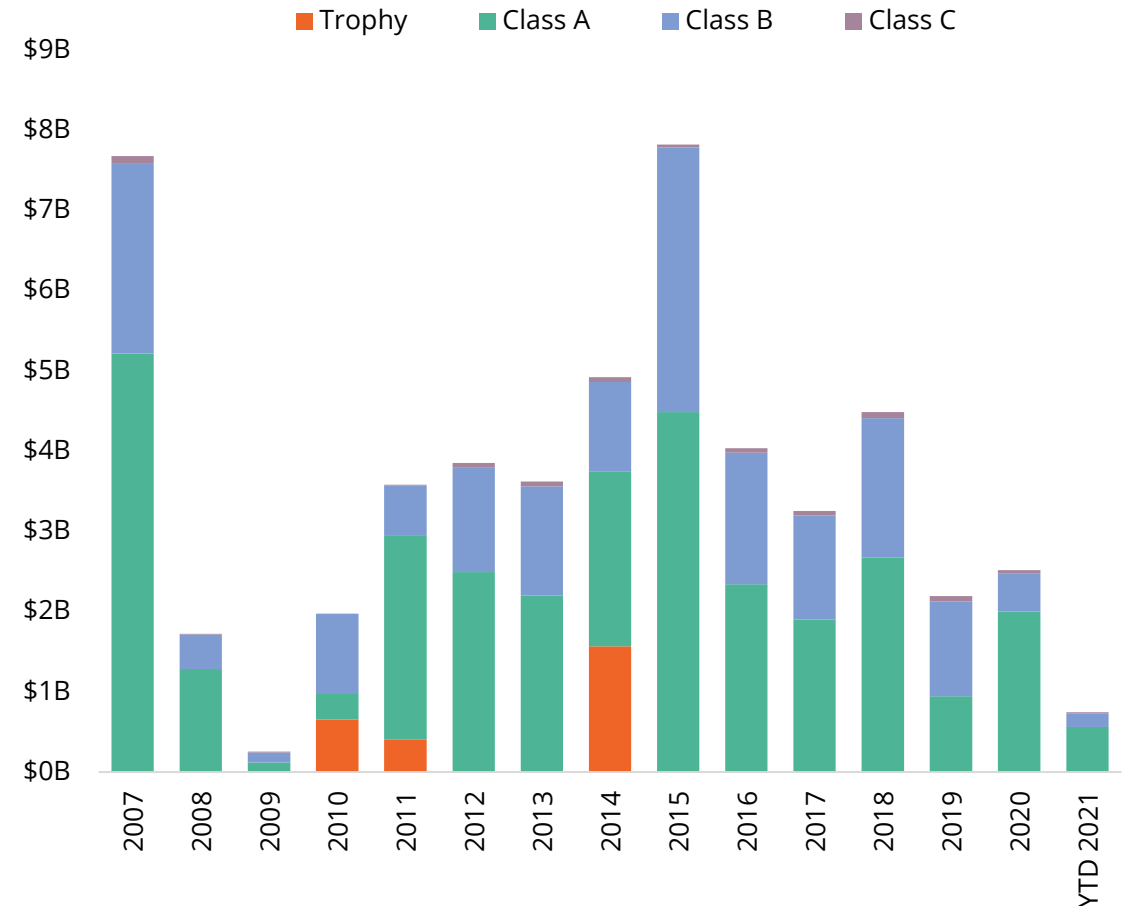


Office investment dollar volume

\$3.2B

Chicago CBD office dollar volume 2020 to present

Office sales activity has temporarily paused during the risk-pricing crisis, decreasing by an annualized rate of 50.1% compared with the prior five-year average dollar volume.



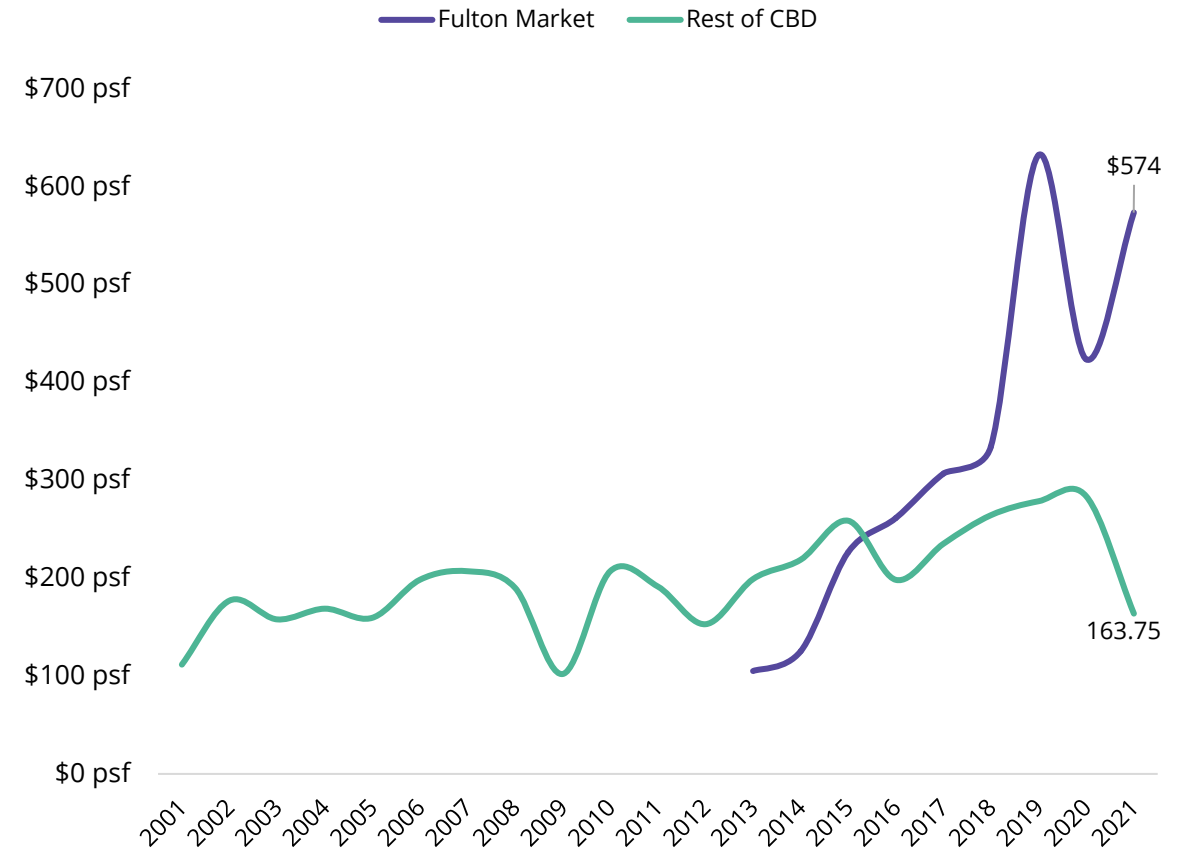
Source: AVANT by Avison Young,

Office asset pricing

73.6%

Chicago CBD office pricing from November 2019 to present

While volume has shrunk significantly since 2019, most of the remaining activity has occurred with high-class Fulton Market properties, showing a strong outlook for the area among investors.



Source: AVANT by Avison Young

Looking forward



Here's what we can expect

- RTO strategies and corresponding office needs still vary significantly company by company (see page 17). But with **some larger deals closing this quarter** (i.e. Kirkland & Ellis, Heinz), it will be important to watch for industry-specific trends to beginning to develop.
- New developments and vast assortments of amenities have kept **activity levels in Fulton Market considerably higher than the rest of the market**. If continued, other submarkets will need find to ways to compete.
- Whether for convenience, personal safety or cost, **many people have changes in their preferred means of transportation**. Our vitality index will continue to track how these trends impact the office market.





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Let's talk

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