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Chicago suburban 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

- Vaccination rates in DuPage County have reached **61.1 percent**, significantly higher than the national average.
- Return to office figures based on extrapolated cell phone data for the City of Chicago are down **-68.6%** from Labor Day 2019. Explore more [here](#).



Office supply/demand

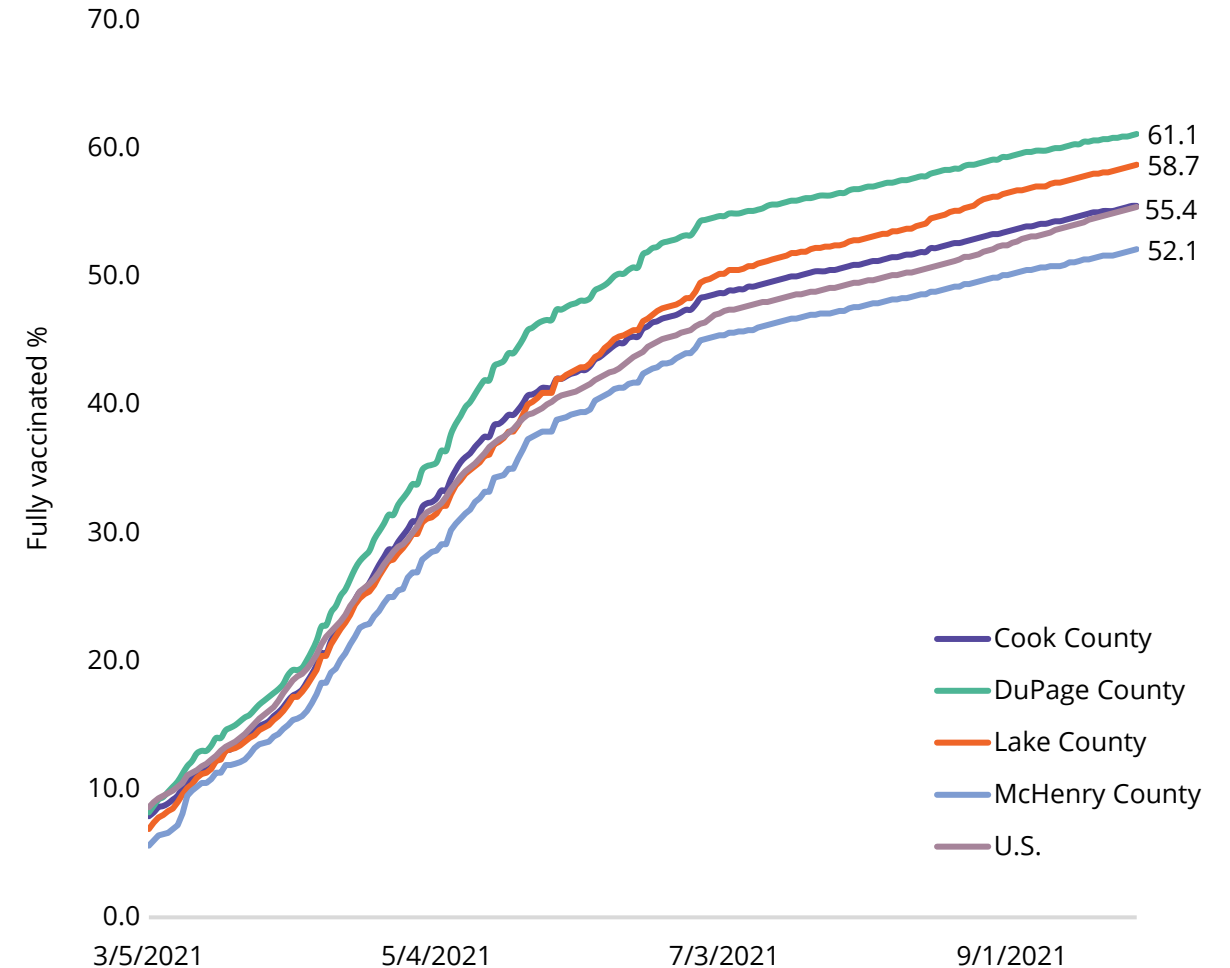
- While leasing activity has slowed, pro-rated activity volume for 2021 is projected to pass **5.8M SF**, outpacing 2020.
- Vacancy was recorded at **18.3%** at the end of the second quarter 2021, up 280 basis points from pre-pandemic levels.
- The market has entered a risk-pricing crisis despite continued record levels of dry powder. As a result, just **\$436M** of suburban offices have been sold this year, an annualized decrease of **38 percent** compared with the past five-year average.

Vaccination rates

61.1%

Share of DuPage County population that is fully vaccinated

Most suburban counties' proportionate vaccination rates have surpassed U.S. and City of Chicago averages, an important metric that has allowed the city to loosen restrictions.



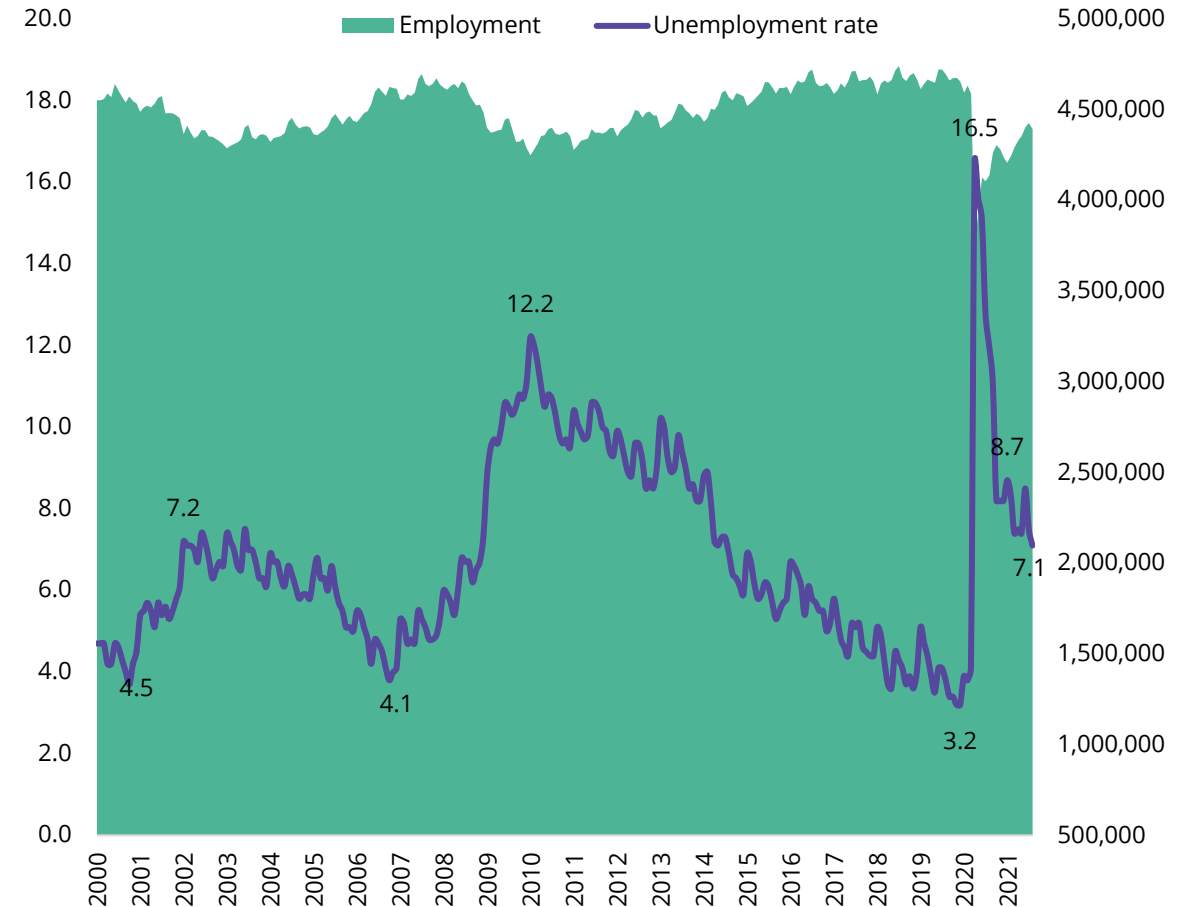
Source: CDC

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%

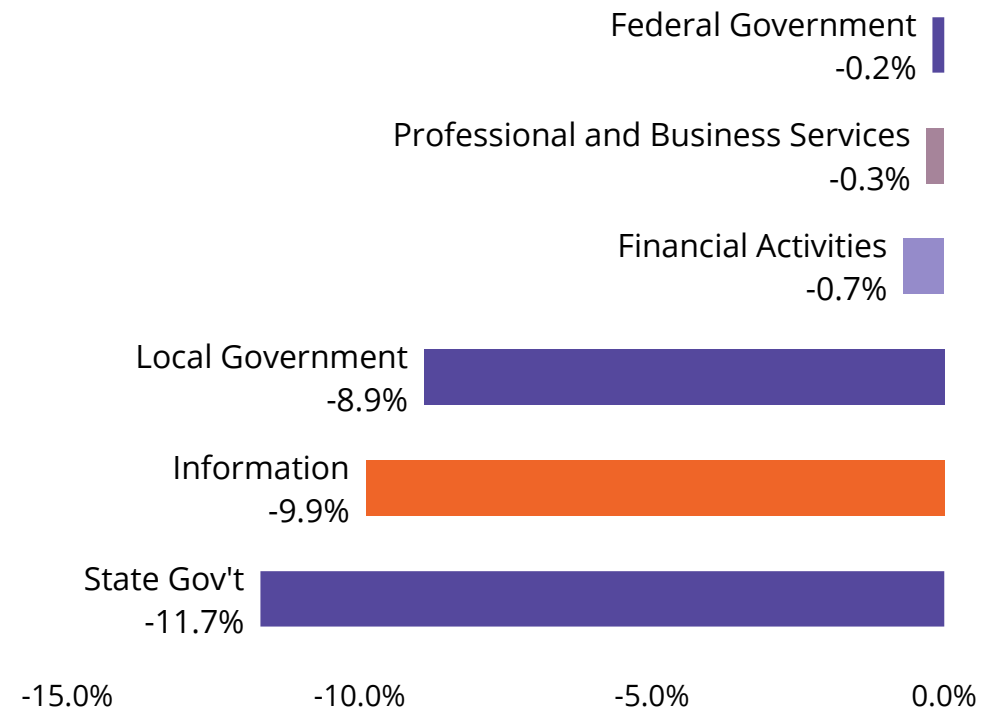
Change in office-using employment during the pandemic

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%.

[VIEW DASHBOARD](#)

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

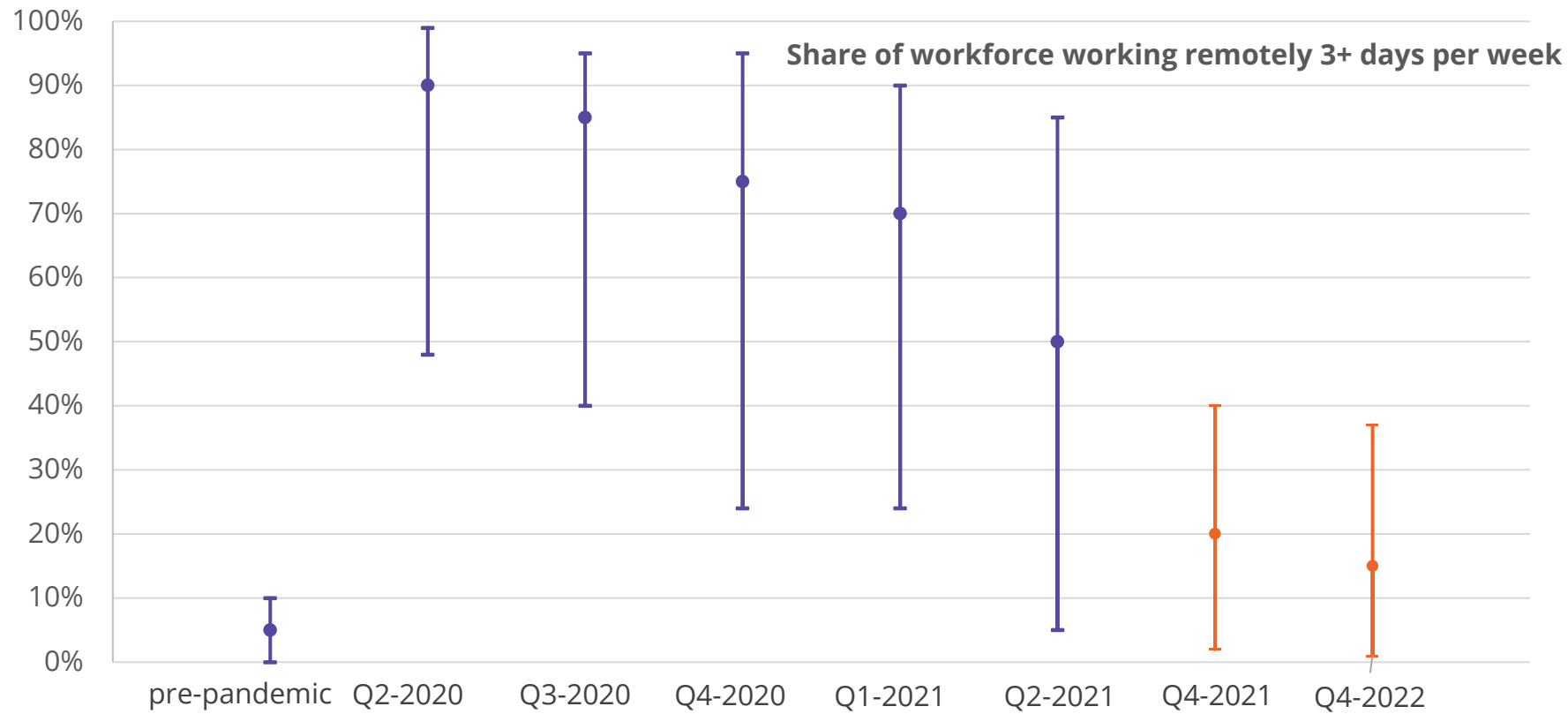
February 2020 to July 2021



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

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.



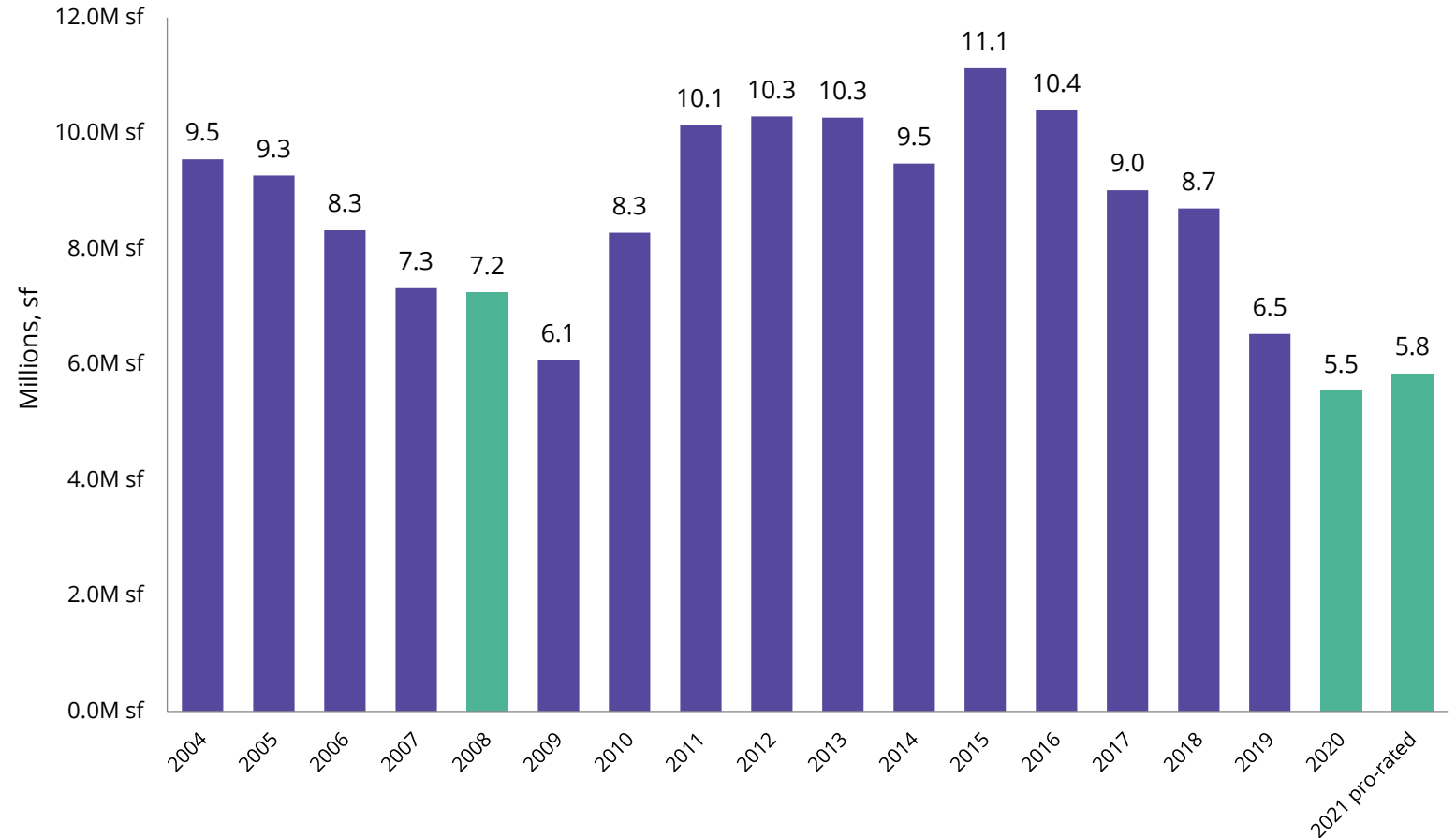
Note: Circle represents median value, high and low ends represent 75th and 25th percentiles, respectively.
Source: Federal Reserve Bank of Chicago (August 2021)

Office leasing activity

-35.8%

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

2020 showed the largest slowdown
of leasing activity in recent history.
However, recent activity is putting
2021 on pace to outperform levels
prior to last year.

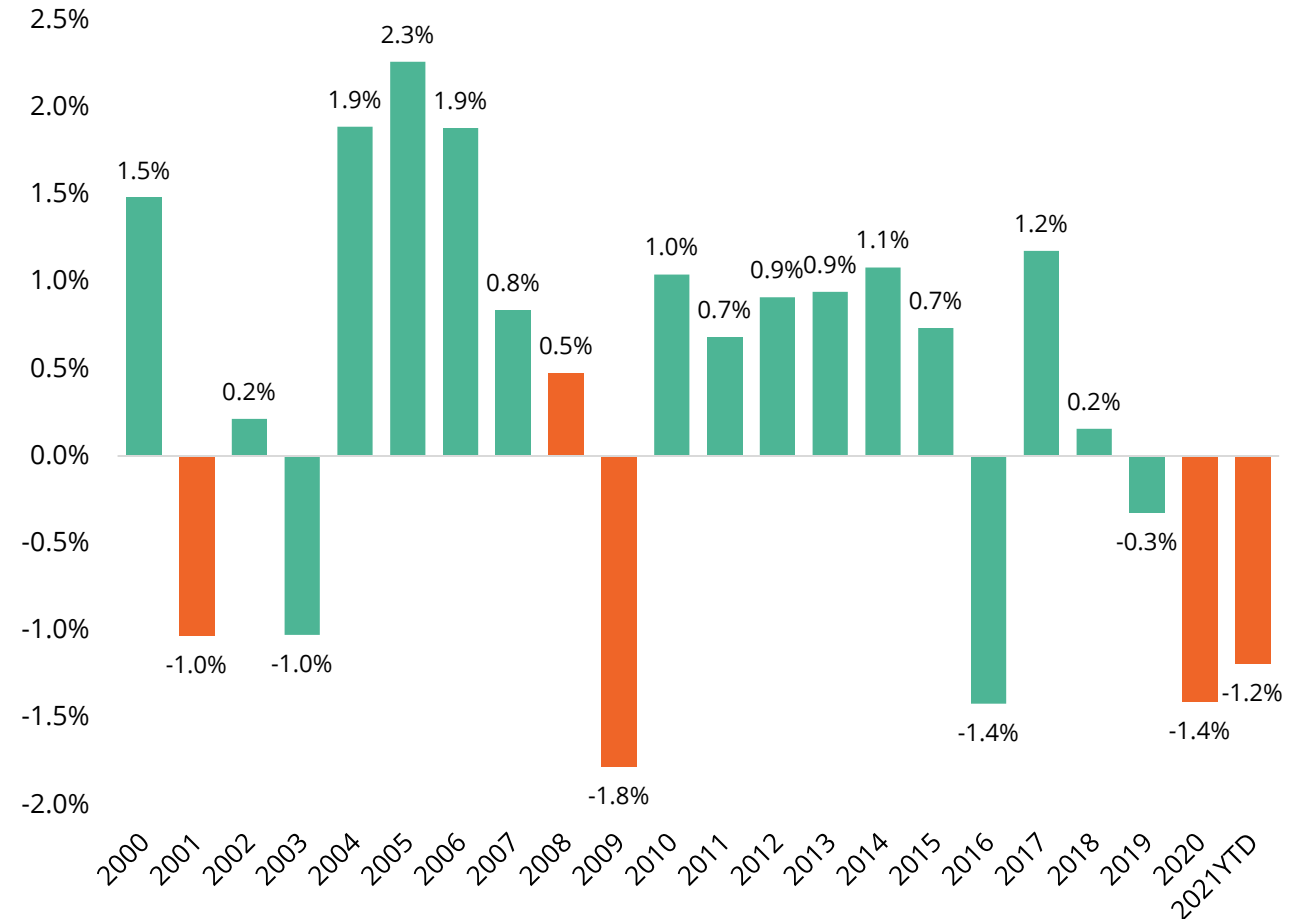


Source: AVANT by Avison Young

-2.6%

Net absorption as a percentage of inventory, 2020 through Q3 2021

As of Q3, 2021 is on pace to be the second consecutive quarter with net absorption under -1%. However, sublease net absorption remains even through 2021, a promising rebound from over -680,000 sf in 2020.



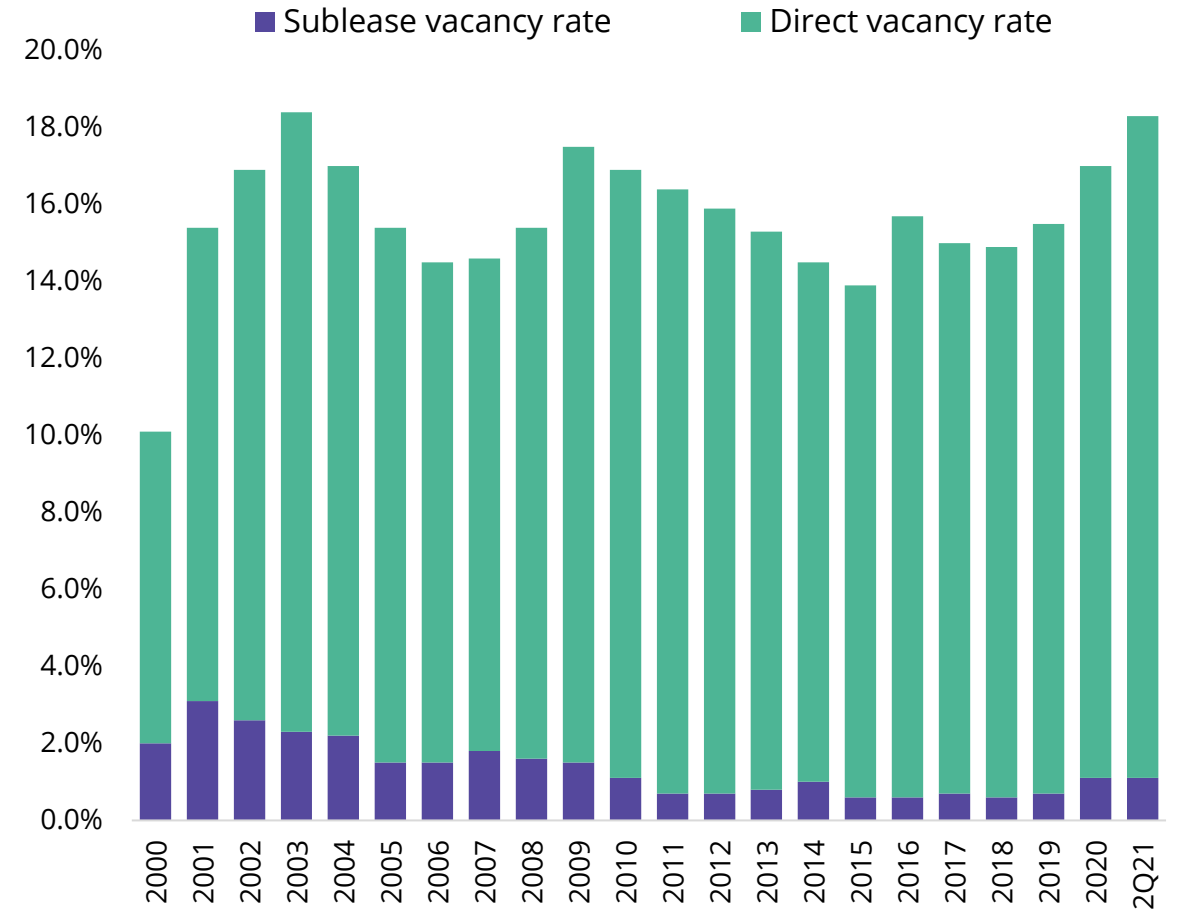
Source: AVANT by Avison Young

Vacancy rate

18.3%

**Chicago Suburban
vacancy as of Q3 2021**

Q3 2021 total vacancy continues to rise to historically high levels, currently up 280 basis points from pre-pandemic levels and 20 from last quarter. Sublease vacancies have remained stagnant throughout the quarter.



Source: AVANT by Avison Young

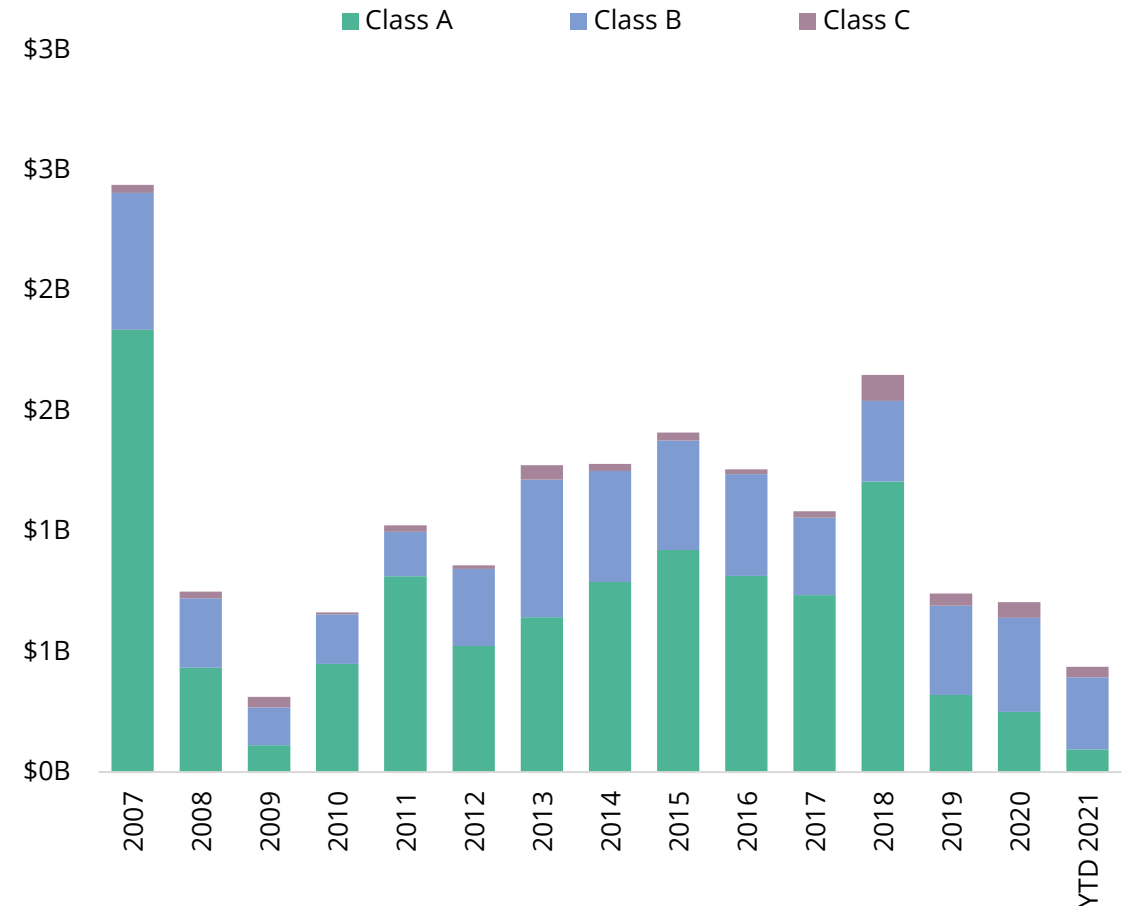
Office investment dollar volume

\$436.5M

Chicago suburban office dollar volume

2021 to present

Office sales activity has temporarily paused during the risk-pricing crisis, decreasing by an annualized rate of 38% compared with the prior five-year average dollar volume.



Source: AVANT by Avison Young, Costar

Looking forward



Here's what we can expect

- March-May 2021 experienced the **largest amount of tenant activity since prior to COVID**. The summer slowed down due to Delta concerns however touring is once again picking up. A large hurdle to tenant decision-marking continues to be **moving/adjusted return-to-office dates**.
- Despite the headlines, moves by tenants **from downtown to the suburbs** have largely remained **unchanged** from **pre-pandemic levels**. Many tenants are however **exploring satellite offices**, however we have **yet to see** transaction activity materializing.
- Suburban landlords of Class A, A-, & B buildings are noticing the **pressure of increasing concessions** to materialize deals. Current **supply chain issues** for build out concessions is also beginning to drive need to **get ahead** of vacancy risk.





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Let's talk

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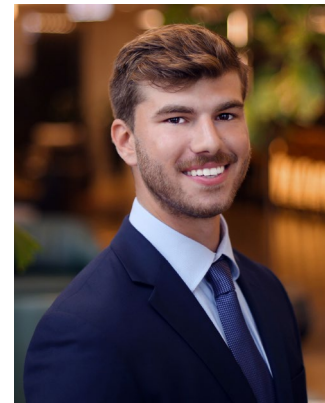
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