

Chicago CBD

With Insights on the Chicago Suburban Market as well as the Multifamily and Retail Sectors

Uncertainty Slows CBD Office Market

The first half of 2020 brought continued pain to Chicago's office market, as absorption fell and vacancies hit historic highs in some submarkets. Businesses continue to grapple with the short and long-term impacts of the pandemic as it relates to employee health and wellness, real estate space utilization, and the evolving new business environment.

Many tenants are focusing on short-term options, such as renewing space or securing shorter lease terms in order to minimize disruption and defer longer-term commitments. Many businesses are opening slowly to support employee needs and deciding how best to bring the workforce back into a dense, urban setting. Will employees embrace the return and the many safety measures being added? How will the commute change, given public transportation issues?

Many companies are creating phased return schedules and allowing employees to work from home through year-end. The shift toward remote working has been a lifeline during the pandemic and will now be more closely evaluated in terms of productivity and connectedness. This all points to a busy and challenging time for landlords and tenants, as they navigate toward a "new normal."

Need Open Space? The Suburbs are Calling

The challenges of operating a business in an urban environment is prompting some tenants to look to the suburbs for office space that can allow for more space, private entry points and other features that can better support employee safety. In some cases, businesses are maintain their downtown space and starting to think about adding "satellite" offices that allow workers to spread out among a few locations outside of a dense urban setting.

According to a July 2020 report by **The Real Estate Center at DePaul University and Urban Land Institute Chicago District Council**, the suburban office market was seen as an attractive venue in the COVID-19 environment. The question for many was whether that increasing attractiveness will be short-lived or a trend that continues to grow.

More than 15 percent (15.2%) of those surveyed believe companies will take more space to allow for social distancing; 16.7% said companies will relocate to the suburbs or establish satellite offices there.

In many suburban office buildings, landlords are realizing opportunities to revive their amenities packages and boost

their marketing efforts to showcase outside courtyards, large parking lots, and private entrances. Among the key features tenants are looking for during the pandemic, and perhaps beyond, are: large floor plates to accommodate distancing; multiple building entrances to avoid congestion; limited elevator wait time; and spacious common areas with various seating areas to allow for small groups and distancing.



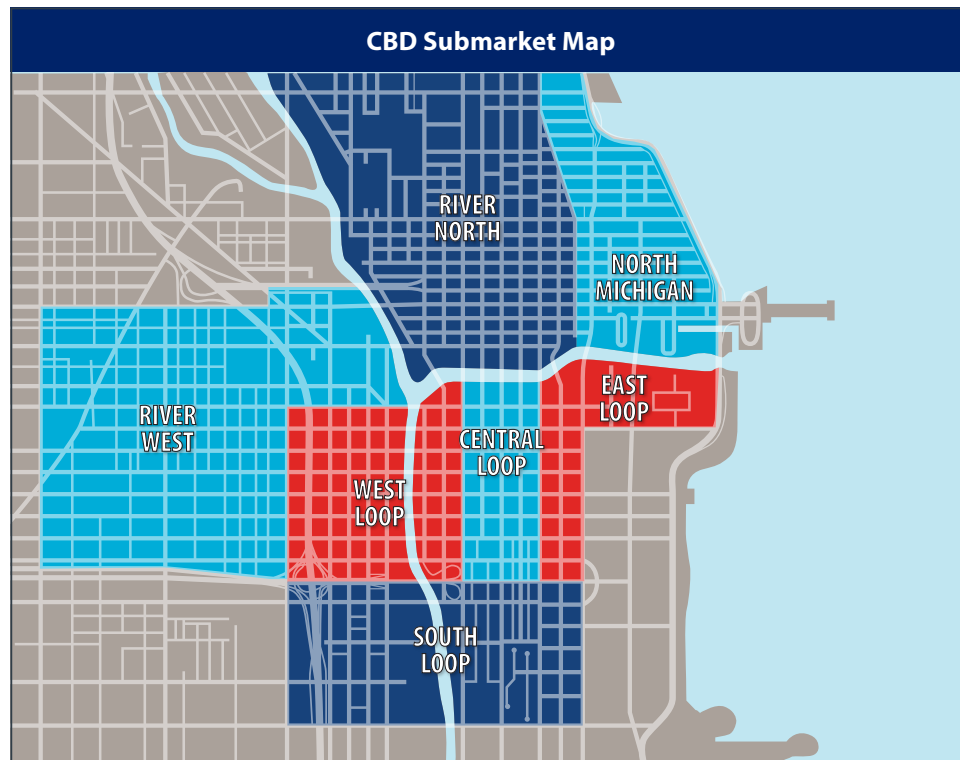
“As the Chicago suburban office market repositions itself for life beyond the pandemic, savvy landlords are focused on preparing their buildings for the new way of doing business. The suburban market offers many opportunities for businesses to take advantage of larger spaces with private entrances and reconfigured office environments -- to support safety and distancing in our current environment as well as overall employee satisfaction.”



Fred Ishler
Principal, Office Advisory

Chicago CBD Submarket Snapshot | Q2

A look at basic metrics in each downtown submarket



Vacancy & Availability

Overall vacancy within the central business district (CBD) increased from 11.7% to 12.5%, the highest vacancy rate in that submarket since Q3 of 2012. The East Loop recorded the highest vacancy rate, at 17.4%, the highest on record for that submarket. This was due in part to the delivery last quarter of a 672,590-sf building by Brookfield Asset Management, Inc. at 24 E. Washington St.

The North Michigan Ave. submarket showed the lowest vacancy rate, at 8.3%, but that was an increase from 6.7% in the first quarter. Other rates included: East Loop at 17.4%, River West at 16%, West Loop at 12.4%, South Loop, at 11.4%, Central Loop at 11.3%, and River North at 10.8%.

CBD Submarket Statistics								
Submarket	Total RBA (SF)	Direct Available Space (SF)	Sublet Available Space (SF)	Total Available (SF)	Overall Vacancy	Leasing Activity (SF)	Net Absorption (SF)	Average Asking Rent
CBD	183,112,048	29,164,450	4,119,626	33,284,076	12.5%	1,423,101	-1,011,016	\$28.81
West Loop	58,322,859	8,639,039	1,686,760	10,325,799	12.4%	537,961	-394,404	\$28.59
Central Loop	47,454,456	7,582,372	700,273	8,282,645	11.3%	176,449	-82,901	\$29.30
East Loop	28,316,413	4,631,114	487,696	5,118,810	17.4%	212,848	-9,794	\$24.68
River North	18,747,654	3,214,001	477,113	3,691,114	10.8%	305,808	-167,347	\$30.29
North Michigan Ave	17,866,106	1,522,644	280,683	1,803,327	8.3%	36,795	-281,274	\$25.26
River West	8,746,302	2,548,760	482,281	3,031,041	16.0%	153,240	48,856	\$32.08
South Loop	3,658,258	1,026,520	4,820	1,031,340	11.4%	---	-124,179	\$25.43

Subleases Abound! **132 new sublease spaces have been listed in the last 100 days within the Chicago CBD**

Absorption & Demand

Leasing activity in the CBD dropped significantly during the second quarter (to 1.42 msf from 3.41 msf in the previous quarter) as many businesses continued to operate remotely due to the pandemic. The continued impact of the pandemic will likely be seen for the balance of the year and into 2021, as companies reevaluate their real estate needs.

Notable second quarter leases included a 150,000 sf renewal for Tempus Labs at 600 W. Chicago Ave.; a 133,749 sf lease for CCC Information Systems at 167 N. Green St.; a 96,115 sf renewal at Federal Home Loan Bank of Chicago at 200 E. Randolph St.; and a 40,500 sf renewal for Pritzker Military Museum & Library at 104 S. Michigan Ave.

The CBD posted the highest negative net absorption of the quarter at (1.01 msf), followed by the West Loop (394,404). River West had the only positive absorption figures for the quarter, at 48,856 sf.

Construction

At Q2 2020, there were 10 projects over 100,000 sf underway, totaling 6.1 msf. The largest project under construction is 110 N. Wacker, a 1.55 msf development by Riverside Investment that is set to deliver in the third quarter. Riverside Investment is also building the 1.46 msf BMO Tower at 320 S. Canal St. that is scheduled to deliver in the first quarter of 2022.

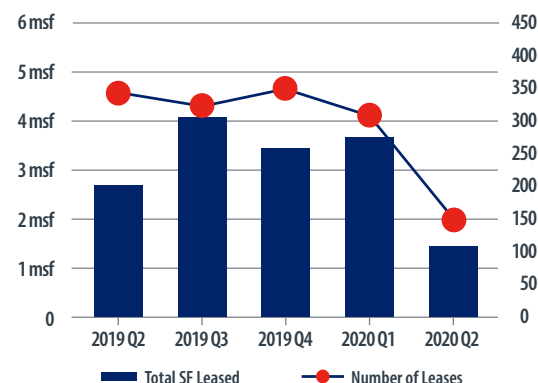
Among the largest projects delivered in the quarter is a 300,224 sf building at 1375 W. Fulton St., which is 17% leased and was developed by Trammell Crow Company. Others include 905 W. Fulton Market, 98,000 sf (Thor Equities, 97% leased) and 400 N. Noble St., 57,173 sf (Shapack Partners, 0% leased). All are in the River West submarket.

There was 455,397 sf of construction completed in the second quarter.

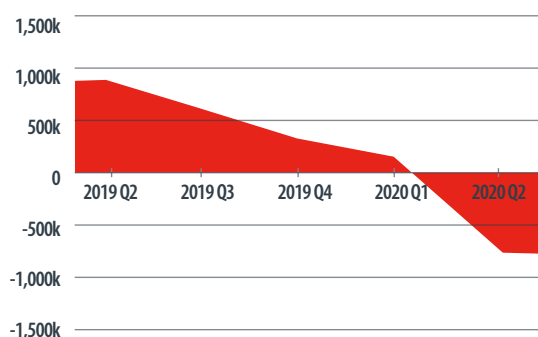
Investment

Among the notable investment transactions was 225 W. Wacker Dr., a 650,812-sf building sold by Mirae Asset Global Investment to Spear Street Capital for \$210 million or \$322.27 per square foot and 905 W. Fulton Market, a 98,000-sf building sold by Thor Equities to Deka Immobilien for \$85.5 million or \$872.45 per square foot.

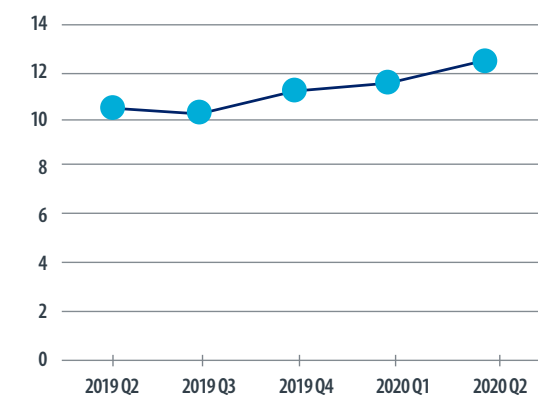
Lease Activity



Total Net Absorption (SF)



Vacancy Rate (%)



Trends to Watch: Chicago Multifamily Sector

Among the key trends Avison Young is following in the Chicago multifamily sector are:

Rent payment and eviction moratoriums --

Government stimulus programs, including unemployment payments and eviction moratoriums, have helped stabilize tenancy and have helped keep rent payment levels around 95% nationally. The industry is continuing to monitor economic conditions and the outcome of subsequent stimulus proposals as they can have a significant impact on property valuation.

Renewal rates -- Many consumers are taking the safe route to renew in their existing location, which could help stabilize existing assets but impact new developments coming online.

Movement towards the suburbs -- As renters look for bigger units, more green space, and less reliance on public transportation.

One of the largest sales in the Chicago market so far this year was the \$154.5 million sale of Cityfront Place at 400 N. McClurg Ct. in April, trading from RREEF Funds to the JV of Strategic Properties of North America and Mirae Asset Daewoo from Korea. The price was \$321,875 per unit.

"The good news is that multifamily fundamentals remain strong and owners are not over leveraged," says Hanson. "Investors are looking closely at major economic indicators as they determine when to move forward with acquisitions and dispositions."

Multifamily Investment: Sales Slow but Pricing Remains Strong

Multifamily investment sales in Chicago decreased significantly in Q2 2020, moving down 43.3% to \$326.9 million, as the COVID-19 pandemic continued to create uncertainty for investors. With many investors waiting on the sidelines for some clarity over the impact of rent payment levels and long-term valuation, transaction volume fell.

Pricing in Chicago, however, remained strong, at \$191,243 per unit for the second quarter, a 48.1% increase year-over-year, according to research from Real Capital Analytics. In the first six and a half months of 2020, 729 buildings were sold, compared with 4,024 buildings that traded hands in 2019. This is similar to pricing data on a national level.



Avison Young is currently evaluating a value-add portfolio opportunity for campus-adjacent housing in Chicago's Hyde Park neighborhood.

“While the pandemic has dramatically slowed multifamily investment levels, the strong pricing levels we’re seeing in Chicago and nationally point to the long-term strength of this sector. The biggest challenge is the economic uncertainty. Until there is more stability in the economy, investors will continue to take a cautious approach to the multifamily market.”

James Hanson
Principal,
Capital Markets



Retail Snapshot

While much of the retail industry has been struggling during the pandemic, there are some bright spots that are keeping portions of this sector on a growth track. Stores that sell products well suited to quarantined population groups, such as every day consumer goods, groceries, athletic apparel, and camping and sports equipment, have fared better than many others. Overall, many retailers are having to adapt their product lines, menus, and pickup and delivery options to support consumers in this transitional environment.

Shopping centers shuttered during the pandemic are now operating at various capacity levels, as they try to recoup some of their losses from the state's shutdown. Restaurants in Chicago's downtown and suburban markets are now operating at 50 percent capacity yet, with slim profit margins, many are still struggling to survive. Industry estimates point to approximately 50 percent of restaurants not surviving on a long-term basis.

“Overall there is still uncertainty in the retail sector but we are seeing retail businesses continuing to adapt to appeal to consumer needs. Bricks and mortar stores are not going away but they will need to continue to evolve. Restaurants and other retailers in downtown office buildings have obviously seen significant contraction and we will have to see how they evolve as workers return to the office and begin eating out again and entertaining clients.”

**Tim
Henry**

Principal, Retail Advisory



Electronics Expected to Fuel Back-to-School Sales

The Back-to-School shopping season, typically one of the best for retail sales, is shaping up to be a mixed bag for retailers. While there is considerable uncertainty over various school district's plans to hold in-person, virtual or hybrid classes, consumers nationally are expected to increase their spending to over \$100 billion.

This uncertainty is expected to prompt many changes in the buying season. Some parents might wait to shop until their school district makes a decision. Others might increase spending on electronics and other items suited for virtual schooling, which could be a boon for retailers such as Best Buy, Target and Walmart.

According to The National Retail Federation (NRF), parents with kids in K-12 are expected to spend an average of \$790 on back-to-school shopping, up from \$697 last year, while families with college aged kids are forecasted to spend an average of \$1,060, up from \$977 in 2019. Total spending for both segments is projected to reach \$101.6 billion, crossing the \$100 billion mark for the first time.

Construction, Deliveries, and Notable Leases & Sales

2020 Q2 Notable Under Construction [\[200,000+ SF Projects\]](#)

Market	Building	Class	NRA	Delivery Date	Developer	Major Tenants	% Leased**
West Loop	110 N Wacker Dr	A	1,546,909	Q3-2020	Riverside Investment	Bank of America	79%
West Loop	320 S Canal St	A	1,463,000	Q1-2022	Riverside Investment	BMO Financial	43%
River North	333 W Wolf Point Plz	A	1,200,202	Q1-2023	Hines	Salesforce	45%
River West	167 N Green St	A	600,000	Q4-2020	Shapack Partners	CCC Information Systems/Wework?	29%
River West	800 W Fulton St	A	480,490	Q1-2021	Thor Equities	Aspen Dental	46%
River West	320 N Sangamon St	A	301,979	Q1-2021	Tishman Speyer	N/A	0%

2020	2,146,909
2021	782,469
2022	1,463,000
2023	1,200,202
Total	5,592,580

2020 Q2 Deliveries

Market	Building	Class	RBA	Developer	Major Tenants	% Leased**
River West	1375 W Fulton St	A	300,224	Trammell Crow Company	N/A	17%
River West	905 W Fulton Market	A	98,000	Thor Equities	N/A	97%
River West	400 N Noble St	A	57,173	Shapack Partners	N/A	0%

Total	455,397
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CBD | Notable Q2 Leases

Tenant	Address/Name	Submarket	Size (SF)	Type
Tempus Labs	600 W Chicago Ave	River North	150,000	Renewal
CCC Information Systems	167 N Green St	River West	133,749	New
Federal Home Loan Bank of Chicago	200 E Randolph St	East Loop	96,115	Renewal
Pritzker Military Museum & Library	104 S Michigan Ave	East Loop	40,500	Renewal

CBD | Notable Q2 Investment Sales

Address/Name	Size (SF)	Buyer	Seller	Sales Price	PSF
225 W Wacker Dr	650,812	Spear Street Capital	Mirae Asset Global Investments	\$210,000,000	\$322.67
905 W Fulton Market	98,000	Deka Immobilien	Thor Equities	\$85,500,000	\$872.45



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