

Chicago CBD



Upgrading buildings for COVID-19

As 2021 approaches, many companies are evaluating their office reentry plans and considering what measures are needed to safely bring employees back in person. A look at the downtown Chicago office market shows a mix of approaches from landlords to support those efforts. Tenants can expect to see a focus on increased sanitation and social distancing in common areas as a baseline, with some landlords expanding into destination dispatched elevators, reconfigured entrances and pathways, touchless bathroom fixtures, and upgraded HVAC systems.

Many of the more advanced features require mechanical and structural upgrades and are more cost effective to complete during construction. The newly delivered 110 N. Wacker Dr., a 1.5 msf Class A office tower includes advanced air filtration systems, destination dispatch elevators, touchless access technology in multiple locations, and other features designed to improve safety and support social distancing.

Fulton East, a 12-story, 90,000-sf office and retail center at 215 North Peoria St. in the Fulton Market was modified for COVID-19 during construction and includes touch-free elevators; motion-activated bathroom fixtures; advance air purification systems, and fewer columns per floor to support open space and social distancing.

Chicago CBD overview

Uncertainty continues to impact the Chicago office market, as businesses face challenges with making long-term space utilization decisions in light of the current healthcare, political, and social landscape. This is leading many tenants to delay space commitments or seek short-term leasing options.

There is an increased amount of sublease space entering the market, as tenants delay the return to the office, downsize their space, or retrench due to shifts in staffing. In this environment, companies that are able to make long-term decisions are receiving extremely favorable rental rates and concession packages due to the lack of demand by users.

The Central Business District had a 12.4% vacancy rate at Q3 2020, down slightly from 12.5% in the second quarter.

Among the positive news in the quarter was the completion of 110 Wacker Dr., a 1.5 msf Class A office tower developed by The Howard Hughes Corporation and Riverside Investments & Development. The 55-story building along the Chicago River features a 45-foot Riverwalk at ground level. The building is 79% leased, with Bank of America as the dominant anchor tenant.

The CBD has another 5.4 msf under construction, spread across 16 buildings. The West Loop has one building under construction, the 1.46 msf BMO Tower at 320 S. Canal St., part of the Union Station renovation.

On the investment side, a joint venture of SHVO and Deutsche Finance America acquired 333 South Wabash Ave. in the East Loop for \$376 million (\$311 psf). The iconic “Big Red” building was purchased from Morgan Stanley and The John Buck Company.

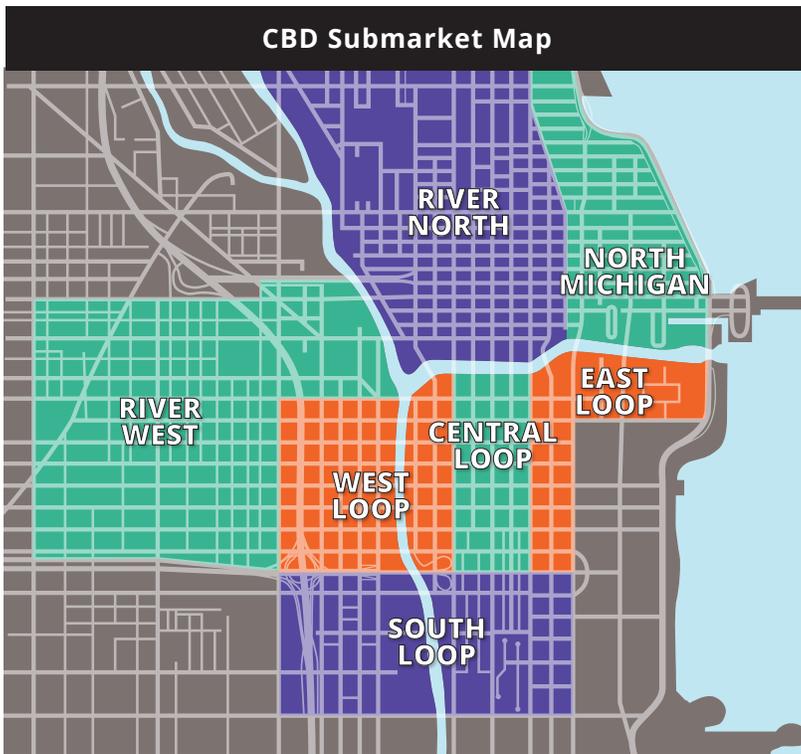
Everyone is looking for some sense of stability. Once there is a positive direction with finding a COVID-19 vaccine and reducing the political and social instability, businesses will return to a more normalized pattern of activity. This will allow businesses to stop operating as an individual sport and return to a more cohesive, team environment.



Jeff Lindenmeyer
Principal, Office Advisory

Chicago CBD submarket snapshot | Q3

A look at basic metrics in each downtown submarket



Companies extend remote working into 2021

As many companies in Chicago debate the remote work environment for 2021, several large companies that operate nationally and globally announced plans to push back their in-person return dates.

Amazon, which was an early adopter of the remote working plan in Spring of 2020, recently pushed its January 2021 date back to June 30 2021.

Microsoft announced a new hybrid work guideline to allow employees to work from home for less than 50% of their work week, with options for permanent remote working or relocation to other cities. Tech giants Twitter and Zillow Group are allowing employees to work from home indefinitely.

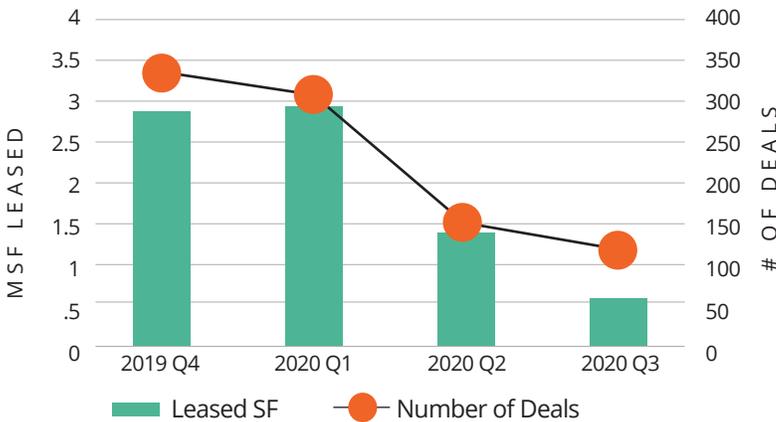
While remote working has become the standard for many companies during the pandemic, it also has ripple effects throughout other commercial real estate sectors, most notably retail. Restaurants, coffee shops and other retailers derive the majority of their business from office employees have been hit particularly hard during the pandemic.

CBD Submarket Statistics

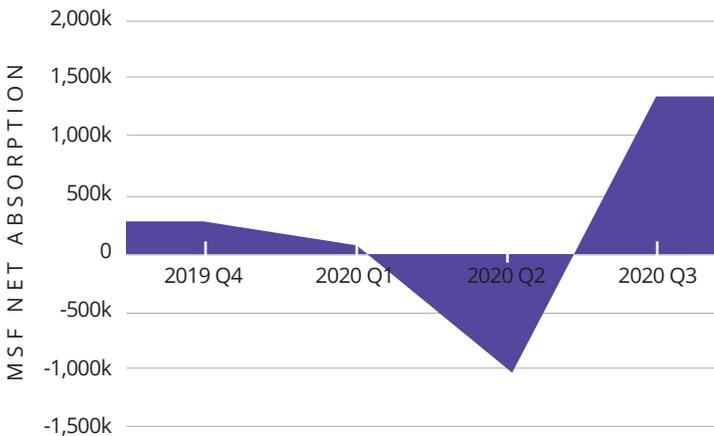
Submarket	Total RBA (SF)	Direct Available Space (SF)	Sublet Available Space (SF)	Total Available (SF)	Overall Vacancy	Leasing Activity (SF)	Net Absorption (SF)	Average Asking Rent
CBD	185,602,618	30,604,237	5,172,408	35,776,645	12.4%	569,440	1,390,943	\$28.99
West Loop	60,492,525	8,794,788	2,146,379	10,941,167	11.3%	226,984	1,964,524	\$28.76
Central Loop	47,339,616	7,884,012	910,320	8,794,332	12.4%	83,152	(454,860)	\$26.97
East Loop	28,495,641	4,824,422	581,993	5,406,415	15.6%	107,835	472,984	\$23.38
River North	18,768,283	3,497,885	677,708	4,175,593	11.7%	82,175	(171,685)	\$30.07
North Michigan Ave	17,903,739	1,584,994	330,652	1,915,646	8.6%	30,765	(61,449)	\$25.55
River West	8,819,613	2,702,838	520,536	3,223,374	17.2%	37,095	(58,944)	\$33.05
South Loop	3,783,201	1,315,298	4,820	1,320,118	19.0%	1,434	(299,627)	\$24.27

Chicagoland CBD metrics

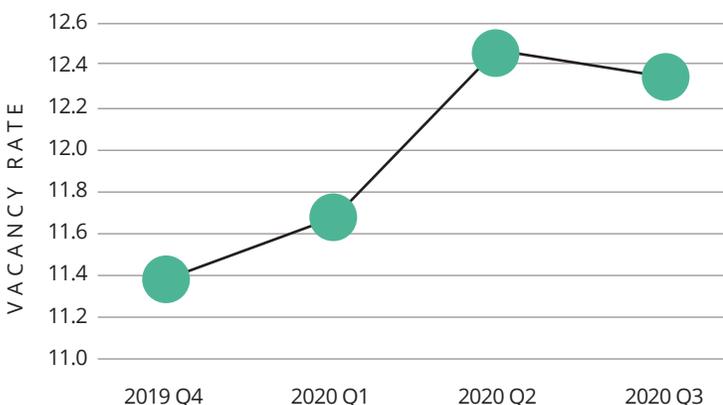
Net Absorption (SF)



Vacancy Rate (%)



Leasing Activity (MSF)



Suburban Chicago spotlight



The suburban office market has emerged as a strong contender for businesses looking to reenter the office environment -- or for downtown office tenants to set up satellite offices and provide more open space for employees during the pandemic. Submarkets such as the East-West Corridor have an ample supply of buildings with private entrances and elevator access, along with interior courtyard areas that allow for a natural flow for social distancing.

In the suburban market, vacancy remained stable at 16.7% within the Eastern East-West Corridor. There was 250,631 sf of leasing activity across 54 transactions, bringing year-to-date leasing to 953,109 sf across 188 leases. Net absorption for the quarter was -274,814 sf, however. The Western East West Corridor had a 10% vacancy rate with 153,101 sf of leasing activity across 61 transactions, bringing year-to-date leasing volume to 578,582 sf across 145 transactions. Net absorption in that submarket was -158,416 sf.

We are seeing companies taking satellite office space in the suburban office market to provide employees with convenient work space they can use intermittently. This provides added flexibility for employees who want a more open work environment in a suburban setting.

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