MARKET REPORT

Marcus & Millichap

OFFICE

Chicago Metro Area

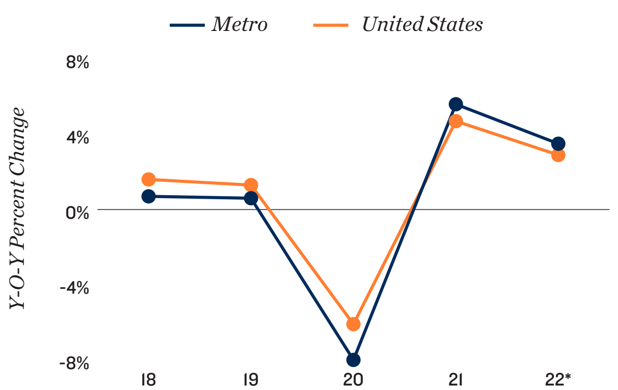
2Q/22

Leasing Activity Strongest in High-End Buildings and Residential Pockets of the Windy City

Renovations in the core highlight shifting demand trends. The concentration of older office assets has led to heightened pre-leasing on speculative builds, as organizations seek out top-tier space in Chicago. Firms that are expanding their physical footprints have shifted preferences in favor of newer, amenitized spaces in an effort to entice workers back to in-person operations. Sparked by this change, several office properties have undergone renovations to become more appealing, highlighted by the recent completion of the $500 million upgrade to Willis Tower, which added shops, restaurants and a rooftop park. Additionally, the final touches are being made to Salesforce Tower — a sustainable development with several certifications that is over 96 percent pre-leased, exemplifying the flight-to-quality atmosphere currently playing out in the core.

Several pockets outperform metro averages. Many of the submarkets where household counts are high or rising are also recording the strongest net absorption figures, as firms look to bring footprints closer to workers' homes. Desirable residential locales are ahead of 2019 performance metrics, headlined by the Lincoln Park and Logan Square areas. In both locales, a high propensity of young and educated workers has led to elevated office leasing. Availability in Lincoln Park is 360 basis points below the submarket's pre-pandemic measure in March. Additionally, Fulton Market recorded positive net absorption over the last 12 months, corresponding with increased multifamily activity in the area.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

160,000
JOBS
will be created

EMPLOYMENT:

Employment is expected to grow 3.5 percent in 2022, bringing metro payrolls more than 20,000 jobs ahead of the year-end 2019 level. For traditional office-using roles, the metro surpassed 2019 measures before March of this year.

3,500,000
SQ. FT.
will be completed

CONSTRUCTION:

After expanding inventory by 0.3 percent last year, builders are set to more than double completions in 2022. Stock growth of 0.8 percent is the projected year-over-year increase. However, this still falls short of the totals registered in 2019 and 2020.

30
BASIS POINT
increase in vacancy

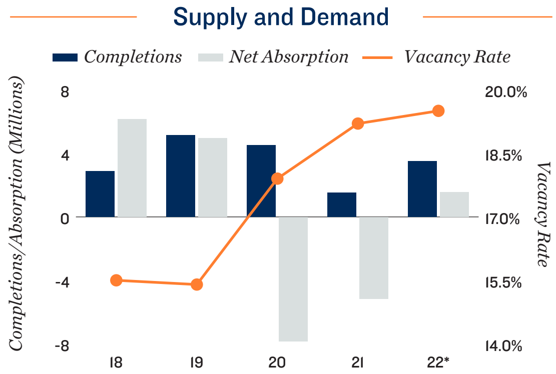
VACANCY:

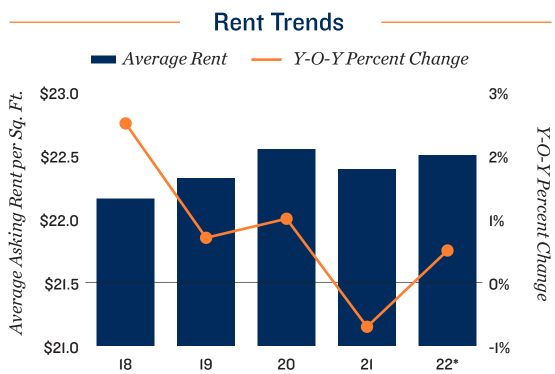
Vacancy will rise on an annual basis this year, following a first quarter where net absorption was positive, but unable to match supply. This is the smallest rise since the health crisis began, after two years of availability rising at least 100 basis points.

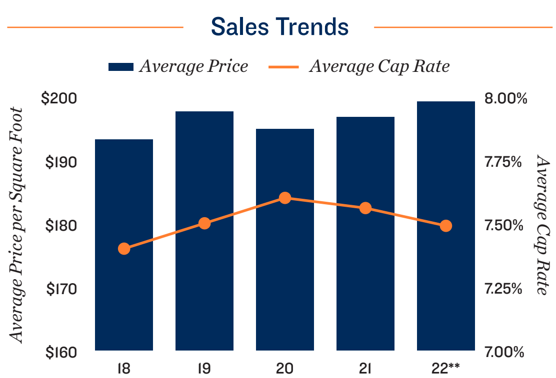
0.5%
INCREASE
in asking rent

RENT:

The mean asking rent in Chicago fell last year for the first time since 2010. In 2022, rents should resume their upward trajectory as demand picks up, albeit with only a modest gain. By year-end, the average marketed rate will reach $22.50 per square foot.







** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q 2022 - 12-Month Period

CONSTRUCTION

2,916,000 sq. ft. completed

- The finalization of more than 2.2 million square feet during the first quarter of 2022 propelled the annual total, as just over 600,000 square feet topped out in the final nine months of 2021.
- Office builders were more active in Chicago proper than in the suburbs, with roughly 93 percent of the space delivered in the city last year.

VACANCY

90 basis point increase in vacancy Y-O-Y

- Availability rising to 19.6 percent at the end of March marks the first time since the first quarter of 2020 where vacancy climbed by less than 100 basis points year-over-year, signaling a slowdown in space attrition.
- Office vacancy rose 60 basis points in suburban Chicago, while availability climbed 120 basis points within Chicago proper.

RENT

0.4% decrease in the average asking rent Y-O-Y

- The average asking rent in the Chicago metro fell annually to $22.39 in March. This is still narrowly higher than the end of 2019 level.
- The mean suburban marketed rent rose 0.5 percent during the 12 months preceding March to $17.98 per square foot. Within Chicago city limits, asking rents retreated 1.5 percent to $27.69 per square foot.

Investment Highlights

- Transaction velocity for Chicagoland office properties during the 12 months preceding April surpassed the number of trades recorded in 2019. This exemplifies the long-term confidence investors have in the market, despite near-term hurdles. Increased activity played a role in the average sale price reaching $199 per square foot during the same span, crossing the year-end 2019 level for the first time since the onset of the health crisis.
- Western and northern suburbs registered the most trades as of late, especially communities like Naperville, Joliet and Schaumburg. Mean entry costs in these locales are near or slightly below the market average. Cap rates here are in the high-7 percent to low-8 percent range on average, but can swing 150 basis points in either direction based on building quality.
- Within the city, trading activity has ticked up in Fulton Market, especially near West Fulton Street and West Lake Street, where entry costs above $300 per square foot are the norm. Cap rates here can be as low as the high-3 percent band, but more often land around 60 basis points below the metro average of 7.5 percent. Investors looking for more discounted pricing within Chicago proper are active near Hyde Park-South Shore and U.S. Route 20. Cap rates here are slightly above the metrowide mean.

Price: $250