

1Q24

Chicago CBD Office Market Report

NEWMARK



Market Observations

Economy

- Chicago’s unemployment rate is 80 bps higher than the national average, and job growth has slowed in the last year. Chicago’s unemployment rate increased during the last several months, losing any gains made in the fourth quarter of 2023.
- Office-occupying or adjacent industries saw mostly negative results, with financial activities experiencing almost no change, while business and professional services and information saw significant declines for several quarters in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Major Transactions

- The largest lease signed Downtown this quarter was a renewal by Mesirow Financial. The tenant is contracting its footprint at 353 N Clark by downsizing from around 165,000 SF to about 110,000 SF .
- There were a couple of sales in the Central Business District this quarter. The buildings that are trading hands in the CBD are doing so at a steep discount; 150 N. Michigan Ave. and 300 W. Adams St. were the two buildings that sold this quarter.
- JPMorgan Chase committed to staying in and renovating their namesake building in the Central Loop at 10. S Dearborn St.

Leasing Market Fundamentals

- Leasing volume was slow to start 2024, with roughly 1.4 million SF being completed. Tenants continue to upgrade spaces as they contract, moving into higher-end buildings and spending more on buildouts.
- The market saw vacancy increase this quarter due to sublease terms expiring and significant negative absorption as contractions signed in the last 24 months added more vacant space to the market.
- There has been a tightening within Trophy Towers and view space on the top floors. With the last of the new construction delivering next quarter, competition for top space in the Central Business District is expected to continue to absorb the limited supply and push trophy rates higher.

Outlook

- Leasing and investment activity continues to be impacted by uncertainty in the office market. Deals are getting through the finish line, but with less velocity as occupiers and investors approach transactions with greater caution.
- Rent growth, aggressive through all of 2023, has decelerated and is expected to continue to cool throughout the year.
- Chicago has always been able to ride the waves of the market, but with no surge in demand for office space expected to return, the market will have to scrape by with lower demand and be creative.

1. Economy
2. Leasing Market Fundamentals

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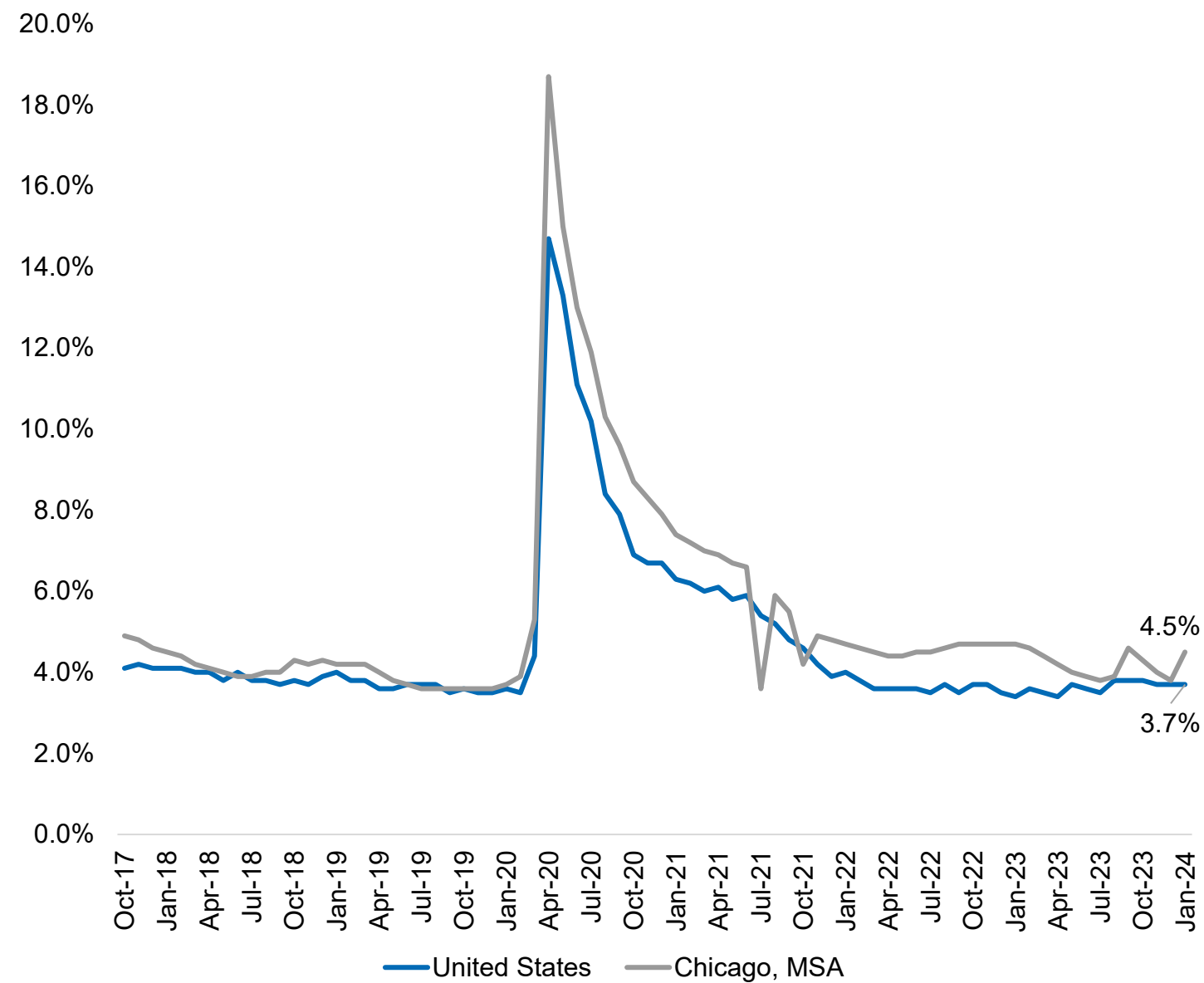
Economy



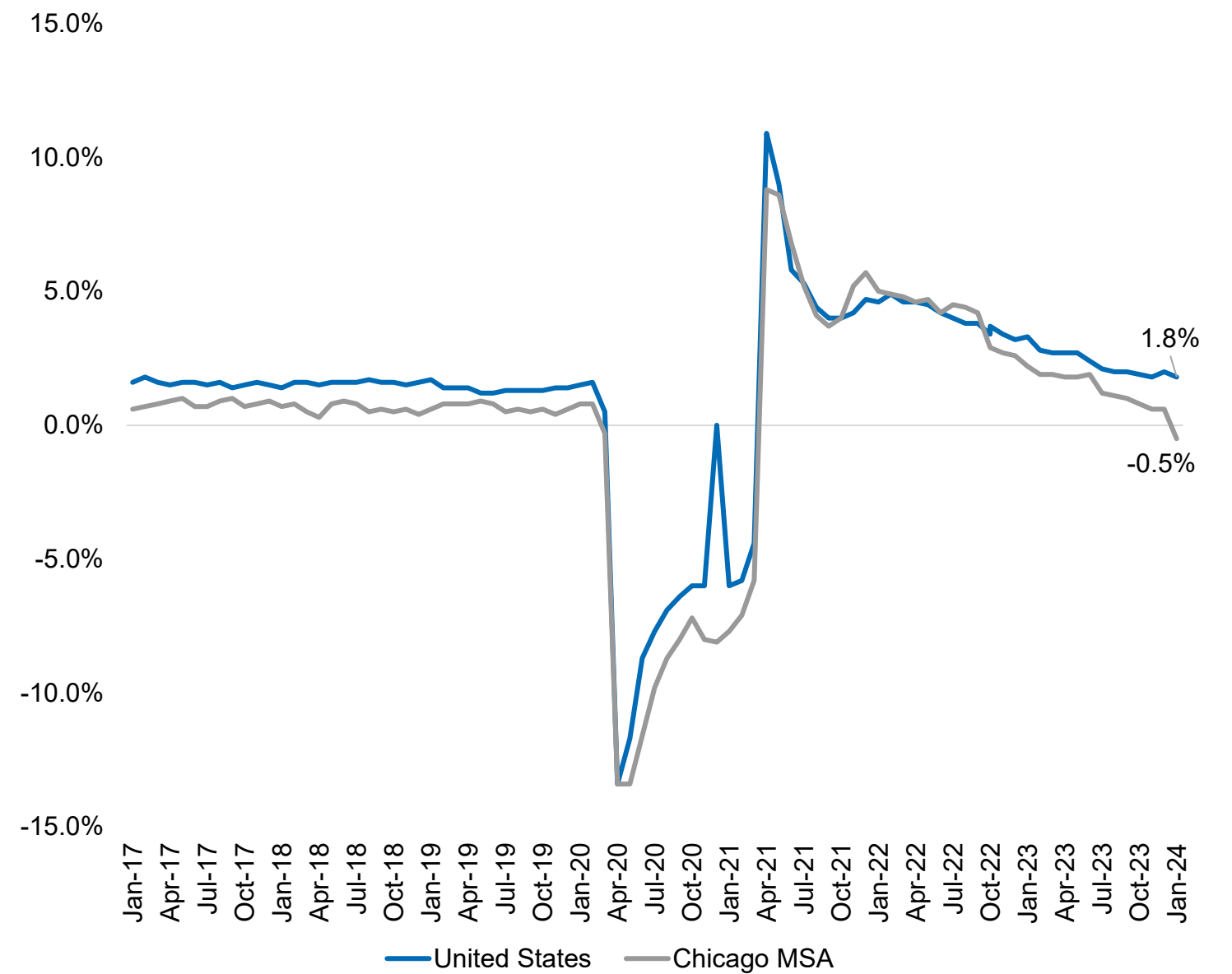
Metro Employment Trends Signal A Slowing Economy

Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed over the last couple years. Persistently high inflation and a high interest rate environment has placed stress on the labor market.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

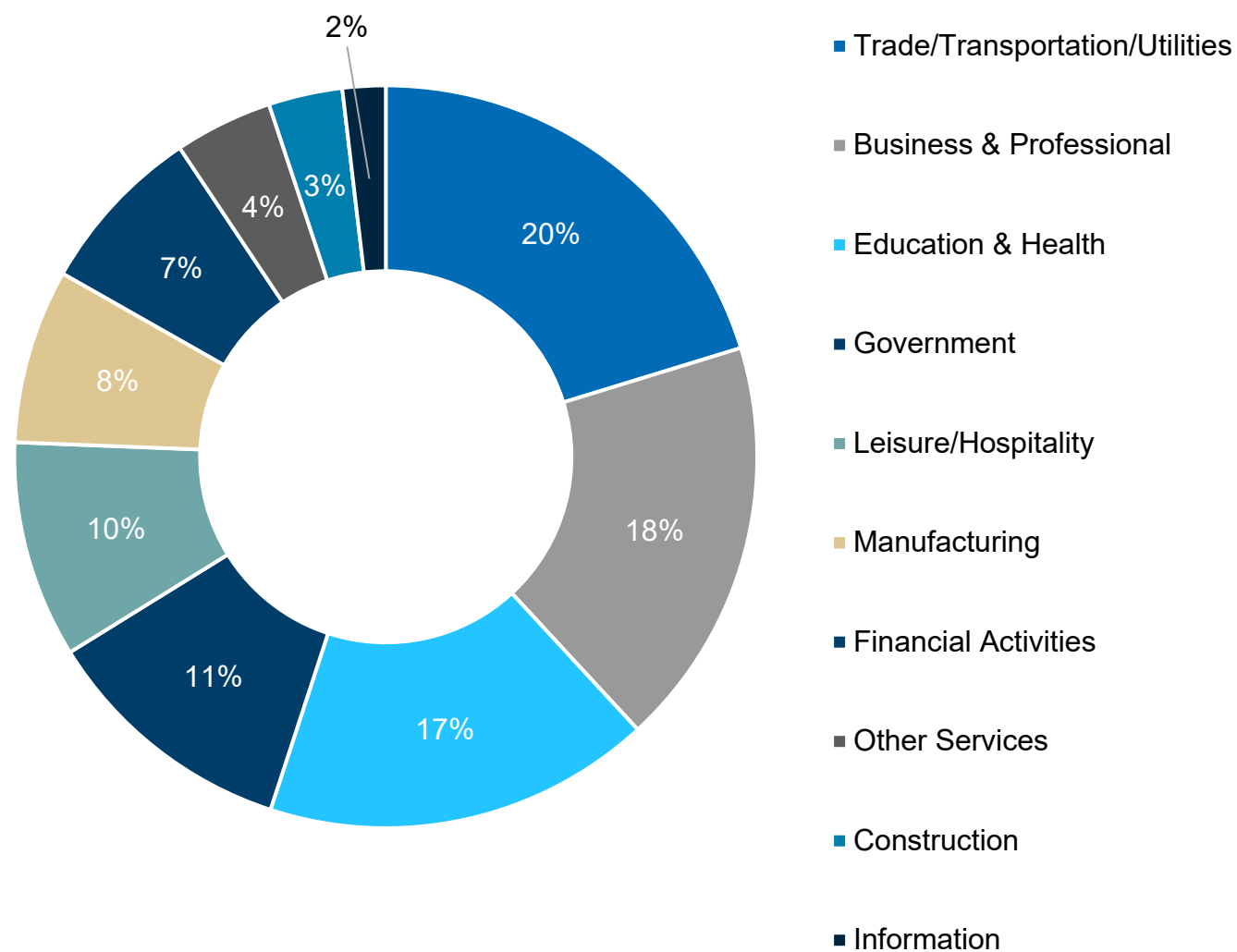


Source: U.S. Bureau of Labor Statistics, Chicago MSA

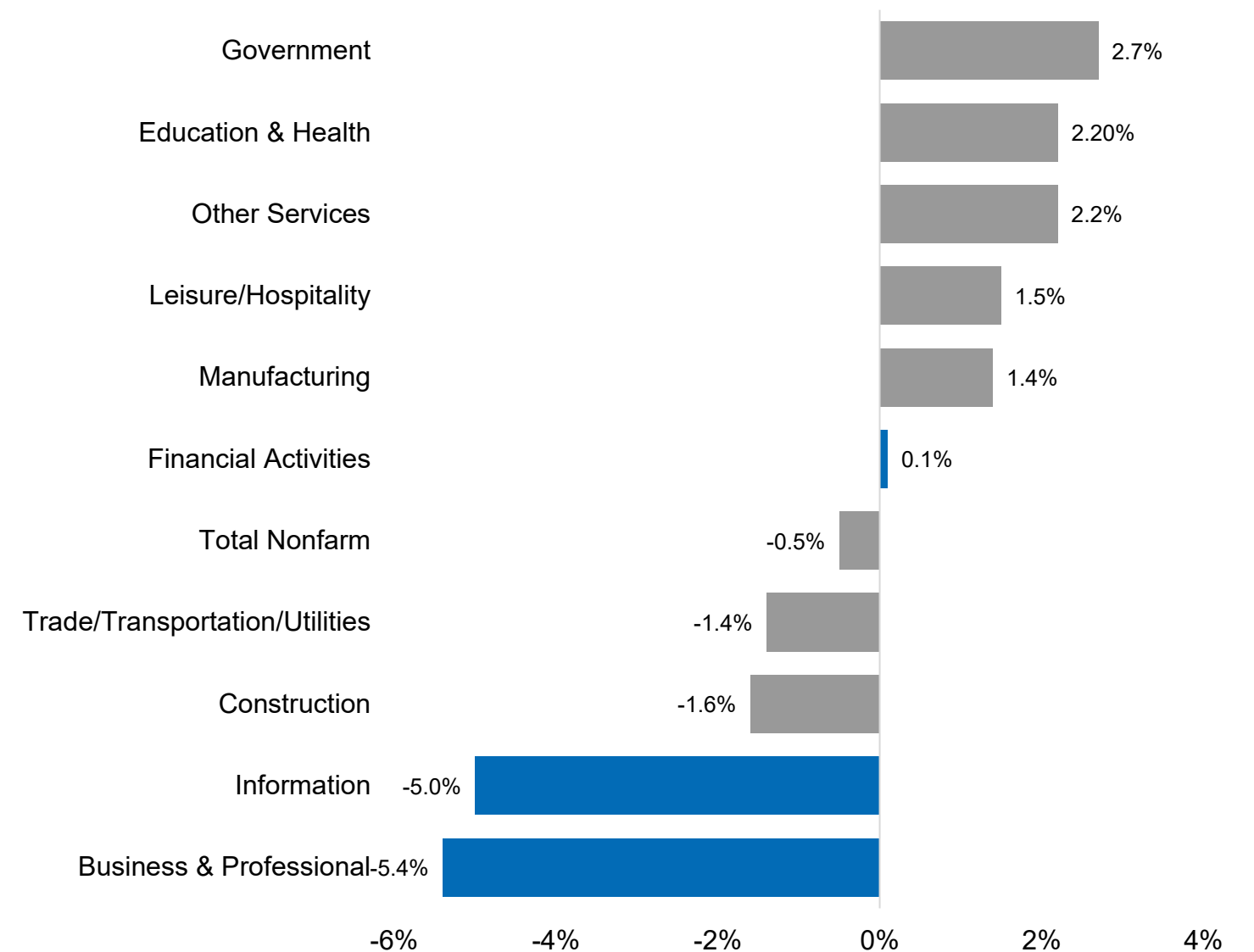
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The government sector led all industries in regional annual job growth. Office-occupying or adjacent industries saw mostly negative results, with financial activities experiencing almost no change, while business and professional services and information saw significant declines for several quarters in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Employment by Industry, January 2024



Employment Growth by Industry, 12-Month % Change, January 2024

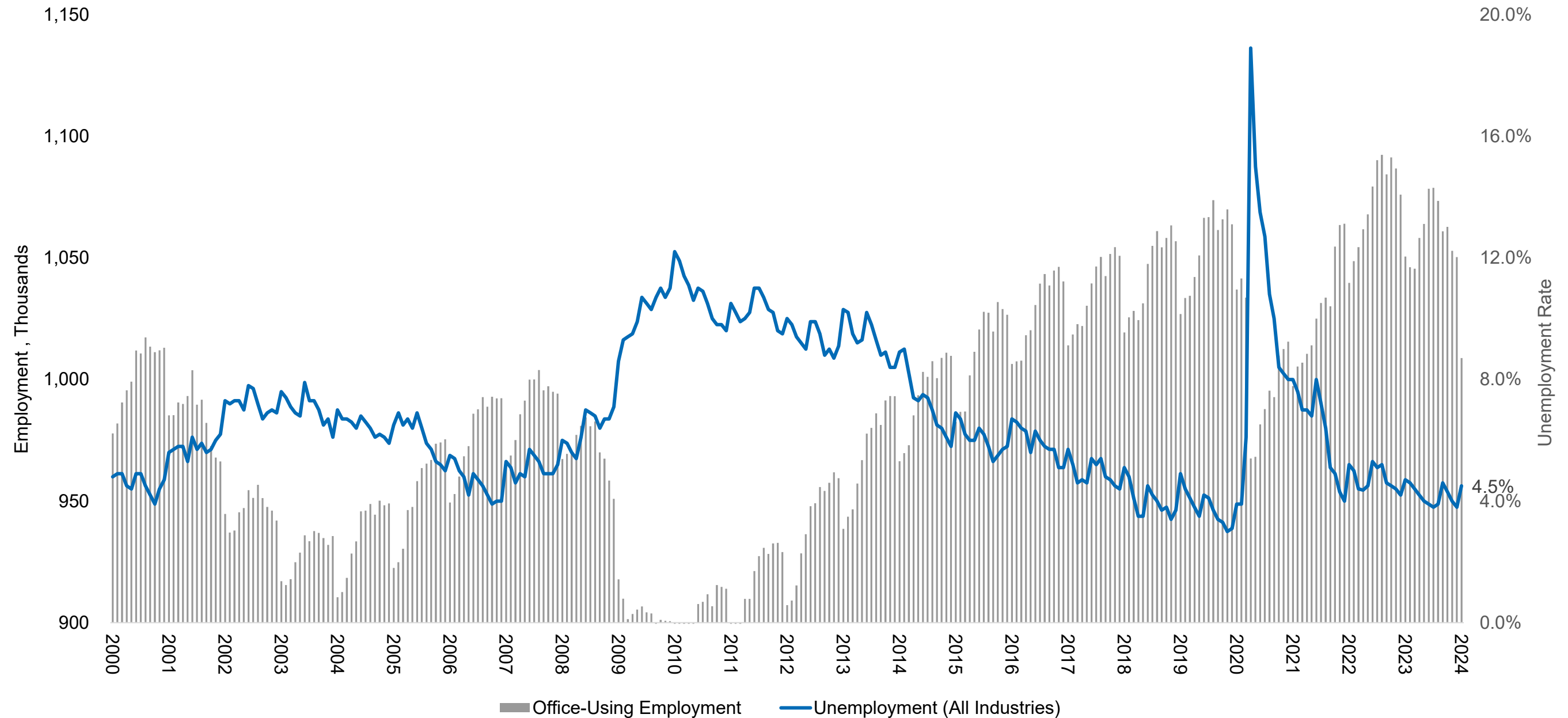


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Overall Office-Using Employment Holds Steady

The number of office jobs has rebounded to pre-pandemic levels but fallen slightly year over year.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Chicago MSA

Note: *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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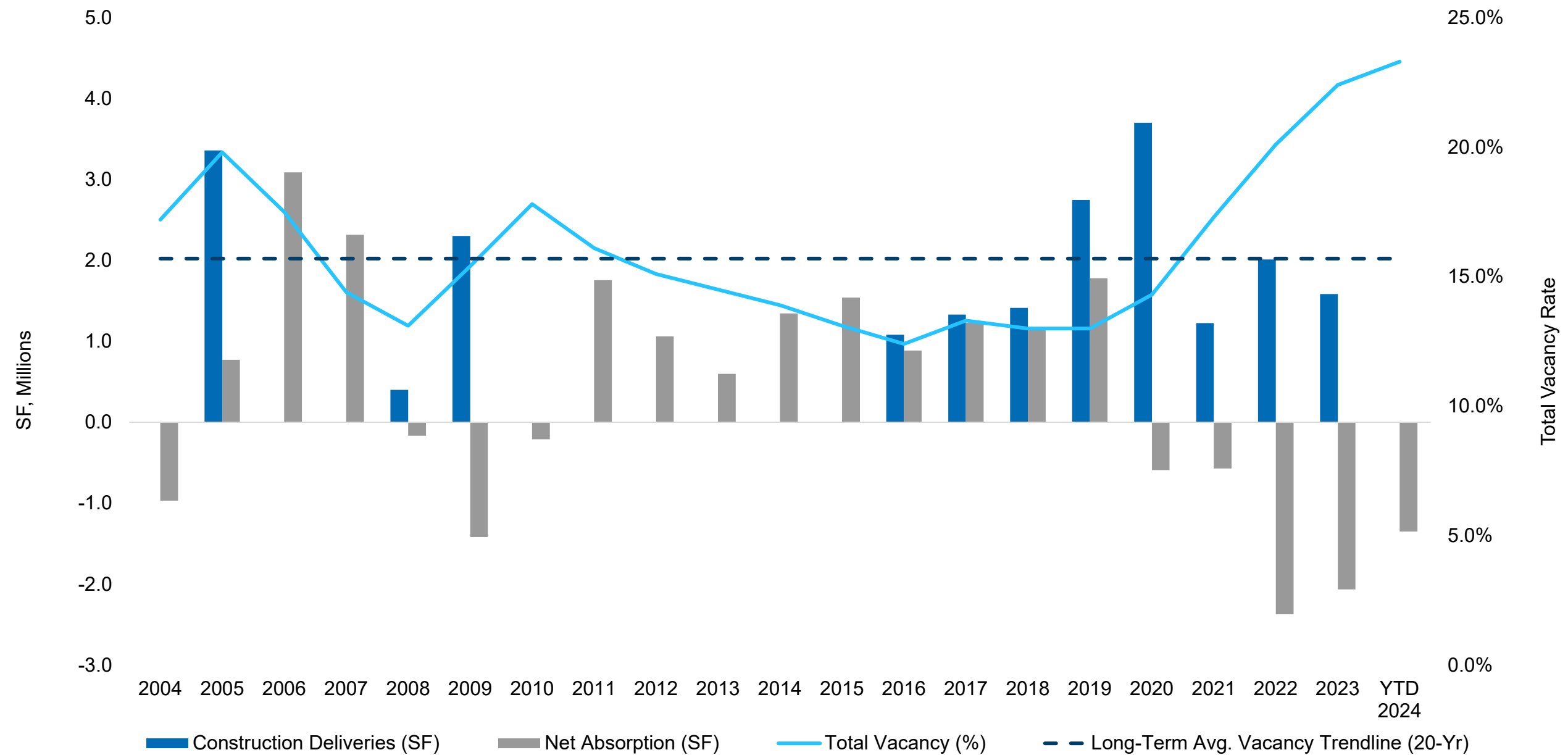
Leasing Market Fundamentals



Negative Absorption Recorded to Start the Year

Vacancy increased slightly this quarter due to approximately 1.3 million SF of negative absorption to start the year.

Historical Construction Deliveries, Net Absorption, and Vacancy

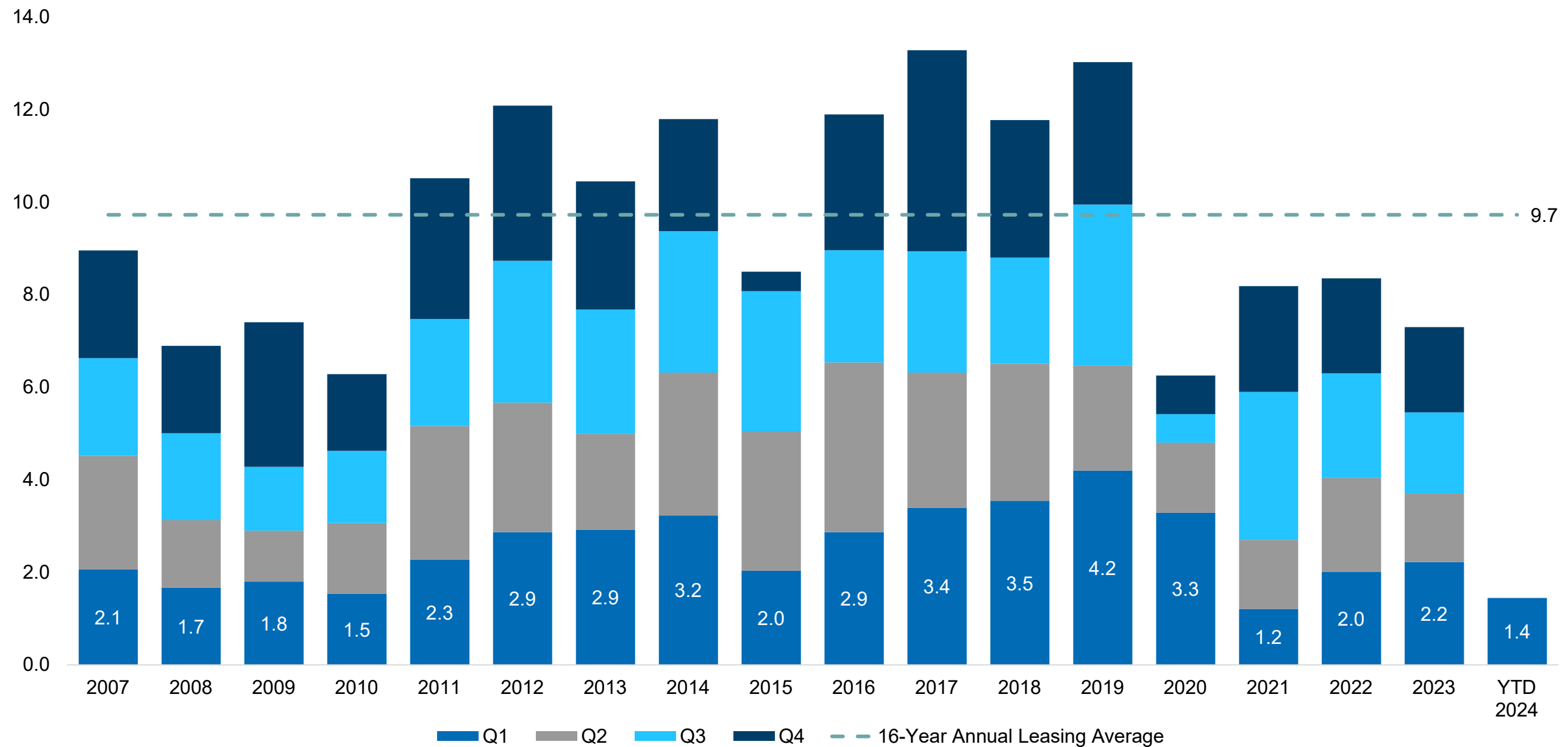


Source: Newmark Research

Leasing Activity Off to a Slow Start

Leasing activity had its second slowest first quarter in the last 15 years, only beaten by the first quarter of 2021, which followed the onset of the Covid-19 pandemic. A cloudy economic outlook and the higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable. There were glimmers of hope this quarter, but the growth occurring cannot keep pace with the contracting deals that tenants are signing.

Total Leasing Activity (msf)

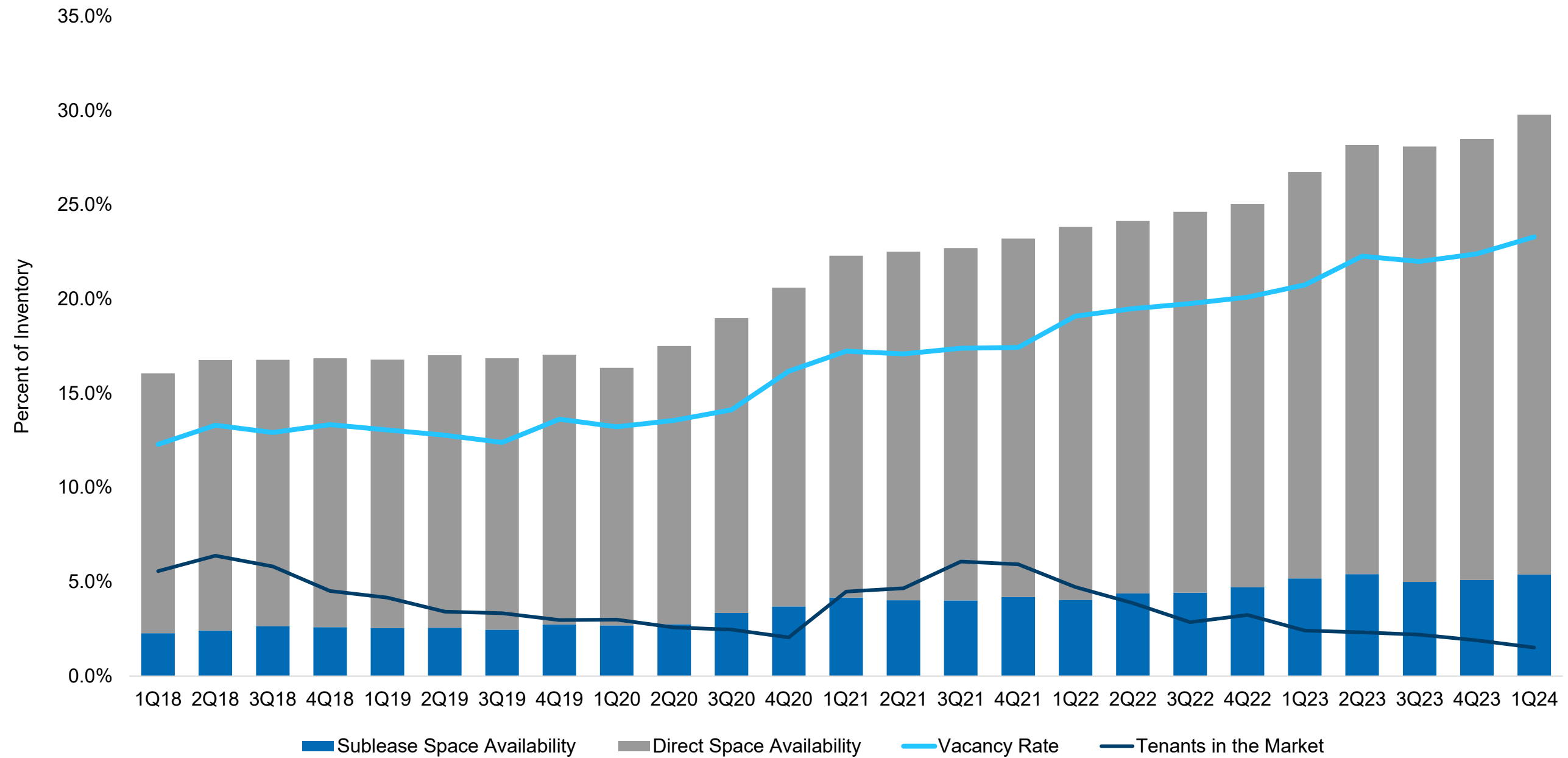


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Sublease availability increased this quarter by 30 basis points to 5.4%, tying the peak reached during the second quarter of 2023. The largest lease signed during the quarter was by Mesirow Financial, who renewed at 353 North Clark for 110,000 SF.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

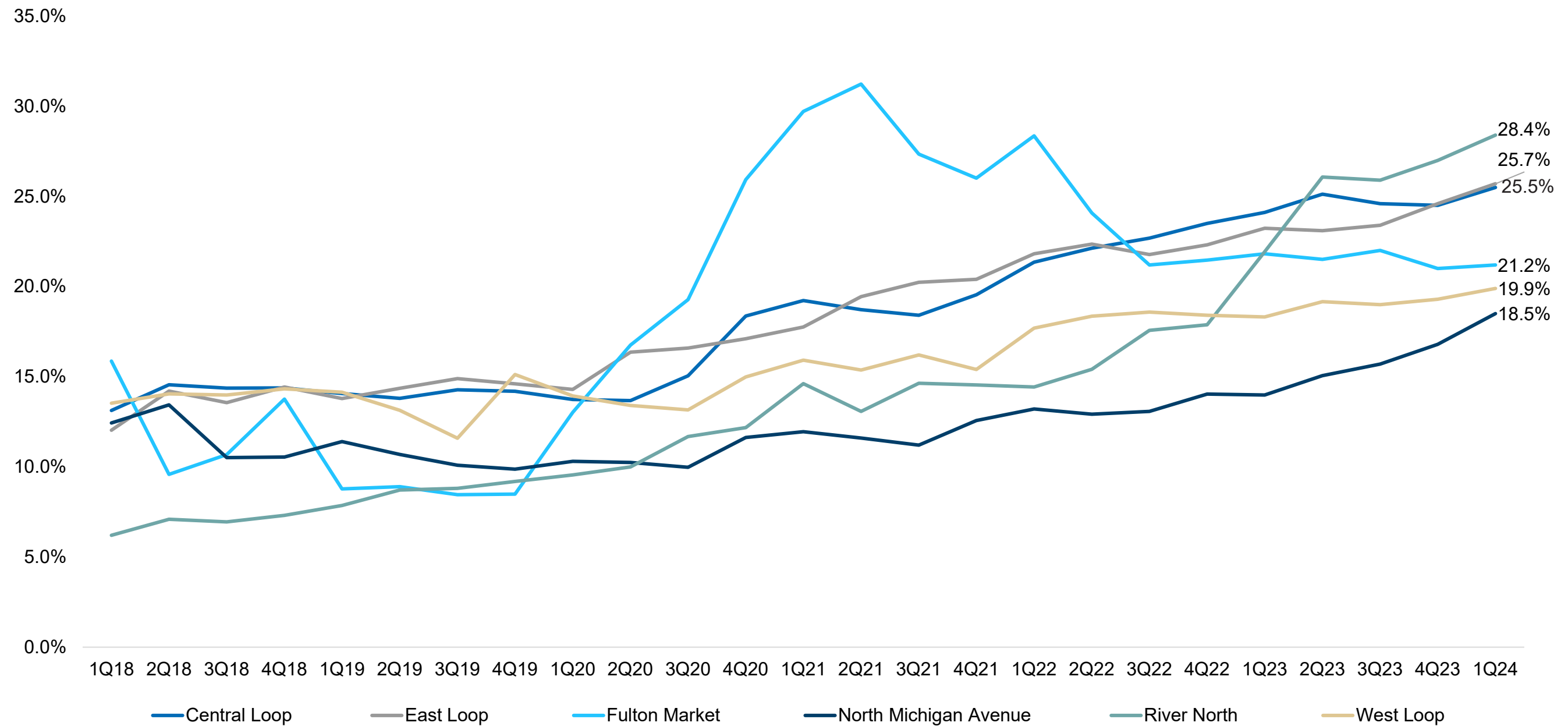
Chicago Occupancy Ranks Fifth in the Country

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Vacancy Rates Hold Steady

Thanks to minimal positive absorption in many submarkets this quarter, vacancy rates steadily increased. North Michigan Avenue continues to maintain the lowest vacancy rate due to its longstanding tenants, many of which are medical, that do not move often. River North's vacancy is expected to dip next quarter with Kirkland & Ellis moving into Salesforce Tower. With only 2 buildings under construction, both set to deliver next quarter, vacancy rates in 2024 will be mostly impacted by tenant activity.

Vacancy Rate by Submarket



Source: Newmark Research

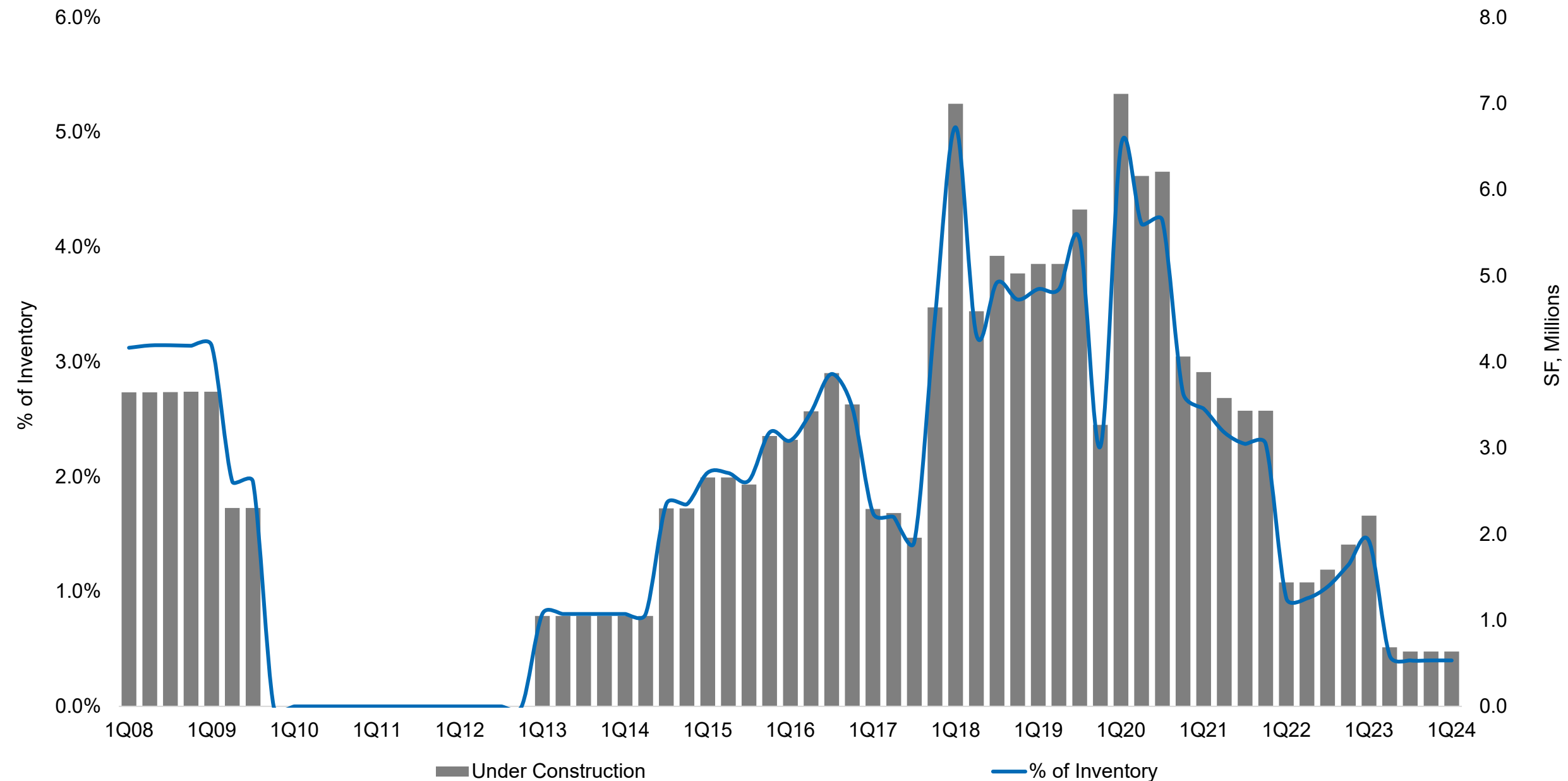
Vacancy Analysis

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Under Construction Inventory Dwindles to Two Properties

With only two office properties currently under construction, both in the midsize range, the market will not have to compete with new inventory for tenants. Over the past several quarters, tenants have shown a preference for new office space, with several of the largest leases signed in new buildings. The inventory that has delivered since 2020 has an availability rate of 21.4% compared with the total CBD availability rate of 29.8%.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

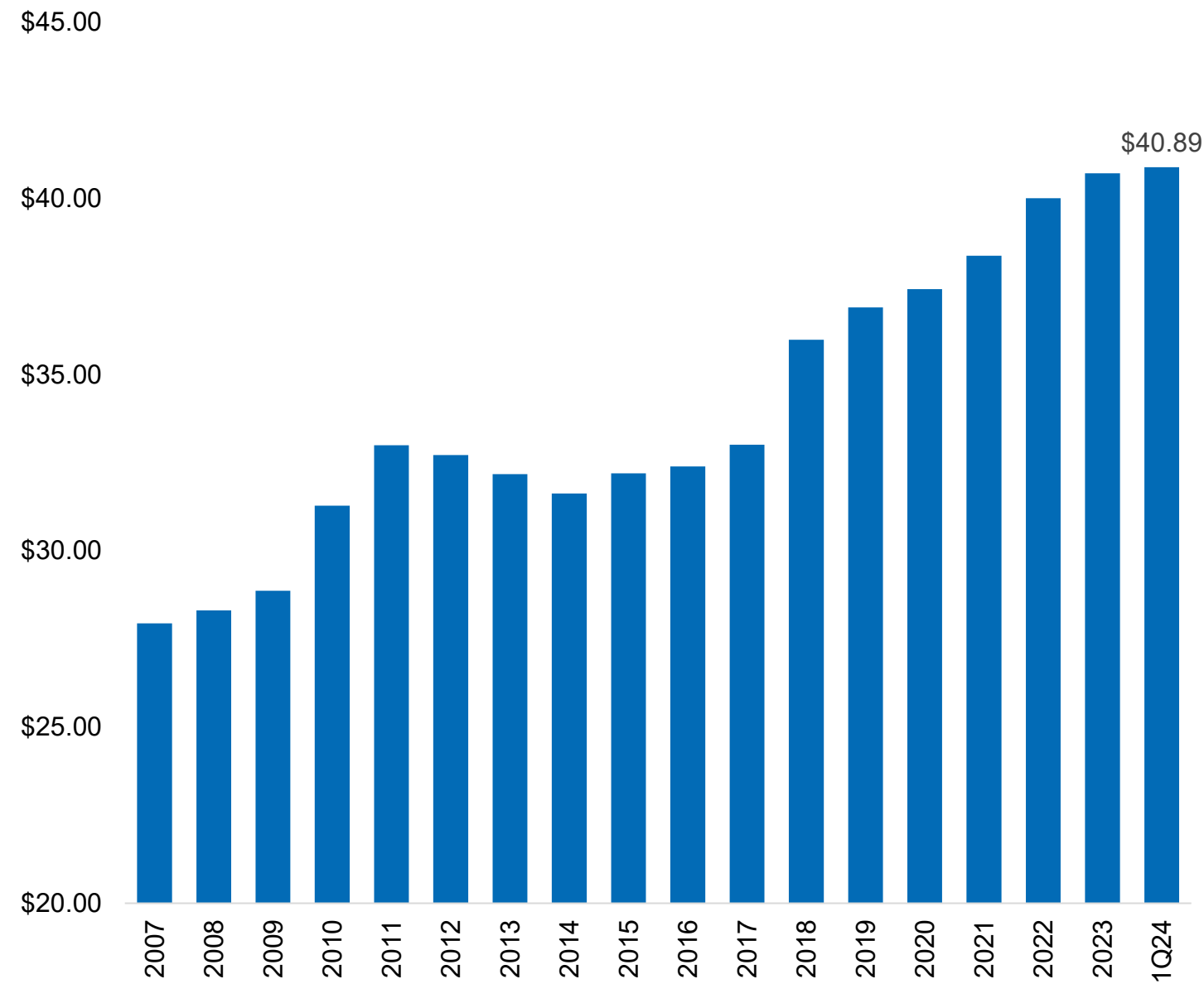
Office Supply Under Construction

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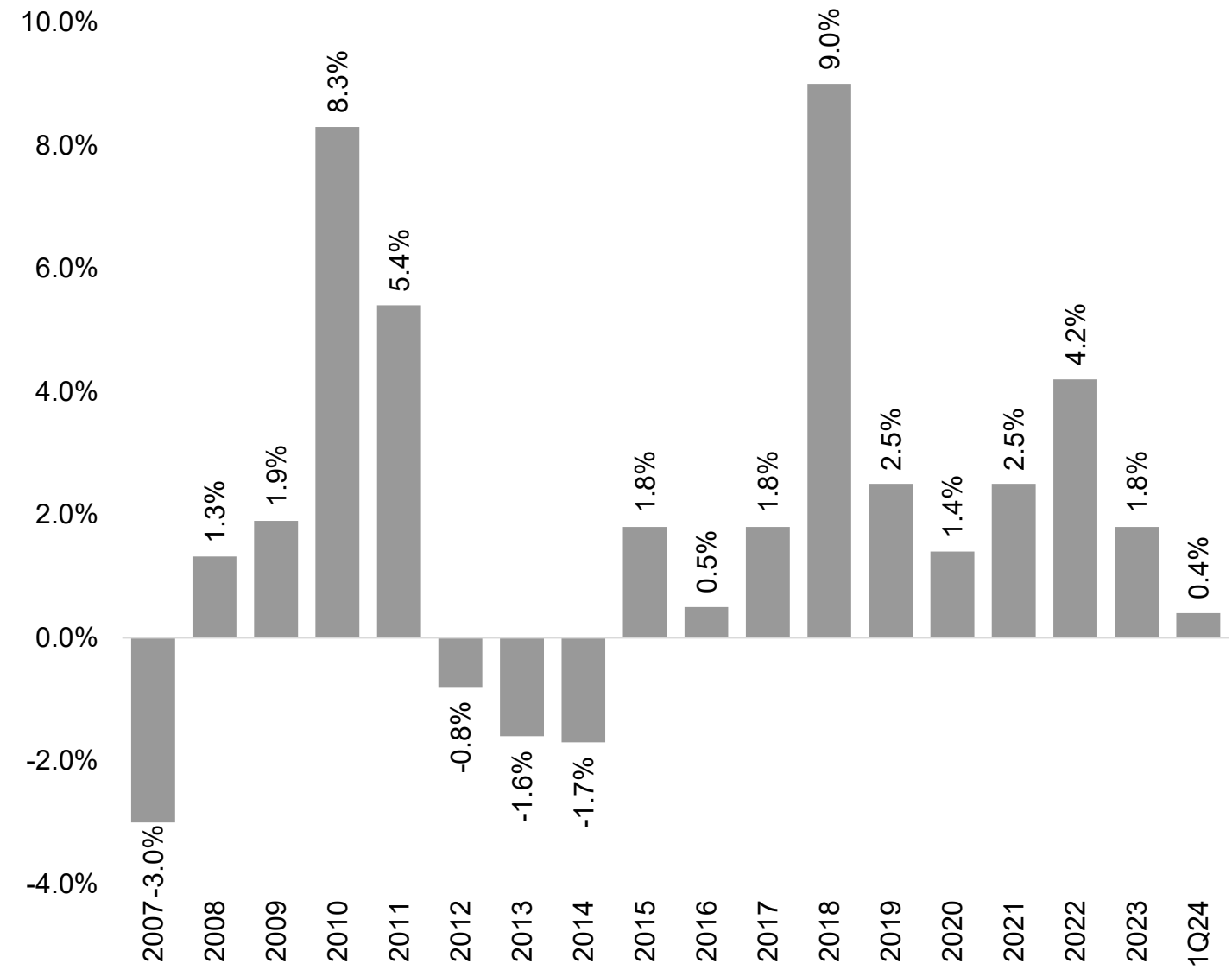
Rental Rate Growth Slows

Asking rate growth hit the brakes this quarter, with average asking rates increasing a nominal \$0.17/SF from 2023's average and decreasing \$1.25/SF quarter over quarter. This is the first decrease in average asking rents since the fourth quarter of 2022.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

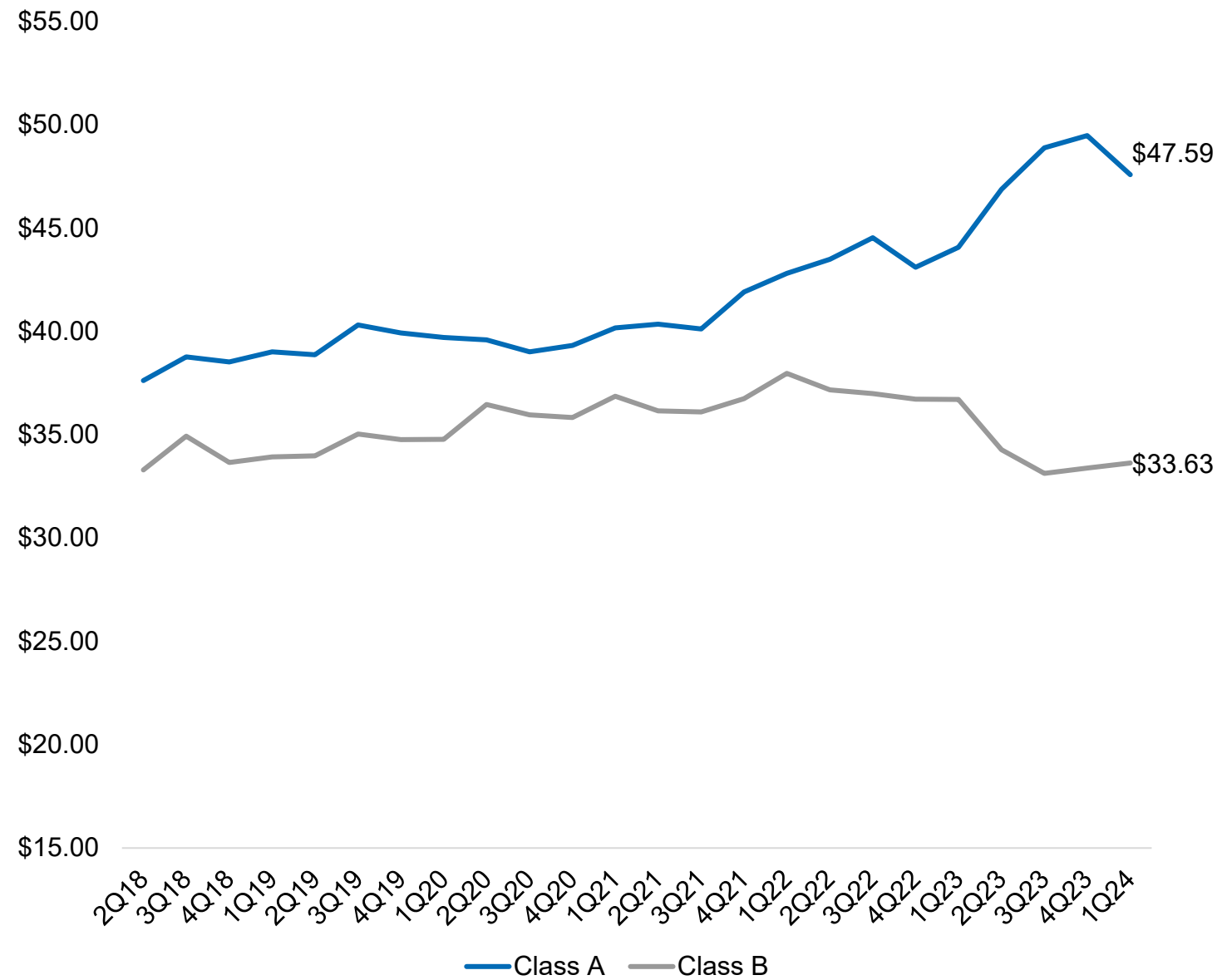


Source: Newmark Research, CoStar

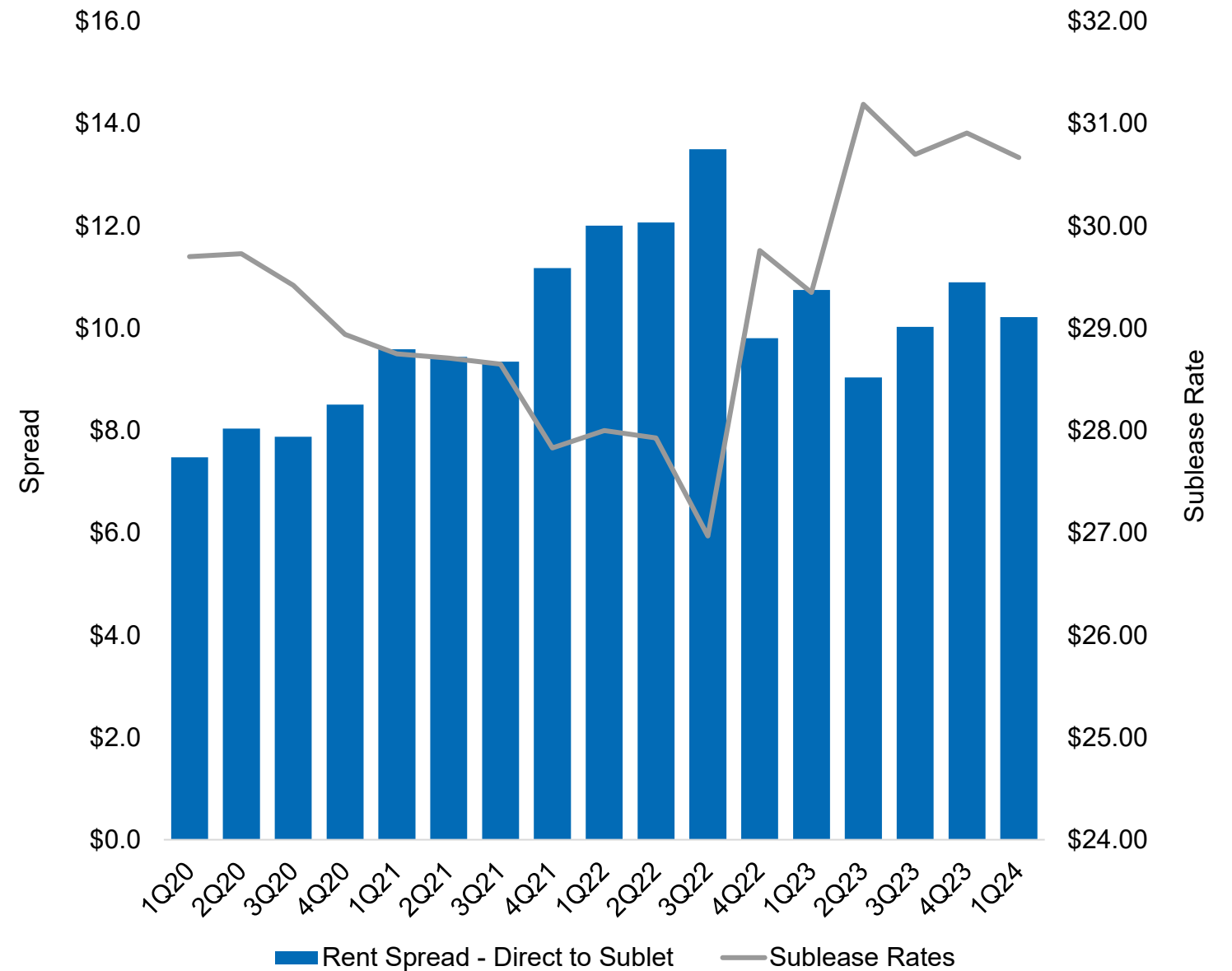
Sublease Rental Rates Spike Year Over Year

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Some rent compression is being experienced among major markets, but secondary and tertiary markets continue to appreciate. Sublease rents fell in the first few years of the pandemic but surged in 2023 and have maintained around \$30/SF since, driving the spread between direct and sublease spaces down.

Class A and Class B Direct Asking Rents



Sublease Rates



Source: Newmark Research

Leasing Activity Slows

Leasing volume was down this quarter, with only 1.4 million SF of transactions being completed. Leasing velocity is expected to maintain this level for the foreseeable future, as the largest tenants in the market are still figuring out their leasing strategy with some looking to expand, some planning to contract and some happy to maintain their current size.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Mesirow Financial	353 N Clark St	River North	Renewal	110,000
<i>Mesirow will be downsizing from 165,000 SF by offloading 2 floors in the low-rise portion of the building.</i>				
PNC Financial Services	1 N Franklin St	West Loop	Renewal	95,000
<i>PNC has recommitted to its namesake building, but will be downsizing from around 116,000 SF.</i>				
Grubhub Inc	222 Merchandise Mart Plz	River North	Sublease	90,000
<i>Grubhub is downsizing from about 164,000 SF at 111 W Washington St.</i>				
White & Case	300 N LaSalle St	River North	New Lease	65,000
<i>The law firm is expanding from their current space at 111 S Wacker of about 38,000 SF.</i>				
Crowell & Moring	300 N LaSalle	River North	New Lease	50,000
<i>The law firm is downsizing from their current space in the NBC Tower located at 455 N Cityfront Plaza of about 75,000 SF.</i>				

West Loop Submarket Overview

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Fulton Market Submarket Overview

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Central Loop Submarket Overview

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East Loop Submarket Overview

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River North Submarket Overview

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North Michigan Avenue Submarket Overview

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