

3Q23

Chicago CBD Office Market Report

NEWMARK

Market Observations

Economy

- Chicago's unemployment rate is slightly higher than the national average, and job growth has slowed in the last year due to persistently high inflation and layoffs.
- Office-occupying or adjacent industries saw mixed results, with financial activities experiencing a moderate gain, while business and professional services and information saw significant declines for the second quarter in a row. This decline is not completely shocking as layoff announcements have come from major financial tenants like BMO, Northern Trust and Guaranteed Rate this summer.

Major Transactions

- For the first time in several quarters, the largest lease signed Downtown was not a contraction but an expansion by Invenergy, which announced it is expanding at 1 South Wacker Dr. by nearly 85,000 SF to a total of 180,000 SF.
- There were also announcements by several tenants who will be swapping submarkets as Winston & Strawn will be relocating from the Central Loop to River North, Greenberg Traurig will be moving from the Central Loop to Fulton Market and Olam Americas is moving from the West Loop to the East Loop.
- Chicago had its first office property trade hands in more than a year during the third quarter of 2023. 230 West Monroe was purchased by Menashe Properties, an Oregon-based real estate investor, for \$45 million, a 63% reduction from the \$122 million Accesso Partners paid for it in 2014.

Leasing Market Fundamentals

- Leasing volume year to date remained subdued in part due to a cloudy economic outlook, and higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable.
- For the first time in several quarters, there was positive absorption, which helped keep total vacancy at 22.0% for the quarter.
- After a significant spike in sublease space in the first half of the year, sublease space declined to 7.8 million SF, or 5.0%, due to some tenants removing sublease space from the market and other subleases terms expiring and the space switching to direct availability

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Owners held strong on rental rates again this quarter, offering concession packages instead of lowering rates, pushing rental rates to a record high of \$40.73/SF.
- 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

3Q23

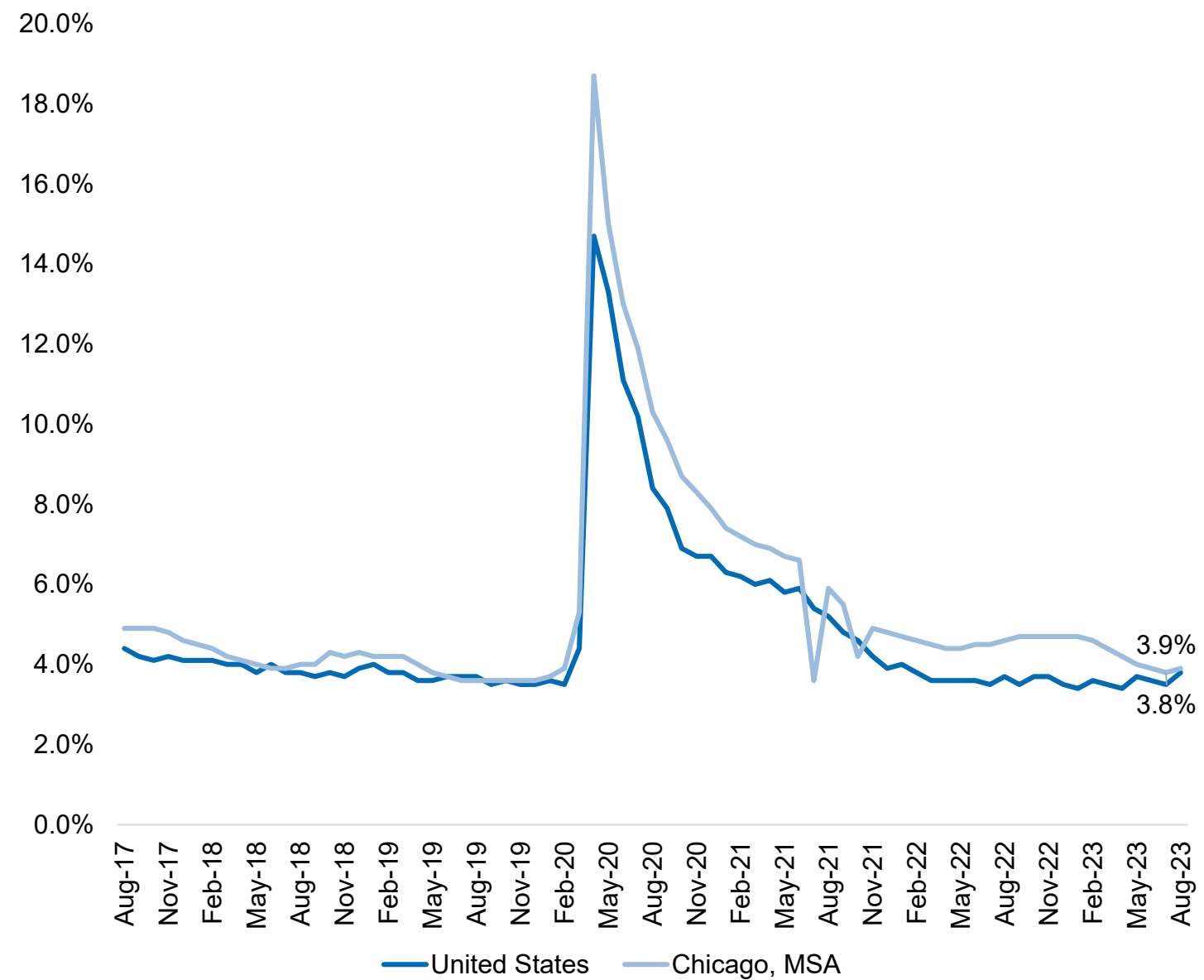
Economy



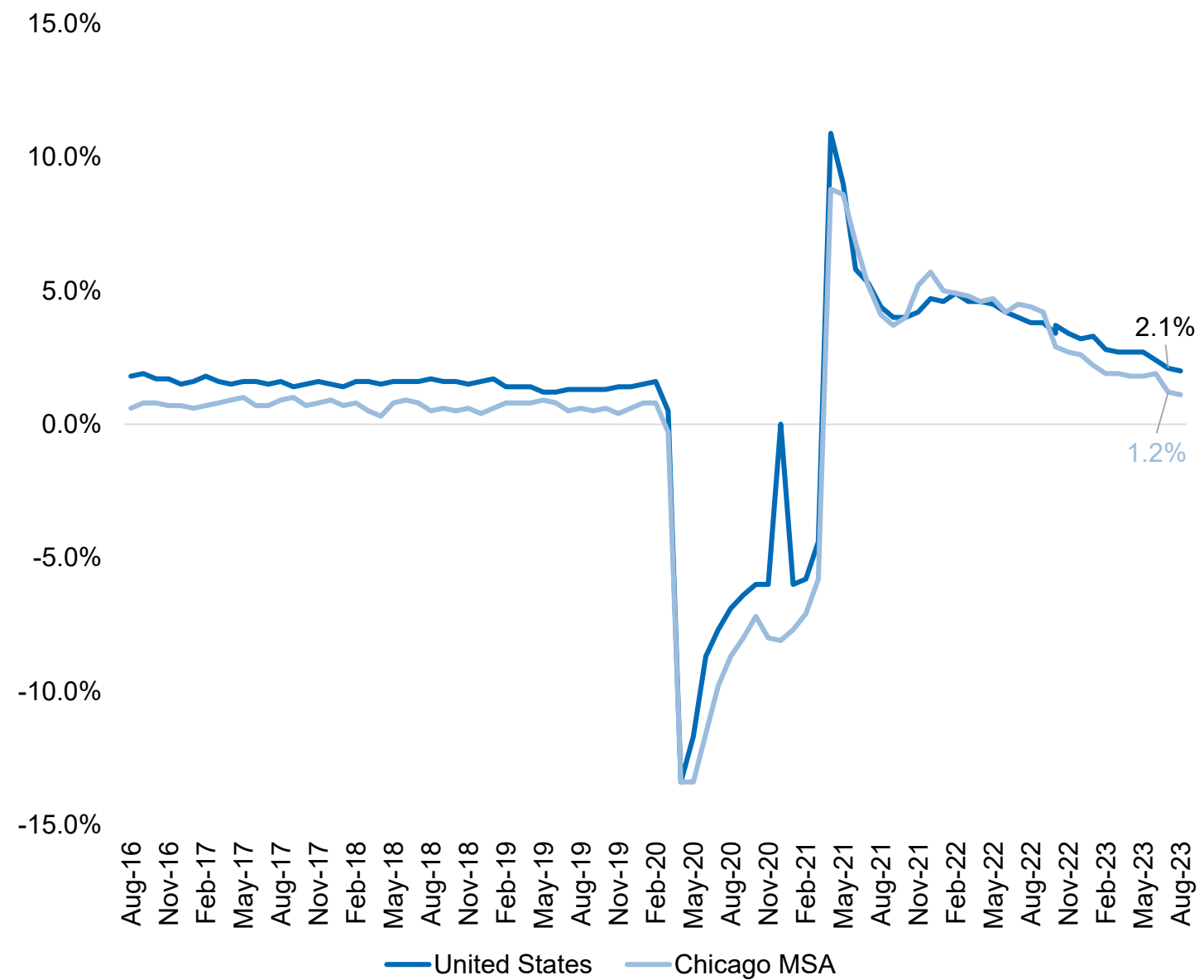
Metro Employment Trends Signal a Slowing Economy

Chicago’s unemployment rate is slightly higher than the national average, and job growth has slowed in the last year. Persistently high inflation and increasing interest rates are placing stress on the labor market.

Unemployment Rate, Seasonally Adjusted



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



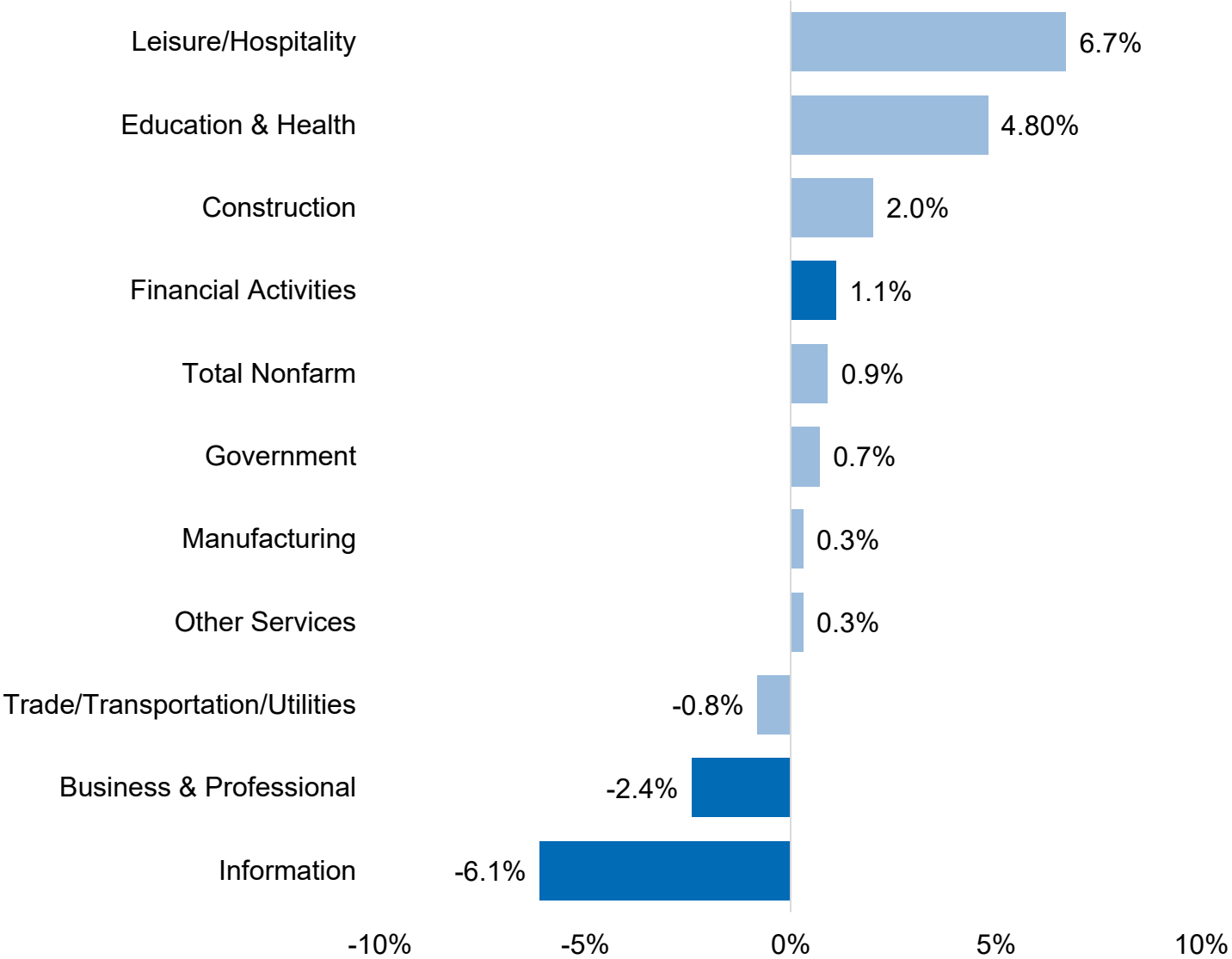
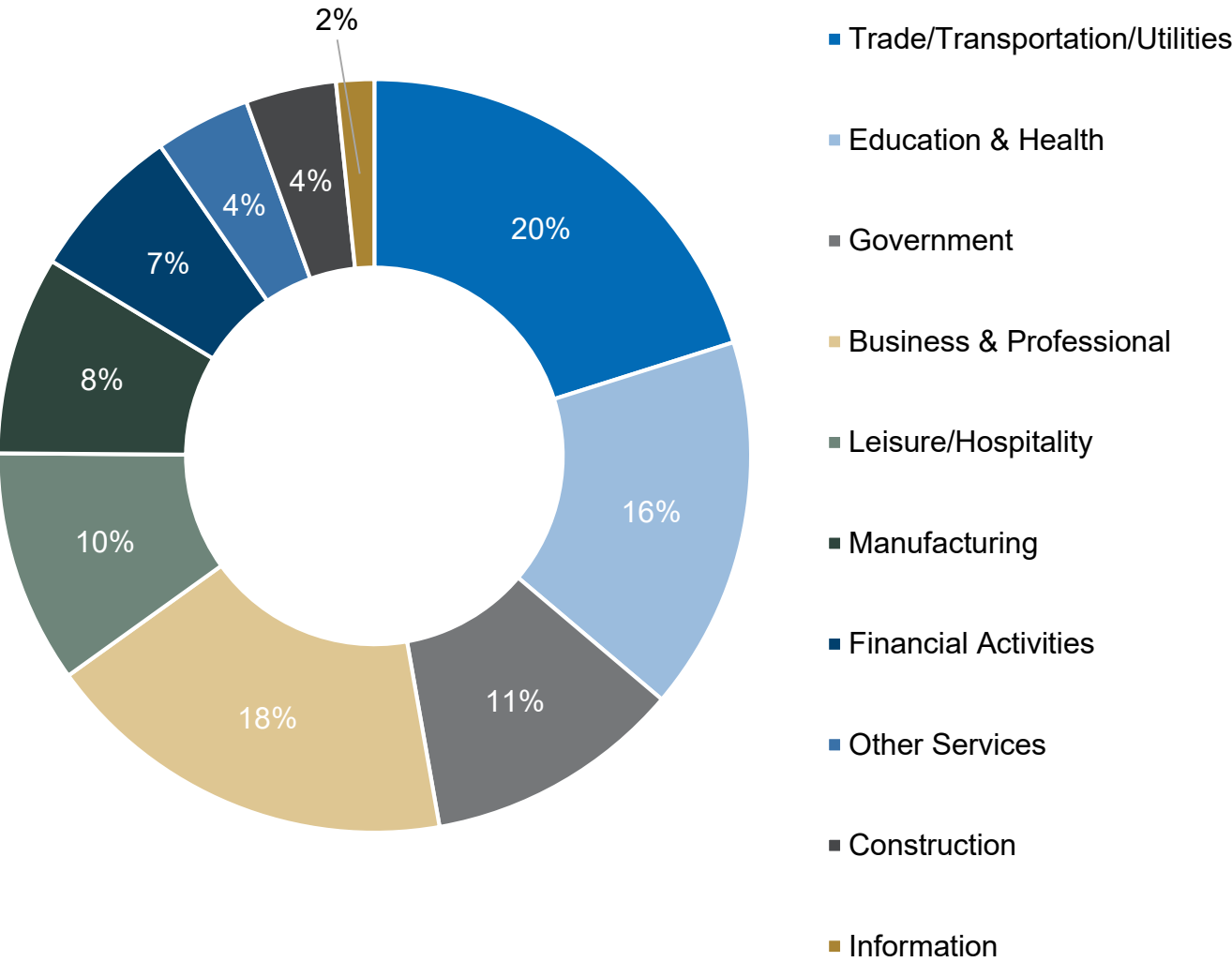
Source: U.S. Bureau of Labor Statistics, Chicago MSA

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

The leisure/hospitality sector continued to lead all industries in regional annual job growth. Office-occupying or adjacent industries saw mixed results, with financial activities experiencing a moderate gain, while business and professional services and information saw significant declines for the second quarter in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

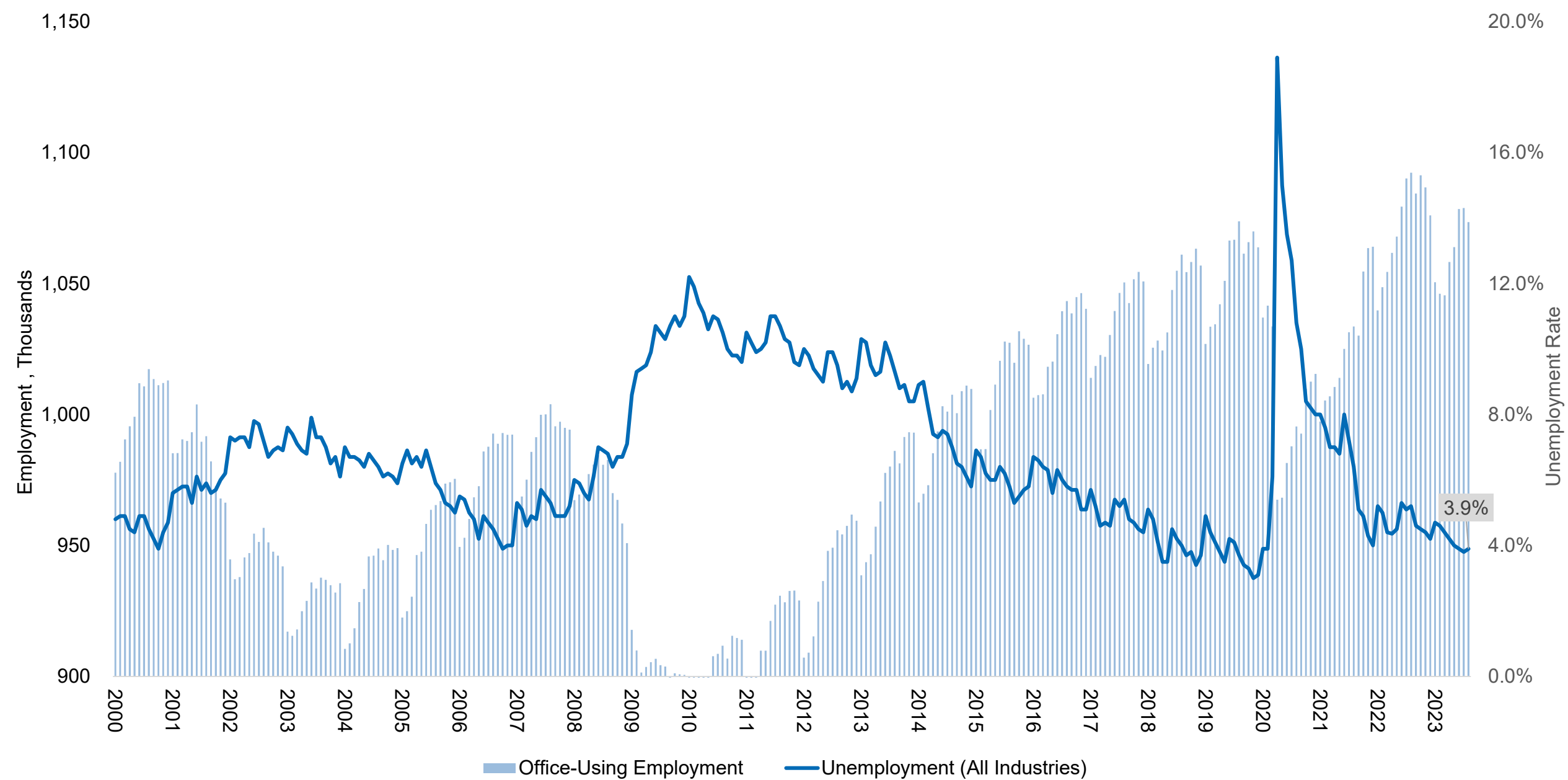


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to pre-pandemic levels but fallen significantly year over year, with layoff announcements coming from major financial tenants like BMO, Amount, Guaranteed Rate and Northern Trust.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Chicago MSA
Note: September 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

3Q23

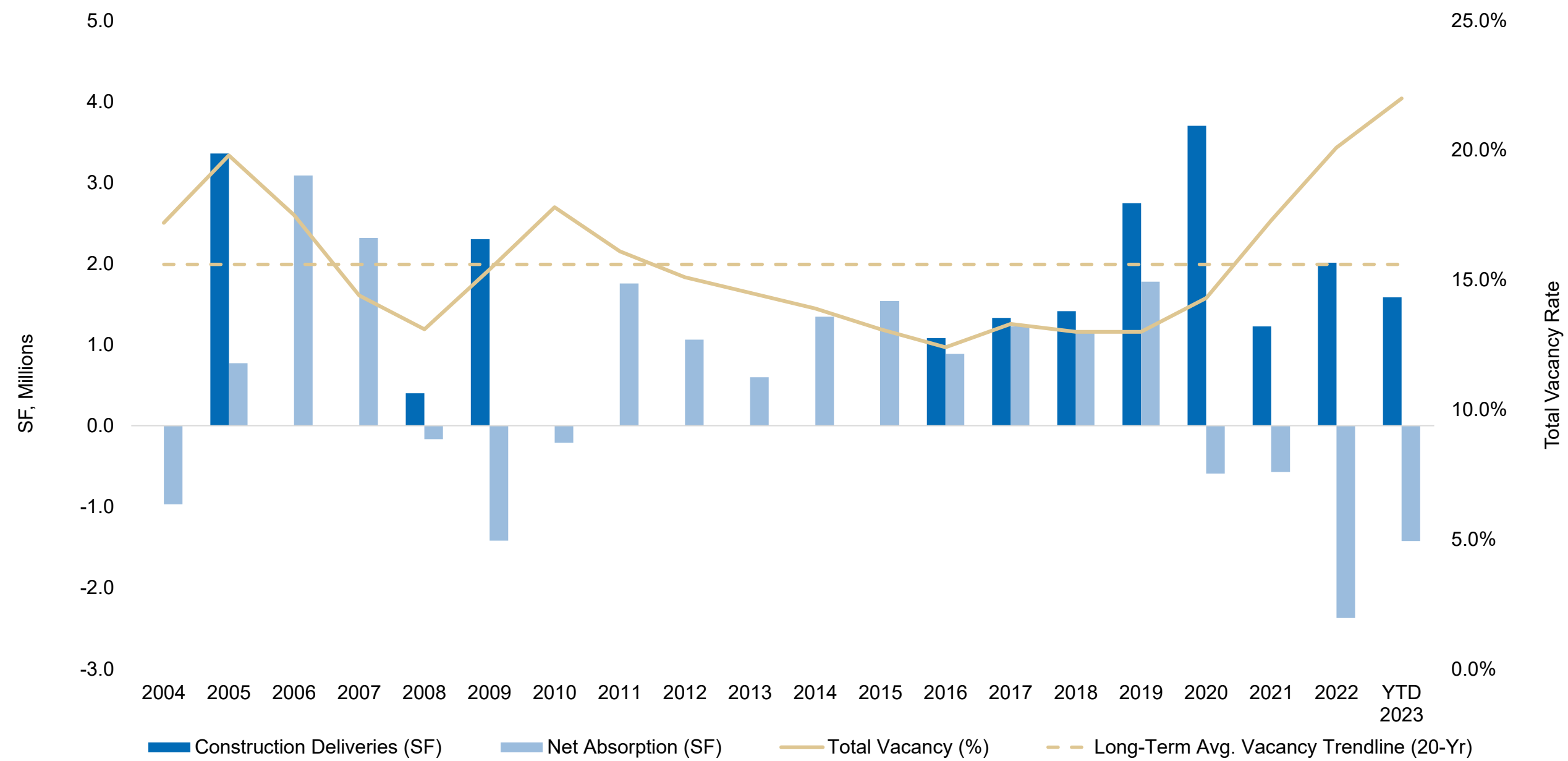
Leasing Market Fundamentals



Absorption Records First Quarter of Positive Absorption Since Start of Pandemic

Vacancy held steady this quarter thanks to 180,000 SF of positive absorption, bringing the year-to-date total absorption to negative 1.4 million SF.

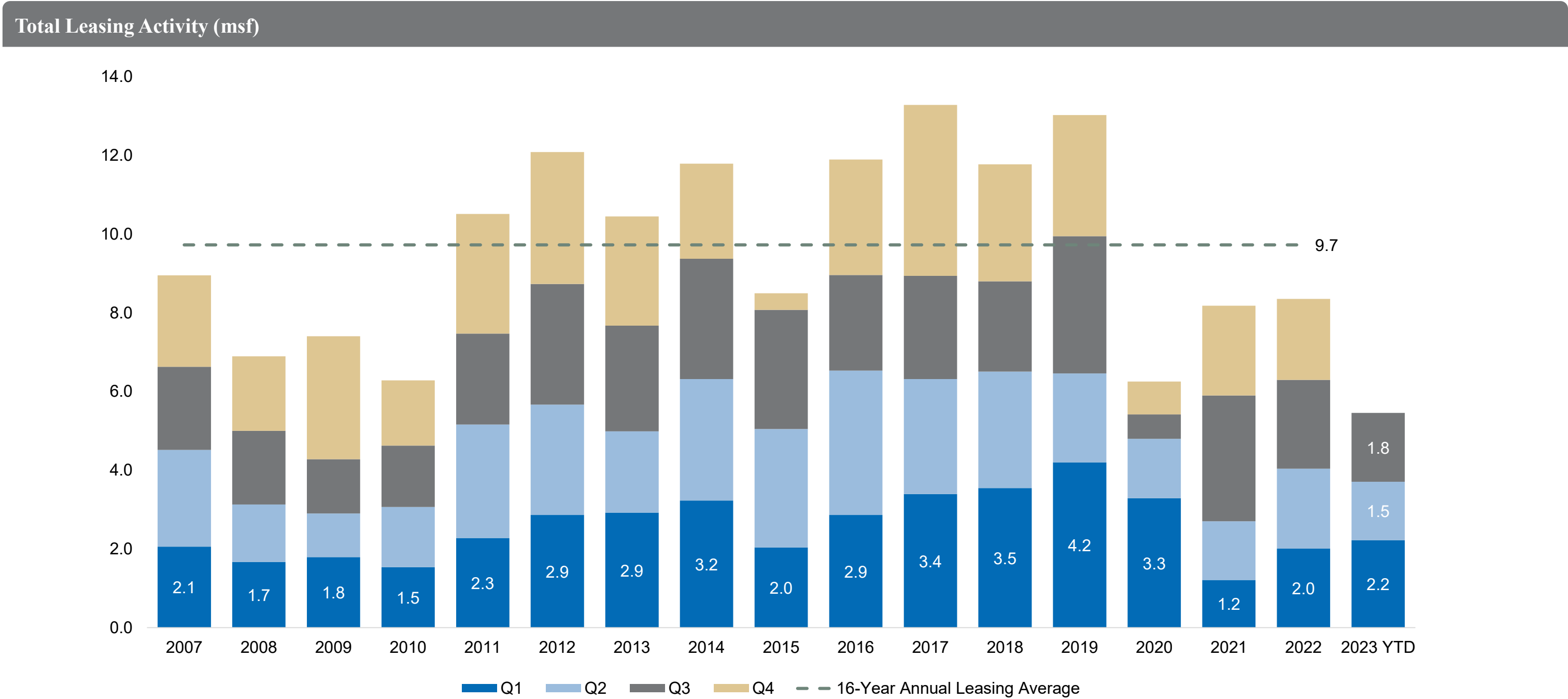
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed Relative to 2022

Leasing activity has been down each quarter now in 2023 compared to 2022. 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 as the largest lease completed was an expansion, but the next several largest deals were all plain renewals or had a contractual component to it.

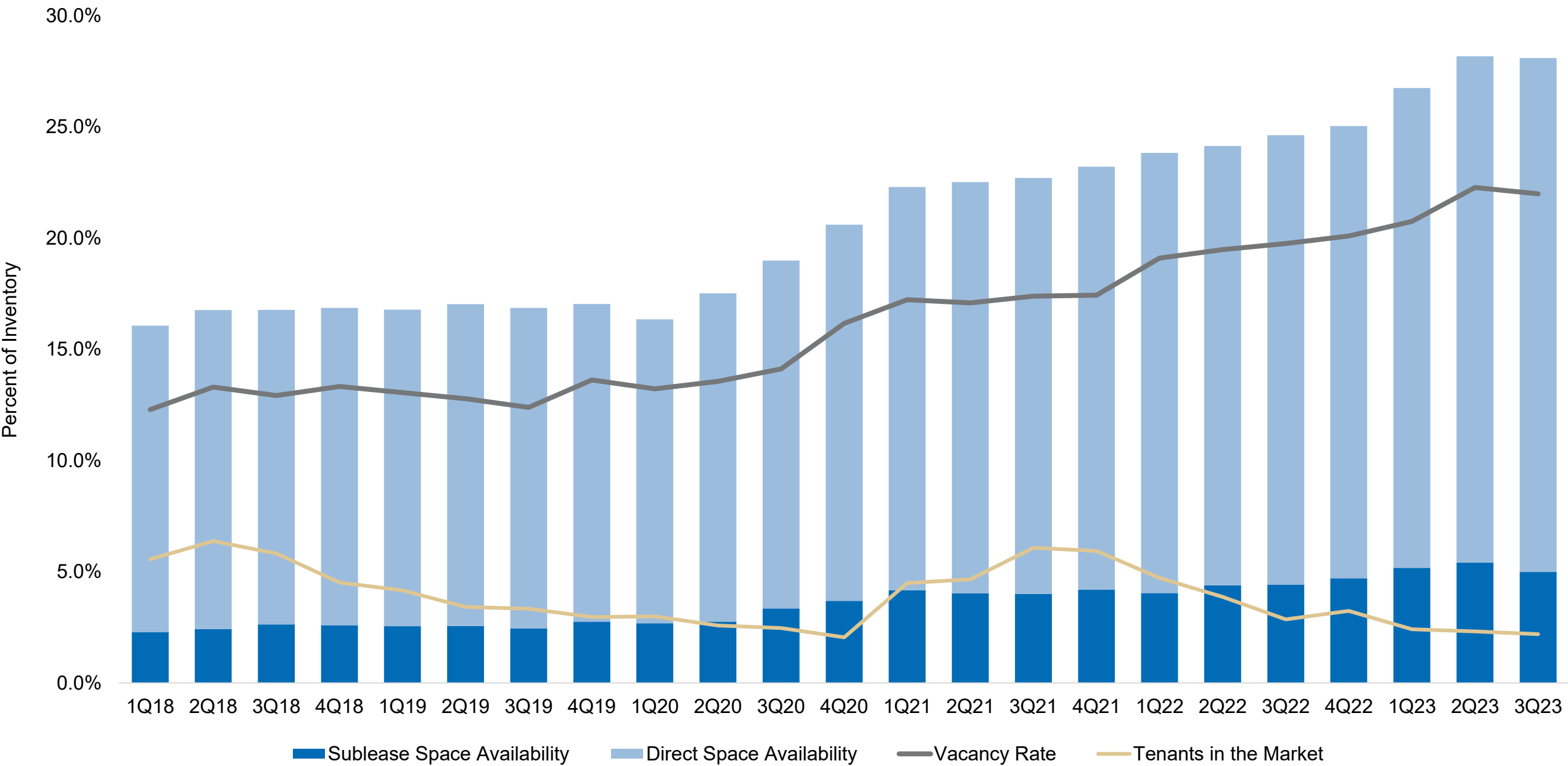


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

After spiking in the first half of 2023 sublease space declined during the third quarter of 2023 thanks to a combo of tenants pulling offerings off the market, sublease terms expiring and spaces moving to direct availabilities and a minor uptick in sublease leasing. This trend is concentrated in the Central Business District, where sublease availability is 5.0%, or 7.8 million SF.

Available Space and Tenant Demand as Percent of Overall Market

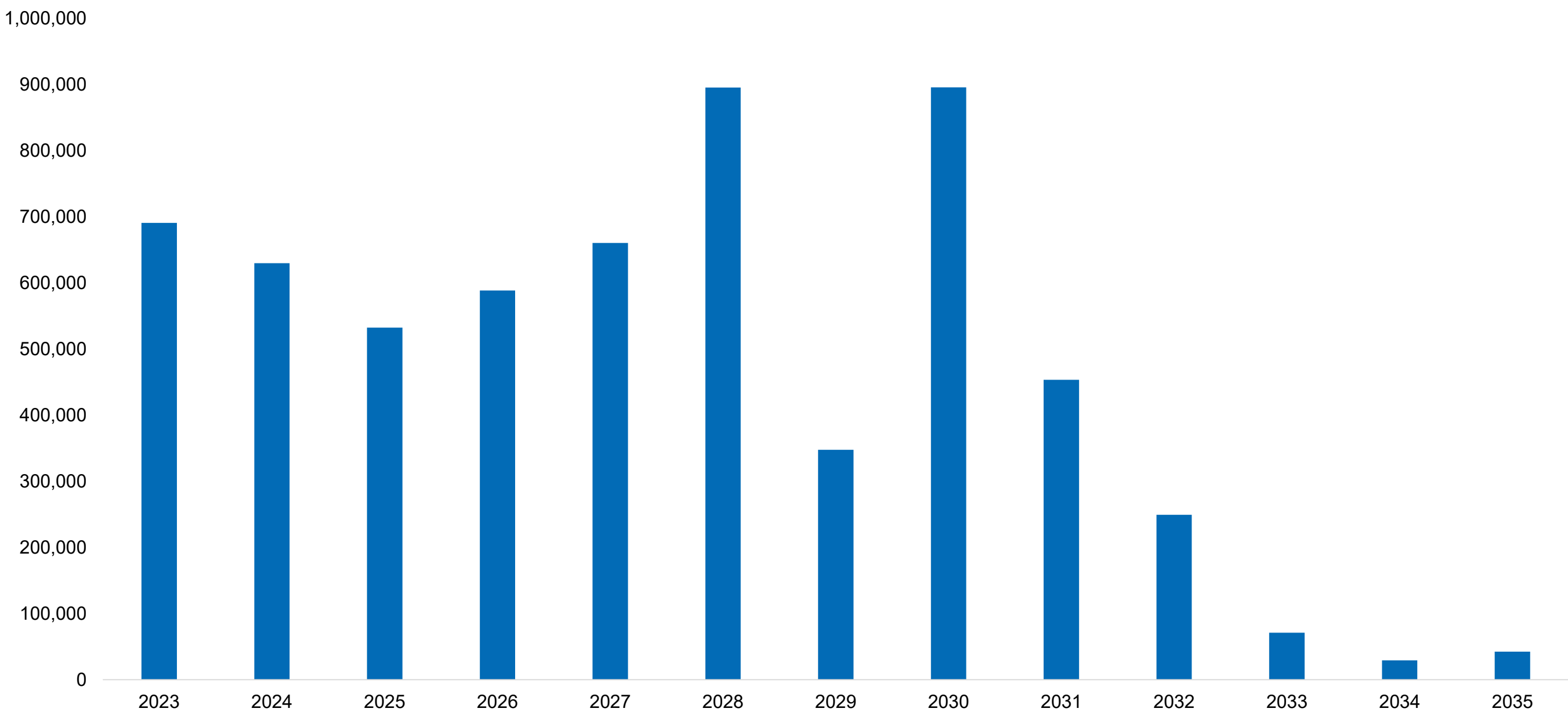


Source: Newmark Research

Expiring Sublease Space Starts to Impact Direct Vacancy

This was the first quarter where the market saw a significant portion of sublease space transfer from sublease availability to direct vacancy, lowering the total from 8.4 million SF to 7.8 million SF. In the next five years, just under 4 million SF will convert from sublease vacancy to direct vacancy, with 2.5 million of that being within the next three years. Around 600,000 SF will hit the direct market annually until 2029 if not leased up.

Expiring Sublease Square Footage

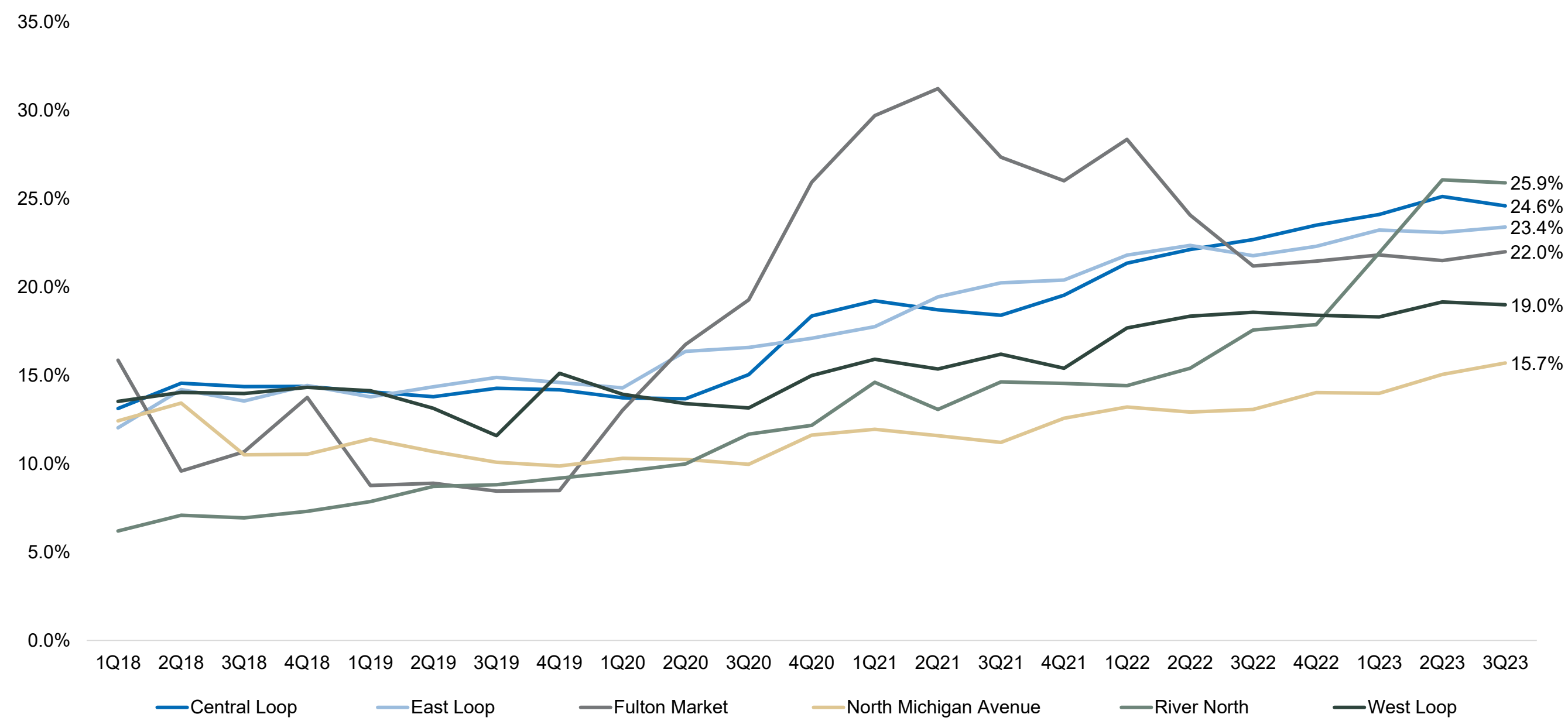


Source: Costar, Newmark Research

Vacancy Rates Hold Steady

Thanks to minimal positive absorption in many submarkets this quarter, vacancy rates didn't see any major spikes. North Michigan Avenue continues to maintain the lowest vacancy rate as it has longstanding tenants, many of which are medical, that do not move often. River North's vacancy flatlined after the delivery of Salesforce Tower at the beginning of the year. With the only new construction underway in Fulton Market, expect to see vacancy continue to rise as tenants readjust their footprints but at a slower pace than has been observed.

Vacancy Rate by Submarket

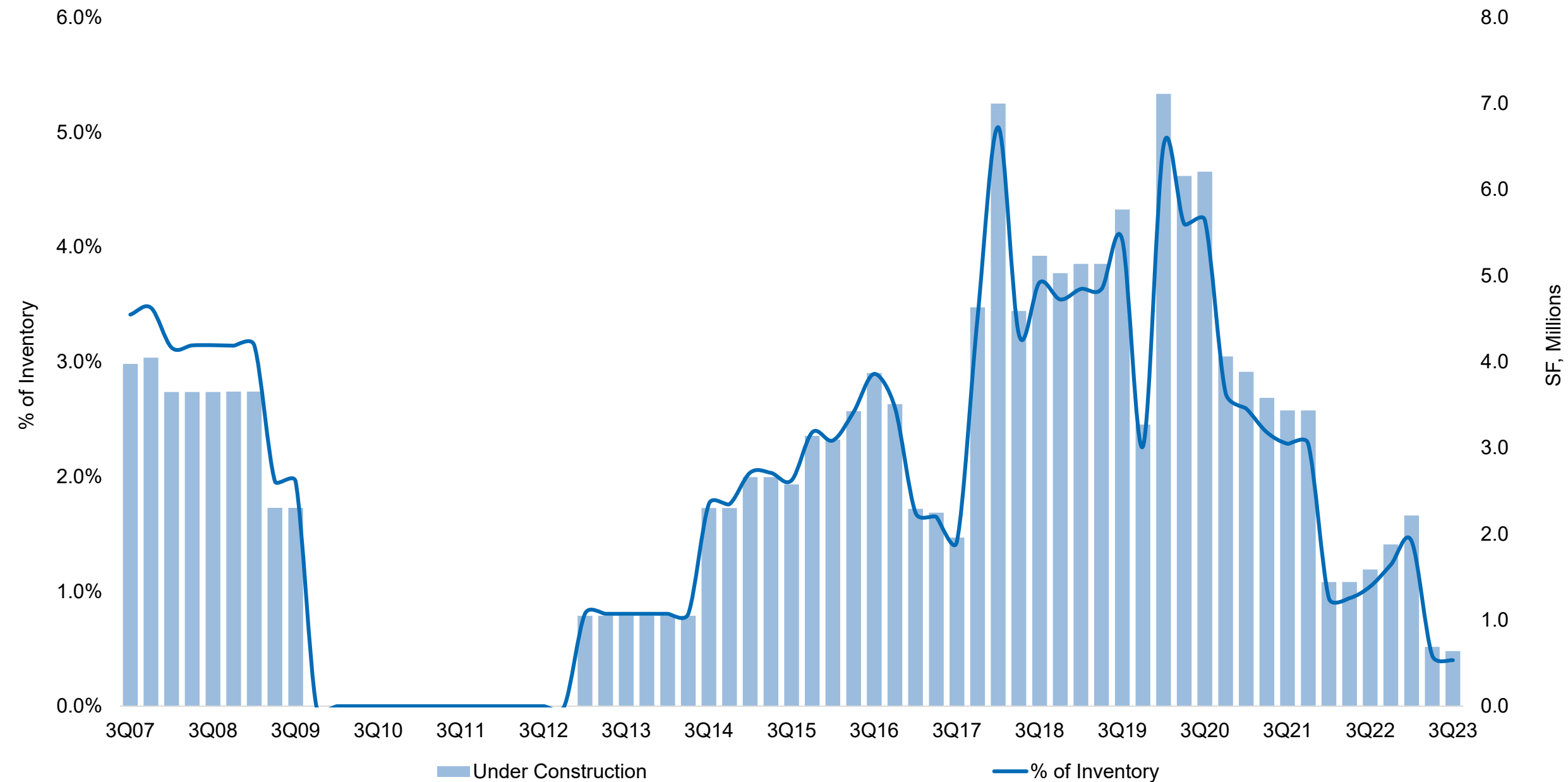


Source: Newmark Research

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 their 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 25.6% compared with the total CBD, which has an availability rate of 28.1%.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

Office Supply Under Construction

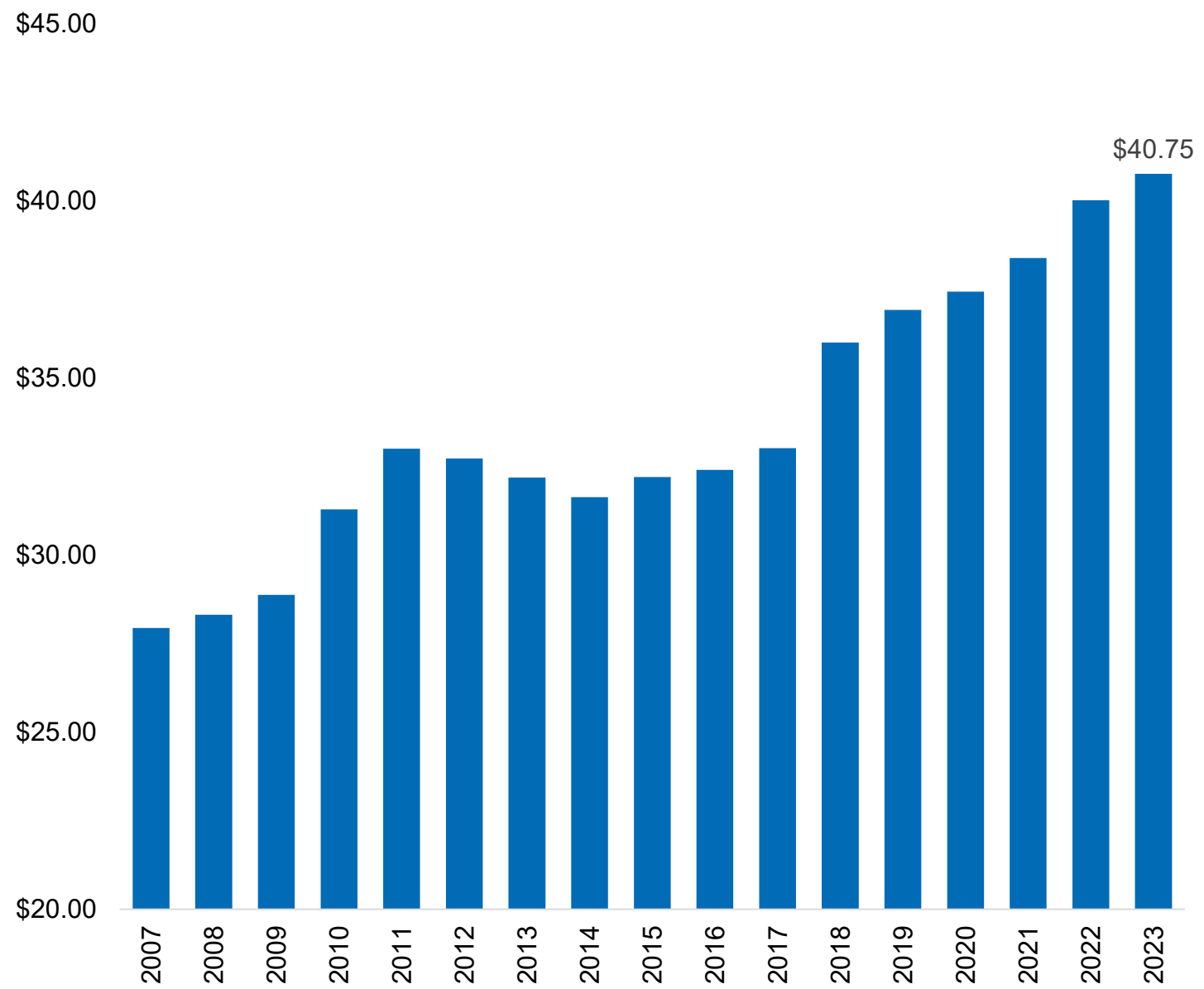


Please reach out to your
Newmark business contact for this information

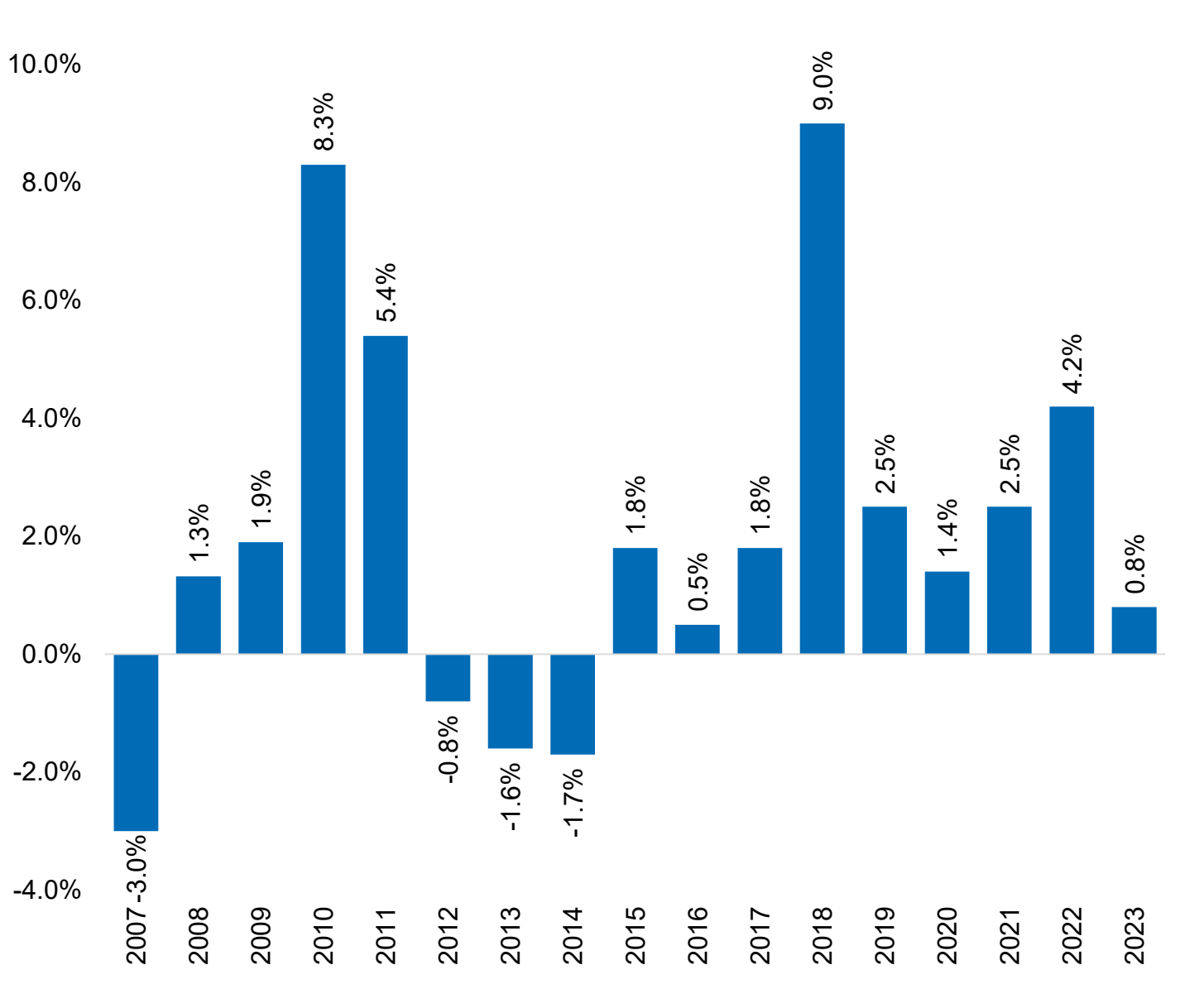
Rental Rate Growth Slows but Remains Positive

Despite slowing demand, asking rental rate growth continued with average asking rates increasing \$0.50/SF for the quarter and nearly \$1.00/SF for the year. Landlords are maintaining high asking rates, as tenants are willing and able to pay rent as they are often contracting their footprints, and getting creative with their concession packages and buildout pricing continues to climb.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

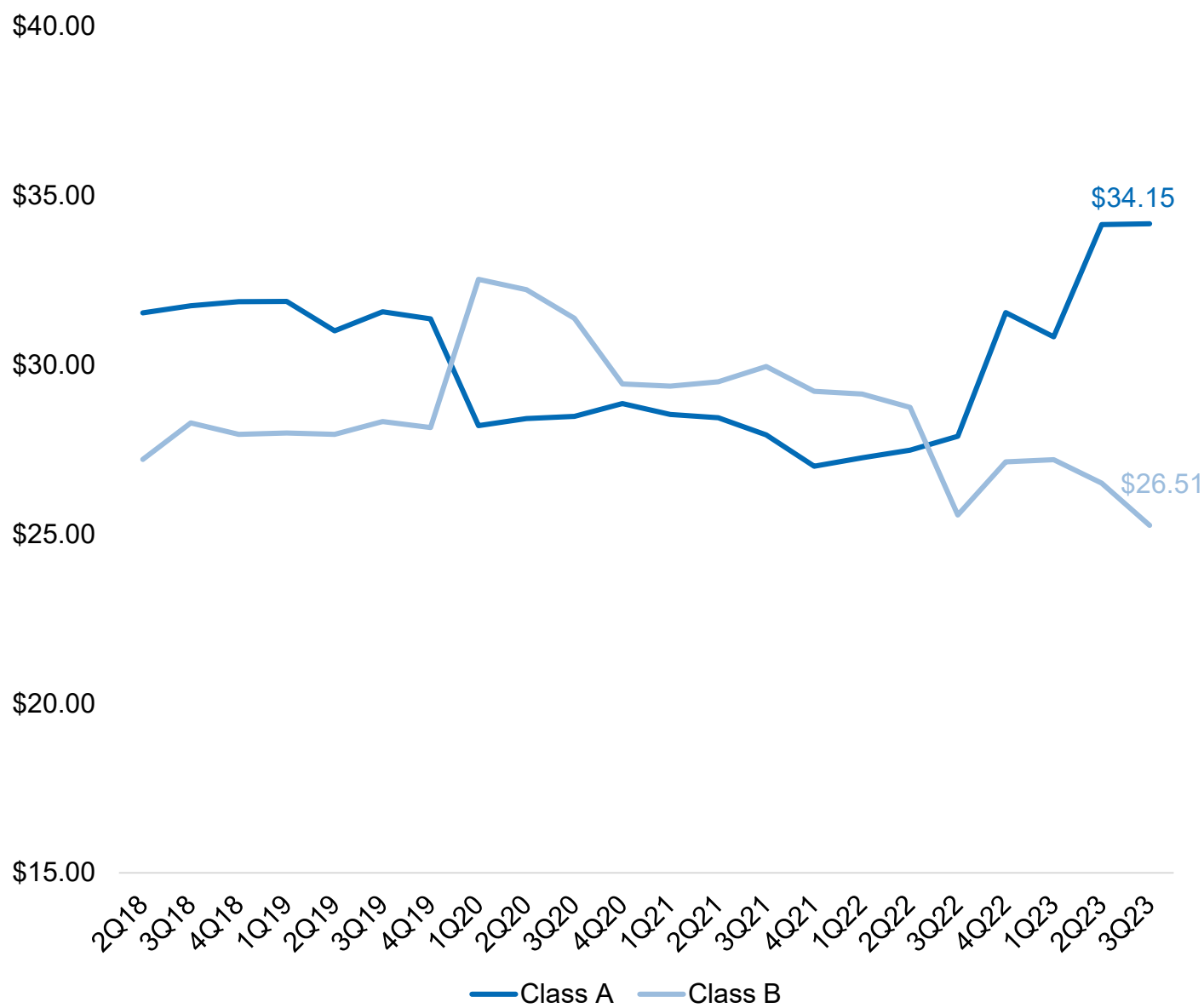


Source: Newmark Research, CoStar

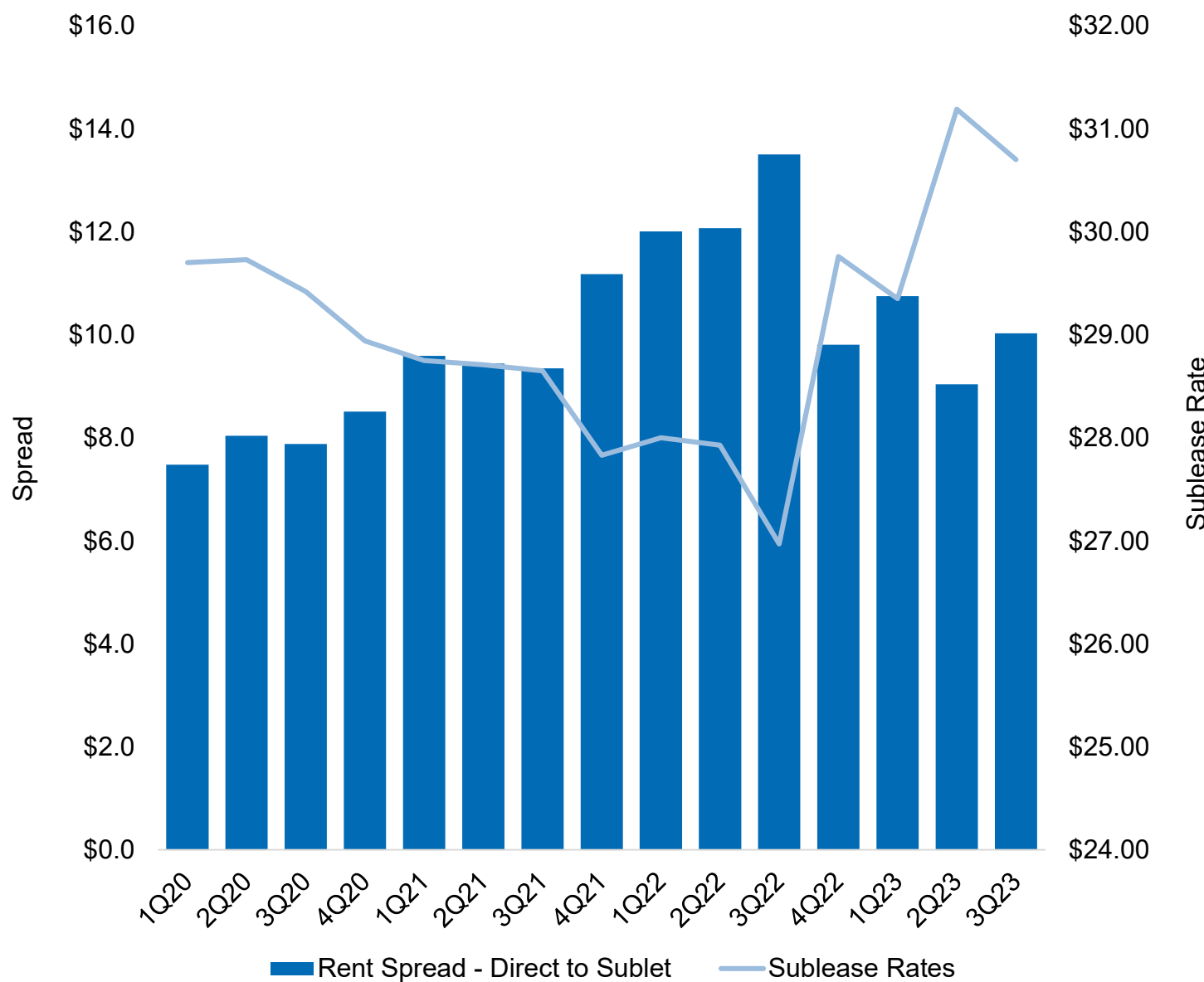
Sublease Rental Rates Spike Year Over Year

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 have surged in the last four quarters, increasing 15.6%, driving the spread between direct and sublease spaces down.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Leasing volume was down this quarter, with several of the largest tenants active in the market making decisions. There are still a few more we expect to make decisions by the end of the year. Looking to 2024, we will start to see some of the tenants who signed short-term extensions during the pandemic come out into the market and be forced to make decisions.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Invenergy	1 S Wacker Dr	West Loop	Expansion	180,000
Tenant is expanding in the building by 84,000 square feet. There are currently 900 employees located in that office.				
TIAA	333 W Wacker Dr	West Loop	Renewal	165,000
Winston and Strawn	300 N LaSalle St	River North	Direct Lease	150,000
Downsizing from 257,000 square feet at 35 W Wacker Dr.				
Relativity	231 S LaSalle St	Central Loop	Lease Renewal w/ contraction	100,000
Tenant is renewing within the building and cutting square footage by 80,000 square feet. The new space includes an outdoor terrace and modern build out.				
Greenberg Traurig	360 N Green St	Fulton Market	Direct Lease	93,000
Moving from 77 W Wacker Dr, downsizing by almost 30,000 square feet.				

Source: Newmark Research

West Loop Submarket Overview



Please reach out to your
Newmark business contact for this information

East Loop Submarket Overview



Please reach out to your
Newmark business contact for this information

Fulton Market Submarket Overview



Please reach out to your
Newmark business contact for this information

North Michigan Avenue Submarket Overview



Please reach out to your
Newmark business contact for this information

River North Submarket Overview



Please reach out to your
Newmark business contact for this information

Central Loop Submarket Overview



Please reach out to your
Newmark business contact for this information

West Loop Submarket Overview



Please reach out to your
Newmark business contact for this information

CBD Submarket Statistics Matrix



Please reach out to your
Newmark business contact for this information

For more information:

Amy Binstein

Midwest Research Director

Amy.Binstein@nmrk.com

Chicago

500 W Monroe Street

Chicago, IL 60661

t 312-224-3200

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK