



# Chicago CBD Office Market

## Office Market Recovery Continues at Unhurried Pace

### CBD Overview

Available sublease space in the Chicago CBD office market has increased 82.0% between the first quarter of 2020 and the fourth quarter of 2022 to a historic high of 7.1 million square feet. This increasing availability in the secondary market has been proliferated by significant reductions in office utilization by employees, causing companies to shrink their office footprints. The overall vacancy rate in the CBD also increased, reaching 20.1% in the fourth quarter of 2022, with a quarter-over-quarter increase of 50 basis points. This may be partly attributed to the forthcoming move-ins at the newly constructed 345 N. Morgan building in Fulton Market. Net absorption in the CBD was negative for the fourth consecutive quarter, though was less severe than the previous quarter at negative 169,587 square feet. Leasing activity remained relatively stable over the quarter, with the largest transaction being executed by Xeris Pharmaceuticals for 87,000 square feet at 1375 W. Fulton, where they already occupy an 11,000-square-foot research lab. Sales volume was muted in the CBD this quarter, with only two transactions in October, as the current economic climate has deterred investors from assuming debt at the prevailing interest rates.

### Current Conditions

- Vacancy rates rose this quarter to 20.1%, increasing 50 basis points quarter over quarter.
- Average asking rates were \$39.58/SF this quarter in the CBD, down \$0.93 since 3Q.
- Sales transactions were muted in 4Q, as borrowing rates and future economic uncertainty have discouraged downtown investment.

### Market Summary

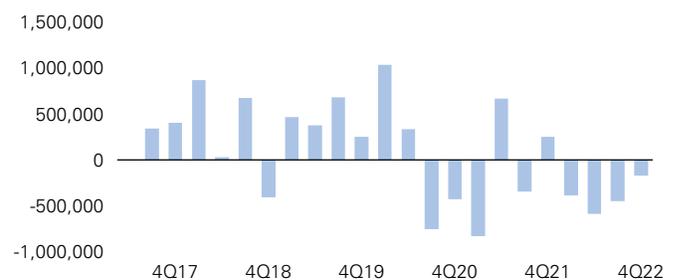
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	152.4M	152.2M	148.1M	↑
Vacancy Rate	20.1%	19.6%	17.5%	↑
Quarterly Net Absorption (SF)	(169,597)	(449,129)	248,687	↓
Average Asking Rent/SF	\$39.58	\$40.51	\$39.11	↑
Under Construction (SF)	1.8M	1.5M	3.5M	↓

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF)



### Leasing Activity

Both the CBD and Suburban office markets have reflected the national trend of leasing activity being concentrated on Class A space that is rich in amenities. Leasing activity in the CBD remained stable over the quarter, at approximately 1.1 million square feet. The key trend in the fourth quarter of 2022 was companies turning to the secondary market to alter their office footprints, taking advantage of readily available sublet space. With more employees working remotely, office occupancy rates have decreased, prompting companies to reevaluate the amount of square footage required for their workplaces. Many companies have seized the opportunity to upgrade to higher-quality offices with lower square footage, more favorable lease terms, and reduced rental rates, as they contemplate the future of their in-office policies. Public relations services firm Cision exemplifies this trend; this quarter, it downsized its 52,000 square-foot headquarters in the suburbs and committed to subleasing 24,000 square feet at 300 S. Riverside Plaza. However, not all companies were looking to downsize in this quarter, as some tenants have taken advantage of the current market conditions to expand their space at low costs. One example of this is Twin Brook Capital subleasing 29,000 square feet at 111 South Wacker, thereby doubling the amount of space it already has in the building.

### Capital Markets

The investment sales market in the Chicago metropolitan region reached \$402.2 million in the fourth quarter. The total investment sales volume for 2022 was \$2.76 billion, which is the highest it has been since the onset of the pandemic. This year, private capital accounted for the majority of buyers at 53.9%, followed by institutional capital at 35.0%. In terms of sales, institutional capital made up 56.7% of transactions and private capital accounted for 28.1%. Sales in the Central Business District were relatively subdued this quarter, making up only two of the 16 total transactions in the Chicago metropolitan area. Investors are currently reticent to make any commitments to downtown office space until interest rates begin to decrease, and the costs of debt become more stable. As rate hikes are expected to continue and expand capitalization rates in the coming year, it is likely that buyers and sellers will remain at odds over asset valuations. Furthermore, both lenders and investors will be closely monitoring the work-from-home trends, and whether office occupancy rates will begin to return to pre-pandemic levels in 2023, before making any significant purchase or sale decisions.

### Sublease Space

Office sublease availability has been at record highs throughout 2022 in the Chicago CBD market, with the fourth quarter reaching over 7.1 million square feet. The West Loop submarket has been a significant contributor to this trend, accounting for almost half of all sublease inventory in the CBD with an additional 3.1 million square feet added during this quarter. Approaching three years since the onset of the pandemic, the market is feeling the aftershock effects of a workforce that has embraced the conveniences of working from home. Larger companies are considering the cost savings and work from home effectiveness as their primary motivation to shrink their office footprints as they look to make decisions on their long-term strategies. One such example of this movement occurred this quarter, when software firm Sprout Social listed 64,000 square feet of its Loop headquarters, focusing its office presence on the floor it leases below at 131 South Dearborn. On the other hand, the increase in sublease offerings has also given tenants in the market rare negotiating leverage, allowing them to expand office space at favorable costs. In 2023, nearly 700,000 square feet of sublease space is set to expire, which will convert to direct vacancy in the CBD if not leased up.

### Outlook

2023 will be a year of challenges and innovative solutions for the recovering office market. Employers will have to determine how to best utilize their space while balancing the need for office attendance with the increasing popularity of remote work. The market will continue to favor tenants, as the supply of available space will exceed the demand and more companies will seek to offload their space in the secondary market. With nearly 8 million square feet of sublease space available in the downtown area, this will have a significant impact on future vacancy if not leased. Over the next five years, just under 2.9 million square feet of sublease space will convert to direct vacancy, with 1.8 million of that happening within the next three years. Starting in 2023, over 500,000 square feet will be removed from the sublease market annually until 2029 if not leased. Additionally, tenants will likely continue to seek out amenity-rich Class A buildings to attract and retain talent and promote collaboration, while Class B properties may struggle to fill their vacant space in the coming months.

## RESEARCH Q4 2022

### CBD Lease Transactions

Tenant	Market	Building	Type	Square Feet
Xeris Pharmaceuticals	Fulton Market	1375 W Fulton	Direct	87,000
Zoro Tools	West Loop	500 W Madison	Direct	42,000
Alvarez & Marshall, Inc.	West Loop	540 W Madison	Renewal	42,000
Loop Capital	Central Loop	425 S Financial	Direct	37,000
Twin Brook Capital	West Loop	West Loop	Sublease Expansion	29,000
Cision	West Loop	300 S Riverside	Sublease	25,000

### CBD Sale Transactions

Buyer	Market	Building	Price Per SF	Square Feet
Farbman Group	Central Loop	600 W Jackson	\$102/SF	107,200
Brown Derby LLC	Central Loop	79 W Monroe	-	77,295

### Chicago Life Science Inventory

Address	Location	Total Size	Rental Rates	Tenants
Innovation Park	Libertyville	350,000 SF of Lab	\$15 - \$18 PSF Gross	Valent Bio Sciences Avexis
Illinois Science and Technology Park	Skokie	556,650 SF	\$35 - \$47 PSF Net	NorthShore, Vetter LanzaTech
2430 N Halsted Street	Chicago (Lincoln Park)	120,000 SF	\$35 - \$45 PSF Net	Evozyne, Exicure Solvd Health
West End on Fulton	Chicago (Fulton Market)	301,260 SF	\$45 - \$55 PSF Net	Talis Biomedical Xeris Pharmaceuticals Portal Innovations

### Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Central Loop	37,003,615	-	23.5 %	(300,818)	(1,464,280)	\$41.77	\$39.01	\$39.53
East Loop	25,510,592	-	22.3 %	(136,354)	(325,061)	\$38.89	\$35.14	\$36.43
Fulton Market	8,088,700	531,187	21.5 %	150,853	916,570	\$62.15	\$32.71	\$44.51
North Michigan Avenue	10,496,574	-	14.0 %	(100,697)	(153,366)	\$40.00	\$36.73	\$37.41
River North	16,343,502	1,346,687	17.9%	(51,139)	(545,652)	\$38.48	\$29.57	\$35.26
West Loop	54,992,418	-	18.4%	268,558	16,001	\$45.52	\$36.08	\$42.78
<b>CBD Total</b>	<b>152,435,401</b>	<b>1,877,874</b>	<b>20.1 %</b>	<b>(169,597)</b>	<b>(1,555,788)</b>	<b>\$43.17</b>	<b>\$36.75</b>	<b>\$39.58</b>
Riverfront Properties	35,559,239	1,200,000	15.1%	65,914	(693,721)	\$40.15	\$40.03	\$40.11

## RESEARCH Q4 2022

### Economic Conditions

As 2022 concludes, the global economy continues to face instability amidst converging factors, including residual COVID-19 impacts, European energy sanctions, China's housing market crisis, the war in Ukraine and widespread inflation. Perhaps the biggest focus for Americans is the increasing likelihood of a recession in the first half of 2023. The Fed's announcement of a 50 basis-point hike in mid-December has brought interest rates to a 15-year high at a target range of 4.25% to 4.5%, with no indication of rate cuts anytime soon.

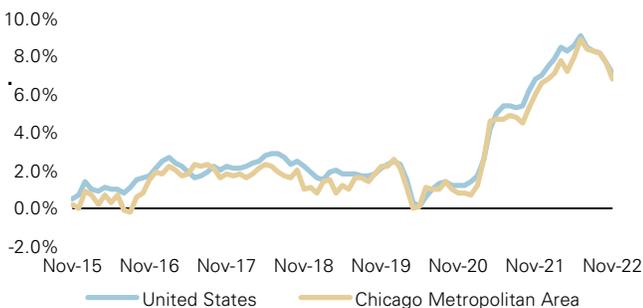
While the most recent US CPI measure of 7.1% is high relative to pre-pandemic levels, November's report is down significantly from June's peak of 9.0% and is an optimistic sign that the FOMC's monetary tightening efforts have been effective in decelerating price increases. Inflation rates in Chicago have mirrored this national decrease, with the latest CPI measured at 6.8%, a 210 basis-point reduction from June's peak.

Despite the economic slow down engineered by the Fed, the labor market has remained resilient in 2022, with the latest data from the BLS showing a national unemployment rate of 3.7%. Demand for workers is also outpacing supply in the Windy City with unemployment at 4.5%, perhaps fueled by strong job growth in the hospitality, manufacturing and tech industries. Illinois mass layoff claims are down more than 50% year-over-year, and workers who are being laid off are finding new jobs quicker than at the height of the pandemic. This workers market will not prevail in the long-term, however, as the Fed's future rate hikes will bring the labor market back into equilibrium, decreasing wage growth, and ultimately, prices.

The outlook for 2023 is one of slow GDP growth, a likely recessionary period, falling consumer sentiment and a softening in business investment. While the coming months may present some challenges, the US has historically been able to rebound from onerous periods of stagnant economic activity. The extent to which we'll begin to see a reversion to "normalcy" will largely be dependent on the efficacy of the Central Bank's monetary policy in conjunction with solutions to geopolitical frictions across the globe.

### Consumer Price Index (CPI)

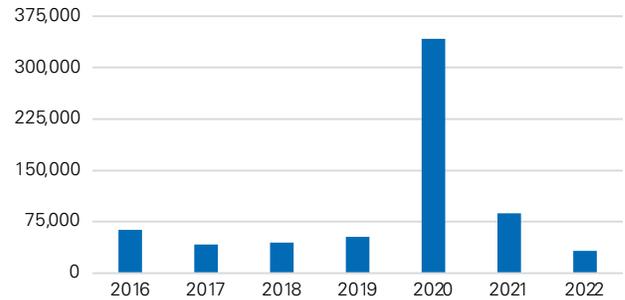
**ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.**



Source: U.S. Bureau of Labor Statistics

### Layoff Statistics

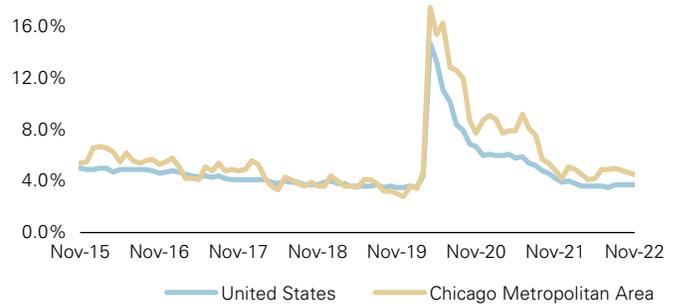
**IL MASS LAYOFFS (INITIAL CLAIMS), NOVEMBER 2022**



Source: Illinois Department of Employment Security, Economic Information and Analysis

### Unemployment Rate

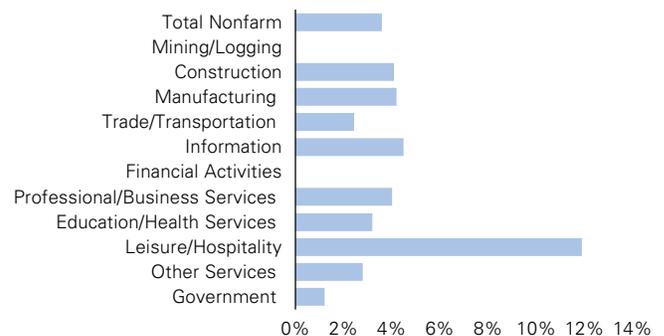
**SEASONALLY ADJUSTED, NOVEMBER 2022**



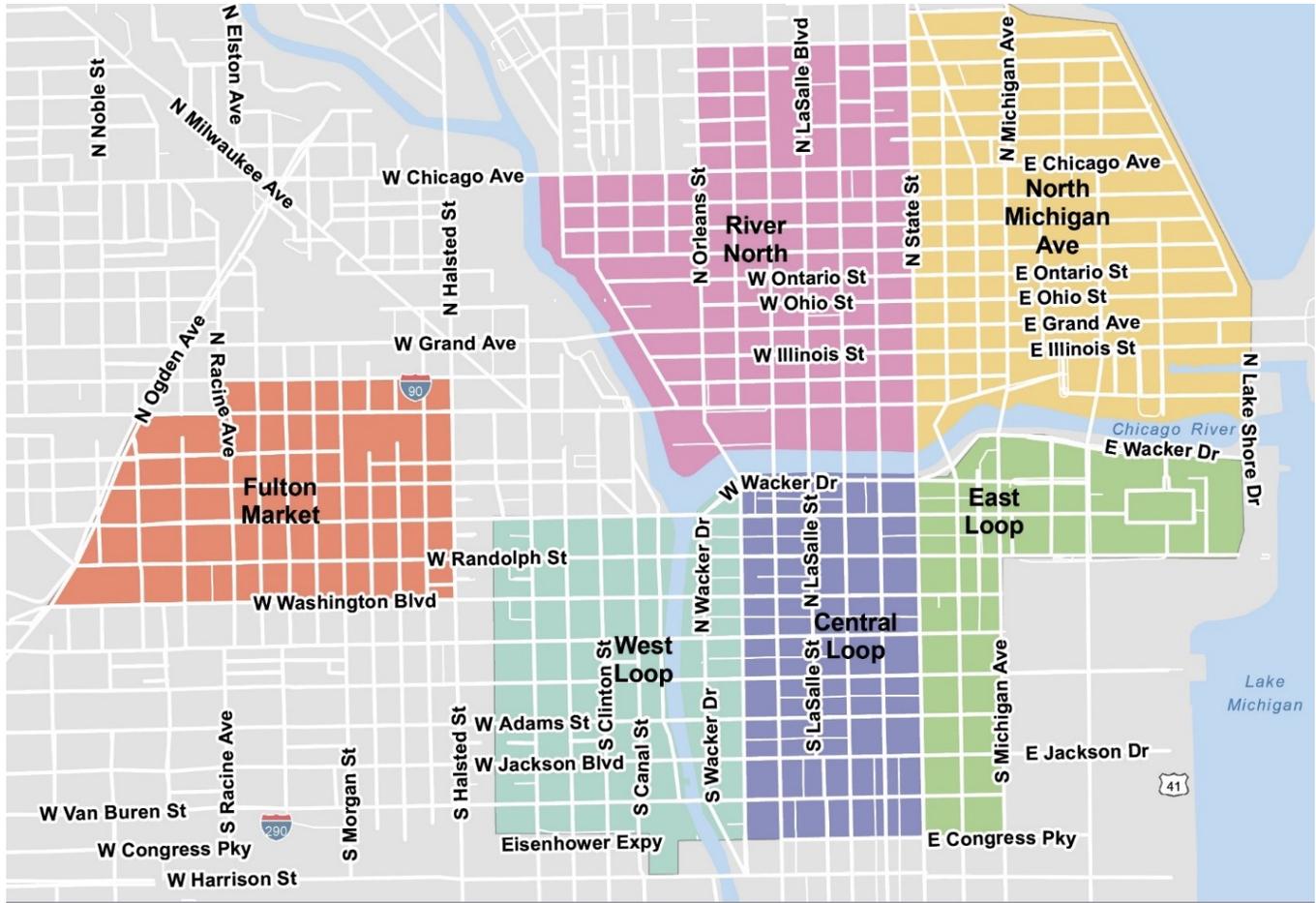
Source: U.S. Bureau of Labor Statistics

### Employment Growth By Industry

**CHICAGO, NOVEMBER 2022, 12-MONTH % CHANGE, SEASONALLY ADJ.**



Source: U.S. Bureau of Labor Statistics



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