

4Q23

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. Chicago's unemployment rate increased during the last several months, losing any gains made in the first half of 2023.
- 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.

Major Transactions

- For the second consecutive quarter, the largest lease signed Downtown was an expansion by Atlanta-based OneDigital. The tenant is more than doubling its Chicago footprint, subleasing 100,000 SF from Willis Towers Watson at Willis Tower.
- After undergoing a major renovation, The Bell, 225 West Randolph, signed a lease for its first tenant, with Neal, Gerber & Eisenberg agreeing to lease 90,000 SF. This is a 30,000-SF reduction in the law firm's footprint.
- After over a year with no buildings trading hands, 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; 100 S. State St. sold this quarter for over 50% less than what it was purchased for in 2015.

Leasing Market Fundamentals

- Leasing volume was steady in the fourth quarter of 2023, with roughly 1.8 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 occurred.
- There has been a tightening amongst Trophy Towers and view space on the top floors. With the last of the new construction delivering at the start of 2024, expect continued competition for the top spaces in the market. This might benefit Class A- or Class B buildings as tenants are unable to get into the top-tier buildings.

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.
- The divide in rental rates between Class A and Class B buildings continues to widen as tenants preference is largely for Class A, well built out spaces.
- 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. We continue to wait on the announcements from the new mayor's office on the attempts at converting LaSalle Street into multifamily buildings in an attempt to revive the financial corridor.

1. Economy
2. Leasing Market Fundamentals

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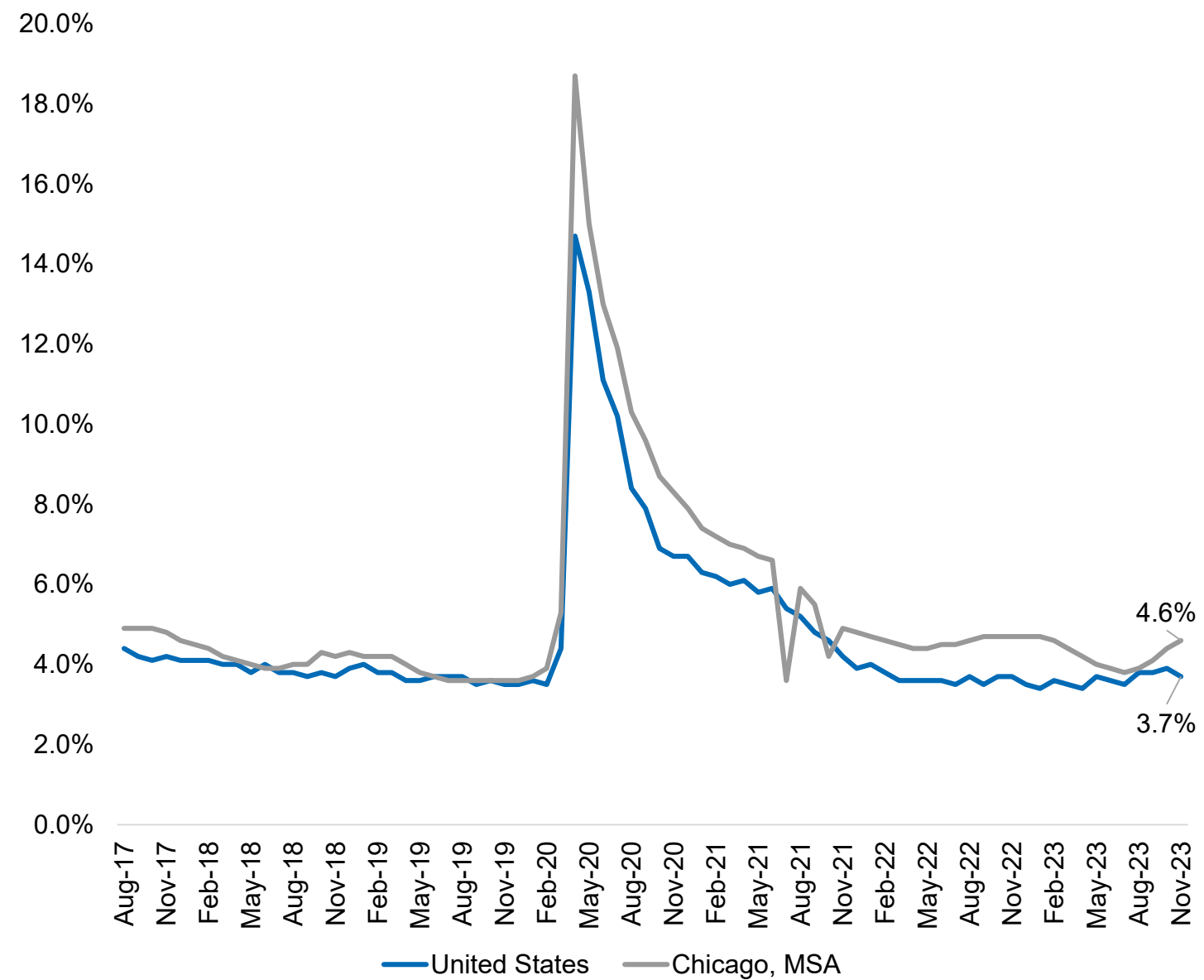
Economy



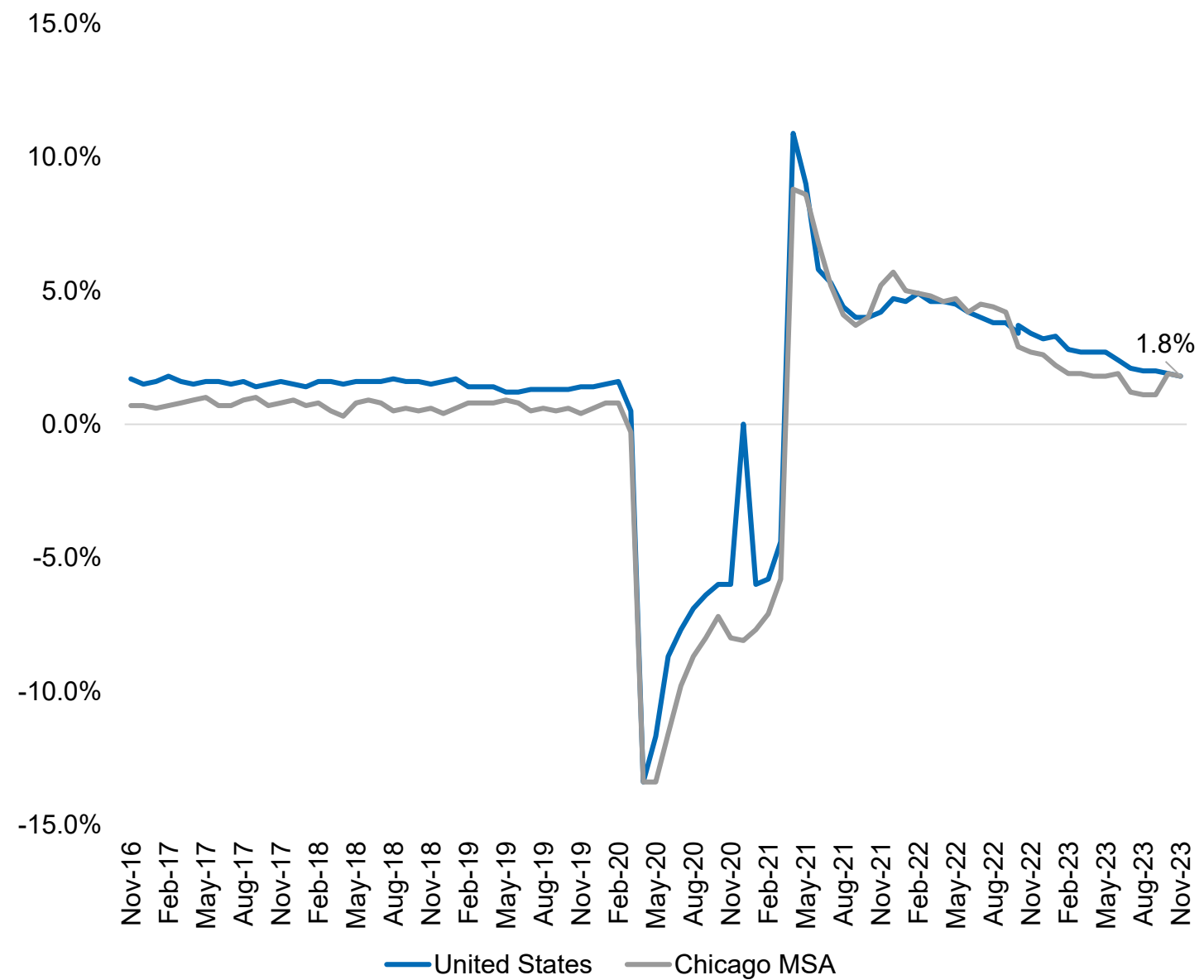
Metro Employment Trends Signal A Slowing Economy

Chicago’s unemployment rate is typically slightly higher than the national average, and job growth has slowed in the last year. Persistently high inflation and increasing interest rates are placing stress on the labor market. Chicago’s unemployment rate increased over the past several months, losing any gains it had made in the first half of 2023.

Unemployment Rate, Seasonally Adjusted



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



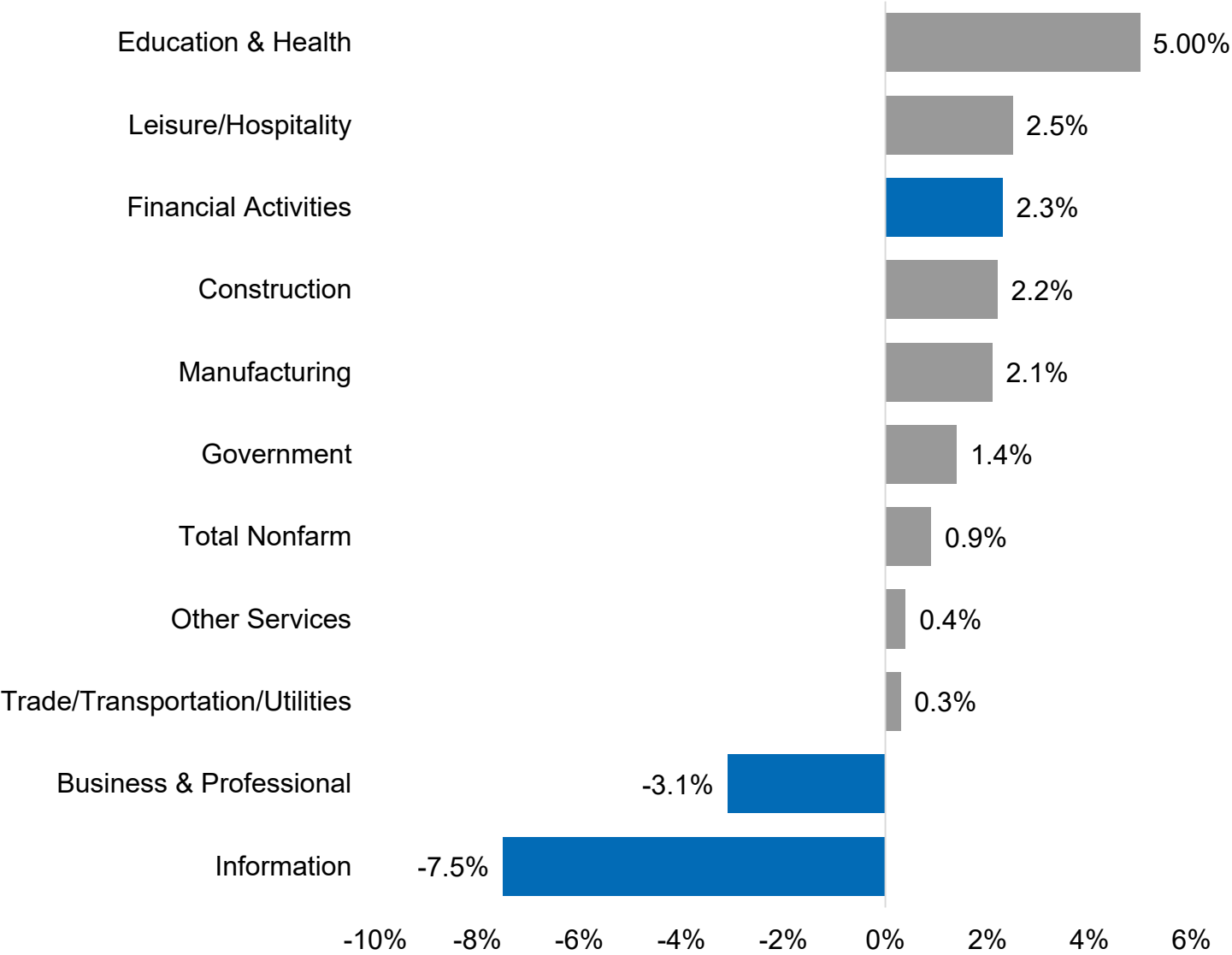
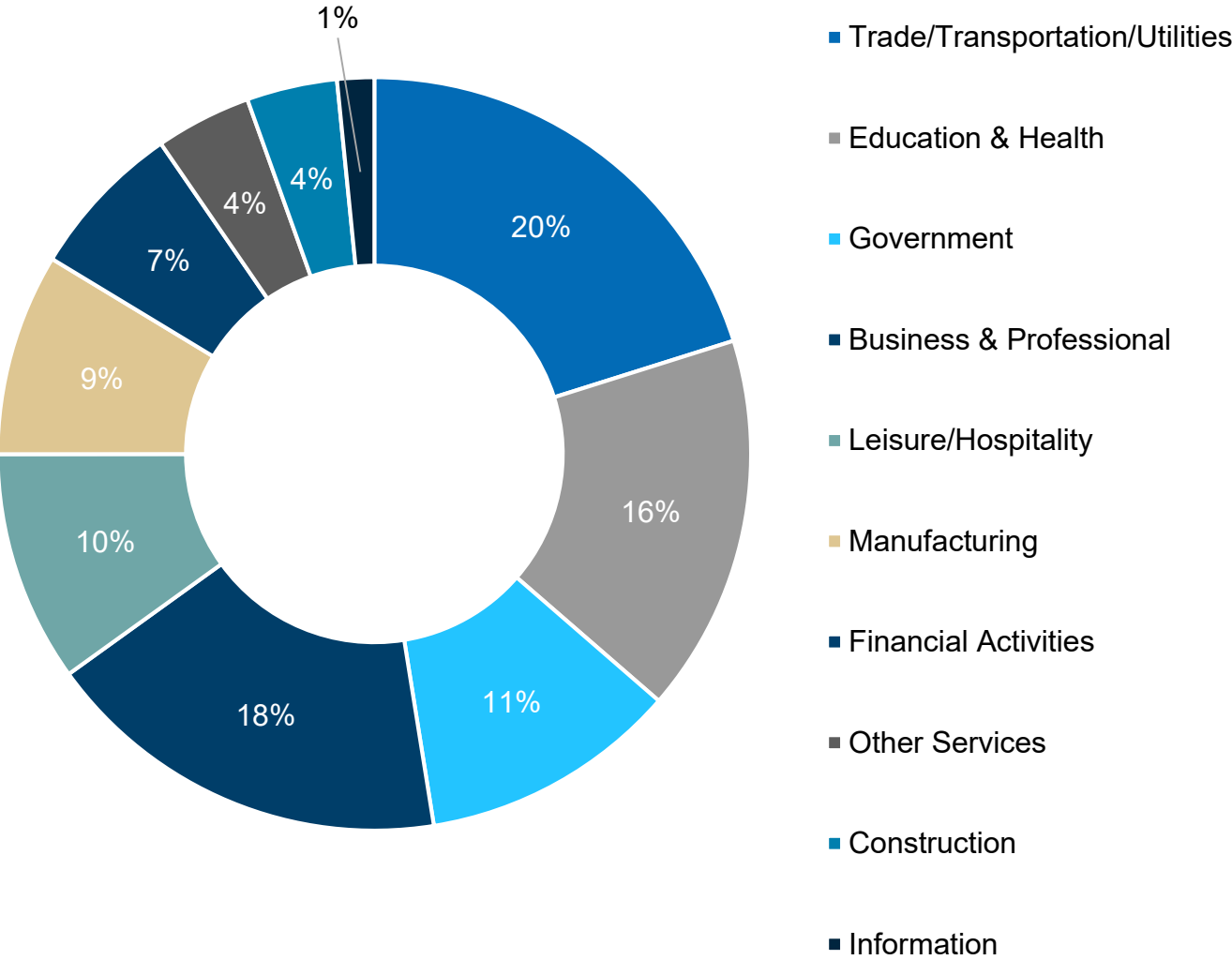
Source: U.S. Bureau of Labor Statistics, Chicago MSA

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

The education and health sector led 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 several quarters in a row. In some cases, office tenants are contracting spaces due to the reduction in staffing.

Employment by Industry, November 2023

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

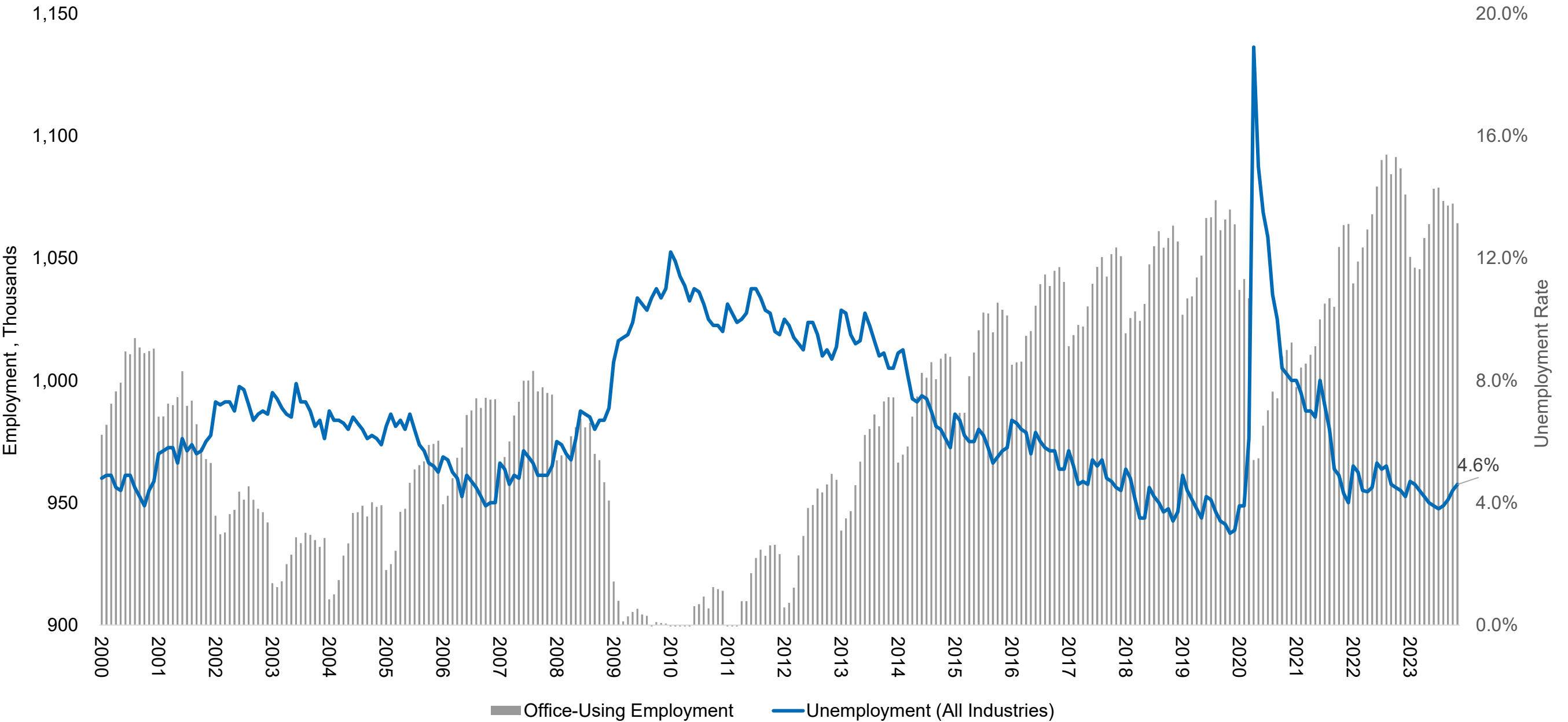


Source: U.S. Bureau of Labor Statistics, Chicago MSA

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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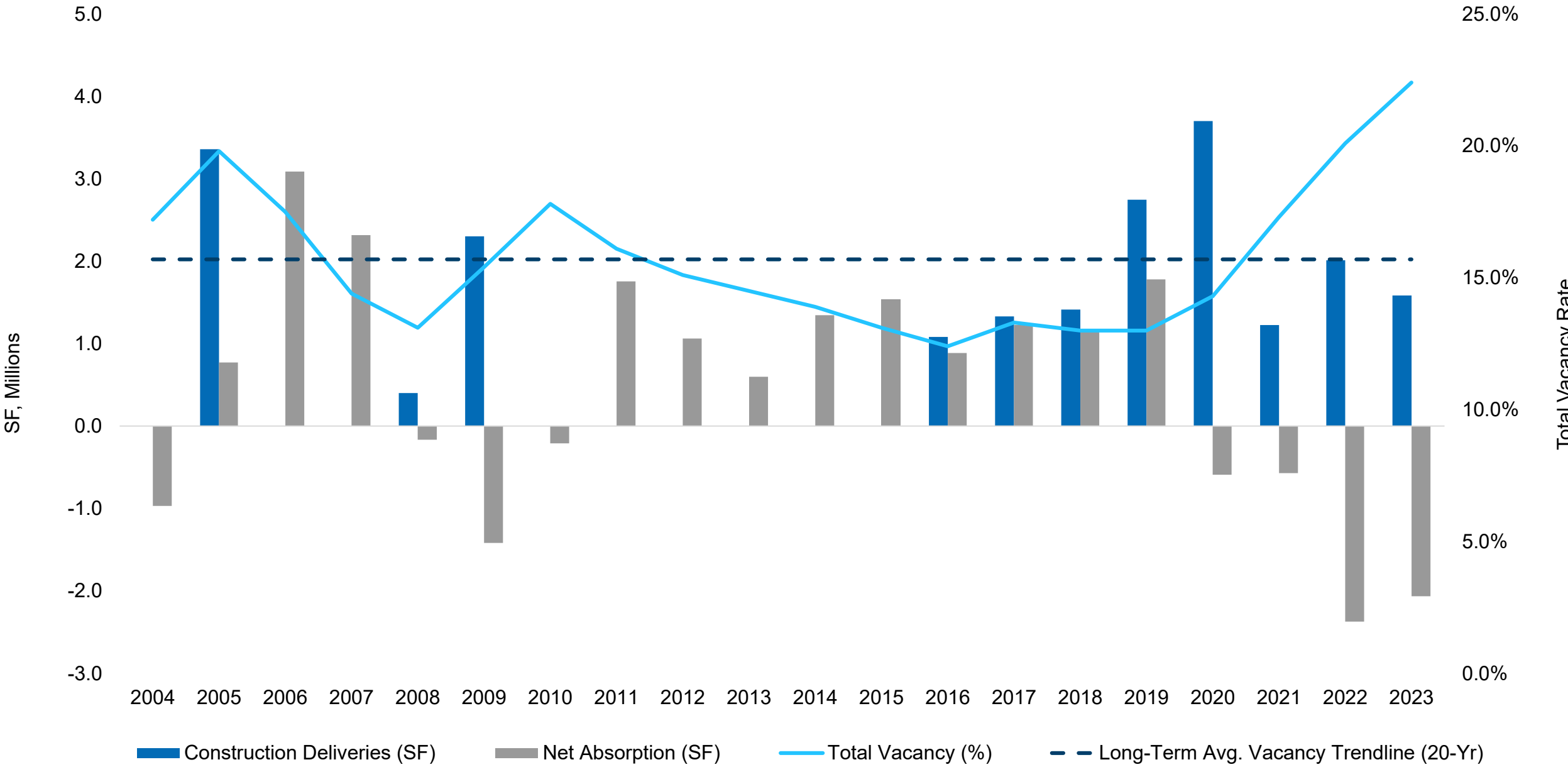
Leasing Market Fundamentals



Negative Absorption Recorded to Close the Year

Vacancy increased slightly this quarter due to 640,000 SF of negative absorption, bringing the year-to-date total absorption to negative 2 million SF. Expect negative absorption to continue into 2024, as there are still many tenants who have signed leases for less space and many in the market looking to contract. For example, Groupon signed a lease this quarter for 25,000 SF of sublease space, terminating its 300,000-SF lease at 600 West Chicago.

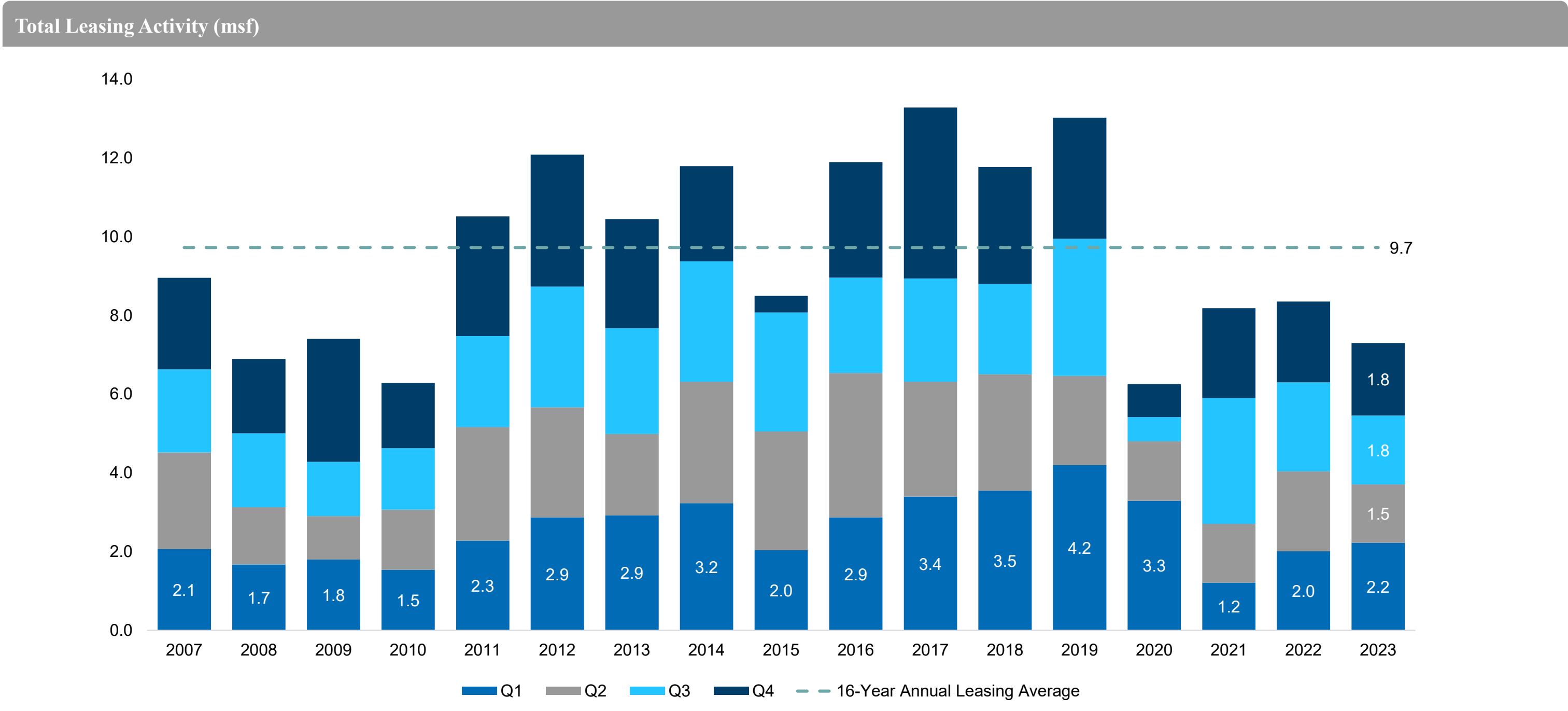
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed Relative to 2022

Leasing activity has been down each quarter now in 2023 compared with 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 growth occurring can't keep pace with the contractions and downsizes tenants are signing.

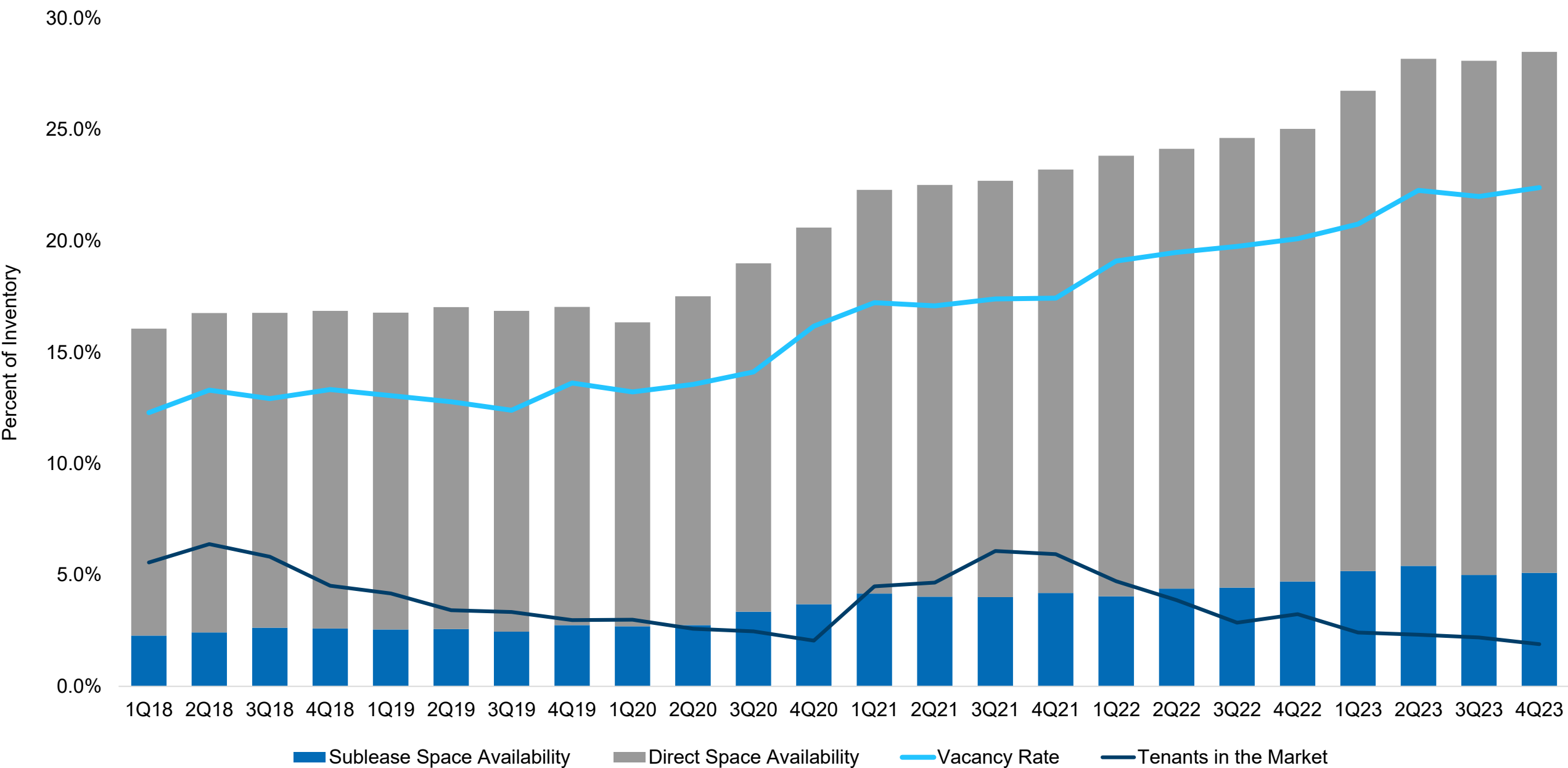


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Sublease availability increased this quarter by 10 basis points to 5.1%, still lower than the 5.4% availability reached during the second quarter of 2023. One of the largest leases signed during the quarter was by OneDigital, who took 100,000 SF of sublease space at Willis Tower.

Available Space and Tenant Demand as Percent of Overall Market



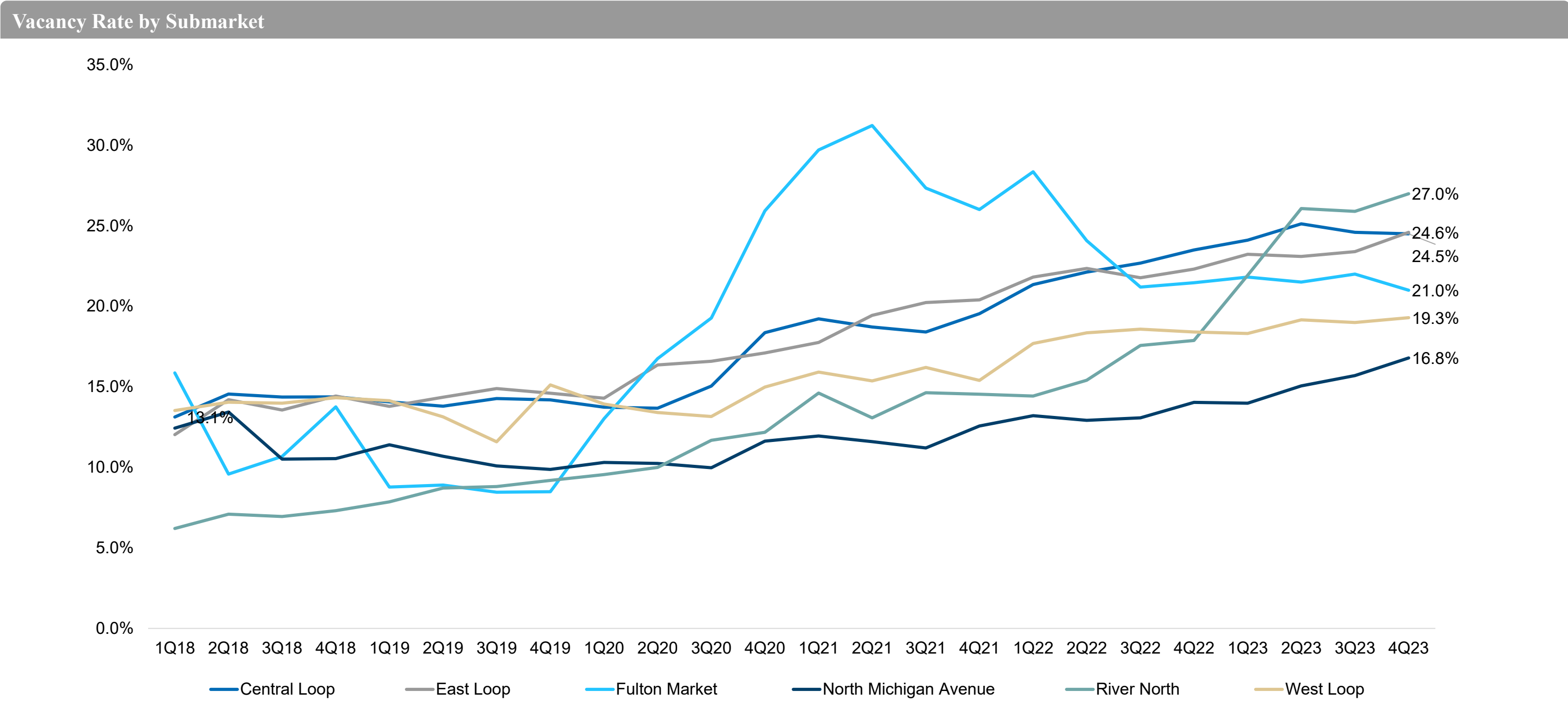
Source: Newmark Research

Expiring Sublease Space Starts to Impact Direct Vacancy

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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 only 650,000 SF under construction, all set to deliver in the first quarter of 2024, vacancy rates in 2024 will be mostly impacted by tenant activity.

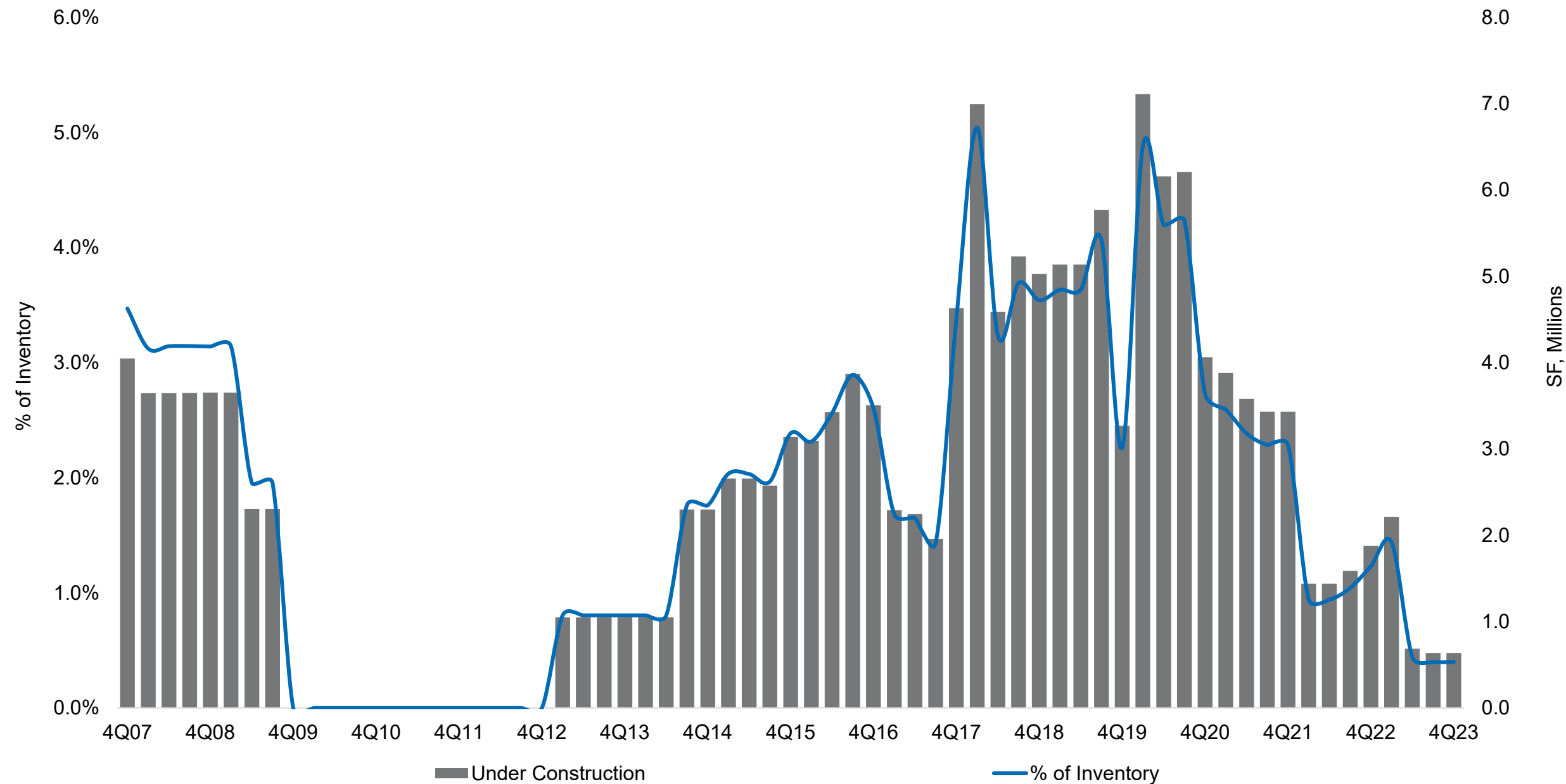


Source: Newmark Research

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 for new buildings. The inventory that has delivered since 2020 has an availability rate of 23.0% compared with the total CBD, which has an availability rate of 28.5%.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

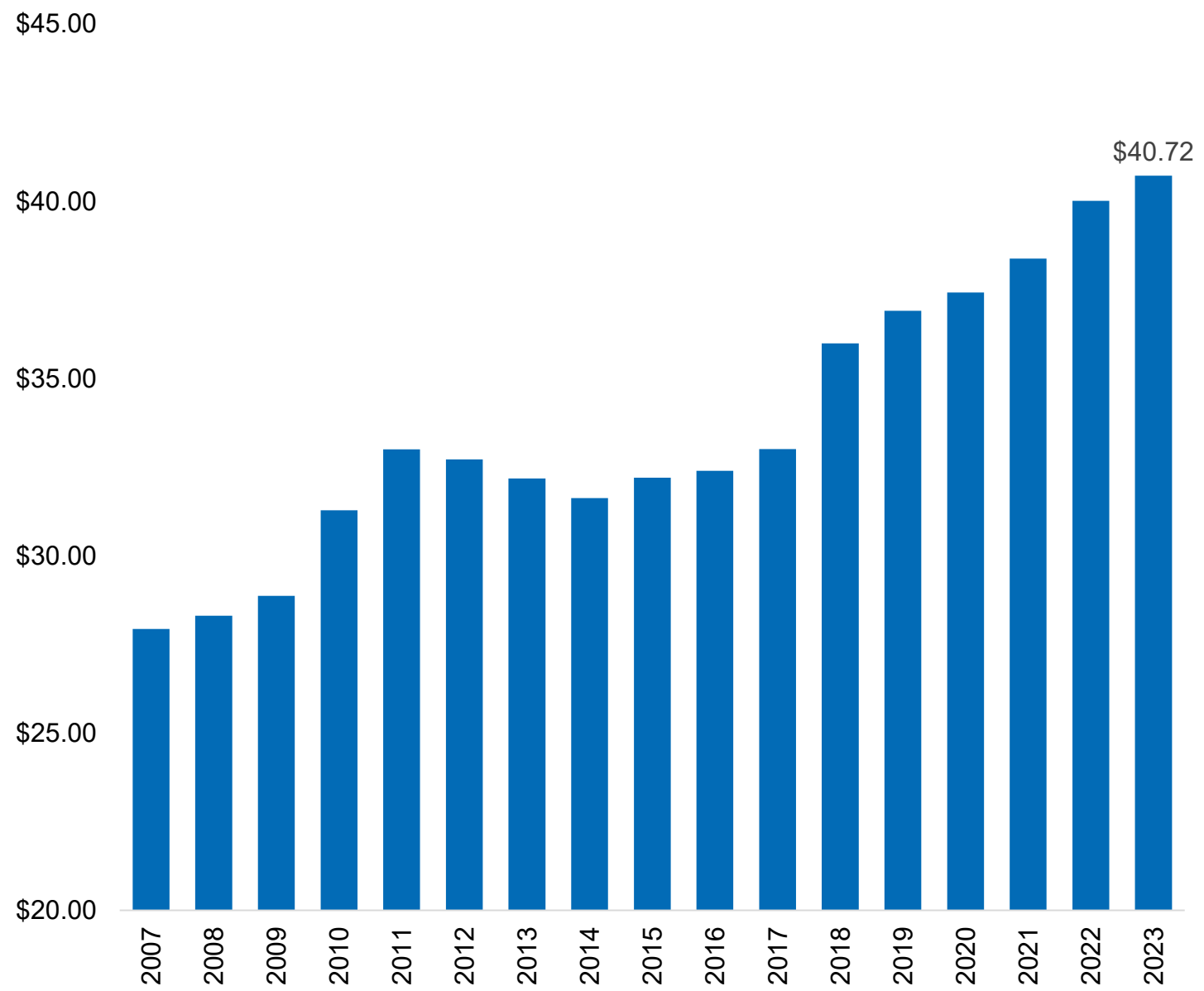
Office Supply Under Construction

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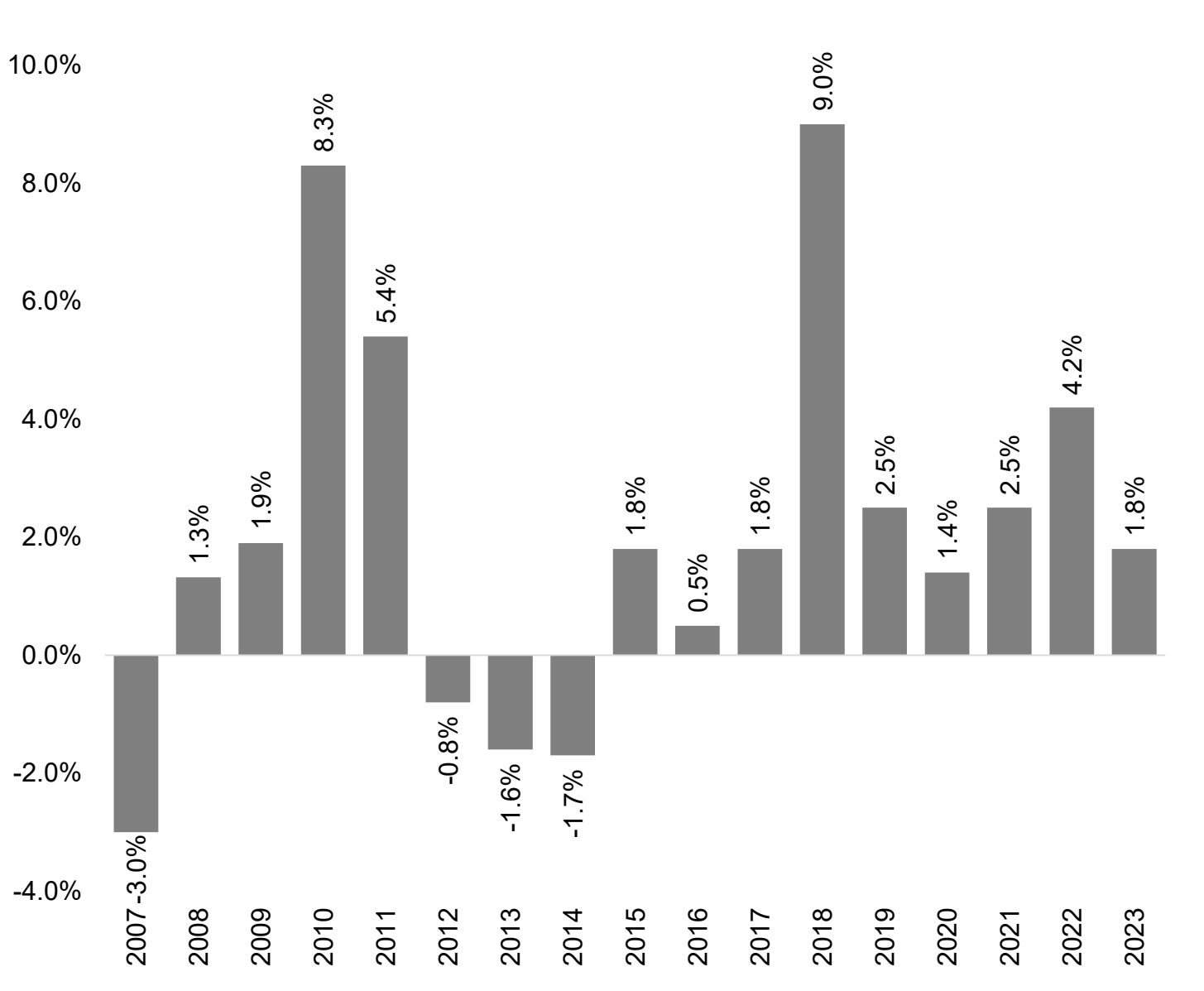
Rental Rate Growth Slows but Remains Positive

Despite slowing demand, asking rental rate growth continued, with average asking rates increasing by \$1.08/SF for the quarter and \$0.71/SF for the year. Landlords are maintaining high asking rates, as tenants are willing and able to pay rent. They are often contracting their footprints and getting creative with their concession packages. Buildout pricing continues to climb.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

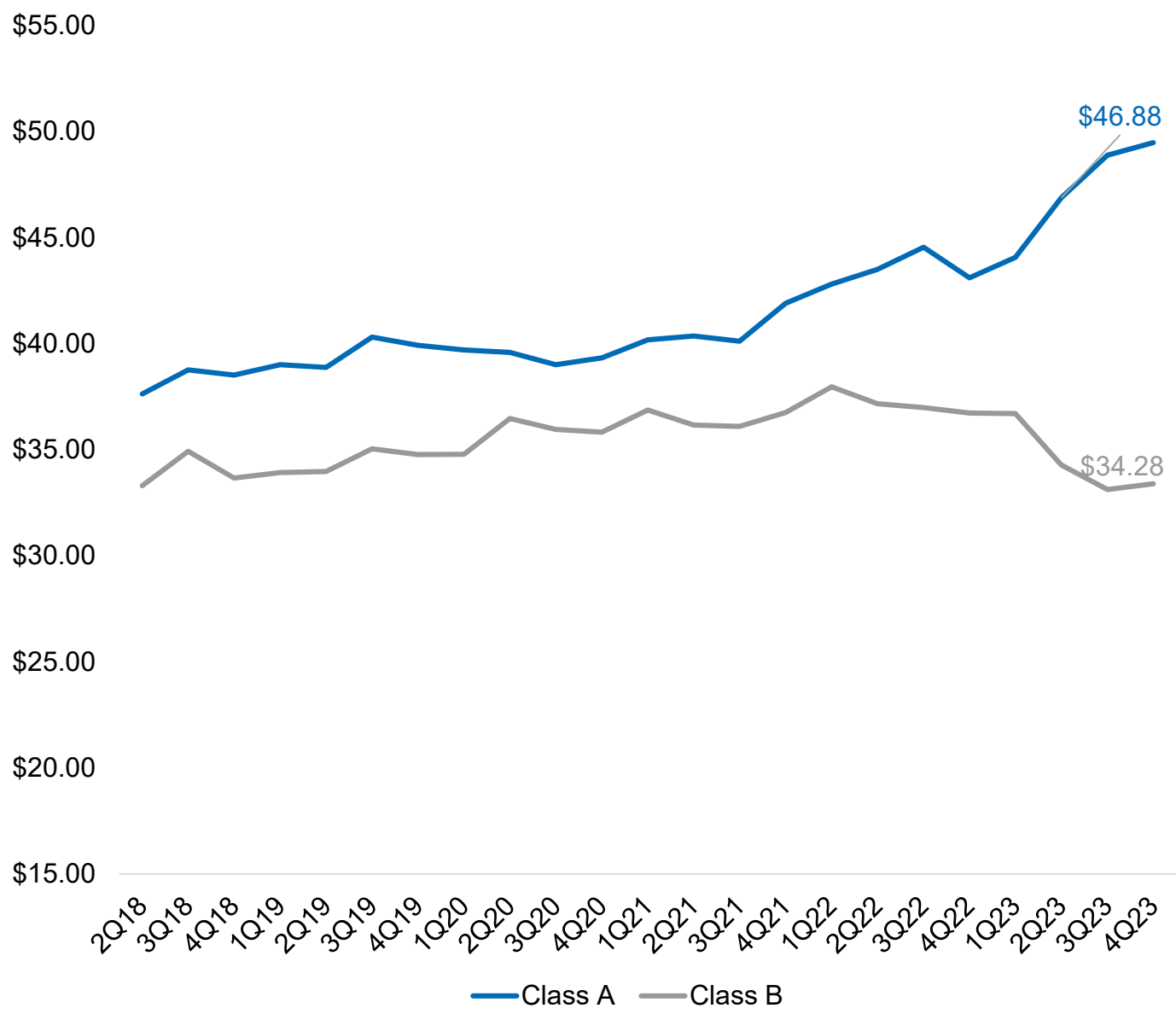


Source: Newmark Research, CoStar

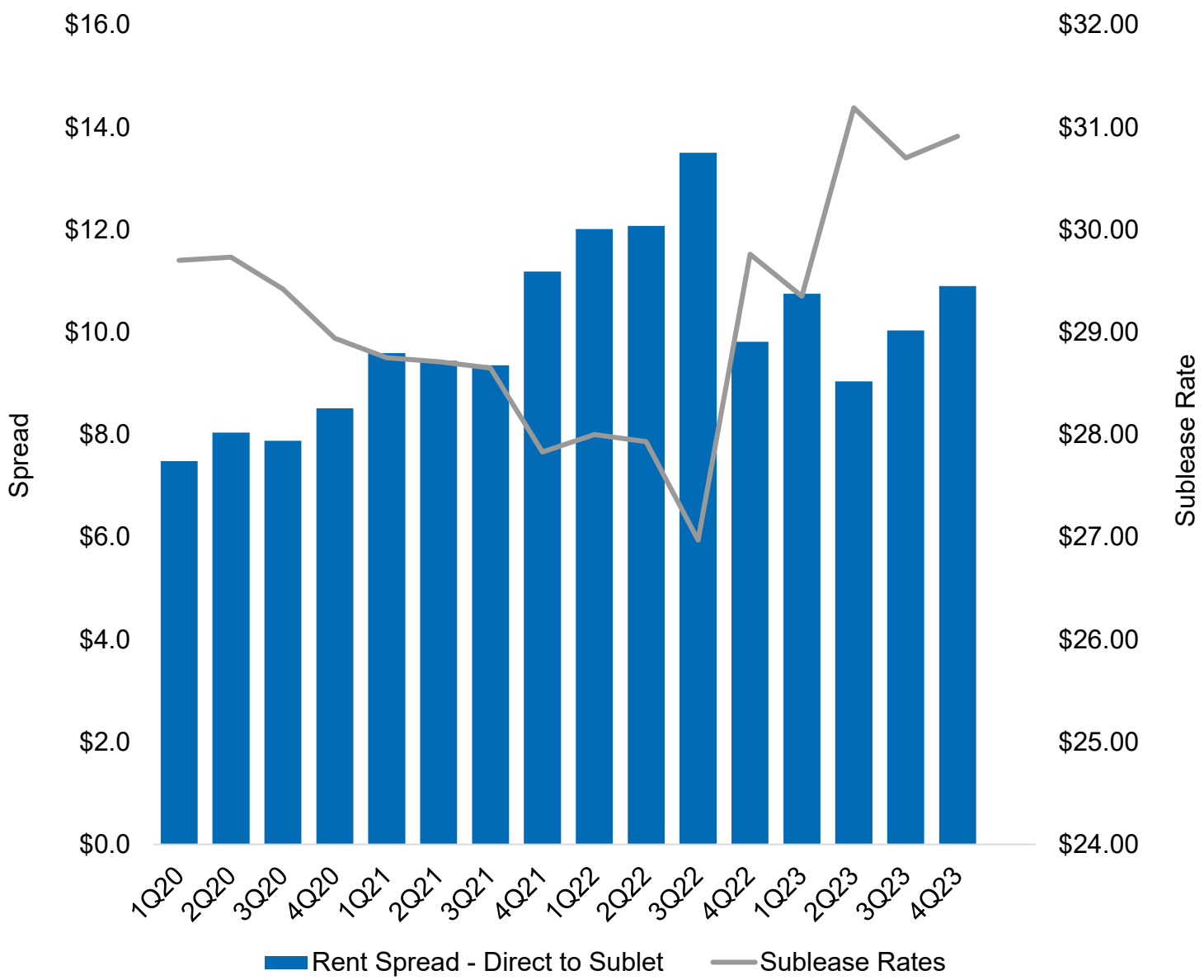
Sublease Rental Rates Spike Year Over Year

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 Direct Asking Rents



Sublease Rates



Source: Newmark Research

Leasing Activity Slows

Leasing volume held steady this quarter with 1.8 MSF of transactions being completed. Moving into 2024 we expect to see a continuation of this level of leasing as the largest tenants in the market are all looking to contract and the list of tenants expanding is smaller.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
OneDigital	233 S Wacker Dr	West Loop	Sublease	100,000
Atlanta based OneDigital signed a lease for 100,000 SF from Willis Towers Watson. OneDigital has 25,000 SF of space at 303 E Wacker that they will be moving out of.				
Neil Gerber & Eisenberg	225 W Randolph	West Loop	Direct Lease	89,547
The law firm will be downsizing from 120,000 SF at 2 N LaSalle Street.				
Interpublic Group	222 Merchandise Mart Plz	River North	Direct Lease	77,100
Interpublic will be moving from 140,000 SF at John Hancock Center.				
Monroe Capital	155 N Wacker Dr	West Loop	Direct Lease	39,916
Monroe Capital will be expanding from 25,000 SF at 311 S Wacker Dr.				
Monosol Rx	1375 W Fulton St	Fulton Market	Direct Lease	35,000
Based in Merrville, IN the company has picked Fulton Market for its new innovation center citing proximity to its manufacturing facilities in Indiana and ability to attract and recruit new talent by being based in Fulton Market.				

Source: Newmark Research

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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