

2Q23

Chicago Office Market Report

NEWMARK

Market Observations

Economy

- Chicago's unemployment rate is typically slightly higher than the national average, and job growth has slowed in the last year due to persistently high inflation and increasing interest rates.
- The leisure/hospitality 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 a slight decline. The impact of these declines has been seen in continued contraction by some of the main office users in Chicago.
- The number of office jobs has rebounded to pre-pandemic levels but have fallen year over year, with layoff announcements coming from Walgreens, McDonalds, GrubHub and Akorn.

Major Transactions

- Two of the largest transactions completed in the market this quarter were flight-to-quality deals, with Antares Capital and MillerCoors signing leases at the new BMO Tower at 320 South Canal.
- Aon signed a large contraction, renewing and downsizing at Aon Center from over 400,000 square feet to 290,000 square feet.
- In the suburbs, renewals dominated leasing activity, with the top three leases all being renewals signed by Morgan Stanley, Sikich and Univar, all in the I-88 Corridor.

Leasing Market Fundamentals

- Leasing for the first half of 2023 is down from the first half of 2022 as ongoing space reduction, 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.
- Increasing vacancy rates are showing little indication of slowing as large corporations continue to contract space. This quarter vacancy jumped with the delivery of Salesforce Tower in the Central Business District, which is fully leased but less than 50% occupied right now.
- After holding steady for most of 2022, sublease space has spiked in the first six months of the year, reaching 4.8% availability. This trend is concentrated in the Central Business District, where sublease availability is now 5.4%, or 8.4 MSF.

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.
- Rent growth, aggressive through all of 2022, has decelerated and will continue to cool throughout the year. This will vary on submarket, size-range, and asset-type bases.
- 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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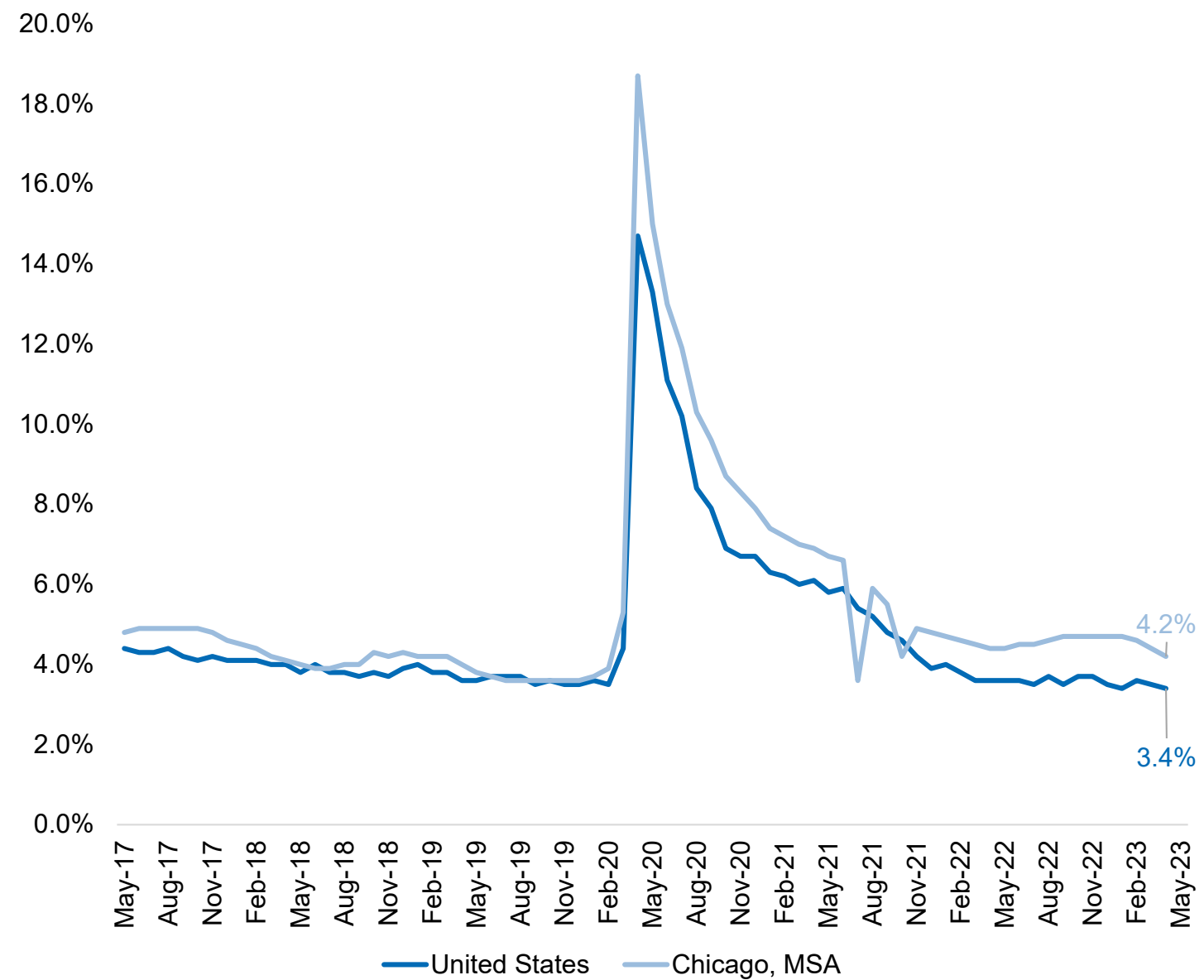
Economy



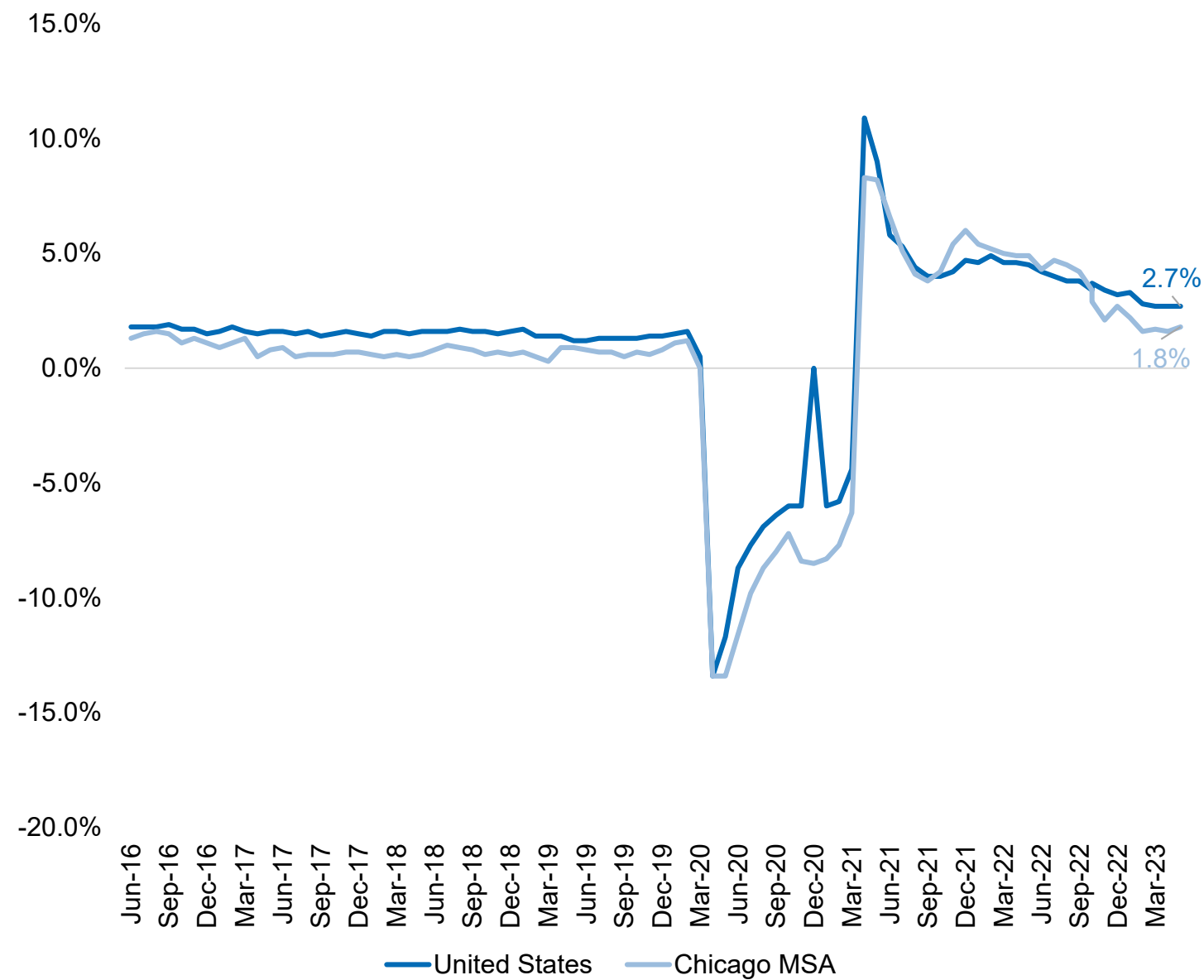
Metro Employment Trends Signal a Slowing Economy

Chicago’s unemployment rate is typically slightly higher than the national average and job growth has slowed 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

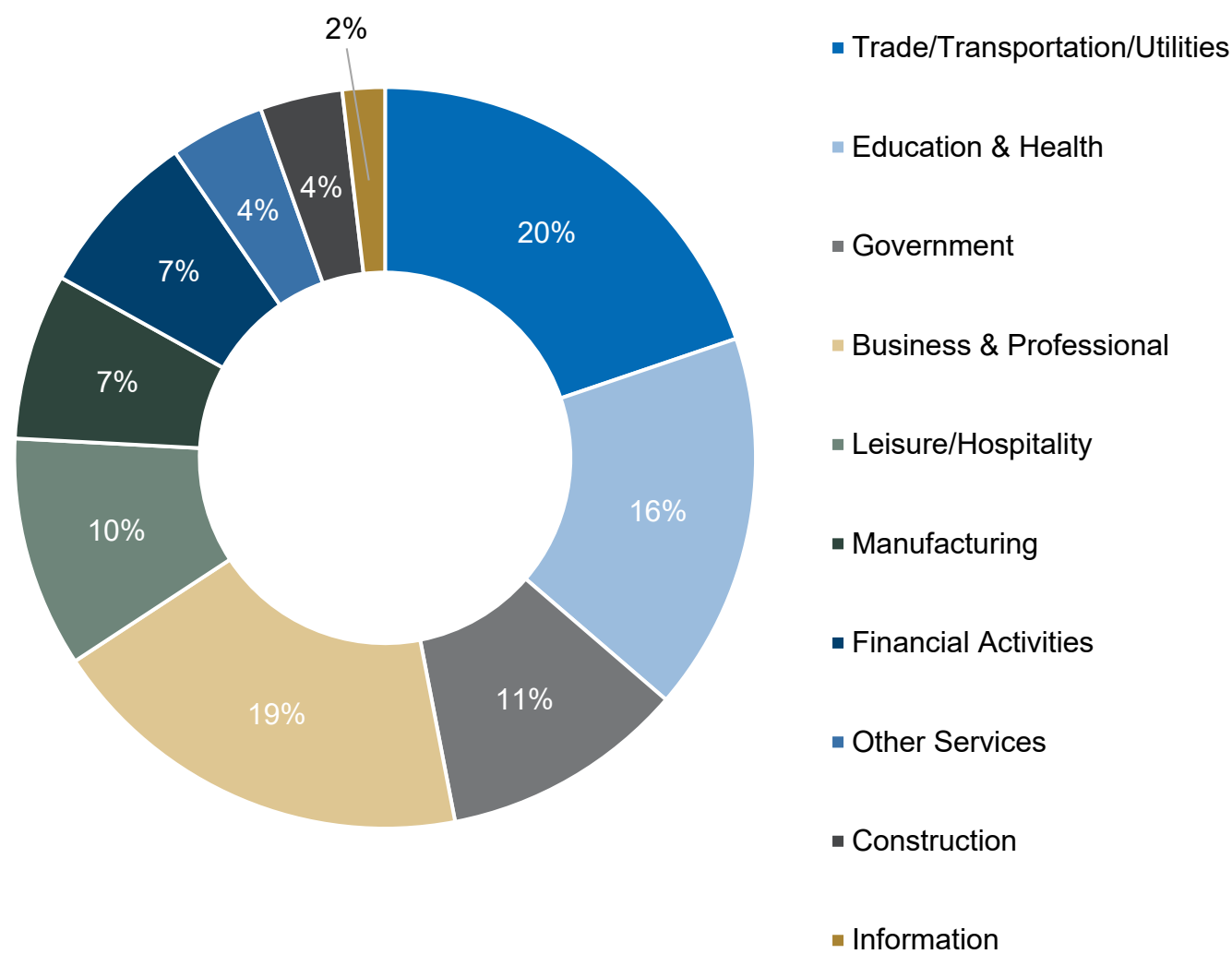


Source: U.S. Bureau of Labor Statistics, Chicago MSA

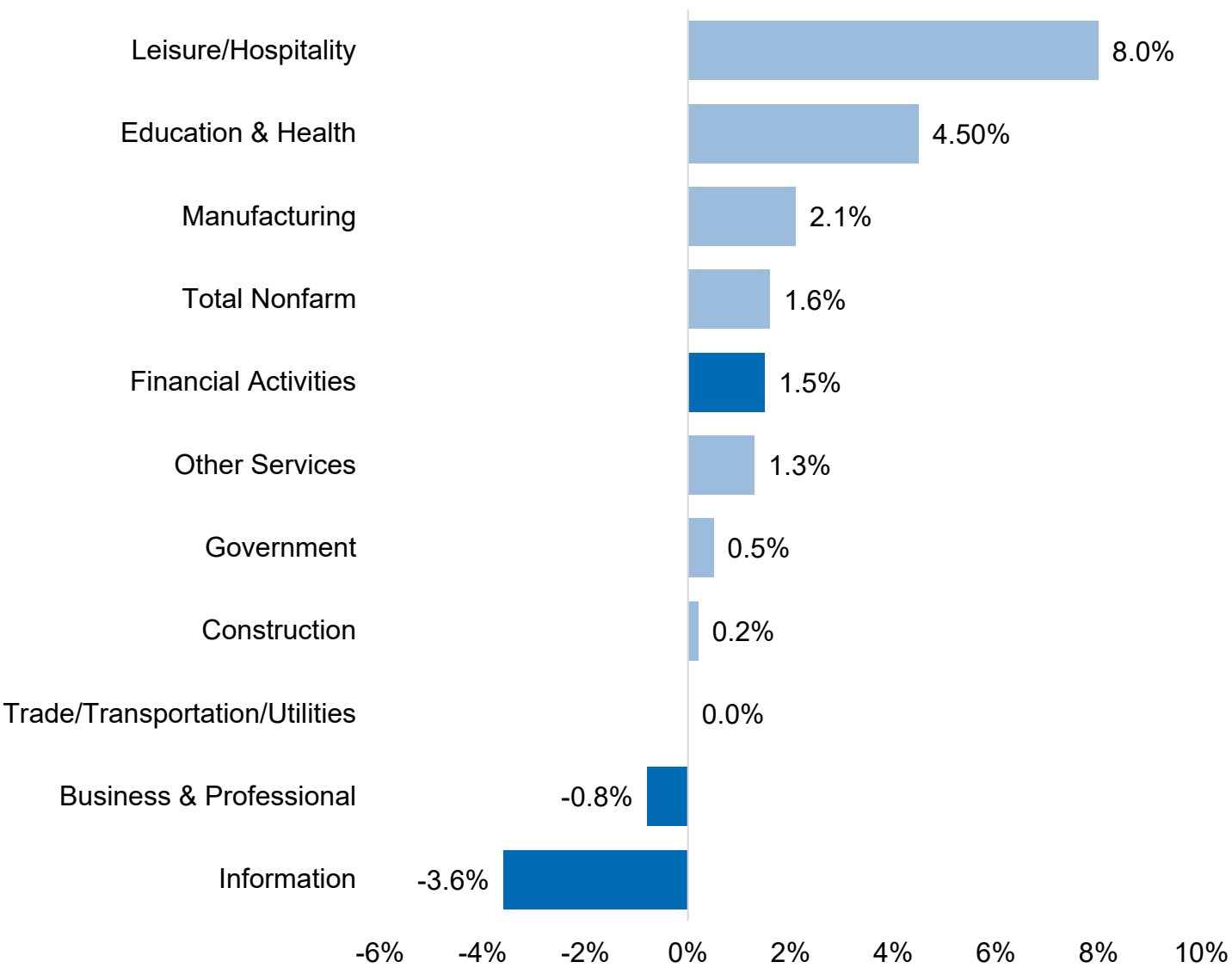
Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The leisure/hospitality sector 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 a slight decline. The impact of these declines has been seen in continued contraction by some of the major office users in Chicago.

Employment by Industry, May 2023



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

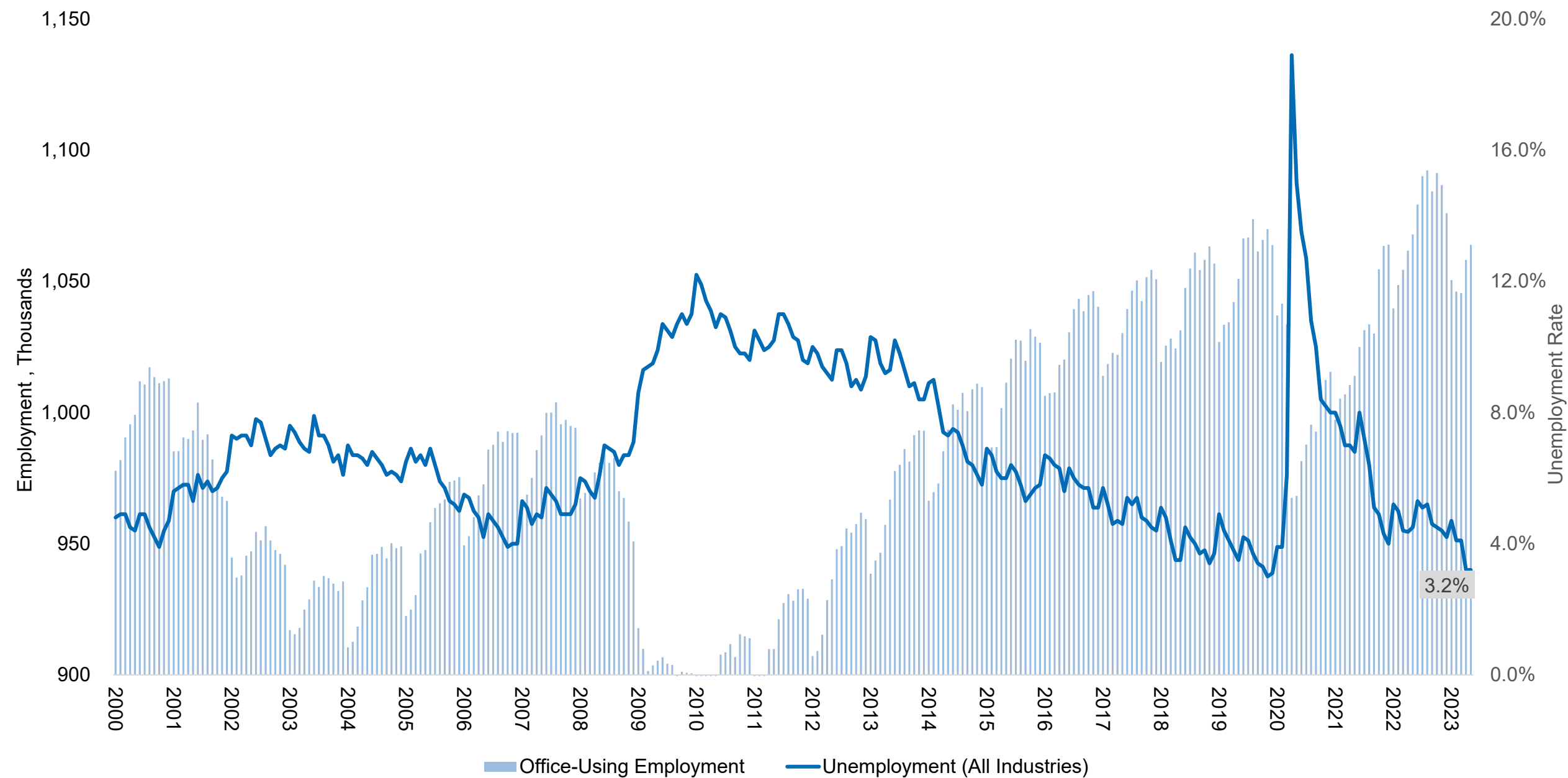


Source: U.S. Bureau of Labor Statistics, Chicago MSA

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 office tenants like Walgreens, McDonalds, GrubHub and Akorn.

Office-Using Employment* and Unemployment Across All Industries



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

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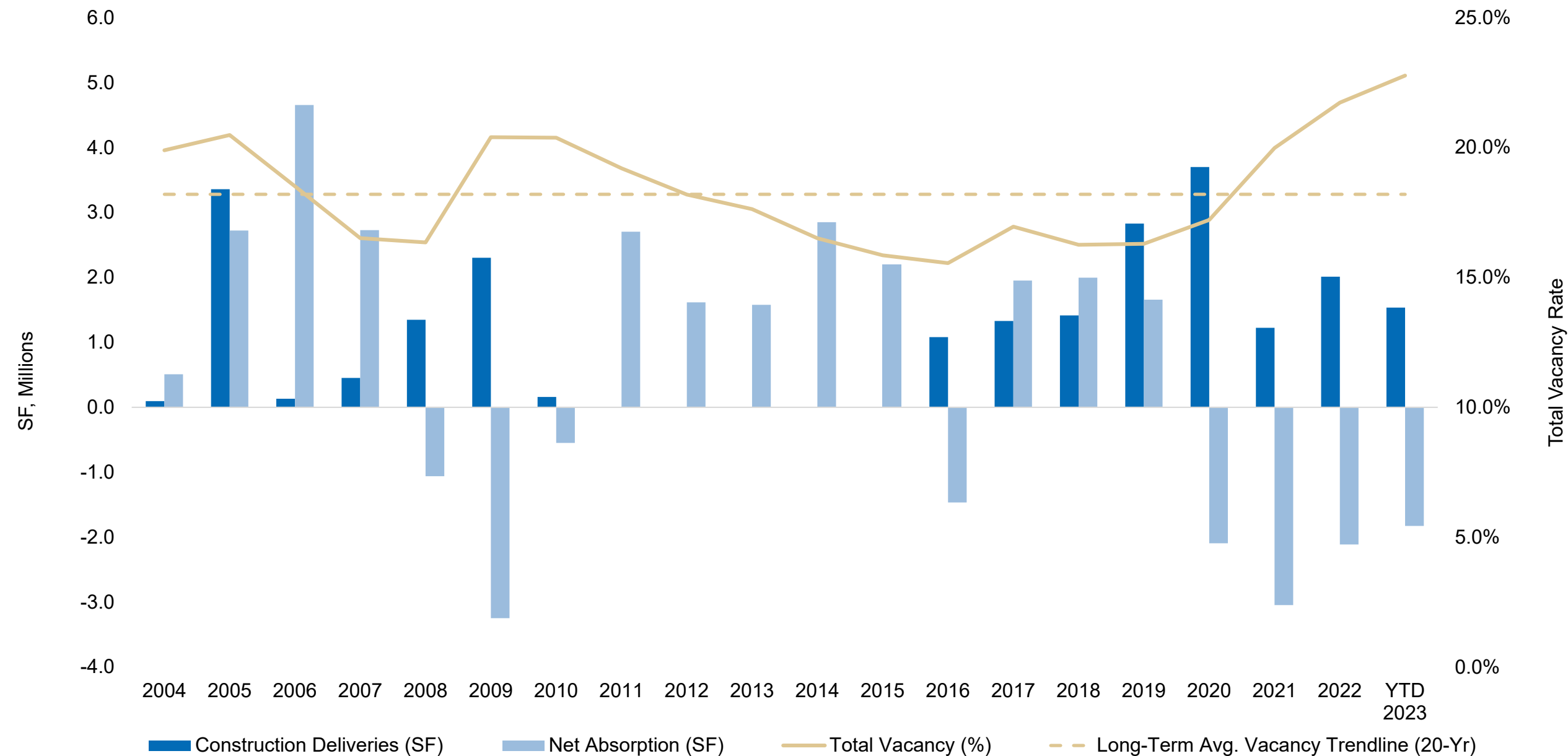
Leasing Market Fundamentals



Vacancy Rises as Net Absorption Continues to Fall

Rising vacancy rates are showing little indication of slowing as large corporations continue to contract space. This quarter, vacancy jumped with the delivery of Salesforce Tower in the CBD. While the building is 100% leased, Kirkland & Ellis has not occupied yet and Salesforce has placed 120,000 square feet of space on the sublease market.

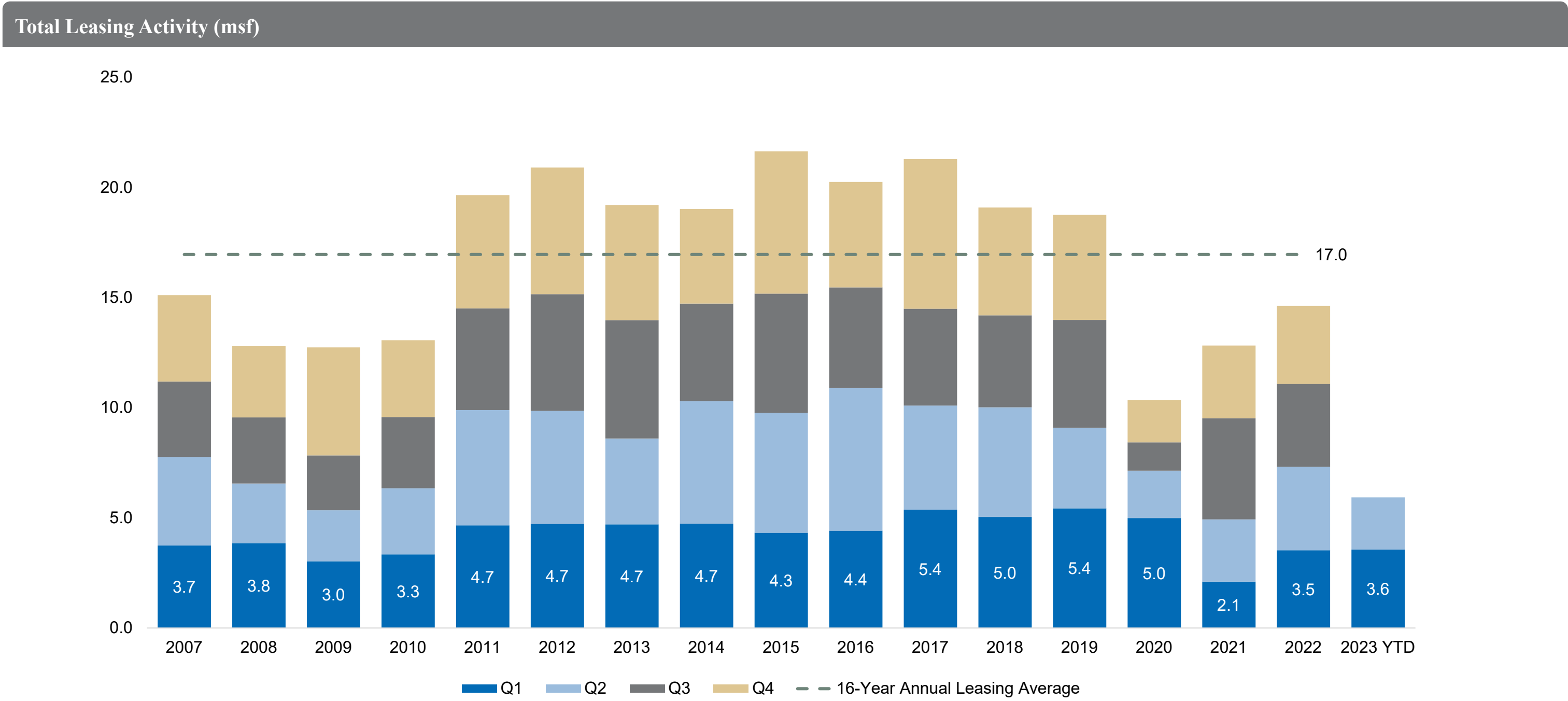
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed

Leasing for the first half of 2023 is down from the first half of 2022 as ongoing space reductions, 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. Some of the largest contractions of the quarter included Aon cutting over 100,000 square feet at Aon Center and MillerCoors cutting its footprint in half with its move to 83,000 square feet 320 South Canal.

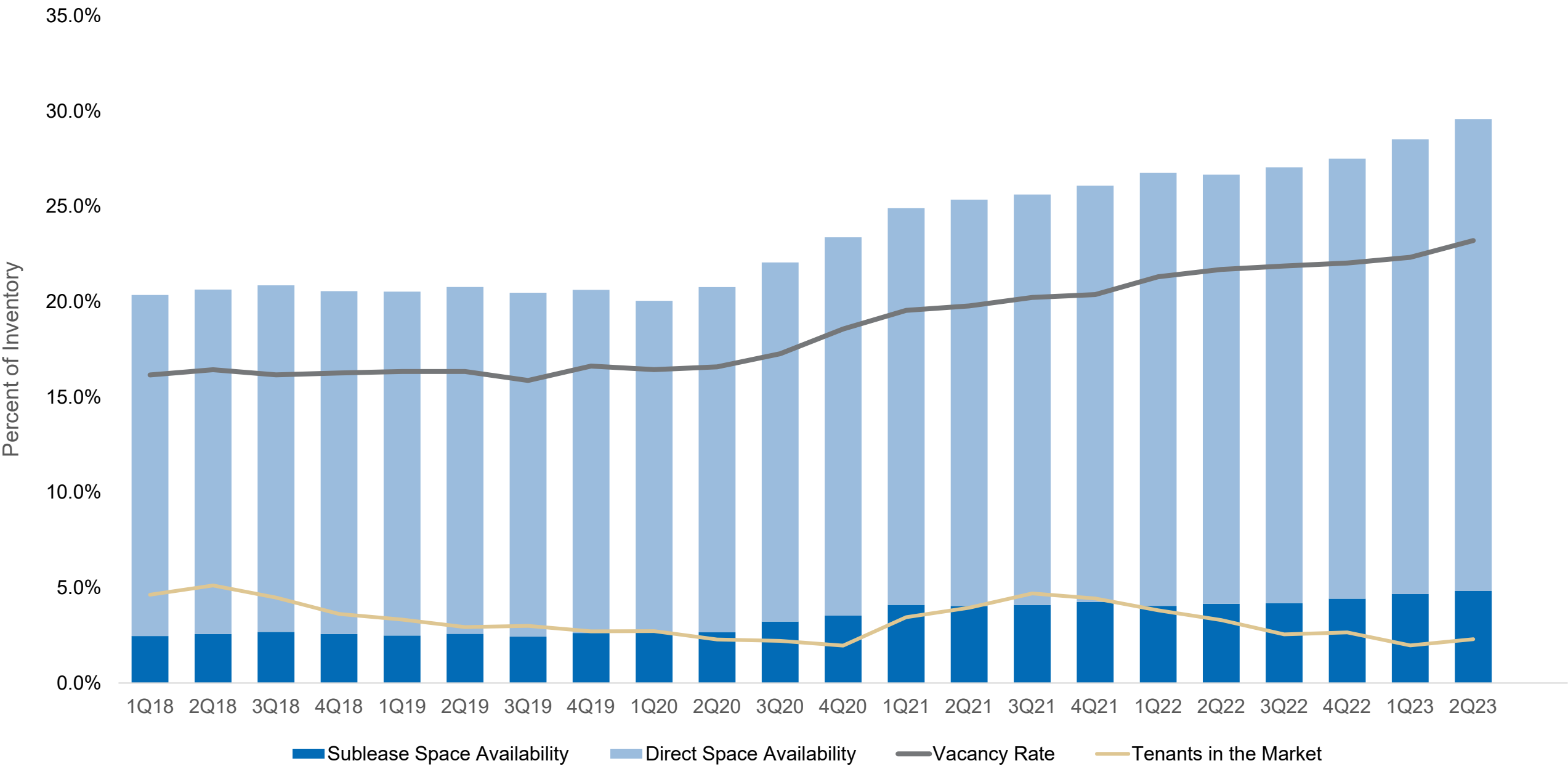


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

After holding steady for most of 2022, sublease space has spiked in the first half of 2023, reaching 4.8% availability. This trend is concentrated in the CBD, where sublease availability is now 5.4%, or 8.4 MSF, due to tech companies who had leased space based on future employment growth before the pandemic as a hedge against diminishing supply and increasing rents.

Available Space and Tenant Demand as Percent of Overall Market

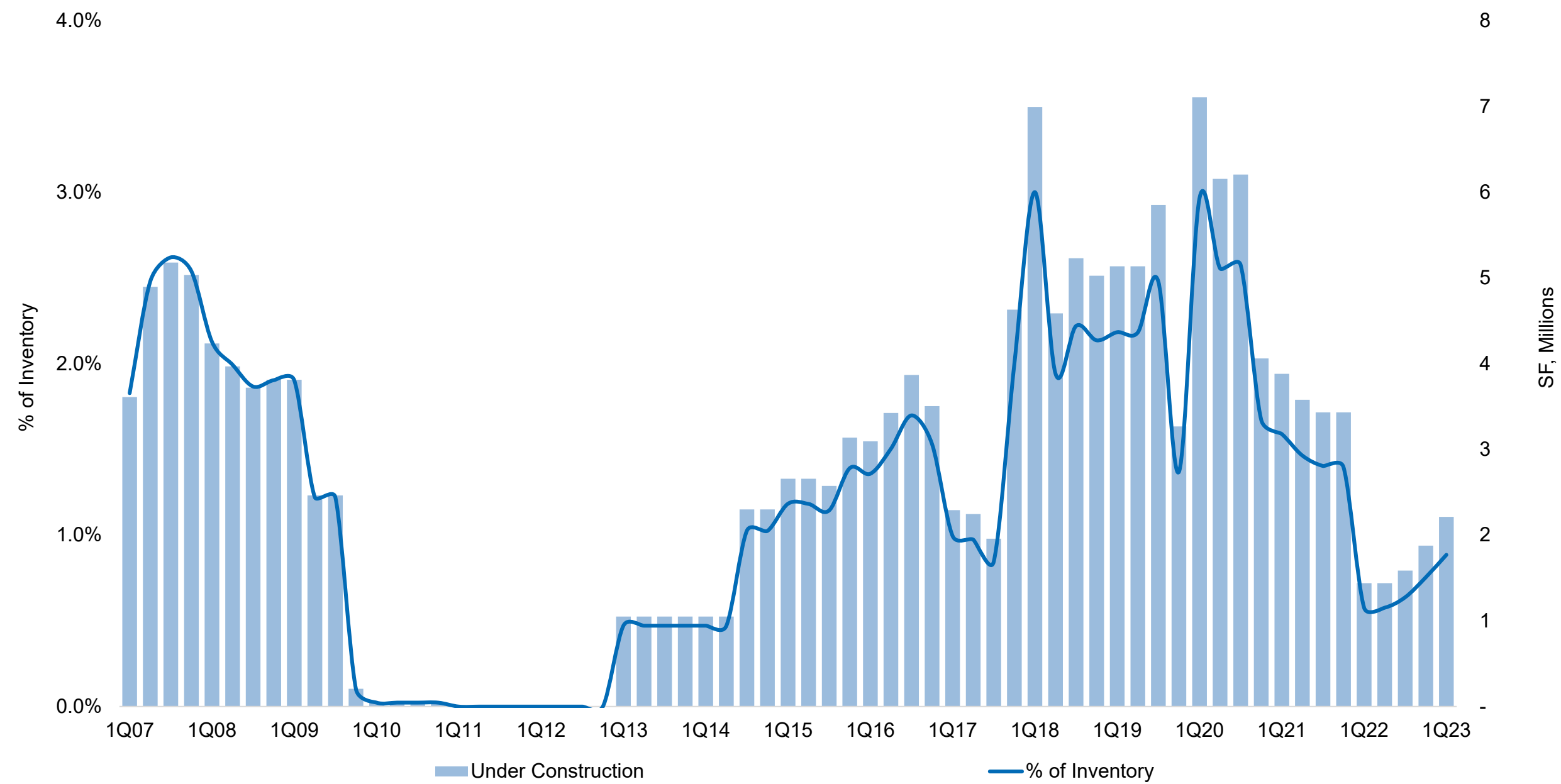


Source: Newmark Research

Deliveries Continue While New Construction Slows

While many second-generation office buildings are stressed, demand in the CBD continues for new office space. Two of the largest transactions of the quarter were at 320 South Canal, the newly constructed BMO Tower. As mentioned, MillerCoors signed a transaction there this quarter, as did Antares Capital, who will be moving from down the street, expanding its CBD presence by 16,000 square feet to 87,000 square feet.

Office Under Construction and % of Inventory

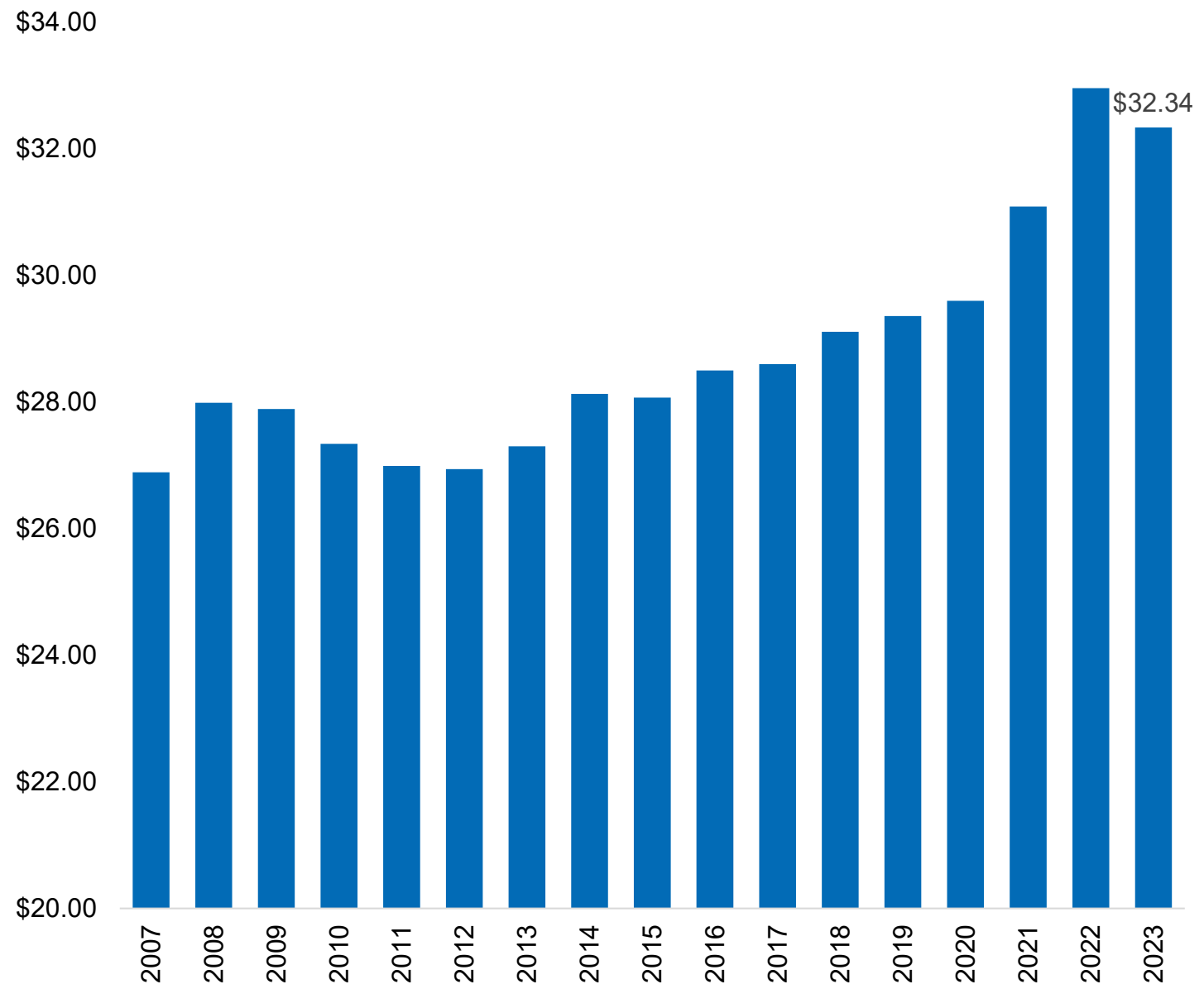


Source: Newmark Research, CoStar, City/County of _____ (where applicable)

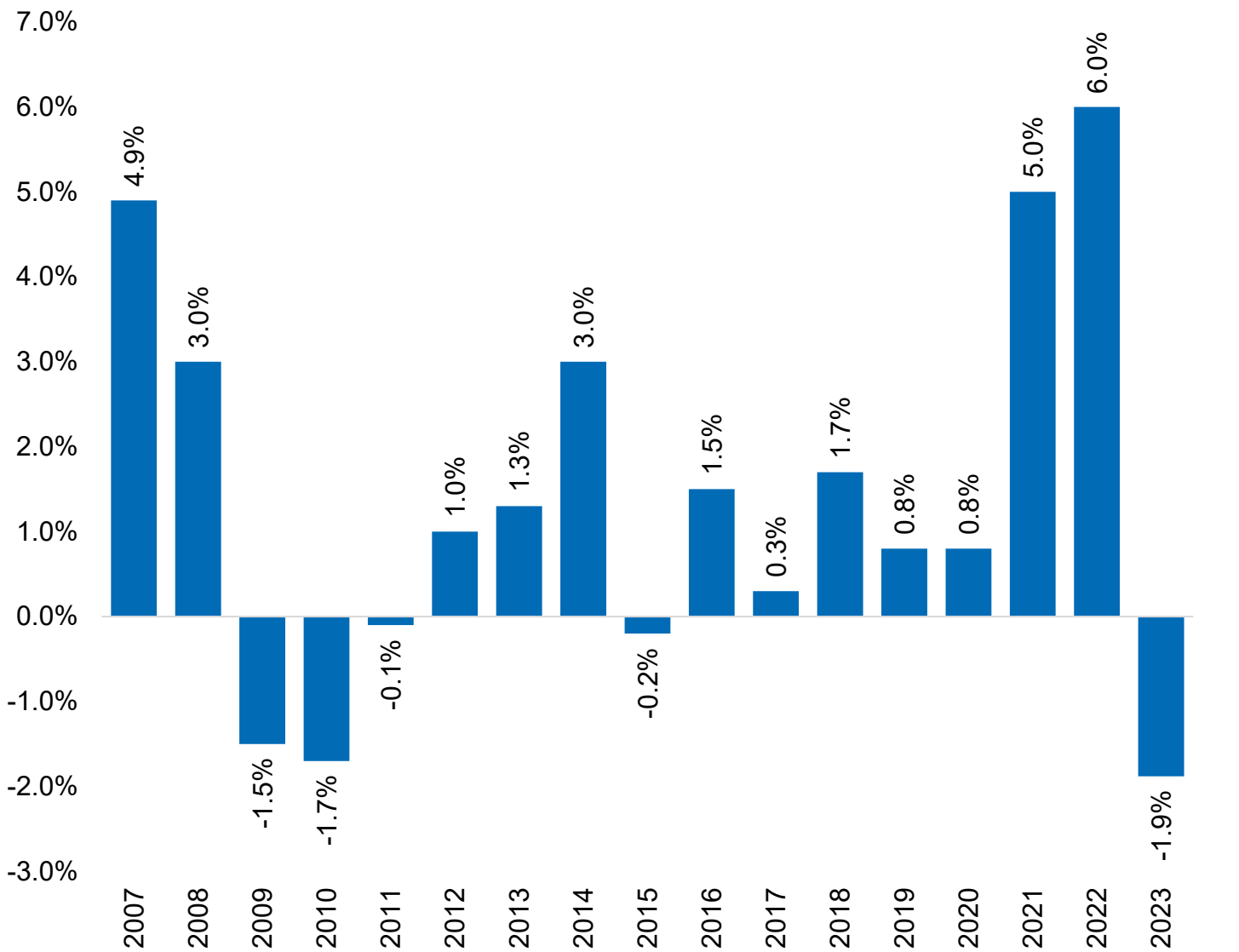
Rents Continue to Climb

Overall asking rates fell this quarter about \$0.70/SF to \$32.34. It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

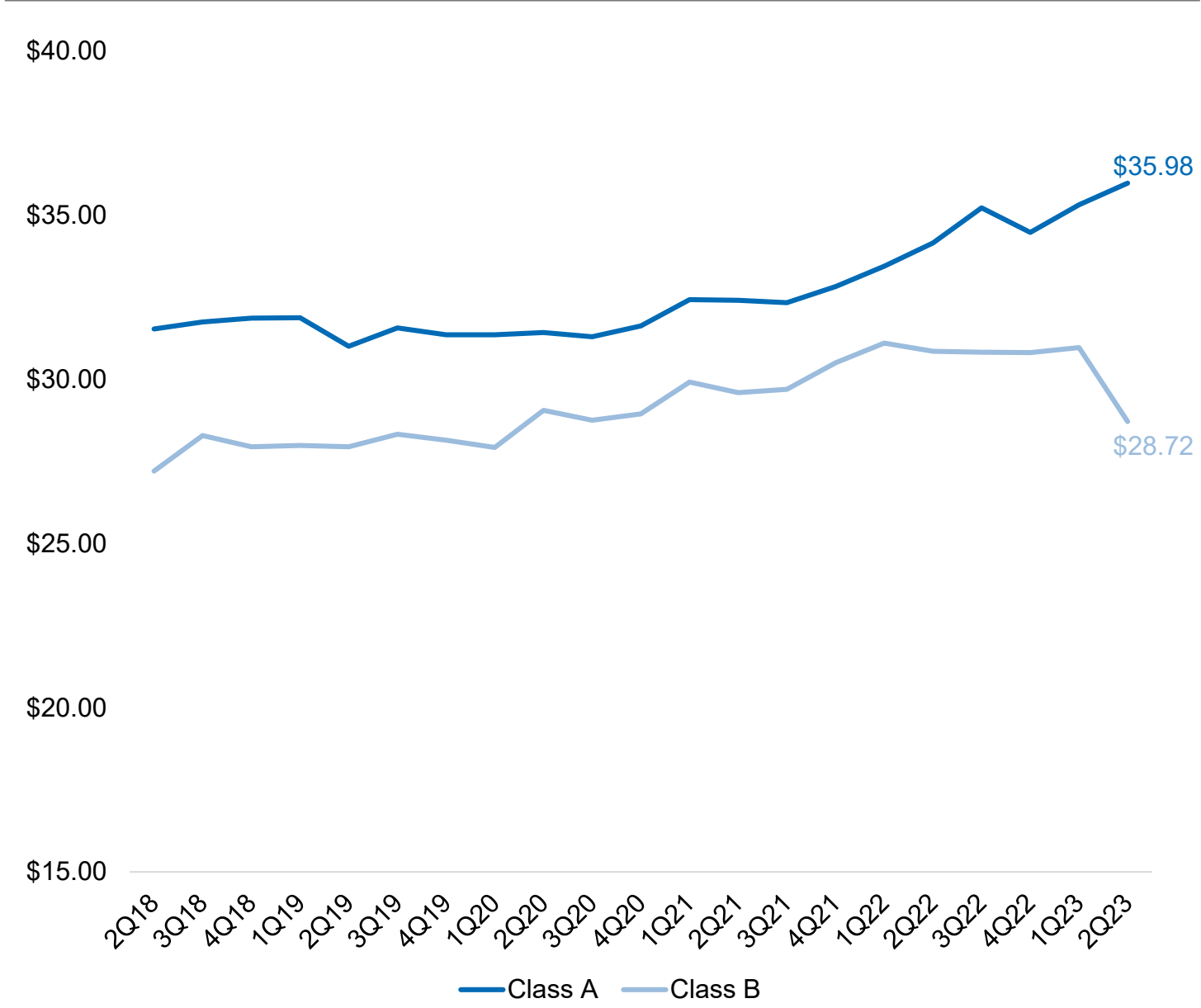


Source: Newmark Research, CoStar

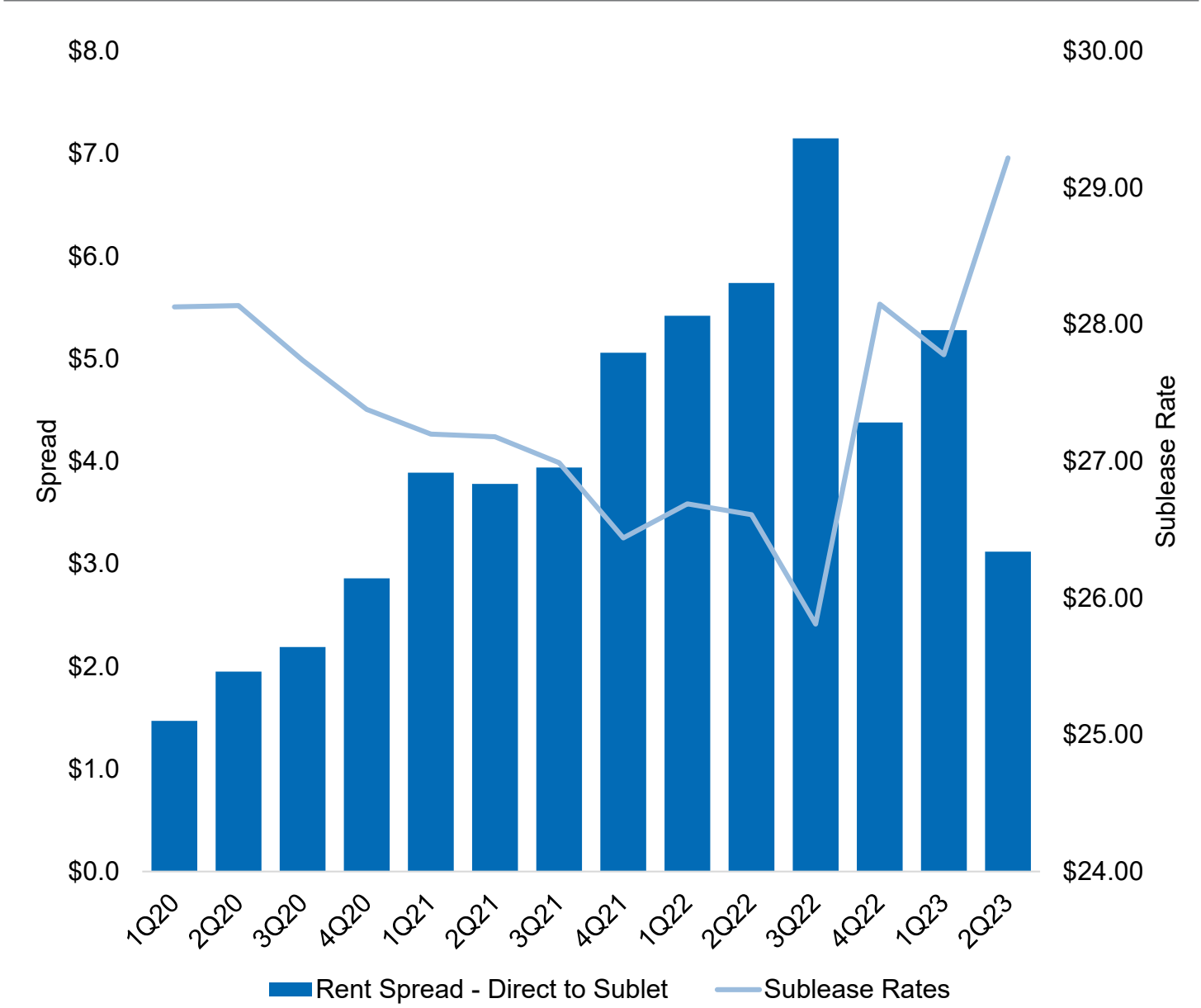
Asking Rents March On

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 have been holding relatively flat for much of the last three years, but as direct rates have started to fall and asking rates for high-quality sublease spaces have risen, the spread between direct and sublease space has narrowed.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Leasing volume was down this quarter, but with several large tenants out in the market, both Downtown and in the suburbs, expect some increased leasing activity for the second half of 2023.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
AON	200 E Randolph St	East Loop	Lease Extension	290,000
Tenant extended and downsized in the building from over 400,000 square feet.				
Antares Capital	320 S Canal St	West Loop	Direct Lease	87,586
Moving from 500 W Monroe and expanding by 20,000 square feet.				
MillerCoors LLC	320 S Canal St	West Loop	Direct Lease	83,000
Moving from double the space at 250 S Wacker Drive.				
Morgan Stanley	2211 York Rd	I-88 East	Lease Renewal	40,599
Sikich	1415 W Diehl Rd	I-88 West	Renewal	40,000

Source: Newmark Research

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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.

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