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2Q24

# 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, reaching 4% for the first time since January 2022.
- Office-occupying or adjacent industries saw all negative results. Financial activities experienced the smallest drop, 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 new lease by Lessen. The tenant is moving from Prudential Plaza to 203 N LaSalle St. and contracting its footprint by downsizing from around 114,000 SF to about 77,000 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.
- 333 W Wacker was the largest deal to get done this quarter. The nearly 900K SF building sold for \$125 million.

## Leasing Market Fundamentals

- Leasing volume was slow for the first half of 2024, with roughly 2.9 million SF being completed over the past two quarters. 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 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. Competition for top space in the Central Business District is expected to continue to absorb the limited supply and push trophy rates higher.

## Outlook

- The CBD continues to face an uphill battle as owners struggle with financing challenges that continue to threaten deals and tenants deliberate on their space requirements. The CBD market has a surplus of inventory which will need to be absorbed or repurposed to maintain a competitive market.
- 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.
- 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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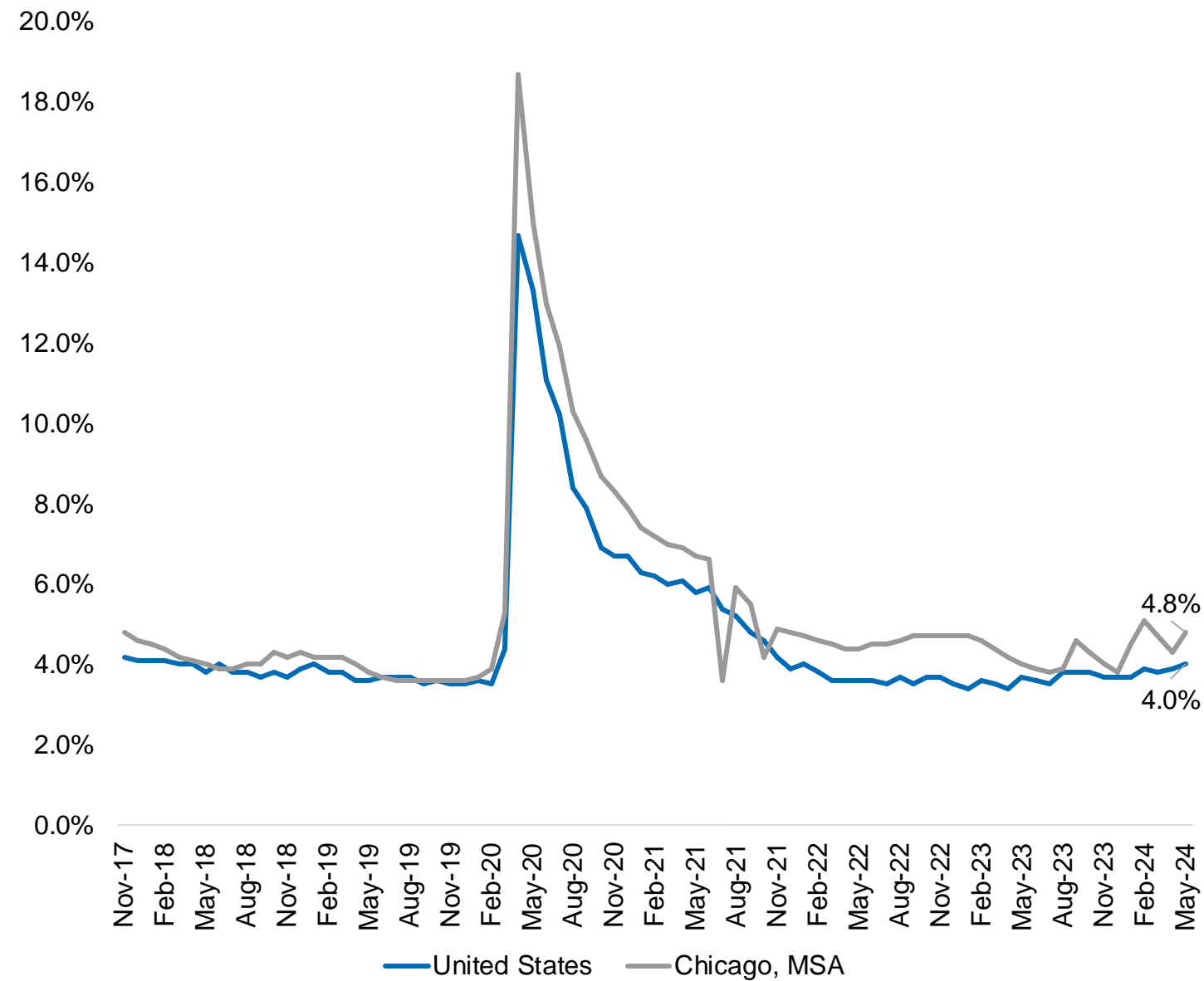
# Economy



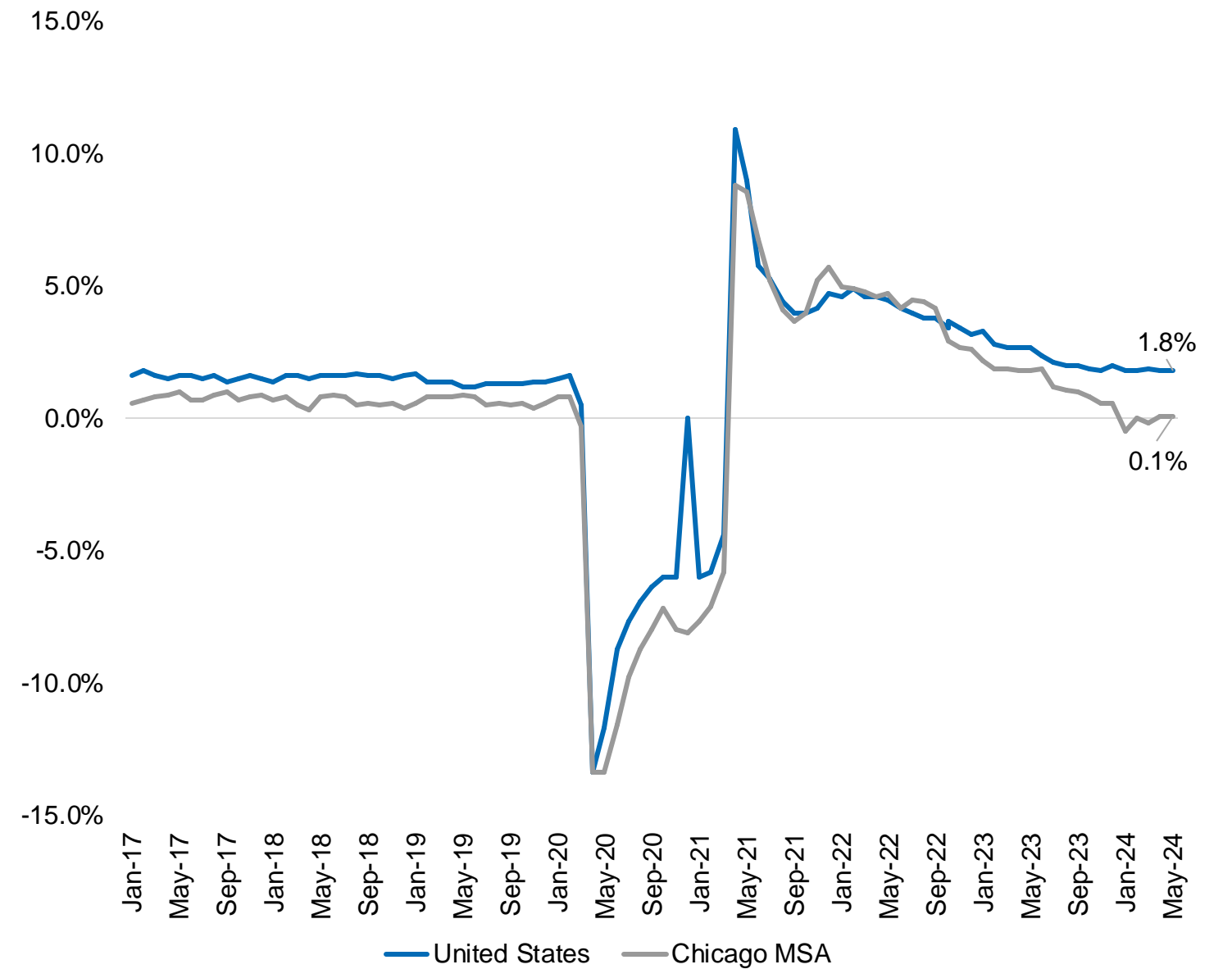
# Metro Employment Trends Signal A Slowing Economy

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

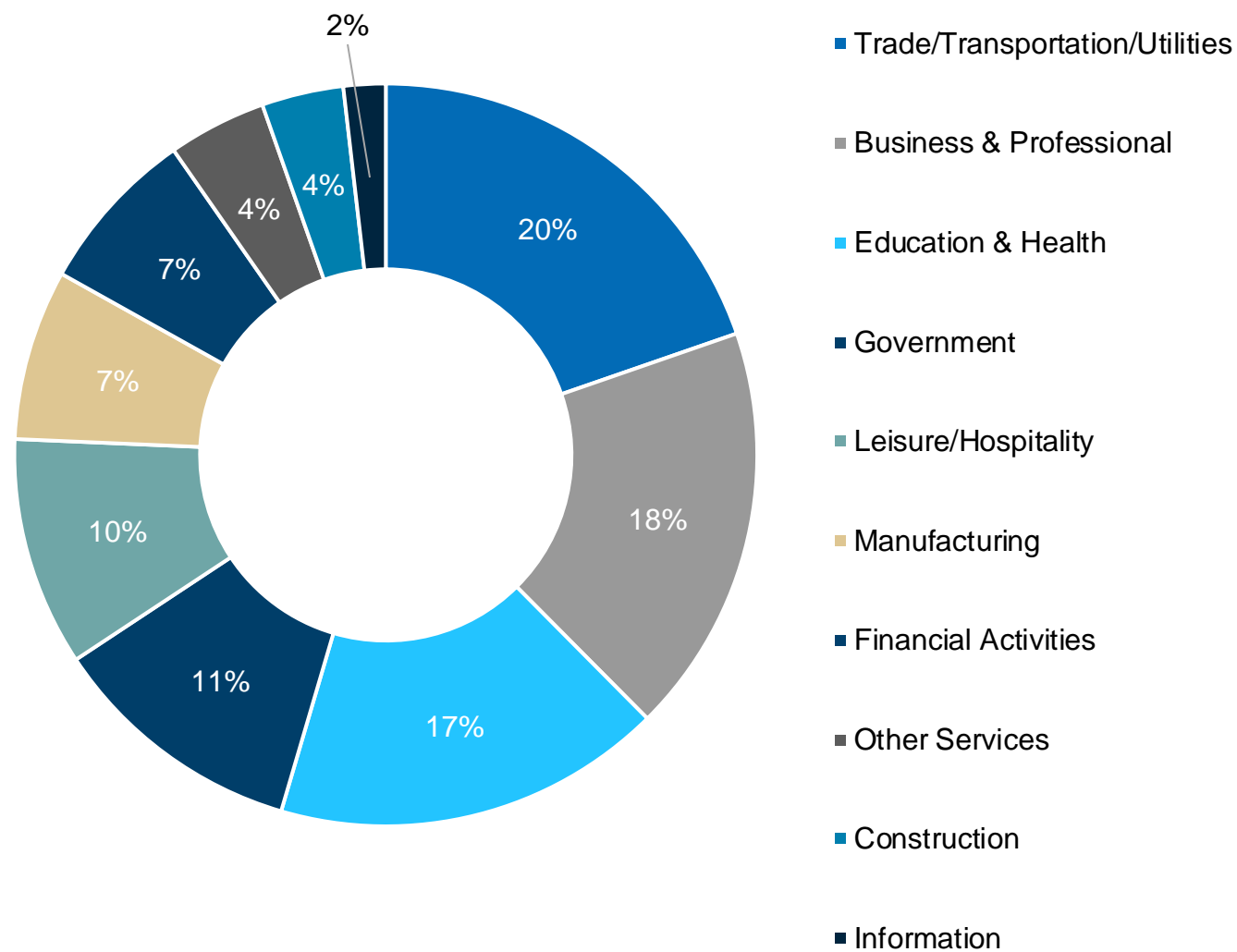


Source: U.S. Bureau of Labor Statistics, Chicago MSA

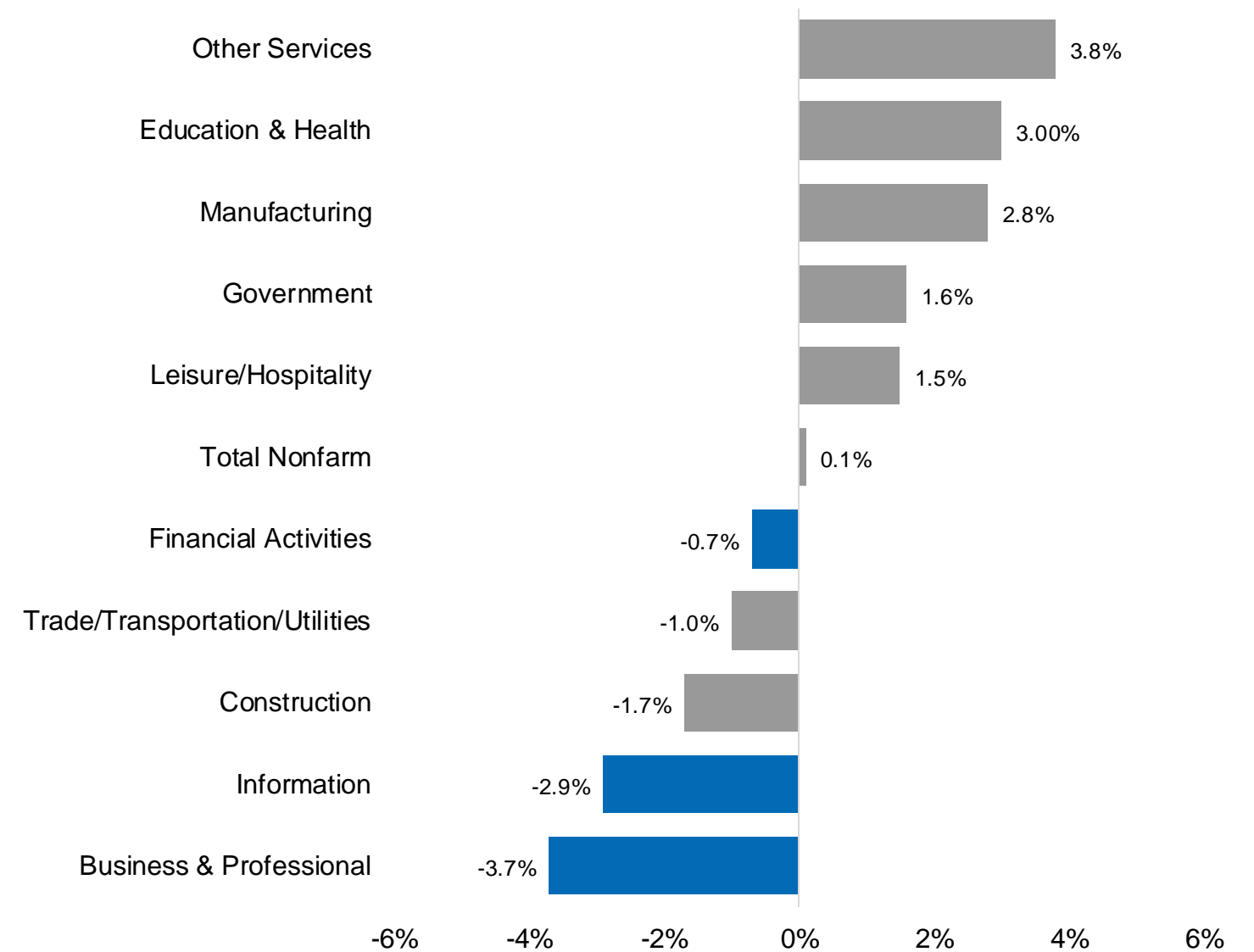
# Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The “Other Services” sector led all industries in regional annual job growth. Office-occupying or adjacent industries saw all negative results. Financial activities experienced the smallest drop, 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, May 2024



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

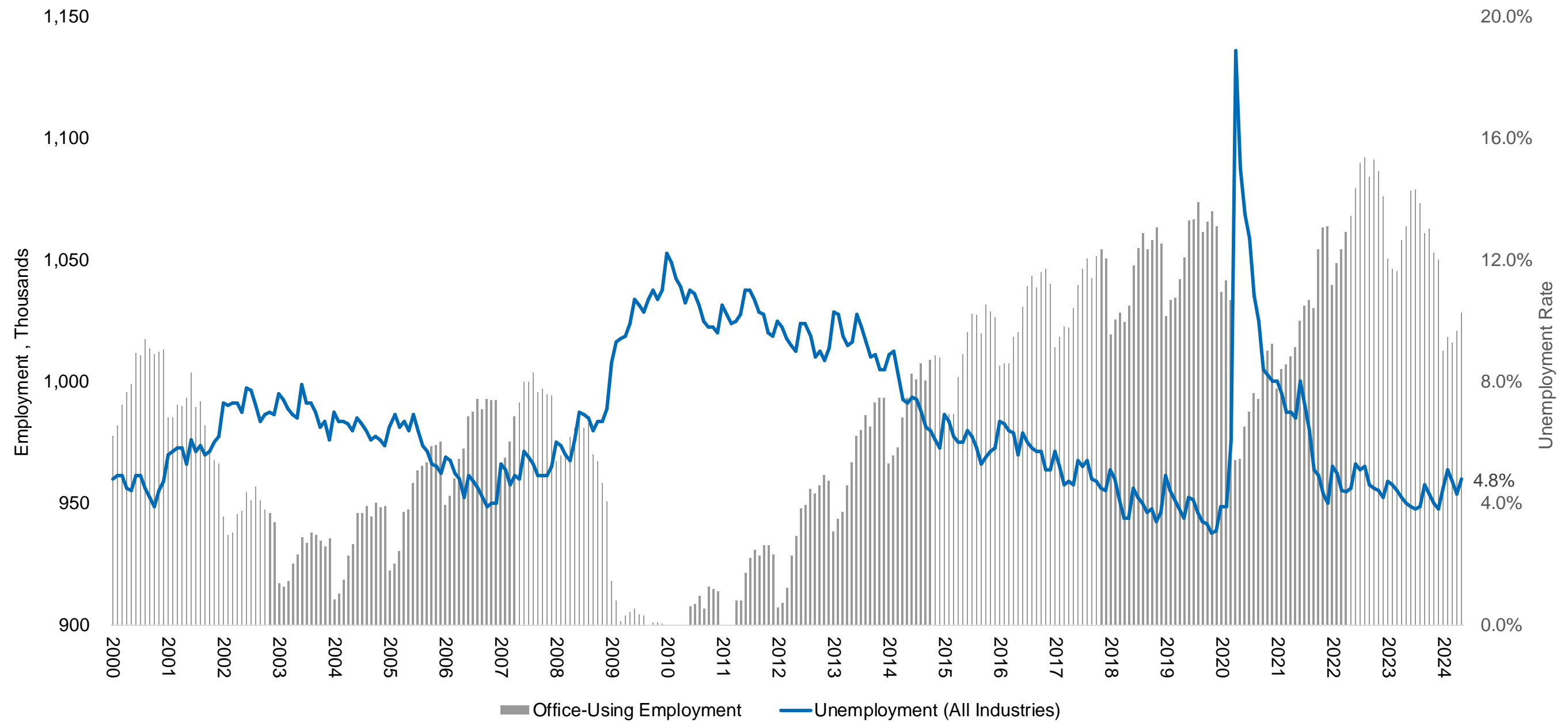


Source: U.S. Bureau of Labor Statistics, Chicago MSA

# 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

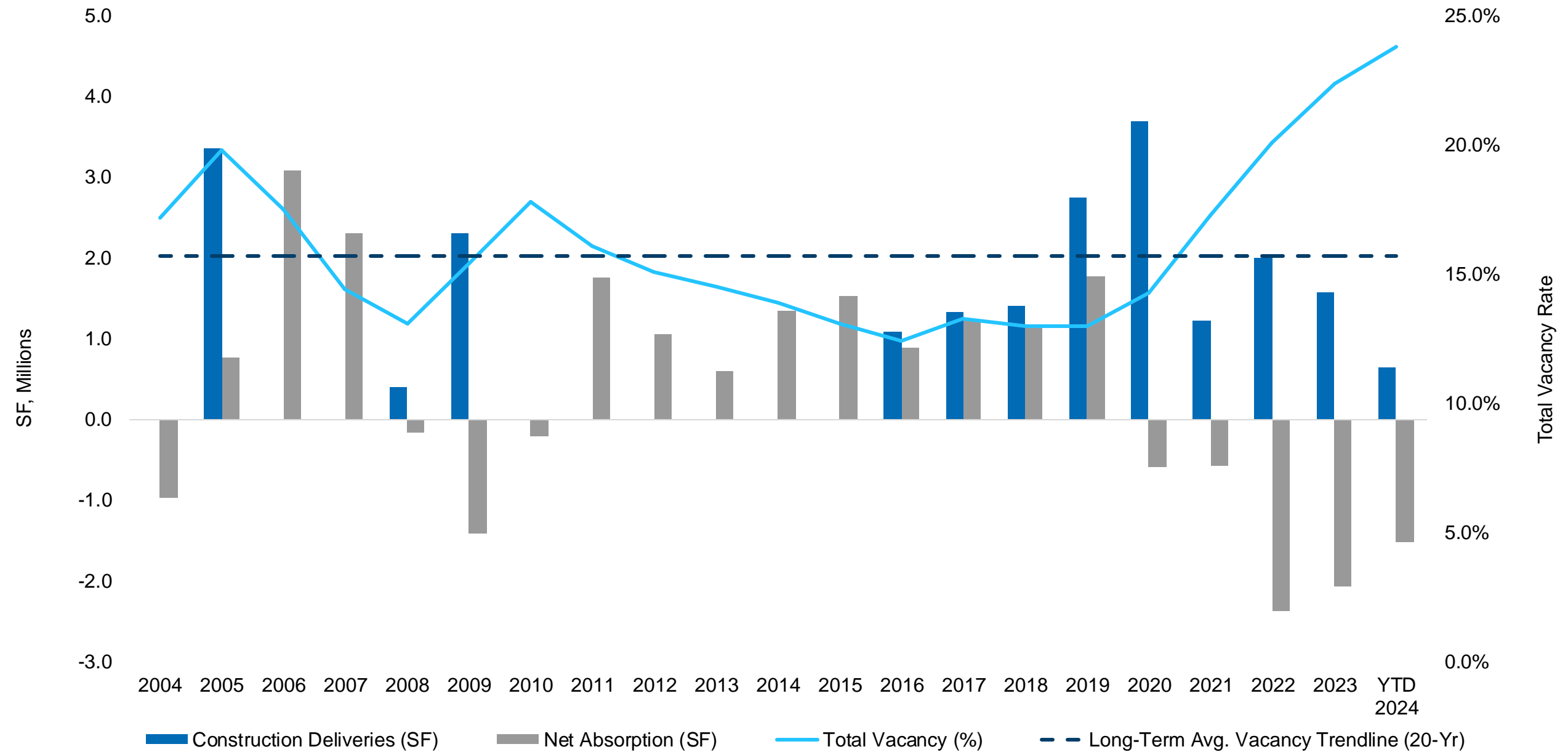




# Negative Absorption Continues

Vacancy increased slightly this quarter due to approximately 700,000 SF of negative absorption. Year-to-date total vacancy has increased 140 basis points, while year-to-date absorption sits at about negative 1.5 million SF.

## Historical Construction Deliveries, Net Absorption, and Vacancy

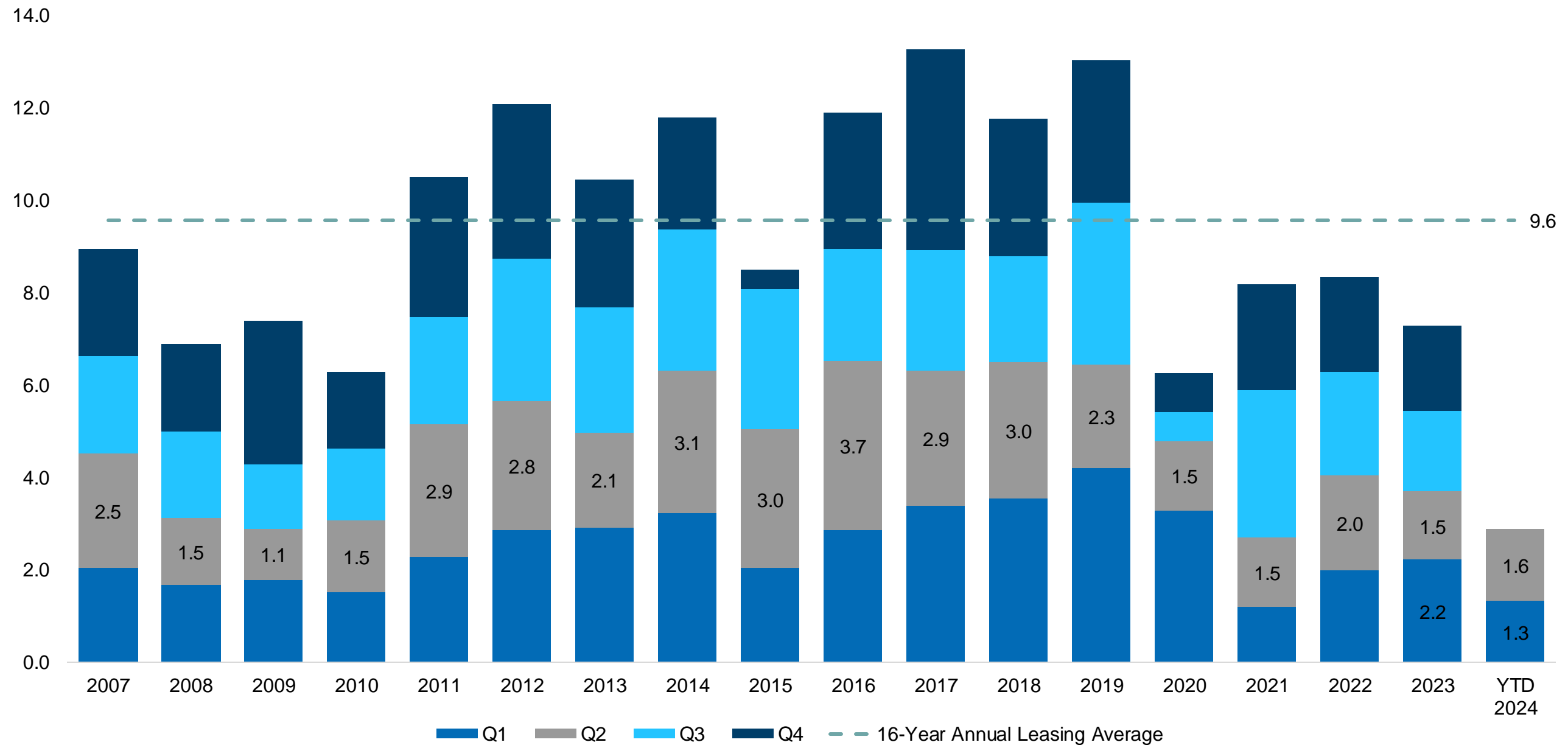


Source: Newmark Research

# Leasing Activity Consistent with Post-Pandemic Quarter Twos

Besides 2021, 2024 had the slowest first half of leasing activity since 2009. 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)**

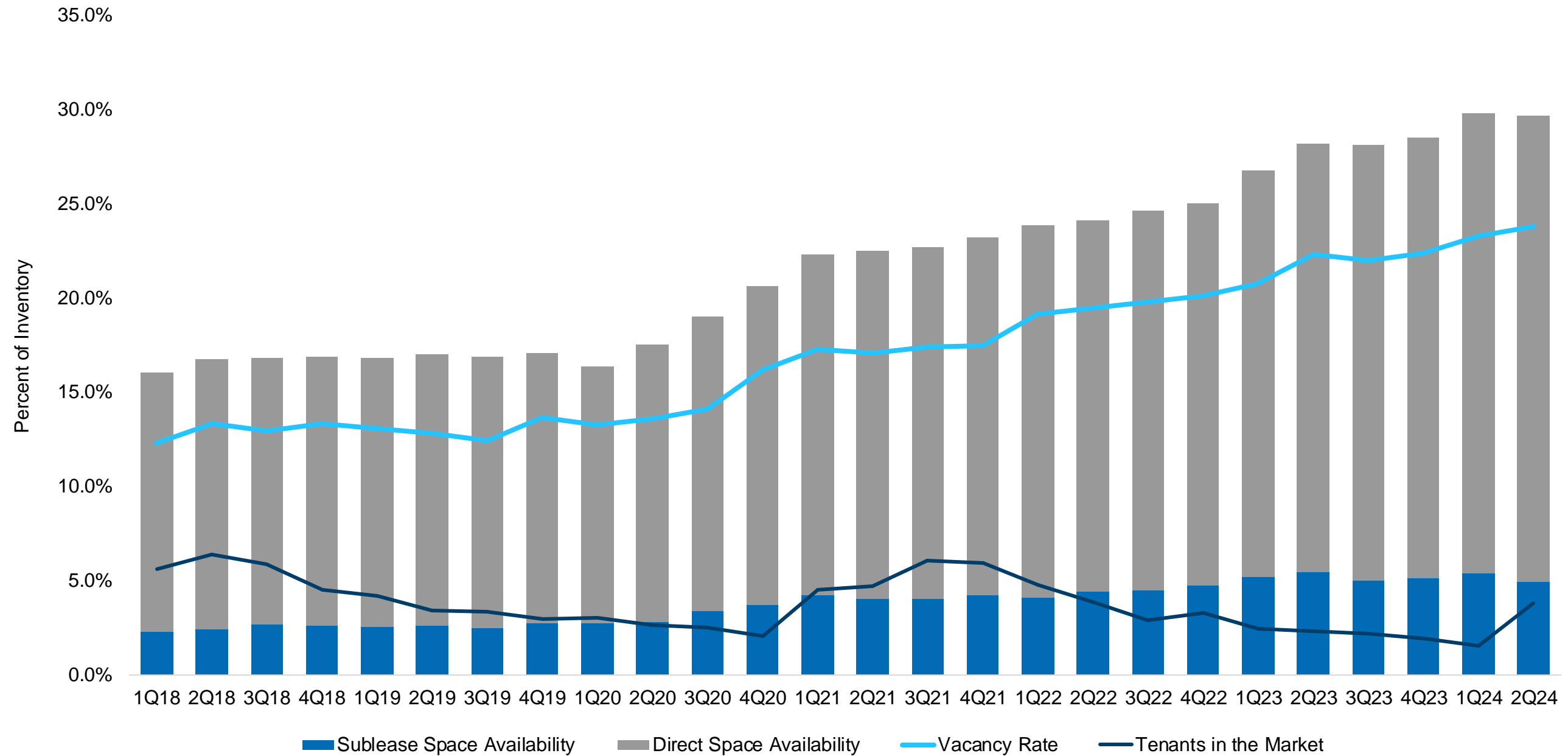


Source: Newmark Research, CoStar

# Tenant Demand Increases for the First Time in Several Quarters

Sublease availability decreased this quarter by 50 basis points to 4.9%, reaching its lowest level in over a year. Additionally, it's been two years since tenant demand has been at this level. There are currently 13 tenants in the market over 100,000 SF, providing hope that the market will see some larger leases completed in the second half of 2024.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

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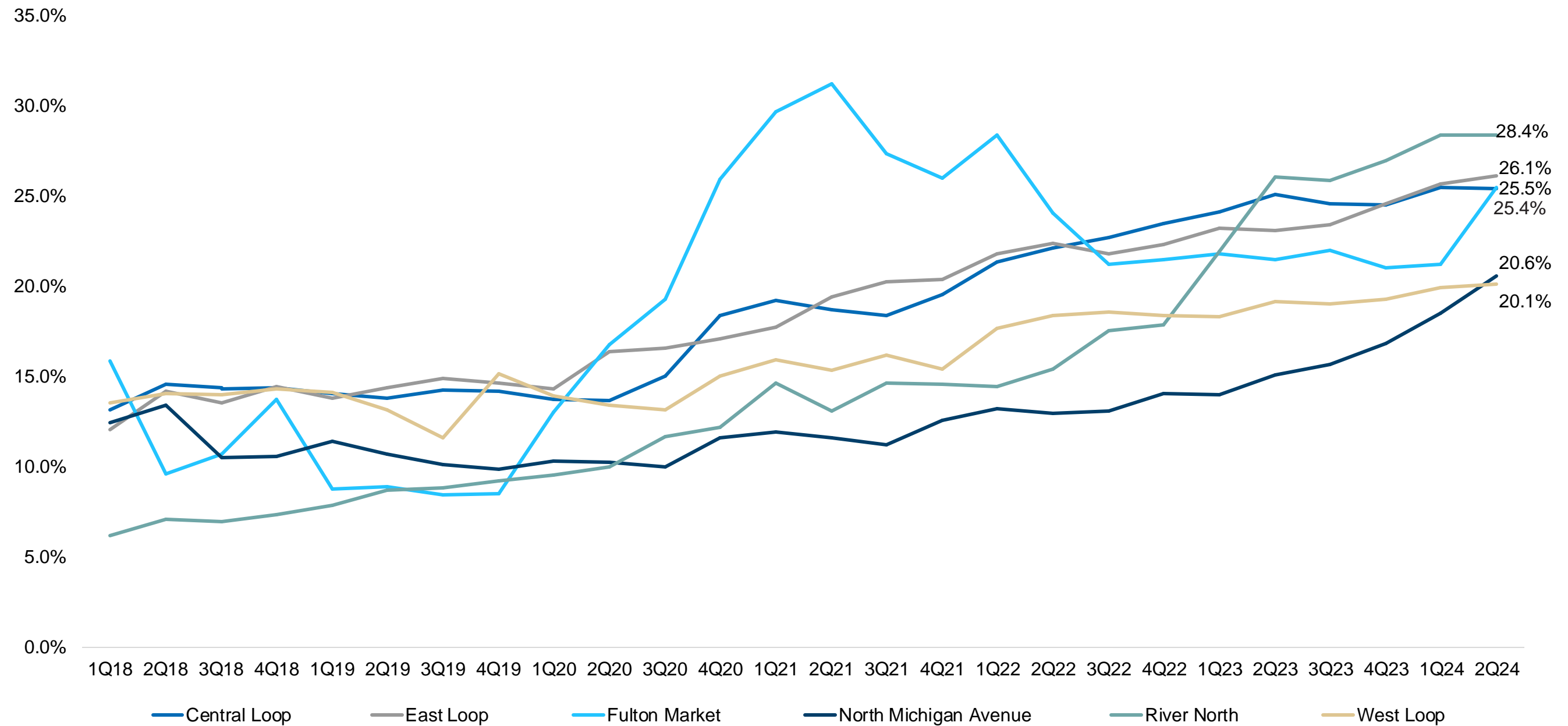
## Chicago Occupancy Ranks Third Highest in the Country

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# Vacancy Rates Mostly Hold Steady

Thanks to minimal positive absorption in many submarkets this quarter, vacancy rates mostly increased. West Loop now has the lowest vacancy rate of any downtown submarket, taking the crown from North Michigan Ave. Fulton Market's aggressive spike can be attributed to 360 N Green delivering this quarter. Even though it's 68% leased, neither of its two anchor tenants have moved in yet. With only 2 buildings currently under construction, one set to deliver next quarter and one in a year, vacancy rates for the rest of 2024 will be mostly impacted by tenant activity.

**Vacancy Rate by Submarket**

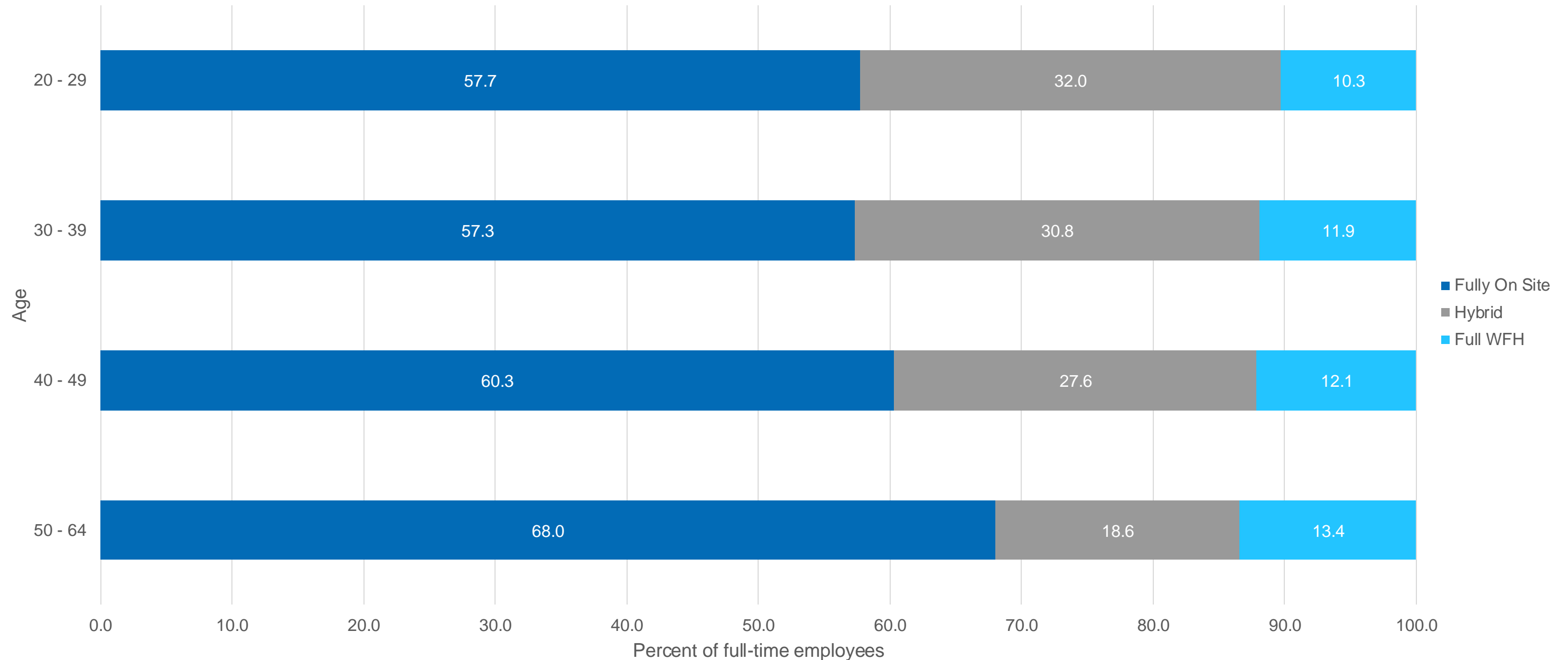


Source: Newmark Research

# Workers in Their 50s and 60s Are Fully On Site and Fully Remote More Than Younger Workers

It appears that since the pandemic the older you are the less likely you are to have a hybrid work schedule. According to recent statistics from WFH Research, workers ages 50-64 were more likely to either work fully on site or fully from home than any other age group. This data supports the trend that while senior employees are the ones demanding a return to office, they are also the largest group working completely remote.

Working Arrangements by Age March to June 2024



Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2024. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731

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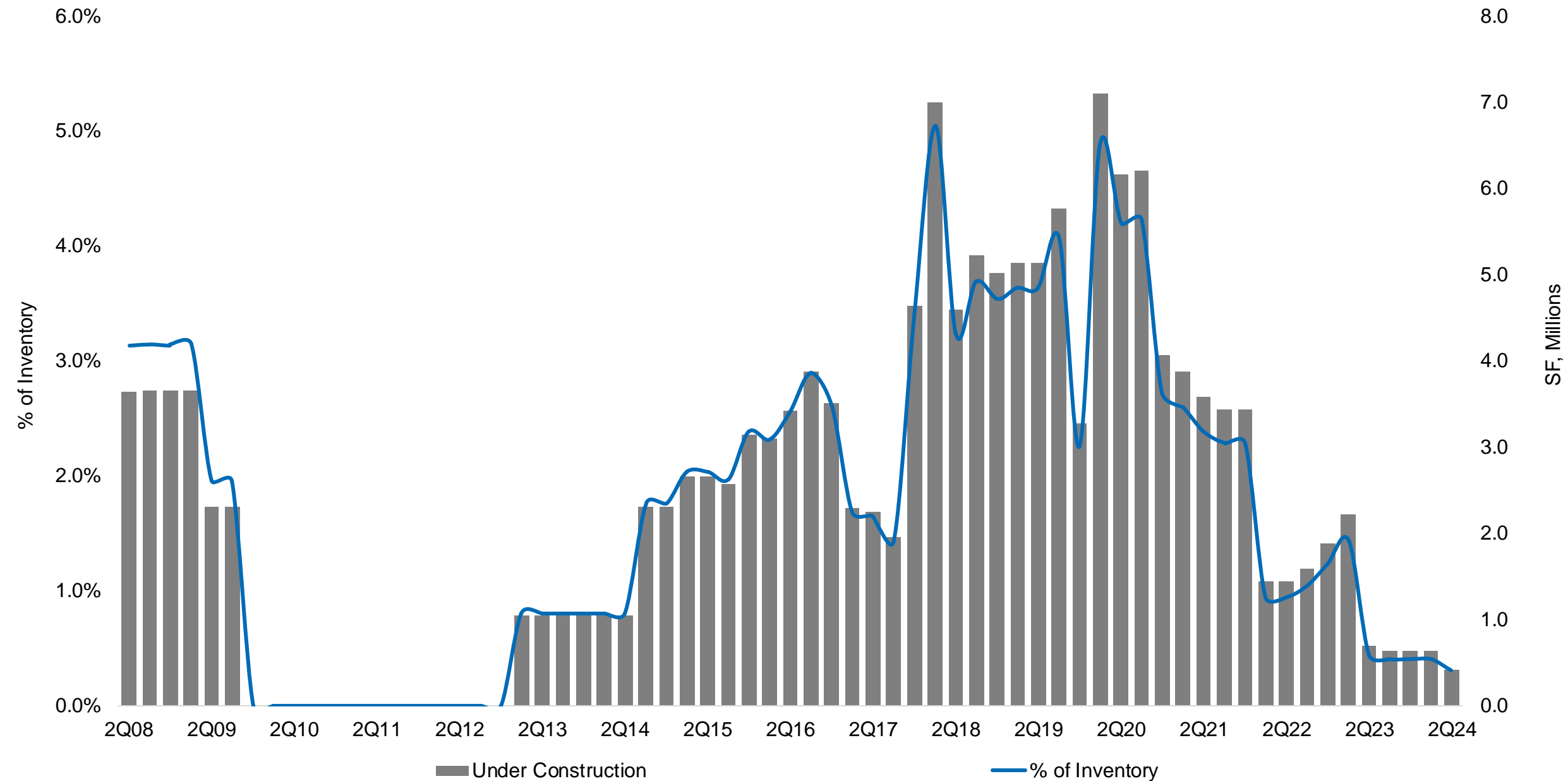
## Workers in Their 50s and 60s Are Fully On Site and Fully Remote More Than Younger Workers

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# Under Construction Inventory Remains Low

With only two office properties currently under construction, one small, and one 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.

## Office Under Construction and % of Inventory



Source: Newmark Research, CoStar



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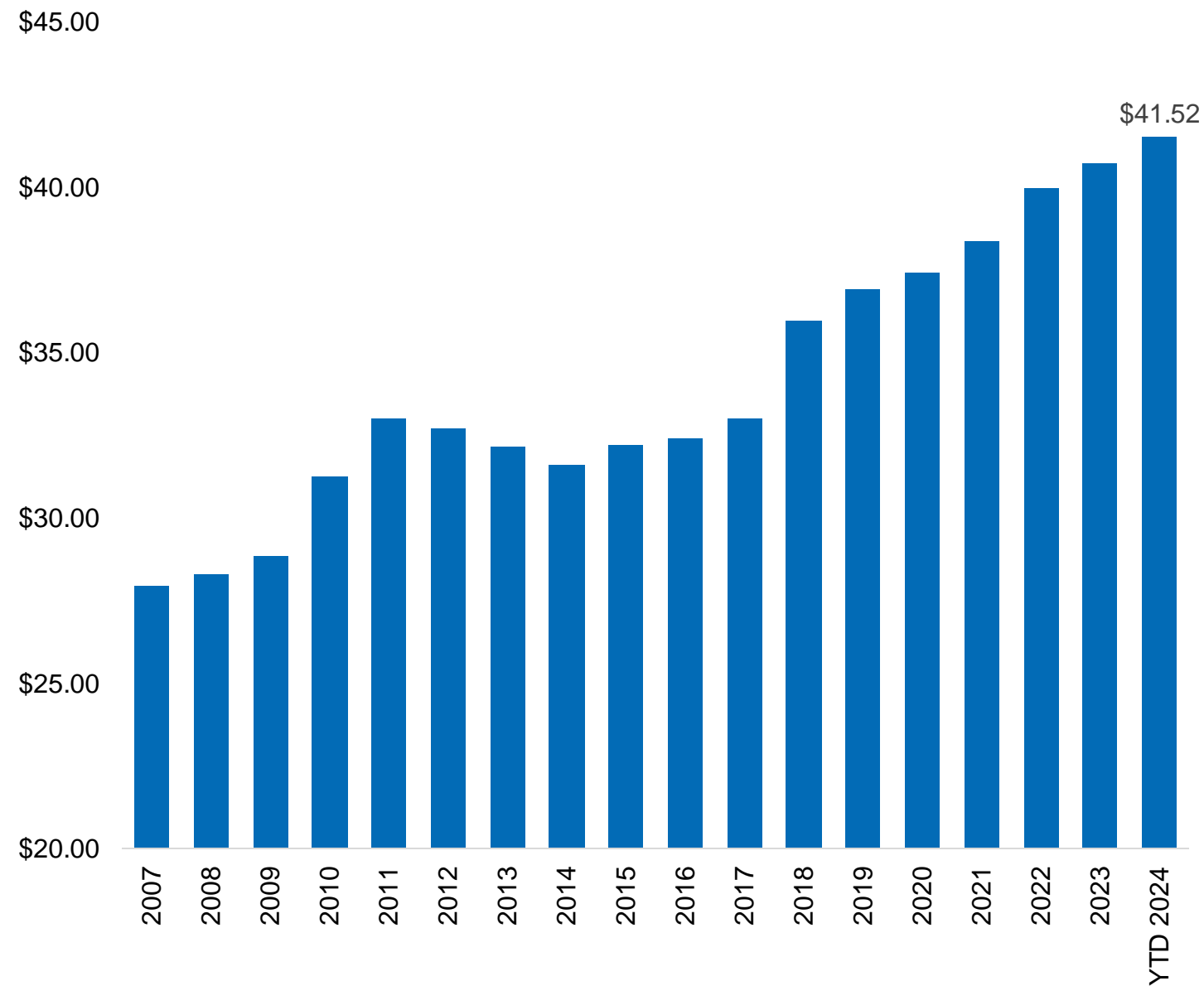
# Office Supply Under Construction

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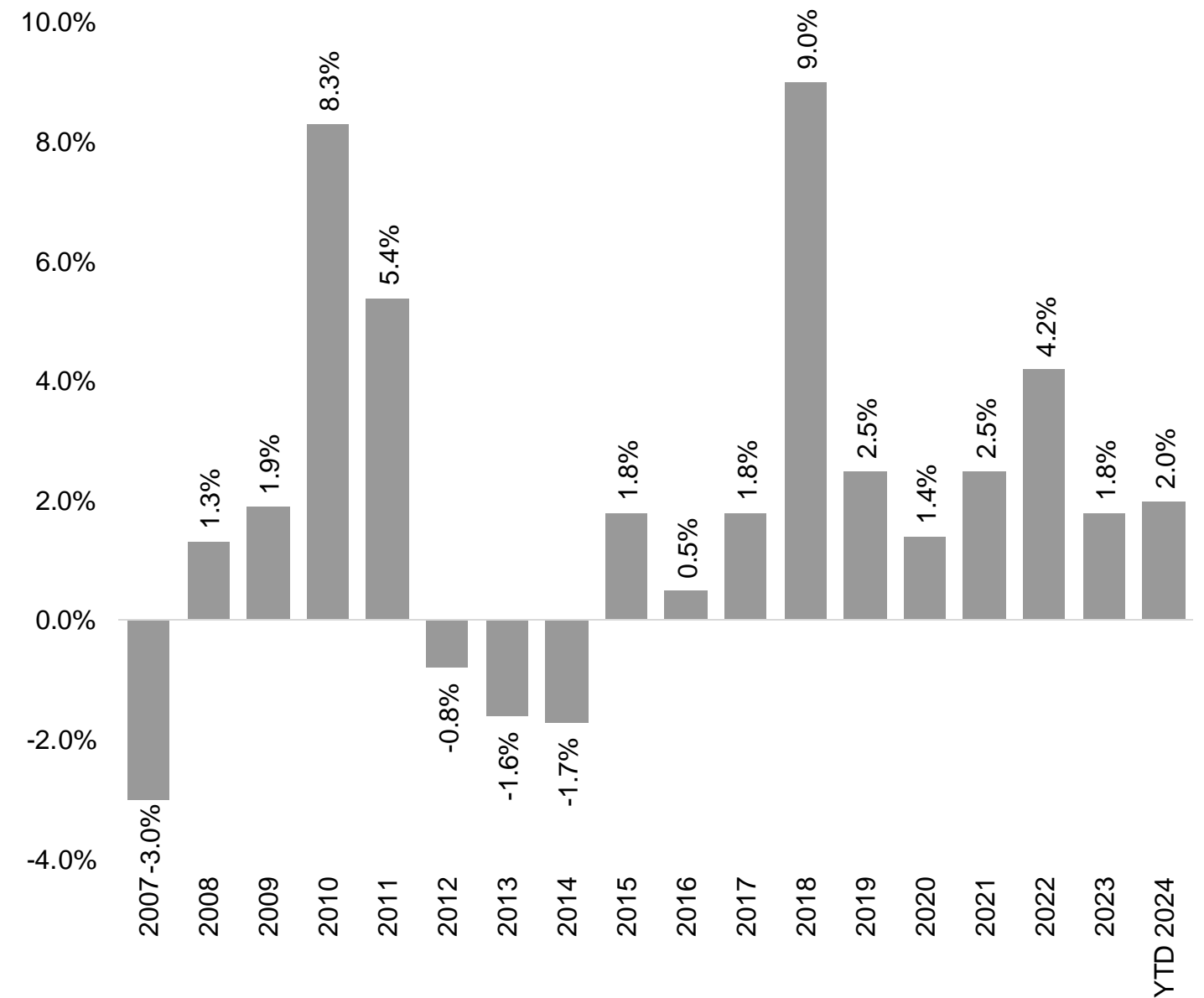
# Rental Rate Growth Continues

Asking rate growth continued to climb through the first half of the year, with average asking rates increasing \$0.80/SF from 2023's average and increasing \$1.25/SF quarter over quarter.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

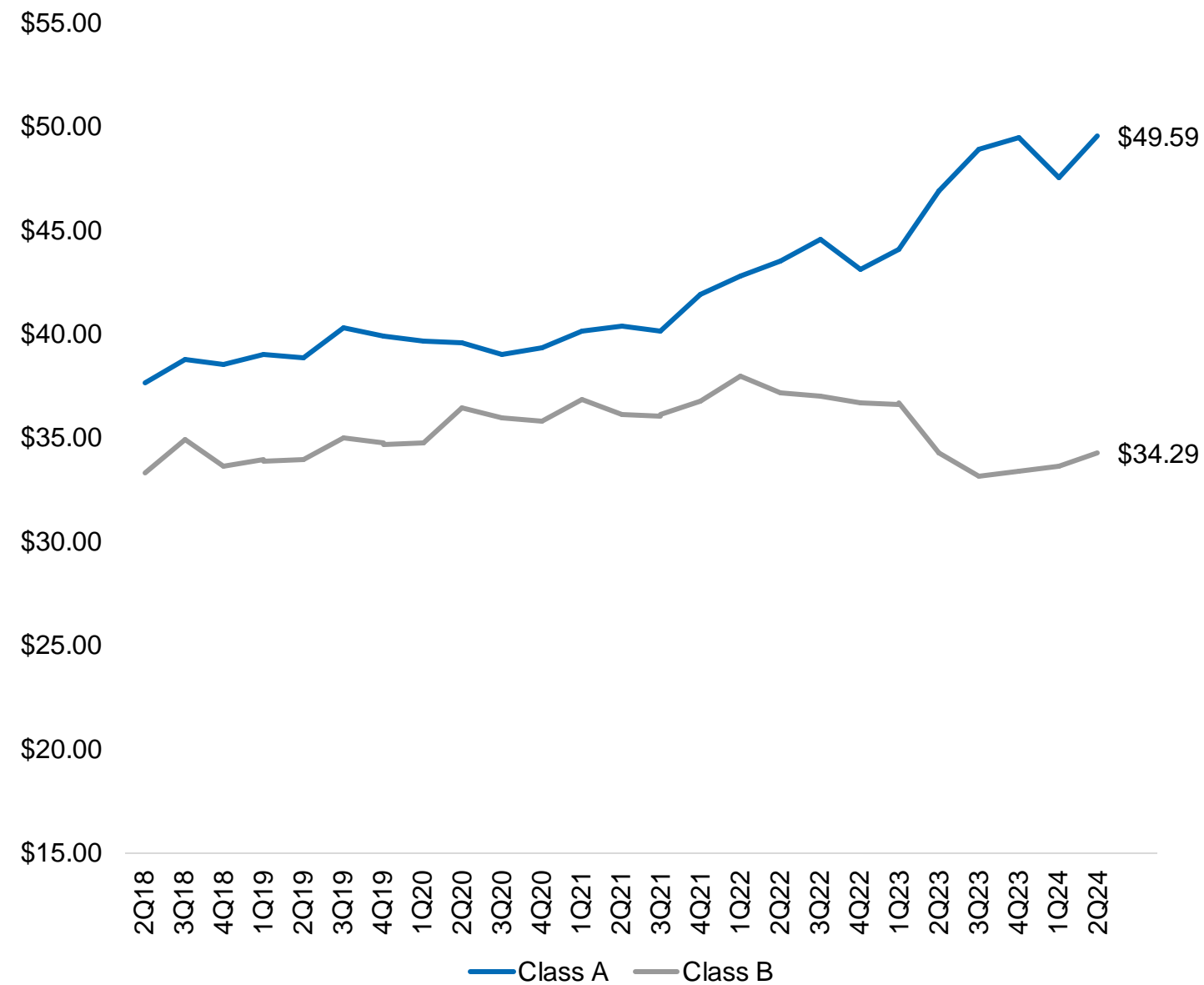


Source: Newmark Research, CoStar

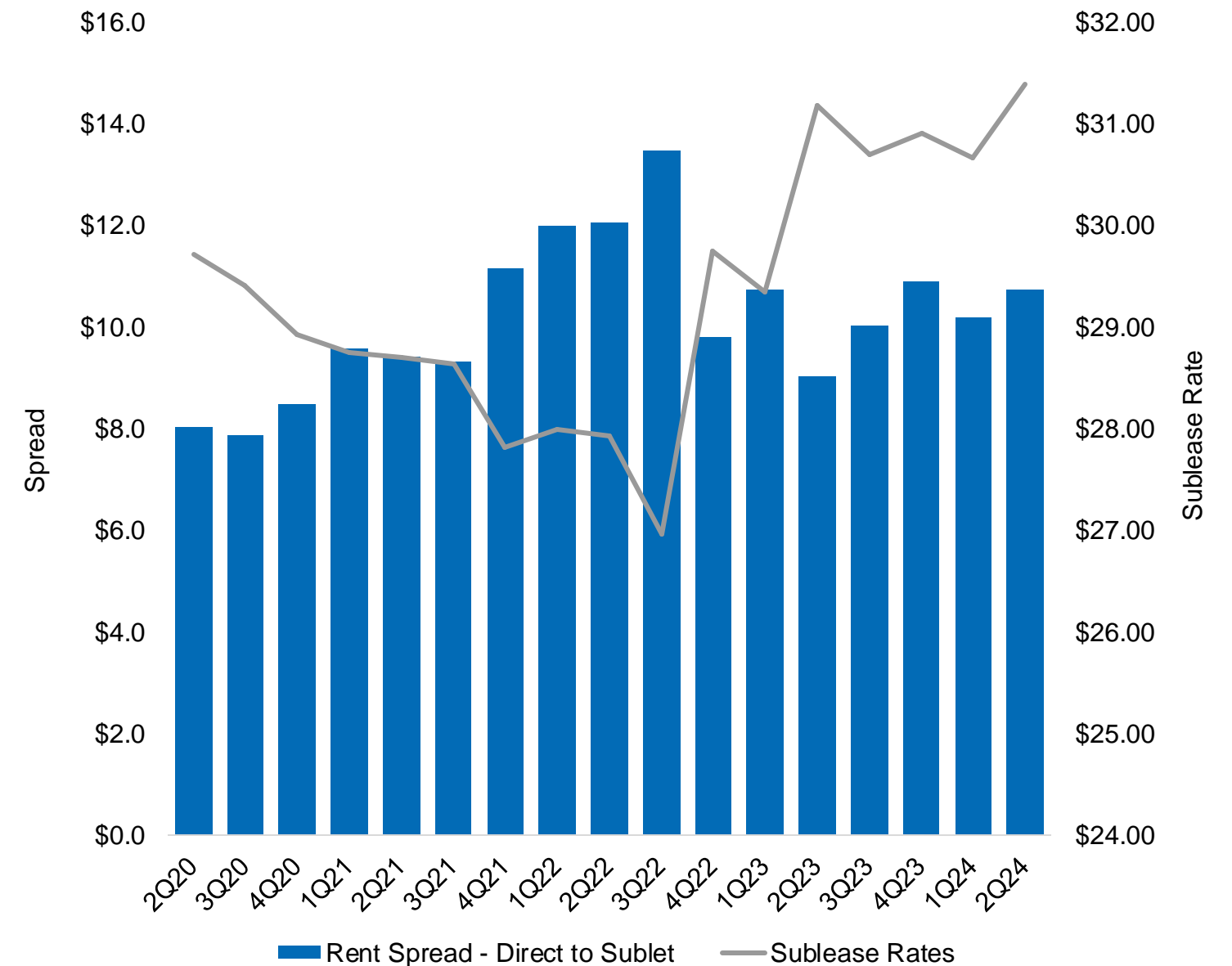
# Rent Spreads Widen Across the Board

The rent spreads have widened both between Class A and B asking rates and direct and sublease rates. The spread between Class A and B asking rates is now over \$15.00. Top tier Class A space is demanding record asking rates as availability in that subset of the market is incredibly low.

### Class A and Class B Direct Asking Rents



### Sublease Rates



Source: Newmark Research

# Leasing Activity Slows

Leasing volume was down this quarter as the market did not complete a single lease over 100,000 square feet. There will need to be a significant uptick in leasing volume in the second half of the year for the market to reach the past historical average.

## Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Lessen	203 N LaSalle St	Central Loop	New Lease	77,000
<i>Lessen will be downsizing from 114,000 SF at Prudential Plaza.</i>				
NBC	455 N Cityfront Plaza Dr	N Michigan Ave	Renewal	69,000
<i>NBC is set to hand back a little more than half of its office space in its namesake building as part of a long-term lease that will keep the broadcaster in the building through 2040.</i>				
American Dental Association	401 N Michigan Ave	N Michigan Ave	New Lease	60,000
<i>ADA has moved after selling its longtime headquarters building at 211 E Chicago Ave.</i>				
The City of Chicago Inspector General	231 S LaSalle St	Central Loop	New Lease	50,000
<i>They are set to expand from their current footprint at city-owned building at 740 N Sedgwick St.</i>				
Addison Group	225 W Randolph	West Loop	New Lease	35,000
<i>The firm is set to expand their current footprint of about 32,000 Sf at 125 S Wacker Dr.</i>				

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## West Loop Submarket Overview

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## River North Submarket Overview

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# Central Loop Submarket Overview

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# Fulton Market Submarket Overview

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# North Michigan Avenue Submarket Overview

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## Submarket Statistics

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