

Q3/23 OFFICE MARKET REPORT

Downtown Chicago



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MODERATE MARKET ACTIVITY AMID HIGH UNCERTAINTY

In Q3/23, Chicago's CBD occupancy levels and gross asking rates remained relatively unchanged from the prior quarter. The office market's direct vacancy rate was 19.8%, while the average gross asking rate held at \$44 p.s.f. Absorption levels turned negative this quarter at -432,000 square feet, resulting in year-to-date absorption levels at -933,000 square feet.

Hybrid work has propelled vacancy rates higher as companies balanced their office space needs with incremental overhead costs, like rent. Many companies were early to adopt remote work policies, allowing employees to collaborate virtually with no net decrease in productivity. Yet as more time passes, data increasingly reveals the challenges of fully remote work. Stanford's Institute for Economic Policy and Research concluded working from home actually led to a 10%-20% decrease in productivity. Seeing these effects first-hand, companies across many industries are bringing their employees back into the office.

Even the iconic work-from-anywhere facilitator, Zoom Video Communications, is emphasizing the value of in-person collaboration. Zoom's business grew significantly during the pandemic but has struggled as the effects of COVID wind down. As a result, in an effort to resuscitate growth, Zoom is developing a wider suite of software tools for big businesses, including in-office collaboration products.

Even though hybrid work is here to stay, companies will still need office space to promote in-person collaboration and increase worker productivity. More than half of pre-pandemic office leases in the U.S. have yet to expire, so as companies face the decision to renew or relocate, productivity concerns may mean employers place a greater emphasis on returning to the office. Meanwhile employees will continue asking for high-quality, well-located, fully amenitized spaces.

Leasing Activity

Leasing volume in Chicago's CBD remains modest. Only 1.7 million square feet was leased in Q3/23. With approximately 5.3 million square feet leased year-to-date, total leasing volume in 2023 is at levels not seen since 2010. It's also barely half the amount of the 10.5 million square feet leased through the first three quarters of 2019.

Despite the slow leasing environment, some companies continue to solidify their presence downtown. Most notably, Winston & Strawn signed a new lease to occupy 150,000 square feet at newly renovated 300 N. LaSalle beginning in 2026, a move from their long-time home at 35 W. Wacker. The decision echoes the trend of other companies right-sizing their office space, as the Chicago-based law firm is reducing their overall footprint by more than 40%.

The owner of 300 N. LaSalle, the new home of Winston & Strawn, made what many called a gamble by investing an additional \$30 million to renovate their property in hopes of signing new tenants. However, the landlord made a calculated risk based on the building's favorable location and amenities while taking advantage of tenants' flight-to-quality across the market. This trend remains a pillar of Chicago's office market, and owners who reinvest in their buildings and improve their properties will increase the chances of signing new tenants while retaining existing ones.

Investment Sales

Sales activity remained at record-low levels with only one transaction in Q3/23—the sale of 230 W. Monroe. Oregon-based Menashe Properties purchased the building for \$45 million, less than \$65 p.s.f., which is a massive discount compared to the previous purchase price of \$122 million (\$173 p.s.f.) in 2014. This is the first major office sale in Chicago's CBD in more than a year.

Occupancy struggles coupled with unfavorable financing conditions have caused many investors to wait on the sidelines, resulting in only \$102 million invested into existing office buildings year-to-date. The only recent year which saw as little transaction volume through the first three quarters is 2009, after the great financial crisis.

Even though office property sales have drastically slowed, some owners are still actively marketing their downtown assets for sale. For example, JLL is marketing 175 W. Jackson, a distressed 1.4 million-square-foot building, in hopes of resolving the owner's foreclosure lawsuit without an auction. Brookfield originally purchased the building in 2018 for \$306 million and spent an additional \$24 million on renovations. However, ratings agency KBRA Analytics pegged the building's valuation at \$170 million. If Brookfield is unable to find a buyer in time, the lender may force them into foreclosure—something we recently saw at 161 N. Clark, which was being marketed at a significant discount until the lender, Societe Generale, decided to officially foreclose on the building.

DOWNTOWN CHICAGO

Q3/23 SNAPSHOT



(431,733) SF
Direct Net
Absorption Q3/23



19.8%
Direct Vacancy
Rate



\$44.06/SF
Average Gross
Asking Rate

Property data were compiled from CoStar with these parameters: existing and under-renovation office property type; within Central, East and West Loops, N. Michigan Avenue, River North, and Fulton Market. Excluded properties include those with under 20,000 square feet of office space; non-conforming and owner-occupied properties, including those owned by coworking firms. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

FIGURE 01

Sublease Trends

Source: CoStar

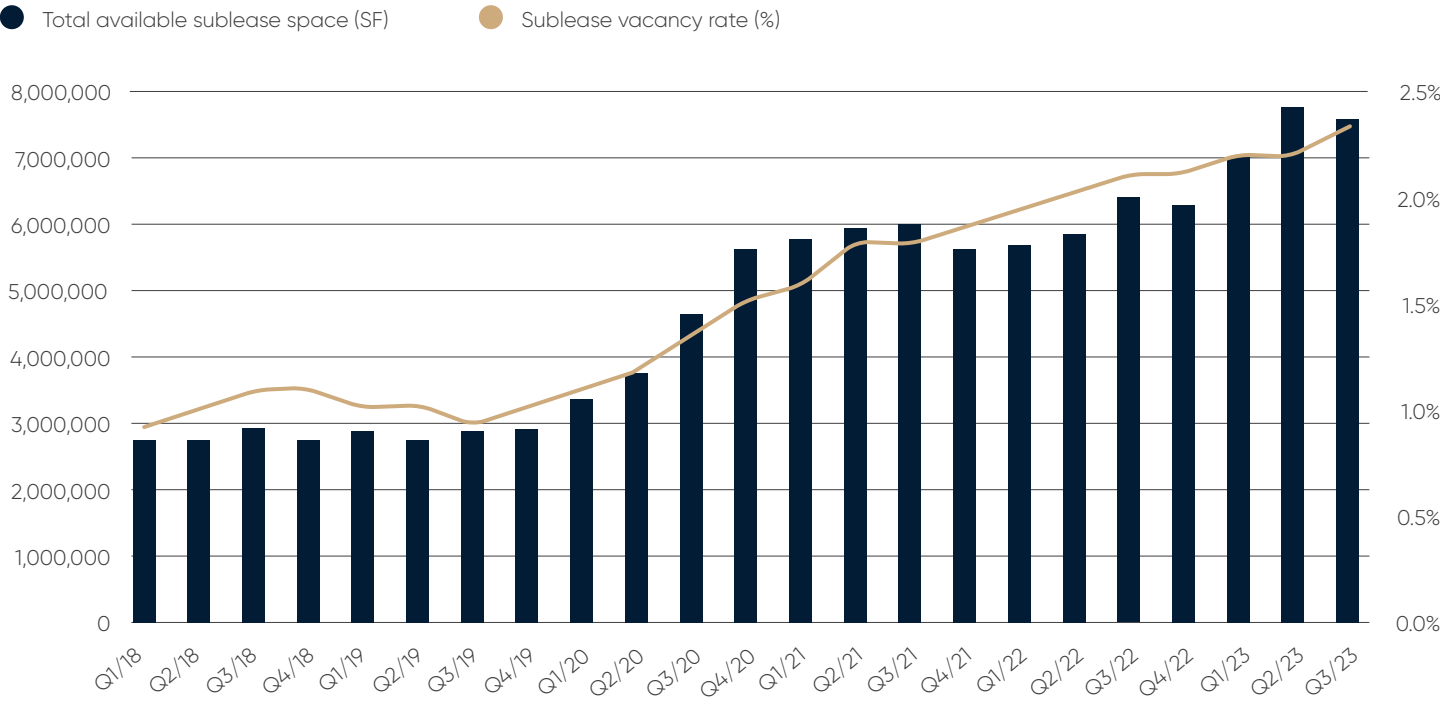
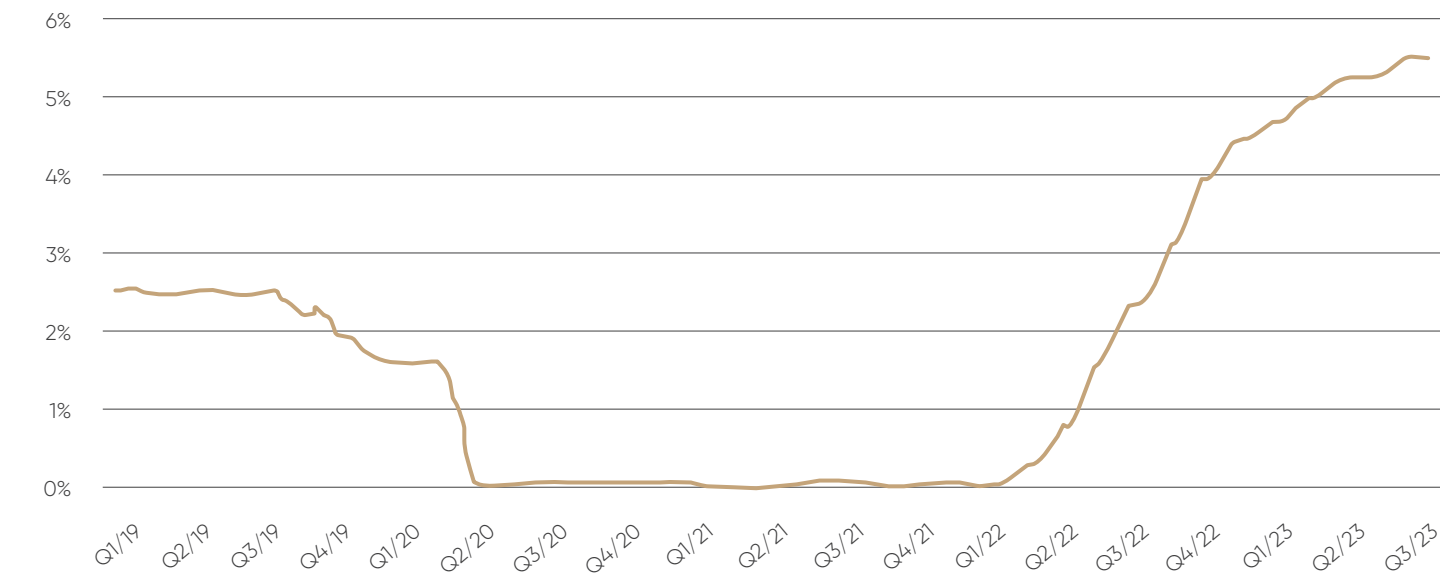


FIGURE 02

Floating-Rate Loans: 30-day average SOFR

Source: Federal Reserve Bank of St. Louis



The majority of commercial buildings are financed using floating-rate loans, which means mortgage payments fluctuate alongside changing interest rates. This chart references the 30-day average secured overnight financing rate, which is the interest rate that commercial loans are tied to. As interest rates, mortgage payments rise commensurately.

FIGURE 03

Chicago CBD Submarket Comparison Summary

Source: CoStar

Submarket & Asset Class	Total Square Footage	Average Building Size	Direct Availability Rate	Sublet Availability Rate	Direct Vacancy Rate	Sublet Vacancy Rate	Average Gross Asking Rate	Q3/23 Net Absorption	2023 YTD Net Absorption
CHICAGO CBD	162,675,275	359,107	23.5%	4.7%	19.8%	2.3%	\$44.06	(431,733)	(933,003)
CLASS A	113,752,167	795,470	22.4%	5.6%	18.2%	2.8%	\$48.89	(589,763)	(225,422)
CLASS B	40,356,966	186,838	27.2%	2.7%	24.3%	1.5%	\$35.63	115,818	(482,133)
CLASS C	8,566,142	91,129	21.5%	1.3%	19.7%	0.7%	\$27.52	42,212	(225,448)
CENTRAL LOOP	38,096,209	544,232	26.3%	4.6%	23.0%	1.7%	\$41.60	(40,886)	(246,976)
CLASS A	21,700,191	803,711	26.8%	5.8%	22.5%	1.9%	\$45.75	(119,851)	(167,297)
CLASS B	14,561,932	441,271	27.5%	3.3%	25.4%	1.6%	\$36.34	97,806	(52,835)
CLASS C	1,834,086	183,409	10.5%	0.0%	9.4%	0.0%	\$25.90	(18,841)	(26,844)
EAST LOOP	26,526,134	510,118	26.3%	3.5%	21.6%	1.2%	\$39.37	(247,641)	(460,081)
CLASS A	17,754,498	1,044,382	24.5%	4.5%	19.1%	1.4%	\$43.78	(282,246)	(379,847)
CLASS B	6,069,797	337,211	32.9%	2.0%	28.9%	1.3%	\$33.79	2,173	(11,081)
CLASS C	2,701,839	158,932	23.4%	0.3%	20.9%	0.1%	\$26.69	32,432	(69,153)
FULTON MARKET	9,269,222	111,677	17.8%	5.5%	16.2%	2.6%	\$44.15	149,184	461,657
CLASS A	5,354,858	281,835	15.5%	7.5%	14.3%	3.7%	\$54.67	19,389	350,405
CLASS B	2,481,542	63,629	25.8%	1.3%	23.4%	0.1%	\$34.18	50,664	20,107
CLASS C	1,432,822	57,313	13.0%	5.1%	10.5%	3.0%	\$31.58	79,131	91,145
N.MICHIGAN AVE	13,809,787	354,097	15.6%	3.5%	13.7%	1.8%	\$45.61	(29,075)	(71,252)
CLASS A	9,809,319	613,082	14.9%	4.4%	13.2%	2.4%	\$50.53	(30,173)	(52,281)
CLASS B	3,798,929	189,946	16.9%	0.8%	14.7%	0.3%	\$35.58	1,098	(18,971)
CLASS C	201,539	67,180	20.3%	5.2%	18.7%	0.0%	\$26.81	0	0
RIVER NORTH	18,586,156	175,341	25.1%	6.2%	20.3%	4.2%	\$43.76	(109,995)	(83,065)
CLASS A	12,680,111	905,722	24.1%	8.4%	19.4%	5.9%	\$51.14	(59,873)	202,867
CLASS B	4,509,770	68,330	24.0%	1.7%	18.0%	0.8%	\$31.19	(13,889)	(131,822)
CLASS C	1,396,275	53,703	37.9%	0.7%	35.0%	0.0%	\$26.87	(36,233)	(154,110)
WEST LOOP	56,387,767	547,454	22.7%	5.0%	18.7%	2.8%	\$48.40	(153,320)	(533,286)
CLASS A	46,453,190	929,064	21.4%	5.3%	17.0%	2.8%	\$51.57	(117,009)	(179,269)
CLASS B	8,934,996	223,375	29.0%	3.8%	26.7%	2.8%	\$38.17	(22,034)	(287,531)
CLASS C	999,581	76,891	25.7%	1.5%	27.3%	1.2%	\$29.29	(14,277)	(66,486)

FIGURE 04

Vacancy & Absorption

Source: CoStar

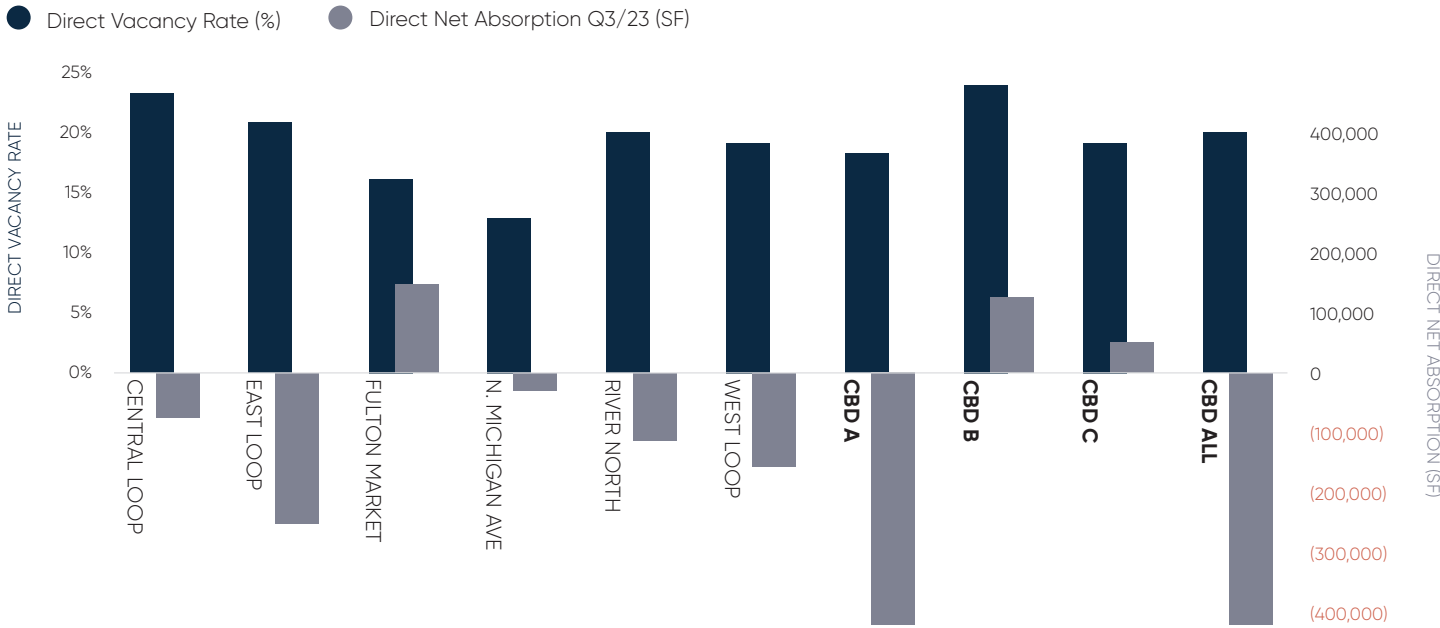


FIGURE 06

Sales Volume

Source: CoStar

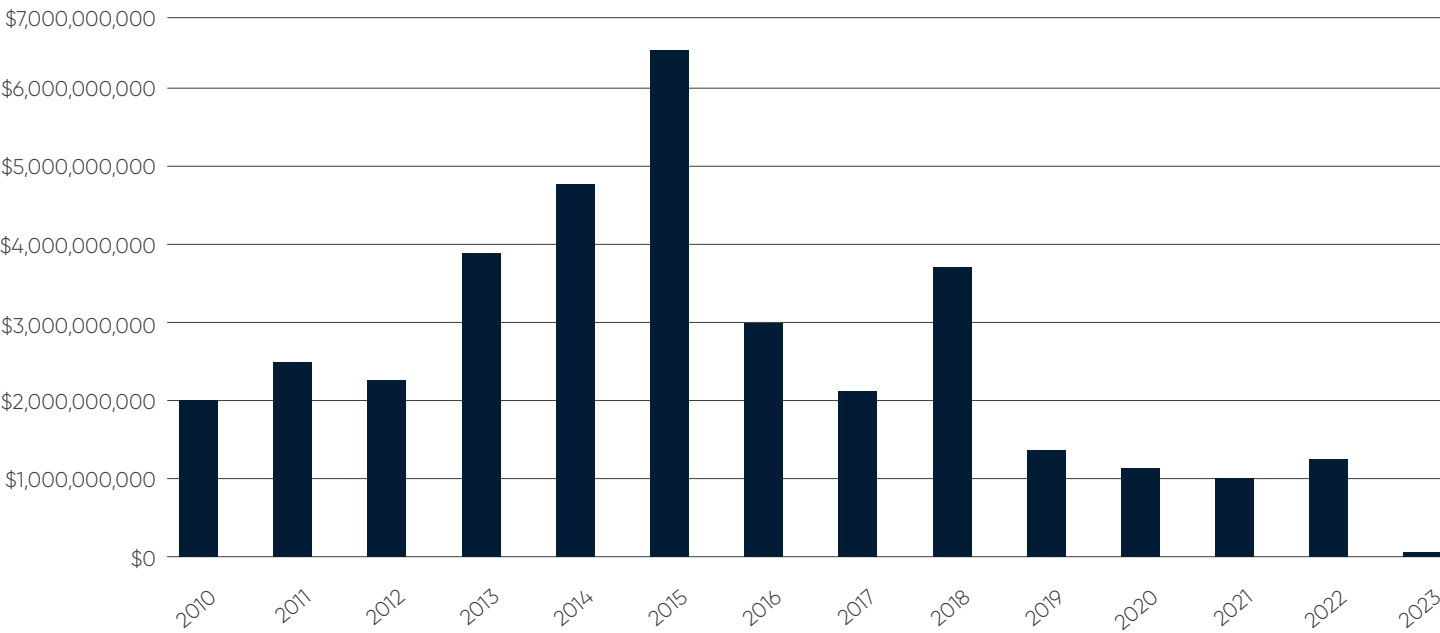


FIGURE 05

Product Pipeline

Source: CoStar

SUBMARKET	PROPERTY ADDRESS	RBA (SF)	BUILDING STATUS	DELIVERY YEAR
FULTON MARKET	1200 W. Carroll Avenue	494,775	Proposed	2024
RIVER NORTH	311 W. Huron Street	217,000	Under Construction	2023
FULTON MARKET	919 W. Fulton Market Street	400,000	Proposed	2024
FULTON MARKET	900 W. Fulton Market Street	64,000	Proposed	2024
FULTON MARKET	170 N. Green Street	609,050	Proposed	2024
FULTON MARKET	330 N. Green Street	712,000	Proposed	2024
FULTON MARKET	360 N. Green Street	493,680	Under Construction	2024
FULTON MARKET	310 S. Green Street	190,810	Proposed	2024
FULTON MARKET	350 N. Morgan Street	592,900	Proposed	2024
NORTH MICHIGAN AVENUE	535 N. Saint Clair Street	105,241	Under Construction	2024



CENTRAL LOOP

- In Q3/23, the Central Loop posted the highest direct vacancy rate of any CBD submarket, sitting at 23%. The sublease availability rate has remained steady at 4.6%.
- Absorption levels remain negative in the Central Loop, posting - 41,000 s.f. of net absorption through the quarter.
- Central Loop has the largest number of distressed assets in Chicago's CBD, largely driven by its low occupancy levels.
- Notable lease deals include Total Quality Logistics's decision to occupy 36,000 s.f. at 125 S. Clark.

MARKET MOVEMENT

BUILDING DISTRESS
13 BUILDINGS
(4.1 million SF)
of available space

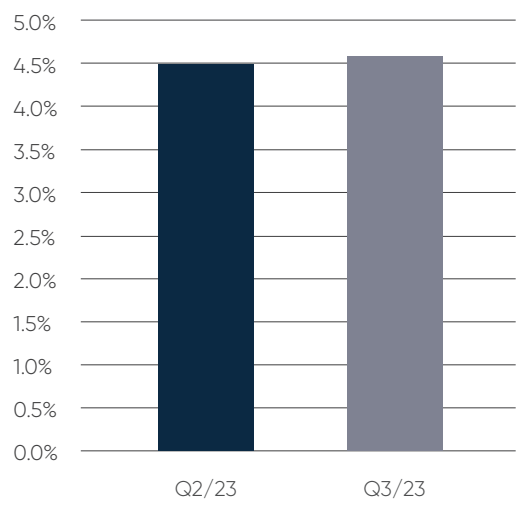
NEW LEASE
TOTAL QUALITY LOGISTICS
(36,322 SF)
125 S. Clark

RENEWAL
DRIFT NET SECURITIES
(23,361 SF)
70 W. Madison

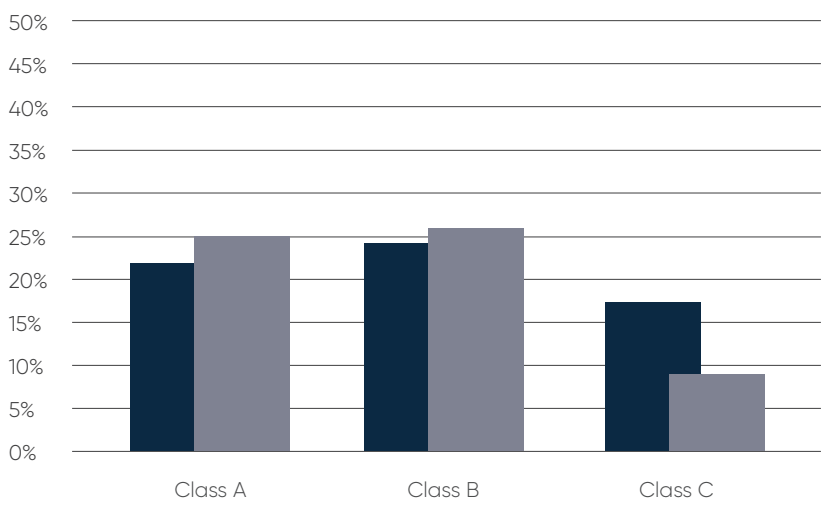
RENEWAL
LATIMER LEVAY FYOCK
(17,000 SF)
55 W. Monroe



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q3/23 NET ABSORPTION	2023 YTD NET ABSORPTION
CENTRAL LOOP	38,096,209	544,232	26.3%	4.6%	23.0%	1.7%	\$41.60	(40,886)	(246,976)
CLASS A	21,700,191	803,711	26.8%	5.8%	22.5%	1.9%	\$45.75	(119,851)	(167,297)
CLASS B	14,561,932	441,271	27.5%	3.3%	25.4%	1.6%	\$36.34	97,806	(52,835)
CLASS C	1,834,086	183,409	10.5%	0.0%	9.4%	0.0%	\$25.90	(18,841)	(26,844)

EAST LOOP

- The direct vacancy rate reached 21.6% in Q3/23, which is an increase of nearly 3% compared to the previous quarter.
- As occupancy levels declined, absorption figures followed suit. The submarket experienced the lowest levels of absorption in the CBD, with -248,000 s.f. of net absorption through the quarter.
- East Loop continues to command the lowest rental rate of any submarket at \$39.36 p.s.f.
- Notable lease deals include Olam International's decision to occupy more than 80,000 s.f. at 24 E. Washington.

MARKET MOVEMENT

BUILDING DISTRESS

5 BUILDINGS
(2.1 million SF)
of available space

NEW LEASE

OLAM
INTERNATIONAL
(81,448 SF)
24 E. Washington

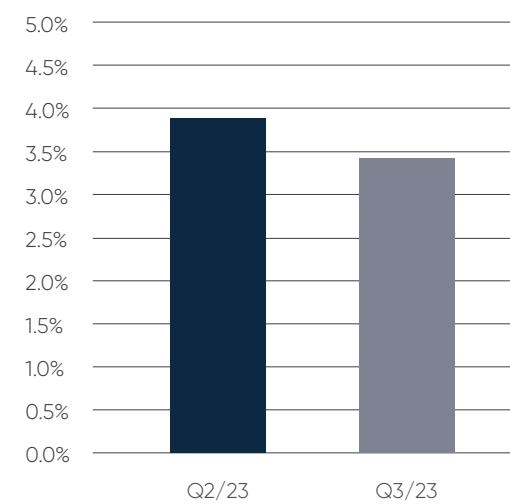
NEW LEASE

ARGO GROUP
(20,900 SF)
24 E. Washington



SUBLET AVAILABILITY RATE

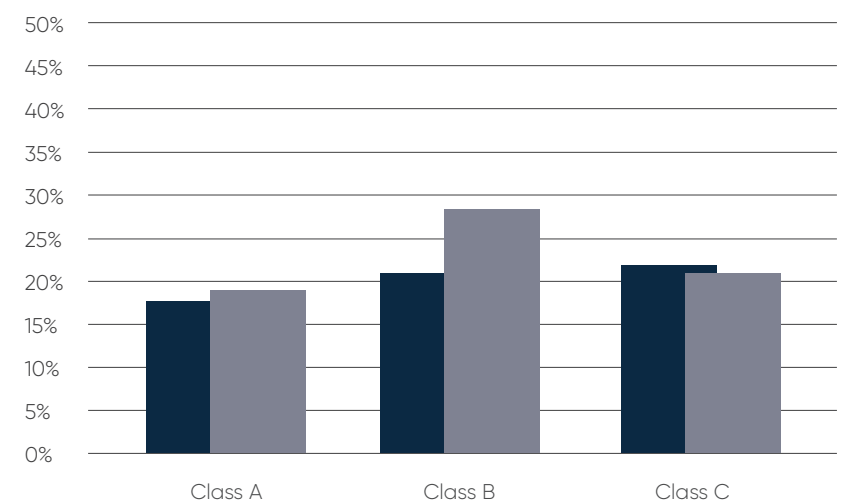
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q2/23 ● Q3/23



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q3/23 NET ABSORPTION	2023 YTD NET ABSORPTION
EAST LOOP	26,526,134	510,118	26.3%	3.5%	21.6%	1.2%	\$39.37	(247,641)	(460,081)
CLASS A	17,754,498	1,044,382	24.5%	4.5%	19.1%	1.4%	\$43.78	(282,246)	(379,847)
CLASS B	6,069,797	337,211	32.9%	2.0%	28.9%	1.3%	\$33.79	2,173	(11,081)
CLASS C	2,701,839	158,932	23.4%	0.3%	20.9%	0.1%	\$26.69	32,432	(69,153)

FULTON MARKET

- In Q3/23, the direct vacancy rate dropped to 16.2%, which is a significant drop compared to the 18% seen in the previous quarter.
- Fulton Market is the only submarket in the CBD that posted positive absorption in Q3/23 with 150,000 s.f. of net absorption. This submarket has seen positive absorption figures every year since 2016—a significant achievement at a time when office buildings in major urban centers are facing record levels of distress.
- The largest lease signed in Fulton Market this quarter was by Greenberg Traurig. The law firm decided to transition from their long-time home at 77 W. Wacker in the Central Loop to a 78,000 s.f. space at 360 N. Green.

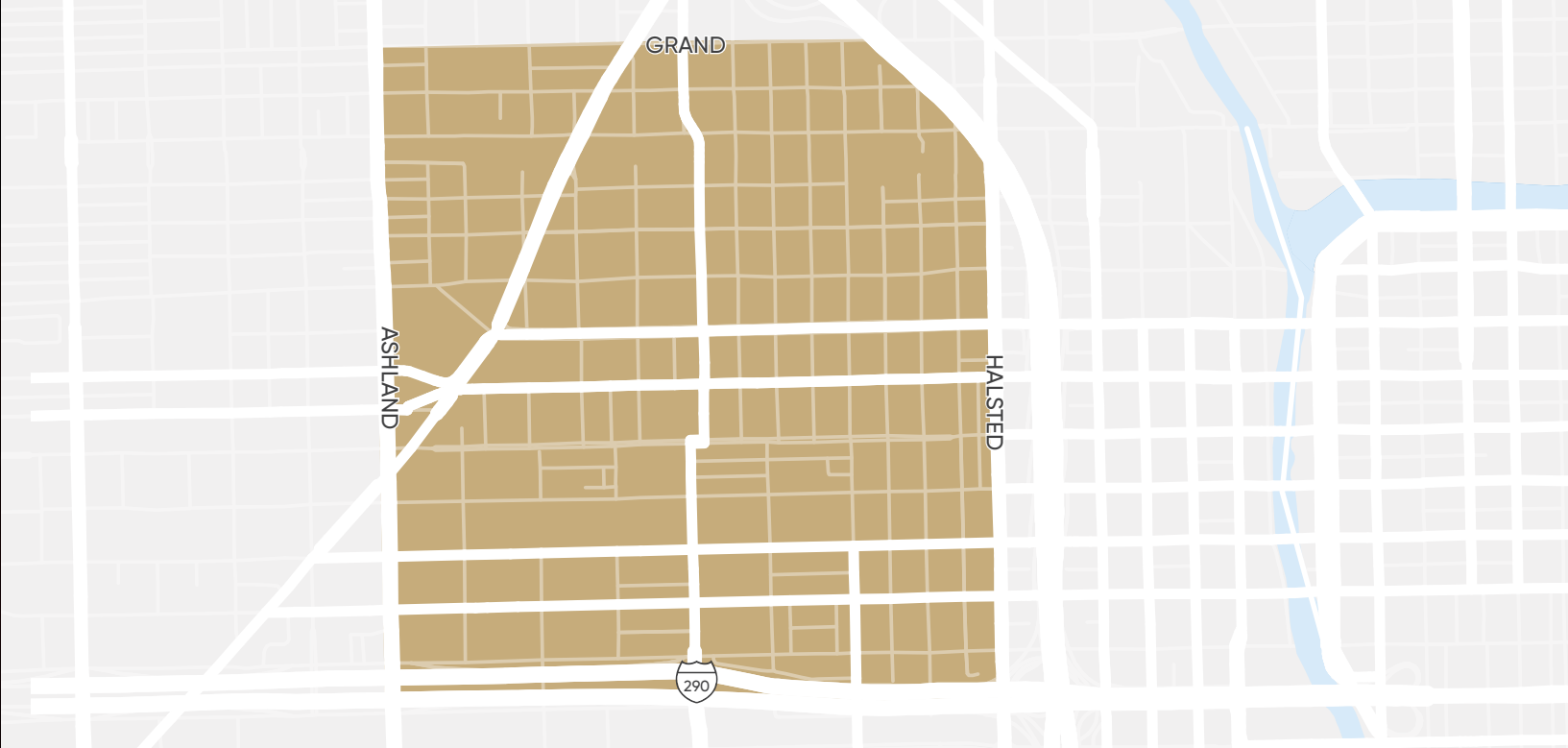
MARKET MOVEMENT

NEW LEASE

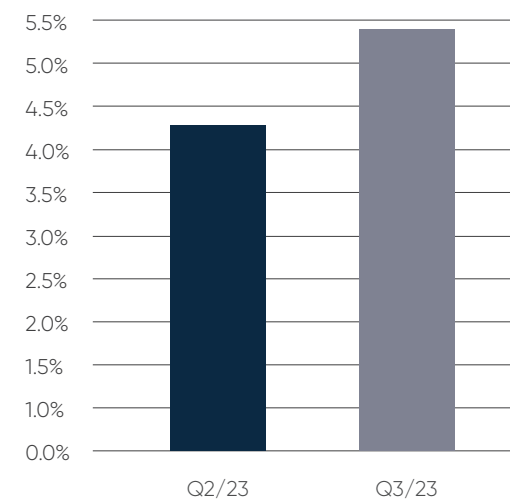
GREENBERG
TRAURIG
(78,552 SF)
360 N. Green

NEW LEASE

CHAN
ZUCKERBURG
(28,200 SF)
400 N. Aberdeen

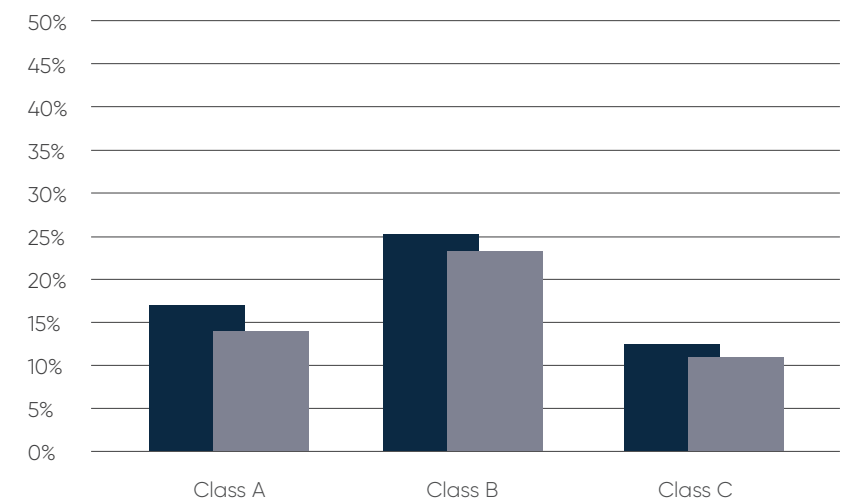


SUBLET AVAILABILITY RATE Quarter Over Quarter



DIRECT VACANCY RATE Quarter Over Quarter

● Q2/23 ● Q3/23



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q3/23 NET ABSORPTION	2023 YTD NET ABSORPTION
FULTON MARKET	9,269,222	111,677	17.8%	5.5%	16.2%	2.6%	\$44.15	149,184	461,657
CLASS A	5,354,858	281,835	15.5%	7.5%	14.3%	3.7%	\$54.67	19,389	350,405
CLASS B	2,481,542	63,629	25.8%	1.3%	23.4%	0.1%	\$34.18	50,664	20,107
CLASS C	1,432,822	57,313	13.0%	5.1%	10.5%	3.0%	\$31.58	79,131	91,145

NORTH MICHIGAN AVENUE

- In Q3/23, the direct vacancy rate remained relatively unchanged at 13.7%. North Michigan Avenue consistently posts the highest occupancy rates of any submarket in Chicago's CBD.
- Absorption levels improved compared to the previous quarter but remained negative with -29,000 s.f. of net absorption in Q3/23.
- Notable lease deals include Scale Marketing's decision to occupy approximately 17,000 s.f. at 515 N. State.

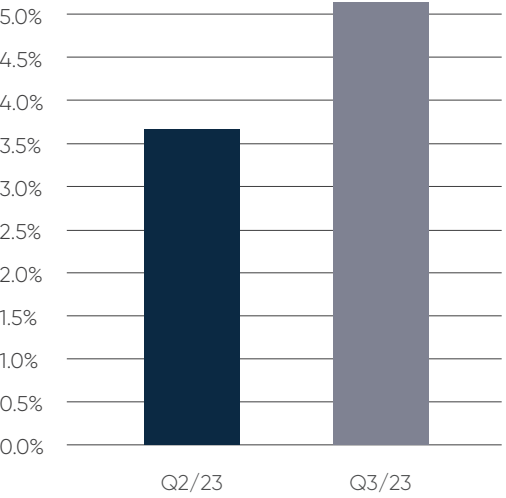
MARKET MOVEMENT

SUBLEASE

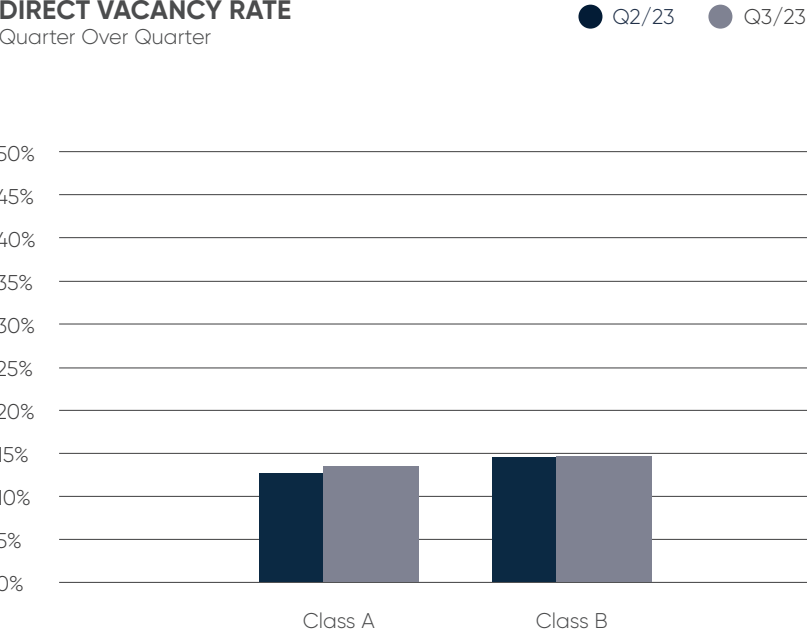
SCALE
MARKETING
(16,820 SF)
515 N. State



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



Submarket & Asset Class	Total Square Footage	Average Building Size	Direct Availability Rate	Sublet Availability Rate	Direct Vacancy Rate	Sublet Vacancy Rate	Average Gross Asking Rate	Q3/23 Net Absorption	2023 YTD Net Absorption
N.MICHIGAN AVE	13,809,787	354,097	15.6%	3.5%	13.7%	1.8%	\$45.61	(29,075)	(71,252)
CLASS A	9,809,319	613,082	14.9%	4.4%	13.2%	2.4%	\$50.53	(30,173)	(52,281)
CLASS B	3,798,929	189,946	16.9%	0.8%	14.7%	0.3%	\$35.58	1,098	(18,971)
CLASS C	201,539	67,180	20.3%	5.2%	18.7%	0.0%	\$26.81	0	0

RIVER NORTH

- In Q3/23, the direct vacancy rate slightly increased to 20.3% while the sublease availability rate remained relatively unchanged.
- After a positive second quarter, absorption levels turned negative with -110,000 s.f. of net absorption through Q3/23.
- The largest lease of the quarter within the CBD was in River North, with Winston & Strawn taking up 150,000 s.f. at the refurbished 300 N. LaSalle. The decision echoes the trend of other companies right-sizing their office space, as the Chicago-based law firm is reducing their overall footprint by more than 40%.

MARKET MOVEMENT

BUILDING DISTRESS

3 BUILDINGS
(670,000 SF)
of available space

NEW LEASE

WINSTON & STRAWN
(150,000 SF)
300 N. LaSalle

SUBLEASE

GOHEALTH
(89,492 SF)
222 Merchandise Mart

SUBLEASE

GELBER
(29,993 SF)
350 N. Orleans

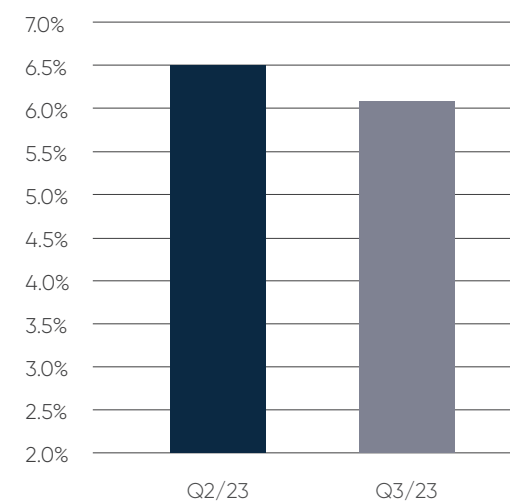
RENEWAL/ EXPANSION

RWE
(57,000 SF)
353 N. Clark



SUBLET AVAILABILITY RATE

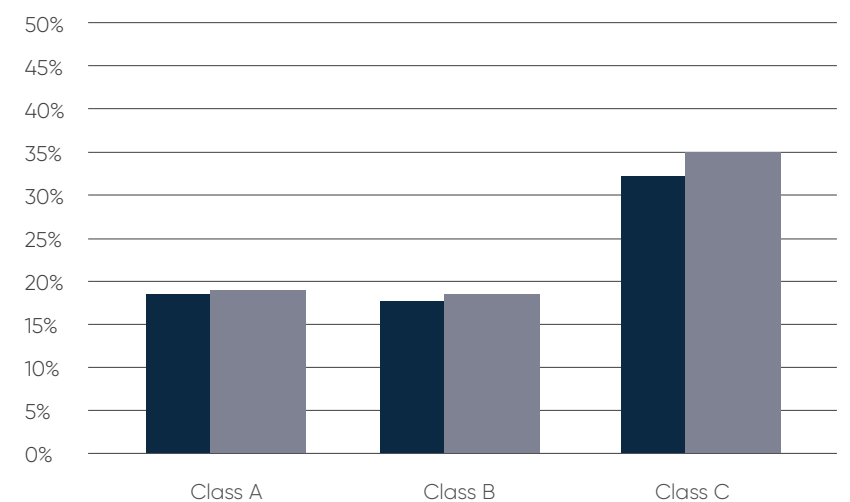
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q2/23 ● Q3/23



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q3/23 NET ABSORPTION	2023 YTD NET ABSORPTION
RIVER NORTH	18,586,156	175,341	25.1%	6.2%	20.3%	4.2%	\$43.76	(109,995)	(83,065)
CLASS A	12,680,111	905,722	24.1%	8.4%	19.4%	5.9%	\$51.14	(59,873)	202,867
CLASS B	4,509,770	68,330	24.0%	1.7%	18.0%	0.8%	\$31.19	(13,889)	(131,822)
CLASS C	1,396,275	53,703	379%	0.7%	35.0%	0.0%	\$26.87	(36,233)	(154,110)

WEST LOOP

- In Q3/23, the direct vacancy rate remained steady, sitting at 18.7%.
- Absorption figures continued trending downward with -153,000 s.f. of net absorption through the quarter.
- West Loop commands the highest rental rate of any submarket in Chicago's CBD with an average gross asking rate of more than \$48 p.s.f.
- The only office transaction of the quarter took place in the West Loop, with the sale of 230 W. Monroe. Oregon-based Menashe Properties purchased the building for \$45 million, less than \$65 p.s.f., which is a massive discount compared to the previous purchase price of \$122 million (\$173 p.s.f.) in 2014. This is the first major office sale in Chicago's CBD in more than a year.
- Notable lease deals include Lockton Companies' decision to occupy more than 66,000 s.f. at 500 W. Monroe.

MARKET MOVEMENT

BUILDING DISTRESS

3 BUILDINGS
(620,000 SF)
of available space

RENEWAL/ EXPANSION

LOCKTON
COMPANIES
(66,726 SF)
500 W. Monroe

NEW LEASE

BAKERHOSTETLER
(27,747 SF)
1 N. Wacker

NEW LEASE

STELLAR CAREER
COLLEGE
(20,647 SF)
205 W. Randolph

NEW LEASE

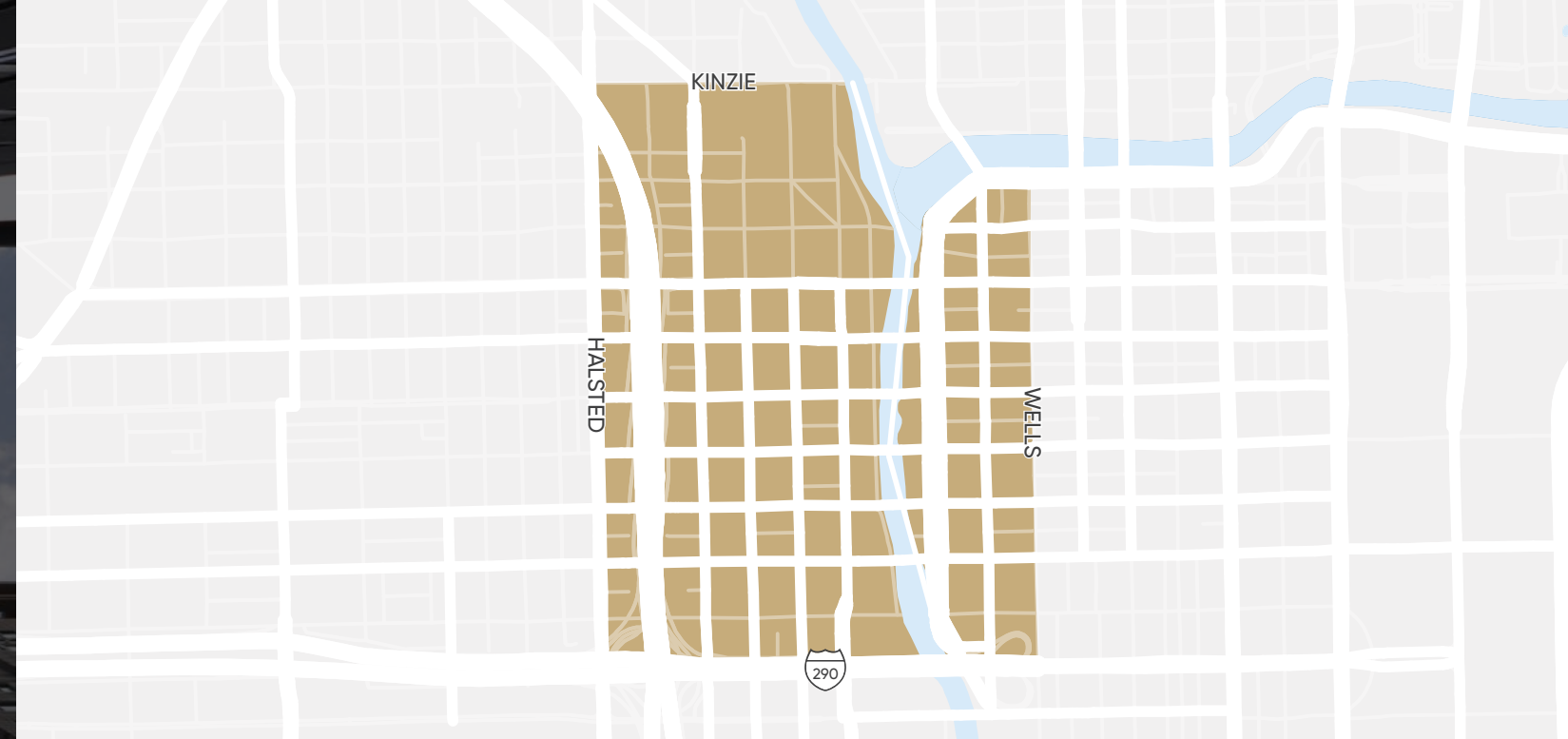
ALIGHT
SOLUTIONS
(16,018 SF)
320 S. Canal

NEW LEASE

RAYMOND JAMES
(73,706 SF)
120 S. Riverside

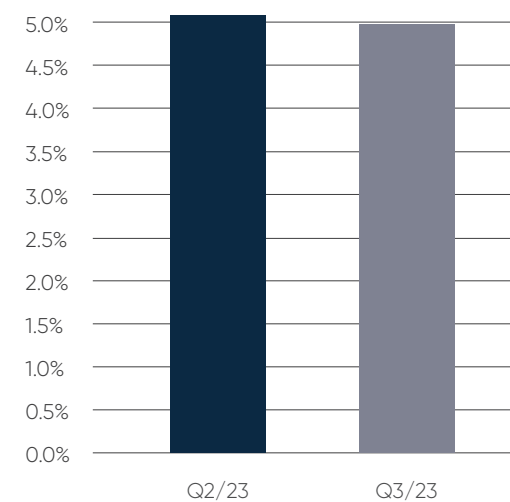
INVESTMENT SALE

MENASHE
PROPERTIES
(707,000 SF)
230 W. Monroe



SUBLET AVAILABILITY RATE

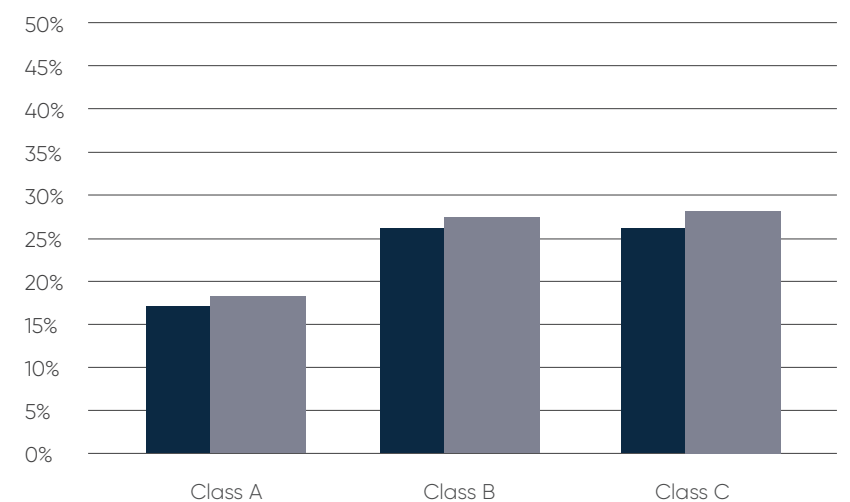
Quarter Over Quarter



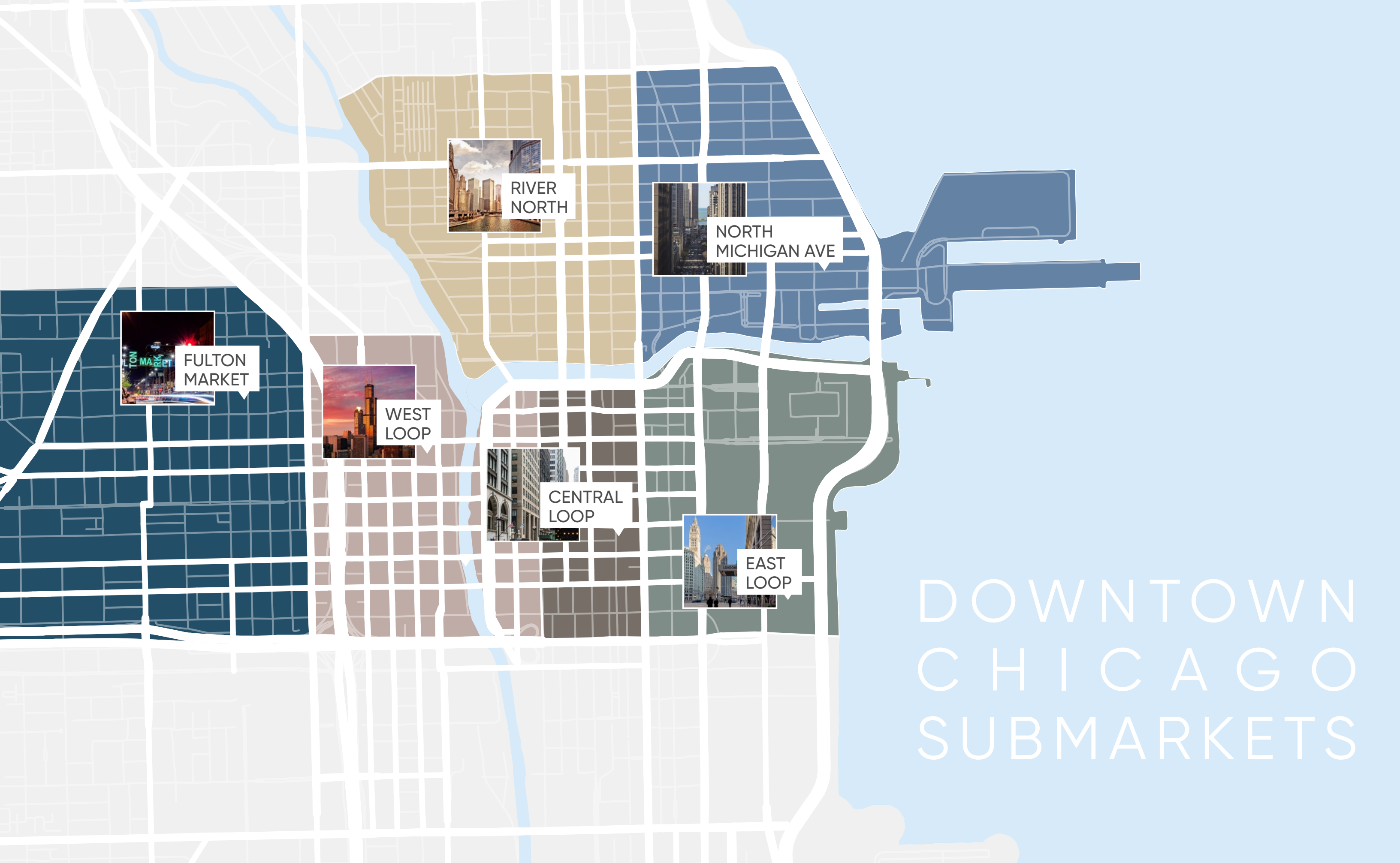
DIRECT VACANCY RATE

Quarter Over Quarter

● Q2/23 ● Q3/23



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q3/23 NET ABSORPTION	2023 YTD NET ABSORPTION
WEST LOOP	56,387,767	547,454	22.7%	5.0%	18.7%	2.8%	\$48.40	(153,320)	(533,286)
CLASS A	46,453,190	929,064	21.4%	5.3%	17.0%	2.8%	\$51.57	(117,009)	(179,269)
CLASS B	8,934,996	223,375	29.0%	3.8%	26.7%	2.8%	\$38.17	(22,034)	(287,531)
CLASS C	999,581	76,891	25.7%	1.5%	27.3%	1.2%	\$29.29	(14,277)	(66,486)



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