



NEWMARK

Chicago CBD: Office Market Report

1Q26



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Chicago CBD Market Observations



Economy

- The Chicagoland labor market experienced a nuanced start to 2026, with the unemployment rate ticking up from 5.0% to 5.2% in January.
- Despite the rising unemployment rate, total nonfarm employment in the MSA grew by 14,100 jobs year-over-year, marking 58 consecutive months of overall job growth.
- Conversely, office-using employment contracted sharply, falling 1.0% year-over-year to 999.6K jobs due to heavy first-quarter losses in the Professional and Business Services sector.



Leasing Market Fundamentals

- First-quarter leasing volume reached just 1.69 million square feet, down 34% from 2.57 million square feet in 1Q25, marking the slowest start to a year since 1Q21.
- Total vacancy reached a record high of 26.7%, largely driven by tenants right-sizing their spaces and prolonged vacancies in older, commodity Loop stock.
- Direct asking rents climbed to an all-time high of \$45.15 PSF, rising 5% from \$42.98 in 4Q25.



Major Transactions

- Tenant demand for top-tier space remained evident in the first quarter, highlighted by Mars Snacking establishing its 170,000 SF North American headquarters at 400 N. Aberdeen St. in Fulton Market. Other notable top-tier commitments included IMC's 104,000 SF expansion at Willis Tower, and the Illinois Housing Development Authority signing a 72,000 SF new lease to move to Michigan Plaza.
- Canadian developer Onni Group acquired the 1.1 million-square-foot tower at 161 N. Clark St. for \$125 million (\$113/PSF), financed by a \$156.7 million acquisition loan from Barings. The transaction was a sharp discount from its prior \$331 million sale price in 2013 and follows a \$237 million foreclosure by Société Générale on the previous Korea Post-led ownership group.



Outlook

- The CBD office market will remain firmly tenant-favorable throughout 2026 as office-using employment softens and occupiers prioritize renewals over large-scale expansions.
- The construction pipeline is now entirely empty following the recent delivery of 919 W. Fulton, which will cap new supply and support rent stability for existing top-tier assets.
- Office conversions will serve as a critical release valve, with 3.54 million SF of planned projects—71% of which are in the Central Loop—helping to permanently extract obsolete floorplates and right-size the corporate core.

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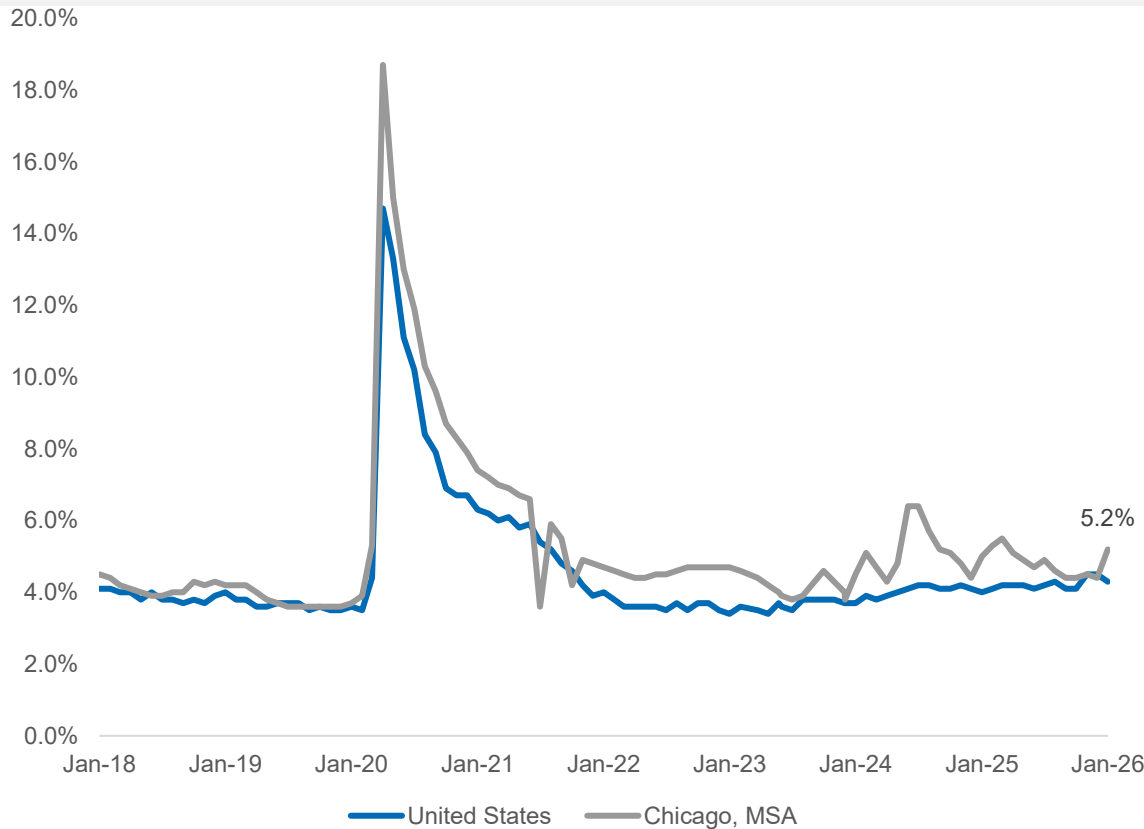
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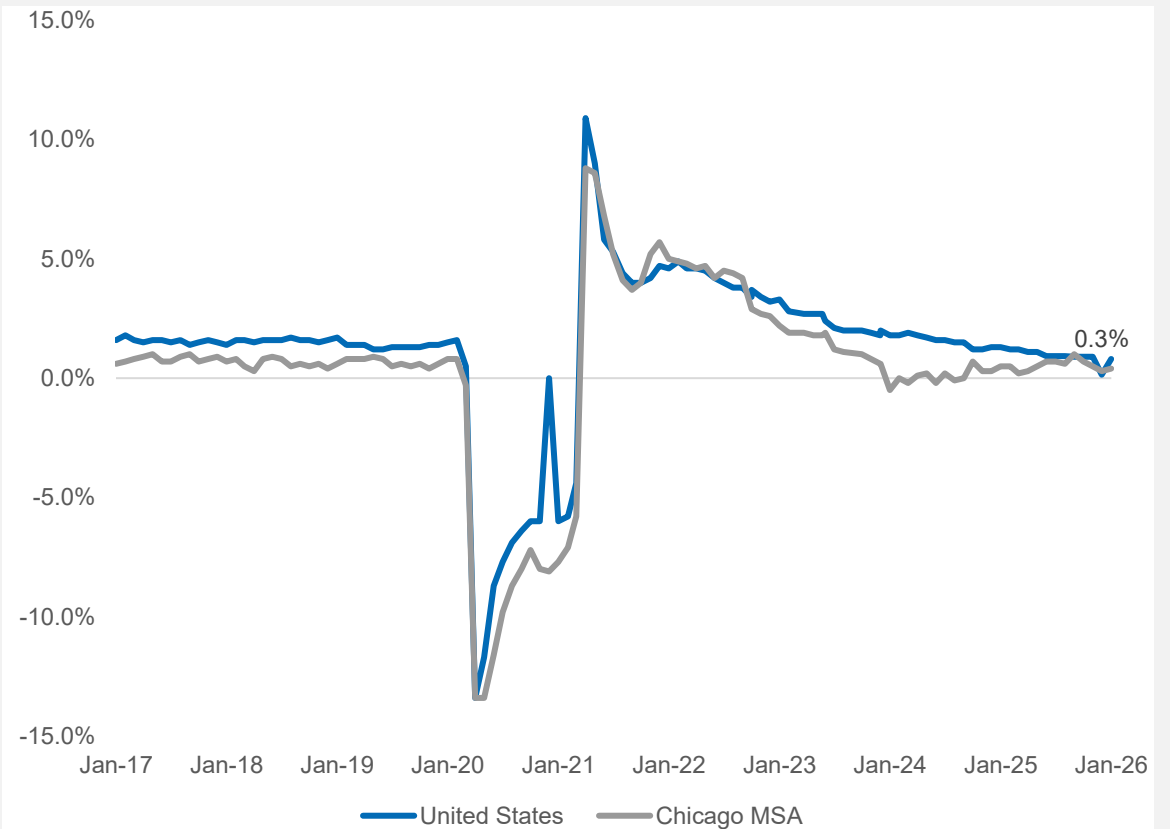
Unemployment Declines Amid Modest Job Growth

The Chicagoland area began 2026 with a nuanced labor market, experiencing its 58th consecutive month of year-over-year job growth. Total nonfarm employment in the MSA increased by 14,100 jobs compared to January 2025. However, the unemployment rate ticked up to 5.2% in January 2026 from 5.0% the previous year, reflecting a statewide trend of rising unemployment amidst broader economic shifts and a "low-hire, low-fire" dynamic.

Unemployment Rate, Seasonally Adjusted



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



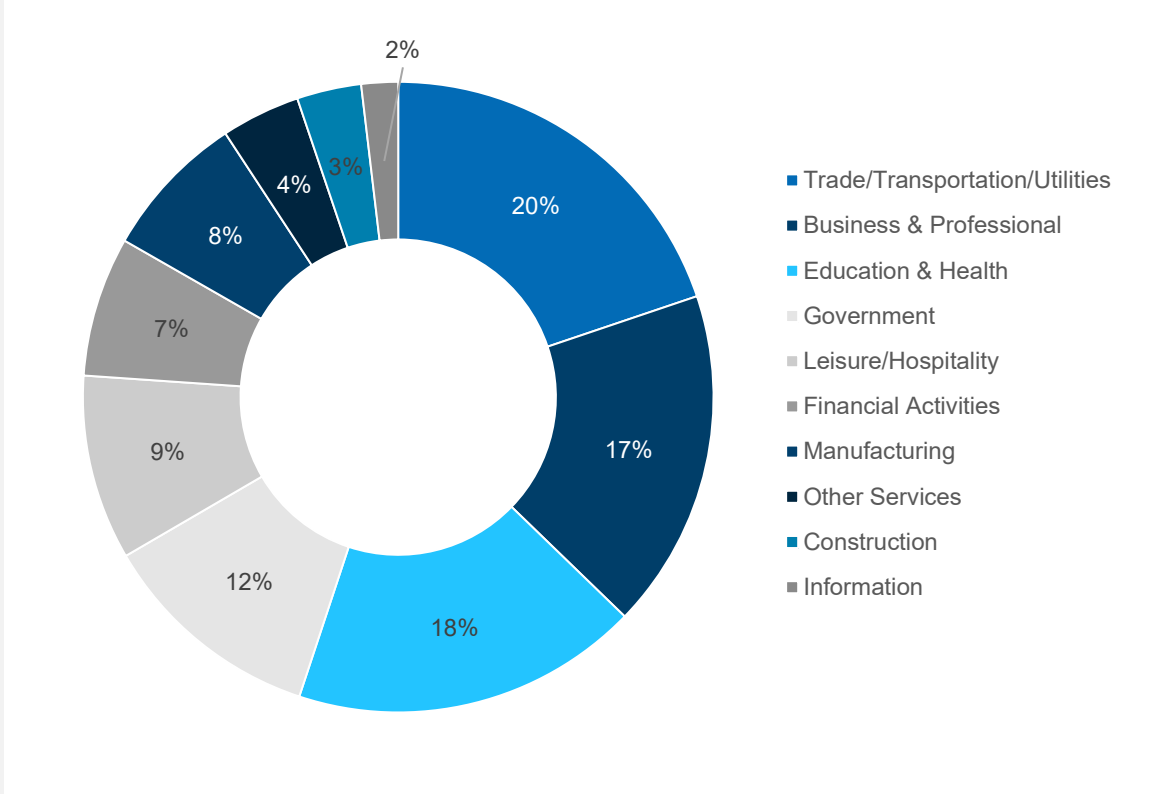
Source: U.S. Bureau of Labor Statistics, Chicago MSA

* Due to the federal government shutdown, some year-end 2025 employment data was unavailable.

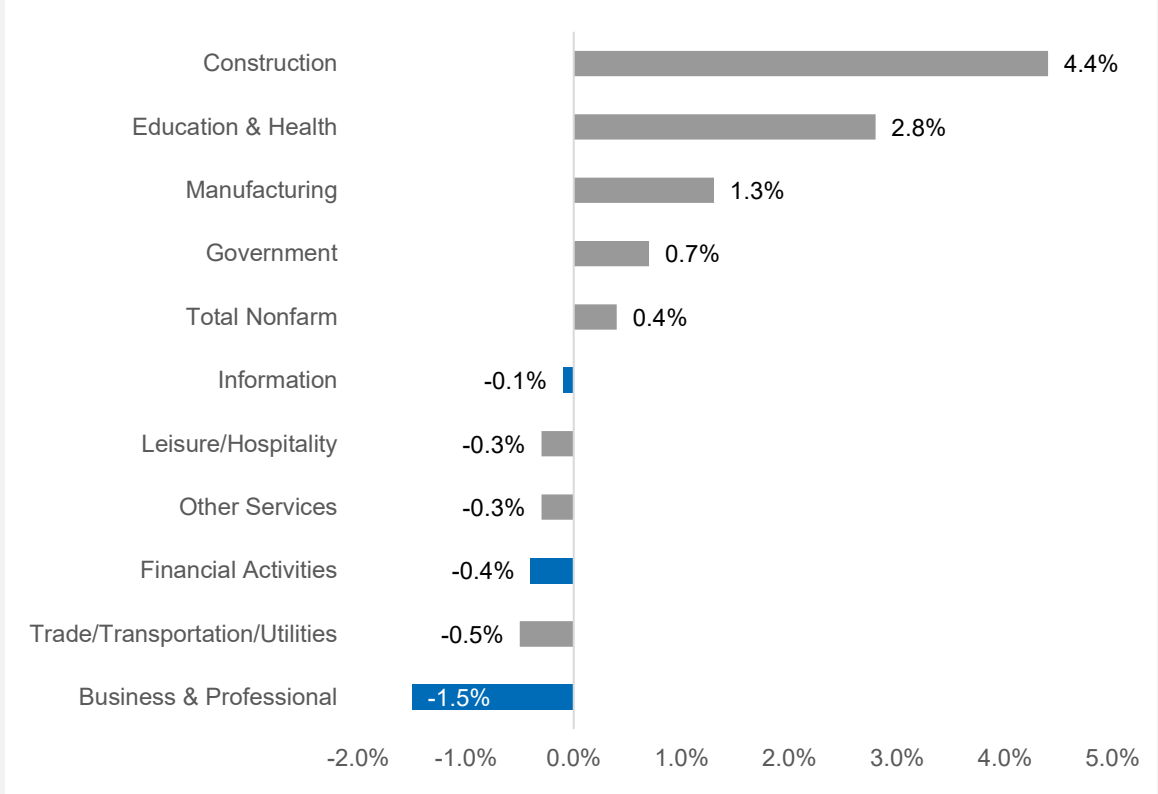
Chicago MSA Employment: Modest Growth Amid Sector Divergence

In January 2026, the Chicago MSA continued to post modest employment growth, with total nonfarm employment up 0.4% year-over-year. Gains were concentrated in Construction (+4.4%), Education and Health Services (+2.8%), Manufacturing (+1.3%), and Government (+0.7%), underscoring a market reliant on a mix of institutional growth and selective industrial expansion. However, headwinds remain pronounced across several core sectors, as Professional and Business Services (-1.5%), Trade, Transportation, and Utilities (-0.5%), and Financial Activities (-0.4%) continued to contract, alongside declines in Other Services (-0.3%) and Leisure and Hospitality (-0.3%). Overall, employment growth remains positive but uneven, with ongoing softness in key office-using and traditional logistics sectors - consistent with national trends.

Employment by Industry, January 2026



Employment Growth by Industry, 12-Month % Change, January 2026

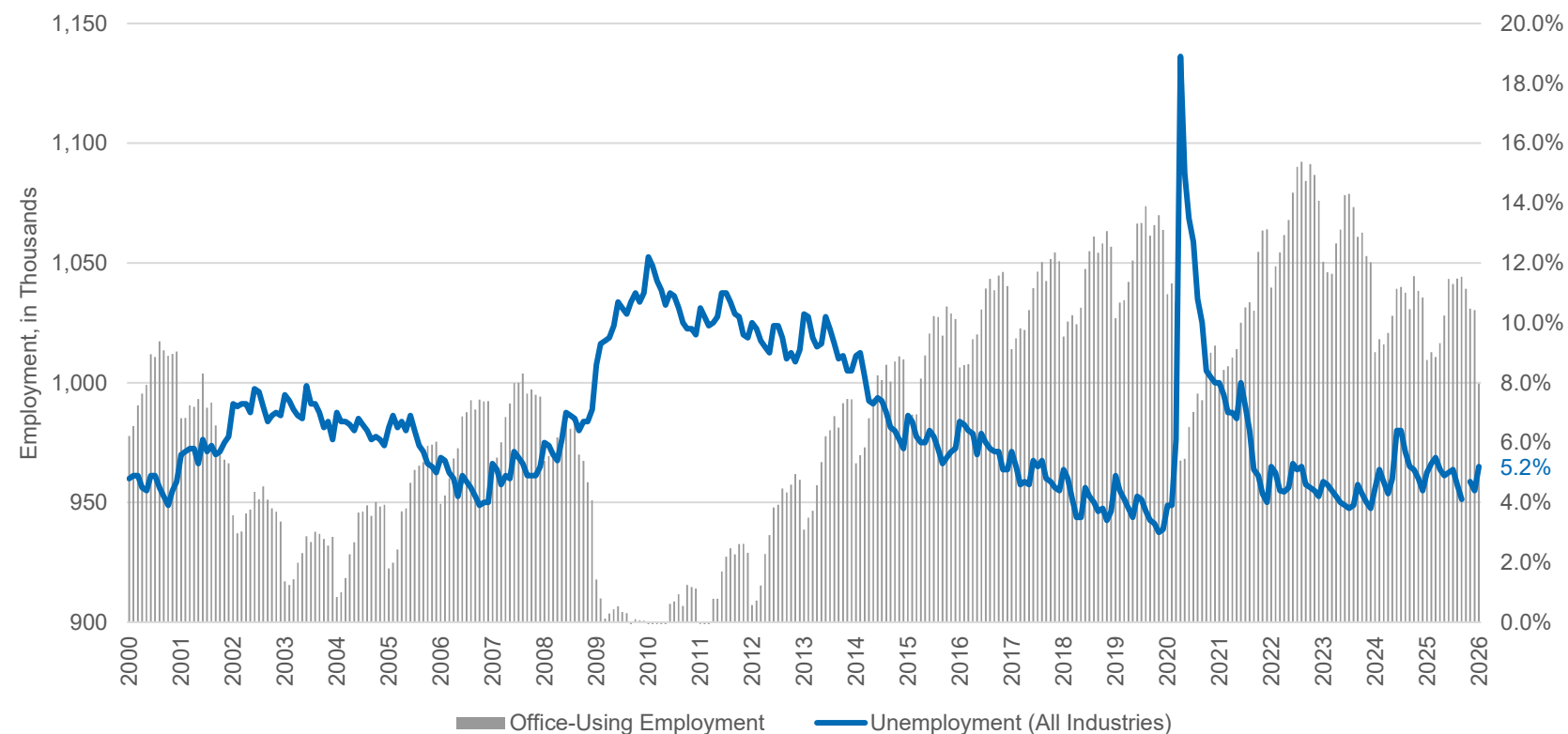


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Sharp Contraction in Office-Using Employment Erases 2025 Gains

Chicago MSA office-using employment dropped sharply in early 2026, erasing 2025's growth to fall just under one million. This 100-basis point year-over-year decline marks a swift reversal from September's 1.04 million peak, driven by 4Q headwinds including the government shutdown. Losses were heavily concentrated in Professional and Business Services, which plunged 3.9% month-over-month in January. Financial Activities also fell from mid-year peaks, and a modest 3.1% year-over-year gain in the Information sector was not enough to offset the broader market contraction.

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.

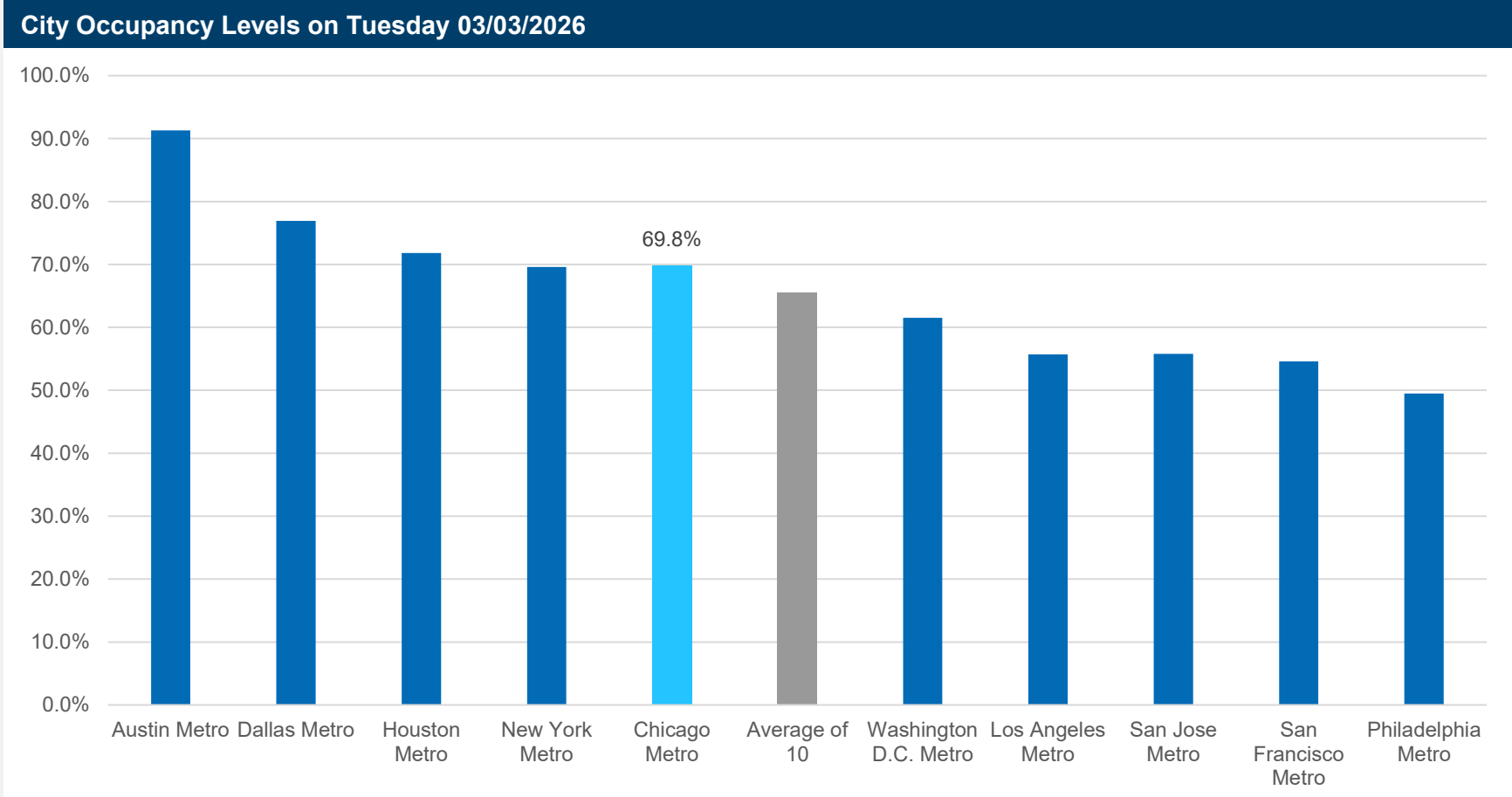
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Leasing Market Fundamentals



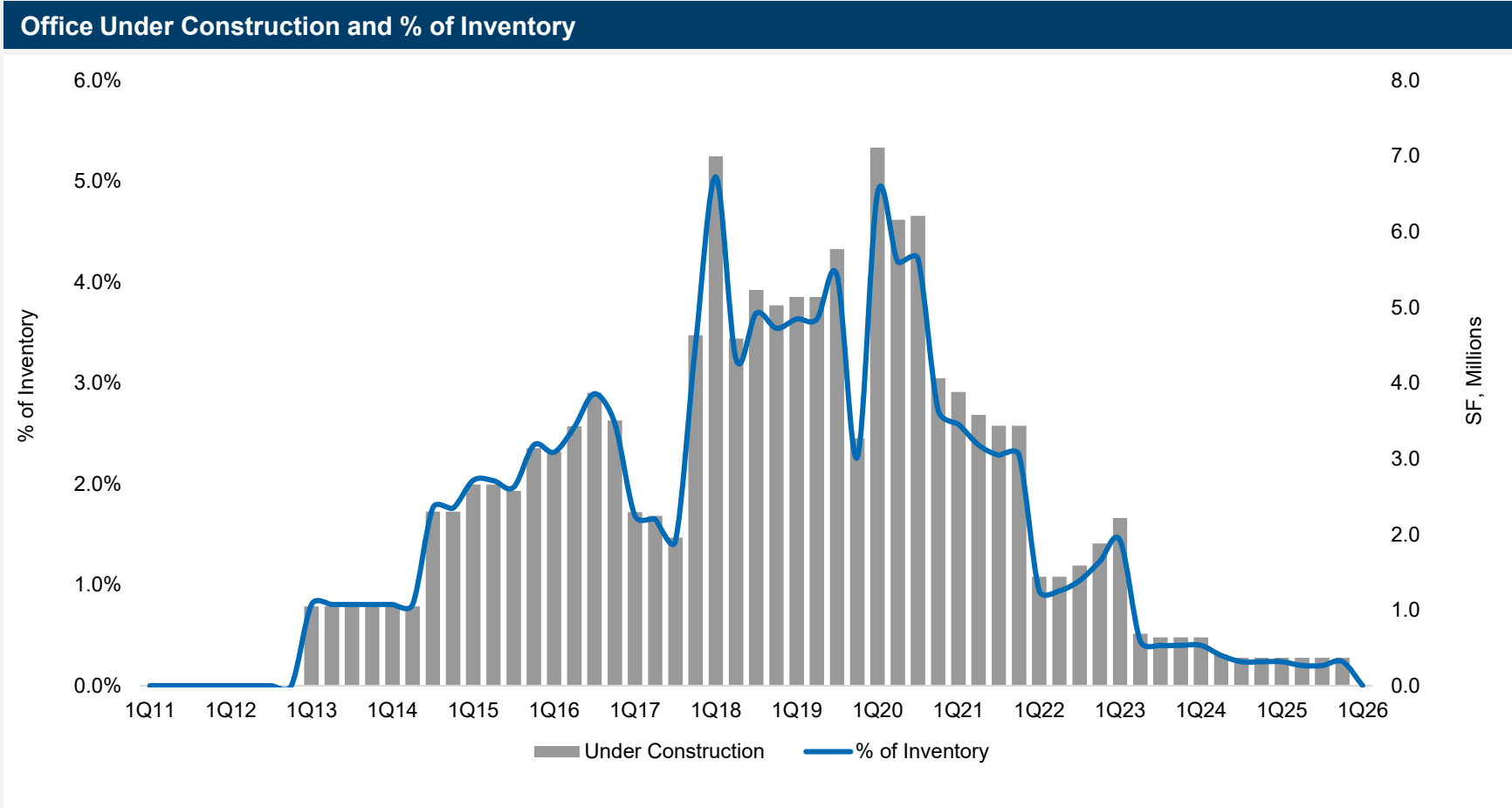
Chicago Boasts One of the Highest Office Occupancies in the U.S.

According to Kastle data, hybrid work patterns reveal that office occupancy fluctuates throughout the week, typically peaking on Tuesdays. On the first Tuesday of March, Chicago reported the fourth highest office occupancy in the country, at 69.8%. Average occupancy among the Barometer’s Class A+ buildings was 79.0% and Class A+ peak day occupancy reached 93.7% on March 3rd. Chicago occupancy levels increased this quarter, by 1.4%, while the average of top 10 metros also posted a 2.6% gain.

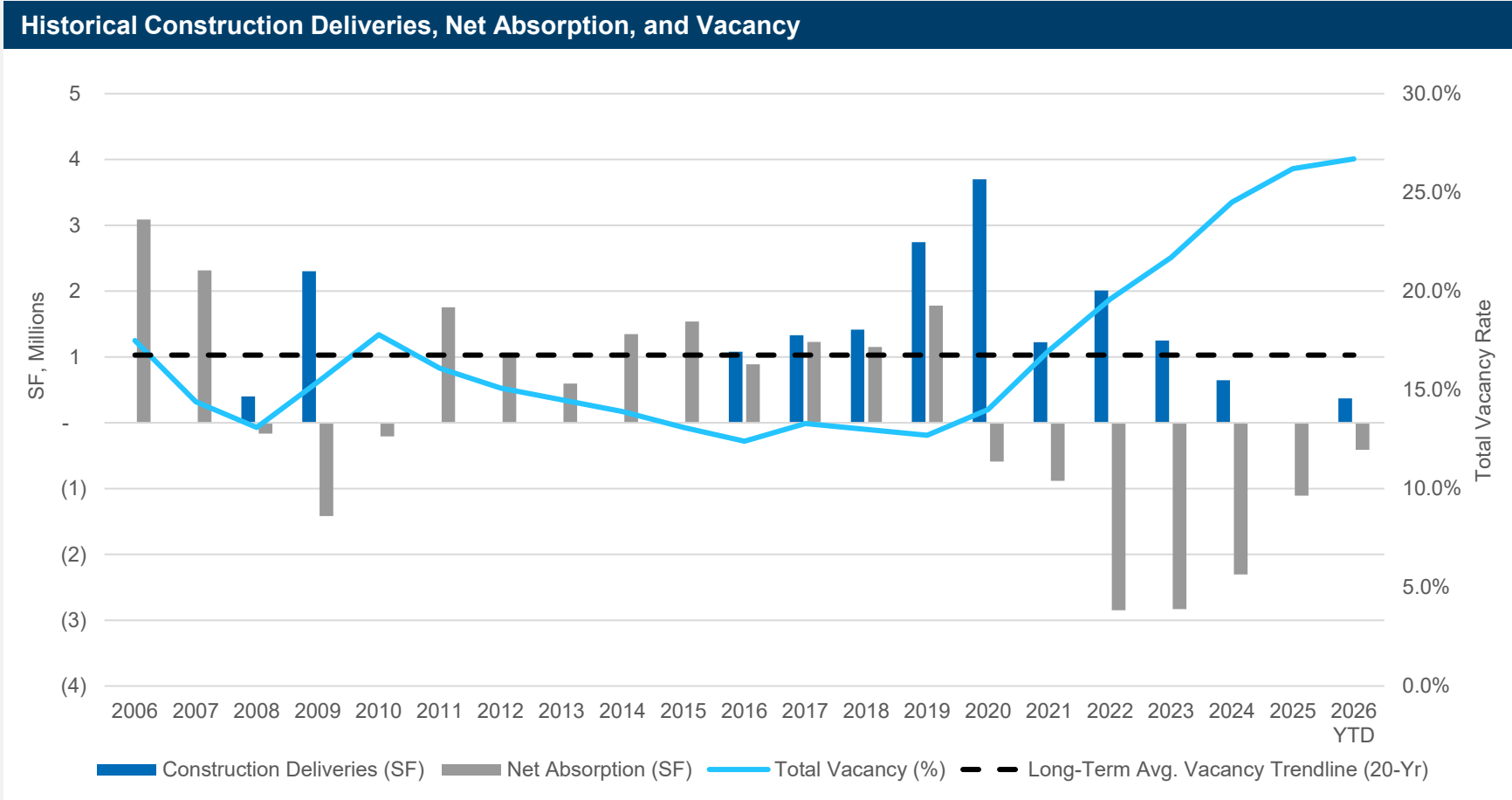


No Office Space Under Construction for First Time Since 2012

When 919 On Fulton delivered in late January, successfully drawing Harrison Street Partners and Blackedge Capital, it officially emptied the Chicago MSA's office construction pipeline. While there are currently no cranes in the sky or pending starts for 2026, this pause in office development creates a prime opportunity as owners of existing trophy and newly renovated assets can now capture high-end tenant demand with virtually no competition from new supply.



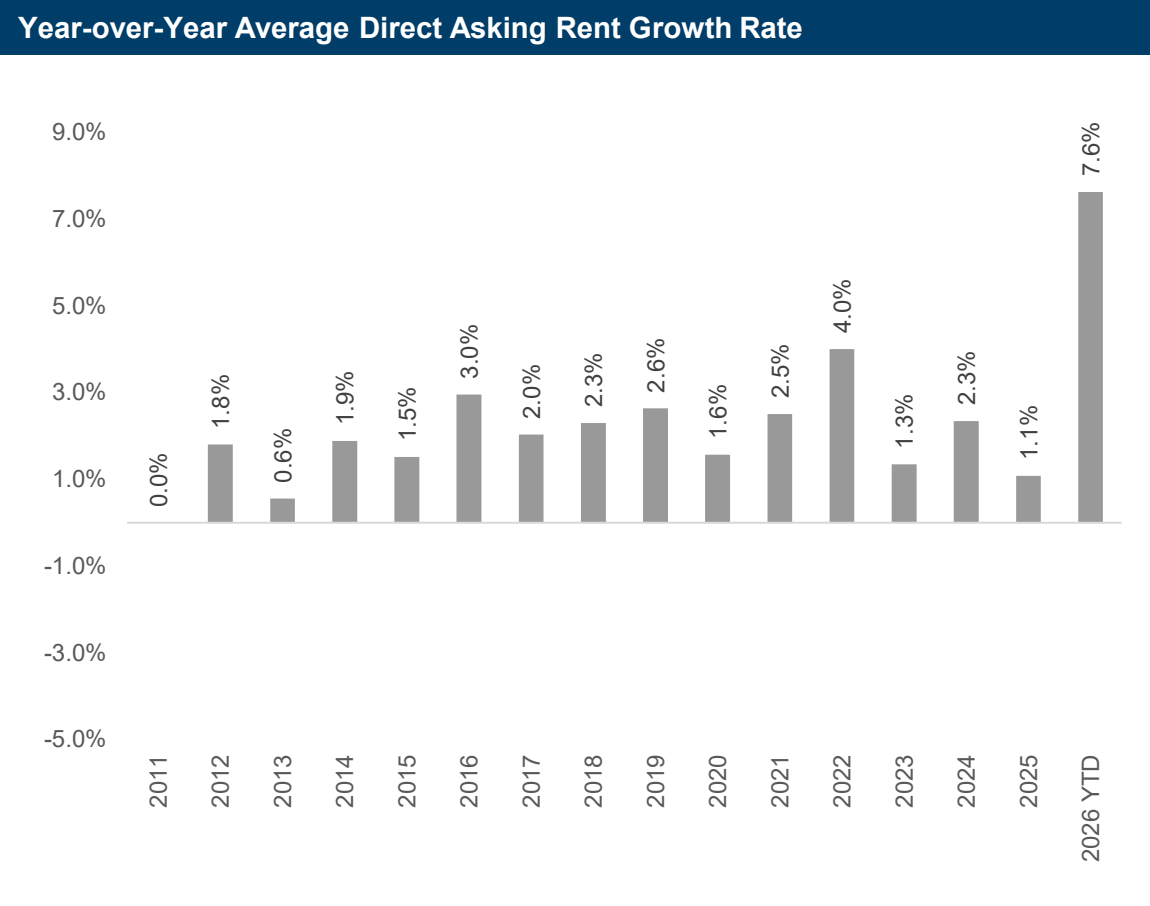
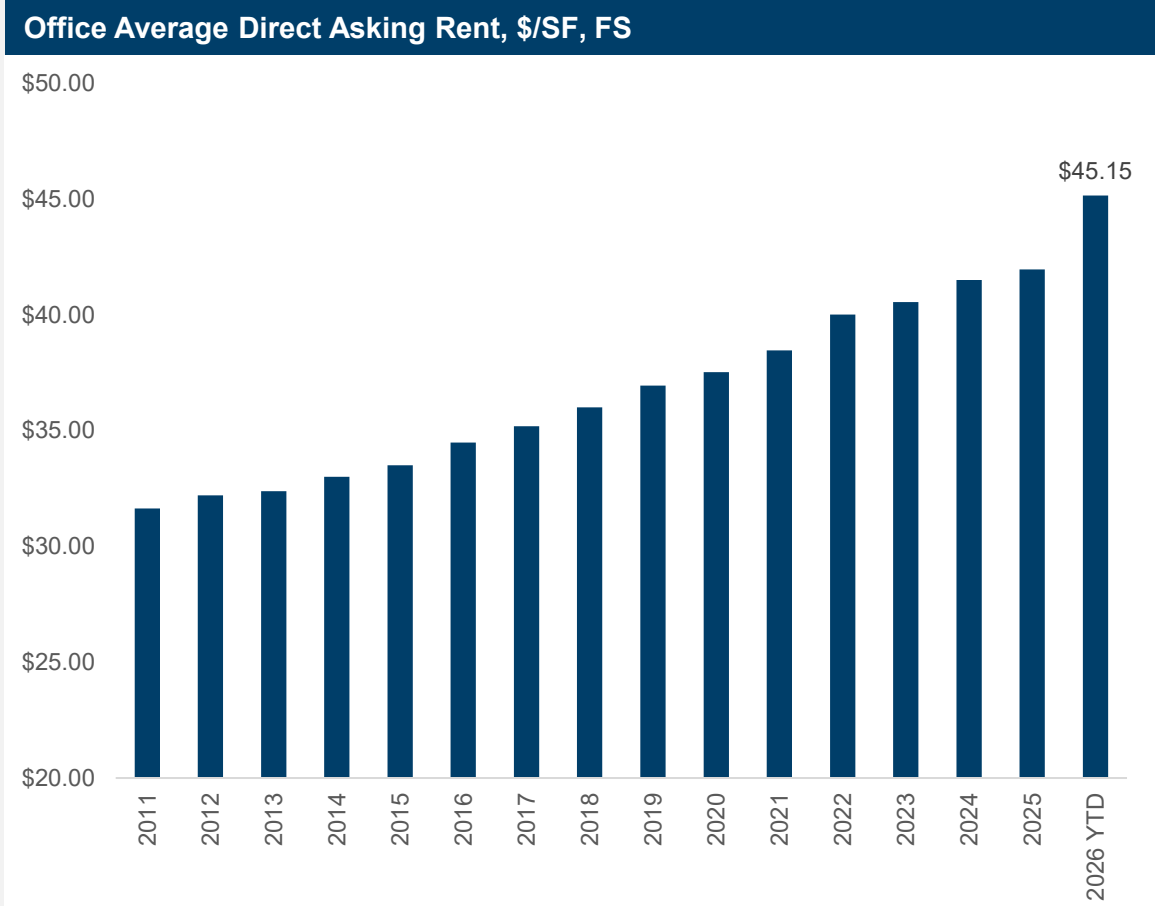
Realignment Continues Amid Elevated Vacancy as Flight-to-Quality Deepens



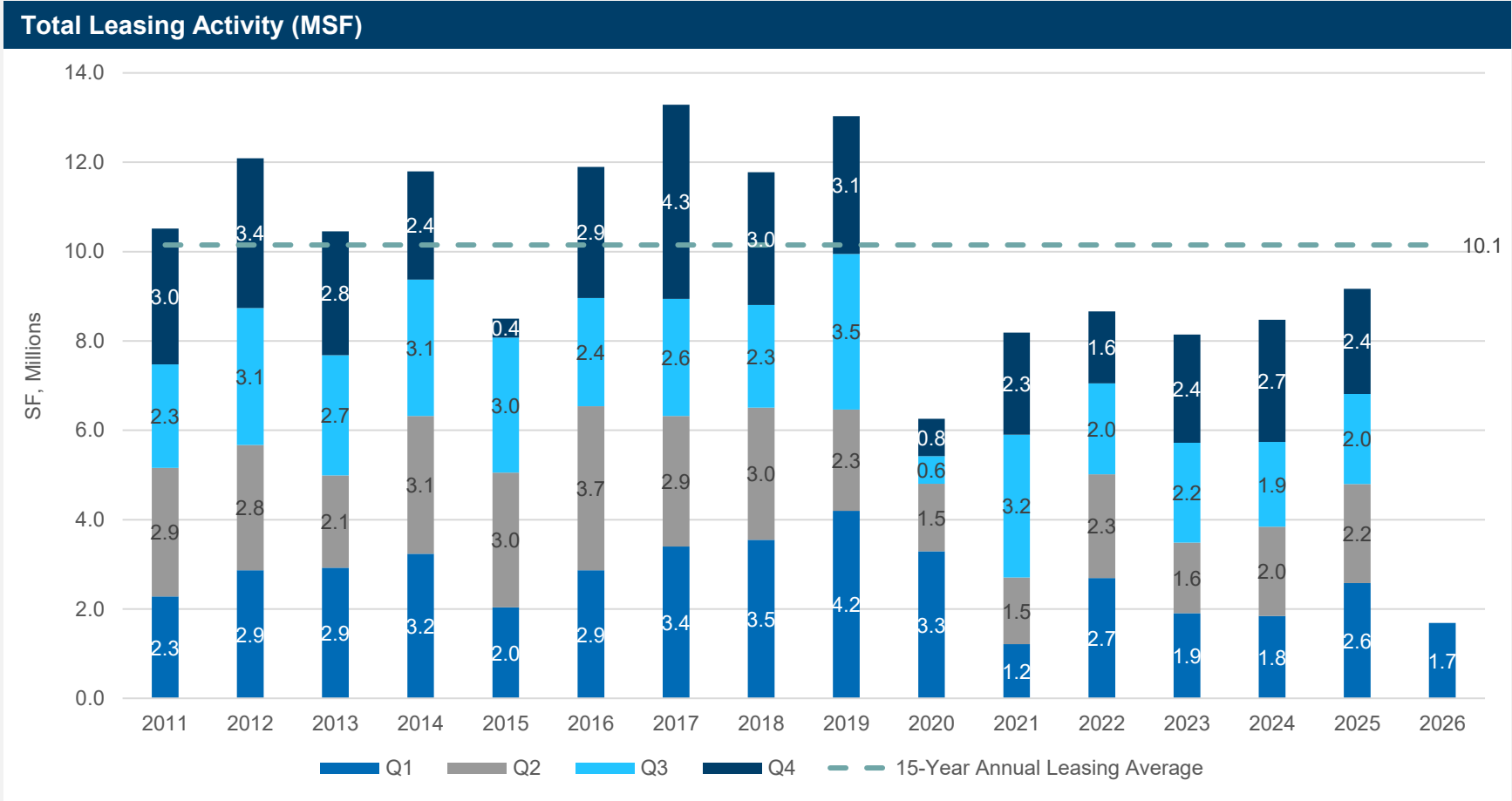
- The Chicago CBD office market opened 2026 in a continued state of bifurcation, with total vacancy reaching a record 26.7% while direct asking rents simultaneously climbed to an all-time high of \$45.15 per SF.
- Demand remains concentrated in Fulton Market and the West Loop, where availability declined and absorption oscillated near breakeven, while the Central Loop recorded its weakest quarter in five periods with accelerating vacancy and deepening occupancy losses.

Direct Asking Rents Reach Historic High Amid Continued Inventory Contraction

Direct asking rents reached \$45.15 per SF in 1Q26, up 10.8% year-over-year from \$40.73 in 1Q25. On a two-year basis, rents have appreciated 11.2% from \$40.61 in 1Q24 and are up 20.6% from the pre-COVID benchmark of \$37.45 in 1Q20. However, the context around it is critical: roughly 3.4 million SF was removed from the report due to conversion or obsolescence. As lower-quality assets exit the comp set, the remaining inventory skews toward higher-rent product, mechanically elevating the submarket average. The rate appreciation likely overstates true landlord pricing power across the broader market, as tenants seek greater concession and abatement packages.



Leasing Slow to Start 2026, But Is Picking Up



- Leasing volume in the Chicago CBD totaled approximately 1.69 MSF in the first quarter, the lowest mark since 4Q22.
- Though few deals were signed, many were executed in March, signaling that tenant activity is increasing as the year continues.
- It is important to note that the leasing activity figure encompasses new deals, renewals, expansions, and space contractions, and therefore does not necessarily translate into meaningfully lower vacancy or positive net absorption.

Top 1Q26 CBD Transactions

In the first quarter of 2026, leasing activity within the CBD totaled just under 1.70 million square feet. Below the quarterly market average of 2.15 million square feet, this is lowest leasing activity total since 2Q23.



The consumer goods manufacturer established its North American HQ in a 170,000 SF lease within 400 N Aberdeen.



The financial services firm expanded again, adding 104,000 SF to its existing 250,000 SF+ footprint at Willis Tower.



The legal services firm renewed and expanded, adding 15,000 SF to its 83,000 SF space at Courthouse Place.



The government services agency is expanding in a relocation to 72,000 SF at Michigan Plaza.

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The expanded version of this report includes:

- **Deeper Tenant and Landlord Strategy Commentary:** Additional analysis on how hybrid work, flight-to-quality, and elevated vacancies are shaping decision-making for occupiers and owners across Chicago’s CBD and suburbs.
- **Capital Markets and Distress Insights:** Enhanced coverage of recent office trades, repricing, and emerging opportunities for value-add, conversion, and recapitalization strategies in challenged assets.
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Submarket Overview



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