2Q25

Chicago CBD Office Supplemental Market Report

NEWMARK

Market Observations

Economy

- The Chicago MSA's unemployment rate declined to 4.9% in May 2025, an improvement from 5.3% earlier in the year.
- Office-occupying industries posted mostly positive results. Financial activities and the information sector saw a 1.5% annual incline. The business & professional services sector contracted by -0.9%.

Leasing Market Fundamentals

- Leasing volume in the Chicago CBD reached 4.1 million square feet in the first half of 2025, above the levels recorded in the first half of 2023 and 2024. While activity is still below the long-term annual average and pre-pandemic peaks, the uptick in early 2025 demonstrates steady tenant engagement.
- Vacancy increased 70 basis points this quarter as the CBD saw approximately 535,000 SF of negative absorption. Year-to-date, total vacancy has risen by 0.5%.
- Meanwhile, competition for Trophy Towers and premium view spaces on the top floors has tightened. Demand for top-tier space in the Central Business District is expected to absorb the limited supply, driving trophy rates higher.

Major Transactions

- The largest lease signed Downtown this quarter was by Golub Capital at The Bell for 205,000 square feet. They will be expanding by about 25,000 square feet.
- 311 S Wacker achieved the highest sale price among office buildings traded Downtown this quarter. The 1.3M SF building sold for $45 million, about $35 per square foot..

Outlook

- The Chicago CBD is likely to encounter continued challenges as property owners face persistent financing hurdles and tenants continue to reassess and downsize their space needs. Strategies to absorb or creatively repurpose existing inventory remain critical to maintaining competitiveness.
- Although leasing and investment activities persist, the office market's uncertainty contributes to a cautious transaction environment. The pace of deal closures is slower as both occupiers and investors exercise increased scrutiny in their decision-making processes.
- Chicago's office market resilience is tested as it navigates an environment lacking a surge in demand. Innovative approaches and adaptive reuse of office spaces will be essential to addressing ongoing lower demand and stabilizing the market.

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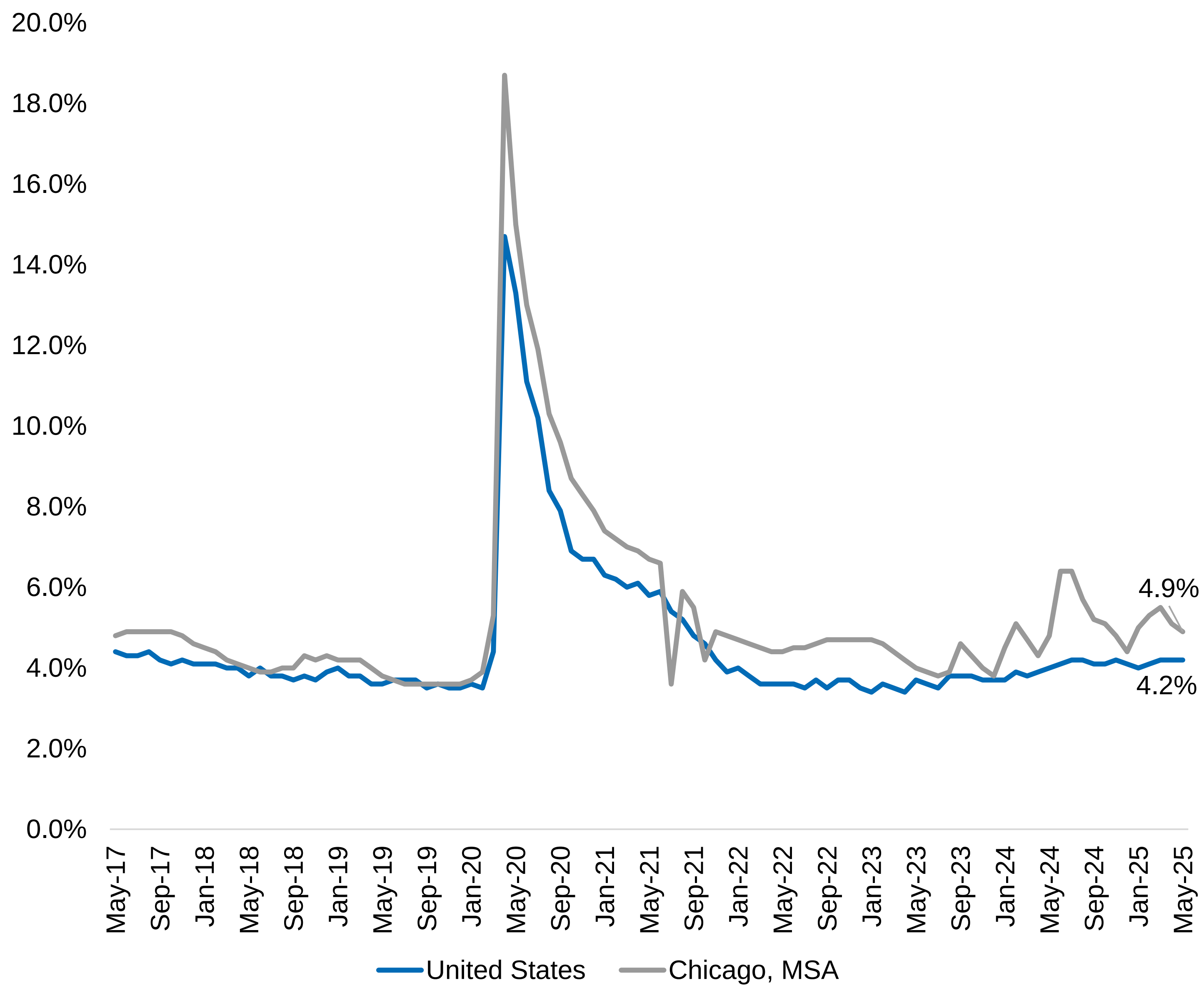
Economy

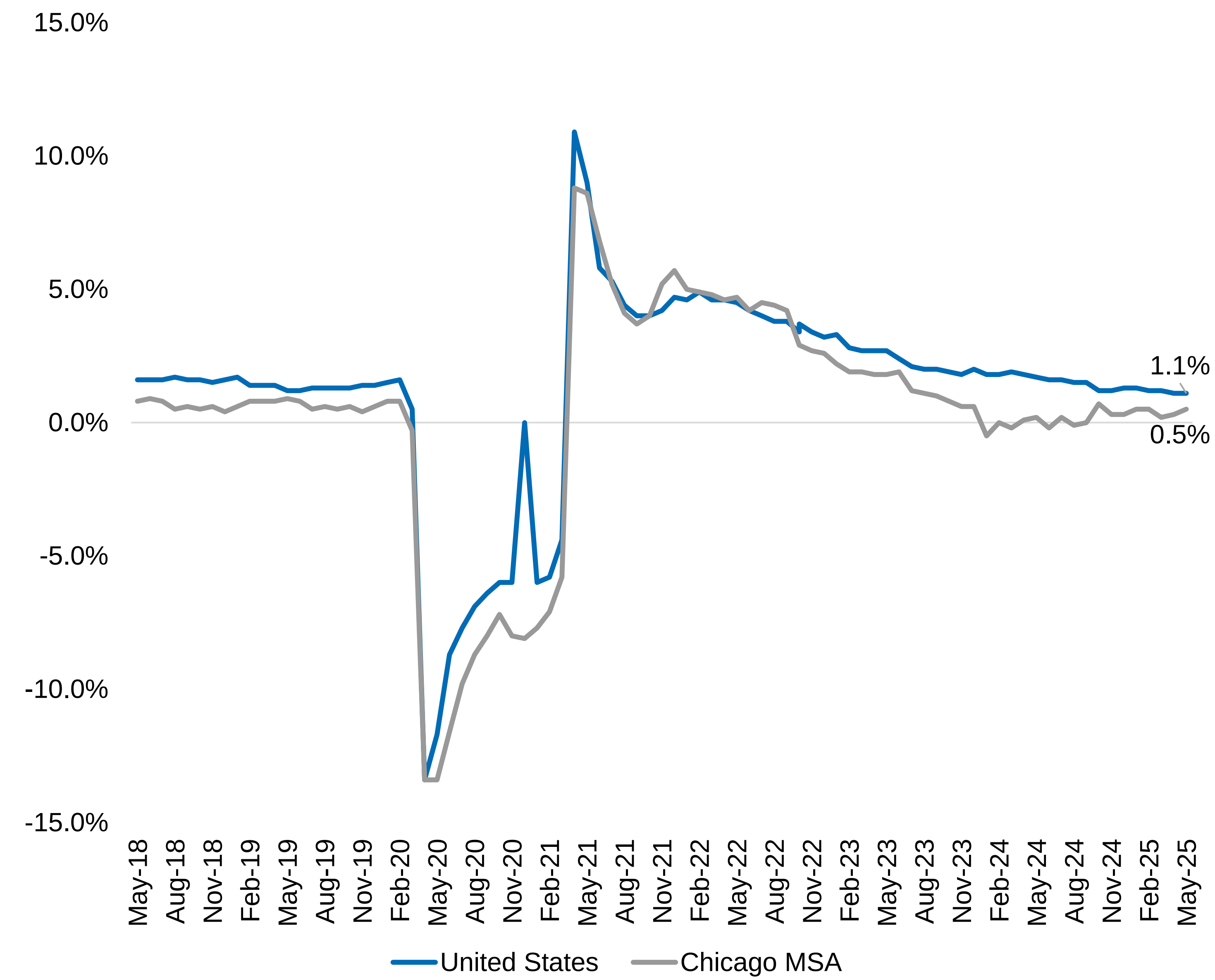
Labor Market Shows Steady Recovery with Gradual Job Growth

The Chicago MSA's unemployment rate declined to 4.9% in May 2025, an improvement from 5.3% earlier in the year, while the U.S. rate remained steady at 4.2%. Meanwhile, Chicago's annual nonfarm payroll employment growth returned to positive territory at 0.5% in May, continuing a gradual upward trend after stagnating in late 2023 and early 2024. While local labor market conditions remain more challenging than the national average, recent data reflects a slow but consistent recovery in both employment and job creation across the region.

Unemployment Rate, Seasonally Adjusted



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

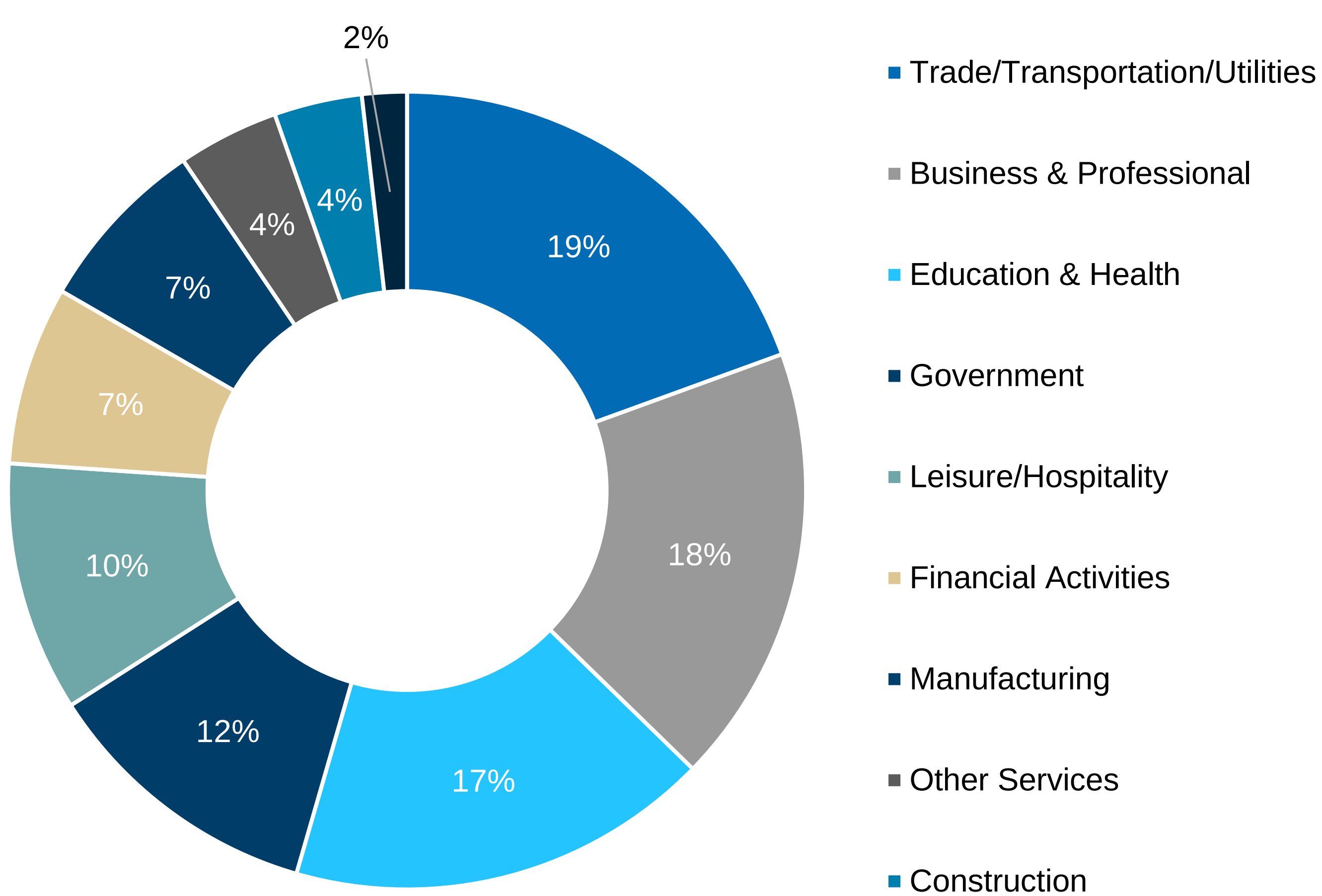


Source: U.S. Bureau of Labor Statistics, Chicago MSA

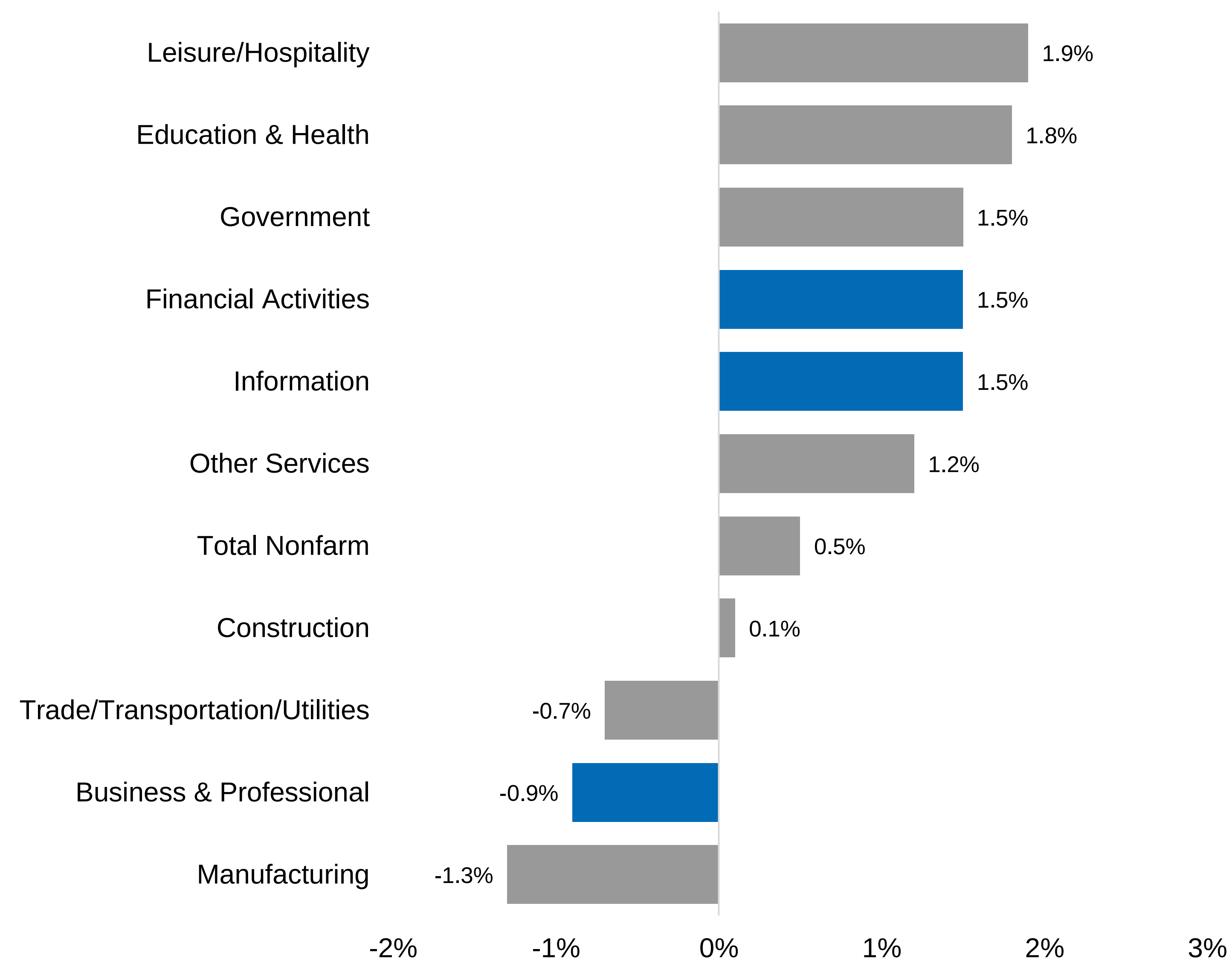
Sustained Growth in Service Sectors Offsets Office and Manufacturing Losses

In the Chicago MSA, May 2025 employment data shows continued gains in leisure and hospitality (+1.9%), education and health (+1.8%), and government (+1.5%). Financial activities and information also posted steady 1.5% annual growth. However, declines in trade/transportation/utilities (-0.7%), business & professional services (-0.9%), and manufacturing (-1.3%) highlight ongoing challenges in office-occupying and industrial sectors. Despite this, the overall labor market remains resilient, with service sectors helping to offset losses elsewhere.

Employment by Industry, May 2025



Employment Growth by Industry, 12-Month % Change, May 2025

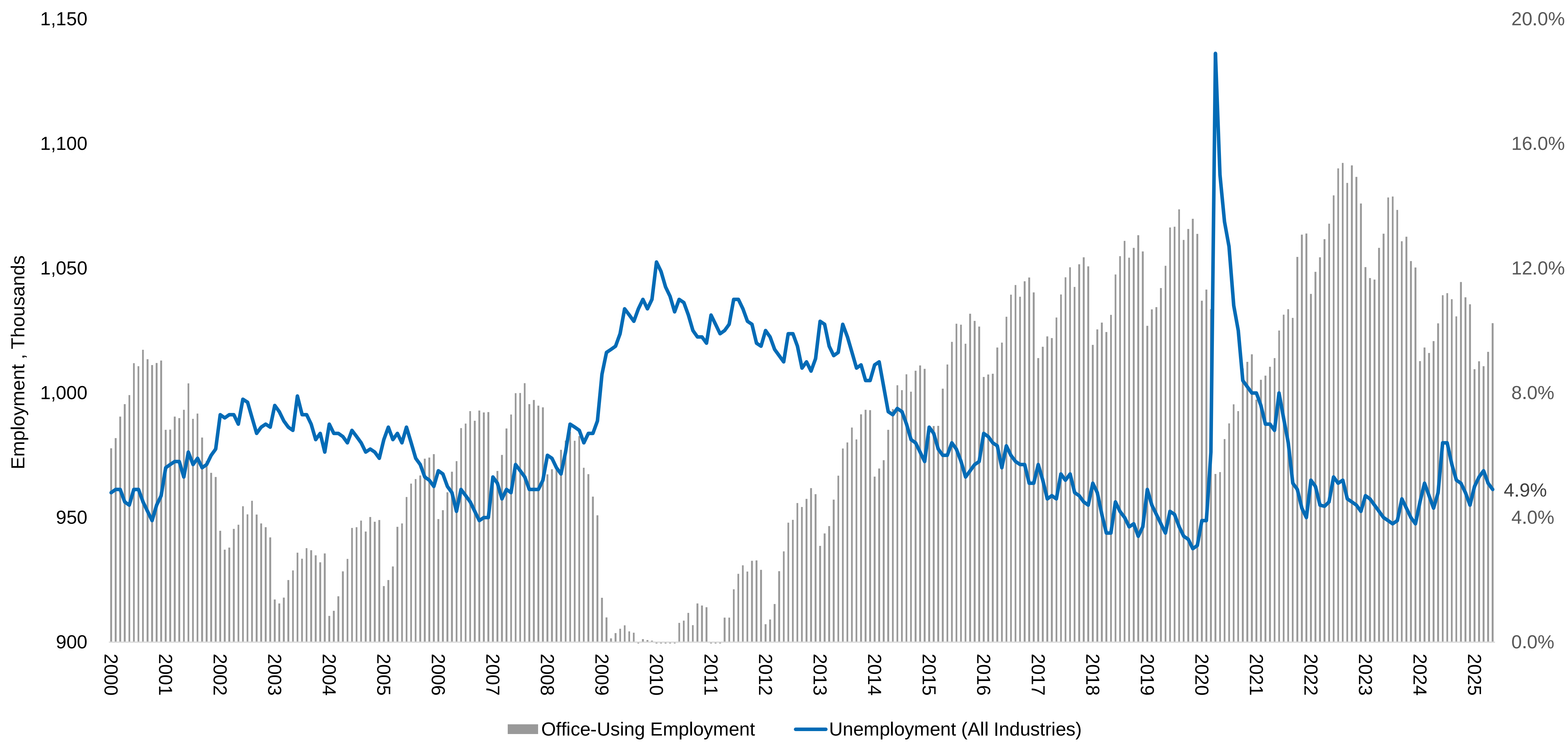


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Office-Using Employment Stabilizes as Unemployment Rate Moderates

Office-using employment in the Chicago MSA has shown early signs of stabilization in 2025, averaging just above one million positions after declining from its post-pandemic highs in 2022 and 2023. Meanwhile, the unemployment rate for all industries, while still elevated at 4.9% in May 2025, has edged down from its recent peak of 5.5% in March. This combination of steady office-sector employment and a moderating unemployment rate reflects renewed resilience in a sector critical to the region's office market, though overall labor market conditions remain more challenging than in prior years.

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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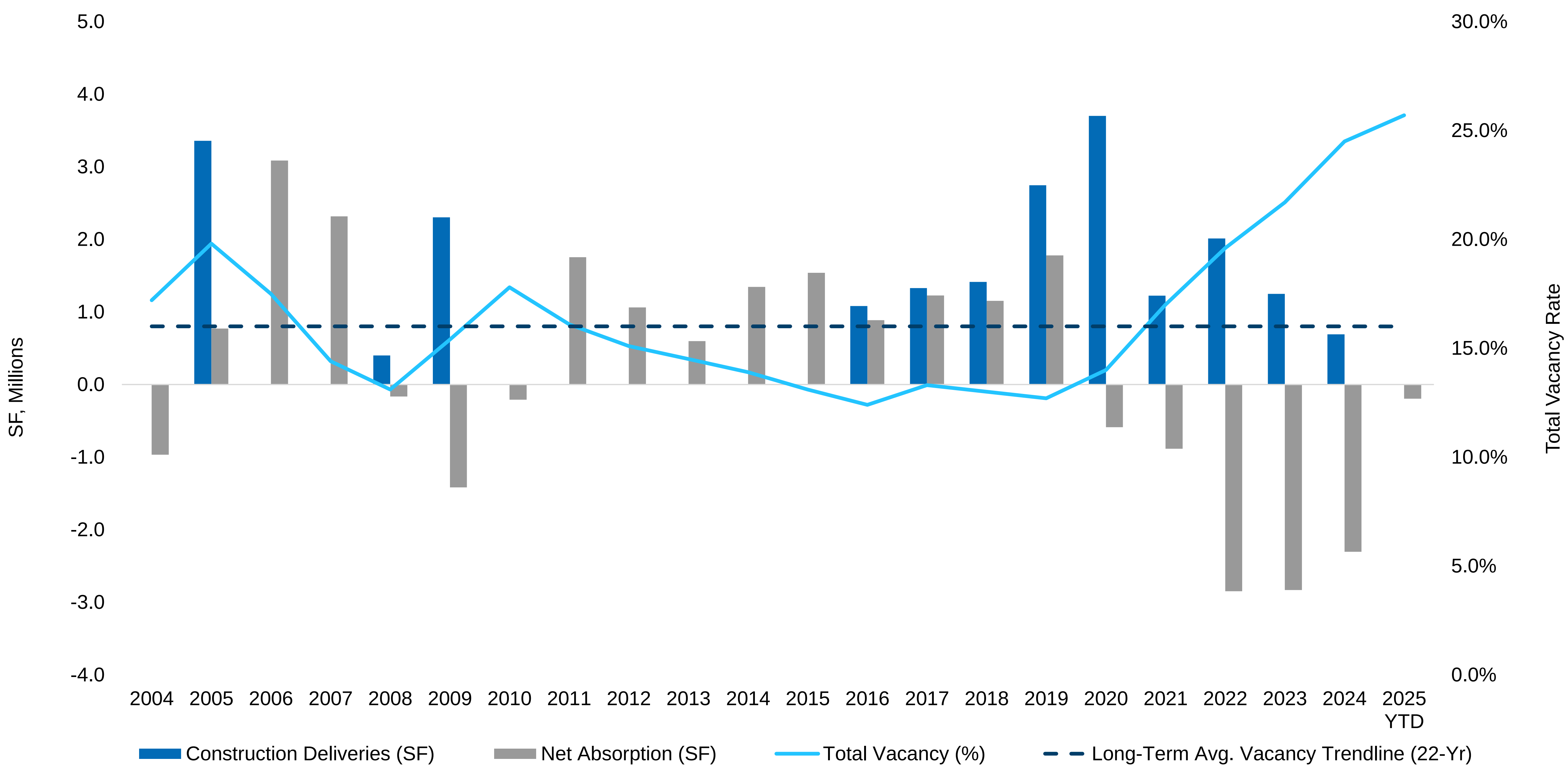
Leasing Market Fundamentals

Stabilization Efforts Continue Amid Challenging Conditions

The Chicago CBD office market remains in a prolonged period of adjustment in 2025 YTD, with modest negative net absorption of just under 195,000 SF and a vacancy rate of 25.7%. While construction deliveries have slowed considerably, the market continues to navigate space consolidations and shifting tenant demand.

Historical Construction Deliveries, Net Absorption, and Vacancy

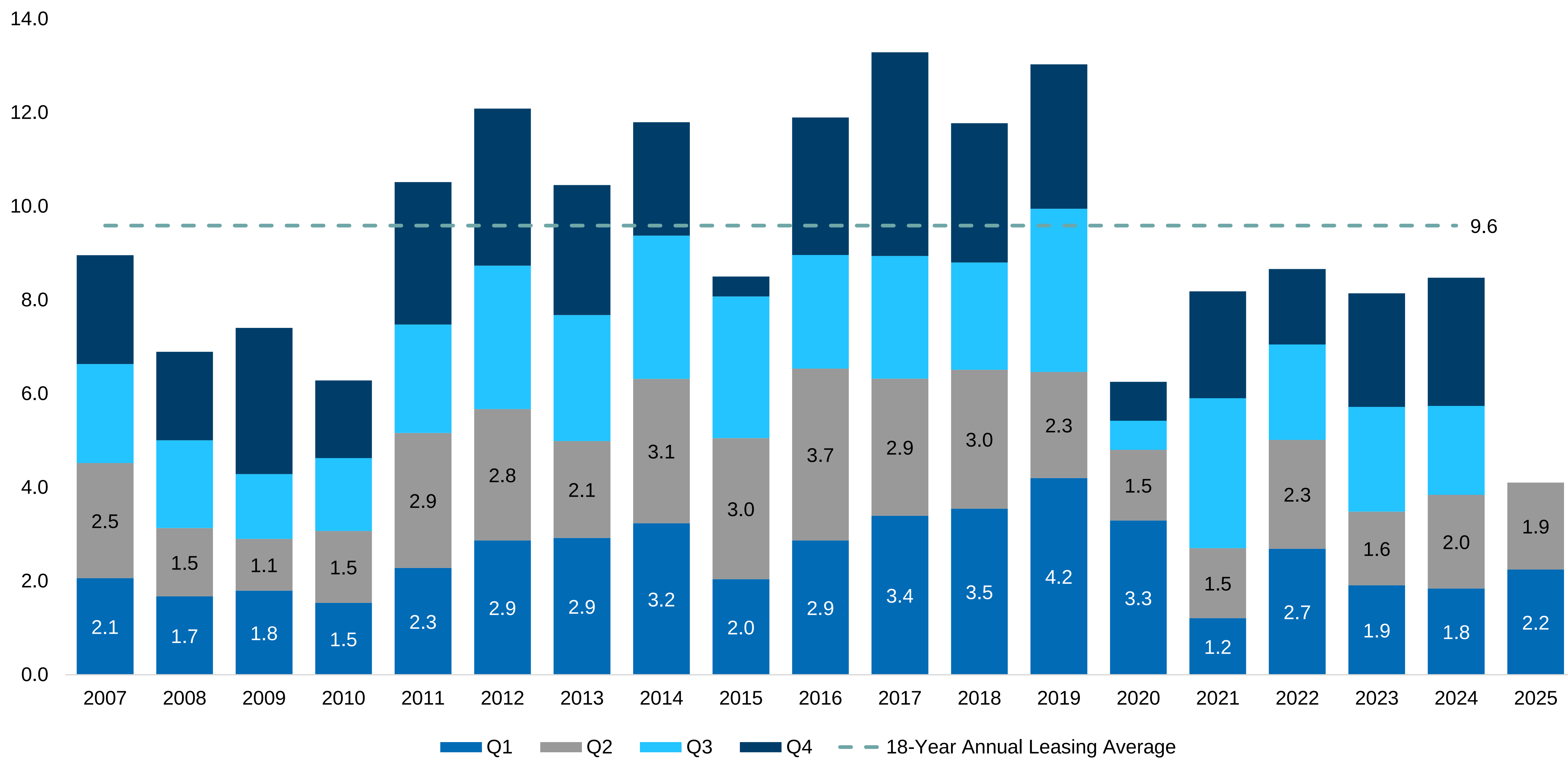


Source: Newmark Research

Leasing Activity Sees Steady Start to 2025

Leasing volume in the Chicago CBD reached 4.1 million square feet in the first half of 2025, above the levels recorded in the first half of 2023 and 2024. While activity is still below the long-term annual average and pre-pandemic peaks, the uptick in early 2025 demonstrates steady tenant engagement.

Total Leasing Activity (msf)

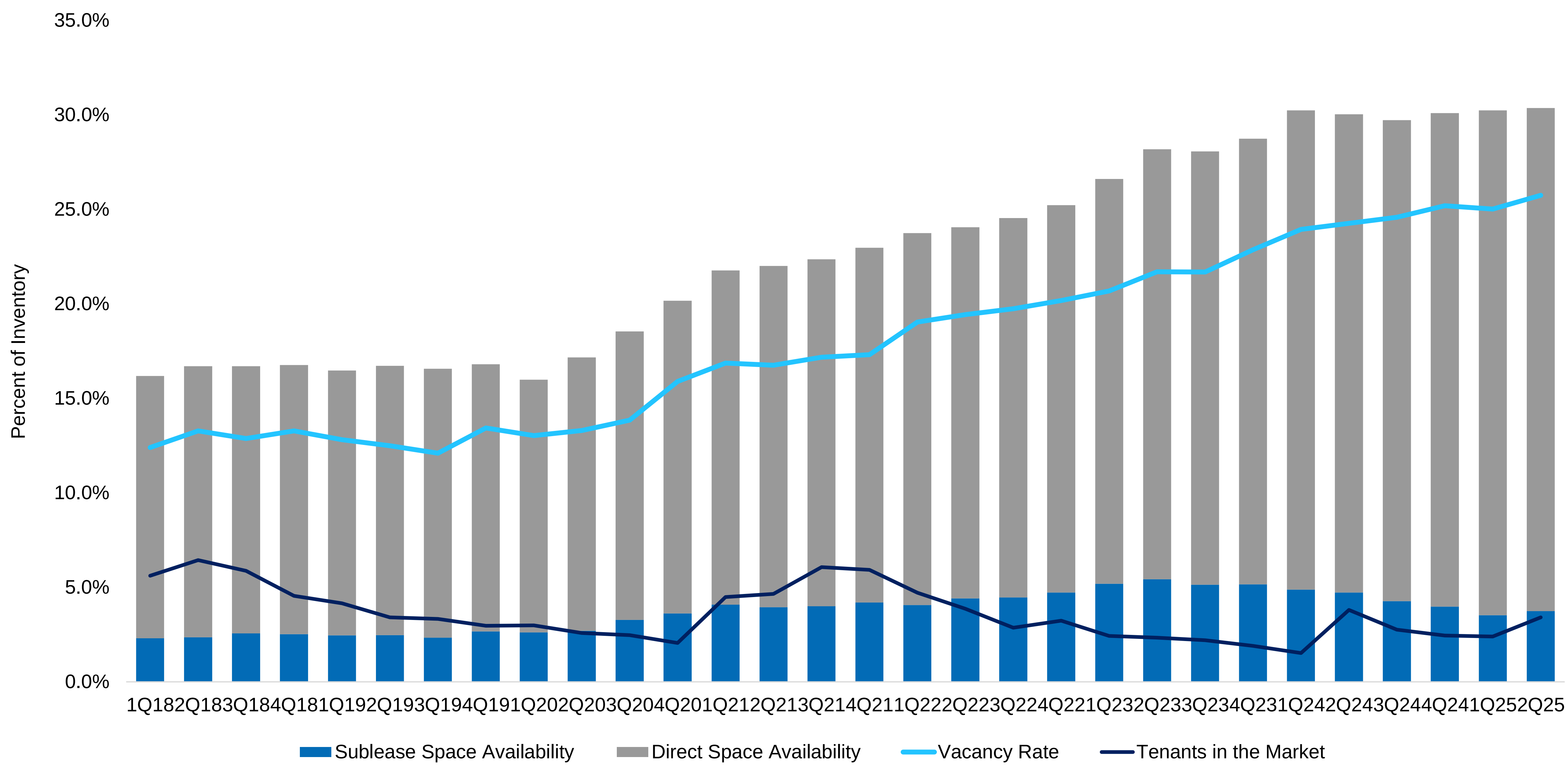


Source: Newmark Research, CoStar

Sublease Availability Holds Steady as Tenant Interest Rises

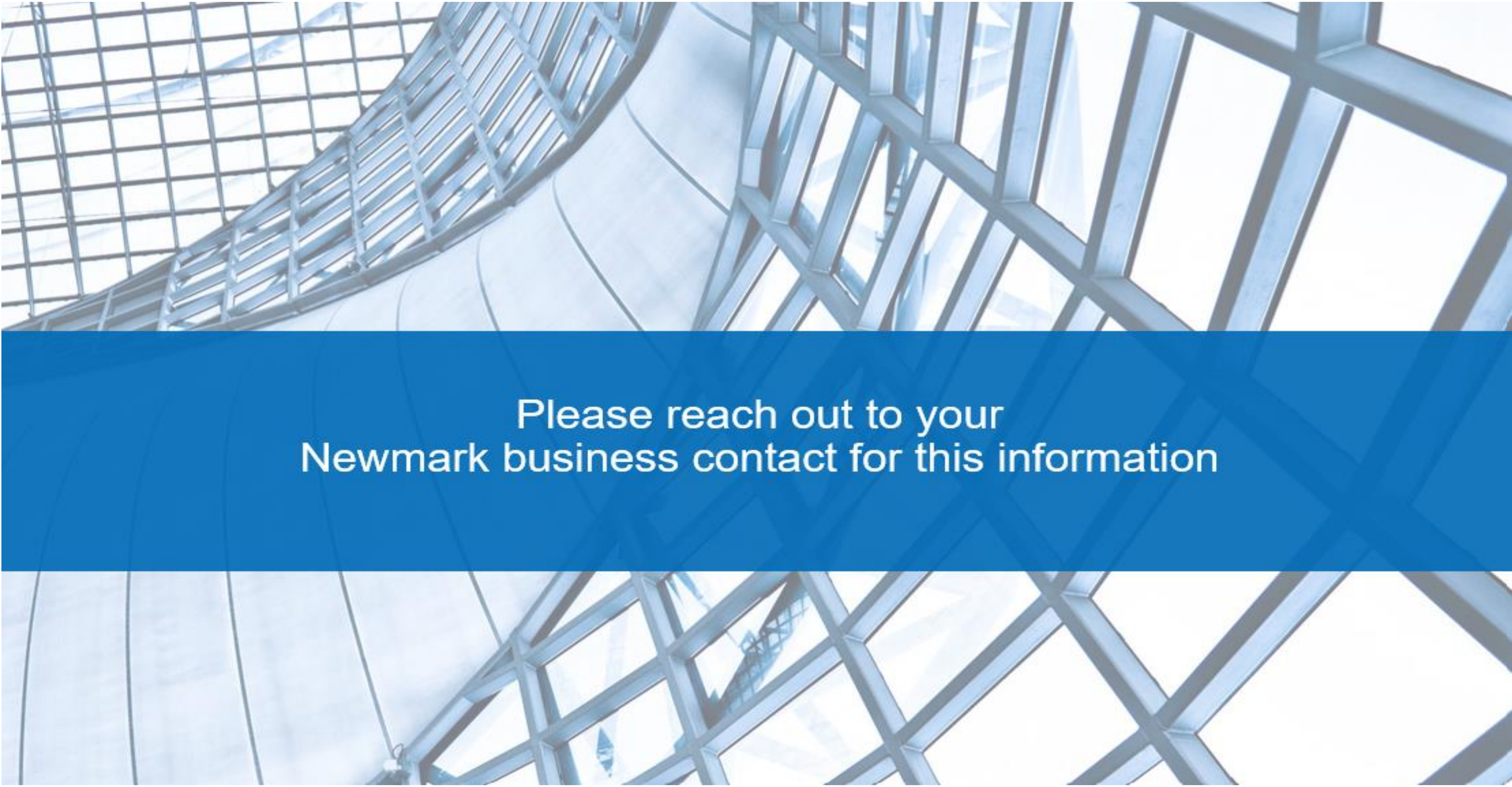
Sublease availability ticked up slightly to 3.7% after several quarters of decline while remaining well below its peak in early 2023. Direct availability remains elevated at 26.6%, reflecting continued space adjustments. Notably, tenant demand rose to 3.4%, its highest level since mid-2021, suggesting renewed interest from active occupiers and a modest uptick in leasing activity. The uptick in tenant requirements points to evolving strategies among occupiers as the market continues to adjust.

Available Space and Tenant Demand as Percent of Overall Market

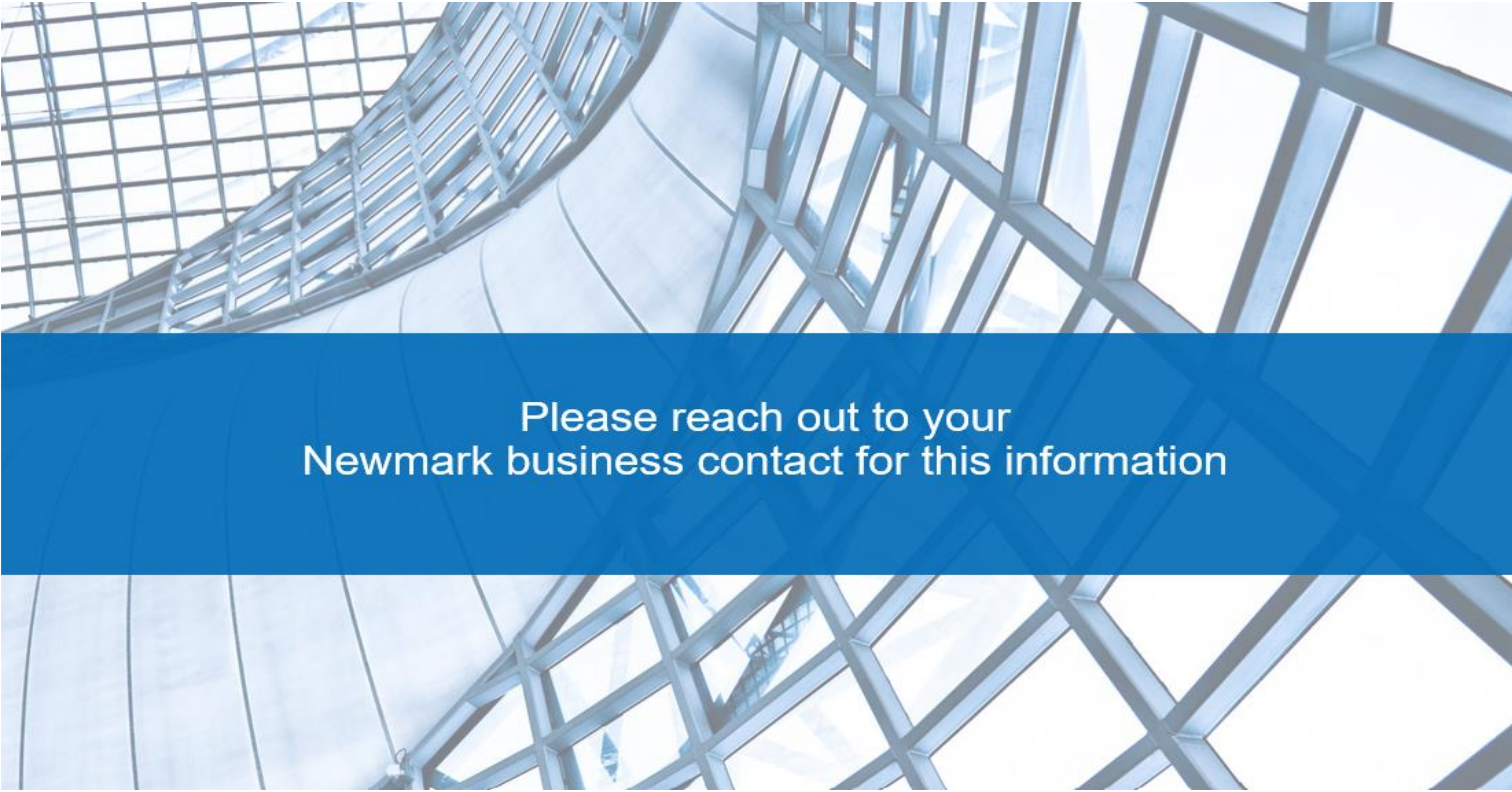


Source: Newmark Research

Analyzing 1H25 Leasing Trends: Shifts in Chicago's Office Market



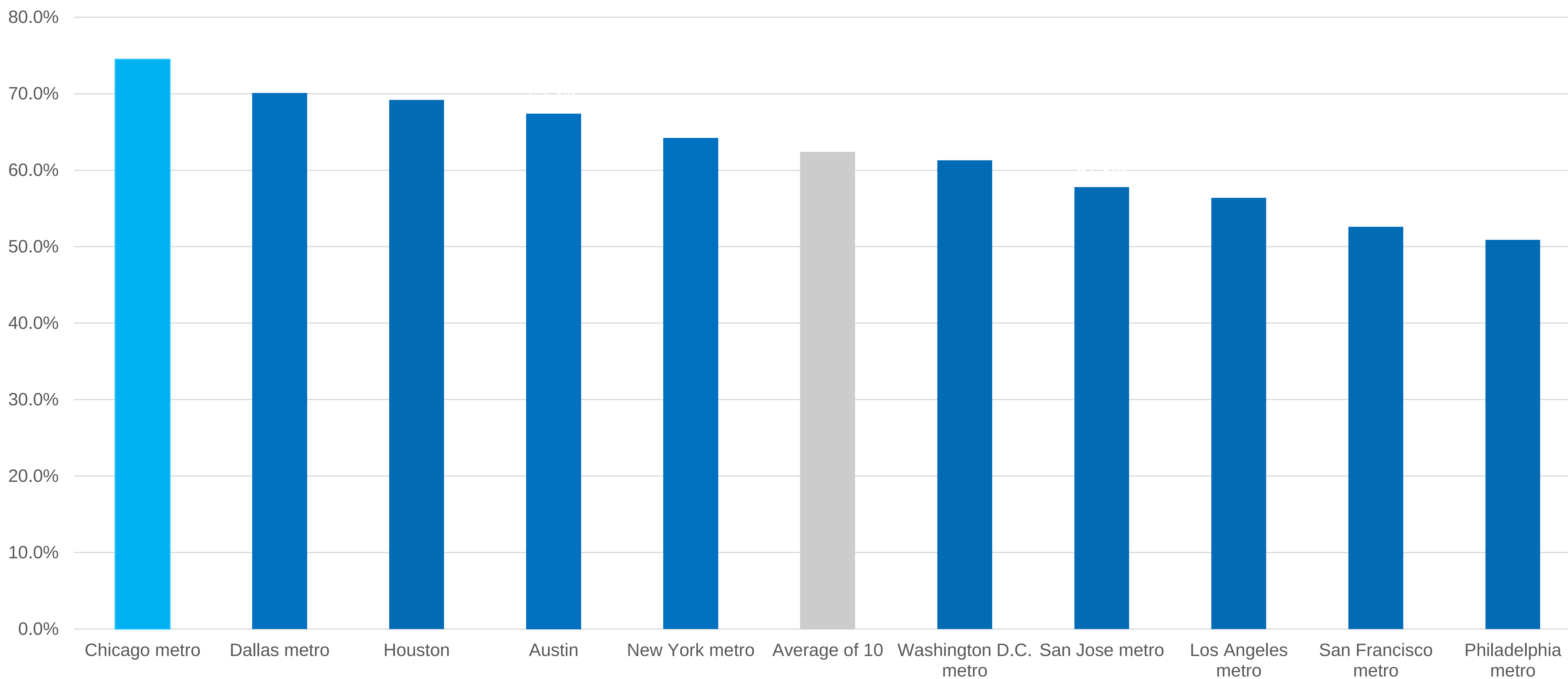
Fulton Market Maintains Lowest Vacancy Amid Diverse Submarket Performance



Chicago Occupancy Ranks Highest In U.S.

According to Kastle data, hybrid work patterns reveal that office occupancy fluctuates throughout the week, typically peaking on Tuesdays. On the last Tuesday of Q2 2025, Chicago reported the highest office occupancy in the country, at 74.5%. Average occupancy among the Barometer's Class A+ buildings was 75.8% and Class A+ peak day occupancy reached 93.3% on the 24th.

City Occupancy Levels on Tuesday 6/24

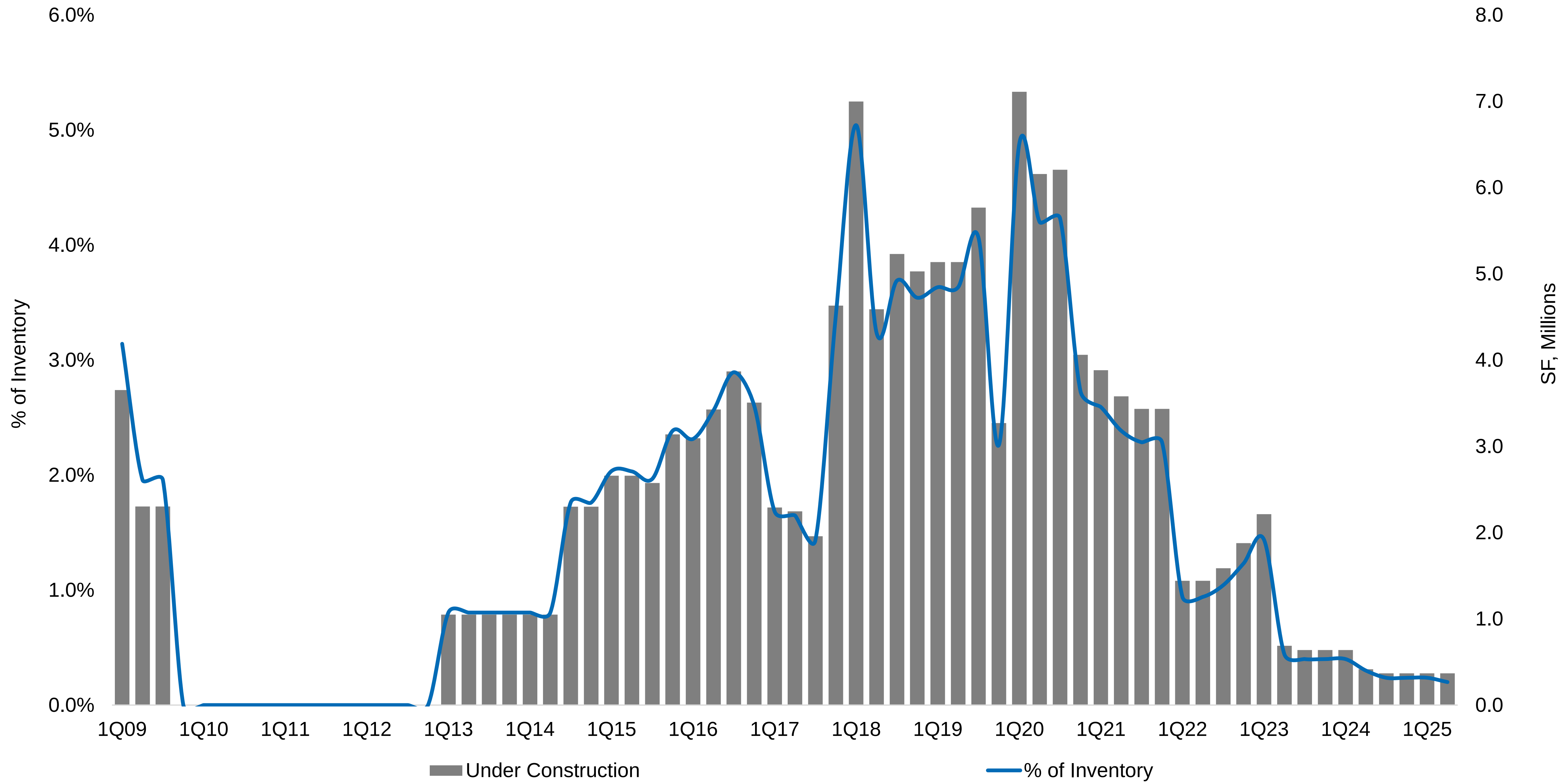


Source: Newmark Research, Kastle Systems

Construction Activity Remains Minimal, Supporting Existing Inventory

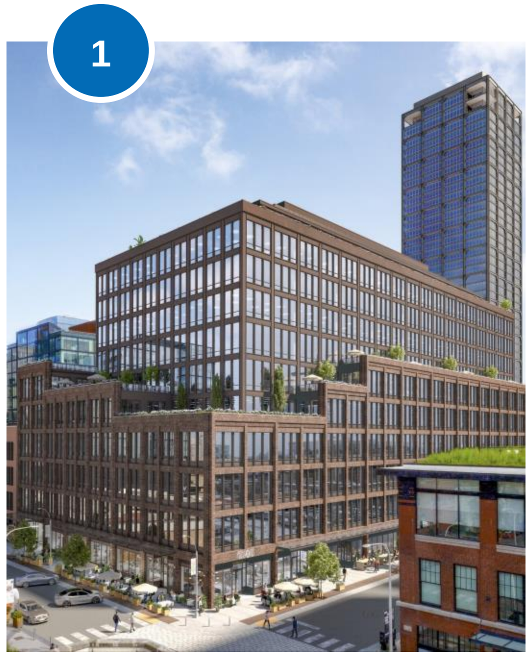
At midyear 2025, new office construction in the Chicago CBD is near historic lows with only 369,000 square feet underway representing just 0.2% of total inventory. This marks a continued decline in development compared to prior cycles. The limited pipeline reduces new competitive supply, providing existing buildings greater opportunity to attract tenants and reinforcing the trend toward renovation and repositioning of current assets.

Office Under Construction and % of Inventory



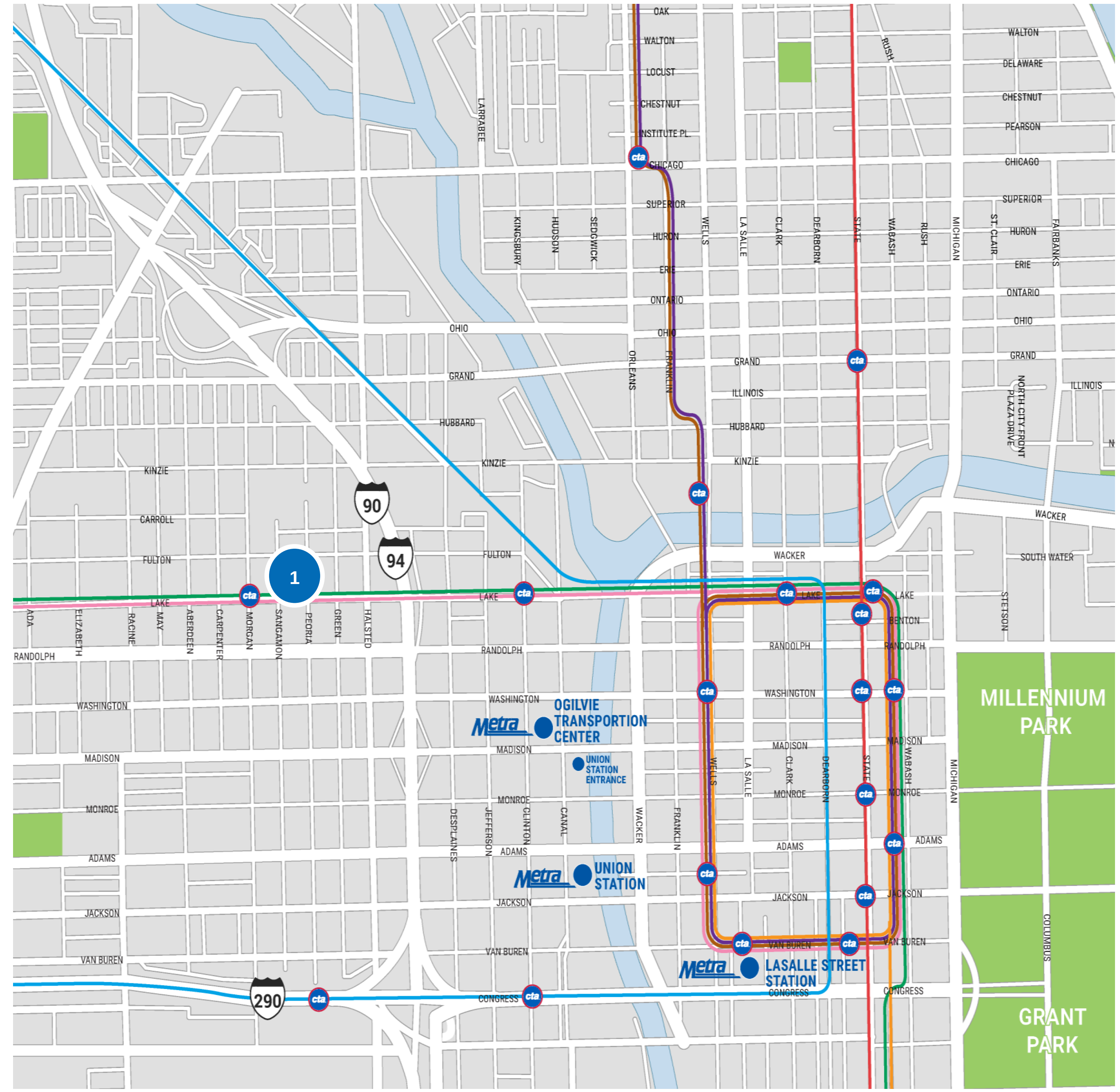
Source: Newmark Research, CoStar

Office Supply Under Construction



919 W Fulton
Delivery: 08/01/2025
Leased: 47.1%
RBA: 369,000 SF

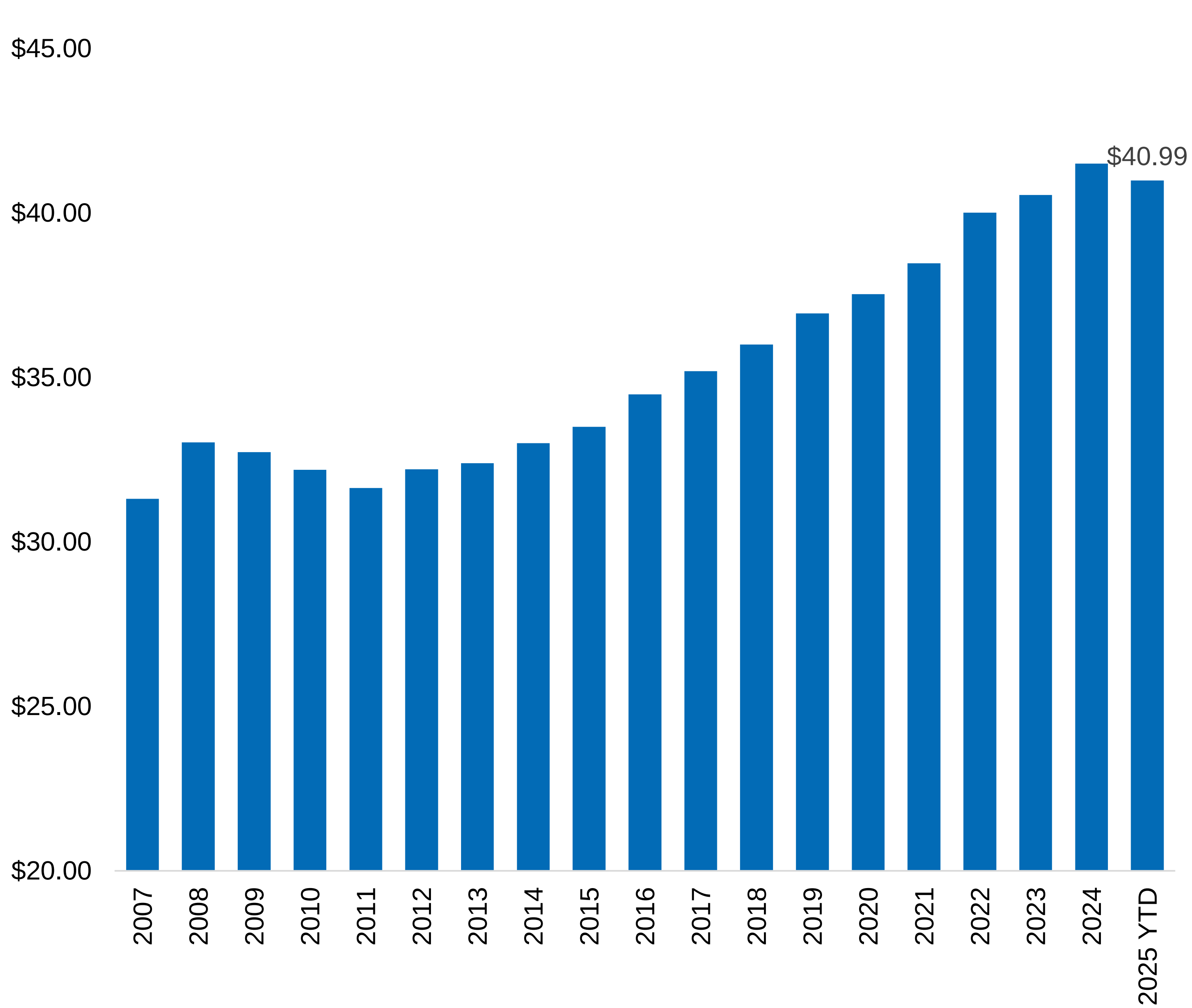
Anchor: Harrison Street



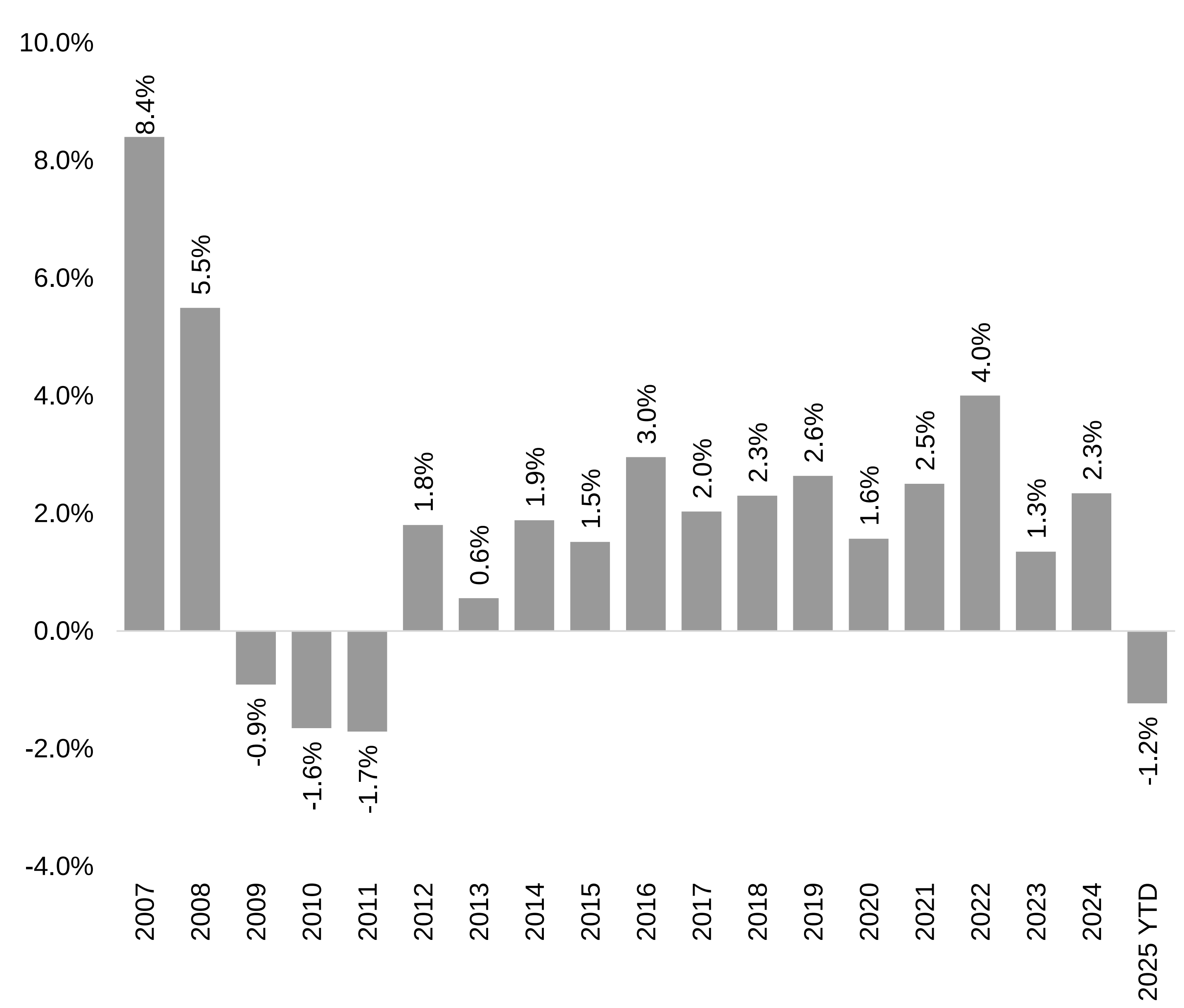
Rental Rates Ease Following Sustained Growth

Average direct asking rents in the Chicago CBD are down from their peak of $41.50/SF in 2024. Year-over-year rent growth has turned negative for the first time since 2011, at -1.2%, after two consecutive years of modest increases. While class A asking rents continue to climb to all-time highs, this rate includes rents for all classes.

Office Average Direct Asking Rent, $/SF, FS



Year-over-Year Average Direct Asking Rent Growth Rate

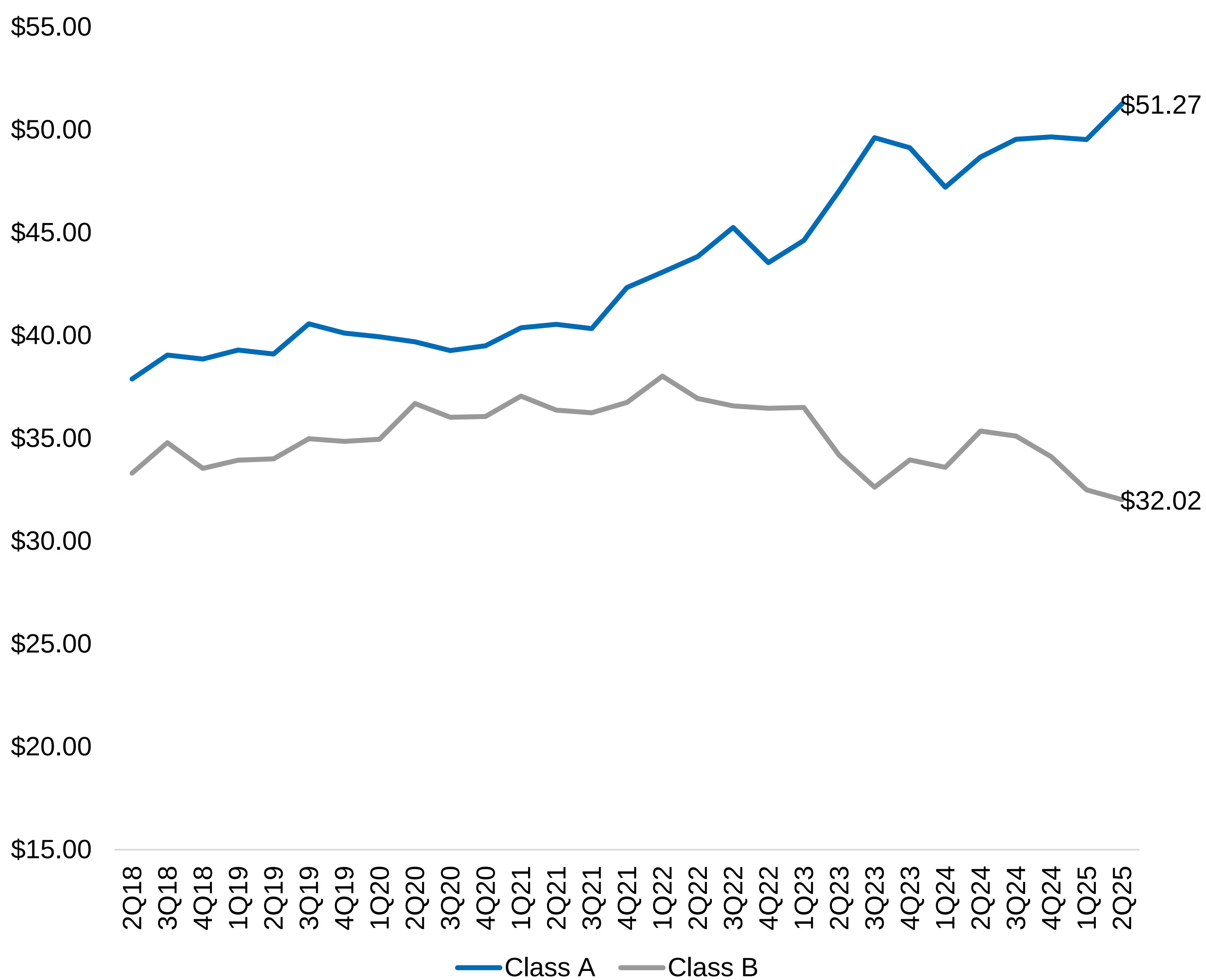


Source: Newmark Research, CoStar

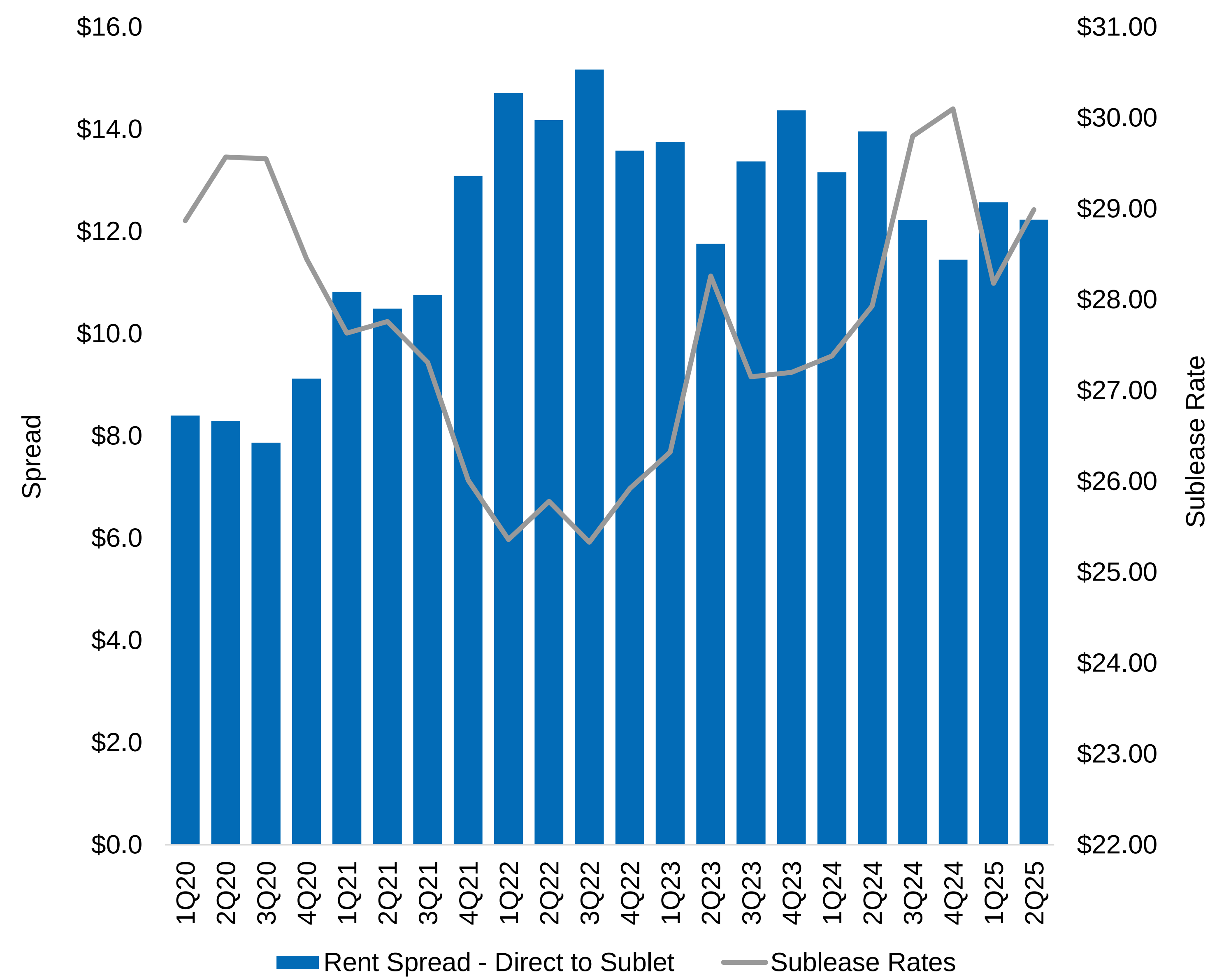
Rental Premiums Grow for Top-Tier Space; Sublease Discounts Remain Stable

The gap between Class A and Class B direct asking rents reached a new high at $19.25/SF. Sublease rates saw a slight uptick to $28.99/SF, while the spread between direct and sublease rents remained relatively steady at $12.20/SF. These trends reflect persistent tenant focus on quality and highly amenitized space, with limited Class A availability sustaining record-level asking rents, while consistent sublease discounts continue to provide cost-saving opportunities for value-driven occupiers.

Class A and Class B Direct Asking Rents



Sublease Rates



Source: Newmark Research

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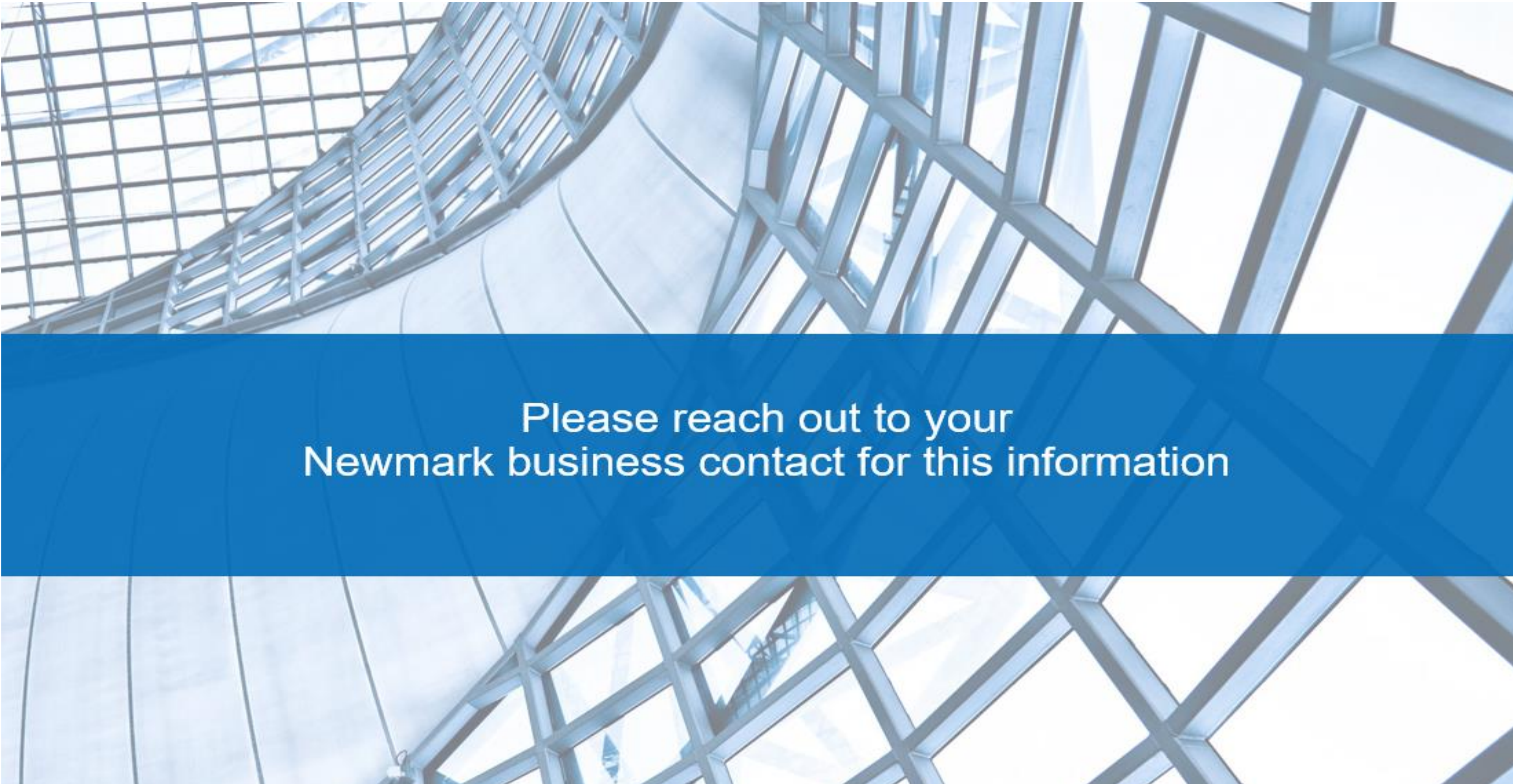
Notable 2Q25 Lease Transactions

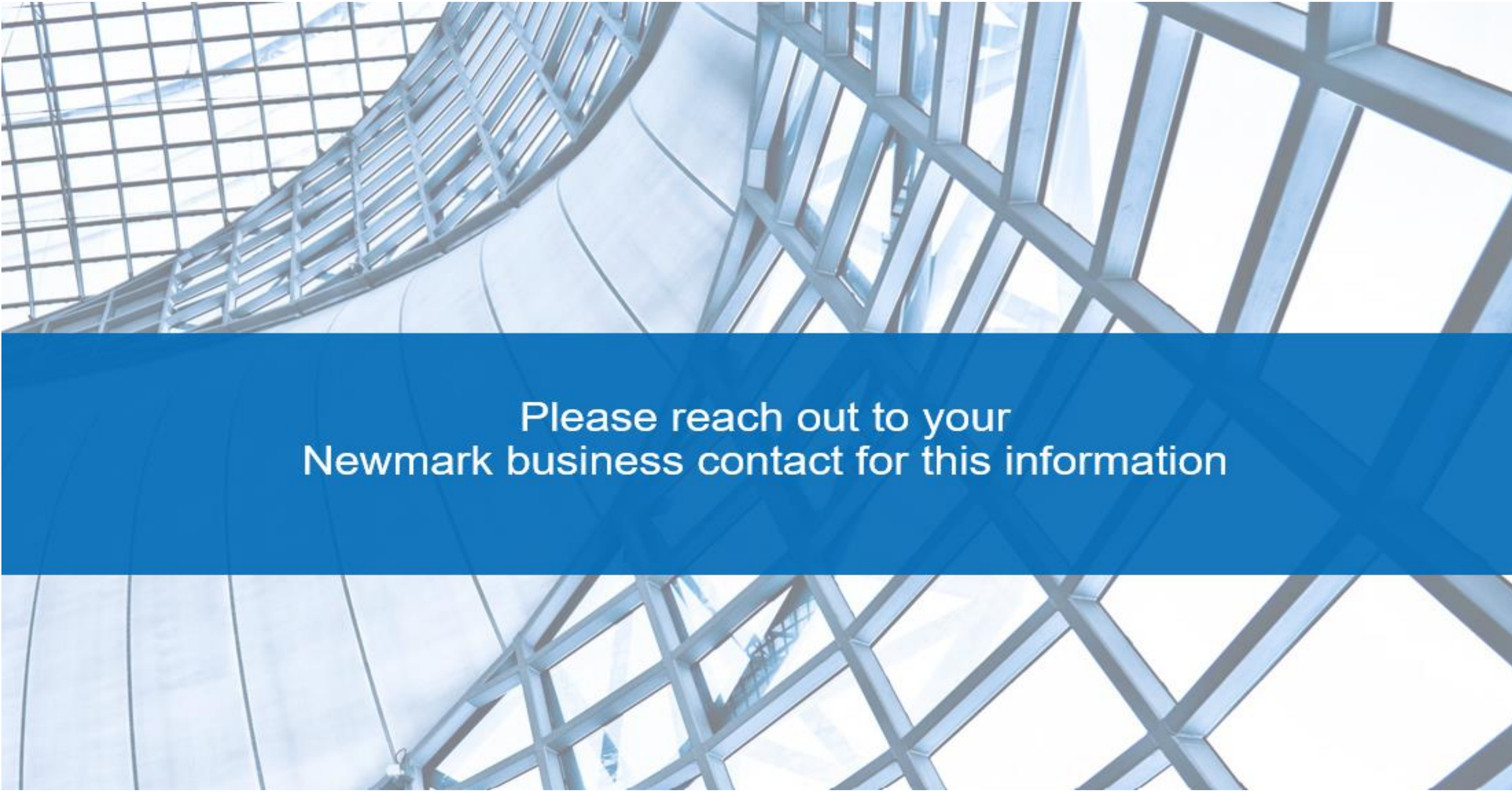
Tenant	Building(s)	Submarket	Type	Square Feet
Golub Capital	225 W Randolph St	West Loop	New Lease	205,000
The bank will be expanding from 180,000 SF they currently occupy at 100 & 150 S Wacker.				
J.P. Morgan Chase	131 S Dearborn St	Central Loop	Lease Expansion	190,000
The bank expanded their total footprint within the building to 336,000 SF while they renovate their namesake building at 10 S Dearborn.				
Intelsat	111 N Canal St	West Loop	Lease Renewal	119,000
The telecommunications company will be downsizing by about 10,000 SF at 111 N Canal.				
Workbox	20 N Wacker Dr	West Loop	New Lease	68,000
The coworking company took over the 10th and 11th floor at 20 N Wacker which was already being used as coworking space by provider TechNexus.				
Akuna Capital	333 S Wabash Ave	East Loop	Lease Renewal	56,000
The proprietary trading committed to maintaining their current footprint at 333 S Wabash.				

Source: Newmark Research

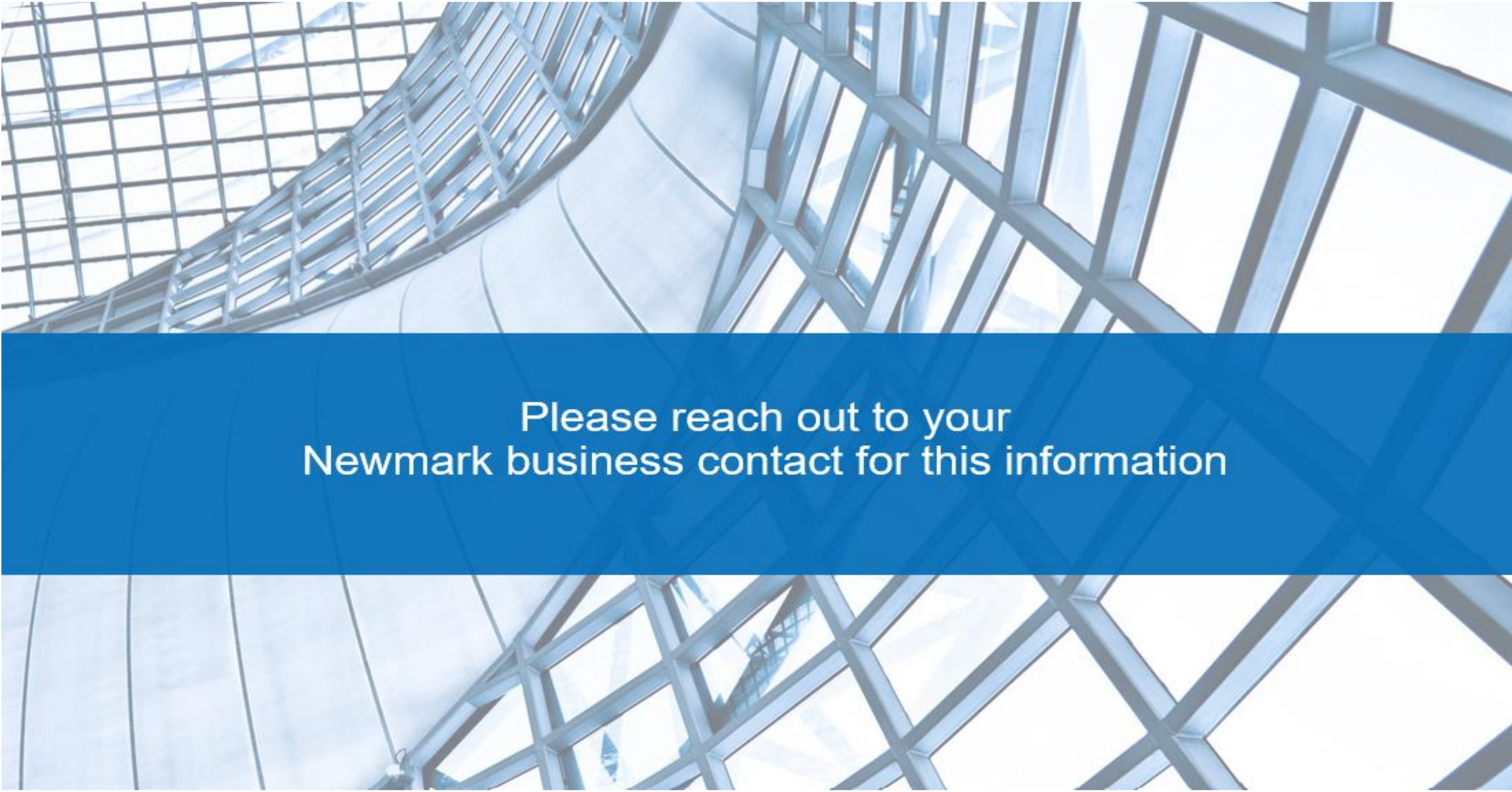
West Loop Submarket Overview



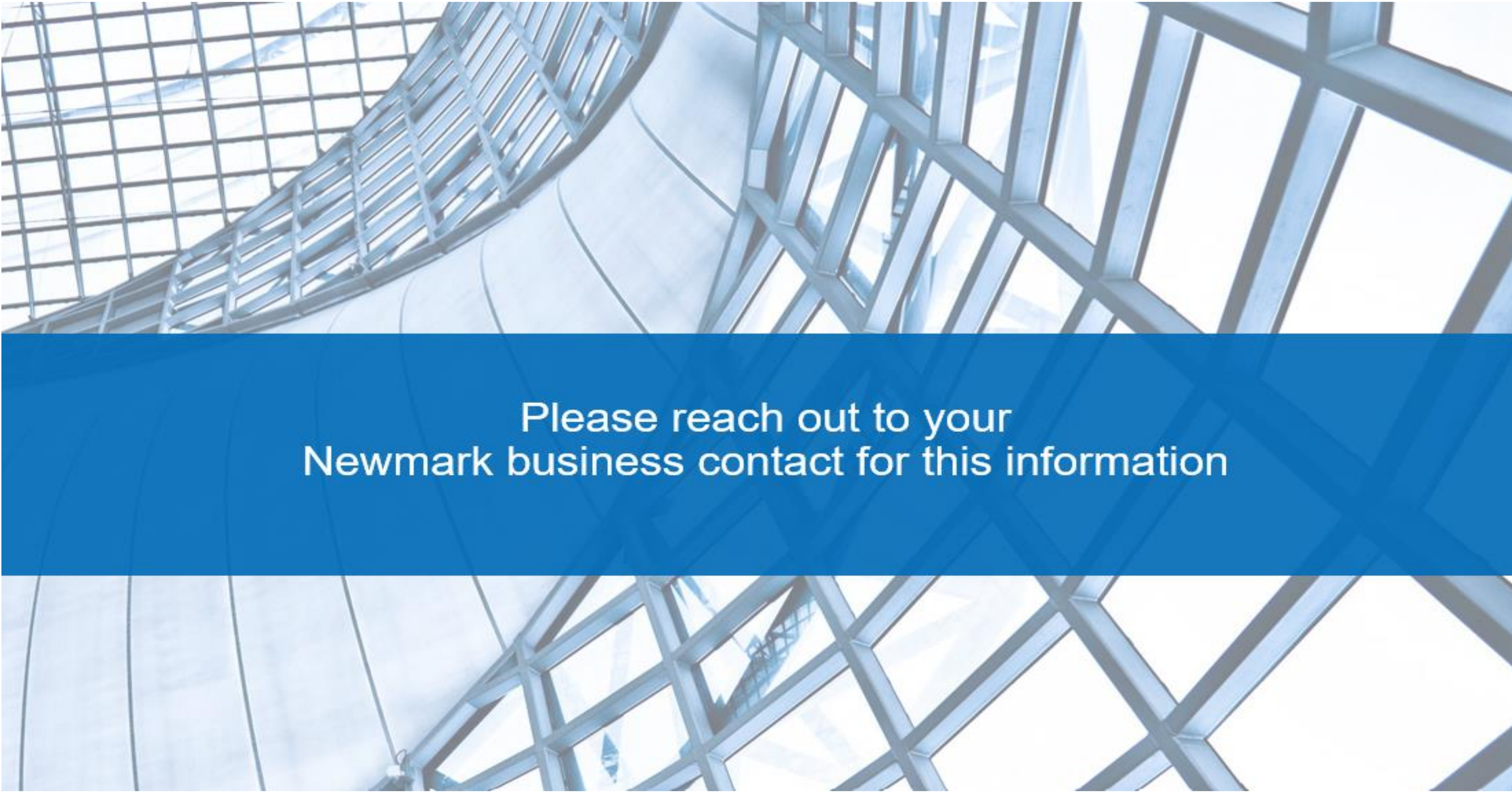
Fulton Market Submarket Overview



Central Loop Submarket Overview



East Loop Submarket Overview



Please reach out to your
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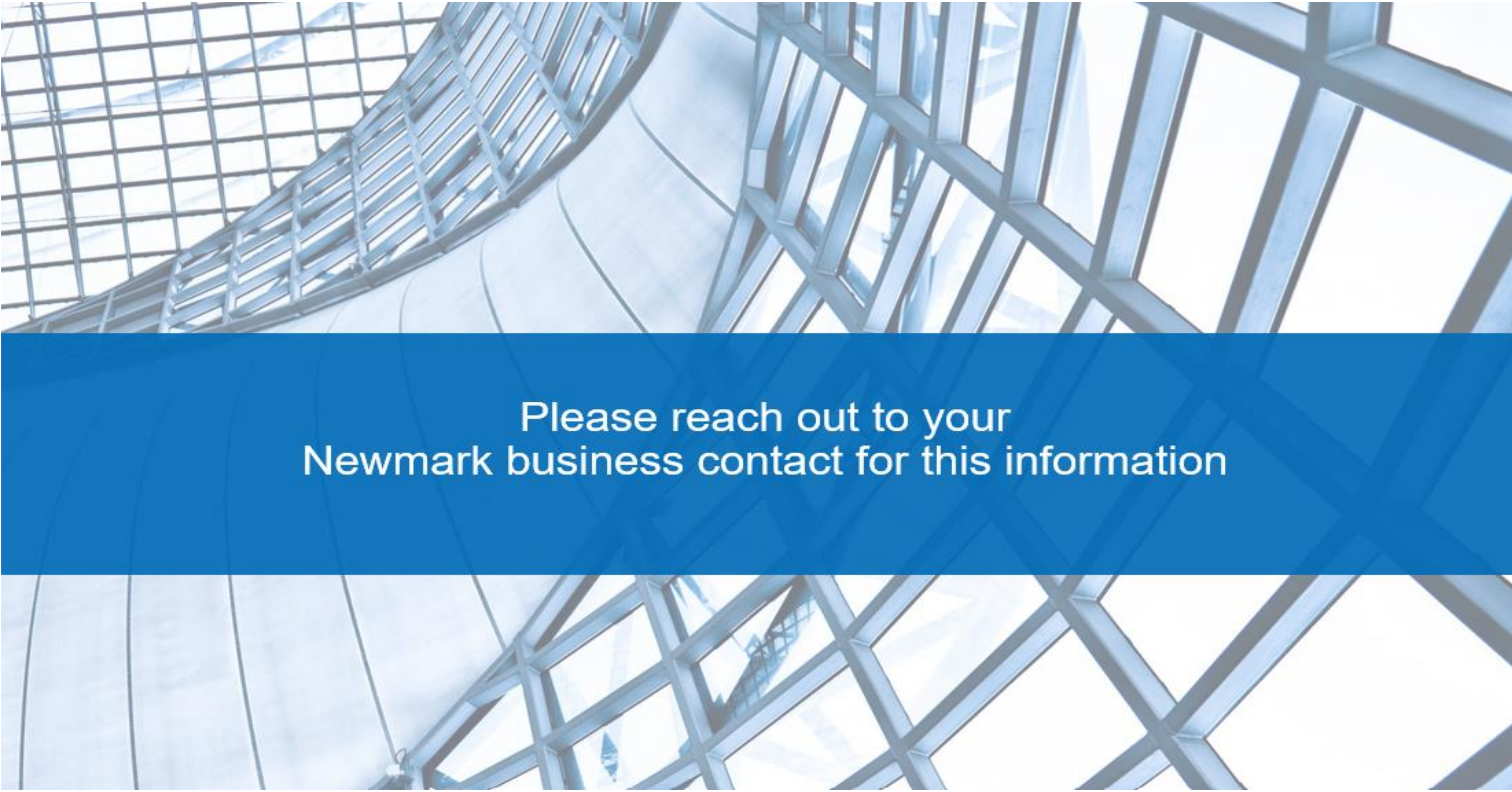
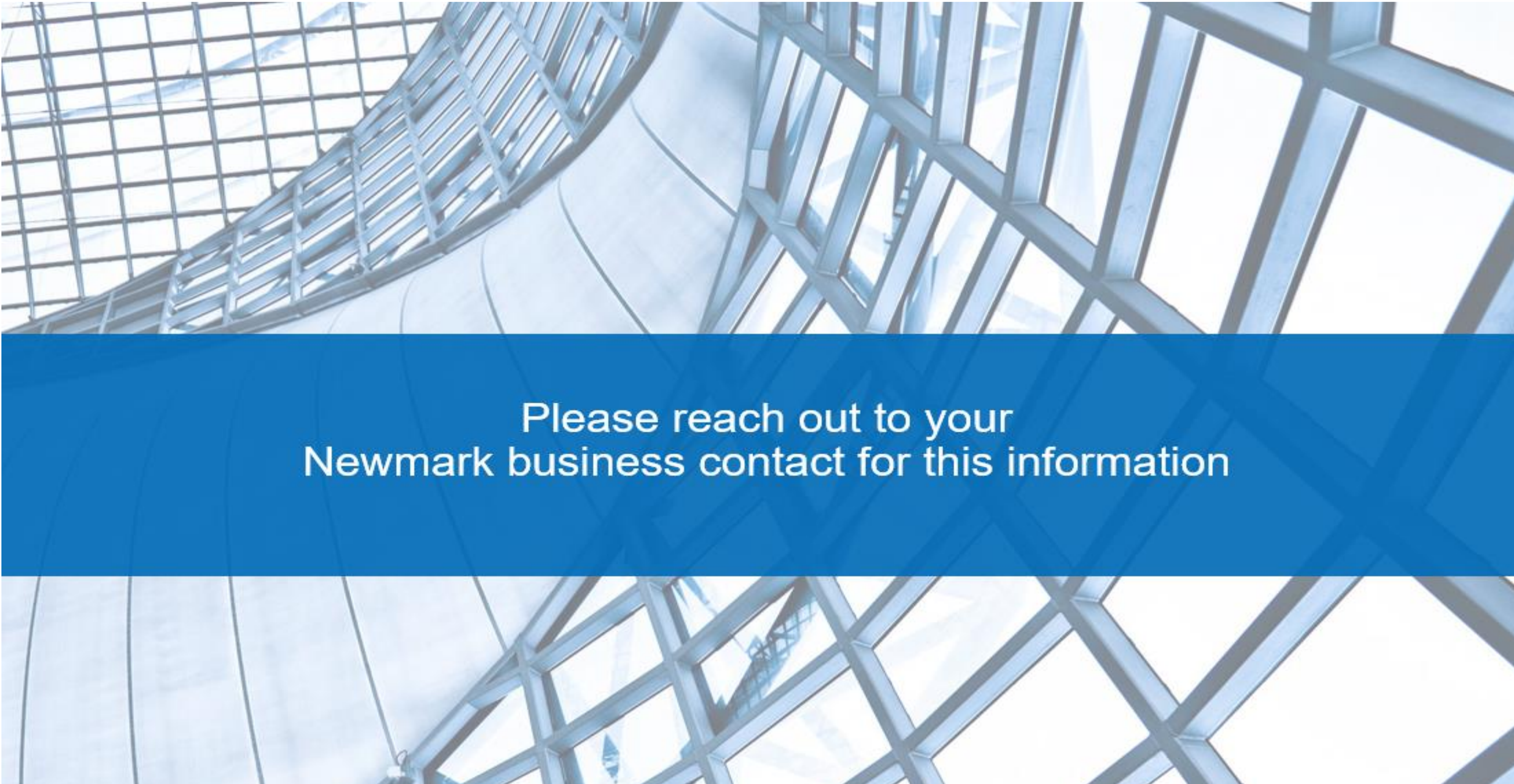
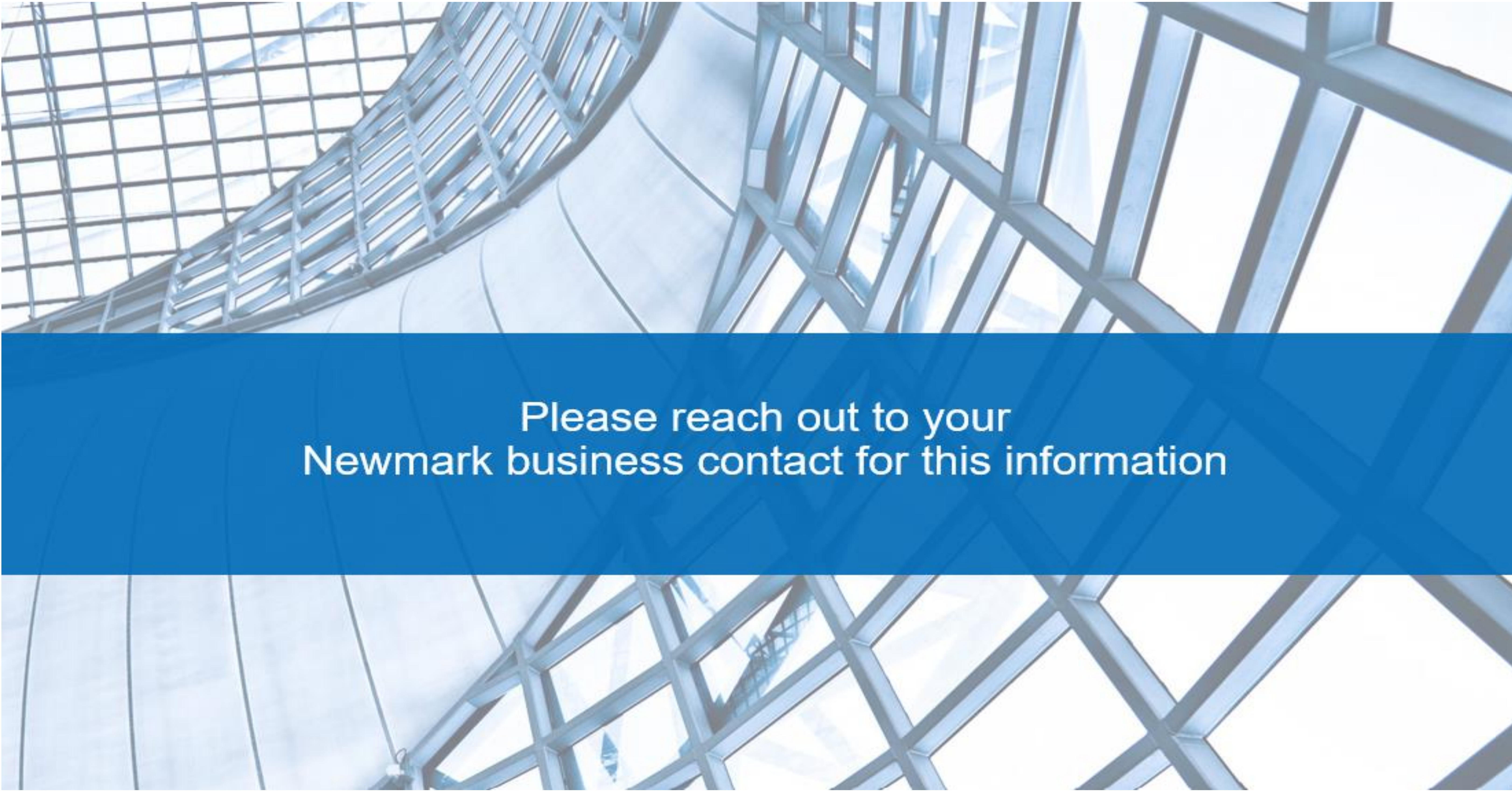
River North Submarket Overview



North Michigan Avenue Submarket Overview



Submarket Overview



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Newmark statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

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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