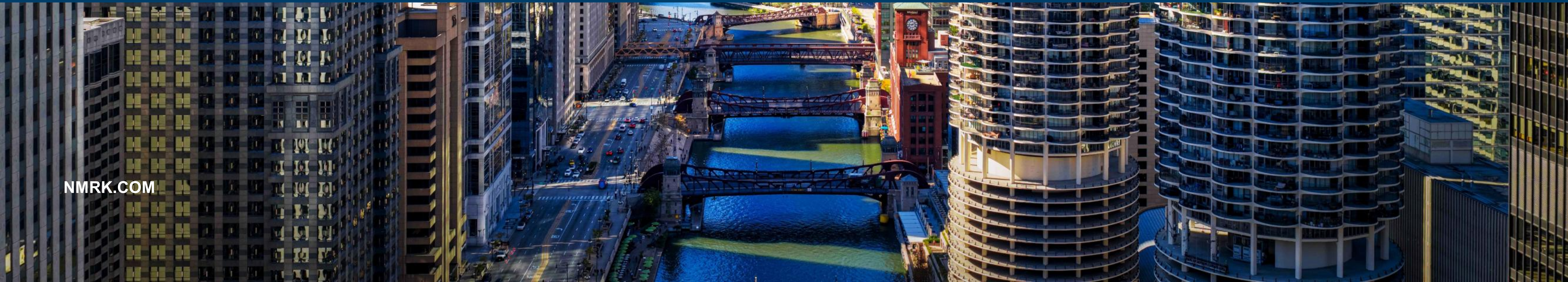
NEWMARK

Chicago CBD:

Office Market Report

2Q26



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Chicago CBD Market Observations

Economy

- Chicagoland's labor market softened through mid-2026, with the metro division unemployment rate rising to 5.1% in May, up 70 basis points from 4.4% a year earlier.
- Total nonfarm employment was essentially flat, adding roughly 2,900 jobs year-over-year (+0.1%), consistent with the broader stalling in job growth.
- All three primary office-using sectors contracted year-over-year, led by Financial Activities at -3.2% and Professional and Business Services (the largest, at roughly 677,600 jobs) at -1.3%, keeping structural pressure on office space demand.

Leasing Market Fundamentals

- Total vacancy held near its record at 26.6%, easing just 20 basis points from the all-time high of 26.8% in 1Q26, as tenants kept right-sizing out of older, commodity Loop stock.
- Net absorption swung positive to 319,212 SF in 2Q26, a sharp reversal from -583,055 SF in 1Q26, though year-to-date absorption remained negative at -263,843 SF.
- Direct asking rents slipped to $44.27 PSF, down 2.1% from $45.21 in 1Q26 — the first sequential decline after a multi-quarter run of record highs, a sign that headline pricing is starting to reflect softening demand.
- Pricing power has shifted back to landlords of trophy and best-in-class renovated assets, where limited availability of high-quality space is driving competitive leasing dynamics and firmer effective rents.

Major Transactions

- Second-quarter activity reflected a churning market, headlined by Vedder Price's extension and Loeb & Loeb's relocation.
- Deal composition underscored the bifurcation: Huntington expanded its footprint at 222 N. LaSalle St. by 23,000 SF, while Huron downsized in place from 134,000 SF to 83,000 SF at Union Tower — high-conviction expansions offset by large legacy occupiers right-sizing.
- Kohan Retail Investment Group acquired the 1.5 MSF Citadel Center at 131 S. Dearborn St. from TPG Angelo Gordon for $137M, or approximately $89/SF, supported by about $60M in debt financing. The sale represents a sharp 76% discount to the building's prior $560M trade in 2006 and follows a $520M recapitalization by the previous ownership in 2016.

Outlook

- The CBD office market will remain decisively tenant-favorable across commodity Class A and B assets through 2026, as elevated availability and subdued office-using employment growth continue to pressure landlords. Occupiers remain focused on optimizing current space, or flight-to-quality rather than net expansion, reinforcing leasing leverage in older and undifferentiated buildings.
- The construction pipeline has effectively cleared for the first time since 2012, eliminating near-term speculative supply and further widening the performance gap between commodity and premier assets, ultimately better positioning newer product to capture a disproportionate share of demand from tenants upgrading space.
- Office conversions will continue to alleviate obsolete inventory, drawing down vacancy, with annual conversion volume rising from roughly 1.0 MSF in 2025 to 2.9 MSF slated for 2026.

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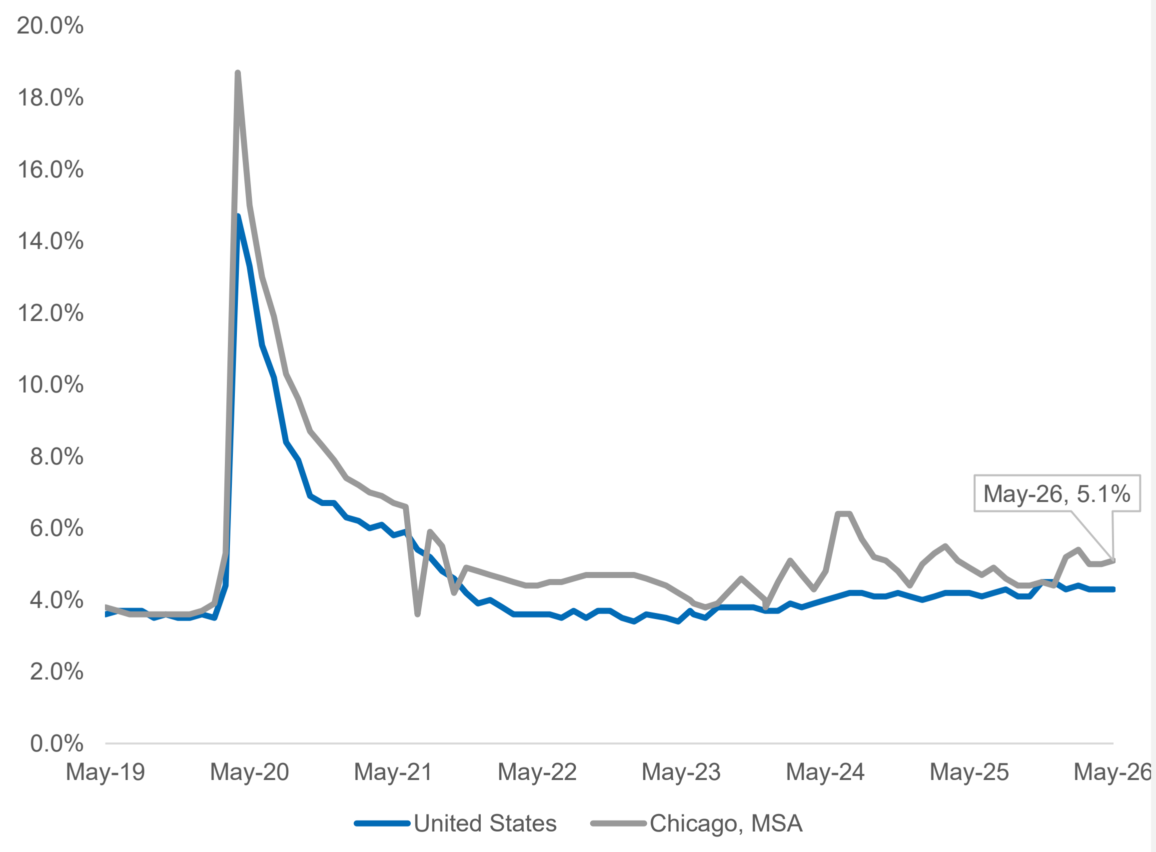
Economy

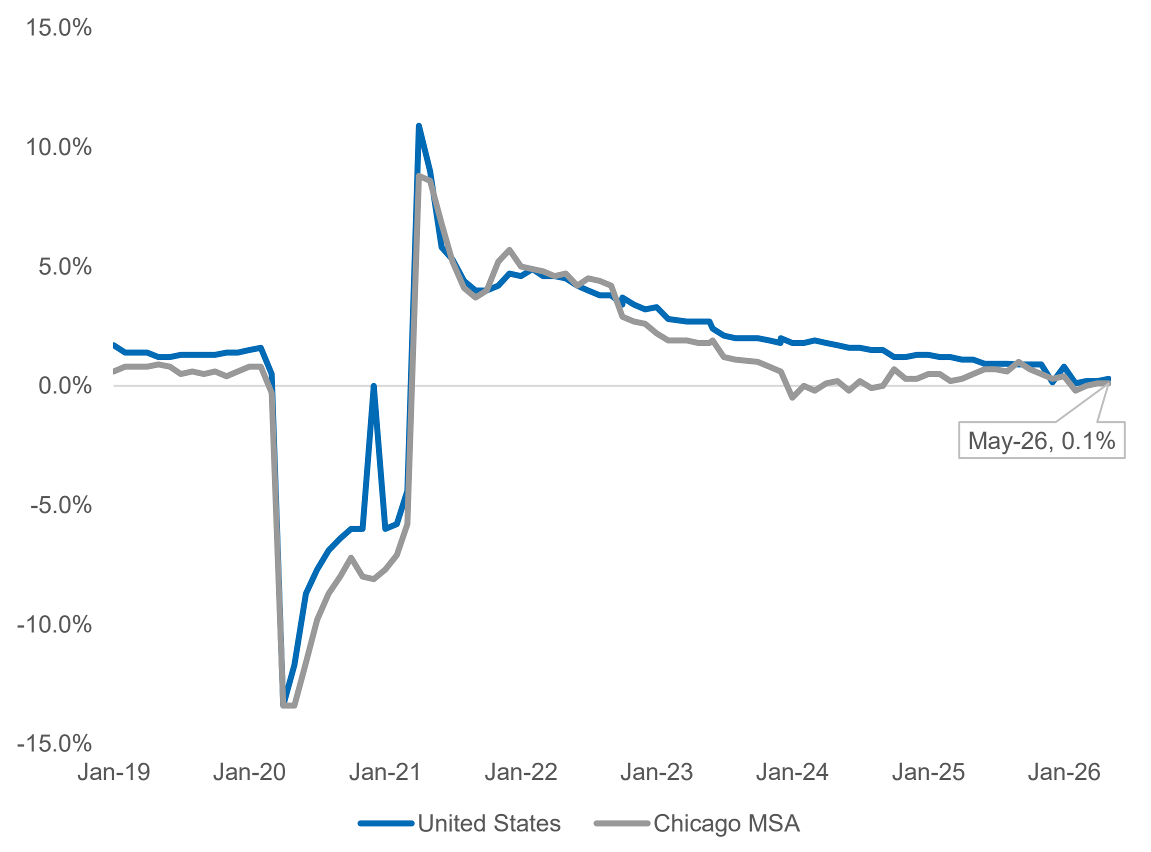
Unemployment Rises Amid Modest Job Growth

The Chicagoland area's labor market remained essentially flat through May 2026, with year-over-year nonfarm job growth stalling amid broader economic headwinds. Total nonfarm employment in the MSA stood at approximately 3.854 M jobs in May 2026, virtually unchanged (0.1%) compared to May 2025. The unemployment rate rose to 5.1% in May 2026 from 4.4% a year prior, reflecting a continued statewide trend of rising unemployment.

Unemployment Rate, Seasonally Adjusted



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

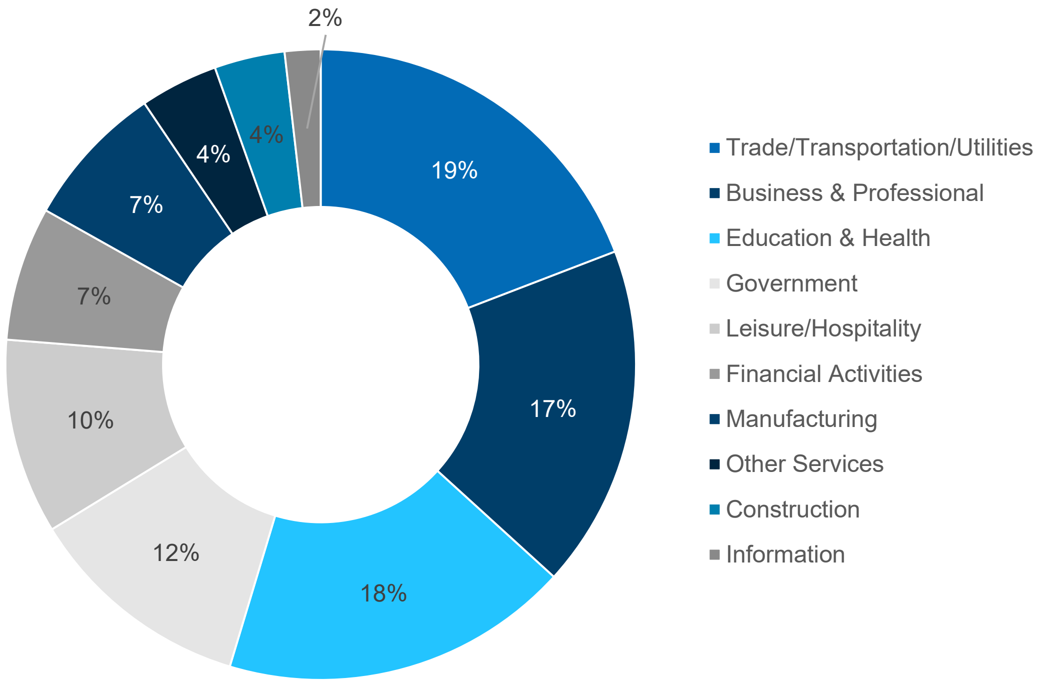


Source: U.S. Bureau of Labor Statistics, Chicago MSA

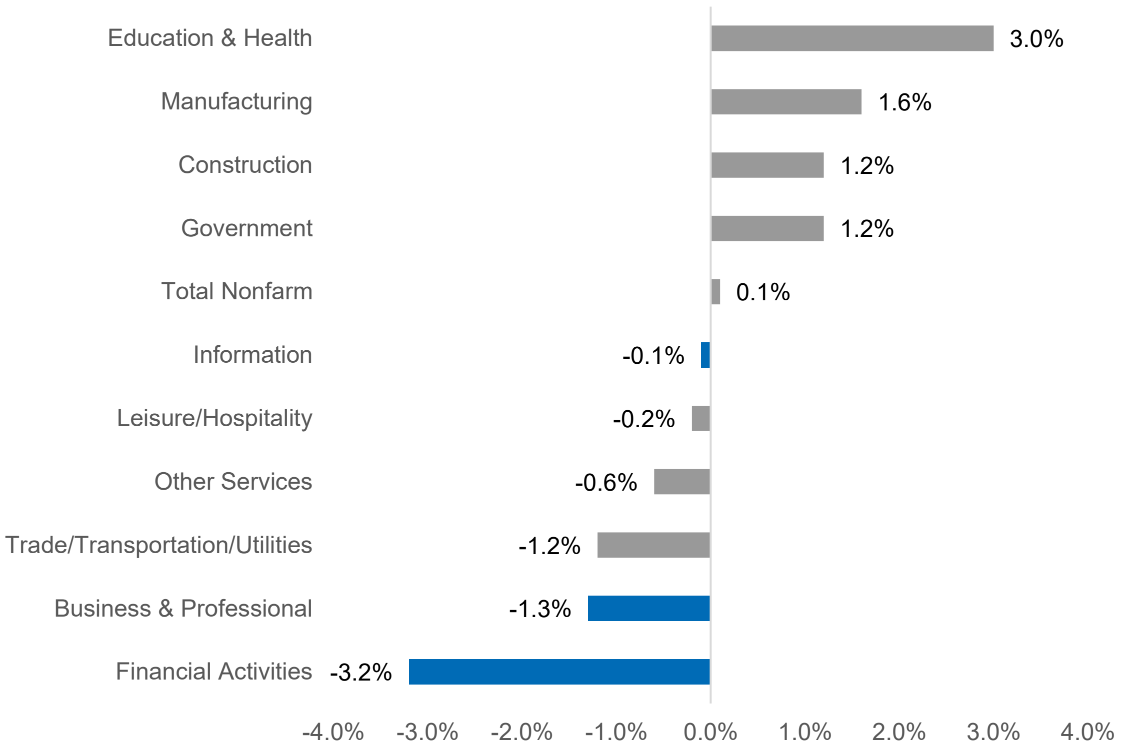
Employment Growth Remains Uneven Across Chicago MSA Sectors

In May 2026, the Chicago MSA eked out modest year-over-year employment growth of just 0.1%, reflecting a labor market that has largely plateaued following years of post-pandemic recovery. Growth was led by Education and Health Services (+3.0%), a sector that has demonstrated consistent resilience, alongside Manufacturing (+1.6%), Construction (+1.2%), and Government (+1.2%), suggesting that institutional and industrial employers are anchoring what expansion exists. Financial Activities posted the sharpest decline at −3.2%, while Professional and Business Services (−1.3%) and Trade, Transportation, and Utilities (−1.2%) also contracted, continuing a broader trend of softness in office-using and logistics-oriented sectors. That said, the sustained strength in education, health, and manufacturing offers a partial offset, even as weakness in several other sectors continues to weigh on the broader employment picture.

Employment by Industry, May 2026



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

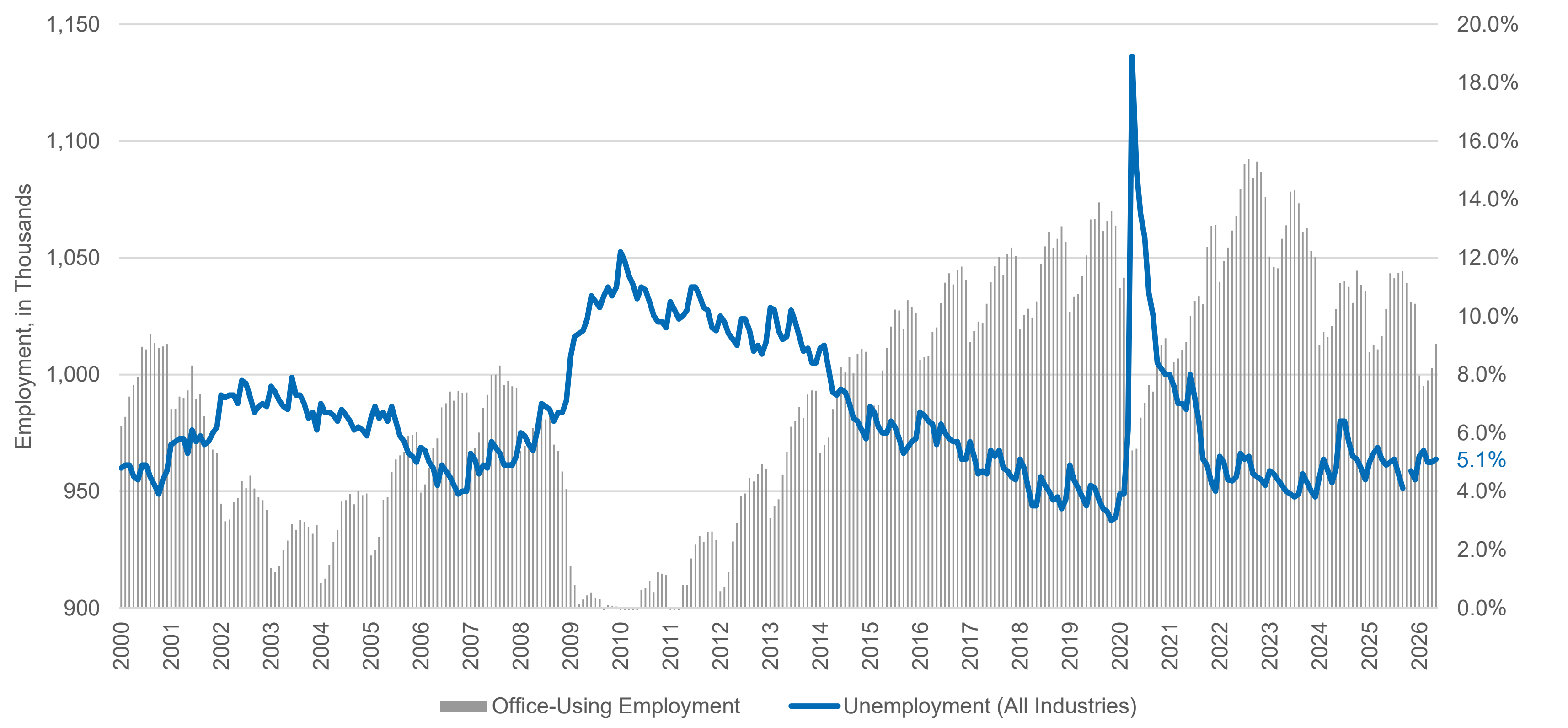


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Office-Occupying Sectors Continue to Contract in the Chicago MSA

Chicago's three primary office-occupying industries all contracted year-over-year in May 2026, underscoring persistent structural challenges for office space demand across the MSA. Financial Activities posted the steepest decline of any sector at 3.2%, reflecting ongoing workforce reductions tied to cost rationalization and technology-driven efficiency gains. Professional and Business Services, the largest of the three sectors at approximately 677,600 jobs, fell 1.3% year-over-year. Information declined a more modest 0.1%, though the sector remains well below its pre-pandemic employment peak. Collectively, the weakness across these three sectors carries direct implications for office leasing activity, as shrinking payrolls in traditionally high-density office users translate to reduced space requirements and continued upward pressure on vacancy across the MSA.

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.

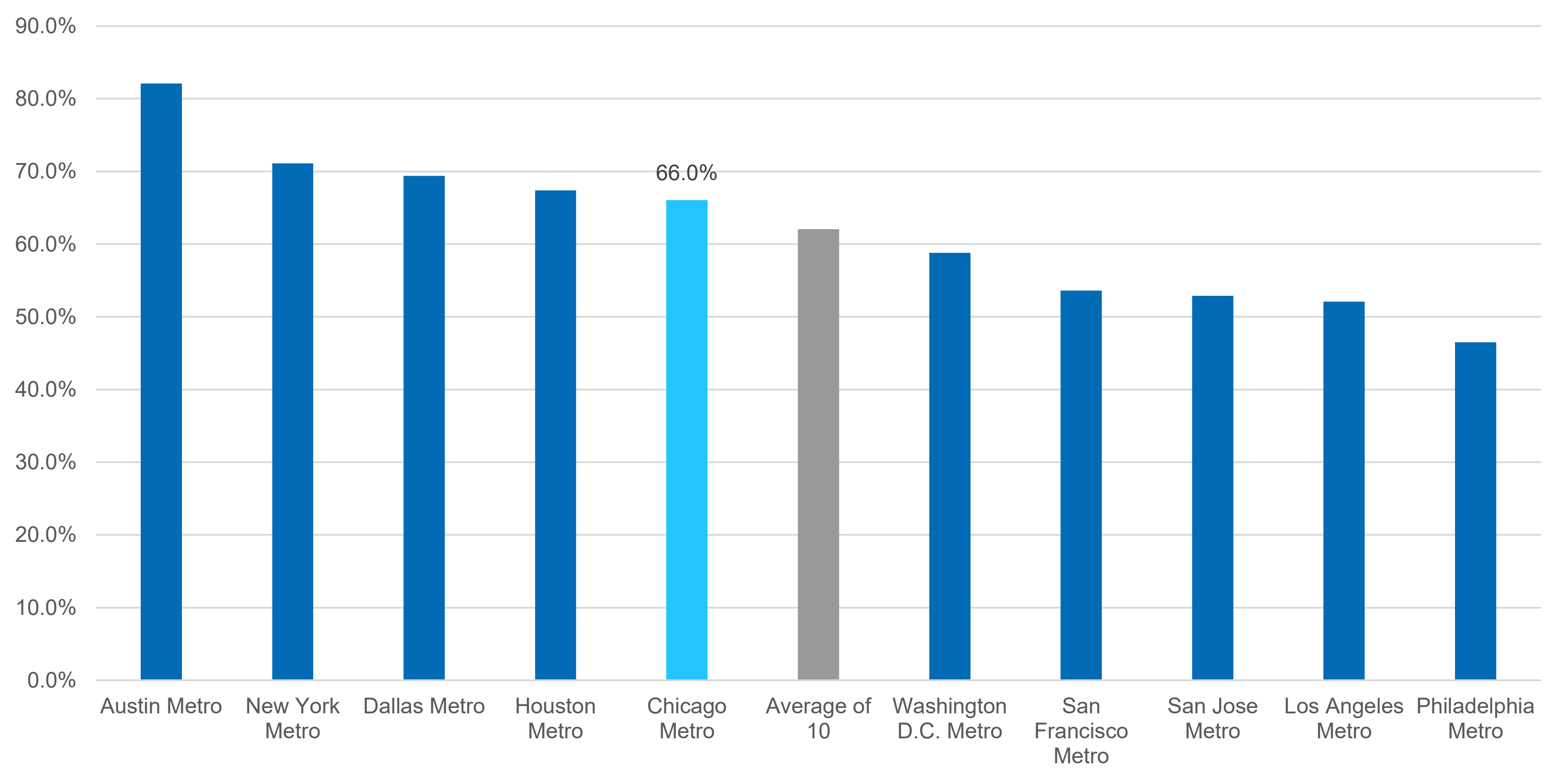
02

Leasing Market Fundamentals

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

According to Kastle[1] data, hybrid work patterns continue to shape office utilization, with occupancy typically peaking on Tuesdays. On the last Tuesday of June, Chicago ranked fifth nationally at 66%, reinforcing its relative strength among major U.S. office markets. Even so, utilization softened during the quarter, as average occupancy across the Barometer's Class A+ buildings declined 650 basis points quarter-over-quarter to 72.5%, though peak day occupancy still reached 97.8% on June 9. Overall, Chicago occupancy fell 3.8% quarter-over-quarter, closely tracking the 3.6% decline across the top 10 metros, as 9 of the 10 markets posted lower office utilization in 2Q.

City Occupancy Levels on Tuesday 06/30/2026



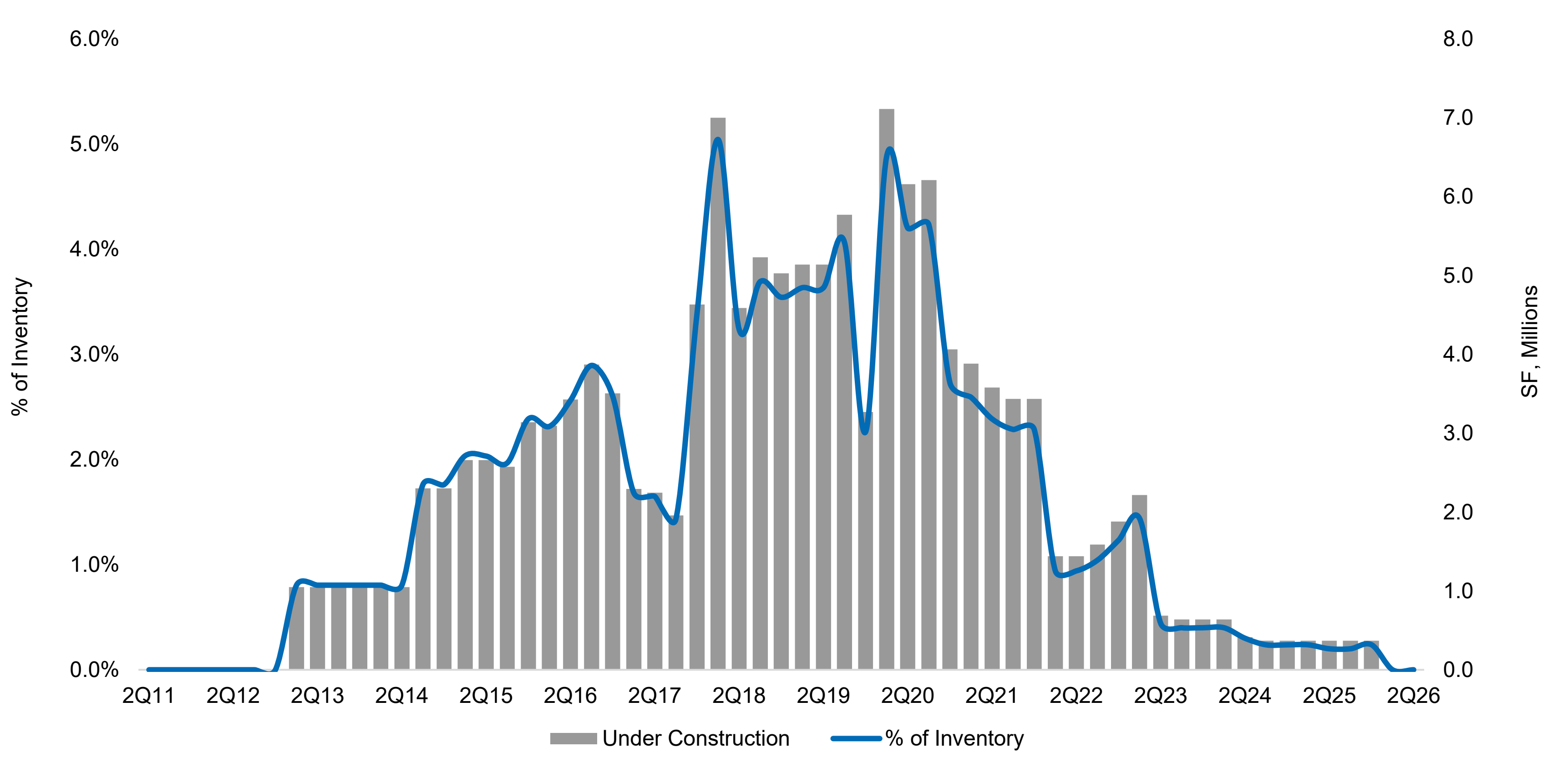
Source: Newmark Research, Kastle Systems

[1] Kastle Systems Back to Work Barometer, data as of June 30, 2026

Construction Pipeline Empty, Supporting Absorption of Existing Inventory

When 919 W. Fulton St. delivered in 1Q26, 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.

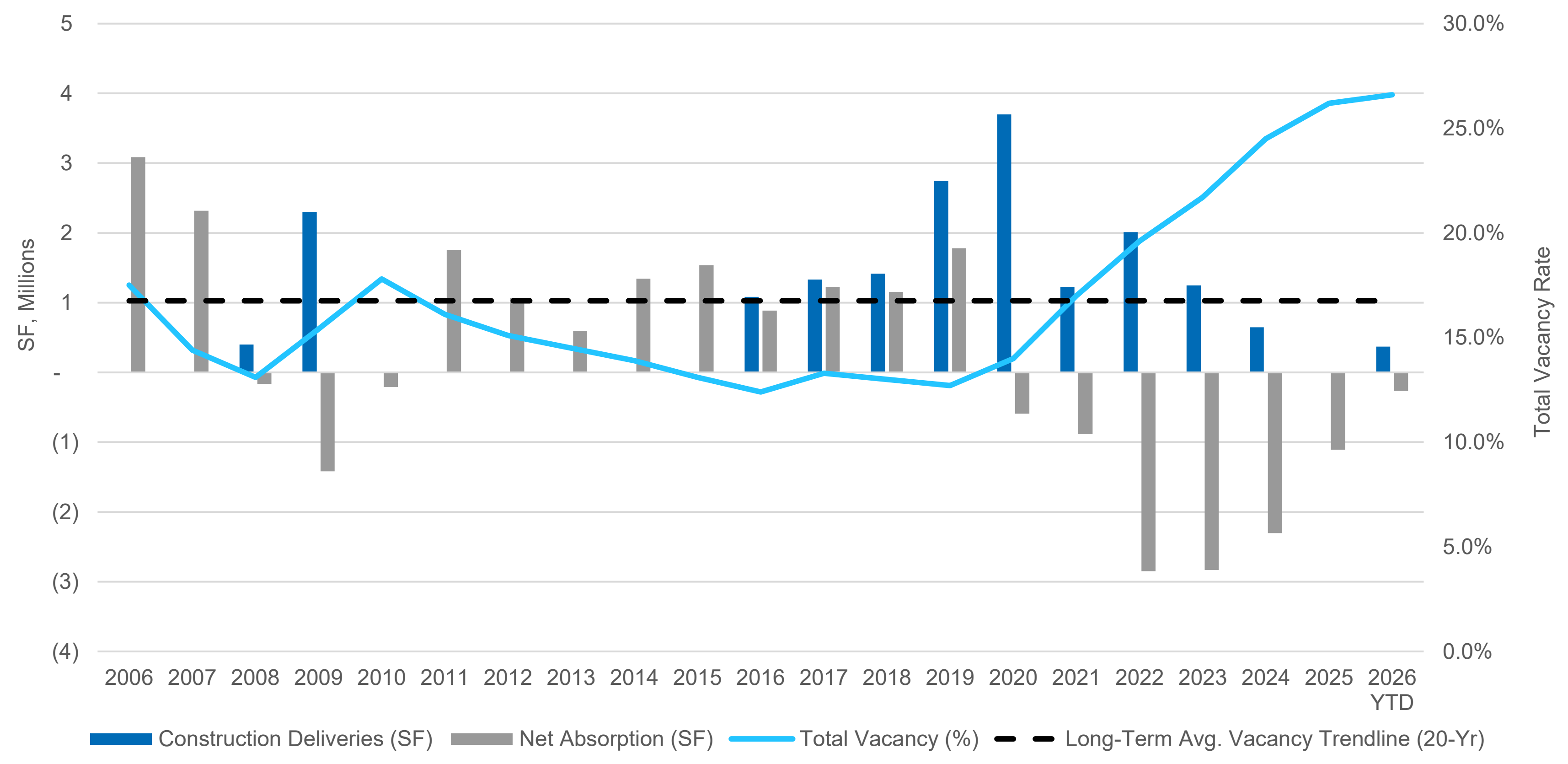
Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

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

Historical Construction Deliveries, Net Absorption, and Vacancy



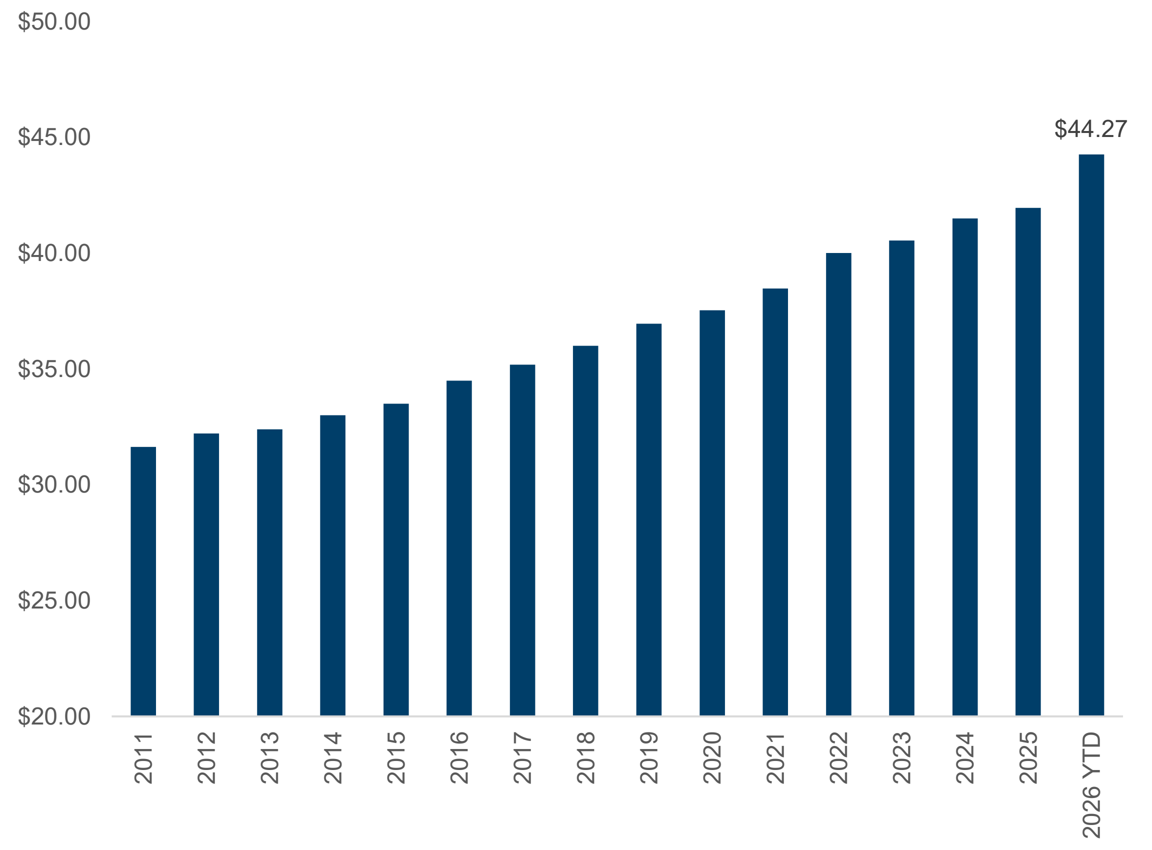
- The downtown Chicago office market remains clearly bifurcated at mid-2026, with overall vacancy elevated at 26.6% and total availability at 30.4%, while average direct asking rents are holding near $44.27/SF rather than resetting lower.
- Leasing demand is concentrated in the West Loop and Fulton Market, where availability is comparatively lower at 26.7% and 24.5% and net absorption is positive, led by roughly 200,900 square feet of quarterly gains in the West Loop.
- In contrast, the Central Loop and East Loop continue to experience deepening occupancy losses, with vacancy of 29.8% and 31.9%, higher availability, and negative net absorption, underscoring ongoing tenant consolidation and a persistent flight to newer product and energized submarkets.

Source: Newmark Research

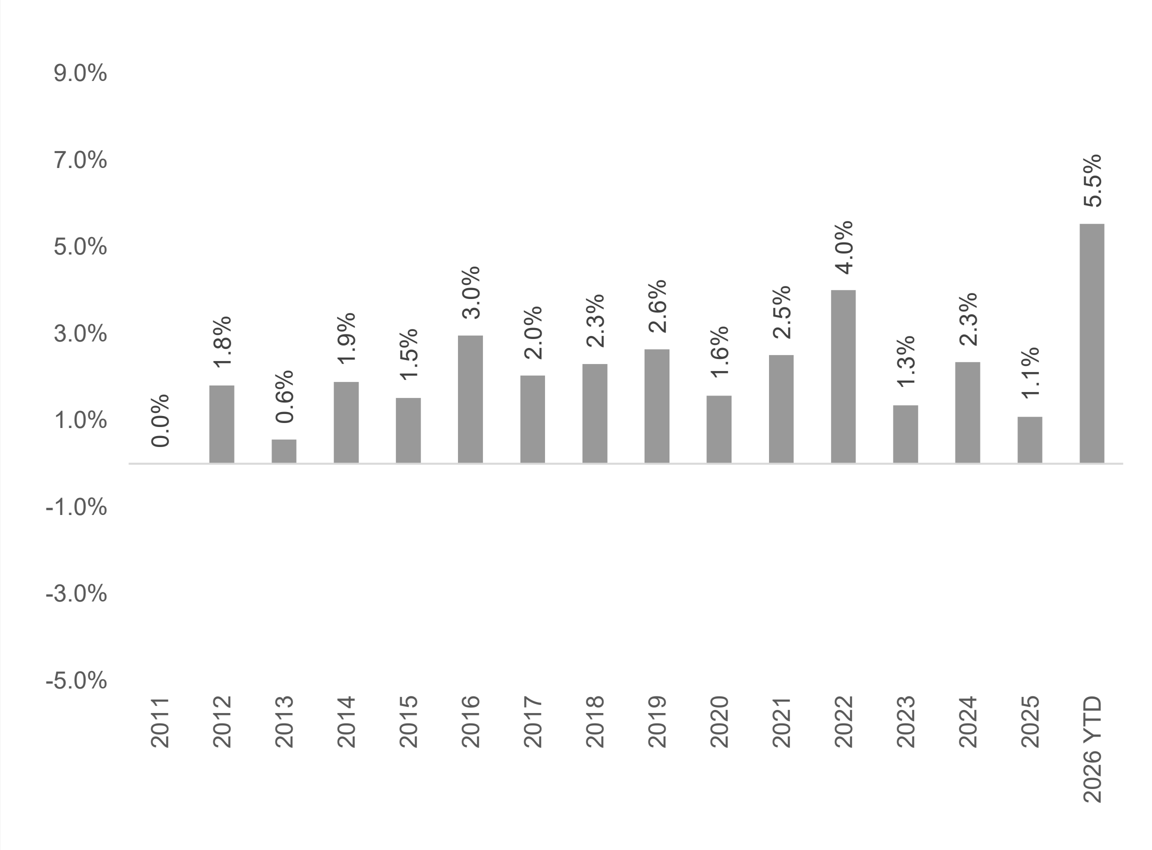
Direct Asking Rents Tick Down in 2Q26

For the downtown Chicago market as a whole, direct asking rents eased modestly in 2Q26, with the weighted average rate declining to $44.27/SF, down from $45.21 in 1Q26. This marks the first sequential decrease since late 2025 and follows several quarters of rent growth from approximately $40.60 in 1Q25, suggesting that landlords are beginning to concede pricing amid persistently elevated vacancy and availability, even as headline rates remain well above levels seen two years ago.

Office Average Direct Asking Rent, $/SF, FS

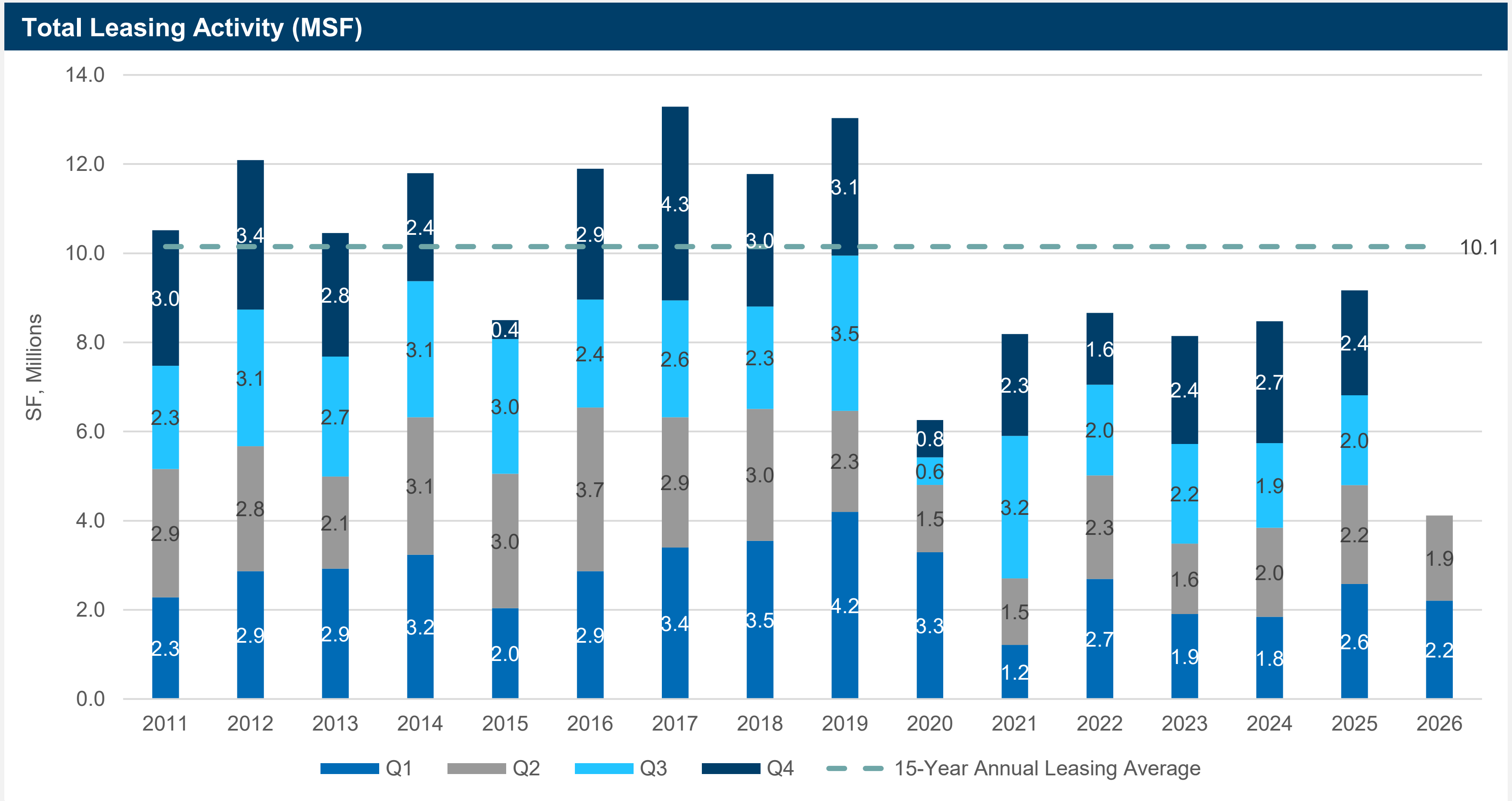


Year-over-Year Average Direct Asking Rent Growth Rate



Source: Newmark Research, CoStar

Leasing Activity Slow in 2026, But Is Picking Up



- Leasing volume in the Chicago CBD totaled approximately 1.9 MSF in the second quarter, a decrease in activity from 1Q26.
- Despite a downturn in overall leasing, sublease activity increased, dropping sublet availability by 40 bps quarter-over-quarter to 2.9%.
- 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.

Source: Newmark Research

Top 2Q26 CBD Transactions

2Q26 leasing volume of roughly 1.9 million square feet is broadly in line with the recent five-year second-quarter average, indicating that current demand has stabilized at a lower, post-pandemic baseline that is still structurally weaker than the 15-year annual leasing average.

Vedder

The law firm signed an extension at 222 N. LaSalle St., remaining within its 163,000 SF footprint through 2041.

HURON

The healthcare consulting group downsized in place, reducing its footprint to 83,000 SF at Union Tower.

Huntington

The banking services firm expanded, adding a decade and 23,000 SF to its existing 37,000 SF+ footprint at 222 N. LaSalle St.

LOEB & LOEB LLP

The legal services firm relocated from 321 N Clark St. to 53,000 SF of space at 151 N. Franklin St.

Access the Extended 2Q26 Chicago Office Market Conditions & Trends Report

To access, please reach out to Amy.binstein@nmrk.com or your local Newmark contact.

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.

– **Granular Leasing and Pricing Detail:** Submarket-level breakdowns of lease structures, effective vs. face rents, concession trends, and projected rent trajectories by quality tier and location.

– **Scenario-Based Local Economic Outlooks:** Newmark's forward-looking views on employment, office-using demand, and space needs under multiple macroeconomic paths specific to the Chicago region.

Extensive content across 20+ slides—a detailed presentation packed with useful office information and in-depth analysis.

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Submarket Overview

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