

3Q24

# Chicago CBD Office Supplemental Market Report

**NEWMARK**



# Market Observations

## Economy

- Chicago’s unemployment rate is 1.5% higher than the national average, with job growth slowing over the past year. Recently, unemployment in Chicago rose above 6%, marking the first time since June 2021.
- Industries closely tied to office occupancy have all posted negative results. Financial activities saw the smallest dip, while business services and information sectors experienced multiple quarters of notable declines. In some cases, office tenants are reducing space due to lower staffing levels.

## Major Transactions

- The largest lease signed Downtown this quarter was an extension by Capital One, which reduced its footprint at 77 W Wacker Dr from approximately 170,000 SF to 151,000 SF.
- Medline secured the second largest lease in the Central Business District and the largest in the suburbs this quarter, extending for 110,000 SF downtown and signing a 215,000 SF lease in the suburbs.
- The Jewelers Building at 35 E Wacker achieved the highest sale price among office buildings traded this quarter. The 556,000 SF tower sold for \$35.5 million.

## Leasing Market Fundamentals

- After a slow start to the year, leasing volume this quarter aligned with levels seen in Q3 of last year. There were signs of optimism, but the growth is still outpaced by the smaller, contraction-focused deals tenants are signing. Even with an uptick in leasing, smaller lease sizes will keep total activity below pre-pandemic levels.
- Vacancy rates held steady this quarter, with only one building under construction, set for delivery next year. Tenant activity will be the primary driver of vacancy trends for the remainder of 2024.
- 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.

## Outlook

- The CBD continues to face challenges as owners grapple with financing hurdles that threaten deals, while tenants reassess their space needs. With an oversupply of inventory, the CBD market will need to absorb or repurpose space to remain competitive.
- Uncertainty in the office market continues to weigh on both leasing and investment activity. Deals are still closing, but at a slower pace, as occupiers and investors approach transactions with heightened caution.
- Chicago has weathered market fluctuations before, but with no surge in office space demand on the horizon, the market will need to navigate lower demand and find creative solutions.

1. Economy
2. Leasing Market Fundamentals



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# Economy

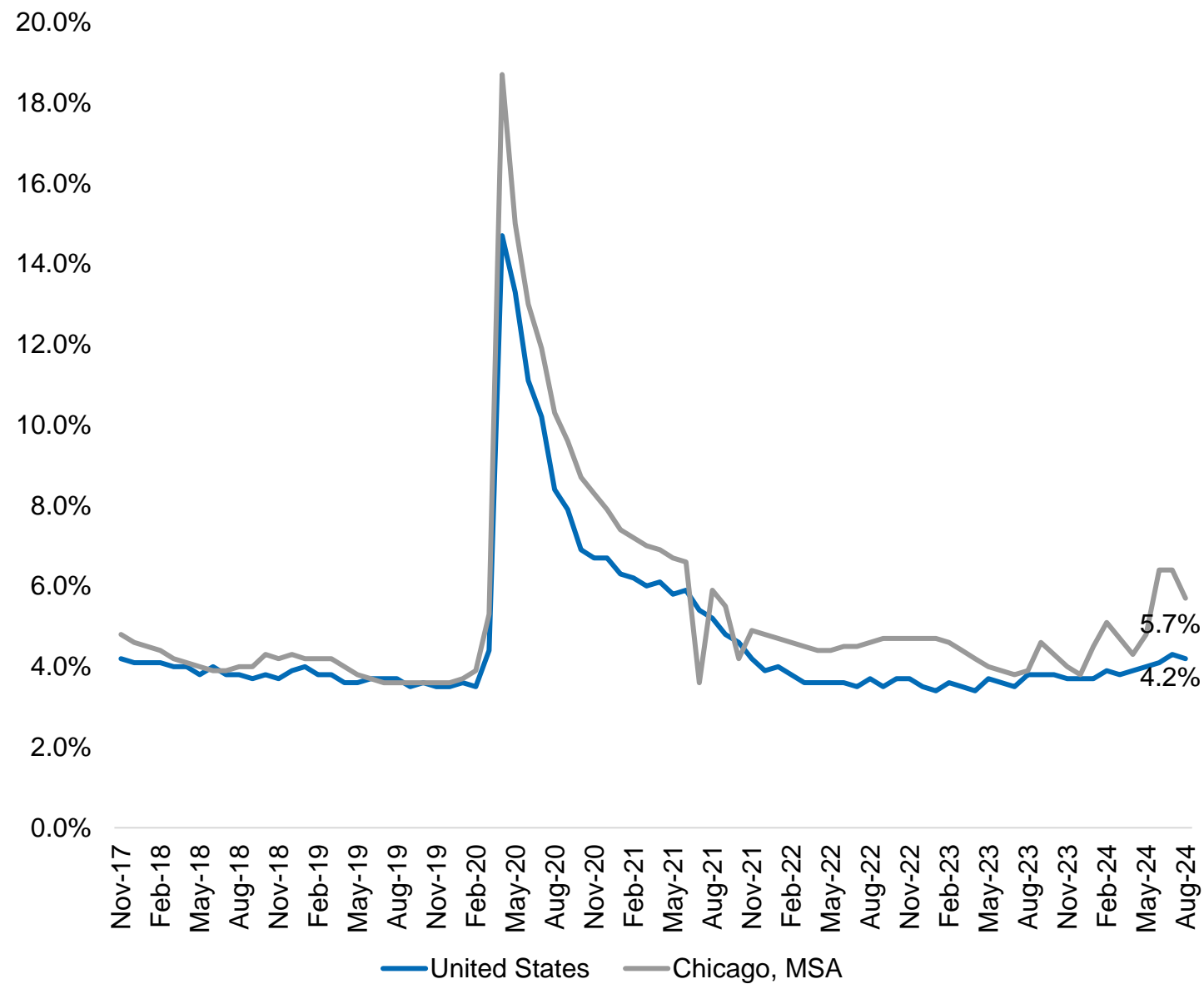




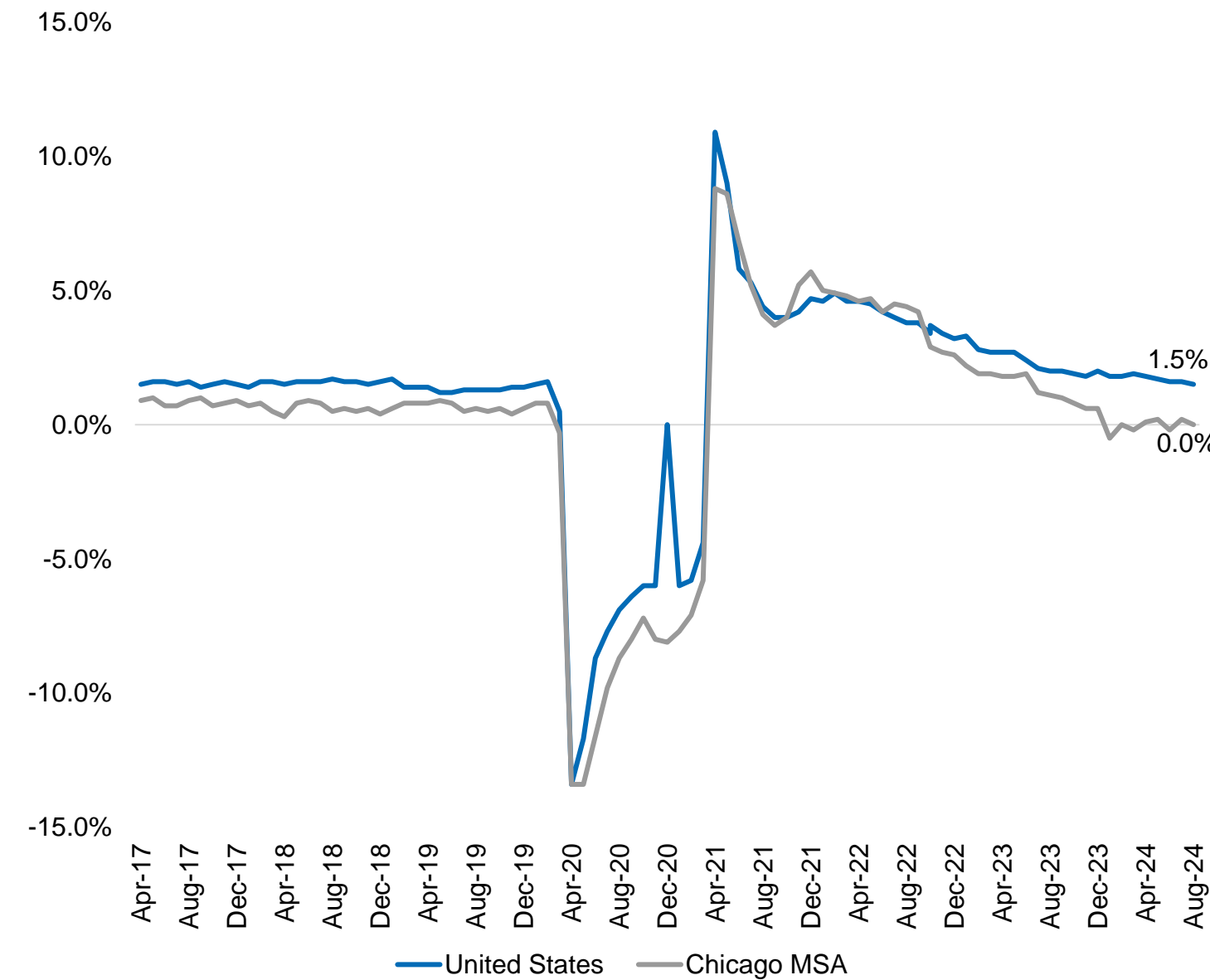
# Metro Employment Trends Signal Slowing Economy

Chicago's unemployment rate typically trends slightly above the national average, with job growth slowing over the past couple of years. Persistently high inflation and elevated interest rates have strained the labor market. The Federal Reserve's rate cut in September offers hope for a turnaround.

**Unemployment Rate, Seasonally Adjusted**



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

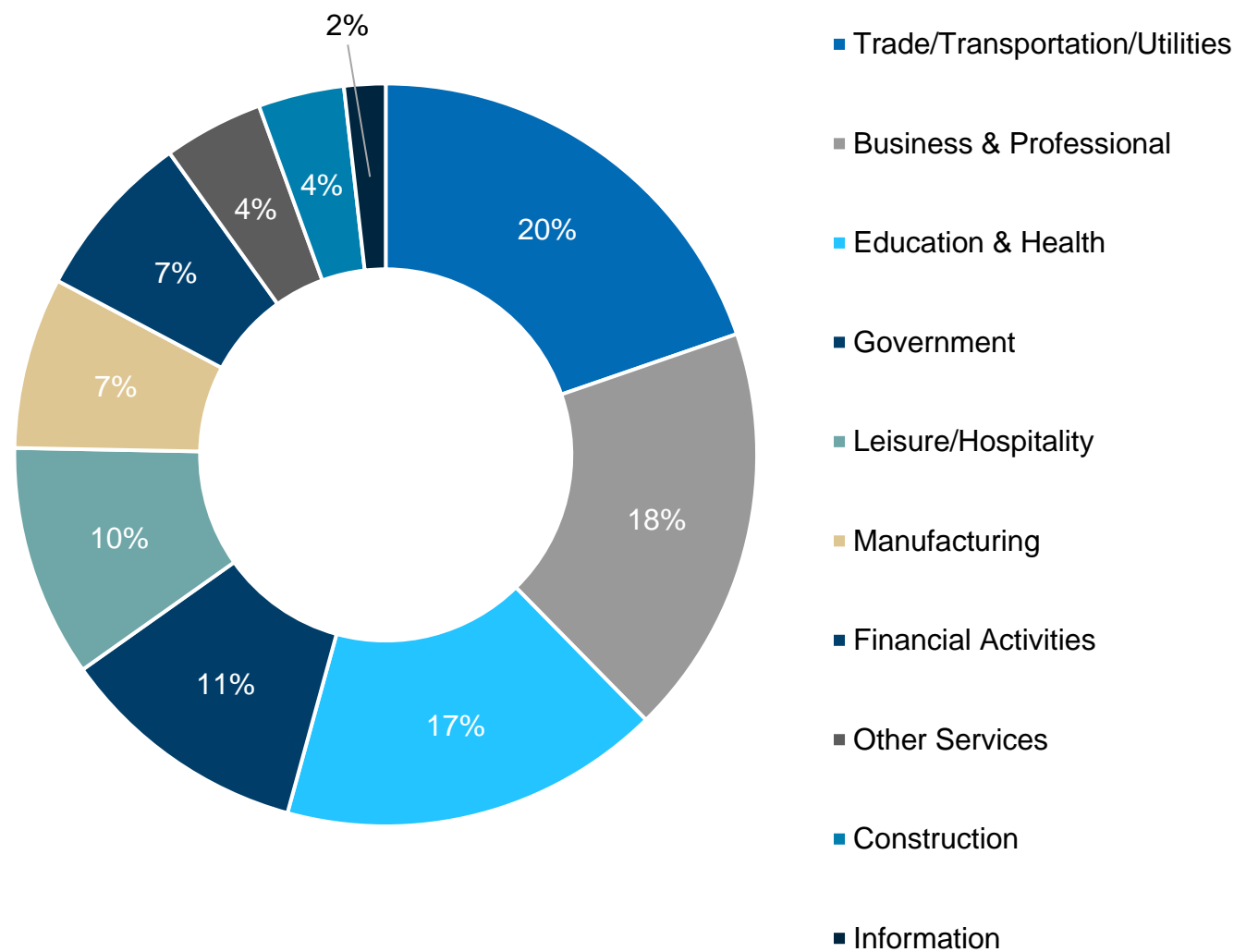


Source: U.S. Bureau of Labor Statistics, Chicago MSA

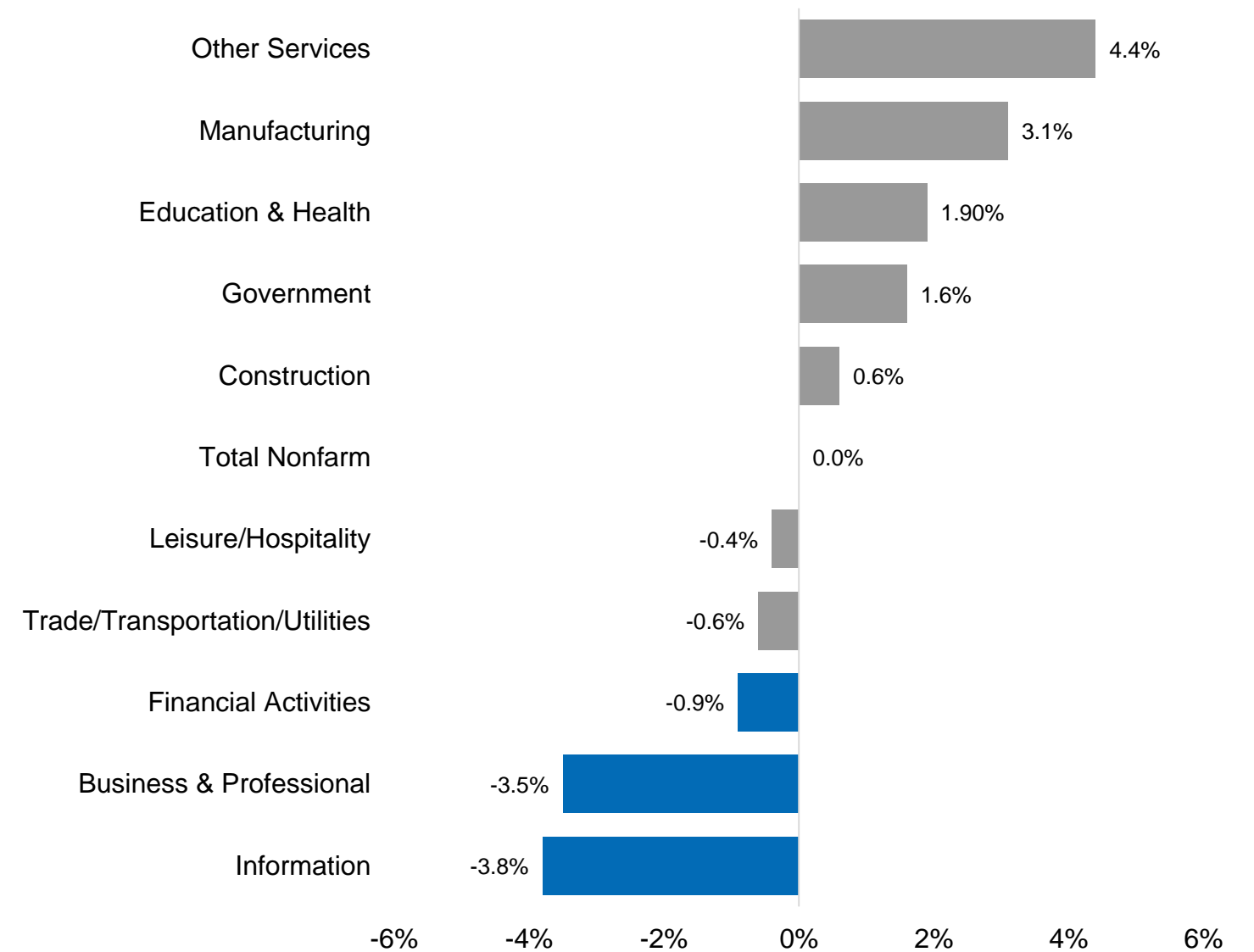
# Services Sector Drives Job Gains; Office Industries Contract

The “Other Services” sector led regional annual job growth, driven largely by the continued recovery from pandemic losses. Office-occupying industries, however, posted negative results across the board. Financial activities saw the smallest decline, while business, professional services, and information sectors faced significant drops for several consecutive quarters. In some cases, office tenants are downsizing due to workforce reductions.

Employment by Industry, August 2024



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

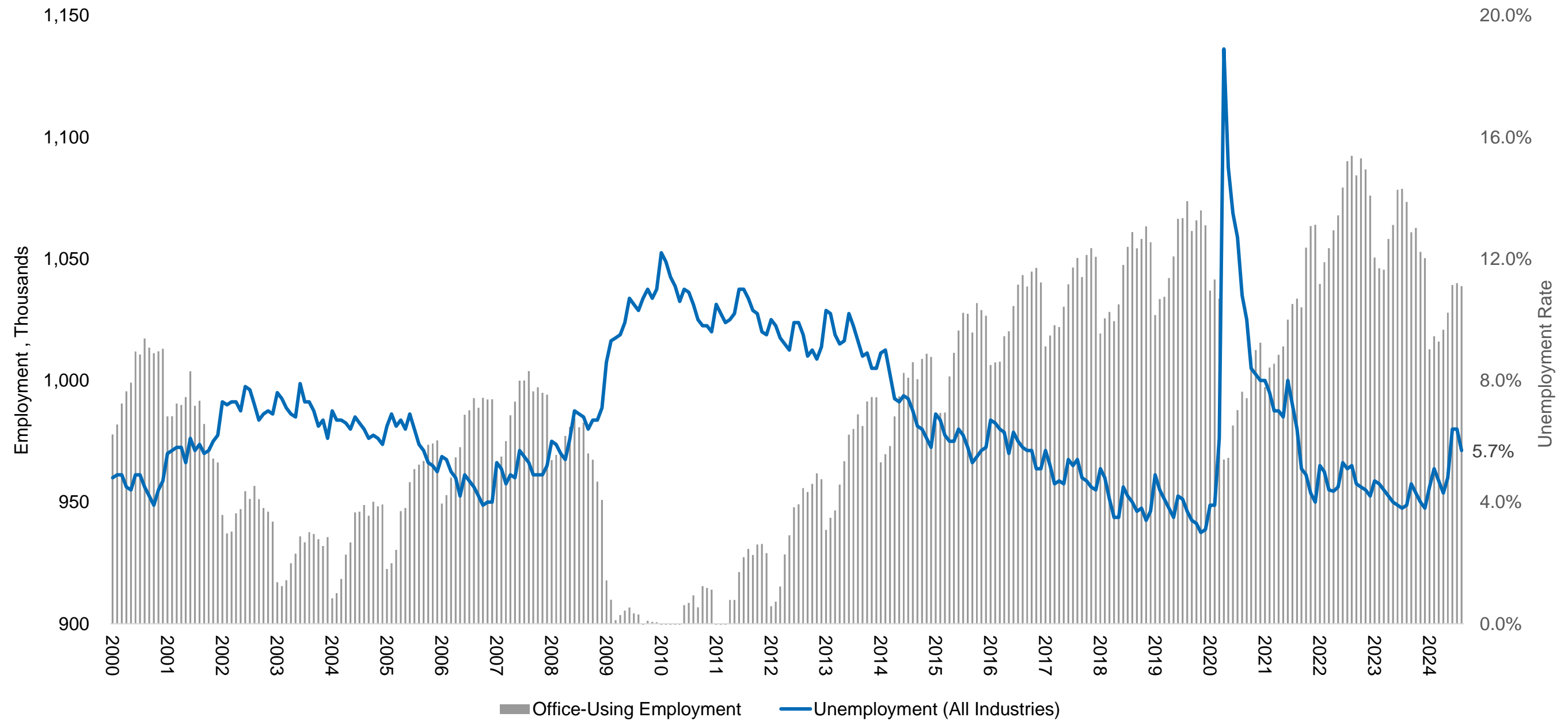


Source: U.S. Bureau of Labor Statistics, Chicago MSA

# 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

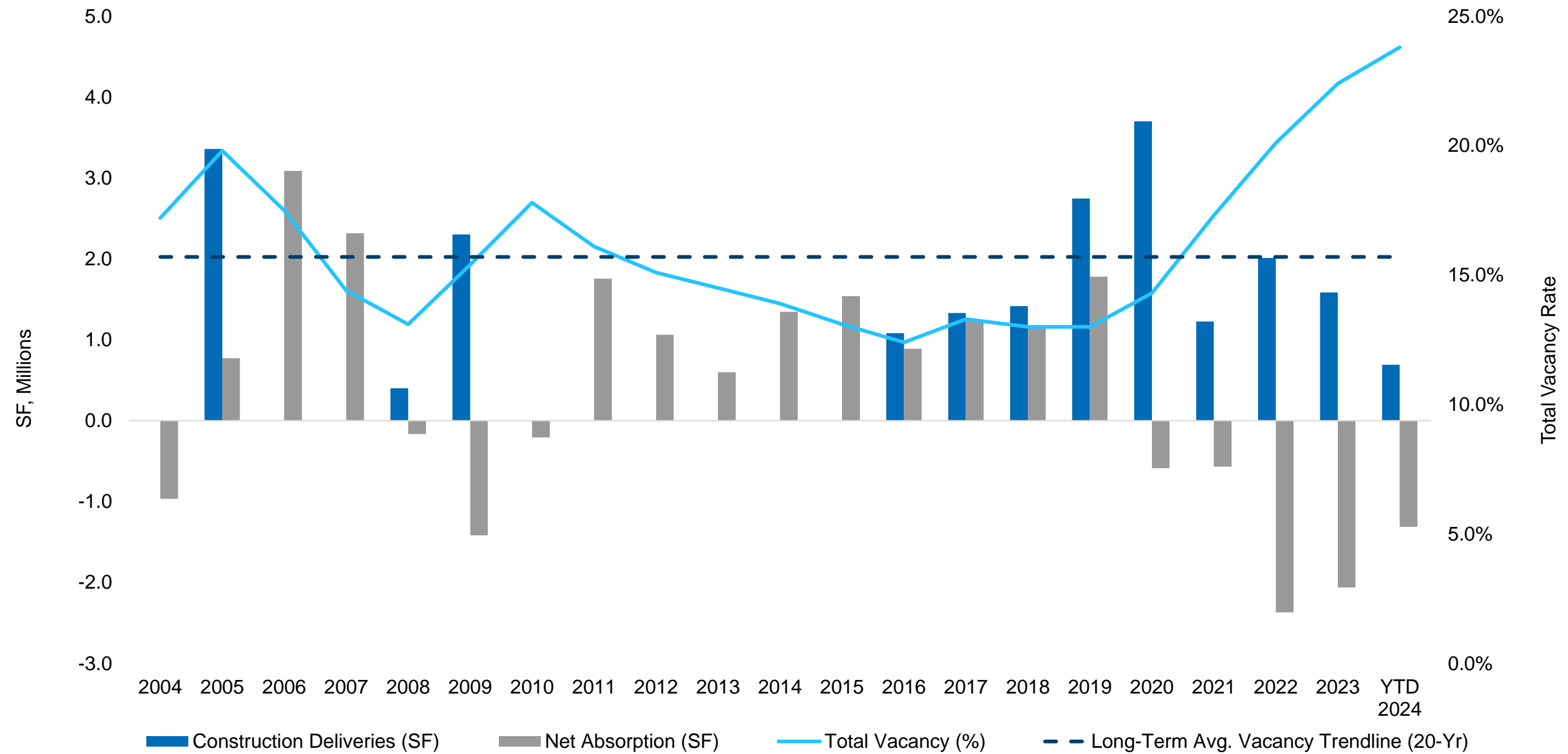




# Fewer Deliveries Correlates With Less Negative Absorption

Vacancy remained stable this quarter as the CBD saw approximately 200,000 SF of positive absorption. Year-to-date, total vacancy has risen by 1.4%, while absorption stands at approximately negative 1.3 million SF.

## Historical Construction Deliveries, Net Absorption, and Vacancy

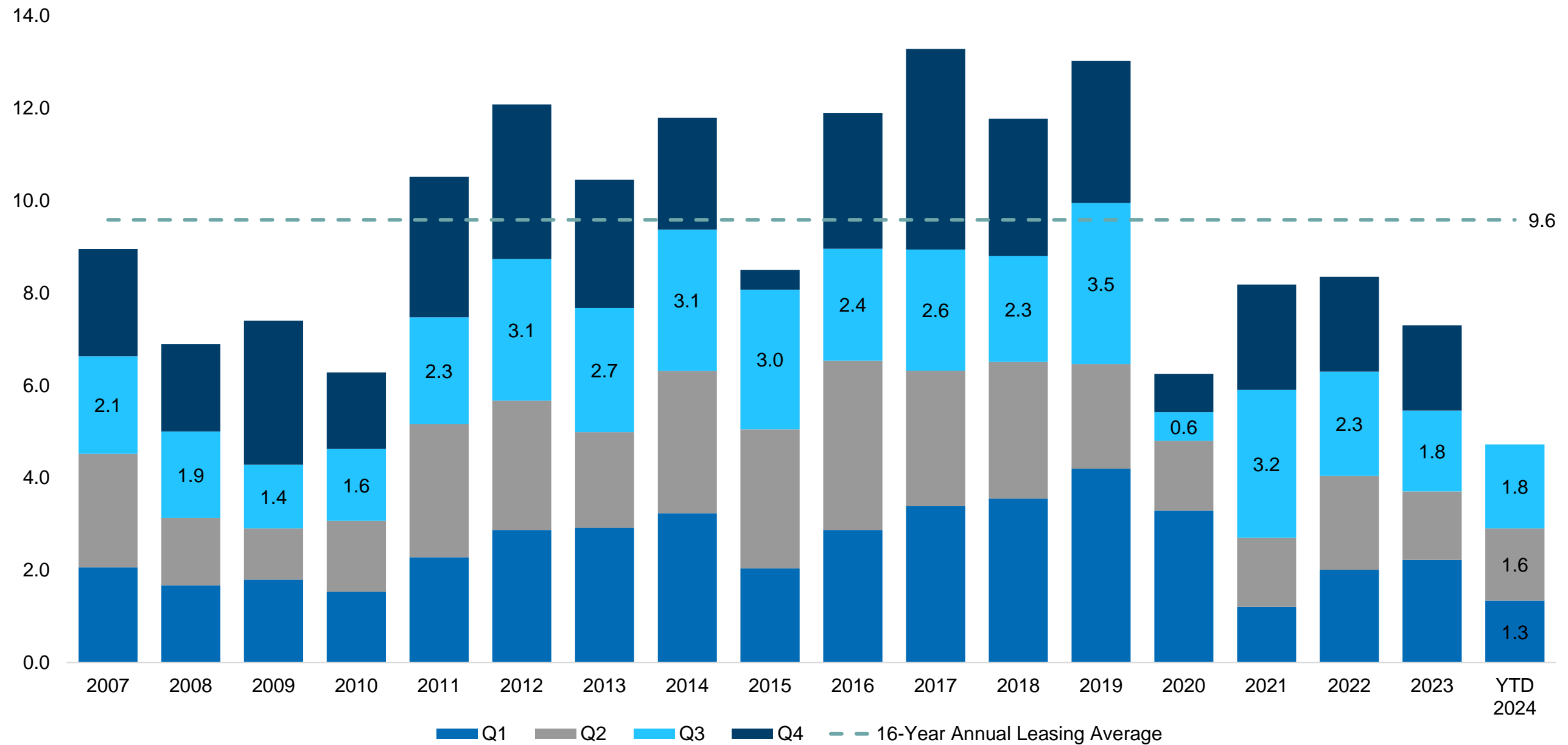


Source: Newmark Research

# Leasing Activity Consistent With Q3 2023

Following a slow first half, leasing volume this quarter aligned with Q3 levels from last year. While there were some positive signs, growth continues to be outpaced by the smaller, contraction-focused deals tenants are signing. Despite the pickup in leasing, reduced lease sizes will keep overall activity below pre-pandemic levels.

Total Leasing Activity (msf)



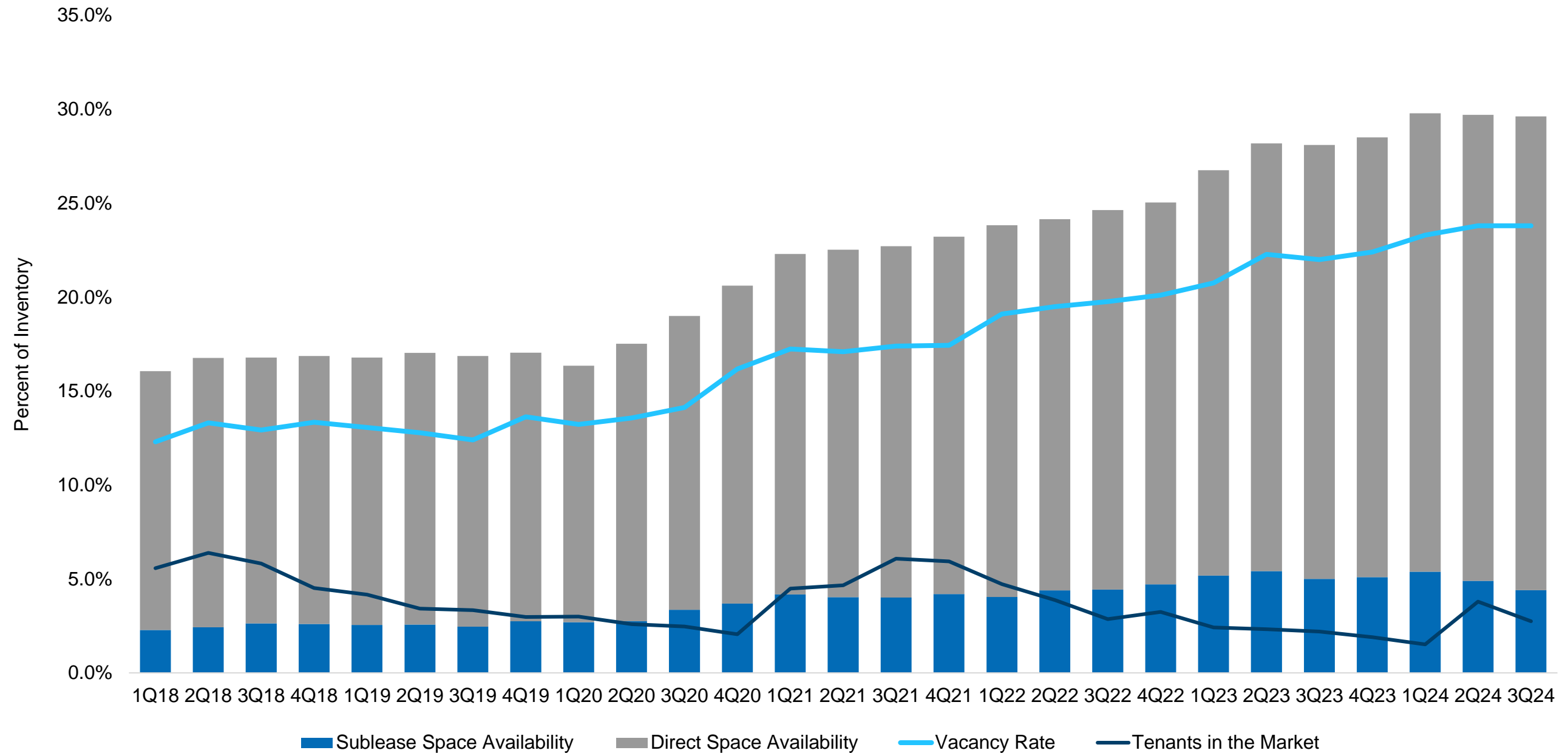
Source: Newmark Research, CoStar



# Tenant Demand Dips Slightly

Sublease availability decreased by 0.5% this quarter to 4.4%, marking its lowest level in two years. Conversely, direct availability surpassed 25%, continuing its upward trend. As pre-pandemic leases expire and tenants "right-size," space previously listed for sublease is increasingly becoming direct availability.

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research



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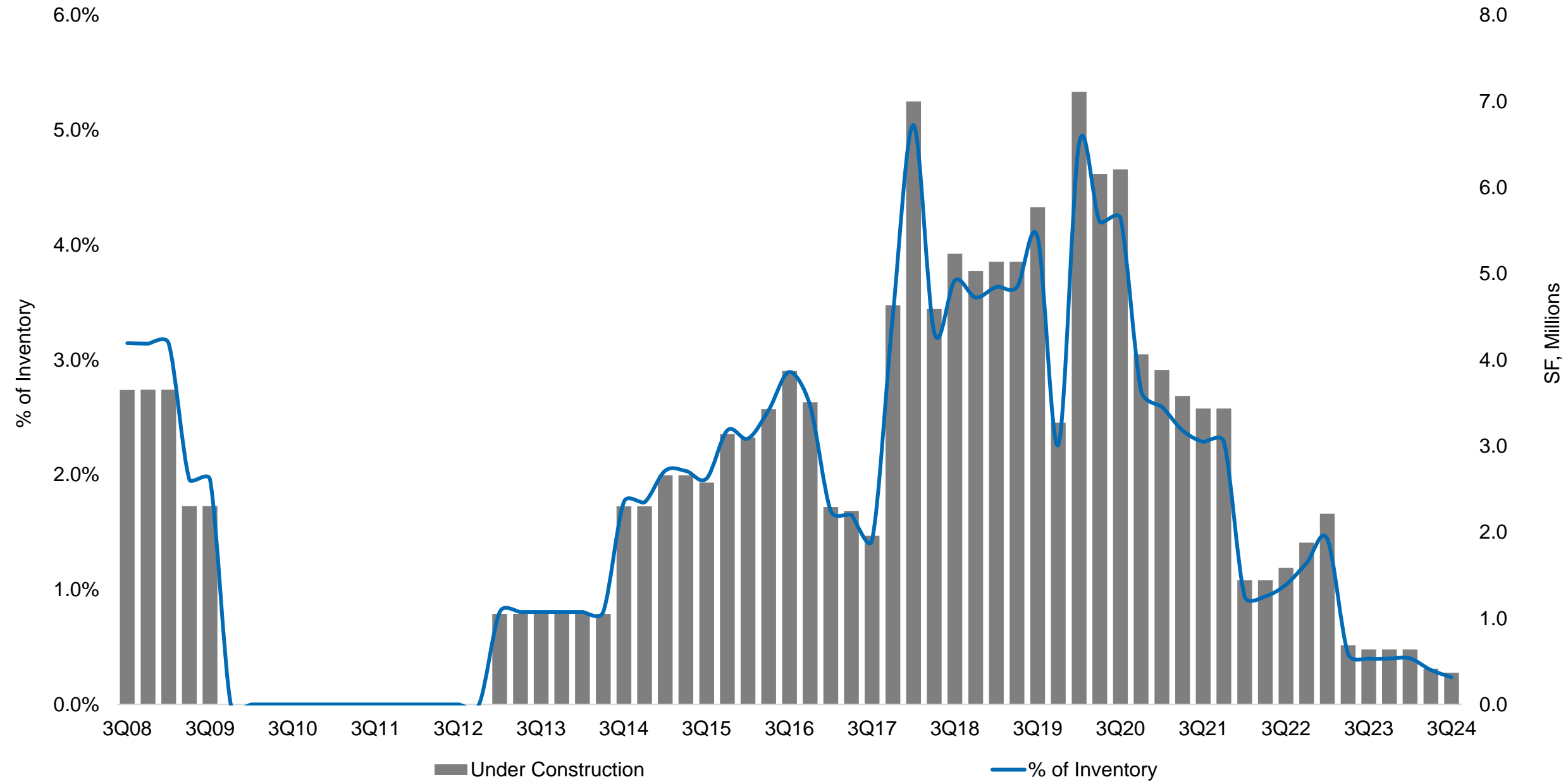


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# Inventory Under Construction Remains Low

One small office building delivered this quarter, leaving just one office project still under construction. As the pipeline thins, the market will no longer face competition from new inventory for tenants. In recent quarters, tenants have favored new office space, with several of the largest leases signed in newly delivered buildings.

Office Under Construction and % of Inventory



Source: Newmark Research, CoStar



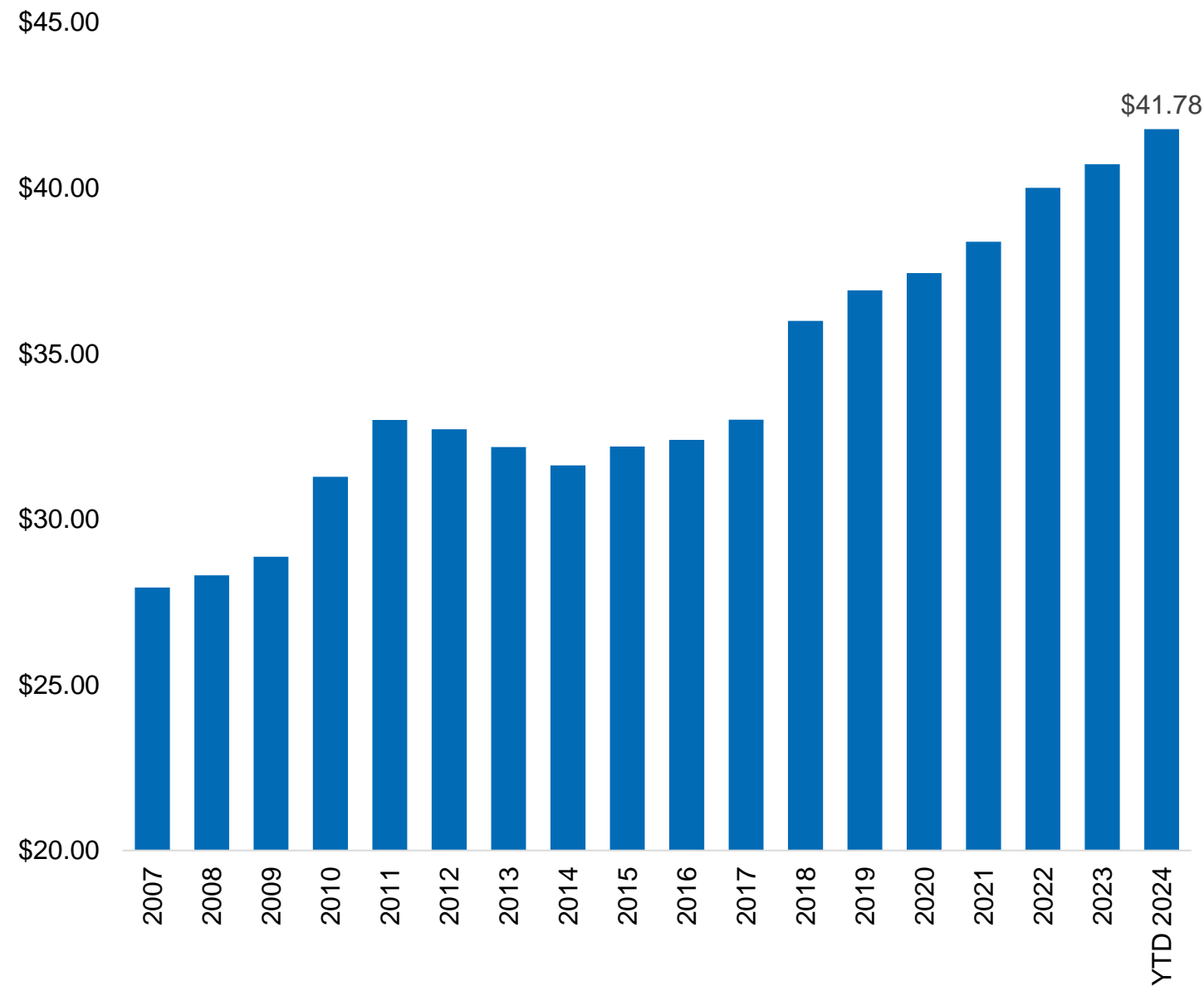


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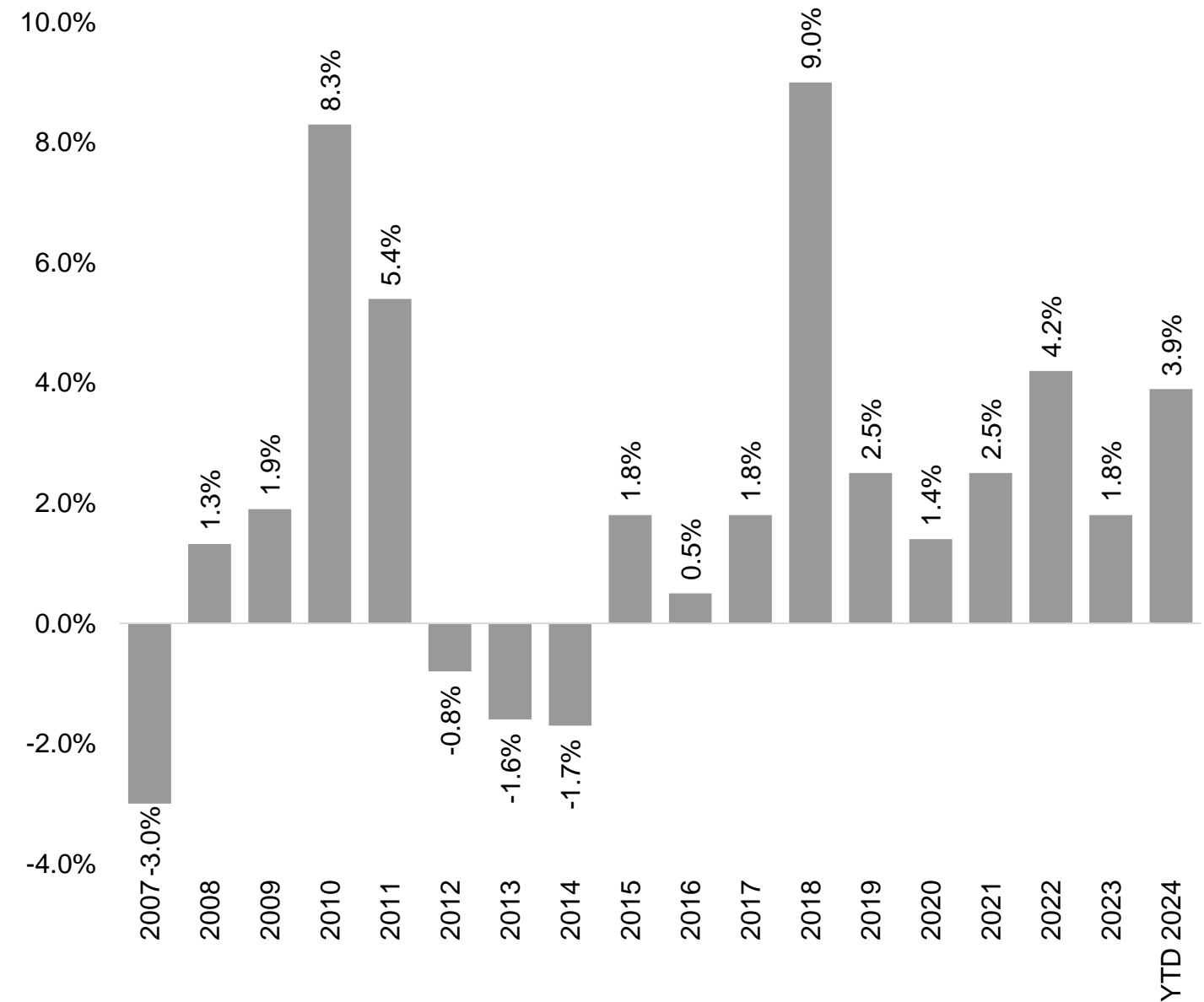
# Rental Rate Growth Continues

Asking rates continued to rise in the first half of the year, with the average increasing by \$1.06/SF compared to 2023 and growing by \$0.18/SF quarter over quarter.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



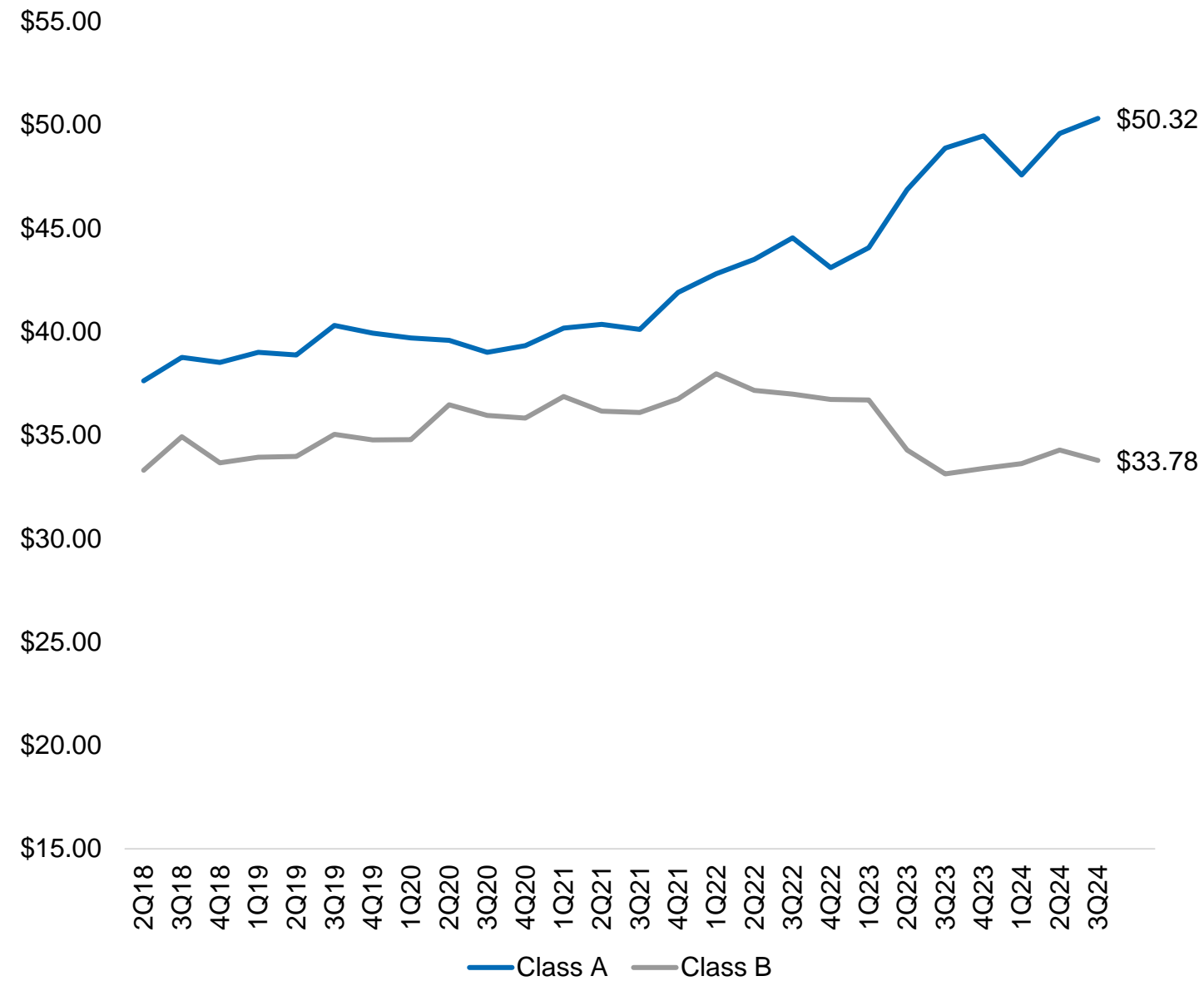
Source: Newmark Research, CoStar



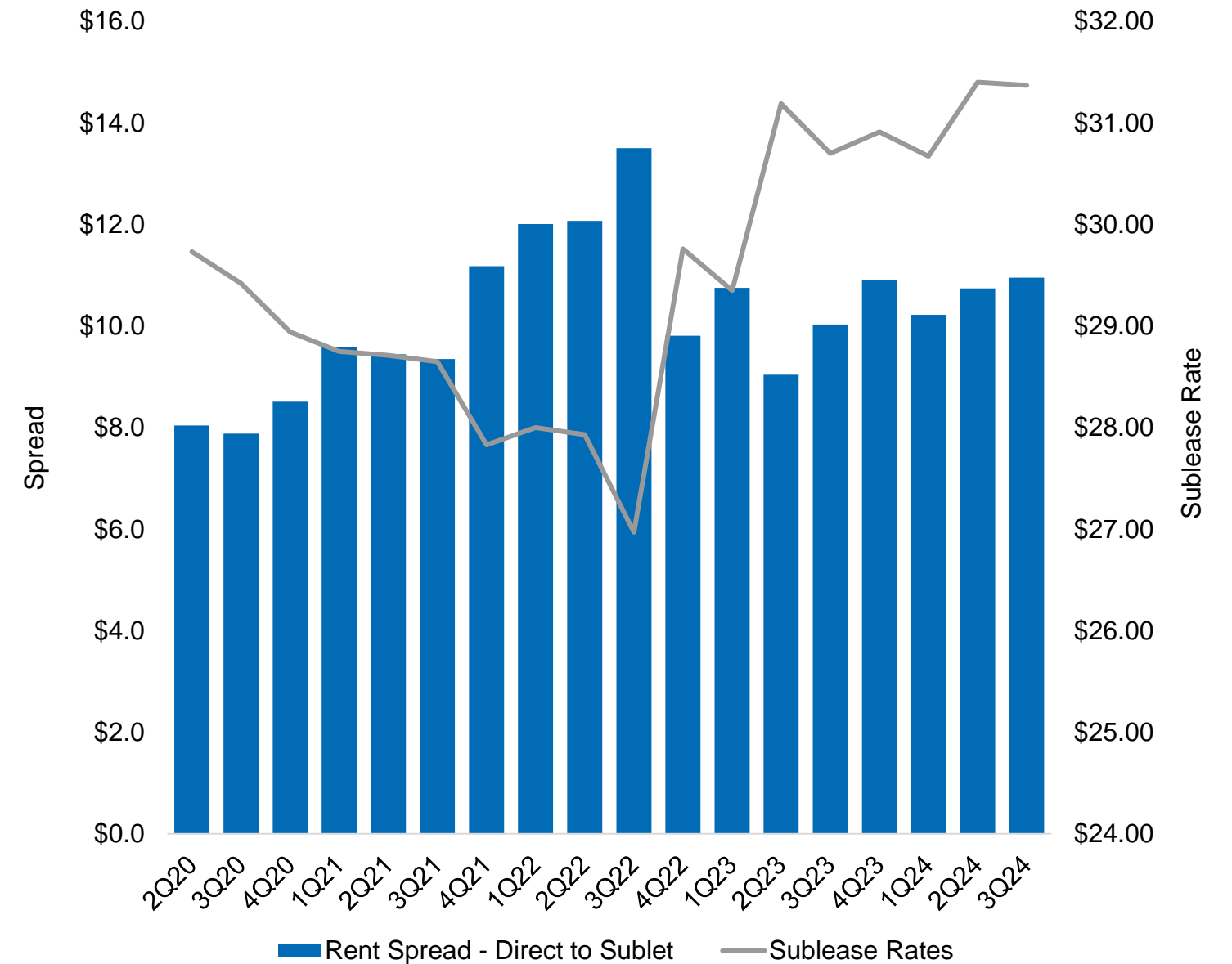
# Rent Spreads Expand Amidst Surging Demand For Class A

Rent spreads have widened between both Class A and Class B asking rates, as well as direct and sublease rates. The gap between Class A and B asking rates now exceeds \$16.00. Top-tier Class A space is commanding record-high asking rates due to extremely limited availability in this segment of the market.

Class A and Class B Direct Asking Rents



Sublease Rates



Source: Newmark Research



# Leasing Activity Increases

Leasing volume increased this quarter, surpassing the first two quarters of the year. Three leases over 100,000 SF were completed, compared to none last quarter. Despite this uptick, 2024 is set to mark the fifth consecutive year below the historical average.

## Notable 3Q24 Lease Transactions

| Tenant   | Building(s)              | Submarket      | Type            | Square Feet |
|--|--------------------------|----------------|-----------------|-------------|
| Capital One  | 77 W Wacker Dr           | Central Loop   | Lease Extension | 151,000     |
| <i>Capital One has extended its office lease at 77 W Wacker. They'll be downsizing from 170,000 to 151,000 SF.</i>           |                          |                |                 |             |
| Medline  | 222 Merchandise Mart Plz | River North    | Lease Expansion | 110,000     |
| <i>Medline will more than triple its space in the Merchandise Mart from 51,000 to 161,000 SF.</i>                            |                          |                |                 |             |
| ACGME  | 401 N Michigan Ave       | N Michigan Ave | Lease Extension | 104,000     |
| <i>The Accreditation Council for Graduate Medical Education has extended its office lease at 401 N Michigan Ave.</i>         |                          |                |                 |             |
| Barnes & Thornburg   | 1 N Wacker Dr            | West Loop      | Lease Extension | 96,000      |
| <i>Barnes &amp; Thornburg will be expanding to 96,000 SF by reclaiming a floor previously subleased to another law firm.</i> |                          |                |                 |             |
| Locke Lord   | 225 W Randolph St        | West Loop      | New Lease       | 65,000      |
| <i>Locke Lorde will be downsizing from their current 90,000 SF at 111 S Wacker.</i>  |                          |                |                 |             |





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*For more information:*

**Amy Binstein**

*Midwest Research Director*

amy.binstein@nmrk.com

**Max Fisher**

*Research Analyst*

max.fisher@nmrk.com

**Chicago**

500 W Monroe Street

Chicago, IL 60661

t 312-224-3200

**New York Headquarters**

125 Park Ave.

New York, NY 10017

t 212-372-2000

**[nmrk.com](http://nmrk.com)**

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