
4Q24

Chicago CBD Office Market Report



NEWMARK

Market Observations

Economy

- Chicago’s unemployment rate is 0.8% higher than the national average, with job growth slowing over the past year. After several quarters of increasing, the unemployment rate has fallen in the last couple of months coming back down to 5.0%.
- Office-occupying industries posted mostly negative results. The Information sector saw a slight increase, while financial activities saw a decline. The business & professional services sector faced the most significant drop contracting by -2.7%.

Major Transactions

- The largest lease signed Downtown this quarter was by Sargent & Lundy for 385,000 SF at 77 W Wacker. They will be expanding from the 282,000 SF they currently occupy at 55 E Monroe.
- 550 W Washington achieved the highest sale price among office buildings traded Downtown this quarter. The 373,000 SF tower sold for \$18.5 million.

Leasing Market Fundamentals

- Following a slow first half, leasing volume improved in the second half of 2024. This was the strongest fourth quarter of leasing for the CBD since 2019. 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.
- Vacancy increased 10 basis points this quarter as the CBD saw approximately 170,000 SF of negative absorption. Year-to-date, total vacancy has risen by 1.5%, while absorption stands at approximately negative 1.5 million SF.
- 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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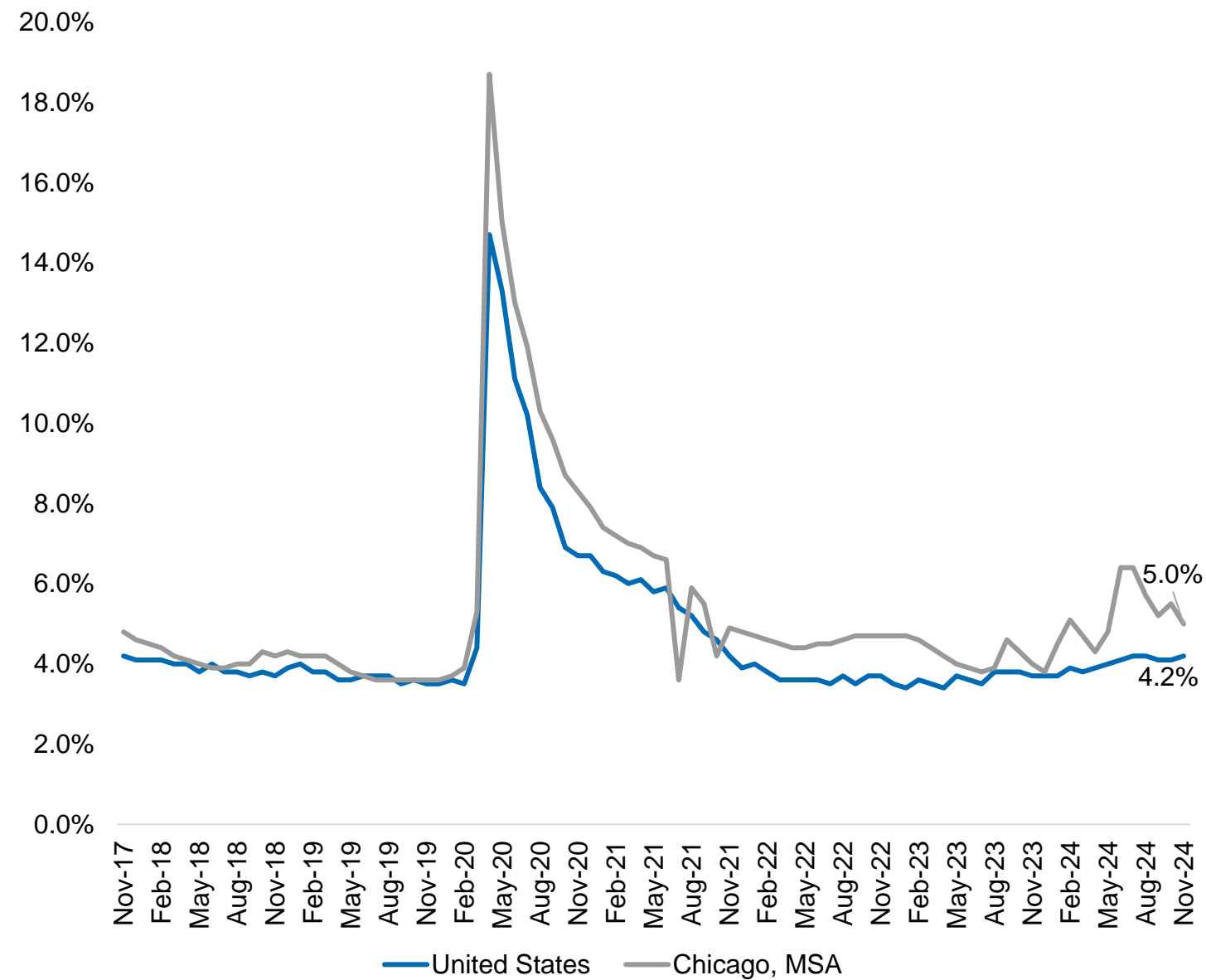
Economy



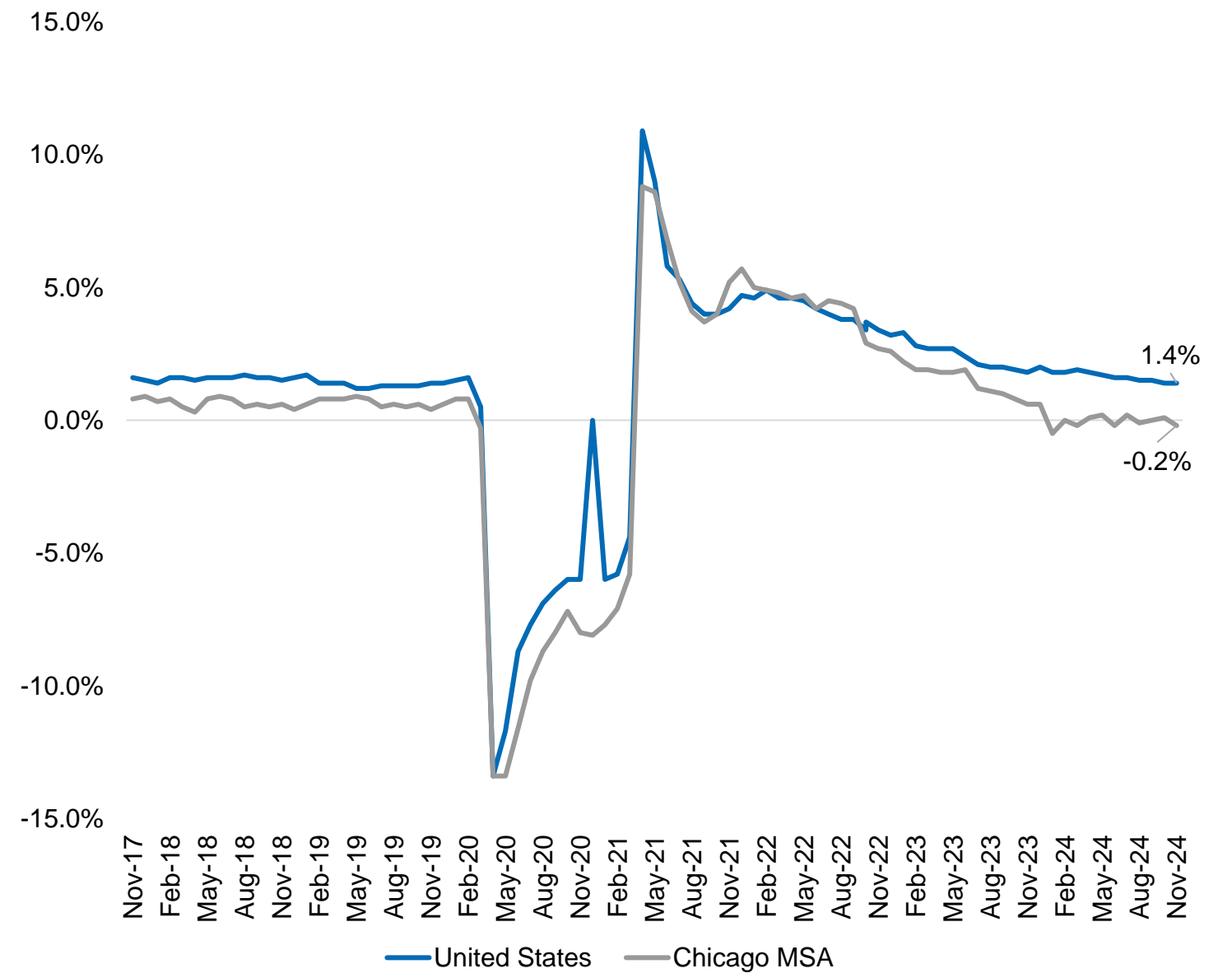
Economic Indicators Show Divergent Trends for Chicago and U.S.

Chicago's unemployment has sharply increased, diverging from a more stable national trend. The city faces challenges with job retention, shown by weak payroll employment growth compared to the national uptick. While recovery trends are visible, Chicago continues to grapple with significant labor market strains.

Unemployment Rate, Seasonally Adjusted



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

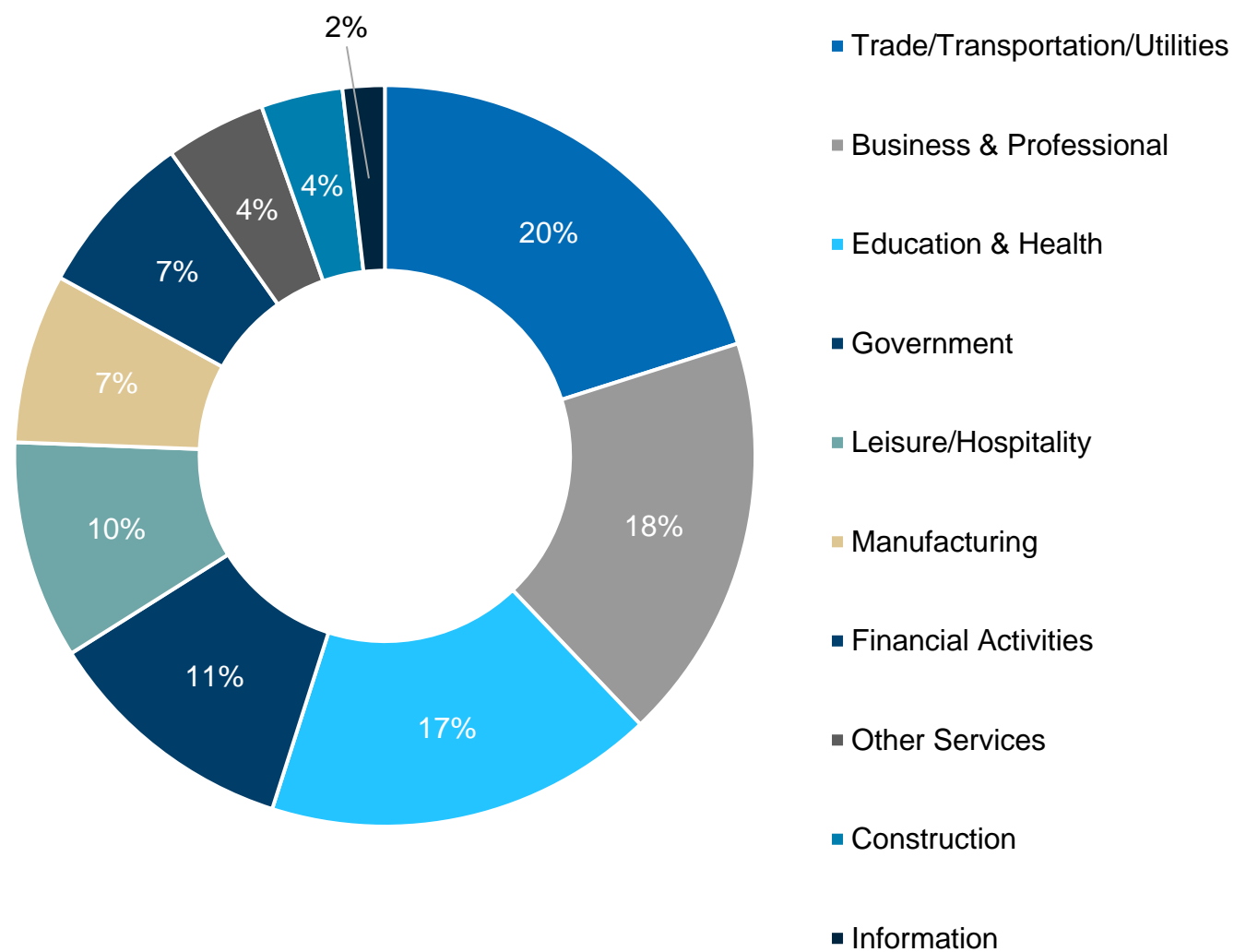


Source: U.S. Bureau of Labor Statistics, Chicago MSA

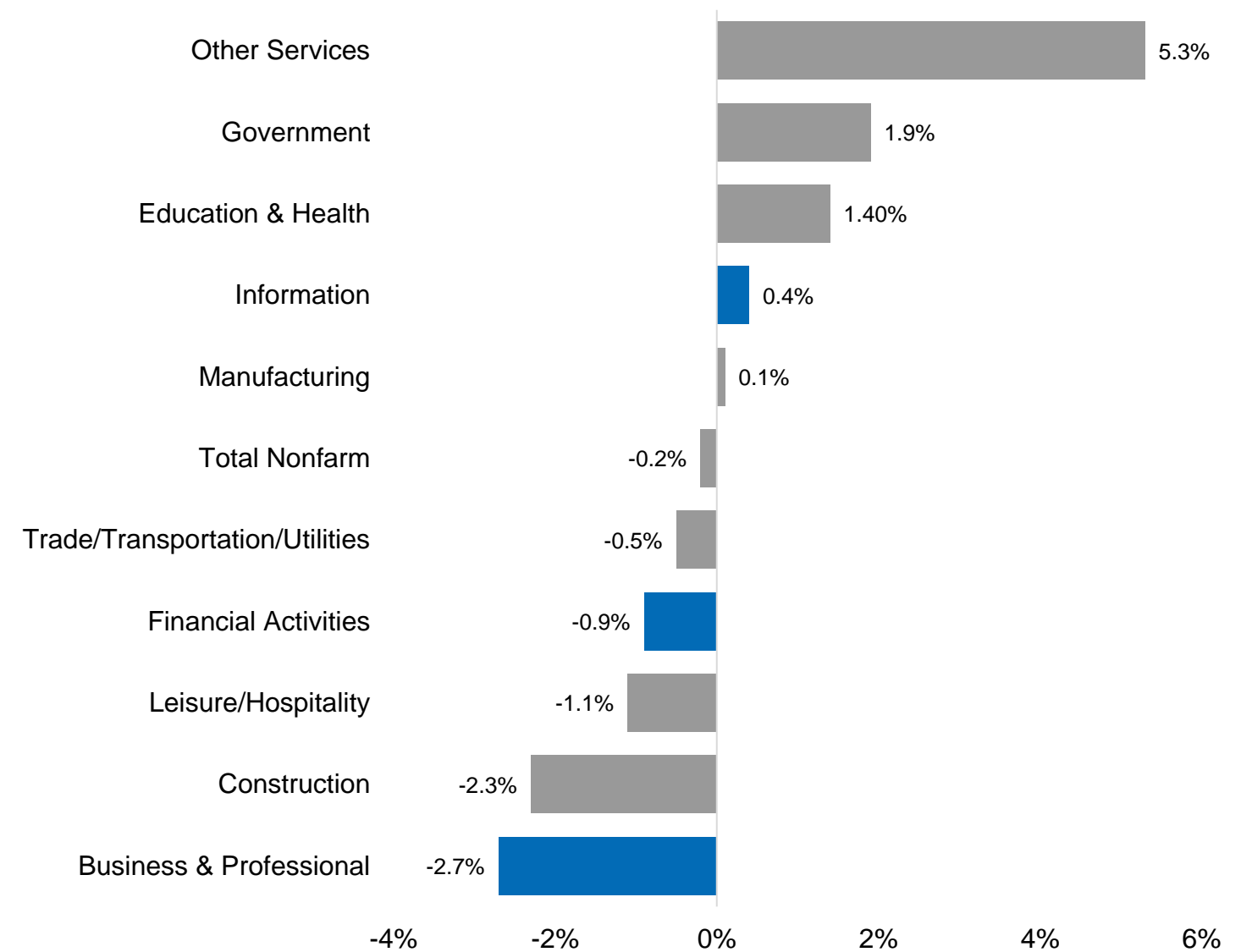
Services Sector Drives Job Gains; Office Industries Mostly Contract

The “Other Services” sector led regional annual job growth, driven largely by the continued recovery from pandemic losses. Office-occupying industries, however, posted mostly negative results. The “Information” sector saw a slight increase of 0.4%, while “Financial Activities” saw a decline of -0.9%. The “Business & Professional Services” sector faced the most significant drop contracting by -2.7%.

Employment by Industry, November 2024



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

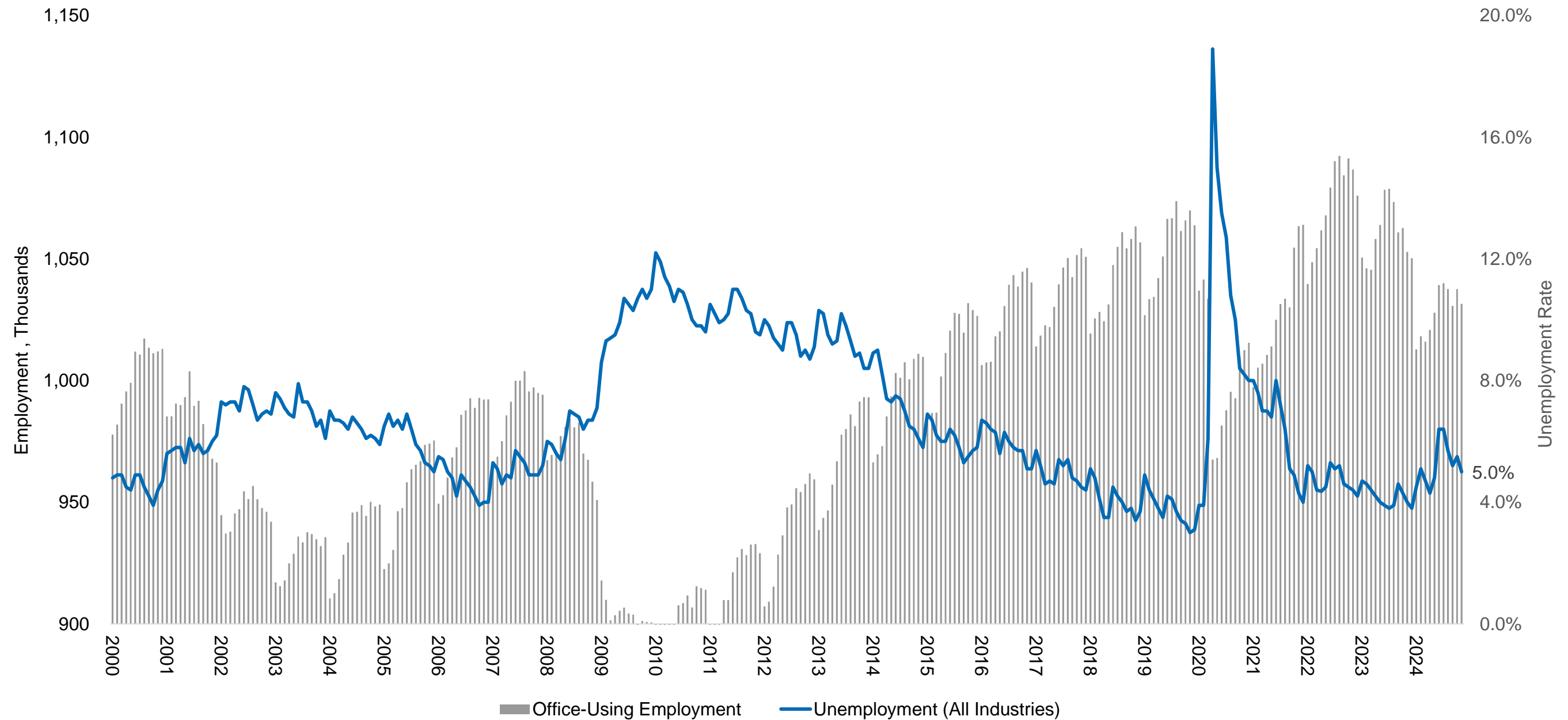


Source: U.S. Bureau of Labor Statistics, Chicago MSA

Office-Using Employment Shows Resilience Amid Economic Challenges

While office-using employment has not fully rebounded to recent highs, it remains a resilient sector amid rising unemployment across all industries. Although recent months have shown fluctuations, the sector demonstrates potential for steady recovery, positioning itself as a pivotal element in economic stabilization.

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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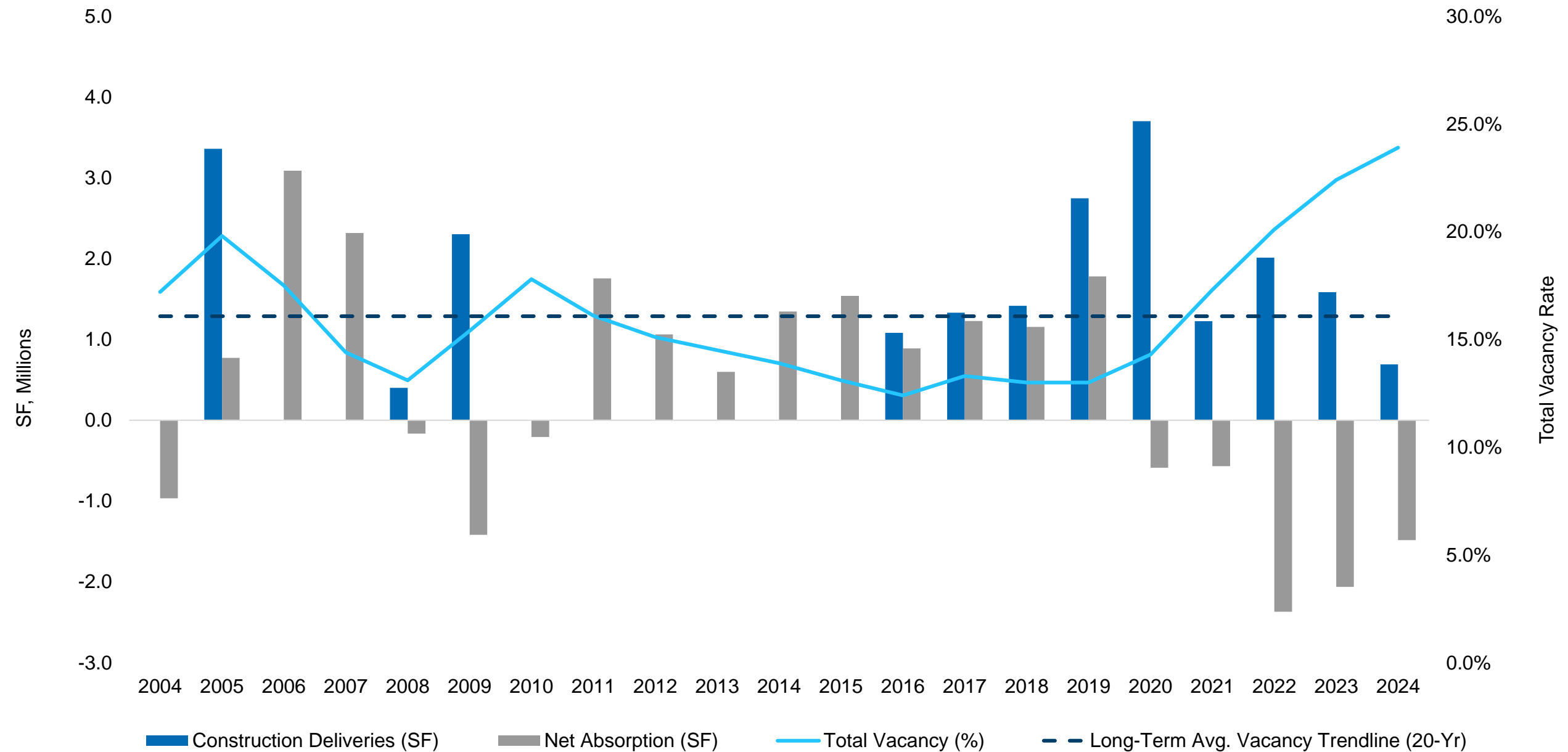
Leasing Market Fundamentals



Fewer Deliveries Correlates With Less Negative Absorption

Vacancy increased 10 basis points this quarter as the CBD saw approximately 170,000 SF of negative absorption. Year-to-date, total vacancy has risen by 1.5%, while absorption stands at approximately negative 1.5 million SF.

Historical Construction Deliveries, Net Absorption, and Vacancy

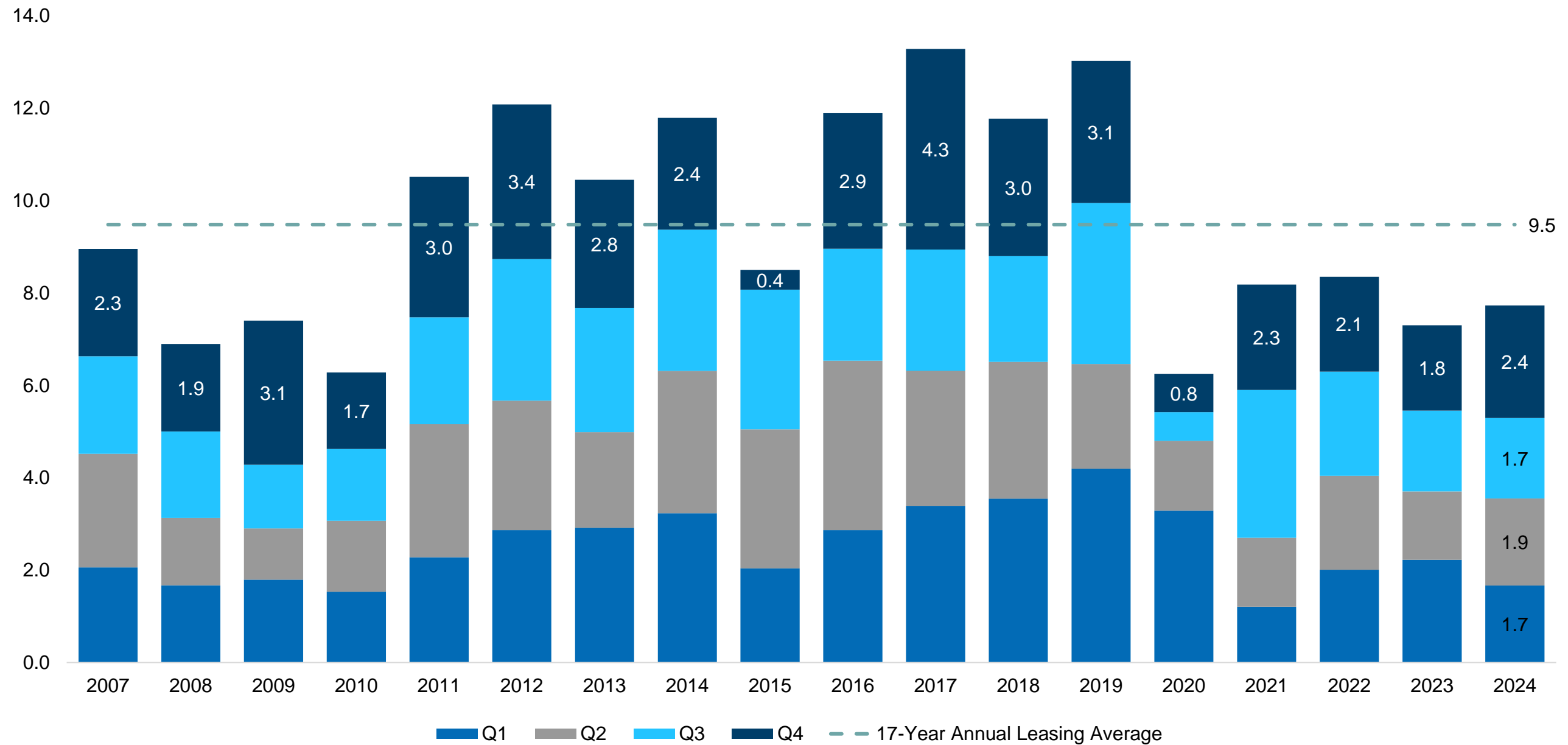


Source: Newmark Research

Strongest Fourth Quarter of Leasing Activity Since 2019

Following a slow first half, leasing volume improved in the second half of 2024. This was the strongest fourth quarter of leasing for the CBD since 2019. 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)

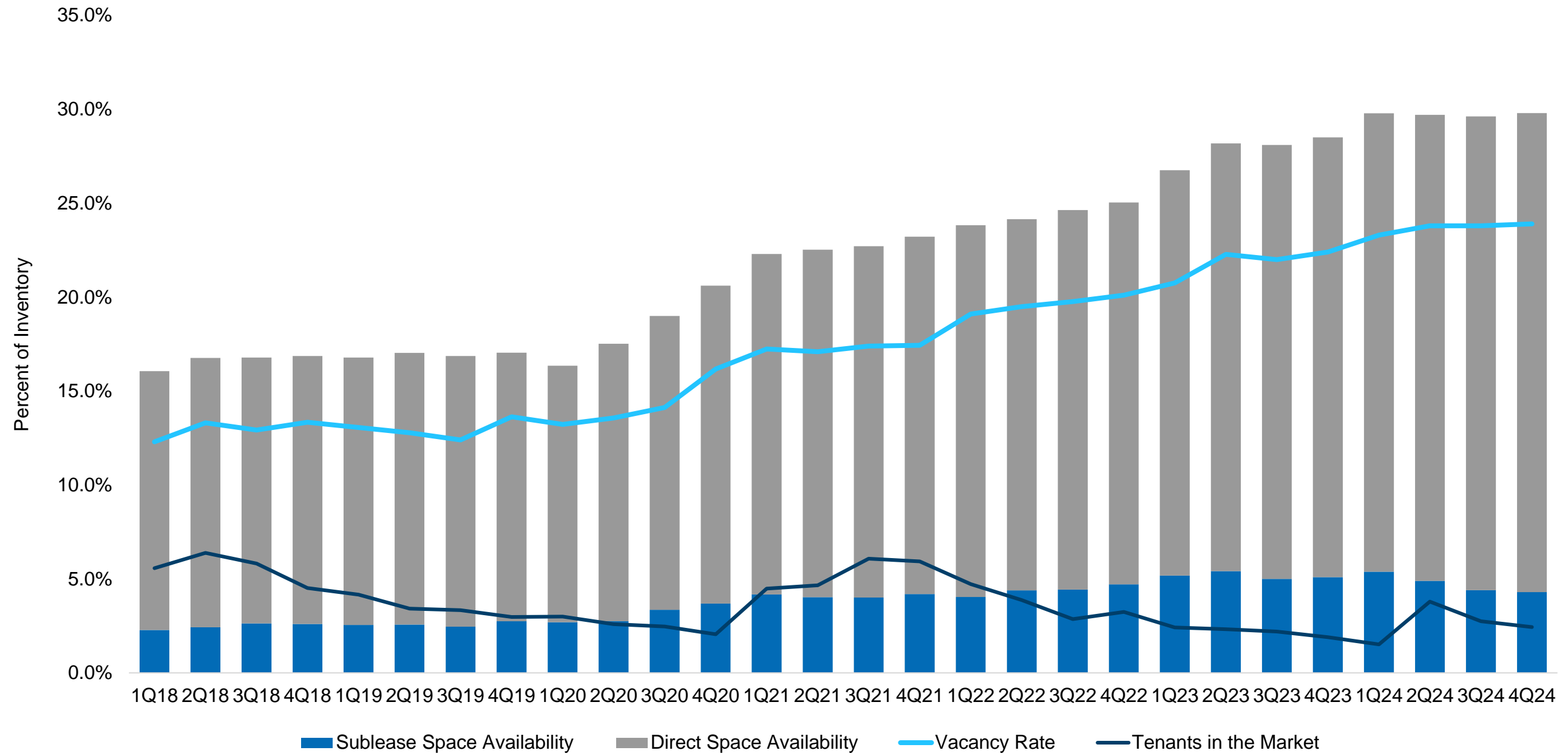


Source: Newmark Research, CoStar

Tenant Demand Dips Slightly

Sublease availability decreased by 0.1% this quarter to 4.3%, marking its lowest level in almost four 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

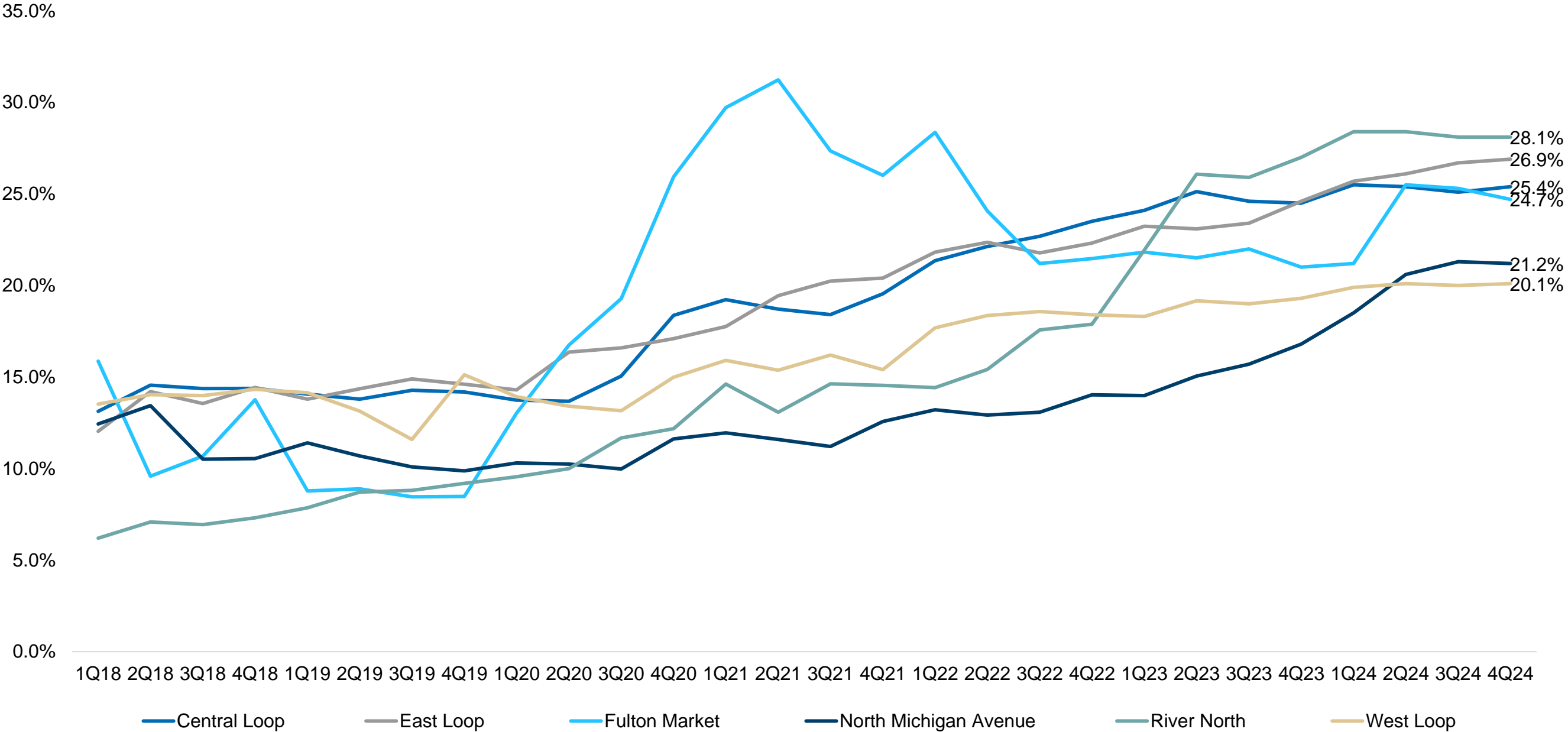
Diverse Leasing Dynamics: A Closer Look at 2024 Transactions

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Vacancy Rates Hold Steady

Vacancy rates remained largely unchanged this quarter. The West Loop continues to hold the lowest downtown vacancy rate at 20.1%. On the other hand, River North holds the highest vacancy rate at 28.1%. With just one building under construction, slated for delivery in in the first quarter of 2025, vacancy rates will hinge primarily on tenant activity.

Vacancy Rate by Submarket

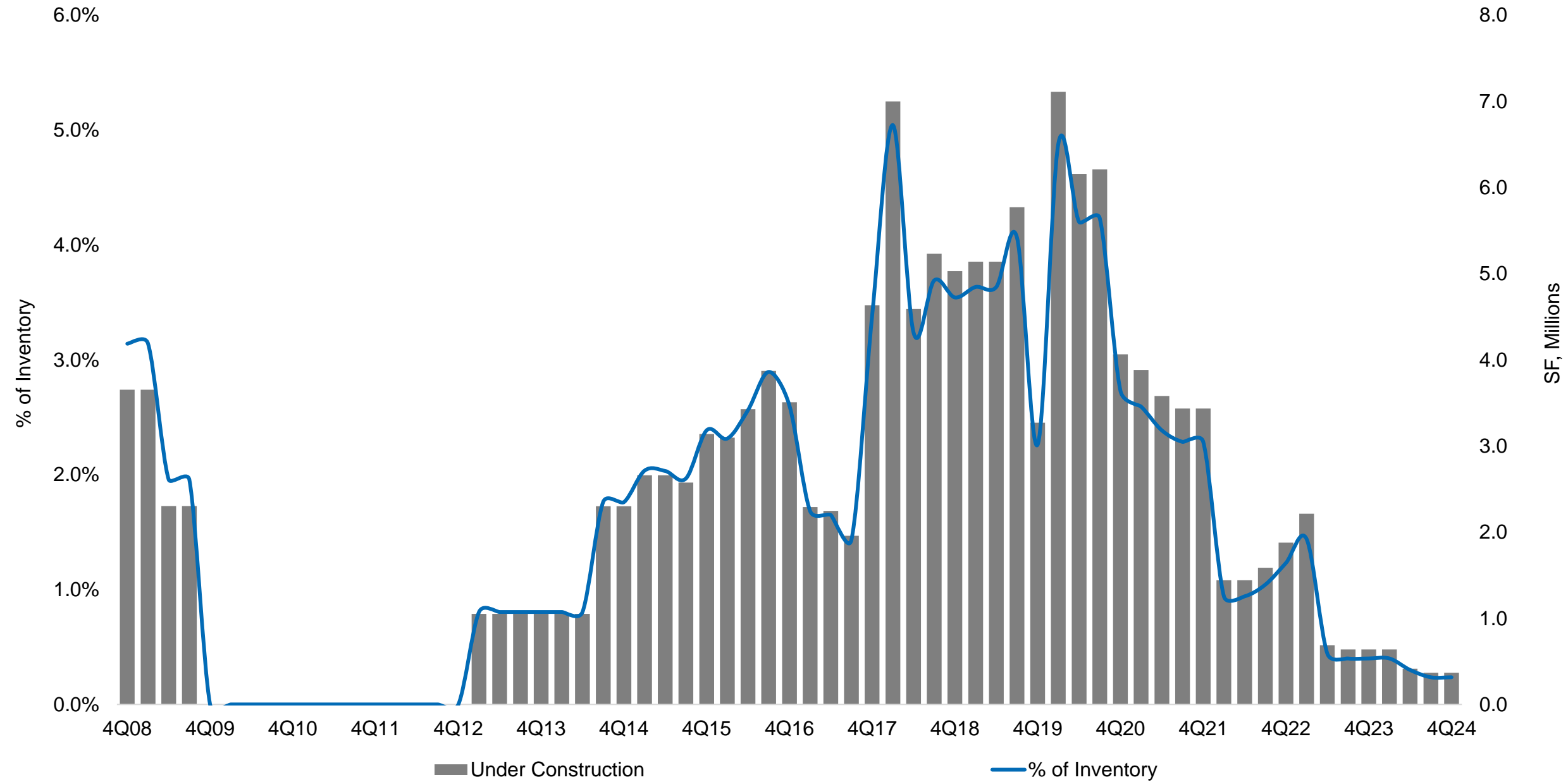


Source: Newmark Research

Inventory Under Construction Remains Low

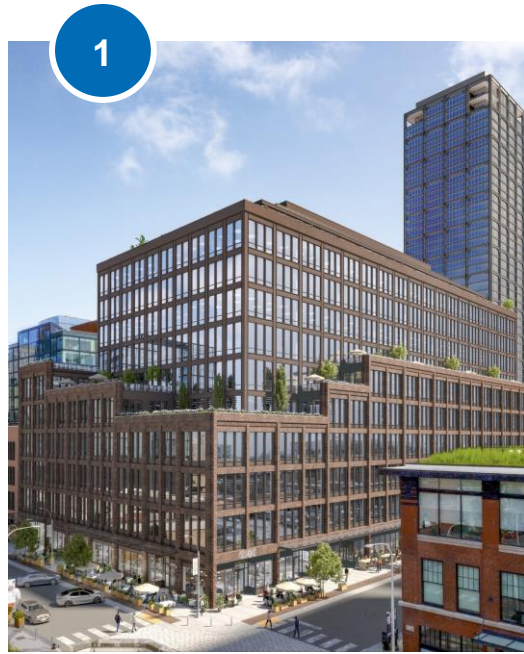
There were no office buildings delivered this quarter, and just one office project is currently under construction. As the pipeline thins, the market will no longer face competition from new inventory for tenants. In recent quarters, tenants have favored new office space, with several of the largest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

Office Under Construction and % of Inventory

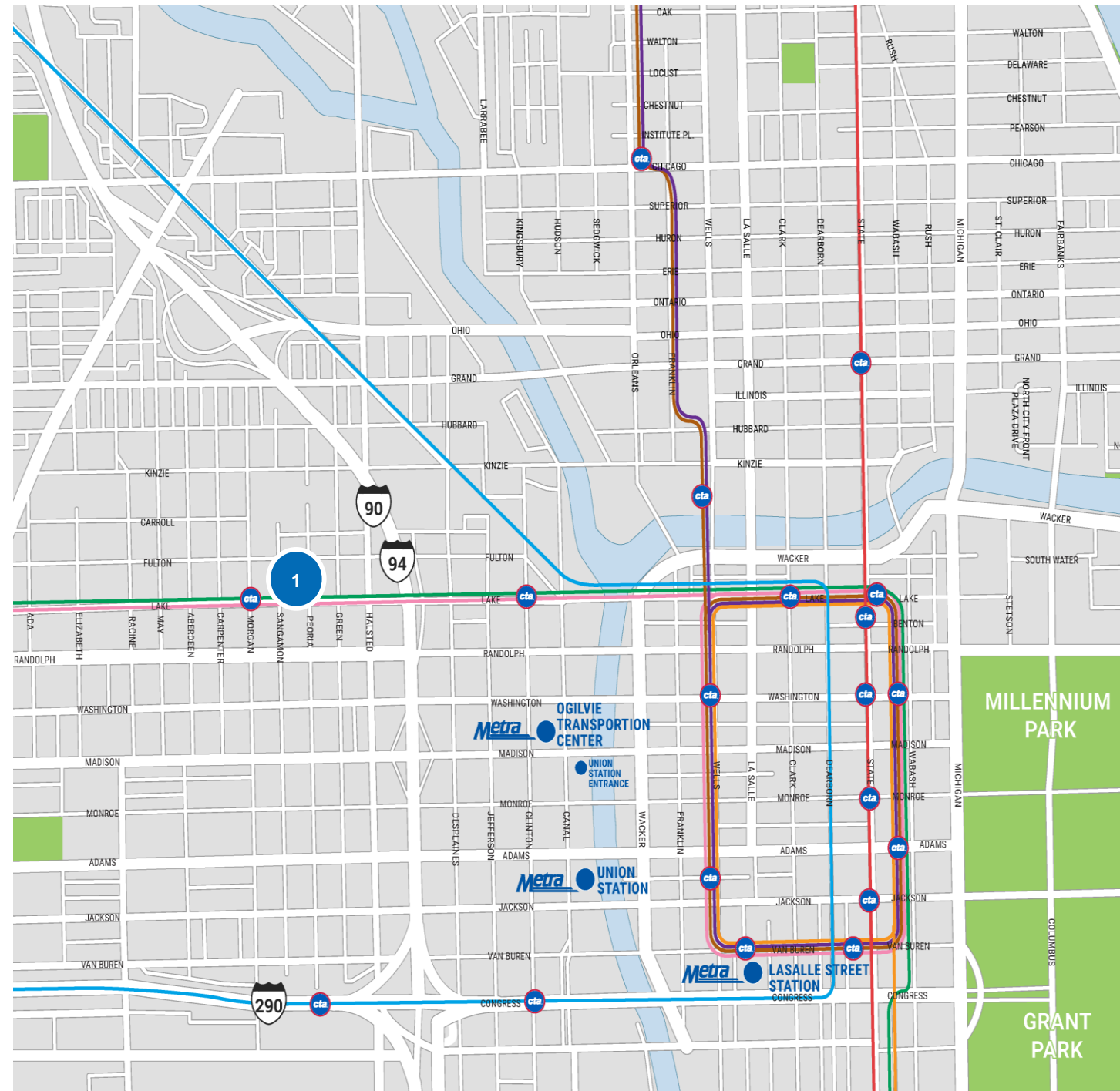


Source: Newmark Research, CoStar

Office Supply Under Construction



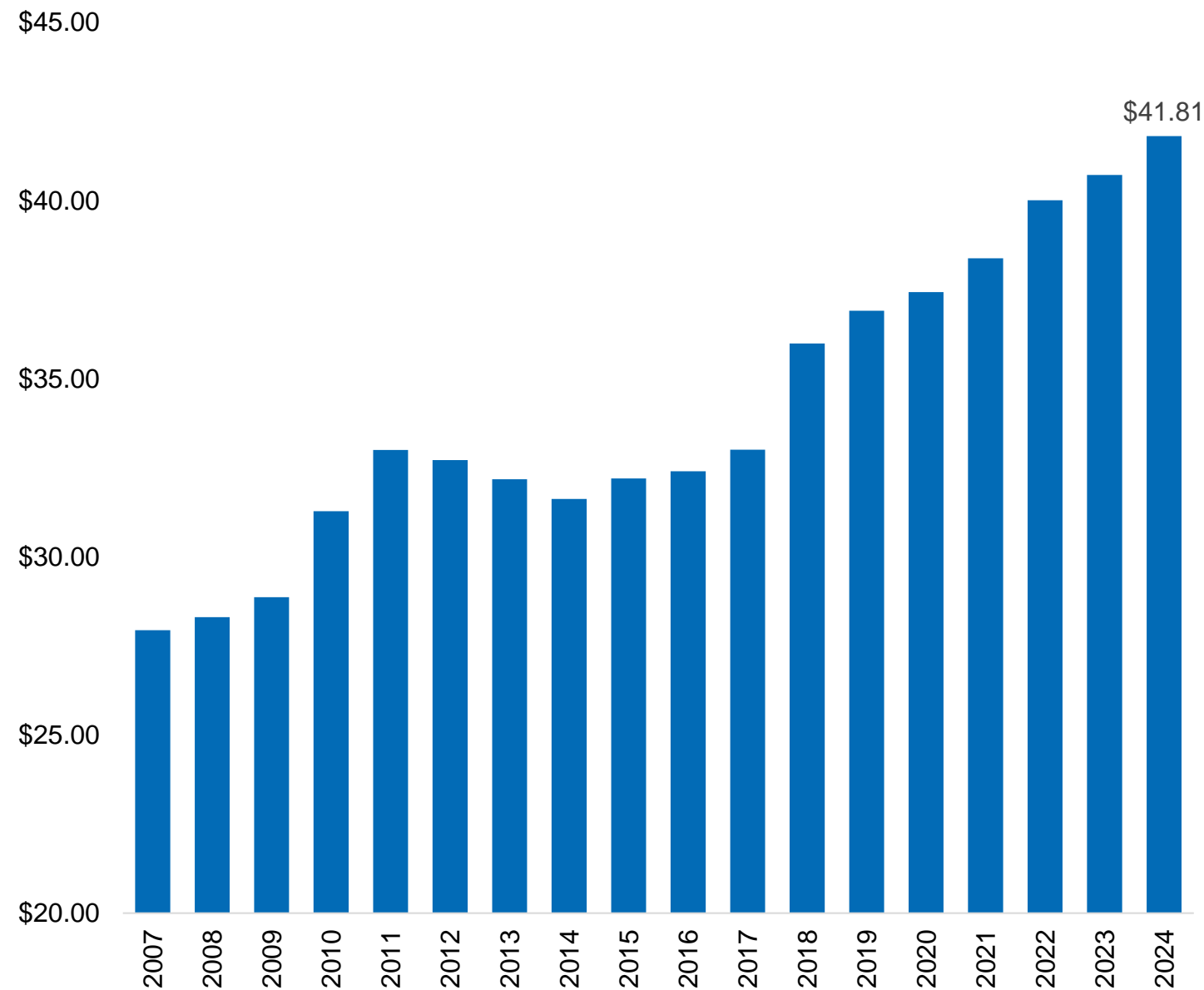
919 W Fulton
Delivery: 03/01/2025
Leased: 40.5%
RBA: 369,000 SF
Anchor: Harrison Street



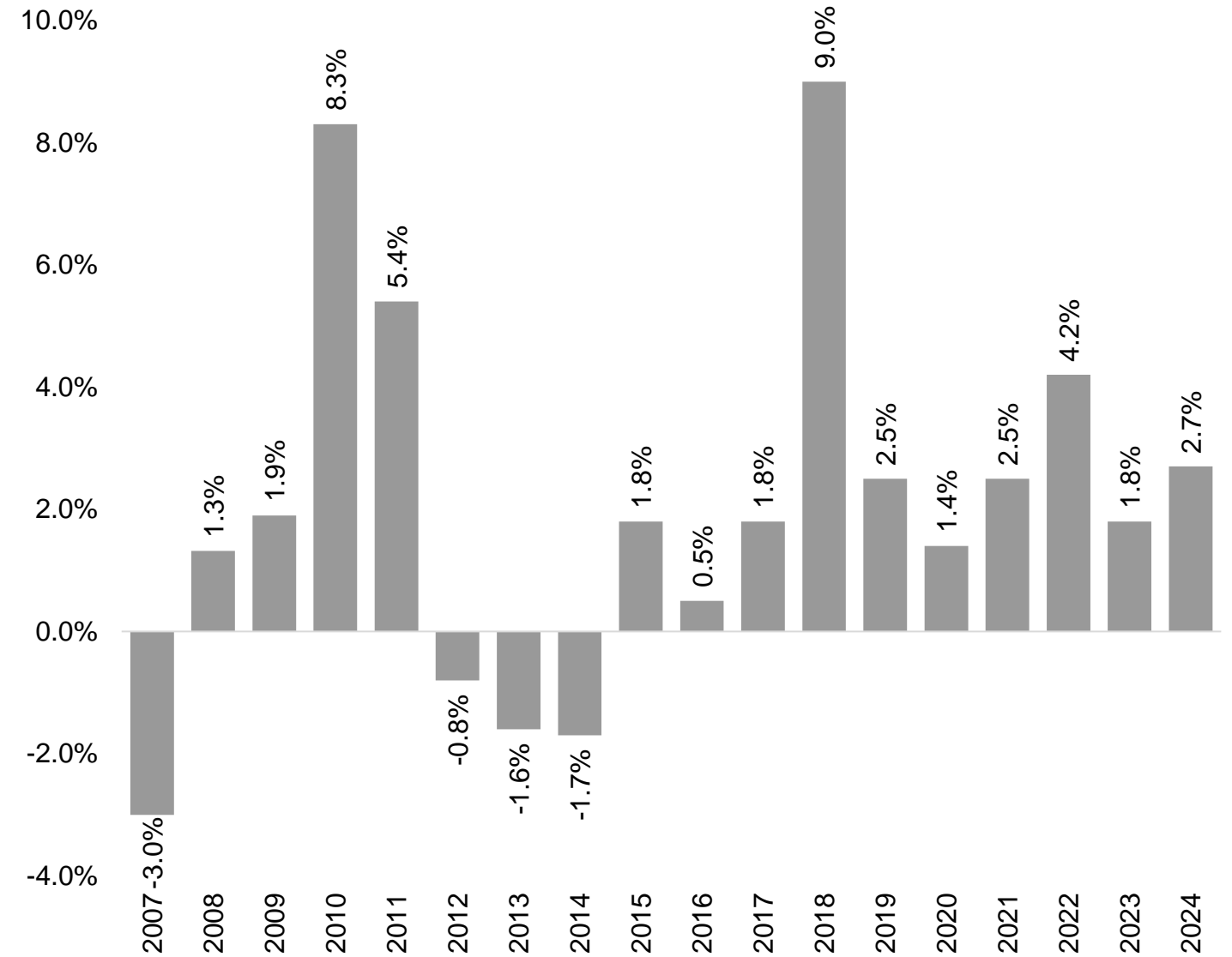
Rental Rate Growth Slows

Asking rates dipped to end the year, decreasing \$0.44/SF quarter over quarter, but the average for 2024 still finished \$1.09/SF higher than 2023's average. The market is not experiencing true rate increases, but rising tax and operating costs has resulted in higher gross rents.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Average Asking Rent Growth Rate

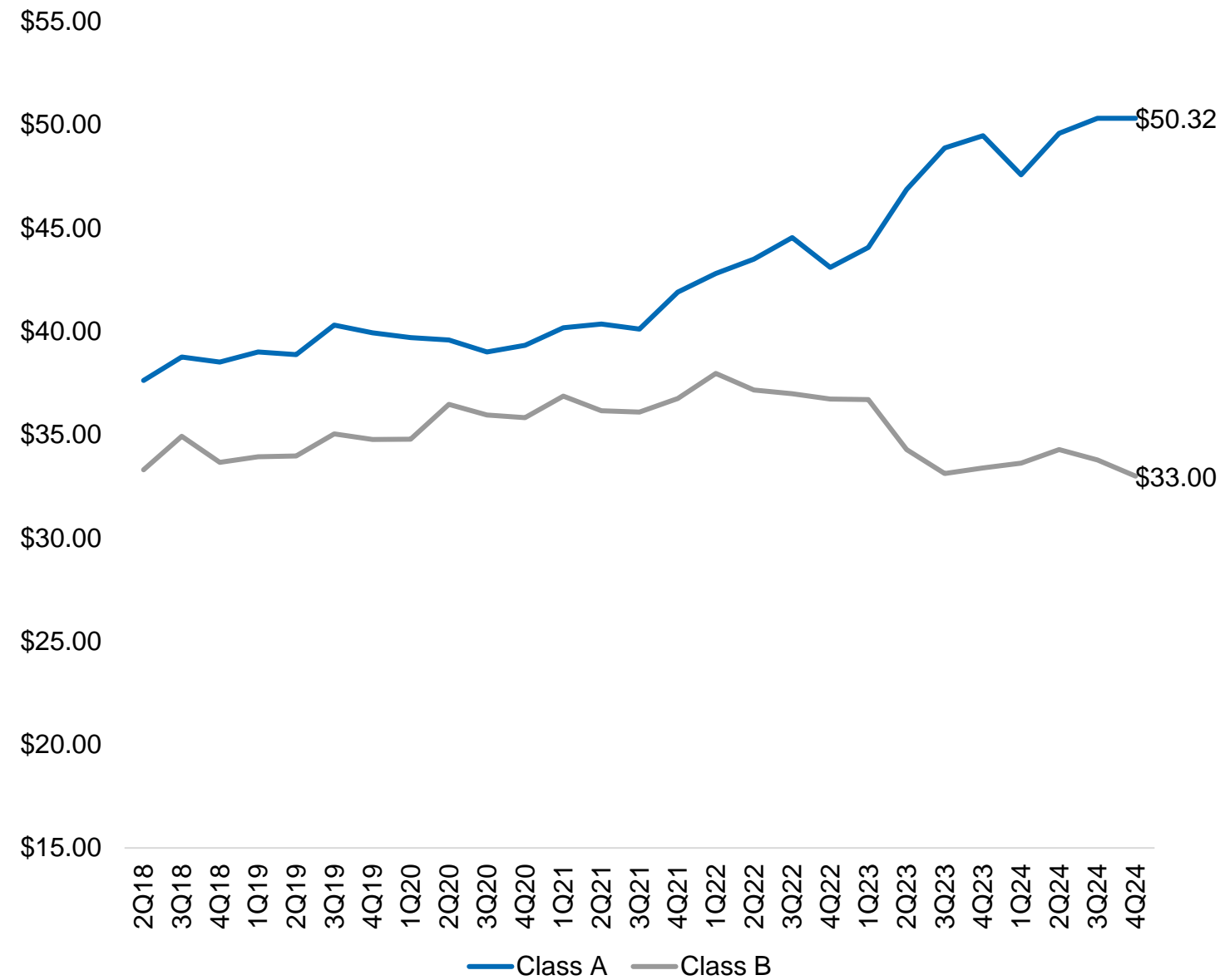


Source: Newmark Research, CoStar

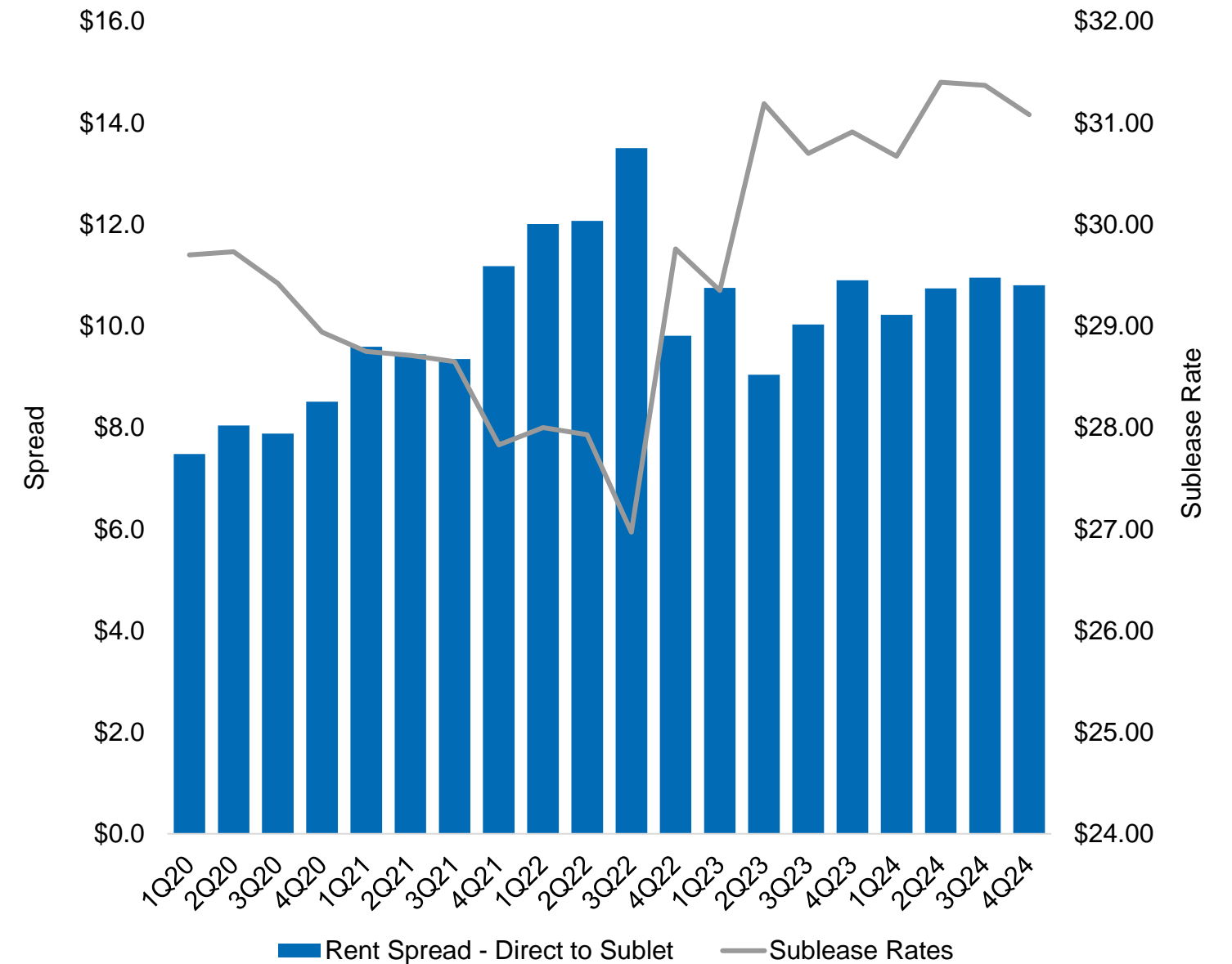
Rent Spreads Expand Amidst Surging Demand For Class A

Rent spreads have widened between Class A and Class B asking rates but have tightened between direct and sublease rates. The gap between Class A and B asking rates now exceeds \$17.00. 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, marking its strongest fourth quarter downtown since 2019. Two leases over 200,000 SF were completed, compared to zero last quarter. Despite this uptick, 2024 is the fifth consecutive year below the historical average.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sargent & Lundy	77 W Wacker Dr	Central Loop	New Lease	385,000
<i>The engineering firm will be expanding from their current 282,000 SF at 55 E. Monroe.</i>				
PwC	1 N Wacker Dr	West Loop	Lease Renewal	283,000
<i>The financial services firm has secured a 10-year renewal for its 283,000 SF space at 1 N. Wacker.</i>				
Adyen	333 N Green St	Fulton Market	New Lease	97,000
<i>The Dutch payment processing firm will be expanding from a small WeWork space at 167 N. Green.</i>				
Adtalem Global Education	233 S. Wacker Dr	West Loop	New Lease	85,000
<i>The education company will be expanding from the 54,000 SF space it currently leases at 500 W. Monroe.</i>				
Arent Fox Schiff	233 S. Wacker Dr	West Loop	Lease Renewal	55,000
<i>The law firm will be downsizing from its current 180,000 SF space at Willis Tower.</i>				

West Loop Submarket Overview

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Fulton Market Submarket Overview



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Central Loop Submarket Overview



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East Loop Submarket Overview



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River North Submarket Overview



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North Michigan Avenue Submarket Overview



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Submarket Overview



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