NEWMARK

Chicago CBD:

Office Market Report

4Q25

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Chicago CBD Market Observations

Economy

- Despite the delay in end of year employment data due to the government shutdown, Chicago Metro's unemployment rate declined again, down to 4.5%, an improvement from a 5.5% high in the year.
- In the fourth quarter, office-occupying industries declined in building visitations and employment headcount across the region. From 4Q24, office-using employment fell by approximately 0.7%. However, the Information sector continued to be a growth spot this quarter, gaining 1.0% QoQ and 2.14% YoY, while the business & professional services and Financials sectors contracted again, this quarter by -1.0% and -0.8% respectively.

Leasing Market Fundamentals

- Leasing volume in the Chicago CBD totaled 8.4 million square feet in 2025 maintaining the market average of recent post-pandemic years.
- Vacancy increased to 26.1% in 4Q25, as tenants continue to relocate and right size into more economic and hybrid workplace formats.
- While demand for Trophy Towers and premium top-floor spaces has intensified, pushing rates for these high-end assets higher, this strength at the very top of the market has done little to offset the broader economic challenges affecting the majority of office space in the CBD.

Major Transactions

- The largest lease signed Downtown this quarter was by American Medical Association which signed a renewal in its namesake tower. The healthcare group signed a renewal for 84 months within 261,000 SF at 330 N Wabash.
- Namdar Realty Group acquired the 40-story Central Loop office building at 190 S. LaSalle St. for $55 million or $69 PSF. The building sold last traded in 2019 for $230 million or $288 PSF.

Outlook

- The Chicago CBD office market is expected to remain firmly tenant-favorable through 2026, with vacancy and availability holding near current highs as office-using employment softens and most occupiers continue to focus on rightsizing and renewing rather than undertaking large-scale expansions.
- The essentially empty construction pipeline—following a single delivery in Fulton Market in early 2026—should help cap additional supply, gradually supporting rent stability, encouraging more capital to flow into renovations and conversions, and allowing existing high-quality and repositioned assets to improve their competitive standing over time.
- Flight-to-quality is likely to deepen as tenants prioritize efficient, amenitized buildings near transit hubs and select Class A towers, leaving older commodity stock in the Loop facing prolonged lease-up periods, increased pressure for repricing, and a growing impetus for alternative uses or comprehensive repositioning.

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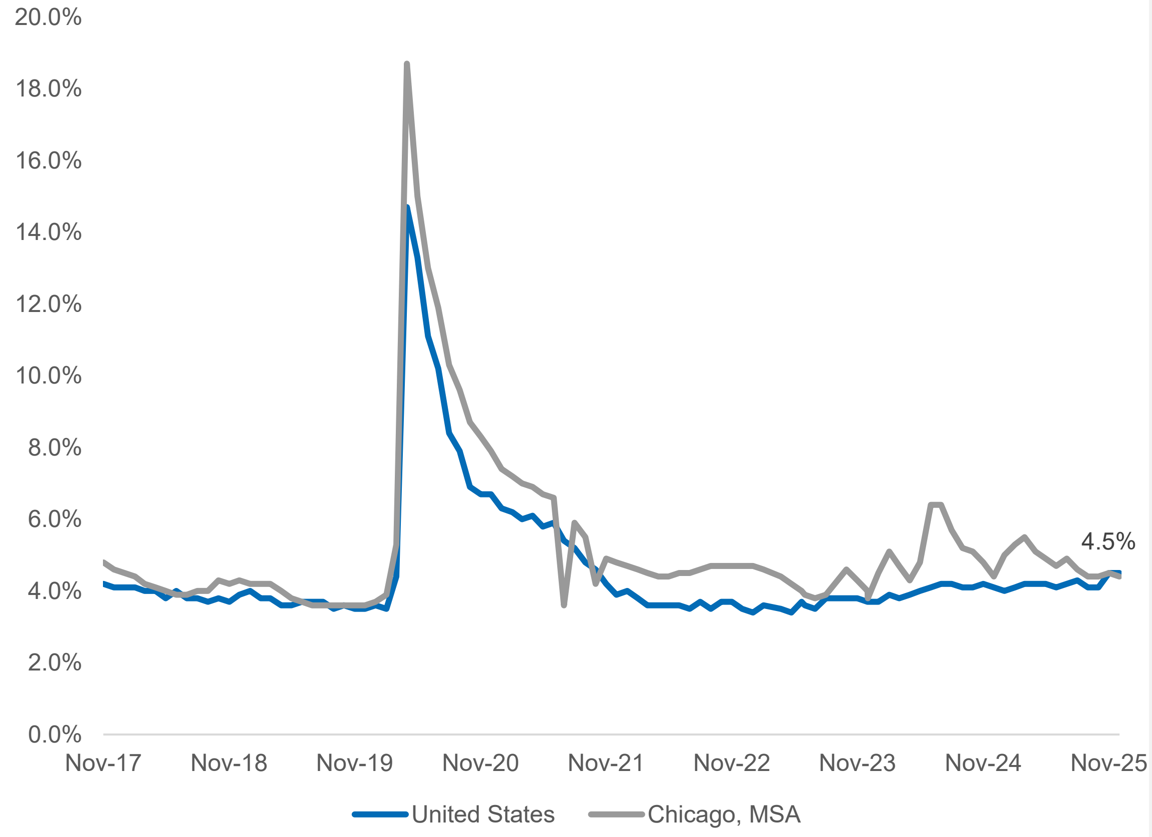
Economy

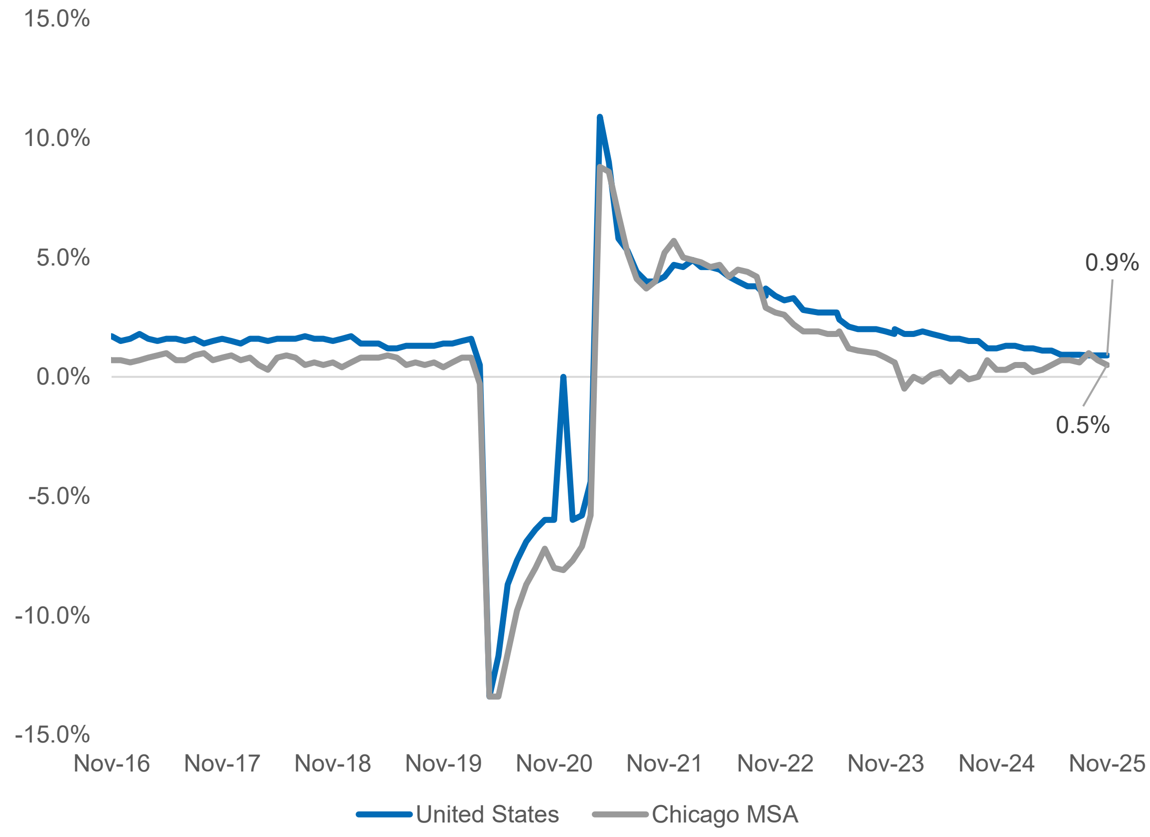
Unemployment Declines Amid Modest Job Growth

The Chicago MSA labor market posted strong year-over-year gains across all major employment indicators. Although the unemployment rate ticked up to 4.5% this quarter, it remains nearly a full percentage point below the 2025 peak of 5.5% and 50 basis points lower than 1Q25. Total employment grew 0.22% during the year, signaling steady progress despite a labor force that continues to contract. While Chicago's unemployment rate compares unfavorably to the national average, its downward trend remains a positive sign for the market.

Unemployment Rate, Seasonally Adjusted



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



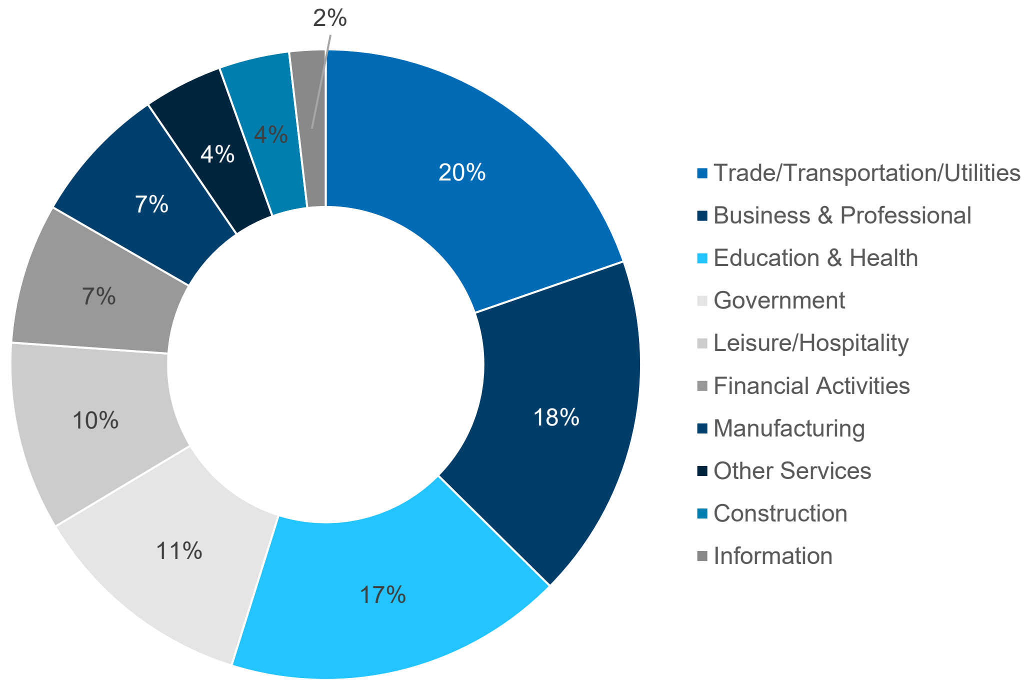
Source: U.S. Bureau of Labor Statistics, Chicago MSA

* Due to the federal government shutdown, some employment data was unavailable at time of publication.

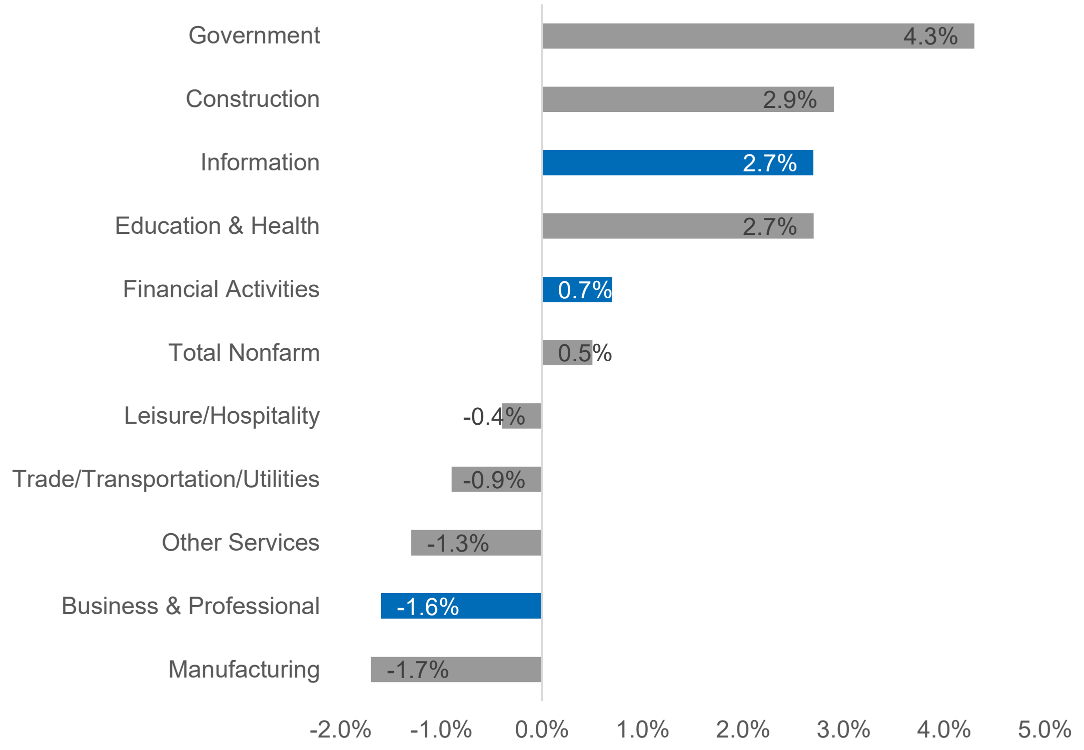
Labor Market Continues Steady Recovery with Gradual Job Growth

In November 2025, the Chicago MSA continued to post modest employment growth, with total nonfarm employment up 0.5% year-over-year. Gains were concentrated in Government (+4.3%), Construction (+2.9%), Information (+2.7%), Education and Health Services (+2.7%), and Financial Activities (+0.7%), underscoring the market's reliance on public-sector and service-oriented expansion. However, headwinds remain pronounced across sectors most closely tied to office and industrial demand, as Business and Professional Services (-1.6%), Manufacturing (-1.7%), and Trade, Transportation, and Utilities (-0.9%) continued to contract, alongside declines in Other Services (-1.3%) and Leisure and Hospitality (-0.4%). Overall, employment growth remains positive but uneven, with strength concentrated outside the primary space-absorbing industries.

Employment by Industry, November 2025



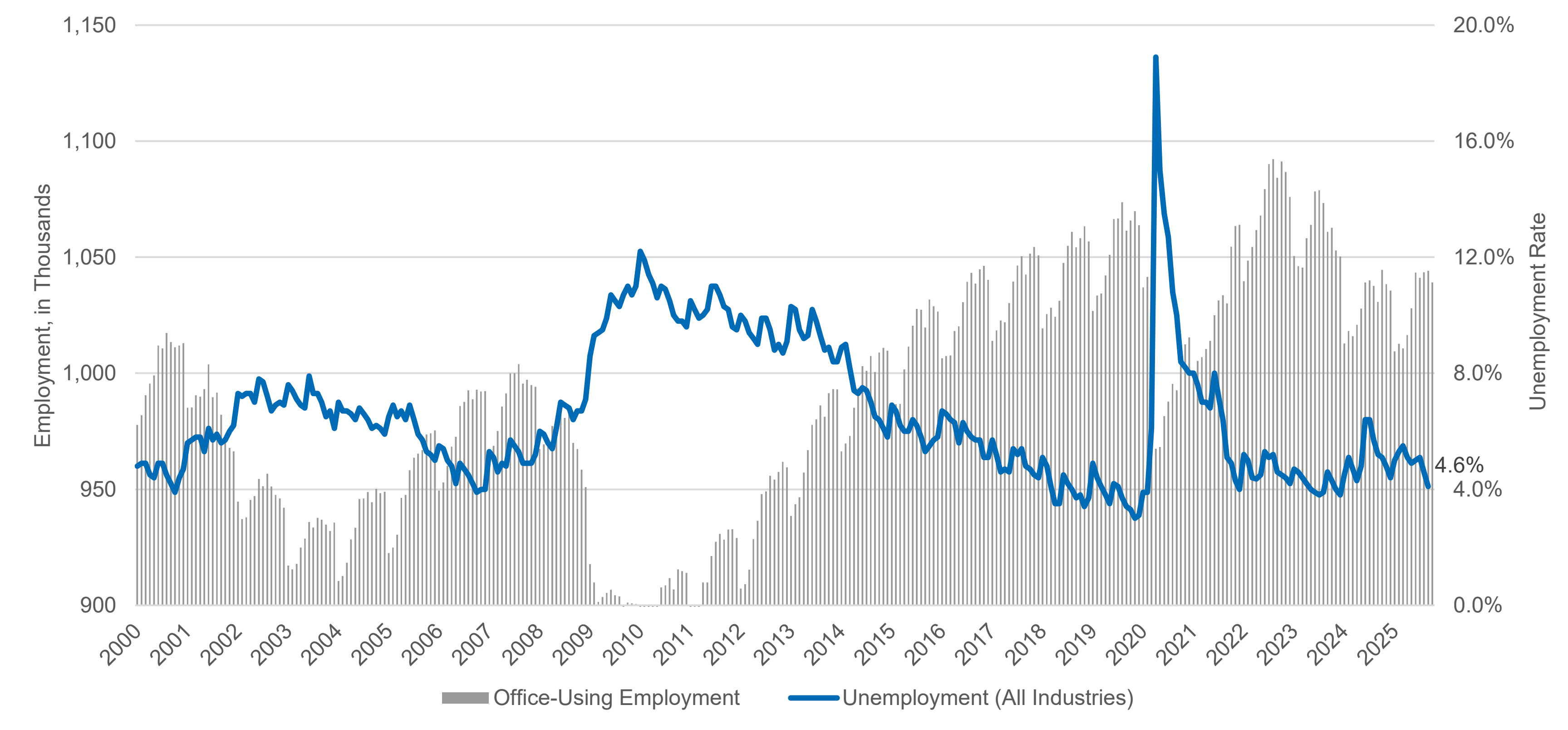
Employment Growth by Industry, 12-Month % Change, November 2025



Office-Using Employment Softening Despite Mid-Year Stabilization

Office-using employment in the Chicago MSA continued to soften into late 2025, reflecting both quarter-over-quarter and year-over-year contraction. As of November 2025, total office-using employment stood at approximately 1.03 million jobs, down from a Q3 2025 average of roughly 1.04 million, representing a ~1.1% decline QoQ as momentum weakened following a modest mid-year rebound. On a YoY basis, office-using employment fell by approximately 0.7%, declining from about 1.04 million in November 2024 to current levels. Losses were driven primarily by Professional and Business Services, which continued a steady downward trend throughout 2024 and 2025, while Financial Activities remained relatively stable and Information employment posted modest gains, partially offsetting broader weakness.

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.

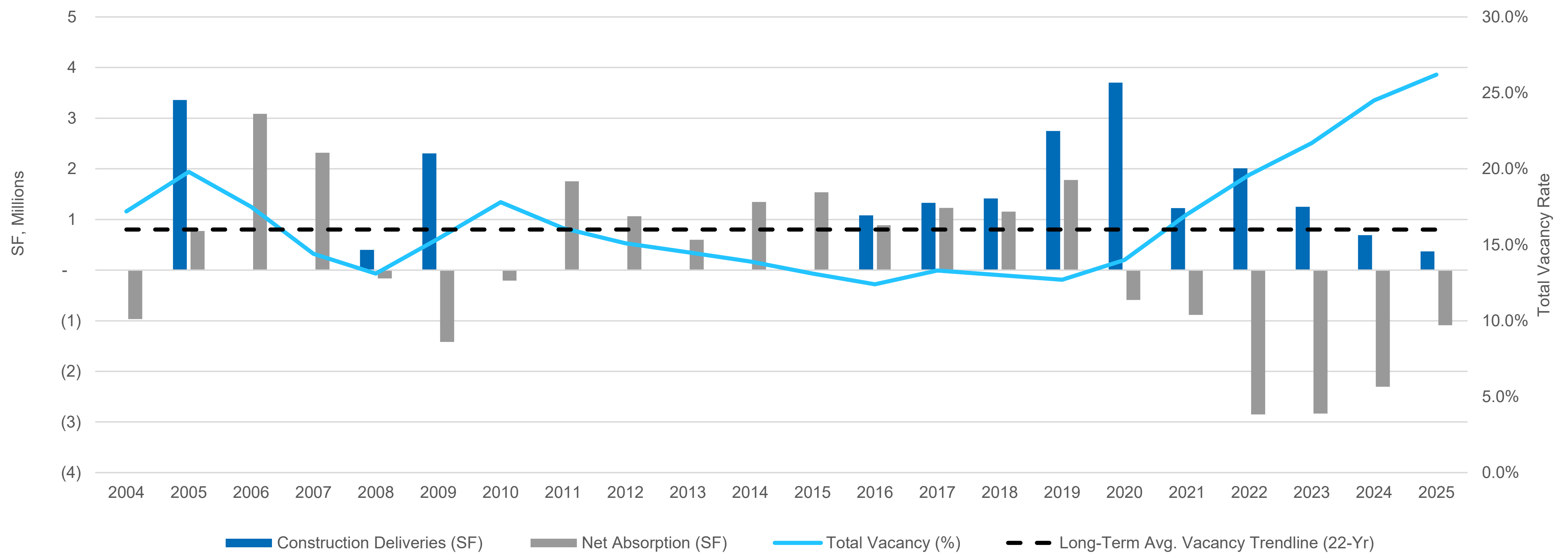
02

Leasing Market Fundamentals

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

The Chicago CBD office market ended 2025 in a continued state of recalibration. As large users reposition and many legacy assets face functional obsolescence, leasing activity is increasingly concentrating in Fulton Market and the West Loop and in top-tier, amenitized buildings across the CBD, positioning best-in-class product to continue outperforming the broader market set.

Historical Construction Deliveries, Net Absorption, and Vacancy

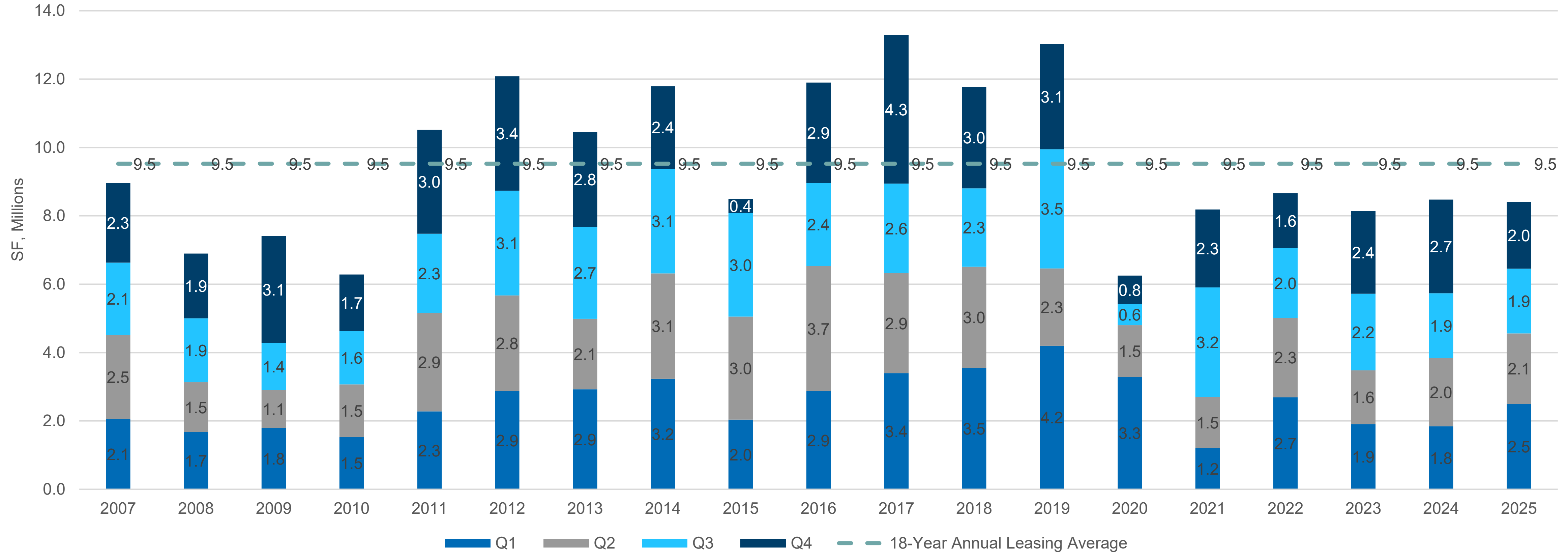


Source: Newmark Research

Turning the Corner: 2025 Leasing Signals Growing Tenant Confidence

Leasing volume in the Chicago CBD totaled approximately 8.41 million square feet in 2025, representing a modest increase from the prior year but remaining below the long-term pre-pandemic annual average. Year-end activity thus reinforces a picture of steady, but not resurgent, tenant demand—sufficient to sustain transactional liquidity yet insufficient to materially alter overall market conditions. It is important to note that this figure encompasses all leasing activity, including renewals, expansions, and space contractions, and therefore does not necessarily translate into meaningfully lower vacancy or positive net absorption.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

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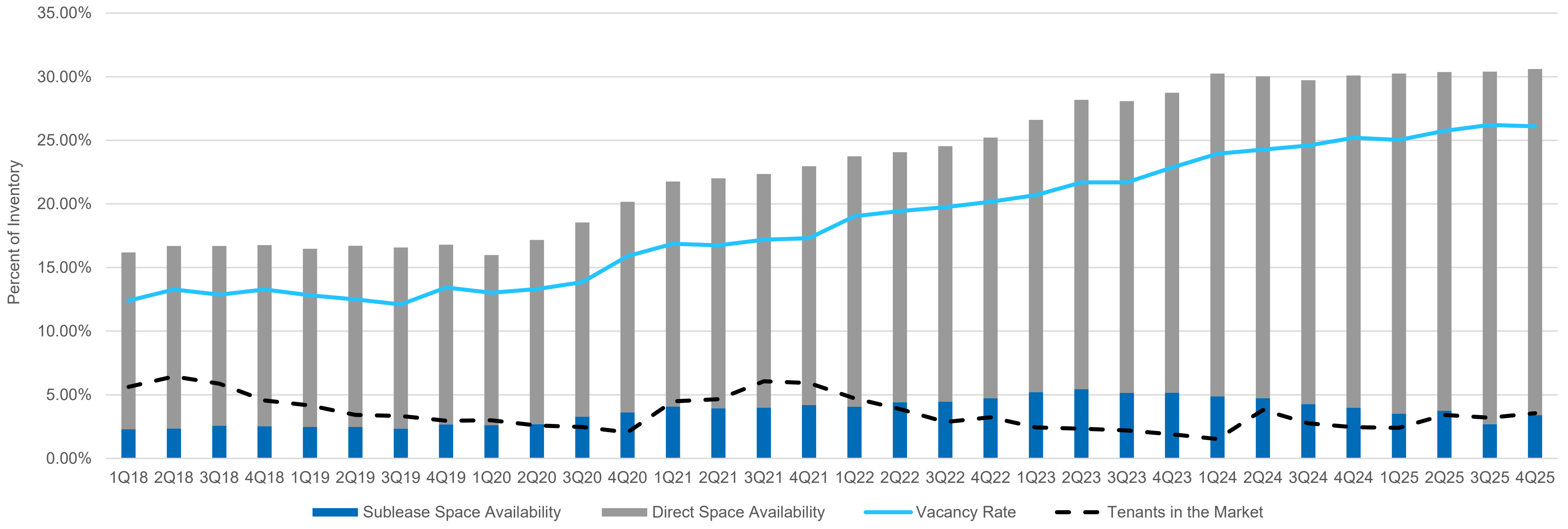
Elevated Supply Meets Selective Demand: 2025 Reinforces Tenant Advantage

Sublease availability ended 2025 at approximately 3.4% of inventory, modestly above mid-year levels but still well below the peak of the current cycle, indicating that most pandemic-era excess space has already been flushed through the market. Direct availability continued its gradual ascent, closing the year near 27.2% as occupiers fine-tuned footprints and brought additional contiguous blocks to market, reinforcing a structurally elevated supply environment. Tenant demand hovered around 3.6% of inventory, reflecting a stable pool of active requirements while some users are selectively capitalizing on favorable pricing and concessions to secure highly amenitized, right-sized space that better supports hybrid work models even years ahead of lease expirations

Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

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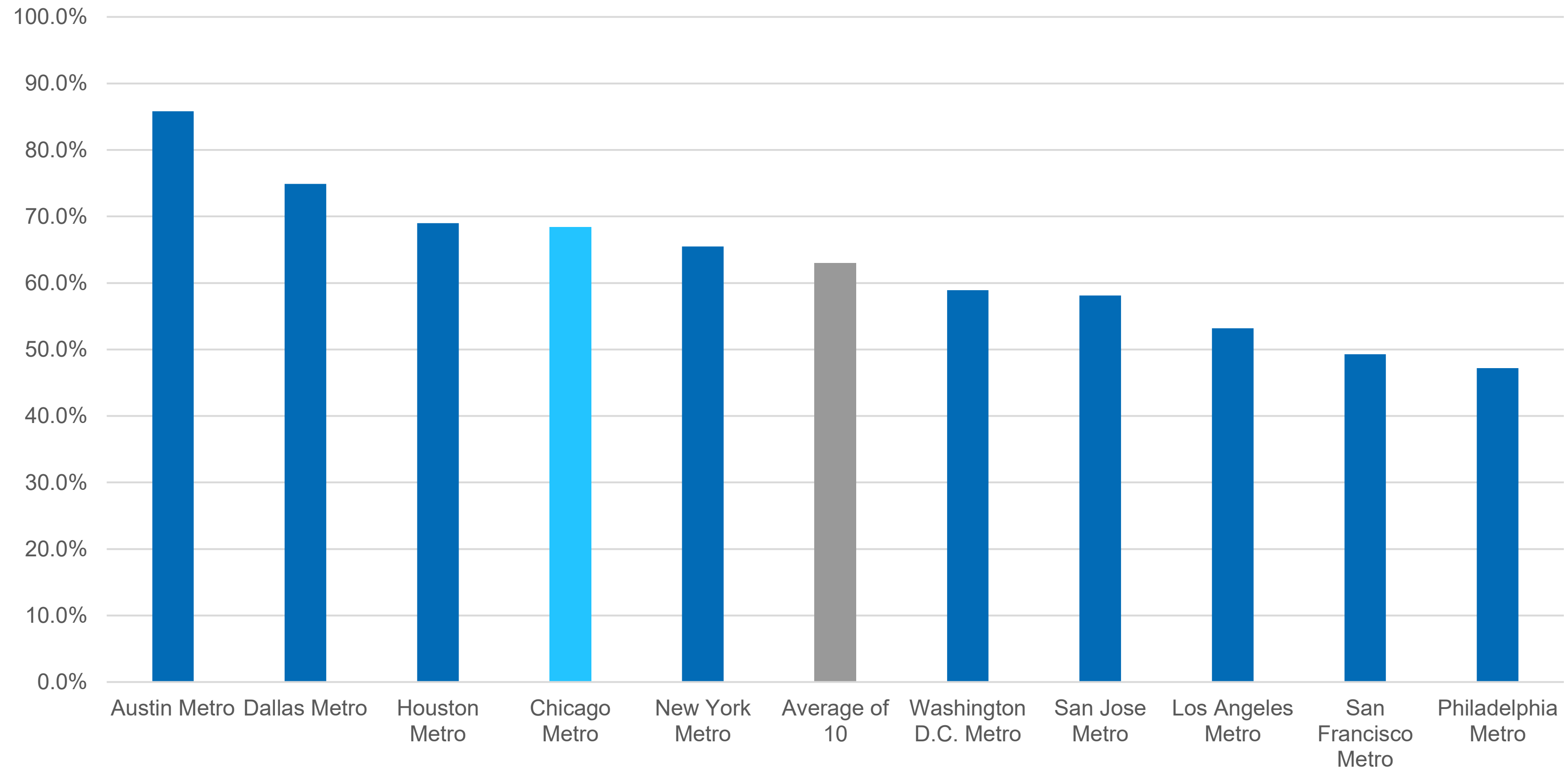
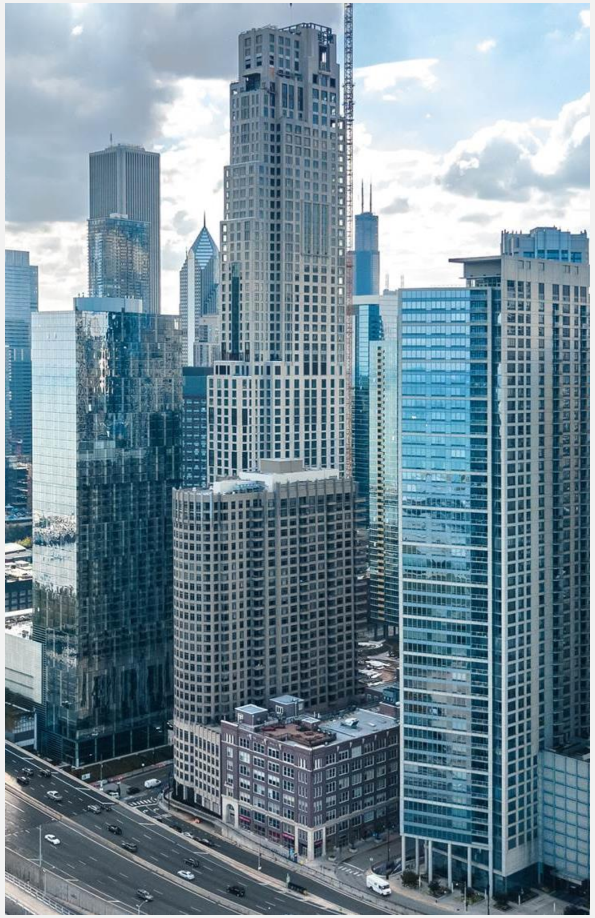
Chicago Boasts One of the Highest Office Occupancies in the U.S.

According to Kastle data, hybrid work patterns reveal that office occupancy fluctuates throughout the week, typically peaking on Tuesdays. On the first Tuesday of December, Chicago reported the fourth highest office occupancy in the country, at 68.4%. Average occupancy among the Barometer's Class A+ buildings was 76.4% and Class A+ peak day occupancy reached 95.5% on December 9th. Chicago occupancy levels declined again quarter-over-quarter, by 1.5%, while the average of top 10 metros posted a minimal 0.1% gain.

City Occupancy Levels on Tuesday 12/03/2025



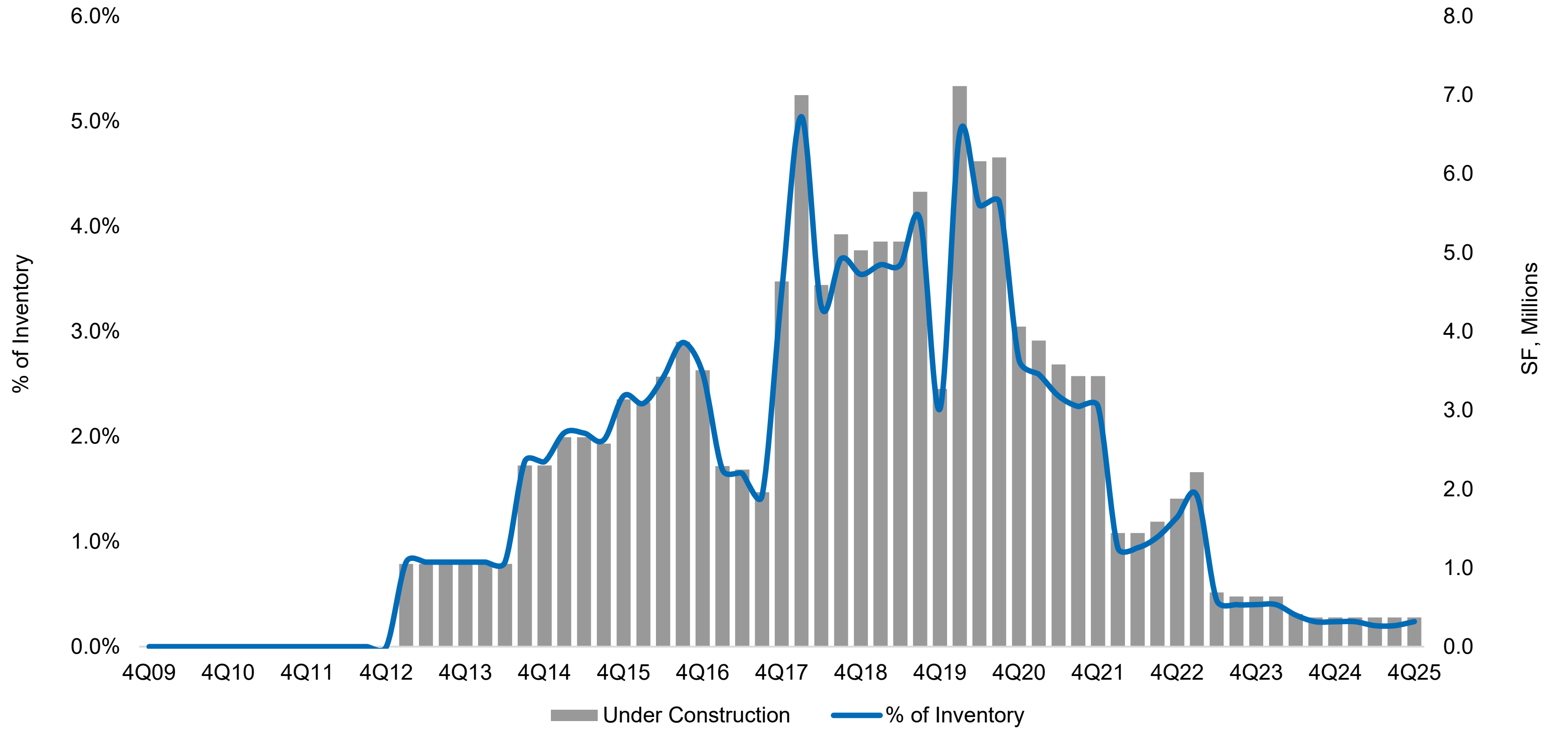


Source: Newmark Research, Kastle Systems

Construction Pipeline Empty, Boosting Existing Inventory

As of 4Q 2025, new office construction in Chicago's CBD remains effectively unchanged and near historic lows, with approximately 369,000 square feet underway—just 0.2% of total inventory. Notably, the only active project is scheduled to deliver in Fulton Market in 1Q 2026, meaning the development pipeline will fall to zero immediately thereafter, reinforcing a prolonged period of supply constraint. The absence of new starts is expected to support rent stability, accelerate the competitive positioning of well-amenitized and well-capitalized assets, and gradually aid in vacancy normalization as tenant demand is increasingly funneled toward existing high-quality and repositioned buildings rather than new construction.

Office Under Construction and % of Inventory

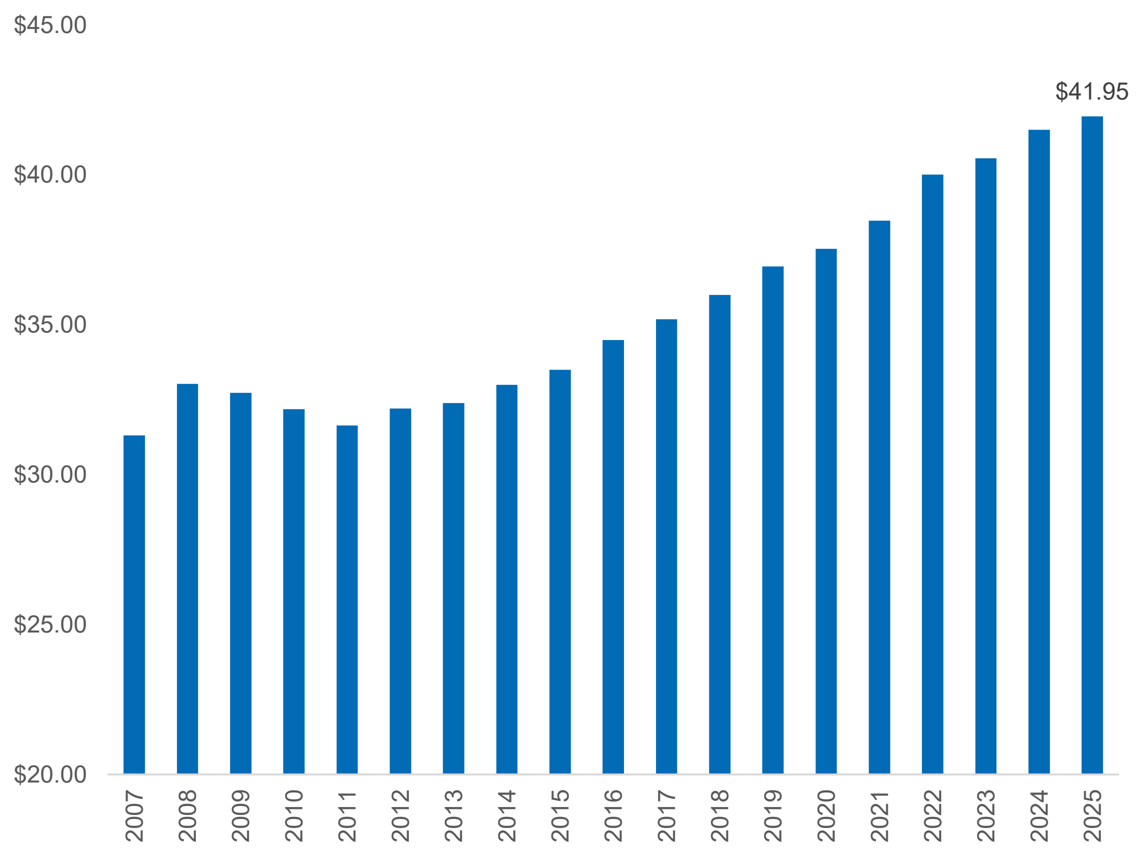


Source: Newmark Research, CoStar

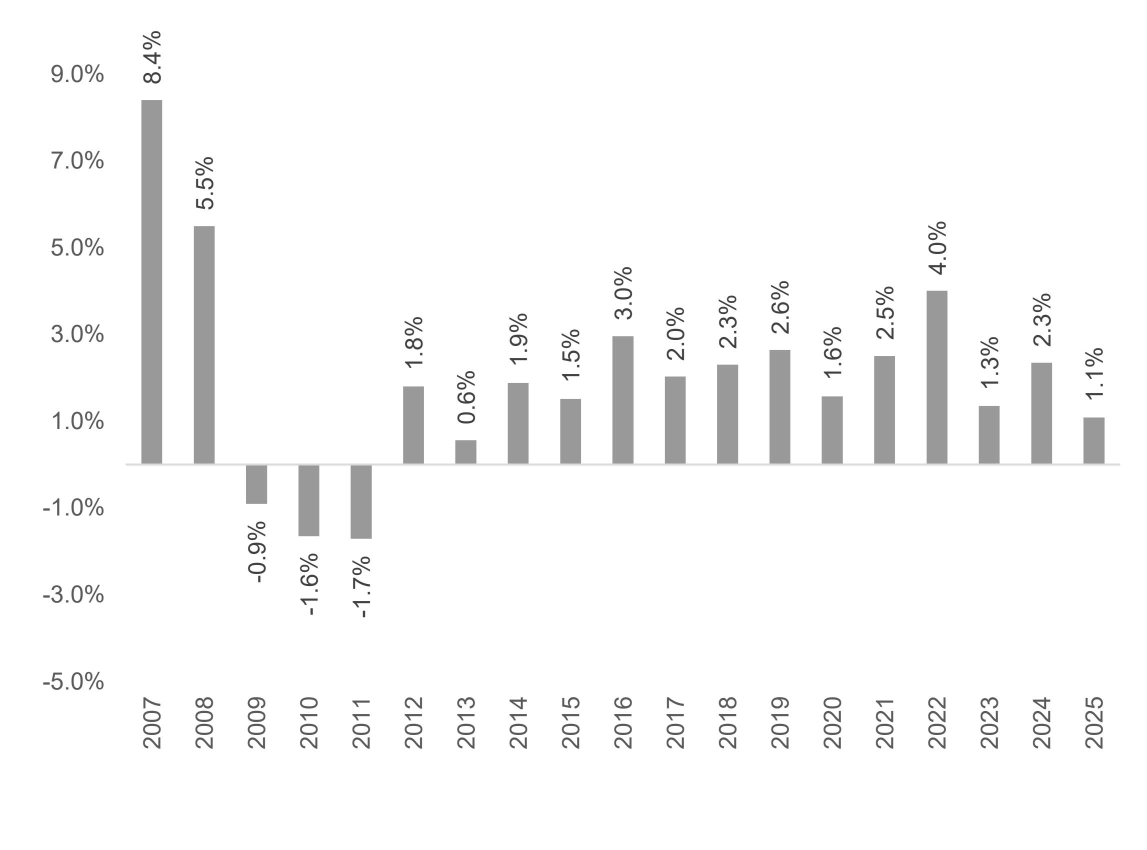
Direct Rent Growth Slows but Remains Positive

In 2025, Chicago office asking rents continued to exhibit price stability with modest upward pressure, even as underlying demand remains constrained. On a quarter-over-quarter basis, average direct asking rents increased from $42.18/SF last quarter to $42.86/SF this quarter, a 1.6% gain, indicating sustained landlord discipline and a preference for preserving face rents through concessions rather than outright rate cuts. On a year-over-year basis, rents advanced at a low single-digit pace, supported primarily by Class A and trophy assets, limited new competitive supply, and ongoing flight-to-quality dynamics, reinforcing a market environment characterized by stability rather than growth acceleration.

Office Average Direct Asking Rent, $/SF, FS



Year-over-Year Average Direct Asking Rent Growth Rate



Source: Newmark Research, CoStar

Top 4Q25 CBD Transactions

In 2025, leasing activity within the CBD totaled just over 8.41 million square feet. Though leasing velocity was slower compared to 2024, more deals were completed than last year, leading activity to best totals for last year by over 700,000 SF.

AMA AMERICAN MEDICAL ASSOCIATION

The healthcare group renewed at 330 N. Wabash in 260,000 SF.

USG

The material manufacturer downsized to 165,410 SF in a renewal at 550 W. Adams

WINSTON & STRAWN LLP

The legal services firm downsized to 148,000 SF in a relocation to 300 N. Lasalle

AAR

The aviation/aerospace company is expanding in a relocation to 90,000 SF within Merchandise Mart.

Access the Extended 4Q25 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.

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Submarket Overview

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