

# Chicago

Office | Q3 2023 Market Report

## Quarterly Snapshot

↓ Average Rent  
\$43.67/SF

↑ Vacancy  
22.6%

↓ Net Absorption  
-1,885,348 SF

## Occupier's Perspective

Market headwinds have turned the market in a downward trajectory in terms of rental rates as 4 consecutive quarters of rental decline. Frustratingly, Class A buildings saw rates drop for the first time during this period, coming down \$0.38 to \$51.50. This was driven primarily by the West Loop where competition for tenants has become fierce.

Sublease space continues to be a thorn in the side of landlords, providing tenants with the opportunity to obtain discounted space in the market. Vacant sublease space is up to 2.4 percent with available sublease space topping 7.2 million square feet (or 4.9 percent) of total inventory.

There are currently 23 buildings downtown that are for sale, with an average vacancy of 27.0 percent. Landlords are having difficulty even renewing tenants and funding concessions (such as TI) as construction costs remain stubbornly high. Occupiers with lease expirations over the next several years would be well advised to examine their current building and market options.

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Vacancy in Chicago's downtown office market jumped in the third quarter, hitting 23.6 percent, up from 22.6 percent in the second quarter. This is unwelcome news for landlords who are seeking some positive news in the face of mounting headwinds. Vacancy looks poised to further increase as the majority of tenants in the market look to downsize and create efficient real estate footprints.

No class of building was safe from vacancy increases as all types experienced an uptick in vacancy. Looking ahead, office landlords will feel increased pressure to retain and attract new tenants as lenders tighten their belts in an elevated interest rate environment. Overall leasing activity remains low, which is good news for the few tenants that are in the market and should benefit from intense landlord competition for their occupancy.

There is some light at the end of the tunnel relating to oversupply issues, via space demolition and repurpose, which are becoming more common in Chicagoland. Even as demand is expected to drift lower over the coming quarters, Chicago should be at the tail end of its largest supply wave in over a decade, with only 2.1 million square feet currently under construction.

## Recent Transactions

Tenant	Size (SF)	Submarket	Type	Building
Relativity	105,000 SF	Central Loop	Renewal	Office
Olam Americas	80,000 SF	East Loop	New Lease	Office
Total Quality Logistics	36,322 SF	Central Loop	New Lease	Office

## Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent (\$/SF)	Submarket
24.8%	▲	\$39.11	East Loop
25.9%	▼	\$41.14	Central Loop
27.6%	◆	\$42.02	River North
16.7%	▼	\$42.96	North Michigan Ave
17.9%	▼	\$44.26	Fulton Market
22.3%	▼	\$47.75	West Loop