

Q4 2023

Market Insight Report

**Exclusive Insights for Chicago Central
Business District Occupiers**

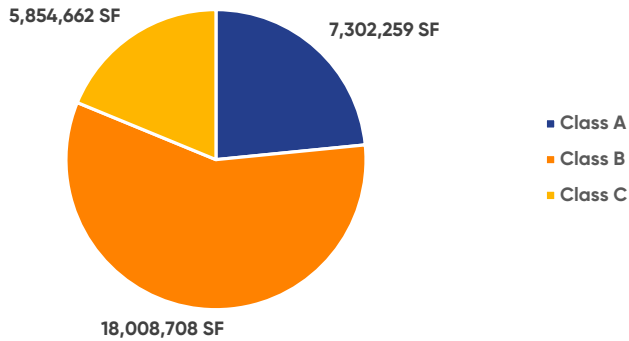
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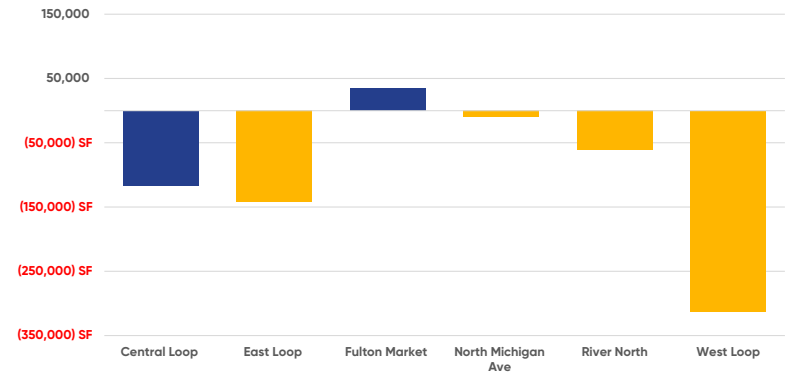
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Chicago Central Business District

Total Vacant Square Footage by Building Class



Q4 Direct Net Absorption by Submarket



Vacancy

Chicago's downtown office market ended 2023 with yet another surge in vacancy. Occupiers continue the trend of shedding square footage to be more efficient, pushing the vacancy rate in the CBD to 24.0%. Landlords hope 2024 will be the long-awaited reprieve from the precipitous increase in empty space with A, B, and C asset classes being impacted negatively. The trophy class continues to charge

forward with ever-increasing demand for premier space. All submarkets continue to be adversely impacted as well, apart from Fulton Market, which continues to be the darling of the city, boasting new developments and a bustling atmosphere. Landlords throughout the city are being challenged to find creative transaction structures to renew or land new tenants.

Absorption

Negative net absorption dropped from the prior quarter down to 605,546 square feet, making for back-to-back quarters of over 500,000 square feet returning to the market. Perhaps unsurprising, trophy class space was the only asset type to see positive absorption figures, with 45,731 square feet of positive movement. Class A, B, and C buildings had figures in the red this quarter, with Class B space being

heavily impacted with 451,488 square feet of negative movement. Notable occupiers who have taken possession of their new space, or are anticipated to move soon, CA Ventures (17,000 square feet) and Wilson Dow (17,000 square feet) both at 800 W Fulton, Roku (24,000 square feet at 320 N Sangamon), and Humana (15,000 square feet) at 111 N Canal.

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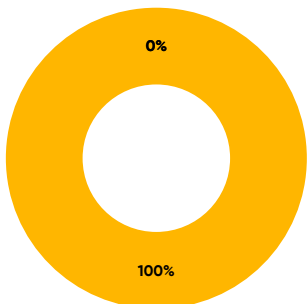
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Q4 2023 Large Signed Leases

Tenant	SF Leased	Address/Building Name	Deal Type
1 Relativity	105,000 SF	231 S LaSalle	Renewal & Expansion
2 OneDigital	103,000 SF	233 S Wacker	Sublease
3 Neil Gerber Eisenberg	90,000 SF	225 W Randolph	New Lease
4 Interpublic Group	77,535 SF	222 Merchandise Mt	New Lease
5 IIT	34,295 SF	400 N Aberdeen	New Lease
6 Gordon Rees	29,839 SF	1 N Wacker	New Lease
7 Cerity Partners	19,643 SF	320 N Canal	New Lease

Downtown Leasing Volume by Building Class



■ Class A ■ Class B ■ Class C

Market Rent & Lease Volume

Market rents have ticked back up slightly, increasing \$0.17 to \$43.76. This contradicts the general market over the prior three quarters of 2023 where rents dropped. Class A buildings saw rates increase \$0.58, moving the market with the increase, ending the quarter at \$52.09. This

was driven by all submarkets except for the East Loop, which only saw Class A rents drop slightly. Class B and C rents dropped by \$0.08 and \$0.21 respectively, with West Loop Class B rents being hit hardest, dropping by \$0.78.

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Large Available Subleases

Address	Size	Term	Tenant
35 W Wacker	350,000	Dec-30	Publicis Groupe
400 S Jefferson	233,000	Jan-25	Tyson Foods
333 W Wolf Point Plz	119,950	May-40	Salesforce
222 Merchandise Mart Plz	108,617	Sept-32	PayPal
101 N Wacker	99,592	Aug-27	TTX

Subleasing

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%, but remained flat quarter over quarter, with available sublease space topping 7.1M square feet (or 4.9%) of total inventory. Some sublease space represents true direct competition for downtown landlords because they are providing long term, high concession opportunities at below market rental rates. These aggressively priced options continue to create a compelling alternative for tenants in the market.

Sales & Capital Markets

Given the challenging interest rate environment for lenders, the capital situation in downtown Chicago has become a front-and-center issue for most landlords. Values of buildings are dwindling as vacancies rise and demand falls. This has caused several buildings to become distressed. There are currently 33 buildings under the watch of a special servicer and an additional 10 on the watchlist, resulting in 12.4% of the market in dire financial circumstances. It is likely that this will continue to increase, with a substantial number of CMBS loans coming due over the next three years. As values fall, buildings will begin to trade hands below their prior sale totals, allowing in some cases for a reset of the market in terms of rent.

There are currently 24 buildings downtown that are for sale, with an average vacancy of 30.5%. Some buildings are experiencing instability from another perspective. As even renewing tenants can be untenable, funding concessions (such as TI) has become difficult 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 with an advisor that is unencumbered by fiduciary obligations to building investors.

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Submarket/ Class	Total # of Buildings	Total RBA SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Q4 Net Absorption SF	Under Construction SF	Gross Rent PSF Per Year
Central Loop	60	33,844,736	8,360,529	24.7%	1.3%	26.0%	(116,532)	0	\$41.11
Class A	8	8,034,297	1,177,616	14.7%	0.3%	15.0%	21,013	0	\$49.40
Class B	33	22,229,709	6,334,068	28.5%	1.8%	30.3%	(113,430)	0	\$39.10
Class C	19	3,580,730	848,845	23.7%	0.2%	23.9%	(24,115)	0	\$34.95
East Loop	56	27,821,500	6,665,413	24.0%	1.0%	25.0%	(141,808)	0	\$39.16
Class A	4	7,070,763	891,568	12.6%	2.0%	14.6%	(128,343)	0	\$48.27
Class B	19	13,730,748	3,358,637	24.5%	1.0%	25.5%	(63,411)	0	\$37.57
Class C	33	7,019,989	2,415,208	34.4%	0.1%	34.5%	49,946	0	\$33.11
Fulton Market	49	5,628,804	813,922	14.5%	2.3%	16.8%	35,218	0	\$45.45
Class A	10	2,408,522	117,987	4.9%	5.0%	9.9%	11,205		\$57.81
Class B	9	523,832	100,538	19.2%	0.0%	19.2%	13,968	0	\$41.25
Class C	30	2,696,450	595,397	22.1%	0.4%	22.5%	10,045	0	\$35.23
North Michigan Ave	33	11,573,470	1,789,148	15.5%	1.9%	17.3%	(9,501)	0	\$43.42
Class A	7	5,370,098	972,178	18.1%	2.8%	20.9%	(2,202)	0	\$48.58
Class B	12	3,793,176	664,225	17.5%	1.7%	19.2%	(7,299)	0	\$41.31
Class C	14	2,410,196	152,745	6.3%	0.0%	6.3%	0	0	\$35.25
River North	56	13,644,828	3,229,463	23.7%	5.2%	28.9%	(60,815)	217,000	\$42.92
Class A	4	3,889,888	939,641	24.2%	11.1%	35.3%	26,567	217,000	\$53.04
Class B	15	6,101,842	1,321,608	21.7%	4.2%	25.9%	(48,102)	0	\$42.56
Class C	37	3,653,098	968,214	26.5%	0.6%	27.1%	(39,280)	0	\$32.76
West Loop	85	51,755,148	10,307,154	19.9%	3.0%	23.0%	(312,108)	0	\$47.75
Class A	21	25,931,385	3,203,269	12.4%	2.7%	15.1%	(25,793)	0	\$54.01
Class B	39	22,714,518	6,229,632	27.4%	3.7%	31.1%	(233,174)	0	\$42.07
Class C	25	3,109,245	874,253	28.1%	1.1%	29.2%	(53,141)	0	\$37.04
Total CBD	357	157,156,633	33,771,604	21.6%	2.4%	24.0%	(605,546)	710,680	\$43.76
Class A	54	52,704,953	7,302,259	13.9%	3.0%	16.8%	(97,553)	217,000	\$52.09
Class B	127	68,693,825	18,008,708	26.2%	2.5%	28.7%	(451,448)	0	\$40.45
Class C	158	22,469,708	5,854,662	26.1%	0.4%	26.4%	(56,545)	0	\$34.37
Trophy CBD	18	13,288,147	2,605,975	19.6%	2.8%	22.4%	45,731	493,680	\$70.81

Beyond space.

Contact

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