

Q4 2022

Market Insight Report

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

cresa

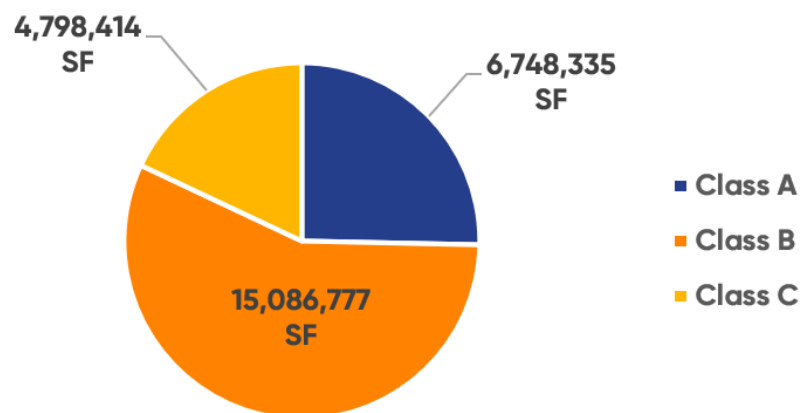


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Total Vacant Square Footage by Building Class

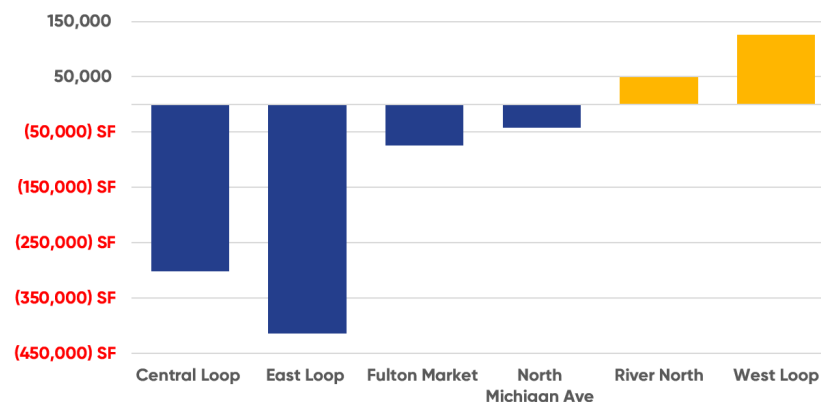


Vacancy

Chicago's downtown office market ends 2022 on a worrying note as vacancy moves into uncharted territory, closing at 21.0%. This was somewhat of a surprise to most landlords as vacancy held steady in the second and third quarter, giving them hope that office space shedding was over. As has been the case over the past several years, class B & C buildings have been hit hardest with their respective vacancy numbers increasing to 23.9% and 21.9%, respectively. Looking forward to 2023, landlords of B & C buildings will

face an uphill battle to retain or attract new tenants as many predict a harsh economic outlook. Tenants in the market will be entering a favorable market for those types of buildings. Class A buildings have fared better than the rest of the market but still have seen vacancy reach the highest level (15.8%) since the aftermath of the great financial crisis in 2010. This class of building has been more resilient to vacancy spikes as many tenants seek to upgrade their space to more amenity rich, newer buildings downtown.

Q4 Direct Net Absorption by Submarket



Absorption

Driving record vacancy is the high level of negative net absorption that has been associated with tenants rightsizing their space or disposing of it completely. The fourth quarter saw 602,818 square feet of space return to the market. As with vacancy, this was primarily in the B & C classes of buildings. Class A space saw a slightly positive net absorption number, with just 4,693 square feet of positive movement. Notable occupiers relocating to new offices or renewing include Cook County (106,472 sf) and

Kupets & Decaro (11,403 sf) both at 161 N Clark and Vitality (29,418 sf) at 120 S Riverside. Notable firms giving space back to the market include Jones Day (22,466 sf) at 77 W Wacker, Chicago Community Trust (28,000 sf) at the Sullivan Center, and COTG (14,037 sf) at 1 E Wacker.

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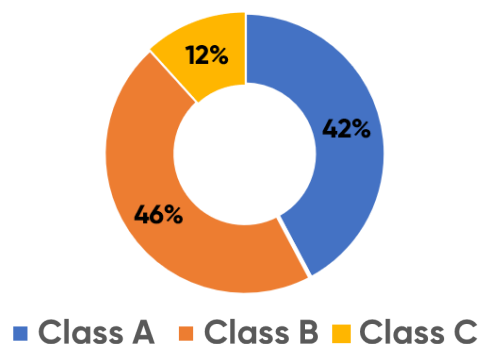
Chicago Central Business District

Q4 2022 Large Signed Leases

Tenant	SF Leased	Address/Building Name	Deal Type
1 CTC	160,168	425 S Financial Pl	Expansion
2 Xeris Bio	87,000	1375 W Fulton Market	New Lease
3 Twin Brook Capital	58,000	111 S Wacker	Expansion
4 Zoro	42,000	500 W Madison St	Relocation
5 Loop Capital	37,000	425 S Financial Pl	Relocation
6 US Soccer	33,000	303 Wacker Dr	Relocation
7 Mintel	29,957	203 N LaSalle St	Relocation
8 Fay Mortgage Services*	25,956	425 S Financial Pl	Extension
9 Cision	24,851	300 S Riverside Plz	Sublease
10 Azumo	21,000	1200 N Branch St	New Lease
11 Fetch Rewards	21,000	609 W Randolph St	New Lease
12 Edge Logistics	18,513	125 S Wacker Dr	New Lease
13 TransLoop	17,000	1 S Wacker Dr	Relocation

*Cresa deal

Downtown Leasing Volume by Building Class



Market Rent & Lease Volume

Perhaps the most surprising trend in 2022 was that rental rates in Chicago did not budge, and in some cases, increased despite the vacancy surge. However, the fourth quarter experienced rental rate decreases, indicating that landlords are finally feeling the pressure of high vacancy interest rate increases and sublease competition. Gross asking rental rates for the fourth quarter ended at \$43.80 across A, B and C buildings, down about \$.20

from the prior quarter. While this does not mark a complete shift to a tenant market, it is a warning sign to owners that momentum from the second and third quarters has ebbed substantially. This is further evidenced by the fact that fewer than 150 transactions were completed in the quarter for direct space. This is the lowest number of transactions since the heart of the pandemic in the second half of 2020.

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Large Available Subleases

Address	Size	Term	Tenant
600 W Chicago	290,769	Jan-26	Groupon
101 N Wacker	99,592	Aug-27	TTX
222 Merchandise Mart	89,492	Jun-28	VelocityEHS
130 E Randolph	80,000	Aug-30	OppFi
1 N Wacker	70,082	Oct-28	PWC
200 E Randolph	63,786	Jan-25	AON

Subleasing

Vacant sublease space increased to end the year, ticking up to 2.3%. The amount of sublease space on the market has increased steadily over the past several quarters, going up 10 basis points every quarter since the second quarter of 2021. Sublease space is typically marked down from the typical market rent for the class of building it is in, providing a typically more flexible option for users from both economic and time commitments.

Significant Building Transactions

Property Address	Building SF	Sale Price	Price PSF
600 W Jackson	116,879	\$10,775,000	\$92.19

Sales & Capital Markets

There were a limited number of buildings transactions in the CBD to end the year as rising interest rates, inflation, and economic worry took a toll on investors' appetites. Only one transaction sticks out: 600 W Jackson trading hand for \$92 per square foot. Market cap rates are holding steady between 6.0% and 6.5%. There are a number of well-leased buildings set for potential sales across the CBD, but interest rate fears could squash any resurgence in 2023. Additionally, refinancing has become a major concern for owners who have maturity dates in 2023 and 2024 as interest rates rise.



600 W Jackson (Burnham Otis Building) Photo: CoStar

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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	62	34,872,406	7,903,206	22.7%	1.9%	24.6%	(301,556)	0	\$42.20
Class A	8	7,891,103	1,160,359	14.7%	0.8%	15.5%	(124,892)	0	\$49.25
Class B	35	23,404,813	5,925,163	25.3%	2.5%	27.8%	(215,670)	0	\$40.72
Class C	19	3,576,490	817,684	22.9%	0.4%	23.3%	39,006	0	\$36.37
East Loop	56	27,380,932	5,520,521	20.2%	1.7%	21.8%	(414,060)	0	\$39.24
Class A	4	6,803,752	608,602	8.9%	2.3%	11.2%	0	0	\$48.17
Class B	19	13,572,675	3,266,371	24.1%	2.0%	26.1%	(367,580)	0	\$37.70
Class C	33	7,004,505	1,645,548	23.5%	0.4%	23.9%	(46,480)	0	\$33.56
Fulton Market	49	5,630,064	1,043,205	18.5%	1.9%	20.5%	(74,542)	533,680	\$43.66
Class A	10	2,429,529	269,655	11.1%	3.4%	14.5%	89,220	533,680	\$56.15
Class B	9	532,563	117,715	22.1%	0.0%	22.1%	(31,897)	0	\$39.16
Class C	30	2,667,972	655,835	24.6%	1.0%	25.6%	(131,865)	0	\$33.18
North Michigan Ave	33	11,767,842	1,703,901	14.5%	1.9%	16.3%	(42,695)	0	\$42.83
Class A	7	5,491,106	897,638	16.3%	3.1%	19.4%	(33,123)	0	\$47.18
Class B	12	3,799,596	675,129	17.8%	1.2%	19.0%	934	0	\$40.83
Class C	14	2,477,140	131,134	5.3%	0.1%	5.4%	(10,506)	0	\$36.24
River North	56	14,017,828	2,067,379	14.7%	4.7%	19.5%	49,843	1,417,202	\$41.95
Class A	4	3,889,888	592,045	15.2%	10.1%	25.3%	27,147	1,417,202	\$51.64
Class B	15	6,465,684	689,758	10.7%	3.0%	13.7%	2,377	0	\$41.87
Class C	37	3,662,256	785,576	21.5%	2.0%	23.5%	20,319	0	\$31.81
West Loop	85	51,579,000	8,395,314	16.3%	2.4%	18.7%	126,374	48,560	\$48.05
Class A	21	25,876,229	3,220,036	12.4%	2.4%	14.8%	46,341	0	\$53.47
Class B	38	22,355,803	4,412,641	19.7%	2.6%	22.3%	71,724	48,560	\$43.81
Class C	26	3,346,968	762,637	22.8%	1.0%	23.8%	8,309	0	\$34.41
Total CBD	341	155,967,617	28,868,978	18.7%	2.3%	21.0%	(602,818)	1,999,442	\$43.80
Class A	54	52,381,607	6,748,335	12.9%	2.8%	15.7%	4,693	1,950,882	\$51.47
Class B	128	70,131,134	15,086,777	21.5%	2.4%	23.9%	(540,112)	48,560	\$41.22
Class C	159	22,735,331	4,798,414	21.1%	0.8%	21.9%	(121,217)	0	\$34.09
Trophy CBD	17	10,719,545	2,235,452	20.9%	1.4%	22.3%	53,818	1,693,882	\$68.90



Beyond space.

Contact

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