

Q3 2023

Market Insight Report

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

cresa

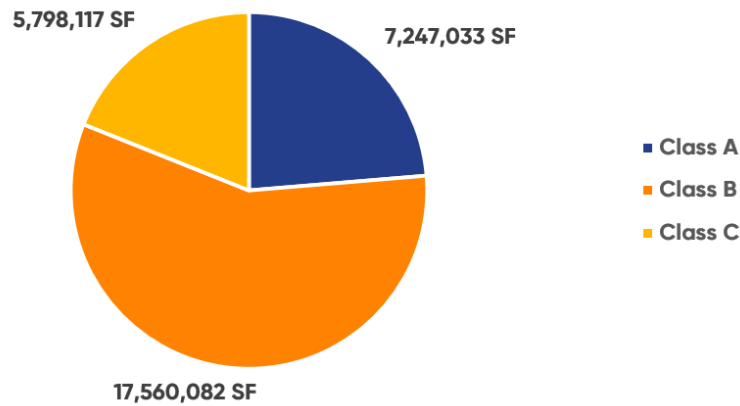


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Total Vacant Square Footage by Building Class

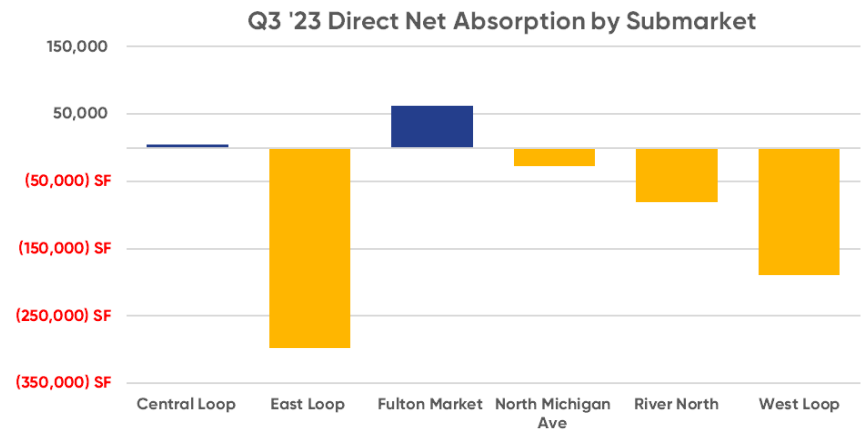


Vacancy

Chicago's downtown office market saw vacancy jump in the third quarter, hitting 23.6%, up from 22.6% in the second quarter. This is unwelcome news for landlords 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 saw their percentages increase. 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, so the few tenants that are in the market should benefit from intense landlord competition for their occupancy.

Q3 Direct Net Absorption by Submarket



Absorption

Negative net absorption was dramatically high from the prior quarter with 714,623 square feet returning to the market. Surprisingly, Class C space was the only asset type to see positive absorption figures with 11,824 square feet of positive movement. Class A & B buildings had figures in the red this quarter with Class B space being heavily

impacted with 492,748 square feet of negative movement. Notable occupiers who have taken possession of their new space or are anticipated to move soon include GoHealth (89,492 SF) at 222 Merchandise Mart Plaza (sublease from Velocity ESH) and Bankers Life & Casualty (100,000 SF) leaving 111 E Wacker for 303 E Wacker.

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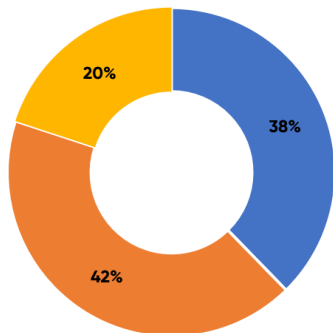
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Q3 2023 Large Signed Leases

Tenant	SF Leased	Address/Building Name	Deal Type
1 Relativity	105,000 SF	231 S LaSalle	Renewal & Expansion
2 Olam Americas	80,000 SF	24 E Washington	New Lease
3 Total Quality Logistics	36,322 SF	125 S Clark	New Lease
4 Titan Security Group	18,409 SF	600 W Jackson	New Lease
5 American Express Business Global Travel	15,000 SF	1 S Wacker	Renewal
6 Neighborhood Housing Services of Chicago	12,257 SF	850 W Jackson	New Lease
7 Cooler Logistics	10,717 SF	850 W Jackson	New Lease
8 Drive Capital	10,605 SF	215 N Peoria	New Lease

Downtown Leasing Volume by Building Class



■ Class A ■ Class B ■ Class C

Market Rent & Lease Volume

Headwinds have officially turned the market in downward trajectory in terms of rental rates as four consecutive quarters of rental decline have average rates resting at \$43.60. Though the total movement of rates over the past year amounts to just over \$0.50, it is certain to be just the beginning. 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 as tenants seek ease of access to public transport as well as the highway. Class B and C rents have remained essentially unchanged from the prior quarter.

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Large Available Subleases

Address	Size	Term	Tenant
35 W Wacker	350,000	Dec-30	Publicis Groupe
600 W Chicago	290,769	Jan-26	Groupon
400 S Jefferson	233,000	Jan-25	Tyson Foods
233 S Wacker	155,655	Mar-30	Untied Airlines
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% with available sublease space topping 7.2M 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 32 buildings under the watch of a special servicer, and an additional nine on the watchlist, resulting in 11.5% 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. This is evidenced by the sale of 230 W Monroe by Accesso to Menashe Properties for \$45 million; less than the value of the loan Accesso took out to purchase the property in 2014.

There are currently 23 buildings downtown that are for sale, with an average vacancy of 27.0%. Some buildings are experiencing instability from another perspective. As even renewing tenants can be untenable, funding concessions (such as tenant improvements) 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	Q2 Net Absorption SF	Under Construction SF	Gross Rent PSF Per Year
Central Loop	62	34,875,646	8,248,144	23.7%	1.6%	25.2%	(58,669)	0	\$41.24
Class A	8	7,890,103	1,175,212	14.9%	0.5%	15.4%	(31,087)	0	\$49.45
Class B	35	23,404,813	6,250,979	26.7%	2.1%	28.8%	(7,953)	0	\$39.23
Class C	19	3,580,730	821,953	23.0%	0.3%	23.3%	(19,629)	0	\$36.26
East Loop	56	27,571,682	5,741,687	20.8%	1.2%	22.0%	19,434	0	\$38.99
Class A	4	6,825,237	761,732	11.2%	1.5%	12.7%	(19,766)	0	\$48.07
Class B	19	13,744,548	3,052,597	22.2%	1.5%	23.7%	11,337	0	\$37.13
Class C	33	7,001,897	1,927,358	27.5%	0.4%	27.9%	27,863	0	\$33.78
Fulton Market	49	5,646,195	910,978	16.1%	2.7%	18.8%	(1,901)	493,680	\$44.57
Class A	10	2,429,529	146,099	6.0%	4.4%	10.4%	38,674	493,680	\$56.35
Class B	9	543,168	104,487	19.2%	0.0%	19.2%	17,015	0	\$42.63
Class C	30	2,673,498	660,392	24.7%	1.6%	26.3%	(57,590)	0	\$34.25
North Michigan Ave	33	11,767,842	1,752,564	14.9%	1.7%	16.6%	(108,453)	0	\$42.95
Class A	7	5,491,106	942,549	17.2%	2.6%	19.8%	(101,011)	0	\$47.34
Class B	12	3,799,596	675,331	17.8%	1.6%	19.4%	(2,420)	0	\$40.53
Class C	14	2,477,140	134,684	5.4%	0.0%	5.4%	(5,022)	0	\$36.91
River North	56	14,028,828	2,925,913	20.9%	4.9%	25.8%	25,471	217,000	\$42.02
Class A	4	3,889,888	938,315	24.1%	11.1%	35.2%	80,330	217,000	\$52.02
Class B	15	6,465,684	1,057,729	16.4%	3.1%	19.5%	(798)	0	\$41.06
Class C	37	3,673,256	929,869	25.3%	1.6%	26.9%	(54,061)	0	\$33.12
West Loop	86	51,973,994	9,908,163	19.1%	2.6%	21.7%	(153,372)	48,560	\$47.95
Class A	21	25,876,229	3,236,102	12.5%	2.5%	15.0%	73,107	0	\$54.15
Class B	39	22,724,333	5,821,211	25.6%	2.9%	28.5%	(189,245)	48,560	\$42.89
Class C	26	3,373,432	850,850	25.2%	1.2%	26.4%	(37,234)	0	\$34.54
Total CBD	360	158,744,619	32,160,142	20.4%	2.2%	22.6%	(277,490)	759,240	\$43.67
Class A	54	52,402,092	7,200,009	13.7%	2.8%	16.5%	40,247	710,680	\$51.88
Class B	129	70,282,142	16,962,334	24.1%	2.3%	26.4%	(172,064)	48,560	\$40.49
Class C	159	22,779,953	5,325,106	23.4%	0.8%	24.2%	(145,673)	0	\$34.57
Trophy CBD	18	13,280,432	2,672,693	20.1%	1.9%	22.0%	26,207	493,680	\$71.78



Beyond space.

Contact

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