

Q1/24 OFFICE MARKET REPORT

Downtown Chicago





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UNCERTAIN VALUATIONS, UNFAVORABLE FINANCING, AND IMPENDING LEASE EXPIRATIONS: THE CBD'S SLOW RECOVERY

In Q1/24, Chicago's downtown office vacancy rate continued to rise, topping out at over 21%. Demand was relatively soft with negative 1.4 million square feet absorbed through the first quarter of this year, most of which was concentrated in the West, East, and Central Loop. Rental rates remained at similar levels to last year—the average gross asking rate was \$43 per square foot.

Sales activity in the city continues to struggle as high interest rates constrain borrowing and weigh on valuations. Owners in the financial position to reinvest in their buildings and negotiate flexible lease terms with tenants have a clear advantage, allowing them to outperform the overall market.

Other assets, of course, are underperforming the market. By our count, there are 23 buildings in the CBD with distressed loans, and almost half are in the Central Loop. If interest rates remain high, the financial pressure on leveraged owners will mount, as \$2.8 billion of debt is set to expire by the end of 2025.

The distress will likely continue as owners, lenders, and tenants navigate the turbulent market conditions. Our research indicates that more than half of all square footage leased prior to the pandemic has not yet expired, suggesting that many companies have yet to address their actual space needs in the CBD.

Leasing Activity

Leasing volume remains light with only 1.3 million square feet leased in Q1 this year. This is below the 2.1 million square feet leased in Q1/23, and significantly lower than the 4.9 million square feet leased in Q1/19, prior to the pandemic. Despite the slowdown in leasing activity, many companies are bringing employees back to the office. Most recently, tech companies including Dell and IBM began requiring workers to return in person. In fact, a memo released by IBM's management went as far as to say that employees must relocate near a corporate hub or separate from the company.

The amount of sublease space on the market declined in Q1/24 but remains at historically elevated levels with more than 7 million square feet of sublease space available. It's important to note that this figure can be misleading because often sublease space isn't flexible. For example, a tenant seeking less than 10,000 square feet of sublease space can only access about 9% of the available sublease space currently, which is especially significant considering 80% of leases signed in 2023 were for less than 10,000 square feet. Most of this 7 million square feet sublease figure comprises large blocks, which are challenging to divide into smaller suites.

In the post-pandemic office market, tenants often require sizable concession packages in the form of free rent and/or tenant improvements. In addition, many tenants are looking for pre-built, move-in ready suites that are ready for occupancy upon lease execution. In fact, our research shows that nearly one-third of all leases signed in 2023 were for move-in ready suites, which is significantly above the 15% of deals in 2019.

Investment Sales

Sales activity remains at historic lows with only \$98 million trading in Q1/24. This is in line with levels seen last year, but pales in comparison to the \$750 million average seen in the first quarters of 2015–2019.

Of the \$98 million which traded so far this year, \$60 million can be attributed to the sale of 150 N. Michigan—about half of the price the property previously traded for in 2017 and below the \$87 million loan used to finance the previous transaction.

Uncertain office values and unfavorable financing conditions have led to hesitancy among both buyers and lenders. The only properties which have traded over the past year were at significant discounts, and some owners who have been actively marketing their properties at large discounts have yet to attract new buyers. For example, the owners of 70 W. Madison in the Central Loop are marketing the 1.4 million-square-foot tower for sale, with bids expected to come in at roughly \$150 million—significantly below the previous purchase price of \$375 million in 2014.

Other landlords that have the financial flexibility to negotiate lease terms and compete for new tenants have a significant advantage, allowing them to keep their properties well-occupied. Most notably, Ivanhoe Capital's \$75 million investment into its properties at 10 and 120 S. Riverside Plaza has paid off. Aside from leasing 156,000 square feet this past year, the complex recently gained three new tenants. The new tenants account for 75,000 square feet of space, with Attorneys' Liability Assurance Society taking the largest lease at 37,000 square feet.

DOWNTOWN CHICAGO

Q1/24 SNAPSHOT



(1,442,182) SF
Direct Net Absorption Q1/24



21.1%
Direct Vacancy Rate



\$43.44/SF
Average Gross Asking Rate

Property data were compiled from CoStar with these parameters: existing and under-renovation office property type; within Central, East and West Loops, N. Michigan Avenue, River North, and Fulton Market. Excluded properties include those with under 20,000 square feet of office space; non-conforming and owner-occupied properties, including those owned by coworking firms. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

FIGURE 01

Direct Vacancy Rate

Source: CoStar

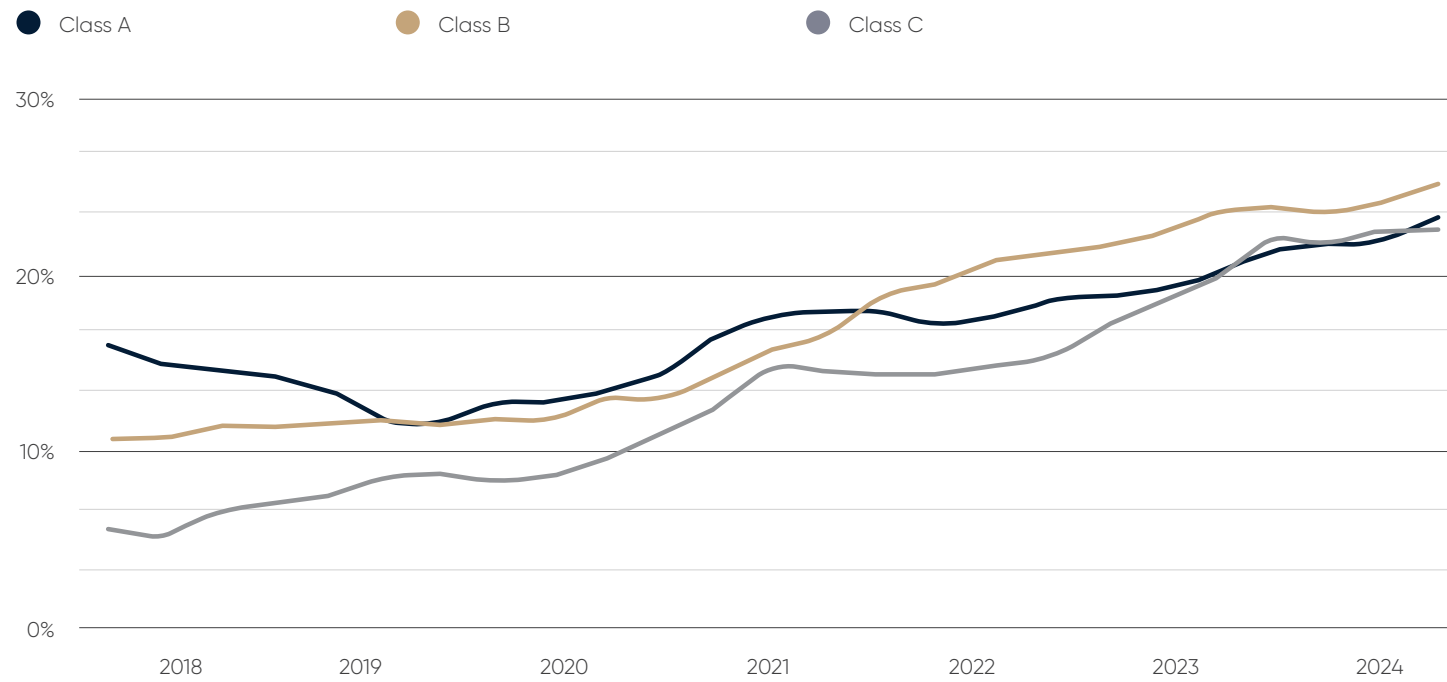
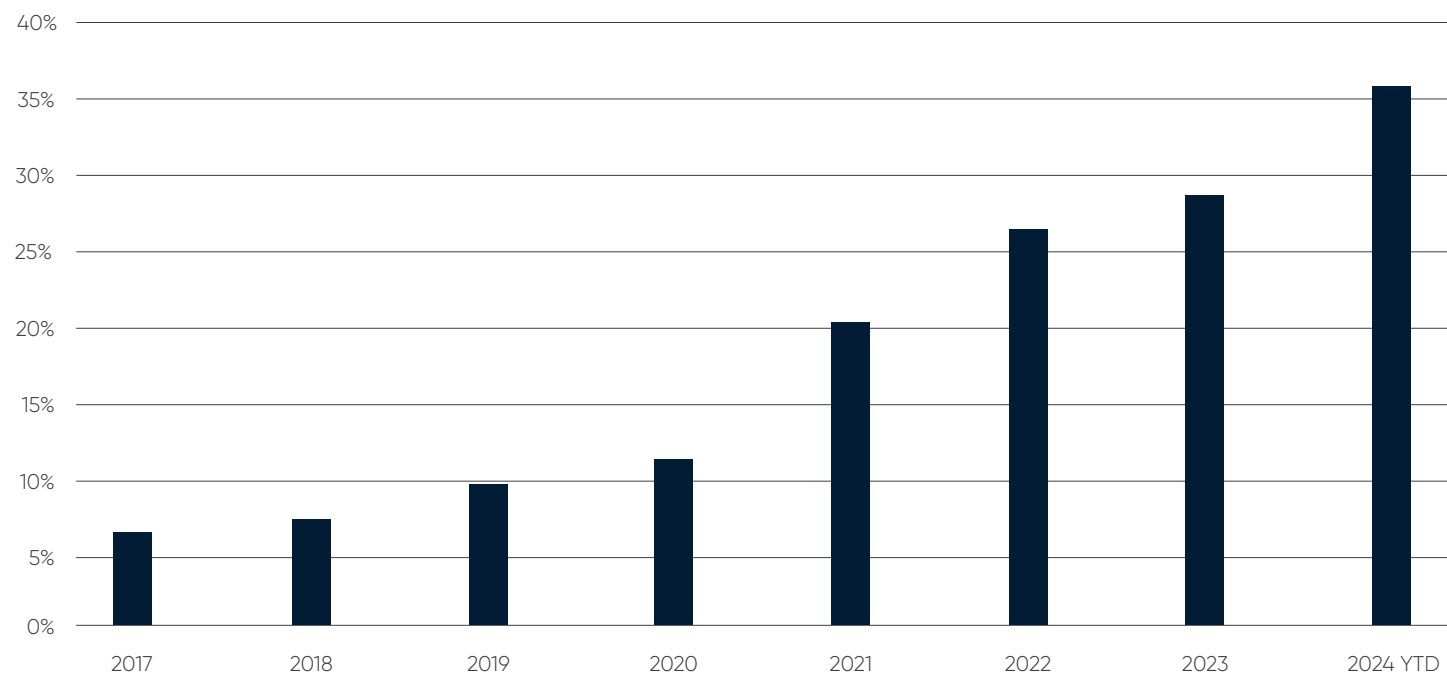


FIGURE 02

Move-In Ready Suites: Leasing Activity

Source: CoStar



This chart shows the percentage of square footage leased for move-in ready suites year over year, which are deals classified as fully builtout or spec suites in CoStar.

FIGURE 03

Chicago CBD Submarket Comparison Summary

Source: CoStar

Submarket & Asset Class	Total Square Footage	Average Building Size	Direct Availability Rate	Sublet Availability Rate	Direct Vacancy Rate	Sublet Vacancy Rate	Average Gross Asking Rate	Q1/24 Net Absorption	2023 Net Absorption
CHICAGO CBD	161,544,474	355,824	24.8%	4.4%	21.1%	2.0%	\$43.44	(1,442,182)	(1,535,187)
CLASS A	108,673,714	787,490	23.8%	5.4%	19.1%	2.4%	\$48.64	(919,251)	(567,437)
CLASS B	45,386,914	202,620	27.0%	2.4%	25.7%	1.3%	\$34.94	(462,248)	(690,251)
CLASS C	7,483,846	81,346	26.3%	1.4%	23.9%	0.3%	\$28.07	(60,683)	(277,499)
CENTRAL LOOP	37,085,047	545,368	28.1%	4.2%	25.1%	1.5%	\$42.18	(420,224)	(417,673)
CLASS A	17,827,281	810,331	30.4%	6.5%	22.9%	2.2%	\$48.27	(189,319)	(206,754)
CLASS B	18,460,880	498,942	25.9%	2.0%	27.2%	0.8%	\$35.98	(222,886)	(164,037)
CLASS C	796,886	88,542	27.0%	0.0%	25.2%	0.0%	\$26.14	(8,019)	(46,882)
EAST LOOP	26,772,160	514,849.2	27.8%	3.6%	23.5%	1.1%	\$40.48	(409,721)	(612,334)
CLASS A	18,000,024	1,058,824	26.4%	4.6%	21.4%	1.1%	\$44.29	(364,520)	(467,205)
CLASS B	6,070,297	337,238	33.3%	2.0%	30.6%	1.3%	\$36.04	(19,754)	(90,877)
CLASS C	2,701,839	158,931	24.7%	0.4%	21.3%	0.1%	\$26.86	(25,447)	(54,252)
FULTON MARKET	9,414,085	110,753	15.4%	5.9%	14.7%	2.1%	\$42.14	54,624	531,839
CLASS A	5,387,255	269,362	12.9%	8.6%	13.3%	3.4%	\$52.81	(21,339)	418,412
CLASS B	2,594,338	64,858	20.7%	1.5%	19.3%	0.3%	\$32.98	59,033	49,215
CLASS C	1,432,492	57,299	15.1%	4.0%	11.2%	0.8%	\$30.71	16,930	64,212
N.MICHIGAN AVE	13,730,007	343,250	18.1%	3.7%	15.0%	2.0%	\$44.65	(175,262)	(65,000)
CLASS A	9,615,746	600,984	17.8%	4.9%	14.8%	2.7%	\$50.48	(138,591)	(46,569)
CLASS B	3,912,722	186,320	18.9%	0.7%	15.2%	0.3%	\$32.21	(38,421)	(18,431)
CLASS C	201,539	67,179	21.0%	5.2%	17.8%	0.0%	\$26.75	1,750	0
RIVER NORTH	18,228,219	171,964	25.6%	4.3%	21.2%	1.9%	\$43.07	72,689	(189,993)
CLASS A	11,455,609	881,200	25.2%	5.7%	19.3%	2.3%	\$50.81	241,834	89,047
CLASS B	5,443,335	80,049	23.6%	2.1%	21.5%	1.4%	\$31.94	(181,893)	(114,906)
CLASS C	1,329,275	53,171	37.7%	1.2%	35.8%	0.0%	\$27.00	12,748	(164,134)
WEST LOOP	56,314,956	546,747	24.1%	4.8%	20.0%	2.9%	\$46.08	(564,288)	(782,026)
CLASS A	46,387,799	927,756	22.4%	4.9%	18.2%	2.9%	\$49.63	(447,316)	(354,368)
CLASS B	8,905,342	222,633	32.3%	4.5%	28.2%	3.0%	\$34.85	(58,327)	(351,215)
CLASS C	1,021,815	78,601	31.5%	0.9%	33.4%	0.9%	\$31.92	(58,645)	(76,443)

FIGURE 04

Vacancy & Absorption

Source: CoStar

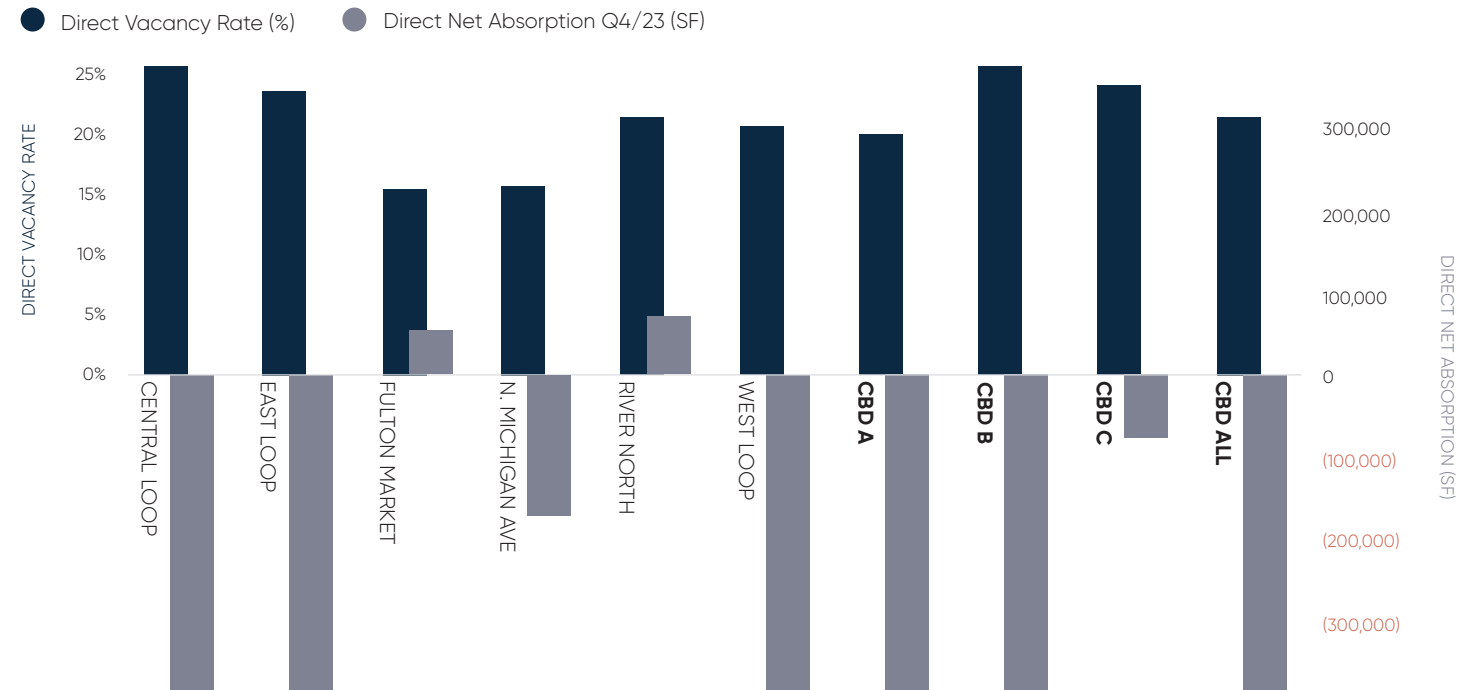


FIGURE 06

Sales Volume

Source: CoStar

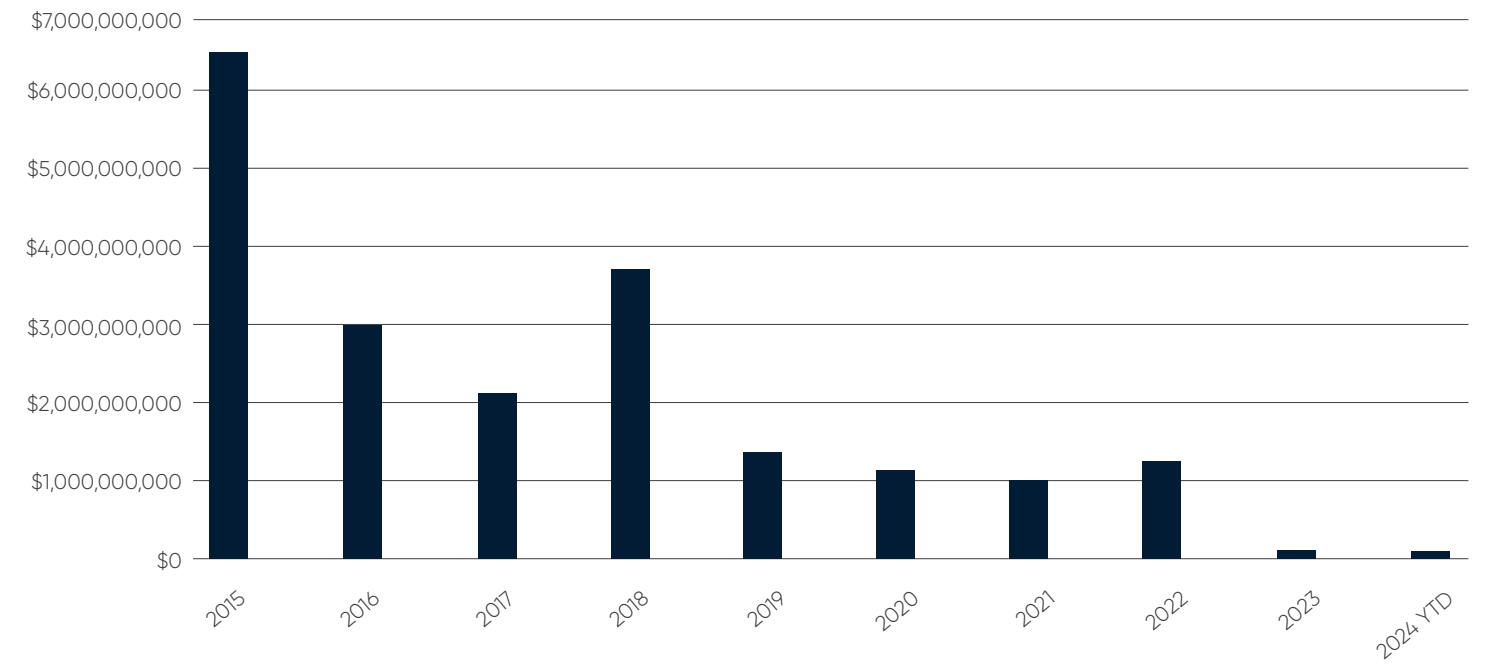


FIGURE 05

Product Pipeline

Source: CoStar

SUBMARKET	PROPERTY ADDRESS	RBA (SF)	BUILDING STATUS	DELIVERY YEAR
FULTON MARKET	360 N. Green Street	493,680	Under Construction	2024
FULTON MARKET	919 W. Fulton Market	369,008	Under Construction	2025
RIVER NORTH	311 W. Huron Street	217,000	Under Construction	2024
NORTH MICHIGAN AVENUE	535 N. Saint Clair Street	60,000	Under Construction	2024
FULTON MARKET	330 N. Green Street	712,000	Proposed	2025
FULTON MARKET	1105 W. Carroll Avenue	680,049	Proposed	2025
FULTON MARKET	170 N. Green Street	609,050	Proposed	2025
FULTON MARKET	350 N. Morgan Street	592,900	Proposed	2025
FULTON MARKET	1200 W. Carroll Avenue	494,775	Proposed	2025
FULTON MARKET	1325 W. Fulton Street	439,048	Proposed	2025
FULTON MARKET	310 S. Green Street	190,810	Proposed	2025
FULTON MARKET	900 W. Fulton Market	64,000	Proposed	2025



CENTRAL LOOP

- In Q1/24, the direct vacancy rate remained the highest in Chicago's CBD, increasing to 25%. However, sublease availability ticked down to 4.4%.
- Absorption levels worsened, posting negative 420,000 square feet of net absorption through the quarter.
- Central Loop still has the largest number of distressed assets in the CBD, largely driven by its low occupancy levels.
- Notable leases include Harris & Harris' decision to renew part of its previous space, reducing its footprint to 50,000 square feet at 111 W. Jackson.
- Mayor Johnson is officially moving forward with a plan to revitalize the Central Loop, committing over \$150 million of TIF funds to redeveloping four office properties on LaSalle. The redevelopment aims to increase demand and activity downtown by constructing 1,037 apartments on LaSalle Street, 319 of which will be earmarked for affordable housing.

MARKET MOVEMENT

BUILDING DISTRESS

9 BUILDINGS
(2.6M SF)
of available space

RENEWAL/ CONTRACTION

HARRIS & HARRIS
(50,000 SF)
111 W. Jackson
Boulevard

RENEWAL

AMLI RESIDENTIAL
(30,000 SF)
141 W. Jackson
Boulevard

RENEWAL

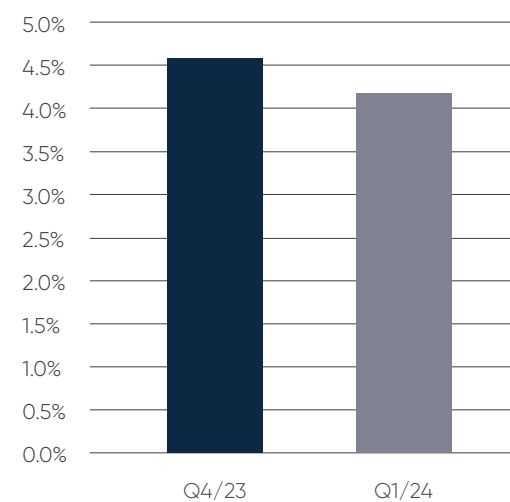
LATIMER LEVAY
FYOCK LLC
(17,000 SF)
55 W. Monroe
Street

RENEWAL

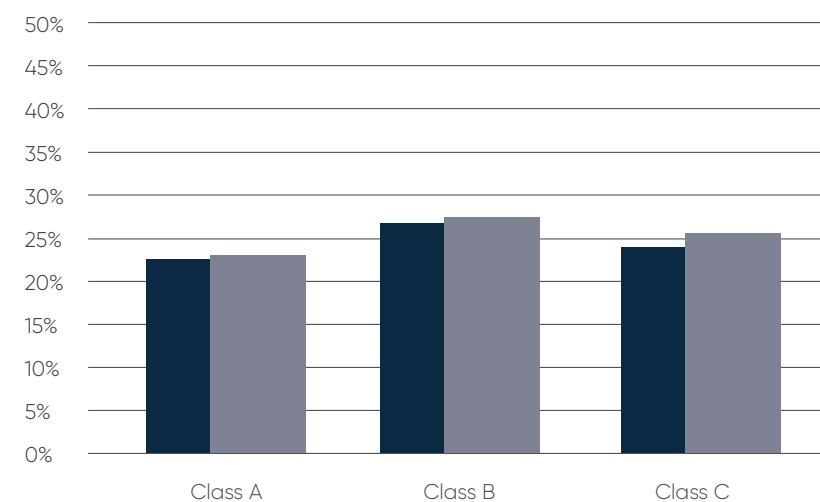
LASALLE NETWORK
(23,000 SF)
200 N. LaSalle
Street



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q1/24 NET ABSORPTION	2023 NET ABSORPTION
CENTRAL LOOP	37,085,047	545,368.3	28.1%	4.2%	25.1%	1.5%	\$42.18	(420,224)	(417,673)
CLASS A	17,827,281	810,331.0	30.4%	6.5%	22.9%	2.2%	\$48.27	(189,319)	(206,754)
CLASS B	18,460,880	498,942.7	25.9%	2.0%	27.2%	0.8%	\$35.98	(222,886)	(164,037)
CLASS C	796,886	88,542.9	27.0%	0.0%	25.2%	0.0%	\$26.14	(8,019)	(46,882)

EAST LOOP

- In Q1/24, the direct vacancy rate rose to 23.5%, an increase of more than 1.5% basis compared to the previous quarter.
- The rise in vacancy is largely due to the worsening absorption levels, as negative 410,000 square feet was absorbed this quarter.
- East Loop's average asking rental rate remains the lowest of any submarket in Chicago's CBD, sitting at \$40 per square foot.
- Despite the worsening headline statistics, the largest sale of the quarter was in the East Loop. R2 Companies decided to purchase 150 N. Michigan for \$60 million, which is half of the property's previous sale price in 2017 and below the \$87 million loan used to finance the previous acquisition.

MARKET MOVEMENT

BUILDING DISTRESS

5 BUILDINGS
(1.1M SF)
of available space

NEW LEASE

HAVAS
(33,000 SF)
24 E. Washington Street

NEW LEASE

BLUE OPS
(28,000 SF)
200 S. Michigan Avenue

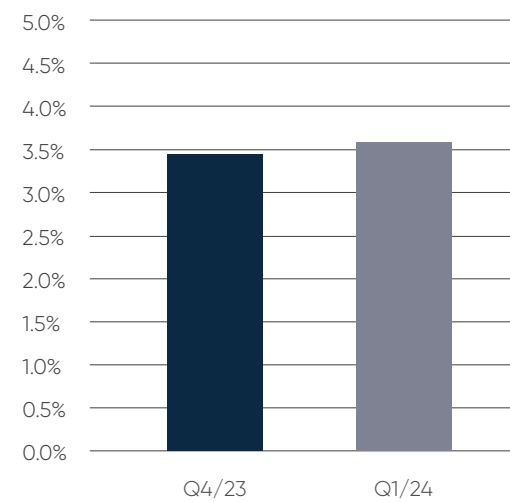
INVESTMENT SALE

R2 COMPANIES
(661,000 SF)
150 N. Michigan Avenue



SUBLET AVAILABILITY RATE

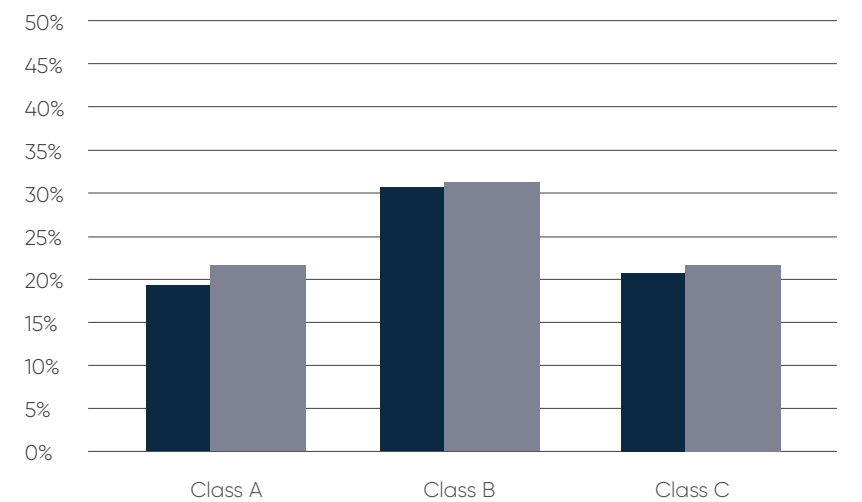
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q4/23 ● Q1/24



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q1/24 NET ABSORPTION	2023 NET ABSORPTION
EAST LOOP	26,772,160	514,849.2	27.8%	3.6%	23.5%	1.1%	\$40.48	(409,721)	(612,334)
CLASS A	18,000,024	1,058,824.9	26.4%	4.6%	21.4%	1.1%	\$44.29	(364,520)	(467,205)
CLASS B	6,070,297	337,238.7	33.3%	2.0%	30.6%	1.3%	\$36.04	(19,754)	(90,877)
CLASS C	2,701,839	158,931.7	24.7%	0.4%	21.3%	0.1%	\$26.86	(25,447)	(54,252)

FULTON MARKET

- In Q1/24, the direct vacancy rate dropped below 15% while sublease availability remained steady at 6%. Fulton Market now has the lowest vacancy rate of any submarket in the CBD.
- Fulton Market is one of two submarkets in the CBD that posted positive absorption this quarter with 55,000 square feet absorbed. This submarket has seen positive absorption figures every year since 2016—a significant achievement at a time when office buildings in major urban centers are facing record levels of distress.
- Notable lease deals include Mattiq's decision to occupy 17,000 square feet at 400 N. Aberdeen.

MARKET MOVEMENT

BUILDING DISTRESS

1 BUILDING
(31,000 SF)
of available space

NEW LEASE

MATTIQ
(17,000 SF)
400 N. Aberdeen
Street

NEW LEASE

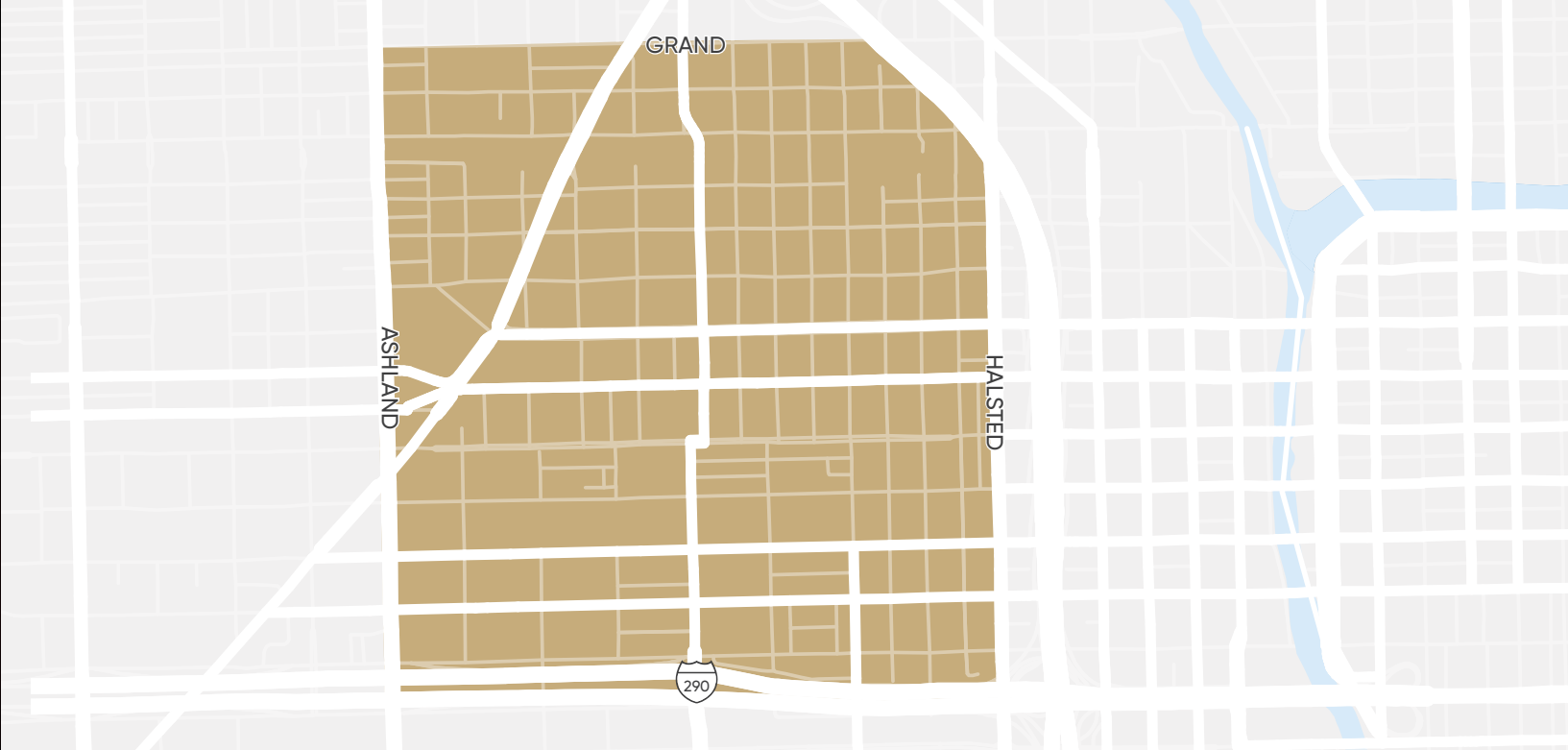
OFS BRANDS
(15,000 SF)
1115 W. Fulton Street

NEW LEASE

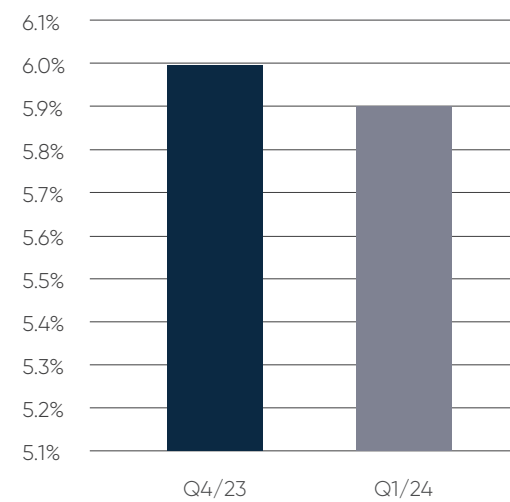
CUBE GROUP
(15,000 SF)
401 N. Morgan
Street

SUBLEASE

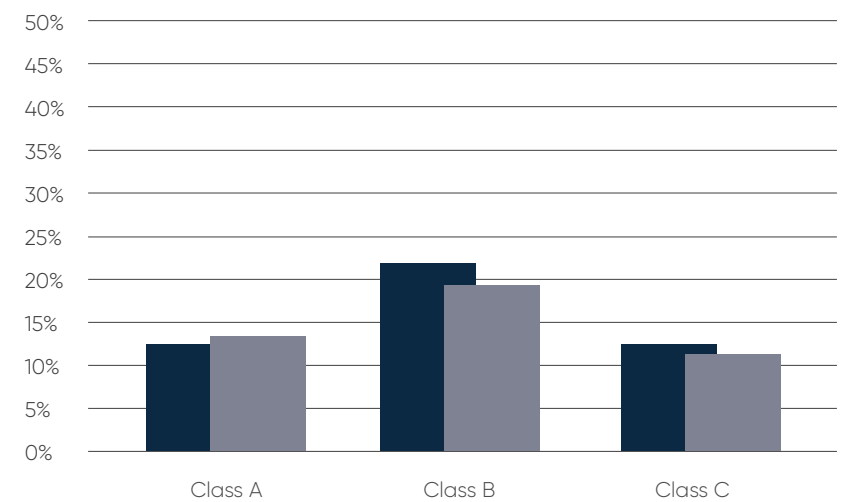
STEELCASE
(28,000 SF)
811 W. Fulton Street



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q1/24 NET ABSORPTION	2023 NET ABSORPTION
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CLASS B	2,594,338	64,858.5	20.7%	1.5%	19.3%	0.3%	\$32.98	59,033	49,215
CLASS C	1,432,492	57,299.7	15.1%	4.0%	11.2%	0.8%	\$30.71	16,930	64,212

NORTH MICHIGAN AVENUE

- In Q1/24, the direct vacancy rate increased by 1.2% compared to the previous quarter, now sitting at 15%.
- Absorption worsened in the North Michigan Avenue submarket with negative 175,000 square feet absorbed this quarter.
- Rental rates in this submarket are higher than nearly every submarket in the CBD, only trailing the West Loop.

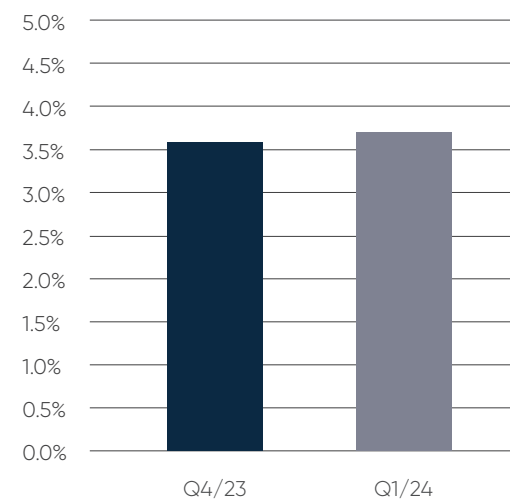
MARKET MOVEMENT

NEW LEASE

CORGAN
(9,000 SF)
330 N. Wabash
Street

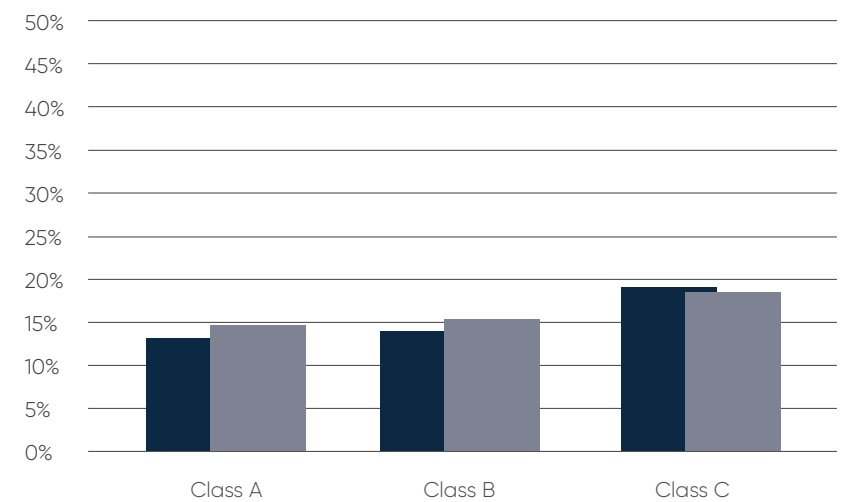


SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter

● Q4/23 ● Q1/24



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q1/24 NET ABSORPTION	2023 NET ABSORPTION
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CLASS A	9,615,746	600,984.1	17.8%	4.9%	14.8%	2.7%	\$50.48	(138,591)	(46,569)
CLASS B	3,912,722	186,320.1	18.9%	0.7%	15.2%	0.3%	\$32.21	(38,421)	(18,431)
CLASS C	201,539	67,179.7	21.0%	5.2%	17.8%	0.0%	\$26.75	1,750	0

RIVER NORTH

- In Q1/24, the direct vacancy rate ticked down to 21.2% while the sublease availability rate declined by 2%.
- Absorption levels improved as River North was one of two submarkets posting positive absorption this quarter with 73,000 square feet.
- Notable leasing activity was seen at the newly renovated 300 N. LaSalle tower, which secured three leases totaling more than 160,000 square feet this quarter.

MARKET MOVEMENT

BUILDING DISTRESS

4 BUILDINGS
(700,000 SF)
of available space

NEW LEASE

WHITE & CASE LLP
(64,000 SF)
300 N. LaSalle
Street

NEW LEASE

VENTAS, INC.
(49,000 SF)
300 N. LaSalle
Street

NEW LEASE

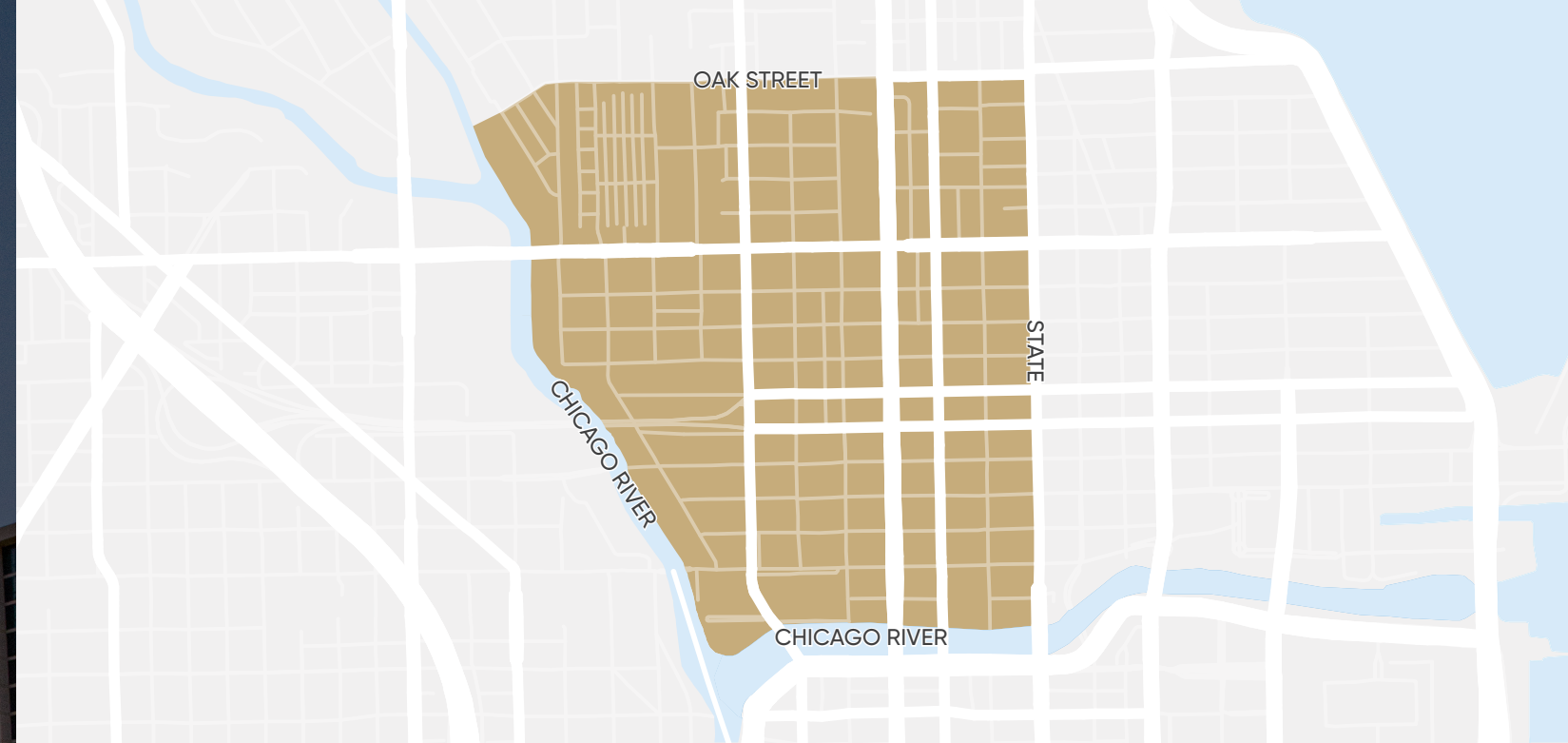
CROWELL &
MORING LLP
(49,000 SF)
300 N. LaSalle
Street

RENEWAL/ CONTRACTION

MESIROW
FINANCIAL
(110,000 SF)
353 N. Clark Street

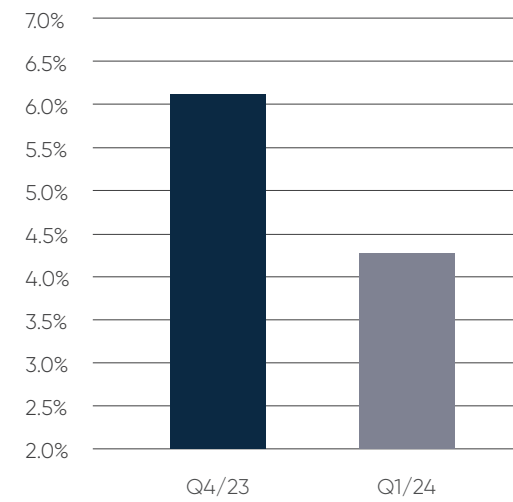
SUBLEASE

GRUBHUB
(90,000 SF)
222 Merchandise
Mart Plaza



SUBLET AVAILABILITY RATE

Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter



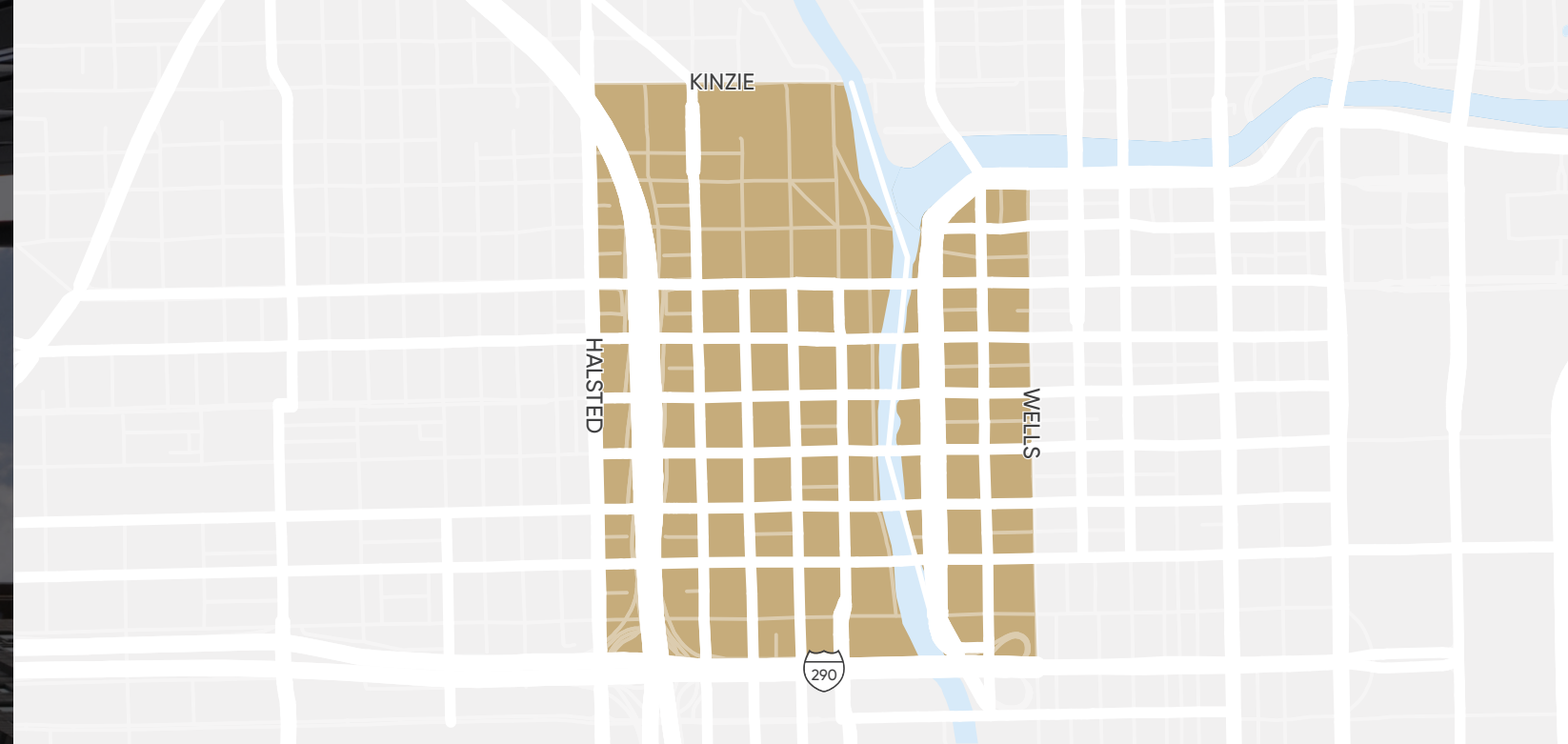
SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q1/24 NET ABSORPTION	2023 NET ABSORPTION
RIVER NORTH	18,228,219	171,964.3	25.6%	4.3%	21.2%	1.9%	\$43.07	72,689	(189,993)
CLASS A	11,455,609	881,200.7	25.2%	5.7%	19.3%	2.3%	\$50.81	241,834	89,047
CLASS B	5,443,335	80,049.0	23.6%	2.1%	21.5%	1.4%	\$31.94	(181,893)	(114,906)
CLASS C	1,329,275	53,171.0	37.7%	1.2%	35.8%	0.0%	\$27.00	12,748	(164,134)

WEST LOOP

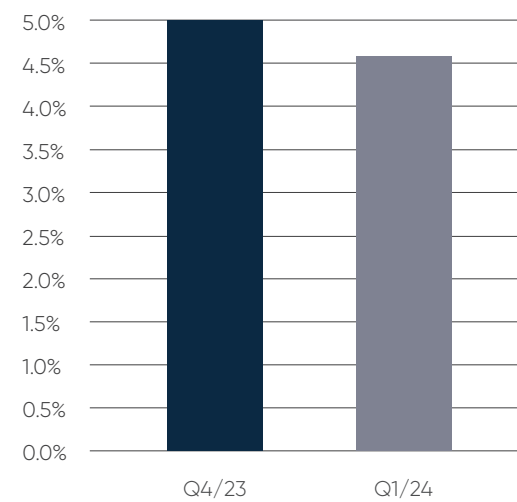
- In Q1/24, the direct vacancy rate rose to 20%, which is a 1% increase compared to levels seen last quarter.
- West Loop experienced the lowest levels of absorption compared to any submarket, posting negative 564,000 square feet of net absorption through the quarter. This submarket also had the worst absorption levels of any submarket through 2023 with negative 782,000 square feet absorbed last year.
- One of two sales this quarter occurred in the West Loop submarket with the sale of 400 S. Jefferson. The former Tyson offices were sold to the Chicago School of Psychology for \$38.5 million (\$156/SF).
- One of the largest leases of the quarter was signed by PNC Bank at 1 N. Franklin. The tenant decided to reduce its footprint by nearly 20% but committed to the property for another 10 years.

MARKET MOVEMENT

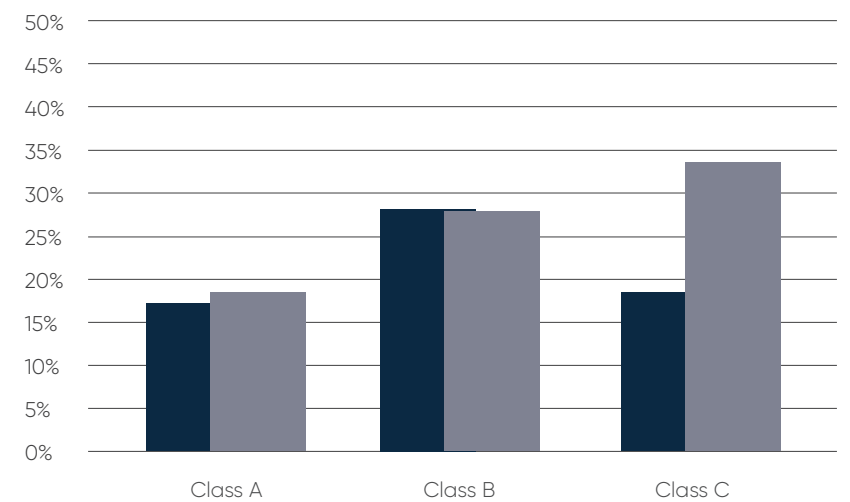
BUILDING DISTRESS 7 BUILDINGS (1.4M SF) of available space	RENEWAL/ CONTRACTION PNC BANK (95,000 SF) 1 N. Franklin Street	NEW LEASE ATTORNEY'S LIABILITY ASSURANCE SOCIETY (37,000 SF) 10 S. Riverside Street	RENEWAL ANTARES CAPITAL (29,000 SF) 500 W. Monroe Street
NEW LEASE SOMPO INTERNATIONAL (28,000 SF) 155 N. Wacker Drive	NEW LEASE MONROE CAPITAL (40,000 SF) 155 N. Wacker Drive	INVESTMENT SALE THE CHICAGO SCHOOL (247,000 SF) 400 S. Jefferson Street	



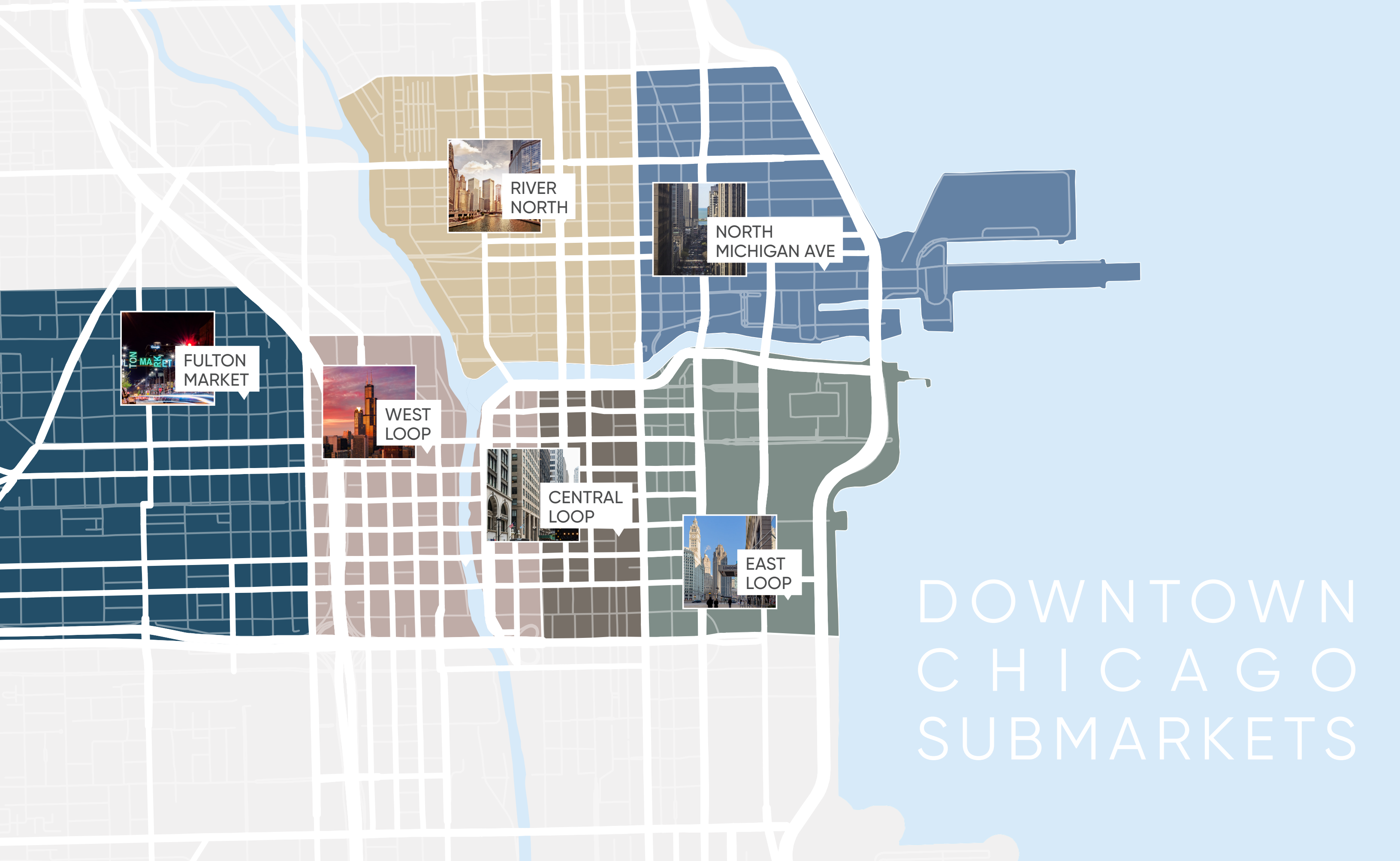
SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q1/24 NET ABSORPTION	2023 NET ABSORPTION
WEST LOOP	56,314,956	546,747.1	24.1%	4.8%	20.0%	2.9%	\$46.08	(564,288)	(782,026)
CLASS A	46,387,799	927,756.0	22.4%	4.9%	18.2%	2.9%	\$49.63	(447,316)	(354,368)
CLASS B	8,905,342	222,633.6	32.3%	4.5%	28.2%	3.0%	\$34.85	(58,327)	(351,215)
CLASS C	1,021,815	78,601.2	31.5%	0.9%	33.4%	0.9%	\$31.92	(58,645)	(76,443)



RIVER
NORTH



NORTH
MICHIGAN AVE



FULTON
MARKET



WEST
LOOP



CENTRAL
LOOP



EAST
LOOP

DOWNTOWN CHICAGO SUBMARKETS

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