

Q2/23

OFFICE MARKET REPORT

Downtown Chicago



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A MARKET IN SEARCH OF A BOTTOM

In Q2/23, rental rates continued to increase while vacancy rates remained relatively unchanged in Chicago's CBD. Both leasing activity and investment sales volume slowed, and absorption levels were relatively flat with only 64,000 square feet of positive net absorption in Q2/23. This is an improvement compared to the 1.8 million square feet of negative absorption during the first quarter.

The flight-to-quality trend continued as companies look to right-size and upgrade their existing office space. As we noted in our most recent *CRE Office Pulse*, both local and national companies have been implementing return-to-office policies, and employers are trying to leverage superior amenities and top-quality office space in order to keep employees happy and retain talent.

As more workers return to the office, public transit ridership has been recovering in general, even if some recent increases come from commuters seeking to avoid Kennedy construction. Meanwhile, the CTA is continuing to improve service and make capital investments, whether that's rebuilding the Forest Park Blue Line, extending the Red Line to 130th street, or acquiring 300 new state-of-the-art, electric-powered train cars.

Even as companies are requiring more in-person work—and employees respond by coming into the office—owners of dated Class B/C office product are struggling to keep their buildings well occupied. More landlords are now in financial distress, forcing lenders to decide whether they want to pursue foreclosure lawsuits or seek other remedies to work out the debt.

Leasing Activity

Total leasing volume in Q2/23 was 1.3 million square feet, which is significantly below the 2.2 million square feet leased through Q1/23. In fact, leasing activity was the lowest since Q4/20. Even though leasing volume has declined, asking rental rates continued to rise, reaching over \$44 per square foot. Higher asking rates are largely due to

rising taxes, operating expenses, and construction costs, rather than improved supply and demand dynamics.

Property taxes continued to handcuff office owners in Chicago's CBD. According to a recent study, 17 of the 20 largest tax bills in 2022 for office properties nationwide (excluding New York City) were paid in Chicago. "The Willis Tower at 233 S. Wacker Drive, which paid over \$50 million in property taxes in 2022, is the only office property outside New York's five boroughs to reach the top 10 list," according to *Crain's*. As outdated office assets get reassessed and values decline, so too will tax bills. Consequently, the tax burden will likely shift to owners of high-quality, well-located and well-leased office product.

For tenants signing new leases, fully furnished spec suites are in high demand. Regardless of submarket, construction pricing is still prohibitively expensive as costs for both labor and materials continue to rise (FIGURE 01). As a result, landlords are hesitant to provide additional TI allowances to build out suites, and most tenants don't want to spend the time or money to customize their office space.

The demand for these suites is being met by an increasing amount of sublease space on the market (FIGURE 02). Available sublease space continues to trend upward as companies look to right-size their office space, including Golub Capital which recently decided to market approximately 75,000 square feet for sublease at 150 S. Wacker. There is now more than 7.8 million square feet of office space available for sublease downtown, a significant increase compared to the 2.8 million square feet available in Q2/19.

Investment Sales

Investment sales in Chicago's CBD came to a screeching halt, with less than \$10 million trading hands through Q2/23. Elevated vacancy levels coupled with unfavorable financing conditions have cooled both buyers and sellers. Some owners are still marketing their downtown office assets for sale, however. And some deals have been

reported, but not yet officially closed: Miami's Agave Holdings was reported to be acquiring 300 S. Wacker; Chicago developer R2 is in talks to purchase 150 N. Michigan

If these buildings change hands, we expect them to trade at a significant discount. For the owners of 161 N. Clark, for example, experts believe the value of the property will be less than \$230 million—a steep reduction from the most recent purchase price of \$331 million in 2013. Similarly, 230 W. Monroe, which was most recently purchased in 2014 for \$122 million, is being actively marketed, and might trade for no more than the value of Morgan Stanley's loan on the property of approximately \$88 million.

Downtown office landlords are increasingly financially distressed. Some are unable to refinance their loans with higher interest rates, and others are unable to service their debt payments due to low occupancy levels. This has led to an increased amount of special servicing and foreclosures in Chicago's CBD. Lenders are now faced

with a decision on how to proceed, as foreclosures and auctions typically result in a significant financial loss.

A new dynamic has formed among lenders in Chicago due to the rise in distressed office product. For some, like the lender for 300 W. Adams in the West Loop, the assets get sold off at a significant discount through an auction to the highest bidder, which essentially removes the inventory from the market in the short term. Others, like Apollo at the historic Chicago Board of Trade building, decided to take a more active approach by working closely with management to continue operating the asset. The latter approach can leverage local knowledge to create competitive advantages, providing ownership the flexibility to complete new lease deals at a discount relative to the market due to their low basis. As a result, some distressed office product can end up performing at a high level depending on the approach taken by lenders, so not all financially distressed buildings are created equal.

DOWNTOWN CHICAGO

Q2/23 SNAPSHOT



64,098 SF

Direct Net Absorption Q2/23



19.2%

Direct Vacancy Rate



\$44.25/SF

Direct Gross Rental 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 s.f. 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

Sublease Trends

Source: CoStar

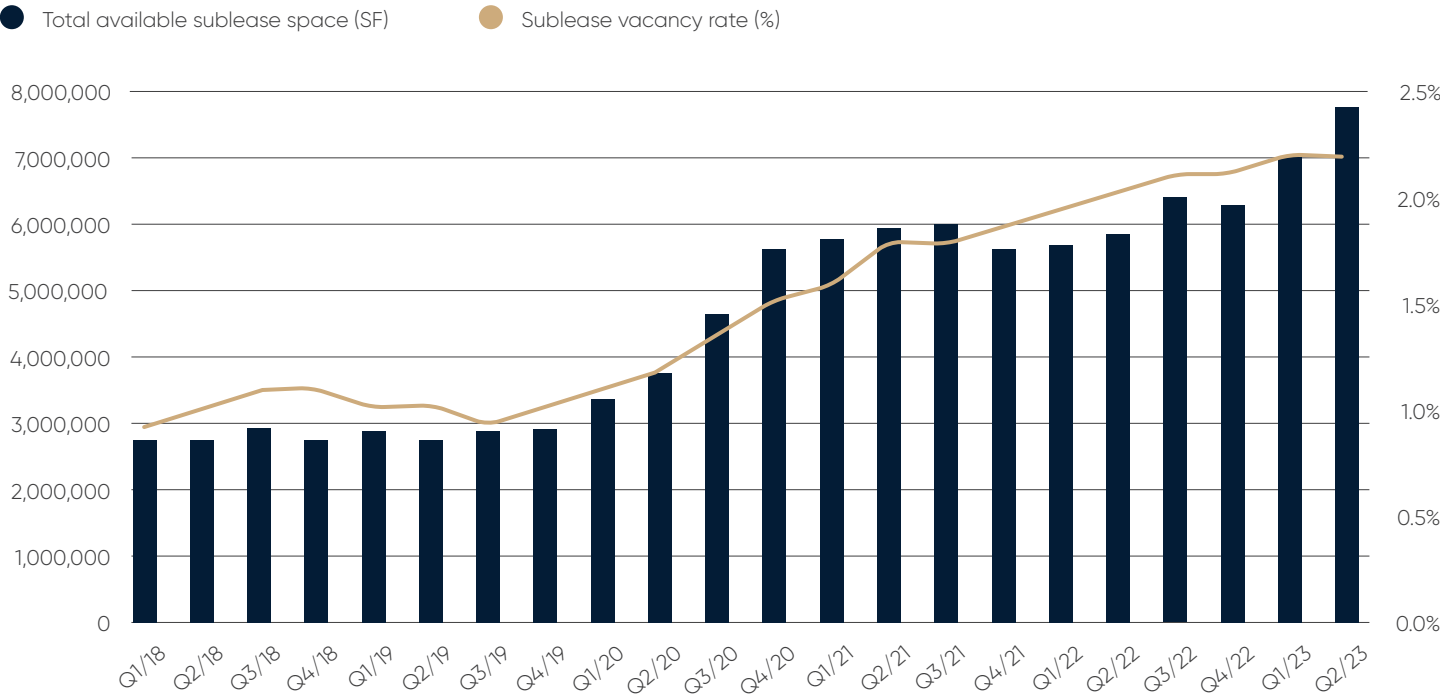


FIGURE 02

New Office Construction: Producer Price Index

Source: Bureau of Labor Statistics (BLS)

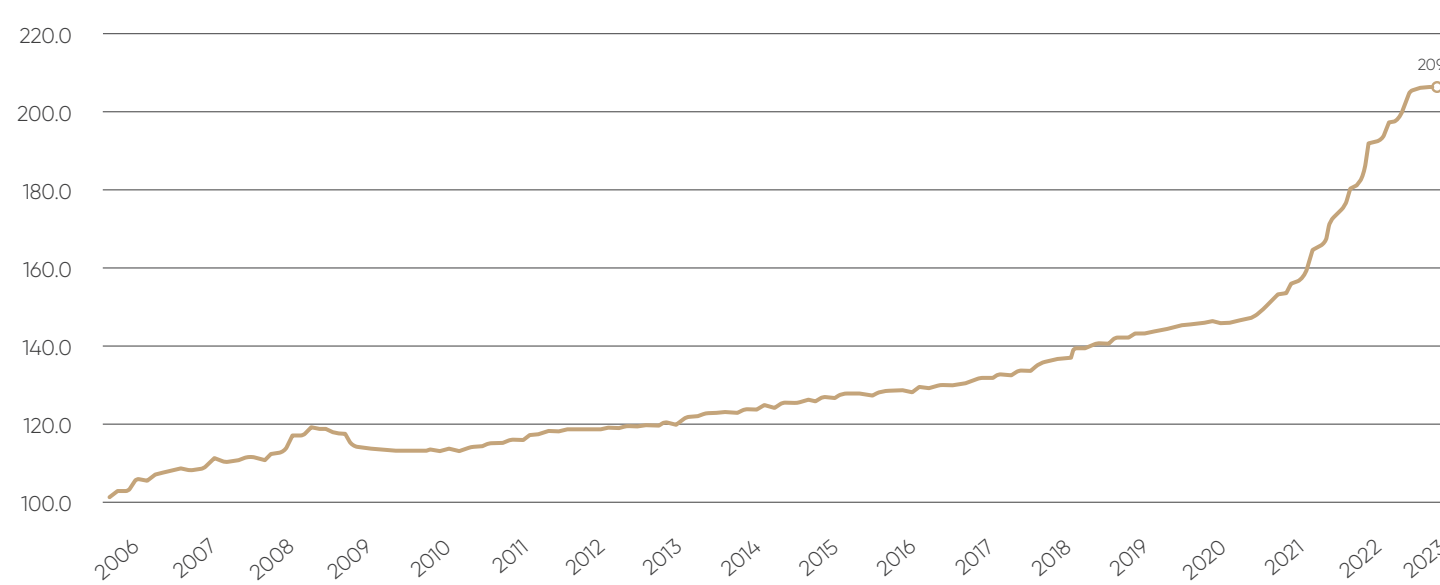


FIGURE 03

Chicago CBD Submarket Comparison Summary

Source: CoStar

Submarket & Asset Class	Total Inventory (SF)	Average Building Size (SF)	Direct Availability Rate	Sublet Availability Rate	Direct Vacancy Rate	Sublet Vacancy Rate	Direct Gross Asking Rate (PSF)	Direct Net Absorption Q2/23 (SF)	Direct Net Absorption Q1/23 (SF)
CHICAGO CBD	162,760,108	359,294	23.0%	4.8%	19.2%	2.2%	\$44.25	64,098	(1,818,934)
CLASS A	112,805,746	800,041	22.0%	5.6%	17.8%	2.4%	\$49.02	356,020	(1,030,621)
CLASS B	42,491,966	194,027	25.2%	3.0%	22.6%	1.8%	\$35.75	(116,694)	(501,677)
CLASS C	7,462,396	80,241	24.6%	2.0%	22.3%	1.3%	\$29.34	(175,228)	(286,636)
CENTRAL LOOP	38,246,087	538,677	26.0%	4.5%	22.8%	1.8%	\$41.01	(81,563)	(324,679)
CLASS A	21,729,613	804,800	26.3%	5.5%	21.9%	1.9%	\$45.44	(37,561)	(173,919)
CLASS B	15,678,557	461,134	25.7%	3.3%	24.4%	1.7%	\$35.38	(32,500)	(152,742)
CLASS C	837,917	83,792	20.8%	0.5%	18.6%	0.5%	\$25.75	(11,502)	1,982
EAST LOOP	26,539,934	510,383	24.1%	3.8%	18.7%	1.2%	\$39.84	23,357	(426,403)
CLASS A	17,768,298	1,045,194	23.9%	4.7%	17.5%	1.1%	\$43.49	6,981	(95,628)
CLASS B	6,069,797	337,211	24.7%	2.8%	21.0%	1.9%	\$35.25	10,494	(23,748)
CLASS C	2,701,839	158,932	24.4%	0.7%	22.1%	0.5%	\$26.71	5,882	(307,027)
FULTON MARKET	9,239,435	112,676	19.6%	4.9%	18.0%	2.2%	\$43.44	25,132	194,445
CLASS A	5,394,947	283,945	16.7%	6.0%	16.0%	2.6%	\$53.88	81,211	162,347
CLASS B	2,507,271	64,289	27.4%	1.4%	25.2%	0.2%	\$34.27	(27,651)	(8,344)
CLASS C	1,337,217	55,717	16.5%	6.7%	12.5%	4.4%	\$29.44	(28,428)	40,442
N.MICHIGAN AVE	13,735,795	352,200	15.5%	3.6%	13.5%	1.7%	\$46.13	(102,850)	60,673
CLASS A	9,735,327	608,458	15.0%	4.8%	13.0%	2.3%	\$50.49	(107,534)	85,426
CLASS B	3,798,929	189,946	16.6%	0.7%	14.7%	0.2%	\$36.38	4,684	(24,753)
CLASS C	201,539	67,180	20.3%	5.2%	18.7%	0.0%	\$39.66	0	0
RIVER NORTH	18,650,711	174,306	24.6%	6.5%	19.7%	3.9%	\$46.43	380,630	(855,267)
CLASS A	11,804,951	908,073	24.7%	8.7%	19.2%	5.1%	\$53.58	462,985	(730,711)
CLASS B	5,435,747	81,131	21.4%	3.3%	17.5%	2.1%	\$34.30	14,226	(100,760)
CLASS C	1,410,013	52,223	35.6%	0.7%	32.2%	0.7%	\$33.01	(96,581)	(23,796)
WEST LOOP	56,348,146	552,433	22.2%	5.1%	18.4%	2.5%	\$48.09	(180,608)	(467,703)
CLASS A	46,372,610	946,380	20.7%	5.4%	16.8%	2.5%	\$51.55	(50,062)	(278,136)
CLASS B	9,001,665	219,553	29.9%	4.0%	26.3%	2.9%	\$37.42	(85,947)	(191,330)
CLASS C	973,871	81,156	24.6%	1.7%	26.1%	1.3%	\$29.68	(44,599)	1,763

FIGURE 04

Direct Vacancy Rate

Source: CoStar

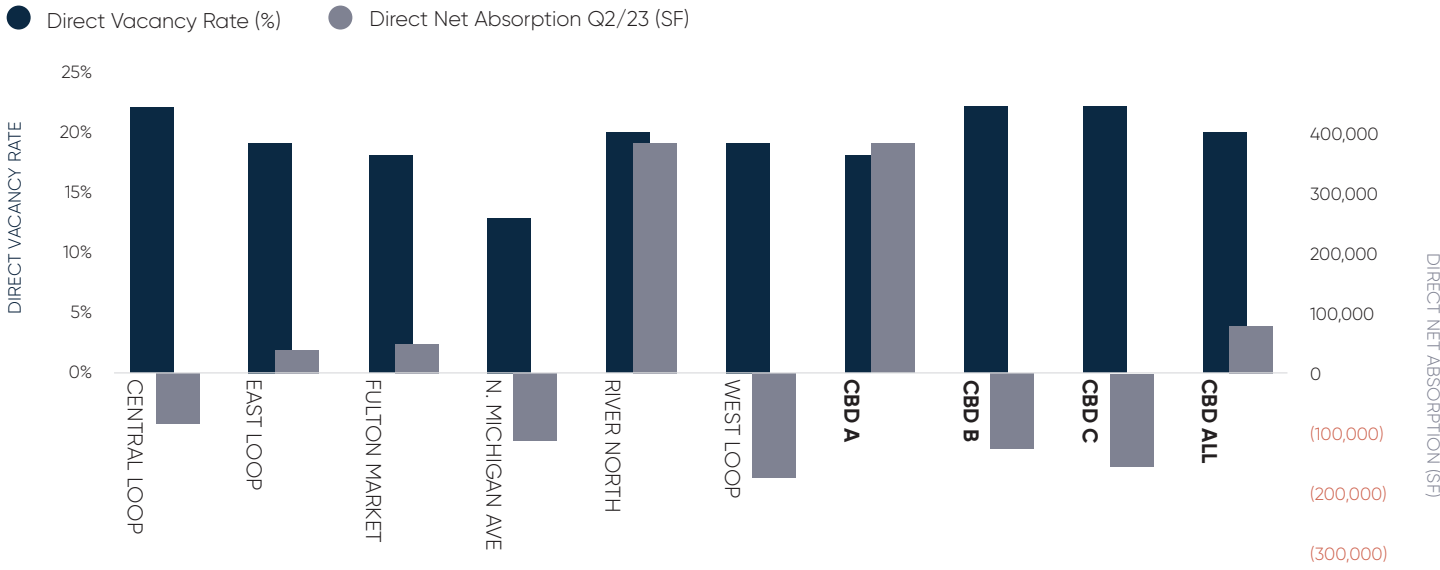


FIGURE 06

Sales Trends

Source: CoStar

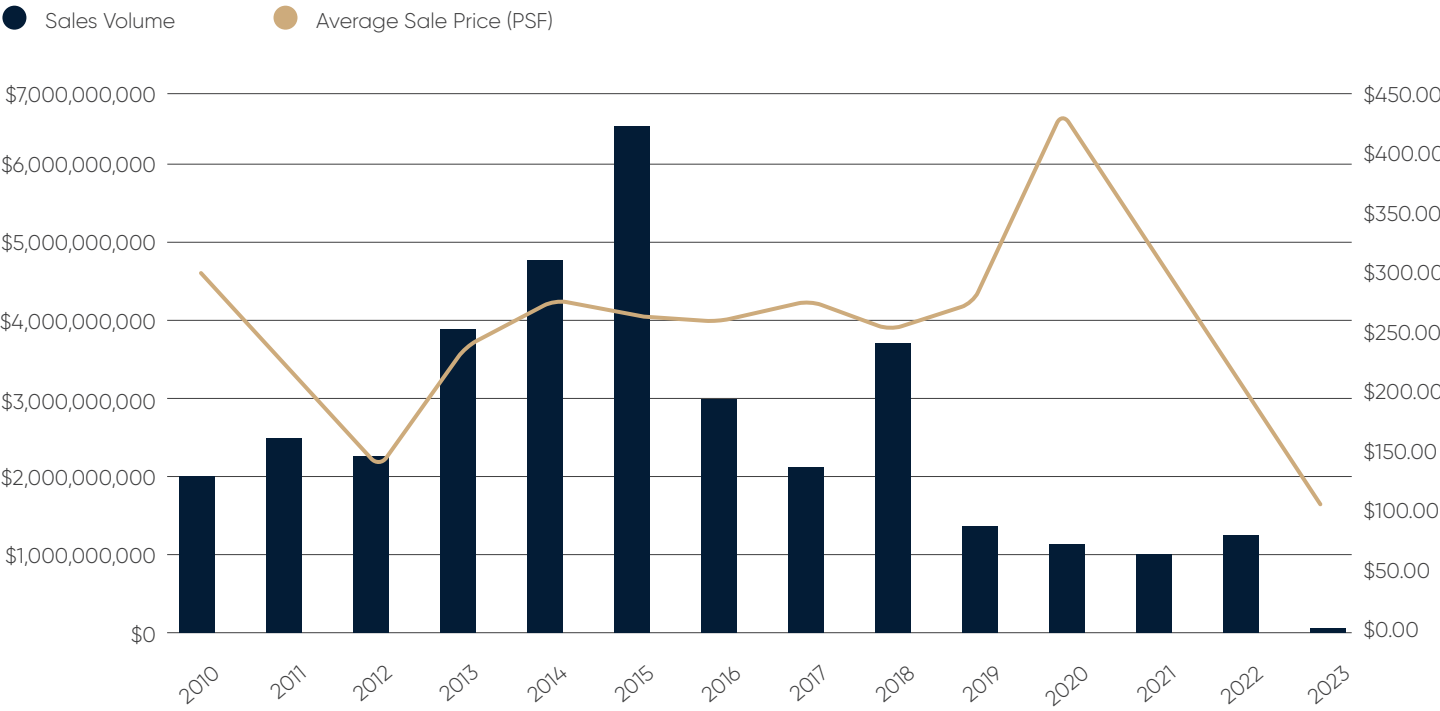


FIGURE 05

Product Pipeline

Source: CoStar

SUBMARKET	PROPERTY ADDRESS	RBA (SF)	BUILDING STATUS	DELIVERY YEAR
WEST LOOP	732 W. Randolph St	48,560	Under Construction	2023
FULTON MARKET	1200 W. Carroll Ave	494,775	Proposed	2024
RIVER NORTH	311 W. Huron St	217,000	Under Construction	2023
FULTON MARKET	919 W. Fulton Market St	400,000	Proposed	2024
FULTON MARKET	900 W. Fulton Market St	64,000	Proposed	2024
FULTON MARKET	170 N. Green St	609,050	Proposed	2024
FULTON MARKET	330 N. Green St	712,000	Proposed	2024
FULTON MARKET	360 N. Green St	493,680	Under Construction	2024
FULTON MARKET	310 S. Green St	190,810	Proposed	2024
FULTON MARKET	350 N. Morgan St	592,000	Proposed	2024
NORTH MICHIGAN AVENUE	535 N. Saint Clair St	105,241	Under Construction	2024



CENTRAL LOOP

- In Q2/23, the direct vacancy rate was unchanged from the previous quarter, sitting at 22.8%. Sublease availability has remained steady at 4.5%.
- Absorption figures improved relative to Q1/23, but remain negative at -81,563 square feet of net absorption.
- Notable lease deals include Amwins' expansion at 10 S. LaSalle, now occupying 78,000 square feet.

MARKET MOVEMENT

BUILDING DISTRESS

13 BUILDINGS
(3,978,728 SF)
of available space

SUBLEASE

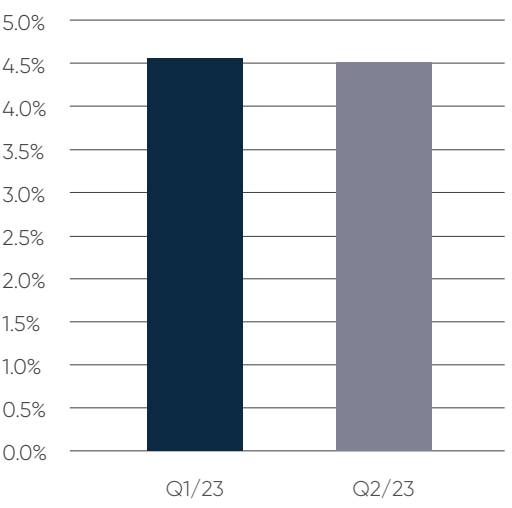
ROETZEL &
ANDRESS
(23,909 SF)
70 W. Madison

**RENEWAL/
EXPANSION**

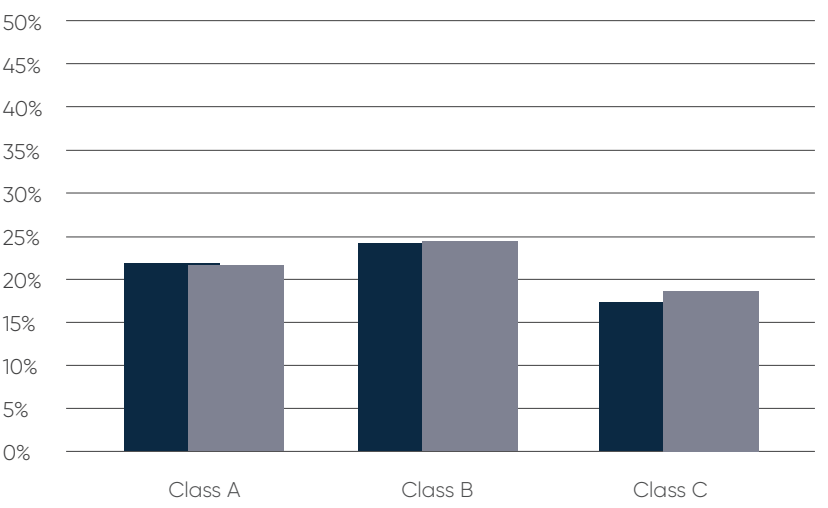
AMWINS
(78,000 SF)
10 S. LaSalle



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION Q2/23 (SF)	DIRECT NET ABSORPTION Q1/23 (SF)
CENTRAL LOOP	38,246,087	538,677	26.0%	4.5%	22.8%	1.8%	\$41.01	(81,563)	(324,679)
CLASS A	21,729,613	804,800	26.3%	5.5%	21.9%	1.9%	\$45.44	(37,561)	(173,919)
CLASS B	15,678,557	461,134	25.7%	3.3%	24.4%	1.7%	\$35.38	(32,500)	(152,742)
CLASS C	837,917	83,792	20.8%	0.5%	18.6%	0.5%	\$25.75	(11,502)	1,982

EAST LOOP

- In Q2/23, the direct vacancy rate decreased to 18.7% while the sublease availability rate increased to 3.8%.
- Absorption levels significantly improved compared to Q1/23, posting 23,357 square feet of positive net absorption.
- The East Loop commands a lower rental rate than any other submarket in Chicago's CBD, with an average gross asking rate of \$39.84 per square foot.
- Notable lease deals include a 40,000 square foot renewal by the Vistria Group at 300 E. Randolph.

MARKET MOVEMENT

BUILDING DISTRESS

3 BUILDINGS
(1,726,372 SF)
of available space

NEW LEASE

HEARTLAND
ALLIANCE
(21,000 SF)
55 E. Monroe

NEW LEASE

ANALYTICS8
(13,355 SF)
55 E. Monroe

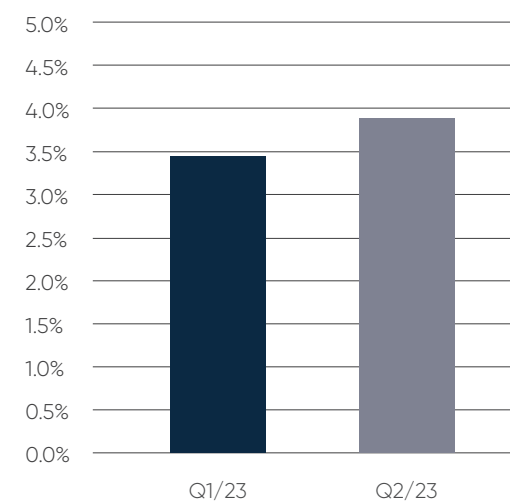
RENEWAL

THE VISTRIA
GROUP, LP
(40,000 SF)
300 E. Randolph



SUBLET AVAILABILITY RATE

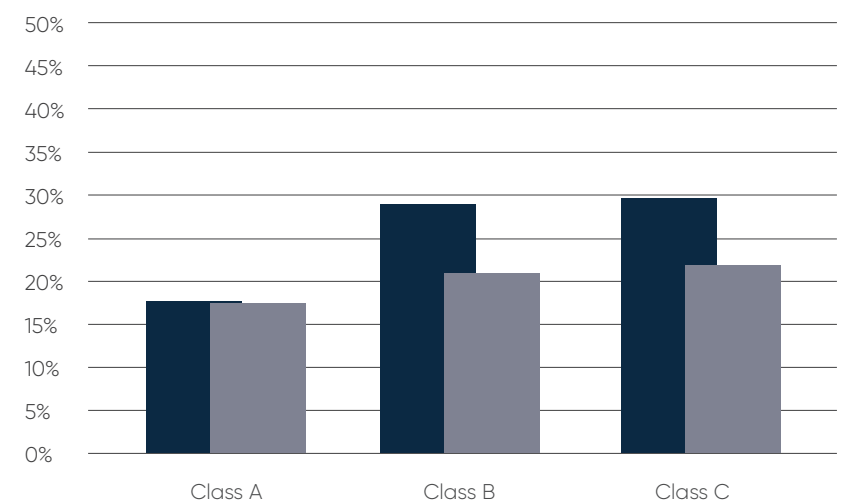
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q1/23 ● Q2/23



SUBMARKET & ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION Q2/23 (SF)	DIRECT NET ABSORPTION Q1/23 (SF)
EAST LOOP	26,539,934	510,383	24.1%	3.8%	18.7%	1.2%	\$39.84	23,357	(426,403)
CLASS A	17,768,298	1,045,194	23.9%	4.7%	17.5%	1.1%	\$43.49	6,981	(95,628)
CLASS B	6,069,797	337,211	24.7%	2.8%	21.0%	1.9%	\$35.25	10,494	(23,748)
CLASS C	2,701,839	158,932	24.4%	0.7%	22.1%	0.5%	\$26.71	5,882	(307,027)

FULTON MARKET

- In Q2/23, the direct vacancy rate continued to trend downward, now sitting at 18.0%. However, the sublease availability increased to 4.9%
- Absorption figures remained positive with 25,132 square feet of office space absorbed this quarter.
- Notable lease deals include Barstool Sports' decision to occupy nearly 40,000 square feet at 400 N. Noble.
- Fulton market continues to outperform the overall CBD as tenants flock to the rapidly growing neighborhood.

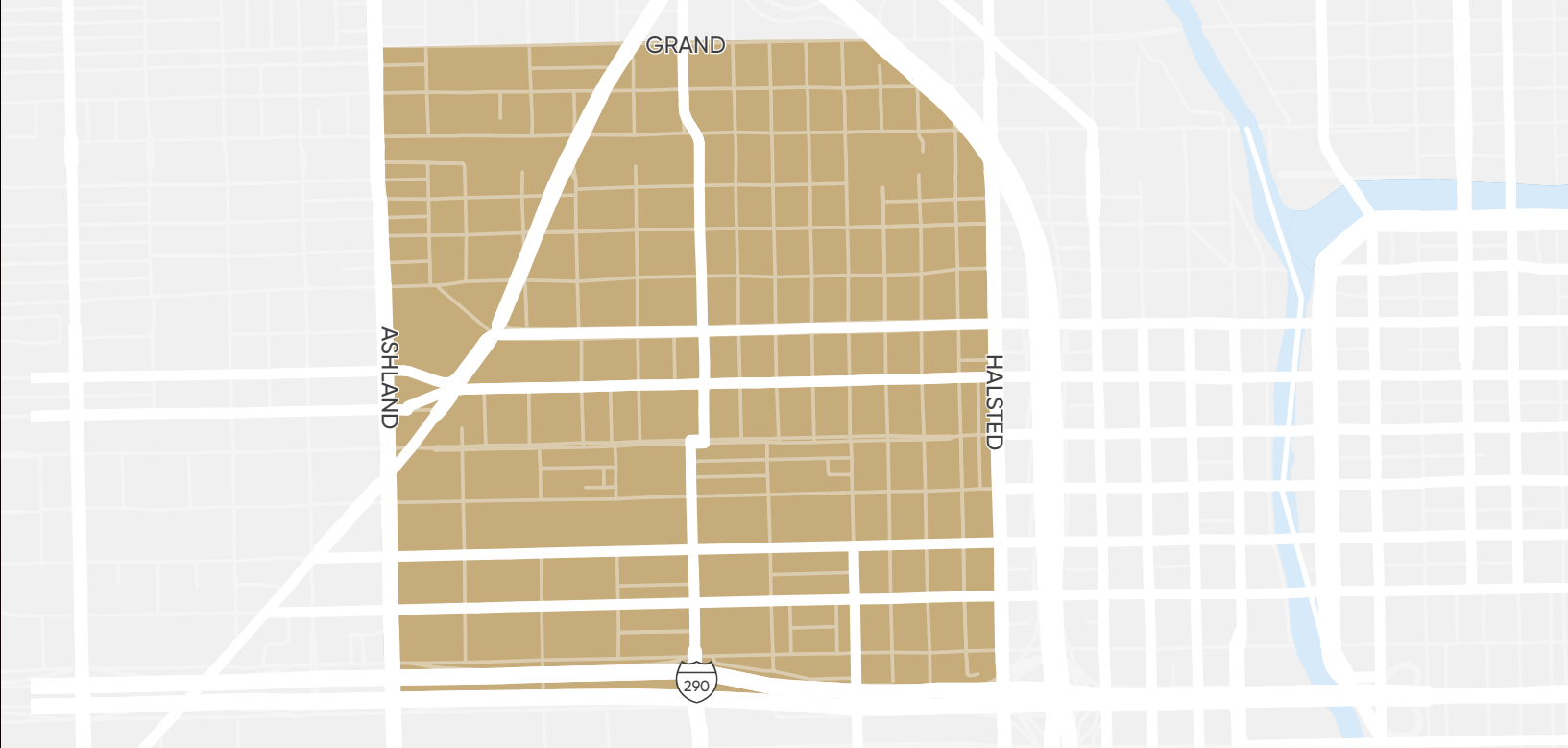
MARKET MOVEMENT

NEW LEASE

BARSTOOL
SPORTS
(39,251 SF)
400 N. Noble

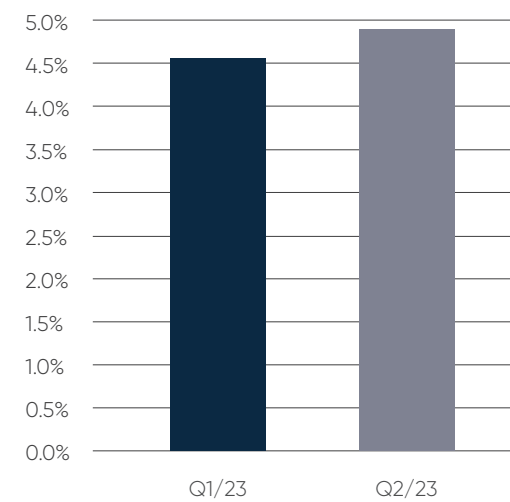
NEW LEASE

WILSON DOW
(13,000 SF)
800 W. Fulton



SUBLET AVAILABILITY RATE

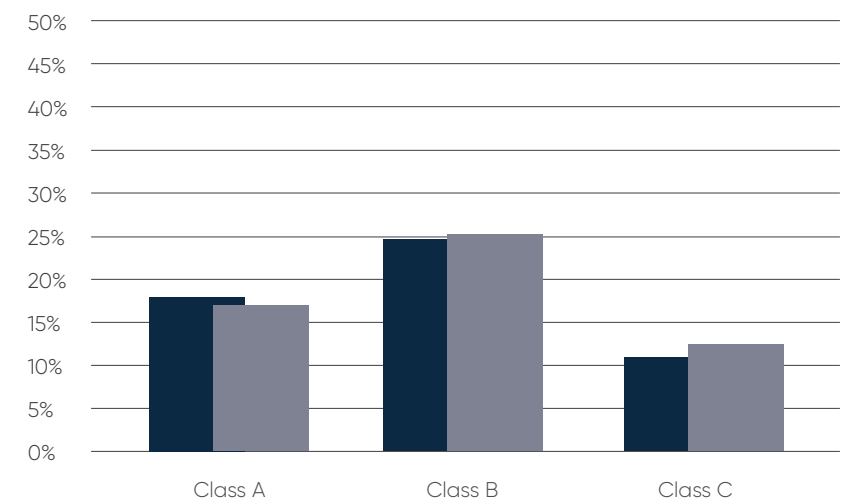
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q1/23 ● Q2/23



SUBMARKET & ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION Q2/23 (SF)	DIRECT NET ABSORPTION Q1/23 (SF)
FULTON MARKET	9,239,435	112,676	19.6%	4.9%	18.0%	2.2%	\$43.44	25,132	194,445
CLASS A	5,394,947	283,945	16.7%	6.0%	16.0%	2.6%	\$53.88	81,211	162,347
CLASS B	2,507,271	64,289	27.4%	1.4%	25.2%	0.2%	\$34.27	(27,651)	(8,344)
CLASS C	1,337,217	55,717	16.5%	6.7%	12.5%	4.4%	\$29.44	(28,428)	40,442

NORTH MICHIGAN AVENUE

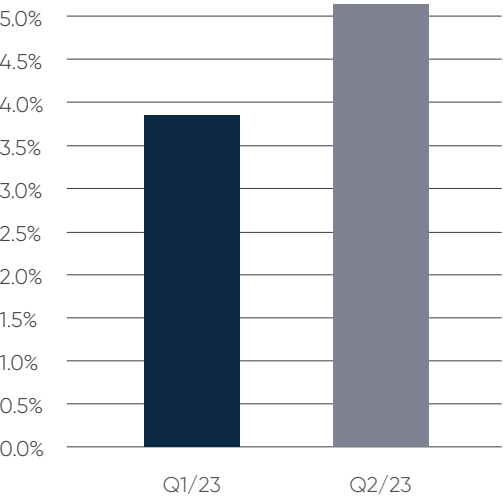
- In Q2/23, the direct vacancy rate dipped to 13.5% while the sublease availability rate remained relatively unchanged at 3.6%.
- Absorption levels were negative this quarter, posting -102,850 square feet of net absorption
- Even though North Michigan Avenue is the smallest submarket by total square footage, it has the highest occupancy levels of Chicago's downtown office market.
- Notable lease deals include Burke, Warren, MacKay & Serritella's decision to occupy 47,000 square feet at 330 N. Wabash.

MARKET MOVEMENT

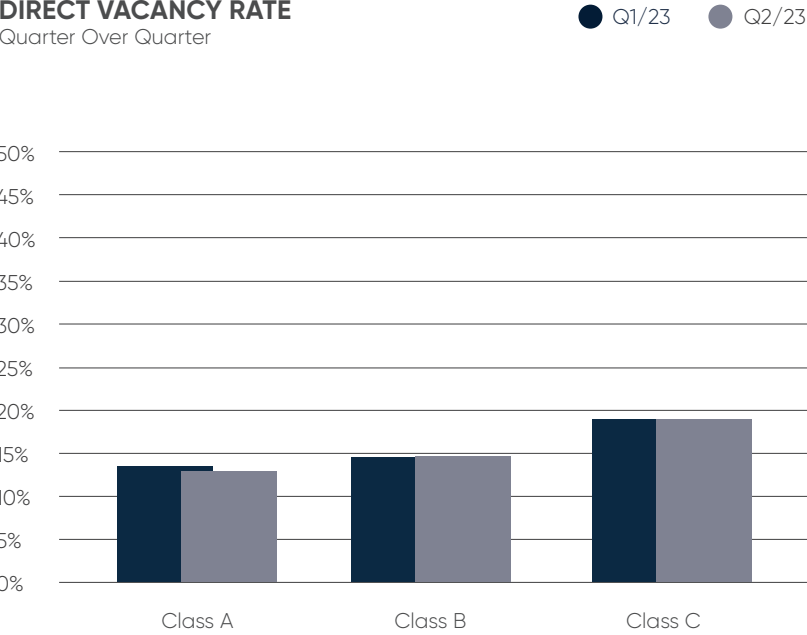
NEW LEASE
BURKE, WARREN,
MACKAY &
SERRITELLA
(47,000 SF)
330 N. Wabash



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



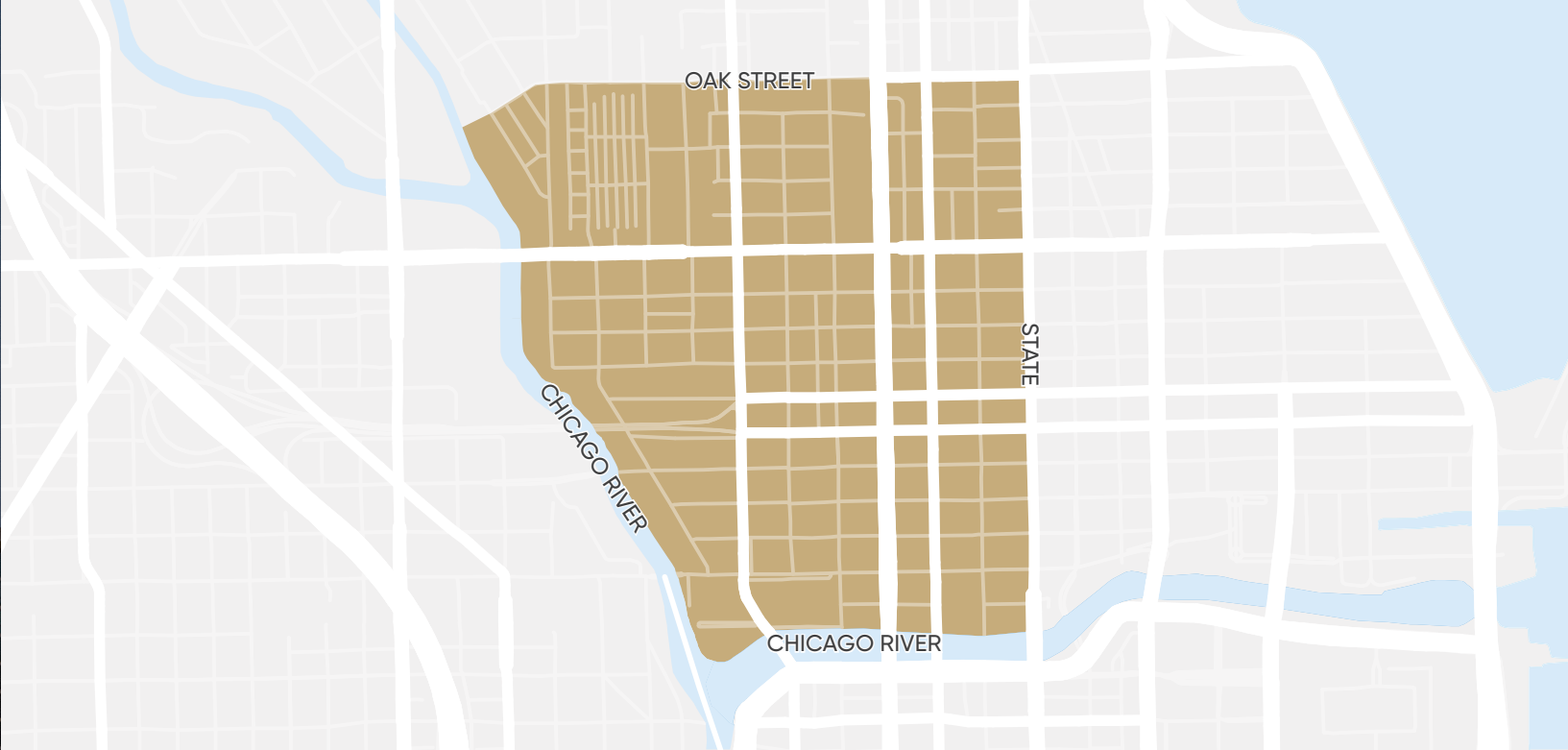
SUBMARKET & ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION Q2/23 (SF)	DIRECT NET ABSORPTION Q1/23 (SF)
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CLASS C	201,539	67,180	20.3%	5.2%	18.7%	0.0%	\$39.66	0	0

RIVER NORTH

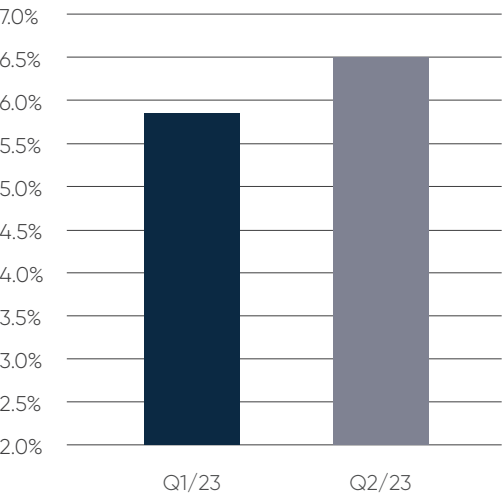
- In Q2/23, the direct vacancy rate increased to 19.7%. Sublease availability rose alongside, now sitting at 6.5%.
- Absorption figures significantly improved this quarter with more than 380,000 square feet of office space absorbed.
- Notable lease deals include the Turf Experience Center's new lease at the Merchandise Mart for nearly 26,000 square feet.

MARKET MOVEMENT

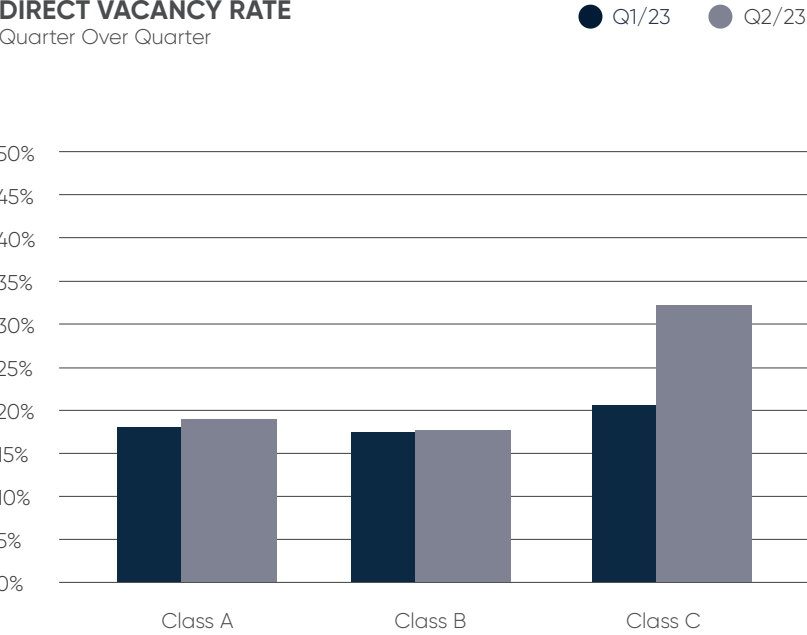
BUILDING DISTRESS	NEW LEASE	NEW LEASE
5 BUILDINGS (156,209 SF) of available space	TURF EXPERIENCE CENTER (25,967 SF) 222 Merchandise Mart	PROVISIO PARTNERS (13,009 SF) 325 N. Wells



SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION Q2/23 (SF)	DIRECT NET ABSORPTION Q1/23 (SF)
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CLASS A	11,804,951	908,073	24.7%	8.7%	19.2%	5.1%	\$53.58	462,985	(730,711)
CLASS B	5,435,747	81,131	21.4%	3.3%	17.5%	2.1%	\$34.30	14,226	(100,760)
CLASS C	1,410,013	52,223	35.6%	0.7%	32.2%	0.7%	\$33.01	(96,581)	(23,796)

WEST LOOP

- In Q2/23, the direct vacancy rate remained steady at 18.4% while the sublease availability rate ticked up to 5.1%.
- Absorption levels improved, but remain negative with -180,608 square feet of net absorption this quarter.
- West Loop commands the highest rental rate of any submarket in Chicago's CBD with an average gross asking rate of \$48.09.
- The largest lease of the quarter was signed in the West Loop by Molson Coors, who decided to occupy nearly 84,000 square feet at 320 S. Canal.

MARKET MOVEMENT

BUILDING DISTRESS

5 BUILDINGS
(919,752 SF)
of available space

NEW LEASE

MOLSON COORS
(83,848 SF)
320 S. Canal

NEW LEASE

ANTARES CAPITAL
(79,657 SF)
320 S. Canal

NEW LEASE

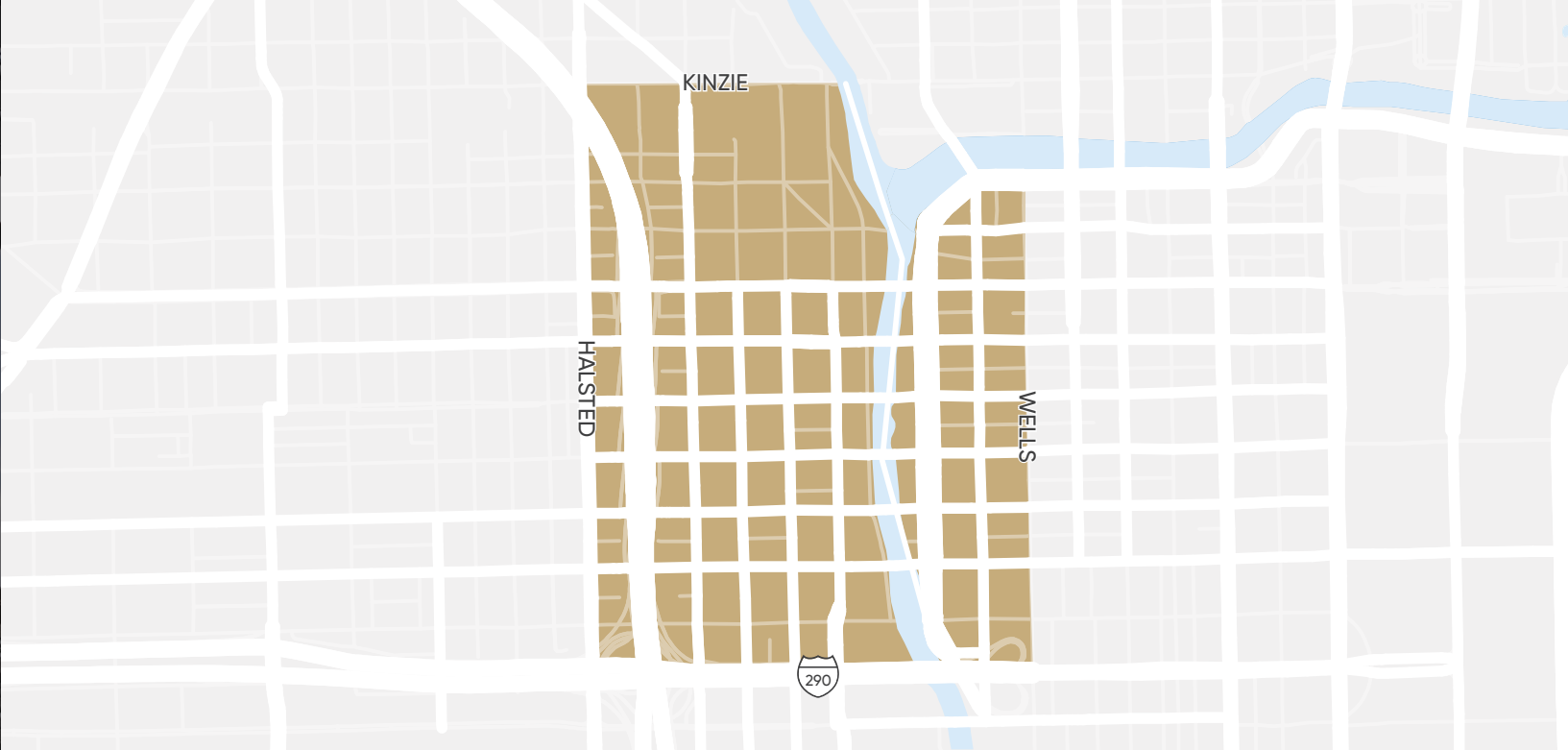
MILLER COOPER
(73,706 SF)
120 S. Riverside

NEW LEASE

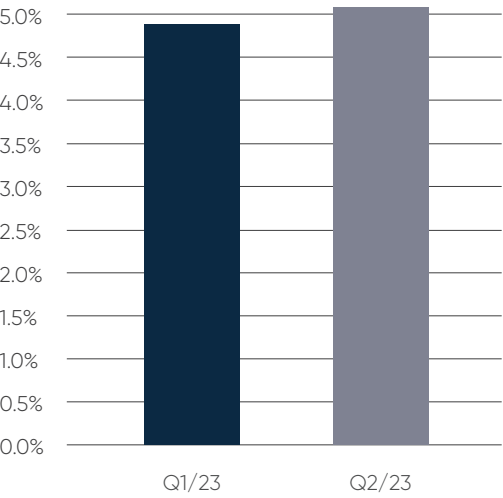
INVENERGY
(32,176 SF)
1 S. Wacker

NEW LEASE

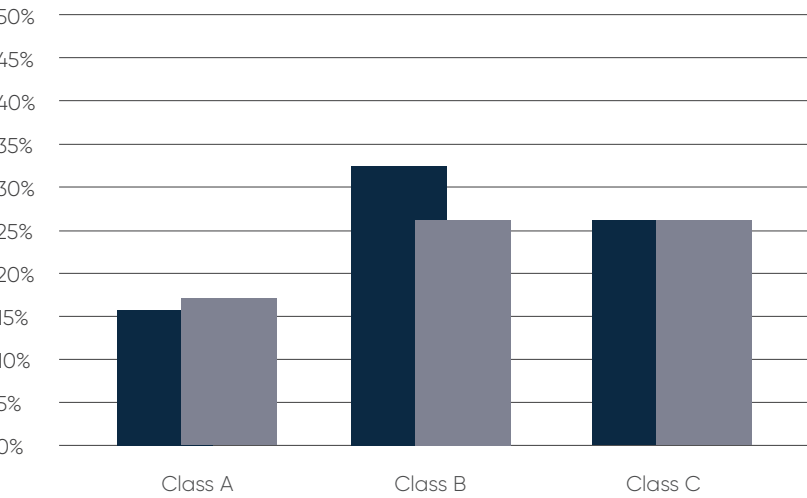
THORNTON TOMASETTI
(19,000 SF)
600 W. Fulton



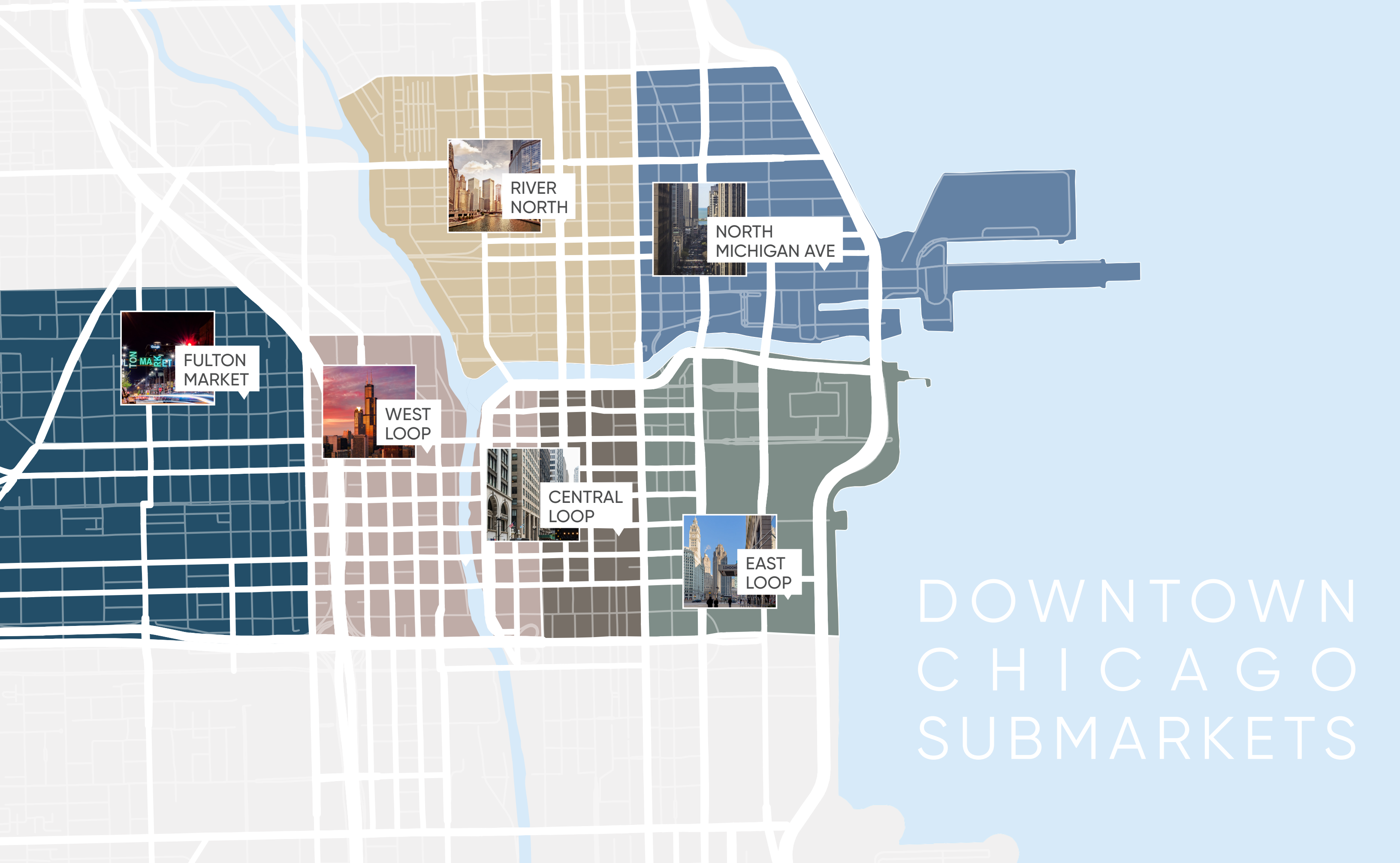
SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter



SUBMARKET & ASSET CLASS	TOTAL INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	DIRECT GROSS ASKING RATE (PSF)	DIRECT NET ABSORPTION Q2/23 (SF)	DIRECT NET ABSORPTION Q1/23 (SF)
WEST LOOP	56,348,146	552,433	22.2%	5.1%	18.4%	2.5%	\$48.09	(180,608)	(467,703)
CLASS A	46,372,610	946,380	20.7%	5.4%	16.8%	2.5%	\$51.55	(50,062)	(278,136)
CLASS B	9,001,665	219,553	29.9%	4.0%	26.3%	2.9%	\$37.42	(85,947)	(191,330)
CLASS C	973,871	81,156	24.6%	1.7%	26.1%	1.3%	\$29.68	(44,599)	1,763



DOWNTOWN
CHICAGO
SUBMARKETS

FOR MORE INFORMATION, PLEASE CONTACT:

NEIL BOUHAN

Sr. Managing Director, Research & Communications

nbouhan@bradfordallen.com

+1 312 235 6830

CONNOR PHELAN

Director, Research

cphelan@bradfordallen.com

+1 312 994 5787

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