

Q4/23 OFFICE MARKET REPORT

Downtown Chicago



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STRONG TENANT'S MARKET, YET CHALLENGING FOR INVESTORS

In Q4/23, Chicago's downtown office market vacancy rates surpassed 20% while absorption levels trended downward—there was negative 530,000 square feet of net absorption this quarter. Negative net absorption has been a consistent pattern since the pandemic, which is notable because the CBD experienced a decade of positive absorption from 2010 to 2019.

Employers are now increasingly insisting workers return to the office in person, both in Chicago and other major markets. A recent [workplace study](#) by accounting firm KPMG revealed that almost two-thirds of U.S. chief executives believe corporate employees whose roles were traditionally based in offices will be back in their physical workspace within the next three years. Nearly twice as many CEOs this year believe that companies will return to the office compared to the 2022 survey completed, when only one-third of CEOs saw employees returning in-person. This study comes at a time when data increasingly reveals [the challenges of fully remote work](#).

A continued return to in-person work will bring much-needed help to office property owners, especially in Chicago's CBD, at a time of rising loan distress. The lack of transactions over the past year have caused many to speculate about the true value of downtown office space. New appraisals have indicated office values [declined as much as 40%](#) from pre-pandemic levels, and many sellers who are marketing their properties at a significant discount have yet to find buyers. Only three office properties traded hands in 2023 as investors await more clarity on the value of the available product.

Leasing Activity

In response to low demand levels, landlords are offering sizable concession packages, flexible lease terms, and in some cases, lower rental rates to compete for tenants. In fact, average gross asking rates declined in recent months, now at \$43 per square foot compared to \$44 seen in the previous quarter.

Leasing velocity remained below pre-pandemic levels at 7.4 million square feet leased through 2023—over 1 million square feet less than the 8.5 million square feet leased in 2022. While vacancy levels may be increasing and many tenants are downsizing, some companies are expanding and adding office space. Most notably, Invenergy nearly doubled their existing footprint at 1 S. Wacker, now occupying 180,000 square feet at the West Loop tower. This lease is extremely helpful for New York-based 601W, the owners of 1 S. Wacker, as they secured a three-year extension on the property's \$310 million loan following the lease announcement. Many owners have struggled to strike deals with their lenders, leading to additional distress and [foreclosures](#). Despite unfavorable market conditions, 601W has managed to secure major leases at multiple properties this year, leading to two successful loan extensions—one at 1 S. Wacker and one at the [Aon Center](#).

The amount of sublease space on the market remained elevated, sitting at 7.7 million square feet. This is 1.2 million square feet more than was available at the end of 2022, and it's significantly above pre-pandemic levels. Prior to 2020, the amount of sublease space on the market never surpassed 4.3 million square feet in Chicago's CBD. Despite some tenants who are willing to take advantage of the record amounts of sublease space—most notably, OneDigital who signed a 103,000 square foot sublease at the Willis Tower this quarter—landlords will likely struggle to fill these suites as companies like business intelligence firm Kroll continue to add sizable new blocks of office space to the sublease market.

Investment Sales

Investment sales volume fell to levels not seen since 2009, after the Great Financial Crisis. Only \$143 million transacted in 2023, significantly below last year's level of \$1.3 billion. Sales activity has yet to reach levels seen before the pandemic. From 2015 to 2019, the average transaction volume was \$3.3 billion annually.

The largest sale of Q4/23 was Coastal Partners' purchase of [213 W. Institute Place](#) in River North. The Chicago-based firm purchased the asset for \$17.5 million (\$108/s.f.), which is less than half of the property's previous purchase price of \$43.5 million in 2017. The property sold as part of an ongoing liquidation plan for a non-traded REIT managed by a California-based firm. This deal exemplifies a trend we expect to see moving forward: institutional owners with national portfolios selling their office assets to local investors who are willing and able to adapt to the nuances of an evolving office market. Coastal Partners' low basis will provide the financial flexibility to compete for new tenants.

Another notable transaction this quarter was the sale of the leasehold interest at 300 W. Adams. The leasehold was originally purchased in 2012 for \$51 million and was later foreclosed in 2021. The lender decided to place 300 W. Adams on the auction block in June 2023, [but no buyers emerged](#). Then, in the final days of the quarter, a venture backed by Igor Gabal purchased the leasehold interest for \$4 million—a 92% reduction of the previous sale price.

For owners handcuffed by their pre-pandemic purchases, many may not be able to afford reduced rents or inject new capital into their buildings, leading to additional distress and foreclosures. Owners have been seen placing their properties on the market at a significant discount in hopes of avoiding foreclosure, but many have been unsuccessful at completing a sale. Most recently, the owner of 200 S. Wacker listed the property for sale for more than a year, but officially received a foreclosure notice from the lender this quarter.

DOWNTOWN CHICAGO

Q4/23 SNAPSHOT



(529,818) SF
Direct Net
Absorption Q4/23



20.3%
Direct Vacancy
Rate



\$43.25/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

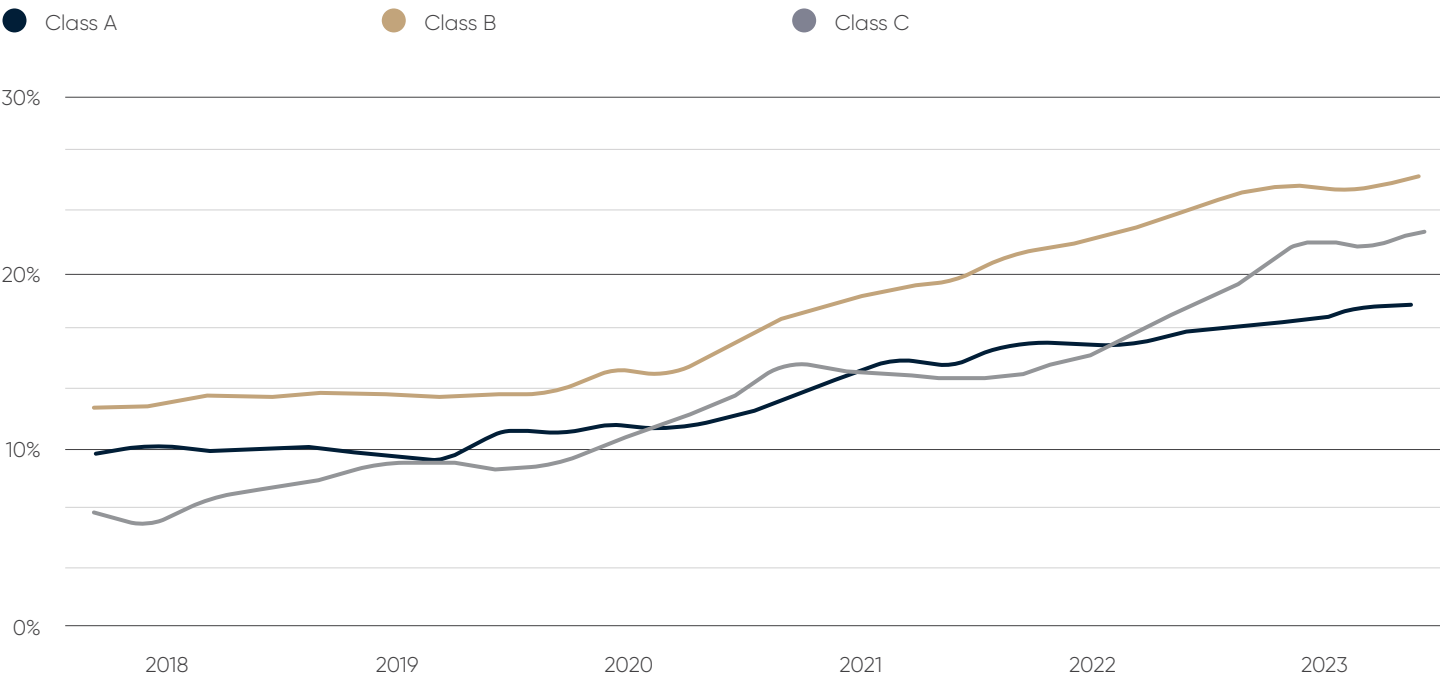


FIGURE 02

Sublease Trends

Source: CoStar

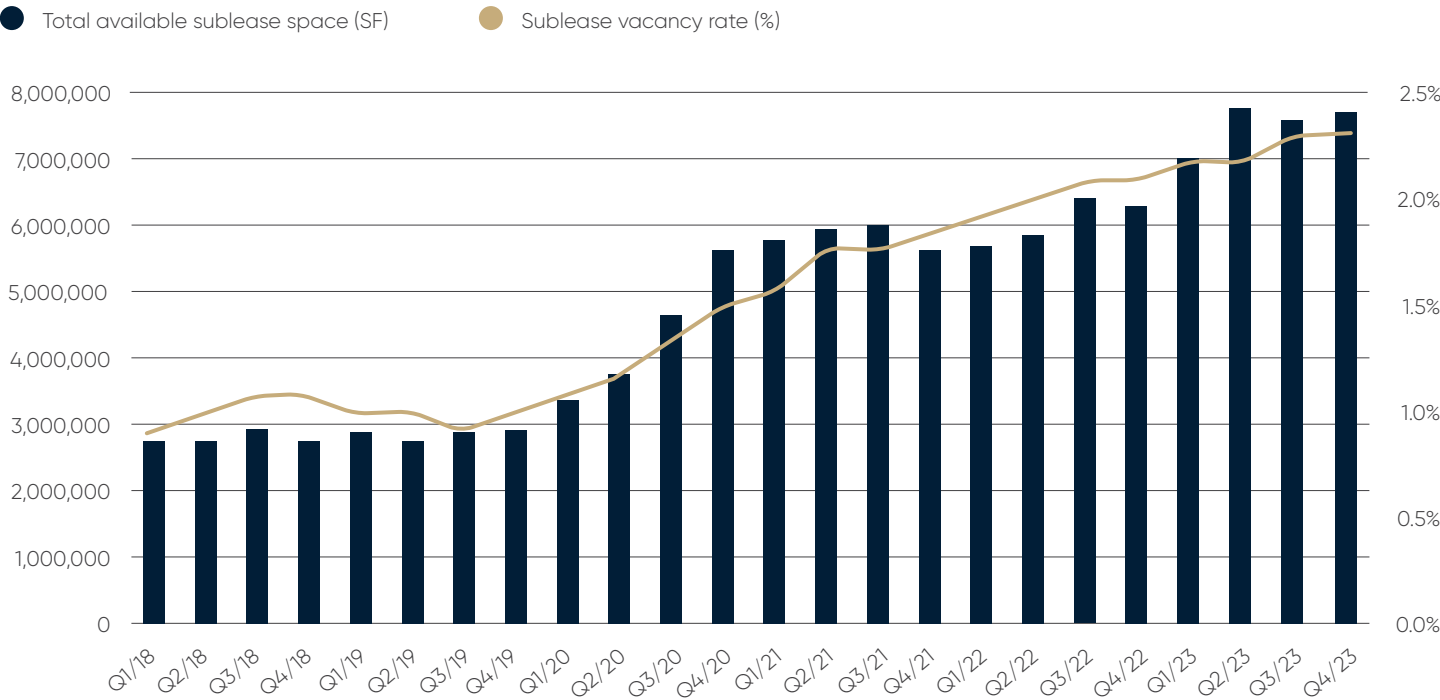


FIGURE 03

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	Q4/23 Net Absorption	2023 Net Absorption
CHICAGO CBD	161,548,846	357,409	23.5%	4.7%	20.3%	2.4%	\$43.25	(529,818)	(1,561,949)
CLASS A	113,672,158	794,910	21.9%	5.7%	18.5%	2.8%	\$48.41	(254,868)	(586,277)
CLASS B	40,590,526	186,195	279%	2.7%	25.0%	1.4%	\$34.35	(222,899)	(706,237)
CLASS C	7,286,162	80,068	24.4%	1.5%	22.0%	0.4%	\$27.60	(52,051)	(269,435)
CENTRAL LOOP	37,215,177	539,350	25.9%	4.6%	24.0%	1.6%	\$40.00	(170,697)	(417,673)
CLASS A	21,872,810	810,104	24.1%	5.7%	22.5%	1.7%	\$44.68	(39,457)	(206,754)
CLASS B	14,545,481	440,772	28.6%	3.3%	26.2%	1.4%	\$34.74	(111,202)	(164,037)
CLASS C	796,886	88,543	24.9%	0.0%	24.2%	0.0%	\$26.06	(20,038)	(46,882)
EAST LOOP	26,771,660	514,840	27.0%	3.5%	21.9%	1.1%	\$39.31	(152,253)	(612,334)
CLASS A	18,000,024	1,058,825	25.1%	4.5%	19.4%	1.1%	\$42.64	(87,358)	(467,205)
CLASS B	6,069,797	337,211	33.5%	1.8%	30.2%	1.2%	\$36.03	(79,796)	(90,877)
CLASS C	2,701,839	158,932	24.7%	0.4%	20.3%	0.1%	\$26.80	14,901	(54,252)
FULTON MARKET	9,271,442	111,704	14.8%	6.0%	15.4%	2.4%	\$41.40	70,182	531,839
CLASS A	5,354,858	281,835	11.5%	8.6%	13.0%	3.7%	\$51.54	68,007	418,412
CLASS B	2,481,542	63,629	21.9%	1.5%	22.3%	0.3%	\$33.77	29,108	49,215
CLASS C	1,435,042	57,402	14.4%	3.9%	12.3%	0.8%	\$31.16	(26,933)	64,212
N.MICHIGAN AVE	13,637,354	349,676	16.7%	3.7%	13.8%	1.9%	\$44.60	6,252	(65,000)
CLASS A	9,614,896	600,931	15.9%	4.9%	13.4%	2.5%	\$50.62	5,712	(46,569)
CLASS B	3,820,919	191,046	18.5%	0.7%	14.6%	0.3%	\$32.58	540	(18,431)
CLASS C	201,539	67,180	20.3%	5.2%	18.7%	0.0%	\$27.23	0	0
RIVER NORTH	18,233,698	172,016	25.3%	6.3%	21.6%	4.1%	\$44.41	(6,962)	(189,993)
CLASS A	12,352,111	882,294	24.8%	8.4%	21.3%	5.7%	\$51.69	(898)	96,969
CLASS B	4,552,312	67,945	23.0%	2.2%	179%	0.7%	\$31.55	3,960	(122,828)
CLASS C	1,329,275	53,171	38.8%	1.2%	36.8%	0.0%	\$27.28	(10,024)	(164,134)
WEST LOOP	56,419,515	547,762	22.8%	4.9%	19.0%	3.1%	\$47.44	(276,340)	(808,788)
CLASS A	46,477,459	929,549	21.3%	5.2%	17.2%	3.2%	\$51.50	(200,874)	(381,130)
CLASS B	9,120,475	222,451	30.8%	3.9%	28.3%	2.8%	\$34.14	(65,509)	(359,279)
CLASS C	82,1581	68,465	18.4%	1.8%	18.8%	1.4%	\$29.48	(9,957)	(68,379)

FIGURE 04

Vacancy & Absorption

Source: CoStar

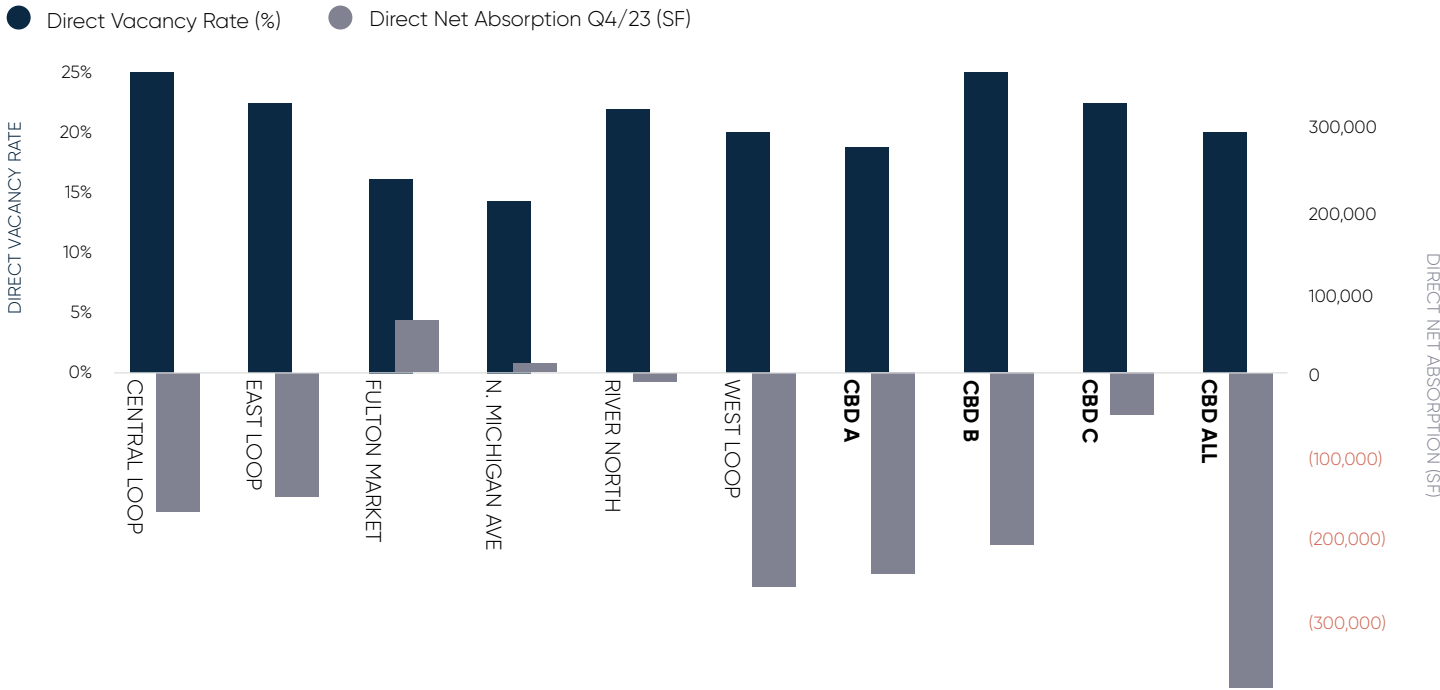


FIGURE 06

Sales Volume

Source: CoStar

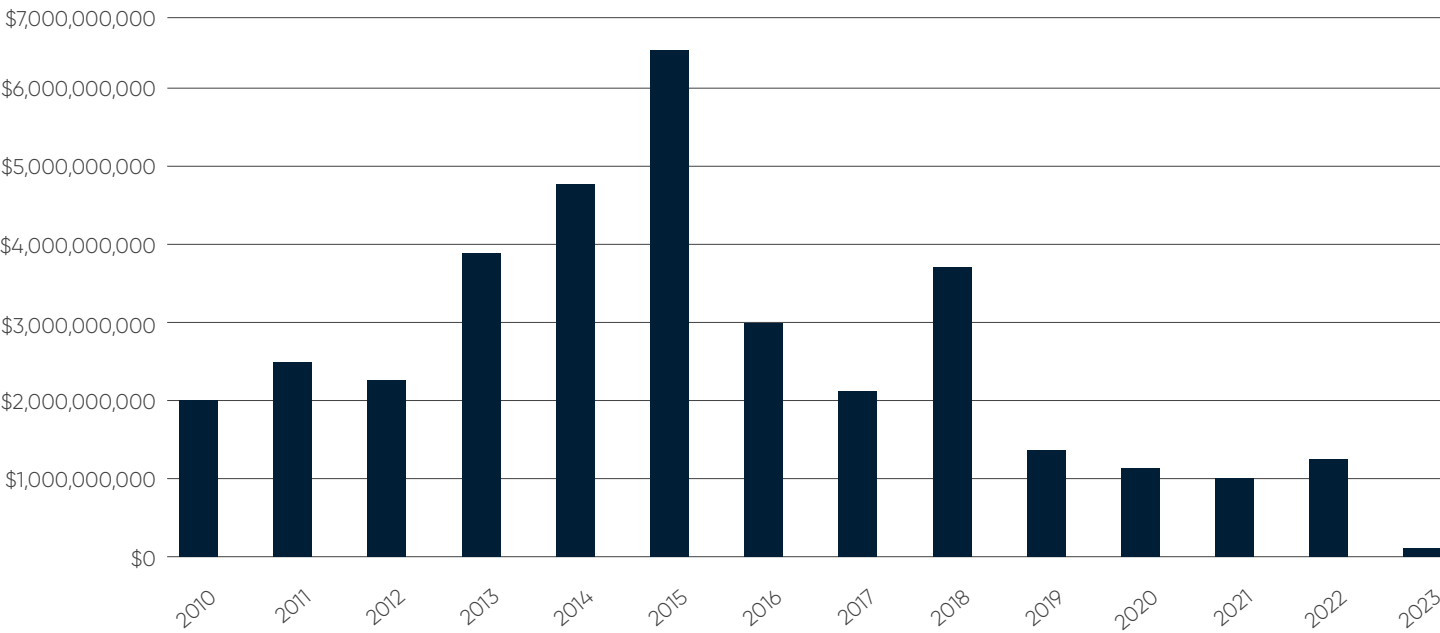
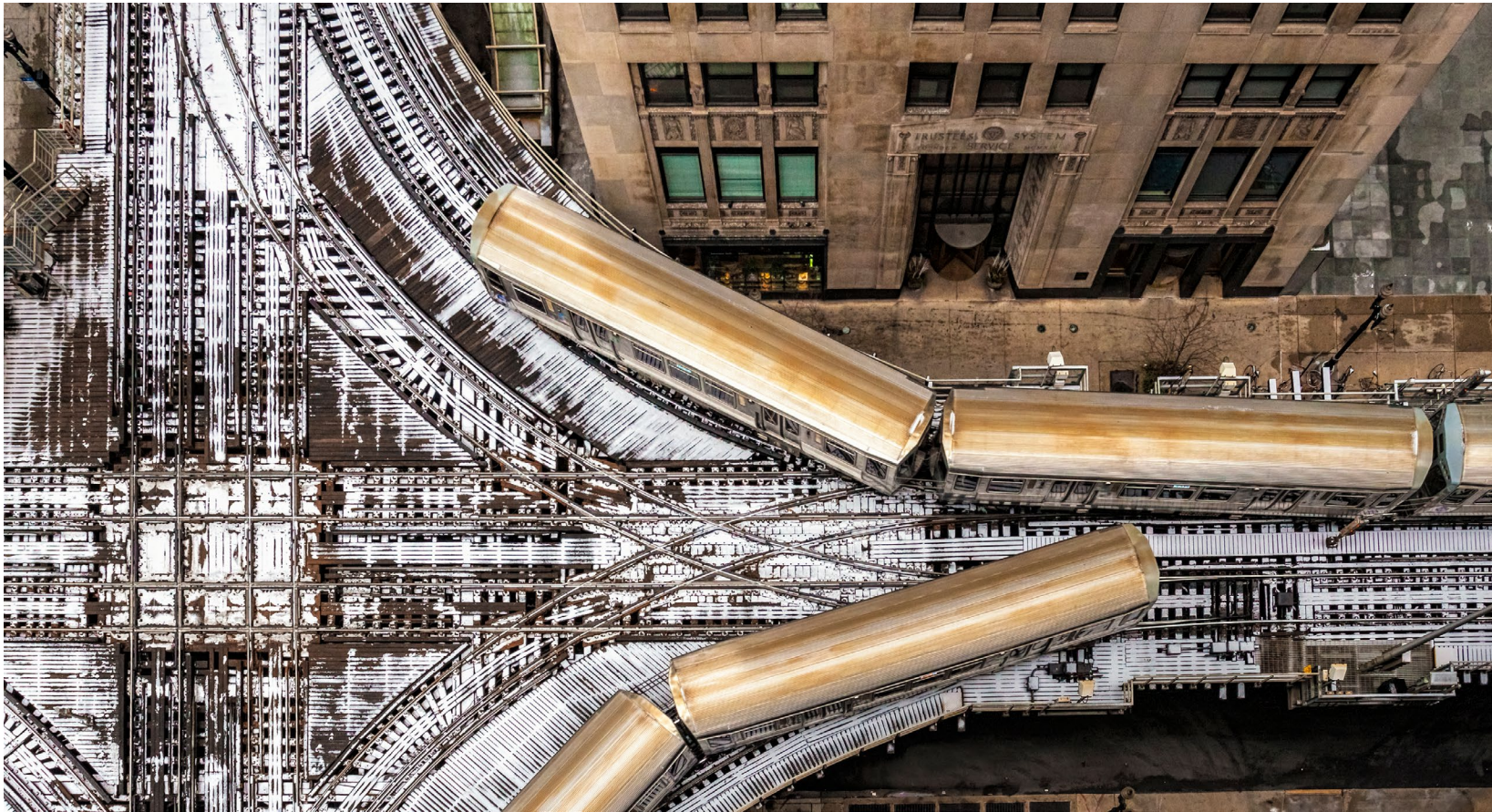


FIGURE 05

Product Pipeline

Source: CoStar

SUBMARKET	PROPERTY ADDRESS	RBA (SF)	BUILDING STATUS	DELIVERY YEAR
FULTON MARKET	1200 W. Carroll Avenue	494,775	Proposed	2025
WEST LOOP	130 N. Franklin Street	1,190,629	Proposed	2025
RIVER NORTH	311 W. Huron Street	217,000	Under Construction	2024
FULTON MARKET	1105 W. Carroll Avenue	680,049	Proposed	2025
FULTON MARKET	1300 W. Carroll Avenue	204,780	Proposed	2025
FULTON MARKET	1325 W. Fulton Market Street	439,048	Proposed	2025
FULTON MARKET	919 W. Fulton Market Street	369,008	Proposed	2024
FULTON MARKET	900 W. Fulton Market Street	64,000	Proposed	2025
FULTON MARKET	170 N. Green Street	609,050	Proposed	2025
FULTON MARKET	330 N. Green Street	712,000	Proposed	2025
FULTON MARKET	360 N. Green Street	493,680	Under Construction	2024
FULTON MARKET	310 S. Green Street	190,810	Proposed	2024
FULTON MARKET	350 N. Morgan Street	592,900	Proposed	2025
NORTH MICHIGAN AVENUE	535 N. Saint Clair Street	52,883	Under Construction	2024



CENTRAL LOOP

- In Q4/23, the direct vacancy rate remained the highest in Chicago's CBD, increasing to 24%. Sublease availability remained at 4.6%.
- Absorption levels worsened, posting negative 171,000 square feet of net absorption throughout the quarter.
- Central Loop still has the largest number of distressed assets in the CBD, largely driven by its low occupancy levels.
- The largest lease signed in Central Loop was a renewal signed by Relativity who decided to reduce their footprint by 45%, now occupying a 105,000-square-foot space at 231 S. LaSalle.

MARKET MOVEMENT

BUILDING DISTRESS

11 BUILDINGS
(3,000,000 SF)
of available space

RENEWAL

RELATIVITY
(105,000 SF)
231 S. LaSalle Street

NEW LEASE/EXPANSION

IRON GALAXY STUDIOS
(48,000 SF)
125 S. Clark Street

SUBLEASE

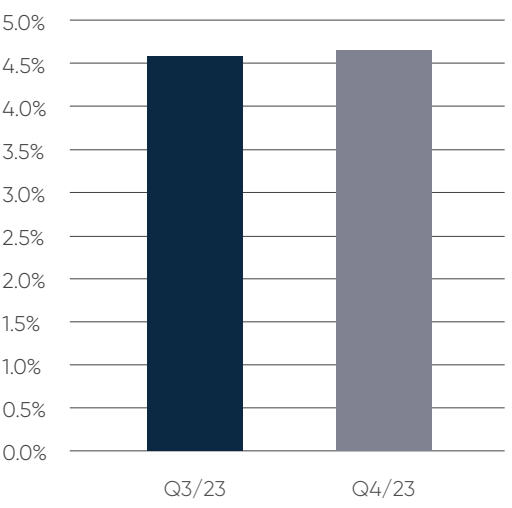
GROUPON
(25,000 SF)
35 W. Wacker Drive

NEW LEASE

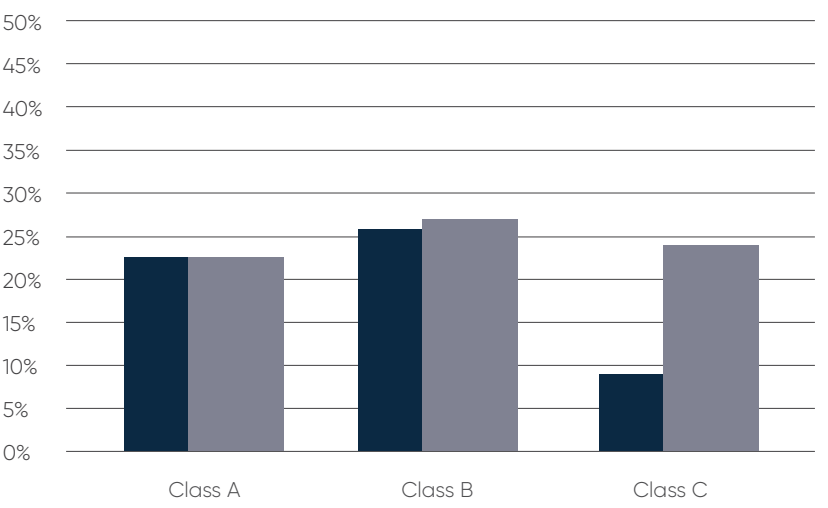
WORKBOX
(29,000 SF)
125 S. Clark Street



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	Q4/23 NET ABSORPTION	2023 YTD NET ABSORPTION
CENTRAL LOOP	37,215,177	539,350	25.9%	4.6%	24.0%	1.6%	\$40.00	(170,697)	(417,673)
CLASS A	21,872,810	810,104	24.1%	5.7%	22.5%	1.7%	\$44.68	(39,457)	(206,754)
CLASS B	14,545,481	440,772	28.6%	3.3%	26.2%	1.4%	\$34.74	(111,202)	(164,037)
CLASS C	796,886	88,543	24.9%	0.0%	24.2%	0.0%	\$26.06	(20,038)	(46,882)

EAST LOOP

- In Q4/23, the direct vacancy rate slightly increased to 21.9% compared to the 21.6% in the previous quarter.
- Absorption levels worsened as negative 152,000 square feet was absorbed in Q4, resulting in negative 612,000 square feet of absorption through 2023 in the East Loop.
- East Loop commanded the lowest rental rate of any submarket in the CBD, sitting at \$39 per square foot.
- Low rental rates and declining occupancy levels have caused landlords to struggle, especially in the East Loop.

MARKET MOVEMENT

BUILDING DISTRESS

4 BUILDINGS
(1,000,000 SF)
of available space

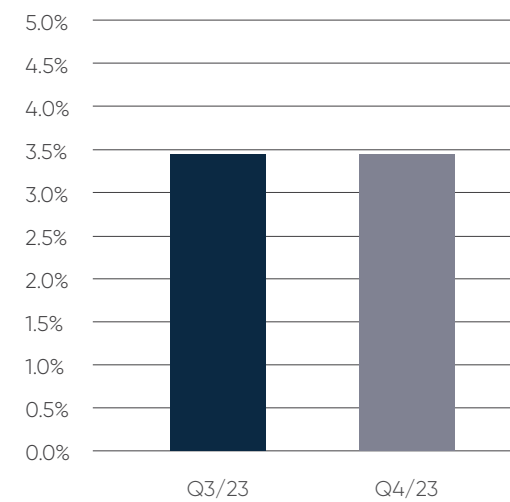
RENEWAL

HIREOLOGY
(33,000 SF)
303 E. Wacker Drive



SUBLET AVAILABILITY RATE

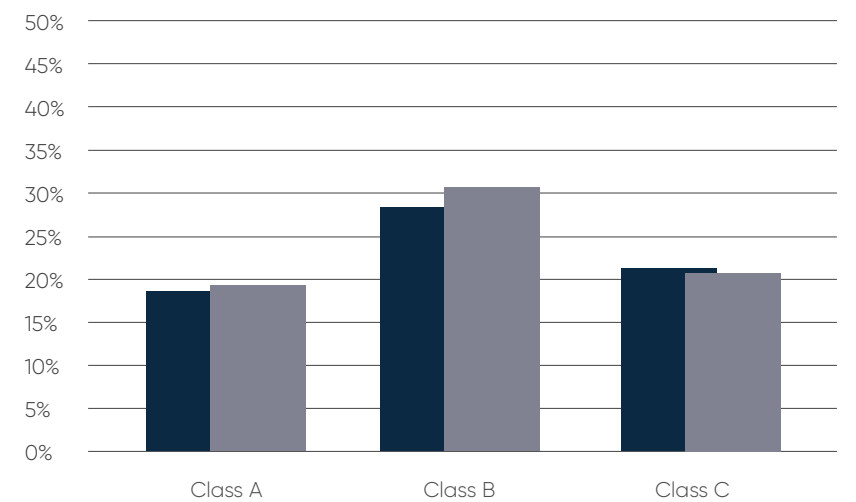
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q3/23 ● Q4/23



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	Q4/23 NET ABSORPTION	2023 YTD NET ABSORPTION
EAST LOOP	26,771,660	514,840	27.0%	3.5%	21.9%	1.1%	\$39.31	(152,253)	(612,334)
CLASS A	18,000,024	1,058,825	25.1%	4.5%	19.4%	1.1%	\$42.64	(87,358)	(467,205)
CLASS B	6,069,797	337,211	33.5%	1.8%	30.2%	1.2%	\$36.03	(79,796)	(90,877)
CLASS C	2,701,839	158,932	24.7%	0.4%	20.3%	0.1%	\$26.80	14,901	(54,252)

FULTON MARKET

- In Q4/23, the direct vacancy rate dropped to 15.4%, a 0.8% improvement compared to the previous quarter.
- Fulton Market is one of two submarkets in the CBD that posted positive absorption in Q4/23 with 70,000 square feet of net absorption. 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 the City of Chicago's Public Assistance Office's decision to occupy more than 46,000 square feet at 344 N. Ogden.

MARKET MOVEMENT

BUILDING DISTRESS

1 BUILDING
(31,000 SF)
of available space

NEW LEASE

CITY OF CHICAGO
PUBLIC
ASSISTANCE
(46,000 SF)
344 N. Ogden
Avenue

NEW LEASE

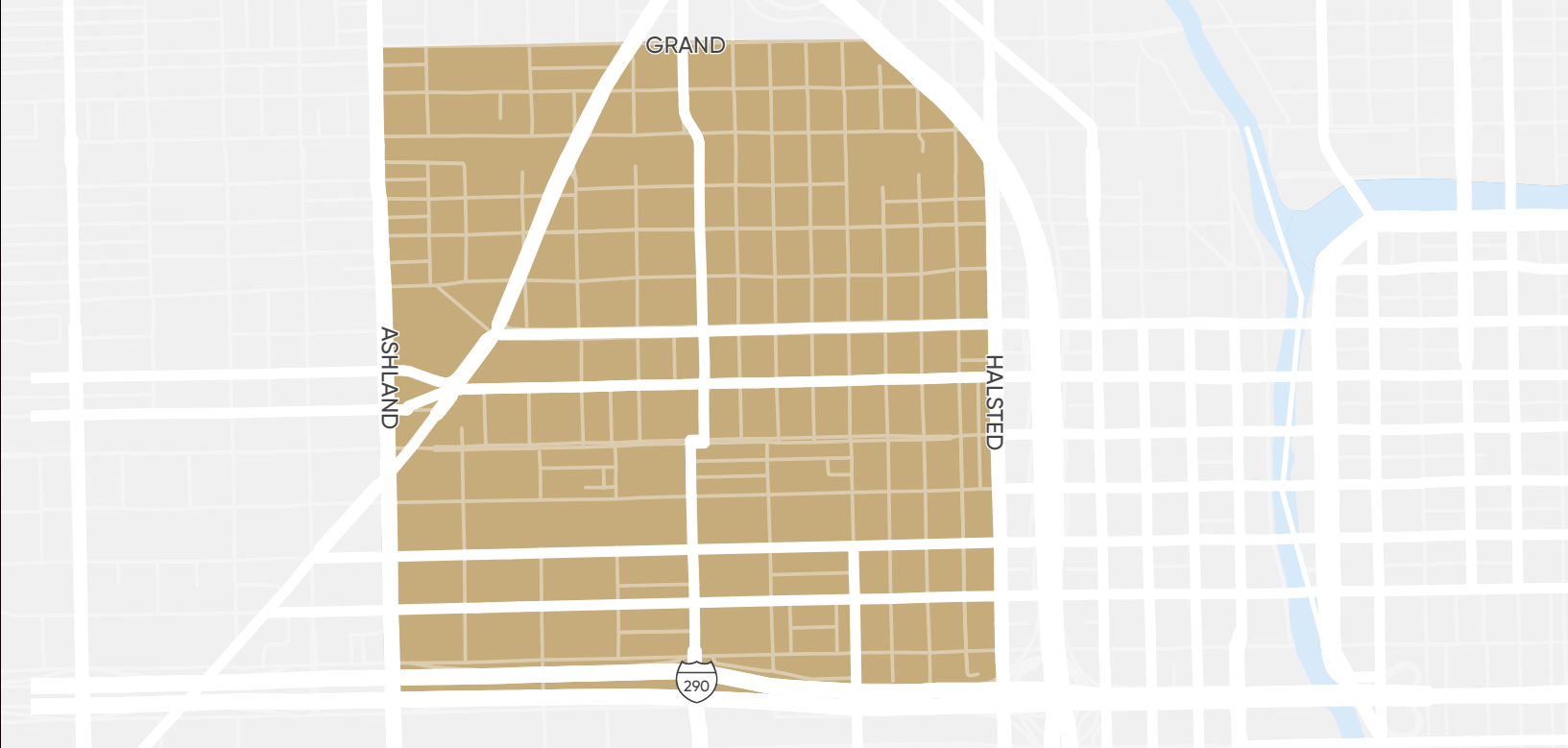
MONOSOL
(35,000 SF)
1375 W. Fulton Market

NEW LEASE

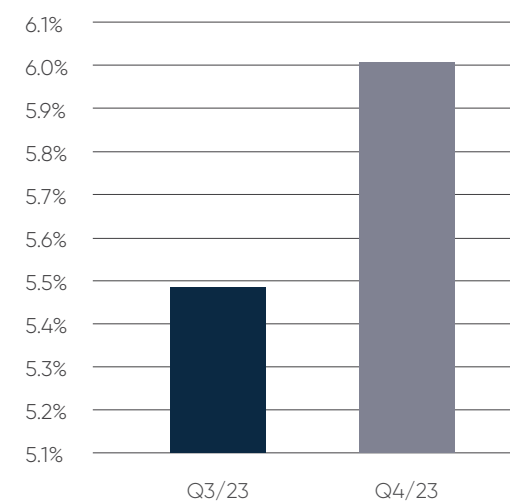
ILLINOIS INSTITUTE
OF TECHNOLOGY
(34,000 SF)
400 N. Aberdeen
Street

NEW LEASE

READYSTATE ASSET
MANAGEMENT
(14,000 SF)
360 N. Green Street

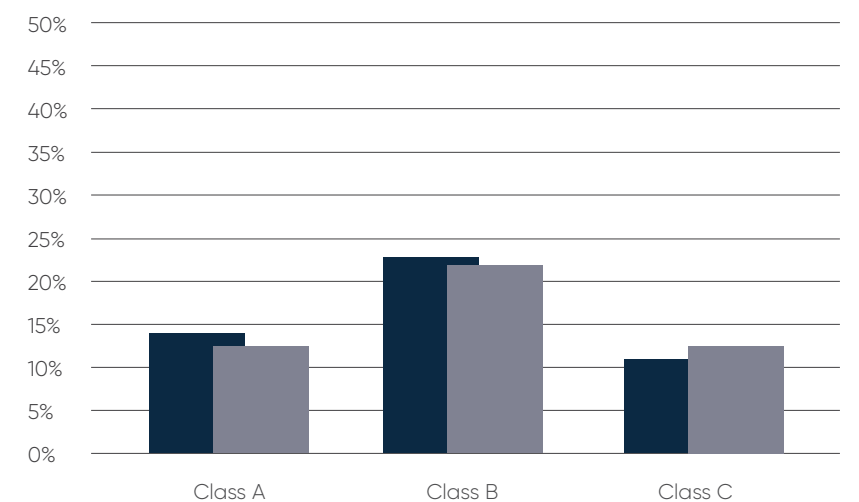


SUBLET AVAILABILITY RATE
Quarter Over Quarter



DIRECT VACANCY RATE
Quarter Over Quarter

● Q3/23 ● Q4/23



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	Q4/23 NET ABSORPTION	2023 YTD NET ABSORPTION
FULTON MARKET	9,271,442	111,704	14.8%	6.0%	15.4%	2.4%	\$41.40	70,182	531,839
CLASS A	5,354,858	281,835	11.5%	8.6%	13.0%	3.7%	\$51.54	68,007	418,412
CLASS B	2,481,542	63,629	21.9%	1.5%	22.3%	0.3%	\$33.77	29,108	49,215
CLASS C	1,435,042	57,402	14.4%	3.9%	12.3%	0.8%	\$31.16	(26,933)	64,212

NORTH MICHIGAN AVENUE

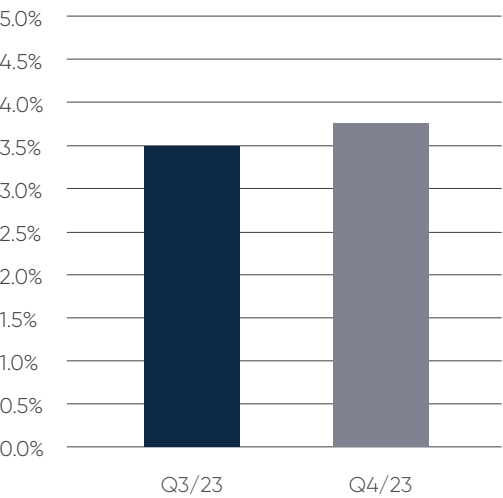
- In Q4/23, the direct vacancy rate remained the lowest of any submarket in the CBD, sitting at 13.8%.
- Absorption was relatively flat in Q4 posting 6,000 square feet of net absorption on the quarter. Despite the positive quarter, North Michigan Avenue experienced negative 65,000 square feet of absorption through 2023.
- The largest lease in this submarket was signed by Solomon Cordwell Buenz, who decided to occupy 34,000 square feet at 330 N. Wabash.

MARKET MOVEMENT

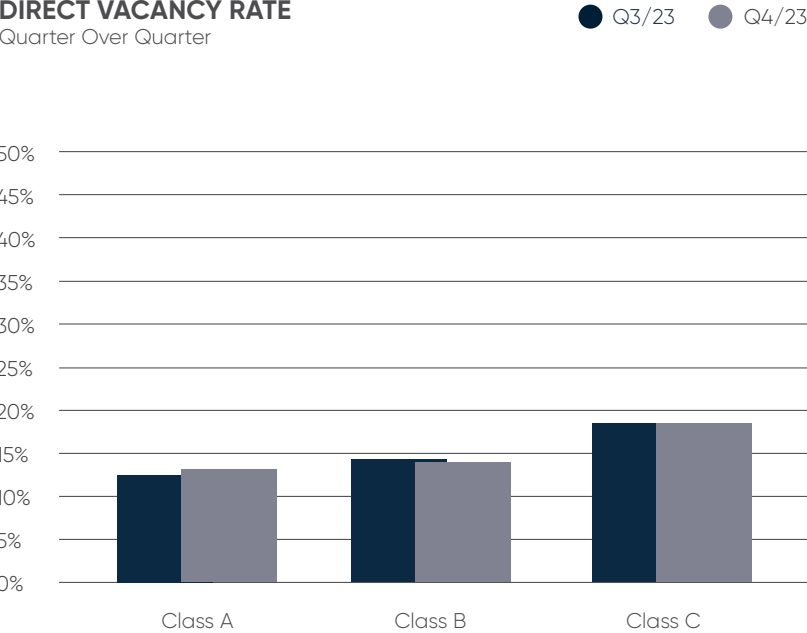
NEW LEASE
SOLOMON
CORDWELL BUENZ
(34,000 SF)
330 N. Wabash
Street



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	Q4/23 Net Absorption	2023 YTD Net Absorption
N.MICHIGAN AVE	13,637,354	349,676	16.7%	3.7%	13.8%	1.9%	\$44.60	6,252	(65,000)
CLASS A	9,614,896	600,931	15.9%	4.9%	13.4%	2.5%	\$50.62	5,712	(46,569)
CLASS B	3,820,919	191,046	18.5%	0.7%	14.6%	0.3%	\$32.58	540	(18,431)
CLASS C	201,539	67,180	20.3%	5.2%	18.7%	0.0%	\$27.23	0	0

RIVER NORTH

- In Q4/23, the direct vacancy rate rose to 21.6%, which is a 1.3% increased compared to the previous quarter.
- Absorption levels improved but remained negative with -7,000 square feet absorbed through the quarter.
- The largest lease signed in River North was signed by Interpublic Group, who decided to occupy a new 78,000-square-foot space at Merchandise Mart.
- The only major sale this quarter in the CBD was Coastal Partners' purchase of 213 W. Institute Place in River North. The Chicago-based firm purchased the asset for \$17.5 million (\$108 PSF), which is less than half of the property's previous purchase price of \$43.5 million in 2017.

MARKET MOVEMENT

BUILDING DISTRESS

2 BUILDINGS
(606,000 SF)
of available space

NEW LEASE

INTERPUBLIC
GROUP
(78,000 SF)
222 Merchandise
Mart Plaza

NEW LEASE

INSIGHT GLOBAL
(28,000 SF)
353 N. Clark Street

INVESTMENT SALE

COASTAL
PARTNERS
(157,000 SF)
213 W. Institute
Place

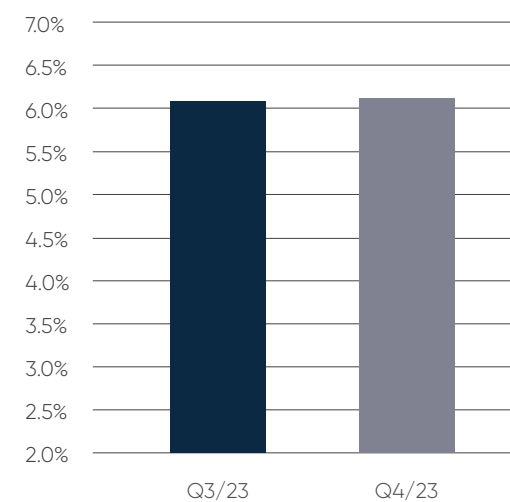
NEW LEASE

ZS ASSOCIATES
(24,000 SF)
222 Merchandise
Mart Plaza



SUBLET AVAILABILITY RATE

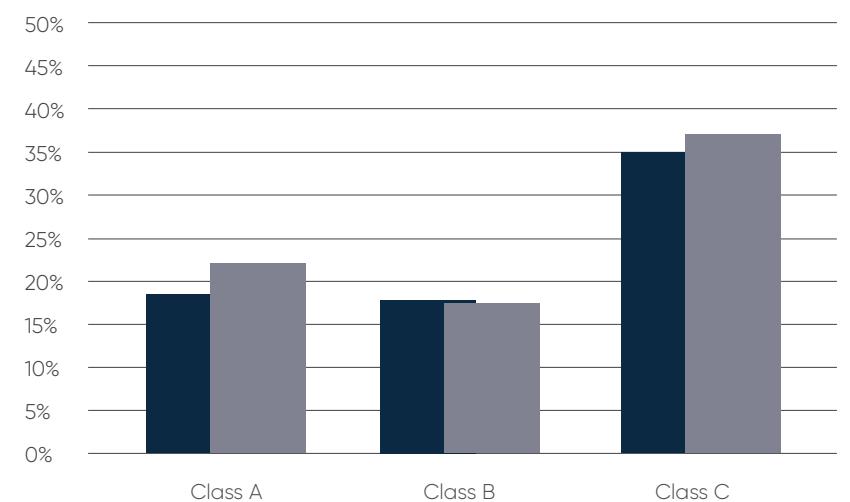
Quarter Over Quarter



DIRECT VACANCY RATE

Quarter Over Quarter

● Q3/23 ● Q4/23



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	Q4/23 Net Absorption	2023 YTD Net Absorption
River North	18,233,698	172,016	25.3%	6.3%	21.6%	4.1%	\$44.41	(6,962)	(189,993)
Class A	12,352,111	882,294	24.8%	8.4%	21.3%	5.7%	\$51.69	(898)	96,969
Class B	4,552,312	67,945	23.0%	2.2%	17.9%	0.7%	\$31.55	3,960	(122,828)
Class C	1,329,275	53,171	38.8%	1.2%	36.8%	0.0%	\$27.28	(10,024)	(164,134)

WEST LOOP

- In Q4/23, the direct vacancy rate slightly increased to 19% while the sublease availability rate remained steady at 4.9%.
- West Loop experienced the lowest levels of absorption compared to any submarket, posting negative 276,000 square feet of net absorption through Q4. This submarket also had the worst absorption levels of any submarket through 2023 with negative 809,000 square feet absorbed through the year.
- Declining occupancy levels led to higher levels of distress, most notably being the recent foreclosure at 200 S. Wacker. The property was foreclosed after the owner marketed the building to prospective buyers at a significant discount for more than a year.
- Despite the low absorption levels, West Loop had the largest lease signed this quarter by Invenergy. The energy solutions provider nearly doubled its existing footprint at 1 S. Wacker, now occupying 178,000 square feet.

MARKET MOVEMENT

BUILDING DISTRESS

5 BUILDINGS
(1,000,000 SF)
of available space

RENEWAL

INVENERGY
(179,000 SF)
1 S. Wacker Drive

SUBLEASE

ONEDIGITAL
(104,000 SF)
233 S. Wacker Drive

NEW LEASE

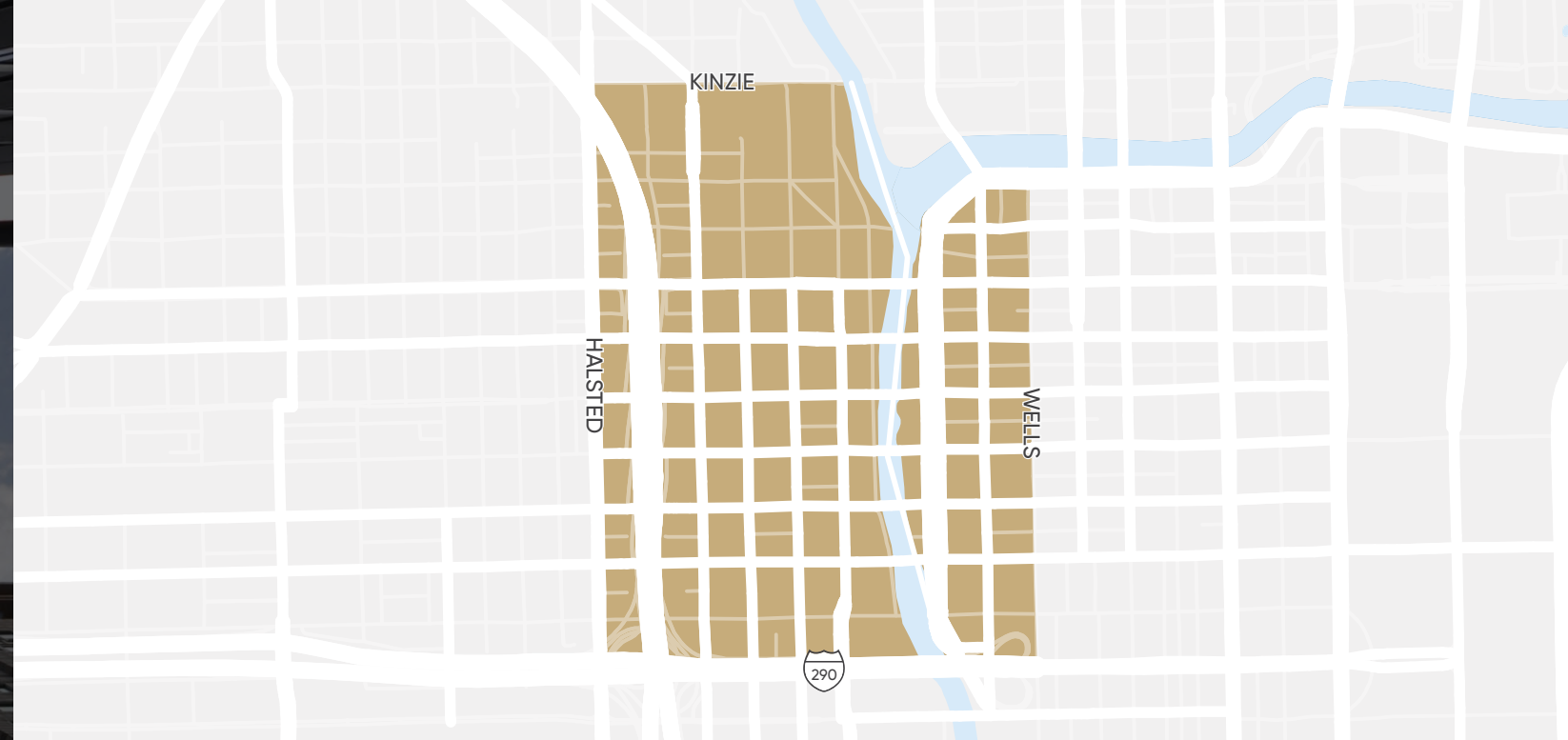
NEAL, GERBER &
EISENBERG LLP
(90,000 SF)
225 W. Randolph
Street

RENEWAL

LACTALISS
HERITAGE DAIRY
(48,000 SF)
540 W. Madison
Avenue

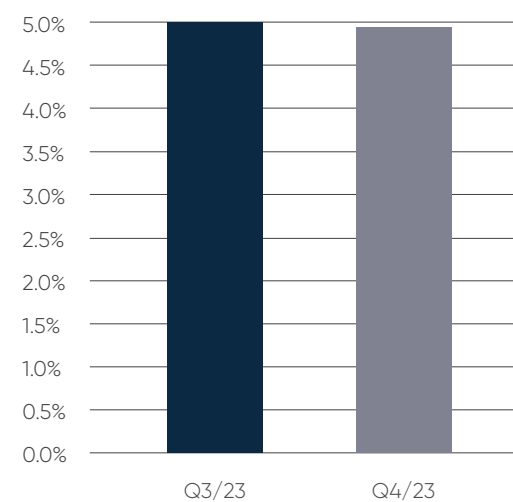
NEW LEASE/ EXPANSION

GRSM
(30,000 SF)
1 N. Wacker Drive



SUBLET AVAILABILITY RATE

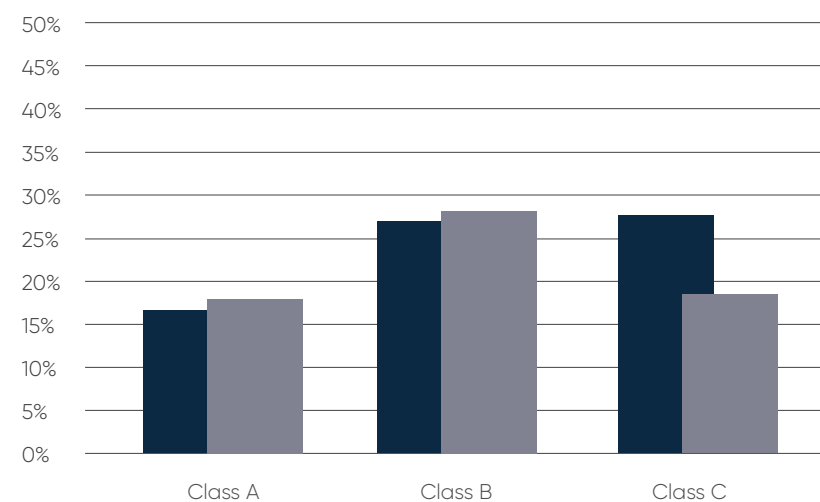
Quarter Over Quarter



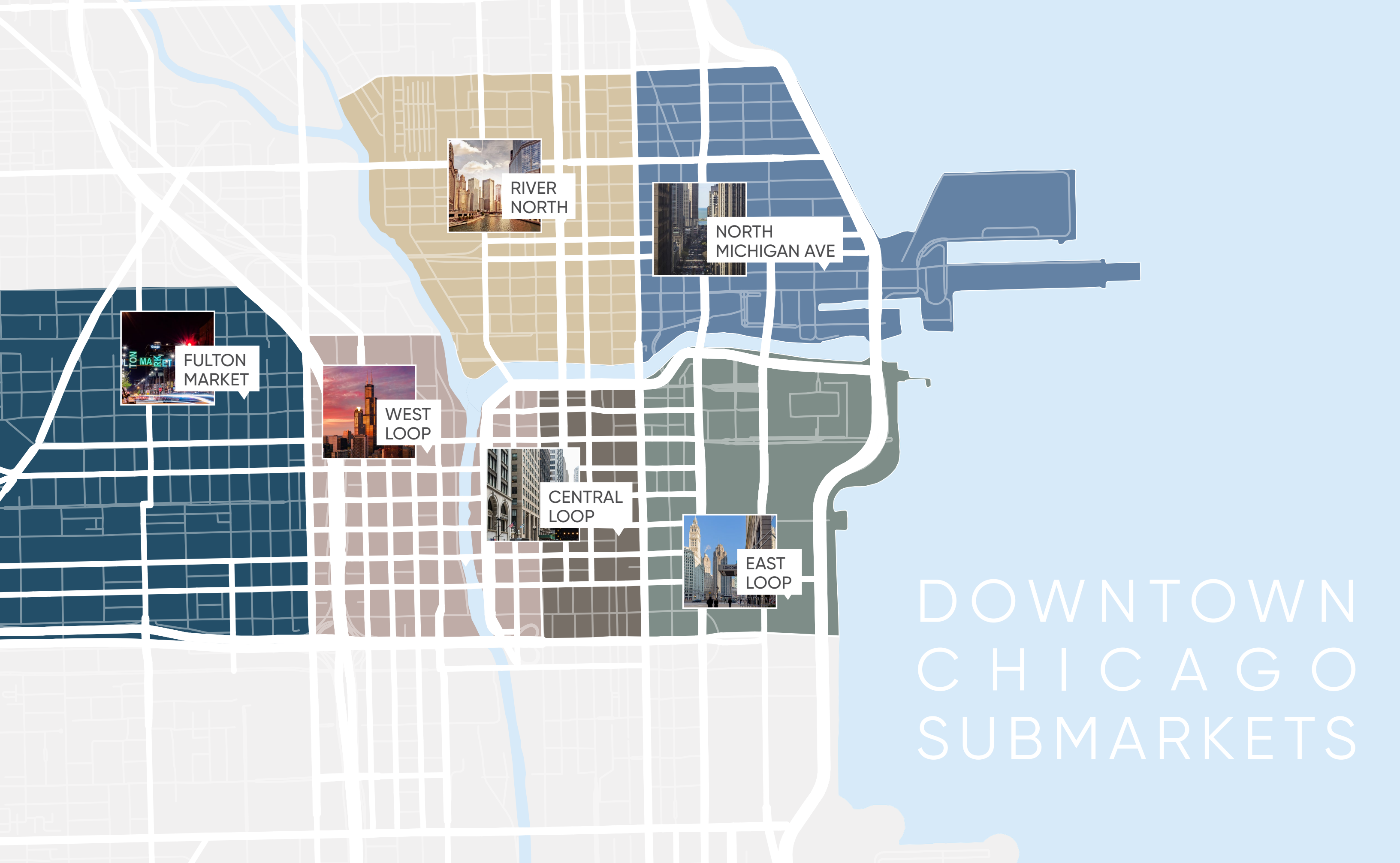
DIRECT VACANCY RATE

Quarter Over Quarter

● Q3/23 ● Q4/23



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	Q4/23 NET ABSORPTION	2023 YTD NET ABSORPTION
WEST LOOP	56,419,515	547,762	22.8%	4.9%	19.0%	3.1%	\$47.44	(276,340)	(808,788)
CLASS A	46,477,459	929,549	21.3%	5.2%	17.2%	3.2%	\$51.50	(200,874)	(381,130)
CLASS B	9,120,475	222,451	30.8%	3.9%	28.3%	2.8%	\$34.14	(65,509)	(359,279)
CLASS C	821,581	68,465	18.4%	1.8%	18.8%	1.4%	\$29.48	(9,957)	(68,379)



DOWNTOWN
CHICAGO
SUBMARKETS

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