



Q1 2023

Market Insight Report

Exclusive Insights for Chicago Central
Business District Occupiers

In this report:

Record high sublease space is barely impacting rental rates.

Transactions completed in high rent buildings are propping up the overall market.

Certain buildings have stopped doing deals as economic turmoil persists.

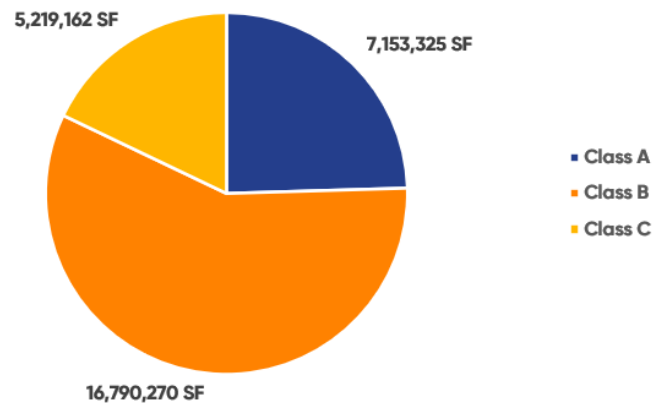
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Total Vacant Square Footage by Building Class

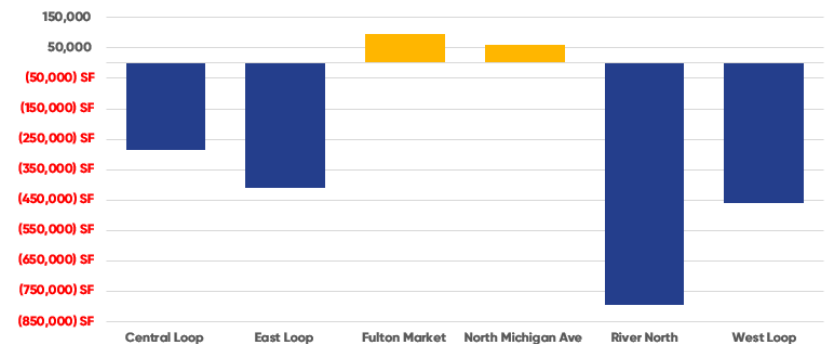


Vacancy

Chicago's downtown office market starts 2023 on the verge of crisis as total vacancy jumped to 22.5% with occupiers downsizing and over 1M square feet of sublease space coming to market. Over the past several quarters, Class A product has weathered the storm with direct vacancy hovering around 13.0%. But competing high-quality sublease space has now become a challenge, with Class A sublease vacancy edging up to 3.1%. Class B and C buildings continue to suffer from the "flight to quality" with total vacancy ending the quarter at 26.3% and 23.7% respectively. 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. Some properties with high vacancy, or even those with low vacancy that are part of a larger, struggling portfolio, may be unable to fund new buildouts, exacerbating their challenges. Identifying well positioned, financially strong buildings will be crucial for any tenant entering the market for space over the next several quarters.

Q1 Direct Net Absorption by Submarket



Absorption

Driving record vacancy is the high level of negative net absorption that has been associated with tenants right sizing their space or disposing of it completely. The first quarter saw 1.75M square feet of space return to the market. No asset type was safe from negative movement as all types experienced a rise in vacancy. Notable occupiers taking

possession of their new space include HAVI Group (96,072 SF) and Wellington Management (24,018 SF) at 345 N Morgan. Notable firms giving space back to the market include Ostrow, Reisin, Berk, & Abrams (23,458 SF) at 455 N Cityfront Plz and Marketing Werks (23,000 SF) at 130 E Randolph.

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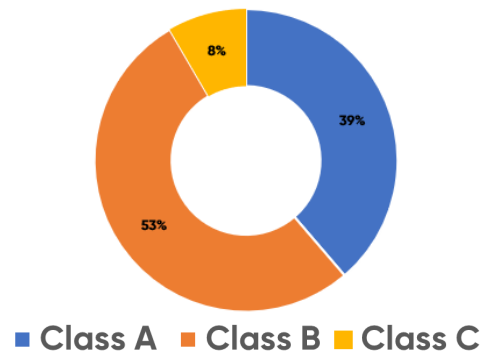
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Q1 2023 Large Signed Leases

Tenant	SF Leased	Address/Building Name	Deal Type
1 Katten, Muchin, & Rosenman	204,000	525 W Monroe	Downsize/Renew
2 Winston & Strawn	150,000	300 N LaSalle	Relocation
3 Chubb	92,000	525 W Monroe	Downsize/Renew
4 Ryan Specialty Group	40,000	155 N Wacker	Relocation
5 UL Solutions	40,000	155 N Wacker	New Lease
6 Spot Freight	36,000	24 E Washington	New Lease
7 Chan Zuckerberg Bio-hub	25,265	1375 W Fulton	New Lease

Downtown Leasing Volume by Building Class



Market Rent & Lease Volume

As economic pressure mounts, tenants downsize and subleases compete directly with landlords, rates have begun to trend downwards, ending the first quarter at \$43.72, down just \$0.08. This is the first time since the onset of the pandemic that rates have declined in consecutive quarters, building momentum towards a tenant favorable market. Frustratingly, Class A and Trophy buildings continue

to see high, rising rents, ending the quarter at \$51.69 and \$68.97, defying market trends. Class B rents dropped \$0.40 per square foot from 2022 to the end of the first quarter, hoping to lure occupiers focused on economics over amenities. With companies focused on drawing employees back to the office, the flashier properties seem to have the upper hand.



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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-28	Tyson Foods
223 S Wacker	155,655	Mar-30	Untied Airlines
151 N Franklin	125,000	Jul-31	Facebook
333 W Wolf Point Plz	119,950	May-40	Salesforce
101 N Wacker	99,592	Aug-27	TTX

Subleasing

Sublease space continues to flood the market with Publicis Groupe, Tyson Foods, Facebook, and Salesforce putting a combined 850,000 square feet on the market in the first quarter. This brought sublease vacancy up to 2.4% - with available sublease space topping 7.1M square feet or 4.9% of total inventory. Some sublease space on the market represents true direct competition with downtown landlords, providing long term, high concession, below market rate deal points that will certainly create a compelling storm for those tenants looking for below market rents.

Buildings on the Market

Address	Size (SF)	Submarket	Percent leased
35 E Wacker Dr	570,000	East Loop	79.9%
55 W Monroe St	815,073	Central Loop	66.7%
200 S Wacker Dr	761,775	West Loop	84.3%
180 N Michigan Ave	240,229	East Loop	76.4%
209 W Jackson Blvd	143,029	West Loop	74.3%

Sales & Capital Markets

The downtown capital market environment is at a standstill. Even well-leased buildings in the best markets in the city are unable to garner any interest from buyers. This is primarily due to the inability of lenders to price debt as a consequence of high interest rates in a high vacancy environment.

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Submarket/ Class	Total # of Buildings	Total RBA SF	Direct Vacant SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total Vacancy Rate	Q1 Net Absorption SF	Under Construction SF	Gross Rent PSF Per Year
Central Loop	62	34,872,406	8,189,475	23.5%	1.6%	25.1%	(286,269)	0	\$41.72
Class A	8	7,891,103	1,144,125	14.5%	0.9%	15.4%	16,234	0	\$48.99
Class B	35	23,404,813	6,243,026	26.7%	2.1%	28.8%	(317,863)	0	\$40.06
Class C	19	3,576,490	802,324	22.4%	0.3%	22.7%	15,360	0	\$36.58
East Loop	56	27,398,627	5,761,599	21.0%	1.5%	22.5%	(410,745)	0	\$38.91
Class A	4	6,825,237	741,966	10.9%	2.1%	13.0%	(133,364)	0	\$48.25
Class B	19	13,572,675	3,063,934	22.6%	1.8%	24.4%	32,770	0	\$36.88
Class C	33	7,000,715	1,955,699	27.9%	0.4%	28.3%	(310,151)	0	\$33.75
Fulton Market	49	5,635,545	948,328	16.8%	3.0%	19.8%	94,877	493,680	\$44.08
Class A	10	2,429,529	184,773	7.6%	5.9%	13.5%	84,882	493,680	\$56.21
Class B	9	532,518	121,502	22.8%	0.0%	22.8%	(3,787)	0	\$40.81
Class C	30	2,673,498	642,053	24.0%	1.0%	25.0%	13,782	0	\$33.70
North Michigan Ave	33	11,767,842	1,644,111	14.0%	1.9%	15.9%	59,790	0	\$42.82
Class A	7	5,491,106	841,538	15.3%	3.0%	18.3%	56,100	0	\$46.99
Class B	12	3,799,596	672,911	17.7%	1.6%	19.3%	2,218	0	\$40.73
Class C	14	2,477,140	129,662	5.2%	0.0%	5.2%	1,472	0	\$36.77
River North	56	14,017,828	2,863,680	20.4%	4.5%	25.0%	(796,301)	1,417,202	\$41.92
Class A	4	3,889,888	930,941	23.9%	10.1%	34.0%	(338,896)	1,417,202	\$51.60
Class B	15	6,465,684	1,056,931	16.3%	2.7%	19.0%	(367,173)	0	\$41.89
Class C	37	3,662,256	875,808	23.9%	1.9%	25.8%	(90,232)	0	\$31.68
West Loop	86	51,794,995	9,755,564	18.8%	2.8%	21.7%	(460,250)	48,560	\$48.26
Class A	21	25,876,229	3,309,982	12.8%	2.7%	15.5%	(89,946)	0	\$54.01
Class B	39	22,546,495	5,631,966	25.0%	3.2%	28.2%	(319,325)	48,560	\$43.69
Class C	26	3,372,271	813,616	24.1%	1.3%	25.4%	(50,979)	0	\$34.69
Total CBD	360	157,557,277	31,335,668	20.1%	2.4%	22.5%	(1,758,224)	1,959,442	\$43.72
Class A	54	52,403,092	7,153,325	13.7%	3.1%	16.7%	(404,990)	1,910,882	\$51.69
Class B	129	70,321,781	16,790,270	23.9%	2.4%	26.3%	(973,160)	48,560	\$40.82
Class C	159	22,762,370	5,219,162	22.9%	0.8%	23.7%	(420,748)	0	\$34.32
Trophy CBD	18	12,070,034	2,172,911	18.0%	1.7%	19.7%	40,674	1,693,882	\$68.97



Beyond space.

Contact

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