



Chicago CBD office market report

Q1 2023

**AVISON
YOUNG**

Chicago CBD office market trends

7.5%

Vacancy rate in trophy buildings

A fight to quality has persisted throughout the market over the past three years. Some tenants have chosen to move to a higher-quality building while contracting space commitments, increasing demand for what was already a well-desired segment of the market. Availability rates in this sector have increased, however, with select tenants choosing to give portions of committed space in under construction assets.

18.2%

Average spread between base rent and net effective rent

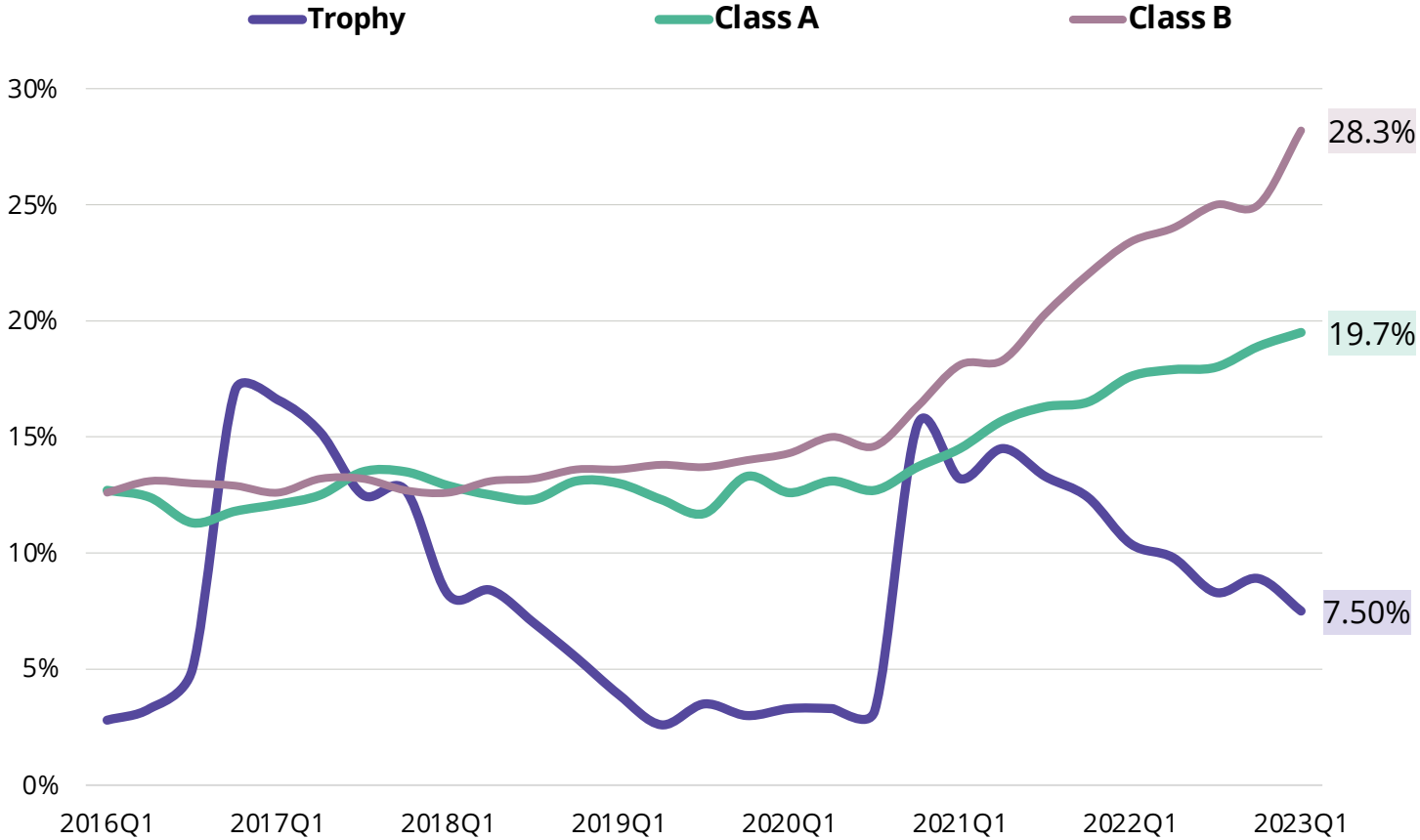
In an effort to maintain office demand, large concession offerings of free rent and TI allowances from landlords have become more of the standard than the trend. While base rents have continued to slowly rise across the market, the gap between base rates and net effective rents have widened.

50%

Percentage of CMBS loans in good standing

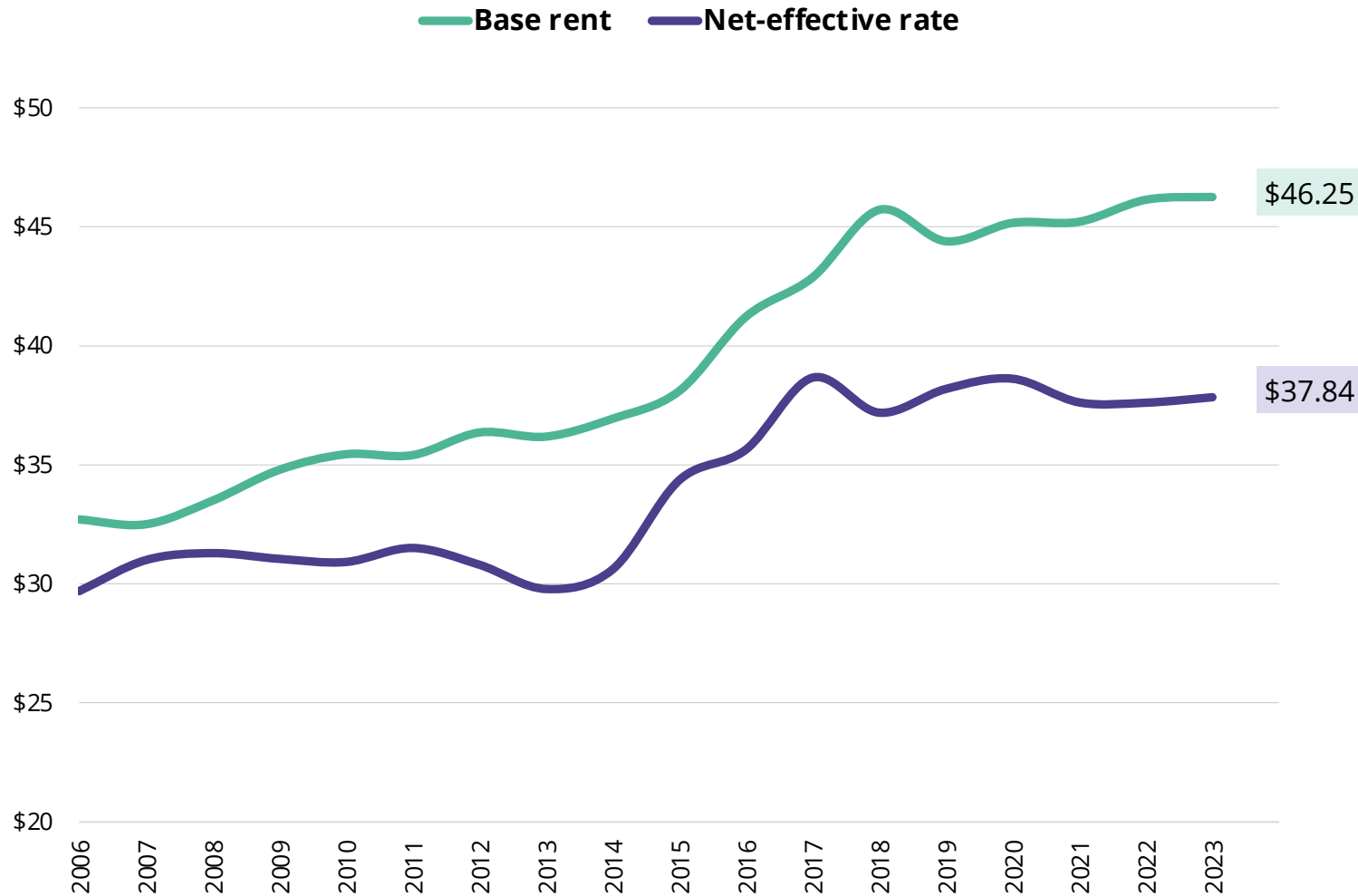
With the combination of decreasing office demand and dramatically rising interest rates, significant pressure has been put on many buildings with CMBS debt maturing over the next few years. 28% of all buildings with CMBS debt have been put on the watchlist while a handful of lower-class buildings have already been given back to the special servicer.

Vacancy rates by property class



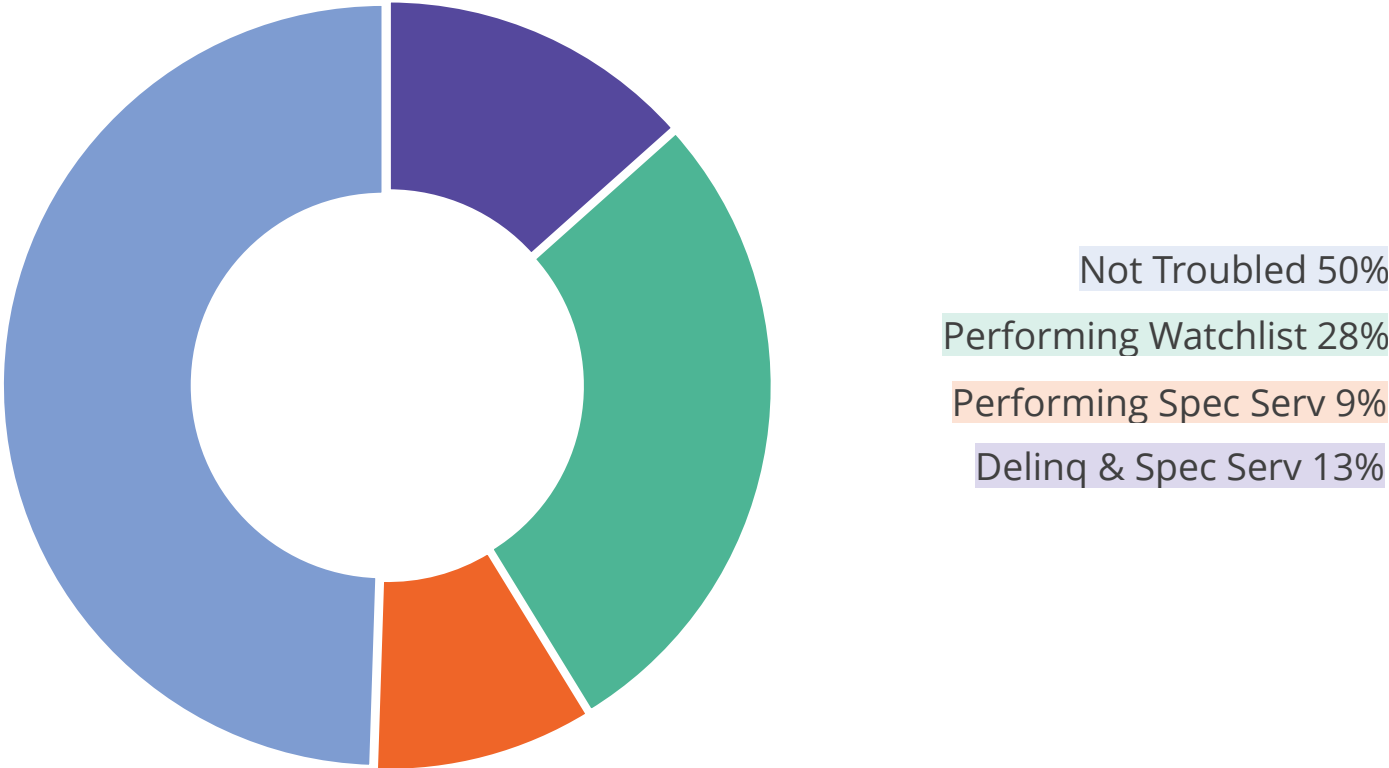
Trophy and newly-constructed Class A space continues to boast the lowest level of availability across the CBD, outperforming the more dated, low-quality portions of the market.

Base rents vs. Net-effective rents (psf/FS)



While market rents remain steady, large concession packages from landlords have become more standard throughout the market. This in turn continues to drive down net effective rates for occupiers.

Troubled Loan Status – CMBS (# of Loans)



As vacancies and interest rates continue to rise, a significant number of buildings have been either watch-listed or special serviced as their loans approach maturity.

Office development pipeline

6 properties

under construction

2.0 msf

Under construction, renovation

1.3%

share of office inventory

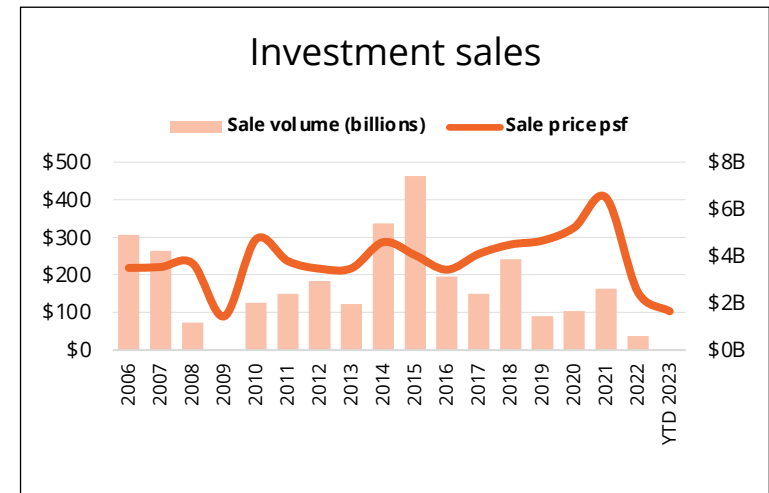
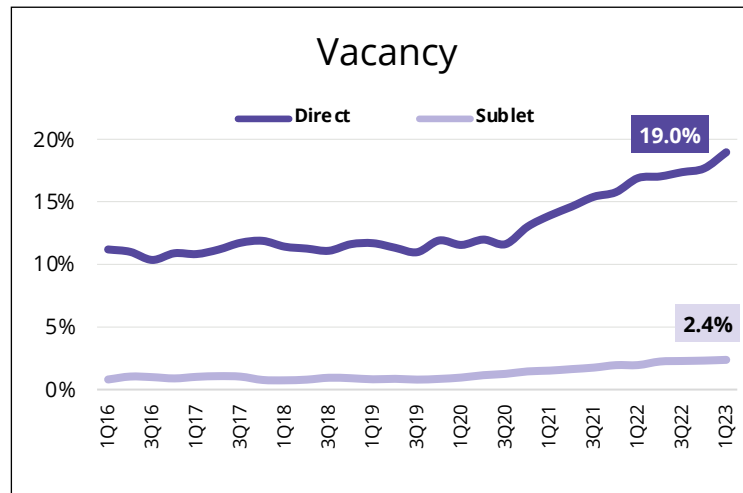
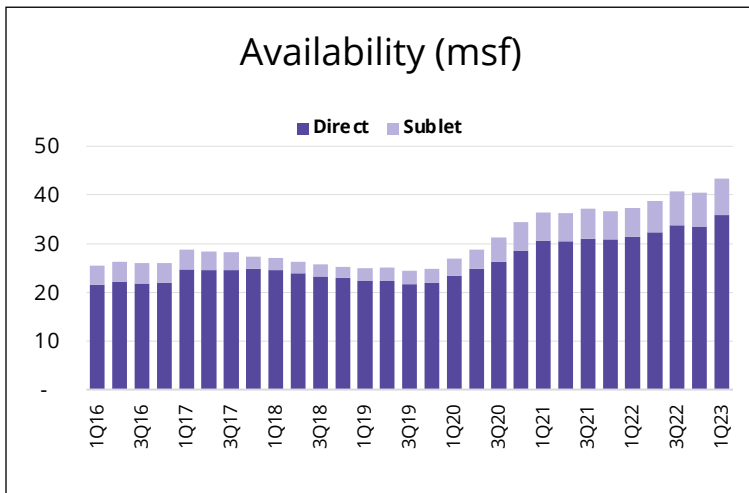
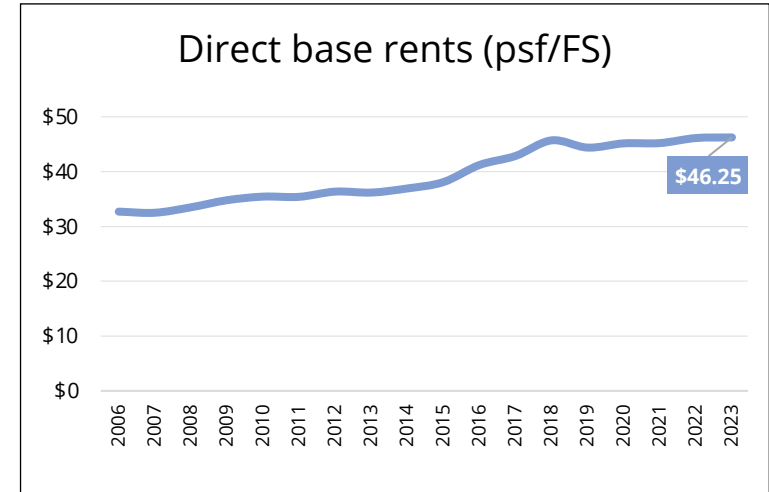
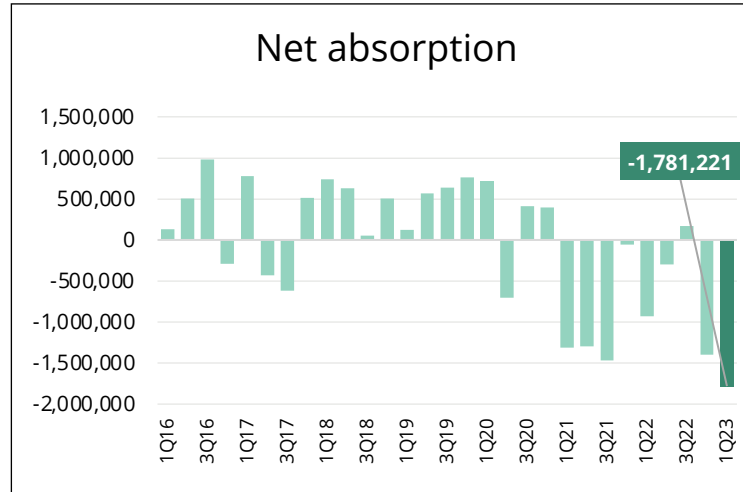
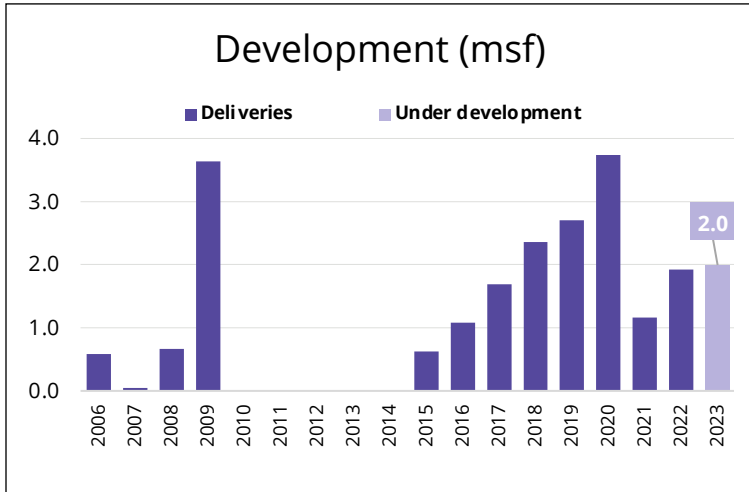
1942

average delivery date of Chicago offices



Salesforce Tower in River North. Set to open in Q2 2023.

Chicago CBD office market indicators



Chicago CBD office market stats

Recent leasing activity

Tenant name	Address	Sign date	Size (sf)	Transaction type	Lease type	Submarket
Katten Muchin Rosenman	525 W Monroe St	Feb 2023	204,000	Renewal	Direct	West Loop
Enova	175 W Jackson Blvd	Mar 2023	135,000	Renewal	Direct	Central Loop
Chubb	525 W Monroe St	Feb 2023	92,000	Renewal	Direct	West Loop
Ryan Specialty Group	155 N Wacker Dr	Jan 2023	56,288	New	Direct	West Loop
Burke Warren McKay & Seritella	330 N Wabash Ave	Mar 2023	47,000	New	Direct	River North
Spot Logistics	24 E Washington Blvd	Feb 2023	31,000	New	Direct	Central Loop

Top projects under development

Property	Address	Delivery Date	Building Size (sf)	% Preleased	Developer	Submarket
Salesforce Tower	333 W Wolf Point Plz	Mar 2023	1,200,000	96%	Hines	River North
360 N Green St	360 N Green St	Feb 2024	493,000	60%	Sterling Bay	Fulton Market
919 W Fulton St	919 W Fulton St	Mar 2025	446,000	33%	Fulton St Companies	Fulton Market

Chicago CBD office market stats

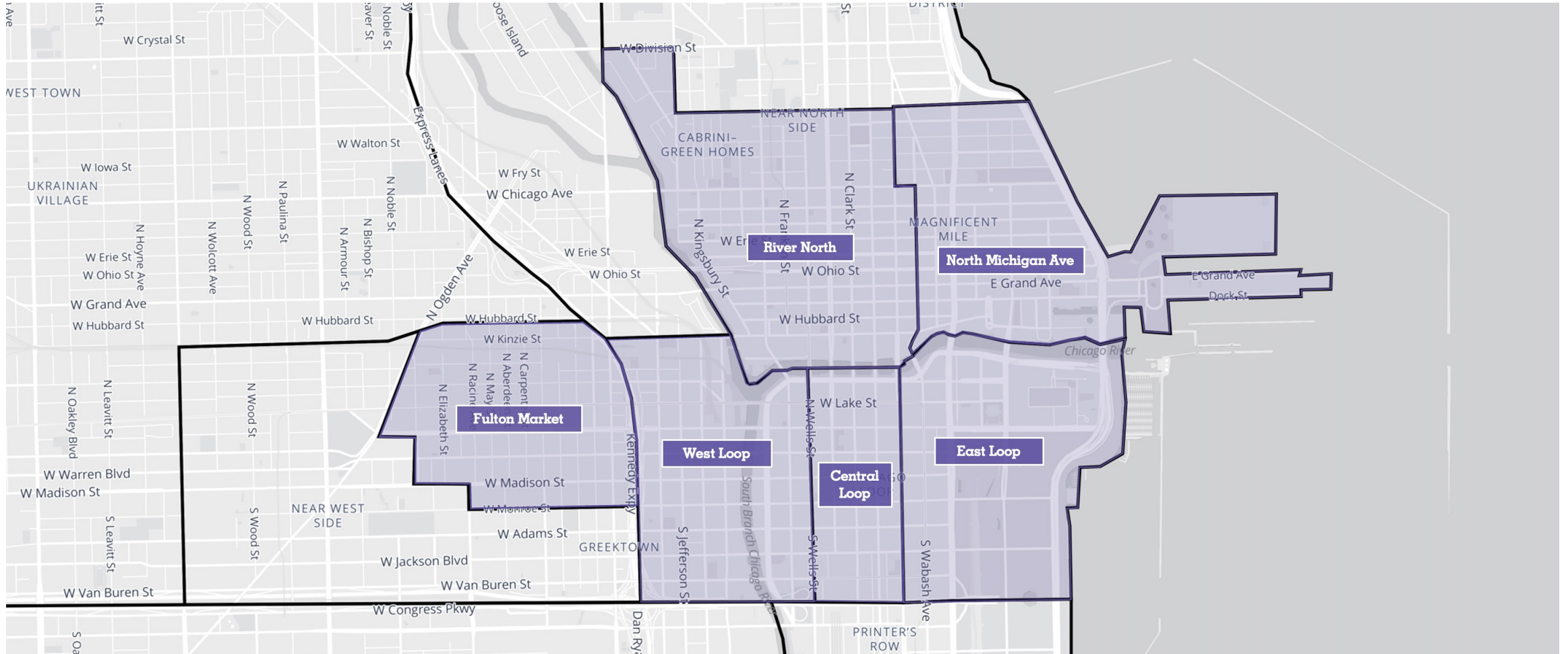
Submarket	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (2023 total)
West Loop	57,226,602	-	-	17.9%	2.5%	20.5%	(449,147)	(449,147)
Central Loop	36,187,704	-	-	23.9%	2.1%	26.0%	(262,507)	(262,507)
East Loop	27,076,620	-	-	18.8%	1.6%	20.5%	(365,125)	(365,125)
River North	19,824,906	-	1,417,202	18.2%	3.6%	21.9%	(825,862)	(825,862)
North Michigan Ave	9,464,046	-	-	12.7%	2.1%	14.8%	47,798	47,798
Fulton Market	6,545,331	-	577,131	12.5%	2.2%	14.8%	73,622	73,622
Market total	156,325,209	-	1,994,333	19.0%	2.4%	21.3%	(1,781,221)	(1,781,221)

Chicago CBD office market stats by class

Class	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Net absorption sf (2023 Total)
Trophy	8,899,720	0	1,693,882	6.9%	0.6%	7.5%	111,662	111,662
Class A	87,521,127	0	252,451	17%	2.7%	19.7%	(721,574)	(721,574)
Class B	47,552,315	0	48,000	25.9%	2.4%	28.3%	(794,152)	(794,152)
Class C	12,352,047	0	0	18.9%	1%	19.9%	(377,157)	(377,157)
Market total	156,325,209	0	1,994,333	19.0%	2.4%	21.3%	(1,781,221)	(1,781,221)



Chicago CBD submarket map



market report

glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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