



Chicago CBD office market report

Q2 2023

**AVISON
YOUNG**

Chicago CBD office market trends

14%

Vacancy rate in trophy buildings

In terms of vacancy, quality remains king. Across the CBD, vacancy rates of the trophy asset segment remain significantly lower than Class A and B segments, which both sit above 20%.

17.8%

Trophy/Class A spread between base and net effective rent

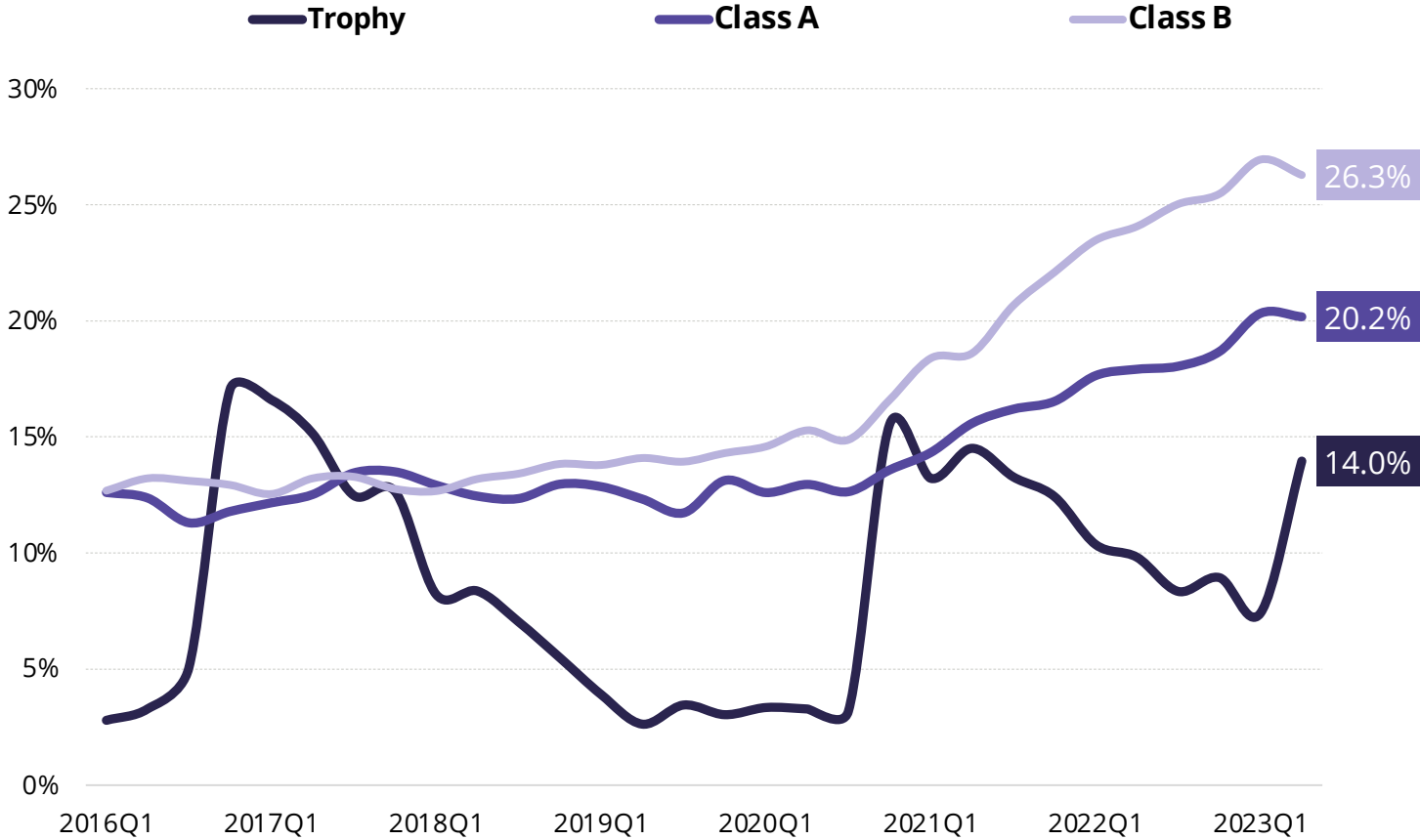
Large concession packages offered by landlords continue to be the norm in order to entice tenants to transact. The spread between base rents and net-effective rents sit at a wide 17.8%, although this spread has contracted slightly in previous months.

\$4.1B

Total balance of CMBS loans maturing before by 2027

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. \$2.9B of this amount has been watch-listed or transferred to special servicing.

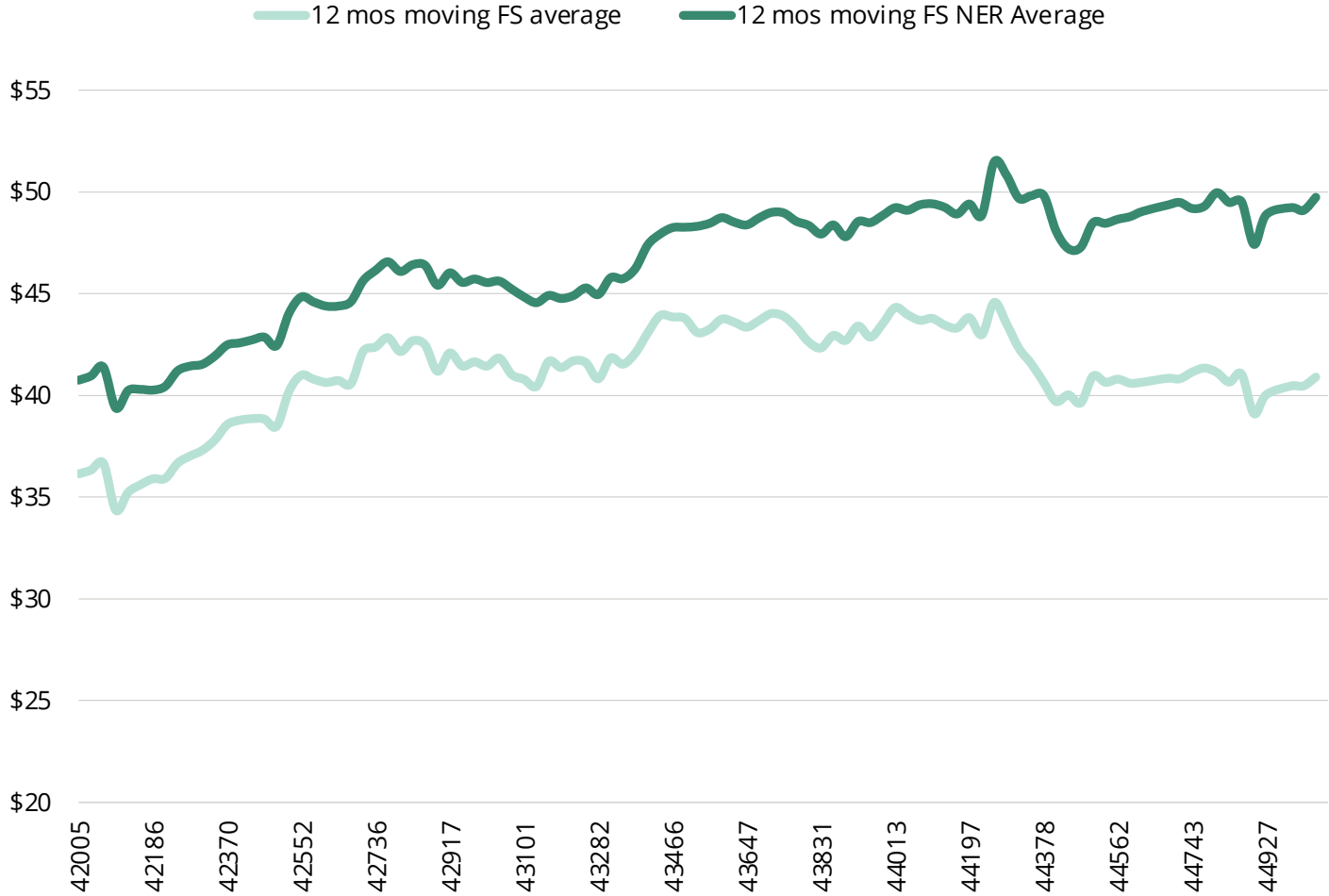
Vacancy rates by property class



Quality remains a driving factor in leasing activity. While vacancies remain significantly lower in Trophy assets than the rest of the market, unoccupied space in new deliveries have driven this figure up.

Vacancy rates include both direct and sublet vacancies. Source: AVANT by Avison Young; Costar

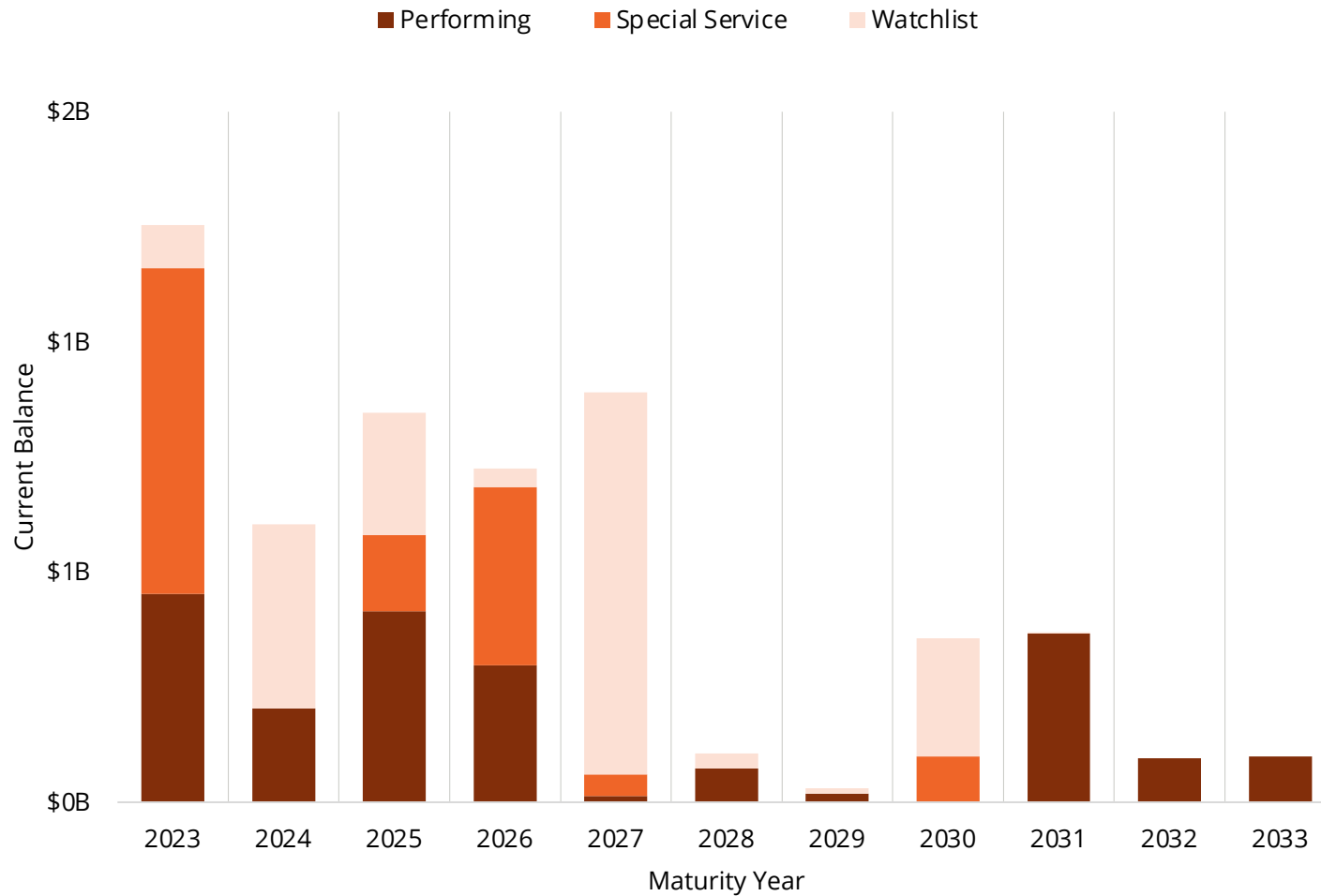
Trophy/A base vs. net-effective rents (psf/FS)



Despite stable market rents, the growing trend among landlords to offer substantial concession packages continues, leading to a decline in net effective rates throughout the market.

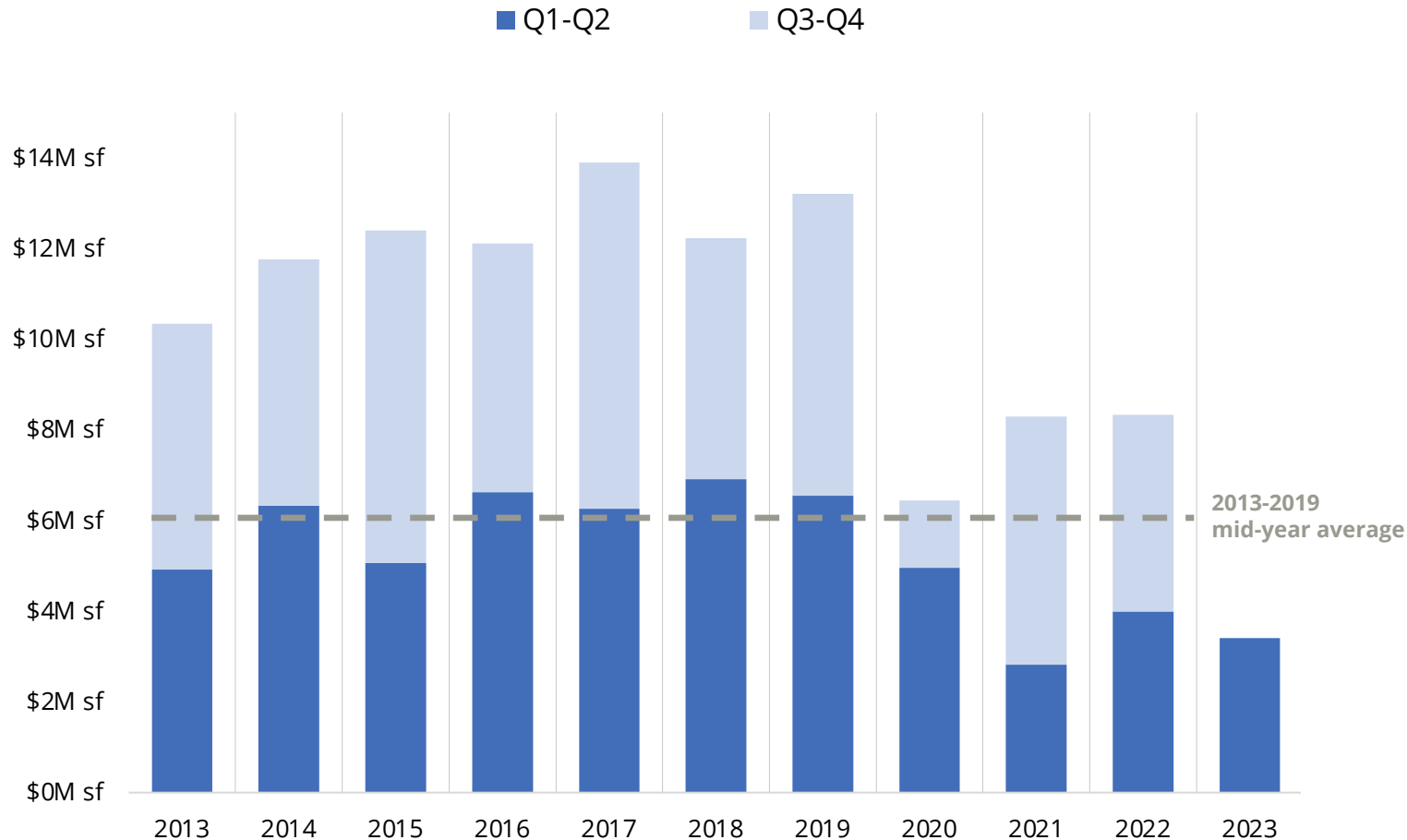
Note: Excludes subleases, expansions and renewals.
Source: AVANT by Avison Young

CMBS maturity schedule by loan status



The portion of troubled CMBS loans tied to office properties in Chicago continues to grow. Most loans expire before 2027.

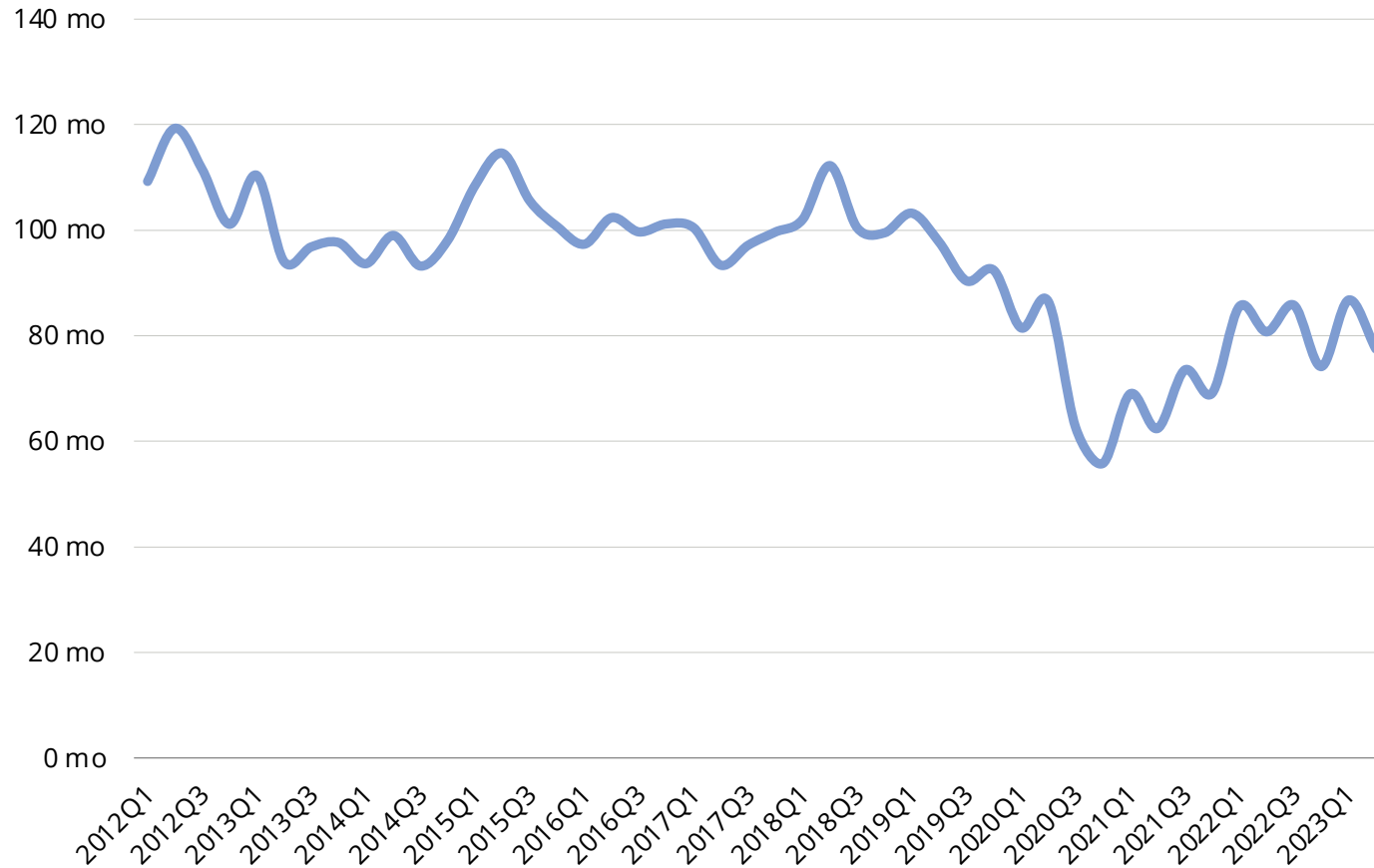
Leasing activity



The first half of 2023 saw a total leasing volume of 3.4M sf, down 44% from 2013-2019 averages.

Average Lease Term Length

Lease term (months)



In recent years, tenant preference for flexibility in their leases has led to a decrease in the average term length.

Office development pipeline

5 properties

under construction

1.8 msf

Under construction, renovation

1.1%

share of office inventory

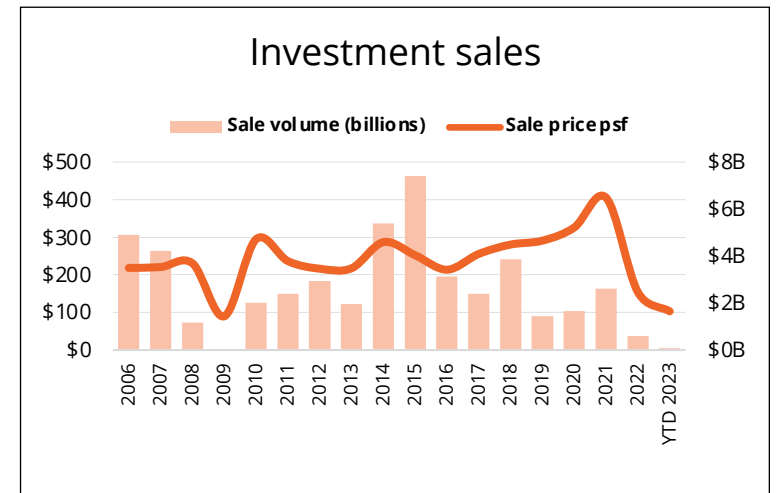
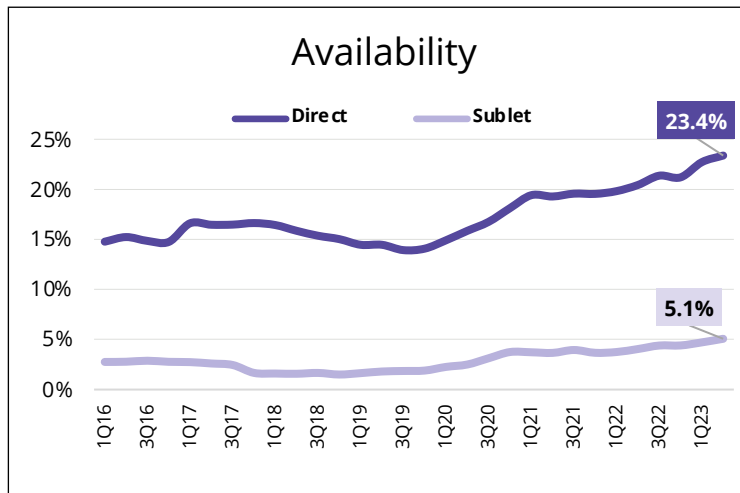
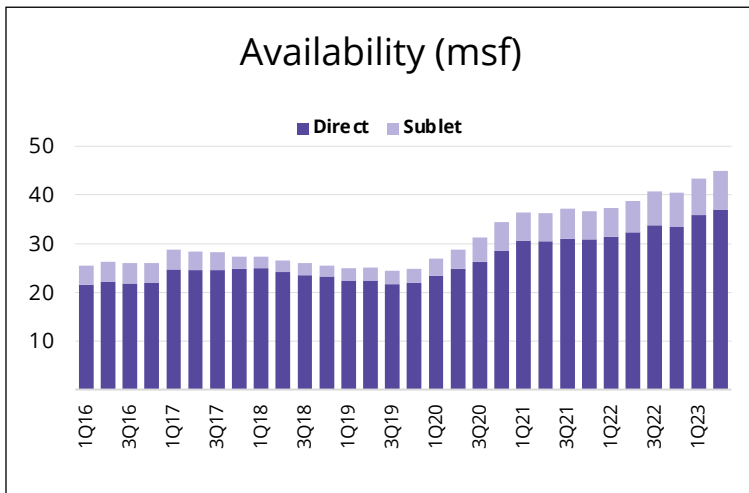
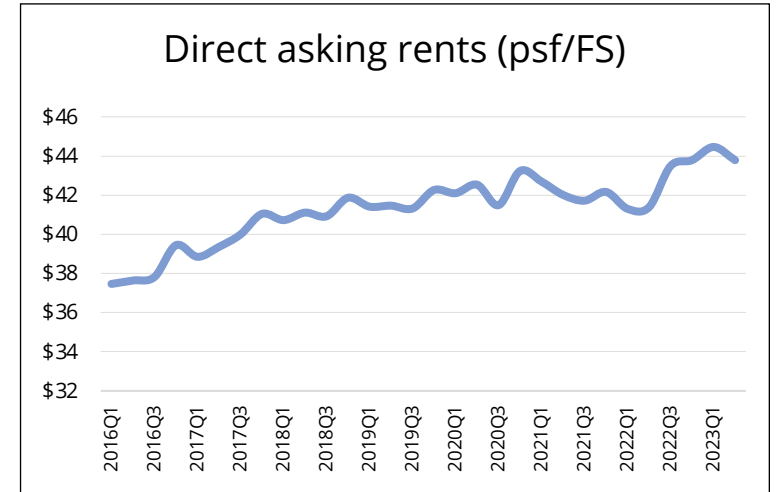
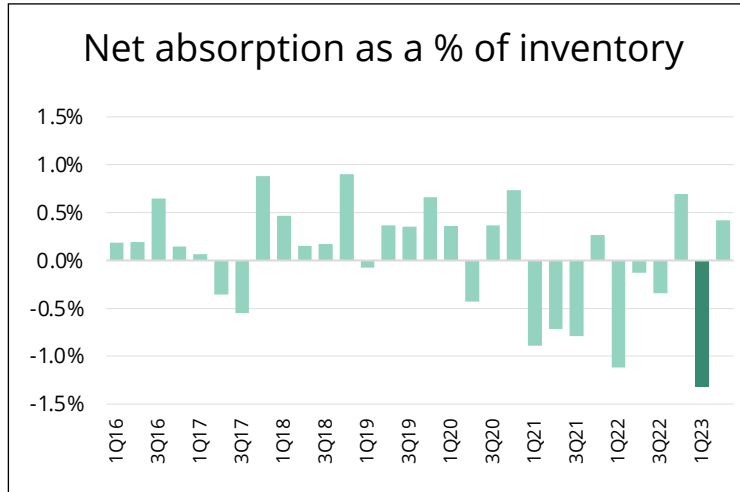
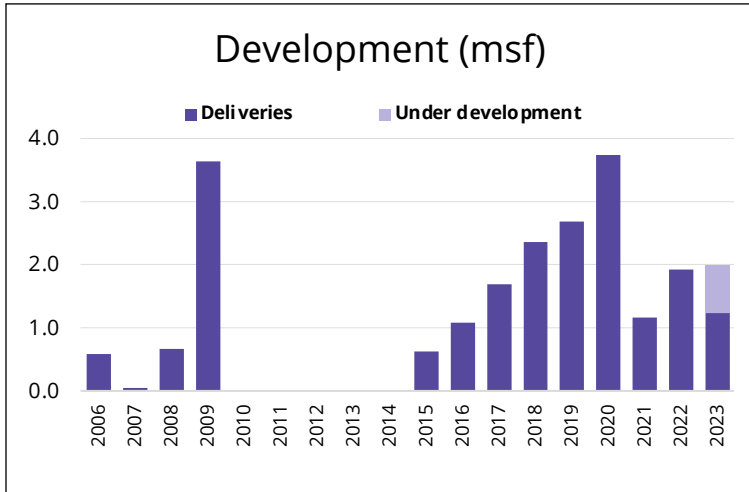
1942

average delivery date of Chicago offices



360 N Green Street in Fulton Market. Set to open in Q1 2024.

Chicago CBD office market indicators



Chicago CBD office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Molson Coors	320 S Canal St	West Loop	Apr 2023	83,848	New	Direct
Antares Capital	320 S Canal St	West Loop	Apr 2023	79,657	New	Direct
Wilson Dow	800 W Fulton St	Fulton Market	May 2023	31,882	New	Direct
Ryan Partnership	227 W Monroe St	West Loop	Apr 2023	25,632	New	Direct

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
225 W Randolph St (renovation)	West Loop	Oct 2024	900,000	-	Onni Group
360 N Green St	Fulton Market	Mar 2024	493,800	52%	Sterling Bay
311 W Huron St	River North	Sep 2023	217,000	59%	Urban Innovations

Chicago CBD office market stats

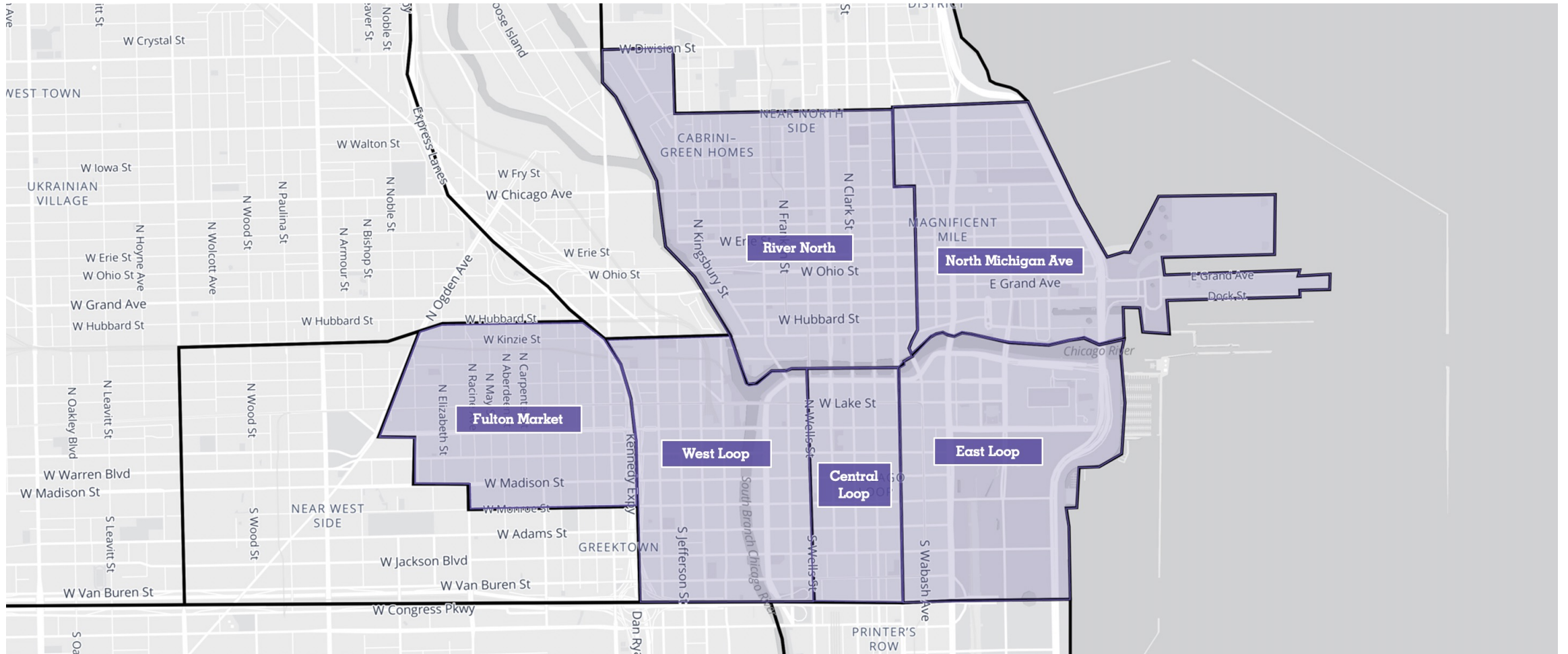
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
CBD West Loop	57,419,969	-	-	21.5%	5.6%	27.1%	-1,028,564	-1.8%	\$ 46.63
CBD Central Loop	35,978,928	-	-	27.8%	4.8%	32.6%	-209,560	-0.6%	\$ 40.30
CBD East Loop	26,844,144	-	-	24.6%	3.9%	28.5%	52,276	0.2%	\$ 38.36
CBD River North	20,999,356	1,200,202	217,000	24.6%	6.4%	31.0%	-157,827	-0.8%	\$ 45.83
CBD North Michigan Ave	9,464,046	-	-	15.4%	3.2%	18.6%	-13,437	-0.1%	\$ 35.46
CBD Fulton Market	6,580,782	35,451	541,680	18.3%	5.1%	23.4%	2,502	0.0%	\$ 52.39
Market total	157,287,225	1,235,653	758,680	23.4%	5.1%	28.4%	-1,354,610	-0.9%	\$ 43.79

Chicago CBD office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	10,099,922	1,200,202	493,680	13.1%	0.9%	14.0%	586,011	5.8%	\$ 64.03
Class A	87,855,421	35,451	217,000	17.6%	2.6%	20.2%	-1,288,423	-1.5%	\$ 50.74
Class B	47,212,311		48,000	24.9%	2.3%	26.3%	-384,492	-0.8%	\$ 38.73
Class C	12,119,571			18.3%	0.7%	18.9%	-267,706	-2.2%	\$ 29.09
Market total	157,287,225	1,235,653	758,680	19.2%	2.3%	21.5%	-1,354,610	-0.9%	\$ 43.79



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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