



Chicago CBD office market report

Q2 2024

**AVISON
YOUNG**

Chicago CBD office market trends

96%

of tenants maintained or upgraded building classes

As the desire for space in high-class buildings continues among tenants, 22% of tenants that leased space over 10k square feet in the last six quarters moved to a higher quality building. While 74% stayed in the same class of building, often through renewals, these deals have usually come with large concession packages to entice leasing activity.

While contractions were more commonplace than expansions throughout the entire market, over half of tenants choosing to upgrade building class also expanded their footprint.

7 msf

Available sublease space

The amount of available sublease space has decreased by nearly 12.5% from the end of 2023. However, this reduction is mainly due to the expiration of underlying leases, which has shifted the space from sublease availability to vacant status, rather than an uptick in leasing activity.

Only about 16% of the sublease space taken off the market was due to signed subleases. As a result, total availability, which accounts for both vacant and sublet space, continues to increase, now sitting at nearly 39 million square feet.

\$7.5B

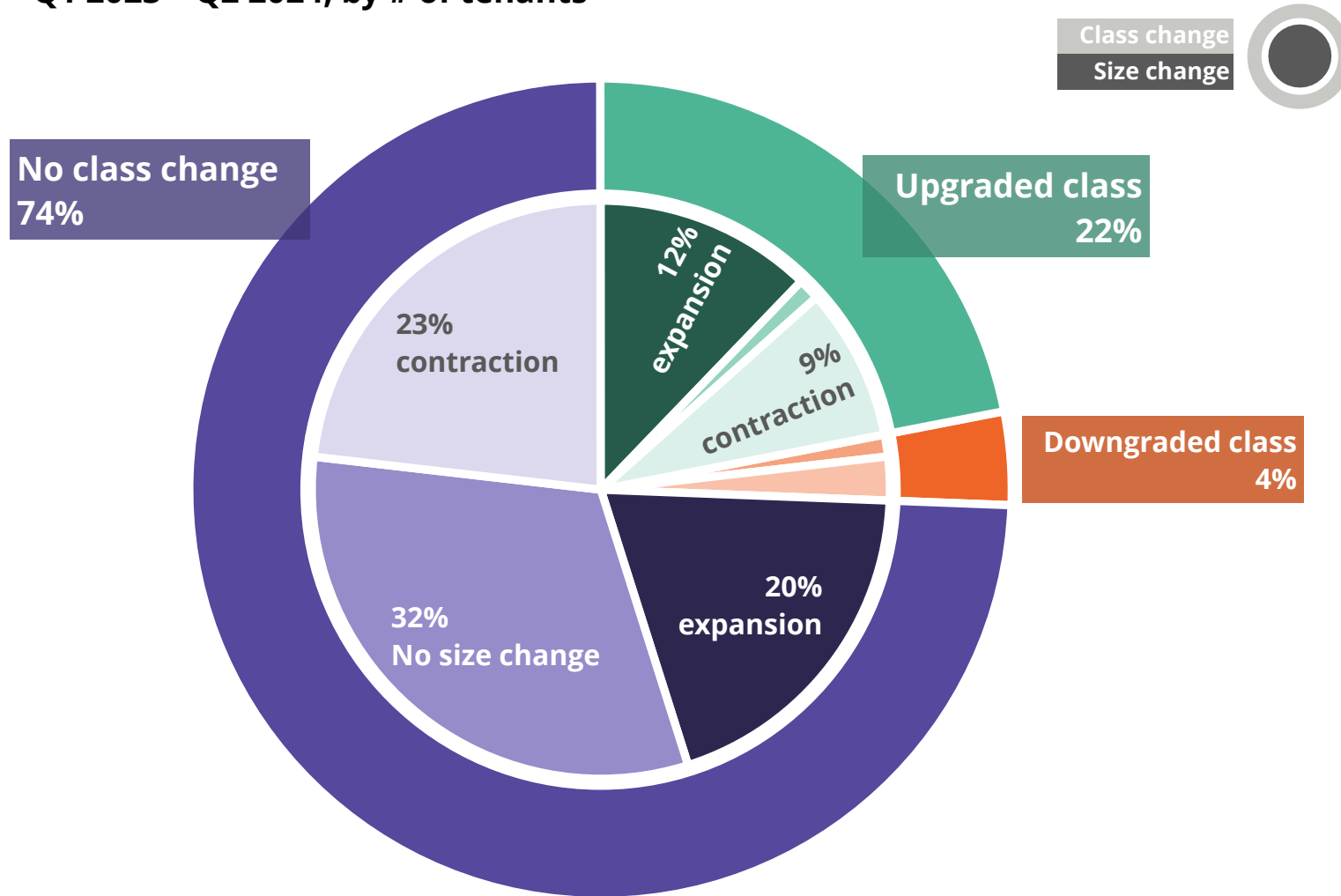
Commercial office loans maturing in the next two years

Office-backed loans have been a notable topic in commercial real estate, with lender seizures and foreclosure proceedings of office buildings in Chicago making headlines. By number of loans, 43% of office-backed CMBS loans in the Chicago MSA that matured from 2020-2023 defaulted, were seized, or were foreclosed. In terms of dollar value, 26% of the total loan value met this fate.

However, the past four years have accounted for almost 70% of the total commercial loan value maturing between 2020-2026. Beyond 2026, there is a much smaller pool of loan maturities, with most being underwritten with more temperate market expectations.

Tenant property class and size changes

Q1 2023 - Q2 2024, by # of tenants

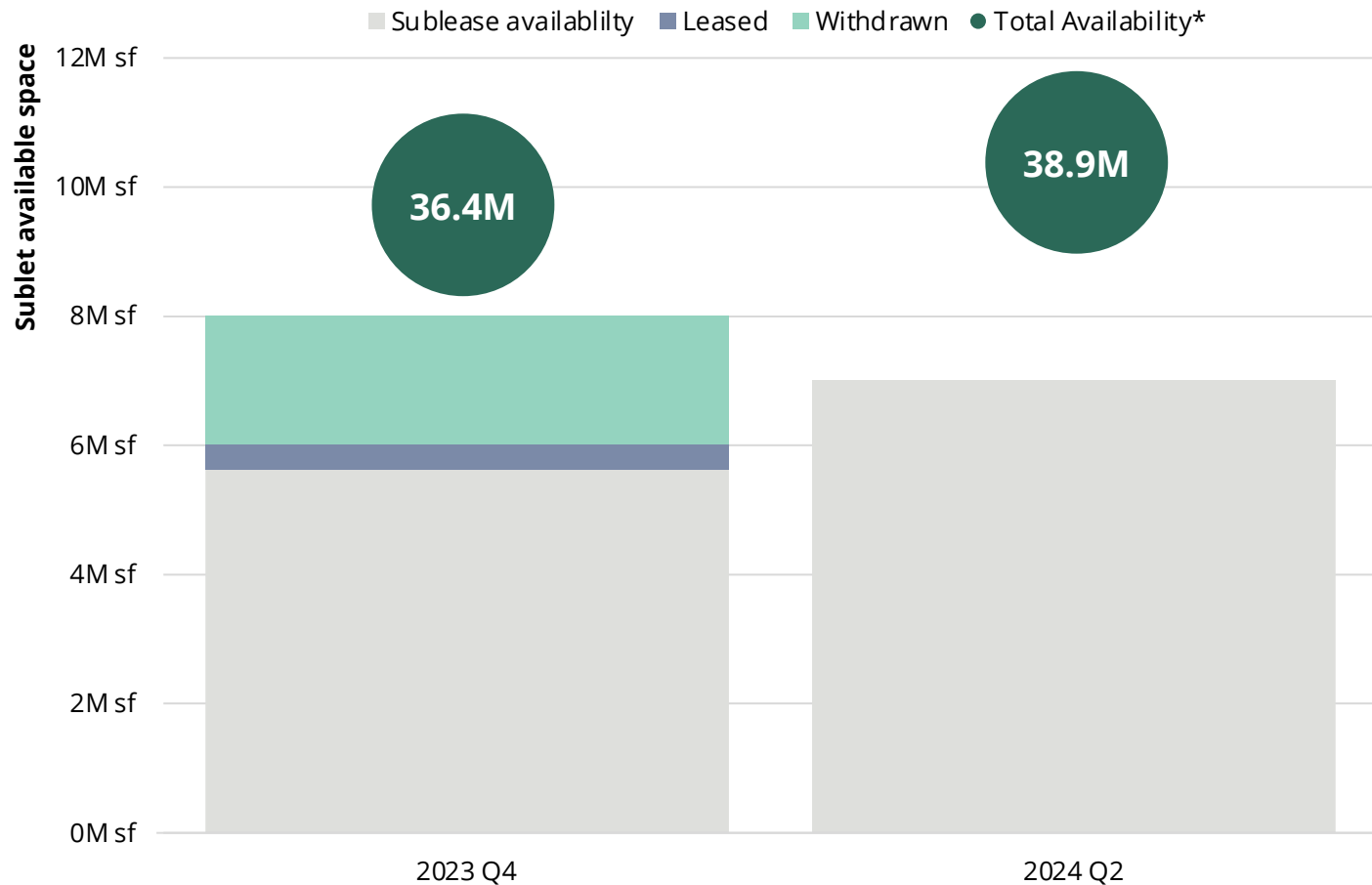


Over the last six quarters, space quality has remained a high priority for office tenants.

While maintaining property class was the most common decision among tenants, over 20% decided to upgrade to a higher classed building. Of that 20%, over half also decided to expand their footprint.

Overall, nearly two thirds of tenants either maintained or expanded their footprint.

Sublease space decreasing



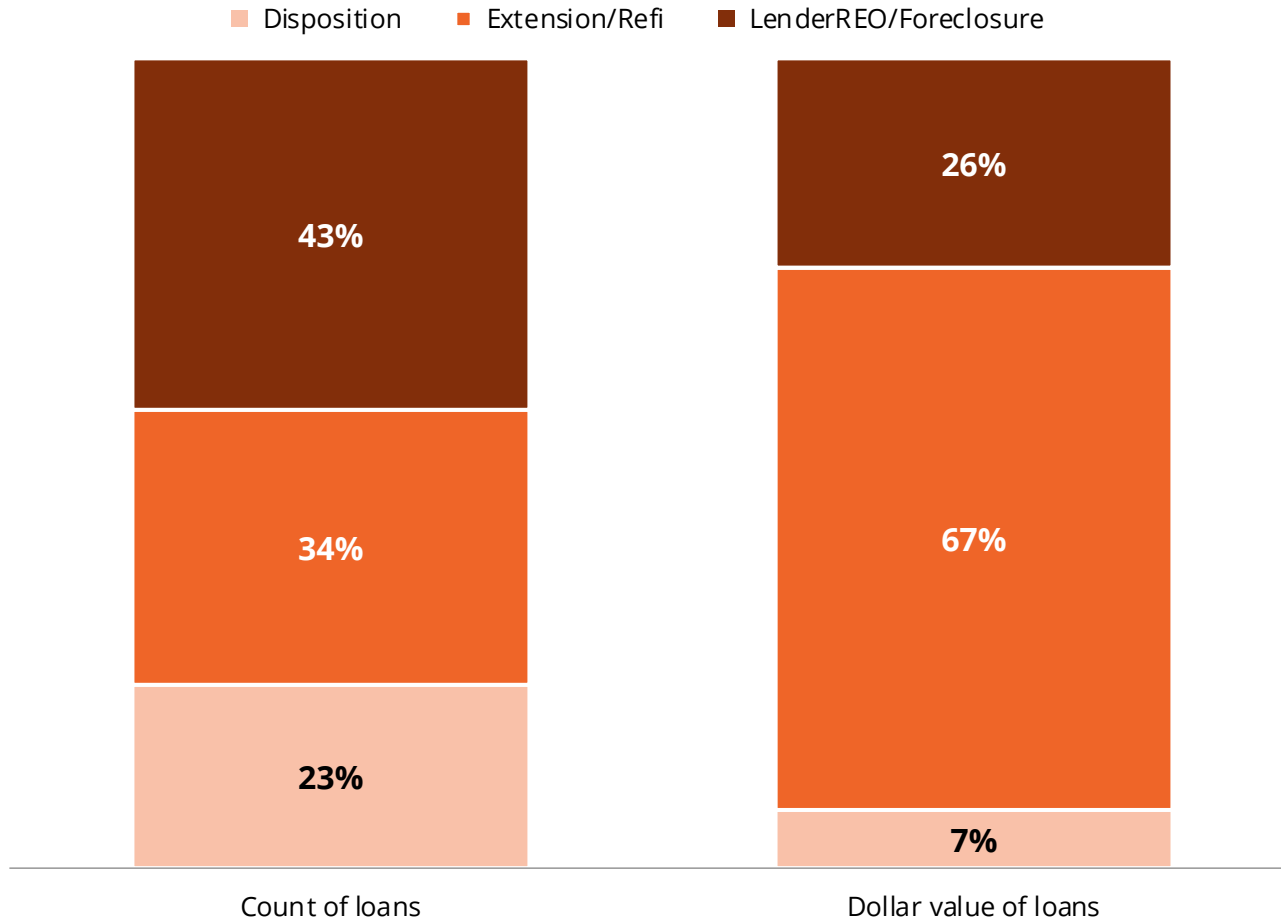
Available sublease space has decreased by nearly 1 million square feet since the end of 2023. However, this reduction is primarily due to the expiration or termination of underlying leases, shifting the space from sublet to vacant, rather than an increase in leasing activity.

Only about 16% of the sublease space removed from the market resulted from signed leases. Consequently, total availability continues to rise.

*Total Availability includes both vacant and available space, either direct or sublet.
Source: AVANT by Avison Young, CoStar

Past CMBS office loan resolutions

Value of loans with maturities from 2020-2023, >\$15M value

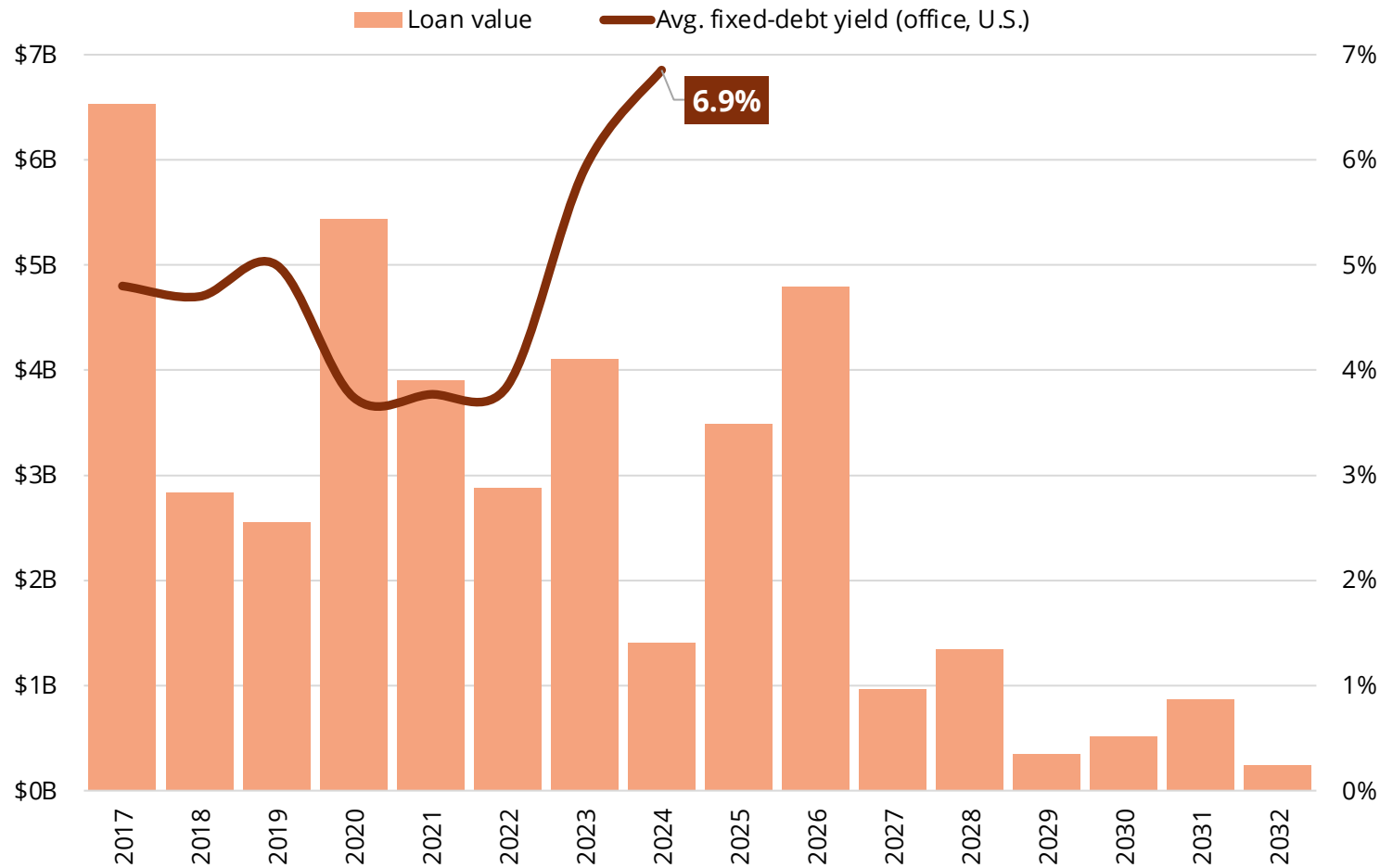


Since 2020, maturing CMBS loans tied to office properties across the Chicago MSA have shown varied resolutions.

Nearly half of loans with maturities over the past four years were transferred to or foreclosed upon by special servicers or original lenders.

However, in terms of dollar value, most of the market has been able to renegotiate terms, typically with three to four-year term extensions. This total is concentrated with notably large loans tied to major buildings like the Willis Tower, Aon Center and 1 S Wacker.

Commercial office loan maturities



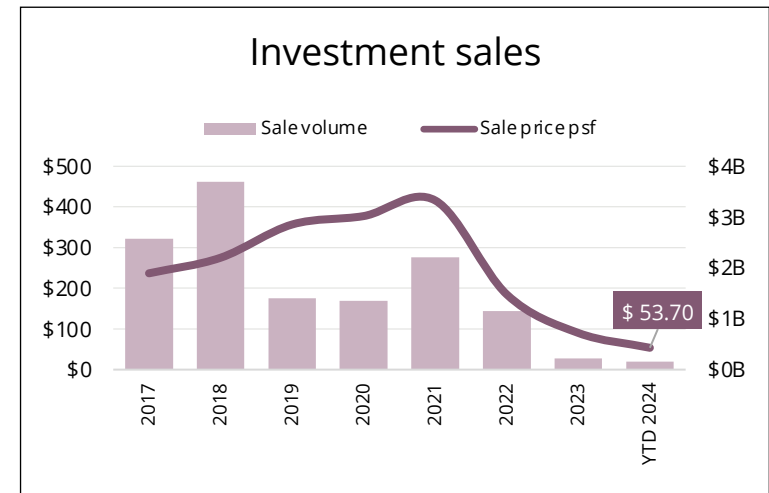
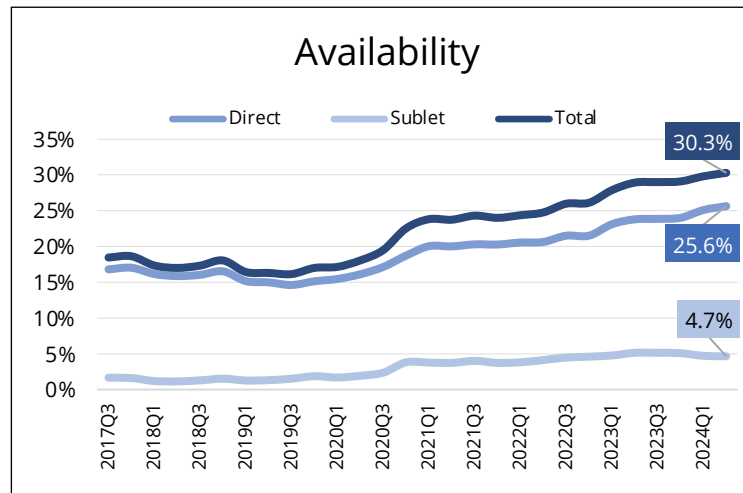
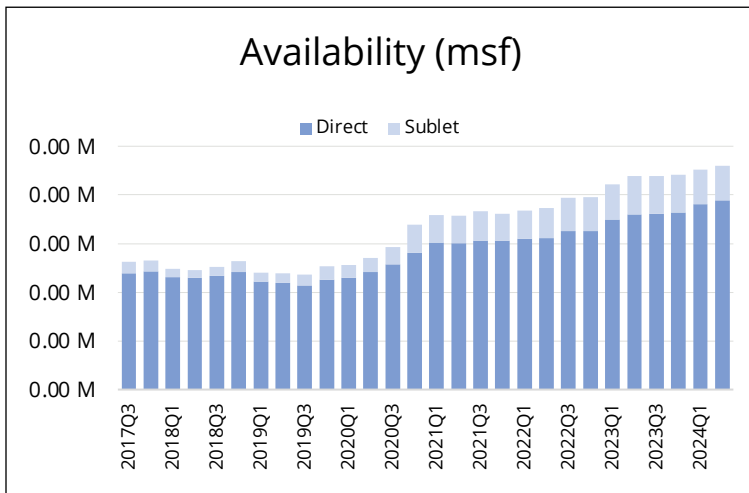
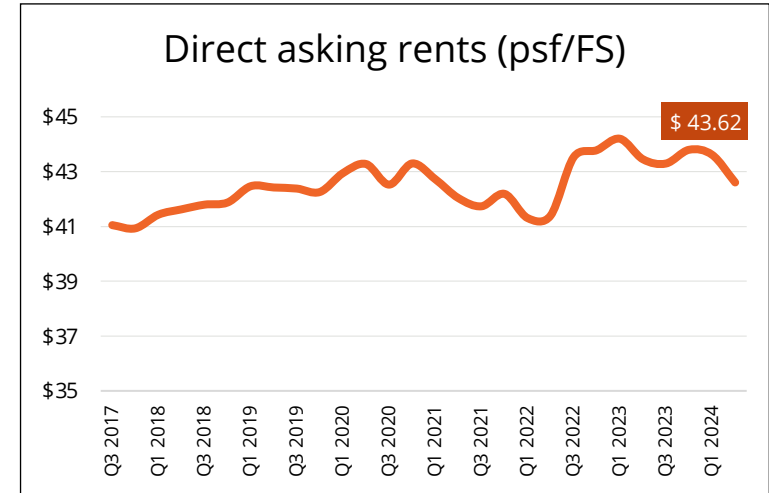
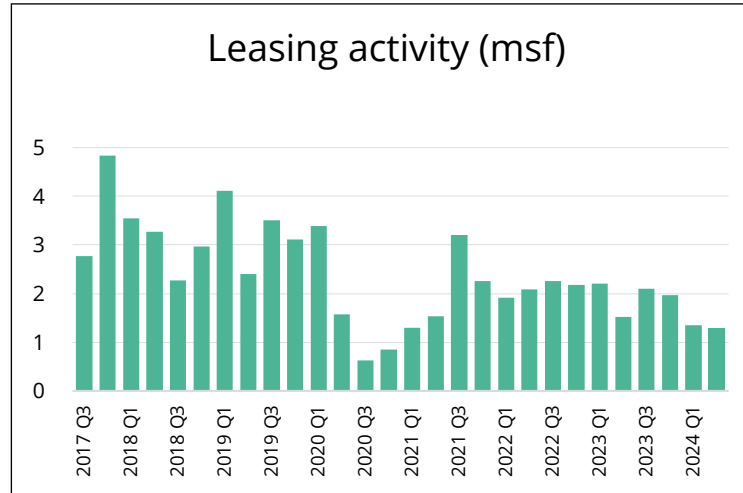
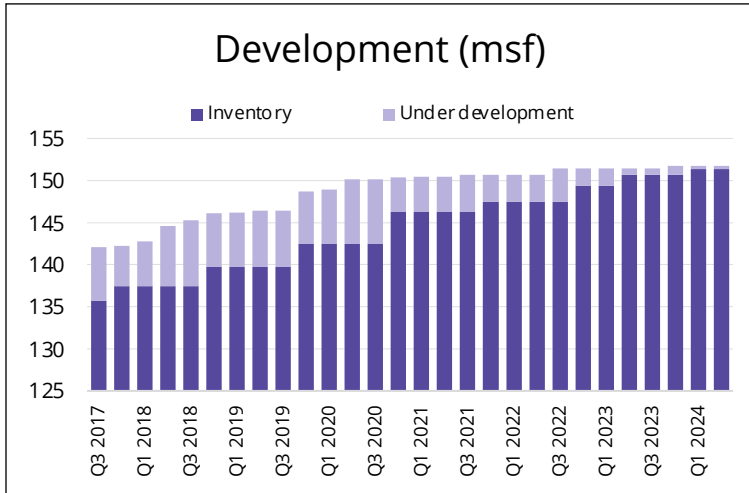
In 2025 and 2026, over \$7.5 billion in commercial loans linked to Chicago-based office buildings are set to mature.

As the average cost of debt for office across the U.S. has nearly doubled since 2020, new commercial loan issuance for office product has nearly come to halt. There is more debt maturing in 2026 than the next six years combined.

Appendix



Chicago CBD office market indicators



Chicago CBD office market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Lessen	203 N LaSalle St	CBD Central Loop	Jun 2024	77,000	New	Direct
Workbox	210-220 N Green St	CBD Fulton Market	May 2024	64,730	New	Direct
SEIU	200 E Randolph St	CBD East Loop	Apr 2024	31,690	New	Direct

Recent sales activity

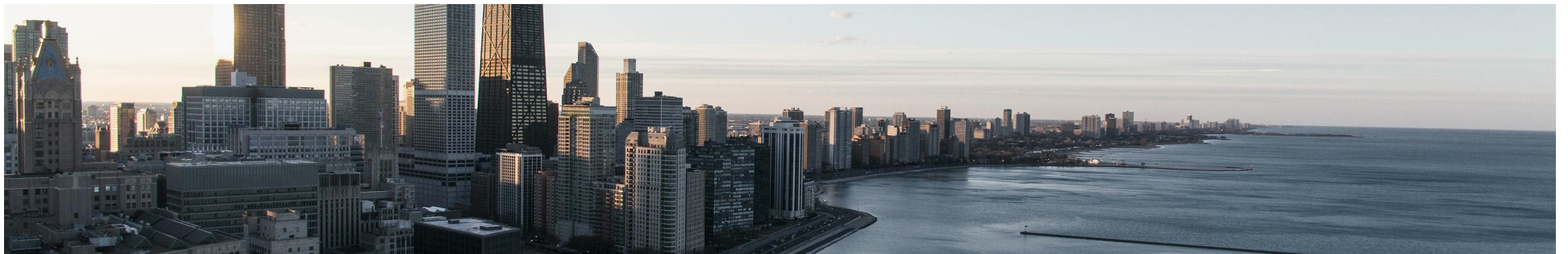
Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Bixby Bridge Capital	20 W Kinzie (office portion)	Apr 2024	258,658	\$20,000,000	\$77.32	Alter Group
Brog Properties	216 W Jackson Blvd	Apr 2024	185,479	\$2,580,000	\$13.88	Starwood Capital
Honore Properties	118 S Clinton St	May 2024	72,018	\$4,800,000	\$66.65	ASB Capital Management

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Thompson Center (renovation)	CBD Central Loop	Mar 2026	945,120	N/A	Prime Group
225 W Randolph St (renovation)	CBD West Loop	Mar 2026	900,000	26%	Onni Group
919 West Fulton Street	CBD Fulton Market	Apr 2025	369,008	31%	Fulton Street Companies

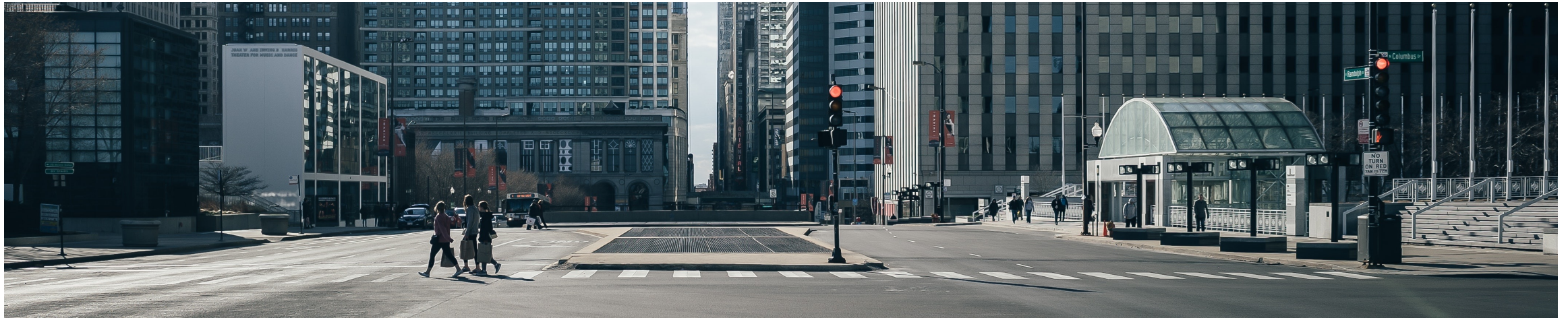
Chicago CBD office market stats

	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
West Loop	55,879,717			21.7%	5.3%	27.1%	-426,239	-0.8%	\$ 43.79
Central Loop	34,060,892			30.7%	4.4%	35.1%	-454,373	-1.3%	\$ 41.97
East Loop	26,873,490			28.0%	3.7%	31.7%	-859,389	-3.2%	\$ 41.80
River North	20,840,868	217,000		27.3%	4.0%	31.3%	-36,816	-0.2%	\$ 40.33
Fulton Market	7,208,733	493,680	369,008	17.7%	6.0%	23.7%	263,402	3.7%	\$ 52.48
North Michigan Ave	6,504,019			26.9%	4.5%	31.4%	-90,203	-1.4%	\$ 35.87
Market total	151,367,719	710,680	369,008	25.6%	4.7%	30.3%	-1,603,618	-1.1%	\$ 42.61

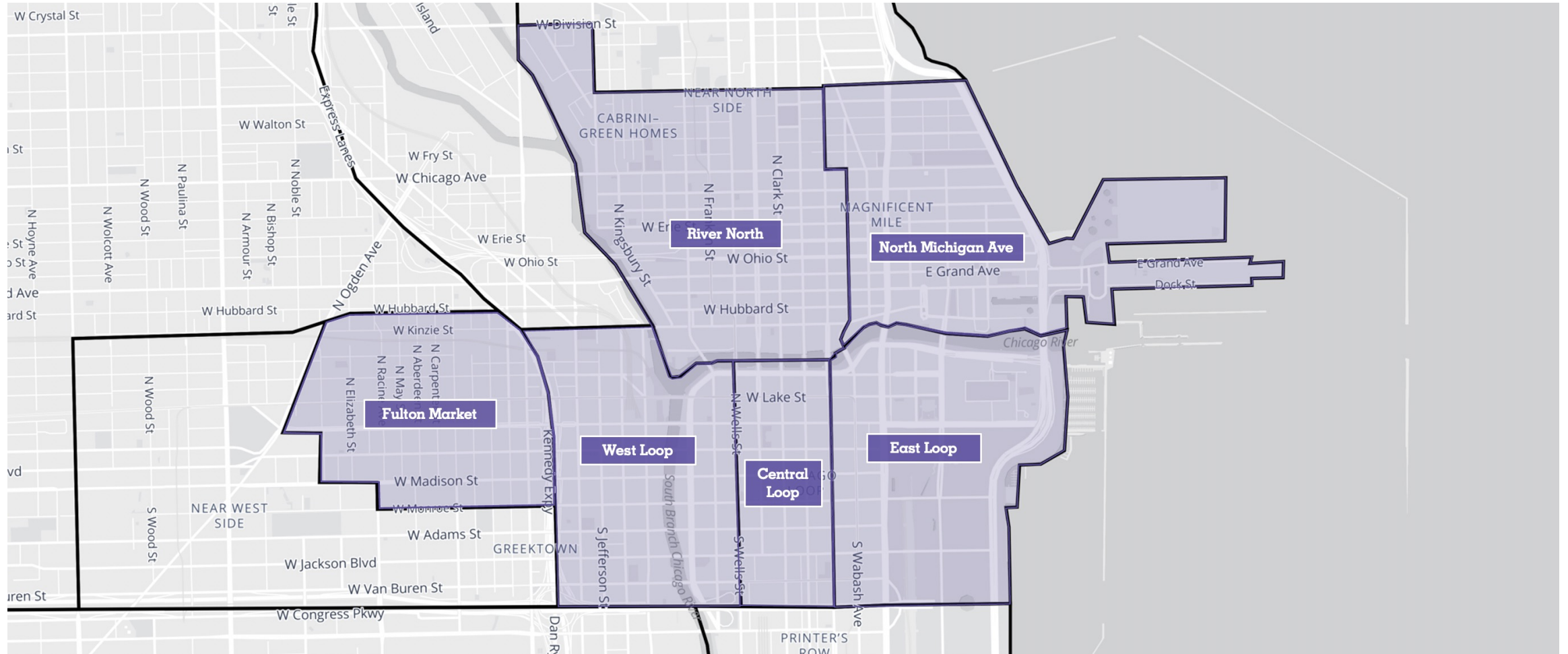


Chicago CBD office market stats by class

	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	12,087,503	493,680	369,008	15.2%	3.8%	19%	597,989	4.9%	\$ 67.31
Class A	84,936,132	217,000		23.7%	6%	29.7%	-533,336	-0.6%	\$ 50.43
Class B	43,888,678			30.5%	3.4%	33.9%	-697,829	-1.6%	\$ 38.21
Class C	10,455,406			25.7%	.8%	26.5%	-103,642	-1.0%	\$ 28.59
Market total	151,367,719	710,680	369,008	25.6%	4.7%	30.3%	-1,603,618	-1.1%	\$ 42.61



Chicago CBD submarket map



Office insights 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
information visit **avisonyoung.com**

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