



Chicago CBD office market report

Q3 2024

**AVISON
YOUNG**

Chicago CBD office market trends

4.3M sf

Total leasing activity through Q1-Q3 2024

The first three quarters of 2024 have seen a smaller amount of leasing activity than the prior two years, down 25% from the same time last year. But with interest rates finally lowering and considering Q4 is historically the most active time of the year, there is optimism for increased recovery to close out 2024.

10.5%

Availability in post 2010 construction office buildings

The continued desire for high quality office space throughout the market has created a clear dichotomy between newly built, well-amenitized buildings and dated office product.

From Q3 2020 to now, availability in office product built before 2010 has risen from 16.2% to 27.6%. Over the same period, buildings built after 2009 have seen availability fall from 25% to 10.5%.

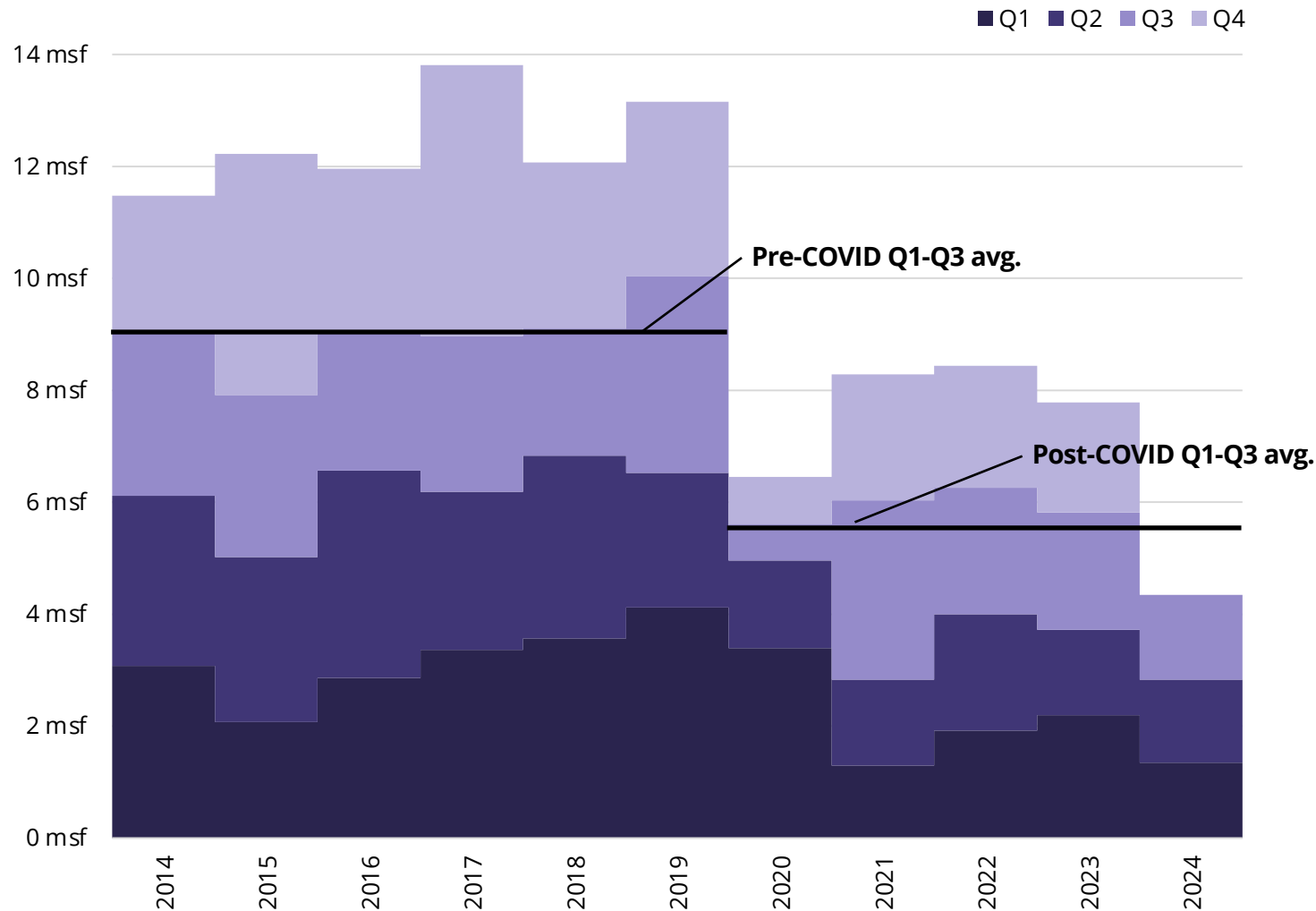
25%

Share of YTD leasing activity in River North and Fulton Market

The majority of office leasing is still conducted in the largest submarket of the CBD, the West Loop, accounting for 37% of YTD leasing activity. However, certain submarkets have seen disproportional shares of market leasing activity based on their inventory size.

The River North and Fulton Market submarkets, which collectively make up only 18% of the total CBD inventory, have accounted for 25% of this year's leasing activity. Alternatively, the East Loop has accounted for only 9% of leasing activity despite representing 18% of total CBD inventory.

Leasing activity

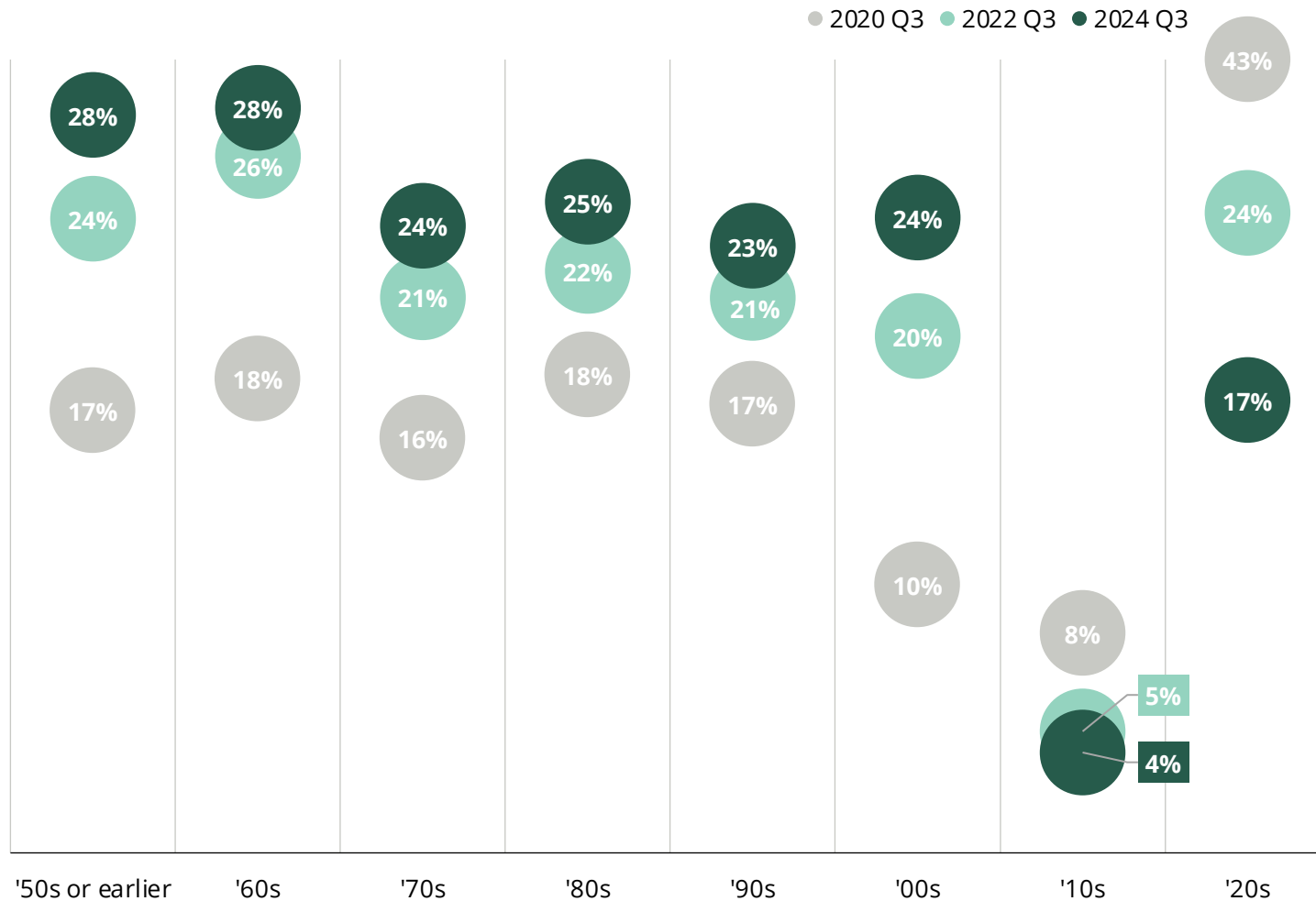


Through the first three quarters of 2024, Chicago CBD leasing activity has fallen from previous years, marking the lowest total in the post-COVID era.

At 4.3 msf, 2024 leasing activity is down 25% from the same time last year and remains significantly below the pre-COVID (2014–2019) average of 9 msf.

Recent interest rate cuts should help bolster activity in Q4 which has also historically been one of the most active quarters of the year.

Direct availability by decade of construction

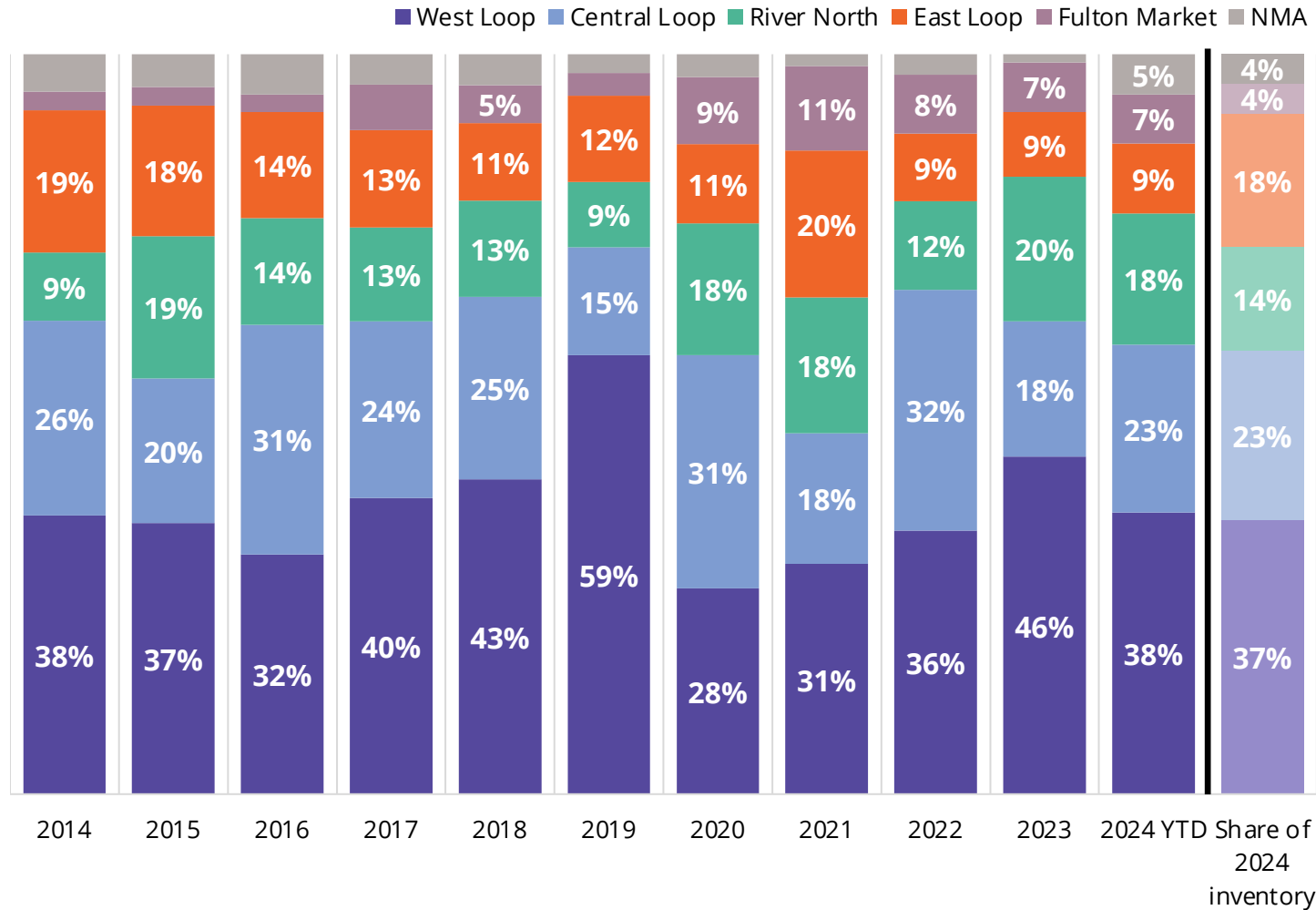


Tenants continue to favor newer, well-amenitized office space while dated properties continue to carry most of the burden of falling occupancy rates.

Over the last two years, buildings built in the past 20 years have dropped in availability while every other decade of construction has seen availability rise.

While decreasing significantly, relatively higher rates in '20s construction due to the inclusion of new buildings in initial "lease-up phases.

Submarket share of leasing activity



In addition to quality, location continues to play a key factor in tenant leasing decisions.

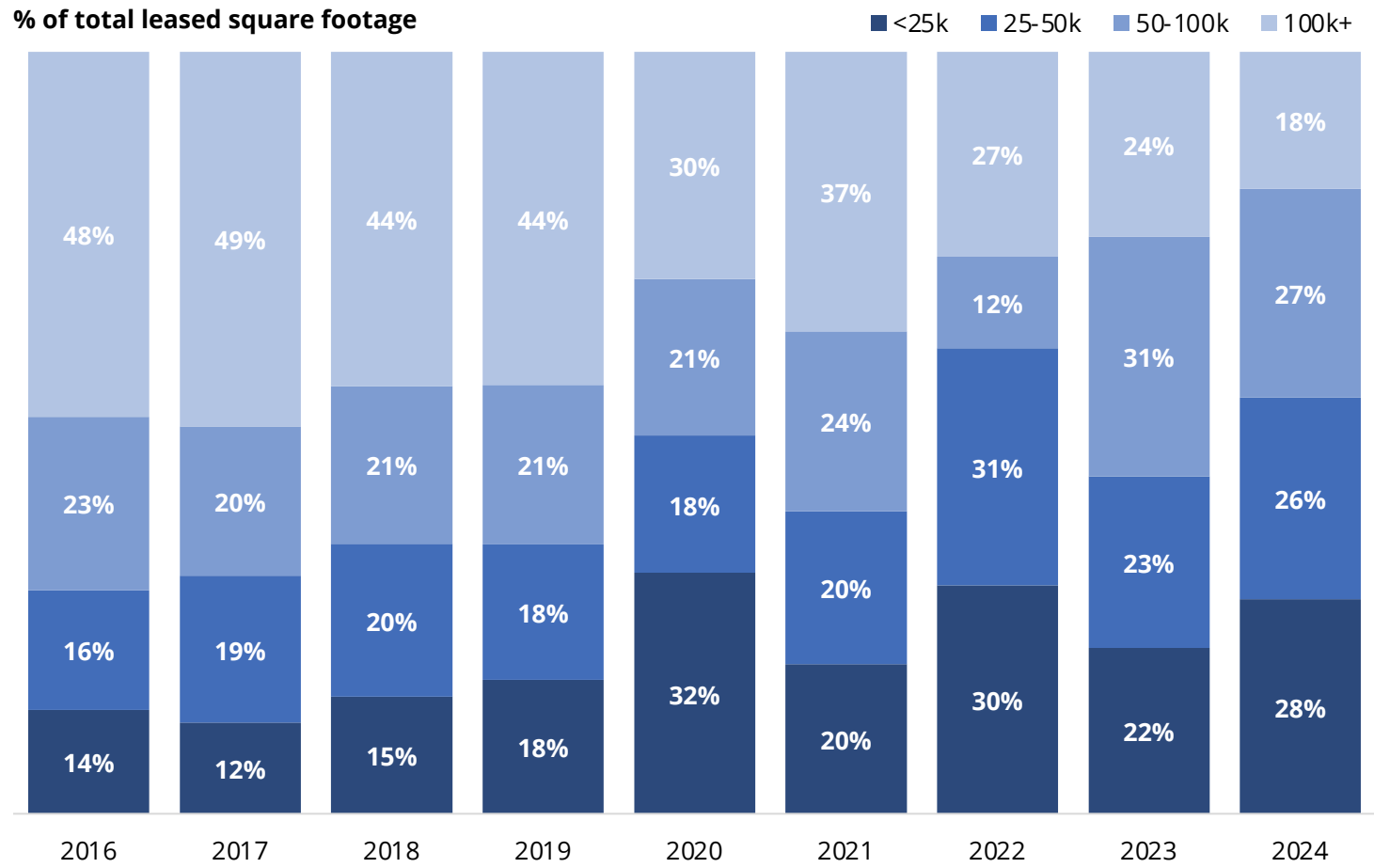
Roughly 25% of leasing activity this year has occurred in River North and Fulton Market, despite those submarkets only making up 18% of total CBD inventory.

Conversely, East Loop has only accounted for 9% of leasing over the past three years, despite representing 18% of total CBD inventory.

Market drivers



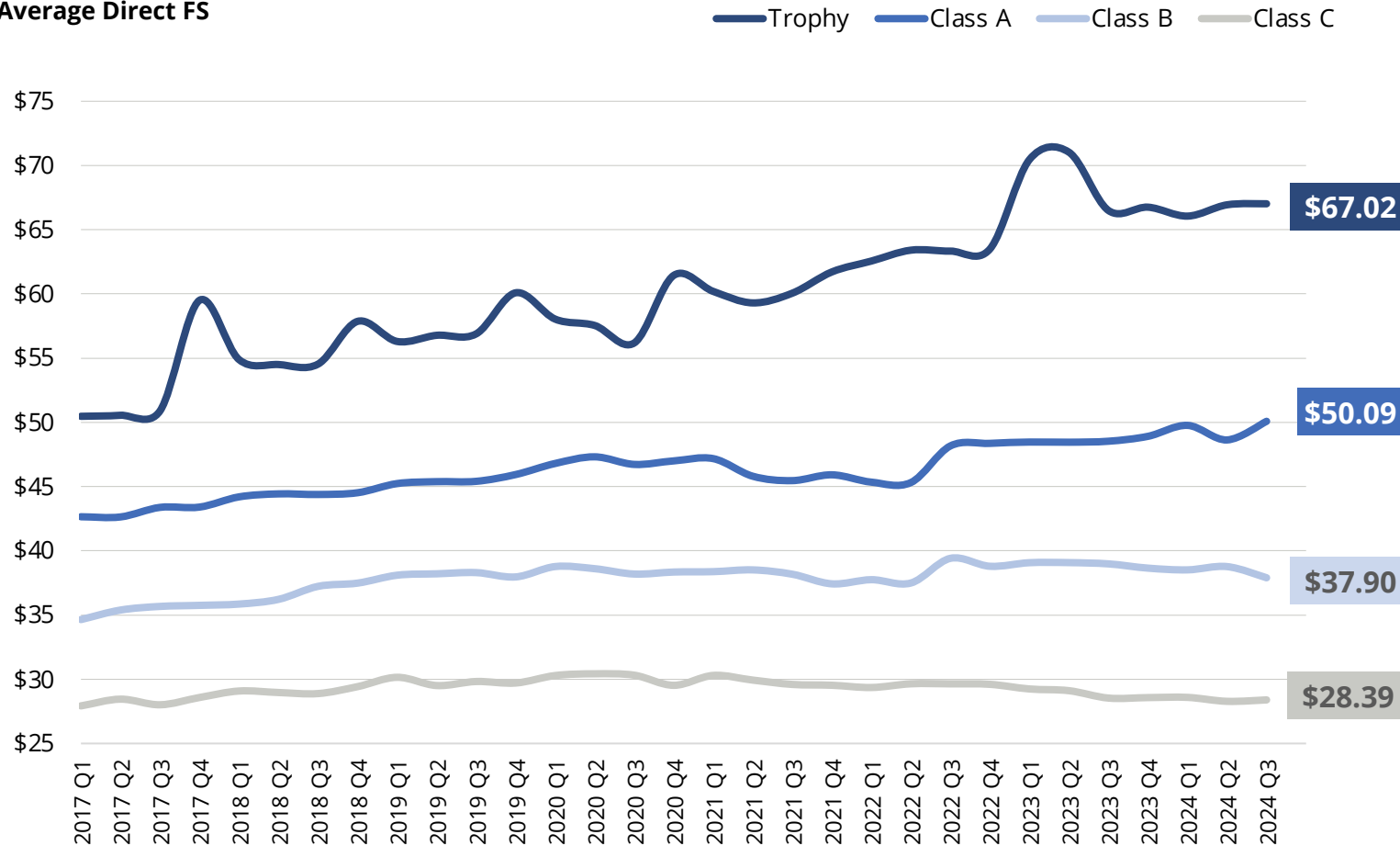
Transaction activity by lease size



Large-sized leases continue to represent a smaller portion of total leasing activity while the portion of mid-size leases has grown.

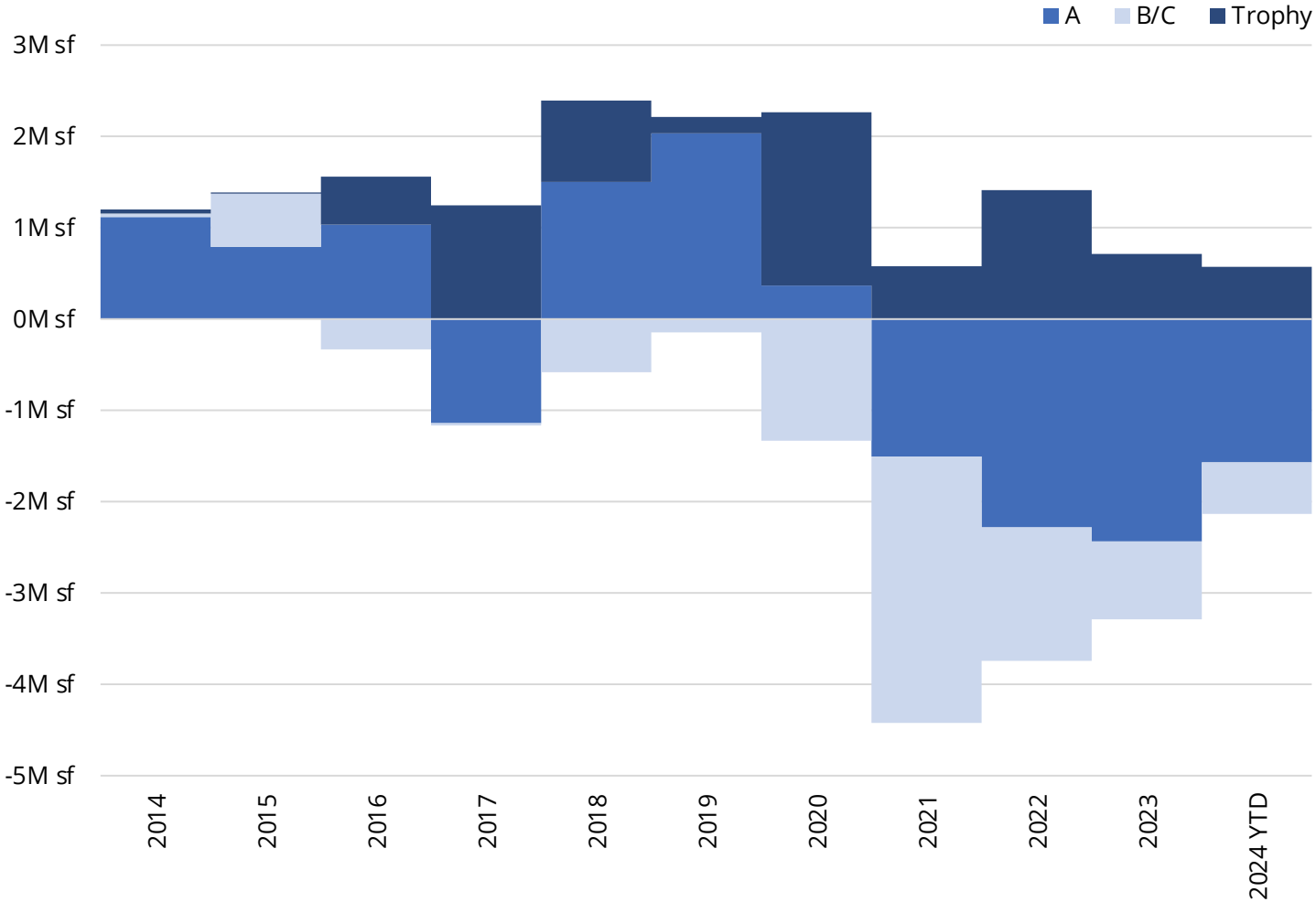
Direct asking rents by asset class

Average Direct FS



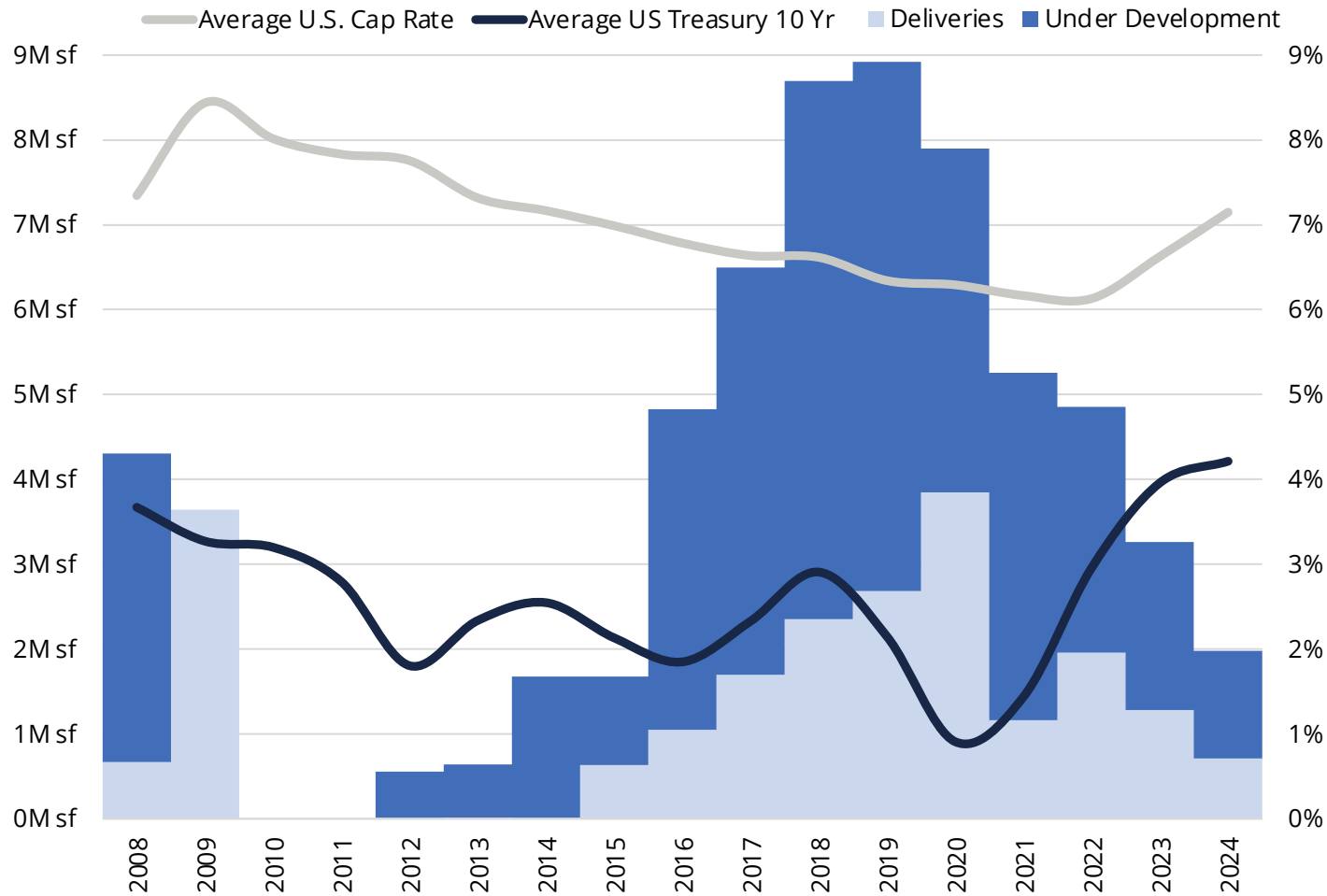
Asking rates in Trophy and Class A buildings continue to rise with demand increases and additional supply constraints. Rates in Class B and C buildings have started to taper off in attempts to spur leasing activity as some owners are not able to keep up with high tenant concession expectations.

Net absorption by asset class



A constrained construction pipeline and increased desire for high-quality space has led to stark contrast between absorption of trophy product and the rest of the market.

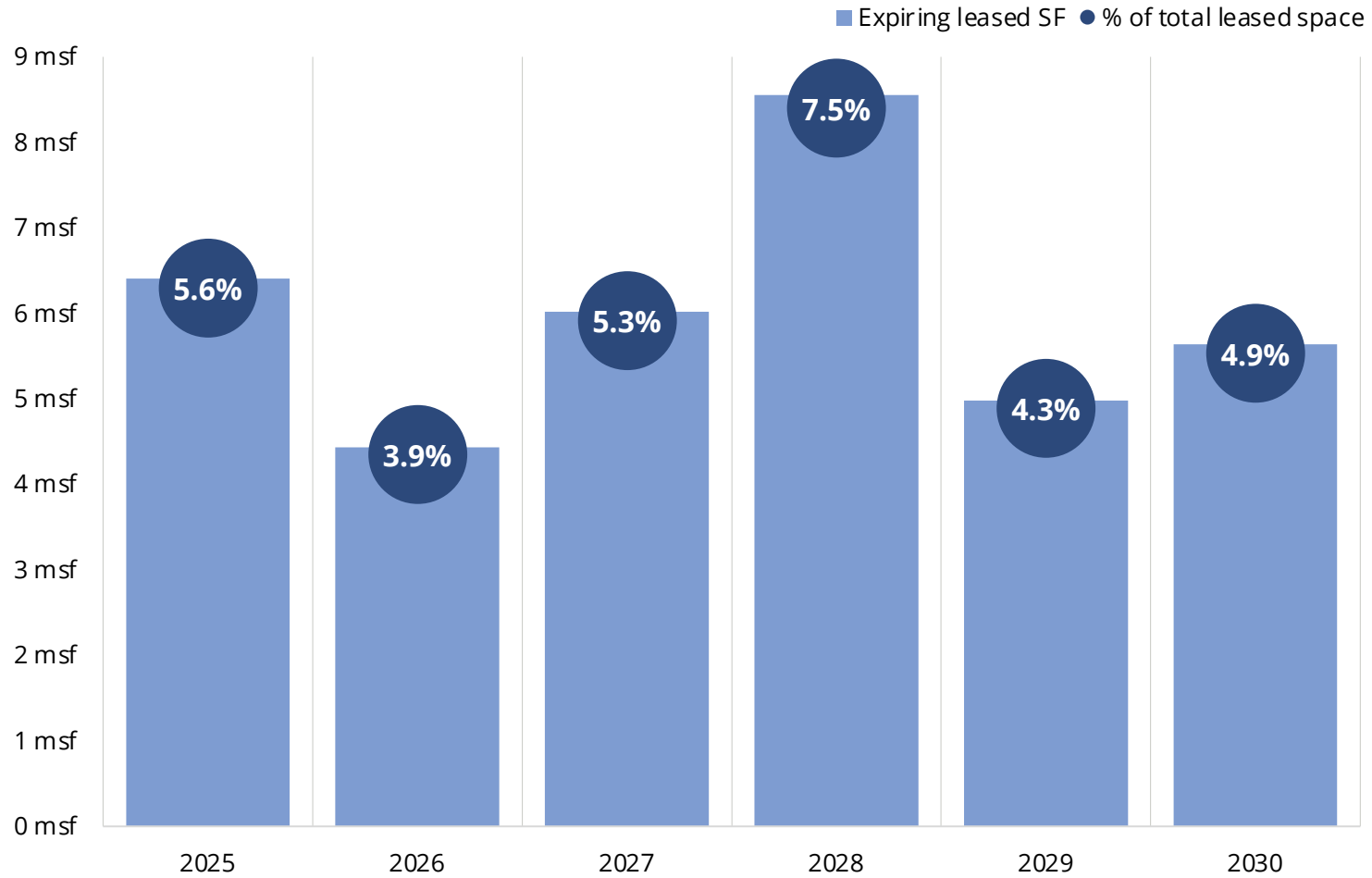
Chicago office development pipeline



The once booming office construction pipeline has become significantly more dormant as investor sentiment and elevated interest rates deter development starts.

However, there are a few projects underway. 360 North Green St completed this year, while new construction at 919 West Fulton St and the full renovation of 225 West Randolph are set to be completed in 2025.

Upcoming lease expirations (sf)

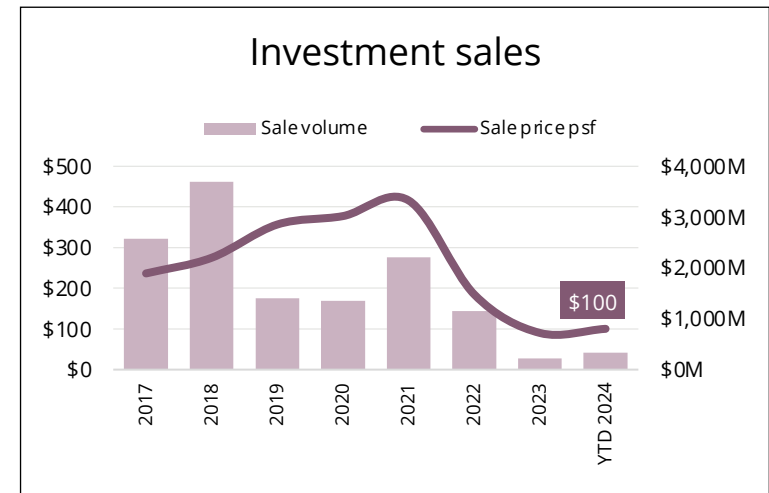
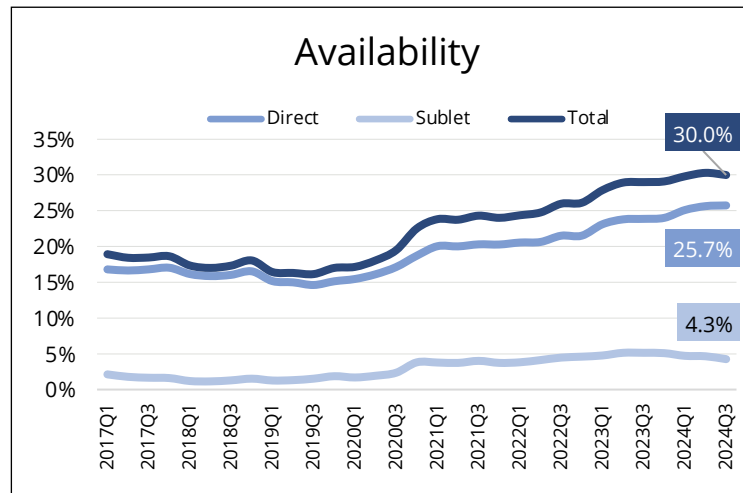
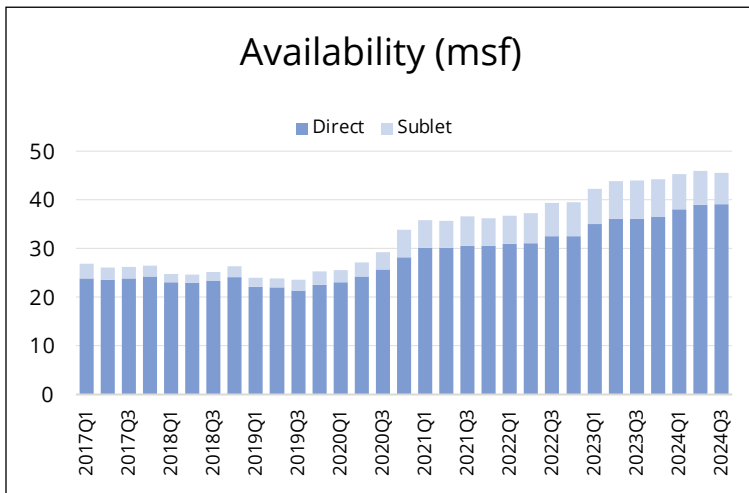
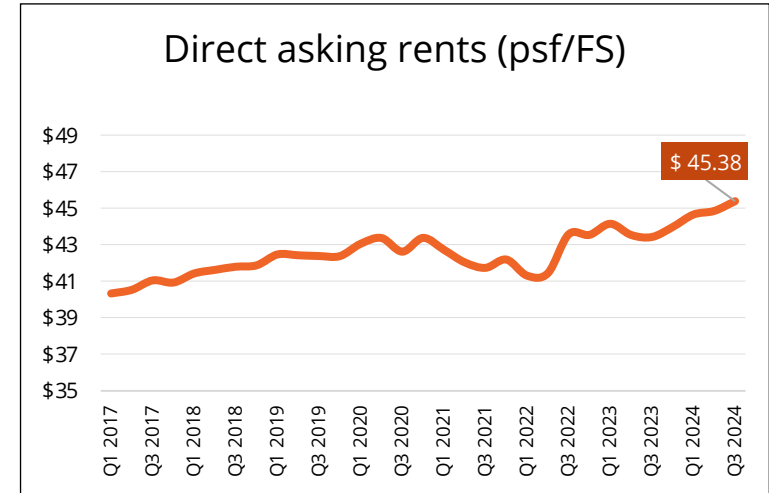
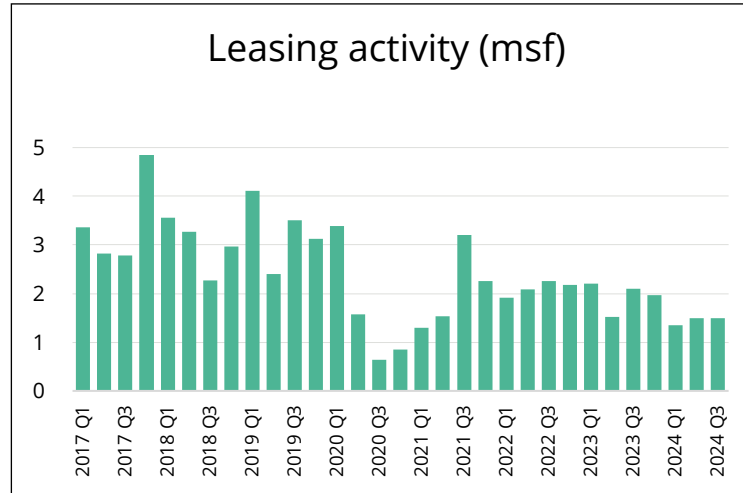
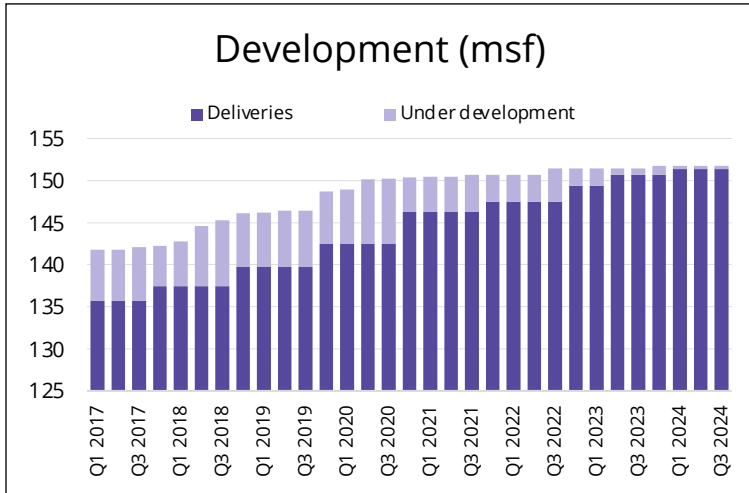


Roughly one third of all leased office space in the Chicago CBD will expire by the end of 2030 with a significant portion expiring in 2028.

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
Medline Industries	222 Merchandise Mart Plz	CBD River North	Sep 2024	161,000	Renewal	Direct
Capital One	77 W Wacker Dr	CBD Central Loop	Sep 2024	150,000	Renewal	Direct
Barnes & Thornburg	1 N Wacker Dr	CBD West Loop	August 2024	96,000	Renewal	Direct

Recent sales activity (YTD)

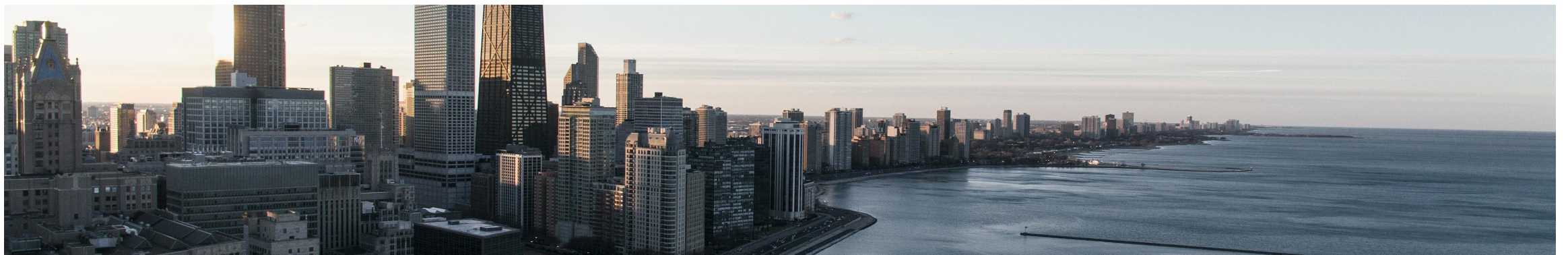
Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Beacon Capital Partners	333 W Wacker Dr	Jul 2024	867,821	\$ 125,000,000	\$ 144.04	AFL-CIO Building Inv. Trust
R2 Companies	150 N Michigan Ave	Jan 2024	654,508	\$ 60,000,000	\$ 91.67	CBRE Global Investors
Bixby Bridge Capital	20 W Kinzie (office portion)	Apr 2024	258,658	\$20,000,000	\$77.32	Alter Group

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
100 W Randolph St (Thompson Center)	CBD Central Loop	Mar 2026	945,120	N/A	Prime Group
225 W Randolph St	CBD West Loop	Jan 2025	900,000	47%	Angelo Gordon
919 West Fulton Street	CBD Fulton Market	Mar 2025	369,008	31%	Fulton Street Companies
310 N Peoria St	CBD Fulton Market	Sep 2025	26,412	0%	Stan Properties

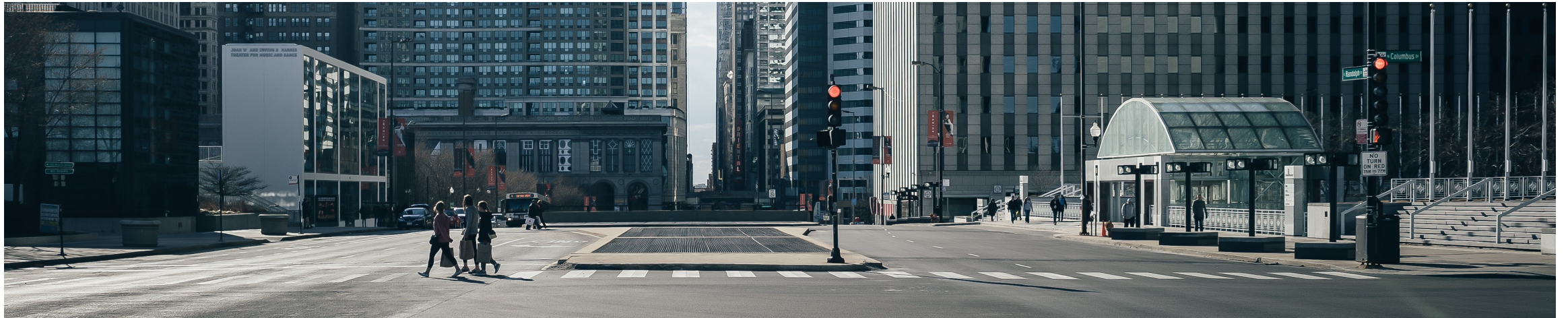
Chicago CBD office market stats

	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	55,880,717	-	900,000	21.7%	5.3%	27.0%	-463,141	-0.8%	\$ 48.36
Central Loop	34,060,892	-	-	31.2%	3.2%	34.3%	-209,378	-0.6%	\$ 41.14
East Loop	26,873,490	-	-	28.0%	3.3%	31.3%	-991,080	-3.7%	\$ 41.94
River North	20,810,868	217,000	-	27.1%	3.9%	31.0%	-286,078	-1.4%	\$ 48.45
Fulton Market	7,208,733	493,680	369,008	18.2%	6.0%	24.2%	200,900	2.8%	\$ 59.97
North Michigan Ave	6,504,019	-	-	27.5%	3.9%	31.4%	-222,934	-3.4%	\$ 34.97
Market total	151,338,719	710,680	1,269,008	25.7%	4.3%	30.0%	-1,971,711	-1.3%	\$ 45.38

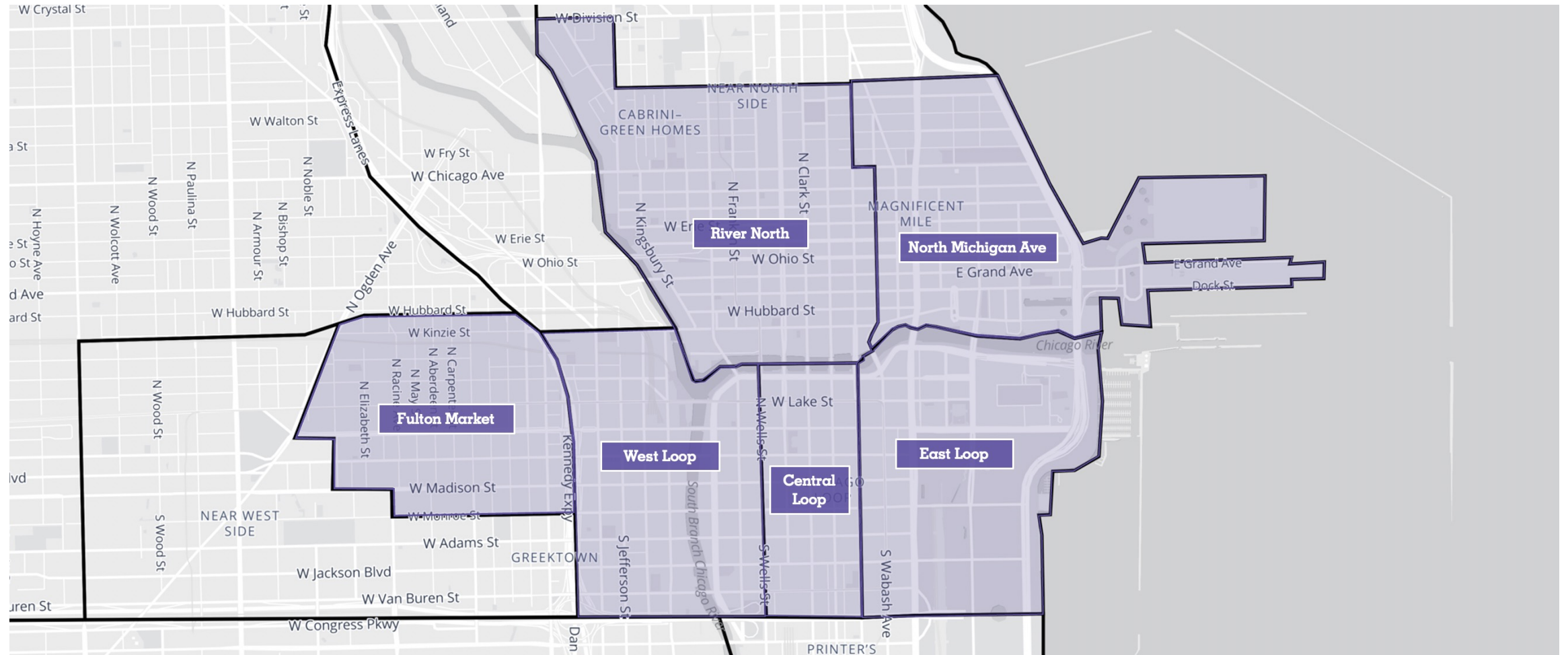


Chicago CBD office market stats by class

	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	15.7%	4.1%	19.7%	615,244	5.1%	\$ 67.02
Class A	87,060,240	217,000	900,000	25.0%	5.3%	30.3%	-2,047,022	-2.4%	\$ 50.09
Class B	41,688,170	-	-	30.6%	3.1%	33.7%	-376,424	-0.9%	\$ 37.90
Class C	10,502,806	-	-	24.4%	0.7%	25.1%	-163,509	-1.6%	\$ 28.39
Market total	151,338,719	710,680	1,269,008	25.7%	4.3%	30.0%	-1,971,711	-1.3%	\$ 45.38



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

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