



TRANSWESTERN

CHICAGO CBD OFFICE MARKET

Q4 2022



TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.4	4.3	↑	5.7	↑
YTD NET ABSORPTION (Thousands SF)	-1,183	-3,643	↑	821.9	↑
DIRECT VACANCY RATE	16.9%	15.1%	↑	13.0%	↑
DIRECT VACANT SF (MSF)	33.7	29.5	↑	24.3	↑
AVAILABLE SUBLET SF (MSF)	6.8	5.9	↑	4.6	↔
UNDER CONSTRUCTION (MSF)	2.0	3.6	↓	5.0	↓
MARKET RENT, FULL SERVICE (PSF)	\$40.11	\$39.93	↑	\$39.28	↔

Source: Transwestern , Bureau of Labor Statistics, CoStar, Real Capital Analytics

Chicago’s Central Business District (CBD) office market fundamentals continued to weaken throughout 2022. Net absorption totaled negative 545,159 SF during the fourth quarter of 2022, bringing the total net absorption for the year down to negative 1,182,826 SF. Vacancy rates continue to climb to historic highs. Despite these negative indicators, market rents continued to hold at \$40.11.

Chicago’s office market outlook remains uncertain with signs of trouble ahead. The combination of new inventory, the large blocks of space left behind by relocating tenants, and the office sector’s struggles with remote and hybrid work, have led to significant uncertainty. The rapid rise in interest rates, fears of an economic recession, and the sharp downturn in the tech sector could turn the headwinds into a full-blown storm.

However, there are plenty of hopeful signs, the brightest being Google’s plans to take over the State of Illinois building in the Central Loop. The rapidly developing Fulton Market area continues to defy all economic challenges. Chicago’s resilient, diverse economy and large talent pool will continue to foster growth and attract dynamic companies.

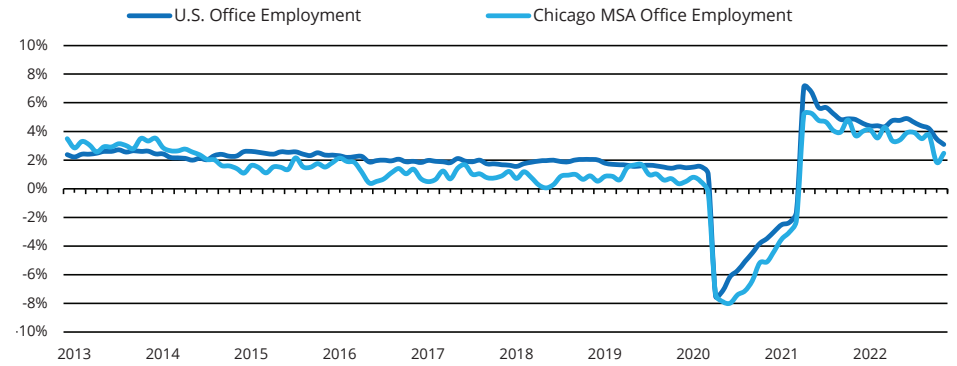


ECONOMY

Higher Interest Rates Create Cooling Effect on Economy

- The U.S. economy has been slowing as the Federal Reserve (Fed) aggressively raises interest rates in an effort to combat inflation. The Fed’s intent is a “soft landing,” in which the economy would slow just enough to bring inflation down without causing a severe downturn. However, many economists are concerned that the Fed may overshoot and cause a recession.
- Despite a plethora of recent headlines about mass layoffs, particularly at large tech companies, the labor market has remained extremely tight with historically low unemployment rates. The economy continues to add jobs at an impressive pace with an estimated 4.5 million jobs created in 2022.
- Locally, the unemployment rate was 4.4% in November, slightly higher than the U.S. rate of 3.6%. Approximately 158,000 jobs were added to the local economy over the past year with Leisure and Hospitality jobs leading the pack.
- The number of office-using jobs in the U.S. increased 3.1% year-over-year in November. Locally, office-using jobs grew 2.5 % during the same period. The Professional and Business Services industry added 28,500 jobs in the Chicago area year-over-year, while the Information industry added only 3,000 jobs and the Financial Activities industry lost 900 jobs.
- The good news is that inflation finally appears to be subsiding. Increases in the Personal Consumption Expenditures Index (PCE), the Fed’s preferred measure of inflation, have been steadily decelerating each month to an annualized rate of 5.0% in December after reaching a high of 7.0% in June of 2022. Core inflation, excluding the more volatile food and energy segments, was down to an annualized rate of 4.4% in December after bumping up to 5.2% in September of 2022.

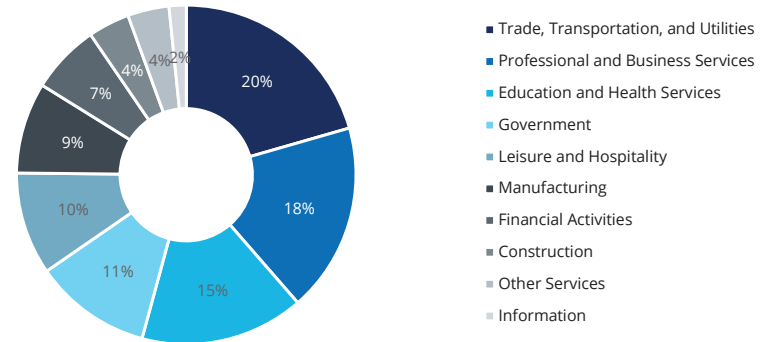
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

SHARE OF EMPLOYEES BY INDUSTRY

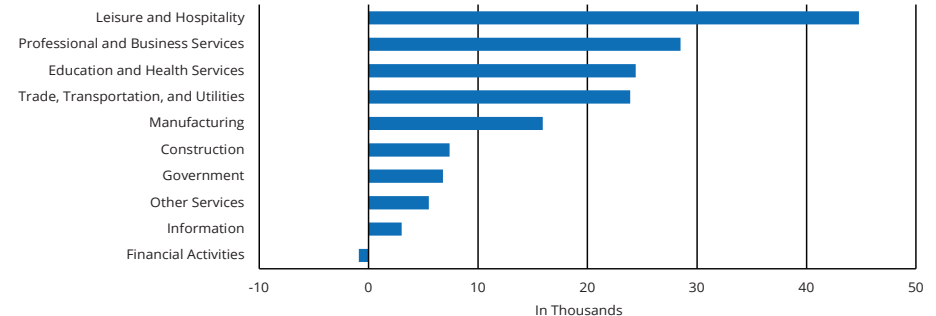
Chicago MSA | November 2022



Source: Bureau of Labor Statistics

JOB GROWTH BY INDUSTRY

Chicago MSA | November 2022



Source: Bureau of Labor Statistics



NET ABSORPTION

Demand Slows

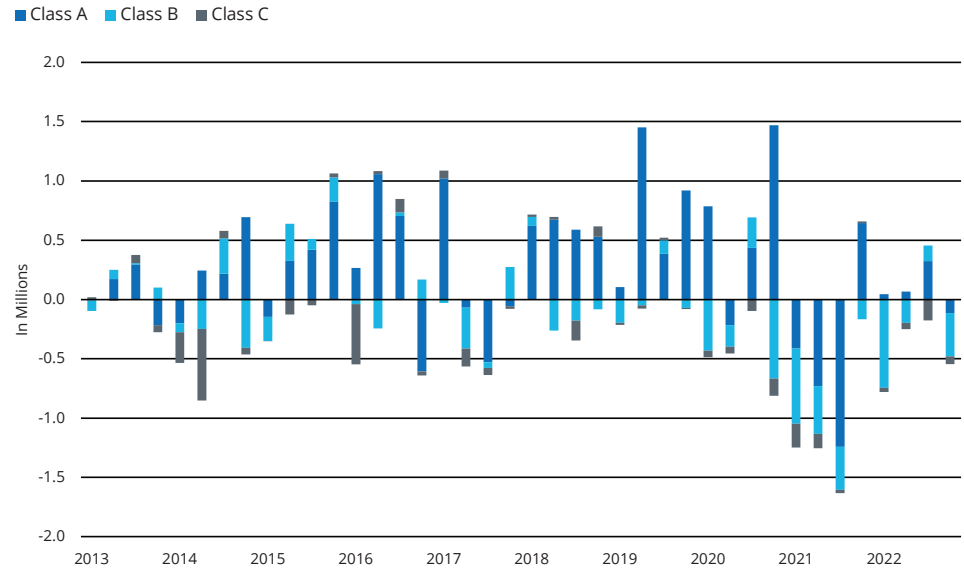
- Net absorption totaled negative 545,159 SF during the fourth quarter of 2022, bringing total absorption for the year down to negative 1,182,826 SF.
- Class A product had negative 114,282 SF of absorption during the fourth quarter, with positive total net absorption of 320,480 SF for the year. The Class A market should continue to find demand as the trend toward smaller, higher quality office spaces pulls tenants to higher class buildings.
- The majority of negative absorption has been in the Class B sector, with 365,509 SF of negative absorption in the fourth quarter and a total of negative 1,172,403 SF for the year.

LEASING ACTIVITY

Deal Volume Remains Sluggish

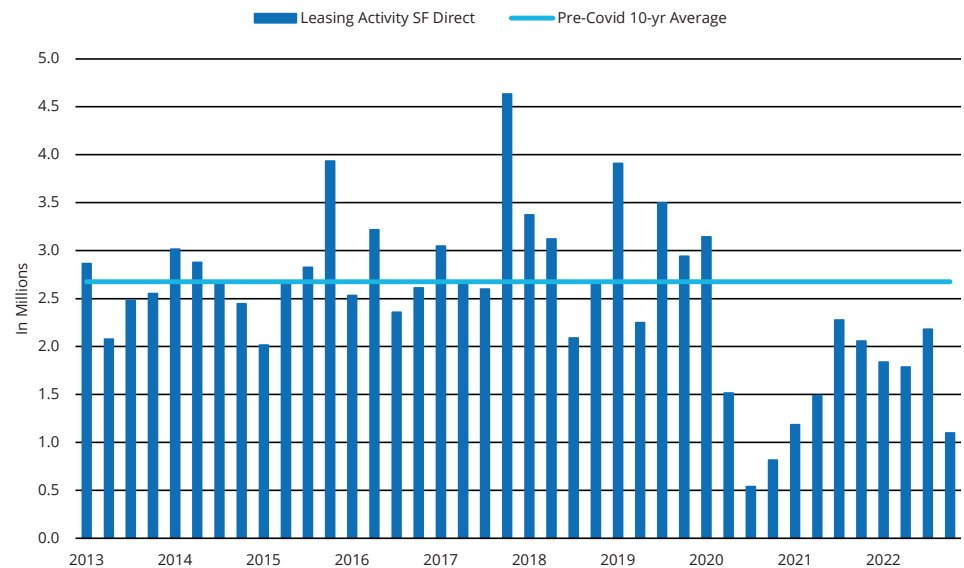
- Direct leasing activity measured 1.1 MSF during the fourth quarter of 2022, less than half the quarterly average of 2.7 million SF seen in the ten years prior to COVID-19.
- There were no deals larger than 50,000 SF signed in the fourth quarter of 2022. The largest deal signed in the fourth quarter was Chicago Trading's expansion of 43,343 SF at 425 S Financial.
- Only three new deals larger than 100,000 SF were signed in 2022, the largest of which was Boston Consulting Group's 250,000 SF lease at 360 N Green in Fulton Market. Boston Consulting Group currently occupies about 150,000 SF in the Central Loop, making the Fulton Market relocation a rare and welcome expansion.
- According to CoStar records, subleasing activity was also slow in 2022 with only 734,922 SF subleased in 2022, approximately half of the activity seen pre-COVID-19 years.

NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

LEASING ACTIVITY



Source: Transwestern, CoStar



DIRECT VACANCY

Vacancy Rate Continues to Rise

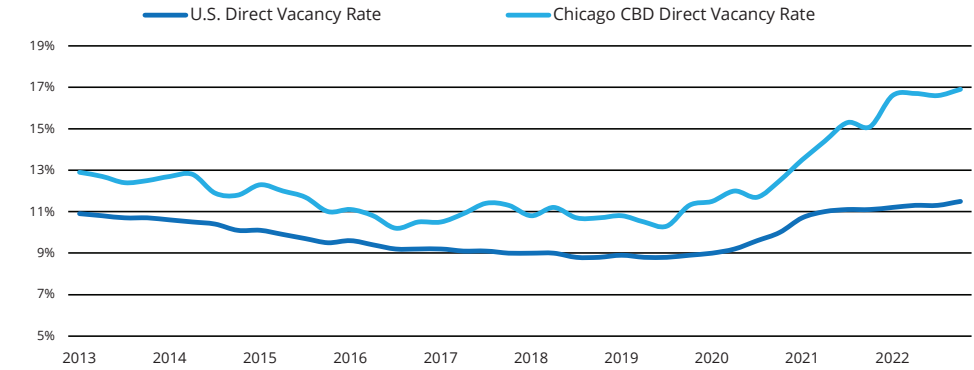
- The direct vacancy rate in Chicago’s CBD increased 30 basis points during the fourth quarter to 16.9%, up 180 basis points year-over-year.
- Chicago’s Class A direct vacancy rate increased 10 basis points during the fourth quarter to 15.0%, while the Class B rate increased 70 basis points to 18.2%.
- Chicago’s vacancy rates continue to climb faster than in other U.S. cities as Chicago’s office market grapples with challenges that existed before COVID-19 took a toll on the office sector as a whole. Large amounts of new inventory came online just when leasing activity came to a standstill, leaving many large blocks of vacancy difficult to fill. Chicago’s vacancy rate can be expected to climb even further as sublease spaces roll to direct availability and tenant contractions come to fruition.

SUBLEASE AVAILABILITY

Historic Abundance of Sublease Space

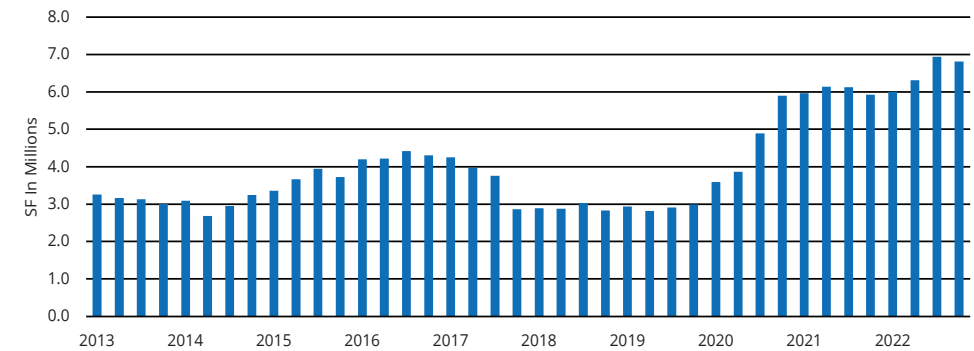
- The amount of available sublease space ticked down slightly in the fourth quarter of 2022 to a still-historic high of 6.8 MSF. The small decrease was primarily due to Facebook’s 103,760 SF at 191 N Wacker shifting from sublease availability to direct availability as its lease nears expiration.
- In the Chicago CBD, there are 23 sublet spaces larger than 50,000 SF available for lease, 11 in Class A buildings and 12 in Class B buildings.
- The largest block of available sublease space is Groupon’s nearly 300,000 SF space at 600 W Chicago, which is also being marketed as direct space available in February of 2024.
- Two large blocks of sublease space were added to the market in the fourth quarter: Sprout Social’s 64,000 SF at 131 S Dearborn and YMCA’s 54,360 SF at 101 N Wacker.

DIRECT VACANCY RATE



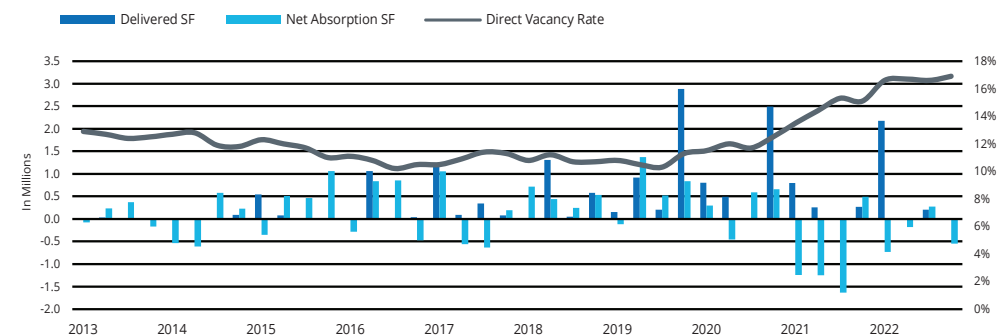
Source: Transwestern, CoStar

AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

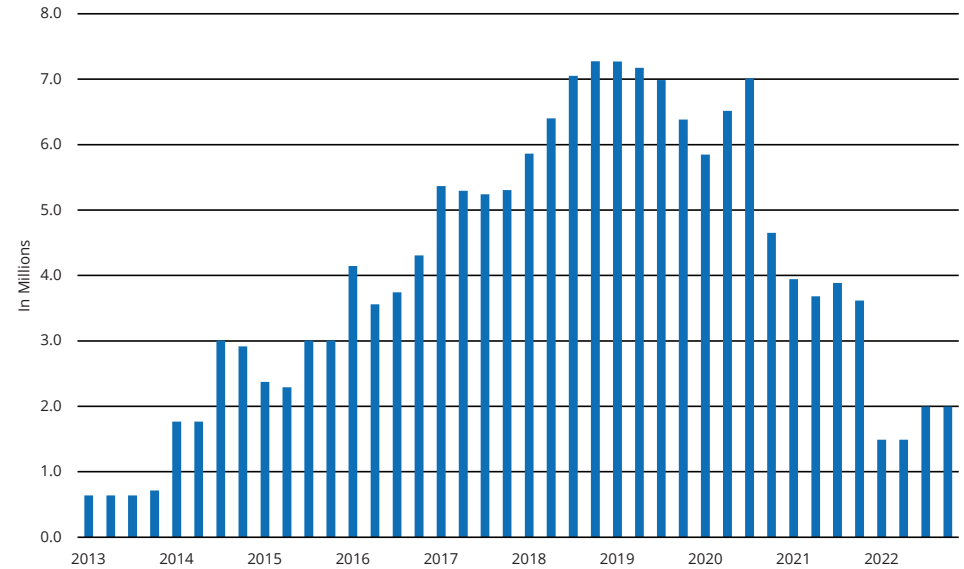


UNDER CONSTRUCTION

Office Pipeline Slows in 2022

- Chicago's development pipeline had 2.0 MSF under construction at the end of the fourth quarter, down significantly from the 7.3 MSF under construction in 2019.
- Salesforce Tower, a 1.2 MSF trophy tower at 333 W Wolf Point in the River North submarket is currently under construction and scheduled to be completed in March of 2023. In 2021, Kirkland & Ellis signed on to join Salesforce as an anchor tenant in the building. There is no remaining available space at the property.
- The other significant office development still under construction is 360 N Green, a 493,683 SF office property in Fulton Market. Boston Consulting Group signed on for approximately 250,000 SF in May of 2022. The building is expected to be delivered in August of 2023.
- Office construction with Chicago's CBD is expected to remain constrained in the coming years as high interest rates and an uncertain future for office demand keep developers and investors on the sidelines. However, continued enthusiasm for the Fulton Market area and tenant demand for the highest quality space may tempt some bullish developers to move forward with their plans.

UNDER CONSTRUCTION



Source: Transwestern, CoStar

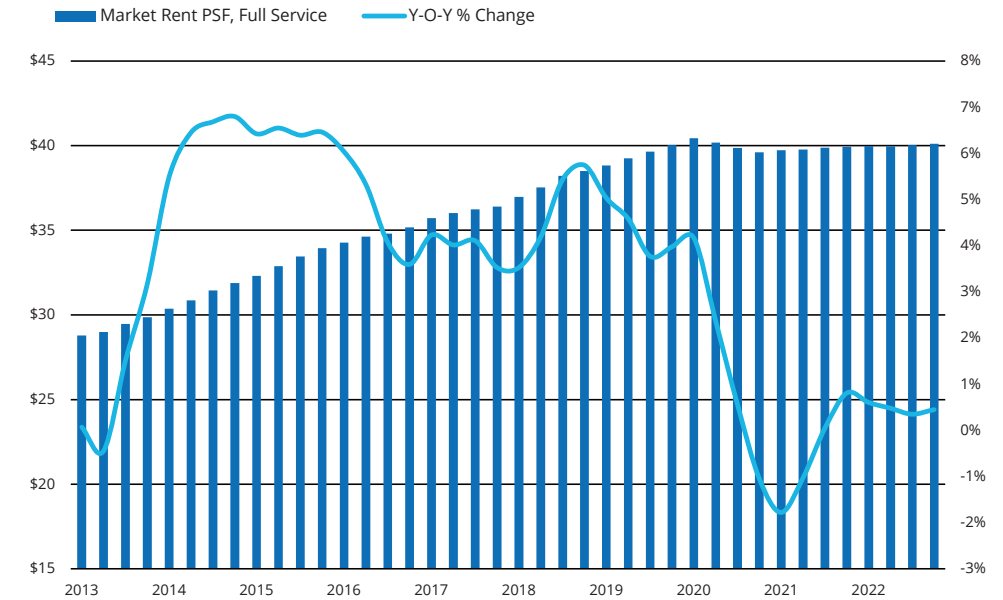


RENTAL RATES

Market Rents Steady in 2022

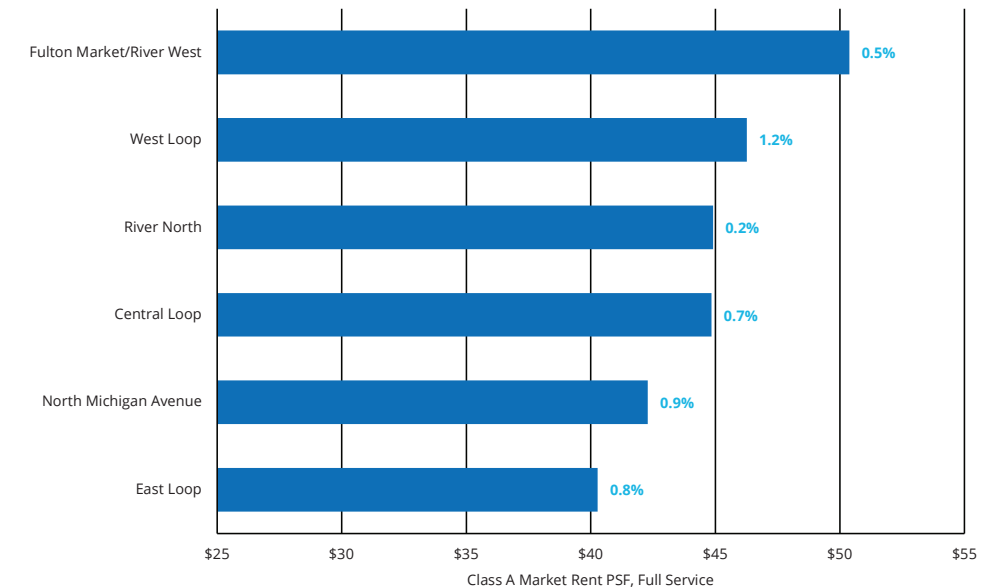
- Market rents continue to hold firm despite elevated vacancy, up 0.5% YOY to \$40.11 PSF in the fourth quarter.
- Class A market rents rose 0.9% YOY to \$44.82 PSF in the fourth quarter.
- The Class A market should see rents hold strong and perhaps increase over the next 12 months as flight to quality drives competition for the highest quality space.
- Class B rates have seen modest declines, down 0.2% YOY to \$34.43 PSF in the fourth quarter. Although the Class B market has experienced softening market conditions, landlords have widely elected to offer more robust concession packages while maintaining face rents.
- Class A rents in the Fulton Market/River West and West Loop submarkets continue to rise above all the other submarkets.

MARKET RENT



Source: Transwestern, CoStar

CLASS A MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

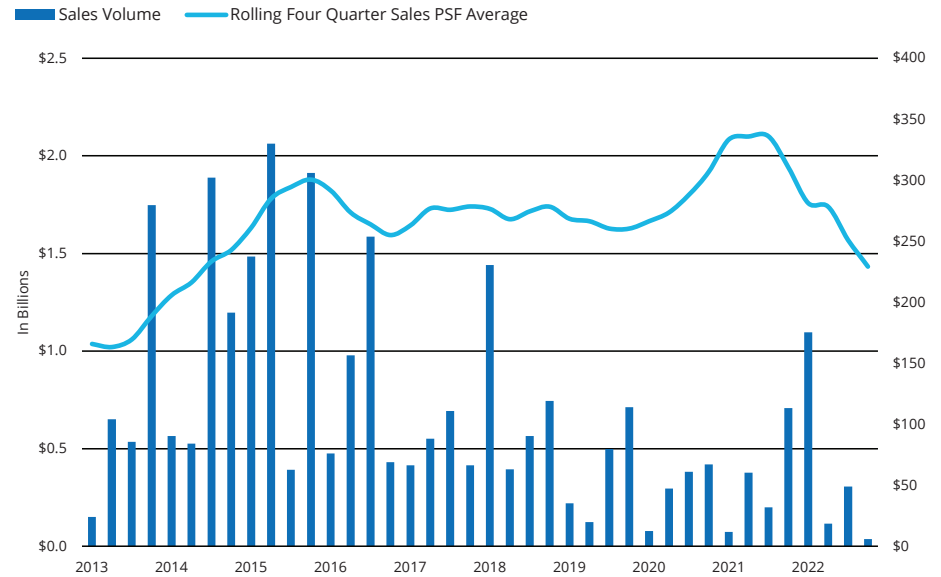


SALES

Sales Volume Takes a Nosedive

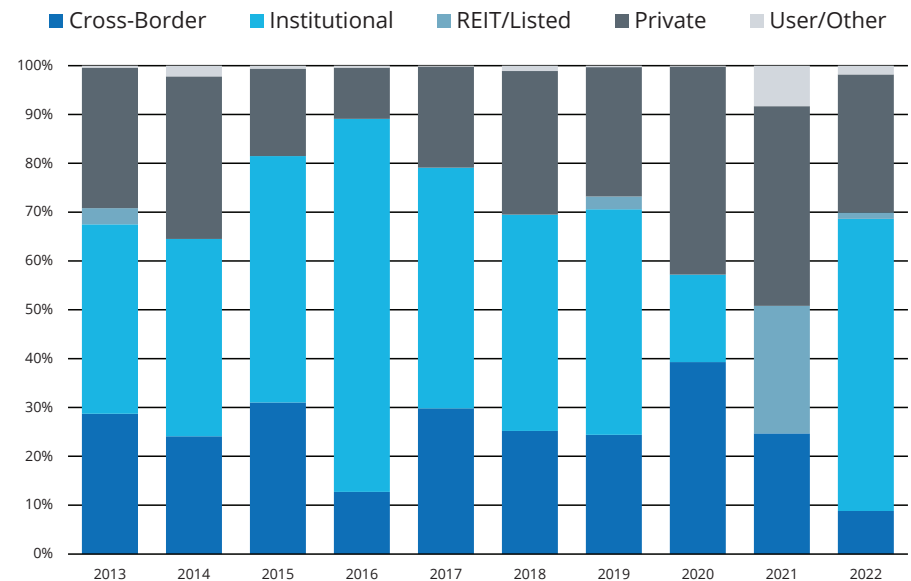
- Chicago’s investment sales market saw limited activity during the fourth quarter, with only two Class C properties changing hands. These two transactions, for 79 W Monroe and 600 W Jackson, totaled \$60 million.
- The most important investment transaction in Chicago’s CBD in 2022 was the sale of the State of Illinois building known as the Thompson Center, located at 100 W Randolph in the Central Loop. The Prime Group purchased the massive government building for \$105 million, with a deal in hand to redevelop it and sell it to Google once complete. Google’s involvement with the Thompson Center was an extremely welcome surprise for the Central Loop, as most spectators expected the unpopular postmodern building to be torn down. More good news came in a related deal when The Prime Group purchased 111 W Monroe, recently vacated by BMO Bank, with an agreement to renovate the building for the State of Illinois. The two deals should continue to generate a great deal of excitement and interest, as the Central Loop has struggled during the pandemic.
- There are a number of buildings in various levels of financial distress, particularly in the Central Loop. Owners are faced with higher interest rates, higher construction costs, concerns about property tax increases, lower occupancy, and continued uncertainty about future office demand. These factors have some owners questioning the wisdom of making the reinvestments necessary to attract tenants or even continuing to make debt payments for properties that may be worth significantly less than they were a few years ago. Furthermore, owners with upcoming loan maturities are expected to have difficulties securing refinancing in the current high interest rate environment.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



Q4 2022 NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Chicago Trading	425 S Financial	Central Loop	Exp	46,343
Zoro	500 W Madison	West Loop	New	41,875
Ryan Specialty	155 N Wacker	West Loop	New	40,000
Loop Capital	425 S Financial	Central Loop	New	36,676
NewCold	500 W Madison	West Loop	Exp	35,564
Mintel	203 N LaSalle	Central Loop	New	29,957
Hennessy & Roach	70 W Madison	Central Loop	New	29,127
Walker Wilcox Matousek	1 N Franklin	West Loop	Ren	29,022
Twin Brook Capital Partners	111 S Wacker	West Loop	Ren/Exp	28,610
Quinn Emanuel Urquhart & Sullivan	191 N Wacker	West Loop	Ren/Exp	26,300
TICG Management	425 S Financial	Central Loop	Ren	25,956
Cision	300 S Riverside	West Loop	Sublease	24,851
Fetch	609 W Randolph	West Loop	New	21,339
Coro	550 W Van Buren	West Loop	Exp	20,667
LPC	191 N Wacker	West Loop	New	19,456
Bally's Chicago Operating Company	640 N Lasalle	River North	New	18,552
Ohio Farmers Insurance	125 S Wacker	West Loop	New	18,513
Allied World National Assurance Company	311 S Wacker	West Loop	Ren	17,946
Pretzel & Stouffer	1 N Wacker	West Loop	New	17,337
HeplerBroom	70 W Madison	Central Loop	New	17,099
TransLoop	1 S Wacker	West Loop	New	17,000
Nisen & Elliot LLC	180 N LaSalle	Central Loop	New	15,417
Williams & John Ltd	233 S Wacker	West Loop	Ren	15,363
Schafer Condon Carter	1201 W Lake	River West	New	15,259
Ahlgren Law	33 N LaSalle	Central Loop	Ren	15,000

= Transwestern deal

Source: Transwestern, CoStar



2022 NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
110 N WACKER	West Loop	\$1,000,000,000	1,546,909	\$646	Callahan Capital Partners/ Oak Hill Advisors (\$210,000,000 Equity Stake)	Howard Hughes
35 W WACKER	Central Loop	\$415,000,000	1,117,978	\$371	Opal Holdings	UBS Realty
200 W JACKSON	West Loop	\$130,000,000	479,305	\$271	Nightingale Properties	White Oak & Angelo Gordon
100 W RANDOLPH	Central Loop	\$105,000,000	945,120	\$111	The Prime Group	State of Illinois
225 W WASHINGTON	West Loop	\$82,625,000	483,497	\$171	Agave Holdings	Kinship Capital
115 S LASALLE	Central Loop	\$75,000,000	591,845	\$127	State of Illinois	Samsung
79 W MONROE	Central Loop	\$49,250,000	176,606	\$279	Foursee	R2 Companies
111 W MONROE	Central Loop	\$43,109,000	610,760	\$71	The Prime Group	Samsung
29 N WACKER	West Loop	\$30,000,000	133,580	\$225	Allstate	BentallGreenOak
217 N JEFFERSON	West Loop	\$20,950,000	60,550	\$346	Tri Star Equities	Metonic RE Solutions
564 W RANDOLPH	West Loop	\$20,800,000	93,695	\$222	Fortinet	Pritzker
65 E WACKER	East Loop	\$19,250,000	222,768	\$86	Intersection Realty Group	ACRES Capital
600 W JACKSON	West Loop	\$10,775,000	116,879	\$92	Farbman	Stockbridge Capital

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS TABLE

All Classes of Space | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
CENTRAL LOOP	40,027,896	8,422,480	21.0%	22.9%	0	-334,497	-1,210,102	\$39.79
EAST LOOP	28,955,966	5,579,150	19.3%	20.9%	0	-415,950	-623,265	\$37.40
FULTON MARKET/RIVER WEST	11,655,128	2,234,481	19.2%	20.4%	543,680	-31,381	859,242	\$39.28
NORTH MICHIGAN AVE	16,467,192	1,924,715	11.7%	13.1%	0	-43,321	-325,265	\$37.99
RIVER NORTH	19,311,026	2,608,863	13.5%	17.3%	1,437,702	71,066	-260,731	\$39.71
WEST LOOP	61,710,409	9,315,975	15.1%	17.2%	48,560	208,924	377,295	\$43.20
TOTAL	178,127,617	30,085,664	16.9%	18.9%	2,029,942	-545,159	-1,182,826	\$40.11

Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class A | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
CENTRAL LOOP	21,299,012	4,606,604	21.6%	23.8%	0	-132,335	-641,049	\$44.85
EAST LOOP	17,627,623	3,199,128	18.1%	19.9%	0	-327,893	-252,258	\$40.28
FULTON MARKET/RIVER WEST	5,497,929	1,124,565	20.5%	22.0%	543,680	131,129	866,936	\$50.38
NORTH MICHIGAN AVE	9,286,859	1,300,274	14.0%	16.3%	0	-31,366	-228,135	\$42.29
RIVER NORTH	11,522,751	1,375,525	11.9%	16.9%	1,437,702	49,829	-150,479	\$44.91
WEST LOOP	46,516,420	6,953,800	14.9%	17.5%	0	196,354	725,393	\$46.26
TOTAL	111,750,594	18,559,896	16.6%	19.1%	1,981,382	-114,282	320,408	\$44.82

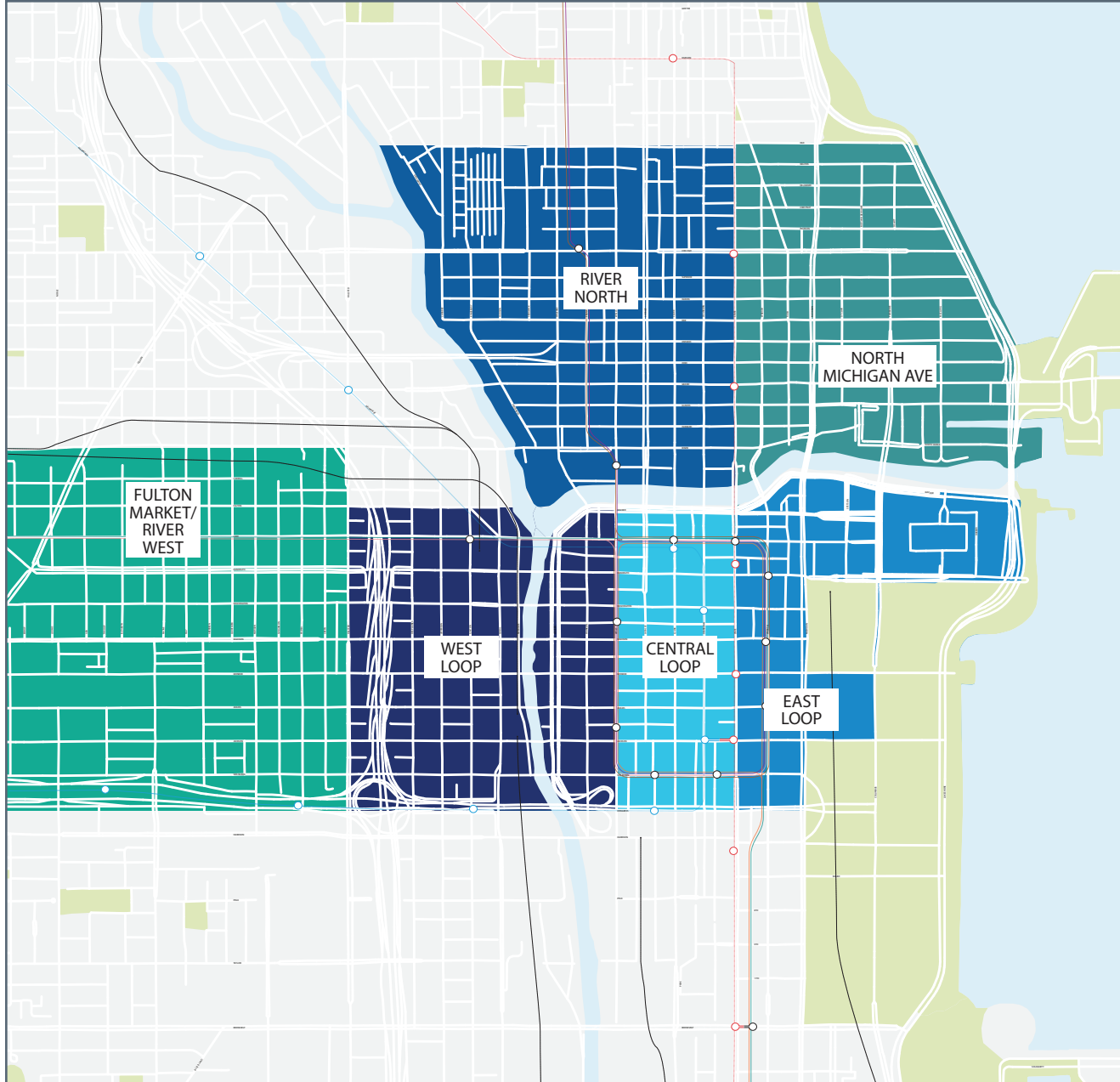
Source: Transwestern, CoStar

MARKET INDICATORS TABLE

Class B | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	MARKET RENT PSF, FULL SERVICE
CENTRAL LOOP	17,533,228	3,665,983	20.9%	22.6%	0	-208,637	-576,792	\$35.76
EAST LOOP	7,068,983	1,827,321	25.8%	27.7%	0	-50,476	-204,640	\$34.23
FULTON MARKET/RIVER WEST	4,045,685	762,889	18.9%	18.9%	0	-153,220	-53,326	\$29.80
NORTH MICHIGAN AVE	6,509,071	544,796	8.4%	8.5%	0	-4,800	-59,905	\$34.31
RIVER NORTH	5,504,499	834,765	17.7%	18.0%	0	37,206	24,172	\$32.89
WEST LOOP	12,703,015	2,083,503	16.4%	17.4%	48,560	14,418	-307,049	\$35.27
TOTAL	53,364,481	9,719,257	18.2%	19.4%	48,560	-365,509	-1,177,540	\$34.43

Source: Transwestern, CoStar



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Chicago metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

FOR MORE INFORMATION

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