



TRANSWESTERN

# CHICAGO CBD OFFICE MARKET

## Q1 2023



### TRENDLINES

|  | Q1 2023 | Q1 2022 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|--|---------|---------|----------------|-------------------|-------------------|
| <b>UNEMPLOYMENT RATE</b>                 | 4.4     | 4.9     | ↓              | 4.9               | ↑                 |
| <b>YTD NET ABSORPTION</b> (Thousands SF) | -781    | -230    | ↓              | -56               | ↓                 |
| <b>DIRECT VACANCY RATE</b>               | 19.7%   | 17.7%   | ↑              | 14.3%             | ↑                 |
| <b>DIRECT VACANT SF</b> (MSF)            | 31.2    | 28.1    | ↑              | 22.0              | ↑                 |
| <b>AVAILABLE SUBLET SF</b> (MSF)         | 7.7     | 5.9     | ↑              | 4.7               | ↔                 |
| <b>UNDER CONSTRUCTION</b> (MSF)          | 2.0     | 1.4     | ↑              | 4.5               | ↓                 |
| <b>MARKET RENT, FULL SERVICE</b> (PSF)   | \$41.83 | \$41.54 | ↑              | \$40.96           | ↔                 |
| <b>YTD SALES VOLUME</b> (Millions)       | \$24    | \$1,060 | ↓              | \$398             | ↔                 |

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

The health of the Chicago office market continued to decline in the first quarter of 2023 as direct vacancy rates and the amount of available sublease space reached new, historic highs. Net absorption totaled negative 781,453 square feet, and the direct vacancy rate increased by 110 basis points to 19.7%. Another 948,275 square feet of available sublease space was added to the market, bringing the total inventory up to 7.7 million square feet. Despite these negative indicators, market rents continued to hold at \$41.83.

The Fulton Market area of Chicago's Central Business District (CBD) is the single bright spot in the market. Tenants continue to flock to the trendy area, which offers new buildings with top-tier amenities in a dynamic environment. Unfortunately, much of Fulton Market's office growth has come at the expense of Chicago's other office submarkets, particularly the Central Loop.

Investment sales in Chicago's office market have slowed to a standstill as demand for office space declines and interest rates and taxes increase. More buildings are expected to fall into a state of financial distress as mortgage debt reaches maturity. Stakeholders in the Chicago office market are focusing on the adaptive reuse of existing office properties as a solution to the current market conditions.

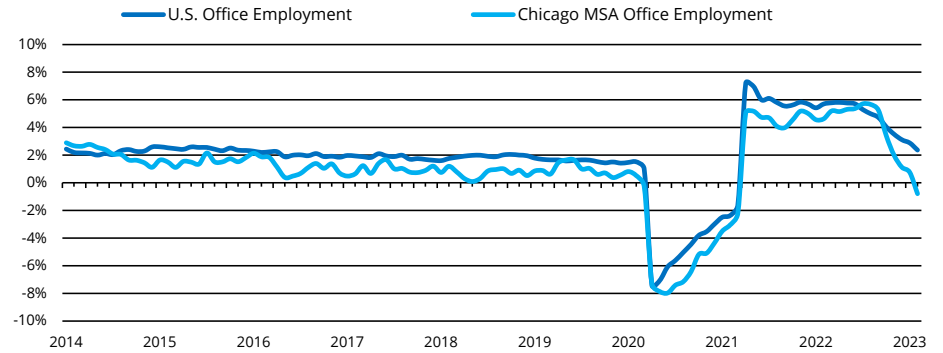


### ECONOMY

#### Bank Sector Turmoil Adds to Economic Anxiety

- The Federal Reserve (Fed) added two more interest rate hikes in the first quarter of 2023, bringing the current range of federal funds rate up to 4.75% to 5.00%. The Fed’s efforts to combat inflation were complicated in March when the collapse of Silicon Valley Bank, and then Signature Bank, sparked widespread concern about the banking sector as a whole and regional banks in particular. The Fed acted quickly to address the situation and protect the banking system, preventing the problem from spreading widely. However, the Fed will have to balance lingering concerns about the banking sector with ongoing concerns about inflation when they make their next decision about interest rates in May. Unfortunately for the commercial real estate industry, the troubles facing banks have led to a pullback in lending, which further exacerbates the existing problems with financing created by high interest rates.
- The economy continues to add jobs at an impressive pace with an estimated 1 million jobs created in the U.S. the first quarter of 2023. Initial unemployment claims in the first quarter have been slightly higher than they were in the fourth quarter of 2022 but remain lower than pre-pandemic norms.
- Locally, the unemployment rate was 4.4% in February, slightly higher than the U.S. rate of 3.6%. Approximately 93,000 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 3.7% year-over-year in February; locally, office-using jobs decreased by 0.8% during the same period. The Professional and Business Services industry lost 6,600 jobs in the Chicago area year-over-year, while the Financial Activities industry lost 2,000 jobs and the Information industry lost 1,100 jobs.

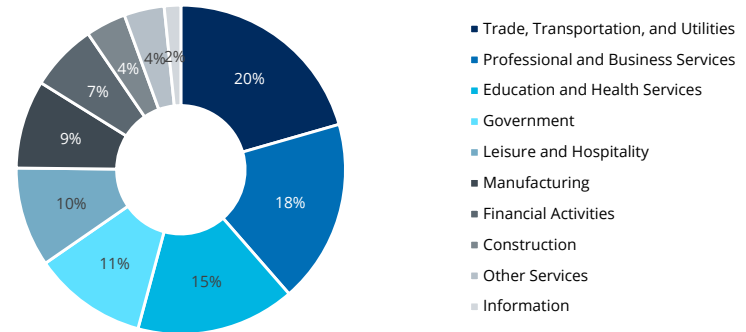
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics

### SHARE OF EMPLOYEES BY INDUSTRY

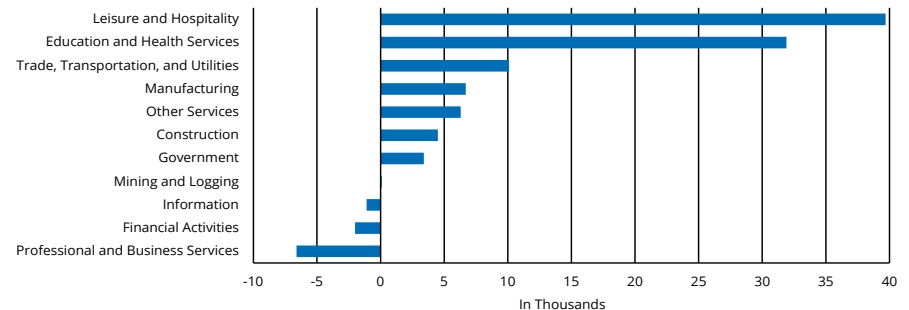
Chicago MSA | February 2023



Source: Bureau of Labor Statistics

### Y-O-Y JOB GROWTH BY INDUSTRY

Chicago MSA | February 2023



Source: Bureau of Labor Statistics



### NET ABSORPTION

#### Demand Slows

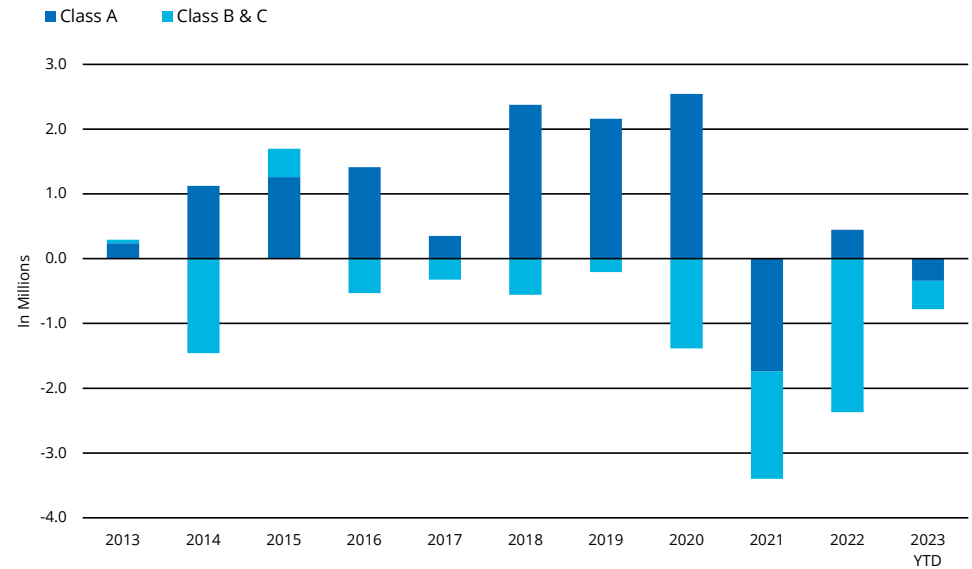
- Net absorption totaled negative 781,453 square feet during the first quarter of 2023, with negative 344,504 square feet in the Class A sector and negative 436,949 square feet in the Class B and C sectors.
- The only submarkets with positive absorption were Fulton Market/River West with 103,607 square feet and North Michigan Avenue with 43,461 square feet.
- Class B and C absorption was negative in every submarket.
- Many renewing tenants are giving back space, and most tenants in the market are aiming to contract their space usage considerably. Due to this, more negative absorption can be expected in the future.

### LEASING ACTIVITY

#### Deal Volume Remains Sluggish

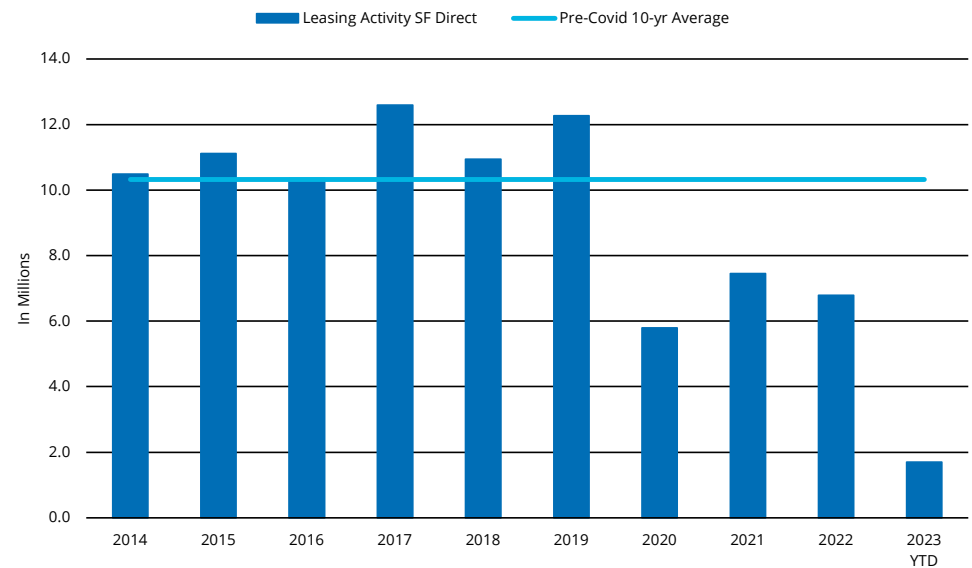
- Direct leasing activity measured 1.7 million square feet during the first quarter of 2023, still significantly less than the quarterly average of 2.6 million square feet seen in the 10 years prior to COVID-19.
- There were no new direct deals larger than 50,000 square feet signed in the first quarter of 2023. The same was true in the fourth quarter of 2022. Prior to that, there had never been a quarter without at least one new direct deal larger than 50,000 square feet since the second quarter of 1996, according to CoStar data.
- There were only 10 new deals larger than 15,000 square feet with identified tenants in the first quarter. Three of these deals were signed by logistics companies, illustrating the strength of the logistics sector in the Chicago market.
- Despite the surge in availability of sublease space in the first quarter, subleasing activity was less than 100,000 square feet. Only one identified sublease over 15,000 square feet was signed in the first quarter: OneDigital subleased 17,000 square feet from Hewlett Packard at 303 E Wacker.

### NET ABSORPTION BY CLASS



Source: Transwestern, CoStar

### LEASING ACTIVITY



Source: Transwestern, CoStar



### DIRECT VACANCY

#### Vacancy Rate Continues to Rise

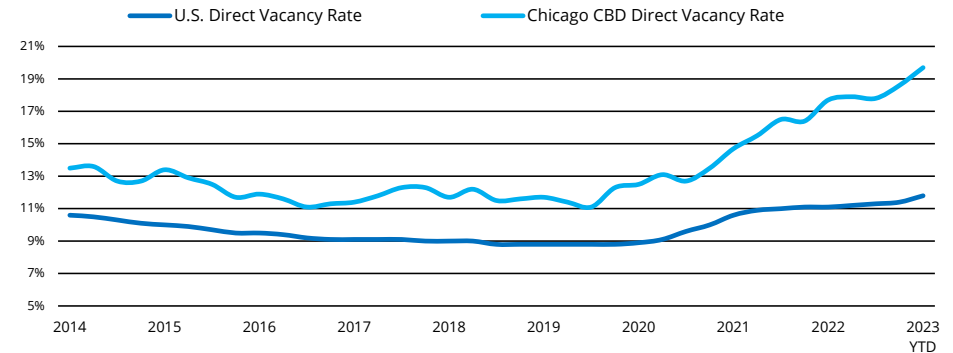
- The direct vacancy rate in Chicago's CBD increased 110 basis points during the first quarter to 19.7%, up 200 basis points year-over-year.
- Chicago's Class A direct vacancy rate increased 100 basis points during the first quarter to 17.3%, while the Class B and C rate increased 160 basis points to 25.3%.
- 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. 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

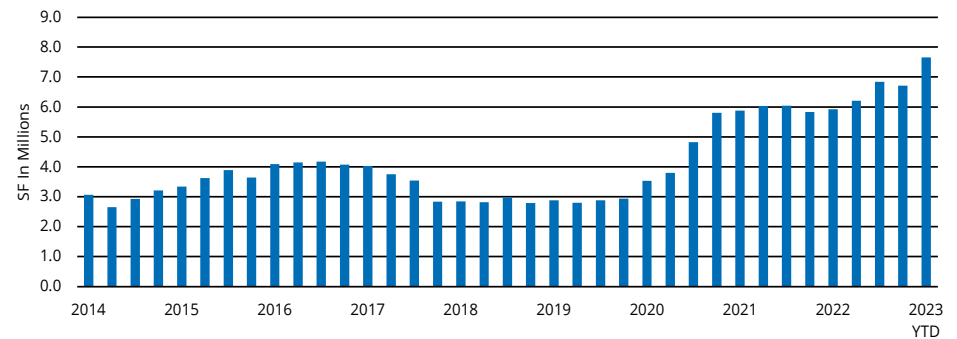
- The amount of available sublease space increased by 948,275 square feet in the first quarter of 2023 to another historic high of 7.7 million square feet.
- Seven blocks of sublease space larger than 50,000 square feet were added to the market in the first quarter. The largest were Publicis Groupe's 350,000 square feet at 35 W Wacker, Tyson Foods' 233,869 square feet at 400 S Jefferson, and Salesforce's 119,950 square feet at the not-yet-completed tower at 333 W Wolf Point.
- The West Loop has 40.2% of the total available sublease space, followed by the Central Loop, which has 22.7%.
- River North submarket has the highest percent of its total inventory available as sublease space, 6.3%.
- Even more sublease space is expected to be added to the market as economic challenges lead to layoffs and corresponding office reductions in some industries, particularly in tech.

### DIRECT VACANCY RATE



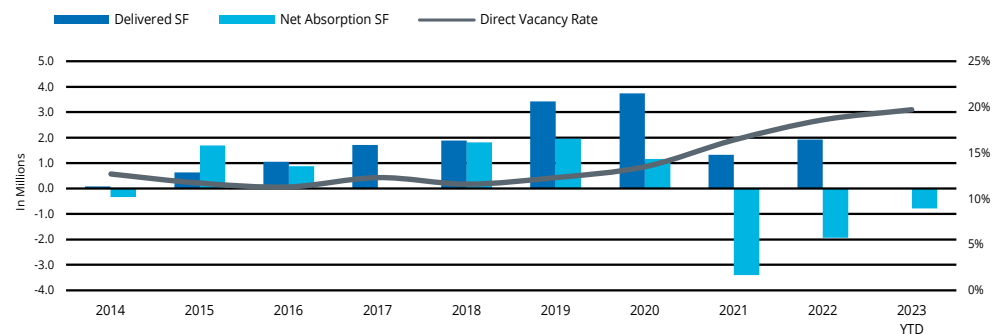
Source: Transwestern, CoStar

### AVAILABLE SUBLEASE SPACE



Source: Transwestern, CoStar

### DELIVERY IMPACT ON KEY INDICATORS



Source: Transwestern, CoStar

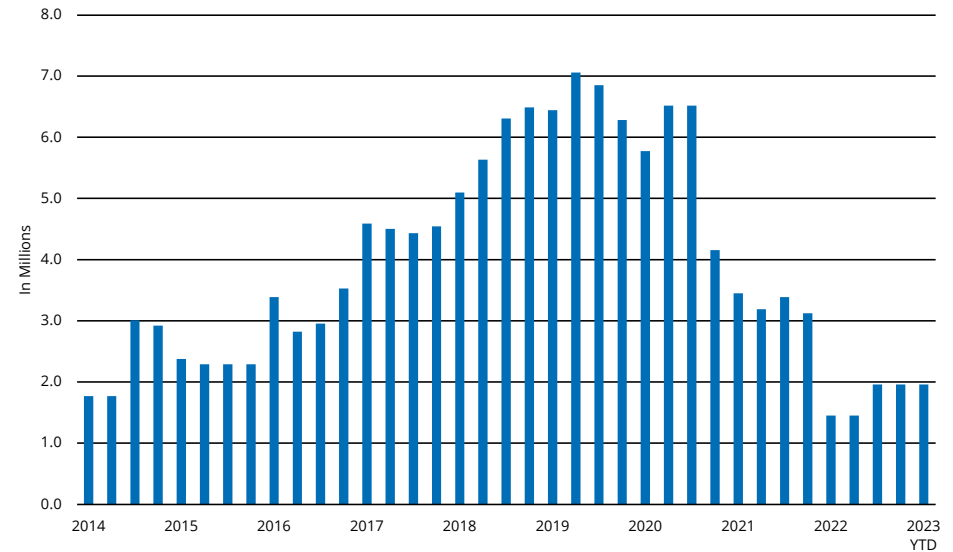


## UNDER CONSTRUCTION

### Office Pipeline Slows

- Chicago’s development pipeline had 2.0 million square feet under construction at the end of the first quarter, down significantly from the high tide of 7.1 million square feet under construction in 2019.
- Salesforce Tower, a 1.2 million-square-foot trophy tower at 333 W Wolf Point in the River North submarket, is currently under construction and scheduled to be completed in the second quarter of 2023. In 2021, Kirkland & Ellis signed on to join Salesforce as an anchor tenant in the building. The building is 100% pre-leased, but Salesforce recently put 119,950 square feet of its 500,000 square feet on the sublease market.
- The other significant office development still under construction is 360 N Green, a 493,683-square-foot office property in Fulton Market. Boston Consulting Group signed on for approximately 250,000 square feet in May of 2022. The building is expected to be delivered in March of 2024.
- Office construction in 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

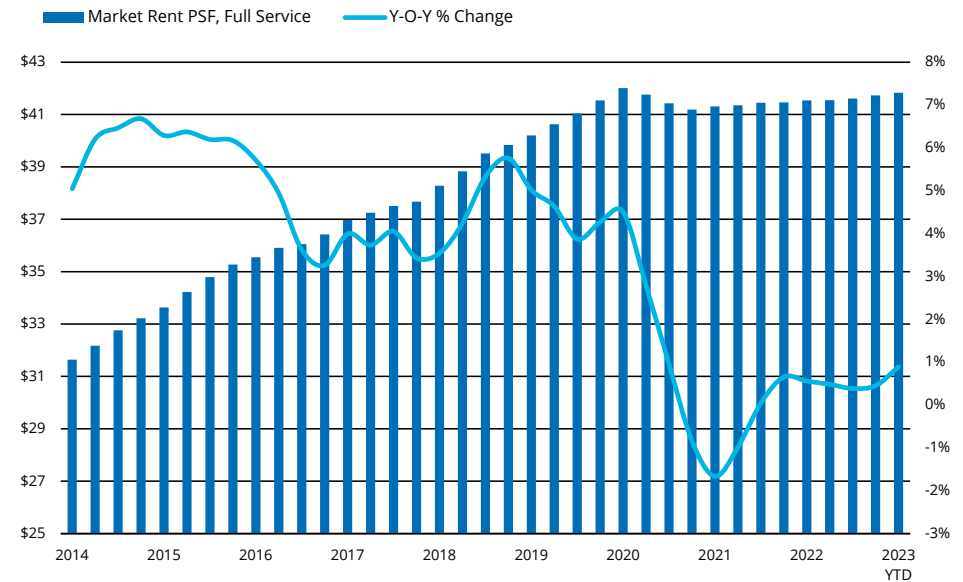


### RENTAL RATES

#### Market Rents Hold Steady

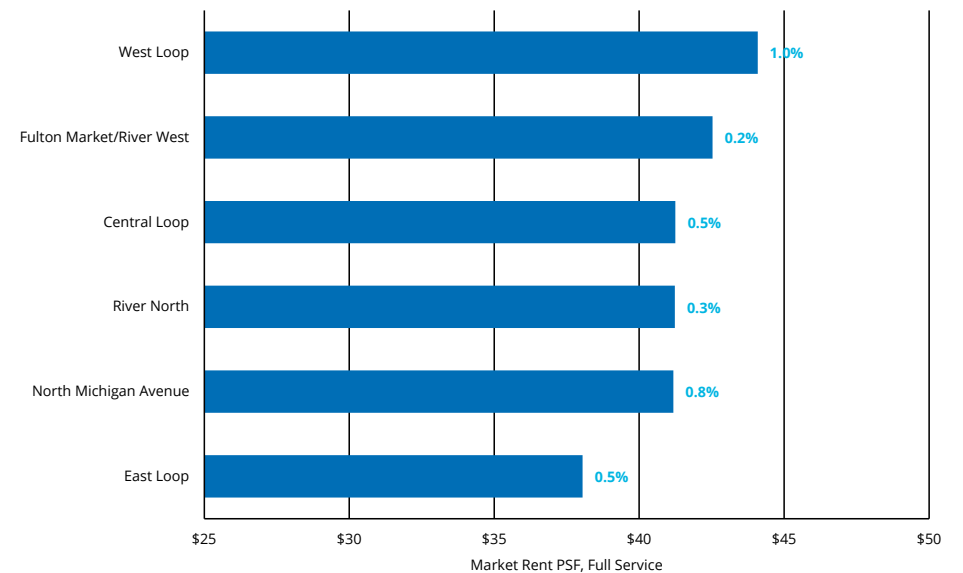
- Market rents continue to hold firm despite elevated vacancy, up 0.7% year-over-year to \$41.83 per square foot in the first quarter.
- Class A market rents rose 0.9% year-over-year to \$44.98 per square foot in the first quarter. The Class A market should see rents hold strong and perhaps increase over the next 12 months as flight to quality drives competition for the highest quality space. Class B and C market rents have held steady but are not expected to increase.
- Landlords have widely elected to offer more robust concession packages while maintaining face rents. Rent abatement has increased slightly, and tenant improvement allowances have increased significantly due to higher construction costs. In some cases, tenant improvement allowances are especially high to cover termination penalties and existing lease obligations.
- 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

### MARKET RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: Transwestern, CoStar

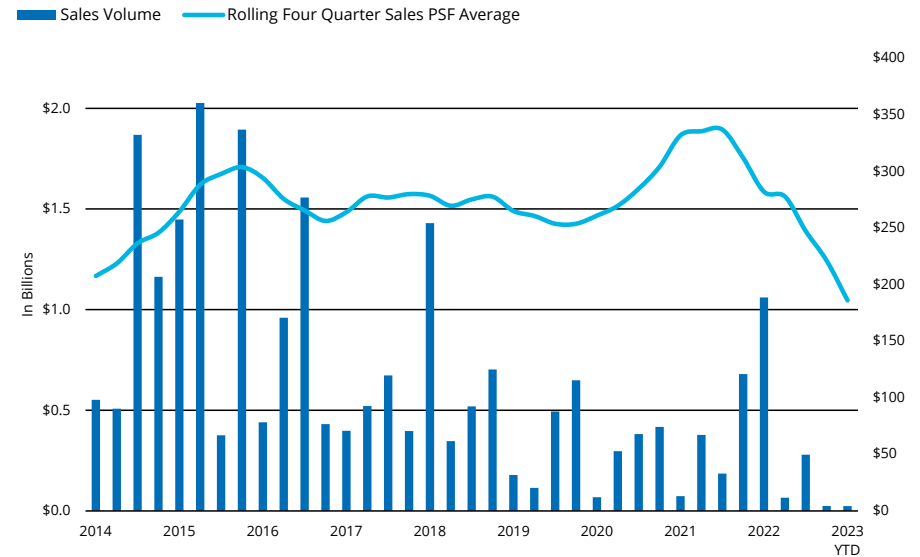


### SALES

#### Sales Volume Takes a Nosedive

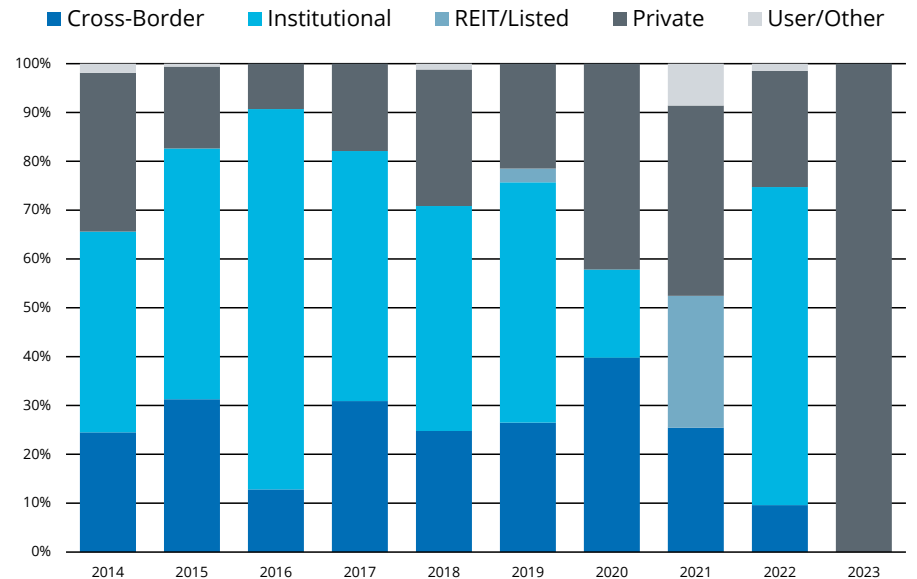
- Chicago’s investment sales market saw almost no activity in the first quarter, with only four small transactions totaling \$34 million. Two of the sales were outside of the traditional CBD boundaries, and none of the properties were larger than 200,000 square feet.
- The largest transaction in the first quarter was Bradford Allen’s purchase of 900 N Branch, a 179,490 square foot vacant building in the Goose Island area that was previously occupied by Kendall College, for \$17.5 million.
- There is one office building currently under contract, 33 N LaSalle, which is 402,683 square feet and valued at approximately \$65 million.
- 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 and possibly less than the remaining debt balance. Furthermore, owners with upcoming loan maturities are expected to have difficulties securing refinancing in the current high interest rate environment. The recent challenges seen in the banking sector will make refinancing even more difficult.

### SALES VOLUME



Source: Real Capital Analytics, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## Q1 2023 NOTABLE LEASES

| TENANT                             | ADDRESS         | SUBMARKET                | TYPE     | SF LEASED |
|------------------------------------|-----------------|--------------------------|----------|-----------|
| Katten Muchin Rosenman             | 525 W Monroe    | West Loop                | Ren/Con  | 204,000   |
| Enova International                | 175 W Jackson   | Central Loop             | Ren/Con  | 135,000   |
| Marsh USA                          | 155 N Wacker    | West Loop                | Ren      | 105,181   |
| Chubb                              | 525 W Monroe    | West Loop                | Ren/Con  | 92,000    |
| GTCR                               | 300 N LaSalle   | River North              | Ren      | 85,265    |
| Amwins Insurance Brokerage         | 10 S LaSalle    | Central Loop             | Ren/Exp  | 77,125    |
| TechNexus                          | 20 N Wacker     | West Loop                | Ren      | 47,761    |
| Burke, Warren, MacKay & Serritella | 330 N Wabash    | North Michigan Ave       | Ren      | 47,000    |
| Barstool Sports                    | 400 N Noble     | Fulton Market/River West | New      | 40,000    |
| UL Solutions                       | 155 N Wacker    | West Loop                | New      | 37,650    |
| Tempus Labs                        | 600 W Chicago   | River North              | Exp      | 37,228    |
| Spothero, Inc.                     | 125 S Clark     | Central Loop             | Ren/Exp  | 32,930    |
| IBM                                | 71 S Wacker     | West Loop                | Ren      | 32,335    |
| Spot                               | 24 E Washington | East Loop                | New      | 31,000    |
| HNTB                               | 1 S Wacker      | West Loop                | Ren      | 30,639    |
| Mercer                             | 155 N Wacker    | West Loop                | Ren      | 30,000    |
| GEFK Wealth Management             | 1 N Wacker      | West Loop                | Exp      | 29,413    |
| Kin + Carta                        | 111 N Canal     | West Loop                | Ren      | 27,300    |
| Corboy & Demetrio, PC              | 33 N Dearborn   | Central Loop             | Ren      | 27,068    |
| Chan Zuckerberg Biohub             | 1375 W Fulton   | Fulton Market/River West | New      | 25,265    |
| Globetrotters                      | 300 S Wacker    | West Loop                | Ren/Exp  | 23,376    |
| Mark Anthony Brewing               | 145 S Wells     | Central Loop             | Ren/Exp  | 23,213    |
| Thornton Tomasetti                 | 600 W Fulton    | Fulton Market/River West | New      | 18,943    |
| Penkse Logistics                   | 500 W Madison   | West Loop                | New      | 18,510    |
| Laner Munchin                      | 515 N State     | North Michigan Ave       | New      | 17,750    |
| ORBA                               | 455 N Cityfront | North Michigan Ave       | Ren      | 17,476    |
| Playfly Sports                     | 303 E Wacker    | East Loop                | New      | 17,000    |
| Elevate Energy                     | 322-340 S Green | Fulton Market/River West | Ren      | 17,000    |
| OneDigital                         | 303 E Wacker    | East Loop                | Sublease | 17,000    |
| E80 Group                          | 448 N LaSalle   | River North              | New      | 15,400    |

= Transwestern deal





**Q1 2023 NOTABLE SALES**

| ADDRESS                 | SUBMARKET                | SALES PRICE  | BUILDING SF | PRICE PSF | BUYER                | SELLER                       |
|-------------------------|--------------------------|--------------|-------------|-----------|----------------------|------------------------------|
| <b>900 N BRANCH</b>     | Outside CBD              | \$17,500,000 | 179,490     | \$97      | Bradford Allen       | WP Carey                     |
| <b>460 W WALNUT</b>     | Outside CBD              | \$4,724,000  | 43,200      | \$109     | Peppercorn Capital   | William Terman               |
| <b>1033 W VAN BUREN</b> | West Loop                | \$6,000,000  | 84,000      | \$71      | Mon Ami Partners     | Case Equity/Lexington Realty |
| <b>403 N CARPENTER</b>  | Fulton Market/River West | \$5,810,500  | 10,200      | \$570     | Vista Property Group | Kinzie DOG LLC               |

Source: CoStar, Real Capital Analytics, Transwestern



**MARKET INDICATORS TABLE**

All Classes of Space | Q1 2023

| 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             | 37,559,558         | 8,720,001         | 23.2%               | 25.1%                | 0                     | -107,997          | -107,997              | \$41.25                       |
| EAST LOOP                | 26,647,155         | 5,740,290         | 21.5%               | 23.1%                | 0                     | -166,868          | -166,868              | \$38.05                       |
| FULTON MARKET/RIVER WEST | 8,155,991          | 1,201,857         | 14.7%               | 16.8%                | 493,680               | 103,607           | 103,607               | \$42.53                       |
| NORTH MICHIGAN AVE       | 10,239,250         | 1,769,675         | 17.3%               | 19.5%                | 0                     | 43,461            | 43,461                | \$41.18                       |
| RIVER NORTH              | 16,874,455         | 3,208,828         | 19.0%               | 23.1%                | 1,417,202             | -507,830          | -507,830              | \$41.23                       |
| WEST LOOP                | 58,810,499         | 10,579,078        | 18.0%               | 20.6%                | 48,560                | -145,826          | -145,826              | \$44.09                       |
| <b>TOTAL</b>             | <b>158,286,908</b> | <b>31,219,729</b> | <b>19.7%</b>        | <b>22.1%</b>         | <b>1,959,442</b>      | <b>-781,453</b>   | <b>-781,453</b>       | <b>\$41.83</b>                |

Source: Transwestern, CoStar

**MARKET INDICATORS TABLE**

Class A | Q1 2023

| 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             | 21,039,717         | 4,780,523         | 22.7%               | 24.9%                | 0                     | -73,926           | -73,926               | \$45.19                       |
| EAST LOOP                | 17,596,425         | 3,112,058         | 17.7%               | 19.2%                | 0                     | -56,566           | -56,566               | \$40.51                       |
| FULTON MARKET/RIVER WEST | 5,046,324          | 537,328           | 10.6%               | 13.5%                | 493,680               | 163,569           | 163,569               | \$50.05                       |
| NORTH MICHIGAN AVE       | 7,950,641          | 1,200,410         | 15.1%               | 17.9%                | 0                     | 55,216            | 55,216                | \$42.77                       |
| RIVER NORTH              | 11,522,751         | 2,106,236         | 18.3%               | 23.1%                | 1,417,202             | -391,815          | -391,815              | \$44.58                       |
| WEST LOOP                | 46,756,420         | 7,223,990         | 15.5%               | 18.3%                | 0                     | -40,982           | -40,982               | \$46.46                       |
| <b>TOTAL</b>             | <b>109,912,278</b> | <b>18,960,545</b> | <b>17.3%</b>        | <b>19.9%</b>         | <b>1,910,882</b>      | <b>-344,504</b>   | <b>-344,504</b>       | <b>\$44.98</b>                |

Source: Transwestern, CoStar

**MARKET INDICATORS TABLE**

Class B & C | Q1 2023

| 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             | 16,519,841        | 3,939,478         | 23.8%               | 25.3%                | 0                     | -34,071           | -34,071               | \$36.22                       |
| EAST LOOP                | 9,050,730         | 2,628,232         | 29.0%               | 30.7%                | 0                     | -110,302          | -110,302              | \$33.45                       |
| FULTON MARKET/RIVER WEST | 3,109,667         | 664,529           | 21.4%               | 22.3%                | 0                     | -59,962           | -59,962               | \$29.27                       |
| NORTH MICHIGAN AVE       | 2,288,609         | 569,265           | 24.9%               | 24.9%                | 0                     | -11,755           | -11,755               | \$35.64                       |
| RIVER NORTH              | 5,351,704         | 1,102,592         | 20.6%               | 23.0%                | 0                     | -116,015          | -116,015              | \$33.11                       |
| WEST LOOP                | 12,054,079        | 3,355,088         | 27.8%               | 29.4%                | 48,560                | -104,844          | -104,844              | \$35.07                       |
| <b>TOTAL</b>             | <b>48,374,630</b> | <b>12,259,184</b> | <b>25.3%</b>        | <b>26.9%</b>         | <b>48,560</b>         | <b>-436,949</b>   | <b>-436,949</b>       | <b>\$34.60</b>                |

Source: Transwestern, CoStar



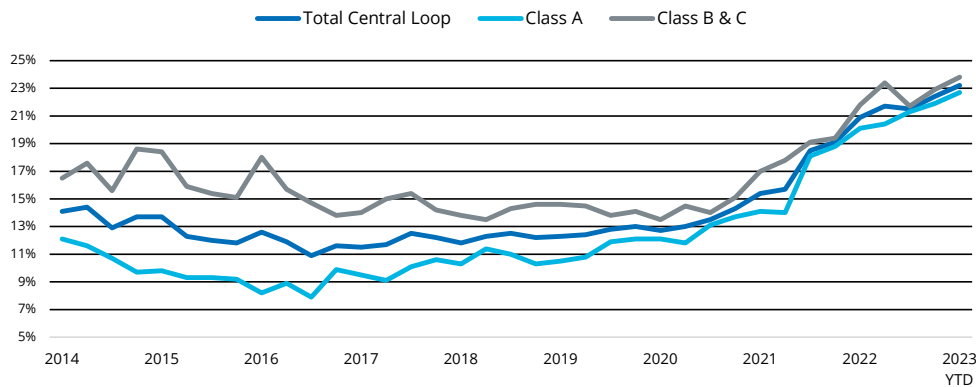
### CENTRAL LOOP

#### Reinvention on the way

- The Central Loop has lost multiple large tenants to new trophy towers in the West Loop in recent years. LaSalle Street, the center of Chicago’s historic Financial District, will need to reinvent itself in order to remain relevant. There are plans to convert underutilized office space into residential and hotel uses and reinvigorate retail spaces with tenants that will enhance the neighborhood.
- There were no new large deals or investment sales in the first quarter.
- LARGEST RENEWAL: Enova International - 135,000 square feet (contraction of 43,000 square feet) - 175 W Jackson
- NEW LARGE BLOCK OF SUBLEASE SPACE: Cleveland Cliffs - 53,382 square feet - 1 S Dearborn

The Central Loop’s boundaries are the Chicago River (north), Wells Street (west), State Street (east), and Harrison Street (south). The Central Loop includes the Financial District, as well as many government offices, law firms, and professional services.

#### DIRECT VACANCY



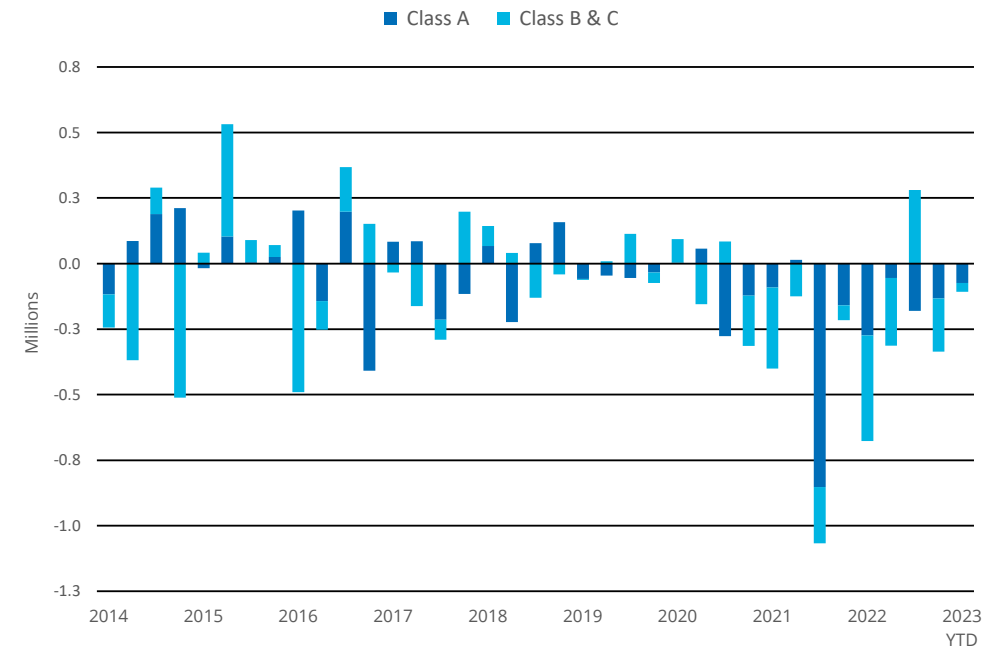
Source: Transwestern, CoStar

### Y-O-Y COMPARISON

|                                    | Q1 2023    | Q1 2022    | TREND |
|------------------------------------|------------|------------|-------|
| <b>INVENTORY</b>                   | 37,559,558 | 37,559,558 | ↔     |
| <b>DIRECT VACANCY RATE</b>         | 23.2%      | 20.9%      | ↑     |
| <b>OVERALL VACANCY RATE</b>        | 25.1%      | 22.3%      | ↑     |
| <b>YTD NET ABSORPTION (SF)</b>     | (107,997)  | (676,822)  | ↑     |
| <b>TOTAL LEASING ACTIVITY (SF)</b> | 431,925    | 318,954    | ↑     |
| <b>AVAILABLE SUBLEASE (SF)</b>     | 1,736,673  | 949,390    | ↑     |
| <b>CLASS A MARKET RENT</b>         | \$45.19    | \$44.89    | ↑     |
| <b>CLASS B &amp; C MARKET RENT</b> | \$34.60    | \$34.58    | ↑     |

Source: Transwestern, CoStar

### NET ABSORPTION



Source: Transwestern, CoStar



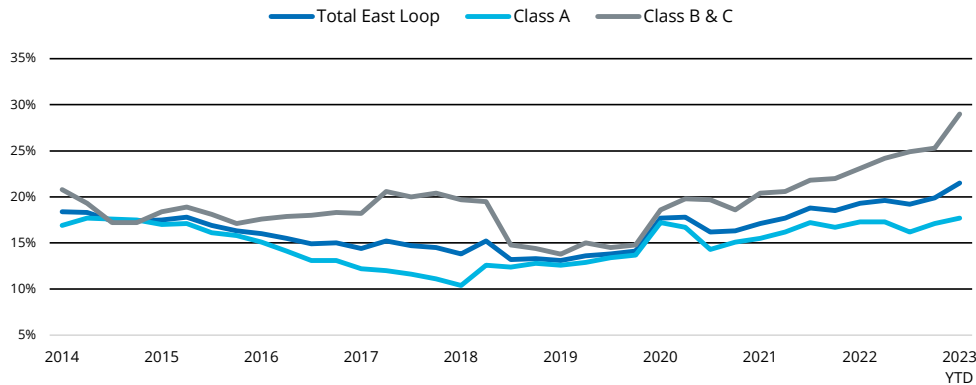
### EAST LOOP

#### Quiet quarter in the East Loop

- The East Loop had very little activity in the first quarter with only 78,849 square feet of direct leasing activity and 27,852 square feet of sublet activity reported. This leasing activity is less than half of that seen in the first quarter of 2022 and approximately a quarter of the average activity seen the the ten years before the pandemic.
- LARGEST DIRECT NEW DEAL: Spot - 31,000 square feet - 24 E Washington

*The East Loop is bordered by the Chicago River (north), State Street (west), Lake Michigan (east), and Harrison Street (south). It is inhabited by a variety of corporate tenants with a heavy lean toward advertising and media firms.*

### DIRECT VACANCY



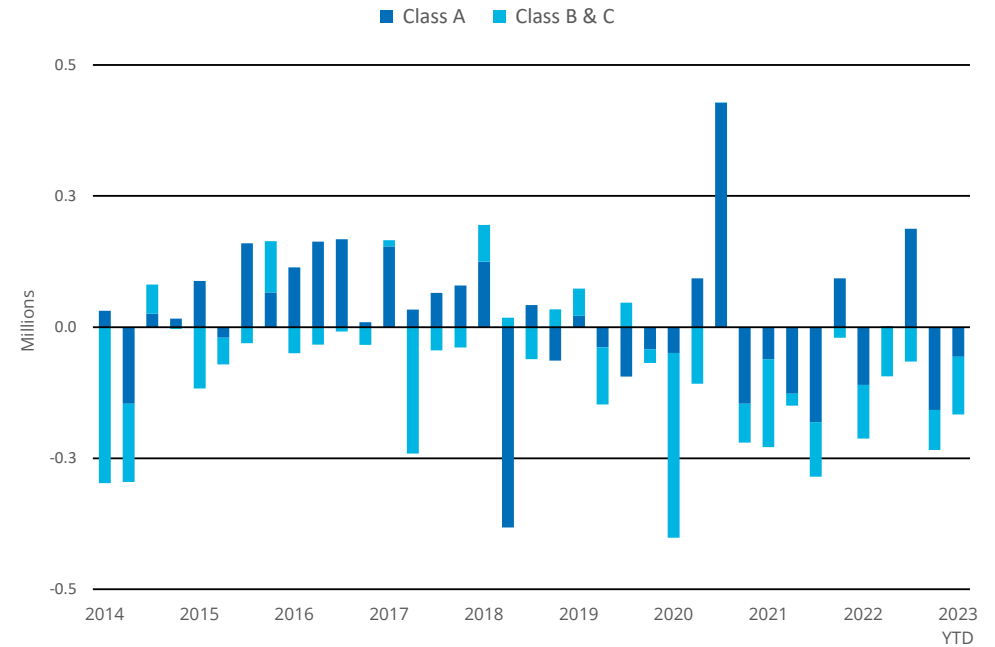
Source: Transwestern, CoStar

### Y-O-Y COMPARISON

|                                    | Q1 2023    | Q1 2022    | TREND |
|------------------------------------|------------|------------|-------|
| <b>INVENTORY</b>                   | 26,647,155 | 26,647,155 | ↔     |
| <b>DIRECT VACANCY RATE</b>         | 21.5%      | 19.3%      | ↑     |
| <b>OVERALL VACANCY RATE</b>        | 23.1%      | 21.6%      | ↑     |
| <b>YTD NET ABSORPTION (SF)</b>     | (166,868)  | (212,103)  | ↑     |
| <b>TOTAL LEASING ACTIVITY (SF)</b> | 78,849     | 244,723    | ↓     |
| <b>AVAILABLE SUBLEASE (SF)</b>     | 924,826    | 1,049,675  | ↓     |
| <b>CLASS A MARKET RENT</b>         | \$40.51    | \$40.18    | ↑     |
| <b>CLASS B &amp; C MARKET RENT</b> | \$33.45    | \$33.49    | ↓     |

Source: Transwestern, CoStar

### NET ABSORPTION



Source: Transwestern, CoStar



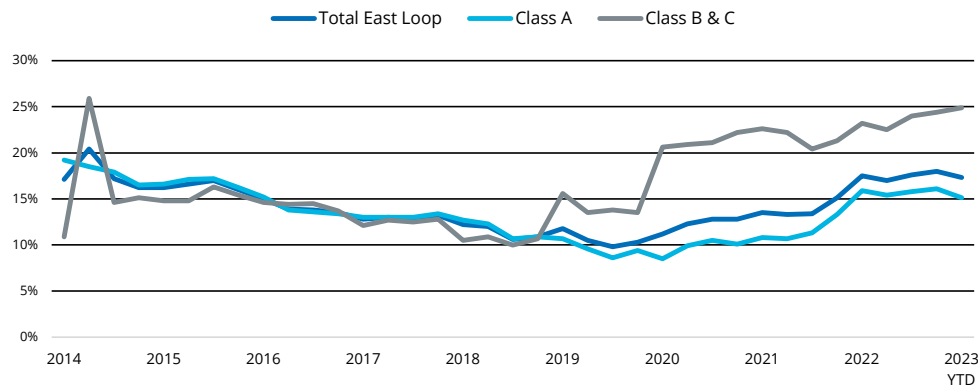
### NORTH MICHIGAN AVENUE

#### Market see little change

- The North Michigan Avenue submarket remained stable in the first quarter and saw very little change. Vacancy rates ticked down slightly, but leasing activity remains less than half of the pre-pandemic average.
- LARGEST DIRECT NEW DEAL: Laner Munchin - 17,750 square feet - 515 N State
- LARGEST RENEWAL: Burke, Warren, MacKay & Serritella - 47,000 square feet - 330 N Wabash

The North Michigan Avenue submarket borders include Division Street (north), State Street (west), Lake Michigan (east), and the Chicago River (south). It is home to retailers, hotels, restaurants, entertainment venues, advertising and marketing agencies, and the Northwestern Memorial Hospital campus.

### DIRECT VACANCY



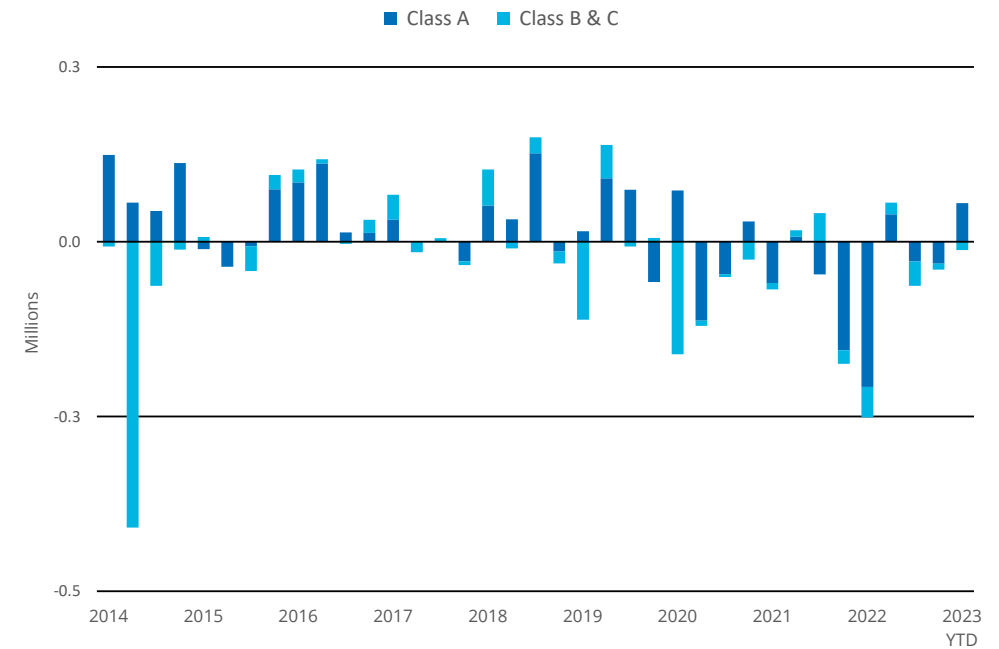
Source: Transwestern, CoStar

### Y-O-Y COMPARISON

|                                    | Q1 2023    | Q1 2022    | TREND |
|------------------------------------|------------|------------|-------|
| <b>INVENTORY</b>                   | 10,239,250 | 10,239,250 | ↔     |
| <b>DIRECT VACANCY RATE</b>         | 17.3%      | 17.5%      | ↓     |
| <b>OVERALL VACANCY RATE</b>        | 19.5%      | 19.1%      | ↑     |
| <b>YTD NET ABSORPTION (SF)</b>     | 43,461     | (251,027)  | ↑     |
| <b>TOTAL LEASING ACTIVITY (SF)</b> | 72,162     | 65,372     | ↑     |
| <b>AVAILABLE SUBLEASE (SF)</b>     | 455,570    | 293,024    | ↑     |
| <b>CLASS A MARKET RENT</b>         | \$42.77    | \$42.38    | ↑     |
| <b>CLASS B &amp; C MARKET RENT</b> | \$35.64    | \$35.50    | ↑     |

Source: Transwestern, CoStar

### NET ABSORPTION



Source: Transwestern, CoStar



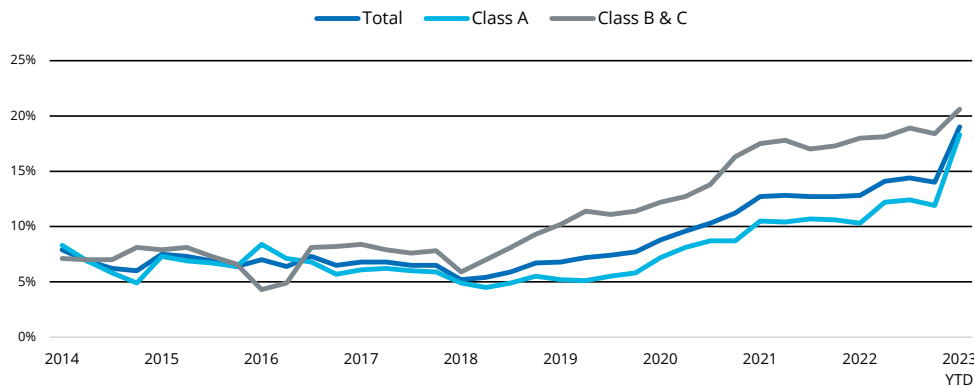
### RIVER NORTH

#### Salesforce Tower to add 1.2 million square feet

- The River North submarket had the most negative absorption in the first quarter, primarily due to The Outdoor Furniture Group moving out of nearly 400,000 square feet at 222 W Merchandise Mart.
- Salesforce Tower, a 1.2 million-square-foot trophy tower at 333 W Wolf Point, is currently under construction and scheduled to be completed in the second quarter of 2023. The building is 100% pre-leased, but Salesforce recently put 119,950 square feet of its 500,000 square feet on the sublease market.
- LARGEST DIRECT NEW DEAL: E80 - 15,400 square feet - 448 N LaSalle
- LARGEST RENEWAL: GTCR- 85,265 square feet - 300 N LaSalle

The borders of the River North submarket are defined as Division Street (north), State Street (east), and the Chicago River (west & south). Historically, it has been home to small, older buildings that cater to furniture galleries and small businesses, but has more recently become a hub for technology, startups, and trading firms.

### DIRECT VACANCY



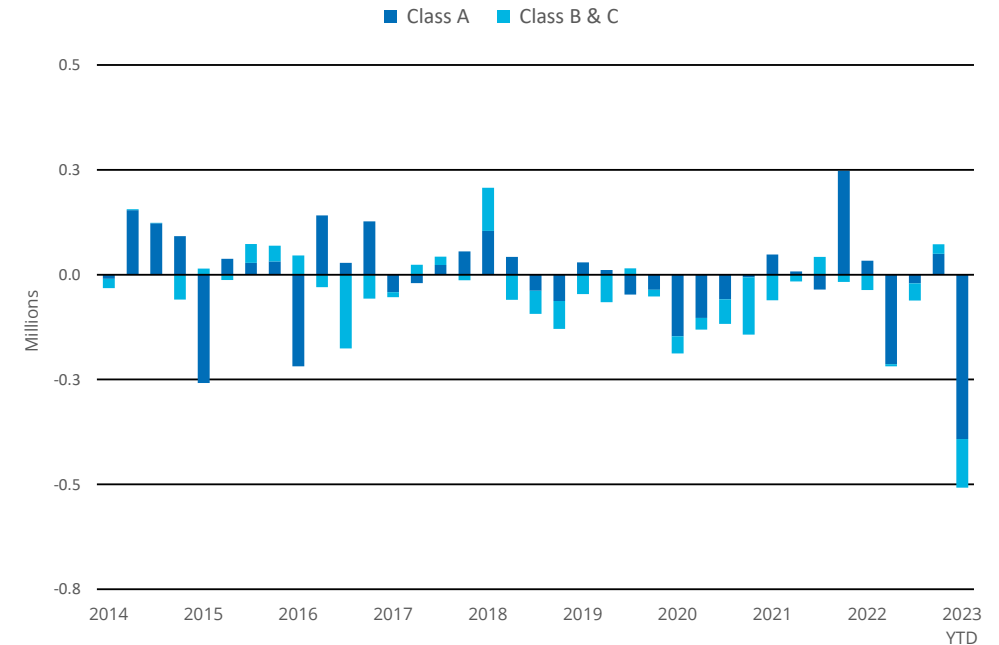
Source: Transwestern, CoStar

### Y-O-Y COMPARISON

|                                    | Q1 2023    | Q1 2022    | TREND |
|------------------------------------|------------|------------|-------|
| <b>INVENTORY</b>                   | 16,874,455 | 16,874,455 | ↔     |
| <b>DIRECT VACANCY RATE</b>         | 19.0%      | 12.8%      | ↑     |
| <b>OVERALL VACANCY RATE</b>        | 23.1%      | 16.0%      | ↑     |
| <b>YTD NET ABSORPTION (SF)</b>     | (507,830)  | (3,737)    | ↓     |
| <b>TOTAL LEASING ACTIVITY (SF)</b> | 198,485    | 276,069    | ↓     |
| <b>AVAILABLE SUBLEASE (SF)</b>     | 1,071,128  | 1,005,803  | ↑     |
| <b>CLASS A MARKET RENT</b>         | \$44.58    | \$44.32    | ↑     |
| <b>CLASS B &amp; C MARKET RENT</b> | \$33.11    | \$33.29    | ↓     |

Source: Transwestern, CoStar

### NET ABSORPTION



Source: Transwestern, CoStar



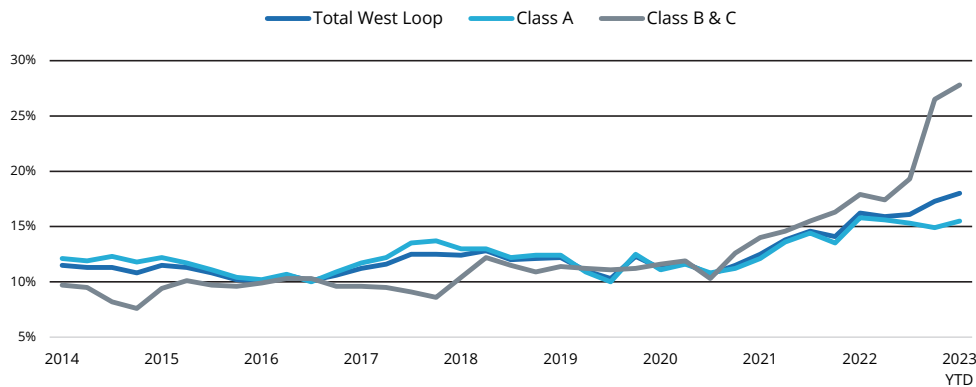
### WEST LOOP

#### More sublease space added to the market

- LARGEST DIRECT NEW DEAL: UL Solutions - 37,650 square feet - 155 N Wacker
- LARGEST RENEWAL: Katten Muchin Rosenman - 204,000 square feet (contraction of 16,000 square feet) - 525 W Monroe
- INVESTMENT SALE: 1033 W Van Buren - 84,000 square feet - purchased by Mon Ami Partners for \$6 million
- NEW LARGE BLOCKS OF SUBLEASE SPACE:
  - Publicis Groupe - 350,000 square feet - 35 W Wacker
  - Trading Technologies - 70,112 square feet - 222 S Riverside
  - Tyson Foods - 233,869 square feet - 400 S Jefferson
  - Evolent - 105,828 square feet - 300 S Riverside
  - Uber - 50,313 square feet - 433 W Van Buren

The West Loop's borders are defined as the Chicago River and Kinzie Drive (north), Halsted Street (west), Wells Street (east), and Harrison Street (south). The West Loop is the largest submarket and is home to law firms, financial services firms, insurance companies, and multiple corporate headquarters.

### DIRECT VACANCY



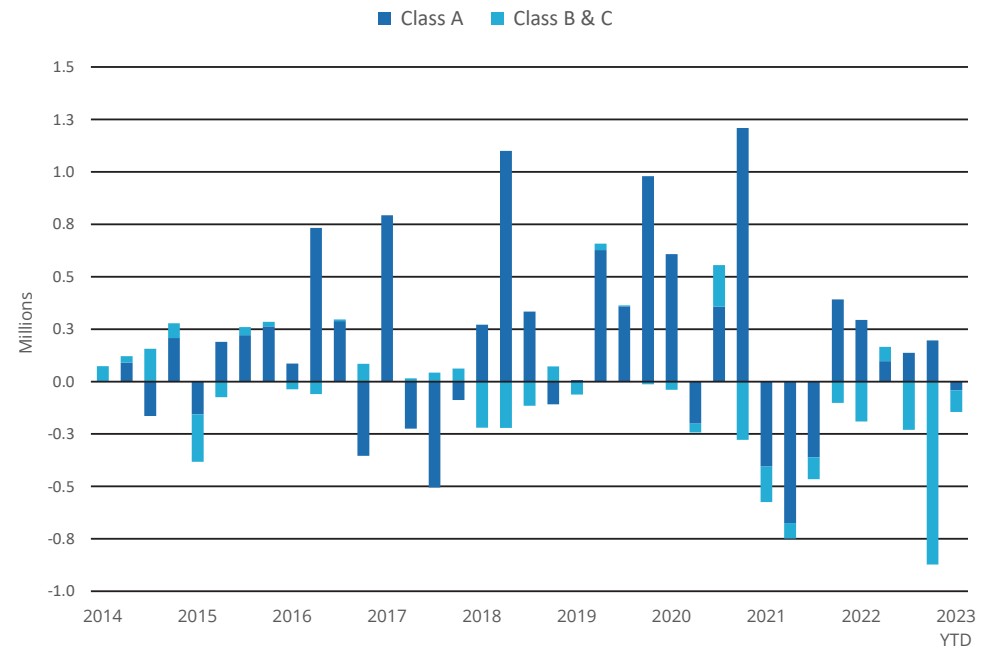
Source: Transwestern, CoStar

### Y-O-Y COMPARISON

|                             | Q1 2023    | Q1 2022    | TREND |
|-----------------------------|------------|------------|-------|
| INVENTORY                   | 58,810,499 | 58,810,499 | ↔     |
| DIRECT VACANCY RATE         | 18.0%      | 16.2%      | ↑     |
| OVERALL VACANCY RATE        | 20.6%      | 18.1%      | ↑     |
| YTD NET ABSORPTION (SF)     | (145,826)  | 102,519    | ↓     |
| TOTAL LEASING ACTIVITY (SF) | 832,908    | 598,981    | ↑     |
| AVAILABLE SUBLEASE (SF)     | 3,073,586  | 2,343,425  | ↑     |
| CLASS A MARKET RENT         | \$46.46    | \$45.91    | ↑     |
| CLASS B & C MARKET RENT     | \$35.07    | \$35.05    | ↑     |

Source: Transwestern, CoStar

### NET ABSORPTION



Source: Transwestern, CoStar



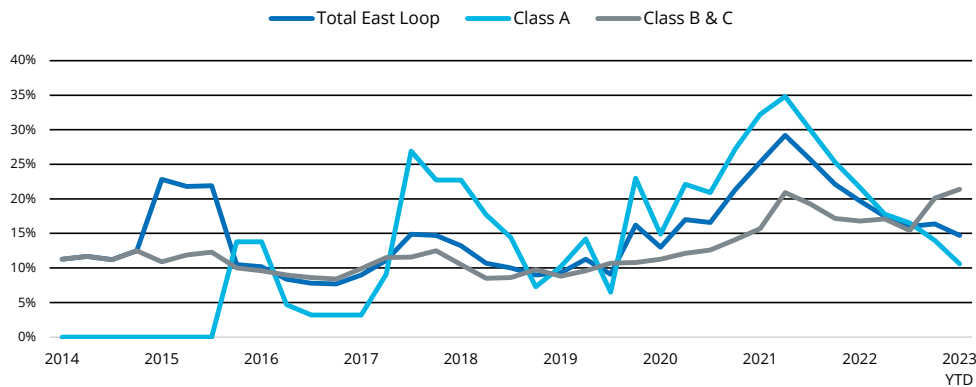
### FULTON MARKET/RIVER WEST

#### New construction slows down

- New office buildings in Fulton Market have defied the market conditions seen in the rest of the city. Class A buildings in the submarket command the highest rents, and direct vacancy rates are down to 10.6%.
- Construction has slowed down after reaching a peak of over 2 million square feet right before the pandemic began. A 493,683-square-foot office property at 360 N Green is all that remains under construction. The building is 51% pre-leased and is expected to be delivered in 2024.
- LARGEST DIRECT NEW DEAL: Barstool Sports - 40,000 square feet - 400 N Noble
- LARGEST RENEWAL: Elevate Energy - 17,000 square feet - 322-340 S Green
- INVESTMENT SALE: 403 N Carpenter - 10,200 square feet - purchased by Vista Property Group for \$5.8 million

*Fulton Market/River West's borders are defined as Hubbard Street (north), Ashland Avenue (west), Halsted Street (east), and I-290 Eisenhower Expressway (south). River West is a rapidly growing submarket, particularly the Fulton Market area, which has been attracting prominent tenants and many investors eager to capitalize on its redevelopment potential. The submarket's growth since 2015 has been exponential.*

#### DIRECT VACANCY



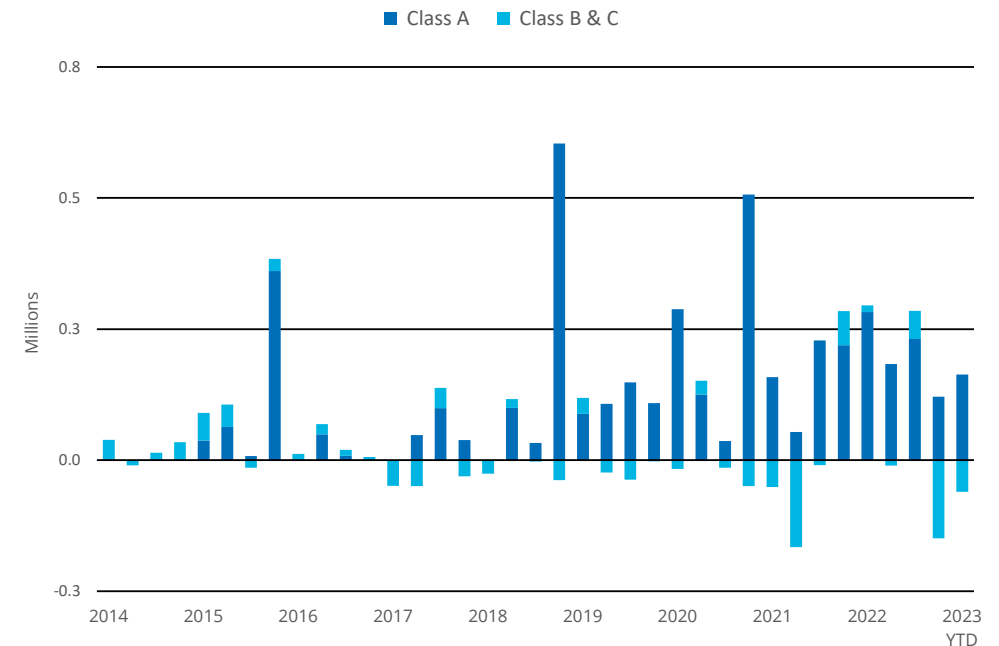
Source: Transwestern, CoStar

### Y-O-Y COMPARISON

|                             | Q1 2023   | Q1 2022   | TREND |
|-----------------------------|-----------|-----------|-------|
| INVENTORY                   | 8,155,991 | 7,955,991 | ↑     |
| DIRECT VACANCY RATE         | 14.7%     | 19.7%     | ↓     |
| OVERALL VACANCY RATE        | 16.8%     | 20.7%     | ↓     |
| YTD NET ABSORPTION (SF)     | 103,607   | 295,290   | ↓     |
| TOTAL LEASING ACTIVITY (SF) | 89,922    | 298,619   | ↓     |
| AVAILABLE SUBLEASE (SF)     | 393,160   | 281,270   | ↑     |
| CLASS A MARKET RENT         | \$50.05   | \$49.92   | ↑     |
| CLASS B & C MARKET RENT     | \$29.27   | \$29.30   | ↓     |

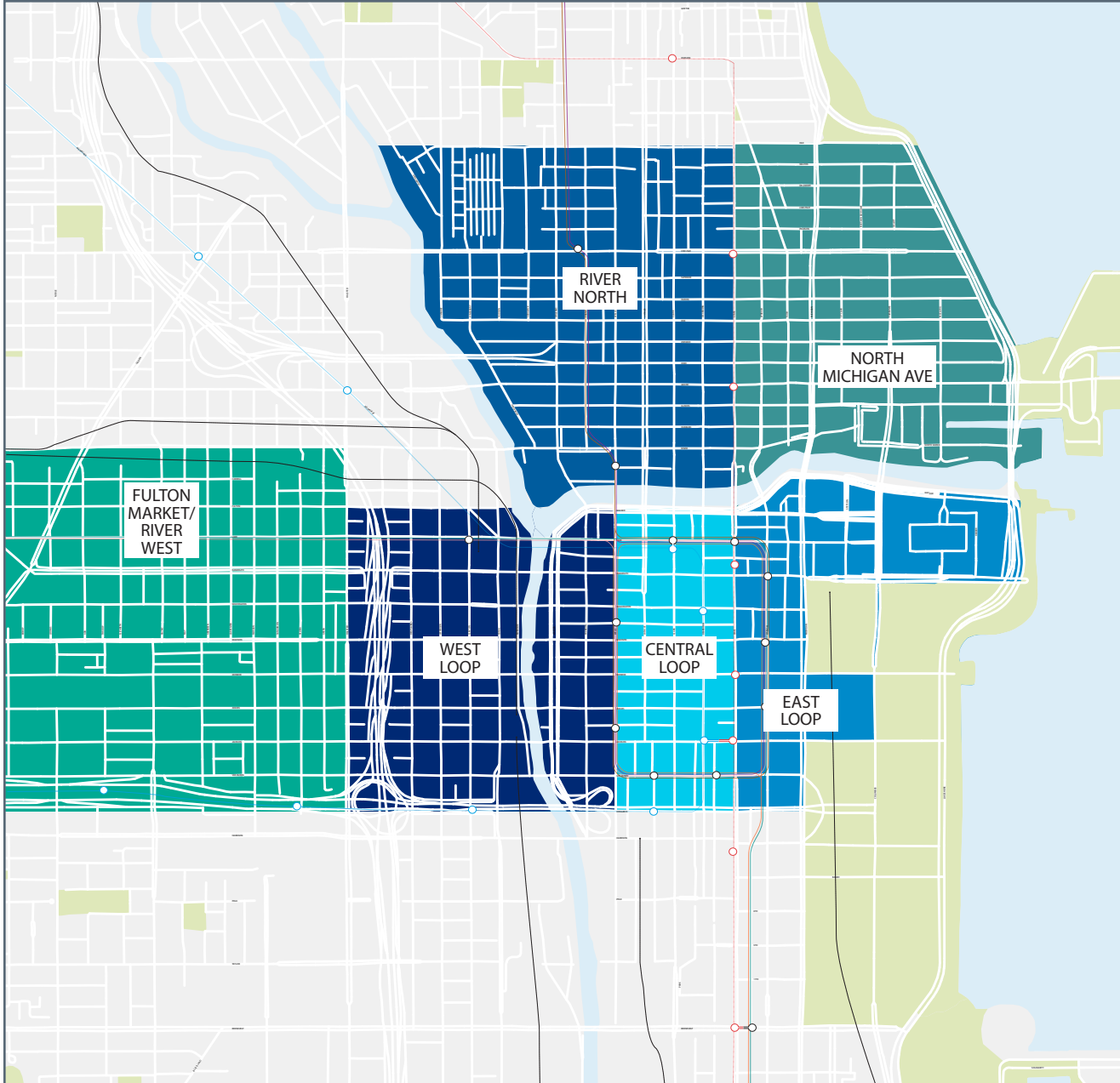
Source: Transwestern, CoStar

### NET ABSORPTION



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 square feet and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

### FOR MORE INFORMATION

**Caitlin Ritter**

Research Director

Caitlin.Ritter@transwestern.com

312.881.7009

**Tanita Bradley**

Market Research Manager

Tanita.Bradley@transwestern.com

312.558.3895

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The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](http://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).