

Downtown Chicago

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Green shoots of optimism for Downtown Chicago office market amidst deeply changed dynamics

In 2023 the Downtown Chicago market observed its best post-pandemic performance as measured by lease transaction volume. Annual deal activity totaled 8.2 million square feet (msf), up 5.2% from full year 2022. However, deal volumes remained well below pre-pandemic levels, as many rightsizing tenants continued to opt for reduced occupancies. Heightened touring activity continued to be observed throughout the fall for direct and sublease opportunities alike, with occupier interest concentrated on the market's highest quality and best located properties. Companies transacting space in the fourth quarter were not averse from moving from their existing locations. Just two of the top ten transactions this quarter were by firms who elected to remain in-place.

Availability flattening as workers gradually return downtown

Overall availability stood at 27.6% at the close of the year, rising 170 basis points (bps) from a year ago. However, the market's availability rate has held essentially flat over the past three quarters, signaling steadying conditions as downtown workers increasingly returned to the office in 2023. While trophy and Class A assets (22.2% available) remained in considerably better overall health than their Class B counterparts, some Class A assets nevertheless found themselves in distress at year end due to forthcoming maturities or missed debt service payments. Meanwhile, available sublease space ticked up in the fourth quarter to 7.9 million square feet (msf) as tenants increasingly recalibrated their office requirements. OneDigital inked the year's largest sublease deal in the fourth quarter, taking two full floors totaling 104,000 sf from Willis Tower Watson at Willis Tower.

Tenant favorable conditions endure despite flight to quality

Overall Downtown asking rents trended lower to \$43.11 per square foot (psf) at year end, driven by slashed pricing at Class B properties. In contrast, Class A rents jumped 1.5% from a year ago to \$50.37 psf. Despite that increase, negotiated rents remained lowered across all asset classes save for trophy product in 2023, while landlord concessions were elevated across most properties. Tenant favorable market conditions will likely prevail for the foreseeable future.

Key Statistics

	Q4 2022	Q4 2023	Y-0-Y
Inventory	149.4 msf	149.3 msf	-0.1 msf
Availability Rate	25.9%	27.6%	+170 bps
Asking Rental Rate	\$43.20	\$43.11	-0.2%
Class A Asking Rental Rate	\$49.64	\$50.37	+1.5%
Quarterly Leasing Activity	1.7 msf	2.0 msf	+0.3 msf
Available Sublease Space	6.8 msf	7.9 msf	+1.1 msf

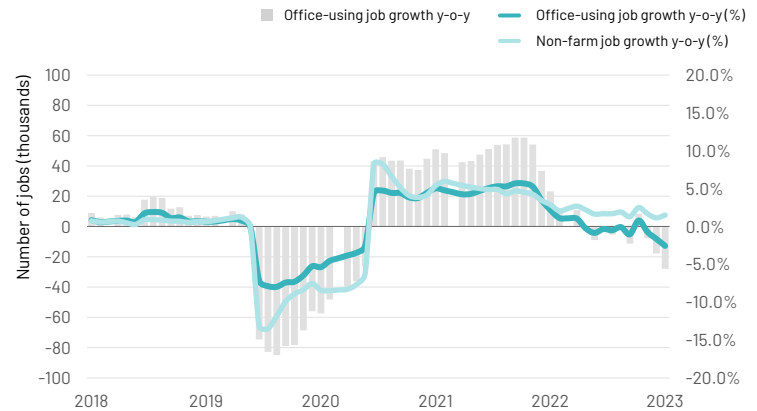
Outlook

01 The size of the Downtown market is likely to contract as development has come to a virtual standstill, while several buildings are earmarked for residential conversion

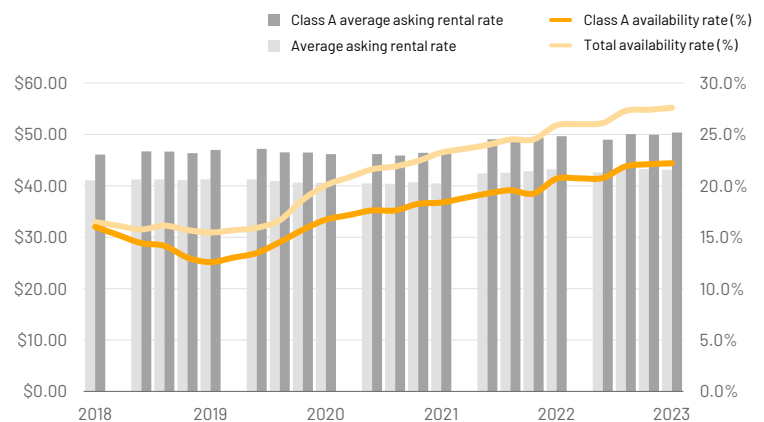
02 Fulton Market has recently seen a surge in available sublease space while touring activity has also been observed to be lower as some tenants are now priced out of the city's most expensive submarket

03 Chicago witnessed negative office-using employment growth for much of 2023, and weakened hiring could further stymie leasing activity in 2024 if the trend persists or intensifies

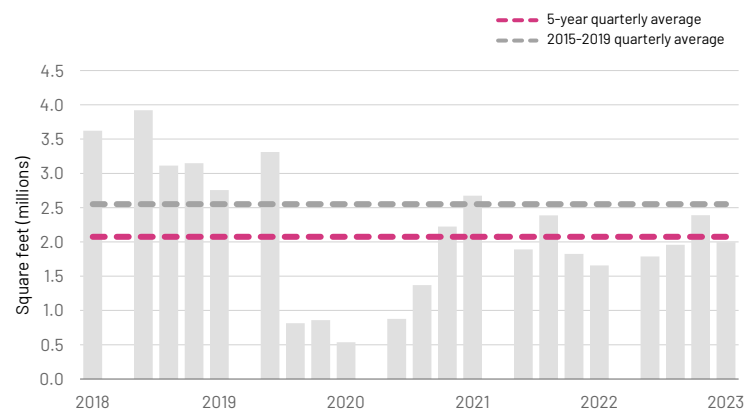
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



Top Transactions

*Trophy Building

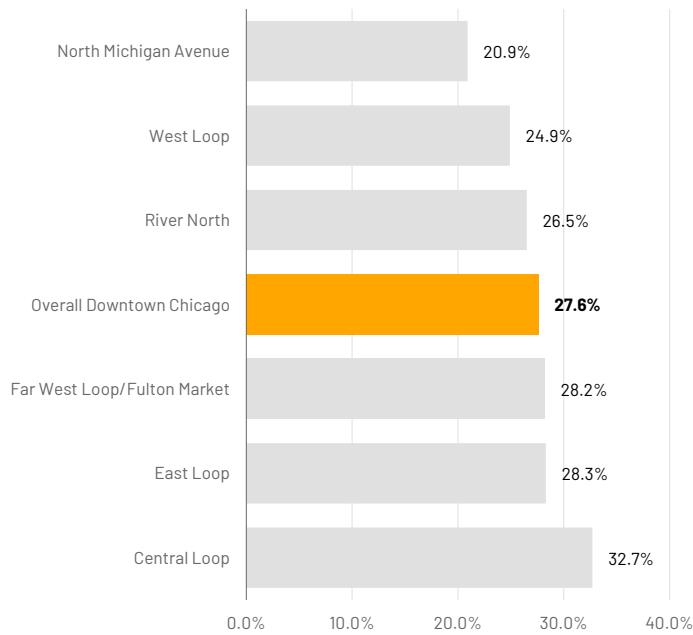
**Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Nuveen	Financial Services and Insurance	West Loop	333 W Wacker Drive	165,000	Renewal
Harrison Street Real Estate Capital	Financial Services and Insurance	Far West Loop/Fulton Market	919 W Fulton Street	112,000	Relocation
OneDigital	Financial Services and Insurance	West Loop	233 S Wacker Drive	104,000	Relocation**
Neal, Gerber & Eisenberg	Legal Services	West Loop	225 W Randolph Drive	90,000	Relocation
Interpublic Group	TAMI	River North	222 W Merchandise Mart Plaza	78,000	Relocation
Duane Morris	Legal Services	Central Loop	190 S LaSalle Street	46,000	Renewal
MonoSol	Manufacturing	Far West Loop/Fulton Market	1375 W Fulton Street	35,000	New Location
Illinois Institute of Technology	Education	Far West Loop/Fulton Market	400 N Aberdeen Street	34,000	New Location
Gordon Rees Scully Mansukhani	Legal Services	West Loop	1 N Wacker Drive*	30,000	Relocation
Workbox	Coworking	Central Loop	125 S Clark Street	29,000	New Location

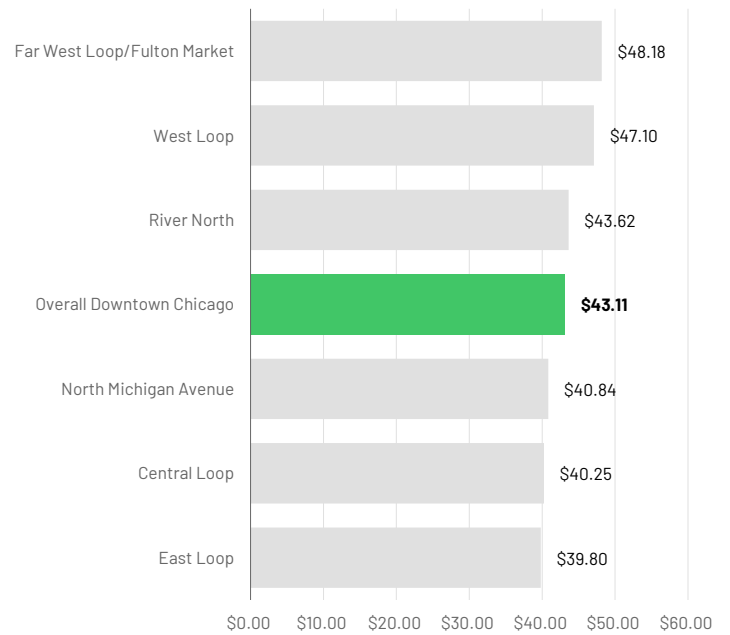
Availability Rate Comparison (%)

DOWNTOWN CHICAGO SUBMARKETS



Rental Rate Comparison (\$/sf)

DOWNTOWN CHICAGO SUBMARKETS



Downtown Chicago Q4 2023 - Office

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Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

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