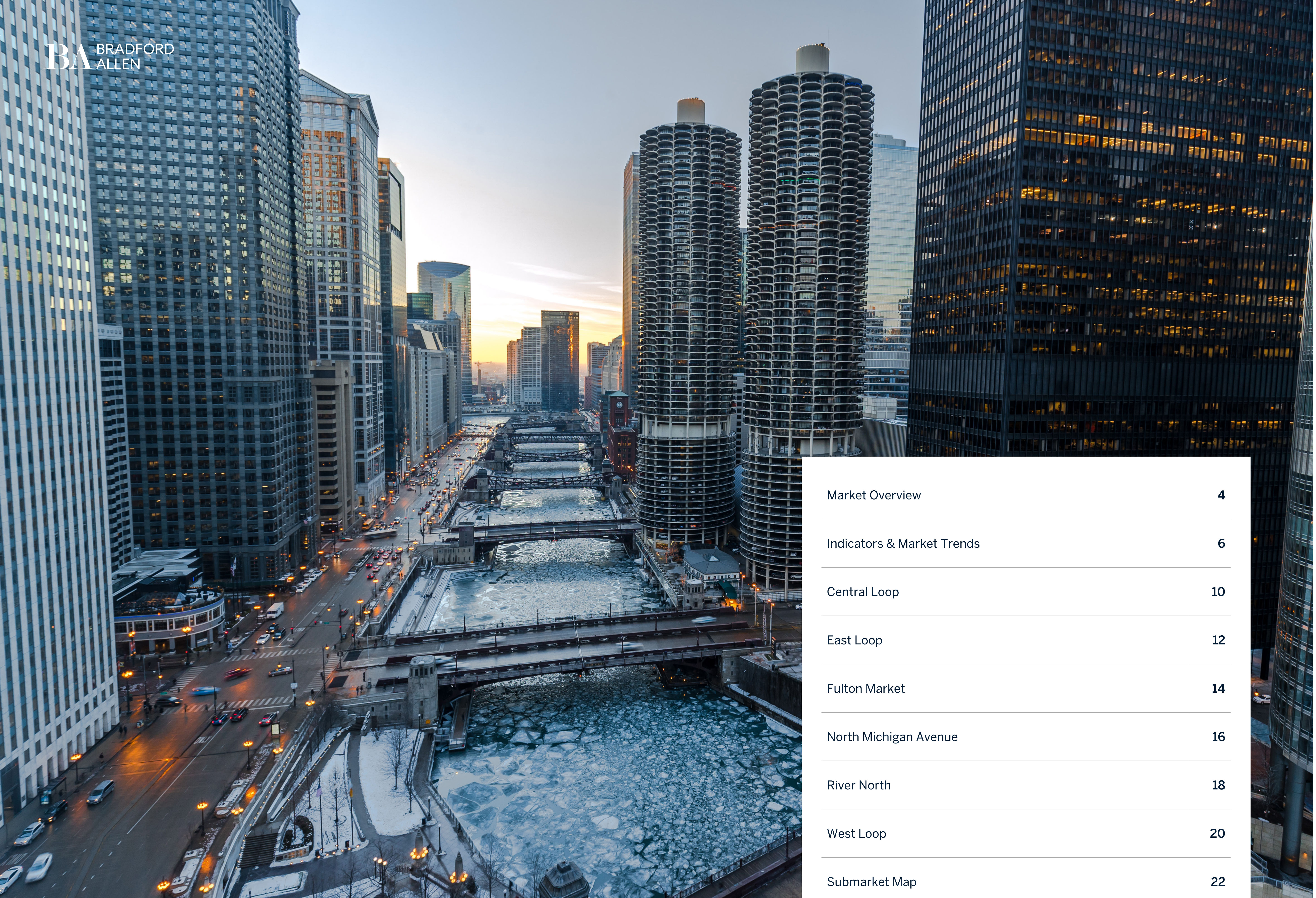
Q4/22
OFFICE MARKET REPORT
DOWNTOWN CHICAGO



CONTENTS

Market Overview	4
Indicators & Market Trends	6
Central Loop	10
East Loop	12
Fulton Market	14
North Michigan Avenue	16
River North	18
West Loop	20
Submarket Map	22

STEADY IMPROVEMENT CONFRONTS RISING RATES

In Q4/22, Chicago's downtown office market vacancy rates and rental rates remained relatively unchanged compared to Q3/22. Absorption levels deteriorated, however, totaling 800,000 square feet of negative net absorption through the quarter. As a result, absorption levels through 2022 were negative 1.2 million square feet—an improvement relative to the negative 3 million square feet seen in 2021.

The long-dated nature of office leases means that the stresses from the pandemic and the rise in hybrid work are still trickling through the CBD's commercial real estate market. As leases expire that were signed well before the pandemic started, companies continue re-evaluating their office space needs. In this environment, owners of older, outdated office buildings struggled to retain tenants while the flight-to-quality trend has dominated Chicago's CBD. Rising interest rates have placed additional stress on owners of these properties, leading to an increase in distressed assets and foreclosures, especially within the Central Loop submarket.

Today's market now faces an important question: What is the highest and best use going forward for these out-of-favor office assets? The City of Chicago has a view and has taken action to mitigate the oversupply issues weighing on the office market by providing additional funds for developers who plan to convert vacant office buildings into housing in the struggling LaSalle Street corridor. The trend is already underway as Chicago had the second-most office-to-apartment conversions of any city in the U.S. through 2021. Owners who are unable or unwilling to invest in their buildings or negotiate with tenants to lease up their assets may struggle, likely causing headline statistics to deteriorate further. Yet, these short-term hurdles ought to bring down asking prices and allow new investors to enter the market at a low basis, providing them with the financial flexibility to renovate their buildings and negotiate with tenants in order to stabilize Chicago's office market.

LEASING ACTIVITY

Leasing volume through 2022 remained below pre-pandemic levels, but in line with 2021, as approximately 7 million square feet was leased through the year. The largest lease announced this quarter was by Morningstar, which recently signed a five-year extension for its 263,000-square-foot space in the Central Loop. Even though the financial services firm has allowed employees to work from home, management still recognizes the benefits of a collaborative office space.

As the flight-to-quality trend continues and oversupply issues weigh on Chicago's CBD, landlords must find ways to attract new tenants in the increasingly competitive market. Office owners have stepped up their concession offerings for both new and existing tenants. Additionally, landlords are finding unique ways to bring in new tenants and retain existing ones. For example, the owners of 1 North Dearborn repurposed an "unusable area of the building" into a 10,000-square-foot gym. The building is now one of seven offices in Chicago to earn the two-star Fitwell certification, which is "a measure of how well a building meets the health and wellness of its occupants." As companies bring employees back into the office, creative and high-quality office amenities are a critical component.

Available sublease space continued to rise at a record pace (**Figure 01**), but this trend is not isolated to Chicago. There was a structural shift in the office market nationwide stemming from the hybrid work model. *Chicago Business Journal* used data from CoStar to analyze sublease trends across the country, compiling a list of 30 markets which experienced the highest sublease inventory growth rates over the past three years. From Q4/19 to Q4/22, Chicago's sublease inventory has nearly doubled; yet, it still sits at only 22nd on the list. Even though the office product has struggled nationwide, the reasons companies chose Chicago prior to the pandemic have remained fundamentally unchanged. The diverse talent pool, favorable location, extensive transit options and relatively less expensive cost of living creates an ideal situation for employers and employees.

INVESTMENT SALES

Transaction activity in 2022 appeared robust as $1.3 billion traded hands. In fact, this is the highest level of annual sales volume since the pandemic began, and only slightly below the $1.4 billion of transactions seen in 2019. However, the annual figures aren't necessarily indicative of the current state of the market. The CBD saw more than $900 million of office transactions in Q1/22, but investment sales activity significantly declined following the strong start to the year.

The fourth quarter of 2022 saw less than $20 million trade hands in Chicago's office market. An uncertain economic climate coupled with unfavorable financing conditions has led to a nearly record-low number of transactions—second only to Q1/20, when the pandemic halted nearly all deals in the CBD. This echoes a national trend across all commercial real estate. CoStar reports the "percentage of for-sale properties being pulled off the market by sellers surged in the third quarter to 14.2%, the highest in two years." A prominent example in the local Chicago market is 311 S. Wacker, which was reportedly set to sell earlier in 2022. Currently at just over 60% leased, down from 86% leased before the pandemic, the prospective purchasers backed out.

The largest deal of the quarter was the sale of 600 W. Jackson. The Class B office tower was originally purchased in 2017 for $23.5 million but was sold off in October for less than $11 million to the Farbman Group. This deal is likely indicative of an emerging trend. Owners who entered the market at a high basis prior to the pandemic struggle to keep their occupancy levels up at their buildings, leading to additional distressed sales and foreclosures.

DOWNTOWN CHICAGO

Q4/22 SNAPSHOT

21.8%	18.9%	$42.64
DIRECT AVAILABILITY RATE	DIRECT VACANCY RATE	DIRECT GROSS RENTAL RATE (PSF)

Property data were compiled from CoStar with these parameters: existing and under-renovation office property type; within Central, East and West Loops, N. Michigan Avenue, River North, and Fulton Market. Excluded properties include those with under 20,000 s.f. of office space; non-conforming and owner-occupied properties, including those owned by coworking firms. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters.

FIGURE 01

SUBLEASE TRENDS

Source: *CoStar*

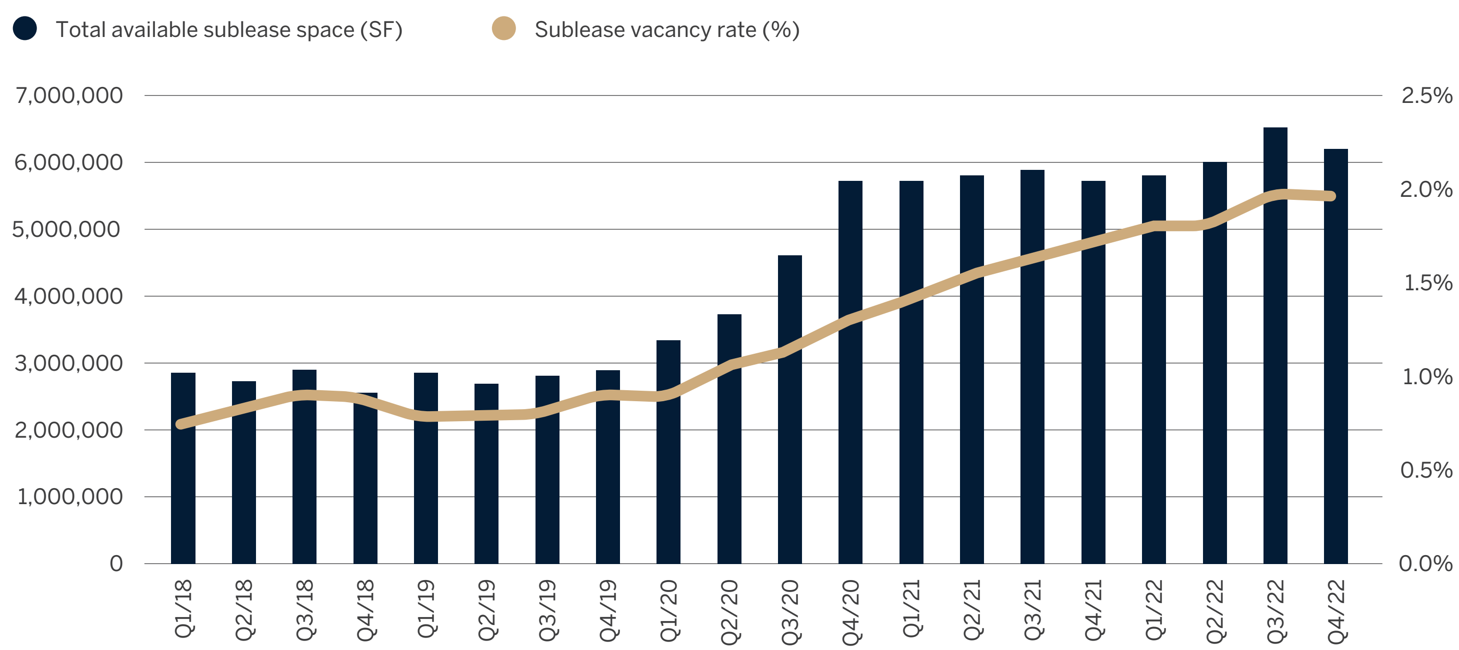


FIGURE 02

FLOATING-RATE LOANS: THIRTY-DAY AVERAGE SOFR (%)

Source: *St. Louis Federal Reserve*

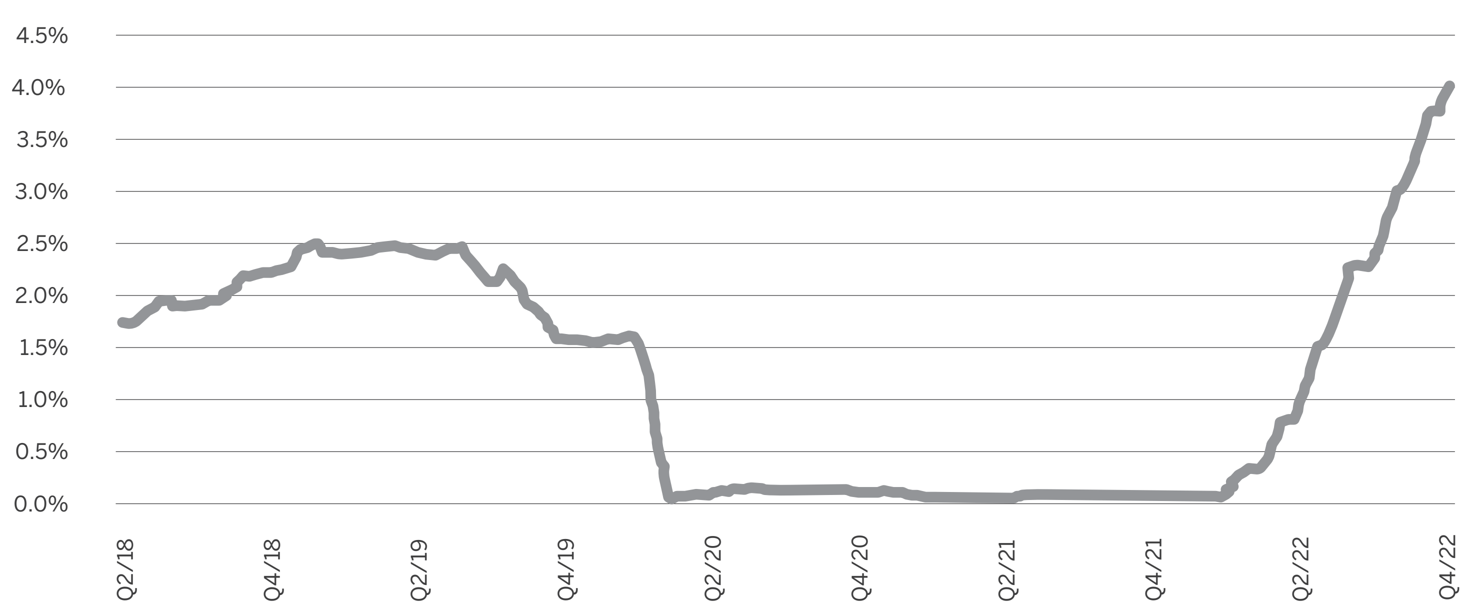


FIGURE 03

CHICAGO CBD SUBMARKET COMPARISON SUMMARY

Source: *CoStar*

SUBMARKET/ ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CBD	154,536,997	376,002	21.8%	4.2%	18.9%	2.3%	$42.64	(613,587)	221,780
CLASS A	107,238,985	788,522	19.6%	4.9%	17.2%	2.6%	$46.68	(197,610)	417,861
CLASS B	41,108,247	204,519	27.2%	2.6%	22.8%	1.6%	$36.75	(354,592)	(74,657)
CLASS C	6,189,765	83,645	24.6%	1.8%	22.6%	0.8%	$30.18	(61,385)	(121,424)
CENTRAL LOOP	36,277,828	549,664	25.3%	3.7%	23.2%	2.1%	$39.78	(410,860)	187,563
CLASS A	20,661,736	794,682	24.3%	3.8%	22.0%	2.2%	$43.27	(203,378)	(88,884)
CLASS B	15,021,706	455,203	26.7%	3.7%	24.9%	2.1%	$35.96	(208,637)	277,681
CLASS C	594,386	84,912	25.7%	0.0%	25.3%	0.0%	$25.11	1,155	(1,234)
EAST LOOP	25,973,252	519,465	24.5%	3.8%	21.1%	1.8%	$38.48	(410,896)	2,283
CLASS A	17,574,940	1,033,820	21.9%	4.7%	18.4%	1.7%	$42.50	(327,893)	186,018
CLASS B	6,029,797	354,694	32.6%	2.5%	29.0%	2.4%	$33.64	(48,253)	(150,756)
CLASS C	2,368,515	148,032	22.9%	0.7%	21.6%	0.5%	$27.54	(34,750)	(32,979)
FULTON MARKET	8,541,376	118,630	19.7%	1.9%	21.3%	1.1%	$40.06	(26,831)	285,100
CLASS A	5,297,823	264,891	16.7%	2.3%	20.9%	1.6%	$44.86	121,468	229,749
CLASS B	2,319,606	62,692	26.2%	1.1%	23.9%	0.0%	$35.28	(135,026)	58,315
CLASS C	923,947	61,596	20.8%	1.5%	17.4%	1.5%	$33.08	(13,273)	(2,964)
N. MICHIGAN AVENUE	12,475,269	378,038	15.4%	3.7%	14.0%	1.8%	$46.42	(38,790)	(62,651)
CLASS A	8,269,386	551,292	15.9%	5.1%	14.4%	2.6%	$49.05	(33,990)	(26,144)
CLASS B	4,205,883	233,660	14.4%	0.9%	13.2%	0.2%	$40.70	(4,800)	(36,507)
RIVER NORTH	16,968,564	180,517	19.5%	5.8%	15.9%	3.8%	$44.13	63,120	(73,612)
CLASS A	11,480,751	956,729	18.9%	7.8%	14.7%	5.0%	$49.46	49,829	(20,468)
CLASS B	4,229,159	70,486	18.4%	1.5%	16.1%	1.6%	$33.65	26,920	2,933
CLASS C	1,258,654	57,212	28.6%	2.0%	25.9%	0.7%	$34.67	(13,629)	(56,077)
WEST LOOP	54,300,708	565,632	20.7%	4.7%	16.7%	2.5%	$46.64	210,670	(116,903)
CLASS A	43,954,349	955,529	17.6%	5.1%	15.3%	2.7%	$50.00	196,354	137,590
CLASS B	9,302,096	258,392	34.5%	2.5%	22.6%	1.4%	$39.92	15,204	(226,323)
CLASS C	1,044,263	74,590	26.6%	5.2%	24.1%	1.5%	$30.31	(888)	(28,170)

FIGURE 04

VACANCY & ABSORPTION

Source: *CoStar*

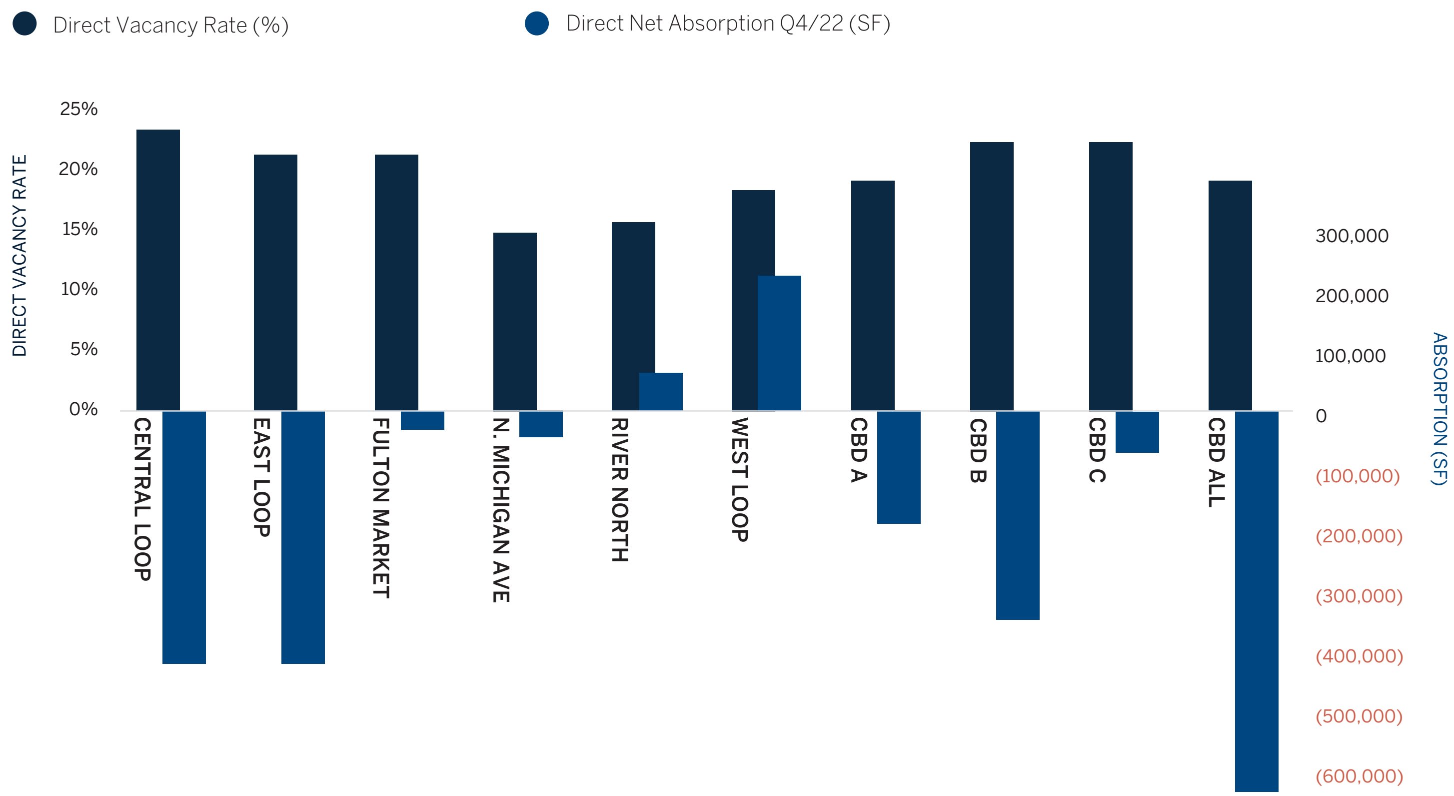


FIGURE 05

PRODUCT IN THE PIPELINE

Source: *CoStar*

SUBMARKET	PROPERTY ADDRESS	RBA (SF)	BUILDING STATUS	DELIVERY YEAR
WEST LOOP	732 W. Randolph St	48,560	Under Construction	2023
RIVER NORTH	470 W. Chicago Ave	20,500	Under Construction	2023
RIVER NORTH	311 W. Huron St	217,000	Under Construction	2023
FULTON MARKET	360 N. Green St	493,680	Under Construction	2023
FULTON MARKET	214 N. May St	10,000	Under Construction	2023
FULTON MARKET	1020 W. Randolph St	40,000	Under Construction	2023
RIVER NORTH	333 W. Wolf Point Plz	1,200,202	Under Construction	2023
FULTON MARKET	1200 W. Carroll Ave	494,775	Proposed	2023
FULTON MARKET	919 W. Fulton Market St	400,000	Proposed	2023
FULTON MARKET	900 W. Fulton Market St	62,723	Proposed	2023
FULTON MARKET	310 S. Green St	190,810	Proposed	2023
WEST LOOP	600 W. Washington Blvd	15,000	Proposed	2023

FIGURE 06

VACANCY RATE TIME SERIES

Source: *CoStar*

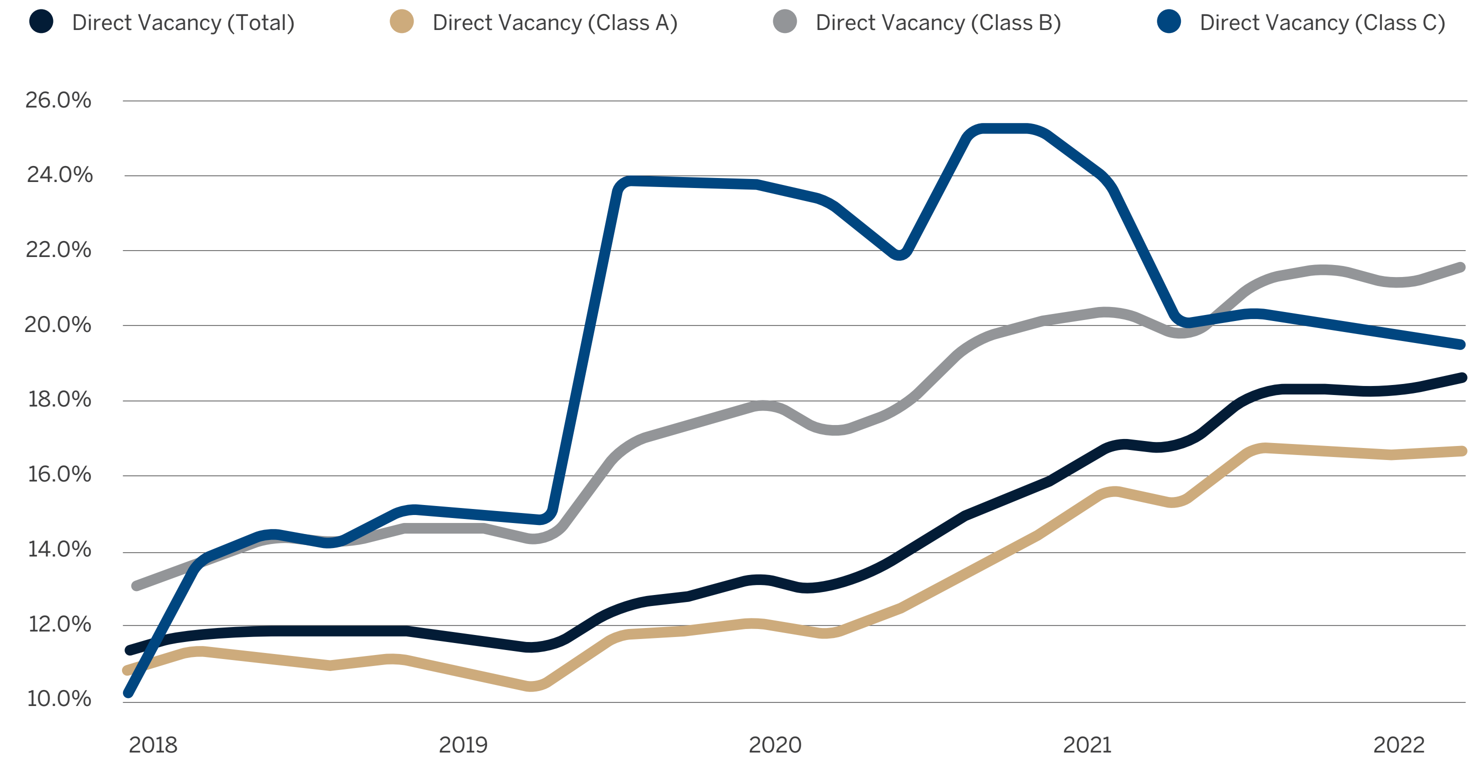


FIGURE 07

Q4/22 INVESTMENT SALES

Source: *CoStar*

PROPERTY ADDRESS	BUILDING SF	CLASS	SUBMARKET	SALE PRICE	$/SF	SALE DATE	BUYER	SELLER
600 W JACKSON	116,879	B	West Loop	$10,775,000	$92	10/7/22	Farbman Group	Stockbridge Capital Group, LLC
79 W MONROE	181,305	B	Central Loop	$8,750,000	$48	10/28/22	Tri Star Equities	R2 Companies

CENTRAL LOOP

- In Q4/22, the direct vacancy rate increased to 23.2% and sublease availability has increased from 3.4% to 3.7%.
- Absorption figures have turned negative in Q4/22, posting negative 410,000 square feet of net absorption.
- Tri Star Equities purchased a 181,000-square-foot office property at 79 W. Monroe.
- The largest lease of the quarter was signed by Morningstar which decided to renew their 263,000-square-foot space at 22 W. Washington.

MARKET MOVEMENT

BUILDING DISTRESS
9 BUILDINGS
(2,700,000 SF)
of available space

NEW LEASE
MINTEL
(29,957 SF)
203 N. LaSalle

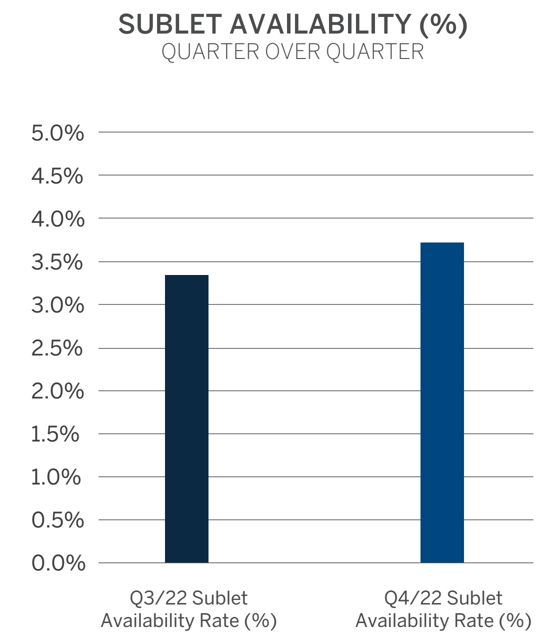
NEW LEASE
HANNESSY & ROACH
(29,127 SF)
70 W. Madison

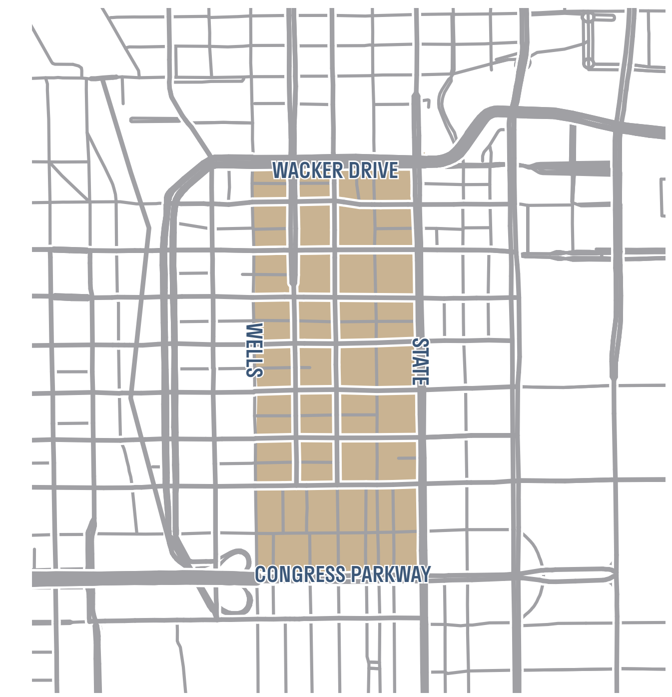
NEW LEASE
LOOP CAPITAL
(37,000 SF)
425 S. Financial Place

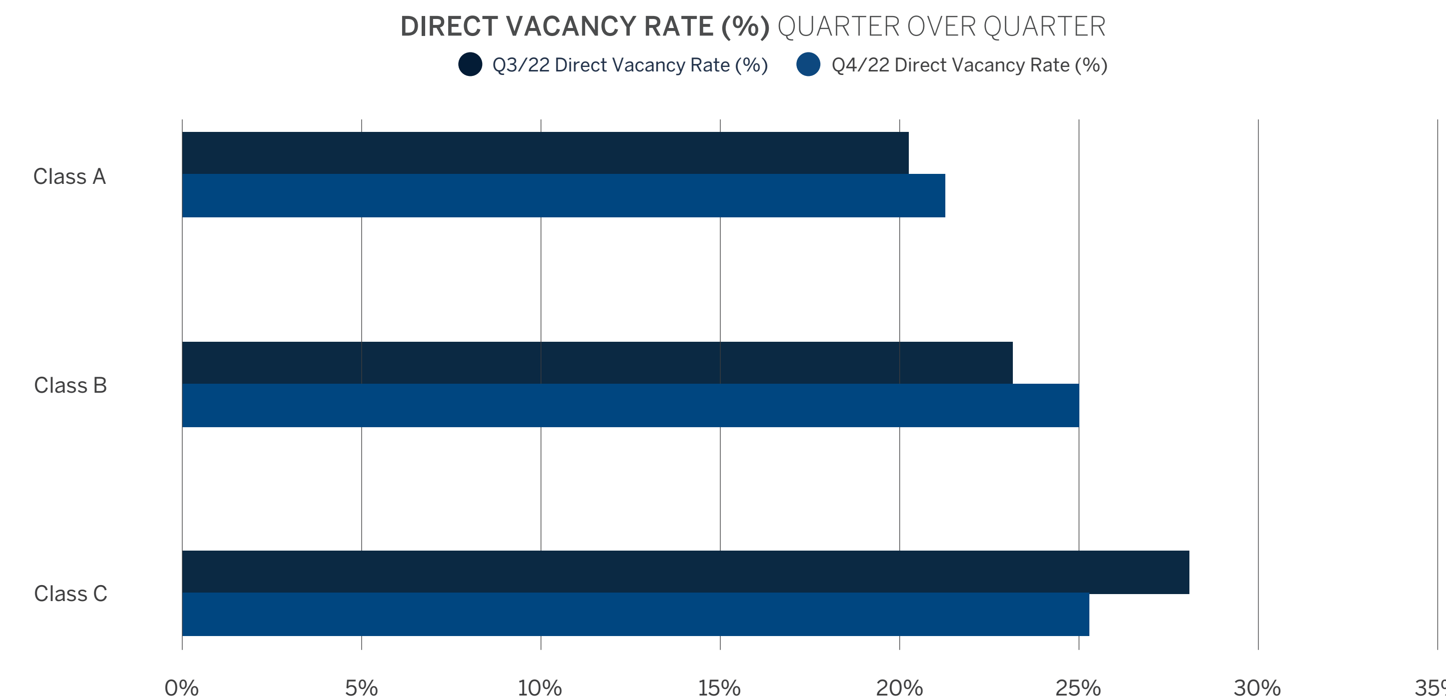
RENEWAL
MORNINGSTAR, INC.
(263,000 SF)
22 W. Washington

EXPANSION
CHICAGO TRADING CO.
(160,000 SF)
425 S. Financial Place

SALE
79 W. MONROE
(181,305 SF)
Buyer: Tri Star Equities







ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CLASS A	20,661,736	794,682	24.3%	3.8%	22.0%	2.2%	$43.27	(203,378)	(88,884)
CLASS B	15,021,706	455,203	26.7%	3.7%	24.9%	2.1%	$35.96	(208,637)	277,681
CLASS C	594,386	84,912	25.7%	0.0%	25.3%	0.0%	$25.11	1,155	(1,234)
TOTAL	36,277,828	549,664	25.3%	3.7%	23.2%	2.1%	$39.78	(410,860)	187,563

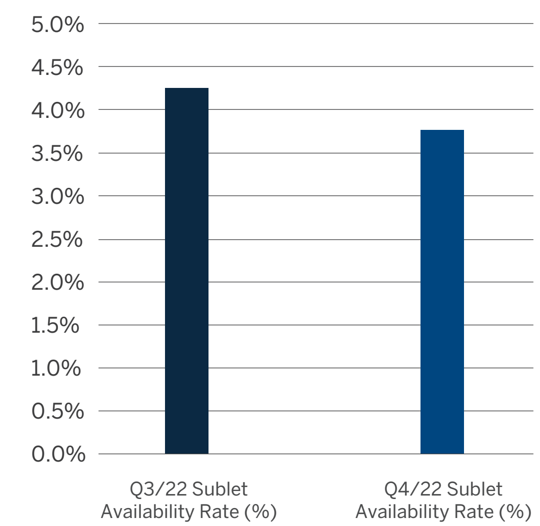
EAST LOOP

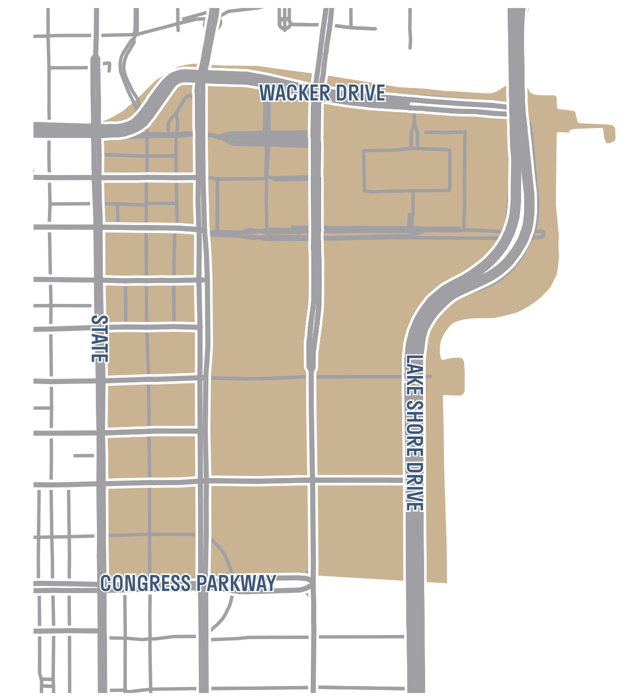
- In Q4/22, the direct vacancy rate increased to 21.1%, while the sublease availability rate decreased to 3.8%.
- Absorption levels declined after a positive Q3, posting negative 410,000 square feet of net absorption in Q4/22.
- Notable lease deals include a 33,000-square-foot lease signed by the U.S. Soccer Federation at 303 E. Wacker.

MARKET MOVEMENT

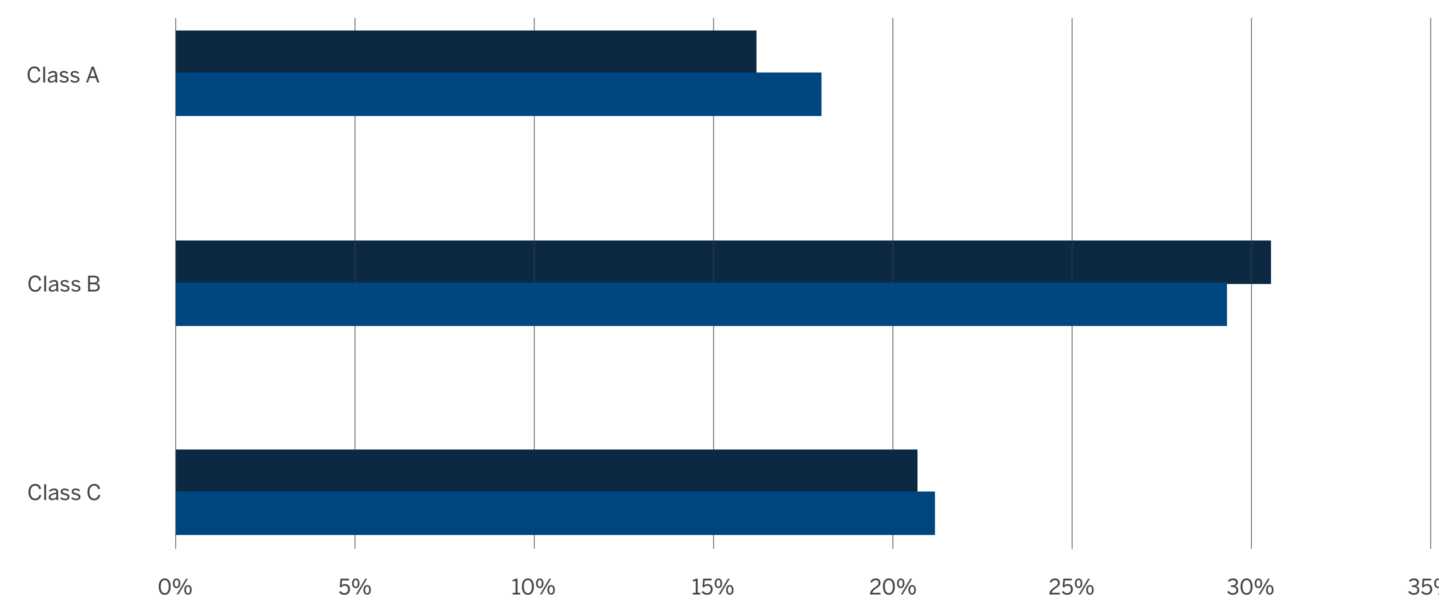
BUILDING DISTRESS	NEW LEASE	NEW LEASE
2 BUILDINGS (1,100,000 SF) of available space	COGAN & POWER (15,416 SF) 1 E. Wacker	U.S. SOCCER FEDERATION (33,054 SF) 303 E. Wacker

SUBLET AVAILABILITY (%) QUARTER OVER QUARTER





DIRECT VACANCY RATE (%) QUARTER OVER QUARTER



ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CLASS A	17,574,940	1,033,820	21.9%	4.7%	18.4%	1.7%	$42.50	(327,893)	186,018
CLASS B	6,029,797	354,694	32.6%	2.5%	29.0%	2.4%	$33.64	(48,253)	(150,756)
CLASS C	2,368,515	148,032	22.9%	0.7%	21.6%	0.5%	$27.54	(34,750)	(32,979)
TOTAL	25,973,252	519,465	24.5%	3.8%	21.1%	1.8%	$38.48	(410,896)	2,283

FULTON MARKET

- In Q4/22, the direct vacancy rate remained relatively steady at 21.3%. Sublease availability was also unchanged, staying at 1.9%.
- Absorption figures were slightly negative in Q4/22, but Fulton Market continues to attract new tenants as the submarket posted more than 600,000 square feet of positive net absorption through 2022.
- Notable lease deals include an 87,000-square-foot lease by Xeris Biopharma Holdings at 1375 W. Fulton.

MARKET MOVEMENT

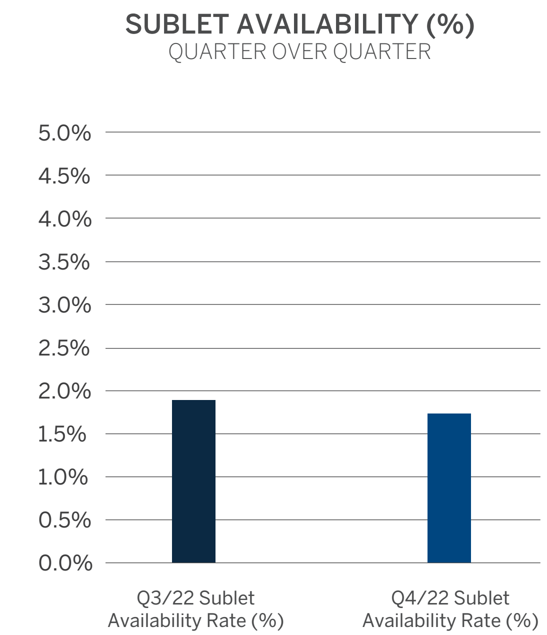
BUILDING DISTRESS
1 BUILDING
(79,000 SF)
of available space

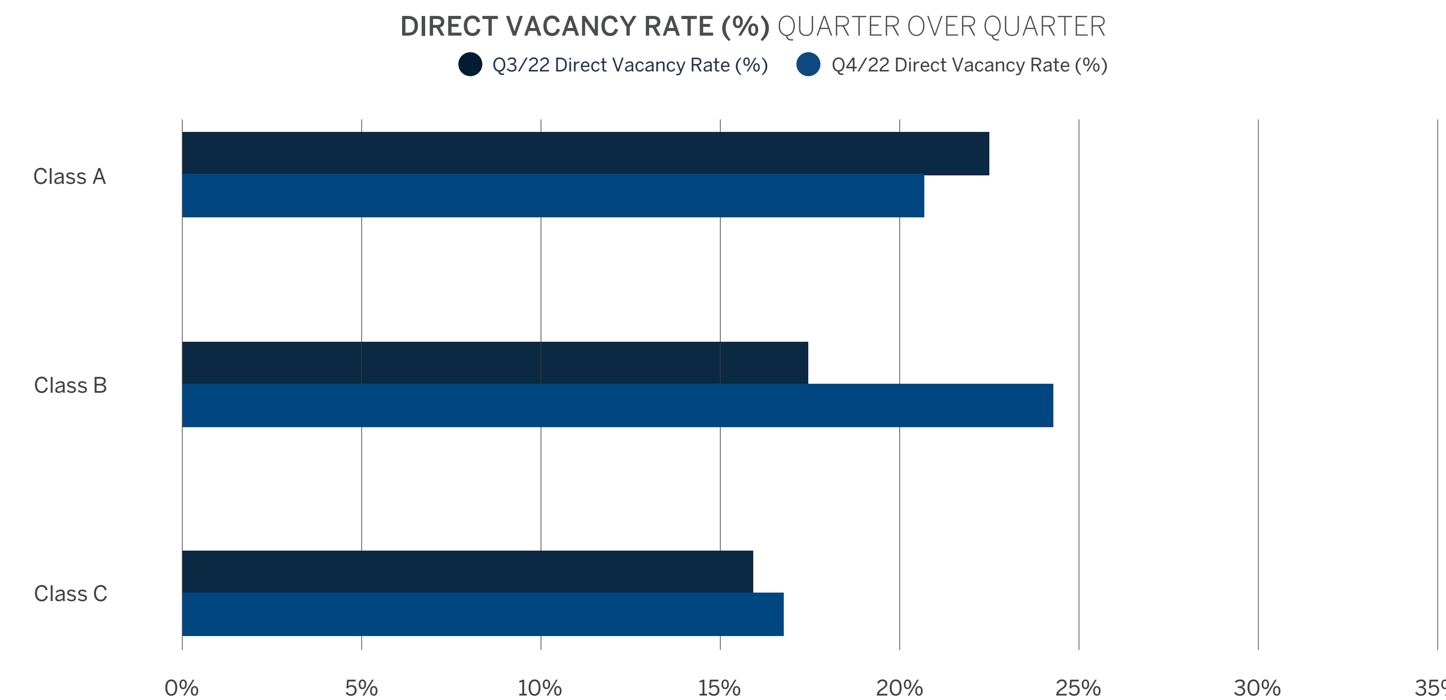
NEW LEASE
CALAMOS INVESTMENTS
(21,210 SF)
215 N. Peoria

NEW LEASE
SCHAFER CONDON CARTER
(15,000 SF)
176 N. Racine

NEW LEASE
XERIS BIOPHARMA HOLDINGS
(87,000 SF)
1375 W. Fulton

RENEWAL
CLIMATE CORPORATION
(11,830 SF)
1330 W. Fulton





ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CLASS A	5,297,823	264,891	16.7%	2.3%	20.9%	1.6%	$44.86	121,468	229,749
CLASS B	2,319,606	62,692	26.2%	1.1%	23.9%	0.0%	$35.28	(135,026)	58,315
CLASS C	923,947	61,596	20.8%	1.5%	17.4%	1.5%	$33.08	(13,273)	(2,964)
TOTAL	8,541,376	118,630	19.7%	1.9%	21.3%	1.1%	$40.06	(26,831)	285,100

NORTH MICHIGAN AVENUE

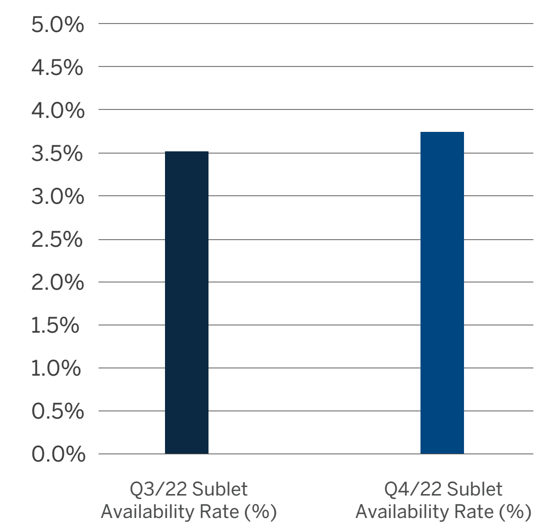
- In Q4/22, the direct vacancy rate remained relatively unchanged at 14%, which is lower than every other submarket in Chicago's CBD. Sublease availability was steady at 3.7%.
- Absorption levels were negative through the quarter, posting negative 38,790 square feet of net absorption in Q4/22.
- Notable lease deals include a 10,000-square-foot lease signed by American Hydrotech at 401 N. Michigan.

MARKET MOVEMENT

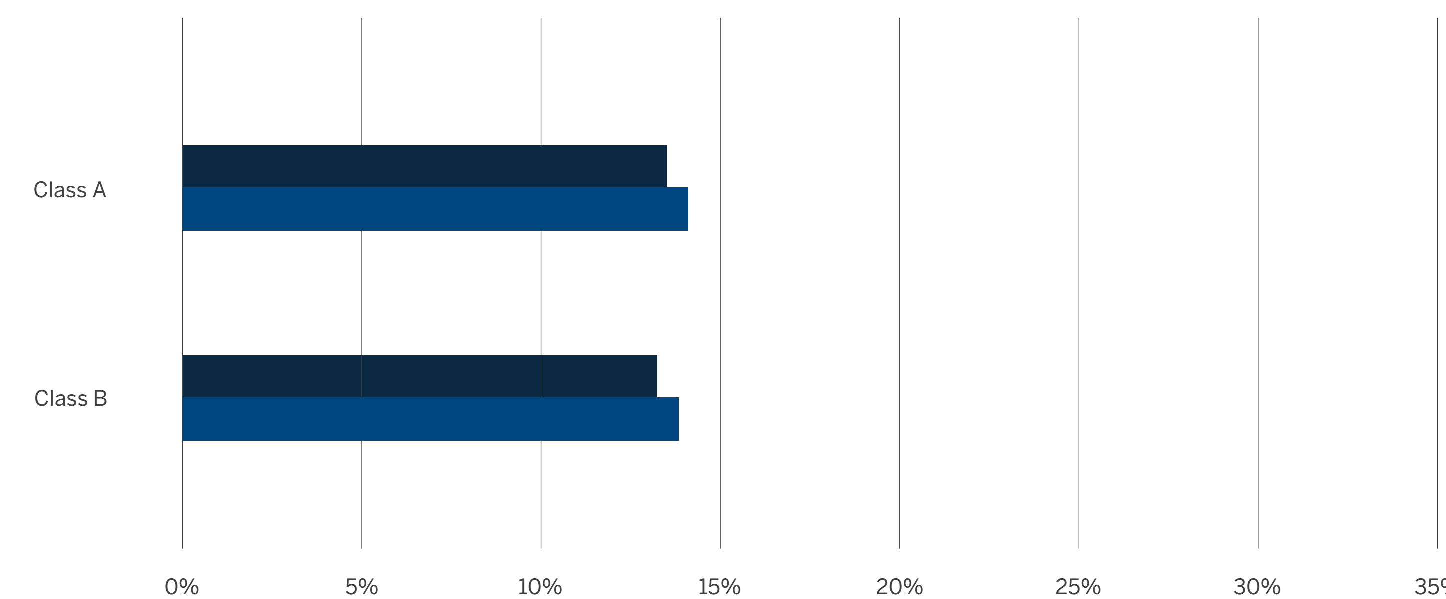
NEW LEASE

AMERICAN HYDROTECH
(10,513 SF)
401 N. Michigan

SUBLET AVAILABILITY (%)
QUARTER OVER QUARTER



DIRECT VACANCY RATE (%) QUARTER OVER QUARTER



ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CLASS A	8,269,386	551,292	15.9%	5.1%	14.4%	2.6%	$49.05	(33,990)	(26,144)
CLASS B	4,205,883	233,660	14.4%	0.9%	13.2%	0.2%	$40.70	(4,800)	(36,507)
TOTAL	12,475,269	378,038	15.4%	3.7%	14.0%	1.8%	$46.42	(38,790)	(62,651)

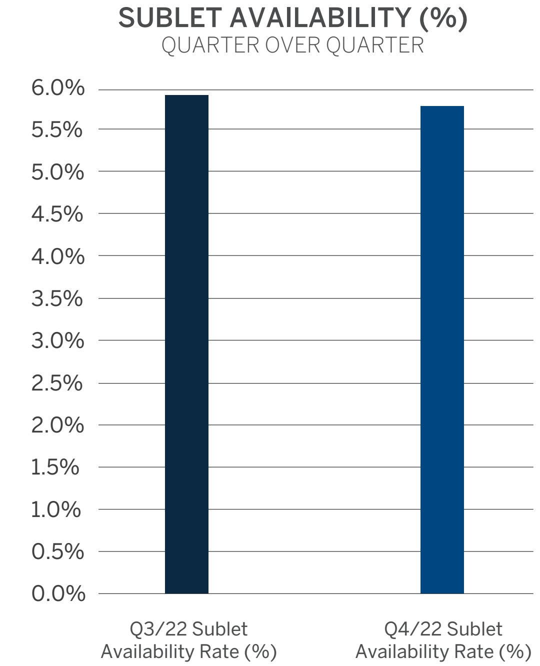
RIVER NORTH

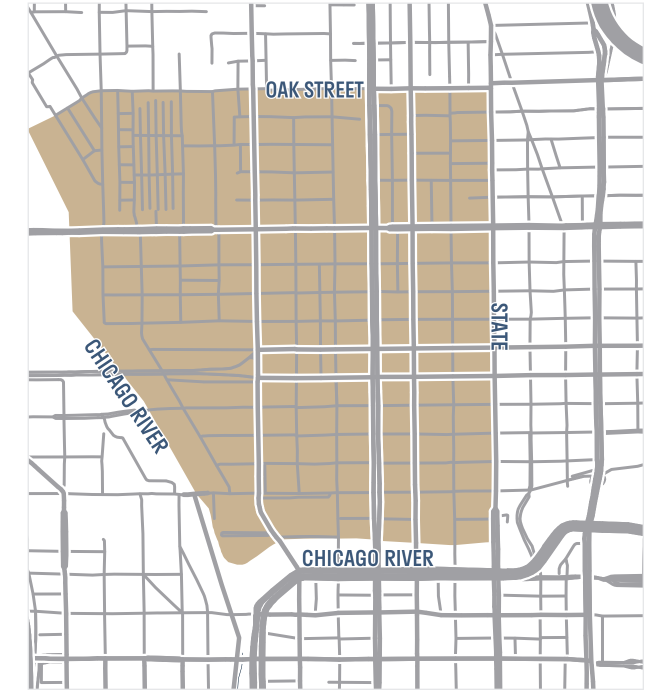
- In Q4/22, the direct vacancy rate increased to 15.9%. Sublease availability remained at similar levels to Q3/22 at 5.8%. River North vacancy levels have been consistently lower than the overall vacancy rate for Chicago's CBD.
- Absorption levels turned positive, posting more than 60,000 square feet of positive net absorption in Q4/22.

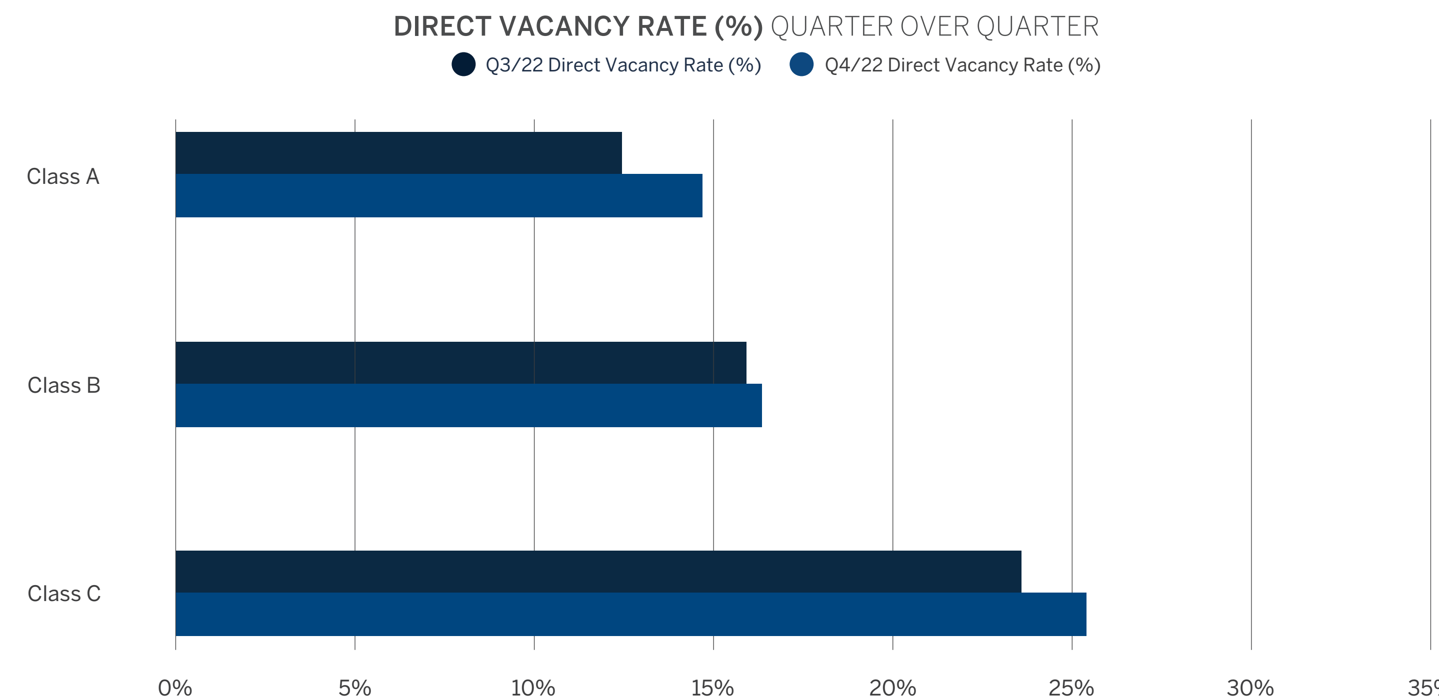
MARKET MOVEMENT

BUILDING DISTRESS

5 BUILDINGS
(140,000 SF)
of available space







ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CLASS A	11,480,751	956,729	18.9%	7.8%	14.7%	5.0%	$49.46	49,829	(20,468)
CLASS B	4,229,159	70,486	18.4%	1.5%	16.1%	1.6%	$33.65	26,920	2,933
CLASS C	1,258,654	57,212	28.6%	2.0%	25.9%	0.7%	$34.67	(13,629)	(56,077)
TOTAL	16,968,564	180,517	19.5%	5.8%	15.9%	3.8%	$44.13	63,120	(73,612)

WEST LOOP

- In Q4/22, the direct vacancy rate slightly declined to 16.7%. Sublease availability remained relatively steady at 4.7%.
- Absorption levels turned positive, posting 210,000 square feet of net absorption. The West Loop continues to command the highest rental rate on average in Chicago's CBD.
- Leasing activity remained strong in Q4/22, led by Alvarez & Marsal's decision to lease more than 40,000 square feet of space at 540 W. Madison.
- The largest transaction of Q4/22 was the Farbman Group's purchase of 600 W. Jackson for $10.8 million.

MARKET MOVEMENT

BUILDING DISTRESS
4 BUILDINGS
(733,000 SF)
of available space

NEW LEASE
ZORO
(41,875 SF)
500 W. Madison

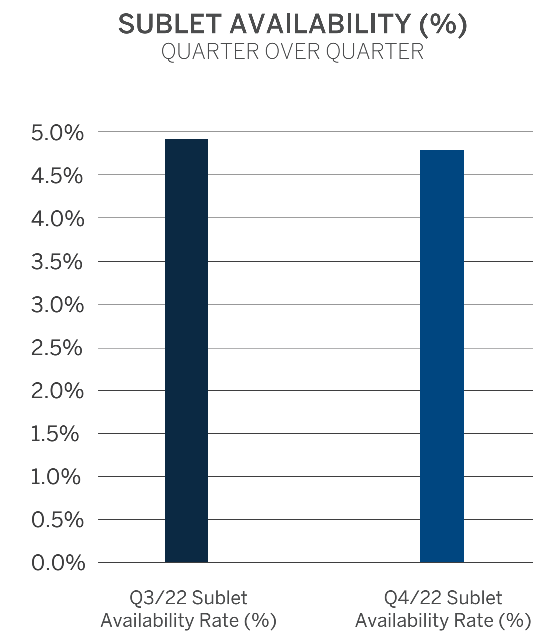
NEW LEASE
ALVAREZ & MARSAL, LLC
(41,957 SF)
540 W. Madison

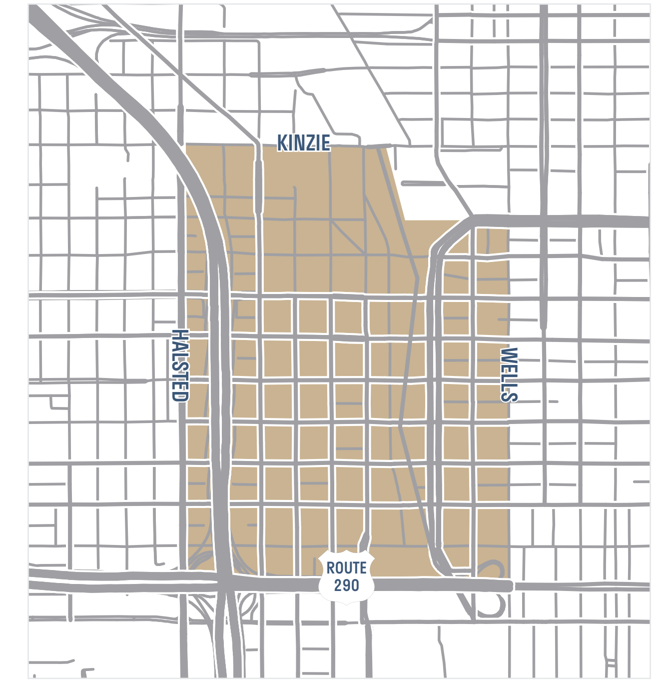
RENEWAL/ EXPANSION
TWIN BROOK CAPITAL PARTNERS
(24,952 SF)
111 S. Wacker

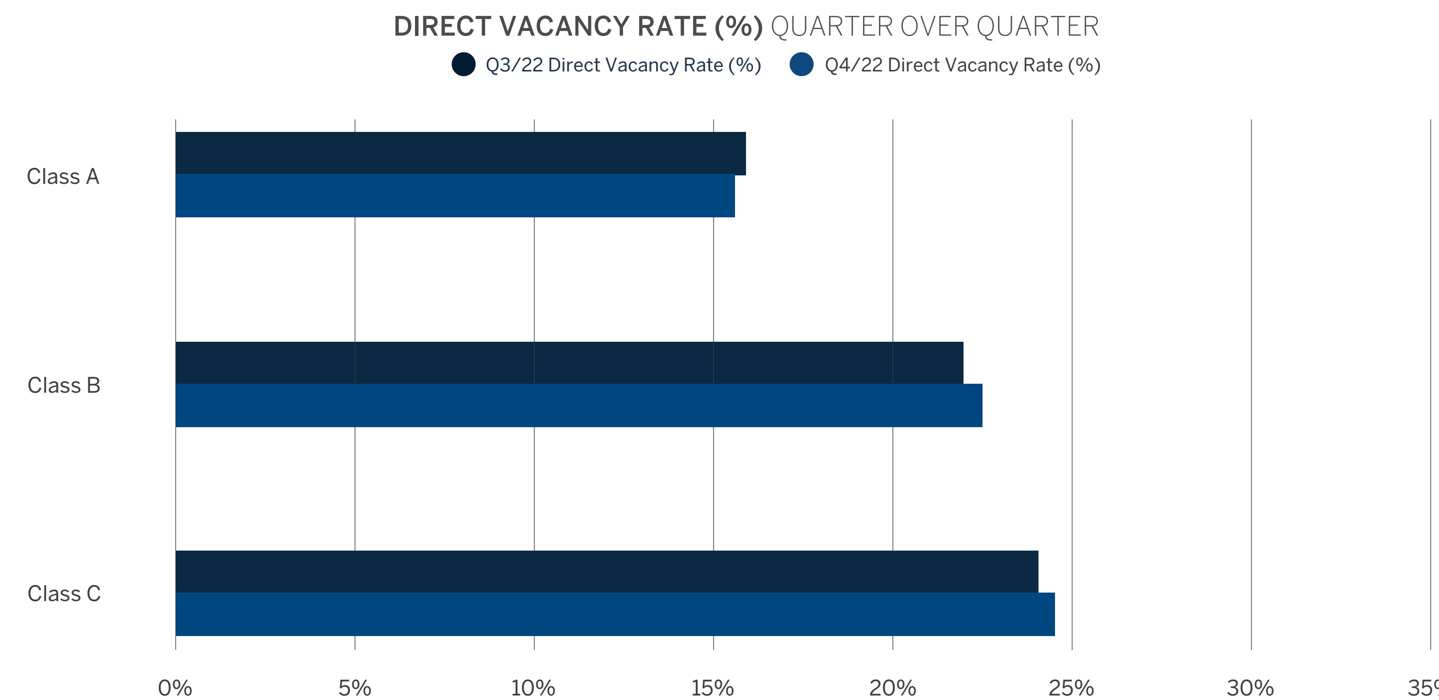
RENEWAL
CORO CYBER SECURITY
(20,667 SF)
550 W. Van Buren

SUBLEASE
CISION
(24,851 SF)
300 S. Riverside

SALE
600 W. JACKSON
(116,879 SF)
Buyer: Farbman Group

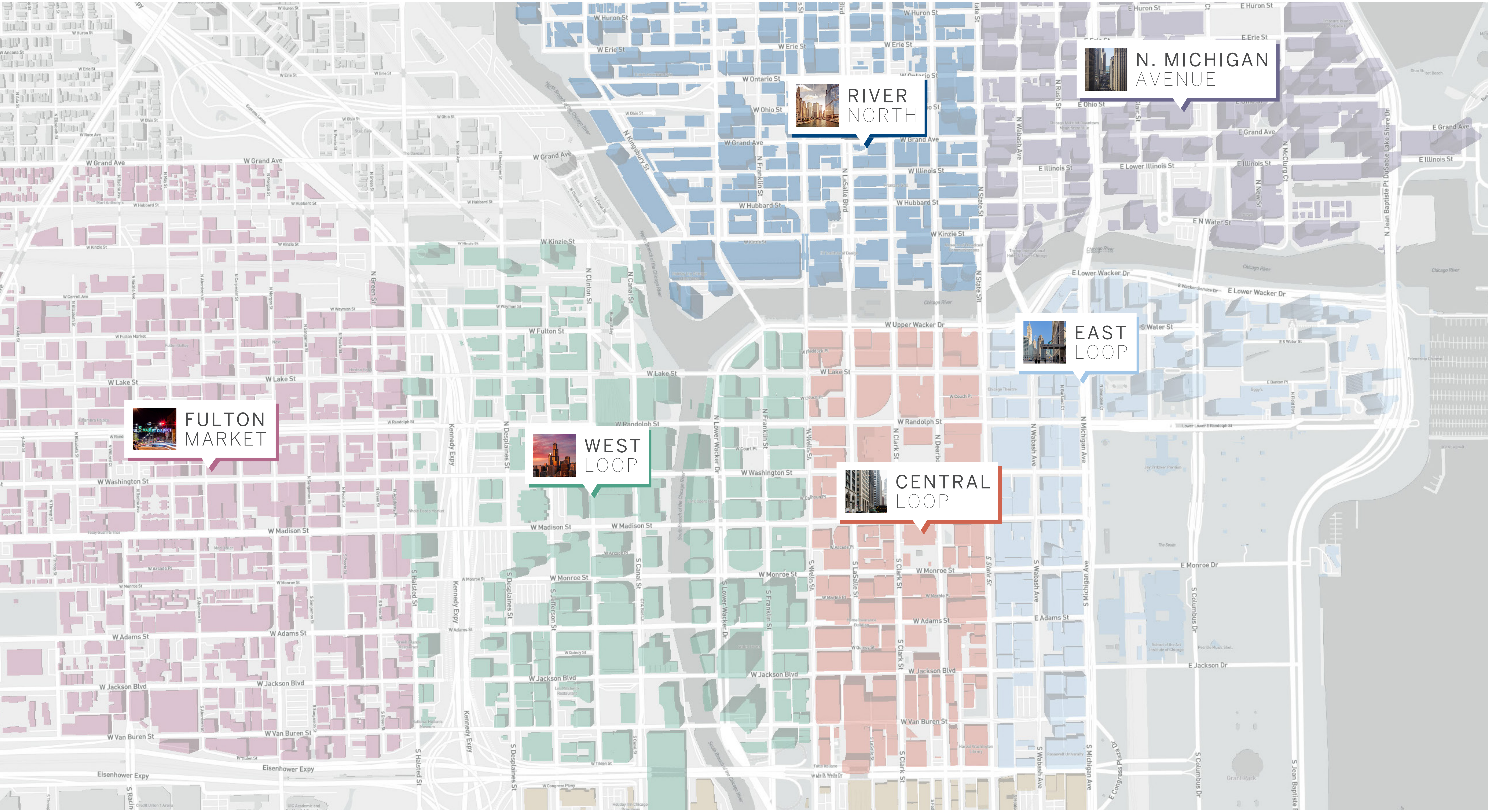






ASSET CLASS	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABILITY RATE (%)	SUBLET AVAILABILITY RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS ASKING RATE (DIRECT)	DIRECT NET ABSORPTION Q4 (SF)	DIRECT NET ABSORPTION Q3 (SF)
CLASS A	43,954,349	955,529	17.6%	5.1%	15.3%	2.7%	$50.00	196,354	137,590
CLASS B	9,302,096	258,392	34.5%	2.5%	22.6%	1.4%	$39.92	15,204	(226,323)
CLASS C	1,044,263	74,590	26.6%	5.2%	24.1%	1.5%	$30.31	(888)	(28,170)
TOTAL	54,300,708	565,632	20.7%	4.7%	16.7%	2.5%	$46.64	210,670	(116,903)

SUBMARKET LOCATION MAP



BRADFORD ALLEN

bradfordallen.com