BRADFORD ALLEN

Q2/24
OFFICE MARKET REPORT

Downtown Chicago

TCN WORLDWIDE REAL ESTATE SERVICES

CONTENTS

STRONG DEMAND FOR MOVE-IN READY SUITES AMID RISING VACANCY

In Q2/24, the downtown office market's vacancy rate surpassed 22%, an increase from 20% at year-end 2023. Absorption improved, but remained negative at -67,000 square feet in Q2, bringing the year-to-date number to negative 1.9 million square feet, more than double the negative net absorption over the same period last year. Despite these weak headline statistics, there are pockets of strength in the CBD. For example, Fulton Market continues to outperform, posting positive absorption every year since 2016.

Companies continue to fine-tune their office attendance policies, seeking "enough in-office time for employees to meet and brainstorm, but offer enough flexibility to attract workers." While some opted for hybrid work models, others—primarily legal and financial services firms—brought employees back five days a week. As a result, Chicago's professional services firms are contributing to improved office utilization, especially compared to other major markets. In fact, Chicago ranks fourth out of eleven major cities for year-over-year office attendance growth, according to Placer.AI's most recent report.

Both sales activity and leasing volume were muted in Q2/24. Landlords are navigating loan maturities amid high interest rates, all while operating in a historically competitive leasing market. This is leading to elevated levels of distress.

Owners that are operating their assets successfully tend to have reinvested capital into their properties, enhancing the tenant experience while showing additional commitment to lenders during loan negotiations. Owners that are unable or unwilling to invest additional capital more frequently face foreclosure, which happened most recently at 332 S. Michigan.

Leasing Activity

Leasing activity remains at historically low levels as companies continue to evaluate their office needs. Only 1.5 million square feet was leased in Q2, bringing the year-to-date figure to 3.2 million square feet. This pace is 500,000 SF less than the 3.6 million square feet leased through the first half of 2023. It's also less than half the 7.2 million square feet leased through the first half of 2019, prior to the pandemic.

Headlines often highlight companies reducing their office footprints, but some tenants are actually expanding their presence in Chicago's CBD. In fact, companies including law firm Norton Rose Fullbright, trading firm Aquatic Capital Management, and Blue Ops M&A Advisory are all at least doubling their downtown footprint.

These new leases are typically signed at properties with ownership groups well-positioned to handle the distress in the post-pandemic office market. Landlords that are financially committed to their properties have a higher likelihood of securing new tenants and negotiating loan extensions. For example, Wanxiang, the owner of One Prudential Plaza at 130 E. Randolph, received a two-year loan extension by committing at least $50 million to the property over the next four years. As a result, they inked a new 13-year lease with architecture firm HOK for 25,000 square feet in May, and the property is now 87% leased.

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 square feet 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.

Investment Sales

Five properties totaling $156 million traded hands in Q2/24, resulting in a total of $255 million in sales volume through the first half of 2024. This is above the $56 million sold through the first half of 2023 but remains historically low compared to pre-pandemic levels. In fact, the average sales volume through the first 6 months each year from 2015-2019 was more than $1.6 billion.

The largest transaction this quarter was the sale of 333 W. Wacker in the West Loop. Beacon Capital Partners purchased the 36-story tower for $125 million ($141/SF), a significant discount compared to the previous purchase price of $320 million in 2015. Despite the sizable discount, this deal is the largest office transaction in Chicago's CBD in more than two years. This transaction follows the trend of other downtown offices trading for significant discounts compared to their previous prices.

To combat slowing sales and rising vacancy, the city is creating incentives for developers to repurpose zombie office product. The LaSalle Corridor Revitalization program, which was originally proposed by the Lightfoot administration, has officially moved forward under Mayor Johnson by committing more than $150 million of TIF funds to redevelop four office properties. The redevelopment aims to increase demand and activity by constructing 1,039 apartments on LaSalle & Monroe, 319 of which will be earmarked for affordable housing.

DOWNTOWN CHICAGO

Q2/24 SNAPSHOT

(67,016) SF
Direct Net Absorption Q2/24

22.0%
Direct Vacancy Rate

$42.81/SF
Average Gross Asking Rate

FIGURE 01

Listings by Time on the Market

Source: *CoStar*

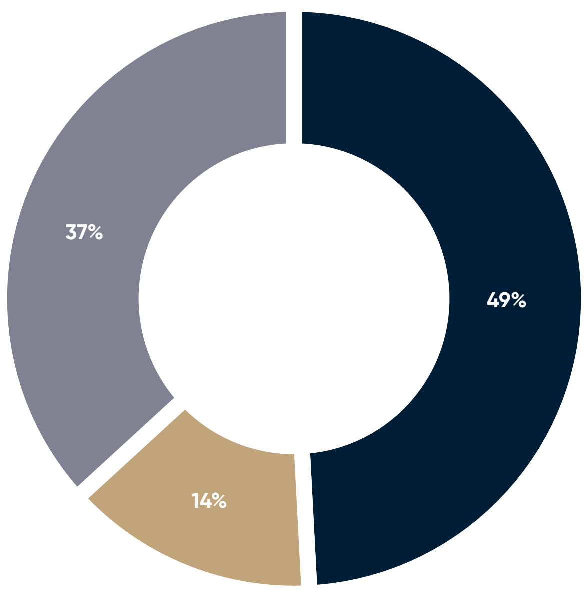
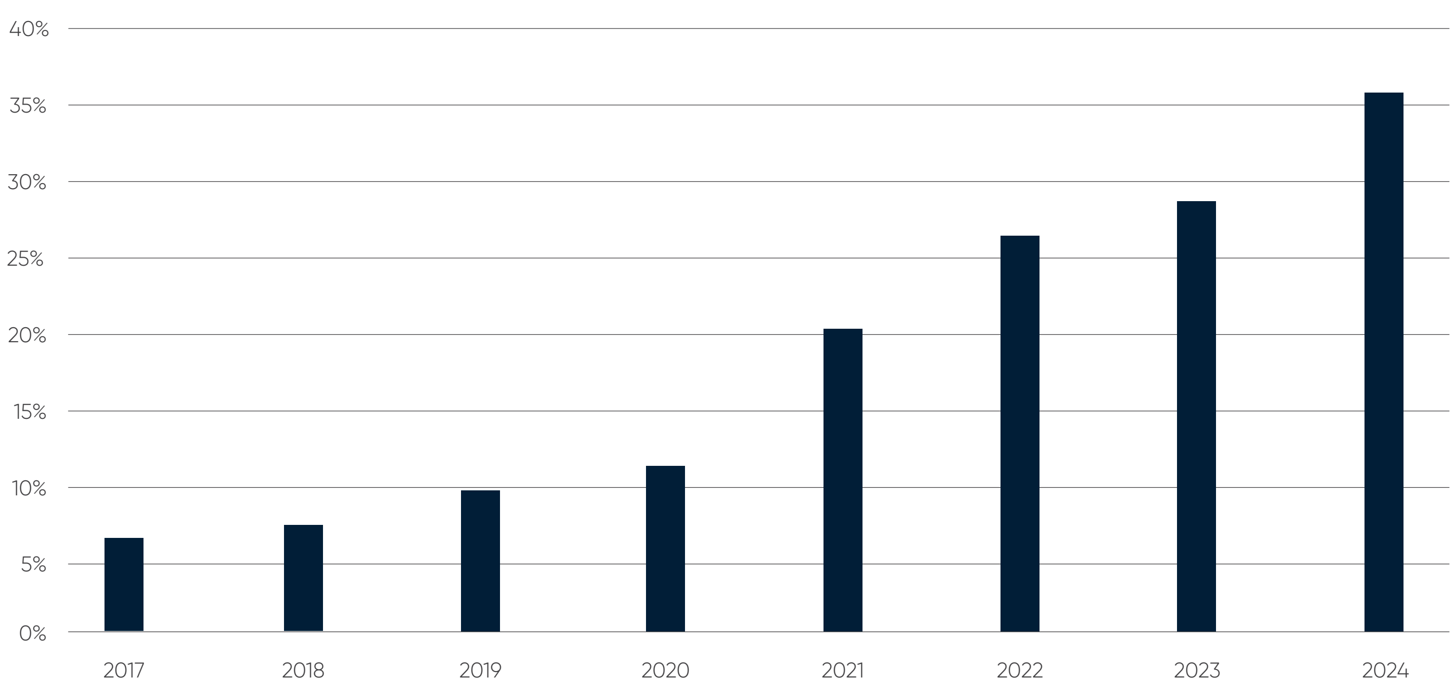


FIGURE 02

Move-In Ready Suites: Leasing Activity

Source: *CoStar*



This chart shows the percentage of square footage leased for move-in ready suites year over year, which are deals classified as fully builtout or spec suites in CoStar.

FIGURE 03

Chicago CBD Submarket Comparison Summary

Source: *CoStar*

SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q2/24 NET ABSORPTION	Q1/24 NET ABSORPTION
CHICAGO CBD	161,527,766	355,006	25.1%	4.3%	22.0%	1.8%	$42.81	(67,016)	(1,799,812)
CLASS A	99,062,999	792,504	23.5%	5.0%	20.2%	2.3%	$49.71	41,081	(1,220,715)
CLASS B	55,100,672	228,633	28.0%	3.3%	25.3%	1.2%	$34.29	(190,520)	(571,665)
CLASS C	7,364,095	82,743	24.6%	1.2%	22.1%	0.3%	$26.92	82,423	(7,432)
CENTRAL LOOP	37,682,328	554,152	27.5%	3.8%	24.5%	1.3%	$37.48	41,636	(439,687)
CLASS A	10,770,590	897,549	25.5%	4.7%	21.1%	3.0%	$47.60	56,383	(87,650)
CLASS B	26,147,813	544,746	28.4%	3.6%	26.0%	0.6%	$34.00	(21,632)	(344,018)
CLASS C	763,925	95,491	23.5%	0.0%	23.5%	0.0%	$26.41	6,885	(8,019)
EAST LOOP	24,901,870	488,272	31.4%	4.0%	26.8%	1.2%	$40.78	(121,426)	(409,721)
CLASS A	16,131,641	1,008,228	32.6%	5.2%	26.6%	1.2%	$44.47	(182,196)	(364,520)
CLASS B	6,070,297	337,239	32.3%	2.2%	30.3%	1.6%	$35.29	17,256	(19,754)
CLASS C	2,699,932	158,820	22.9%	0.4%	19.7%	0.1%	$26.80	43,514	(25,447)
FULTON MARKET	9,905,330	115,178	16.9%	5.8%	17.1%	2.3%	$44.22	196,429	54,624
CLASS A	5,847,420	292,371	16.4%	8.3%	17.4%	3.4%	$53.34	195,604	(21,339)
CLASS B	2,625,418	64,035	19.5%	1.6%	19.9%	0.5%	$32.44	(5,545)	59,033
CLASS C	1,432,492	57,300	14.5%	3.4%	10.7%	0.8%	$31.11	6,370	16,930
N.MICHIGAN AVE	13,706,210	334,298	18.1%	3.7%	15.5%	2.1%	$47.85	(44,468)	(175,262)
CLASS A	9,286,535	546,267	18.4%	5.0%	16.3%	2.9%	$55.10	(63,762)	(138,591)
CLASS B	4,218,136	200,864	17.2%	0.8%	13.6%	0.4%	$32.03	19,294	(38,421)
CLASS C	201,539	67,180	21.0%	5.2%	17.8%	0.0%	$26.38	0	1,750
RIVER NORTH	18,717,979	174,934	27.1%	3.1%	24.7%	1.1%	$46.35	(209,471)	(363,112)
CLASS A	12,825,421	855,028	26.8%	3.7%	24.7%	1.0%	$54.54	(180,869)	(205,792)
CLASS B	4,555,595	67,994	24.9%	2.3%	21.5%	1.6%	$30.24	(26,273)	(170,068)
CLASS C	1,336,963	53,479	37.5%	0.5%	35.8%	0.0%	$26.70	(2,329)	12,748
WEST LOOP	56,614,049	555,040	23.1%	4.9%	19.8%	2.5%	$45.75	70,284	(466654)
CLASS A	44,201,392	982,253	20.7%	5.0%	17.5%	2.5%	$50.14	215,921	(402,823)
CLASS B	11,483,413	249,639	31.9%	5.0%	28.2%	2.7%	$36.31	(173,620)	(58,437)
CLASS C	929,244	84,477	27.9%	0.8%	26.6%	0.8%	$24.69	27,983	(5,394)

FIGURE 04

Absorption

Source: *CoStar*

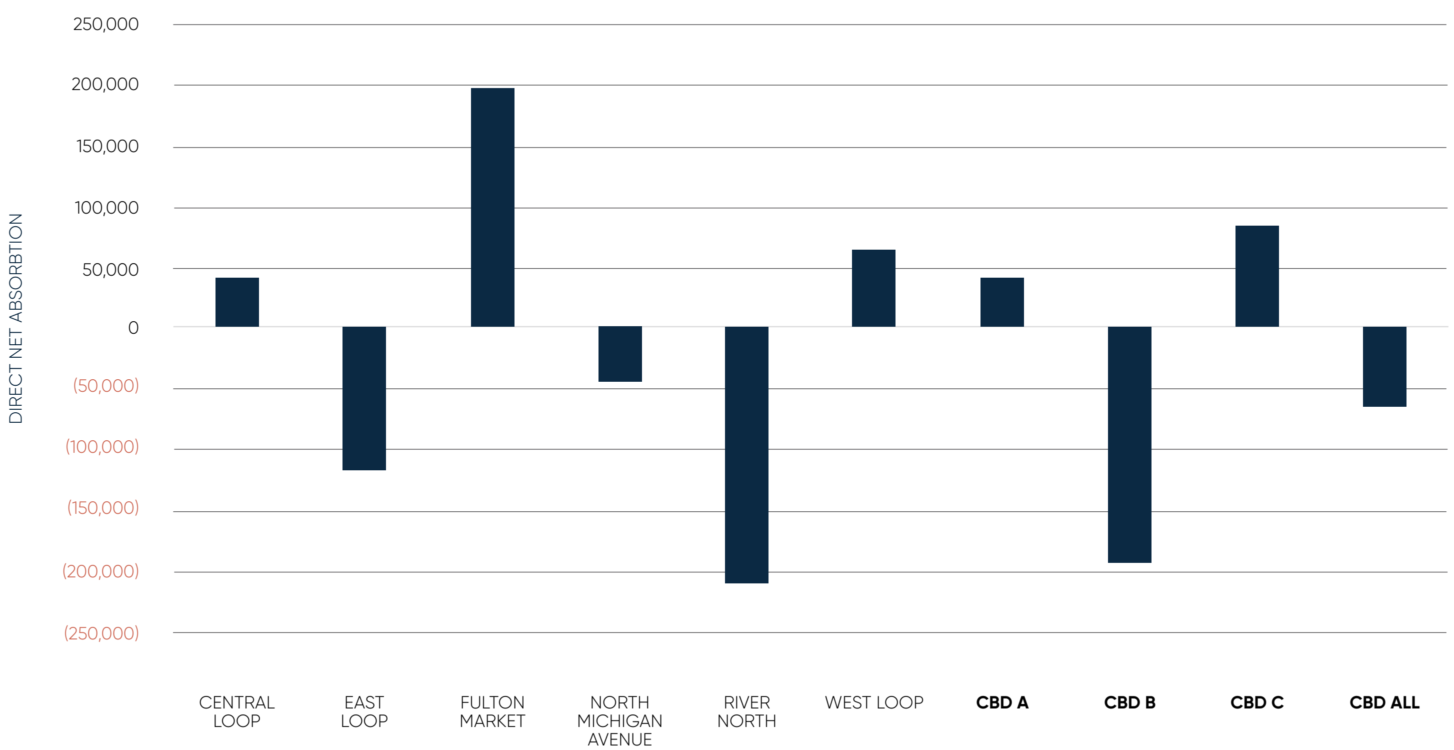


FIGURE 05

Product Pipeline

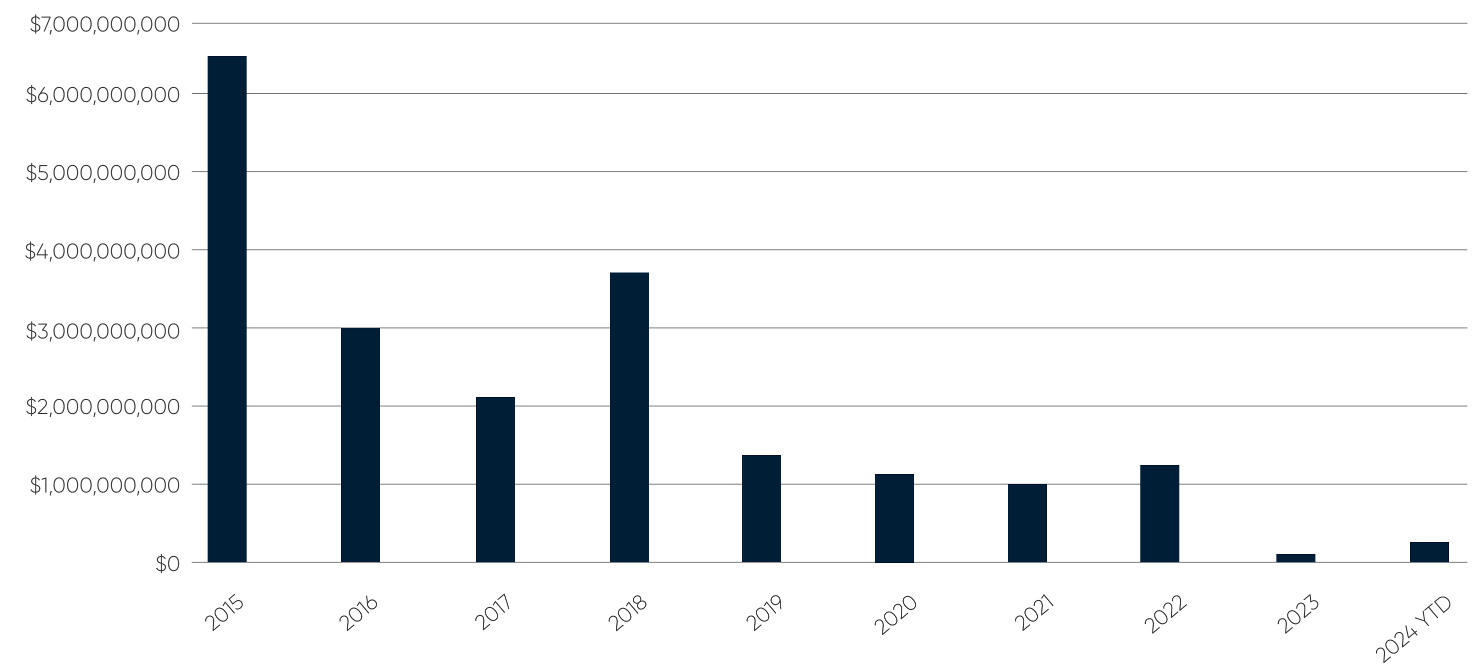
Source: *CoStar*

SUBMARKET	PROPERTY ADDRESS	RBA (SF)	BUILDING STATUS	DELIVERY YEAR
NORTH MICHIGAN AVENUE	535 N. Saint Clair Street	60,000	Under Construction	2024
FULTON MARKET	1325 Fulton	439,048	Proposed	2025
FULTON MARKET	919 W. Fulton Market	369,008	Under Construction	2025
FULTON MARKET	310 S. Green Street	190,810	Proposed	2025
FULTON MARKET	1200 W. Carroll Avenue	494,775	Proposed	2026
FULTON MARKET	1105 W. Carroll Avenue	680,049	Proposed	2026
FULTON MARKET	1300 W. Carroll Avenue	204,780	Proposed	2026
FULTON MARKET	400 N. Elizabeth Street	503,000	Proposed	2026
FULTON MARKET	170 N. Green Street	609,050	Proposed	2026
FULTON MARKET	330 N. Green Street	712,000	Proposed	2026
FULTON MARKET	357 N. Green Street	675,000	Proposed	2026
WEST LOOP	655 W. Madison Street	850,000	Proposed	2026
FULTON MARKET	350 N. Morgan Street	592,900	Proposed	2026
WEST LOOP	725 W. Randolph Street	1,000,000	Proposed	2026

FIGURE 06

Sales Volume

Source: *CoStar*



CENTRAL LOOP

- In Q2/24, the direct vacancy rate held steady at 25% while sublease availability declined to 3.8%, a 60 basis point drop compared to 4.4% in the previous quarter.
- Absorption levels turned positive this quarter after a negative Q1, with 42,000 square feet absorbed through Q2/24.
- The Central Loop commands the lowest rental rate of any submarket in Chicago's CBD at roughly $38 per square foot.
- This submarket still has the largest number of distressed assets in the CBD, largely driven by its low occupancy levels.
- Notable leases include Lessen's decision to occupy 77,000 square feet at 203 N. LaSalle.

MARKET MOVEMENT

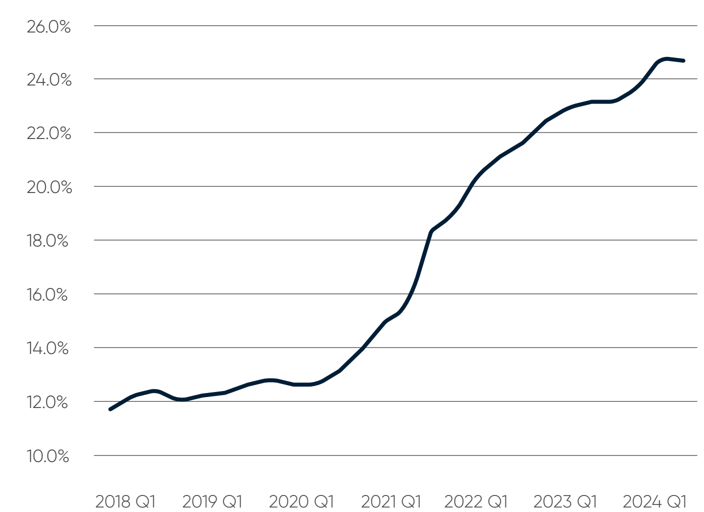
BUILDING DISTRESS
12 BUILDINGS
(2.8M SF)
of available space

NEW LEASE
LESSEN
(77,000 SF)
203 N. LaSalle Street

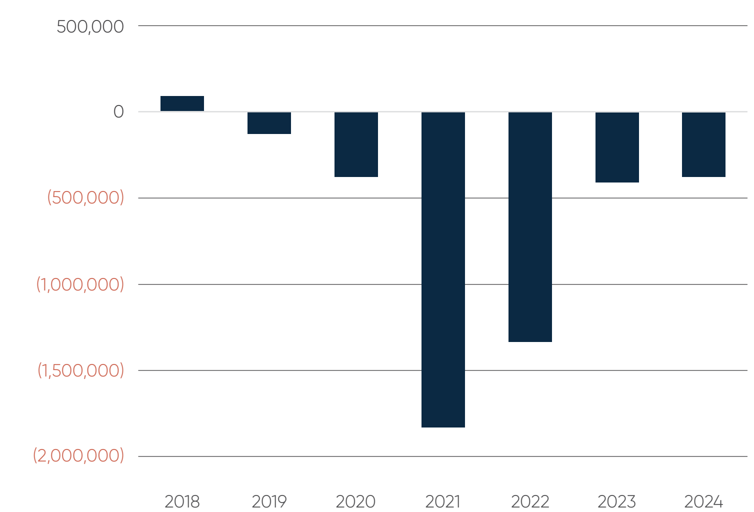
NEW LEASE
WOLCOTT, WOOD AND TAYLOR
(11,000 SF)
141 W. Jackson Boulevard

RENEWAL/ EXPANSION
SALVI, SCHOSTOK & PRITCHARD P.C.
(26,367 SF)
161 N. Clark Street

DIRECT VACANCY RATE
Quarter Over Quarter



DIRECT NET ABSORBTION



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q2/24 NET ABSORPTION	Q1/24 NET ABSORPTION
CENTRAL LOOP	37,682,328	554,152	27.5%	3.8%	24.5%	1.3%	$37.48	41,636	(439,687)
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CLASS C	763,925	95,491	23.5%	0.0%	23.5%	0.0%	$26.41	6,885	(8,019)

EAST LOOP

- In Q2/24, the direct vacancy rate rose to nearly 27%. The East Loop surpassed the Central Loop as the highest vacancy submarket in Chicago's CBD.
- Absorption levels continued to worsen, as negative 121,000 square feet was absorbed through Q2/24. Year-to-date absorption in this submarket has now reached negative 530,000 square feet.
- Despite the troubling statistics, multiple buildings have landed new tenants this quarter—most notably Aon Center's new lease signed by SEIU Local 1 for 32,000 square feet.

MARKET MOVEMENT

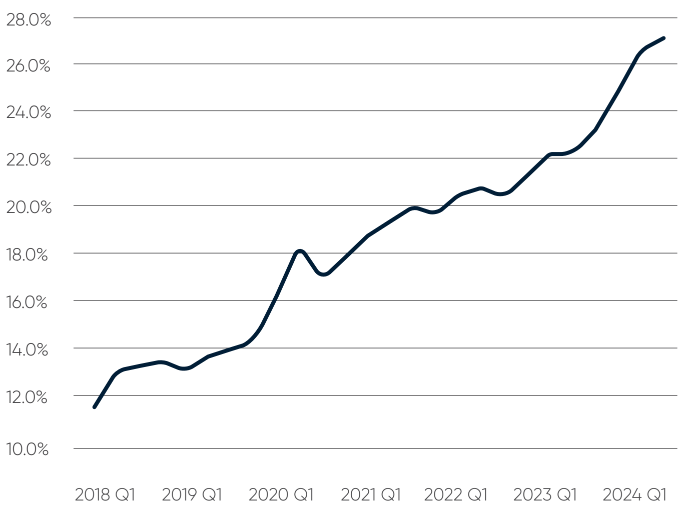
BUILDING DISTRESS
6 BUILDINGS
(2.6M SF)
of available space

NEW LEASE
SEIU LOCAL 1
(32,000 SF)
200 E. Randolph Street

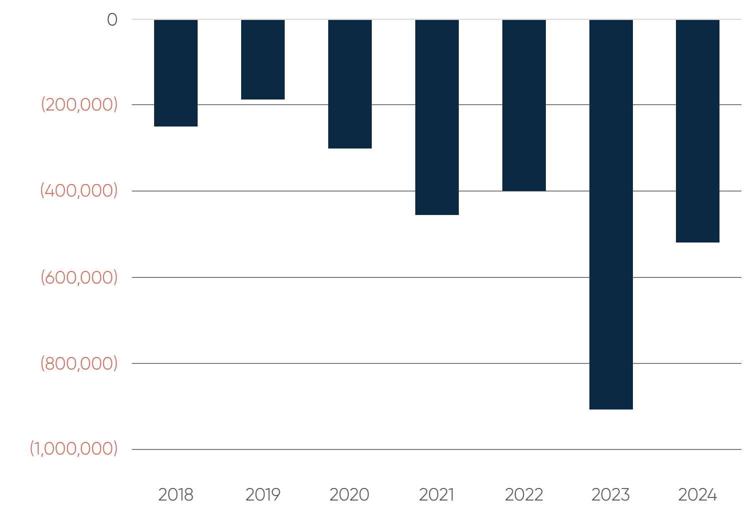
NEW LEASE
HOK
(25,000 SF)
130 E. Randolph Street

NEW LEASE
SKYLINE CONSTRUCTION
(10,000 SF)
1 E. Wacker Drive

DIRECT VACANCY RATE
Quarter Over Quarter



DIRECT NET ABSORBTION



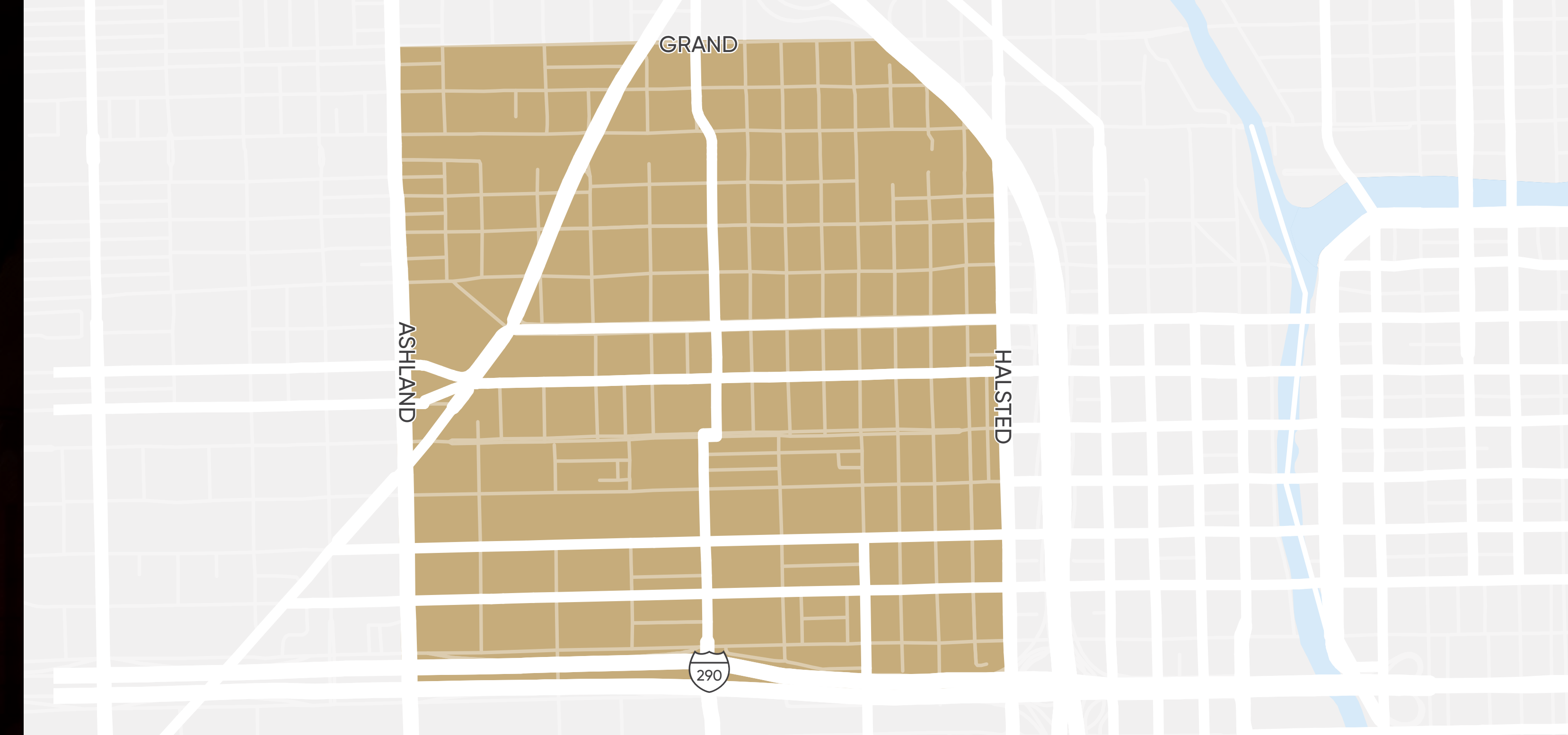
SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q2/24 NET ABSORPTION	Q1/24 NET ABSORPTION
EAST LOOP	24,901,870	488,272	31.4%	4.0%	26.8%	1.2%	$40.78	(121,426)	(409,721)
CLASS A	16,131,641	1,008,228	32.6%	5.2%	26.6%	1.2%	$44.47	(182,196)	(364,520)
CLASS B	6,070,297	337,239	32.3%	2.2%	30.3%	1.6%	$35.29	17,256	(19,754)
CLASS C	2,699,932	158,820	22.9%	0.4%	19.7%	0.1%	$26.80	43,514	(25,447)

FULTON MARKET

- In Q2/24, the direct vacancy ticked up to 17% while sublease availability remained steady around 6%.
- Fulton Market posted positive absorption this quarter with nearly 200,000 square feet absorbed. This submarket has seen positive absorption figures every year since 2016—a significant achievement at a time when office buildings in major urban centers are facing record levels of distress.
- Notable lease deals include Workbox's new 65,000-square-foot co-working space at 210-220 N. Green, now occupying the former WeWork suite.

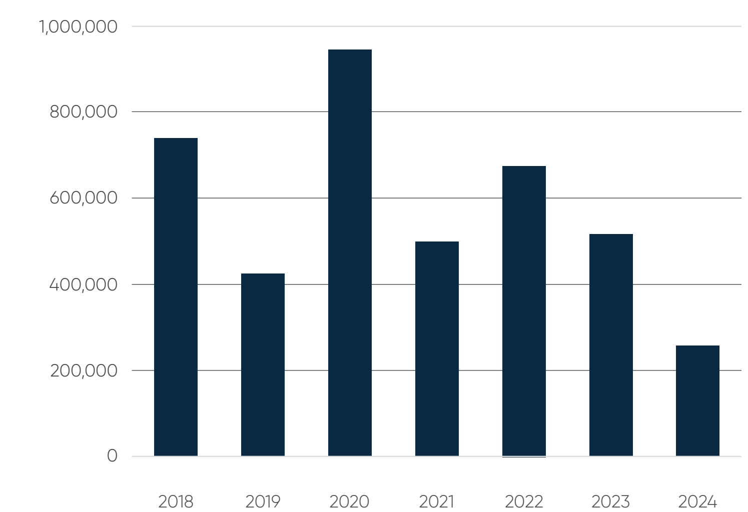
MARKET MOVEMENT

BUILDING DISTRESS	NEW LEASE	NEW LEASE
1 BUILDING (16,000 SF) of available space	WORKBOX (65,000 SF) 210-220 N. Green Street	REGUS (20,000 SF) 315 N. Racine Street



DIRECT VACANCY RATE
Quarter Over Quarter

DIRECT NET ABSORBTION



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q2/24 NET ABSORPTION	Q1/24 NET ABSORPTION
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CLASS B	2,625,418	64,035	19.5%	1.6%	19.9%	0.5%	$32.44	(5,545)	59,033
CLASS C	1,432,492	57,300	14.5%	3.4%	10.7%	0.8%	$31.11	6,370	16,930

NORTH MICHIGAN AVENUE

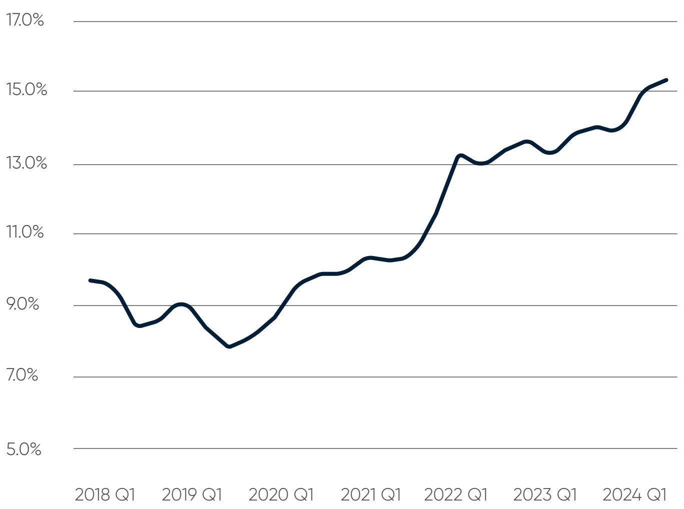
- In Q2/24, the direct vacancy rate held steady around 15%. North Michigan Avenue has the lowest vacancy rate of any submarket in Chicago's CBD.
- Despite the below-average vacancy, this submarket saw negative absorption through both the first and second quarter this year.
- Rental rates are higher on North Michigan Avenue than any other submarket, as gross asking rates reached nearly $48 per square foot.
- Notable leases include the American Dental Association's decision to lease nearly 70,000 square feet at 401 N. Michigan.

MARKET MOVEMENT

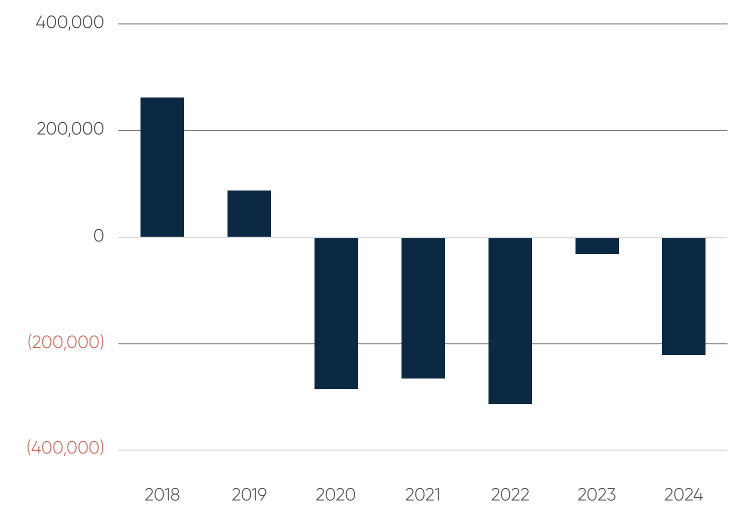
NEW LEASE
AMERICAN DENTAL ASSOCATION
(69,574 SF)
401 N. Michigan Avenue

RENEWAL/ CONTRACTION
GCM GROSVENOR
(72,700 SF)
900 N. Michigan Avenue

DIRECT VACANCY RATE
Quarter Over Quarter



DIRECT NET ABSORBTION



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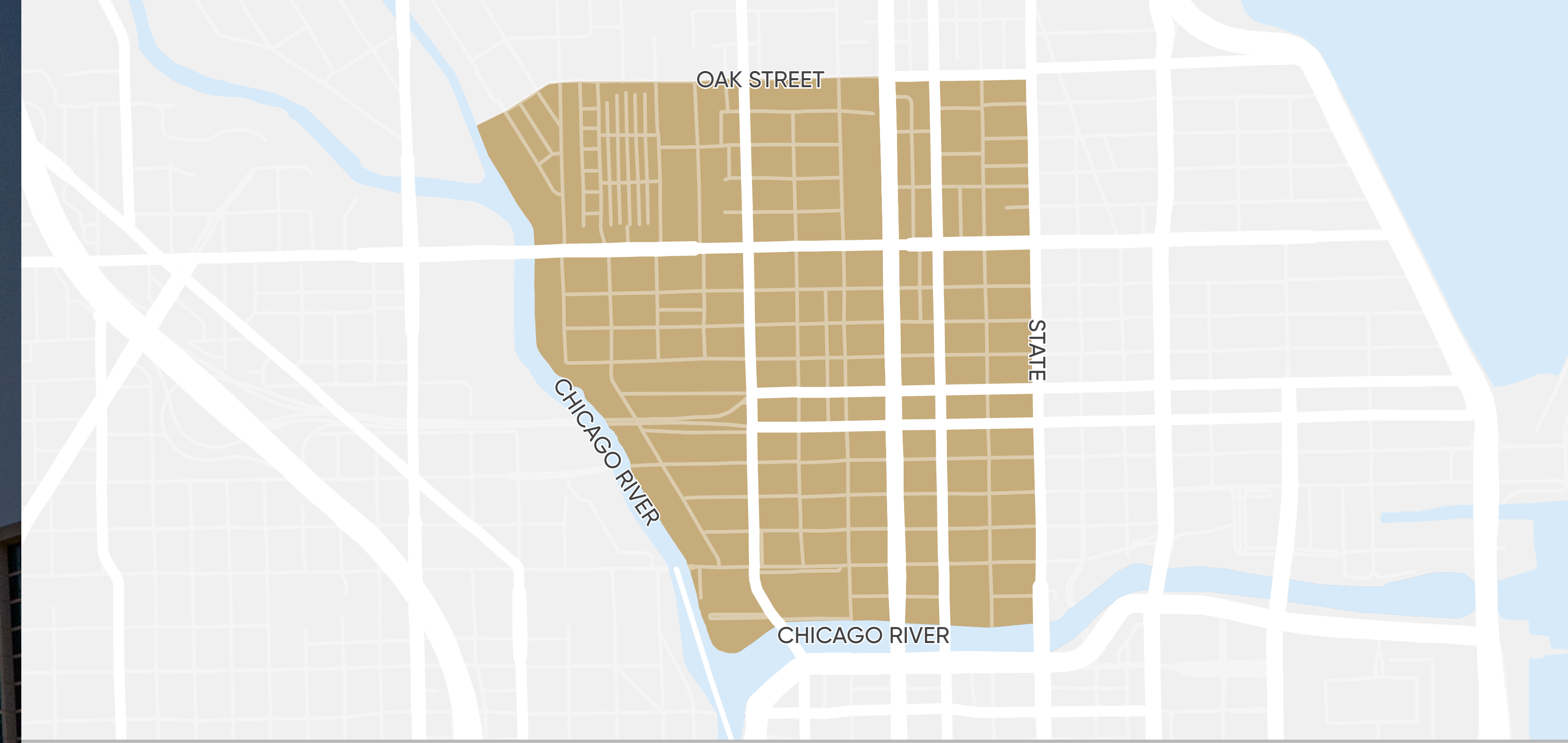
CLASS B	4,218,136	200,864	17.2%	0.8%	13.6%	0.4%	$32.03	19,294	(38,421)
CLASS C	201,539	67,180	21.0%	5.2%	17.8%	0.0%	$26.38	0	1,750

RIVER NORTH

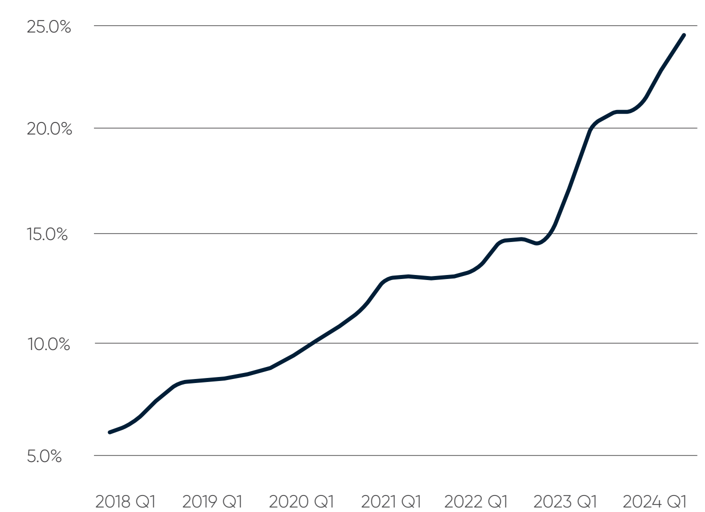
- In Q2/24, the direct vacancy rate increased to nearly 25% in River North. This submarket now has one of the highest vacancy rates in the CBD, only behind the East Loop.
- Absorption levels continued to worsen as negative 210,000 square feet was absorbed in Q2—the worst of any submarket in the CBD this quarter. Year-to-date absorption for River North now sits at negative 570,000 square feet.
- Despite the troubling headlines, investors are relatively active in this submarket. Most recently, a venture led by Bixby Bridge Capital purchased a 260,000-square-foot office at 20 W. Kinzie.

MARKET MOVEMENT

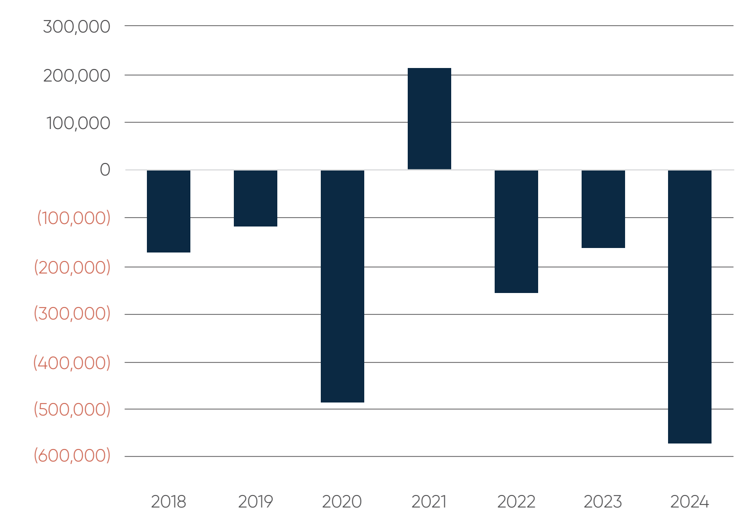
BUILDING DISTRESS	RENEWAL/ CONTRACTION	INVESTMENT SALE	SUBLEASE
6 BUILDINGS (900,000 SF) of available space	WEWORK (31,000 SF) 448 N. LaSalle Street	BIXBY BRIDGE CAPITAL | FRANKLIN PARTNERS (258,658 SF) 20 W. Kinzie Street	KIN INSURANCE (27,507 SF) 222 Merchandise Mart Plaza



DIRECT VACANCY RATE
Quarter Over Quarter



DIRECT NET ABSORBTION



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CLASS A	12,825,421	855,028	26.8%	3.7%	24.7%	1.0%	$54.54	(180,869)	(205,792)
CLASS B	4,555,595	67,994	24.9%	2.3%	21.5%	1.6%	$30.24	(26,273)	(170,068)
CLASS C	1,336,963	53,479	37.5%	0.5%	35.8%	0.0%	$26.70	(2,329)	12,748

WEST LOOP

- In Q2/24, the direct vacancy rate held steady around 20%.
- After a troubling first quarter, absorption levels in the West Loop turned positive with 70,000 square feet absorbed through Q2/24.
- The largest office sale in the last few years recently transacted in the West Loop. Beacon Capital Partners paid $125 million ($141/SF) for the 36-story tower at 333 W. Wacker.
- Notable leases include the Addison Group's decision to occupy 35,000 square feet at 225 W. Randolph.

MARKET MOVEMENT

BUILDING DISTRESS
9 BUILDINGS
(2M SF)
of available space

NEW LEASE
ADDISON GROUP
(35,000 SF)
225 W. Randolph Street

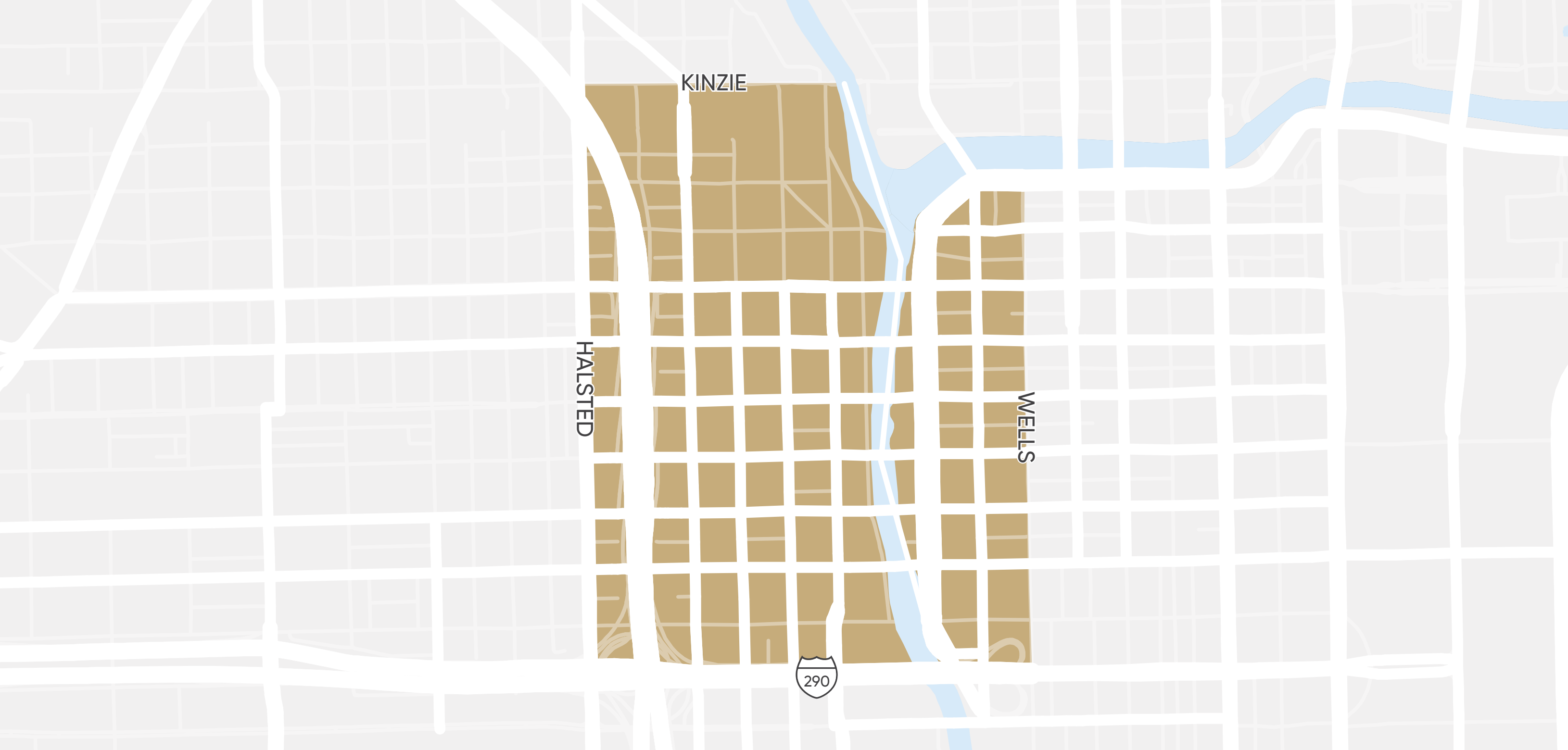
RENEWAL/ EXPANSION
INVENERGY
(32,000 SF)
1 S. Wacker Drive

NEW LEASE
AQUATIC CAPITAL MANAGEMENT
(30,000 SF)
225 W. Randolph Street

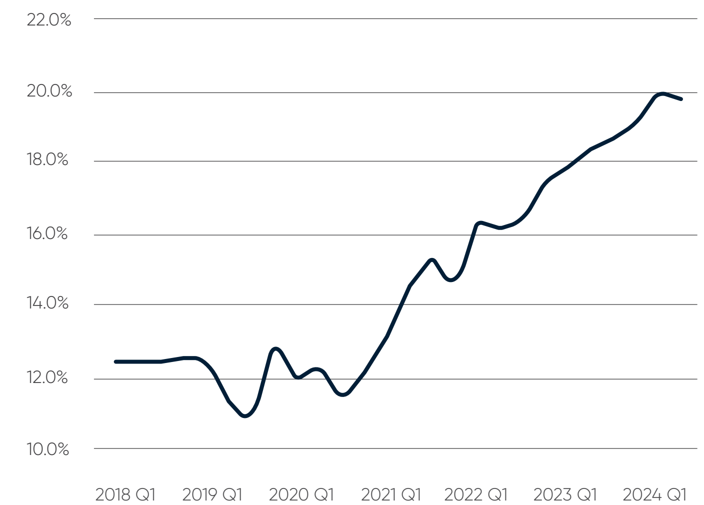
NEW LEASE
CENTER FOR RESEARCH IN SECURITY PRICES
(29,000 SF)
500 W. Madison Street

NEW LEASE
PRUDENTIAL FINANCIAL
(28,000 SF)
150 N. Riverside Plaza

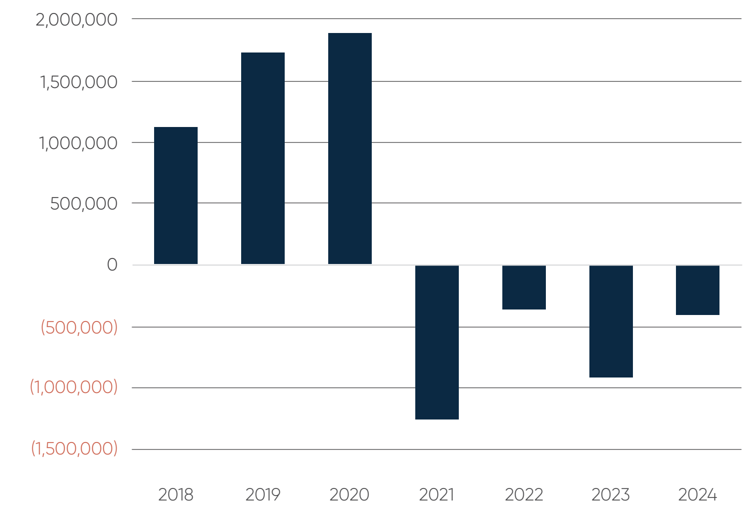
INVESTMENT SALE
BEACON CAPITAL PARTNERS
(887,940 SF)
333 W. Wacker Drive



DIRECT VACANCY RATE
Quarter Over Quarter

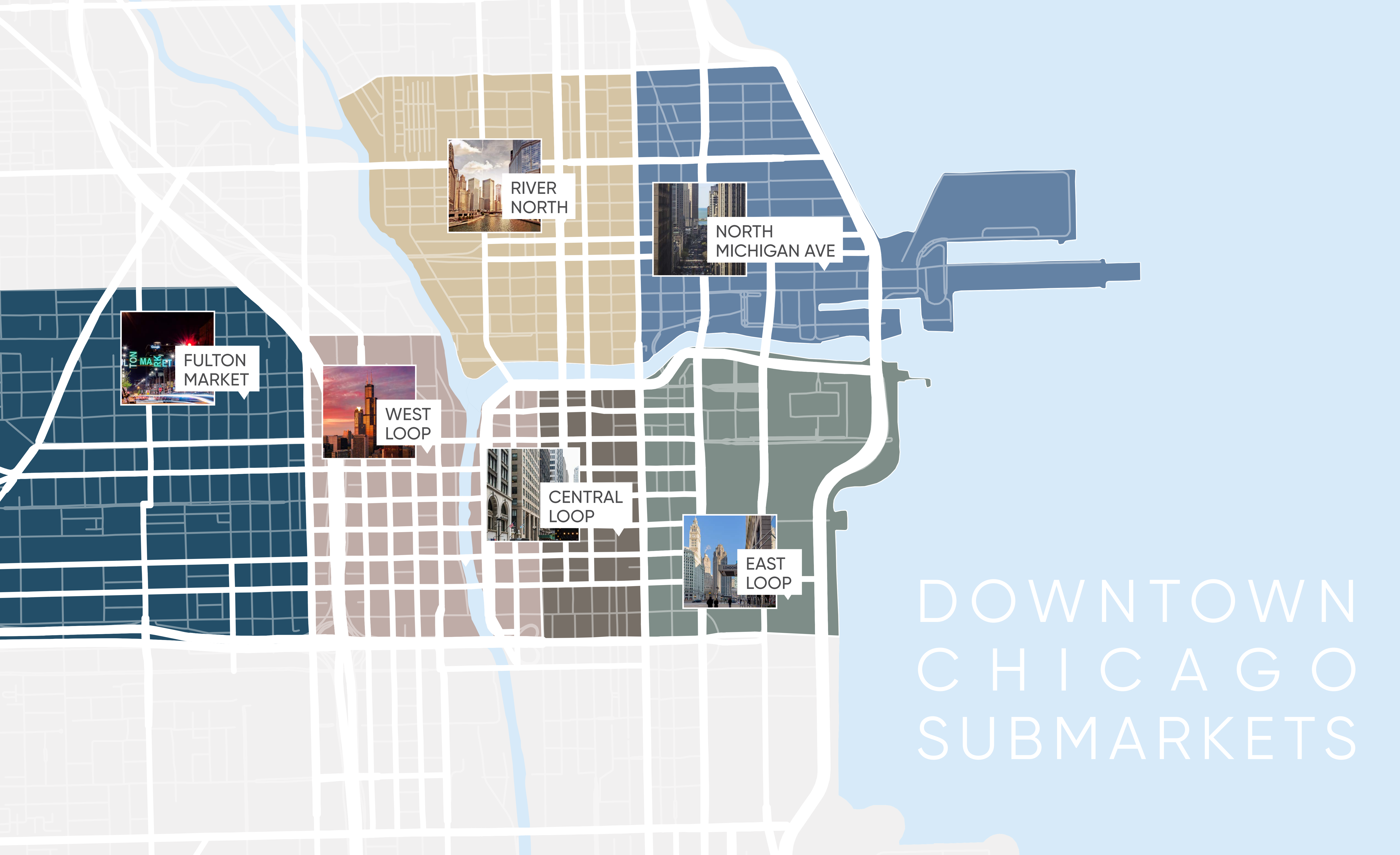


DIRECT NET ABSORBTION



SUBMARKET & ASSET CLASS	TOTAL SQUARE FOOTAGE	AVERAGE BUILDING SIZE	DIRECT AVAILABILITY RATE	SUBLET AVAILABILITY RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	AVERAGE GROSS ASKING RATE	Q2/24 NET ABSORPTION	Q1/24 NET ABSORPTION
WEST LOOP	56,614,049	555,040	23.1%	4.9%	19.8%	2.5%	$45.75	70,284	(466,654)
CLASS A	44,201,392	982,253	20.7%	5.0%	17.5%	2.5%	$50.14	215,921	(402,823)
CLASS B	11,483,413	249,639	31.9%	5.0%	28.2%	2.7%	$36.31	(173,620)	(58,437)
CLASS C	929,244	84,477	27.9%	0.8%	26.6%	0.8%	$24.69	27,983	(5,394)

DOWNTOWN CHICAGO SUBMARKETS



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