

MARKET REPORT

Office
Chicago Metro Area

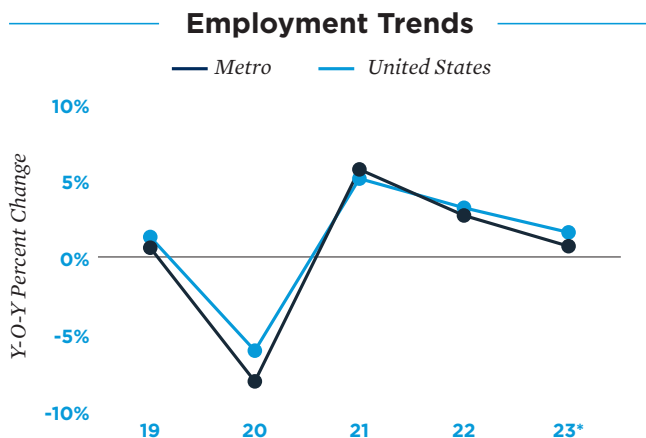
IPA
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PROPERTY
ADVISORS

4Q/23

Firms Flooding Fulton Market as Office Attendance Improves, Curbing Additional Near-Term Headwinds

Office-usage gaining headway. As of early September, workplace utilization on the busiest day of the week, Wednesday, reached 63.5 percent in Chicago. This measure was higher than in the other primary metros of Dallas, New York, Washington, D.C. and Los Angeles. Although shifting tenant preferences continue to impact vacancy in the near-term, improved hybrid and in-person attendance should benefit leasing down the line. A smaller pipeline of speculative developments may also help. Of 2023's delivery slate, more than 80 percent of square footage has been accounted for as of September. Less availability for newer space directs demand to existing facilities, benefiting current office stock when companies likely expand footprints during the next growth cycle.

Flight-to-quality in a key submarket aids local Class A space. Between year-end 2019 and June 2023, builders increased Class A stock by nearly 125 percent across the Fulton Market area. A 500,000-square-foot delivery is also expected to complete here next year. Despite this monumental pace of construction at a time of tenant demand realignment, the upper-tier vacancy rate here compressed to 21.2 percent entering July. This was 400 basis points below its 2019 figure, and the second-lowest measure among Chicago submarkets with at least 2 million square feet of Class A inventory. Meanwhile, move-ins by Greenberg Traurig, Chan Zuckerberg and Roku will lay claim to 142,000 square feet collectively across the area, exhibiting ongoing demand.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**32,000
JOBS**

will be created

EMPLOYMENT:

Through July 2023, local employers added a net of 3,240 jobs within traditionally office-using industries. The pace continues through year-end and helps job growth across all sectors reach 0.7 percent.



**2,250,000
SQ. FT.**

will be completed

CONSTRUCTION:

This year's 0.5 percent pace of stock expansion will register marginally below the market's long-term average. Completions are headlined by the 1.2-million-square-foot Salesforce Tower in River North.



**140
BASIS POINT**

increase in vacancy

VACANCY:

A fourth consecutive year in which vacancy lifts by at least 100 basis points brings the rate to 21.2 percent by the end of 2023. The ranking is the largest measure among major Midwest metros and fifth-highest nationally.



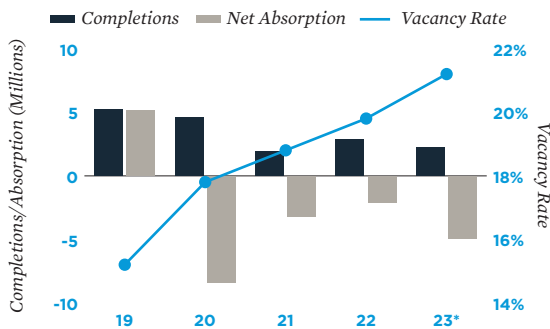
**1.0%
INCREASE**

in asking rent

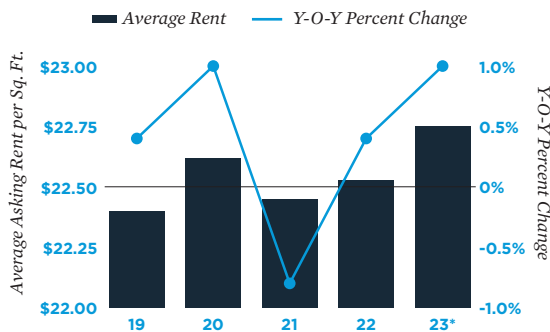
RENT:

Falling just shy of Chicago's trailing 15-year average of 1.1 percent per annum, 2023's growth rate elevates the mean asking rent to \$22.75 per square foot by year-end. This will be 1.6 percent ahead of 2019's measure.

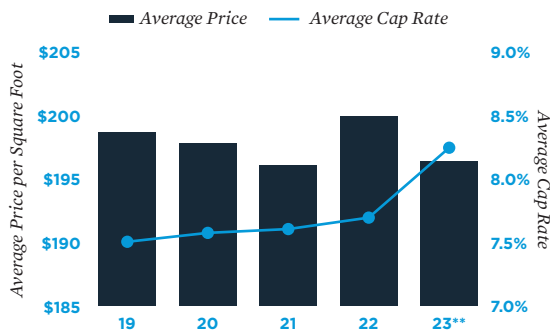
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

2,107,000 sq. ft. completed

- The River North and Fulton Market areas accounted for nearly 70 percent of all the new space completed over the year ended in June. Supply additions here helped expand marketwide stock by 0.4 percent.
- Roughly 1.7 million square feet of office space was underway as of September, less than 0.5 percent of the market's total inventory.



VACANCY

130 basis point increase in vacancy Y-O-Y

- Suburban vacancy was tighter than in Chicago proper over the annual period ended in June, expanding 10 basis points to 18.6 percent versus a 280-basis-point hike to 23.4 percent across the Loop and adjacent areas.
- Conversely, Class A vacancy was higher in the suburbs than in the CBD, registering at 29.9 and 26.3 percent, respectively.



RENT

0.5% increase in the average asking rent Y-O-Y

- Upward vacancy momentum has sustained a tame pace of rent growth as the average asking rate rose to \$22.65 per square foot entering July.
- Metrowide gains were bolstered by a 1.7 percent increase across suburban areas. Schaumburg, O'Hare, Lincoln Park and Lincoln Square led these improvements outside of the CBD.

Investment Highlights

- Although trading activity has tempered over the four-quarter period ending in June relative to the same span in 2022, velocity held consistent with levels noted just prior to the pandemic. Improving office-usage trends, coupled with the anticipation of cooling inflation and stabilizing interest rate adjustments, may motivate more buyers to come off the sidelines. Those seeking value-add, as well as conversion, projects are also active as roughly 20 percent of trades had a high vacancy designation.
- The Schaumburg area has garnered a larger portion of metrowide velocity through the initial seven months of the year compared to 2022. Through August, preliminary data indicates that more than 15 percent of properties traded were located here. Local Class B/C tenant demand is improving as segment vacancy compressed 140 basis points over the year ended in June to 24.1 percent, within 150 basis points of its 2019 measure.
- Pricing adjustments may entice activity among risk-tolerant investors. As of June, the average price on transacted properties was down 1 percent to \$196 per square foot over the trailing 12 months. In turn, the mean cap rate elevated to 8.2 percent, its highest figure since 2011.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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