

INVESTMENT FORECAST

Office
Chicago Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Market Showing Signs of Improvement as Smaller Properties Drive Investment Momentum

Demand rising in the CBD, suburbs maintain momentum. Chicago's office market has been recovering slowly since early 2024, and that pace is likely to continue in 2026. The CBD noted rising vacancy for five straight years before nearly holding steady in 2025, as conditions began to improve. Leasing activity among 50,000-plus-square-foot properties here picked up in late 2025 compared to the same period in 2024, signaling modestly accelerating net absorption ahead. In the suburbs, vacancy continued to trend down in 2025, reaching its lowest level since 2020. Select areas, such as the northern suburbs spanning Deerfield-Lake Zurich-Waukegan, the Fulton Market area, and Schaumburg-Arlington Heights, carry strong momentum heading into 2026 after recording some of the largest declines in vacancy. Across the metro, a lack of ongoing speculative development should support further vacancy compression amid steady demand.

High cap rates heighten investor interest. After a slow start to 2025, investor sentiment appears to be improving heading into 2026. Driven almost entirely by trades under \$10 million, transaction velocity accelerated in the second half of 2025. Recent pricing adjustments brought buyers and sellers closer to agreement on terms, allowing more transactions to move forward. This alignment has lifted the metro's average cap rate to its highest level since 2001, a trend that may be drawing more sidelined and out-of-state capital as sale and asking prices continue to converge. Looking ahead, greater clarity around lending conditions, combined with strengthening fundamentals, could help restore further optimism in the market. Properties in the 10,000- to 50,000-square-foot range may see sales volume continue rising after the segment's vacancy fell to its lowest level since 2001 in late 2025.

2026 MARKET FORECAST

+0.3%



Employment: Hiring in Chicago is expected to slow modestly in 2026, with traditionally office-using sectors projected to shed 5,000 jobs, marking the fourth consecutive year of decline.

485,000
sq. ft.



Construction: The metro's development pipeline is set to shrink sharply in 2026, with deliveries amounting to just 0.1 percent inventory growth, the slowest pace recorded since at least 2007.

-40 bps



Vacancy: The pullback in deliveries amid modest net absorption helps vacancy tighten in 2026, bringing the rate down to 20.3 percent. Still, it will remain among the five highest across major markets.

+1.7%

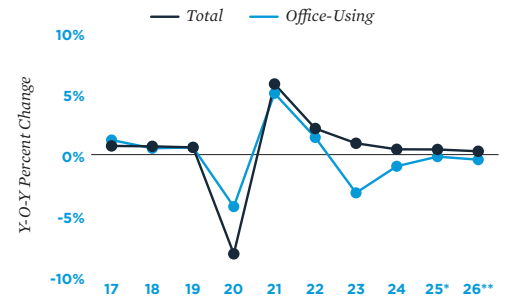


Rent: A second straight year of vacancy improvement supports a return to rent growth in 2026. At \$24.50 per square foot by year-end, the metro remains one of the most affordable primary markets.

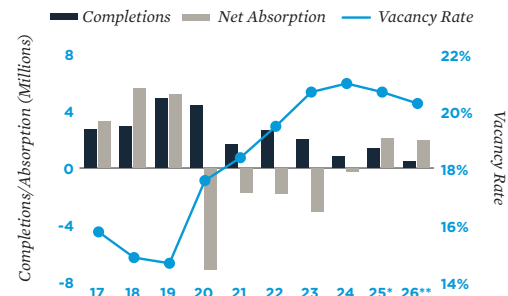
INVESTMENT:

Sharply declining vacancy among properties under 100,000 square feet in the northern corridor from Evanston to Winthrop Harbor since late 2024 may continue to support increased sales activity.

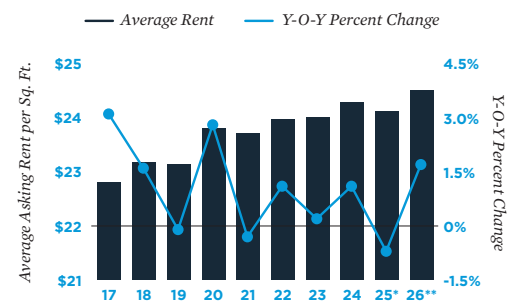
Employment Trends



Supply and Demand



Rent Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2026. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.