

MIDWEST PRIME OFFICE

# Midwest Prime Office

CBRE MIDWEST RESEARCH  
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## Executive Summary

In recent years, best-in-class office space has been in high demand as employers aim to attract new talent and retain current employees. This small percentage of trophy assets in a market's total inventory are referred to as "prime" and remain the most sought-after office properties in the Midwest. On average, prime properties command higher rents and see more positive absorption than non-prime buildings.

- Vacancy in the prime sector averages 2.7% percent lower than non-prime counterparts
- Prime rents increased from \$42.95 on average in Q1 2021 to \$46.26 in Q1 2024
- Across the Midwest, prime office experienced positive absorption consecutively over the last 13 quarters
- Prime office deliveries totaled 22.9 million sq. ft. since the start of 2013, representing 49.2% of the total prime office inventory in the Midwest
- The following analysis examines non-owner-occupied prime assets in the following Midwest cities. Chicago, St. Louis, Kansas City, Indianapolis, Omaha, Minneapolis, Columbus, Cleveland, Detroit, Cincinnati, Pittsburgh and Louisville



### Short-term vacancy, long-term demand

- Vacancy in prime assets experienced an uptick from 14.5% in Q1 2021 to 18.1% in Q1 2024. Although vacancy rose, most of that increase can be attributed to delivery of new prime product. From 2020 to 2024, 14.5 million sq. ft. of prime space was delivered while 7.3 million sq. ft. of prime product was absorbed. Vacancy in the prime sector remains healthy overall, averaging 2.7% lower than non-prime counterparts.
- New construction deliveries should help keep supply in line with tenant demand for prime space in the immediate future. As new construction deliveries begin to substantially decline over the next several years, supply is expected to fall behind demand resulting in declining vacancy rates in the prime market.
- Big-name tenants will continue to vie for the best-in-class space in their market, resulting in increasingly tight prime availability.

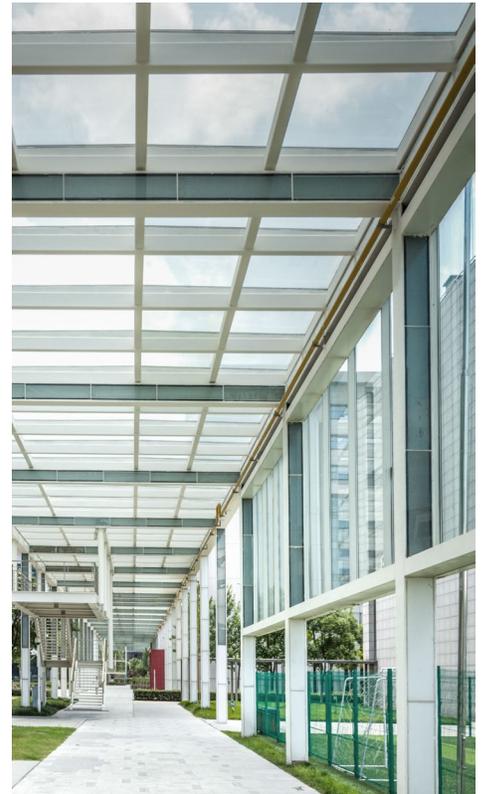
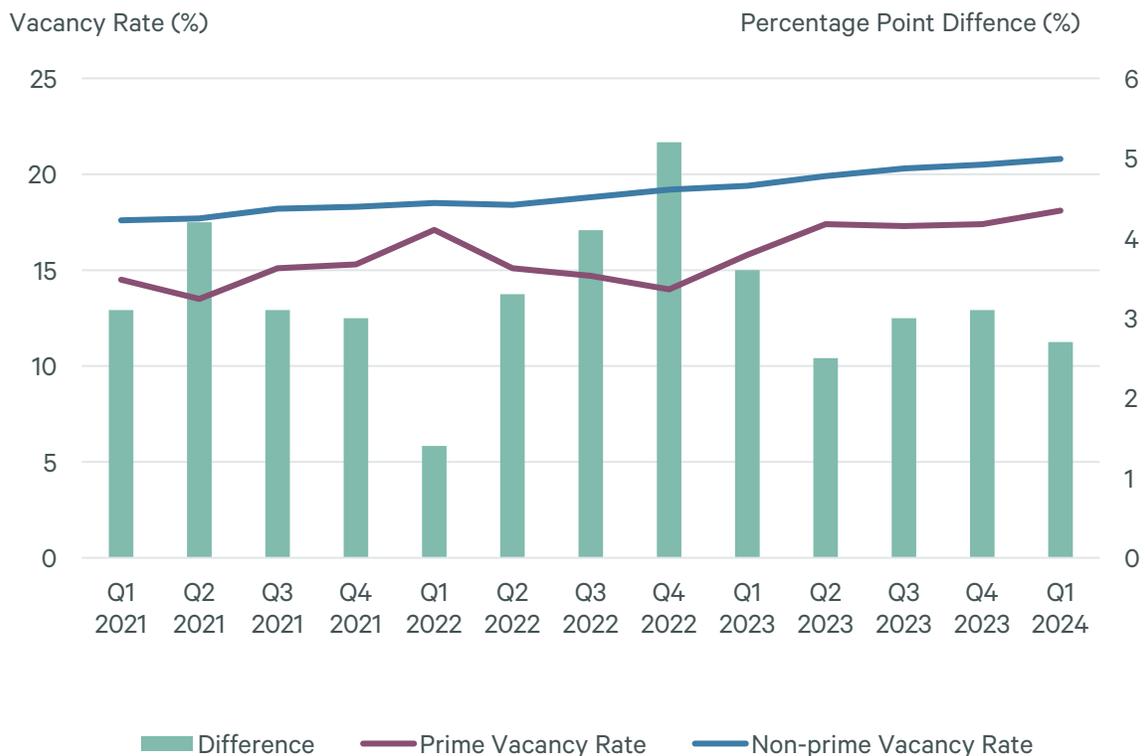


Figure 1: Prime vs Non-Prime Vacancy



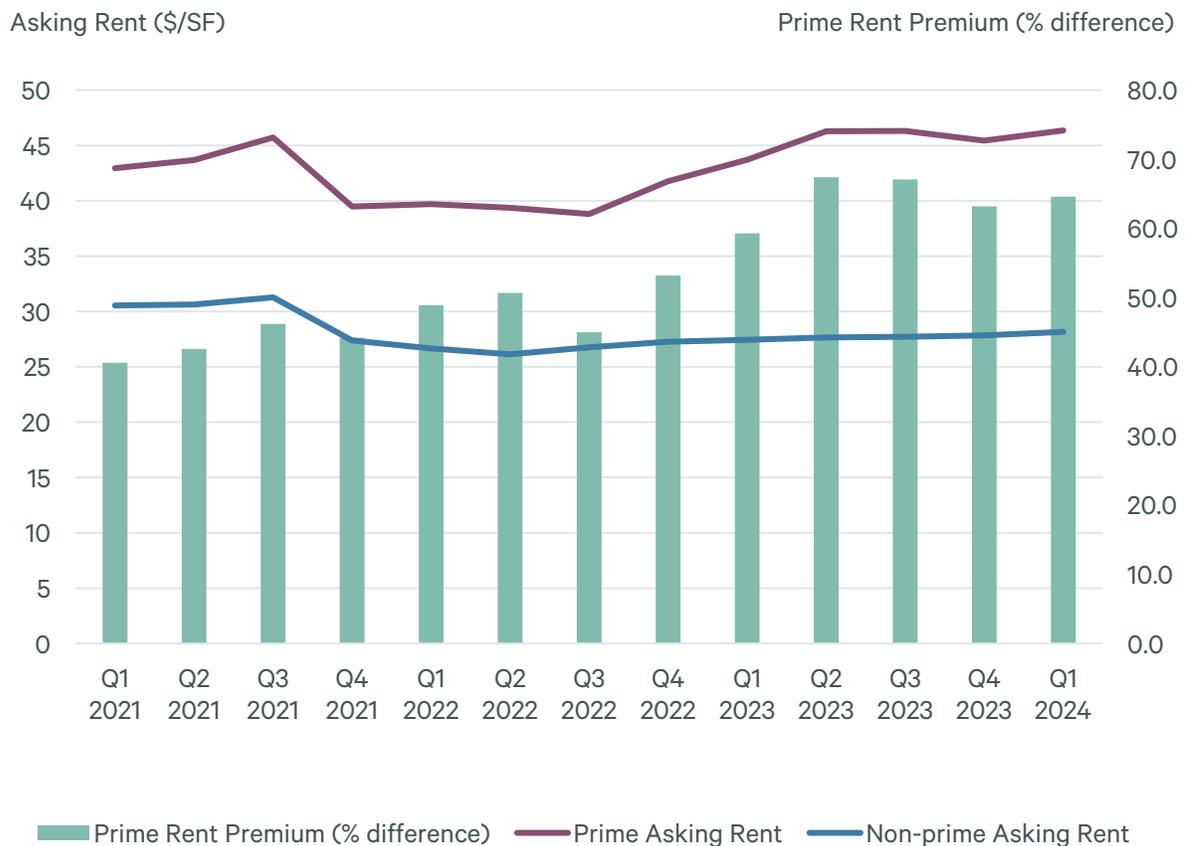
Source: CBRE Research, Q1 2024

### Asking rate delta widens

- Average direct rents continue to rise due to a lack of amenitized space in most Midwest markets. Prime rents increased from \$42.95 in Q1 2021 to \$46.26 in Q1 2024 as tenants flocked to the highest quality assets during the “return-to-office” era.
- The delta between prime and non-prime grew from 40.6% in Q1 2021 to 64.6% in Q1 2024, highlighting the new market of “haves and have-nots” in the office leasing market.
- Occupiers will face a significant delta between prime rates in downtown versus suburban markets. Premium office space averaged \$52.56 in downtown and \$31.74 in suburban markets in Q1 2024.

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**Figure 2: Prime vs Commodity Asking Rates (FSG)**



Source: CBRE Research, Q1 2024

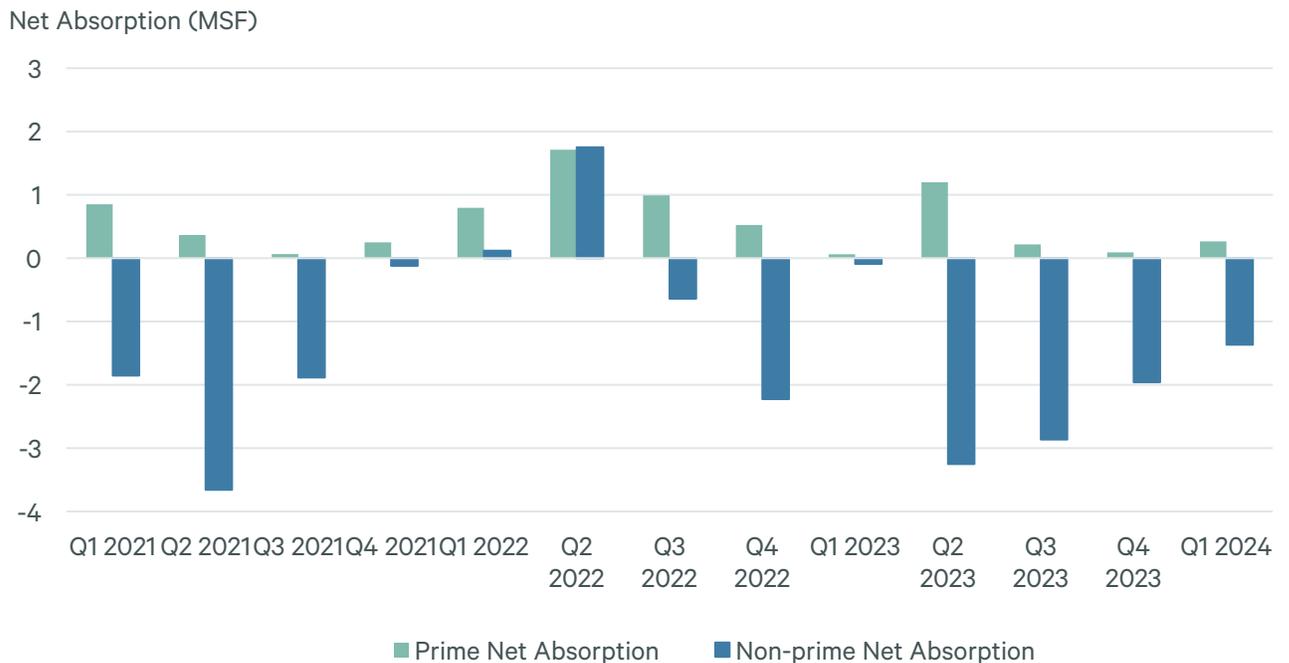
### Prime absorption consistently outperforms

As users migrated to prime assets in the post-Covid return to office environment, those assets began to see positive absorption trends. Meanwhile, non-prime assets, which experienced occupancy loss greater than average during the pandemic, have continued their downward slide as users vacate commodity quality office in favor of space that prioritizes collaboration and well-being.

From Q1 2021 to Q1 2024 prime office experienced positive absorption across the Midwest in all 13 quarters. Conversely, non-prime office continues to suffer from the impact of outward tenant migration leading to severely negative absorption in all but two of the past 13 quarters.

As tenant preferences shift to higher quality product, the “have-nots” will continue to suffer larger losses. When tenants migrate to these new assets, they shed on average 30% of their previous size in order to make the upgrade. While new tenant spaces may be smaller than their commodity quality counterparts from pre-Covid, they are on average paying a higher premium to be in this space.

**Figure 3: Prime vs Non-Prime Absorption**



Source: CBRE Research, Q1 2024

### Construction hot streak on pause

Prime office deliveries totaled 22.9 million sq. ft. since the start of 2013, representing 49.2% of the total prime office rentable area in the Midwest. Notably, total prime office deliveries increased each year from 2018 to 2022, largely due to pent-up demand and projects already under development at the start of 2020.

A challenging market for new development, due to higher interest rates and constrained availability of financing, has led to a slowdown in construction starts and a resulting decline in deliveries that began in 2023. Minimal deliveries are scheduled for 2025 and beyond, which is expected to result in prime office supply shortages for many Midwest markets over the coming years.

–The current construction pipeline is well below pre-pandemic levels with 2.5 million sq. ft. of space that was 56.3% pre-leased as of Q1 2024. Prime vacancy is projected to decrease over the next several years because of the limited new supply and continued demand.

–Downtown properties represented 67% (11.6 million sq. ft.) of new deliveries since 2018, with suburban properties representing the remaining 33% (5.6 million sq. ft.).

–Chicago led the Midwest with 42.5% (6.6 million sq. ft.) of deliveries since 2018, followed by Columbus with 9.8% (1.5 million sq. ft.), St. Louis with 8.4% (1.3 million sq. ft.) and Kansas City with 8.1% (1.2 million sq. ft.).

**Figure 4: Prime Completions**



Source: CBRE Research, Q1 2024

## Where is prime located?

Prime space in the Midwest is primarily located in downtown areas with 71.5% of the total prime rentable square footage. There are exceptions where prime space is focused in the suburban market, primarily in Kansas City and St. Louis where virtually all prime space is suburban.

The Chicago market represents 52.8% of all prime space in the Midwest with most of this space located in downtown Chicago (81.8% of Chicago's prime space). In terms of prime market share versus the overall market, Cleveland leads the Midwest with prime space representing 10% of the market's rentable square footage, followed by Chicago with 9.7%, Columbus with 6.4%, and Cincinnati with 5.1%.

–Prime space represents 5.8% of the overall inventory in major Midwest office markets, with 9.7% of downtown rentable square footage, and 2.9% of suburban rentable square footage.

–With limited new supply being delivered, the overall Midwest prime market share is only expected to increase to 6.1% by the end of 2025.

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## The future of prime in the Midwest

As hybrid work becomes the new normal for the white-collar workforce, users will continue to seek out the highest quality space for the time that employees are in the office. Assets that prioritize amenities, collaboration and well-being will continue to outperform their commodity quality counterparts by a wide margin, creating a new market of “haves and have-nots.”

- As construction of new prime assets begins to decline, asking rates will remain elevated as the supply of available prime space contracts
- Vacancy in prime assets will begin to decline as users migrate to new construction product. Vacancy in non-prime assets will continue to remain high as users shed excess space due to changes in working style.
- Positive absorption in the Midwest office sector will remain primarily driven by prime product as users vacate commodity quality space in favor of prime space.



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