Intelligent Investment

2026
U.S. Real Estate Market Outlook Midyear Review

REPORT

CHICAGO

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Office Market Outlook

01

Growing large-block demand will drive a leasing recovery.

Tenants exercising caution amid economic uncertainty has weighed on leasing activity in Chicago's central business district (CBD). However, in-market occupiers are actively seeking a combined 3 million sq. ft. of space, which is expected to boost leasing velocity in H2 2026 and H1 2027. While much of that demand is for prime space, limited availability will cause this demand to spill over to well-positioned, non-prime Class A buildings. Consistent with other gateway markets, tech leasing is gaining momentum, driven by IBM's commitment to the Illinois Quantum & Microelectronics Park and Google's Thompson Center redevelopment in the Central Loop.

02

Prime demand will continue to split market vacancy.

Chicago’s vacancy trends continue to diverge. The overall CBD direct vacancy rate rose to nearly27% in H1, with increases across both Class B and C buildings. However, the Prime CBD vacancy rate remained tight at 13.9%, leaving occupiers seeking large blocks of prime space with few options. In response, Related Midwest announced plans for a prospective new office tower in Fulton Market—the first potential CBD development in years—anchored by Sidley Austin. Limited prime space has caused demand to spill over into non-prime Class A buildings, driving a slight decline in vacancy in H1 that is expected to continue in H2. Google's Thompson Center redevelopment has jump-started Central Loop investment activity, a positive signal for future leasing demand in that corridor.

03

Rent growth will remain selective.

The gap between prime and non-prime rent growth continued to widen in H1. Average asking rents for prime space remained in the mid-$70s per sq. ft. range with strong demand causing owners to reduce concessions. Overall average asking rents sat at $45.27 in H1 and are forecast to increase by a modest 1% through year-end, according to CBRE Econometric Advisors.

Key Takeaways

For Occupiers

— With only three prime blocks over 100,000 sq. ft. available, tenants seeking large blocks of space should begin searching earlier since competition will intensify as pent-up requirements convert to signed leases in H2. Tenants who can’t secure prime space will find a compelling alternative in well-positioned, non-prime Class A buildings. Large users with capital and flexibility may find new construction more fitting.

For Owners & Investors

— Prime and upper-tier Class A owners are positioned to capture outsized leasing volume through year-end, given strong demand and limited availability. Spillover demand into well-located non-prime Class A assets creates a secondary opportunity for owners willing to invest in upgrades that improve the tenant experience. The Central Loop offers a near-term entry point for investors prepared to take a chance on leasing spurred by the Thompson Center redevelopment. Class B owners face sustained pressure as occupiers continue to consolidate into quality space.

Industrial Market Outlook

01

Sustained leasing velocity will continue through year-end.

More than 20 million sq. ft. of new leases were signed in H1, surpassing H1 2025 activity. Consistent with national trends, third-party logistics (3PL) providers accounted for more than 40% of total leasing activity at midyear. Jumbo deal activity also outperformed, with eight signed leases totaling over 750,000 sq. ft. The demand pipeline remains robust, as 16 tenants have active requirements exceeding 250,000 sq. ft. each, including more than 5 million sq. ft. of combined 3PL requirements. With active big-box requirements and lease expirations significantly higher in H2 than in the same period in 2025, deal volume is expected to remain strong through year-end. Demand for top-quality space continues to accelerate across Chicago's industrial market, and limited options exist that can accommodate big box requirements. Class A properties accounted for more than half of all leases signed in H1, despite making up less than a third of overall inventory. This activity is being driven by tenant demand for modern clear heights, increased power capacity and first-generation amenities.

02

The construction pipeline will narrow in the short run.

The overall industrial vacancy rate increased to 5.6% in Q1, driven by the highest quarterly volume of construction completions since mid-2024, countering a broader national slowdown. However, completions are expected to narrow sharply through year-end, with total projected inventory growth among the lowest of any major U.S. market at approximately 0.8%. Chicago availability is approximately 1 percentage point below the national average. With deliveries moderating, CBRE Econometric Advisors forecasts a 30 basis-point (bps) increase in vacancy heading into 2027. These conditions are encouraging new speculative development, with construction volume up by 21% year-over-year in H1.

03

Rent growth will beat full-year expectations.

Class A space absorbed 2.7 million sq. ft. net in H1, underscoring a strong preference for modern product. Class A net asking rents rose by 5.2% year-over-year, well above the full-year forecast of 2.9% and the national average of 2.1%. Chicago's growing base of AI-capable industrial demand is expected to sustain Class A leasing activity through year-end, with overall asking rents on track to grow by 3%.

Key Takeaways

For Occupiers

— There will be significantly more lease expirations in H2 than in 2025, and the Class A delivery pipeline is narrowing. Tenants who engage early will have more options and stronger negotiating leverage than those who wait, as owners are increasingly holding firm on rates in the current competitive environment. Tenants in older or second-generation facilities are best positioned based on current availability and should determine whether upgrading now, while owners' terms remain competitive, makes financial sense.

For Owners & Investors

— Class A owners in Chicago's primary logistics corridors are well-positioned to benefit from the rent growth and sustained absorption expected through year-end. The conditions driving Class A outperformance, constrained deliveries, rising occupier demand and growing 3PL requirements are expected to deepen in H2. Trade and macroeconomic developments bear close watching, as Chicago's logistics occupiers will respond in real time.

Retail Market Outlook

01

Retailer confidence will return to North Michigan Avenue.

Leasing activity, tenant tours and brand re-engagement are accelerating along North Michigan Avenue, following several years of elevated vacancy. A growing deal pipeline is expected to drive leasing volume through year-end, supported by recent commitments from global tenants including Uniqlo, The North Face, Charles Tyrwhitt and Leica Camera, as well as American Eagle's recent new lease at 600 North Michigan Avenue. Renewed occupier confidence in the corridor is broad-based and continuing to build.

02

New supply will remain limited amid tightening availability.

Neighborhood retail fundamentals remained strong in H1, with no availability across the primary blocks of Armitage, Southport, Randolph and the Gold Coast. Additionally, no new supply is sustaining rent growth and reinforcing owner leverage in established corridors. Along North Michigan Avenue, availability is gradually declining across the most productive southern and central stretches. CBRE Econometrics Advisors forecasts a 10-bps decrease in retail availability by year-end, reflecting broad-based tightening across the metro.

03

Rent growth reflects a market finding its footing.

Chicago retail rents are expected to grow by approximately 2% through year-end. Along North Michigan Avenue, competition for premier storefronts will intensify as availability declines, supporting rent stabilization and positioning the corridor for further gains. Owner leverage in neighborhood corridors, where vacancy is effectively zero, will drive rent gains across the market.

Key Takeaways

For Occupiers

— Prime retail space across core corridors is increasingly scarce, and the window to secure best-in-class locations at current rents is narrowing. Occupiers with near-term requirements should engage now, particularly for space along North Michigan Avenue and established neighborhood corridors where competition is accelerating.

For Owners & Investors

— The investment case for well-located retail property is strengthened by the market's tightening availability, rising rents and a growing pipeline of national and global tenant commitments. Assets along proven corridors with limited near-term supply competition are well positioned to capture continued rent growth through year-end.

Data Center Market Outlook

01

Hyperscale and AI demand will drive sustained absorption.

Chicago's wholesale data center inventory increased by 38% year-over-year in Q1 to 910.6 megawatts (MW). Hyperscale, AI, enterprise and financial services occupiers drove absorption, with strong preleasing attracting further investment. Average asking rents increased year-over-year, reflecting strong demand across a wide range of tenant types.

02

Supply will expand west as vacancy falls.

New supply is expanding beyond the market's core to power-accessible submarkets like Elk Grove, Northlake and Hoffman Estates, supported by improving fiber connectivity. Despite the addition of 249.2 MW in Q1, available inventory and vacancy fell to 19.8 MW and 2.2%, respectively. Demand will continue to drive the pace of new construction, with vacancy rates less than 10% for projects that will deliver by year-end 2027. Some new developments are moving outside the Chicago suburbs, targeting power sites of 500 MW or more.

03

Power and entitlements will limit the construction pipeline.

ComEd power-delivery timelines now extend to 2032 or later, requiring substantial financial commitments and limiting the near-term project pipeline. Zoning approvals, entitlements and community concerns over energy consumption will add time and complexity to the construction process. Additionally, anticipated revisions to Illinois' Biometric Information Privacy Act in 2026 have stalled hyperscale interest in the state as they eye more politically friendly markets. Together, these constraints will shape site-selection decisions and moderate how quickly new supply can reach the market.

Key Takeaways

For Occupiers

— With the overall vacancy rate at 2.2% and available inventory below 20 MW, securing capacity in Chicago will require early engagement and a willingness to commit ahead of construction completion. Occupiers that move quickly on preleasing, particularly in emerging western submarkets, will be best positioned to secure space before power and entitlement constraints further restrict new construction.

For Owners & Investors

— Falling vacancy, rising rents and accelerating AI-driven demand make a strong case for investment. However, with power-delivery timelines extending to 2032 or later, investors underwriting new development will need to pay careful attention to infrastructure commitments. Facilities with power and entitlements in place will command a meaningful premium.

Multifamily Market Outlook

01

Demand will continue to outpace new supply.

Multifamily demand continues to outstrip new supply. The overall vacancy was 3.8% in H1, well below the long-term average of 5.1%. The ever-widening gap between ownership and rent costs will sustain demand and continue to funnel would-be buyers into the rental market. Strong fundamentals are expected to continue attracting investors and supporting sales prices in the near term.

02

Limited construction completion pipeline will keep supply in check.

Chicago's construction completions as a share of existing inventory are among the lowest of any major U.S. metro. CBRE Econometric Advisors forecasts multifamily inventory to grow by 1% year-over-year at the start of 2027, one of the lowest growth rates in the country. With the limited pipeline and vacancy rate well below the long-term average, rent growth is not expected to slow in the near term.

03

Rent growth will outpace most U.S. major markets.

Chicago's multifamily market is outperforming nearly every major metro in the country. Overall rents are expected to grow by 3.7% year-over-year by the end of 2026, trailing only San Francisco and well above the national forecast of 1.4%. Strong demand is allowing owners to raise rents, as many properties achieved rent gains exceeding 10% year-over-year in H1. The market's durable demand and limited supply leave little expectation that pricing momentum will slow.

Key Takeaways

For Owners & Investors

— Chicago multifamily fundamentals outpace most U.S. markets with a rare combination of strong rent growth, low vacancy and a limited construction pipeline. Investors seeking strong income growth with limited near-term supply risk should pay close attention to this market.

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All data attributed to CBRE Econometric Advisors in this report is sourced from the CBRE Econometric Advisors Q1 2026 Forecast, published May 2026.

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