Intelligent Investment

2026
U.S. Real Estate Market Outlook

REPORT

CHICAGO

CBRE RESEARCH
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Office Market Outlook

01

LEASING ACTIVITY WILL RISE IN 2026

- Leasing volume in Chicago's central business district (CBD) rose by 25% in 2025 compared to the 2022-2024 average. Momentum is expected to continue this year as a notable pipeline of large, in-market users lease space. While national leasing levels are expected to surpass 2019 totals, that will not be the case locally due to record leasing activity in the years before the pandemic.
- Business services, financial services and legal firms will continue to drive leasing volume. Chicago's diverse economy will likely soften any downside impact on the total space leased this year.

02

PRIME SPACE WILL TIGHTEN FURTHER AS CONSTRUCTION SLOWS

- Demand for prime space in Chicago shows no signs of slowing, and less availability will play a major role in shaping the office market this year. There are currently three blocks of available prime space over 100,000 sq. ft. and only one new office property is slated for delivery in 2026. With no further projects in the pipeline until at least 2029, the squeeze will only become more palpable.
- As availability in the highest-quality buildings continues to tighten this year, tenants will have to expand their search and "spill over" to the next best tier of available space.
- Since 2022, over half of leasing in the CBD has taken place in just a small cohort of CBD buildings (representing less than 10% of the CBD). This includes both top-quality Class A properties and Class B beneficiaries of these tight conditions.
- While these conditions will contribute to the outperformance of prime space, more extensive intervention in the CBD's structural vacancy will be needed for the market to bottom out.

03

TRANSFORMATIVE PROJECTS WILL BE KEY FOR RECOVERY

- Transformative development projects will help solve supply challenges at both ends of the market. The ongoing supply crunch will make prime development a viable possibility and meaningful progress on conversion projects will eventually help alleviate vacancy in the downtown core.
- Google's Thompson Center redevelopment and other symbiotic projects like Hines' acquisition of the former Boeing headquarters will drive Central Loop leasing momentum as progress becomes more visible. These projects are already shifting investor perception and increasing building sales in the Loop amid the expectation of increased foot traffic and professional talent.
- With Chicago's next mayoral election in 2027, this year will draw more attention to newsworthy announcements on projects like LaSalle Street Reimagined and the Illinois Quantum & Microelectronics Park.

Key Takeaways

FOR OWNERS

- Owners of non-prime Class A and B buildings should take advantage of new demand created by the lack of prime space and the expected uptick in leasing volume. Well-located buildings with large blocks of available space, premium amenities (either existing or planned) or high-rise view space will be the most likely to benefit.
- Owners should pay attention to large projects and new developments that can bring favorable changes in submarket dynamics. In the long term, owners should focus on adapting their buildings to capture new momentum and court cutting-edge industries like life sciences, quantum tech, etc.

FOR TENANTS

- Tenants should start searching for space early and expect to face more competition for prime assets than headlines suggest, as demand is focused on a small number of the most desirable buildings. Companies will increasingly need to look beyond prime buildings to find suitable space, particularly when pursuing large contiguous blocks.
- The market's largest users will have an opportunity to explore new construction if they have the capital and flexibility, as new prime developments with anchor tenants in place become feasible.

Industrial Market Outlook

01

DIVERSE OCCUPIERS, LED BY 3PLS, WILL SUPPORT LEASING ACTIVITY IN 2026

- Industrial demand is expected to be robust this year. Leasing activity totaled 65 million sq. ft. in 2025, outpacing record levels set in 2021, 2022 and 2023. In 2026, more than 60 million sq. ft. of lease expirations—up from 46 million sq. ft. in 2025—will help drive leasing activity.
- Large users have been a significant part of this uptick. In Q4 2025 alone, three leases of more than 1 million sq. ft. were signed, the highest quarterly amount since 2023.
- Third-party logistics providers (3PLs) accounted for 30% of Chicago’s total leasing activity in 2025 at 17 million sq. ft. These users will continue to boost demand as corporations increasingly outsource distribution.
- As one of the top manufacturing markets in the nation, Chicago is expected to benefit from reshoring activity, recent legislative incentives and tariff-related costs.

02

VACANCY WILL REMAIN STABLE, MODERATED BY HEALTHY SUPPLY

- Industrial vacancy is forecast to decrease by 21 basis points in 2026, due to strong leasing, a modest construction pipeline and increased lease renewals. Chicago’s current vacancy rate of 5.5% is approximately a percentage point below national levels.
- A substantial reduction in new construction completions has helped stabilize market vacancy. Completions in 2025 totaled 37% less than those in 2024. Moreover, speculative construction in Chicago has moderated from previous years—on par with the rest of the country—and this will further stabilize vacancy in 2026.

03

MARKET UNCERTAINTY WILL NOT IMPACT OCCUPIER’S FLIGHT TO QUALITY

- Occupiers will continue their flight to quality in 2026 due to the availability of first-generation space and the demand for taller clear heights, more power and new amenities. Class A industrial space, which accounts for less than 20% of the total inventory, recorded higher levels of positive net absorption in 2025 than the remaining 80% of commodity space. Class A availability is currently at 13.0%, benefiting tenants with upcoming lease expirations that are looking to upgrade.
- The newest industrial buildings are best positioned to attract occupiers using AI for predictive inventory selection and those requiring increased power. Chicago’s large base of sophisticated logistics and manufacturing occupiers position the market for a demand spike in AI-capable properties. Despite this added demand, rental rates are expected to increase by just 2.9% in 2026.

Key Takeaways

FOR OWNERS

- Owners leasing new developments should expect this year to be active, even though the market’s oversupply of new construction favors tenants. Moreover, vacancy rates for newly constructed buildings are expected to decrease in 2026 due to record amounts of new leasing in late 2025, a spike in lease expirations and a slowing construction pipeline.
- Owners should pay attention to shifts in national policy and trade relations since Chicago's manufacturing and logistics occupiers will make real estate decisions based on macroeconomic trends.

FOR TENANTS

- Tenants with upcoming lease expirations should capitalize on the oversupply of new, Class A space. Companies that act earlier in the year will have more options than those who wait, given the large volume of lease expirations in 2026 and a slowing construction pipeline.
- Geopolitical tensions may impact overall market demand this year. Tenants should remain flexible and responsive to either take advantage or avoid the downside risk of any market movements.

Retail, Data Centers & Multifamily

01

RETAIL: LOW AVAILABILITY WILL DRIVE HIGH LEASING ACTIVITY

- The Magnificent Mile's high-profile openings of Mango and the Harry Potter Shop in 2025, in addition to Uniqlo's recent return to the street, underscore how retailers are recommitting to high streets, helping drive increased foot traffic and tourism. With low availability on Michigan Avenue and in the Gold Coast and Fulton Market districts, prime spaces are expected to remain in high demand, seeing increased competition and rising rental rates in 2026.
- A notable lack of availability in Chicago's neighborhoods will drive the retail market in 2026. On Southport and Armitage, as well as in the Gold Coast and Fulton Market submarkets, there has been little new construction to replace disappearing space for new tenants. Rent growth will remain strong for owners, and tenants will need to look beyond traditional corridor borders for suitable space.

02

DATA CENTERS: POWER CHALLENGES WILL SUSTAIN THE SUPPLY-DEMAND IMBALANCE

- Chicago's data center market grew by more than 268 MW year-over-year in Q4 2025, as vacancy fell to 2.4%. Vacancy rates are expected to remain stable due to strong pre-leasing rates. Rental rates rose by approximately 11% year-over-year in Q4 2025, driven by sustained demand from large tech companies and AI firms. Capacity will steadily come to market through H1 2026 and beyond. However, longer power delivery timelines are pushing out delivery dates.
- Developers are expected to prioritize power availability over location in 2026 and 2027, bolstering growth in emerging submarkets outside of Chicago.
- Hyperscalers will keep a close eye on amendments to the Illinois Biometric Information Privacy Act—one of the most stringent laws in the nation—which stand to reduce providers' risk exposure.

03

MULTIFAMILY: LACK OF SUPPLY WILL DRIVE RENT GROWTH & INVESTMENT

- Chicago's multifamily rent growth rose by 4.6% year-over-year in Q3 2025 and is forecasted to grow by an additional 3% in 2026, driven by an ongoing shortage in new construction. The market has the lowest construction pipeline among major U.S. markets, and this year will mark its lowest level of construction completions since the Great Financial Crisis.
- Multifamily absorption is expected to continue outpacing construction completions in 2026. Chicago's current availability rate of 3.5% is forecast to rise to 4% this year, which will drive investment. Preliminary transaction data shows sales volume in the Chicago metro increased 28% year-over-year, driven by record sales in the City of Chicago, which grew 44% year-over-year.

Key Takeaways

RETAIL

- New tenants should be ready to face competition, especially when looking to establish new locations in Chicago's neighborhoods. Tenants will have to be open to considering the borders of traditional shopping corridors if they want find the right location.

DATA CENTERS

- Supply challenges will be more acute in 2026, driven by power and regulation hurdles, as well as increased new tenant demand, especially from AI-focused occupiers.

MULTIFAMILY

- Rent growth and low availability will attract new investment in 2026. Multifamily demand is expected to increase amid Chicago's rising single-family home prices.

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