

CHICAGO DOWNTOWN

Office Market Report



YTD Net
Absorption
1,068,129 SF



Availability
16.4%



Gross Average
Asking Rate (Direct)
\$34.92

Vacancy and Availability Rates Continue to Decrease in Downtown Office Market

The downtown office market continues to decrease in vacancy and availability this quarter as net absorption is now over 1 million square feet for the year. Chicago's economy has continued to improve as the unemployment rate decreased to 7.4% in August compared to 10.7% a year earlier. This decrease is the largest annual unemployment rate decline since September of 1994 (-3.5%). Overall this is translating into a tighter Chicago office market with vacancy and availability rates at 13.0% and 16.4% compared to 2013 Q3 numbers of 13.8% and 17.8%, respectively.

Availability in the market has decreased due to new market leases and expansions this quarter. Uber and Yelp both signed new leases for 50,000 SF and 58,000 SF at 111 N Canal and the Merchandise Mart, respectively. NORC at the University of Chicago signed a 30,000 SF expansion to increase its total footprint at 55 E Monroe to 118,000 SF. Wintrust Financial Corp. signed a lease at 231 S LaSalle increasing its downtown presence to 188,000 SF from 70,000 SF. Other tenants such as Rise Interactive, Ironshore, Load Delivered Logistics, and Swoon also signed expansions this quarter.

Net absorption for the quarter was 409,411 SF, making YTD net absorption 1,068,129 SF. The East Loop recorded 162,242 SF of positive absorption this quarter leading all submarkets. Other submarkets indicating positive absorption were the Central Loop, South Loop and River North. Overall YTD net absorption is positive in all submarkets other than the South Loop. Sublet net absorption in the CBD was 59,127 SF in the quarter, dropping the sublet vacancy rate to a mere 0.5%.

Weighted average asking rents increased to \$34.92 per/sf this quarter compared to \$34.71 per/sf in 2013 Q3. Rents continue to be pushed as vacancy and availability rates decline in the downtown office market. Each class of property has been able to push rates especially Class C because of diminishing supply due to multiple conversions. It's rare to find space under \$20 per/sf in this class with the weighted average asking rent being \$23.15 per/sf.

The highest per/sf sale in Chicago history closed this quarter with 300 N LaSalle selling for \$652.39 per/SF. The 3rd quarter saw multiple sales completed including 70 W Madison, 55 W Monroe, 101 N Wacker and 230 W Monroe. Investor demand has continued to increase as returns are higher in Chicago than can currently be achieved on either coast, resulting in buyers that have never been active in Chicago previously to now pay attention to our great city.

Developing Story – Three Office Buildings Now in Construction



The 3Q quarter marked the start of the third office building to break ground at 150 N Riverside. Two others are already in the works at 1000 W Fulton and 444 W Lake. All of these should be completed by the end of 2017. Anticipation awaits as other developers are still trying to break ground on another office building.

3Q 2014

CBD Outlook

- Vacancy and availability rates will decrease in the West Loop, Central Loop and River North. East Loop, North Michigan Ave and the South Loop will stay stagnant.
- The CBD will see over 1 million square feet of YTD positive net absorption at the end of 2014.
- The average asking rate in the CBD will be over \$35.00 per/sf in 2015 due to multiple reasons that include: decreases in vacancy and availability rates, reduced supply in Class C buildings and certain owners upgrading tenant amenities within their buildings.
- The capital markets will be very active to close the year as more office properties in the CBD continue to go on the market.

CBD Summary

		Q3 2014	Q3 2013
Total Inventory (SF)	◀▶	136,831,887	136,831,887
Overall Vacancy	▼	13.0%	13.8%
Direct Vacancy	▼	12.5%	12.9%
Sublease Vacancy	▼	0.5%	0.8%
Overall Available	▼	16.4%	17.8%
Direct Available	▼	15.1%	15.8%
Sublease Available	▼	1.3%	2.0%
Gross Average Asking Rate (Direct)	▲	\$34.92	\$34.71
Current Net Absorption (SF)	▲	409,411	225,830
YTD Net Absorption (SF)	▲	1,068,129	659,704

Economic Indicators

	Q3 2014	Q3 2013
IL Unemployment	6.7%	9.2%
US Unemployment	5.9%	7.3%
US Consumer Confidence Index	86.0	79.7
West TX Intermediate Price Per Barrel	\$92.77	\$101.41



GLOSSARY OF TERMS

Inventory Expressed in rentable square feet, this area includes the usable area and its associated share of the common areas.

Available Space The total amount of space that is currently available for lease this quarter. Regardless if the space is vacant, occupied, available for sublease, or available at a future date.

Vacant Space Vacant space refers to all space not currently occupied by a tenant, regardless of any lease obligation that may be on the space.

Net Absorption For existing buildings, the measure of total rentable square feet occupied (indicated as a Move-In) less the total space vacated (indicated as a Move-Out) over a quarter or year to date.

Gross Asking Rent (Low-Rise) This represents the weighted average dollar amount the lessor is asking for in order to lease space in the bottom third of their building.

Gross Asking Rent (Mid-Rise) This represents the weighted average dollar amount the lessor is asking for in order to lease space in the middle third of their building.

Gross Asking Rent (High-Rise) This represents the weighted average dollar amount the lessor is asking for in order to lease space in the top third of their building.

*Source: CoStar Group

	Total Inventory (SF)	Total Available (SF)	Percent Available	Total Vacant (SF)	Vacancy Rate	Current Absorption (SF)	YTD Absorption (SF)	Gross Asking Rate (Low Rise)	Gross Asking Rate (Mid Rise)	Gross Asking Rate (High Rise)	Gross Asking Rate (Direct)
Central Loop											
Class A	22,243,743	3,612,975	16.2%	2,695,241	12.1%	113,304	177,163	\$36.06	\$37.67	\$38.19	\$37.54
Class B	12,506,489	2,103,307	16.8%	2,054,628	16.4%	37,623	174,012	\$28.60	\$29.47	\$30.50	\$30.08
Class C	1,218,061	198,663	16.3%	158,650	13.0%	2,057	(18,787)	\$24.76	\$25.54	\$25.68	\$25.35
TOTALS	35,968,293	5,914,945	16.4%	4,908,519	13.6%	152,984	332,388	\$31.48	\$35.03	\$34.71	\$34.33
East Loop											
Class A	15,368,935	3,172,400	20.6%	2,865,178	18.6%	78,472	68,884	\$34.33	\$36.05	\$39.13	\$34.43
Class B	5,668,707	873,848	15.4%	732,042	12.9%	62,133	670	\$25.05	\$26.49	\$28.06	\$27.47
Class C	2,483,870	327,999	13.2%	265,944	10.7%	21,637	28,222	\$22.13	\$21.48	\$21.94	\$21.82
TOTALS	23,521,512	4,374,247	18.6%	3,863,164	16.4%	162,242	97,776	\$31.97	\$32.74	\$35.58	\$32.16
North Michigan Avenue											
Class A	6,166,307	1,162,767	18.9%	1,048,739	17.0%	39,794	201,905	\$35.75	\$37.71	\$38.19	\$37.24
Class B	5,253,510	879,220	16.7%	761,090	14.5%	(42,151)	86,051	\$31.27	\$30.66	\$31.07	\$30.96
Class C	266,400	51,954	19.5%	46,954	17.6%	1,865	6,975	\$29.26	\$23.77	\$23.67	\$25.18
TOTALS	11,686,217	2,093,941	17.9%	1,856,783	15.9%	(492)	294,931	\$33.94	\$34.88	\$32.95	\$34.31
River North											
Class A	4,171,616	516,496	12.4%	318,624	7.6%	14,652	143,535	\$38.16	\$43.90	\$41.40	\$42.14
Class B	10,248,702	889,643	8.7%	834,514	8.1%	67,762	(31,704)	\$32.96	\$30.23	\$30.15	\$31.32
Class C	2,606,360	229,998	8.8%	166,918	6.4%	20,702	7,018	\$23.31	\$25.64	\$23.84	\$24.44
TOTALS	17,026,678	1,636,137	9.6%	1,320,056	7.8%	103,116	118,849	\$32.91	\$35.67	\$31.92	\$33.77
South Loop											
Class B	1,076,360	162,956	15.1%	131,205	12.2%	6,258	(1,925)	\$18.45	\$17.88	\$24.00	\$18.46
Class C	452,116	54,643	12.1%	55,112	12.2%	5,064	(6,062)	\$21.89	\$21.11	\$22.12	\$21.70
TOTALS	1,528,476	217,599	14.2%	186,317	12.2%	11,322	(7,987)	\$19.35	\$18.68	\$22.90	\$19.35
West Loop											
Class A	33,878,557	5,729,815	16.9%	3,918,863	11.6%	(56,379)	77,783	\$36.98	\$40.62	\$42.19	\$39.96
Class B	11,141,319	2,358,785	21.2%	1,655,004	14.9%	36,599	122,647	\$33.17	\$32.79	\$33.01	\$32.98
Class C	2,080,835	160,179	7.7%	135,116	6.5%	19	31,742	\$21.37	\$21.00	\$23.17	\$21.70
TOTALS	47,100,711	8,248,779	17.5%	5,708,983	12.1%	(19,761)	232,172	\$35.56	\$37.66	\$39.54	\$37.63
CBD											
Class A	81,829,158	14,194,453	17.3%	10,846,645	13.3%	189,843	669,270	\$36.07	\$38.51	\$40.47	\$37.91
Class B	45,895,087	7,267,759	15.8%	6,168,483	13.4%	168,224	349,751	\$30.11	\$30.14	\$31.14	\$30.71
Class C	9,107,642	1,023,436	11.2%	828,694	9.1%	51,344	49,108	\$22.82	\$23.15	\$23.43	\$23.15
TOTALS	136,831,887	22,485,648	16.4%	17,843,822	13.0%	409,411	1,068,129	\$33.32	\$35.27	\$36.71	\$34.92

*Survey method includes all multi-tenant office buildings with more than 20,000 SF in each submarket excluding all condo and government owned buildings.

Noteworthy Leases

Tenant	SF	Type	Submarket
Wintrust Financial Corp 231 S LaSalle	188,000	New/Expansion	Central Loop
Enova 175 W Jackson	160,240	New	Central Loop
Valence Health 540 W Madison	125,000	New	West Loop
NORC at the University of Chicago 55 E Monroe	118,000	Extension/ Expansion	East Loop
Uber 111 N Canal	58,000	New	West Loop

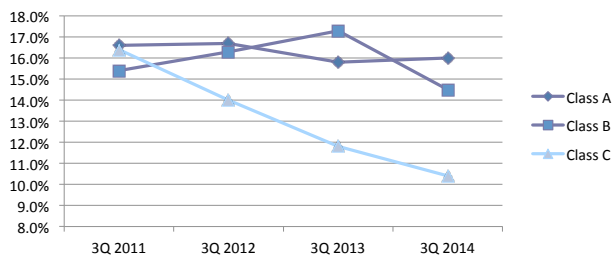
Largest Available Spaces

Building Address	SF	Class	Landlord
227 W Monroe	313,462	A	Tishman Speyer
131 S Dearborn	307,900	A	Dearborn Capital Group
222 W Adams	306,572	A	Tishman Speyer
203 N LaSalle	292,777	A	Sumitomo Corporation of America
500 W Monroe	284,298	A	Piedmont Office Realty Trust

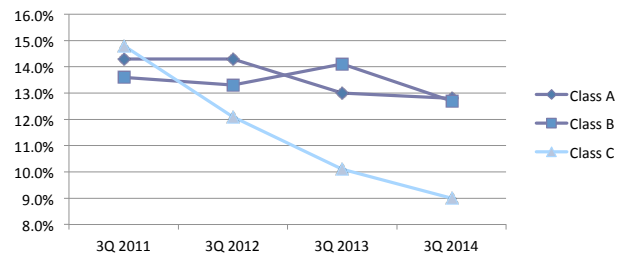
Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price	Sale/Under Contract
River North	300 N LaSalle	1,302,901	Irvine Company	KBS Realty	\$652.39	Sold
West Loop	101 N Wacker	599,503	LaSalle Investment Management	Hines	\$350.00	Sold
Central Loop	55 W Monroe	804,214	John Hancock	Hearn Company	\$303.40	Sold
Central Loop	70 W Madison	1,439,369	Hearn Company	Hines	\$260.25	Sold
Central Loop	230 W Monroe	632,564	Accesso Partners	Lincoln Property Co./PIMCO	\$195.66	Sold

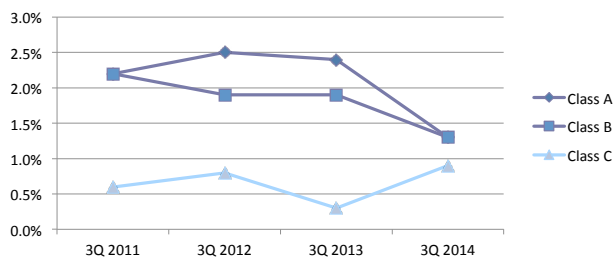
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