

# CHICAGO DOWNTOWN

## Office Market Report



YTD Net  
Absorption  
1,141,848 SF



Availability  
16.9%



Gross Average  
Asking Rate (Direct)  
\$34.74

### Chicago Office Market Continues to Heat Up

The Chicago economy continues to show signs of improvement as the unemployment rate in the metropolitan area decreased from 8.7% to 6.3% year over year. This translated into a healthier downtown office market with the vacancy rate decreasing from 14.1% to 13.1% year over year. Attributing to this was net absorption for the year of 1,141,848 SF. Vacancy however did increase slightly from 13.0% last quarter due to the former Chicago Public Schools (CPS) office building being added to the downtown inventory.

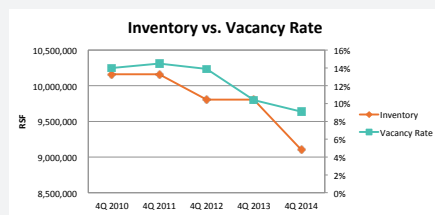
Availability decreased from 18.4% to 16.9% year over year. Most leasing activity consisted of 50,000 SF transactions or below including ZirMed and Potbelly both signing 33,000 SF and 27,000 SF leases at 111 N Canal, respectively and WeWork opening a new 25,000 SF location in River North at 111 W Illinois. Leasing activity also included two new leases at 150 N Riverside, which is currently under construction and is due for completion in 2017. Availability increased from 16.4% last quarter and should continue to increase due to tenants signing leases at properties under construction.

Net absorption was slightly over 1 million SF this year for the first time since 2011. The West Loop contributed the largest amount to this total with 497,547 SF. Class A office buildings contributed 1,092,411 SF of positive absorption this year. Absorption was 137,059 SF for the 4th quarter but would have been closer to 600,000 SF without the addition of the former CPS building. Class A buildings in the Central and West Loop as well as North Michigan Avenue provided a majority of the positive absorption for the quarter.

Overall weighted asking rent for the CBD was \$34.74 per/sf slightly lower than 3Q rent of \$34.92 per/sf. The increase of Class B direct available space caused this decrease. Class A River North buildings recorded the highest rent at \$41.76 per/sf while the lowest average rent was in Class B South Loop buildings at \$19.47 per/sf. The overall Class C office asking rate is now \$23.09 which has increased 17.2% since 4Q 2010.

The 4th quarter saw Heitman LLC buy 353 N. Clark for \$603.76 per/sf, the 2nd highest price paid per/sf for a Chicago office tower. Multiple reports say that the 2014 sale transaction volume was the highest since before the recession. Other completed sales include 308 W Erie, 222 S Riverside and 311 W Monroe. All types of buyers are still very interested in Chicago's capital market because of the returns that can be achieved. Looking ahead to 2015 it should be another busy year for buyers and sellers in Chicago.

### Developing Story – Class C Office Product Diminishing



Multi-tenant Class C office buildings are continuing to be converted to alternative uses. Class C inventory and vacancy have decreased 10% and 5% since 2010, respectively. This has caused average asking rents to increase to over \$23.00 psf in the CBD. Tenants accustomed to paying under \$20.00 psf are now being forced to look at alternative markets.

# 4Q 2014

## CBD Outlook

- Vacancy will decline throughout 2015 in the West Loop, Central Loop and River North. Although availability will go up due to large tenants signing leases at buildings under construction.
- 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, reduced supply in Class C buildings and owners upgrading tenant amenities within their buildings.
- The capital markets will continue to be strong in 2015.

## CBD Summary

		Q4 2013	Q4 2014
Total Inventory (SF)	▲	136,907,062	137,414,982
Overall Vacancy	▼	14.1%	13.1%
Direct Vacancy	▼	13.3%	12.7%
Sublease Vacancy	▼	0.8%	0.4%
Overall Available	▼	18.4%	16.9%
Direct Available	▼	16.4%	15.6%
Sublease Available	▼	2.0%	1.3%
Gross Average Asking Rate (Direct)	▲	\$31.64	\$34.74
Current Net Absorption (SF)	▲	(101,742)	137,059
YTD Net Absorption (SF)	▲	522,841	1,141,848

## Economic Indicators

	Q4 2013	Q4 2014
IL Unemployment	8.9%	6.4%
US Unemployment	6.7%	5.6%
US Consumer Confidence Index	78.1	92.6
West TX Intermediate Price Per Barrel	\$95.25	\$53.21



## 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	22,493,367	3,744,316	16.6%	2,614,843	11.6%	234,663	411,826	\$37.43	\$37.95	\$38.25	\$37.91
Class B	13,076,557	2,564,737	19.6%	2,531,941	19.4%	(440,425)	(266,413)	\$29.91	\$30.81	\$30.85	\$30.44
Class C	1,219,586	227,109	18.6%	174,202	14.3%	1,072	(17,715)	\$24.01	\$24.73	\$25.10	\$24.51
<b>TOTALS</b>	<b>36,789,510</b>	<b>6,536,162</b>	<b>17.8%</b>	<b>5,320,986</b>	<b>14.5%</b>	<b>(204,690)</b>	<b>127,698</b>	<b>\$32.58</b>	<b>\$35.29</b>	<b>\$34.79</b>	<b>\$34.40</b>
East Loop											
Class A	15,404,565	3,062,729	19.9%	2,972,660	19.3%	(19,041)	(12,157)	\$33.25	\$36.12	\$38.67	\$34.28
Class B	5,668,707	1,022,127	18.0%	798,424	14.1%	(24,635)	(25,305)	\$26.99	\$27.97	\$27.94	\$27.38
Class C	2,495,252	336,786	13.5%	277,944	11.1%	2,111	30,333	\$22.35	\$21.64	\$22.04	\$21.97
<b>TOTALS</b>	<b>23,568,524</b>	<b>4,421,642</b>	<b>18.8%</b>	<b>4,049,028</b>	<b>17.2%</b>	<b>(41,565)</b>	<b>(7,129)</b>	<b>\$31.00</b>	<b>\$32.75</b>	<b>\$35.21</b>	<b>\$31.78</b>
North Michigan Avenue											
Class A	6,166,307	1,126,943	18.3%	988,808	16.0%	86,584	288,489	\$35.67	\$38.56	\$38.07	\$36.86
Class B	5,251,952	935,389	17.8%	781,648	14.9%	26,120	112,171	\$29.68	\$30.79	\$31.09	\$30.46
Class C	266,400	48,277	18.1%	48,277	18.1%	(2,300)	4,675	\$29.01	\$23.77	\$24.47	\$25.59
<b>TOTALS</b>	<b>11,684,659</b>	<b>2,110,609</b>	<b>18.1%</b>	<b>1,818,733</b>	<b>15.6%</b>	<b>110,404</b>	<b>405,335</b>	<b>\$33.18</b>	<b>\$35.18</b>	<b>\$32.72</b>	<b>\$33.76</b>
River North											
Class A	4,182,228	454,315	10.9%	281,637	6.7%	45,250	188,785	\$38.09	\$44.80	\$41.29	\$41.76
Class B	10,236,179	1,130,185	11.0%	670,958	6.6%	(38,981)	(70,685)	\$33.52	\$33.14	\$28.82	\$32.68
Class C	2,549,286	228,536	9.0%	163,838	6.4%	3,080	10,098	\$22.28	\$25.09	\$24.23	\$24.05
<b>TOTALS</b>	<b>16,967,693</b>	<b>1,813,036</b>	<b>10.7%</b>	<b>1,116,433</b>	<b>6.6%</b>	<b>9,349</b>	<b>128,198</b>	<b>\$33.51</b>	<b>\$35.96</b>	<b>\$31.04</b>	<b>\$33.96</b>
South Loop											
Class B	1,095,594	187,369	17.1%	167,903	15.3%	(4,898)	(6,823)	\$18.95	\$19.05	\$24.16	\$19.47
Class C	452,116	49,553	11.0%	54,478	12.0%	3,084	(2,978)	\$22.25	\$21.20	\$21.38	\$21.75
<b>TOTALS</b>	<b>1,547,710</b>	<b>236,922</b>	<b>15.3%</b>	<b>222,381</b>	<b>14.4%</b>	<b>(1,814)</b>	<b>(9,801)</b>	<b>\$19.32</b>	<b>\$19.55</b>	<b>\$22.58</b>	<b>\$19.99</b>
West Loop											
Class A	33,893,204	5,716,879	16.9%	3,848,561	11.4%	137,685	215,468	\$37.02	\$40.12	\$42.48	\$39.85
Class B	10,905,887	2,239,789	20.5%	1,569,101	14.4%	115,640	238,287	\$32.81	\$32.68	\$33.21	\$32.79
Class C	2,057,795	143,060	7.0%	106,539	5.2%	12,050	43,792	\$22.28	\$20.51	\$22.32	\$21.83
<b>TOTALS</b>	<b>46,856,886</b>	<b>8,099,728</b>	<b>17.3%</b>	<b>5,524,201</b>	<b>11.8%</b>	<b>265,375</b>	<b>497,547</b>	<b>\$35.59</b>	<b>\$37.60</b>	<b>\$39.76</b>	<b>\$37.62</b>
CBD											
Class A	82,139,671	14,105,182	17.2%	10,706,509	13.0%	485,141	1,092,411	\$36.05	\$38.61	\$40.51	\$37.89
Class B	46,234,876	8,079,596	17.5%	6,519,975	14.1%	(367,179)	(18,768)	\$30.46	\$30.99	\$31.15	\$30.77
Class C	9,040,435	1,033,321	11.4%	825,278	9.1%	19,097	68,205	\$23.07	\$22.92	\$23.24	\$23.09
<b>TOTALS</b>	<b>137,414,982</b>	<b>23,218,099</b>	<b>16.9%</b>	<b>18,051,762</b>	<b>13.1%</b>	<b>137,059</b>	<b>1,141,848</b>	<b>\$33.26</b>	<b>\$35.36</b>	<b>\$36.65</b>	<b>\$34.74</b>

\*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
Hyatt Hotels and Pritzker Organization 150 N Riverside	292,000	New	West Loop
Polsinelli 150 N Riverside	112,000	New	West Loop
Lockton Insurance 500 W Monroe	52,201	New	West Loop
Raise Marketplace Inc. 1-33 S State	46,000	New	East Loop

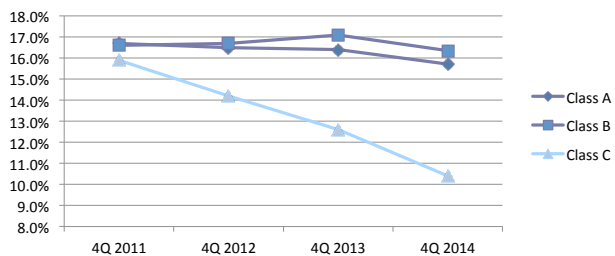
## Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark	468,650	B	Blue Star Properties
444 W Lake	440,000	A	Hines/ Levy Joint Venture
150 N Riverside	428,467	A	O'Donnell Investment Co.
311 W Monroe	387,705	B	Golub & Company/ Archon Group, L.P.
515 N State	350,906	A	UBS Realty Investor

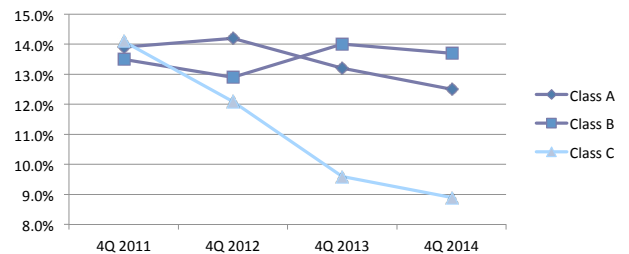
## Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price	Sale/Under Contract
River North	353 N Clark	1,184,255	Heitman LLC	Tishman Speyer	\$603.76	Sold
River North	308 W Erie	45,000	Speedwagon Properties	Ontario West LLC	\$235.56	Sold
West Loop	222 S Riverside	1,184,432	Deutsche Asset & Wealth Management	TIER REIT, Inc.	\$208.54	Sold
West Loop	311 W Monroe	387,790	The Prudential Insurance Company of America	Golub & Company	\$149.57	Sold
Central Loop	105 W Madison	125,729	Baker Development Corporation	Extell Development Company	\$103.40	Sold

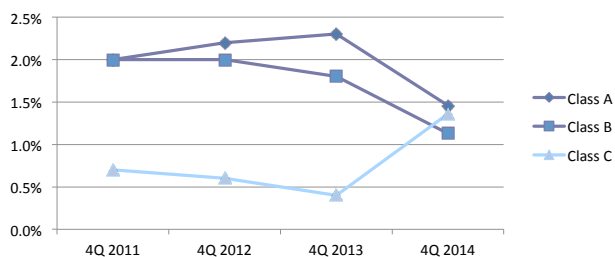
## DIRECT AVAILABILITY



## DIRECT VACANCY



## SUBLET AVAILABILITY



## SUBLET VACANCY

