

CHICAGO DOWNTOWN

Office Market Report

▼ YTD Net
Absorption
(79,724) SF

▲ Availability
17.2%

▲ Gross Average
Asking Rate (Direct)
\$35.05

Downtown Market Experiences a Slight Uptick in Vacancy; Still an Overall Positive Tone

Chicago's downtown office market saw the vacancy rate increase this quarter for the first time since 2013. The slight increase from 13.1% in Q4 2014 to 13.3% was attributable to the BMO Harris relocation/contraction and downsizing of showroom tenants at 311 W. Monroe and the Merchandise Mart, respectively. Please note however the vacancy rate of 13.3% is well below the 14.0% in Q1 2014.

Due to the 2.3 million SF of buildings under construction, availability has increased year over year, from 16.5% to 17.2%. While not included in the overall inventory until construction is completed, tenants can still sign leases at these buildings which has opened up larger availabilities across the CBD. In Q1, Freeborn & Peters signed a letter of intent for 90,000 SF at 151 N. Franklin, a Loop office tower proposed by John Buck. At 444 W. Lake, a 52 story office building under construction, Mead Johnson signed a lease for 76,800 SF. Outside of these buildings most of the activity in the market was below 50,000 SF. Larger leases this quarter included, but are not limited to, Centro signing at The Sullivan Center for 67,000 SF; R.J. O'Brien & Associates relocating within 222 S. Riverside for 53,000 SF and the University of Illinois at Chicago renewing at 200 S. Wacker for 40,000 SF.

Net absorption was negative to start off 2015. The downtown office market saw negative 79,724 SF of net absorption in Q1. Consolidation was the major driver of this decline. Class A markets in the Central Loop and East Loop saw the highest amount of positive absorption at 153,218 SF and 116,323 SF, respectively. On the contrary, Class B buildings in the West Loop and River North had the highest amount of negative absorption with -190,605 SF and -142,941 SF, respectively.

Overall weighted asking rent rose above \$35.00 per/sf this quarter to \$35.05 per/sf. This is an increase of 3.5% since Q1 2014 and a 0.9% increase since Q4 2014. All building classes contributed to both increases. Class C buildings continued to increase the most, quarter to quarter, from \$23.09 per/sf to \$23.76 per/sf, a 2.9% increase. The West Loop has the highest asking rent of \$37.88 per/sf due to the pricing structure of the buildings currently under construction.

The 1st quarter saw the announcement of the Willis Tower going on the market. According to multiple reports, the building will be sold to The Blackstone Group for \$1.3 billion. Notable completed sales this quarter included World-Wide Holdings Corporation purchase of the land at 300 S. Riverside for \$209.85 per/sf; GLL Real Estate Partners, Inc. purchasing 550 W Adams for \$382.49 per/sf and Beacon Capital Partners acquisition of 515 N. State for \$202.31 per/sf.

Developing Story – Starting Spec Construction on 1330 W. Fulton



multiple properties within the Fulton Market betting the area will become the next River North.

Developer Sterling Bay is starting construction on a spec 9 story office building this spring without any pre-leasing (typically construction will not commence until 50% of the proposed property is leased). The 290,000 SF office building is scheduled to be completed in late 2016. Sterling Bay has acquired

1Q 2015

CBD Outlook

- Class A trophy buildings will continue to see availability rates rise as the overall inventory increases due to the new construction.
- Asking rent in the CBD will continue to increase because of the reduced supply of Class C buildings and owners upgrading tenant amenities within their buildings.
- The capital markets will continue to be strong as investors are attracted to Chicago's cap rates.

CBD Summary

		Q1 2014	Q1 2015
Total Inventory (SF)	▲	137,430,082	137,938,002
Overall Vacancy	▼	14.0%	13.3%
Direct Vacancy	▼	13.2%	12.8%
Sublease Vacancy	▼	0.8%	0.5%
Overall Available	▲	16.5%	17.2%
Direct Available	▲	14.7%	15.6%
Sublease Available	▼	1.8%	1.6%
Gross Average Asking Rate (Direct)	▲	\$33.88	\$35.05
Current Net Absorption (SF)	▼	269,085	(79,724)
YTD Net Absorption (SF)	▼	269,085	(79,724)

Economic Indicators

	Q1 2014	Q1 2015
IL Unemployment	7.9%	6.2%
US Unemployment	6.2%	5.5%
US Consumer Confidence Index	82.3	101.3
West TX Intermediate Price Per Barrel	\$100.64	\$50.55



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 Rate (Direct) This represents the weighted-average dollar amount the lessor is asking for direct space in their building.

Gross Asking Rate (High-Rise) This represents the weighted-average dollar amount the lessor is asking for floors 30 and above in their building. N/A means there is no space available in this range.

*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 (Direct)	Gross Asking Rate (High Rise)
Central Loop									
Class A	22,493,367	3,713,814	16.5%	2,487,689	11.1%	153,218	153,218	\$38.50	\$38.89
Class B	13,075,618	2,680,513	20.5%	2,549,216	19.5%	(21,326)	(21,326)	\$30.87	\$31.67
Class C	1,219,586	216,272	17.7%	158,627	13.0%	20,120	20,120	\$24.78	N/A
TOTALS	36,788,571	6,610,599	18.0%	5,195,532	14.1%	152,012	152,012	\$34.83	\$38.24
East Loop									
Class A	15,407,268	3,054,660	19.8%	2,827,748	18.4%	116,323	116,323	\$34.61	\$39.02
Class B	5,442,287	964,630	17.7%	795,235	14.6%	(35,060)	(35,060)	\$27.71	\$33.58
Class C	2,721,672	331,097	12.2%	320,267	11.8%	(22,060)	(22,060)	\$23.76	N/A
TOTALS	23,571,227	4,350,387	18.5%	3,943,250	16.7%	59,203	59,203	\$32.27	\$38.96
North Michigan Avenue									
Class A	6,227,167	1,140,607	18.3%	1,048,130	16.8%	(37,383)	(37,383)	\$37.23	\$40.47
Class B	5,259,889	994,696	18.9%	787,366	15.0%	17,951	17,951	\$29.95	N/A
Class C	266,400	45,677	17.1%	45,677	17.1%	2,600	2,600	\$25.62	N/A
TOTALS	11,753,456	2,180,980	18.6%	1,881,173	16.0%	(16,832)	(16,832)	\$33.70	\$40.47
River North									
Class A	4,182,228	457,819	10.9%	266,515	6.4%	11,299	11,299	\$42.60	\$58.96
Class B	10,236,179	1,242,033	12.1%	827,552	8.1%	(142,941)	(142,941)	\$33.35	N/A
Class C	2,555,286	236,696	9.3%	171,395	6.7%	8,133	8,133	\$23.86	N/A
TOTALS	16,973,693	1,936,548	11.4%	1,265,462	7.5%	(123,509)	(123,509)	\$34.22	\$58.96
South Loop									
Class B	1,095,594	192,213	17.5%	169,935	15.5%	(2,032)	(2,032)	\$18.84	N/A
Class C	452,116	50,035	11.1%	45,329	10.0%	9,149	9,149	\$21.82	N/A
TOTALS	1,547,710	242,248	15.7%	215,264	13.9%	7,117	7,117	\$19.51	N/A
West Loop									
Class A	34,333,756	6,080,925	17.7%	4,015,788	11.7%	46,390	46,390	\$40.16	\$42.97
Class B	10,911,794	2,181,494	20.0%	1,738,752	15.9%	(190,605)	(190,605)	\$32.91	\$35.78
Class C	2,057,795	139,963	6.8%	119,339	5.8%	(13,500)	(13,500)	\$21.84	N/A
TOTALS	47,303,345	8,402,382	17.8%	5,873,879	12.4%	(157,715)	(157,715)	\$37.88	\$42.86
CBD									
Class A	82,643,786	14,447,825	17.5%	10,645,870	12.9%	289,847	289,847	\$38.29	\$40.89
Class B	46,021,361	8,255,579	17.9%	6,868,056	14.9%	(374,013)	(374,013)	\$31.03	\$32.72
Class C	9,272,855	1,019,740	11.0%	860,634	9.3%	4,442	4,442	\$23.76	N/A
TOTALS	137,938,002	23,723,144	17.2%	18,374,560	13.3%	(79,724)	(79,724)	\$35.05	\$40.62

*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
Freeborn & Peters 151 N Franklin	90,000	New	West Loop
Mead Johnson 444 W Lake	75,000	New	West Loop
Centro 1-33 S State	67,000	New	East Loop
R.J. O'Brien & Associates LLC 222 S Riverside	53,000	Relocation (in building)	West Loop

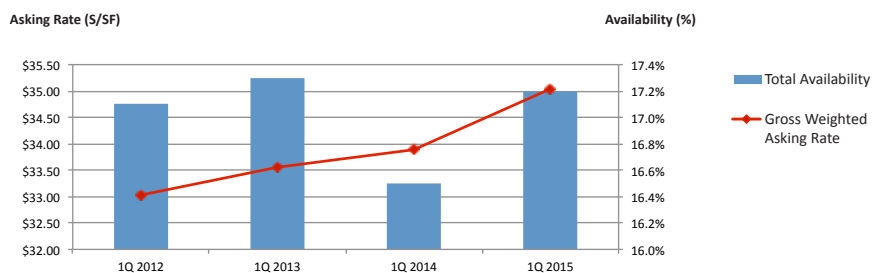
Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark	468,650	B	Blue Star Properties
311 W Monroe	387,705	B	The Prudential Insurance Company of America/ GlenStar Properties
515 N State	377,421	A	Beacon Capital Partners/ Callahan Capital Properties/Ivanhoe Cambridge
444 W Lake	362,000	A	Hines/Levy Joint Venture
200 E Randolph	339,761	A	Piedmont Office Realty Trust

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price
West Loop	550 W Adams	483,677	GLL Real Estate Partners, Inc	SEB Asset Management	\$382.49
River North	225 W Ohio	48,499	Finesa Real Estate Group/ Transwestern Investment Management	CMK Companies	\$273.72
West Loop	300 S Riverside (Land Only)	1,048,357	World-Wide Holdings Corporation/ Cammeby's	Mizrachi Group/ David Werner Real Estate	\$209.85
River North	515 N State	683,347	Beacon Capital Partners/Callahan Capital Properties/Ivanhoe Cambridge	UBS Group	\$202.31
Central Loop	33 N Dearborn	341,175	Amtrust Realty Corp.	Fulcrum Asset Advisors	\$181.72

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



NET ABSORPTION VS TOTAL VACANCY

