

CHICAGO DOWNTOWN

Office Market Report

YTD Net
Absorption
258,605 SF

Availability
17.1%

Gross Average
Asking Rate (Direct)
\$35.64

Downtown Market Approaches Equilibrium as the Vacancy Rate Continues to Decrease and Asking Rates Increase

Chicago's downtown office market is continuing to become tighter. The overall vacancy rate has decreased from 13.4% to 12.6%, year over year. This is the lowest it has been since the end of 2008 and now brings the market almost to equilibrium. Simultaneously Chicago's unemployment rate continued to improve in the second quarter. According to the Illinois Department of Employment Security, Chicago's unemployment rate decrease from 7.7% in May 2014 to 6.7%, May 2015.

Tenants are continuing to lease space at buildings under construction and landlords are responding by marketing space earlier to protect from future vacancy. For example, the Landlord of 222 N LaSalle is marketing Hinshaw & Culbertson's 165,866 SF office today, but the space is not scheduled to be vacant until 2018. Due to this trend, the availability rate increased from 16.6% to 17.1%, year over year.

Notable new leases this quarter included WeWork for 105,000 SF at 20 W. Kinzie; Avant Credit at 222 N LaSalle for 79,000 SF; and Accreditation Council for Graduate Medical Education for 89,000 SF at 401 N. Michigan.

Net absorption was positive 361,049 SF this quarter; fairly close to the SF absorbed in 2Q 2014. The Central Loop saw the largest amount of positive net absorption with 337,666 SF. This was partly due to Wintrust Financial Corp. expanding its downtown presence and consolidating its two offices at 222 S. Riverside and 190 S. LaSalle to 231 S. LaSalle. Year to date net absorption for the downtown market is positive 258,605 SF. After a relatively flat 1Q 2015, that number is about a third of the positive 670,040 SF of YTD net absorption at the same point last year.

Overall asking rates increased 2.7% to \$35.64/SF from 2Q 2014. The highest asking rates were in Class A River North buildings with a weighted average of \$44.92/SF, which is an increase from \$42.60/SF last quarter. The high rise portion of this type of space has an average asking rate of \$61.67 per/SF compared to \$58.96/SF last quarter. Both of these increases are attributable to River North's availability and vacancy rate being the lowest of the downtown submarkets at 10.6% and 7.8%, respectively.

The downtown capital office market has continued to be active. The Blackstone Group LP closed on The Willis Tower for approximately \$1.3 billion (\$343.82/SF). In addition, they are reportedly in-contract to buy the former Apparel Center at 350 W Mart Circle for \$390 million (\$300.00/SF). Other notable sales this quarter include John Hancock Real Estate acquiring 1 S. Wacker for \$344 million (\$287.83/SF) and JP Morgan Chase purchasing 111 N. Canal for \$304 million (\$353.49/SF).

2Q 2015

CBD Outlook

- The CBD vacancy rate will continue to decrease due to new market leases and tenant expansions.
- The CBD availability rate will continue to rise as more tenants sign leases at buildings under construction and landlords market the space they are leaving years ahead of time.
- Asking rates will continue to steadily increase because of sale activity and owners upgrading amenities within their buildings.
- The capital markets will continue to be strong as investors are attracted to Chicago's cap rates.

CBD Summary

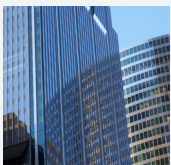
		Q2 2014	Q2 2015
Total Inventory (SF)	◀▶	137,088,899	137,088,899
Overall Vacancy	▼	13.4%	12.6%
Direct Vacancy	▼	12.6%	12.1%
Sublease Vacancy	▼	0.9%	0.5%
Overall Available	▲	16.6%	17.1%
Direct Available	▲	14.6%	15.3%
Sublease Available	▼	2.0%	1.8%
Gross Average Asking Rate (Direct)	▲	\$34.72	\$35.64
Current Net Absorption (SF)	▼	442,601	361,049
YTD Net Absorption (SF)	▼	670,040	258,605

Economic Indicators

	Q2 2014	Q2 2015
IL Unemployment	6.9%	6.0%
US Unemployment	6.1%	5.3%
US Consumer Confidence Index	85.2	101.4
West TX Intermediate Price Per Barrel	\$104.51	\$56.87

Developing Story – Industry Consolidation:

Cushman & Wakefield Acquires J.F. McKinney + Associates and Now Merging with DTZ



At the end of April, Cushman & Wakefield announced the acquisition of J.F. McKinney + Associates, a Landlord Representation firm in Chicagoland. Shortly after this, DTZ's parent company, TPG Capital, agreed to buy Cushman & Wakefield for approximately \$2 billion. The joint company will take on the Cushman & Wakefield name once the deal closes at the end of 2015 and employ over 43,000 people (around 300 in Chicagoland). With the acquisition and merger, Cushman & Wakefield will now compete size-wise with CBRE and JLL, the industry's two largest firms.



- 1. River North
- 2. North Michigan Avenue
- 3. West Loop
- 4. Central Loop
- 5. East Loop
- 6. South Loop

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	22,531,899	3,720,578	16.5%	2,287,426	10.2%	74,655	227,873	\$38.51	\$41.02
Class B	12,570,451	2,232,122	17.8%	1,747,764	13.9%	263,270	241,944	\$30.86	\$31.66
Class C	1,219,586	184,895	15.2%	153,851	12.6%	(259)	(259)	\$24.91	N/A
TOTALS	36,321,936	6,137,595	16.9%	4,189,041	11.5%	337,666	469,558	\$35.32	\$39.72
East Loop									
Class A	15,407,268	2,942,807	19.1%	2,735,879	17.8%	(14,691)	101,632	\$34.79	\$39.23
Class B	5,442,287	962,006	17.7%	772,756	14.2%	18,236	(16,824)	\$28.57	N/A
Class C	2,721,672	309,875	11.4%	274,298	10.1%	18,781	(3,279)	\$24.35	N/A
TOTALS	23,571,227	4,214,688	17.9%	3,782,933	16.0%	22,326	81,529	\$32.59	\$39.23
North Michigan Avenue									
Class A	6,228,809	1,222,107	19.6%	1,181,130	19.0%	(67,855)	(105,238)	\$39.40	\$32.50
Class B	5,232,875	901,366	17.2%	773,034	14.8%	18,707	36,658	\$29.79	N/A
Class C	266,400	54,370	20.4%	50,697	19.0%	(5,020)	(5,020)	\$26.31	N/A
TOTALS	11,728,084	2,177,843	18.6%	2,004,861	17.1%	(54,168)	(73,600)	\$34.97	\$32.50
River North									
Class A	4,182,228	305,953	7.3%	217,995	5.2%	42,708	54,007	\$44.92	\$61.67
Class B	10,204,179	1,184,475	11.6%	914,090	9.0%	6,227	(136,714)	\$33.35	N/A
Class C	2,576,871	314,231	12.2%	189,681	7.4%	(29,395)	(21,262)	\$24.72	N/A
TOTALS	16,963,278	1,804,659	10.6%	1,321,766	7.8%	19,540	(103,969)	\$33.66	\$61.67
South Loop									
Class B	1,095,594	192,213	17.5%	167,447	15.3%	2,488	456	\$21.59	N/A
Class C	435,576	49,292	11.3%	47,001	10.8%	(1,672)	7,477	\$21.96	N/A
TOTALS	1,531,170	241,505	15.8%	214,448	14.0%	816	7,933	\$21.67	N/A
West Loop									
Class A	34,067,048	6,603,769	19.4%	4,057,447	11.9%	23,809	70,199	\$40.67	\$45.04
Class B	10,848,361	2,073,931	19.1%	1,621,530	14.9%	3,100	(187,505)	\$33.23	\$34.24
Class C	2,057,795	148,883	7.2%	129,528	6.3%	7,960	(5,540)	\$21.31	N/A
TOTALS	46,973,204	8,826,583	18.8%	5,808,505	12.4%	34,869	(122,846)	\$38.51	\$44.94
CBD									
Class A	82,417,252	14,795,214	18.0%	10,479,877	12.7%	58,626	348,473	\$38.84	\$41.99
Class B	45,393,747	7,546,113	16.6%	5,996,621	13.2%	312,028	(61,985)	\$31.25	\$32.00
Class C	9,277,900	1,061,546	11.4%	845,056	9.1%	(9,605)	(27,883)	\$24.16	N/A
TOTALS	137,088,899	23,402,873	17.1%	17,321,554	12.6%	361,049	258,605	\$35.64	\$41.67

*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
WeWork 20 W Kinzie	105,000	New	River North
Hinshaw & Culbertson 151 N Franklin	100,000	New	West Loop
Accreditation Council for Graduate Medical Education 401 N Michigan	89,000	New	North Michigan Avenue
Avant Credit 222 N LaSalle	79,000	New	Central Loop
Perkins+Will 410 N Michigan	60,440	New	North Michigan Avenue

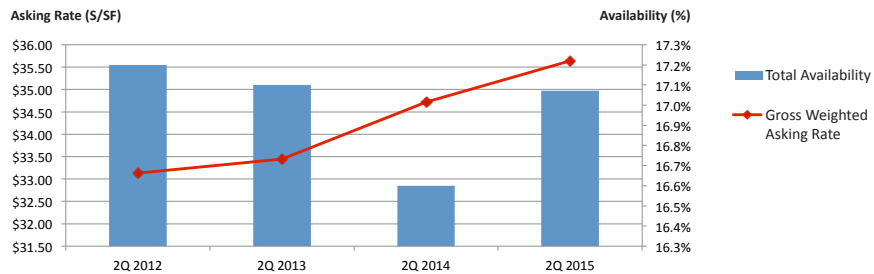
Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark	538,311	B	Blue Star Properties
300 S Riverside	497,007	A	Mizrachi Group
515 N State	389,714	A	Beacon Capital Partners/ Callahan Capital Partners/ Ivanhoe Cambridge, Inc
311 W Monroe	387,705	B	The Prudential Insurance Company of America/ GlenStar Properties
200 E Randolph	339,761	A	Piedmont Office Realty Trust

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price
West Loop	233 S Wacker	3,781,045	The Blackstone Group LP	The Moinian Group/American Landmark Properties Ltd./The Chetrit Group	\$343.82
West Loop	1 S Wacker	1,195,170	John Hancock Real Estate	Harbor Group Management	\$287.83
West Loop	111 N Canal	860,000	JP Morgan Chase	Sterling Bay Companies	\$353.49
River North	415 N Dearborn	30,000	Centrum Partners LLC	Wells Street Companies	\$386.67
South Loop	1006 S Michigan	62,200	JK Equities, LLC	Lightner Enterprises, Inc.	\$168.81

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



YTD NET ABSORPTION VS TOTAL VACANCY

