

CHICAGO DOWNTOWN

Office Market Report

YTD Net
Absorption
808,406 SF

Availability
17.6%

Gross Average
Asking Rate (Direct)
\$36.52

Chicago Office Market Continues to See Positive Absorption and Rising Rates

Chicago's downtown office market continues on a steady path. Despite overall vacancy in the CBD increasing slightly to 12.8% from last quarter's 12.6%, it remains below last year's 13%. While seeing negligible change in vacancy, unemployment in both Illinois and throughout the country continues down the path of improvement. According to the Bureau of Labor Statistics, US unemployment is at its lowest rate since April 2008 at 5.1% and Illinois is at its lowest rate since February of 2008 at 5.6%.

While the overall availability rate has increased from 16.4% this time last year to 17.5%, this increase is a direct result of sublease space added to the market. Meanwhile, the direct availability rate has decreased from 15.1% to 15% during the same time period. The increase in the sublease availability rate is largely accounted for by Motorola Mobility's space that was just put on the market. Announced in early September, Motorola Mobility cut 500 jobs, and reduced their occupancy at the Merchandise Mart by 220,000 SF. In addition, JP Morgan Chase placed 64,311 SF on the sublease market at 131 South Dearborn in August.

Notable renewals this quarter included Vedder Price for 157,203 SF at 222 N LaSalle and Freeborn & Peters for 119,555 SF at 311 S Wacker. The trend of companies migrating from the suburbs to the CBD continued in the third quarter as well. Some notable new leases included ConAgra Foods for 200,000 SF to the Merchandise Mart from Omaha; Kraft Heinz for 169,696 SF to 200 E Randolph from Northbrook; Motorola Solutions for 150,345 SF to 500 W Monroe from Schaumburg; and Baxalta for 83,200 SF to 540 W Madison from Bannockburn.

Net Absorption was positive 531,933 SF this quarter; slightly higher than the 409,411 SF absorbed in 3Q 2014. The West Loop saw the largest amount of positive net absorption with 276,475 SF. This is partly due to companies like Lockton Insurance and Potbelly's moving to the West Loop and companies like Milliman expanding their space by 32,468 SF. Year to date net absorption for the CBD is positive 808,406 SF. After a relatively flat 1st quarter, a solid 2nd and 3rd quarters have put 2015 in a similar place to 2014.

It should be noted: In the last three years, the CBD's Class C space has seen dramatic changes in inventory and rates. In 3Q 2012 Class C inventory was 10,563,558 SF with an average asking rate of \$19.19 PSF. The inventory of Class C space has since decreased to 9,119,822 SF which has driven the average asking rate up to \$23.97 PSF; Class C's vacancy rate within the West Loop has seen the greatest change since 2012. In 3Q 2012 the vacancy rate was at 11.1% and as of this quarter it has dropped to 5.7%.

CBD capital markets has continued to be active as Amtrust Realty closed on 111 E Wacker Drive for approximately \$376 million (\$185.10/SF). Other notable sales this quarter include AEW Capital Management acquiring 525 W Van Buren for approximately \$135 million (\$258.58/SF) and GLL Real Estate Partners acquiring 2 office condo units for approximately \$74 million (\$492.77/SF).

Developing Story – The Changing Chicago Skyline Brings New Life to the Former 9-5 City



New construction continues as there are currently 19 high rise buildings under construction in the CBD (two of which are office buildings). Three of those buildings (River Point, 150 North Riverside, and Optima Chicago Center II) will be tall enough to be ranked amongst the 500 tallest buildings in the US by The Council on Tall Buildings and Urban Habitat. With 15 of these properties being residential, it will continue to push the transformation of the CBD towards being a 24/7 community.

3Q 2015

CBD Outlook

- Construction will continue for office as well as residential as employees want to live and work downtown.
- Asking rates will continue to increase.
- As overall CBD rates rise, the Class C office market will continue to see decreasing vacancy and positive absorption.
- The capital markets will continue to be strong through the end of 2015.

CBD Summary

		Q3 2014	Q3 2015
Total Inventory (SF)	▲	136,831,887	136,946,785
Overall Vacancy	▼	13.0%	12.8%
Direct Vacancy	▼	12.5%	11.9%
Sublease Vacancy	▲	0.5%	0.8%
Overall Available	▲	16.4%	17.5%
Direct Available	▼	15.1%	15.0%
Sublease Available	▲	1.3%	2.4%
Gross Average Asking Rate (Direct)	▲	\$34.92	\$36.52
Current Net Absorption (SF)	▲	409,411	531,933
YTD Net Absorption (SF)	▼	1,068,129	808,406

Economic Indicators

	Q3 2014	Q3 2015
IL Unemployment	6.7%	5.6%
US Unemployment	5.9%	5.1%
US Consumer Confidence Index	86.0	103.0
West TX Intermediate Price Per Barrel	\$92.77	\$44.40



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	22,539,696	3,997,503	17.7%	2,577,193	11.4%	(90,964)	136,909	\$38.20	\$41.37
Class B	12,583,235	2,368,236	18.8%	1,720,392	13.7%	164,618	406,562	\$31.07	\$32.31
Class C	1,219,586	174,151	14.3%	171,371	14.1%	(12,475)	7,386	\$24.94	N/A
TOTALS	36,342,517	6,539,890	18.0%	4,468,956	12.3%	61,179	550,857	\$35.29	\$39.95
East Loop									
Class A	15,356,670	2,798,298	18.2%	2,676,274	17.4%	137,138	238,770	\$34.40	\$37.69
Class B	5,451,345	890,005	16.3%	786,398	14.4%	19,786	2,962	\$28.90	N/A
Class C	2,721,672	345,063	12.7%	312,269	11.5%	(9,658)	(12,937)	\$22.34	N/A
TOTALS	23,529,687	4,033,366	17.1%	3,774,941	16.0%	147,266	228,795	\$32.16	\$37.69
North Michigan Avenue									
Class A	5,981,749	1,298,210	21.7%	1,076,309	18.0%	(21,814)	(127,052)	\$39.24	\$41.22
Class B	5,232,875	788,967	15.1%	699,060	13.4%	17,270	53,928	\$30.17	\$35.85
Class C	266,400	36,581	13.7%	35,972	13.5%	12,625	10,205	\$24.99	N/A
TOTALS	11,481,024	2,123,758	18.5%	1,811,341	15.8%	8,081	(62,919)	\$35.31	\$37.95
River North									
Class A	4,182,228	299,427	7.2%	238,456	5.7%	(3,635)	50,372	\$43.54	N/A
Class B	10,409,362	1,419,623	14.8%	1,057,241	10.2%	43,152	(88,562)	\$33.25	N/A
Class C	2,418,793	262,262	10.8%	205,371	8.5%	(13,336)	(44,450)	\$27.17	N/A
TOTALS	17,010,383	1,981,312	12.3%	1,501,068	8.8%	26,181	(82,640)	\$34.13	N/A
South Loop									
Class B	1,095,594	187,260	17.1%	167,447	15.3%	0	456	\$21.58	N/A
Class C	435,576	31,379	7.2%	29,988	6.9%	12,751	20,228	\$23.19	N/A
TOTALS	1,531,170	218,639	14.3%	197,435	12.9%	12,751	20,684	\$21.83	N/A
West Loop									
Class A	34,145,848	6,837,907	20.0%	3,938,731	11.5%	241,691	311,890	\$42.70	\$44.63
Class B	10,848,361	2,052,933	18.9%	1,672,488	15.4%	26,311	(161,194)	\$36.50	\$34.94
Class C	2,057,795	172,368	8.4%	117,445	5.7%	8,473	2,933	\$21.45	N/A
TOTALS	47,052,004	9,063,208	19.3%	5,728,664	12.2%	276,475	153,629	\$40.85	\$44.47
CBD									
Class A	82,206,191	15,231,345	18.5%	10,506,963	12.8%	262,416	610,889	\$39.55	\$42.17
Class B	45,620,772	7,707,024	17.2%	6,103,026	13.4%	271,137	214,152	\$32.24	29.31
Class C	9,119,822	1,021,804	11.2%	872,416	9.6%	(1,620)	(16,635)	\$23.97	N/A
TOTALS	136,946,785	23,960,173	17.6%	17,482,405	12.8%	531,933	808,406	\$36.52	\$41.57

*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
ConAgra Foods <i>222 Merchandise Mart</i>	200,000	Relocation & Expansion	River North
Kraft Heinz <i>200 E Randolph</i>	169,696	Relocation	East Loop
Vedder Price P.C. <i>222 N LaSalle</i>	157,203	Renewal	Central Loop
Motorola HQ <i>500 W Monroe</i>	150,345	Relocation	West Loop
Freeborn & Peters <i>311 S Wacker Dr</i>	119,555	Renewal	West Loop

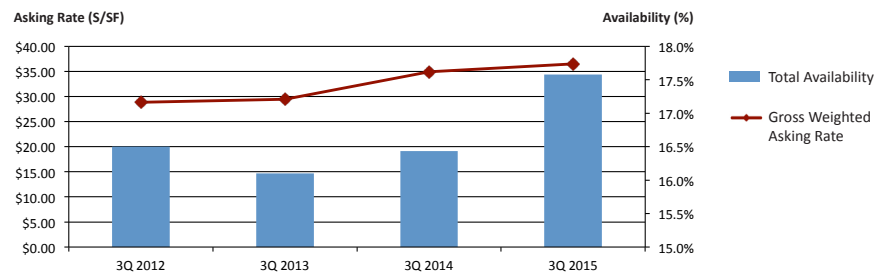
Largest Available Spaces

Building Address	SF	Class	Landlord
222 Merchandise Mart	168,410	B	Cushman & Wakefield
600 W Chicago	117,101	B	Telos
717 S Desplaines	110,797	B	Ascent Corporation
350 N Orleans	86,711	B	CBRE
175 W Jackson	67,794	A	Jackson Management & Investment Co

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
East Loop	111 E Wacker (Two Properties)	2,031,387	Amtrust Realty Corp. USA, Inc.	Equity Commonwealth	\$185.10
West Loop	525 W Van Buren	522,089	AEW Capital Management	Northwood Investors LLC	\$258.58
River North	111 W Illinois (Two Office Condo Units)	152,200	GLL Real Estate Partners, Inc.	The Alter Group	\$492.77
North Michigan Avenue	625 N Michigan	290,000	CIM Group LP	The Goldman Sachs Group, Inc.	\$165.52
West Loop	549 W Randolph	108,000	Ameritus	The Knight Group LLC	\$179.17

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



YTD NET ABSORPTION VS TOTAL VACANCY

