

CHICAGO DOWNTOWN

Office Market Report

▲ YTD Net
Absorption
2,137,884 SF

▼ Availability
15.3%

▲ Gross Average
Asking Rate (Direct)
\$36.11

Downtown Market Vacancy Continues to Decrease, Asking Rates Increase and Investment Sales Surge

Chicago's downtown office market is continuing to tighten, for the moment. The overall vacancy rate has decreased from 13.1% to 11.6% from year-end 2014 to year-end 2015. This is the lowest it has been since 2Q 2009. As expected, Chicago's unemployment rate continued to improve over the course of 2015 as well. Chicago's unemployment rate dropped from 6.2% at the end of 2014 to 5.4% at year-end 2015.

As we see vacancy decreasing in the CBD, we are seeing the availability rate shrink as well. When comparing year-end 2014 to year-end 2015, the availability rate decreased from 16.9% to 15.3%. However, this trend may not continue. Currently there are 3 new office towers in various stages of development and pre-leasing that will add approximately 3.1 million sf to the overall inventory. While the delivery of these 3 buildings will relieve some of the pressure from the lack of available and vacant blocks of space over 100,000 sf, it should eventually push the availability and vacancy rates up. These increases could have the possible side effect of reducing the average asking rates for Class A and B properties in the West and Central Loop submarkets. Some major pre-leasing transactions included CNA (151 North Franklin), McDermott Will & Emery (444 West Lake), Mead Johnson (444 West Lake) and William Blair & Company (150 North Riverside).

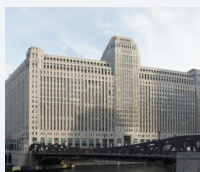
Noteworthy leases from this quarter include; Mayer Brown for 265,000 sf at 71 S. Wacker; GrubHub for 128,468 sf at 111 W. Washington; and Holland & Knight for 104,000 sf at 131 S. Dearborn. Also, noteworthy is the sublease of the former Motorola Mobility space at the Merchandise Mart. VelocityEHS announced in December that they would be relocating their global headquarters to the Merchandise Mart from 350 N. Orleans. Velocity will be subleasing 91,000 sf of space that was formerly Motorola's.

2015 saw positive net absorption exceeding 2 million sf. While it is not the nearly 3.5 million sf we saw in 2007, it is still the largest amount of positive net absorption the Chicago CBD has seen since the recession. The Central Loop contributed most with a total of 834,438 sf. Class B space throughout all of the CBD saw this year's highest numbers with over 1 million sf. Some of this increase can be attributed to tech firms like GrubHub expanding within 111 W. Washington and 1871 expanding within the Merchandise Mart.

Overall average asking rates have increased almost 4% since last year, moving the overall rate from \$34.74/sf to \$36.11/sf. The highest asking rates continue to be found in River North's Class A space with a weighted average of \$47.81/sf. That is a substantial increase from last year's \$41.76/sf. This increase can be attributed to River North's minimal availability and vacancy within Class A buildings. Year over year availability in River North's Class A space has dropped from 10.9% to 6.9% and vacancy has dropped from 6.7% to 5.2%.

The CBD saw a record setting year in building sales. Through November, total sales reached \$6.1 billion. Prior to 2015 the best year for sales in Chicago had been 2006, which set the mark at \$5.3 billion. Noteworthy transactions that contributed to the record year included: Piedmont Realty's acquisition of The Aon Center for approximately \$712 million (\$260.05/sf), Hines' acquisition of One North Wacker for approximately \$240 million (\$342.56/sf), Blackstone Group's acquisition of Willis Tower for approximately \$1.3 billion (\$343.82/sf), Amtrust Realty's acquisition of 111 E. Wacker Drive for approximately \$376 million (\$185.10/sf), and GLL Real Estate Partner's purchase of 550 W. Adams for approximately \$185 million (\$382.49/sf).

Developing Story – Tech Tenants are Moving Downtown and Staying



The tech incubator, 1871, has been extremely successful since it moved into the Merchandise Mart in 2012. So it comes as no surprise that they continued to grow their space in 2015 and 1871 isn't the only tech firm in Chicago that is growing. Sprout Social and GrubHub are some of the other big names that expanded in 2015. Tech is continuing to fuel leasing in the CBD of Chicago and is helping it to be worthy of the name "Silicon Prairie".

4Q 2015

CBD Outlook

- CBD availability rate will start to rise as more tenants sign leases at buildings still under construction and Landlords will continue to market space that needs to be filled for future years.
- New tech firms will continue to come to CBD Chicago and tech firms that are already here will continue to grow within their spaces.
- Rental rates will flatten if the availability rate increases.

CBD Summary

		Q4 2014	Q4 2015
Total Inventory (SF)	▼	137,414,982	136,018,454
Overall Vacancy	▼	13.1%	11.6%
Direct Vacancy	▼	12.7%	10.6%
Sublease Vacancy	▲	0.4%	1.0%
Overall Available	▼	16.9%	15.3%
Direct Available	▼	15.6%	12.6%
Sublease Available	▲	1.3%	2.7%
Gross Average Asking Rate (Direct)	▲	\$34.74	\$36.11
Current Net Absorption (SF)	▲	137,059	817,520
YTD Net Absorption (SF)	▲	1,141,848	2,137,884

Economic Indicators

	Q4 2014	Q4 2015
IL Unemployment	6.4%	5.7%
US Unemployment	5.6%	5.0%
US Consumer Confidence Index	92.6	96.5
West TX Intermediate Price Per Barrel	\$53.21	\$37.14



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	22,460,398	3,339,100	14.9%	2,560,463	11.4%	(2,117)	134,792	\$38.51	\$42.12
Class B	12,583,235	2,368,236	18.8%	1,260,629	10.0%	268,964	675,526	\$31.07	\$32.31
Class C	1,219,586	168,010	13.8%	153,796	12.6%	16,734	24,120	\$24.79	\$0.00
TOTALS	36,263,219	5,875,346	16.2%	3,974,888	11.0%	283,581	834,438	\$35.36	\$31.87
East Loop									
Class A	15,407,268	2,610,266	16.9%	2,363,883	15.3%	(9,229)	229,541	\$33.20	\$32.31
Class B	5,442,287	890,005	16.4%	772,756	14.2%	106,693	(16,824)	\$31.07	\$32.31
Class C	2,721,672	362,753	13.3%	298,885	11.0%	(8,091)	(19,836)	\$24.79	\$0.00
TOTALS	23,571,227	3,863,024	16.4%	3,435,524	14.6%	89,373	192,881	\$32.15	\$32.20
North Michigan Avenue									
Class A	5,981,749	1,072,012	17.9%	643,795	10.8%	51,736	370,048	\$39.13	\$38.97
Class B	5,232,875	788,967	15.1%	689,840	13.2%	197,692	(19,267)	\$30.17	\$35.85
Class C	266,400	43,694	16.4%	32,576	12.2%	7,296	(13,989)	\$19.98	\$0.00
TOTALS	11,481,024	1,904,673	16.6%	1,366,211	11.9%	256,724	336,792	\$34.95	\$38.52
River North									
Class A	4,182,228	289,006	6.9%	216,214	5.2%	(31,183)	19,189	\$47.81	\$61.67
Class B	10,409,362	1,315,488	12.6%	804,396	7.7%	25,104	(52,957)	\$33.27	\$0.00
Class C	2,394,310	268,224	11.2%	200,138	8.4%	26,556	(17,894)	\$27.52	\$0.00
TOTALS	16,985,900	1,872,718	11.0%	1,220,748	7.2%	20,477	(51,662)	\$35.06	\$61.67
South Loop									
Class B	1,095,594	187,260	17.1%	166,660	15.2%	10,953	11,409	\$21.58	\$0.00
Class C	435,576	31,379	7.2%	25,897	5.9%	(860)	19,368	\$23.19	\$0.00
TOTALS	1,531,170	218,639	14.3%	192,557	12.6%	10,093	30,777	\$21.83	\$0.00
West Loop									
Class A	34,145,937	4,921,824	14.4%	3,719,210	10.9%	93,440	630,545	\$41.12	\$46.24
Class B	10,848,361	2,052,933	18.9%	1,670,056	15.4%	77,821	141,548	\$36.50	\$34.94
Class C	1,191,616	160,734	13.5%	159,937	13.4%	(13,989)	23,196	\$21.45	\$0.00
TOTALS	46,185,914	7,135,491	15.4%	5,549,203	12.0%	157,272	795,289	\$39.70	\$46.06
CBD									
Class A	82,177,580	12,232,208	14.9%	9,502,565	11.6%	102,647	1,004,959	\$38.59	\$42.61
Class B	45,611,714	7,602,889	16.7%	5,364,337	11.8%	687,227	1,086,470	\$32.50	29.31
Class C	8,229,160	1,034,794	12.6%	871,229	10.6%	27,646	46,455	\$24.69	\$0.00
TOTALS	136,018,454	20,869,891	15.3%	15,738,131	11.6%	817,520	2,137,884	\$36.11	\$39.56

*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
CNA Financial 151 N Franklin	275,000	Direct	West Loop
Mayer Brown 71 S Wacker	265,000	Direct	West Loop
GrubHub 111 W Washington	128,467	Direct	Central Loop
Holland & Knight 131 S Dearborn	104,000	Direct	Central Loop
VelocityEHS 222 W Merchandise Mart	91,000	Sublease	River North

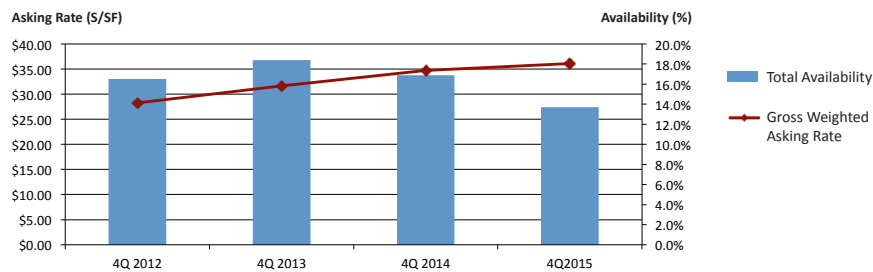
Largest Available Spaces

Building Address	SF	Class	Landlord
600 W Chicago	117,101	B	The Telos Group
350 N Orleans	86,711	B	CBRE
350 N Orleans	71,026	B	CBRE
175 W Jackson	67,794	A	Jackson Management & Investment
540 W Madison	67,748	A	The Telos Group

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
East Loop	200 E Randolph	2,737,902	601 W Companies, LLC	Piedmont - Chicago Center Owner, LLC	\$260.05
West Loop	1 N Wacker	1,373,754	The Irvine Company	Hines One North Wacker LP	\$342.56
Central Loop	111 W Monroe (Two Properties)	1,202,605	S BHBB Propco, LLC	NOP HB Building, LLC	\$261.39
River North	353 N Clark	1,184,255	Hart 353 North Clark LLC	353 N Clark LP	\$603.76
Central Loop	1 N Dearborn	940,341	BCSP OND Property, LLC	One North Dearborn Properties, LLC	\$214.82

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



YTD NET ABSORPTION VS TOTAL VACANCY

