

CHICAGO DOWNTOWN

Office Market Report

 YTD Net Absorption
239,776 SF

 Availability
17.3%

 Gross Average Asking Rate (Direct)
\$36.40

Downtown Market's Momentum from Last Year Continues

Chicago's downtown office market started 2016 where it left off at the end of 2015 with strong activity. The overall vacancy rate stands at 12.0% at the end of the first quarter compared to 13.3% at the same point last year. This marks the first time since 2008 that the CBD saw two consecutive quarters with overall vacancy rates of 12.0% or below.

While the overall vacancy rate has decreased across the CBD, the overall availability rate has increased. Compared to year-end 2015, overall availability has increased two full percentage points to 17.3% from 15.3% yet when compared to the same period a year ago, overall availability has increased by only ten basis points to 17.3% overall. The net result: all of the positive movement in the overall availability rate last year has been negated and the market, as would be expected, appears to be going in the opposite direction. This is a predictable development as we continue to get closer to the delivery date for the three new office buildings currently under construction. Pre-leasing for all of the new projects has been progressing and a number of the tenants that have committed to these new developments have started to put their current spaces on the market for sublease. To that end, sublease availability has increased to 2.3% from 1.6% when compared to the same period a year ago. The potential side effect of the movement in the availability rates is the flattening and eventual reduction in the average asking rates for Class A and B properties in both the West and Central Loop submarkets.

Noteworthy leases completed during the first quarter included; CNA's relocation for 227,849 SF to 151 N Franklin; Cars.com's relocation and expansion for 158,000 SF to 300 S Riverside; Capital One's renewal and expansion for 140,680 SF at 77 W Wacker; Echo Global Logistics' renewal and expansion for 133,283 SF at 600 W Chicago; Beam Suntory's relocation for 110,000 SF to the Merchandise Mart; Holland & Knight's renewal for 104,376 SF at 131 S Dearborn; and Hostway's renewal for 85,583 SF at 100 N Riverside.

Q1 2016 saw 239,776 square feet of positive absorption in the CBD. While there were multiple contributors across the submarkets, the East Loop provided a pleasant surprise. The 105,099 SF of positive absorption in the East Loop this quarter is the highest Q1 recorded since Q1 2008 when the absorption was a positive 151,677 SF. Major contributors to the East Loop's solid quarter were Clark Hill's relocation and expansion for 71,813 SF at 130 E Randolph and McDermott, Will & Emery's partial relocation for 50,200 SF to 130 E Randolph. The absorption in River North this quarter was a negative 207,095 SF. This was largely caused by Google's relocation to 1000 W Fulton from the 150,000 SF space they previously occupied at 20 W Kinzie.

Similar to last quarter, the overall average asking rates increased 4% since this time last year. The gross average asking rate for direct space has moved up from \$35.05/SF to \$36.04/SF year over year. This increase is attributable to the low vacancy throughout the CBD and can be seen throughout all classes of office space. River North continues to have the tightest vacancy in the CBD at 6.6%. It is important to note that while the vacancy rate in the East Loop (14.4%) is much higher than River North it is lowest that submarket has seen since Q1 of 2009 when the vacancy rate was 13.1%.

The investment sales market remained strong to start 2016. Significant transactions included: John Buck's acquisition of 333 S Wabash for approximately \$105 million (\$95.94/SF), Ivanhoe Cambridge's acquisition of 180 N LaSalle for approximately \$198 million (\$258.38/SF), and Hilco & MBRE's acquisition of 1 N LaSalle for \$83 million (\$168.11/SF). It is notable that John Buck's purchase of 333 S Wabash, the soon-to-be-former home of CNA Financial, was executed as part of CNA's relocation to John Buck's new development at 151 N Franklin. The tower will be named the 'CNA Center' and CNA Financial will occupy approximately 34% of the new building.

Economic Snapshot – Unemployment Declines as the Labor Force Grows

According to the US Bureau of Labor Statistics, there has been a 5.8% increase in hiring in the last month. This is the largest increase seen in hiring since November of 2006. The US unemployment rate declined from 5.5% in Q1 2015 to 5.0% in Q1 2016 and the national labor force increased by 1.3% during the same period. These facts should be noted when looking at the potential effect of the three new developments on the CBD market. As new space comes online an increase is expected in the availability and vacancy rates. However, if unemployment continues to decline and the labor force continues to increase, it's possible that the new space will not have as significant of an effect on the market as it otherwise might.

1Q 2016

CBD Outlook

- Rental rates will flatten as availability increases.
- River North's absorption will turn positive as the submarket adjusts to the new availability resulting from Google's relocation.

CBD Summary

		Q1 2015	Q1 2016
Total Inventory (SF)	▼	137,938,002	137,827,969
Overall Vacancy	▼	13.3%	12.0%
Direct Vacancy	▼	12.8%	11.3%
Sublease Vacancy	▲	0.5%	0.7%
Overall Available	▲	17.2%	17.3%
Direct Available	▼	15.6%	15.0%
Sublease Available	▲	1.6%	2.3%
Gross Average Asking Rate (Direct)	▲	\$35.05	\$36.40
Current Net Absorption (SF)	▲	(79,724)	239,776
YTD Net Absorption (SF)	▲	(79,724)	239,776

Economic Indicators

	Q1 2015	Q1 2016
IL Unemployment	6.2%	6.5%
US Unemployment	5.5%	5.0%
US Consumer Confidence Index	101.3	96.2
S&P / Case-Shiller	126.56	129.25



- 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	22,528,116	3,728,543	16.6%	2,119,469	9.4%	152,237	152,237	\$38.26	\$38.43
Class B	13,163,816	2,664,226	20.2%	2,224,371	16.9%	(3,219)	(3,219)	\$31.73	\$32.82
Class C	1,223,786	221,928	18.1%	160,906	13.1%	62	62	\$25.45	\$0.00
TOTALS	36,915,718	6,614,697	17.9%	4,504,746	12.2%	149,080	149,080	\$35.15	\$37.65
East Loop									
Class A	15,505,419	2,513,090	16.2%	2,407,111	15.5%	137,413	137,413	\$35.27	\$37.78
Class B	5,949,950	1,053,909	17.7%	787,096	13.2%	(28,333)	(28,333)	\$31.07	\$0.00
Class C	2,716,472	305,540	11.2%	276,465	10.2%	(3,090)	(3,090)	\$24.72	\$0.00
TOTALS	24,171,841	3,872,539	16.0%	3,470,672	14.4%	105,990	105,990	\$33.31	\$36.57
North Michigan Avenue									
Class A	6,274,502	1,219,997	19.4%	1,106,205	17.6%	(2,646)	(2,646)	\$39.04	\$36.72
Class B	5,232,875	779,032	14.9%	585,617	11.2%	168,979	168,979	\$31.29	\$35.85
Class C	266,400	54,496	20.5%	32,376	12.2%	5,952	5,952	\$24.45	\$0.00
TOTALS	11,773,777	2,053,525	17.4%	1,724,198	14.6%	172,285	172,285	\$35.74	\$34.83
River North									
Class A	4,182,228	293,031	7.0%	164,414	3.9%	(125,322)	(125,322)	\$43.30	\$0.00
Class B	10,213,355	1,187,061	11.6%	783,616	7.7%	(99,198)	(99,198)	\$33.22	\$0.00
Class C	2,424,330	282,592	11.7%	166,656	6.9%	17,425	17,425	\$28.17	\$0.00
TOTALS	16,819,913	1,762,684	10.5%	1,114,686	6.6%	(207,095)	(207,095)	\$34.31	\$0.00
South Loop									
Class B	1,095,594	192,213	17.5%	155,926	14.2%	5,521	5,521	\$21.82	\$0.00
Class C	435,576	50,035	11.5%	25,897	5.9%	689	689	\$18.84	\$0.00
TOTALS	1,531,170	242,248	15.8%	181,823	11.9%	6,210	6,210	\$19.51	\$0.00
West Loop									
Class A	33,733,946	6,936,837	20.6%	3,726,810	11.0%	22,736	22,736	\$42.19	\$45.20
Class B	10,824,682	2,199,249	20.3%	1,618,560	15.0%	8,290	8,290	\$33.69	\$37.81
Class C	2,056,922	207,675	10.1%	148,724	7.2%	(17,720)	(17,720)	\$23.36	\$0.00
TOTALS	46,615,550	9,343,761	20.0%	5,494,094	11.8%	13,306	13,306	\$39.65	\$45.10
CBD									
Class A	82,224,211	14,691,498	17.9%	9,524,009	11.6%	184,418	184,418	\$39.68	\$42.22
Class B	46,480,272	8,075,690	17.4%	6,155,186	13.2%	52,040	52,040	\$32.02	\$27.27
Class C	9,123,486	1,122,266	12.3%	811,024	8.9%	3,318	3,318	\$25.31	\$0.00
TOTALS	137,827,969	23,889,454	17.3%	16,490,219	12.0%	239,776	239,776	\$36.40	\$41.58

*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 Street	227,849	Direct	West Loop
Cars.com 300 S Riverside Plaza	158,000	Direct	West Loop
Capital One 77 W Wacker Drive	140,680	Direct	Central Loop
Echo Global Logistics Inc 600 W Chicago Avenue	133,283	Direct	River North
Beam Suntory 222 W Merchandise Mart Plaza	110,000	Sublease	River North

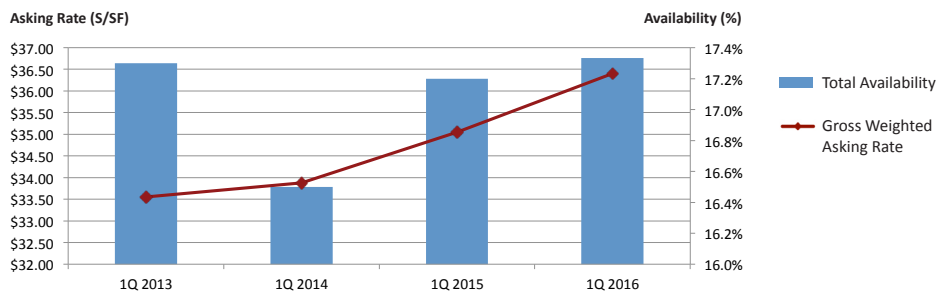
Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark Street	381,522	B	Blue Star Properties
311 W Monroe Street	359,619	B	GlenStar Properties LLC
175 W Jackson Boulevard	215,029	A	JMIC Corp
131 S Dearborn Street	202,972	A	The Telos Group LLC
71 S Wacker Drive	139,281	A	Avison Young

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
East Loop	333 S Wabash Avenue	1,100,000	The John Buck Company	CNA Financial Corp.	\$95.94
Central Loop	180 N LaSalle Street	767,605	Ivanhoe Cambridge JV Callahan Capital Partners	Beacon Capital Partners	\$258.38
Central Loop	1 N LaSalle Street	493,738	Hilco & MBRE	Read Properties	\$167.09

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



NET ABSORPTION VS TOTAL VACANCY

