

# CHICAGO DOWNTOWN

## Office Market Report

 YTD Net Absorption  
467,767 SF

 Availability  
17.4%

 Gross Average Asking Rate (Direct)  
\$36.23

### New Deliveries and M&A Activity Drive Availability Rate Up

**MARKET CONDITIONS:** The Chicago office market carried on its steady activity in the second quarter. Leasing activity reached 2.2 million square feet with major renewals by Publicis Groupe and Winston & Strawn at 35 West Wacker making up over 50 percent of the leasing activity. Absorption reached 262,000 square feet aided by ConAgra relocating from Nebraska and Naperville into 168,000 square feet at the Merchandise Mart and ACGME taking occupancy in 78,000 square feet at 401 N Michigan Avenue. These moves helped contribute to the total vacancy rate declining to 11.9 percent, the third consecutive quarter since 2008 to reach that low. The overall availability rate increased due to an influx of sublease space coming on the market. Companies like GE Capital Rail and Publicis all put significant amounts of space on the sublease market. The majority of these additions were due to M&A activity and relocations as opposed to layoffs or downsizing. Rental rates remained stable dropping a nominal \$.17 per square foot quarter over quarter to \$36.23 per square foot, but increasing year over year.

**SUPPLY NEWS:** Construction started up again in the second quarter at 1330 West Fulton as leases completed by Glassdoor, Skender Construction and Sterling Bay totaled 130,000 square feet of pre-leased space. The new development in the Fulton Market neighborhood will offer a private roof deck, balconies and a 20,000-square-foot landscaped green space. The building is expected to be delivered by mid-2017.

In June, McDonald's announced that it will be relocating to the CBD from Oak Brook and taking 390,000 square feet at 110 North Carpenter Street, formerly Harpo Studio's. Sterling Bay will be developing the project that will include below-ground parking, bike storage and shuttle buses to help bring employees to the new building upon completion in 2018. McDonald's has committed to a 15-year deal, and 600,000 square feet or 80 percent of the new development's rentable building area.

The Chicago market continues to feel the effects of the demand for first-generation space as more transactions were completed this quarter at these new developments. John Buck's development at 151 N Franklin is still in the early phase of construction but has reached 46.7 percent pre-leased. The two towers expected to be delivered early next year, 150 N Riverside and 444 West Lake, are down to availability of less than a quarter of the building.

**INVESTMENT SALES SLOW:** After a record breaking year of investment sales in 2015 the Chicago sales market showed a slight slowdown. Sullivan Center at 1 North State Street sold to Madison Capital and KKR. They purchased the 942,000 square-foot building from Elad Canada and Winthrop Realty Trust for \$283/PSF. The most attention grabbing trade of the year was the completion of the sale of the Old Main Post Office to the 601W Companies for \$48/PSF. The new owners announced plans to invest nearly \$500 million in the long time vacant building.

**LOOKING AHEAD:** Chicago's real estate market should remain strong through the second half of 2016. With several large moves scheduled for later in the year absorption numbers will be high, further driving down vacancy numbers and increasing rental rates. Looking longer term the Chicago market will need to maintain high absorption numbers as the construction pipeline is set to deliver almost 4.5 million square feet over the next two years, not including the proposed 2.5 million square feet at the Old Main Post Office. With both the national and local economy experiencing a growth period, Chicago's unemployment rate should come back to pre-recession levels creating demand from tenants expanding. As the current appetite for space amongst many tenants in the market seems to be for amenity rich, unique and well-located product we can expect to continue seeing older amenity deficient buildings go through major renovations or even conversions.

#### Economic Snapshot – Unemployment Declines as the Labor Force Grows











Despite state fiscal woes and a budget deficit Chicago has emerged as a hub for tech companies and continues to attract top talent. The metro unemployment rate dropped 80 basis points in May to 5.5 percent. Growth was experienced in the professional & business services and trade, transportation & utilities sector. With the summer tourist season upon us and Chicago's recent hotel boom the leisure & hospitality sector also experienced growth. Chicago is lucky to have one of the most diverse economies and is home to 31 Fortune 500 companies which will help continue to fuel growth.

# 2Q 2016

### CBD Outlook

- Sublease availability will increase as new developments deliver.
- The trend of creating amenity floors and renovations upgrades will continue.

### CBD Summary

		Q2 2015	Q2 2016
Total Inventory (SF)		137,088,899	137,947,570
Overall Vacancy		12.6%	11.9%
Direct Vacancy		12.1%	11.0%
Sublease Vacancy		0.5%	0.9%
Overall Available		17.1%	17.4%
Direct Available		15.3%	14.9%
Sublease Available		1.8%	2.5%
Gross Average Asking Rate (Direct)		\$35.64	\$36.23
Current Net Absorption (SF)		361,049	262,177
YTD Net Absorption (SF)		258,605	467,767

### Economic Indicators

	Q2 2015	Q2 2016
IL Unemployment	6.0%	6.4%
US Unemployment	5.3%	4.9%
US CCI	93.1	101.4
Case Shiller Index	128.97	132.97



- 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)
<b>Central Loop</b>									
Class A	22,528,116	3,790,278	16.8%	2,150,322	9.5%	(153,258)	54	\$37.98	\$38.15
Class B	13,275,139	2,720,013	20.5%	2,236,273	16.8%	(12,598)	(32,362)	\$31.73	\$33.21
Class C	1,223,786	181,553	14.8%	127,507	10.4%	49,939	50,001	\$25.20	\$0.00
<b>TOTALS</b>	<b>37,027,041</b>	<b>6,691,844</b>	<b>18.1%</b>	<b>4,514,102</b>	<b>12.2%</b>	<b>(115,917)</b>	<b>17,693</b>	<b>\$35.03</b>	<b>\$37.49</b>
<b>East Loop</b>									
Class A	15,505,419	2,605,154	16.8%	2,328,394	15.0%	105,689	242,373	\$34.45	\$32.72
Class B	5,949,950	1,067,261	17.9%	843,362	14.2%	(64,393)	(92,726)	\$31.07	\$0.00
Class C	2,716,472	294,122	10.8%	241,592	8.9%	28,438	25,348	\$24.99	\$0.00
<b>TOTALS</b>	<b>24,171,841</b>	<b>3,966,537</b>	<b>16.4%</b>	<b>3,413,348</b>	<b>14.1%</b>	<b>69,734</b>	<b>174,995</b>	<b>\$32.82</b>	<b>\$31.80</b>
<b>North Michigan Avenue</b>									
Class A	6,274,502	1,186,936	18.9%	999,676	15.9%	49,958	47,312	\$38.53	\$36.73
Class B	5,232,875	753,120	14.4%	618,151	11.8%	16,336	183,979	\$31.31	\$35.85
Class C	266,400	49,146	18.4%	35,327	13.3%	(8,703)	(2,751)	\$25.20	\$0.00
<b>TOTALS</b>	<b>11,773,777</b>	<b>1,989,202</b>	<b>16.9%</b>	<b>1,653,154</b>	<b>14.0%</b>	<b>57,591</b>	<b>228,540</b>	<b>\$35.45</b>	<b>\$34.80</b>
<b>River North</b>									
Class A	4,182,228	295,759	7.1%	272,622	6.5%	23,715	(101,607)	\$43.63	\$0.00
Class B	10,213,355	1,058,187	10.4%	772,514	7.6%	131,446	32,248	\$33.89	\$0.00
Class C	2,432,608	329,155	13.5%	168,805	6.9%	10,921	28,346	\$25.94	\$0.00
<b>TOTALS</b>	<b>16,828,191</b>	<b>1,683,101</b>	<b>10.0%</b>	<b>1,213,941</b>	<b>7.2%</b>	<b>166,082</b>	<b>(41,013)</b>	<b>\$34.19</b>	<b>\$0.00</b>
<b>South Loop</b>									
Class B	1,095,594	178,745	16.3%	153,470	14.0%	3,036	8,557	\$22.23	\$0.00
Class C	435,576	32,731	7.5%	25,897	5.9%	(2,742)	(2,053)	\$22.32	\$0.00
<b>TOTALS</b>	<b>1,531,170</b>	<b>211,476</b>	<b>13.8%</b>	<b>179,367</b>	<b>11.7%</b>	<b>294</b>	<b>6,504</b>	<b>\$22.24</b>	<b>\$0.00</b>
<b>West Loop</b>									
Class A	33,733,946	7,104,886	21.1%	3,624,626	10.7%	52,245	61,330	\$41.88	\$44.93
Class B	10,824,682	2,214,321	20.5%	1,631,840	15.1%	15,230	23,520	\$33.56	\$39.15
Class C	2,056,922	202,098	9.8%	151,611	7.4%	16,918	(3,802)	\$22.89	\$0.00
<b>TOTALS</b>	<b>46,615,550</b>	<b>9,521,305</b>	<b>20.4%</b>	<b>5,408,077</b>	<b>11.6%</b>	<b>84,393</b>	<b>81,048</b>	<b>\$39.45</b>	<b>\$44.86</b>
<b>CBD</b>									
Class A	82,224,211	14,983,013	18.2%	9,375,640	11.4%	78,349	249,462	\$39.29	\$41.01
Class B	46,591,595	7,991,647	17.2%	6,255,610	13.4%	89,057	123,216	\$32.12	\$27.89
Class C	9,131,764	1,088,805	11.9%	750,739	8.2%	94,771	95,089	\$24.85	\$0.00
<b>TOTALS</b>	<b>137,947,570</b>	<b>24,063,465</b>	<b>17.4%</b>	<b>16,381,989</b>	<b>11.9%</b>	<b>262,177</b>	<b>467,767</b>	<b>\$36.23</b>	<b>\$40.48</b>

\*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
Publicis Groupe 35 W Wacker Drive	642,545	Direct	Central Loop
Winston & Strawn 35 W Wacker Drive	430,000	Direct	Central Loop
McDonald's 1045 W Randolph Street	300,000	Direct	Fulton Market
Echo Global Logistics 600 W Chicago Avenue	224,678	Direct	River North
Constellation Brands 131 S Dearborn Street	130,000	Direct	Central Loop

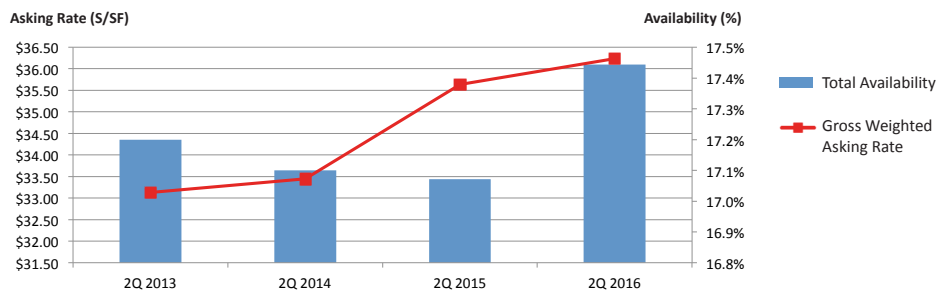
Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark Street	538,311	B	Blue Star Properties
515 N State Street	507,000	A	Beacon Capital Partners/ Callahan Capital Partners/ Ivanhoe Cambridge, Inc
300 S Riverside Plaza	497,007	A	Mizrachi Group
311 W Monroe Street	387,705	B	The Prudentialw Insurance Company of America/ GlenStar Properties
200 E Randolph Street	339,761	A	601W Companies

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
East Loop	1 North State Street	942,000	Madison Capital and KKR	Elad Canada and Winthrop Realty Trust	\$283.00
West Loop	433 W Van Buren Street & 258 W Van Buren Street	2,700,000	601W	Bill Davies	\$48.00
Central Loop	440 S LaSalle Street	1,019,325	CIM Group LP	TIER REIT, Inc	\$186.00

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



NET ABSORPTION VS TOTAL VACANCY

