

CHICAGO DOWNTOWN

Office Market Report

▲ YTD Net Absorption
1,273,826

▼ Availability
17.4%

▼ Gross Average Asking Rate (Direct)
\$36.14

New Tenants Contribute Strong Growth and Continual Vacancy Decrease

MARKET CONDITIONS: While the summer months can generally be a slow time in the commercial real estate market the Chicago office market remained active in the third quarter. This activity helped alleviate some of the concern over shadow space the market has been feeling as we move closer to the delivery of several new office towers. Leasing activity reached just over 2 million square feet, aided by a flurry of mid-size lease transactions. Arnstein & Lehr, Morgan Stanley, Societe Generale Group and the Alzheimer's association are amongst some of the tenants who signed leases ranging from 50,000 to 70,000 square feet. Also announced this quarter was Wilson Sporting Goods decision to move downtown from the suburbs. The company will be taking 79,000 square feet over the 5th and 6th floors at Prudential Plaza late in 2017. Smaller, but new to Chicago, Duracell opened an executive office in Chicago with 65 new jobs at 181 W Madison where they have leased 11,699 square feet. In addition the company's IT employees will work in an 8,300 square foot office at 135 S LaSalle, while the company's headquarters will remain in Connecticut. Vacancy dropped to 11.5 percent. Absorption reached 806,000 square feet, the sixth consecutive quarter of positive growth. Rental rates fell a nominal \$0.09 to \$36.14 gross per-square-foot.

RIVER WEST CONTINUES DEVELOPMENT CRAZE: Following last quarter's announcement by McDonald's of its plans to move its headquarters to the Fulton Market area the submarket seemed to pick up even more steam with a burst of new development announcements coming in the third quarter. These announcements ranged from restaurants such as Shake Shack and Kuma's Corner opening new locations to retail giants Anthropologie and Free People expanding into the area. Several new office developments were announced too. Dayton Street Partners will be converting the long-vacant five story building at 1500 West Carroll into a 40,000 square foot office, and plans to build a 30,000-square-foot structure just west of the building. The Oxxford Clothes building will be undergoing a redevelopment into a 115,000-square-foot loft style office building. The Missner Group will be leading this project converting the property, located at 1220 West Van Buren, which it acquired earlier this year. Sterling Bay, the developer of both Google and McDonald's headquarters, also purchased the building Coyne College is in at 330 North Green Street, for \$25 million in July. While official plans are awaiting city approval the developer plans on building a 400,000-square-foot office building at the site.

SUBLEASE AVAILABILITY ON THE RISE: The amount of sublease space available in the CBD has increased significantly over the past several years. From the beginning of 2012 sublease availability has gone up 57.8 percent. While this initially is alarming when you adjust for tenant trends such as workplace density and relocations into new developments, while still a problem, the extra sublease space is not as worrisome. The law firm industry has been particularly active in both of these trends. Major firms like McDermott Will & Emery, DLA Piper and Hinshaw and Culbertson are all moving to new towers. Polsinelli is another law firm that has sublease space on the market in preparation for their move to a new tower. This quarter the law firm Arnstein & Lehr announced it will be taking 65,000 square feet of the Polsinelli space at 161 North Clark downsizing from 100,000 square feet at 120 South Riverside.

LOOKING AHEAD: Despite concerns about the health of the market, Chicago should continue to see strong activity through the end of 2016. The market will feel the delivery of over 4.5 million square feet of new product and the increasing sublease availability in the near term, but thanks to a diverse economy and no confirmed signs of an economic downturn the market should be able to remain stable. All of these new deliveries may create a less landlord favorable environment and tenants looking to relocate or renew should be aware of these changing conditions. Although we have seen the local economy improve and the unemployment rate fall both Chicago and Illinois' fiscal problems will certainly continue to be an underlying factor in continued market growth.

Economic Snapshot – Unemployment Falls to Lowest Rate of the Year

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 in August fell to 5.4 percent, down from 6.6 percent in January 2016. This is also a 20 basis point decrease year over year. The Case-Shiller Home Price Index, which tracks the prices of existing single family homes, increased in July to 137.65, a 0.9 increase over June.

3Q 2016

CBD Outlook

- CBD should see strong activity through end of 2016.
- New deliveries might create less landlord favorable conditions for 2017.

CBD Summary

		Q3 2015	Q3 2016
Total Inventory (SF)	▲	136,946,785	137,947,570
Overall Vacancy	▼	12.8%	11.5%
Direct Vacancy	▼	11.9%	10.5%
Sublease Vacancy	▲	0.8%	0.9%
Overall Available	▼	17.5%	17.4%
Direct Available	▼	15.0%	14.2%
Sublease Available	▲	2.4%	3.1%
Gross Average Asking Rate (Direct)	▼	\$36.52	\$36.14
Current Net Absorption (SF)	▲	531,933	806,059
YTD Net Absorption (SF)	▲	808,406	1,273,826

Economic Indicators

	Q3 2015	Q3 2016
IL Unemployment	6.4%	5.5%
US Unemployment	4.9%	5.0%
US CCI	90	100.27
Case Shiller Index	128.19	137.65



- 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	3,513,177	15.6%	2,049,321	9.1%	76,128	76,182	\$37.00	\$38.29
Class B	13,275,139	2,643,320	19.9%	2,142,957	16.1%	104,990	72,628	\$32.08	\$32.90
Class C	1,223,786	212,289	17.3%	125,866	10.3%	3,133	53,134	\$25.63	\$0.00
TOTALS	37,027,041	6,368,786	17.2%	4,318,144	11.7%	184,251	201,944	\$34.42	\$37.54
East Loop									
Class A	15,505,419	2,761,368	17.8%	2,137,153	13.8%	204,063	446,436	\$32.25	\$35.08
Class B	5,949,950	1,039,600	17.5%	871,574	14.6%	(21,110)	(113,836)	\$31.45	\$33.62
Class C	2,716,472	333,619	12.3%	256,203	9.4%	(7,585)	17,763	\$25.77	\$0.00
TOTALS	24,171,841	4,134,587	17.1%	3,264,930	13.5%	175,368	350,363	\$31.53	\$35.03
North Michigan Avenue									
Class A	6,274,502	1,137,328	18.1%	939,146	15.0%	72,372	119,684	\$38.86	\$37.64
Class B	5,232,875	653,994	12.5%	616,370	11.8%	4,512	188,491	\$30.70	\$34.59
Class C	266,400	99,431	37.3%	35,574	13.4%	0	(2,751)	\$31.73	\$0.00
TOTALS	11,773,777	1,890,753	16.1%	1,591,090	13.5%	76,884	305,424	\$35.68	\$37.31
River North									
Class A	4,182,228	346,335	8.3%	258,674	6.2%	44,234	(57,373)	\$45.96	\$57.57
Class B	10,213,355	991,022	9.7%	751,364	7.4%	150,856	183,104	\$33.87	\$0.00
Class C	2,432,608	288,861	11.9%	132,316	5.4%	18,977	47,323	\$25.28	\$0.00
TOTALS	16,828,191	1,626,218	9.7%	1,142,354	6.8%	214,067	173,054	\$35.15	\$57.57
South Loop									
Class B	1,095,594	171,986	15.7%	166,636	15.2%	(13,054)	(4,497)	\$23.30	\$0.00
Class C	435,576	56,779	13.0%	30,367	7.0%	(1,039)	(3,092)	\$22.35	\$0.00
TOTALS	1,531,170	228,765	14.9%	197,003	12.9%	(14,093)	(7,589)	\$23.06	\$0.00
West Loop									
Class A	33,733,946	7,396,021	21.9%	3,548,187	10.5%	142,326	203,656	\$43.00	\$46.12
Class B	10,824,682	2,244,972	20.7%	1,611,959	14.9%	24,403	47,923	\$33.88	\$37.83
Class C	2,056,922	161,686	7.9%	148,220	7.2%	2,853	(949)	\$22.94	\$0.00
TOTALS	46,615,550	9,802,679	21.0%	5,308,366	11.4%	169,582	250,630	\$40.27	\$46.04
CBD									
Class A	82,224,211	15,154,229	18.4%	8,932,481	10.9%	539,123	788,585	\$39.13	\$42.20
Class B	46,591,595	7,744,894	16.6%	6,160,860	13.2%	250,597	373,813	\$32.38	\$33.94
Class C	9,131,764	1,152,665	12.6%	728,546	8.0%	16,339	111,428	\$25.56	\$0.00
TOTALS	137,947,570	24,051,788	17.4%	15,821,887	11.5%	806,059	1,273,826	\$36.14	\$41.85

*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
Wilson Sporting Goods 130 E Randolph Street	79,352	Relocation within Market	East Loop
Arnstein & Lehr 161 N Clark Street	65,000	Relocation within Market	Central Loop
Omnicom 225 N Michigan Avenue	64,441	N/A	East Loop
Morgan Stanley 440 S LaSalle Street	64,380	Renewal	Central Loop
Alzheimer's Association 225 N Michigan Avenue	62,043	Expansion in Building	East Loop

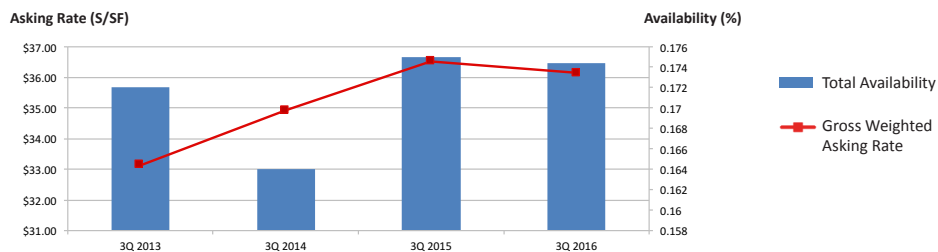
Largest Available Spaces

Building Address	SF	Class	Landlord
515 N State Street	738,911	A	Beacon Capital Partners/ Callahan Capital Partners/ Ivanhoe Cambridge, Inc
333 S Wabash Avenue	714,833	A	John Buck
311 W Monroe Street	387,705	B	The Prudential Insurance Company of America/ GlenStar Properties
125 S Clark Street	360,000	B	Blue Star Properties
200 E Randolph Street	354,127	A	Piedmont Office Realty Trust

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
North Michigan Avenue	Tribune Tower	940,000	Golub & Company	Tribune Media	\$225.00
River North	321 N Clark Street	896,000	Diversified Real Estate Capital	N/A	\$400.00
River West	1K Fulton	531,190	American Realty Advisors	Sterling Bay Companies	\$571.00

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



NET ABSORPTION VS TOTAL VACANCY

