

# CHICAGO DOWNTOWN

## Office Market Report

▼ YTD Net Absorption  
833,655

▼ Availability  
16.8%

▲ Gross Average Asking Rate (Direct)  
\$36.33

### New Tower Opening Adds to Negative Absorption for the Quarter, Still Positive for the Year

**MARKET CONDITIONS:** The downtown Chicago office market capped off a great year of activity with a solid fourth quarter. While slightly lower than previous quarters, leasing activity was still strong enough to bring the year-to-date total to over 10 million square feet, the fifth time leasing activity has been over 10 million square feet since 2008. There were no mega transactions signed in the fourth quarter, however several mid and large sized deals were completed. Options Clearing Corp. announced they will be relocating, signing a long term lease for 105,000 square feet at The Franklin. The firm will be almost doubling its current footprint. Law firm Reed Smith also signed a long term extension for 110,000 square feet at CME Center in the West Loop. Cushman & Wakefield will be merging its corporate headquarters and Chicago operations at 225 West Wacker. Employees will be moving there from 77 West Wacker and 200 South Wacker in April. Overall absorption was negative 404,000 square feet this quarter bringing year-to-date absorption down to positive 833,000 square feet. The most significant move to impact absorption numbers was JP Morgan Chase reducing its footprint and moving employees out of 500,000 square feet at 300 South Riverside. A year ago the bank announced that they would be exercising a termination option and consolidating all employees into its current space in Chase Tower at 10 South Dearborn. Vacancy rates increased by 80 basis points to 11.8 percent this quarter. Rents ended the year at \$36.33 up from \$36.14 in the third quarter.

**FIRST OF NEW DEVELOPMENTS OPENS FOR OCCUPANCY:** This quarter the first wave of tenants moved into the new River Point development located at 444 West Lake. Tenants including; Water Street Healthcare Partners, LEK Consulting, Piper Jaffrey and Harrison Street Capital took occupancy of 150,000 square feet collectively in the one million square foot development. As the market has been anticipating, with the opening of 444 West Lake and the completion of 150 North Riverside early next year, sublease availability increased by over 1.6 million square feet year-over-year. The market has seen tenants like Morton Salt place 90,000 square feet on the sublease market in preparation for their moves into the new buildings. Both towers are over a million square feet and are both over 78 percent pre-leased.

**RENOVATION RACE CONTINUES IN THE LOOP:** As the office market in Chicago continues to expand North and West of the CBD and the two new office towers get set to open, building owners in the traditional submarkets are kicking their renovation plans into high gear in order to attract and retain tenants. At 353 North Clark, four new spec suites were unveiled along with lobby and corridor renovations and a full service shoe shine stand. The Rookery, at 209 South LaSalle, revealed recent improvements including new lavatories on each floor, a bike room, modernized elevators and new spec suites. Plans for a coffee service station in the lobby and an after business hours wine bar are also under way. After completing the recapitalization of 2 North LaSalle, Fortress Investment Group has agreed to invest about \$42 million into the 63.9 percent occupied, 700,000 square-foot property with the hope of significantly decreasing its vacancy.

**LOOKING AHEAD:** The Chicago office market will certainly face some challenges ahead in 2017 but should expect modest growth. Despite the uncertainty that a new presidential administration brings and Chicago's pending delivery of 4.5 million square feet of new inventory, there are over a dozen tenants in the market seeking over 100,000 square feet, so we can expect to see some big moves announced in the upcoming months. In addition to real estate deals, economists are predicting that 2017 will be a big year for corporate mergers. There are already a couple major mergers pending in Chicago including Abbott Laboratories acquisition of St. Jude Medical. Tronc, the owner of Chicago Tribune is still trying to work out a deal as well. This kind of deal activity could have major implications to Chicago's office market.

### Economic Snapshot – Jobs Number Surpass 2001 Levels

This quarter the Chicago metro area number of jobs reached 3.51 million, surpassing our previous high of 3.49 million in 2001. In December the Federal Reserve moved interest rates for the first time since 2015. The rates were increased a quarter of a percentage point assisted by low unemployment rate and signs of growth among workers' wages. The Federal Reserve also announced a plan to raise the rates three more times throughout 2017.

# 4Q 2016

### CBD Outlook

- Absorption will continue to be relatively flat as new supply comes on the market.
- The investment sales market will slow down as foreign investment decreases and interest rates grow.

### CBD Summary

		Q4 2015	Q4 2016
Total Inventory (SF)	▲	136,018,454	139,029,272
Overall Vacancy	▼	12.8%	11.8%
Direct Vacancy	▼	12.3%	11.1%
Sublease Vacancy	▼	1.0%	0.9%
Overall Available	▲	13.7%	16.8%
Direct Available	▼	15.2%	13.7%
Sublease Available	▲	1.8%	3.1%
Gross Average Asking Rate (Direct)	▲	\$36.11	\$36.33
Current Net Absorption (SF)	▼	1,466,311	(404,082)
YTD Net Absorption (SF)	▼	2,360,562	833,655

### Economic Indicators

	Q4 2015	Q4 2016
IL Unemployment	6.0%	5.6%
US Unemployment	5.0%	4.6%
US CCI	100.44	100.35
Case Shiller Index	129.1	134.4



- 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	3,250,095	14.4%	2,121,052	9.4%	55,948	132,130	\$37.07	\$38.86
Class B	13,275,139	2,588,332	19.5%	2,041,416	15.4%	24,954	97,582	\$31.08	\$33.85
Class C	1,223,786	207,976	17.0%	112,367	9.2%	2,900	55,801	\$26.55	N/A
<b>TOTALS</b>	<b>37,027,041</b>	<b>6,046,403</b>	<b>16.3%</b>	<b>4,274,835</b>	<b>11.5%</b>	<b>83,802</b>	<b>285,513</b>	<b>\$34.16</b>	<b>\$38.17</b>
<b>East Loop</b>									
Class A	15,505,419	2,513,542	16.2%	2,177,833	14.0%	(26,416)	420,020	\$35.01	\$35.07
Class B	5,949,950	1,069,201	18.0%	871,574	14.6%	(6,226)	(120,062)	\$31.47	\$33.92
Class C	2,716,472	343,085	12.6%	268,041	9.9%	(9,730)	5,888	\$25.83	N/A
<b>TOTALS</b>	<b>24,171,841</b>	<b>3,925,828</b>	<b>16.2%</b>	<b>3,317,448</b>	<b>13.7%</b>	<b>(42,372)</b>	<b>305,846</b>	<b>\$33.23</b>	<b>\$35.02</b>
<b>North Michigan Avenue</b>									
Class A	6,274,502	1,137,233	18.1%	961,863	15.3%	2,959	122,643	\$39.02	\$37.66
Class B	5,232,875	760,406	14.5%	625,540	12.0%	29,941	218,432	\$30.86	\$34.59
Class C	266,400	97,681	36.7%	43,912	16.5%	0	(12,599)	\$31.93	N/A
<b>TOTALS</b>	<b>11,773,777</b>	<b>1,995,320</b>	<b>16.9%</b>	<b>1,631,315</b>	<b>13.9%</b>	<b>32,900</b>	<b>328,476</b>	<b>\$36.00</b>	<b>\$37.33</b>
<b>River North</b>									
Class A	4,182,228	342,596	8.2%	273,224	6.5%	(7,639)	(65,012)	\$45.35	\$65.69
Class B	10,213,355	1,010,871	9.9%	764,980	7.5%	52,854	235,958	\$37.69	N/A
Class C	2,432,608	268,627	11.0%	153,648	6.3%	(23,574)	(18,802)	\$23.12	N/A
<b>TOTALS</b>	<b>16,828,191</b>	<b>1,622,094</b>	<b>9.6%</b>	<b>1,191,852</b>	<b>7.1%</b>	<b>21,641</b>	<b>152,144</b>	<b>\$37.24</b>	<b>\$65.69</b>
<b>South Loop</b>									
Class B	1,095,594	170,486	15.6%	163,770	14.9%	4,088	(409)	\$23.70	N/A
Class C	435,576	56,779	13.0%	37,989	8.7%	(8,622)	(19,297)	\$22.35	N/A
<b>TOTALS</b>	<b>1,531,170</b>	<b>227,265</b>	<b>14.8%</b>	<b>201,759</b>	<b>13.2%</b>	<b>(4,534)</b>	<b>(19,706)</b>	<b>\$23.36</b>	<b>N/A</b>
<b>West Loop</b>									
Class A	34,815,648	7,074,623	20.3%	3,972,992	11.4%	(492,938)	(289,282)	\$43.28	\$46.27
Class B	10,824,682	2,244,972	20.7%	1,625,058	15.0%	(31,705)	16,218	\$33.88	\$37.83
Class C	2,056,922	161,686	7.9%	128,614	6.3%	29,124	54,446	\$22.94	N/A
<b>TOTALS</b>	<b>47,697,252</b>	<b>9,481,281</b>	<b>19.9%</b>	<b>5,726,664</b>	<b>12.0%</b>	<b>(495,519)</b>	<b>(218,618)</b>	<b>\$40.42</b>	<b>\$46.19</b>
<b>CBD</b>									
Class A	83,305,913	14,318,089	17.2%	9,506,964	11.4%	(468,086)	320,499	\$39.88	\$42.14
Class B	46,591,595	7,844,268	16.8%	6,092,338	13.1%	73,906	447,719	\$32.44	\$34.48
Class C	9,131,764	1,135,834	12.4%	744,571	8.2%	(9,902)	65,437	\$25.36	N/A
<b>TOTALS</b>	<b>139,029,272</b>	<b>23,298,191</b>	<b>16.8%</b>	<b>16,343,873</b>	<b>11.8%</b>	<b>(404,082)</b>	<b>833,655</b>	<b>\$36.63</b>	<b>\$41.81</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
Reed Smith Sachnoff & Weaver 10 S Wacker Drive	110,000	Renewal	West Loop
Cushman & Wakefield 225 W Wacker Drive	83,017	Relocation within market	West Loop
OCC 222 W Adams Street	66,537	Relocation within market	West Loop
Tribune Media 303 E Wacker Drive	60,952	Relocation within market	East Loop
Merill Lynch & Co., Inc. 225 W Wacker Drive	56,906	Renewal	West Loop

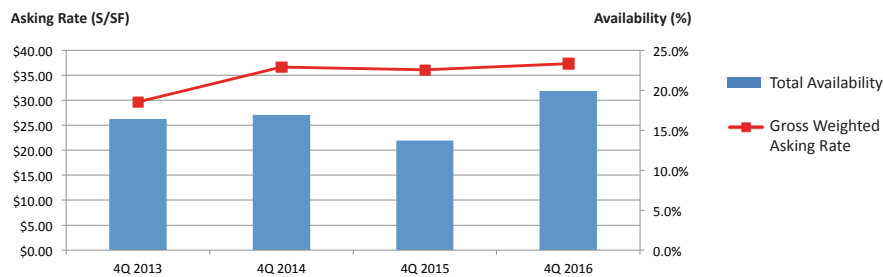
Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark Street	360,000	B	Blue Star Properties
300 S Riverside Plaza	338,810	A	Mizrachi Group
515 N State Street	738,911	A	Beacon Capital Partners/ Callahan Capital Partners/ Ivanhoe Cambridge, Inc
311 W Monroe Street	387,705	B	The Prudential Insurance Company of America/ GlenStar Properties
200 E Randolph Street	354,127	A	Piedmont Office Realty Trust

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
West Loop	123 N Wacker Drive	541,000	LIM	LNR	\$268.00
West Loop	118 S Clinton Street	78,000	R2 & Walton Street Capital	Loft Development	\$154.00
River North	363 W Erie Street	121,600	Spaulding & Style	Brijus Capital	\$290.30

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



NET ABSORPTION VS TOTAL VACANCY

