

CHICAGO DOWNTOWN

Office Market Report

 YTD Net Absorption
315,564

 Availability
16.3%

 Gross Average Asking Rate (Direct)
\$36.99

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.

1Q 2017

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

		Q1 2016	Q1 2017
Total Inventory (SF)	▲	137,142,594	140,997,374
Overall Vacancy	▲	12.3%	12.5%
Direct Vacancy	▼	11.4%	11.4%
Sublease Vacancy	▲	0.9%	1.1%
Overall Available	▼	17.5%	16.3%
Direct Available	▼	15.5%	13.6%
Sublease Available	▲	2.4%	2.9%
Gross Average Asking Rate (Direct)	▲	\$36.29	\$36.99
Current Net Absorption (SF)	▲	205,590	315,564
YTD Net Absorption (SF)	▲	205,590	315,564

Economic Indicators

	Q1 2016	Q1 2017
IL Unemployment	6.1%	5.7%
US Unemployment	5.0%	4.8%
US CCI	100.41	100.46
Case Shiller Index	128.58	135.24



- 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	22,598,634	3,479,347	15.4%	2,538,917	11.2%	(406,415)	(406,415)	\$38.03	\$40.16
Class B	13,275,139	2,662,318	20.1%	1,995,943	15.0%	80,176	80,176	\$27.77	\$33.79
Class C	940,213	184,484	19.6%	106,900	11.4%	15,443	15,443	\$26.51	\$0.00
TOTALS	36,813,986	6,326,149	17.2%	4,641,760	12.6%	(310,796)	(310,796)	\$33.40	\$39.40
East Loop									
Class A	15,505,419	2,532,609	16.3%	2,047,346	13.2%	195,226	195,226	\$34.94	\$33.22
Class B	5,949,950	1,209,163	20.3%	930,888	15.6%	(31,619)	(31,619)	\$30.55	\$34.62
Class C	2,716,472	363,503	13.4%	280,840	10.3%	(5,091)	(5,091)	\$25.86	\$0.00
TOTALS	24,171,841	4,105,275	17.0%	3,259,074	13.5%	158,516	158,516	\$32.80	\$33.19
North Michigan Avenue									
Class A	6,747,141	621,315	9.2%	1,005,348	14.9%	75,435	75,435	\$37.76	\$42.93
Class B	4,791,236	680,434	14.2%	471,186	9.8%	65,567	65,567	\$33.15	\$35.59
Class C	247,400	22,065	8.9%	16,124	6.5%	0	0	\$30.00	\$0.00
TOTALS	11,785,777	1,323,814	11.2%	1,492,658	12.7%	141,002	141,002	\$35.50	\$40.35
River North									
Class A	4,182,228	420,412	10.1%	273,224	6.5%	10,151	10,151	\$51.00	\$47.04
Class B	10,100,355	970,883	9.6%	902,332	8.9%	4,623	4,623	\$45.57	\$0.00
Class C	2,645,079	314,826	11.9%	177,893	6.7%	13,659	13,659	\$25.04	\$0.00
TOTALS	16,927,662	1,706,121	10.1%	1,353,449	8.0%	28,433	28,433	\$43.09	\$47.04
South Loop									
Class B	1,095,594	128,840	11.8%	166,988	15.2%	4,894	4,894	\$24.28	\$0.00
Class C	435,576	53,296	12.2%	35,443	8.1%	1,546	1,546	\$19.96	\$0.00
TOTALS	1,531,170	182,136	11.9%	202,431	13.2%	6,440	6,440	\$23.02	\$0.00
West Loop									
Class A	36,100,052	6,843,143	19.0%	5,035,004	13.9%	263,419	263,419	\$45.56	\$54.38
Class B	11,673,934	2,377,885	20.4%	1,531,854	13.1%	36,093	36,093	\$30.20	\$37.83
Class C	1,992,952	185,817	9.3%	141,040	7.1%	(7,543)	(7,543)	\$21.77	\$0.00
TOTALS	49,766,938	9,406,845	18.9%	6,707,898	13.5%	291,969	291,969	\$41.00	\$54.19
CBD									
Class A	85,133,474	13,896,826	16.3%	10,899,839	12.8%	137,816	137,816	\$41.40	\$46.26
Class B	46,886,208	8,029,523	17.1%	5,999,191	12.8%	159,734	159,734	\$31.06	\$34.89
Class C	8,977,692	1,123,991	12.5%	758,240	8.4%	18,014	18,014	\$24.77	\$0.00
TOTALS	140,997,374	23,050,340	16.3%	17,657,270	12.5%	315,564	315,564	\$36.99	\$45.67

*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
Outcome Health 515 N State Street	400,000	Relocation	North Michigan Avenue
National Restaurant Association 225 W Wacker Drive	51,000	Relocation with Expansion	West Loop
Dyson 1330 W Fulton Street	40,686	Relocation	River West
Burns & McDonnell 200 W Adams Street	36,409	Renewal	West Loop
Census 175 W Jackson Boulevard	34,926	Relocation	Central Loop

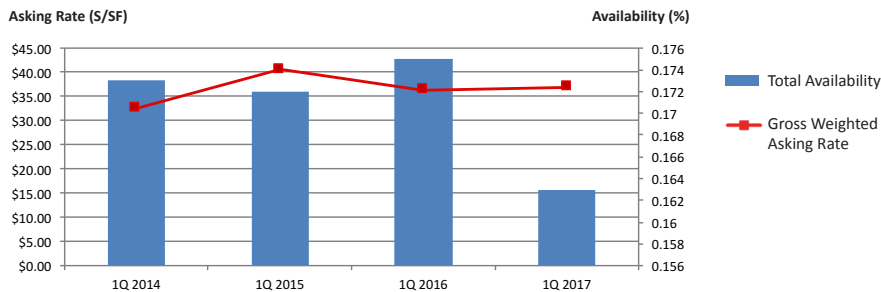
Largest Available Spaces

Building Address	SF	Class	Landlord
125 S Clark Street	303,000	B	Blue Star Properties
300 S Riverside Plaza	363,613	A	Mizrachi Group
311 W Monroe Street	396,435	B	The Prudential Insurance Company of America/ GlenStar Properties
200 E Randolph Street	617,676	A	Piedmont Office Realty Trust
227 W Monroe Street	338,988	A	Tishman Speyer

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
River North	303 West Erie Street	62,334	Alvarez & Marsal	Cedar Street	\$241.00
River North	363 W Erie Street	121,600	Spaulding & Style	Brijus Capital	\$290.30
West Loop	123 N Wacker Drive	540,621	JLL Income Property	LNR Partners LLC	\$270.98

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



NET ABSORPTION VS TOTAL VACANCY

