

# CHICAGO DOWNTOWN

## Office Market Report

▼ YTD Net Absorption  
550,073

▼ Availability  
13.0%

▲ Gross Average Asking Rate (Direct)  
\$38.92

### The 3 Cs – Confidence, Caution and Concessions – Drive the CBD

**MARKET CONDITIONS:** Corporate executives and eager developers tout the draw of downtown Chicago to recruit talent and consummate deals. Some sectors, notably tech, echo their enthusiasm through the numbers: almost 30% more new-lease and lease-expansion transactions occurred in 2017's third quarter compared to the second quarter, coupled with a modest drop in direct availability from 15.6% to 15.0%.

Optimism is highly visible. The mega-lease deal trend of 2017 continued with the second and fifth largest transactions of the year were completed in the third quarter. Northern Trust committed to 462,000 sf with a 2020 occupancy at 333 S. Wabash. Included in the deal are naming rights along with an option to expand its footprint at "Big Red" to 750,000 sf, backfilling all of CNA's former space when it relocates into 227,848 sf at the C.N.A. Center (151 N. Franklin) in 2018. Although Northern Trust is consolidating space from throughout the CBD to the East Loop property, it will retain its headquarters at 50 S. LaSalle as it embarks on a major expansion in both square footage and personnel in the years to come.

The market appears strong and stable with third-quarter, gross asking rents (direct) at \$38.92psf, a \$0.70psf increase from the second quarter's rate of \$38.22psf. Hiding behind these rates, however, are increasingly generous landlord concessions in the form of high TI allowances and long abatement periods. Corporate space reductions coupled with an additional 220,000 sf added to the metro resulted in the 457,327 sf negative net absorption for the third quarter. Despite this drop, the market positively absorbed 550,073 sf year to date.

**Rising and Changing Tides:** The River North and River West submarkets are breaking through the CBD's dams of conventionality with new vistas and definitions of what constitutes creative space and in-demand amenities. The second largest lease inked in the third quarter, though announced in the second, was GGP's 165,462 sf lease at 350 N. Orleans in River North for January 2018 occupancy. River North Class A, B and C office buildings, in order, posted three of the four-lowest, direct vacancy rates of the CBD, while Class A properties posted the lowest direct availability rate of 8.9%.

Currently, River West properties comprise less than 3% of downtown's office inventory. Yet this historically industrial submarket is changing faster than the press can convey. In January, the city announced it would spend \$19.6 million streetscaping Fulton Market; several months later, North Branch's zoning restrictions were loosened. Within days, the floodgates were opened for developers to come and re-visit the area. Sterling Bay lead the pack with hopes to supplement its Finkl & Sons' site purchase made last November. Meanwhile, this quarter's lease signings in Fulton Market closed at an alarming clip: WPP consolidating its Chicago holdings into 253,000 sf (2020 occupancy) at 333 N. Green; Amsterdam's Spaces entering into Chicago's Co-Working market with 40,000 sf at 900 W. Randolph; Mars Confectionery leasing 20,000 sf at 1131 W. Blackhawk; Tucker Development leasing 46,000 sf at the Offices at 900 West, 900 W. Randolph; and Leopardo Construction occupying 24,000 sf at 210 N. Carpenter in late 2018. To meet these needs and projected demand, almost 3 million square feet of office space are planned for River West, with 1.4 million sf currently under construction.

**OUTLOOK:** After the pains of the Great Recession circa 2008-9, cautious office space developers substantially pre-leased their projects before they broke ground. Those days appear to be over. Two, Art-Deco beauties (the Old PO and Union Station), both draped over transportation arteries, are planning to unveil almost 5 million sf over the next six years to the already strained West Loop's inventory, neither with any lease commitments to date. For the CBD to absorb these numbers plus another 3 million promised square feet, super-sized lease signings must continue for the market to retain its health.

#### Economic Snapshot – Jobs Up, Unemployment Down

According to the US Bureau of Labor Statistics, Chicago MSA employment grew by 0.5%, or 24,700 jobs, August 2016-2017. Employment in IT increased by 3.3% in Chicago while nationally these jobs dropped by 2.5%. In sheer numbers, financial service jobs grew the most, adding 9,300 to the area.

# 3Q 2017

### CBD Outlook

- The open office concept gives way to a "palette of places" to foster community, flexibility and privacy: team spaces, couches, movable walls and isolation rooms.
- Live-Work-Play projects most likely will drive development innovations.
- As commercial rail and auto congestion unfolds in River West, properties with easy access to public transportation will garner a second look from office tenants.

### CBD Summary

		Q3 2016	Q3 2017
Total Inventory (SF)	▼	137,947,570	137,756,446
Overall Vacancy	▲	11.5%	13.0%
Direct Vacancy	▲	10.5%	11.8%
Sublease Vacancy	▲	0.9%	1.2%
Overall Available	▲	17.4%	18.0%
Direct Available	▲	14.2%	15.0%
Sublease Available	▼	3.1%	3.0%
Gross Average Asking Rate (Direct)	▲	\$36.14	\$38.92
Current Net Absorption (SF)	▼	806,059	(457,327)
YTD Net Absorption (SF)	▼	1,273,826	550,073

### Economic Indicators

	Q3 2016	Q3 2017
Chicago Unemployment	5.8%	5.3%
IL Unemployment	5.5%	5.0%
US Unemployment	4.9%	4.4%
US CCI	100.27	119.8
Chicago Case Shiller Index	136.71	141.25
National Case Shiller Index	183.22	194.10



- 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 Weighted Asking Rate (Direct)** This represents the weighted-average dollar amount per square foot lessors are asking for direct space in their buildings. This is calculated by multiplying the available square feet by the asking gross rent per square foot.

\*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)
<b>River North</b>								
Class A	3,991,073	506,862	12.70%	233,945	5.86%	14,343	9,032	\$51.44
Class B	9,800,618	1,393,634	14.22%	773,199	7.89%	11,403	(113,763)	\$37.25
Class C	1,522,306	263,771	17.33%	146,083	9.60%	(6,903)	(41,159)	\$27.77
<b>TOTALS</b>	<b>15,313,997</b>	<b>2,164,267</b>	<b>14.13%</b>	<b>1,153,227</b>	<b>7.53%</b>	<b>18,843</b>	<b>(105,862)</b>	<b>\$39.86</b>
<b>North Michigan Avenue</b>								
Class A	6,686,310	728,878	10.90%	654,887	9.79%	3,537	39,375	\$42.14
Class B	4,377,837	751,720	17.17%	465,278	10.63%	(5,914)	45,927	\$33.16
<b>TOTALS</b>	<b>11,064,147</b>	<b>1,480,598</b>	<b>13.38%</b>	<b>1,120,165</b>	<b>10.12%</b>	<b>(2,377)</b>	<b>85,302</b>	<b>\$37.64</b>
<b>West Loop</b>								
Class A	37,938,685	7,108,519	18.74%	5,628,884	14.84%	(215,944)	762,604	\$44.78
Class B	10,390,673	2,244,379	21.60%	1,419,240	13.66%	30,123	(985)	\$35.78
Class C	1,366,383	203,658	14.90%	131,997	9.66%	885	(1,392)	\$29.47
<b>TOTALS</b>	<b>49,695,741</b>	<b>9,556,556</b>	<b>19.23%</b>	<b>7,180,121</b>	<b>14.45%</b>	<b>(184,936)</b>	<b>763,011</b>	<b>\$42.83</b>
<b>Central Loop</b>								
Class A	22,553,517	3,881,557	17.21%	2,668,652	11.83%	(261,051)	(220,642)	\$40.35
Class B	13,693,973	2,740,711	20.01%	2,172,899	15.87%	(15,268)	(22,170)	\$33.16
Class C	885,681	190,660	21.53%	142,692	16.11%	(11,412)	(25,600)	\$27.11
<b>TOTALS</b>	<b>37,133,171</b>	<b>6,812,928</b>	<b>18.35%</b>	<b>4,984,243</b>	<b>13.42%</b>	<b>(287,731)</b>	<b>(268,412)</b>	<b>\$37.16</b>
<b>East Loop</b>								
Class A	13,893,395	2,539,550	18.28%	1,928,036	13.88%	63,413	268,346	\$37.65
Class B	7,273,955	1,662,457	22.85%	1,145,013	15.74%	(18,709)	(162,086)	\$31.97
Class C	2,667,009	405,364	15.20%	307,886	11.54%	(37,383)	(28,975)	\$27.84
<b>TOTALS</b>	<b>23,834,359</b>	<b>4,607,371</b>	<b>19.33%</b>	<b>3,380,935</b>	<b>14.19%</b>	<b>7,321</b>	<b>77,285</b>	<b>\$34.57</b>
<b>South Loop</b>								
Class B	223,962	43,667	19.50%	30,649	13.68%	13,391	6,460	\$25.62
Class C	516,233	117,232	22.71%	109,901	21.29%	(28,476)	(14,349)	\$22.27
<b>TOTALS</b>	<b>740,195</b>	<b>160,899</b>	<b>21.74%</b>	<b>140,550</b>	<b>18.99%</b>	<b>(15,085)</b>	<b>(7,889)</b>	<b>\$23.49</b>
<b>CBD</b>								
Class A	85,062,980	14,765,366	17.36%	11,114,404	13.07%	(395,702)	898,743	\$42.50
Class B	45,741,018	8,834,068	19.31%	6,003,778	13.13%	15,026	(246,617)	\$33.92
Class C	6,932,448	1,173,521	16.93%	831,395	11.99%	(83,289)	(108,691)	\$27.45
<b>TOTALS</b>	<b>137,756,446</b>	<b>24,775,455</b>	<b>17.98%</b>	<b>17,952,077</b>	<b>13.03%</b>	<b>(457,327)</b>	<b>550,073</b>	<b>\$38.92</b>

Property data were compiled from CoStar with these parameters: existing and under renovation office property type, excluding non-conforming and owner-occupied properties; and within Central, East, South and West Loop, N. Michigan Avenue and River North. River West is not included.

Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last three quarters.

## Noteworthy Leases

Tenant	SF	Type	Submarket
Northern Trust 333 S. Wabash Avenue	462,000	New, Expansion	East Loop
GGP 350 N. Orleans Street, River North Point	165,462	New, Consolidation	East Loop
Barnes & Thornburg 1 N. Wacker Drive	98,000	Expansion	West Loop
GATX 233 S. Wacker Drive, Willis Tower	88,080	New, Consolidation	West Loop
Barcodes Inc 200 W. Monroe Street, Monroe Plaza	77,488	Renewal	West Loop

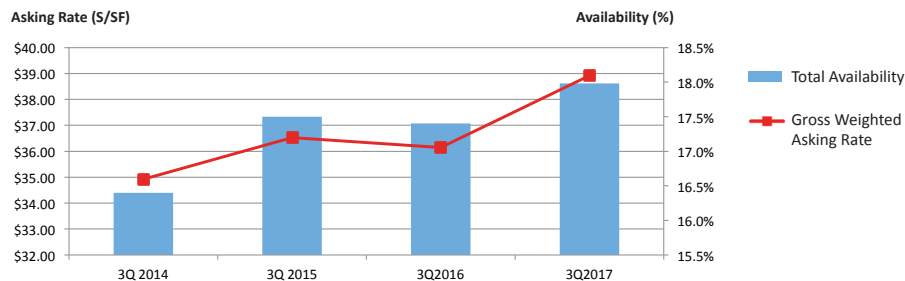
## Largest Available Spaces

Building Address	SF	Class	Landlord
71 S. Wacker Drive	768,520	A	The Hyatt Center
200 E. Randolph Street, AON Center	578,962	A	JLL
233 S. Wacker Drive, Willis Tower	543,061	A	Equity Office
175 W. Jackson Boulevard	479,641	A	EXTELL
311 W. Monroe Street	396,435	B	Sterling Bay

## Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
East Loop	150 N. Michigan Avenue Crain's Communications Building	661,477	CBRE Global Investors	John Hancock Real Estate	\$199.55
West Loop	300 S. Wacker Drive	564,000	Alcion Ventures	Beacon Capital Partners	\$289.33
West Loop	311 W. Monroe Street	397,402	Sterling Bay	GlenStar Properties & Prudential Real Estate	\$157.22

### GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



### YTD NET ABSORPTION VS TOTAL VACANCY

