

CHICAGO DOWNTOWN

Office Market Report

YTD Net Absorption
776,708

Availability
17.3%

Gross Average Asking Rate (Direct)
\$40.00

Confidence Continues as CBD's Office Market Prudently Enters its Brave New World

MARKET CONDITIONS: As 2017 closed out, Chicago's downtown employment base was growing and the economy was largely still in expansion mode from the last serious contraction in 2010. The office market responded to these conditions with assurance yet also with hesitancy. The fourth quarter posted a slight, direct vacancy uptick of 0.27% to 12.07% and a stable direct availability of 15% compared to 2017's third quarter. Large, new lease deals did not rule the quarter, but in the end, a respectable 2.3 million sf of transactions did occur. The only new direct lease inked over 100,000 sf was completed by *Chicago Tribune's* parent company Tronc for 137,000 sf in Pru I with an anticipated Summer 2018 occupancy. Multiple, sizable renewals with expansions dominated most leasing transactions. In the Central Loop, GrubHub Holdings expanded its presence to 146,085 sf at the Burnham Center, and Quantitative Risk Management increased its footprint at 181 W. Madison to 106,000 sf. In the West Loop, BP Products NA signed a lease extension for its 240,000 sf at the CME Center, Fifth Third Bank renewed its 145,000 sf at 222 S. Riverside, and Facebook quadrupled its footprint to 100,000 sf at 191 W. Wacker. Net absorption was well on its way to a sizable, positive posting for the quarter; but after a series of legal issues, Outcome Health rescinded its 2Q17 commitment to occupy 383,000 sf at 515 N. State (along with naming rights) resulting in the quarter ending with a marginally positive net absorption of 37,348 sf. Thankfully, 1Q17's influx of office occupants aided the CBD to end the year with a positive net absorption of 776,708 sf.

True to the principles of supply and demand, space with a desirable location and/or amenities' package successfully commanded higher rates from eager tenants while also maintaining low vacancy and availability rates in these submarkets. Supporting this point, rents varied greatly per submarket and class from roughly \$25psf to over \$53psf, with the average asking rent at \$40psf, a \$1.08psf rate increase from 3Q17 and a \$3.67psf increase from year end of 2016.

As in past quarters, suburban companies continue to desire representation in the CBD as they preserve their headquarters outside of the city proper. While remaining in its Niles' headquarters, Shure moved into an additional 35,000 sf this quarter at the old Chicago Public Schools' Headquarters rebranded as The National. In addition to the Central Loop's proximity to its customer base and entertainment venues, Shure also cited the 17-foot ceilings and the Revival Food Court as amenity draws.

LOOKING AHEAD: Mirroring the office leasing market, trepidation was present in the investment sales arena with only 8.5 million sf of office space trading in 2017, a low not seen since 2011. It is likely that the three federal interest rate hikes (and three more promised in 2018) and the over 5 million sf of promised deliveries over the next few years fueled investor caution. Yet excited chatter about Chicago's downtown office market abounded late in 2017: Will Amazon choose Chicago as its new HQ? What are the effects of the CBD's office pipeline and multifamily overstock, collapsing brick and mortar retail and the demand for last-mile warehousing on the existing office supply? In this brave new world, talk has moved away from where we are in the cycle to how can we take advantage of the next CRE opportunities enabled by the largest tax code overhaul in 30 years and the 1031 Exchange benefit still intact. In the end, despite the encumbrances of interest rate raises and tenant space contractions, the office market should hold steady and possibly improve for 2018 as profits grow for corporate and private companies, institutional funds need to diversify their portfolios, and as startups begin to require permanent space.

Economic Snapshot – Jobs Up, Unemployment Down

According to the November 30, 2017 edition of the USBLS' Chicago Area Economic Summary, the Chicago MSA grew by 4,731,800 workers or 0.5% YOY. The financial services and IT sectors grew the most percentage-wise, adding over 393,000 jobs, with 4.1% and 2.4% growth, respectively. Although the trade, transportation and utilities' sector added the most jobs per tracked industry with 9,431,000 workers, the sector declined by 0.3% YOY.

4Q 2017

CBD Outlook

- Expect the gap between property class rents to persist as tenants continue to call for reduced square footage in amenity-rich properties.
- Reconstruction road projects abound in 2018, starting at the Jane Byrne Interchange. An office's access to mass transit will be the top asset draw.

CBD Summary

		Q4 2016	Q4 2017
Total Inventory (SF)	▲	139,029,272	140,265,133
Overall Vacancy	▲	11.8%	13.0%
Direct Vacancy	▲	11.1%	12.1%
Sublease Vacancy	▲	0.9%	1.0%
Overall Available	▲	16.8%	17.3%
Direct Available	▲	13.7%	15.0%
Sublease Available	▼	3.1%	2.3%
Gross Average Asking Rate (Direct)	▲	\$36.33	\$40.00
Current Net Absorption (SF)	▲	(404,082)	37,348
YTD Net Absorption (SF)	▼	833,655	776,708

Economic Indicators

	Q4 2016	Q4 2017
Chicago Unemployment	5.3%	4.8%
IL Unemployment	5.8%	4.9%
US Unemployment	4.6%	4.1%
US CCI	100.27	122.10
Chicago Case Shiller Index	134.86	140.45
National Case Shiller Index	184.26	195.63



- 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)	Availability Rate	Total Vacant (SF)	Vacancy Rate	Current Absorption (SF)	YTD Absorption (SF)	Gross Asking Rate (Direct)
River North								
Class A	3,991,073	509,617	12.77%	288,010	7.22%	17,606	66,666	\$53.82
Class B	10,355,489	1,683,495	16.26%	917,484	8.86%	(9,469)	38,617	\$39.84
Class C	1,877,291	310,705	16.55%	159,397	8.49%	20,419	(15,209)	\$29.75
TOTALS	16,223,853	2,503,817	15.43%	1,364,891	8.41%	28,556	90,074	\$41.19
North Michigan Avenue								
Class A	6,228,767	1,039,687	16.69%	1,007,591	16.18%	(31,683)	38,245	\$39.08
Class B	4,791,679	573,814	11.98%	425,577	8.88%	53,112	176,777	\$33.28
Class C	169,000	50,405	29.83%	27,134	16.06%	(3,760)	(11,010)	\$26.32
TOTALS	11,189,446	1,663,906	14.87%	1,460,302	13.05%	17,669	204,012	\$35.72
West Loop								
Class A	35,546,371	5,759,124	16.20%	5,020,240	14.12%	48,691	553,891	\$47.30
Class B	12,848,403	2,606,393	20.29%	1,799,044	14.00%	11,287	220,004	\$37.31
Class C	1,871,253	279,861	14.96%	224,966	12.02%	(15,321)	(61,363)	\$28.63
TOTALS	50,266,027	8,645,378	17.20%	7,044,250	14.01%	44,657	712,532	\$44.59
Central Loop								
Class A	22,553,517	4,330,593	19.20%	2,752,650	12.20%	(107,468)	(306,919)	\$39.90
Class B	14,146,763	2,607,857	18.43%	2,121,559	15.00%	89,848	40,072	\$33.44
Class C	853,681	169,226	19.82%	145,891	17.09%	(29,059)	(64,589)	\$27.52
TOTALS	37,553,961	7,107,676	18.93%	5,020,100	13.37%	(46,679)	(331,436)	\$37.69
East Loop								
Class A	13,878,607	2,379,057	17.14%	1,887,150	13.60%	102,378	370,724	\$37.46
Class B	7,273,955	1,469,080	20.20%	1,098,966	15.11%	(98,917)	(221,068)	\$33.34
Class C	2,724,485	343,791	12.62%	282,609	10.37%	2,431	(26,544)	\$26.97
TOTALS	23,877,047	4,191,928	17.56%	3,268,725	13.69%	5,892	123,112	\$34.96
South Loop								
Class B	815,962	51,665	6.33%	39,397	4.83%	(11,248)	(4,788)	\$25.88
Class C	338,837	86,487	25.52%	83,818	24.74%	(1,499)	(16,798)	\$24.28
TOTALS	1,154,799	138,152	11.96%	123,215	10.67%	(12,747)	(21,586)	\$25.04
CBD								
Class A	82,198,335	14,018,078	17.05%	10,955,641	13.33%	29,524	722,607	\$43.47
Class B	50,232,251	8,992,304	17.90%	6,402,027	12.74%	34,613	249,614	\$35.27
Class C	7,834,547	1,240,475	15.83%	923,815	11.79%	(27,189)	(195,513)	\$27.64
TOTALS	140,265,133	24,234,711	17.28%	18,281,483	13.03%	37,348	776,708	\$40.00

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 four quarters.

Noteworthy Leases

Tenant	SF	Type	Submarket
BP Products North America 10 & 30 S. Wacker Drive, CME Center	240,000	Extension	West Loop
GrubHub Holdings 111 W. Washington Street, Burnham Center	146,085	Renewal/ Expansion	Central Loop
Fifth Third Bank 222 S. Riverside Plaza	145,000	Renewal	West Loop
Tronc 130 E. Randolph Street	137,137	New	East Loop
Quantitative Risk Management 181 W. Madison Street	106,000	Renewal/ Expansion	Central Loop

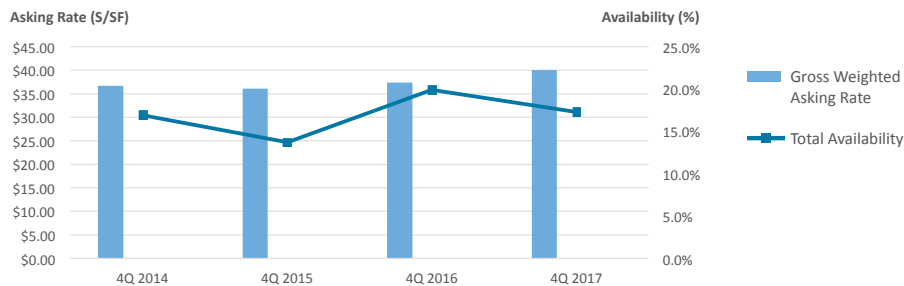
Largest Available Spaces

Building Address	SF	Class	Landlord
233 S. Wacker Drive, Willis Tower	644,352	A	Blackstone Group
200 E. Randolph Street, AON Center	577,772	A	601W Companies
141 W. Jackson Boulevard, Board of Trade	506,591	B	Oaktree Capital Management
350 N. Orleans Street, River North Point	500,265	B	Blackstone Group
71 S. Wacker Drive	479,714	A	The Irvine Company

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
Central Loop	231 S. LaSalle Street	1,055,926	Beacon Capital	601 W Cos	\$156
Central Loop	120 N. LaSalle Street	390,769	Ascentris and Lincoln Property	Prudential Financial	\$274
NMA	401 N. Michigan Avenue	760,000	Walton Street Capital	Zeller Realty Group	\$474
NMA	500 N. Michigan Avenue	326,000	Schapira Group	The Macerich Co	\$265
West Loop	150 N. Wacker Drive	246,613	Primavera Family Limited Part.	American Realty Advisors	\$324

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



YTD NET ABSORPTION VS TOTAL VACANCY

