

CHICAGO DOWNTOWN Office Market Report

1Q 2018

DIRECT AVAILABILITY RATE

1Q17	1Q18	4Q17
13.6%	14.66%	15.0%

DIRECT VACANCY RATE

1Q17	1Q18	4Q17
11.4%	11.85%	12.1%

GROSS ASKING RENT (DIRECT)

1Q17	1Q18	4Q17
\$36.77	\$39.38	\$40.69

Cautious Optimism Continues to Guide Chicago's CBD Office Market

The first quarter began with a plethora of positive economic and confidence indicators for Chicago and the nation (see box below), including *Site Selection* magazine choosing Chicago for the fifth year in a row as the top metro for potential corporate growth. These all point to a continuing demand for office space acquisition and expansion. The question remains, however, does the current and pending demand for office space necessitate the supply of the one million square feet added over the course of 2017 and the pending three to five million square feet projected to deliver to the urban core over the next three years? Reflecting this positivity with a dose of reality, absorption was up 720,640 sf this quarter from the last quarter's lackluster performance, while this quarter's \$39.38psf rent reflected the softening demand from last quarter's \$40.69psf rate. Superficially, the gross availability and vacancy rates of 16.82% and 12.78% reflect a new equilibrium in the market as they stand perched between last quarter's and last year's numbers. Yet the real truth to the market's health lies beneath the surface as sublease availability rates hover around 2% on average and as high as 3.64% in the West Loop. As large tenants prepare to leave their current square footage for new space, the parcels up for sublease loom large on the pending horizon transforming from just being vacant literally to becoming vacant on the financial ledger. Regardless of any new developments, downtown Chicago's urban core is still the commercial hub of the Midwest – and for some specific industries – the nation. Although the market may experience turbulence in the short term, the long term view of Chicago's office market is the fundamentals of its economy are strong and should withstand the pressures of increased supply.

*Previous rent calculations and absorption rates are adjusted to include River West data.

Notable Trends

New Construction Under construction and proposed deliveries are promising a combined 5.6 million square feet to the CBD over the next three years. Two, large, upcoming deliveries – 110 N. Wacker and 151 N. Franklin – are almost one million sf pre-leased with Bank of America and Northern Trust as 2020 tenants. In addition, another half million sf of tenant commitments are crossing over to River West, the latest submarket to join the CBD. At the very least, the pre-leasing success of these developments and others demonstrated this quarter there is an appetite for new product in Chicago's downtown.

A New Year, A New Submarket With just under four million sf, River West is second only to the South Loop as downtown's smallest submarket. The low slung former brick and timber warehouses, small in stature yet large in Chicago's collective imagination, loudly proclaim their presence with cranes and the ensuing hype. For now, its status as a submarket in transition poses a modest strain on the CBD's absorption, availability and vacancy rates.

The Latest Shifts The national trend toward higher head counts in less space continues in the CBD. Money saved in square footage is spent on increased amenities and custom build-outs. Rooftop and private decks, tenant community spaces, huddle rooms and expansive vistas are the newest trends as is a return to private offices. The co-working movement is beginning to morph into an amalgamation of property management meets flexible leasing terms to help companies keep nimble for their expanding and contracting work force. The success of new developments in part is due to developers and occupiers creating "workplaces" where there once were "offices."

ECONOMIC INDICATORS

	1Q 2017	1Q 2018
US Consumer Confidence Index	100.5	127.7
Employment Trends Index	102.7	107.0
US Unemployment	4.7	4.1
Cook County Unemployment	6.0	5.7
Chicago MSA Unemployment	6.0	5.4
Prime Rate	4.00%	4.75%

CHICAGO DOWNTOWN 1Q 2018

	AVERAGE BUILDING AGE	AVERAGE RBA (SF)	TOTAL INVENTORY (SF)	DIRECT AVAILABLE RATE	SUBLET AVAILABLE RATE	DIRECT VACANCY RATE	SUBLET VACANCY RATE	MAX FLOOR CONTIGUOUS SPACE (SF)	MAX BUILDING CONTIGUOUS SPACE (SF)	GROSS ASKING RENT (DIRECT)	1Q18 ABSORPTION (SF)
CBD	1940	370,877	142,396,921	14.66%	2.10%	11.85%	0.93%	112,241	363,204	\$39.38	720,640
CLASS A	1982	882,527	88,457,933	14.16%	1.89%	11.59%	0.88%	112,241	340,362	\$42.93	263,908
CLASS B	1930	254,416	45,193,038	15.50%	2.66%	12.40%	1.01%	70,000	363,204	\$33.86	459,041
CLASS C	1917	84,272	8,745,950	15.37%	1.33%	11.69%	0.97%	27,259	52,397	\$28.64	(29,768)
CENTRAL LOOP	1949	552,075	36,480,992	15.83%	2.54%	12.87%	0.97%	69,395	297,000	\$37.39	104,050
CLASS A	1976	857,647	21,783,081	15.88%	2.61%	12.18%	0.86%	69,395	297,000	\$40.91	(92,181)
CLASS B	1935	435,415	13,068,091	15.55%	2.42%	13.70%	1.04%	40,352	232,757	\$31.49	209,375
CLASS C	1915	92,131	853,681	18.12%	2.60%	15.21%	2.60%	17,754	51,523	\$28.53	10,367
EAST LOOP	1931	486,879	23,857,047	14.50%	2.07%	11.77%	0.73%	53,280	194,868	\$35.76	320,088
CLASS A	1959	991,329	13,878,607	13.74%	1.89%	12.02%	0.83%	45,150	194,868	\$38.79	109,847
CLASS B	1921	382,840	7,273,955	17.25%	2.91%	12.43%	0.67%	53,280	141,420	\$32.97	179,322
CLASS C	1917	169,030	2,704,485	11.01%	0.69%	8.71%	0.38%	11,000	20,100	\$27.40	30,919
N. MICHIGAN AVENUE	1954	349,914	10,827,975	14.18%	0.92%	12.16%	0.60%	35,787	340,362	\$36.59	77,575
CLASS A	1979	6,236,566	6,236,566	15.14%	0.71%	14.46%	0.52%	35,118	340,362	\$41.10	20,569
CLASS B	1950	4,791,679	4,397,449	12.17%	1.15%	8.49%	0.63%	35,787	69,943	\$30.02	71,160
CLASS C	1909	169,000	193,960	29.15%	2.58%	21.41%	2.58%	15,021	15,021	\$24.49	(14,154)
RIVER NORTH	1925	183,288	16,318,700	12.07%	2.76%	7.53%	0.98%	112,241	153,900	\$41.09	146,322
CLASS A	1989	1,162,404	9,299,229	10.50%	2.85%	5.24%	1.08%	112,241	153,900	\$47.67	122,445
CLASS B	1919	108,627	5,255,159	13.27%	2.60%	9.87%	0.71%	70,000	71,552	\$32.06	45,508
CLASS C	1918	54,525	1,764,312	16.75%	2.80%	12.58%	1.23%	22,535	52,397	29.62	125,651
RIVER WEST	1933	81,814	3,686,085	18.58%	0.93%	15.50%	1.13%	40,497	65,583	\$31.75	(20,476)
CLASS A	2016	193,890	969,448	14.87%	0.35%	18.62%	0.35%	40,497	40,497	\$40.73	0
CLASS B	1929	72,540	1,450,804	19.12%	0.85%	14.53%	1.13%	18,575	65,583	\$31.94	6,983
CLASS C	1918	61,837	1,265,833	20.81%	1.46%	14.24%	1.72%	27,259	27,259	\$27.58	(27,459)
SOUTH LOOP	1915	109,993	1,099,934	10.31%	0.55%	8.99%	0.00%	9,768	19,536	\$24.17	(3,212)
CLASS B	1910	147,586	885,517	9.24%	0.68%	8.45%	0.00%	9,768	19,536	\$24.20	(6,541)
CLASS C	1923	53,604	214,417	14.74%	0.00%	11.22%	0.00%	6,250	6,250	\$24.08	3,329
WEST LOOP	1952	50,156,463	50,126,188	14.64%	1.95%	12.29%	1.05%	53,236	363,204	\$42.93	75,817
CLASS A	1989	960,679	35,514,863	13.99%	1.43%	11.94%	0.93%	53,236	215,447	\$45.05	126,739
CLASS B	1938	347,623	12,862,063	16.54%	3.64%	13.48%	1.49%	53,101	363,204	\$37.35	(39,783)
CLASS C	1907	97,181	1,749,262	14.00%	0.16%	10.79%	0.23%	20,000	20,000	\$30.46	(11,139)

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NOTEWORTHY LEASES

TENANT	SF	TYPE	SUBMARKET
GGP 350 N Orleans St	168,000	Move-In	River North
Morgan Stanley Willis Tower	125,000	New	West Loop
Braintree (of PayPal) 222 Merchandise Mart Plz	120,000	Expansion	River North
Wilson Sporting Goods One Prudential Plaza	90,000	New Move-In	East Loop
Tempus Labs 600 W Chicago St	83,622	New	River North

SALES TRANSACTIONS

ADDRESS	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
600 W Chicago Ave	River North	1,600,000	Sterling Bay & JP Morgan	Equity Commonwealth	\$319
1-35 S State St, Sullivan Center	East Loop	833,000	601W	Madison & KKR	\$216
1 S Dearborn St	Central Loop	828,000	Starwood Capital Group	Olen Properties	\$435
111 N State St, Floors 8-14	East Loop	700,000	Brookfield Asset Mgmt	Macy's	\$43
20 S Clark St	Central Loop	379,903	Slate Office RE Inv. Trust	Exan Capital	\$190

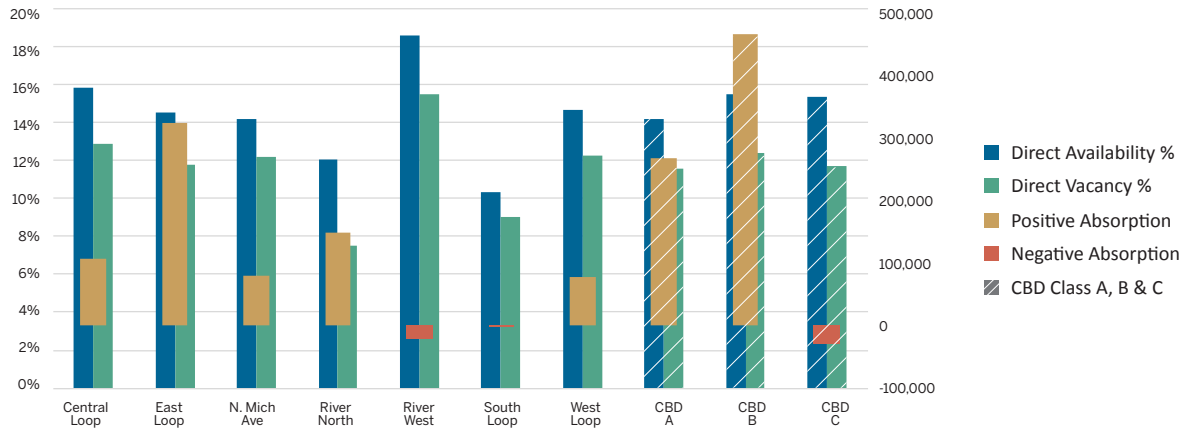
SUBLET AVAILABLE SPACE

ADDRESS	SUBMARKET	CLASS	MAX AVAILABLE SPACE
21 S Clark St, Chase Tower	Central Loop	A	297,000
222 Merchandise Mart Plz, The Mart	River North	A	215,443
225 W Randolph St, AT&T Headquarters	West Loop	B	205,364

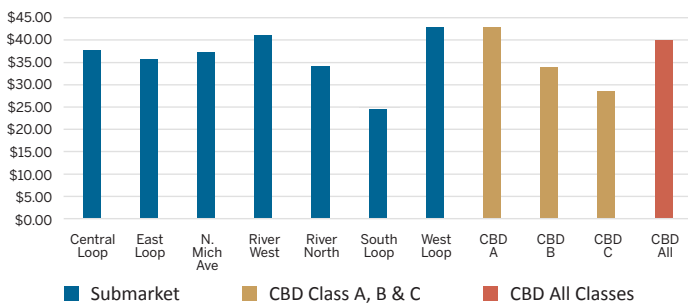
MAX CONTIGUOUS SPACE

ADDRESS	SUBMARKET	CLASS	MAX AVAILABLE SPACE	MAX CONTIGUOUS SPACE	MAX BLDG CONTIGUOUS SPACE
311 W Monroe St	West Loop	B	396,435	30,816	363,204
515 N State St	NMA	A	443,015	24,988	340,362
21 S Clark St Chase Tower	Central Loop	A	521,798	27,000	297,000

SUBMARKET AVAILABILITY, VACANCY & ABSORPTION



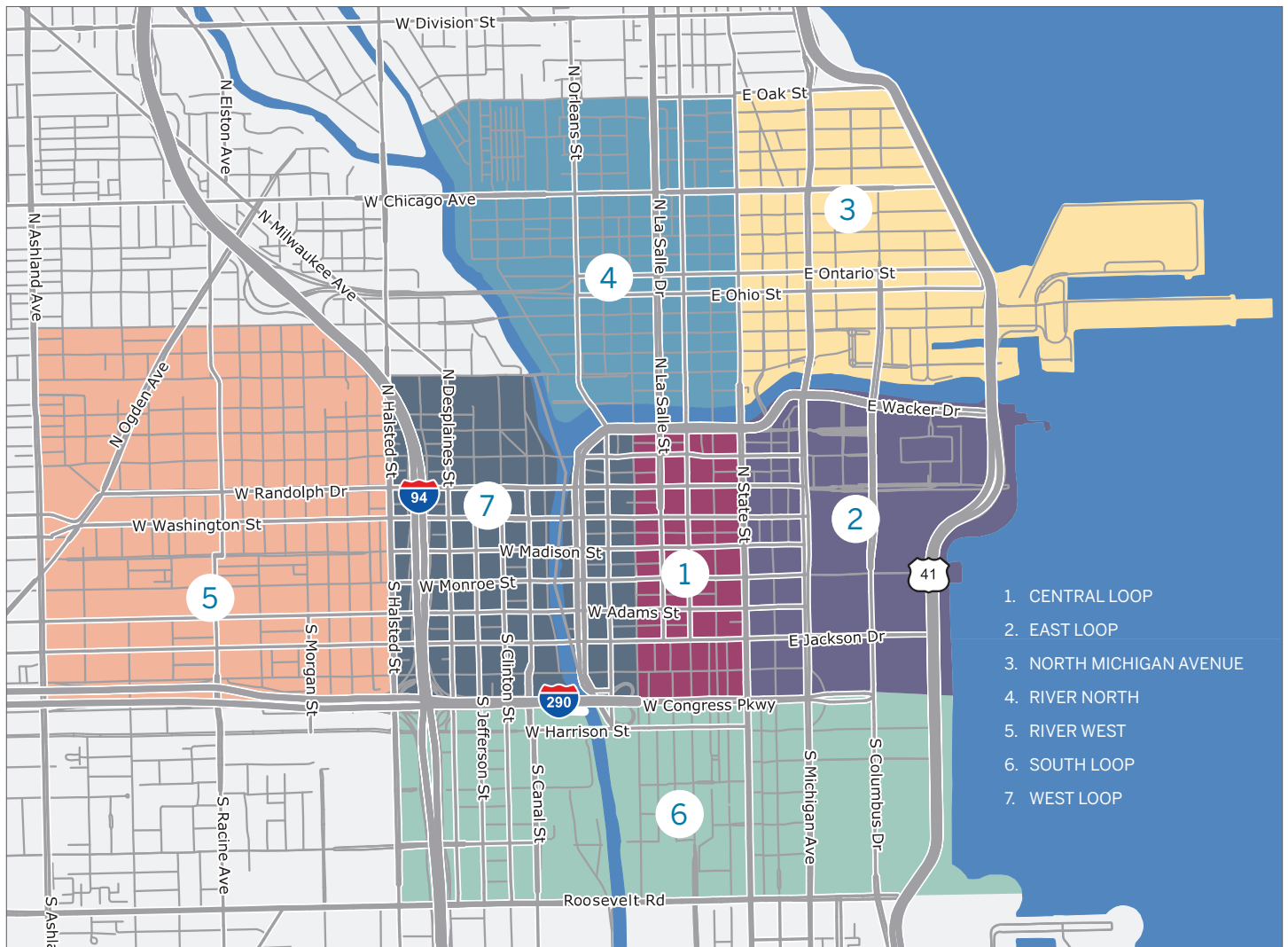
RENT/SF BY SUBMARKET



RENT/SF BY BUILDING CLASS



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UNDER CONSTRUCTION

TYPE	SF / RENTAL RATE
Proposed	2,700,000
Under Construction	2,868,335
Under Construction, Class A - NNN Rent	\$37.65
CBD Existing, Class A - NNN Rent	\$25.85

AGE BEFORE RENOVATION DETERMINES BUILDING CLASS

