

CHICAGO DOWNTOWN

Office Market Report

▲ YTD Net Absorption
642,176

▲ Availability
18.4%

▲ Gross Average Asking Rate (Direct)
\$38.22

Downtown Absorbing Development Pressures

MARKET CONDITIONS: With two million square feet under active construction and another proposed eight million square feet possibly materializing within Chicago's Central Business District (CBD) over the next three years, it is no wonder the downtown office market is showing signs of overdevelopment strain, particularly in the West Loop. The close of the second quarter saw negative net absorption of (537,614) sf compared to 2016's positive net absorption of 262,177 sf for the same time period. In total, the half year mark checks in with a positive 642,176 sf absorption. The overall vacancy rate at 13.2% is slowly inching up toward 2015's third quarter 13.4% overall vacancy rate. This quarter ended with 2.29 million square feet of transactions, a modest increase from first quarter's 2.21 million square feet. Large deals this quarter included Bank of America signing a lease for 489,466 sf at the proposed 110 N. Wacker for an October 2020 occupancy, while Expedia consolidated with Orbitz and renewed its roughly 97,000 sf at 500 W. Madison. Also in the West Loop, Barack Ferrazzano Kirschbaum & Nagelberg, LLP, renewed its lease for 99,756 sf at 200 W. Madison.

With business and consumer confidence up, commercial tenants are continuing to display an appetite for new construction/redevelopment while also occupying these new spaces efficiently. This trend is most apparent with law firms. Notably, McDermott, Will, & Emery, occupying 201,000 sf in March at 444 W. Lake Street (83.5% leased), down from its previous 258,802 sf, and Schiff Hardin consolidating into 181,957 sf from 209,400 sf at the Willis Tower (85% leased). The namesake of the old General Growth Properties building at 110 N. Wacker, GGP rebrands itself into a smaller foot print with 160,00 sf at 350 N. Orleans.

Carl Sandburg's reference to Chicago as the "City of Broad Shoulders" is still true today and what drives the CBD's diversity of industries, with TAMI (Technology, Advertising, Media and Information) tenants leading the way. For example, Snapsheet, which streamlines automobile claims for insurance carriers, is taking 52,000 sf at 1 N. Dearborn in January 2018, over two-times the square footage it currently occupies at 55 W. Monroe. Seizing on the opportunities the CBD provides, Convene, the corporate meeting and event space provider, signed its first lease outside of the east coast at the Willis Tower taking 55,000 sf on the top floor of the three-level retail podium extending out from its base.

OUTLOOK: As the Governor and Mayor squabble and look to urban demand and development to solve their budget deficit and pension financing woes, the CBD's office market is absorbing the punches. The question is, for how long? Companies are continuing to move their offices here, while others are right-sizing their spaces. Buoyed by historically low vacancy rates, the developers White Oak Realty and CA Venture are building 625 W. Adams on spec (built on the old St. Patrick's parking lot) yet have no deals in the queue for its 434,931 sf to be delivered by April 2018. The potential over-supply of Class A+ space by default degrades the varying levels of Class A properties, in addition to the usual Class B casualties of over development.

The amount of office re-development over the past few years of Class C properties to hotel, residential and student housing, however, has created a tight market for itself, resulting in some tenants being priced out of the CBD. The Chicago office market generally lags behind the national trends and it appears 2017 to be no different as supply and demand are in a healthy balance for now.

Economic Snapshot – Unemployment Down, Jobs Up

According to the Bureau of Labor Statistics' May 2016 to May 2017 Employment Report, the Chicago MSA job growth was up 0.7% or 4,698,700 workers. The financial and IT sectors added over 12,000 jobs, with 3% and 3.5% growth, respectively. Unemployment numbers dropped from 5.6% to 4.3% in Cook County.

2Q 2017

CBD Outlook

- Rental/Absorption rates should eventually stabilize as tenant upscaling continues, creating pockets of high and low demand.
- Creativity should bring new life to vintage buildings like the old post office and the City Colleges of Chicago's headquarters.
- Expect to see a growth in office buildings targeting vertical industries, e.g., health care, education and technology.

CBD Summary

		Q2 2016	Q2 2017
Total Inventory (SF)	▲	137,947,570	141,114,947
Overall Vacancy	▲	11.9%	13.2%
Direct Vacancy	◀▶	11.0%	11.0%
Sublease Vacancy	▲	1.0%	1.2%
Overall Available	▲	17.4%	18.4%
Direct Available	▲	14.9%	15.6%
Sublease Available	▲	2.5%	2.8%
Gross Average Asking Rate (Direct)	▲	\$36.23	\$38.22
Current Net Absorption (SF)	▼	262,177	(537,614)
YTD Net Absorption (SF)	▲	467,767	642,176

Economic Indicators

	Q2 2016	Q2 2017
Lake Cty Unemployment	4.4%	4.0%
DuPage Cty Unemployment	4.4%	3.3%
Cook Cty Unemployment	5.6%	4.3%
US Unemployment	4.5%	4.1%
US CCI	101.4	118.9
Case Shiller Index	132.97	136.97



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)
River North								
Class A	3,991,073	484,678	12.1%	262,840	6.6%	(14,870)	(5,311)	\$51.37
Class B	9,859,973	1,371,094	13.9%	939,090	9.5%	(37,002)	96,313	\$35.69
Class C	1,532,047	271,856	17.7%	160,611	10.5%	(24,327)	(24,813)	\$28.47
TOTALS	15,383,093	2,127,628	13.8%	1,362,541	8.9%	(76,199)	(126,237)	\$38.17
North Michigan Avenue								
Class A	7,878,084	927,257	11.8%	1,238,616	15.7%	4,003	53,655	\$40.70
Class B	4,372,338	738,314	16.9%	456,815	10.4%	(11,702)	58,070	\$32.00
Class C	134,000	46,862	35.0%	13,374	10.0%	0	0	\$27.11
TOTALS	12,384,422	1,712,433	13.8%	1,708,805	13.8%	(7,699)	111,725	\$36.29
West Loop								
Class A	37,938,685	7,013,505	18.5%	5,468,179	14.4%	(168,754)	761,880	\$43.10
Class B	10,427,933	2,417,925	23.2%	1,553,476	14.9%	(120,214)	(96,448)	\$35.49
Class C	1,543,696	374,138	24.2%	166,019	10.8%	(16,083)	(21,703)	\$28.78
TOTALS	49,910,314	9,805,568	19.6%	7,187,674	14.4%	(305,051)	643,729	\$41.21
Central Loop								
Class A	22,513,331	3,734,859	16.6%	2,416,877	10.7%	52,642	35,546	\$40.76
Class B	14,731,984	2,766,643	18.8%	2,173,382	14.8%	(87,764)	(38,667)	\$33.67
Class C	790,240	127,050	16.1%	113,644	14.4%	(17,822)	8,022	\$26.34
TOTALS	38,035,555	6,628,552	17.4%	4,703,903	12.4%	(52,944)	4,901	\$37.85
East Loop								
Class A	14,825,094	3,275,376	22.1%	2,054,365	13.9%	(7,192)	154,239	\$37.21
Class B	6,263,497	1,387,045	22.1%	1,060,070	16.9%	(99,961)	(158,511)	\$32.23
Class C	2,415,312	393,593	16.3%	258,189	10.7%	9,625	5,283	\$27.17
TOTALS	23,503,903	5,056,014	21.5%	3,372,624	14.3%	(97,528)	1,011	\$35.14
South Loop								
Class B	1,266,591	436,969	34.5%	215,902	17.0%	(10,943)	(6,049)	\$25.37
Class C	631,069	150,036	23.8%	76,761	12.2%	12,750	13,296	\$23.68
TOTALS	1,897,660	587,005	30.9%	292,663	15.4%	1,807	7,247	\$25.00
CBD								
Class A	87,146,267	15,435,675	17.7%	11,440,877	13.1%	(134,171)	1,000,009	\$41.23
Class B	46,922,316	9,117,990	19.4%	6,398,735	13.6%	(367,586)	(366,889)	\$33.78
Class C	7,046,364	1,363,535	19.4%	788,598	11.2%	(35,857)	(19,915)	\$27.37
TOTALS	141,114,947	25,917,200	18.4%	18,628,210	13.2%	(537,614)	642,176	\$38.22

*Property data and analytics were compiled from CoStar with these parameters: existing and under renovation office property type, including mixed use and condominium; 20,000 square feet or more; and within Central Loop, East Loop, South Loop, River North, West Loop, and N. Michigan Avenue (River West is not included).

Noteworthy Leases

Tenant	SF	Type	Submarket
Bank of America 110 N. Wacker Drive	489,466	New	West Loop
Schiff Hardin, LLP Willis Tower	181,957	Renewal/ Contraction	West Loop
Trustwave 70 W. Madison Street	100,000	Renewal/ Expansion	Central Loop
Barack Ferrazzano Kirschbaum & Nagelberg, LLP 200 W. Madison Street	99,756	Renewal	West Loop
Expedia 500 W. Madison Street	96,887	Consolidation	West Loop

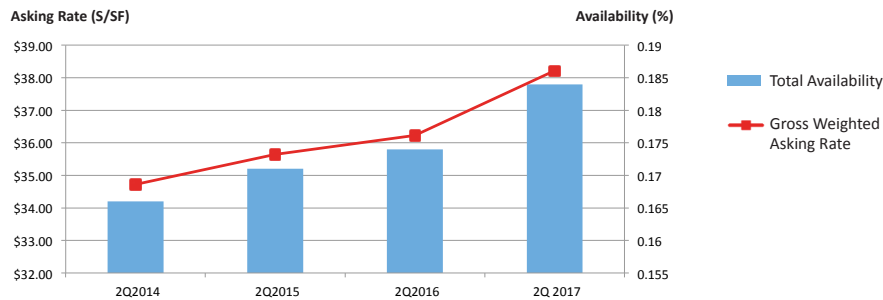
Largest Available Spaces

Building Address	SF	Class	Landlord
71 S. Wacker Drive	770,493	A	The Hyatt Center
333 S. Wabash Avenue	708,883	A	The John Buck Company
311 W. Monroe Street	396,435	B	GlenStar Properties LLC
350 N. Orleans Street	380,507	B	Equity Office
2 N. LaSalle Street	341,991	B	Harbor Group - Two North LaSalle

Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price PSF
West Loop	125 S. Wacker Drive	576,000	Ivanhoe Cambridge, Inc.& Callahan Capital Partners	Metropolitan Life Ins. Co.	\$251.74
West Loop	311 W. Monroe Street	397,402	Sterling Bay	GlenStar Properties & Prudential Real Estate	\$157.22
River North	308 W. Erie Street	45,359	Urban Innovations	Speedwagon Properties	\$282.00

GROSS WEIGHTED ASKING RATE VS TOTAL AVAILABILITY



YTD NET ABSORPTION VS TOTAL VACANCY

