

CHICAGO DOWNTOWN Office Market Report

1Q 2018

DIRECT AVAILABILITY RATE

1Q17 1Q18 4Q17
13.60% 14.15% 14.50%

DIRECT VACANCY RATE

1Q17 1Q18 4Q17
11.40% 11.46% 11.40%

GROSS ASKING RENT (DIRECT)

1Q17 1Q18 4Q17
\$36.77 \$39.38 \$38.01

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 692,649 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 16.24% and 12.36% 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 3.6% 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	4.70%	4.10%
Cook County Unemployment	6.00%	5.70%
Chicago MSA Unemployment	6.00%	5.40%
Prime Rate	4.00%	4.75%

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	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	362,553	145,746,447	14.15%	2.05%	11.46%	0.90%	112,241	363,204	\$39.38	692,649
CLASS A	1982	878,265	91,339,608	13.73%	1.83%	11.22%	0.85%	112,241	340,362	\$42.93	289,679
CLASS B	1930	238,491	46,028,830	14.96%	2.61%	12.05%	0.99%	70,000	363,204	\$33.86	338,096
CLASS C	1917	79,791	8,378,009	14.13%	1.33%	10.87%	0.95%	22,535	52,397	\$28.64	64,874
CENTRAL LOOP	1949	545,032	36,517,166	15.82%	2.54%	12.86%	0.97%	69,395	297,000	\$37.39	111,494
CLASS A	1976	867,662	22,559,220	15.91%	2.60%	12.30%	0.87%	69,395	297,000	\$40.91	(89,740)
CLASS B	1935	422,718	13,104,265	15.50%	2.41%	13.66%	1.03%	40,352	232,757	\$31.49	190,867
CLASS C	1915	85,368	853,681	18.12%	2.60%	15.21%	2.60%	17,754	51,523	\$28.53	10,367
EAST LOOP	1931	492,077	25,588,003	13.56%	1.93%	11.01%	0.68%	53,280	194,868	\$35.76	244,190
CLASS A	1959	1,048,271	15,724,067	12.13%	1.67%	10.61%	0.73%	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	68,424
CLASS C	1917	143,888	2,589,981	11.89%	0.73%	9.49%	0.40%	11,000	20,100	\$27.40	65,919
N. MICHIGAN AVENUE	1954	349,157	11,522,185	12.98%	0.83%	11.08%	0.52%	35,787	340,362	\$36.59	91,729
CLASS A	1979	568,566	6,822,788	14.08%	0.65%	13.23%	0.47%	35,118	340,362	\$41.10	20,569
CLASS B	1950	223,781	4,699,397	11.39%	1.08%	7.95%	0.59%	35,787	69,943	\$30.02	71,160
RIVER NORTH	1925	171,857	16,498,245	11.49%	2.72%	7.35%	0.95%	112,241	153,900	\$41.09	122,955
CLASS A	1989	1,162,404	9,299,229	10.50%	2.85%	5.24%	1.08%	112,241	153,900	\$47.67	101,688
CLASS B	1919	102,252	5,317,125	11.67%	2.54%	9.47%	0.66%	70,000	71,552	\$32.06	46,046
CLASS C	1918	52,275	1,881,891	15.87%	2.62%	11.80%	1.15%	22,535	52,397	29.62	(24,779)
RIVER WEST	1933	84,940	3,907,217	13.47%	0.88%	12.05%	1.06%	40,497	65,583	\$31.75	19,222
CLASS A	2016	220,165	880,660	16.02%	0.39%	20.16%	0.39%	40,497	40,497	\$40.73	0
CLASS B	1929	67,412	1,685,290	15.40%	0.73%	11.45%	0.97%	18,575	65,583	\$31.94	25,110
CLASS C	1918	78,898	1,341,267	9.37%	1.38%	7.48%	1.63%	19,451	19,451	\$27.58	(5,888)
SOUTH LOOP	1915	114,487	1,030,379	8.34%	0.58%	6.84%	0.00%	9,768	19,536	\$24.17	(3,212)
CLASS B	1910	163,192	815,962	6.66%	0.74%	5.68%	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	516,360	50,603,252	14.56%	1.94%	12.18%	1.04%	53,236	363,204	\$42.93	106,271
CLASS A	1989	924,452	36,053,644	13.78%	1.41%	11.76%	0.91%	53,236	215,447	\$45.05	146,446
CLASS B	1938	334,688	13,052,836	16.34%	3.59%	13.29%	1.47%	53,101	363,204	\$37.35	(56,101)
CLASS C	1907	74,839	1,496,772	17.76%	0.19%	12.61%	0.27%	20,000	20,825	\$30.46	15,926

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MAX BUILDING AVAILABLE CONTIGUOUS SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE CONTIGUOUS SPACE
311 W Monroe Street	West Loop	B	30,816
515 N State Street	N. Michigan Avenue	A	24,988
Chase Tower	Central Loop	A	27,000

SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SUBLET SPACE
Chase Tower	Central Loop	A	297,000
Merchandise Mart	River North	A	215,443
AT&T Headquarters	West Loop	B	205,364

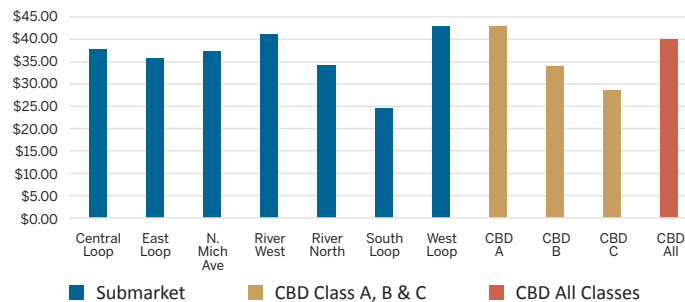
NOTEWORTHY LEASES

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

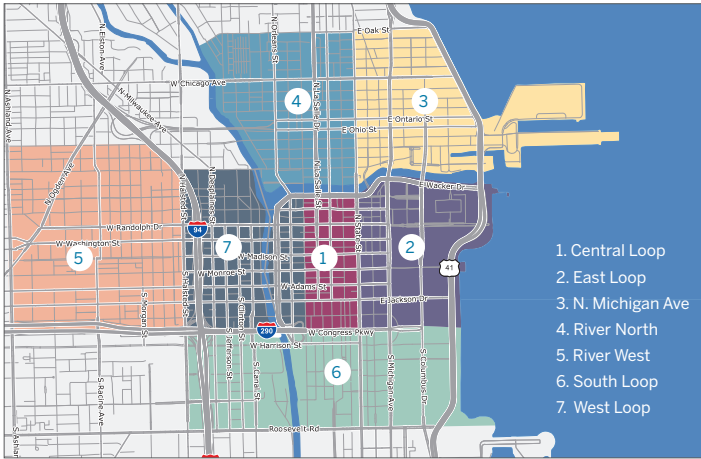
SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
600 W Chicago Avenue	River North	1,600,000	Sterling Bay & JP Morgan	Equity Commonwealth	\$319.00
Sullivan Center	East Loop	833,000	601W	Madison & KKR	\$216.00
1 S Dearborn Stret	Central Loop	828,000	Starwood Capital Group	Olen Properties	\$435.00
111 N State Street, Floors 8-14	East Loop	700,000	Brookfield Asset Mgmt	Macy's	\$43.00
20 S Clark Street	Central Loop	379,903	Slate Office RE Inv. Trust	Exan Capital	\$190.00

RENT/SF BY SUBMARKET



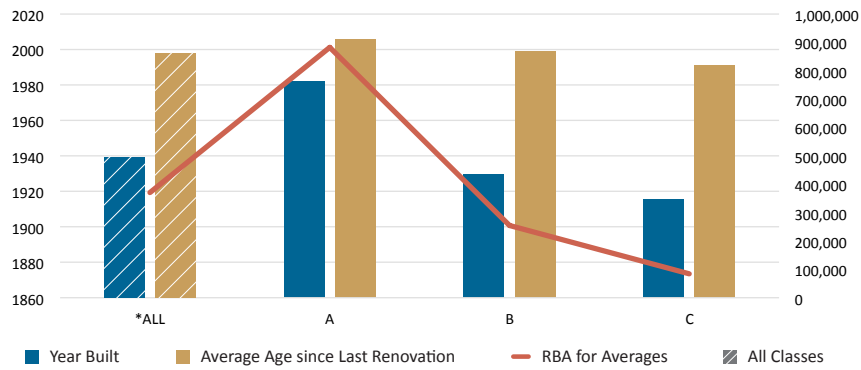
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UNDER CONSTRUCTION

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

AGE BEFORE RENOVATION DETERMINES BUILDING CLASS



SUBMARKET VACANCY & ABSORPTION

