

CHICAGO DOWNTOWN Office Market Report

2Q 2018

DIRECT AVAILABILITY RATE

4Q17 2Q18 2Q17
14.50% 14.28% 14.70%

DIRECT VACANCY RATE

4Q17 2Q18 2Q17
11.50% 11.89% 11.40%

GROSS ASKING RENT (DIRECT)

4Q17 2Q18 4Q17
\$40.69 \$39.73 \$38.01

Response to Actual/Pending Office Supply in CBD, Compressed Availability & Rental Rates

At the mid-year 2018, Chicago's downtown office market exhibited the traits of equilibrium. Restraining the economic giddiness of increased employment and consumer confidence is the passing of the second of four promised interest-rate increases for 2018 (see *ECONOMIC INDICATORS*). The real success of this quarter's office market, however, is how it responded after almost two million sf of space was added to the urban core's ledger since the beginning of the year. To support this claim of confidence, Chicago's CBD posted 1,713,755 sf of positive absorption, YTD, with 60% of all leasing transactions occurring in 2Q18. As to be expected, vacancy rates ticked up almost 0.4% while rental rates lowered by almost a dollar to \$39.73psf since 4Q17. Yet commercial tenants' desire for new Class A office space, need to expand, and drive to occupy the western portions of the CBD, resulted in an overall direct availability drop of 0.58%, year-over-year.*^

*Previous year rates adjusted to include River West data.

ECONOMIC INDICATORS

	2Q17	2Q18
CCI	118.9	126.4
Employment Trends Index	103.61	107.69
US Unemployment	4.10%	3.60%
Cook County Unemployment	4.70%	3.40%
Prime Rate	4.25%	5.00%

Notable Trends

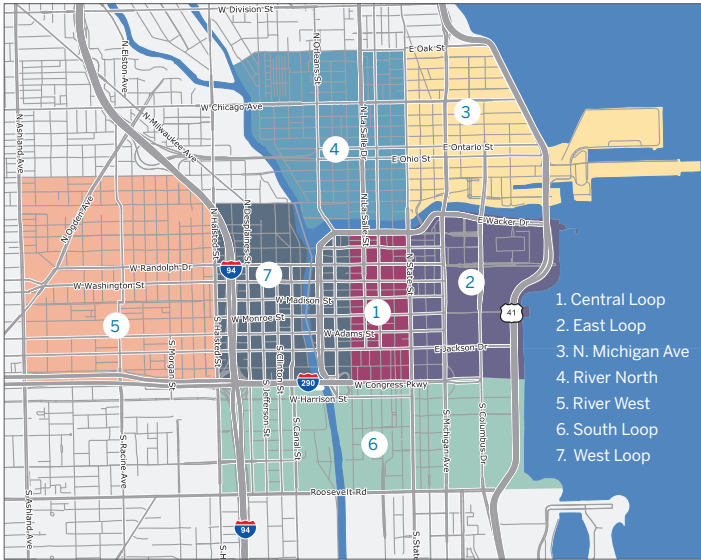
Where Demand & Supply Meet. Like Chicago's weather, its office market can appear to make dramatic shifts at a moment's notice. West Loop and River West submarkets, both displaying flashes of strain throughout the past few years, sustained and actually buoyed the market overall with their 611,244 sf and 997,154 sf, respectively, of positive absorption. The formula was simple – build it and they will come. Supporting this claim further, Class A properties posted 1.6 million sf of positive absorption compared to B and C's combined half million sf of negative absorption (see *SUBMARKET VACANCY & ABSORPTION*, pg 3). If any submarket could handle more development in the pipeline, it would be these two. Thankfully, 20% (River West) and 75% (West Loop) of the 5.6 million sf of office space expected to be delivered into the CBD over the next two and a half years will come from these locations...and come they will, with 24% already pre-leased.

THE Dominating Trade in the CBD? None. Chicago's office market appears to be underperforming compared to the occupancy rates and economic growth its peers and the nation-at-large posted this quarter (see *BY THE NUMBERS*, pg 3). These numbers do not reveal the true power of the Windy City's national presence. With its "Jack of all Trades; Master of None" mantra, Chicago demonstrates its market resilience through its position to weather the rise or failure of any one particular industry. According to the US Bureau of Labor Statistics, only one business sector, Scientific and Technology Services (a catch-all group encompassing legal, accounting, architecture and engineering), commands 23% of the area's employment, and only two occupations experienced growth over 2% (Financial, 2.1%; Construction, 3.7%), year over year. Looming large in the collective imagination is how tech giants and startups are consuming office space at exponential rates. Information businesses (internet, advertising, and publishing) represent only 1.5% of CBD companies, and IT jobs reflect only 1.6% of the MSA's employment, a 5.7% decline from last year. A tangible gauge, at least at mid-year, is to measure downtown's tenant diversity through the list of the largest lease transactions completed: Advertising (Leo Burnett, 681,000 sf), Insurance (C.N.A., 298,147 sf), Food (PepsiCo, 250,000), Medical/Retail (Walgreens, 200,000), Legal (Hinshaw & Culbertson), Co-Working (WeWork, 120,000) and Accounting (Milliman, 116,696).

CHICAGO DOWNTOWN 2Q 2018

	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABLE RATE (%)	SUBLET AVAILABLE RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	MAX AVAILABLE FLOOR CONTIGUOUS SPACE (SF)	MAX AVAILABLE BUILDING CONTIGUOUS SPACE (SF)	GROSS WEIGHTED ASKING RENTS (DIRECT)	DIRECT NET ABSORPTION 2Q18 (SF)	DIRECT NET ABSORPTION 1H18 (SF)
CBD	148,022,515	361,506	14.28%	2.01%	11.89%	0.94%	112,241	417,282	\$39.73	1,021,106	1,713,755
CLASS A	93,211,223	871,758	13.87%	1.76%	11.45%	0.89%	112,241	417,282	\$42.93	1299219	1,588,898
CLASS B	46,630,241	231,389	14.67%	2.54%	12.73%	1.03%	70,000	363,204	\$34.36	(526,473)	(188,377)
CLASS C	8,181,051	81,175	16.68%	1.82%	12.14%	1.02%	24,167	87,686	\$28.89	(18,924)	45,950
CENTRAL LOOP	36,477,264	545,058	15.45%	2.68%	12.88%	1.29%	69,395	297,000	\$38.14	(131,800)	(20,306)
CLASS A	22,559,220	867,662	15.36%	2.85%	13.02%	1.28%	69,395	297,000	\$40.80	(244,376)	(334,116)
CLASS B	13,064,363	422,773	15.21%	2.34%	12.56%	1.20%	68,044	232,757	\$34.08	117,812	308,679
CLASS C	853,681	85,368	21.51%	3.05%	14.01%	3.01%	17,754	87,686	\$28.58	(5,236)	5,131
EAST LOOP	25,371,467	487,913	13.66%	2.71%	12.39%	1.12%	53,280	178,931	\$36.22	(365,618)	(121,428)
CLASS A	15,724,067	1,048,271	12.45%	2.15%	9.27%	1.14%	45,150	178,931	\$38.73	196,843	306,690
CLASS B	7,057,419	371,443	17.05%	4.58%	20.60%	1.25%	53,280	141,420	\$34.40	(596,371)	(527,947)
CLASS C	2,589,981	143,888	11.76%	1.05%	8.92%	0.67%	10,000	20,100	\$27.80	33,910	99,829
N. MICHIGAN AVENUE	12,001,209	342,892	11.15%	0.71%	10.49%	0.58%	35,118	340,362	\$37.30	(7,642)	84,087
CLASS A	6,272,340	522,695	13.95%	0.58%	13.68%	0.50%	35,118	340,362	\$41.05	9,388	29,957
CLASS B	5,728,869	249,081	8.08%	0.84%	6.99%	0.67%	21,700	43,400	\$29.21	(17,030)	54,130
RIVER NORTH	16,731,749	172,564	12.37%	1.98%	6.89%	0.94%	112,241	207,112	\$41.30	(73,963)	48,992
CLASS A	9,320,571	1,165,071	10.21%	2.06%	4.07%	0.68%	112,241	207,112	\$48.75	47,465	149,153
CLASS B	5,580,746	99,656	13.51%	1.84%	9.79%	1.19%	70,000	71,552	\$32.43	(89,494)	(43,448)
CLASS C	1,830,432	55,680	19.88%	1.99%	12.42%	1.49%	24,167	52,397	\$29.72	(31,934)	(56,713)
RIVER WEST	4,178,171	91,781	13.23%	0.68%	10.87%	0.68%	40,497	65,583	\$32.47	611,244	630,466
CLASS A	1,428,143	299,009	11.50%	0.24%	12.93%	0.24%	40,497	40,497	\$39.80	597,830	597,830
CLASS B	1,772,010	68,172	14.46%	0.70%	9.55%	0.70%	18,575	65,583	\$31.00	7,980	33,090
CLASS C	978,018	65,201	13.52%	1.28%	10.27%	1.28%	19,451	19,451	\$29.38	5,434	(454)
SOUTH LOOP	1,275,734	106,311	9.60%	0.47%	8.28%	0.00%	10,308	19,536	\$25.33	(8,269)	(11,481)
CLASS B	965,517	137,931	8.37%	0.62%	7.10%	0.00%	10,308	19,536	\$24.64	4,816	(1,725)
CLASS C	310,217	62,043	13.43%	0.00%	11.97%	0.00%	8,216	8,216	\$26.68	(13,085)	(9,756)
WEST LOOP	51,986,921	519,976	15.29%	1.65%	13.06%	0.73%	53,101	417,282	\$42.81	997,154	1,103,425
CLASS A	37,315,740	910,140	14.66%	1.13%	12.90%	0.70%	50,500	417,282	\$45.00	950,813	1,097,259
CLASS B	13,052,459	334,678	16.39%	2.98%	13.02%	0.89%	53,101	363,204	\$37.72	54,354	(1,747)
CLASS C	1,618,722	81,469	20.94%	2.90%	17.16%	0.06%	20,000	40,000	\$30.12	(8,013)	7,913

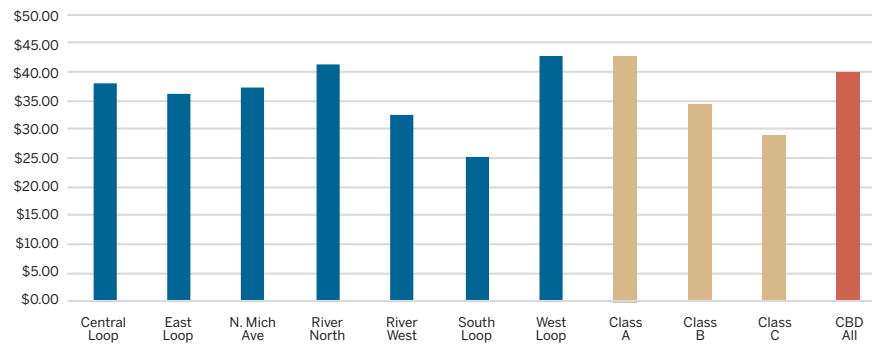
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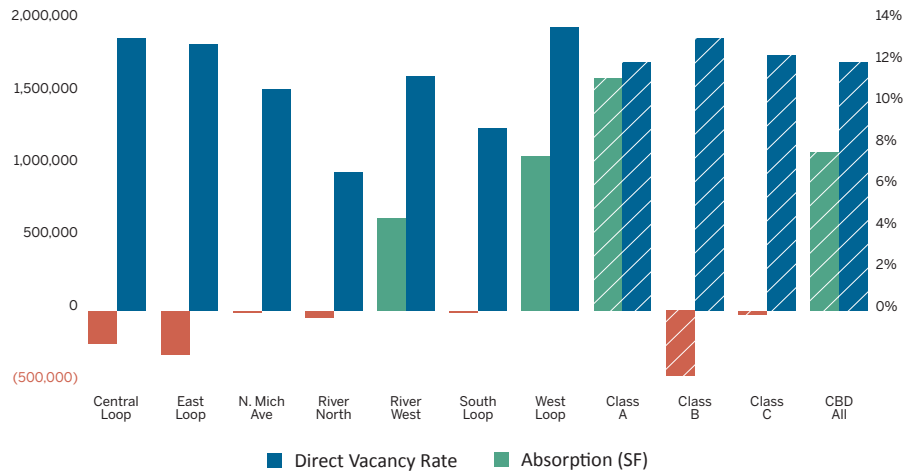
BY THE NUMBERS

	NATIONAL		CHICAGO CBD
Direct Availability	13.80%	▲	14.28%
Direct Vacancy	10.20%	▲	11.89%
Rent Growth	1.60%	▼	0.09%
Sold, psf	\$300.00	▼	\$292.00
Employment Growth	1.27%	▼	0.80%

WEIGHTED ASKING RENT (DIRECT)



SUBMARKET VACANCY & ABSORPTION



CHICAGO DOWNTOWN 2Q 2018

MAX BUILDING AVAILABLE CONTIGUOUS SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE CONTIGUOUS SPACE
625 W Adams Street	West Loop	A	417,282
311 W Monroe Street	West Loop	B	363,204
515 N State Street	N. Michigan Avenue	A	340,362

SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SUBLET SPACE
Chase Tower	Central Loop	A	297,000
AT&T Headquarters	West Loop	B	163,737
Board of Trade	Central Loop	B	151,194

NOTEWORTHY LEASES

TENANT	PROPERTY	SUBMARKET	SF	TYPE
Publicis (Parent of Leo Burnett)	Leo Burnett Building	Central Loop	681,000	Expansion
C.N.A.	C.N.A. Financial	Central Loop	298,147	Move-In
Walgreens	433 W Van Buren Street (Old PO)	West Loop	200,000	New
Hinshaw & Culbertson	C.N.A. Financial	West Loop	121,000	Move-In
WeWork	515 N State Street	N. Michigan Avenue	120,000	New

SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
Prudential I & II	East Loop	2,202,199	Sterling Bay	601W Companies	\$310.00
175 W Jackson Boulevard	Central Loop	1,400,000	Brookfield Asset Management	Extell Development	\$218.00
The Wrigley Building	N. Michigan Avenue	472,000	Joe Mansueto	BDT Capital Partners, Zeller Realty Group and Groupon co-founders Keywell and Lefkofsky	\$540.00
McKinlock Building	West Loop	142,996	Market Street RE Partners	Farbman Group	\$163.00

CUMULATIVE MONTHLY SALES VOLUME

