

CHICAGO DOWNTOWN Office Market Report

3Q 2018

DIRECT AVAILABILITY RATE

2Q18 14.28% 3Q18 14.11% 3Q17 14.99%

DIRECT VACANCY RATE

2Q18 11.89% 3Q18 11.68% 3Q17 12.03%

GROSS ASKING RENT (DIRECT)

2Q18 \$39.73 3Q18 \$40.16 3Q17 \$38.68

Strong National & Local Economic Engines Continue to Drive CBD's Office Demand

The buoyancy of Chicago's downtown office market continues into the third quarter with a positive absorption of over a quarter million square feet, totaling over two million square feet absorbed in 2018. In addition, year over year, direct availability dropped from 14.99% to 14.11% and direct vacancy dropped from 12.03% to 11.68% while direct asking rents increased from \$38.68psf to \$40.16psf, a new high-record asking rate.^{1,2}

The fashion for office tenants to concurrently consolidate and compress their employees into upgraded quarters continues to drive the positive absorption numbers in Class A Trophy assets to the detriment of their less amenity-rich peers (see *SUBMARKET VACANCY & ABSORPTION*). Specifically, it appears the once dreaded onslaught of over two million square feet of delivered office space this year thus far was actually welcomed into the fold as the boundaries of Chicago's urban core expanded north of the Eisenhower and west of the Kennedy.

Meanwhile, the nation's economic engine continues to hum along. The third of four promised interest-rate increases were levied this year to temper the 112 months of continued economic expansion. It is fair for any prognosticator to ponder when the office market will begin its inevitable downward slide. Weighing in other economic factors, like Chicago's wage and salary increases outpacing the national average, its 1.3% employment growth year over year, and the willingness of its landlords and tenants to invest in the future of the CBD's office stock, the CBD should maintain its equilibrium.

Notable Trends

Community in Satellite Offices. According to research conducted by FlexJobs and Global Workplace Analytics last year, 3.9 million US employees worked from home at least half of the time, a 115% increase from 2005. With Chicagoans spending an average of 56-77 minutes commuting roundtrip (see *BY THE NUMBERS*), it is no wonder telecommuting is on the rise. In the age of collaboration and community, many local corporations are answering the call to improve the quality of life while maintaining customer relationships with an office in the CBD and in the suburbs as well.

Contracting Jobs & Expanding Space: The IT Riddle. According to the US Bureau of Labor & Statistics for the second quarter in a row, information technology employment is down, with a loss of 3,800 jobs. Yet during the third quarter, four of the five largest deals/move-ins/expansions involved technology companies: Google (372,000 sf), HERE Technologies (275,000), Facebook (263,000 sf) and Chicago Trading Company (114,186 sf). The answer maybe yes, IT jobs are constricting within non-tech related firms but are expected to grow in the new future as these employers are preparing to embark on a hiring frenzy.

CHICAGO JOB SECTORS WITH MOST GAINS/LOSSES

	July 18 (in 1000s)	% Change, YOY
Total Nonfarm	4,782.10	1.30%
IT	75.1	-4.00%
Leisure/Hospitality	9.4	1.90%
Manufacturing	427.7	2.50%
Construction	1993.2	6.00%

Source: U.S. BLS, Current Employment Statistics.

ECONOMIC INDICATORS

	3Q17	3Q18
CCI	119.8	138.4
Employment Trends Index	103.77	110.88
US Unemployment	4.60%	4.10%
Cook County Unemployment	5.60%	4.20%
Prime Rate	4.25%	5.25%

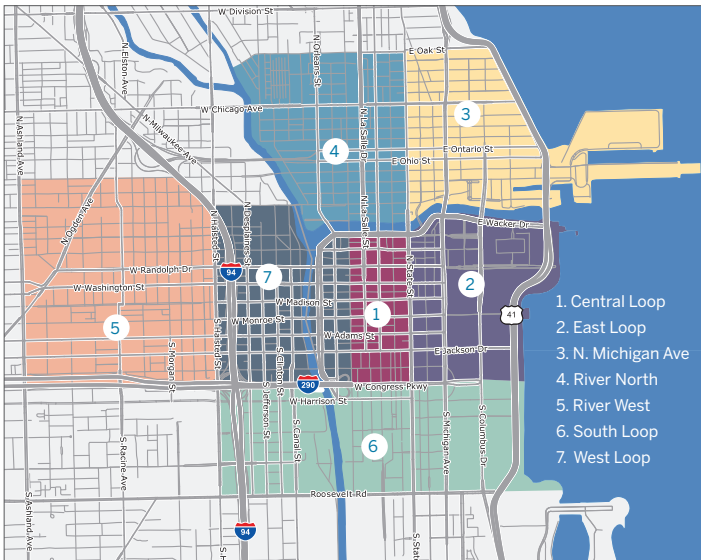
¹ Previous rates adjusted to include River West data.

² 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, River North and River West. Absorption numbers are calculated using currently reported square footage in CoStar, standardized over the last four quarters

CHICAGO DOWNTOWN 3Q 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 3Q18 (SF)	DIRECT NET ABSORPTION YTD (SF)
CBD	148,098,269	359,462	14.11%	2.11%	11.68%	1.07%	112,241	417,282	\$40.16	261,810	2,071,299
CLASS A	94,071,814	855,198	13.93%	1.70%	11.30%	0.97%	112,241	417,282	\$43.28	404,782	2,294,500
CLASS B	46,026,510	227,854	14.35%	2.96%	12.51%	1.26%	70,000	363,204	\$35.35	(52,956)	(174,229)
CLASS C	7,999,945	79,999	14.85%	2.11%	11.46%	1.04%	24,167	87,686	\$29.12	(90,016)	(48,972)
CENTRAL LOOP	36,422,787	543,624	15.73%	3.11%	12.74%	1.33%	69,395	297,000	\$38.95	(47,634)	(44,761)
CLASS A	22,559,220	867,662	16.51%	2.98%	13.07%	1.16%	69,395	297,000	\$41.28	(44,816)	(355,753)
CLASS B	13,009,886	419,674	13.90%	3.39%	11.98%	1.56%	68,044	198,098	\$34.80	(7,046)	301,633
CLASS C	853,681	85,368	22.93%	2.45%	15.55%	2.21%	17,754	87,686	\$28.92	4,228	9,359
EAST LOOP	25,415,857	479,544	14.31%	2.75%	12.65%	1.02%	79,360	178,931	\$36.44	(43,458)	(162,472)
CLASS A	15,724,067	1,048,271	12.82%	2.04%	9.54%	1.04%	79,360	178,931	\$39.20	12,217	295,542
CLASS B	7,077,809	372,516	18.60%	5.01%	20.58%	1.14%	54,768	141,420	\$34.18	(26,511)	(528,279)
CLASS C	2,613,981	137,578	11.62%	0.91%	9.85%	0.61%	9,477	20,100	\$28.11	(29,164)	70,265
N. MICHIGAN AVENUE	12,264,497	340,680	9.35%	0.69%	8.91%	0.56%	35,118	218,023	\$37.10	176,066	288,246
CLASS A	7,097,518	545,963	10.29%	0.57%	10.59%	0.49%	35,118	218,023	\$41.21	130,766	197,356
CLASS B	5,166,979	224,651	8.07%	0.86%	6.61%	0.65%	19,000	37,107	\$29.97	45,300	90,890
RIVER NORTH	16,730,292	172,477	11.57%	1.24%	7.21%	1.58%	112,241	207,112	\$42.40	(64,771)	(7,785)
CLASS A	9,320,571	1,165,071	9.69%	0.82%	4.89%	1.75%	112,241	207,112	\$49.42	(69,317)	79,836
CLASS B	5,606,209	98,355	12.24%	1.57%	9.30%	1.31%	70,000	71,552	\$35.82	16,930	(14,018)
CLASS C	1,803,512	56,360	19.27%	2.42%	12.68%	1.53%	24,167	52,397	\$30.24	(12,384)	(73,603)
RIVER WEST	4,228,128	88,086	12.12%	0.65%	11.03%	0.65%	40,497	65,583	\$34.06	28,366	658,832
CLASS A	1,478,100	246,350	10.03%	0.09%	13.23%	0.09%	40,497	40,497	\$39.96	36,302	634,132
CLASS B	1,772,010	65,630	13.30%	0.70%	8.15%	0.70%	18,575	65,583	\$34.06	24,703	57,793
CLASS C	978,018	65,201	13.16%	1.43%	12.92%	1.43%	19,451	19,451	\$28.72	(32,639)	(33,093)
SOUTH LOOP	1,275,939	106,328	10.80%	0.00%	9.75%	0.00%	10,308	10,308	\$23.85	(18,721)	(30,202)
CLASS B	965,517	137,931	10.66%	0.00%	9.04%	0.00%	10,308	10,308	\$24.05	(18,721)	(20,446)
CLASS C	310,422	62,084	11.23%	0.00%	11.97%	0.00%	8,216	8,216	\$23.21	0	(9,756)
WEST LOOP	51,760,769	522,836	15.07%	1.88%	12.67%	0.92%	58,271	417,282	\$42.93	231,962	1,369,441
CLASS A	37,892,338	902,199	14.75%	1.28%	12.61%	0.77%	50,500	417,282	\$45.13	339,630	1,443,387
CLASS B	12,428,100	327,055	16.40%	3.38%	13.26%	1.43%	58,271	363,204	\$37.91	(87,611)	(61,802)
CLASS C	1,440,331	75,807	12.29%	4.64%	9.32%	0.46%	16,000	40,000	\$30.29	(20,057)	(12,144)

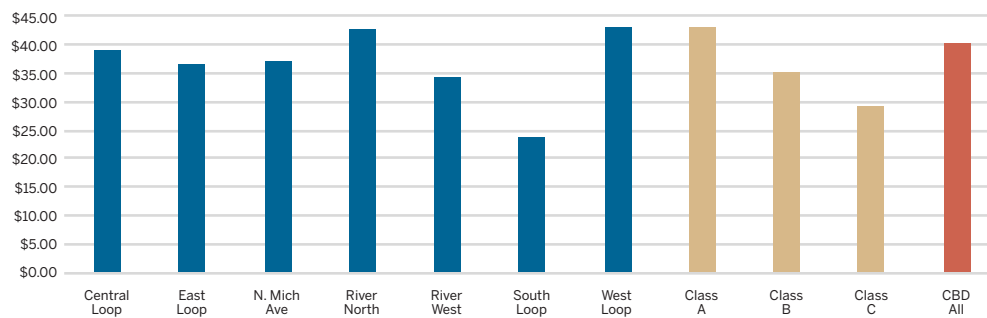
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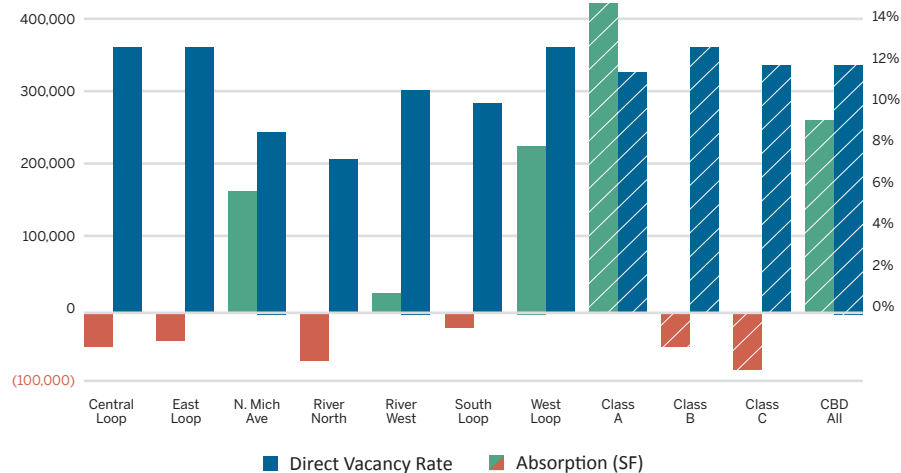
BY THE NUMBERS

	NATIONAL		CHICAGO CBD
Gross availability	14.11%	▲	16.92%
Average Minutes Commuting, One-way	26.1	▲	34.4
Rent Growth	1.90%	▲	3.83%
Sold, psf	\$300.00	▼	\$259.00
Employment Growth	1.6%	▼	1.30%

WEIGHTED ASKING RENT (DIRECT)



SUBMARKET VACANCY & ABSORPTION



CHICAGO DOWNTOWN 3Q 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
Chase Tower	Central Loop	A	297,000

MAX SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SUBLET SPACE
Chase Tower	Central Loop	A	297,000
Board of Trade	Central Loop	B	120,377
1 N Dearborn Street	Central Loop	B	115,518

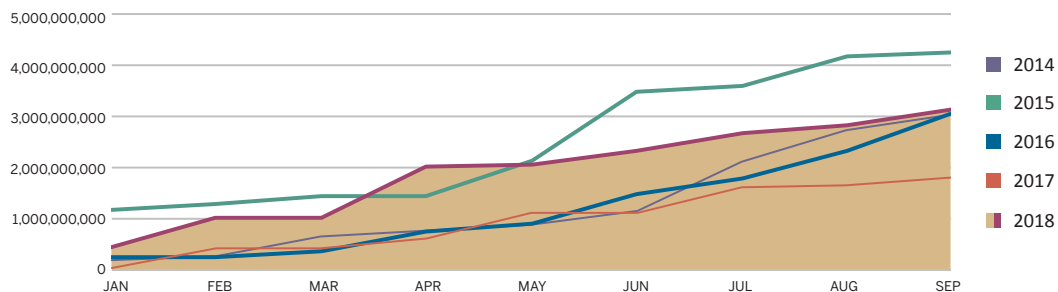
NOTEWORTHY LEASES

TENANT	PROPERTY	SUBMARKET	SF	TYPE
Google	1000 W Fulton Avenue	River West	372,000	Expansion
HERE Technologies	100 N Riverside Plaza	West Loop	275,000	Expansion
Facebook	151 N Franklin Street	Central Loop	263,000	New
WeWork	515 N State Street	N. Michigan Avenue	135,000	New
Chicago Trading Company	444 N LaSalle Street/425 S Financial Place	Central Loop	114,186	Expansion

SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
1 S Wacker Drive	West Loop	1,200,000	601W	Manulife John Hancock	\$258.00
Three Illinois Center	Central Loop	944,000	Beacon Capital Partners	Franklin Street Capital Partners	\$193.00
John Hancock Center	N. Michigan Avenue	908,000	Sterling Bay	Hearn Co., Fortress Investment Group and Lynd Co.	\$341.00
120 S LaSalle Street	Central Loop	658,784	Slate Office RE Investment Trust	Lincoln Property & IL Teachers Retirement System	\$236.00
Bell Federal Savings & Loan	Central Loop	183,000	R2	Farbman Group	\$125.00

CUMULATIVE MONTHLY SALES VOLUME



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