

DOWNTOWN CHICAGO

Office Market Report

Q1 2019

DIRECT AVAILABILITY RATE

Q1/18 14.66%
Q4/18 13.97%

Q1/19
13.90%

DIRECT VACANCY RATE

Q1/18 11.85%
Q4/18 11.89%

Q1/19
11.63%

DIRECT GROSS ASKING RENT

Q1/18 \$39.38
Q4/18 \$40.51

Q1/19
\$41.42

After record freeze, CBD office leasing activity accelerates to near-record levels

Once the polar vortex loosened its grip on Chicago, office leasing activity accelerated at an impressive clip, demonstrating resiliency in virtually all of 2019's first-quarter metrics. Direct availability dropped to 13.9 percent—the lowest in over 10 years—and direct vacancy stood at 11.63 percent, well below the market's historical 12.2 percent average. Occupancy levels climbed to almost 130 million square feet following 3.6 million square feet of completed leases, the second-highest quarter of activity in 19 years. The first quarter saw 477,105 square feet of positive gross absorption, in which 106,079 square feet was gained through sublease transactions—particularly impressive since sublease absorption, the understated indicator of a market's health, has remained negative through the prior four quarters.¹

Landlords appreciated the drop in vacancy rates and rise of the average gross asking rate to \$41.42 per square foot—a more than \$2.00-per-square-foot increase year over year. Behind the scenes, however, all players are cognizant of the 3.6 million square feet of office space currently under construction, with occupancy targeted by year's end and an additional 5.3 million square feet scheduled to be delivered through 2022. This tempered owners' optimism and resulted in the offering of generous concession packages. To that end, United Airlines leveraged the plethora of available, viable space alternatives to negotiate advantageous terms in its 850,000-square-foot renewal at Willis Tower.²

Downtown's employment growth and industry drivers. Upon first glance, the U.S. Bureau of Labor Statistics (BLS) reveals

data that do not seem to mesh with empirical observations. According to its latest survey, the six-county, Chicago Metro employment levels grew only 1.1 percent from 2017 to 2018, a sizable lag behind the national average of 1.8 percent. However, when the Illinois Department of Employment Security (IDES) examined the CBD more closely, the organization revealed the CBD posted 3.24 percent employment growth over the same time period—almost double the national average (see "By the Numbers"). Similarly, where the U.S. BLS sees modest employment sector growth, or even decline, followers of the office market witness visible sector expansions by the square footage they occupy now and into the future (see "CBD Future Move-Ins").

Although large lease signings are newsmakers and reveal the trajectory of the market as a whole, it is the accumulation of small transactions that is the foundation on which the CBD's economic strength is built (see "Number" and "SF Deals by Size"). The overwhelming evidence is clear no matter how the data points are analyzed: the office market is strong and should continue to be so into the near future.

1. 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.

2. Ori, Ryan. "United Airlines extends HQ lease at Willis Tower until 2033," *Chicago Tribune*, March 13, 2019.

BY THE NUMBERS

	CHICAGO		NATIONAL
Market Sales Price	\$189.00 PSF	<	\$307.00 PSF
Cap Rate	6.20%	<	6.70%
Direct Vacancy Rate	11.80%	>	9.80%
Gross Availability Rate	16.00%	>	13.30%
Employment Growth	3.25%	>	1.80%

ECONOMIC INDICATORS

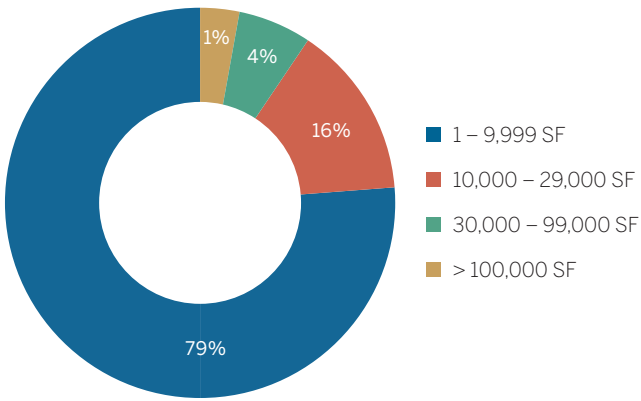
	Q1/18		Q1/19
Consumer Confidence Index	127.7	>	124.1
Employment Trends Index	107	<	111.15
U.S. Unemployment	4.10%	>	3.80%
Cook County Unemployment	4.70%	>	4.00%
Prime Rate	4.75%	<	5.50%

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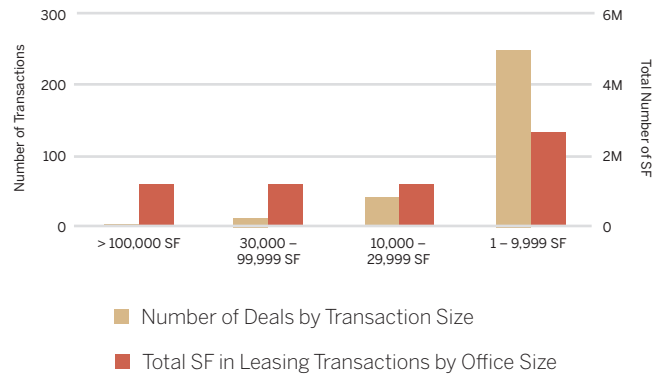
	INVENTORY (SF)	AVERAGE BUILDING SIZE (SF)	DIRECT AVAILABLE RATE (%)	SUBLET AVAILABLE RATE (%)	DIRECT VACANCY RATE (%)	SUBLET VACANCY RATE (%)	GROSS WEIGHTED ASKING RENTS (DIRECT)	MAX AVAILABLE FLOOR CONTIGUOUS SPACE (SF)	MAX AVAILABLE BUILDING CONTIGUOUS SPACE (SF)	DIRECT NET ABSORPTION Q1/19 (SF)
CBD	148,511,175	356,142	13.90%	2.07%	11.63%	1.04%	\$41.42	12,807	288,778	371,026
CLASS A	92,148,636	808,321	14.02%	1.68%	11.47%	0.77%	\$44.62	23,420	270,000	253,899
CLASS B	49,106,607	236,089	13.69%	2.88%	11.88%	1.57%	\$36.07	10,694	288,778	143,731
CLASS C	7,255,932	76,378	13.82%	1.62%	12.02%	0.84%	\$29.59	4,695	87,620	(26,604)
CENTRAL LOOP	36,347,712	542,503	15.94%	2.80%	12.56%	1.59%	\$40.55	18,388	270,000	35,541
CLASS A	22,465,999	864,077	15.82%	2.74%	11.97%	1.39%	\$43.05	25,328	270,000	119,822
CLASS B	13,027,692	420,248	15.68%	3.04%	12.97%	2.01%	\$35.42	17,084	226,513	(2,158)
CLASS C	854,021	85,402	23.09%	0.72%	21.69%	0.53%	\$30.73	4,390	87,620	(26,002)
EAST LOOP	25,496,528	481,067	14.96%	2.37%	12.62%	1.41%	\$37.14	16,152	136,096	116,821
CLASS A	15,815,828	1,054,389	14.05%	1.73%	9.85%	1.12%	\$40.19	27,833	136,096	(5,160)
CLASS B	7,292,839	364,642	18.97%	4.23%	20.32%	2.49%	\$33.94	18,259	105,000	132,162
CLASS C	2,387,861	132,659	8.69%	0.97%	7.50%	0.01%	\$27.37	4,077	12,680	(1,383)
N. MICHIGAN AVENUE	12,212,677	339,241	11.01%	0.85%	9.49%	0.47%	\$39.82	10,555	169,453	52,290
CLASS A	7,570,894	504,726	11.15%	0.73%	10.20%	0.39%	\$41.98	13,856	169,453	(15,366)
CLASS B	4,641,783	221,037	10.80%	1.04%	8.35%	0.60%	\$36.54	8,197	37,107	91,857
RIVER NORTH	16,728,884	170,703	11.67%	2.11%	7.76%	1.15%	\$42.98	9,254	209,803	59,867
CLASS A	5,320,571	760,082	12.75%	1.38%	6.15%	0.19%	\$52.57	32,788	209,803	(31,902)
CLASS B	9,736,255	165,021	9.73%	2.61%	7.25%	1.61%	\$38.36	8,373	112,241	18,983
CLASS C	1,672,058	52,252	19.57%	1.51%	15.85%	1.51%	\$30.13	5,730	52,397	(21,141)
RIVER WEST	4,658,551	89,588	10.16%	1.14%	10.37%	0.93%	\$37.64	5,347	65,583	8,377
CLASS A	1,783,506	222,938	9.04%	0.00%	13.51%	0.00%	\$47.88	10,915	37,436	(11,122)
CLASS B	1,974,027	65,801	10.66%	1.90%	7.43%	1.42%	\$28.92	4,394	65,583	(23,257)
CLASS C	901,018	64,358	11.26%	1.71%	10.60%	1.71%	\$32.12	4,206	17,500	83,616
SOUTH LOOP	1,285,516	107,126	11.50%	0.75%	10.76%	0.25%	\$25.42	4,560	15,209	3,355
CLASS B	1,060,617	132,577	12.09%	0.91%	11.20%	0.30%	\$25.92	5,179	15,209	29,850
CLASS C	224,899	56,225	8.68%	0.00%	8.68%	0.00%	\$23.92	3,324	8,216	(5,160)
WEST LOOP	51,781,307	523,044	13.75%	1.80%	12.38%	0.60%	\$44.06	16,492	288,778	0
CLASS A	39,191,838	911,438	13.93%	1.34%	12.70%	0.47%	\$46.22	24,865	257,971	52,449
CLASS B	11,373,394	291,625	13.29%	3.15%	11.47%	0.97%	\$44.35	12,572	288,778	65,642
CLASS C	1,216,075	71,534	12.31%	3.94%	10.54%	1.31%	\$30.74	4,308	41,000	14,071

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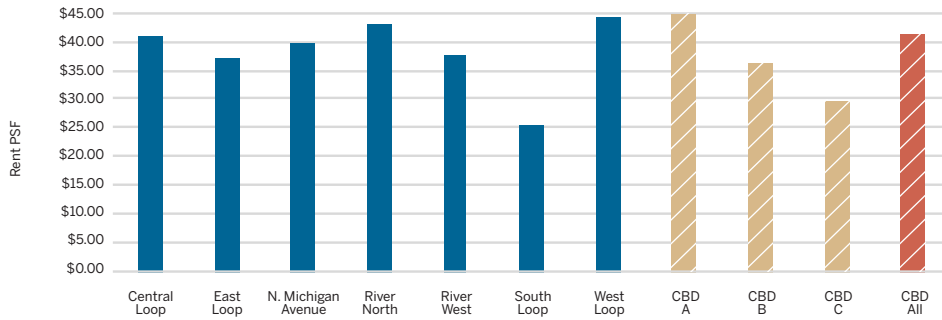
CBD NUMBER OF AVAILABLE CONTIGUOUS SPACES



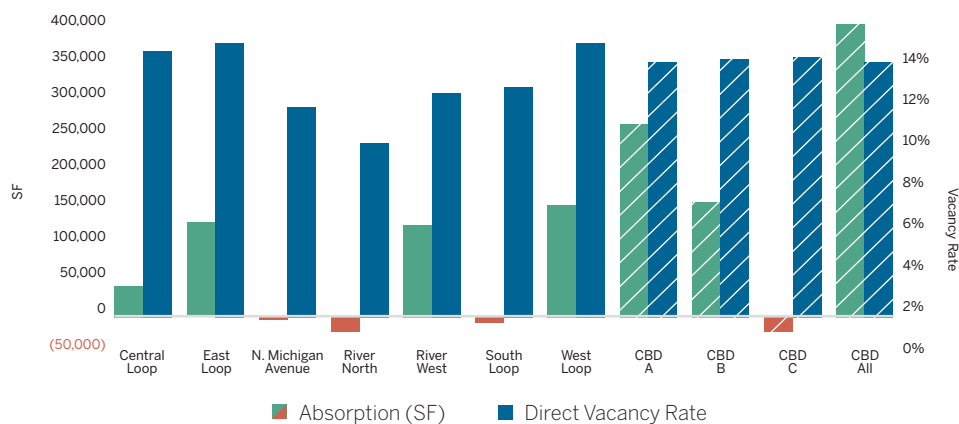
CBD TRANSACTIONS BY QUANTITY & SIZE



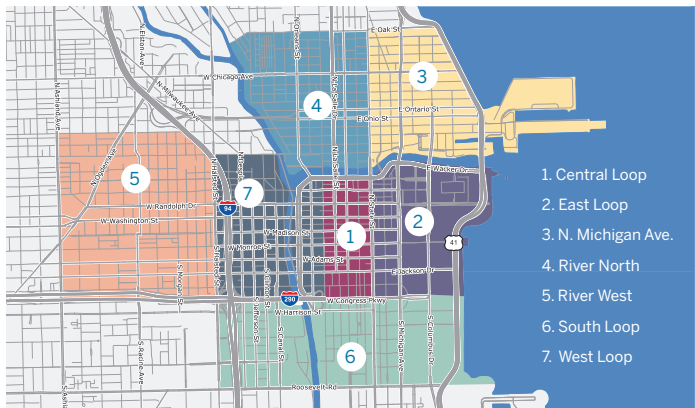
WEIGHTED ASKING RENT (DIRECT)



SUBMARKET VACANCY & ABSORPTION



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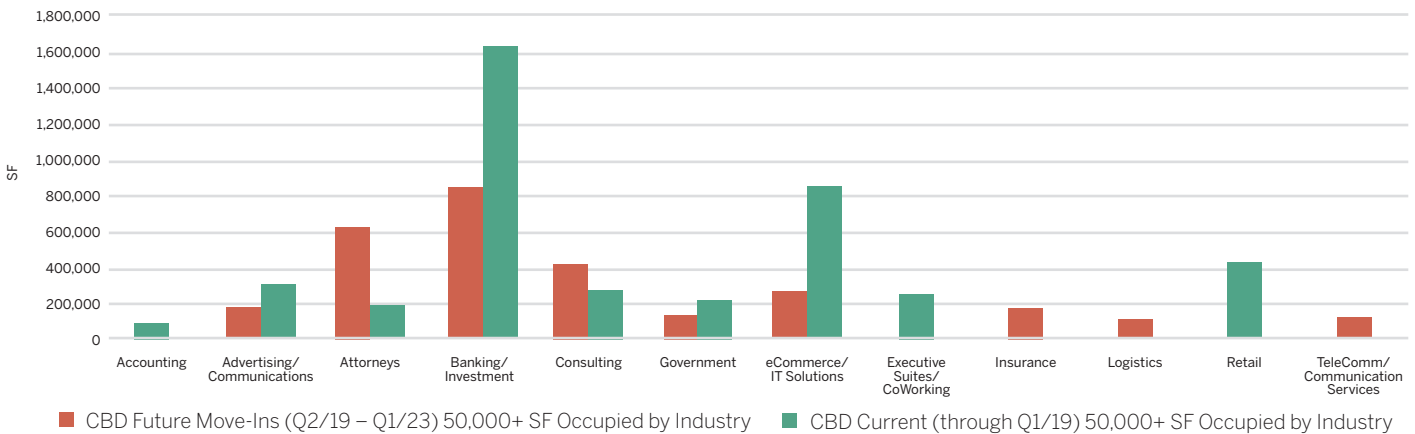


CHICAGO JOB SECTORS WITH MOST GAINS/LOSSES

	DEC 2018 (in '000s)	% CHANGE, YOY
Total Nonfarm	4,789.30	1.20%
Mining & logging	1.6	6.70%
Government	574.5	3.00%
Trade & Transportation	987	0.70%
Information Technology	74.9	(4.20%)

Source: U.S. BLS Current Employment Statistics

CBD LARGEST LEASE HOLDERS: CURRENT & FUTURE MOVE-INS



NOTEWORTHY LEASES

TENANT	PROPERTY	SUBMARKET	SIZE (SF)	TYPE
United Airlines	Willis Tower	West Loop	850,000	Renewal
USG Corp	550 W. Adams	West Loop	220,000	Extension
RSM	30 S. Wacker	West Loop	150,000	New
Dentsu Aegis Network	515 N. State	N. Michigan Avenue	126,000	Expansion
Convane	311 W. Monroe	West Loop	90,000	New

SALES TRANSACTIONS

PROPERTY	SUBMARKET	SIZE (SF)	BUYER	SELLER	PRICE/UNIT
550 W. Van Buren	West Loop	332,608	Onni Group	Principal Financial Group	\$235.00 PSF
625 N. Michigan	N. Michigan Avenue	290,000	Neo Capital	CIM Group	\$250.00 PSF
118 S. Clinton	West Loop	77,969	ASB Real Estate Investments	R2 Companies & Walton Street Capital	\$180.00 PSF