

# CHICAGO DOWNTOWN Office Market Report

# 4Q 2018

## DIRECT AVAILABILITY RATE

3Q18	4Q18	4Q17
14.11%	13.97%	15.23%

## DIRECT VACANCY RATE

3Q18	4Q18	4Q17
11.68%	11.89%	12.18%

## GROSS ASKING RENT (DIRECT)

3Q18	4Q18	4Q17
\$40.16	\$40.51	\$39.73

## Office New Construction Dominates Jumbo Leases Deals in Chicago's CBD

At 2018's year end, Chicago's CBD office market maintained its upward pace with 94,341 sf of positive absorption for the quarter, and over 2 million sf of positive absorption for the year. Similar to last quarter, direct availability dropped from 15.23% to 13.97% and direct vacancy dropped from 12.18% to 11.89%, year over year. From 3Q18 to 4Q18, direct asking rents increased from \$40.16psf to \$40.51psf, a new record-high asking rate.<sup>12</sup>

Although many CRE professionals see the nation's current economic cycle coming to a downturn, the Federal Open Market Committee (FOMC) showed its faith in the economy's strength by increasing the federal funds' target range by 25 basis points. After tallying the megadeals done this quarter in the CBD, the FOMC's actions should come as no surprise. The quarter's top five deals alone account for 1.5 million sf of leasing activity, mostly in the West Loop. The concern, of course, is all of these large transactions involved buildings currently being built or recently delivered, and not within existing product (see *MAJOR LEASE TRANSACTIONS*). How does this affect the occupancy of the older, established inventory? Will the market continue to see rising rents? Will there be obvious "winners" and "losers"?

The real answer may come from the office-investment community. According to Trepp, the difference between long-term borrowing rates and cap rates (yields) is the most slender the CRE industry has seen in 10 years. Yet as a primary market, Chicago is relatively inexpensive compared to the nation's coasts with its strong fundamentals (educated work force, central location and diverse industry base) to meet the demands of the future economy. Despite the upcoming 5 million sf of new construction to hit the market in the next three years, downtown investors and tenants, both stalwart and pending, show their support that the long-term demand for office space is stable through its continued investment and occupation.

## Notable Trends

**Large Contiguous Spaces Dominate Mega Deals.** When it comes to the 100,000 sf or larger lease in the CBD, no submarket comes close to the presence held by the West Loop. The Central Loop, its closest contender, has less than half of the West Loop's 15 million sf and over 60 large-leasing commitments. The West Loop's trophy towers reveal their prowess in securing these deals with their A+ amenities and large swaths of contiguous available space. Executives of BMO Financial Group cited choosing Union Station's Tower (soon to be BMO Tower) under development for its ability to cohesively contain their workforce while also retaining flexibility when they consolidate their Chicago operations here into 500,000 sf in 2022.

**Quicker to Close.** On average, Chicago's track record to lease available office space takes more time than it does nationally (see *BY THE NUMBERS*). Comparing the CBD to itself, however, reveals a promising trend. According to CoStar, the fourth quarter brought down the median time to lease office space to 10 months from 1Q18's high of 14 months. This is a low not seen since 2010, and should continue, too, into 2019.

## CHICAGO JOB SECTORS WITH MOST GAINS/LOSSES

	10/18 (in 1,000s)	% Change, YOY
Total Nonfarm	4,795.90	0.90%
IT	76.1	-2.30%
Leisure/Hospitality	569.9	1.90%
Manufacturing	8.6	2.10%
Construction	193.2	5.80%

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

## ECONOMIC INDICATORS

	4Q17	4Q18
Consumer Confidence Index	122.1	138.4
Employment Trends Index	122.1	128.8
US Unemployment	4.10%	3.70%
Cook County Unemployment	4.60%	3.80%
Prime Rate	4.50%	5.25%

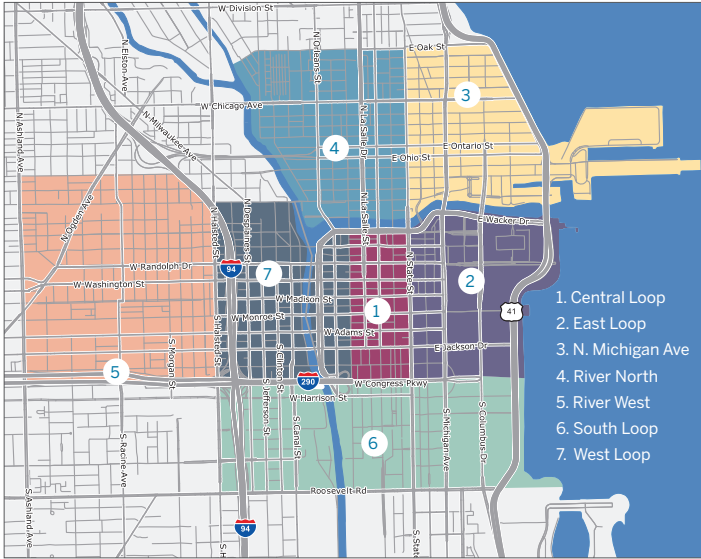
<sup>1</sup> Previous rates adjusted to include River West data.

<sup>2</sup> 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 4Q 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 4Q18 (SF)	DIRECT NET ABSORPTION YTD (SF)
<b>CBD</b>	<b>148,367,344</b>	<b>358,375</b>	<b>13.97%</b>	<b>2.03%</b>	<b>11.89%</b>	<b>1.09%</b>	<b>112,241</b>	<b>363,204</b>	<b>\$40.51</b>	<b>94,341</b>	<b>2,165,640</b>
CLASS A	91,697,661	818,729	13.90%	1.82%	11.64%	0.84%	97,170	297,000	\$43.67	270,314	2,564,814
CLASS B	49,039,531	239,217	13.99%	2.46%	12.22%	1.61%	112,241	363,204	\$35.88	(104,610)	(278,839)
CLASS C	7,630,152	78,661	14.60%	1.72%	12.77%	0.75%	22,535	87,686	\$29.27	(71,363)	(120,335)
<b>CENTRAL LOOP</b>	<b>36,416,733</b>	<b>543,533</b>	<b>15.70%</b>	<b>2.83%</b>	<b>12.76%</b>	<b>1.56%</b>	<b>69,395</b>	<b>297,000</b>	<b>\$39.15</b>	<b>114,036</b>	<b>69,275</b>
CLASS A	22,580,384	868,476	15.21%	2.96%	12.04%	1.23%	69,395	297,000	\$41.57	253,628	(102,125)
CLASS B	12,982,328	418,785	16.05%	2.75%	13.34%	2.22%	68,044	198,892	\$35.63	(99,409)	202,224
CLASS C	854,021	85,402	23.50%	0.37%	22.88%	0.18%	17,754	87,686	\$30.39	(40,183)	(30,824)
<b>EAST LOOP</b>	<b>25,502,618</b>	<b>481,181</b>	<b>14.38%</b>	<b>2.96%</b>	<b>12.54%</b>	<b>1.62%</b>	<b>79,360</b>	<b>178,931</b>	<b>\$36.61</b>	<b>(120,906)</b>	<b>(283,378)</b>
CLASS A	15,810,828	1,054,055	13.13%	2.36%	9.63%	1.33%	79,360	178,931	\$38.94	(127,510)	168,032
CLASS B	7,077,809	372,516	18.55%	5.10%	20.29%	2.61%	54,768	141,420	\$34.80	18,805	(509,474)
CLASS C	2,613,981	137,578	10.62%	0.75%	9.19%	0.66%	9,477	18,855	\$26.77	(12,201)	58,064
<b>N. MICHIGAN AVENUE</b>	<b>12,212,677</b>	<b>339,241</b>	<b>9.72%</b>	<b>0.86%</b>	<b>9.54%</b>	<b>0.47%</b>	<b>35,118</b>	<b>169,453</b>	<b>\$38.71</b>	<b>(44,083)</b>	<b>244,163</b>
CLASS A	7,097,518	545,963	10.22%	0.81%	10.54%	0.30%	35,118	169,453	\$41.78	(3,199)	194,157
CLASS B	5,115,159	222,398	9.01%	0.92%	8.15%	0.70%	26,293	37,107	\$34.29	(40,884)	50,006
<b>RIVER NORTH</b>	<b>16,727,004</b>	<b>172,443</b>	<b>12.50%</b>	<b>1.25%</b>	<b>7.76%</b>	<b>0.91%</b>	<b>112,241</b>	<b>209,803</b>	<b>\$42.97</b>	<b>(139,469)</b>	<b>(147,254)</b>
CLASS A	5,320,571	760,082	14.14%	1.38%	6.64%	0.19%	97,170	209,803	\$51.31	(51,149)	28,687
CLASS B	9,758,375	165,396	10.47%	1.09%	7.32%	1.26%	112,241	153,900	\$39.44	(69,789)	(83,807)
CLASS C	1,648,058	53,163	19.23%	1.78%	14.01%	1.17%	22,535	52,397	\$30.72	(18,531)	(92,134)
<b>RIVER WEST</b>	<b>4,382,641</b>	<b>89,442</b>	<b>9.98%</b>	<b>0.60%</b>	<b>9.76%</b>	<b>0.60%</b>	<b>19,451</b>	<b>65,583</b>	<b>\$32.66</b>	<b>240,358</b>	<b>899,190</b>
CLASS A	1,632,613	233,230	6.92%	0.08%	9.80%	0.08%	19,123	33,002	\$39.87	213,638	847,770
CLASS B	1,772,010	65,630	11.52%	0.81%	7.79%	0.81%	15,867	65,583	\$33.00	26,835	84,628
CLASS C	978,018	65,201	12.30%	1.09%	13.26%	1.09%	19,451	19,451	\$28.51	(115)	(33,208)
<b>SOUTH LOOP</b>	<b>1,285,516</b>	<b>107,126</b>	<b>11.86%</b>	<b>0.50%</b>	<b>10.36%</b>	<b>0.00%</b>	<b>10,308</b>	<b>10,308</b>	<b>\$24.08</b>	<b>(8,755)</b>	<b>(38,957)</b>
CLASS B	965,517	137,931	10.52%	0.00%	10.04%	0.00%	10,308	10,308	\$24.35	(9,707)	(30,153)
CLASS C	319,999	64,000	15.91%	2.03%	11.31%	0.00%	8,216	8,216	\$23.24	952	(8,804)
<b>WEST LOOP</b>	<b>51,840,155</b>	<b>518,402</b>	<b>14.41%</b>	<b>1.70%</b>	<b>13.07%</b>	<b>0.77%</b>	<b>53,101</b>	<b>363,204</b>	<b>\$43.26</b>	<b>53,160</b>	<b>1,422,601</b>
CLASS A	39,255,747	892,176	14.38%	1.27%	13.18%	0.63%	50,500	295,026	\$45.42	(15,094)	1,428,293
CLASS B	11,368,333	291,496	14.76%	2.82%	12.85%	1.26%	53,101	363,204	\$36.35	69,539	7,737
CLASS C	1,216,075	71,534	12.13%	5.09%	11.70%	0.68%	16,000	40,000	\$31.22	(1,285)	(13,429)

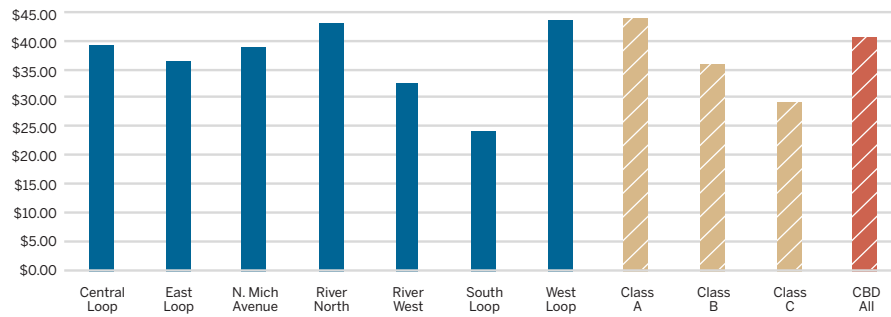
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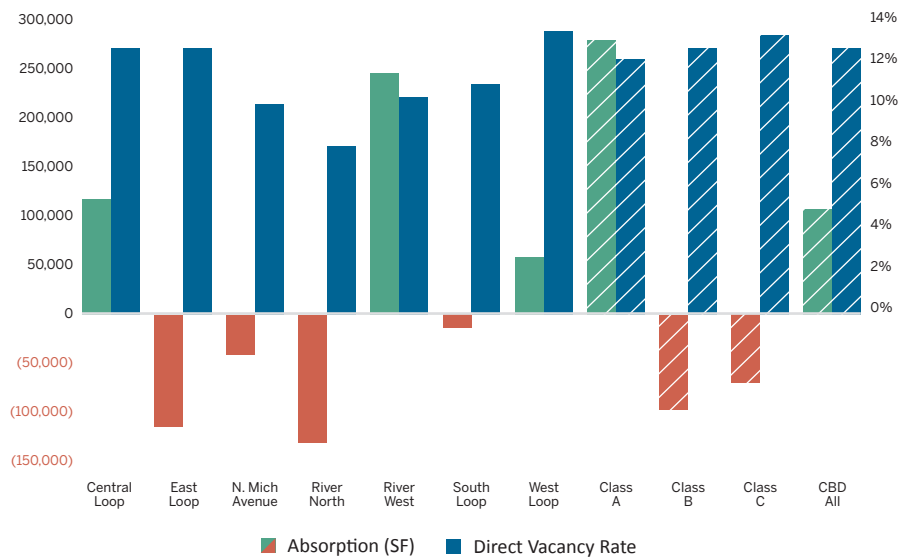
## BY THE NUMBERS

	NATIONAL		CHICAGO
Gross availability	13.50%	▲	16.00%
6 Month Leasing Probability	33.10%	▼	28.20%
Rent Growth. YOY	1.76%	▲	1.90%
Sold, psf	\$325.00	▼	\$292.00
Employment Growth	1.70%	▼	1.60%

## WEIGHTED ASKING RENT (DIRECT)



## SUBMARKET VACANCY & ABSORPTION



# CHICAGO DOWNTOWN 4Q 2018

## MAX BUILDING AVAILABLE CONTIGUOUS SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE CONTIGUOUS SPACE
311 W Monroe Street	West Loop	B	363,204
Chase Tower	Central Loop	A	297,000
CDW Plaza	West Loop	A	295,026

## MAX SUBLET AVAILABLE SPACE

PROPERTY	SUBMARKET	CLASS	MAX AVAILABLE SUBLET SPACE
Chase Tower	Central Loop	A	297,000
Board of Trade	Central Loop	B	122,794
Robert Morris Center	East Loop	B	109,536

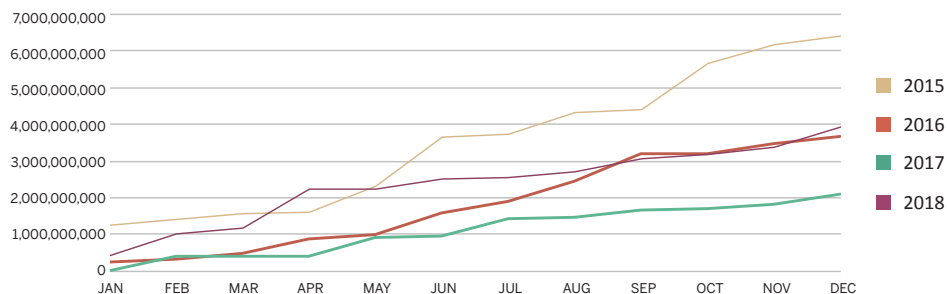
## NOTEWORTHY LEASES

TENANT	PROPERTY	SUBMARKET	SF	TYPE
BMO Harris	BMO Tower at Union Station	West Loop	500,000	New, Consolidation
Salesforce	Salesforce Tower Chicago (Wolf Point Tower)	River North	500,000	New, Expansion
CDW	625 W Adams Street	West Loop	225,000	New
WeWork	515 N State Street	River North	135,000	New
Google	210 N Carpenter Street	River West	132,000	New

## SALES TRANSACTIONS

PROPERTY	SUBMARKET	SF	BUYER	SELLER	PRICE/UNIT
1 S Wacker Drive	West Loop	1,195,170	601 W Companies	John Hancock Real Estate	\$259.00
The National	Central Loop	580,000	Commerz Real/Hausinvest	Blue Star Properties & Wolcott Group & CPS	\$374.00
444 N Michigan Avenue	East Loop	517,000	CIM Group	GLL Real Estate Partners	\$267.00
LaSalle-Wacker Building	Central Loop	360,000	Ameritus Real Estate	Sterling Bay	\$329.00
Gage Building	East Loop	126,080 (portion)	National Louis University	Roosevelt University	\$119.00

## CUMULATIVE MONTHLY SALES VOLUME



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