

Chicago CBD



Market Facts

5.3%

Chicago's unemployment rate continued to trend downward. As of August 2017, the unemployment rate stood at 5.3%.

24,700 jobs

The metro Chicago area added over 24,700 jobs year-over-year. This correlates to a 0.5% increase in jobs.

249,043 SF

Of the 10 buildings under construction in the CBD the average size is 249,043.

7,826 SF

There were 265 new leases with an average size of 7,827 sf within the CBD.

1.1 MSF

The River West submarket continued to record tremendous growth during the third quarter with 466,051 sf lease and 1.1 msf under construction.

Economic Overview

Chicago's diverse economy continued to improve throughout the third quarter of 2017. The metropolitan area added more than 24,700 jobs as of August 2017—up 0.5% year-over-year. This job growth has pushed the unemployment rate down to 5.3% over the same period—down from 5.8%. Cook County has the highest unemployment rate, currently posted at 5.7%. The super sectors that recorded the highest year-over-year growth in employment were information technology; financial services; and construction—up 3.3%, 3.1%, and 1.0% respectively.

Office Market Overview

Overall vacancy within the CBD recorded an uptick—up 30 basis points (bps) to 11.4%. Class A product saw an increase in vacancy, which is currently posted at 13.1%—up from 12.5% during the second quarter. Class B witnessed a decrease over the same period. Leasing activity remained strong with 2.3 million square feet (msf) leased throughout the third quarter, bringing the total year-to-date sf leased to 7.2 msf. Although there has consistently been strong activity, net absorption continues to be negative. There are currently 10 office properties under construction, totaling 2.5 msf, with the majority of these buildings expected to be delivered mid-2018. The River West submarket is home to 60% of these new developments. There was one property delivered during the third quarter, adding 287,000 sf to the market, currently 61% leased. Overall rental rates saw a slight increase

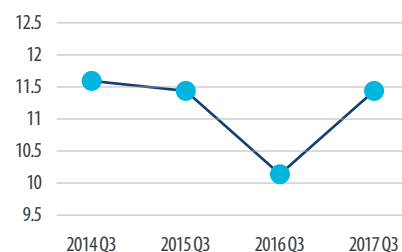
quarter-over-quarter. With the addition of more high-end amenities, rates are expected to increase, primarily within class A product. There was a slight increase in office investment activity during the third quarter, with 12 properties trading for a total investment sales volume of \$491 million.

Landlords across the market continued to pour capital into building improvements, including tenant amenities and outdoor space. A prime example of this would be Sterling Bay's redevelopment of 311 W Monroe, adding amenities such as a roof deck, bowling alley, and Yoga and fitness rooms. They are projecting to spend upwards of \$40 million on renovations in an effort to attract and maintain tenants. A new trend emerging within the marketplace is flexible office space, meaning moving away from generic office space designs. Open floor plans with increased collision zones and collaborative space will continue to take hold. Several major office users have chosen to use the hoteling method within their new office space, prompting a reduction of space as well as cutting costs.

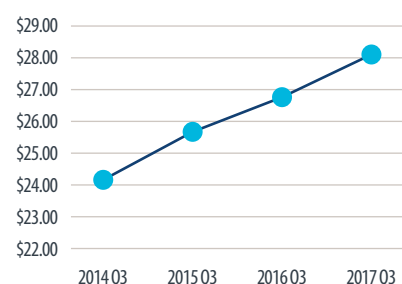
Goose Island, located just northwest of the CBD, could potentially be Chicago's newest office submarket. Currently the 700 plus acres is predominantly industrial but several developers such as R2, Sterling Bay, and Hines Interests have been snapping up sites in hopes of developing office space. This includes the 30-acre Finkl Site, located just north of Goose Island, which developer Sterling Bay hopes to develop into a major mixed-use project. The land is currently zoned as a Planned Manufacturing District (PMD), which is highly restrictive. With the aid of City Hall, developers have been trying to rezone the area through a proposed "industrial corridor system fee". These funds would bolster investment in other industrial corridors on the city's south and west sides. If all goes as planned, the Goose Island area could greatly reshape the Chicago CBD office market.



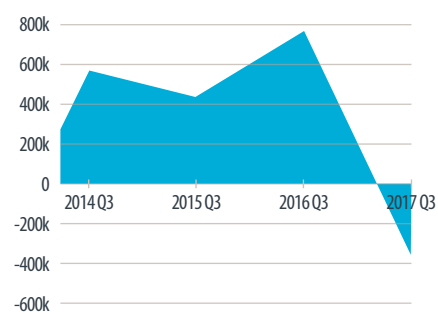
Vacancy Rate (%)



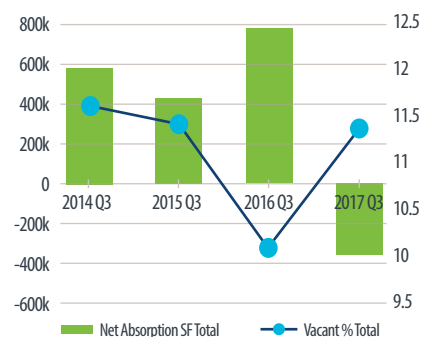
Office Base Rent Overall



Total Net Absorption (SF)



Net Absorption vs. Vacancy (%)



**CBD**

Construction & Deliveries

Q3 Under Construction [20,000+ SF Projects]

Market	Building	Class	NRA	Delivery Date	Developer	Major Tenants	% Leased**
West Loop	151 N Franklin St	A	807,355	Q2-2018	The John Buck Company	CNACrp, Hinshaw & Culbertson	53%
River West	1045 W Randolph St	A	608,000	Q3-2018	Sterling Bay	McDonalds Corporation	92%
West Loop	625 W Adams St	A	434,931	Q1-2018	White Oak Realty Partners	N/A	0%
River West	210 N Carpenter St	A	203,589	Q3-2018	Sterling Bay	Leopardo Construction	12%
River West	1220 W Van Buren St	B	110,000	Q2-2019	The Missner Grouo	N/A	0%
River West	905 W Fulton St	A	88,000	Q2-2018	Thor Properties	N/A	1%
River West	811 W Fulton St	A	63,909	Q2-2018	Shapack Partners	N/A	0%
River West	816-820 W Fulton St	A	68,692	Q2-2018	Thor Properties	N/A	8%
River North	412 N Wells St	A	56,000	Q3-2017	Centrum Properties	N/A	31%
River West	939 W Fulton St	A	49,957	Q4-2017	Madison Capital	N/A	24%
			2017	105,957			
			2018	2,274,476			
			2019	110,000			
			Total	2,490,433			

Q3 Deliveries

Market	Building	Class	NRA	Delivery Date	Developer	Major Tenants	% Leased**
River West	1330 W Fulton St	A	287,928	Q3-2017	Sterling Bay	Dyson Inc, Glassdoor, Sterling Bay, Skendar Construction	61%

Select Proposed Properties

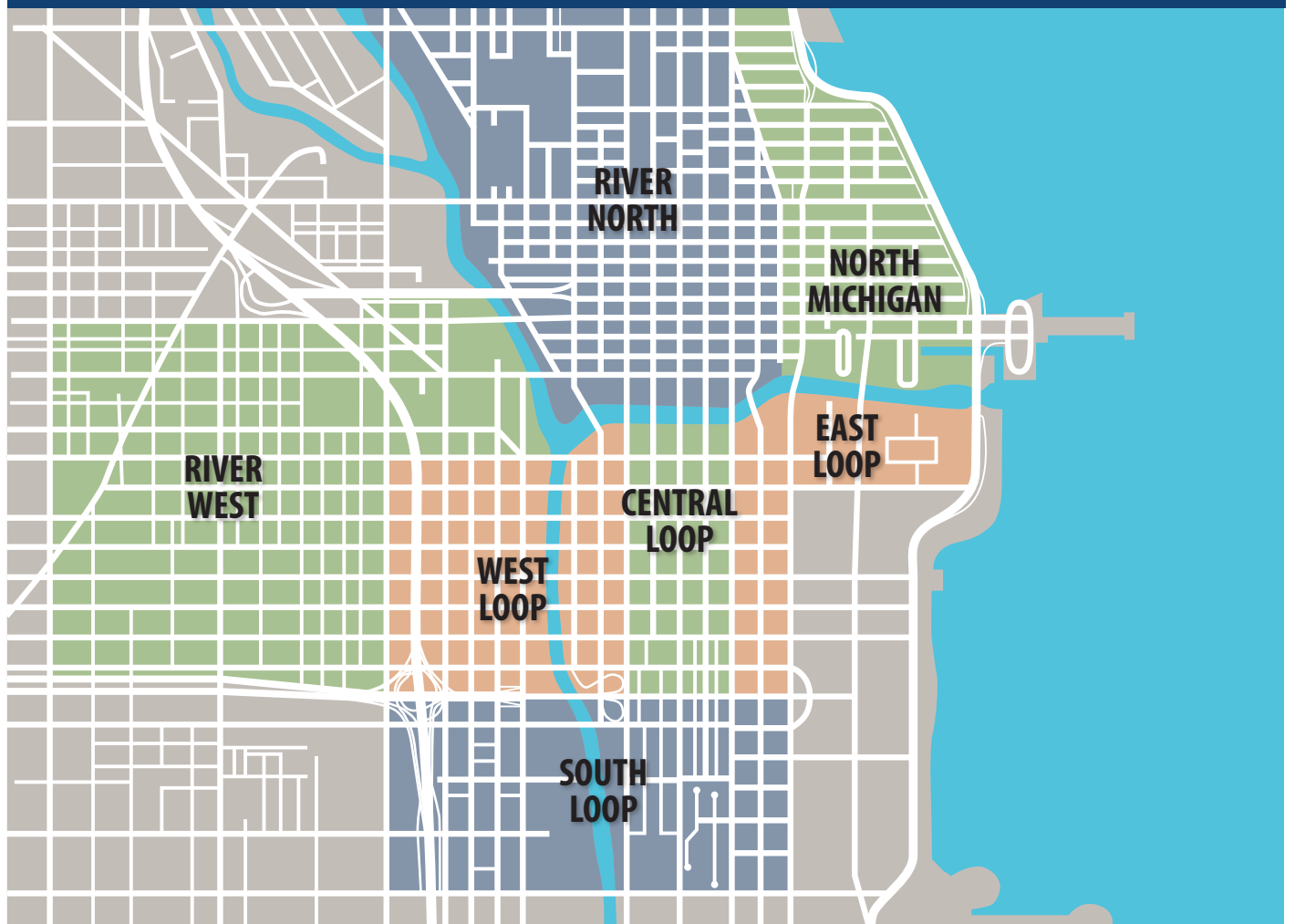
Market	Building	Class	NRA	Ground Break	Developer	Tenants/Comments	% Leased**
West Loop	130 N Franklin St	A	1,198,227	Q2-2018	Tishman Speyer	N/A	2%
West Loop	110 N Wacker Dr	A	1,350,000	Q1-2018	Riverside Investment & Development Company	Bank of America	40%
			2,548,227				

Chicago CBD Submarket Snapshot | Q3

A look at basic metrics in each downtown submarket

Submarket	Total RBA (SF)	Direct Available Space (SF)	Sublet Available Space (SF)	Total Available (SF)	Vacancy Rate			Leasing Activity (SF)	Net Absorption (SF)	Average Asking Rent		
					Overall Vacancy	Class A	Class B			Overall Avg	Class A	Class B
CBD	175,494,679	18,285,380	1,712,808	19,998,188	11.4%	13.1%	10.0%	2,350,605	-360,491	\$28.11	\$27.09	\$30.43
West Loop	54,578,904	6,414,397	953,405	7,367,802	13.5%	14.4%	11.2%	622,426	-260,475	\$28.20	\$28.06	\$29.47
East Loop	28,046,540	3,226,783	188,045	3,414,828	12.2%	12.5%	13.5%	751,838	27,184	\$25.08	\$23.02	\$27.18
Central Loop	47,754,951	4,689,255	301,253	4,990,508	10.5%	11.3%	9.9%	298,711	-248,810	\$28.15	\$26.24	\$31.28
North Michigan Ave	16,659,121	1,442,858	82,821	1,525,679	9.2%	13.3%	6.4%	115,513	-8,775	\$26.10	\$26.95	\$24.96
River North	18,464,441	1,223,990	125,464	1,349,454	7.3%	6.2%	8.1%	415,425	53,158	\$34.33	\$31.55	\$37.22
South Loop	3,876,181	349,333	1,831	351,164	9.1%	None	6.7%	8,789	-16,265	\$25.18	None	\$26.21
River West	6,114,541	963,088	59,989	1,023,077	16.7%	31.0%	16.2%	466,051	69,168	\$31.12	\$34.79	\$32.07

CBD Submarket Map





West Loop

West Loop

The West Loop submarket contains 54 msf of office space, offering great accessibility to public transportation and high-end inventory. Vacancy was recorded at 13.5% during the third quarter of 2017—up 30 bps over last quarter. Class A product continued to see an increase in vacancy—up to 14.4% from 14.1% last quarter. This can be attributed to new product and shadow space that remains vacant. Overall rental rates within the submarket continue to see moderate increases, particularly within class A product.

The submarket has seen consistent leasing activity during the third quarter of 2017, with 622,000 sf having been leased. This is the second highest of any submarket within the CBD. Notable lease transactions include GATX which has signed an 88,080-sf deal at the Willis Tower. GATX will soon benefit from enhanced tenant amenities due to the major renovation that building owner, Blackstone, is in the process of completing. Konica Minolta has leased 20,062 sf at 500 W Madison. Construction continues on 151 N Franklin, an 807,355-sf class A trophy tower. The project is being developed by John Buck and is currently 53% preleased. There are currently two proposed buildings within the submarket which have an anticipated groundbreaking of mid-2018. These would add roughly 2.5 msf to the market. The Old Post Office redevelopment is once again in play. The project could add 2.5 msf of office space with 80,000 sf of tenant amenities. The \$600 million project is one of the largest redevelopments in the county and a potential site for Amazon's HQ2, should Chicago be chosen.

Notable investment sales during the third quarter include 300 S Wacker and 311 W Monroe. Beacon Capital sold 300 S Wacker, a 535,726-sf class B building, for \$155 million or \$289 psf to Golub & Company. Sterling Bay purchased 311 W Monroe for \$60 million or \$150 psf with the intentions of doing a mass renovation of the 397,402-sf property which will include a bowling alley among other high-end tenant amenities. Looking forward, the West Loop submarket should see an active 2018 with the new deliveries being added to the market as well as new construction potentially coming online.

Total RBA
54,578,904 SF

Direct Available Space
6,414,397 SF

Sublet Available Space
953,405 SF

Total Available
7,367,802 SF

Overall Vacancy
13.5%

Leasing Activity
622,426 SF

Net Absorption
-260,475 SF

Average Asking Rent
\$28.20

Central Loop

Central Loop

The Central Loop submarket is the second largest submarket within the CBD, with 47 msf of office space. Both class A and B product saw an increase in vacancy, with a 60-bps increase overall during the third quarter of 2017—up to 10.5%. Activity slowed due to an increase in vacant space having been added to the market. There was 298,711 sf leased during the quarter and the submarket continues to see negative absorption.

Notable lease transactions include kCura's new lease of 21,139 sf at 231 S LaSalle and Health Scape Advisors renewal of 21,139 sf at 55 W Monroe. No new construction has been recorded within the submarket for the past several years, which benefits existing buildings. Olen Commercial Realty Corporation has announced that it will be selling 1 S Dearborn after signing Sidley Austin to a long-term lease extension. The 828,538-sf building is currently 96.8% leased.

This past month the CTA opened its first new station within the Central Loop after nearly 20 years at a cost of \$75 million. The new station is located between Washington/Wabash and services the Brown, Green, Orange, Pink, and Purple Express lines.



Olen Commercial, has put 1 S Dearborn on the market after signing a long-term lease with building anchor, Sidley Austin.

Total RBA
47,754,951 SF

Direct Available Space
4,689,255 SF

Sublet Available Space
301,253 SF

Total Available
4,990,508 SF

Overall Vacancy
10.5%

Leasing Activity
298,711 SF

Net Absorption
-248,810 SF

Average Asking Rent
\$28.15



East Loop

East Loop

Totalling 28 msf of office space, the East Loop recorded the most activity of any submarket this quarter with 751,838 sf having been leased. This activity prompted the vacancy rate to drop to 12.2% during the third quarter—a 20-pbs decline from the previous quarter. With the amount of space recently leased, net absorption should be significantly impacted when the space becomes occupied.

Northern Trust has signed a 404,719-sf lease at 333 S Wabash. The bank's headquarters located at 50 S LaSalle will not be moved, but they will be consolidating employees from several other locations into the new space in 2020.

There was one investment sale during the quarter, 150 N Michigan Ave traded between John Hancock Real Estate and CBRE Global Investors for \$132 million or \$199 psf. Looking forward, demand should remain high prompting further positive absorption and a declining vacancy rate.



The largest lease signed during the third quarter was inked by Northern Trust for 404,719 sf at 333 S Wabash.

Total RBA
28,046,540 SF

Direct Available Space
3,226,783 SF

Sublet Available Space
188,045 SF

Total Available
3,414,828 SF

Overall Vacancy
12.2%

Leasing Activity
751,838 SF

Net Absorption
27,184 SF

Average Asking Rent
\$25.08



River North

River North

The River North submarket contains 18.4 msf, remaining one of the tightest submarkets with the lowest overall vacancy within the CBD. Vacancy was recorded at 7.3%—decreasing 60 bps from last quarter. Average asking rents remained the highest within the CBD—averaging \$34.33 psf. Leasing activity witnessed a 51% increase over the previous quarter with 415,425 sf having been leased.

The most notable lease transaction during the third quarter was GGP's relocation and downsizing from its iconic West Loop building into 165,462 sf at 350 N Orleans. The move is expected to take place in early 2018. GGP reportedly chose River North due to location and amenities. The most notable investment sale transaction was the sale of 730 N Franklin St, an 88,600-sf building which traded from American Asset Management Services to The Feil Organization for \$23,300,000 or \$262.98 psf.

Construction of 412 N Wells St nears completion with expected occupancy to commence late this year. The 56,000-sf class A office property is being developed by Centrum Partners and is 100% leased. River North should continue to see strong demand for space with a further declining vacancy rate.



412 N Wells, River North's newest office project nears the end of construction. The 56,000-sf class A building is 100% lease.

Total RBA

18,464,441 SF

Direct Available Space

1,223,990 SF

Sublet Available Space

125,464 SF

Total Available

1,349,454 SF

Overall Vacancy

7.3%

Leasing Activity

415,425 SF

Net Absorption

53,158 SF

Average Asking Rent

\$34.33



North Michigan

North Michigan

The North Michigan Avenue submarket contains 16.6 msf of office space, most of it located along the famed Michigan Avenue retail corridor. The vacancy rate saw a slight uptick during the third quarter—to 9.2%. Overall average asking rental rates saw an increase, posting at \$26.10 psf. Leasing activity saw a slight decrease from previous quarters, recorded at 115,513 sf. The most notable lease transaction during the third quarter was the Eating Recovery Center lease of 22,891 sf at 1 E Erie St.

Office activity has remained relatively stagnant over the past several quarters. The submarket is predominantly dominated by retail. There have been several notable retail leases signed, including Apple and Harley Davidson.



Apple's new Chicago flagship store is currently under construction at 401 N Michigan. The development will reshape this portion of North Michigan Avenue.

Total RBA
16,659,121 SF

Direct Available Space
1,442,858 SF

Sublet Available Space
82,821 SF

Total Available
1,528,679 SF

Overall Vacancy
9.2%

Leasing Activity
115,513 SF

Net Absorption
-8,775 SF

Average Asking Rent
\$26.10

River West

River West

Chicago's newest office submarket, River West, continues to expand at a rapid pace. With the addition of 378,272 sf year-to-date, vacancy has increased to 16.7%. Leasing activity remains strong as demand for space continues. There has been 466,051 sf leased during the third quarter. Rental rates continue to trend upward—up 9% to \$31.12 psf.

Notable lease transactions include advertising firm WPP, leasing 253,000 sf in a proposed building being developed by Sterling Bay along Halsted and Green St. This marks the fourth largest transaction to-date in 2017. Additionally, Leopardo Companies has signed a 23,209-sf deal at 210 N Carpenter St. This marks the first official tenant in the building, which broke ground this quarter and is being developed by Sterling Bay.

River West continues to record the most construction activity within the CBD. There are currently seven properties under construction, totaling 1.1 msf, the largest being 1045 W Randolph St, a 608,000-sf class A building which will house the future McDonald's headquarters. There was one property delivered during the third quarter, 1330 W Fulton St, a 287,928-sf class A building which was developed by Sterling Bay and is 61% leased. The River West submarket should benefit from increased demand driving activity, which should lower the vacancy rate in coming quarters.



1330 W Fulton was the only office property delivered during the third quarter. The 287,928-sf class A building is 61% preleased to Glassdoor, Dyson, and Skender Construction.

Total RBA
6,114,541 SF

Direct Available Space
963,088 SF

Sublet Available Space
59,989 SF

Total Available
1,023,077 SF

Overall Vacancy
16.7%

Leasing Activity
466,051 SF

Net Absorption
69,168 SF

Average Asking Rent
\$31.12

South Loop

South Loop

The South Loop submarket contains 3.8 msf of office space. Vacancy has increased to 9.1%. Demand has remained stagnant with 8,789 sf having been leased during the third quarter of 2017. Furthermore, the majority of space leased was on the smaller size and five out of the seven leases took place at 1132 S Wabash. Asking rental rates have remained relatively unchanged from previous quarters, currently posted at \$25.18 psf.

While the submarket's office market saw moderate growth, there has been substantial multi-family development. There are currently 10 properties which are either proposed or under construction which would add upwards of 5,000 units. Most notably, 1000 S. Michigan, which is being designed by famed architect Helmut Jahn. The proposed 2,900-unit project recently began their initial marketing campaign.



Famed architect, Helmut Jahn, is designing one of the largest multi-family projects within the South Loop at 1000 S Michigan.

Total RBA
3,876,181 SF

Direct Available Space
349,333 SF

Sublet Available Space
1,831 SF

Total Available
351,164 SF

Overall Vacancy
9.1%

Leasing Activity
8,789 SF

Net Absorption
-16,265 SF

Average Asking Rent
\$25.18

CBD | Notable Q3 Leases

Tenant	Address/Name	Submarket	Size (SF)	Type
Northern Trust	333 S Wabash Ave	East Loop	404,719	New
WPP Group	331 N Halsted St	West Loop	253,000	New
GGP Inc	350 N Orleans St	River North	165,462	New
GATX	233 S Wacker Dr	West Loop	88,080	New
kCure	231 S LaSalle St	Central Loop	46,219	New

CBD | Notable Q3 Investment Sales

Address/Name	Size (SF)	Buyer	Seller	Sales Price	PSF
300 S Wacker Dr	535,726	Golub & Company	Beacon Capital Partners	\$155,000,000	\$289.33
150 N Michigan Ave	661,477	CBRE Global Investors	John Hancock Real Estate	\$132,000,000	\$199.55
311 W Monroe St	397,402	Sterling Bay	Prudential Financial	\$60,000,000	\$150.98

CBD | Large Contiguous Blocks [Class A with over 100,000 SF]

Submarket	Building Address	Class	Building NRA	Contiguous Space	Space Type
West Loop	444 W Lake St	A	1,081,702	106,292	Existing
West Loop	500 W Madison St	A	1,448,095	141,404	Existing
West Loop	71 S Wacker Dr	A	1,490,825	246,872	Existing
West Loop	222 W Adams St	A	943,433	139,034	Existing
West Loop	625 W Adams St	A	434,931	432,709	Under Construction
River West	210 N Carpenter St	A	203,589	140,724	Under Construction
Central Loop	1 S Dearborn St	A	828,538	106,624	Existing
West Loop	151 N Franklin St	A	807,355	257,016	Under Construction
Central Loop	175 W Jackson Blvd	A	1,452,390	214,855	Existing
West Loop	550 W Jackson Blvd	A	406,041	144,207	Existing
Central Loop	203 N LaSalle St	A	750,000	277,349	Existing
Central Loop	222 N LaSalle St	A	1,034,532	164,926	Existing
East Loop	233 N Michigan Ave	A	1,174,371	178,931	Existing
West Loop	227 W Monroe St	A	1,571,000	188,337	Existing
East Loop	200 E Randolph St	A	2,737,902	354,127	Existing
West Loop	300 S Riverside Plz	A	1,048,357	259,238	Existing
West Loop	123 N Wacker Dr	A	540,621	121,428	Existing
West Loop	30 S Wacker Dr	A	1,200,000	129,216	Existing
West Loop	111 S Wacker Dr	A	1,213,322	112,052	Existing

Trends to Watch

Downsizing: Tenants are taking on less space and incorporating telecommuting, shared work space and more efficient design in an effort to attract younger talent.

River West: This submarket is extremely popular in terms of tenant demand and construction activity and showing no signs of slowing down.

High-end Amenities: Owners and developers have been adding high-end amenities to attract and maintain tenants. A prime example is Sterling Bay adding a bowling alley to one of their projects.

For more information, please contact:

Kathleen Cavanaugh

Research Manager
312.940.6266
kathleen.cavanaugh@avisonyoung.com

Greg Rogalla

Senior Research Analyst
847.637.0704
gregory.rogalla@avisonyoung.com

Avison Young | Chicago

One South Wacker Drive, Ste. 3000
Chicago, Illinois, 60606
www.avisonyoung.com



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