

Chicago CBD



Quick Stats

3.3%

As of November 2019, Chicago metro area unemployment stood at 3.3%, down 20 bps year-over-year.

Interest Rates

The Federal Reserve decreased interest rates to a range of 1.5%-1.75% in the fourth quarter of 2019.

The Old Post Office

The 2.3 msf office building is currently 81% preleased and home to several well-known tenants including CBOE Global, Cisco, PepsiCo, Uber and Walgreens.

15,600 Jobs

The education and health services sector had the largest employment gain for the year ending November 2019, adding 15,600 jobs.

Economic Overview

The Chicago economic landscape continued to improve throughout the fourth quarter of 2019. As of November, the unemployment rate dropped 20 basis points (bps) year-over-year to 3.3%. The education and health services sector had the largest employment gain for the year ending November 2019, adding 15,600 jobs. The 2.1% job growth in this sector, however, was lower than the nationwide increase of 2.9%, however.

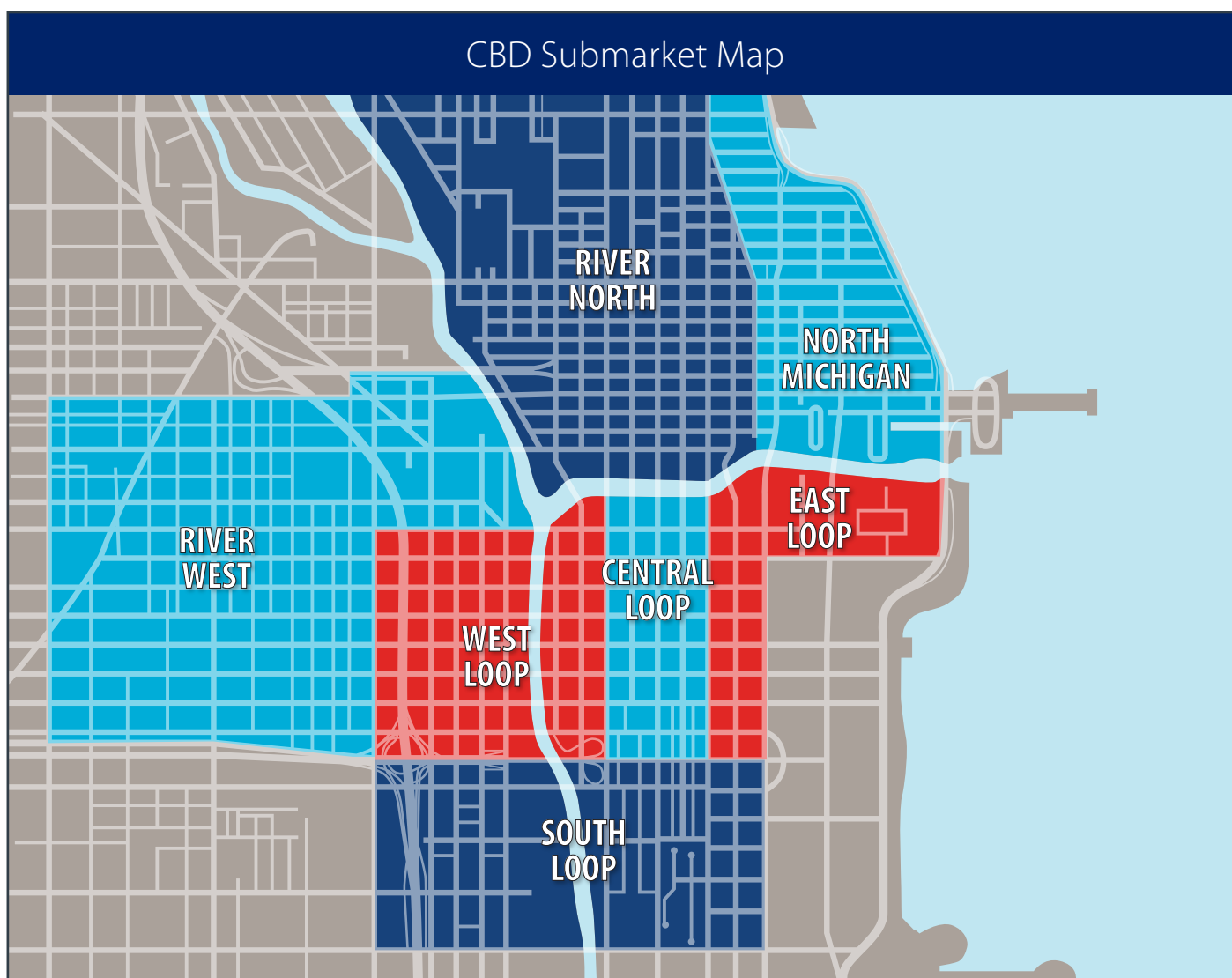
According to the Bureau of Labor Statistics, four Chicago area supersectors lost 2,000 or more jobs over the year, including professional and business services (-5,300); trade, transportation and utilities (-2,300); construction (-2,100); and information technology (-2,000). On a national level, all of those supersectors added jobs over the year.

Both DuPage and Cook County recorded the lowest unemployment rates in the region, posted at 2.5% and 3.3% respectively. The metropolitan area added 28,600 jobs as of November 2019, an increase of 0.6% year-over-year. Additionally, the BLS stated that the Chicago MSA had year-over-year employment increases each month since October 2010.

Chicago CBD Submarket Snapshot | Q4

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			
CBD	181,725,710	25,903,920	3,199,790	29,099,251	11.5%	12.5%	10.8%	2,682,639	845,540	\$28.83
West Loop	58,368,636	7,818,402	1,390,232	9,208,634	13.0%	13.8%	11.4%	1,802,435	879,421	\$28.83
Central Loop	47,825,730	6,854,956	539,085	7,394,041	11.0%	14.1%	8.3%	333,946	-118,791	\$27.35
East Loop	27,552,176	4,618,761	434,150	5,052,911	13.5%	11.5%	20.3%	214,746	-7,537	\$24.59
River North	18,650,775	2,166,502	392,381	2,558,883	8.9%	5.6%	12.7%	138,135	-19,789	\$30.83
North Michigan Ave	17,682,973	1,300,683	178,442	1,479,125	6.7%	7.6%	6.1%	116,631	30,124	\$25.90
River West	8,150,385	2,779,815	260,680	3,036,036	14.0%	24.5%	10.3%	70,673	107,362	\$32.55
South Loop	3,495,035	364,801	4,820	369,621	8.3%	N/A	13.3%	6,073	-25,250	\$24.89



Chicago CBD Office Market Overview

The Chicago market is dynamic and evolving to meet the needs of commercial real estate occupiers, landlords and investors heading into 2020. Technology, innovation and flexibility are driving many facets of the market, especially office and industrial building design, automation in the warehouse sector and overall space utilization.

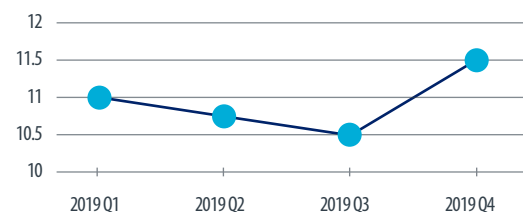
Flight to quality should continue in downtown Chicago's office sector, as demand for amenity rich, class A office space will increase second generation and suburban shadow space vacancies throughout 2020. New office developments delivered since 2018 are garnering record-setting rents in their respective submarkets as tenants are seeking ever-higher levels of quality, efficiency and amenity spaces.

These relocations, coupled with more efficient use of space, will likely affect owners of suburban and non-trophy assets as they actively compete to backfill vacancies. We expect to see these landlords become more aggressive with capital improvement projects and attractive concession packages to compete for tenants. Law offices in particular are reducing the amount of space they are occupying, contracting footprints by as much as 20%. As other industries take note, it could potentially impact additional space requirements within the CBD.

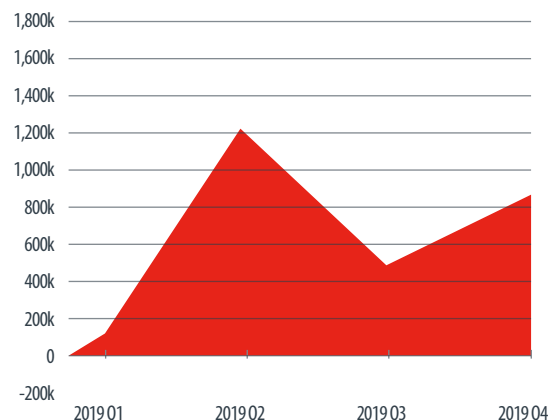
Much of the tenant growth in Chicago is occurring from technology and finance firms, along with the traditional law firm and services sectors. While the coworking sector was seeing an expansion, the fallout of WeWork has slowed that market segment. During 2020, landlords will be watching this sector to see how to adapt to tenant demand for flexibility, while balancing their need for long-term leases and investment stability.



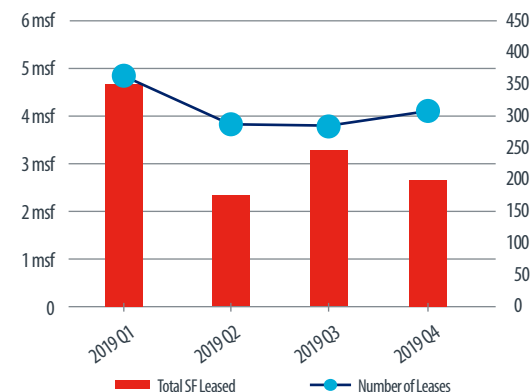
Vacancy Rate (%)



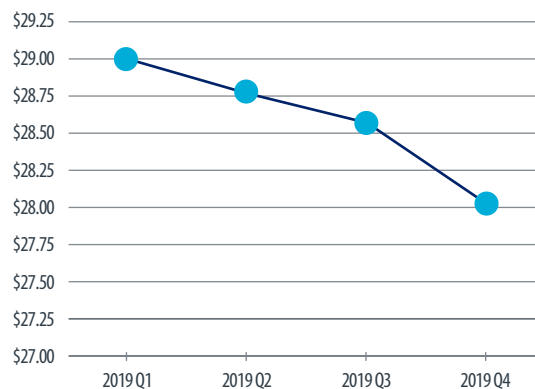
Total Net Absorption (SF)



Lease Activity



Office Base Rent



Vacancy & Availability

Overall vacancy within the central business district (CBD) recorded an increase of 110 bps to 11.5%. This uptick is being directly influenced by the six properties totaling 3.9 million square feet (msf) of new inventory added to the market through 2019. With the addition of two new class A properties as well as recently listed second-generation space, class A vacancy has recorded a moderate uptick of 70 bps when compared to recent periods. It is currently recorded at 12.5%. Class B vacancy remained relatively unchanged at 10.8%. The submarkets with the highest vacancy rate are River West and the East Loop with 14% and 13.5% respectively.

Absorption & Demand

Leasing activity remained healthy across all submarkets. There were approximately 308 leases signed throughout the fourth quarter, totaling 2.6 msf. Much of the leasing velocity took place within the West Loop, accounting for 67% of all leases signed within the same timeframe. Net absorption witnessed an increase of 100% when compared to the year prior ending 2019 with a total of 2.7 msf of positive absorption.

Notable 2019 leases included United, Uber and West Monroe Partners all inking deals within the West loop. United, located within the Willis Tower since 2013, renewed their headquarters lease for 816,301 sf. Uber signed a lease for 466,000 sf at 433 W Van Buren Street (the Old Post Office). The company has said that the new space will be home to their Uber Freight division, as well as other operations. Interestingly, Uber announced last week that they will be marketing 65,000 sf of the new space as a 10-year sublease to commence in January 2021. In another large West Loop lease, West Monroe Partners recently signed a deal to move its corporate headquarters to 311 W Monroe Street, where the national business and technology consulting firm will occupy 270,123 sf.



Throughout 2019, there were six properties added to the market totaling 3.9 msf of new inventory. This is having a direct impact on the increase in vacancy.

Construction

The downtown office market is finishing a dramatic construction cycle that brought 6 msf of new class A space to the market since 2018. There are currently 14 properties totaling 6 msf under development within the CBD. The largest office project delivered in 2019 was the Old Post Office, which is located in the West Loop and completed in the fourth quarter. The property, located at 433 W Van Buren Street, underwent a major redevelopment project with an estimated cost of over \$800 million. The 2.3 msf office building is currently 81% preleased and home to several well-known tenants including Walgreens, Uber, Pepsi, Cisco and CBOE Global. There was a total of three properties delivered within the fourth quarter of 2019, adding 2.8 msf of new inventory to the market.

The anticipated deliveries for 2020 are mainly located in River West, with 9 out of the 11 expected deliveries adding 1.5 msf to the growing office submarket. The largest project currently underway is 110 N Wacker Drive within the West Loop, which is expected to be completed in September 2020. The 1.5-msf riverfront property is currently 72% preleased and home to major tenants Bank of American and Jones Day.

Investment

Investment in CBD office product remained active throughout the fourth quarter of 2019. Sales volume was recorded at \$708.9 million in the fourth quarter, over \$200 million higher than any other quarter within 2019. A total of 2.8 msf traded hands within the fourth quarter of 2019, with an average sale price of \$341/sf.

The most notable fourth quarter investment sales transaction was the sale of 500 W Monroe Street. The 967,000-sf building was sold by Piedmont Office Realty Trust, Inc to Spear Street Capital for \$412 million, or \$426.06/sf. The high sales price is attributed to the property being 100% leased at the time of sale, with large tenants including Motorola Solutions and Antares Capital. Located in the West Loop submarket, this transaction was also the largest sale within 2019.

CBD

Construction & Deliveries



2019 Q4 Under Construction [20,000+ SF Projects]

Market	Building	Class	NRA	Delivery Date	Developer	Major Tenants	% Leased**
West Loop	110 N Wacker Dr	A	1,546,909	Q3-2020	Riverside Investment	Bank of America, Jones Day	72%
West Loop	320 S Canal St	A	1,463,000	Q1-2022	Riverside Investment	BMO Financial, Chapman & Cutler LLP	36%
East Loop	24 E Washington St	A	672,590	Q3-2020	Brookfield Asset Management	N/A	0%
River West	167 N Green St	A	600,000	Q4-2020	Shapack Partners	WeWork	22%
River West	800 W Fulton St	A	480,490	Q1-2021	Thor Equities	N/A	0%
River West	320 N Sangamon St	A	301,979	Q1-2021	Tishman Speyer	N/A	11%
River West	1375 W Fulton St	A	300,224	Q2-2020	Trammell Crow Company	Glassdoor	17%
River West	1220 W Van Buren Ave	A	129,732	Q4-2020	The Missner Group	N/A	0%
River West	905 W Fulton Market	B	108,650	Q1-2020	Thor Equities	Mondelez International Inc	98%
River West	318 N Carpenter St	A	104,977	Q2-2020	The Murphy Development Grp	N/A	0%
River West	1133 W Fulton St	A	100,008	Q1-2020	Domus Group/Barnett Capital	WeWork	33%
River West	215 N Peoria St	A	89,865	Q1-2020	Parkside Realty	N/A	0%
River West	400 N Noble St	B	58,765	Q2-2020	Shapack Partners	N/A	0%
River West	1040 W Fulton Market St	A	29,401	Q1-2020	Summit Design & Build LLC	N/A	50%

2020	3,741,121
2021	782,469
2022	1,463,000
Total	5,986,590

2019 Q4 Deliveries

Market	Building	Class	RBA	Developer	Major Tenants	% Leased**
West Loop	433 W Van Buren St	A	2,300,000	The 601W Companies	Uber, Walgreens	81%
River West	333 N Green St	A	553,412	Sterling Bay	WPP US, Convene, Ernst & Young	85%
River West	1114 W Fulton St	B	30,000	Domus Group/Barnett Capital	N/A	100%

Total	2,853,412
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CBD | Notable Q4 Leases

Tenant	Address/Name	Submarket	Size (SF)	Type
West Monroe Partners, LLC	311 W Monroe Street	West Loop	270,123	New
PepsiCo	433 W Van Buren Street	West Loop	192,000	New
Cisco	433 W Van Buren Street	West Loop	143,302	New
Chapman & Cutler LLP	320 S Canal Street	West Loop	88,020	New
TrueBlue	433 W Van Buren Street	West Loop	86,000	New

CBD | Largest Leases of 2019

Tenant	Address/Name	Submarket	Size (SF)	Type
United Continental Holding, Inc	233 S Wacker Drive	West Loop	816,301	Renewal
Uber	433 W Van Buren Street	West Loop	463,000	New
West Monroe Partners, LLC	311 W Monroe Street	West Loop	270,123	New
USG Corporation	550 W Adams Street	West Loop	220,800	Renewal
West Monroe Partners, LLC	311 W Monroe Street	West Loop	208,000	New

CBD | Notable Q4 Investment Sales

Address/Name	Size (SF)	Buyer	Seller	Sales Price	PSF
500 W Monroe Street	967,000	Spear Street Capital	Piedmont Office Realty Trust Inc	\$412,000,000	\$426.06
190 S LaSalle Street	798,782	Beacon Capital Partners	Tishman Speyer	\$230,000,000	\$287.94
435 N LaSalle Street	50,000	Vista Property Group	MJP Capital LLC	\$18,000,000	\$340.00

CBD | Largest Investment Sales of 2019

Address/Name	Size (SF)	Buyer	Seller	Sales Price	PSF
500 W Monroe Street	967,000	Spear Street Capital	Piedmont Office Realty Trust Inc	\$412,000,000	\$426.06
190 S LaSalle Street	798,782	Beacon Capital Partners	Tishman Speyer	\$230,000,000	\$287.94
111 W Washington Street	584,149	Golub & Company	Alliance Partners HSP LLC	\$80,250,000	\$137.38
550 W Van Buren Street	332,608	Onni Group	Principal Financial Group Inc	\$78,000,000	\$234.51
625 N Michigan Ave	290,496	Neo Capital Ltd	CIM Group LP	\$72,400,000	\$249.23

CBD | Large Contiguous Blocks [\[Class A with over 200,000 SF\]](#)

Submarket	Building Address	Class	Building RBA	Contiguous Space	Space Type	Developer
East Loop	24 E Washington Street	A	672,590	663,545	Under Construction	Brookfield Asset Management Inc
West Loop	320 S Canal Street	A	1,463,000	507,403	Under Construction	Riverside Investment & Development Co
River West	167 N Green Street	A	600,000	466,247	Under Construction	Shapack Partners
River West	800 W Fulton Street	A	480,490	426,494	Under Construction	Thor Equities
West Loop	555 W Monroe Street	A	445,000	422,000	Existing	Fifield Capital Partners
West Loop	110 N Wacker Drive	A	1,546,909	267,702	Under Construction	Riverside Investment & Development Co
River West	320 N Sangamon Street	A	301,979	261,821	Under Construction	Tishman Speyer
West Loop	120 S Riverside Plaza	A	802,991	257,971	Existing	Tishman Realty & Construction Co
River North	350 N Orleans Street	A	1,308,156	255,667	Existing	The Blackstone Group LP
River West	1375 W Fulton Street	A	300,224	236,205	Under Construction	Trammell Crow Company



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