

Chicago CBD



Quick Stats

3.7%

As of August 2019, Chicago metro unemployment stood at 3.7%, down 30 basis points (bps) year-over-year.

River West

There are currently 11 properties under construction in the rapidly changing River West submarket, totaling 2.1 msf.

20,700 Jobs

As of August, 2019 the Education and Health services sector has added 20,700 jobs, a 2.9% increase when compared year-over-year.

Interest Rates

The Federal reserve has decreased interest rates twice within the third quarter 2019 to a range of 1.75%-2%.

Economic Overview

The Chicago economic landscape continued to improve throughout the third quarter of 2019. As of August, the unemployment rate dropped 30 basis points (bps) year-over-year to 3.7% and the metropolitan area added more than 48,000 jobs, an increase of 1% year-over-year. Education and Health Services in particular have seen significant growth, adding 20,700 jobs, up 2.9% year-over-year. In the last five years, overall job growth in the Chicago metro area has increased by a staggering 30.5%, bringing the total number of jobs to 4.8 million in August 2019.

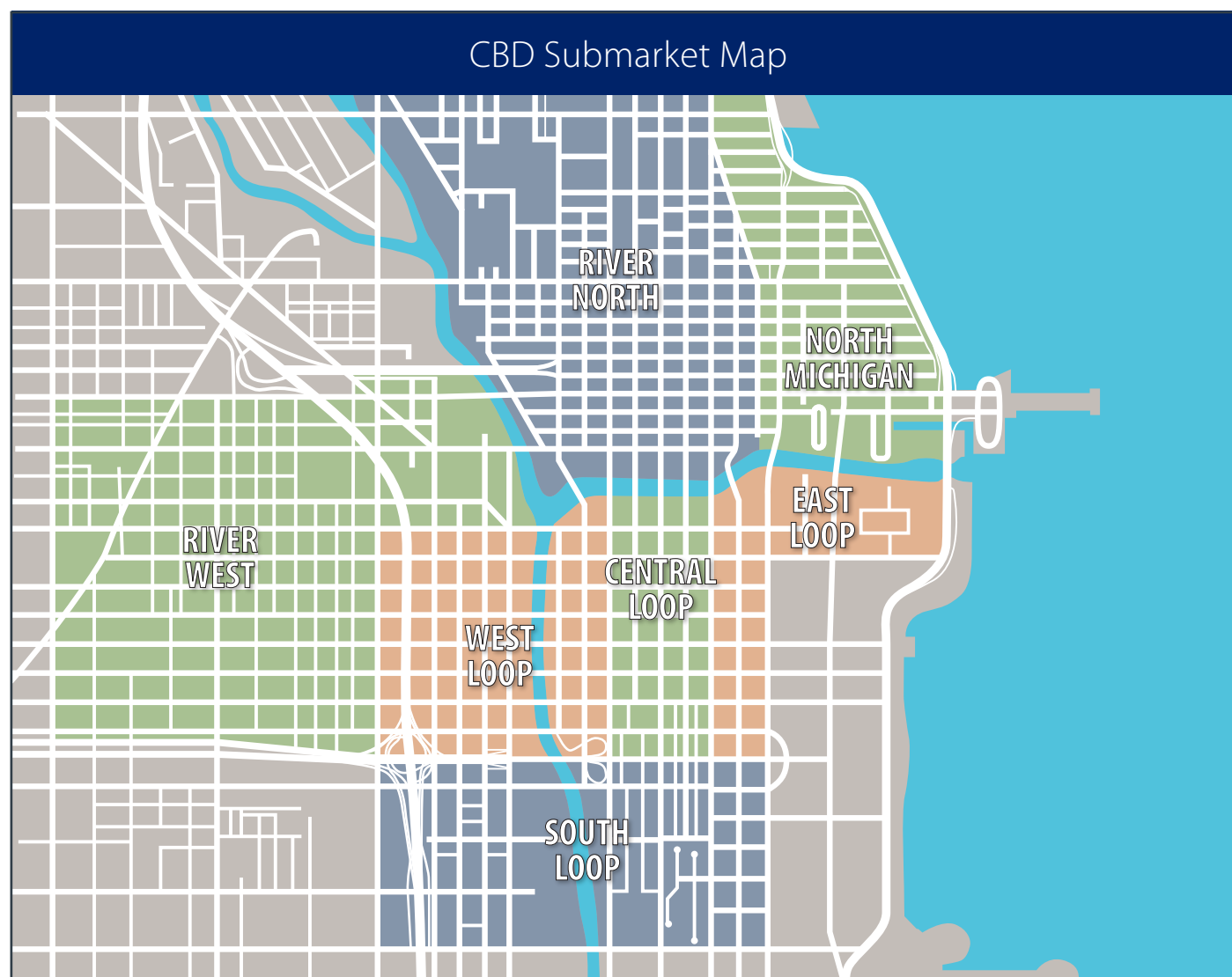
As the largest city in the Midwest, Chicago is the natural landing point for young educated employees. Fourteen top 100 universities fall within a 250-mile radius of the city, including two of the top ten universities in the country, Northwestern and the University of Chicago, which are within 15 miles.

The Federal Reserve cut interest rates twice within the third quarter of 2019 to a range of 1.75% to 2%, which is a drastic change when compared to 2018, when the Federal Reserve raised interest rates four times within the calendar year. With the decrease in interest rates, an increase in borrowing of funds could be observed in the months to come, impacting investment within the real estate industry.

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 | | | |
| CBD | 178,487,350 | 26,626,507 | 3,103,663 | 28,730,170 | 10.4% | 10.8% | 10.6% | 3,430,339 | 576,705 | \$28.83 |
| West Loop | 55,770,622 | 8,633,488 | 1,322,118 | 9,955,606 | 10.8% | 10.9% | 11.3% | 2,204,367 | 258,728 | \$29.01 |
| Central Loop | 47,797,130 | 6,657,269 | 558,860 | 7,216,129 | 10.8% | 13.6% | 8.5% | 329,661 | 196,491 | \$28.84 |
| East Loop | 27,553,950 | 4,453,549 | 424,239 | 4,877,788 | 13.3% | 11.7% | 19.7% | 389,483 | -11,664 | \$25.31 |
| River North | 18,658,896 | 2,089,932 | 401,304 | 2,491,236 | 8.7% | 5.5% | 12.0% | 197,092 | -42,353 | \$32.81 |
| North Michigan Ave | 17,711,206 | 1,316,329 | 135,251 | 1,451,580 | 6.5% | 7.9% | 5.5% | 63,280 | 67,802 | \$26.75 |
| River West | 7,500,511 | 2,118,389 | 247,386 | 2,365,775 | 8.9% | 8.5% | 10.0% | 245,056 | 107,922 | \$33.06 |
| South Loop | 3,495,035 | 357,551 | 14,505 | 372,056 | 7.5% | N/A | 12.4% | 1,400 | -221 | \$24.83 |



Chicago CBD Office Market Overview

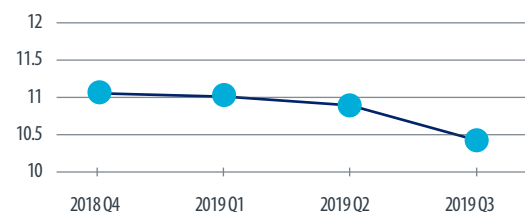
Containing more than 178.4 million square feet (msf) of product, the Chicago CBD continues to be one of the largest office markets in the country.

The Chicago office market has also become a growing tech hub, with companies such as Facebook, Google, Glassdoor and Microsoft expanding in the area. In the third quarter of 2019, Uber committed to 400,000 sf of office space in the West Loop submarket. The ongoing transformation of Fulton Market, from meat packing facilities to residential and now office and retail uses has generated considerable leasing, development and investment activity, including 1 msf of new office space since 2018.

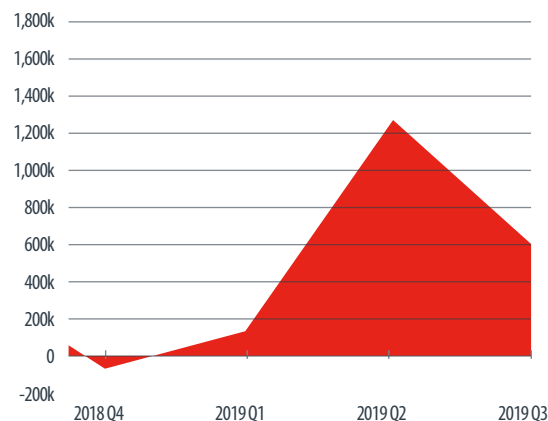
There are many signs that the market is embracing change and positioning itself for the future. Changes within the Chicago metro since 2018 include: 7.8 msf of downtown office development; 31.2 msf of industrial development; 19,069 units of multi-family development; ongoing redevelopment of historic Chicago neighborhoods; and expansion of business supply chain footprints. All these factors contribute to the long-term economic health of the market.



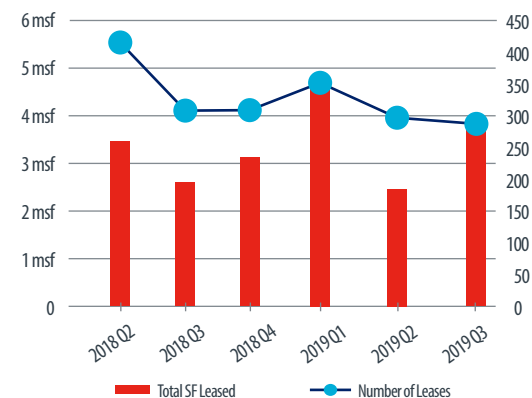
Vacancy Rate (%)



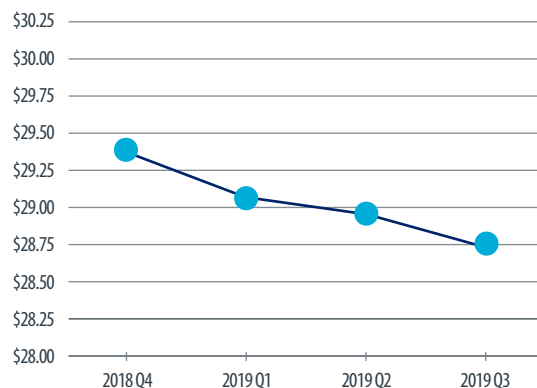
Total Net Absorption (SF)



Lease Activity



Office Base Rent



Vacancy & Availability

Vacancy in the Chicago market decreased by 10 bps to 10.4% in the third quarter of 2019. This is the lowest recorded vacancy rate since 2017. The CBD submarkets with the lowest class A vacancy percentages were River North, North Michigan Avenue, and River West, with recorded vacancies of 5.5%, 7.9% and 8.5% respectively.

The markets with the highest vacancy percentages were Central Loop, East Loop, and West Loop, recording vacancies of 13.6%, 11.7%, and 10.9% respectively. There are currently 16 buildings in the CBD with a minimum of 150,000 sf available contiguously.

Absorption & Demand

The Chicago office market witnessed 3.4 msf of leasing activity in the third quarter of 2019, an increase of 56% when compared to the previous quarter. Leading the leasing velocity was the West Loop submarket, accounting for 2.2 msf of leasing or 64% of total volume. Net absorption was recorded at 576,705 sf, staying relatively flat when compared to the previous quarter. West loop was also the leading submarket for net absorption, contributing 258,728 sf. The West Loop was followed by Central Loop and River West, contributing 196,491 sf and 107,922 sf respectively.

The biggest move-in of the quarter was Facebook, occupying their new 263,000-sf space located at 151 N Franklin Street. Facebook's space takes up about a third of the new building, which finished construction in 2018. The largest lease signed in the third quarter was Uber, locking up 466,000 sf at 433 W Van Buren Street (Old Post Office). The company has said that the new space will be home to their Uber Freight division, as well as other operations.



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Construction

There is currently 7 msf of office product under construction in the Chicago CBD. Most of this product is located in the popular West Loop and River West submarkets. These two markets have hosted most of the construction activity over the last several years given their locations and potential for expansion. The largest project currently underway is 433 W Van Buren Street, known in the market as the Old Post Office, or the *OPO*. The complete overhaul of this 2.7 msf building is expected to be completed by the end of October 2019. The property captured a large amount of attention in the third quarter by signing three leases over 100,000 sf.

Another notable project underway is the new construction at 110 N Wacker Drive, which will be called Bank of America Tower. Also located in West Loop, the 1.5 msf tower is slotted to be completed in the fourth quarter of 2020. The building has been pre-leased by Bank of America; Lincoln International; luxury coworking provider No18; and has become home to a handful of law firms. The riverfront building is currently 68.1% leased.

There was one delivery in the CBD office market this quarter. 145 S Wells Street was delivered as a speculative 225,000-sf office building. The property was developed by Mocerri & Roszak and is currently 0% leased.

Investment

The Chicago Office market saw significant investment increase from the previous two quarters. Sales volume reached over \$640 million in the third quarter, more than the first and second quarters combined.

There were two notable transactions in the third quarter. First, the 290,000-sf property located at 1330 W Fulton Street was sold by Sterling Bay to Commerz Real AG for \$167.5 million, or \$578/sf. The high sales price is attributed to the property being 98% occupied by tenants such as Glassdoor and Dyson. The weighted average lease term remaining in the building is more than 10 years.

The second notable transaction was for 811 W Fulton Market, also sitting within the hot River West submarket. The sale of the building from Shapack Partners to Intercontinental Real Estate set a Chicago real estate record, the 65,000-sf property sold for \$50.3 million. The \$774/sf price broke the previous record for the highest sale price per square foot of \$734 earlier this year. The property was 100% leased at the time of the sale.

CBD

Construction & Deliveries

Q3 Under Construction [20,000+ SF Projects]

| Market | Building | Class | NRA | Delivery Date | Developer | Major Tenants | % Leased** |
|------------|-------------------------|-------|-----------|---------------|-----------------------------|--------------------------------|------------|
| West Loop | 433 W Van Buren St | A | 2,660,000 | Q4-2019 | The 601W Companies | Uber, Walgreens, CBOE | 60% |
| West Loop | 110 N Wacker Dr | A | 1,546,909 | Q4-2020 | Riverside Investment | Bank of America, Jones Day | 68% |
| East Loop | 24 E Washington St | A | 652,452 | Q1-2020 | Brookfield Asset Management | N/A | 0% |
| River West | 167 N Green St | A | 600,000 | Q4-2020 | Shapack Partners | WeWork | 22% |
| River West | 333 N Green St | A | 553,412 | Q1-2020 | Sterling Bay | WPP US, Convene, Ernst & Young | 72% |
| 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 | 215 N Peoria St | A | 115,200 | Q1-2020 | Shapack Partners | N/A | 21% |
| River West | 905 W Fulton Market | A | 108,650 | Q4-2019 | Thor Equities | Mondelez International Inc | 90% |
| River West | 318 N Carpenter St | A | 108,054 | Q2-2020 | The Murphy Development Grp | N/A | 1% |
| River West | 1133 W Fulton St | A | 100,008 | Q4-2019 | Domus Group/Barnett Capital | WeWork | 32% |
| River West | 400 N Noble St | B | 58,765 | Q4-2019 | Shapak Partners | N/A | 2% |
| River West | 1114 W Fulton St | B | 30,000 | Q4-2019 | Domus Group/Barnett Capital | N/A | 0% |
| River West | 1040 W Fulton Market St | A | 29,401 | Q4-2019 | Summit Design & Build LLC | N/A | 43% |

| | |
|--------------|------------------|
| 2019 | 2,986,824 |
| 2020 | 4,005,983 |
| Total | 6,992,807 |

Q3 Deliveries

| Market | Building | Class | RBA | Developer | Major Tenants | % Leased** |
|--------------|----------------|-------|---------|-----------------|---------------|------------|
| Central Loop | 145 S Wells St | A | 224,157 | Moceri & Roszak | N/A | 0% |

CBD | Notable Q3 Leases

| Tenant | Address/Name | Submarket | Size (SF) | Type |
|-----------------------------------|--------------------|------------|-----------|---------|
| Uber | 433 W Van Buren St | West Loop | 466,000 | New |
| CBOE Global Markets | 433 W Van Buren St | West Loop | 185,000 | New |
| Federal Home Loan Bank of Chicago | 433 W Van Buren St | West Loop | 130,000 | New |
| Locke Lord LLP | 111 S Wacker Dr | West Loop | 86,970 | Renewal |
| Accenture | 500 W Madison St | West Loop | 84,336 | New |
| WeWork | 1155 W Fulton St | River West | 69,688 | New |

CBD | Notable Q3 Investment Sales

| Address/Name | Size (SF) | Buyer | Seller | Sales Price | PSF |
|---------------------|-----------|---|-------------------------------------|--------------|----------|
| 111 W Washington St | 584,149 | Golub & Company | Alliance Partners HSP LLC | \$80,250,000 | \$137.00 |
| 55 E Jackson Blvd | 457,000 | Debartolo-Mainstreet Capital Partners LLC | Marc Realty | \$63,500,000 | \$138.95 |
| 811 W Fulton Market | 70,000 | Intercontinental Real Estate Corp | Magnetar Capital & Shapack Partners | \$50,300,000 | \$718.57 |
| 549 W Randolph St | 123,835 | Origin Investments, MB Real Estate, & Hilco Redevelopment Partners | Alcion Ventures LP | \$34,950,000 | \$282.23 |

CBD | Large Contiguous Blocks [\[Class A with over 150,000 SF\]](#)

| Submarket | Building Address | Class | Building RBA | Contiguous Space | Space Type |
|-----------------------|---------------------|-------|--------------|------------------|--------------------|
| Central Loop | 145 S Wells St | A | 224,157 | 206,425 | Existing |
| Central Loop | 203 N LaSalle St | A | 625,221 | 198,038 | Existing |
| Central Loop | 175 W Jackson Blvd | A | 1,452,390 | 191,799 | Existing |
| Central Loop | 77 W Wacker Dr | A | 959,258 | 156,763 | Existing |
| East Loop | 24 E Washington | A | 652,452 | 652,452 | Under Construction |
| East Loop | 200 E Randolph St | A | 2,737,902 | 158,525 | Existing |
| East Loop | 1 S State St | A | 942,330 | 152,990 | Existing |
| River West | 167 N Green St | A | 600,000 | 466,247 | Under Construction |
| River West | 1375 W Fulton St | A | 300,224 | 236,205 | Under Construction |
| North Michigan Avenue | 515 N State St | A | 671,957 | 164,453 | Existing |
| River North | 350 N Orleans St | A | 1,308,156 | 255,667 | Existing |
| West Loop | 433 W Van Buren | A | 2,660,000 | 1,054,302 | Existing |
| West Loop | 555 W Monroe St | A | 445,000 | 422,000 | Existing |
| West Loop | 110 N Wacker Dr | A | 1,546,909 | 327,964 | Under Construction |
| West Loop | 120 S Riverside Plz | A | 802,991 | 257,971 | Existing |
| West Loop | 1 S Wacker Dr | A | 1,195,170 | 170,170 | Existing |



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