

Chicago CBD



Market Facts

4.1%

As of August 2018, unemployment stood at **4.1%**, down 100 basis points (bps) year-over-year.

10,900 Jobs

Jobs within the business services sector recorded the highest increase year-over-year, up **10,900**.

113,866 SF

There were 2 properties delivered during the third quarter of 2018, totaling **113,866 sf**.

2.5 MSF

There were 287 leases signed throughout the third quarter of 2018, totaling **2.5 msf**. The average deal size was 8,744 sf.

10 Transactions

There were **10 investment sale transactions** that closed during the third quarter, with an average price per square foot (psf) of \$259.

Economic Overview

The Chicago economic landscape continued to improve throughout the third quarter of 2018. As of August, the unemployment rate dropped 100 basis points (bps) year-over-year to 4.1%. This is sitting lock-step with the national average, also at 4.1%, which is the lowest national unemployment rate since the Vietnam War. Both DuPage and Kenosha Counties recorded the lowest unemployment rates, posted at 3.3% and 3.8% respectively. Jobs within the business services and financial sectors recorded increases year-over-year, up 10,900 and 4,700 jobs respectively. With Mayor Rahm Emmanuel's announcement regarding him not seeking reelection and the local political landscape currently in limbo, job growth will likely be slower than previous quarters.

Notable companies which have recently announced major expansions within the CBD include Facebook, Google, Pinterest, Salesforce, Career Builder, and Madison Capital. All would increase local workforces as well as real estate footprints. Coworking space across the market has doubled over the last several years, with WeWork leading the pack. One of Chicago's largest employers, United Airlines, has been floating the idea of relocating their headquarters from the iconic Willis Tower. The airline is currently the building's largest tenant with 830,858 square feet (sf). This would be a major shake-up after the building owner, The Blackstone Group, recently invested over \$600 million in renovations.

Office Market Overview

Chicago's central business district (CBD) continued to see strong activity in terms of leasing velocity as well as construction. However, vacancy increased 20 basis points (bps) from last quarter to 11.1% during the third quarter of 2018. Of the seven submarkets, only two saw decreases in vacancy. These were the North Michigan Avenue and River West submarkets, which recorded decreases of 130 and 40 bps respectively.

Leasing activity remained healthy across all submarkets. There were approximately 287 leases signed throughout the third quarter, totaling 2.5 million square feet (sf). The average deal size was 8,744 sf. Much of the activity took place within the West and Central Loop submarkets. Overall net absorption saw a dramatic 80% decrease when compared to last quarter. Currently posted at 176,960 sf.

There were two buildings delivered during the third quarter, totaling 113,866 sf. Both were significantly pre-leased and located within the River West submarket. There is an additional 5.5 msf under construction within nine properties, with 3 msf anticipated to hit the market next year. The largest project being The Post Office, with 2.7 msf under development within the West Loop. The project is currently 7.4% leased to Walgreens. There were 10 Investment sale transactions that closed during the third quarter, with a transactional volume of \$828 million. The average price per square foot (psf) was \$259.

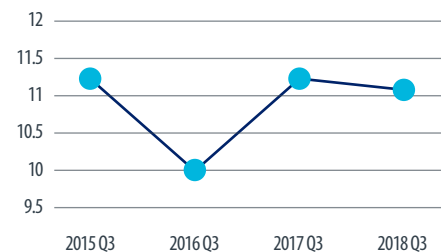
Trends to Watch

Technology Expansion – Notable technology companies which have recently announced major expansions within the CBD include Facebook, Google, Pinterest, Salesforce and Career Builder. All would increase local workforces as well as real estate footprints.

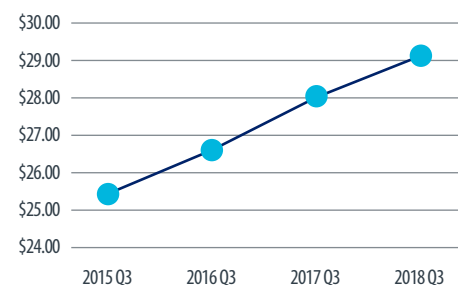
Airline Relocation – One of Chicago's largest employers, United Airlines, has been floating the idea of relocating their headquarters from the iconic Willis Tower. The airline is currently the building's largest tenant with 830,858 square feet (sf). This would be a major shake-up after the building owner, The Blackstone Group, recently invested over \$600 million in renovations.

Job Growth – With Mayor Rahm Emmanuel's announcement regarding him not seeking reelection and the local political landscape currently in limbo, job growth will likely be slower than previous quarters.

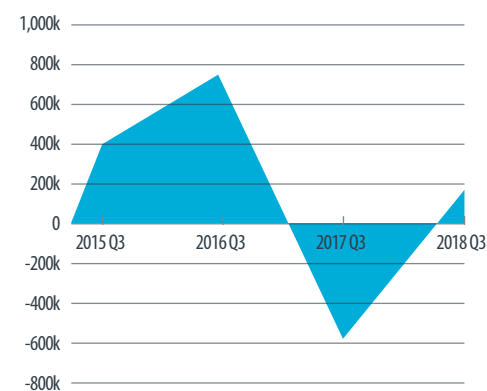
Vacancy Rate (%)



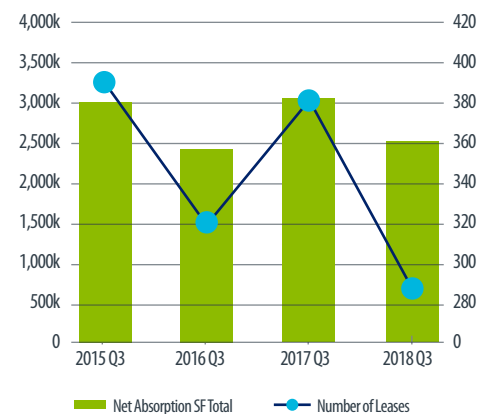
Office Base Rent Overall



Total Net Absorption (SF)



Lease Activity



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	176,952,694	18,000,770	1,582,641	19,583,411	11.1%	12.1%	10.4%	2,509,553	176,960	\$29.03	\$28.88	\$30.11
West Loop	55,637,813	6,599,580	461,356	7,060,936	12.7%	13.3%	11.9%	1,253,815	162,864	\$29.36	\$29.63	\$28.52
Central Loop	47,600,750	4,747,959	478,091	5,226,050	11.0%	13.6%	8.4%	564,244	16,672	\$27.15	\$24.80	\$32.04
East Loop	27,484,389	3,262,625	262,566	3,525,191	12.8%	10.5%	20.5%	220,291	-44,528	\$26.95	\$25.12	\$29.84
River North	18,648,277	1,228,145	264,624	1,492,769	8.0%	6.5%	9.3%	247,191	-183,994	\$36.98	\$41.68	\$32.93
North Michigan Ave	16,961,478	1,202,778	80,575	1,283,353	7.6%	10.2%	5.0%	152,758	196,907	\$26.68	\$26.48	\$26.52
River West	6,850,805	673,392	35,429	708,821	10.3%	14.5%	8.7%	56,494	60,551	\$32.16	\$33.50	\$31.65
South Loop	3,769,182	286,291	0	286,291	7.6%	N/A	10.1%	14,760	-31,512	\$24.04	N/A	\$24.26

CBD Submarket Map





West Loop

West Loop

The West Loop submarket continued to benefit from strong demand. There were approximately 92 lease transactions during the third quarter of 2018, totaling 1.2 msf. This accounts for 50% of the overall leasing activity for the quarter. The average lease size was 13,628 sf. Despite strong leasing, the vacancy rate trended upward by 20 bps from last quarter, currently posted at 12.7%. This is due in large part to the 1.2 msf delivered to-date in 2018, of which much remains vacant. Net absorption was recorded at 162,864 sf, the second highest within the CBD.

Notable lease transactions that were signed during the third quarter include Facebook, which inked a deal for 263,000 sf at 151 N Franklin. The social networking giant will be doubling its local presence, though the firm has yet to confirm how many jobs will be added. 151 N Franklin, also known as CNA Tower, was recently developed by The John Buck Company which was delivered earlier this year and is currently 90% leased. Quaker Foods, has renewed their 234,155-sf lease at 555 W Monroe St.

There are two properties currently under construction, totaling 4.2 msf. 110 N Wacker, the 1.5 msf class A trophy tower being developed through a joint venture between Riverside Investment & Development Company and The Howard Hughes Corporation. The property is currently 47.1% preleased. The Post Office, located at 433 W Van Buren St will add 2.7 msf once completed in late-2019. The property is 7.4% preleased to Walgreens.

One South Wacker is under contract to be sold. The 1.1 msf property class A property, which is currently 91% leased, will be trading hands between John Hancock Real Estate and the 601W Company. The property last sold for \$344 million or \$287 psf in 2015.

Total RBA
55,637,813 SF

Direct Available Space
6,599,580 SF

Sublet Available Space
461,356 SF

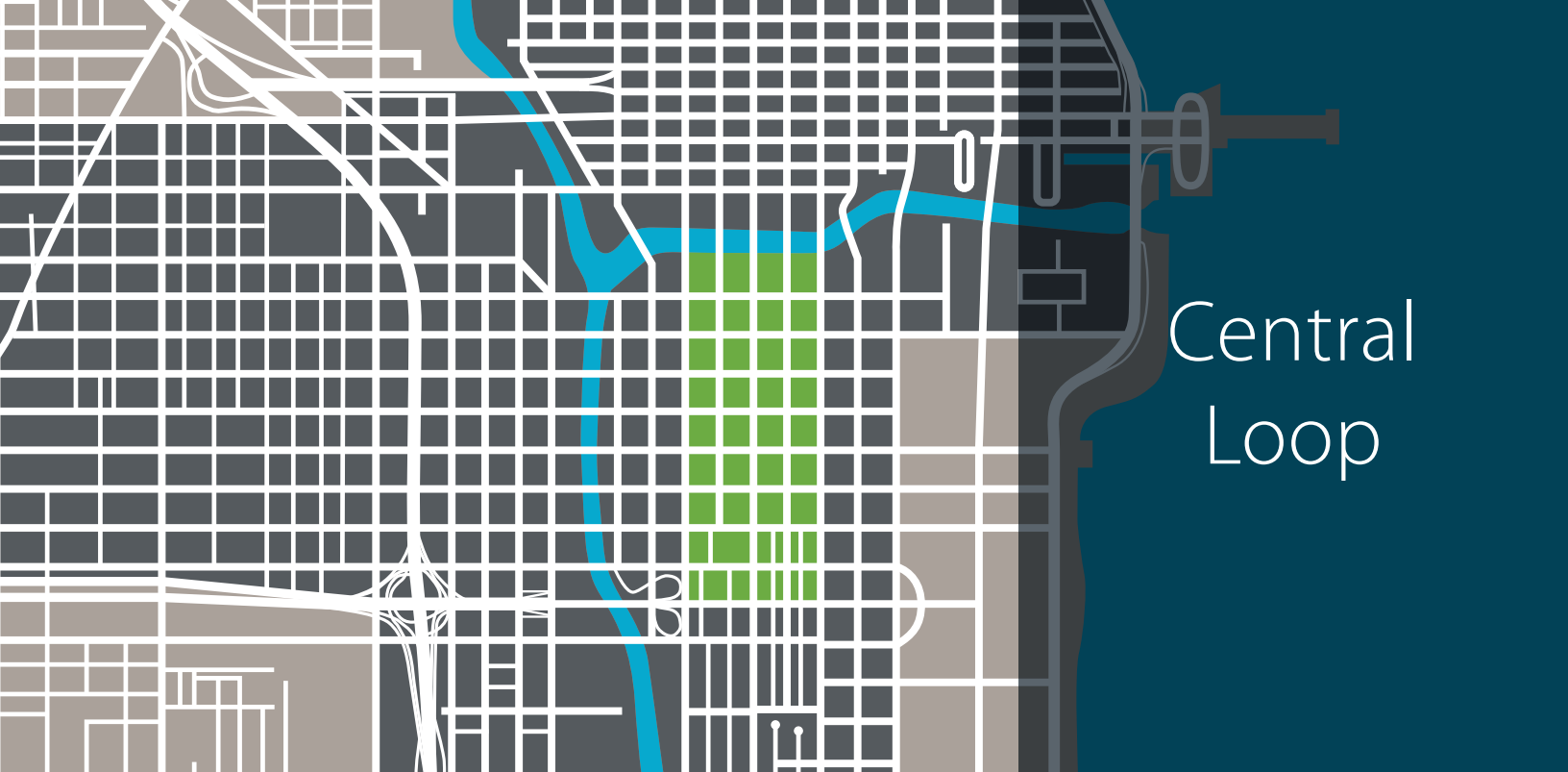
Total Available
7,060,936 SF

Overall Vacancy
12.7%

Leasing Activity
1,253,815 SF

Net Absorption
162,864 SF

Average Asking Rent
\$29.36



Central Loop

Central Loop

The Central Loop submarket went relatively unchanged from last quarter. The overall vacancy rate remained stagnant at 11%. Net absorption rose from negative 241,792 sf up to 16,672 sf. Leasing activity remained strong with 76 lease transactions, totaling 564,244 sf. The average deal size was 7,424 sf. Notable lease transactions include CIBC which renewed their 143,137 sf at 120 S LaSalle. The Chicago Trading Company also renewed their 114,168 sf at 425 S Financial Pl.

There is currently one property under construction within the submarket. 145 S Wells St, a 20-story creative loft building, will add 224,300 sf upon completion. The property is being developed on a speculative basis with limited preleasing by architect turned developer Thomas Roszak. The project is slated to be completed in late-2019. Brennan Investment Group, generally known for industrial investment and development, has purchased 1 N LaSalle St for \$113 million, or \$229 psf, from Hilco. The historic 493,738 sf property is currently 85% leased and was reportedly purchased due to strong fundamentals and location.



Brennan Investment Group, generally known for industrial investment and development, has purchased 1 N LaSalle St for \$113 million, or \$229 psf, from Hilco.

Total RBA
47,600,750 SF

Direct Available Space
4,747,959 SF

Sublet Available Space
478,091 SF

Total Available
5,226,050 SF

Overall Vacancy
11.0%

Leasing Activity
564,244 SF

Net Absorption
16,672 SF

Average Asking Rent
\$27.15



East Loop

East Loop

The East Loop submarket recorded a lag in overall activity throughout the third quarter of 2018. Vacancy trended upward by 50 bps to 12.8%. Leasing activity fell slightly with 47 recorded lease transactions, totaling 220,291 sf. The average deal size was 4,687 sf. Net absorption rose slightly, though remained negative. There has been no construction activity within the submarket since 2005.

Notable lease transactions include Slalom Consulting, a business consulting firm, signed a 64,956-sf lease at the AON Center located at 200 E Randolph St. Sheehan Nagle Hartray Architects, an architecture design firm, leased 23,615 sf at 130 E Randolph St. A notable investment sales transaction occurred at 303 E Wacker Dr, with the 943,540-sf office property, trading between Franklin Street Properties Corporation and Beacon Capital Partners for \$182 million, or \$192 psf. The property is ideally located along the Chicago River and was 74% leased at the time of sale.



Slalom Consulting, a business consulting firm, signed a 64,956-sf lease at the AON Center located at 200 E Randolph St.

Total RBA
27,484,389 SF

Direct Available Space
3,262,625 SF

Sublet Available Space
262,566 SF

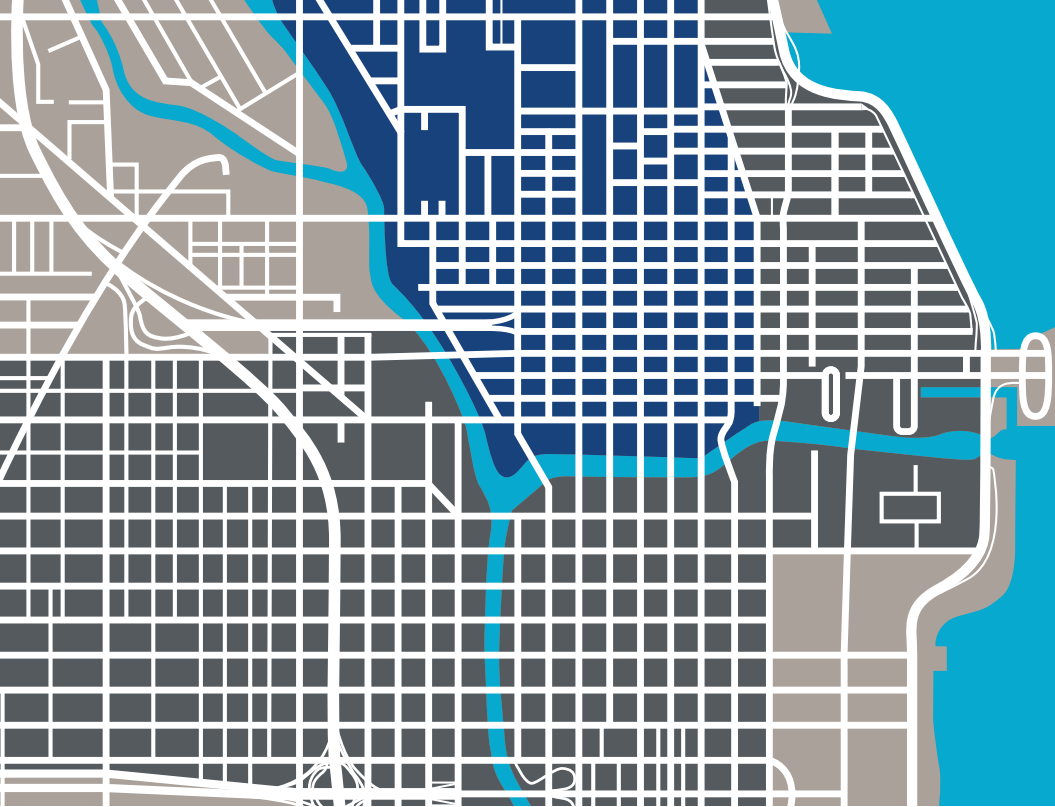
Total Available
3,525,191 SF

Overall Vacancy
12.8%

Leasing Activity
220,291 SF

Net Absorption
-44,528 SF

Average Asking Rent
\$26.95



River North

River North

The River North submarket saw vacancy post an uptick of 90 bps to 8%. Leasing activity remained strong with a total of 30 lease transactions signed throughout the third quarter of 2018, totaling 247,191 sf. The average deal size was 8,240 sf. 57% of the activity was for sublet space which was leased by W.W. Grainger, an industrial supply company, which leased 100,000 sf at The Mart. Net absorption lagged when compared to previous quarters, currently recorded at negative 183,994 sf.

There is currently nothing under construction. With the rumor around town that Salesforce is eyeing Wolf Point South for upwards of 500,000 sf. This could prompt the 1.8 msf project to break ground. The property would be developed by Hines Interests and is likely to commence construction by mid-2019. Salesforce, the software giant, has announced that it would likely add an additional 5,000 jobs as it increases its office footprint within the market.



Salesforce is eyeing Wolf Point South for upwards of 500,000 sf. This could prompt the 1.8 msf project to break ground.

Total RBA
18,648,277 SF

Direct Available Space
1,228,145 SF

Sublet Available Space
264,624 SF

Total Available
1,492,769 SF

Overall Vacancy
8.0%

Leasing Activity
247,191 SF

Net Absorption
-183,994 SF

Average Asking Rent
\$36.98



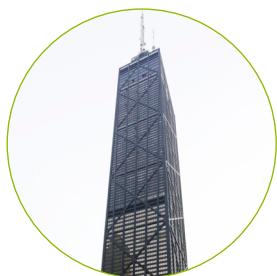
North Michigan Avenue

North Michigan Avenue

The North Michigan Avenue submarket continued to see improvement across all fundamentals. Vacancy dropped 130 bps to 7.6% during the third quarter of 2018. This is due in large part WeWork taking occupancy of 122,350 sf at 515 N State St, bringing the building to 54% leased. Leasing activity remained strong with a total of 20 lease transactions signed throughout the third quarter totaling 152,758 sf. The average deal size was 7,638 sf. Net absorption jumped from a negative 22,570 sf up to 196,907 sf. Notable leases signed throughout the third quarter included WeWork which signed for an additional 68,564 sf at 330 N Wabash, and Charles Schwab renewal for 17,298 sf at 430 N Michigan Ave.

The office portion of the John Hancock Tower, is expected to trade between a joint venture led by the Hearn Company and Sterling Bay. The deal would include 865,000 sf of office product located within the iconic mixed-use property at 875 N Michigan Ave within the North Michigan Avenue submarket. The property is 86% leased and expected to pull in a hefty premium for the sellers.

There has been no new supply within the submarket over the last several years. Besides a significant medical office project by Northwestern University, which will add 700,000 sf once completed and is fully leased by the educational institution.



The office portion of the John Hancock Tower, is expected to trade between a joint venture led by the Hearn Company and Sterling Bay. The deal would include 865,000 sf of office product located within the iconic mixed-use property at 875 N Michigan Ave within the North Michigan Avenue submarket.

Total RBA
16,961,478 SF

Direct Available Space
1,202,778 SF

Sublet Available Space
80,575 SF

Total Available
1,283,353 SF

Overall Vacancy
7.6%

Leasing Activity
152,758 SF

Net Absorption
196,907 SF

Average Asking Rent
\$26.68

River West

River West

The booming River West submarket continued to see strong activity across all fundamentals. Vacancy dropped 40 bps to 10.3%. There were approximately 17 lease transactions during the third quarter of 2018, totaling 56,494 sf. The average deal size was 3,323 sf.

There were two buildings delivered within the submarket during the third quarter, totaling 113,866 sf. Both properties were heavily preleased. There are an additional six properties under construction, totaling 1.1 msf. The largest being 333 N Green St, Sterling Bay's 590,525-sf project, which is 53% preleased to advertising giant WPP US.

One of the more notable investment sale transactions to have closed during the third quarter was the sale of 1033 W Van Buren. The 86,401-sf building nearly doubled in value from when the sellers purchased the property nearly four years ago. The Pizzuti Companies purchased the mostly vacant property for \$7.5 million and in turn sold it for \$15.1 million to a joint venture between Case Equity Partners and Lexington Realty. The property is 59.5% leased.



The largest property currently under construction is 333 N Green St, Sterling Bay's 590,525-sf project, which is 53% preleased to advertising giant WPP US.

Total RBA
6,850,805 SF

Direct Available Space
673,392 SF

Sublet Available Space
35,429 SF

Total Available
708,821 SF

Overall Vacancy
10.3%

Leasing Activity
56,494 SF

Net Absorption
60,551 SF

Average Asking Rent
\$32.16

South Loop

South Loop

The South Loop submarket, the smallest submarket within the CBD in terms of sf, accounts for only 2.1% of the overall CBD inventory. Vacancy witnessed a 100 bps increase from last quarter, currently posted at 7.6%. This is due in large part to several moderately large spaces becoming available. Activity continued to lag when compared to other submarkets. There were only seven lease transactions signed throughout the third quarter of 2018, totaling 14,760 sf. The average lease size was 2,109 sf.

A notable sales transaction occurred at 542 S Dearborn St, also known as The Pontiac Building, as the 85,523-sf class C office property traded hands between Walton Street Capital and Alvarez & Marsal for \$13.5 million, or \$157 psf. The sale was part of a two-property portfolio which sold for a combined \$24.5 million, the second property was located within River North. At the time of sale, the property was 74% leased to several smaller tenants, predominantly law firms.



542 S Dearborn St, a 85,523-sf class C office property also known as The Pontiac Building, traded hands between Walton Street Capital and Alvarez & Marsal for \$13.5 million, or \$157 psf.

Total RBA
3,769,182 SF

Direct Available Space
286,291 SF

Sublet Available Space
0 SF

Total Available
286,291 SF

Overall Vacancy
7.6%

Leasing Activity
14,760 SF

Net Absorption
-31,512 SF

Average Asking Rent
\$24.04

CBD

Construction & Deliveries



Q3 Under Construction [20,000+ SF Projects]

Market	Building	Class	NRA	Delivery Date	Developer	Major Tenants	% Leased**
South Loop	433 W Van Buren St	A	2,700,000	Q3-2019	The 601W Companies	Walgreens	7%
West Loop	110 N Wacker Dr	A	1,529,000	Q3-2020	Riverside Investment & Development Company	Bank of America Lincoln International	47%
River West	333N Green St	A	590,525	Q1-2020	Sterling Bay	WPP US	53%
Central Loop	145 S Wells St	A	224,300	Q3-2019	Moceri & Roszak	N/A	8%
River West	210 N Carpenter St	A	203,589	Q4-2018	Sterling Bay	Leopardo Construction, Revolution Marketing	39%
River West	1201 W Lake St	A	145,816	Q4-2018	McCaffery Interests Inc	N/A	0%
River West	905 W Fulton Market	A	108,650	Q2-2019	Thor Properties LLC	N/A	0%
River West	114 W Fulton St	A	30,000	Q2-2019	Domus Group	N/A	0%
River West	1040 W Fulton Market St	A	29,401	Q3-2019	Summit Design & Build LLC	N/A	0%
			2018				
							349,405
			2019				
							3,092,351
			2020				
							2,119,525
			Total				
							5,561,281

Q3 Deliveries

Market	Building	Class	RBA	Developer	Major Tenants	% Leased**
River West	811 W Fulton Market	A	63,909	Shapack Partners	Knoll Furniture	63%
River West	939 W Fulton Market	A	49,957	LG Development Group	Vital Protenis	100%
			Total			
						113,866

CBD | Notable Q3 Leases

Tenant	Address/Name	Submarket	Size (SF)	Type
Facebook	151 N Franklin St	West Loop	263,000	New
Quaker Foods North America	555 W Monroe St	West Loop	234,155	Renewal
CIBC	120 S LaSalle St	Central Loop	143,137	Renewal
Chicago Trading Company	425 S Financial Pl	Central Loop	114,168	Renewal
W.W. Grinter, Inc.	222 Merchandise Mart Plz	River North	100,000	New

CBD | Notable Q3 Investment Sales

Address/Name	Size (SF)	Buyer	Seller	Sales Price	PSF
120 South LaSalle St	656,080	Slate Office REIT	Lincoln Property Company	\$145,500,000	\$221.77
79 W Monroe St	199,824	Garrison Investment Group	R2 Companies	\$25,050,000	\$125.36
1033 W Van Buren St	82,712	Lexington Realty International	Case Equity Partners	\$15,100,000	\$182.56

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

Submarket	Building Address	Class	Building RBA	Contiguous Space	Space Type
West Loop	433 W Van Buren St	A	2,700,000	1,800,000	Under Construction
West Loop	110 N Wacker	A	1,529,000	765,626	Under Construction
West Loop	625 W Adams St	A	438,184	417,282	Existing
Central Loop	21 S Clark St	A	1,904,229	297,000	Existing
River West	333 N Green St	A	590,525	248,318	Under Construction
Central Loop	200 N LaSalle St	A	643,323	202,763	Existing
North Michigan Avenue	515 N State St	A	671,957	218,023	Existing
River North	350 N Orleans St	A	1,308,156	207,112	Existing
Central Loop	200 N LaSalle St	A	643,323	202,763	Existing
Central Loop	145 S Wells St	A	224,300	202,218	Under Construction
West Loop	300 S Riverside Plz	A	1,048,357	185,577	Existing
East Loop	233 N Michigan Ave	A	1,174,371	178,931	Existing
West Loop	71 S Wacker Dr	A	1,490,825	174,711	Existing
West Loop	555 W Monroe St	A	419,186	172,393	Existing
Central Loop	175 W Jackson Blvd	A	1,452,390	172,254	Existing
West Loop	222 W Adams St	A	899,025	160,614	Existing
River North	222 Merchandise Mart Plaza	A	4,000,000	153,900	Existing
West Loop	550 W Jackson Blvd	A	406,041	148,089	Existing
River West	1201 W Lake St	A	145,816	133,378	Under Construction
East Loop	200 E Randolph St	A	2,737,902	129,912	Existing
West Loop	30 S Wacker Dr	A	1,200,000	129,216	Existing
West Loop	500 W Madison	A	1,448,095	123,201	Existing
West Loop	123 N Wacker Dr	A	540,621	113,897	Existing
West Loop	111 S Wacker Dr	A	1,213,322	112,380	Existing
Central Loop	1 S Dearborn St	A	828,538	106,624	Existing
West Loop	222 S Riverside Plaza	A	1,299,500	106,263	Existing
River North	20 W Kinzie St	A	280,000	104,820	Existing
Central Loop	222 N LaSalle St	A	1,034,532	103,208	Existing
Central Loop	425 S Financial Pl	A	1,057,880	102,751	Existing
River West	210 N Carpenter St	A	203,589	102,434	Under Construction

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