

Chicago CBD



Market Facts

3.4%

As of May 2018, unemployment stood at **3.4%**, down 100 basis points (bps) year-over-year.

5.5 MSF

There are currently nine properties under construction, totaling **5.5 msf**. Most of these projects are located within the West Loop and River West submarkets.

2.5 MSF

There was **2.5 msf** of space leased during the second quarter. The average deal size was 7,597 sf.

\$680 Million

The largest investment sale transaction this quarter was the sale of One and Two Prudential Plaza for **\$680 million**, or \$310 psf.

1.74 MSF

There were two properties delivered during the second quarter, totaling **1.7 msf**, of which 44% is vacant.

Economic Overview

Chicago's economy has seen significant improvement over the last 12 months. As of May 2018, unemployment stood at 3.4%, down 100 basis points (bps) year-over-year, just slightly lower than the national average of 3.6%. Cook and DuPage Counties saw the largest decreases in unemployment, down 130 bps to 3.4% and 100 bps to 2.6% respectively. Employment sectors which saw the largest year-over-year increases in jobs were construction, financial services, and government. Manufacturing jobs increased 1.5% year-over-year which equates to 6,200 jobs. As of March 2018, total air cargo tonnage was recorded at 178,228 tons—up 2.5% from March 2017.

Tech giants, Facebook and Google, have recently announced major expansion plans within the Chicago market. Facebook is close to inking a deal for 200,000 sf at the recently completed 151 N Franklin, located within the West Loop. The new space will house upwards of 1,000 employees. Google has plans to add 100,000 sf of additional space within the River West submarket, which will also come with approximately 1,000 additional jobs. In addition to Amazon, Chicago is trying to attract Apple, which has announced that they are looking to build a new campus. This would create upwards of 20,000 new jobs. There has been no word yet if Chicago is in the running.

The Post Office is undergoing a major redevelopment, with construction having commenced this quarter. The project will add 2.7 msf of office space to the West Loop. Walgreens has committed to 200,000 sf and plans to move 1,800 employees from their tech and E-commerce departments into the new space. It is rumored that the company may potentially move its entire headquarters into the CBD from suburban Deerfield.

Office Market Overview

The CBD office market continued to see strong fundamentals throughout the second quarter of 2018. Overall vacancy was recorded at 10.9%, up slightly when compared to last quarter. This increase can be attributed to the three new buildings that were delivered during the quarter, totaling 1.7 million square feet (msf), of which 44% is vacant. Class A product saw vacancy increase 20 basis points (bps) to 12.2%. Overall leasing activity increased by 10.3% from last quarter, now sitting at 2.5 msf. The two submarkets which recorded the most activity were the West and Central Loops. Net absorption lagged over the same period, down to 895,741 sf. Only the River West and West Loop submarkets recorded positive net absorption.

There are currently nine properties totaling 5.5 msf under development within the CBD. The two largest being The Post Office and 110 N Wacker Dr, these two-projects account for 4.2 msf, or 75% of construction inventory. Most of the projects are located within the West Loop and River West submarkets.

There were 11 investment sale transactions during the second quarter of 2018 with a transactional volume of \$1.3 billion, this represents a 29.4% increase year-over-year. Foreign capital continues to flow into the Chicago office market. To-date in 2018, Canadian investors have purchased a total of \$557 million of office product. The largest investment sale was Sterling Bay's purchase of One and Two Prudential Plaza from a joint venture lead by the 601 Companies. The two East Loop properties represent 993,507 sf and traded for \$680 million, or \$310 per square foot (psf).

Trends to Watch

Construction Activity – Construction activity has begun to slow, there are currently nine properties under construction which total 5.5 msf. This represents a 21.9% decrease when compared to last quarter. The two largest projects in development account for 75% of construction inventory.

CBD Migration – As firms compete to attract and maintain top talent, the trend of corporate migrations from the suburbs to the CBD will likely continue. Recent announcements include the Ferrara Candy Company, which will relocate from their Oakbrook Terrace location into the West Loop. They are close to finalizing their lease at 625 W Adams St for approximately 60,000 sf.

Technology Tenants – Technology tenants are a major market driver which will likely continue. Top tenants in the market are Google and Facebook, which are looking to add to their existing footprints. Apple is also rumored to be looking at Chicago for their new campus.

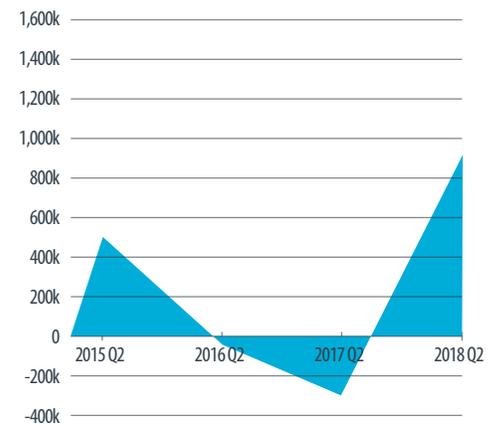
Vacancy Rate (%)



Office Base Rent Overall



Total Net Absorption (SF)



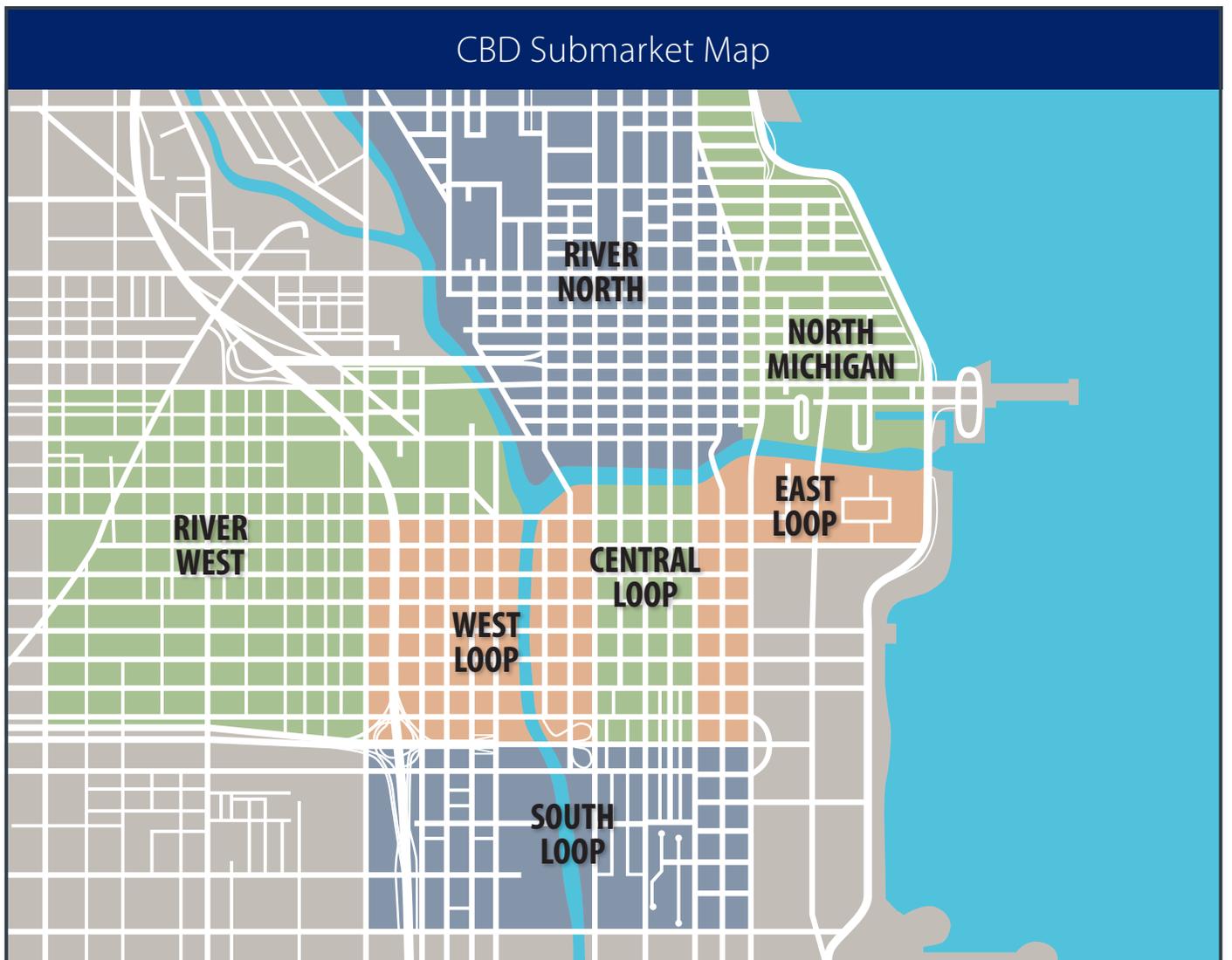
Lease Activity



Chicago CBD Submarket Snapshot | Q2

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	175,477,429	18,022,640	1,382,891	19,405,531	10.9%	12.2%	10.4%	2,574,576	895,741	\$29.03	\$30.22	\$29.27
West Loop	55,799,146	6,601,107	365,239	6,966,346	12.5%	13.1%	11.9%	1,403,012	1,082,799	\$29.23	\$29.51	\$28.04
Central Loop	47,593,750	4,727,679	485,282	5,212,961	11.0%	13.6%	8.3%	468,053	-241,792	\$28.06	\$26.34	\$31.73
East Loop	27,975,646	3,150,053	284,251	3,434,304	12.3%	10.4%	19.2%	310,918	-489,413	\$26.20	\$24.03	\$29.72
River North	18,652,537	1,179,518	137,251	1,316,769	7.1%	4.7%	9.5%	163,334	-69,554	\$37.83	\$42.02	\$34.61
North Michigan Ave	16,839,946	1,425,948	75,009	1,500,957	8.9%	12.2%	5.8%	214,873	-43,267	\$26.47	\$26.68	\$25.65
River West	6,730,688	683,556	35,859	719,415	10.7%	14.7%	10.3%	71,337	661,737	\$31.34	\$32.74	\$31.35
South Loop	3,885,716	254,779	0	254,779	6.6%	N/A	8.2%	7,332	-8,269	\$24.05	N/A	\$23.88





West Loop

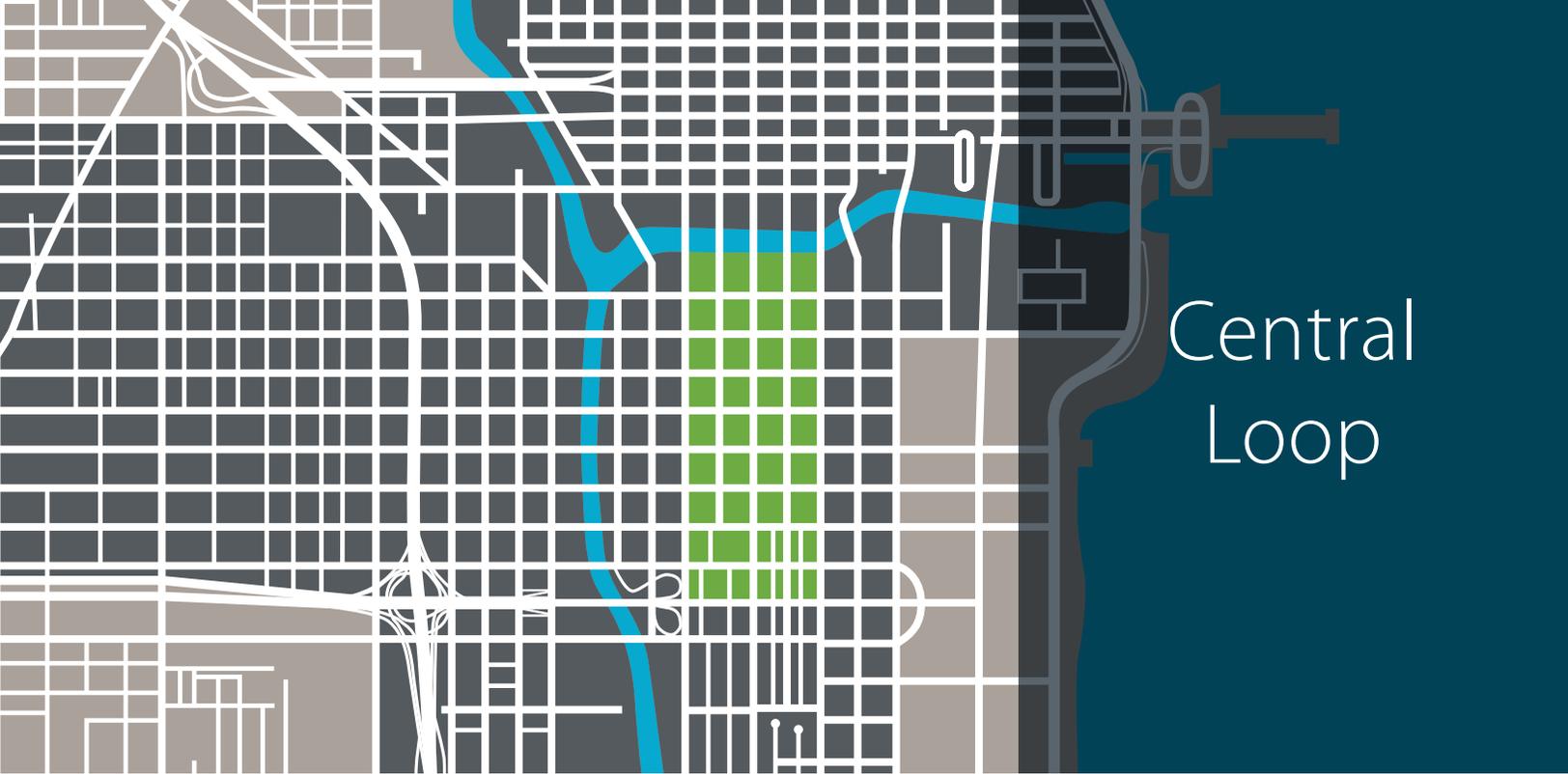
West Loop

The West Loop submarket continued to record the most activity in terms of leasing velocity and construction. Overall vacancy stood at 12.5%, down 30 bps from last quarter. Both class A and B product saw vacancy trend downward. There were 115 leases signed during the second quarter, totaling 1.4 msf of space. The average deal size being 12,368 sf. The submarket recorded the highest amount of space absorbed, totaling just over 1 msf.

Notable lease transactions include Walgreens' 200,000 sf lease at The Post Office, which is currently undergoing a massive renovation. The retailer is relocating 1,800 employees within technology and E-commerce departments from their suburban Deerfield campus. TTX Company, a rail management services organization, has renewed their 106,732-sf lease at 101 N Wacker Dr. The Blackstone Group has signed a 66,296-sf lease at The Willis Tower. The private equity giant purchased the iconic property in 2015 for \$1.3 billion and is currently working on a massive \$500 million renovation. The Ferrara Candy Company recently announced that will be relocating their headquarters from suburban Oakbrook Terrace into the newly-delivered 625 W Adams St. They are in the process of inking a 60,000-sf lease at the property and will be moving all 300 employees into the new space. This will be the first deal signed within the speculative class A building.

There were two buildings delivered within the submarket during the second quarter, adding a total of 1.2 msf. 151 N Franklin St is an 807,355-sf building developed by The John Buck Company and 56.2% leased to both CNA and Hinshaw & Culbertson. 625 W Adams St was built on a speculative basis by White Oak Realty Partners, the class A building added 438,184 sf to the market and is currently vacant. There are two properties under construction, totaling 4.2 msf. The Post Office is the largest project within the CBD and will add 2.7 msf to the market. The property is slated for a mid-2019 completion and is currently 7.4% leased. 110 N Wacker is being developed by a joint venture between Riverside Investment & Development Company and The Howard Hughes Corporation. The 1.5 msf trophy tower is currently 46.9% preleased to Bank of America and Lincoln International. The property is slated for a mid-2020 completion date.

Total RBA	55,799,146 SF
Direct Available Space	6,601,107 SF
Sublet Available Space	365,239 SF
Total Available	6,966,346 SF
Overall Vacancy	12.5%
Leasing Activity	1,403,012 SF
Net Absorption	1,082,799 SF
Average Asking Rent	\$29.23



Central Loop

Central Loop

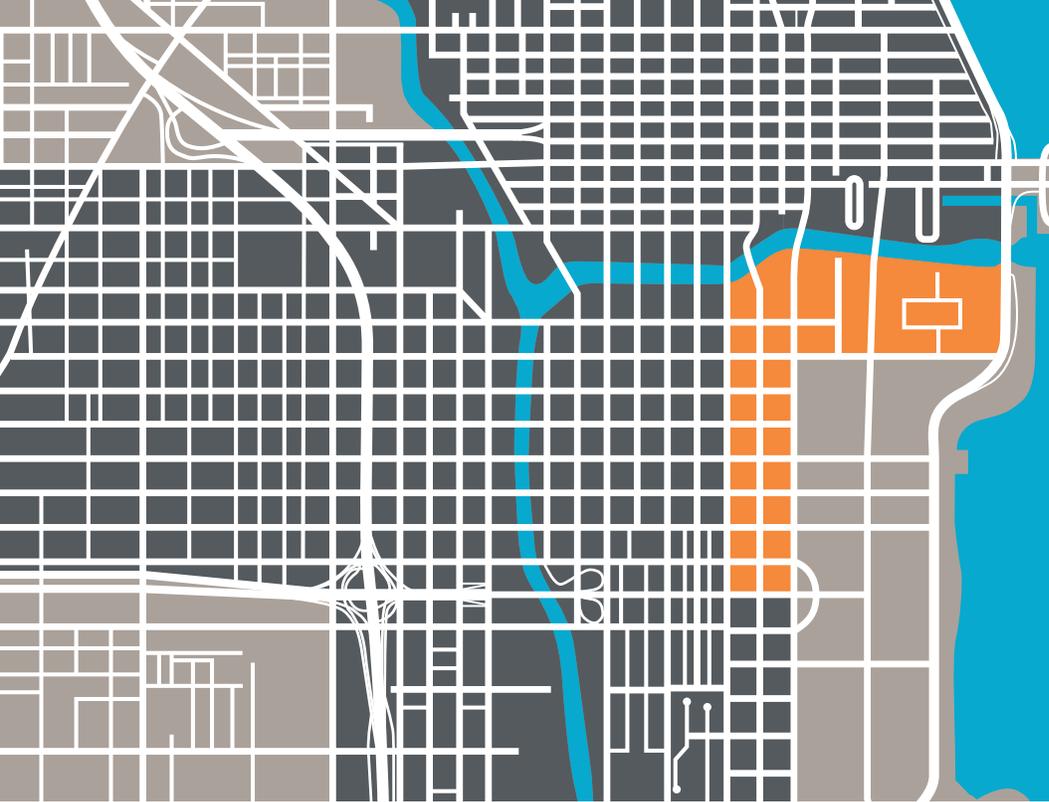
The Central Loop submarket saw a lag in leasing activity during the second quarter of 2018, with vacancy rising 40 bps from last quarter to 11.0%. Class A vacancy saw a substantial increase while class B product saw a declining vacancy rate. There were 85 leases signed during the second quarter, totaling 468,053 sf. This represents a small decrease when compared to last quarter. The average deal size was 4,758 sf. Net absorption recorded a negative 241,792 sf, which was the second lowest absorption within the CBD.

Notable lease transactions include Origami Risk, a risk management software company, which leased 38,539 sf within 222 N LaSalle St., and Amata Office Suites, a coworking firm that targets lawyers, subleased 22,959 sf of space at 77 W Wacker Dr. The largest investment sale transaction was 175 W Jackson Blvd, which traded between Extell Development Company and Brookfield Asset Management. The 1.4 msf, class A property traded for \$305 million, or \$210 psf. The property was 70.5% leased at the time of sale with major tenants being Enova International and Wolverine, occupying 203,067 sf and 87,978 sf respectively.



175 W Jackson Blvd, a 1.4 msf, class A property, traded between Extell Development Company and Brookfield Asset Management for \$305 million, or \$210 psf.

Total RBA	47,593,750 SF
Direct Available Space	4,727,679 SF
Sublet Available Space	485,282 SF
Total Available	5,212,961 SF
Overall Vacancy	11.0%
Leasing Activity	468,053 SF
Net Absorption	-241,792 SF
Average Asking Rent	\$28.06



East Loop

East Loop

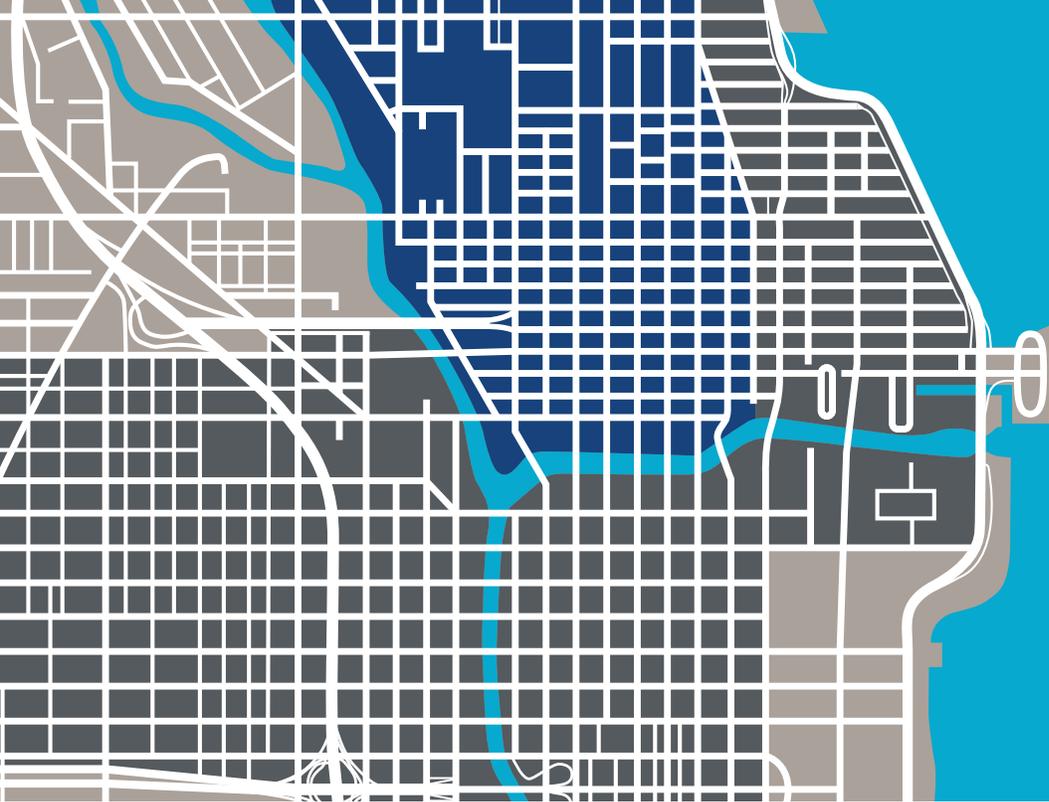
The East Loop submarket saw demand lag throughout the second quarter of 2018. Vacancy recorded a 170 bps increase from last quarter, up from 10.6% to 12.3%. Class A vacancy dropped 60 bps to 10.4%, meanwhile class B vacancy witnessed a dramatic 740 bps increase to 19.2%. Leasing demand dropped 21% from last quarter. There were 45 lease transactions signed during the second quarter, totaling 310,918 sf. The average deals size being 5,706 sf.

The largest lease transaction within the submarket was inked by Slalom Consulting. The business and technology-focused consulting firm leased 64,956 sf at 200 E Randolph St. The firm is moving from within the submarket and expanding from 19,348 sf at 180 N Stetson Ave, also known as Two Prudential Plaza. The Chicago Tribune moved into their new 137,137 sf space at 130 E Randolph St. Construction activity remains unseen within this submarket since 2005.



Slalom Consulting signed the largest lease within the submarket during the second quarter. The business and technology-focused firm signed for 64,956 sf at 200 E Randolph.

Total RBA	27,975,646 SF
Direct Available Space	3,150,053 SF
Sublet Available Space	284,251 SF
Total Available	3,434,304 SF
Overall Vacancy	12.3%
Leasing Activity	310,918 SF
Net Absorption	-489,413 SF
Average Asking Rent	\$26.20



River North

River North

The River North submarket saw a shift in market fundamentals when compared to previous quarters. Overall vacancy rose 50 bps from last quarter, up to 7.1%. Following three quarters of positive net absorption, the submarket recorded a negative 69,554 sf. Leasing activity slowed during the second quarter when compared to previous quarters. There were 42 lease transactions signed during the second quarter, totaling 163,334 sf. The average deal size was 4,803 sf. Notable lease transactions include staffing services company, Insight Global's renewal of 28,717 sf at 353 N Clark.

With no properties currently under construction, there are three proposed development projects totaling 2.3 msf. The largest is Wolf Point South Tower, located at 320 N Orleans, this project would add 1.8 msf of class A office space to the submarket. The project is being developed by Hines Interests and is speculated to break ground in late 2018; however, there have been no recent announcements on whether the project will come to fruition.



Wolf Point South Tower, is a 1.7 msf proposed office development by Hines Interests. The project is speculated to break ground later this year.

Total RBA
18,652,537 SF

Direct Available Space
1,179,518 SF

Sublet Available Space
137,251 SF

Total Available
1,316,769 SF

Overall Vacancy
7.1%

Leasing Activity
163,334 SF

Net Absorption
-69,554 SF

Average Asking Rent
\$37.83



North Michigan Avenue

North Michigan Avenue

The North Michigan Avenue submarket saw leasing demand surge, but with The Chicago Tribune vacating their space within their namesake tower and relocating into the East Loop submarket, vacancy still increased. Currently sitting at 8.9%, overall vacancy witnessed a 30 bps increase when compared to last quarter. Both class A and B product recorded moderate upticks. Do to the above-mentioned increase in vacant space, net absorption was recorded at negative 43,267 sf. There were a total of 30 lease transactions signed throughout the second quarter, totaling 214,873 sf. The average deal size was 7,248 sf.

The largest lease transaction signed during the second quarter was Rent24, which inked a deal for 100,000 sf at 500 N Michigan Ave. This represents 46.5% of the overall sf leased. This will mark the third location that the German-based coworking space will have within the Chicago CBD. WeWork is close to finalizing two large leases within the submarket. The largest being for around 100,000 sf at 515 N State St and the second for 60,000 sf at 330 N Wabash Ave. The largest investment sale transaction this quarter was the sale of The Wrigley Building, located at 400-410 N Michigan Ave. The 472,639-sf property traded hands between BDT Capital Partners and Mansueto Properties for \$255,000,000, or \$539 psf. Both towers had high occupancy at the time of sale, 400 N Michigan Ave was 90.6% and 410 N Michigan was 94.8%.

The submarket is predominantly known for its strong retail presence. There has been no new office construction within the submarket for several years, but there is one lab, medical, and educational building currently under construction. The Northwestern Biomedical Research Tower—a 700,000-sf facility located on the Northwestern Medical campus—is being developed by the university. The facility is slated for a mid-2019 completion.

Total RBA
16,839,946 SF

Direct Available Space
1,425,948 SF

Sublet Available Space
75,009 SF

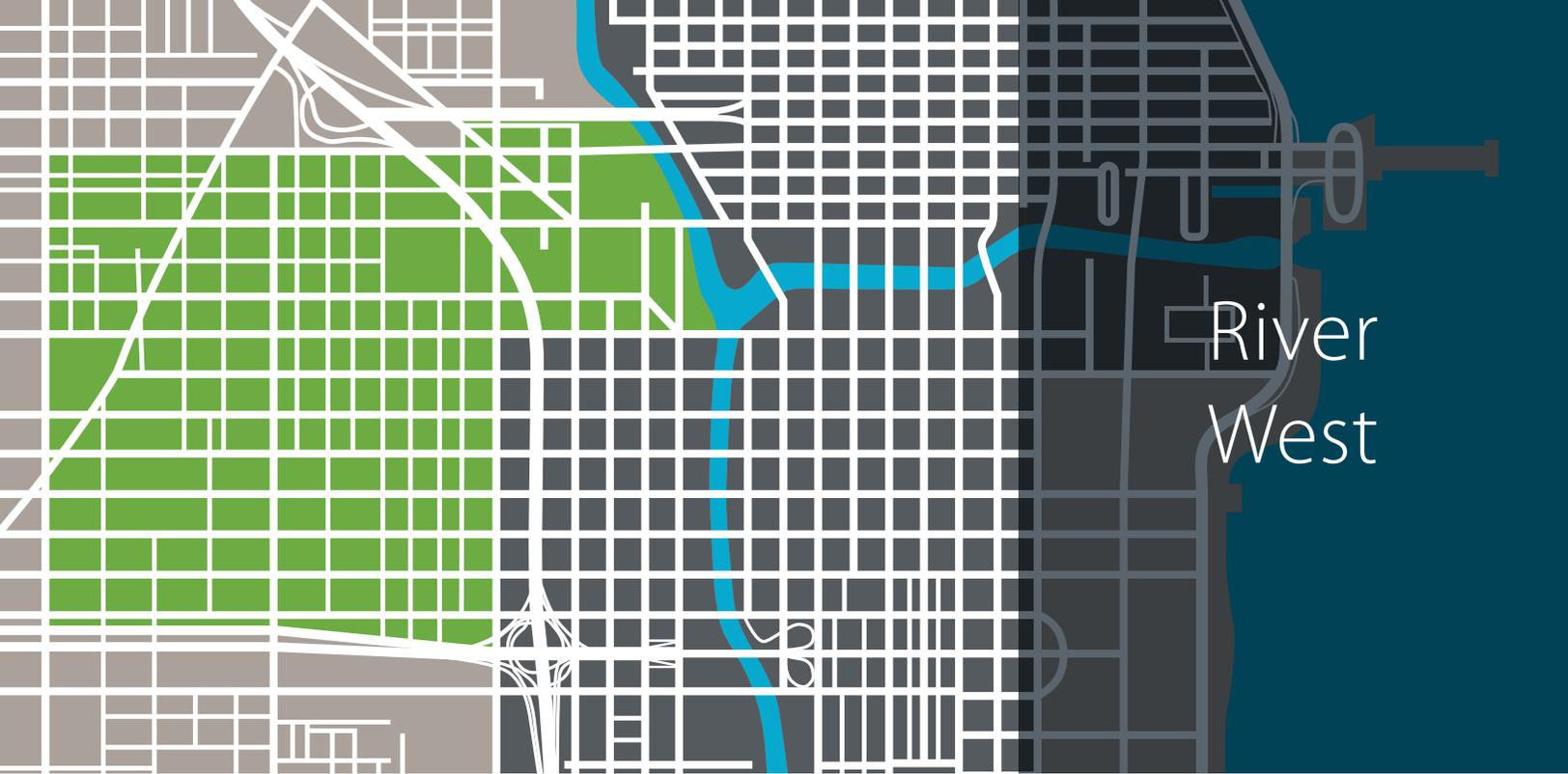
Total Available
1,500,957 SF

Overall Vacancy
8.9%

Leasing Activity
214,873 SF

Net Absorption
-43,267 SF

Average Asking Rent
\$26.47



River West

River West

The booming River West submarket continues to see the most activity in terms of new development. Overall vacancy dropped by 230 bps from last quarter to 10.7%. Class A product recorded a dramatic downward shift in vacancy from 26.8% to 14.7%. The submarket recorded the second highest net absorption for the second quarter, posted at 661,737 sf. There were 21 lease transactions signed during the quarter, totaling 71,337 sf. The average deal size was 3,397 sf.

Notable lease transactions include Elite Labor Services, an employment agency, which renewed their 11,261-sf space at 1400 W Hubbard St. S2G Advisors, an agriculture venture fund, leased 11,187 sf at 210 N Carpenter St. The property is currently under construction and 40% preleased, it is being developed by Sterling Bay and slated for a late-2018 delivery date. Notable investment sale transactions within the submarket include the sale of 113 N May St. The 35,664-sf property traded between Sterling Bay and Vista Property Group for \$13.6 million, or \$382 psf. The property was 100% leased to a technology coworking space called Salt Flats.

The River West submarket continues to record tremendous construction activity. The McDonald's world headquarters was delivered during the second quarter. The 547,483-sf project, located at 1045 W Randolph, was developed by Sterling Bay. The property is 95.4% leased to the McDonalds Corporation. There are an additional six properties under construction, totaling 1.1 msf. The largest project currently under construction is 333 N Green St, a class A, 590,525-sf property being developed by Sterling Bay. The spec development is currently 53.1% preleased, with advertising firm WPP taking approximately 42% of the building.

Total RBA	6,730,688 SF
Direct Available Space	683,556 SF
Sublet Available Space	35,859 SF
Total Available	719,415 SF
Overall Vacancy	10.7%
Leasing Activity	71,337 SF
Net Absorption	661,737 SF
Average Asking Rent	\$31.34



South Loop

The South Loop submarket remained relatively unchanged from last quarter. Vacancy saw a minor uptick, up 70 bps to 6.6%. Net absorption was recorded at negative 8,269 sf. Lease activity jumped from 1,000 sf last quarter to 7,332 sf. There were three lease transactions during the second quarter, with an average deal size of 2,444 sf. The deals completed within this submarket tend to be on the smaller size and within class B buildings.

There has been no significant development within the submarket except for multifamily and retail. There are talks of converting an old warehouse/showroom building located at 2222 S Michigan Ave into coworking space with first floor retail. The 115,000-sf property was purchased by two former football players who are banking that the new Wintrust Arena to the south will spur future growth within the submarket.



There are talks of converting an old warehouse/showroom building located at 2222 S Michigan Ave into coworking space with first floor retail.

Total RBA	3,885,716 SF
Direct Available Space	254,779 SF
Sublet Available Space	0 SF
Total Available	254,779 SF
Overall Vacancy	6.6%
Leasing Activity	7,332 SF
Net Absorption	-8,269 SF
Average Asking Rent	\$24.05



Q2 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	Q1-2019	The 601W Companies	Walgreens	7%
West Loop	110 N Wacker Dr	A	1,500,000	Q3-2020	Riverside Investment & Development Company	Bank of America Lincoln International	47%
River West	333N Wacker Dr	A	590,525	Q1-2020	Sterling Bay	WPP US	53%
Central Loop	145 S Wells St	A	224,300	Q3-2019	Moceri & Roszak		8%
River West	210 N Carpenter St	A	203,589	Q3-2018	Sterling Bay	Leopardo Construction, Revolution Marketing	29%
River West	1201 W Lake St	A	145,816	Q4-2018	McCaffery Interests Inc	N/A	0%
River West	905 W Fulton Market	A	93,604	Q2-2019	Thor Properties LLC	N/A	0%
River West	811 W Fulton Market	A	63,909	Q1-2020	Shapack Partners	N/A	0%
River West	939 W Fulton St	A	49,957	Q2-2018	LG Development Group	Vital Proteins	100%
		2018	399,362				
		2019	3,017,904				
		2020	2,154,434				
		Total	5,571,700				

Q2 Deliveries

Market	Building	Class	RBA	Developer	Major Tenants	% Leased**
West Loop	151 N Franklin St	A	807,355	The John Buck Company	CAN, Hinshaw & Culbertson	56%
West Loop	25 W Adams St	A	438,184	White Oak Realty	N/A	0%
River West	045 W Randolph St	A	547,483	Sterling Bay	McDonalds Corporation	92%

CBD | Notable Q2 Leases

Tenant	Address/Name	Submarket	Size (SF)	Type
Walgreens	433 W Van Buren St	West Loop	200,000	New
TTX Company	101 N Wacker Dr	West Loop	106,732	Renewal
Rent 24	500 N Michigan Ave	North Michigan Ave	100,000	New
Blackstone Group	The Willis Tower	West Loop	66,296	New
Slalom Consulting	200 E Randolph	East Loop	64,956	New
Lincoln International	110 N Wacker Dr	West Loop	55,751	New
Convене	131 S Dearborn St	Central Loop	50,000	New

CBD | Notable Q2 Investment Sales

Address/Name	Size (SF)	Buyer	Seller	Sales Price	PSF
175 W Jackson Blvd	1,452,390	Brookfield Asset Management	Extell Development Company	\$305,000,000	\$210.00
209 W Jackson Blvd	142,619	Market Street R E Partners	Frabman Group	\$23,350,000	\$163.72
113 N May St	35,664	Vista Property Group	Sterling Bay	\$13,650,000	\$382.74

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	1,500,000	765,626	Under Construction
West Loop	625 W Adams St	A	438,184	417,282	Existing
North Michigan Avenue	515 N State St	A	671,957	340,362	Existing
Central Loop	21 S Clark St	A	1,904,229	297,000	Existing
Central Loop	203 N LaSalle St	A	750,000	261,379	Existing
River West	333 N Green St	A	590,525	248,318	Under Construction
West Loop	151 N Franklin St	A	807,355	230,688	Existing
West Loop	71 S Wacker Dr	A	1,490,825	215,447	Existing
River North	350 N Orleans St	A	1,308,156	207,112	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
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	147,294	Existing
West Loop	500 W Madison St	A	1,448,095	141,404	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
Central Loop	222 N LaSalle St	A	1,034,532	126,387	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 West	210 N Carpenter St	A	203,589	106,083	Under Construction
River North	20 W Kinzie St	A	280,000	104,820	Existing

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