

Chicago CBD



Market Facts

4.1%

Chicago's unemployment rate continued to trend downward, standing at 4.1% as of May 2017.

34,400 jobs

The Chicago metro area added over 34,400 jobs, a 0.7% year-over-year increase.

10,900 jobs

The professional and business services sector was most active in Chicago during the second quarter of 2017 with 10,900 jobs added year-over-year.

90%

The Bureau of Labor Statistics reported nearly 90% of the approximately 330,000 jobs created in Illinois from 2011-2016 were located in the Chicago metro area.

#1

The results are in: Site Selection Magazine has named the Chicagoland area 2016's top metropolitan area for corporate investment.

Economic Overview

Chicago's diverse economy continued to improve throughout the second quarter of 2017. The metropolitan area added more than 34,400 jobs as of May 2017—up 0.7% year-over-year. This job growth has pushed the unemployment rate down to 4.1% over the same period. The super sectors that recorded the highest year-over-year growth in employment were information technology, financial services, and education and health services, up 3.5%, 3.0% and 1.5% respectively. The manufacturing sector continued to see minimal growth.

The Chicago housing market recorded an increase in sale prices. As of May 2017, there have been 12,491 home sales—up 5.1% year-over-year. Median sale prices rose 5.6% over the same period to \$246,900. Rents across the city are expected to rise considerably with the proposed tax increase for the Chicago Public Schools. Looking forward, home sales in certain suburban areas are expected to pick up throughout 2017 as home prices in the city of Chicago keep rising.

Office Market Overview

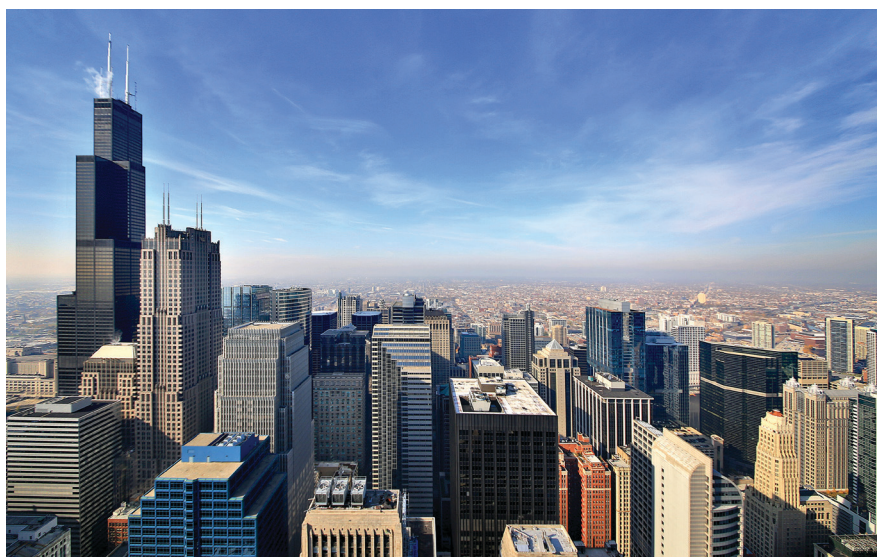
The downtown Chicago office market has continued to see strong leasing demand, in particular from larger corporations looking to relocate into the CBD. Recent corporate relocations include Peapod and Great Wolf Resorts. Peapod just announced that it will relocate from their north suburban headquarters, consolidating two satellite offices already in the loop and

the 180 employees based in the suburbs. Waterpark operator Great Wolf Resorts has relocated from Madison, Wisconsin to the River North submarket. They stated that the move was to attract talent and improved proximity to their resorts.

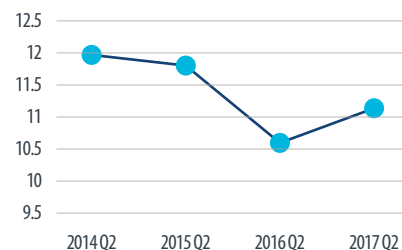
Landlords across the market continued to pour capital into building improvements, including tenant amenities and outdoor space. Significant redevelopment continued within the River West submarket, recording several notable big-wins in terms of relocating tenants, further solidifying its growing position within the CBD. As costs in these popular areas continue to escalate, many tenants are no longer focused solely on preferred submarkets. Many new downtown tenants are taking space in alternative areas, which are often more cost effective or provide distinctive lifestyle advantages; a trend likely to continue in the foreseeable future.

Overall vacancy within the CBD recorded a moderate 40-basis point (bps) increase in vacancy to 11.1%

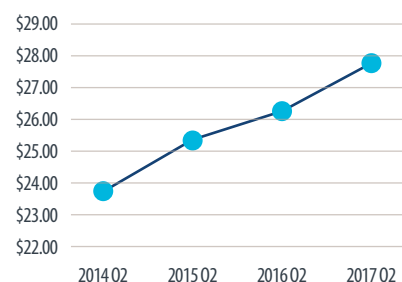
from last quarter. Both class A and B product also saw vacancy increase to 12.5% and 10.4%, respectively. There has been strong leasing activity throughout the quarter with more than two million square feet (msf) having been signed. This has had little impact on net absorption as all submarkets have recorded negative absorption this quarter. Construction activity continued to thrive as the need for space increases. There is currently 2.4 msf under construction, with 1.2 msf preleased. An additional 1.3 msf is expected to break ground in early 2018. The second-generation space vacated by tenants migrating to newer product will continue to negatively affect both vacancy and absorption until a new tenant is found. Average asking rates have shifted slightly downward to \$27.66 per square foot (psf). Rates in select submarkets such as the River North, River West and the Central Loop submarkets continue to record the highest rents. The Chicago CBD should continue to benefit from strong demand throughout the remainder of 2017.



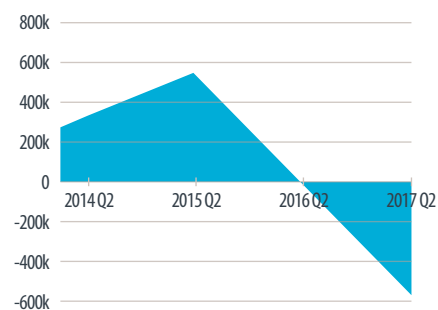
Vacancy Rate (%)



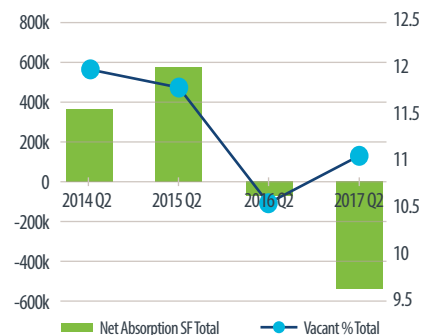
Office Base Rent Overall



Total Net Absorption (SF)



Net Absorption vs. Vacancy (%)



**CBD**

Construction & Deliveries

Q2 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 | CNACorp, 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 | 1330 W Fulton St | A | 287,928 | Q3-2017 | Sterling Bay | Dyson Inc, Glassdoor, Sterling Bay, Skendar Construction | 61% |
| River West | 905 W Fulton St | A | 88,000 | Q2-2018 | Thor Properties | N/A | 0% |
| River West | 816-820 W Fulton St | A | 68,692 | Q2-2018 | Thor Properties | N/A | 0% |
| 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 | | | | 393,885 |
| | | | 2018 | | | | 2,006,978 |
| | | | Total | | | | 2,400,863 |

Q2 Deliveries

| Market | Building | Class | NRA | Delivery Date | Developer | Major Tenants | % Leased |
|------------|----------------------|-------|--------|---------------|--------------------------------|---------------|----------|
| River West | The Offices 900 West | A | 90,344 | Q2-2017 | Tucker Development Corporation | N/A | 56% |

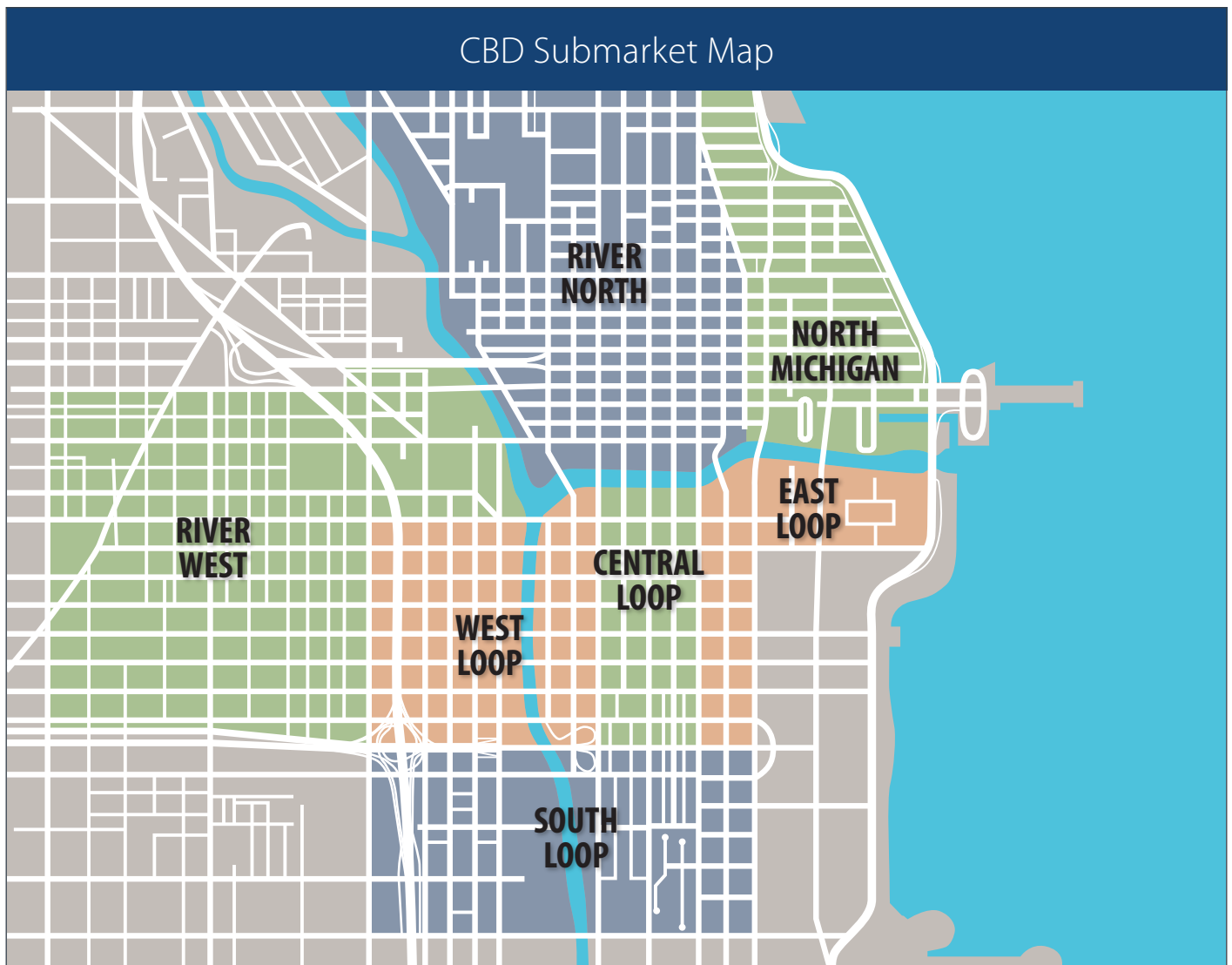
Select Proposed Properties

| 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 | 0% |
| 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 | 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 | 174,628,407 | 17,685,189 | 1,743,788 | 19,428,977 | 11.1% | 12.5% | 10.4% | 2,046,075 | -538,759 | \$27.66 | \$26.43 | \$30.48 |
| West Loop | 54,547,193 | 6,247,565 | 925,416 | 7,172,981 | 13.2% | 14.1% | 11.9% | 1,104,680 | -272,768 | \$27.95 | \$27.77 | \$28.61 |
| Central Loop | 47,714,765 | 4,374,995 | 332,908 | 4,707,903 | 9.9% | 10.3% | 9.8% | 515,204 | -50,067 | \$28.30 | \$26.41 | \$31.54 |
| East Loop | 27,909,581 | 3,256,104 | 206,112 | 3,462,216 | 12.4% | 12.4% | 15.5% | 215,554 | -92,960 | \$24.66 | \$22.29 | \$30.15 |
| River North | 18,377,444 | 1,315,049 | 139,046 | 1,454,095 | 7.9% | 6.6% | 8.9% | 213,444 | -65,175 | \$33.33 | \$31.39 | \$35.91 |
| North Michigan Ave | 16,653,622 | 1,427,268 | 89,636 | 1,516,904 | 9.1% | 13.4% | 6.4% | 200,799 | -7,971 | \$25.91 | \$26.70 | \$24.76 |
| River West | 5,492,521 | 731,140 | 48,839 | 779,979 | 14.2% | 16.2% | 14.5% | 25,175 | -43,460 | \$28.43 | \$32.05 | \$29.87 |
| South Loop | 3,861,181 | 333,068 | 1,831 | 334,899 | 8.7% | None | 7.1% | 30,019 | -6,513 | \$24.19 | None | \$25.19 |





West Loop

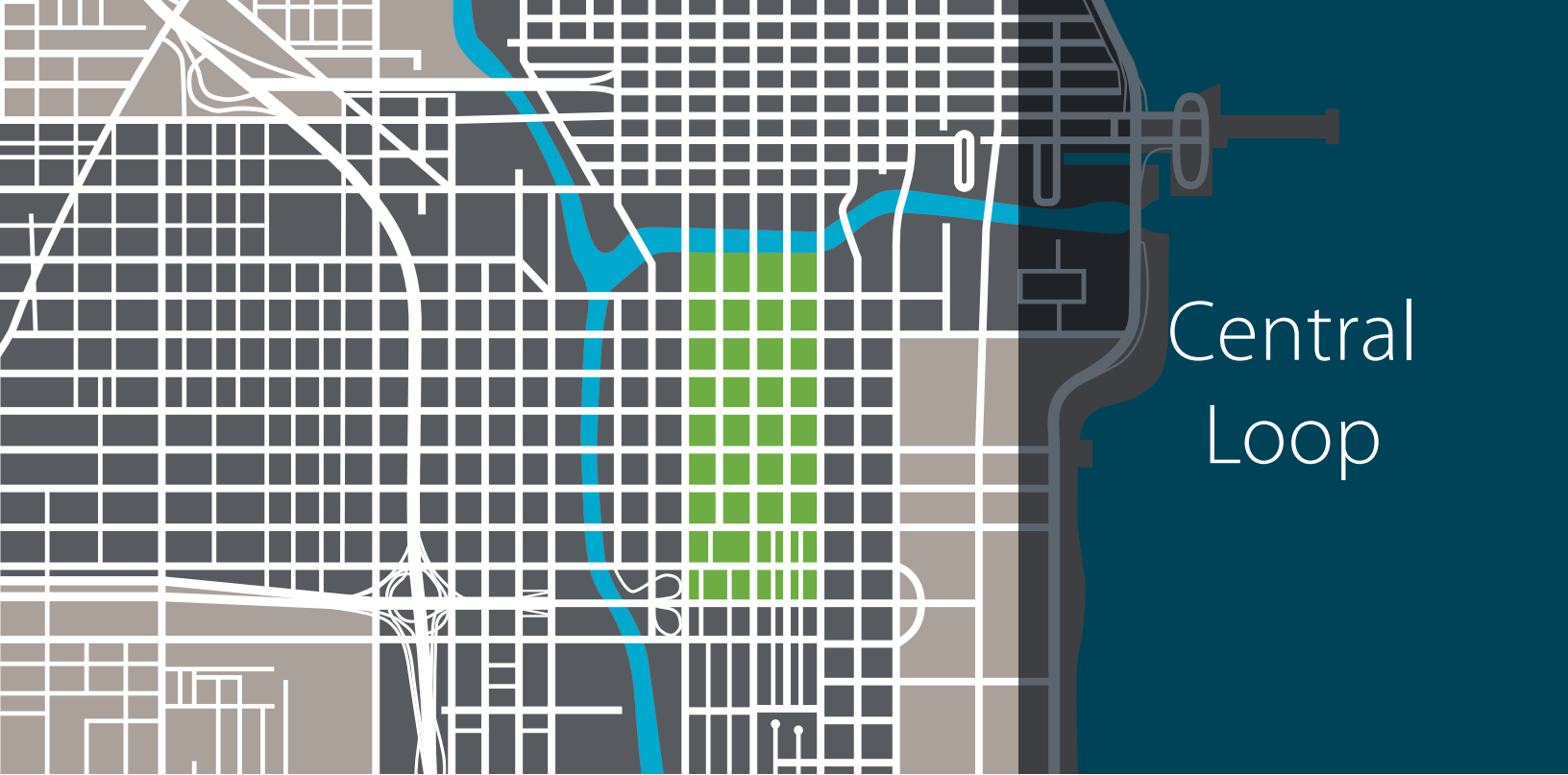
West Loop

The West Loop submarket contains 54 msf of office space, offering a highly convenient location which benefits from a strong and diverse tenant base. Vacancy was recorded at 13.2% during the second quarter of 2017—up 60 bps over last quarter. Class A product recorded a substantial uptick in vacancy—up to 14.1%. These increases can be attributed to both River North Point and 150 N. Riverside Plz. having been recently completed, both being class A trophy towers and still 30% vacant. As this new and second-generation space is absorbed, submarket vacancy rates should decrease.

Average asking rental rates are currently posted at \$27.95 psf with rental rates in select class A product upwards of \$35.00 psf. The submarket has seen consistent leasing activity during the second quarter of 2017, with over one msf having been leased, representing 50% of leases signed within the quarter. The submarket recorded the highest amount of available sublease space in the CBD with over 6.2 msf available. Net absorption lagged when compared to previous quarters due to the recently completed buildings and vacated second-generation space. Notable second-quarter transactions include Bank of America, Schiff Hardin and Expedia. Bank of America signed a 533,210 sf lease, prompting the development of a 1.3 msf trophy office tower which is expected to break ground in early 2018. Schiff Hardin has renewed their lease and downsized into 148,471 sf within the Willis Tower. Expedia is relocating within the submarket into a 96,887-sf space at 500 W. Madison St.

There is currently 1.2 msf currently under construction within the submarket. This includes 151 N. Franklin St. and 625 W. Adams St. 151 N. Franklin St. comprises 807,355 sf and is 52.3% preleased to CNA and Hinshaw & Culbertson. 625 W. Adams St. is being built on a speculative basis and currently has no signed tenants. The property has a mid-2018 completion date and will add 434,931 sf to the market. Looking forward, the West Loop will continue to see a declining vacancy rate as demand remains high throughout the submarket.

| | |
|------------------------|----------------------|
| Total RBA | 54,547,193 SF |
| Direct Available Space | 6,247,565 SF |
| Sublet Available Space | 925,416 SF |
| Total Available | 7,172,981 SF |
| Overall Vacancy | 13.2% |
| Leasing Activity | 1,104,680 SF |
| Net Absorption | -272,768 SF |
| Average Asking Rent | \$27.95 |



Central Loop

Central Loop

The Central Loop submarket, located between the West and East Loop submarkets, contains 47 msf of office space. This submarket is considered Chicago’s banking and law hub. Vacancy saw an uptick when compared to last quarter—up 30 bps to 9.9%, with class A product recorded at 10.3%. Average asking rental rates are currently posted at \$28.30 psf. Class A rental rates are averaging \$26.41 psf; however, prime class A office space rents are north of \$30.00 psf. This submarket has attracted several tenants seeking more cost-effective space, which is likely to continue as other submarkets are becoming more expensive.

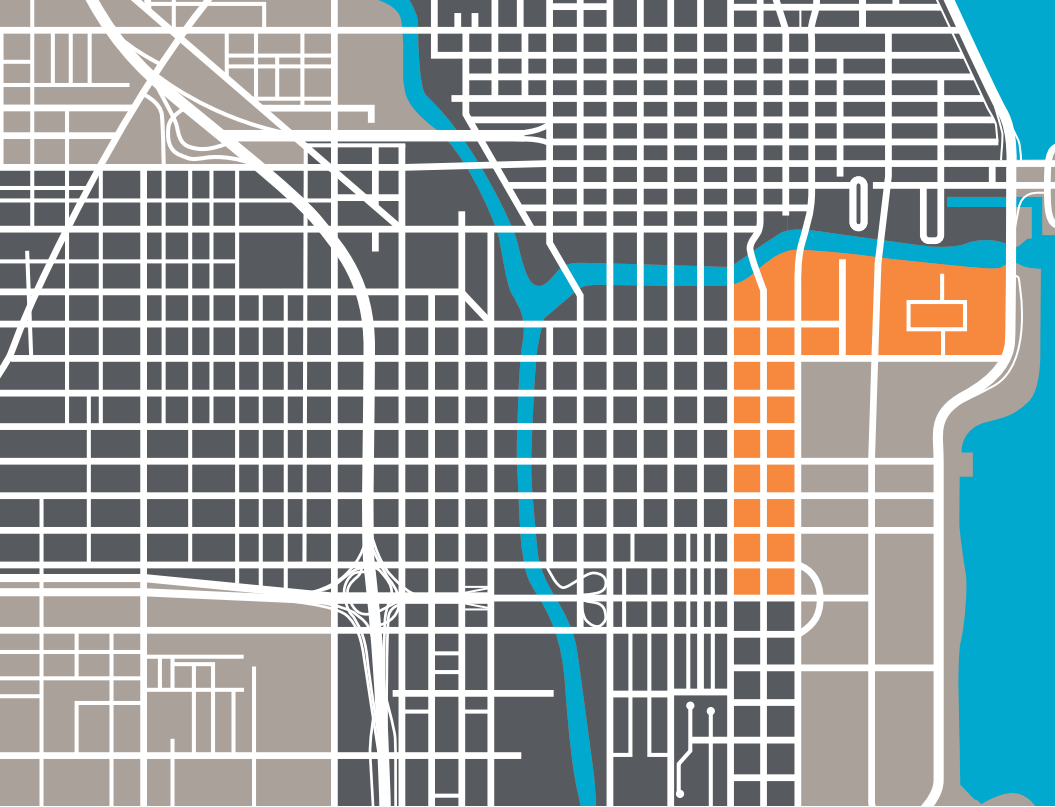
Leasing activity has remained strong with 515,204 sf leased during the second quarter. Notable second quarter transactions include Active Campaign and Screenshot, which have leased 52,233 sf and 52,210 sf at 1 N. Dearborn St. respectively. Additionally, the National Restaurant Group has signed for 42,502 sf at 175 W. Jackson Blvd.

While there has been no new construction in recent years, Thomas Roszak, a leading architect and developer, has recently announced plans to construct a 224,300-sf office tower on the site of a demolished parking structure. Pending construction permits, the development is projected to break ground in late 2017. Plans for a boutique office building featuring a rooftop bar, terrace and wading pool in the heart of the Loop should see high activity.



Local architect, Thomas Roszak, plans the Central Loop’s newest addition, a 224,300 sf office development located at 145 S. Wells St.

| | |
|------------------------|---------------|
| Total RBA | 47,714,765 SF |
| Direct Available Space | 4,374,995 SF |
| Sublet Available Space | 332,908 SF |
| Total Available | 4,707,903 SF |
| Overall Vacancy | 9.9% |
| Leasing Activity | 515,204 SF |
| Net Absorption | -50,067 SF |
| Average Asking Rent | \$28.30 |



East Loop

East Loop

The East Loop submarket contains nearly 28 msf of office space, with a vacancy rate of 12.4% during the second quarter of 2017. This represents a moderate 30 bps drop when compared to last quarter. Class A product remained relatively unchanged over the same period, with two msf vacant across 16 buildings.

Average asking rental rates are currently posted at \$24.66 psf, with class A rental rates averaging \$22.29 psf. The submarket has recorded an uptick in leasing activity during the second quarter of 2017—up 14% from last quarter. The most notable second quarter transactions include Opportunity Loans and JAHN. Opportunity Loans has leased 33,842 sf at 130 E. Randolph St. JAHN has renewed their 21,228-sf space at 35 E. Wacker Dr. A lack of new construction in recent years greatly benefits the existing inventory's ability to hold and attract tenants. Looking forward, the East Loop should continue to see a declining vacancy rate as demand remains high due to lower rental rates when compared to neighboring submarkets.



Construction in this market has remained relatively flat, benefitting owners of existing inventory

Total RBA
27,909,581 SF

Direct Available Space
3,256,104 SF

Sublet Available Space
206,112 SF

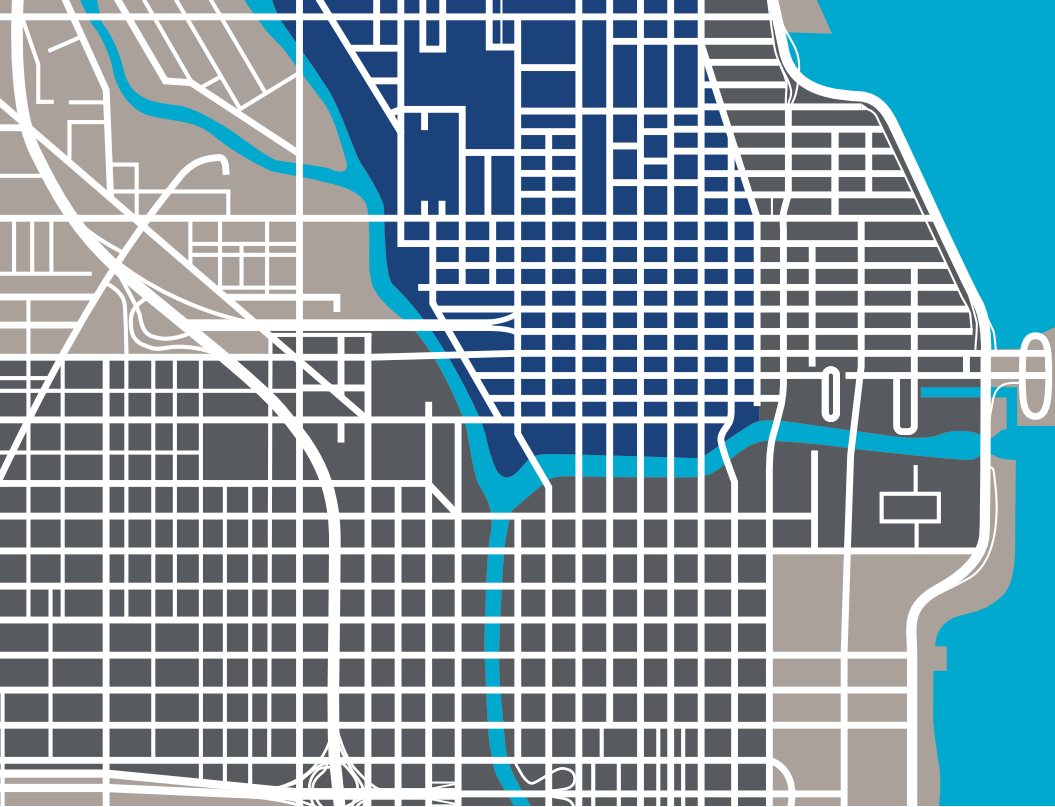
Total Available
3,462,216 SF

Overall Vacancy
12.4%

Leasing Activity
215,554 SF

Net Absorption
-92,960 SF

Average Asking Rent
\$24.66



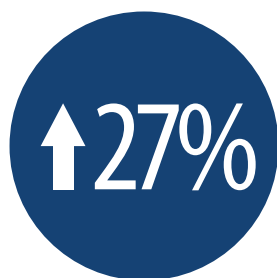
River North

River North

The River North submarket contains 18.3 msf and remains one of the tightest submarkets within the CBD. Vacancy has continued to shift downward to 7.9% as of the second quarter. There is limited class A product, with only six of the submarket's 37-building inventory catalogued as class A. Vacancy has remained relatively tight at 6.6%. Average asking rental rates are currently the highest within the CBD—averaging \$33.33 psf, with some class A rents upwards of \$40.00 psf.

Leasing activity has seen an uptick during the second quarter—up 27% to 213,44 sf from last quarter. Notable lease transactions include Allstate and GGP. Allstate has expanded into an additional 57,112 sf of space bringing their total footprint to 102,000 sf at The Merchandise Mart. The firm is relocating 400 employees from their suburban location. GGP has announced that it plans to relocate into 160,000 sf in the submarket from the West Loop.

There is currently one property under construction within the submarket, located at 412 N. Wells St., with an anticipated delivery date of late-2017. The 56,000-sf property is being developed by Kinzie Street Partners and is 30.8% preleased. An abundance of redeveloped timber loft buildings offering a more creative work environment make the River North submarket highly desirable. The remainder of 2017 should remain much the same with higher absorption numbers as vacant space is leased up.



Leasing activity is up 27% to 213,44 sf from the first quarter of 2017

Total RBA
18,377,444 SF

Direct Available Space
1,315,049 SF

Sublet Available Space
139,046 SF

Total Available
1,454,095 SF

Overall Vacancy
7.9%

Leasing Activity
213,444 SF

Net Absorption
-65,175 SF

Average Asking Rent
\$33.33



North Michigan

North Michigan

The North Michigan submarket contains 16.6 msf of office space, much of it located along the famed Michigan Avenue retail corridor. Vacancy continued to shift downward 100 bps to 9.1%, with class A vacancy shifting down to 13.4%. Average asking rental rates are currently posted at \$25.91 psf, with class A rental rates posted at \$26.70 psf.

Leasing activity recorded a slight downturn, dropping 65% to 200,799 sf, which has negatively affected net absorption. The second quarter saw the first negative absorption posting in five quarters. The average deal size for transactions recorded within the second quarter was 7,511 sf.

Ownership of 625 N. Michigan Ave. have recently placed the 343,072-sf property on the market, having brought occupancy up to 85% from 71%. Due to steady demand and lack of new construction in recent years in this submarket, moderate growth throughout the remainder of 2017 should be anticipated.



Owners of 625 N. Michigan Ave. have placed the 343,072 sf property up for sale

| | |
|------------------------|----------------------|
| Total RBA | 16,653,622 SF |
| Direct Available Space | 1,427,268 SF |
| Sublet Available Space | 89,636 SF |
| Total Available | 1,516,904 SF |
| Overall Vacancy | 9.1% |
| Leasing Activity | 200,799 SF |
| Net Absorption | -7,971 SF |
| Average Asking Rent | \$25.91 |



River West

River West

The River West area remains Chicago's hottest office submarket, with an RBA of 5.4 msf and continuing to grow rapidly. Big name tenants such as Google and McDonalds have led the corporate migration into the submarket. The vacancy is currently recorded at 14.2% with a limited supply of class A product, leaving 110,000 sf of space vacant. Average asking rental rates have seen an uptick to \$28.42 psf with class A rates averaging \$32.05 psf. The submarket has seen several newsworthy transactions over the last few years. The most notable second quarter transaction was the 16,500-sf lease that was signed by Franklin Energy at 120 N. Racine Ave.

River West has continued to see significant construction activity. There are currently five properties under construction totaling 1.1 msf, most notably Randolph West, which will house McDonalds Corporation's new headquarters. Additionally, Fulton West, a 287,928-sf development, is currently 61.6% preleased. Both are being developed by the Sterling Bay Companies. The only property delivered during the second quarter is The Offices 900 West located at 159 N. Sangamon St. which was developed by Tucker Development. The 90,344-sf property is currently 56% leased. There are no signs of the River West submarket slowing down anytime soon. The outlook for the remainder of 2017 is positive and the submarket should see increased activity and further development.



Recently delivered:
90,344 SF at 159 N. Sangamon St.

| | |
|------------------------|--------------|
| Total RBA | 5,492,521 SF |
| Direct Available Space | 731,140 SF |
| Sublet Available Space | 48,839 SF |
| Total Available | 779,979 SF |
| Overall Vacancy | 14.2% |
| Leasing Activity | 25,175 SF |
| Net Absorption | -43,460 SF |
| Average Asking Rent | \$28.43 |



South Loop

South Loop

The South Loop submarket contains 3.8 msf of office space. Vacancy has remained relatively unchanged over the past several quarters, recorded at 8.7% during the second quarter. Average asking rental rates are currently posted at \$24.19 psf. Leasing activity remained moderate throughout the second quarter. Due to no new construction in recent years and a limited supply, existing buildings should continue to see activity throughout the remainder of 2017.

Related Midwest, a prolific Chicago developer, has recently announced plans for the development of a 62-acre site located along the Chicago River within the submarket. The plan calls for ten msf of mixed-use space including multi-family, office and retail. The project is being designed by the prominent architectural firm Skidmore Owings & Merrill. The massive project is expected to cost several billion dollars and breathe life into the southern portions of the CBD.



Related Midwest is planning the next “city within a city” on a 62-acre site. The future development will comprise ten msf of new mixed-use development.

| | |
|------------------------|---------------------|
| Total RBA | 3,861,181 SF |
| Direct Available Space | 333,068 SF |
| Sublet Available Space | 1,831 SF |
| Total Available | 334,899 SF |
| Overall Vacancy | 8.7% |
| Leasing Activity | 30,019 SF |
| Net Absorption | -6,513 SF |
| Average Asking Rent | \$24.19 |

CBD | Notable Q2 Leases

| Tenant | Address/Name | Submarket | Size (SF) | Type |
|-------------------|----------------------------|--------------|-----------|---------|
| Bank of America | 110 N Wacker Dr | West Loop | 533,210 | New |
| Schiff Hardin LLP | 233 S Wacker Dr | West loop | 148,471 | Renewal |
| Expedia | 500 W Madison St | West Loop | 96,887 | New |
| Allstate | 222 Merchandise Market Plz | River North | 57,112 | New |
| Active Campaign | 1 N Dearborn St | Central Loop | 52,233 | New |

CBD | Notable Q2 Investment Sales

| Address/Name | Size (SF) | Buyer | Seller | Sales Price | PSF |
|-----------------|-----------|-------------------------|-------------------------------------|---------------|----------|
| 125 S Wacker Dr | 576,000 | Ivanhoe Cambridge, Inc. | Metropolitan Life Insurance Company | \$145,000,000 | \$251.74 |
| 308 W Erie St | 45,359 | Urban Innovations | Speedwagon properties | \$12,800,000 | \$282.19 |
| 6 S Clark St | 32,000 | Realterm US, Inc. | The Wendy's Company | \$3,580,000 | \$111.88 |

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

| Submarket | Building Address | Class | Building NRA | Contiguous Space | Space Type |
|--------------|---------------------|-------|--------------|------------------|------------|
| Central Loop | 203 N LaSalle St | A | 750,000 | 227,349 | Direct |
| Central Loop | 222 N LaSalle St | A | 1,034,532 | 164,926 | Direct |
| Central Loop | 1 S Dearborn St | A | 828,538 | 106,624 | Direct |
| East Loop | 333 S Wabash Ave | A | 1,125,708 | 366,506 | Direct |
| East Loop | 200 E Randolph St | A | 2,737,902 | 354,127 | Direct |
| East Loop | 233 N Michigan Ave | A | 980,362 | 154,082 | Direct |
| River North | 20 W Kinzie St | A | 258,658 | 104,698 | Sublet |
| West Loop | 625 W Adams St | A | 434,931 | 432,709 | New |
| West Loop | 300 S Riverside Plz | A | 1,048,357 | 259,238 | Direct |
| West Loop | 151 N Franklin St | A | 807,355 | 257,016 | New |
| West Loop | 71 S Wacker Dr | A | 1,490,825 | 246,872 | Direct |
| West Loop | 227 W Monroe St | A | 1,571,000 | 188,337 | Direct |
| West Loop | 500 W Madison St | A | 1,448,095 | 141,403 | Direct |
| West Loop | 550 W Jackson Blvd | A | 406,041 | 130,413 | Direct |
| West Loop | 30 S Wacker Dr | A | 1,200,000 | 129,216 | Direct |
| West Loop | 233 S Wacker Dr | A | 3,859,845 | 123,830 | Direct |
| West Loop | 111 S Wacker Dr | A | 1,213,322 | 112,052 | Direct |
| West Loop | 444 W Lake St | A | 1,081,702 | 106,292 | New |
| West Loop | 222 W Adams St | A | 943,433 | 104,057 | Direct |
| West Loop | 120 S Riverside Plz | A | 802,991 | 102,585 | Direct |

Trends to Watch

Development: Within the West Loop, River West and River North submarkets, there are eight projects currently under construction which total 2.4 msf.

Foreign Investment: Three of the top five CBD office investment sales year-to-date 2017 have been purchased by foreign capital, representing \$528 million of the \$556 million transactional volume.

Interest Rates: The Federal Reserve has raised rates twice throughout the first half of 2017, with an additional hike expected in 2018.

Corporate Consolidations: Large tenants have been increasingly consolidating area offices into a single location, predominantly within the CBD, while shutting suburban offices.

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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