

## CHICAGO OFFICE

## Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Chicago Employment*	4.7M	4.7M	■
Chicago Unemployment*	4.8%	4.4%	▼
U.S. Unemployment*	4.3%	3.8%	▼

\*Numbers above are quarterly averages

## Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	13.8%	14.1%	▲
YTD Net Absorption (sf)	771k	740k	■
YTD Leasing Activity (sf)	4.3M	4.6M	■
Average Asking Rent*	\$38.05	\$39.47	■

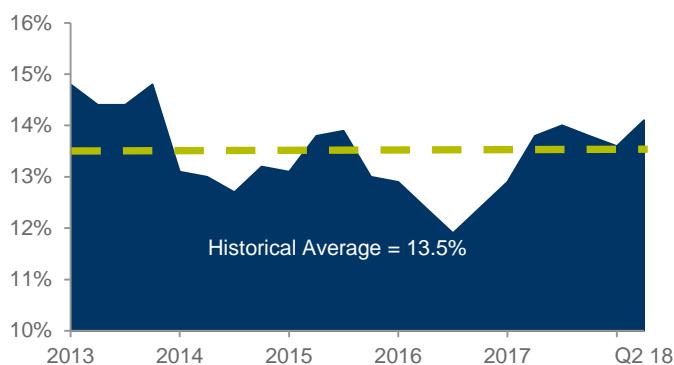
\*Rental rates reflect gross asking \$psf/year

## Overall Net Absorption/Overall Asking Rent

## 4-QTR TRAILING AVERAGE



## Overall Vacancy



## Economy

Office-using employment for the Chicago-Naperville-Arlington Heights Metro Division grew by 0.1% after experiencing negative year-over-year growth in the past few quarters. Gross Metro Product for the area grew by 3.3%, a smaller growth rate than the past few quarters, but still positive.

## Market Overview

The Chicago CBD is at an equilibrium point, displaying signs of both a tenant-favorable and landlord-favorable market, indicating that the market is at a shifting point between the two.

Leasing activity totaled 4.6 million square feet (msf) year-to-date, an 8.4% increase from this time last year, and 30.5% over the 10-year average. The two largest leases signed this quarter were both renewal-contractions; Publicis Groupe consolidated a number of its offices into a 682,000-sf renewal at 35 West Wacker, while PepsiCo, Inc. renewed and gave back half of its space at 555 West Monroe, remaining in 250,000 sf.

Year-to-date overall absorption reached 740,000 sf, only 4.0% less than this time last year. Vacancy rates rose 30 basis points year-over-year as vacant space in the new developments was added to the inventory.

CBD overall gross asking rents increased by 3.7% to \$39.47 per square foot (psf). Gross asking rents have continued to level off for the past five quarters as the market reaches an equilibrium point. While overall gross asking rents increased this quarter, net effective rents have leveled off as concession growth outpaced asking rent growth. In the coming years, rental rates may grow from newer, high-quality assets with higher rents delivering.

Year-to-date sales activity is now at 6.7 msf, amounting to \$2.0 billion. The \$2.0 billion sold this year is currently 90.5% higher than the 10-year average. Sterling Bay was once again the buyer for the largest sale of the quarter, this time acquiring Prudential Plaza for \$680.0 billion from The 601W Companies.

## Outlook

1.8 msf of office space has currently delivered in 2018 (56% leased) with another 426,000 sf of office space consisting of smaller speculative buildings (32.0% preleased) to deliver by the end of the year. The largest impact on pushing the market towards an equilibrium is the 6.0 msf of new developments and redevelopments that will deliver by the end of 2020. High-end deliveries will increase gross asking rates, which will eventually flatten due to the rise in vacancy from the new inventory.

## Current Market Cycle Pipeline

From now until the end of 2020, 6.0 msf will deliver to the CBD. Of this 6.0 msf, 5.0 msf is located within the West Loop, Central Loop, East Loop, and River North submarkets. The majority of these assets are being built or redeveloped with at least one anchor tenant instead of going up speculatively. 3.4 msf of this new office inventory is being delivered from former industrial or retail buildings, a practice commonly seen in the emerging markets outside of the CBD.

The remainder of new buildings will deliver in Fulton Market by the end of 2020 and consist mainly of smaller speculative assets that are loft- or creative-style. The average size of these assets is slightly over 100,000 sf, smaller than those in the traditional CBD. Of these assets preleasing activity is only at 32.0%, providing opportunities for tenants looking for new space in this growing submarket.

**Current leasing activity is exceeding historic levels, which will keep the vacancy rate stable instead of increasing from the influx of new deliveries.**

While buildings newly completed and expected to deliver in 2018 are less than 60% preleased, the assets that delivered in 2016 and 2017 in the new build cycle are now 90.4% leased. Based on this historical data, leasing activity in the recent new deliveries could pick up. Current leasing activity in 2018 is exceeding historic levels which will help fill the new deliveries.

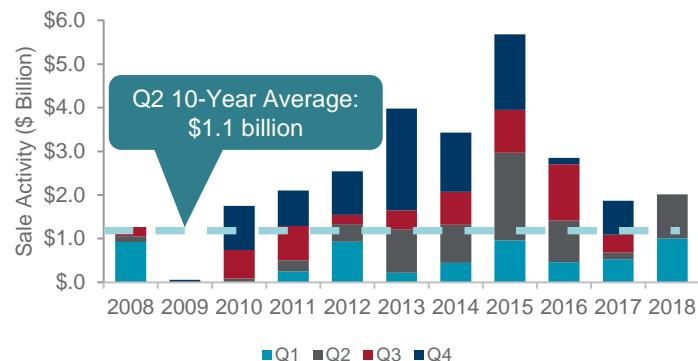
When new properties deliver, the market experiences an uptick in rental rates due to high-end assets being added to the inventory. This uptick then slowly diminishes as the vacant spaces are occupied, however rental rates do not fall back below the levels seen before the uptick.

## Outlook

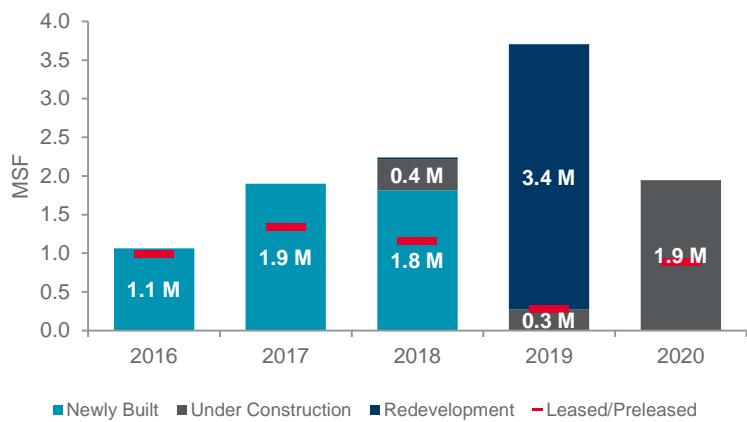
- New development deliveries and right-sizing trends are expected to cause the vacancy rate to rise through 2020.
- Strong investor demand for high-quality assets, as well as slowly increasing rental rates are causing the development pipeline to continue to grow.
- Increased vacancy from long-term deliveries in the pipeline may cause rents to flatten, which could result in diminished investor demand, ending the build cycle.
- Leasing activity from suburban companies moving to the CBD is picking up after slowing down for a number of quarters.

## CBD Office Investment Sales Activity

Q2 INVESTMENT SALES ACTIVITY IS 90.5% ABOVE THE 10 YEAR AVERAGE

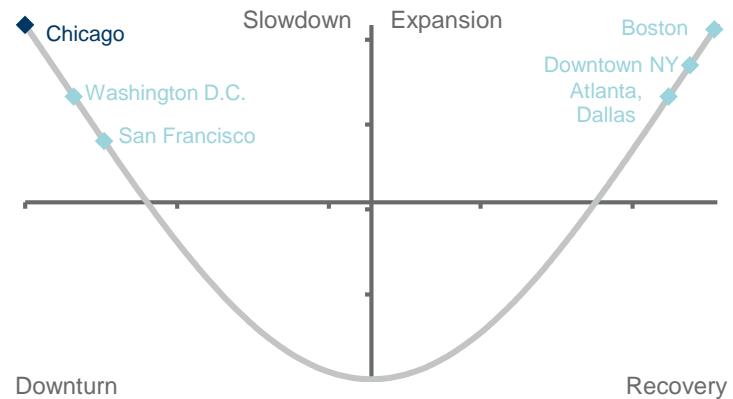


## Current CBD Build Cycle Delivery Schedule



## Chicago CBD Market Cycle

THE CBD IS CURRENTLY AT AN EQUILIBRIUM POINT BETWEEN A SLOWDOWN AND AN EXPANSION MARKET



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)*	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)**	OVERALL AVERAGE ASKING RENT (CLASS A)**
Central Loop	33,487,193	429,230	4,589,062	15.0%	-340,316	-472,256	870,457	202,218	\$37.42	\$ 42.00
West Loop	49,446,282	445,642	6,847,399	14.7%	1,061,650	982,882	2,176,654	1,403,849	\$43.72	\$ 47.76
East Loop	22,478,189	257,568	3,530,205	16.9%	-716,767	-702,478	535,148	0	\$34.91	\$ 38.29
North Michigan Avenue	7,949,034	92,170	834,511	11.7%	-582	12,852	196,537	0	\$37.45	\$ 42.41
River North	15,045,976	93,967	1,262,799	9.0%	40,684	329,033	578,929	0	\$40.42	\$ 43.76
Fulton Market District	2,721,679	0	157,802	5.8%	587,378	623,056	232,786	1,047,124	\$39.30	\$ 45.05
Far West Loop	1,695,118	12,336	193,539	12.1%	-34,573	-33,113	23,175	135,000	\$28.40	N/A
<b>CHICAGO CBD TOTALS</b>	<b>132,823,471</b>	<b>1,330,913</b>	<b>17,415,317</b>	<b>14.1%</b>	<b>597,474</b>	<b>739,976</b>	<b>4,613,686</b>	<b>2,788,191</b>	<b>\$39.47</b>	<b>\$ 44.71</b>

\*Leasing Activity does not include Renewals

\*\*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	54,909,921	422,500	7,620,008	14.6%	712,490	1,112,769	2,338,815	2,788,191	\$45.23	\$44.71
Class B	62,808,178	857,048	8,121,556	14.3%	21,168	-104,637	2,077,982	0	\$36.95	\$36.30
Class C	15,105,372	51,365	1,673,753	11.4%	-136,184	-268,156	196,889	0	\$29.73	\$29.72

### Key Lease Transactions Q2 2018

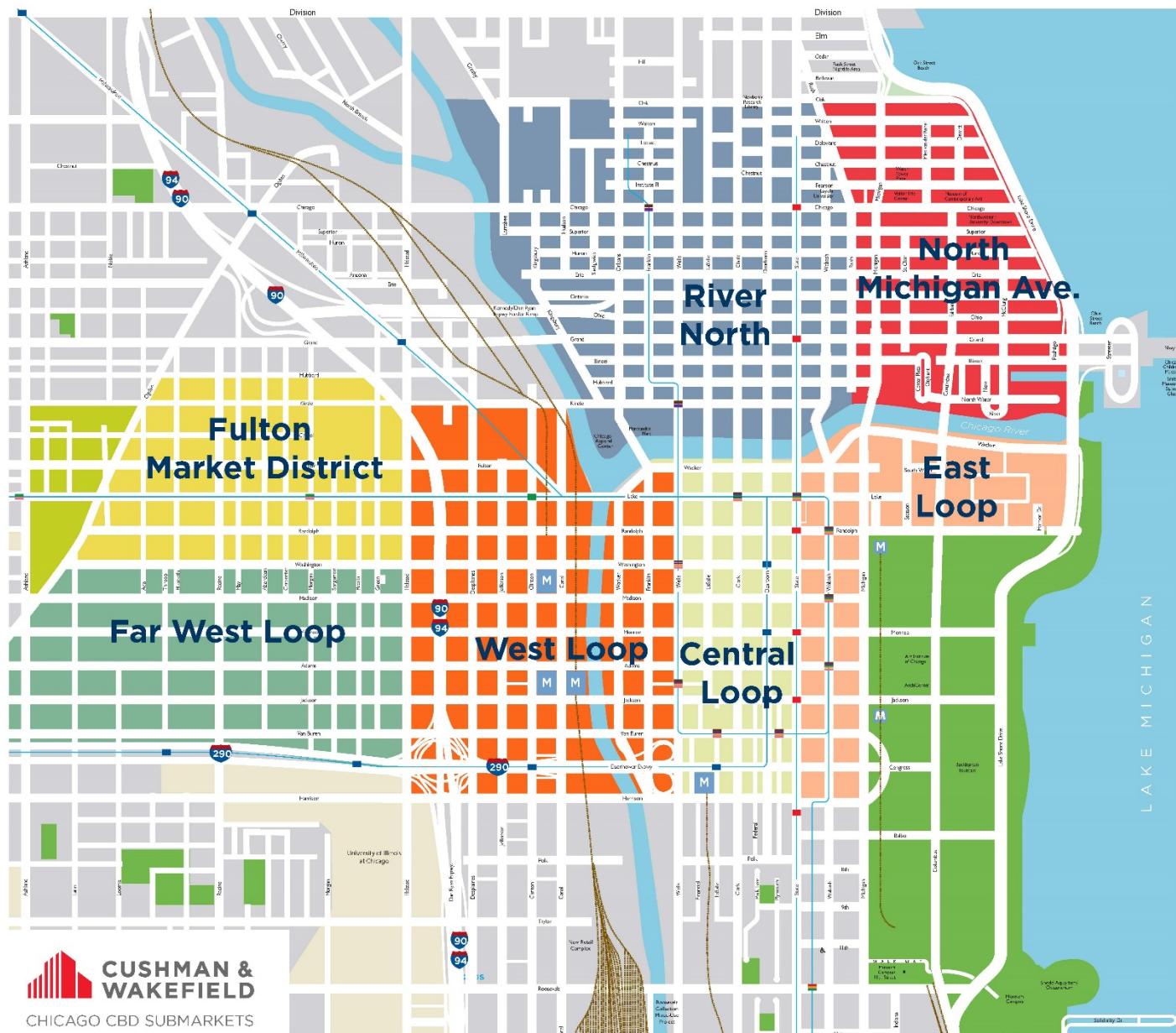
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
35 West Wacker Drive	682,000	Leo Burnett	Renewal	Central Loop
555 West Monroe Street	250,000	Pepsico, Inc.	Renewal / Downsize	West Loop
433 West Van Buren Street (The Old Post Office)	200,000	Walgreens	New Lease	West Loop
71 South Wacker Drive	116,000	Milliman USA	Renewal / Expansion	West Loop
233 South Wacker Drive	66,000	Blackstone Group	New Lease	West Loop
200 East Randolph Street	65,000	Slalom	New Lease	East Loop
225 West Wacker Drive	65,000	Crowe Horwath	Renewal / Expansion	West Loop
161 North Clark Street	62,000	Travelers Insurance	Renewal	Central Loop

### Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
Prudential Plaza (2 Properties)	2,071,000	The 601W Companies / Sterling Bay	680,000,000 / \$328	East Loop
175 West Jackson Boulevard	1,452,000	Extell Development Company / Brookfield Asset Management, Inc.	305,000,000 / \$210	Central Loop
209 West Jackson Boulevard	143,000	Madison Lasalle Partners Llc / Market Street Real Estate Partners	23,350,000 / \$163	West Loop
226 South Wabash Avenue	36,000	Ashwood Development Corporation / Sunshine Ent LLC	3,050,000 / \$85	East Loop

**OFFICE SUBMARKETS**

CHICAGO CBD



**CUSHMAN &  
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