

CHICAGO OFFICE

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Chicago Employment	4.7M	4.7M	■
Chicago Unemployment	5.1%	4.9%	▼
U.S. Unemployment	4.7%	4.1%	▼

*Numbers above are quarterly averages

Market Indicators (Overall, All Classes)

	Q1 17	Q1 18	12-Month Forecast
Vacancy	12.9%	13.6%	▲
YTD Net Absorption (sf)	491k	289k	■
YTD Leasing Activity (sf)	1.8M	2.1M	■
Average Asking Rent*	\$37.67	\$38.92	■

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

While news headlines may be focused on the decrease in population for the Chicago MSA, a closer look at the data is more optimistic. Q1 2018 office-using jobs reported a 1.3% increase year-over-year while the GMP increased by 4.5% to \$648.3 billion, indicating a growing and healthy market.

Market Overview

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

Leasing activity totaled 2.1 million square feet (msf) in the first quarter, a 13.0% increase from this time last year, and 14.9% over the 10-year average. Morgan Stanley signed the largest lease of the quarter for 122,000 sf at Willis Tower. The financial services firm will vacate its current space at 70 West Madison Street, and may also consolidate its location at 440 South LaSalle Street into its new location on Wacker Drive.

Overall absorption for the quarter reached 289,000 sf, 41.1% less than this time last year. With the decrease in absorption, overall vacancy rose 60 basis points to 13.6%.

Despite the vacancy rate increase, the CBD overall gross asking average rent increased by 3.3% to \$38.92 per square foot (psf). From Q2 2017 to the current quarter, gross asking rents increased by 7.0%, 6.8%, 5.3%, and now 3.3%, a clear downward trend, indicating that the market may be headed for flat rental rate growth. While overall gross asking rents increased this quarter, net effective rents have leveled off as concession growth outpaced asking rent growth.

Sales activity in the CBD recorded its strongest quarter since before the Great Recession. Nearly 3.0 msf of office product was sold amounting to \$1.0 billion, an 89.4% increase year-over year. Equity Commonwealth sold the 1.6-msf property at 600 West Chicago Avenue to Sterling Bay for \$510 million, making it the largest sale in terms of building size and dollar amount.

Outlook

An additional 1.2 msf (65.0% vacant) of trophy tower inventory will deliver in 2018, with another 1.2 msf (50.4% vacant) expected to deliver from smaller, speculative buildings. Based on pre-leasing activity, demand has not outpaced supply. This imbalance between supply and demand, coupled with falling absorption will push the vacancy rate higher. As net effective rents level off and vacancy rises, the market may shift from an equilibrium point to being more tenant favorable.

While the number of buildings traded this quarter is below the historical five-year average, investment sales activity in the CBD was the strongest on record since 2007. The average price per square foot measured 64.5% higher as investors were drawn to higher quality assets with higher prices.

Even as the average price per square foot increases for buildings sold, the number of properties that have come to market and subsequently pulled has increased as well. Sellers continue to push for exceptionally high sales prices and in the instances where they cannot achieve this value, they retain their assets and refinance or recapitalize to free up capital.

The current delivery schedule for this build cycle is the strongest in years, with the majority of buildings being built on a speculative basis.

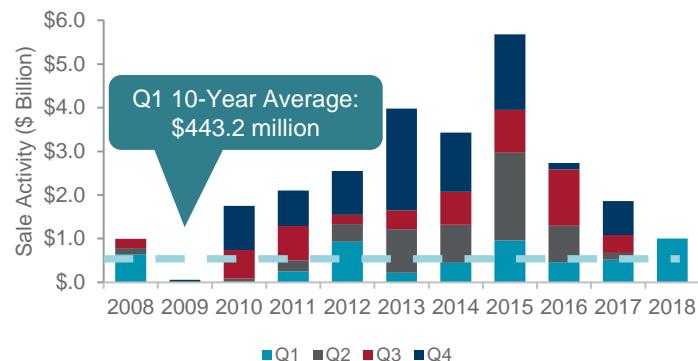
While investor demand for high-quality assets remains strong, developers continue to add inventory to the market. The current delivery schedule for this build cycle is the strongest in years, with most of the buildings being built on a speculative basis. The majority of these developments are located in the Fulton Market and tend to be smaller projects, while the West Loop will deliver the largest amount of inventory comprised mostly of trophy tower space. Comparing these two submarkets, sale prices on a per-square-foot basis are higher in Fulton Market, a key reason developers have been targeting this area.

Outlook

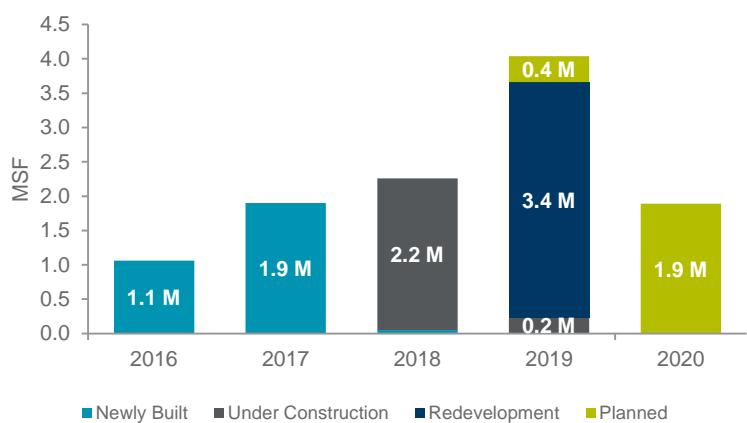
- Strong investor demand for high-quality assets, as well as increasing rental rates are causing the development pipeline to continue to grow.
- New development deliveries and right-sizing trends are expected to cause the vacancy rate to rise through 2018.
- Increased vacancy from deliveries may cause rents to flatten or decrease, which could result in diminished investor demand, impeding the build cycle.
- Even if suburban in-migration reaches the levels seen in 2015 and 2016, it will not be enough to lower the vacancy rate due to the growth in inventory.

CBD Office Investment Sales Activity

Q1 INVESTMENT SALES ACTIVITY IS 125.6% ABOVE THE 10 YEAR AVERAGE

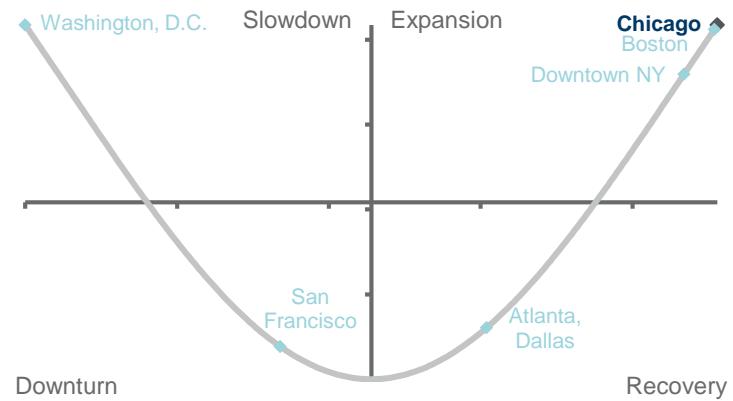


Current CBD Build Cycle Delivery Schedule



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	33,682,631	274,650	4,326,005	13.7%	-57,600	-57,600	347,680	0	\$36.89	\$41.74
West Loop	47,980,846	681,265	6,569,259	15.1%	-86,655	-86,655	885,338	1,243,093	\$42.43	\$47.09
East Loop	22,478,189	117,602	3,097,283	14.3%	42,515	42,515	273,663	0	\$34.18	\$40.40
North Michigan Avenue	7,949,034	84,514	709,925	10.0%	35,787	35,787	49,254	0	\$38.04	\$40.16
River North	15,065,976	129,503	1,400,691	10.2%	321,353	321,353	363,988	0	\$39.52	\$43.92
Fulton Market District	2,218,585	0	220,702	9.9%	37,023	37,023	162,001	1,089,448	\$38.94	\$45.06
Far West Loop	1,690,018	11,923	164,274	10.4%	-3,001	-3,001	4,909	110,000	\$27.78	N/A
CHICAGO CBD TOTALS	131,065,279	1,299,457	16,488,139	13.6%	289,422	289,422	2,086,833	2,442,541	\$38.92	\$44.84

*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	53,026,050	465,953	6,643,907	13.4%	429,522	429,522	1,063,429	2,442,541	\$ 45.34	\$ 44.84
Class B	62,961,959	774,868	8,115,605	14.1 %	10,314	10,314	957,665	0	\$ 36.64	\$ 35.85
Class C	15,077,270	58,636	1,728,627	11.9 %	-150,414	-150,414	65,739	0	\$29.43	\$29.40

Key Lease Transactions Q1 2018

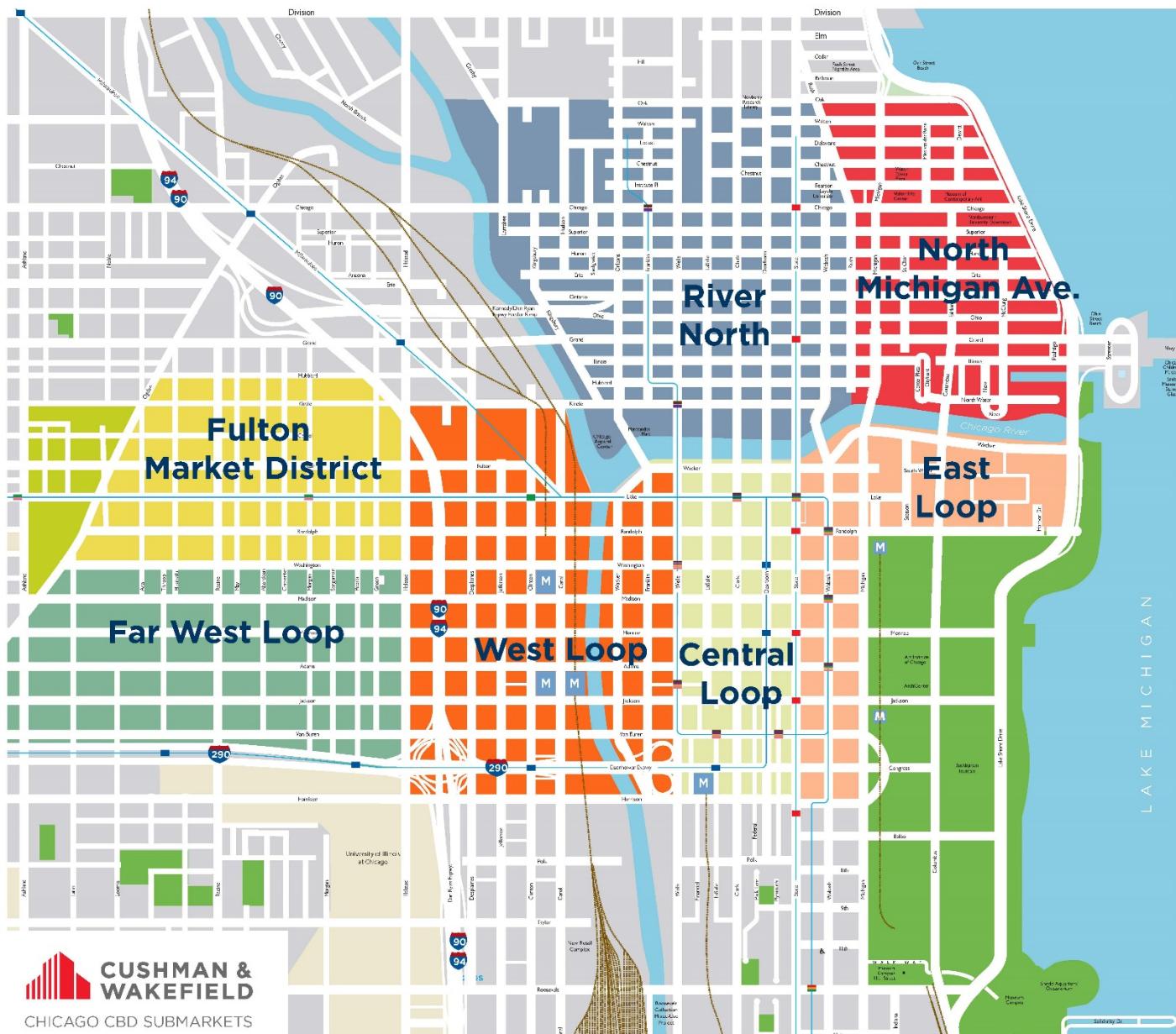
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
233 South Wacker Drive	122,000	Morgan Stanley	New Lease	West Loop
101 North Wacker Drive	100,000	TTX	Renewal	West Loop
600 West Chicago Avenue	83,622	Tempus Labs	New Lease	River North
233 South Wacker Drive	80,000	Revantage	New Lease	West Loop
620 North LaSalle Street	78,265	Spaces	New Lease	River North
350 North Orleans Street	73,816	Gartner	New Lease	River North
200 East Randolph Street	64,956	Kemper Corporation	New Lease	East Loop
350 North Orleans Street	57,071	Scientific Games	Sublease	River North

Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
600 West Chicago Avenue	1,571,386	Equity Commonwealth / Sterling Bay Companies	\$510,000,000 / \$325	River North
1 South Dearborn Street	828,915	Olen Commercial / Starwood Capital Group	\$360,250,000 / \$435	Central Loop
20 South Clark Street	400,291	Exan Capital / Slatte Office REIT	\$85,600,000 / \$214	Central Loop
210 North Green Street	90,000	Shapack Development & WeWork / Leo Capital Holdings	\$36,207,133 / \$402	Fulton Market District
215 West Superior Street	35,000	Elkridge, LLC / GoHealth	\$7,950,000 / \$227	River North
36 West Randolph Street	27,528	EHC, LLC / DeGraff Ventures	Undisclosed	Central Loop

OFFICE SUBMARKETS

CHICAGO CBD



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