MARKETBEAT

Chicago CBD

Office Q3 2019

CUSHMAN & WAKEFIELD

CHICAGO OFFICE

Economic Indicators

	Q3 18	Q3 19*	12-Month Forecast
Chicago Employment*	3.79M	3.82M	▲
Chicago Unemployment*	3.7%	3.8%	▲
U.S. Unemployment*	3.8%	3.7%	▲

Source: BLS, Moody's Analytics
*Q3 2019 data based on latest available data

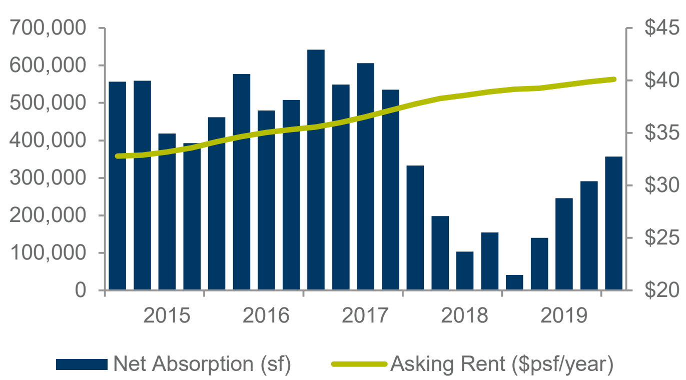
Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	14.2%	13.1%	▲
YTD Net Absorption (sf)	376k	1.2M	▲
YTD Leasing Activity (sf)	7.2M	7.8M	▬
Average Asking Rent*	$39.32	$40.32	▲

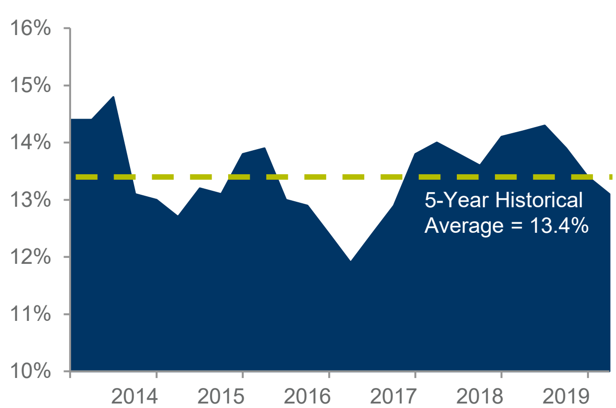
*Rental rates reflect gross asking $psf/year

Overall Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Overall office-using employment in the Chicago Metropolitan Area was 1.25 million for Q3, up only 1,400 jobs (0.1%) from one year ago. After modest gains through the first half of the year, office-job growth plateaued during the first two months of the third quarter. Gains in both the Professional and Business Services and Financial Services sectors were offset by the Information sector, which shed 4,800 jobs year-over-year (YOY). Chicago's unemployment rate increased 10 basis points (bps) YOY to 3.8%, only 10 bps softer than the national rate of 3.7%. Both figures highlight a tight labor market.

Market Overview

In Chicago's Central Business District (CBD), the measured pace of Q2 gave way to heightened activity in Q3. The CBD recorded an uptick in leasing activity YOY, with approximately 7.8 million square feet (msf) transacted year-to-date (YTD) – a 7.4% increase from one year ago and the strongest YTD Q3 total this decade. Leasing activity was propelled by ongoing demand for high-end space, with Class A buildings recording 58.5% of leasing activity through Q3.

West Loop leasing soared 35.9% YOY to nearly 4.5 msf, accounting for 57.8% of total CBD leasing. Leasing activity in this submarket was fueled by major deals inked at the Old Post Office: three leases each greater than 100,000 square feet (sf) were signed during the quarter, including Uber's 450,000-sf deal – the largest lease of Q3. Fulton Market District recorded the highest jump in leasing activity with 481,000 sf executed YTD (+72.5% YOY).

Overall vacancy tightened 110 bps YOY to 13.1% driven primarily by robust absorption among Class A properties. Class A vacancy declined 270 bps YOY to 11.3%. The West Loop recorded its lowest vacancy in four years (11.8%) but is expected to rise with the completion of The Old Post Office (2.3 msf) in Q4. After briefly reaching double-digit vacancy in Q2 due to new deliveries, Fulton Market quickly recovered and ended the third quarter at 7.4% vacancy, the lowest in the CBD. This submarket continues to be highly sought-after by tenants and is well-equipped to absorb over 1.2 msf of new office product expected to deliver by the end of 2020.

Class B vacancy dipped 30 bps YOY to 14.7% but has maintained the highest vacancy rate among all classes for five out of the past six quarters. Central Loop – comprised mainly of Class B product – posted a nine-year-high overall vacancy rate of 15.7% due to large tenants migrating to newer product in other submarkets. For Class B properties in the Central Loop and across the CBD, staying competitive will require significant investment to refresh dated assets.

Overall average asking rental rates increased 2.5% YOY to $40.32 per square foot (psf). Class A average asking rents grew 5.2% to $46.32 psf YOY, Class B rents increased 5.1% to $39.27 psf YOY, and Class C rents grew 1.7% to $30.27 psf.

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Development Outlook

Robust demand for newly-delivered Class A space is expected to sustain its current momentum at a time of peak supply delivery. Just under 5.6 msf of new construction and redevelopment projects are set to deliver by the end of 2020, located primarily in the West Loop and Fulton Market. The two largest buildings currently under construction – The Old Post Office and 110 North Wacker Drive – will add approximately 3.6 msf of new inventory to the West Loop alone by the end of 2020. Despite a flood of new product into the market, healthy pre-leasing activity indicates that demand for new space in the CBD remains high: deliveries scheduled for Q4 2019 are close to 60% pre-leased and 2020 deliveries are already over 45% pre-leased.

Megadevelopment Updates:

Lincoln Yards: The $2.4 billion in TIF subsidies will be used to construct bridges over the Chicago River, an extension of the 606 trail, a new Metra station, and a realignment of the problematic Elston-Armitage-Ashland intersection.

The 78: A key part of the project's infrastructure will be directed towards the Wells Wentworth Connector, a new road that will directly connect the Loop and Chinatown by roadway for the first time. The work is set to deliver by the end of 2020.

River District: Tribune Media is looking to sell the downtown site before construction begins on the 8.5-msf mixed-use project.

One Central: The 34-acre mixed-use project located near Soldier Field is seeking approval for a $3.8 transit hub billed as its anchor tenant.

Investment Activity

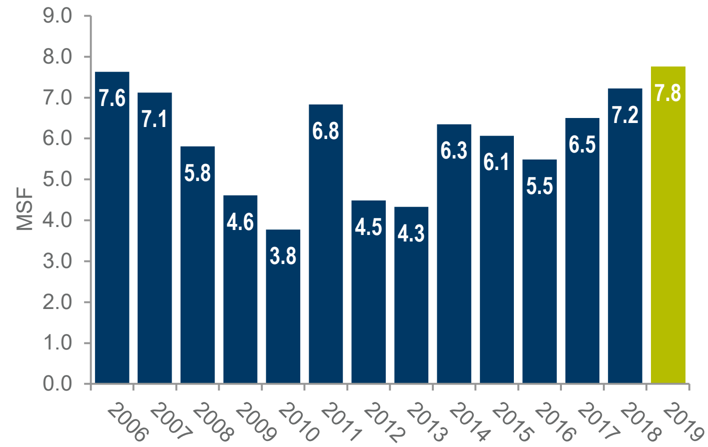
CBD investment sales activity rebounded from a slowdown in Q2, as 13 properties (2.2 msf) traded, up from two properties (250,000 sf) last quarter. The largest sale of the quarter was The Burnham Center, which The Shidler Group sold to Golub & Company for $80.2 million ($138 psf). At $775 psf, the sale of 811 West Fulton Market Street was the most expensive (on a per-square-foot basis) ever in Chicago history. Despite sales acceleration this quarter, investment activity is down significantly from 2018's robust figures, with a 70.0% drop in space sold. This slowdown is in part due to speculations about a global recession, coupled with investor uncertainty surrounding Cook County tax reassessments.

Outlook

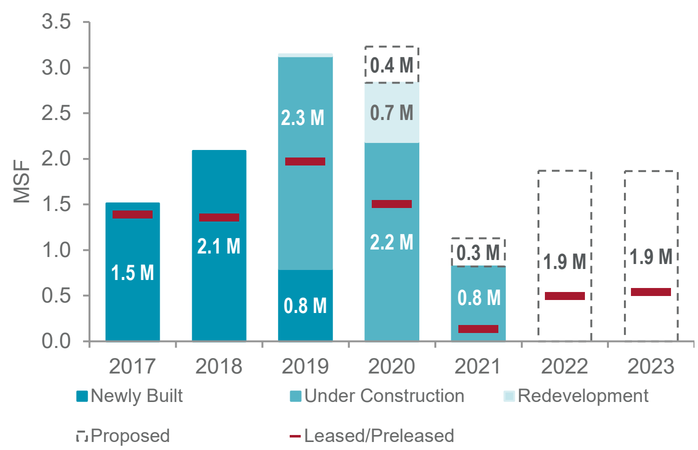
- An attempt to attract best in-class talent in a time of tight labor markets will continue to spur robust demand for high-end space.
- With new construction leasing up quickly and high-end supply tightening, development for Class A space will continue.
- The pace of rent growth looks to slow as the construction pipeline continues to expand.

Chicago CBD Overall Leasing Activity (Through Q3)

STRONGEST YTD TOTAL IN CYCLE

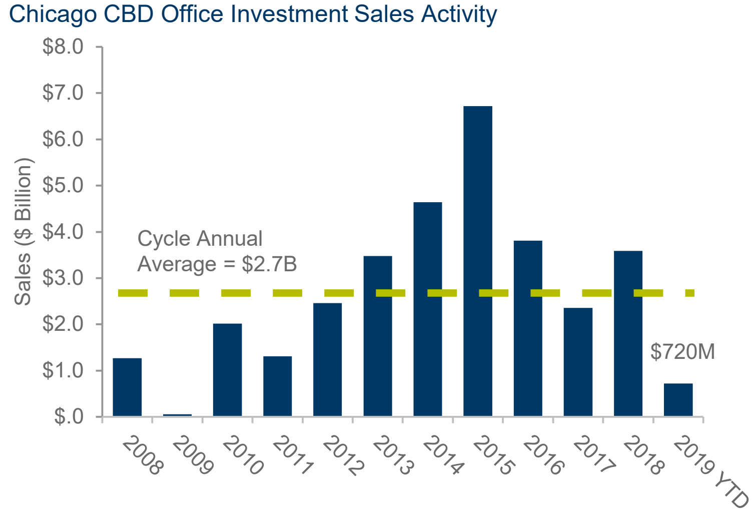


Chicago CBD Development Pipeline: Delivery Schedule*



*Does not include megadevelopments.

Chicago CBD Office Investment Sales Activity



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CUSHMAN & WAKEFIELD

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	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	34,000,986	239,937	5,095,146	15.0%	15.7%	-174,622	-163,927	1,246,035	57,414	$39.94	$ 46.11
West Loop	49,285,073	377,526	5,419,231	11.0%	11.8%	308,986	1,138,290	4,485,784	3,594,901	$43.67	$ 48.35
East Loop	22,761,431	266,273	3,389,803	14.9%	16.1%	-169,298	-115,611	869,987	0	$35.20	$ 40.76
North Michigan Avenue	6,965,187	32,684	655,570	9.4%	9.9%	-13,677	56,478	146,527	0	$40.12	$ 42.33
River North	15,262,800	191,122	1,397,447	9.2%	10.4%	-55,417	198,981	480,847	0	$39.87	$ 47.77
Fulton Market District	3,126,059	6,950	223,388	7.1%	7.4%	161,649	142,099	481,194	1,951,716	$37.40	$ 49.00
Far West Loop	1,689,528	12,696	165,739	9.8%	10.6%	-15,705	-11,711	45,365	110,000	$33.77	N/A
CHICAGO CBD TOTALS	**133,091,064**	**1,127,188**	**16,346,324**	**12.3%**	**13.1%**	**41,916**	**1,244,599**	**7,755,739**	**5,714,031**	**$40.32**	**$46.32**

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	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	57,645,432	295,706	6,232,804	10.8%	11.3%	508,056	1,483,578	4,536,862	5,626,617	$46.62	$46.32
Class B	60,866,742	738,012	8,202,380	13.5%	14.7%	-333,152	102,674	2,721,857	87,414	$39.77	$39.27
Class C	14,578,890	93,470	1,911,140	13.1%	13.8%	-132,988	-341,653	497,020	0	$30.41	$30.27

*Leasing Activity does not include renewals

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

KEY LEASE TRANSACTIONS Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
433 West Van Buren Street	450,000	Uber	New Lease	West Loop
500 West Madison Street	226,486	Accenture	Renewal/Expansion	West Loop
10 South Dearborn Street	200,000	Exelon Corporation	Renewal	Central Loop
433 West Van Buren Street	185,000	CBOE	New Lease	West Loop
433 West Van Buren Street	130,000	Federal Home Loan Bank of Chicago	New Lease	West Loop
1155 West Fulton Street	88,784	WeWork	New Lease	Fulton Market District
111 South Wacker Drive	86,970	Locke Lord LLP	Renewal	West Loop
222 West Adams Street	71,081	Amazon	Expansion	West Loop
311 West Monroe Street	56,164	Mayer Brown	New Lease	West Loop
1375 West Fulton Street	51,424	GlassDoor	New Lease	Fulton Market District

KEY SALES TRANSACTIONS Q3 2019

PROPERTY	SF	BUYER/SELLER	PRICE / $PSF	SUBMARKET
111 West Washington Street	579,778	Golub & Company / Shidler Group	$80,250,000 / $138	Central Loop
55 East Jackson Boulevard	440,000	David Perlstein and Sung Il Moon / Marc Realty	$63,500,000 / $139	East Loop
200 South Michigan Avenue	371,566	Stanton Road Capital / Wells Fargo	$33,017,000 / $89	East Loop
549 West Randolph Street	123,835	MB Real Estate, Origin Investments, Hilco Real Estate / Ameritus LLC, Alcion Venture	$34,950,000 / $282	West Loop
811 West Fulton Market Street	64,887	Intercontinental Real Estate Corporation / Shapack Partners	$50,300,000 / $775	Fulton Market District

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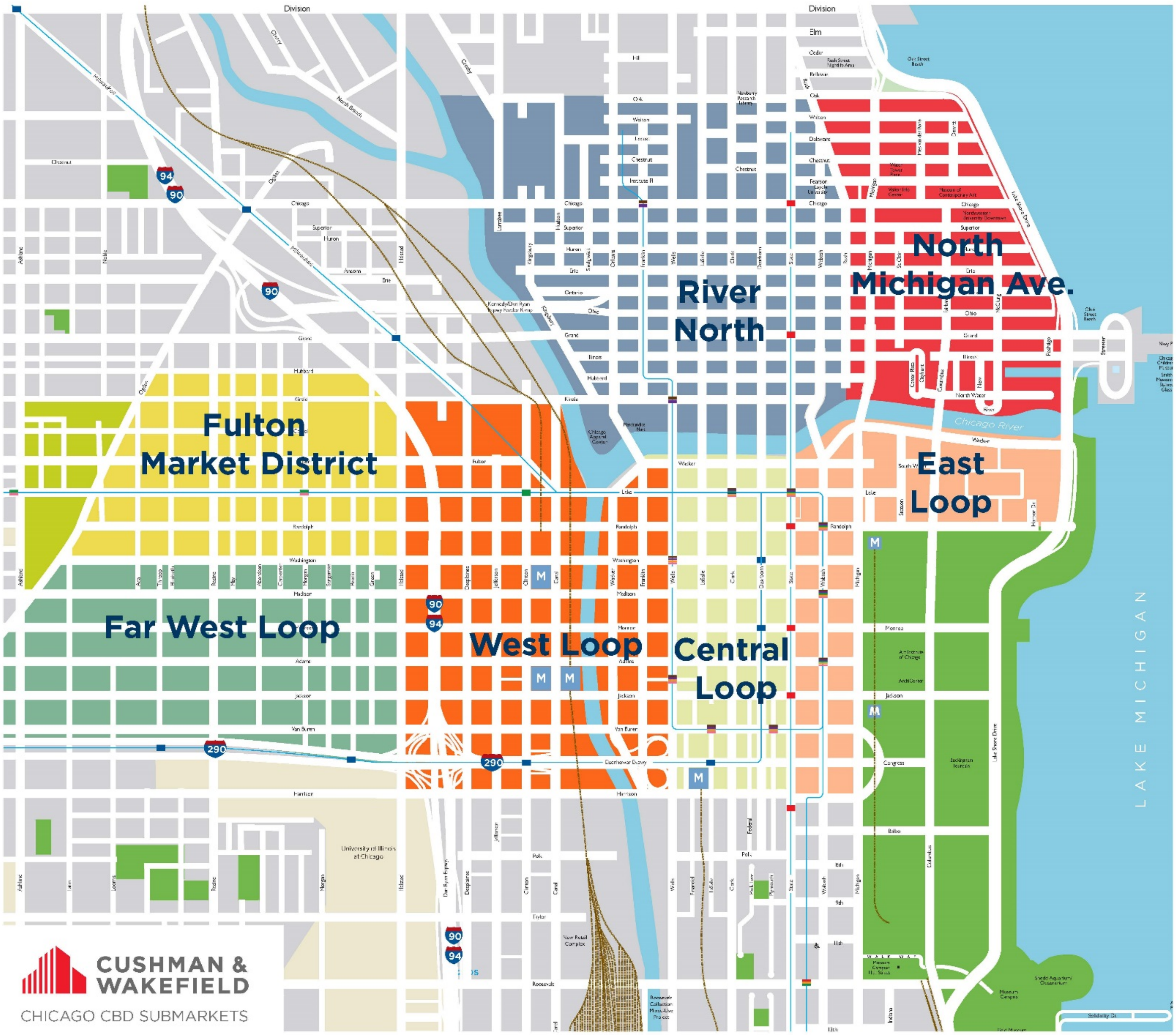
OFFICE SUBMARKETS

CHICAGO CBD



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