

Chicago



Market Facts

0.9%

The metro Chicago area added over 40,000 jobs year-over-year. This correlates to 0.9% increase in jobs

11,200 jobs

The most active industry in the Chicagoland area was the financial services sector, which added 11,200 jobs year-over-year.

5.3%

Chicago's unemployment rate continued to trend downward. As of February 2017, unemployment stood at 5.3%

14%

Chicago enjoys a highly diversified economy with no single industry employing more than 14% of the workforce.

Economic Overview

Chicago's diverse economy continued to improve throughout the first quarter of 2017. The metropolitan area added more than 40,000 jobs as of February 2017—up 0.9% year-over-year. The strong job market has pushed the unemployment rate down to 5.3% over the same period. The super sectors that recorded the highest year-over-year growth in employment were construction, financial services, education, and health services, each up 4.7%, 3.8%, and 1.3% respectively. The manufacturing sector continued to see minimal growth. Site Selection Magazine has named the Chicagoland area 2016's top metropolitan area for corporate investment. Recent relocations include Hickory Farms, which will be relocating their headquarters to the West Loop submarket from Toledo, Ohio and Caterpillar, relocating their headquarters to the Northern Suburbs from Central Illinois.

The Chicago housing market recorded an increase in sale prices. As of February 2017, there have been 5,891 home sales—down 5.2%. Median sale prices rose 12% over the same period to \$210,000. 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 continued to record significant growth triggered by strong leasing demand, pushing vacancy to record lows. Across the CBD, especially in key submarkets, rental rates are becoming increasingly competitive.



This has continued to shift market conditions favoring landlords over users. Landlords across the market continued to pour capital into building improvements, including tenant amenities and outdoor space. River West (Fulton Market) continued to see significant redevelopment as once a predominantly industrial area into an office powerhouse. Recording several notable big-wins in terms of relocating tenants, thus solidifying its 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.

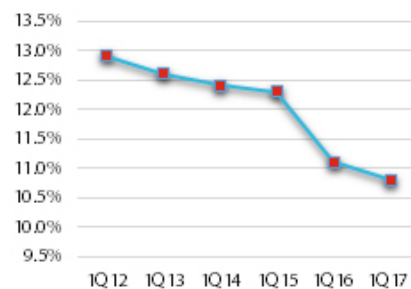
The CBD witnessed a moderate 30 bps drop in vacancy year-over-year to 10.8%. With the addition of two new class A properties and

second generation space which has become available, class A vacancy has recorded a moderate uptick when compared to recent periods. Currently recorded at 12.2%. Class B vacancy remained relatively unchanged at 9.6%. Strong leasing demand throughout the market has prompted net absorption to spike 250% from the first quarter of 2016. Currently recorded at 1.1 msf. Much of the space absorbed continued to involve class A product. Average asking rental rates have shifted upwards to \$32.46 with class A rates coming in upwards of \$33.00 psf. Rates in select submarkets such as the West Loop and River North are recorded at \$35.00 psf. The Chicago CBD should continue to benefit from strong demand throughout the remainder of 2017.

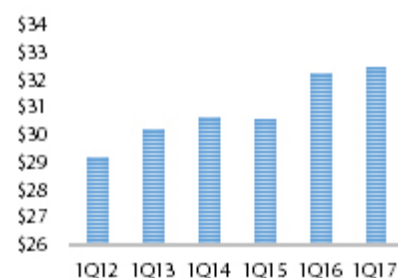
West Loop

The West Loop submarket contains 52 msf of office space, offering a highly

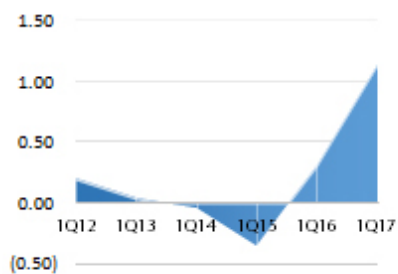
Vacancy Rates



Asking Rents



Net Absorption



convenient location which benefits from a strong and diverse tenant base. Vacancy was recorded at 10.7% during the first quarter of 2017—up 110 bps year-over-year. Class A product recorded a substantial year-over-year uptick in vacancy—up to 10.8%. These increases can be attributed to the two new developments which were recently completed, both being class A trophy towers. As this new space is absorbed the overall vacancy rates should lower.

Average asking rental rates are currently posted at \$34.98 per psf with class A rental rates upwards of \$37.00 psf. The submarket has seen consistent leasing activity during the first quarter of 2017, propelling net absorption to 984,000 sf. The highest it has been in several years. Much of that space is class A, accounting for 97%. The most notable first quarter transactions were TNC Holdings' expansion and renewal of their 196,000 sf space at 200 West Jackson; PPM America lease of 75,000 sf at 225 West Wacker; iManage lease of 48,000 sf at 540 West Madison.

There was one project delivered during the first quarter, 150 North Riverside Drive, a 1.2 msf trophy tower developed by Riverside Investment & Development Company. The project was 81.7% leased at the time of completion. There is an additional 1.2 msf currently under construction. This includes CNA Center which is 807,130 sf and 52.3% preleased as well as 625 W Adams St which will add 443,000 sf and is being built on spec. Looking forward the West Loop will continue to see a declining vacancy rate as demand remains high throughout the submarket.

East Loop

The East Loop submarket contains 26 msf of office space located near Chicago's lakefront. Vacancy was recorded at 12.0% during the first quarter of 2017, a moderate uptick when compared to this time last year. Class A product recorded an upward shift as well, clocking in at 12.4%. Average asking rental rates are currently posted at \$29.47 psf with class A rental rates averaging at \$30.15 psf.

The submarket has seen consistent leasing activity during the first quarter of 2017 with 96,530 sf of absorption. The most notable first quarter transactions include Intersport's lease of 31,176 sf at 303 E Wacker Dr and Onegoal's lease of 13,888 sf at 180 N Wabash. There has been no new construction in recent years, which 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 throughout the market.

Central Loop

The Central Loop submarket contains 47 msf of office space. Located between the West and East Loop submarkets and long considered Chicago's financial and legal hub. Overall vacancy saw an increase of 120 bps to 9.6%. With class A seeing an uptick in second-generation space becoming available as large tenants migrate to space in newly built West Loop product. First quarter vacancy is recorded at 10.2%. Average asking rental rates are currently posted at \$30.95 per psf.

A moderate dip in demand has prompted net absorption to lag

when compared to previous quarters. settling at 45,302 sf. The most notable first quarter transactions include Enova International expanding into 31,877 sf at 175 W Jackson, bringing their total footprint to 160,000 sf. Hub Insurance has leased 28,000 sf at 203 N LaSalle. Signal has leased 26,282 sf at 222 N LaSalle. There has been no new construction in recent years. The submarket has attracted several small sized tenants who seek more cost-effective space. This activity is likely to continue as other submarkets are becoming more expensive.

North Michigan Avenue

The North Michigan Avenue submarket contains 15.8 msf of office space, much of it located along the famed Michigan Avenue. Vacancy continued to shift downwards and has reached 10.1%. With class A product seeing a moderate shift in vacancy to 13.6%. Average asking rental rates are currently posted at \$25.41 psf, some of the lowest within the CBD. An increase in leasing activity has driven net absorption up 10.5% to 115,085 sf during the first quarter. The largest lease transaction during the first three months of 2017 took place within the submarket. Outcome Health leased 385,050 sf at 515 N State. The space once housed the American Medical Association which vacated the building in 2012. There has been no new construction in recent years, and the submarket should continue to see moderate growth throughout the remainder of 2017.

River North

The River North submarket contains 14.6 msf and remains one of the tightest within the CBD. Vacancy has



2.9 MSF

Within the West Loop, River West, and River North submarkets there are six projects currently under construction which total 2.9 msf.

continued to shift downward—down 90 bps to 5.9%. With limited class A product, only six of the submarket's 37 building inventory are being labeled as class A. Vacancy has remained relatively tight, fluctuating between 4% and 6% during the last two years. Average asking rental rates are some of the highest within the CBD. Currently averaging at \$36.27 psf with class A rents at \$43.39 psf.

Leasing activity slowed slightly during the first quarter with net absorption recorded at negative 72,408 sf. Notable lease transactions include both PayPal leasing 27,698 sf and CCC Information Services leasing 13,415 at The Mart. There is currently one property currently under construction within the submarket located at 412 N Wells. 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.

River West

The River West submarket remains Chicago's hottest office market. With an RBA of 5.3 msf and rapidly growing, the submarket has seen a tremendous amount of activity which has decreased the vacancy down to 11.5%. With a limited supply of class A Product, the vacancy rate is lower at 8.7%. Average asking rental rates have risen to \$29.17 psf with class A rates averaging at \$31.59 psf. Net absorption has seen a 147% spike year-over-year to 37,258 sf. The submarket has seen several newsworthy transactions over the last few years. Notable 2017 transactions include both Dyson leasing 58,689 sf and The Climate Corporation leasing 21,315 sf at Sterling Bay's Fulton West which is currently under construction.

River West has seen significant construction activity over the last year, there are currently 5 properties under construction with an RBA of 1 msf. Notably Randolph West, which will house McDonalds Corporation's new headquarters. As well as Fulton West, mentioned above, the 287,928-

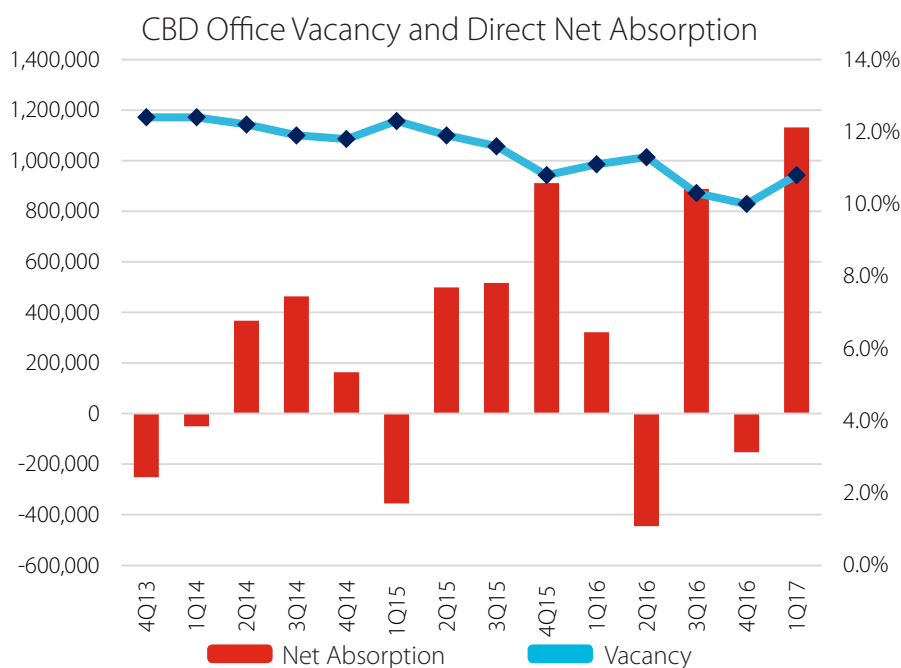
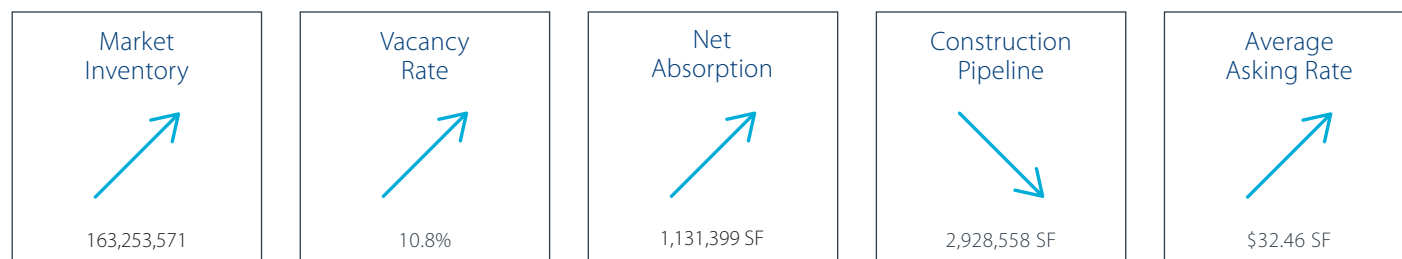
sf development is currently 61.6% preleased. Both are being developed by the Sterling Bay Companies. There are no signs of the River West submarket slowing down with another 140,000-sf development slated to break ground at 1201 W Lake this summer. The outlook for the remainder of 2017 is positive and the submarket should see increased activity and further tightening vacancy rate.

South Loop

The South Loop submarket contains 3.9 msf of office space. Vacancy has remained relatively unchanged year-over-year, recorded at 8.6% during the first quarter. Average asking rental rates have varied little over the previous quarters—currently posted at \$25.07 psf. Leasing activity recorded an uptick during the first quarter, driving net absorption up 58% to 9,873 sf. With no new construction in recent years and a limited supply, existing buildings should continue to see activity throughout the remainder of 2017.

Office Market Snapshot

Chicago's CBD continued to tighten throughout the first quarter of 2017. Demand across the Chicago office market remains high sending absorption up and vacancy down.



Submarket	Total RBA (SF)	Direct Available Space (SF)	Sublet Available Space (SF)	Vacancy Rate			Leasing Activity (SF)	Net Absorption (SF)	Average Asking Rent		
				Total	Class A	Class B			Overall Avg	Class A	Class B
CBD	163,253,472	16,161,533	1,501,952	10.8%	12.2%	9.6%	1,967,102	1,131,399	\$32.46	\$33.92	\$30.47
West Loop	52,853,461	4,896,816	756,267	10.7%	10.8%	10.9%	765,750	951,477	\$35.17	\$37.65	\$27.54
East Loop	26,917,935	3,071,401	162,762	12.0%	12.4%	14.0%	138,512	96,530	\$29.47	\$30.15	\$28.66
Central Loop	47,013,269	4,173,770	339,163	9.6%	10.2%	9.3%	240,905	45,302	\$30.95	\$30.64	\$31.40
North Michigan Ave	15,859,237	1,496,193	109,936	10.1%	13.6%	10.7%	575,431	115,085	\$25.41	\$25.28	\$25.33
River North	14,686,765	914,380	105,066	5.9%	4.5%	7.0%	168,002	-72,408	\$36.27	\$43.49	\$39.09
South Loop	3,050,517	254,682	0	8.3%	0.0%	7.4%	0	-5,138	\$25.15	N/A	\$24.50
River West	5,344,816	582,048	34,479	11.5%	8.7%	12.7%	100,790	37,258	\$29.17	\$31.59	\$29.49

Top Lease

Tenant	Address/Name	Submarket	Size (SF)	Type
Outcome Health	515 North State Street	North Michigan Avenue	385,050	New
PPM America, Inc.	225 West Wacker Drive	West loop	75,085	Renewal
Dyson, Inc.	1330 West Fulton Street	River West	58,689	New
iManage, Inc.	540 West Madison Street	West Loop	48,307	New
Burns & McDonnell	200 W Adams St	West Loop	36,409	Renewal

Top Investment Sales

Address/Name	Size (SF)	Buyer	Seller	Sales Price	Price PSF
181 West Madison	952,559	HNA Property	CBRE Global Investors Limited	\$359,000,000	\$376.88
123 North Wacker	540,621	La Salle Investment	LNR Partners, LLC	\$146,500,000	\$270.98
303 West Erie Street	70,000	Alarez & Marsal	Cedar Street Commercial	\$150,000.00	\$214.29

Under Construction

Address	Developer	Submarket	RBA (SF)	Preleased (%)
151 N Franklin St-CAN Center A	John Buck Company	West Loop	807,130	52.3%
1045 W Randolph St - Randolph West	Sterling Bay Companies	River West	608,000	92.8%
625 W Adams St	White Oak Realty Partners, LLC	West Loop	443,645	0.0%
1330 W Fulton St - Fulton West	Sterling Bay Companies	River West	287,928	61.8%
412 N Wells St	Centrum Partners	River North	56,000	30.8%

Trends to Watch

Development: Within the West Loop, River West, and River North submarkets there are six projects currently under construction which total 2.9 msf.

Rental Rate: Average asking rental rates are expected to continue to rise in select submarkets where demand remains high.

Active Markets: River West, West Loop, and River North

Market Drivers: Corporate relocations, technology start-ups, and the professional and business services sector.



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