

CHICAGO CBD



Market dynamics still favor landlords; asking rents surge in Fulton Market, River North

While rental rate growth has moderated, the fundamentals of the downtown Chicago market have yet to turn favorable to tenants. The overall availability rate in Chicago finished the first quarter at 15.9%, declining by 70 basis points quarter-over-quarter. Class A availability declined by 180 basis points from the previous quarter, falling to 14.8%. Two-thirds of all leasing this quarter took place in the West Loop, largely due to United Airlines' 850,000-square-foot (sf) extension at Willis Tower, and USG's 220,000-sf renewal at 550 W. Adams Street. Overall asking rents averaged \$41.01 per square foot (psf) gross, a 4.1% increase year-over-year. However, rents ticked up just 0.6% from last quarter. Class A asking rents increased 2.7% quarter-over-quarter to \$46.52 psf gross.

New developments continue to attract rightsizing tenants, shared-space providers

New construction is in high demand as tenants seek quality and efficient space options. Of the 18 largest deals completed in the first quarter, eight occurred in new downtown construction. Among them, advertising firm AbelsonTaylor committed to 85,000 sf at the Old Post Office, where it seeks to grow its headcount in a smaller space. In moving its headquarters from Deerfield to Fulton Market, Mondelez likewise will contract by 17.0%, taking 77,000 sf at 905 W. Fulton Market. Additionally, coworking providers snapped up large blocks at new developments. Convene took three floors totaling 95,000 sf at 333 N. Green Street in Fulton Market, while No18 leased nearly 58,000 sf on two penthouse floors at 110 N. Wacker Drive.

Glut of "shadow space" may dramatically alter direction of market

More than 5.0 million square feet (msf) of new downtown office product is set to deliver by the end of 2020, and more is anticipated soon thereafter, including 2.8 msf at BMO Tower and Salesforce Tower combined. Many of the firms planning to occupy space in these developments will leave behind millions of empty square feet, known as "shadow space." A softening of the market is the likely effect of this excess space – although predictions of more tenant-favorable conditions were largely unrealized following the recent deliveries of three West Loop office towers.

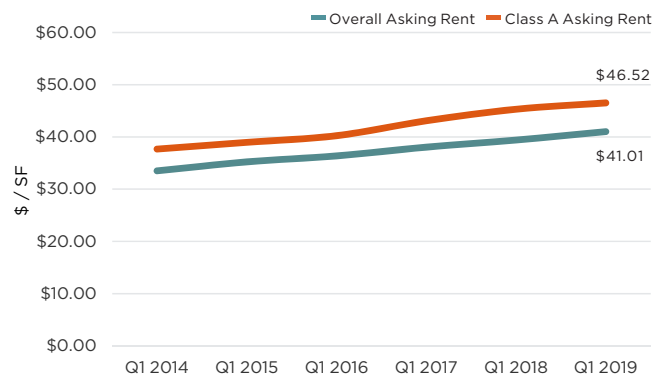
Outlook

- Downward pressure on net rents will likely result from massive upcoming tax increases to be levied on downtown office properties
- As shadow space becomes a greater concern, owners of older, Class A-minus properties will be forced to upgrade shared amenities to compete against the next wave of new downtown office buildings
- With 3.2 msf of sublease space available downtown, both large and small tenants alike will continue to have ample sublease options offering below-market rents and the option for shorter lease terms

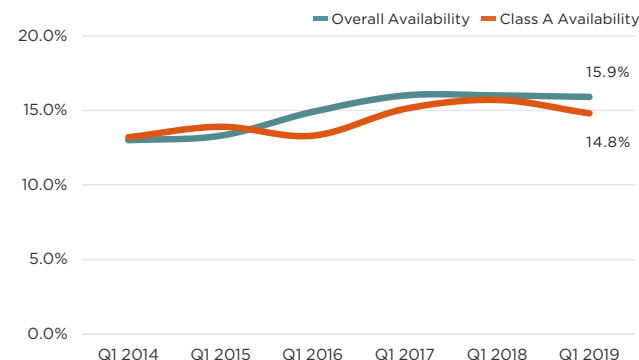
KEY STATISTICS

	Q1 2018	Q1 2019	y-o-y Change
Inventory	137.8 MSF	141.3 MSF	▲
Availability Rate	16.0%	15.9%	▼
Asking Rental Rate	\$39.41	\$41.01	▲
Class A Asking Rental Rate	\$45.31	\$46.52	▲
Quarterly Leasing Activity	3.3 MSF	3.9 MSF	▲

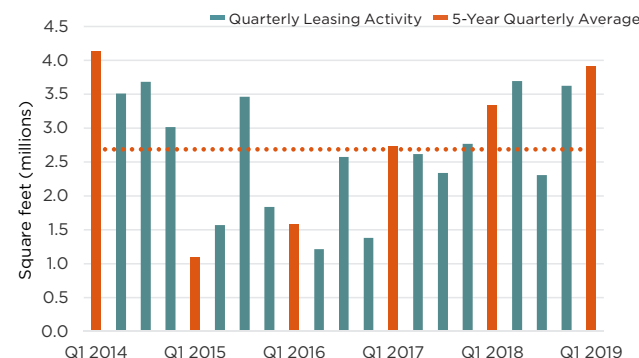
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

40.3%

of major transactions were **new market entrants or relocations**

84.4%

of large transactions occurred in the **West Loop** submarket

14.7%

TAMI represented 14.7% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
United Airlines	850,000	233 S Wacker Drive	Renewal	West Loop	Transportation
USG Corporation	275,669	550 W Adams Street	Renewal	West Loop	Manufacturing
RSM	146,629	30 S Wacker Drive	Relocation	West Loop	Professional Services
Dentsu Aegis Network	126,000	515 N State Street	Expansion	River North	TAMI
Convene	91,506	333 N Green Street	New Location	Far West Loop/Fulton Market	Coworking
Morgan, Lewis & Bockius	87,000	110 N Wacker Drive	Relocation	West Loop	Legal Services
AbelsonTaylor, Inc	85,000	433 W Van Buren Street	Relocation	West Loop	TAMI
Convene	79,245	311 W Monroe Street	New Location	West Loop	Coworking
Mondelez International	77,099	905 W Fulton Market	New Location	Far West Loop/Fulton Market	Food & Beverage
G2 Crowd	66,000	100 S Wacker Drive	Relocation	West Loop	TAMI

Source Savills Research

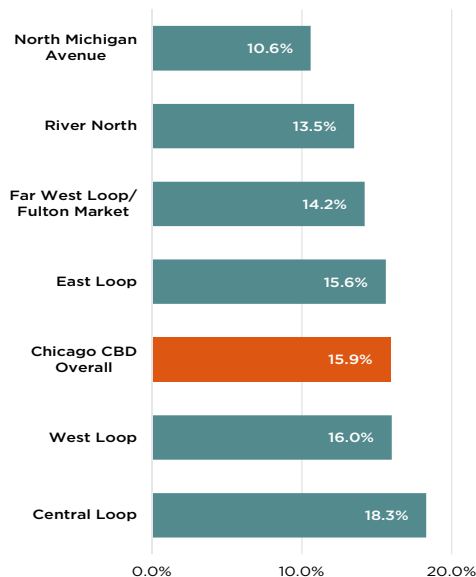
For more information,
please contact us:**Savills**150 North Riverside Plaza
Suite 1900
Chicago, IL 60606
+1 312 595 2900**Joe Learner**Vice Chairman,
Midwest
Region Lead
jlearner@savills.us**Robert Sevim**Vice Chairman
rsevim@savills.us**Eric Feinberg**Executive Vice President
efeinberg@savills.us**Anders Klein**Research Manager
aklein@savills.us**About Savills Inc.**

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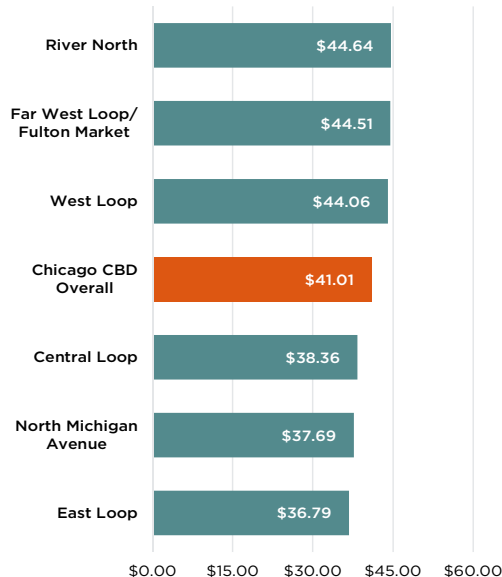
AVAILABILITY RATE COMPARISON

Chicago CBD Submarkets



RENTAL RATE COMPARISON (\$/SF)

Chicago CBD Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills compiled with the support of The CoStar Group.

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