

CHICAGO OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Chicago Employment*	4.7M	4.7M	▲
Chicago Unemployment*	5.0%	4.1%	▼
U.S. Unemployment*	4.4%	3.9%	▼

*Numbers above are quarterly averages

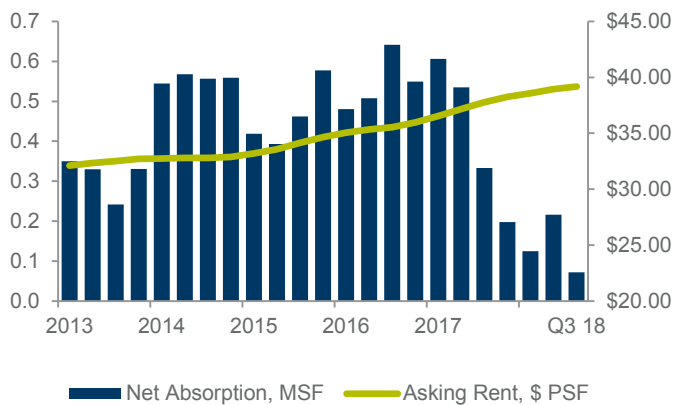
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	14.0%	14.2%	▲
YTD Net Absorption (sf)	1.0M	499k	▼
YTD Leasing Activity (sf)	6.5M	6.4M	▲
Average Asking Rent*	\$38.38	\$39.32	▲

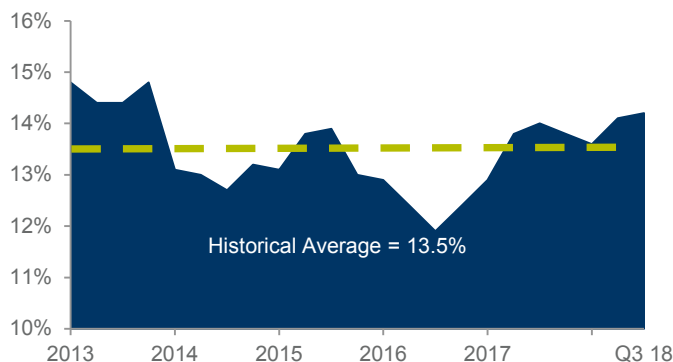
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

From this time last year office-using employment in the Chicago-Naperville-Elgin MSA grew by 6,600 employees, amounting to a 0.5% growth rate. Gross Metro Product for the area grew by 1.3%, a smaller rate than the past few quarters, but still positive.

Market Overview

Chicago's office market has become a tale of two cities with drastically different stories for high-end trophy towers versus the rest of the market. Competition is fierce among users looking for space in Class A+ trophy buildings (7.5% vacant), compared to the remainder of the Class A buildings (11.4% vacant). Meanwhile, Class B and C buildings have had to increase concessions to attract tenants who have more space options.

New leasing activity totaled 6.4 million square feet (msf) year-to-date (YTD), a slight 1.1% decrease from this time last year, but 19.5% over the 10-year average. CIBC signed the largest lease of third quarter in a renewal for 143,000 square feet (sf) at 120 South LaSalle, where the bank has been since 2009.

The overall vacancy rate rose 20 basis points year-over-year partially from historically lower levels of absorption, and from newly delivered space being added to the market.

The CBD overall gross average asking rent increased 2.4% to \$39.32 per square foot (psf). In comparison, the direct Class A asking rent stands at \$44.68 psf. The overall gross asking rent continued to level off for the past six quarters as the market has reached an equilibrium point. While asking rents increased this quarter, net effective rents have stagnated as concession growth outpaced asking rent growth. New real estate tax assessments are expected to drastically increase this year and tenants should budget accordingly. In the coming years, rental rates may grow from newer, high-quality assets demanding higher rents.

Sales activity totaled 9.2 msf through third quarter 2018, amounting to \$2.8 billion, 68.6% higher than the 10-year average. Beacon Capital Partners purchased 303 East Wacker from Franklin Street Properties for \$182.0 million (\$208 psf). This 875,000-sf acquisition was the largest office property that transferred ownership in third quarter 2018.

Outlook

Nearly 1.9 msf of office space has delivered in 2018 (73.0% leased) with another 324,000 sf of smaller speculative office buildings (23.9% preleased) to deliver by the end of the year. This 6.1 msf of new developments and redevelopments could grow to meet the increased demand for Class A product.

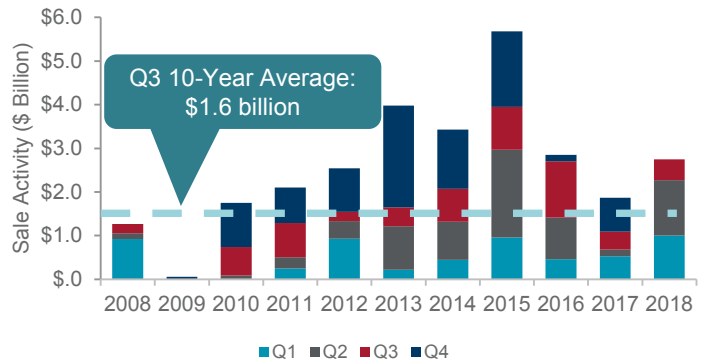
Current Market Cycle Pipeline

From now until the end of 2020, 6.1 msf of office product will deliver to the CBD. Of this 6.1 msf, 5.0 msf is located within the West Loop, East Loop, Central Loop, and River North submarkets. The majority of these assets are being developed with at least one anchor tenant instead of being built on a pure speculative basis. The construction costs to build these new Class A developments are extremely high. Over 3.4 msf of this new office inventory is the redevelopment of former industrial or retail buildings, a trend seen in the emerging markets outside of the CBD.

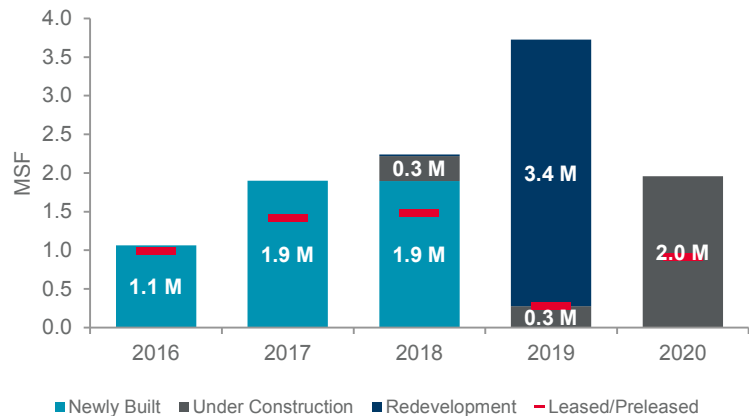
The remainder of new buildings will deliver in Fulton Market by the end of 2020 and consist of creative, speculative assets. The average size of these assets is slightly over 100,000 sf, much smaller than those in the traditional CBD. Current preleasing activity is only at 36.1%, providing opportunities for tenants looking for new space in this growing submarket.

CBD Office Investment Sales Activity

Q3 INVESTMENT SALES ACTIVITY IS 68.6% ABOVE THE 10-YEAR AVERAGE

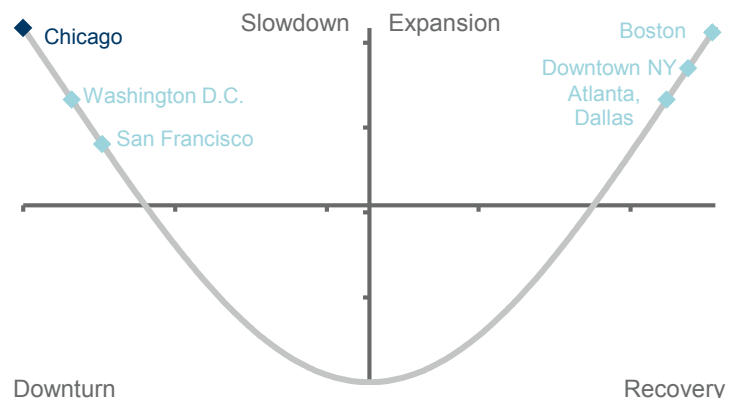


Current CBD Build Cycle Delivery Schedule



Chicago CBD Market Cycle

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



THE CLASS A CONSTRUCTION PIPELINE CONTINUES TO GROW TO MEET THE STRONG OCCUPIER DEMAND FOR QUALITY SPACE CURRENTLY SEEN IN THE CBD.

While buildings recently completed and expected to deliver in 2018 are 65.8% preleased, the assets that delivered in 2016 and 2017 in the new build cycle are now 81.4% leased. With over a year until the next Class A trophy tower delivers.

In general 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 overall vacancy rate to rise 210 basis points by the end of 2020.
- Strong investor demand for high-quality assets, as well as slowly increasing asking rental rates are spurring strong investment sales activity.
- Strong occupier demand for trophy Class A space coupled with low vacancy is fueling the development pipeline.
- Leasing activity from suburban companies moving to the CBD is picking up after a slowing down for a number of quarters.

MARKETBEAT

Chicago CBD

Office Q3 2018



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	33,516,292	524,058	4,576,134	15.2%	-275,922	-671,947	1,211,426	202,218	\$37.92	\$41.87
West Loop	49,446,282	566,005	6,552,052	14.4%	141,885	1,161,366	3,069,175	1,403,849	\$42.88	\$47.00
East Loop	22,454,035	249,939	3,401,750	16.3%	2,092	-704,062	799,090	0	\$34.84	\$37.85
North Michigan Avenue	7,211,659	79,263	778,100	11.9%	18,167	37,723	253,598	0	\$38.10	\$42.27
River North	15,045,976	233,544	1,442,758	11.1%	-317,126	-14,917	829,723	0	\$41.07	\$44.46
Fulton Market District	2,759,746	0	143,881	5.2%	96,283	719,617	236,286	964,962	\$35.01	\$44.17
Far West Loop	1,695,118	12,336	186,263	11.7%	-10,663	-28,974	30,792	135,000	\$28.34	N/A
CHICAGO CBD TOTALS	132,129,108	1,665,145	17,080,938	14.2%	-345,284	498,806	6,430,090	2,706,029	\$39.32	\$44.05

*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	54,992,083	431,355	7,263,553	14.0%	329,506	1,510,234	3,410,030	2,706,029	\$44.68	\$44.05
Class B	62,075,748	1,177,688	8,157,752	15.0%	-601,130	-699,694	2,711,826	0	\$38.24	\$37.38
Class C	15,061,277	56,102	1,659,633	11.4%	-73,660	-311,734	308,234	0	\$29.81	\$29.75

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
120 South LaSalle Street	143,000	CIBC	Renewal	Central Loop
425 South Financial Place	114,000	Chicago Trading Company	Renewal / Downsize	Central Loop
330 North Wabash Avenue	69,000	WeWork	New Lease	River North
150 North Riverside Plaza Drive	57,000	Holland & Knight	New Lease	West Loop
71 South Wacker Drive	55,000	Benesch Law	New Lease	West Loop
300 South Riverside Plaza	41,000	WellCare	New Lease	West Loop
321 North Clark Street	40,000	Loeb & Loeb	New Lease	River North

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
303 East Wacker Drive	875,000	Franklin Street Properties Corporation / Beacon Capital Partners	\$182,000,000 / \$208	East Loop
120 South LaSalle Street	563,000	Lincoln Property Company / Slate Office REIT	\$155,000,000 / \$276	Central Loop
1 North LaSalle Street	490,000	ONL Properties, LLC / Bridge Investment Group	\$113,000,000 / \$231	Central Loop
1033 West Van Buren Street	84,000	Pizzuti Companies / Lexington Realty International JV Case Equity Part	\$15,100,000 / \$180	Far West Loop

MARKETBEAT

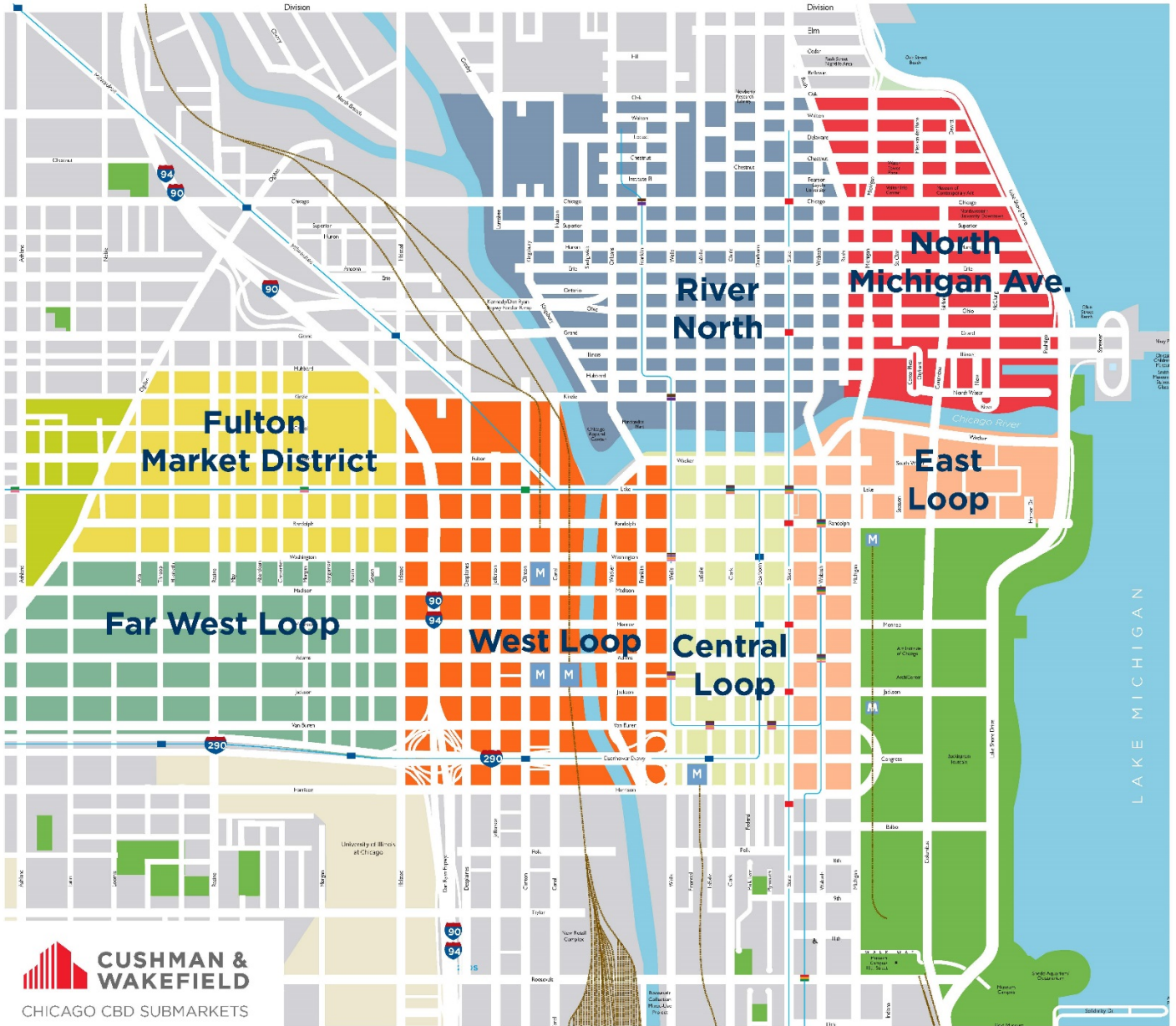
Chicago CBD

Office Q3 2018



OFFICE SUBMARKETS

CHICAGO CBD



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