

# Savills Studley Report Chicago CBD office sector

Q3 2017



## SUMMARY

### Market Highlights

#### LEASING STEADY

Year-to-date, tenants have leased 7.5 msf, right on track with deal volume during the same period of 2016. During the third quarter, activity inched up by 3.8% to 2.8 msf. Leasing volume totaled 10.0 msf in the last four quarters, exceeding the long-term average of 9.1 msf by nearly 1 msf.

#### AVAILABILITY DECREASES

Downtown's overall availability rate fell by 60 basis points from 16.1% to 15.5%, but has increased by 20 basis points year-on-year. The Class A rate fell more moderately, inching down by 20 basis points to 16.0%.

#### RENT UP SLIGHTLY

The Class A gross asking rent increased by 0.9%, from \$43.43 last quarter to \$43.84. The overall Downtown asking rent rose by 4.3%, from \$38.34 to \$38.83. Far West Loop/Fulton Market area witnessed a 4.3% spike, from \$42.19 to \$43.99.

#### SALES DOWN CONSIDERABLY

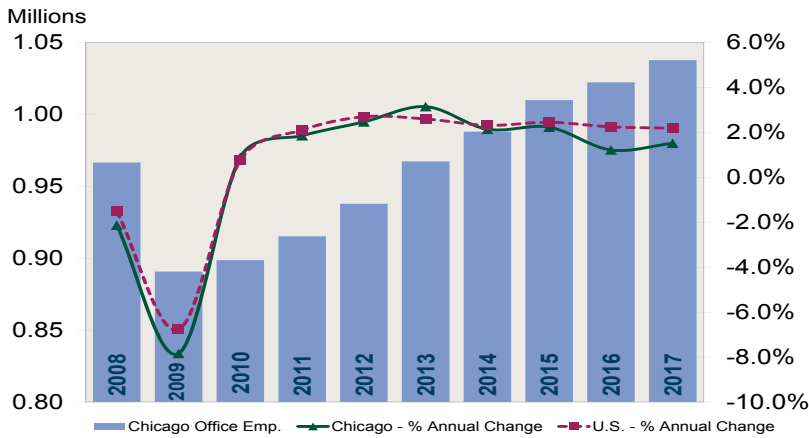
Year-to-date office property sales totaled \$1.3 billion – declining by 55.1% compared to the \$3 billion sold during the same period in 2016.

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*“The third quarter brought some substantial moves by tenants. These were accompanied by significant changes in building ownership. Tenant demands for the workplace and landlord investment strategies both continue to shift.”*

Eric Feinberg, Senior Vice President

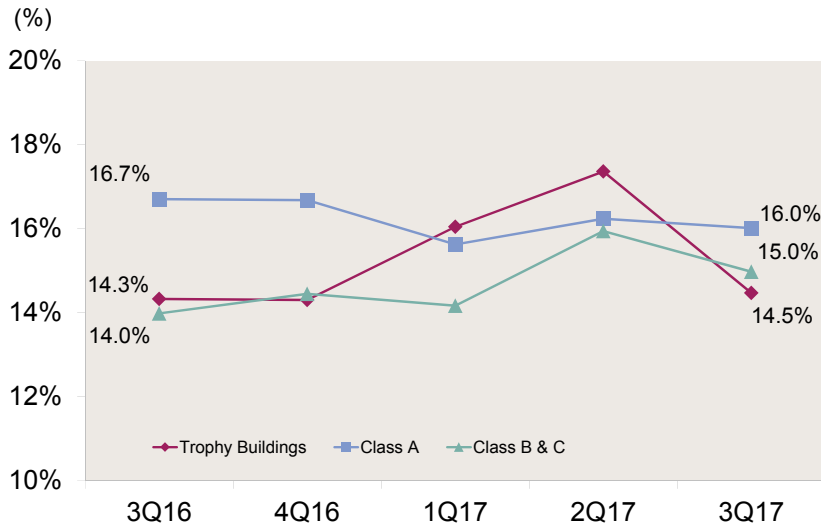
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## Office-Using Employment Trends

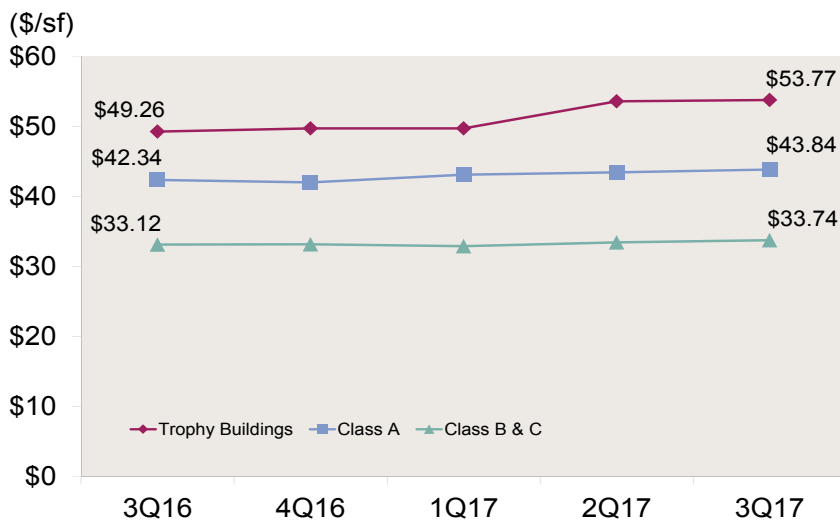


Source: Bureau of Labor Statistics

## Availability Rate Trends



## Asking Rent Trends



## Shifting Tenants and Owners

Leasing remained steady in the third quarter. Although the total dollar volume of sales decreased, a considerable number of buildings changed hands as well. Tenants and investors almost seemed to be competing in terms of level of activity. In fact, some of the movement has been spurred by changing ownership or planned building redevelopments. Investors continue to show a willingness to pay top dollar for buildings, even for some that will require significant redevelopment work.

Everyone's attention has been on Amazon's search for a second headquarters. Chicago, like many major metros, has already benefitted from the company's insatiable demand for labor. Amazon, which opened a starter office at 227 W. Monroe in 2016, is now planning to double its local workforce from 200 to 400 people.

Numerous companies were on the move in the quarter, including some firms relocating for the first time in decades. *The Chicago Tribune* is reportedly nearing a move from Tribune Tower to Prudential Plaza. The paper has been based in its namesake building on North Michigan Avenue for nearly a century. Tribune Tower is expected to be redeveloped by its new owners CIM Group and Golub & Company. Golub also recently partnered with private equity firm Alcion in the acquisition of 300 S Wacker from Beacon Capital for a reported \$155 million (\$275/sf). *The Chicago Sun-Times*, and its sister publication *The Reader*, will move out of 350 N. Orleans (River North Point) to 30 N. Racine, a building that was formerly occupied by Harpo Productions. The newspaper will occupy 26,000 sf at the property.

## Sterling Bay Ramps Up Investment

Sterling Bay seems to be in the thick of everything. The developer focused initially on conversion projects in peripheral markets such as River North, but they are now moving on to bigger projects and buying stabilized assets in core submarkets. Sterling Bay is under contract to buy Prudential Plaza for about \$680 million. This price underscores the turnaround in the Chicago office market's fundamentals over the last few years. The seller, 601W, bailed out the property from near default roughly four years ago and has since spent more than \$100 million on renovations.

The sellers of Prudential Plaza, New York City-based 601W, will presumably utilize

some of the proceeds on the \$500 million renovation of the Old Main Post Office. They have another recent purchase, 13 floors of office space totaling 833,000 sf in the Sullivan Center at 1 S. State Street, that could benefit from a major capital investment. The private investor paid nearly \$180 million, less than what market observers expected, but still a big gain for the sellers. Madison Capital and KKR paid \$267 million in April of 2016 for the 15-story building and sold 200,000 sf of retail shortly after for \$147 million to Arcadia.

Sterling Bay has played – and will continue to play – a big role in Fulton Market’s transition to an emerging commercial office district. This transformation took another big step forward in the quarter. WPP Group signed a 260,000-sf lease at Sterling Bay’s proposed building on Halsted and Green Street. The advertising magnate employs 2,000 Chicagoans under multiple agencies (GroupM, J. Walter Thompson, Ogilvy & Mather and Wunderman) and will consolidate several different Downtown locations. Sterling Bay is expected to construct a building of up to 500,000 sf on Halsted Street.

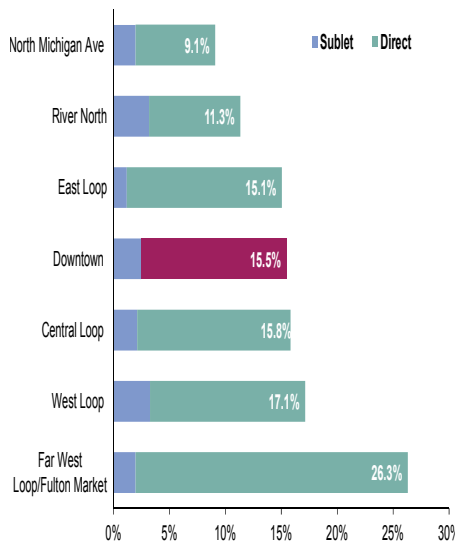
**Another Redevelopment Project on the Horizon**

While substantial, the Halsted development pales in comparison to two future projects that will keep Sterling Bay occupied well into the next cycle. Its latest proposal, Lincoln Yards, entails a \$20 billion redevelopment plan for the former A. Fink & Sons plant along the Chicago River. The city of Chicago recently selected Sterling Bay as the winning bidder on the 18-acre Department of Fleet and Facility Management site on Goose Island. The \$105-million purchase will give Sterling Bay nearly 60 acres in the area of Lincoln Park and Bucktown, just west of the A. Fink & Sons plant.

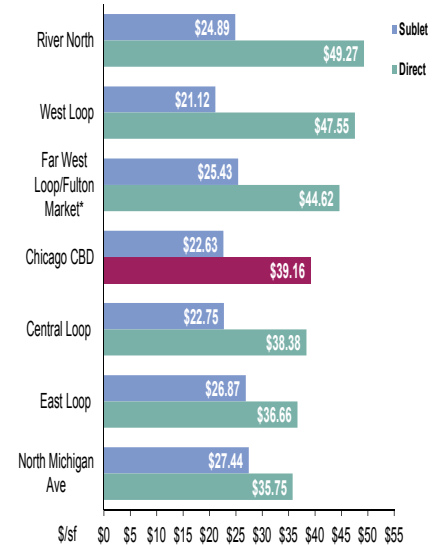
**Relocations Leave Major Vacancies Behind**

Northern Trust announced a 462,000-sf lease at 333 S. Wabash Avenue, securing building name rights in the transaction. The bank will move 2,000 to 3,000 employees from several different buildings (including 801 S. Canal Street, a Class B building constructed in 1941), but they will retain their headquarters at 50 S. LaSalle Street. The space at ‘Big Red’ came available after CNA elected to move operations to a 35-story tower underway at 151 N. Franklin Street that will deliver in mid-2018. The lease leaves Buck with nearly another 300,000

**Availability Rate Comparison**



**Rental Rate Comparison**



**Major Transactions**

Tenant	Sq Feet	Address	Market Area
Northern Trust	462,000	333 S Wabash Ave	East Loop
WPP	260,000	331 N Halsted St	Far West Loop/Fulton Market
American Bar Association	151,386	321 N Clark St	River North
GATX	88,080	233 S Wacker Dr	West Loop
kCura	46,219	231 S LaSalle St	Central Loop
Spaces	39,723	159 N Sangamon St	Far West Loop/Fulton Market
Barcodes Inc	38,744	200 W Monroe St	West Loop
Belvedere Trading	36,648	10 S Riverside Plz	West Loop
Amazon	35,000	227 W Monroe St	West Loop
Salt Flats	34,630	113 N May St	Far West Loop/Fulton Market
<b>Sum of Top 10 Leases</b>	<b>1,192,430</b>	<b>Sum of 3rd Qtr Leasing Activity</b>	<b>2.8 MSF</b>

sf to fill. They plan to invest extensively in adding new amenities to 333 S. Wabash Ave including a food court and renovations to the conference center and auditorium, as well as offering day care and shuttle service to trains.

Willis Tower secured a 88,080-sf lease with GATX. The rail car leasing firm will relocate from the nearby Franklin (222 W. Adams). Leasing has gained momentum as Blackstone’s \$550 million revamping of the iconic tower continues. The building is now 90% leased. GATX will shed about 28,000 sf in its relocation, elevating the availability rate at the two-building Franklin to 25.4%.

**Value-Add Sales**

Value-add sales continue to account for much of the activity in Chicago’s office investment market. Buyers are seeking out buildings that seem to have some potential upside, if the new owners spend a bit on improvements. Boston-based Beacon

Capital Partners paid \$165 million (\$176/sf) for 231 S. LaSalle Street. Although the sale price was well below the average for an office building within the Loop, it is a big jump from the \$97 million that the sellers paid for it in 2012. The price jumped by nearly \$70 million even though the building’s occupancy has fallen from about 96% in 2012 to 83% at time of sale. Additionally, Northern Trust, the building’s largest tenant with 206,700 sf, is moving to 333 S. Wabash.

Similarly, Macerich Companies is about to sell 500 N. Michigan Avenue for nearly \$87 million, a gain of more than 20.0% from what they paid in 2012. Macerich planned to connect the Magnificent Mile building to the Shops at North Bridge, but never pulled off the plan. The new owners, investors from Israel and Switzerland, will collaborate with local developer David Bossy on a redevelopment of the building into new retail and upgraded office space. The building was 47% vacant at the time of sale.

Map	Submarket	Total	Leasing Activity			Available SF			Availability Rate*			Asking Rents Per SF		
		SF (1000's)	Annual Leasing Volume	Annual Net Absorption	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago	
1	<b>West Loop</b>	49,744	4,164	583.1	8,524	-4.8%	9,251	17.1%	-0.9%	18.6%	\$41.89	1.9%	\$41.27	
	West Loop - Class A	34,702	3,283	(911.3)	6,003	-1.4%	6,547	17.3%	-0.2%	19.1%	\$44.79	1.3%	\$44.23	
2	<b>Far West Loop/Fulton Market</b>	4,055	544	(51.4)	1,067	-1.1%	262	26.3%	-0.3%	7.2%	\$43.99	4.3%	\$30.25	
	Far West Loop/Fulton Market - Class A	1,353	413	35.1	570	0.0%	5	42.1%	0.0%	N/A	\$49.65	3.5%	N/A	
3	<b>Central Loop</b>	44,027	2,207	(66.2)	6,967	3.6%	6,778	15.8%	0.6%	15.0%	\$35.08	-1.4%	\$33.98	
	Central Loop - Class A	15,318	893	(104.1)	2,341	0.1%	2,281	15.3%	0.0%	15.1%	\$40.50	-1.1%	\$37.58	
4	<b>East Loop</b>	21,649	1,213	210.9	3,259	-19.3%	3,257	15.1%	-3.6%	14.6%	\$36.29	2.9%	\$35.73	
	East Loop - Class A	8,166	212	(7.1)	1,194	-6.7%	1,248	14.6%	-1.1%	15.4%	\$40.27	2.5%	\$38.95	
5	<b>North Michigan Avenue</b>	10,572	535	383.0	961	-6.0%	1,041	9.1%	-0.6%	9.6%	\$35.02	-1.9%	\$34.57	
	North Michigan Avenue - Class A	4,730	256	131.2	360	-6.0%	460	7.6%	-0.5%	9.8%	\$40.50	0.6%	\$37.67	
6	<b>River North</b>	15,900	1,353	(69.2)	1,802	9.0%	1,848	11.3%	0.9%	12.0%	\$42.00	3.4%	\$40.26	
	River North - Class A	5,797	939	(51.4)	749	5.2%	930	12.9%	0.6%	15.8%	\$46.62	0.2%	\$44.17	
1-6	<b>Chicago CBD Total</b>	145,947	10,015	990.2	22,580	-3.8%	22,437	15.5%	-0.6%	15.3%	\$38.83	1.3%	\$37.92	
	<b>Chicago CBD Total - Class A</b>	70,066	5,996	(907.6)	11,217	-1.4%	11,471	16.0%	-0.2%	16.7%	\$43.84	0.9%	\$42.34	

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\*Rent and availability rates in submarkets with a limited amount of inventory are sometimes subject to large fluctuations.  
(1) Percentage point change for availability rates.  
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.  
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.  
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