The 1.2-million-square-foot Salesforce Tower, now under construction at the Wolf Point development, will offer approximately 700,000 square feet of downtown, Class A office space after the tech giant moves into its 500,000 square feet space in 2023.

Strong demand for Class A office product in Chicago’s CBD pushed leasing volume over 3 million square feet for the third consecutive quarter. And according to the latest report from Savills Studley, office tenants just can’t get enough of new spaces.

Tenant preference for newly developed space played a major role in the volume of projects completed, according to the firm’s Q4 findings. As many tenants in Chicago clearly prefer new buildings to older existing product, the next set of new properties to come online will likely register steady activity, barring any significant change to the regional business outlook.

“Development activity has intensified in downtown Chicago,” said Eric Feinberg, vice chairman, co-head Chicago region at Savills Studley. “Tenants continue to make aggressive moves to secure new, best-in-class product as they strive to maintain growth and attract top talent.”

Tenants leased nearly 13 million square feet in the CBD in 2018, eclipsing the 2017 tally of 10.5 million square feet. Office property sales also increased significantly last year in Chicago and the suburbs, spiking to $3.2 billion (69 percent) and $4.8 billion (71 percent), respectively, as of November.
The 3.6 million square feet of office leases in the fourth quarter of 2018 brought the year-end total to nearly 13 million square feet, eclipsing the 2017 tally of 10.5 million square feet and 36 percent higher than the long-term annual average.

For firms in search of large blocks of high-quality space, competition is heating up. There were several large deliveries in 2018, including 151 N. Franklin and 625 W. Adams. Even so, there are few large blocks in downtown Chicago that meet the rising standards of large tenants in the market.

As of mid-December, there were 36 existing blocks of space over 100,000 square feet, according to Savills Studley, but just 11 blocks exceed 200,000 square feet. The dearth of quality big blocks is spurring aggressive demand for proposed projects, with some tenants signing leases three or more years before a property is scheduled to deliver.

625 W. Adams delivered without a signed tenant lined up, but CDW's 250,000-square-foot lease in October left less than 40 percent of the 440,000-square-foot building available for users. At 151 N. Franklin, leases by Cohen & Company, Manatt, Phelps & Phillips, LLP and others have left less than 39,000 square feet available, with no blocks larger than 21,000 square feet.

But help may be on the way. The $800 million renovation underway at the city's historic Post Office building will add 2.8 million square feet of office space to the ledger. Three tenants have been announced—Walgreens, Ferrara Candy and The Chicago Metropolitan Agency for Planning—cumulatively taking about 324,000 square feet with the first move-ins planned for later this year.

Elsewhere, the largest deal of Q4 2018 saw San Francisco-based Salesforce expanding its Chicago footprint, committing to 500,000 square feet and naming rights at the under-construction Wolf Point South. The tech giant will take delivery of their space within the 1.2-million-square-foot building in 2023.

Not to be outdone, another major new project was announced in December as BMO Harris signed its own 500,000-square-foot lease—with naming rights—at a new 50-story tower located one block south of Union Station. When BMO Tower delivers in 2022, it will offer approximately 1.5 million square feet in total.

Combined, these two new developments present opportunities for larger users looking for space in some of the most picturesque and desirable sections of downtown. Other forthcoming large developments include 333 N. Green Street, which is due by 2020, the 1.4-million-square-foot building rising at 110 N. Wacker and the massive, master planned neighborhoods like The 78 and Lincoln Yards that have yet to fully get underway.

Savills Studley alone completed 49 transactions, totaling 1,353,151 square feet, in the larger Chicago metro in the last quarter of 2018. One downtown lease saw Brinks Gilson & Lione taking 78,081 square feet at 455 N. Cityfront Plaza Drive in Chicago, represented by Adam
Southard, Joe Learner and Robert Sevim. Separately, Learner and Sevim facilitated the 63,749-square-foot lease at 71 S. Wacker Drive on behalf of Benesch Friedlander Coplan & Aronoff LLP.

As the Chicago CBD sees a rise in corporate relocations from suburban areas, a window of opportunity has opened up for tenants seeking reasonably priced spaces. The average Class A gross asking rent rose by 0.8 percent year-over-year, but downtown asking rents were up by 1.8 percent year-over-year.

“Landlords are incentivizing new tenants and adding amenities to their buildings to keep existing occupants,” said Sevim, vice chairman, co-head Chicago region. “While some submarkets and micro-markets with more updated building product, strong amenities and prime locations are exhibiting better fundamentals, the suburban prices remain extremely affordable and net effective rents are near zero in some cases.”