

HOT TOPICS

- Class A average asking gross rents increase 3.2% year-over-year, ending Q1 2017 at \$44.95 per sq. ft.
- Capital markets remain a focus with four assets either under contract or sold and another seven asset being marketed, totaling \$2 billion.
- West Loop had the largest positive absorption in the CBD, ending Q1 2017 with 463,203 sq. ft.

 Direct Vacancy
12.0%

 Gross Asking Rate
\$37.98

 Net Absorption
313,415 SF

 Under Construction
1,669,672 SF

*Arrows indicate change from previous quarter.

MARKET OVERVIEW

For the second straight year, the Central Business District (CBD) of the Chicago office market began with a large positive absorption total. After being flat last quarter, the market experienced an increased positive absorption total of 313,415 sq. ft. Despite the strong absorption, there was a jump in direct vacancy. Major market drivers included medical and legal services sectors.

Q1 2017 movement was driven by tenants occupying their space in newly delivered construction. For example, DLA Piper vacated 282,747 sq. ft. at 203 N LaSalle Street and occupied its new 177,813-sq.-ft. Chicago office at 444 W. Lake Street. Morton Salt occupied 52,687 sq. ft. at 444 W. Lake Street and has put its space at 123 N Wacker Drive on the sublease market. Finally, Polsinelli vacated its space at 161 N Clark Street and occupied 84,189 sq. ft. at 150 N Riverside Plaza.

The direct vacancy rate increased 180 basis points(bps) from the previous quarter to 12.0%. The jump in direct vacancy came after 444 W. Lake Street and 150 N. Riverside Plaza delivered this quarter. The sublease vacancy rate has increased 30 bps since Q1 2016.

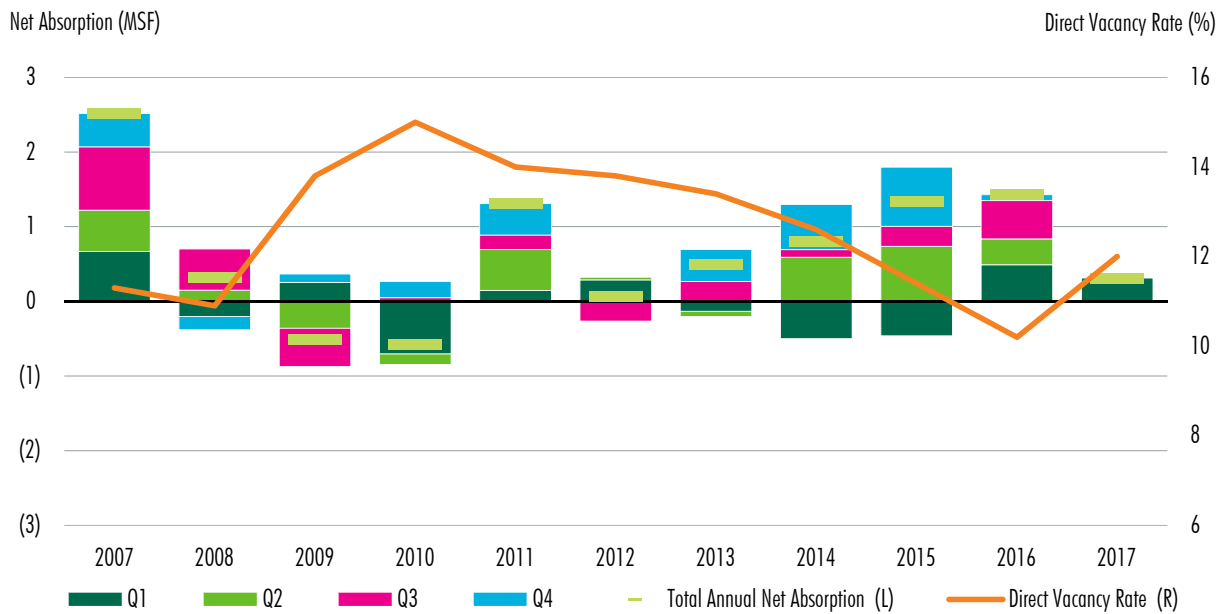
The leasing volume remained steady going into 2017. Outcome Health, previously known as ContextMedia, was the largest transaction of the quarter after signing a new lease at 515 N State Street for 393,763 sq. ft. TWG Holdings renewed and restructured its footprint at 175 W Jackson to 67,687 sq. ft.

Average asking gross rents continued to climb in Q1 2017, recording a slight bump of 0.8% from Q4 2016 to end the quarter at \$37.98 per sq. ft. This is an increase of 2.0% year-over-year. The growth in rents can partly be attributed to the increasing property taxes in Cook County.

Closing out a fourth consecutive year well above historical averages, the momentum continues for the CBD investment market. Three assets sold during Q1 2017 totaling \$400 million, with another asset and two portfolio sales currently under contract. The most notable transaction under contract is 125 S Wacker at a price of \$252 per sq. ft. All closed transactions in 2017 have been value-add in profile, illustrating investors' continued bullish stance on leasing existing vacancy and pushing rental rates. The recent additions of 2.3 million sq. ft. to the inventory plus another 1.6 million sq. ft. under construction have not deterred the investment market's belief in a continuation of the large net absorption totals compiled over past two years.

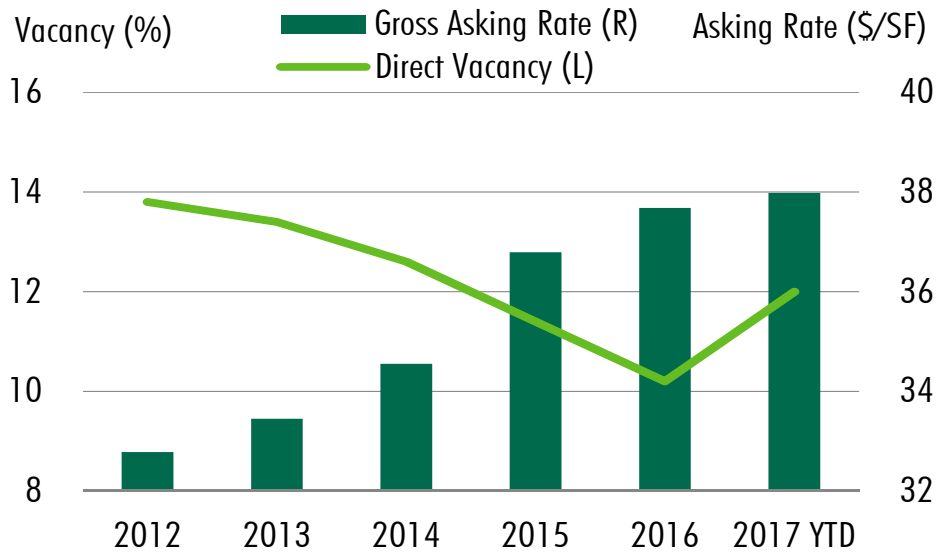
There are currently 30 blocks of available space over 100,000 sq. ft. in the CBD, based on existing inventory, up from 28 blocks year-over-year. The number of available blocks between 50,000 sq. ft. and 99,999 sq. ft. has decreased by three spaces from last quarter to 47 blocks. West Loop total Class A blocks experienced a significant quarter-over-quarter increase of 11 blocks, ending Q1 2017 with 66 total.

HISTORICAL NET ABSORPTION VS. DIRECT VACANCY RATE



Source: CBRE Research, Q1 2017.

DIRECT VACANCY/GROSS WEIGHTED ASKING RATE



Source: CBRE Research, Q1 2017.

1Q 2017 KEY MARKET STATISTICS

Submarket	Rentable Building Area Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q1 2017 Net Absorption Sq. Ft.	2017 Net Absorption Sq. Ft.	Under Construction Sq. Ft.****	Gross Asking Lease Rates (\$/Sq. Ft./Yr)
Central Loop	36,313,695	3,835,164	10.6	0.8	11.4	(311,464)	(311,464)	-	34.98
Class A	10,024,936	905,820	9.0	1.3	10.4	(59,860)	(59,860)	-	44.01
Class B	20,364,142	1,911,543	9.4	0.8	10.2	(239,181)	(239,181)	-	32.37
Class C	5,924,617	1,017,801	17.2	0.1	17.3	(12,423)	(12,423)	-	30.79
East Loop	22,885,618	2,679,470	11.7	0.7	12.4	115,241	115,241	-	35.49
Class A	5,368,236	356,402	6.6	0.0	6.6	148	148	-	41.07
Class B	11,422,225	1,578,793	13.8	1.0	14.9	115,878	115,878	-	36.23
Class C	6,095,157	744,275	12.2	0.7	12.9	(785)	(785)	-	29.84
Fulton/West**	2,545,694	235,442	9.2	0.7	10.0	(4,868)	(4,868)	311,726	27.65
Class A	535,510	0	0.0	0.0	0.0	0	0	311,726	NA
Class B	164,900	46,531	28.2	0.0	28.2	(1,641)	(1,641)	-	28.00
Class C	1,845,284	188,911	10.2	1.0	11.3	(3,227)	(3,227)	-	27.59
NMA***	10,497,766	1,329,442	12.7	0.7	13.4	120,588	120,588	-	38.02
Class A	4,248,228	762,372	17.9	1.2	19.1	28,153	28,153	-	41.15
Class B	5,552,343	481,559	8.7	0.5	9.2	102,356	102,356	-	34.25
Class C	697,195	85,511	12.3	0.0	12.3	(9,921)	(9,921)	-	33.68
River North	11,302,728	890,821	7.9	0.7	8.6	(69,285)	(69,285)	38,749	40.23
Class A	2,476,544	79,966	3.2	0.1	3.4	4,764	4,764	38,749	57.35
Class B	6,576,977	641,139	9.7	0.4	10.2	(87,704)	(87,704)	-	41.39
Class C	2,249,207	169,716	7.5	2.3	9.9	13,655	13,655	-	28.13
West Loop	47,262,623	6,676,750	14.1	1.6	15.7	463,203	463,203	1,319,197	41.96
Class A	24,017,922	3,776,986	15.7	1.1	16.9	386,923	386,923	1,319,197	46.69
Class B	20,462,596	2,736,273	13.4	2.2	15.6	107,645	107,645	-	38.31
Class C	2,782,105	163,491	5.9	0.5	6.3	(31,365)	(31,365)	-	28.61
Total CBD	130,808,124	15,647,089	12.0	1.1	13.0	313,415	313,415	1,669,672	37.98
Class A	46,671,376	5,881,546	12.6	1.0	13.6	360,128	360,128	1,669,672	44.95
Class B	64,543,183	7,395,838	11.5	1.2	12.7	(2,647)	(2,647)	-	36.05
Class C	19,593,565	2,369,705	12.1	0.7	12.8	(44,066)	(44,066)	-	29.93

TOP LEASE TRANSACTIONS

Size (SF)	Tenant	Address
393,763	Outcome Health	515 N State St.
67,687	TWG Holdings	175 W Jackson Blvd.
65,000	Omnicom	225 N. Michigan Ave.
56,000	McAndrews, Held & Malloy	500 W. Madison St.
48,782	Arnold & Porter Kaye Scholer	70 W. Madison St.

OUTLOOK

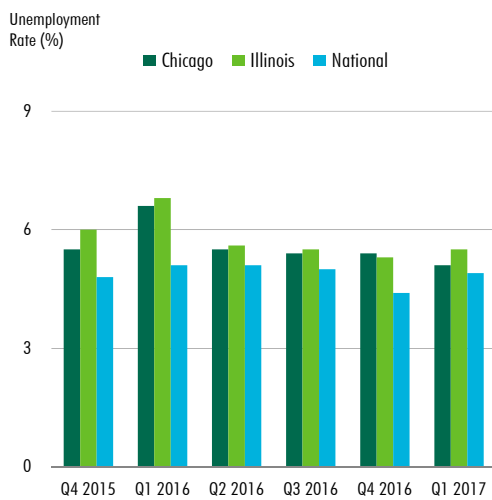
The delivery of 444 W. Lake Street and 150 N. Riverside Plaza brought the amount of space under construction down to 1,669,672 sq. ft., which is currently 40% pre-leased. However, concerns continue to swirl about whether the new construction and potential shadow space to hit the market in 2017 will lead to an additional increase in vacancy. This could result in downward pressure on rents and could possibly hinder absorption.

UNEMPLOYMENT

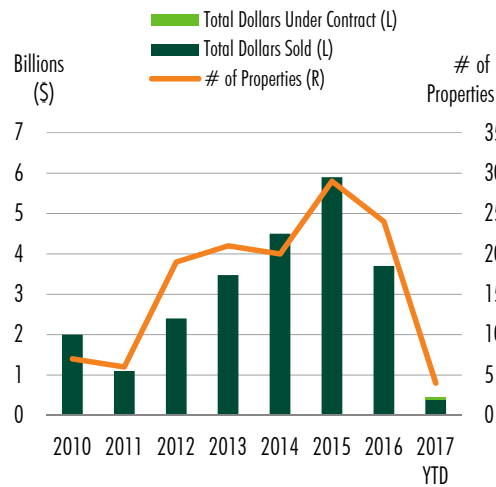
According to the U.S. Department of Labor's Not Seasonally Adjusted statistics, the February 2017 National unemployment rate was 4.9%, a 50 bps increase from last quarter. Additionally, Illinois unemployment rate increased by 20 bps from November to 5.5% (preliminary). Despite the small uptick from last quarter, all but one of Illinois' metropolitan areas unemployment rate decreased year-over-year. Employment in education and health services, professional and business sectors experienced large gains during Q1 2017 throughout the State of Illinois.

Furthermore, the Chicago metropolitan area unemployment statistics decreased 30 bps from November, ending February with a preliminary unemployment rate of 5.1%. Major sectors that grew were professional and business services, transportation, warehousing, & utilities, leisure and hospitality industries.

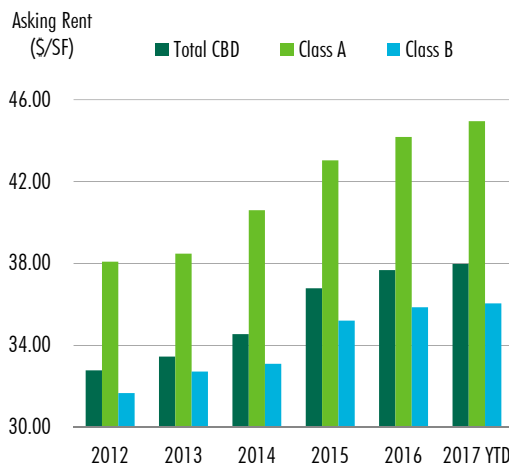
Unemployment



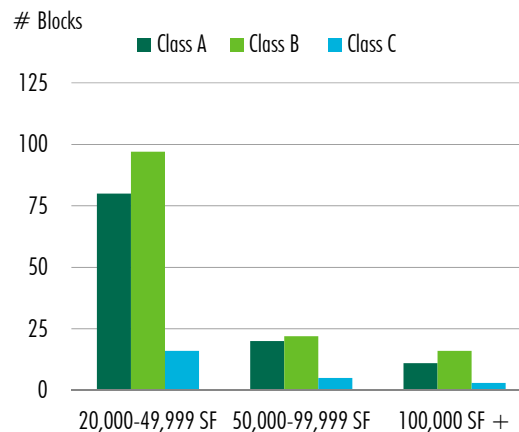
CBD Historical Office Sales Volume



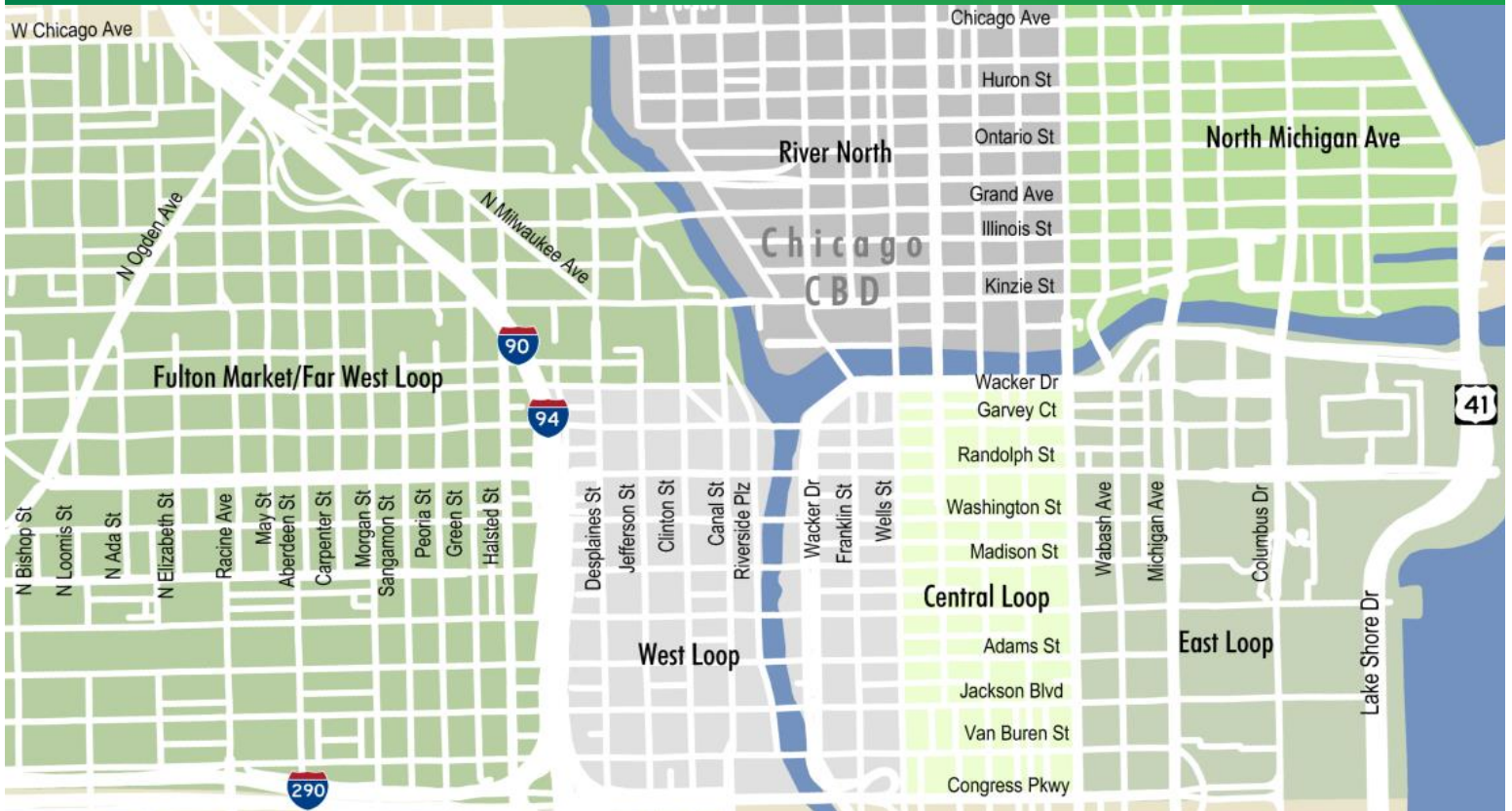
Gross Weighted Asking Rates



Chicago Total Available Big Blocks



SUBMARKET MAP



CHICAGO CBD OFFICE INVESTMENT PROPERTIES GROUP

As an “urban property specialist” focusing on the Downtown office market John Slivka assist investors with the disposition and acquisition of investment properties in the City of Chicago. John is a member of the CBRE, Inc. Investment Properties group, a nationwide affiliation of CBRE professionals who concentrate on servicing middle and private client investors. Mr. Slivka has provided brokerage services, valuations, financial analyses, and other real estate consulting services for various types of investment grade commercial properties located across the United States. John has completed projects on behalf of institutional investors and lenders, commercial banks, law firms, individual investors, multi-national corporations, and various other clients. In June 2000, Mr. Slivka received the MAI designation from the Appraisal Institute.



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