

## HOT TOPICS

- Class A average asking gross rents increase 5.2% year-over-year, ending Q2 2017 at \$45.56 per sq. ft.
- Positive outlook for capital markets for the second half of 2017, with ten properties being marketed totaling \$2.2 billion.
- Buildings currently under construction in the CBD are approximately 37% leased.



Direct Vacancy  
**12.3%**



Gross Asking Rate  
**\$38.07**



Net Absorption  
**(119,200) SF**



Under Construction  
**1,794,295 SF**

\*Arrows indicate change from previous quarter.

## MARKET OVERVIEW

### NEGATIVE ABSORPTION FOR THE CBD IN Q2

Q2 2017 was a strong quarter for leasing activity in the Chicago Central Business District (CBD) office market, with the top five transactions totaling 1.2 million sq. ft., nearly doubling the square footage of last quarter's top transactions. However, the CBD saw an uptick in direct vacancy and for the first time in eight quarters, experienced negative net absorption, ending Q2 2017 at -119,200 sq. ft. Major market drivers included wholesale, consulting, and legal services sectors.

For the second quarter in a row, movement was primarily driven by tenants downsizing their footprint and occupying space at recently delivered buildings. For example, McDermott, Will, & Emery vacated 258,802 sq. ft. at 227 W. Monroe Street and occupied 210,266 sq. ft. at its new location, 444 W. Lake Street. Navigant vacated 129,216 sq. ft. at 30 S. Wacker Drive and occupied 110,638 sq. ft. at 150 N. Riverside Plaza. Finally, Arnstein & Lehr LLP vacated its space at 120 S. Riverside Plaza and occupied 60,012 sq. ft. at 161 N. Clark Street, which was roughly half of its previous footprint.

### VACANCY INCHES UP IN Q2 2017

The direct vacancy rate increased 30 basis points (bps) from the previous quarter to 12.3%. The increase in direct vacancy persists due to tenants leaving behind space as they occupy at 444 W. Lake Street and 150 N. Riverside Plaza. Also, the sublease vacancy rate has increased 30 bps since Q2 2016.

The leasing volume was up in Q2 2017, with Bank of America being the largest transaction of the quarter. Bank of America signed a new lease for 489,466 sq. ft. at 110 N. Wacker Dr., which is scheduled to break ground in early 2018. Also, HERE Holding Corporation signed a lease this quarter to renew at 100 N. Riverside Plaza for 277,573 sq. ft.

### RENTS CONTINUE TO GROW IN 2017

Since Q2 2016, the average gross asking rents have increased \$1.04 to \$38.07 per sq. ft. Most of the growth in 2017 is attributed to the increase in the Cook County property tax. Further, quarter-over-quarter growth was flat for Q2 2017, recording a slight bump of \$0.09.

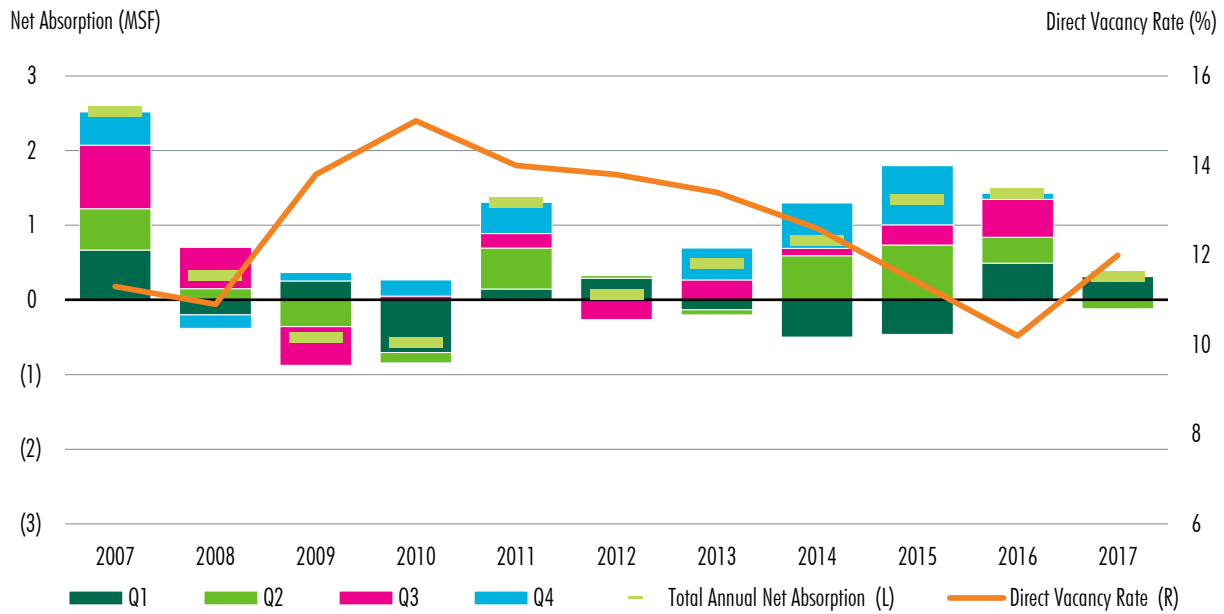
### SALES SLOW IN Q2 2017

Although the sales volume for downtown institutional office investment sales had minimal growth during the second quarter, the large quantity of assets currently on the market and under contract leads to an optimistic view point for the rest of the year. Year-to-date, five properties have traded, totaling \$676 million, with an additional eight properties under contract or with a signed letter of intent, totaling an additional \$923 million. The most notable transaction of the quarter was 125 South Wacker, a well-located, value-add asset with significant upside due to well below-market in-place rents. Value-add sales have made up the majority of activity so far in 2017, accounting for all but two deals thus far. The buyer pool continues to aggressively pursue assets that offer a unique value creation story. Currently, there are ten properties being marketed totaling \$2.2 billion. These assets, along with the current under contract sales, could drive 2017 total sales volume well beyond long-term historical averages.

### LARGEST INCREASE IN MID-SIZE BLOCKS

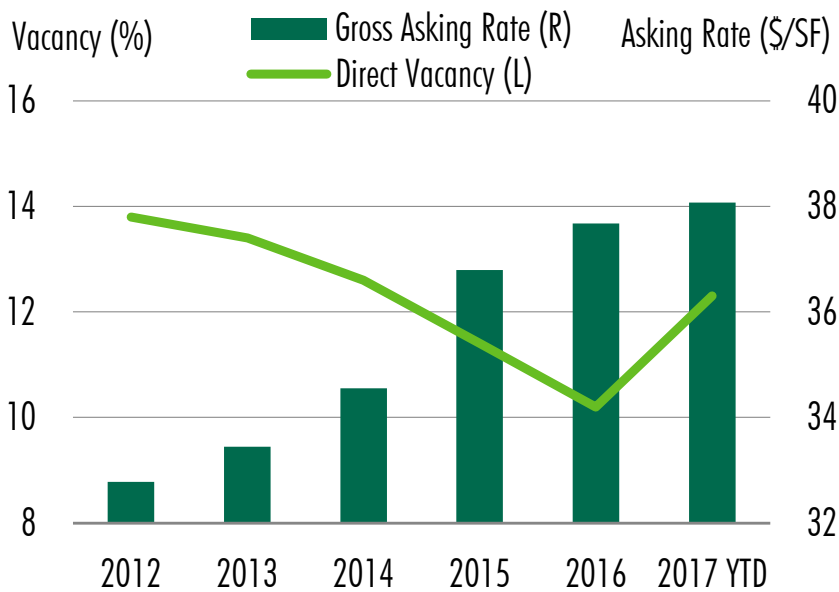
With a slight increase in available blocks of 100,000 sq. ft. and greater in the CBD, Q2 2017 ends with 31 available blocks, which is up from 29 last year. The number of available blocks between 50,000 - 99,999 sq. ft. experienced a significant quarter-over-quarter increase of 10 blocks, ending the quarter with 57. The East Loop contributed to half of the increase in total blocks between 50,000 - 99,999 sq. ft., increasing by five blocks from last quarter.

**HISTORICAL NET ABSORPTION VS. DIRECT VACANCY RATE**



Source: CBRE Research, Q2 2017.

**DIRECT VACANCY/GROSS WEIGHTED ASKING RATE**



Source: CBRE Research, Q2 2017.

# 2Q 2017 KEY MARKET STATISTICS

Submarket	Rentable Building Area Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q2 2017 Net Absorption Sq. Ft.	2017 Net Absorption Sq. Ft.	Under Construction Sq. Ft.****	Gross Asking Lease Rates (\$/Sq. Ft./Yr)
<b>Central Loop</b>	<b>36,313,695</b>	<b>4,207,307</b>	<b>11.6</b>	<b>0.6</b>	<b>12.2</b>	<b>(112,753)</b>	<b>(424,217)</b>	-	<b>\$35.11</b>
Class A	10,024,936	1,140,277	11.4	0.8	12.2	10,008	(49,852)	-	\$44.15
Class B	20,364,142	2,011,064	9.9	0.7	10.5	(84,596)	(323,777)	-	\$32.37
Class C	5,924,617	1,055,966	17.8	0.2	18.1	(38,165)	(50,588)	-	\$30.66
<b>East Loop</b>	<b>22,885,618</b>	<b>2,717,692</b>	<b>11.9</b>	<b>0.7</b>	<b>12.6</b>	<b>(38,222)</b>	<b>77,019</b>	-	<b>\$35.15</b>
Class A	5,368,236	400,039	7.5	0.0	7.5	(43,637)	(43,489)	-	\$42.17
Class B	11,422,225	1,501,200	13.1	1.1	14.3	77,593	193,471	-	\$35.49
Class C	6,095,157	816,453	13.4	0.7	14.1	(72,178)	(72,963)	-	\$29.48
<b>Fulton/West**</b>	<b>2,545,694</b>	<b>237,865</b>	<b>9.3</b>	<b>1.9</b>	<b>11.2</b>	<b>(2,423)</b>	<b>(7,291)</b>	<b>436,349</b>	<b>\$27.83</b>
Class A	535,510	0	0.0	0.0	0.0	0	0	436,349	NA
Class B	164,900	33,391	20.2	0.0	20.2	13,140	11,499	-	\$29.43
Class C	1,845,284	204,474	11.1	2.6	13.7	(15,563)	(18,790)	-	\$27.64
<b>NMA***</b>	<b>10,497,766</b>	<b>1,327,567</b>	<b>12.6</b>	<b>0.9</b>	<b>13.5</b>	<b>1,875</b>	<b>122,463</b>	-	<b>\$38.51</b>
Class A	4,248,228	734,089	17.3	1.6	18.8	28,283	56,436	-	\$42.65
Class B	5,552,343	463,395	8.3	0.4	8.8	18,164	120,520	-	\$34.15
Class C	697,195	130,083	18.7	0.5	19.2	(44,572)	(54,493)	-	\$33.39
<b>River North</b>	<b>11,302,728</b>	<b>928,362</b>	<b>8.2</b>	<b>1.0</b>	<b>9.2</b>	<b>(11,036)</b>	<b>(80,321)</b>	<b>38,749</b>	<b>\$40.81</b>
Class A	2,476,544	81,504	3.3	1.5	4.8	(1,538)	3,226	38,749	\$58.44
Class B	6,576,977	656,827	10.0	0.5	10.5	10,817	(76,887)	-	\$41.46
Class C	2,249,207	190,031	8.4	2.0	10.4	(20,315)	(6,660)	-	\$27.69
<b>West Loop</b>	<b>47,262,623</b>	<b>6,653,187</b>	<b>14.1</b>	<b>2.1</b>	<b>16.2</b>	<b>43,359</b>	<b>506,562</b>	<b>1,319,197</b>	<b>\$42.03</b>
Class A	24,017,922	3,542,086	14.7	1.7	16.5	251,194	638,117	1,319,197	\$46.99
Class B	20,462,596	2,931,038	14.3	2.7	17.0	(191,263)	(83,618)	-	\$38.23
Class C	2,782,105	180,063	6.5	0.9	7.4	(16,572)	(47,937)	-	\$28.51
<b>Total CBD</b>	<b>130,808,124</b>	<b>16,071,980</b>	<b>12.3</b>	<b>1.3</b>	<b>13.6</b>	<b>(119,200)</b>	<b>192,677</b>	<b>1,794,295</b>	<b>\$38.07</b>
Class A	46,671,376	5,897,995	12.6	1.3	13.9	244,310	602,900	1,794,295	\$45.56
Class B	64,543,183	7,596,915	11.8	1.4	13.1	(156,145)	(158,792)	-	\$35.87
Class C	19,593,565	2,577,070	13.2	0.9	14.1	(207,365)	(251,431)	-	\$29.73

## TOP LEASE TRANSACTIONS

Tenant	Size (Sq.Ft.)	Address	Transaction Type
Bank of America	489,466	110 N Wacker Dr	New Lease
HERE Holding Corporation	277,573	100 N Riverside Plz	Renewal
Schiff Hardin LLP	180,957	233 S Wacker Dr	Restructure/Extension
AC Nielsen	144,000	200 W Jackson Blvd	New Lease
Barack Ferrazzano Kirschbaum & Nagelberg	99,756	200 W Madison St	Restructure/Extension

## OUTLOOK

### CONSTRUCTION FOR FULTON MARKET/FAR WEST LOOP CONTINUES TO GROW

In Q2 2017, 816-820 W. Fulton Market and 905 W. Fulton Market, two smaller development projects, broke ground in the Fulton Market/Far West Loop submarket. Both projects are set to deliver mid-2018 and have a combined total rentable building of 124,623 sq. ft. The two additions this quarter to under construction projects brings the total amount of space for the CBD up to 1,794,295 sq. ft.

However, the new construction and potential shadow space that has not yet hit the market will lead to an additional increase in vacancy over the next two years. This could result in downward pressure on net rents and absorption in the CBD office market.

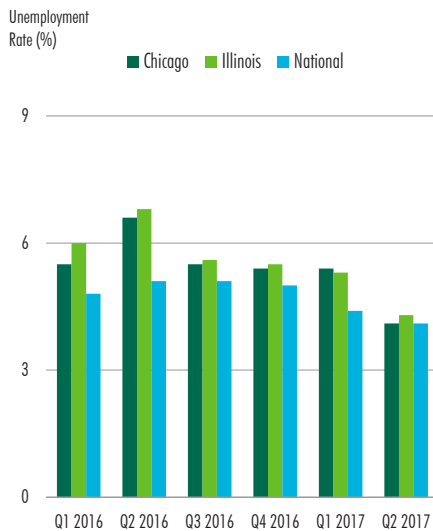
## UNEMPLOYMENT

### DROP IN CHICAGO'S UNEMPLOYMENT RATE

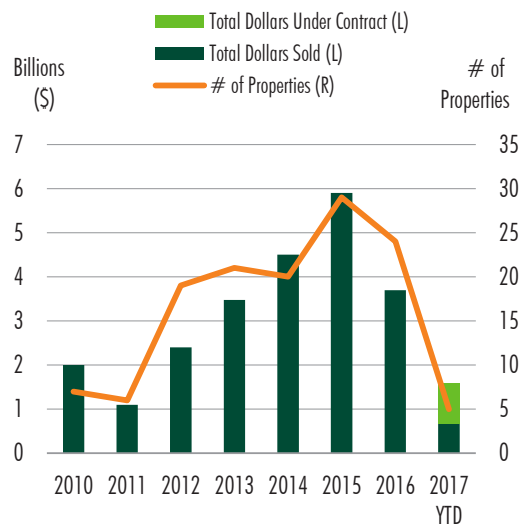
According to the U.S. Department of Labor's Not Seasonally Adjusted statistics, the May 2017 National unemployment rate was 4.1%, an 80 bps decrease from last quarter. Also, the Illinois unemployment rate decreased significantly by 120 bps from February 2017 to 4.3% (preliminary). Illinois is showing its lowest unemployment rate since pre-recession. Since May 2016, Illinois added 34,700 jobs and the largest gains were seen in the financial, education-health services, and professional-business sectors.

Locally, the Chicago metropolitan area unemployment statistics decreased 100 bps from February, ending May with a preliminary unemployment rate of 4.1%, which aligns with the National unemployment rate. Additionally, total employment increased by 24,600 jobs from May 2016.

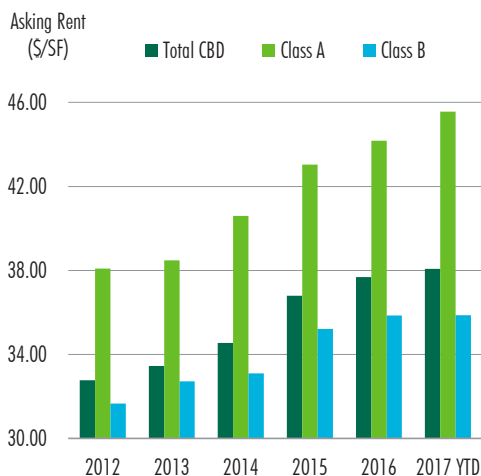
### Unemployment



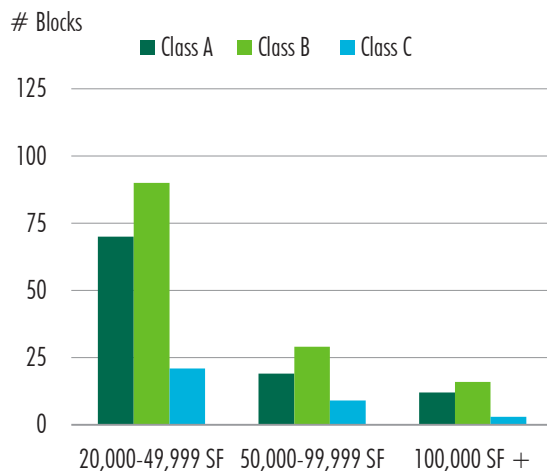
### CBD Historical Office Sales Volume



### 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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Treat everyone with dignity, value their contributions, and help one another to succeed.

### INTEGRITY

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### SERVICE

Dedicate ourselves to making a meaningful impact with our clients and in our communities.

### EXCELLENCE

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