

HOT TOPICS

- Class A rents have risen by 4.8% since Q3 2015 in the CBD. Class B product experienced more modest growth.
- Four of the six submarkets finished the third quarter with positive absorption. River North had the largest gain of 209,485 sq. ft.
- Overall direct vacancy decreased by 70 bps year-to-date, ending Q3 2016 at 10.3%.

 **Direct Vacancy**
10.3%

 **Asking Rate**
\$37.59

 **Net Absorption**
511,201 SF

 **Under Construction**
3,420,672 SF

*Arrows indicate change from previous quarter.

MARKET OVERVIEW

Q3 2016 ended on a positive note in the Central Business District (CBD) with a large absorption gain of 511,201 sq. ft. As a result of the sizeable absorption, direct vacancy declined 40 basis points (bps) from the previous quarter, down to 10.3%. The 2016 year-to-date net absorption has already exceeded the 2015 total net absorption, ending the quarter with 1,466,279 sq. ft. Major contributors to the strong fundamentals continue to be technology and financial services businesses, as well as out-of-market relocations to the CBD.

Tenant activity remained strong in Q3 2016 which included several large moves. For example, ConAgra occupied 168,410 sq. ft. at 222 Merchandise Mart Plaza in a consolidation from their suburban and out of state locations. Also, Moto Solutions occupied 150,345 sq. ft. at its new downtown headquarters, 500 W Monroe Street relocating from the suburbs. Finally, a large confidential financial services company, consolidated its Chicago operations by vacating 338,810 sq. ft. at 300 S Riverside Plaza and occupied 199,922 sq. ft. at 21 S Clark Street.

The direct vacancy rate in the CBD has declined steadily year-over-year, dropping 170 bps from Q3 2015. Meanwhile, the sublease vacancy rate has increased 40 bps since the end of 2015.

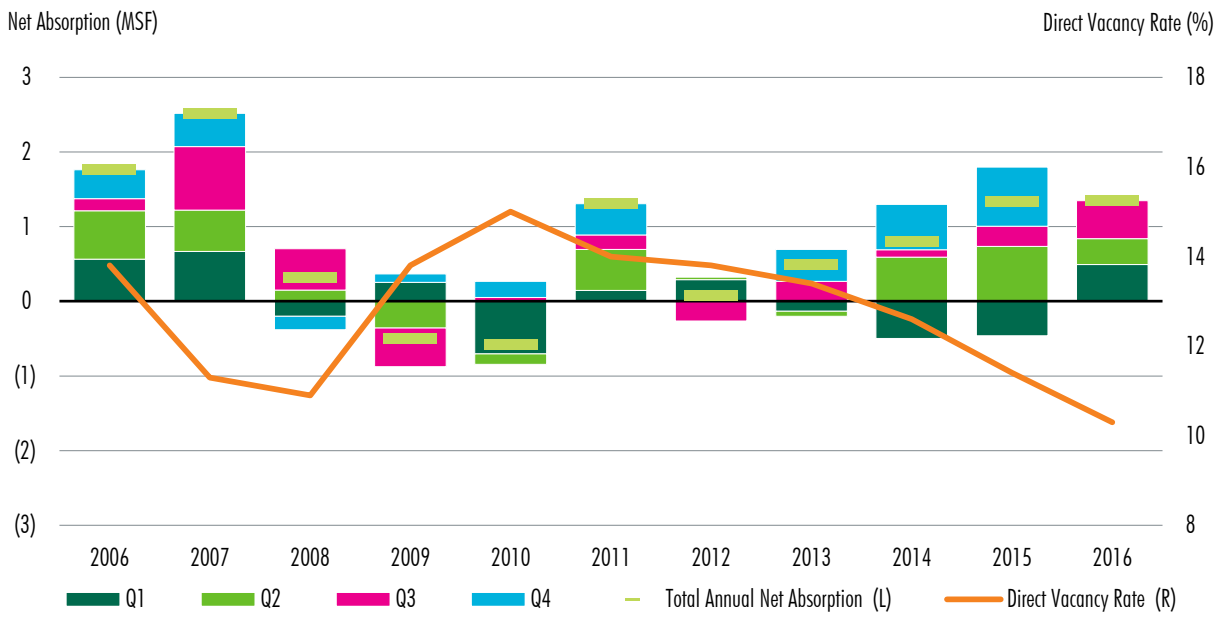
Leasing activity was steady in Q3 2016, with McDonald's and Motorola Solutions both expanding downtown footprints. McDonald's signed an expansion for 114,068 sq. ft. to fully occupy 1045 W Randolph Street and Motorola Solutions increased its space at 500 W Monroe Street by 53,708 sq. ft. Wilson Sporting Goods is the latest suburban company to move its headquarter to the CBD, signing a lease for 90,000 sq. ft. at 130 E Randolph Street.

Average asking gross rents have increased in Q3 2016. Overall average asking gross rents have increased by 3.8% year-over-year, ending the quarter at \$37.59 per sq. ft.

Strong activity during Q3 2016 pushed the sales volume for institutional office properties in the CBD market towards a long-term historical record heading into the final quarter of the year. Year-to-date, 15 properties have traded for a total consideration of \$2.3 billion. Another six properties are under contract for \$1.1 billion. The most notable transaction of the quarter was 321 North Clark, a core asset with upside opportunities located in Chicago's strongest office submarket, River North. The quarter also included the recapitalization of 131 South Dearborn as the trophy asset restructured \$472 million in debt. With five properties totaling \$1.7 billion currently on the market, investors continue to have ample opportunities to pursue CBD assets and capitalize on the sizeable positive net absorption and increasing rental rates demonstrated this quarter.

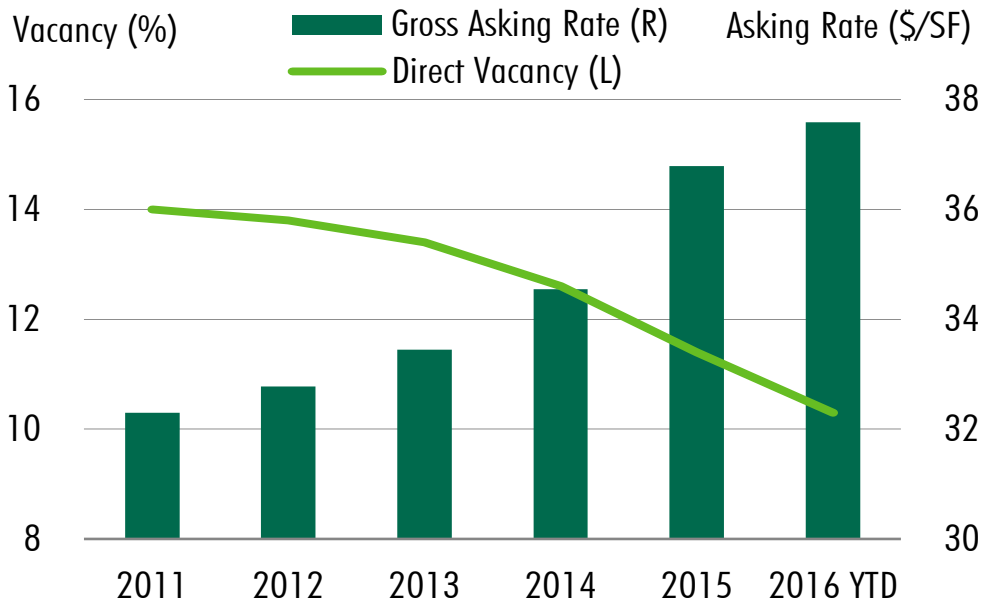
Blocks of 100,000 sq. ft. and greater for Class A and B buildings, ended Q3 2016 at 24 blocks, down from 28 blocks year-over-year. Also, mid-range available blocks (50,000-99,999 sq. ft.) in Class A and B have decreased by three spaces quarter-over-quarter, to 50 blocks. This trend is expected to continue in the short-term, especially as tenants continue to consider the CBD from the suburban market.

HISTORICAL NET ABSORPTION VS. DIRECT VACANCY RATE



Source: CBRE Research, Q3 2016.

DIRECT VACANCY/GROSS WEIGHTED ASKING RATE



Source: CBRE Research, Q3 2016.

3Q 2016 KEY MARKET STATISTICS

Submarket	Rentable Building Area Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q3 2016 Net Absorption Sq. Ft.	2016 Net Absorption Sq. Ft.	Under Construction Sq. Ft.****	Gross Asking Lease Rates (\$/Sq. Ft./Yr)
Central Loop	35,818,728	3,203,253	8.9	1.2	10.1	144,044	354,408	-	33.90
Class A	10,024,936	869,904	8.7	1.7	10.3	(8,525)	31,443	-	41.80
Class B	19,075,138	1,488,269	7.8	1.1	8.9	165,571	333,473	-	32.52
Class C	6,718,654	845,080	12.6	0.7	13.3	(13,002)	(7,508)	-	28.49
East Loop	22,885,618	2,851,880	12.5	0.5	13.0	187,047	381,882	-	36.06
Class A	5,368,236	359,516	6.7	0.4	7.1	47,867	217,669	-	43.86
Class B	11,422,225	1,770,347	15.5	0.5	16.1	157,428	178,408	-	36.32
Class C	6,095,157	722,017	11.8	0.7	12.5	(15,248)	(14,195)	-	29.50
Fulton/West**	2,261,594	180,525	8.0	0.8	8.8	(13,704)	85,342	266,112	27.83
Class A	535,510	0	0	1.3	1.3	0	35,025	266,112	NA
Class B	173,003	5,000	2.9	0	2.9	0	9,947	-	NA
Class C	1,553,081	175,525	11.3	0.8	12.1	(13,704)	40,370	-	27.83
NMA***	11,219,679	1,438,245	12.8	1.0	13.8	12,732	194,623	-	37.21
Class A	4,248,228	770,690	18.1	1.2	19.3	9,567	76,499	-	40.48
Class B	6,376,872	601,740	9.4	0.9	10.4	13,606	98,624	-	34.00
Class C	594,579	65,815	11.1	0	11.1	(10,441)	19,500	-	33.05
River North	11,302,728	848,437	7.5	0.3	7.8	209,485	85,433	-	37.93
Class A	2,476,544	72,652	2.9	0	2.9	4,008	18,664	-	58.80
Class B	6,576,977	598,602	9.1	0.2	9.3	194,550	64,067	-	38.49
Class C	2,249,207	177,183	7.9	0.8	8.7	10,927	2,702	-	27.66
West Loop	44,173,677	4,641,927	10.5	1.2	11.7	(28,403)	247,164	3,154,560	41.23
Class A	21,728,976	1,813,380	8.3	1.1	9.4	210,204	501,583	3,154,560	45.48
Class B	19,662,596	2,694,158	13.7	1.4	15.1	(216,693)	(252,098)	-	37.31
Class C	2,782,105	134,389	4.8	0.3	5.2	(21,644)	(2,321)	-	27.88
Total CBD	127,662,024	13,164,267	10.3	1.0	11.3	511,201	1,348,852	3,420,672	37.59
Class A	44,382,430	3,886,142	8.8	1.1	9.8	263,121	880,883	3,420,672	44.20
Class B	63,286,811	7,158,116	11.3	1.0	12.3	311,192	429,421	-	35.74
Class C	19,992,783	2,120,009	10.6	0.7	11.3	(63,112)	38,548	-	28.85

TOP LEASE TRANSACTIONS

Size (SF)	Tenant	Address
114,068	McDonald's Corporation	1045 W Randolph St.
90,000	Wilson Sporting Goods	130 E Randolph St.
79,377	IMC	233 S Wacker Dr.
53,708	Motorola Solutions, Inc.	500 W Monroe St.
51,904	Societe Generale	440 S La Salle St.

OUTLOOK

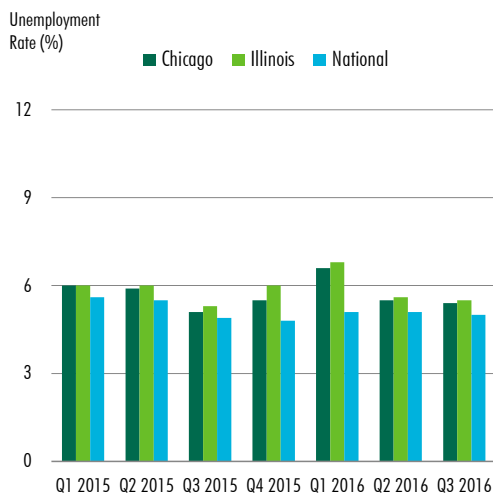
1045 W. Randolph broke ground this quarter, which has been pre-leased in its entirety by McDonald's Corporation for its new downtown headquarters. Also, demolition has started at the Old Post Office which could potentially deliver 2.7 million sq. ft. of redeveloped office space over the next few years. With roughly 6.1 million sq. ft. of potential vacancy, there are some concerns this will lead to an increase in vacancy, putting downward pressure on rents and hindering absorption. However, if the CBD continues to attract large out-of-market tenants, the office market will continue to see positive growth.

UNEMPLOYMENT

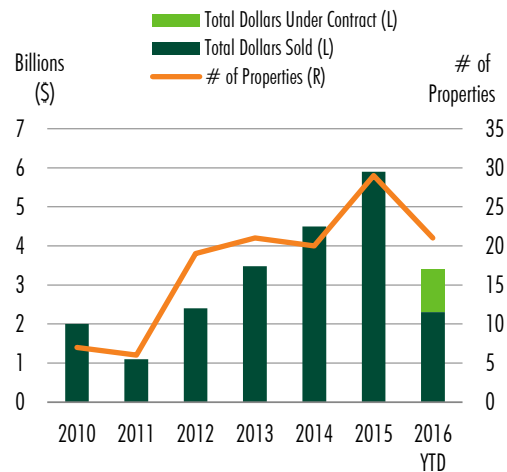
According to the U.S. Department of Labor's Not Seasonally Adjusted statistics, the August 2016 Illinois Unemployment Rate decreased slightly from May to 5.5% (preliminary). Nationally, the unemployment rate was 5.1% in August with 151,000 jobs added to the economy. Employment in education and health services, leisure and hospitality sectors experienced large gains during Q3 2016 throughout the State of Illinois.

Furthermore, the Chicago metropolitan area unemployment statistics reported a preliminary unemployment rate of 5.4%, down 10 bps since May. The number of employed Chicago (city) residents increased by 11,317 year-over-year. Major sectors that grew were retail, professional and business services, leisure and hospitality industries.

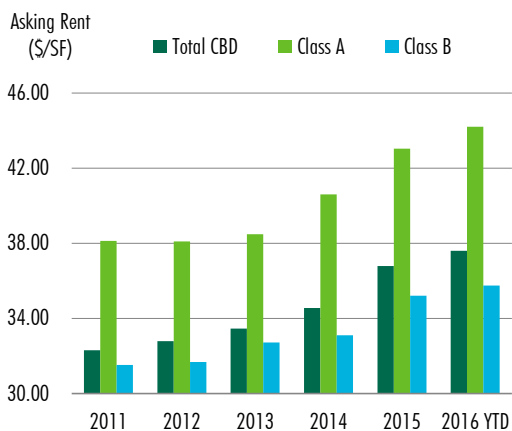
Unemployment



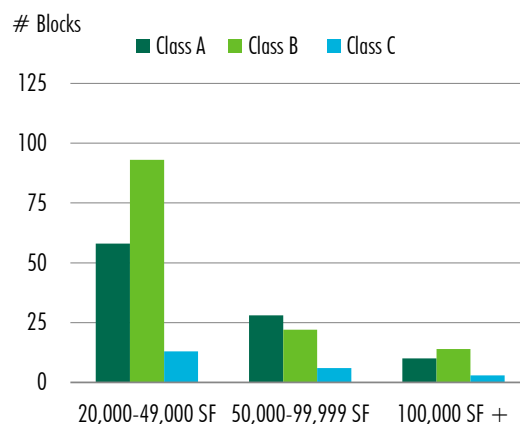
CBD Historical Office Sales Volume



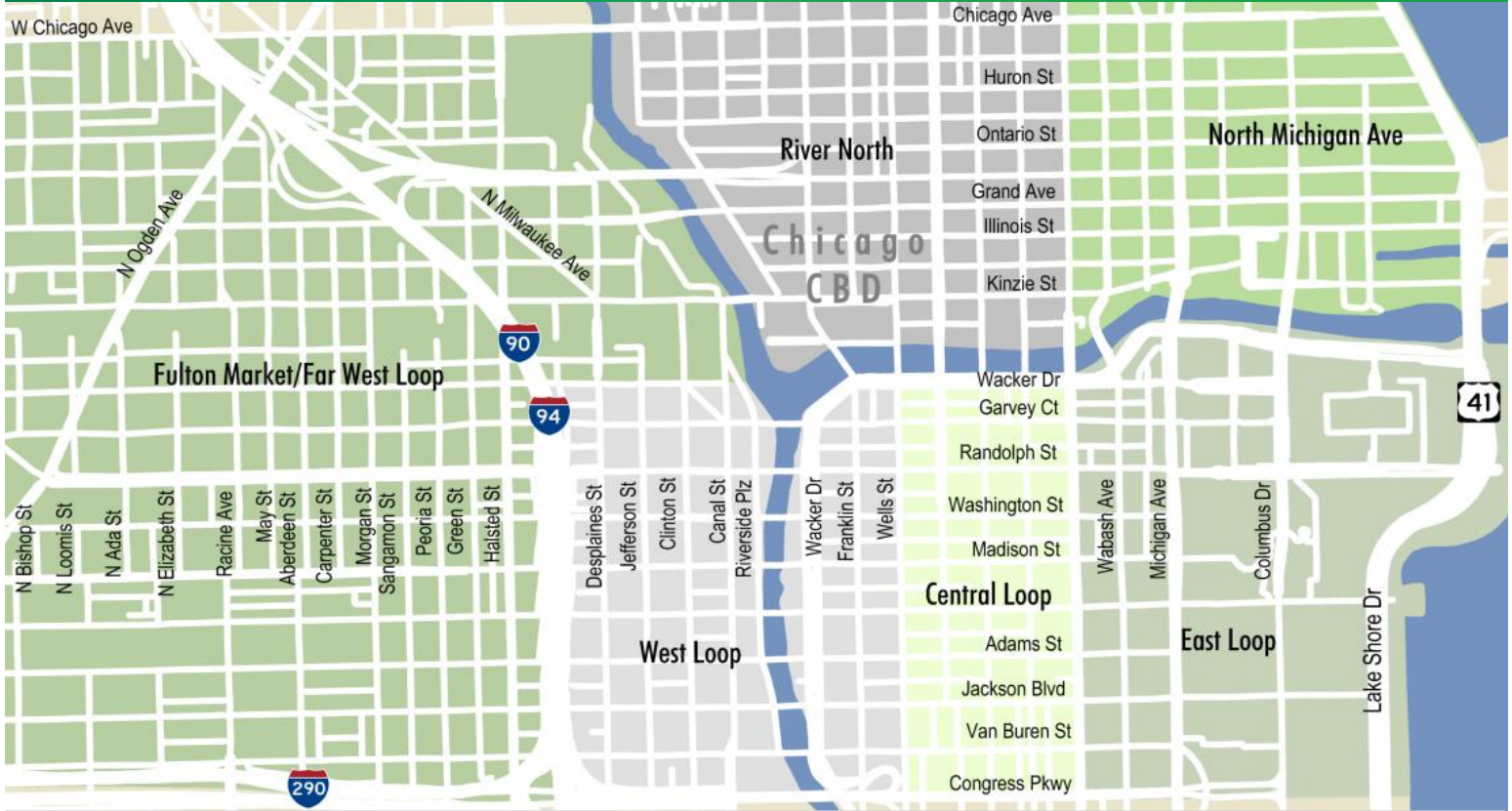
Gross Weighted Asking Rates



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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