

HOT TOPICS

- Class A rents have risen by \$1.66 per sq. ft. since Q3 2016 in the CBD. Class B product experienced more modest growth.
- West Loop Class A buildings have experienced 744,949 sq. ft. of positive absorption in 2017 year-to-date
- Seventeen out of the top 25 Chicago metro transactions, occurred in the CBD this quarter.

 Direct Vacancy
12.4%

 Gross Asking Rate
\$38.77

 Net Absorption
109,113 SF

 Under Construction
1,685,726 SF

*Arrows indicate change from previous quarter.

MARKET OVERVIEW

The Chicago Central Business District (CBD) office market experienced positive absorption this quarter with a total of 109,113 sq. ft. As a result, the year-to-date absorption has increased to 303,328 sq. ft. The West Loop submarket was the largest contributor, ending Q3 2017 with 171,677 sq. ft. Financial, hospitality, and technology tenants drove this quarter's positive absorption.

For example, after vacating 327,454 sq. ft. at 71 S. Wacker Drive, Hyatt occupied 319,017 sq. ft. early at its new location, 150 N. Riverside Plaza. Cars.com vacated one floor at 175 W. Jackson Boulevard to occupy 158,197 sq. ft. at 300 S. Riverside Plaza. Cars.com will vacate its remaining sq. ft. at 175 W. Jackson Boulevard by year-end. Also, William Blair vacated 296,897 sq. ft. at 222 W. Adams Street to occupy 373,054 sq. ft. at 150 N. Riverside Plaza.

Despite positive absorption, the direct vacancy rate rose for the third consecutive quarter, increasing 10 basis points (bps) and ending Q3 2017 at 12.4%. The increase in direct vacancy is in part due to tenants leaving behind space to occupy at 444 W. Lake Street and 150 N. Riverside Plaza. This trend is expected to continue as tenants occupy new construction over the next year.

The CBD had an activate quarter for new development, with 1330 W. Fulton Street and 159 N. Sangamon Street delivering. As a result, 311,981 sq. ft. of new office space has been added to the Fulton Market/Far West Loop submarket. In addition to the new deliveries, 210 N. Carpenter Street, a loft-style building in Fulton Market/Far West Loop broke ground. The 201,938-sq.-ft. building is set to deliver early 2019. Expected 2017 deliveries for the CBD is down to 1,685,726 sq. ft.

As of Q3 2017, the average gross asking rents have increased 1.8% from Q2 2017, equating to \$0.70 per sq. ft., ending the quarter at \$38.77 per sq. ft. This quarter-over-quarter increase, along with the overall 2017 growth in gross asking rents, can be attributed to the rising Cook County property tax and the delivery of new product.

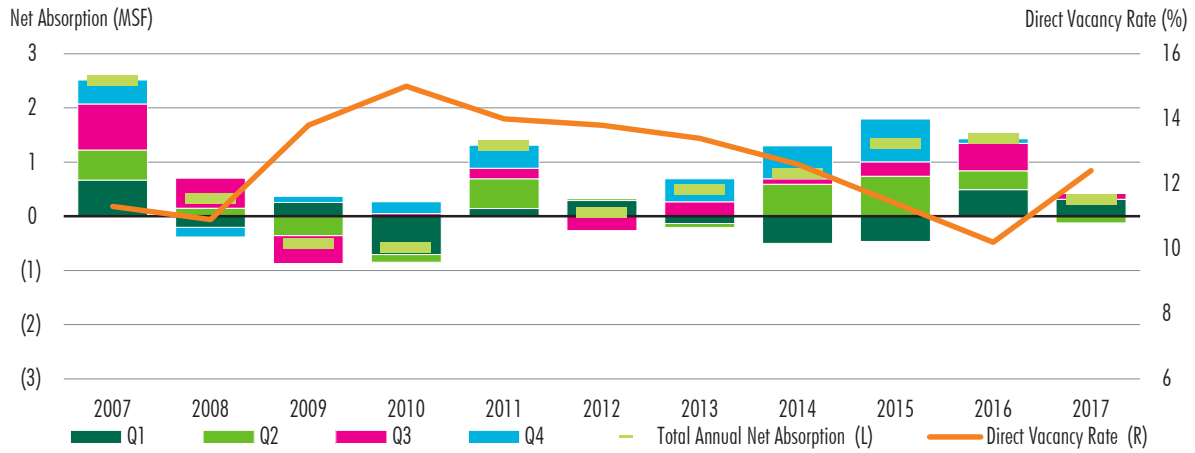
There has been a slight decrease in available blocks of 100,000 sq. ft. and greater in the CBD. As a result, Q3 2017 ended with 27 available blocks, which is down from 31 last quarter. Class B buildings in the River North submarket, which contributed most to the reduction, decreased by three blocks from last quarter. The number of available blocks between 50,000 - 99,999 sq. ft. also experienced a quarter-over-quarter decrease of three blocks, ending Q3 2017 with 54.

Leasing volume continued to be robust in Q3 2017, with the top five transactions totaling more than 1.2 million sq. ft. The Northern Trust Company represents the largest transaction of the quarter, signing a 462,000 sq. ft. new lease at 333 S. Wabash Avenue. Also, WPP signed a lease at a newly proposed development in Fulton Market/Far West Loop, 333 N. Green Street, for 253,000 sq. ft. Although leasing volume is up, most of the top lease transactions continue to consolidate or restructure their footprint in the CBD. Consequently there are concerns regarding potential negative impacts on direct vacancy and absorption in the future.

Volume for downtown institutional office investment sales has seen increased activity during the third quarter when compared to the first half of the year. This velocity was largely due to the sales of 300 S. Wacker and 150 N. Michigan, which will help drive momentum into year-end as several other high-profile transactions are currently under contract or in the later stages of their marketing efforts. Year-to-date, eleven properties have traded, totaling almost \$1.4 billion, with an additional seven properties under contract or with a signed letter of intent, totaling an additional \$1.3 billion.

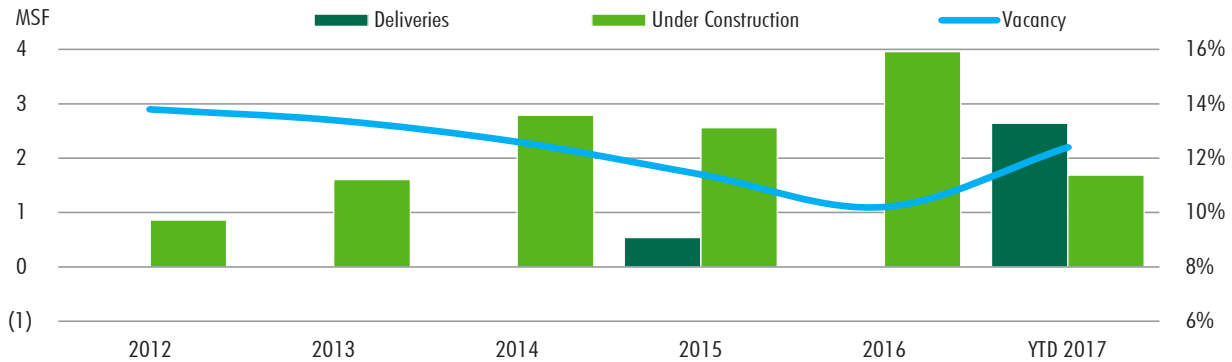
Value-add sales have made up the majority of activity so far in 2017, accounting for almost all but a few transactions. Buyer pools continue to aggressively pursue assets that offer unique value creation stories with attractive yields.

HISTORICAL NET ABSORPTION VS. DIRECT VACANCY RATE

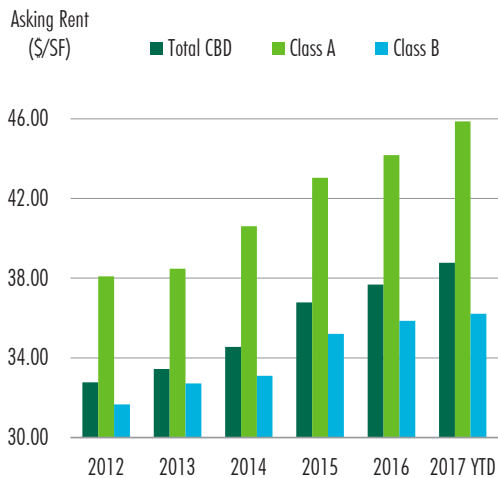


Source: CBRE Research, Q3 2017.

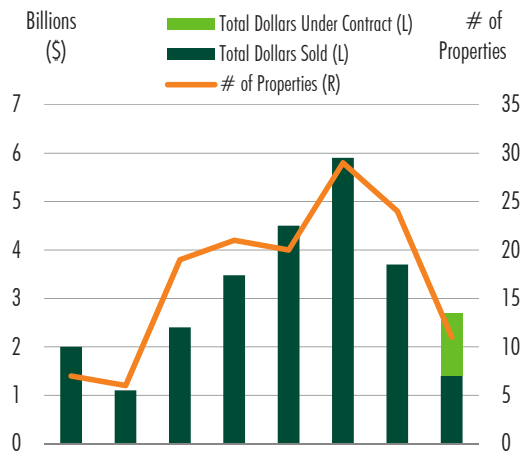
NEW CONSTRUCTION DELIVERIES, CURRENTLY UNDER CONSTRUCTION, AND DIRECT VACANCY



GROSS WEIGHTED ASKING RATES



CBD HISTORICAL OFFICE SALES VOLUME



3Q 2017 KEY MARKET STATISTICS

Submarket	Rentable Building Area Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q3 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	4,391,869	12.1%	0.7%	12.8%	(184,562)	(608,779)	-	\$35.88
Class A	10,024,936	1,214,291	12.1%	0.2%	12.3%	(74,014)	(123,866)	-	\$44.76
Class B	20,364,142	2,126,104	10.4%	1.0%	11.5%	(115,040)	(438,817)	-	\$33.19
Class C	5,924,617	1,051,474	17.7%	0.3%	18.0%	4,492	(46,096)	-	\$30.72
East Loop	22,885,618	2,783,064	12.2%	0.8%	13.0%	(14,082)	62,937	-	\$35.33
Class A	5,368,236	402,266	7.5%	0.2%	15.9%	(2,227)	(45,716)	-	\$41.52
Class B	11,422,225	1,566,134	13.7%	1.3%	15.1%	(13,644)	179,827	-	\$35.42
Class C	6,095,157	814,664	13.4%	0.4%	13.7%	1,789	(71,174)	-	\$30.97
Fulton/West**	2,857,494	484,522	17.0%	1.1%	18.0%	65,143	57,852	326,561	\$35.32
Class A	801,441	224,310	28.0%	0.0%	28.0%	41,621	41,621	326,561	\$45.67
Class B	210,769	66,698	31.6%	0.0%	31.6%	12,562	24,061	-	\$37.21
Class C	1,845,284	193,514	10.5%	1.7%	12.1%	10,960	(7,830)	-	\$27.43
NMA***	10,497,766	1,316,859	12.5%	1.0%	13.5%	41,402	163,865	-	\$38.48
Class A	4,248,228	794,404	18.7%	1.4%	20.1%	(29,621)	26,815	-	\$42.91
Class B	5,552,343	406,165	7.3%	0.7%	8.0%	57,230	177,750	-	\$33.90
Class C	697,195	116,290	16.7%	0.5%	17.2%	13,793	(40,700)	-	\$30.37
River North	11,302,728	833,768	7.4%	1.1%	8.4%	29,535	(50,786)	39,968	\$41.38
Class A	2,476,544	63,540	2.6%	1.5%	4.0%	17,964	21,190	39,968	\$58.68
Class B	6,576,977	570,619	8.7%	0.6%	9.3%	21,149	(55,738)	-	\$42.16
Class C	2,249,207	199,609	8.9%	2.0%	10.8%	(9,578)	(16,238)	-	\$28.10
West Loop	47,262,623	6,464,166	13.7%	1.9%	15.6%	171,677	678,239	1,319,197	\$42.65
Class A	24,017,922	3,395,182	14.1%	2.2%	16.3%	106,832	744,949	1,319,197	\$47.20
Class B	20,462,596	2,891,262	14.1%	1.9%	16.0%	62,504	(21,114)	-	\$38.33
Class C	2,782,105	177,722	6.4%	0.1%	6.5%	2,341	(45,596)	-	\$28.96
Total CBD	131,119,924	16,274,248	12.4%	1.2%	13.6%	109,113	303,328	1,685,726	\$38.77
Class A	46,937,307	6,093,993	13.0%	1.4%	14.4%	60,555	664,993	1,685,726	\$45.86
Class B	64,589,052	7,626,982	11.8%	1.3%	13.1%	24,761	(134,031)	-	\$36.21
Class C	19,593,565	2,553,273	13.0%	0.6%	13.6%	23,797	(227,634)	-	\$30.14

*Total Vacancy Rate May Not Add Up Due To Rounding.

TOP LEASE TRANSACTIONS

Size (SF)	Tenant	Address	Transaction Type
462,000	The Northern Trust Company	333 S. Wabash Avenue	New Lease
253,000	WPP	333 N. Green Street	New Lease
180,957	Schiff Hardin LLP	233 S. Wacker Drive	Restructure/Extension
180,000	American Bar Association	321 N. Clark Street	Restructure/Extension
167,649	GGP	350 N. Orleans Street	New Lease

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.



John Slivka

First Vice President
T: +1 312 297 7633
john.slivka@cbre.com

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