

HOT TOPICS

- Financial services, legal services, and information and technology-related industries continue to impact the market, representing 47% of the overall tenant inventory in the CBD.
- Fulton Market/Far West Loop Submarket and the emerging Goose Island developing around major tech users.
- Property taxes are increasing in the CBD with a tax burden upwards of 18% for landlords, potentially putting downward pressure on net rents.



Direct Vacancy
11.0%



Asking Rate
\$37.22



Net Absorption
490,286 SF



Under Construction
3,375,058 SF

*Arrows indicate change from previous quarter.

MARKET OVERVIEW

Despite an uptick in the local unemployment rate, the Central Business District (CBD) office market continues to show strong fundamentals with large absorption gains that led to lower direct vacancy in Q1 2016. Average asking gross rents also continue to climb, given the tightened supply. Large transactions for the quarter include: CNA Financial signing a lease at the new development, 151 N Franklin, for 277,849 sq. ft. with John Buck Company; also, Echo Global Logistics more than doubled their footprint to 224,678 sq. ft. at 600 W Chicago.

There was a combination of out-of-market relocations to the CBD as well as expansions that impacted the absorption gains for the quarter. For example, Kraft/Heinz occupied 169,696 sq. ft. at 200 E Randolph, relocating from Northfield. Also, Baxalta, a spin-off of Baxter International, moved in to its space at 540 W Madison, occupying 83,200 sq. ft. Avant, Inc. expanded by 51.6% at 222 N LaSalle St, and now occupies 119,738 sq. ft. Finally, Perkins + Will occupied 61,456 sq. ft. at 410 N Michigan in relocation from 300 N Wabash.

The direct vacancy rate in the CBD declined by 40 bps from Q4 2015, down to 11.0%. This is the lowest direct vacancy rate since 2008, right before the recession hit the market. River North continues to be the tightest submarket, with Class A direct vacancy at 3.7%.

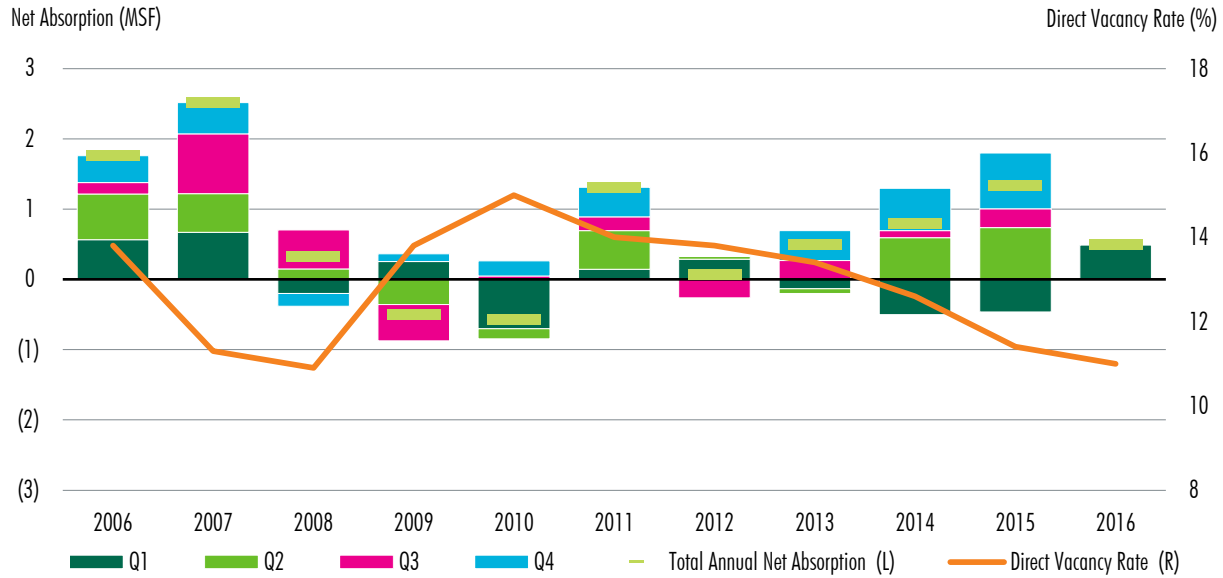
Compared to previous quarters, Q1 2016 did not feature as many large deals, however, it was an active quarter with significant transactions. The aforementioned CNA Financial is fully committed to 151 N Franklin, and will be relocating from 333 S Wabash in Q3 2018, when the new development is ready for occupancy; also, Echo Global Logistics renewed and expanded at 600 W Chicago. SC Johnson and Allstate executed new leases at 550 W Washington Blvd and The Mart, respectively, and WeWork continues to lease up space in the CBD.

Average asking gross rents continue to rise, driven by strong demand and tightening supply fundamentals. The overall average asking gross rents have been steadily increasing since Q1 2015, up 6.4% year-over-year. Landlords continue to push rates, but are becoming more open to shorter term leases with early termination options.

Coming off the heels of a post-recession record in 2015, the capital markets momentum continues into 2016. In the first quarter, four assets traded for a total transactions volume of over \$387 million with another six assets under contract for roughly \$1 billion. The most notable transaction closed was the sale of 180 North LaSalle for \$180 million, and the most notable transaction under contract at the end of Q1 2016 was the pending sale of AMA Plaza at 330 North Wabash for a reported \$490 million. Furthermore, at the end of Q1 2016, Chicago developer John O'Donnell placed his 1.2 million square foot office tower that's currently under construction at 150 North Riverside on the market for sale with pricing expected to potentially reach more than \$900 million.

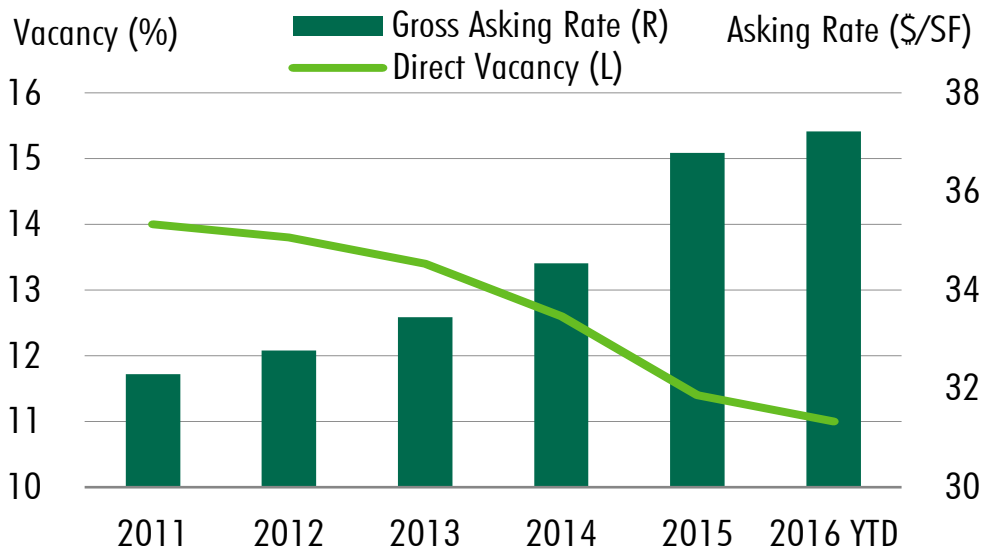
Overall, the available blocks of space in the CBD have increased by 4.4% (by count) from the previous quarter, primarily due to the number of sublease spaces that have come online. This stems from corporate mergers and acquisitions activity which in some cases has caused unnecessary redundancies in office spaces. As a result, the sublease vacancy rate has increased by 20 bps quarter-over-quarter.

HISTORICAL NET ABSORPTION VS. DIRECT VACANCY RATE



Source: CBRE Research, Q1 2016.

DIRECT VACANCY/GROSS WEIGHTED ASKING RATE



Source: CBRE Research, Q1 2016.

1Q 2016 KEY MARKET STATISTICS

Submarket	Rentable Building Area Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q1 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	3,330,931	9.3	0.8	10.1	226,730	226,730	-	34.33
Class A	10,024,936	859,857	8.6	0.4	8.9	41,490	41,490	-	42.50
Class B	19,075,138	1,656,135	8.7	0.9	9.6	162,607	162,607	-	32.86
Class C	6,718,654	814,939	12.1	1.2	13.4	22,633	22,633	-	28.24
East Loop	22,885,618	3,083,476	13.5	0.2	13.6	150,286	150,286	-	35.12
Class A	5,368,236	415,707	7.7	0.0	7.7	161,478	161,478	-	43.34
Class B	11,422,225	1,992,637	17.4	0.1	17.5	(43,882)	(43,882)	-	35.72
Class C	6,095,157	675,132	11.1	0.4	11.5	32,690	32,690	-	29.23
Fulton/West**	2,261,594	245,960	10.9	0.2	11.1	19,907	19,907	266,112	28.15
Class A	535,510	35,025	6.5	0.0	6.5	0	0	266,112	39.50
Class B	173,003	14,947	8.6	0.0	8.6	0	0	-	24.00
Class C	1,553,081	195,988	12.6	0.3	13.0	19,907	19,907	-	26.77
NMA***	11,219,679	1,561,766	13.9	1.2	15.2	71,102	71,102	-	36.19
Class A	4,248,228	852,497	20.1	1.1	21.2	(5,308)	(5,308)	-	40.28
Class B	6,376,872	629,357	9.9	1.4	11.3	71,007	71,007	-	32.21
Class C	594,579	79,912	13.4	0.0	13.5	5,403	5,403	-	28.52
River North	11,302,728	1,017,153	9.0	0.9	9.9	(83,283)	(83,283)	-	38.70
Class A	2,476,544	91,316	3.7	0.0	3.7	0	0	-	56.19
Class B	6,576,977	751,047	11.4	0.8	12.2	(88,378)	(88,378)	-	39.87
Class C	2,249,207	174,790	7.8	1.9	9.7	5,095	5,095	-	27.18
West Loop	44,173,677	4,783,547	10.8	1.0	11.8	105,544	105,544	3,108,946	40.38
Class A	21,728,976	2,153,704	9.9	0.6	10.5	161,259	161,259	3,108,946	44.35
Class B	19,662,596	2,513,776	12.8	1.4	14.2	(71,716)	(71,716)	-	36.88
Class C	2,782,105	116,067	4.2	0.7	4.9	16,001	16,001	-	27.01
Total CBD	127,662,024	14,022,833	11.0	0.8	11.8	490,286	490,286	3,375,058	37.22
Class A	44,382,430	4,408,106	9.9	0.5	10.4	358,919	358,919	3,375,058	43.55
Class B	63,286,811	7,557,899	11.9	1.0	12.9	29,638	29,638	-	35.52
Class C	19,992,783	2,056,828	10.3	0.9	11.2	101,729	101,729	-	28.23

TOP LEASE TRANSACTIONS

Size (SF)	Tenant	Address
277,849	CNA Financial	151 N Franklin St
224,678	Echo Global Logistics, Inc.	600 West Chicago Ave
50,000	SC Johnson	550 W Washington Blvd
45,000	Allstate	222 Merchandise Mart Plaza
43,200	WeWork	100 S State St
43,035	Encyclopedia Britannica	331 N LaSalle St

OUTLOOK

There is 3,375,058 sq. ft. of new construction in the CBD, which is 66.9% of the pre-recession development cycle, peaking in 2007 at 5,043,343. 150 N Riverside, 444 W Lake, and 1330 W Fulton are all underway and expected to deliver by early 2017. Furthermore, 151 N Franklin broke ground this quarter and is expected to be complete by mid- 2018. Overall, pre-leasing for these buildings has been strong, with over 65% of the space being fully committed by tenants primarily relocating from within the CBD. There are some concerns around this movement, as it may pose some challenges for landlords of Class B buildings, as tenants continue a flight to quality. Finally, as the peripheral areas, such as Fulton Market and Goose Island, become further developed, this may draw additional tenants away from the Loop, potentially impacting vacancy in the long term.

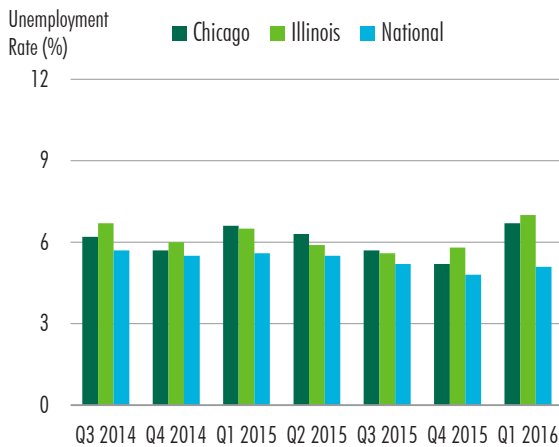
UNEMPLOYMENT

According to the U.S. Department of Labor's not seasonally adjusted statistics, the March 2016 national unemployment rate increased to 5.1%, up 30 bps from December, demonstrating that more people are looking to get back into the workforce.

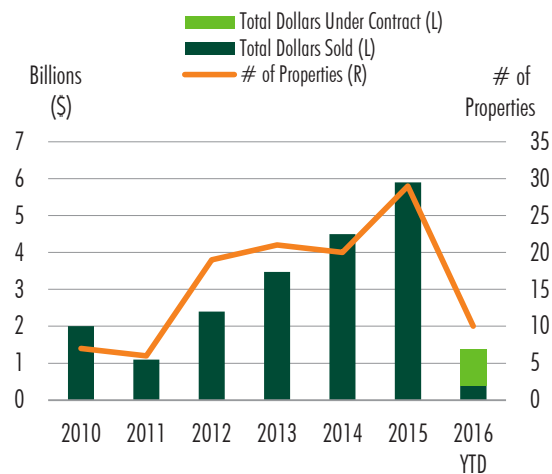
The most recent monthly not seasonally adjusted Illinois unemployment figures reflect a preliminary rate of 7.0% for February, up 100 bps since last quarter. The state added 18,000 jobs in February, which is on par with its jobs count in early 2008, before the Great Recession began. However, there is an indication that job growth is lagging labor supply, which is why there is an uptick in unemployment. Chicago unemployment statistics reported a preliminary rate of 6.7% for February, up 120 bps since December.

The number of employed Chicago (city) residents increased by 19,427 compared to last year. These most recent figures for Chicago (city) mirror the national trend, with the number of employed residents and the labor force growing, but unemployment increasing simultaneously.

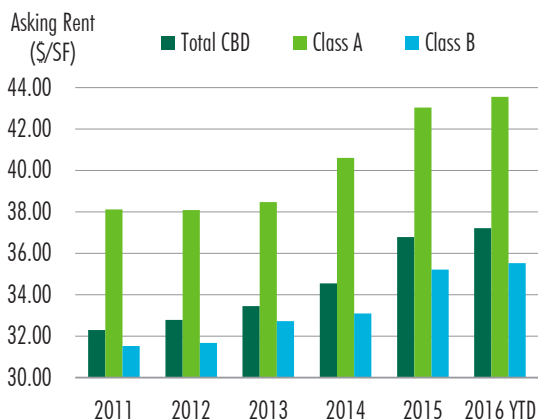
Unemployment



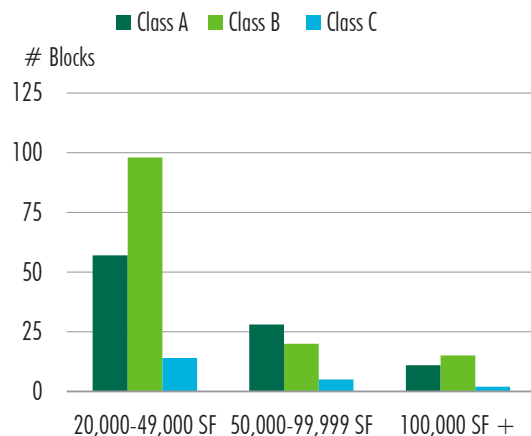
CBD Historical Office Sales Volume



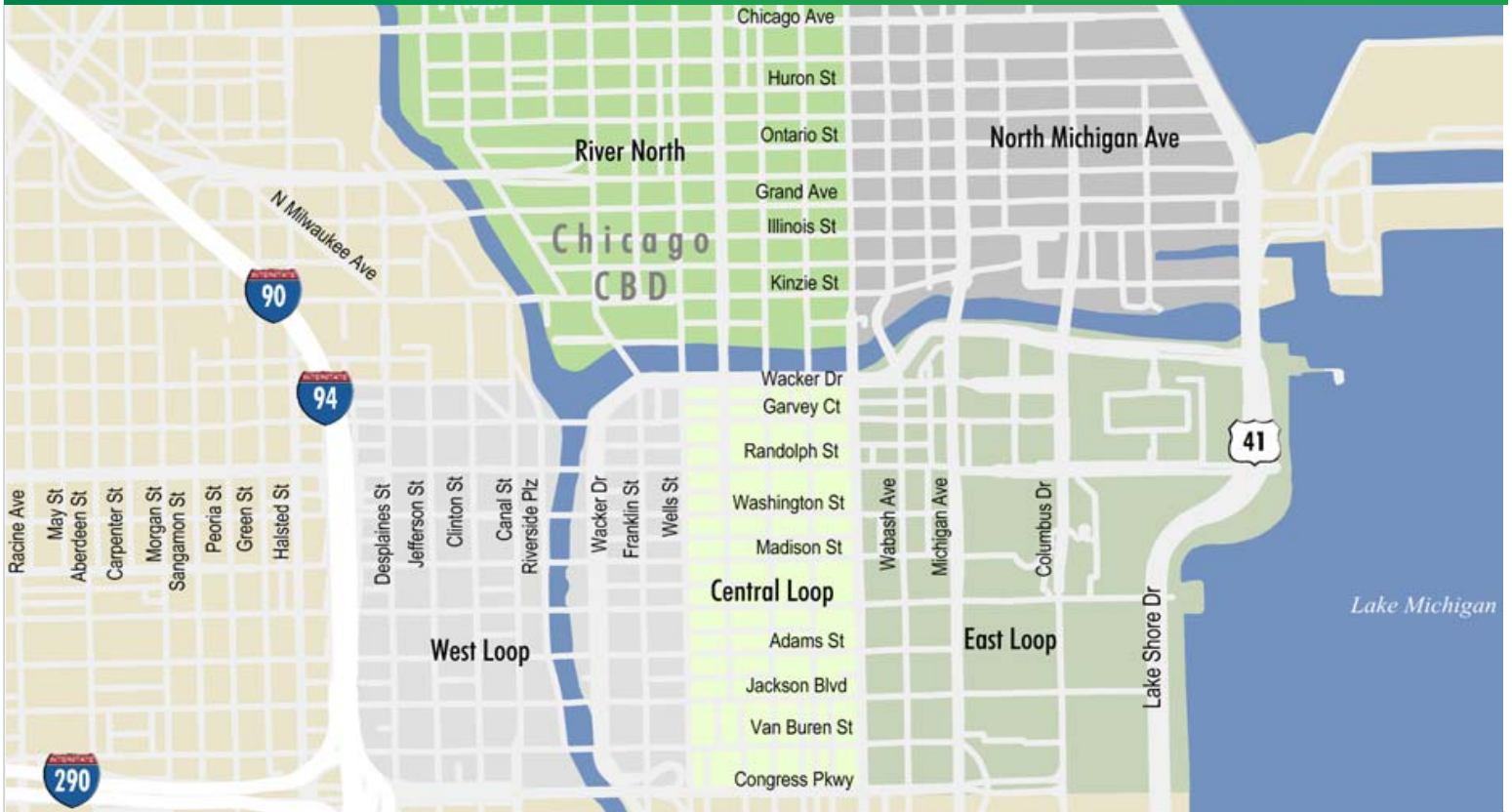
Gross Weighted Asking Rates



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.



John Slivka

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

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INTEGRITY

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SERVICE

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EXCELLENCE

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