

## HOT TOPICS

- Due to strong market fundamentals, landlords are pushing rents. Class A rates have increased by \$2.78 or 7.2% over the past eight quarters.
- New construction buildings are approximately 60% leased, as flight-to-quality holds true for financial and legal service-related firms.
- Capital markets activity is robust, with fourteen assets either under contract or sold totaling \$4.5 billion for the quarter, which includes the Willis Tower acquisition by the Blackstone Group.

 **Direct Vacancy**  
**12.2%**

 **Asking Rate**  
**\$35.71**

 **Net Absorption**  
**737,068**

 **Under Construction**  
**2,555,058 SF**

\*Arrows indicate change from previous quarter.

## MARKET OVERVIEW

The Central Business District (CBD) picked up traction in Q2 2015, with total absorption of 737,068 sq. ft. This follows the same trajectory as 2014, when the CBD finished with positive net absorption of 798,226 sq. ft. year-to-date. Indicators are pointing toward a landlord favorable market as tenant demand strengthens and vacancy continues to drop. Meanwhile, institutional investment continues to pour in from interested buyers, having an impact on occupancy costs for tenants as asking rates rise.

Five of the six submarkets experienced positive absorption in Q2 2015, with the Central Loop seeing the largest gain of 415,805 sq. ft. Overall primary influences included tenants belonging to the TAMI (Technology, Advertising, Media, and Information) business sectors, such as Enova, who occupied 128,363 sq. ft. at 175 W. Jackson Blvd in relocation from 200 W Jackson. In addition, GoGo occupied 234,484 sq. ft. at 111 N. Canal St., relocating from Itasca, and SAC Wireless expanded by 41,371 sq. ft. at 540 W. Madison.

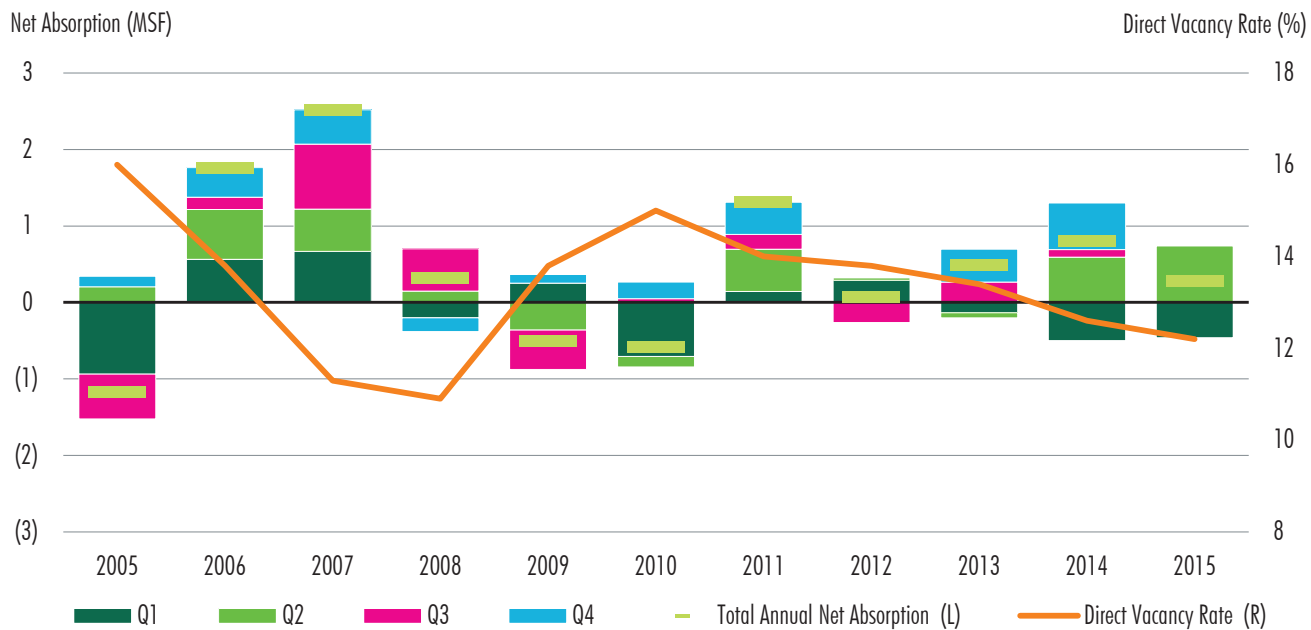
The quarter's direct vacancy dropped to 12.2%, 300 bps lower than its peak in Q2 2010. Furthermore, the sublease vacancy rose to 0.8%. Leasing activity was strong in Q2 2015 with numerous firms expanding, renewing, or relocating to higher quality space. Most notably, WeWork signed a new lease with Alter Group at 20 W. Kinzie to occupy a portion of Google's space totaling 105,000 sq. ft. Also, Avant, Inc, one of the fastest growing startup companies in Chicago, signed a lease to occupy 78,974 sq. ft. at 222 N LaSalle St. relocating from 640 N. LaSalle St. and expanding by over 50,000 sq. ft.

The average gross asking rate increased \$1.45 since this time last year to \$35.71 per sq. ft. per annum, an all-time high for the CBD. Since Q1 2012, the rate has increased steadily, up \$3.45. Many of the owners — some new to the CBD — are pushing rents and testing the market. Despite the rise in gross asking rates, landlords are not drawing down on concession plans, which remains consistent with previous quarters.

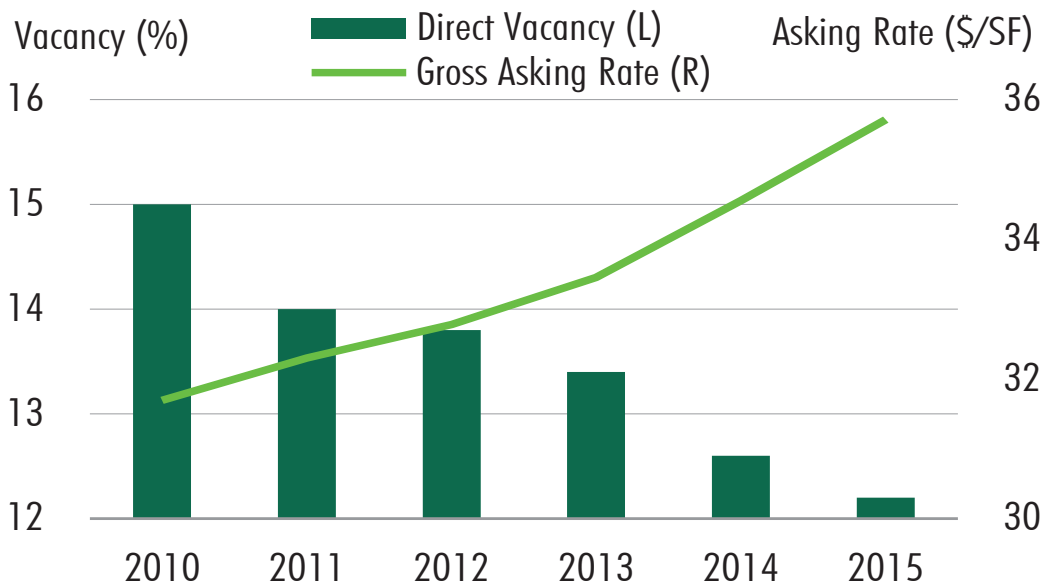
Investment activity in the CBD continues to reach near historical peak levels as capital markets views Chicago as a compelling alternative to gateway markets around the country. Nine assets sold during Q2 2015 totaling just under \$3.0 billion, with an additional seven properties under contract totaling approximately \$1.6 billion. The pending sale of the Aon Center represents the largest portion of the under contract total as the East Loop Tower received significant investor interest during the quarter. The second half of the year is promising with fourteen assets in the market totaling \$1.9 billion. Investment activity continues to spread across all submarkets and all risk profiles. If this momentum continues, year-end totals could approach the 2007 peak volume of \$7.0 billion.

Blocks of 100,000 sq. ft. and greater have become increasingly scarce with 27 blocks currently available in the CBD for Class A and B buildings, a decrease of two blocks from Q1 2015 and down four blocks from the Q4 2014. Also, mid-range available blocks (20,000-99,999 sq. ft.) in all classes have decreased by five spaces quarter-over-quarter. This trend is expected to continue in the short-term as tenants continue to flock to the CBD from the Suburban market.

### HISTORICAL NET ABSORPTION VS. DIRECT VACANCY RATE



### DIRECT VACANCY/GROSS WEIGHTED ASKING RATE



# 2Q 2015 KEY MARKET STATISTICS

Submarket	Rentable Building Area Sq. Ft.	Direct Vacant Sq. Ft.	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q2 2015 Net Absorption Sq. Ft.	2015 Net Absorption Sq. Ft.	Under Construction Sq. Ft.****	Gross Asking Lease Rates (\$/Sq. Ft./Yr)
<b>Central Loop</b>	<b>35,818,728</b>	<b>3,818,569</b>	<b>10.7</b>	<b>0.6</b>	<b>11.3</b>	<b>415,805</b>	<b>429,669</b>	-	<b>35.11</b>
Class A	10,024,936	1,084,321	10.8	0.7	11.5	29,367	3,230	-	42.75
Class B	18,660,994	1,847,423	9.9	0.6	10.5	301,927	389,633	-	33.57
Class C	7,132,798	886,825	12.4	0.5	12.9	84,511	36,806	-	27.05
<b>East Loop</b>	<b>22,885,618</b>	<b>3,527,287</b>	<b>15.4</b>	<b>0.6</b>	<b>16.0</b>	<b>95,049</b>	<b>87,386</b>	-	<b>33.83</b>
Class A	5,368,236	619,254	11.5	0.1	11.6	(5,164)	(5,164)	-	37.27
Class B	11,422,225	2,085,932	18.3	0.7	18.9	70,459	167,851	-	35.04
Class C	6,095,157	822,101	13.5	1.0	14.4	29,754	(75,301)	-	28.50
<b>Fulton/West**</b>	<b>2,169,391</b>	<b>246,998</b>	<b>11.4</b>	<b>0.0</b>	<b>11.4</b>	<b>114,033</b>	<b>94,123</b>	<b>266,112</b>	<b>24.04</b>
Class A	535,510	35,025	6.5	0.0	6.5	97,724	97,724	266,112	39.50
Class C	1,633,881	211,973	13.0	0.0	13.0	16,309	(3,601)	-	21.88
<b>NMA***</b>	<b>11,219,679</b>	<b>1,732,434</b>	<b>15.4</b>	<b>0.2</b>	<b>15.6</b>	<b>(30,254)</b>	<b>(78,022)</b>	-	<b>33.94</b>
Class A	3,106,468	829,698	26.7	0.3	27.0	(37,301)	(48,215)	-	36.90
Class B	7,416,016	799,149	10.8	0.1	10.9	15,160	(21,707)	-	32.24
Class C	697,195	103,587	14.9	0.0	14.9	(8,113)	(8,100)	-	27.23
<b>River North</b>	<b>11,302,728</b>	<b>1,053,141</b>	<b>9.3</b>	<b>1.5</b>	<b>10.8</b>	<b>595</b>	<b>(270,894)</b>	-	<b>35.21</b>
Class A	2,476,544	87,740	3.5	0.2	3.7	(5,100)	(5,100)	-	53.26
Class B	6,576,977	733,060	11.1	2.1	13.3	52,385	(212,945)	-	35.99
Class C	2,249,207	232,341	10.3	0.9	11.3	(46,690)	(52,849)	-	26.75
<b>West Loop</b>	<b>44,173,677</b>	<b>5,195,654</b>	<b>11.8</b>	<b>1.2</b>	<b>13.0</b>	<b>141,840</b>	<b>13,503</b>	<b>2,288,946</b>	<b>38.26</b>
Class A	20,861,155	2,367,618	11.3	0.9	12.3	52,795	(49,749)	2,288,946	41.90
Class B	19,972,769	2,550,513	12.8	1.5	14.2	114,048	93,842	-	35.56
Class C	3,339,753	277,523	8.3	1.0	9.4	(25,003)	(30,590)	-	27.15
<b>Total CBD</b>	<b>127,569,821</b>	<b>15,574,083</b>	<b>12.2</b>	<b>0.8</b>	<b>13.0</b>	<b>737,068</b>	<b>275,765</b>	<b>2,555,058</b>	<b>35.71</b>
Class A	42,372,849	5,023,656	11.9	0.7	12.5	132,321	(7,274)	2,555,058	41.17
Class B	64,048,981	8,016,077	12.5	1.0	13.5	553,979	416,674	-	34.67
Class C	21,147,991	2,534,350	12.0	0.7	12.7	50,768	(133,635)	-	27.07

## TOP LEASE TRANSACTIONS

Size (SF)	Tenant	Address
105,000	WeWork	20 W Kinzie St
88,695	Accreditation Council for Graduate Medical Education	401 N Michigan
83,228	SAC Wireless	540 W Madison
78,974	Avant, Inc	222 N LaSalle St
60,440	Perkins and Will	410 N Michigan Ave
52,600	Morton Salt	444 W Lake St

## OUTLOOK

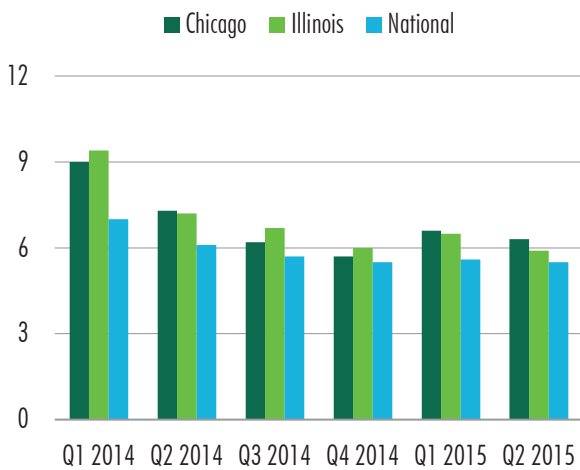
Construction continues for the two large trophy-quality office properties in the West Loop, 444 W. Lake St. and 150 N. Riverside Plz. Meanwhile, 151 N. Franklin St. is rumored to break ground in August 2015, as Freeborn and Peters and Hinshaw and Culbertson are expected to take approximately 190,000 sq. ft. at the new Class A building. However, there are concerns swirling that the new construction will add to the number of shadow spaces anticipated to hit the market in 2017, impacting owner leverage. Landlords are currently trying to lock in long term leases while taking advantage of the high rental rates in an effort to bypass this expected downturn.

## UNEMPLOYMENT

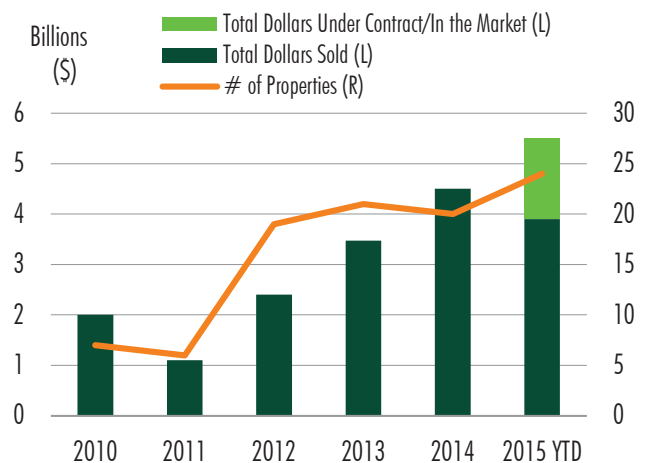
According to the U.S. Department of Labor's Not Seasonally Adjusted statistics, the June 2015 Illinois Unemployment Rate decreased 40 bps from March to 5.9%, however, it rose 30 bps from the previous month. Nationally, the unemployment rate was 5.5% in June, declining just 10 bps from March. Employment in transportation and utilities, financial activities, and educational and health services sectors experienced large gains during Q2 2015 throughout the State of Illinois.

Drilling down into the local economy, the Chicago metropolitan area unemployment statistics reported a preliminary rate of 6.3%, down 10 bps since March and falling a whole percentage point year-over-year. The steady decline in unemployment bodes well for the office sector and is anticipated to continue with the rapid growth of companies in the TAMU business sectors in the CBD.

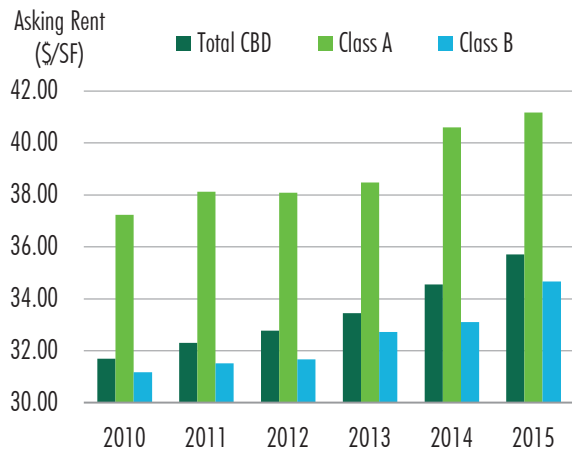
### Unemployment



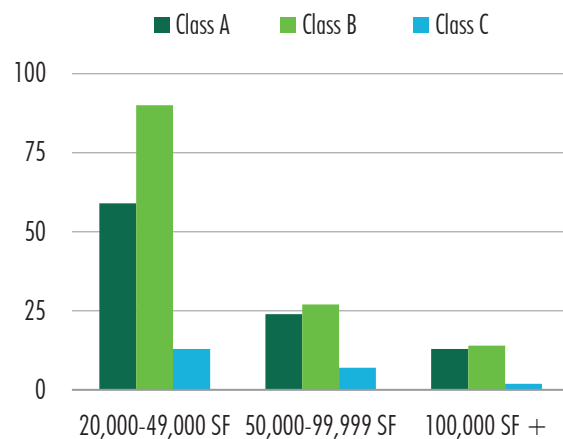
### CBD Historical Office Sales Volume



### 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.



**The Investment Properties Group exists to help middle and private capital market investors achieve maximum value in the acquisition and sale of their assets.**

**Let us know your specific acquisition criteria so that we may designate your requirement in our database.**

### John Slivka

Vice President

T: +1 312 297 7633

F: +1 312 297 7625

john.slivka@cbre.com



RESPECT/INTEGRITY/SERVICE/EXCELLENCE

### RESPECT

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

### INTEGRITY

Uphold the highest ethical standards in our business practices.

### SERVICE

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

### EXCELLENCE

Aspire to be the best in everything we do and drive for continuous improvement.



© 2015 CBRE, Inc. We obtained the information above from sources we believe to be reliable. However, we have not verified its accuracy and make no guarantee, warranty or representation about it. It is submitted subject to the possibility of errors, omissions, change of price, rental or other conditions, prior sale, lease or financing, or withdrawal without notice. We include projections, opinions, assumptions or estimates for example only, and they may not represent current or future performance of the property. You and your tax and legal advisors should conduct your own investigation of the property and transaction.