

Rents Hit Another Record High

Leasing activity was strong in the 2nd quarter, but a struggling economy, new construction and increasing sublease supply point to a downturn.

Record Rental Rates

The current average asking rate, \$30.15 PSF Gross, is another record high, and the 6th consecutive quarterly increase in rates. Rental rates will continue to rise over the next few quarters, and are not likely to drop before several quarters of poor performance force landlords to modify their expectations.

Strong 2nd Quarter

Chicago's downtown office market had strong activity during the second quarter. Completely reversing the 110,356 square feet of negative net absorption seen in the first quarter, year-to-date positive net absorption rose to 1,454,390 square feet, and available space dropped another full percentage point, to only 11.1% of total inventory.

About 400,000 square feet of this activity was due to office space being converted to other uses. Discounting these transactions, we see year-to-date net absorption of just over 1 million square feet. At mid-year 2007, year-to-date net absorption was over 1.5 million square feet.

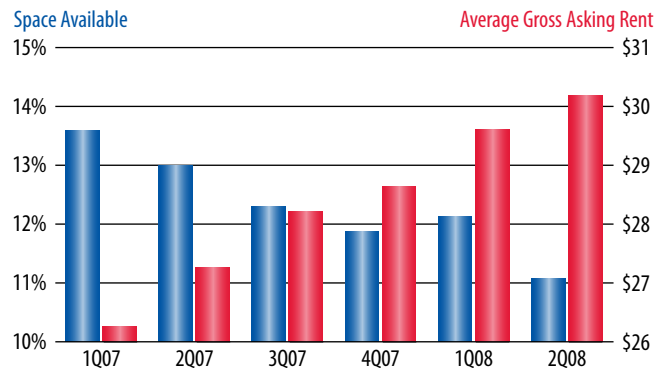
Downturn in 2009

Available sublease space has taken a sharp rise, increasing over 300,000 square feet to 1,645,635 square feet. Chicago MSA's unemployment was reported at 6.5% for May, a sharp increase over the 4.7% figure for May of 2007. Illinois' unemployment figures are now among the highest in the nation.

These trends, combined with the delivery of over 3.8 million square feet of new office space over the next year, indicate supply will greatly outpace demand in the near future, creating a downturn in the Chicago CBD office market.

By The Numbers

Chicago CBD – Availability vs. Rental Rates



Chicago CBD - Existing Buildings 2Q 2008

Existing RBA - Overall (583 buildings)	153,524,743
Existing RBA - Class A (79 buildings)	67,850,366
Existing RBA - Class B (205 buildings)	59,616,121
Existing RBA - Class C (303 buildings)	26,058,256
Total Vacant Sq. Ft.	15,895,493
Percent Vacant	10.4%
Total Available Sq. Ft.	16,984,084
Percent Available	11.1%
Gross Average Asking Rental Rate (Overall)	\$30.15
Year-To-Date Net Absorption	1,454,390

Noteworthy Leases

Tenant	Address	Sq. Ft.	Type
Marsh & McLennan Cos. (Mercer (US) Inc. and Guy Carpenter & Co.)	155 North Wacker Drive	134,000	Relocation
PrivateBancorp Inc.	120 South LaSalle Street	105,449	New
The Chicago School of Professional Psychology	Merchandise Mart Plaza	82,000	Expansion
Microsoft Corp.	200 East Randolph Street	78,000	Relocation - Expansion
CRA International	1 South Wacker Drive	41,570	Relocation
Legal Helpers	233 South Wacker Drive	40,301	New
Harris & Harris, Ltd.	Merchandise Mart Plaza	37,399	Relocation - Expansion
Duff & Phelps Corporation	200 South Wacker Drive	22,239	New
Kaplan Higher Education Corporation, Inc.	311 South Wacker Drive	17,272	New
EF Education First Ltd.	200 North Michigan Avenue	15,000	New
Charles Schwab & Co. Inc.	430 North Michigan Avenue	14,713	Relocation - Expansion
Westcon Group	3020 Woodcreek Drive, Downers Grove	14,509	Relocation - Expansion
Neohapsis	217 North Jefferson Street	10,150	Relocation

HSBC North America Holdings Inc., which recently consolidated 3,100 workers from five north suburban facilities into one 560,000-square-foot headquarters building in Mettawa, plans to consolidate many of its remaining 2,700 Chicago-area workers, currently scattered in the western suburbs, into a new operations center. The leases in the five buildings expire over the next two to three years and HSBC is in the process of identifying a site where they will build a second building to combine many of the western suburban sites. HSBC is considering the western suburbs where it now has operations, including Elmhurst, Wood Dale, Franklin Park and Schaumburg.

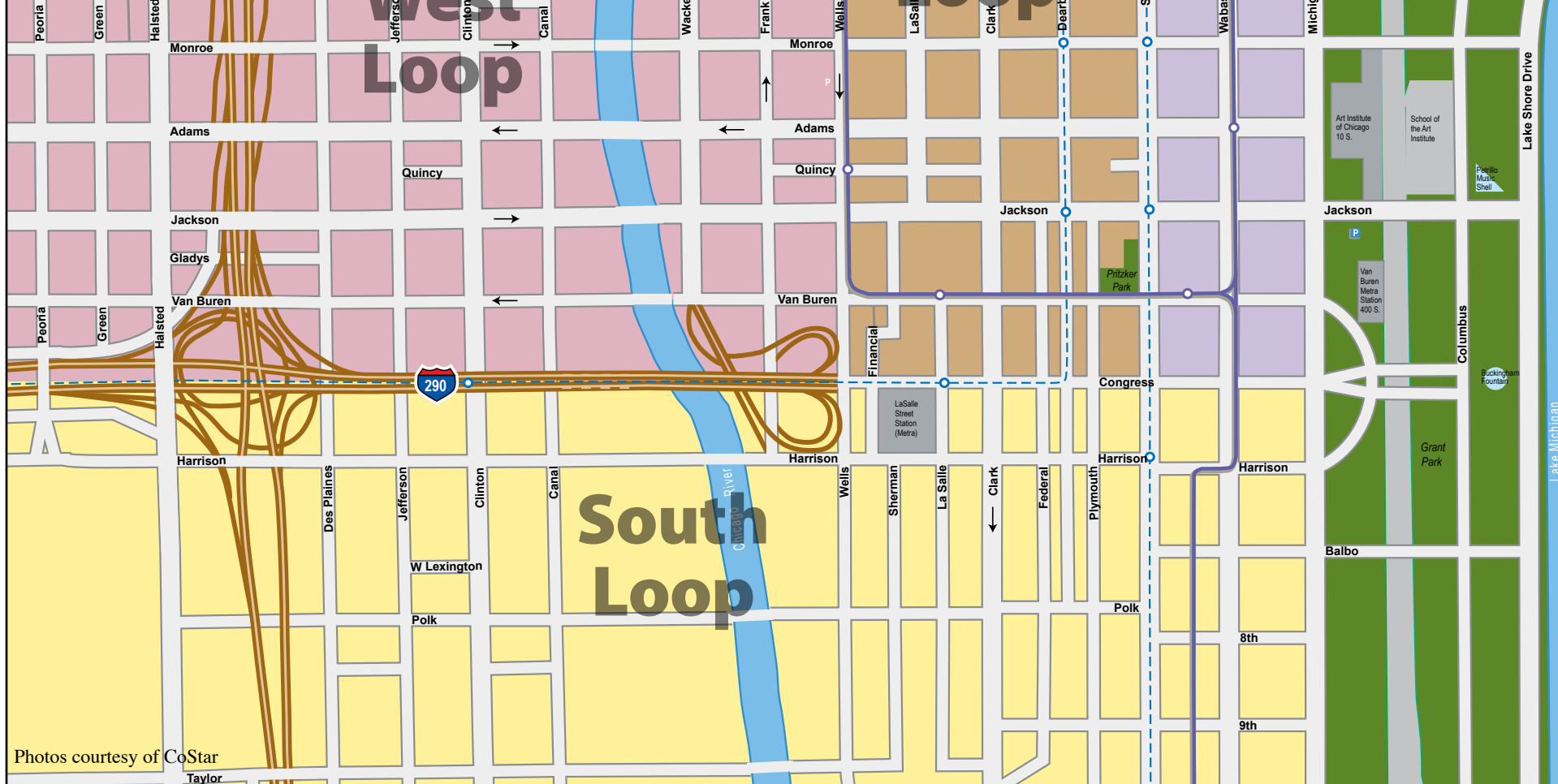
WaMu (Washington Mutual Inc.) will close seven free-standing mortgage offices in the Chicago area – two in the city, two in Schaumburg, and one each in Oak Brook, Skokie and Vernon Hills – with no information available regarding the number of jobs that will be impacted. While WaMu will lay off 3,000 employees nationwide, the Chicago area could gain jobs as it consolidates eight nationwide mortgage processing offices into just three, including a facility in Downers Grove.



Charlotte, NC-based Bank of America Corp. (BoFA) reportedly will not renew a lease for 205,000 Sq. Ft. at 350 North Orleans Street that expires July 31, 2009. BoFA plans to combine a payment processing operation at the Orleans location, where 625 employees work, with an identical operation at 540 West Madison Street late this year. No information is available yet on how many layoffs may occur due to the consolidation.



Hines U.S. Core Office fund, which is managed by Houston-based Hines Interests L.P., closed on its acquisition of 1 North Wacker Drive, paying \$540 million to a German investment fund managed by RREEF, a unit of Deutsche Bank A.G., for the 1,340,000-square-foot tower.



Chicago CBD Office Market Statistics – 2Q08

	Overall CBD	River North	North Michigan Avenue	West Loop	Central Loop	East Loop	South Loop
Total Inventory (Sq. Ft.)	153,524,743	15,560,318	16,434,232	51,699,003	40,290,239	26,217,347	3,323,604
Total Sq. Ft. Available	16,984,084	1,302,410	1,369,618	6,097,559	4,465,801	3,459,007	289,689
Percent Available	11.1%	8.4%	8.3%	11.8%	11.1%	13.2%	8.7%
Year-to-Date Net Absorption	1,454,390	(15,524)	412,280	(247,814)	813,840	336,316	155,292
Class A Gross Average Asking Rent (PSF)	\$34.29	\$30.67	\$34.95	\$34.40	\$34.75	\$33.09	
Class B Gross Average Asking Rent (PSF)	\$27.21	\$26.01	\$26.71	\$29.64	\$27.39	\$25.69	\$17.00
Class C Gross Average Asking Rent (PSF)	\$22.24	\$20.66	\$23.66	\$22.22	\$23.46	\$21.83	\$23.99

200 South Michigan Avenue
18th Floor
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Inside: Chicago Downtown Office Market Report – 2Q'08

Bradford Allen Market Meter - Chicago Downtown Office Space



Year-To-Date Net Absorption (SF)

The change, positive or negative, in physically occupied space during the year to date.



Availability (%)

The total amount of space being marketed for lease, regardless of current occupancy, including sublease space.



Average Gross Asking Rental Rate (\$)

The weighted average gross asking price per square foot of all available space, weighted by number of square feet available.

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