

CHICAGO DOWNTOWN

Office Market Report



YTD Net Absorption
718,263 SF



Availability
17.1%



Asking Rent
\$28.33

Downtown Chicago Office Market Holds Steady, But Demand Points to Further Improvement Ahead

The downtown Chicago office market ended the third quarter with overall availability and vacancy rates of 17.1% and 13.7%, respectively. Compared with the second quarter both are minor increases which can be attributed to the stagnant economic recovery and firms reducing their square footage to maximize space efficiency. Conversely, a side by side analysis of third quarter 2011 and third quarter 2012 shows improvements in most major metrics—asking rate, net absorption and overall vacancy—demonstrating increased stability in the office market.

Although leasing transactions leveled off during the first two quarters of 2012, there continues to be a strong bid for quality space in most major downtown submarkets. Tenants inked several large transactions during the third quarter and the activity looks to continue. For example, Accenture renewed its lease for more than 160,000 SF at 161 N Clark Street in the Central Loop, and Integrys, (Peoples Gas) announced plans to relocate from One Prudential Plaza to 150,000 SF in the Aon Center, although this deal will result in a net reduction of space. So while there continues to be steady leasing activity, it's important to note that tenants are still cost conscious in this environment and eager to consolidate where possible.

One third-quarter transaction worth highlighting is advertising agency DraftFCB, which signed a new lease to consolidate its existing Chicago locations into a new 185,000 SF headquarters in the John Hancock Center at 875 N Michigan Avenue. The 15-year deal will increase the occupancy rate of the tower from 83% to nearly 95%.

In total, the leasing activity during the third quarter brought year-to-date net absorption to more than 718,000 SF, and as a result several CBD submarkets are tightening markedly. The third quarter ended with vacancies in the River North and Central Loop submarkets down to 10.0% and 11.3%, respectively. From a practical standpoint, there are very limited availabilities of large contiguous blocks in quality buildings in these submarkets. The situation may continue to tighten, particularly in River North where Google announced it would locate its recent acquisition of a Motorola Mobility. When executed, this Merchandise Mart transaction (reported at approximately 575,000 SF) will be the largest CBD deal of the year by a wide margin, and it will further tighten conditions in the River North submarket. This type of activity should be a positive indicator for the market and is likely to have a trickle-down effect into North Michigan Avenue and other areas where the recovery has been slower to take hold.

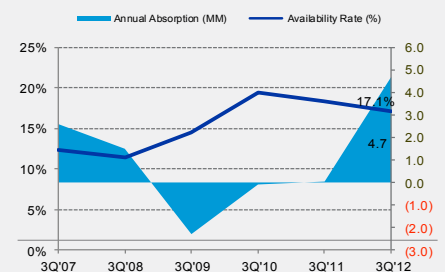
For the most part the ability of landlords to increase rates has been marginal at best throughout this recovery cycle. However, the recent activity and continued absorption of space may be signaling a change. Overall gross asking rental rates inched up during the third quarter and averaged \$28.33 PSF. This is the third consecutive small statistical increase in rents, and thus we may be seeing the beginnings of a trend where landlords in select submarkets can begin pushing average asking rates.

3Q '12

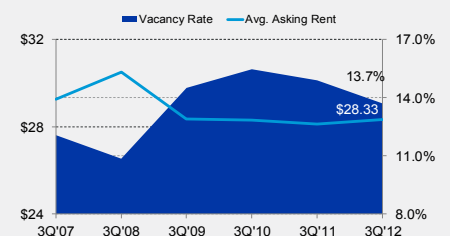
CBD Outlook – 2012

- The CBD market recovery looks to continue, especially as the city makes a concerted effort to attract more high-tech jobs.
- Despite cost cutting pressures, tenants continue looking to upgrade into better locations and lock in terms for longer lease periods.
- Tight conditions in River North may begin to push tenants to North Michigan Avenue and East Loop submarkets, which have been slower to recover.
- Despite low availabilities, Class A rents may be poised to rise in select submarkets.

Annual Absorption vs. Availability



Vacancy Rate vs. Average Asking Rent



Economic Indicators

Quarter/Year	Q3 '12	Q2 '12
IL Unemployment	9.1%	8.8%
US Unemployment	8.2%	8.2%
US Consumer Confidence Index	60.6	62.0
Western TX Intermediate Price Per Barrel	\$94.16	\$84.90

Bradford Allen Office Market Report

Chicago Downtown ■ Third Quarter 2012

CBD Snapshot

Market Overview

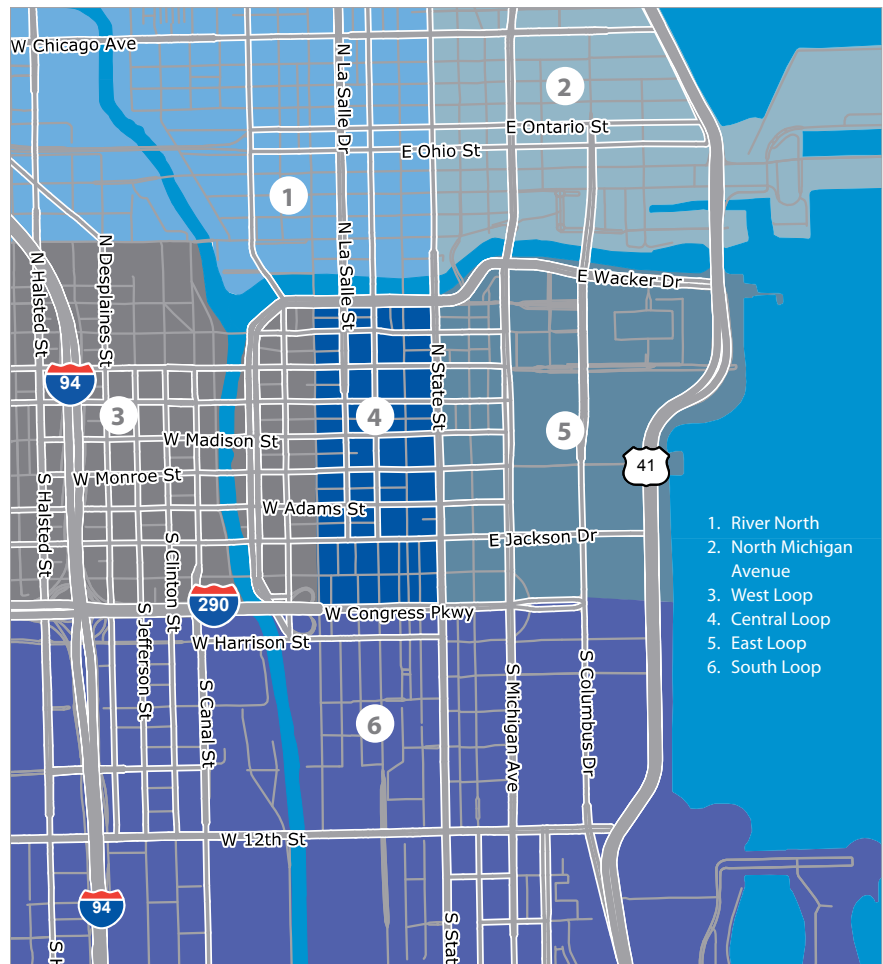
	2012	2011
Total Inventory (SF)	▲ 168,192,786	154,056,652
Overall Vacancy	▼ 13.7%	14.9%
Direct Vacancy	▼ 12.1%	13.6%
Sublease Vacancy	▼ 0.9%	1.3%
Overall Available	▼ 17.1%	18.4%
Direct Available	▼ 14.4%	16.2%
Sublease Available	▼ 2.0%	2.2%
Gross Average Asking Rate	▲ \$28.33	\$28.12
Current Net Absorption (SF)	▲ 472,702	361,350
YTD Net Absorption (SF)	▲ 718,263	389,181

Noteworthy Leases

TENANT	SQ. FT.	TYPE	SUBMARKET
Motorola Mobility 222 Merchandise Mart Plaza	575,000	New	River North
DraftFCB 875 N Michigan Avenue	185,000	New	North Michigan Avenue
Accenture 161 N Clark Street	160,000	Renewal	Central Loop
Integritys 200 E Randolph Street	150,000	New	East Loop

CBD

Office Submarkets



MARKET STATISTICS	INVENTORY (SF)	TOTAL AVAILABLE (SF)	PERCENT AVAILABLE	VACANCY RATE	CURRENT ABSORPTION (SF)	YTD ABSORPTION (SF)	AVERAGE ASKING RENT (ALL CLASSES)
SUBMARKET							
Central Loop	48,487,037	7,068,247	14.6%	11.3%	272,382	268,156	\$28.14
East Loop	28,221,744	5,684,511	20.1%	16.7%	117,246	(131,771)	\$27.83
North Michigan Avenue	17,240,233	3,245,308	18.8%	15.4%	110,876	(157,422)	\$27.83
River North	18,389,532	2,168,903	11.8%	10.0%	(53,162)	196,058	\$29.21
South Loop	4,227,173	553,362	13.1%	6.3%	5,731	82,211	\$18.18
West Loop	51,627,067	8,843,837	17.1%	13.1%	19,629	461,031	\$30.09
MARKET TOTALS (BY CLASS)							
Class A	81,458,041	15,053,442	18.4%	14.8%	261,687	543,629	\$31.35
Class B	65,501,163	9,940,990	15.2%	11.4%	110,941	(242,602)	\$26.32
Class C	21,233,582	2,569,736	12.8%	11.0%	100,074	417,236	\$19.19
TOTAL	168,192,786	27,564,168	17.4%	13.7%	472,702	718,263	\$28.33