

CHICAGO SUBURBS

Office Market Report



Suburban Chicago Office Market Signals Steady—Albeit Slow—Improvement

Transaction activity within the suburban Chicago office market was relatively steady to begin the year, and a healthier tone continues to characterize the overall suburban market. Although the vacancy rate edged up during the first quarter from 18.3% to 18.6%, there continues to be ample interest from tenants for high-quality space. Many tenants have been motivated to upgrade their space rather than renew, particularly in situations where attractive rents and/or concessions can help offset relocation costs.

As we previously reported, the favorable interest rate environment has enabled some owners to offer extremely aggressive lease terms to retain existing tenants and attract new ones. This dynamic continues, though the availability of Class A space in certain locations, including parts of the O'Hare submarket, East-West Corridor and Southern end of North Suburban submarkets, has been tightening significantly.

During 2012, there were quite a few notable lease transactions of 100,000 SF or larger, and that activity helped fuel the improving trend. During the first quarter of 2013 there was another such large block transaction—Advocate Health Care announced its plans to relocate into 140,000 SF at Highland Landmark I in Downers Grove. Although this was the only deal in excess of 100,000 SF signed during the first quarter, there are reportedly several other tenants currently canvassing the market for large blocks of space. Availabilities exist, but the best blocks near suburban town centers or in coveted buildings with the best amenities are now becoming scarce.

In contrast, the Class B and C segments of the market continue to have more options available. There is ample vacant space at the lower end of the market, which has skewed the overall picture and kept the overall availability quite high at approximately 24%.

Aggressive leasing by landlords continues to keep rental rates in check across the suburban market. Gross average asking rates declined during the first quarter to \$19.63 PSF from \$20.05 PSF at year-end. There are, however, pockets of strength at the upper end of the market. The highest Class A gross average asking rates continue to be in the Southern North Suburbs and Southern East-West Corridor at \$30.69 PSF and \$25.52 per square foot, respectively.

1Q 2013

Suburban Outlook

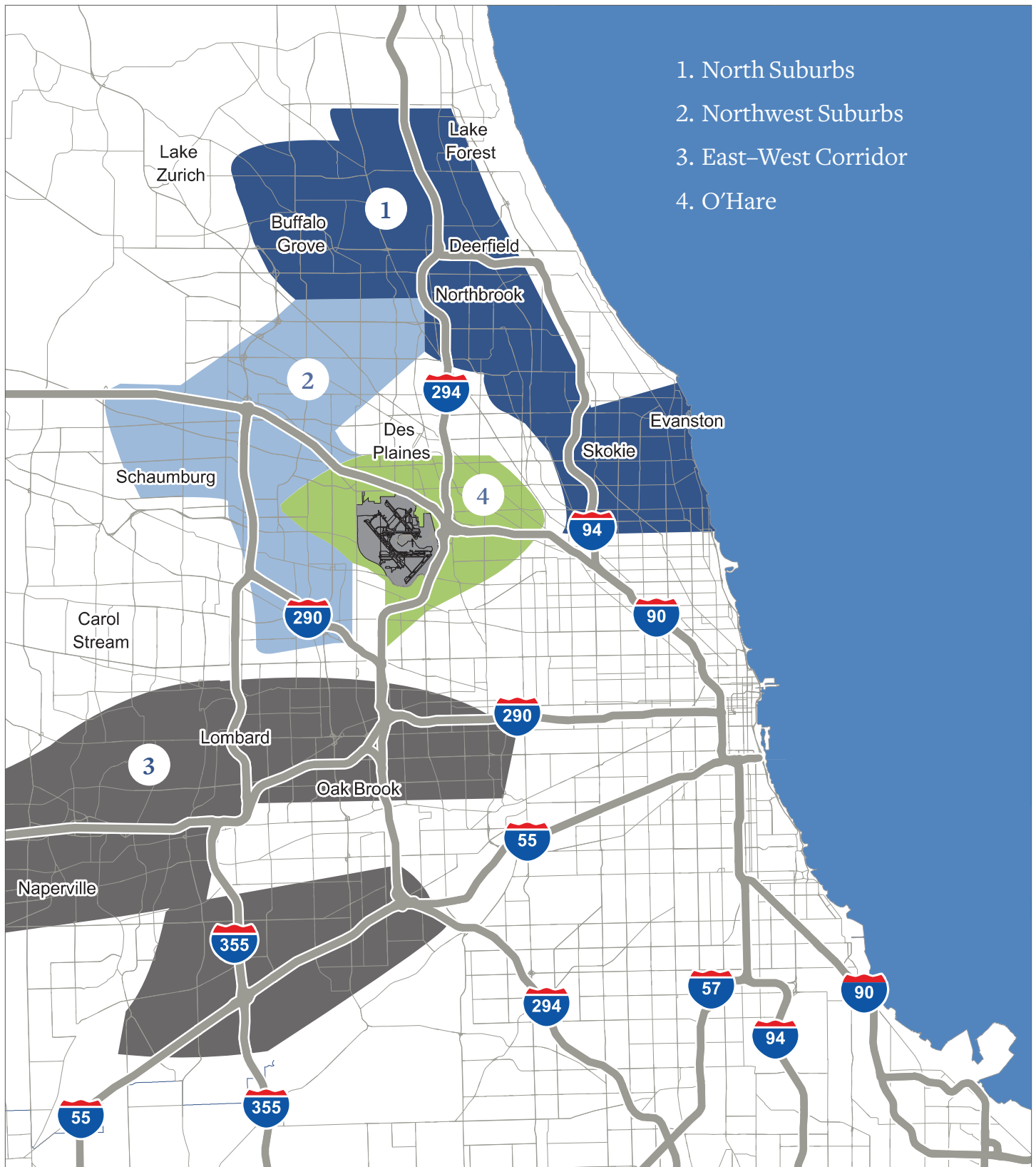
- The Class A segment of the suburban office market continues tightening, particularly in the popular O'Hare locations, as well as parts of the North Suburbs and East-West Corridor.
- The Class B and C space in many submarkets may continue to languish and will require creative approaches for leasing.
- Opportunistic investors may find opportunities to reposition properties and capitalize on the strength in newer Class A space.

Suburban Snapshot

		1Q 2013	1Q 2012
Total Inventory (SF)	▲	120,910,409	91,583,669
Overall Vacancy	▼	18.6%	23.20%
Overall Available	▼	24%	27.30%
Gross Average Asking Rate	▼	\$19.63	\$20.25
Current Net Absorption (SF)	▲	(7,411)	(137,012)
YTD Net Absorption (SF)	▲	(7,411)	(137,012)

Economic Indicators

	1Q 2013	1Q 2012
IL Unemployment	9.5%	9.4%
US Unemployment	7.7%	8.3%
US Consumer Confidence Index	59.7%	69.9%
Western TX Intermediate Price Per Barrel	\$95.31	\$103.03



1. North Suburbs

	Number of Buildings	Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent	YTD Absorption (SF)
Central								
Class A	24	4,758,761	8.1%	881,281	18.5%	(3,349)	\$19.85	(3,349)
Class B	60	4,207,452	11.9%	869,291	20.7%	16,976	\$16.84	16,976
Class C	16	821,588	9.8%	316,656	38.5%	(943)	\$17.12	(943)
TOTALS	100	9,787,801	9.9%	2,067,228	21.1%	12,684	\$18.60	12,684
Southern								
Class A	10	2,186,594	9.8%	257,338	11.8%	(13,031)	\$30.69	(13,031)
Class B	29	2,330,324	14.9%	500,236	21.5%	11,380	\$20.76	11,380
Class C	6	194,479	31.0%	21,990	11.3%	3,000	\$13.40	3,000
TOTALS	45	4,711,397	13.2%	779,564	16.5%	1,349	\$23.21	1,349
Northern								
Class A	63	10,940,324	17.8%	3,360,702	30.7%	(35,408)	\$18.48	(35,408)
Class B	73	4,371,835	10.6%	502,577	11.5%	33,321	\$18.31	33,321
Class C	8	266,597	19.1%	52,878	19.8%	0	\$16.74	0
TOTALS	144	15,578,756	15.8%	3,916,157	25.1%	(2,087)	\$18.41	(2,087)
TOTALS	289	30,077,954	13.0%	6,762,949	20.9%	11,946	\$19.22	11,946

2. Northwest Suburbs

	Number of Buildings	Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent	YTD Absorption (SF)
I-355 Corridor								
Class A	14	2,874,379	21.5%	790,900	27.5%	26,503	\$21.11	26,503
Class B	29	1,698,213	35.9%	650,605	38.3%	(40,914)	\$17.56	(40,914)
Class C	2	83,301	8.6%	7,200	8.6%	(3,000)	\$9.59	(3,000)
TOTALS	45	4,655,893	26.5%	1,448,705	31.1%	(17,411)	\$19.64	(17,411)
Schaumburg Area								
Class A	59	15,565,055	16.7%	4,443,509	28.5%	59,813	\$20.87	59,813
Class B	126	9,577,580	21.0%	2,464,917	25.7%	(68,681)	\$16.75	(68,681)
Class C	12	689,780	34.2%	445,747	64.6%	(36,776)	\$15.22	(36,776)
TOTALS	197	25,832,415	18.8%	7,354,173	28.5%	(45,644)	\$19.10	(45,644)
TOTALS	242	30,488,308	22.6%	8,802,878	29.8%	(63,055)	\$19.18	(63,055)

3. East–West Corridor

	Number of Buildings	Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent	YTD Absorption (SF)
Eastern								
Class A	66	13,851,635	20.0%	3,626,682	26.2%	128,162	\$23.14	128,162
Class B	150	9,695,922	19.0%	2,019,781	20.8%	(64,703)	\$17.62	(64,703)
Class C	19	986,530	13.6%	245,947	24.9%	(219)	\$14.14	(219)
TOTALS	235	24,534,087	19.3%	5,892,410	24.0%	63,240	\$20.83	63,240
Western								
Class A	50	9,786,021	14.4%	1,874,433	19.2%	(17,022)	\$20.07	(17,022)
Class B	119	8,394,624	15.7%	1,673,101	19.9%	54,035	\$18.48	54,035
Class C	8	1,025,790	4.1%	45,781	4.5%	5,170	\$15.14	5,170
TOTALS	177	19,206,435	14.4%	3,593,315	18.7%	42,183	\$19.27	42,183
Southern								
Class A	9	1,189,697	17.2%	185,933	15.6%	0	\$25.52	0
Class B	51	2,207,611	19.5%	464,521	21.0%	(59,426)	\$17.46	(59,426)
Class C	8	252,759	23.7%	72,680	28.8%	1,047	\$13.90	1,047
TOTALS	68	3,650,067	19.0%	723,134	19.8%	(58,379)	\$19.26	(58,379)
TOTALS	480	47,390,589	17.6%	10,208,859	20.8%	47,044	\$20.08	47,044

4. O'Hare

	Number of Buildings	Inventory (SF)	Vacancy Rate	Total Available (SF)	Percent Available	Current Absorption (SF)	Average Asking Rent	YTD Absorption (SF)
Class A	36	8,237,473	17.3%	1,807,902	21.9%	(21,165)	\$21.13	(21,165)
Class B	45	4,656,085	28.7%	1,412,081	30.3%	17,819	\$18.46	17,819
Class C	1	60,000	0.0%	—	0.0%	0	—	0
TOTALS	82	12,953,558	21.3%	3,220,618	24.9%	(3,346)	\$20.04	(3,346)

Noteworthy Leases

Tenant	Address	City	SF	Type
Advocate Health Care	3075 Highland Parkway	Downers Grove	140,000	New
Life Fitness	9525 W. Bryn Mawr Avenue	Rosemont	70,000	New
PCI	8700 W. Bryn Mawr Avenue	Chicago (O'Hare)	40,000	New
Molina Healthcare	1520 Kensington Road	Oak Brook	37,000	New
Clifton Gunderson	1211 W. 22nd Street	Oak Brook	25,000	Expansion/Renewal