

CHICAGO DOWNTOWN

Office Market Report



YTD Net Absorption
227,291 SF



Availability
16.1%



Asking Rent
\$29.45

Improving Trend Continues as Downtown Chicago Office Market Records Positive Net Absorption

The downtown Chicago office market continues to improve. This is being driven by steady demand from tenants looking for CBD locations that can help them attract talent. This theme has been in play for several years now and is illustrated by both suburban and out-of-area employers relocating to downtown Chicago. It was again evident during the third quarter with the announcement that AT&T was relocating 500 workers from the Northwest suburbs to their office at 225 West Randolph Street.

Although the downtown market continued strengthening during the third quarter, the pace of the recovery from the Great Recession has been relatively slow compared to other economic rebounds. The overall availability rate for the quarter improved to 16.1%, while the overall vacancy declined to 12.3%. Both of these statistics are encouraging for the office sector, and all submarkets contributed to the improvement. The availability rate in the North Michigan Avenue submarket registered the greatest improvement from the previous quarter, declining to 19.3%. As high quality space continues to be absorbed in River North and the West Loop, tenants are forced to look for blocks elsewhere. The North Michigan Avenue submarket has been the primary beneficiary.

There were several notable transactions during the third quarter. McDermott Will & Emery LLP inked a deal for 225,000 SF at the new project currently under construction at 444 West Lake Street. Locke Lord renewed approximately 116,000 SF at 111 South Wacker Drive, and Zurich American Insurance announced a new lease for 108,000 SF at 300 South Riverside Plaza. Many of the recent large deals have been relocations or renewals; however, robust transaction activity among smaller technology tenants helped the market record positive net absorption of 384,000 SF during the third quarter.

Direct gross average asking rates in the CBD have increased by more than \$0.50 per SF as compared to one year ago. Direct rates remain the highest in the River North and West Loop submarkets at \$30.92 and \$30.87 per SF, respectively. Rates should creep higher if vacancy and availability rates decline further over the remainder of the year. Class B space in the West Loop showed the most improvement during the third quarter, rising \$1.20 to \$30.62 per SF. The West Loop is still considered a premier location for tenants, but the dearth of available Class A space here has boosted demand and rates for lower tier space in this coveted submarket.

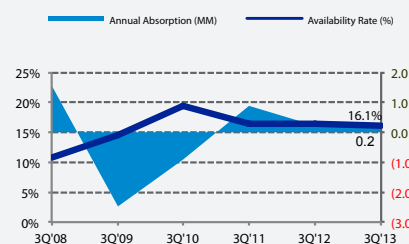
The overall macro environment continues to be supportive of investment sales. A slowly improving economy, couple with the Federal Reserve's quantitative easing program, has kept investors active, particularly in the West Loop. Moreover, new activity in the Far West Loop is gaining momentum as investors like Sterling Bay are repurposing buildings in this region. This is a positive indicator for the downtown investment market.

3Q 2013

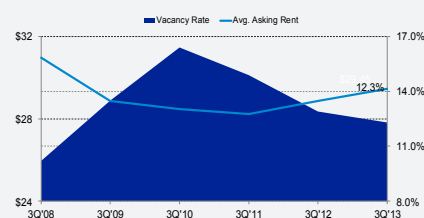
CBD Outlook

- Tenants are relocating from the suburbs to the CBD. The need for young talent should continue driving improvement in the downtown Chicago office market.
- Top-quality space continues to be difficult to secure in the River North and West Loop submarkets, thereby motivating tenants to look in other areas for space.
- The Federal Reserve's quantitative easing program continues for the moment, so an accommodating, low interest rate environment should be supportive to further investment activity.

Annual Absorption vs. Availability



Vacancy Rate vs. Average Asking Rent



Economic Indicators

	3Q 2013	3Q 2012
IL Unemployment	9.2%	9.1%
US Unemployment	7.3%	8.2%
US Consumer Confidence Index	79.7	60.6
Western TX Intermediate Price Per Barrel	\$101.41	\$94.16

Market Overview

		3Q 2013	3Q 2012
Total Inventory (SF)	▲	170,458,615	168,192,786
Overall Vacancy	▼	12.3%	13.7%
Direct Vacancy	▼	11.5%	12.1%
Sublease Vacancy	▲	1.8%	0.9%
Overall Available	▼	16.1%	17.1%
Direct Available	▼	14.2%	14.4%
Sublease Available	◀▶	2.0%	2.0%
Gross Average Asking Rate (Overall)	▲	\$29.03	\$28.53
Gross Average Asking Rate (Direct)	▲	\$29.45	\$28.86
Current Net Absorption (SF)	▲	383,823	288,362
YTD Net Absorption (SF)	▲	227,291	214,965

Noteworthy Leases

Tenant	SF	Type	Submarket
McDermott Will & Emery LLP 444 W Lake St	225,000	New	West Loop
Locke Lord 111 S Wacker Dr	116,300	Renewal/ Downsize	West Loop
Zurich American Insurance 300 S Riverside Plz	108,000	New	West Loop
Humana 550 W Adams St	97,000	Renewal/ Expansion	West Loop
GoHealth 222 Merchandise Mart Plz	93,800	Sublease	River North

Submarkets



Market Statistics

Submarket	Inventory (SF)	Total Available (SF)	Percent Available	Vacancy Rate	Current Absorption (SF)	YTD Absorption (SF)	Average Asking Rent (Overall)	Average Asking Rent (Direct)
Central Loop	49,776,478	7,091,494	14.2%	11.3%	124,623	(63,387)	\$28.67	\$28.97
East Loop	27,728,374	5,247,642	18.9%	15.8%	(20,756)	205,388	\$28.00	\$28.19
North Michigan Avenue	17,674,437	3,408,641	19.3%	14.3%	176,870	85,656	\$28.87	\$29.01
River North	18,510,459	2,048,622	11.1%	9.8%	(29,295)	(45,589)	\$29.83	\$30.92
South Loop	4,438,886	534,118	12.0%	6.7%	3,457	3,579	\$21.56	\$21.41
West Loop	52,329,981	9,153,788	17.5%	12.0%	128,924	41,644	\$30.32	\$30.87
Market Totals (by Class)								
Class A	83,111,202	14,882,279	17.9%	13.6%	197,982	129,416	\$31.14	\$31.60
Class B	68,478,538	10,564,605	15.4%	11.2%	74,320	(93,379)	\$27.72	\$28.30
Class C	18,868,875	2,037,421	10.8%	10.1%	111,521	191,254	\$20.62	\$20.63
TOTALS	170,458,615	27,484,305	16.1%	12.3%	383,823	227,291	\$29.03	\$29.45