

CHICAGO DOWNTOWN

Office Market Report



YTD Net Absorption
(17,920) SF



Availability
16.4%



Asking Rent
\$29.66

Overall Growth Stalls; Although West Loop, River North and Class C Space Tightens Up.

Economic improvement in Chicago's CBD office market continued slowly at the close of 2013. Uncertainty regarding interest rates and the effects of the Affordable Care Act continued to hamper momentum. Subject to these conditions, the Chicago CBD also improved slowly. Overall availability reached 16.4%, almost on par with last year's 16.5%, and overall vacancy decreased to 12.5%, down slightly from 12.7% in 2012. Quarterly net absorption totaled -245,211 SF versus last year's 298,126 SF, while yearly net absorption reached -17,920 SF compared to 794,398 SF in 2012. Although the business environment is improving overall, the trend to downsize square footage per employee and its effect on overall office size is a factor driving in negative net absorption for the year.

The strong River North and West Loop submarkets continued to outperform the CBD as a whole. River North vacancy reached 9.2%, down from 10.0% in 4Q 2012. West Loop vacancy stands at 11.9%, down from 12.7% in 4Q 2012. The largest lease signed in 2013, Gogo Inc.'s move to 234,000 SF at 111 N Canal in the West Loop, again confirms the desirability of this submarket. Meanwhile Cleverbridge, another technology firm, leased 30,000 SF at 350 N Clark in River North's very tight loft market. Also notable in River North is CBRE's new lease for 61,400 SF at 321 N Clark.

Direct average asking rents for all classes increased to \$29.66 per SF from \$28.71 in 4Q 2012, spurred by competition in preferred submarkets. Class C average rental rates also increased to \$22.05 per SF, narrowing the gap between the highest and lowest rents. Class C availability at 11.1% and vacancy at 9.1% both decreased due to the redevelopment of certain buildings, and Class C was the only class to show positive net absorption in 2013 at 214,752 SF. At the time of this report, Class C space is rarely listed at less than \$20.00 per SF gross, and as it represents only 7.4% of the available market, tenants seeking lower CBD leasing costs will continue to be challenged by decreased supply at higher prices.

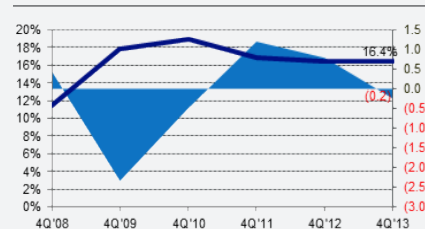
Two of the largest investment sales of 2013 closed in the fourth quarter: KBS Realty Advisors' purchase of 500 W Madison for \$435 million and Ivanhoe Cambridge's acquisition of the 10 and 120 S Riverside Plaza complex for \$367 million. John Buck Company also announced it will construct a new building at 151 N Franklin. Increased sales activity is driving highly competitive deals at higher prices; factors influencing these deals to close may include both a concern that interest rates may increase and economic optimism that conditions will continue to improve.

4Q 2013

CBD Outlook

- Tenants continue to seek the West Loop and River North submarkets either for transportation convenience or the desire for loft space.
- Rents are on the rise for top trophy buildings as well as Class C buildings. Tenants trying to minimize real estate costs will have a difficult time in the tightening Class C office market.
- With 2013's two largest sales taking place in 4Q and new construction announced at 151 N Franklin, investment activity is picking up. This trend should continue into 2014 as overall vacancy and availability continue to decrease.

Annual Absorption vs. Availability



Vacancy Rate vs. Average Asking Rent



Economic Indicators

| | 4Q 2013 | 4Q 2012 |
|--|---------|---------|
| IL Unemployment | 8.9% | 8.8% |
| US Unemployment | 6.7% | 7.9% |
| US Consumer Confidence Index | 78.1 | 65.1 |
| Western TX Intermediate Price Per Barrel | \$95.25 | \$87.46 |

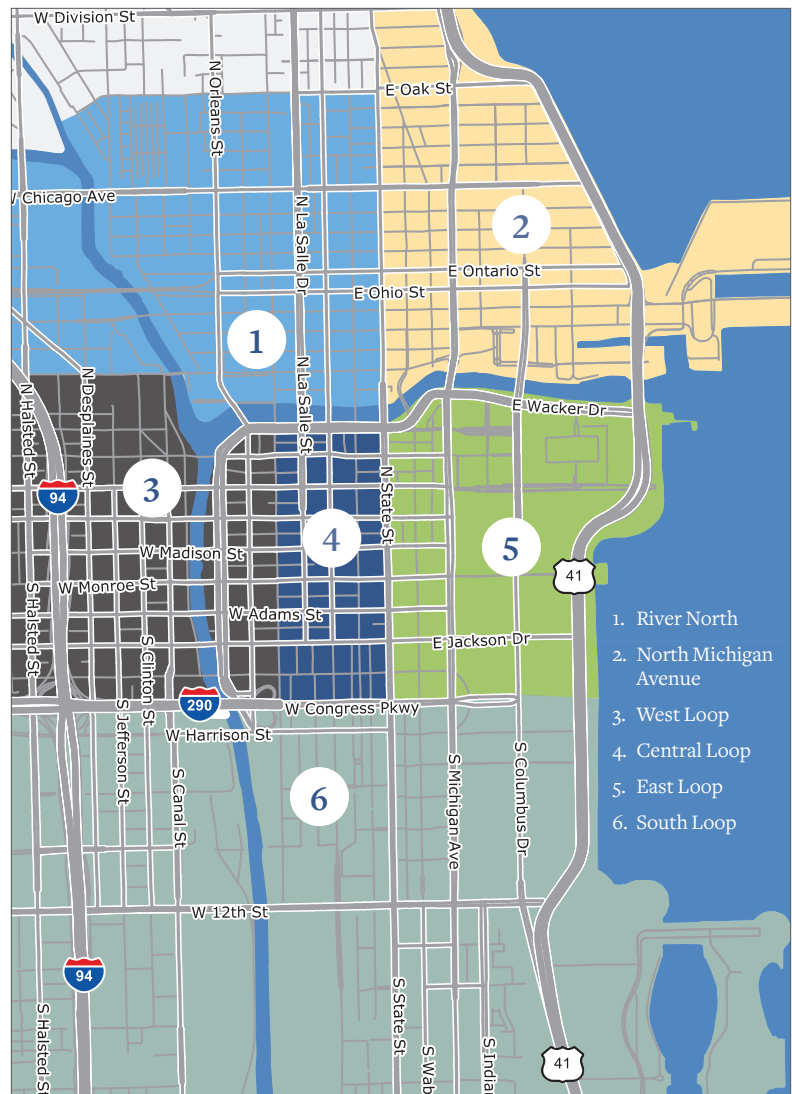
Market Overview

| | | 4Q 2013 | 4Q 2012 |
|-------------------------------------|----|-------------|-------------|
| Total Inventory (SF) | ▲ | 169,756,254 | 168,797,962 |
| Overall Vacancy | ▼ | 12.5% | 12.7% |
| Direct Vacancy | ▼ | 11.6% | 11.8% |
| Sublease Vacancy | ▼ | 0.8% | 0.9% |
| Overall Available | ▼ | 16.4% | 16.5% |
| Direct Available | ◀▶ | 14.6% | 14.6% |
| Sublease Available | ▼ | 1.8% | 1.9% |
| Gross Average Asking Rate (Overall) | ▲ | \$29.26 | \$28.40 |
| Gross Average Asking Rate (Direct) | ▲ | \$29.66 | \$28.71 |
| Current Net Absorption (SF) | ▼ | (245,211) | 298,126 |
| YTD Net Absorption (SF) | ▼ | (17,920) | 794,398 |

Noteworthy Leases

| Tenant | SF | Type | Submarket |
|--|---------|------------------|--------------------|
| Gogo Inc. 111 N. Canal | 230,000 | New | West Loop |
| Chicago Public Schools 1 N. Dearborn | 156,000 | New | Central Loop |
| Sprout Social 131 S. Dearborn | 64,000 | New/ Sublease | Central Loop |
| CBRE Inc. 321 N. Clark | 61,400 | New | River North |
| Kraft Foods Group, Inc. 401 N. Michigan | 40,000 | New | N. Michigan Avenue |

Submarkets



Market Statistics

| Submarket | Inventory (SF) | Total Available (SF) | Percent Available | Total Vacant (SF) | Vacancy Rate | Current Absorption (SF) | YTD Absorption (SF) | Average Asking Rent (Overall) | Average Asking Rent (Direct) |
|--------------------------|----------------|----------------------|-------------------|-------------------|--------------|-------------------------|---------------------|-------------------------------|------------------------------|
| Central Loop | 48,482,944 | 6,896,239 | 14.2% | 5,620,104 | 11.6% | 40,701 | (22,686) | \$28.62 | \$28.80 |
| East Loop | 28,158,406 | 5,511,639 | 19.6% | 4,437,788 | 15.8% | (69,360) | 136,028 | \$29.07 | \$29.25 |
| North Michigan Avenue | 17,674,437 | 3,422,862 | 19.4% | 2,733,31 | 15.5% | (257,296) | (171,640) | \$27.31 | \$27.44 |
| River North | 18,598,348 | 2,109,808 | 11.3% | 1,712,821 | 9.2% | 45,092 | (497) | \$30.74 | \$31.95 |
| South Loop | 4,555,625 | 659,722 | 14.5% | 411,746 | 9.0% | (4,352) | (773) | \$21.43 | \$21.27 |
| West Loop | 52,286,494 | 9,314,154 | 17.8% | 6,220,559 | 11.9% | 4 | 41,648 | \$30.76 | \$31.35 |
| Market Totals (by Class) | | | | | | | | | |
| Class A | 85,698,294 | 15,866,592 | 18.5% | 11,751,975 | 13.7% | (213,348) | (83,932) | \$31.64 | \$32.20 |
| Class B | 65,518,590 | 9,987,431 | 15.2% | 7,701,079 | 11.8% | (55,361) | (148,740) | \$27.49 | \$27.91 |
| Class C | 18,539,370 | 2,060,401 | 11.1% | 1,683,275 | 9.1% | 23,498 | 214,752 | \$22.05 | \$22.06 |
| TOTALS | 169,756,254 | 27,914,424 | 16.4% | 21,136,329 | 12.5% | (245,211) | (17,920) | \$29.26 | \$29.66 |

*Survey method includes all office buildings with more than 20,000 SF in each submarket.