

CHICAGO DOWNTOWN

Office Market Report

▼ YTD Net Absorption
(156,532) SF

▼ Availability
16.7%

▼ Asking Rent
\$28.21

Statistics Remain Stable as Downtown Chicago Office Market Continues to Attract Strong Interest

By most statistical measures, the downtown Chicago office market has remained relatively unchanged for much of the first half of 2013. During the second quarter, the availability rate increased fractionally to 16.7%, while the overall vacancy rate remained unchanged at 12.6%. However, both these metrics illustrate improvement as compared to the previous year. In general, there continues to be a strong bid for quality space, and there have been many cases of both suburban Chicago and out-of-area tenants canvassing for space and relocating to downtown Chicago. Employers are vying for talented, educated workers, many of whom are younger and prefer to live in Chicago's vibrant city center. This theme, coupled with a slow, improving economy, lends a positive tenor to the overall downtown market.

During the second quarter, there were several large transactions. Google announced that it is relocating and expanding from its current River North location into a newly, redeveloped 200,000 SF space at 1000 W. Fulton Street. Omnicom Group announced a 112,000 SF lease renewal at Michigan Plaza, while ComPsych renewed and expanded into nearly 130,000 SF at 455 N. Cityfront Plaza. In aggregate, the downtown market recorded slight negative net absorption as the second quarter's new leases were offset by several expirations and consolidations.

Direct gross average asking rates ended the second quarter at \$28.21, reflecting a nominal decline of \$0.13 over the previous quarter and \$0.34 lower versus one year ago. The North Michigan Avenue submarkets saw the largest decreases over previous quarter, reflecting the aggressive terms that some landlords are offering in order to lease some of the older space in this submarket.

Although it is not uncommon for overall rates to bounce around, it is important to note that top tier space in quality locations—the same type of space that successful companies are using to compete for talent—is commanding a premium. Class A space in the River North and West Loop submarkets continue to lead the CBD at \$40.10 per SF and \$32.34 per SF, respectively.

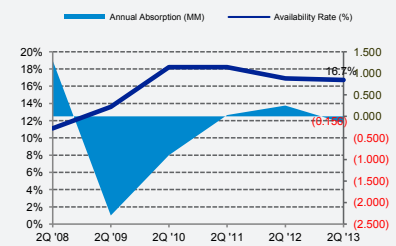
As previously reported, Hines broke ground on a major speculative office development earlier this year. This fact underscores a relatively positive outlook for the downtown office. It now appears that several investor groups—some of whom have been successful repositioning assets—may be poised to sell. Investor appetite for downtown properties appears to be improving as the fundamentals of the market have stabilized over the last several years. Nevertheless, a sharp rise in long-term interest rates at the end of the second quarter bears watching as this could dampen future investment sales.

2Q 2013

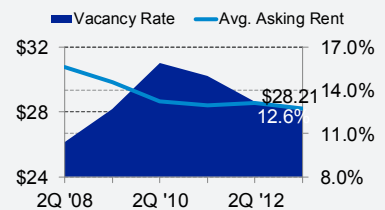
CBD Outlook

- Employers are competing aggressively for top-tier office space downtown, particularly in the River North and West Loop submarkets.
- Overall gross asking rental rates for Class A space are poised to rise, but concessions remain available less popular submarkets and difficult-to-lease space.
- Investment activity should increase with growing risk appetite, as long as interest rates do not continue to climb unabated.

Annual Absorption vs. Availability



Vacancy Rate vs. Average Asking Rent



Economic Indicators

	2Q 2013	2Q 2012
IL Unemployment	9.1%	8.8%
US Unemployment	7.6%	8.2%
US Consumer Confidence Index	81.4	62
Western TX Intermediate Price Per Barrel	\$102.43	\$84.90

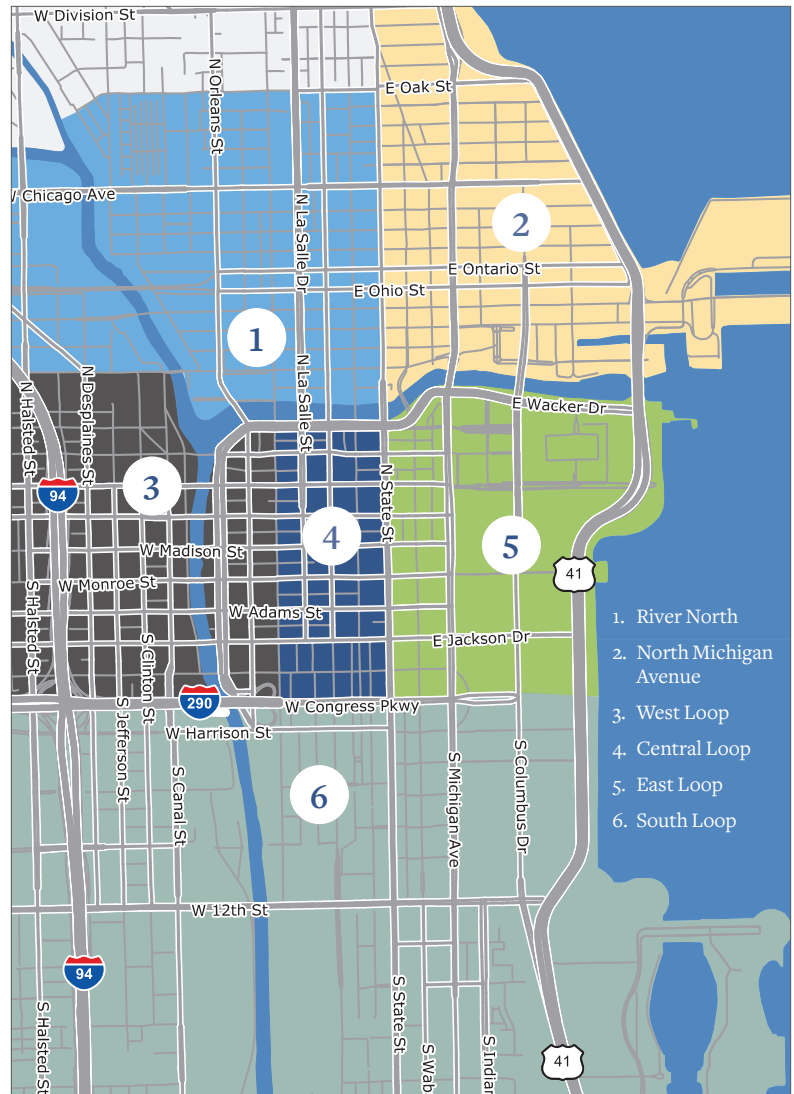
Market Overview

		2Q 2013	2Q 2012
Total Inventory (SF)	▲	168,870,473	167,837,483
Overall Vacancy	▼	12.6%	13.2%
Direct Vacancy	▼	11.8%	12.2%
Sublease Vacancy	▼	0.9%	1.0%
Overall Available	▼	16.7%	16.9%
Direct Available	▼	14.7%	14.8%
Sublease Available	▼	2.0%	2.1%
Gross Average Asking Rate (Overall)	▼	\$27.90	\$28.26
Gross Average Asking Rate (Direct)	▼	\$28.21	\$28.55
Current Net Absorption (SF)	▼	(10,031)	295,833
YTD Net Absorption (SF)	▼	(156,532)	245,561

Noteworthy Leases

Tenant	SF	Type	Submarket
Google 1000 W Fulton St	200,000	New	West Loop
Compsych 455 N Cityfront Plaza Dr	128,381	Renewal/ Expansion	North Michigan Avenue
Omnicom Group 205/225 N Michigan Ave	112,000	Renewal	East Loop
Trading Technologies 222 S Riverside Plz	73,000	Renewal/ Downsize	West Loop
U.S. Army Corps of Engineers 231 S LaSalle St	67,600	New	Central Loop

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	48,599,897	7,000,331	14.4%	11.6%	(95,672)	(188,010)	\$28.19	\$28.40
East Loop	27,675,712	5,272,560	19.1%	15.5%	178,334	226,144	\$27.16	\$27.48
North Michigan Avenue	17,379,206	3,762,498	21.6%	15.8%	(47,626)	(91,214)	\$23.93	\$23.99
River North	18,464,000	2,179,911	11.8%	9.6%	(84,322)	(16,294)	\$29.45	\$30.96
South Loop	4,550,886	654,261	14.4%	7.9%	6,207	122	\$17.59	\$17.62
West Loop	52,200,772	9,346,902	17.9%	12.4%	33,048	(87,280)	\$30.26	\$30.67
Market Totals (by Class)								
Class A	83,055,976	14,838,230	17.87%	14.14%	(121,862)	(68,566)	\$29.75	\$30.15
Class B	66,776,979	11,143,778	16.69%	11.33%	51,282	(167,699)	\$27.26	\$27.63
Class C	19,037,518	2,234,455	11.74%	10.40%	60,549	79,733	\$19.49	\$19.56
TOTALS	168,870,473	28,216,463	16.71%	12.58%	(10,031)	(156,532)	\$27.90	\$28.21