CHICAGO DOWNTOWN
Office Market Report

2Q 2014

▲ YTD Net Absorption 670,040 SF

▼ Availability 16.6%

◀▶ Gross Average Asking Rent (High Rise) $36.14

Downtown Office Market Recovery Speeds Up As Multiple Tenants Sign Expansions

Chicago's office market and the economy improved again this quarter. Despite a surprise contraction in 1Q GDP growth, the unemployment rate hit a low this June. National and statewide unemployment rates dropped to 6.1% and 7.9%, respectively. Both of these rates haven't been this low since 2008. The improving economy correlated into vacancy and availability rates decreasing YOY from 14.1% and 18.4% to 13.4% and 16.6%, respectively.

Availability has decreased due to a number of tenants expanding their office space in 2Q. For instance, KCura added 50,000 SF at 231 S LaSalle, with that it grows to 133,609 SF. Braintree doubled its size signing a lease for 60,000 SF at the Merchandise Mart. Financial services firm, Charles Schwab signed a lease to expand to 150,000 SF at 150 S Wacker. Numerous other firms like Lincoln International, Bswift, Ifbyphone and Punchkick Interactive all signed expansions as well this quarter.

Another healthy sign was positive absorption of 442,601 SF. A large move in at 330 N Wabash by law firm Latham & Watkins contributed to the 180,710 SF absorbed in the North Michigan Ave submarket. River North the submarket with the lowest vacancy, saw -27,836 SF absorbed though. The Chicago Sun-Times was the main contributor to the negative net absorption as they vacated over 100,000 SF at 350 N Orleans.

Asking rent for low, mid, and high rise space is $32.96, $34.87, and $36.14, respectively. Class A buildings in River North and West Loop have the widest gap in low and high rise asking rent. River North saw low and high rise rent at $36.97 and $41.56 and the West Loop asked $35.95 and $41.82, both respectively. The gap proves again this quarter that rent increases for better views in Class A buildings. Accompanied by vacancy and availability rates decreasing, asking rent for these two submarkets are expected to increase in the near future until more supply hits the market.

The largest sale announced this quarter will set a Chicago record for the highest price paid for an office building. California based Irvine Co. has entered a contract to buy 300 N LaSalle in River North for $850 million from KBS Realty Advisors. Other sales announced this quarter include 30 N LaSalle, 203 N LaSalle, 200 W Monroe, 33 N LaSalle, 70 W Madison, 200 W Jackson and 230 W Monroe. The capital market is very active as many investors are valuing vacant space as leasing conditions continue to improve.

Developing Story –
Sterling Bay Partners with IPDNA To Redevelop Old Main Post Office

Sterling Bay Companies announced this quarter that it will partner with IPDNA to redevelop the Old Main Post Office. $500 million will be going towards the first phase of renovations starting 4Q of this year. The vision is to convert the property into 2.7 million SF of modern office space and retail amenities. It was reported earlier this year that Walgreens has checked the building out as an alternative to its HQ in Deerfield, Illinois.

CBD Outlook

- As the economy continues to improve, vacancy and availability rates will decrease.
- Technology companies will drive positive net absorption as many will continue to expand in small increments.
- Asking rent will increase across the CBD, especially in the West Loop and River North submarkets until new supply hits the market in 2017.
- The capital markets will remain active due to a very saturated market of investors looking to purchase.

CBD Summary

		Q2 2014	Q2 2013
Total Inventory (SF)	◀▶	138,807,607	138,807,607
Overall Vacancy	▼	13.4%	14.1%
Direct Vacancy	▼	12.6%	13.2%
Sublease Vacancy	◀▶	0.9%	0.9%
Overall Available	▼	16.6%	18.4%
Direct Available	▼	14.6%	16.2%
Sublease Available	▼	2.0%	2.2%
Gross Average Asking Rate (CoStar)	▲	$29.50	$28.94
Current Net Absorption (SF)	▲	442,601	(10,031)
YTD Net Absorption (SF)	▲	670,040	(156,532)

Economic Indicators

	Q2 2014	Q2 2013
IL Unemployment	7.9%	9.1%
US Unemployment	6.1%	7.5%
US Consumer Confidence Index	85.2	81.4
West TX Intermediate Price Per Barrel	$104.51	$102.43

GLOSSARY OF TERMS

Inventory Expressed in rentable square feet, this area includes the usable area and its associated share of the common areas.

Available Space The total amount of space that is currently available for lease this quarter. Regardless if the space is vacant, occupied, available for sublease, or available at a future date.

Vacant Space Vacant space refers to all space not currently occupied by a tenant, regardless of any lease obligation that may be on the space.

Net Absorption For existing buildings, the measure of total rentable square feet occupied (indicated as a Move-In) less the total space vacated (indicated as a Move-Out) over a quarter or year to date.

Gross Asking Rent (Low-Rise) This represents the weighted average dollar amount the lessor is asking for in order to lease space in the bottom third of their building.

Gross Asking Rent (Mid-Rise) This represents the weighted average dollar amount the lessor is asking for in order to lease space in the middle third of their building.

Gross Asking Rent (High-Rise) This represents the weighted average dollar amount the lessor is asking for in order to lease space in the top third of their building.

*Source: CoStar Group

	Number of Buildings	Total Inventory (SF)	Total Available (SF)	Percent Available	Total Vacant (SF)	Vacancy Rate	Current Absorption (SF)	YTD Absorption (SF)	Gross Asking Rate (Low Rise)	Gross Asking Rate (Mid Rise)	Gross Asking Rate (High Rise)
Central Loop											
Class A	26	22,300,281	3,522,544	15.8%	2,892,262	13.0%	24,837	63,859	$38.88	$37.61	$39.72
Class B	34	14,592,750	2,463,605	16.9%	2,115,262	14.5%	135,340	136,389	$29.12	$30.01	$30.76
Class C	18	1,910,707	186,870	9.8%	157,667	8.3%	(10,040)	(20,844)	$24.29	$24.67	$24.02
TOTALS	**78**	**38,803,738**	**6,173,019**	**15.9%**	**5,165,191**	**13.3%**	**150,137**	**179,404**	**$33.36**	**$35.06**	**$34.81**
East Loop											
Class A	14	14,426,605	3,157,146	21.9%	2,857,178	19.8%	(20,056)	(9,588)	$31.92	$33.74	$36.64
Class B	17	5,506,366	822,348	14.9%	759,999	13.8%	1,015	(61,463)	$26.30	$27.15	$26.85
Class C	20	2,598,400	408,611	15.7%	293,580	11.3%	17,257	6,585	$22.00	$21.57	$21.85
TOTALS	**51**	**22,531,371**	**4,388,105**	**19.5%**	**3,910,757**	**17.4%**	**(1,784)**	**(64,466)**	**$30.50**	**$31.13**	**$33.56**
North Michigan Avenue											
Class A	10	6,166,307	1,222,425	19.8%	1,114,421	18.1%	117,264	162,111	$35.73	$38.03	$36.74
Class B	23	5,253,510	972,021	18.5%	738,363	14.1%	63,278	128,202	$32.52	$31.92	$32.01
Class C	5	266,400	47,119	17.7%	47,119	17.7%	168	5,110	$28.90	$23.07	$23.79
TOTALS	**38**	**11,686,217**	**2,241,565**	**19.2%**	**1,899,903**	**16.3%**	**180,710**	**295,423**	**$34.58**	**$35.27**	**$33.54**
River North											
Class A	7	4,295,394	509,686	11.9%	333,186	7.8%	37,248	128,883	$36.97	$41.73	$41.56
Class B	51	10,246,796	1,024,061	10.0%	856,891	8.4%	(67,274)	(99,466)	$34.29	$28.79	$27.30
Class C	51	2,687,670	342,040	12.7%	265,552	9.9%	2,190	(13,684)	$25.67	$26.91	$26.22
TOTALS	**109**	**17,229,860**	**1,875,787**	**10.9%**	**1,455,629**	**8.4%**	**(27,836)**	**15,733**	**$32.56**	**$34.93**	**$31.69**
South Loop											
Class B	6	1,076,360	204,011	19.0%	137,463	12.8%	(1,925)	(1,925)	$18.16	$17.88	$24.00
Class C	7	452,116	67,346	14.9%	62,676	13.9%	3,540	(6,062)	$19.23	$20.63	$20.67
TOTALS	**13**	**1,528,476**	**271,357**	**17.8%**	**200,139**	**13.1%**	**1,615**	**(7,987)**	**$18.20**	**$19.09**	**$22.30**
West Loop											
Class A	36	33,777,171	5,705,542	16.9%	3,994,630	11.8%	86,641	134,162	$35.95	$39.64	$41.82
Class B	35	11,155,363	2,219,091	19.9%	1,806,464	16.2%	50,536	86,048	$32.40	$32.20	$32.83
Class C	27	2,095,411	168,424	8.0%	131,349	6.3%	2,582	31,723	$23.71	$20.51	$23.03
TOTALS	**98**	**47,027,945**	**8,093,057**	**17.2%**	**5,932,443**	**12.6%**	**139,759**	**251,933**	**$34.62**	**$37.35**	**$39.60**
CBD											
Class A	93	80,965,758	14,117,343	17.4%	11,191,677	13.8%	245,934	479,427	$35.37	$37.75	$39.79
Class B	166	47,831,145	7,705,137	16.1%	6,414,442	13.4%	180,970	187,785	$29.72	$30.27	$30.64
Class C	128	10,010,704	1,220,410	12.2%	957,943	9.6%	15,697	2,828	$23.86	$22.86	$23.52
TOTALS	**387**	**138,807,607**	**23,042,890**	**16.6%**	**18,564,062**	**13.4%**	**442,601**	**670,040**	**$32.96**	**$34.87**	**$36.14**

*Survey method includes all multi-tenant office buildings with more than 20,000 SF in each submarket excluding all condo and government owned buildings.

Noteworthy Leases

Tenant	SF	Type	Submarket
Seyfarth Shaw *233 S Wacker*	200,000	New/Contraction	West Loop
JLL *200 E Randolph*	165,000	Renewal	East Loop
Charles Schwab *150 S Wacker*	105,000	Renewal/ Expansion	West Loop
Google *1000 W Fulton*	105,000	Expansion	River West
Wolverine Trading *175 W Jackson*	88,000	Extension	West Loop

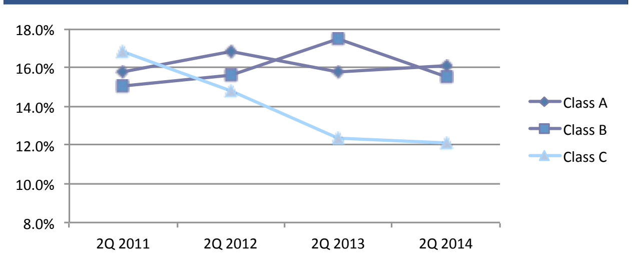
Largest Available Spaces

Building Address	SF	Class	Landlord
444 W Lake	440,000	A	Hines/Levy Joint Venture
515 N State	350,906	A	UBS Realty Investor
311 W Monroe	354,017	B	Golub & Company/ Archon Group, L.P.
200 E Randolph	339,761	A	Piedmont Office Realty Trust
131 S Dearborn	307,900	A	Dearborn Capital Group

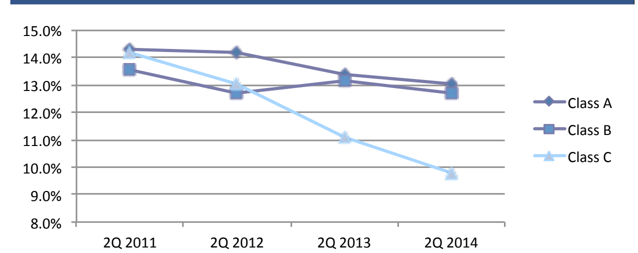
Sales Transactions

Submarket	Building Address	SF	Buyer	Seller	Price	Sale/Under Contract
River North	300 N LaSalle	1,302,901	Irvine Company	KBS Realty	$850,000,000	Under Contract
Central Loop	70 W Madison	1,439,369	Hearn Company	Hines	$375,000,000	Under Contract
Central Loop	30 N LaSalle	982,576	Amtrust Realty Corp. USA Inc.	Tishman Speyer	$237,500,000	Sale
Central Loop	230 W Monroe	623,524	Beacon Investment Properties	Lincoln Property Co./PIMCO	$122,000,000	Under Contract
Central Loop	203 N LaSalle	628,842	Sumitomo Corporation of America	M & J Wilkow/HCI Capital	$111,500,000	Sale

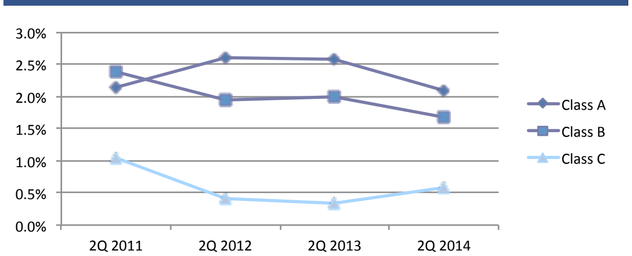
DIRECT AVAILABILITY



DIRECT VACANCY



SUBLET AVAILABILITY



SUBLET VACANCY