Chicago Downtown Office
MarketView

Q4 2013

CBRE Global Research and Consulting

US GDP (3Q) 4.1%	US UNEMPLOYMENT 6.6%	JOB GROWTH 30,000	S&P 500 9.9%

THE CHICAGO CBD CONCLUDES 2013 ON A POSITIVE NOTE

Quick Stats

Q4 2013		QoQ	YoY
Direct Vacancy	13.4%	↓	↓
Lease Rates	$33.45	↑	↑
Net Absorption	428,284	↑	↑
Under Construction	1,602,910	→	↑

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

**Top ticker shows change compared to previous quarter

Hot Topics

- Second consecutive quarter of positive absorption and declining vacancy.
- The CBD gross weighted asking rents exceeds previous peak, increasing for the seventh consecutive quarter.
- Twenty Class A & B office buildings totalling $3.3 billion have been sold in 2013.

Market Overview

The Chicago Central Business District (CBD) office market concluded with the strongest quarter of positive net absorption in 2013 at 428,284 sq. ft. This brings the year-to-date total to 492,695 sq. ft., marking the second consecutive quarter of positive absorption.

The positive absorption was largely due to activity in Class A properties in the West Loop, totaling 342,153 sq. ft. The main influences were financial institutions and accounting companies expanding throughout the CBD. Notable examples include: Wells Fargo occupying 233,252 sq. ft. at 10 S. Wacker as part of phased move-in, GE Capital expansion of 79,489 sq. ft. at 500 W. Monroe and PricewaterhouseCoopers' expansion of 39,783 sq. ft. at 1 N. Wacker.

The CBD experienced a slight decrease in large leases this quarter, with three transactions greater than 100,000 sq. ft., compared to five in the previous quarter. The most notable and largest of 2013 was GoGo Inc.'s new lease to relocate to a 231,868 sq. ft. space at 111 N. Canal. Other transactions included PricewaterhouseCoppers' 108,265 sq. ft. renewal/expansion at 1 N. Wacker and Humana's 97,050 sq. ft. renewal/expansion at 550 W Adams.

The continual movement in the CBD office market is putting a slight restriction on the number of quality available spaces. This is seen through the sparse availability in large blocks of space over 100,000 sq. ft. In Q4 2012, there were twenty large blocks of Class A space totaling 4 million sq. ft. Currently Class A space has seen a decrease in large blocks to thirteen, totaling 2.7 million sq. ft.

The overall vacancy rate declined for the second consecutive quarter to 14.4% from 14.7% last quarter and is down 260 basis points from the 2011 fourth quarter rate of 17.0%. In addition, direct vacancy declined 30 basis points from 13.7% to 13.4%, while sublease vacancy remained consistent from the previous quarter at 1.0%. Conversely, the CBD gross weighted asking rate increased for the seventh consecutive quarter. In the fourth quarter, the gross asking rate rose from $33.26 per sq. ft. to $33.45 and now exceeds all previous peaks.

2013 proved to be a solid year for investment sales. Fourth quarter volume was strong with seven sales totaling $1.8 billon, which accounts for 58% of the total year volume. Twenty CBD office buildings traded in 2013, totaling $3.3 billion compared to $2.4 billion in 2012, and a historical long term average of $2.4 billion per year. Sales volume was driven by an increase in large sales over $200 million. In 2012, only three assets valued over $200 million were sold. In 2013, eight transactions in this category traded, five of which occurred in the fourth quarter (200 S. Wacker, Citigroup Center, 10 & 120 S. Riverside, 181 W. Madison, and 161 N. Clark).

While there continues to be strong activity in the value add space, core transactions increased notably in 2013 as owners have executed their business plans and are looking to take advantage of ideal capital market conditions. Five core sales totaling $1.0 billion occurred in 2013 versus only one core sale of $111 million in 2012. While core cap rates are hovering around 6.0%, it should be noted that in three of five cases core office cap rates dipped below 6.0% in 2013.

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Table 1: Chicago Downtown Statistics

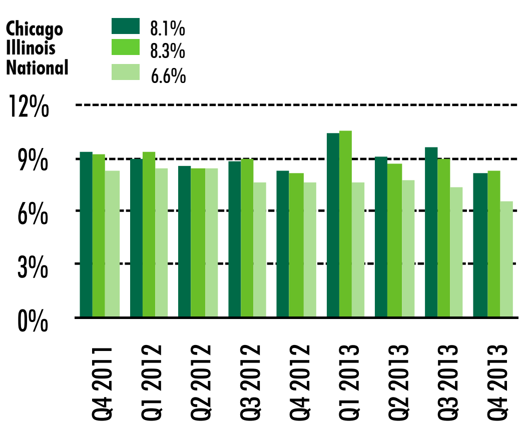
Submarket	Rentable Building Area SF	Direct Vacant SF	Direct Vacancy Rate (%)	Sublease Vacancy Rate (%)	Total Vacancy Rate (%)*	Q4 2013 Net Absorption SF	2013 Net Absorption	Under Construction SF***	Gross Asking Lease Rates PSF
Central Loop**	**36,990,566**	**4,930,249**	**13.3%**	**1.2%**	**14.6%**	**(19,912)**	**104,638**	**-**	**$31.47**
Class A	10,024,936	1,148,463	11.5%	2.8%	14.2%	11,555	(37,572)	-	$38.19
Class B	19,307,395	2,542,207	13.2%	0.9%	14.0%	70,990	164,567	-	$31.68
Class C	7,658,235	1,239,579	16.2%	0.1%	16.3%	(102,457)	(22,357)	-	$24.81
East Loop	**23,723,256**	**3,952,025**	**16.7%**	**0.4%**	**17.0%**	**(72,678)**	**(16,171)**	**-**	**$31.08**
Class A	5,368,236	632,962	11.8%	0.0%	11.8%	(37,205)	23,294	-	$37.79
Class B	11,350,319	2,288,228	20.2%	0.5%	20.7%	44,327	(24,018)	-	$31.77
Class C	7,004,701	1,030,835	14.7%	0.4%	15.1%	(79,800)	(15,447)	-	$25.31
North Michigan Ave	**11,882,200**	**1,999,212**	**16.8%**	**0.5%**	**17.3%**	**124,117**	**(72,403)**	**-**	**$34.64**
Class A	5,512,611	1,101,930	20.0%	0.8%	20.8%	37,464	(32,693)	-	$36.44
Class B	5,347,737	746,891	14.0%	0.3%	14.2%	85,142	(65,148)	-	$33.53
Class C	1,021,852	150,391	14.7%	0.2%	14.9%	1,511	25,438	-	$24.61
River North**	**11,322,800**	**775,172**	**6.8%**	**2.8%**	**9.6%**	**90,716**	**(145,474)**	**-**	**$35.39**
Class A	2,704,148	137,560	5.1%	0.6%	5.7%	(2,686)	6,569	-	$45.00
Class B	6,349,373	527,569	8.3%	4.7%	13.0%	73,540	(171,773)	-	$35.93
Class C	2,269,279	110,043	4.8%	0.0%	4.8%	19,862	19,730	-	$23.55
West Loop	**44,254,385**	**5,513,511**	**12.5%**	**0.9%**	**13.4%**	**306,041**	**622,105**	**1,602,910**	**$35.69**
Class A	20,883,972	2,492,080	11.9%	1.3%	13.2%	342,153	526,929	1,602,910	$39.16
Class B	18,959,460	2,495,429	13.2%	0.6%	13.7%	(96,153)	113,153	-	$33.20
Class C	4,410,953	526,002	11.9%	0.9%	12.8%	60,041	(17,977)	-	$29.44
Total CBD	**128,173,207**	**17,170,169**	**13.4%**	**1.0%**	**14.4%**	**428,284**	**492,695**	**1,602,910**	**$33.45**
Class A	44,493,903	5,512,995	12.4%	1.4%	13.7%	351,281	486,527	1,602,910	$38.48
Class B	61,314,284	8,600,324	14.0%	1.1%	15.1%	177,846	16,781	-	$32.72
Class C	22,365,020	3,056,850	13.7%	0.3%	14.0%	(100,843)	(10,613)	-	$25.85

**Total Vacancy Rate May Not Add Up Due To Rounding **The Boundary Between River North And Central Loop Was Adjusted During Q1 2013*

****Under Construction Includes Redevelopment As Well As New Construction*

Source: CBRE Research, Q4 2013

Chart 1: Unemployment



Source: Bureau of Labor Statistics, December 2013.

According to the US Department of Labor's Not Seasonally Adjusted statistics, the US unemployment rate saw a decrease in unemployment to 6.6%, down 60 basis points from August. The current rate is a new low for the past 61 months. Employment in transportation and warehousing saw large gains with employment in truck transportation as well as couriers and messengers, in particular, seeing generous increases during the past month. The seasonal unemployment rate declined to 7.0%, it's lowest rate since November of 2008.

The most recent monthly Not Seasonally Adjusted unemployment figures for Illinois show a preliminary rate of 8.3% for November, down 60 basis points since August. The Chicago metropolitan area unemployment statistics reported a preliminary rate of 8.1%, a decrease of 110 basis points since August.

Table 2: Top Lease Transactions

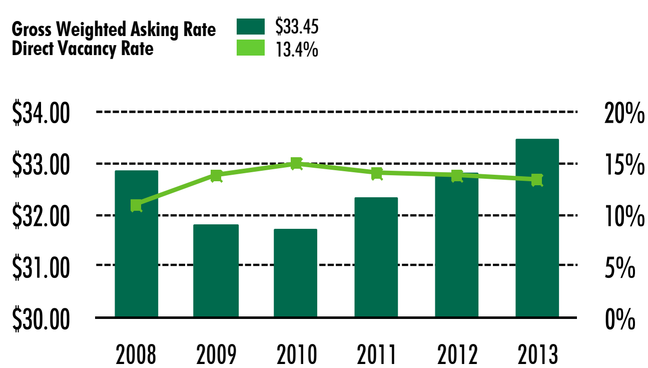
Tenant	Size (SF)	Address	Transaction Type
GoGo, Inc.	231,868	111 N Canal St	Relocation
PricewaterhouseCoopers	108,265	1 N Wacker Dr	Renewal/Expansion
Humana	97,050	550 W Adams St	Renewal/Expansion
Sprout Social LLC	64,125	131 S Dearborn St	Sublease
CBRE	61,431	321 N Clark St	Relocation
NYSE	51,488	100 S Wacker Dr.	Renewal

Source: CBRE Research, Q4 2013.

Outlook

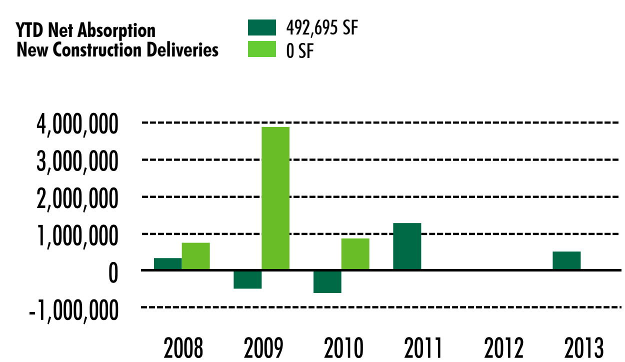
Looking ahead, it is expected that the CBD office market will see a return to previous trends, showing moderate positive net absorption and decreasing vacancy rates. However, current market trends, including workplace strategy and efficiency could hinder genuine expansion with tenants seeking to become more efficient in their space use while aiming to create more productive and flexible work environments. Tenants may look to consolidate for efficiency, especially when divisions and service lines are separated across different floors and properties. As quality product is taken off the market, redevelopment will continue to impact market conditions. As a result, well capitalized owners are now willing to spend money to improve space and amenities at existing properties. The market continues to see more Class C properties being converted into retail, hotel and residential usage, potentially impacting CBD rental rates and available inventory.

Chart 2: Direct Vacancy Rate/Gross Asking Rate



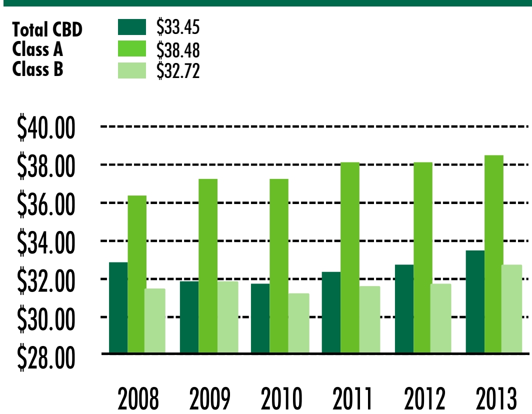
Source: CBRE Research, Q4 2013

Chart 3: Net Absorption/Construction Deliveries



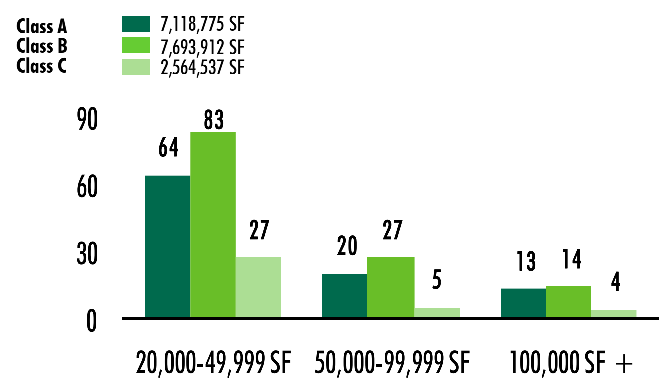
Source: CBRE Research, Q4 2013

Chart 4: Gross Weighted Asking Rates

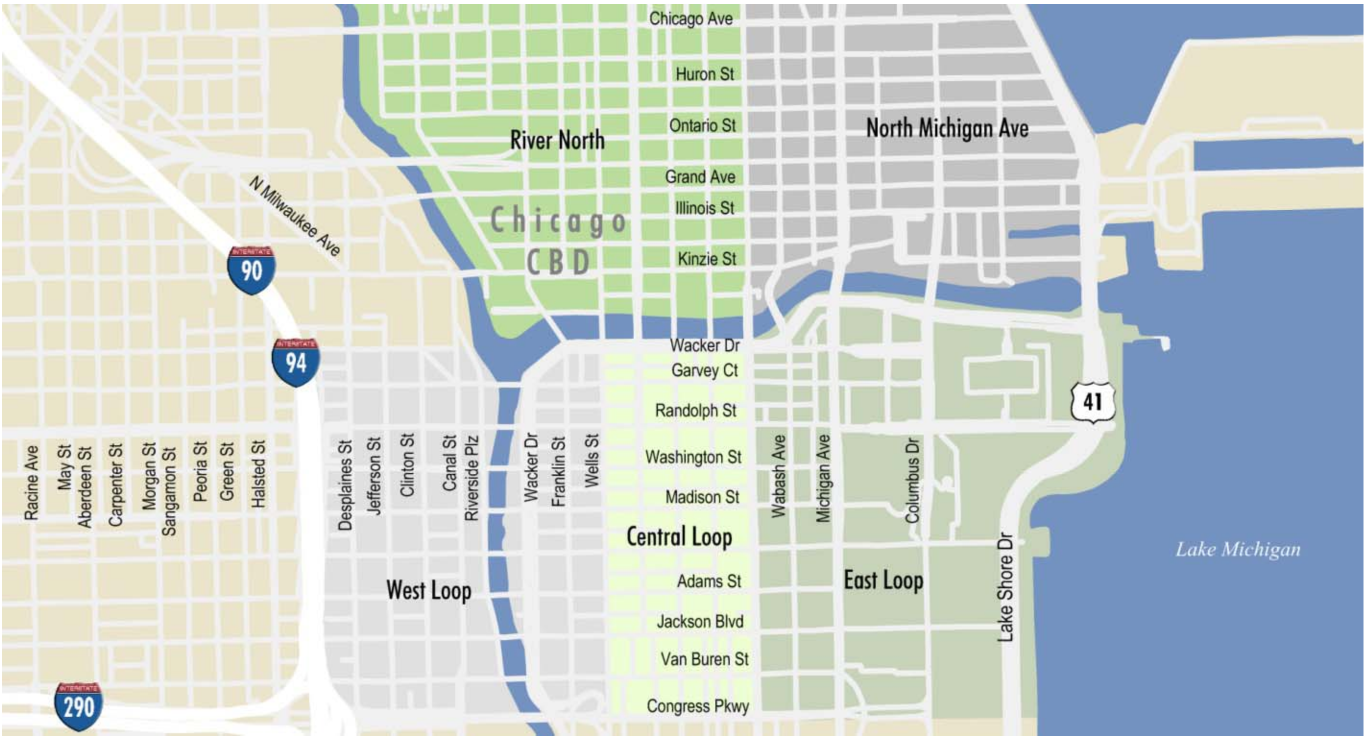


Source: CBRE Research, Q4 2013

Chart 5: Chicago Total Available Big Blocks



Source: CBRE Research, Q4 2013



CONTACTS

For more information about this Local MarketView, please contact:

Chicago Office Research

Clint Ridgewell
Senior Research Analyst
Chicago Research
CBRE
311 S Wacker Dr, Suite 400
Chicago, IL 60606
t: 312 935 1919
e: clinton.ridgewell@cbre.com

Jeremiah Olsen
Research Analyst
Chicago Research
CBRE
311 S Wacker Dr, Suite 400
Chicago, IL 60606
t: 312 297 7693
e: jeremiah.olsen@cbre.com

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