

Chicago Suburban 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%

SUBURBAN MARKET FINISHES STRONG YEAR

Quick Stats

Q4 2013		QoQ	YoY
Direct Vacancy	20.0%	↑	↓
Lease Rates	\$21.20	↑	↑
Net Absorption	23,459	↓	↓
Under Construction	0	→	→

*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

- Ninth consecutive quarter of positive absorption.
- The yearly absorption for the market topped one million sq. ft. for the first time in seven years.
- There were thirty-one sales of class A and B properties during the year totaling \$977.5 million with nine properties currently under contract for \$183.3 million.

Market Overview

Chicago's Suburban Market slowed during the final quarter of the year. Despite finishing with a strong year statistically, the market still has many hurdles that will need to be overcome in order to achieve future success.

The suburban market's net absorption totaled 1,289,406 sq. ft. for the year despite this quarter's contribution of only 23,459 sq. ft. This is the first time since 2006 that the yearly total absorption has been over a million sq. ft. of positive absorption. The main contributions during the quarter included SIRVA's relocation to 53,372 sq. ft. in Oakbrook Terrace and American Imaging Management's expansion of 32,393 sq. ft. in Deerfield. The quarter as a whole lacked movement as none of the submarkets experienced more than 150,000 sq. ft. of absorption in either direction. The submarket that performed the best during the quarter was the North Suburban submarket, which totaled 114,262 sq. ft. of positive absorption.

Leasing activity in the suburban market continues to be stagnant. There was only one deal over 100,000 sq. ft., which was Zebra Technologies. The company signed a sublease that will turn into a direct deal for 230,000 sq. ft. at 3 Overlook Point in Lincolnshire. One of the main concerns continues to be large tenants moving outside of the market. GoGo, Inc. will be relocating from Itasca to the CBD when their new lease at 111 N. Canal commences. In addition, OfficeMax has decided to relocate from Naperville to Boca Raton after merging with Office Depot.

Despite the small positive absorption seen during the quarter, the direct vacancy actually increased slightly from 19.9% to 20.0%. The reason for the small increase was due to the addition of 544 Lakeview Parkway in Vernon Hills to the inventory after qualifying as a multi-tenant property. The total vacancy rate remained at 20.8%, as the sublease rate decreased slightly from 0.9% to 0.8% since the beginning of the quarter. Over the course of the year, the Northwest submarket experienced the largest drop in direct vacancy, decreasing by 270 basis points since the end of last year and finishing the year with a rate of 22.6%. Overall gross asking rates increased for a fourth consecutive quarter, up \$0.41 since this time last year, finishing the year with a gross weighted average of \$21.20 per sq.ft.

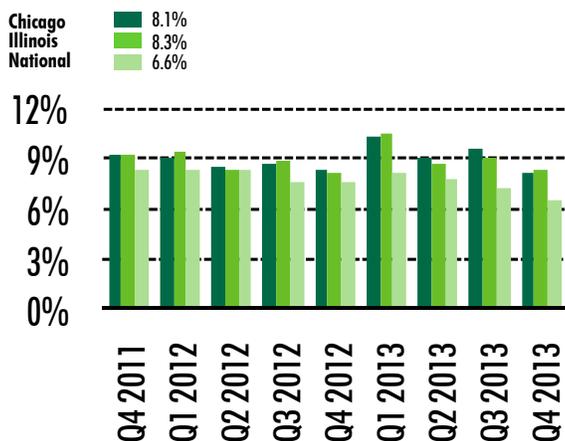
The investment sales market showed signs of improvement in 2013. Suburban sales volume continues to increase at a steady pace. There were thirty-one sales totaling \$977.5 million in 2013 compared to twenty six sales totaling \$758 million in 2012. Larger stabilized transactions are starting to increase as institutional capital is slowly starting to show an increased interest in high-quality stabilized assets. For example, there were four multi-tenant sales over \$50 million in 2013 versus only one in 2012 and the sale of the Central Park of Lisle represented the first sale of a multi-tenant office buildings over \$100 million since 2008. A historically wide spread between the cost of debt and equity is resulting in a very attractive risk adjusted investment opportunity in the suburbs.

Table 1: Suburban 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
East-West Tollway	40,889,732	7,476,079	18.3%	0.5%	18.8%	15,384	179,308	-	\$21.17
Class A	12,853,765	1,725,149	13.4%	0.9%	14.3%	(51,852)	68,308	-	\$25.98
Class B	18,970,464	3,827,618	20.2%	0.4%	20.6%	24,134	61,339	-	\$20.67
Class C	9,065,503	1,923,312	21.2%	0.2%	21.5%	43,102	49,661	-	\$16.24
North Suburban**	24,222,309	4,332,911	17.9%	1.6%	19.5%	114,262	298,177	-	\$23.82
Class A	9,086,030	1,206,663	13.3%	3.5%	16.8%	22,584	189,158	-	\$27.20
Class B	10,564,178	2,277,417	21.6%	0.6%	22.2%	75,269	(86,157)	-	\$23.42
Class C	4,572,101	848,831	18.6%	0.1%	18.6%	16,409	195,176	-	\$19.26
Northwest Suburbs	28,185,574	6,372,556	22.6%	0.6%	23.2%	(139,469)	702,993	-	\$19.57
Class A	12,948,746	2,456,368	19.0%	0.9%	19.8%	(68,917)	258,065	-	\$22.64
Class B	9,248,960	2,207,636	23.9%	0.3%	24.2%	(48,990)	378,099	-	\$19.04
Class C	5,987,868	1,708,552	28.5%	0.5%	29.0%	(21,562)	66,829	-	\$15.66
O'Hare	13,711,327	2,887,320	21.1%	0.8%	21.9%	39,282	42,245	-	\$22.60
Class A	7,082,046	1,066,820	15.1%	0.8%	15.9%	19,571	(39,364)	-	\$28.75
Class B	3,419,365	863,136	25.2%	1.2%	26.4%	10,186	79,464	-	\$20.87
Class C	3,209,916	957,364	29.8%	0.3%	30.1%	9,525	2,145	-	\$15.82
South Suburbs	2,453,729	603,612	24.6%	0.0%	24.6%	9,338	67,452	-	\$15.45
Class A	263,000	99,253	37.7%	0.0%	37.7%	0	2,568	-	\$15.77
Class B	1,315,323	301,730	22.9%	0.0%	22.9%	8,526	48,480	-	\$16.37
Class C	875,406	202,629	23.1%	0.0%	23.1%	812	16,404	-	\$14.08
West Cook	1,098,104	396,493	36.1%	0.0%	36.1%	(15,338)	(769)	-	\$16.61
Class A	0	0	0.0%	0.0%	0.0%	0	0	-	\$0.00
Class B	88,800	7,610	8.6%	0.0%	8.6%	2,157	(2,754)	-	\$25.00
Class C	1,009,304	388,883	38.5%	0.0%	38.5%	(17,495)	1,985	-	\$16.32
Total Suburban	110,560,775	22,068,971	20.0%	0.8%	20.8%	23,459	1,289,406	-	\$21.20
Class A	42,233,587	6,554,253	15.5%	1.4%	17.0%	(78,614)	478,735	-	\$25.38
Class B	43,607,090	9,485,147	21.8%	0.5%	22.2%	71,282	478,471	-	\$20.86
Class C	24,720,098	6,029,571	24.4%	0.3%	24.6%	30,791	332,200	-	\$16.35

Source: CBRE Research, Q4 2013 *Total Vacancy Rate May Not Add Up Due To Rounding **544 Lakeview Pky in Vernon Hills was added to the inventory

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%, its lowest rate since November of 2008.

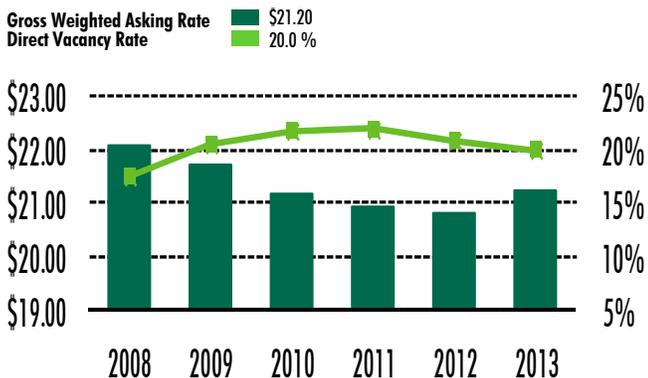
The most recent monthly Not Seasonally Adjusted unemployment figures for Illinois show a preliminary rate of 8.3% for November, down 60 basis points since August. The Chicago metropolitan area unemployment statistics reported a preliminary rate of 8.1%, a decrease of 110 basis points since August.

Table 2: Top Lease Transactions

Tenant	Size (SF)	Address	Transaction Type
Zebra Technologies	230,000	3 Overlook Point, Lincolnshire	Relocation/Sublease & Direct
Canon Solutions America	88,588	425 N Martingale Rd, Schaumburg	Extension/Expansion
GSA	79,407	2443 Warrenville Rd, Lisle	Extension
Flexera Software	75,000	300 Park Blvd, Itasca	Relocation
Omron Corp	70,199	2895 Greenspoint Pky, Hoffman Estates	Relocation
Middough, Inc	68,748	700 Commerce Dr, Oak Brook	Renewal

Source: CBRE Research, Q4 2013

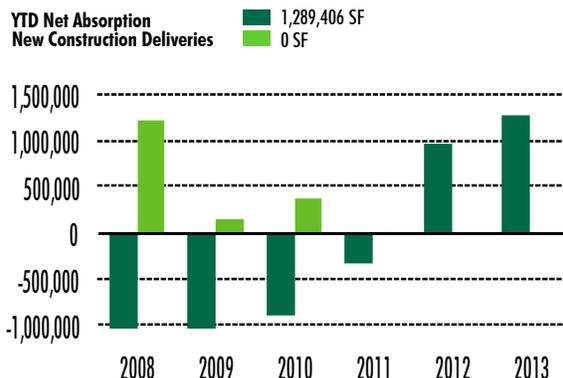
Chart 2: Direct Vacancy Rate/Gross Asking Rate



Source: CBRE Research, Q4 2013

Direct vacancy increased during the Q4 2013 to 20.0%. The current rate is a decrease of 90 basis points since the end of last year. The gross weighted asking rate was \$21.20 for the quarter, up \$0.41 from one year ago.

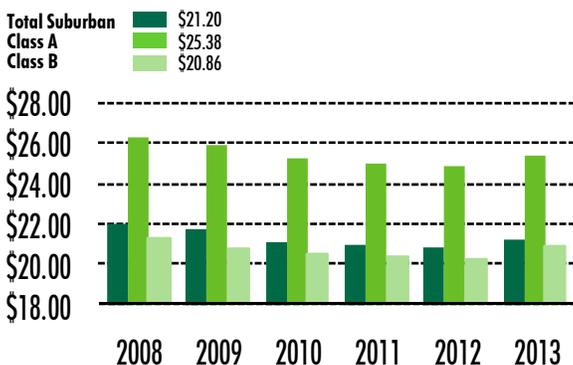
Chart 3: Net Absorption/Construction Deliveries



Source: CBRE Research, Q4 2013

The net positive absorption for the fourth quarter was 23,459 sq. ft., bringing the year-end total to 1,289,406 sq. ft. No multi-tenant projects are currently under construction.

Chart 4: Gross Weighted Asking Rates

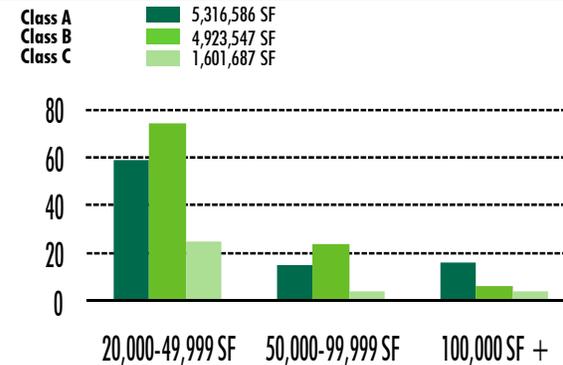


Source: CBRE Research, Q4 2013

Gross weighted asking rates increased slightly, up \$0.14 since the Q3 2013, registering at \$21.20 per sq. ft.

Class A properties had an average asking rate of \$25.38 per sq. ft., an increase of \$0.08 from the Q3 2013. Class B properties had an average asking rate of \$20.86 per sq. ft., an increase of \$0.09 from the Q3 2013.

Chart 5: Large Available Blocks of Space



Source: CBRE Research, Q4 2013

There are currently twenty-six blocks of space available over 100,000 sq. ft. totaling 4,152,171 sq. ft. The number of available blocks between 50,000 sq. ft. and 100,000 sq. ft. is forty-three, totaling 2,960,676 sq. ft. Lastly, there are one hundred and fifty-eight blocks of available space between 20,000 sq. ft. and 50,000 sq. ft., totaling 4,728,973 sq. ft.

