

# CHICAGO OFFICE MARKET



## OVERVIEW

### CHICAGO'S VACANCY DECREASES TO 15.5% Net Absorption Positive 1,204,806 SF in the Quarter

The Chicago Office market ended the fourth quarter 2010 with a vacancy rate of 15.5%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 1,204,806 square feet in the fourth quarter. Vacant sublease space increased in the quarter, ending the quarter at 5,659,053 square feet. Rental rates ended the fourth quarter at \$23.18, an increase over the previous quarter. A total of one building delivered to the market in the quarter totaling 8,000 square feet, with 778,250 square feet still under construction at the end of the quarter.

#### Absorption

Net absorption for the overall Chicago office market was positive 1,204,806 square feet in the fourth quarter 2010. That compares to positive 509,461 square feet in the third quarter 2010, positive 708,629 square feet in the second quarter 2010, and negative (508,599) square feet in the first quarter 2010.

Tenants moving out of large blocks of space in 2010 include: American Hospital Association moving out of 119,171 square feet at One North Franklin Bldg; Citigroup moving out of 116,683 square feet at 227 W Monroe St; and UTStarcom moving out of 76,720 square feet at Atrium Corporate Center.

Tenants moving into large blocks of space in 2010 include: FDIC moving into 150,120 square feet at 200 N Martingale Rd; DeVry, Inc. moving into 145,077 square feet at Highland Landmark V; and BP moving into 120,618 square feet at CME Center.

The Class-A office market recorded net absorption of positive 1,246,205 square feet in the fourth quarter 2010, compared to positive 132,877 square feet in the third quarter 2010, positive

445,489 in the second quarter 2010, and negative (120,404) in the first quarter 2010.

The Class-B office market recorded net absorption of positive 140,546 square feet in the fourth quarter 2010, compared to positive 319,807 square feet in the third quarter 2010, positive 160,141 in the second quarter 2010, and negative (236,855) in the first quarter 2010.

The Class-C office market recorded net absorption of negative (181,945) square feet in the fourth quarter 2010 compared to positive 56,777 square feet in the third quarter 2010, positive 102,999 in the second quarter 2010, and negative (151,340) in the first quarter 2010.

Net absorption for Chicago's central business district was positive 215,680 square feet in the fourth quarter 2010. That compares to positive 22,000 square feet in the third quarter 2010, positive 480,168 in the second quarter 2010, and negative (735,651) in the first quarter 2010.

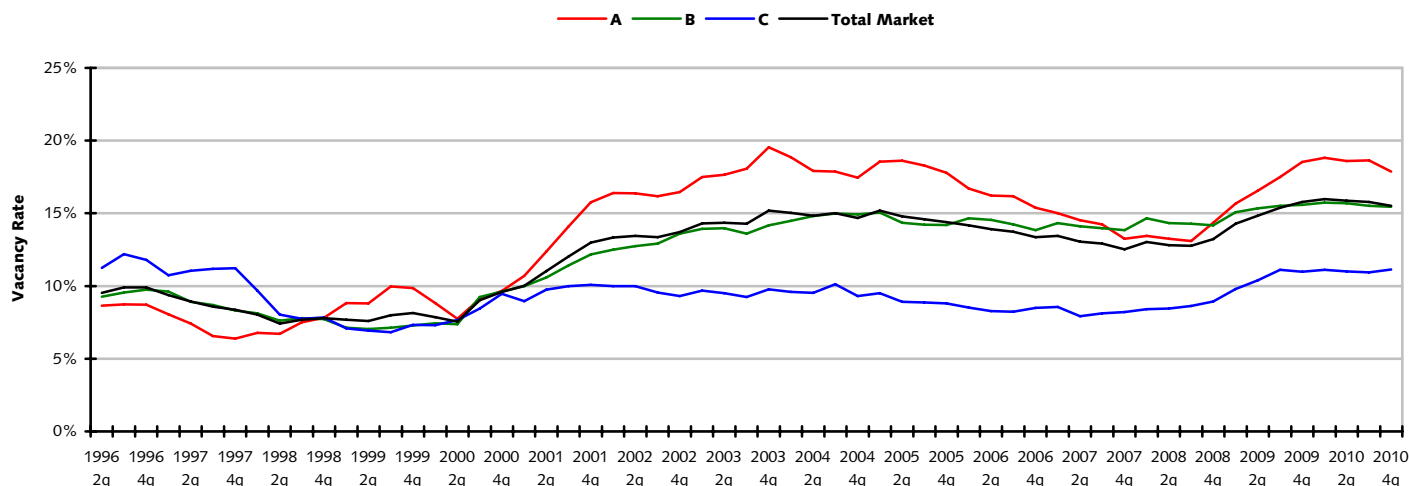
Net absorption for the suburban markets was positive 989,126 square feet in the fourth quarter 2010. That compares to positive 487,461 square feet in third quarter 2010, positive 228,461 in the second quarter 2010, and positive 227,052 in the first quarter 2010.

#### Vacancy

The office vacancy rate in the Chicago market area decreased to 15.5% at the end of the fourth quarter 2010. The vacancy rate was 15.8% at the end of the third quarter 2010, 15.9% at the end of the second quarter 2010, and 16.0% at the end of the first quarter 2010.

Class-A projects reported a vacancy rate of 17.9% at the

### VACANCY RATES BY CLASS 1996-2010



Source: CoStar Property®

end of the fourth quarter 2010, 18.6% at the end of the third quarter 2010, 18.6% at the end of the second quarter 2010, and 18.8% at the end of the first quarter 2010.

Class-B projects reported a vacancy rate of 15.5% at the end of the fourth quarter 2010, 15.5% at the end of the third quarter 2010, 15.7% at the end of the second quarter 2010, and 15.7% at the end of the first quarter 2010.

Class-C projects reported a vacancy rate of 11.1% at the end of the fourth quarter 2010, 10.9% at the end of third quarter 2010, 11.0% at the end of the second quarter 2010, and 11.1% at the end of the first quarter 2010.

The overall vacancy rate in Chicago's central business district at the end of the fourth quarter 2010 decreased to 14.5%. The vacancy rate was 14.6% at the end of the third quarter 2010, 14.6% at the end of the second quarter 2010, and 14.9% at the end of the first quarter 2010.

The vacancy rate in the suburban markets decreased to 16.2% in the fourth quarter 2010. The vacancy rate was 16.5% at the end of the third quarter 2010, 16.6% at the end of the second quarter 2010, and 16.7% at the end of the first quarter 2010.

### Largest Lease Signings

The largest lease signings occurring in 2010 included: the 381,800-square-foot lease signed by UBS at One North Wacker in the Metro Chicago market; the 317,198-square-foot lease signed by Career Education Corporation at Woodfield Pointe Office Center in the Northwest market; and the 161,740-square-foot lease signed by Neal, Gerber & Eisenberg LLP at Two North LaSalle in the Central Loop market.

### Sublease Vacancy

The amount of vacant sublease space in the Chicago market increased to 5,659,053 square feet by the end of the fourth quarter 2010, from 5,537,836 square feet at the end of the third quarter 2010. There was 5,663,605 square feet vacant at the end

of the second quarter 2010 and 6,010,102 square feet at the end of the first quarter 2010.

Chicago's Class-A projects reported vacant sublease space of 3,626,882 square feet at the end of fourth quarter 2010, up from the 3,596,733 square feet reported at the end of the third quarter 2010. There were 3,683,270 square feet of sublease space vacant at the end of the second quarter 2010, and 3,762,594 square feet at the end of the first quarter 2010.

Class-B projects reported vacant sublease space of 1,842,250 square feet at the end of the fourth quarter 2010, up from the 1,716,871 square feet reported at the end of the third quarter 2010. At the end of the second quarter 2010 there were 1,731,803 square feet, and at the end of the first quarter 2010 there were 2,008,841 square feet vacant.

Class-C projects reported decreased vacant sublease space from the third quarter 2010 to the fourth quarter 2010. Sublease vacancy went from 224,232 square feet to 189,921 square feet during that time. There was 248,532 square feet at the end of the second quarter 2010, and 238,667 square feet at the end of the first quarter 2010.

Sublease vacancy in Chicago's central business district stood at 2,590,056 square feet at the end of the fourth quarter 2010. It was 2,397,770 square feet at the end of the third quarter 2010, 2,526,647 square feet at the end of the second quarter 2010, and 2,809,675 square feet at the end of the first quarter 2010.

Sublease vacancy in the suburban markets ended the fourth quarter 2010 at 3,068,997 square feet. At the end of the third quarter 2010 sublease vacancy was 3,140,066 square feet, was 3,136,958 square feet at the end of the second quarter 2010, and was 3,200,427 square feet at the end of the first quarter 2010.

### Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$23.18 per square foot per year at the end of the fourth quarter 2010 in the Chicago market area. This represented a 2.7% increase in quoted rental rates from the end of the third quarter 2010, when rents were reported at \$22.56 per square foot.

The average quoted rate within the Class-A sector was \$27.52 at the end of the fourth quarter 2010, while Class-B rates stood at \$20.32, and Class-C rates at \$17.27. At the end of the third quarter 2010, Class-A rates were \$26.81 per square foot, Class-B rates were \$20.15, and Class-C rates were \$16.98.

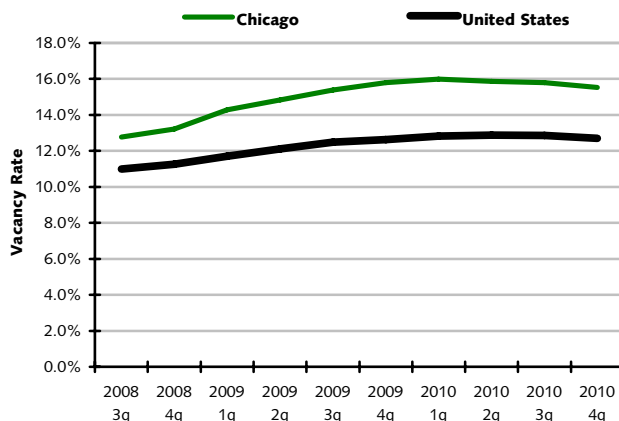
The average quoted asking rental rate in Chicago's CBD was \$29.25 at the end of the fourth quarter 2010, and \$19.86 in the suburban markets. In the third quarter 2010, quoted rates were \$28.40 in the CBD and \$19.34 in the suburbs.

### Deliveries and Construction

During the fourth quarter 2010, one building totaling 8,000 square feet were completed in the Chicago market area. This compares to five buildings totaling 248,200 square feet that were com-

## U.S. VACANCY COMPARISON

### Past 10 Quarters



Source: CoStar Property\*

## CHICAGO OFFICE MARKET



## OVERVIEW

pleted in the third quarter 2010, eight buildings totaling 200,898 square feet completed in the second quarter 2010, and 483,457 square feet in six buildings completed in the first quarter 2010.

There were 778,250 square feet of office space under construction at the end of the fourth quarter 2010.

Some of the notable 2010 deliveries include: Panduit World Headquarters, a 280,000-square-foot facility that delivered in first quarter 2010 and is now 100% occupied, and Rosemont Corporate Center, a 119,000-square-foot building that delivered in second quarter 2010 and is now 75% occupied.

The largest projects underway at the end of fourth quarter 2010 were Astellas US HQ - Building 1, a 208,000-square-foot building with 100% of its space pre-leased, and Astellas US HQ - Building 2, a 208,000-square-foot facility that is 100% pre-leased.

### Inventory

Total office inventory in the Chicago market area amounted to 447,704,258 square feet in 11,943 buildings as of the end of the fourth quarter 2010. The Class-A office sector consisted of 163,640,610 square feet in 549 projects. There were 5,682 Class-B buildings totaling 199,283,041 square feet, and the Class-C sector consisted of 84,780,607 square feet in 5,712 buildings. Within the Office market there were 477 owner-occupied buildings accounting for 25,728,119 square feet of office space.

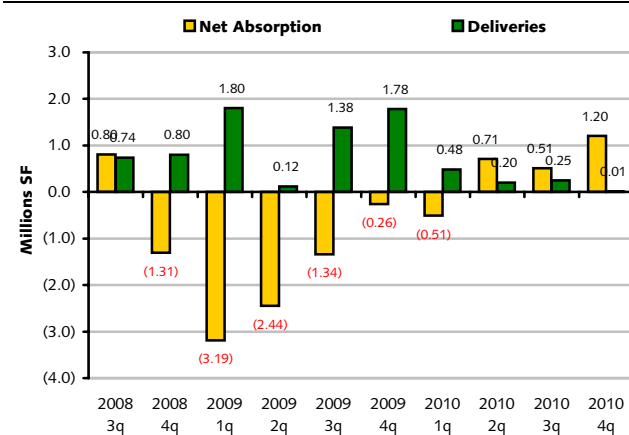
### Sales Activity

Tallying office building sales of 15,000 square feet or larger, Chicago office sales figures rose during the third quarter 2010 in terms of dollar volume compared to the second quarter of 2010.

In the third quarter, 20 office transactions closed with a total volume of \$770,592,000. The 20 buildings totaled 2,881,909 square feet and the average price per square foot equated to \$267.39 per square foot. That compares to 20 transactions totaling \$248,080,375 in the second quarter 2010. The total square footage in the second quarter was 3,058,736 square feet for an average price per square foot of \$81.11.

## ABSORPTION & DELIVERIES

### Past 10 Quarters



Source: CoStar Property\*

Total office building sales activity in 2010 was up compared to 2009. In the first nine months of 2010, the market saw 56 office sales transactions with a total volume of \$1,060,311,375. The price per square foot averaged \$158.71. In the same first nine months of 2009, the market posted 35 transactions with a total volume of \$548,993,790. The price per square foot averaged \$146.36.

Cap rates have been higher in 2010, averaging 8.97% compared to the same period in 2009 when they averaged 7.48%.

One of the largest transactions that has occurred within the last four quarters in the Chicago market is the sale of 300 N LaSalle Dr in Chicago. This 1,302,901-square-foot office building sold for \$655,000,000, or \$502.72 per square foot. The property sold on 7/29/2010, at a 6.34% cap rate.

Reports compiled by: Joe Mehok, CoStar Research Manager.