Market Review & Outlook

Review: Cost of Space Hits New Peak

Office-using employment rose by 1.4% in the region in 2015. More suburban businesses relocated some or all of their operations Downtown and companies invested in their workplace and workforce. The Class A availability rate fell below 15.0% for the first time since 2008. Leasing volume totaled 9.3 msf during 2015 and nearly two-thirds of the new construction underway has been pre-leased. Tenant effective rent in the top tier of Class A properties pushed to a new record.

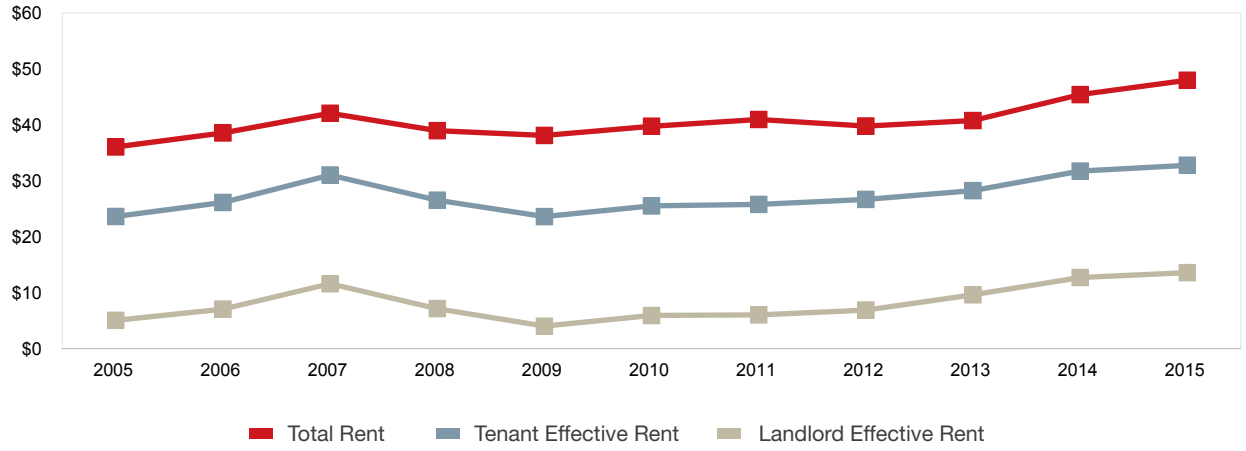
	2015	% Change
Net Rent	$28.90	9.1
Operating Expenses	8.80	0.6
Real Estate Taxes	8.50	1.2
Tenant Electricity	1.80	0.0
Total Rent	48.00	5.6
Amortized Concessions	-15.18	11.1
Tenant Effective Rent	**32.82**	**3.2**
Landlord Effective Rent	**13.65**	**6.9**

Outlook: Another Year of Higher Costs Likely

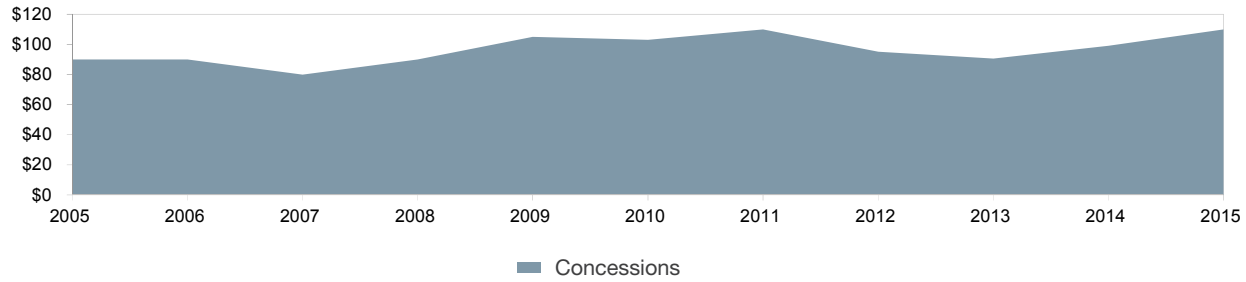
Tenants taking space in Downtown's highest-caliber properties will face additional rental rate hikes in 2016. Tenant effective rent is likely to register its fourth straight year of material increase. Rental rate appreciation could moderate by 2017, though, as tenant relocations and consolidations play out.

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Rent Trends



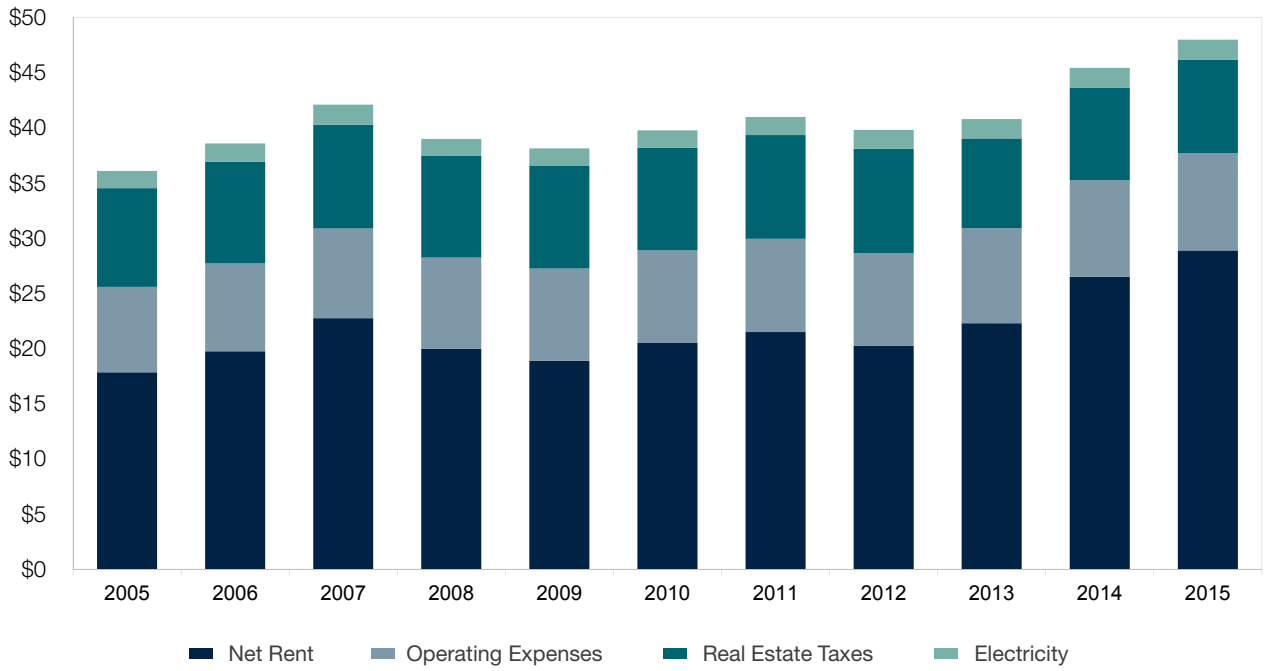
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Total Rent	$36.10	$38.59	$42.11	$39.00	$38.15	$39.78	$41.00	$39.82	$40.80	$45.45	$48.00	5.6%	3.8%	2.9%
Tenant Effective Rent	$23.68	$26.17	$31.07	$26.58	$23.66	$25.57	$25.82	$26.71	$28.30	$31.79	$32.82	3.2%	5.1%	3.3%
Landlord Effective Rent	$5.12	$7.12	$11.66	$7.21	$4.09	$5.99	$6.10	$6.96	$9.67	$12.76	$13.65	6.9%	17.9%	10.3%



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average Annual Change 2014-2015	2010-2015	2005-2015
Concessions	$90.00	$90.00	$80.00	$90.00	$105.00	$103.00	$110.00	$95.00	$90.60	$99.00	$110.00	11.1%	1.3%	2.0%
Concessions/Rent Ratio*	34.4%	32.2%	26.2%	31.8%	38.0%	35.7%	37.0%	32.9%	30.6%	30.1%	31.6%	1.5		

* Equals amortized concessions as a percentage of total rent.

Total rent increased for the third straight year, rising by 5.6% to a new peak of $48.00. Net rent jumped by 9.1% from $26.50 to $28.90. Operating expenses (+0.6%) and real estate taxes (+1.2%) rose but tenant electric was stable. Concessions surged by 11.1% to $110.00, as several leases in new buildings underway included very aggressive concession packages. Tenant effective rent increased for the sixth consecutive year, rising by 3.2% to $32.82. Landlord effective rent registered a 6.9% gain to $13.65, and was 17.1% above the prior peak of $11.66 in 2007.



												Average Annual Change		
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2014-2015	2010-2015	2005-2015
Net Rent	$17.85	$19.75	$22.75	$20.00	$18.90	$20.50	$21.50	$20.24	$22.30	$26.50	$28.90	9.1%	7.1%	4.9%
Operating Expenses	$7.74	$7.97	$8.13	$8.25	$8.35	$8.40	$8.45	$8.41	$8.60	$8.75	$8.80	0.6%	0.9%	1.3%
Real Estate Taxes	$8.95	$9.21	$9.41	$9.25	$9.35	$9.30	$9.40	$9.47	$8.15	$8.40	$8.50	1.2%	-1.8%	-0.5%
Electricity	$1.56	$1.66	$1.82	$1.50	$1.55	$1.58	$1.65	$1.70	$1.75	$1.80	$1.80	0.0%	2.6%	1.4%
Total Rent	**$36.10**	**$38.59**	**$42.11**	**$39.00**	**$38.15**	**$39.78**	**$41.00**	**$39.82**	**$40.80**	**$45.45**	**$48.00**	**5.6%**	**3.8%**	**2.9%**

Lease Terms/Concessions

Review: Concessions Increase

Concessions rose as several tenants signed larger leases in new buildings and secured generous build-out packages. A few owners who have achieved higher occupancy are pulling back on concessions. Additionally, options such as cancellation/ expansion rights are becoming tougher to secure.

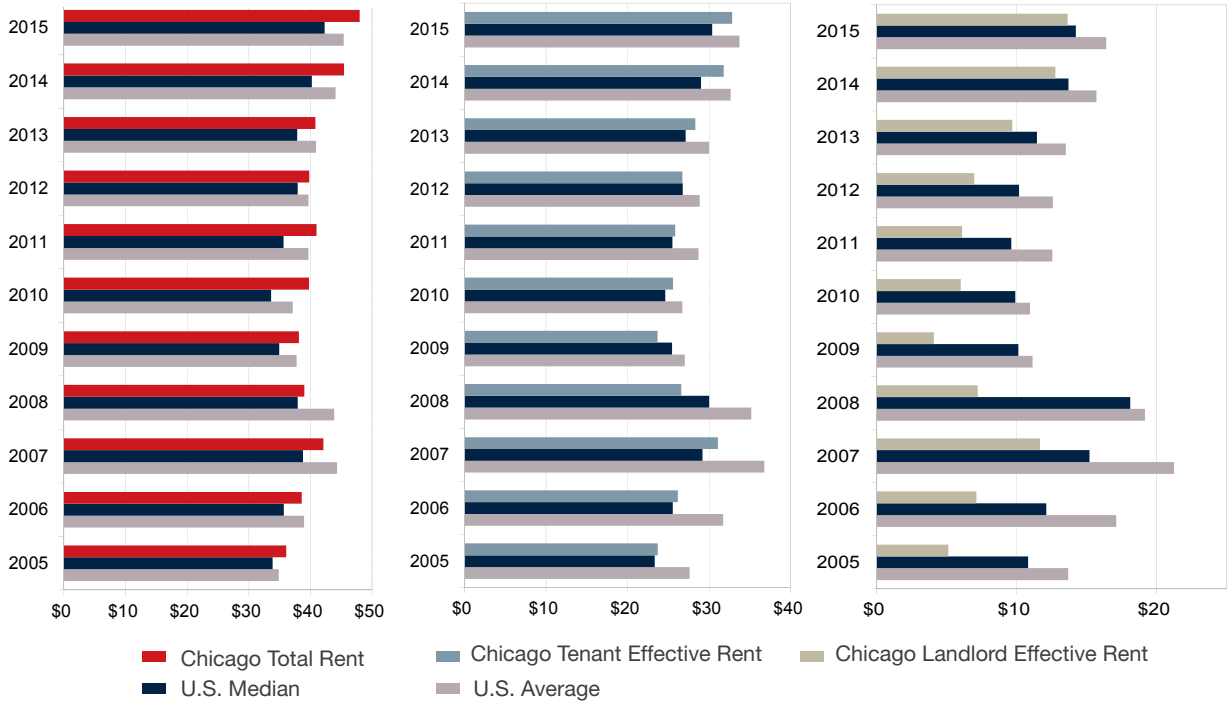
Leases Under 50,000 sf	
Average Term:	10 years
Free Rent:	9-12 months
Tenant Improvements:	$55.00-$65.00/sf
Other:	Various

Leases Over 50,000 sf	
Average Term:	10 years
Free Rent:	10-12 months
Tenant Improvements:	$60.00-$70.00/sf
Other:	Various

Outlook: Value of Concessions to Fall

Landlords will continue to pull the reins in on concessions in 2016 as occupancy pushes higher and no sign of a let-up in demand is imminent. Tenant improvement allowances will also lose more value as construction/build-out costs mount.

Local & U.S. Historical Rent Trends



Total Rent^

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Chicago	$36.10	$38.59	$42.11	$39.00	$38.15	$39.78	$41.00	$39.82	$40.80	$45.45	$48.00
U.S Median	$33.88	$35.66	$38.79	$37.92	$34.95	$33.63	$35.65	$37.93	$37.85	$40.24	$42.32
U.S Average	$34.87	$38.96	$44.33	$43.88	$37.75	$37.11	$39.68	$39.70	$40.92	$44.07	$45.38

Tenant Effective Rent

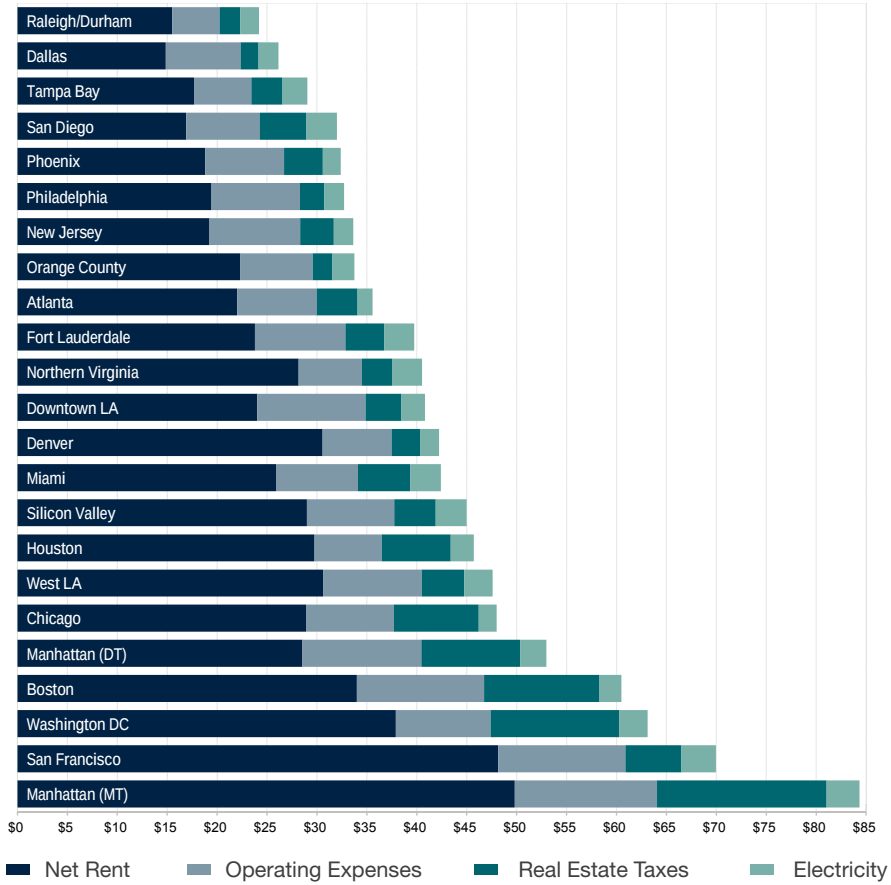
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Chicago	$23.68	$26.17	$31.07	$26.58	$23.66	$25.57	$25.82	$26.71	$28.30	$31.79	$32.82
U.S Median	$23.34	$25.55	$29.18	$30.01	$25.45	$24.61	$25.51	$26.75	$27.11	$28.99	$30.36
U.S Average	$27.60	$31.70	$36.76	$35.16	$27.02	$26.72	$28.68	$28.85	$29.98	$32.63	$33.70

Landlord Effective Rent

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Chicago	$5.12	$7.12	$11.66	$7.21	$4.09	$5.99	$6.10	$6.96	$9.67	$12.76	$13.65
U.S Median	$10.80	$12.11	$15.19	$18.10	$10.12	$9.90	$9.60	$10.16	$11.44	$13.69	$14.23
U.S Average	$13.68	$17.11	$21.24	$19.15	$11.13	$10.94	$12.54	$12.57	$13.51	$15.68	$16.39

^ All rents are unweighted. See National SERI for weighted averages.

Rent Components



Since 1995, the Savills Effective Rent Index (SERI) has been providing the real estate industry's only comprehensive, in-depth study of effective rental rate trends for prime Class A office properties in the nation's major Central Business Districts (CBDs) and selected suburban markets. Using actual completed transaction data as its source, the SERI report offers "real world" numbers that reflect negotiated terms, including lease concessions and operating expense information. All numbers in this report are based on larger long-term direct leases signed in higher-caliber Class A properties located in the West Loop, East Loop, Central Loop and Michigan Avenue.

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Glossary

Concessions: Includes the tenant improvement allowance plus the value of the rental rate abatement. Amortized concessions are amortized over the average market lease term, using beginning-of-period payments.

Landlord Effective Rent: An estimate of rent received from a tenant less related expenses.

Net Rent: The gross rental rate exclusive of the tenant's proportionate share of real estate taxes, operating expenses and tenant electricity.

Operating Expenses: Includes (1) heating, ventilation and air conditioning (HVAC); (2) maintenance; (3) common area utilities and electricity; (4) cleaning; and (5) all other non-capital costs associated with the operation of a building.

Real Estate Taxes: Local real estate taxes exclusive of special assessments and other one-time charges.

Tenant Effective Rent: An estimate of the actual cost of occupancy for the tenant. The calculation is the total rent minus amortized lease concessions.

Tenant Electricity: Payments made by the tenant, whether to the landlord or public utility, or by the landlord as a general building expense, for the electrical power utilized within a tenant's premises, exclusive of building HVAC.

Total Rent: The sum of the four rental rate components: net rent, operating expenses, real estate taxes and electricity.

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