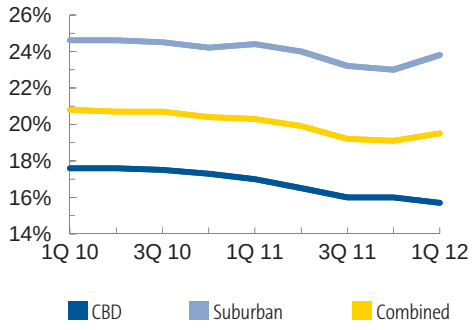
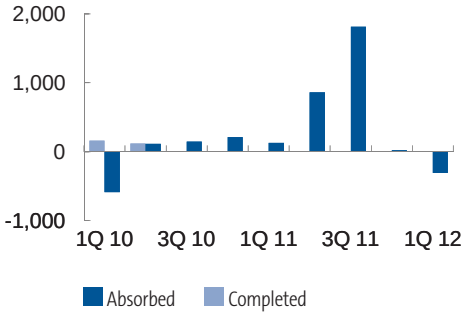
Office Trends Report—First Quarter 2012
Chicago, IL

GRUBB & ELLIS
From Insight to Results

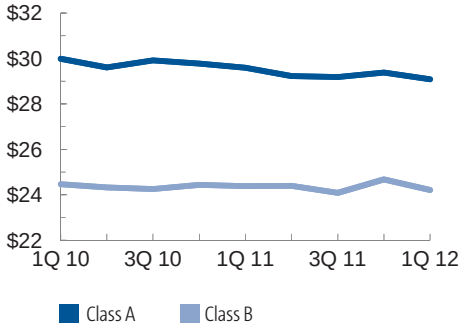
Vacancy & Availability Rates



Completions vs. Absorption
(in Thousands of SF)



Asking Rental Rates
($/SF/Yr. Full Service)



Unexpected Sources Provide Leasing Momentum

The Chicago office market continued its inconsistent recovery in the first quarter. The overall vacancy rate was relatively flat at 19.5 percent at the end of the first quarter with negative net absorption of 306,000 square feet. The vacancy rate for the CBD improved slightly to 15.7 percent with net absorption of 320,000 square feet; the suburban submarkets had a modest increase in vacancy to 23.8 percent. While vacancy remains well above the historical average, the decline in the unemployment rate and gains in the broader economy should result in continued improvement as the year progresses.

Leasing velocity is increasing at both ends of the tenant spectrum with activity picking up for both large and small users. In the most notable transaction of the first quarter, Acco Brands leased a vacant 189,092-square-foot building in the Kemper Lakes Business Center in Long Grove. Not only was this deal the largest lease signed during the quarter, it was the largest suburban lease signed since 2010. Havi Global Solutions also leased 183,430 square feet in Downers Grove, the majority of which is space that is currently occupied by Sara Lee.

Several large users also signed leases in the CBD, including Latham & Watkins and Grub-Hub which leased 137,000 square feet and 60,000 square feet, respectively. The result of leasing activity over the last six months has been a significant tightening in the market for users searching for blocks of space greater than 50,000 square feet as these users lock in favorable rental rates for the long-term. (Continued on next page)

FORECAST

- Leasing velocity at size extremes will increase in velocity, while mid-range users will remain quiet
- Technology companies are expected to continue to drive improvement in the office market, versus traditional users
- Market momentum should continue in 2012 as employment improves

KEY TRANSACTIONS

Acco Brands Corp.	Shorenstein Properties	Havi Global Solutions
leased 189,092 SF at Kemper Lakes Business Center, 4 Corporate Dr., Long Grove, IL	purchased 350 W. Mart Center from Vornado Realty Trust for $2127.0 million	leased 183,430 SF at 3500 Lacey Rd., Downers Grove, IL

** Indicates Transaction Represented by Grubb & Ellis*

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By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION Current Qtr	NET ABSORPTION Year To Date	Under Construction SF	ASKING RENT Class A	ASKING RENT Class B
Central Loop	37,496,008	5,725,346	15.3%	18.5%	3,326	3,326	-	$33.59	$29.08
East Loop	24,728,651	4,046,202	16.4%	20.2%	399,469	399,469	-	$33.74	$30.75
North Michigan Avenue	10,797,476	2,283,609	21.1%	26.5%	(39,006)	(39,006)	-	$31.57	$34.07
River North	13,118,215	1,564,144	11.9%	14.9%	188,547	188,547	-	$40.02	$29.36
West Loop	44,735,837	6,927,850	15.5%	18.0%	(232,161)	(232,161)	-	$37.08	$29.03
CBD Total	**130,876,187**	**20,547,151**	**15.7%**	**18.9%**	**320,175**	**320,175**	**-**	**$35.45**	**$30.05**
I-88 East	25,532,622	5,434,706	21.3%	25.5%	(60,318)	(60,318)	-	$25.10	$19.18
I-88 West	17,231,582	4,582,417	26.6%	26.3%	(549,705)	(549,705)	-	$21.03	$19.14
North	29,865,861	6,560,984	22.0%	24.7%	144,743	144,743	-	$23.33	$20.94
Northwest	29,035,599	7,937,961	27.3%	36.8%	(47,931)	(47,931)	-	$23.50	$17.55
O'Hare	15,397,769	3,380,818	22.0%	23.8%	(113,358)	(113,358)	-	$27.38	$20.99
Suburban Total	**117,063,433**	**27,896,886**	**23.8%**	**28.0%**	**(626,569)**	**(626,569)**	**-**	**$24.00**	**$19.26**
Totals	**247,939,620**	**48,444,037**	**19.5%**	**23.2%**	**(306,394)**	**(306,394)**	**-**	**$29.08**	**$24.21**

By Class								AVAILABLE FOR SUBLEASE CBD	AVAILABLE FOR SUBLEASE Suburban
Class A	110,998,013	21,034,409	19.0%	23.6%	(148,765)	(148,765)	-	1,318,889	3,190,925
Class B	100,738,356	20,998,786	20.8%	23.8%	(265,988)	(265,988)	-	1,337,717	1,320,263
Class C	36,203,251	6,410,842	17.7%	20.4%	108,359	108,359	-	277,558	56,047
Totals	**247,939,620**	**48,444,037**	**19.5%**	**23.2%**	**(306,394)**	**(306,394)**	**-**	**2,934,164**	**4,567,235**

(Continued from front) While large tenants have grabbed the headlines, small tenants have also returned to the market. Leasing activity for tenants looking for less than 5,000 square feet has increased in the first quarter and is a positive sign for the economic recovery. Unfortunately, increased demand at the high and low ends of the spectrum has partially masked a problem in the broader market. Mid-range users looking for 5,000 to 25,000 square feet have remained relatively quiet so far this year. As this group comprises the bulk of the market, leasing velocity in this segment will need to accelerate to sustain the recovery.

Another trend in the leasing market that has become more pronounced is that many of the traditional users of office space are not active in the market. Instead of banks, law firms and financial institutions leading the real estate recovery, technology companies are expanding and actively seeking out new space. One example of this trend is the lease GrubHub signed this quarter; they will relocate from 19,000 square feet in Bucktown to 60,000 square feet at 111 W. Washington this fall. The 50,000-square-foot 1871 Tech Center at the Merchandise Mart had more than 300 technology companies apply for space in the collaborative, shared space environment scheduled to open in May.

Given the strong correlation between jobs and office space, the shift in tenant composition away from traditional users may simply be a reflection of the growth in the technology sector in the economy. As the technology sector booms, more companies may enter the market resulting in technology clusters.

OFFICE TERMS AND DEFINITIONS

Total SF: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

** Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*

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