

METRO CHICAGO OFFICE MARKET AT YEAR-END 2008

Executive Summary

The Metro Chicago economy contracted slightly in the 4th quarter of 2008. Metro Chicago shed 12,400 payroll jobs during the 12 months ending in October. The Health/Education Services sector saw the only significant positive job growth, while the Professional and Business Services sector saw a slight increase in employment. The Construction, Financial Services and Manufacturing sectors saw significant losses.

The Metro Chicago office market moderated in 2008. The CBD saw vacancy rates decline from 2007, as demand remained positive but tailed off in the 4th quarter. The Suburbs saw direct vacancy rise, but the sublease rate dropped 40 basis points from year-end 2007. Rents increased modestly in the CBD but declined in the Suburbs. The metro-wide vacancy rate edged upwards to 13.0% from 12.8% a year ago. Due to escalating employment losses, the market softened rapidly in the 4th quarter.

Metro Chicago office market highlights for 2008:

- The market nearly paused in the 4th quarter, even though year-over-year stats were moderate.
- 2008 net absorption: 2.4 million SF, compared to the long-term average of 4.4 million SF per annum.
- Overall vacancy rate: 13.0%, up from 12.8% a year ago.
- Rents: Down 0.3% in 2008, though Class A properties in the CBD rose 2.2%.

Metro Chicago Economic Outlook

We project a net loss of 5,000 payroll jobs in 2008 on an annual average basis. Growth from early in 2008 will offset weakness toward the end of the year, when the data are finalized. Metro Chicago economic expansion likely will stall in the near term, with job losses increasing to 60,000 in 2009, but waning to 10,000 in 2010.

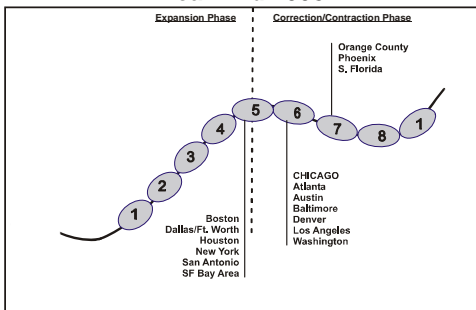
Metro Office Market Outlook

The Metro Chicago office market will continue to decelerate into 2009. In the next two years, new space delivering to the market likely will exceed demand, pushing vacancy up. Rent change will turn negative market-wide, but some higher-quality assets in better submarkets may continue to experience modest rent increases.



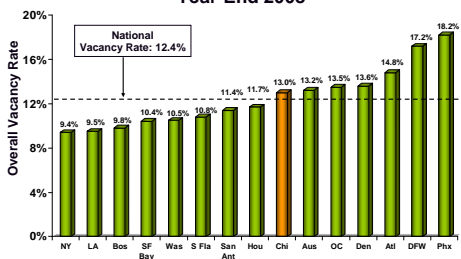
Source: BLS, Delta Associates; December 2008.

Office Market Cycle Position Year-End 2008



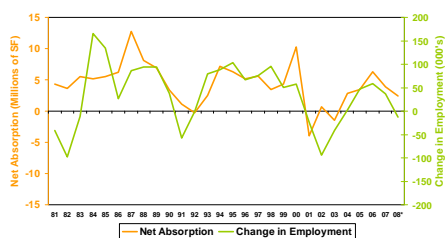
Source: Delta Associates; December 2008.

Office Vacancy Rates Selected Metro Areas Year-End 2008



Source: CoStar, Delta Associates; December 2008.

Office Absorption and Employment Metro Chicago 1981 – 2008



Source: BLS, Delta Associates; December 2008.

*12-month job growth ending October 2008.

METRO CHICAGO ECONOMY

Chicago Economy: Contracting

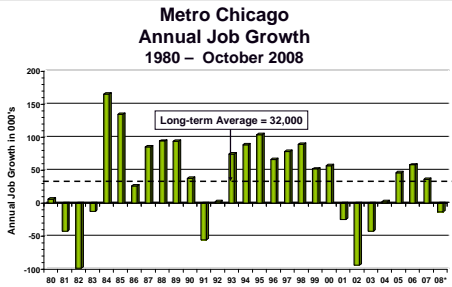
The Metro Chicago economy contracted in the 4th quarter of 2008, as payroll employment declined by 12,400 jobs – 0.3% – over the 12 months ending October 2008. Chicago’s Professional and Business Services sector, which has driven area job growth in recent quarters, added just 300 jobs over the 12 months ending October 2008.

The Metro Chicago unemployment rate was 6.4% in October 2008, up from 4.6% in October 2007. The national rate of unemployment in October 2008 was 6.5%. It rose to 6.7% when the November figure was reported.

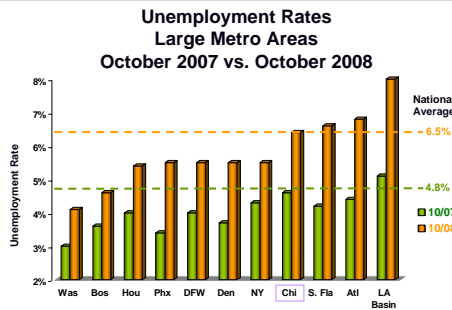
The **Financial Services** sector lost 4,200 jobs – 1.3% – over the 12 months ending October 2008. The U.S. Treasury is offering to buy preferred stock in banks across the country, and even well-capitalized banks in the Chicago area are expressing interest. Though the criteria for the program has not been set, government officials have made clear that weak banks will not be accepted into the assistance program. The maximum amount that Chicago’s largest bank holding companies could receive if eligible is significant. The area’s largest bank, Northern Trust Corp., would be eligible for up to \$1.5 billion. Corus Bankshares Inc., the area bank with the highest percentage of non-performing loans, could be eligible for up to \$213 million.

Regional **Manufacturing** activity continues to contract. Metro Chicago’s Manufacturing sector lost 7,900 jobs – a 1.6% loss – over the 12-month period ending October 2008 as the local economy continues to shift from a traditional manufacturing-based economy to a service-based economy. The Chicago Purchasing Managers Index, an indicator of the economic health of the manufacturing sector, dropped to 33.8 in November, the lowest level since April 1982. A level below 50 signals contraction in the market. In other industry news, Moline, Ill.-based Deere & Company is forming a joint venture with India’s Ashok Leyland to manufacture backhoes and four-wheel-drive loaders for sale in India and elsewhere overseas. Financial terms of the venture were not disclosed. Deere has also announced plans to close a plant in Ontario that manufactures utility vehicles and attachments for its consumer, commercial, and farm equipment businesses. Production will be moved to operations in Wisconsin and Mexico; the closing will affect 800 workers.

The **Convention and Hospitality** sector added 1,300 jobs, or 0.3%, over the 12 months ending October 2008. The average hotel room rate in downtown Chicago rose to \$189.16 – a 4.8% increase – in the first eight months of 2008 according to Smith Travel Research. Revenue per available room increased by 1.3% to \$135.89. However, the downtown occupancy rate dropped to 71.8% from 74.4% the prior year. The recent resurgence of the dollar has discouraged the level of international tourism that was enjoyed over the summer, and the deteriorating domestic economy suggests weaker market conditions in 2009.



Source: BLS, Delta Associates; December 2008. *12-month job growth through October 2008.



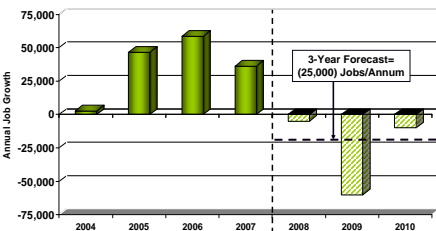
Source: Bureau of Labor Statistics; December 2008.

**Core Industries
Metro Chicago
2007**

Core Industries	\$ (Bil)	% GRP
Professional, Financial and Technical Services	\$68	16%
Manufacturing	\$37	8%
State & Federal Government	\$33	7%
Education & Health Services	\$29	6%
Construction	\$24	5%
Transportation & Warehousing	\$19	4%
Convention & Hospitality Services	\$16	3%
Total Core Industries:	\$226	49%
Other	\$227	51%
Total GRP:	\$453	100%

Note: Subcomponents of Core Industries were redefined in June 2007. GRP = Gross Regional Product. Source: GMU Center for Regional Analysis; Delta Associates; December 2008. Totals may not add due to rounding.

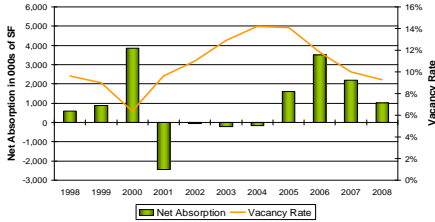
**Job Growth
Metro Chicago
2004 - 2010**



Source: BLS, Delta Associates; December 2008.

CHICAGO CBD OFFICE MARKET

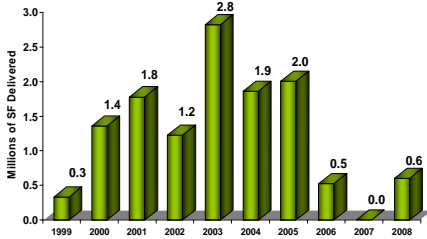
Net Absorption of Office Space and Direct Vacancy Rate Trends Chicago CBD 1998 – 2008



Source: Vacancy – Delta Associates analysis of CoStar data; Net Absorption – Delta Associates, December 2008.

The CBD's overall vacancy rate likely will rise into the 14% range over the next 24 months as demand contracts and some space is returned to the market.

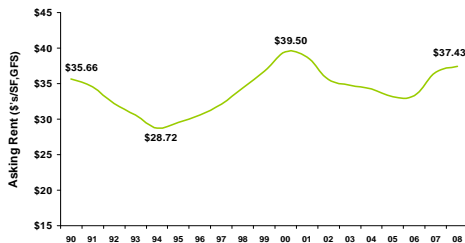
New Office Space Delivered Chicago CBD 1999 – 2008



Source: CoStar, Delta Associates, December 2008.

Class A CBD rents increased 2.2% in 2008, with stronger escalation for trophy properties. Rent growth dissipated during the 4th quarter.

Average Class A Office Rents Chicago CBD 1990 – 2008



Source: Delta Associates analysis of CoStar data; December 2008.

CBD Absorption: Moderating

The Chicago CBD weakened in the 4th quarter of 2008. Net absorption totaled negative 214,000 SF, bringing the yearly absorption total to positive 1.0 million SF. The East Loop submarket was the strongest in the quarter due to a handful of modest leases, but that measure is relative to occupancy losses in the Central Loop and West Loop submarkets. The Central Loop submarket experienced positive net absorption for the year despite experiencing negative absorption in the 4th quarter. Net absorption in selected submarkets (in SF):

	4 th Quarter	2008
• East Loop	141,000	772,000
• Central Loop	(213,000)	535,000
• West Loop	(140,000)	(280,000)

Available sublease space increased by 187,000 SF in the 4th quarter of 2008, yielding an annual increase of 325,000 SF. There is 1.8 million SF of sublease space on the market, representing 1.2% of the standing inventory.

CBD Vacancy: Rising

The overall vacancy rate in the CBD rose to 10.5% in the 4th quarter of 2008, up from 10.2% in the 3rd quarter, but is down from 11.0% a year ago.

The CBD direct vacancy rate is 9.3% at year-end 2008, up from 9.1% in the 3rd quarter but down from 10.0% a year ago. The sublease vacancy rate increased 20 basis points in 2008.

New CBD Construction Stable; Pre-Leasing Up

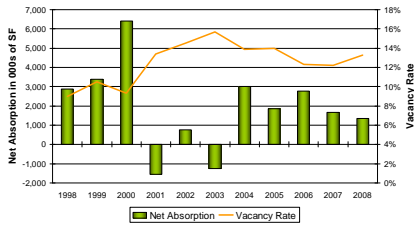
There is 4.5 million SF of office space under construction or renovation in the Chicago CBD at year-end 2008, comparable to 4.4 million SF a year ago. Space under construction or renovation now is 84% pre-leased, up from 58% a year ago. Ernst & Young signed a lease in December at 155 N. Wacker Dr. for 204,000 SF, increasing that project's tenant commitments to 72% of the 1.1 million SF building, to be delivered in mid-2009.

The largest construction projects in the CBD and the amount pre-leased:

- 300 N. LaSalle St. 1,350,000 SF 92%
- 353 N. Clark St. 1,174,000 SF 77%
- 155 N. Wacker Dr. 1,129,000 SF 72%
- 300 E. Randolph St. 800,000 SF 100%

The construction at 300 E. Randolph St. is an expansion of the existing Blue Cross Blue Shield building. There were two office deliveries totaling 592,000 SF in the CBD in 2008, compared to no deliveries in 2007. The deliveries were 22 W. Washington Street, at 88% leased, and 111 W. Illinois St., in which the office component delivered at 100% leased.

Net Absorption of Office Space and Direct Vacancy Rate Trends Suburban Chicago 1998 – 2008



Source: Vacancy – Delta Associates analysis of CoStar data; Net Absorption – Delta Associates; December 2008.

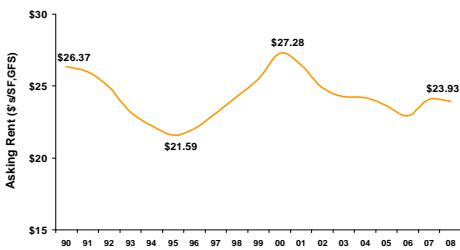
We expect Suburban Chicago’s vacancy rate to rise to the 16-17% range by December 2010.

Office Space U/C and Renovation Suburban Chicago Year-End 2008

Submarket	SF	% Pre-leased
Suburban – South	487,024	58%
East-West Corr.	282,530	39%
Suburban – NW	151,200	87%
Suburban – North	274,000	0%
O’Hare	403,373	3%
City – North	404,300	32%
City - South	89,845	100%
Suburban Total	2,092,272	36%

Suburban Chicago rents likely will decline in 2009.

Average Class A Office Rents Suburban Chicago 1990 – 2008



Source: Delta Associates analysis of CoStar data; December 2008.

CBD Class A Rents: Rose in 2008

Class A asking rents in the CBD increased 2.2% in 2008, while rents in trophy properties rose more sharply. Class A rents should moderate in 2009 as demand wanes and new supply comes to market.

CHICAGO SUBURBAN OFFICE MARKET

Suburban Market: 1.4 Million SF of Net Absorption in 2008

The Suburban Chicago office market recorded 484,000 SF of net absorption in the 4th quarter of 2008; 1.4 million SF for the year. The Suburban South submarket experienced 137,000 SF of net absorption in the 4th quarter, relatively strong compared with other suburban submarkets, but supported by the delivery of some pre-leased space. Net absorption in selected areas:

	4 th Quarter	2008
• Lisle/Naperville	130,000	822,000
• Near West Suburban	432,000	446,000
• Schaumburg Area	(64,000)	210,000

Available sublease space in Suburban Chicago increased by 419,000 SF in the 4th quarter of 2008, but decreased by 335,000 SF for all of 2008. There is 3.3 million SF of sublease space on the market in Suburban Chicago, representing 1.5% of the standing inventory.

Suburban Vacancy Rate Rises

The overall Suburban Chicago office vacancy rate rose to 14.8% at year-end 2008, up from 14.3% in the 3rd quarter of 2008 and 14.1% a year ago. Overall vacancy rates in selected areas:

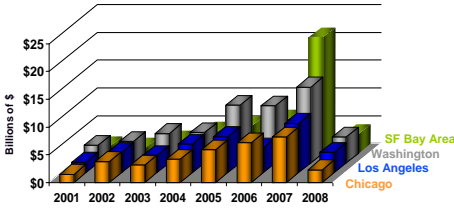
- Suburban-North 11.2%
- East-West Corridor 16.5%

The direct office vacancy rate in the Suburbs was 13.3% at year-end 2008, up from 13.0% in the 3rd quarter 2008 and 12.2% a year ago. The sublease vacancy rate is down 40 basis points in the past 12 months.

Suburban Construction and Pre-Leasing Down

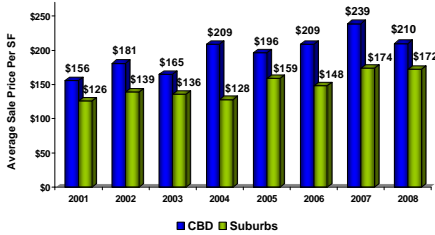
There is 2.1 million SF of office space under construction in Suburban Chicago at year-end 2008, compared to 2.5 million SF in the 3rd quarter 2008 and 3.6 million SF a year ago. Space under construction now is 36% pre-leased, down from 42% in the 3rd quarter and 59% a year ago.

**Comparative Investment Sales Volume
Office Buildings
2001 – 2008**



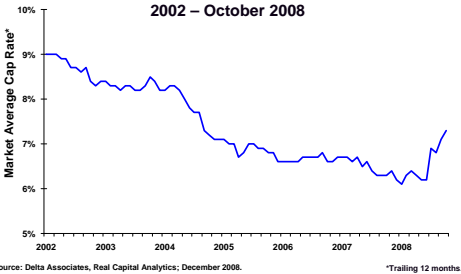
Source: Real Capital Analytics, Delta Associates; December 2008.

**Average Office Sale Price
Metro Chicago
2001 – 2008**



Source: Real Capital Analytics, Delta Associates; December 2008.

**Cap Rates
Metro Chicago
Core Office Assets
2002 – October 2008**



Source: Delta Associates, Real Capital Analytics; December 2008.

*Trailing 12 months.

Suburban Chicago deliveries totaled 4.1 million SF in 2008, compared with 2.9 million SF in 2007. Space delivered in 2008 was 59% leased upon delivery, up slightly from 51% in 2007.

Suburban Rents: Edging Down as Market Shifts to Favor Tenants

Suburban office rents for all classes of space decreased 0.8% in 2008, while Class A rents declined approximately 0.6%. Rent change will remain negative in 2009 as waning demand drives vacancy upwards.

METRO CHICAGO OFFICE INVESTMENT SALES

Sales Volume Slows Dramatically Compared to 2007

Office investment sales volume totaled \$2.3 billion in Metro Chicago in 2008, compared to \$8.2 billion in 2007. Sales volume in the 4th quarter totaled \$42 million, down from \$579 million in the 3rd quarter. The slowdown in investment sales activity compared to 2007 continued to be driven by the lack of liquidity in the capital markets.

In light of the credit crunch, sale prices averaged \$193/SF in Metro Chicago in 2008, compared to \$214/SF in 2007. Prices are declining as cap rates edge up, reflecting less competition for assets.

Returns on core office assets in Metro Chicago rose in 2008, with 12-month trailing cap rates hovering in the mid-7% range by year-end. We believe cap rates will continue to rise in the period ahead.

Selected office sales from all of 2008:

<u>Property/Submarket</u>	<u>Sale Price/Buyer</u>
1 N. Wacker Dr. West Loop	\$540 million (\$385/SF) Hines Interests
135 S. LaSalle St. Central Loop	\$215 million (\$171/SF) Amtrust Realty
9 Parkway North Bl. Central North	\$169 million (\$228/SF) John Buck Co.
20 N. Clark St. Central Loop	\$58 million (\$153/SF) Hamilton Partners

Source: Real Capital Analytics; December 2008.

A market report for commercial real estate executives

**SUMMARY OF OFFICE MARKET INDICATORS
METRO CHICAGO MARKET
2005 THROUGH 2008**

Submarket	December 2008		Direct Vacancy Rate at End of: ^{2/}				December 2008		Net Absorption (SF)				
	Total Rentable SF All Bldgs. ^{1/}	SF Avail. Immediately All Bldgs. ^{3/}	2005	2006	2007	2008	Vacancy Rate w/ Sublet ^{2/}	SF Under Constr. or Renovation	2005	2006	2007	4th Q 08	2008
Central Loop	42,692,732	4,269,273	14.4%	12.6%	10.9%	10.0%	11.0%	-	835,000	381,000	548,000	(213,000)	535,000
East Loop	28,218,475	2,652,537	16.1%	13.8%	12.0%	9.4%	10.8%	800,000	(47,000)	648,000	394,000	141,000	772,000
North Michigan Avenue	16,151,706	1,356,743	12.0%	10.9%	9.5%	8.4%	8.7%	-	(118,000)	178,000	226,000	(16,000)	(194,000)
River North	14,869,503	936,779	11.7%	9.0%	6.7%	6.3%	8.7%	2,523,643	425,000	400,000	339,000	(15,000)	144,000
South Loop ^{4/}	3,227,417	135,552	15.4%	12.0%	5.4%	4.2%	4.2%	-	(182,000)	14,000	85,000	29,000	44,000
West Loop	46,534,468	4,746,516	14.1%	10.9%	9.6%	10.2%	11.4%	1,129,270	697,000	1,901,000	605,000	(140,000)	(280,000)
CBD	151,694,301	14,097,399	14.1%	11.8%	10.0%	9.3%	10.5%	4,452,913	1,610,000	3,522,000	2,197,000	(214,000)	1,021,000
River West	4,297,328	451,219	9.2%	7.4%	8.5%	10.5%	10.8%	140,000	154,000	(70,000)	76,000	(4,000)	(84,000)
Lincoln Park	2,356,152	122,520	8.7%	9.1%	5.8%	5.2%	5.5%	239,000	58,000	(8,000)	66,000	35,000	10,000
Northwest City	11,709,861	889,949	8.3%	6.7%	6.4%	7.6%	7.9%	25,300	77,000	183,000	184,000	(23,000)	(109,000)
City - North	18,363,341	1,463,689	8.6%	7.1%	6.9%	8.0%	8.3%	404,300	289,000	105,000	326,000	8,000	(183,000)
City - South	9,436,216	849,259	14.9%	8.7%	7.4%	9.0%	9.0%	89,845	208,000	564,000	(53,000)	(128,000)	(217,000)
Near West Suburban	3,769,025	535,202	12.4%	15.9%	16.2%	14.2%	14.2%	-	(8,000)	(105,000)	(9,000)	432,000	446,000
O'Hare	17,026,919	3,337,276	20.8%	16.1%	17.2%	19.6%	20.8%	403,373	3,000	243,000	(107,000)	78,000	(208,000)
Near North	12,365,058	1,125,220	16.3%	6.6%	8.7%	9.1%	9.8%	-	(485,000)	328,000	(228,000)	(16,000)	66,000
Central North	28,584,272	2,572,584	9.0%	7.9%	7.3%	9.0%	12.0%	274,000	284,000	288,000	922,000	(86,000)	163,000
Far North	3,504,797	322,441	17.3%	15.2%	11.2%	9.2%	9.5%	-	186,000	90,000	146,000	7,000	63,000
Suburban - North	44,454,127	4,020,246	11.5%	8.1%	7.9%	9.0%	11.2%	274,000	(15,000)	706,000	840,000	(95,000)	292,000
Schaumburg Area	31,643,236	4,240,194	11.9%	12.4%	12.6%	13.4%	15.8%	72,000	209,000	361,000	(128,000)	(64,000)	210,000
North DuPage	6,027,026	1,090,892	16.9%	18.0%	19.9%	18.1%	18.9%	-	(251,000)	(6,000)	(115,000)	18,000	67,000
Central Northwest	5,750,727	856,858	27.1%	25.3%	14.5%	14.9%	15.0%	60,000	(9,000)	64,000	117,000	66,000	107,000
Far Northwest	6,564,225	1,293,152	16.8%	16.4%	19.0%	19.7%	21.3%	19,200	90,000	130,000	62,000	(9,000)	118,000
Suburban - Northwest	49,985,214	7,481,096	14.3%	14.7%	14.5%	15.0%	16.8%	151,200	39,000	549,000	(64,000)	11,000	502,000
Oakbrook/Downers Grove	29,579,389	4,496,067	13.8%	13.4%	13.0%	15.2%	16.6%	-	459,000	141,000	156,000	(89,000)	(371,000)
Lisle/Naperville	29,197,996	4,029,323	16.8%	15.3%	14.7%	13.8%	16.4%	282,530	552,000	429,000	297,000	130,000	822,000
East-West Corridor	58,777,385	8,525,391	15.0%	14.2%	13.5%	14.5%	16.5%	282,530	1,011,000	570,000	453,000	41,000	451,000
Suburban - South	12,248,754	2,168,029	16.8%	16.2%	16.5%	17.7%	18.0%	487,024	338,000	144,000	286,000	137,000	267,000
SUBURBAN	214,060,981	28,380,188	14.0%	12.3%	12.2%	13.3%	14.8%	2,092,272	1,865,000	2,776,000	1,672,000	484,000	1,350,000
Metro Chicago Market	365,755,282	42,477,587	14.1%	12.1%	11.3%	11.6%	13.0%	6,545,185	3,475,000	6,298,000	3,869,000	270,000	2,371,000
Vacancy Rate including Sublease Space			15.5%	13.4%	12.8%	13.0%							

Notes on Data Reported

- 1/ Includes multi-tenant, single-tenant, and owner occupied buildings 15,000 SF RBA and greater. Does not include buildings under construction or buildings owned by the government.
- 2/ Vacancy rates reported are based on immediate availability.
- 3/ Does not include sublease space.
- 4/ Inventory amended per CoStar.

Source: Inventory and Vacancy from analysis of CoStar data, Net Absorption computed by Delta Associates; December 2008.

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National Economy and Methodology

Please visit Transwestern.net for:

- Our National Economic Outlook
- Explanation of our methodology

Note on data contained herein

Our inventory, vacancy and absorption figures include owner-occupied and single-tenant buildings. We include these buildings to capture the entire market so that we may derive correlations between job growth and occupancy of inventory. Our reported vacancy rate is based on immediate availability.

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