REGIONAL & NATIONAL TRENDS SHAPING OFFICE DEVELOPMENT ARE CHANGING
Decline in Suburban Office Construction...

NATIONALLY...
National Suburban Office Deliveries

REGIONALLY...
New Suburban Office Deliveries in the Chicago Region [1][2]

Source: CBRE Econometric Advisors, The Wall Street Journal

Source: CoStar, SB Friedman

[1] Includes only Class A deliveries 100,000 SF or larger
[2] Suburban totals calculated using Chicago regional office totals less City of Chicago
Shift in Locational Trends for New Office

CHICAGO CAPTURING VAST MAJORITY OF NEW OFFICE CONSTRUCTION

OFFICE DELIVERIES BY DECADE [1]

<table>
<thead>
<tr>
<th>Decade</th>
<th>CHICAGO</th>
<th>SUBURBS [3]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997 to 2006</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>2007 to 2016 [2]</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Under Construction and Proposed, 2017 to 2020</td>
<td>82%</td>
<td>18%</td>
</tr>
</tbody>
</table>

[1] Includes only Class A deliveries 100,000 SF or larger
[2] Includes Q1 2017 deliveries
[3] Calculated using regional totals less City of Chicago

Source: CoStar, ESRI, SB Friedman
Chicago Office Market Outperforming the Suburbs

- **Urban Cluster**: 170.1 million SF
- **North**: 32.8 million SF
- **Northwest**: 28.4 million SF
- **East/West Corridor**: 33.0 million SF
- **O'Hare**: 12.3 million SF

**Vacancy, 2016**
- **Chicago**: 12.1%
- **Suburbs [2]**: 21.8%

**Gross Rent, 2016**
- **Chicago**: $31.73
- **Suburbs [2]**: $20.69

[1] Includes only Class A inventory 100,000 SF or larger
[2] Calculated using regional totals less City of Chicago

Source: CoStar, ESRI, SB Friedman
IN 2015, MILLENNIALS SURPASSED GEN “X” AS THE LARGEST GENERATION IN THE U.S. LABOR FORCE


Note: Annual averages plotted 1995-2014. For 2015 the first quarter average of 2015 is shown. Due to data limitations, Silent generation is overestimated from 2008-2015.

PEW RESEARCH CENTER
Millennials Prefer Walkable Environments

Millennials like walking 12% more than driving (83% agree that they like walking vs. 71% like driving)

This is the largest gap of any generation

63% of Millennials prefer CAR-OPTIONAL places – higher than all other generations

America in 2015, A ULI Survey on Housing, Transportation and Community
Millennials Concentrate In Walkable, Mixed-use Neighborhoods

- Chicago Loop: 495,000 millennials
- Oak Brook: 119,000 millennials
- Schaumburg: 113,000 millennials
- Deerfield: 68,000 millennials

Source: ESRI, SB Friedman

[1] 2017 ESRI population estimates (ages 20-34)
Residential Boom Preceded Recent Office Boom

<table>
<thead>
<tr>
<th>Year</th>
<th>Chicago</th>
<th>Region Net of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,877</td>
<td>3,838</td>
</tr>
<tr>
<td>2011</td>
<td>2,606</td>
<td>3,666</td>
</tr>
<tr>
<td>2012</td>
<td>1,990</td>
<td>5,659</td>
</tr>
<tr>
<td>2013</td>
<td>3,025</td>
<td>6,632</td>
</tr>
<tr>
<td>2014</td>
<td>5,750</td>
<td>7,994</td>
</tr>
</tbody>
</table>

Source: US Census, SB Friedman

CITY CAPTURING INCREASED PERCENTAGE OF REGIONAL HOUSING STARTS

- **61,000** New Downtown Residents (2000-2015)
- **171,600** Total Downtown Population (2015)
- **13,000+** New Downtown Multi-Family Units Delivered Since 2009

RESIDENTIAL DEVELOPMENT CONTRIBUTED TO VIBRANCY OF DOWNTOWN
Many HQ Companies Seeking a Dynamic Work Environment

McDonald’s said the move to Chicago is part of an effort to attract and retain more top talent, specifically younger workers who prefer living in the city.
Employers are Paying More for Walkable Office Environments

Rent premiums of this scale suggest pent-up demand for walkable urban office space.

According to George Washington University Business School study in partnership with Smart Growth America:

“Walkable** office rents” achieve a 44 percent premium over “drivable suburban office” rents in the 30 largest metros.

** Includes walkable suburbs and excludes New York City.
Chicago Suburbs Lack Dynamic, Mixed-Use Office Environments

Suburban WALKABILITY generally exists in mixed-use residential and retail settings not office

7% of walkable office & retail space in the Chicago region is located in the suburbs

49% in Washington DC region suburbs

Source: “Foot Traffic Ahead” Smart Growth America Study
Opportunities in the Suburbs…

2/3 of total regional employment is in the suburbs.

Many companies have chosen to remain in suburbs, close to traditional workforce.

Despite some HQ relocations, vacancy has decreased in the suburbs annually since 2010.

Transaction velocity remains high in the suburbs – 40 million square feet from 2010-15.
## Long-Term Trends Suggest Shift Back To Suburbs

### AS MILLENNIALS ENTER FAMILY YEARS, THERE WILL BE A SHIFT BACK TO THE SUBURBS

#### US POPULATION BY LIFE STAGE BY DECADE (THOUSANDS)

<table>
<thead>
<tr>
<th>Age</th>
<th>2015</th>
<th>2025</th>
<th>2035</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Children</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 5 years</td>
<td>19,965</td>
<td>21,010</td>
<td>21,268</td>
</tr>
<tr>
<td>5 to 9 years</td>
<td>20,463</td>
<td>20,889</td>
<td>21,529</td>
</tr>
<tr>
<td>10 to 14 years</td>
<td>20,590</td>
<td>20,555</td>
<td>21,650</td>
</tr>
<tr>
<td>15 to 19 years</td>
<td>21,092</td>
<td>21,219</td>
<td>21,706</td>
</tr>
<tr>
<td><strong>Young Professionals</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 to 24 years</td>
<td>22,740</td>
<td>22,077</td>
<td>22,183</td>
</tr>
<tr>
<td>25 to 29 years</td>
<td>22,473</td>
<td>23,103</td>
<td>23,450</td>
</tr>
<tr>
<td>30 to 34 years</td>
<td>21,659</td>
<td>24,450</td>
<td>23,995</td>
</tr>
<tr>
<td><strong>Family Years; Trade-up Homebuyers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>35 to 39 years</td>
<td>20,346</td>
<td>23,586</td>
<td>24,360</td>
</tr>
<tr>
<td>40 to 44 years</td>
<td>20,178</td>
<td>22,291</td>
<td>25,176</td>
</tr>
<tr>
<td>45 to 49 years</td>
<td>20,817</td>
<td>20,613</td>
<td>23,919</td>
</tr>
<tr>
<td>50 to 54 years</td>
<td>22,312</td>
<td>20,063</td>
<td>22,257</td>
</tr>
<tr>
<td><strong>Empty Nesters and Young Seniors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55 to 59 years</td>
<td>21,811</td>
<td>20,294</td>
<td>20,260</td>
</tr>
<tr>
<td>60 to 64 years</td>
<td>19,093</td>
<td>21,265</td>
<td>19,351</td>
</tr>
<tr>
<td>65 to 69 years</td>
<td>16,094</td>
<td>20,202</td>
<td>19,071</td>
</tr>
<tr>
<td>70 to 74 years</td>
<td>11,500</td>
<td>16,891</td>
<td>19,091</td>
</tr>
<tr>
<td><strong>Seniors with Special Needs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>75 to 79 years</td>
<td>8,126</td>
<td>13,154</td>
<td>16,819</td>
</tr>
<tr>
<td>80 to 84 years</td>
<td>5,806</td>
<td>8,191</td>
<td>12,343</td>
</tr>
<tr>
<td>85 years or older</td>
<td>6,304</td>
<td>7,482</td>
<td>11,908</td>
</tr>
</tbody>
</table>

#### MILLENNIALS BY LIFE STAGE BY DECADE

Source: Table 9. Projections of the Population by Sex and Age for the United States: 2015 to 2060 (NP2014-T9), U.S. Census Bureau, Population Division, Released December 2014; SB Friedman
“Chicago’s greatest opportunity to add walkable urbanism—and by extension, enhanced economic viability—is to urbanize its suburbs.”

– A study by George Washington University School of Business in partnership with Smart Growth America
NEED FOR A NEW PARADIGM FOR OFFICE DEVELOPMENT
Value Proposition

**SUBURBAN**

- Experienced, highly-educated workforce
- Lower real estate costs, collar counties have lower and stable taxes
- Lacking a dynamic mixed-use office environment

**URBAN**

- Access to younger-educated workforce
- Need for talent outweighs real estate costs
- Dynamic, high amenity environment
Create the Best of Both Worlds

**SUBURBAN**
- LARGE SITES
- CHEAPER LAND
- LARGE ON SITE PARKING POTENTIAL
- AFFORDABLE SINGLE FAMILY HOMES
- CAR ORIENTED

**URBAN**
- SMALL SITES
- EXPENSIVE LAND
- MINIMAL ON SITE PARKING
- EXPENSIVE SINGLE FAMILY HOMES
- INCONVENIENT FOR CAR OWNERSHIP

- UNWALKABLE
  - TRANSIT UNFRIENDLY
  - DISCONNECTED & SPRAWLING
  - LACK OF SHARED SENSE OF PLACE
  - SINGLE USE DEVELOPMENT
  - NO SENSE OF “BLOCKS”
  - ARBITRARY ROAD PATTERNS

- WALKABLE
  - TRANSIT ORIENTED
  - CONNECTED & COMPACT
  - GREAT SHARED SENSE OF PLACE.
  - MIXED USE DEVELOPMENT
  - SMALL “WALKABLE” BLOCKS
  - CONNECTED GRID

Source: Ginkgo Planning and Design
Suburbs with more Urbanized and Walkable Centers

**PLANNED**
- Innsbrook, VA
- Veridian Development - Schaumburg, IL

**UNDER CONSTRUCTION**
- Tyson's Corner, VA
- City Line - Richardson, TX

**SUCCESS STORIES**
- East Alexandria, VA
- Reston Town Center – Reston, VA
Suburbs with more Urbanized and Walkable Centers

PLANNED

Innsbrook, VA

Tyson’s Corner, VA

City Line - Richardson, TX

Veridian Development - Schaumburg, IL

UNDER CONSTRUCTION

East Alexandria, VA

Reston Town Center – Reston, VA

SUCCESS STORIES
“Reston is dominating the Northern Virginia office market, with companies sometimes willing to pay 30 percent or more in rent to be in Reston Town Center instead of other neighborhoods”

– Washington Post, data from Cushman & Wakefield.
Urban Framework

A CONNECTED PUBLIC REALM OF PEDESTRIAN ORIENTED STREETS AND OPEN SPACES

Plazas and streets as activity centers
Mix of Uses with Significant Residential

- **Significant Residential** to support a 24/7 mixed-use environment
- **Small walkable blocks lined with buildings**
- **Buildings along the street, parking to the rear**
- **Well-defined public gathering spaces**

### Land Uses
- **Office**
  - 2,130,000 SF
- **Housing**
  - 1700 units
- **Hotel**
  - 518 Room Hyatt Regency
- **Retail**
  - 400,000 sf
  - Bow Tie Cinema 11 Movie Theatre
  - 30 Restaurants and over 50 shops
- **Urban Plazas**
  - Open plaza for summer concerts
  - Ice skating rink in the winter
- **Parking**
  - 8,000 spaces
Suburban Chicago Example: Planning Stages

REDEVELOPMENT OF FORMER MOTOROLA SOLUTIONS SITE INTO A MIXED-USE OFFICE BUSINESS PARK
From Adversity to Opportunity

Former Motorola Solutions Inc. Site
APPROX. 280 ACRES

6,400 Jobs Lost

1998: 9,000 Jobs
2017: 1,600 Jobs
Implementation Pathway in Schaumburg

Major Employer (Motorola) moves HQ Downtown

Site Purchased by Developer (UrbanStreets Inc.)

TIF ESTABLISHED

ANALYZED MARKET

CREATED PLAN

Market Feasible Vision for the Site
Implementation Pathway in Schaumburg

- Major Employer (Motorola) moves HQ Downtown
- Site Purchased by Developer (UrbanStreets Inc.)
- Developer Submits Preliminary Framework Plans

TIF ESTABLISHED
ANALYZED MARKET
CREATED PLAN
CREATING REGULATORY FRAMEWORK

- Market Feasible Vision for the Site
- Development Framework Entitled Uses Design Guidelines
Implementation Pathway in Schaumburg

- Major Employer (Motorola) moves HQ Downtown
- Site Purchased by Developer (UrbanStreets Inc.)
- Developer Submits Preliminary Framework Plans
- Discussions Regarding Financial Assistance

- Phase 1 Plan Approval
- Redevelopment Agreement
- Expected Construction Start

Market Feasible Vision for the Site
Development Framework Entitled Uses Design Guidelines
Assessment of:
Extraordinary costs
Financing gaps
Appropriate level of financial assistance
New Office Development Paradigms Critical for Suburban Competitiveness

- Millennials are choosing to live in dynamic, mixed-use environments
- Corporations & real estate markets are valuing dynamic walkable environments
- Demographic projections suggest a housing shift back to suburbs in the next 10 years
- Communities can be more competitive by proactively planning for a **new paradigm of mixed use, “sub-urbanism”**
- PPP needed to create the physical framework for such environments
- Value proposition for communities:
  - Job creation and retention
  - Competitiveness of community
  - Long term tax base/value creation
Development Advisors to the Public and Private Sectors

- Real Estate Economics
- Public-Private Partnerships
- Developer Solicitation
- Public Financing
- Area Plans and Implementation
- Fiscal and Economic Impact

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