Future Adaptations of Commercial Office Space: Thoughts on the Future of Suburban Office

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Major Structural Shifts At Work, Affecting Office Demand

Economics

Technology

Demographics

DISRUPTION/EVOLUTION

Office Future
This Cycle Characterised by High Degree of Secular/Structural Change

Retail
- experience
- shifting retailer formats
- click & collect
- online threat
- e-commerce growth

Office
- open-plan
- co-working
- AI & automation
- hot-desking

Industrial
- last-mile
- supply chain reconfig
- 3D printing

Living Sectors
- smaller households
- return to the city
- growth of key cities
- student mobility
- "Generation Rent"
- ageing population

Office Future
The Demographic Backdrop: Millennials Are the Largest Cohort in the Workforce

NUMBER OF WORKERS BY GENERATION IN US LABOR FORCE

Source: Pew Research Center; Heitman Research
Where Will Millennials Want to Live?

Homeownership Rates by Age Cohort

Source: U.S. Census Bureau; Heitman Research

Office Future
Flattening of Fundamentals in US Office

OFFICE COMPLETIONS, NET ABSORPTION, AND VACANCY
US 2001-2018 (YEARS ENDING Q4)

Source: CoStar; Heitman Research
Top-Quality Office Buildings Capturing Most of the Demand

AVERAGE ANNUAL DEMAND GROWTH BY BUILDING QUALITY 2004-2018 (3Q)

Source: CoStar Portfolio Strategy; Heitman Research

Office Future
Office Construction Peak Lower Than Past Expansions

NATIONAL OFFICE SQUARE FOOTAGE UNDER CONSTRUCTION 1998-2018 (3Q)

Source: CoStar Portfolio Strategy; Heitman Research

Office Future
Chicago Office Vacancy by Submarket Q4 2018

Downtown Submarkets
- N. Michigan 7.5%
- River North 8.0%
- South Loop 8.5%
- West Loop 12.6%
- Central Loop 11.0%

Source: CoStar, Heitman Research
The Good News: The Suburbs are Where Office Work Gets Done, But ...

### Inventory (af)

<table>
<thead>
<tr>
<th></th>
<th>CBD</th>
<th>Suburban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>1,572,988,667</td>
<td>2,603,578,111</td>
<td>4,176,566,778</td>
</tr>
<tr>
<td>% of inventory</td>
<td>37.7%</td>
<td>62.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Chicago - IL</td>
<td>148,606,452</td>
<td>99,707,882</td>
<td>248,314,334</td>
</tr>
<tr>
<td>% of inventory</td>
<td>59.8%</td>
<td>40.2%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### Net Completions - 12 month (af)

<table>
<thead>
<tr>
<th></th>
<th>CBD</th>
<th>Suburban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>24,420,279</td>
<td>25,833,328</td>
<td>50,253,607</td>
</tr>
<tr>
<td>% of inventory</td>
<td>48.6%</td>
<td>51.4%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Chicago - IL</td>
<td>2,282,221</td>
<td>-</td>
<td>2,282,221</td>
</tr>
<tr>
<td>% of inventory</td>
<td>100.0%</td>
<td>0.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: JLL, Heitman Research

Office Future
Most New Chicago Office Space is Downtown
The Bad News: Suburban Office Needs Work

Characteristics of buildings that work today:

- Parking: need 5-8 spaces per 1,000 sf due to densification of office users
- Provide open space – roof decks, terraces
- Near transit, preferably multimodal (car, train, bus, bike, foot, scooter)
- Amenities (fitness centers, conference rooms, community gathering spaces)
- Experience
- Walkability
- Why suburban versus urban – corporate identity/branding opportunities as well as ability to create a campus feeling
What to Do with the Functionally or Locationally Obsolete?

- Re-use options: apartments and condos through conversion and tear downs
- Libraries
- Live-work units
- Light industrial
- Climate-controlled self storage
- Community colleges and other educational institutions
- Medical office
- Maker space