

1 **ILLINOIS COMMERCE COMMISSION DOCKET 23-0055 & 22-0486**

2 **DIRECT TESTIMONY OF T.J. BROOKOVER**

3 **I. Witness Introduction**

4 **Q. Please state your name, business address, and present position.**

5 A. My name is T.J. Brookover. My business address is 111 East Wacker Drive, Chicago,
6 Illinois. I am Regional Manager at AmTrust Realty Corp. (“AmTrust Realty”). I am also
7 a member of the Board of Directors of the Building Owners and Managers Association of
8 Chicago (“BOMA/Chicago”).

9 **Q. Please state your educational background and employment and business experience.**

10 A. I hold a B.A. in Business Administration from the University of Pittsburgh. I have over 30
11 years of experience in the property management industry, including 24 years managing
12 commercial office properties in the greater Chicago area. I have experience in several U.S.
13 markets, but have been most focused on Chicago for the last nine years.

14 **Q. What are your duties and responsibilities as Regional Manager of Amtrust Realty?**

15 A. Generally, I oversee AmTrust Realty’s Chicago portfolio of six buildings, totaling over 5
16 million square feet of commercial office property in Chicago’s Central Business District.
17 This primarily entails managing the upkeep, operations, and maintenance of these
18 commercial office buildings. Prior to this position, I was the Director of Property
19 Management, Principle, and Board Member for the John Buck Company, a vertically
20 integrated commercial real estate firm.

21 **Q. On whose behalf are you testifying in this proceeding?**

22 A. I am testifying on behalf of BOMA/Chicago.

23 **Q. What are your duties and responsibilities as a member of BOMA/Chicago’s Board of**
24 **Directors?**

25 A. In my role on BOMA/Chicago's Board of Directors, I am responsible for helping guide the
26 strategic direction of the organization and creating a wide range of initiatives that advance
27 the commercial real estate industry in downtown Chicago. For approximately 15 years, I
28 have also served as either Chairman or Board Liaison to BOMA/Chicago's Energy and
29 Sustainability Committee.

30 **Q. Have you previously testified before the Illinois Commerce Commission?**

31 A. Yes, I previously provided testimony in Dockets No. 22-0432 & 22-0442 (cons.) regarding
32 Commonwealth Edison Company's ("ComEd") Beneficial Electrification Plan; Docket
33 No. 20-0872, regarding proposed revisions to ComEd's Rider NS; Docket No. 07-0166,
34 regarding an investigation into ComEd's rate design; Docket No. 05-0597, regarding
35 ComEd's proposed general increase in rates; and Docket No. 05-0159, regarding defining
36 a competitive electric supply procurement process in Illinois. I also recently submitted
37 written testimony in the ongoing Dockets No. 23-0068 & 23-0069, regarding Peoples Gas
38 proposed increase in rates and changes to rate design.

39 **Q. What topics will you be covering in your direct testimony?**

40 A. I will describe BOMA/Chicago and its interest in this proceeding. I will also explain a
41 number of serious economic challenges that Chicago's Central Business District is
42 currently experiencing, and make recommendations regarding how the Illinois Commerce
43 Commission should account for those challenges in this proceeding.

44 **Q. In addition to your prepared direct testimony, which is identified as BOMA Exhibit**
45 **1.0, are you presenting any other exhibits?**

46 A. Yes, I am also presenting BOMA Exhibits 1.1, 1.2, 1.3 and 1.4 which were prepared under
47 my supervision and direction.

48 Q. **Is BOMA/Chicago presenting testimony from any other witnesses in this proceeding?**

49 A. Yes. Mark Pruitt from the Power Bureau will also be providing testimony on behalf of
50 BOMA/Chicago. Mr. Pruitt's testimony generally focuses on an analysis of costs and
51 suggestions for revisions to ComEd's Grid Plan, the economic impact of ComEd's
52 proposed rate plan on BOMA/Chicago members, and the transfer of certain charges into
53 the ComEd ratebase under the proposed Grid Plan and Multi-year Rate Plan.

54 **II. BOMA/Chicago's Interest in this Proceeding**

55 Q. **Please describe BOMA/Chicago.**

56 A. BOMA/Chicago is a trade association that has represented Chicago office buildings since
57 1902. BOMA/Chicago is the oldest BOMA local association in the world.
58 BOMA/Chicago's members include 244 office, institutional, and cultural buildings in the
59 City of Chicago, and 190 companies that provide services to support operational
60 excellence. Based on the latest data available to us, BOMA/Chicago members make up
61 approximately 80 percent of the rentable office space in downtown Chicago. These
62 valuable assets are the core of one of the world's greatest central business districts.

63 BOMA/Chicago is a major contributor to the economic livelihood of the City of
64 Chicago and surrounding areas. As of 2019, BOMA/Chicago member buildings supported
65 over 33,000 jobs and housed 18,000 local, national, and international businesses with more
66 than 640,000 employees. In that same year, it was estimated that BOMA/Chicago
67 buildings supported local schools and public services through payments of more than \$1
68 billion in annual property taxes and that the Chicago office market injected more than \$5.2
69 billion into the local economy.

70 Q. **What is BOMA/Chicago's interest in this proceeding?**

71 A. BOMA/Chicago has long advocated for its members regarding policy, regulatory,
72 legislative, and legal issues. BOMA/Chicago has contributed to drafting new building
73 codes, advancing fire and life safety measures, negotiating mutually beneficial labor
74 agreements, and enhancing energy efficiency and sustainability practices. By advocating
75 on behalf of the owners and managers of its member buildings, BOMA/Chicago also
76 supports the businesses and institutions that are housed in them – businesses and
77 institutions that require quality office space and access to cost effective and reliable energy
78 supplies. BOMA/Chicago offers resources and contributes to advocacy efforts that support
79 our members’ efforts to build and maintain a vibrant economy by making Chicago an
80 appealing market for businesses to call home.

81 The results of the Grid Plan portion of this proceeding will have a direct impact on
82 energy reliability in Chicago, including the economically important and heavily populated
83 areas of Chicago, such as the Central Business District (“CBD”), where BOMA/Chicago
84 members are located. The results of the Multi-year Rate Plan (“MYRP”) portion of the
85 proceeding will have a direct impact on the continued economic viability and vitality of
86 BOMA/Chicago members, the tenants that reside within their buildings, and the CBD
87 generally.

88 **Q. Are BOMA/Chicago’s members customers of Commonwealth Edison (“ComEd”)?**

89 A. Yes. All of BOMA/Chicago’s 244 member buildings are located within ComEd’s service
90 territory. Electricity costs are one of the largest categories of expenses for
91 BOMA/Chicago’s member buildings, along with property taxes and labor.

92 **II. ComEd’s Grid Plan**

93 **Q. Are there any elements of ComEd’s Grid Plan that BOMA/Chicago believes are**
94 **important for its members?**

95 A. As discussed more specifically by Mark Pruitt in his direct testimony, BOMA Exhibit 2.0,
96 energy reliability and cost-effectiveness in the Chicago area are important and necessary
97 to support the businesses, institutions, and other entities occupying downtown buildings.
98 BOMA/Chicago is supportive of proposed elements in the Grid Plan that will help achieve
99 the important goals of reliability and lowest cost.

100 **III. Impact of ComEd’s Proposed Multi-Year Rate Plan**

101 **Q. What are BOMA/Chicago’s concerns with ComEd’s proposed Multi-year Rate Plan?**

102 A. BOMA/Chicago Ex. 2.0, the Direct Testimony of Mark Pruitt, will provide a more detailed
103 analysis of specific issues and concerns regarding the proposed MYRP. However, I
104 understand that ComEd is seeking the Commission’s approval for a MYRP that would
105 result in significant rate increases. Based on Mr. Pruitt’s analysis and the Direct Testimony
106 and Exhibits of ComEd, it appears that all customers, including BOMA/Chicago’s
107 members, will experience large rate increases as a result of ComEd’s proposal. Assuming
108 ComEd’s phase-in approach to costs is adopted, ComEd estimates BOMA/Chicago and
109 others falling within similar delivery classes would experience monthly bill increases
110 ranging from approximately 12.7 to 14.7% on an annual basis during the first three years
111 of the MYRP. See ComEd Ex. 17 at pp. 37-40. BOMA/Chicago’s members will be
112 negatively impacted by these rapid increases in utility rates. A dramatic change in utility
113 costs over a short period of time can cause financial distress for BOMA/Chicago member
114 buildings and the businesses they house, as well as other customers.

115 **Q. What options do BOMA/Chicago members buildings have to respond to increased**
116 **utility costs?**

117 A. Higher utility costs are typically passed on to tenant businesses in BOMA/Chicago member
118 buildings. Most commercial leases in downtown Chicago include provisions that assign a
119 certain portion of a building's projected operating expenses to each of the building's
120 tenants, based on the square footage that they lease. As costs rise beyond projections,
121 tenants may be assessed extra charges to account for any under-recovery by the building
122 manager/owner. In the event that a building is not fully leased, the portion of the building's
123 variable expenses that would normally be assessed to the tenant of that vacant space may
124 be either borne by the building itself or assessed as an additional charge to the building's
125 tenants, on top of the direct costs of the utility rate increases. In this way, increased utility
126 costs will directly impact the thousands of businesses, institutions and other organizations
127 that lease space in BOMA/Chicago member buildings.

128 **Q. What impact will increased utility costs have on tenants of BOMA/Chicago member**
129 **buildings?**

130 A. Commercial leases in downtown Chicago typically have terms of 5 to 15 years. As a result,
131 tenants facing increased utility costs passed on by building owners may seek to trim facility
132 expenses by subleasing space or decreasing other categories of expenses, for example, by
133 reducing their number of employees. In the long term, tenants have the option of choosing
134 not to renew their leases and shifting their employee base to other markets or remote
135 working, or reducing employee count in response to rising costs.

136 **Q. Are there other challenges currently facing the commercial real estate industry in**
137 **downtown Chicago?**

138 A. Yes. BOMA/Chicago members are also facing increased vacancies, decreased office
139 occupancy, increased interest rates, and other types of rising utility rates.

140 **Q. What is the current level of office vacancies in the Central Business District?**

141 A. As of Q1 2023, Colliers International (“Colliers”), a real estate services and investment
142 management company, reported that the vacancy rate in downtown Chicago office
143 buildings was 22.1%, which is a record high. BOMA Ex. 1.1, 2.¹ For comparison, at the
144 start of the COVID-19 pandemic Colliers reported a vacancy rate of 12.9%. BOMA Ex.
145 1.2, 1. Increasing vacancy rates are a key economic challenge facing BOMA/Chicago
146 members today. Colliers reports that “there is no expectation that overall vacancy will
147 decrease” in the Central Business District in the near term. BOMA Ex. 1.1, 2.

148 Additionally, Colliers reports (and BOMA/Chicago members are experiencing)
149 high levels of office sublease inventory in downtown Chicago. Currently, Colliers reports
150 that over 7.4 million square feet of office space is being offered for sublease, up from about
151 5.8 million square feet in Q1 2022. BOMA Ex. 1.1, 2. Space offered for sublease
152 represents space that is unused or unneeded by the existing tenant. As the existing leases
153 on that space expire, it is expected that vacancy rates in downtown Chicago will continue
154 to increase in the coming years. Moreover, many office tenants executed short-term lease
155 extensions during the COVID-19 pandemic. BOMA/Chicago anticipates that these
156 expiring short-term leases may further contribute to increasing vacancy rates in the near
157 future.

¹ The most recent report from Colliers International is available at <https://www.colliers.com/en/research/chicago/2023-q1-chicago-downtown-office-report> (last accessed May 9, 2023).

158 **Q: What impacts will increased vacancies have on BOMA/Chicago members, the**
159 **Central Business District, and the City of Chicago?**

160 A. Increased vacancies and the other economic challenges I will discuss below are serious
161 threats to BOMA/Chicago members' businesses and the economic vitality of the City of
162 Chicago. These challenges will lead and already are leading to reduced valuations for
163 buildings in downtown Chicago. *See* BOMA Ex. 1.1, 6. As building valuations decline,
164 so will property tax revenues in the Central Business District. This could ultimately
165 threaten the City's revenues, requiring cuts to services or re-allocation of lost tax revenue
166 to other taxpayers, such as homeowners.

167 The economic conditions created by the COVID-19 pandemic and the vacancy and
168 office occupancy trends I discuss in this testimony have already led to reduced direct
169 employment and engagement of outside contractors by BOMA/Chicago members for
170 services such as building operations, engineering, cleaning, etc.

171 **Q: Does reduced employee occupancy play a role in the challenges that you are**
172 **discussing?**

173 A. Yes. The commercial office building industry continues to adjust to the impacts of the
174 COVID-19 pandemic and the resulting increase in work-from-home employment. During
175 2020, employee occupancy in commercial office buildings dropped rapidly and
176 precipitously. While some business and employees have returned to the office, employee
177 occupancy remains below 50% of pre-pandemic levels.

178 BOMA/Chicago conducts a monthly survey of its member buildings regarding
179 office occupancy, in which members identify the number of tenant employees in a building
180 on the busiest day in the prior week and compare that to the number of employees in that

181 building on a typical pre-pandemic workday. BOMA/Chicago's most recent survey data,
182 which is attached as BOMA Ex. 1.3, shows that in April 2023 downtown Chicago office
183 building occupancy was approximately 43% of prepandemic employee counts. BOMA
184 Ex. 1.3. Occupancy in the Central Business District has plateaued over the past year, with
185 rates consistently remaining between 40-43%. *Id.*² Reduced office occupancy is
186 contributing to the increased office vacancy rates I described earlier in my testimony.

187 **Q. Are there any other areas of economic concern that the Commission should be aware**
188 **of as it considers ComEd's proposed MYRP?**

189 A. Yes. First, as noted in the Direct Testimony of ComEd witness Frank C. Graves, interest
190 rates have risen in recent years. ComEd Ex. 14.0, 13-14. As a capital-intensive business,
191 increased interest rates have a significant effect on the commercial real estate industry.
192 These interest rate increases may have significant impacts across the country, including in
193 downtown Chicago, and may ultimately contribute to increased rents, higher vacancies,
194 lower building valuations, and reduced property tax revenues.³

195 Second, like many other ComEd customers, BOMA/Chicago will also be impacted
196 by Peoples Gas's proposed rate increase, currently pending in ICC Dockets No. 23-0068

² These trends are consistent with reports published by Kastle Systems drawn from office keycard data from 2,600 buildings and 41,000 business in 47 states. That data shows that average occupancy levels nationally have risen steadily in the past three years, but continue to be only about 50% of pre-pandemic levels. *See* <https://www.kastle.com/safety-wellness/getting-america-back-to-work/> (last accessed May 9, 2023).

³ New York Times, "Stress Builds as Office Building Owners and Lenders Haggles Over Debt" (Apr. 27, 2023) <https://www.nytimes.com/2023/04/27/business/economy/office-buildings-banks-economy.html?smid=nytcore-ios-share&referringSource=articleShare> (last accessed May 9, 2023).

197 & No. 23-0069 (cons.). Together, a rise in the Peoples Gas and ComEd utility rates could
198 lead to major, and possibly financially untenable, increases in utility costs for
199 BOMA/Chicago members and other customers.

200 **Q. Why is the current state of the business environment in downtown Chicago relevant**
201 **to ComEd's MYRP?**

202 A. As energy prices rise, office rents will increase and further de incentivize businesses from
203 expanding leasing and occupancy. The large increase in rates that will result from ComEd's
204 proposal will have a strong negative impact on the leasing and occupancy in downtown
205 Chicago.

206 As I noted earlier in my testimony, it appears that ComEd's MYRP proposal would
207 lead to historically larger rate increases for non-residential customers such as
208 BOMA/Chicago's member buildings. It is important that the Commission understand and
209 account for the fact that there are a number of serious economic challenges currently facing
210 non-residential utility customers, particularly large commercial customers. A rapid and
211 substantial increase in utility rates would only add to these stressors, and could have
212 negative impacts on the City's and the region's economy, including potentially decreasing
213 the property tax revenue that is collected by the City of Chicago from the Central Business
214 District. Increased rents and other costs borne by commercial tenants could also lead
215 businesses in Chicago to reduce their employee headcounts, move their offices to other
216 jurisdictions or out of state, or to transition to remote working.

217 Maintaining lower, reasonable energy rates helps attract investors and tenants, and
218 supports the development of new office buildings in Chicago over other cities across the
219 nation. New downtown office building construction benefits the Central Business District

220 and City as a whole by creating jobs – most if not all of jobs within the building trades are
221 union jobs with good wages and benefits. However, with a majority of workers staying
222 home and vacancy on the rise, downtown office building construction has declined
223 significantly. While nearly 5.4 million square feet was under construction in the first
224 quarter of 2020 (BOMA Ex. 1.2, 1), Colliers reports that less than 2 million square feet are
225 currently under construction. BOMA Ex. 1.1, 2. Increased energy costs could contribute
226 further to that decline.

227 Rising vacancy and declining building values also lead to lower building
228 transactions. This in turn hinders correlated capital projects, downtown revitalization, and
229 tax revenues. There has been a downward trend in building transactions in downtown
230 Chicago in recent years. For example, in 2021, building transactions in the Central
231 Business District were valued at \$1.5 billion, down from a recent high of \$6.4 billion in
232 2015. See BOMA Ex. 1.4.

233 The City of Chicago has recently acknowledged the challenges facing downtown
234 Chicago, announcing a \$550 million investment program for the LaSalle Street corridor.⁴
235 This initiative, the City has explained, is a response to the “significant office and retail
236 vacancy rates exacerbated by the COVID-19 pandemic and its ongoing market trends.”⁵
237 This program underscores the current business challenges facing the Central Business
238 District and demonstrates the City’s significant interest in supporting the economic health
239 of the area.

⁴ <https://www.chicago.gov/city/en/sites/lasalle-street/home.html> (last accessed Apr. 26, 2023).

⁵ *Id.*

240 **Q. What is your recommendation to the Commission regarding ComEd's proposed rate**
241 **increase?**

242 A. I recommend that the Commission carefully consider the impacts of the proposed MYRP,
243 and related rate increases on customers, including non-residential customers like
244 BOMA/Chicago members. The Commission should minimize the overall size of rate
245 increases from the MYRP.

246 **Q. Does this conclude your prepared direct testimony?**

247 A. Yes, it does.