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BOMA CHICAGO

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Dear Members, Colleagues and Friends of BOMA/Chicago,

The way we work and how we work is changing – and it's changing quickly. This continued evolution has immediate and long-lasting impacts on our economy. To fully assess the impact BOMA/Chicago's membership has on the local economy and trends influencing the Chicago commercial office building industry, we recently completed our latest Economic Impact Study, our third in the last ten years. This study sought to build on and update our last study, which was conducted in 2012.

So, what did we learn?

First, the good news. As a globally competitive city, Chicago's commercial real estate market continues to gain momentum.

Since 2012, average vacancy in Chicago's Central Business District (CBD) has dropped more than 34 percent, averaging 10.3 percent in 2016, and gross rents have increased 23.5 percent, averaging $38.20. These gains are surely strengthened by the job growth Chicago has experienced over recent years, along with a continued diversification of industries. Moreover, Chicago remains a corporate headquarters hub, with Fortune 500 companies expanding two-fold and the number of businesses housed in Chicago office buildings increasing by 25% since 2012.

What is contributing to the increases in occupancy?

Our research indicates there are several key trends driving this.

- ***Chicago has earned its place as a robust tech hub.*** Many of the largest tech companies have expanded into Chicago, seeking to benefit from the city's highly-educated talent pool. Over the past five years, the tech industry has absorbed over 9 million square feet of Chicago real estate.

- ***The migration of corporate tenants from the suburbs to Chicago has seen a seismic shift since 2010.*** A trickle of companies that started with Motorola, United Airlines and BP Trading several years ago, has turned into a steady stream of major employers that see downtown Chicago as the absolute best location for their talent attraction, retention and innovation strategies. From 2012 to 2016, 75 companies have relocated nearly 4.29 million square feet downtown from the suburbs.

- ***Shared space operators are gaining presence.*** Since 2011, shared space companies have doubled their footprint annually in the CBD, bringing the total size of this industry to more than 2.38 million square feet. In comparison, most of the largest shared space operators did not exist in Chicago when our last study was conducted in 2012.

What is the impact of this steady growth and momentum in the market?

Chicago's office buildings are more than just a stunning skyline; they contribute to our economy, city and environment in myriad ways.

Chicago commercial office buildings spent nearly $2.2 billion in operating expenditures in 2015, injecting $4.6 billion into the local economy – an increase of 31.3 percent from 2012. New personal earnings – labor income generated as a result of both the jobs supported directly by this spending and the jobs supported indirectly by the re-spending of these dollars for consumer goods and services – reached $1.4 billion, representing a 33.4 percent increase from 2012.

Chicago's office buildings also continue to be national leaders in sustainability. Buildings owners and managers have embraced energy efficiency not only because it's the right thing to do, but also because energy reduction has proven to reduce costs for their assets and for their tenants. In 2016, office buildings across the Chicagoland led the nation with the greatest total square footage of buildings with Energy Star or LEED certifications, increasing its percentage of green stock by 6.5 percent from 2015 for a year-end total of 66 percent.

Despite many of these positive market indicators, threats still exist. These threats harm the ability of property owners and managers to attract and retain tenants, while also operating buildings in a sound and efficient manner.

What are these threats and why are they so critical to our ability to compete?

- ***Operating expenses continue to rise.*** Since 2012, operating expenses have increased 18.7 percent. The vast majority of this increase is driven by labor costs (direct and indirect), regulatory requirements and fees. Though proactive cost control measures can help to mitigate rising operating expenses, these factors will be of critical importance to the market's continued viability in the years ahead.

- ***Chicago's office buildings continue to shoulder a significant share of the property tax burden.*** In fact, commercial properties pay over 36 percent of all property taxes collected in the City of Chicago, of which office buildings pay nearly half. Moreover, commercial buildings are assessed at a rate that is 250 percent of the rate of assessment for residential property, driving up their tax bills disproportionately as compared to residential. Property taxes – the highest recoverable expense for office buildings – have increased 34.4 percent since the 2012 Economic Impact Study.

- ***The current economic climate for Chicago property owners has a degree of uncertainty.*** The State of Illinois, Cook County and the City of Chicago continue to face pressures stemming from massive pension funding issues and a long-lasting budget stalemate in Springfield, the effects of which continue to impact the Chicago Public Schools, social and city services and various city and county pension systems.

All combined, these financial, operational and political vulnerabilities create a profound trickledown effect. Inevitably, these costs are passed through to tenants in the form of increased rents or expense chargebacks, driving up gross rents. If these trends continue, this could harm Chicago's long-term ability to compete and retain tenants.

While these are very real challenges faced by building owners and managers, the overall market fundamentals remain strong. BOMA/Chicago will continue to advocate for our members, so the Chicago office market can maintain and enhance our status as a welcoming home for business for years to come.

Sincerely,

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