Future Adaptations of Commercial Office Space
Illinois Financial Forecast Forum
Mary K. Ludgin

January 24, 2020
National Office Numbers Flat; Local Market Conditions More Nuanced

OFFICE COMPLETIONS, NET ABSORPTION, AND VACANCY
US 2001-2019 (YEARS ENDING Q3)

Source: CoStar; Heitman Research
Premier Urban Office Districts Lead Rent Growth Across Most Metros

TRAILING 3-YEAR RENT GROWTH MAJOR MARKETS (Q3 2019)

- Charlotte
- Seattle
- Austin
- San Francisco
- Atlanta
- Los Angeles
- Phoenix
- Denver
- Nashville
- Dallas-Fort Worth
- Boston
- Chicago
- Washington
- New York
- Houston

Source: CoStar; Heitman Research
CBDs Have the Edge As an Office Location But...
The Opportunity for the Suburbs: Millennials Now the Largest Cohort in the Workforce

NUMBER OF WORKERS BY GENERATION IN US LABOR FORCE

Source: Pew Research Center; Heitman Research
## Attributes of Healthy Suburban Submarkets

### Q4 2019

<table>
<thead>
<tr>
<th>Rank</th>
<th>Submarket</th>
<th>Metro Area</th>
<th>Vacancy Q4, 2019</th>
<th>Submarket Market</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cupertino</td>
<td>San Jose</td>
<td>1.4%</td>
<td>8.3%</td>
<td>Tech stronghold, executive housing, university</td>
</tr>
<tr>
<td>2</td>
<td>520 Corridor</td>
<td>Seattle</td>
<td>3.2%</td>
<td>9.7%</td>
<td>Tech stronghold, exec housing, alt to downtown, walkable</td>
</tr>
<tr>
<td>3</td>
<td>North Central</td>
<td>Columbus</td>
<td>3.7%</td>
<td>8.8%</td>
<td>Established alternative to once-dead downtown</td>
</tr>
<tr>
<td>4</td>
<td>The Woodlands</td>
<td>Houston</td>
<td>10.0%</td>
<td>13.7%</td>
<td>Planned community. Mixed use. Exec housing</td>
</tr>
<tr>
<td>6</td>
<td>RDU</td>
<td>Raleigh Durham</td>
<td>7.0%</td>
<td>11.0%</td>
<td>Tech stronghold in car-oriented culture</td>
</tr>
<tr>
<td>7</td>
<td>Newton/Brookline</td>
<td>Boston</td>
<td>6.3%</td>
<td>15.7%</td>
<td>Transit served; mixed-use, amenitized, walkable</td>
</tr>
<tr>
<td>131</td>
<td>Near North</td>
<td>Chicago</td>
<td>9.0%</td>
<td>10.5%</td>
<td>University, mixed-use, transit served, walkable</td>
</tr>
</tbody>
</table>
They Will Work Here

Lively, walkable mixed-use districts are thriving

Legacy West - Plano, Texas

Avalon - Alpharetta, Georgia

Oak Park, Illinois

Tysons Corner, VA
Laying the Groundwork for Reuse of Suburban Office

Focus on conversion of individual buildings to alternative uses:

- Affordable housing
- Co-Working
- Educational facilities
- Medical Office
- Market-rate rental or for-sale housing
- Live-work
- Food/farming!
- Senior housing

Which uses are acceptable?

For acceptable uses, what changes to the regulatory environment do you need to consider to derisk the conversion process?
Laying the Groundwork for Making Single-Use Districts Mixed Use

Dead retail can be an opportunity, be it an enclosed mall or a vacant strip center.

Many suburban office buildings can’t be converted. Can land-use changes or incentives help make them walkable, mixed-use districts?
Do a Strengths Assessment

What characteristics does your community have that can help you compete for office tenants and residents?

- Proximity to transit
- Highly ranked school districts
- Charm-filled downtown
- Architectural character

Play to those strengths. Educate your elected officials about vision for the future and what it will take to get there.