



Fringe → Core

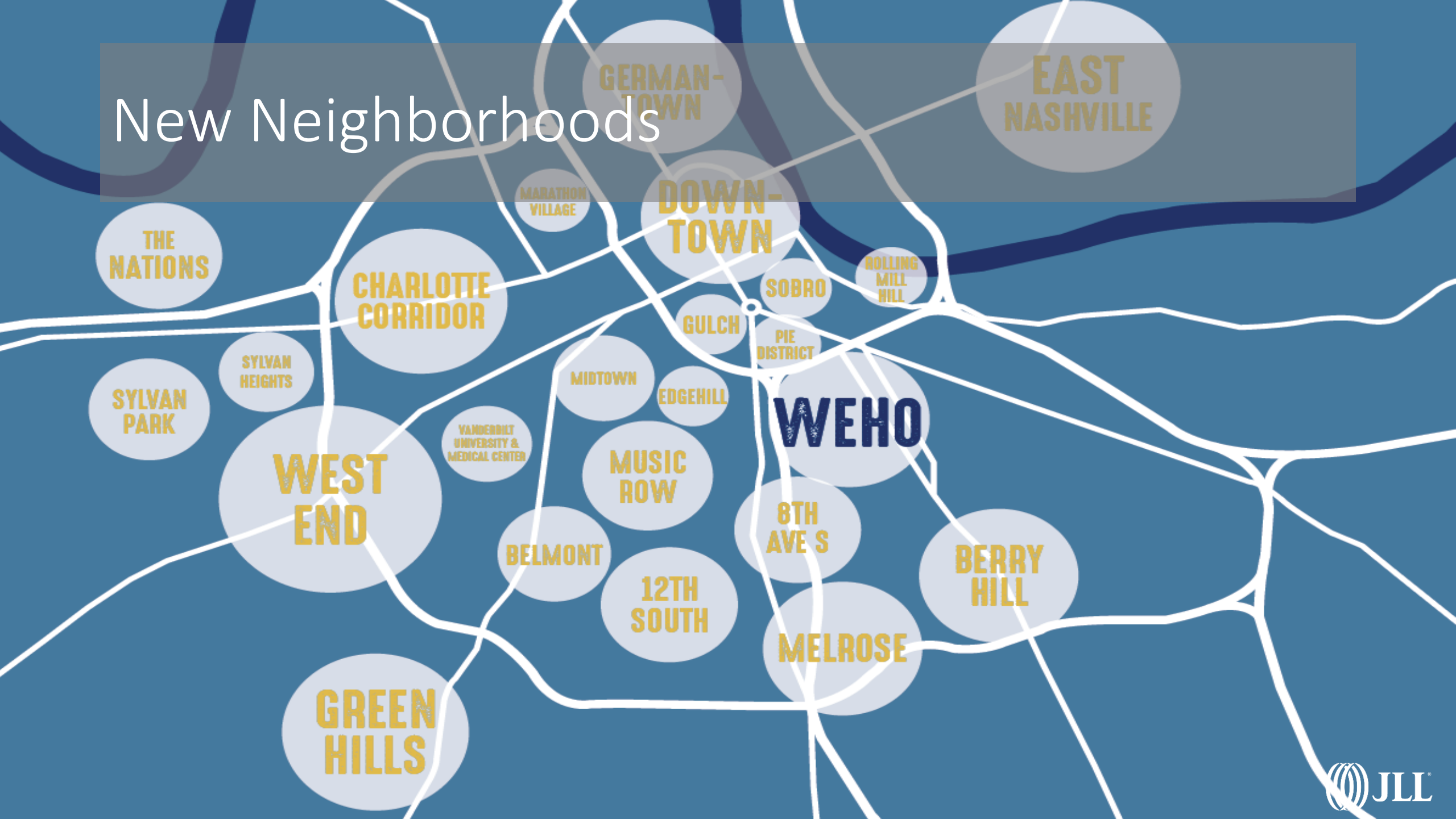
Commercial Real Estate Opportunities 2018

Christian Beaudoin, JLL

New Cities



New Neighborhoods



New Buildings



Why?

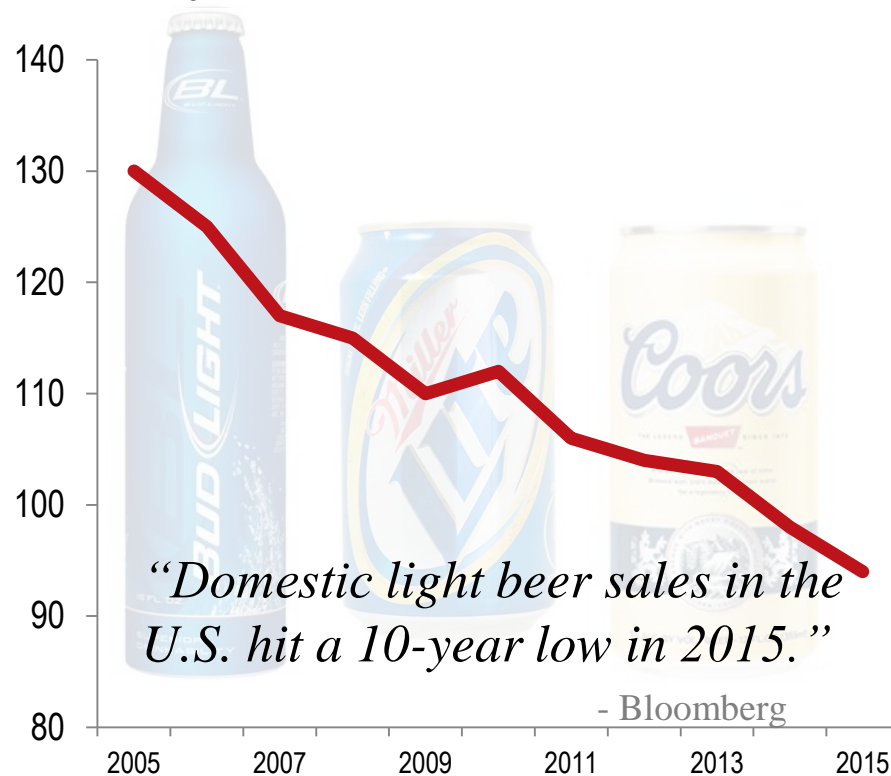


Changing Consumer Preferences

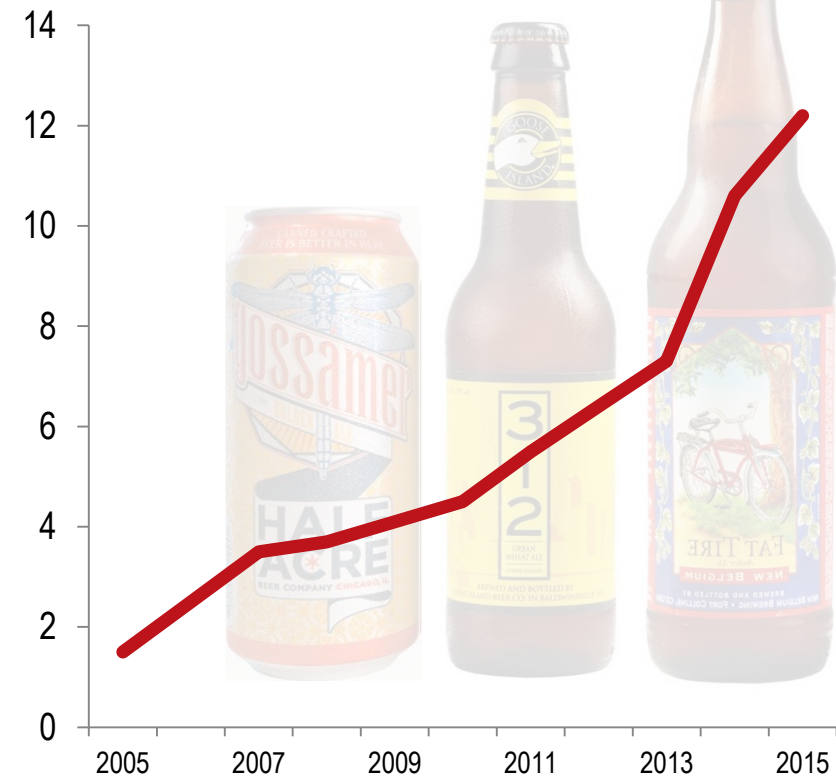


Changing Consumer Preferences

Major Label Beer Sales 2006 – 2016



Craft Beer Sales 2006 – 2016



Changing Consumer Preferences

501[®]
ORIGINAL

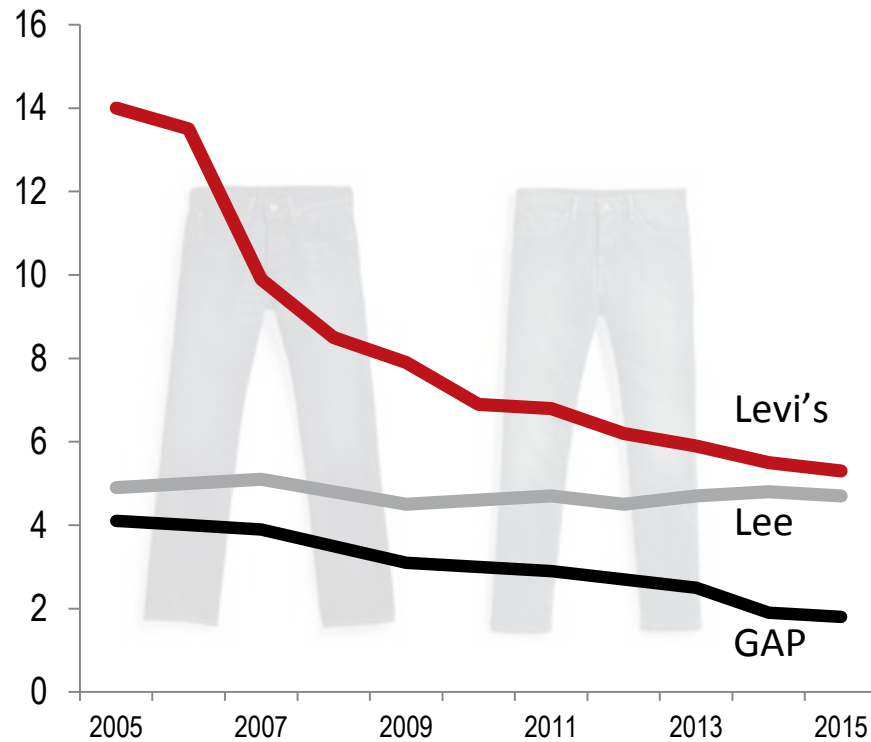


508[™]
REGULAR TAPER

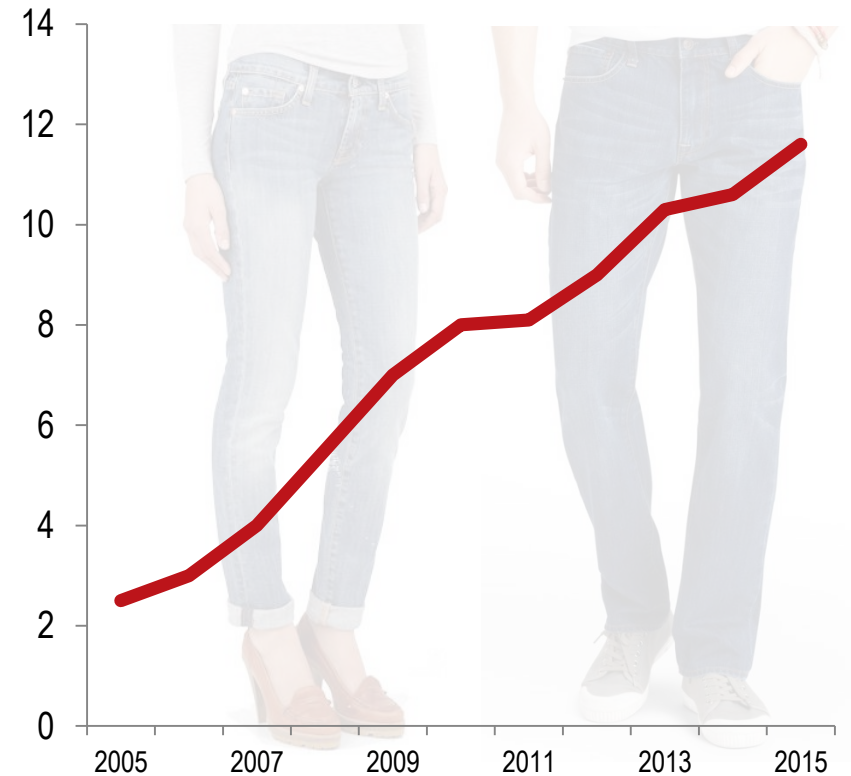


Changing Consumer Preferences

Jean Sales, Market Share 2006-2016



Custom Denim, Mkt Share 2006-2016



Customization is Key

CORPORATE
MASS PRODUCED
STANDARDIZED
UNIFORM
CONVENTIONAL

VS.

CUSTOM
AUTHENTIC
PERSONALIZED
INDIVIDUAL
DISTINCTIVE

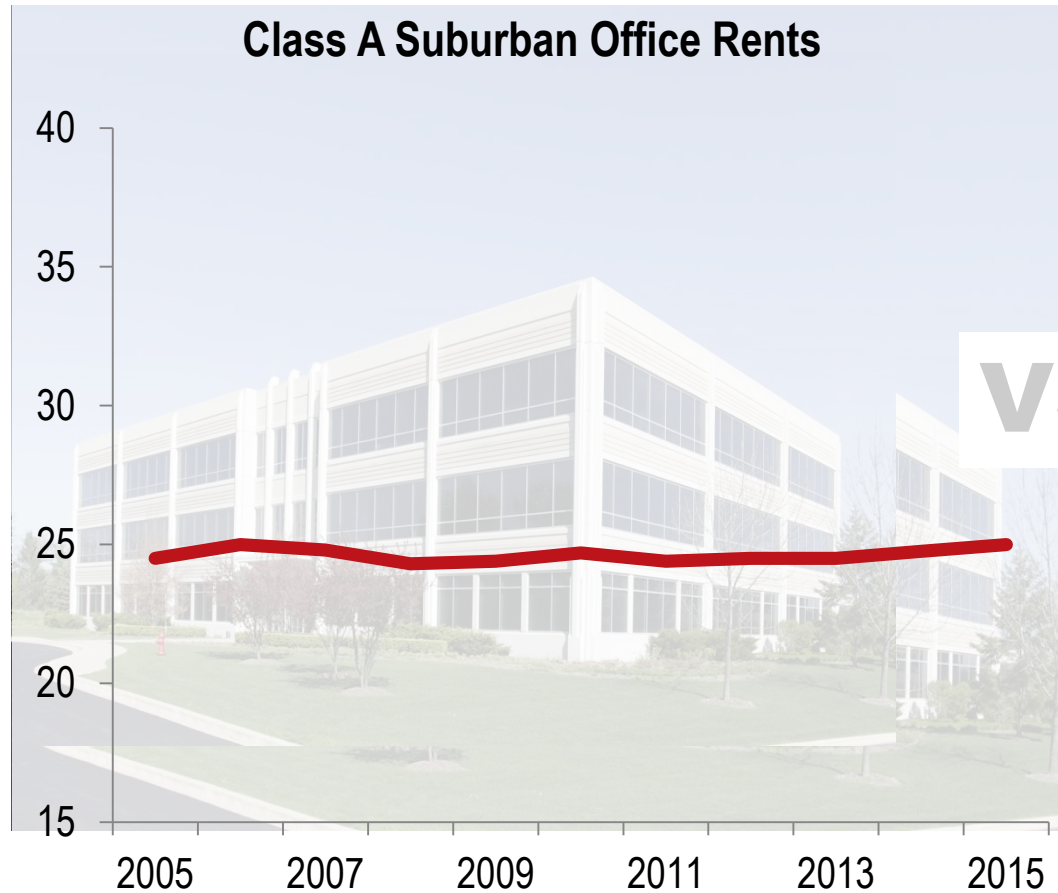
Customization Impacting Real Estate



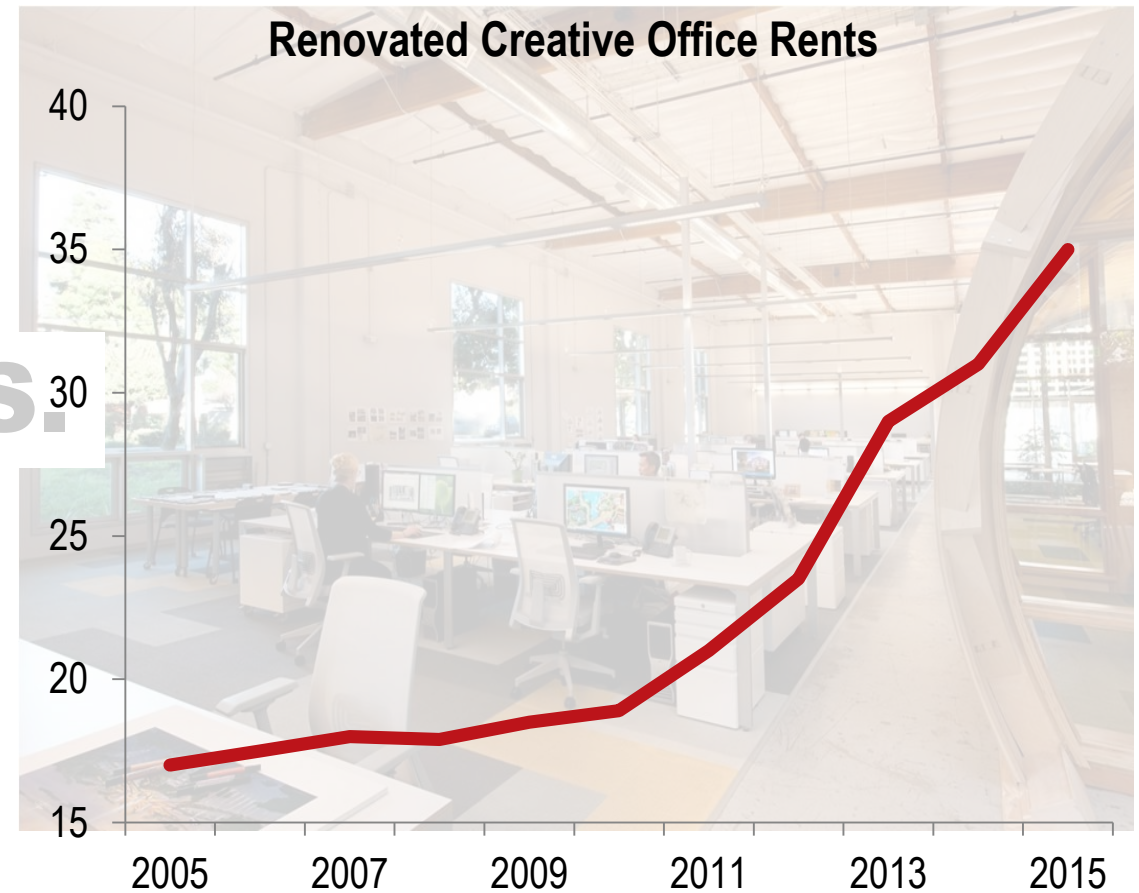
VS.



Customization Impacting Real Estate



vs.



Today's Workforce



Here?



Here.



Fringe Buildings Go Mainstream



Fringe Buildings Go Mainstream



Fringe Buildings Go Mainstream

\$10 M

Value in 2011

Fringe Buildings Go Mainstream

\$10 M

Value in 2011

\$300 M

Value in 2016 (\$574 per SF)

Character Counts



Cummins Station

60%

Vacancy rate ten years ago

1%

Vacancy rate today

Better Than New



Better Than New



Better Than New

Better than new?

Creative Repositioning and Tenant Demand | Q3 2015



Positive Momentum

Chicago's downtown office market is in the midst of an incredibly strong run. Dozens of suburban companies are relocating to the city, or opening satellite offices closer to their desired talent base downtown, leasing over 900,000 square feet of space since 2013. Tech occupiers have leased a total of over 5.5 million square feet since 2012. With unemployment declining 320 basis points since the start of 2014, the region is finally seeing sufficient job growth to sustain momentum among occupiers.

As a result of this demand, 2.3 million square feet of space have been absorbed from the market in the past four quarters and vacancy rates are approaching the 13 percent threshold for the first time since 2009. With these conditions, asking rents have now increased in six of the last eight quarters, increasing 7.1 percent over that span.

Following these positive signs, significant new developments are under construction for the first time in years. Most notably, 444 W Lake Street and 150 N Riverside Plaza will deliver in early 2017, adding 2.3 million square feet of premium, trophy space and marking Chicago's first expansion of supply since 2010.

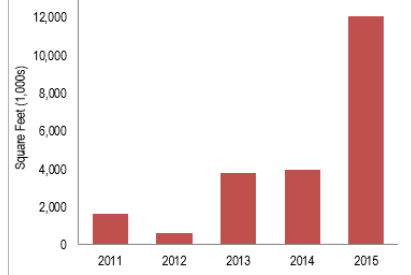
However, while new projects create excitement in the market, Chicago is experiencing a different wave of development that is quietly but surely transforming the leasing environment. A growing list of property owners are renovating old buildings to attract companies with young employees and the results seem to be working.

Since 2011 building renovations have totaled 22.0 million square feet of CBD office space, which is 16.4 percent of the market inventory. As shown in the chart (right), a majority of that activity has occurred since 2013, and 2015 is set to be a record year, with an estimated 12.0 million square feet of renovations completed.

Renovation projects are taking off for good reason. Repositioned office properties are leasing at a faster pace than their brand new competitors. Capital values for renovated properties are skyrocketing. Two factors seem to be driving the market demand for renovated office space in Chicago: simple economics and changing design preferences among tenants.



Total Area of Chicago CBD Office Buildings Renovated



Rent Comparison: New vs. Renovated Construction

Office Building Renovation Checklist

- Roof Deck
- Modern Fitness Center
- Conference Center
- Tenant Lounge
- Updated Lobby
- Bike Rooms/Storage

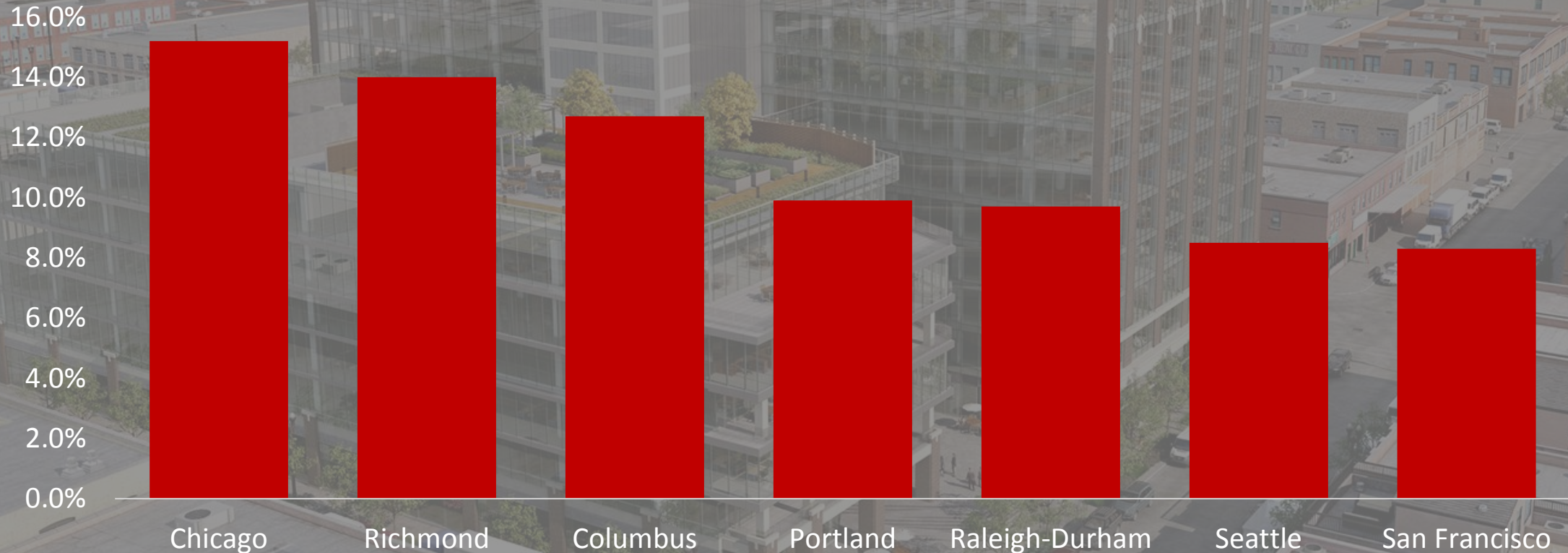


New Neighborhoods

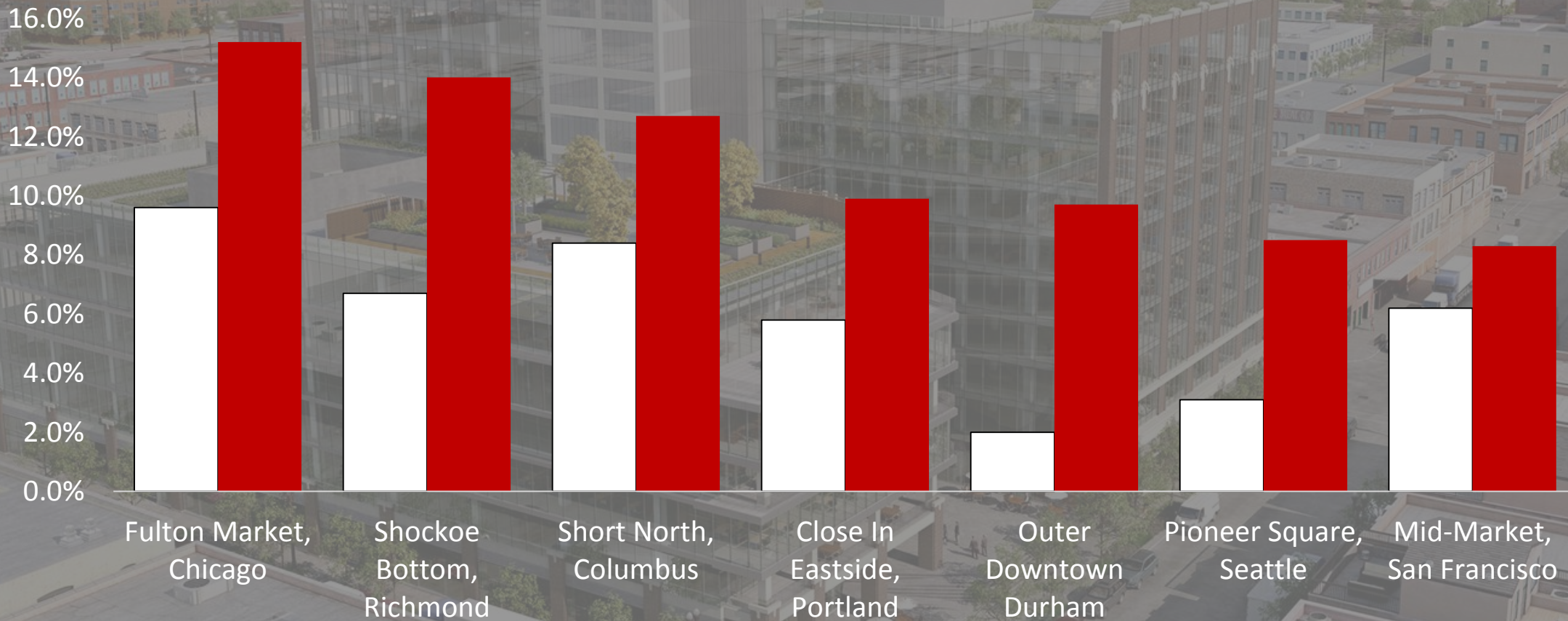


Fringe Neighborhoods

Market Vacancy (%)



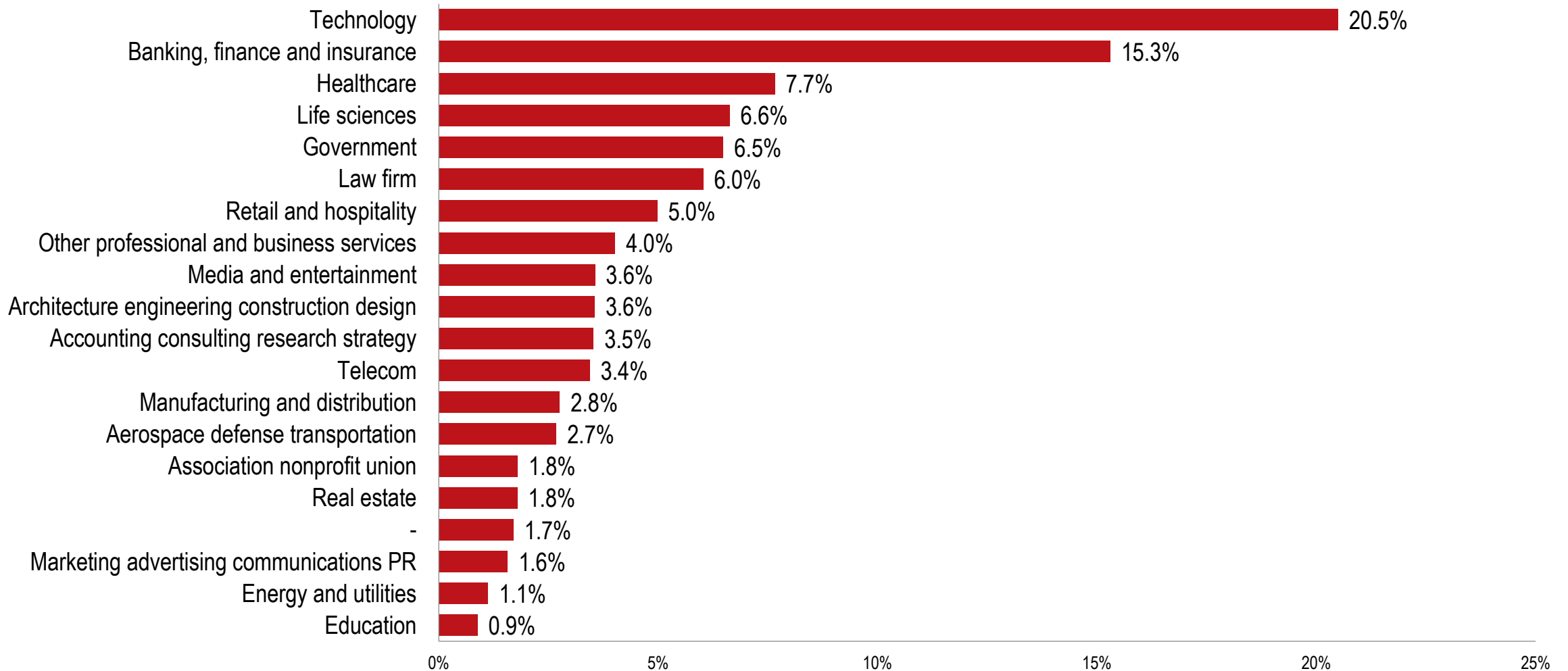
New Neighborhoods



New Cities



The technology industry remains a leader in leasing



So where can we find good market opportunities?



Opportunities...



Google Search

I'm Feeling Lucky

Meet this year's [Google Science Fair winners](#)



What do today's NERDS want?

= ECONOMIC =
OPPORTUNITY

{ QUALITY OF LIFE }

AFFORDABILITY

VIBRANCY

LIVE *work* **PLAY**

{ AUTHENTICITY }

AMENITIES

DENSITY

CHARACTER

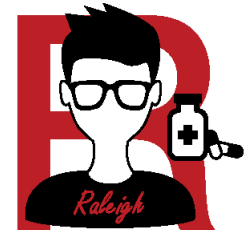
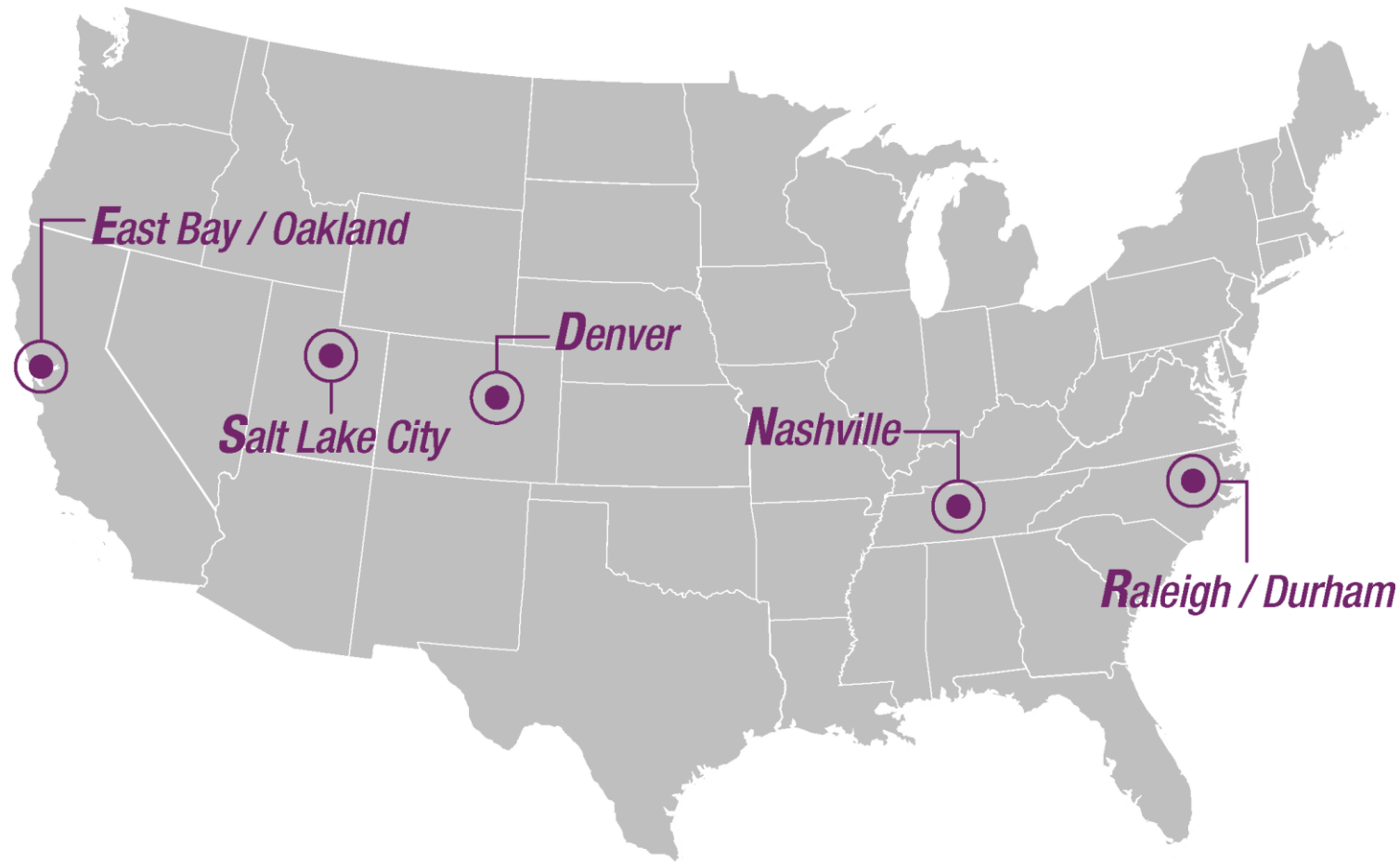
COLLABORATION

TRANSIT

cool
FACTOR

NERDS \ˈnɜːrds\ *n.*

Markets to which people, especially millennials, are moving in droves; and where Gross Metropolitan Product (GMP) is growing 2X more than the U.S. average



Follow the NERDS

EMPLOYMENT

2016 NERDS JOB GROWTH HAS OCCURRED

1.4X FASTER THAN THE NATIONAL AVERAGE

+2.3%

NERDS 1980-2015 average

+3.0

NERDS 2015 average

+1.3%

U.S. 1980-2015 average

+2.2%

U.S. 2015 average

DEMOGRAPHICS

POPULATION GROWTH HAS OCCURRED

2.3X THE NATIONAL AVERAGE SINCE 2010

+235,405

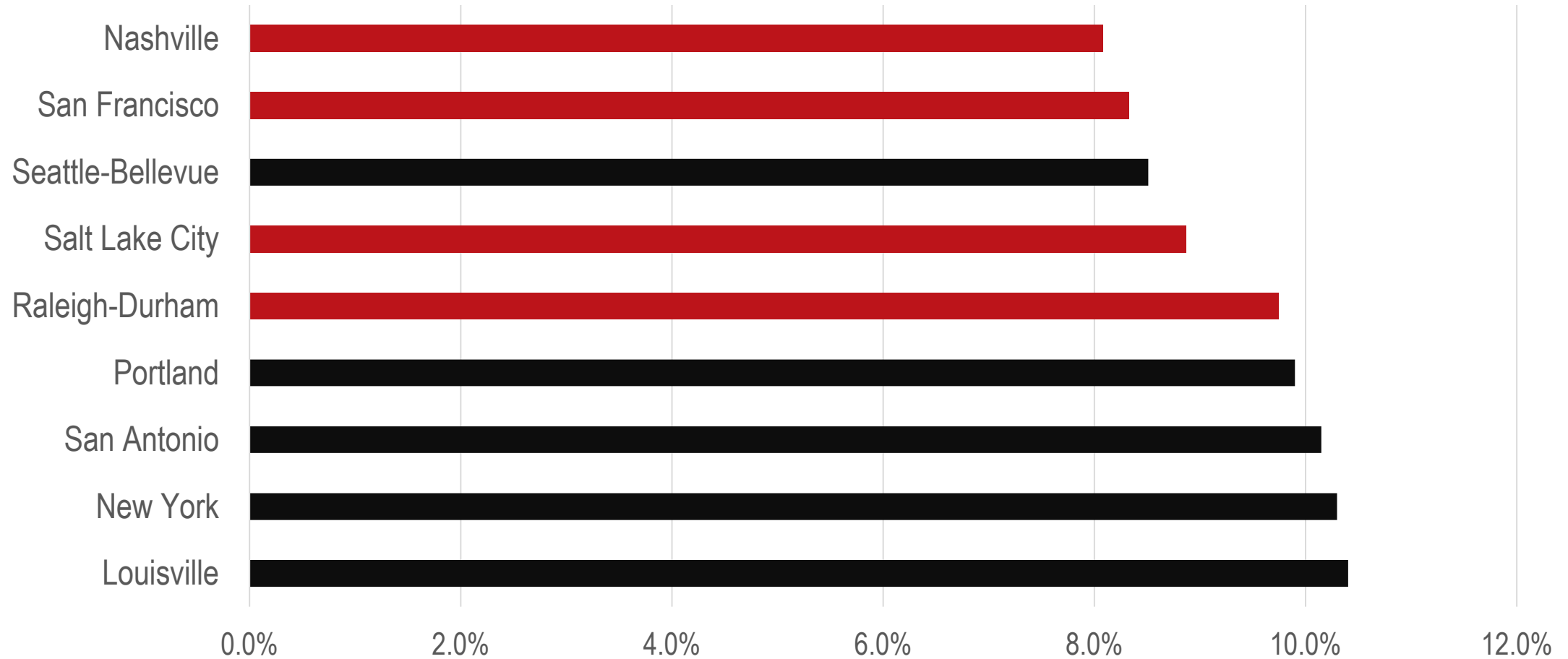
NERDS population gain in 2015

110%

NERDS college education levels above national average

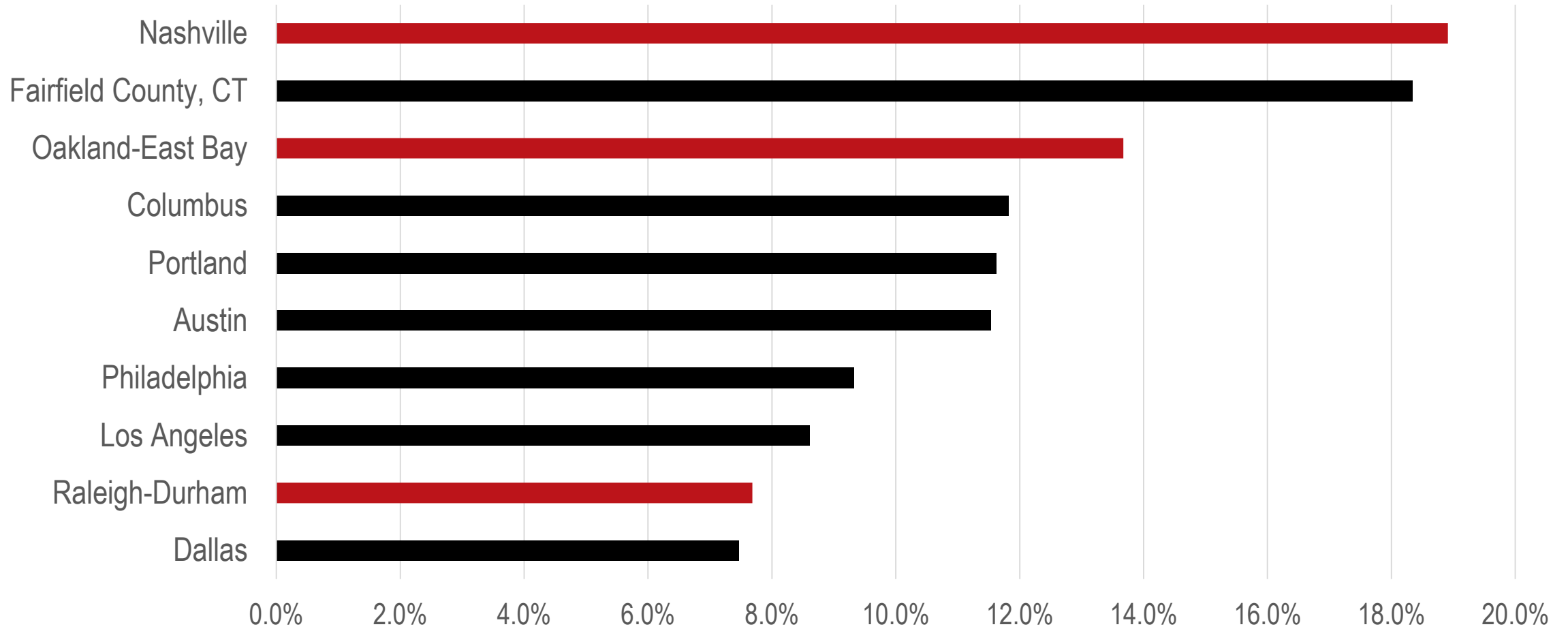
Revenge of the NERDS

Top Performing US Cities by Vacancy, 2017



Revenge of the NERDS

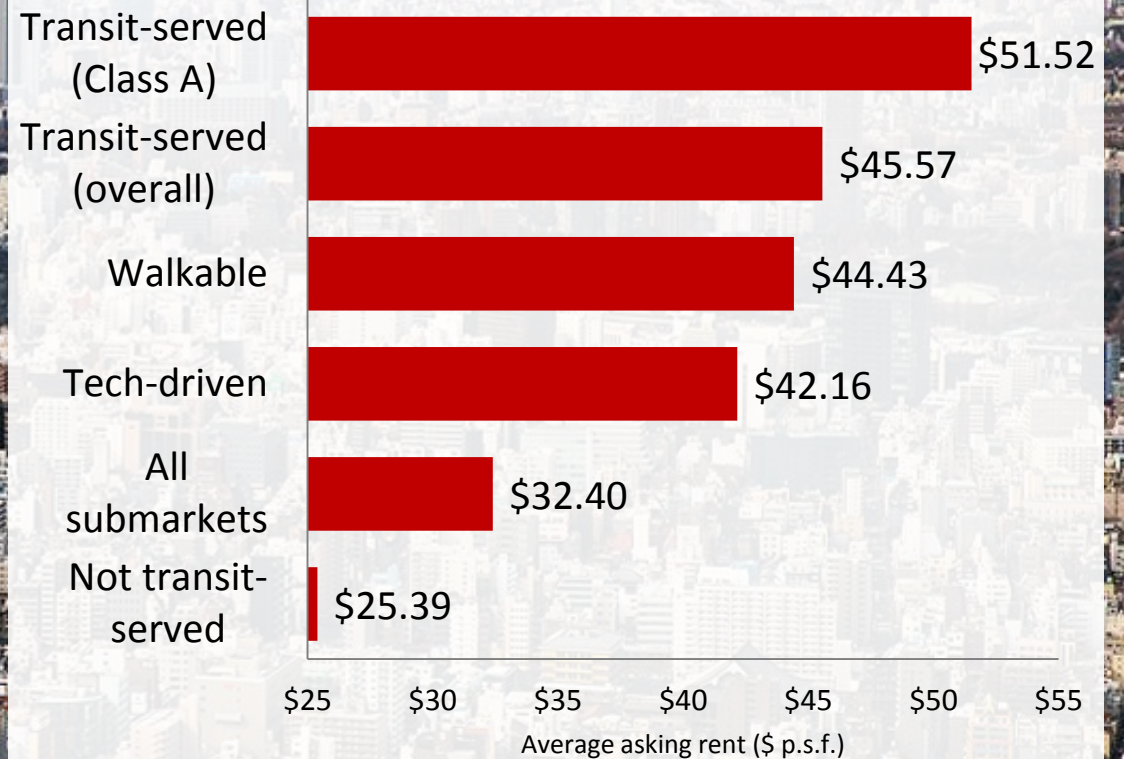
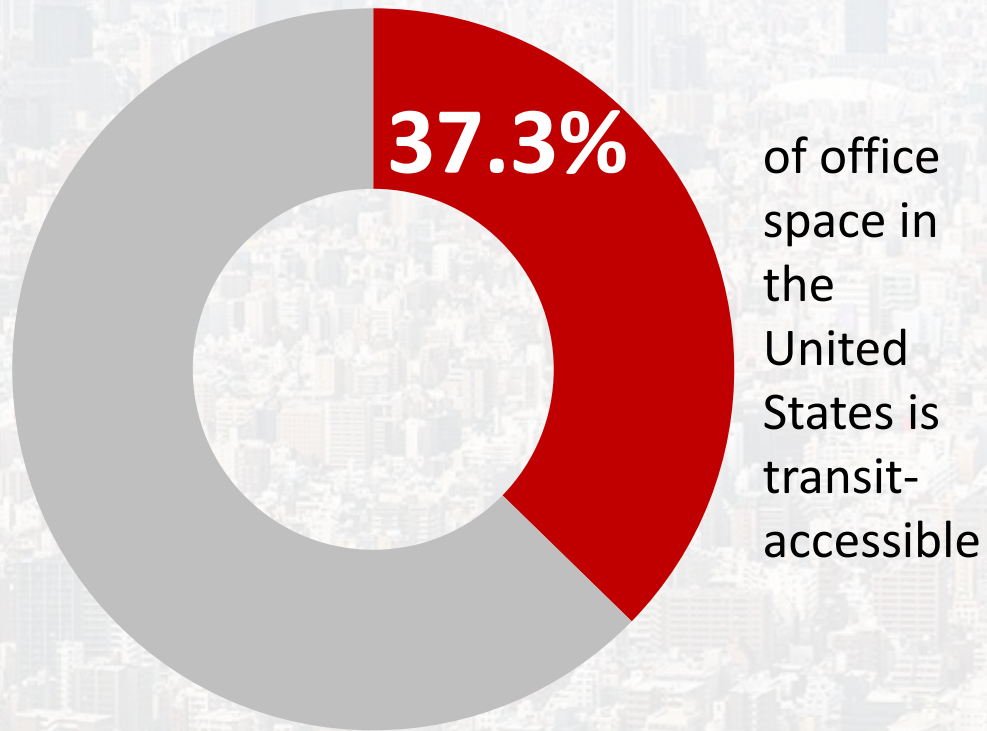
Top Performing Cities, Office Rent Growth (% , annual)



New Developments



Transit Matters



Transportation

- Local transit options are limited

87%

of employees drive alone to work every day. However, only:

53%

of employees prefer to drive alone. The rest wish there were more transit options.

Cities to Invest in: Remember the NERDS

**"Be nice to nerds.
Chances are you'll end
up working for one."**

-Bill Gates

Locations to Invest in: Remember the Fringe

Buildings to Invest in: Remember the Story

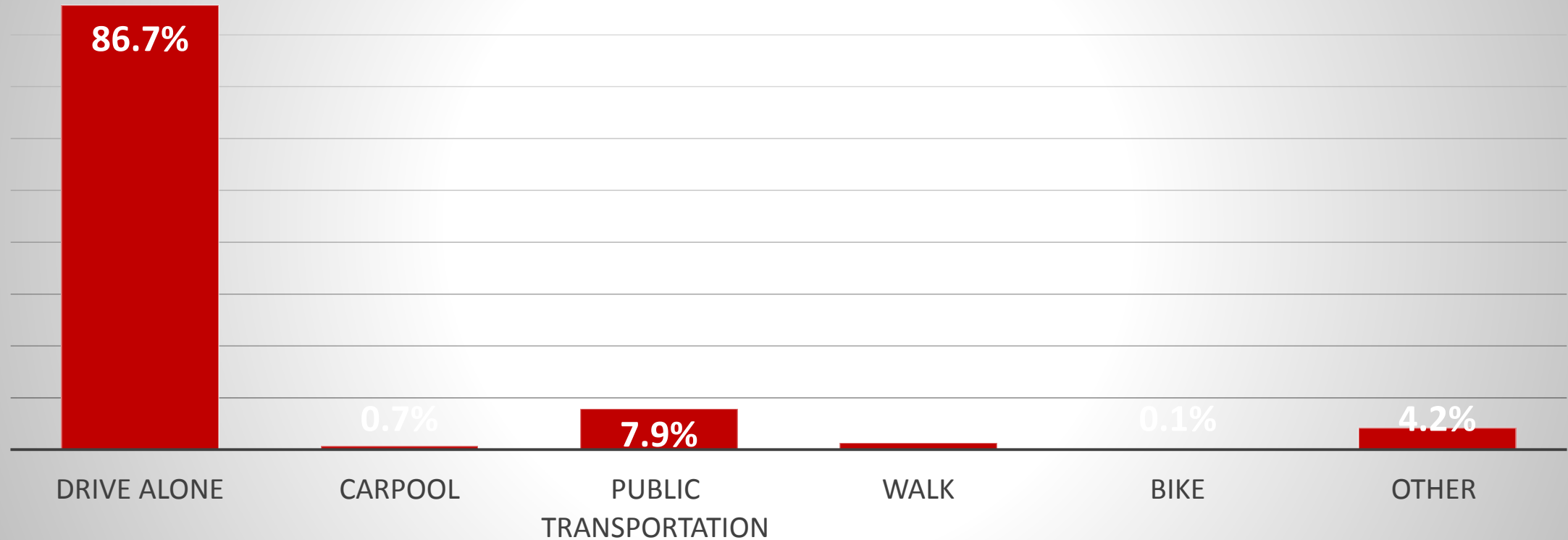


Thank you!



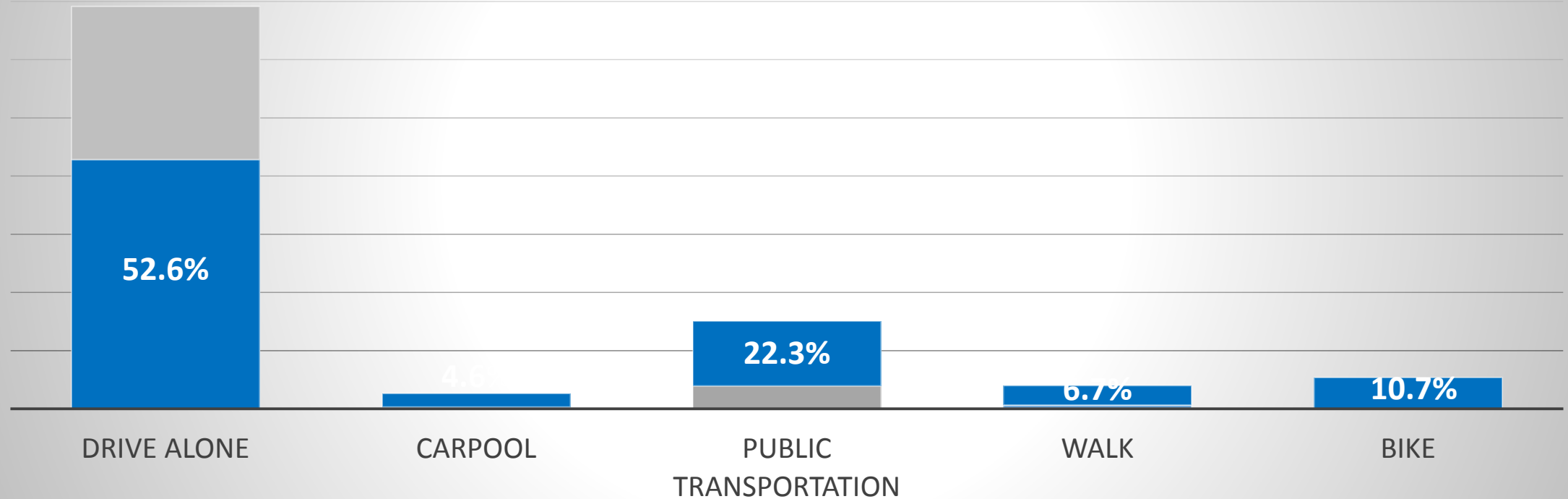
Transportation

How do you get to work each day?



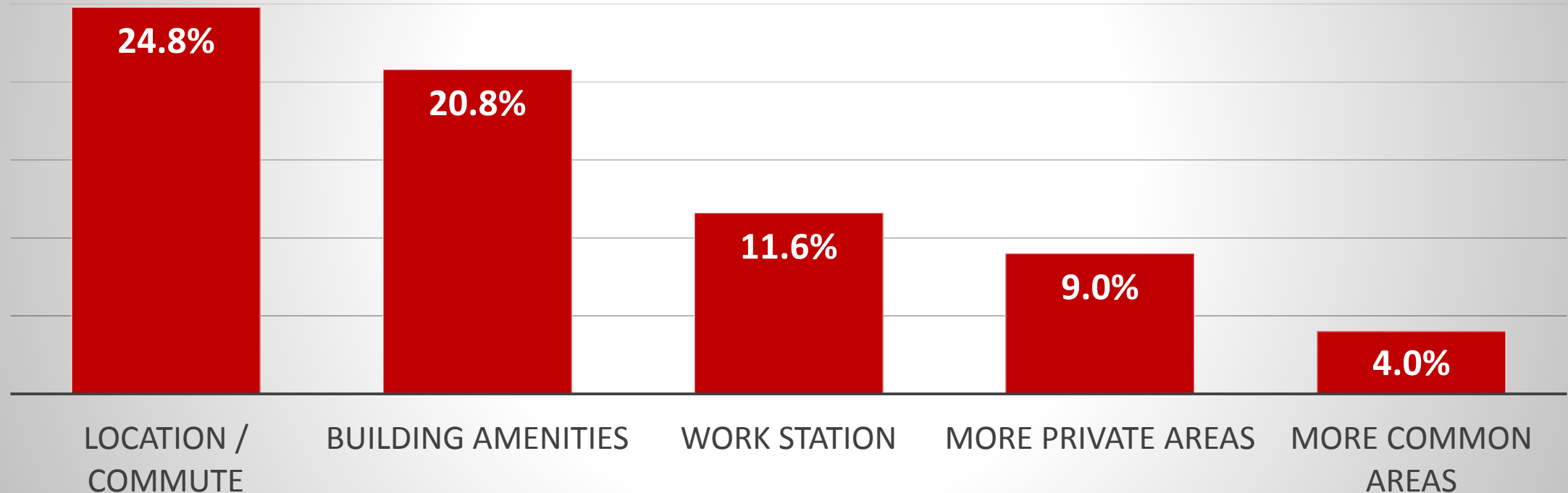
Transportation

How would you prefer to get to work each day?



Urbanization Driving Real Estate Preferences

If you could change one thing about your workplace, what would it be?



The Transit Premium



1501 Woodfield Drive

- Built 1980
- 365,000 RSF
- Class B+



1560 Sherman Avenue

- Built 1979
- 368,000 RSF
- Class B+

The Transit Premium



1501 Woodfield Drive

- Built 1980
- 365,000 RSF
- Class B+

Transit/Walk Score:

48



1560 Sherman Avenue

- Built 1977
- 368,000 SF
- Class B+

Transit/Walk Score:

96

The Transit Premium



1501 Woodfield Drive
Vacancy Asking Rent Transit/Walk Score:
35% **\$22** **48**



1560 Sherman Avenue
Vacancy Asking Rent Transit/Walk Score:
8% **\$32** **96**