

NAIOP Chicago Webinar | Downtown Office: To Lease or Not To Lease? Thursday, February 18, 2021

On Thursday, February 18, 2021 NAIOP Chicago hosted its second webinar of the year, entitled Downtown Office: To Lease or Not To Lease? Drew Nieman, *Executive Vice President*, Riverside Investment & Development moderated the discussion between panelists Bob Chodos, *Vice Chairman*, Newmark; Keely Polczynski, *Senior Vice President*, CBRE; and Brian Whiting, *President*, Telos Group, LLC.

In the investment world there are three big things that have changed, Keely said. Asset pricing, what the investor appetite is, and who the users are and what the momentum is. On the landlord side, Brian explained how owners have, unfortunately, been a lot more reactive than proactive. Operational aspects of buildings is what owners continue to struggle with and will continue to grapple with long term. It's really about going forward and the trends in office space moving forward.

Brian touched on what the new normal may look like, stating that it will likely look like the old normal. Collaboration is not going to go away; the young workforce will still want to be in a vibrant city. The question is how long will it be until we get there? Unfortunately, nobody knows and due to that, "the need for flexibility in those negotiations is extreme right now," Brian said. While the lenders and long term investors don't want that, expect to see a lot more creative deal making in the next few years.

Keely discussed the momentum and the future of life sciences in Chicago. In the last year, Chicago has had the largest increase in life sciences venture capital over any other market. While the market is smaller than that of Boston or San Francisco, Chicago boasts "clustering" of restaurants and nightlife all around Chicago which is a draw. Bob expanded stating the opportunity that Chicago has, "With life sciences you've got to combine that with private capital, with innovation center support from the municipalities that they reside in... Today there's a tremendous amount of interest in this space."

Drew questioned Keely, since people are still paying rent are there really people hurting? Keely explained that investments have been going more towards suburban apartments and necessity retail. However, she said, "Even though the perception is that office can really be a capital hog, I think that investment will flow back." It may be that the smart strategy is to finance it well and to rely on the cash flow of the property. In terms of capital rates, there's just not enough data to really talk about it, even on the leasing side as well.

Bob touched on the new WELL certification of buildings, as compared to the old LEED certification; "Today, air changes; air quality; those are going to be very meaningful

conversations and table stakes in order to win sophisticated deals with tenants.” Bob believes that WELL certification will be even more important than LEED ever was. Brian agreed, stating the importance of making buildings much safer. Though there will be a lot of weeding through information and technology, it will come down to air quality and reacting to future issues. “How can we make this scalable so it can react?”

Panelists concluded by answering questions from the audience regarding draw to downtown versus the suburbs, and the shadow/sub lease market for Class A buildings.