NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
CHICAGO CHAPTER

NAIOP Chicago Webinar | Institutional Investors: A Year Later
Thursday, March 18, 2021

In April of 2020, NAIOP Chicago was joined by a panel of industry experts to discuss the impact of COVID-19 on the CRE industry. On Thursday, March 18th those same experts, moderated by Steve Disse, *Principal*, Colliers International, joined NAIOP Chicago again. Ryan George, *Head of Deployment, Central Region*, Prologis; Mary Ludgin, *Senior Managing Director – Head of Global Research*, Heitman; and Ryan Walsh, *Director of Acquisitions*, Sterling Bay, shared their insights.

Steve began by asking panelists to give their thoughts and updates on the last year. Ryan George began by providing a REIT perspective, stating they opportunities for companies to focus on resiliency over efficiency. Mary commented on the last year stating that, "a lot of my predictions at the beginning of the pandemic were dead wrong". Ryan Walsh provided an office point of view, asking tenants over the last year, "what would it take YOU to get back in the office?" and noting the important of air quality in offices for the future.

Ryan George expanded upon tenant demand, predicting good trajectory on the market, especially doubling of build to suit. He said, "We have seen our space utilization back at near peak capacity. Lease signings last quarter were up 31%; we're at a similar trajectory this quarter. Proposals are also up and we are seeing customers make decisions a lot faster." He spoke on where Prologis' growth is, as well as their stock pricing.

Ryan went on to discuss Amazon's current role and the future of Amazon. With their level of activity, access to capital, and developers that are happy to take it on, they are currently being very selective. However, he said, "with such a large appetite for space, I don't think anybody in the development community is really concerned about getting their piece of the pie. Plus, they need their development partners." In terms of saturation, investor appetite does not seem to be slowing.

Steve then posed a question to Mary, asking what strategic advice Heitman is giving their clients. She stated that their clients are eager and have made allocations. Mary stated, "There is a lot of capital ready to deploy; there is a lot of capital that knows that the best time in a cycle to put capital to work is right after a recession, so this is the moment". She also noted that the US has medical office unlike the rest of the world so foreign clients are and will continue to look that way.

Mary went on to state that she doesn't know what interest rates are going to do, because nobody knows what interest rates are going to do. If the trend moves upward the initial reaction will likely be what we've seen before. She said, "there's some rate of cap rate compression even as interest rates rise." Right now, buyers are willing to buyo n compressed cap rates because their growth side of their total return are there.

Steve turned to Ryan Walsh to question him on the million-dollar question of the return to office. Ryan said that a lot of tenants are looking at Fulton Market and Lincoln Yards in a different light, especially over the CBD. Tenants are now looking to Chicago neighborhoods which means a big change in physical office. He noted the big change in the use of large floor plates; "Tools that were being used for densification are now being used to spread out". Ryan stated that many tenants have set June through September as their return to office. "Human psychology is a powerful thing and people want to be together."

Steve also asked Ryan Walsh about life science buildings and what that actually entails. He stated, "its not wildly different," though there is a larger focus on HVAC, water, and specific infrastructure differences. When you look at net rents, however, it is much higher. He predicts that this is where the world is going and where the money is headed. Chicago especially has all of the ingredients to be a successful market for life sciences.

The webinar concluded with addressing the property taxes in Chicago. Ryan Walsh stated that Chicago's net rent is still cheaper than those of the coasts. The ultimate idea is that while the taxes may rise, the rent will always be lower. Unfortunately, there are not a lot of other answers yet. However, Chicago still provides tremendous value in terms of talent and access.