

NATIONWIDE COVID-19 COMMERCIAL REAL ESTATE IMPACT STUDY

Selected Insights Among Midwest Office Decision-Makers
N=3,010 Respondents (Office Space Decision-Makers/Influencers) Nationally

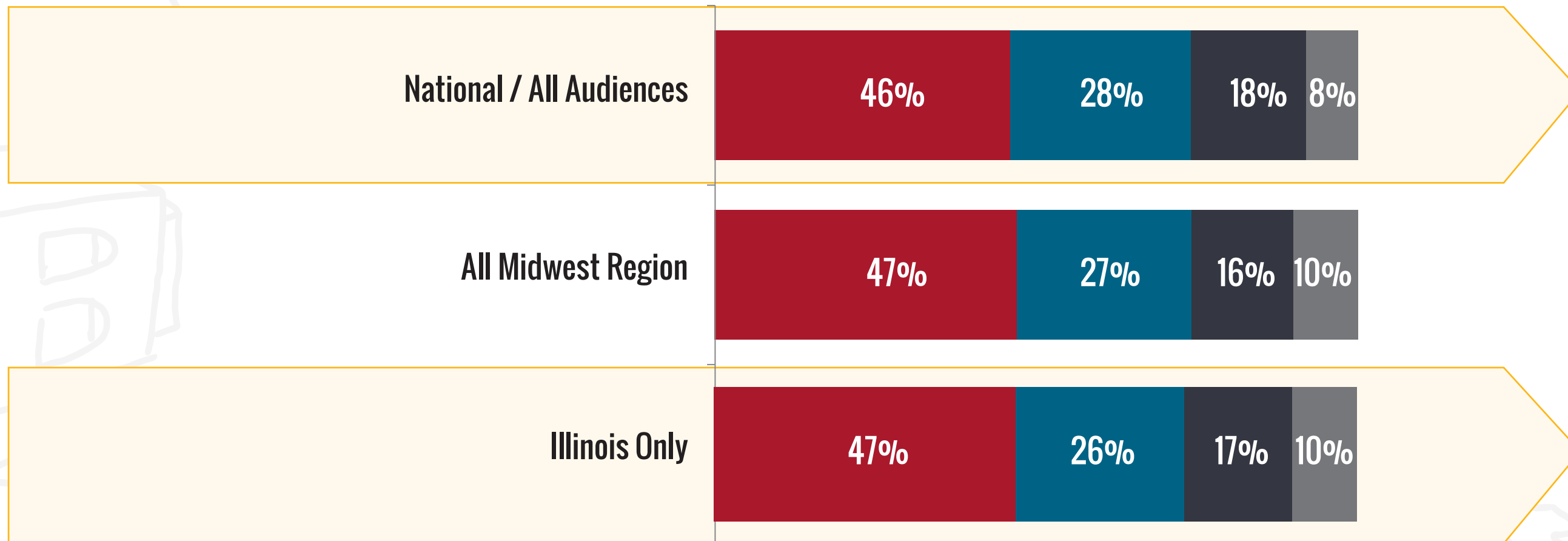
January 2021



VIEWS ON IMPORTANCE OF IN-PERSON OFFICE SPACE

- Respondents were asked if a series of statements/attitudes apply to them today, or could apply to them in the future.
- Overall three quarters of tenants (74%), rising to 77% of C-Suite/Owners believe their “office space is vital to conducting a successful business/operation).
- Views across the Midwest and in Illinois tend to mirror the national sample; this region is one of several driving “office vitality” views.

“We believe our in-person office space is vital to conducting a successful business/operation”



Office Tenants Nationwide Believe Office Space is or Will Be Vital to Conducting a Successful Business



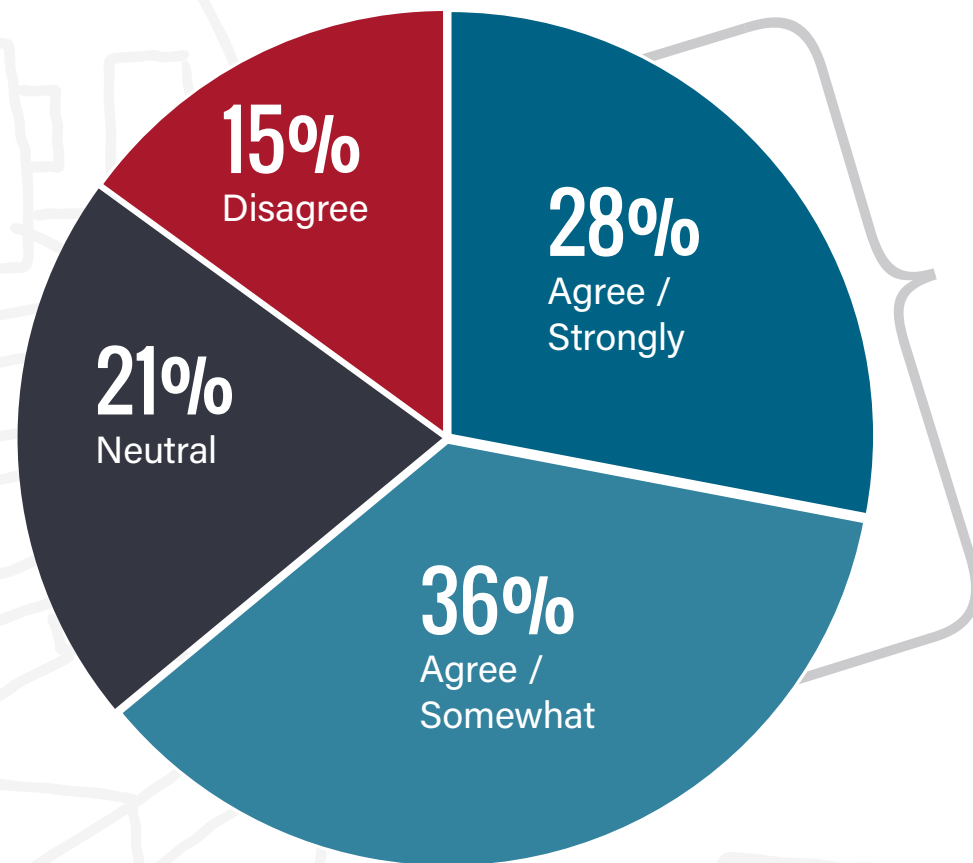
Among Illinois Office Tenants

■ Applies To Us Today ■ Could Apply to Us in Future ■ Doesn't / Won't Apply ■ Unsure

COVID-19 AS AN INFLECTION POINT OR TRANSFORMATION

- Almost two thirds of tenant decision-makers believe **coronavirus is a transformation or inflection point** for owners-operators, profiled below and at right.
- Views in the Midwest and Illinois align with the national sample, though there are some key points of variance among several office segments (see table at right).

Agree or Disagree - Is COVID-19 a Transformation?



65%

Nationwide Tenants Agree Coronavirus is a "Transformation"

60%

Among Midwest Tenants

63%

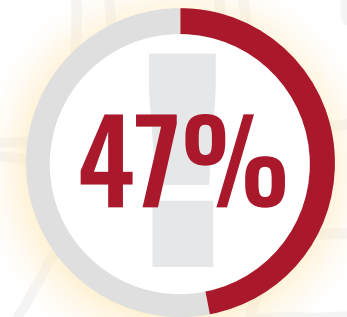
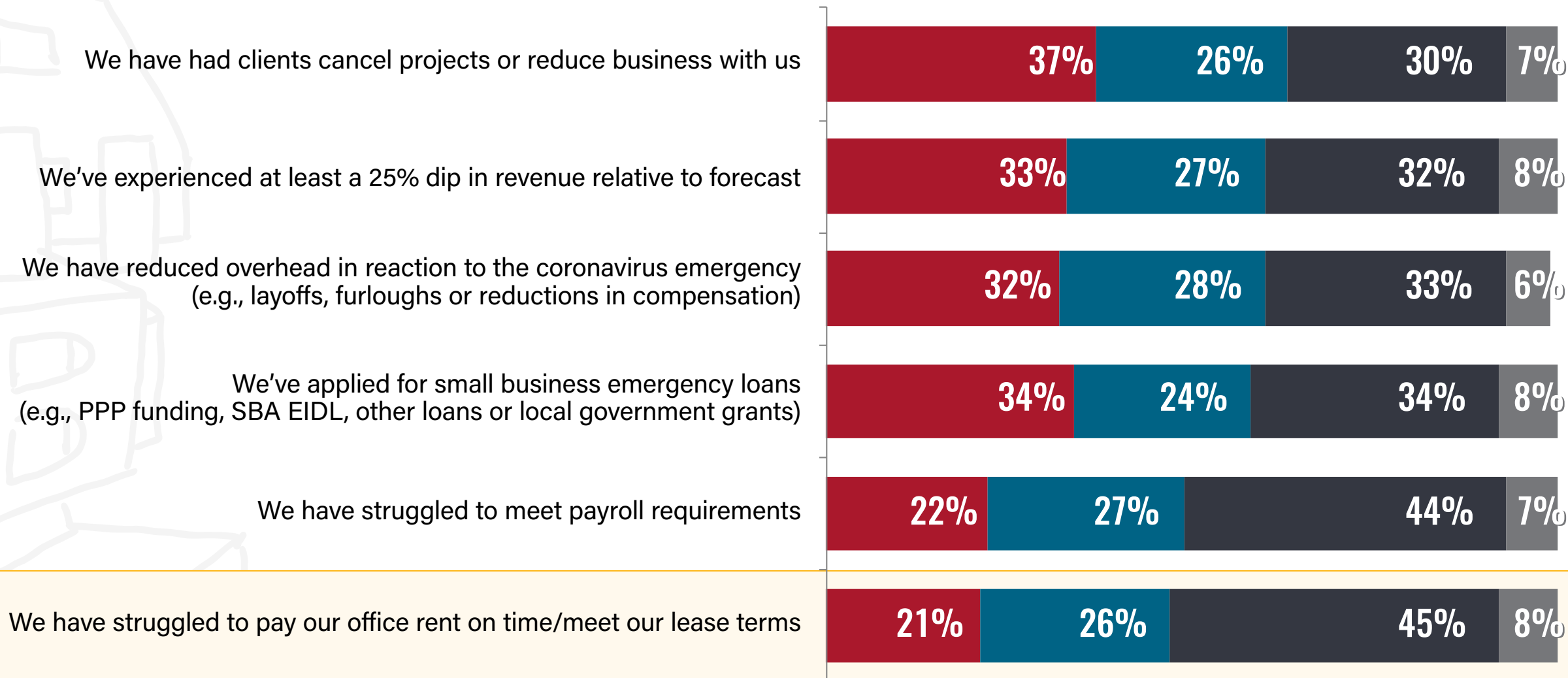
Among Illinois Tenants

Q: "Coronavirus/COVID-19 is a tremendous inflection point or transformation in workplaces; and the way our company does business in its workplace will not be the same for some time to come."

	Agree - Transformation	Nationwide	Midwest
BY JOB ROLE	C-Suite, Owner	63%	59%
	VP, Director	65%	66%
	Facilities Manager	66%	57%
	Mid-Level Managers	69%	60%
BY LOCATION	Southwest	65%	--
	California	64%	--
	Texas	63%	--
	South	64%	--
	Northeast	67%	--
	Midwest	60%	--
	Northwest	60%	--
BY SQUARE FOOTAGE	1,000 - 5,000 SF	58%	58%
	5,000 - 10,000 SF	67%	66%
	10,000 - 25,000 SF	68%	60%
	25,000 - 50,000 SF	67%	58%
	> 50,000 SF	73%	76%
BY RENT PER SQUARE FOOT (PSF)	< \$30 PSF	57%	52%
	\$30-\$40 PSF	68%	67%
	\$40-\$50 PSF	67%	72%
	> \$50 PSF	69%	57%
BY INDUSTRY	Technology	74%	70%
	Professional Services	63%	58%
	Healthcare	66%	70%
	Real Estate	53%	43%
	Construction	67%	58%
	Manufacturing	56%	51%
	Retail	66%	69%
	Other	62%	59%

OFFICE TENANT FINANCIAL BAROMETER

- More than 6-in-10 tenants (63%) say clients have canceled projects/reduced business with them, or could in the future, with a similar share saying they've experienced at least a 25% dip in revenue relative to forecast.
- As a result, just under half are—or could in the near-term—struggling to meet payroll, which will be decreasing in the Midwest and Illinois, still reflects approximately 4-in-10 office decision-makers and high-level influencers.



Nationwide Office Tenants Struggling to Pay Rent Applies Today or Could Apply

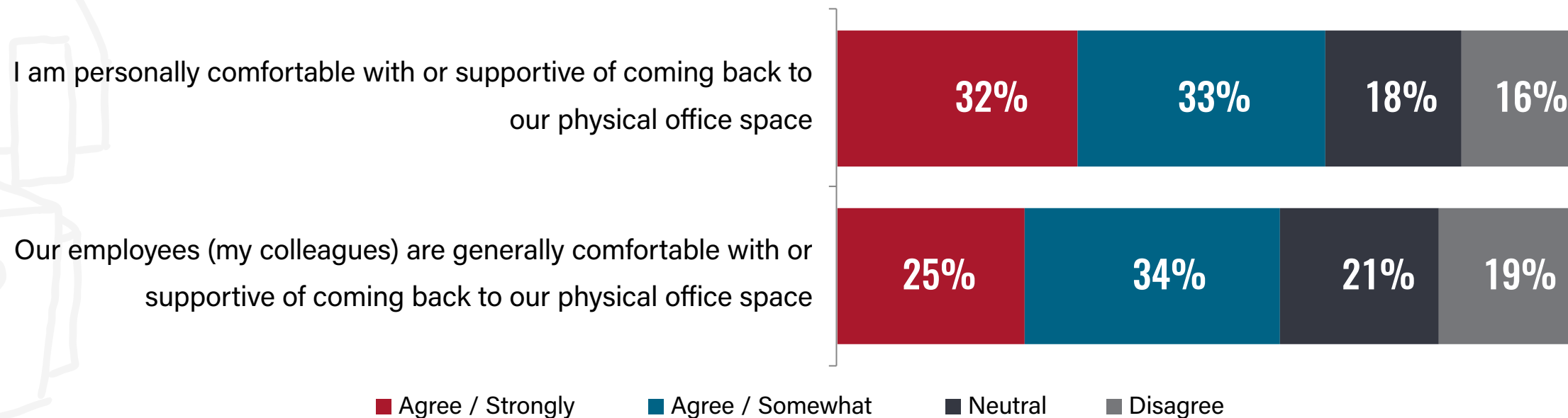


■ Applies To Us Today ■ Could Apply to Us in Future ■ Doesn't / Won't Apply ■ Unsure

ATTITUDES TOWARDS THE PANDEMIC AND WORKPLACE IMPACTS

- Nearly two thirds (65%) are personally comfortable returning to the office (vs. 59% saying their employees share the same feeling), with comfort scores declining in more suburban and suburban-urban areas (which is counterintuitive, but follows the Phase 2/3 shift of coronavirus to more suburban/rural areas).

Nationwide Tenant Comfort/Support for Safe Returns - Personal vs. Projection on Colleagues



65%
Personal
VS.
59%
Projection

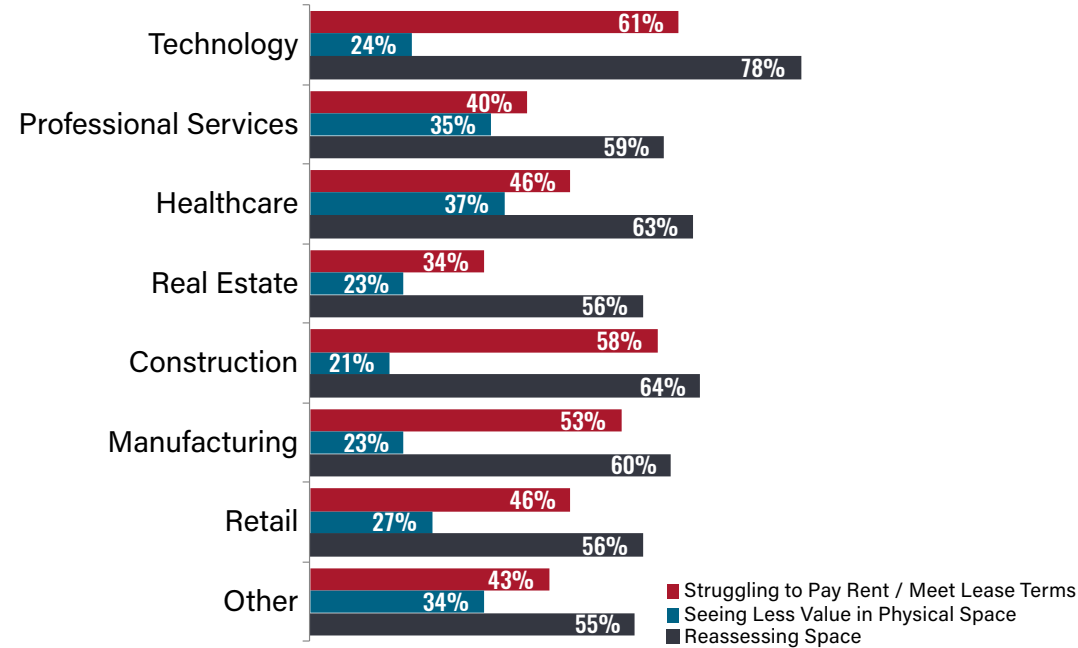
67% vs. 58%
Midwest Region Personal vs. Projected Colleague Comfort

72% vs. 65%
Among Midwest Region C-Suite/Owners Only

NATIONAL ENTERPRISE RISK PROFILES – FINANCIAL BAROMETER VS. SPACE VALUE

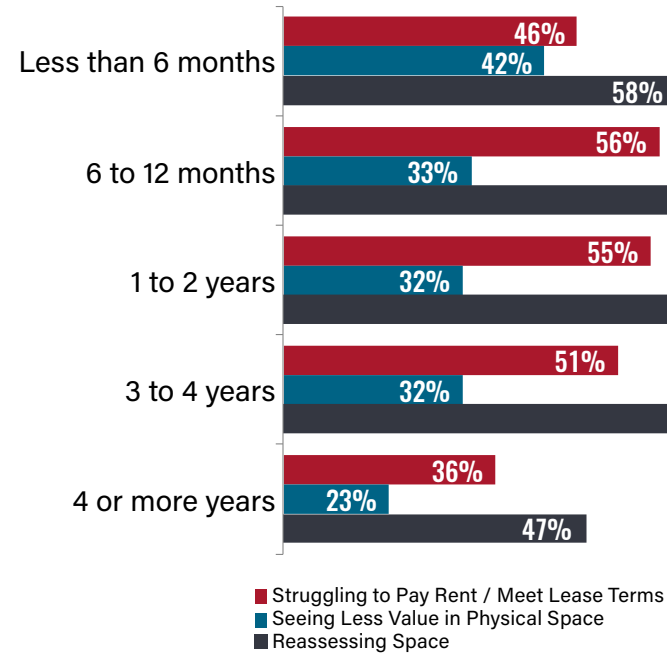
Industry Risk Profiles

Summary of “Applies Today” or “Could Apply” for “Struggling” and “Less Value” Response



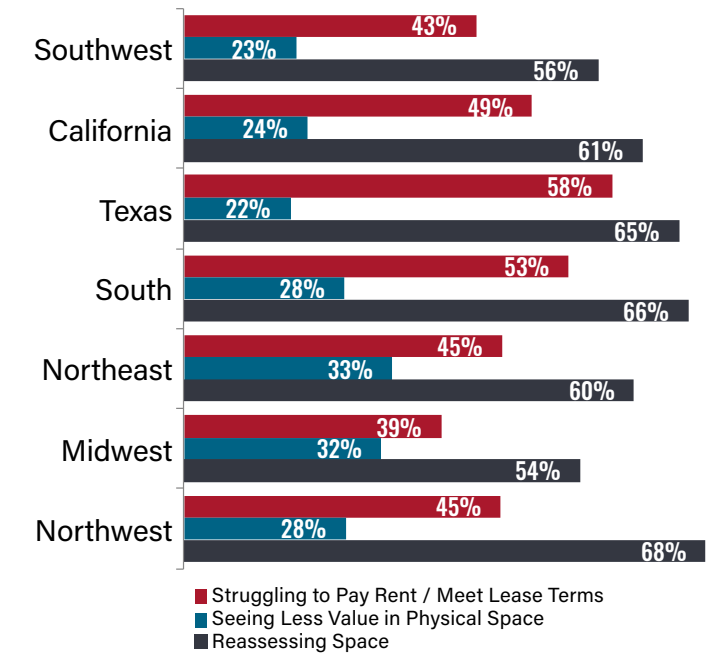
By Renewal Horizon

Summary of “Applies Today” or “Could Apply” for “Struggling” and “Less Value” Response



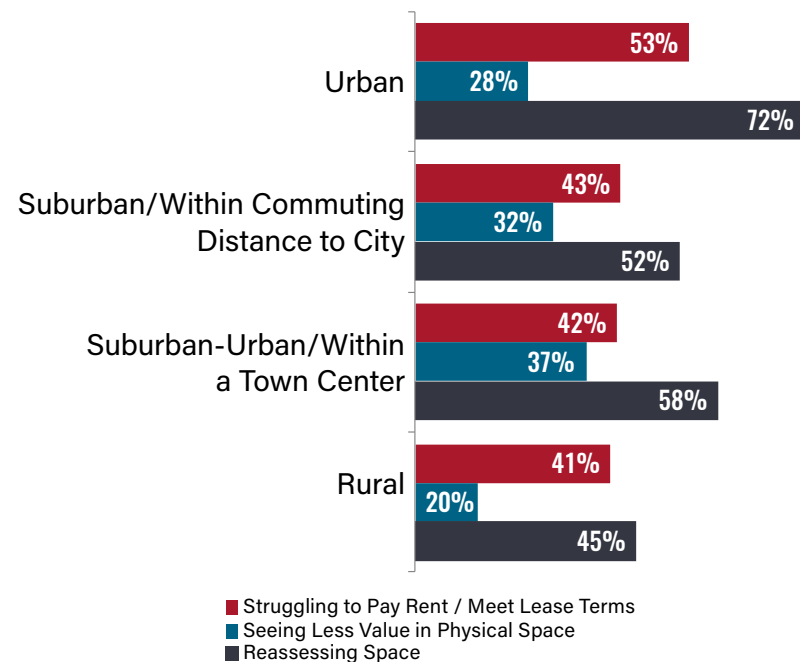
Geographic Risk Profiles

Summary of “Applies Today” or “Could Apply” for “Struggling” and “Less Value” Response



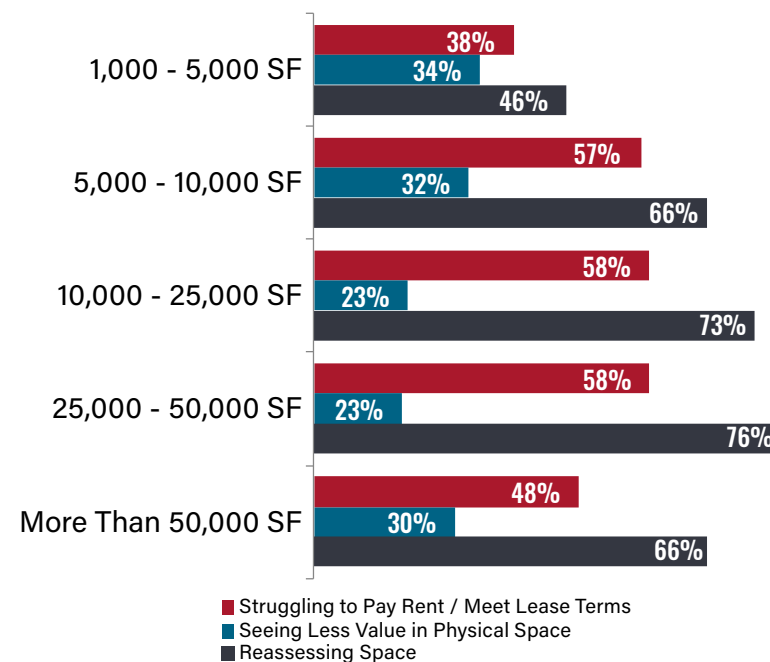
Office Property Location

Summary of “Applies Today” or “Could Apply” for “Struggling” and “Less Value” Response



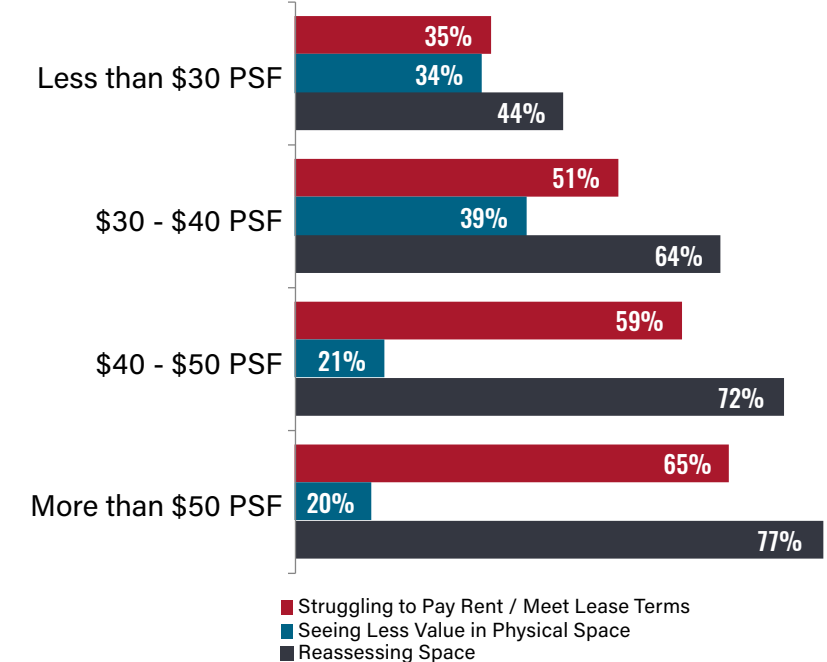
Office Square Footage

Summary of “Applies Today” or “Could Apply” for “Struggling” and “Less Value” Response



Rent Per Square Foot (PSF)

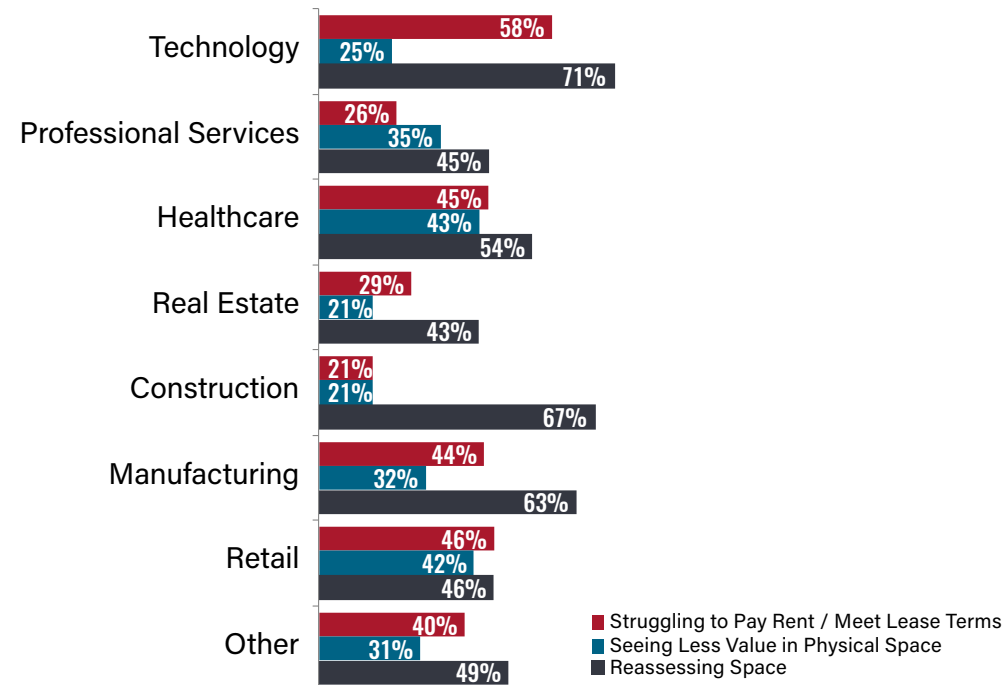
Summary of “Applies Today” or “Could Apply” for “Struggling” and “Less Value” Response



MIDWEST REGION - SPECIFIC RISK PROFILES - FINANCIAL BAROMETER VS. SPACE VALUE

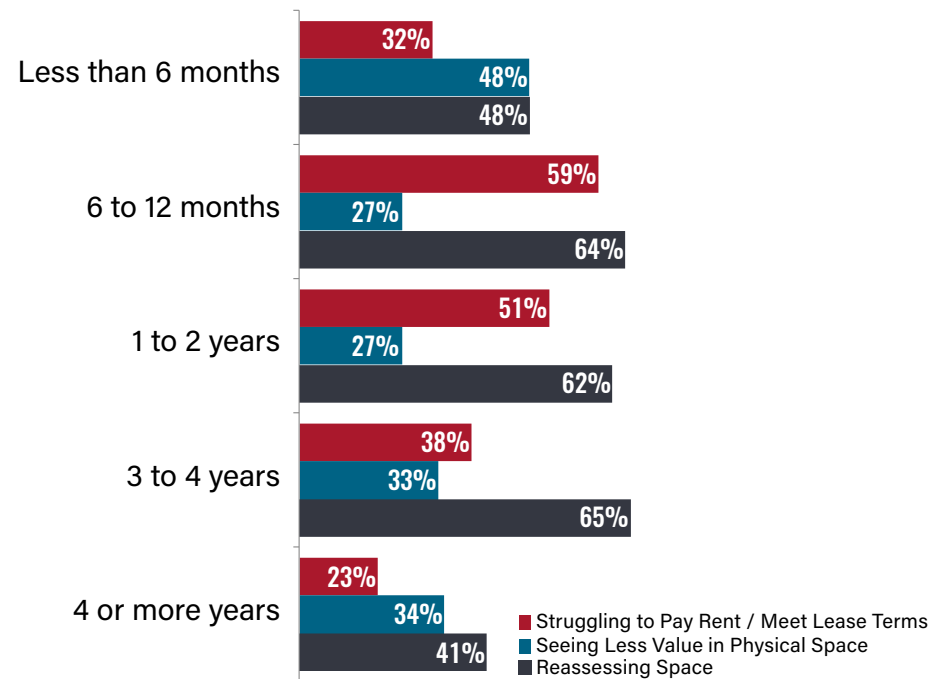
Industry Risk Profiles

Summary of "Applies Today" or "Could Apply" for "Struggling" and "Less Value" Response



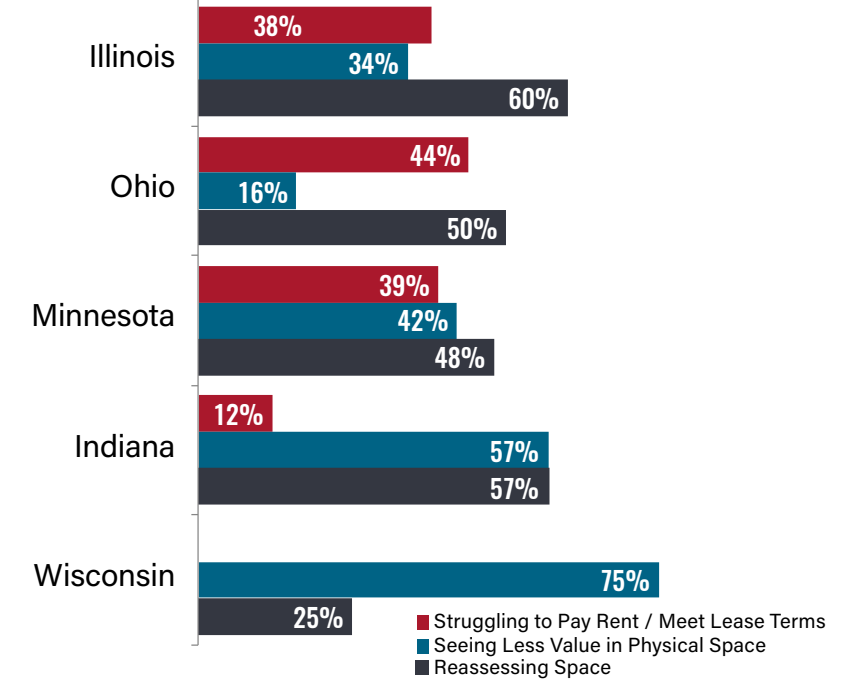
By Renewal Horizon

Summary of "Applies Today" or "Could Apply" for "Struggling" and "Less Value" Response



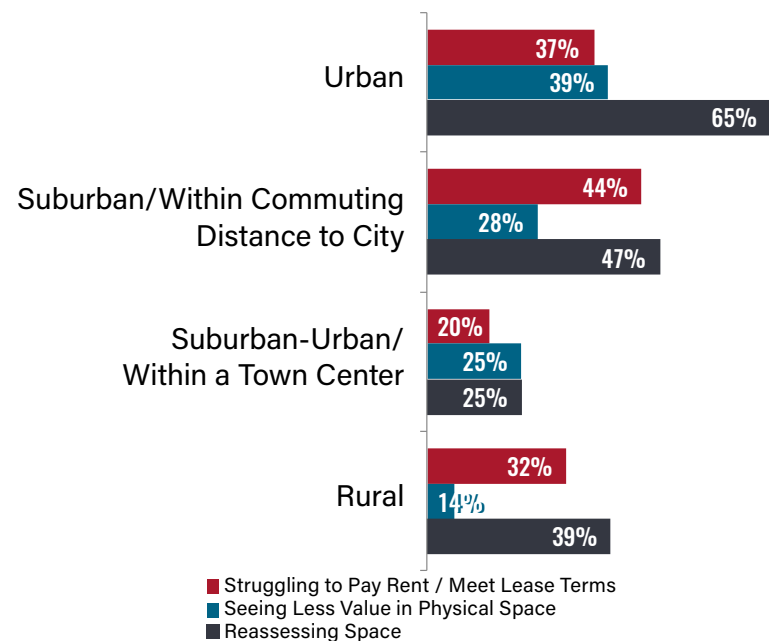
Geographic Risk Profiles

Summary of "Applies Today" or "Could Apply" for "Struggling" and "Less Value" Response



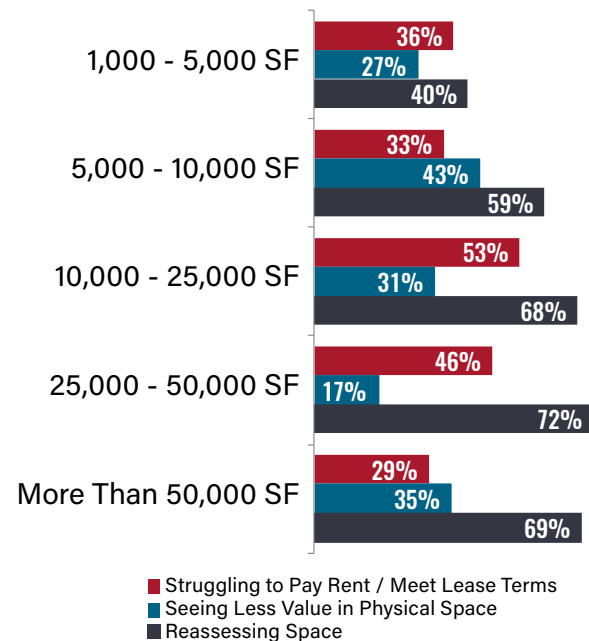
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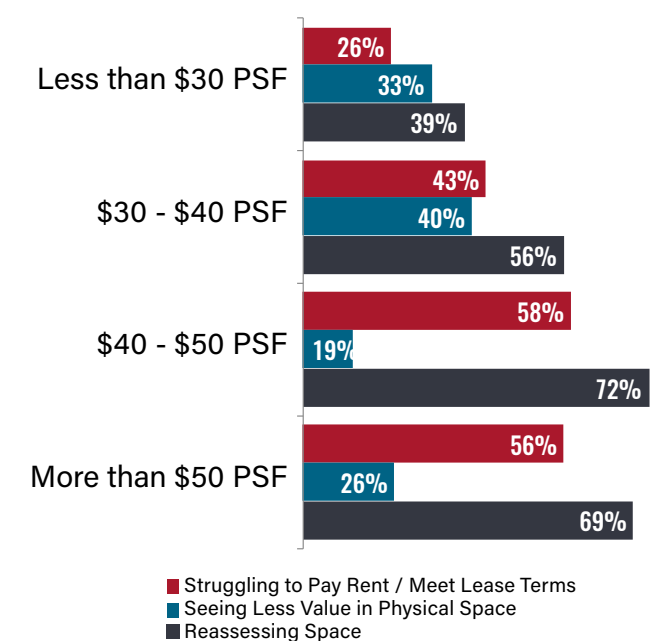
Office Square Footage

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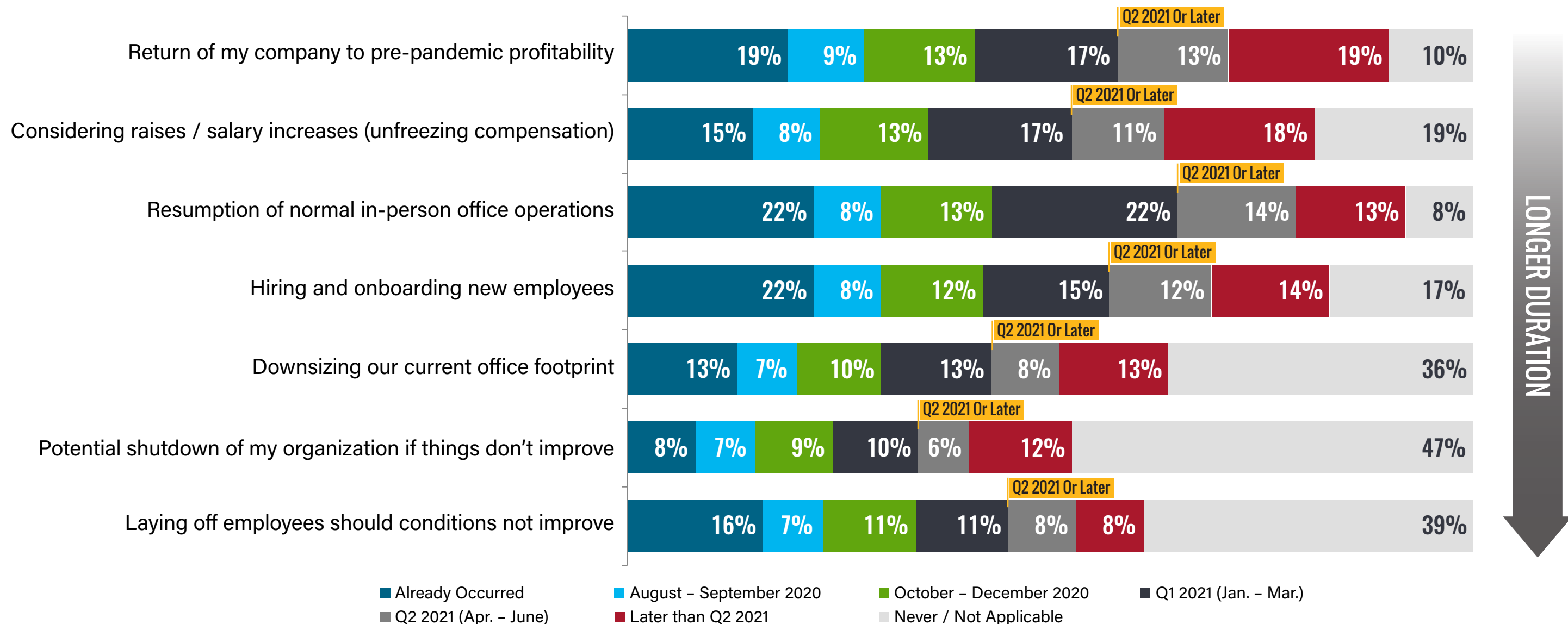
Rent Per Square Foot (PSF)

Summary of "Applies Today" or "Could Apply" for "Struggling" and "Less Value" Response



PANDEMIC TIMELINE: THROUGH THE LENS OF NATIONAL OFFICE TENANTS

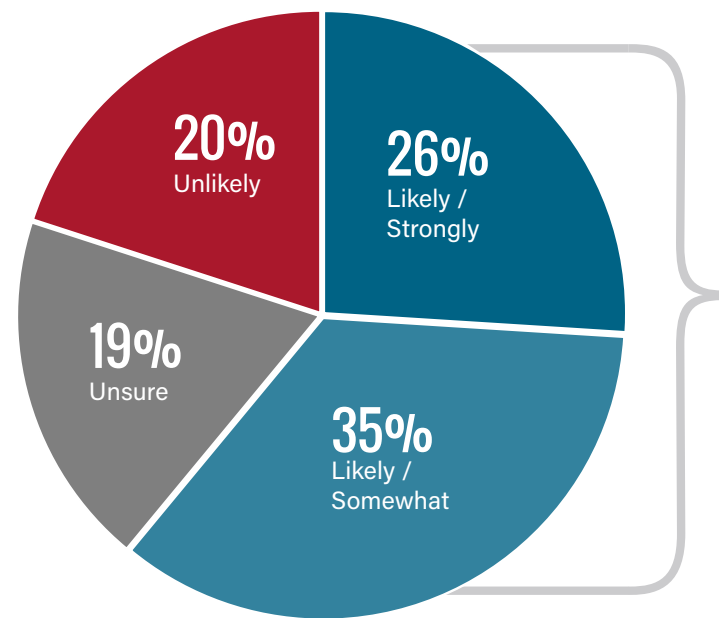
- Well over half of tenant respondents (58%) believe their companies will return to pre-pandemic profitability in advance of Q2 2021, with an even greater share (65%) predicting an earlier (and in some cases, prerequisite) resumption of normal, in-person office operations.
- 43% say a downsizing of their current office footprint is possible by Q1 2021, another 21% in Q2 or later, and 36% say it's not a factor.



RESULTING ORIENTATION TOWARDS REASSESSING/REDUCING SPACE

- Even though many tenants will continue to renew their leases, a large share will be reassessing their space needs, or are unsure as to their plans.
- Among those who are likely to reassess their space needs or who are unsure, 33% would expand their square footage while 54% would reduce, which normalized to the full tenant population in the sample, reflects 43% of all tenants reducing square footage.

Tenant Likelihood to Reassess Space Needs



61%
Likely to reassess
space needs

&
19%
Unsure

Of Those Likely
or Unsure

33%
Likely to maintain or expand
square footage

54%
Likely to reduce
square footage

43%
Of all tenants
reducing
square footage



Midwest Region -
October 2020

54%
Likely to reassess
space needs

& **22%**
Unsure

9%
Likely to expand
square footage

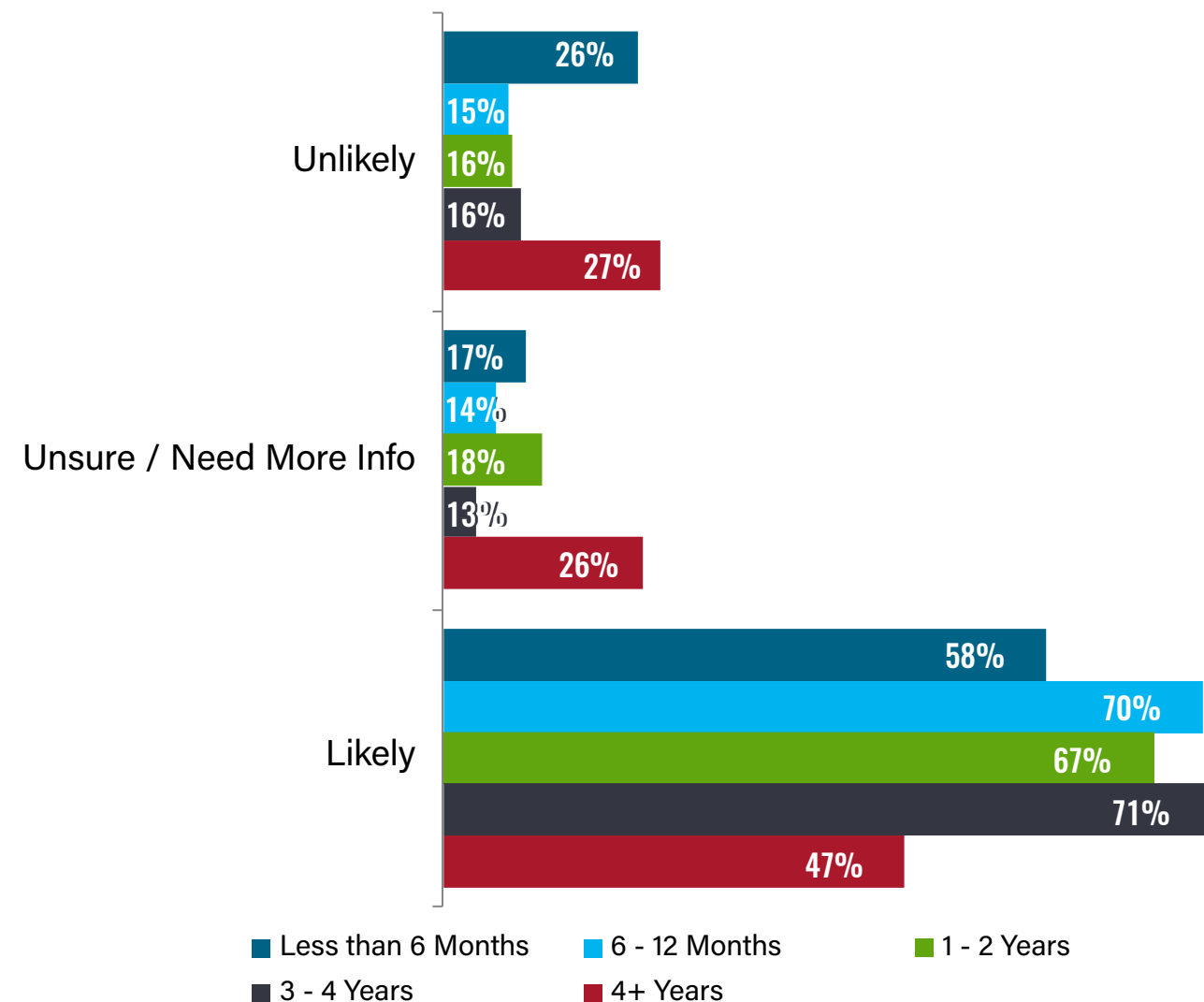
45%
Likely to reduce
square footage

34%
Of Midwest tenants
reducing square footage

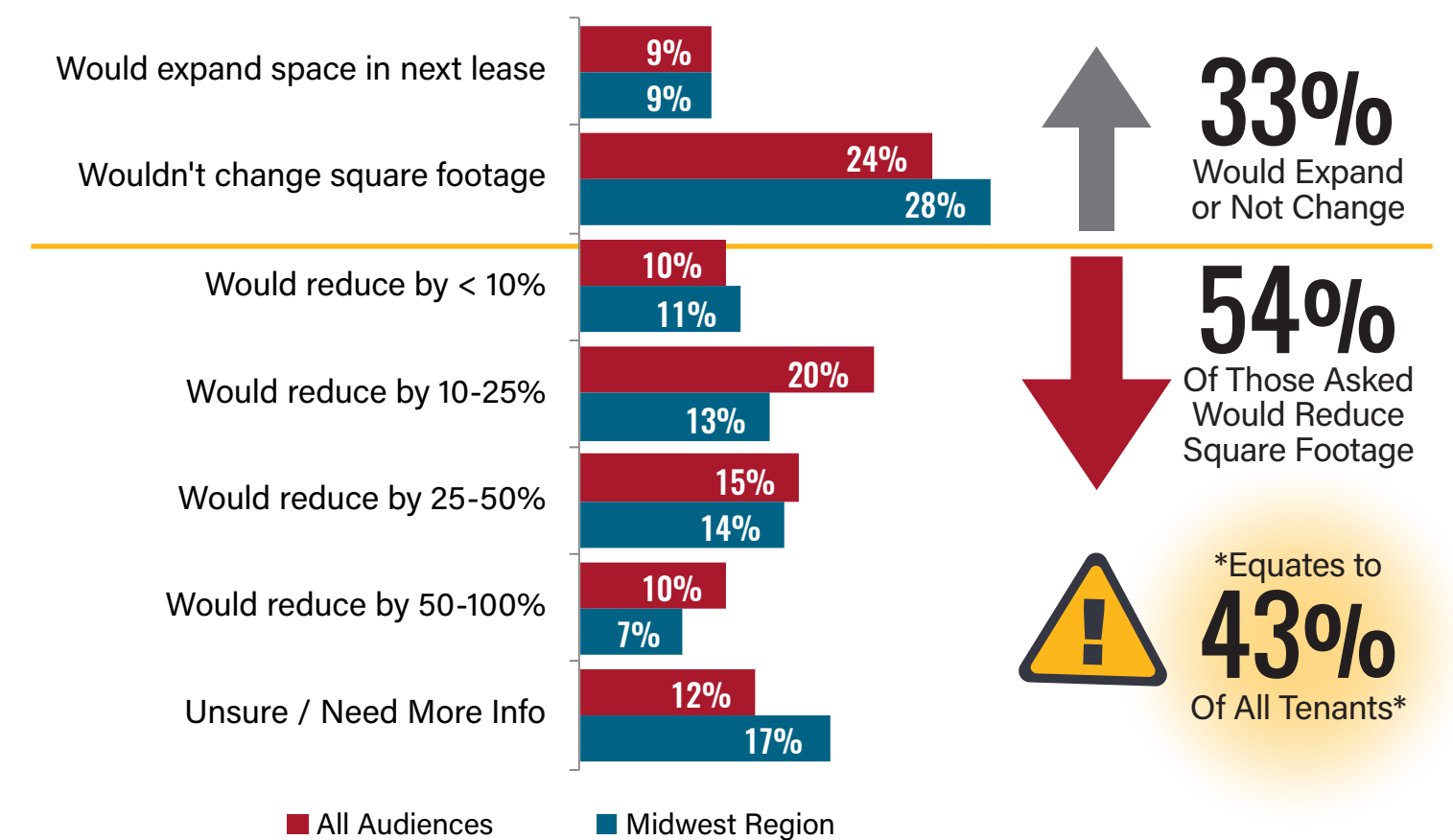
WHAT DOES REASSESSING SPACE NEEDS LOOK LIKE?

- Likelihood to reassess space increases significantly in the 6 month to 3-to-4-year renewal period dropping for those with leases expiring more than 4 years out, indicating those tenants are predicting management of/less impact from the pandemic in the far future.
- Still, of those reassessing or unsure, 54% are planning to reduce square footage on their next renewal, reflecting **43% of all tenants**.

Likelihood to Reassess Space Needs by Renewal Horizon (All National Tenant Audiences)



Office Square Footage Adjustment Post-Coronavirus (Asked Among 80% Likely to Reassess Space Needs or Unsure for All Tenants, 76% for Midwest Region)



Q: Based on your experience with staff reductions, teleworking and/or other business impacts during the coronavirus public health emergency—whether or not you stay in your current property—to what extent would you plan to change the total square footage of your space?

WHAT DOES REASSESSING SPACE NEEDS LOOK LIKE?

- The table to the right details the extent of possible space reductions by renewal time horizon.
- Notably, the "Percentage of Tenants Reducing SF at Each Renewal Period" factors in the overall percentage of tenants with renewals at each time point.
- This shows the largest risk of tenants reducing square footage in the 6 month to 2-year time table from October 2020, equating to 25% of all tenants potentially making space reduction decisions in that time period.
- The **Midwest Region**, despite representing a lower overall space reduction risk, still shows 19% of all tenants potentially reducing their footprint in the 6 month to 2-year timeline, based on the share of tenants at each renewal time-period.

Space Reductions by Renewal Horizon

(Relative and Absolute Space Reductions - All Data Among National Audiences w/ Exception of Renewal Period Highlight)

By Renewal Time Horizon	All	< 6 Months	6 – 12 Months	1 – 2 Years	3 – 4 Years	4+ Years
Reassessing Space Needs or Unsure	80%	74%	85%	84%	84%	73%
Reduction Among Those Reassessing or Unsure	54%	43%	60%	63%	60%	41%
Reduction as a Percentage of All Tenants	43%	32%	51%	53%	50%	29%
Percentage of National Tenants Reducing Square Footage at Each Renewal Period (Total 43%)	43%	2%	9%	14%	9%	9%
Percentage of Midwest Region Tenants Reducing Square Footage at Each Renewal Period (Total 34%)	34%	2%	7%	10%	7%	7%

BELOW DATA REFLECTS SPACE REDUCTION AS A PERCENTAGE OF ALL TENANTS IN EACH RENEWAL SEGMENT

Reducing <10%	8%	2%	10%	11%	8%	5%
Reducing 10-25%	16%	10%	20%	22%	16%	9%
Reducing 25-50%	12%	8%	13%	14%	14%	9%
Reducing 50-100%	8%	12%	8%	5%	12%	7%

WHAT DOES REASSESSING SPACE NEEDS LOOK LIKE?

National Audience - What This Means by Square Footage Segment (Relative and Absolute Space Reductions)

By SF Segment	All	1,000 – 5,000 SF	5,000 – 10,000 SF	10,000 – 25,000 SF	25,000 – 50,000 SF	> 50,000 SF
Reassessing Space Needs or Unsure	80%	70%	80%	88%	90%	84%
Reduction Among Those Reassessing or Unsure	54%	43%	60%	63%	62%	51%
Reduction as a Percentage of All Tenants	43%	30%	48%	56%	56%	43%

BELOW DATA REFLECTS SPACE REDUCTION AS A PERCENTAGE OF ALL TENANTS IN EACH RENEWAL SEGMENT

Reducing <10%	8%	6%	7%	11%	9%	7%
Reducing 10-25%	16%	10%	18%	22%	20%	15%
Reducing 25-50%	12%	8%	16%	13%	19%	11%
Reducing 50-100%	8%	7%	7%	9%	9%	10%

Midwest Region - What This Means by Square Footage Segment (Relative and Absolute Space Reductions)

By SF Segment	All	1,000 – 5,000 SF	5,000 – 10,000 SF	10,000 – 25,000 SF	25,000 – 50,000 SF	> 50,000 SF
Reassessing Space Needs or Unsure	76%	65%	80%	85%	86%	81%
Reduction Among Those Reassessing or Unsure	45%	37%	40%	58%	55%	46%
Reduction as a Percentage of All Tenants	43%	24%	32%	49%	47%	37%

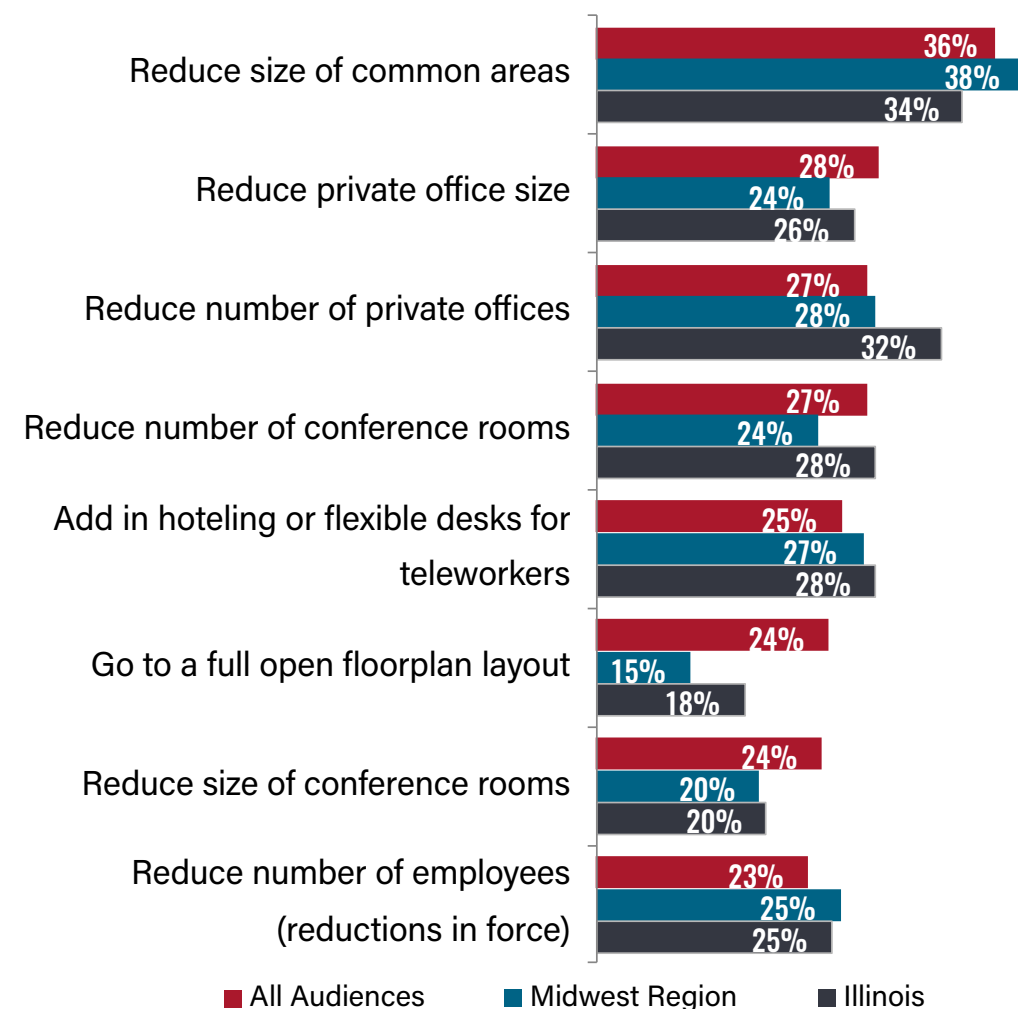
BELOW DATA REFLECTS SPACE REDUCTION AS A PERCENTAGE OF ALL TENANTS IN EACH SIZE SEGMENT

Reducing <10%	6%	7%	10%	14%	19%	6%
Reducing 10-25%	7%	9%	18%	11%	6%	7%
Reducing 25-50%	8%	14%	10%	17%	12%	8%
Reducing 50-100%	3%	3%	10%	6%	0%	3%

HOW WILL TENANTS ACHIEVE SPACE EFFICIENCY & SAFETY?

- Tenant views on how they will achieve space efficiency are diffuse, though reducing the size of common areas, the number of private offices and conference rooms resonate most with those suffering from revenue declines.
- At right, smaller tenants tend to focus more on common area reductions, with larger firms considering open floor-plan layouts, hoteling desks and other novel concepts.

Changes to Create Space Efficiency by Audience



National Audience - Space Reduction Approach / Efficiencies by SF Segment (Asked Among 43% Likely to Reduce Space)

By SF Segment	All	1,000 – 5,000 SF	5,000 – 10,000 SF	10,000 – 25,000 SF	25,000 – 50,000 SF	> 50,000 SF
Reduce size of common areas	36%	37%	38%	34%	37%	35%
Reduce private office size	28%	24%	25%	31%	31%	25%
Reduce number of private offices	27%	26%	28%	27%	34%	18%
Reduce number of conference rooms	27%	26%	25%	25%	35%	33%
Add in hoteling or flexible desks for teleworkers	25%	22%	23%	27%	30%	29%
Go to a full open floorplan layout	24%	21%	21%	26%	33%	22%
Reduce size of conference rooms	24%	19%	28%	25%	22%	29%
Reduce number of employees (reductions in force)	23%	18%	19%	27%	24%	29%

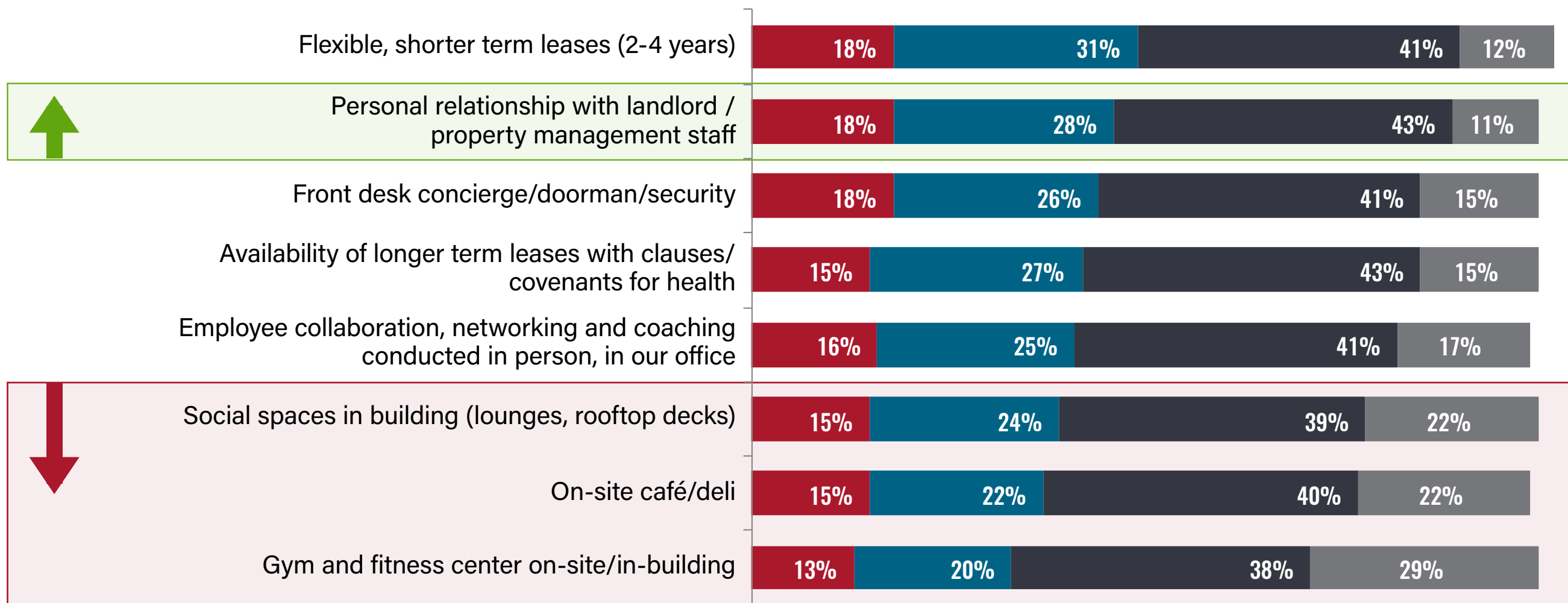
Q: In order to change your office space needs, which of the below would you do and/or which factors would apply to achieve that square footage reduction? (Please select all that apply)

TENANT "VALUE EQUATION" POST-COVID

- Though the previous slide showed a decline in "service" as a driving factor for location decisions, for current tenants in their spaces, personal relationships with their landlords/PM staff are more important than ever.

Amenities / Features - Value for Tenants Post-COVID

All Audiences



46%

National Office Tenants
Tenants Seeing
More Value in Personal
Relationships w/ PM Staff

38%

More Value -
Midwest Region

40%

More Value -
Illinois Only

Office Tenants Seeing
Less Value in Traditional,
Built-In Amenities

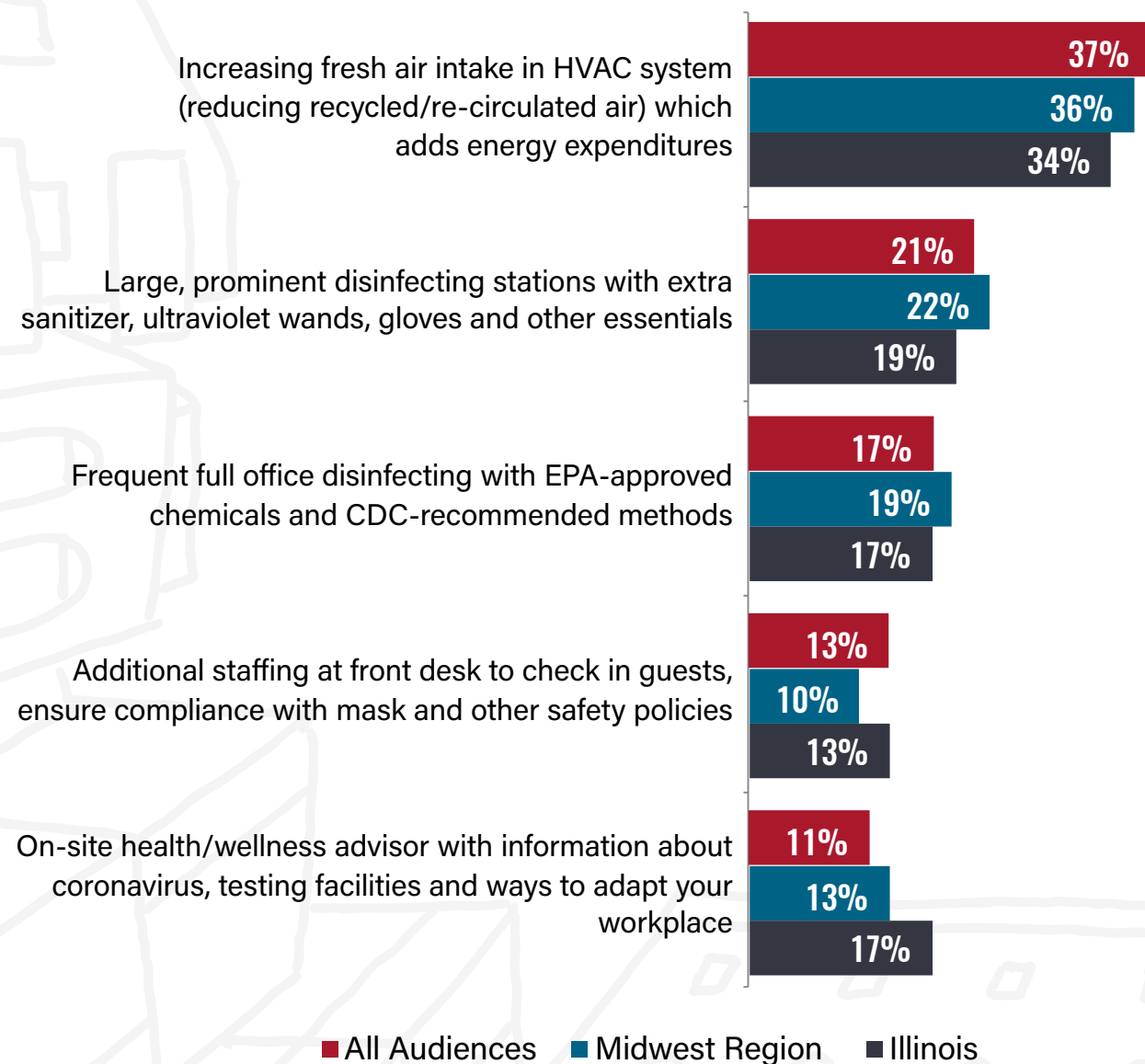
■ More Value / Strongly ■ More Value / Somewhat ■ About the Same ■ Less Value

PERCEIVED VALUE IN OWNER/OPERATOR MEASURES AND PROGRAMS

- Maximization of fresh air leads the way as a “most important” measure for owners-operators to adopt, though more than 4-in-10 respondents each are willing to “pay a premium” or additional fees for large disinfecting stations and twice-daily full office disinfecting.

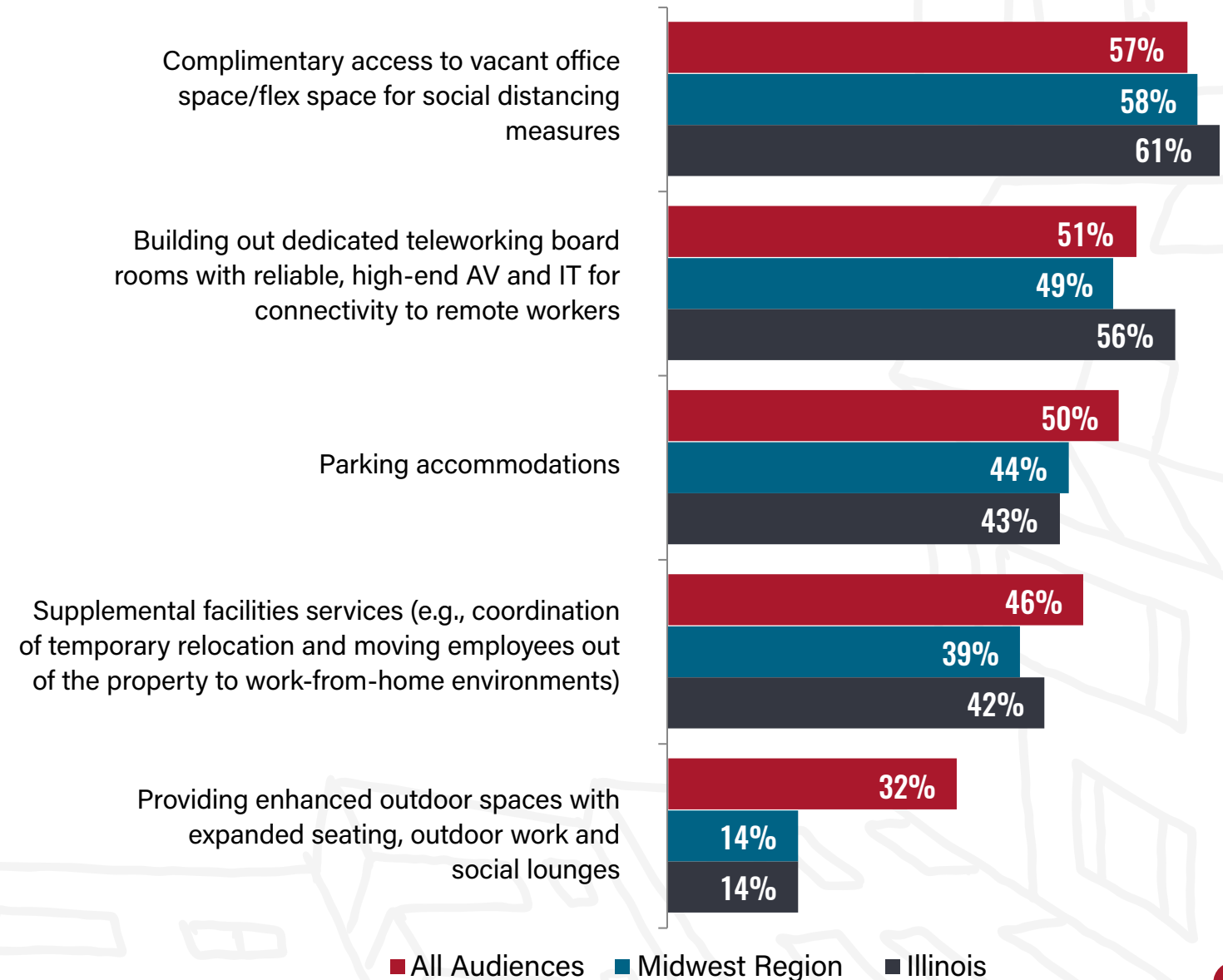
New Measures and Programs

Overall Preference (Most Important Change) by Audience



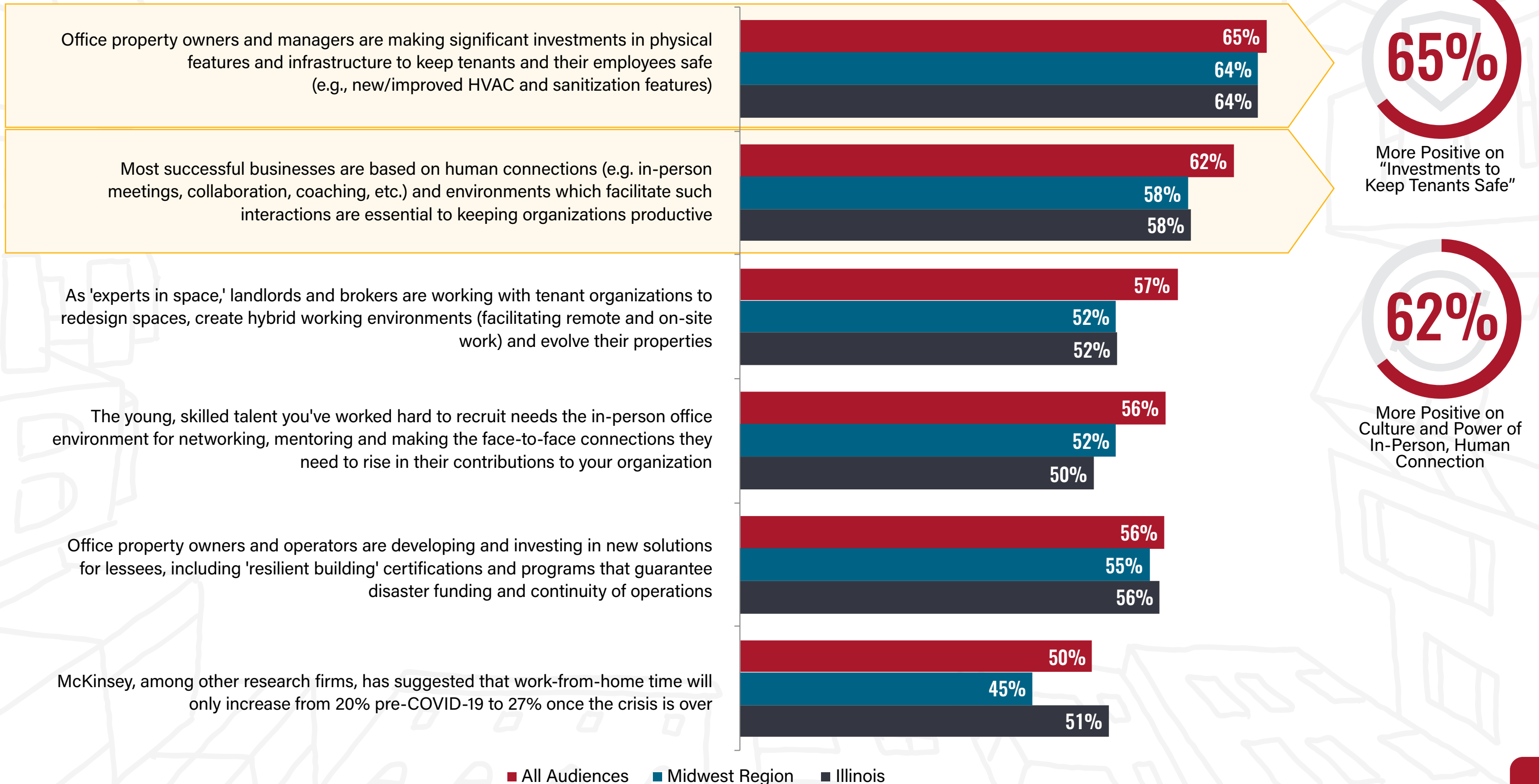
“Positives” for Additional Services

Overall Preference by Audience



WHAT WE SAY: CENTERING THE NARRATIVE ON SAFE RETURNS TO WORK

Message Effectiveness Based on "Value Delivery" - Summary of "More Value" Scores



65%

More Positive on "Investments to Keep Tenants Safe"

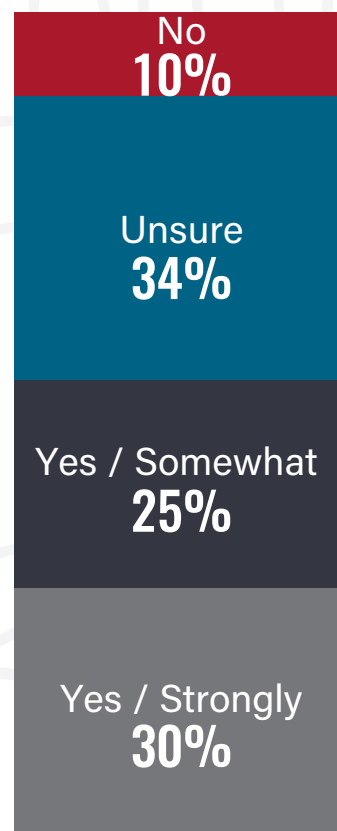
62%

More Positive on Culture and Power of In-Person, Human Connection

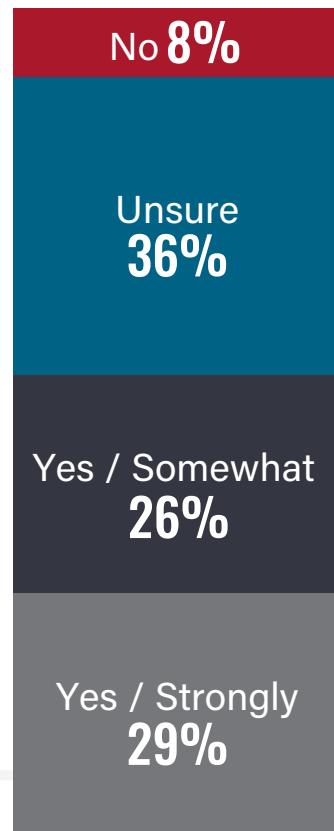
CURRENT STATE: CORONAVIRUS IMPACT ON TENANT LOYALTY

- Without any prompting on coronavirus, tenants were asked at the very beginning of the survey if they would plan on renew; the 55% "Yes" score is well below the Brightline 6-year national index of 78%.

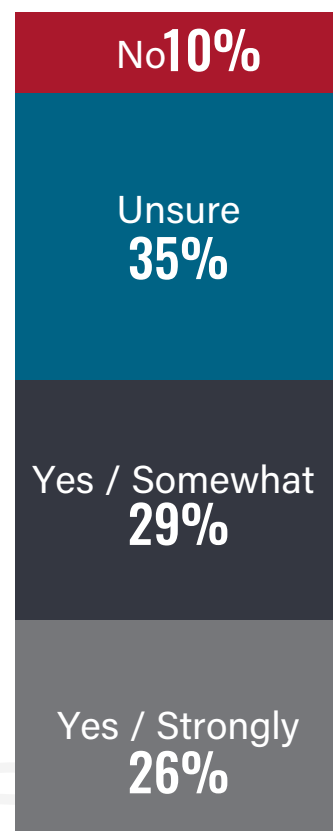
Are you currently planning to renew your lease?



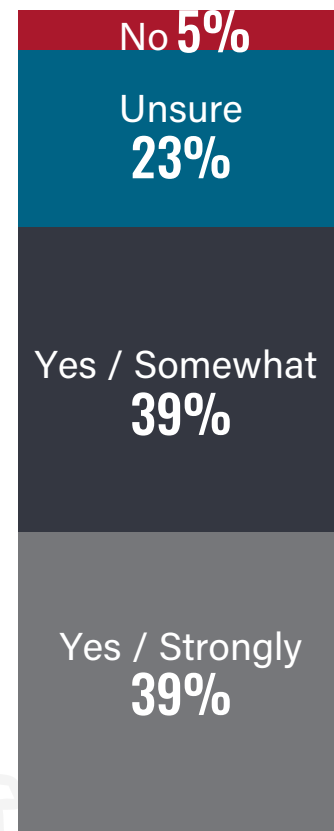
Midwest Region



Illinois Only



Market Comparison
Brightline Index
2014-2020

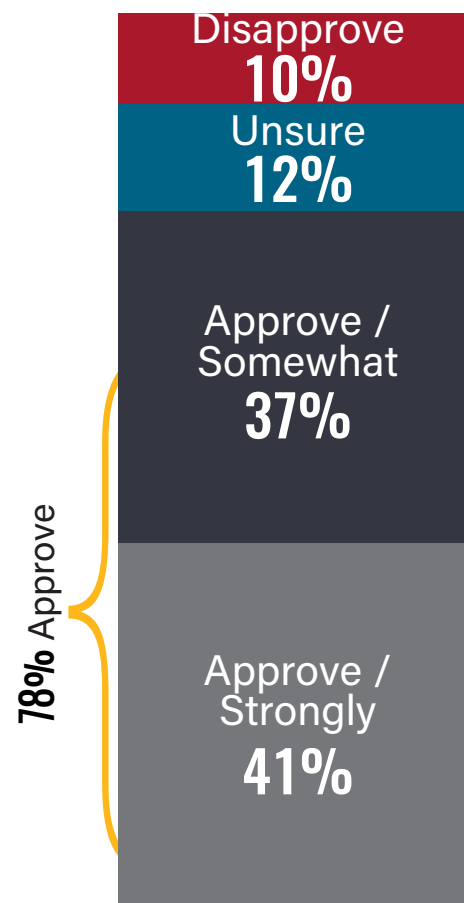


	Yes - Will Renew - National Audience	Yes - Will Renew - Midwest Region	
BY JOB ROLE	C-Suite, Owner	61%	62%
	VP, Director	57%	46%
	Facilities Manager	47%	41%
	Mid-Level Managers	47%	58%
BY LOCATION	Southwest	51%	--
	California	65%	--
	Texas	64%	--
	South	57%	--
	Northeast	53%	--
	Midwest	56%	--
BY SQUARE FOOTAGE	1,000 - 5,000 SF	50%	56%
	5,000 - 10,000 SF	57%	45%
	10,000 - 25,000 SF	67%	64%
	25,000 - 50,000 SF	70%	78%
	> 50,000 SF	67%	56%
BY RENT PER SQUARE FOOT (PSF)	< \$30 PSF	51%	56%
	\$30-\$40 PSF	54%	47%
	\$40-\$50 PSF	69%	67%
	> \$50 PSF	71%	62%
BY INDUSTRY	Technology	67%	53%
	Professional Services	49%	52%
	Healthcare	54%	52%
	Real Estate	53%	79%
	Construction	69%	75%
	Manufacturing	68%	61%
	Retail	57%	62%
Other	48%	49%	

FUTURE STATE: IMPACT ON TENANT LOYALTY / OWNER-OPERATOR ROI

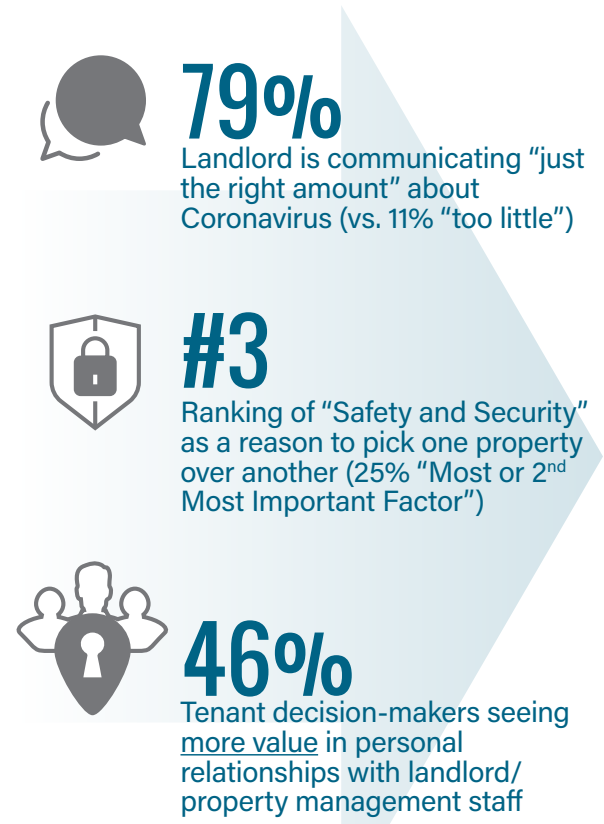
- Almost 8-in-10 tenants approve of their owners-operators' coronavirus response, driven by **superior communications, a renewed focus on safety and security and the earlier mentioned fact that tenants are depending on personal relationships with PM staff more than ever.**
- The result of this strong performance is that 47% of tenants would be more likely to renew based on the coronavirus response exclusively, demonstrating strong owner-operator ROI for proactive, transparent communications on day-to-day activities, future-state programs/features and "experts in space" positioning.

"State of the Union" - Approve vs. Disapprove on Office Landlord Coronavirus Response

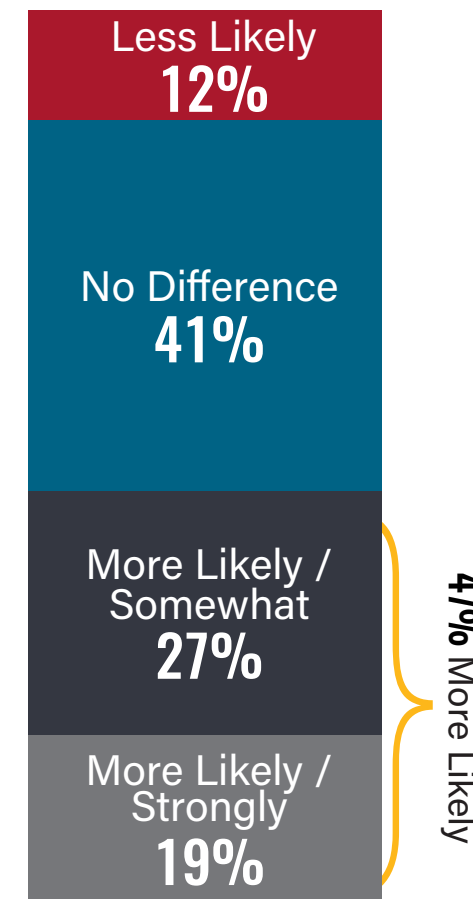


76%
Approve - Midwest Region

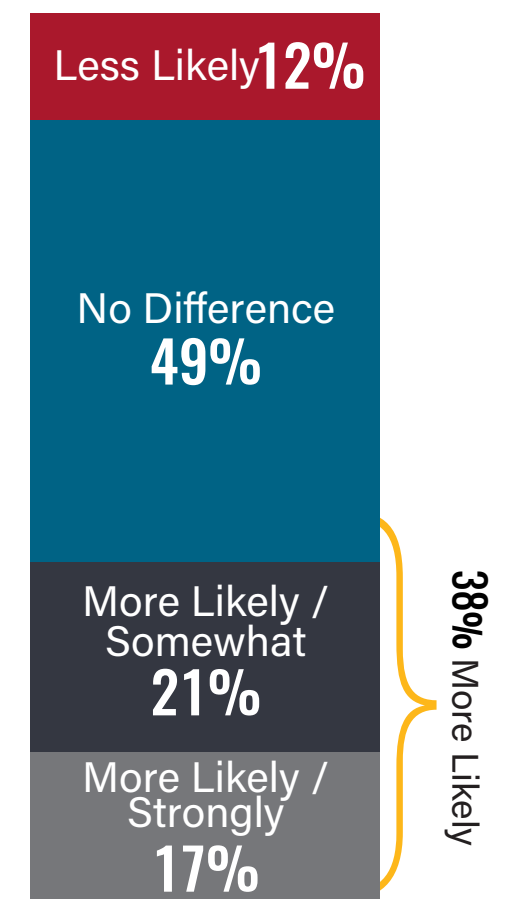
Contributing Factors to Strong Approval / Increased Loyalty



Impact on Renewal - Nationwide ROI on Coronavirus Response Measures



Impact on Renewal - Midwest Region ROI on Coronavirus Response Measures



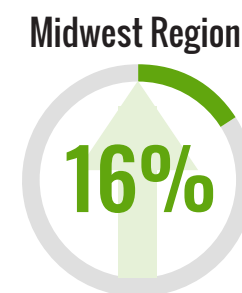
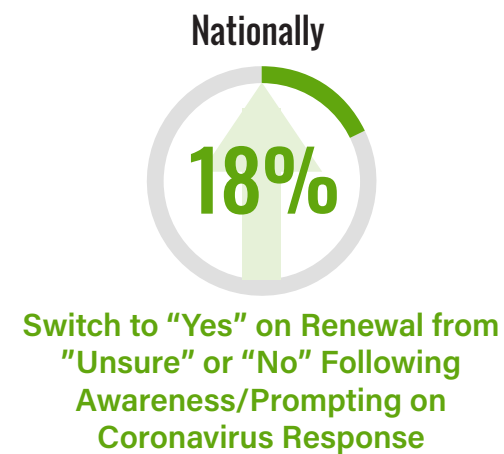
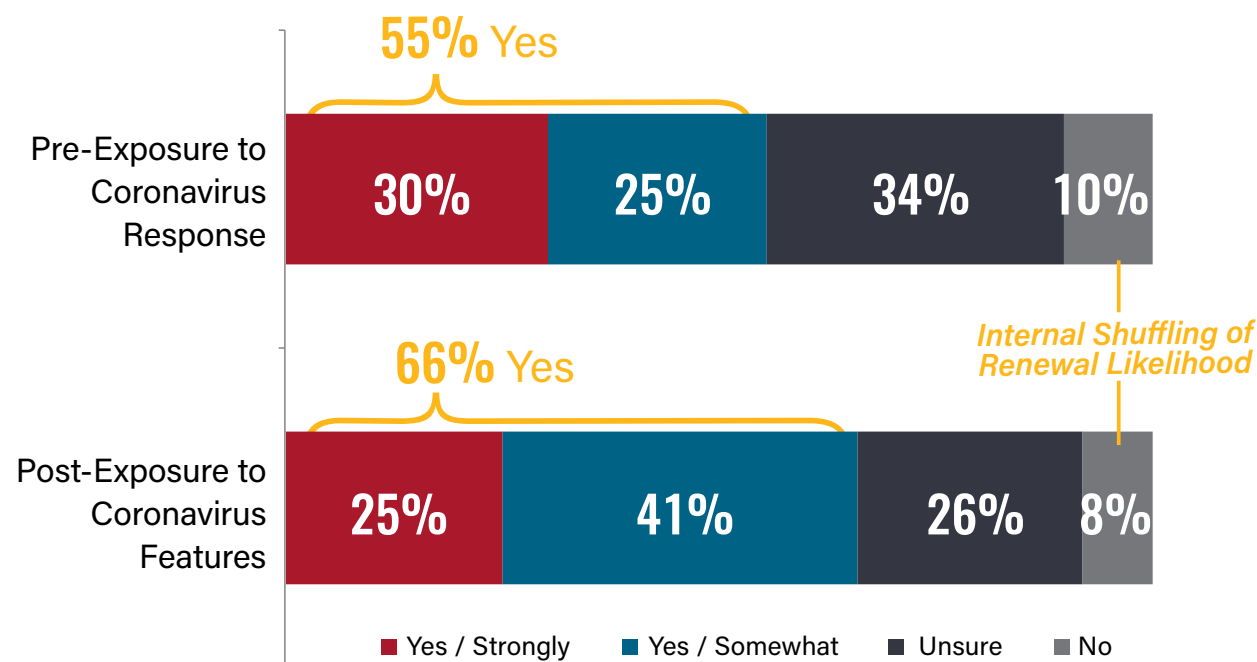
Q: "How would you rate your landlord/ property management company's response to the coronavirus/COVID-19 public health emergency? Do you approve of their response so far, disapprove or are you unsure?"

Q: "Thinking about the communications, policies and processes your landlord/property manager has implemented over the past several weeks in response to the coronavirus/COVID-19 public health emergency - Has their response made you more likely to renew your lease when it's up, less likely, or has it made no difference?"

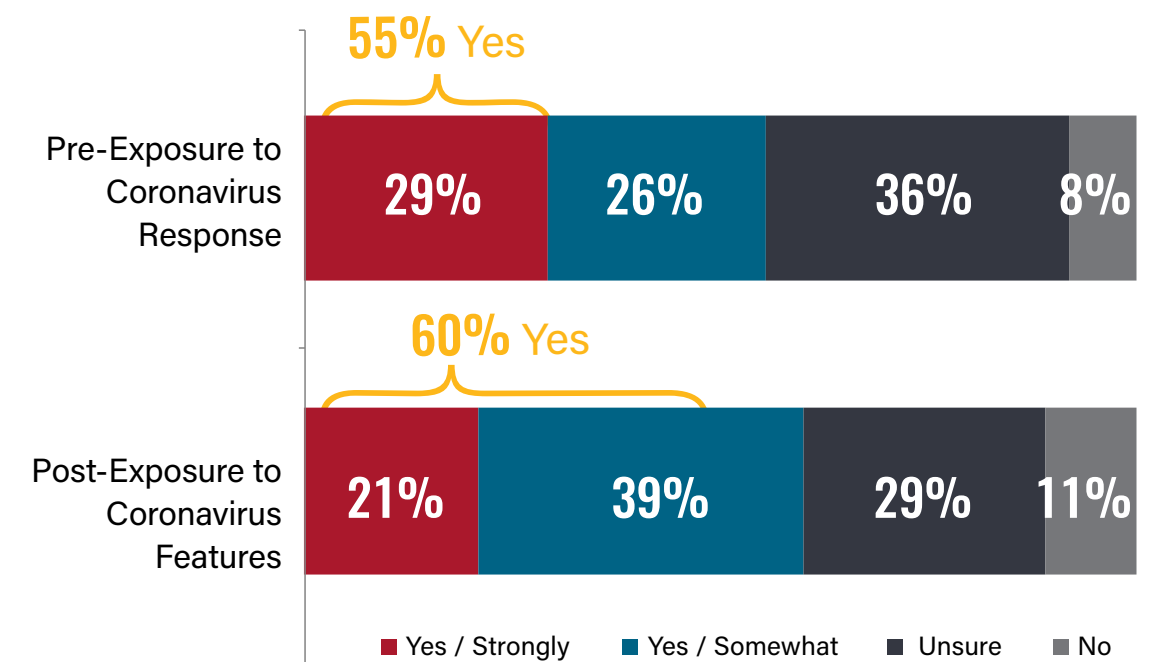
FUTURE STATE: GROWING RENEWAL SHARE AND ACHIEVING OWNER-OPERATOR ROI

- Following exposure to new services, features and physical spaces landlords/property management companies could invest in and deliver, tenants' likelihood to renew their leases jumps from 55% to 66%. Though intensity wanes ("Yes / Strongly") this is likely due to apprehension over additional costs/fees.
- There is significant internal shifting, however, as 27% of respondents "move up the ladder" towards a stronger renewal likelihood, and fully 18% switch to "Yes" from a "No" or "Unsure." Driving this switching are those who demonstrated weaker numbers/larger COVID impacts earlier on, including small businesses (1,000 – 5,000 SF, and industries including retail, healthcare and professional services.
- This reflects a strong opportunity for renewal growth, despite the pandemic, provided owners-operators continue communicating well, growing relationships and investing in advanced processes and technologies highlighted by tenants in the survey.

National Audience - Likelihood to Renew Based on Landlord/Operator Response
If Your Property Implemented Features Discussed



Midwest Region - Likelihood to Renew Based on Landlord/Operator Response
If Your Property Implemented Features Discussed



Q: "If your office property management company implemented the physical features and service programs you found most compelling earlier, would you now consider renewing your lease when it expires?"