

ILLINOIS COMMERCE COMMISSION DOCKET 23-0069

DIRECT TESTIMONY OF T.J. BROOKOVER

I. Witness Introduction

Q. Please state your name, business address, and present position.

A. My name is T.J. Brookover. My business address is 111 East Wacker Drive, Chicago, Illinois. I am Regional Manager at AmTrust Realty Corp. (“AmTrust Realty”). I am also a member of the Board of Directors of the Building Owners and Managers Association of Chicago (“BOMA/Chicago”).

Q. Please state your educational background and employment and business experience.

A. I hold a B.A. in Business Administration from the University of Pittsburgh. I have over 30 years of experience in the property management industry, including 24 years managing commercial office properties in the greater Chicago area. I have experience in several U.S. markets, but have been most focused on Chicago for the last nine years.

Q. What are your duties and responsibilities as Regional Manager of Amtrust Realty?

A. Generally, I oversee AmTrust Realty’s Chicago portfolio of six buildings, totaling over 5 million square feet of commercial office property in Chicago’s Central Business District. This primarily entails managing the upkeep, operations, and maintenance of these commercial office buildings. Prior to this position, I was the Director of Property Management, Principle, and Board Member for the John Buck Company, a vertically integrated commercial real estate firm.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of BOMA/Chicago.

Q. What are your duties and responsibilities as a member of BOMA/Chicago’s Board of Directors?

25 A. In my role on BOMA/Chicago's Board of Directors, I am responsible for helping guide the
26 strategic direction of the organization and creating a wide range of initiatives that advance
27 the commercial real estate industry in downtown Chicago. For approximately 15 years, I
28 have also served as either Chairman or Board Liaison to BOMA/Chicago's Energy and
29 Sustainability Committee.

30 **Q. Have you previously testified before the Illinois Commerce Commission?**

31 A. Yes, I previously provided testimony in Dockets No. 22-0432 & 22-0442 (cons.) regarding
32 Commonwealth Edison Company's ("ComEd") Beneficial Electrification Plan; Docket
33 No. 20-0872, regarding proposed revisions to ComEd's Rider NS; Docket No. 07-0166,
34 regarding an investigation into ComEd's rate design; Docket No. 05-0597, regarding
35 ComEd's proposed general increase in rates; and Docket No. 05-0159, regarding defining
36 a competitive electric supply procurement process in Illinois.

37 **Q. What topics will you be covering in your direct testimony?**

38 A. I will describe BOMA/Chicago and its interest in this proceeding. I will also explain a
39 number of serious economic challenges that Chicago's Central Business District is
40 currently experiencing, and make recommendations regarding how the Illinois Commerce
41 Commission should account for those challenges in this proceeding.

42 **Q. In addition to your prepared direct testimony, which is identified as BOMA Exhibit
43 1.0, are you presenting any other exhibits?**

44 A. Yes, I am also presenting BOMA Exhibits 1.1, 1.2, and 1.3 which were prepared under my
45 supervision and direction.

46 **II. BOMA/Chicago's Interest in this Proceeding**

47 **Q. Please describe BOMA/Chicago.**

48 A. BOMA/Chicago is a trade association that has represented Chicago office buildings since
49 1902. BOMA/Chicago is the oldest BOMA local association in the world.
50 BOMA/Chicago's members include 244 office, institutional, and cultural buildings in the
51 City of Chicago, and 190 companies that provide services to support operational
52 excellence. Based on the latest data available to us, BOMA/Chicago members make up
53 approximately 80 percent of the rentable office space in downtown Chicago. These
54 valuable assets are the core of one of the world's greatest central business districts.

55 BOMA/Chicago is a major contributor to the economic livelihood of the City and
56 the entire region. As of 2019, BOMA/Chicago member buildings supported over 33,000
57 jobs and housed 18,000 local, national, and international businesses with more than
58 640,000 employees. In that same year, it was estimated that BOMA/Chicago buildings
59 supported local schools and public services through payments of more than \$1 billion in
60 annual property taxes and that the Chicago office market injected more than \$5.2 billion
61 into the local economy.

62 **Q. What is BOMA/Chicago's interest in this proceeding?**

63 A. BOMA/Chicago has long advocated for its members regarding policy, regulatory,
64 legislative, and legal issues. BOMA/Chicago has contributed to drafting new building
65 codes, advancing fire and life safety measures, negotiating mutually beneficial labor
66 agreements, and enhancing energy efficiency and sustainability practices. By advocating
67 on behalf of the owners and managers of its member buildings, BOMA/Chicago also
68 supports the businesses and institutions that are housed in them – businesses and

69 institutions that require quality office space and access to cost effective and reliable energy
70 supplies. We are pleased to offer resources and contribute to advocacy efforts that support
71 our members' efforts to build and maintain a vibrant economy by making Chicago an
72 appealing market for businesses to call home.

73 **Q. Are BOMA/Chicago's members customers of Peoples Gas Light & Coke Company**
74 **("Peoples Gas")?**

75 A. Yes. We estimate that approximately two thirds of BOMA/Chicago's member buildings
76 use natural gas service and are customers within the service territory of Peoples Gas.
77 Energy costs – including natural gas costs – are one of the largest categories of expenses
78 for BOMA/Chicago's member buildings, along with property taxes and labor.

79 **Q. Can BOMA/Chicago member buildings switch to other sources of energy in response**
80 **to increased natural gas utility costs?**

81 A. No. For BOMA/Chicago member buildings that currently use natural gas-powered
82 equipment, switching to all-electric equipment may be prohibitively expensive,
83 particularly for older or larger buildings.

84 **III. Impact of Peoples Gas's Proposed Rate Increase**

85 **Q. What are BOMA/Chicago's concerns with Peoples Gas's proposed rate increase?**

86 A. BOMA/Chicago Ex. 2.0, the Direct Testimony of Mark Pruitt, will provide a more detailed
87 analysis of specific issues and concerns regarding the proposed rate increase. However, I
88 understand that Peoples Gas is seeking the Commission's approval for a significant rate
89 increase in this proceeding. Based on Mr. Pruitt's analysis and the Direct Testimony and
90 Exhibits of Peoples Gas, it appears that non-residential customers, including
91 BOMA/Chicago's members, will experience relatively larger rate increases than residential

92 customers. As explained in Mr. Pruitt's testimony, BOMA/Chicago understands that its
93 members may face a 46.07% increase in delivery charges compared to their current rates.
94 BOMA/Chicago's members will be negatively impacted by these rapid increases in utility
95 rates. A dramatic change in utility costs over a short period of time can cause financial
96 distress for BOMA/Chicago member buildings and the businesses they house, as well as
97 other non-residential customers.

98 **Q. What options do BOMA/Chicago members buildings have to respond to increased**
99 **utility costs?**

100 A. Higher utility costs are typically passed on to tenant businesses in BOMA/Chicago member
101 buildings. Most commercial leases in downtown Chicago include provisions that assign a
102 certain portion of a building's projected operating expenses to each of the building's
103 tenants, based on the square footage that they lease. As costs rise beyond projections,
104 tenants may be assessed extra charges to account for any under-recovery by the building
105 manager/owner. In the event that a building is not fully leased, the portion of the building's
106 variable expenses that would normally be assessed to the tenant of that vacant space may
107 be either borne by the building itself or assessed as an additional charge to the building's
108 tenants, on top of the direct costs of the utility rate increases. In this way, increased utility
109 costs will directly impact the thousands of businesses that lease space in BOMA/Chicago
110 member buildings.

111 **Q. What impact will increased utility costs have on tenants of BOMA/Chicago member**
112 **buildings?**

113 A. Commercial leases in downtown Chicago typically have terms of 5 to 15 years. As a result,
114 tenants facing increased utility costs passed on by building owners may seek to trim facility

115 expenses by subleasing space or to decrease other categories of expenses, for example, by
116 reducing their number of employees. In the longer term, tenants have the option of shifting
117 their employee base to other markets in response to rising costs.

118 **Q. Are there other challenges currently facing the commercial real estate industry in**
119 **downtown Chicago?**

120 A. Yes. BOMA/Chicago members are also facing increased vacancies, decreased office
121 occupancy, increased interest rates, and other types of rising utility rates.

122 **Q. What is the current level of office vacancies in the Central Business District?**

123 A. As of Q1 2023, Colliers International (“Colliers”), a real estate services and investment
124 management company, reported that the vacancy rate in downtown Chicago office
125 buildings was 22.1%, which is a record high. BOMA Ex. 1.1, 2.¹ For comparison, at the
126 start of the COVID-19 pandemic Colliers reported a vacancy rate of 12.9%. BOMA Ex.
127 1.2, 1. Increasing vacancy rates are a key economic challenge facing BOMA/Chicago
128 members today. Colliers reports that “there is no expectation that overall vacancy will
129 decrease” in the Central Business District in the near term. BOMA Ex. 1.1, 2.

130 Additionally, Colliers reports (and BOMA/Members are experiencing) high levels
131 of office sublease inventory in downtown Chicago. Currently, Colliers reports that over
132 7.4 million square feet of office space is being offered for sublease, up from about 5.8
133 million square feet in Q1 2022. BOMA Ex. 1.1, 2. Space offered for sublease represents
134 space that is unused or unneeded by the existing tenant. As the existing leases on that space

¹ The most recent report from Colliers International is available at <https://www.colliers.com/en/research/chicago/2023-q1-chicago-downtown-office-report> (last accessed May 9, 2023).

135 expire, it is expected that vacancy rates in downtown Chicago will continue to increase in
136 the coming years. Moreover, many office tenants executed short-term lease extensions
137 during the COVID-19 pandemic. BOMA/Chicago anticipates that these expiring short-
138 term leases may further contribute to increasing vacancy rates in the near future.

139 **Q: What impacts will increased vacancies have on BOMA/Chicago members, the**
140 **Central Business District, and the City of Chicago?**

141 A. Increased vacancies and the other economic challenges I will discuss below are serious
142 threats to BOMA/Chicago members' businesses. These challenges will and already are
143 leading to reduced valuations for buildings in downtown Chicago. *See* BOMA Ex. 1.1, 6.
144 As building valuations decline, so will property tax revenues in the Central Business
145 District. This could ultimately threaten the City's revenues, requiring cuts to services or
146 re-allocation of lost tax revenue to other taxpayers, such as homeowners.

147 The economic conditions created by the COVID-19 pandemic and the vacancy and
148 office occupancy trends I discuss in this testimony have already led to reduced direct
149 employment and engagement of outside contractors by BOMA/Chicago members for
150 services such as building operations, engineering, cleaning, etc.

151 **Q: Does reduced employee occupancy play a role in the challenges that you are**
152 **discussing?**

153 A. Yes. The commercial office building industry continues to adjust to the impacts of the
154 COVID-19 pandemic and the resulting increase in work-from-home employment. During
155 2020, employee occupancy in commercial office buildings dropped rapidly and
156 precipitously. While some business and employees have returned to the office, employee
157 occupancy remains below 50% of pre-pandemic levels.

158 BOMA/Chicago conducts a monthly survey of its member buildings regarding
159 office occupancy, in which members identify the number of tenant employees in a building
160 on the busiest day in the prior week and compare that to the number of employees in that
161 building on a typical pre-pandemic workday. BOMA/Chicago's most recent survey data,
162 which is attached as BOMA Ex. 1.3, shows that in April 2023 downtown Chicago office
163 building occupancy was approximately 43%. BOMA Ex. 1.3. Occupancy in the Central
164 Business District has plateaued over the past year, with rates consistently remaining
165 between 40-43%. *Id.*² Reduced office occupancy is contributing to the increased office
166 vacancy rates I described earlier in my testimony.

167 **Q. Are there any other areas of economic concern that the Commission should be aware**
168 **of as it considers Peoples Gas's proposed rate increase?**

169 A. Yes. First, as noted in the Direct Testimony of Peoples Gas witness Ann E. Bulkley,
170 interest rates have risen in recent years. PGL Ex. 4.0, 18-20. As a capital-intensive
171 business, increased interest rates have a significant effect on the commercial real estate
172 industry. These interest rate increases may have significant impacts across the country,
173 including in downtown Chicago, and may ultimately contribute to increased rents, higher
174 vacancies, lower building valuations, and reduced property tax revenues.³

² These trends are consistent with reports published by Kastle Systems drawn from office keycard data from 2,600 buildings and 41,000 business in 47 states. That data shows that average occupancy levels nationally have risen steadily in the past three years, but continue to be only about 50% of pre-pandemic levels. See <https://www.kastle.com/safety-wellness/getting-america-back-to-work/> (last accessed May 9, 2023).

³ New York Times, "Stress Builds as Office Building Owners and Lenders Haggle Over Debt" (Apr, 27, 2023) <https://www.nytimes.com/2023/04/27/business/economy/office-buildings-banks->

175 Second, like most other Peoples Gas customers, BOMA/Chicago will also be
176 impacted by ComEd's proposed rate increase, currently pending in ICC Docket No. 22-
177 0487 & No. 23-0055 (cons.). Together, a rise in the Peoples Gas and ComEd utility rates
178 could lead to major increases in utility costs for BOMA/Chicago members and other
179 customers.

180 **Q. Why is the current state of the business environment in downtown Chicago relevant**
181 **to Peoples Gas's rate increase?**

182 A. As energy prices rise, office rents will increase and further deinceivize businesses from
183 expanding leasing and occupancy.

184 As I noted earlier in my testimony, it appears that Peoples Gas is proposing
185 relatively larger rate increases for non-residential customers than for residential customers.
186 It is important that the Commission understand and account for the fact that there are a
187 number of serious economic challenges currently facing non-residential utility customers,
188 particularly large commercial customers. A rapid and substantial increase in utility rates
189 would only add to these stressors, and could have negative impacts on the City's and the
190 region's economy, including potentially decreasing the property tax revenue that is
191 collected by the City of Chicago from the Central Business District. Increased rents and
192 other costs borne by commercial tenants could also lead businesses in Chicago to reduce
193 their employee headcounts or move their offices to other jurisdictions or even out of state.

194 Maintaining lower energy rates helps attract investors and supports the

economy.html?smid=nytcare-ios-share&referringSource=articleShare (last accessed May 9,
2023).

195 development of new office buildings in Chicago over other cities across the nation. New
196 downtown office building construction benefits the Central Business District and City as a
197 whole by creating jobs – most if not all of jobs within the building trades are union jobs
198 with good wages and benefits. However, with a majority of workers staying home and
199 vacancy on the rise, downtown office building construction has declined significantly.
200 While nearly 5.4 million square feet was under construction in the first quarter of 2020
201 (BOMA Ex. 1.2, 1), Colliers reports that less than 2 million square feet are currently under
202 construction. BOMA Ex. 1.1, 2. Increased energy costs could contribute further to that
203 decline.

204 Rising vacancy and declining building values also lead to lower building
205 transactions. This in turn hinders correlated capital projects, downtown revitalization, and
206 tax revenues. There has been a downward trend in building transactions in downtown
207 Chicago in recent years. For example, in 2021, building transactions in the Central
208 Business District were valued at \$1.5 billion, down from a recent high of \$6.4 billion in
209 2015.

210 The City of Chicago has recently acknowledged the challenges facing downtown
211 Chicago, announcing a \$550 million investment program for the LaSalle Street corridor.⁴
212 This initiative, the City has explained, is a response to the “significant office and retail
213 vacancy rates exacerbated by the COVID-19 pandemic and its ongoing market trends.”⁵
214 This program underscores the current business challenges facing the Central Business

⁴ <https://www.chicago.gov/city/en/sites/lasalle-street/home.html> (last accessed Apr. 26, 2023).

⁵ *Id.*

215 District and demonstrates the City's significant interest in supporting the economic health
216 of the area.

217 **Q. What is your recommendation to the Commission regarding Peoples Gas's proposed**
218 **rate increase?**

219 A. I recommend that the Commission carefully consider the impacts of the proposed rate
220 increase on customers, including non-residential customers like BOMA/Chicago members.
221 The Commission should minimize the overall size of Peoples Gas's proposed rate increase
222 and should not approve any rate design that places a disproportionate or dramatically-
223 increased share of the burden of Peoples Gas's rate increase on non-residential customers.

224 **Q. Does this conclude your prepared direct testimony?**

225 A. Yes, it does.