



Chicago & Midwest Commercial Real Estate Outlook

37th Annual Economic Outlook Symposium
Federal Reserve Bank of Chicago

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Key Points: Balance, Land Use & Mgmt Pivots, and (un)Certainty

1 –Chicago CRE Market *generally* strives for **equilibrium between Supply and Demand.**

2 – **The Great Pivot:** Redevelop, repurpose our CRE for its highest and best use. “Sometimes we are under demolished, not over developed.”

3 – Sales volume plummets even farther into 2023, to **lows not seen in 30 years.**

↑ **Cap Rates ARE ON THE RISE.** Should help with land/properties being repurposed, repositioned and remodeled. Great Basis Reset is here.

Dry Powder – It’s a thing for 2024.

Conclusion: **There is still uncertainty** (CRE’s biggest dread) in consumer spending, interest rate hikes, crime, and a pending recession for durable goods.

- Yet **TENANTS** and **OWNER OCCUPIERS** are **behaving with certainty.** **“Kicking the can”** activity comes to an **end.**
- **SELLERS** are **Even More** Insensitive to Price
- **Asset Management – regardless of property type – is in vogue.**

Chicago's Supply Issues....

Union Issues, Municipality Red Tape

+

Distribution Bottlenecks, Material Costs +

Recession/Consumer Spending Uncertainty

+

Interest Rates↑ and Capital Lending↓

= Cancelled, Delayed Projects

...Chicago's Under CRE Supply. Is This (Or Isn't It) a Good Thing?

- A strong contributing factor to Chicago's Demand Fundamentals is its limited supply. Many Chicago Developers and Investors Understand This.
- A Function of Reputation.

“Anywhere but Chicago” Vs “You Date Austin and Marry Chicago.”

What are buyers looking for?

- ~~Sale Leasebacks to raise capital.~~
- Credit tenants with long-term leases with little to no termination rights.
- Small, tiny deals.
- Creative financing.
- At the right price, at the right location, redevelopment opportunities for highest and best use.
- Owner-Occupiers.
- There is a lot of dry powder out there. Plenty of folks think the stability of Chicago is under-valued.
- **I.E., the Sure Thing.**

What are sellers looking for?

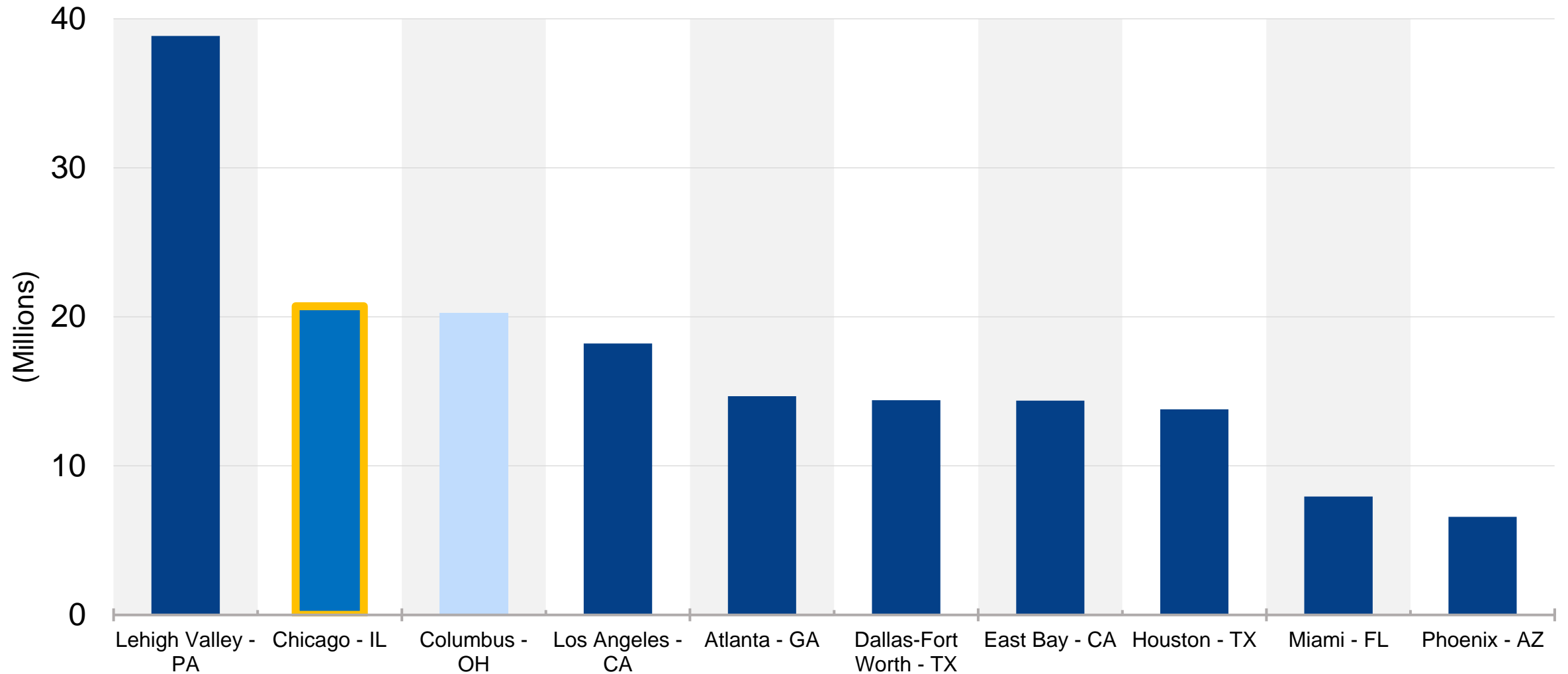
Rising **Insensitivity** to price, i.e., must sell at any price.



Economic & Demographic Drivers

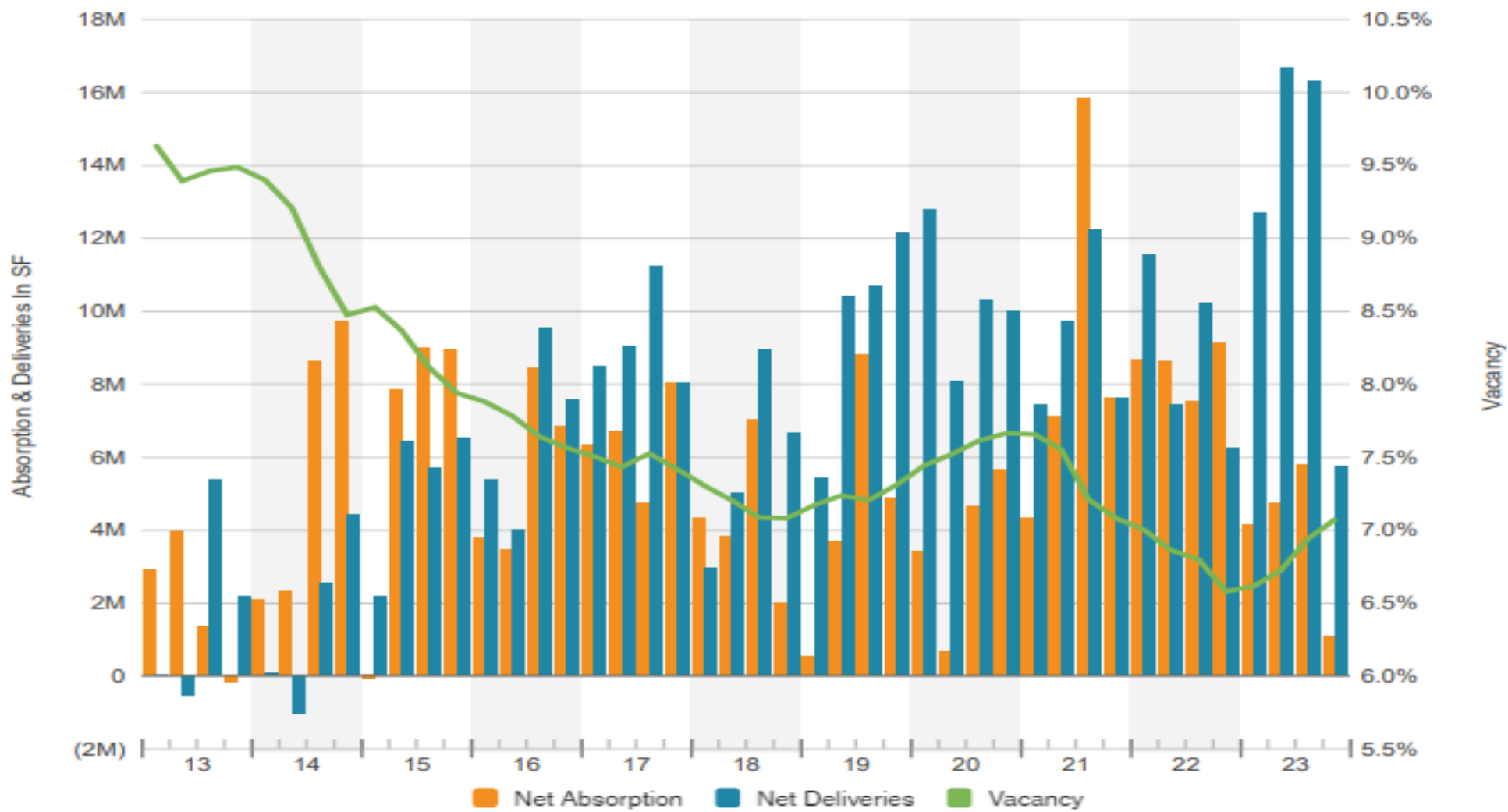


U.S. Residents Within 4-Hour Truck Drive

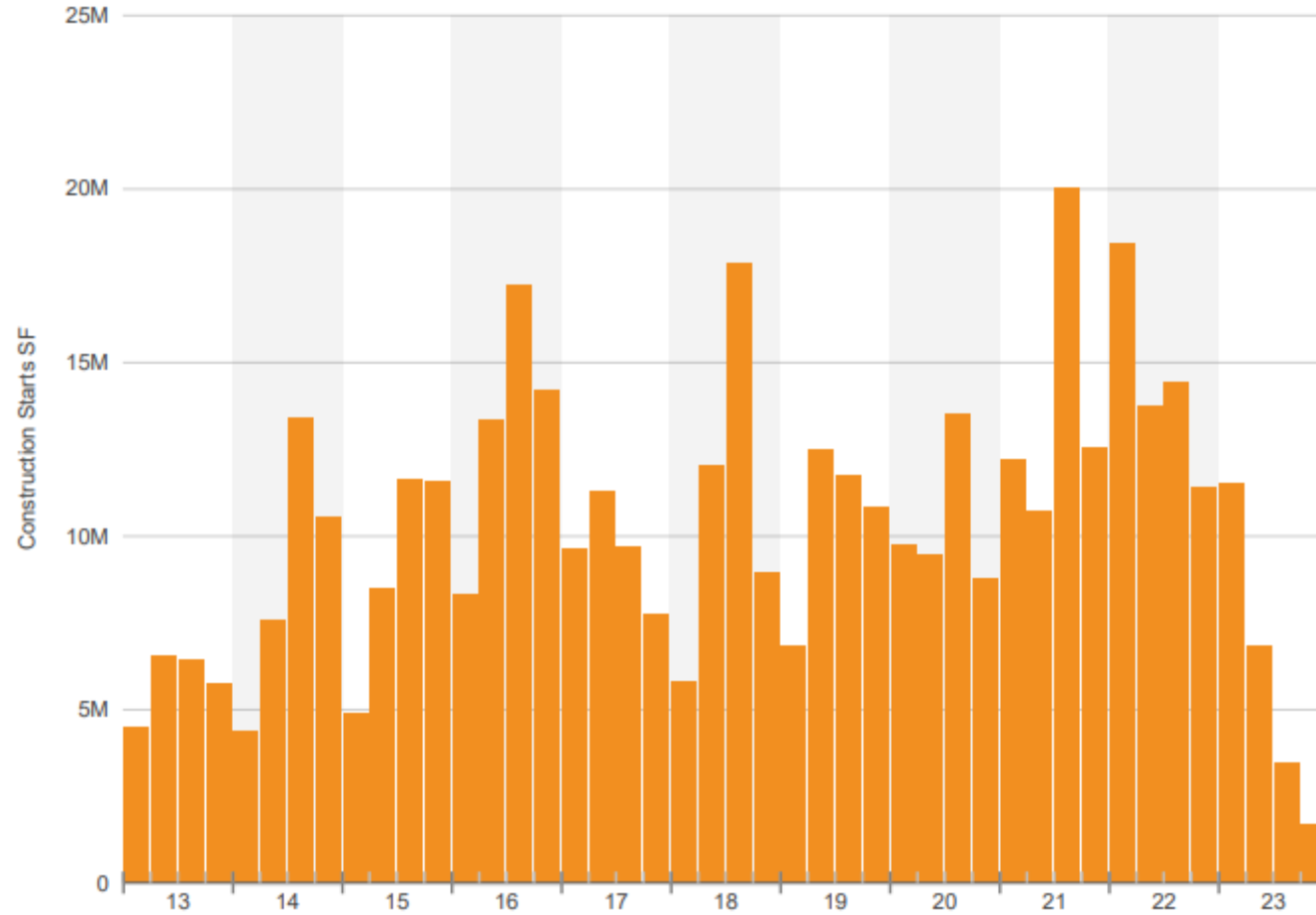


Source: US Census

Overall Chicago CRE Demand: Completions Plummet, Absorption Stays Positive, Vacancy Below 10-Year Average



Rising Interest Rates Dents Construction Starts





Multifamily





Multifamily

Housing Market Underpinnings

“No Boom, No Bust”



Markets Most At Risk for 4&5 Star Over Supply

4&5 Star Rent Decline

1Q 22 to 3Q 23

Palm Beach
 Las Vegas
 Tampa
 Orlando
 Austin
 Phoenix
 Fort Lauderdale
 Atlanta
 Jacksonville
 Orange County
 Miami
 Raleigh
 Charlotte
 San Antonio
 Inland Empire

4&5 Star Vacancy Increase

1Q 22 to 3Q 23

Raleigh
 Jacksonville
 Inland Empire
 Salt Lake City
 Nashville
 Atlanta
 Saint Louis
 Fort Lauderdale
 Indianapolis
 Austin
 Palm Beach
 Orlando
 San Antonio
 Las Vegas
 Phoenix

2023 Supply vs Previous 3 Year Avg

Atlanta
 Austin
 Nashville
 Philadelphia
 Raleigh
 Charlotte
 Phoenix
 Jacksonville
 Dallas-Fort Worth
 Orlando
 Northern New Jersey
 Columbus
 Houston
 Indianapolis
 Las Vegas

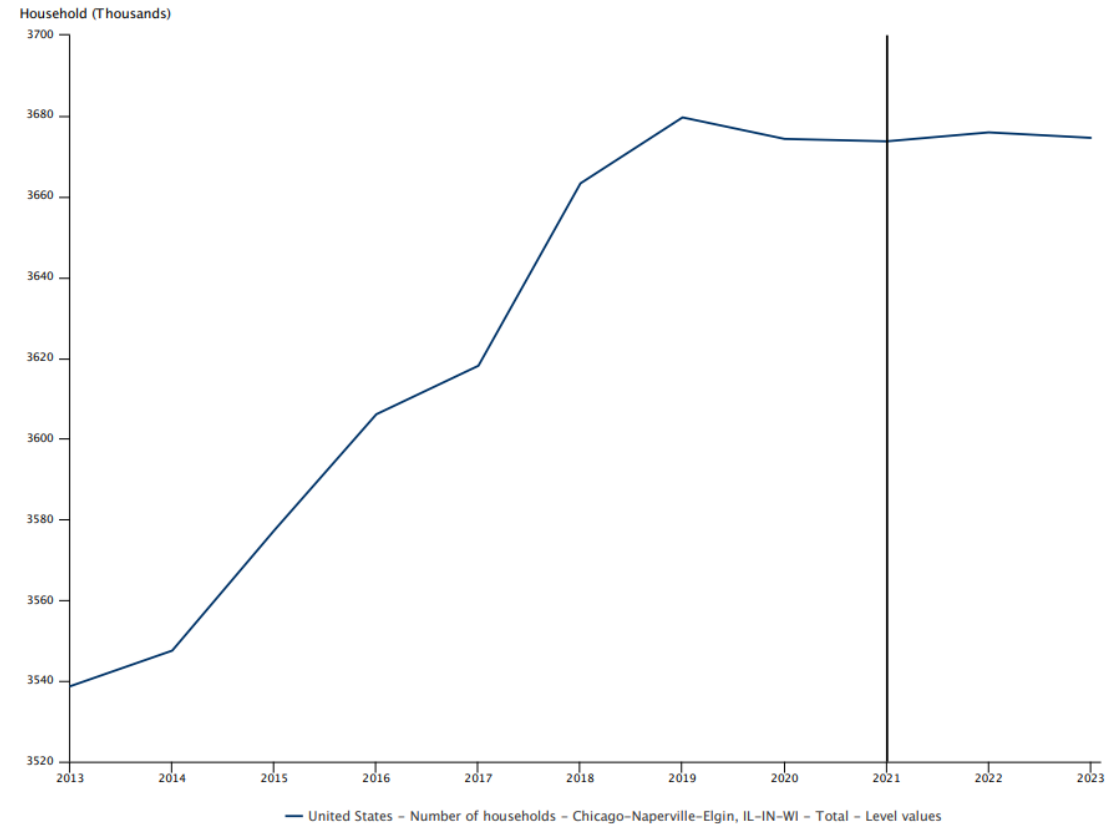
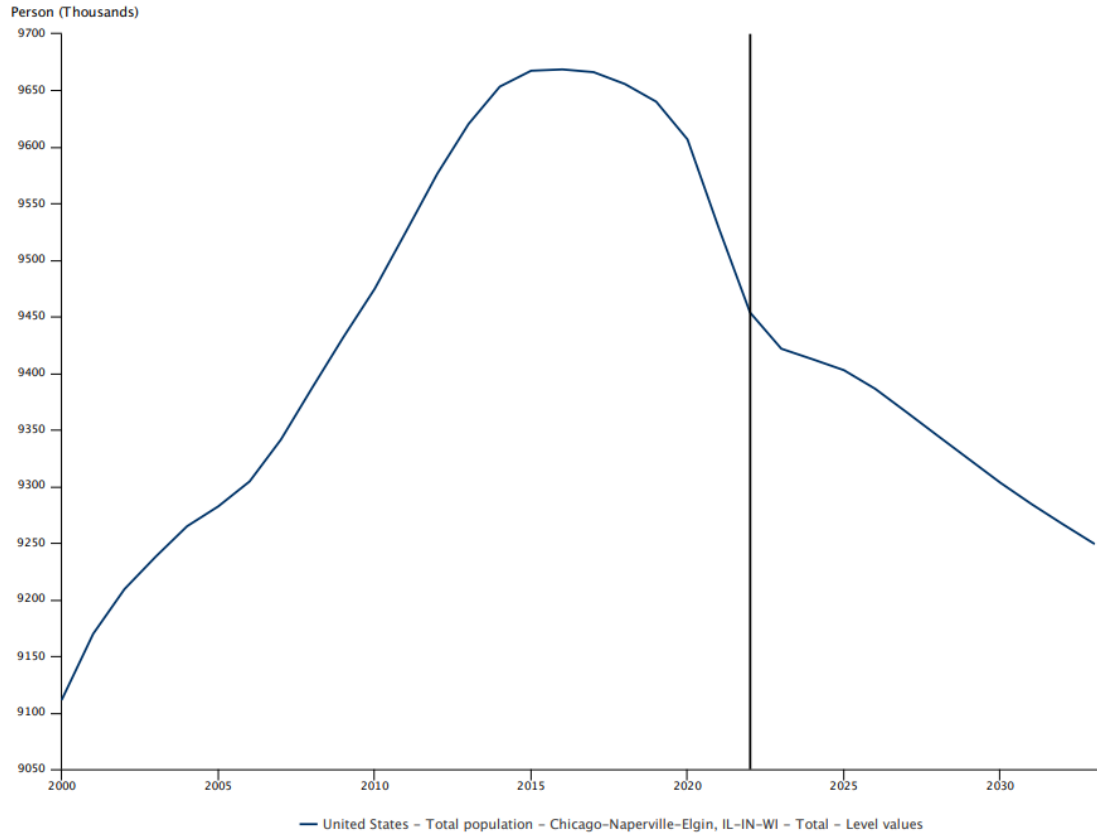
Red Alert

Atlanta Jacksonville
 Austin Orlando
 Charlotte Phoenix
 Raleigh

Yellow Alert

Fort Lauderdale Las Vegas Palm Beach
 Indianapolis Nashville San Antonio
 Inland Empire Orlando

Chicago Population Vs. Household Growth or Headship Rates



Source: Oxford Economics, August 2023

Note: Vertical lines represent data pull. Population Count: 2022; Household Count: 2021.

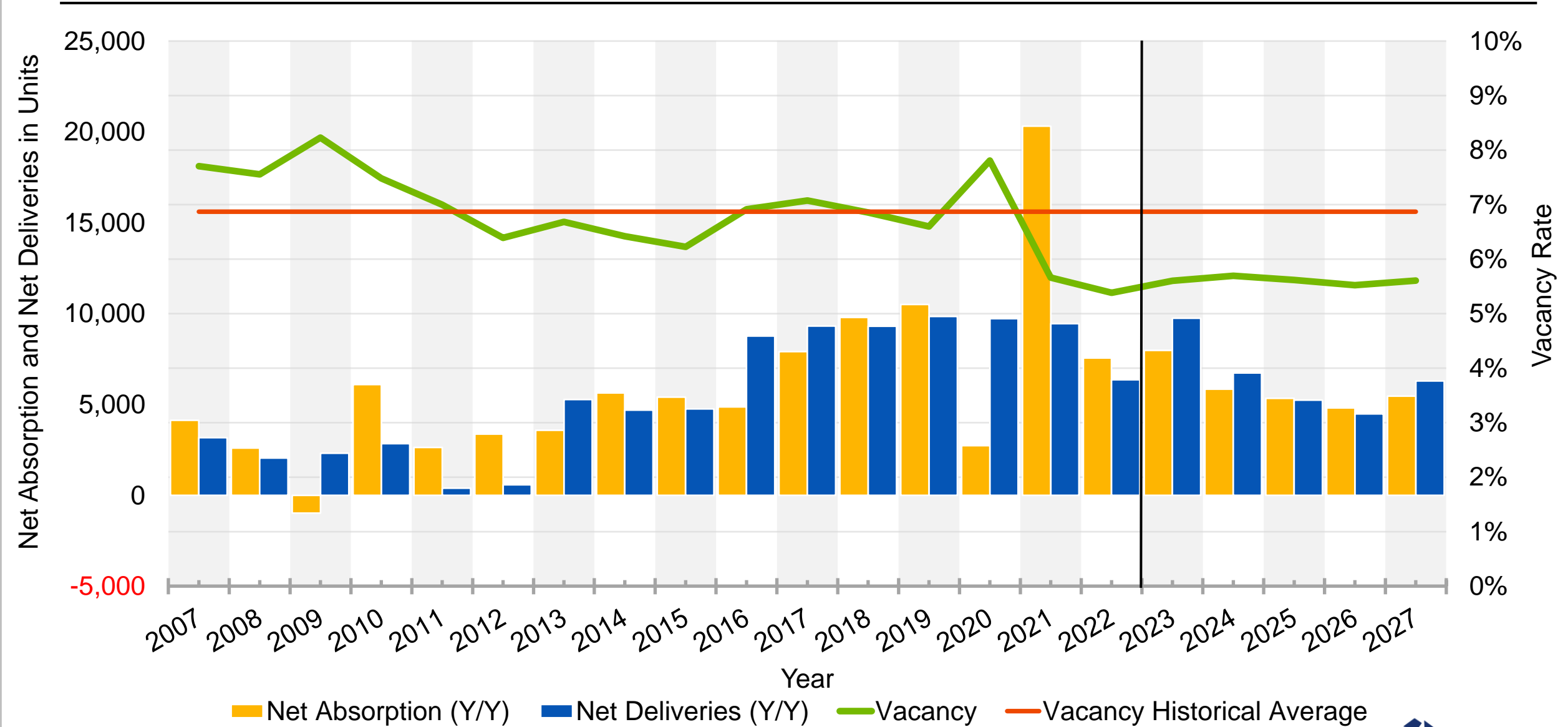


Multifamily

Demand Markers, Slow and Steady

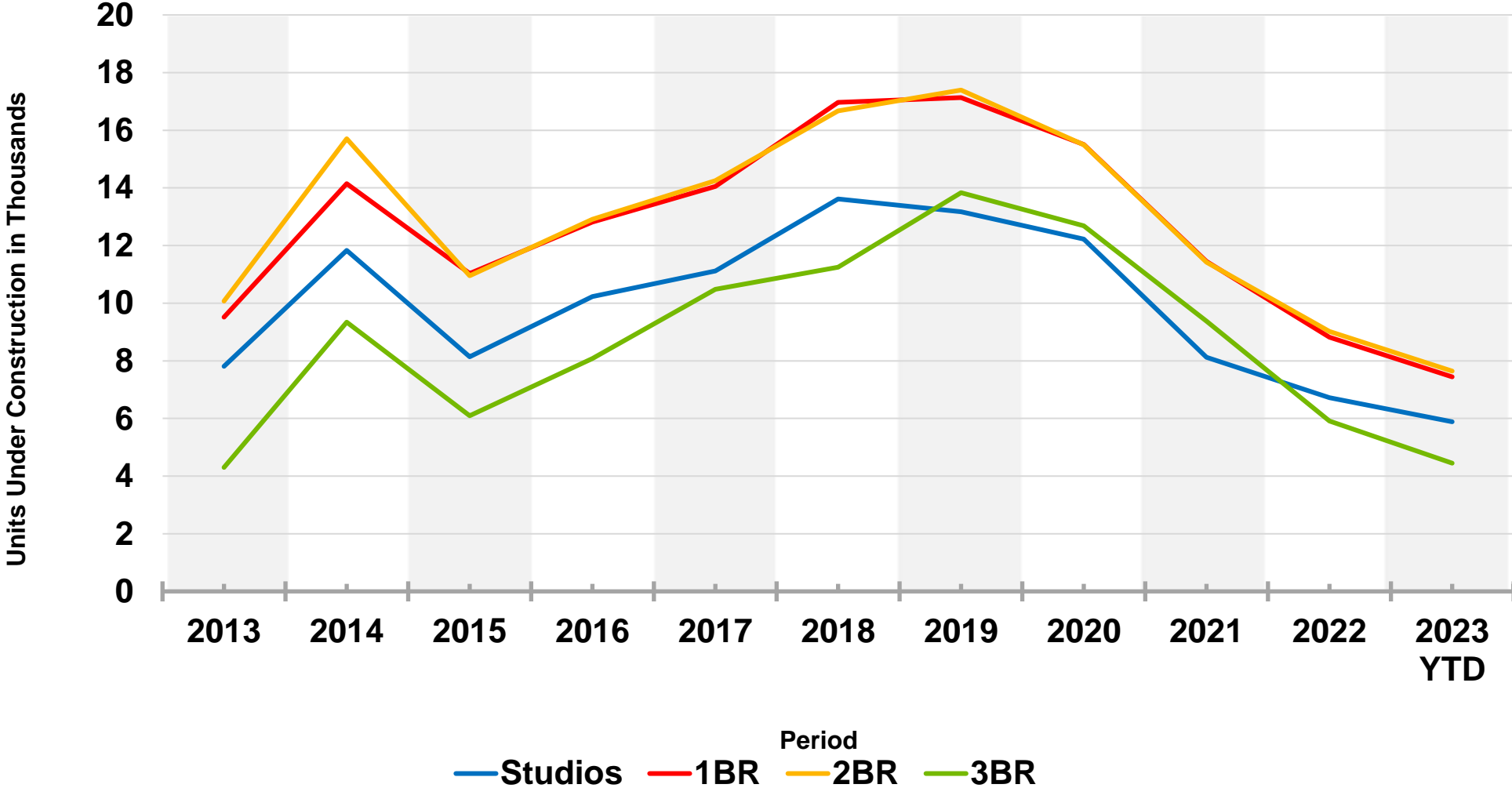


Chicago's Multifamily Market Scales Back Development



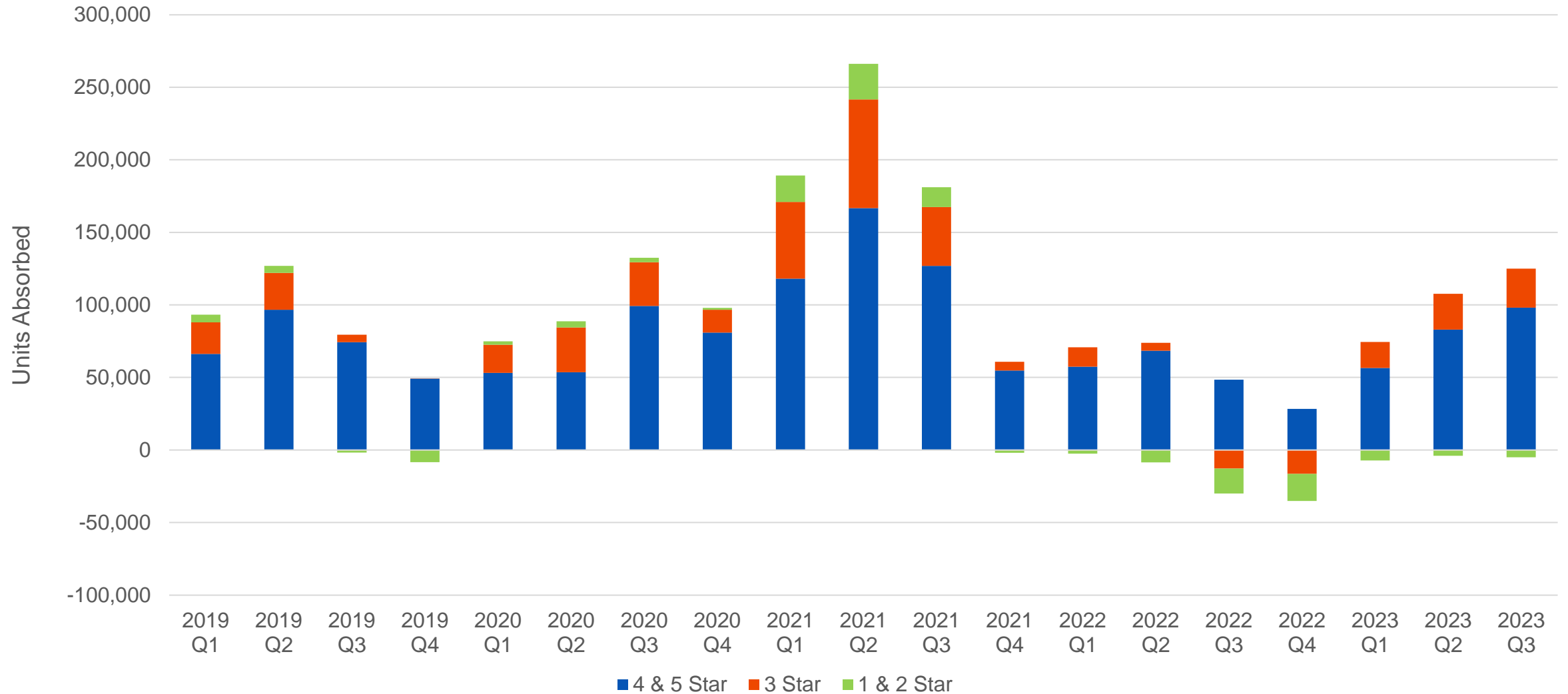
Source: CoStar, October 2023

Chicago's Apartments Underway Drop Precipitously from Pre-Pandemic Heights

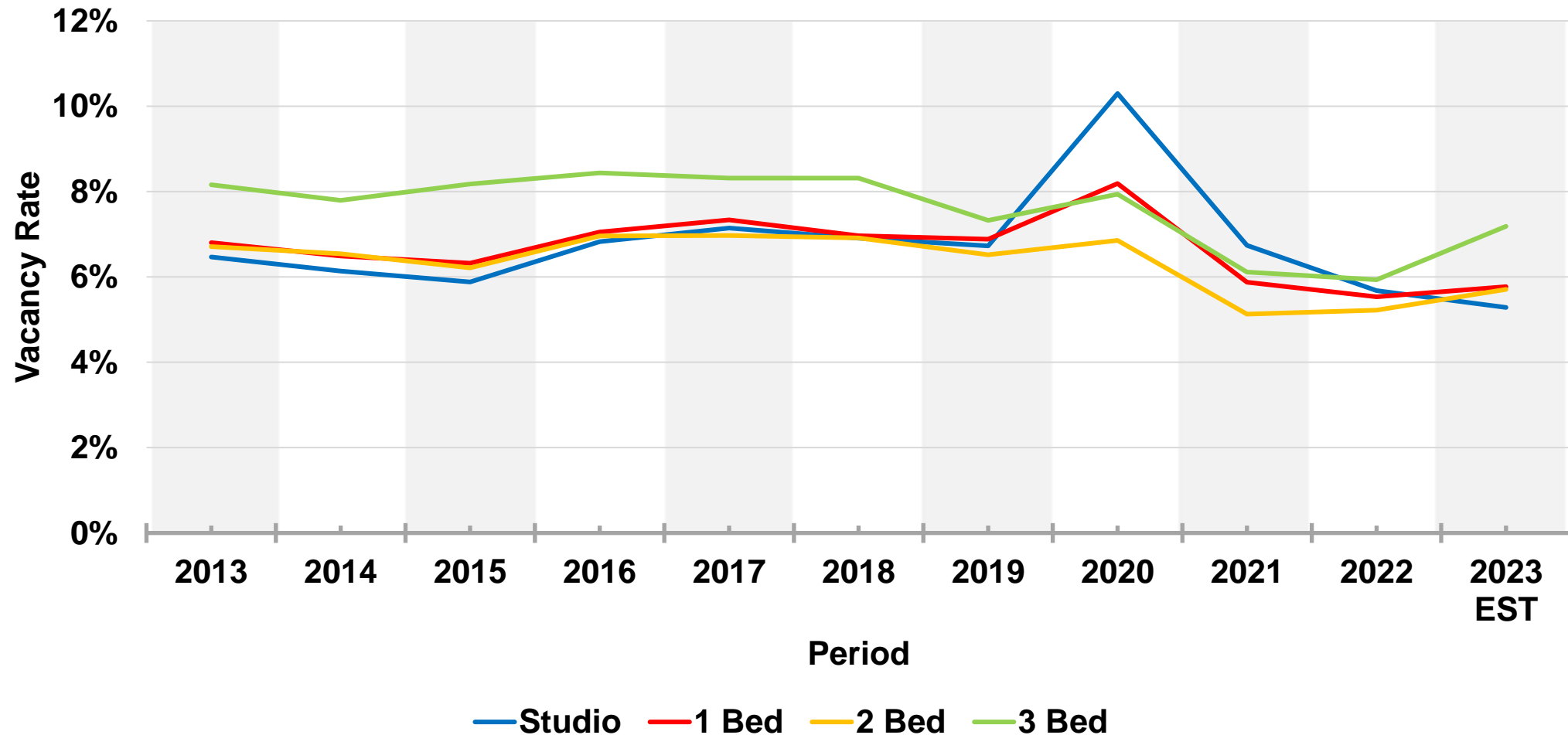


Source: CoStar, November 2023

1 & 2 Star Properties Represent True Inelastic US Demand



Studio Vacancy Dips, Supports Chicago's Household Growth Over Population Growth

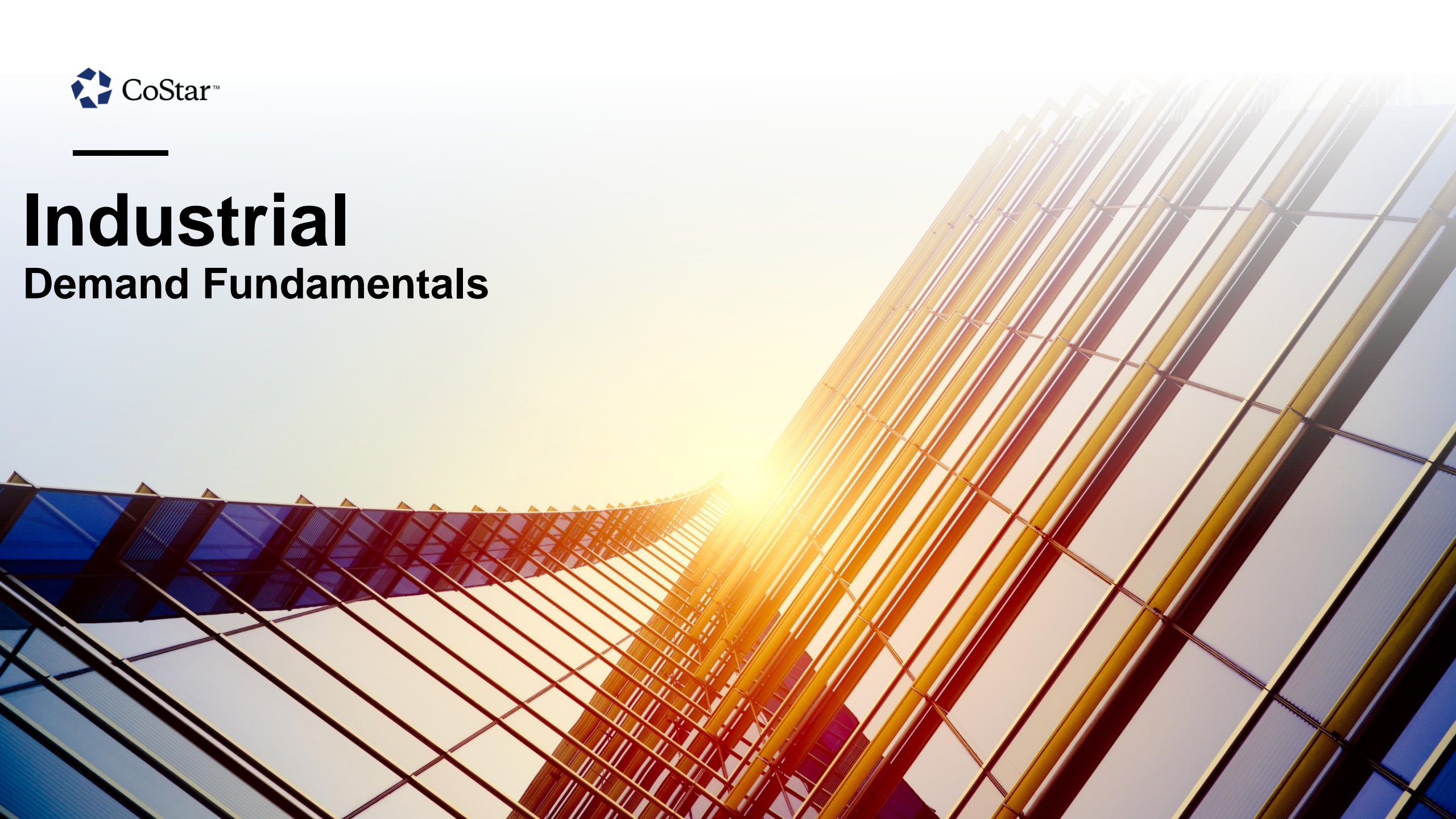


Source: CoStar, November 2023

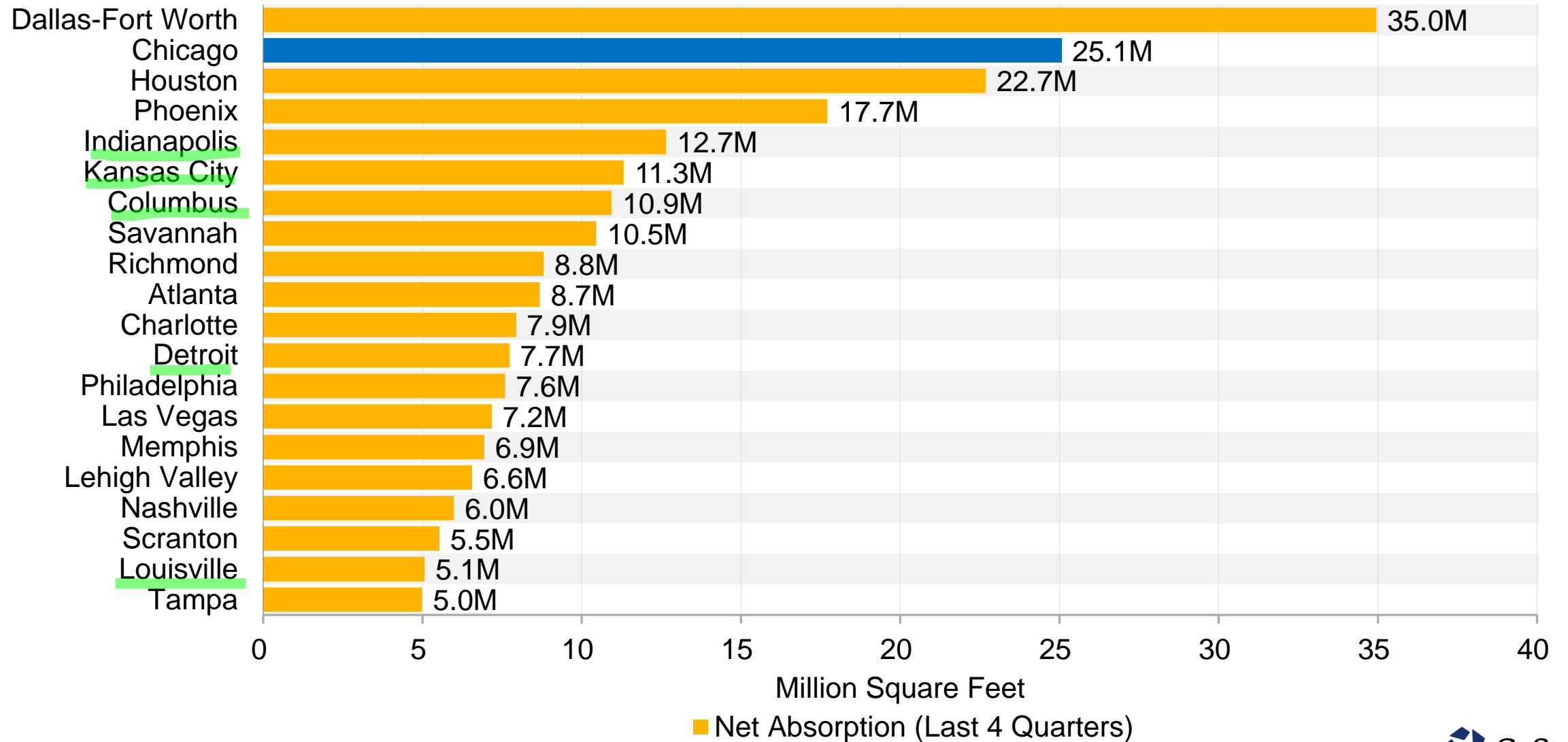


Industrial

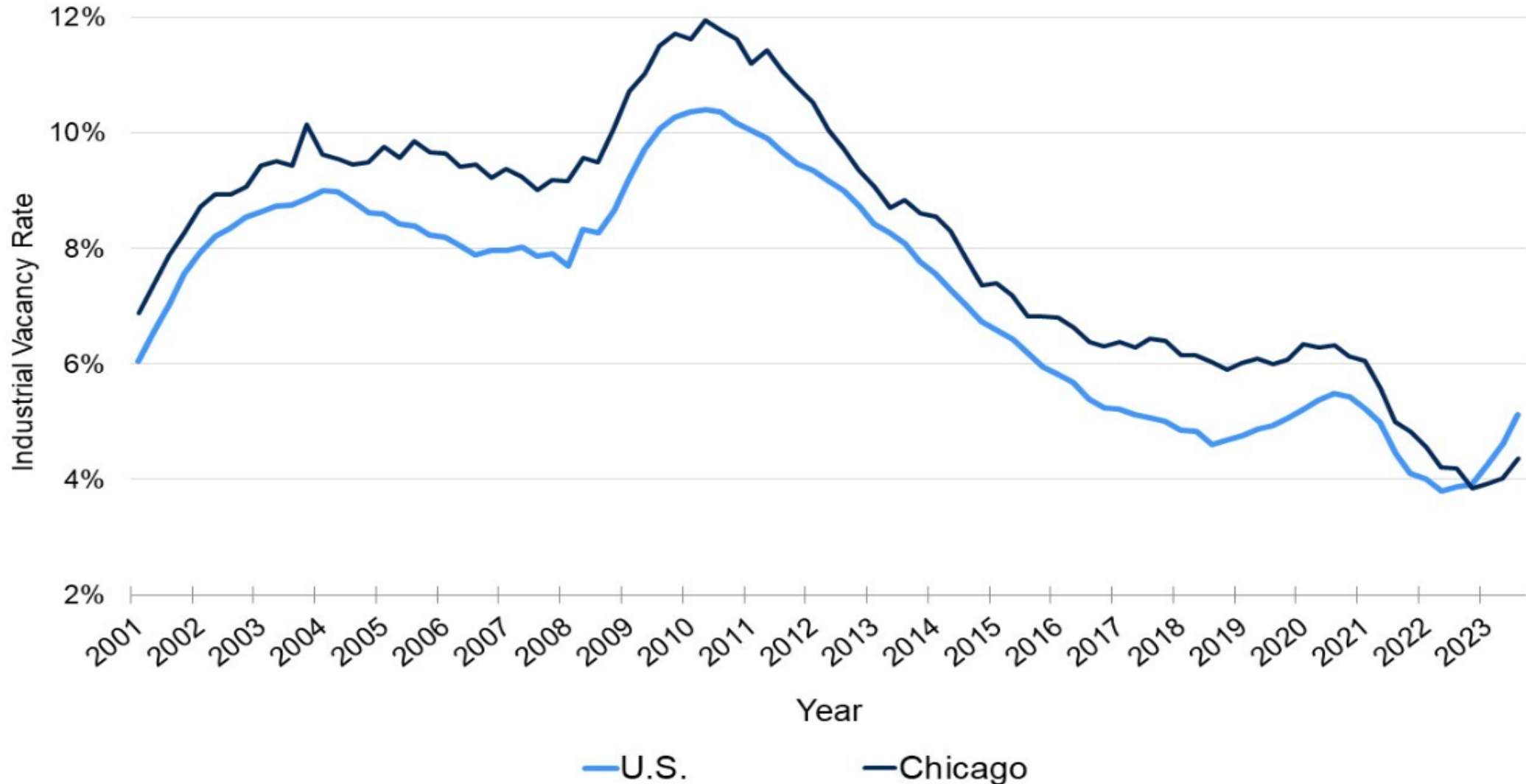
Demand Fundamentals



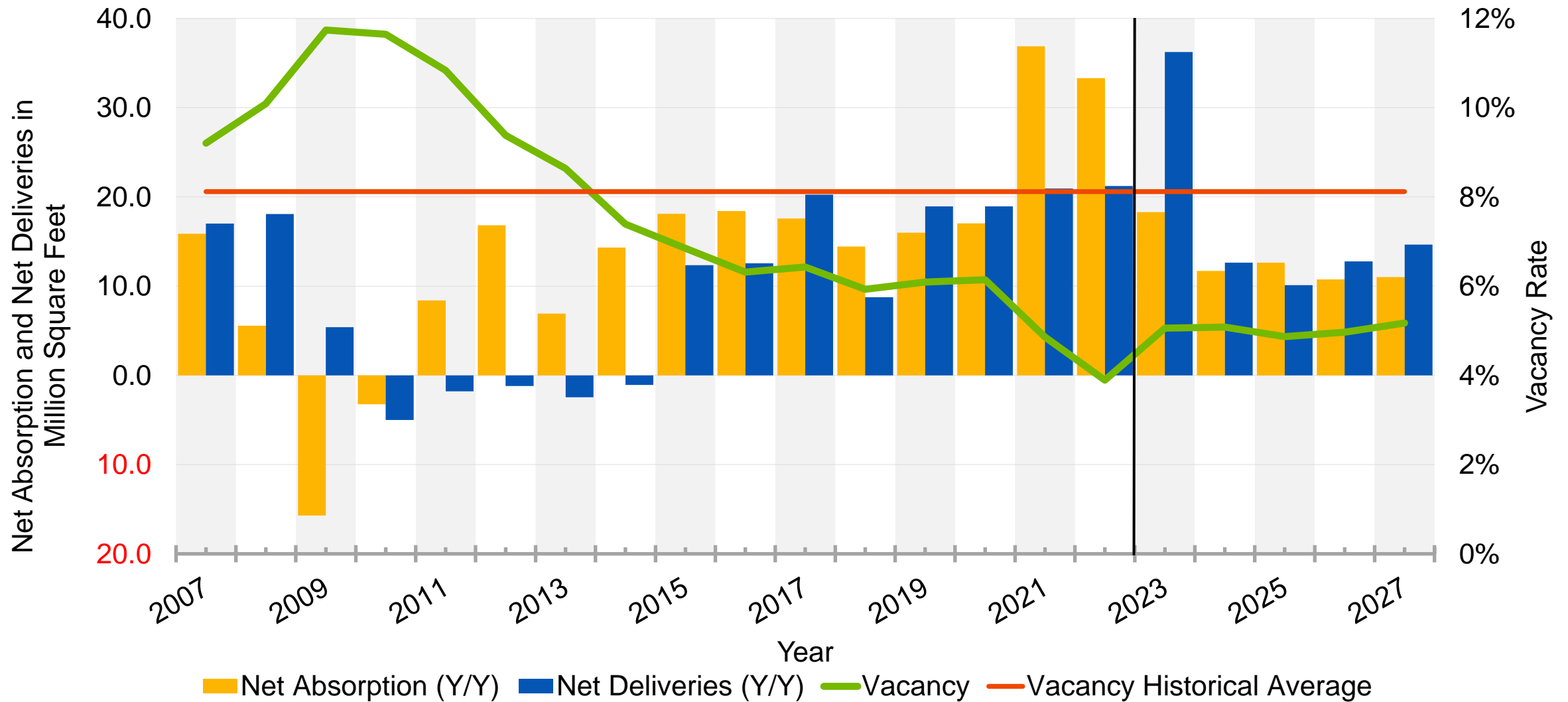
Net Absorption



Chicago Industrial Vacancy Rate Now Tighter Than US Average



Industrial Base Case Forecast: Supply, Demand and Vacancy



Change in Space Listed as Available for Lease
Year-To-Date in 2023 as % of RBA
(Columns Denote Property Size Ranges in Square Feet)

| Market | All | Under 50k | 50k-99k | 100k-249k | 250k-499k | 500k+ |
|-----------------------------|-------|-----------|---------|-----------|-----------|-------|
| Richmond - VA | -0.7% | -0.1% | -0.2% | 0.7% | 0.3% | -4.9% |
| Detroit - MI | -0.6% | 0.1% | 0.1% | -0.3% | -2.1% | -1.7% |
| Houston - TX | -0.4% | 0.0% | 0.5% | -1.0% | -3.0% | 1.2% |
| Phoenix - AZ | -0.2% | 0.9% | 1.1% | 0.1% | -2.4% | -1.9% |
| Kansas City - MO | -0.1% | 0.2% | 1.6% | 0.0% | -0.4% | -1.0% |
| Tampa - FL | 0.0% | 0.3% | 1.3% | -0.1% | -1.2% | -2.8% |
| Orlando - FL | 0.0% | 0.2% | 1.1% | -0.4% | -1.0% | 0.0% |
| Minneapolis - MN | 0.1% | 0.0% | 1.1% | -0.1% | 0.2% | -1.4% |
| Chicago - IL | 0.1% | 0.4% | 1.0% | 0.3% | 1.0% | -1.7% |
| Nashville - TN | 0.3% | 0.5% | -0.3% | 1.7% | 0.4% | -0.6% |
| Boston - MA | 0.4% | 0.1% | 1.1% | 1.1% | 0.2% | -1.9% |
| Austin/San Antonio - TX | 0.4% | 0.7% | 1.7% | -0.2% | -1.2% | 0.2% |
| Norfolk - VA | 0.4% | 0.8% | -0.7% | 0.6% | 1.1% | 0.0% |
| South Florida - FL | 0.5% | 0.1% | 0.8% | 0.5% | 1.0% | 2.4% |
| U.S. | 0.7% | 0.4% | 0.8% | 0.9% | 1.1% | 0.4% |
| Indianapolis - IN | 0.7% | 0.2% | 1.0% | 3.0% | -3.2% | 1.8% |
| Washington - DC | 0.7% | 0.3% | 1.5% | 0.2% | 1.9% | 0.0% |
| Jacksonville - FL | 0.8% | 0.8% | -0.6% | 1.6% | 0.3% | 1.0% |
| Las Vegas - NV | 0.8% | 0.2% | 0.0% | 1.8% | 1.2% | 0.7% |
| Philadelphia - PA | 0.8% | 0.6% | 0.6% | 0.9% | 0.6% | 1.3% |
| I-81/I-78 Corridor - PA | 0.9% | -0.2% | -0.2% | 1.4% | 1.0% | 1.1% |
| Dallas-Fort Worth - TX | 1.0% | 0.5% | 1.3% | 0.9% | 2.5% | 0.1% |
| Lakeland - FL | 1.0% | -0.5% | 0.3% | 1.7% | -0.7% | 3.4% |
| Columbus - OH | 1.1% | 0.6% | 1.2% | 0.6% | 4.3% | -0.6% |
| New York - NY | 1.2% | 0.2% | 1.1% | 1.5% | 4.5% | -0.4% |
| East Bay - CA | 1.2% | 0.8% | 2.4% | 3.5% | -3.0% | 0.0% |
| Atlanta - GA | 1.3% | 0.6% | -0.2% | 1.9% | 2.3% | 1.5% |
| Northern New Jersey - NJ | 1.5% | 0.8% | 0.4% | 2.6% | 2.4% | 2.0% |
| Portland - OR | 1.8% | 0.9% | 1.6% | 2.7% | 2.4% | 2.0% |
| Orange County - CA | 1.8% | 1.0% | 1.2% | 2.5% | 6.4% | 0.0% |
| Los Angeles - CA | 2.1% | 1.2% | 1.9% | 3.0% | 3.6% | 2.7% |
| Greenville/Spartanburg - SC | 2.2% | 0.7% | 0.2% | 3.0% | -2.3% | 6.7% |
| Seattle - WA | 2.4% | 0.5% | 1.0% | 3.7% | 5.6% | 2.1% |
| San Diego - CA | 2.4% | 1.5% | 2.3% | 4.7% | 3.9% | 1.4% |
| Savannah - GA | 2.9% | 1.5% | 6.7% | 6.5% | 2.5% | 1.8% |
| Memphis - TN | 3.2% | 0.0% | 1.6% | 0.8% | 5.2% | 4.8% |
| Inland Empire - CA | 3.3% | 0.7% | 2.7% | 4.3% | 5.6% | 3.3% |

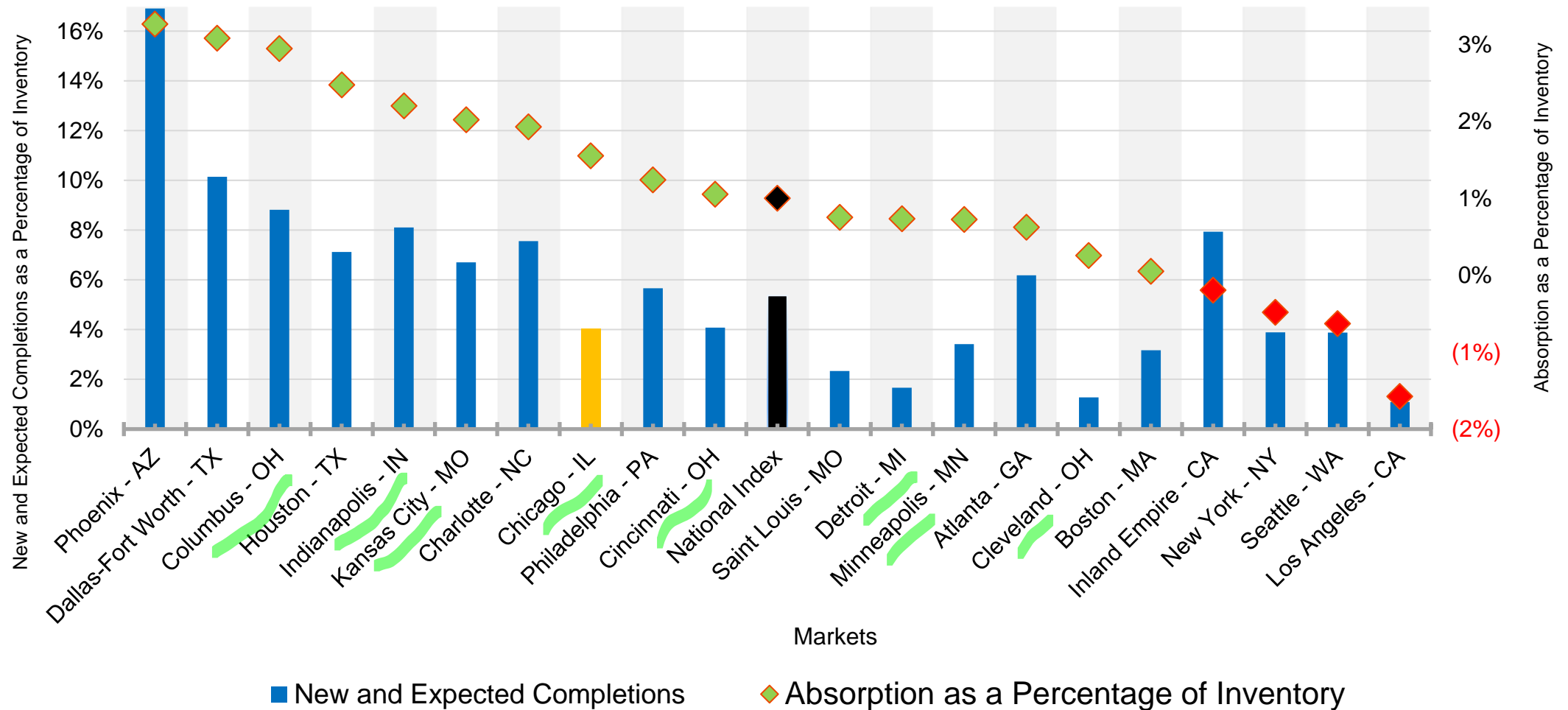


Tenants Are Shedding Space Fastest in Major Port Markets

*Excludes properties under construction or completed after 2022

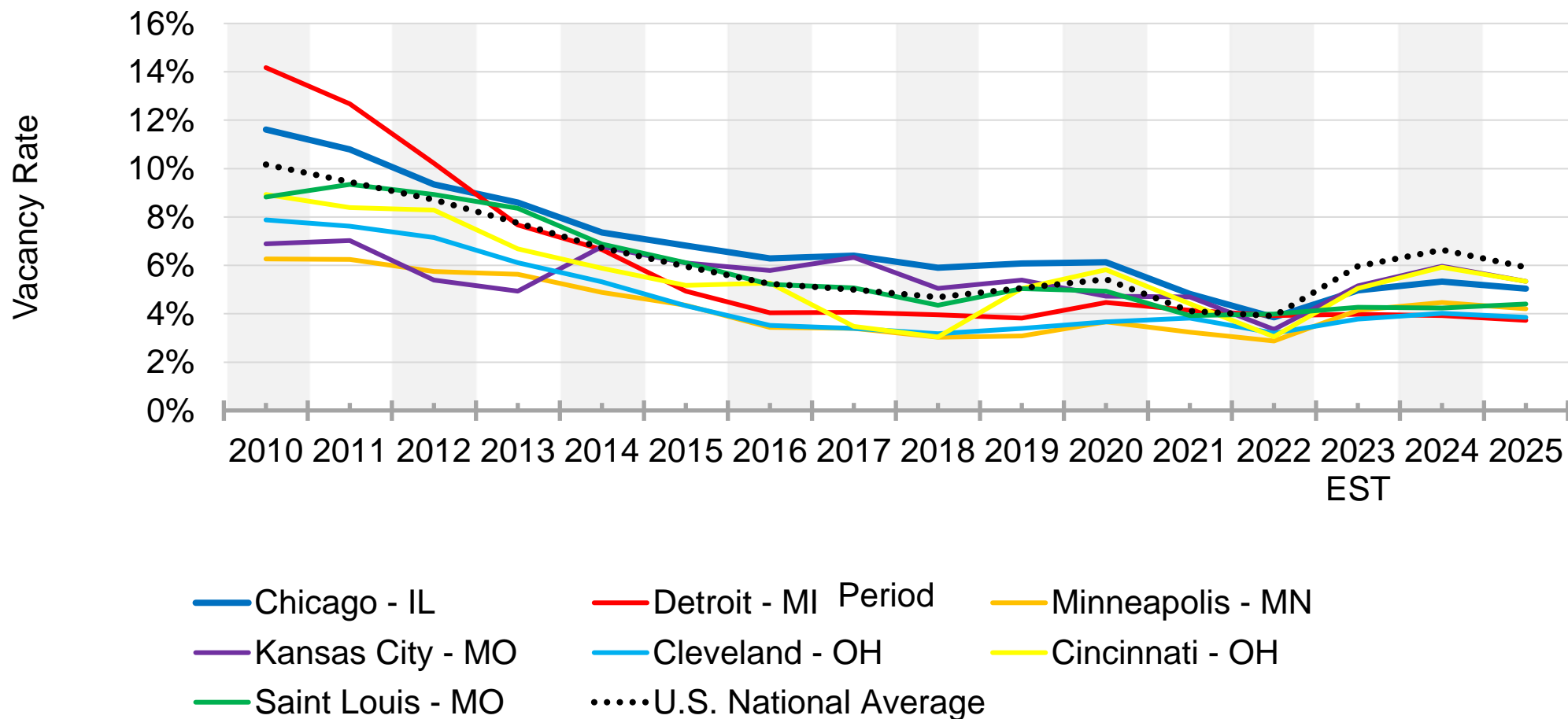
Source: CoStar

New Industrial Completions May Lead To More Move Ins — But Not Always



Source: CoStar, November 2023
 Note: Survey includes 20 largest U.S. industrial markets

Chicago Joins Midwestern Markets To Post Industrial Vacancies Below US Average



Source: CoStar, November 2023



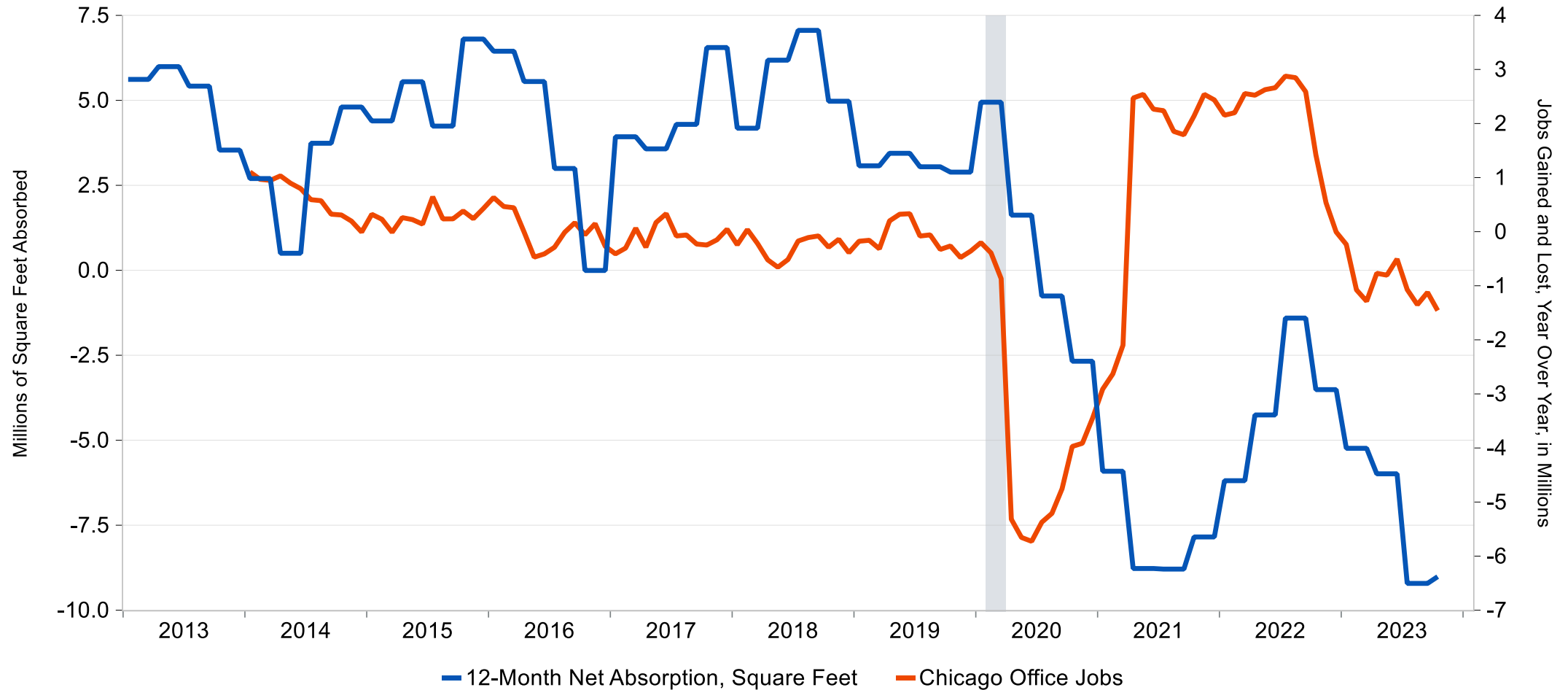
Office

Underpinnings

**A persistent, faltering shift in demand;
Hybrid is so sticky it's stuck.**



Chicago Office Jobs Declining Along With Their Move-Ins



Sources: U.S. Bureau of Labor Statistics and CoStar, October 2023
Note: Gray area denotes a recession.

Kastle System's Data

FOUR CITY SPOTLIGHT

Washington D.C. metro



New York City metro



Chicago metro



Houston metro

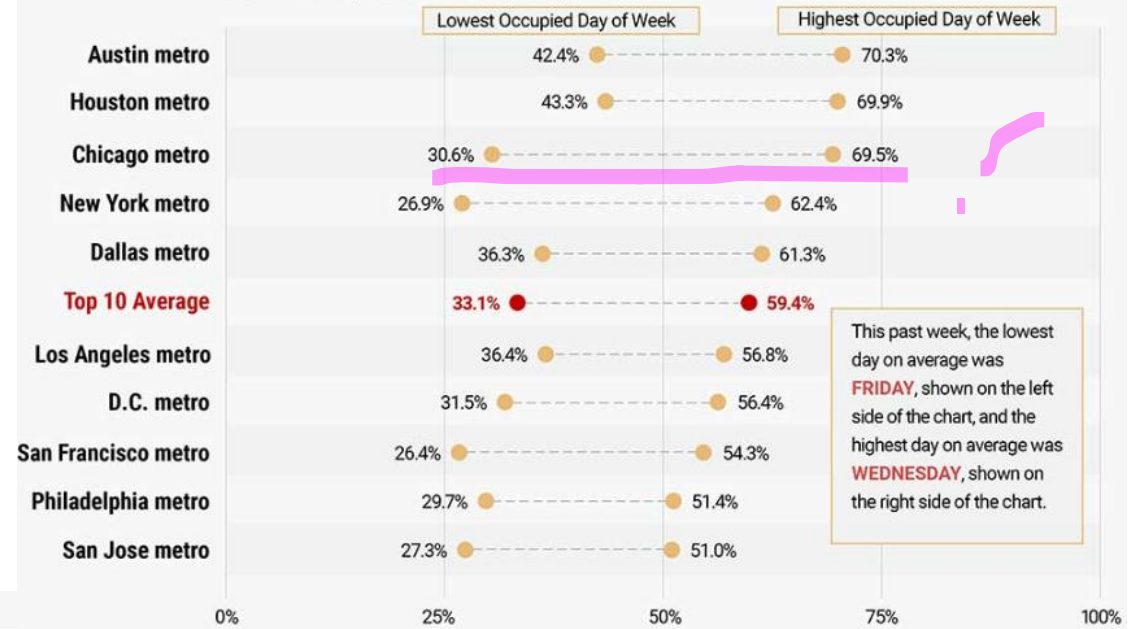


ENTER THIS WEEK

50.5%
10 CITY AVERAGE
OCCUPANCY



November 2, 2023 – November 8, 2023



| | | | | |
|-----------------------|-------|-------|------|---|
| Chicago metro | 52.0% | 55.0% | 3.0% | ▲ |
| San Francisco metro | 41.9% | 44.0% | 2.1% | ▲ |
| New York metro | 48.9% | 50.5% | 1.6% | ▲ |
| Los Angeles metro | 48.2% | 49.5% | 1.3% | ▲ |
| Austin metro | 58.3% | 59.3% | 1.0% | ▲ |
| Average of 10 | 49.6% | 50.5% | 0.9% | ▲ |
| Washington D.C. metro | 47.0% | 47.8% | 0.8% | ▲ |
| Philadelphia metro | 42.5% | 42.9% | 0.4% | ▲ |
| San Jose metro | 42.5% | 42.1% | 0.4% | ▼ |
| Dallas metro | 53.0% | 52.7% | 0.3% | ▼ |
| Houston metro | 61.5% | 61.4% | 0.1% | ▼ |

Kastle customers are in more than 2,600 buildings in 138 cities. The Barometer reflects swipes of Kastle access controls from the top 10 cities, averaged

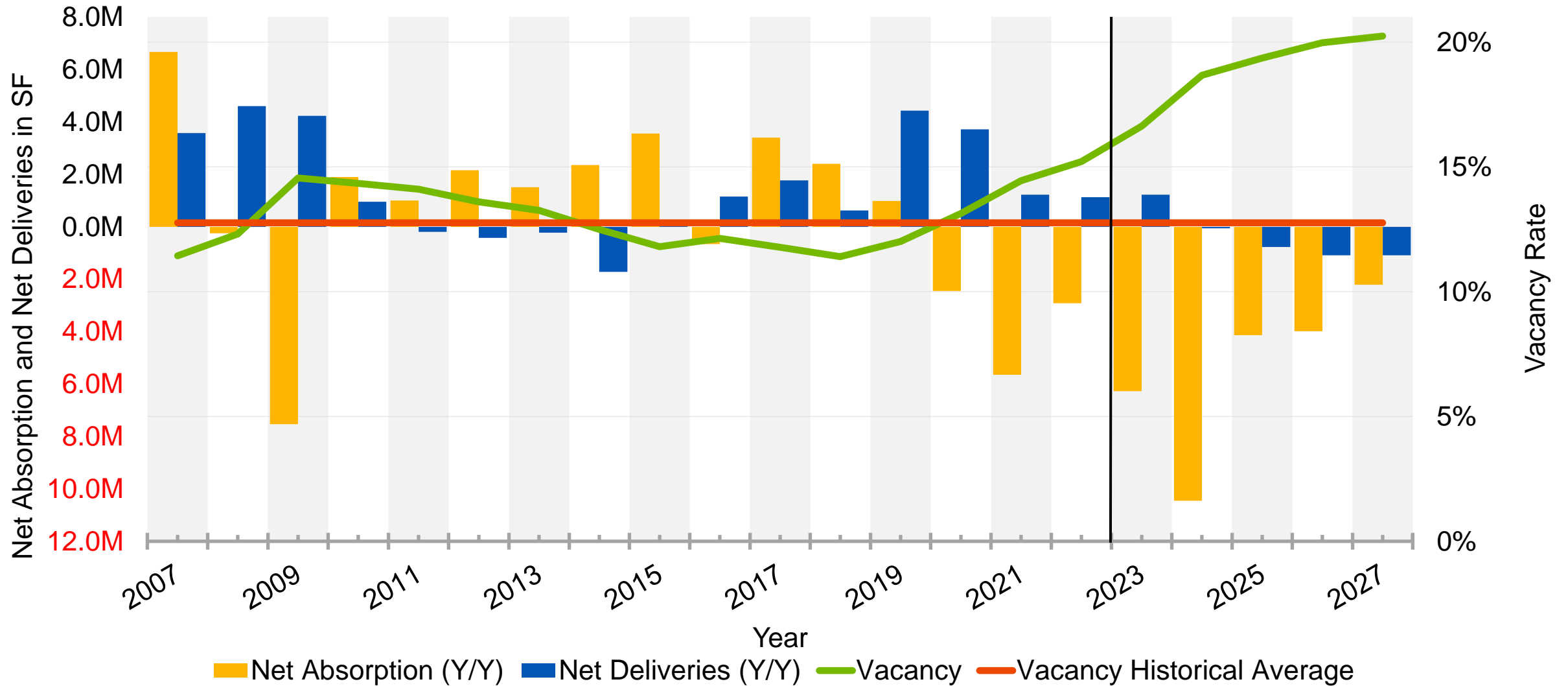




Office Fundamentals: Absorption, Vacancy & Availability



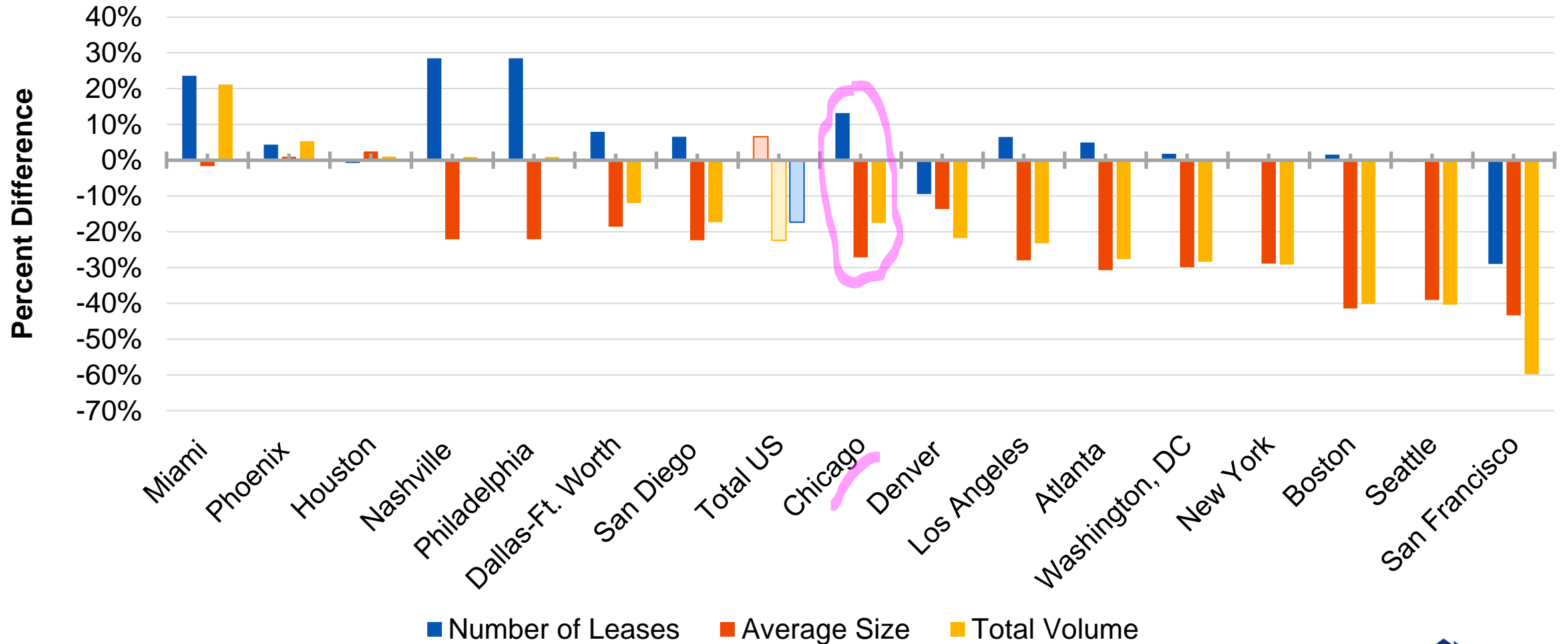
Base Case Forecast: Supply, Demand and Vacancy



Trend 3: Smaller Leases

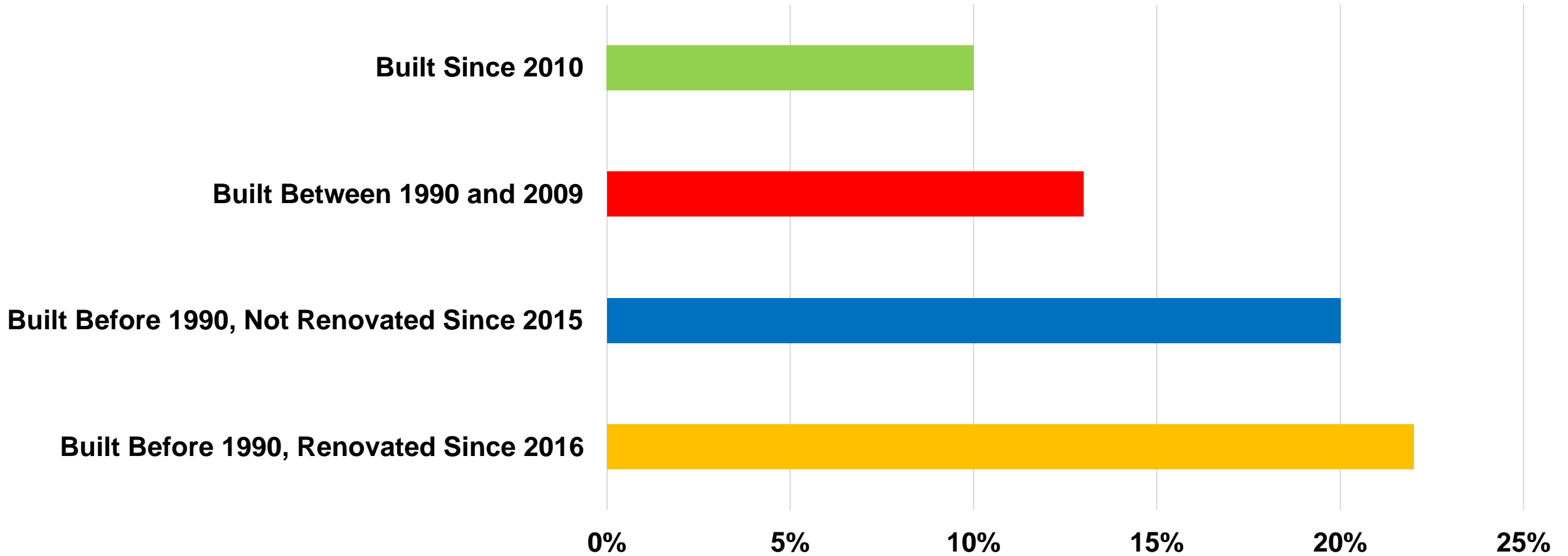
Deal Flow is Up in Some Markets, but Size is Down Almost Everywhere

New Office Leasing by Major Market, 2023 YTD vs. 2019 YTD

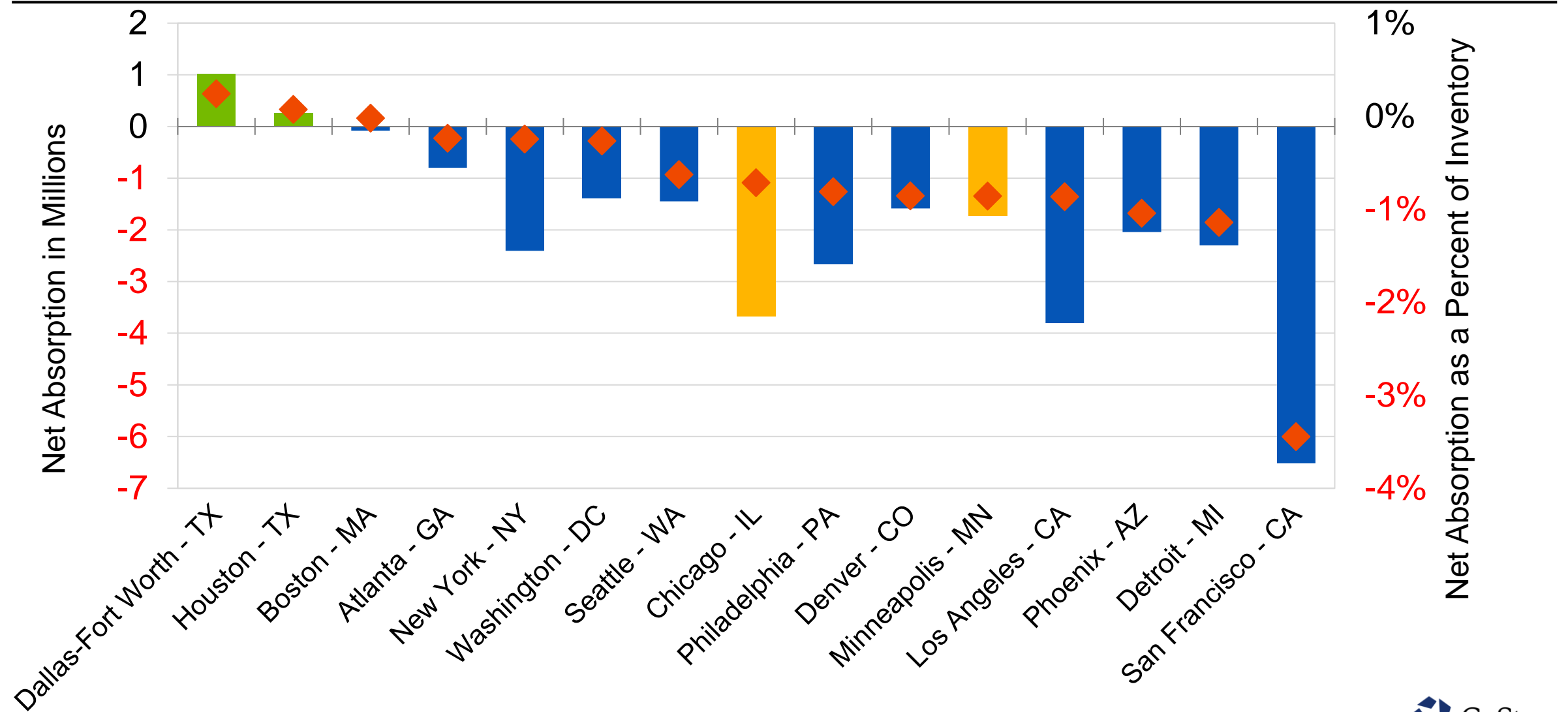


May Not Pay to Renovate Chicago's Older Offices

Direct Vacant and Available Rate



Only Two Office Markets, Both in Texas, Record Positive Annual Move-Ins

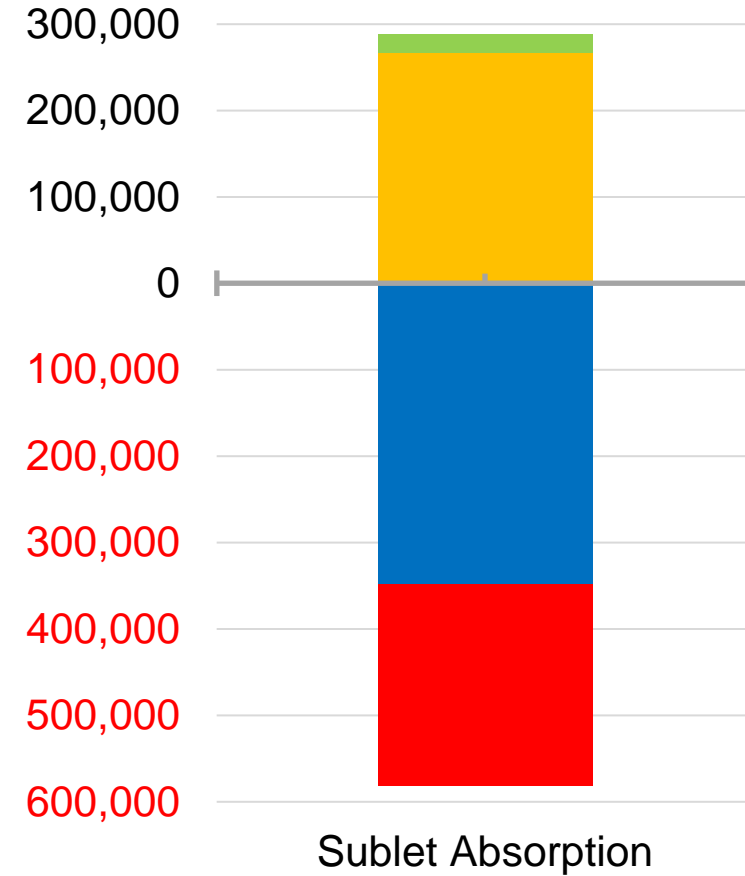
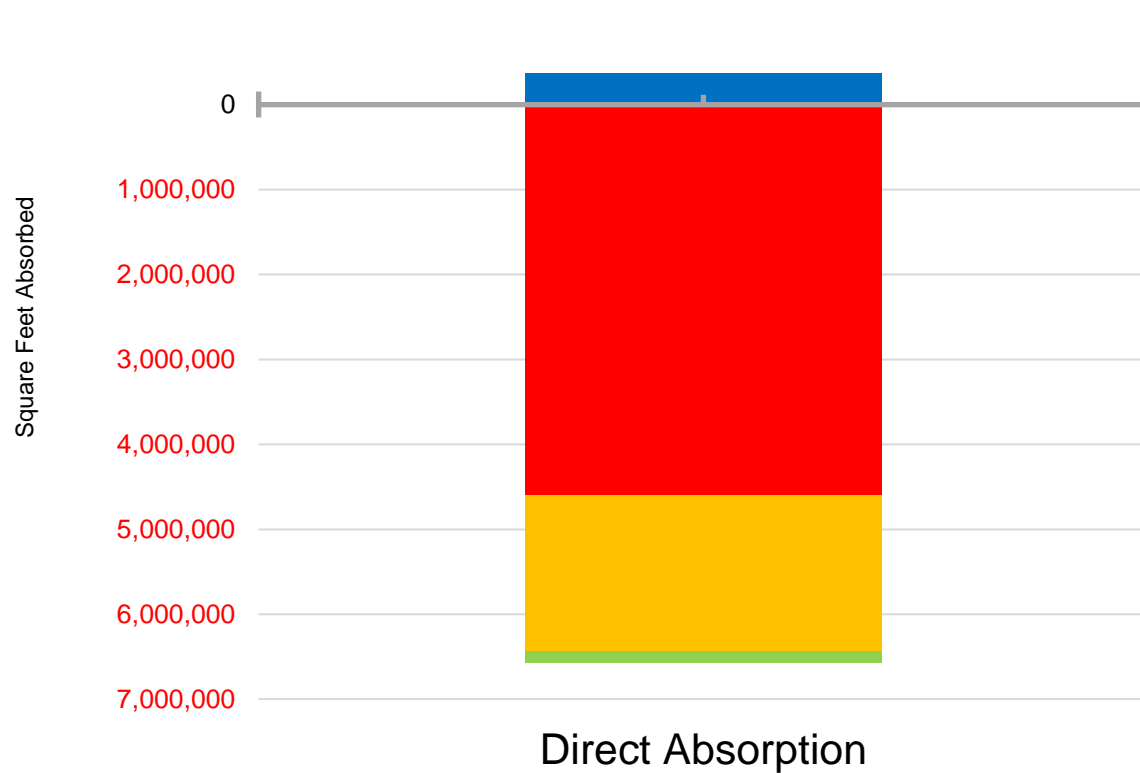


Notes: 15 largest office markets by inventory. Data sampled from 2022 Q2 through 2023 Q2.

Supply/Demand Imbalance Expands Structural Vacancy Rate in Fulton Market/Near West Side



In Chicago, 5-Star Direct and 3-Star Sublet Space Leads YOY Demand



■ 5-Star ■ 4-Star ■ 3-Star ■ 1 & 2 Star

Office

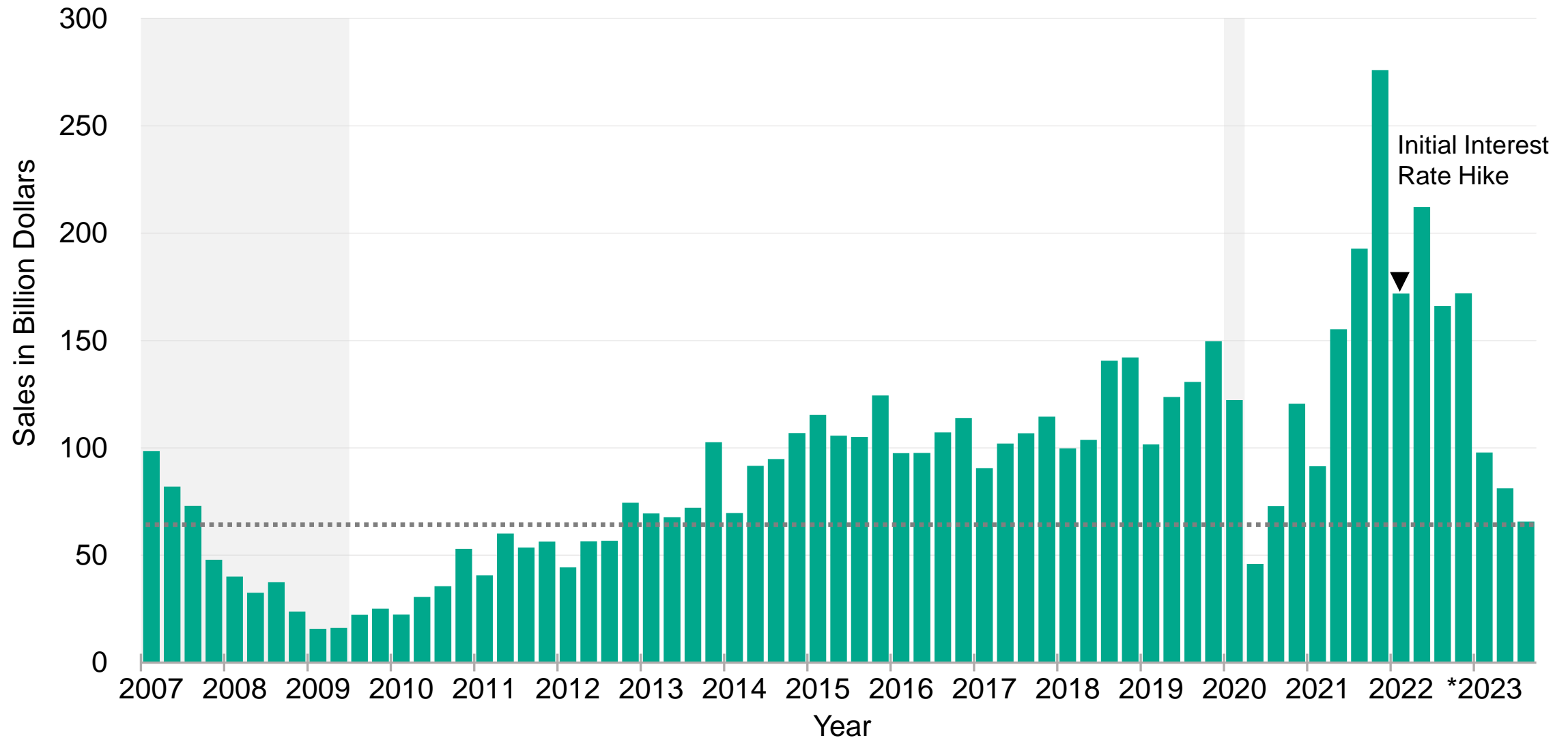
- The office market is still resetting
- Fundamentals will be pressured for some time to come
- Winners and losers are not always readily apparent
- Low utilization + pending lease rollover = a toxic combination
- A pricing correction is underway and should continue as loans mature
- The anchor on the bottom of the pricing floor should draaaaaag across the Lake's floor for quite awhile.



Capital Office Vs. Others

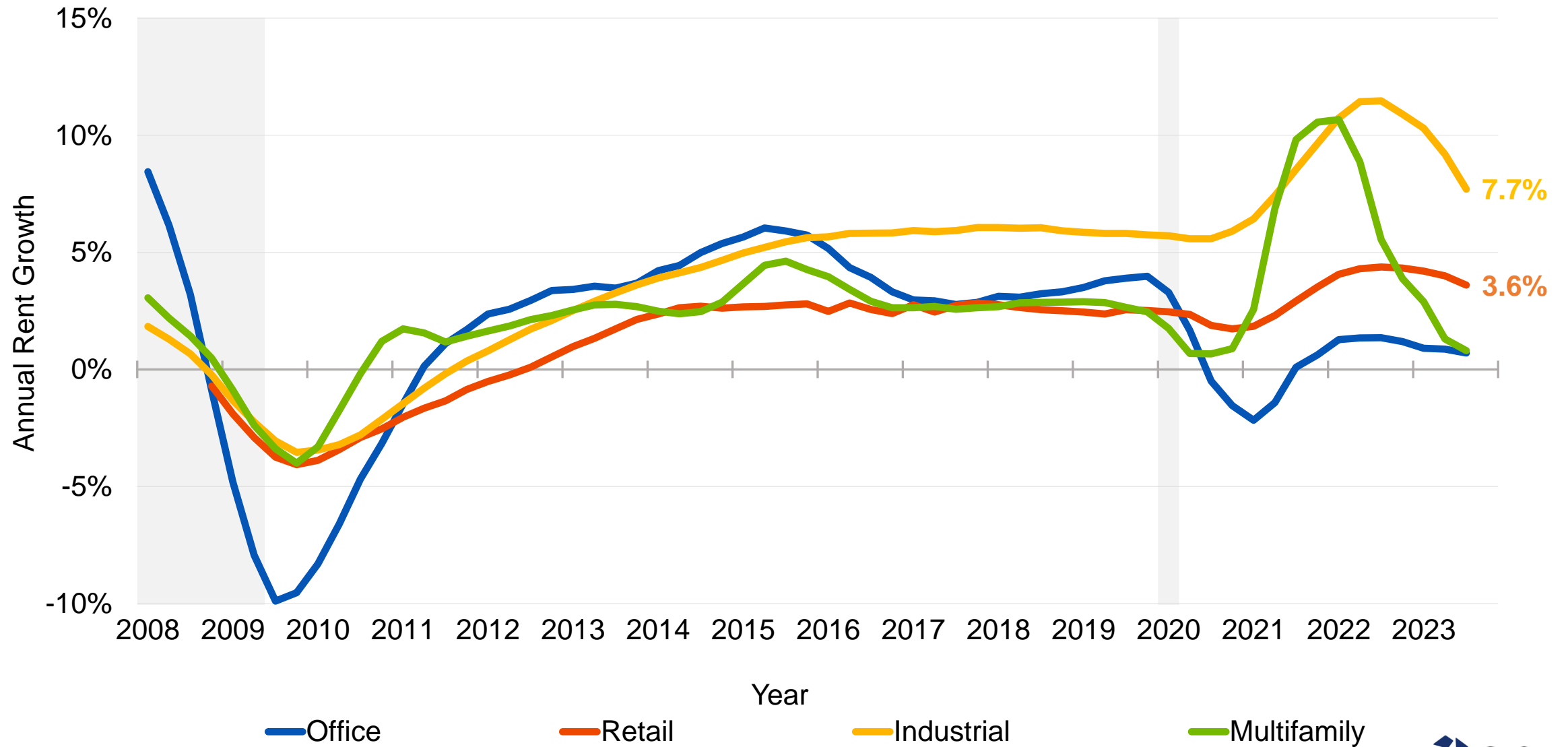


Year-Over-Year Volume Fell by 60% and 50% Compared to 19Q2



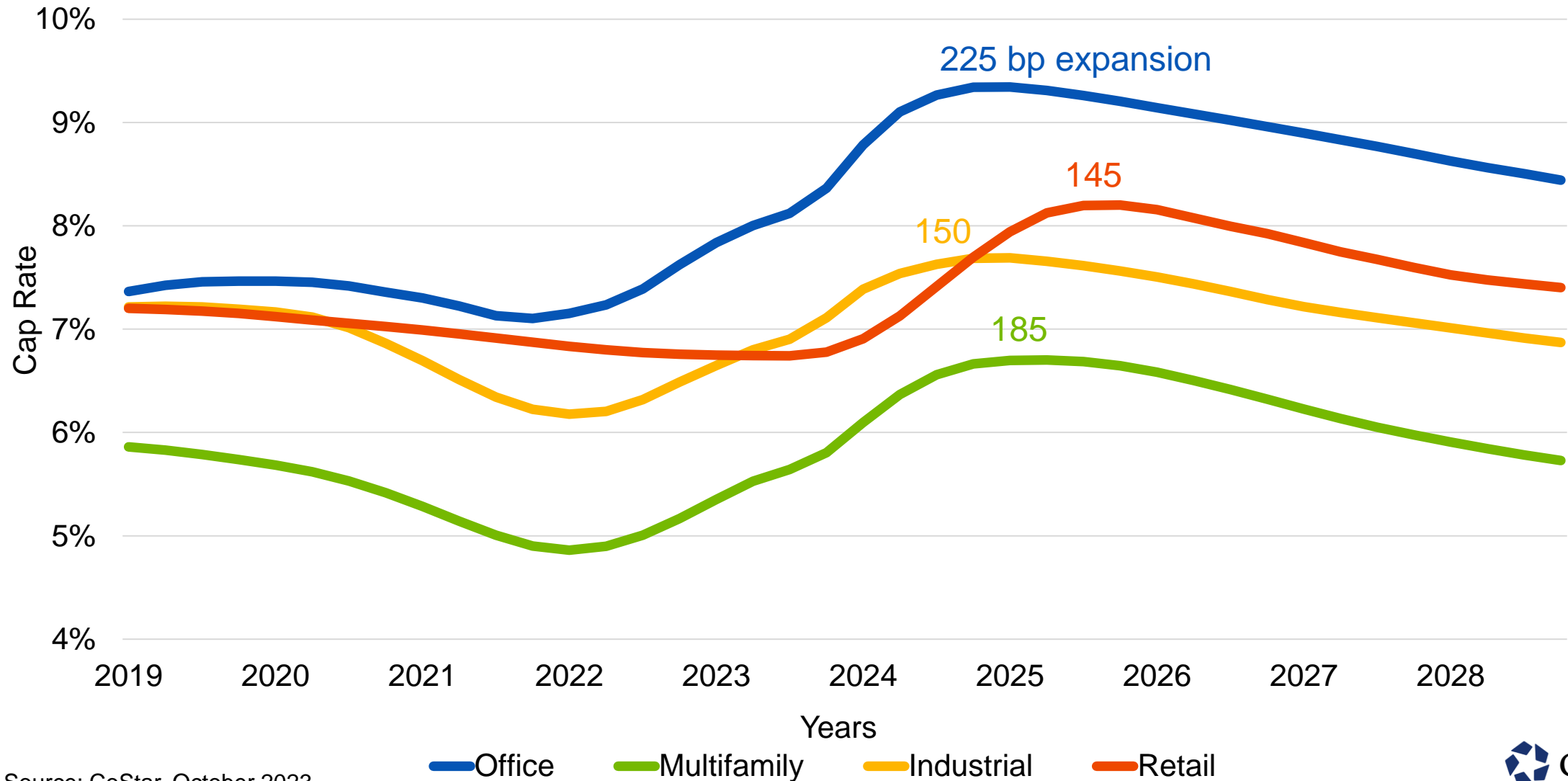
*Quarter-to-date as of 9/11/23; Includes Multifamily, Office, Retail, Industrial, and Hotel; shaded areas recessions.

Rent Growth Drawing Capital Into Two Sectors



CoStar Market Cap Rate Series

Summary of Capitalization Rate Forecasts



Source: CoStar, October 2023

Office Multifamily Industrial Retail



CoStar Articles and Supplemental Sources

Retail

[Chicago's Employment Growth Leans Into Retail](#)

[Chicago's Recreational and Experiential Industries Record Three Years of Consecutive Consumer Spending Growth](#)

[Chicago's Retail Lease Signings Mostly Correlate With Consumer Spending Trends](#)

[Chicago Retail Hooks Its Wagon to Controlled Development and Residential Financing](#)

[While Downtown Chicago Retail Sputters, Urban and Suburban Markets Are on the Right Track](#)

[The Daily on Retail](#) (published daily at 11:30 am)

Industrial

[Availability Rate of Chicago's Huge Industrial Spaces Is Greater Than 10-Year Average](#)

[Chicago Industrial Vacancy Rate Below US Average for First Time in Decades](#)

[Owner-Occupied Sales Volume for Industrial Spaces Boosts Its Share of All Industrial Sales in Chicago](#)

[Distribution, Not Manufacturing, Is Driving Industrial Demand in Chicago](#)

[Chicago's Manufacturing Sector Faces Shrinking Demand, Job Cuts](#)

[Sale-Leasebacks Make Up Larger Percentage of Chicago Industrial Deals As Sales Plummet](#)

[Anemic Leasing and Capital Markets Slow Chicago's Industrial Market, but Shouldn't Break It](#)

[Chicago Industrial Market's Prowess Hinges on Its Legacies, Not Retail Demand](#)

Multifamily

[Chicago's Multifamily Market Deceleration Causes Rental Demand To Remain High](#)

[Here's Where To Find the Nation's Strongest and Weakest Apartment Rent Growth](#)

[Multifamily Demand in Chicago Holds Despite Dipping Household Numbers, Swelling Construction](#)

[Chicago's Apartment Rent Growth Surpasses National Average for the First Time in Over a Decade](#)

[Over \\$1.2 Billion in Office-to-Residential Conversions Proposed for Chicago's LaSalle Street Corridor](#)

[At \\$600 Million, Apartment Portfolio Sale Is One of Chicago's Biggest in Years](#)

[Large Chicago-Area Mall Hops on National Trend, Replaces Bloomingdale's With Apartments](#)

[Multifamily Conversions Could Be a Lifeline for Chicago's Ailing Hotels](#)

[Chicago's Apartment Demand Fundamentals Offer Upside, Stability to Investors](#)

[Despite Population Loss in Illinois, Demand for Chicago's Apartments Remains High](#)

[Against the Odds, Studio Apartments Survive COVID](#)

Tips:

— To see Chicago's Top Leases and Sales by Quarter, All Asset Types Search: Top News> Market = Chicago, Topic = Power Brokers

— To see a CoStar author's full catalog, click on his (like [Ryan Ori](#)) or her (like [Rhea Stephen](#)) name in blue.

CoStar Articles and Supplemental Sources

Office

[Despite Some Job Gains, Chicago's Office Space Occupation Declines](#)
[Chicago-Area Healthcare Property Deal Shows Strength of Single-Tenant Buildings](#)
[Despite Appeal for Risk-Averse Investors, Medical Offices Also Come With Caveats](#)
[Chicago's Office Sales Reflect Market's Paradigm Shift](#)
[Chicago Investors Often Choose Medical Office Ventures Before, During Recessions](#)
[Chicago's Overall Office Vacancy Rate Buttressed by Its Owner-Users](#)
[Chicago's Office Job and Space Use Trends Slope Downward](#)
[Chicago, US Direct Office Demand Benefited by Trophy-Grade Move-Ins](#)
[Major US Office Markets React To Very Different Demand Dynamics](#)
[Many Chicago Downtown Office Landlords See Sublease Spaces As Their Concern](#)
[Chicago's Office Historical Vacancy Average Climbs to New Heights](#)
[Top Office Leases Recognized for Chicago](#)

Office Occupancy Trends

[Kastle Back to Work Barometer \(Kastle Systems\)](#)
[Chicago's Employment and GDP Rise Despite Dive in Office Use](#)
[Flex Index \(flex.scoopforwork.com\)](#)

The Google Effect

- [Chicago's Central Loop, Detroit's Corktown Hope Google Helps Them Attain Fulton Market's Office Vibe](#)
- [Google Makes \\$156 Million Loan on Chicago's Thompson Center, Which It Plans To Buy After Redevelopment](#)

Opportunities

- [As More Employees Return to the Office, Companies Increase Lease Size Across Chicago](#)
- [Half of Chicago small businesses expect to move offices in the next 5 years, survey finds \(Crain's Chicago\)](#)
- [Chicago Not Seeing a Ripple Effect From West Coast Tech Layoffs](#)
- [Diverse New Tenant Mix in Chicago Bolsters a Market in Recovery](#)
- [Tides Still Turning in Favor of Chicago's Suburban Office Markets](#)
- [Lack of Industry Diversity in Chicago's Central Loop Both Blessing and Curse for Office Market](#)
- [Redevelopment a Cure for the Chicago Office Market's COVID, Supply-Demand Woes](#)

Why Chicago?

[LaSalle Street Reimagined \(City of Chicago\)](#)
[Crain's Forum on Climate Migrants or "Climigrants." \(Crain's Chicago Business series\)](#)
[World Business Chicago](#), the City's public private economic development agency
[Local Economic Snapshot: Chicago-Naperville-Elgin MSA \(Federal Reserve Bank of Chicago\)](#)
[CHICAGO LOOP RESIDENTIAL STUDY REVEALS GROWTH THROUGHOUT PANDEMIC \(Chicago Loop Alliance\)](#)
[Chicago won Site Selection Magazine's](#) highest ranking (10th time in a row)
[Condé Nast Traveler](#) ranks Chicago #1 Best City in the US for sixth straight year
Chicago ranks as the ninth greenest city in the US, according to insurance company [Battleface](#)



Thank You!

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