

CHICAGOLAND 2024 MARKET REVIEW AND FORECAST

February 8, 2024

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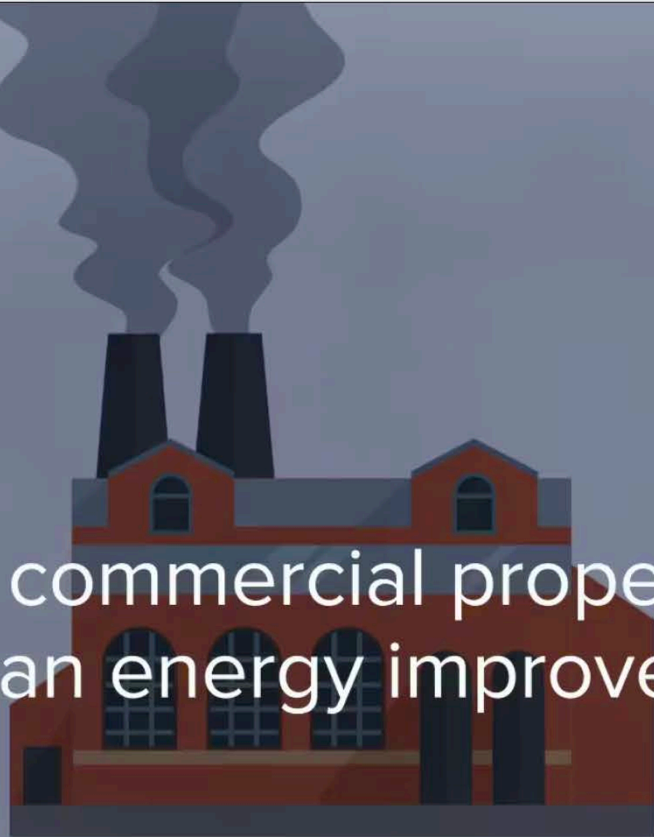


Inland Green Capital C-PACE

The Inland Real Estate Group

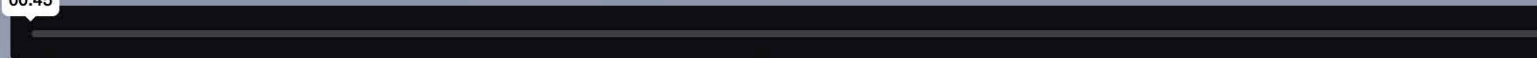


How can a commercial property owner
make clean energy improvements...



<https://vimeo.com/799127371/434ab064fc>

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vimeo

CONTACT PAUL MONTES FOR MORE INFORMATION | Montes@inlandgroup.com or 630.954.4446



Chicago CRE State of the Market

2023 Q4

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Key Points

- 1 – **The Great Pivot:** Redevelop, repurpose our CRE for its highest and best use.
- 2 – Leasing is down across all asset types—except for multifamily. Lowest level since 2009/2010.
- 3 – **SELLERS are Insensitive to Price.**
- 4 – Sales volume plummets even farther into 2023, to **lows not seen in 30 years or EVER.**

The Great Basis Reset is underway.

Themes & Takeaways

1 – The Midwest is having its moment.

- Central location for industrial space a direct consequence of ***strong infrastructure**, which then leads to more jobs in new areas;
- Diverse economies;
- **Without exponential rent gains**, asking rent losses didn't hit the region like they did to the Smile Markets.

2 – Yet there are some drawbacks.

- Chicago has transit, but our **highways and transmodal lines are jammed**, causing delays and environmental issues with trucks and trains idling.
- Industrial job gains does not necessarily translate into 4 & 5 Star multifamily demand.
- CRE community working with elected officials, some good, some bad examples.
- Nominal to negative population growth. Can't hire the necessary people.

Chicago's Issues....

Labor Shortages and Union Issues, Municipality Red Tape

+

Interest Rates[↑] and Capital Lending[↓]

= Cancelled, Delayed Projects.....blah, blah, blah. It's all about Capital.

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**“Anywhere but Chicago” ....or..... “You date Austin and marry Chicago.”**



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# Economic & Demographic Drivers



# Chicago's Union Strength May Play Weaknesses of Other Markets

## The Maritime Executive

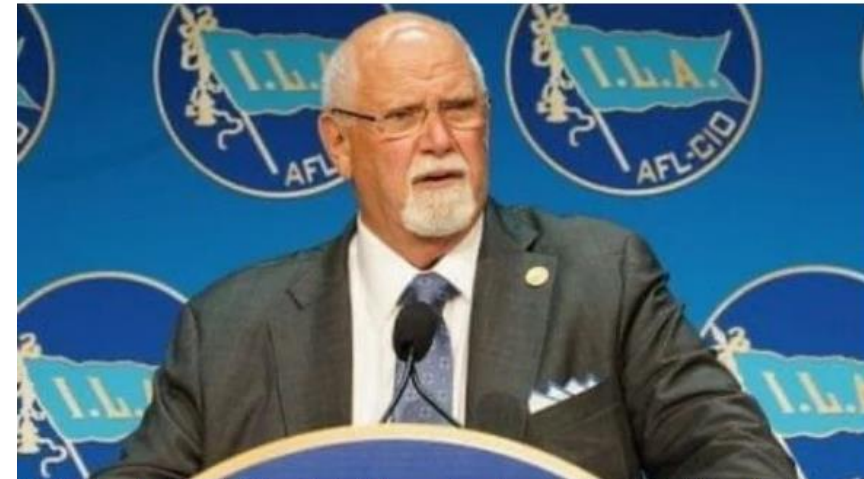
INTELLECTUAL CAPITAL FOR LEADERS

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The ILA is also calling for a “generous contract package.” Observers believe they are targeting a similar increase to the more than 30 percent achieved by the West Coast International Longshore Workers Union as well as the generous bonus package in their July 2023 contract. During the conference in July, ILA leadership highlighted that the Great Lakes District of the union had already secured a 40 percent increase in wages and benefits for its new six-year contract.

Source: [The Maritime Executive](#), November 2023

## ILA Leadership Warns US East Coast Dockworkers to Prepare for 2024 Strike



Harold Daggett president of the union is telling members to prepare for a 2024 strike as the ILA opposes automation and seeks massive wage increases in its new six-year contract (ILA file photo)  
PUBLISHED NOV 6, 2023 12:47 PM BY THE MARITIME EXECUTIVE



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00:00

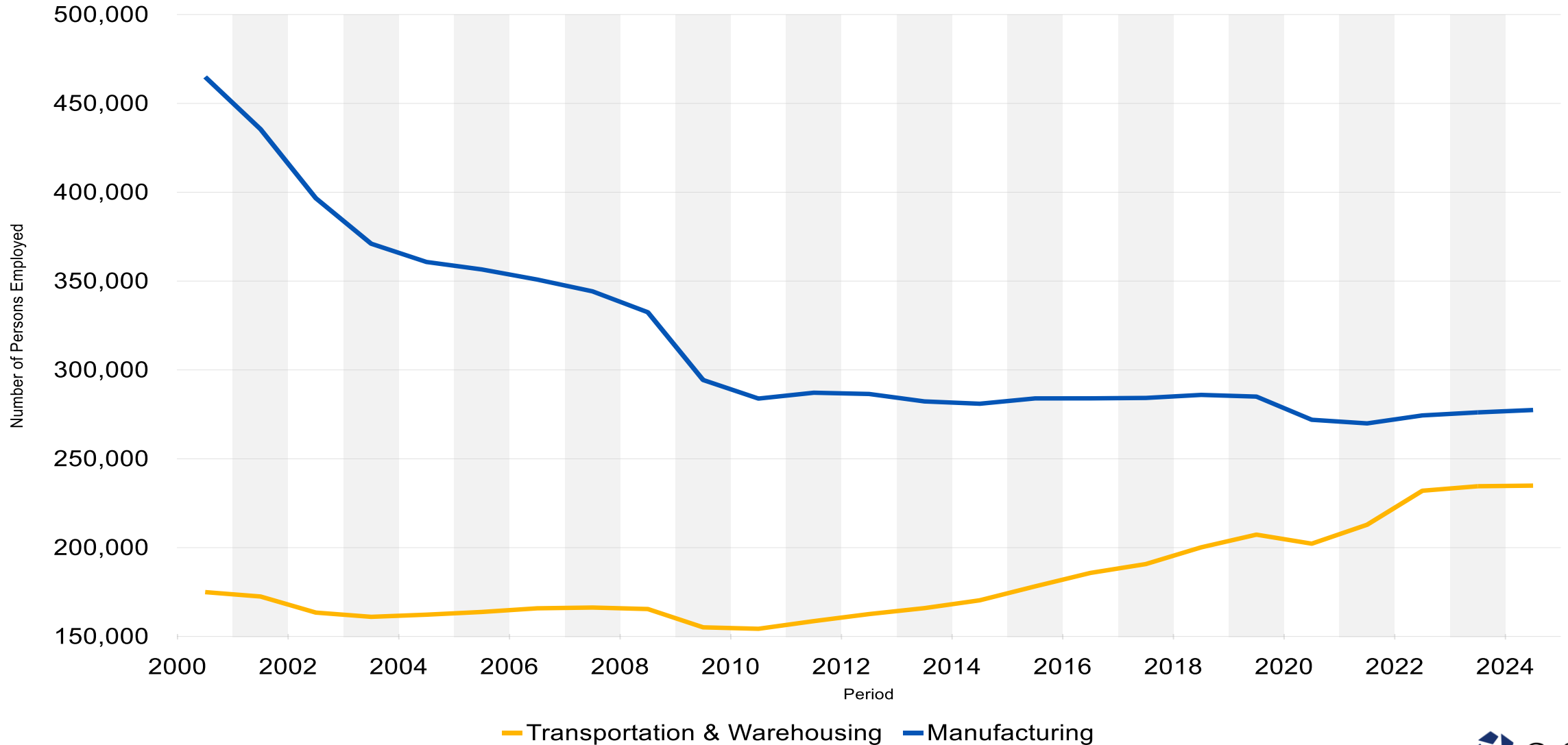
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The leadership of the U.S.'s International Longshoremen's Association, the union representing dockworkers along the East Coast as well as far west as Houston and the Great Lakes, is working to harden its membership for a potential strike in October 2024. While the master contract for some 45,000 of the ILA's 70,000 members has 10 months left, union leaders began more than a year in advance to talk about the potential of a job action.



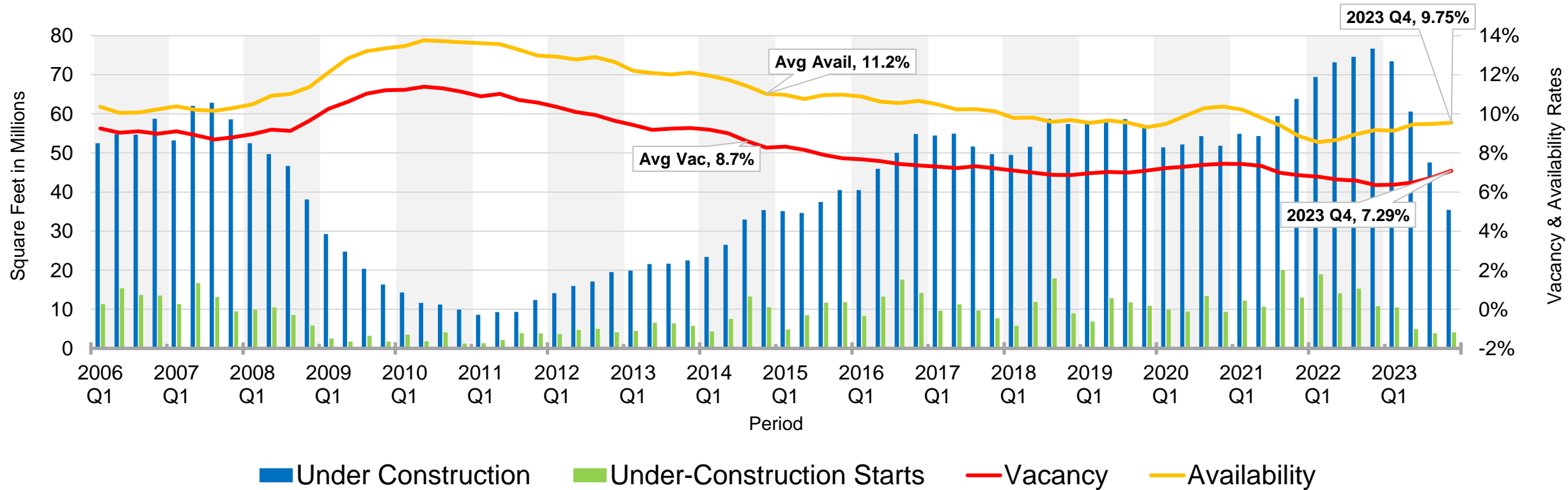


# Chicago's Transportation & Warehousing Employment Sector Gains on Manufacturing

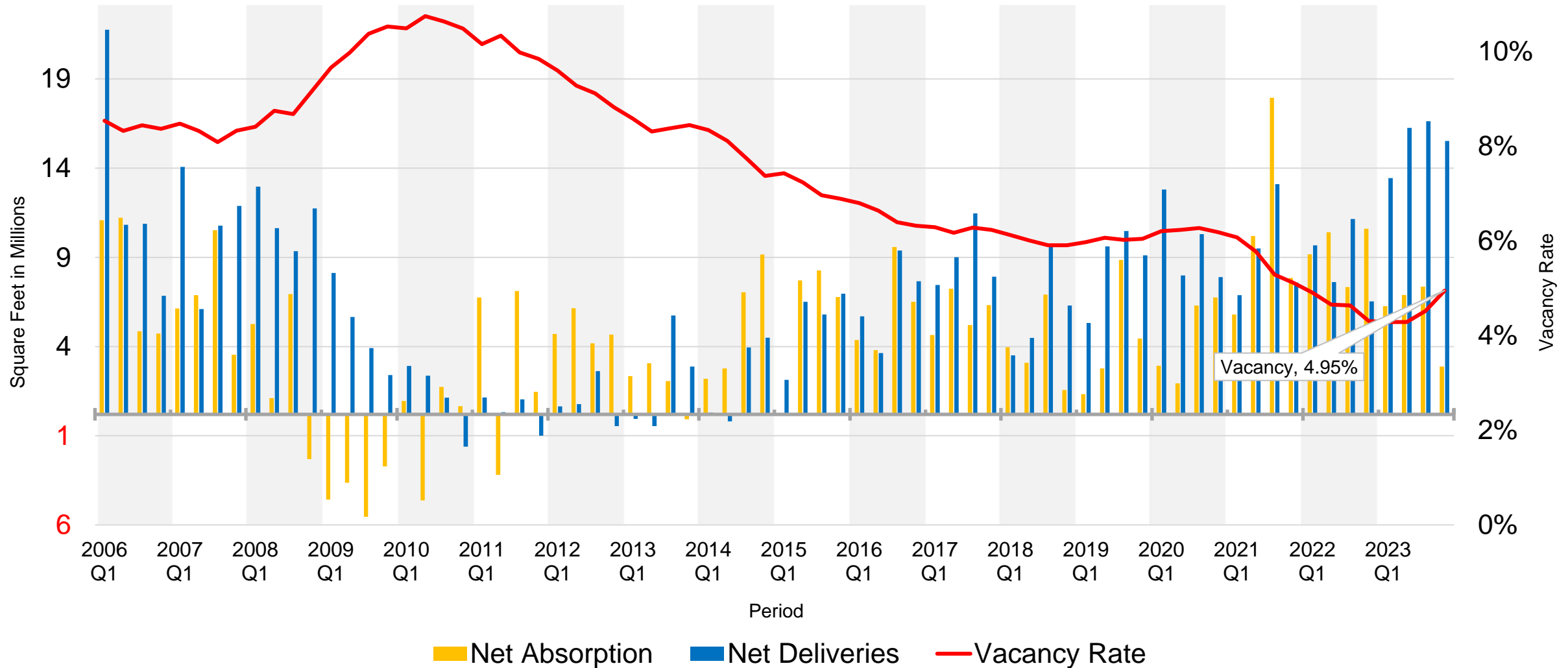


Source: Macrobond and Oxford Economics, January 2024

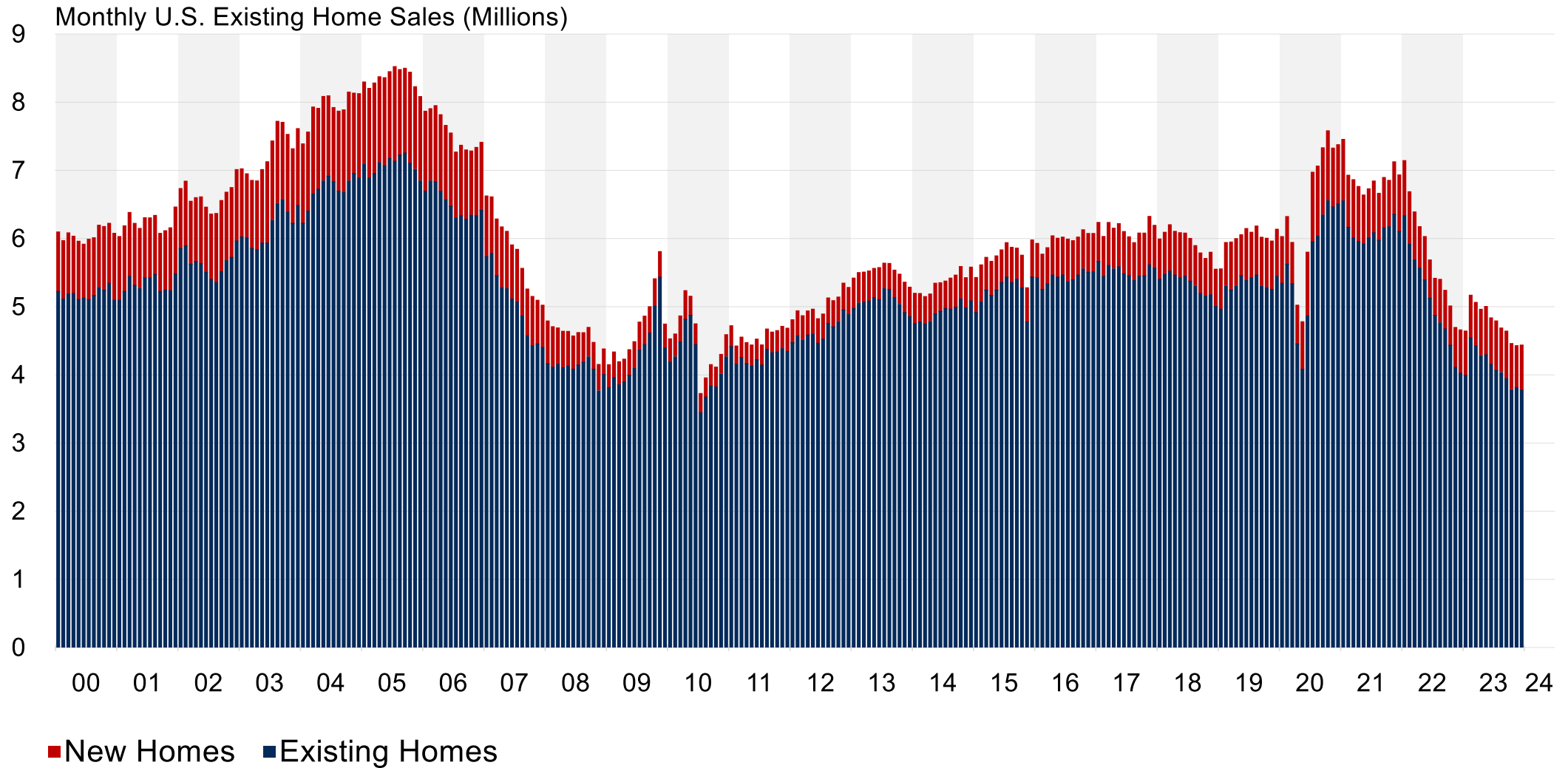
# Chicago Market Stays in Equilibrium, Despite `22-`23 Build Boom



# Chicago Supply & Demand Sans Office—Vacancy Drops 200+bps



# Home Sales Still In The Doldrums—Fell by 25% From 2019



Source: National Association of Realtors (NAR), U.S. Census Bureau



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# Multifamily



# Market Report Analytic Filters & Chicago Metropolitan Statistical Area (MSA)

## Apply Multi-Family Analytic Filters

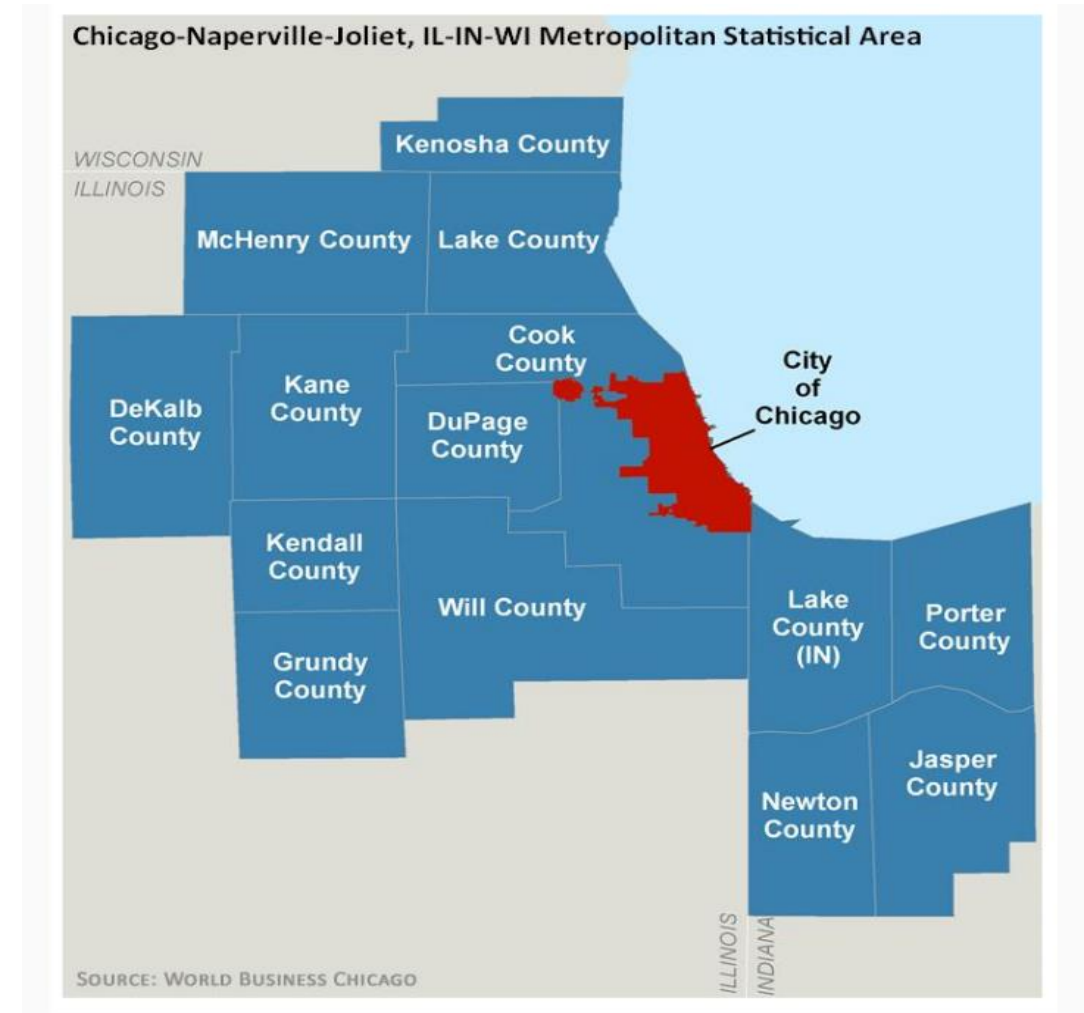
Apply the filters below to create a search with the same results as the CoStar Market and Submarket Reports.

### Filters

- Secondary Type: Apartment
- # of Units: 5+
- Market Segment: Exclude Senior, Student, Military, Corporate, Vacation
- Rent Type: Market, Market/Affordable
- Exclude: Residential Condos
- Exclude: Co-Ops

Cancel

Apply Filters



# Chicago Multifamily: *Mostly* Follows Market Demand Trends

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- Chicago's under-construction projects / inventory one of the lowest in the country.
  - a) Development and infrastructure costs, and municipality approvals can be tedious to onerous.
  - b) Negative population and stagnant household growth
- As such, Chicago is **researched to the hilt**, and builds where there is population growth and where cities and counties are supportive.
- As such, builds **3-Star** properties more than the national average.



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# Multifamily

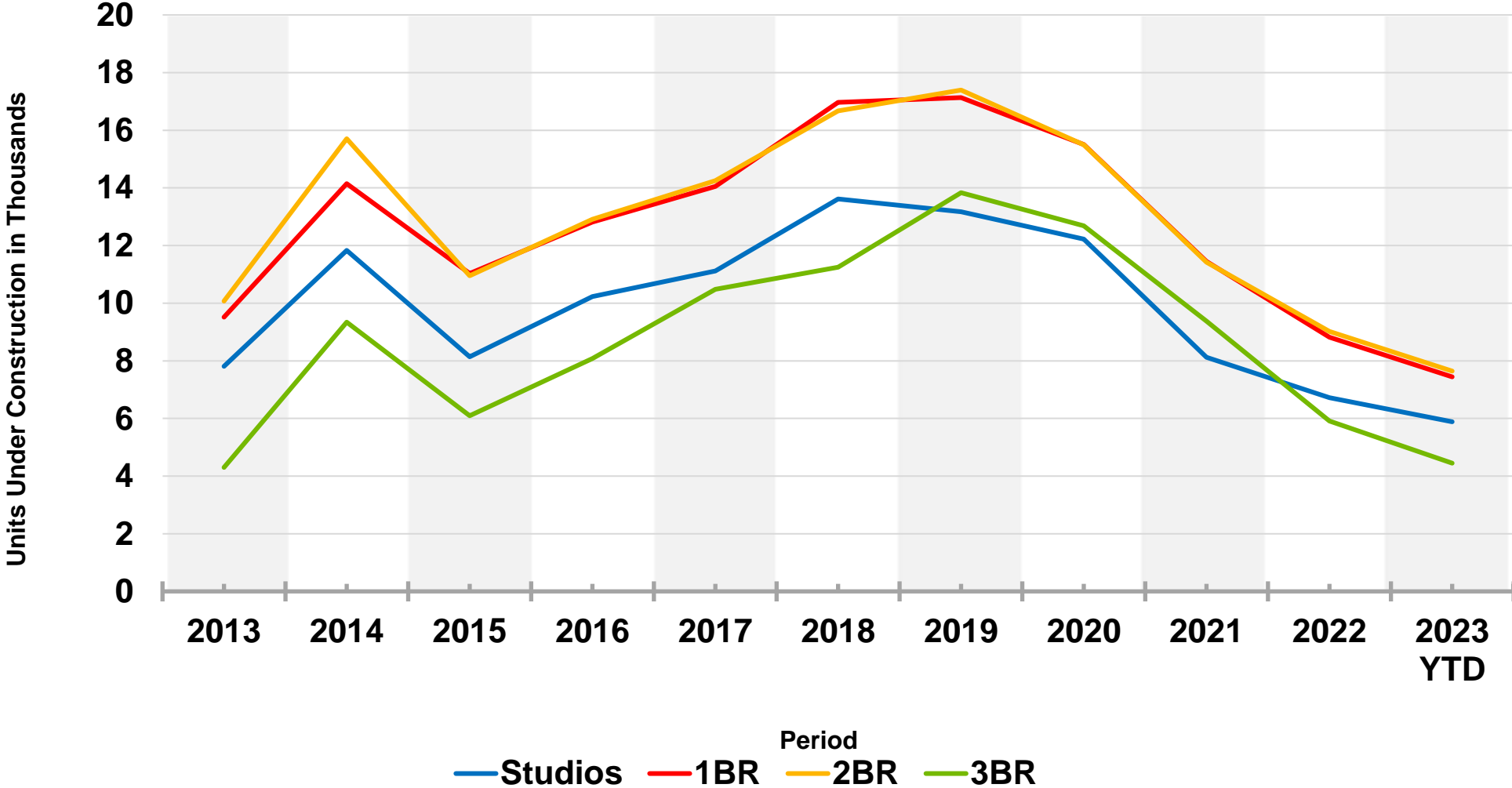
## Housing Market Underpinnings

### “No Boom, No Bust”



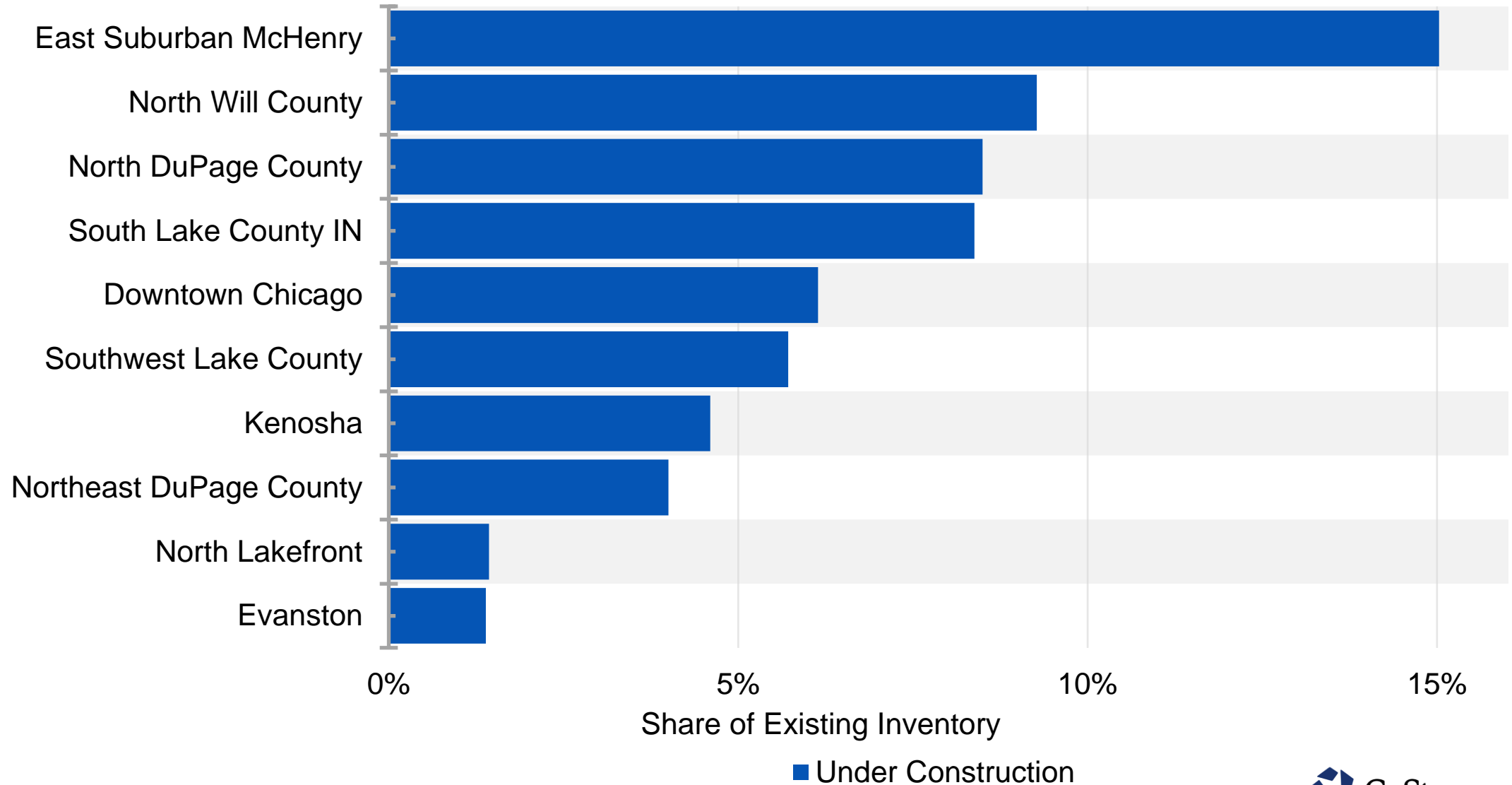


# Chicago's Apartments Underway Drop Precipitously from Pre-Pandemic Heights



Source: CoStar, November 2023

# Submarkets With the Most Apartment Construction Growth





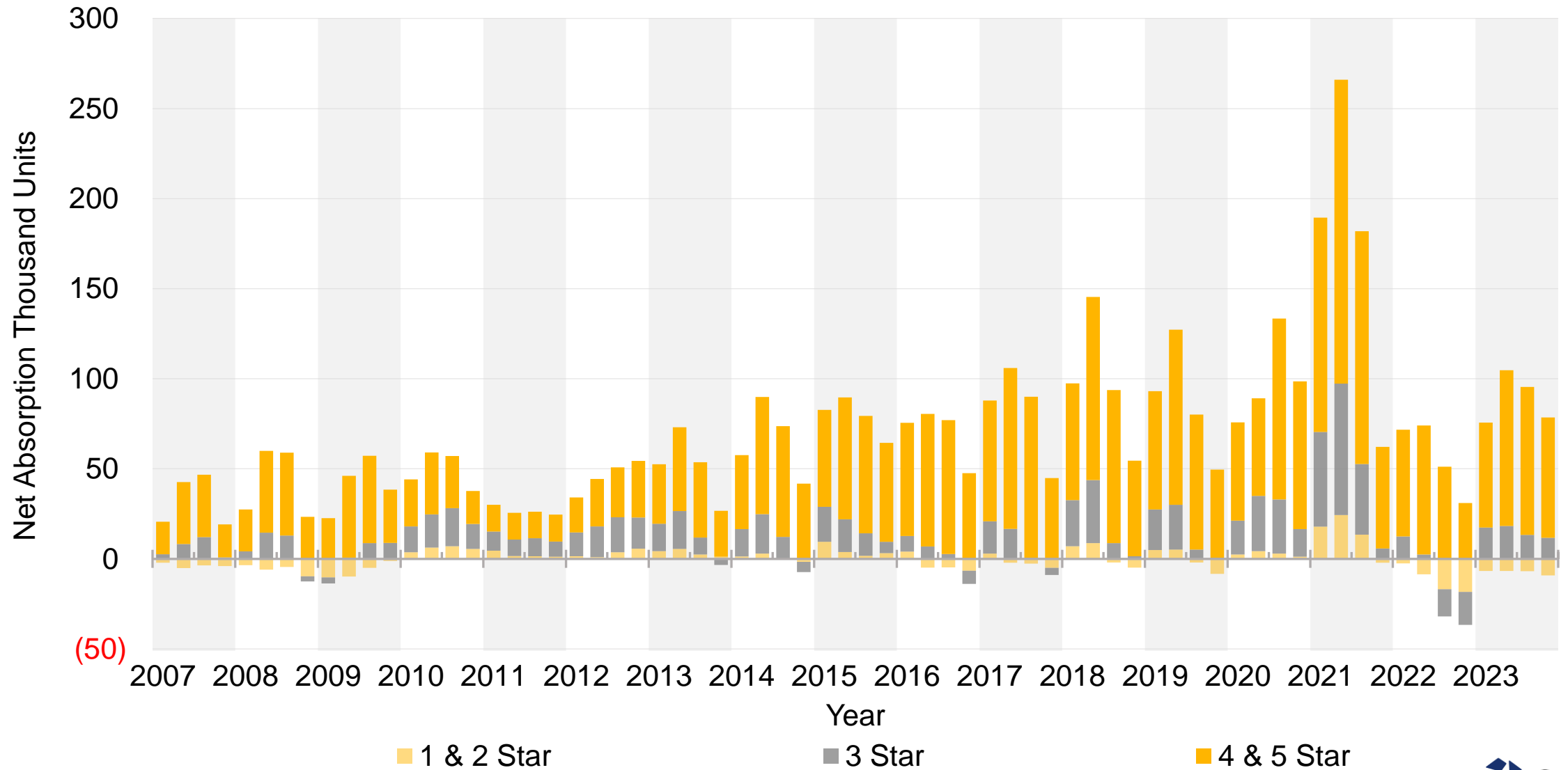
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# Multifamily

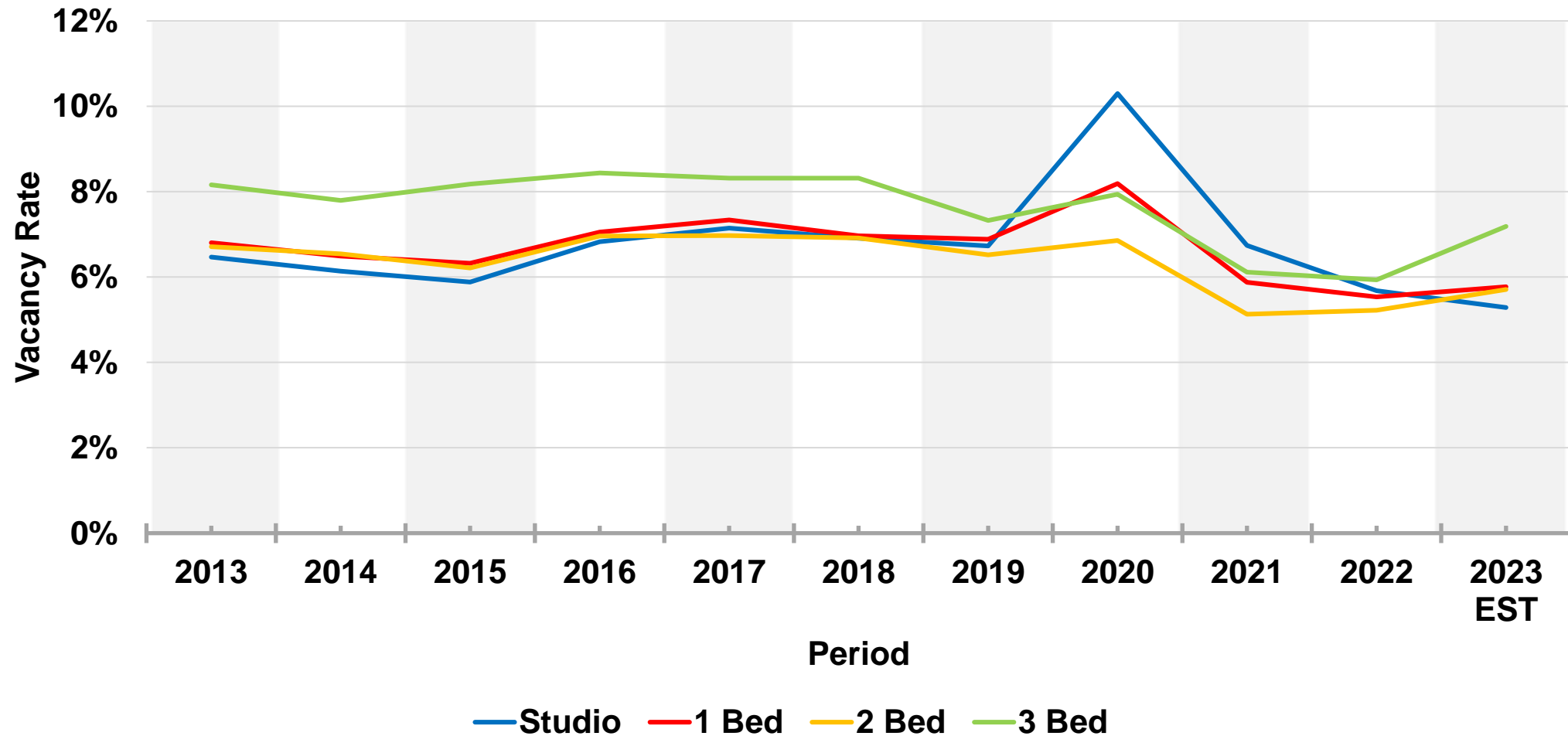
**Demand Markers, Slow and Steady**



# Net Absorption: National Trend, A-B Cannibalizing C, the “Inelastic Demand” Class

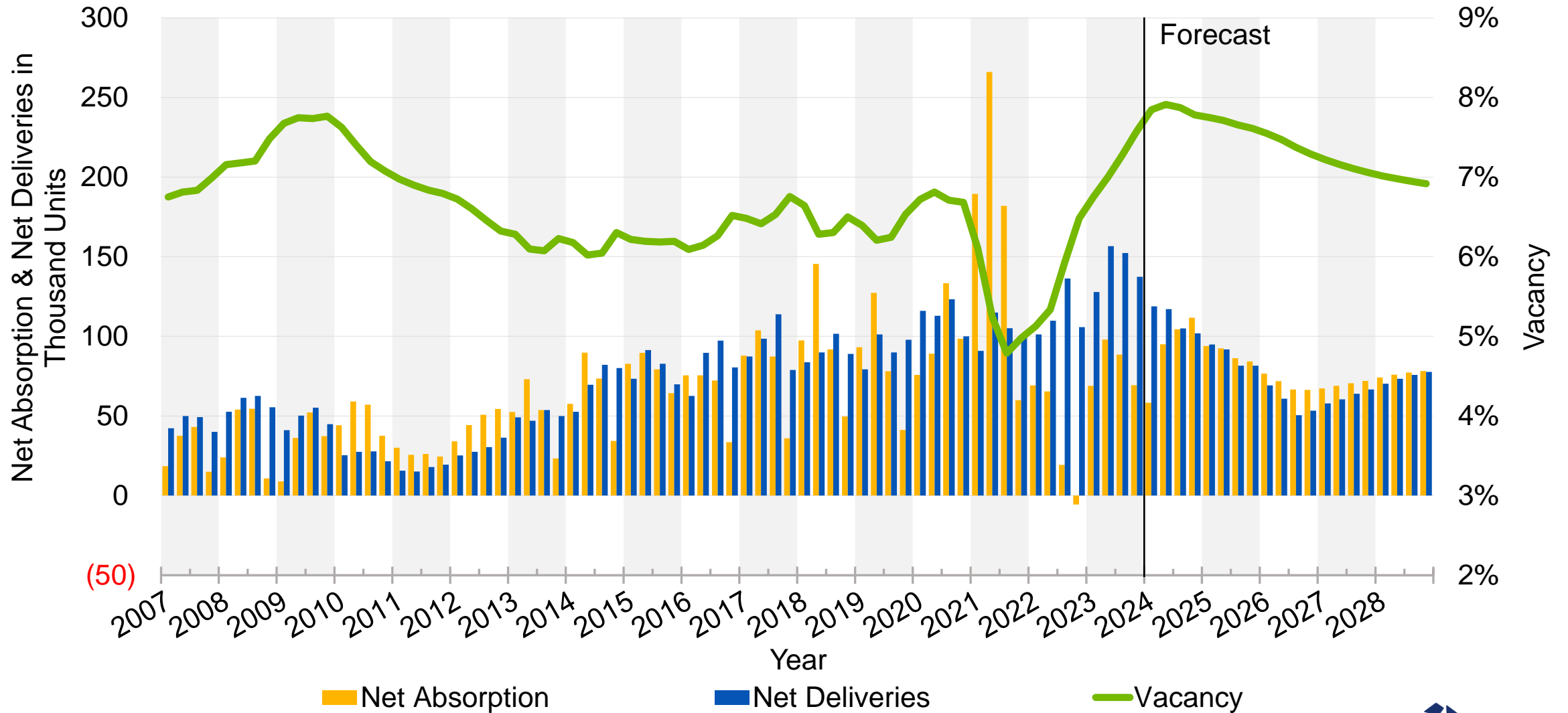


# Studio Vacancy Dips, Supports Chicago's Household Growth Over Population Growth

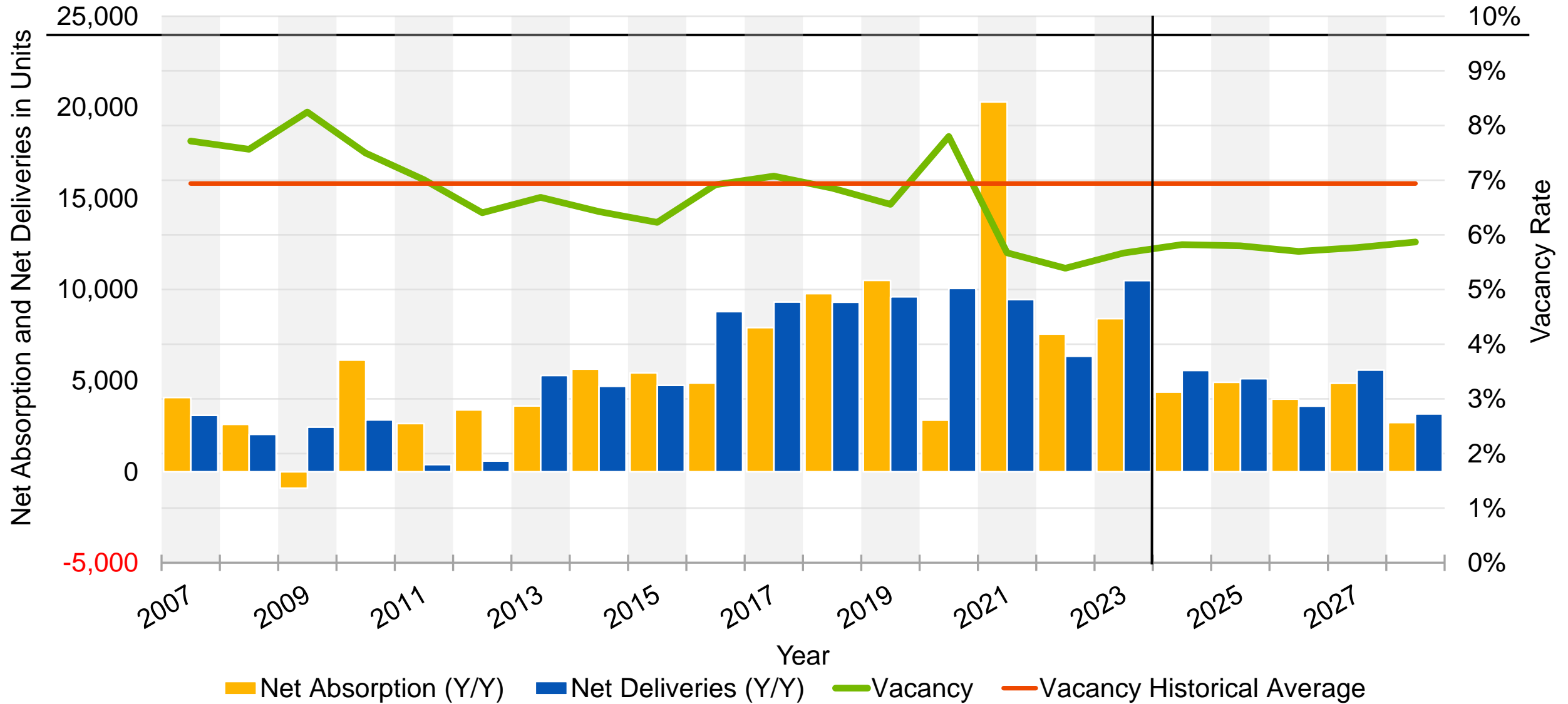


Source: CoStar, November 2023

# Multifamily Fundamentals: Base Case Forecast

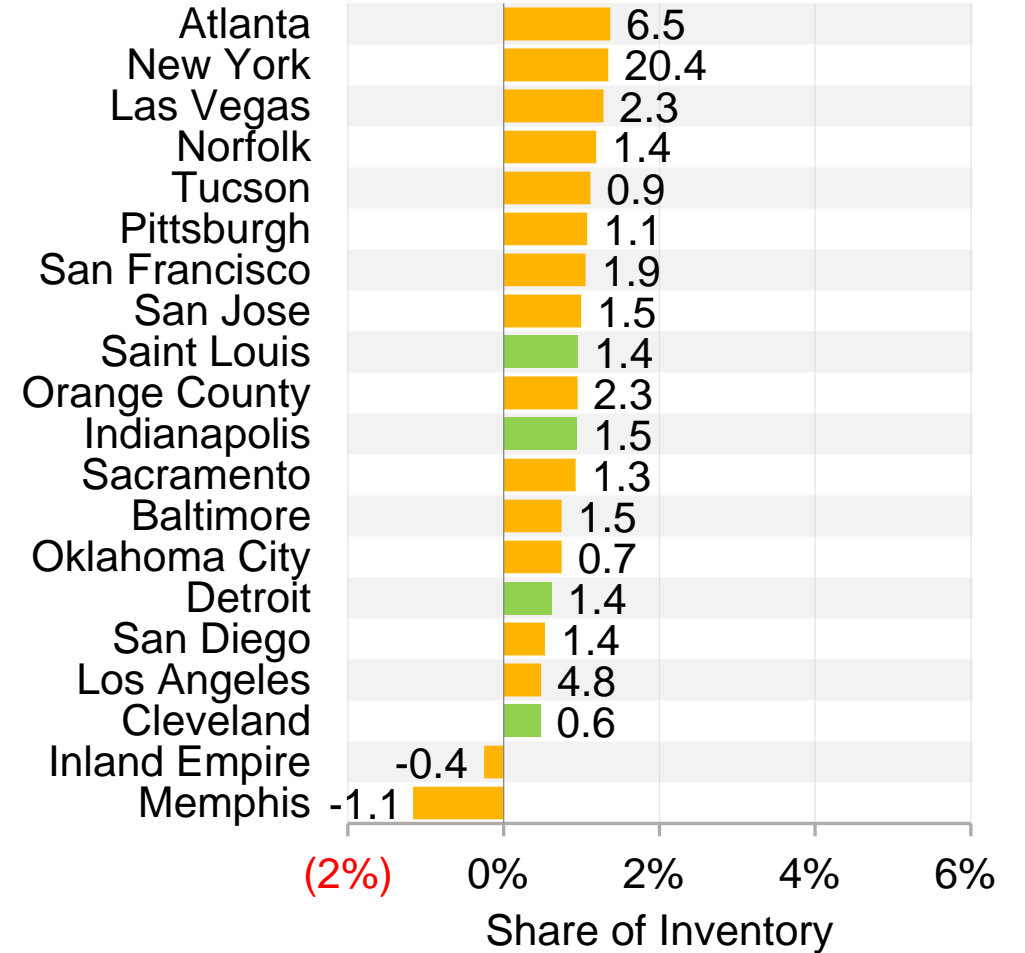
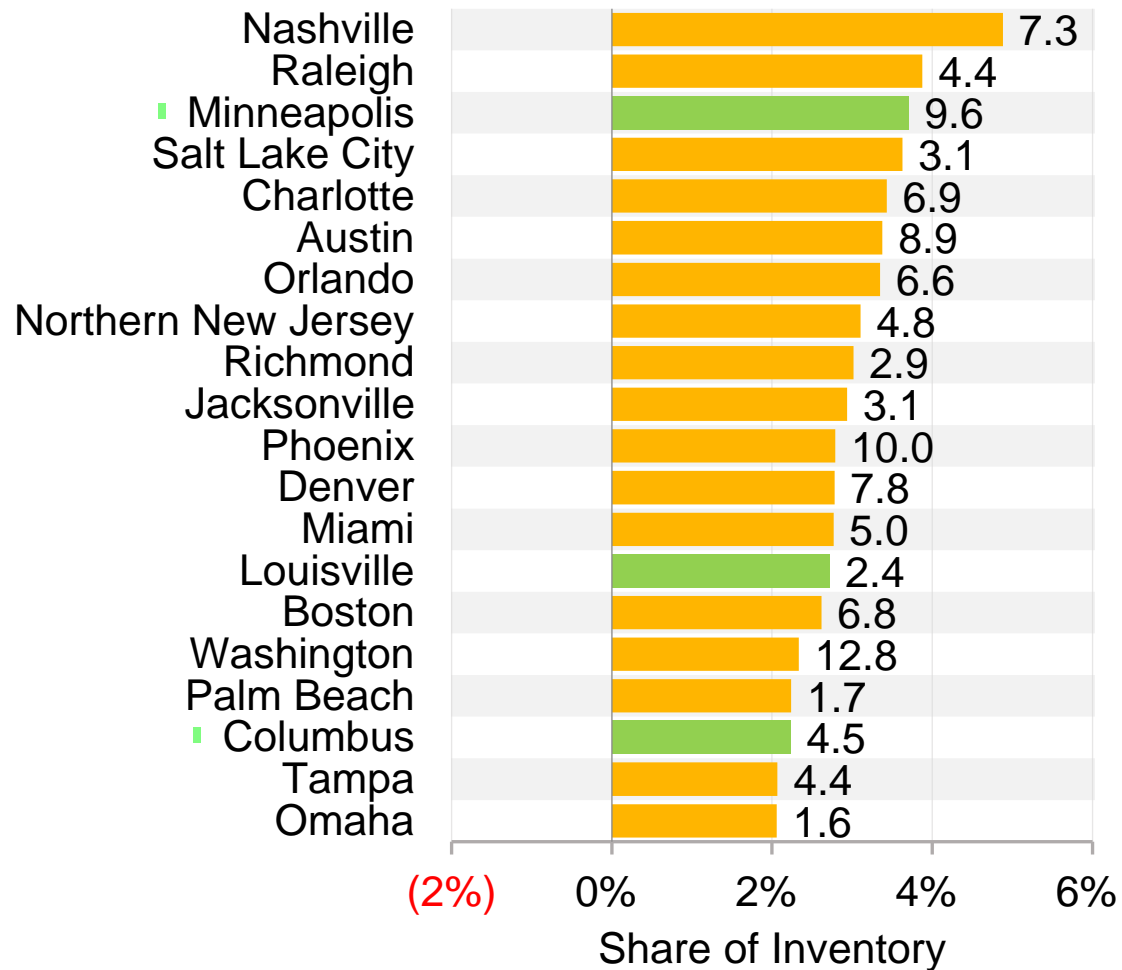


# Chicago's Multifamily Market Scales Back Development



Source: CoStar, End of 23Q4

# Net Absorption As Share of Inventory



■ Net Absorption (Last 4 Quarters)

Note: Includes markets with 75,000+ units inventory. Labels show Net Absorption in Thousand Units.





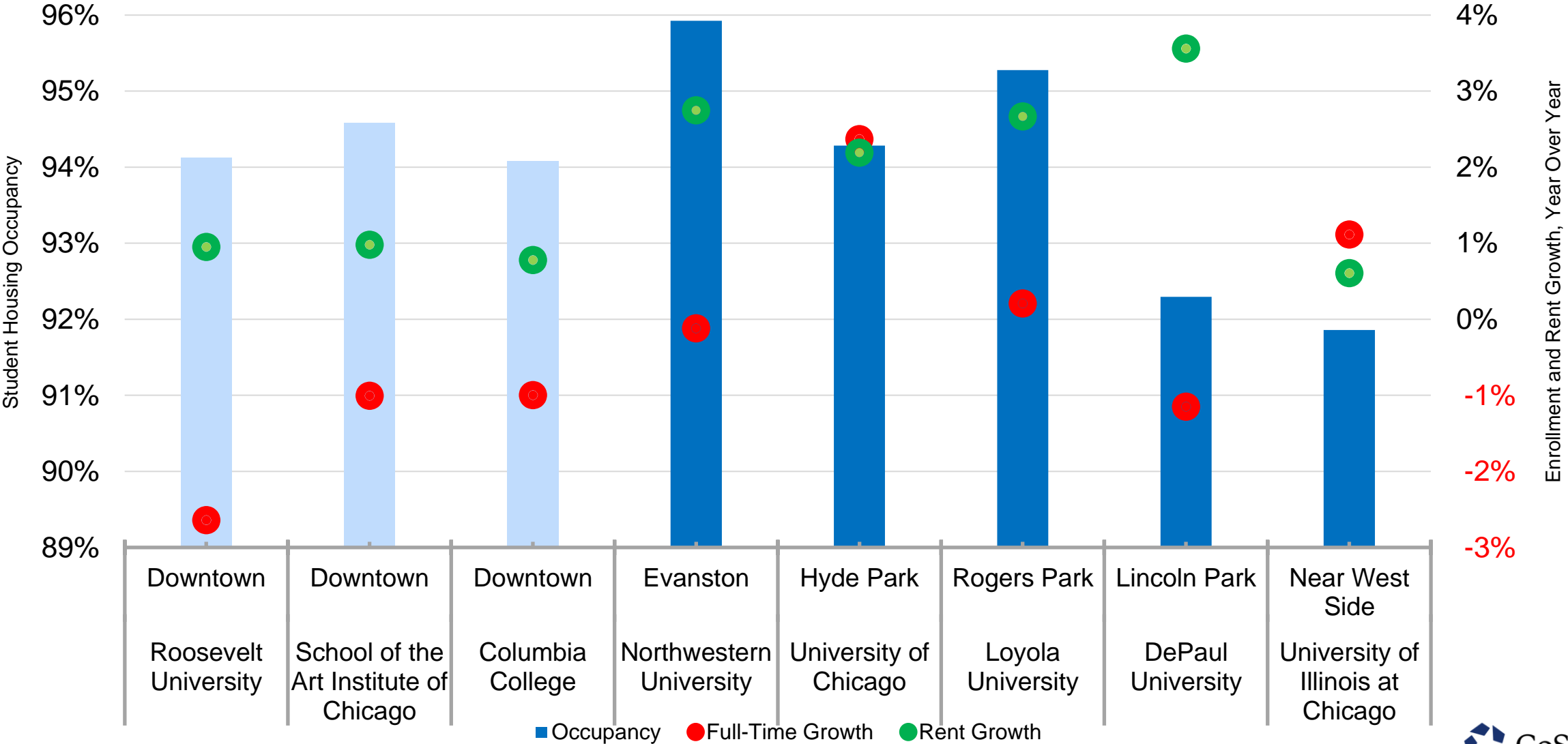
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# Multifamily

## Rent



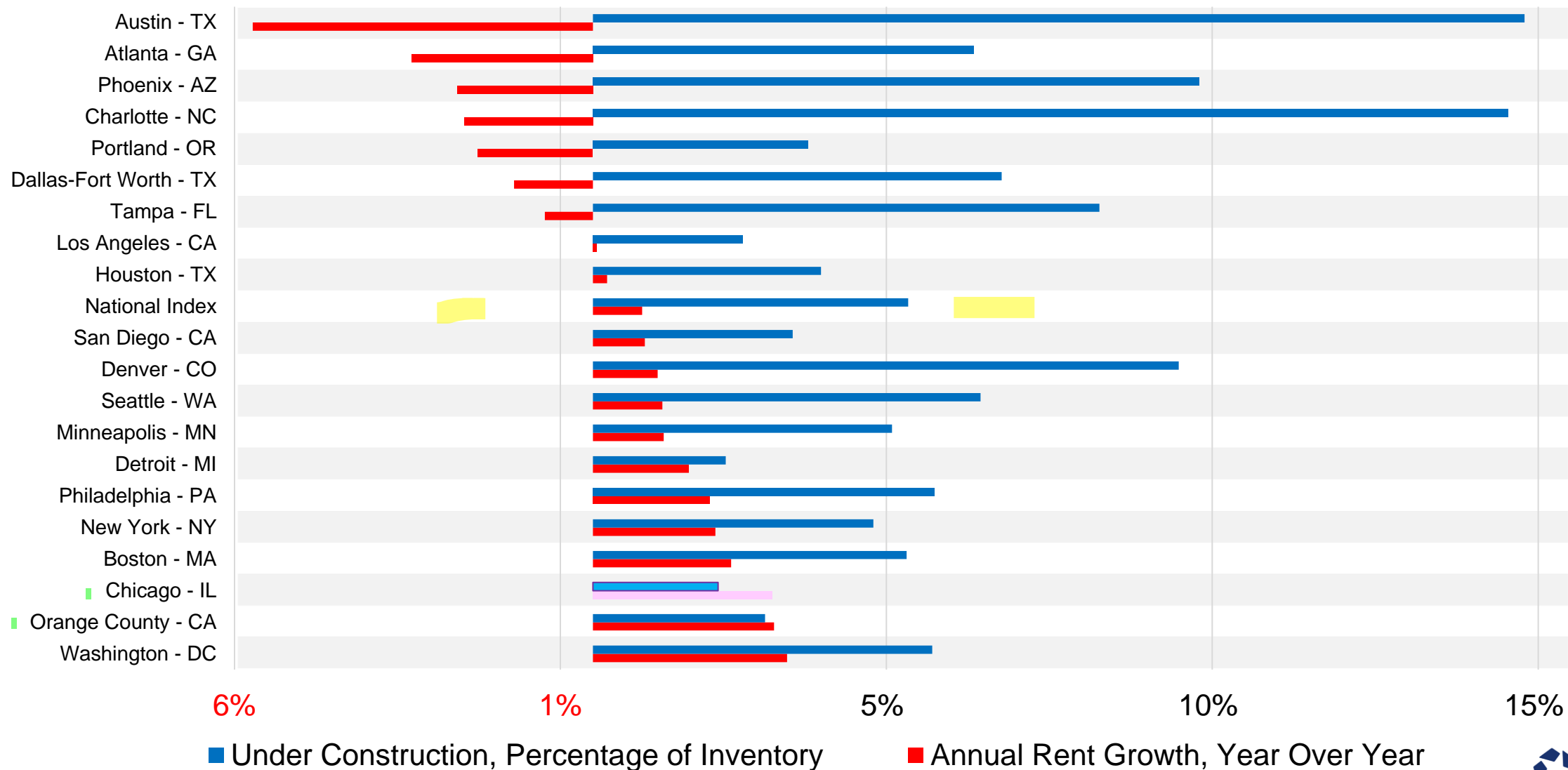
# Student Housing Rent Gains Drawn From Location Over Enrollment Growth



Sources: CoStar and University-Supplied Data, January 2024

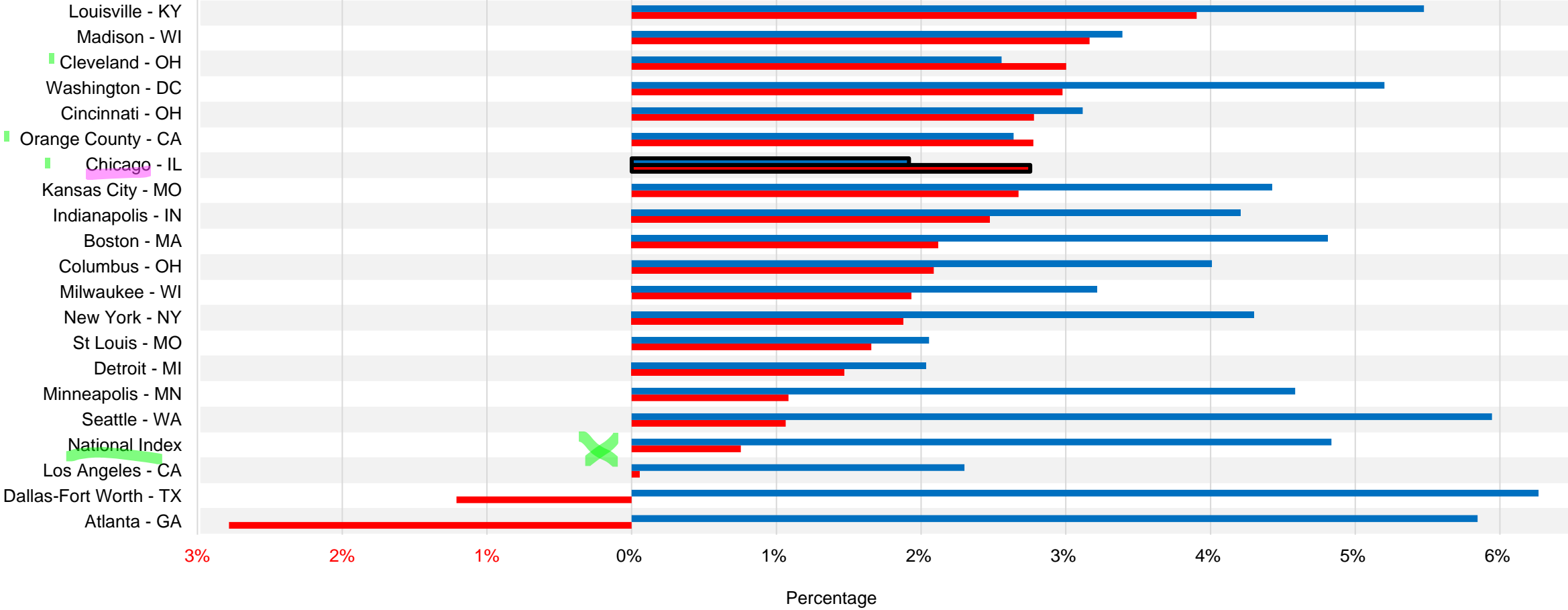


# Chicago & OC Are Only Major Markets Where Rent Growth Surpassed Under Construction



# 11 Midwest Markets Beat National Rent Growth Average

15 Largest Midwest and Some Major Multifamily Markets

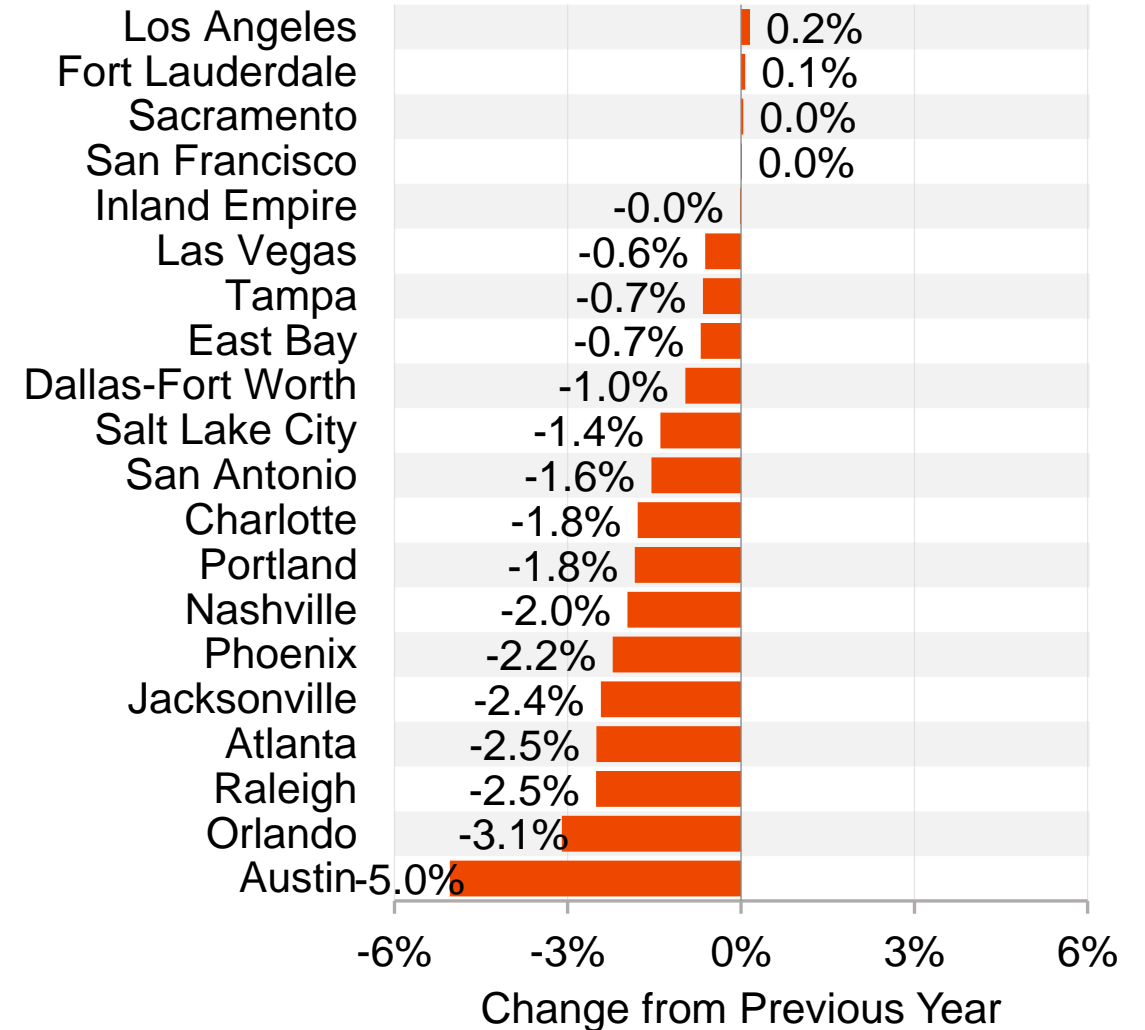
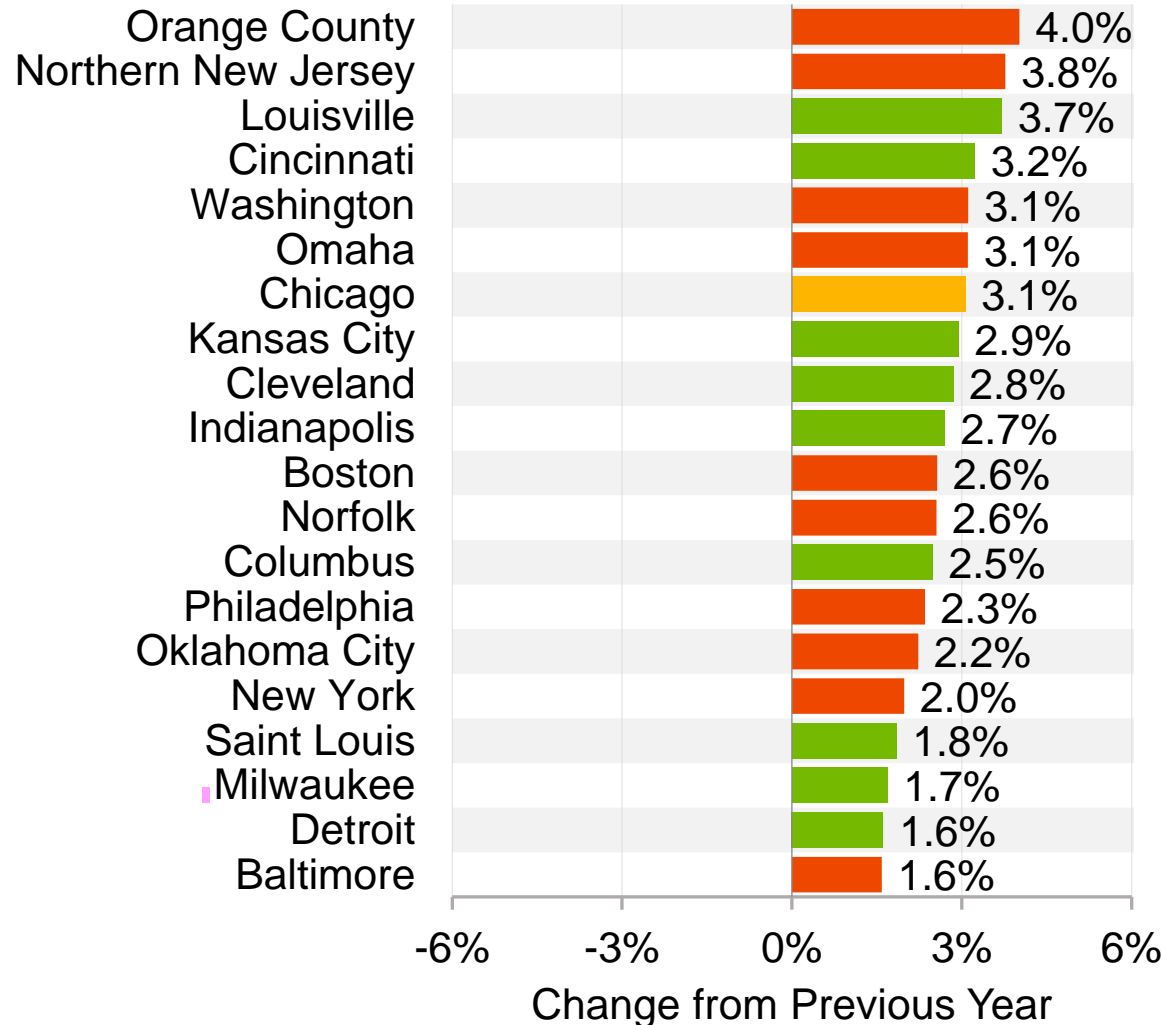


■ Under Construction, Percentage of Inventory    ■ Annual Rent Growth, Year Over Year



Source: CoStar, January 2024

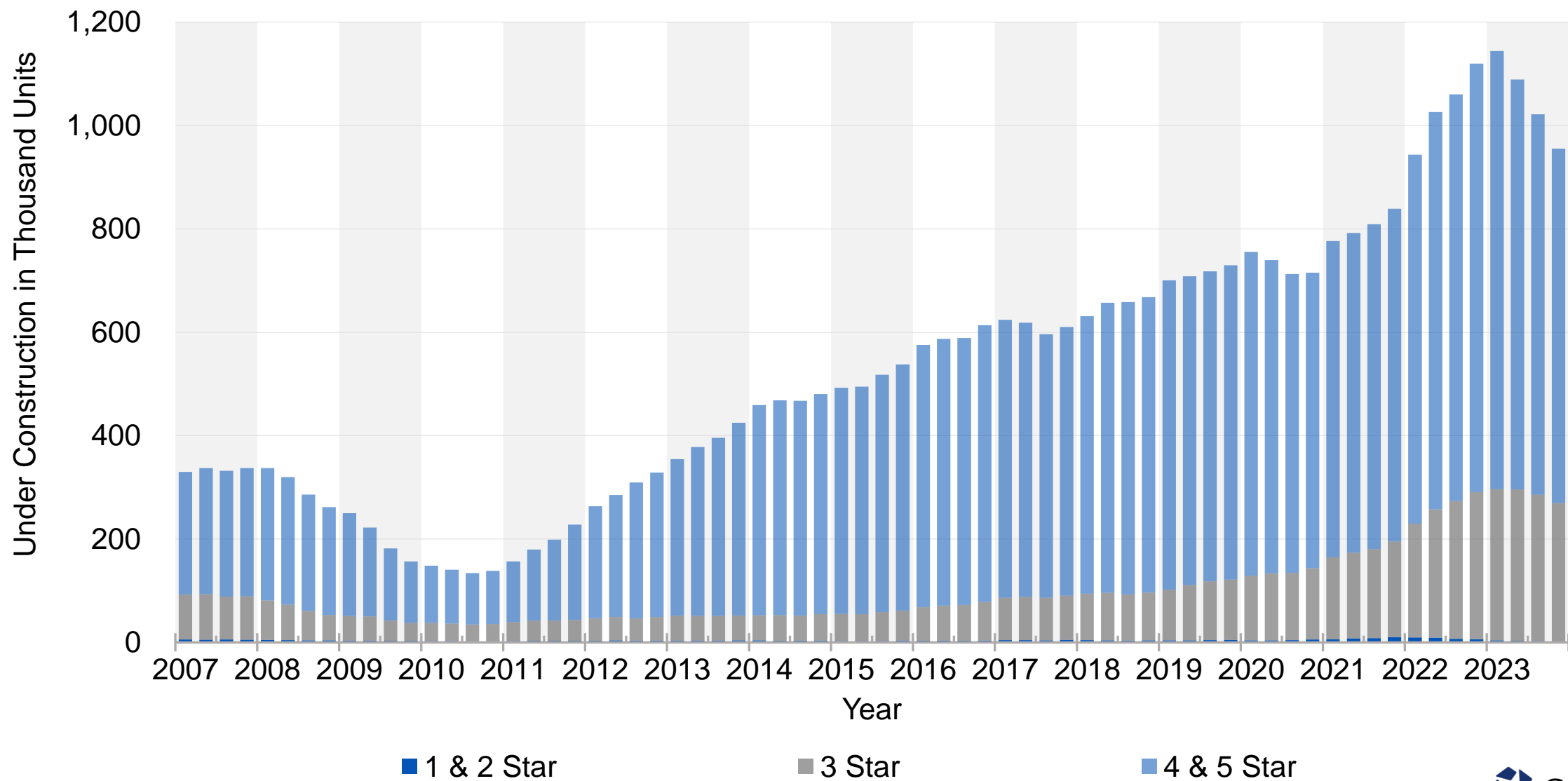
# Rent Growth, by Market



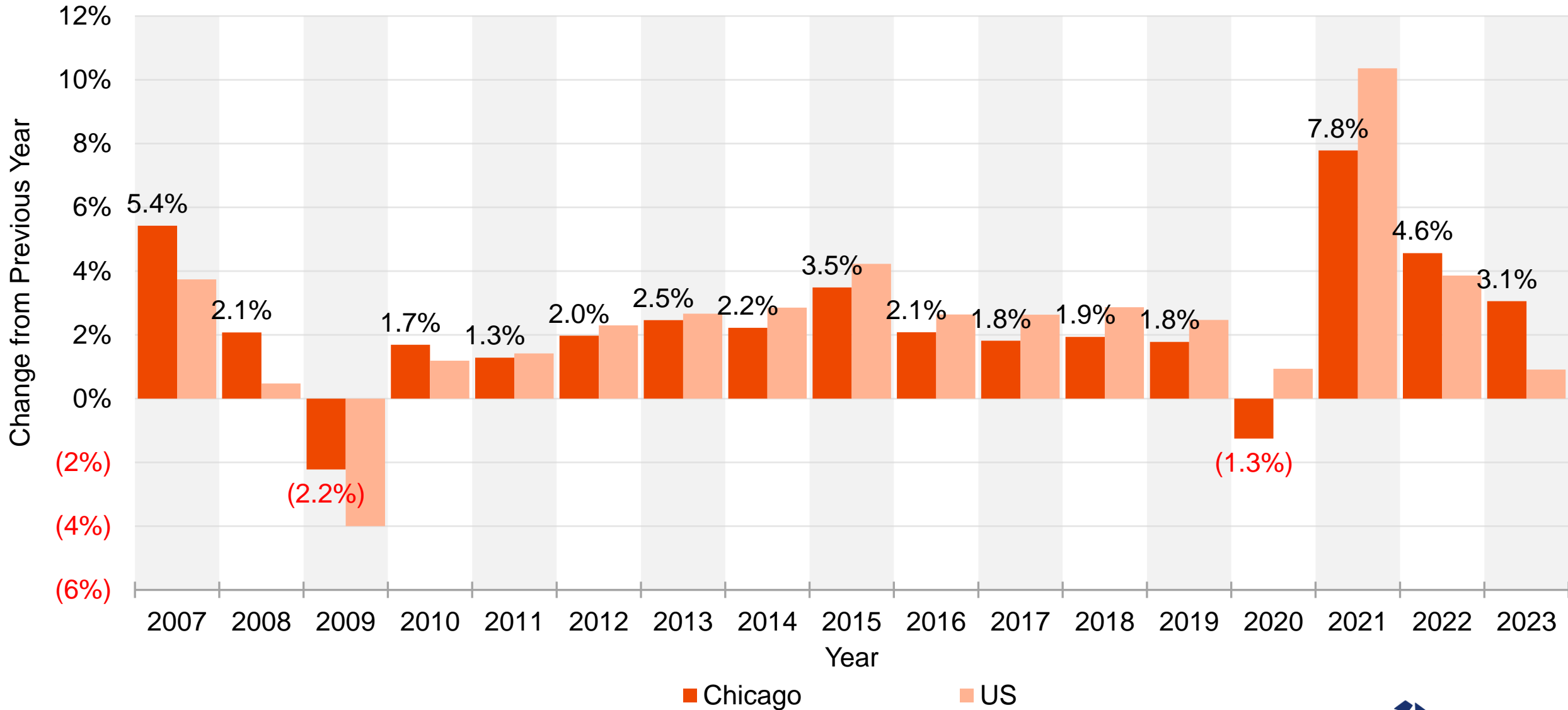
■ Rent Growth

Note: Includes markets with 75,000+ units inventory.

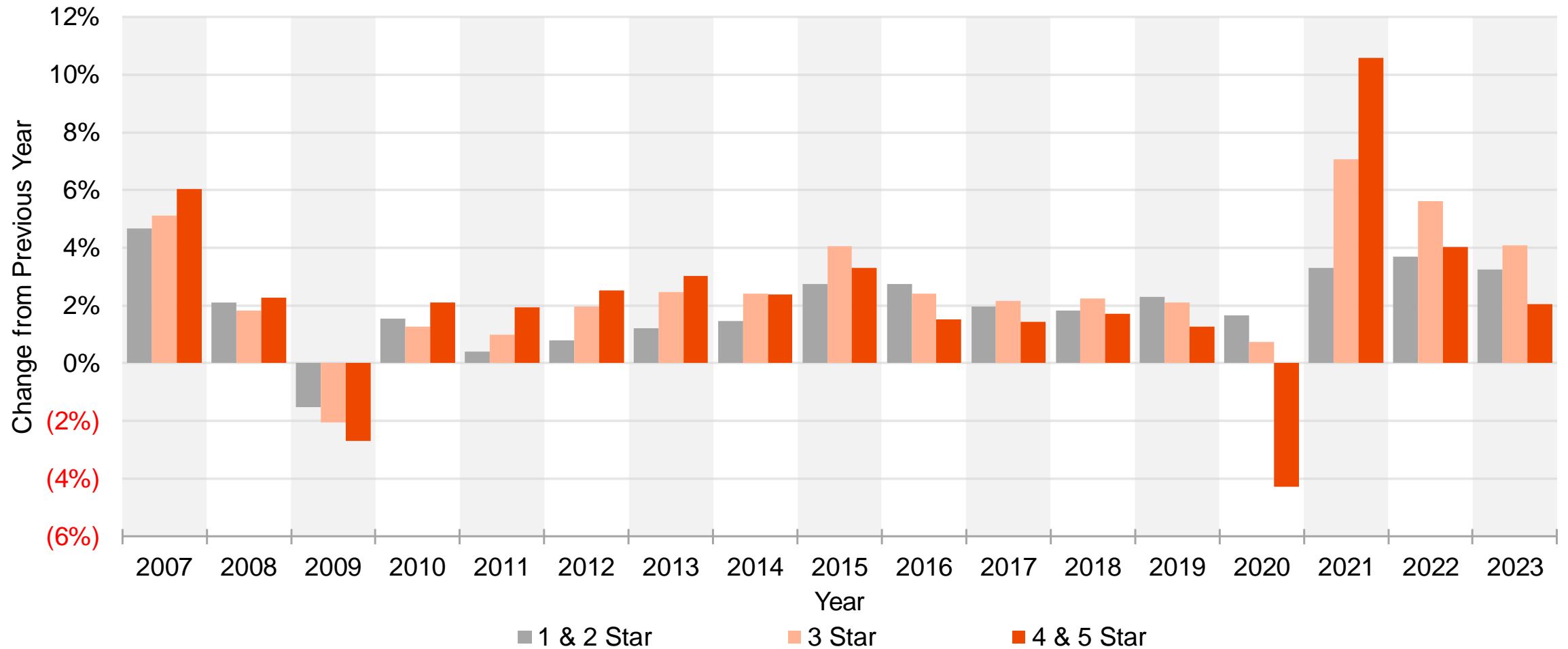
# Under Construction, by Star Rating: National Trend, 3-Star Increasing Share of Recent Completions



# Rent Growth: Chicago vs. U.S. Average, Two Years in a Row Beating National Average



# Chicago's Rent Growth By Star Rating

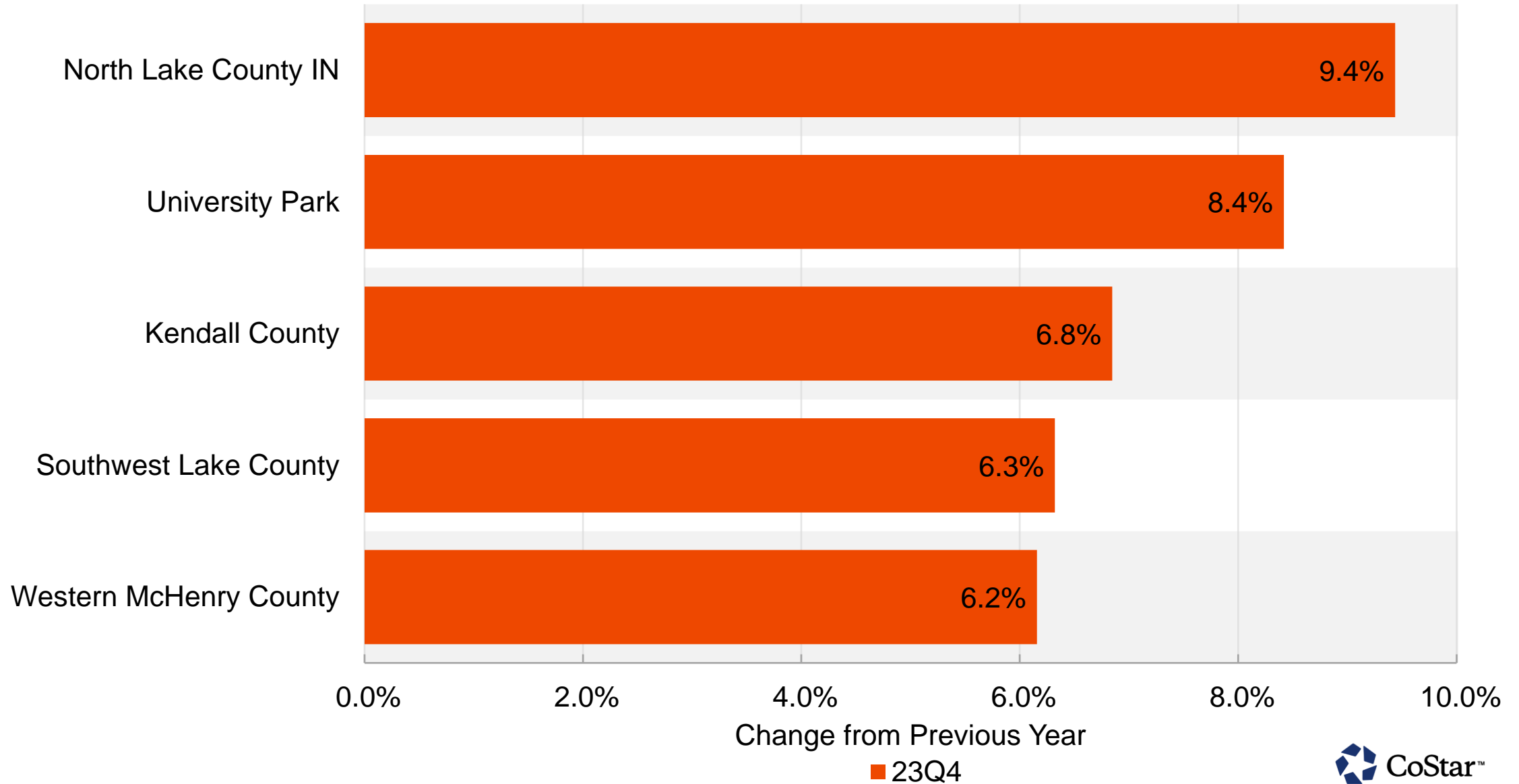


Source: CoStar

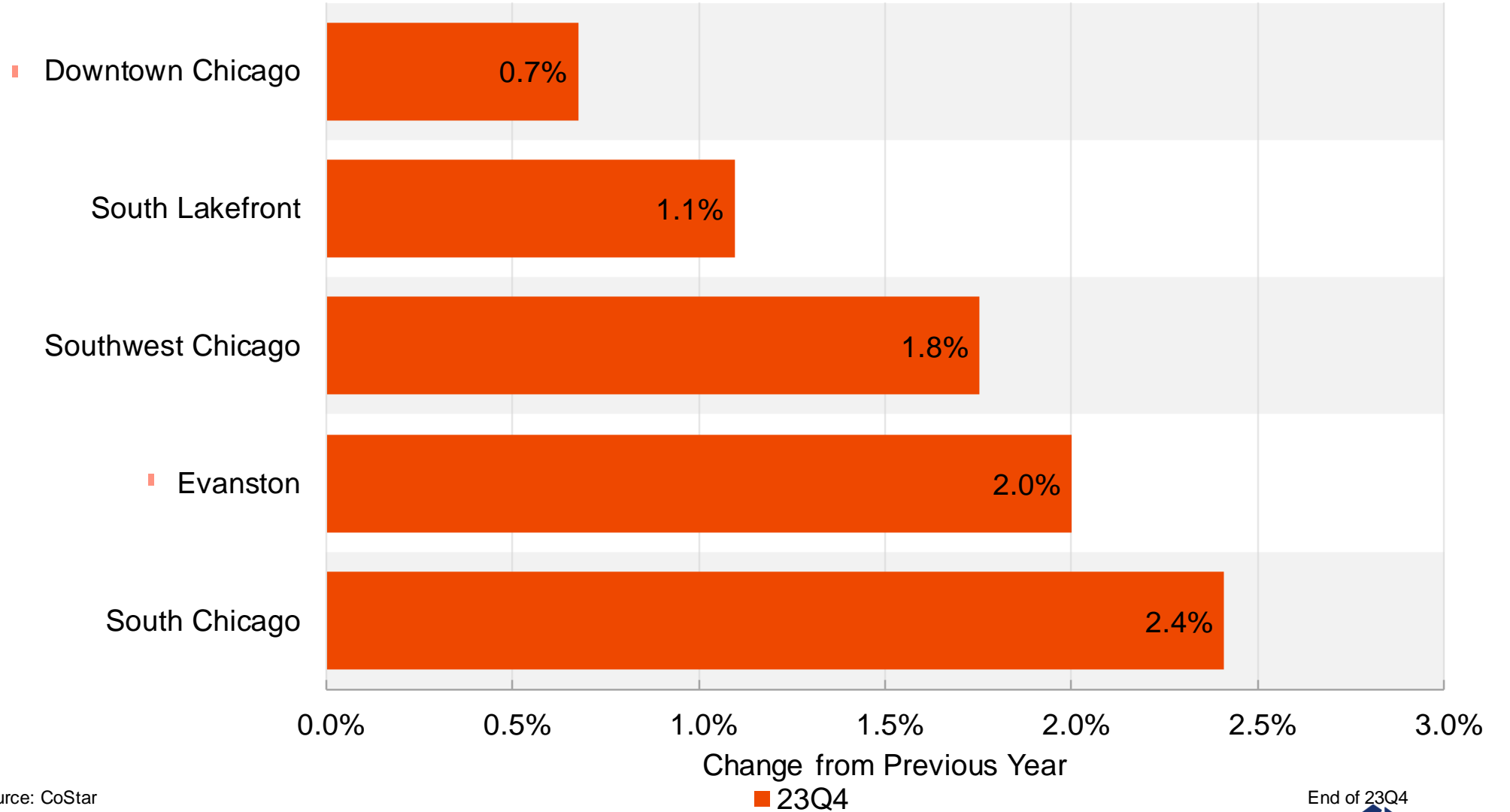
End of 23Q4



# Chicago Areas With the Highest Rent Growth



# Chicago Submarkets With The Lowest Rent Growth



Source: CoStar


End of 23Q4



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# Retail

**Tight supply, more openings than closings, and smart research (spending trends and where people live) delivers Chicago's strong retail demand fundamentals**



# Retail Space Market Takeaways

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- ▶ Chicago isn't seeing any meaningful retail construction/completion growth by submarket or sector type.
- ▶ Chicago's **projected population losses and anemic GDP growth stunt** retail/multifamily demand from those investors/occupiers that track that kind of thing.
- ▶ **Balance sheets of many American consumers are deteriorating leaving little margin for error should constricting credit environment bleed into the labor market.**
- ▶ Total retail square footage available for lease is at its lowest levels on record resulting in a shortage of desirable space in the right locations. **Tightening availability is driven by both demand and supply.**
- ▶ **As such, a lack of available space, minimal supply-side pressure, and recent sales gains** puts the retail market in an advantageous **position to withstand a minor pullback** in consumption.
- ▶ **Demand formation and rent growth** are **forecast to stall** over the next year in response to a forecasted recession and resulting pullback in consumption.



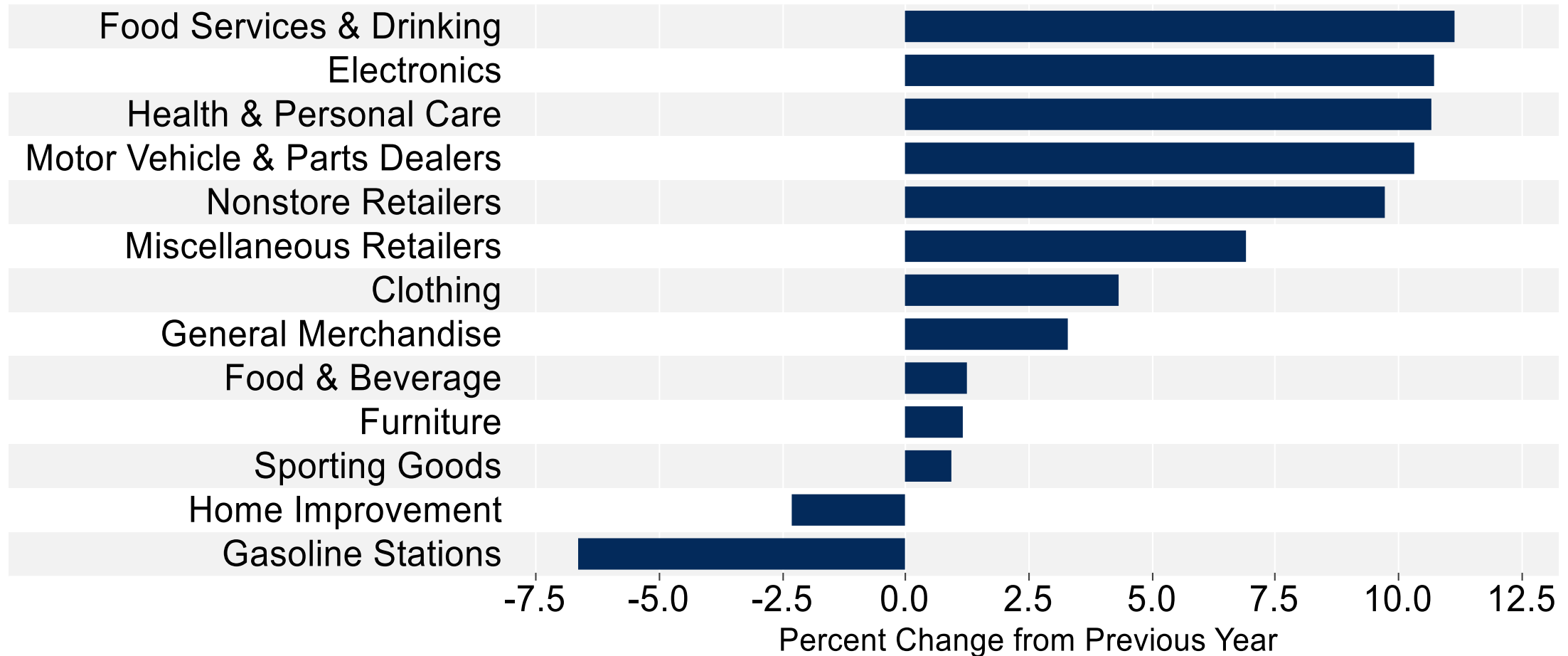
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# Retail

## Underpinnings

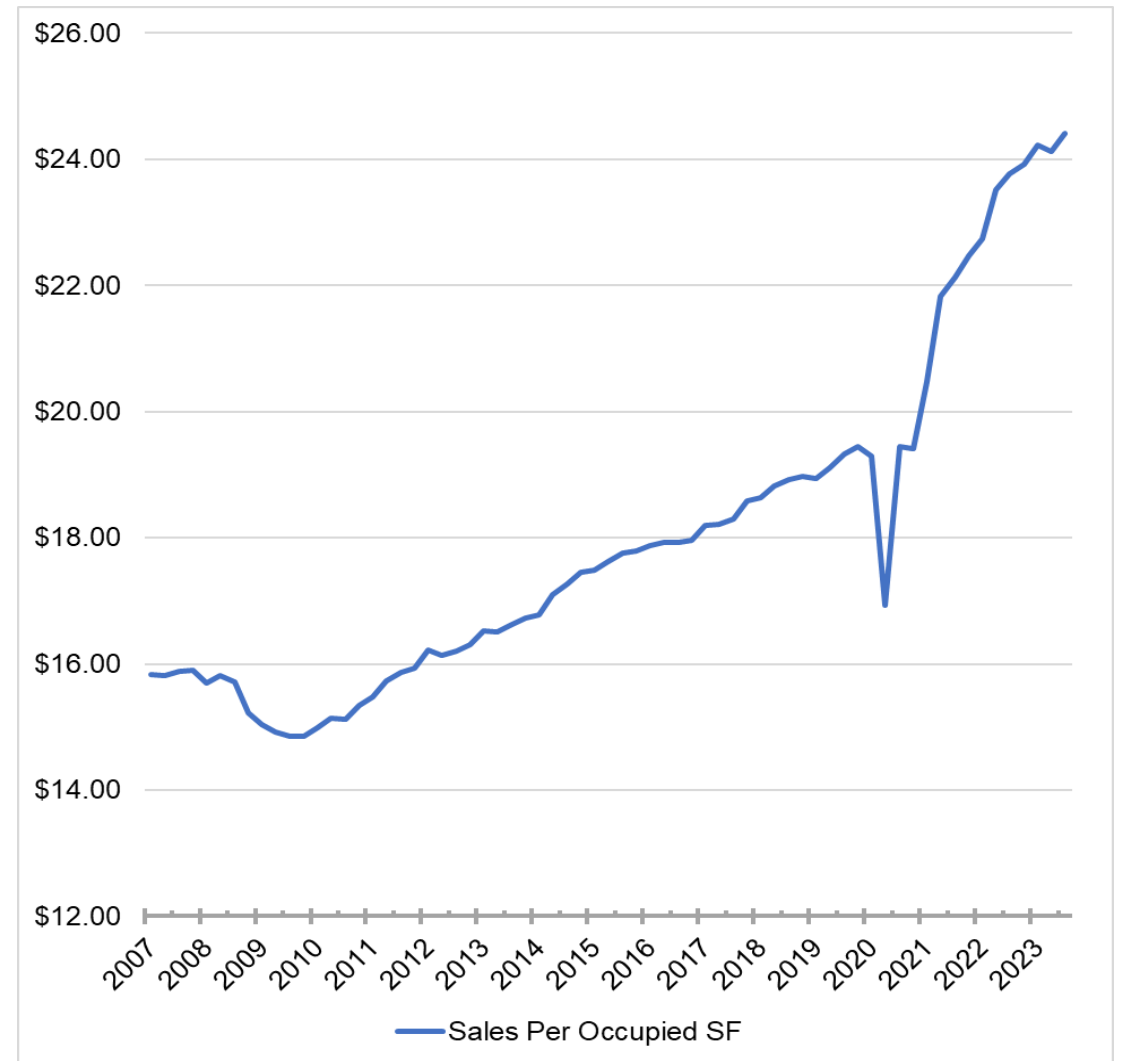
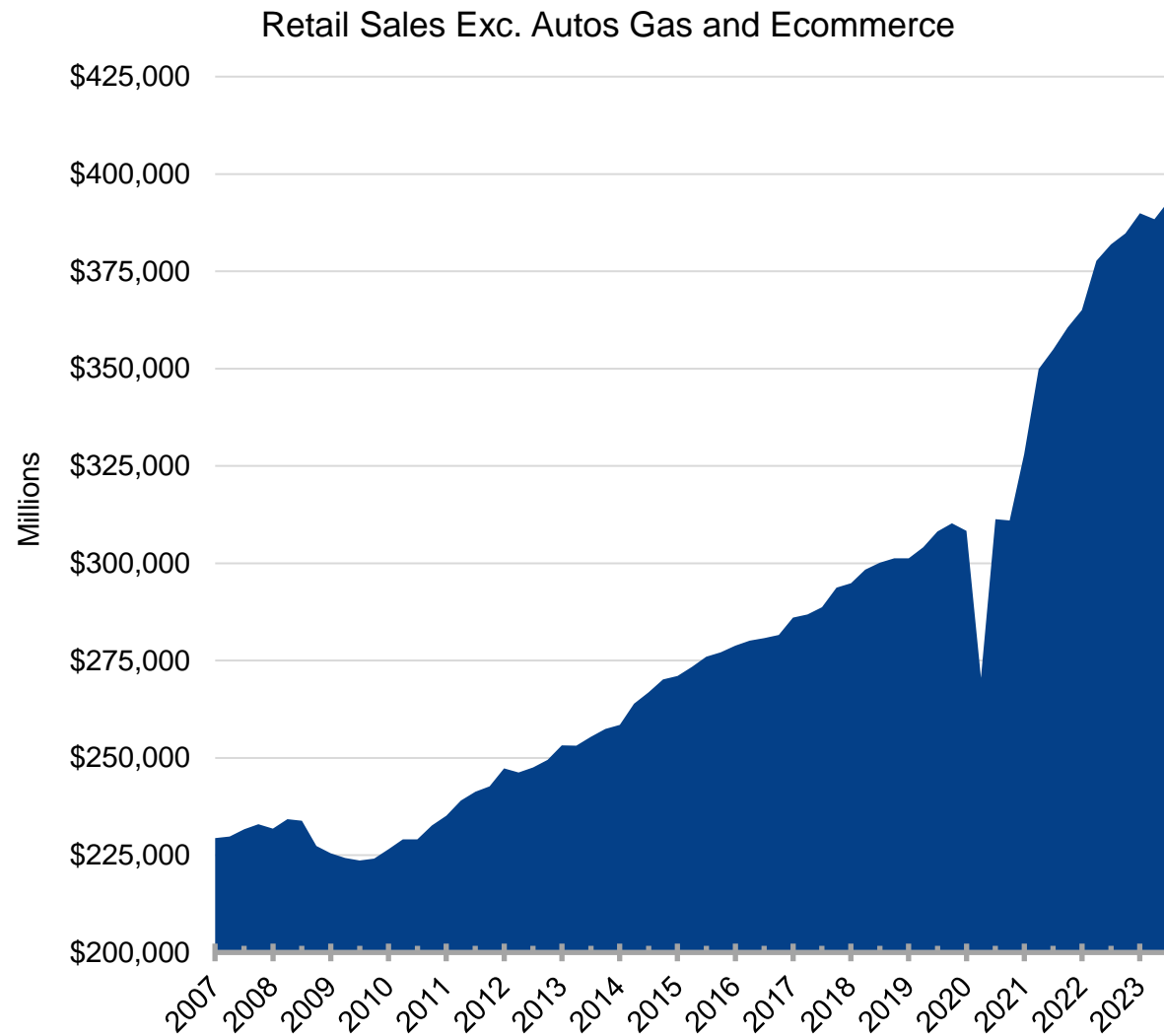


# Retail Trade by Category YOY December 2023



Source: U.S. Census Bureau, 12/1/2023

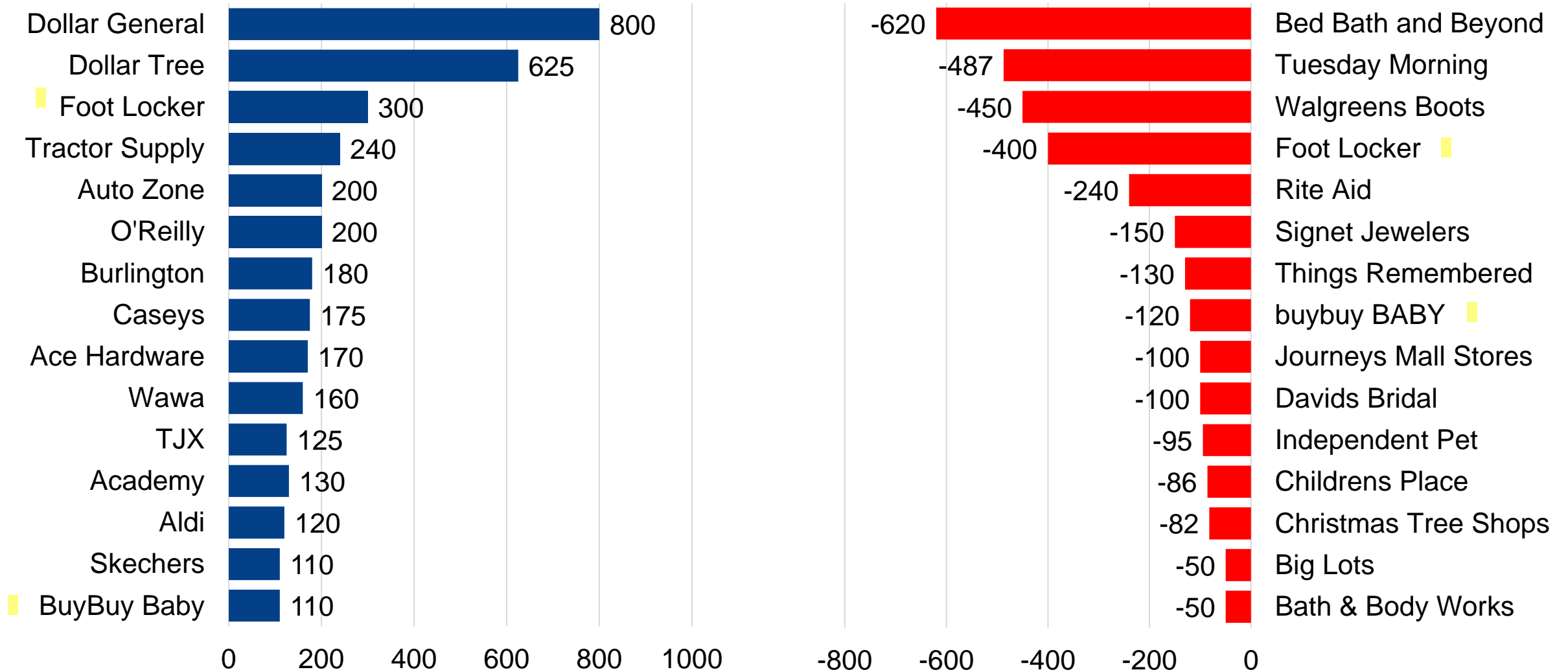
# Retail Sales Efficiency Remains Well Above Trend



Source: Census Bureau, CoStar

# Retailers Announcing Largest Openings and Closings

Winners: Discount, Auto-Related; Losers: Rx, Clothing, Novelty



Source: Daily on Retail, November 2023

Note: Based upon openings and closing plans announced in 2023 regardless of store opening date

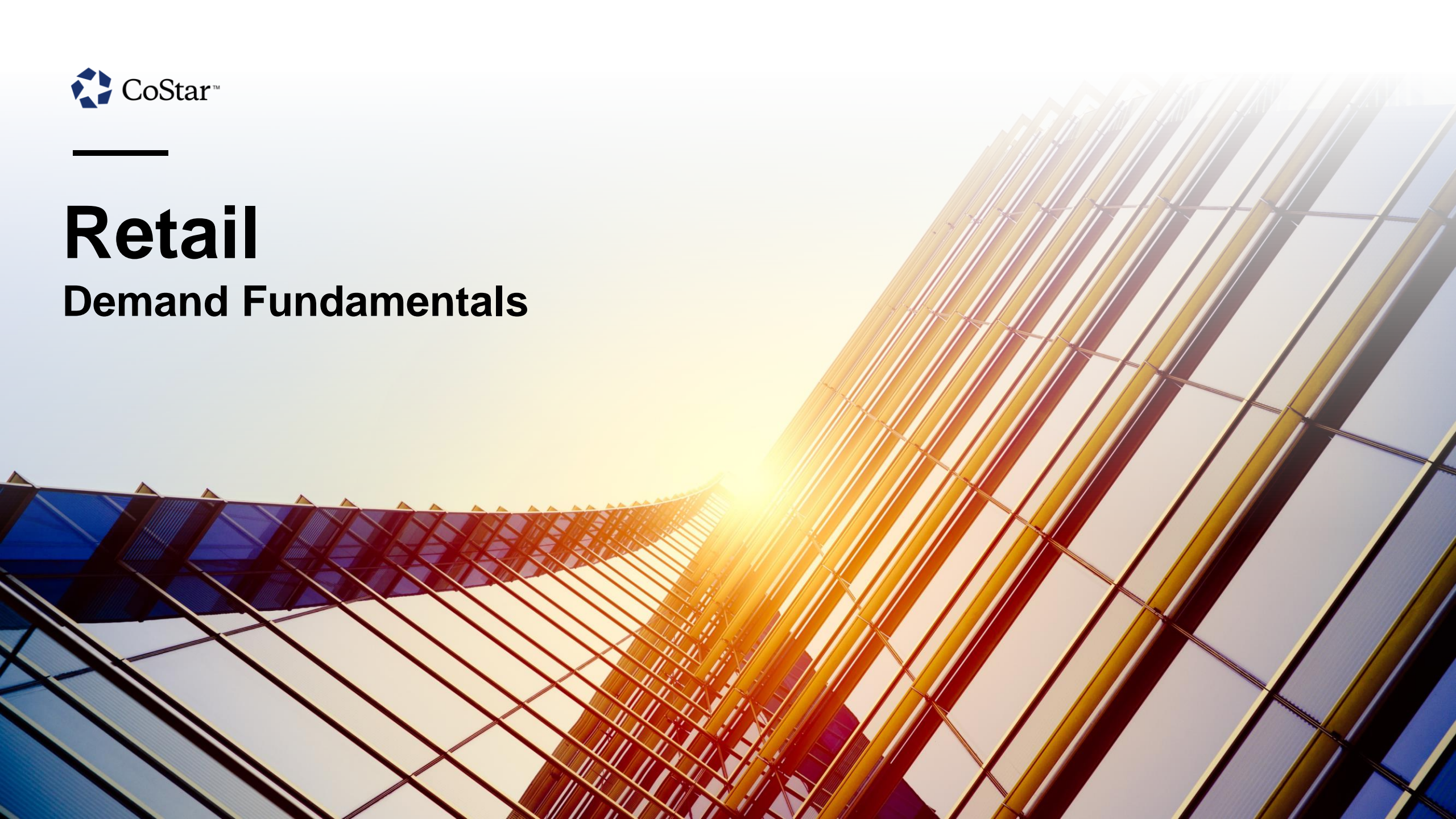




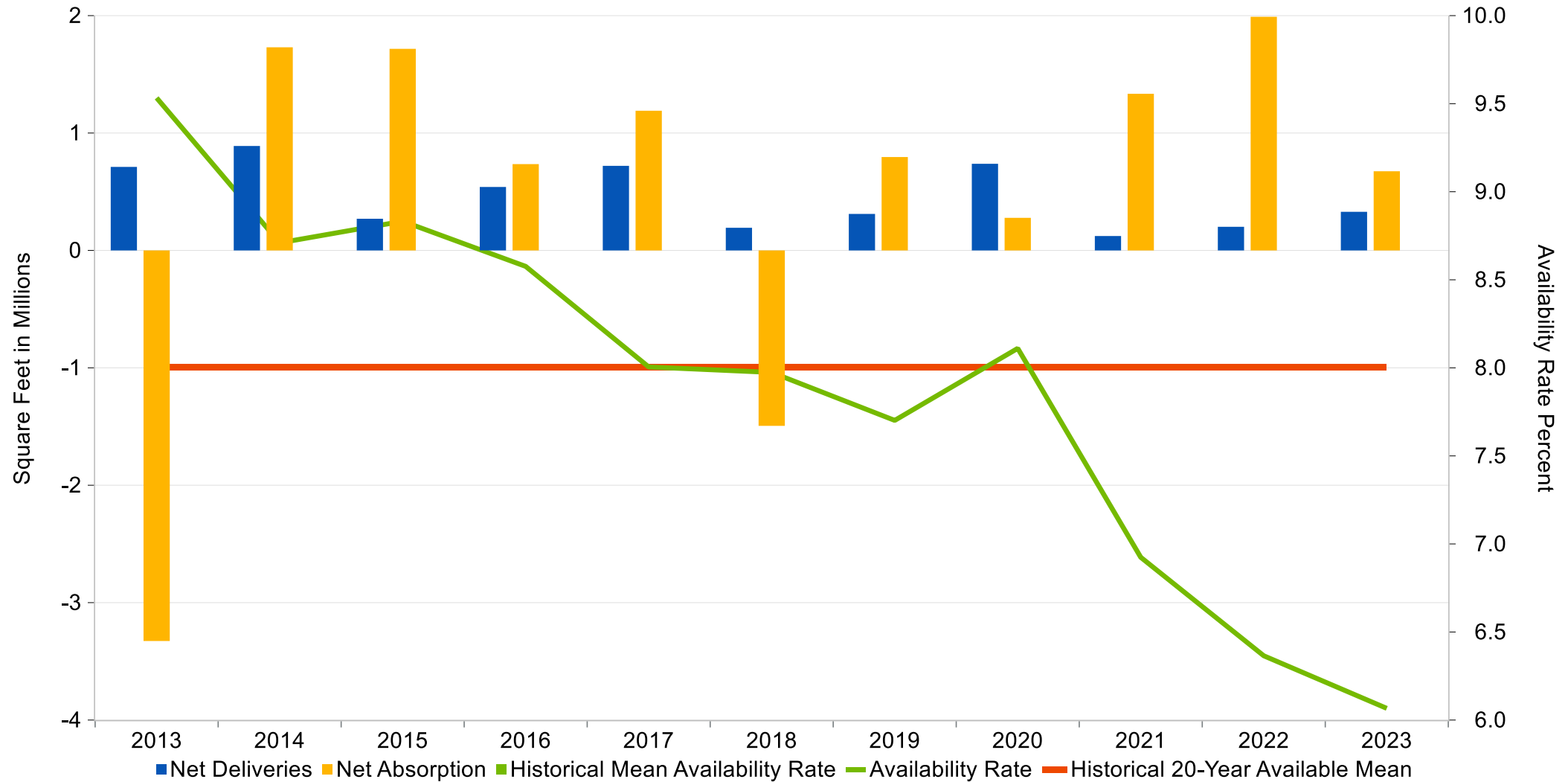
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# Retail

## Demand Fundamentals

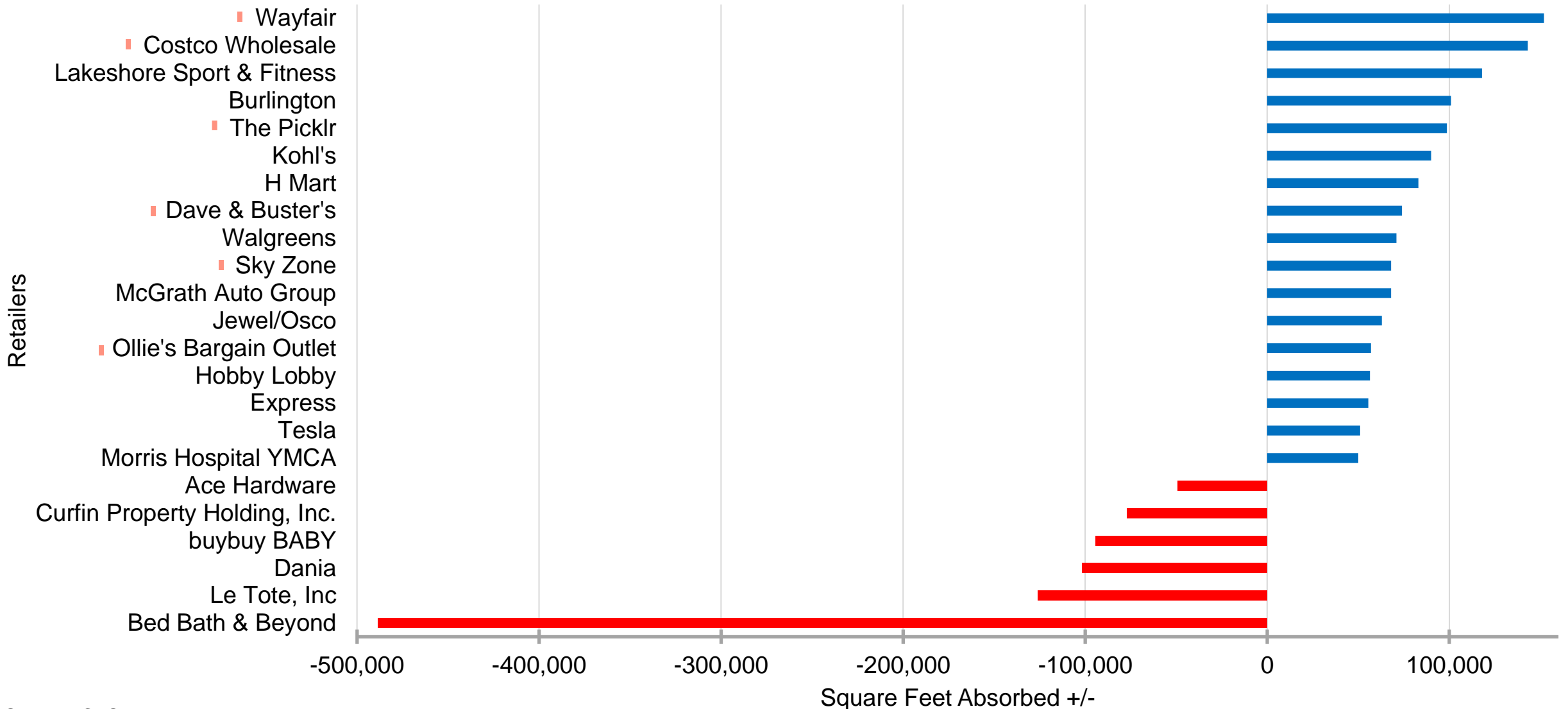


# Chicago Retail Baseline Demand and AVAILABILITY



Source: CoStar, February 2024

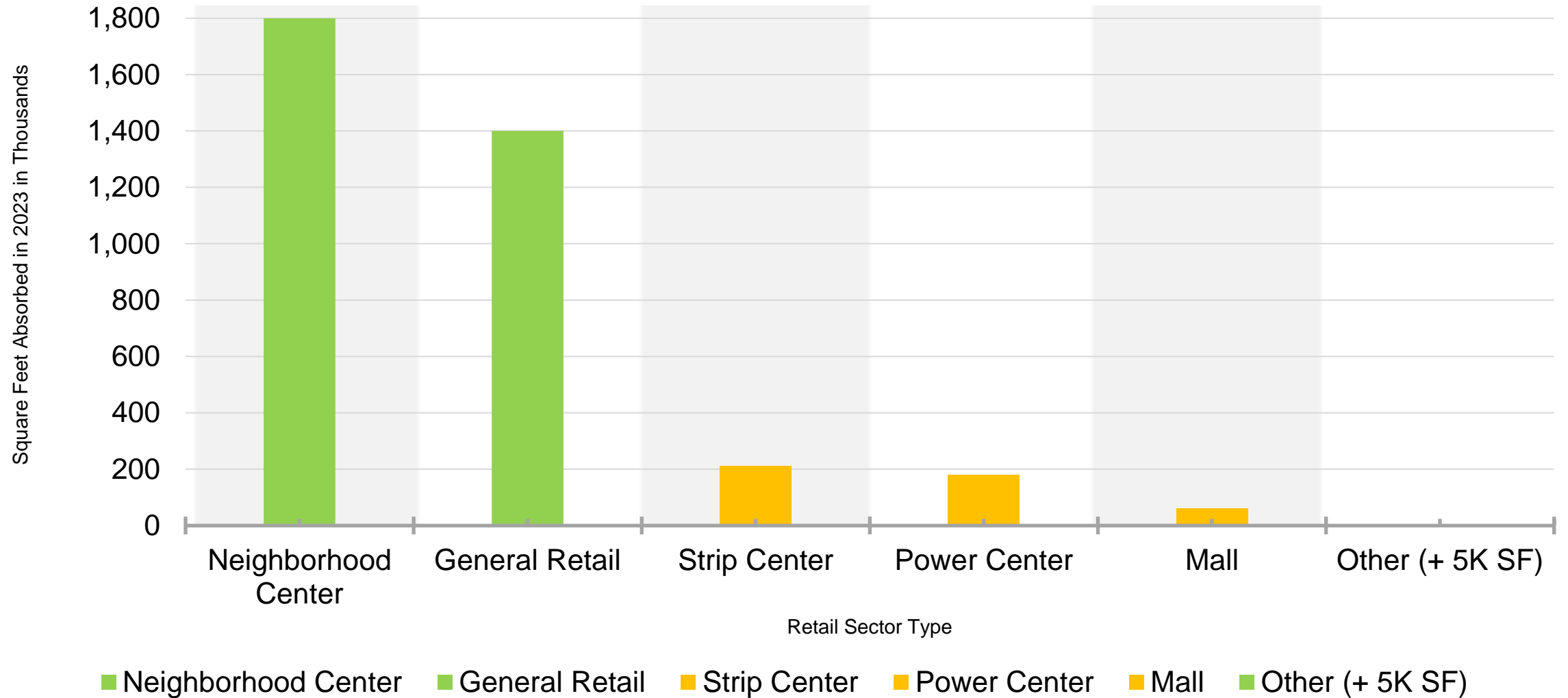
# Chicago Retailers \*Moving-In/Out Between 2023 Q4 – 2023 Q4



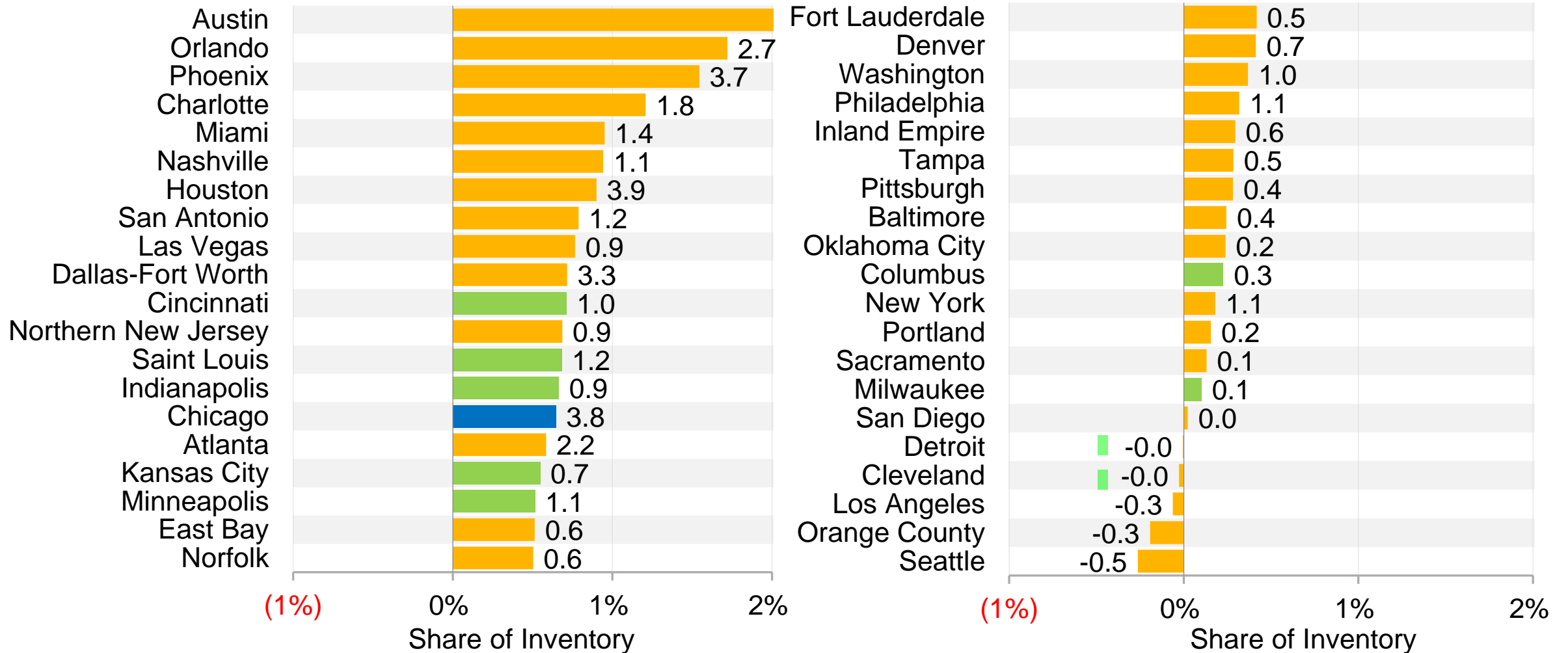
Source: CoStar, February 2024

Note: \*Includes renewals. All **known** moves over 50,000 SF.

# Vast Majority of Chicago Space Absorbed into Two Retail Sectors



# Net Absorption As Share of Inventory



■ Net Absorption (Last 4 Quarters)

Note: Includes markets with 100 Million+ Square Feet inventory. Labels show Net Absorption in Million Square Feet.



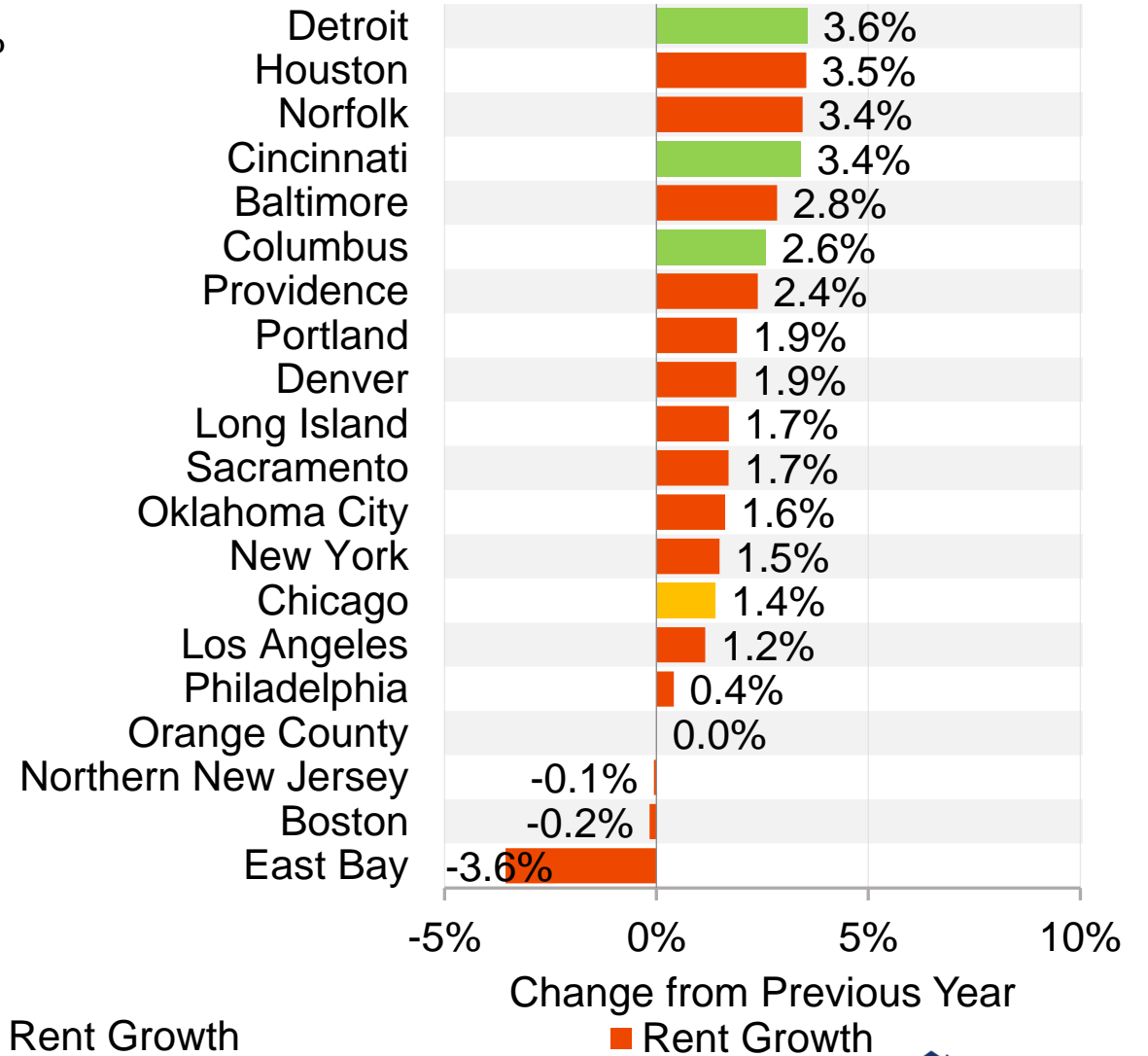
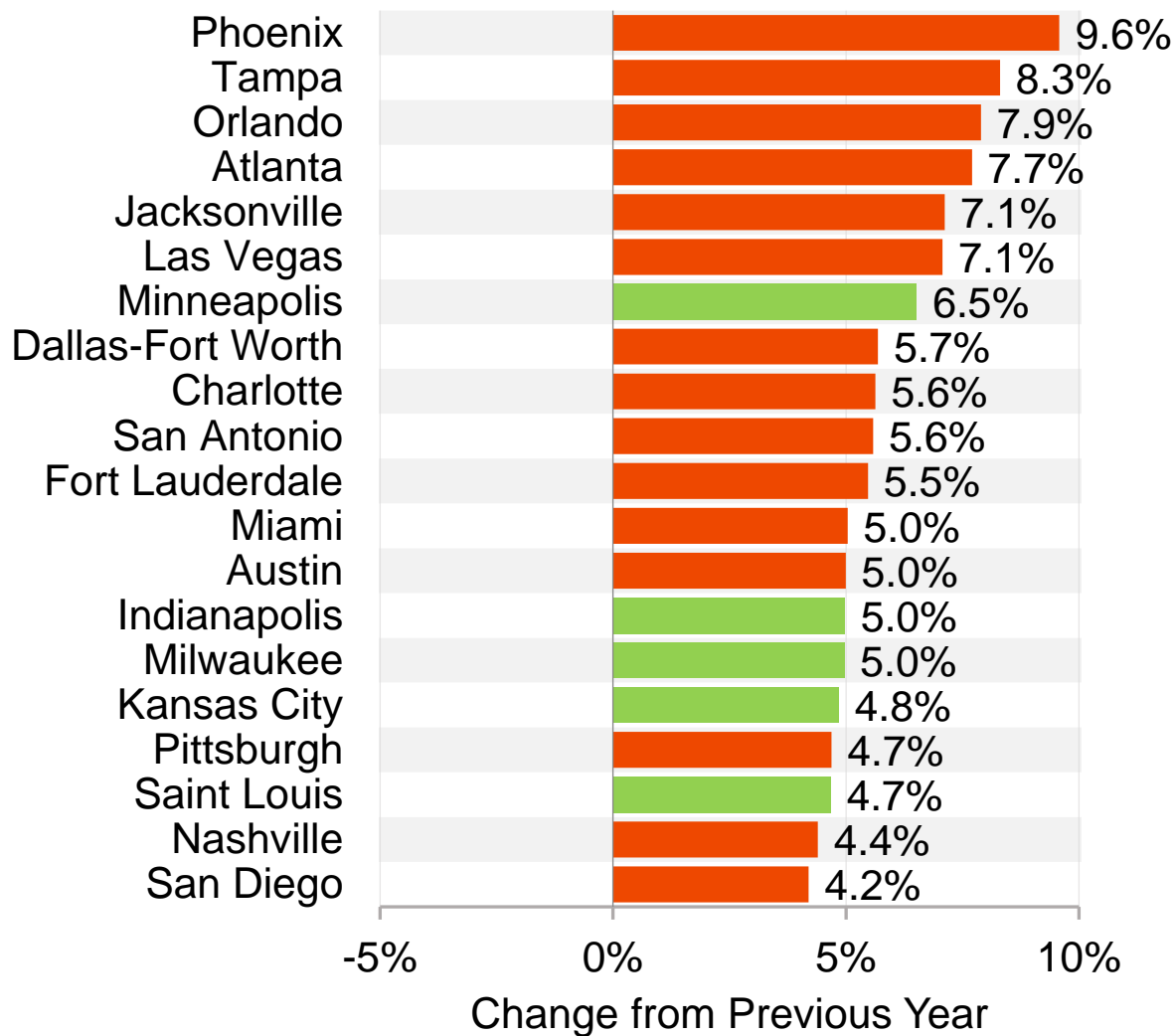
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# Retail

## Rent

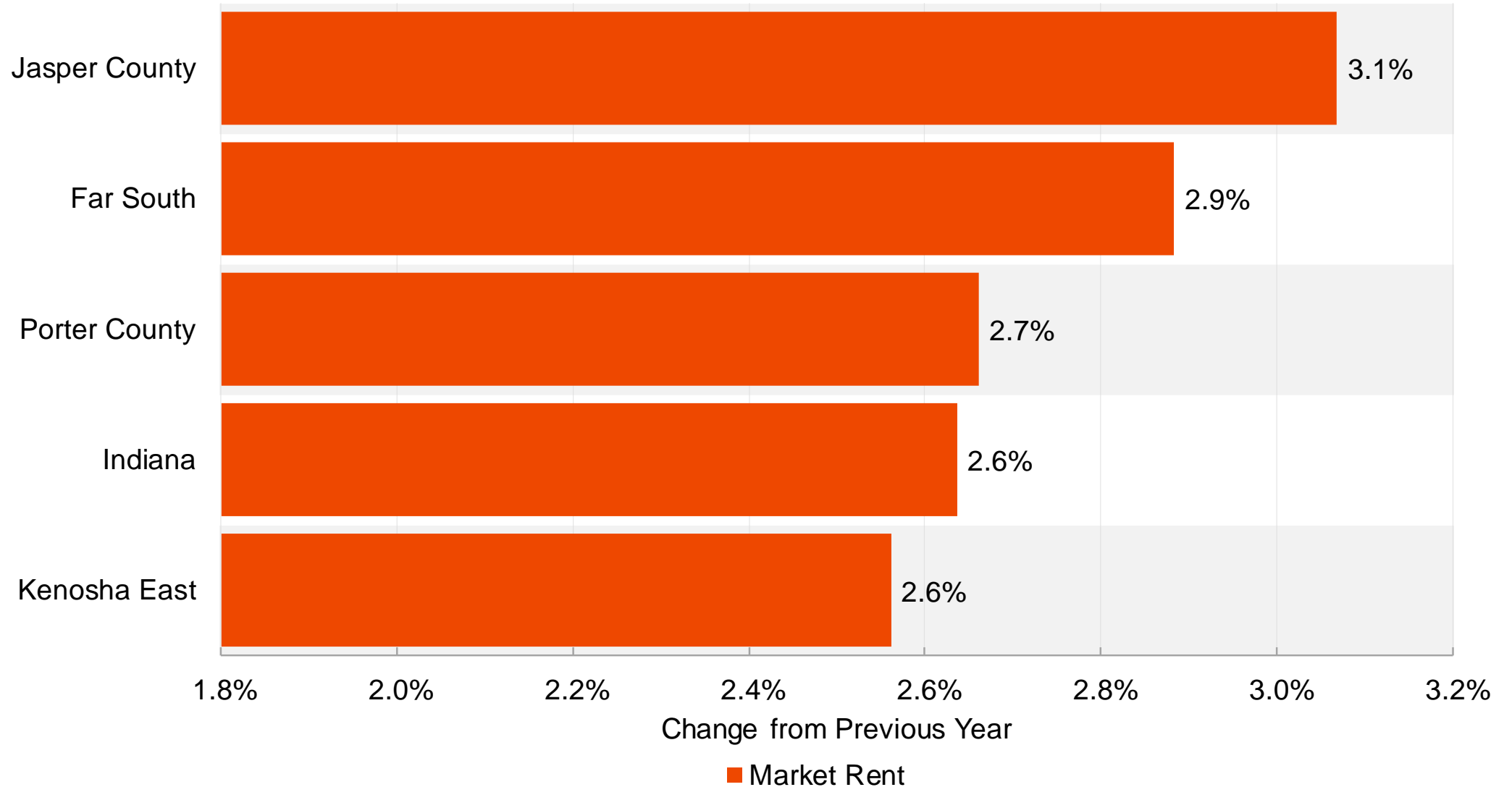


# Rent Growth, by Market



Note: Includes markets with 100 Million+ Square Feet inventory.

# Chicago Retail Submarkets With The Highest Rent Growth



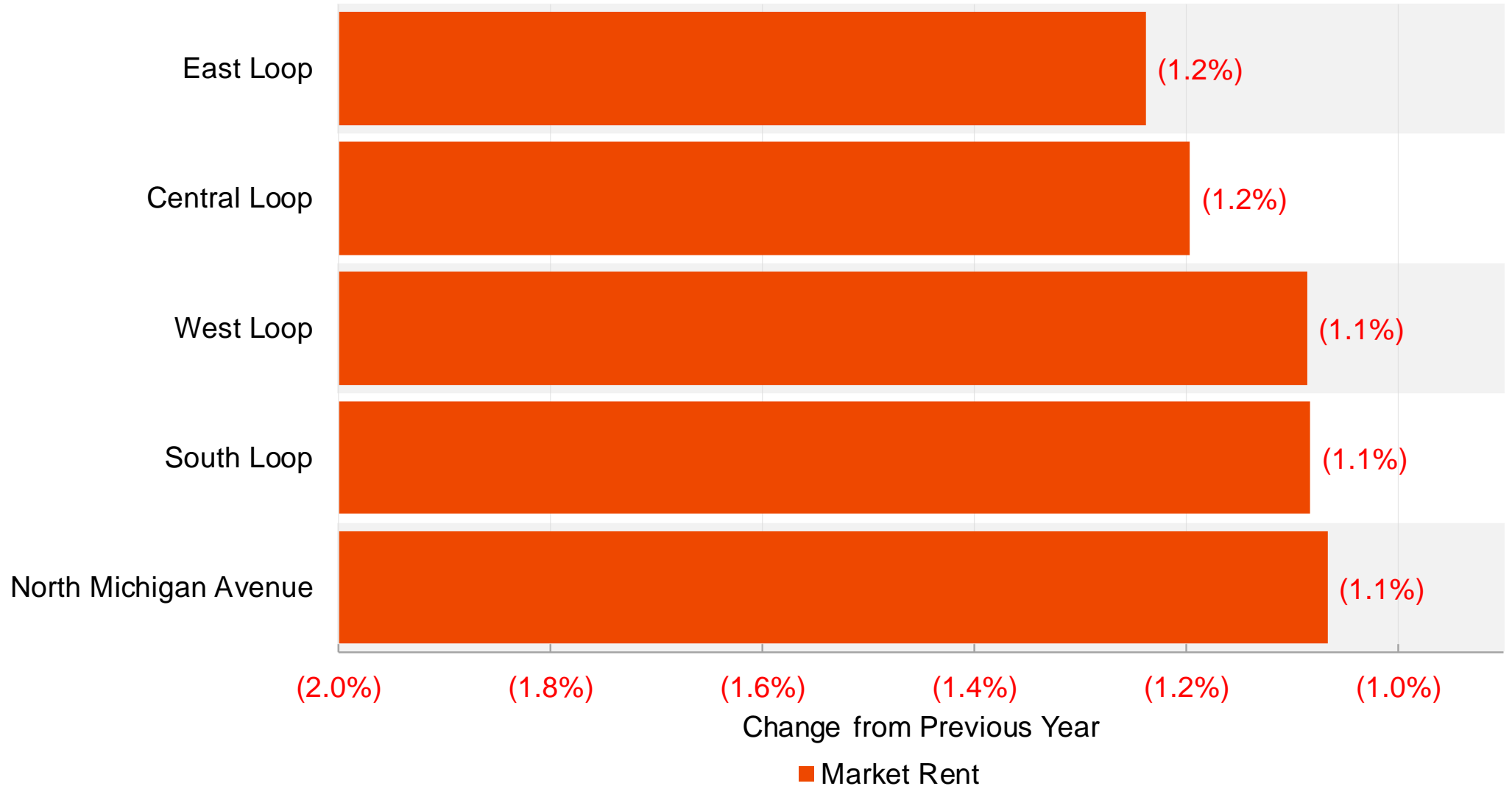
Source: CoStar

End of 23Q4





# Chicago Retail Submarkets With The Lowest Rent Growth



Source: CoStar

End of 23Q4





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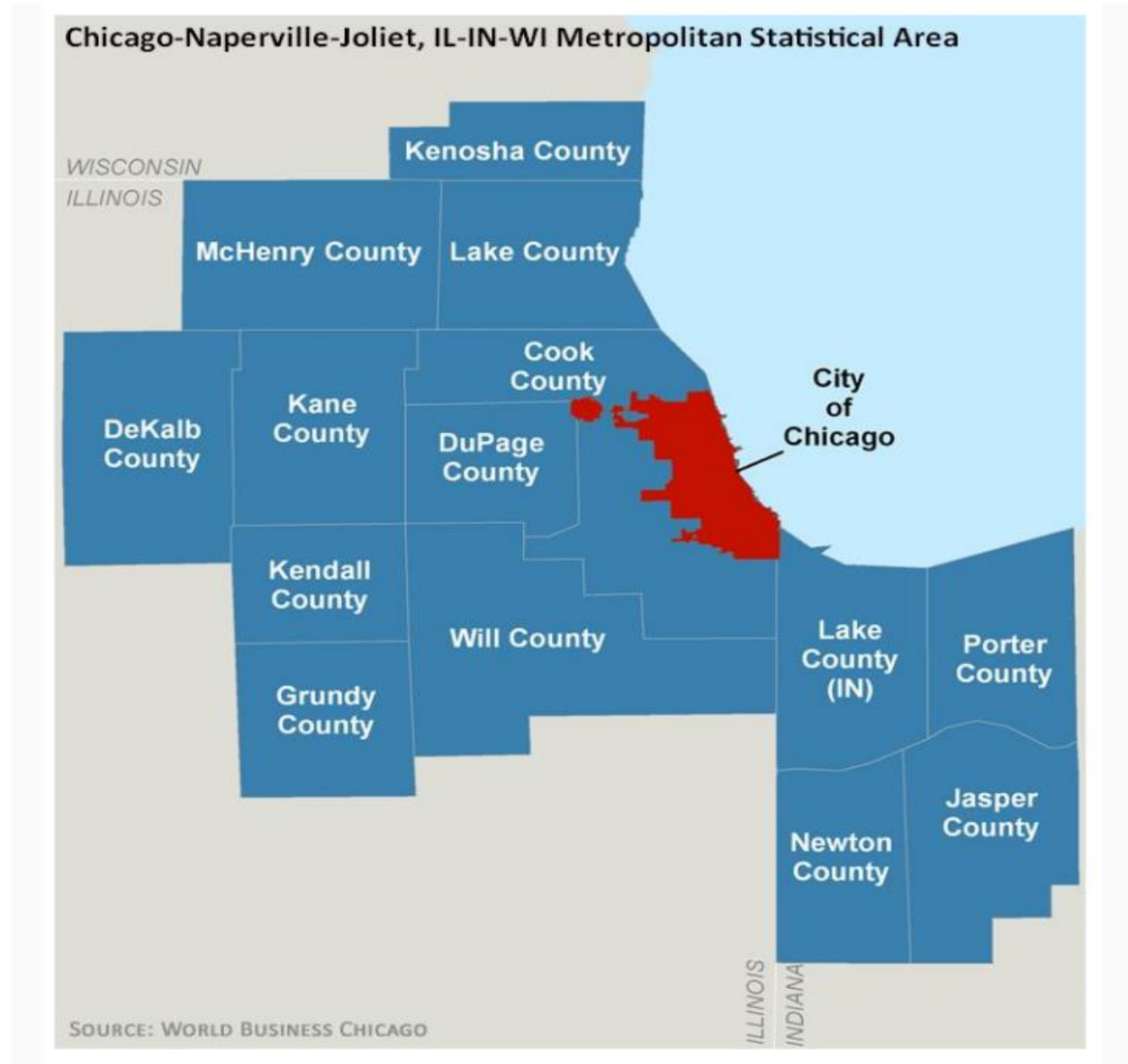
# Industrial



# Market Report Analytic Filters & Chicago Metropolitan Statistical Area (MSA)

Included:

- All Sizes
- Owner & Non-Owner Occupied
- Industrial and Flex Property Type
  - Warehouse & Distribution = Logistics
  - Specialized = Cold Storage, Data Centers, Manufacturing Sites
- Existing / Under Renovation
- Proposed
- Under Construction



# Industrial Key Takeaways

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- ❖ The logistics industry represent 25% of Chicago's jobs. It's from here that the Midwest gets its strength.
- ❖ Crises in coastal ports led to more re-shoring which helps midwestern markets.
- ❖ Build-To-Suit (BTS) is a real concern for many markets and submarkets.

# Where 25% of Freight, 50% of U.S. Intermodal Trains Pass Thru Supports Quarter of All Area Jobs

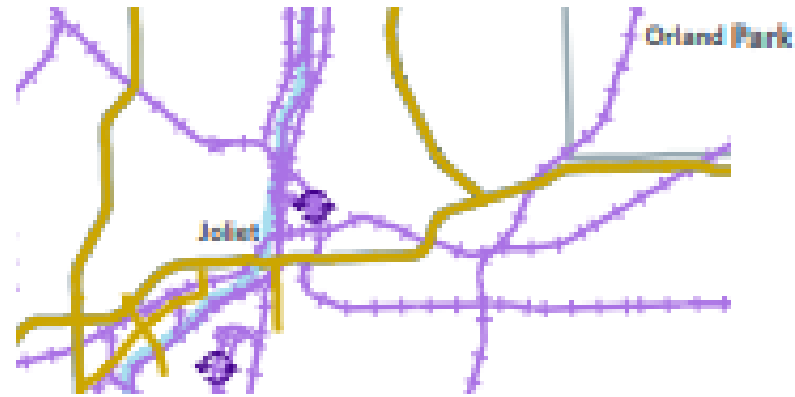
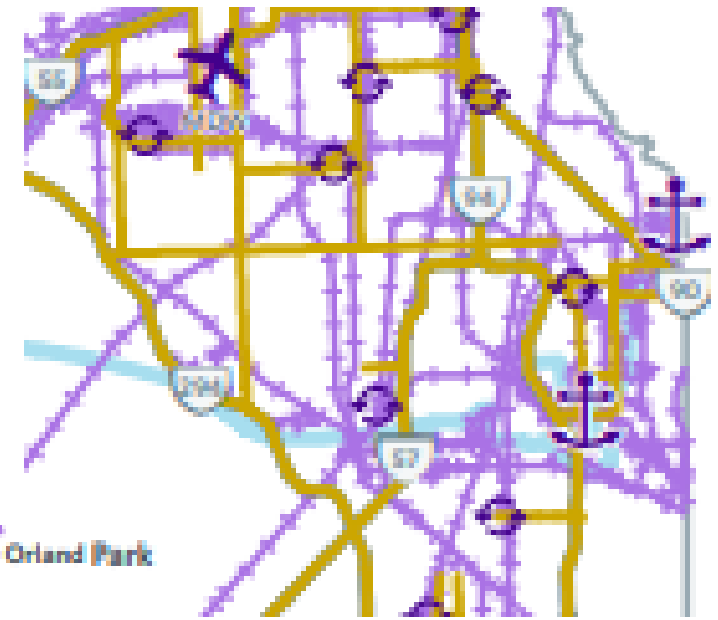


### Chicago regional freight system

- ✈ Major airport
- ⚓ Major port
- ⊞ Intermodal
- Highway freight planning network
- Railroads
- Navigable waterways

Source: Chicago Metropolitan Agency for Planning, 2017.

- Map  
Chicago regional freight system
- Key
- ✈ Major airport
  - ⚓ Major port
  - ⊞ Intermodal
  - Highway freight planning network



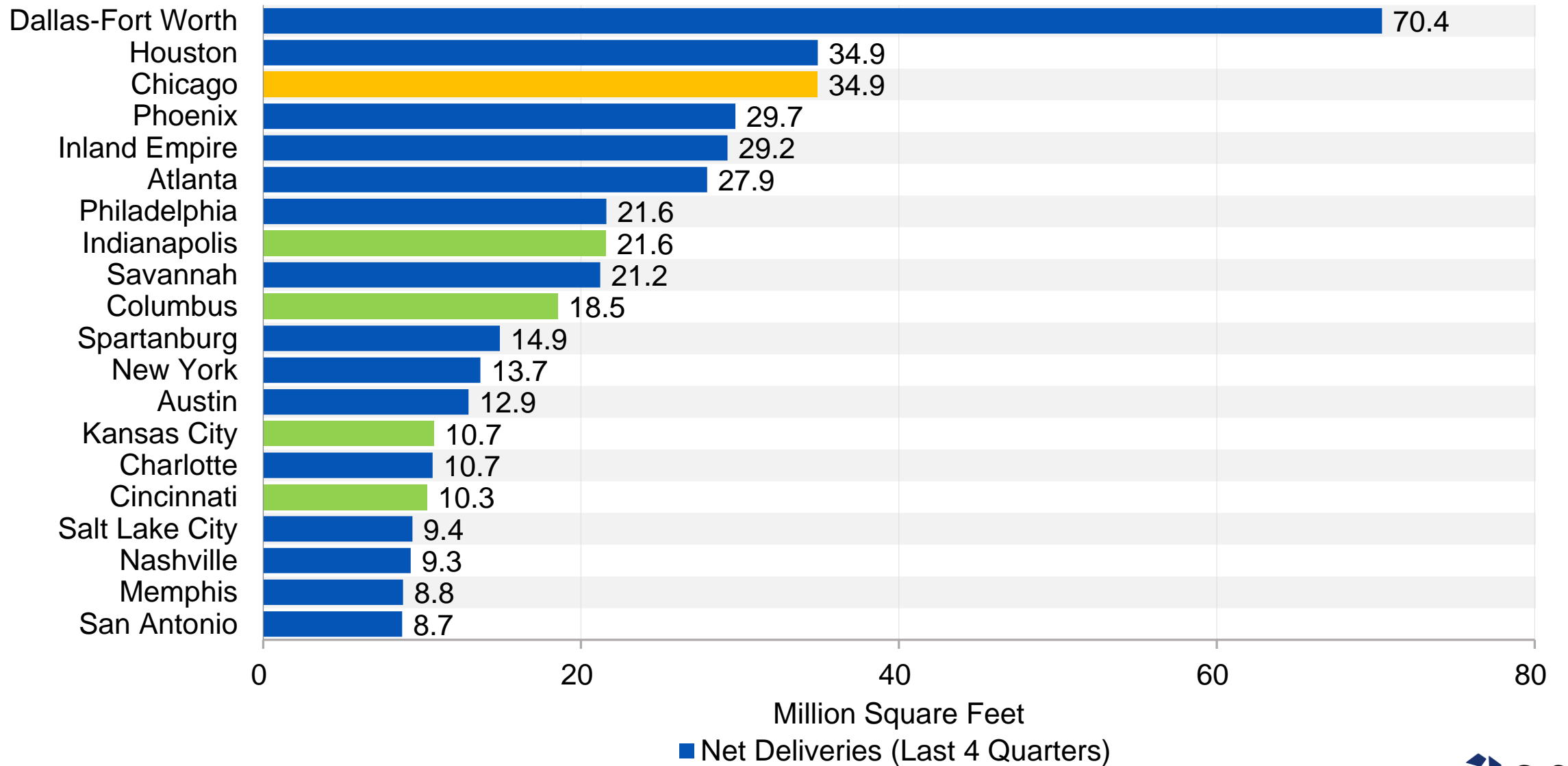


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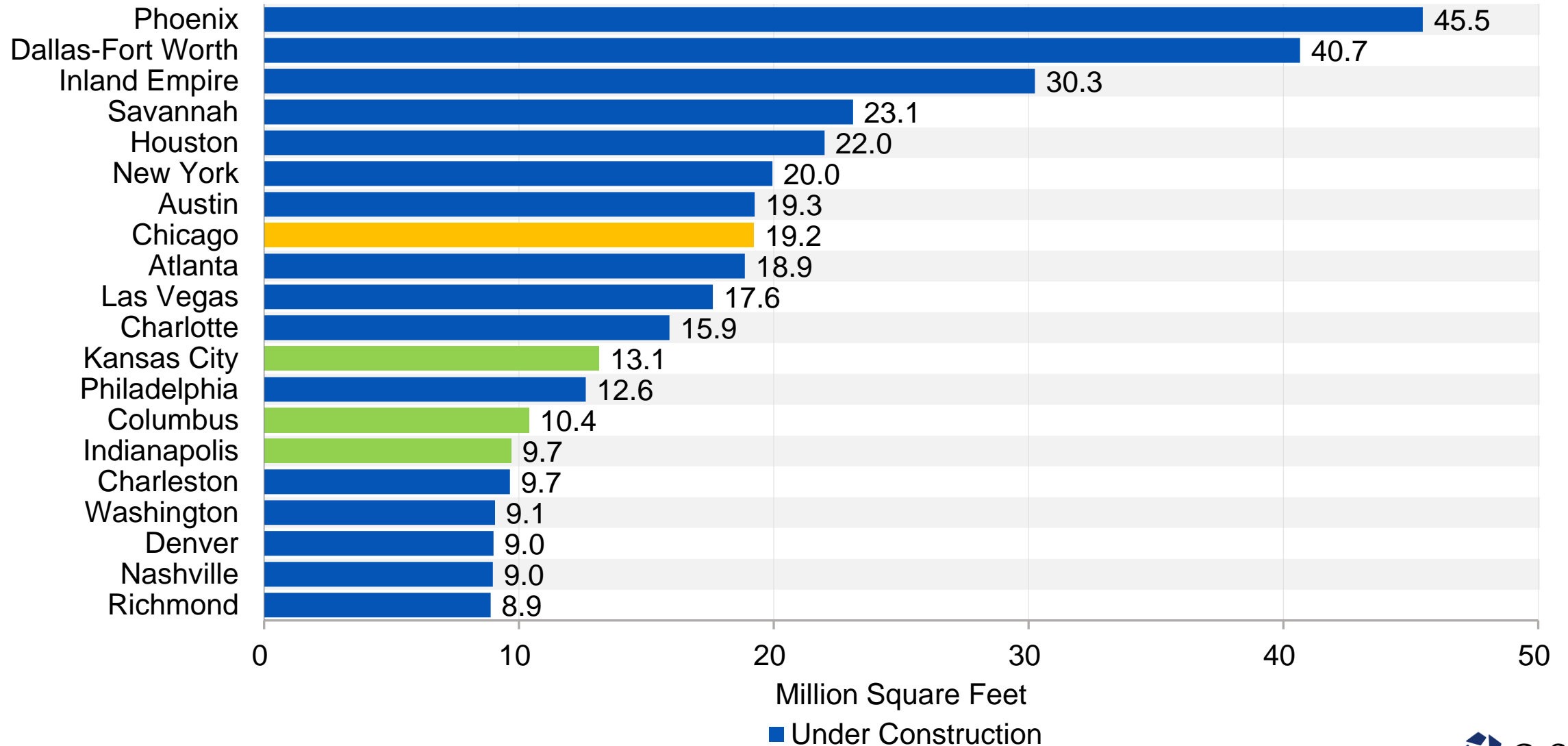
# Industrial Supply



# Top Net Deliveries

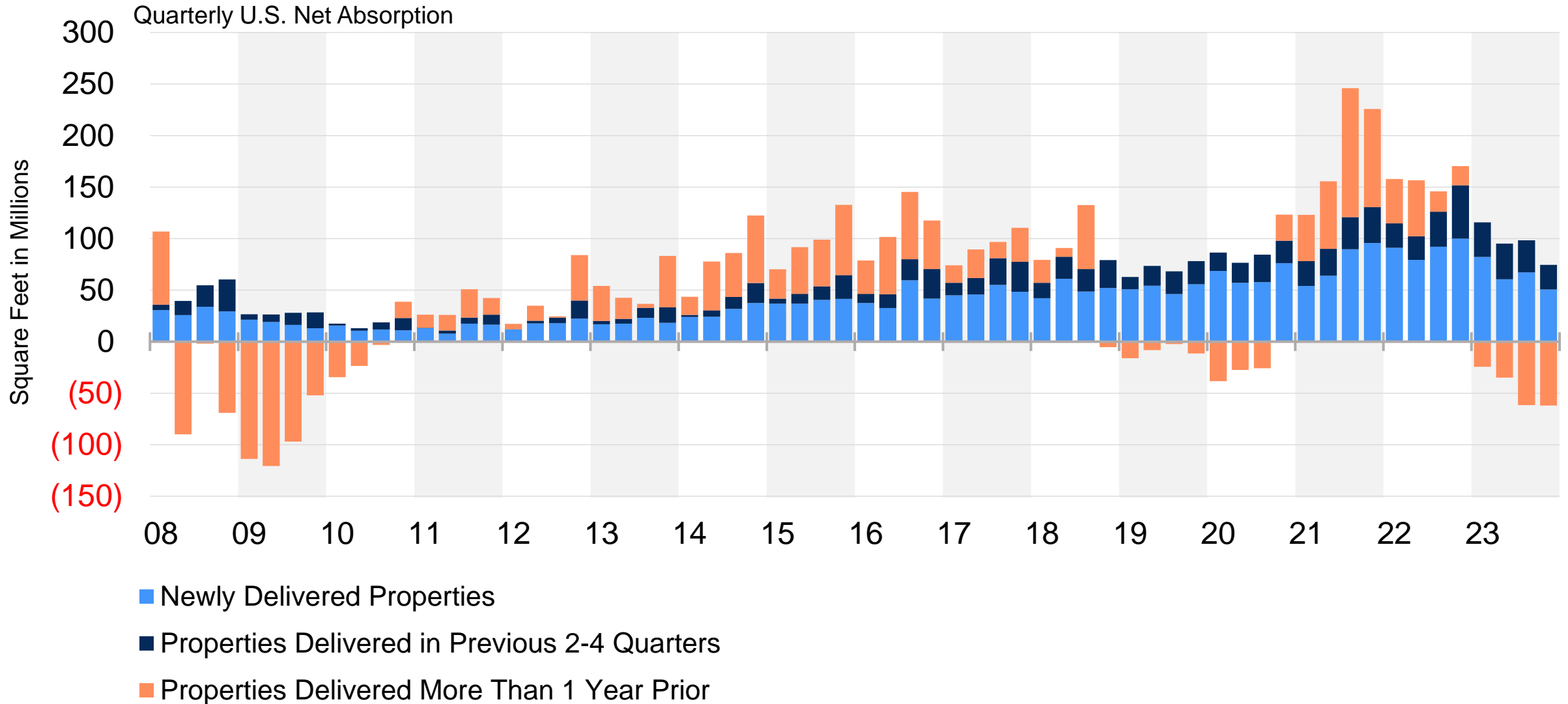


# Most Space Under Construction



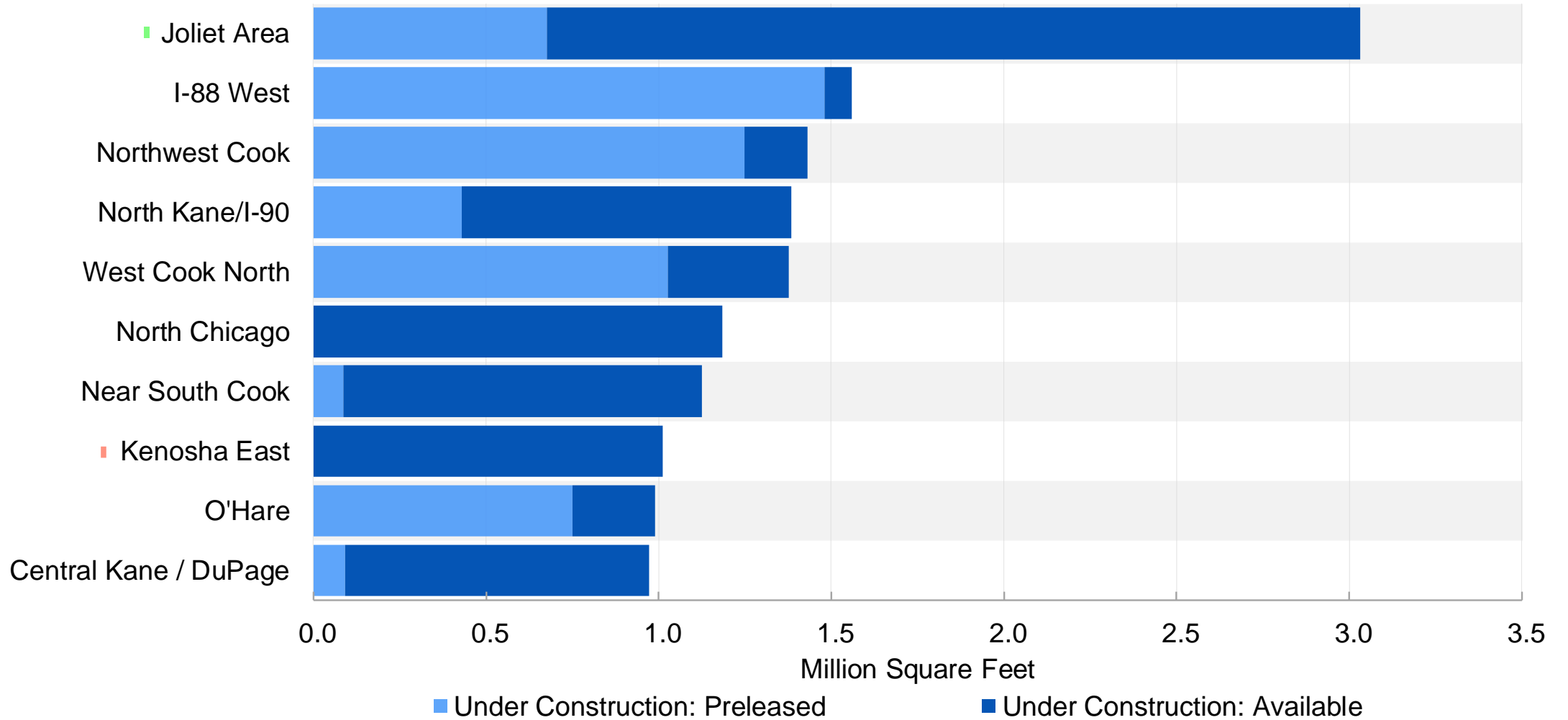


# Build-To-Suits Propping Up Net Absorption



Source: CoStar

# Submarkets With The Most Construction



Source: CoStar

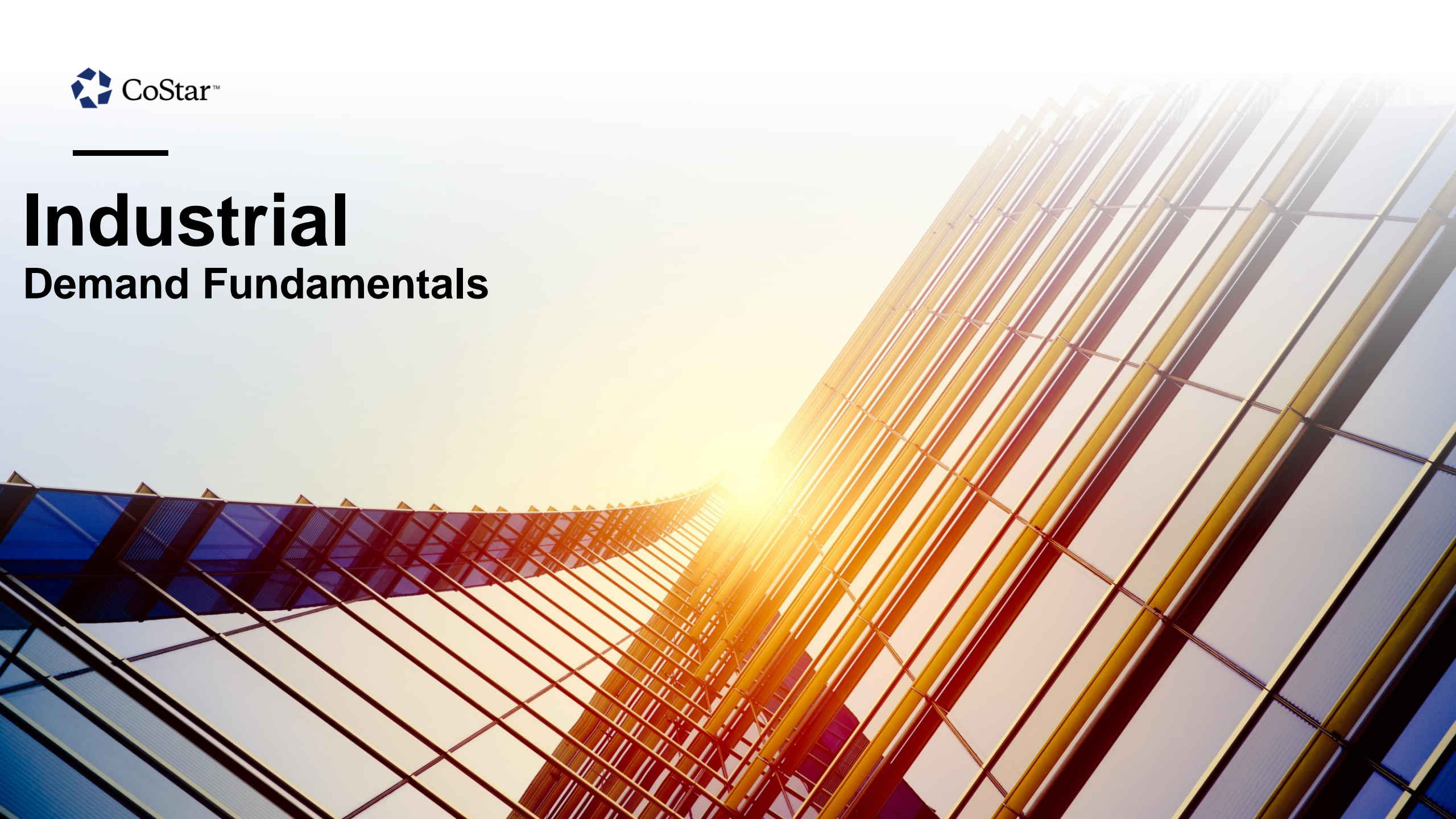
As of February 2024



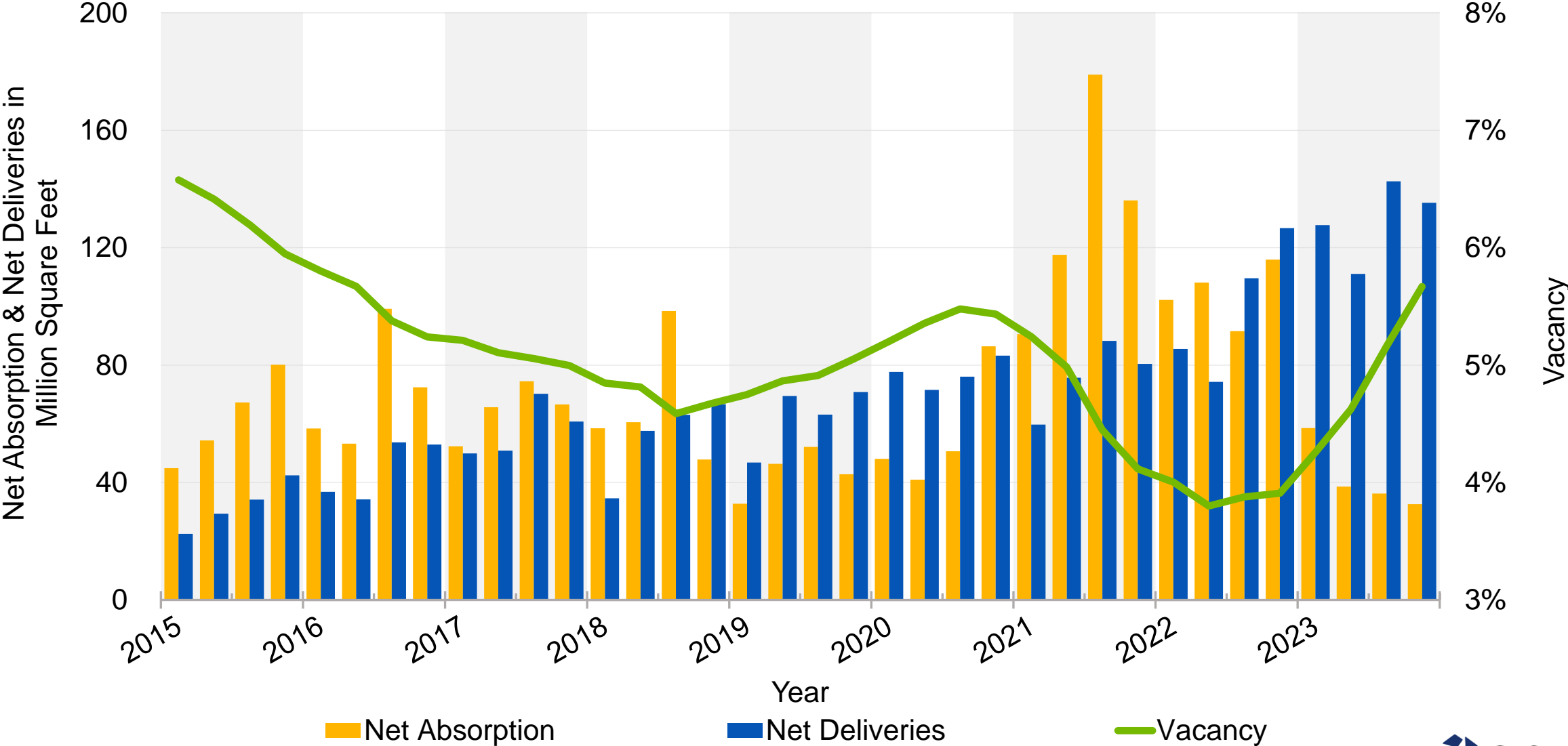
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# Industrial

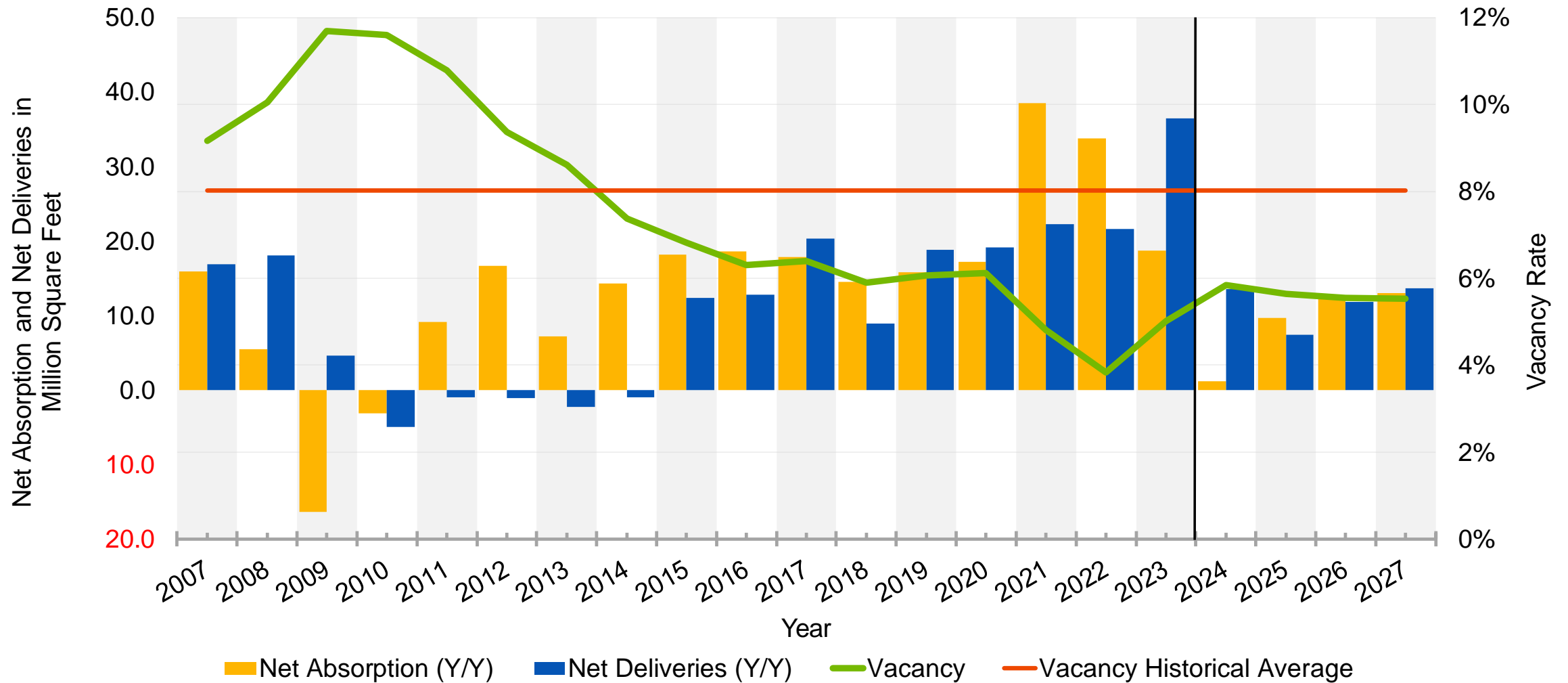
## Demand Fundamentals



# U.S. Industrial Fundamentals



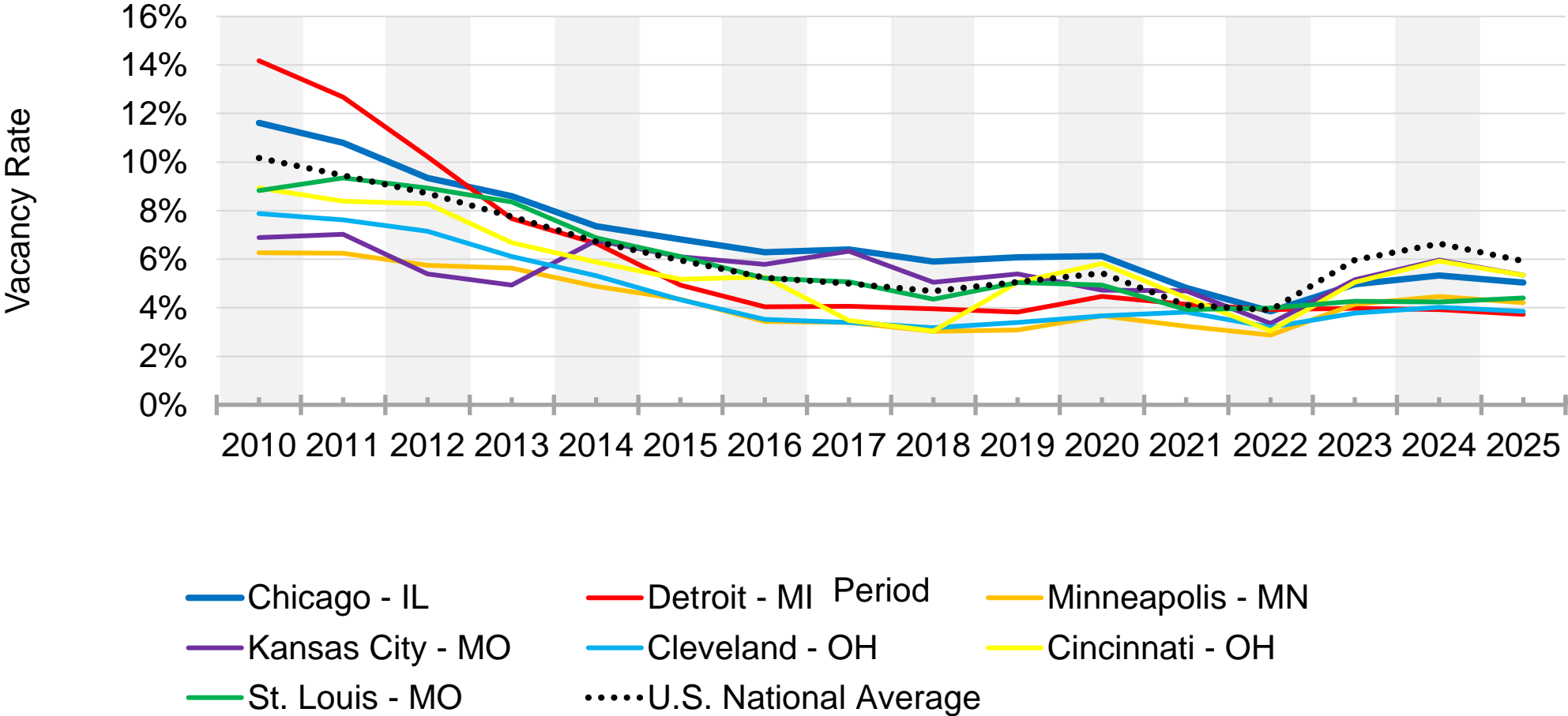
# Chicago Industrial Base Case Forecast



Source: CoStar

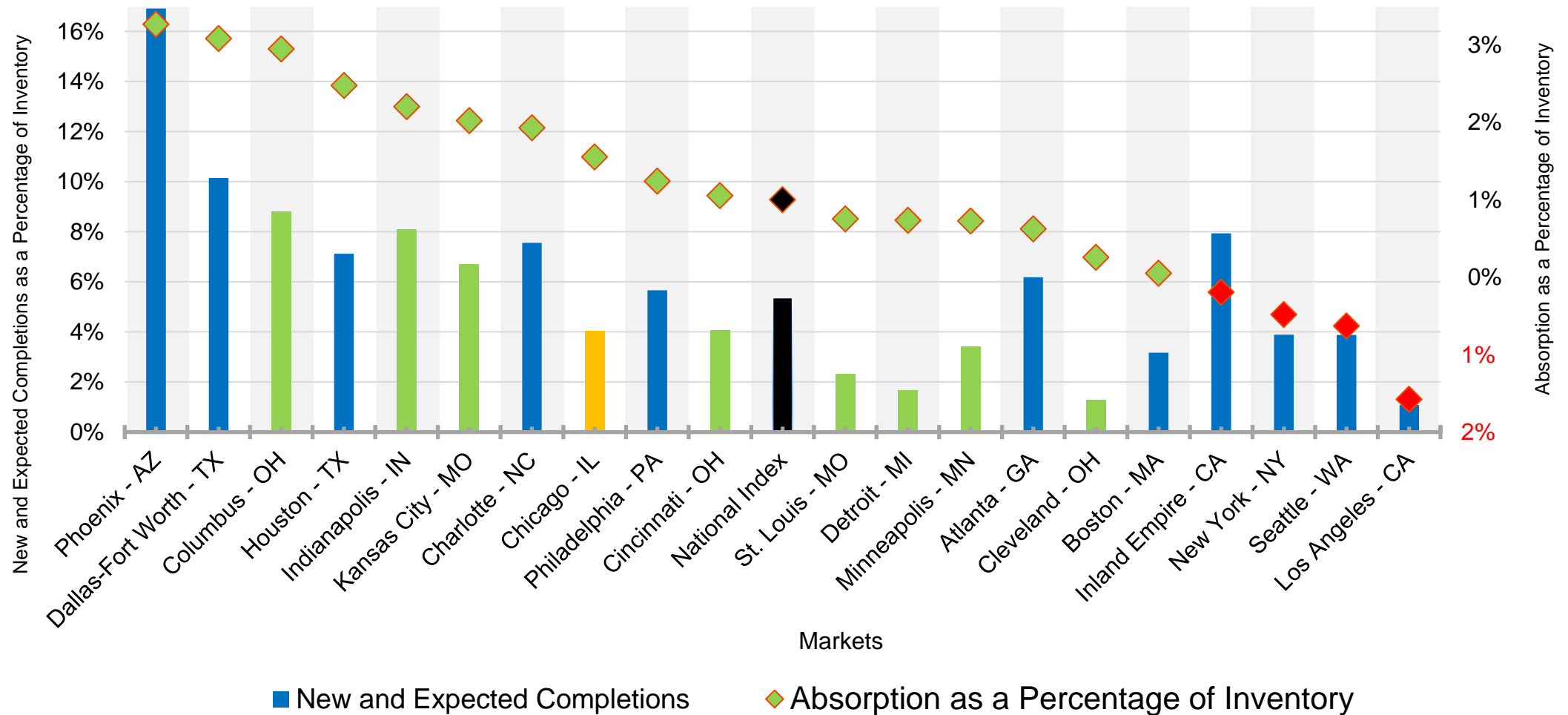
End of 23Q4

# Midwest Markets Get Industrial Vacancies Below US Average



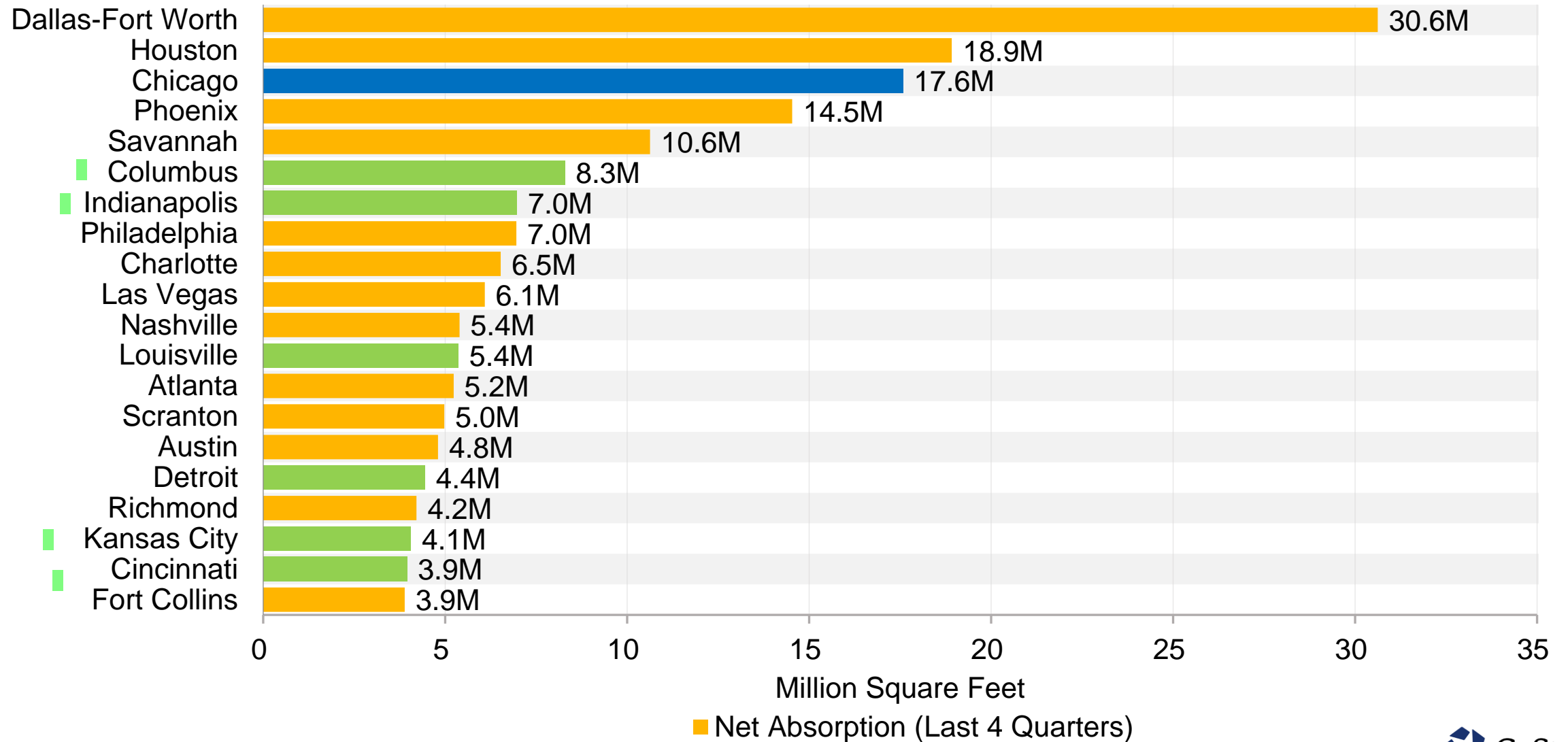
Source: CoStar, November 2023

# New Industrial Completions At Times Lead To More Move-Ins



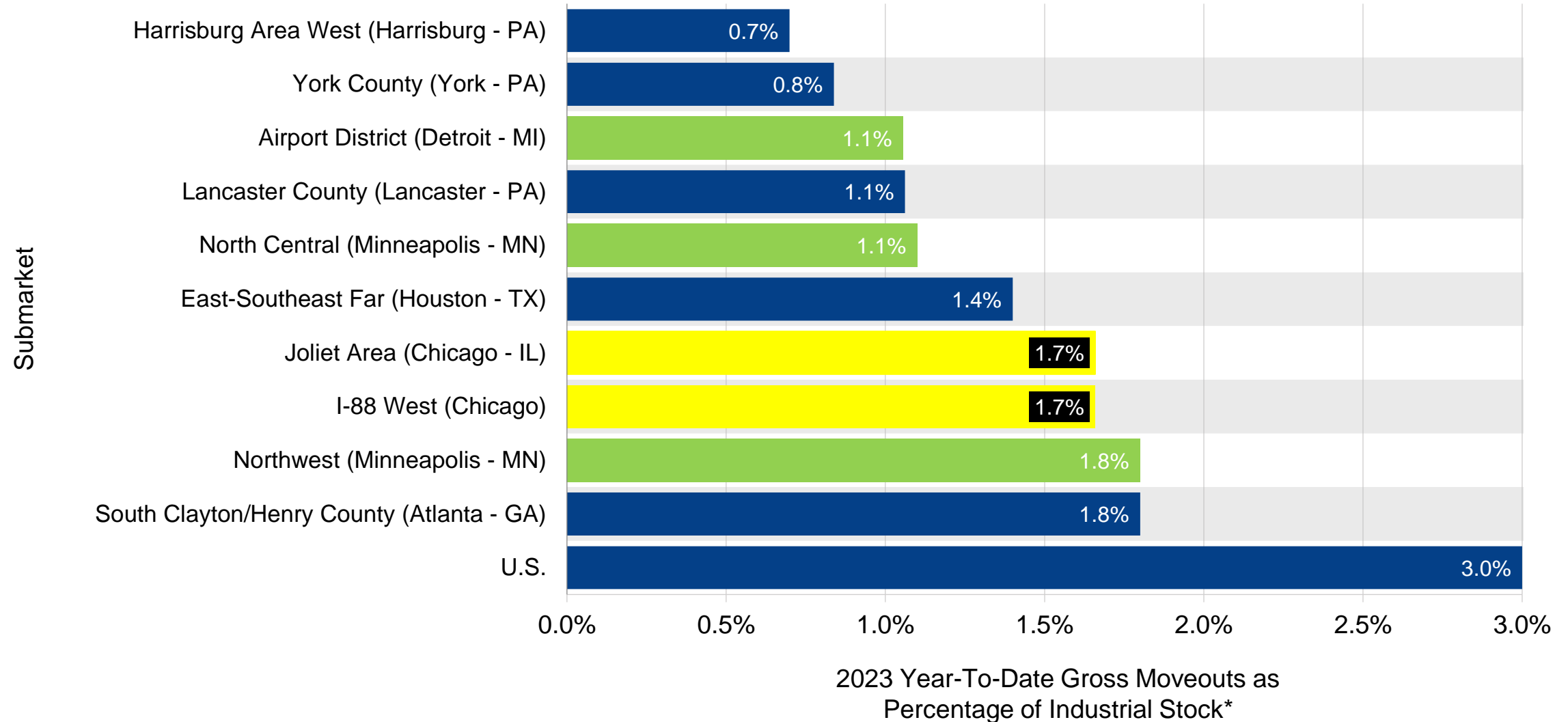
Source: CoStar, November 2023  
 Note: Survey includes 20 largest U.S. industrial markets

# Net Absorption





# Leaders in Tenant Retention During 2023



\*Excludes flex properties  
Source: CoStar

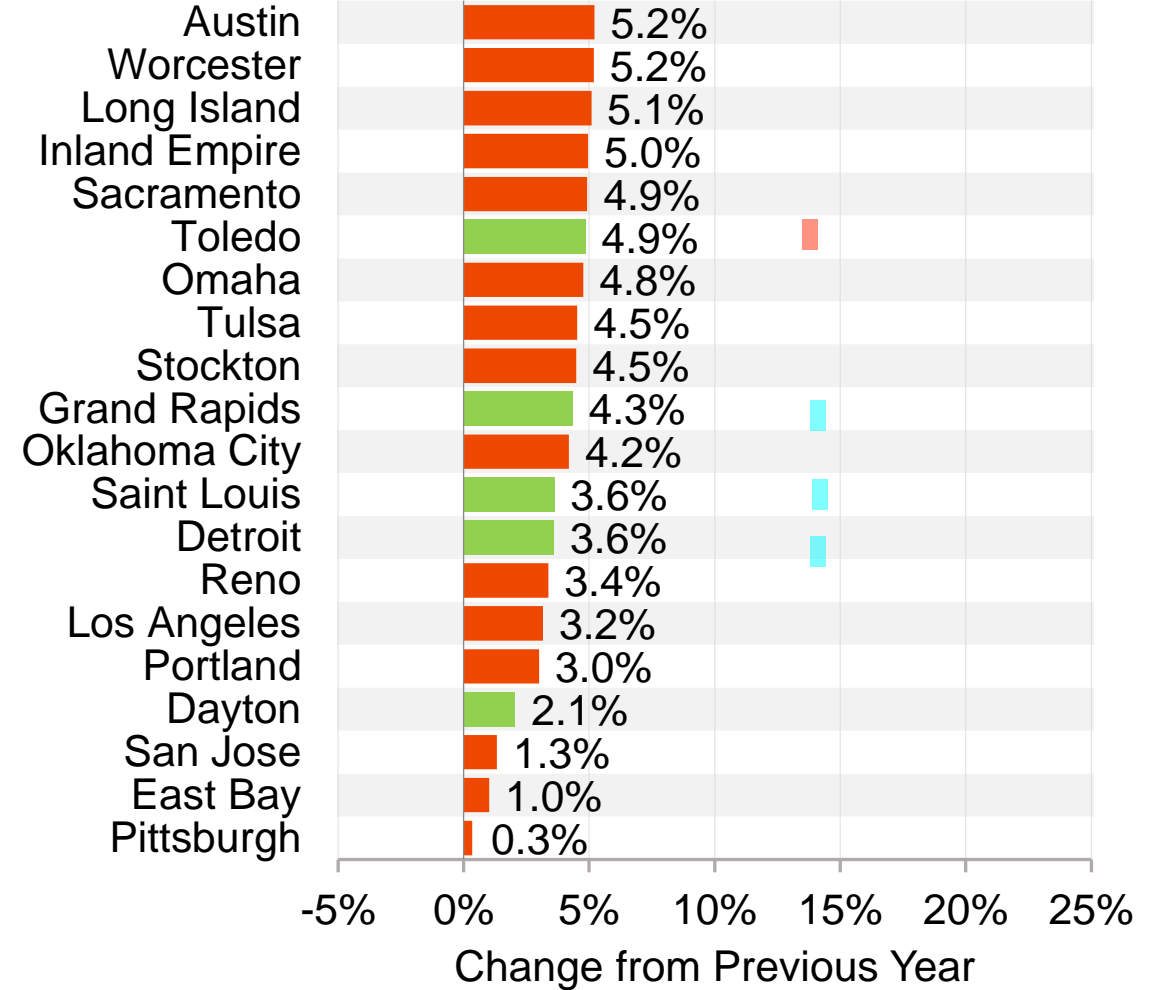
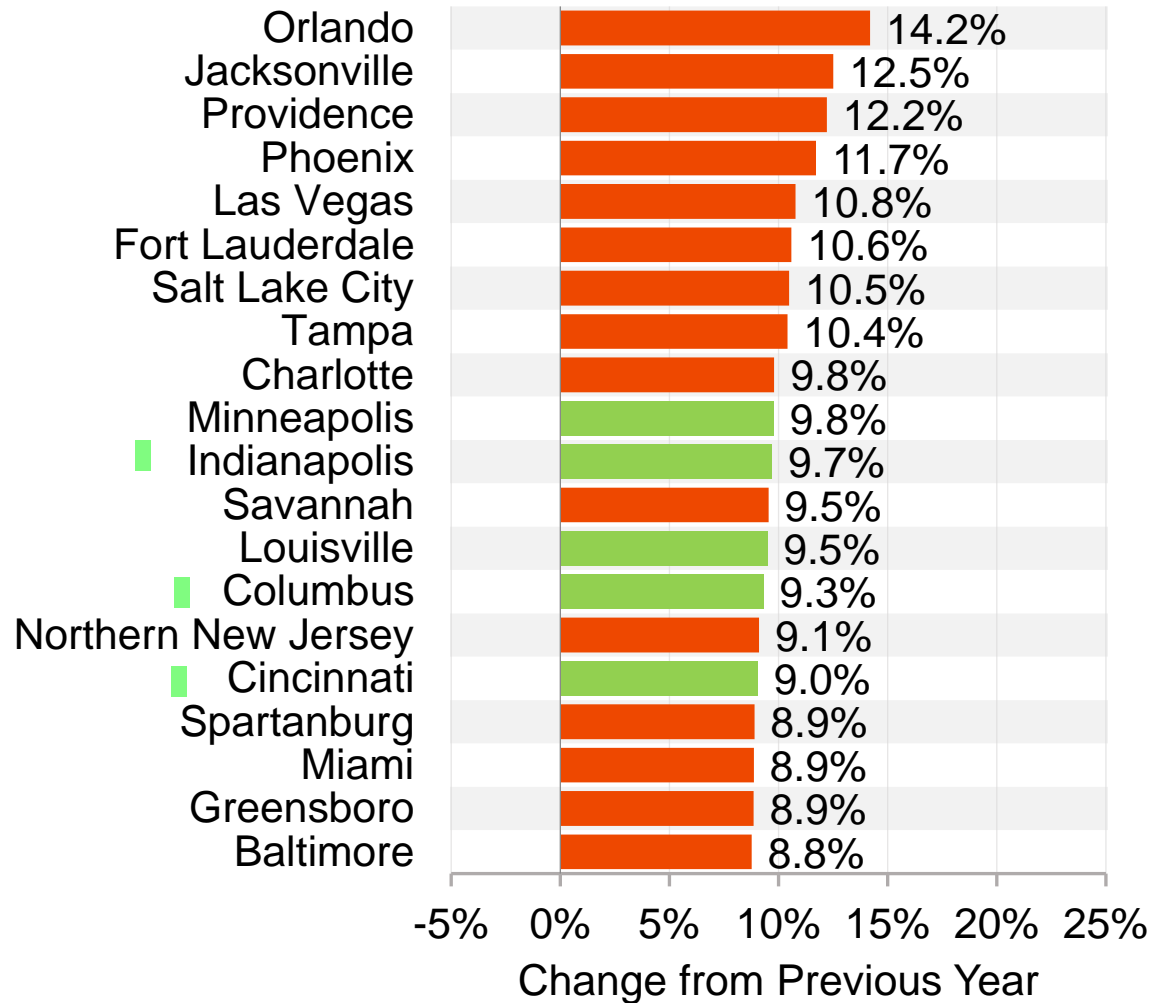


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# Industrial Rent Growth



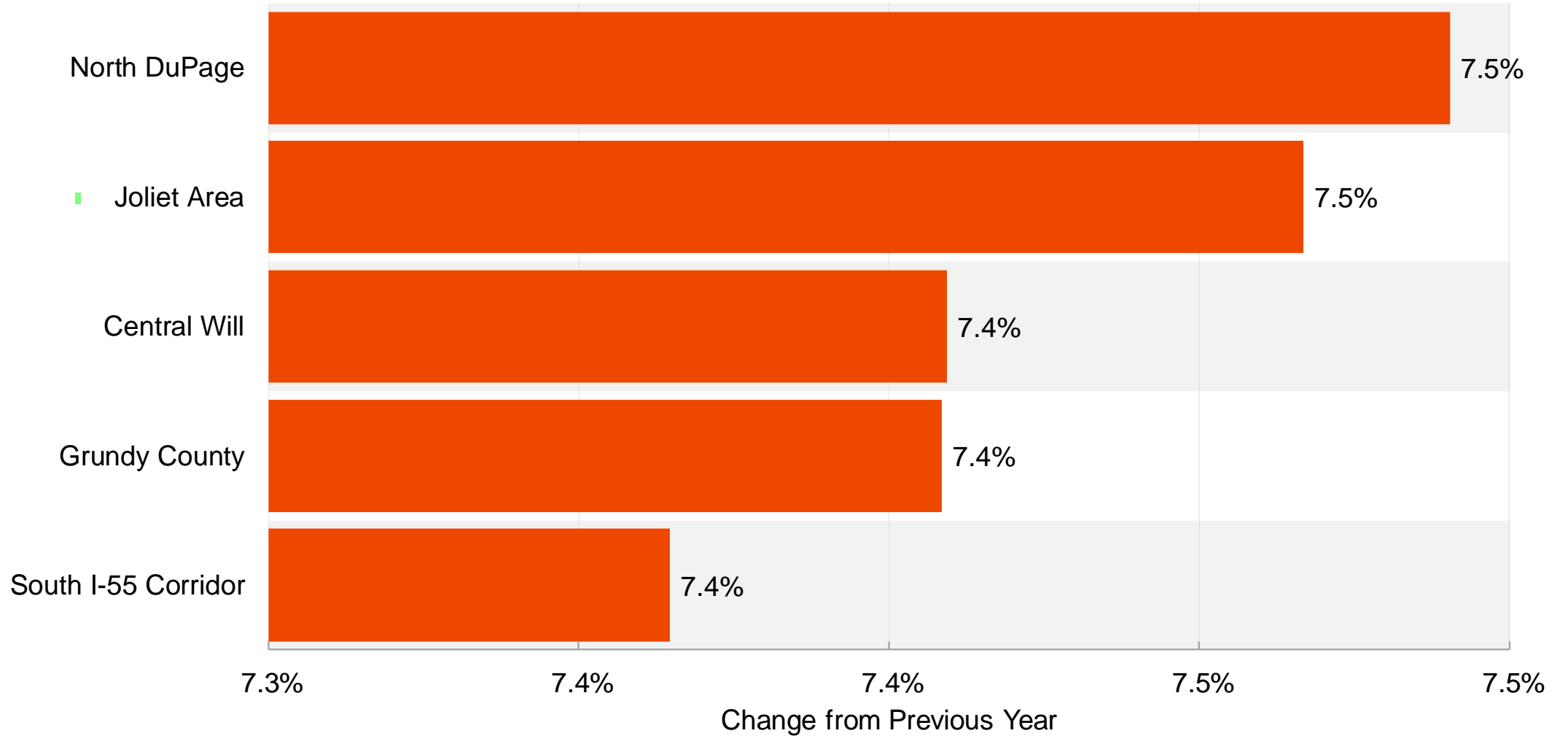
# Rent Growth, by Market



■ Rent Growth

Note: Includes markets with 100 Million+ Square Feet inventory.

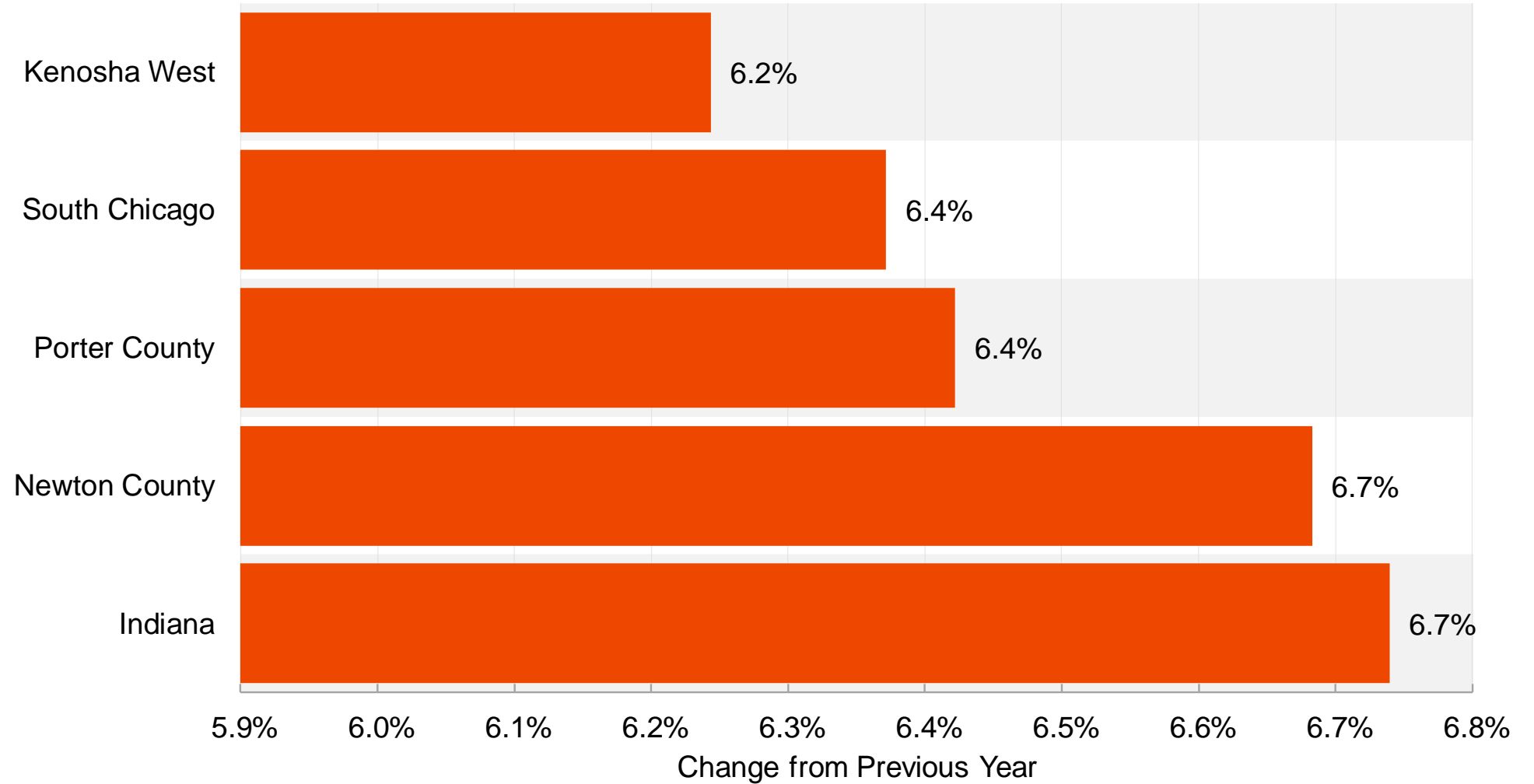
# Chicago Industrial Submarkets With The Highest Rent Growth



Source: CoStar

End of 23Q4

# Chicago Industrial Submarkets With The Lowest Rent Growth



Source: CoStar

End of 23Q4



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# Office

## The Negative Sum Game



# Chicago Shall Emerge Triumphant After the Great Fire (Sale) of the Mid-2020s

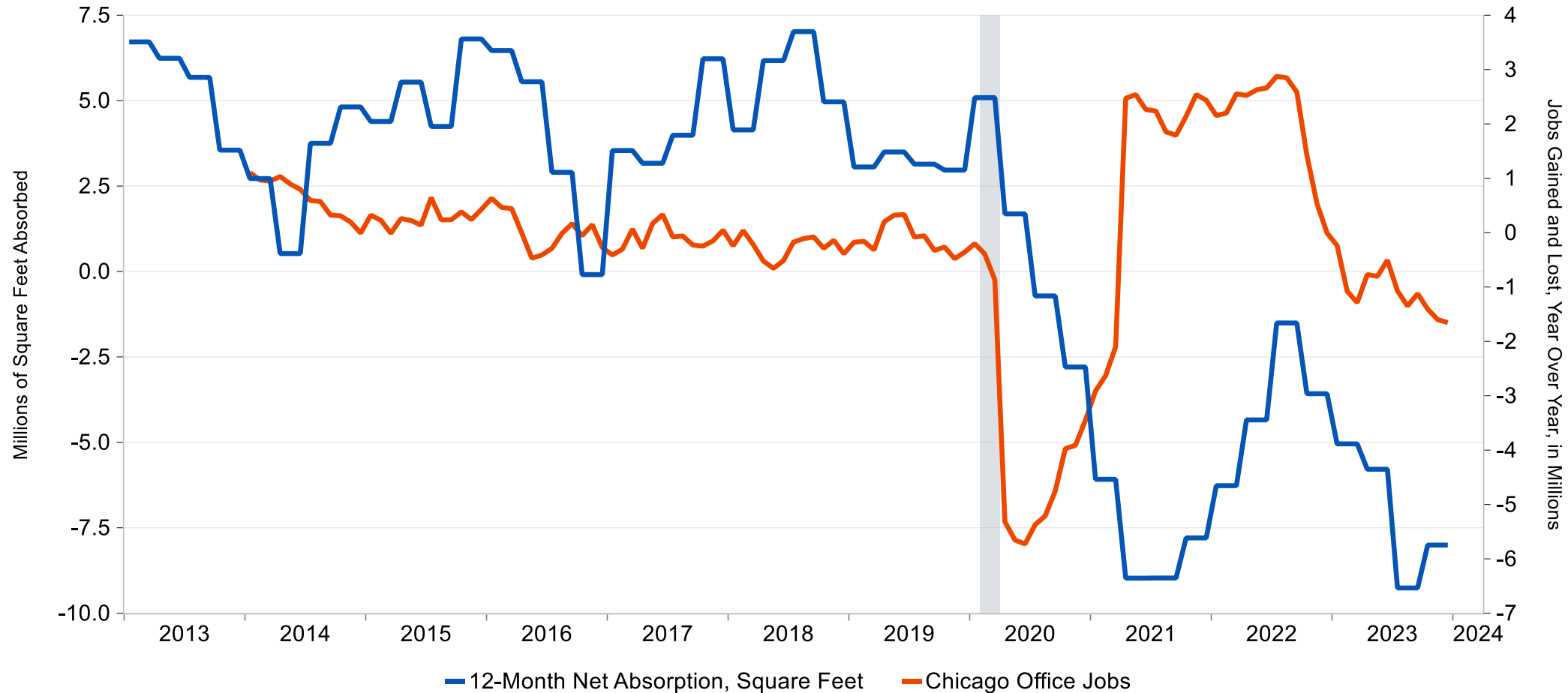
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- Chicago is a leader for distress in the office market.
- The Great Basis Reset will create new balance with diverse choices.
- Flight to Quality trends should pass.
- This is all good. We will just invent ourselves faster.

“When a city heart stagnates or disintegrates, a city as a social neighborhood of the whole begins to suffer.”

— Jacobs, Jane (1961).  
The Death and Life of Great American Cities.

# Chicago Office Job Records Negative Growth Most of 2023, Doesn't Help Market's Absorption Downward Spiral



Source: U.S. Bureau of Labor Statistics and CoStar, January 2024  
Note: Gray area denotes a recession



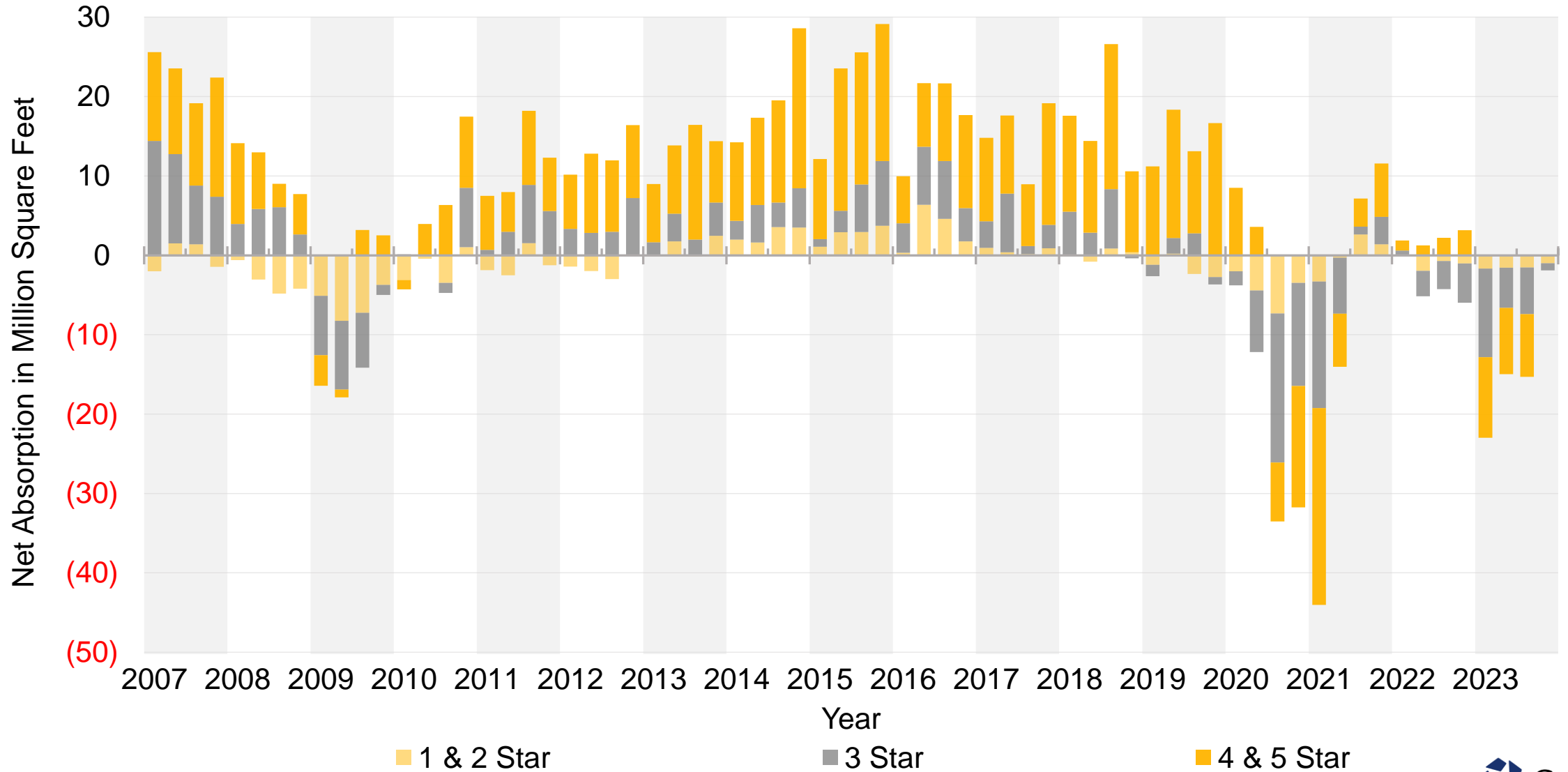


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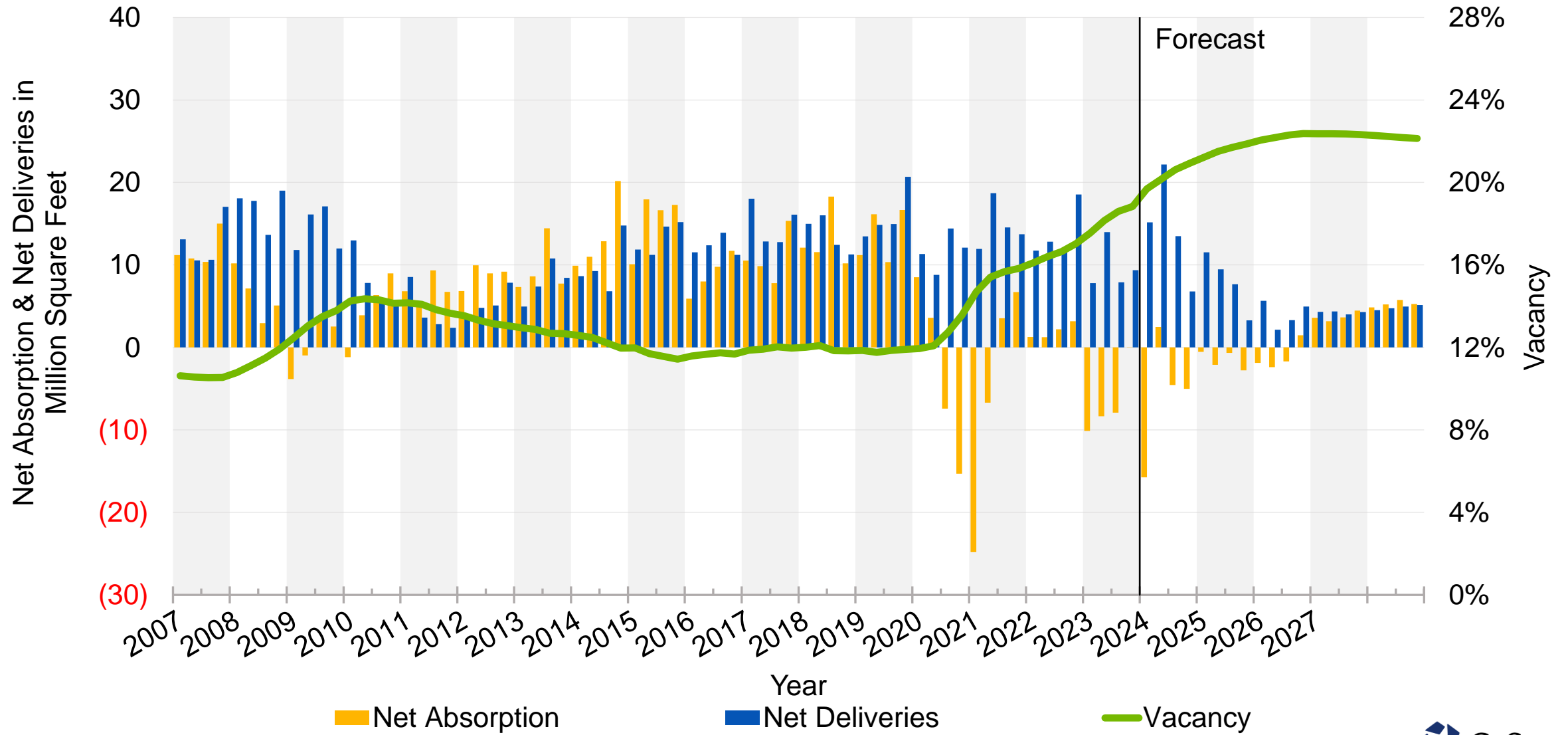
# Office Fundamentals: Absorption, Vacancy & Availability



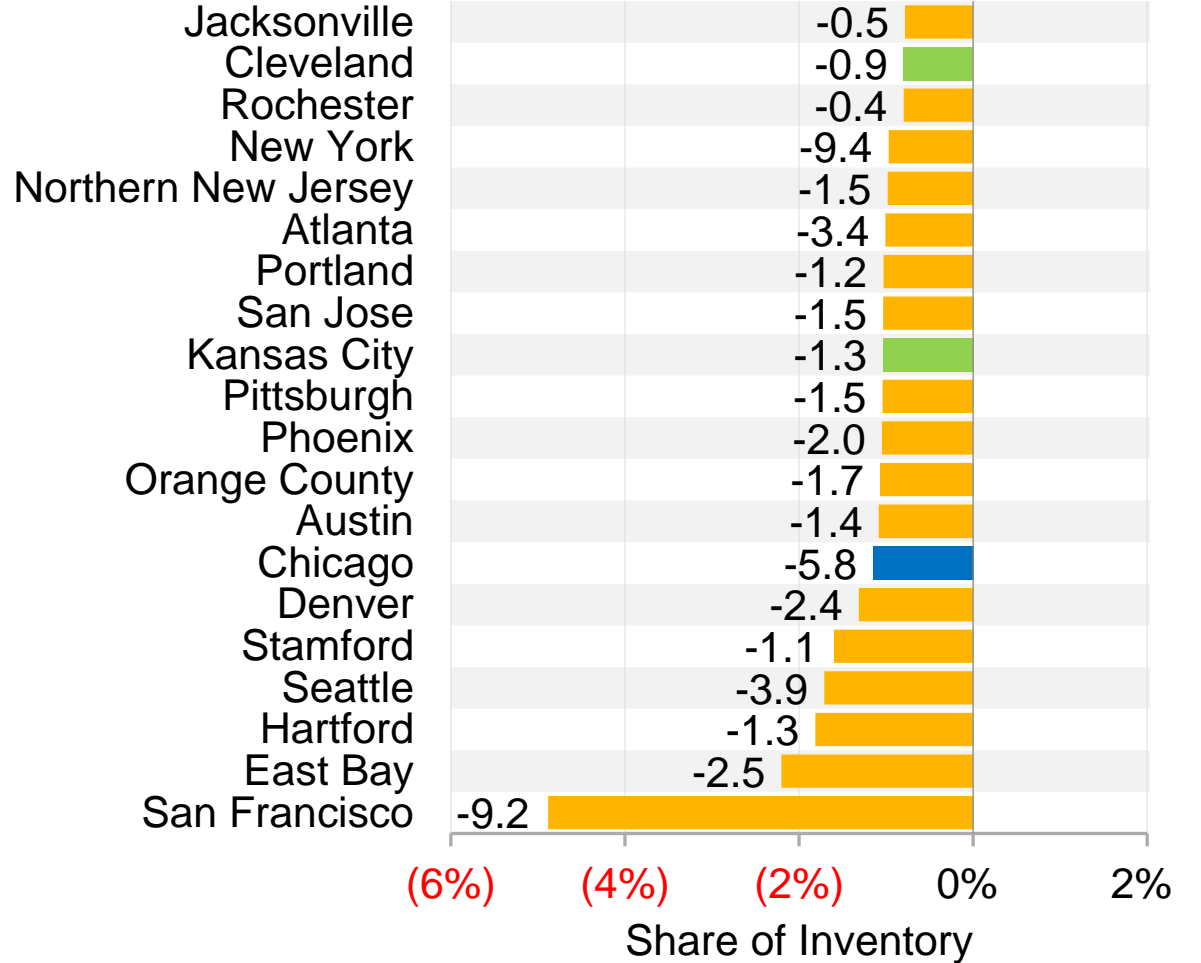
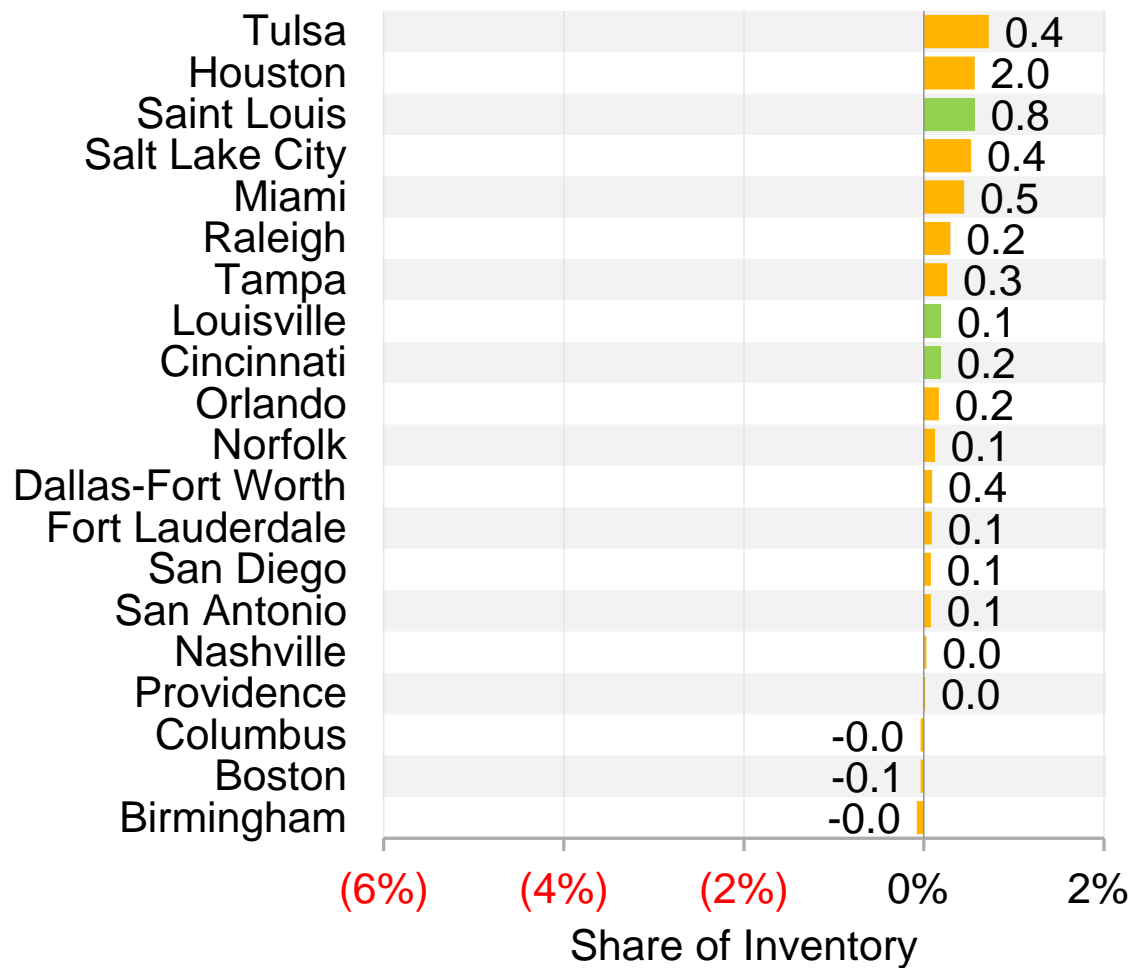
# Net Absorption, by Subtype. Even Trophy Lags.



# 4 & 5 Star Completions Compound on Absorption Troubles



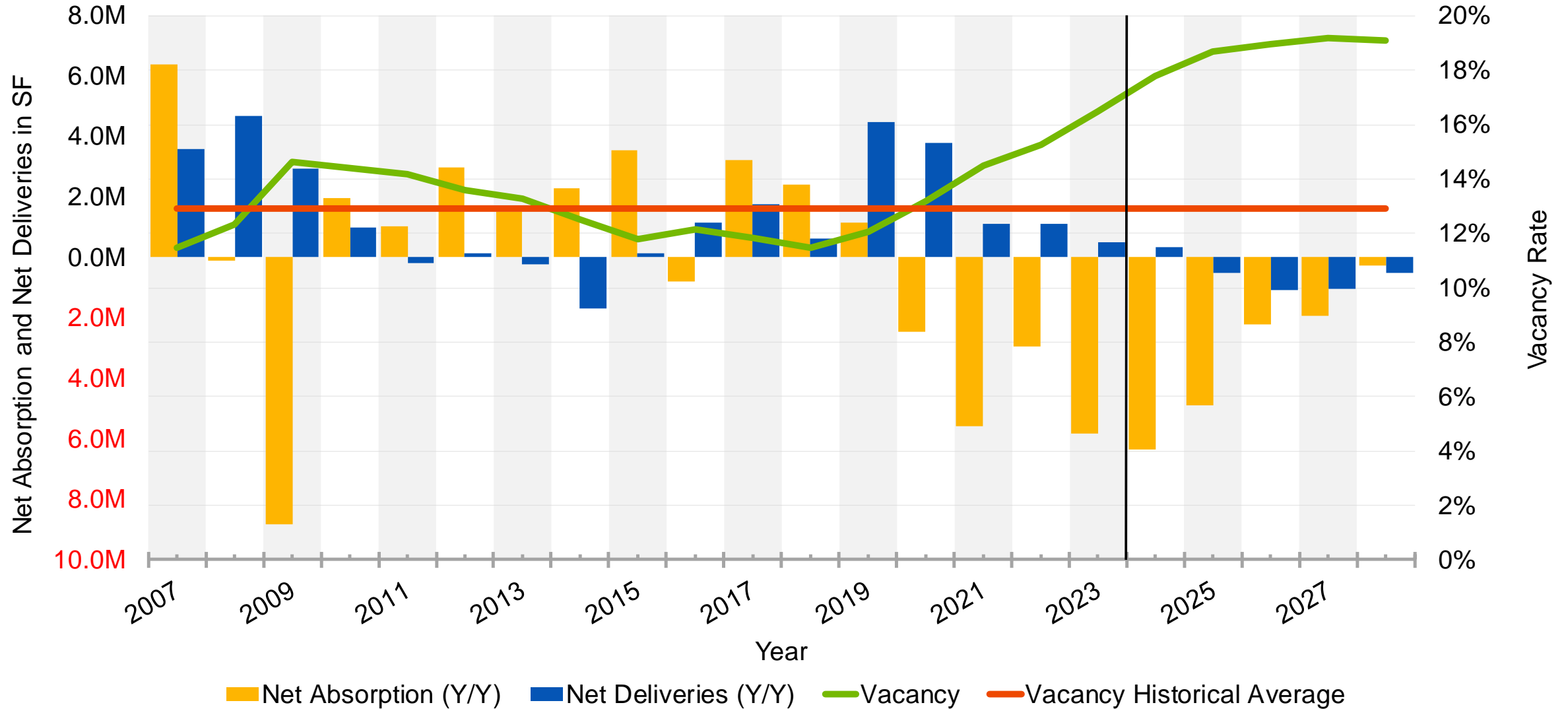
# Net Absorption As Share of Inventory



■ Net Absorption (Last 4 Quarters)

Note: Includes markets with 50 Million+ Square Feet inventory. Labels show Net Absorption in Million Square Feet.

# Base Case Forecast: Supply, Demand and Vacancy

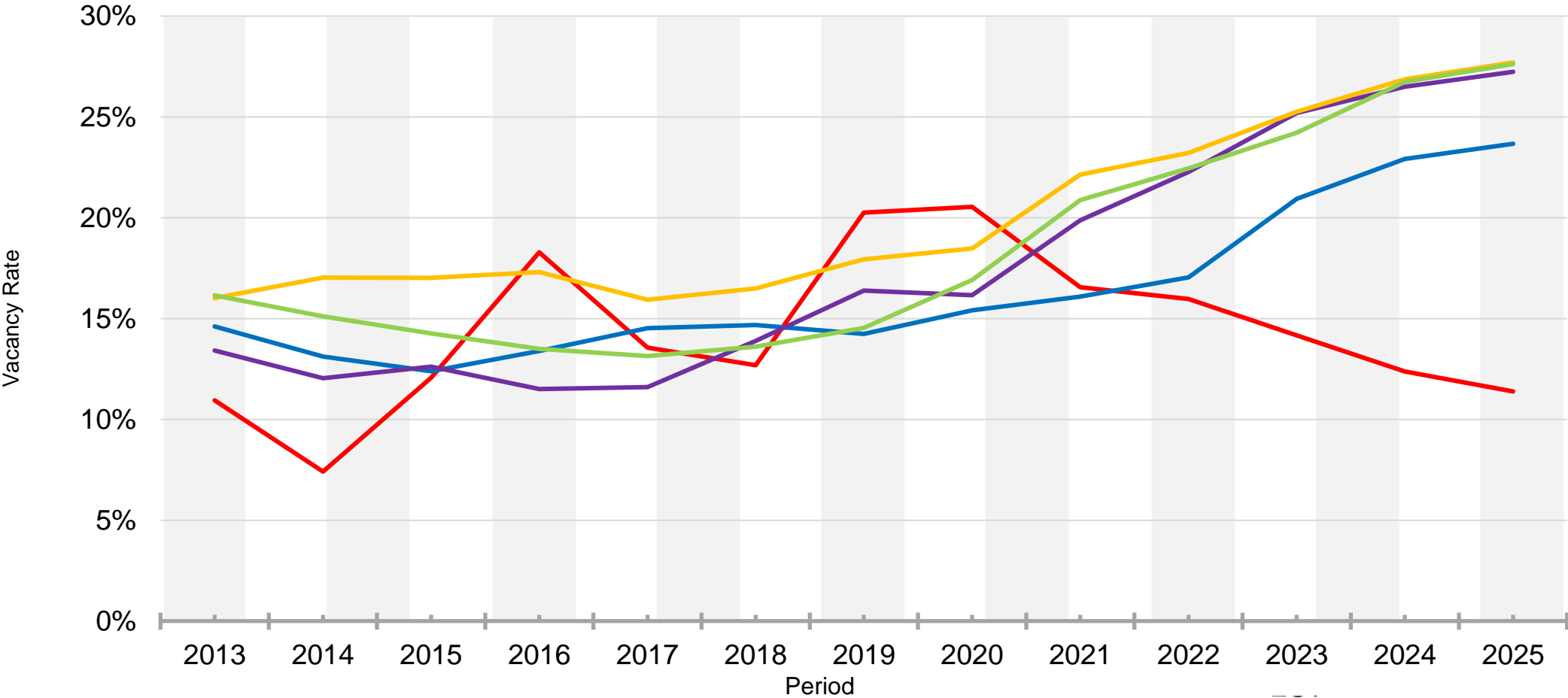


Source: CoStar

End of 23Q4



# Chicago Office Renovations Do Little To Stem Vacancy Tide

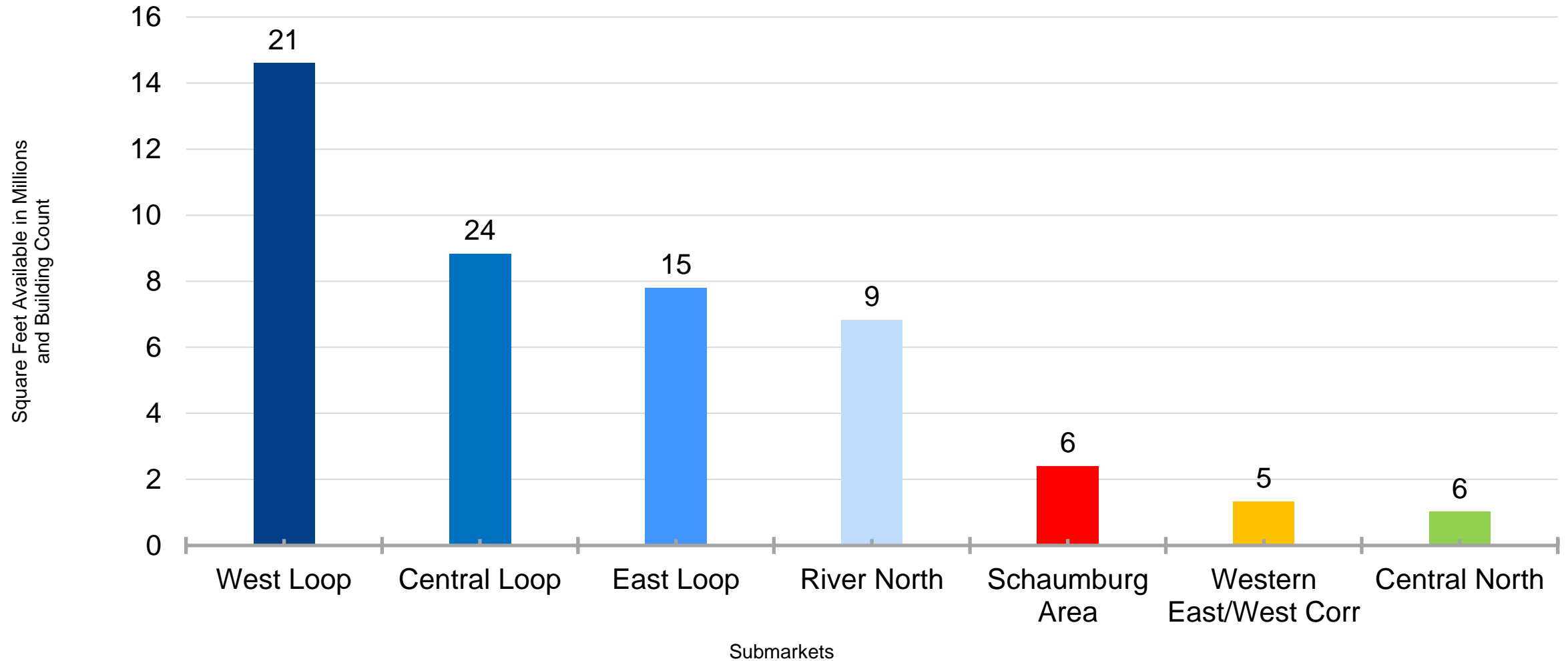


- Built After 2010
- Built Between 1990-2009
- Built Before 1990, Renovated Since 2019
- Built Before 1989, Renovated After 2016
- Built Before 1989, Renovated Before 2015

Source: CoStar, December 2023  
 Note: Survey includes all investment-grade, direct and sublet office space vacant in Chicago



# Most 22 month+ of Available Office Space Over 100,000 SF in Chicago's Loop

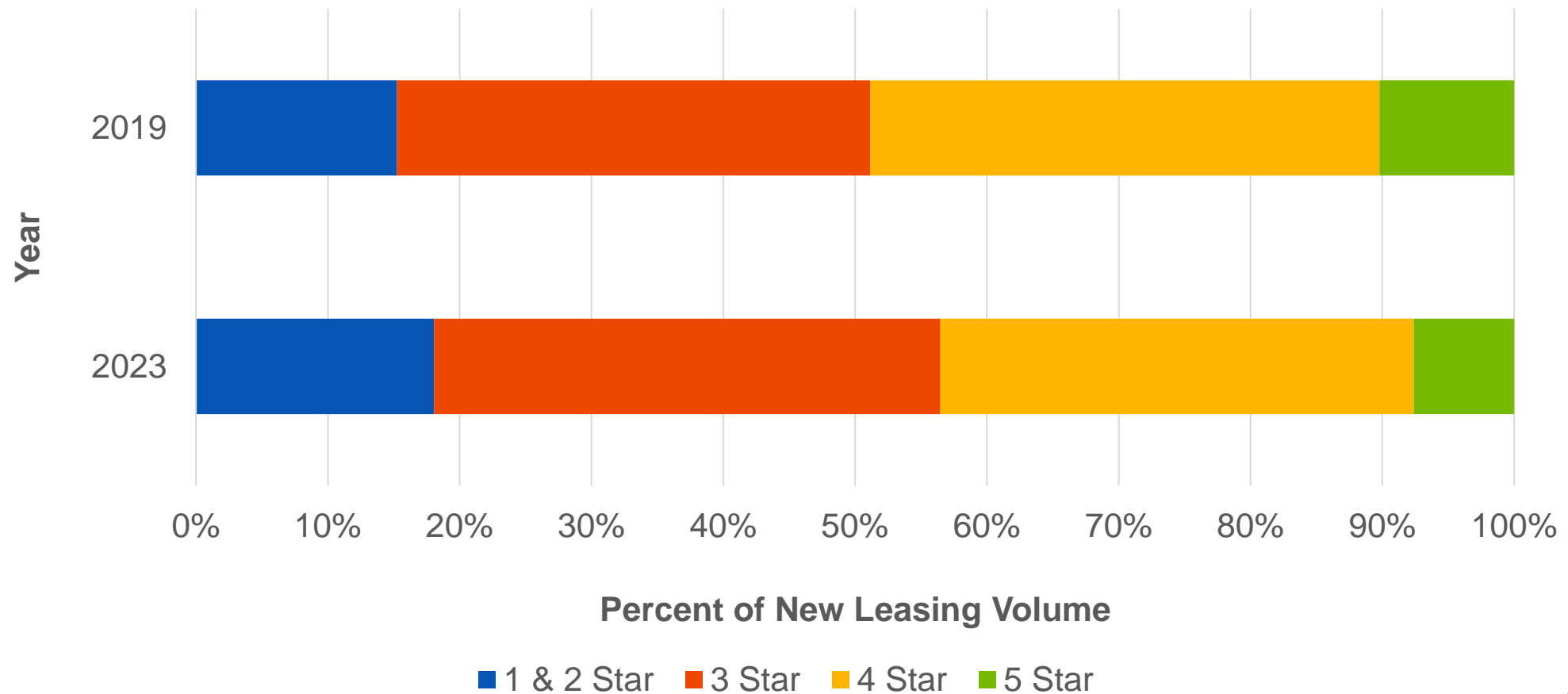


Source: CoStar, January 2024

Note: Blue columns denote CBD location

# Leasing Activity Skews Toward Lower-Rated Buildings

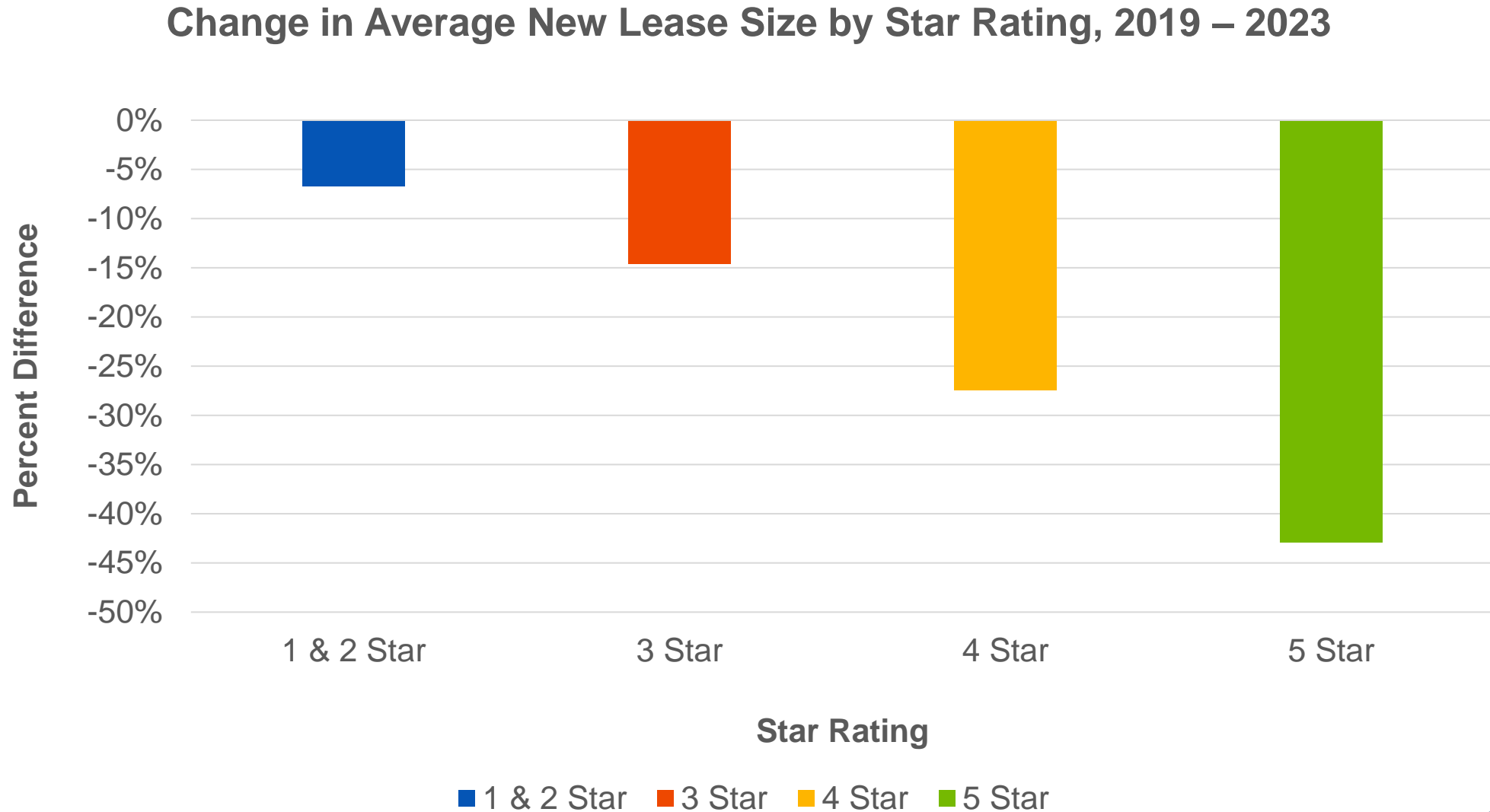
Share of New Leasing Volume in Square Feet by Star Rating, 2023 vs. 2019



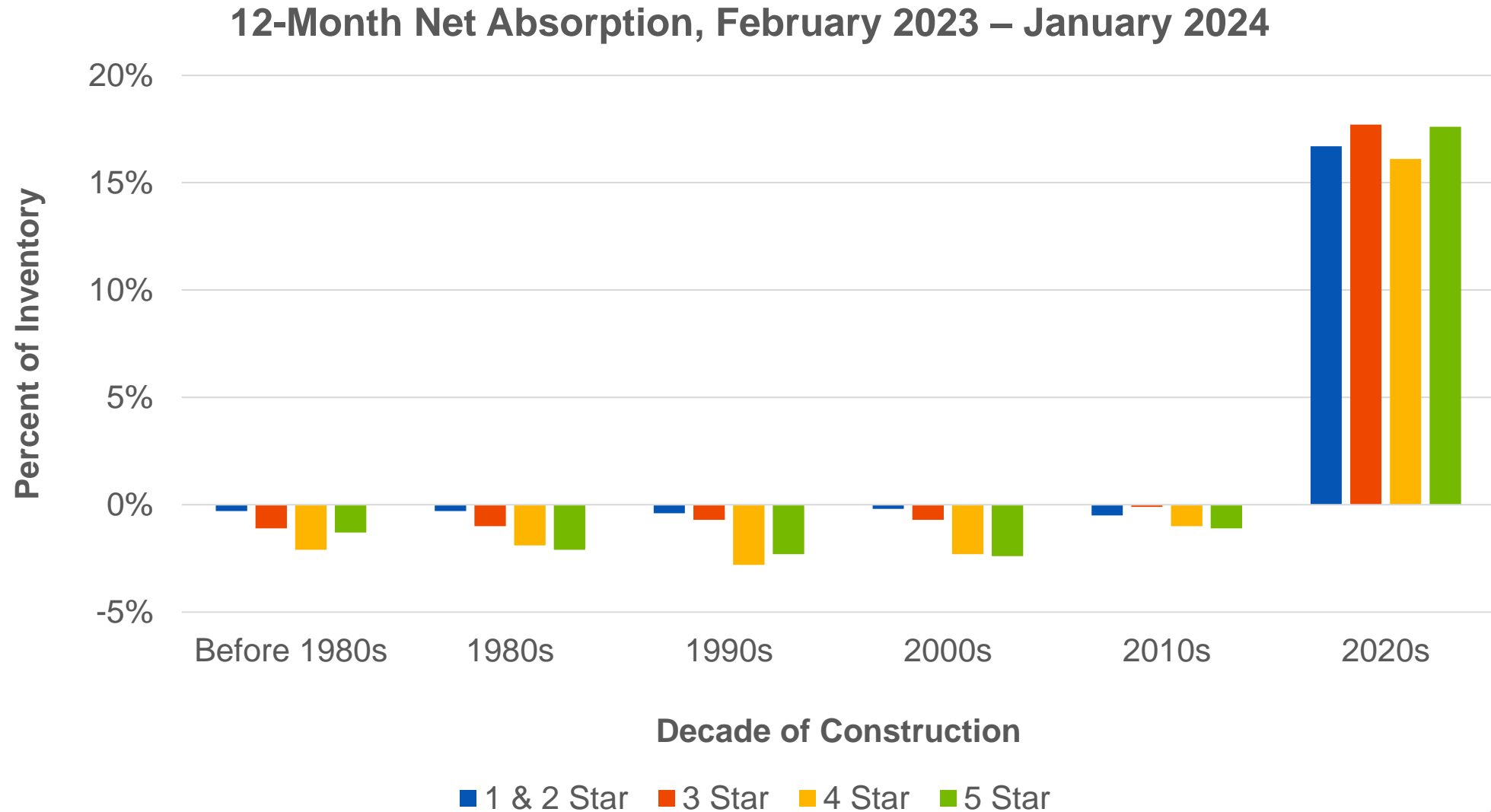
Source: CoStar, January 2024



# Leases Shrink Most at Highest-Rated Buildings



# Only First-Generation Buildings Maintain Demand



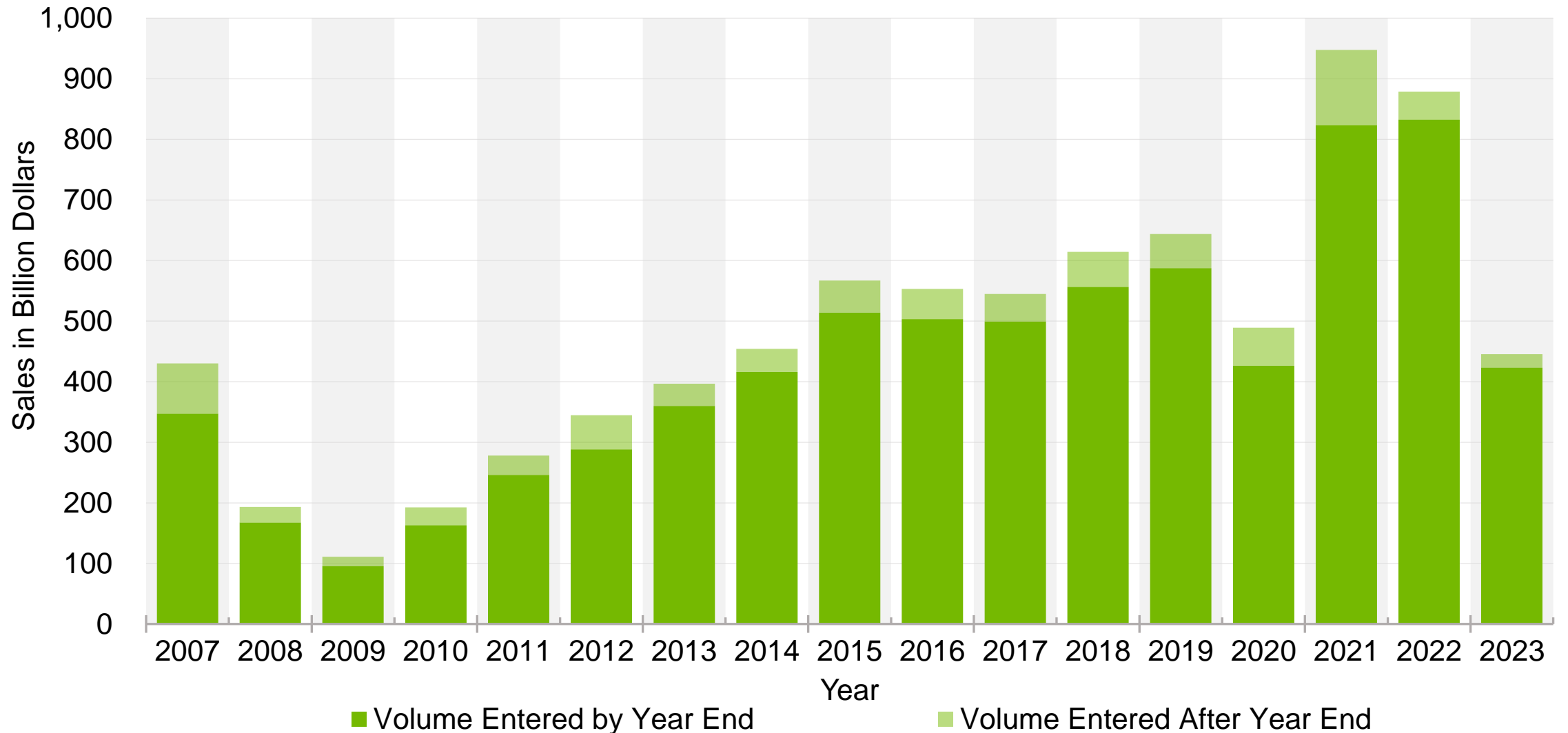


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# Capital Office Vs. Others

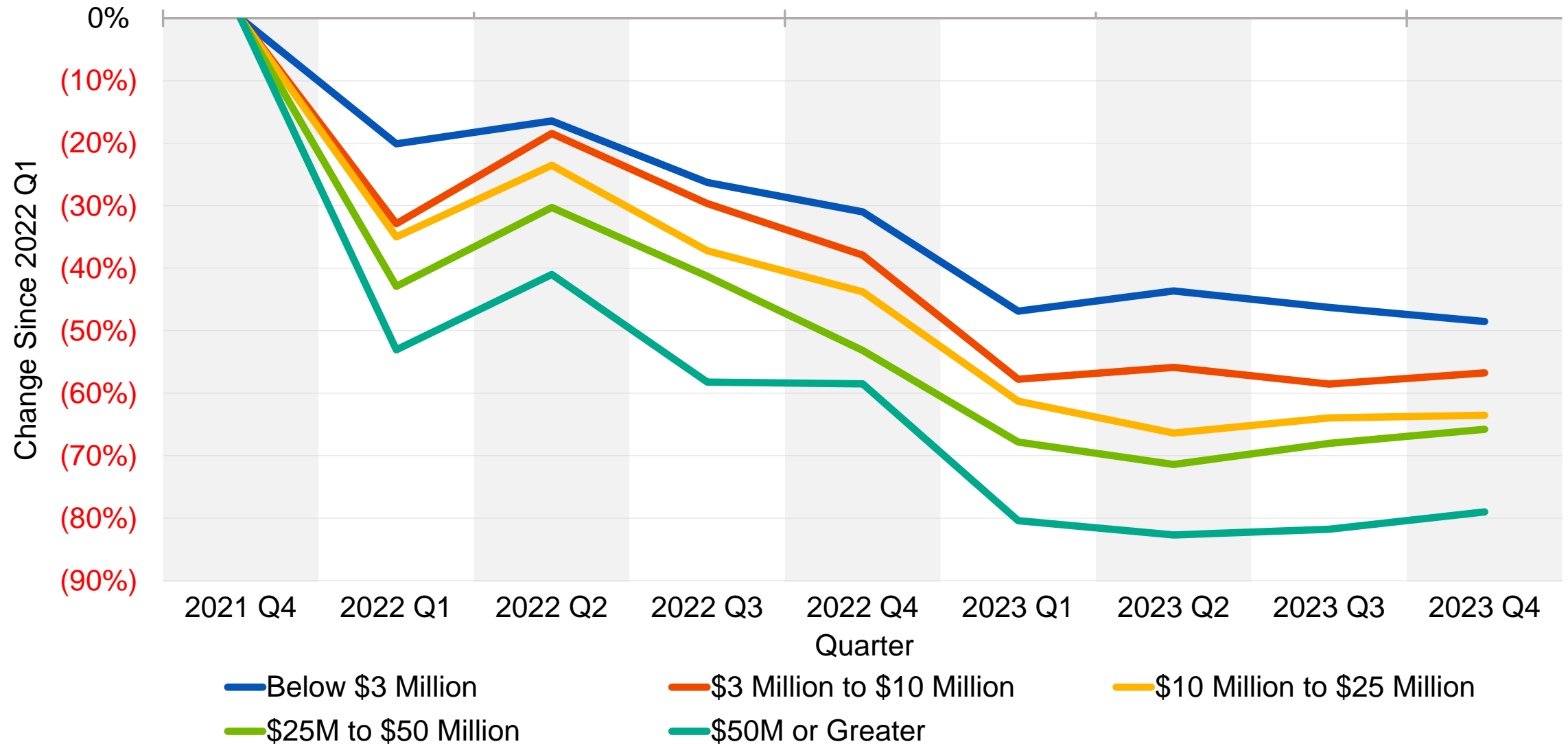


# Annual Commercial Real Estate Sales Volume



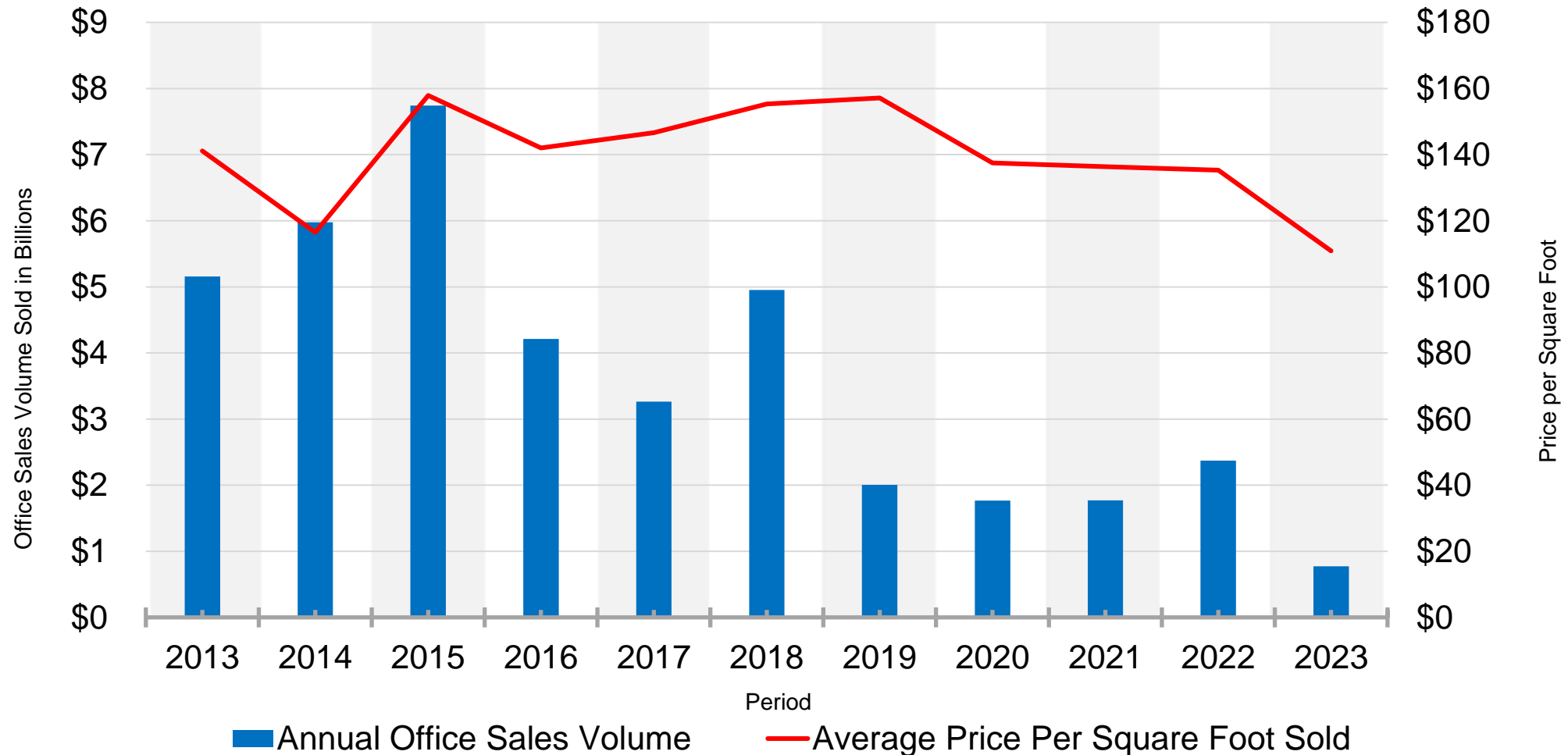
\*Year-to-date as of 1/22/2024. Includes Multifamily, Office, Retail, Industrial, and Hotel

# Change Quarterly Sales Volume From Peak, by Deal Size



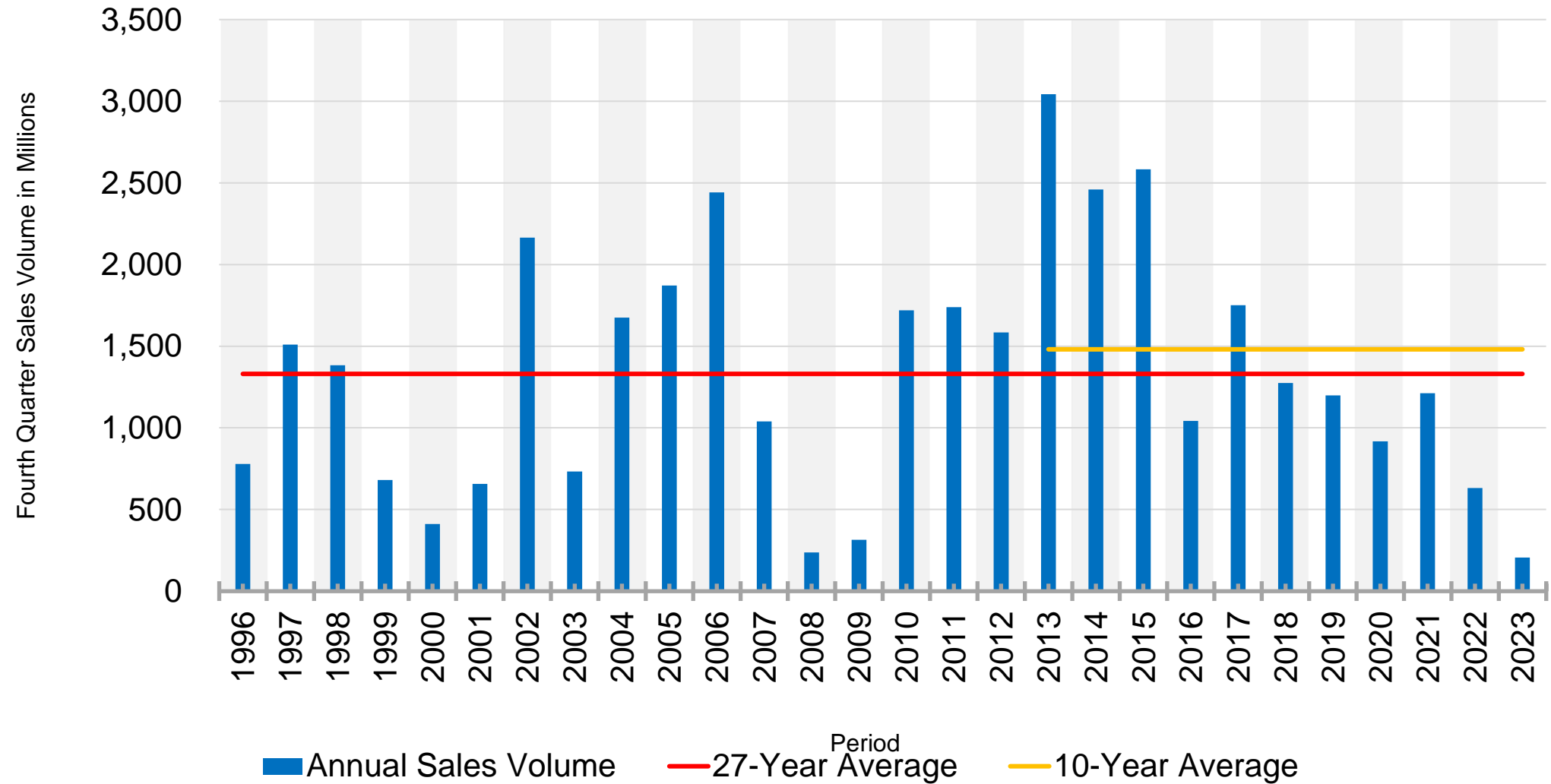
\*Year-to-date as of 1/22/2024. Includes Multifamily, Office, Retail, Industrial, and Hotel

# Chicago's Office Sales Losing its Luster Since 2015

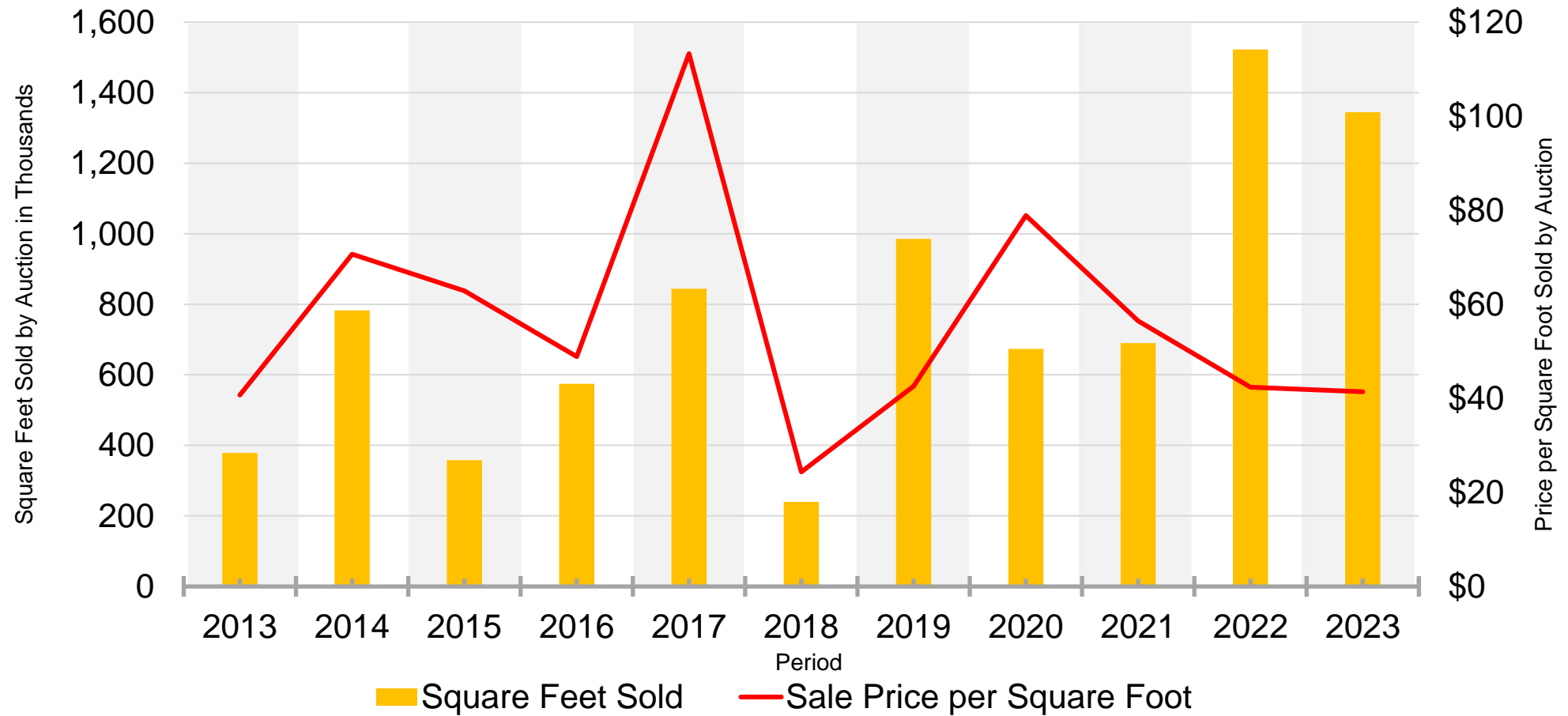


Source: CoStar, January 2024

# Chicago Office Sales Off Its Fourth Quarter Game—Worst Standing in 27 Years

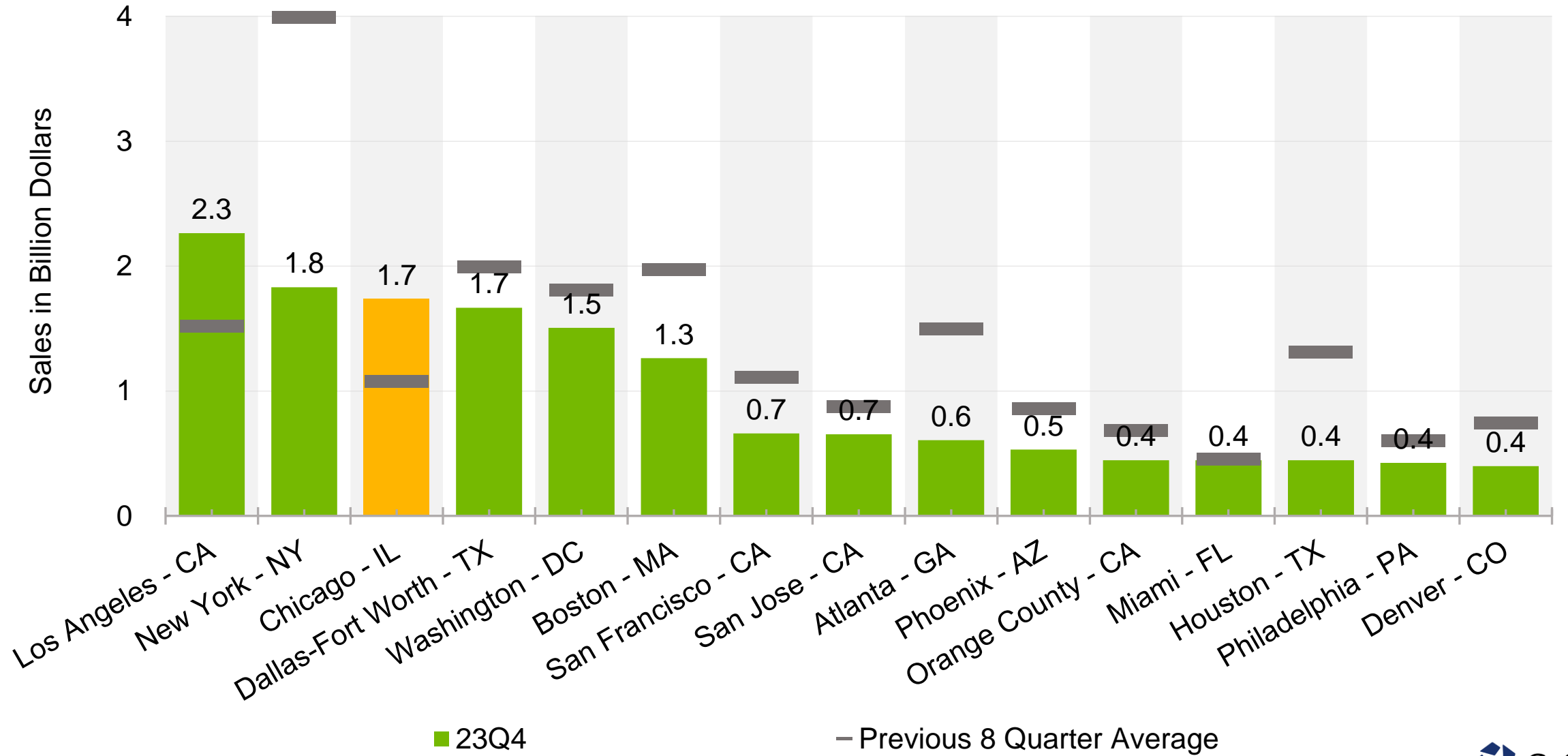


# Office Auctions Pick Up Steam in 2022 and 2023

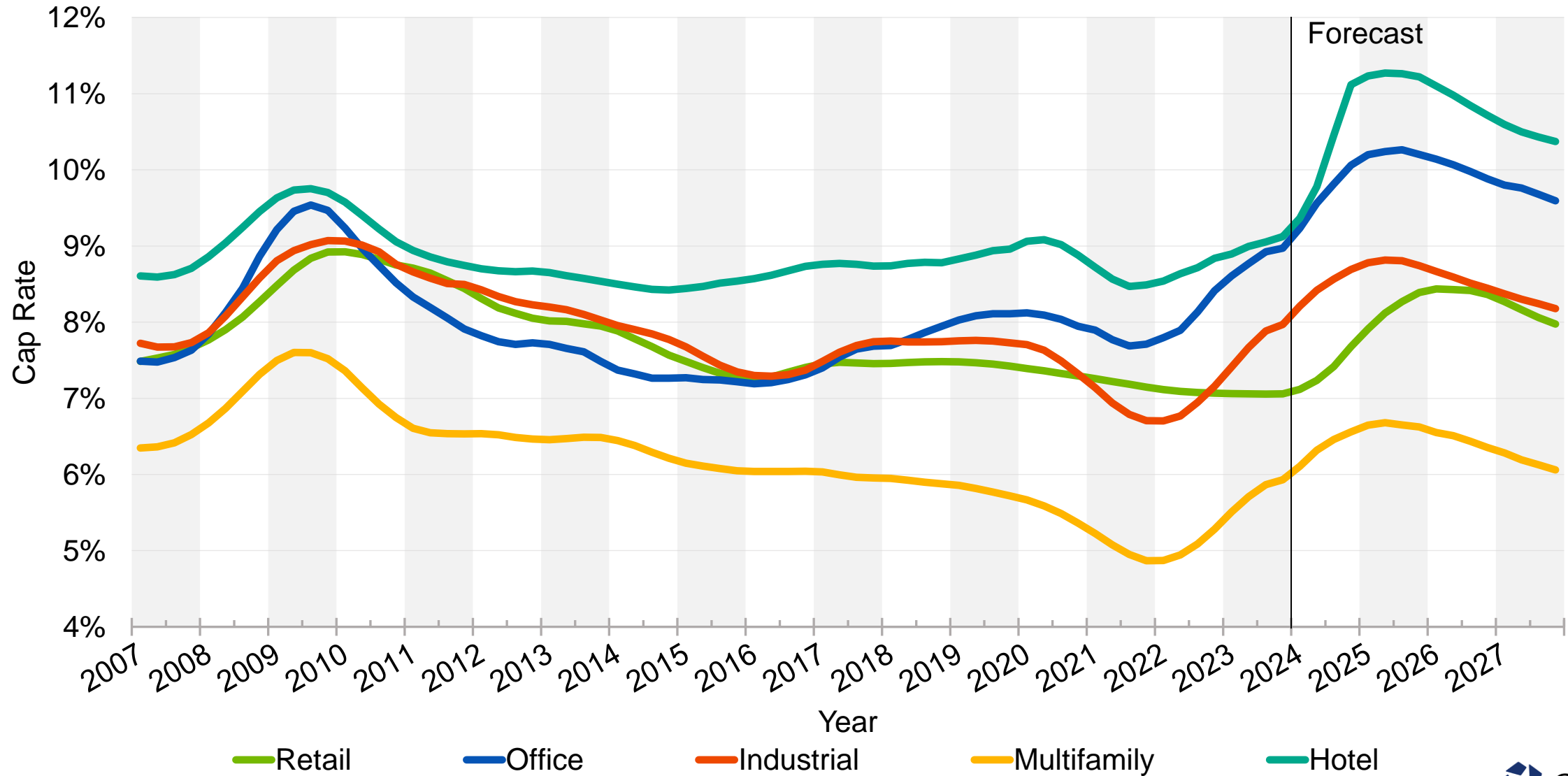




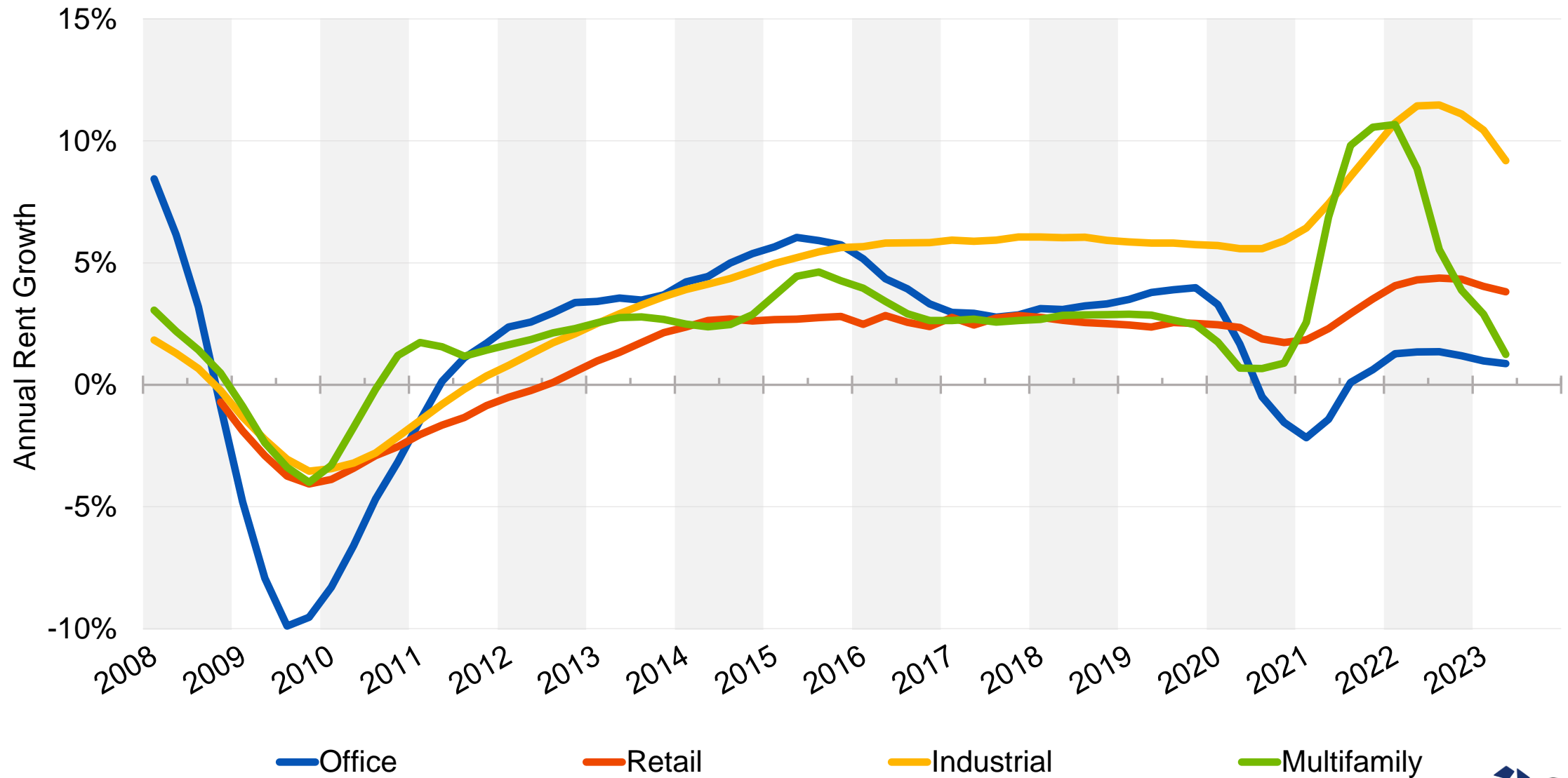
# Adjuted Office Sales Volume, Top 15



# Market Cap Rate by Property Type



# Rent growth by property type



# CoStar Articles and Supplemental Sources

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## 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

Belt Junction is a notorious bottleneck. Fixing it could increase rail capacity, but benefits to South Side residents could be mixed. ([Chicago Tribune](#))  
[Here's Where To Find the Nation's Lowest Industrial Vacancy and Availability Rates](#)  
[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](#)  
[ILA Leadership Warns US East Coast Dockworkers to Prepare for 2024 Strike](#) [The Maritime Executive](#)  
[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](#)  
"Recommendation: Maintain the region's status as North America's freight hub," CMAP's [On To 2050, 2018](#).

## Multifamily

[Livability Drives Rent Growth for Chicago's Student Housing Market](#)  
[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

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## Office

[Three Signs 'Flight to Quality' May Not Be the Best Way To Describe the Office Market](#)  
[Chicago's Office Tenants Mostly Prefer Younger Properties, Regardless of Renovation](#)  
[Chicago's New Office Deals From First Three Quarters Beat Quantity Set in 2019](#)  
[Chicago's 2023 Office Sales Volume Wanes; Distressed Deals Rule the Year](#)  
[Chicago-Area Job Growth Stems From Non-Office Job Sectors](#)  
[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

[Chicago's Employment and GDP Rise Despite Dive in Office Use](#)  
Flex Index ([flex.scoopforwork.com](http://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 (10<sup>th</sup> 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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