



U.S. CRE State of the Market

2023 Q4

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Chicago's Union Strength May Play Weaknesses of Other Markets

The Maritime Executive

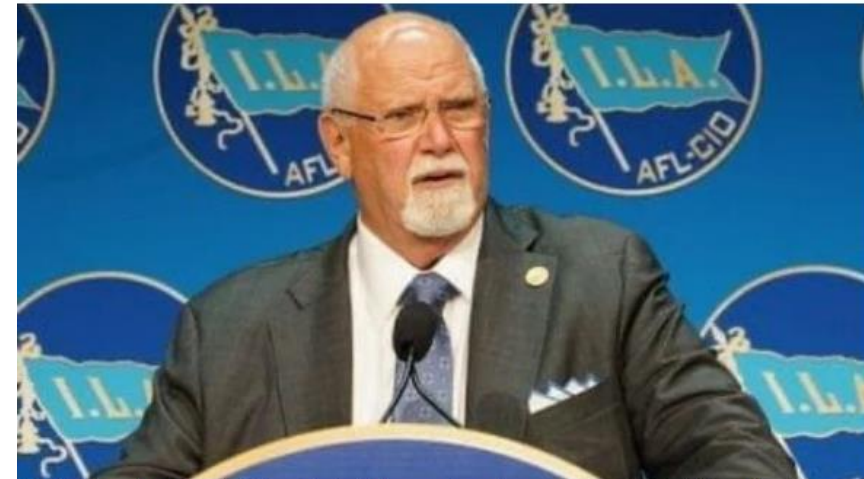
INTELLECTUAL CAPITAL FOR LEADERS

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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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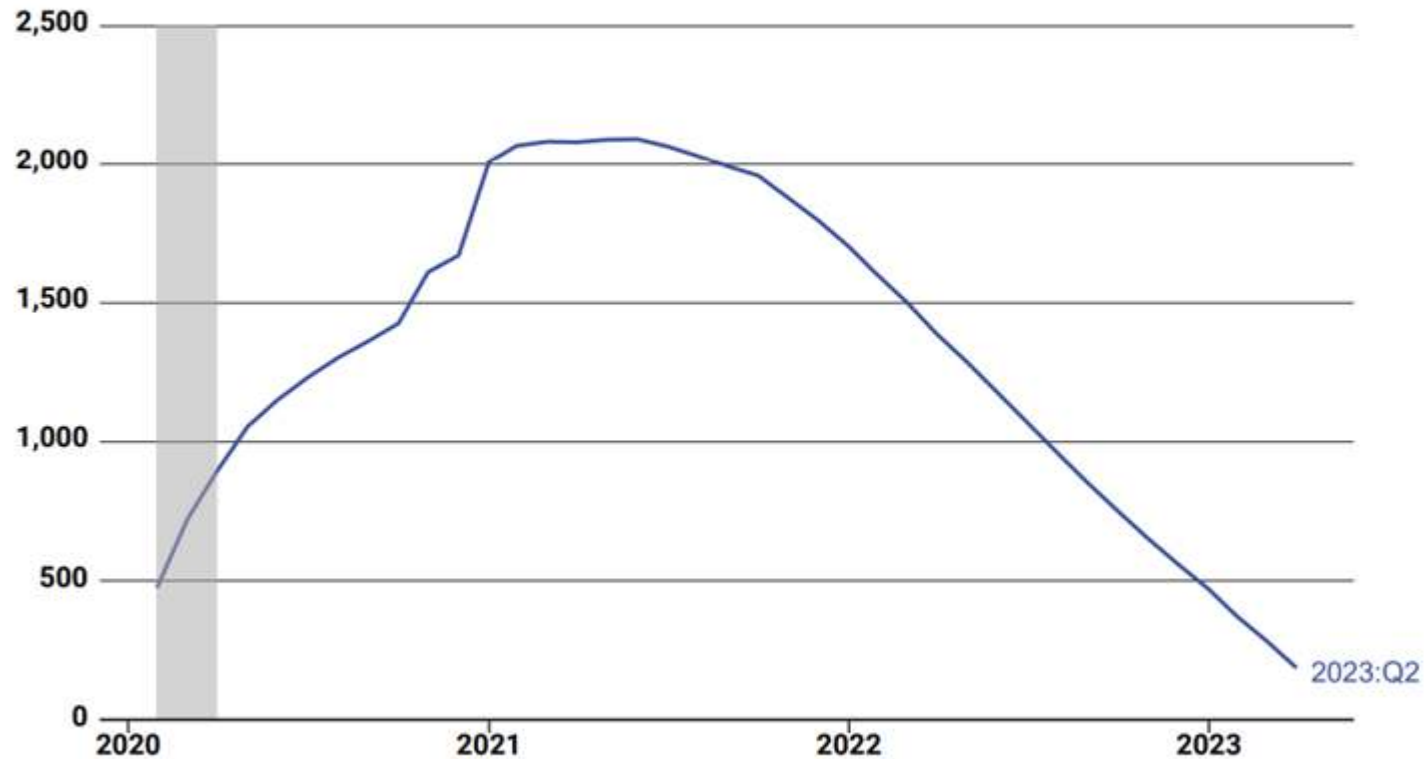
04:32

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.

Households have less “extra” savings

Stock of Excess Savings

(\$ billions)



Source: Jonas Fisher, Senior VP & Director of Macroeconomic Research, Federal Reserve Bank of Chicago. December 2023

FEDERAL RESERVE BANK of CHICAGO





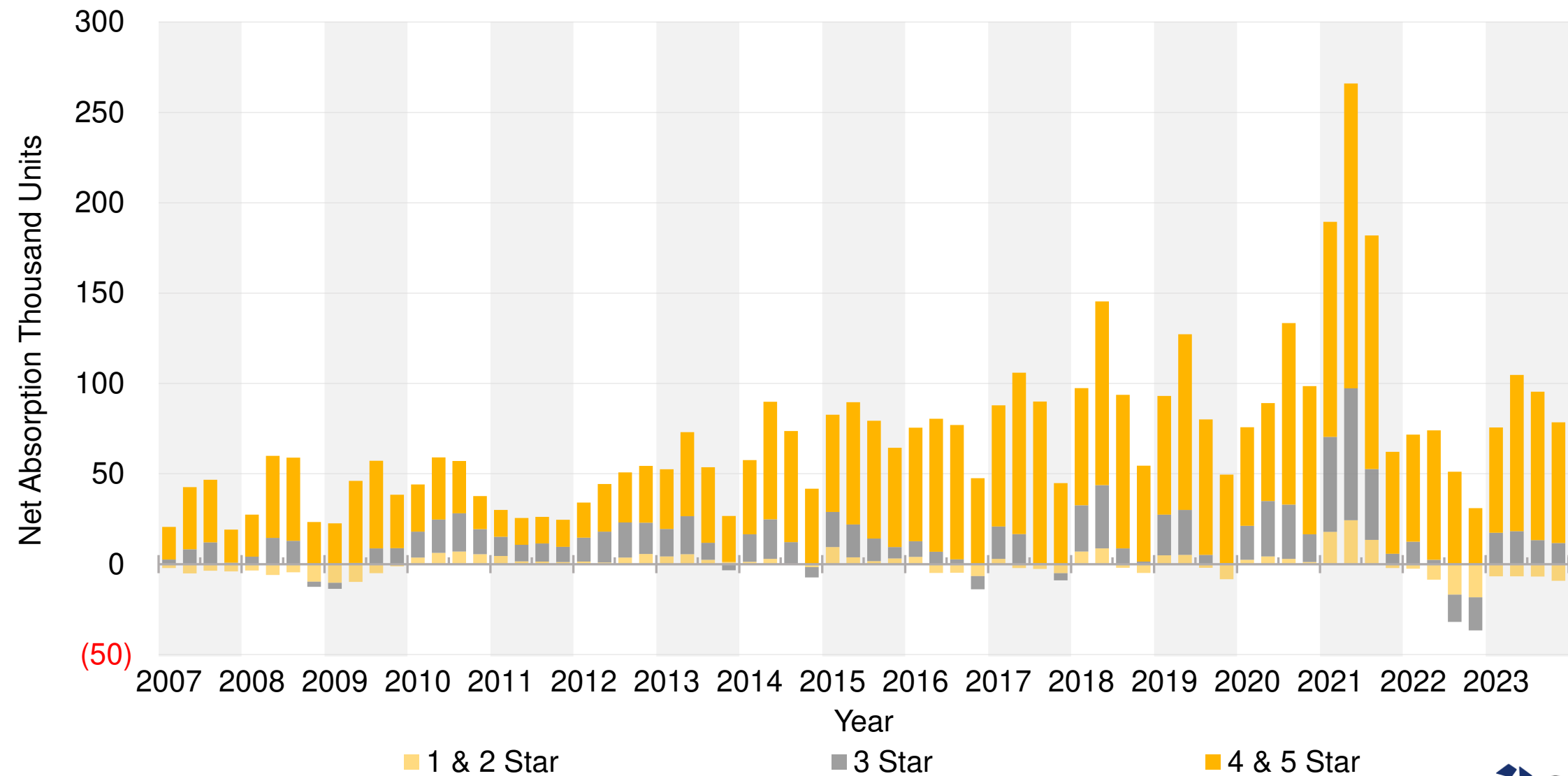
Multifamily



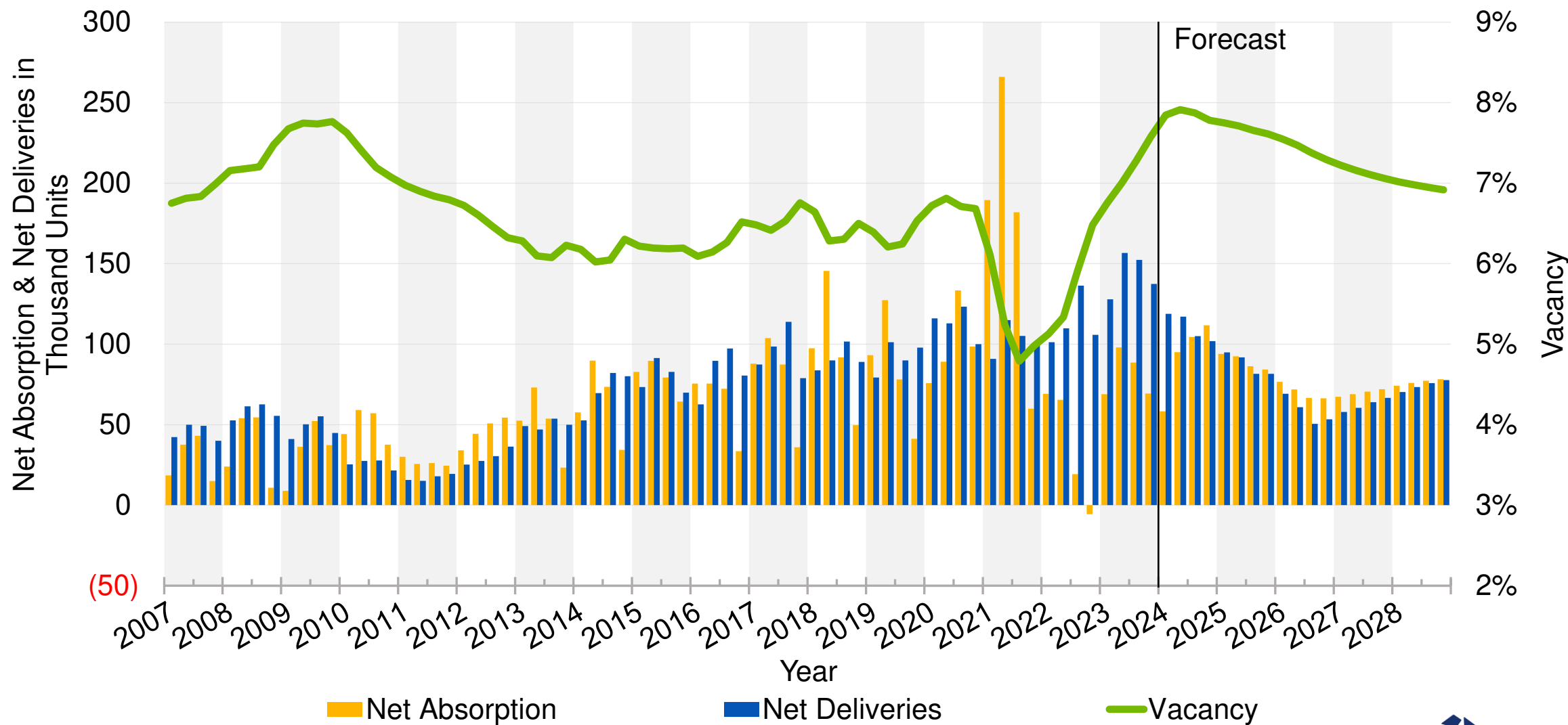
Multifamily

Demand Markers

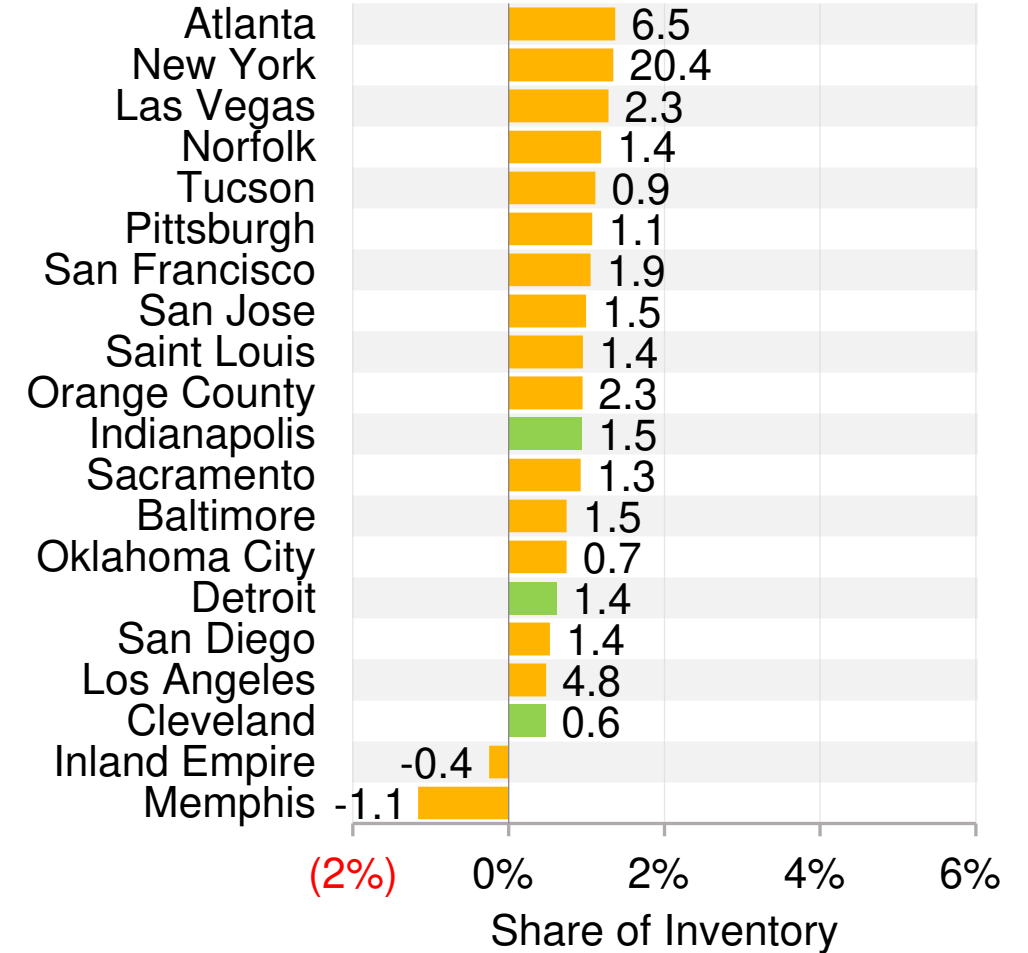
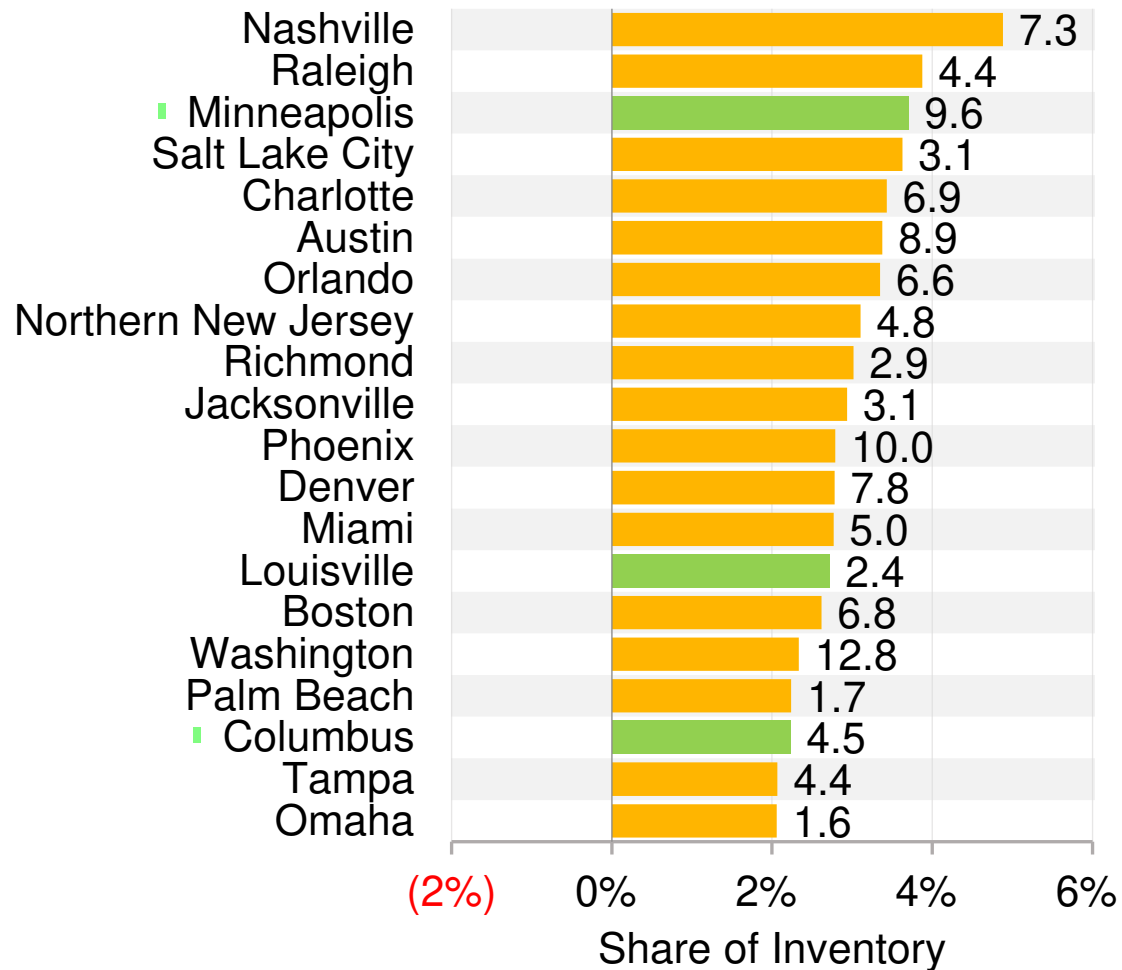
Net Absorption: National Trend, A-B Cannibalizing C, the “Inelastic Demand” Class



Multifamily Fundamentals: Base Case Forecast



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.



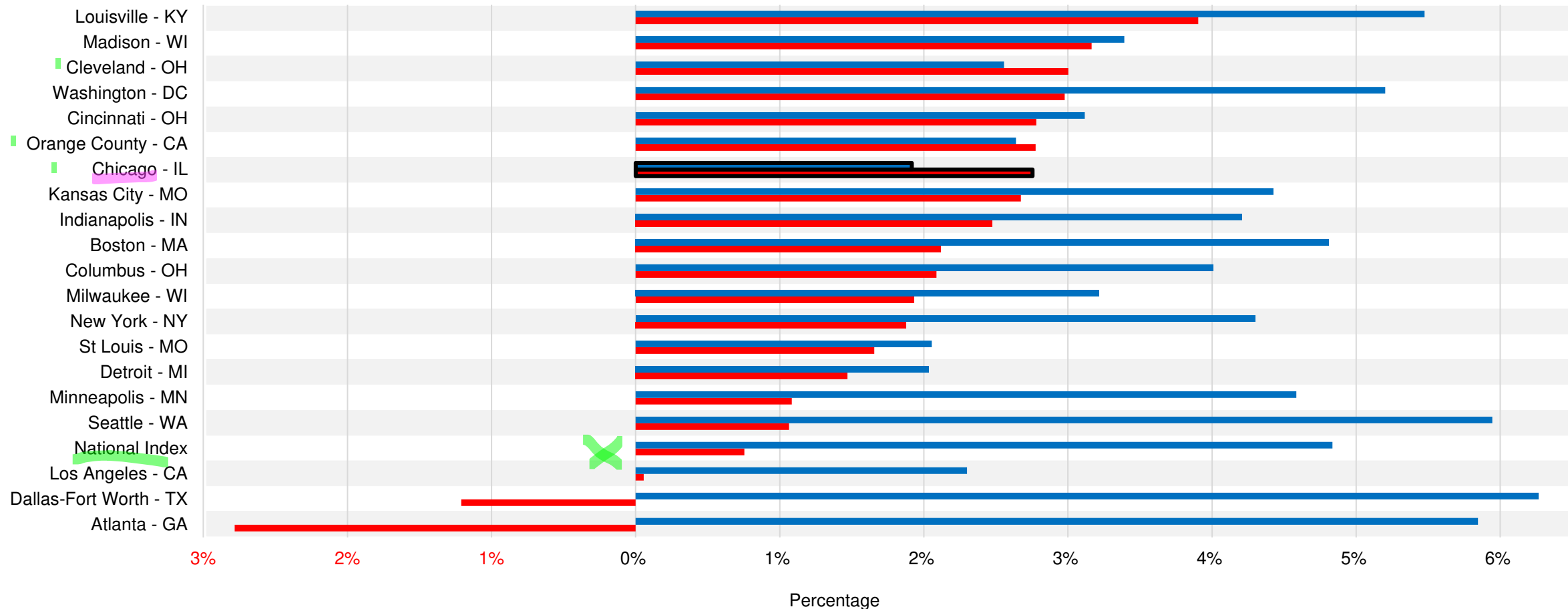
Multifamily Rent

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



11 Midwest Markets Beat National Rent Growth Average

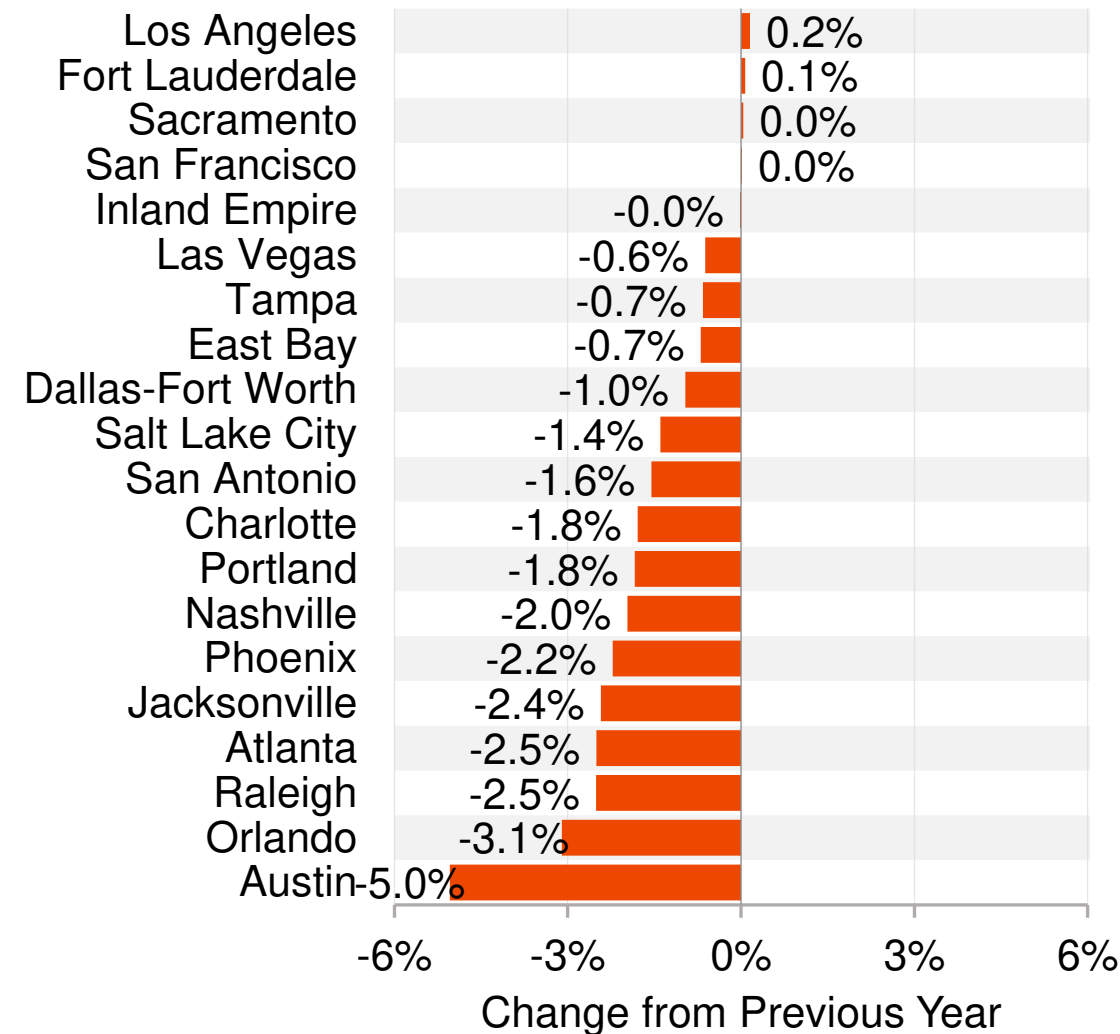
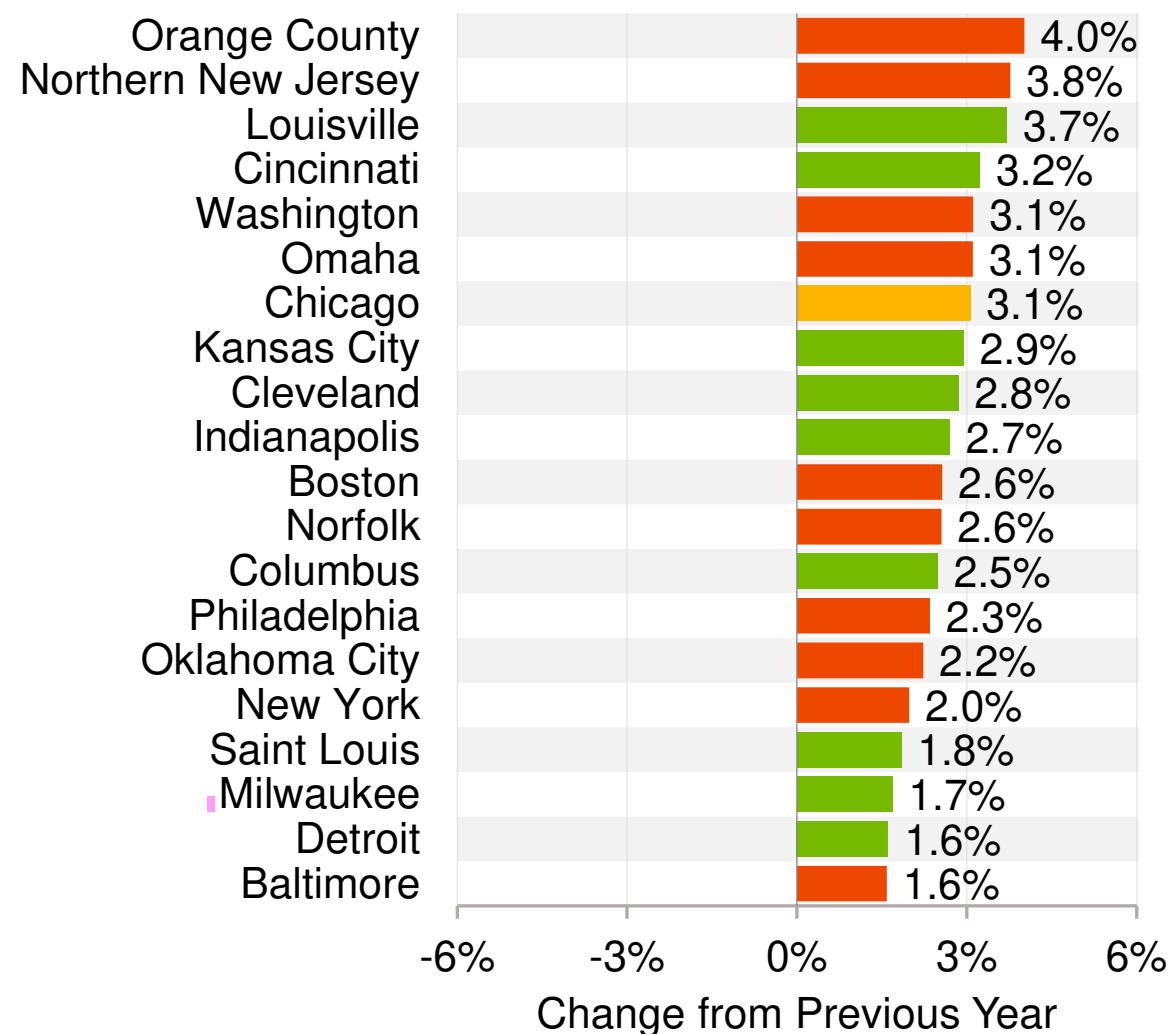
15 Largest Midwest and Some Major Multifamily Markets



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



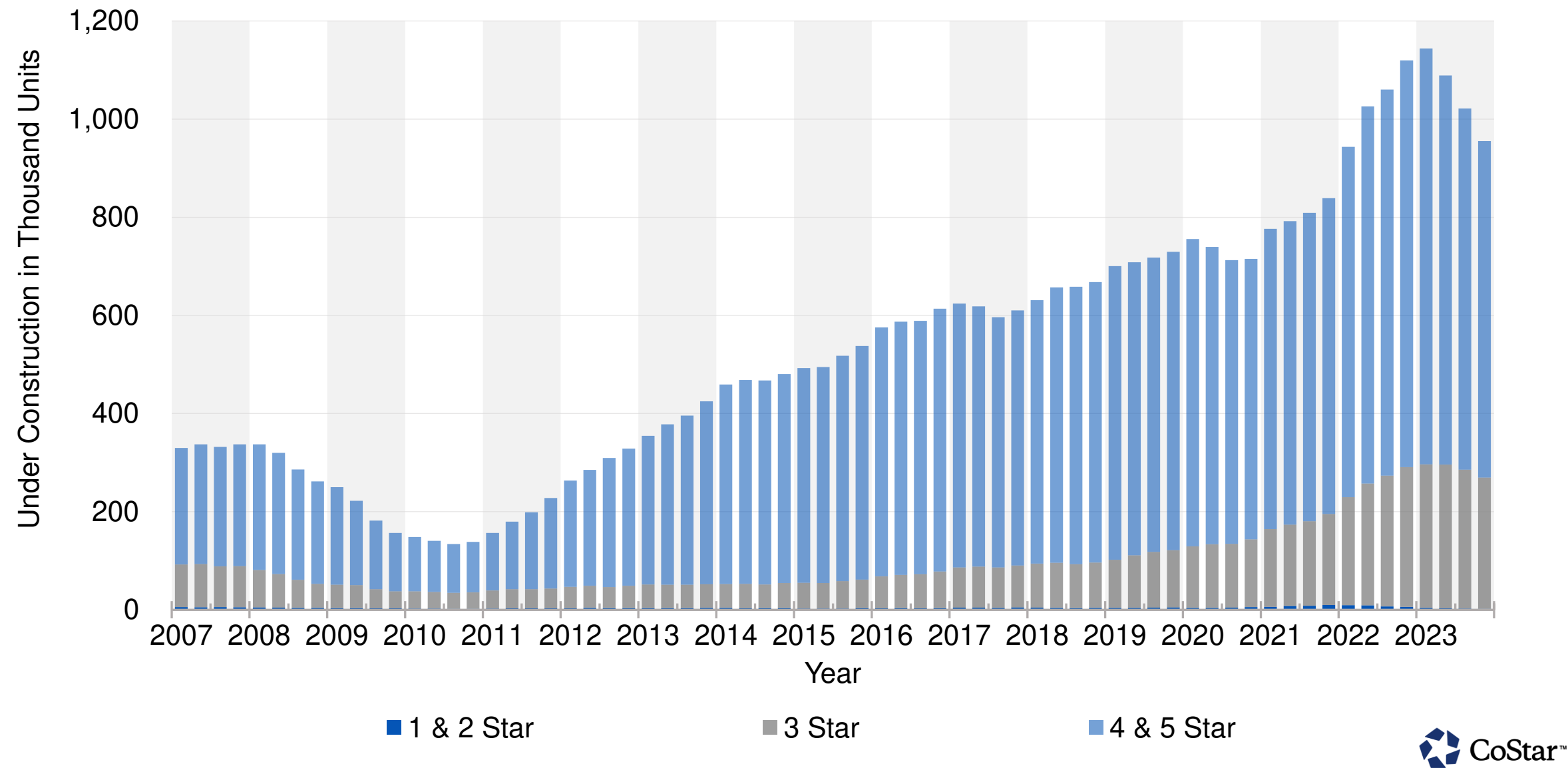
Rent Growth, by Market



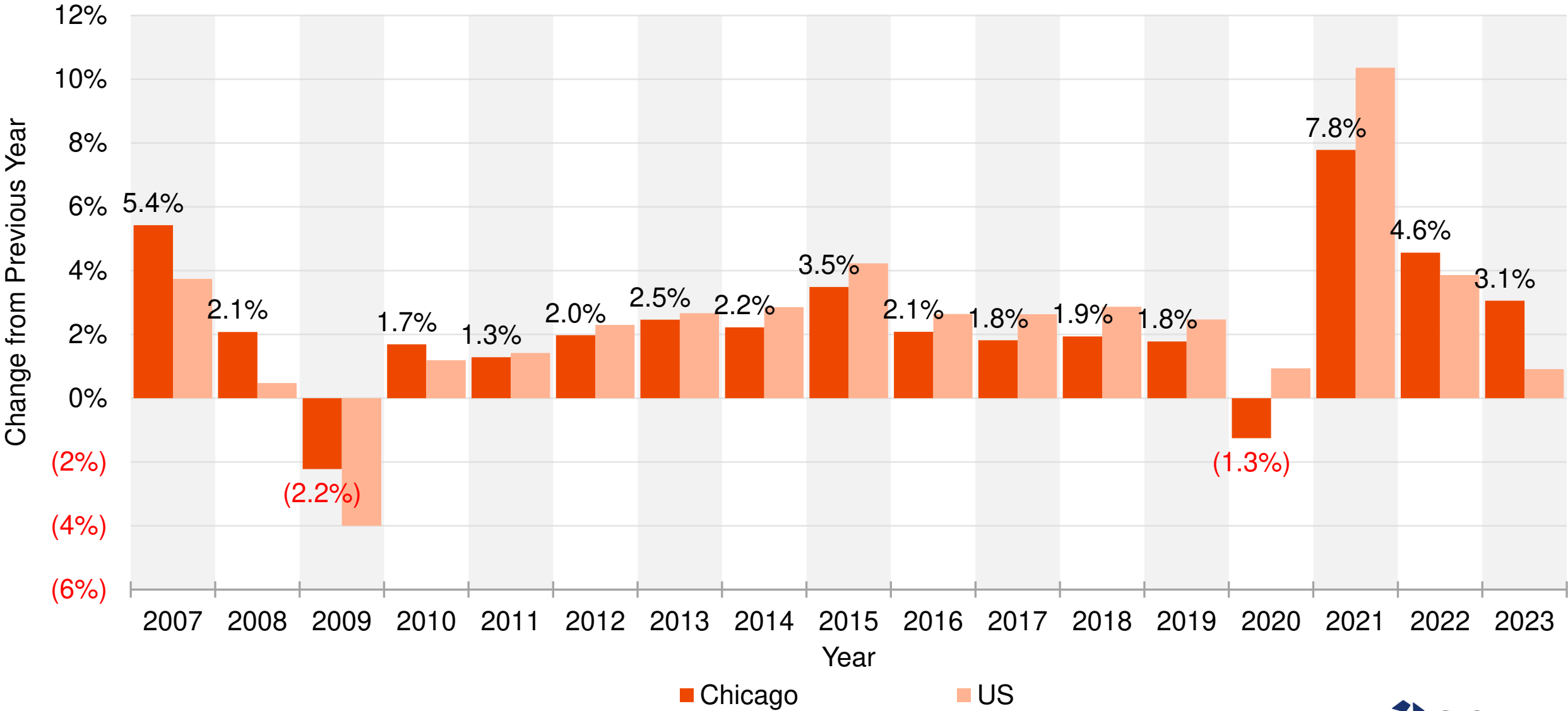
■ Rent Growth

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

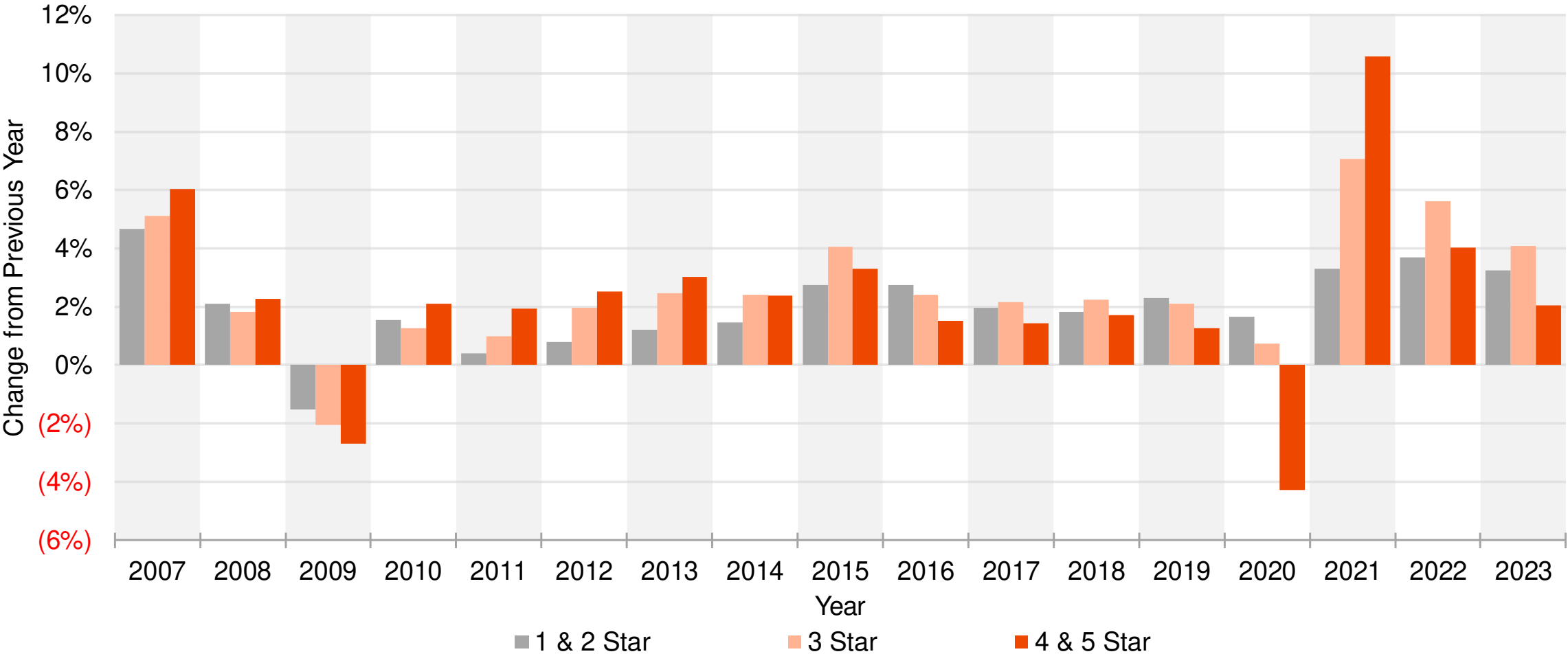
Under Construction, by Star Rating: National Trend, 3-Star Increasing Share of Recent Completions



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

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

- ▶ 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.

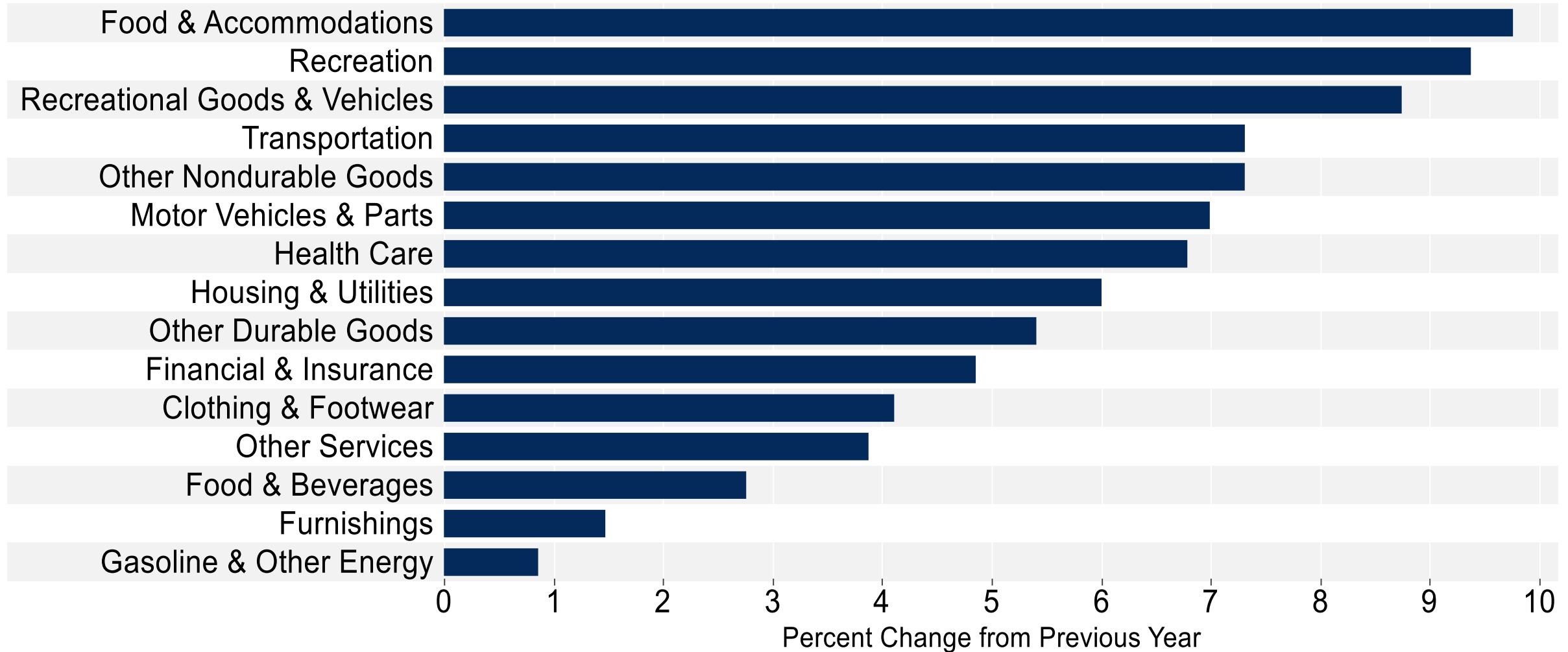


Retail

Underpinnings

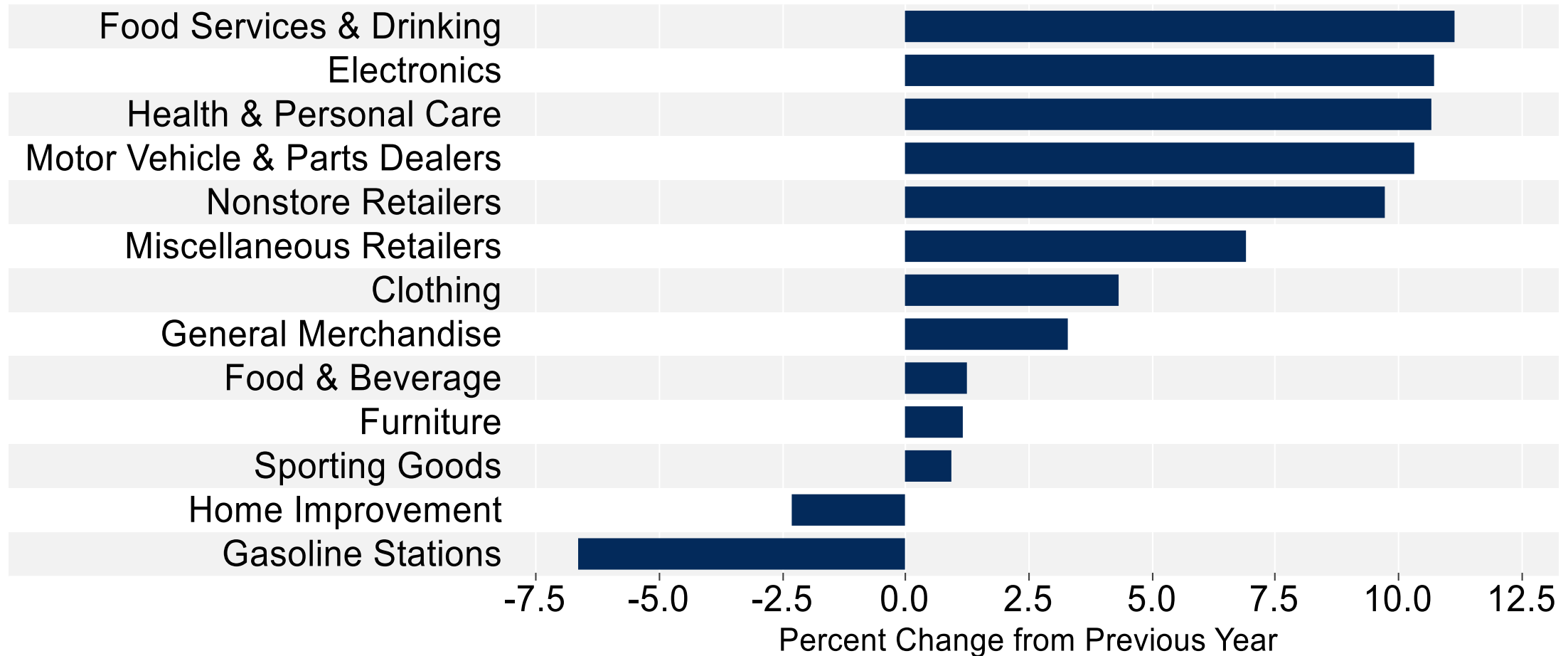


Consumption by Major Category YOY November 2023



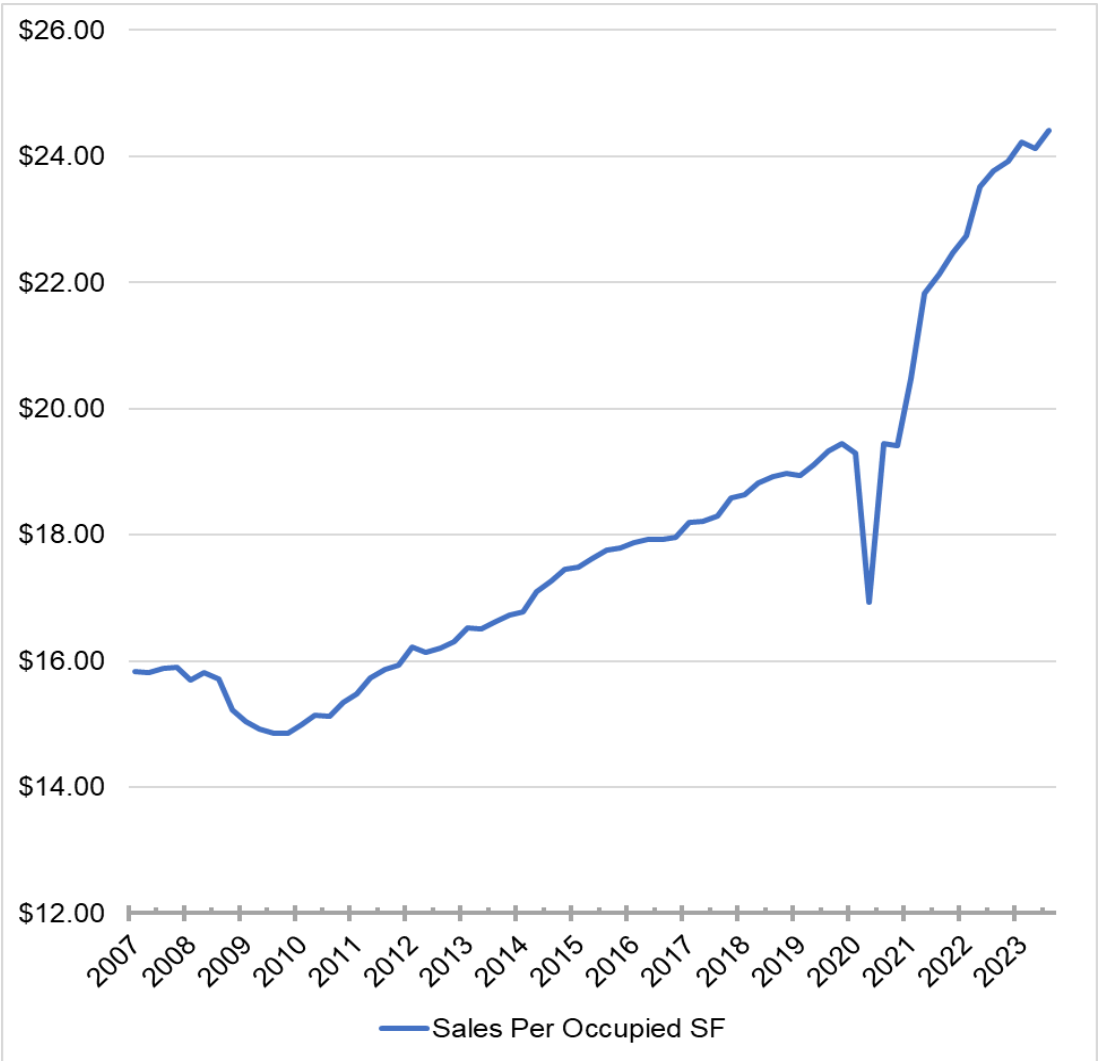
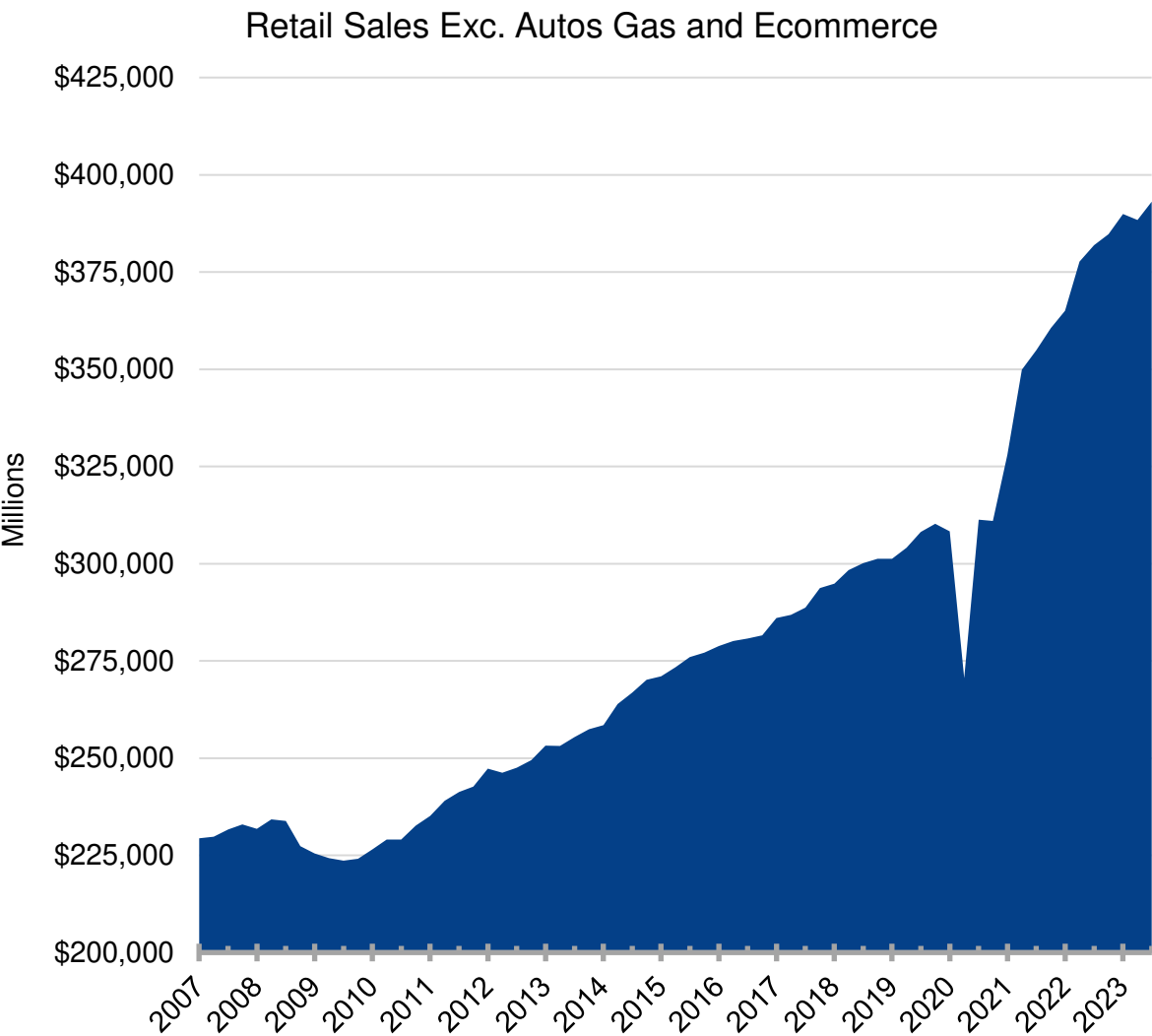
Source: U.S. Bureau of Economic Analysis (BEA), 12/1/2023

Retail Trade by Category YOY December 2023



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

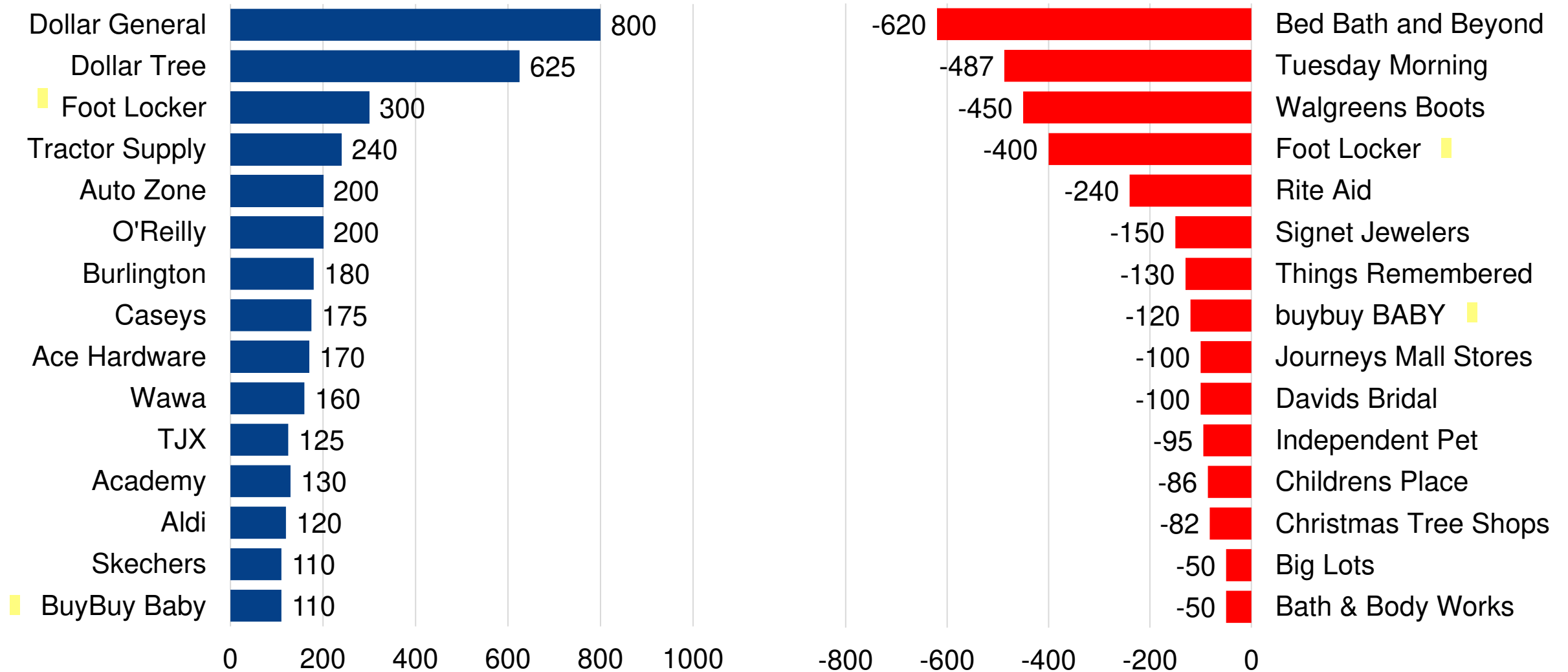
Retail Sales Efficiency Remains Well Above Trend



Source: Census Bureau, CoStar

Retailers Announcing Largest Openings and Closings

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



Source: Daily on Retail, November 2023

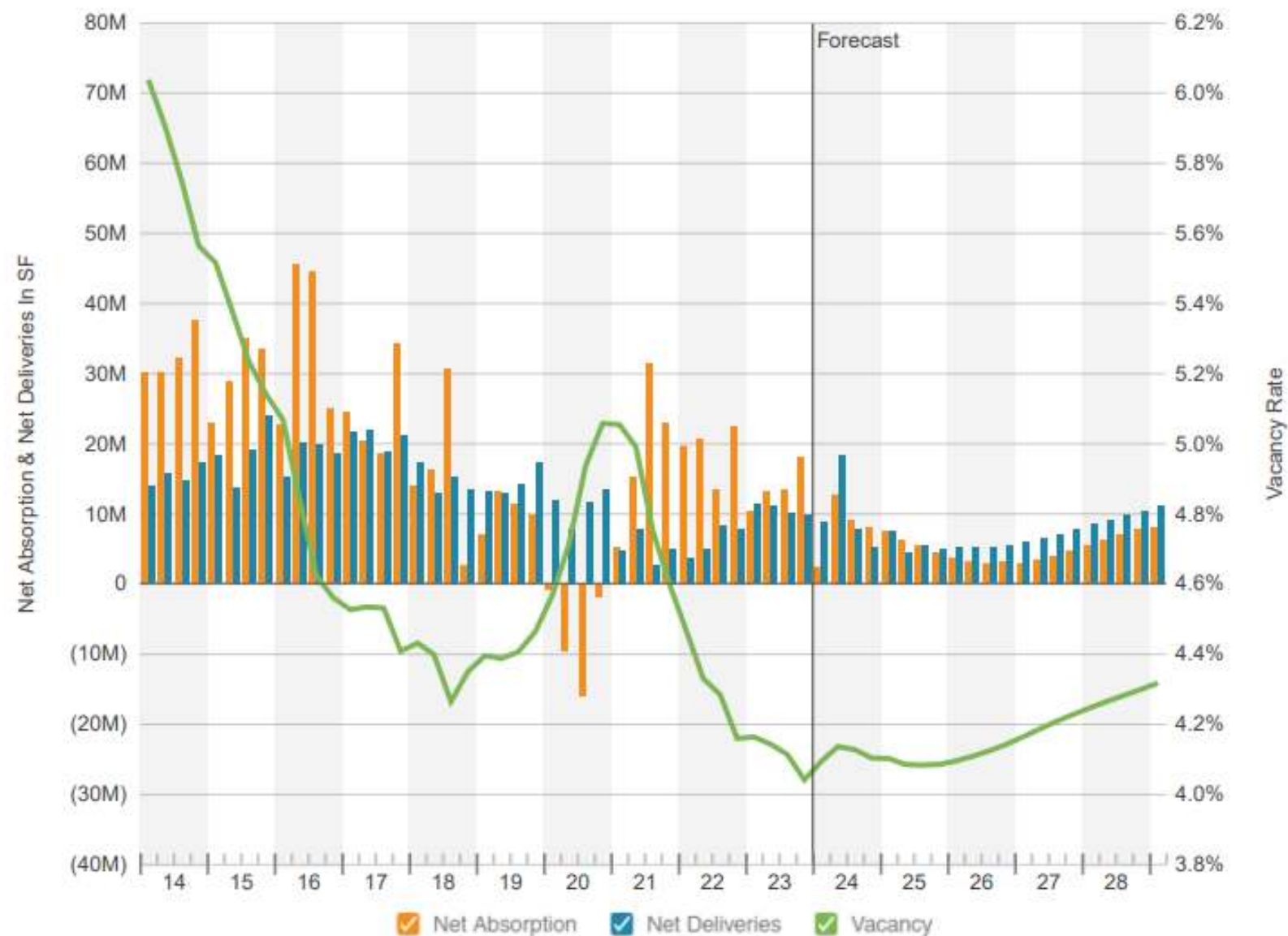
Note: Based upon openings and closing plans announced in 2023 regardless of store opening date



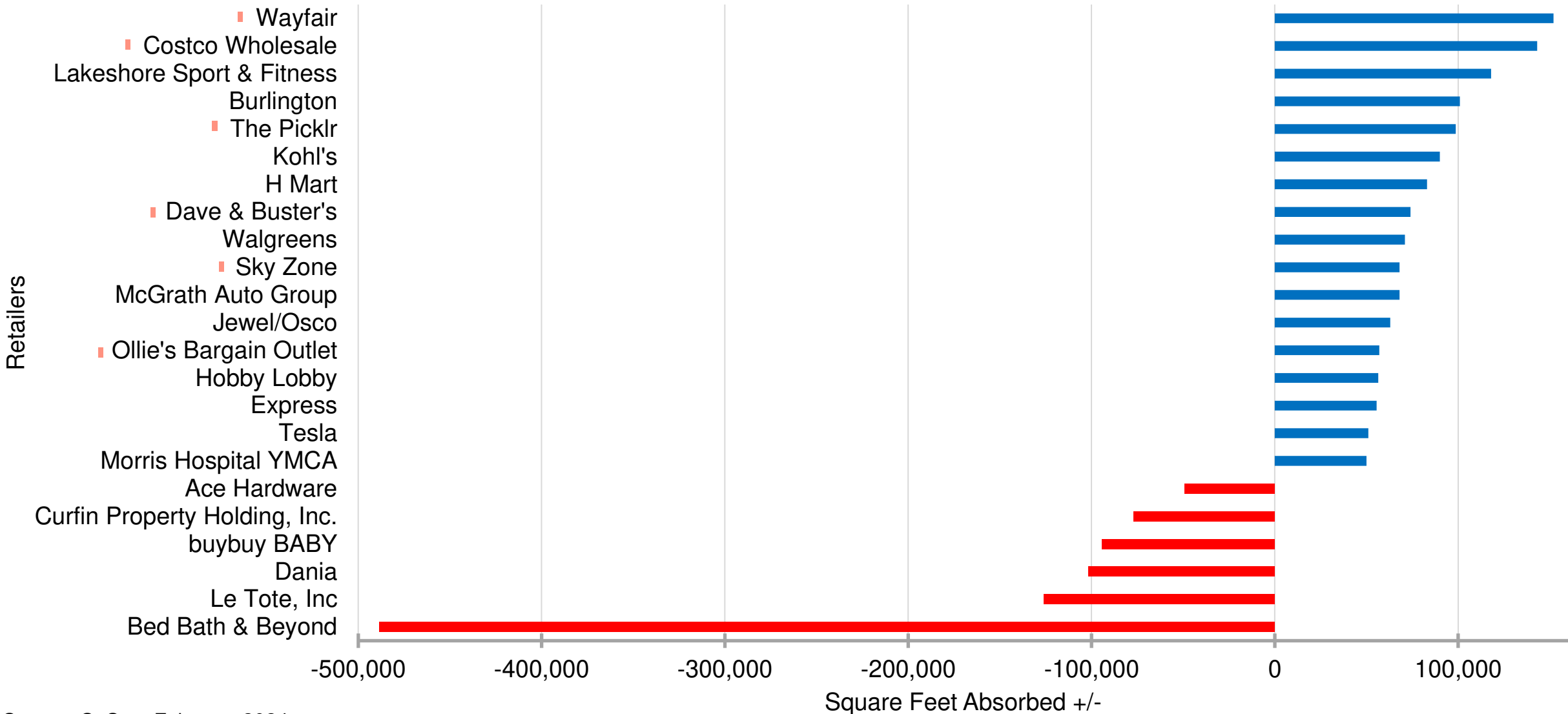
Retail

Demand Fundamentals

National Retail Supply and Demand Kept in Check

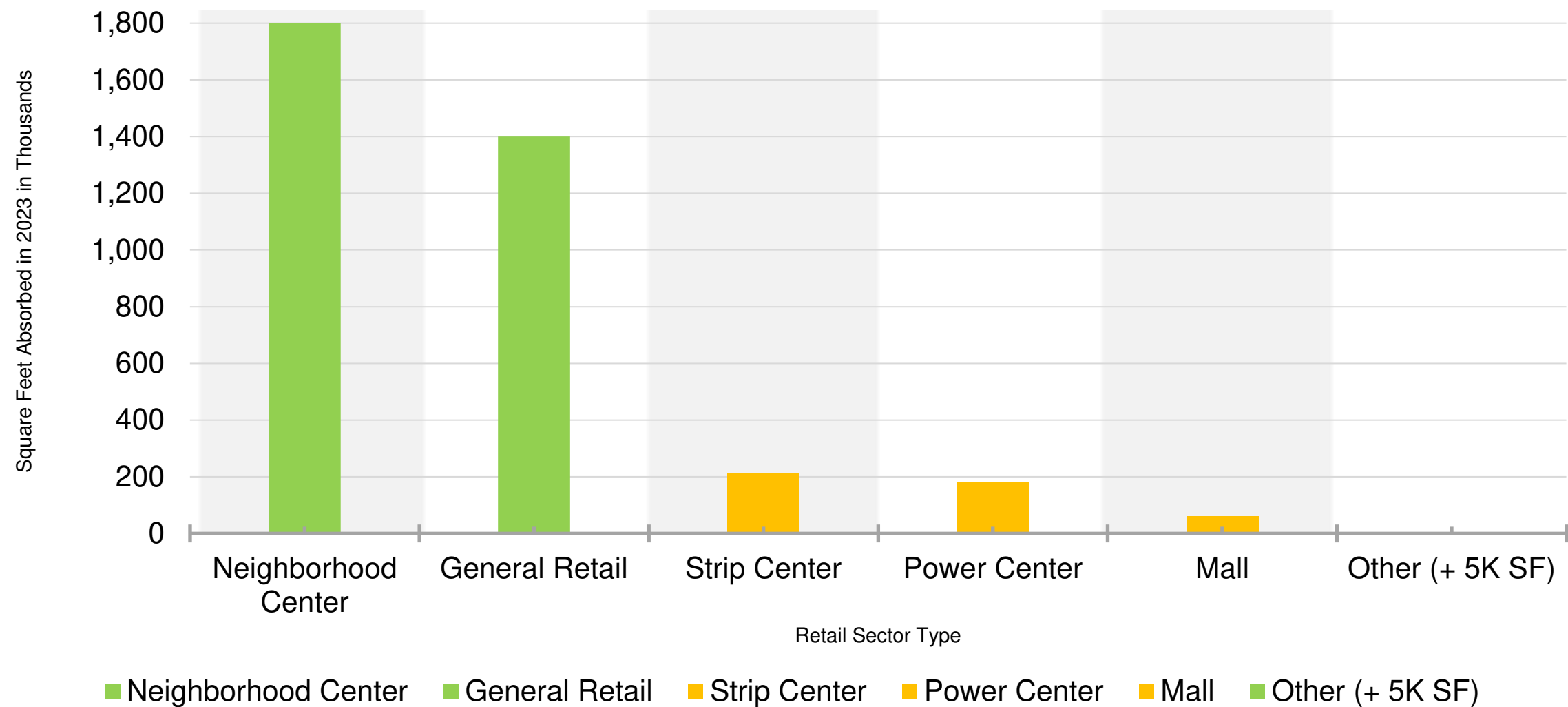


Chicago Retailers *Moving-In/Out Between 2023 Q4 – 2023 Q4

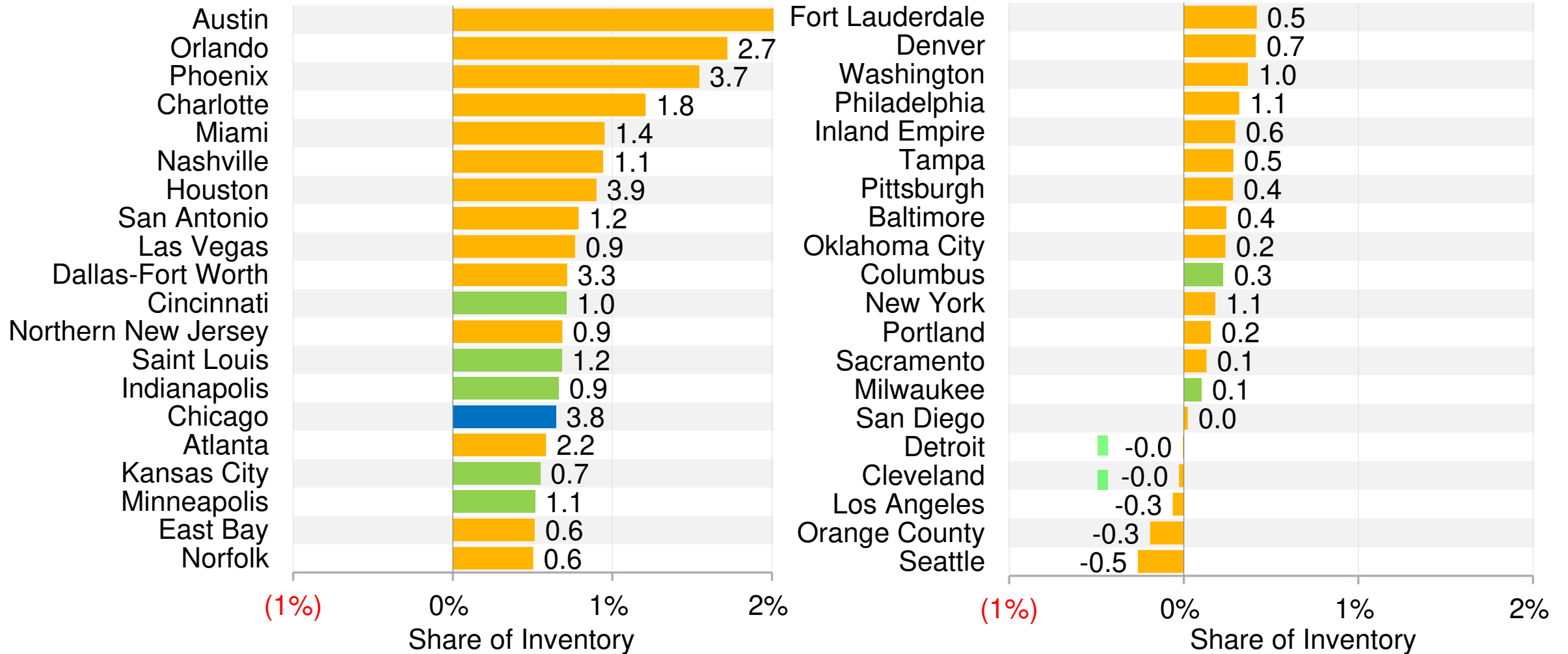


Source: CoStar, February 2024
Note: *Includes renewals. All **known** moves over 50,000 SF.

Vast Majority of Chicago Space Absorbed into Two Retail Sectors



Net Absorption As Share of Inventory



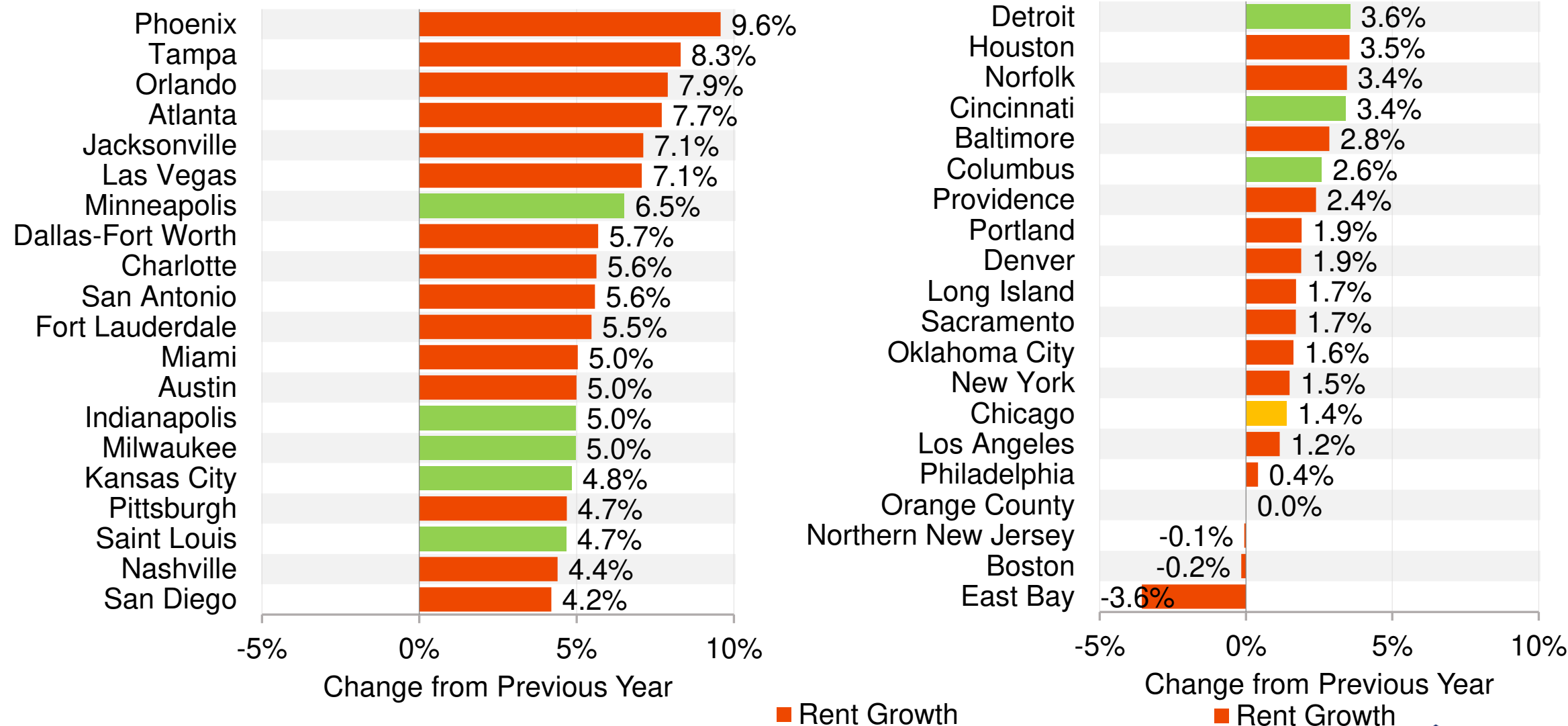
Note: Includes markets with 100 Million+ Square Feet inventory. Labels show Net Absorption in Million Square Feet.



Retail

Rent

Rent Growth, by Market



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



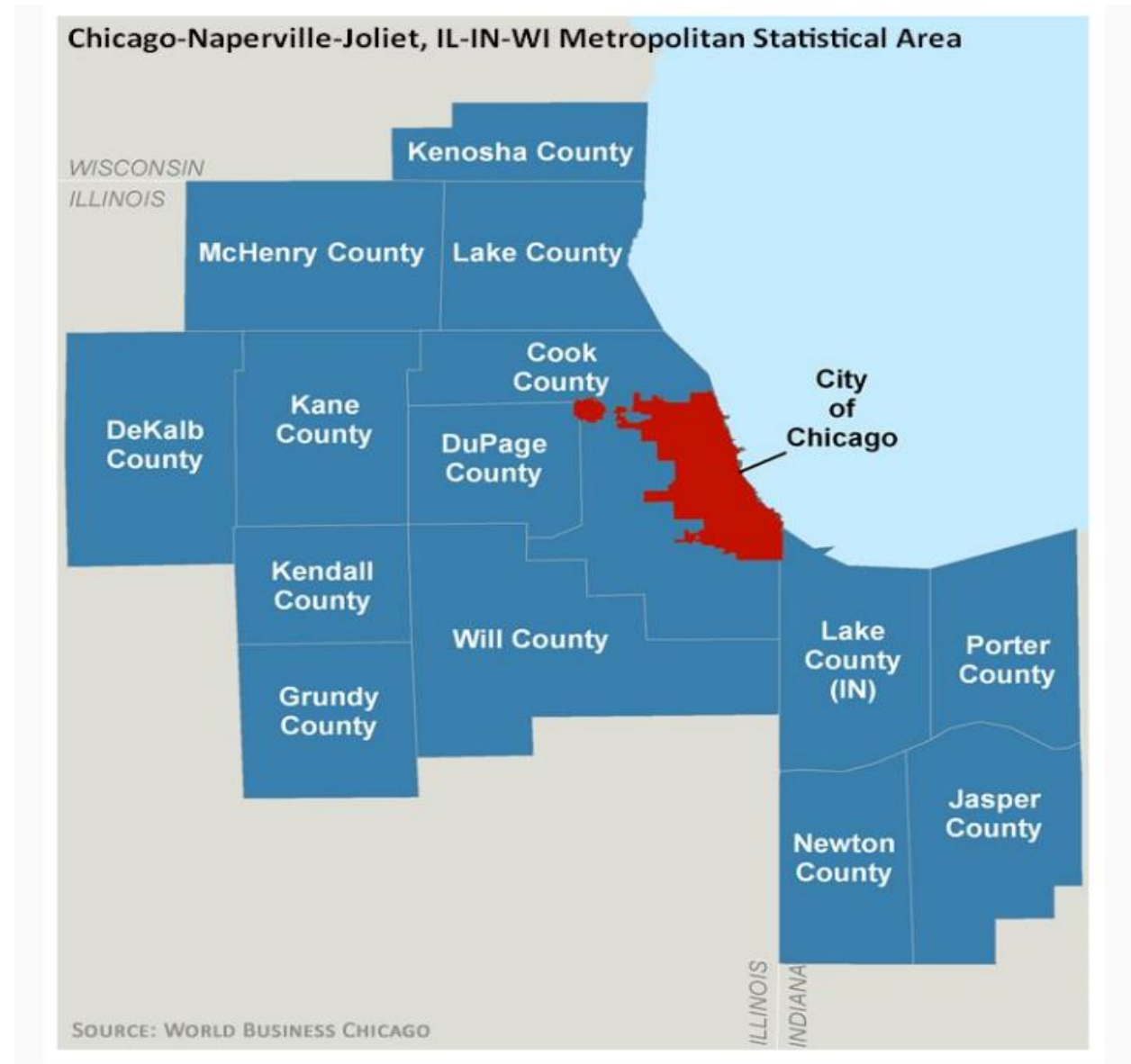
Industrial



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



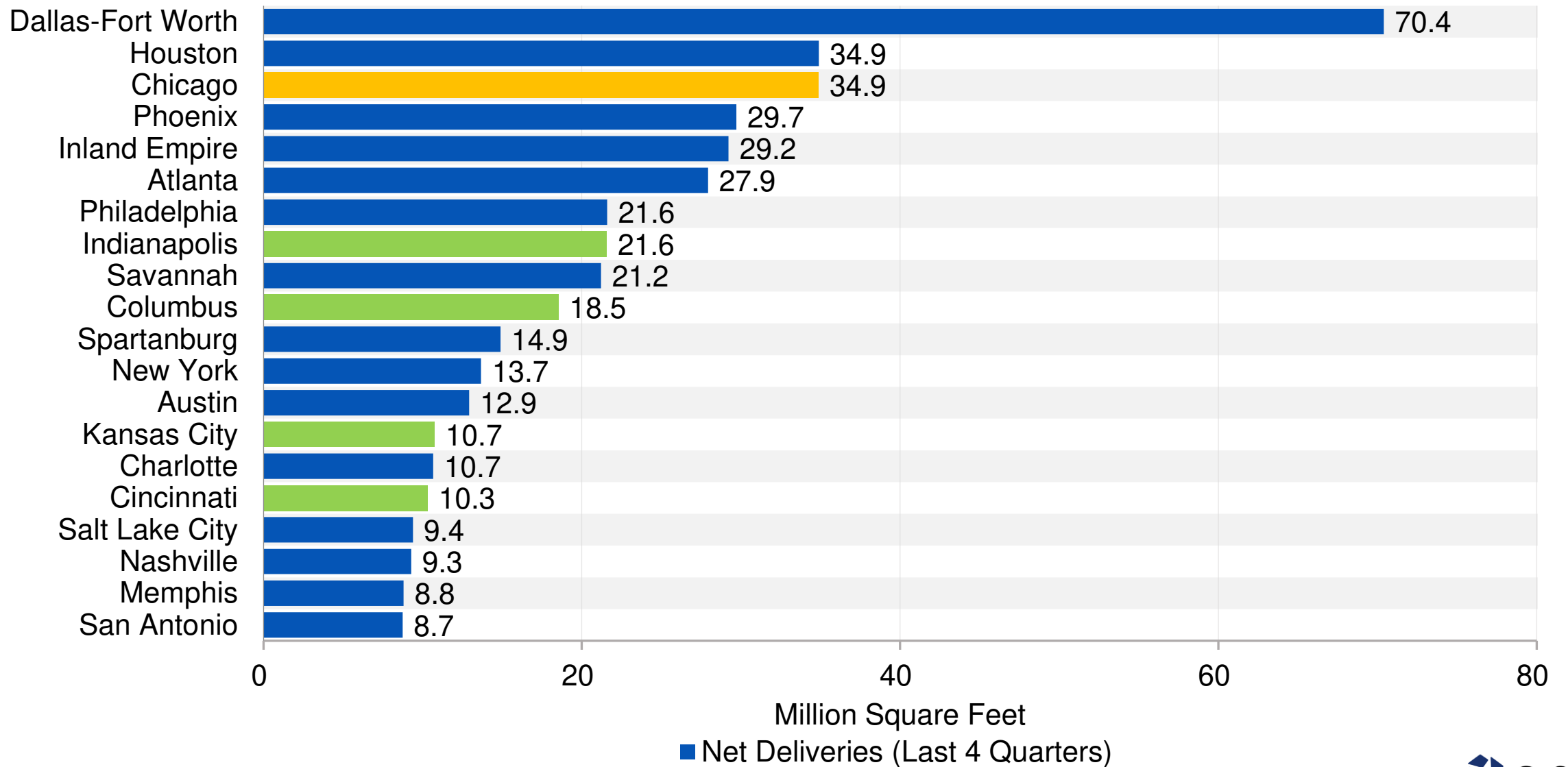
Industrial Key Takeaways

- ❖ 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.

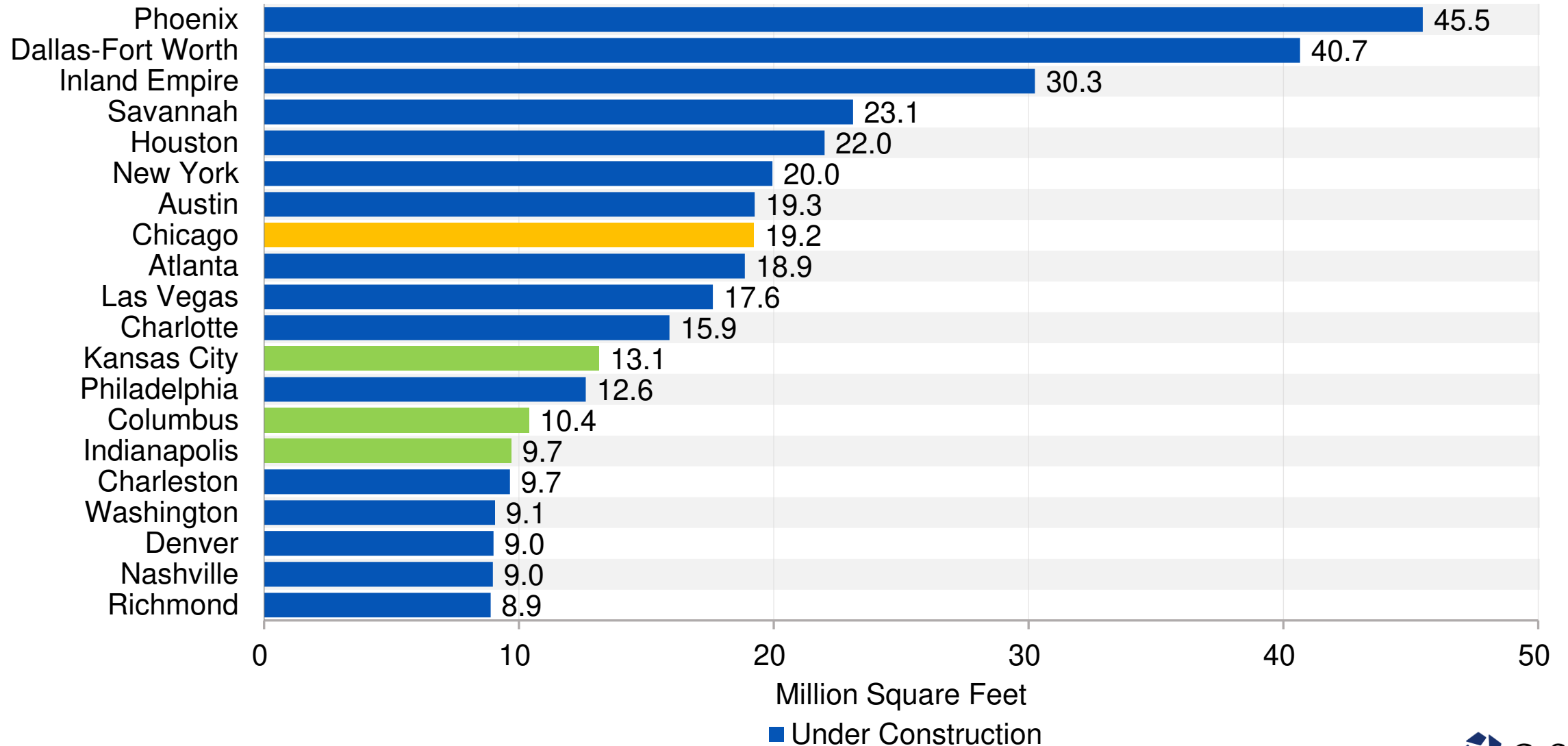


Industrial Supply

Top Net Deliveries



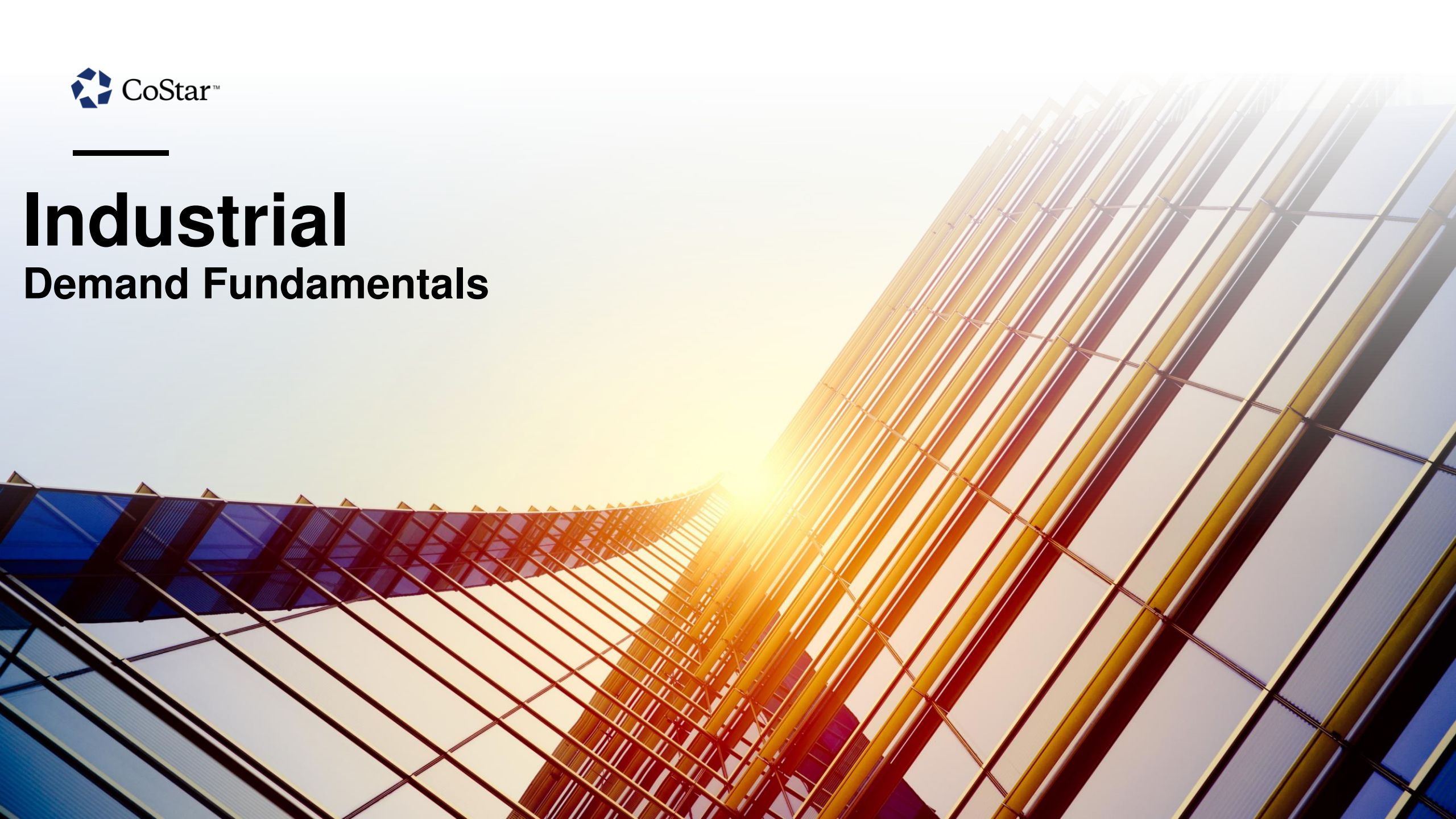
Most Space Under Construction



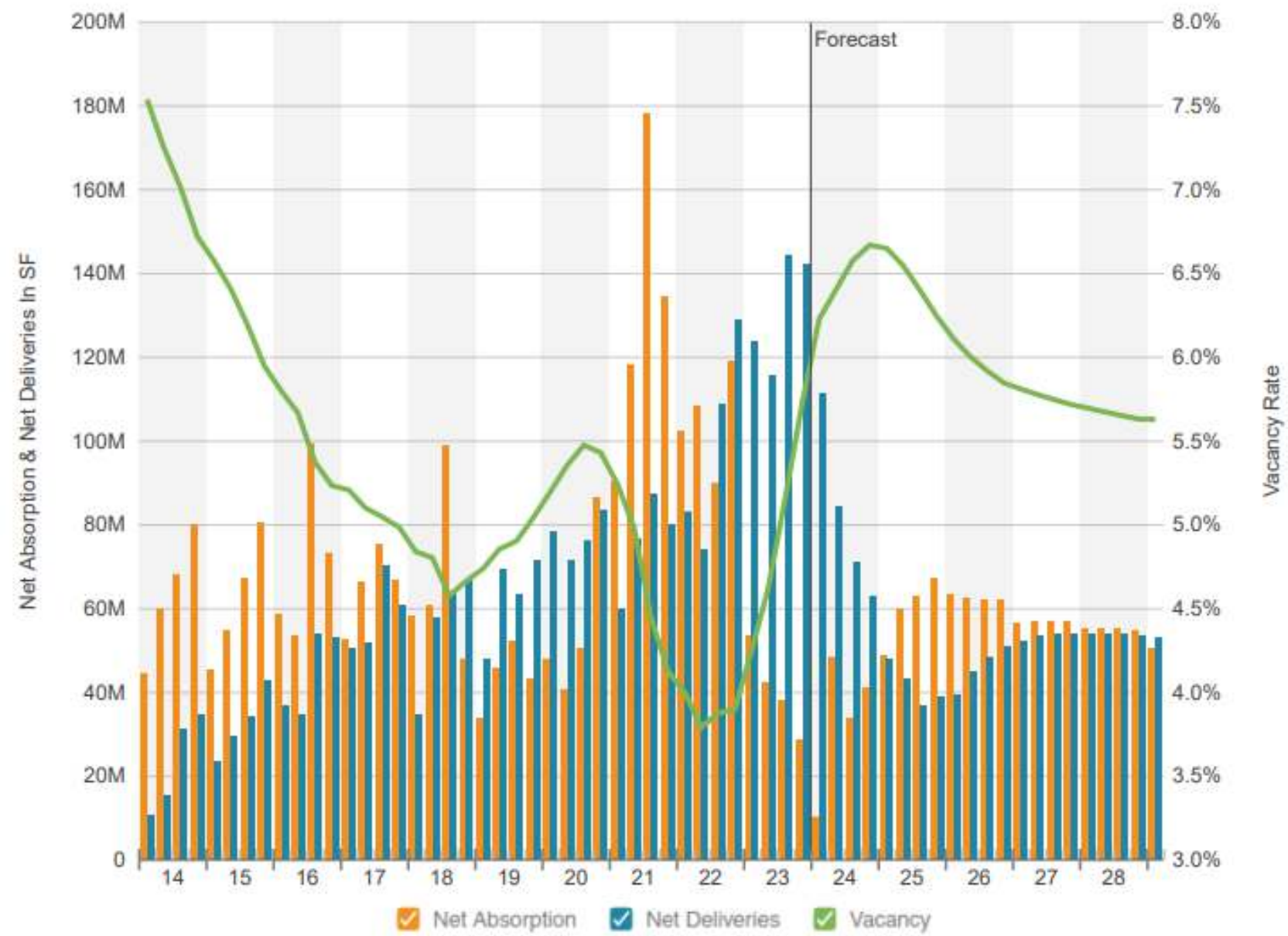


Industrial

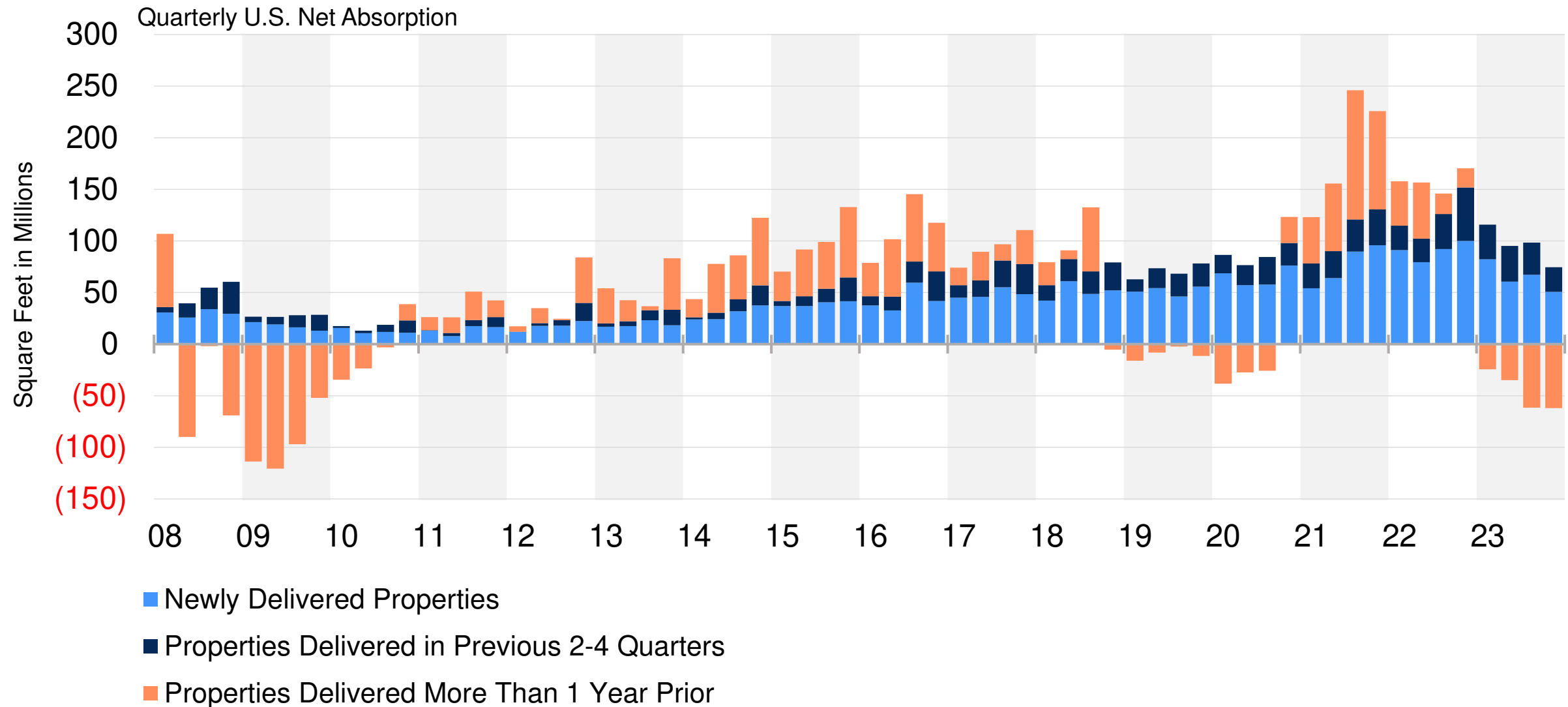
Demand Fundamentals



U.S. Industrial Fundamentals

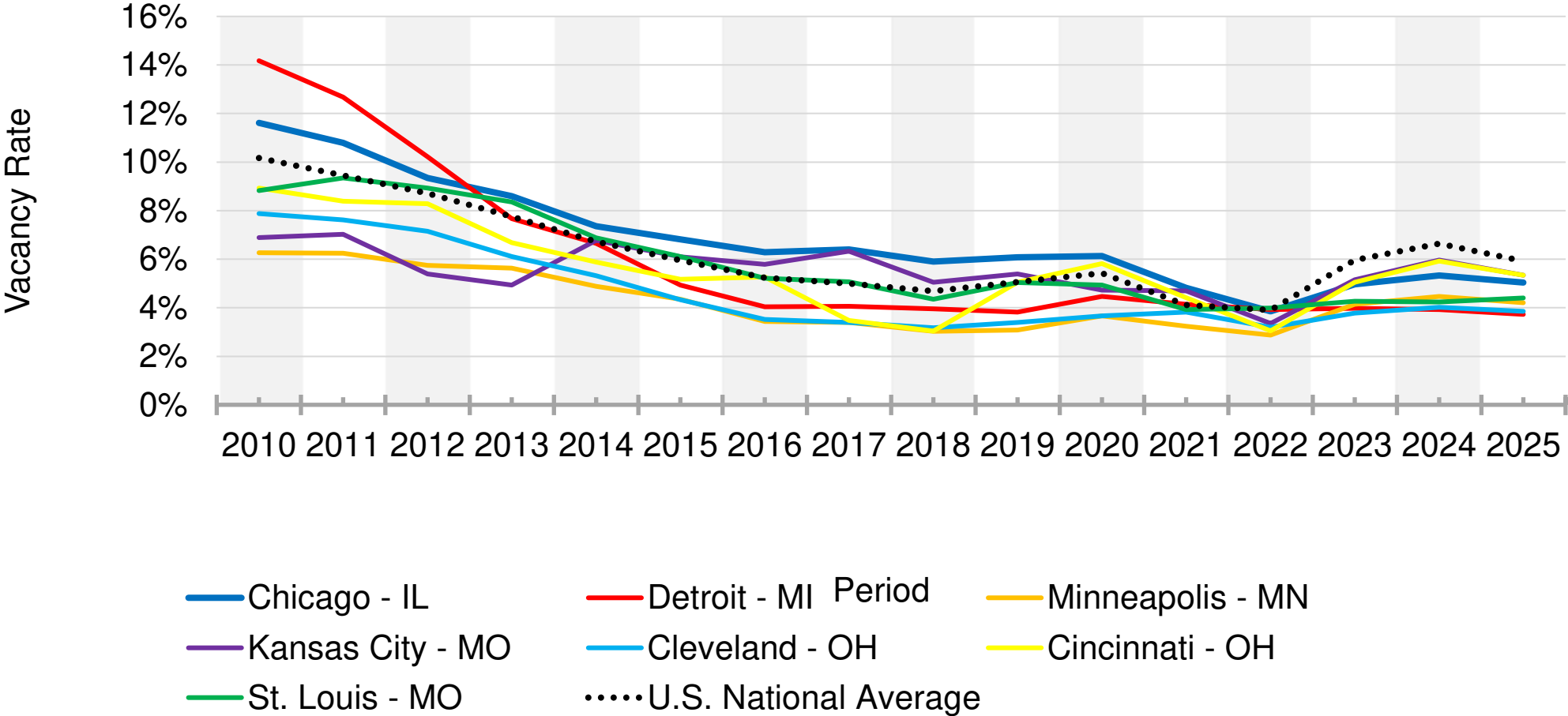


Build-To-Suits Propping Up Net Absorption

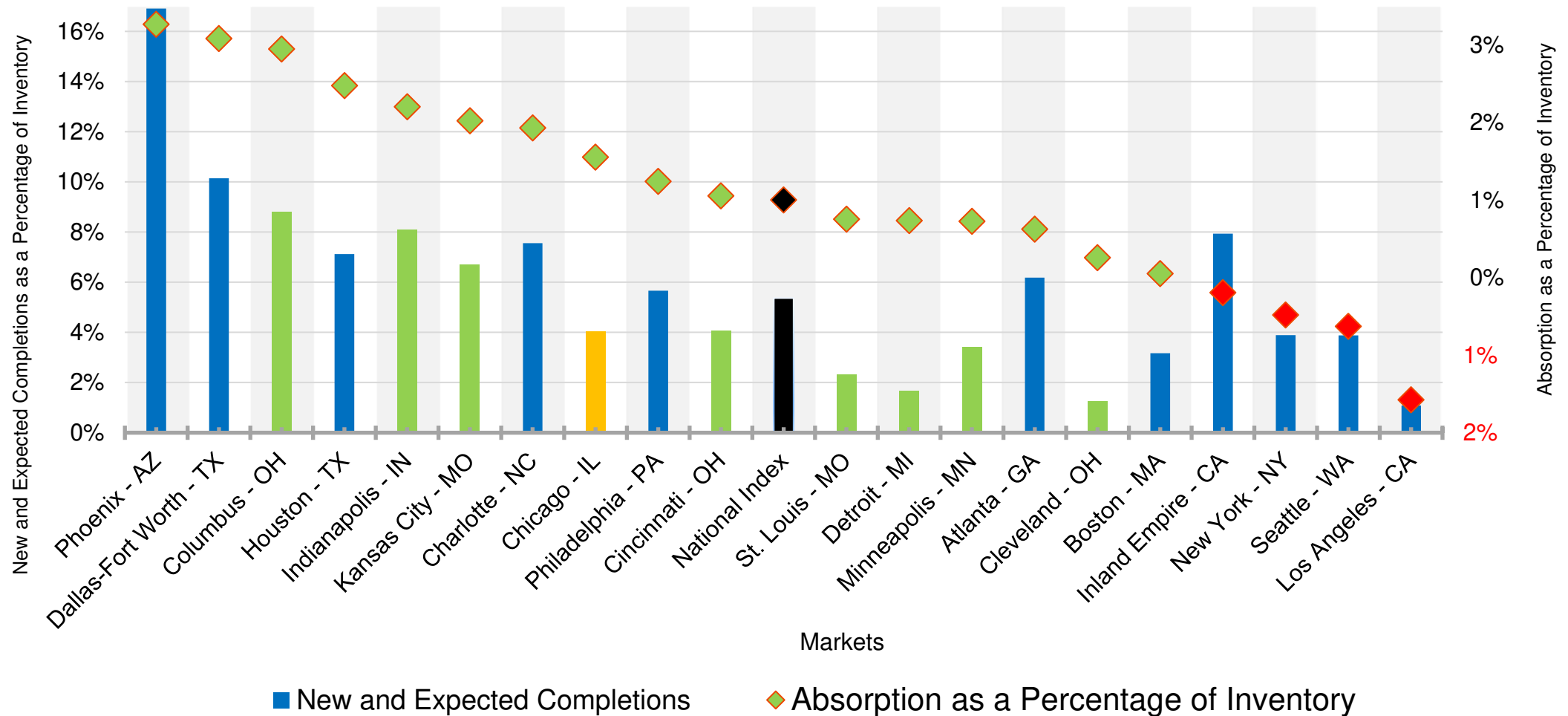


Source: CoStar

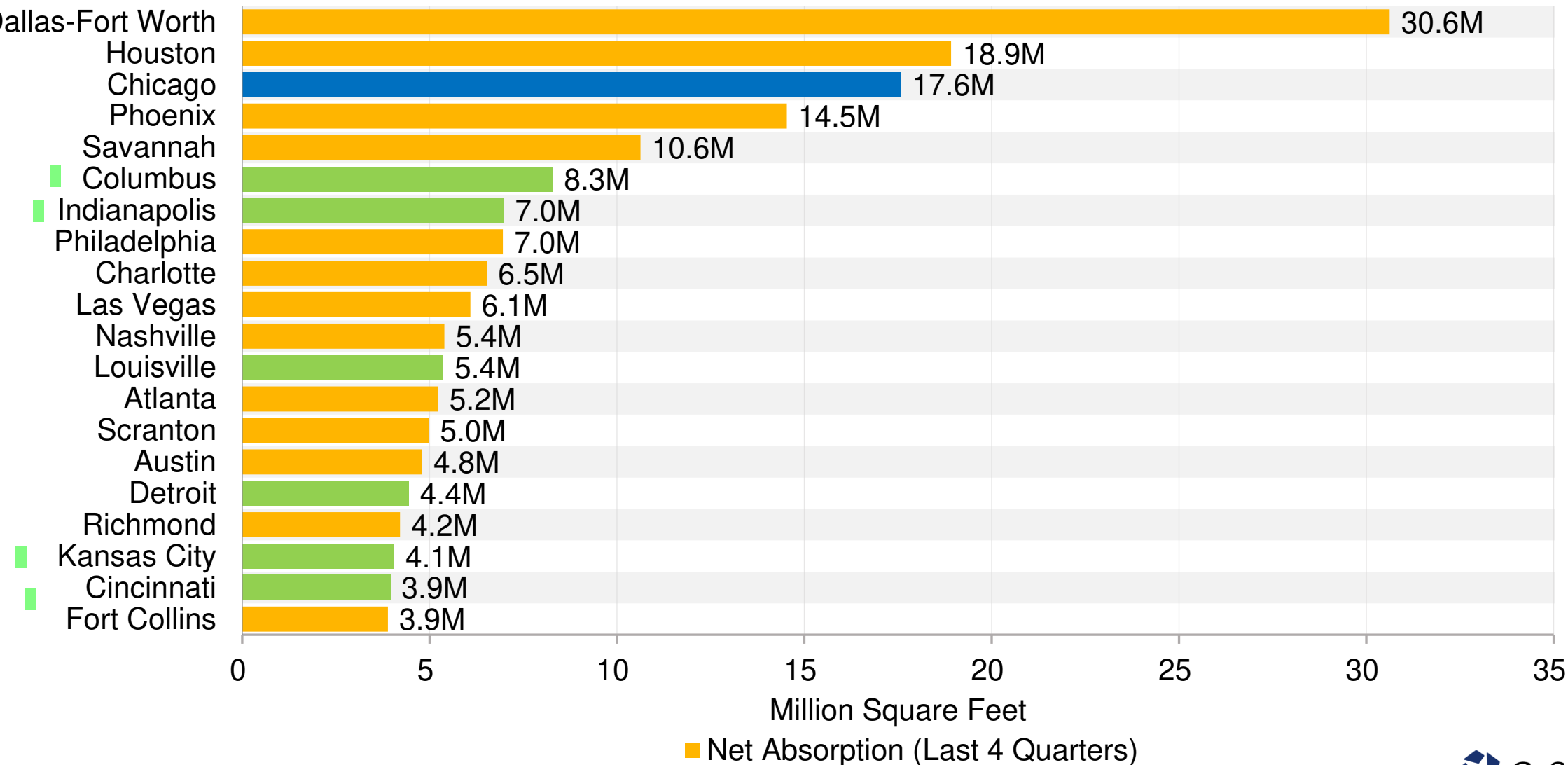
Midwest Markets Get Industrial Vacancies Below US Average



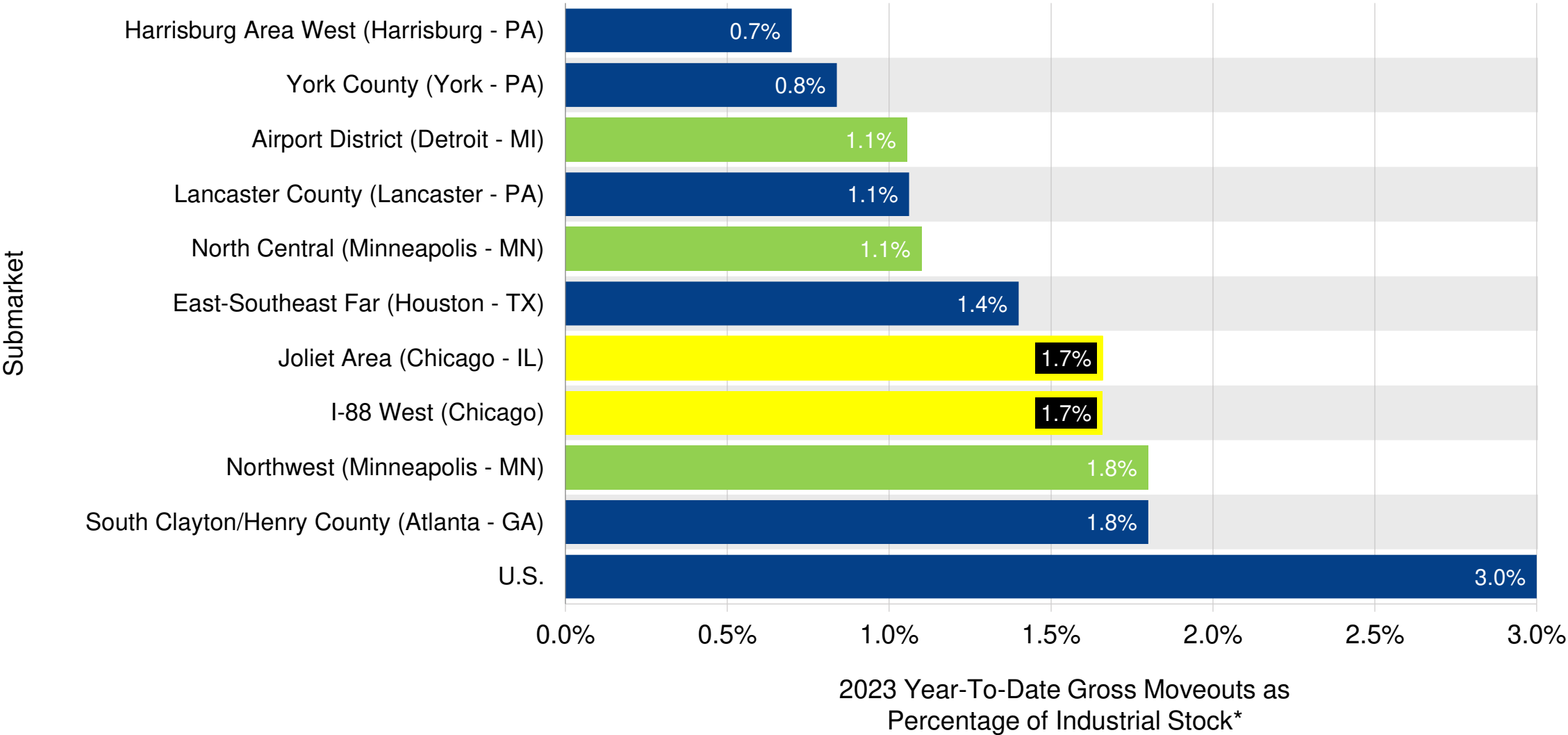
New Industrial Completions At Times Lead To More Move-Ins



Net Absorption



Leaders in Tenant Retention During 2023



*Excludes flex properties
Source: CoStar

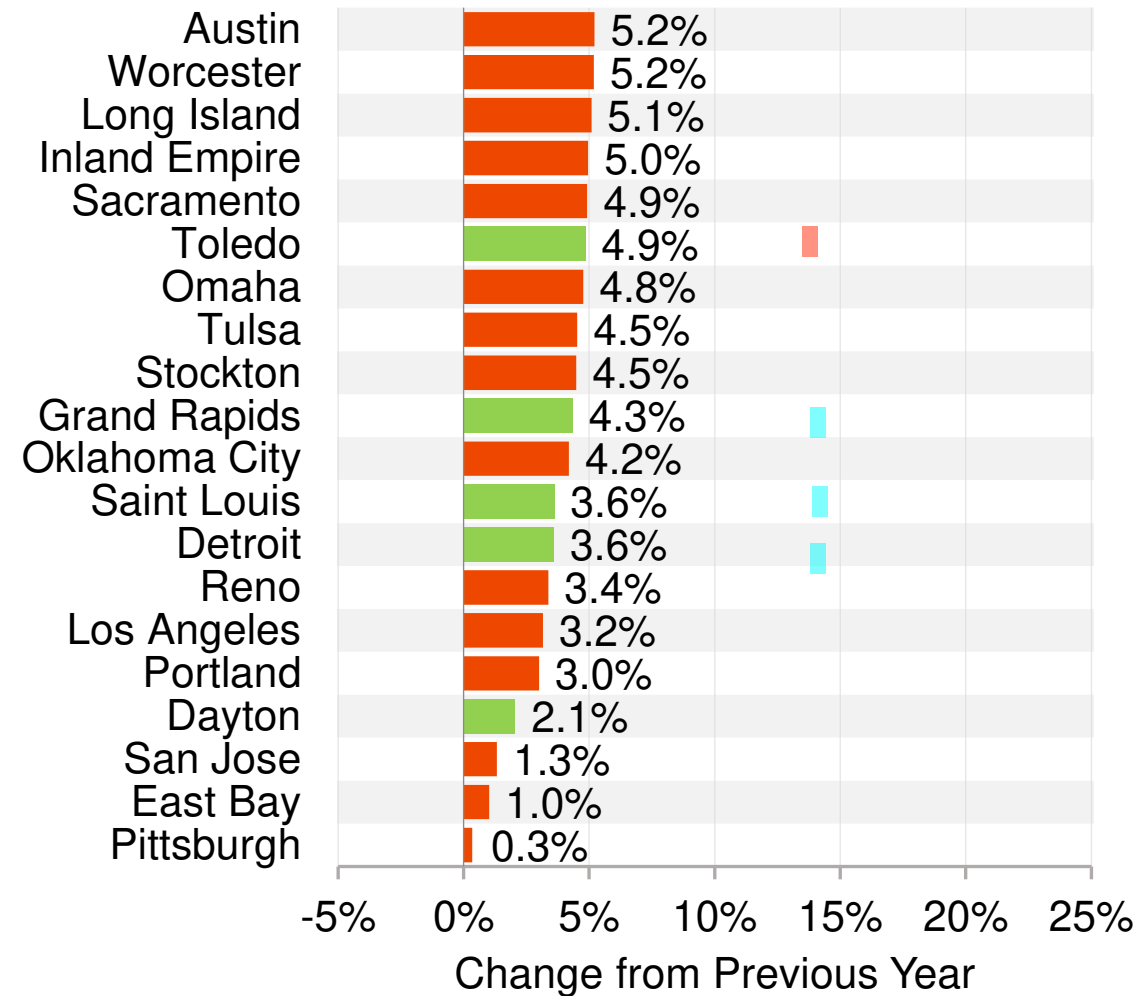
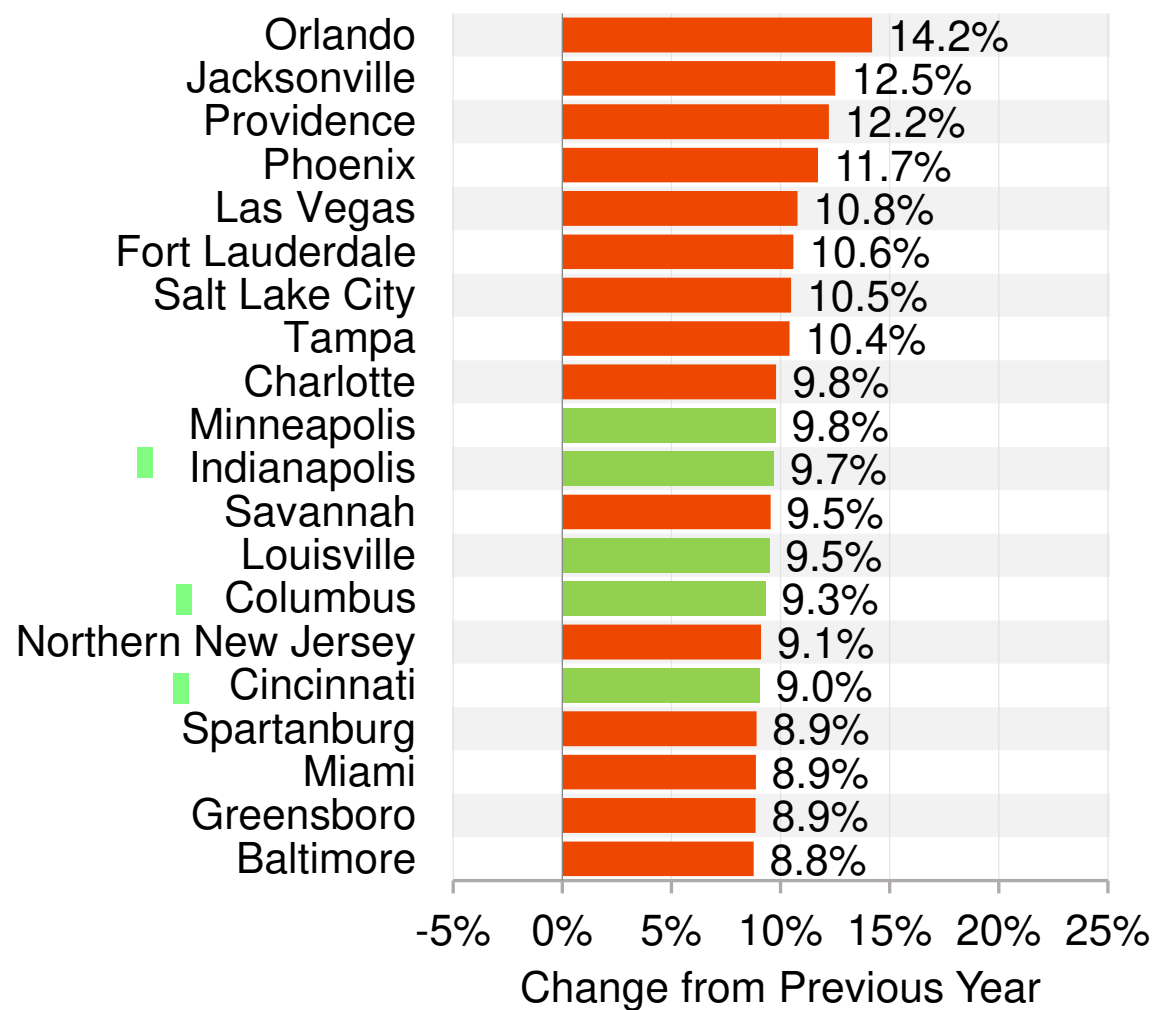


Industrial

Rent Growth



Rent Growth, by Market



■ Rent Growth

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



Office

The Negative Sum Game



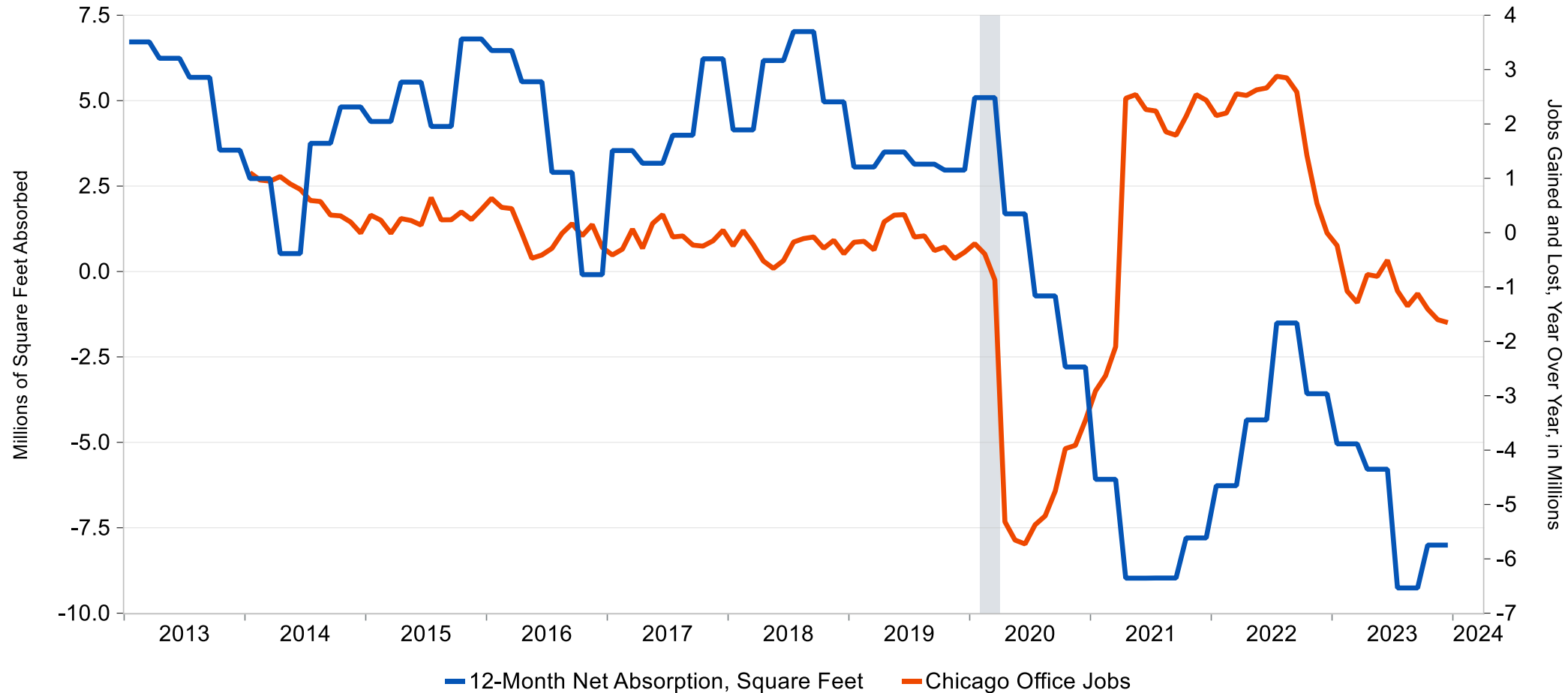
Chicago Shall Emerge Triumphant After the Great Fire (Sale) of the Mid-2020s

- 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



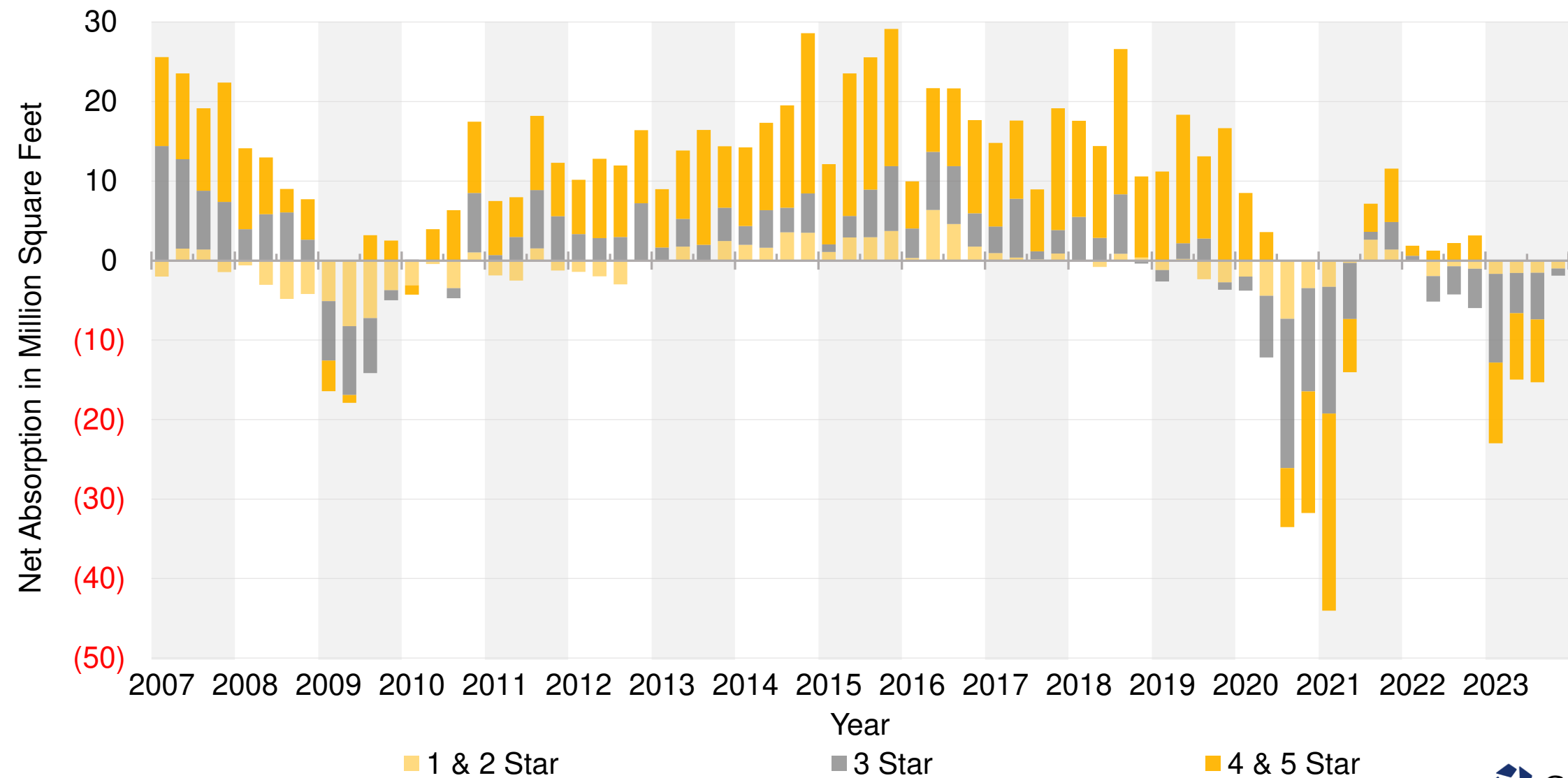
Source: U.S. Bureau of Labor Statistics and CoStar, January 2024
Note: Gray area denotes a recession



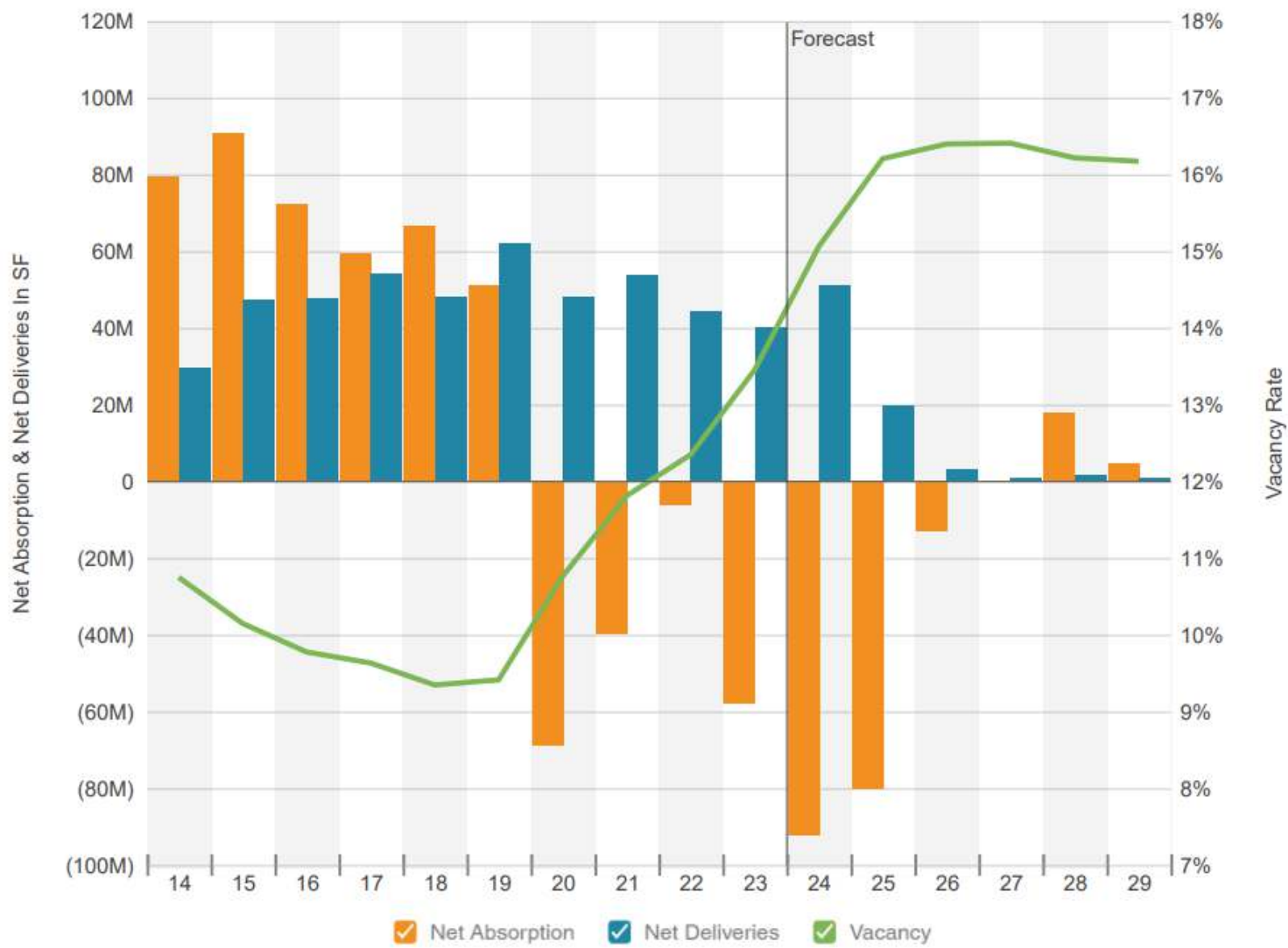
Office Fundamentals:

Absorption, Vacancy & Availability

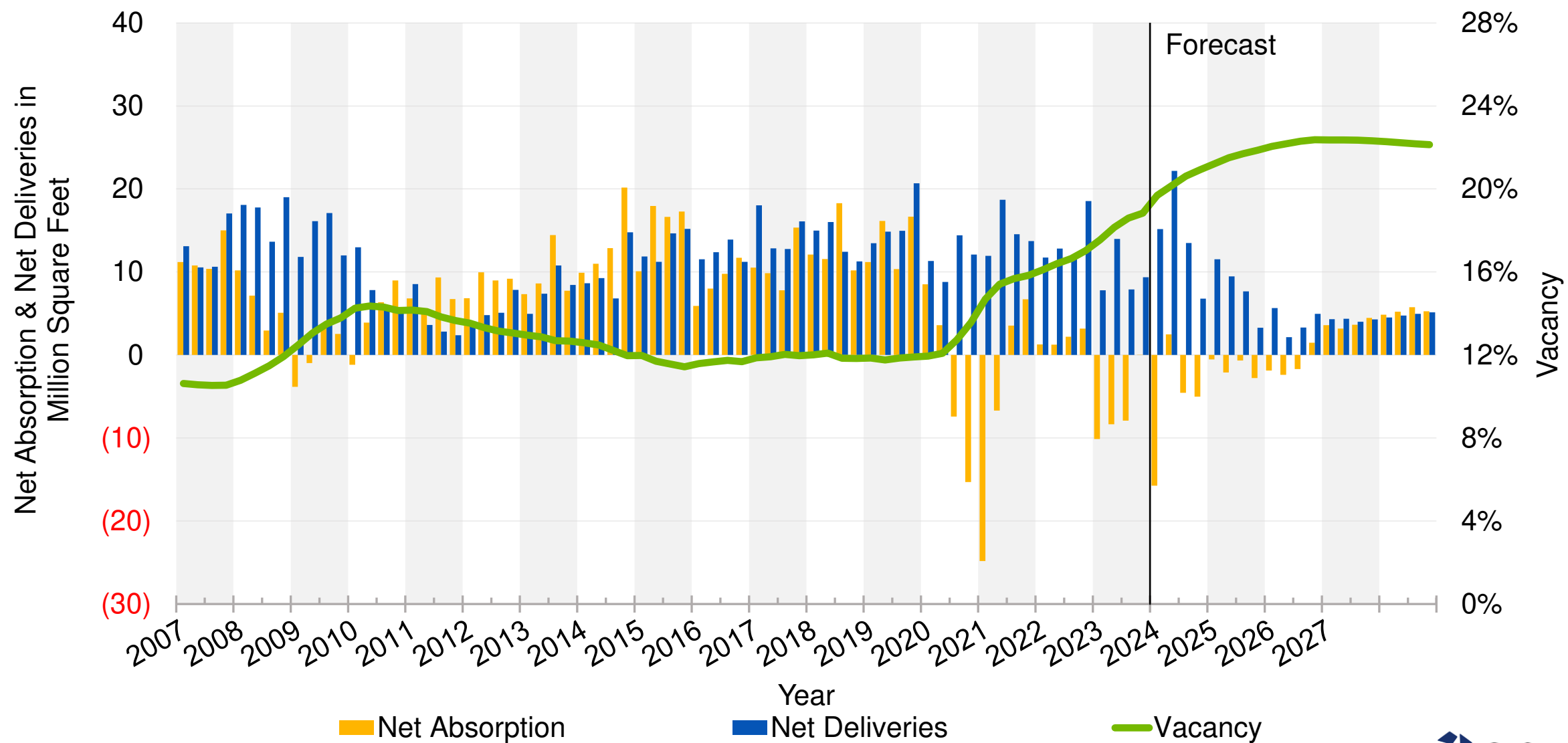
Net Absorption, by Subtype. Even Trophy Lags.



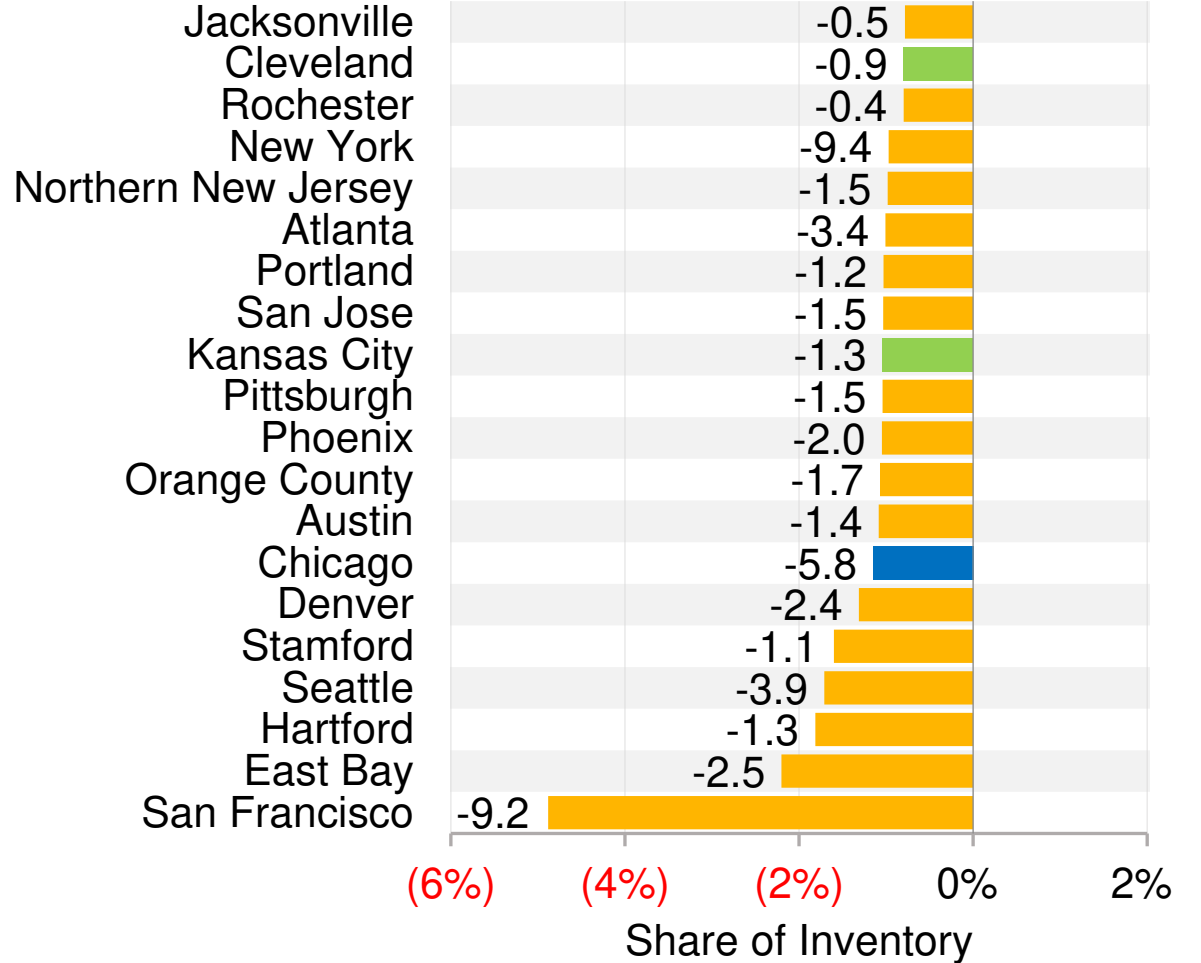
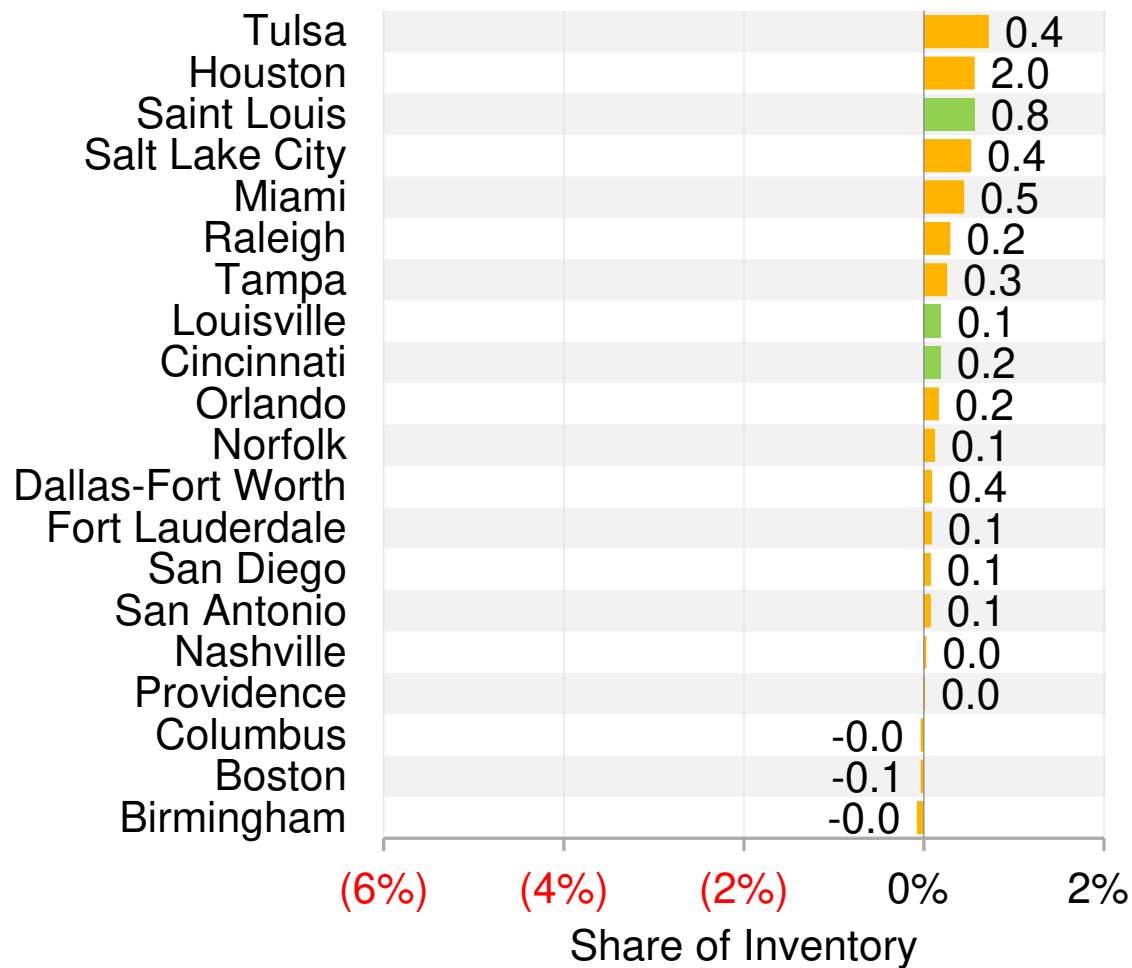
National Office Supply and Demand: Struggles Continue



4 & 5 Star Completions Compound on Absorption Troubles



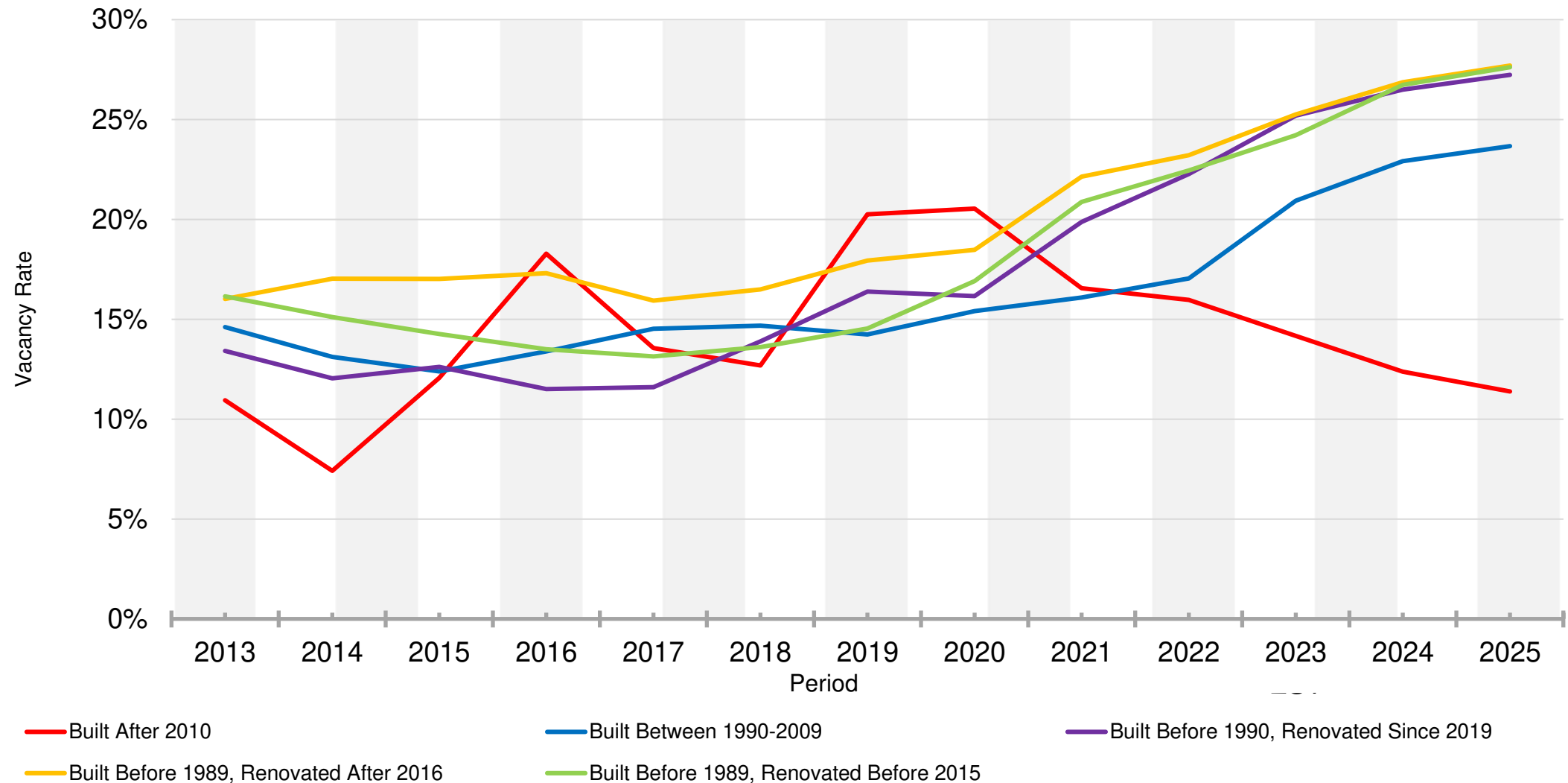
Net Absorption As Share of Inventory



■ Net Absorption (Last 4 Quarters)

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

Chicago Office Renovations Do Little To Stem Vacancy Tide

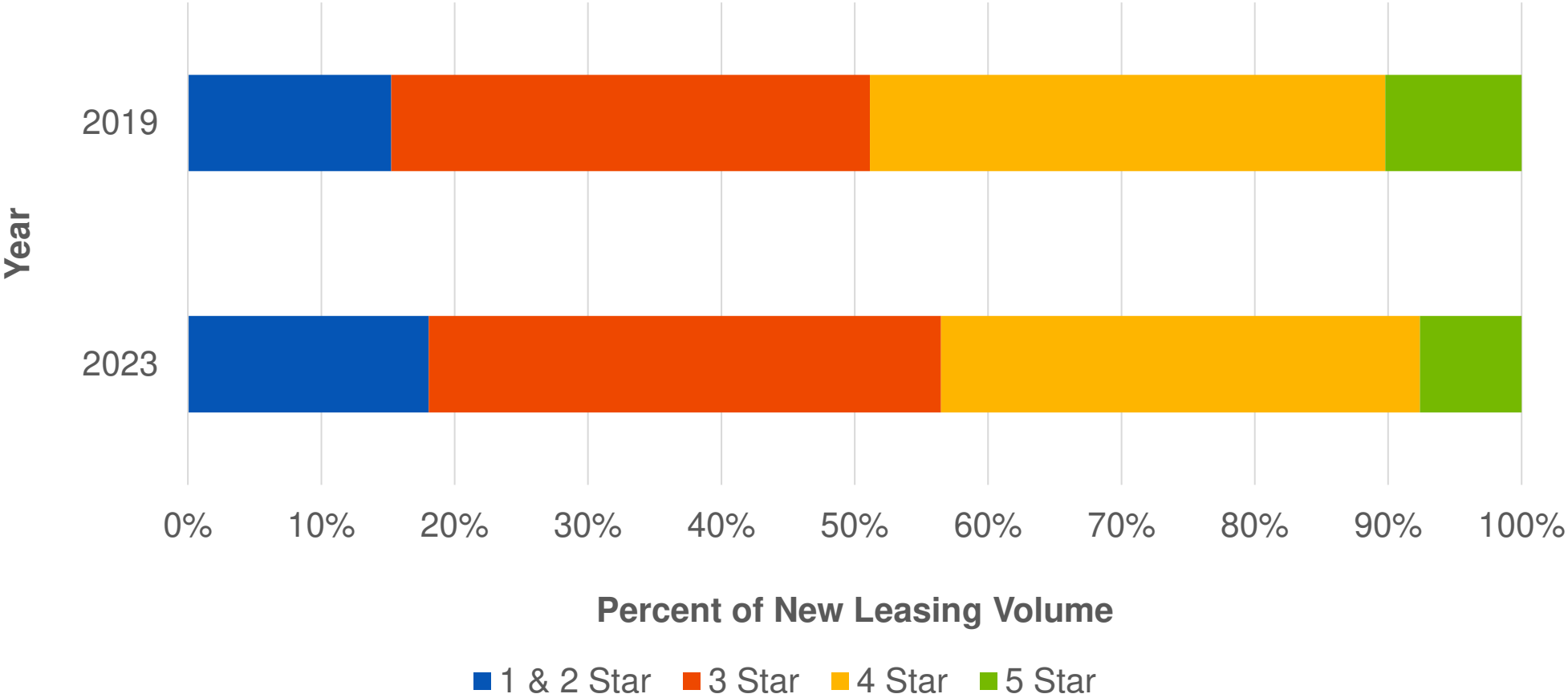


Source: CoStar, December 2023

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

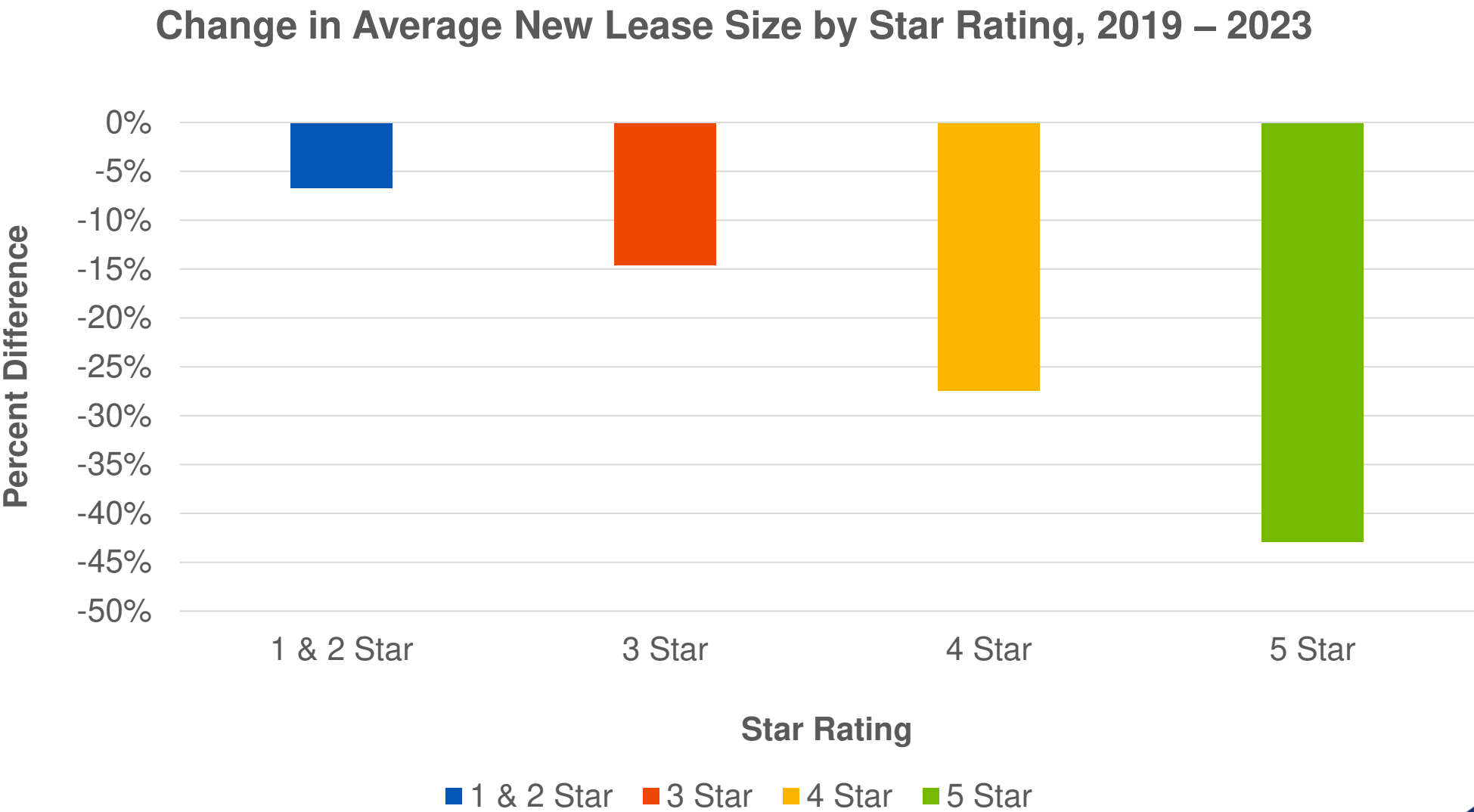
Leasing Activity Skews Toward Lower-Rated Buildings

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



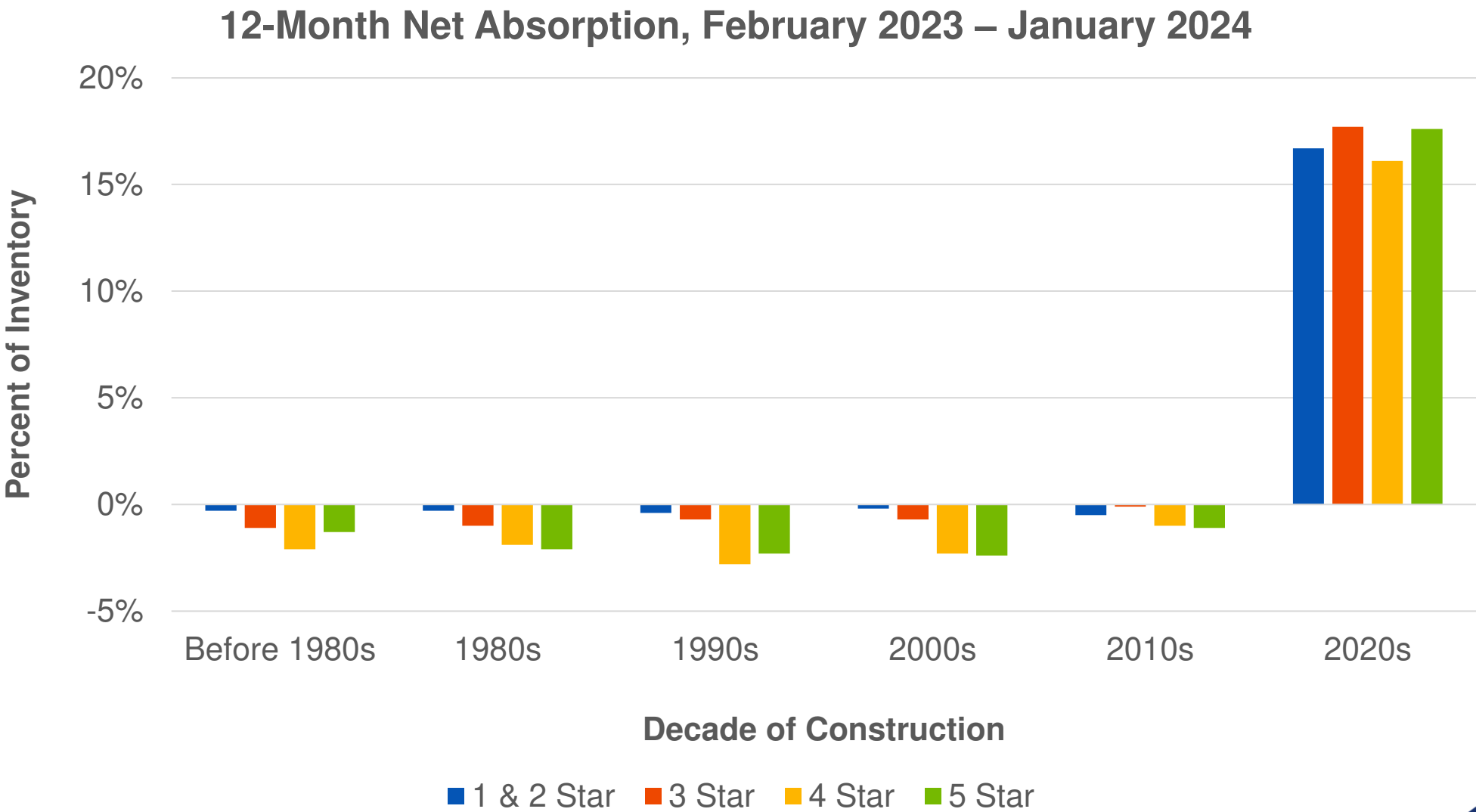
Source: CoStar, January 2024

Leases Shrink Most at Highest-Rated Buildings



Source: CoStar, January 2024

Only First-Generation Buildings Maintain Demand



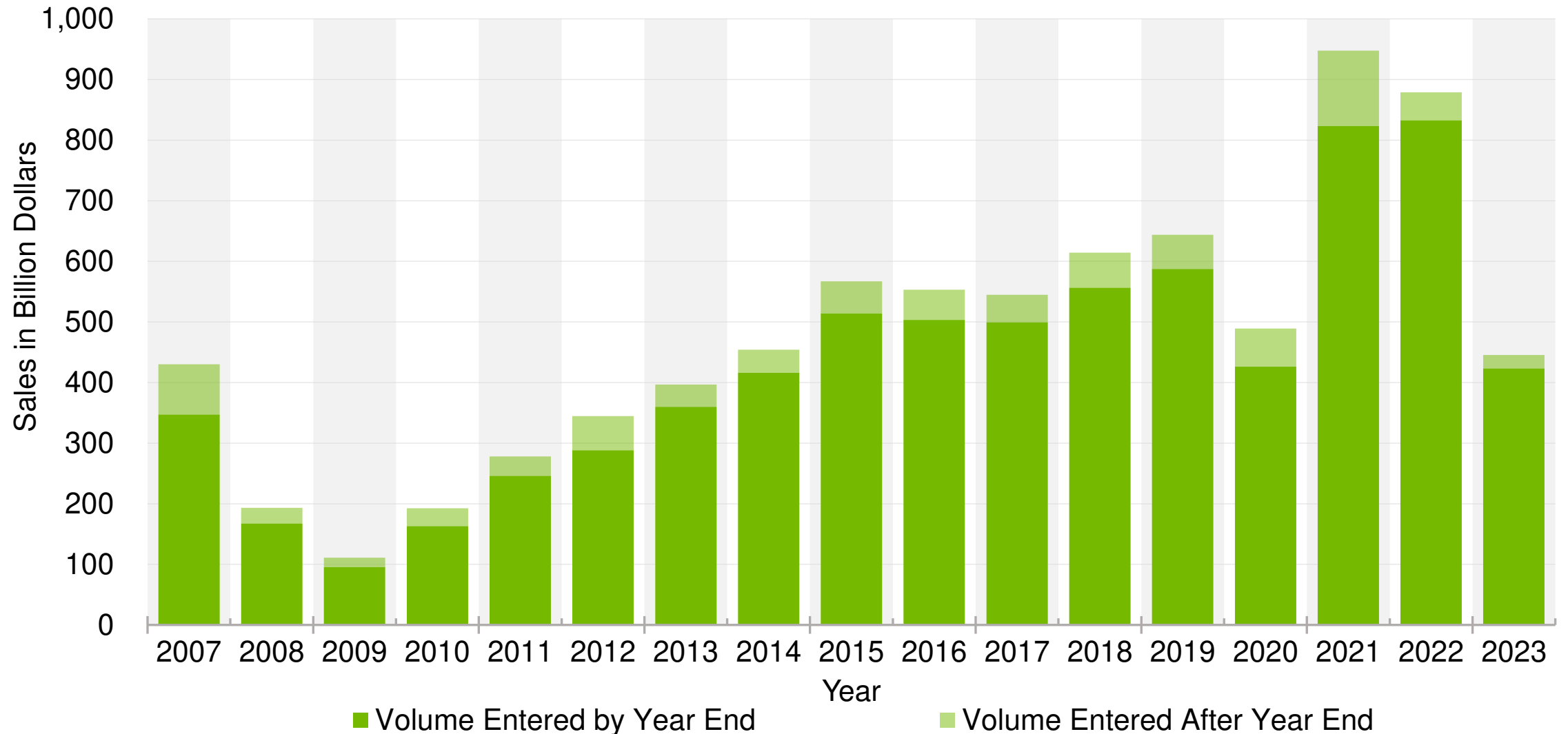
Source: CoStar, January 2024



Capital

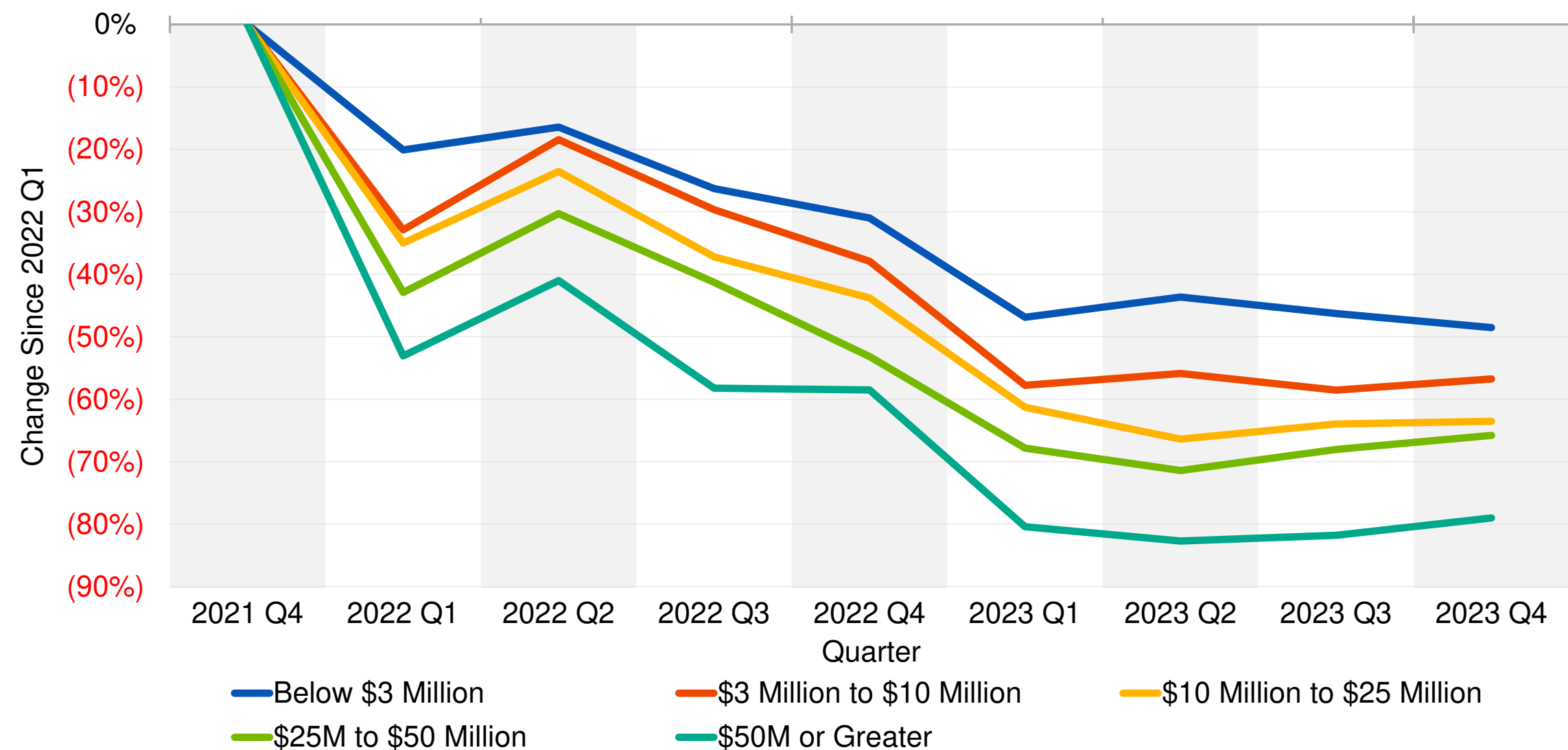
Office Vs. Others

Annual Commercial Real Estate Sales Volume



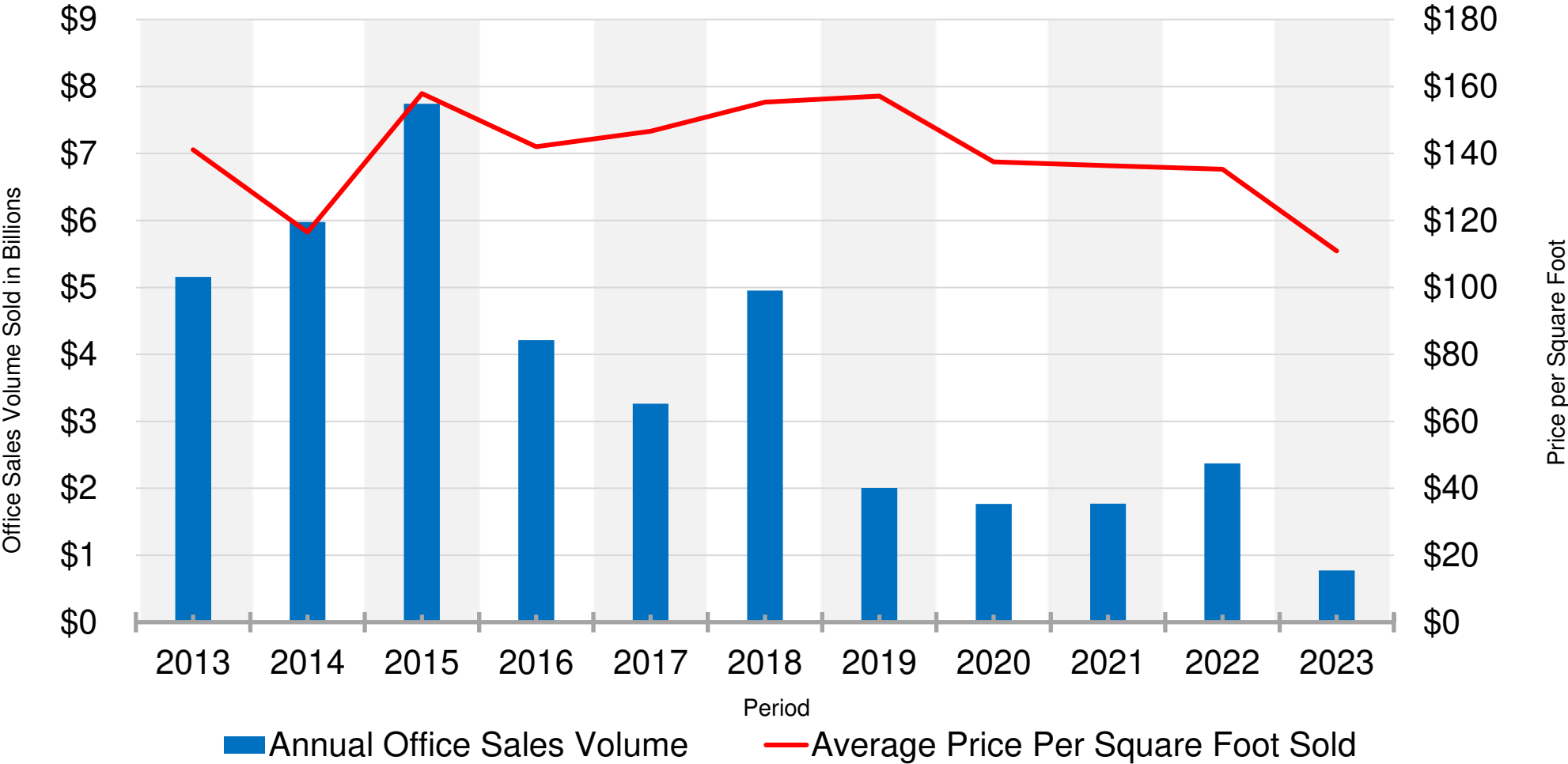
*Year-to-date as of 1/22/2024. Includes Multifamily, Office, Retail, Industrial, and Hotel

Change Quarterly Sales Volume From Peak, by Deal Size



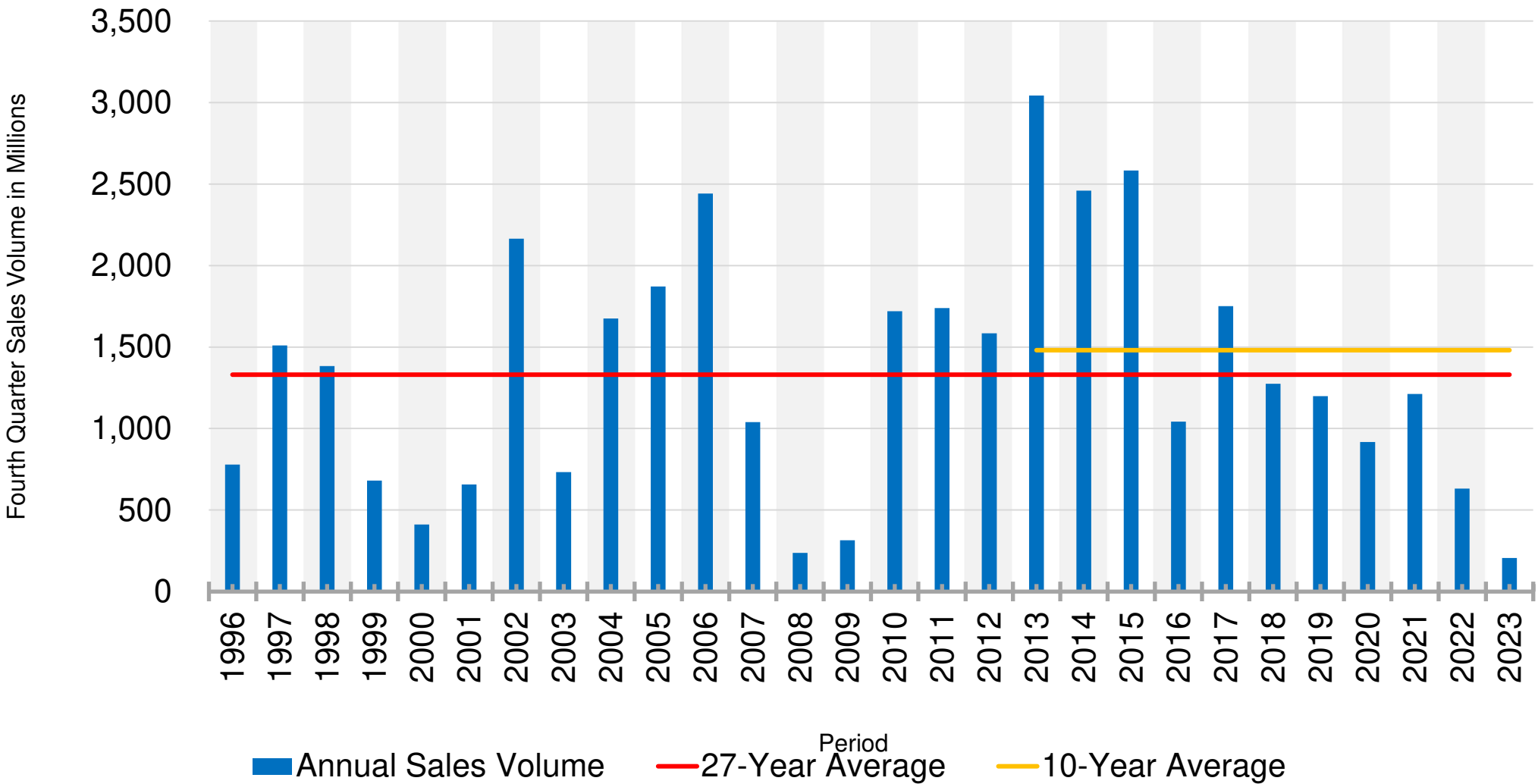
*Year-to-date as of 1/22/2024. Includes Multifamily, Office, Retail, Industrial, and Hotel

Chicago's Office Sales Losing its Luster Since 2015



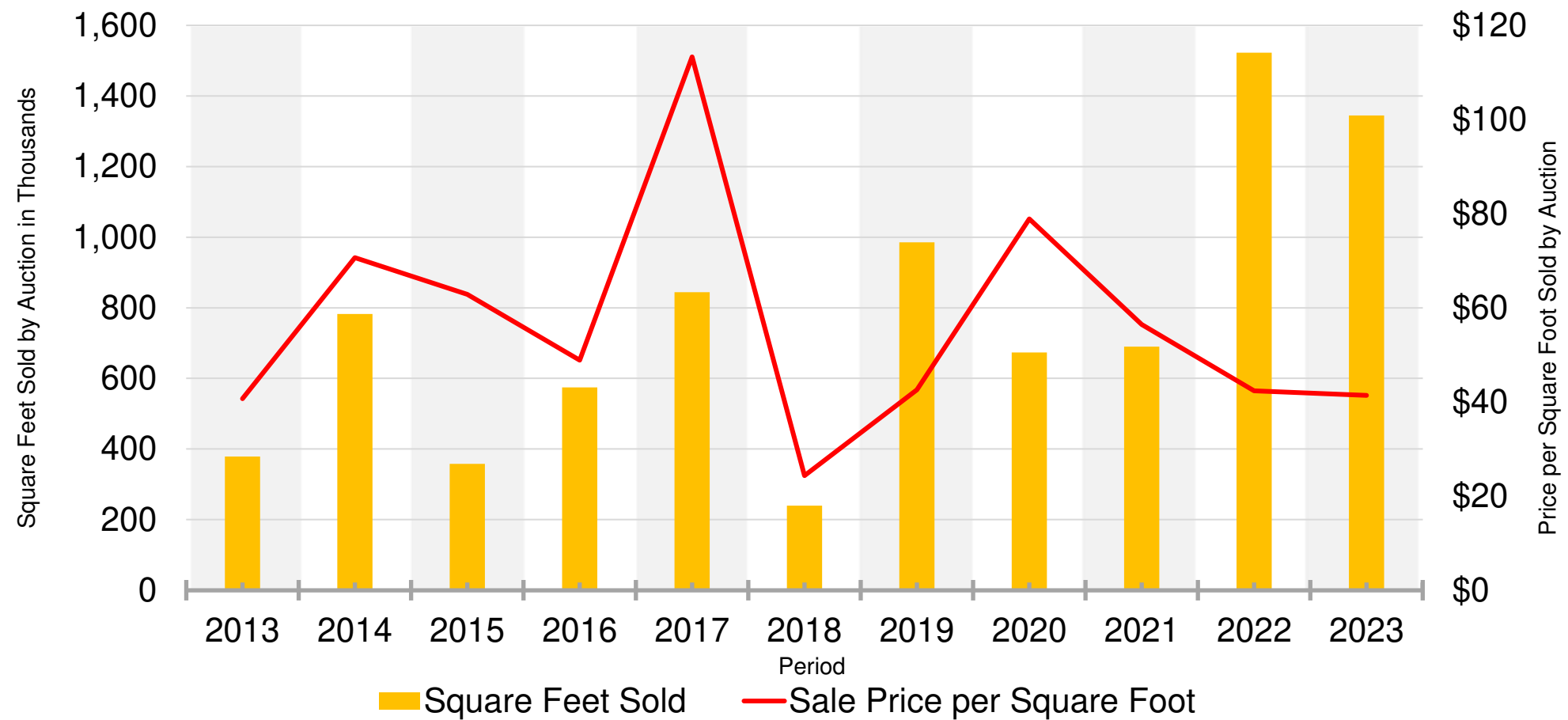
Source: CoStar, January 2024

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



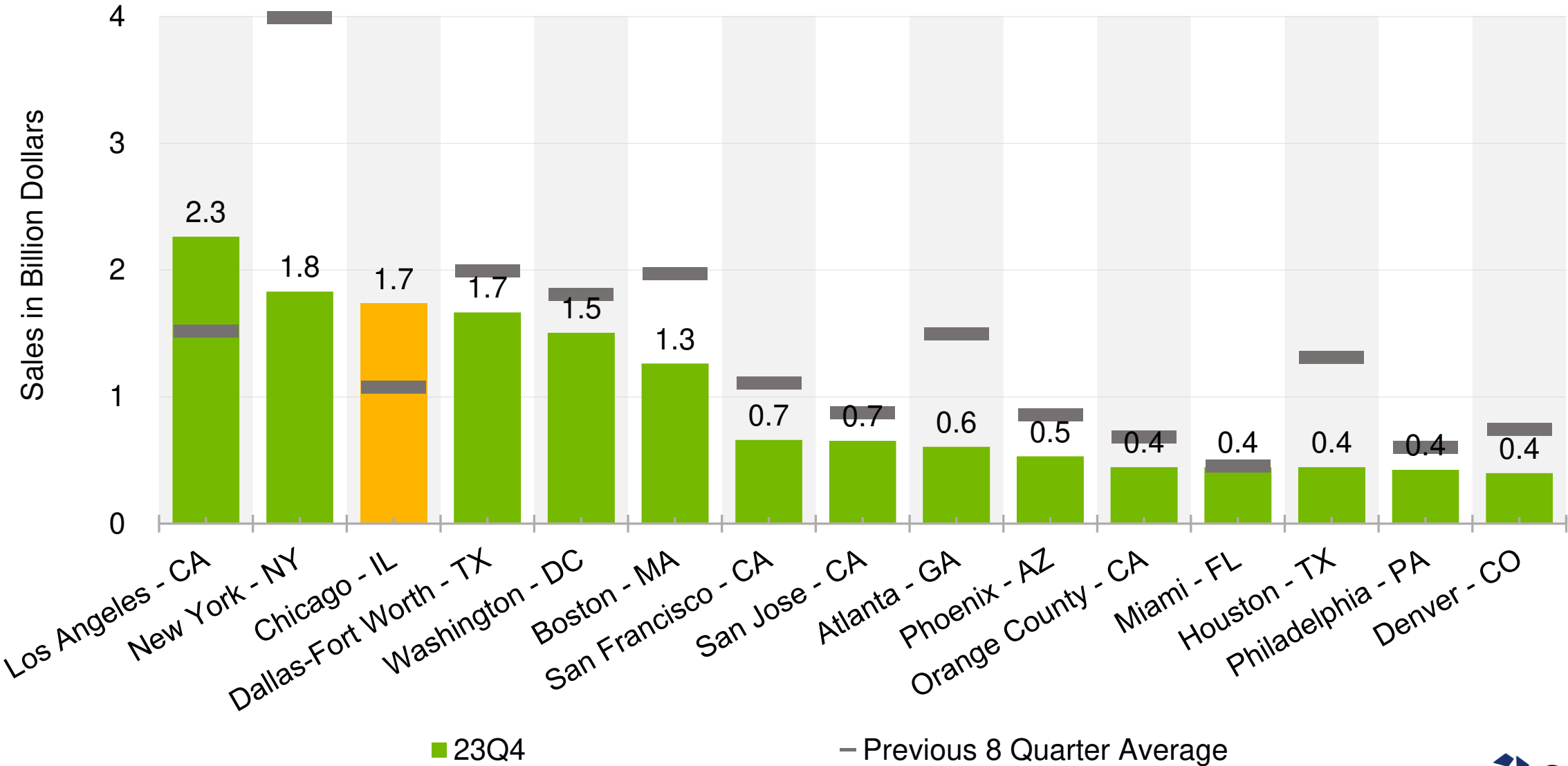
Source: CoStar, January 2024

Office Auctions Pick Up Steam in 2022 and 2023

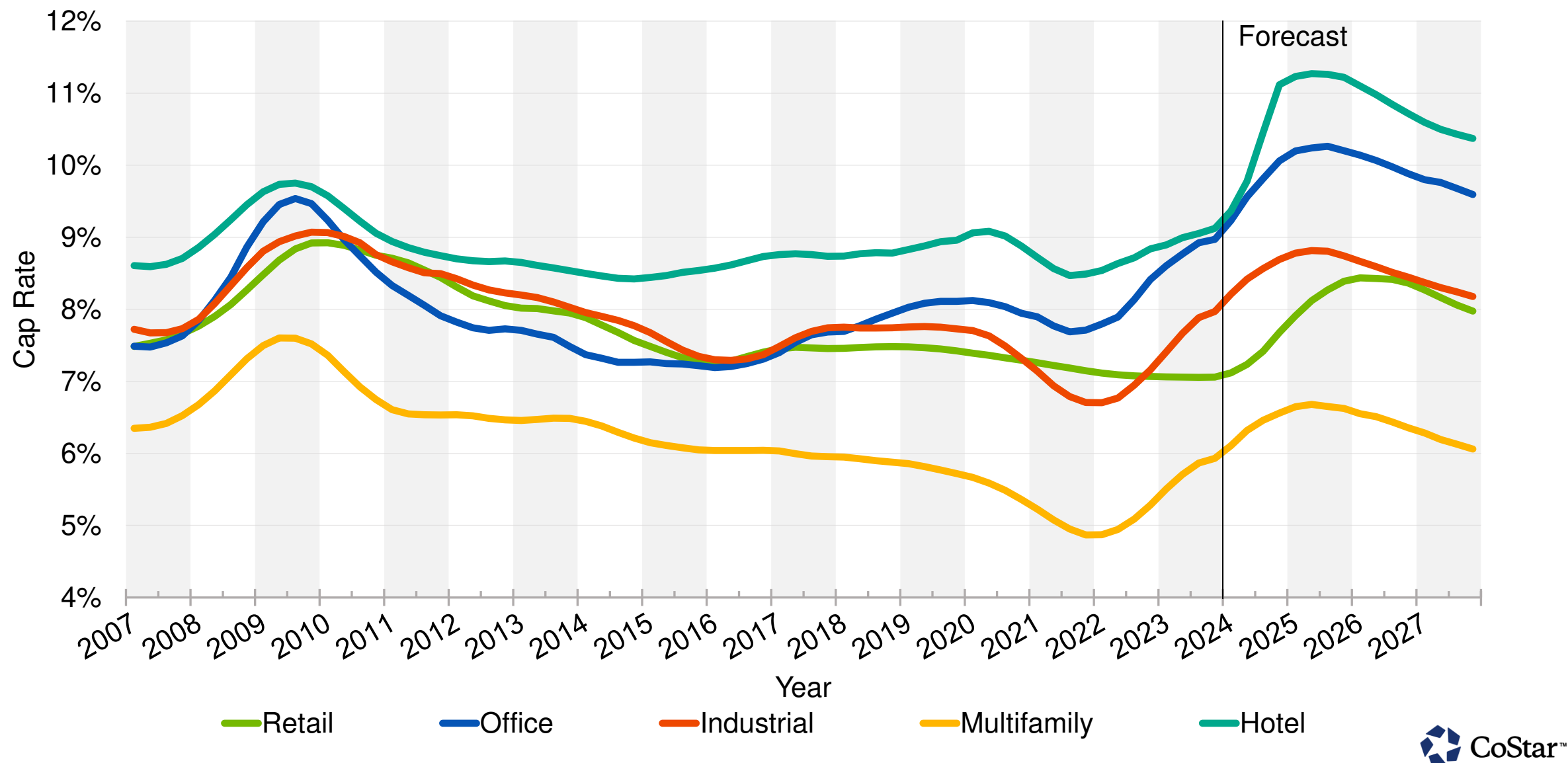


Source: CoStar, January 2024

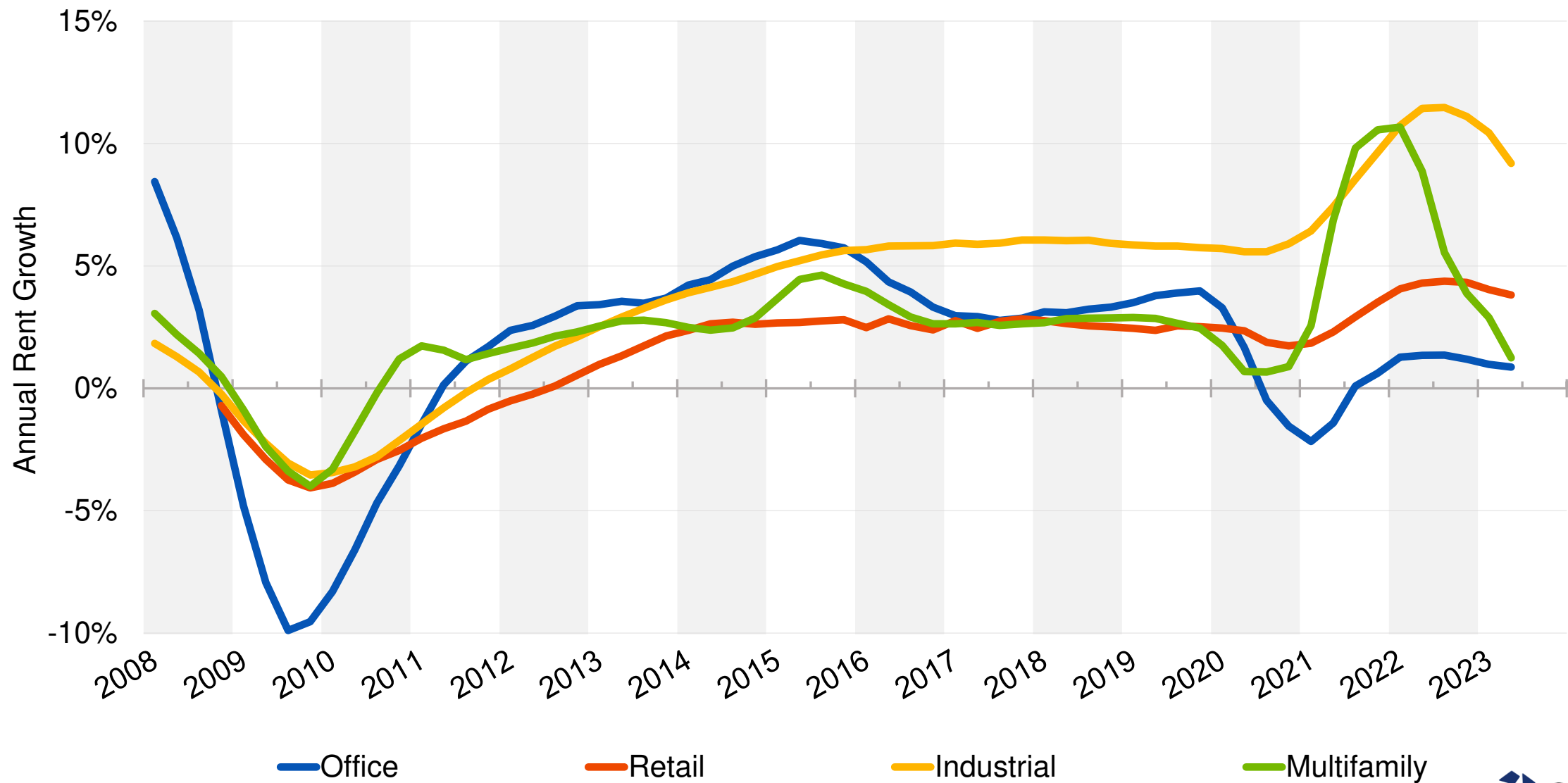
Adjuted Office Sales Volume, Top 15



Market Cap Rate by Property Type



Rent growth by property type



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)

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.

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](#)

CoStar Articles and Supplemental Sources

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)

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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