



KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	↓	↑
Vacant Space	↑	↑	↓
Construction Levels	→	→	↓
Leasing Volume	↓	↓	↑
Investment Volume	→	↓	↑

effect on the industrial sector, driving growth in warehouse needs, including last mile locations near Chicago’s urban core. The burgeoning food sector is one segment to watch, given the increasing demand for fresh foods and prepared meals, coupled with quick delivery demands.

These relocations, coupled with more efficient use of space, will likely affect owners of suburban and non-trophy assets as they actively compete to backfill vacancies. We expect to see these landlords become more aggressive with capital improvement projects and attractive concession packages to compete for tenants. Law offices in particular are reducing the amount of space they are occupying, reducing footprints by as much as 20%. As other industries take note, it could potentially impact other space requirements within the CBD next year.

The downtown office market is finishing a dramatic construction cycle that brought 5.8 msf of new class A space to the market since 2018. Flight to quality should continue in downtown Chicago’s office sector as demand for amenity rich, class A office space will increase second generation and suburban shadow space vacancies throughout 2020. New office developments delivered since 2018 are garnering record-setting rents in their respective submarkets as tenants are seeking ever-higher levels of quality, efficiency and amenity spaces.

Continued growth in e-commerce is having a transformational effect on the industrial sector, driving growth in warehouse needs, including last mile locations near Chicago’s urban core.

EXECUTIVE SUMMARY

- Continued e-commerce and logistics expansion and its impact on warehouse and distribution space, third-party logistics providers and retail space users.
- The introduction of mega developments, such as the 50-acre Lincoln Yards and the 62-acre “The 78”, and how they are redefining neighborhoods.
- Flight to quality in Chicago’s office sector and its impact on the older, shadow space left behind.
- Continued growth in industrial space usage for food related businesses that support consumer demand for fresh food and packaged meals.

The Chicago market is dynamic and evolving to meet the needs of commercial real estate occupiers, landlords and investors heading into 2020. Technology, innovation and flexibility are driving many facets of the market especially office and industrial building design automation in the warehouse sector and overall space utilization.

The market is embracing change and positioning itself for the future. Changes since 2018 include: 7.8 msf of office development, 31.2 msf of industrial development, 19,069 units of multi-family development, ongoing redevelopment of historic Chicago neighborhood, and expansion of business supply chain footprints. These factors contribute to the long-term economic health of the market.

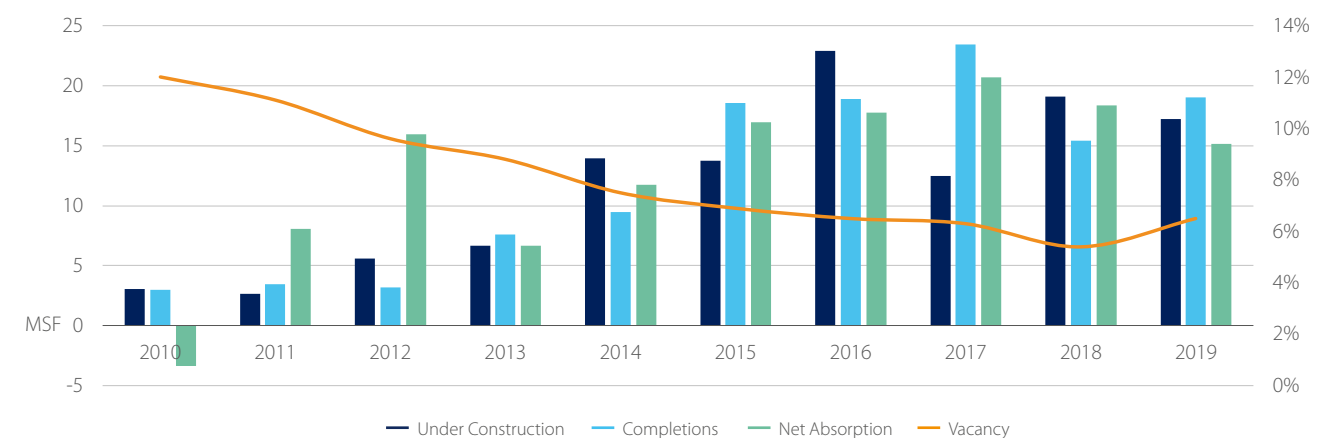
Moving into 2020, interest rates are being watched closely due to their impact on real estate investment and corporate growth. The current ultra-low rate environment has the ability to lengthen the real estate cycle and attract more investment, yet any uptick can have a noticeable impact. Economists are predicting a modest uptick in 2020, that potentially can create a tipping point in Illinois, given concerns about pension liability issues and real estate tax reconfiguration.

Global expansion in the industrial sector had a significant impact in Chicago, which ranks among the top five industrial markets in the U.S. Heading into 2020 momentum remains strong producing 86 msf of leasing and 34 msf of new construction since 2018. The current construction pipeline includes both speculative and build-to-suit projects across 78 properties totaling 18.5 msf, with a majority scheduled for completion by the end of 2020.

Continued growth in e-commerce is having a transformational

HISTORICAL SUPPLY AND DEMAND

Chicago Annual Industrial Supply, Net Absorption and Vacancy



Source: CoStar Realty Information, Inc.