

CHICAGO CHAPTER OF THE APPRAISAL INSTITUTE
“CONDITIONS OF THE CHICAGO REAL ESTATE MARKET”
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Thomas A. Jaconetty
Deputy Assessor, Valuation and Appeals
and
Paul Arthur Moody
Formerly Senior Research Analyst
Office of Cook County Assessor Joseph Berrios

**SOME GENERAL OBSERVATIONS, TRENDS, TENDANCIES, AND
DEVELOPMENTS IN THE CHICAGO AREA REAL ESTATE MARKET
TOGETHER WITH RECENT LEGISLATIVE AND REFORM INITIATIVES**

***Commercial and Industrial Market**

- **Downtown (CBD) Office Market**

- ✓ Vacancy rates range from 14.1% to 13.5% slightly decreasing from 4th quarter 2012 to 3rd quarter 2013
- ✓ Positive absorption in West Loop and River North submarkets; average asking rents show modest increases of 2.5%.
- ✓ Six major sales of notable office buildings in 2013 at prices ranging from \$190.00 to \$325.00/square foot. Most recent sale last week of 300 N. La Salle St. set a Chicago market record at \$850.00/square foot.
- ✓ Purchases are not just limited to “trophy” buildings but include a variety of office complexes. Purchasers include Chinese, Canadian, and South Korean investors.
- ✓ Some major relocations (such as Motorola Mobility) from various suburban sites to downtown
- ✓ Asking rents generally up 3-4%.
- ✓ More cranes bear witness to several new developments.

- **Suburban Office Market**

- ✓ Recovery is slower with vacancy rates tending form 20-25% slightly increasing since 2008.
- ✓ From 2012 to 2014 the sprawling urban campuses formerly represented by United Airlines, Allstate, Sears, AT&T, Kraft, and Motorola are on the decline with corporate mergers, technology changes, downsizing, consolidations, and relocations. Demolitions of some portions of corporate campuses like Allstate

and moving of operations into new reconfigured space such as Zurich are becoming more common.

- ✓ Rent concessions and build-out credits remain commonplace
- ✓ Typical vacancy rates for 2013-2014 hover around at 22% for O'Hare, 21-22% for Northwest suburbs, 18-23% for North suburbs, 25% for South Suburbs, and 35% for West Cook.

- **Retail Market**

- ✓ Remains under significant stress in the current economy.
- ✓ The “Dominick’s Effect”—some acquired by Jewel Foods, Whole Foods, Mariano’s, Pete’s Fresh Market; nonetheless others remain vacant
- ✓ 2011-2014 retail closings in whole or in part included: Borders, Best Buy, Sears/Kmart, Blockbuster, Barnes and Noble, Jewel Foods, Puma, Sears, Radio Shack, Office Depot, and Staples
- ✓ Rental ranges tend to be lowest in the south, southwest, and far southwest suburbs; highest in City North, City South, and north, far north, northwest, and west suburbs; and in between in far northwest, far southwest, southwest, and south suburbs.
- ✓ Distress in shopping malls: Ford City, Evergreen Plaza, Lincoln Mall
- ✓ Encouraging sign: Walmart development in various south side Chicago areas
- ✓ Vacancy rates in Central Loop, Michigan Avenue, LaSalle/Wacker, and Central Loop are generally around 11%, a twelve year low which is better than in the suburban market.
- ✓ Michigan Avenue remains healthy with vacancy lower than 2007 and rentals much higher; steady market trading of properties; North Michigan rated as the 6th best retail location in North America and Oak Street at the 9th; four major transactions from January 2013 through March 2014 at \$1,000-\$4,700/square foot.

- **Industrial Market**

- ✓ Area wide 2013-2014 vacancy rates around 8-5-9%, lowest since 2007 with a decline of eleven consecutive quarters as of 3rd quarter 2013, compared to vacancy rates slightly above or below 12% in 2009 and 2010.
- ✓ Absorption has generally been positive since late 2011 and continuing through 2013 with very modest showing in mid-2012 and significant jumps in late 2012 and early 2013, followed by positive signs half as good in mid-2013
- ✓ Rental rates for industrial and warehousing space generally have remained stable or flat from 2012 forward.

- ✓ Rental rates tend to be highest in the north and northwest suburbs and North Chicago; lower in South Chicago, near south suburbs, near south western and western suburbs; lowest in the far south suburbs; in-between in O'Hare and western suburban sub-markets
- **Hotels**
 - ✓ **Downtown**
 - RevPar overall steadily increasing since 2009 with overall aggregate stable for 2012-2014 at levels only slightly under 2008
 - New developments downtown: Loews, London Guarantee Building, 100 West Monroe Hyatt conversion project, and 29-39 South LaSalle Klimpton (New York Life building) project
 - 1,500 rooms added in 2013 and another 1,800 are under construction
 - “Brutal 2014 Winter Effect” dropped occupancy significantly—impact remains to be seen
 - 4th largest market in the nation
 - Significant data collected on the 30 major convention, boutique, special service, and full service hotels keeps valuation current and timely
 - March 2014 occupancy in Magnificent Mile area: Streeterville-64%, North Michigan-69%, River North 72%, Gold Coast 66%
 - Newly opened in 2014: Godfrey, Public Chicago
 - ✓ **Suburban**
 - O'Hare market occupancy in 2013 around 74%
 - Lingering problems: oversupply of rooms, declining occupancy rates and ADR generally, foreclosures, vacant properties, and clustering (*e.g.* Rosemont with airport, movie theaters, fashion outlet mall, established restaurants, and nearby casino)
 - Stable hotels have remained so; struggling hotels have remained so
- **Multi-unit Residential Market**
 - ✓ **Suburban**
 - Most suburban areas show increase in rental rates of 3-4% especially northwestern suburbs, except the North Shore which is down 1-2%
 - Suburban occupancy generally was around 95% in the 3rd quarter of 2013 in the best areas
 - South suburbs and far south suburbs are stable but many areas continue to struggle with vacancies and inability to command anticipated rents.

✓ **Chicago**

- Strongest rental sub-markets: Near North, Near South, West Town, Near West Side, Gold Coast, Lincoln Park, Loop, Roscoe Village
- Very Solid rental sub-markets: Logan Square, Wicker Park, Armour Square, Lake View, North Center, Lincoln Square, University Village, Little Italy
- Very good rental sub-markets: Jefferson Park, West Lawn, Forest Glen, Montclare, Edison Park, Dunning, Lower east side, Bridgeport, Avondale, Beverly, North Park, Hermosa Park, Irving Park, Humboldt Park, Bronzeville
- Lower/depressed rental sub-markets: Garfield Park, Austin, Lawndale, Douglas Park, Englewood

***Residential Market**

• **Overview from 2012 to 2013**

- ✓ Overall inventory down 18%
- ✓ Marketing time down 22%
- ✓ Sales up 20%
- ✓ Median price up 20%, projected up 7% in 2015 but still well below 2008 values
- ✓ Values have dropped at least 30-45% from 2007-2008 levels
- ✓ Transactions increasing; values up but low; high foreclosure/REO inventory

✓ **Suburbs**

- Most units sold consistently 2009-2012: north, southwest, south suburbs in that order
- Range of median sale prices highest to lowest consistently 2009-2012: north, southwest, south suburbs in that order
- More days on the market 2011-2012: north, west, south

✓ **Chicago**

- Most units sold consistently 2009-2013: north, south, west in that order
 - Range of median sales highest to lowest 2009-2013: north, west, south
 - Number of new listings 2011-2013: south, north, west in that order
 - More days on the market 2010-2012: north, south, west; 2013: south, west, north
- ✓ Foreclosures, short sales, REO sales remain as significant force—three factors are applied in CCAO regression process to reflect impact on a block, neighborhood, and township together with another factor particularly reflecting impact of abandoned or vacant homes. A special factor is employed for condominium analysis.

- **Chicago residential sales market (May 2014)**
 - ✓ Strongest sales prices/square foot
 - Bucktown
 - North Center
 - Lincoln Park
 - Lakeview
 - Ravenswood
 - Roscoe Village
 - Near North Side
 - Ukrainian Village
 - West Town
 - DePaul
 - Hyde Park
 - Uptown
 - Edgewater
 - Irving Park
 - Edison Park
 - University Village/Little Italy

 - ✓ **Weakest sales prices/square foot (May 2014)**
 - South Deering
 - West Englewood
 - Riverdale
 - West Garfield Park
 - Englewood
 - Jeffrey Manor
 - Back of the Yards
 - Pullman
 - West Pullman
 - Burnside
 - East Garfield Park
 - Canaryville
 - Little Village
 - Austin
 - Chicago Lawn
 - Auburn Gresham
 - Gage Park

 - ✓ **Range of Chicago initial assessment changes for 2012 triennial reassessment, depending upon specific neighborhoods**

▪ Hyde Park	- 8	to	-20%
▪ Jefferson	-10	to	-21%
▪ Lake	- 7	to	-27%
▪ Lake View	+ 5	to	-16%
▪ North	+ 5	to	-10%
▪ Rogers Park	- 8	to	-14%
▪ South	- 8	to	-15%
▪ West	- 7	to	-28%

- **Range of suburban initial assessment changes by township for respective triennial reassessments, depending upon specific neighborhoods (to date)**

✓ Barrington	+ 1	to	- 7%
✓ Berwyn	- 10	to	-15%
✓ Bremen	- 8	to	-14%
✓ Cicero	- 6	to	-15%
✓ Evanston	- 2	to	-13%
✓ Elk Grove	- 11	to	-19%
✓ Hanover	+ 7	to	-11%
✓ Lemont	- 3	to	-11%
✓ Leyden	- 9	to	-18%
✓ Lyons	+11	to	-13%
✓ Maine	+ 3	to	- 7%
✓ Niles	+ 2	to	-11%
✓ Northfield	- 2	to	-10%
✓ Norwood Park	- 10	to	-17%
✓ Oak Park	+ 5	to	-6%
✓ New Trier	+ 17	to	-7%
✓ Palatine	- 3	to	-10%
✓ River Forest	- 1	to	-9%
✓ Schaumburg	- 5	to	-14%
✓ Stickney	- 11	to	-15%
✓ Wheeling	- 4	to	-10%
✓ Worth	- 6	to	-15%

****Legislative and Reform Initiatives since December 2010**

- Passed legislation reforming the “Omitted Property” process (Jan. 2011) that had been discussed and proposed in various forms but languished for over ten years. The CCAO:
 - ✓ Initiated hearing process for all pending cases
 - ✓ Reviewed previous determinations for correctness
 - ✓ Created formal appeal process
 - ✓ Combined review with analysis of pending year appeals

- Affordable Housing initiative progressing with CIC and IHDA
 - ✓ Targets small residential properties six units and under
 - ✓ Creates incentive to both rehabilitate foreclosed and abandoned property in economically depressed areas and provide affordable housing
 - ✓ Stimulates use of LIHTC program and state funding to enhance development
- “Open Space” reform legislation pending for 2014 session
 - ✓ Reforms a statute in need reform and clarification
 - ✓ Embraces recent court decisions which have identified which uses fulfill the statutory purposes and which do not and provides additional clarification of circumstances in which the courts require legislative guidance
 - ✓ Reaffirms settled expectations of taxpayers by reflecting current assessment practices and procedures as well as court settlements and rulings
 - ✓ Addresses specific considerations unique to golf course properties
- 2013 audit of all “Landmark exemption” properties for continued eligibility
- Removal of notarization requirement for the Senior Freeze Exemption
- “Erroneous Exemption” legislation passed and special office department created to collect tax exemption money wrongfully received
 - ✓ Employee audit concluded
 - ✓ County employee audit beginning with support of several County offices
 - ✓ 2013 “amnesty” program
 - 4,627 erroneous exemptions processed for recovery and \$3,063,087.76 billed
 - 3,123 (67.5%) paid and \$2,109,089.81 recovered
 - Remainder will now be billed again together with interest and penalties
 - ✓ Current post-amnesty recovery process, effective January 1, 2014, with initial billings commencing on March 10, 2014
 - Billed from March 10 through May 22: \$1,735,738.41
 - Total collected to date: \$ 650,961.43
 - Formal hearing process to contest demand for payment has been created
 - Funds not recovered will ultimately result in liens placed on properties
- “Portable” Disabled Veterans Exemption reform proposal pending
 - ✓ Encourages family members to be able to care for a disabled veteran by moving the veteran into their own homestead property and retaining the veteran’s exemption
 - ✓ Clarifies ambiguity in the law to allow “portability”

Note: These market observations reflect a broad summary overview of the ever-evolving condition of the Chicago real estate market. The identification of various trends, tendencies, and developments is not intended to forecast future activity or to provide a comprehensive evaluation of recent market movement. All property is unique and any valuation process must carefully consider numerous factors, only some of which have been briefly touched upon here.