

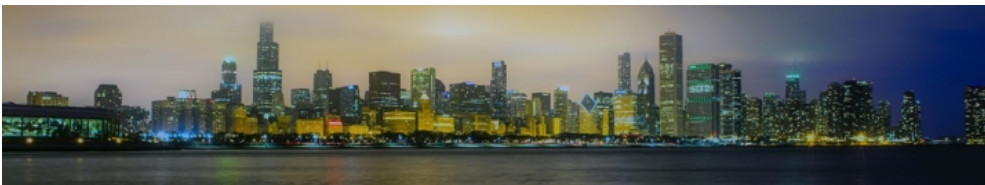
## HVS Market Pulse: Downtown Chicago, IL

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Chicago, America's "Second City" or, in the words of the poet Carl Sandburg, the "City of the Big Shoulders," has long enjoyed global recognition for its stories, intrigue, and ingenuity. The city's tourist attractions, international companies, celebrities, special events, and North America's largest convention center place it among the prime destinations in the U.S. for business, leisure, and conventions. The diverse neighborhoods surrounding the Loop are abundant in music, art, and culture, while Downtown Chicago's commercial and tourist

attractions include Willis Tower (formerly Sears Tower), Navy Pier, and Millennium Park.



### Chicago Real Estate Development

Development in the market has been largely centered on multi-unit residential, office space, and hotel rooms. Nowhere is this more evident than in the Loop and West Loop neighborhoods. Of the more than 4.5-million square feet of office space that has been completed in the greater Chicago market since 2015, more than 2 million square feet can be found in Downtown Chicago along the Chicago River. Three major additions to the Chicago skyline in the last two years have included the 1.2-million-square-foot office tower known as 150 North Riverside, and the 1.1-million-square-foot River Point office tower. An 820,000-square-foot office tower, to be anchored by CNA Financial, is currently under construction and is anticipated to be completed in 2018.

Even with all the new Class-A office space being added to the market, vacancy rates are likely to remain relatively stable over the next few years, according to REIS. Increased demand in Downtown Chicago has been largely driven by relocations of companies previously housed in the suburbs, with Motorola Solutions and McDonald's being the most recent to have announced plans to relocate their headquarters in 2018. Major international corporations are also relocating to the Chicago metro area from outside of the market; for example, in early 2017, Caterpillar moved its operations from Peoria to Deerfield.

The West Loop has experienced the greatest transformation over the last few years, from its beginnings as one of Chicago's meatpacking districts. With parts of the neighborhood once considered "skid row," West Loop's transformation gained momentum about ten years ago with the influx of residential condominium buildings and the opening of some of Chicago's finest restaurants in what was a low-rent, yet proximate, neighborhood. The West Loop's development trend continued with additional growth in the residential sector. In the last five years, several major office and hotel developments elevated rents and lease rates to some of the highest in the city. The neighborhood's hip vibe is bolstered by world-renowned technology employers, including Google, Gogo Inc., and Glassdoor, as well as hotel products like Ace, SoHo House, and the under-construction Hoxton.

### Major Industries

The Chicago area is home to more than two dozen Fortune 500 companies, including Boeing, Walgreen

#### Summary

Chicago continues to attract hotel development to the downtown market, thanks to its proximity to global transportation and well-educated workforce. The installation of Chicago's 60th crane in 2017 suggests that development is still robust.

1 Comments

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Company, Allstate Corporation, Kraft Heinz, McDonald's Corporation, Abbott Laboratories, and Exelon. These companies cover a wide range of industries, from financial services to food services. The city is also home to several federal entities, including the headquarters for the 7th Federal Reserve Bank District, the U.S. Court of Appeals for the 7th Circuit, and the Northern Illinois Bankruptcy Court. Moreover, Chicago is well known as a major center of global agricultural commodity trading, which is handled by the Chicago Board of Trade and the Chicago Mercantile Exchange (CME).

According to Woods & Poole, Health Care & Social Assistance account for more than 12% of the greater Chicago area's workforce. The Chicago area features six medical schools and more than forty teaching hospitals, with Northwestern Memorial Hospital, University of Chicago Medical Center, and Rush University Medical Center representing the largest facilities. In 2015, Northwestern broke ground on the new Simpson Querrey Biomedical Research Building on its Streeterville campus. The innovative facility will include 600,000 square feet of laboratory space for biomedical research in the first phase, to be completed by late 2018, and will eventually be built out in three phases to include 1.2 million square feet of space, employing up to 2,000 people upon completion. Nearby, the Rehabilitation Institute of Chicago's new, state-of-the-art medical facility was completed in late 2016. The \$523-million building includes 900,000 square feet of cutting-edge "Ability Labs," 242 patient beds, an auditorium, indoor parking, and a tenth-floor sky lobby.

Furthermore, the financial industry acts as a key component of Chicagoland's economy. Chicago is home to the retail financial services and commercial banking headquarters of JPMorgan Chase, one of the largest employers for the market. In 2017, Bank of America announced its new regional headquarters location in the Loop as a part of a larger consolidating effort. The new headquarters will occupy 500,000 square feet of leased space in the proposed 1.35-million-square-foot high-rise located at 110 North Wacker, which is anticipated to break ground in 2018 and be completed in 2020. In June 2017, Toronto-based CIBC acquired PrivateBank's parent company, PrivateBancorp, for \$5 billion as a first step in expanding its presence in the United States. In addition, Chicago is home to one of the twelve Federal Reserve Banks located across the nation, as well as the Chicago Stock Exchange.

## Meetings and Conventions

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McCormick Place, owned by the Metropolitan Pier and Exposition Authority (MPEA) and operated by SMG, is the largest convention center in the United States, with a total of 2.6 million square feet of exhibition space. The West Building offers a 460,000-square-foot exhibit hall, 250,000 square feet of meeting space, and a 100,000-square-foot ballroom—Chicago's largest. The entire McCormick Place complex is linked by a 50,000-square-foot pedestrian promenade, referred to as the Grand Concourse, which contains retail shops and other visitor amenities. MPEA also owns the 800-room Hyatt Regency McCormick Place, which is connected via the Grand Concourse. The level of room-night production by McCormick Place depends on large events that generate between 50,000 and 100,000 room nights per event. Many of these large events rotate among major U.S. convention centers, and the cycle of these bookings is primarily responsible for year-to-year variation in room-night generation. In 2011, the unions at McCormick Place agreed to new work rules that lowered the costs of exhibiting at the center, management of McCormick Place was contracted to SMG, and the MPEA implemented other State-mandated cost reductions. MPEA reports that these changes have positively influenced the ability to book future business.

The addition of the 1,205-room Marriott Marquis, which opened in September 2017, could also improve the ability of the MPEA to book smaller conventions that use both adjacent hotels and the West Building. Additionally, a triple-brand, Hilton-affiliated hotel is currently under construction adjacent to the convention center. The Hilton Garden Inn, Hampton by Hilton, and Home2 Suites by Hilton hotels will add a total of 466 rooms to the market when they open in early 2019. Although year-to-year room-night production is likely to continue to vary greatly as large events come and go, room-night generation could reach 1.5 million by 2020. Given that 2016 was an "off year" in the convention cycle, while also considering that Chicago was once anticipated to host the Summer Olympics in 2016, it was a soft convention year, with convention sales teams focusing on replacing large conventions, such as a canceled Microsoft meeting, with a greater number of smaller events. The NFL Draft returned to Chicago for a consecutive year in April 2016. Even though the Draft moved to

Philadelphia, Pennsylvania, in 2017, and to Arlington, Texas, in 2018, it is expected to rotate back to Chicago eventually. Furthermore, the October 2017 opening of DePaul University's Wintrust Arena should generate increased demand in the area surrounding McCormick Place.

## New and Existing Hotel Supply

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Hotel supply increases in Greater Chicago have reached record levels over the last few years, especially in Downtown Chicago. Notable openings in 2016 and 2017 included the 452-room LondonHouse – A Curio Collection hotel, which boasts a three-floor rooftop bar; the new 287-room Conrad Chicago; the 293-room Gray Hotel by Kimpton; the 159-room Ace Hotel; the 180-room Viceroy Hotel; and the 1,205-room Marriott Marquis hotel at McCormick Place. Nearly 4,000 hotel rooms have been added to the downtown market since January 2016, and this trend is not anticipated to slow. Another 1,500 rooms are currently under construction and scheduled to open in 2018, not including the redevelopment of the former Red Roof Inn and Hard Rock hotels. Although only four of the hotels planned to open in 2018 are in the CBD, they account for more than 50% of the total new supply. Hotels are also expected to open in the Wrigleyville, Hyde Park, West Loop, Streeterville, Old Town, and UIC Medical District neighborhoods in the next two years.

## Conclusion

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Chicago experienced another record-breaking year in 2017. Occupied room nights reached record levels, and average rates during the peak months were higher than ever before. Demand growth is anticipated to be strong in 2018, led by increased convention business at McCormick Place and additional demand generated by the opening of the 1,205-room Marriott Marquis and the new DePaul Arena; furthermore, the relocation of major international corporations, such as McDonald's, Conagra Foods, Beam Suntory, and Wilson Sporting Goods, will continue to bolster commercial demand in Downtown Chicago.

### About Stacey E. Nadolny



Stacey Nadolny, MAI, an HVS Managing Director and Senior Partner, leads the firm's consulting and valuation practice in Chicago. Chicago is one of over 30 cities across North America where HVS has experts living and working, providing insights and solutions to clients. In the Midwest, HVS leaders are located in St. Louis, Detroit, Minneapolis, Nashville, Cincinnati, and Omaha, in addition to Chicago. Stacey's extensive experience ranges across hundreds of appraisals and feasibility studies for full-service hotels in the Midwest, including convention headquarter hotels and portfolio assignments. Stacey earned her bachelor's degree from Cornell's School of Hotel Administration and gained front-line hotel experience at Ithaca's Statler Hotel. Contact Stacey at (419) 367-3879 or [\[email protected\]](#).