

THE ECONOMIC AND REAL ESTATE OUTLOOK FOR 2014

**Illinois Financial Forecast Forum:
Private Sector Views that will Impact the Public Sector
Naperville, Illinois**

January 31, 2014

By Aaron N. Gruen

Gruen Gruen + Associates

Urban Economists, Market Strategists, Land Use/Public
Policy Analysts & Pre-Development Services

www.ggassoc.com

ECONOMIC OUTLOOK

- Inflation will stay below 2%.
- Unemployment will remain too high.
- Interest rates will remain relatively low, with the 10-Year Treasury Note staying not too far from 3%.
- 2014 begins the climb from the bottom of the economic cycle.
- Low rates of population and household growth.
- Diverse, dominant regional economy constrained by low employment and population growth.



EMPLOYMENT FORECAST FOR STATE

Illinois	Jobs August 2013	Forecast Jobs August 2014	Forecast Change in Number of Jobs	Forecast Growth Rate %
Total non-farm	5,825,800	5,930,000	104,200	1.79
Construction	182,700	179,800	-2,900	-1.59
Manufacturing	577,700	584,800	7,100	1.23
Trade, transportation & utilities	1,172,500	1,193,200	20,700	1.77
Information	99,700	100,500	800	0.80
Financial Activities	371,400	376,800	5,400	1.45
Professional & business services	898,600	933,400	34,800	3.87
Education & health	879,200	903,900	24,700	2.81
Leisure & hospitality	544,800	558,500	13,700	2.51
Other services	259,500	264,600	5,100	1.97
Government	829,000	834,500	5,500	0.66

Source: Illinois Economic Review November 2013 Regional Economics Applications Laboratory

EMPLOYMENT FORECAST FOR MSAs IN STATE

MSAs	Jobs October 2013	Forecast Jobs October 2014	Change in Number of Jobs #	Growth Rate %
Bloomington-Normal	89,800	89,300	-500	-0.56
Champaign-Urbana-Rantoul	106,100	106,200	100	0.13
Chicago	4,170,000	4,209,000	39,000	0.94
Davenport-Rock Island-Moline	185,400	186,100	700	0.35
Decatur	50,100	50,000	-100	-0.16
Kankakee	43,700	43,500	-200	-0.44
Peoria	182,200	183,500	1,300	0.71
Rockford	148,700	149,200	500	0.32
Springfield	112,100	112,200	100	0.11

Source: Illinois Economic Review November 2013 Regional Economics Applications Laboratory

EMPLOYMENT RECOVERY SCENARIOS

- State needs to regain 500,000 jobs to reach pre-recession peak employment

Illinois Recovery Scenarios		
To Recover	Growth Rate	
	At the point of 2013- Aug	At the point of 2010-June
In 5 years	101,300 jobs/year	143,600 jobs/year
In 8 years	63,300 jobs/year	89,800 jobs/year
In 10 years	50,600 jobs/year	71,800 jobs/year
In 15 years	33,800 jobs/year	47,900 jobs/year

Source: Illinois Economic Review November 2013 Regional Economics
Applications Laboratory

REAL ESTATE FORECAST

Retail

- Expenditures at retail outlets will decrease due to:

Demographic;

Cultural; and

Technological factors (Increasing proportion of sales made online).

- Retail bifurcation between retail “winners and losers” will grow more intense.
- Commodity-type community and power center retail in locations with limited barrier to supply additions and lower average household income will be challenged.



REAL ESTATE FORECAST

Office

Office Inventory by Major Submarket

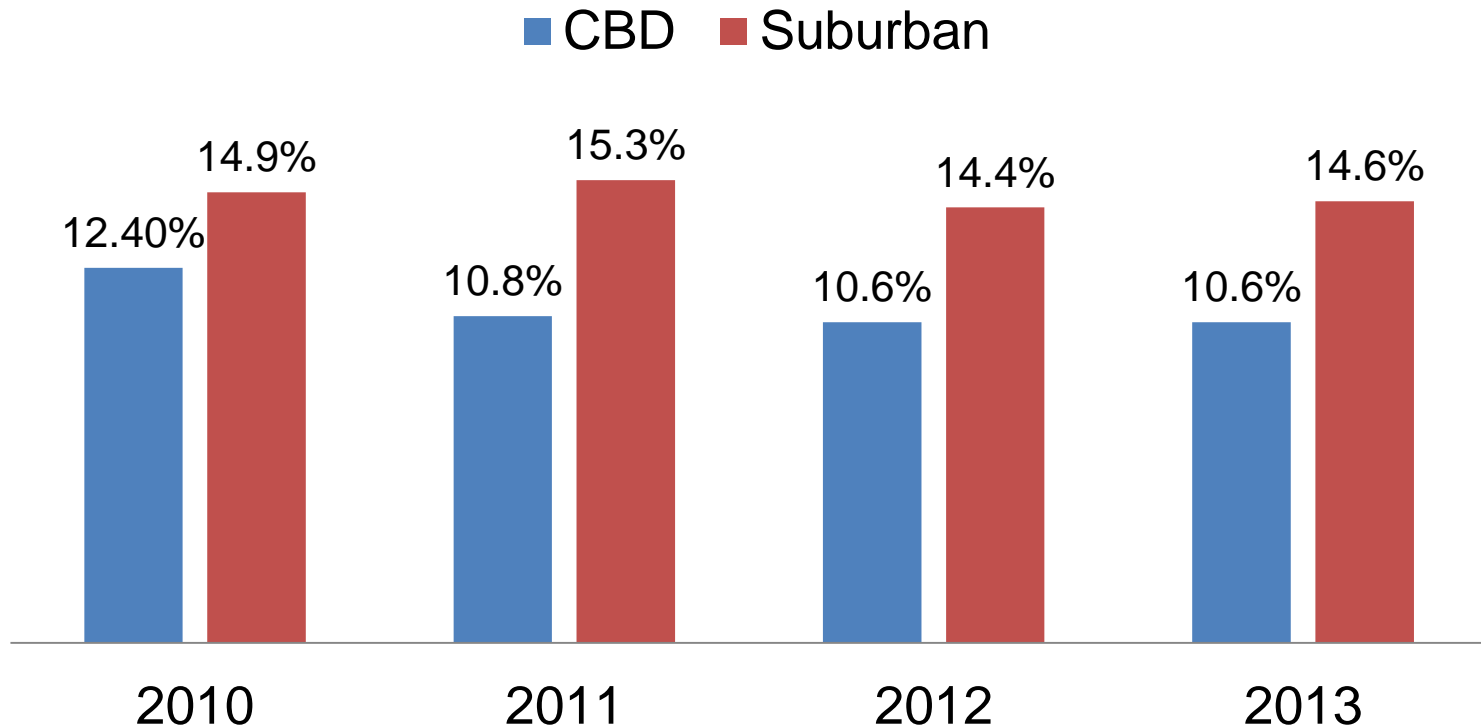
Submarket	# Square Feet	% of Chicago Total Metro Market
CBD	171,227,365	42.9%
East West Corridor	59,479,243	16.4%
Suburban Northwest	51,880,058	13.0%
Suburban North	48,898,369	12.3%
O'Hare	17,214,727	4.3%
Suburban South	14,528,526	3.6%
Other Submarkets	35,596,644	8.9%
Total Inventory	398,824,932	100.0%

Source: Chicago Office Outlook Year End 2013, Delta Associates Transwestern

REAL ESTATE FORECAST

Office

CBD VS. Suburban Office Vacancy



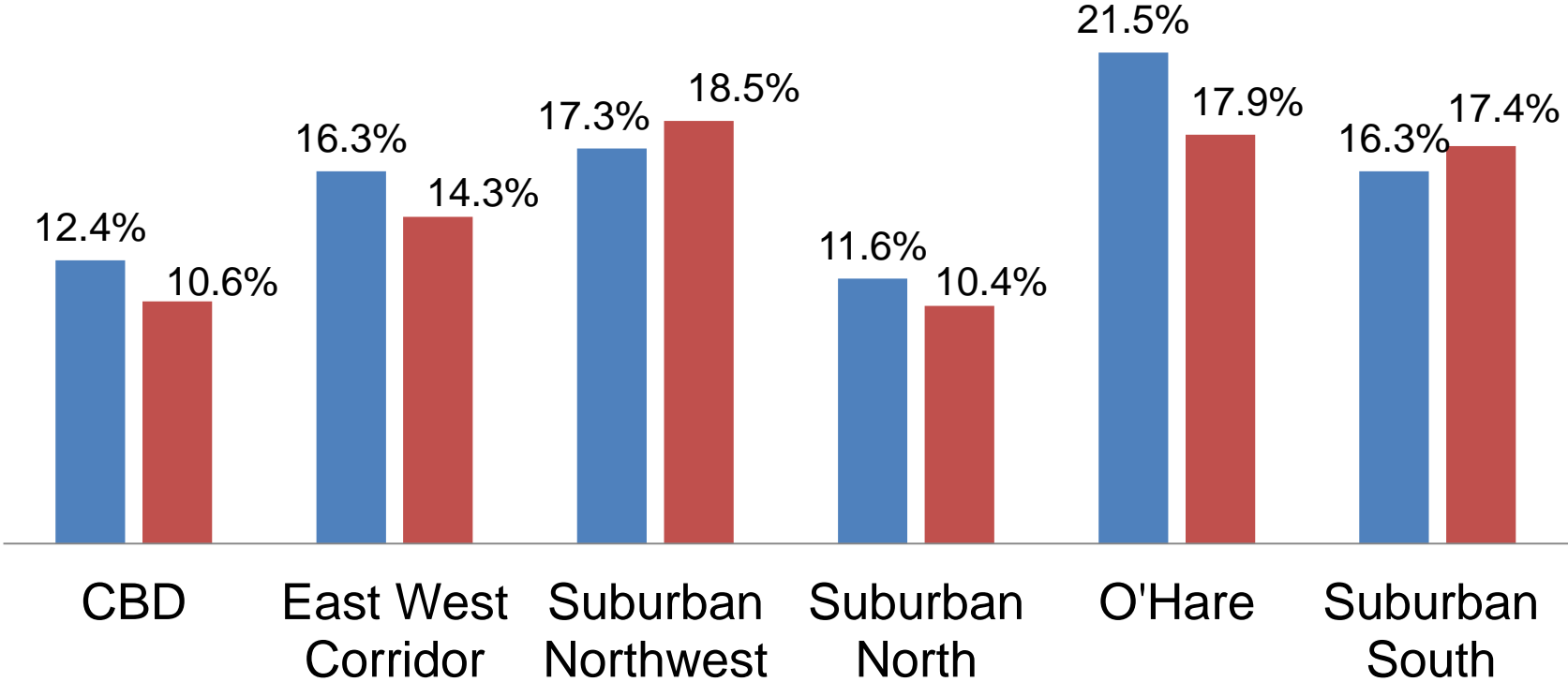
Source: Chicago Office Outlook Year End 2013, Delta Associates Transwestern

REAL ESTATE FORECAST

Office

Office Vacancy 2010 & 2013

■ 2010 ■ 2013



Source: Chicago Office Outlook Year End 2013, Delta Associates Transwestern

3 SUBMARKETS MAKE UP 97% OF LIMITED NEW OFFICE BUILDING CONSTRUCTION IN CHICAGO REGION

	# Square Feet	% of Total
CBD	1,756,467	81.5
O'Hare	180,000	8.4
East West Corridor	151,080	7.0
Total	2,154,733*	96.9
Share of Total Office Inventory	0.5%	

*Square Feet Under Construction as of December 2013.

Source: Chicago Office Outlook Year End 2013, Delta Associates Transwestern

REAL ESTATE FORECAST

Office

- Rents will begin to increase from the bottoming phase due to economic recovery taking hold and limited supply additions.
- Vacancy rates have stabilized in the Chicago CBD (11.4% to 15.3% CBD and 9.9% in 30 newest buildings).
- Tech and corporate and regional headquarter migration to Chicago serves to maintain intensely competitive pressure on suburban office markets (15.6% to 19.9% vacancy).
- Suburban locations, however, offer lower cost, shorter commutes, and ability to accommodate large and diverse space requirements.
- New development deliveries likely to be subdued (only two projects under construction in Chicago CBD); renovations, reconfigurations, etc. of existing buildings likely to increase.



REAL ESTATE FORECAST

Office

- Suburban speculative development activity likely to remain limited in 2014.
- Demand for the best space in best locations remains comparatively strong.
- Walkable, amenity-rich, transit-accessible suburban locations outperform traditional office parks that lack “sense of place” and convenience.
- Most likely future development will be green office space development near transit, integrated with relatively high density housing close to experiential shopping, restaurant and entertainment venues.
- Product characteristics will need to support high density usage, improve workers’ productivity, and help innovative companies retain and attract talent.



REAL ESTATE FORECAST

Office

- Municipalities can help position retooling of traditional office parks and commercial corridors when locations are not competitively obsolete but which lack the spatial, use, and amenity characteristics needed to respond to contemporary preferences.

REAL ESTATE FORECAST

Industrial

Industrial Inventory by Major Submarket

Submarket	# Square Feet	% of Total Metro Chicago Market
City of Chicago	205,402,056	19.4%
O'Hare	102,599,739	9.7%
Suburban Lake County	81,601,276	7.7%
South I-55 Corridor	79,331,644	7.5%
West Cook	77,851,818	7.3%
South Cook	69,030,896	6.5%
Joliet/Will County	60,619,923	5.7%
I-88 West	59,629,835	5.6%
Other submarkets	324,266,752	30.6%
Total Inventory	1,060,333,939	100.0%

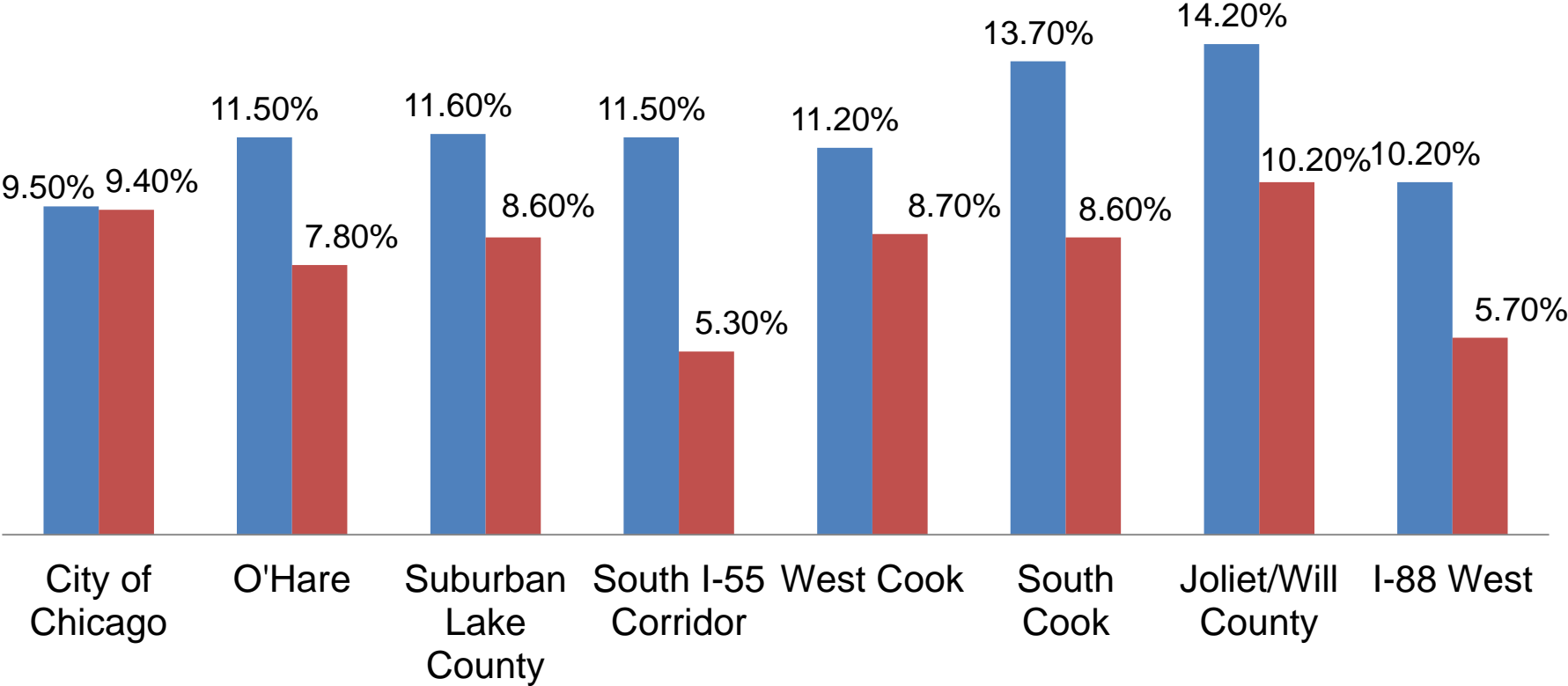
Source: Chicago Industrial Outlook Year End 2013, Delta Associates Transwestern

REAL ESTATE FORECAST

Industrial

Industrial Vacancy 2010 & 2013

■ 2010 ■ 2013



Source: Chicago Industrial Outlook Year End 2013, Delta Associates Transwestern

THREE SUBMARKETS MAKE UP APPROXIMATELY 3/4TH'S
 OF ALL NEW INDUSTRIAL CONSTRUCTION ACTIVITY IN CHICAGO REGION

Submarket	# Square Feet	% of Total
South I-55 Corridor	1,236,200	37.0
Joliet/Will County	834,586	25.0
O'Hare	446,901	13.4
Total	2,517,807	75.4
Share of Total Industrial Inventory	0.2%	

Source: Chicago Industrial Outlook Year End 2013, Delta Associates Transwestern

REAL ESTATE FORECAST

Industrial

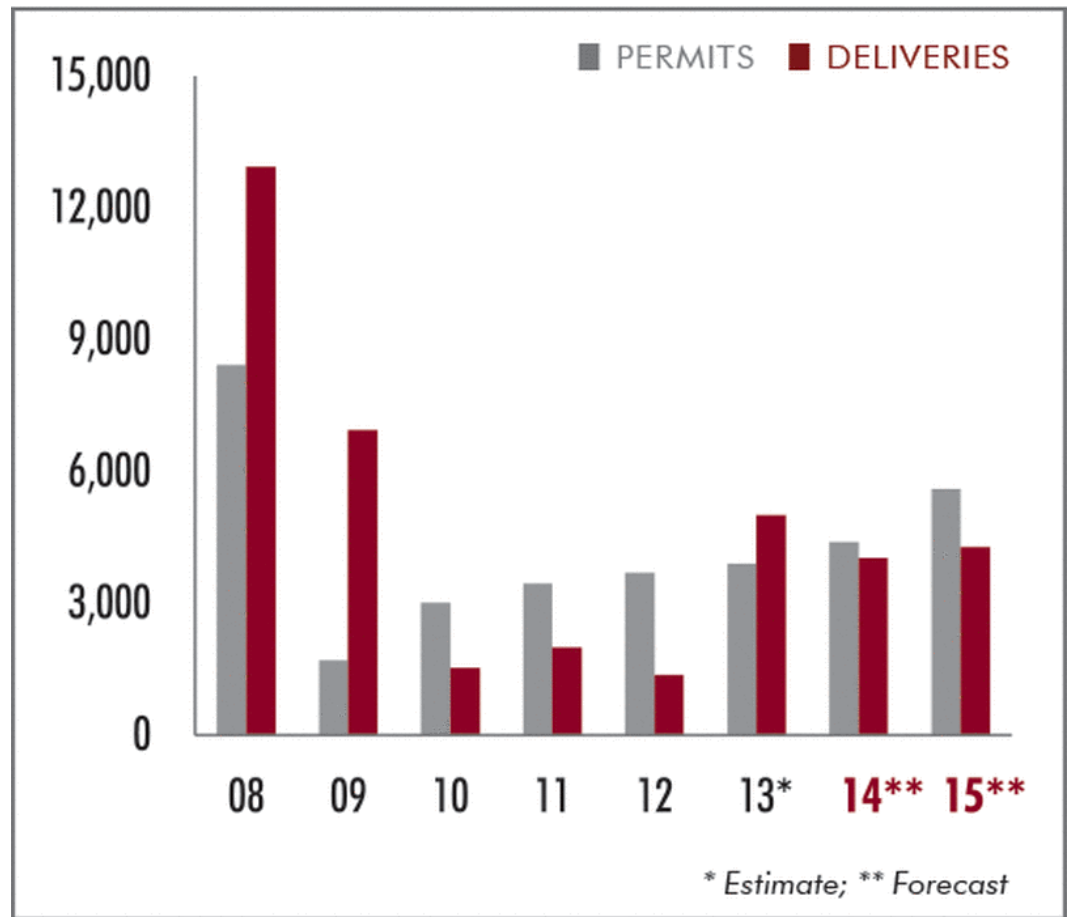
- Manufacturing of construction materials will increase in response to an increase in household formation and the wealth effects from the improving housing market and stock market gains.
- Investment in new equipment and R&D will increase as will manufacturing as on-shoring accelerates with automotive producers and suppliers increasing production capacity.
- Outsized manufacturing and wholesale trade sectors will be a source of strength and support.
- Expanding international trade, increasing proportion of retail sales made over the Internet, and the need to replace obsolete space bodes well for industrial space development.



REAL ESTATE FORECAST

Multi-Family

- 8,000 new apartment units forecast to be delivered over next two years throughout Chicago region.
- Chicago Loop will comprise more than 25% of new deliveries.
- Demand supports supply expansions. Overall vacancy will decrease further to 4.5% by 2015.



Source: Hendricks-Berkadia



REAL ESTATE FORECAST

Multi-Family

SUBMARKETS	VACANCY		AVERAGE RENT INCREASE		AVERAGE RENT	
	2013	2012	2013	2012	2013	2012
Aurora/Naperville	4.9%	6.0%	6.3%	1.0%	\$1,238	\$1,165
Belmont to Montrose	4.1%	3.8%	1.8%	5.0%	\$1,686	\$1,657
City West	5.3%	3.3%	2.9%	1.4%	\$2,074	\$2,016
DeKalb County	2.4%	1.4%	2.5%	4.0%	\$824	\$804
Downers Grove	3.3%	5.4%	3.6%	2.1%	\$1,057	\$1,020
Glen Ellyn/Wheaton	4.8%	6.0%	4.8%	0.6%	\$1,164	\$1,110
Glendale Heights/Lombard	3.9%	4.3%	2.1%	1.2%	\$1,153	\$1,129
Glenview/Evanston	4.1%	4.1%	1.0%	2.1%	\$1,848	\$1,830
Gold Coast/River North	4.2%	4.7%	5.1%	2.7%	\$2,218	\$2,110
Joliet	5.2%	6.7%	5.0%	1.9%	\$1,086	\$1,035
Kane County	5.1%	5.9%	6.3%	2.4%	\$1,135	\$1,068
Kendall County	7.3%	6.4%	-4.4%	0.3%	\$1,109	\$1,160
Lincoln Park/Old Town	1.6%	2.5%	3.2%	5.7%	\$1,773	\$1,718
McHenry County	3.2%	4.6%	1.0%	0.3%	\$1,030	\$1,020
O'Hare	2.8%	3.7%	4.2%	2.2%	\$997	\$957
Oak Park	4.5%	6.0%	9.2%	4.3%	\$1,324	\$1,213
Palatine	5.4%	6.1%	1.8%	2.4%	\$1,183	\$1,162
Rogers Park/Uptown	1.1%	2.7%	-0.1%	1.2%	\$895	\$896
Schaumburg/Hoffman	4.3%	7.4%	6.8%	2.7%	\$1,185	\$1,109
South Shore	4.8%	6.3%	3.9%	2.1%	\$1,362	\$1,311
Southeast Cook County	7.5%	9.5%	0.2%	1.9%	\$854	\$852
Southwest Cook County	5.5%	5.2%	1.8%	0.4%	\$923	\$907
The Loop	4.7%	5.1%	3.8%	1.7%	\$1,936	\$1,865
Wheeling	5.0%	5.8%	4.6%	7.4%	\$1,244	\$1,190
Woodridge/Lisle	4.3%	4.6%	4.2%	2.1%	\$1,136	\$1,090
TOTALS	4.8%	5.4%	3.8%	2.0%	\$1,349	\$1,299

Source: Hendricks-Berkadia



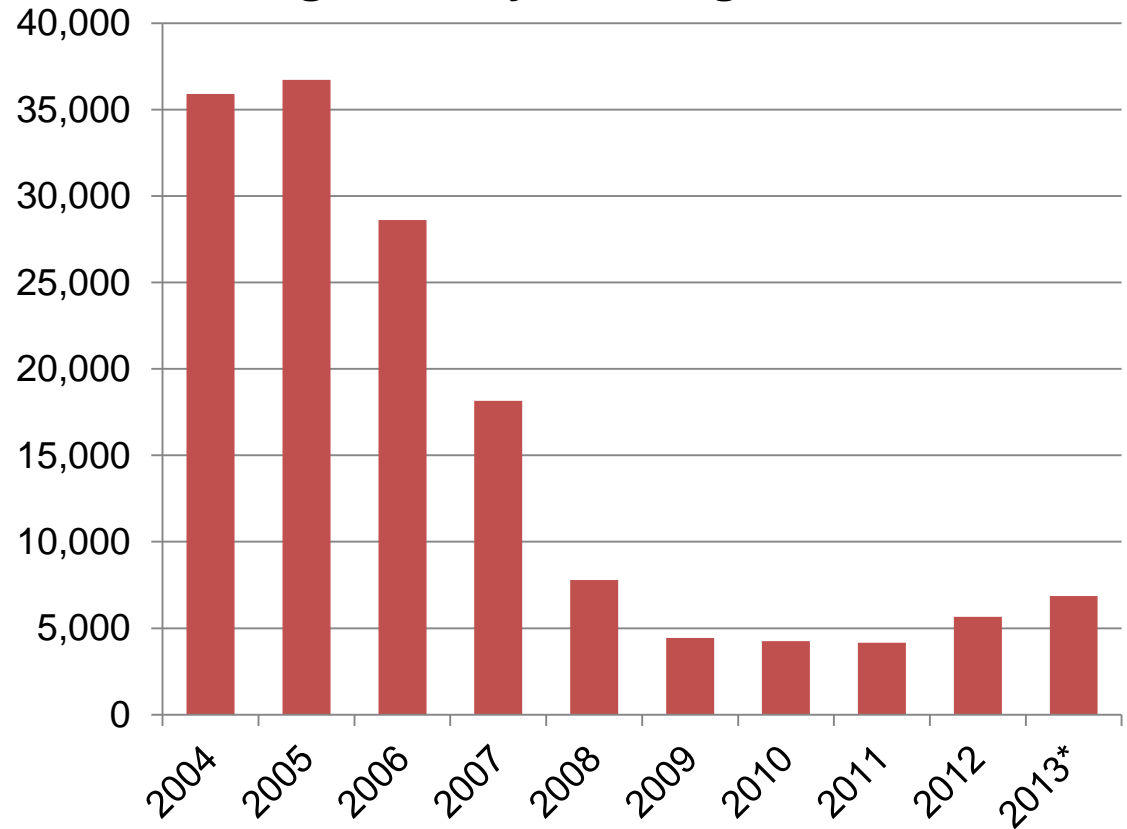
GRUEN GRUEN + ASSOCIATES

REAL ESTATE FORECAST

Single-Family

- Chicago region population growth will remain moderate at 0.3% to 0.4% annually
- Single-family permitting activity will continue to rebound from low post-recession levels

Chicago MSA Historical Single-Family Housing Permits



*Through November

Source: U.S. Census Bureau, Building Permit Survey



REAL ESTATE FORECAST

Single-Family

- Single-family activity is forecast to grow by approximately 19%, to 8,200 permits, in 2014.
- This approximates 2008 single-family permit levels.
- Slow recovery mode, but fewer foreclosures and price increases will help restore household balance sheets and confidence.

Chicago MSA Single-Family Permit History and Forecast

Year	Number of Permits	Year-over-Year Change
2008	7,800	-57.2%
2009	4,400	-42.9%
2010	4,200	-4.3%
2011	4,200	-2.2%
2012	5,700	36.3%
2013	6,900	21.2%
2014F	8,200	18.9%

Sources: U.S. Census Bureau; PNC Bank, *Chicago Market Outlook*; Gruen Gruen + Associates.

REAL ESTATE FORECAST

Single-Family

- New development will tend to involve smaller number of lots than pre-recession developments and be well located to:
 - Transportation links;
 - Job centers; and
 - Quality school districts, amenities and municipal services.
- Legacy projects located in far flung locations will continue to be challenging, and typically require reprogramming and patience.



OPPORTUNITIES TO SUCCEED IN NEW NORMAL

- New uses for excess and obsolete retail space;
- Multi-family rental units in mixed-use developments, near transit;
- Regulatory conditions that stabilize but don't re-inflate housing prices
(Entitled land zoned with minimum suburban densities of 8 residential units per acre, and in-city densities of 14 to several hundred units per acre; Review impact fees and property taxes);
- Green office space near transit, integrated with relatively high density housing close to experiential shopping, restaurant and entertainment venues; and
- Distribution and industrial space to capture demands associated with shifts in patterns of goods movement and labor availability.



OPPORTUNITIES TO SUCCEED IN NEW NORMAL

- Economic development should benefit from housing affordability and comparatively low office costs.
- Public-private, academic and non profit institutions need to collaborate to facilitate not only application of innovation breakthroughs but increase capacity to be at the forefront of advancements in order to ramp up employment and household growth and therefore real estate demand and the tax base.

