2020

MID-YEAR PERSPECTIVE ON CHICAGO REAL ESTATE MARKETS

DePaul University
DRIEHAUS COLLEGE OF BUSINESS
The Real Estate Center

ULI Chicago

To our friends, colleagues, and future leaders in commercial real estate:

The world is a different place than it was a week ago, let alone five months ago.

- The novel coronavirus, COVID-19, has had a profound impact on people; to date more than 145,000 people have lost their lives to COVID-19 across the United States.
- Economic uncertainty is now a certainty for the entire country, not just the more than 52 million people who have filed for unemployment benefits since mid-March.
- Social justice movements, sparked by senseless killings of Black people, have created a sense of urgency in our communities including the real estate industry to take concrete action to dismantle structural racism.

When The Real Estate Center at DePaul University and Urban Land Institute Chicago District Council launched the Third Annual Mid-Year Perspective on Chicago Real Estate Markets, we were just beginning to understand the impact that COVID-19 would have on our lives and the economy. Many events had yet to completely unfold. We would be remiss if we did not address the impact of the social justice protests, even though we were unable to specifically gauge the industry's sentiment.

As residents and real estate professionals, it is our duty to...

- Build a more diverse and equitable Chicago
- Stand with and help elevate those who have been systematically left out
- Take positive action in our local communities and groups to achieve these goals.

Join us in this important and essential journey.

Sincerely,

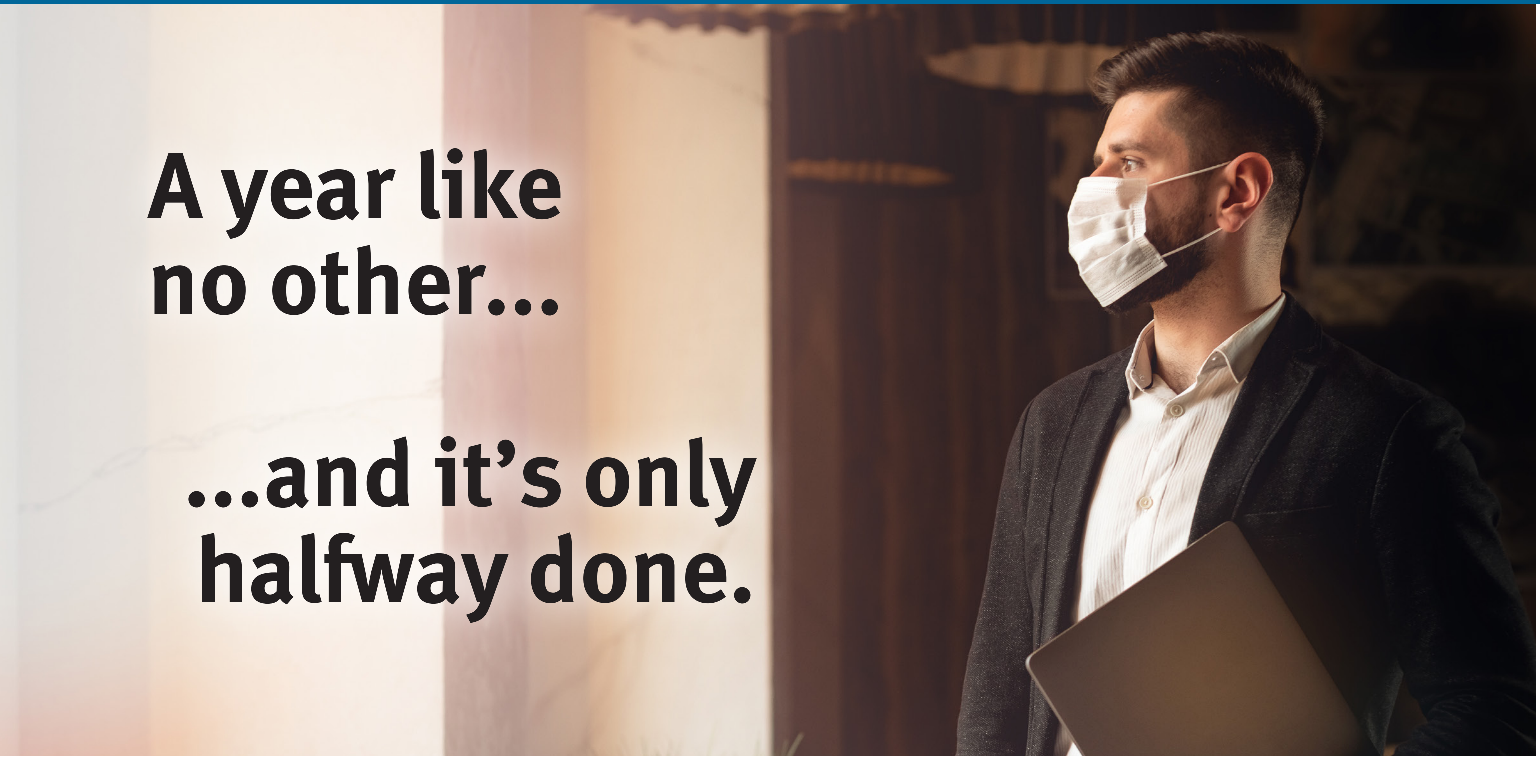
The Real Estate Center at DePaul University & the Urban Land Institute Chicago District Council

About The Real Estate Center at DePaul University

The Real Estate Center serves as the productive home for Chicago's real estate community and an active network of students and alumni, public institutions, private real estate firms, scholars and executives-in-residence. The Real Estate Center provides not only traditional academic programs but high-profile continuing education and conferences of specific interest to the real estate community.

About the Urban Land Institute Chicago District Council

The Urban Land Institute is a 501-c3 nonprofit, non-partisan research and educational institute whose mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. The Urban Land Institute Chicago District Council (ULI Chicago), with a membership of over 1,500 real estate related professionals, continues to develop its role as the organization that civic and community leaders turn to for guidance in land use matters. With your assistance, these efforts will continue to grow and expand. For more information, visit Chicago.uli.org.



A year like no other...

...and it's only halfway done.

In January, local and national reports forecasted that increasing headwinds, due to factors including a potential economic slowdown and the November Presidential election, among others, as being most likely to impact commercial real estate (CRE) markets. In Chicago, experts looked to milestones in the assessment process as being critical to better understanding future property tax increases and their implications on the markets.

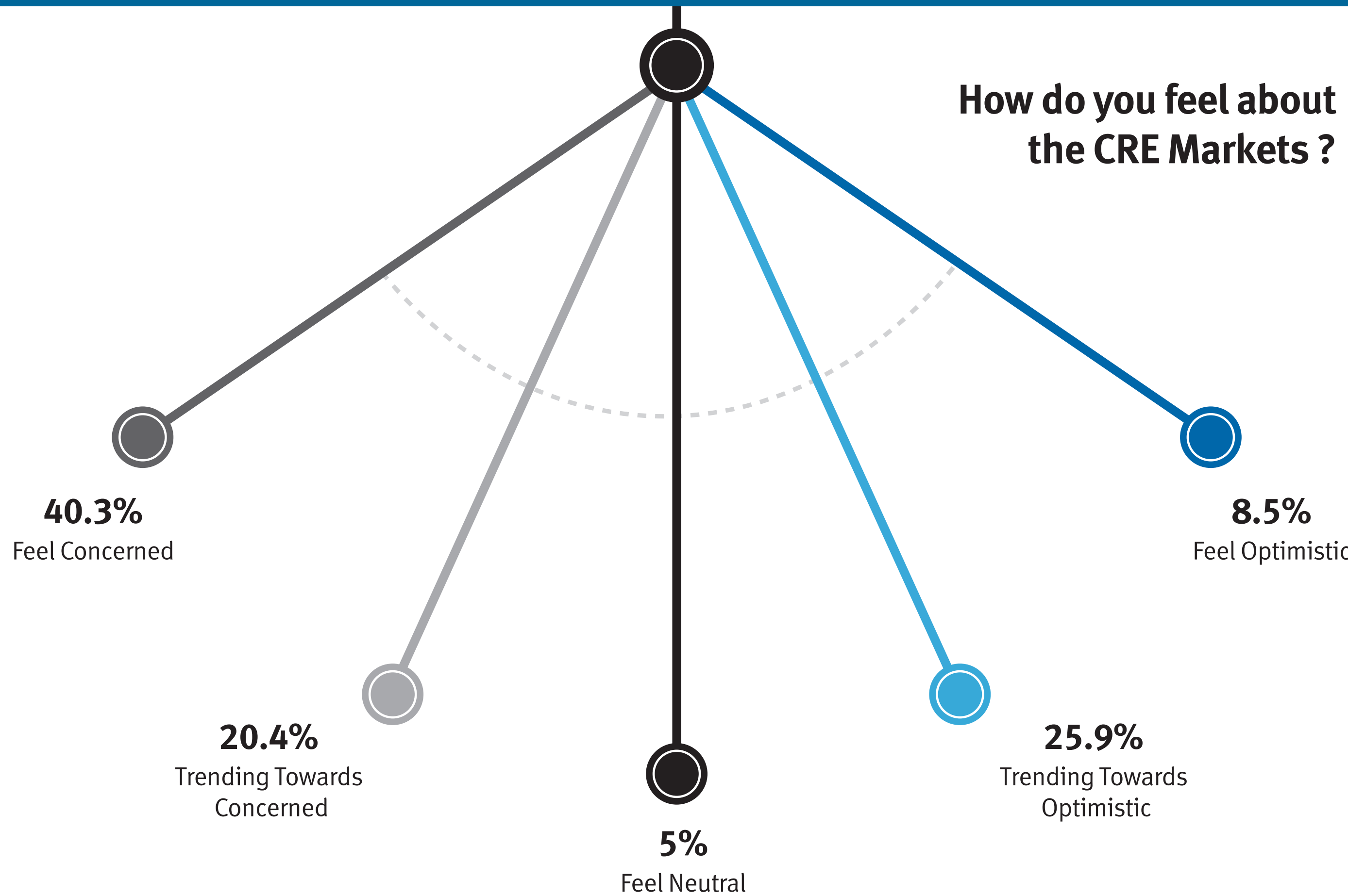
The tax situation remains a serious issue in 2020 and beyond. Yet more importantly, the world we knew and our expectations for the year ahead shifted abruptly in mid-March. Since then, and for the foreseeable future, the novel coronavirus and its impact on every aspect of our lives weigh heavily on the industry, the economy and governing bodies.

In its 3rd Annual Mid-Year Perspective on Chicago Real Estate Markets—this year featuring the Urban Land Institute Chicago District Council (ULI Chicago)—The Real Estate Center at DePaul University (The Real Estate Center) and members of the DePaul Real Estate Alumni Alliance published the results of a survey to benchmark market conditions.

The top concerns are pandemic specific—its unknown duration/severity of return and delivering an effective vaccine—while also including direct outcomes of the pandemic—economic pressures on local and state governments and rising unemployment. Findings of the DePaul—ULI Chicago Report include:

- More than 40 percent of DePaul and ULI Chicago professionals are concerned about Chicago's real estate markets while 25.9 percent still view themselves as trending toward optimistic.
- More than 42 percent of participants believe the shape of the recovery will be elongated and look like a Nike Swoosh.
- Experts expect a wide variety of post-Pandemic office space configurations, as employers look to embrace working from home while at the same time wanting to ensure productivity and sustain a company culture.
- Mirroring the rest of the country, industrial and multifamily properties are viewed as the asset classes most likely to recover fastest.
- More than one third of participants believe there will be a modest shift in investments to the suburban markets.

"COVID-19 has dealt every market across the country a set of challenges and circumstances no one could have anticipated," says Charles Wurtzebach, Douglas and Cynthia Crocker Endowed Director, the Real Estate Center, DePaul University. "There are no quick solutions. Chicago has always shown a certain resiliency and tended to be a "steady Eddie" market with less pronounced peaks and troughs. We all hope that holds up." ■



Optimism stumbles

In each of the previous two years, CRE professionals chose whether they were bullish (optimistic) or bearish (concerned) about the marketplace moving forward, or simply trending in one direction or another. Given COVID-19, real estate professionals in Chicago continued the trend of diminishing optimism about the market, though perhaps not as significantly as would be expected.

At the mid-point of 2020, more than 60 percent of participants are either concerned (40.3 percent) or trending toward concerned (20.4 percent) about the Chicago real estate markets over the next 12 months. Their concerns are grounded in questions and uncertainty about employees' comfort levels in returning to dense workplace environments, specific plans and timelines for returning to the workplace and the ability to safely navigate public transportation.

Almost one-third are optimistic (8.5 percent) or trending toward optimistic (25.9 percent).

The rationale for optimism may not necessarily be borne out by accepted, reliable economic barometers. Instead, optimism may be the byproduct of Illinois' not always popular mandates to lock down in order to flatten the curve. Further, it likely also stems from pure desire and wanting it to be so.

"People want to be optimistic; they are sick of COVID-19 and want it to be over," says Wurtzebach.

It remains to be seen whether the will of the people will win out. ■

The greatest concerns

As the number of confirmed COVID-19 cases and fatalities continue to mount, it is little surprise that the pandemic's duration/severity of its return was ranked as the number one concern among DePaul/ULI Chicago professionals, even if only narrowly. The second greatest concern was the significant pressure COVID-19 puts on state and local governments, because of lower tax revenues and rising unemployment (ranked in a tie for third), among other things.

Many CRE professionals discussed their greatest concerns, after distinguishing current conditions as a healthcare crisis first that ultimately has caused a financial/economic crisis.

"We're in a severe economic recession. The question everyone wants answered is how long does that last; and we don't know," says Keith Largay, Senior Managing Director & Chicago Office Co-Head, JLL. "It's hard to predict the outcome and unintended consequences of 40 million job losses and the stress it puts on the balance sheets of people, companies, and governments."

Clearly, if there was a better understanding of the duration of the pandemic, including its various waves, answers would emerge that would better equip people and businesses and enable them to make informed decisions.

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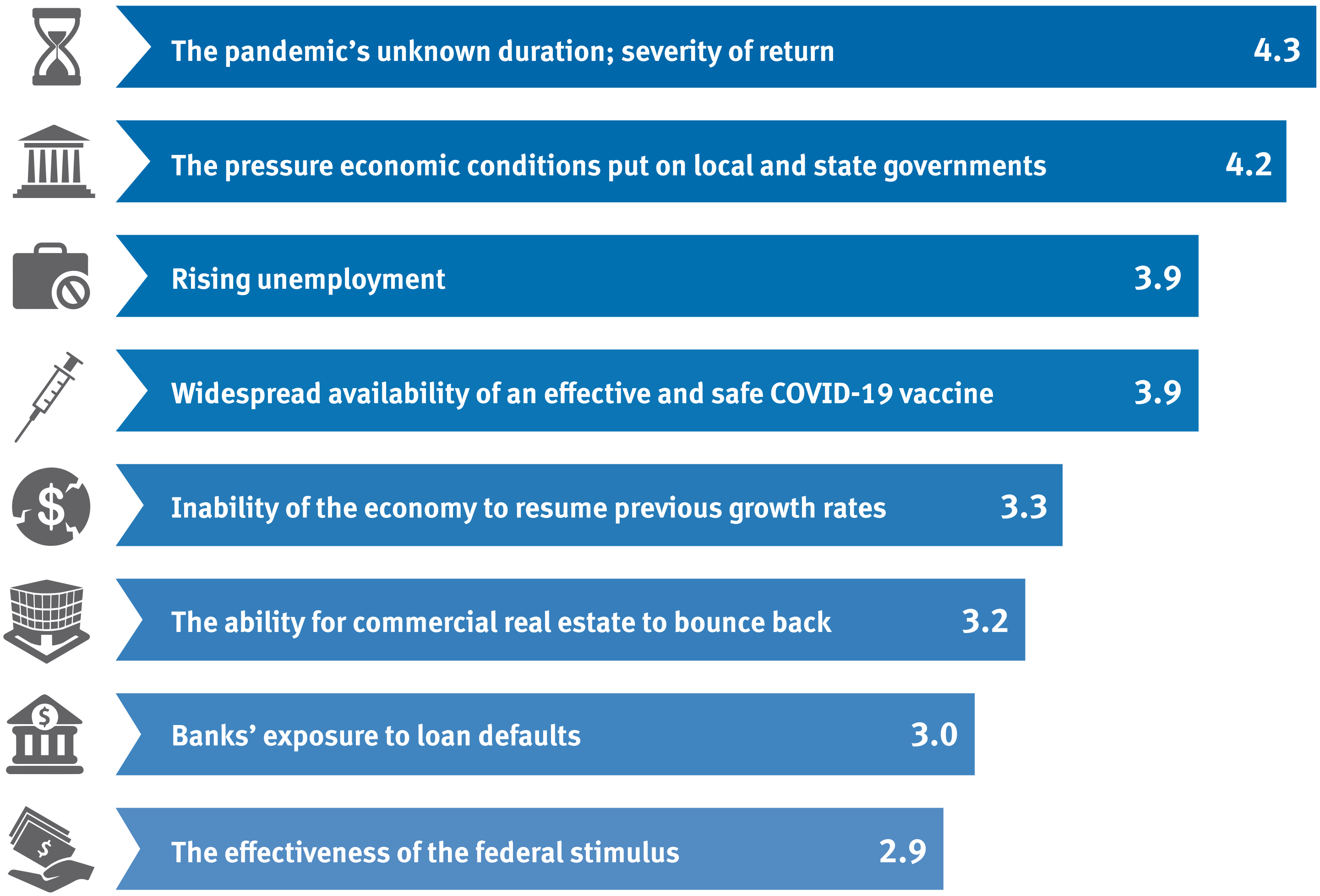
> JLL

Ranking the greatest concerns

Note: Respondents assigned a score for each concern on a scale from 1 (unconcerned) to 5 (very concerned). The values shown reflected the weighted average of each, sorted from highest to lowest.



The ability to develop, distribute and administer a safe COVID-19 vaccine will have a huge impact on calming the fears and concerns of the marketplace and, equally as important, the general public. This issue was tied with job losses, as the third greatest concern among real estate professionals. Experts address that within their own companies there are people who perform essential roles who have voiced concerns about exposure, especially as it relates to depending on public transportation to get to work.

"If people don't feel comfortable taking public transportation to the downtown area it would be very difficult for downtown to come back. That's a big concern," adds John O'Donnell, CEO, Riverside Investment & Development.

While many addressed the concerns with today's marketplace, Brian Forde, Partner, O'Keefe Lyons & Hynes, LLC chose to highlight some of the glass half full and big picture aspects of the current situation.

"Real estate developers and brokers are as creative a group of professionals as you can imagine," Forde says. "They adapt, they innovate, they don't sit still. Given everything that has happened, there will be difficulties, but in response to those challenges, there will also be creative adaptation. Difficult challenges tend to bring out the best in real estate professionals." ■

The greatest threats

As if those concerns weren't enough, those in the CRE industry need not look too far ahead to see more threatening clouds looming overhead. Chief among them is the Cook County tax situation, which is different than any of the other 101 counties in Illinois. Before the pandemic, the Assessor showed his hand in Evanston in terms of how valuations and the valuation process would change. It was viewed as a precursor of what is to come. Looming large on the horizon are the valuations for downtown properties, which won't be completed until 2021.

Forde believes Cook County property taxes will continue to be a real threat to the industry—property investors and business owners. Yet the threat is much more complex than the simplistic statement that property taxes are too high.

"As long as Cook County uses a classification system where commercial and industrial real estate is assessed at 2-1/2 times that of residential properties, property taxes will always be a challenge, and it always will be so long as the system currently in place persists," Forde says. "That will be further exacerbated when coupled with the inability of taxing officials to manage the sheer volume of valuing 1.8 million parcels. There is just no one size fits all solution."

Forde says the challenges can be managed, but they won't magically or unilaterally change without taxpayers having a voice in the process. "There are too many variables and complexities for any model or program to get it right," he adds.

Accordingly, all the data in the world doesn't mean anything unless it is analyzed correctly and managed proficiently.

Some contend you can't entrust any process where there are political factors at play. However most real estate professionals, and investors, concede that the concept of data collection is good, and accuracy is essential, both from the Assessor's office and in any underwriting done to test the merits of an acquisition.

"When you have a handle on the direction of any risk variable, including real estate taxes, you can underwrite a property. It likely will take modeling different scenarios to get comfortable, but it can be done," says Michael Episcope, Principal & Co-Founder, Origin Investments. He admits that his firm wouldn't have completed one of its most recent acquisitions, a newly developed multifamily complex in Chicago's West Loop, without an exhaustive level of understanding and confidence, that even in the worst case scenario, the numbers penciled out.

Vicky Lee, Vice President Development, Focus, views continual changes and policy ambiguity—which can lead to uncertainty and more complicated underwriting—as among the greatest threats, particularly for multifamily development.

Particularly concerning are recent changes to the property tax assessment process and a rumored change to Chicago's affordable housing requirement, known as the Affordable Requirements Ordinance ("ARO").

"We have received consistent feedback from our investors and lenders that the uncertainty regarding taxes makes it hard to commit capital to Chicago," Lee says. "Similar conclusions are being drawn from ARO policies."

Ranking the greatest threats

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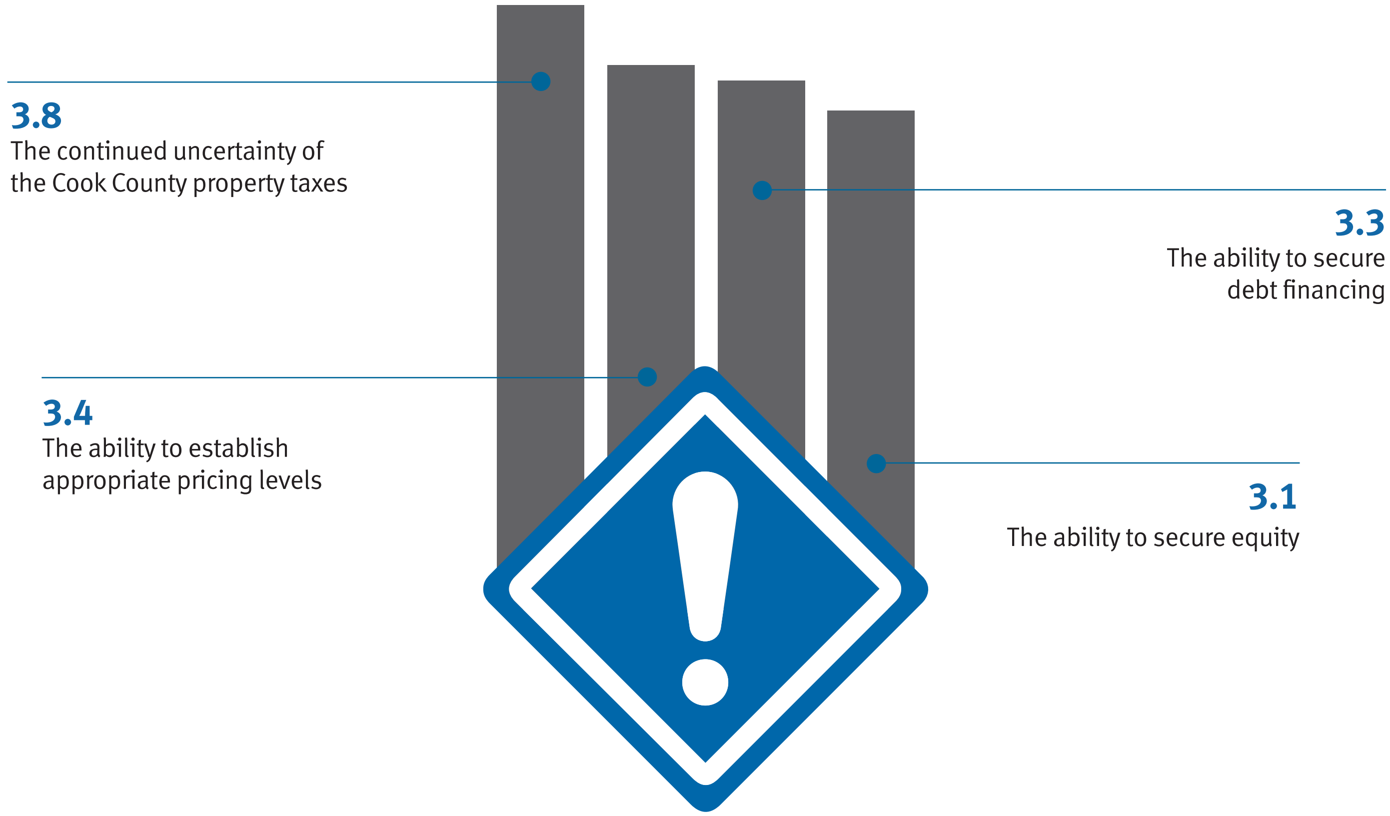


The 3rd Annual DePaul—ULI Survey specifically asked about the property tax situation in Chicago and Cook County, but responses also included the general financial conditions of the city and state, a threat that experts anticipate will only heighten as we move through the pandemic.

O'Donnell expanded the threats to the CRE community to include the fiscal management of the City of Chicago and the State of Illinois.

"I've been working in CBD real estate for almost 40 years," he says. "It's unlikely that I will make more investments in Chicago until there is clarity as to how state and local budget deficits will be addressed."

Michael Newman, Principal, President & CEO, Golub & Co., agreed about property taxes and commented on the state's fiscal situation.

"We are always endeavoring to build and keep positive momentum on behalf of investors," Newman says in addressing Cook County property taxes along with the other financial issues across the State like its bond rating and pension fund debt.

"As a developer, and an investor with significant redevelopment projects, it hasn't been uncommon, historically, to develop a project under one set of rules only to have things change at some point later," Newman says. "We understand that is part of the risk you pay to be in Chicago and Cook County. It just means you have to work harder and smarter to anticipate the risks and know how to underwrite for them."

Experts across the board made calls for someone to address the state budget. Many believe that if the city and/or state would ask for a Federal bailout and not directly attack the root of the problems, they would only be kicking the can down the road.

"We need to right the ship, get our fiscal situation to a place where capital feels confident investing in Chicago once again," Episcope says. ■

The post-pandemic office environment

In the 3rd Annual DePaul-ULI Chicago Survey, the statistical results of four different post-pandemic office occupancy scenarios were heavily skewed toward one option: shrinking traditional space and embracing work from home (WFH). More than six in 10 (61.5 percent) participants expect companies will shrink their space requirements while further embracing WFH.

More than 15 percent believe companies will actually take more space to accommodate social distancing (15.2 percent) and relocate to the suburbs or establish satellite offices there (16.7 percent).

At the same time, the comments of those participating in the survey and experts interviewed for the report seemed to be more balanced, indicating that there may be a combination of various options. Along those lines, many expressed a belief that work will become more purpose-driven. The daily commute may become largely dependent on what the day entails:

- Traveling to the hub/CBD for brand/client/big events
- WFH for more task-oriented focus, full-day of conference calls and the need for more concentration
- Work near home as a vital alternative to avoid CBD (public transportation, elevators and high-density areas) and exiting home where constraints might prohibit productivity

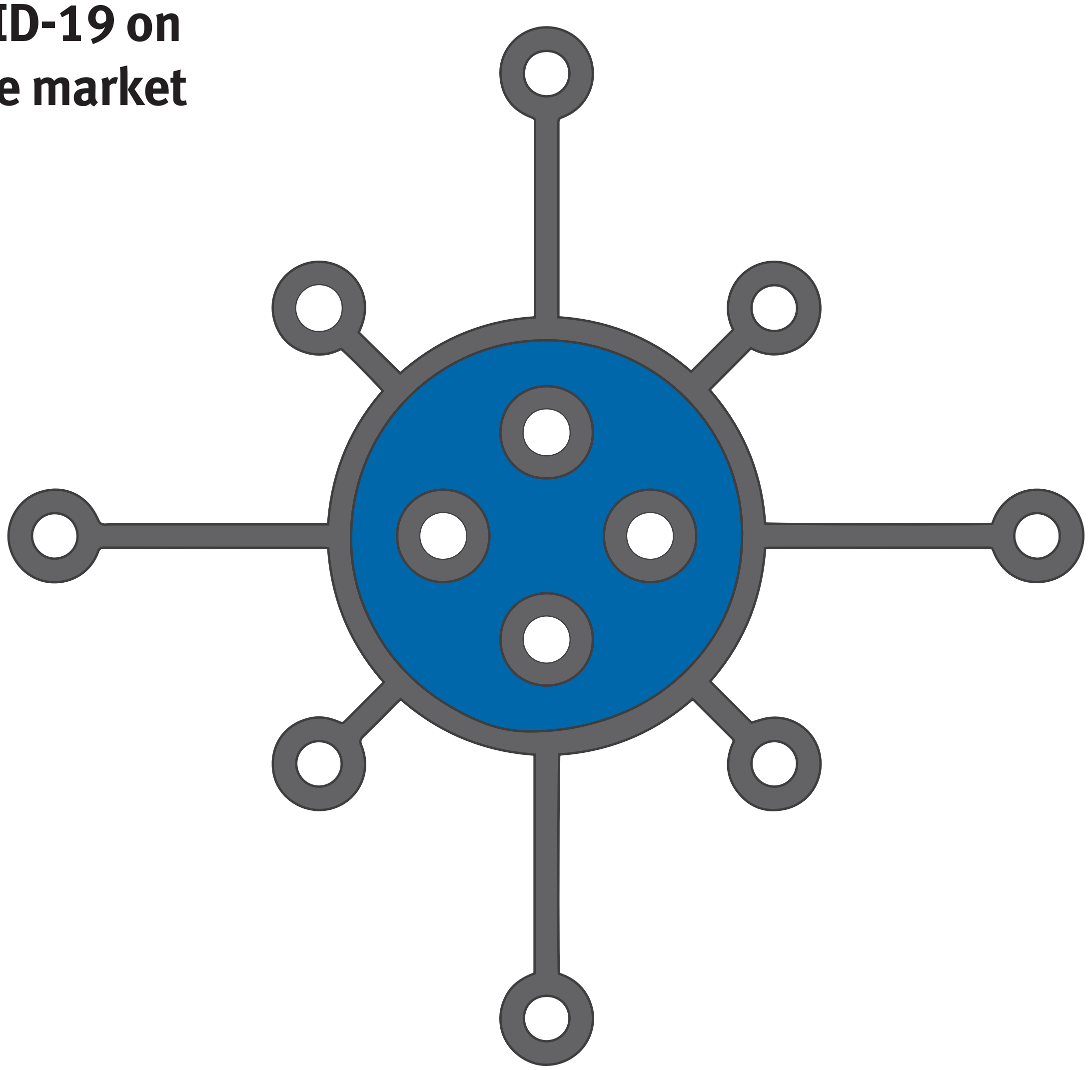
There is little doubt that among a significant segment of the white-collar population, COVID-19 has created a lot of fear among businesses and their employees. Companies also are working to address those issues by returning to work with staggered work schedules, coming back gradually, and/or deferring a return to the office until after Labor Day, later in 2020 or at the beginning of 2021.

Regardless of the timeline of the return and the breakdown of in-office versus WFH strategies, business and industry leaders believe that some things are hard to do remotely. That sentiment is especially applicable to transaction-oriented businesses that may find it difficult to consistently generate new business and create new ideas in a WFH environment.

Impact of COVID-19 on office market

58.9%
Shrinking space requirements due to embracing work-from-home strategy

9.6%
No change in leasing requirements



15.2%
Take more space to accommodate greater social distancing

16.2%
Relocate to the suburbs to establish satellite offices

"I don't think people are as effective working from home," O'Donnell says. "It's difficult to add new business opportunities without traveling. In addition, it harms the career growth of younger employees."

Episcope suggests there will be less overall demand for office space as companies look for the proper balance between a WFH strategy and having space that creates a home for the business. "It's hard to create a company culture without physical space," Episcope adds. ■

Chicago versus the rest of the country

Many in real estate are not only optimistic about Chicago but believe that it will continue to stack up nicely against the rest of the country—in spite of its faults.

“I remain cautiously optimistic about Chicago and the metro area,” says Sue Blumberg, Senior Vice President and Managing Director, NorthMarq. “There are too many great attributes about Chicago. We’re always on the top 5 list; that says something.”

The attributes that position Chicago well versus other markets include its diversified economy and the low cost of living versus coastal markets, like the Silicon Valley and San Francisco, that already are seeing some outmigration. One of the meaningful lessons that has been further reinforced by the pandemic is that at least at a very basic level, people can work from anywhere.

Mary Ludgin, Senior Managing Director, Head of Global Research, Heitman says, “People are leaving places like Silicon Valley and San Francisco because, to quote Gertrude Stein, ‘they don’t have anything there there’. What they loved about a location has gotten pricey, and since there no longer are ties there, people are free to move about.”

Chicago doesn’t have all of those issues. It is more livable than coastal markets and there is a solid base of tech employers that are expanding in Chicago.

She admits, however, that the disadvantages, including the unresolved pension crisis and how Cook County property taxes are valued and then taxed, “give investors reason to push back on an investment.”

Ludgin suggests there is much to learn from the health crisis that has rocked Chicago and the rest of the country since at least March as well as the social demonstrations following the killing of George Floyd in Minneapolis. She cited an old quote from former Chicago Mayor Rahm Emanuel (who at the time was President Obama’s Chief of Staff), “a crisis is a terrible thing to waste”.

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>
> Sue Blumberg
> NorthMarq Capital

"I'd hate for us to take the eye off the ball," she adds. "We need to be smart. Where COVID-19 is concerned we need to put on masks, stay home. It's a culture we must adopt to overcome the power of a disease that can be lifechanging and alter the course of a metro area."

In looking at the big picture, Largay adds, "Over the medium to long-term, nothing will change in terms of Chicago's attractiveness to investors. Chicago has an incredibly strong workforce/labor pool and low cost of doing business relative to other gateway markets, making it an attractive place for companies to locate and grow. However, we do have balance sheet and public policy issues. I hope we use this crisis to create a strategy on how to plot our path forward."

Newman added that the greatness of what Chicago has to offer isn't changing.

"As time goes on, any big city will have its challenges," he says. "With a quality vaccine and cure down the road we'll see people return to the urban lifestyle they enjoy."

But for Chicago, or any other big city, the shift may take some time.

"We are still in the midst of the crisis. It remains to be seen how we come out of this; how businesses and people conduct themselves," he adds. "There remains lots of uncertainty." ■

Chicago and the Suburbs

In large cities across the country, including Chicago, New York and LA, people in the 35-39 age bracket were leaving center cities for the suburbs pre-COVID-19. They are forming new households, having or planning for children and/or on further consideration are changing their perspective on urban schooling.

“That trend will only be exacerbated by COVID-19,” Ludgin says. “We’re hearing about an uptick in demand across many parts of Chicago, including farther out places like Lake Forest.”

Still, few believe this movement will undermine center cities like Chicago where investors and advisors tend to agree is a great place to live if you are young, have a job or going to school.

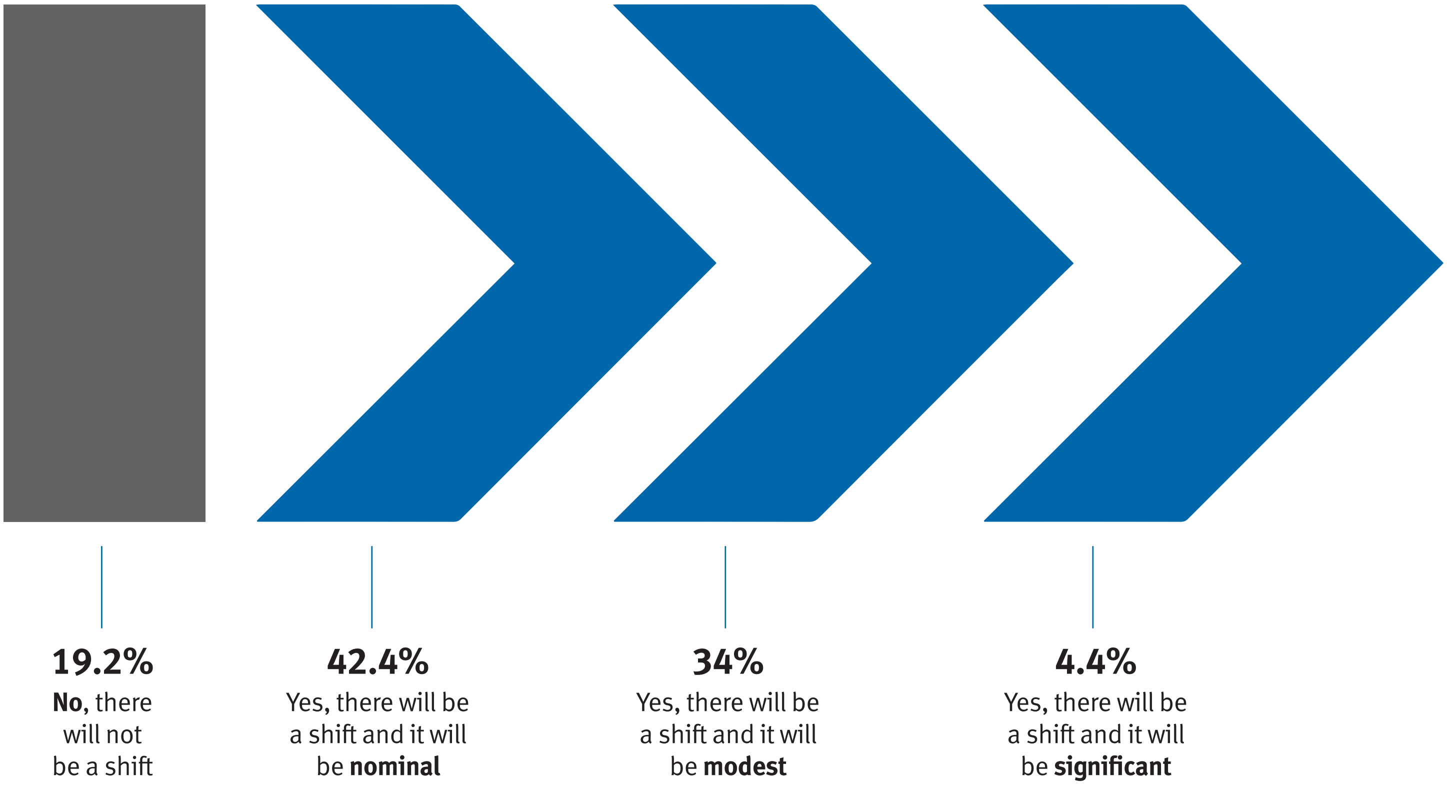
However, in the midst of COVID-19, suburban Chicago looks increasingly more attractive than it has in some time. The question remains as to whether that increasing attractiveness is short-lived or advances further.

Survey participants agree with the increasing attractiveness of suburban markets. More than three quarters (76.2 percent) believe that there will be a nominal to modest increase in suburban investments, though 42.4 percent believe the shift will be only nominal or insignificant.

“The suburbs could benefit from the changing patterns we’re seeing,” Blumberg says. “If you are working from home, a studio apartment gets awfully small. We could see renters looking to the suburbs where units and outdoor spaces in the complex are larger.”

Lee agrees that suburban multifamily properties will garner significant investor attention, as evidenced by suburban dispositions Focus recently completed. She says the projects were successful because they were designed to capitalize on larger unit and amenity sizes afforded by the suburbs as well as the walkability of an urban setting.

Shift to suburban investments?



Though apartments downtown may have great amenities, they may not be as desirable now. That, among other factors, is why Blumberg says downtown multifamily developments won't see the rent growth like they've experienced recently.

Newman believes it is too soon to tell whether investment activity in the suburbs will shift with any significance to the suburbs, but acknowledges that, from a user perspective, companies will exert more control over space, especially among the larger firms that can afford both downtown and suburban locations.

Opportunities for investing in suburban office buildings have been increasing for a while, as long as the product is priced right.

"A prized portion of the workforce always will be in certain suburban markets," Ludgin says. "Suburban office has been priced to reflect the risks involved and that is making it attractive for some. Moving forward we may see further opportunities where there already is corporate demand—demand that could be intensified because of COVID-19."

According to Newman, one of the benefactors may be single story office buildings and complexes. Through natural evolution, Golub has done more urban than suburban investing. But early on the firm did invest in single story office buildings that offered private entries and minimal common area spaces. He contends it can be difficult to make the per square foot numbers work for single story, but adds, "Single story could be really interesting. It has the potential to maintain enhanced health and safety features which could be in increased demand in the suburbs." ■

The view of capital

Across the country, the level of dry powder—capital waiting to be invested—is substantial. Yet because of COVID-19, there is little movement taking place.

“Capital is patiently antsy, waiting for an opportunity,” Blumberg says.

She also noted that the way in which loans are being underwritten is changing. “We’re underwriting differently now. Today, the easiest, most comfortable loan is a 65 percent LTV and a 1.35 debt cover. The maximum would be an 80 percent LTV and a 1.25 debt cover.”

Broadly speaking, investors are getting ready, but are not in a rush for capital to go out tomorrow, unless the situation is right. Many investors are looking at defensive options like debt positions where there is a layer of equity as a buffer just in case valuations are not correct. Others want a mix of defensive and offensive options, so they are looking at opportunistic investments that take on more risk.

“Buying during a recession tends to create good outcomes. But we’re in the early days of a recession unlike anything we’ve seen before,” Ludgin says. “There will be lots of chapters to this story. We’re in chapter one or two of maybe a six- or eight-chapter book.”

According to Largay, truly core real estate—such as industrial or office buildings with long-term weighted average lease term and medium to long-term stability in cash flow has seen minimal/no change in value today from the pre-COVID-19 days.

“But the universe of those deals is small,” Largay adds.

A bid-ask gap is evident in those properties where there are uncertainties in cash flow, based on leasing related issues. Thus, a property that is transaction dependent, either because of existing vacancy or a pending lease expiration, will have a greater bid-ask disparity. Largay estimates that 85 percent of assets may fall into that category.

In order for the gap to narrow, Largay says three things are needed: economic stability, recovery, and insight into demand.

In the near term, there may be a lot of talking but not rushing to make decisions or place capital in part because of the complexities of completing due diligence today. Further, at least for the time being, buyers are taking the most conservative approach to underwriting because little if any data exists right now on market rental rates and/or the time it will take to lease up vacancies. ■

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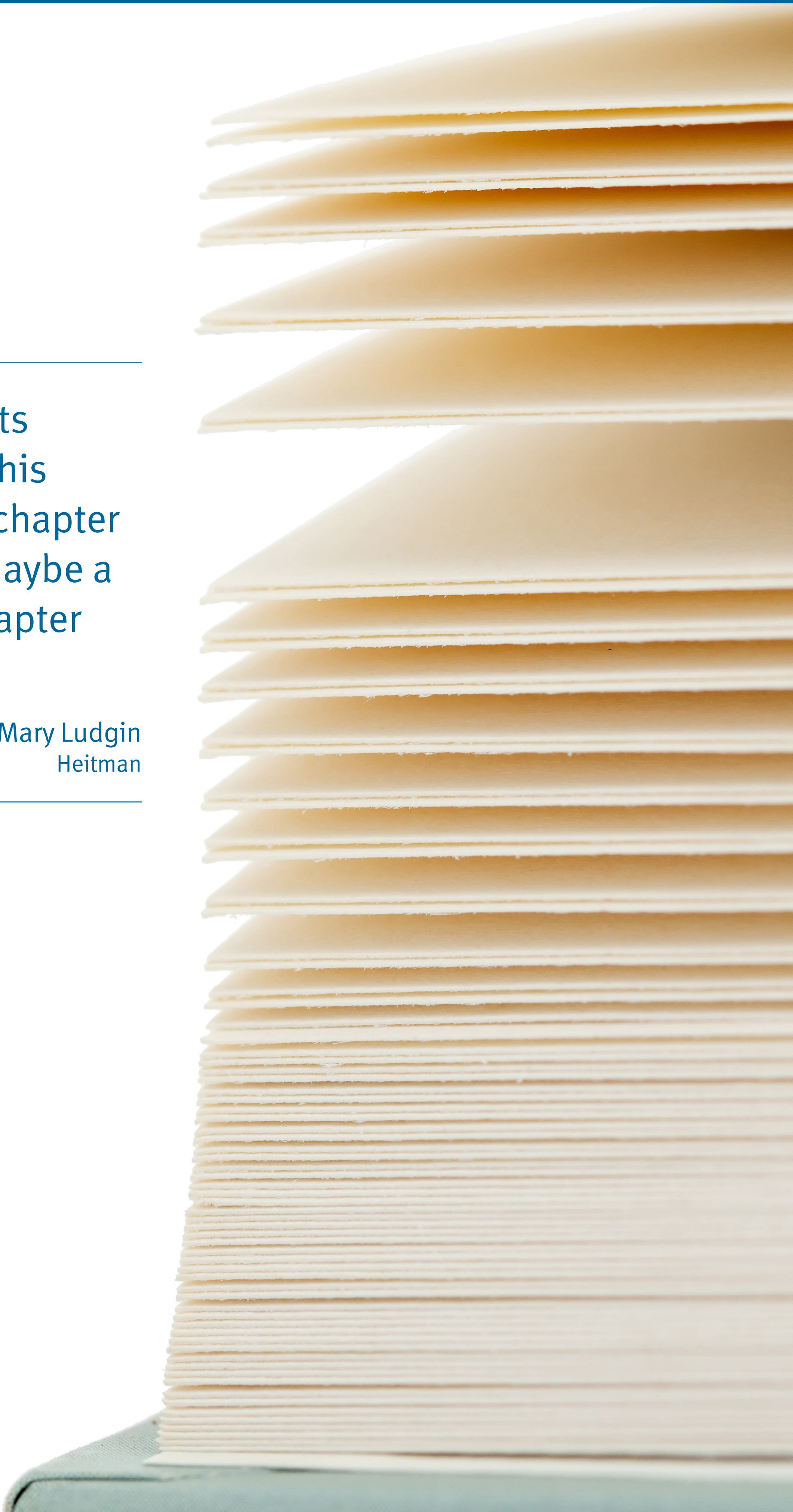

The outlook

The long-term outlook for the Chicago real estate markets depends in part on your point of view, and the area or sector of specialization. Those whose business dealings are focused on the industrial and multifamily sectors are likely to have a more optimistic outlook. Those with a focus on hospitality and retail are more concerned.

The industrial sector will continue to look better than all other sectors for the foreseeable future. The performance of ecommerce driven real estate will draw even more money to the market.

“The flipside of that,” says Jeff Devine, Principal & Executive Managing Director, Capital Markets, Colliers-Chicago, “is that more capital often can lead to less discretion.”

Throw too much money at any sector and it will get overbuilt or overheated. That could happen at some point. Looking back, from 2005 to 2007 it was so easy to throw money into the market which led to significant overbuilding.

“Equity capital is more judicious now and have really very narrowed focus on the best locations and building designs, he adds. “That means the severity of post 2008 financial crisis hangover is less likely, but oversupply is always the greatest threat. For now, we continue to show very good equilibrium.”

For multifamily assets, Episcope explains that right now you have a significant bid-ask gap, largely driven by the fact that sellers haven’t changed their expectations on pricing. As a result, Origin prefers to chase preferred equity positions or stay out of the game.

“The fundamentals have changed, but pricing hasn’t. Opportunity and activity will come back when these two variables intersect,” he says.

Episcope notes that the “intersect” hasn’t occurred in Chicago or across the country. Origin is looking to 3-6 months post pandemic, and how job growth recovers. “It’s hard to buy if job growth doesn’t come back,” Episcope says.

In looking ahead, Lee believes there will be increasing opportunity to purchase and reimagine distressed properties.

“A year ago, it was common for 20 different development firms to over-bid on a single piece of land that may have only been a B+ site,” Lee says. “Given the current climate, developers will be forced to get creative with the opportunities available in order to maintain a healthy pipeline of work.”

As good as the industrial market is at the present time, the retail sector is the polar opposite. In the survey, 92.5 percent of participants agreed that there are not enough strong retailers looking to absorb space in Chicago. Almost 90 percent agreed that construction of any new retail space makes little sense right now. Finally, more than 76 percent agreed that the current crisis has further exposed the need to repurpose retail centers.

On a more general real estate and economic basis, the outlook remains somewhat mixed, and guarded.

“COVID-19 will eventually go away, either through treatment or a vaccine or herd immunity,” O’Donnell says. “It’s unlikely that we will have a full recovery for at least two years and most likely significantly longer.”

He cited massive unemployment for which we haven’t begun to realize the full impact; government subsidies and what that means long term; projections consumption will be down; and the level of business dislocations that already have occurred.

“Many businesses will go under and for the others it will take time to recover,” he adds. “How will hospitality and restaurants come back? How do you operate at 25 percent occupancy or capacity?”

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>
> Michael Episcope
> Origin Investments

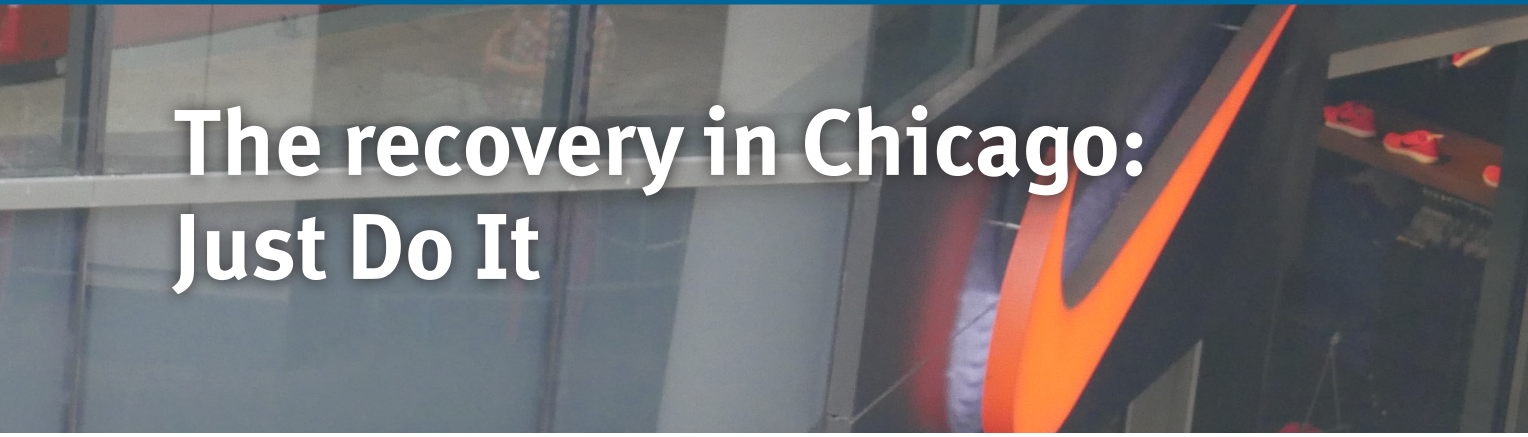
According to James Shilling, George L. Ruff Endowed Chair in the Real Estate Center, DePaul University, sums thing up by saying the outlook really depends on the duration of the pandemic risk.

“If the pandemic ends quickly, and if pandemics do not reappear in the future, then the shock to the economy is real and unprecedented but the urban/suburban form does not change massively,” he says. “On the other hand, if the shock does not end quickly, and if pandemics reappear in the future, then significant changes are likely to appear in the urban/suburban form and create enormous dislocations.”

Yet many professionals continue to agree that Chicago has all the essential ingredients of a solid and stable market—workforce, infrastructure and a diversified economy. The market forces—the outside factors—make it more difficult to predict.

“We could see two to three years of difficulty,” Forde says. “I am not a naysayer, seeing a long-term recession. I am much more optimistic, but cautiously so.”

Blumberg also is taking a wait and see attitude. “If we weather this through the Fall and by the end of the year we haven’t gone significantly backward, I think we’ll be fine,” she says. ■



The recovery in Chicago: Just Do It

A recovery in Chicago will look more like a Nike swoosh than any other shape, according to 42.5 percent of the participants in the 3rd Annual DePaul—ULI Survey. Further, flying the W isn't only a favorite of North Side baseball fans this time of year. One third, 33.5 percent, believe that Chicago's recovery will fly the W, being choppy from 2021 through 2024.

The experts interviewed were nuanced in their responses. Episcope looks for a swoosh recovery because Chicago has been and should remain a moderate growth market without extremes in either direction. O'Donnell also believes the recovery will look like a swoosh, but he expects it to be very elongated and hopes he's wrong.

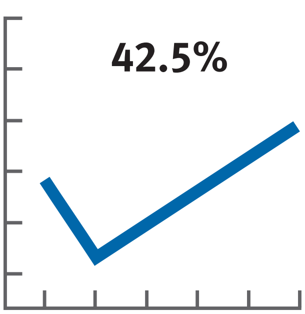
According to Largay, the shape of the recovery is anybody's guess. "There are too many unknowns to speculate," he says. "Yet the severity and long-term nature would indicate that it will be anything but a V."

Blumberg agrees that it won't be V-shaped and that a swoosh is probable. "The question is whether the tail plateaus or goes back up," she says. Ludgin is in the W camp, believing there could be starts and stops with the recovery.

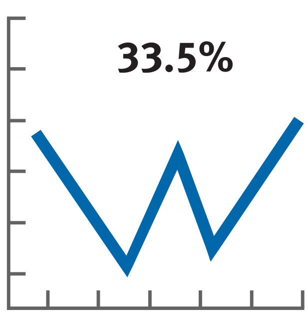
Devine offered a more micro look at the shape of Chicago industrial market and capital market recovery. "The industrial recovery will be V-shaped. There has been a lot of user activity, but not a lot of leasing (one primary e commerce company excluded of course). When we reach an inflection point where a range of businesses can view a more stable environment following the development of a COVID-19 vaccine, the user market—and the pent-up demand will have a significantly positive impact on the occupancy fundamentals."

He also said that the capital markets will take on more of a U-shape. "Volume has been tempered in this stagnant leasing period; when leasing fundamentals roar back, transactions will steadily rise."

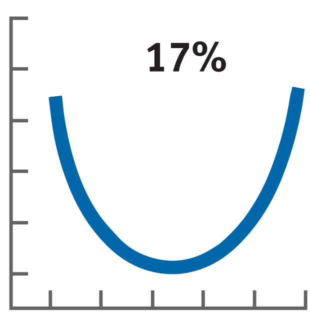
The uncertainty of how things will play out can be attributed, in part, to the fact that this is a healthcare crisis first and then an economic crisis. That, in large part creates the real uncertainty. ■



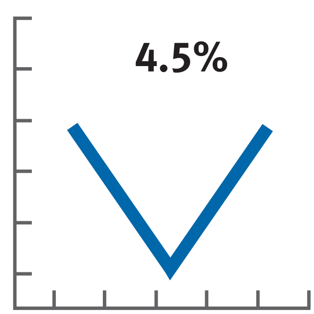
Swoosh-Shape Recovery
(2021 and beyond)
Sharp decline and slow recovery



W-Shape Recovery
(2021-2024)
Sharp and repeated ups and downs



U-Shape Recovery
(2022)
Extended period of time until recovery



V-Shape Recovery
(2021)
Sharp decline, but quick recovery

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