



Chicago

A demographically challenged, bifurcated metro

by Stewart Rubin and Dakota Firenze

Chicago is the largest metro area in the Midwest. Its gross GDP is almost double the size of its next nearest competitor and it is the regional economic capital of the Midwest. Nevertheless, it has suffered from weak demographic growth. Overall population growth was 1.8 percent between 2010 and 2017, compared with 5.6 percent for the United States. The prime working-age population growth over the same time period was 1.6 percent compared to 4.7 percent nationally and is projected to decline by -1.3 percent compared with 1.5 percent growth nationally. In the 25- to 34-year-old age bracket, population growth in Chicago over the same time period was 1.3 percent, compared with 9.6 percent nationally, and is expected to grow over the next five years by 1.1 percent, compared with 2.8 percent nationally (see table on page 66).

In an inauspicious sign for the future, the number of children aged 5 to 19 in Chicago declined -6.0 percent between 2010 and 2017, compared with -0.9 percent for the nation, and is projected to decline by another -3.0 percent, compared with

-0.9 percent for the nation. This does not bode well for certain Chicago suburbs. Net domestic migration between 2010 and 2017 was -5.1 percent, worst in the Midwest. With the exception of New York City, Chicago's net domestic migration was worse than any other major market. New York, however, was able to compensate with substantial international migration. Net international migration in Chicago was 1.9 percent, compared with 2.3 percent for the nation (see table on page 66).

The metro has a well-educated workforce. Chicago's prime working-age college education attainment rate of 38.9 percent is second highest in the Midwest and considerably higher than the national average of 32.3 percent (see table on page 68). Chicago's prime working-age college education attainment growth rate over the past five years was 10.1 percent compared to 13.6 percent for the nation. Chicago's 25- to 34-year-old college education attainment rate of 44.1 percent is considerably higher than the national average of 34.4 percent, though Chicago's 25- to 34-year-old college education attainment

Demographics in the Big Six plus Dallas							
Metro	Total population	Prime working age (25-64)		Age 25-34		Age 5-19	
	Growth, 2010–2017	Growth, 2010–2017	Projected growth, 2017–2022	Growth, 2010–2017	Projected growth, 2017–2022	Growth, 2010–2017	Projected growth, 2017–2022
Dallas/Fort Worth	14.5%	13.6%	7.6%	11.5%	8.5%	12.0%	6.4%
Washington, D.C.	11.3%	9.9%	2.9%	13.4%	5.2%	6.3%	3.3%
San Francisco	9.4%	9.0%	2.3%	16.0%	4.2%	2.2%	1.0%
Boston	6.3%	6.0%	0.4%	16.7%	4.7%	-1.6%	-1.9%
United States	5.6%	4.7%	1.5%	9.6%	2.8%	-0.9%	-0.9%
New York City	4.3%	4.0%	-0.1%	8.9%	1.7%	-4.1%	-2.5%
Los Angeles	4.2%	5.9%	0.3%	7.7%	2.0%	-7.6%	-0.6%
Chicago	1.8%	1.6%	-1.3%	1.3%	1.1%	-6.0%	-3.0%

Source: U.S. Census Bureau, American Community Survey Five-Year Estimates, 2017

Net domestic migration		Net international migration	
Metro	2010–2017	Metro	2010–2017
Dallas/Fort Worth	5.8%	New York City	5.5%
San Francisco	0.5%	Washington, D.C.	5.4%
United States	0.0%	Boston	5.0%
Washington, D.C.	-1.2%	San Francisco	4.9%
Boston	-1.2%	Los Angeles	3.2%
Los Angeles	-3.9%	Dallas/Fort Worth	2.9%
Chicago	-5.1%	United States	2.3%
New York City	-5.6%	Chicago	1.9%

Source: U.S. Census Bureau, 2017

growth rate over the past five years was 14.1 percent compared with 21.7 percent for the nation.

On other measures, Chicago has both positive and negative factors for investment. It has one of the lowest affordability ratios in the Midwest at 3.20; however, it is more affordable than the national average at 3.59 and very affordable for a world-class top-tier city. Fiscally, Illinois is the weakest state in the union with a rating of Baa from Moody's Investors Service. Its Mercatus Score is the second-lowest in the nation, and it has the highest fixed-income ratio in the nation. The city of Chicago is rated Ba1 by Moody's Investors Service, which is below investment grade. Illinois has the highest tax burden as a share of income in the Midwest. Its top individual tax rate is close to the average for the United States, but the corporate tax rate is one of the highest in the Midwest. In terms of quality of life, Chicago has high violent crime and murder rates, but has the best walk score, best transit score and third-best park score in the Midwest.

A closer look at demographic change

Chicago actually may be undergoing a demographic transition. Chicago endured a significant migration loss from people making less than

\$75,000 per year, and especially less than \$25,000 per year. The Chicagoland Metropolitan Agency for Planning, or CMAP, published a recent study indicating Chicago has been attracting many high-end earners and highly educated people, especially to the North Side of the city. The Greater Loop and the North Side of the city are booming. Between 2000 and 2016, the number of college-educated people aged 25 to 34 increased by 26.5 percent, while the overall population of the same age group increased 10.1 percent. The surge in high-education, high-income residents, combined with a collapse in low-skill immigration, and the decline of lower-education, lower-income residents should shift the ratio in the city over time. If the demographic shift continues, the city of Chicago may achieve a composition closer to those of coastal elite cities. Nevertheless, most of the positive analysis on Chicago focuses on the city proper.

CBD/suburban office dichotomy

Chicago has the most pronounced dichotomy between suburban and downtown office among its peers. Chicago has a 1.25 Location Quotient (LQ) for professional and business services jobs, which grew 18.1 percent between 2010 and 2017

and are projected to grow 6.8 percent over the next five years; nationally, the figures for such jobs are 21.5 percent and 9.4 percent, respectively, for the same time periods. Although not outstanding in terms of tech LQ, Chicago is the Midwest leader in biotech with an LQ of 1.41. Office-using jobs as a share of total jobs is 25.6 percent, one of the highest in the Midwest and substantially higher than the national share of 21.7 percent, but past growth from 2012 to 2017 has lagged at 8.0 percent versus 11.6 percent for the nation, and projections over the next five years are not more optimistic at 5.9 percent for Chicago versus 6.2 percent for the nation.

Chicago has significant suburban office vacancy problems; however, the Loop is a world-class business destination. Suburban-to-downtown moves continue in Chicagoland. Mondelez just announced it is relocating global offices to downtown Chicago from suburban Deerfield, Ill. The snack food company will lease 83,000 square feet in the Fulton Market District and relocate its global corporate offices in

2020. Walgreens announced in June 2018 it will be the anchor tenant of the former main Post Office and will be moving 1,300 new jobs downtown from suburban Deerfield and consolidating 500 others from elsewhere in downtown Chicago. Other relatively recent suburb-to-downtown relocations include: Motorola Solutions, Kraft Heinz, Hillshire Brands, GE Healthcare, Beam Suntory and, most recently, McDonald's. Smaller companies such as FTD and Peapod also have relocated to the city. Some of these suburb-to-downtown relocations involve significant numbers of jobs. Archer Daniels Midland moved from Decatur, Ill., to downtown Chicago in 2014. Conagra moved its headquarters from Omaha, Neb., to downtown Chicago in 2015. Unlike suburb-to-downtown relocations, cross-regional headquarters relocations tend to involve smaller amounts of people.

The shift from the suburbs to downtown Chicago is reflected in the rent growth and vacancy based on a trailing one-year average. Chicago exhibits the greatest differential between CBD and suburban rent growth of any major market (ex-Los Angeles). See the right-hand column titled "difference" in the chart below. This points to favoring Chicago's world-class urban core. Notice the inverse relationship for mid-continental competitor Dallas/Fort Worth.

The bottom line

Chicago has demographic challenges relating to its slow population growth, as well as significant fiscal issues for both city and state, but it also boasts a well-educated workforce and a world-class CBD that has been attracting office tenants from the surrounding suburbs as well as cross-regionally. ♦

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College education attainment in Big Six plus Dallas				
Metro	Prime working age (25-64)		Age 25-34	
	2017	Growth, 2010-2017	2017	Growth, 2010-2017
Washington, D.C.	51.4%	16.1%	53.6%	21.9%
Boston	49.7%	14.6%	57.2%	24.7%
San Francisco	49.6%	17.6%	54.4%	30.6%
New York City	41.3%	12.1%	47.5%	18.9%
Chicago	38.9%	10.1%	44.1%	14.1%
Dallas/Fort Worth	34.5%	22.5%	34.7%	27.3%
Los Angeles	33.9%	13.0%	36.9%	23.4%
United States	32.3%	13.6%	34.4%	21.7%

Source: U.S. Census Bureau, American Community Survey Five-Year Estimates, 2017

Difference between CBD and suburban office vacancy and rent growth						
Metro	Vacancy, Q3 2018			Rent growth, Q3 2008-Q3 2018		
	CBD	Suburban	Difference	CBD	Suburban	Difference
Boston	5.56%	8.70%	-3.1%	14.7%	8.8%	5.8%
Chicago	11.02%	13.52%	-2.5%	27.8%	0.4%	27.4%
New York City	7.71%	10.25%	-2.5%	7.7%	-2.5%	10.2%
San Francisco	6.16%	9.31%	-3.1%	70.6%	51.2%	19.4%
Seattle	6.92%	7.02%	-0.1%	27.2%	17.0%	10.2%
Washington, D.C.	12.24%	13.85%	-1.6%	9.0%	-3.9%	12.8%
United States	9.40%	8.78%	0.6%	15.4%	5.3%	10.1%
Big 6 average	7.72%	9.83%	-2.1%	25.8%	14.1%	11.7%
Dallas/Fort Worth	19.49%	14.07%	5.4%	13.6%	14.0%	-0.4%

Source: CoStar, as of Q3 2018