

LUXURY MEMO SPECIAL REPORTS

Cities of luxury: Chicago – Luxury Memo special report

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Image courtesy of JKEquities

By JOE MCCARTHY

Big coastal cities seem to dominate the U.S. luxury market, but Chicago is busily making a name for itself in the American heartland as a place that prizes experimentation, supreme hospitality and emerging wealth.

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The windy city skews millennial, which drives its uncanny embrace of new trends, and after years of tepid growth, the luxury real estate market is showing healthy signs of a resurgence. As skyrocketing rents in other major U.S. cities put the brakes on bricks-and-mortar expansions, Chicago's relatively low barrier to entry is causing a boom in the retail industry.

"Chicago continues to show 'stickiness' in that new business, exciting ventures, whether permanently housed or 'pop-up' in nature, are seeing our city as a very real option with drawing power," said Philippe Gills, concierge at the [Langham Chicago](#).

"This is a great sign because it means we can remain optimistic moving forward in our ability to provide a top flight experience in all phases of a client/guest experience should they visit," he said.

"Diversified options without pretension served up with Midwest hospitality."

Top 5 trends in Chicago

- Real estate records

Chicago's luxury real estate market broke several records throughout 2018 and is poised to continue this growth, in contrast to the city's broader market which is experiencing a recalibrating slowdown.

- Retail innovation

Unlike other major cities where luxury brands cluster along a single street, Chicago's luxury retail scene is dispersed throughout neighborhoods, with many brands experimenting with pop-up shops, sister locations and more. This is partly because of the city's low barrier to entry, which allows brands to test out new ideas and also allows local luxury players to survive.

- Millennial density

Whether it is the presence of multiple top-tier schools, a strong job market or inexpensive rents, Chicago boasts an unusually high percentage of millennials, a demographic that is beginning to redefine what luxury means and drive a significant portion of the luxury business.

- Cultural cache

From fine dining to art galleries and music venues, Chicago has diverse cultural offerings that showcase the city's unique Midwestern perspective.

- Tourism

As a central hub for business and commerce, Chicago boasts year-on-year tourism growth that rivals New York and other major U.S. cities. Luxury hotels and home-sharing services have allowed Chicago to comfortably accommodate this surge.

Real estate

Chicago's luxury real estate market is coming off a roaring 2018, according to a recent Re/Max luxury report. Sales of \$1 million-plus homes in the third quarter of 2018 rose 6.6 percent compared to the year before, median sales prices climbed 0.8 percent and the average time that units spent on the market declined by a full three weeks.

These strong headwinds likely give peace of mind to developers of the countless luxury buildings currently being erected in posh neighborhoods.

"There are many new luxury condo buildings offering great views, tall ceilings, high levels of finishes and offered services and amenities," said Phil Skowron, luxury real residential real estate expert at [@properties](#), an affiliate of Luxury Portfolio International. "There was a long period of time that very little was being built, but starting in 2016-2017 we saw many new and exciting high-rise projects announced with completion dates between 2016-2020.

"Most of the current Chicago luxury sales are comprised of these new construction buildings," he said.



Chicago's luxury housing market's performance suggests US luxury homes are still quite popular

The ultra-luxury market is also booming in the city, with 2018 featuring a record number of \$4 million-plus homes sold. Luxury developers are expecting new buildings to come to market, and brokers are likely to shift mid-market units higher up.

These trends defy the broader narrative in Chicago, which is expecting to see home and rental activity cool off, according to [the Real Deal](#).

That cooling off could give way to an explosion of high-end activity, a pattern that is playing out in cities across the U.S.

"Demand for high-end luxury rentals will continue to outstrip supply as available units are being absorbed ahead of schedule," said Kevin Rocio, commercial real estate broker at [@properties](#), an affiliate of Luxury Portfolio International. "For that reason, we can expect to see more mid-level rentals be repositioned to high-end luxury rentals."

Although diminishing inventory gives sellers greater leverage, property owners are looking to boost their portfolios by parceling units to attract global buyers.



Chicago's 1000M is located on one of the city's most iconic streets

“Condominium deconversions are another big trend in Chicago,” @properties' Mr. Rocio said. “The reversal of condominium conversions from the last 20 years will continue to see a vigorous appetite from investors across the globe, who are looking for assets in tony Chicago neighborhoods.

“This has proven to be a win-win for owners and buyers,” he said. “We are currently working with multiple condo associations in neighborhoods such as Lakeview, Buena Park, Lincoln Park, West Town and Fulton Market, and we’re matching them with buyers – both locally and globally.”

Retail

Chicago is home to big-box retailers and local artisans, prestige luxury houses and emerging players.

The premier shopping district in the city is known as the “Magnificent Mile,” along Michigan Avenue.

“While department stores like Nordstrom and Bloomingdale's anchor this popular shopping quarter, it does graduate toward Giorgio Armani, Louis Vuitton and Chanel among others heading north – and intersecting with Oak Street; one long block of brilliance containing some of the world’s most recognizable brands like Jimmy Choo, Hermès Paris,” Langham Chicago's Mr. Gills said.

In other major cities, luxury stores often have an air of exclusivity reinforced by sales associates who lavish attention only on loyal customers. In Chicago, according to Mr. Gills, these conceits are not as prevalent.

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Instagram post from The Magnificent Mile

“The difference in my estimation is the human element present upon entering these stores,” Mr. Gills said.

“There is a decided Chicago quality that becomes part of your shopping experience that is different than any city in the world,” he said. “It’s a certain authenticity inherent even when shopping the world’s best products.”

Chicago luxury stores also have to go out of their way to provide an exceptional experience, according to Todd Siegel, senior vice president with CBRE in Chicago, especially when it comes to international tourists who are accustomed to white glove treatment in fashion capitals such as Paris and Milan.

British fashion house Burberry has long regarded Chicago as a playground for innovation, providing an immersive in-store digital experience as far back as 2012 ([see story](#)).



Burberry Chicago. Image credit: Burberry

“Today’s flagship store needs to deliver upon an experience that consumers cannot get elsewhere,” Mr. Siegel said. “Luxury retailers are continuing to redefine their flagship locations to deliver an enhanced customer experience, as opposed to the stores’ more traditional role of being a venue to just showcase product.

“Consumers are now exposed to product offerings in more avenues than ever before, with the Internet and social media playing the most aggressive role in that expanded exposure,” he said.

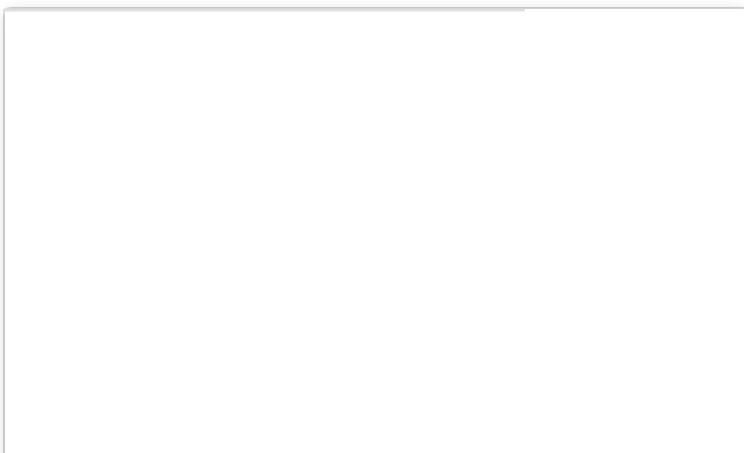
This push to reimagine the shopping experience is driving luxury brands to set up locations outside of main corridors.

“In Chicago — and around the country — we are seeing the expansion of luxury within an individual market,” Mr. Siegel added. “As a result, luxury is spreading out to new key streets and markets.

“In Chicago you have the growth of luxury brands in the West Loop, a resurgence of activity on Armitage Ave and Damen,” he said. “The Gold Coast has as much activity along Rush Street as it does on the once fabled Oak Street.

“The shopping is not just on Michigan Avenue and Oak Street, which are still world-class, but expanding to include new areas and capture a broader demographic.”

International brands that venture beyond the Magnificent Mile get a helping hand from the street traffic built over the years by local businesses selling bespoke products.



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In fact, Chicago's relatively low rents have allowed local players to thrive in contrast to other markets such as New York that have seen widespread closures and whole streets filled with empty storefronts because of price gouging.

"When compared to coastal cities such as New York, Boston, Los Angeles and San Francisco, Chicago has two significant advantages," Mr. Siegel said. "First, real estate rents are lower than what we are seeing in the coastal markets and therefore naturally offers a lower barrier to entry.

"With the millennial demographic serving as the core driver for these expanding luxury brands, Chicago continues to emerge as a very desirable market for luxury retail growth," he said.

Millennials

Millennials have been shaking up the luxury market for years, and as they approach the wealth and stability of middle-age, they are also becoming the primary luxury demographic ([see story](#)).

Chicago, in particular, is positioned to benefit from this transition, having one of the highest concentrations of millennials in the U.S.

In fact, millennials account for 54 percent of the population within a one-mile radius of the city center, according to Mr. Siegel.



Affluent millennials are most interested in connection. Image credit: Jimmy Choo

In the West Loop neighborhood, 73 percent of residents are millennials, according to the most recent U.S. Census population estimate. Many millennials are nearing the average home-buying age and could decide to move beyond endless renting through a mortgage, a possibility that bodes well for the city's real estate firms.

More broadly, however, luxury brands will be able to use Chicago as a testing ground for appealing to millennials. Since Chicago is friendly towards experimentation, this should be an easy fit.

Millennials are known for seeking out experiences, and this has led to growth in Chicago's nightlife, food and cultural offerings. It has also led to a surge in the sharing economy.

For example, millennials are increasingly likely to prefer renting luxury items, rather than owning them, as part of a minimalist aesthetic and commitment to experiences ([see story](#)).



Rent the Runway and other disruptors are changing the fashion game. Image credit: Rent the Runway

At Luxury Daily's 2019 Luxury Firstlook: Digital Acceleration event, executives from Flont and Armarium explained the vast potential of the sharing economy ([see story](#)).

"Consumers are shifting their values, opting for joyful and hassle-free experiences over ownership," said Brooke Magnaghi, creative director of Flont, during the discussion. "Many young shoppers are intimidated by the experience of entering a fine jewelry flagship boutique.

"And because of all of this, if we don't evolve as an industry — the jewelry industry, which is very traditional and generally adverse to change — we risk losing the luxury habit in consumers and the strength of a \$70 billion market segment," she said.

Tourism

Whether it is business conferences, cultural events or world-renowned museums, Chicago continues to stand out as a premier tourist destination for both international and domestic travelers.

"At the moment Chicago is soaring with 57.6 million visitors this past year, which is a nice jump from 2017," Mr. Gills said. "While domestic travelers credit the greatest growth overall, I love that the number of overseas visitors rose also.

"This tells me that Chicago remains world class as a destination in both segments," he said. "[That is] important considering there are several wonderful places vacationers/travelers can choose to visit and spend their money, especially our international visitors as they tend to travel differently and deliberately given the distances.

"Equally important are the new businesses that choose to open and operate business in our city. This shows the other side of marketability as a city; both need each other."

Chicago's tourism growth is partly driven by the variety of hospitality options in the city, and the relative accessibility of staying at a five-star hotel.

For example, The Ritz-Carlton Chicago achieved full brand status in 2015, and it boasts 429 rooms, including 101 suites ([see story](#)).



The Ritz-Carlton Chicago. Image credit: Ritz-Carlton

The Peninsula Chicago frequently hosts art exhibits to give guests a taste of the city's wider art scene ([see story](#)) and Trump International Hotel & Tower Chicago regularly crafts packages for families looking for authentic experiences ([see story](#)).

The Langham Chicago was even ranked the number one luxury hotel in the U.S. by [TripAdvisor's Traveler's Choice Award](#).

“As chef concierge at The Langham it's not uncommon for my team to entertain guests looking for their special item; and specifically flying here as they know it's available despite coming from or living in a major market where the exact item can be found,” Mr. Gills said. “The beauty in this is along the way you introduce them to the sights, dining opportunities and more while they are in your care.”

Cultural cache

The other main reason for Chicago's tourism growth is its wealth of cultural attractions.

With nearly 200 years of history, and influences spanning the globe, Chicago's architecture keeps people coming back year after year.

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There's a total of 52 movable bridges within the Chicago city limits, 43 of which are still operable! 📷: @nenad.spasojevic

A post shared by Chicago Architecture Center (@chiarchitec...

Instagram post from Chicago Architecture Center

In fact, the architectural boat tour on the Chicago river has been ranked the number one U.S. tour by [Trip Advisor](#).

Visitors can also opt to take bike tours, walking tours and bus tours to see the various neighborhoods. More important than visitors, however, are the residents who choose to live in the city because of its stunning buildings.

The city's art scene also draws residents and visitors alike.

With more than 300,000 artworks on display, the Art Institute of Chicago can take years to meaningfully get through. Contemporary art, history, science and other museums all combine to make the city a favored spot for art buffs.

Sports is another ongoing source of cultural flair for the city, which features numerous major league teams and a range of sporting events that luxury brands often synchronize with.

Marriott's Starwood Hotels and Resorts has offered visitors packages to see the Chicago Cubs play ([see story](#)) and Tag Heuer partners with the Chicago marathon ([see story](#)).

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Then there is the food.

Grant Achatz' Alinea is globally revered as a pillar of fine dining, and places such as Everest and Acadia help to elevate Chicago's reputation as a foodie destination.

"Chicago has it all, from the beautiful lakefront with running and bike trails, beaches and parks, to world-class museums and architecture," @properties' Mr. Skowron said. "Chicago residents and visitors will never run out of shops and restaurants to visit."

Best Practices for Chicago

- Todd Siegel, senior vice president with CBRE in Chicago:
 - "It is no longer just about the one prime high street. Luxury brands used to only consider one key location in each city, but as brands continue to experiment with alternative concept stores and pop-ups, etc., they're also looking at alternative locations."
- Philippe Gills, concierge at the Langham Chicago:
 - "Accessibility. Chicago is compact and easy to navigate, and even the 'hard to find' shops can be had within reasonable time."
 - "Buying power. Just because you shop luxury doesn't mean you don't care about what and how you spend, despite expecting to and often paying a higher premium for your cherished goods."
 - "You can be mainstream luxe if you desire."
 - "If you want to hunt for that 'one of a kind/local' venue it's all possible."