The impact of terrorism fears on downtown Real Estate Office market cycles -
The case of Chicago

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Abstract

The cyclicality of the Real Estate Office market has been well documented through a number of academic papers. However, the impact of fear that a potential terrorism attack poses on major cities’ downtown office market cycles has not been documented. Although the events of September 11, 2001 (9/11) took place four years ago and physically impacted only the New York office market, there is clear evidence of the psychological shockwaves the attack sent to all major downtown U.S. office markets. Initial reactions, in a post 9/11 downtown office market, varied from significant increase of subleasing space to leasing cancellations. Some of the factors determining the effects 9/11 had on downtown office markets were: city of landmark value, existence of trophy buildings, concentration of certain types of companies and institutions.

This data driven study measures the divergence generated in a downtown office market caused by the fear of a possible terrorist attack using Chicago as a case study, because of the concentration of corporate headquarters and the location of the tallest office building in the U.S. In an effort to capture all the significant variables impacting the office cycle, the study uses data from both CoStar Group and the Building Owners & Managers Association of Chicago. Initial results indicate a divergence from the expected office market cycle of about 30%.