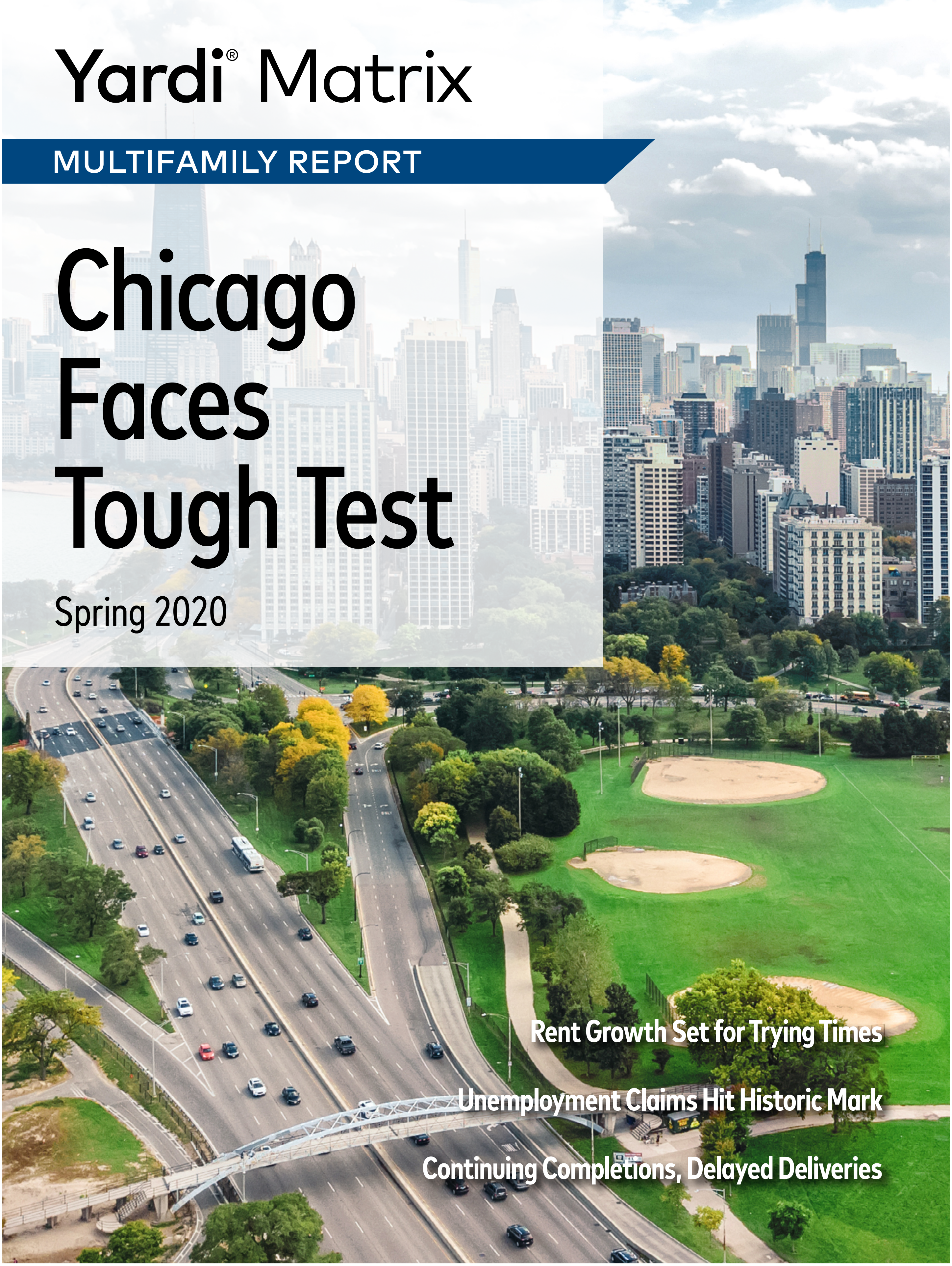
Yardi® Matrix

MULTIFAMILY REPORT

Chicago Faces Tough Test

Spring 2020



Rent Growth Set for Trying Times

Unemployment Claims Hit Historic Mark

Continuing Completions, Delayed Deliveries

CHICAGO MULTIFAMILY

Yardi® Matrix

Windy City
In the Eye of the Storm

Following a strong 2019 for both transactions and deliveries, the latter of which saw a new cycle high, the mettle of the Chicago rental market is set to be tested in 2020. With overall average rents at $1,538 as of March, and trailing three-month growth surpassing the national rate, the challenges of the COVID-19 outbreak were not yet prevalent during the first quarter. However, shelter-in-place orders across most states have brought parts of the economy to a near standstill, thereby jeopardizing the real estate market.

Metro Chicago had roughly 1.4 million jobs in sectors that were most susceptible to the effects of the pandemic, second only to New York City (1.9 million). Initial unemployment claims between March 15 and April 18 crossed the 730,000 mark in the state. However, some activities are proceeding, among them the development of the 60-story Salesforce Tower, hot off a $500 million loan—one of the largest in the metro.

Investors had largely focused on suburban assets in the 12 months ending in March, as the higher yield potential of value-add plays drove deal velocity. However, with economic activities curbed by a statewide shelter-in-place order set to extend through May, lower-quality assets with residents who are severely impacted are likely to struggle as the crisis endures.

Market Analysis | Spring 2020

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Recent Chicago Transactions

The Atworth at Mellody Farm

City: Vernon Hills, Ill.
Buyer: Passco Cos.
Purchase Price: $90 MM
Price per Unit: $347,769

Foxboro

City: Wheeling, Ill.
Buyer: DRA Advisors
Purchase Price: $54 MM
Price per Unit: $133,955

Elmhurst Terrace

City: Elmhurst, Ill.
Buyer: Cohen-Esrey
Purchase Price: $41 MM
Price per Unit: $130,793

Cressmoor Arms

City: Hobart, Ind.
Buyer: Tricap Residential Group
Purchase Price: $13 MM
Price per Unit: $92,592

RENT TRENDS

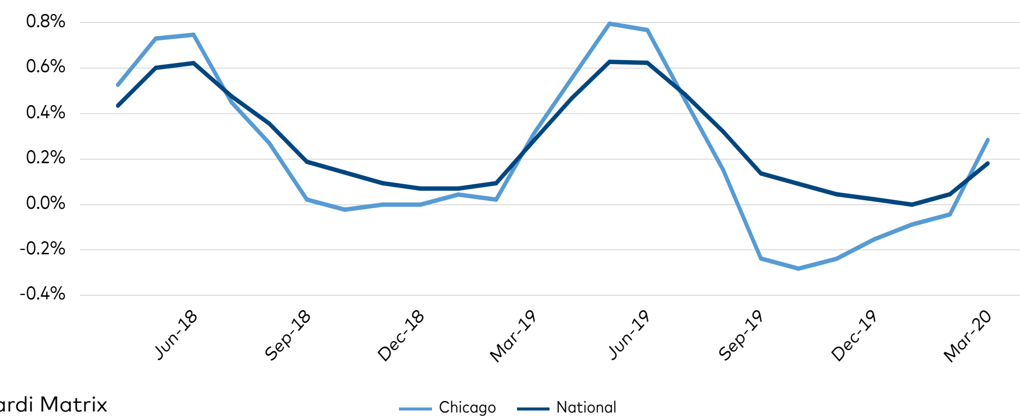
- Chicago rents were up by 0.3% on a trailing three-month basis (T-3) through March—10 basis points above the U.S. figure. Illinois is one of the hardest-hit states enduring the coronavirus outbreak, due in no small measure to the sheer size of the Chicago MSA. However, with states such as Washington, New York and California among the first affected, the immediate effects on Chicago's rental market still weren't apparent at the end of March. The metro's overall average rent was $1,538, slightly higher than the $1,474 national price.

- A recent National Multifamily Housing Council report indicated that rent payments had continued in 89% of cases recorded for the first three weeks of April—somewhat above initial expectations. And there is still reason for optimism in the market, as many residents anticipate federal aid to help with living costs.

- In what was a largely trend-bucking dynamic, rent growth in Chicago was mostly driven by Lifestyle assets on a T-3 basis—at 0.5%—whereas Renter-by-Necessity assets lagged behind at just under 0.2%. The two quality segments are also divided by a significant margin in average rents, with the Lifestyle figure clocking in at $2,125, while RBN recorded $1,271 at the end of the first quarter.

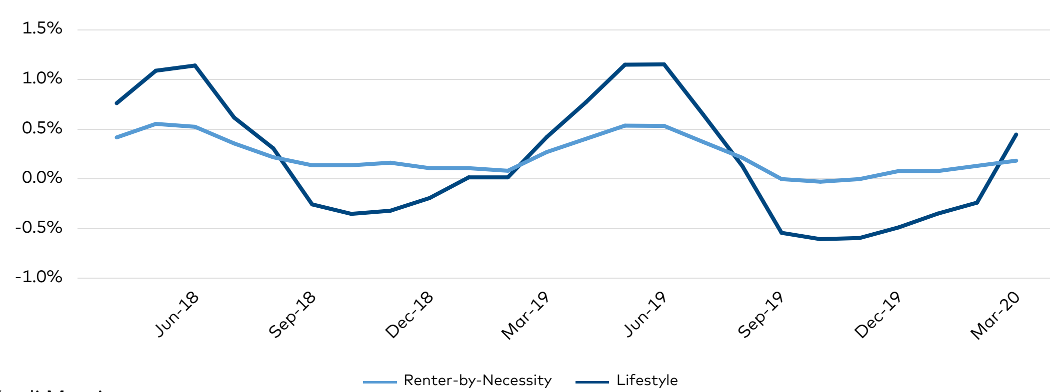
- With the shelter-in-place order extended in the state of Illinois through May, rent activity will likely remain affected by the economic halt.

Chicago vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Chicago Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- With 1.4 million jobs in the construction, trade and leisure and hospitality sectors, Chicago only trails New York City (1.9 million) in total jobs that are at risk in the wake of the ongoing health crisis. However, large numbers in these markets are mostly due to the sheer size of their employment bases. Chicago's economy is fairly well diversified and should be able to withstand the impact of the downturn better than more entertainment- or energy-centric markets, where headwinds will be stronger.

- Economic development had been solid in 2019, but the COVID-19 crisis has put significant dents in overall employment, with questions lingering about the eventual recovery. Unemployment claims in the state of Illinois have skyrocketed since the start of the crisis, reaching 730,000 between March 15 and April 18. With the moving weekly average at around 150,000, the number is roughly double the figure recorded during the Great Recession. Broad economic restart programs and funding are expected to curb these effects.

- Despite the impact, some projects are still powering through. The Salesforce Tower project is moving forward, following a $500 million loan for the construction of the 60-story tower.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	762	15.7%
90	Government	564	11.7%
70	Leisure and Hospitality	490	10.1%
55	Financial Activities	316	6.5%
30	Manufacturing	426	8.8%
80	Other Services	201	4.2%
15	Mining, Logging, and Construction	174	3.6%
60	Professional and Business Services	848	17.5%
50	Information	75	1.5%
40	Trade, Transportation, and Utilities	983	20.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The third-largest city in the U.S. saw its population numbers slowly decrease over the past decade. The MSA lost 22,230 residents between 2017 and 2018.

- Markets in the Sun Belt have largely gained residents this cycle; gateway cities were the main supplier.

Chicago vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Chicago Metro	7,348,719	7,330,977	7,311,079	7,288,849

Sources: U.S. Census, Moody's Analytics

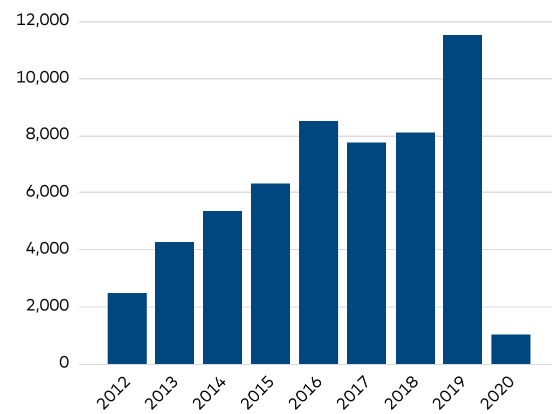
SUPPLY

- At the end of the first quarter, there were 18,324 rental units underway in Chicago. Four multifamily properties, totaling 890 units, came online in the first three months of the year. The outlook for multifamily construction activity is significantly different under the current circumstances. According to a National Multifamily Housing Council survey, 55% of developers across the U.S. are reporting construction delays.

- The market had been hot off its best year for deliveries this cycle, after posting 11,535 units—3.3% of total stock—in 2019. The bulk of new inventory was geared to the Lifestyle segment, where potential returns are significantly higher. An ongoing supply imbalance also furthered some affordability issues within the market, thus strengthening the headwinds that landlords and renters will face in the aftermath of the pandemic.

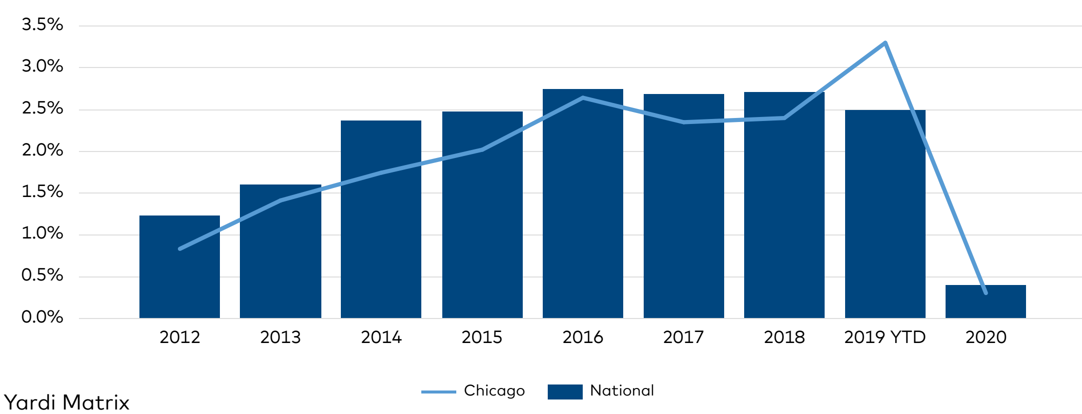
- Developers are focusing on urban submarkets for new rental stock, with the Near North Side (3,207 units), the Loop (2,749 units), the Near West Side (1,784 units) and the Near South Side (1,075 units) leading by sheer size of multifamily pipeline. The largest suburban pipelines were in Yorkville (748 units), Batavia (623 units) and Kenosha-South (580 units).

Chicago Completions (as of March 2020)



Source: Yardi Matrix

Chicago vs. National Completions as a Percentage of Total Stock (as of March 2020)



Source: Yardi Matrix

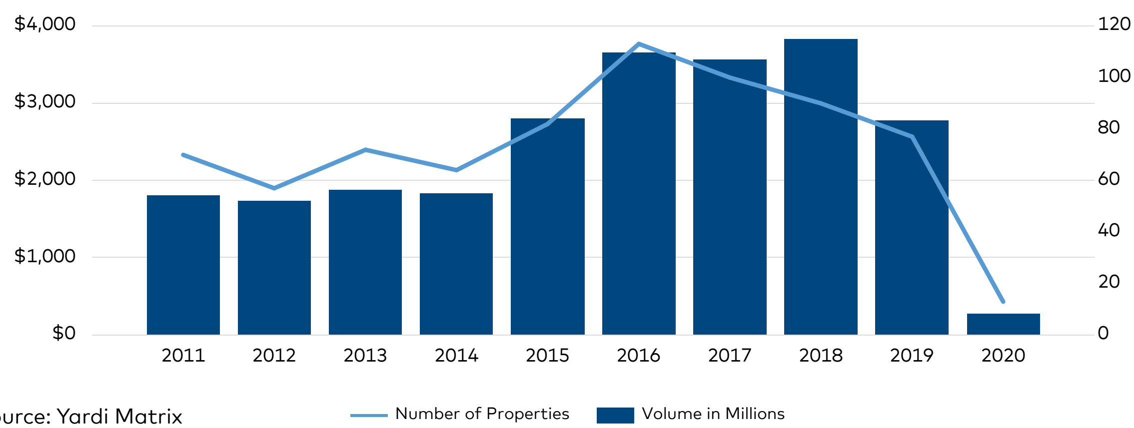
TRANSACTIONS

- Total multifamily investment sales reached $275 million during the year's first quarter. Due to investors' propensity for assets with value-add potential, the average per-unit price through the start of 2020 dropped slightly to $156,661, $6,000 under the U.S. average.

- Roughly three-fifths of the overall sales volume between April 2019 and March 2020 was recorded in Chicago's suburban areas, as acquisition yields there proved more incentivizing than those in the urban core. With most asset classes facing headwinds in the aftermath of the ongoing health crisis, acquisition policies may see a further shift toward higher-yield deals.

- First-quarter deals in suburban Chicago totaled $200 million, more than double the capital invested in urban multifamily assets.

Chicago Sales Volume and Number of Properties Sold (as of March 2020)



Source: Yardi Matrix

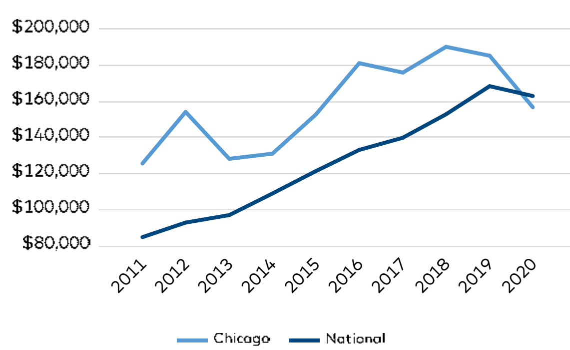
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Douglas	253
Downers Grove	179
Naperville-West	169
Near North Side	169
Arlington Heights	116
Near West Side	109
Schaumburg	108

Source: Yardi Matrix

[1] From April 2019 to March 2020

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

Fifield Cos. CEO: 'Expect Uneven Impact on Multifamily Market'

By Roxana Baiceanu

As the coronavirus washes over the country, the multifamily business has embraced a "wait-and-see" approach, as it looks ahead. As more hourly workers file for unemployment, it will become clear how unevenly the pandemic is impacting the market. The luxury sector is not expected to experience such significant disruptions. Fifield Cos.' Founder & CEO Steve Fifield and Senior Vice President Jon Schneider discuss the company's projects and mid-term goals.

What are some of the solutions you've implemented at Fifield Cos. properties to better navigate these trying times?

Schneider: First of all, we are keeping our buildings clean in accordance with high standards and best practices. We're also making sure our residents, staff, delivery personnel and any guests are constantly reminded to respect safe social distancing requirements. We've closed gyms, coworking spaces and other more "social" amenities until the pandemic is over.

We are also making sure to communicate actively with renters and provide some positivity during this tough time. We're offering residents virtual fitness classes, fun competitions through social media and we even leave small gifts at their doors.

Fifield Cos. is very active in Chicago. As things evolve, how affected do you think the city's multifamily market will be?

Fifield: The impact will be uneven.

Steve Fifield *(left)* and Jon Schneider *(right)*

Luxury high-rise apartments occupied mostly by workers in industries that can continue to operate within the parameters of social distancing and shelter-in-place guidelines won't experience too much disruption in rents. Older B and C buildings, located in outlying neighborhoods and suburbs, are expected to see lower collections or occupancy due to a high number of hourly-wage workers who may experience layoffs or move in with family.

What projects are you working on now and what challenges are you expecting?

Fifield: Development is subject to the availability of capital. Many banks, pension funds and other institutions are stepping back for several months trying to assess the fallout from the pandemic. During that time, many deals will also be delayed.

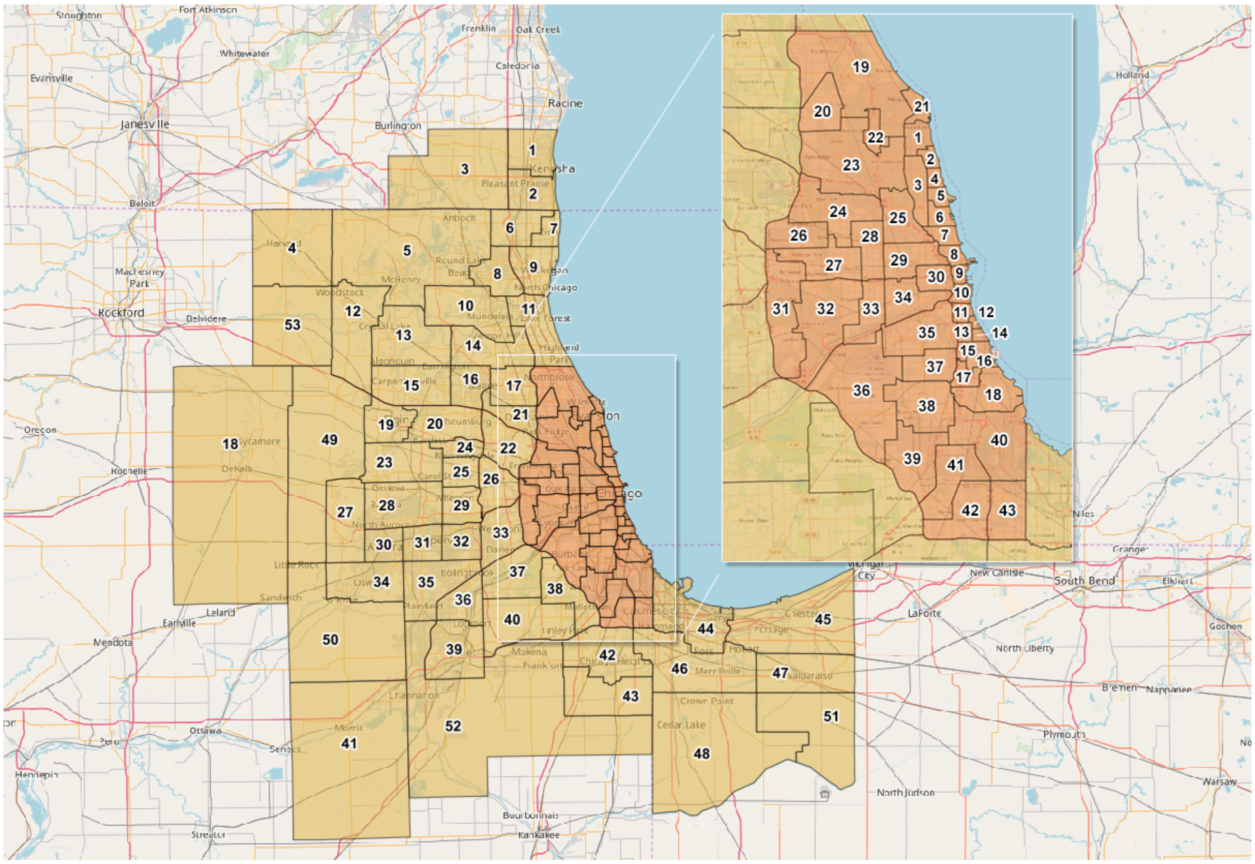
In terms of projects that are underway, we are near completion on Logan Apartments in the Logan Square neighborhood of Chicago and are expected to open Westerly in the River West neighborhood in Chicago in the fall. We are preleasing for the first phase of Catherine in Los Angeles, which will also be completed this year.

Tell us about your company's mid- and long-term goals.

Fifield: Demand for urban infill and suburban communities with robust "downtowns" will continue to be our focus. The demand for more multifamily housing is still more than the supply in most major urban areas.

(Read the complete interview on multihousingnews.com.)

CHICAGO SUBMARKETS



Area No.	Submarket
1	Kenosha–North
2	Kenosha–South
3	Bristol
4	Harvard
5	McHenry–Round Lake
6	Zion–West
7	Zion–East
8	Grayslake
9	Waukegan
10	Mundelein
11	Highland Park–Libertyville
12	Huntley–Woodstock
13	Crystal Lake
14	Buffalo Grove
15	Carpentersville
16	Palatine
17	Arlington Heights
18	DeKalb
19	Elgin
20	Schaumburg
21	Mt Prospect
22	Bensenville
23	St Charles
24	Roselle
25	Glendale Heights
26	Lombard
27	Elbum

Area No.	Submarket
28	Batavia
29	Wheaton
30	Aurora
31	Naperville–West
32	Naperville–East
33	Downers Grove
34	Yorkville
35	Bolingbrook
36	Romeoville
37	Hickory Hills
38	Palos Heights–Oak Forest
39	Joliet
40	Orland Park
41	Grundy
42	Chicago Heights–North
43	Chicago Heights–South
44	Gary–West
45	Gary–East
46	Gary–South
47	Valparaiso
48	Crown Point
49	Outlying Kane County
50	Outlying Kendall County
51	Outlying Porter County
52	Outlying Will County
53	Southern McHenry County

Area No.	Submarket
1	Evanston–South
2	Rogers Park
3	Lincoln Square
4	Edgewater
5	Uptown
6	Lake View
7	Lincoln Park
8	Near North Side
9	Loop
10	Near South Side
11	Douglas
12	Oakland
13	Grand Boulevard
14	Kenwood
15	Hyde Park
16	Woodlawn
17	Greater Grand Crossing
18	South Chicago
19	Wilmette–Northbrook
20	Des Plaines
21	Evanston–North
22	Skokie

Area No.	Submarket
23	North Park–Niles
24	Montclare
25	Irving Park–Logan Square
26	Northlake
27	Oak Park
28	Belmont Cragin–Austin
29	West Town–Garfield Park
30	Near West Side
31	Countryside–Westchester
32	Berwyn
33	Cicero
34	Lawndale
35	New City
36	Burbank–Oak Lawn
37	Englewood
38	Auburn Gresham
39	Blue Island
40	South Deering–Pullman
41	Riverdale
42	South Holland
43	Calumet City

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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