

Chicago Faces The Storm

Summer 2020



Investment Activity Slows

Government Mulls Property-Tax Hike

Developers Face Delays, Falling Demand

CHICAGO MULTIFAMILY



Heading Into Deep Water

Chicago's rental market faces myriad challenges, and a long recovery is expected. Rents fell to \$1,524—a 0.1% decrease on a trailing three-month basis through July, with Lifestyle rates down 0.3%. Prices are slated to continue contracting, particularly in the upscale segment, given the luxury-focused pipeline and a slight shift in renter interest toward lower-cost units.

The unemployment rate rose to 16.4% in June, 5.3 percentage points higher than the U.S. figure. Though the economy has re-opened to an extent, all job sectors reported losses owing to widespread furloughs and layoffs. This has impacted local government, with Chicago's mayor projecting a \$700 million budget shortfall due to low revenue. Property tax hikes are under consideration as a way to bridge the gap, a move that could further dampen activity.

While Chicago's transaction volume wrapped up a strong 2019, the pandemic effectively froze most activity. Multifamily deal volume in 2020 totaled \$596 million through July, with only eight of 28 transactions closing after Illinois enacted its stay-at-home order in late March. Pandemic restrictions did little on the surface to restrict the market's development activity, as construction was labeled essential from the onset. However, labor shortages and social distancing measures are bound to impact development time frames, and few new projects are expected to break ground.

Market Analysis | Summer 2020

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Recent Chicago Transactions

Cityfront Place



City: Chicago
Buyer: Strategic Properties of North America
Purchase Price: \$155 MM
Price per Unit: \$321,875

Kelmescott Park



City: Lake Forest, Ill.
Buyer: Intercontinental Real Estate
Purchase Price: \$54 MM
Price per Unit: \$484,234

Tanglewood



City: Hammond, Ind.
Buyer: Bayshore Properties
Purchase Price: \$34 MM
Price per Unit: \$87,240

Bartlett Lake

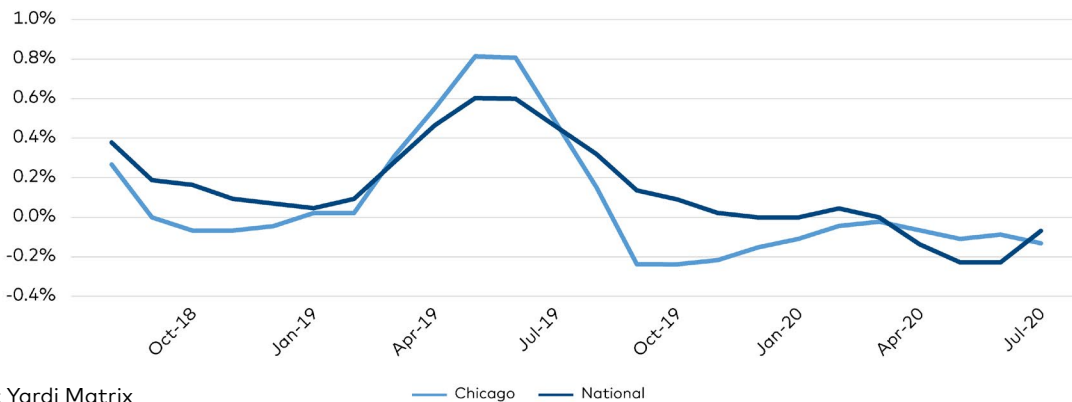


City: Bartlett, Ill.
Buyer: Monument Real Estate Services
Purchase Price: \$18 MM
Price per Unit: \$92,708

RENT TRENDS

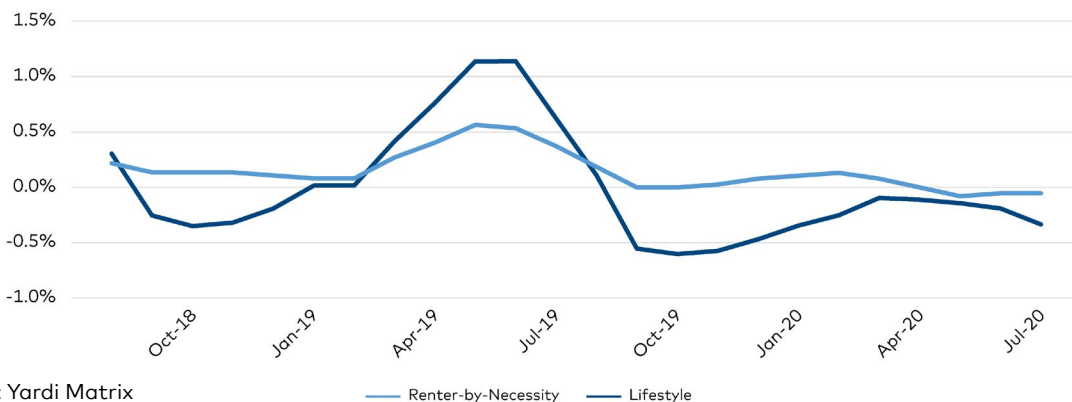
- ▶ Metro Chicago rents fell 0.1% on a trailing three-month (T3) basis through July, on par with the U.S. figure. The metro's average rate was \$1,524, above the \$1,460 national average.
- ▶ Chicago's Lifestyle rents dropped 0.3% on a T3 basis; the softening will likely continue due to an upscale-focused pipeline and a shift in renter preference for more affordable units, in light of economic uncertainty. Meanwhile, working-class Renter-by-Necessity rates fell by 0.1%. RBN rents are likely to rebound faster, given the lack of new supply amid increasing workforce demand.
- ▶ Following the initial surge of COVID-19 cases, Illinois Gov. J.B. Pritzker enacted an eviction moratorium as part of an overall government response. While the state's stay-at-home order expired in May, eviction proceedings have been halted through September 19. Chicago's city council passed an ordinance in June to create an additional seven-day grace period for tenants served with eviction notices related to the pandemic.
- ▶ In July, the Loop had the highest rents in Chicago, averaging \$2,435, or 60% higher than the metro average, followed by other central submarkets including the Near North Side (\$2,391) and West Town-Garfield Park (\$2,278).
- ▶ While demand took a hit and volatility is bound to continue, we expect Chicago rents to hold relatively well, contracting just 0.5% for the year.

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

- ▶ The pandemic deeply impacted Chicago's economy, with unemployment at 16.4% as of June, well above the 11.1% U.S. rate. All employment sectors registered heavy losses, with the metro shedding 576,700 jobs during the 12 months ending in May. The leisure and hospitality sector was hit the hardest, recording 233,800 job losses and contracting 46.4% year-over-year, compared to the 12.1% change across all sectors.
- ▶ In June, Chicago Mayor Lori Lightfoot announced that the city faced an expected budget shortfall of \$700 million due to a drop in revenue collections and a decrease in spending resulting from widespread layoffs and furloughs. Property taxes, already among the highest in the nation, could increase further to offset losses in revenue, though a comprehensive plan has yet to be introduced.
- ▶ Gov. Pritzker moved Illinois into Phase 4 in late June, which enabled previously shuttered businesses to open, including cinemas and museums, and permitted indoor restaurant dining, though strict social distancing measures were kept in place. Following the loosening of restrictions, the state reported an increase in COVID-19 diagnoses. Illinois is unlikely to move into Phase 5 until a vaccine is developed.

Chicago Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
50	Information	75	1.8%
55	Financial Activities	309	7.3%
15	Mining, Logging and Construction	173	4.1%
30	Manufacturing	390	9.3%
80	Other Services	163	3.9%
90	Government	517	12.3%
65	Education and Health Services	683	16.2%
60	Professional and Business Services	763	18.1%
40	Trade, Transportation and Utilities	860	20.5%
70	Leisure and Hospitality	270	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Chicago lost 37,134 residents in 2019, contracting by 0.5% while the U.S. population increased by 0.3%.
- ▶ While the metro's overall population has steadily declined since 2015, central submarkets including the Loop and the Near West Side continued to attract residents.

Chicago vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Chicago Metro	7,330,977	7,311,079	7,288,849	7,251,715

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

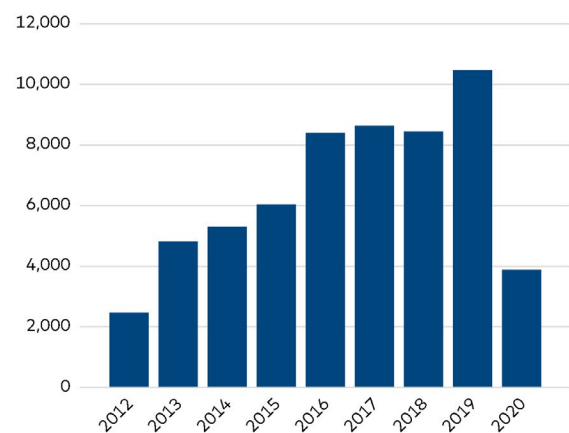
SUPPLY

- ▶ Chicago had 18,191 units under construction as of July, accounting for 5.1% of completed inventory. Nearly 90% of projects underway target the Lifestyle segment, which had provided stronger returns prior to the pandemic. Given the ongoing uncertainty surrounding the economy, few new developments are expected to break ground this year.
- ▶ Developers added 3,890 units, or 1.1% of total stock, to Chicago's multifamily inventory year-to-date through July. Although Illinois' construction activity was designated as an essential service from the start of the pandemic, many projects are likely to face delays resulting from social distancing measures and labor shortages. As such, we expect an additional 3,814 units to come online by year-end; only 20% of apartments were underway as of July.
- ▶ Projects under construction were concentrated in Chicago's urban core. Nearly 8,000 of the units underway were located in just three of the metro's innermost submarkets: the Near North Side, Loop and Near West Side. The largest project underway, the 795-unit One Chicago Square in the Near North Side, broke

ground in October 2019. Owners JDL Development and Wanxiang America expect to deliver the 76-story tower in August 2021.

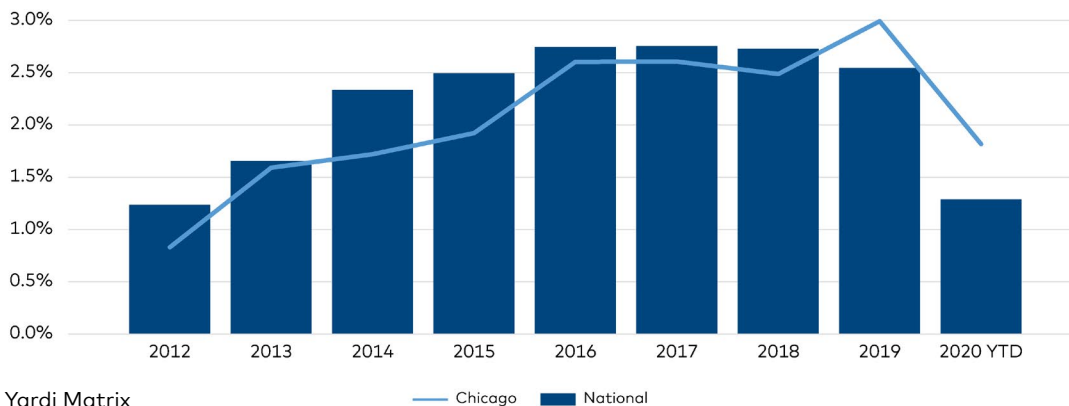
- ▶ Crescent Heights' 800-unit NEMA Chicago in the Near South Side was the metro's largest completion in 2020 through July. The project broke ground in early 2017, backed by \$203 million in construction financing from Bank OZK.

Chicago Completions (as of July 2020)



Source: Yardi Matrix

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

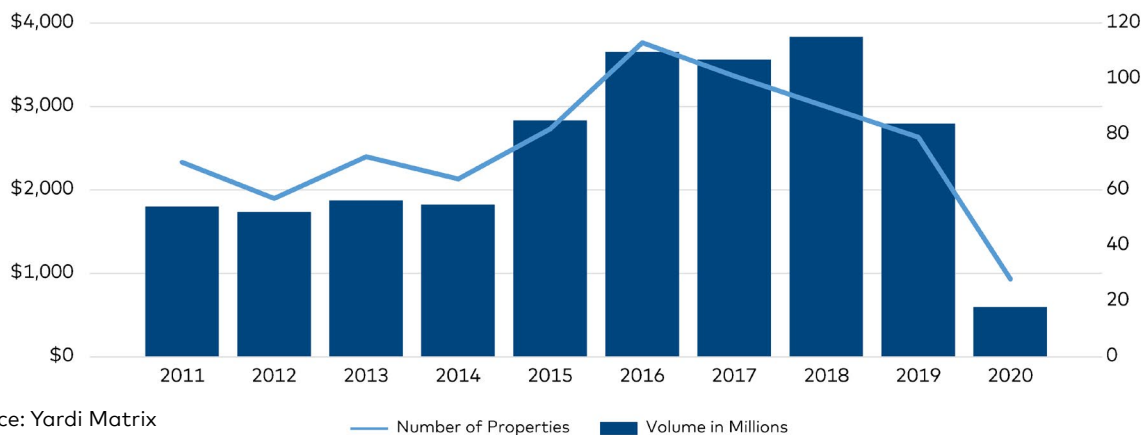


Source: Yardi Matrix

TRANSACTIONS

- Chicago's transaction volume totaled \$597 million in 2020 through July, marking a decline from the \$687 million in closed sales during the same time frame in 2019. Transaction velocity slowed after the state implemented its stay-at-home order in late March, and uncertainty surrounding the pandemic will likely lead to softening volume for the remainder of 2020.
- Similar to 2019, investor focus was shifted toward the suburbs, which comprised 55.2% of transaction volume year-to-date. Transactions involving Lifestyle assets totaled \$349 million, or 58.6% of total volume. The average price per unit was \$384,054 for Lifestyle properties and \$97,345 for RBN assets.
- The largest transaction year-to-date through July was DWS' \$155 million disposition of the 480-unit Cityfront Place in the Near North Side. Strategic Properties of North America acquired the 1989-built, 32-story tower.

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



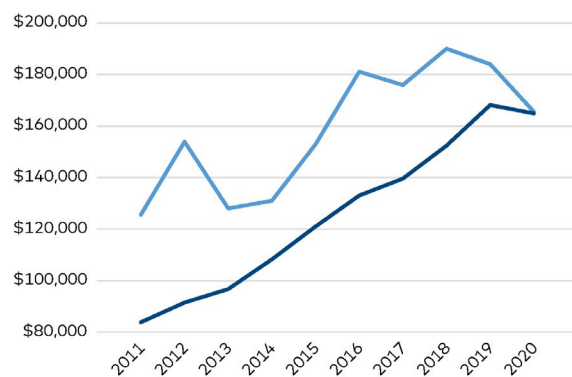
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Douglas	325
Near North Side	249
Naperville-West	169
Highland Park-Libertyville	144
Arlington Heights	116
Near West Side	109
Yorkville	92

Source: Yardi Matrix

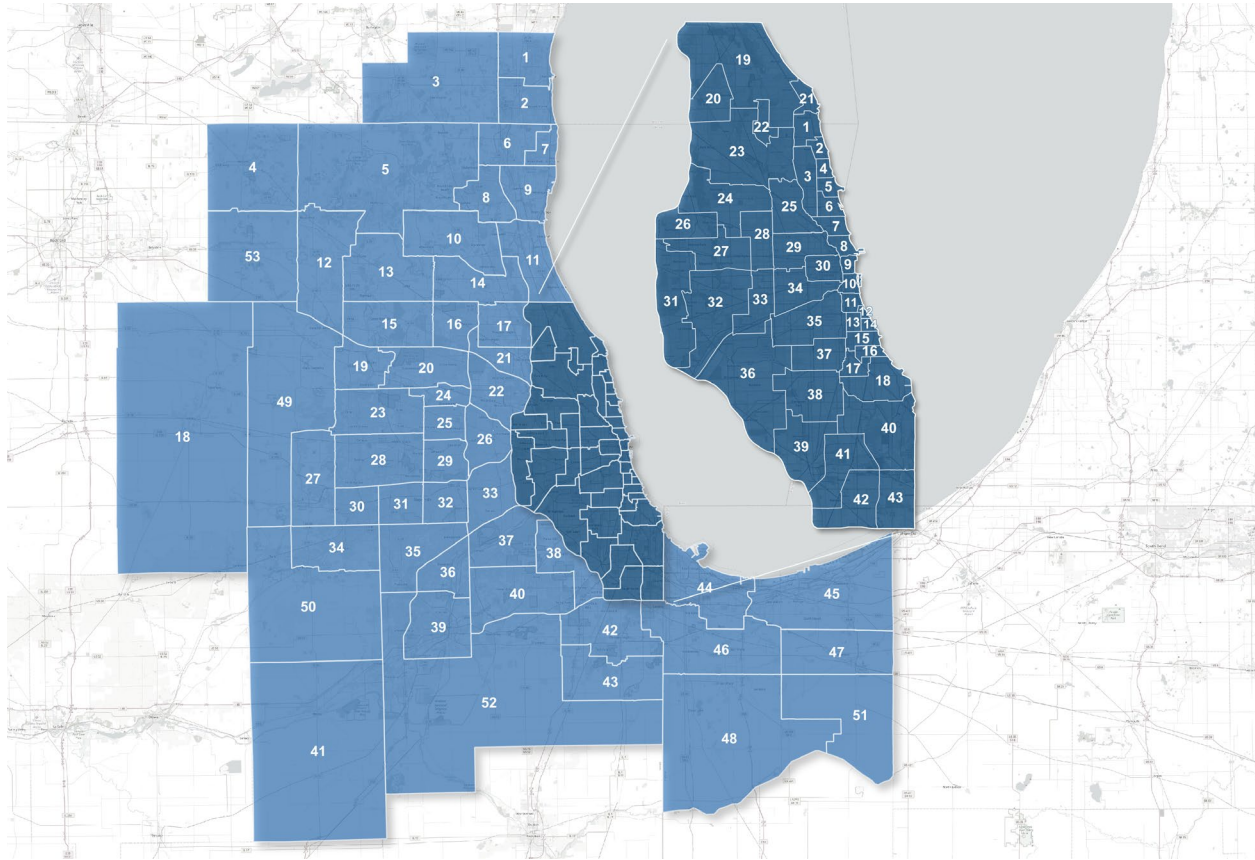
¹ From August 2019 to July 2020

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

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	Elburn

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 July 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 July 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, July 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.

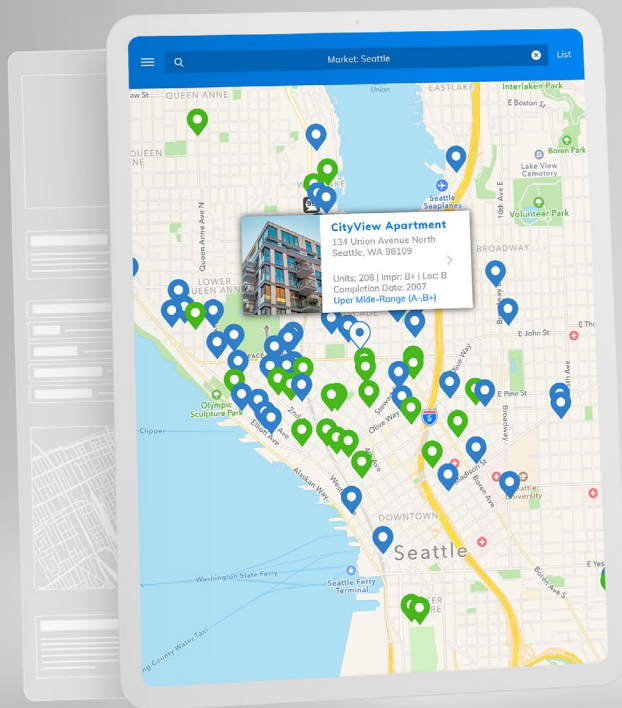
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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