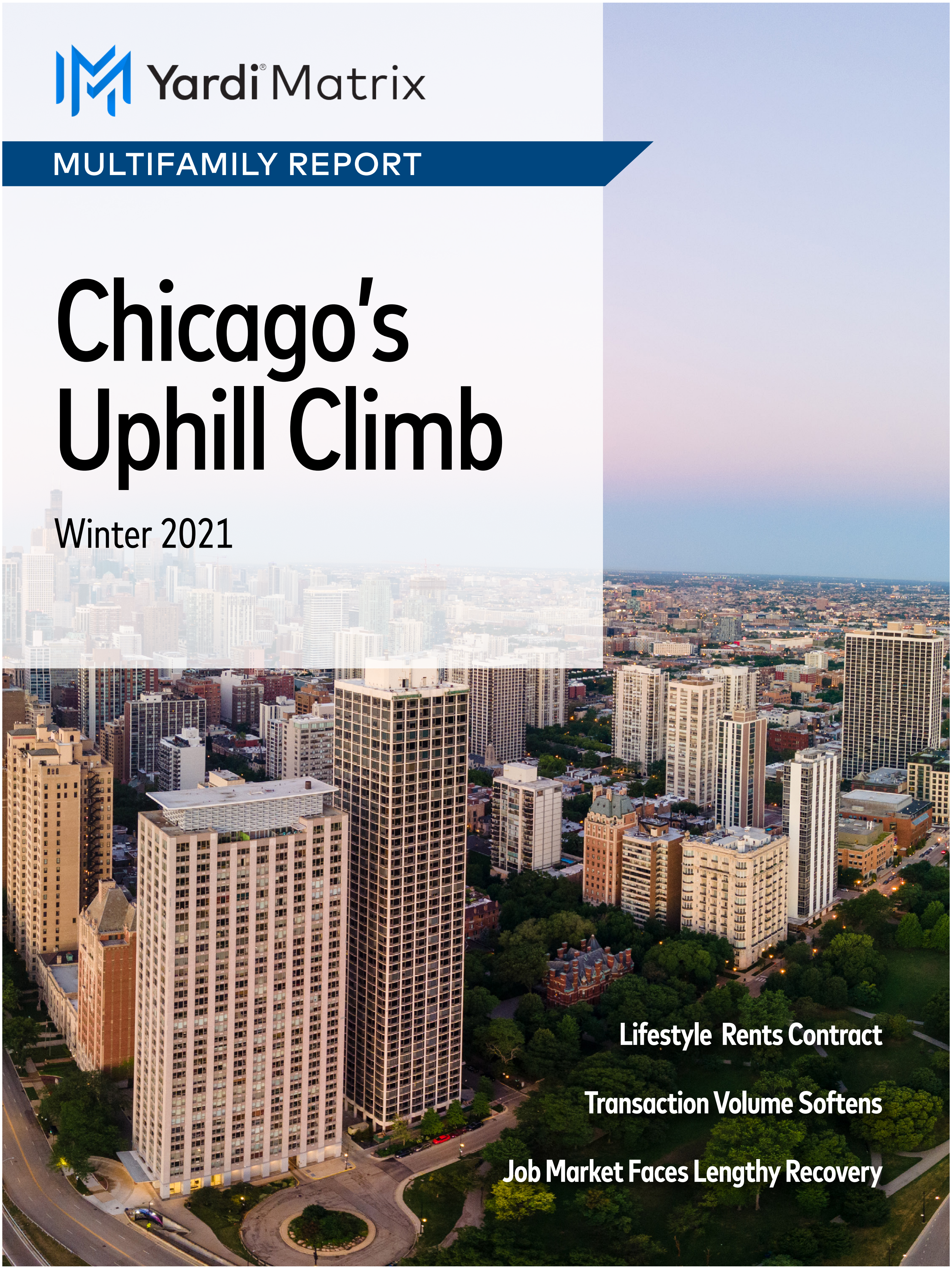
Yardi® Matrix

MULTIFAMILY REPORT

Chicago's Uphill Climb

Winter 2021



Lifestyle Rents Contract

Transaction Volume Softens

Job Market Faces Lengthy Recovery

CHICAGO MULTIFAMILY

Yardi Matrix

Core Struggles Hide Fringe Improvement

Like most other gateway multifamily markets, Chicago finds itself in a difficult position. Although rents continued to grow to some extent outside of the urban core, the metro registered an overall decline of 0.6% on a trailing three-month basis through November, to $1,487. That dip reduced the once-wide gap between the local and national averages. Rent expansion is slated to stay negative, particularly in the Lifestyle sector, as renters are more cost conscious amid a spate of upscale deliveries.

Chicago's economy has taken a large hit this year, with the loss of 345,500 jobs during the 12 months ending in September, or a 7.2% contraction year-over-year. Though unemployment moved to 7.8% in October, it still lags notably behind the national rate. While economic volatility persists on the national level, Chicago may face additional challenges going forward, due to property and other tax increases approved in November as a means of covering the city's expected $1.2 billion budget deficit for the 2021 fiscal year.

Multifamily transactions totaled $1 billion year-to-date through November, for a nearly 60% decrease from the same period in 2019. Sales averaged $191,920 per unit, 14.9% higher than the national average, with the bulk of investment activity targeting upscale assets. New construction starts slowed, though more than 6,700 units were delivered through November with another 17,467 underway.

Market Analysis | Winter 2021

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Recent Chicago Transactions

Essex on the Park

City: Chicago
Buyer: Iconiq Capital
Purchase Price: $190 MM
Price per Unit: $396,660

Ravenswood Terrace

City: Chicago
Buyer: TLC Management
Purchase Price: $46 MM
Price per Unit: $306,667

Madison Throop Place

City: Chicago
Buyer: Dwelle Properties
Purchase Price: $33 MM
Price per Unit: $456,556

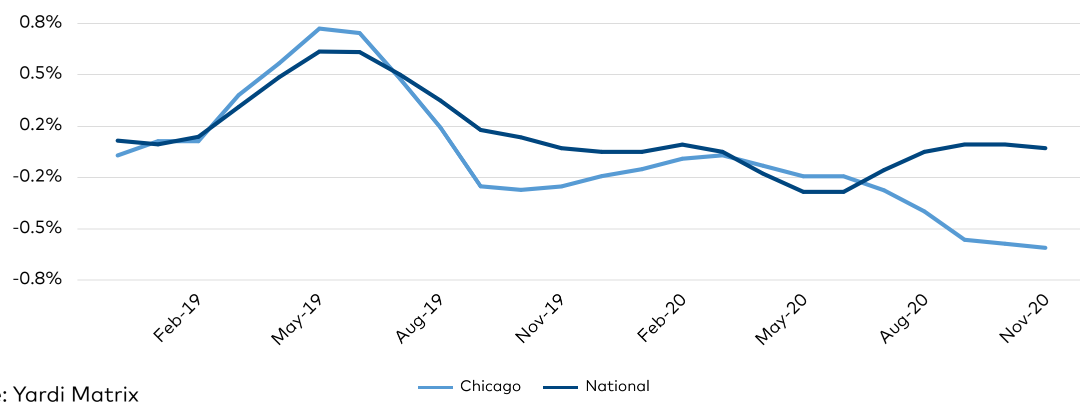
Fox Pointe

City: Aurora, Ill.
Buyer: Artemis Real Estate Partners
Purchase Price: $25 MM
Price per Unit: $101,512

RENT TRENDS

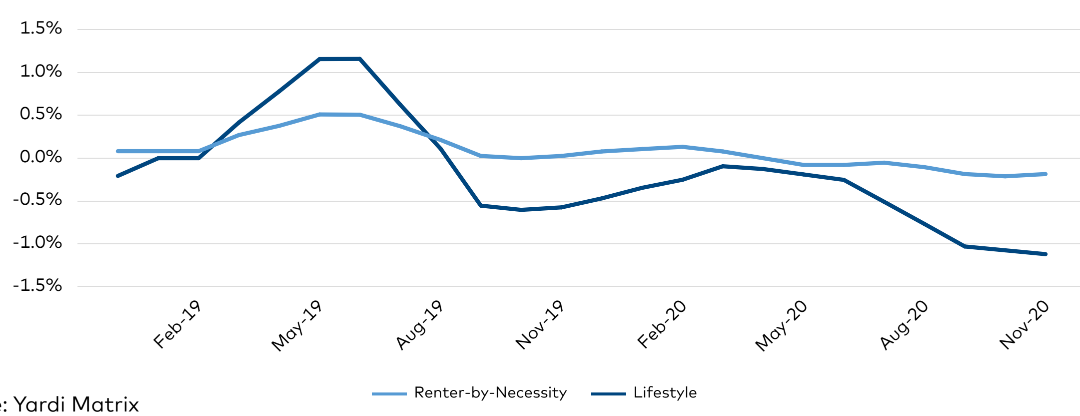
- Chicago rates decreased by 0.6% on a trailing three-month (T3) basis through November, as national rent development remained flat. The average price fell to $1,487, 1.5% higher than the national rate of $1,465.
- Lifestyle assets were the hardest hit, falling 1.1% on a T3 basis to $1,980. This decline is likely to continue given upcoming deliveries of upscale units amid lower demand. At the same time, working-class Renter-by-Necessity rates decreased 0.2% to $1,253.
- The Loop had Chicago's highest rents, averaging $2,229 in November. However, this was an 11.8 percent decrease year-over-year. Highland Park-Libertyville in Chicago's affluent North Shore had the highest rents among the metro's suburban submarkets, rising 3.2% year-over-year to $1,835.
- Nearly all of Chicago's suburban submarkets demonstrated positive rent growth year-over-year through November. Elgin's rates expanded the most—up 9.6% to $1,241—with other high-growth submarkets including Gary-South (up 8.5% to $1,086), Gary-East (up 8.5% to $934) and St. Charles (up 7.8% to $1,380).
- Given ongoing economic uncertainty, an accelerated decline in population and shifts in renter preference away from upscale units, we expect Chicago rents to continue in a moderately declining pattern.

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 metro's unemployment rate fell to 7.8% in October—down from the peak of 17.5% reported in April, but higher than the national rate of 6.9%. Even so, many employment sectors will likely face a long path to recovery. The Chicago economy confronted significant challenges in 2020, though job losses slowed down later in the year.
- Chicago's leisure and hospitality sector saw the largest declines in the 12 months ending in September, shedding 118,600 jobs for a 23.8% decrease. More job cuts are on the way, with both United Airlines and American Airlines announcing layoffs that will lead to 25,000 eliminated positions within the metro alone. Other sectors hit hard included professional and business services (down 57,300 jobs or 6.8% year-over-year) and government (down 44,500 jobs or 8% year-over-year).
- The city of Chicago took steps to remedy major budgetary shortfalls, estimated at $1.2 billion and due in part to decreasing revenues linked to the ongoing economic volatility. Mayor Lori Lightfoot's proposal, approved in November, included raising property taxes by $93.9 million and tying future increases to inflation. Chicago's real estate tax levels were already been among the highest nationwide.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
50	Information	76	1.7%
55	Financial Activities	310	7.0%
15	Mining, Logging and Construction	180	4.1%
80	Other Services	182	4.1%
30	Manufacturing	398	9.0%
65	Education and Health Services	706	15.9%
40	Trade, Transportation and Utilities	909	20.5%
90	Government	511	11.5%
60	Professional and Business Services	788	17.8%
70	Leisure and Hospitality	380	8.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Chicago's population has been on a steady decline since 2015, losing 37,134 residents in 2019 alone.
- This trend is likely to accelerate through 2020 due to economic uncertainty amid higher taxes and shifts toward remote work.

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

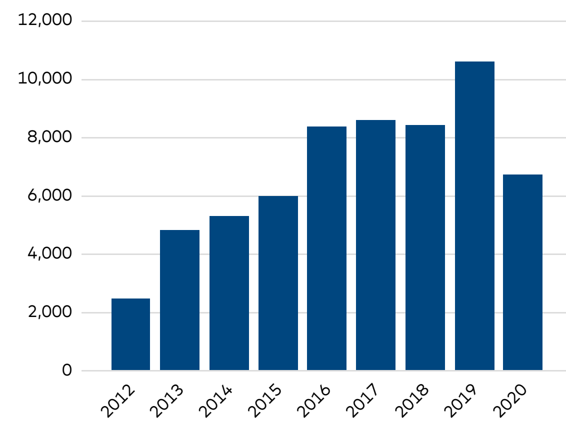
- Chicago had 17,467 units, or 4.9% of existing inventory, under construction as of November. Projects targeting Lifestyle renters made up the overwhelming majority (91.8%) of the pipeline, with RBN developments accounting for only 1,428 units. Construction starts slowed late into the year: 1,700 units broke ground between July and November, compared to the 3,549 that started in the first six months of 2020.

- Developers added 6,741 units year-to-date through November, 1.9% of total stock. That's a shift down compared to 2019's cycle high of 10,621 units, though a large number of projects that were nearing completion may bring the year-end figure closer to the five-year average of 8,423 units.

- The Near North Side led the market in completions, with 1,284 units delivered. The submarket also had the largest project underway. Vertical construction on JDL Development and Wanxiang America's 795-unit One Chicago began in October 2019, with completion anticipated in late 2021. Bank OZK is financing the skyscraper with a five-year, $475 million construction loan. In addition to rental units, the high-rise will also include 77 condominiums.

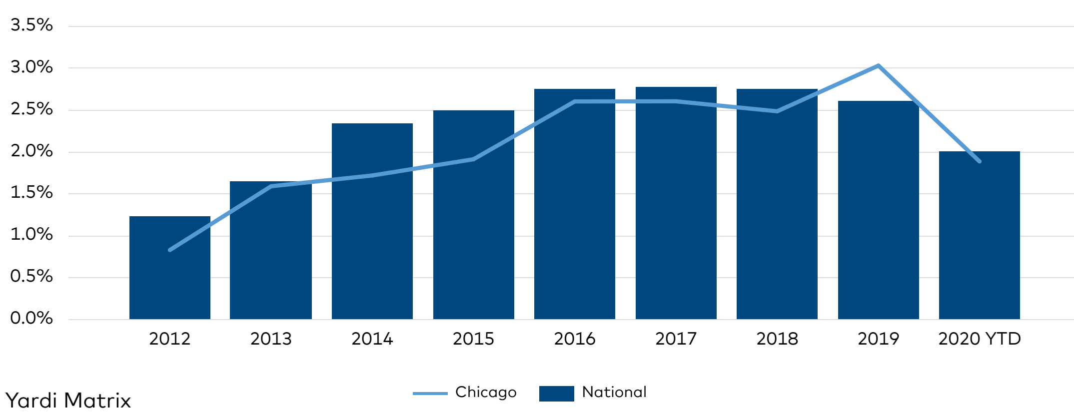
- The Batavia submarket had the most multifamily construction activity in the Chicago suburbs, with three projects totaling 1,047 units underway. FD Stonewater's 424-unit Cantera Riverview West was the largest, breaking ground in mid-2019 with delivery slated for late 2021.

Chicago Completions (as of November 2020)



Source: Yardi Matrix

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

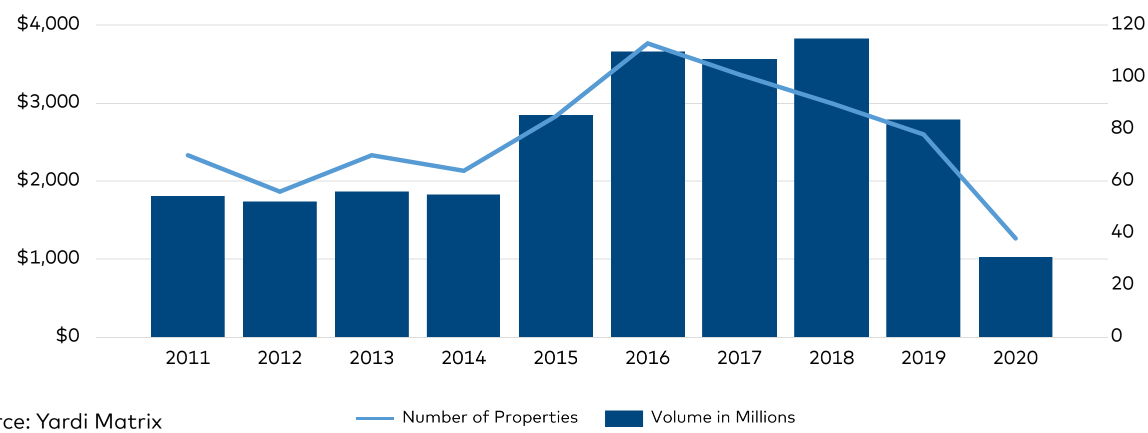


Source: Yardi Matrix

TRANSACTIONS

- Chicago's transaction volume year-to-date through November stood at $1 billion, a 59% decline from the $2.5 billion in transactions closed during the same period in 2019. Despite the overall decrease in volume, the average per-unit price was $191,920, a 5.8% increase compared to 2019 and 14.9% higher than the national average.
- Investment in Lifestyle communities totaled $750 million, or 72.8% of transaction volume, averaging $465,729 per unit. The $280 million in RBN-centered transactions averaged $95,465 per unit, a 30% drop compared to the same period in 2019.
- The Near North Side submarket had the highest amount of investment activity in 2020, with $249 million in transactions through November. The largest deal—Strategic Properties of North America's $155 million purchase of the 480-unit Cityfront Place from DWS—closed in April.

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



Source: Yardi Matrix

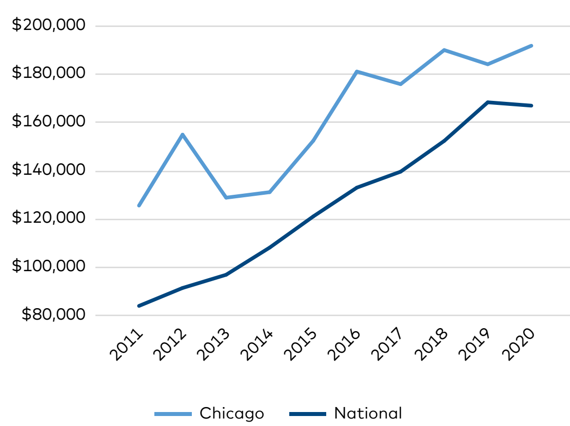
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Near North Side	249
The Loop	190
Highland Park-Libertyville	144
Hyde Park	134
Naperville-West	96
Near West Side	59
Arlington Heights	59

Source: Yardi Matrix

[1] From December 2019 to November 2020

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top 5 Midwestern Markets for Multifamily Transactions

By Jeff Hamann

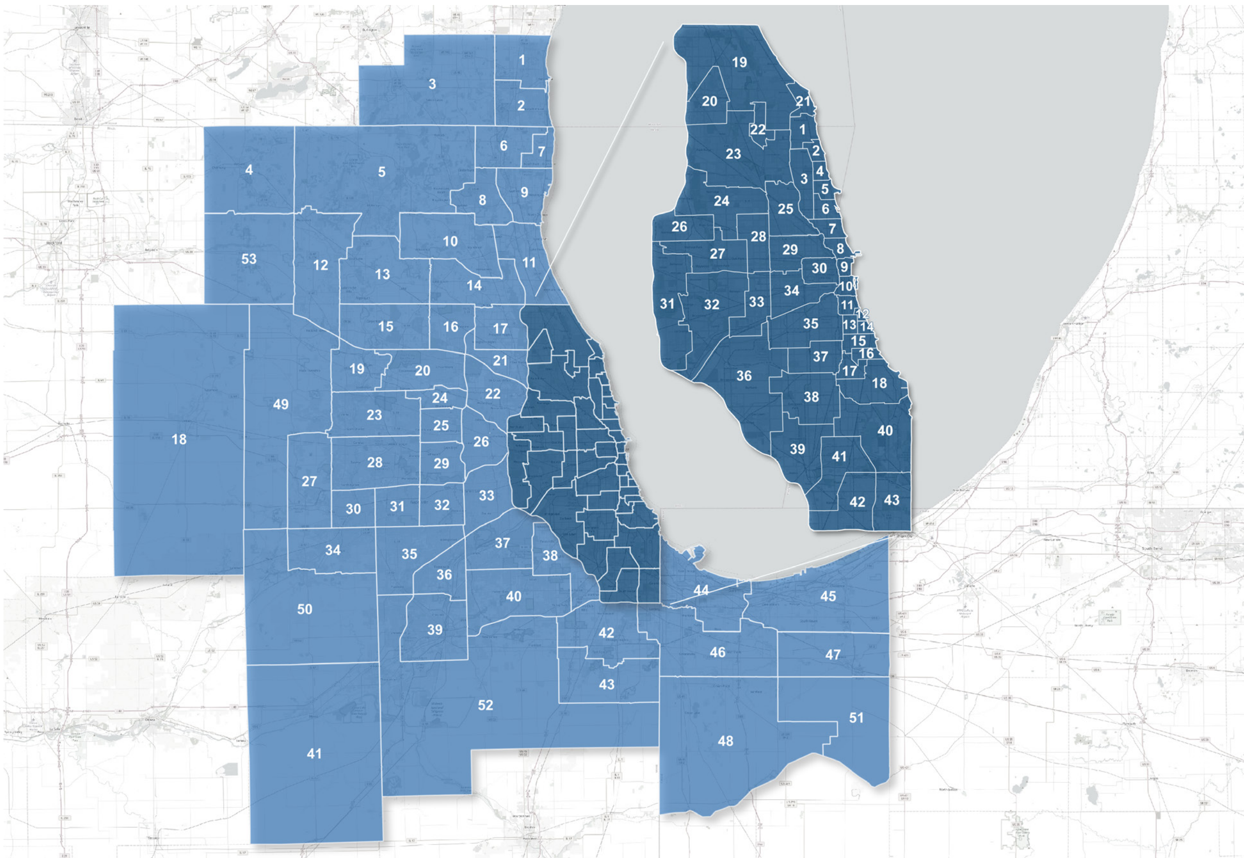
Multifamily transaction volume in the Midwest has slowed this year, with $4.5 billion in sales closing through October. This marks a 38.7 percent decrease compared to the same period in 2019, similar to the decline in activity nation-wide. While fewer deals and lower price points may be unsurprising given on-going economic volatility, investment—particularly in well-located, stabilized Renter-by-Necessity communities—still pushes on.

Rank	Market	Transaction Volume (MM)	Units Sold	Average Price Per Unit
1	Chicago	$1,005.5	6,471	$233,837
2	St. Louis	$531.8	4,595	$148,597
3	Kansas City	$470.9	8,094	$106,575
4	Twin Cities	$467.8	3,319	$148,836
5	Indianapolis	$423.4	6,120	$94,471

CHICAGO

The largest metro in the Midwest takes the top spot on our list, with $1 billion in multifamily transactions through October. Despite Chicago's position, investment has fallen considerably compared to the $2 billion in deals closed in the first 10 months of 2019. Transactions in the metro's urban areas added up to more than two-thirds of total volume, a sharp contrast to the period in the previous year when suburban investment totaled close to 60 percent of overall volume.

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 November 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 November 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, November 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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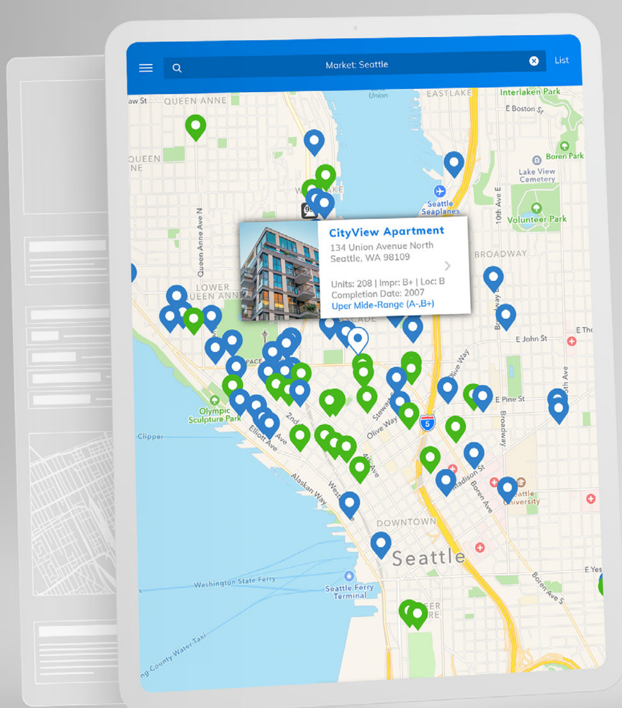

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