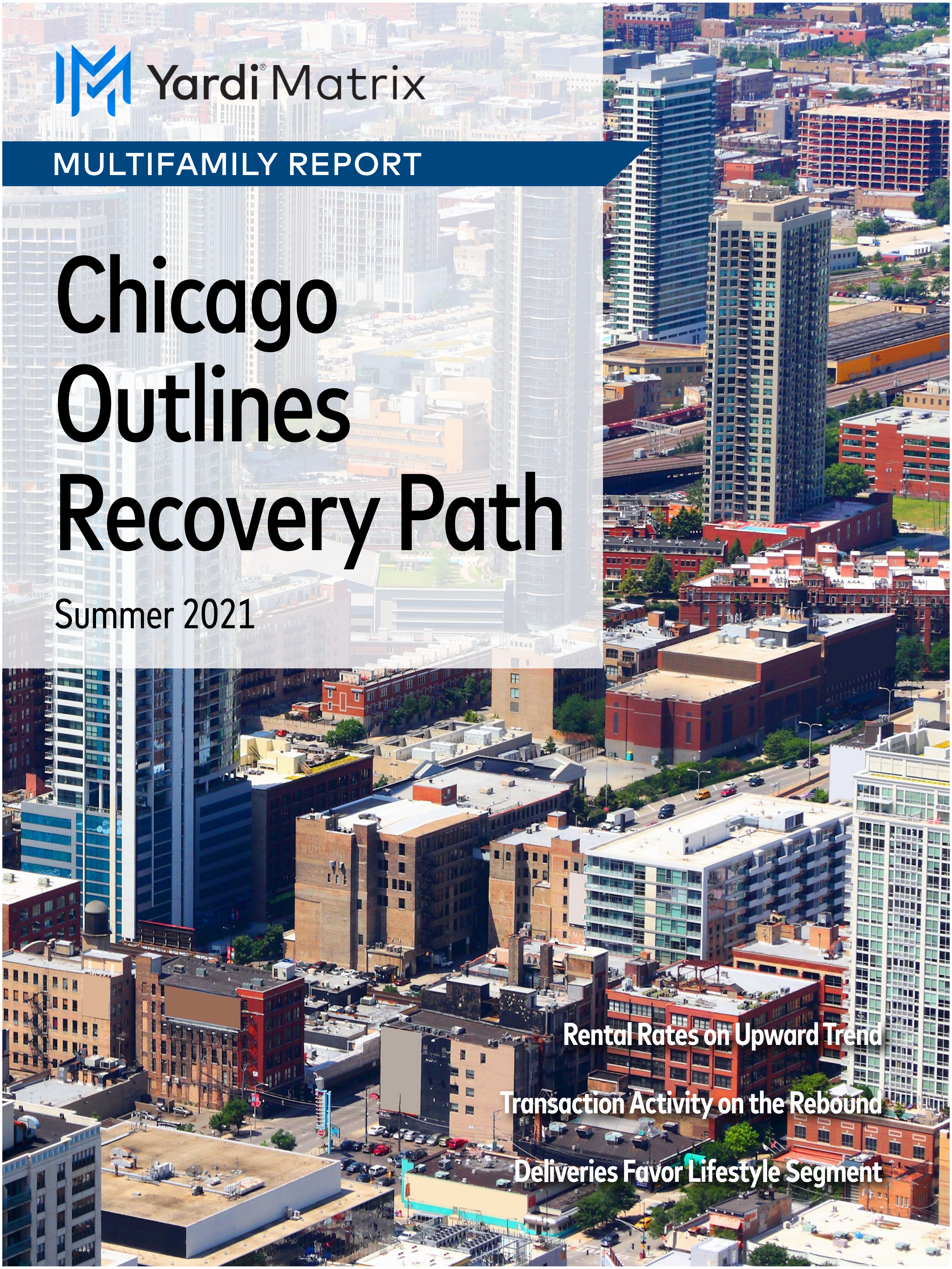
Yardi Matrix

MULTIFAMILY REPORT

Chicago Outlines Recovery Path

Summer 2021



Rental Rates on Upward Trend

Transaction Activity on the Rebound

Deliveries Favor Lifestyle Segment

CHICAGO MULTIFAMILY

Yardi Matrix

Gateway Markets Begin Recovery, Chicago Follows Suit

As Illinois nears the final steps in the state's reopening plan, the road to economic recovery is slowly gaining ground. As is the case with other hard-hit gateway markets, Chicago's rebound is gradually taking shape. Although faced with challenges through 2020, the metro's multifamily fundamentals have endured—as of April, rents were up 0.5% on a trailing three-month basis, to $1,532, above the $1,417 U.S. average.

In the 12 months ending in February, Chicago lost a combined 394,300 jobs, for an 8.4% contraction. As of March, unemployment stood at 7.1% in Illinois and 7.7% in metro Chicago, both behind the 6.0% U.S. rate. The $1.9 trillion American Rescue Plan allocated an estimated $7.5 billion in direct aid to Illinois and $5.5 billion to local governments, including $1.8 billion earmarked for the city of Chicago.

Chicago had 16,959 rental units under construction as of April, with 86% of those targeting high-income renters. In total, Yardi Matrix expects 7,855 units to come online across the metro this year, virtually on par with deliveries recorded in 2020. Meanwhile, investment sales were off to a solid start in 2021, with 22 assets totaling 4,760 units trading for $522 million in the first quarter of the year.

Market Analysis | Summer 2021

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Recent Chicago Transactions

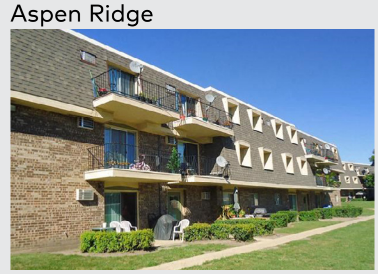
Circle Park

City: Chicago
Buyer: Related Cos.
Purchase Price: $98 MM
Price per Unit: $234,450

Windsor Lakes

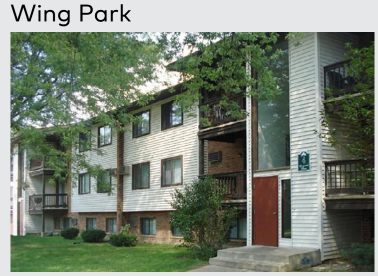
City: Woodridge, Ill.
Buyer: Morgan Properties
Purchase Price: $80 MM
Price per Unit: $104,987

Aspen Ridge



City: West Chicago, Ill.
Buyer: RuMe Holdings
Purchase Price: $28 MM
Price per Unit: $111,249

Wing Park



City: Elgin, Ill.
Buyer: Cunat
Purchase Price: $24 MM
Price per Unit: $128,804

RENT TRENDS

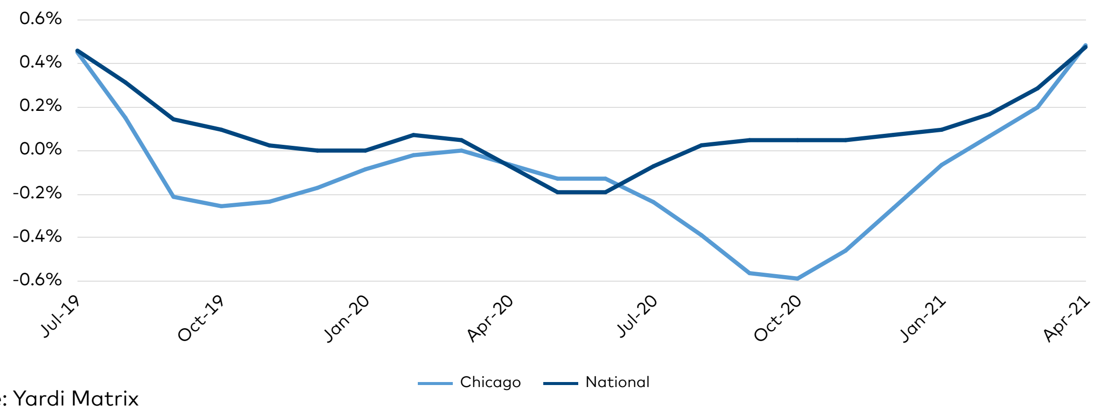
- Chicago rents were up 0.5% on a trailing three-month (T3) basis as of April, in line with the national rate. The metro's average stood at $1,532, above the $1,417 U.S. figure. After a slow start in 2020, growth turned negative in April (-0.1%). The downward trend lasted through the year, bottoming out at -0.6% on a T3 basis in September and October, and carrying over into 2021. However, rates picked up in February and have been recovering since, similar to other gateway markets. Year-over-year, Chicago rents slid 1.2%.

- Rent evolution was mostly even across the quality spectrum—as of April, Lifestyle rents rose 0.6% to $2,058 on a T3 basis, while working-class Renter-by-Necessity rates edged up 0.4%, to $1,270. Both segments made headway in the first quarter of 2021, following months of consistent dips and standstills brought by the health crisis.

- Suburban submarkets led rent growth in the 12 months ending in April: Gary–South (11.5% to $1,124), Lombard (8.8% to $1,602) and Gary–East (8.7% to $940). Rents on the Near North Side—one of the priciest submarkets—slid 6.4% to $2,288.

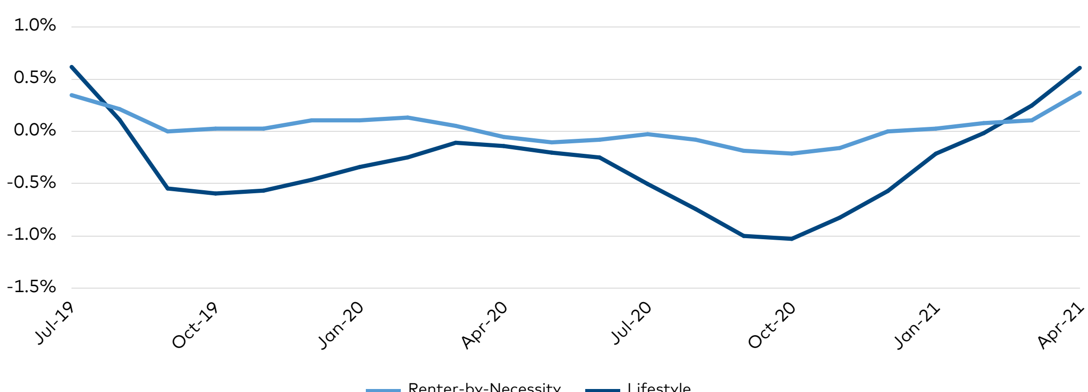
- As part of the $1.9 trillion American Rescue Plan, Illinois expects to receive $843 million of the $25 billion for rental relief nationwide, and the Illinois Housing Development Authority will distribute $500 million. Since the onset of the pandemic, the state has distributed $325 million in rental aid to some 46,000 renters and 10,000 homeowners.

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

- As of March, unemployment stood at 7.1% in Illinois and 7.7% in metro Chicago, both behind the 6.0% March national rate, according to preliminary data from the U.S. Bureau of Labor Statistics. Unemployment in Chicago peaked at 16.4% in April 2020, but the figure has been on a steadily improving trajectory since.

- In the 12 months ending in February, Chicago lost 394,300 jobs, for an 8.4% contraction. The leisure and hospitality sector was the most impacted, down 160,400 positions (-33.8%), followed by professional and business services and education and health services, which lost a combined 97,600 jobs.

- As of April, the U.S. labor force participation rate slightly inched up to 61.7% (from 61.5% in March), and while the U.S. unemployment level inched up 10 basis points month-over-month, the three-month average of job growth stood at 524,000.

- The $1.9 billion rescue package granted an estimated $7.5 billion in direct aid to Illinois and $5.5 billion to local governments, including $1.8 billion earmarked for the city of Chicago. The financing package allocates funds for vaccine distribution, state health departments, mental health treatment efforts, K-12 schools, higher education institutions and childcare, among others.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	313	7.3%
50	Information	72	1.7%
15	Mining, Logging and Construction	145	3.4%
80	Other Services	174	4.0%
30	Manufacturing	392	9.1%
40	Trade, Transportation and Utilities	910	21.1%
90	Government	517	12.0%
65	Education and Health Services	699	16.2%
60	Professional and Business Services	769	17.9%
70	Leisure and Hospitality	315	7.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro lost 45,360 residents in 2020 (-0.6%), based on estimates from the U.S. Census Bureau, while the nation gained more than 1.1 million residents, for a 0.4% uptick.

- Over the past decade, Chicago's population shrank by 1.2%, well below the 6.5% national growth rate.

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

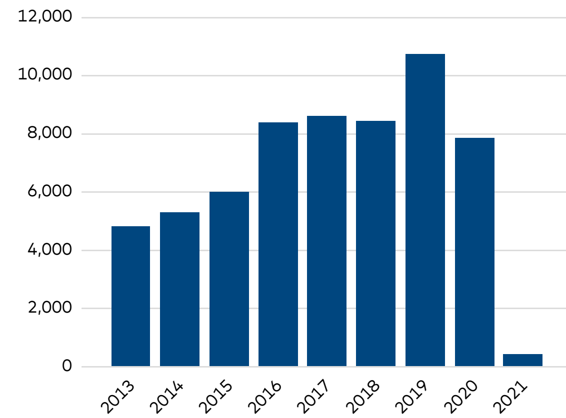
- Chicago had 16,959 units under construction as of April, with 86% of those aimed at high-income renters. In total, Yardi Matrix expects 7,855 units to come online across the metro this year, matching the 2020 figure. As of April, the metro had an additional 84,200 units in the planning and permitting stages. However, with Chicago's occupancy at 91.9% as of March and an estimated three-year recovery period, the gateway city's pipeline could face considerable setbacks and project cancellations.

- Developers completed 1,648 units in the first four months of the year, equal to 0.5% of total stock and just 10 basis points below the national rate. Deliveries primarily favored the Lifestyle segment, comprising 85% of total completions. Since 2013, developers added an average of 7,500 units to inventory each year, with deliveries peaking at 19,758 apartments in 2019.

- Developers broke ground on some 4,050 units across 26 properties in the 12 months ending in April. The figure marks a 55% drop-off from the one recorded during the previous 12 months, when developers broke ground on 9,007 units across 37 properties.

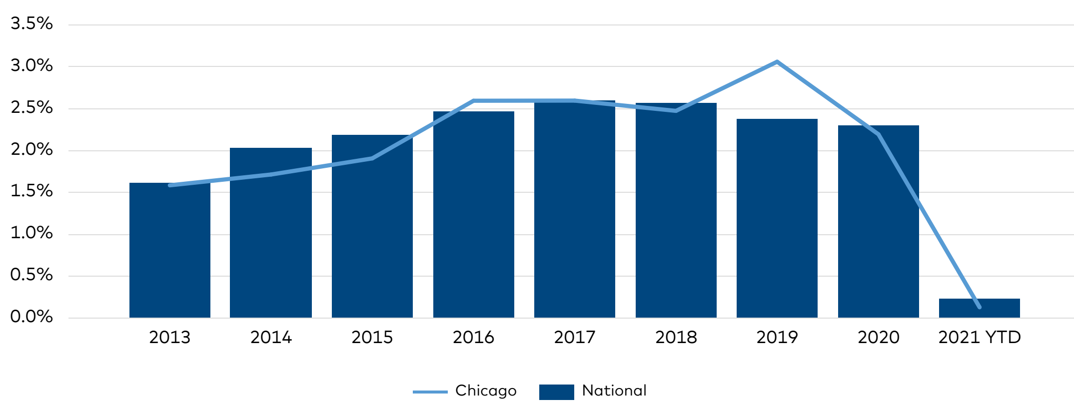
- The Near North Side (2,952 units), the Loop (2,705 units) and the Near West Side (1,637 units) led development as of April, accounting for 43% of Chicago's pipeline. Magellan Development Group's 503-unit Cascade in the Loop was the metro's largest development underway, slated for delivery by the end of summer.

Chicago Completions (as of April 2021)



Source: Yardi Matrix

Chicago vs. National Completions as a Percentage of Total Stock (as of April 2021)



Source: Yardi Matrix

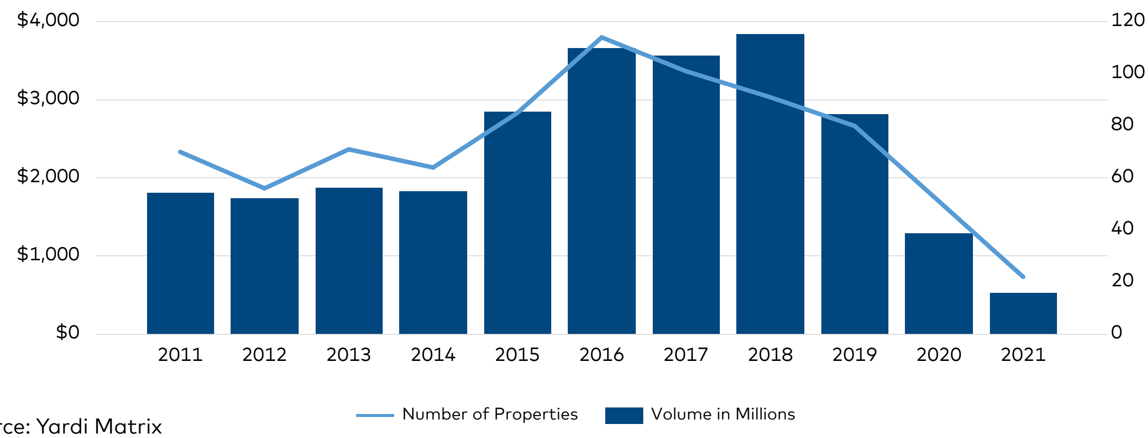
TRANSACTIONS

- In 2021, 22 assets sold for a total of $522 million during the first quarter. Related Cos.' $98 million acquisition of the 16-building, 418-unit Circle Park was the largest deal. Kaplan Partners sold the community for $234,450 per unit.

- A total of $1.3 billion in rental assets traded in 2020, down 54% compared to 2019 and marking the decade's low point. Prior to the pandemic, dollar volume in Chicago has consistently hovered around the $3 billion mark since 2015. Transactions peaked at $3.8 billion in 2018, slightly tempering in 2019.

- A total of 10,064 units sold in the 12 months ending in April. Investors continued to focus on the RBN segment—of the 51 properties that traded, more than half (63%) are RBN communities, while only 21% cater to high-income renters and 16% are fully affordable assets. As of April, the average per-unit price stood at $131,600, marking a 23% dip from the 2020 average.

Chicago Sales Volume and Number of Properties Sold (as of April 2021)



Source: Yardi Matrix

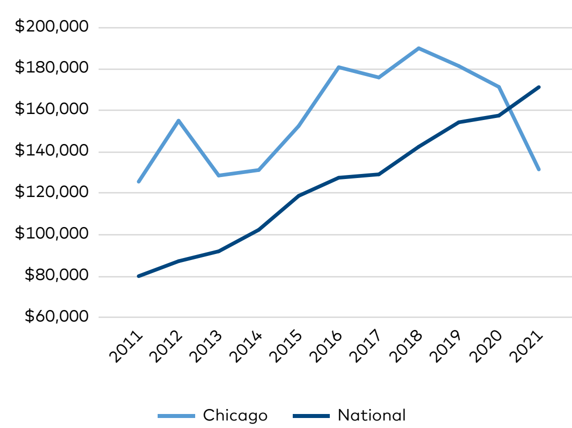
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Loop	190
Hyde Park	161
Naperville–West	134
Near West Side	131
Gary–South	98
Downers Grove	80
St. Charles	70

Source: Yardi Matrix

[1] From May 2020 to April 2021

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

A Snapshot of Chicago's Changing Multifamily Market

By Evelyn Jozsa

Over the past year, Chicago's multifamily market has been tested by shifting demographic trends and altering lifestyle preferences, with the health crisis pushing people to trade the once-vibrant city center for the slow-paced suburbs. Peak Properties Founder Mike Zucker dives into how the pandemic-driven changes are impacting the metro's rental market and also reveals his predictions.

How much has the Chicago multifamily market changed over the past year?

The resiliency and strength of the Chicago market were both equally tested. When COVID-19 hit, along with the civil unrest surrounding the Black Lives Matter protests, Chicago was greatly challenged, especially its urban core. Neighborhoods outside the Loop held up fairly well, while downtown and River North were impacted greatly. Small studios fell out of favor while big units became in vogue.

Which aspects of Chicago's multifamily market have been impacted the most by the pandemic?

The pandemic has greatly impacted where people want to live. Small units or studio apartments in the urban core did not hold up well during the health crisis. As people were technically not allowed to leave their apartments, these small units became confined spaces. Also, small studios are usually people's first apartments, it's for people who are still in

school or just graduated college. But because of COVID-19, no one was looking for this type of space. Students who would usually move downtown stayed at home

What can you tell us about the spring rental season in Chicago? How is it unfolding?

The closer you were to the central business district, the greater the impact you would feel if you owned a building. I know people that own 250-unit studio buildings close to downtown and they were only 77 percent occupied. However, I can tell that I am seeing people who are moving back into these units because people do have the desire to get back to the city. Especially younger people between 21 and 35. So, I can say that our occupancy numbers have gone up. As the summer season is approaching, leasing momentum is picking up more and more.

How do you see the future of the rental market in Chicago?

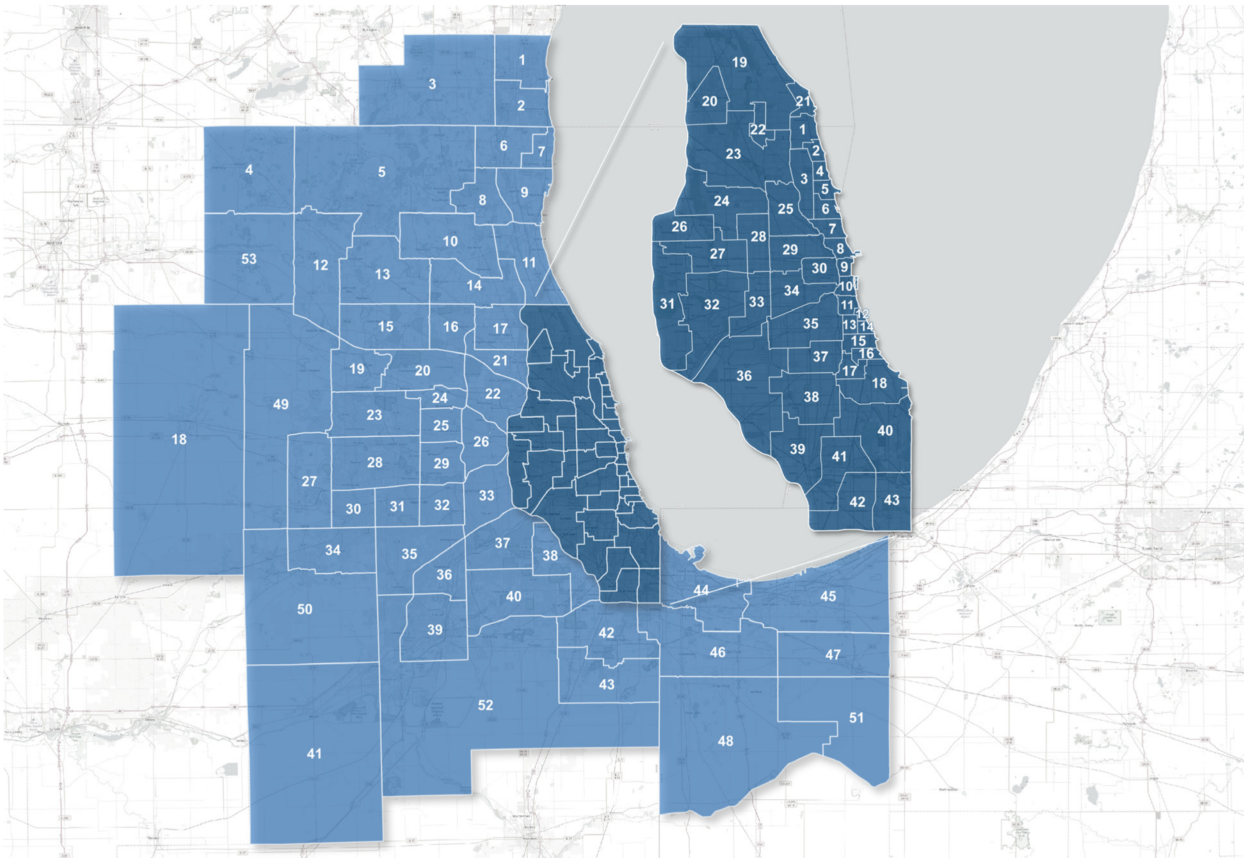
For the immediate future, neighborhood buildings, midrises and high-rises should do pretty well. I would be a tad more concerned about high-rises based on expected rents, as residents in this world can now have a job that allows them to work from anywhere.

I am concerned about taxes, politics and social justice issues that are rampant in the city.

Despite all this, Chicago is still a vibrant place, with great culture and infrastructure. Therefore, while I believe that there's a lot to work on, the city offers tremendous opportunities for the future.

(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 December 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 December 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, December 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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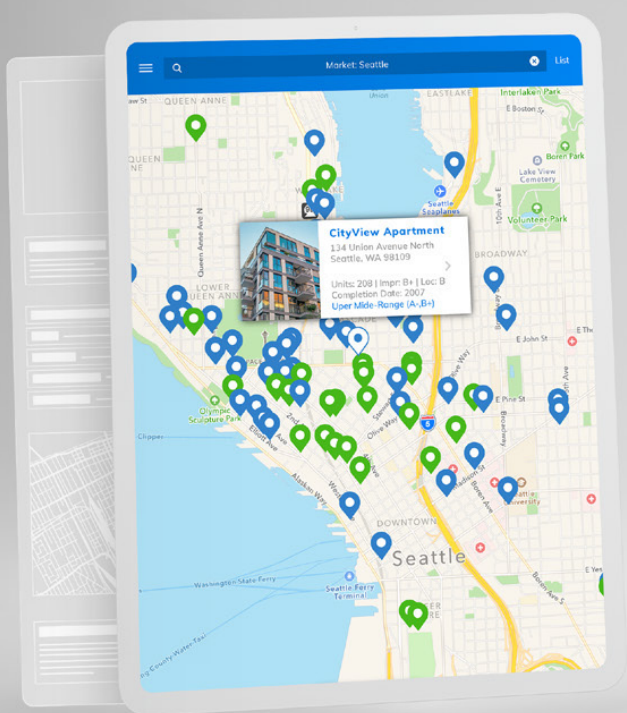

Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

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