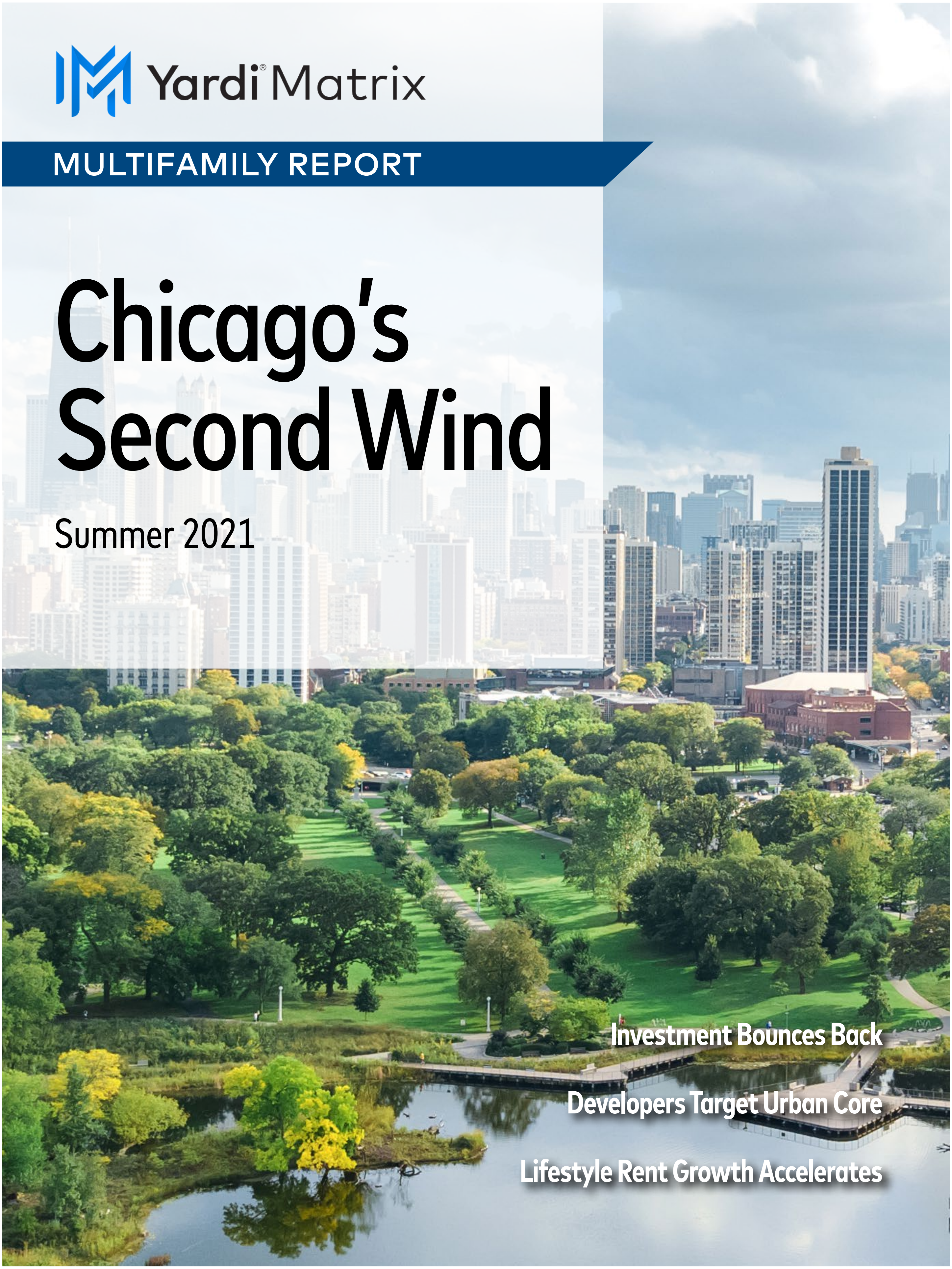
Yardi Matrix

MULTIFAMILY REPORT

Chicago's Second Wind

Summer 2021



Investment Bounces Back

Developers Target Urban Core

Lifestyle Rent Growth Accelerates

Yardi Matrix

Picking Up the Pace

The Chicago multifamily market has begun its recovery, with rents up 1.6% on a trailing three-month (T3) basis to $1,648 in July. Overall figures remain more than 9% higher than the national average of $1,510. Reversing the trend from last year, Chicago's Lifestyle rents outperformed working-class Renter-by-Necessity rates, up 2.0% and 1.3%, respectively, on a T3 basis. This marks a reversal from 2020, when RBN growth largely remained flat, as upscale rents dropped in the wake of the health crisis.

The metro added 303,700 jobs during the 12 months ending in May, an overall gain of 7.3% year-over-year. More than one-third of this growth occurred in the leisure and hospitality sector, which has yet to recover to pre-pandemic levels. All but one employment sector reported gains, but an uptick in Chicago's unemployment rate to 9.2% in June—330 basis points above the national figure—underscores the metro's long road to recovery.

Although more than 16,000 units were under construction at the end of July, Chicago's development activity has slowed: Only seven multifamily projects had broken ground since January, and some 4,500 units are anticipated to deliver this year, a decline from the 7,969 units completed in 2020. Multifamily transactions through July totaled $1.4 billion, an 11.5% increase compared to last year's overall activity, as investors overwhelmingly targeted RBN assets.

Market Analysis | Summer 2021

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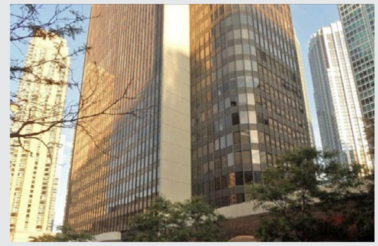
Recent Chicago Transactions

McClurg Court Center

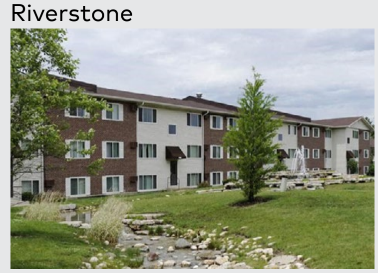


City: Chicago
Buyer: Trinity Property Consultants
Purchase Price: $175 MM
Price per Unit: $164,939

Glenmuir of Naperville

City: Naperville, Ill.
Buyer: Cantor Fitzgerald
Purchase Price: $104 MM
Price per Unit: $323,053

Riverstone



City: Bolingbrook, Ill.
Buyer: Alliant Capital
Purchase Price: $94 MM
Price per Unit: $118,504

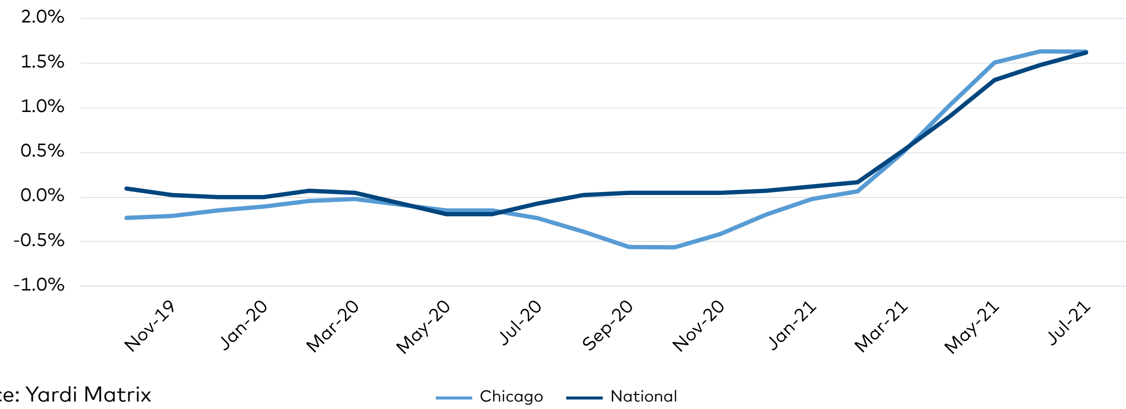
Lakehaven

City: Carol Stream, Ill.
Buyer: Golub & Co.
Purchase Price: $88 MM
Price per Unit: $178,354

RENT TRENDS

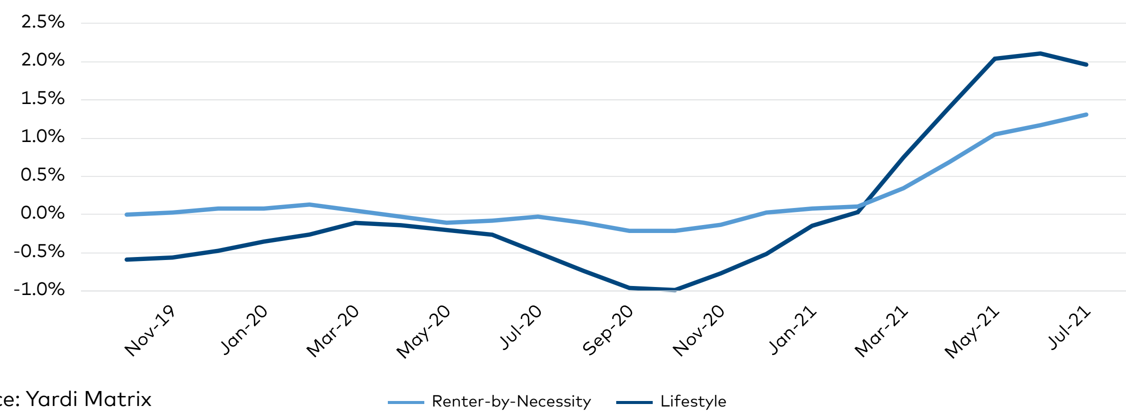
- Chicago rents averaged $1,648 in July, an increase of 1.6% on a T3 basis, in line with U.S. growth. The market's average rent was 9.1% higher than the national average of $1,510.
- Rent growth in the Lifestyle segment was the fastest, up 2.0% on a T3 basis in July, to $2,263. RBN rates increased by 1.3% during the same time frame, to $1,334. The Lifestyle segment saw larger occupancy gains, up 130 basis points for the 12 months ending in June, compared to 70 basis points for RBN units.
- Chicago's suburban areas led rent growth among submarkets. Bolingbrook had one of the highest increases, up 15.9% year-over-year through July to $1,773. The southwestern suburb is located alongside Interstate 55 and near several major industrial hubs.
- The Near North Side had the highest rents, averaging $2,526 in July and a gain of 5.2% year-over-year. More than 60% of the submarket's inventory is geared toward Lifestyle renters.
- Chicago single-family rents grew 11.4% year-over-year through July. While this lagged the national growth rate of 12.8% during the same period, occupancy increased 30 basis points faster than at the national level.
- As residents continue returning to major urban hubs nationwide, Yardi Matrix expects Chicago's rent growth to reach 8.9% 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

- Chicago added 303,700 jobs during the year ending in May, a 7.3% year-over-year increase. While this marked a step toward recovery from the initial drop during the early days of the pandemic, the metro still faces significant challenges. In June, the unemployment rate was 9.2%, according to preliminary data from the Bureau of Labor Statistics, 50 basis points higher than the end of 2020 and 330 basis points above the U.S. figure in June.

- Nearly all sectors reported employment growth for the 12 months ending in May. The fastest-growing sector—leisure and hospitality—added 101,700 jobs for a gain of 37.8%, though the sector will not likely recover to pre-pandemic levels for some time. Other sectors with strong gains included trade, transportation and utilities (up 76,200 jobs, or 9.1% year-over-year) and professional and business services (up 37,900 jobs, or 5.1% year-over-year). Only the information sector saw a net decrease, down 1,900 jobs.

- Although the job market started to move in a positive direction, challenges related to government deficits and tax revenues were on the horizon. Following the pandemic's impact, Chicago officials anticipate deficits through 2024, estimated to cost the city $1.7 billion.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	371	8.4%
40	Trade, Transportation and Utilities	917	20.7%
60	Professional and Business Services	788	17.7%
65	Education and Health Services	705	15.9%
80	Other Services	179	4.0%
90	Government	530	11.9%
15	Mining, Logging and Construction	174	3.9%
55	Financial Activities	315	7.1%
30	Manufacturing	391	8.8%
50	Information	70	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Chicago's population continued to decline in 2020, with 49,705 residents lost—a 0.7% year-over-year decline—while the national population increased by 0.4%.

- Since 2014, the metro has steadily lost residents, and the decline is largely attributed to out-of-state moves.

Chicago vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Chicago Metro	7,311,079	7,288,849	7,251,715	7,202,010

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

SUPPLY

- There were 16,213 multifamily units under construction in Chicago at the end of July, accounting for 4.5% of completed inventory. New development activity slowed year-to-date, with only seven projects totaling 887 units breaking ground. Approximately 92,000 units were in the planning and permitting stages.

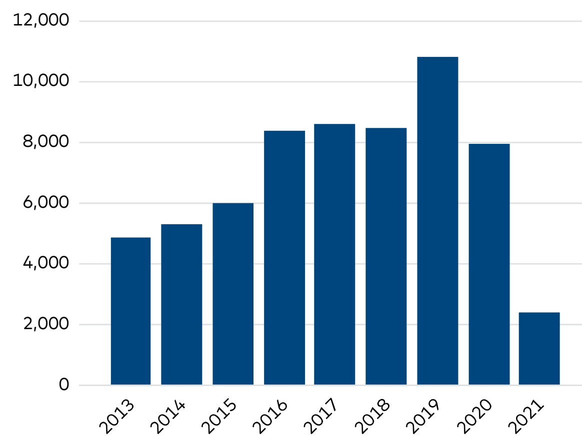
- Project completions also slowed, with deliveries of 2,792 units through July, or 0.8% of total stock. In 2020, nearly 8,000 units were delivered, following the 10,716 units—the cycle high—added the year before. Completions are expected to reach 4,500 units for the calendar year.

- Ongoing development activity was primarily focused within Chicago's urban core. The most-active submarkets included the Near North Side (2,890 units under construction, or 9.4% of inventory), the Loop (1,957 units, or 12.8%) and the Near West Side (1,623 units, or 10.8%). The suburban submarket with the most multifamily construction was Batavia, with 908 units underway.

- The largest project under construction at the end of July was CLK Properties' Courtyards on the Park, a 924-unit development in Des Plaines, Ill. Construction began in February 2020, with delivery slated for early 2023.

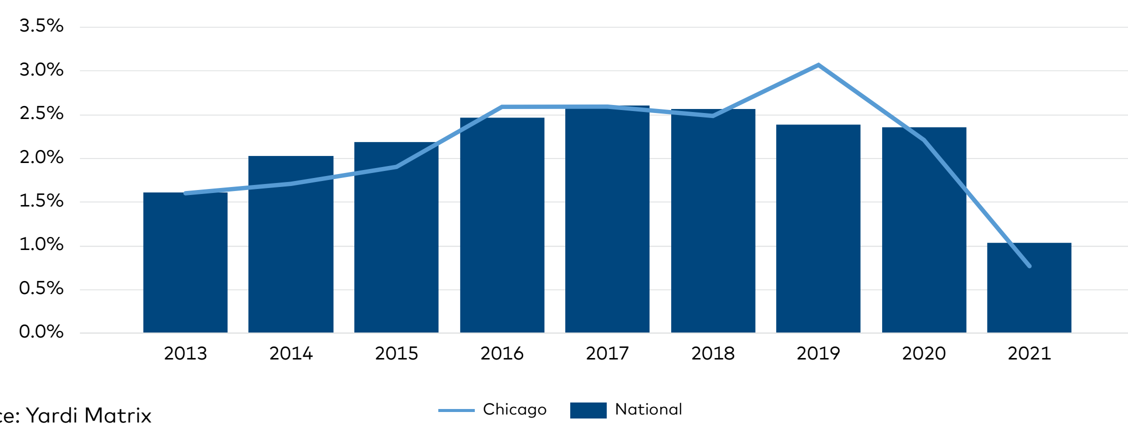
- CMK Development's July completion of the 349-unit Imprint in the Loop was the largest multifamily completion year-to-date. The 31-story tower broke ground in the summer of 2019, backed by $73.5 million in construction financing from Citizens Financial Group.

Chicago Completions (as of July 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

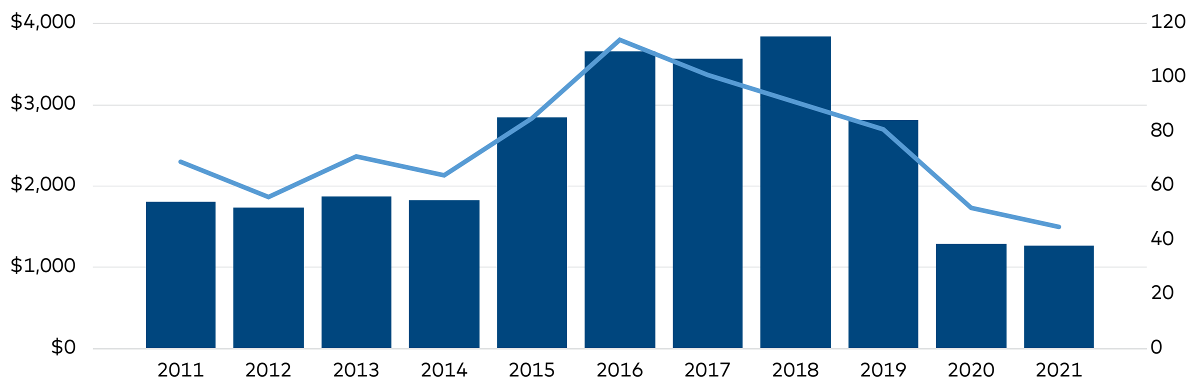
TRANSACTIONS

- Chicago's multifamily transaction volume in 2021 was $1.4 billion through July, already 11.5% higher than the $1.3 billion closed throughout 2020. Deals averaged $145,921 per unit, down 14.8% since 2020 and 16.6% less than the current U.S. figure.

- RBN assets drew significant investor interest, totaling $1.1 billion, or 76.4% of investment volume. RBN transactions averaged $136,549 per unit, 22 percent higher than in 2020. Investments involving Lifestyle properties closed at an average of $250,495 per unit, a sharp fall from last year's per-unit average of $386,200, as investors targeted less costly, suburban assets.

- Trinity Property Consultants' $175 million purchase of McClurg Court Center from Multi-Employer Property Trust was the largest transaction year-to-date through July. Berkadia Commercial Mortgage provided $100.3 million in financing for the 1,061-unit acquisition.

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



Source: Yardi Matrix

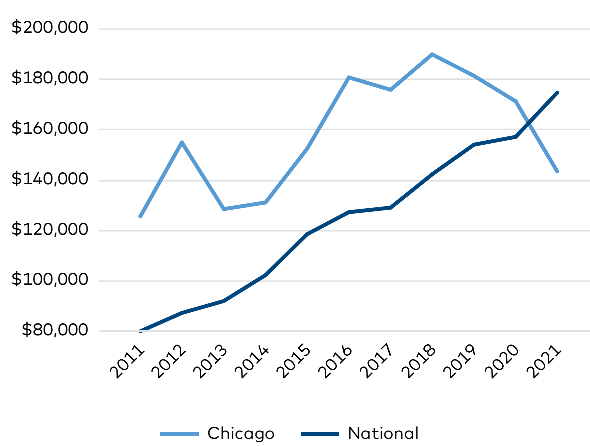
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Near North Side	229
Bolingbrook	197
Loop	190
Naperville–West	134
Near West Side	131
Gary–South	98
Lincoln Square	98

Source: Yardi Matrix

[1] From August 2020 to July 2021

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

Top Rust Belt Markets for Construction Activity

By Corina Stef

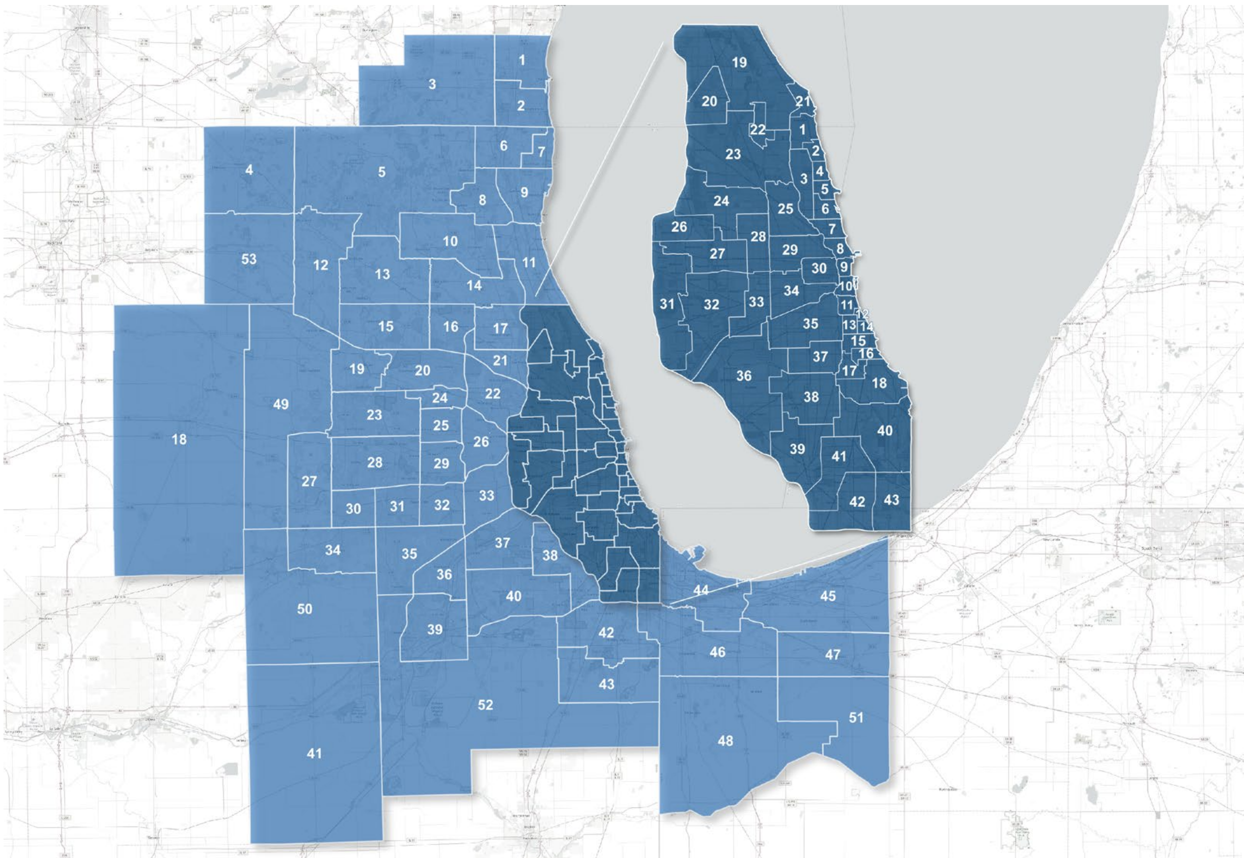
More than 68,700 units were underway in the Midwest as of June, Yardi Matrix data shows. Combined, the top five markets in the region include some 40,500 units underway, accounting for 59 percent of the total pipeline. Construction activity lagged in 2020 due to the pandemic, with most markets recording a drop in multifamily deliveries.

Rank	Market	Units Under Construction
1	Chicago	16,491
2	Columbus	7,945
3	Detroit	6,054
4	Milwaukee	5,271
5	Indianapolis	4,744

Chicago

Developers were busy in Chicago, with close to 16,500 units under construction as of June. Some 11,000 apartments are scheduled for completion by December, exceeding both 2020 deliveries (7,969 units) and pre-pandemic completions (10,816 units in 2019). CLK Properties is developing the largest project in the metro—the 924-unit Courtyards on the Park in Des Plaines, Ill. Upon completion, scheduled for the first quarter of 2023, the property will comprise 154 buildings with units averaging between 450 and 950 square feet. The Tennessee-based developer owns more than 500 units in the metro.

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.

Yardi® Matrix

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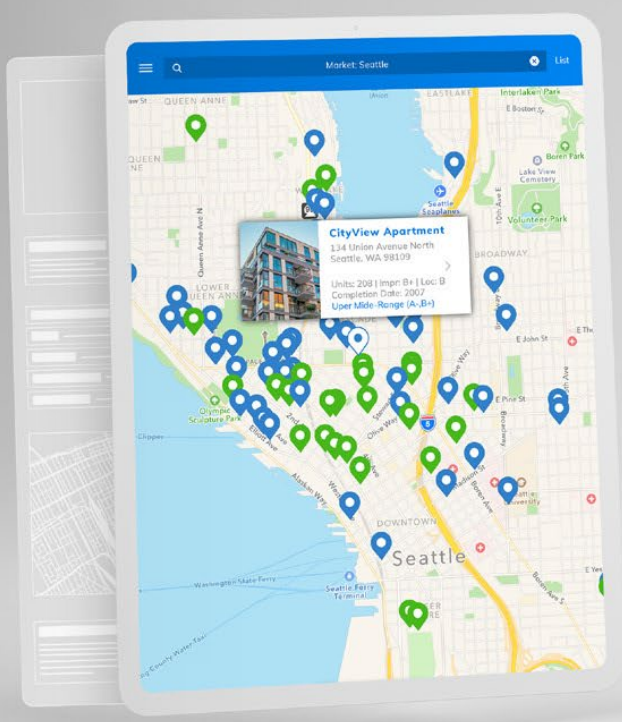

Yardi Matrix Multifamily provides accurate data on **19+ million units**, covering over **90% of the U.S. population**.

Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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