Yardi Matrix

MULTIFAMILY REPORT

Chicago Finds Its Footing

January 2022

PPU Declines

Deliveries Slow

Rent Gains Trail Nation

CHICAGO MULTIFAMILY

Yardi Matrix

Small Steps Forward

While Chicago's multifamily market is showing positive signs, the metro's road to recovery will likely take some time. Rents averaged $1,689 in November, though the metro's 0.5% rent growth, on a trailing three-month (T3) basis, places it significantly behind the national expansion of 1.0% during the same period. Working-class Renter-by-Necessity and Lifestyle rates grew by a respective 0.5% and 0.4%, to $1,362 and $2,315. Rising occupancy figures may place upward pressure on rents in the near term.

Chicago added nearly 117,000 jobs during the 12 months ending in September, for an overall gain of 2.7% year-over-year. Nearly every sector realized gains during this period, with the largest increases in leisure and hospitality (up 10.7% over the year) and professional and business services (4.1%). The metro's unemployment rate, at 5.4% in October, marked a drop following an upswing in June.

Transaction volume hit $2.8 billion year-to-date through November, registering a 92% gain compared to 2020's total volume. Investors primarily targeted RBN assets, which accounted for more than two-thirds of the total. The metro's development activity has been somewhat muted; while nearly 16,500 units were under construction at the end of November, deliveries totaled 5,360 units year-to-date, far less than the deliveries recorded in any of the past five years.

Market Analysis | January 2022

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Recent Chicago Transactions

Dwell at Naperville

City: Naperville, Ill.
Buyer: Inland Real Estate Group
Purchase Price: $122 MM
Price per Unit: $305,000

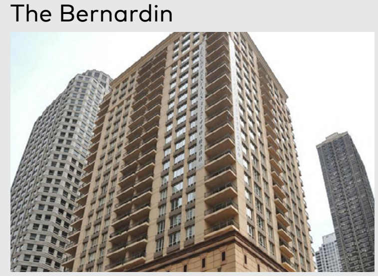
Birchwood on Sterling

City: Palatine, Ill.
Buyer: Albion Residential
Purchase Price: $108 MM
Price per Unit: $150,139

TGM Retreat at Danada

City: Wheaton, Ill.
Buyer: TGM Associates
Purchase Price: $98 MM
Price per Unit: $332,203

The Bernardin



City: Chicago
Buyer: Lincoln Property Co.
Purchase Price: $94 MM
Price per Unit: $550,956

RENT TRENDS

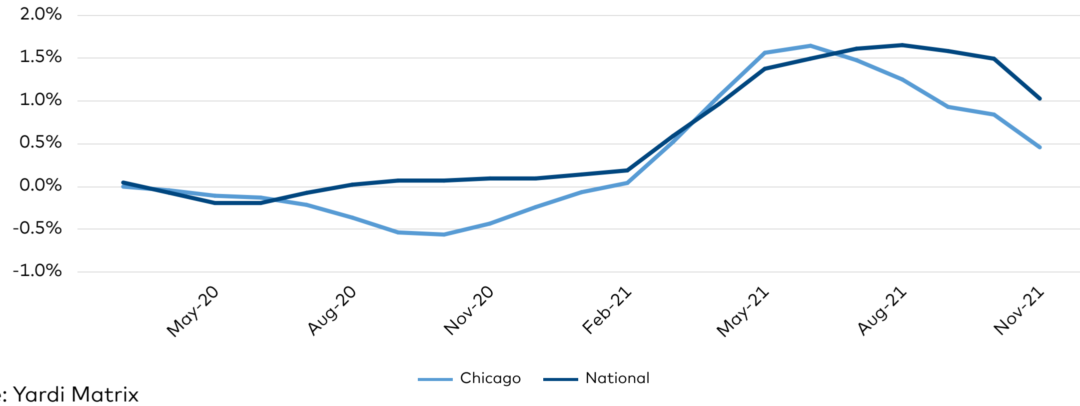
- Chicago rents averaged $1,689 in November, a 0.5% gain on a trailing three-month basis. Rates were 6.2% higher than the U.S. average of $1,590, although the metro lagged the national growth rate by 50 basis points. Rent gains for the calendar year are expected to reach 10.6%.

- RBN rents increased the fastest, up 0.5% on a T3 basis through November to $1,362, only slightly higher than the nationwide average RBN rent of $1,324. Lifestyle figures grew by 0.4% during the same period, to $2,315. Lifestyle occupancy rates increased 450 basis points in the 12 months ending in October, however, compared to RBN gains of 210 basis points.

- The Near South Side submarket had the highest growth in the market by a large margin, with rents increasing 31.2% year-over-year through November to $2,693—the highest average rate among all submarkets in the metro. The urban core's rents remained the highest marketwide, even as other central submarkets—including the Near North Side ($2,587) and the Loop ($2,513)—displayed slower rent expansion of 12.9% and 11.7%, respectively.

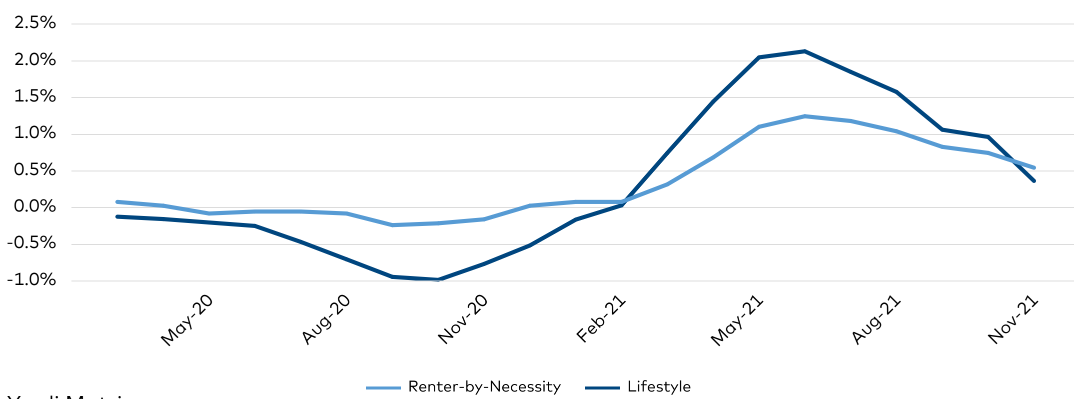
- Most submarkets with the highest rent gains were outside the city, however, owing to large population shifts to suburbia. Some of the suburban submarkets with the greatest rent increases included Yorkville (up 25% to $1,694), Bolingbrook (up 18% to $1,873) and Elgin (up 17.6% to $1,247).

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 116,900 jobs during the year ending in September, registering a 2.7% gain year-over-year. The metro's unemployment rate stood at 5.4% in October, according to preliminary data from the Bureau of Labor Statistics, registering a significant drop from the 9.2% reported in June but notably above the 4.6% national figure.

- Nearly all employment sectors expanded during the 12 months ending in September, with the leisure and hospitality sector realizing the highest gains of 38,300 jobs, or a 10.7% increase year-over-year. In terms of office-using jobs, losses in the financial activities (-1,100 jobs, down 0.3% year-over-year) and information (-1,500 jobs, down 2.1%) sectors were overshadowed by major gains in professional and business services, which added 31,700 jobs during the same period.

- Financial pressure on the city of Chicago and the wider region appears to be easing, but challenges remain. Following a $1.2 billion budget shortfall for the 2021 fiscal year, Chicago Mayor Lori Lightfoot estimated a $733 million deficit for 2022. Illinois state's finances have also improved, with a budget surplus forecast for 2022 due in large part to federal aid.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	397	8.8%
60	Professional and Business Services	805	17.9%
40	Trade, Transportation and Utilities	930	20.6%
65	Education and Health Services	701	15.6%
15	Mining, Logging and Construction	182	4.0%
90	Government	526	11.7%
80	Other Services	181	4.0%
30	Manufacturing	398	8.8%
55	Financial Activities	314	7.0%
50	Information	71	1.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Chicago's population continued to decline in 2020 with the loss of 49,705 residents, a 0.7% decrease compared to nationwide growth of 0.4%.

- Residents have been leaving the metro in larger numbers since 2015, with losses accelerating every year.

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

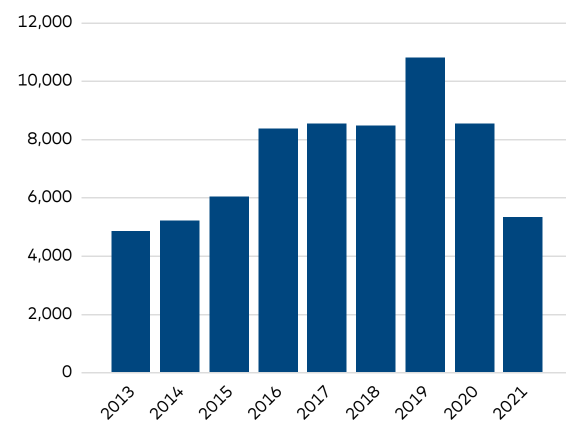
- There were 16,477 units (4.5% of total stock) under construction in Chicago at the end of November, with more than 96,000 units in the planning and permitting stages. Nineteen developments totaling nearly 3,600 units broke ground year-to-date, revealing a 39.8% decline compared to the same period last year.

- Developers completed 30 multifamily projects totaling 5,360 units in the first 11 months of 2021, accounting for 1.5% of existing inventory. This marked a downward shift from the average of close to 9,000 units per year delivered during the preceding five years. This year, Yardi Matrix expects a slight uptick of some 5,500 units in deliveries.

- The Loop had the highest level of development activity as of November, with 2,301 units under construction, equal to 15.0% of the submarket's inventory. In October, Lennar Multifamily broke ground on the 344-unit 410 S. Wabash Ave., one of the largest projects in the submarket. In addition to its residential component, the 25-story property will include 8,000 square feet of street-level retail space and is scheduled to deliver in late 2023.

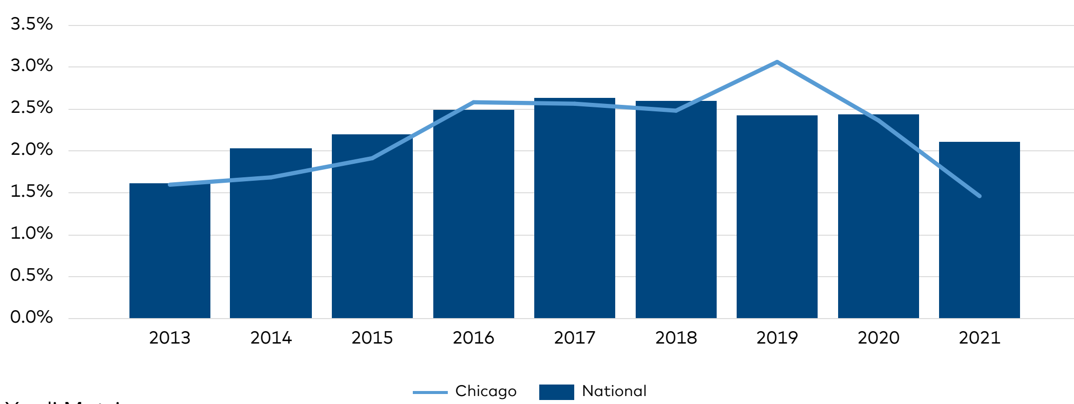
- The largest multifamily delivery through November was Onni Real Estate's 456-unit Three Old Town Park in the Near North Side. Wells Fargo backed the project with a $150 million construction loan in mid-2020, and the property opened its doors in October.

Chicago Completions (as of November 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

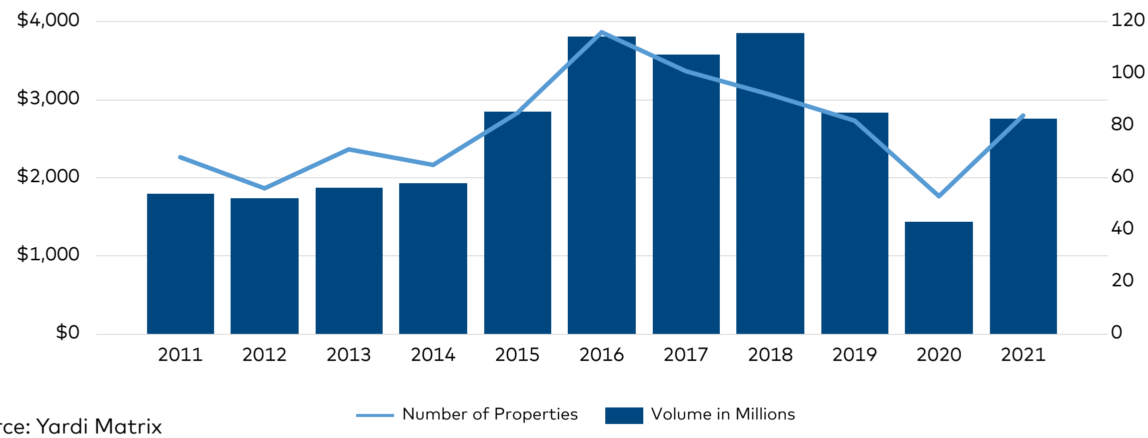
TRANSACTIONS

- Chicago's multifamily transaction volume was $2.8 billion year-to-date through November, nearly double the $1.4 billion closed during the 2020 calendar year, though investment volume is unlikely to surpass the 2018 cycle high of $3.9 billion. Sales averaged $152,422 per unit, marking a 13.9% decline compared to 2020 and the third-consecutive year of price drops.

- RBN assets accounted for the bulk of multifamily investment through November, with sales totaling $1.9 billion, or 68.1% of total volume. RBN prices averaged $134,511 per unit, a modest 1.9% decline from 2020, while Lifestyle pricing fell 35.8%, to $248,579 per unit.

- Investment activity was highest in the Near North Side submarket, with $323 million closed during the year ending in November. Trinity Property Consultants' $175 million July acquisition of the 1,061-unit Arrive Streeterville was the metro's largest transaction.

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



Source: Yardi Matrix

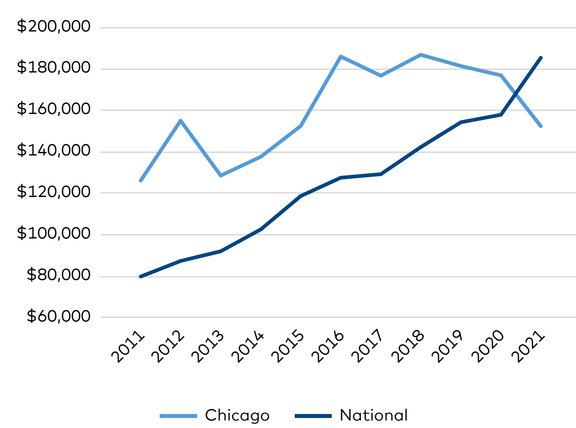
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Near North Side	323
Wheaton	278
Naperville–West	235
Bolingbrook	197
Palatine	182
Gary–South	176
Downers Grove	174

Source: Yardi Matrix

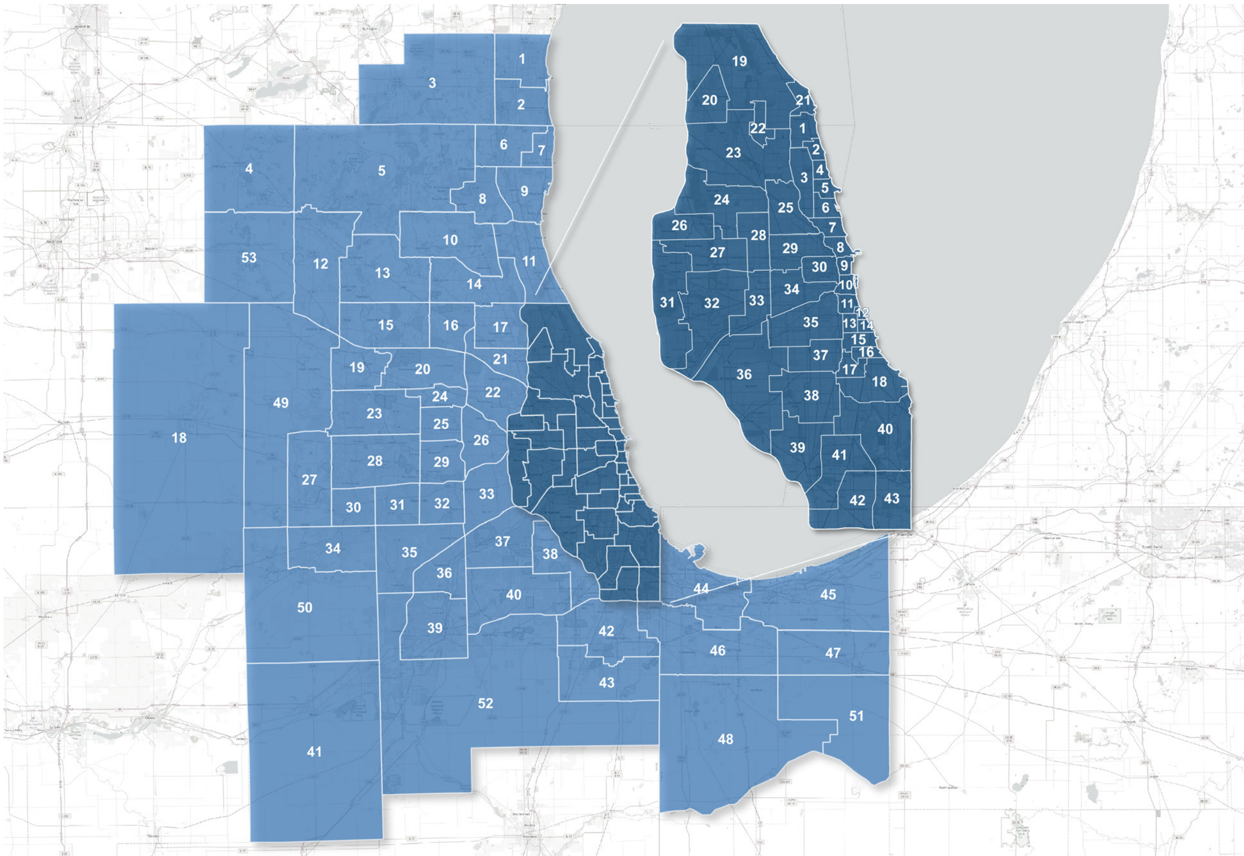
[1] From December 2020 to November 2021

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 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.