



MULTIFAMILY REPORT

# Chicago Plays Catch-Up

September 2022

Rent Growth Catches Up To US

Construction Starts Improve

Per-Unit Prices Advance Y-o-Y

# CHICAGO MULTIFAMILY



## Room for Improvement in Chicago's Fundamentals

Chicago's rental market continued on a solid trajectory, but relative to other gateway markets, it is still playing catch-up. Rents in the metro advanced 1.1% on a trailing three-month (T3) basis through July, to \$1,814, exceeding the U.S. rate by 10 basis points after lagging for the first half of the year. On a year-over-year basis, rents were up 9.6%, 300 basis points behind the U.S. figure and behind most other major metros.

The metro's unemployment rate reached 4.8% as of June, according to preliminary data from the Bureau of Labor Statistics, having increased 70 basis points from its lowest point in April (4.1%). Still, the metro is faring better compared to 2021—over the 12 months ending in May, Chicago added 212,100 jobs, representing a 4.9% increase. Chicago launched its first citywide plan in over 50 years. Dubbed "We Will Chicago," the 10-year framework aims to reduce the city's social and economic inequities. Following policy discussions, a public feedback process and an estimated \$4 million to create it, the plan will be implemented in 2023.

Multifamily transactions amounted to \$1.4 billion for the first seven months of 2022, down 14% year-over-year, after 2021 saw a record \$3.9 billion in sales. Development activity stayed strong, as Chicago had 16,196 units under construction, more than 75% of which target Lifestyle renters.

## Market Analysis | September 2022

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### Recent Chicago Transactions

#### Bourbon Square



City: Palatine  
Buyer: Albion Residential  
Purchase Price: \$139 MM  
Price per Unit: \$227,614

#### Oakwood Chicago River North



City: Chicago  
Buyer: Cortland  
Purchase Price: \$105 MM  
Price per Unit: \$227,614

#### Mount Prospect Gardens



City: Mount Prospect  
Buyer: Bayshore Properties  
Purchase Price: \$50 MM  
Price per Unit: \$144,622

#### Mandalane

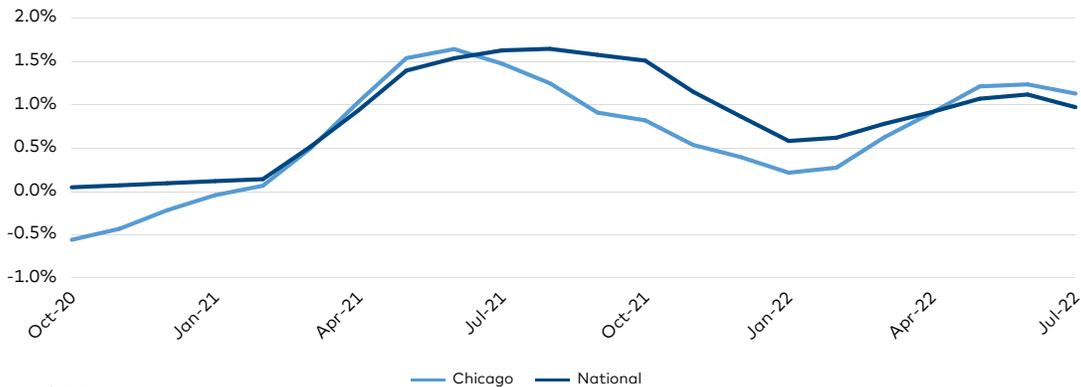


City: Wheeling  
Buyer: Ansonia Properties  
Purchase Price: \$46 MM  
Price per Unit: \$311,904

## RENT TRENDS

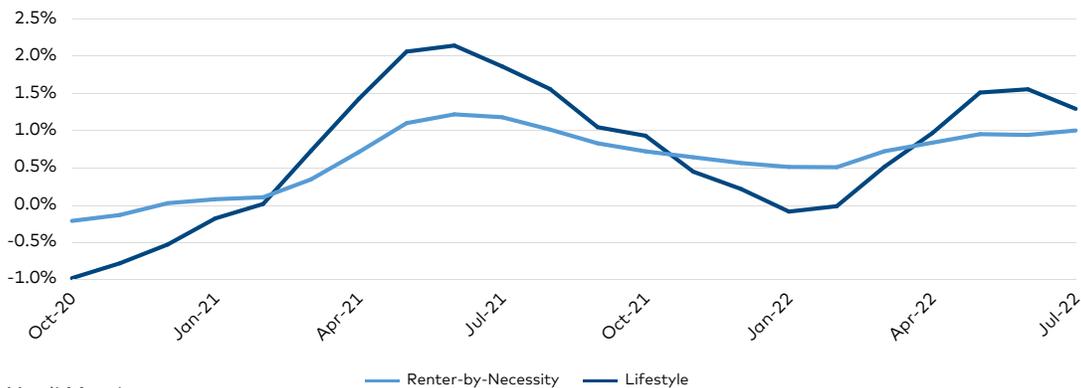
- Rents in Chicago grew by 1.1% on a trailing three-month (T3) basis through July, 10 basis points above the national rate. Rent growth almost doubled after a sluggish first quarter (0.6% on a T3 basis through March). Year-over-year, rents were up 9.61%, behind the U.S. rate by 300 basis points.
- The average rate in the market was \$1,814 as of July, slightly above the \$1,717 national average. Lifestyle rents in the metro grew at a faster rate, up 1.3% on a T3 basis through July, to \$2,483. Meanwhile, the Renter-by-Necessity segment recorded an increase of 1.0%, to \$1,455.
- Demand in Chicago continued on a positive track this year, as the overall occupancy for stabilized properties grew 100 basis points year-over-year, to 95.6% as of June, a value higher than pre-pandemic levels. The gap in occupancy between quality segments was larger in previous years, but this year demand seems to have evened out, with the rate across both at 95.6%, for the same level of improvement year-over-year.
- All of Chicago's submarkets recorded rent development, with the top three seeing increases of over 20% from last year. Out of the top 10 submarkets for growth, eight were in suburban Chicago. Rent gains were led by Hickory Hills (up 24.2% year-over-year, to \$1,375), followed by the Near South Side (up 23.4%, to \$2,858), Palos Heights-Oak Forest (up 21.4%, to \$1,514), Mundelein (18.7%, to \$1,878), Yorkville (18.7%, to \$1,862) and Orland Park (17.7%, to \$1,623).

### 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's unemployment rate was 4.8% as of June, an increase of 30 basis points since the end of the first quarter, according to preliminary data from the Bureau of Labor Statistics. The job market continued to improve on average but was still lagging the national 3.6% rate in June.
- ▶ Over the 12-month period ending in May, Chicago regained 212,100 jobs, with all sectors recording net growth. This represented a 4.9% increase, with Chicago surpassing the national rate by 20 basis points. The metro lagged the national rate throughout last year and exceeded it in March this year.
- ▶ In line with national trends, the leisure and hospitality sector recorded the most gains, with 68,900 jobs added (up 17.7% year-over-year through May), followed by professional and business services (39,900 jobs, or 5.0%) and the metro's main economic driver—trade, transportation and utilities (33,200 or 3.6%).
- ▶ Since it was announced in 2019, INVEST South/West—Chicago's community development initiative—has garnered \$1.4 billion in investment commitments from public and private entities. It aims to provide support for small businesses, public space improvements and boost economic development across 12 commercial corridors within the South and West Side communities.

### Chicago Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	459	9.8%
60	Professional and Business Services	846	18.0%
40	Trade, Transportation and Utilities	950	20.2%
90	Government	537	11.4%
30	Manufacturing	409	8.7%
65	Education and Health Services	731	15.6%
15	Mining, Logging and Construction	187	4.0%
80	Other Services	187	4.0%
50	Information	78	1.7%
55	Financial Activities	315	6.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Post-pandemic migration trends continued along the same route in most major U.S. metros, as residents tended to move out of large urban centers. In 2021, Chicago lost 90,111 residents, contracting by 1.2%. Meanwhile, the U.S. population grew by 0.1%, or 392,665 citizens.

### Chicago vs. National Population

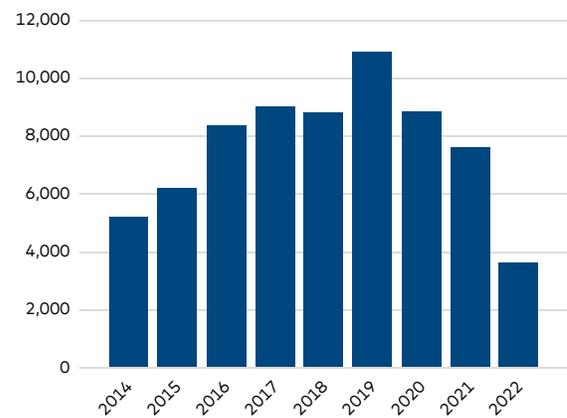
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Chicago Metro	7,276,569	7,245,633	7,384,372	7,294,261

Source: U.S. Census

## SUPPLY

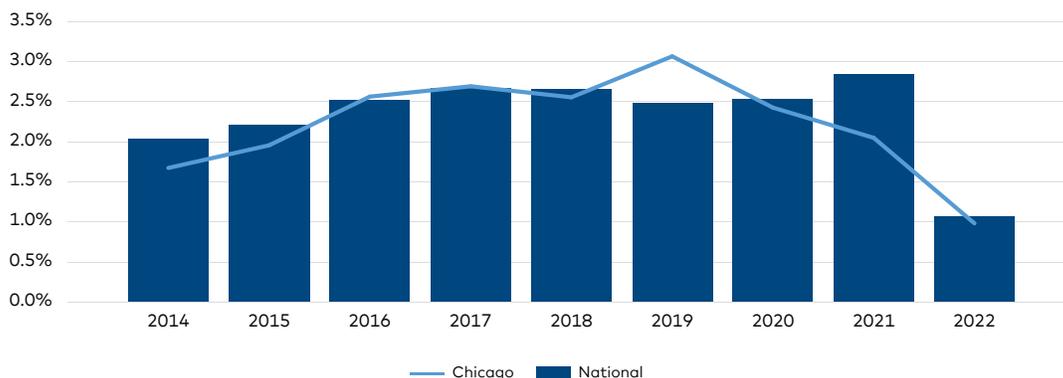
- ▶ As of July, Chicago had 16,196 units under construction, with more than 75% of the pipeline comprising properties within the Lifestyle rental segment. Chicago had an additional 100,000 units in the planning and permitting stages.
- ▶ Over the first seven months of the year, developers in Chicago brought online 3,689 units across 20 properties. This accounts for 1.0% of existing stock, 10 basis points below the U.S. rate. The amount was also 13.2% less than what was delivered last year during the same period. A peak in deliveries was recorded in 2019 (10,929 units), with gradually less activity in subsequent years. However, construction starts for the same period amounted to 3,663 units, more than double compared to last year's starts (1,468).
- ▶ Urban Chicago continued to see increased levels of activity, with 10,353 units underway situated in these submarkets, while the remaining 5,843 were in suburban markets. The top three submarkets for construction activity were Near North Side (2,574 units), Near West Side (1,768) and the Loop (1,714). Among the suburban markets, the most activity was recorded in Naperville-West (735), Batavia (649) and Yorkville (468).
- ▶ One of the largest properties added to the pipeline this year was situated in the Loop submarket. In May, JK Equities, Time Equities and Oak Capitals started construction on 1000M, a 738-unit development. The 74-story luxury tower benefited from a \$304 million construction loan from Goldman Sachs and will feature 23 affordable units. Completion is expected in 2025.

**Chicago Completions** (as of July 2022)



Source: Yardi Matrix

**Chicago vs. National Completions as a Percentage of Total Stock** (as of July 2022)



Source: Yardi Matrix

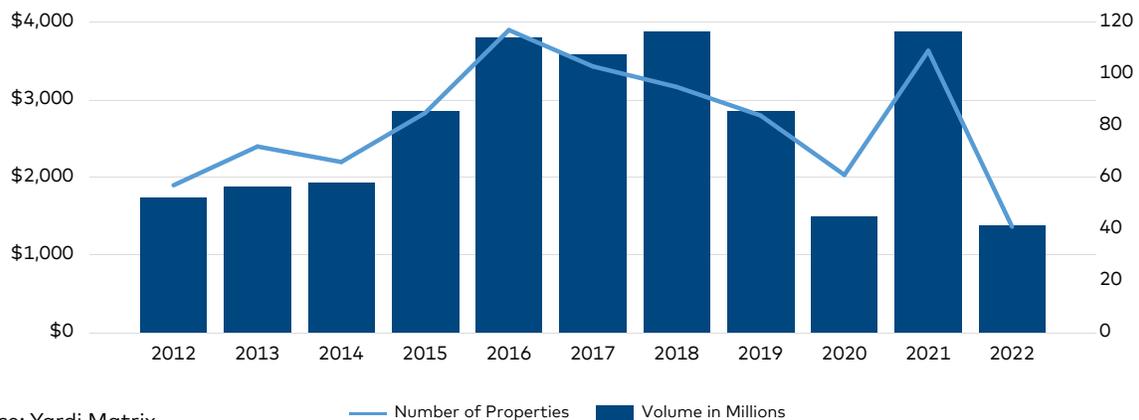
## TRANSACTIONS

- ▶ Multifamily investment in Chicago amounted to \$1.4 billion year-to-date through July, 14% less than what was recorded in the same period last year. However, this is in the context of 2021 being a cycle-high year for sales, with \$3.9 billion in total. Investors were focused on RBN assets, with 29 sales in the quality segment, while only 12 sales for Lifestyle assets were recorded.
- ▶ The average price per unit for this year's sales reached \$188,653, up 17% from the previous year but below the U.S. average

of \$216,893. Lifestyle assets increased the most—as of July, the average for this segment was up 43.5% year-over-year, to \$346,801. Meanwhile, the price for RBN assets increased by 11.1%, to \$149,160.

- ▶ Over a period of 12 months ending in July, investors overwhelmingly favored Chicago's suburban markets, with \$2.5 billion in sales recorded. Urban submarkets had \$1.1 billion in sales over this period.

### Chicago Sales Volume and Number of Properties Sold (as of July 2022)



Source: Yardi Matrix

### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Palatine	432
Wheaton	256
Naperville-West	247
Loop	221
Near North Side	199
Glendale Heights	197
Mt. Prospect	191

Source: Yardi Matrix

<sup>1</sup> From August 2021 to July 2022

### Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

## Top LEED-Certified Multifamily Projects in Illinois

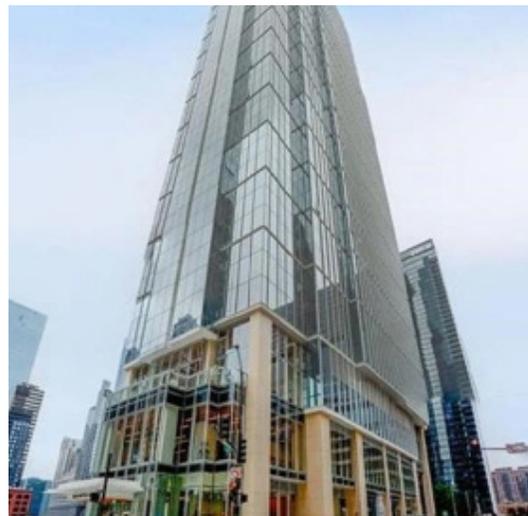
By Lucia Morosanu

The issue of sustainability in the real estate sector has become more visible recently, with a recent report from the International Energy Agency estimating that buildings are responsible for 37 percent of global energy-related carbon dioxide emissions, with roughly three-quarters of that from operations and the remainder from the creation of building materials. This should provide additional incentives to developers to focus more on energy-efficient projects.

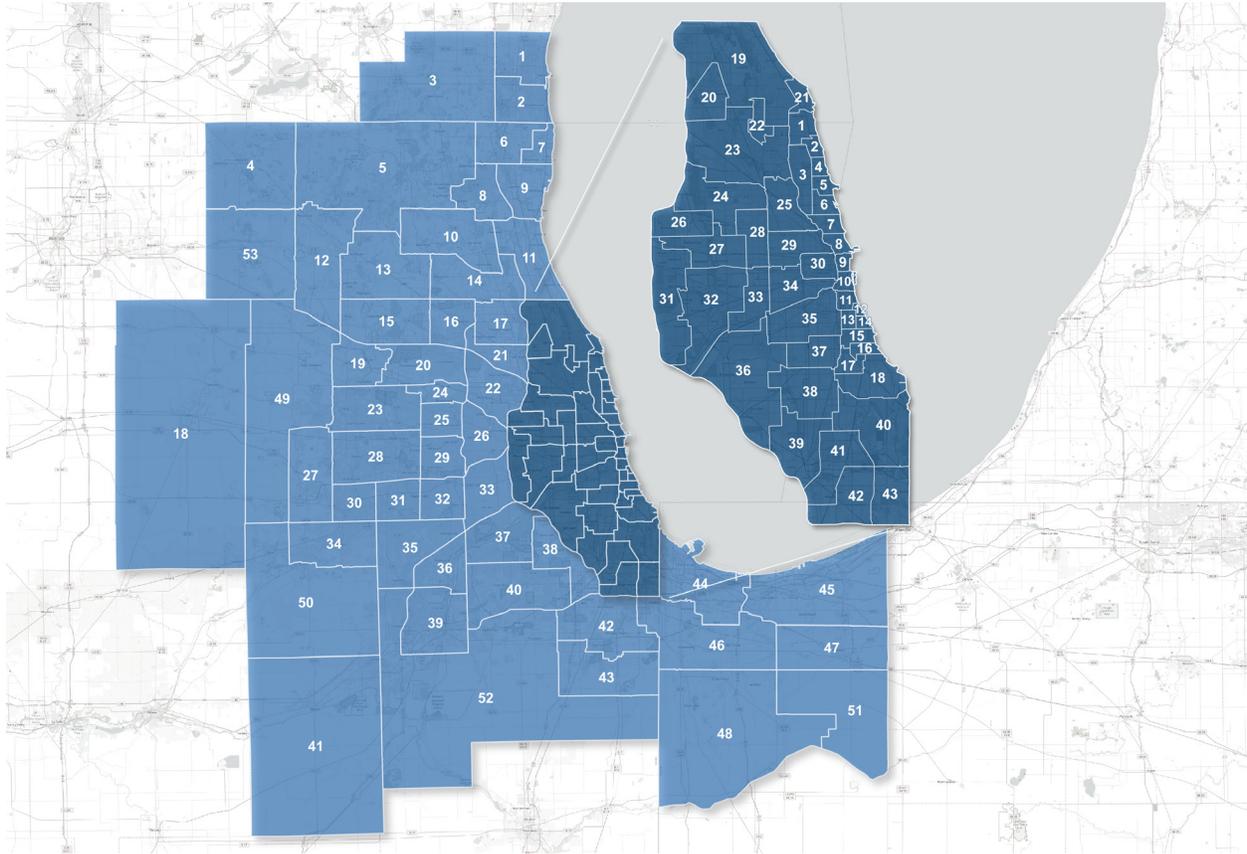
Rank	Project Name	Project Address	No. Of Units	Certification Level	Certification Date
1	Wolf Point East	313 Wolf Point Plaza	698	Silver	5/26/2021
2	845 W Madison Phase 1 & Phase 2	845 W. Madison	586	Gold	1/27/2021
3	Aspire Residences	2111 S. Wabash Ave.	275	Silver	3/4/2021
4	The Link	811 Emerson St.	241	Silver	2/15/2021
5	Avidor Evanston	1727 Oak Ave.	169	Silver	3/10/2021
6	Wicker Park Connection	1640 W. Division St.	146	Certified	4/12/2021

### Wolf Point East

The largest project to receive LEED certification in 2021 was Hines' Wolf Point East in Chicago's Near North Side submarket. The waterfront development comprises 698 units and was awarded LEED Silver certification in the second quarter of the year. Also, the project was awarded Gold in the Technology category in the 2021 MHN Excellence Awards.



# 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 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 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, 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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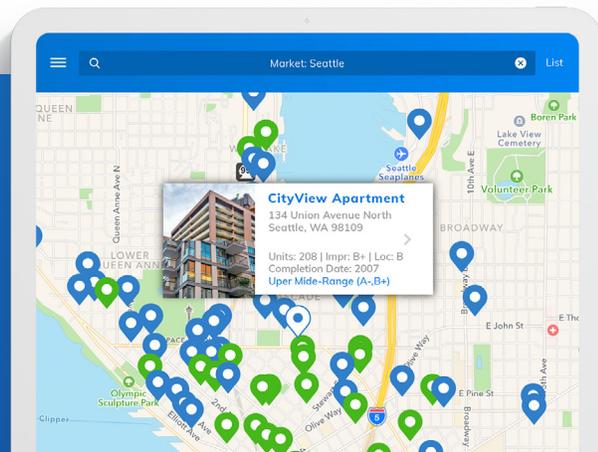
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