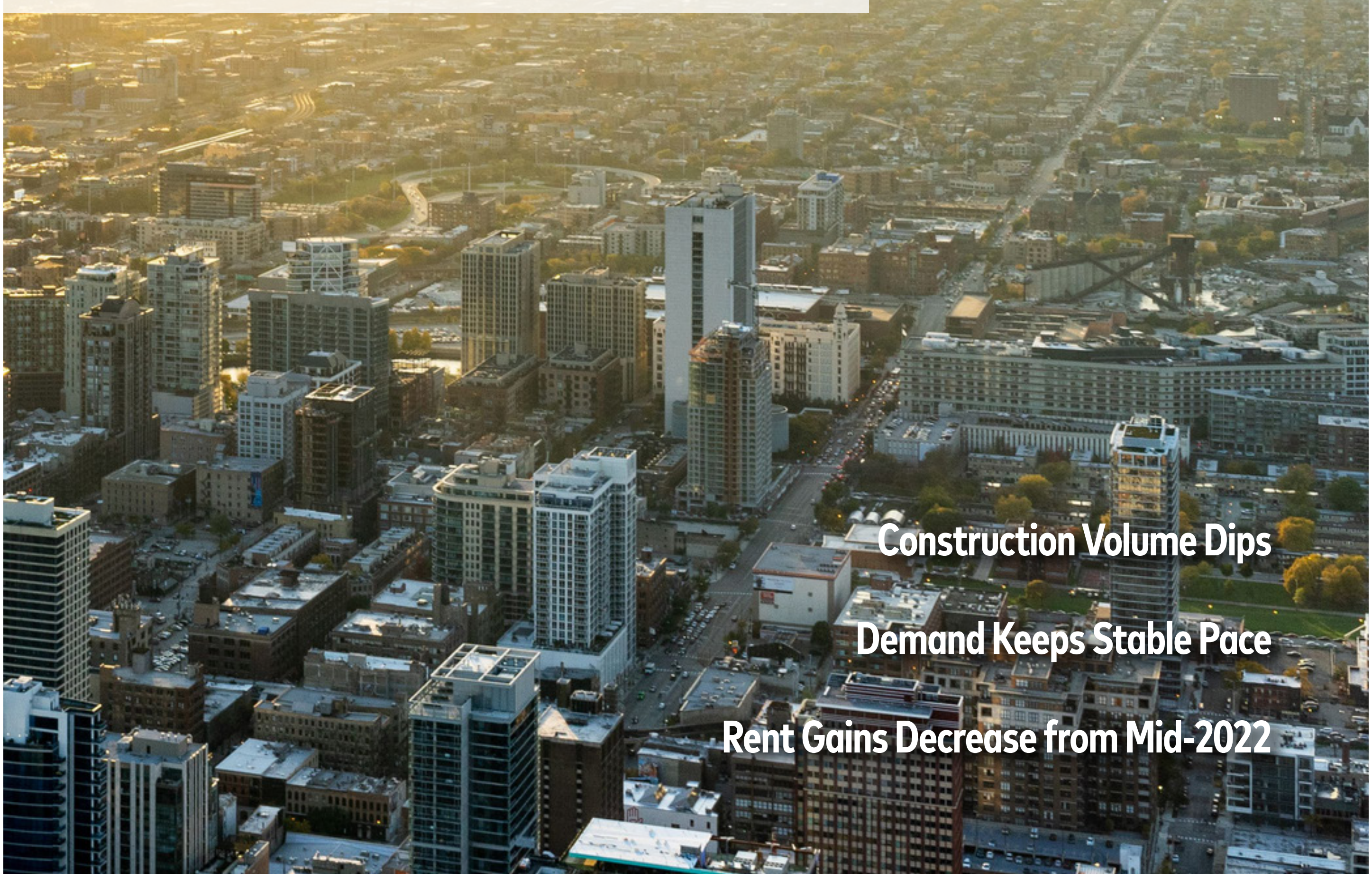
Yardi Matrix

MULTIFAMILY REPORT

Chicago Market Slows

January 2023



Construction Volume Dips

Demand Keeps Stable Pace

Rent Gains Decrease from Mid-2022

CHICAGO MULTIFAMILY

Fundamentals Decelerate, Stabilize

Chicago's multifamily market followed national patterns, as inflation and other economic headwinds produced noticeable effects. The metro's rent growth recorded only a 0.1% uptick on a trailing three-month basis through November but also remained 20 basis points ahead of the national rate. The average rent reached $1,816, $97 above the U.S. average.

Economic improvements continued through the year, as the metro's unemployment rate clocked in at 4.4% in October, preliminary data from the Bureau of Labor Statistics shows. This was a 70-basis-point drop from January 2022, but still behind the 3.7% U.S. rate. Over a 12-month period ending in September, the metro's labor pool expanded by 4.4%—20 basis points higher than the national rate—representing an addition of 202,600 jobs across all sectors. The $3.6 billion project to extend the Red Line in South Side Chicago received a funding boost. The city council approved a Transit Tax Increment Financing district, which is expected to fund $959 million of the total cost.

Construction activity slowed down in 2022, with developers bringing 5,866 units online year-to-date through November—a 1.5% expansion of stock. This was a 15.3% drop from the same period in 2021 and 50 basis points below the U.S. rate of construction. Meanwhile, investor appetite remained high, as $3 billion in multifamily sales was generated during this period.

Market Analysis | January 2023

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

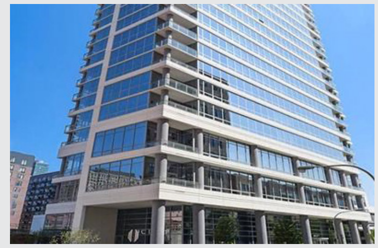
Author

Tudor Scolca-Seușan
Associate Editor

On the cover: Photo by Wirestock/iStockphoto.com

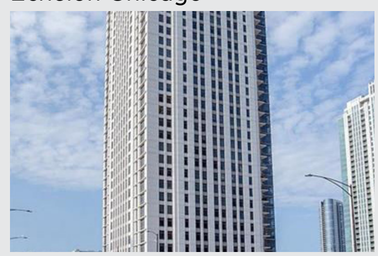
Recent Chicago Transactions

The Elle



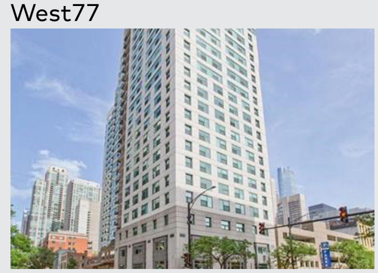
City: Chicago
Buyer: Waterton
Purchase Price: $170 MM
Price per Unit: $342,742

Echelon Chicago



City: Chicago
Buyer: Morguard North American Residential
Purchase Price: $133 MM
Price per Unit: $380,000

West77



City: Chicago
Buyer: FPA Multifamily
Purchase Price: $89 MM
Price per Unit: $292,763

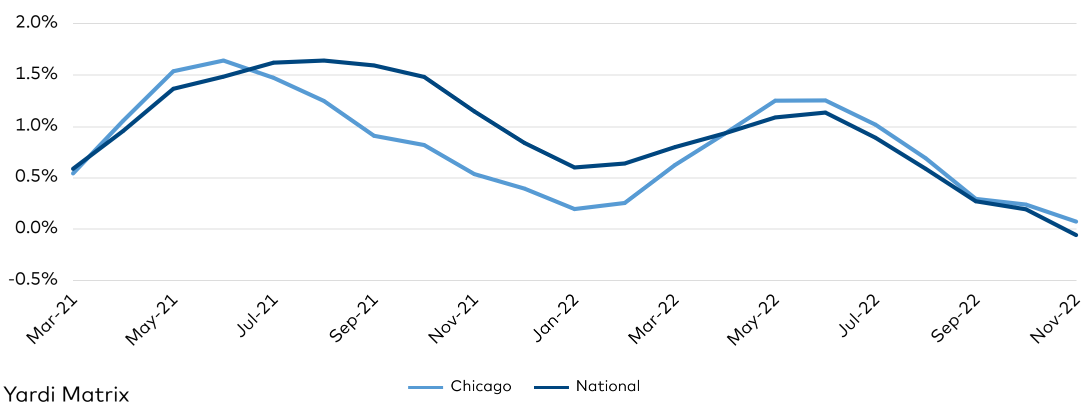
Reserve at Glenview

City: Glenview
Buyer: Mesirow Financial
Purchase Price: $88 MM
Price per Unit: $366,736

RENT TRENDS

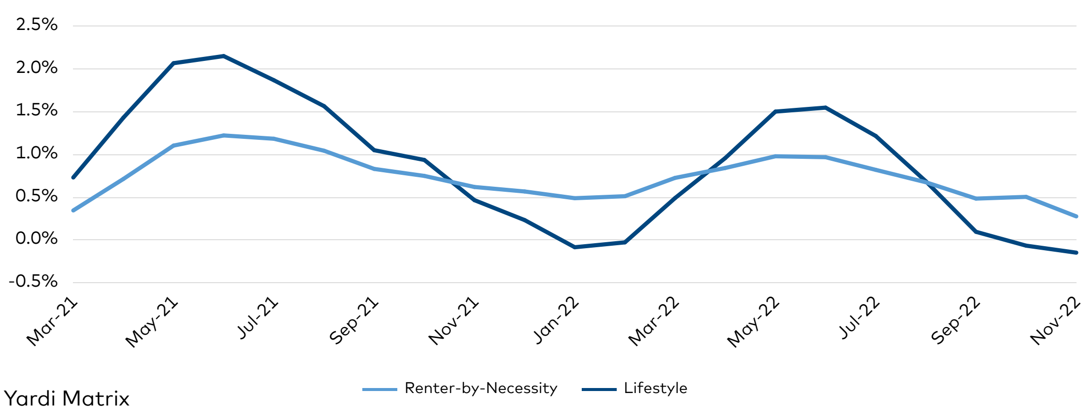
- Rents in Chicago recorded a 0.1% uptick on a trailing three-month (T3) basis through November, as the national figure contracted by 0.1%. Rent increases followed national patterns, slowing down in the fourth quarter from the peak recorded during May and June (1.3% on a T3 basis). Year-over-year, Chicago's rents were 7.0% higher, on par with the U.S. rate.
- Chicago's average rent was $1,816 as of November, holding just above the $1,719 national figure.
- Rent growth for Lifestyle assets was down 0.1%, to $2,463, while RBN assets maintained positive momentum, up 0.3%, to $1,466. Lifestyle and RBN rents were tied for growth throughout the year, except in May and June, when the Lifestyle segment led by 50 basis points.
- Demand kept a stable pace in 2022, as overall occupancy rates did not decrease from their 95.3% rate since the previous year, as of October. Meanwhile, the national average declined by 60 basis points, to 95.6%. Both Lifestyle and RBN segments recorded stable occupancy, at 95.2% and 95.3%, respectively.
- The top three submarkets for rent growth were all in Urban Chicago. Gains were led by Oakland, which recorded a 21.9% increase year-over-year, to $1,494, as of November. It was followed by Belmont Craig-Austin (up 20.4%, to $726) and Montclare (up 19.8%, to $1,575).

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 stood at 4.4% as of October 2022, according to preliminary data from the BLS, 70 basis points lower than the January figure, but still catching up to the nation's rate of 3.7%. The metro fared better than Illinois, at 4.6% unemployment.
- Over a 12-month period ending in September, Chicago added 202,600 jobs, with all sectors of the economy recording growth. This represented a 4.4% expansion of the labor pool, 20 basis points higher than the national rate. The metro's expansion rate surpassed the national average in the first quarter and remained ahead consistently throughout the year.
- Leisure and hospitality led growth, regaining 48,300 jobs, an expansion of 11.5%. It was followed by trade, transportation and utilities (up 4.6%, or 42,400 jobs), professional and business services (up 4.8%, 39,600) and education and health services (3.3%, 23,100).
- The city council approved a funding boost to the metro's upcoming Red Line expansion, by establishing a Transit Tax Increment Financing district. The project's $3.6 billion cost will benefit from $959 million funded through the Transit TIF. The extension is projected to aid South Side Chicago's connection to jobs and education while boosting local economic growth, according to a government press release.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	469	9.9%
40	Trade, Transportation and Utilities	965	20.3%
60	Professional and Business Services	859	18.1%
65	Education and Health Services	734	15.4%
30	Manufacturing	414	8.7%
90	Government	539	11.3%
15	Mining, Logging and Construction	194	4.1%
80	Other Services	188	4.0%
50	Information	78	1.6%
55	Financial Activities	318	6.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Most major metros saw a population decline in 2021, as migration trends continue to be influenced by rising costs and flexible work arrangements. Chicago was no exception—the metro's population contracted by 1.2%, or 90,111 residents.

Chicago vs. National Population

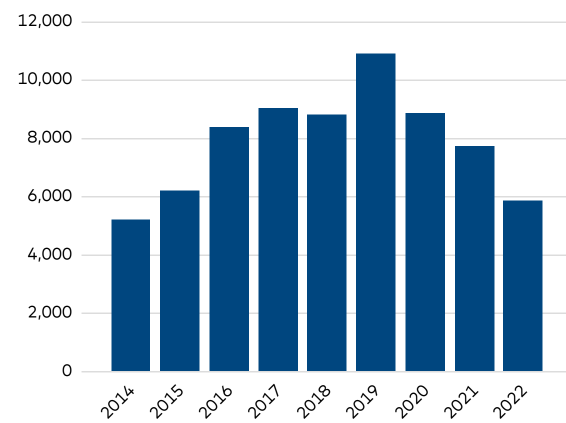
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Chicago	7,276,569	7,245,633	7,384,372	7,294,261

Source: U.S. Census

SUPPLY

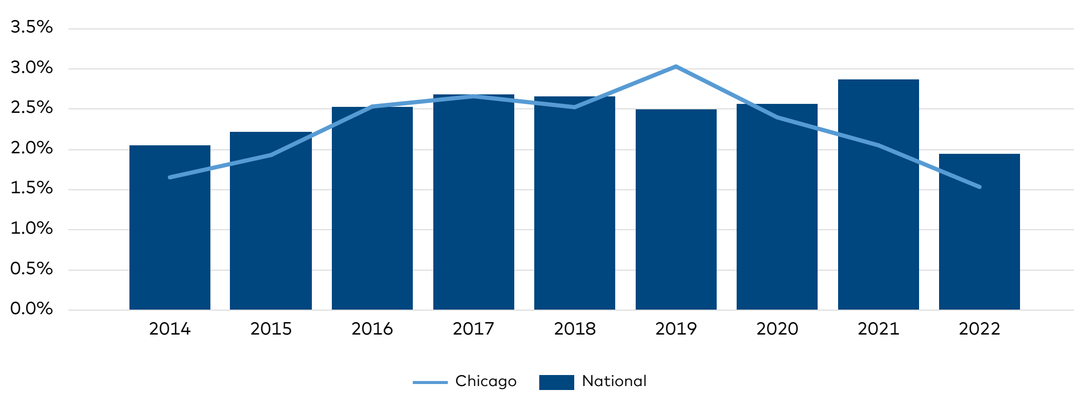
- Year-to-date through November, Chicago developers completed 5,866 units across 32 properties, down 15.3% from the amount recorded over the same period in 2021. Completions accounted for 1.5% of existing stock, 50 basis points below the national rate. Development of new properties has progressively declined each year from the peak recorded in 2019, when 10,929 units were brought online. On average, developers added 9,083 units per year over the past five years.
- In November, the metro had 16,714 units under construction, 10,796 of which were situated in urban Chicago, while the remaining 5,918 were in suburban markets. Developers favored Lifestyle assets, which comprised 83.3% of the metro's total pipeline, while only 3.5% of units were fully affordable, and the remaining 13.2% were Renter-by-Necessity. Construction starts through this period totaled 5,101 units, 16% percent less than what was recorded in the same period in 2021. Chicago had an additional 94,329 units in the planning and permitting stages.
- The top submarkets for development activity were in urban Chicago. The Near North Side topped all other markets, with 2,663 units underway, followed by the Loop (1,938 units) and the Near West Side (1,768) and Des Plaines (924). Among suburban submarkets, Batavia (649 units) and Buffalo Grove (561) led activity.
- The largest property underway comprised Des Plaines' entire development pipeline. CLK Properties started work on the 924-unit Courtyards on the Park in 2020—initially as for-sale condominiums but later converted to rental units. The project is expected to come online in 2023.

Chicago Completions (as of November 2022)



Source: Yardi Matrix

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

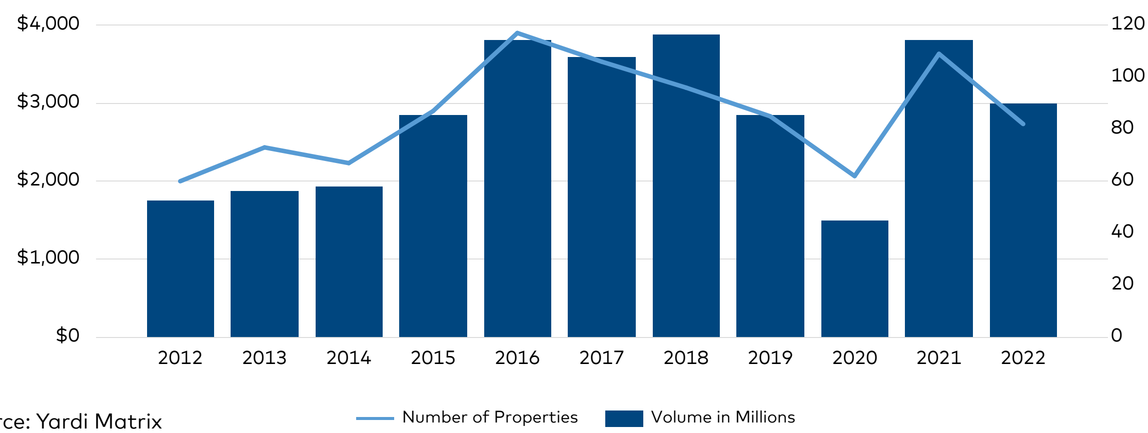


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through November 2022, investors spent $3 billion on Chicago multifamily assets, down $100 million from the amount recorded over the same period in the previous year. Renter-by-Necessity assets were favored, with 61 of the 82 properties that changed hands being in the quality segment, generating $1.6 billion.
- The average per-unit price jumped 22.0% since the end of 2021, to $192,040 as of November, but still trailed the national average of $215,443. Lifestyle assets increased 29.0% in price, with the per-unit average at $311,802, while RBN properties saw a 14.1% rise, to $147,264.
- The largest sale occurred in October in the Loop submarket. Waterton acquired a 496-unit property named The Elle for $170 million, from Wood Partners. Constructed in 2018, the asset includes 3,400 square feet of retail and traded at $342,742 per unit.

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



Source: Yardi Matrix

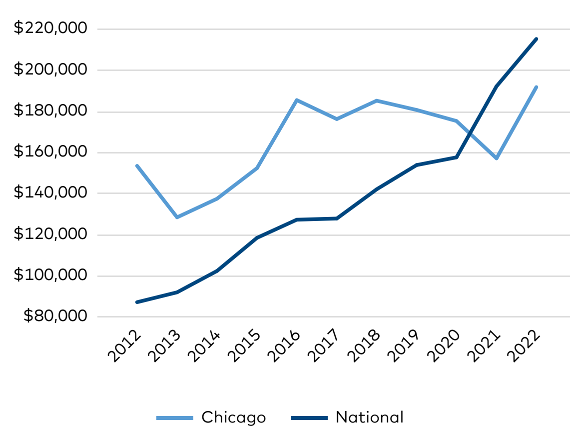
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Loop	391
Palatine	368
Naperville-West	213
Bensenville	205
Mt. Prospect	199
Near North Side	194
Des Plaines	191

Source: Yardi Matrix

[1] From December 2021 to November 2022

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

American House CEO's Upbeat Take on Senior Housing in the Midwest

By Anda Rosu

American House Senior Living Communities continues to take advantage of high market demand to expand its footprint in the Midwest. The company owns senior housing properties in Ohio, Michigan and Illinois and, most recently, opened a 174-unit community in suburban Chicago. CEO Dale Watchowski shared details about his projects in the region and revealed his expectations for the senior housing sector in the year ahead.

What is the average occupancy rate across your Midwest senior housing portfolio?

We are seeing an average of 85-86 percent occupancy in the Midwest. No doubt, the pandemic was hard for American House, as it was for all senior living operators. We saw a dip during the COVID-19 pandemic and, as we started rebuilding, we have seen a significant increase.

Why are Midwestern markets good for senior housing development and investment?

The demand metrics for senior housing are strong in many areas of the Midwest. The Baby Boomers will hit their early 80s—the age we are now seeing seniors enter senior housing—in 2030. Currently, the average age of our seniors is 76. This presents the possibility for an increase in demand for senior space going forward and substantially in the markets that are already favorable.

Please tell us some details about your most recent project in Illinois.

One of our newest communities recently opened in downtown Oak Park, Ill. It is one of our premier senior communities, located on the newly redeveloped corner of Madison Street and South Oak Park Avenue, with a total of 174 units, comprising 74 independent living units, 65 assisted living units and 35 memory care units.

The new senior living community enhances senior residents' lifestyles and meets their current and future needs. American House Oak Park is in a great walkable area with many community amenities surrounding the building, including well-appointed units with great views both downtown and throughout Oak Park.

Are there any other developments that you completed recently?

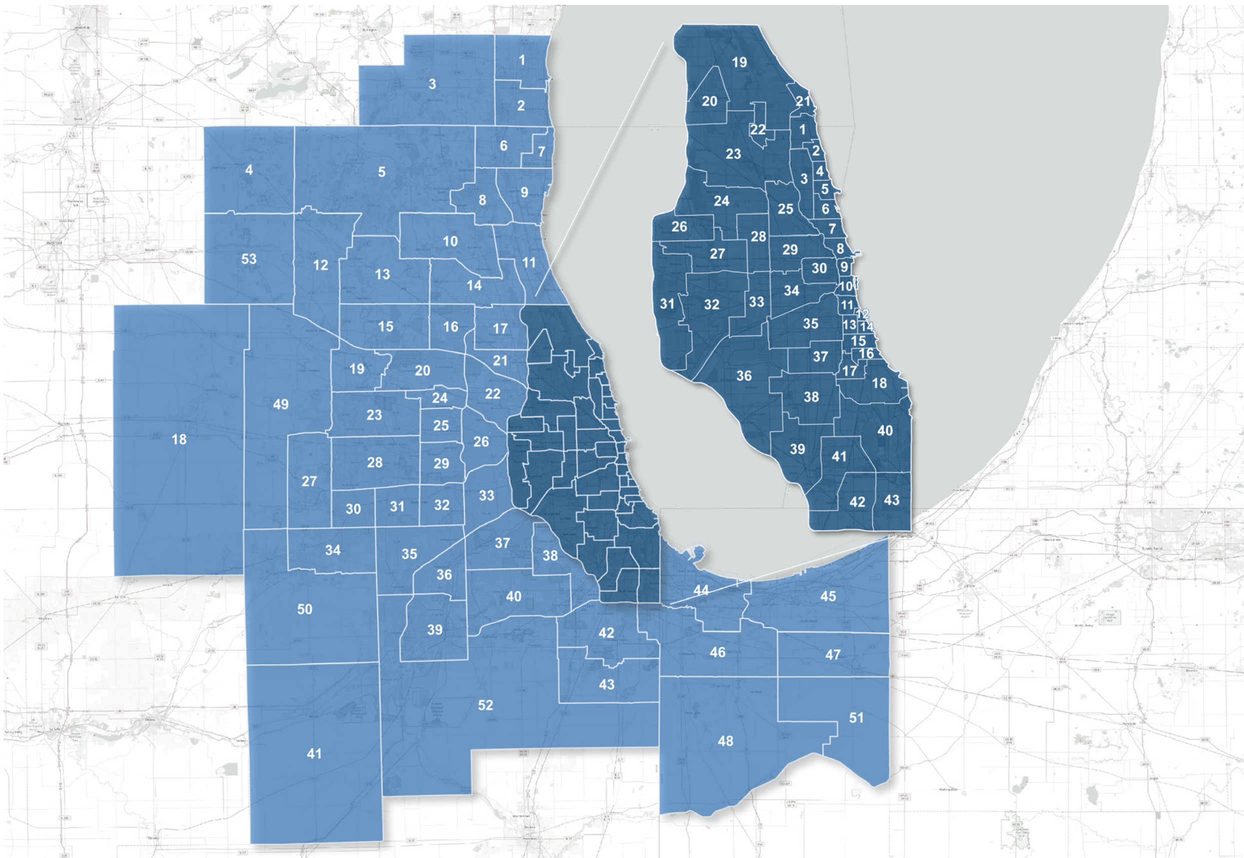
We recently just celebrated the grand opening of American House Village at Bloomfield. This completes the redevelopment of its The Village at Bloomfield property in Bloomfield Township, Mich. The Village at Bloomfield includes multifamily housing, fitness, medical, hotel rooms, grocery, convenience retail, home goods and office.

We are pleased to complete our development with housing for seniors. The Village at Bloomfield is a true mixed-use development in a market or location where the demand was met with a robust response to our desire to effectively program the site.

American House Village at Bloomfield features 150 units, offering independent living in a modern, but cozy community setting.

(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	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.

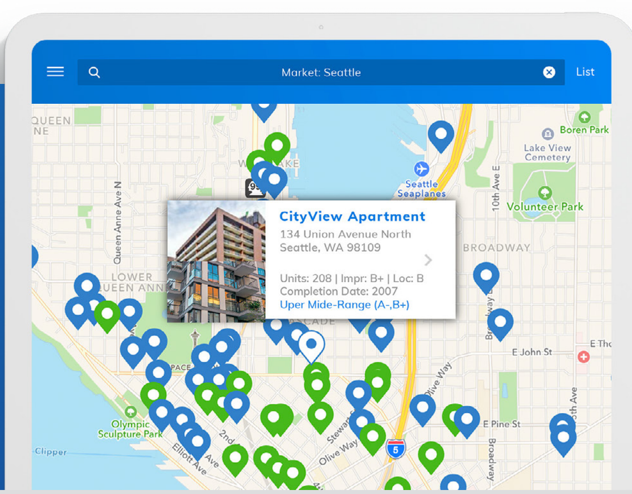
To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

Power your business with the industry's leading data provider

MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

YARDI

(800) 866-1144
Learn more at yardimatrix.com/**multifamily**

Contact us