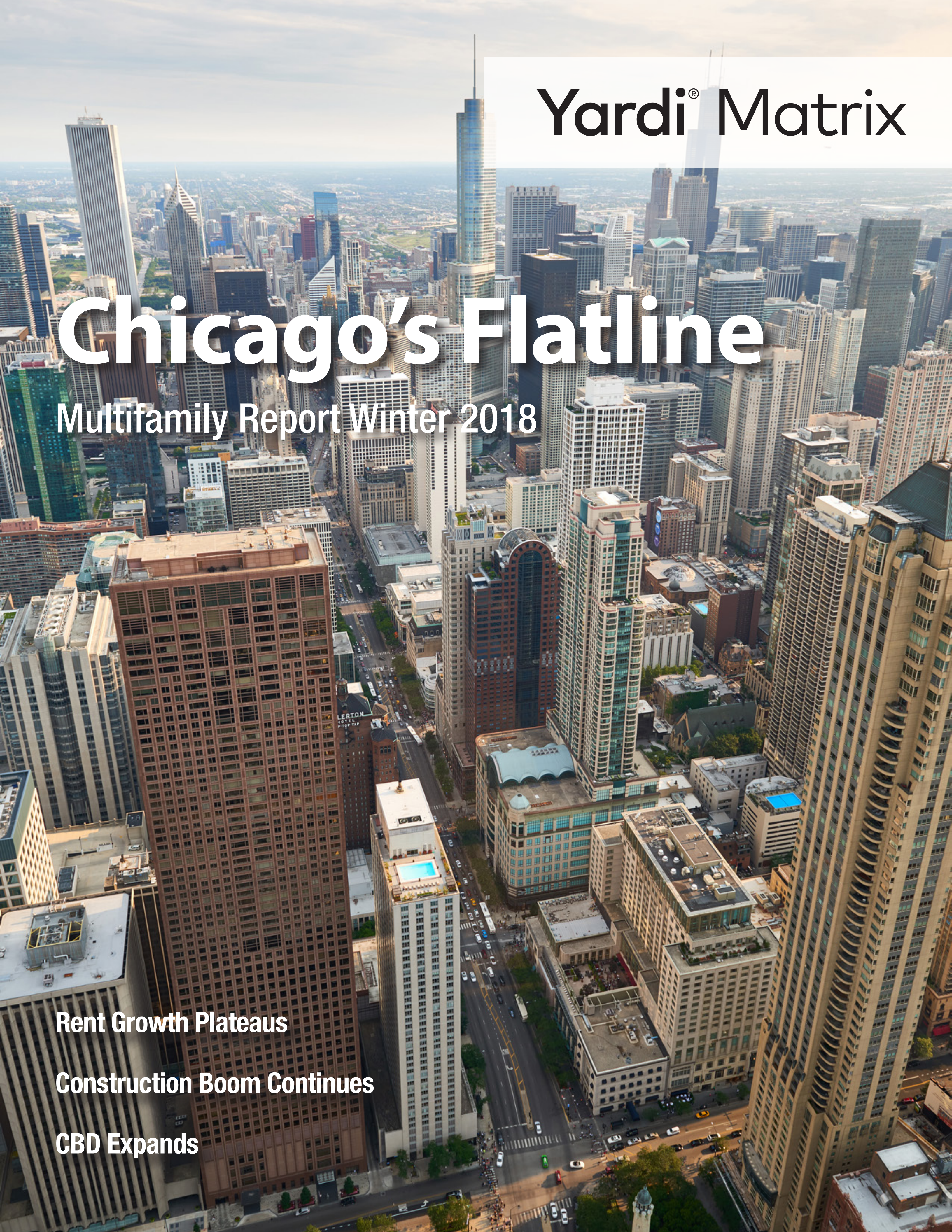

Yardi® Matrix

Chicago's Flatline

Multifamily Report Winter 2018

Rent Growth Plateaus

Construction Boom Continues

CBD Expands

Market Analysis
Winter 2018

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Chicago Makes Room for More Growth

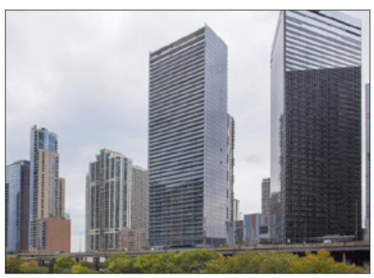
Chicago's development boom has caught up with demand, leading to flat rent growth, a trend seen in other Midwestern markets. The supply volume has made the bifurcation between rental rates for luxury and working-class units even more distinct. Rents for Lifestyle apartments dipped 0.3%, while those in Renter-by-Necessity units increased by 1.8%. The pace of new construction is expected to continue. Chicago is slated to add around 9,000 units to its inventory in 2017, marking a post-recession high, up 13% year-over-year.

The metro continued to attract companies looking to relocate or expand, producing job gains in high-paying sectors such as financial activities (10,500 jobs) and professional and business services (6,600), followed by education and health services (5,700). Core submarkets are seeing significant growth in office development due to increased demand: The new 59-story skyscraper at 150 North Riverside was 85% pre-leased when it opened in the second half of 2017. The rezoning of former waterfront industrial areas close to downtown will add new mixed-use skyscrapers to the skyline, expanding Chicago's central business district.

Responding to working-class demand, the Chicago City Council approved two three-year pilot programs, which are projected to create as many as 1,000 affordable residential units. Meanwhile, the addition of jobs in office-using sectors is likely to keep upscale demand healthy.

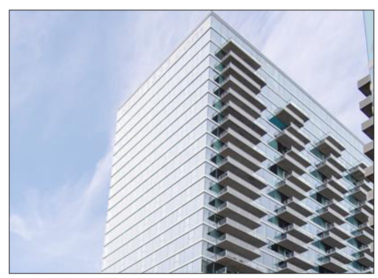
Recent Chicago Transactions

Coast at Lakeshore East



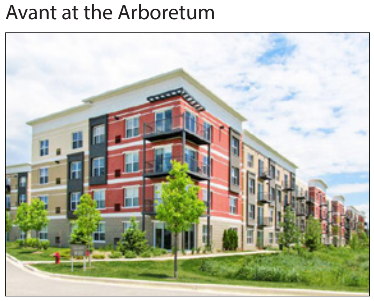
City: Chicago
Buyer: Morguard Residential
Purchase Price: $223 MM
Price per Unit: $432,039

1333 Wabash



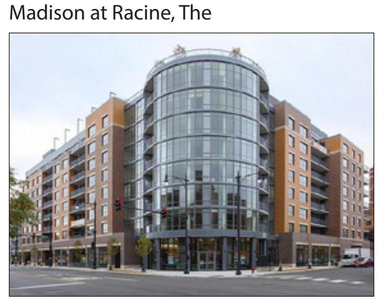
City: Chicago
Buyer: Habitat Co.
Purchase Price: $125 MM
Price per Unit: $410,164

Avant at the Arboretum



City: Lisle, Ill.
Buyer: JVM Realty
Purchase Price: $101 MM
Price per Unit: $325,216

Madison at Racine, The



City: Chicago
Buyer: American Realty Advisors
Purchase Price: $100 MM
Price per Unit: $461,111

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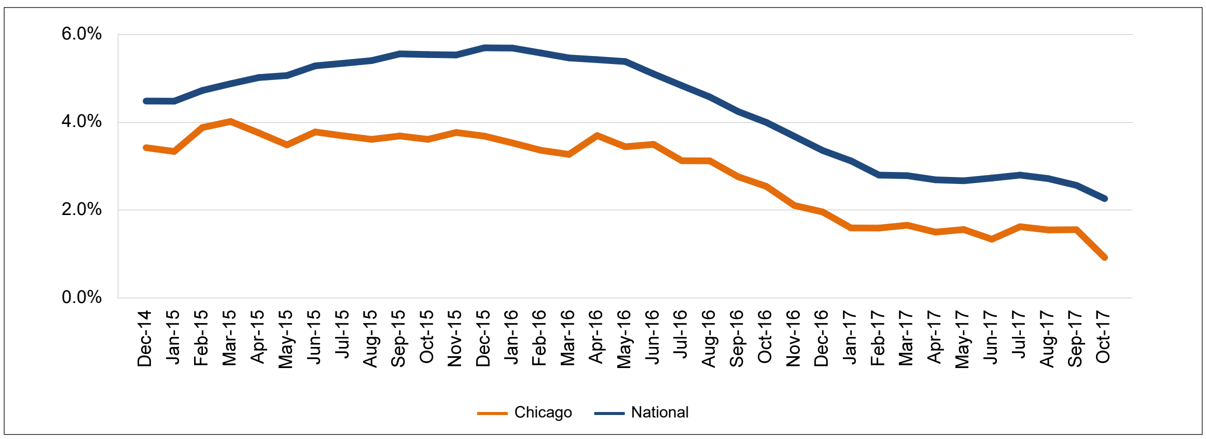
Rent Trends

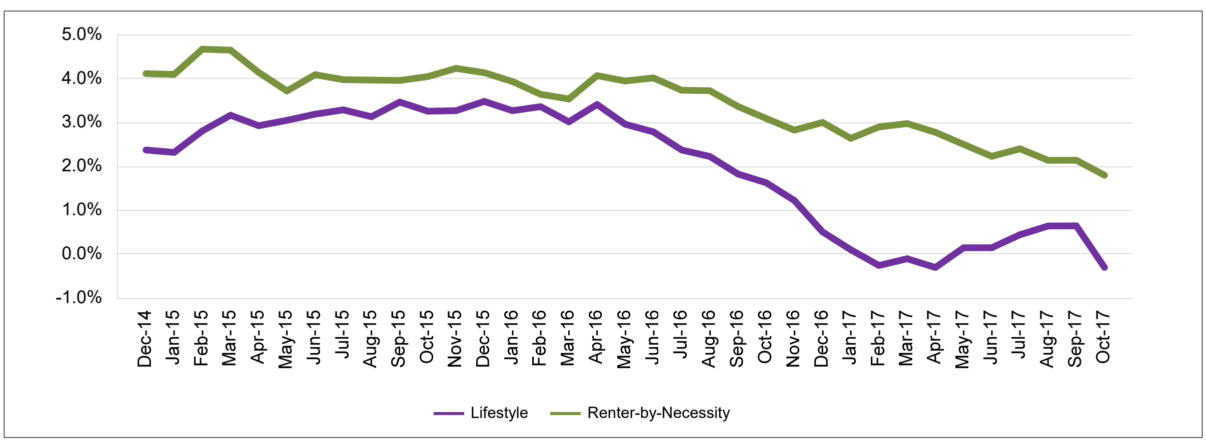
- Chicago's growing supply has led to a slowdown in rent growth since peaking at 4.0% in the first quarter of 2015. Rents were up 0.9% in the 12 months ending in October, lagging the national rate of 2.3%. The average rent was $1,427 as of October, outpacing the $1,358 U.S. rate. The working-class Renter-by-Necessity segment led gains, up 1.8% to $1,187. While demand is still strong across the board, the boom in luxury development has caused a negative growth rate (-0.3%) for Lifestyle units, resulting in an average monthly rent for high-end apartments of $1,991.
- Rents in core areas recovered after taking a dip in the first half of 2017. The average monthly rate in the Loop was $2,500 as of October, after a 0.7% increase year-over-year. Core riverfront submarkets such as Near North Side, Near South Side, Evanston–North, as well as West Town–Garfield Park and Near West Side, all exceeded the $2,100 monthly rent mark. The North Branch Corridor rezoning is expected to increase supply in the area and moderate rent growth.
- With more job gains expected in high-earning, office-using sectors, demand for rental units is anticipated to remain healthy. This is particularly valid for downtown submarkets as suburban Chicago is also seeing more tempered but constant rent growth.

Chicago vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Chicago Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

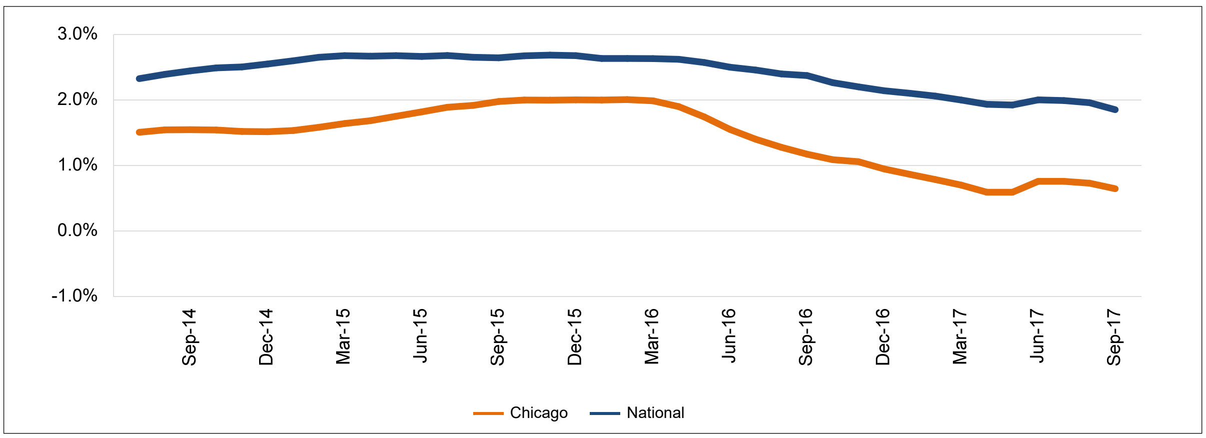
Economic Snapshot

- Chicago continues to see more disparity in employment, including gains in high-earning sectors and cuts in blue-collar industries. In the 12 months ending in September, the metro added 26,800 jobs. Gains were highest in financial activities (10,500), professional and business services (6,600) and education and health services (5,700). Chicago lost 15,500 jobs in lower-paying sectors, with most cuts in trade and transportation.

- Chicago has been living up to its name as the country's top city for corporate investment, according to Site Selection magazine. The metro continues to attract companies that are relocating or expanding their businesses. Online grocer Peapod announced its move to downtown Chicago at 300 S. Riverside Plaza from its current location in Skokie. Pharmaceutical retailer Walgreens also chose the city's central business district for its new headquarters, after it decided to relocate from Deerfield and double its number of employees to 600.

- Downtown Chicago continues its transformation. The rezoning of the 760-acre strip of the North Branch Corridor allows non-industrial uses, which encourages new office and residential development and supports the expansion of the central business district. Downtown office space also continues to grow. The new 59-story tower at 150 North Riverside was 85% pre-leased when it opened this summer, with William Blair Co. and Hyatt Corp. as tenants.

Chicago vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Chicago Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
55	Financial Activities	310	6.6%	10,500	3.5%
60	Professional and Business Services	839	17.9%	6,600	0.8%
65	Education and Health Services	719	15.3%	5,700	0.8%
80	Other Services	196	4.2%	2,800	1.4%
15	Mining, Logging and Construction	184	3.9%	800	0.4%
50	Information	81	1.7%	400	0.5%
30	Manufacturing	412	8.8%	-600	-0.1%
90	Government	550	11.7%	-3,700	-0.7%
70	Leisure and Hospitality	473	10.1%	-4,300	-0.9%
40	Trade, Transportation and Utilities	935	19.9%	-6,900	-0.7%

Sources: YardiMatrix, Bureau of Labor Statistics

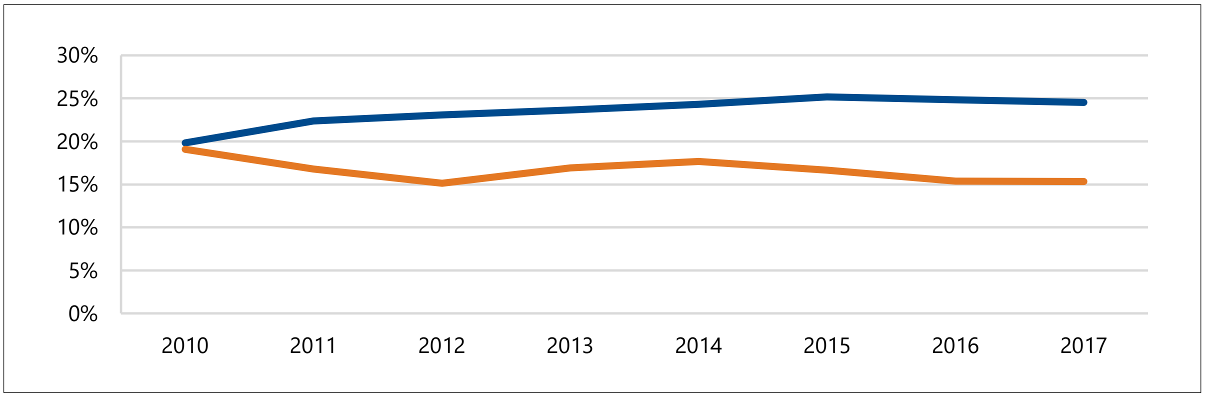
Demographics

Affordability

- Homeownership continues to be more affordable than renting. The average mortgage payment accounts for 15% of the median income, while renting comprises 25%. The median home value in Chicago was $231,800 in the first half of 2017, slightly below the $233,000 peak of 2016, but still up 15% compared to 2011, when it bottomed at $201,300.

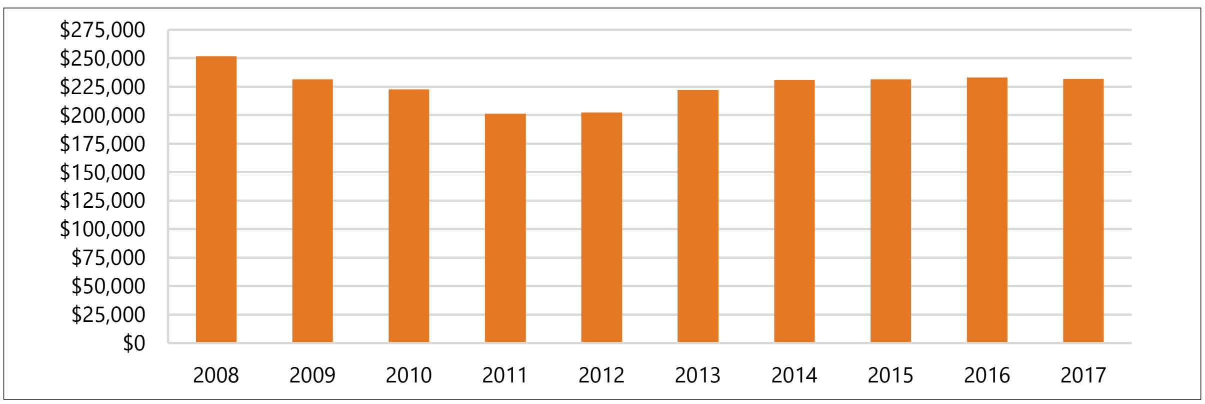
- Chicago's city council approved several affordable housing programs, particularly for high-density districts such as Near North Side, Near West Side and Northwest Side. Developers are now required to create up to 20% affordable units within new developments, compared to the previous 10%.

Chicago Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Chicago Median Home Price



Source: Moody's Analytics

Population

- The metro contracted by 31,000 residents between 2014 and 2016.

- In 2016, Chicago's population declined by 0.3%, still below the U.S. growth rate of 0.7%.

Chicago vs. National Population

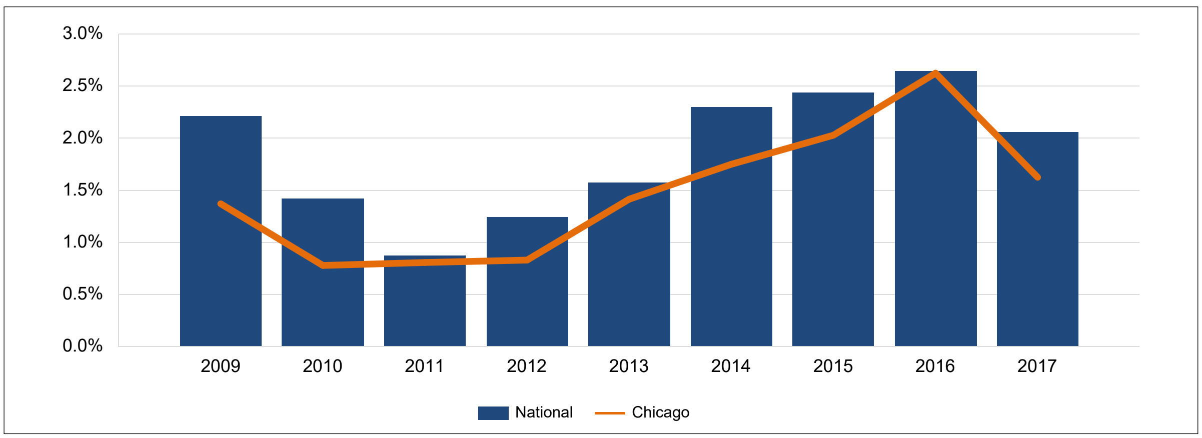
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Chicago Metro	7,315,816	7,331,883	7,335,505	7,323,962	7,304,532

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

Supply

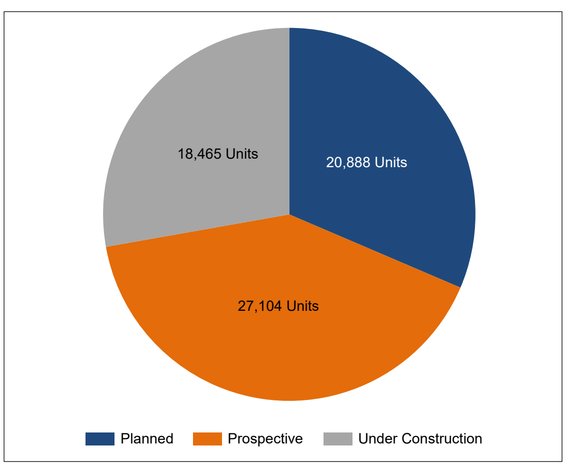
- Construction is still booming in Chicago, with roughly 4,000 units completed in the first 10 months of 2017 and more than 5,500 units scheduled for delivery by the end of the year. The total number of apartments coming online this year would mark a peak for the current cycle, up 13% year-over-year.
- This pace is expected to continue, as 18,500 units are under construction, with more than half in core submarkets. Downtown Chicago continues its transformation into a 24/7 live-work-play area, with employers' relocation and young professionals' influx supporting demand for the modern, amenity-rich residential properties being built nearby.
- Roughly 5,000 apartments are being built in Near North Side alone. Several high-rise multifamily projects are under construction in infill locations, replacing parking lots or older properties. Most include generous retail space. Near North Side also houses the largest residential projects in the metro, including the 57-story, 490-unit Optima Signature and the 39-story, 442-unit The Gallery on Wells.
- Local authorities are improving the infrastructure of the city's former industrial districts to help pave the way for apartment development. The metro has 67,000 units in various stages of development.

Chicago vs. National Completions as a Percentage of Total Stock (as of October 2017)



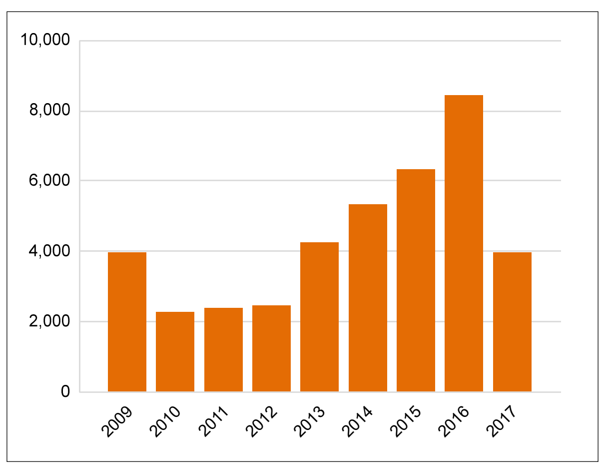
Source: YardiMatrix

Development Pipeline (as of October 2017)



Source: YardiMatrix

Chicago Completions (as of October 2017)



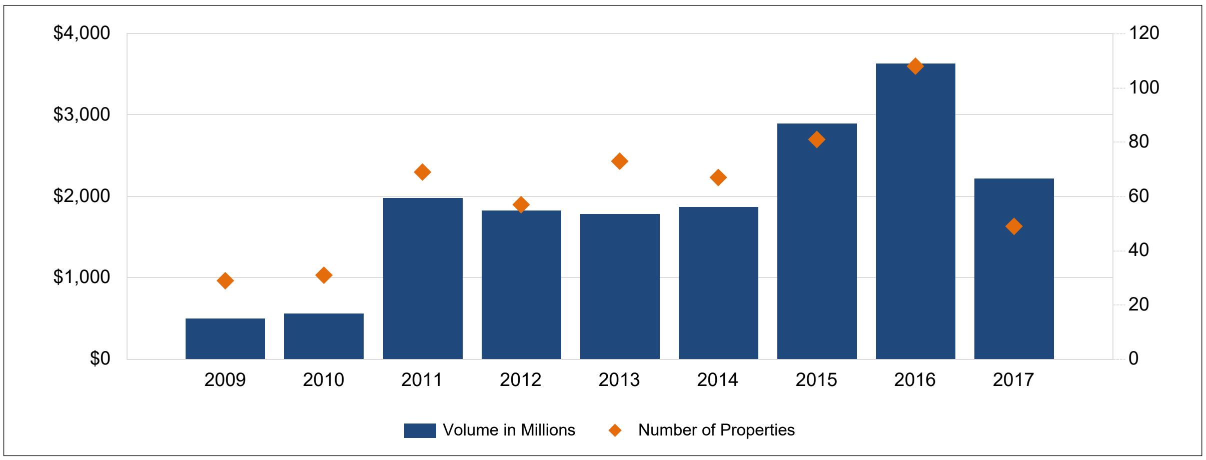
Source: YardiMatrix

Transactions

- Sales have slowed down slightly in 2017 compared to 2016, when more than $3.6 billion in assets changed hands, marking a cycle high. Year-to-date through October, transaction volume in Chicago exceeded $2.2 billion, with most trades involving working-class Renter-by-Necessity properties. The average price per unit continued its rapid ascent, peaking at $201,932, up 10% from 2016 and almost double the 2010 value. The price continues to stay above the national average of $135,622. In the first half of 2017, acquisition yields for stabilized properties in Chicago were in the 5% range for Class A properties and between 5% and 7% for Class B/C assets.

- As prices continue to rise, investors look for stablized product in high-performing submarkets such as Near North Side, Naperville–West, the Loop, Near West Side and Naperville–East. Investment activity in these top five submarkets totaled $1.4 billion, more than half the total volume.

Chicago Sales Volume and Number of Properties Sold (as of October 2017)



Source: YardiMatrix

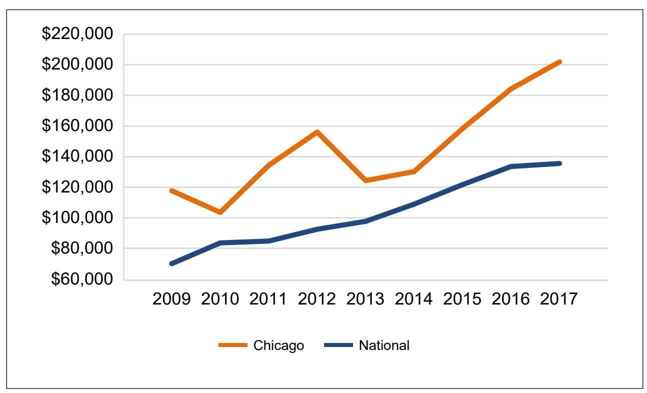
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Near North Side	470
Naperville–West	342
Loop	223
Near West Side	214
Naperville–East	192
Palatine	144
Wheaton	142
Near South Side	125

Source: YardiMatrix

[1] From November 2016 to October 2017

Chicago vs. National Sales Price per Unit



Source: YardiMatrix

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NAI Hiffman Brokers
250 KSF Warehouse Lease
Waypoint Acquires Asset
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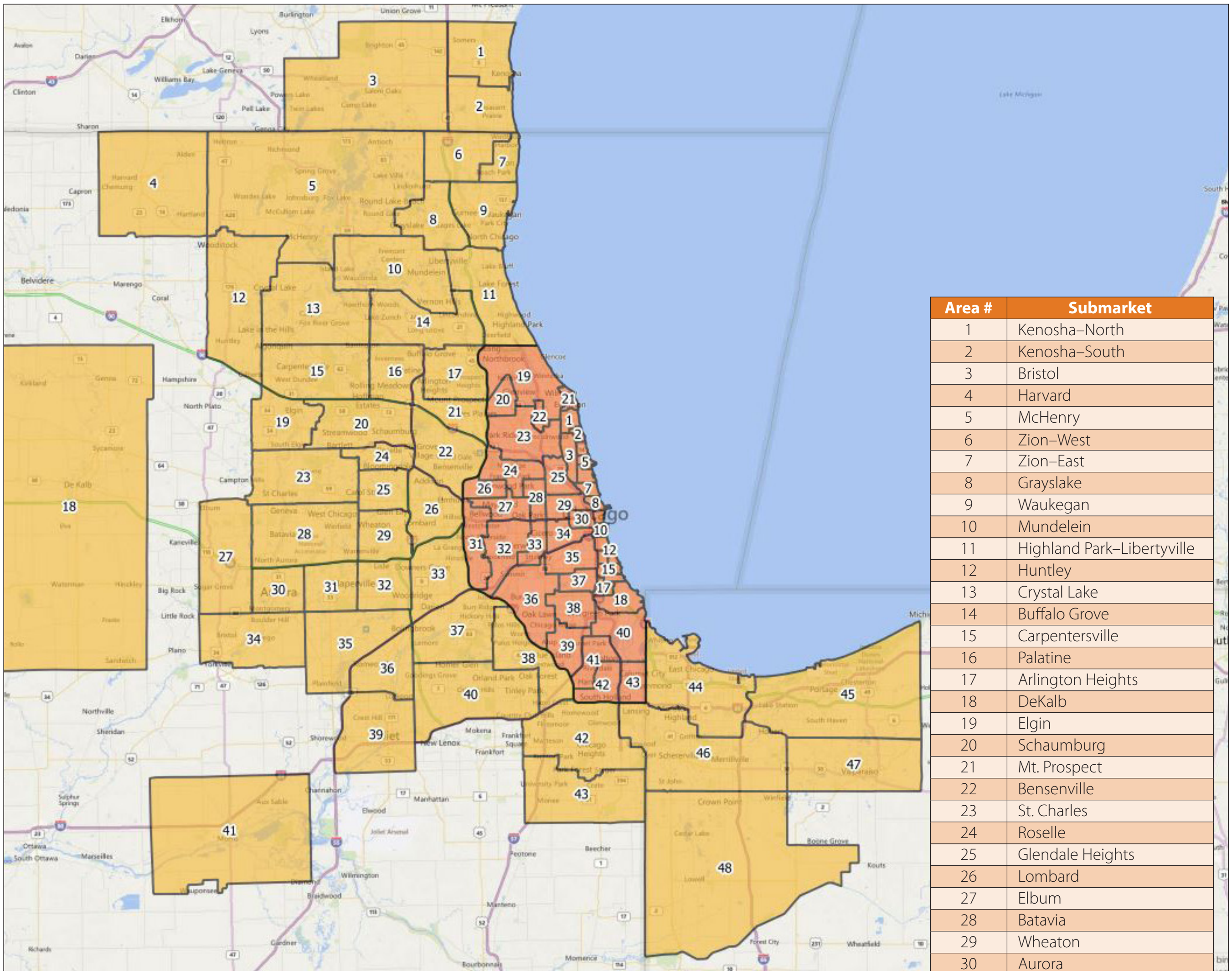
Chicago Submarkets



Area #	Submarket
1	Kenosha–North
2	Kenosha–South
3	Bristol
4	Harvard
5	McHenry
6	Zion–West
7	Zion–East
8	Grayslake
9	Waukegan
10	Mundelein
11	Highland Park–Libertyville
12	Huntley
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
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
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–South
48	Crown Point

Area #	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

Area #	Submarket
16	Woodlawn
17	Greater Grand Crossing
18	South Chicago
19	Wilmette–Northbrook
20	Des Plaines
21	Evanston–North
22	Skokie
23	North Park–Niles
24	Montclare
25	Irving Park–Logan Square
26	Northlake
27	Oak Park
28	Austin
29	West Town–Garfield Park
30	Near West Side

Area #	Submarket
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 may 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 may 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, may 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.