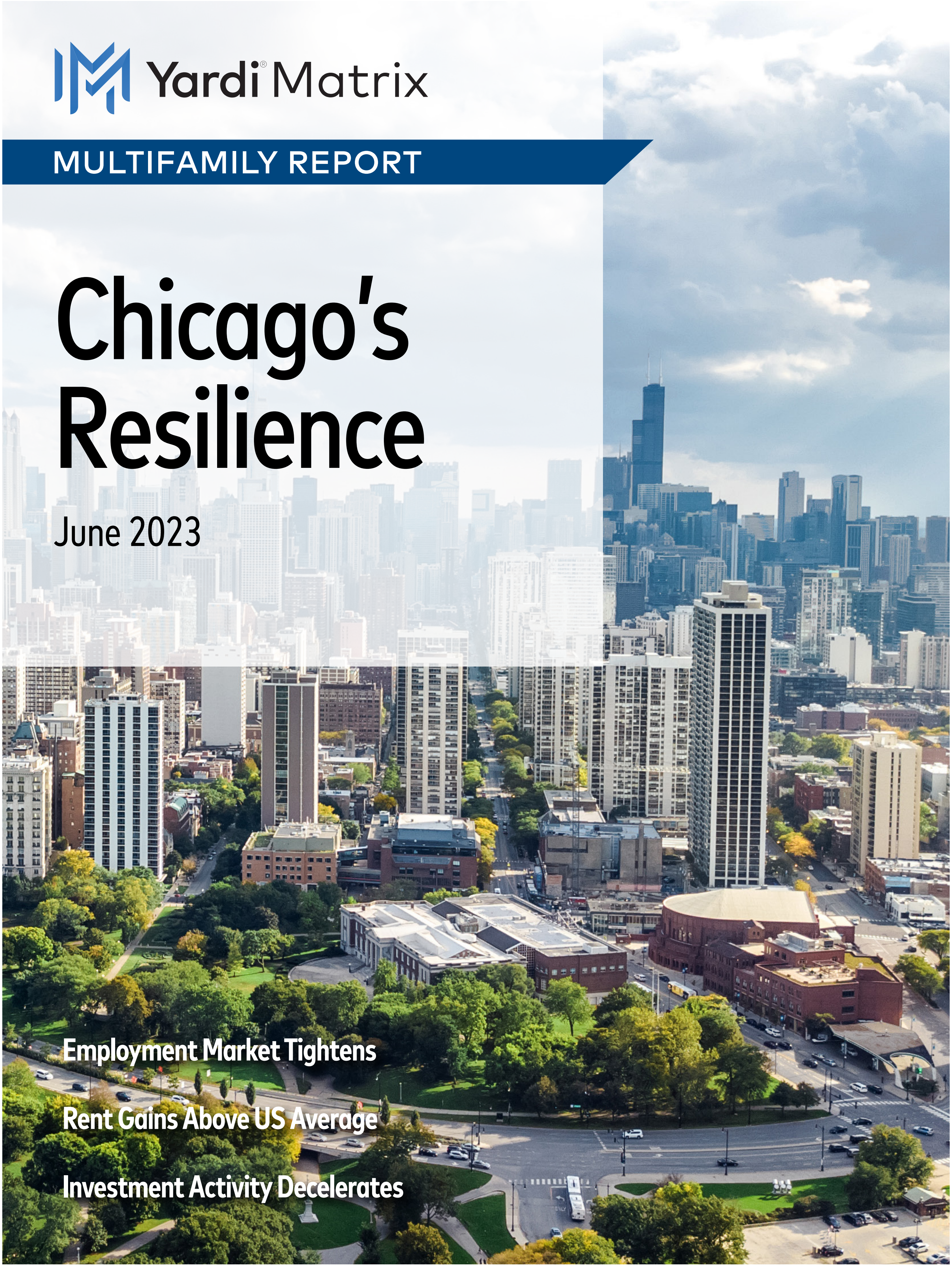
Yardi® Matrix

MULTIFAMILY REPORT

Chicago's Resilience

June 2023



Employment Market Tightens

Rent Gains Above US Average

Investment Activity Decelerates

CHICAGO MULTIFAMILY

Yardi Matrix

Rates, Demand Gain Steam

Chicago fundamentals remained on a positive track during the first four months of 2023, although nationwide economic challenges contributed to a slowdown across multiple metrics. Rent growth clocked in at 0.5% on a trailing three-month basis through April, to $1,835. Meanwhile, the national average was up 0.2%, to $1,709. Demand remained healthy, however, with overall occupancy at 95.2%, 20 basis points above the U.S. average.

Unemployment in the metro stood at 4.1% as of March, 60 basis points above the national figure, according to the Bureau of Labor Statistics. Over a 12-month period ending in February, Chicago added 93,000 jobs, for a 2.9% expansion, trailing the national rate by 50 basis points. Leisure and hospitality led growth, with 39,700 jobs added (up 9.8%), followed by education and health services, which added 31,900 positions (up 4.4%). One of the largest ongoing developments in the metro, Lincoln Yards, is scheduled to enter its second phase later this year. Developer Sterling Bay announced that it will break ground on two buildings within the $6 billion project.

Transactions totaled $568 million during the first four months of 2023, down 34.6% year-over-year. Meanwhile, 2,275 units came online year-to-date through April, with an additional 13,324 apartments under construction.

Market Analysis | June 2023

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Recent Chicago Transactions

Lincoln Park Plaza

City: Chicago
Buyer: Avanath Capital Management
Purchase Price: $119 MM
Price per Unit: $477,912

Anderson Point

City: Chicago
Buyer: Lake Street Management
Purchase Price: $53 MM
Price per Unit: $338,710

Courthouse Square

City: Wheaton, Ill.
Buyer: JVM Realty
Purchase Price: $51 MM
Price per Unit: $340,604

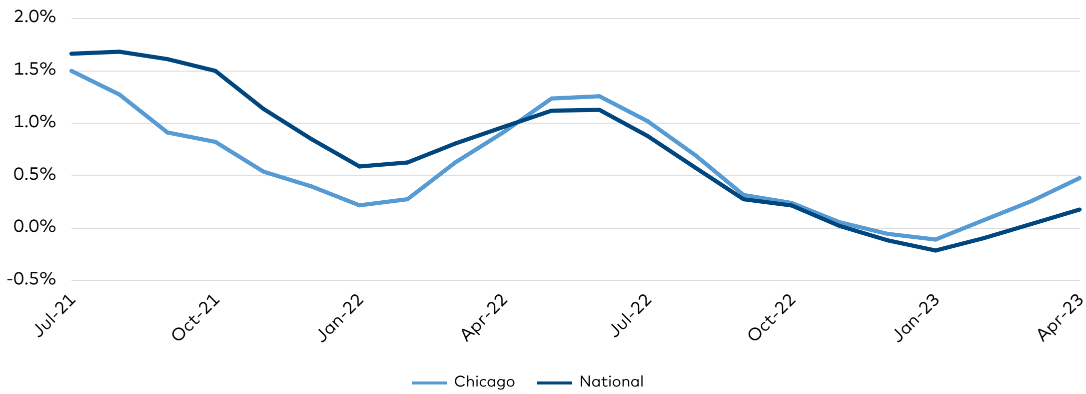
Avenida Naperville

City: Naperville, Ill.
Buyer: Greystar
Purchase Price: $47 MM
Price per Unit: $318,493

RENT TRENDS

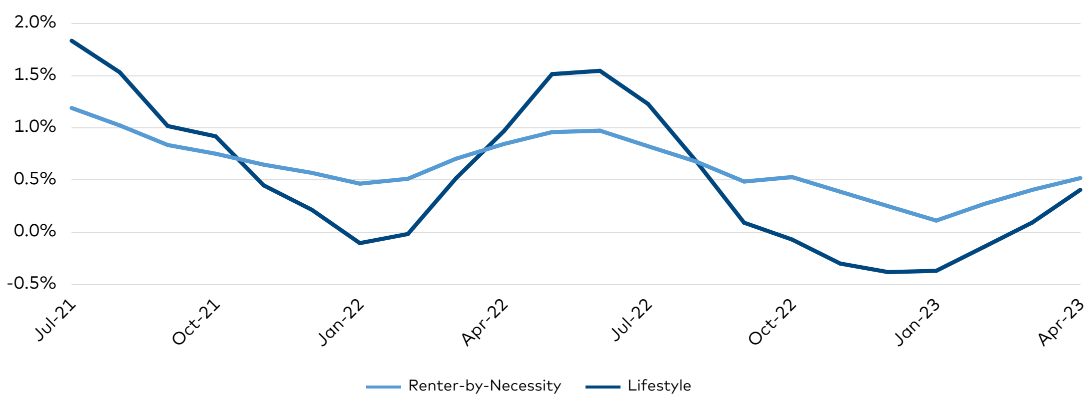
- Chicago rents were up 0.5% on a trailing three-month (T3) basis through April, 30 basis points above the national figure. Rate development showed signs of recovery after the slow winter season, when slight contractions were recorded. For most of 2022, Chicago rent growth trailed the national figure, except for the summer, when the metro led by 10 to 20 basis points. On a year-over-year basis, rents was up 5.0% as of April, while the national rate stood at 3.2%.
- The average rent in Chicago reached $1,835 in April, above the $1,709 U.S. figure. Working-class Renter-by-Necessity rates were up 0.5% on a T3 basis through April, to $1,487, while Lifestyle assets saw a 0.4% increase, to $2,473.
- Chicago's occupancy rate in stabilized assets decreased just 30 basis points year-over-year, to 95.2% as of March. Despite the downtick, the figure remained above the national average, which declined by 100 basis points, to 95.0%. Chicago's Lifestyle segment recorded a steeper drop, down 60 basis points to 94.8%, while RBN assets saw the rate slide just 10 basis points, to 95.4%.
- Some of the highest year-over-year growth rates were recorded in urban submarkets, or those close to the city core. Montclare, which saw rates grow 24.1%, to $1,724, as of April, topped the list. It was followed by Oakland (14.9%, to $1,489) and South Holland (12.9%, to $1,042). Submarkets in suburban Chicago that recorded strong gains included Kenosha–North (12.3%, to $1,260) and Roselle (12.0%, to $1,793).

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 unemployment clocked in at 4.1% as of March, 60 basis points above the national average, according to BLS data. The rate was down only 30 basis points from a year ago, but improved significantly from March 2021, when it stood at 7.0%. Meanwhile, Illinois' rate was 4.4% as of March.

- During the 12-month period ending in February, Chicago gained 93,000 jobs. This marked a 2.9% hike, trailing the U.S. figure by 50 basis points. The metro's employment growth rate trailed the nation throughout the year and has been trending downward since August 2022.

- Leisure and hospitality led growth, with 39,700 jobs added, or a 9.8% expansion. Education and health services also recorded significant gains, with 31,900 positions, or 4.4% growth, followed by trade, transportation and utilities (up 1.1%, or 10,100 jobs). Meanwhile, professional and business services recorded a net loss of 6,600 jobs, contracting by 0.8%.

- The $6 billion Lincoln Yards project, located in the North Branch Industrial Corridor, will enter its second phase this year. Developer Sterling Bay completed a 280,000-square-foot life science building and will break ground on a 15-story office property and a 19-story mixed-use building, alongside infrastructure improvements.

Chicago Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	446	9.5%
65	Education and Health Services	753	16.1%
40	Trade, Transportation and Utilities	958	20.5%
30	Manufacturing	409	8.8%
80	Other Services	194	4.2%
15	Mining, Logging and Construction	165	3.5%
90	Government	523	11.2%
50	Information	78	1.7%
55	Financial Activities	312	6.7%
60	Professional and Business Services	834	17.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Chicago's population declined by 90,111 residents in 2021, for a 1.2% contraction, in line with most other major metros. Post-pandemic migration was driven by affordability and the popularity of hybrid/remote work. Meanwhile, the U.S. population expanded by 0.1% in 2021.

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

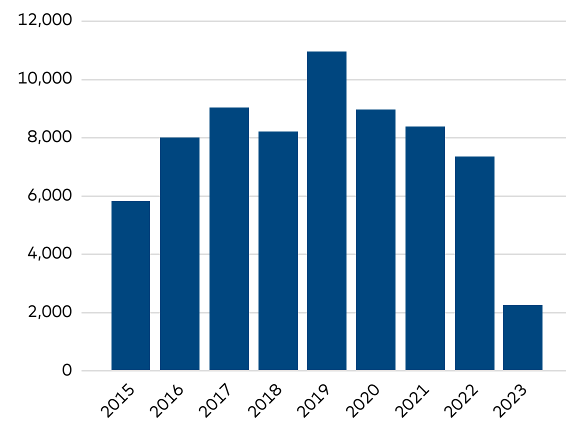
- As of April, Chicago had 13,324 units under construction. Development remained heavily tilted in favor of the Lifestyle segment, as 86.9% of the units underway fell within this category. Fully affordable units comprised 6.9% of the pipeline, while the remaining 6.2% were Renter-by-Necessity. An additional 93,000 units were in the planning and permitting stages.

- Year-to-date through April, developers wrapped up work on 2,275 units, significantly below the nearly 4,000 apartments that came online during the same time last year. Completions represented 0.6% of existing stock, 10 basis points above the U.S. rate. Chicago's rate of completions slowed down after 2019's cycle peak of 10,981 units, and mostly trailed the national pace. On average, the market grew by 8,789 units yearly over the past five years. Yardi Matrix anticipates that Chicago will add 6,959 apartments in 2023.

- During the first four months of the year, only 535 units broke ground—a significant decline from the 2,938 units that started construction during the same period last year. After a strong first half of 2022 in terms of new construction, activity started to slow down across most major metros, as economic headwinds started to intensify and the activity boom that followed the pandemic subsided.

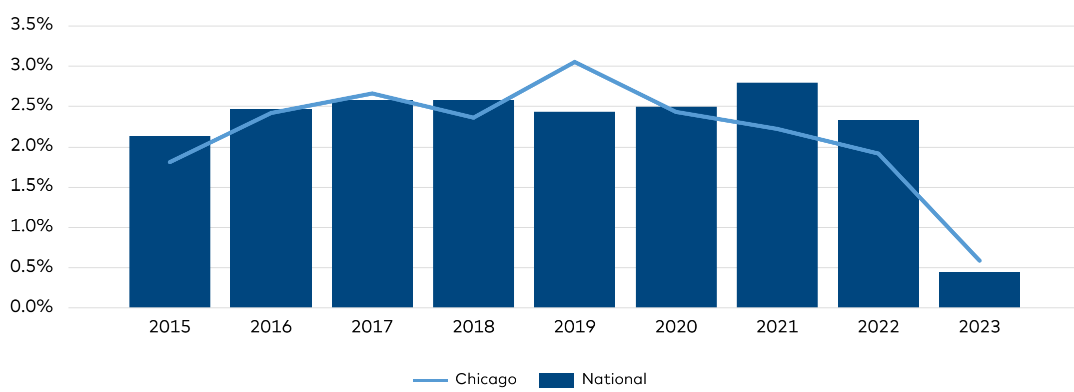
- Five urban submarkets had an outsize share of the construction pipeline as of April, led by the Near West Side with 2,164 units underway. It was followed by the Loop (1,649 units), the Near North Side (1,527 units), Uptown (806) and the Near South Side (804).

Chicago Completions (as of April 2023)



Source: Yardi Matrix

Chicago vs. National Completions as a Percentage of Total Stock (as of April 2023)

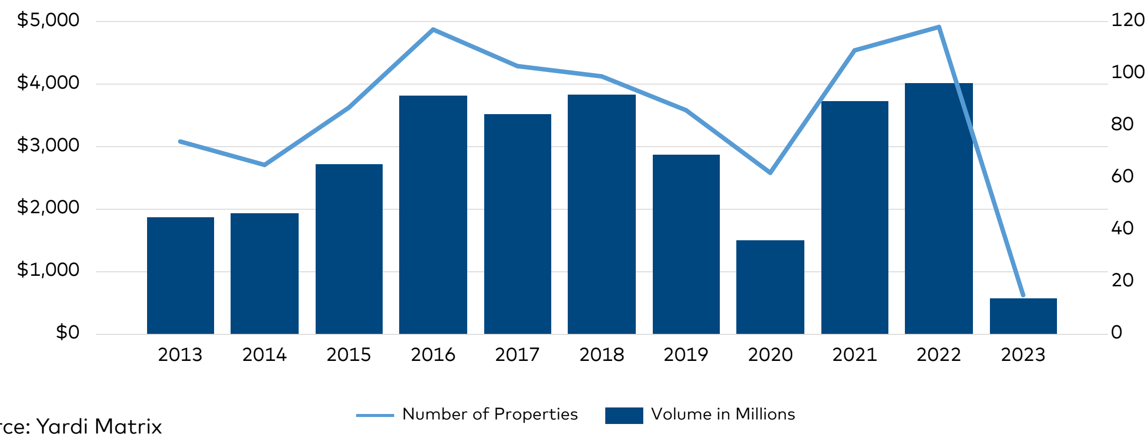


Source: Yardi Matrix

TRANSACTIONS

- Multifamily investment totaled $568 million during the first four months of the year. In line with nationwide trends, the amount contracted 34.6% year-over-year.
- A total of 15 transactions were recorded in 2023 through April, 10 of which were for RBN assets, while the remaining five involved Lifestyle properties. The average price per unit stood at $263,560, 40% higher than the price recorded in 2022 and almost 50% above the U.S. figure.
- The price per unit for Lifestyle assets increased 61.8%, to $546,296, while RBN properties recorded a 59.2% increase, to $240,279.
- The largest sale during the first four months of the year occurred in the Lake View submarket. Avanath Capital Management purchased the 249-unit Lincoln Park Plaza for $119 million, or $477,912 per unit, from BJB Partners. The sale of the partially affordable asset was subject to a $59.5 million, 10-year Fannie Mae CMBS loan.

Chicago Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

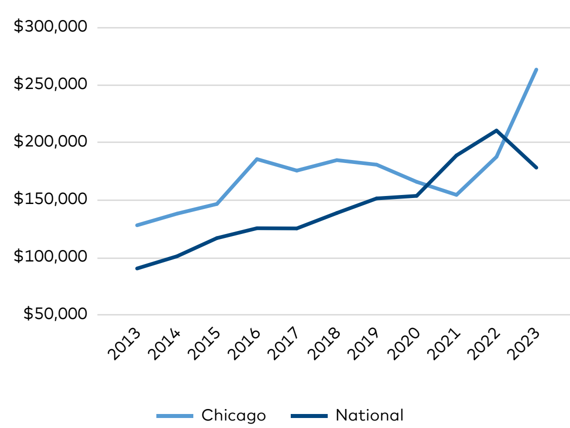
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Palatine	336
Arlington Heights	305
Near North Side	275
Naperville–West	256
Near West Side	200
Loop	170
Wilmette–Northbrook	155

Source: Yardi Matrix

[1] From May 2022 to April 2023

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

How to Revive Vintage Apartments While Maintaining Profitability

By Corina Stef

Frequently associated with workforce housing, vintage apartment buildings cater to a diverse demographic of renters. While these properties are in high demand, they often come with structural deficiencies that require major renovations. Motus Construction Senior Project Manager Justin Wood provided his considerations for renovating vintage apartments in today's high-cost environment.

What would you say is your biggest challenge when renovating old apartment buildings?

The biggest challenge is balancing the scope of work with construction costs. We routinely consult ownership on ways to value engineer a project in a manner that allows us to execute without impacting their vision. Because it is more expensive to borrow now than it was a year or two ago, owners have tighter construction budgets. That's why we work with them to identify potential savings that will still allow the building to operate successfully.

What budgetary decisions do you make to support investment without displacement?

A lot of that comes down to the level of finish. As long as you remain thoughtful on finish decisions, it's possible to make an older building look just as nice as a ground-up development. At the end of the day, the more money the construction team spends refurbishing a building, the more money ownership will

have to charge in rent. Once we understand the owner's overall goal with the property, there are ways to keep costs down.

With many properties coming out of the health crisis with deferred maintenance, how have you adjusted your renovation processes to meet the pressing need to elevate these assets?

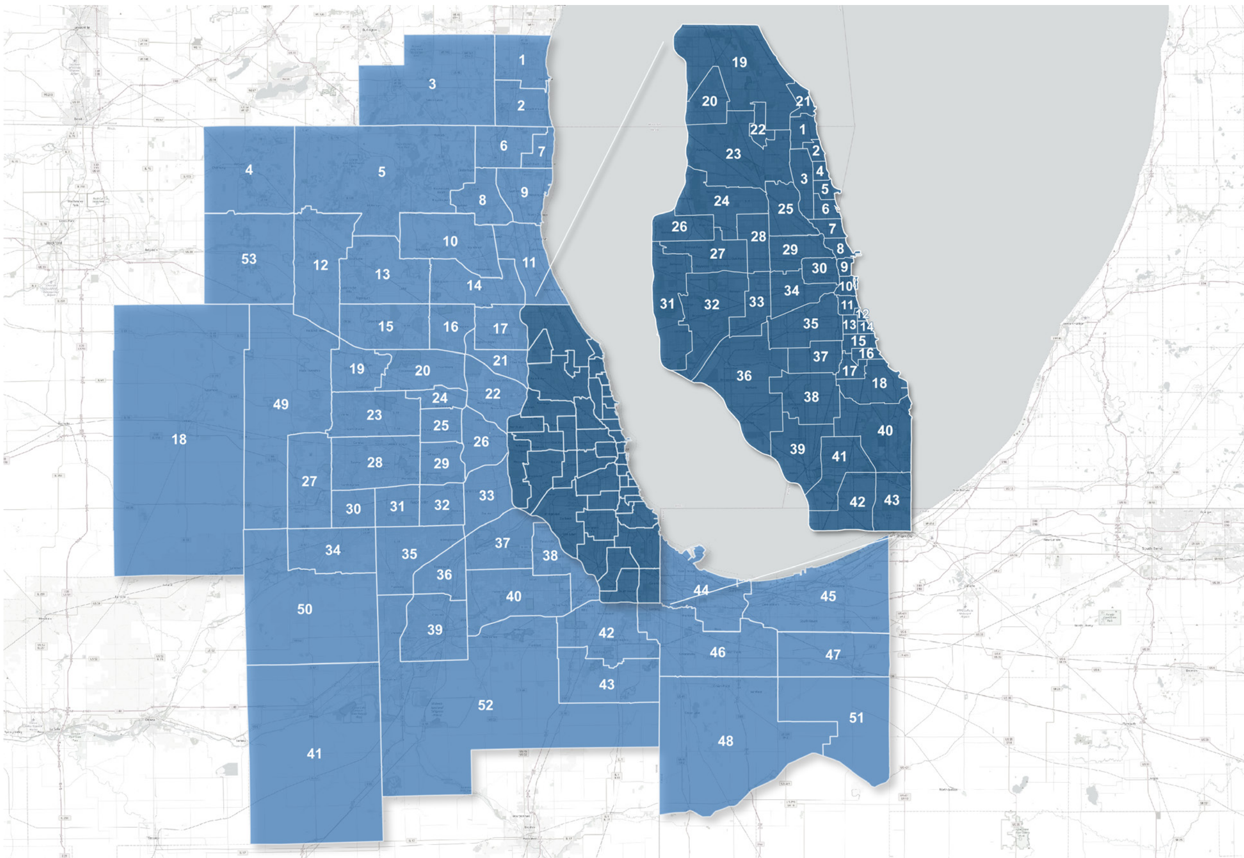
This goes back to prioritizing the functionality of the building. While the finished cosmetic choices are something you can play around with, life safety concerns are not. We will consult with ownership on which deferred enhancements they have to address, and we will walk away from a job if they won't commit to basic life safety improvements. Form follows function, they say, and that's true even when rehabilitating older buildings. If a property can't operate safely, all other concerns are moot.

Can you share a case study or multifamily renovation success story that Motus Construction completed recently?

One project we recently completed, 6230 N. Kenmore Ave. in Chicago, captures a lot of what we have discussed. It was an occupied building where we advised the owner on value-add decisions to accommodate the higher-than-anticipated mechanical costs. 3546 N. Southport Ave. is another great example where we were able to consult with ownership on strategies to keep costs down while improving the functionality of the building and ultimately deliver exactly what they wanted.

(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	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 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

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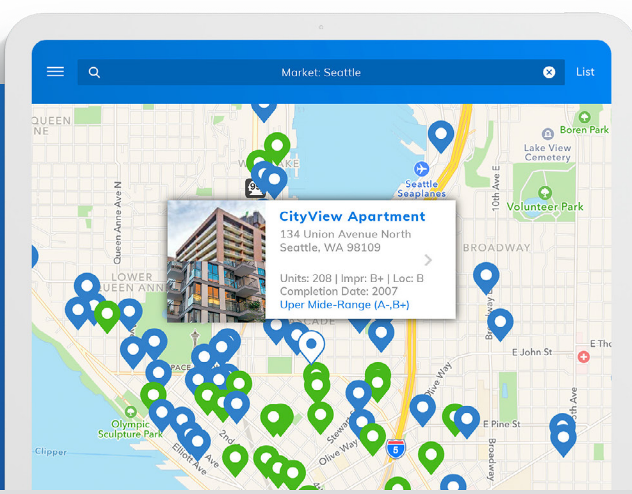
MULTIFAMILY KEY FEATURES

- 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.**

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