Yardi® Matrix

Chicago: Back On Track

Multifamily Report Spring 2018

Rent Growth Recovers

Tech Jobs Influx Fuels Demand

Development Maintains Fast Pace

Market Analysis
Spring 2018

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Tech Hub Status Revives Growth

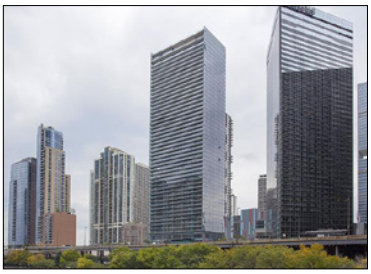
Chicago is living up to its financial hub status and continuing to add high-earning jobs, thus helping rent growth's slight recovery. The pace of development is not showing any signs of slowing down, as the metro had 17,000 units under construction as of February, more than half of them expected to come online this year.

Tech companies in Chicago are expanding, while others—in health care or education—are looking to consolidate their online presence. Facebook is making space to add about 500 employees and pharmaceutical giant Walgreens Boots Alliance announced it will double its payroll with 300 new tech positions. However, the metro is seeing significant cuts in manufacturing and retail. Chicago's high sales tax is deepening the impact of e-commerce on traditional retailers, some of which are closing up shop. Carson's and Bergner's announced they will lay off about 400 employees this year.

Competition for talent is attracting young professionals, fueling demand for high-end apartments and pushing up absorption of new units. The new tariffs on steel imports could further increase building costs for high-rises in major metros such as Chicago, and this might, in turn, lead to higher rents. Yardi Matrix expects a 2.8% rise in Chicago rents for the whole of 2018.

Recent Chicago Transactions

Coast at Lakeshore East

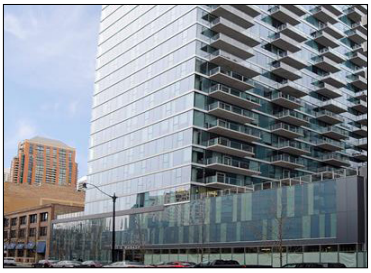


City: Chicago
Buyer: Morguard Residential
Purchase Price: $223 MM
Price per Unit: $432,039

The Park Evanston

City: Evanston, Ill.
Buyer: New York Life Investors
Purchase Price: $127 MM
Price per Unit: $448,763

1333 Wabash



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

TGM Danada

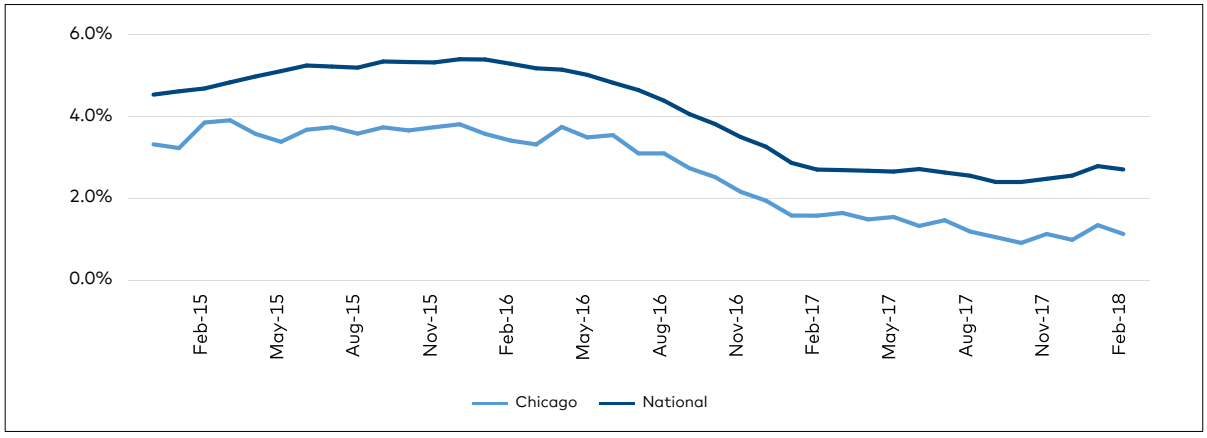
City: Wheaton, Ill.
Buyer: TGM Associates
Purchase Price: $111 MM
Price per Unit: $184,167

On the cover: Photo by tifonimages/iStockphoto.com

Rent Trends

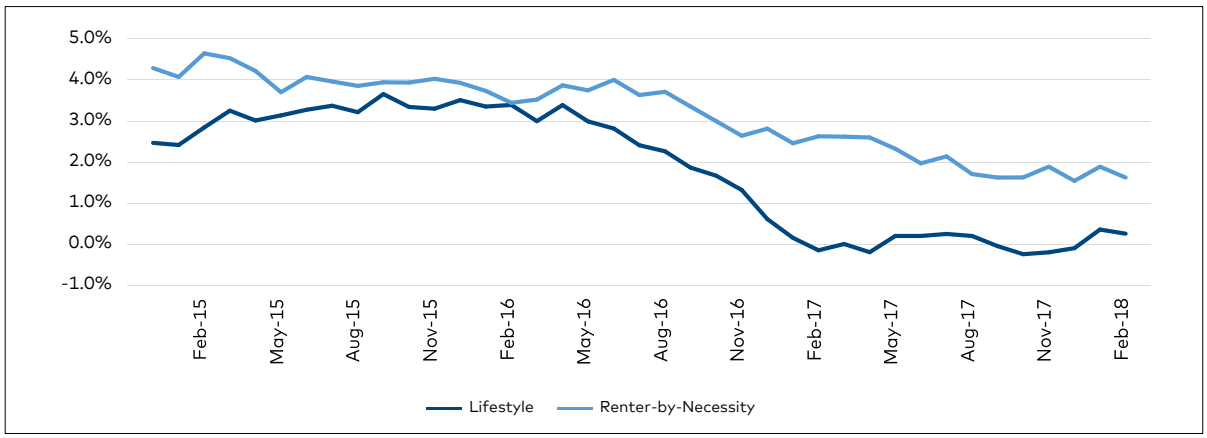
- Chicago rents were up 1.1% in the 12 months ending in February, lagging the 2.7% national rate. Accelerated supply has led to a moderation in rent growth, an apparent trend across many major U.S. metros. The average Chicago rent, at $1,431 as of February, remains above the $1,364 national value.
- The working-class Renter-by-Necessity segment led gains, with rents up 1.6% to $1,190. With consistent job gains in high-earning sectors fueling demand for quality housing, rent growth for Lifestyle units recovered from negative values to 0.3%, resulting in an average monthly rent of $1,983.
- Core submarkets continued to command the highest rents, with northern suburb Evanston–North as the only exception in the top five. Rents in the submarket were up 8.3% year-over-year through February, to $2,131, as the area is seeing an accelerated pace of development, with several new high-rise projects underway. The Loop ($2,418), Near North Side ($2,247), West Town–Garfield Park ($2,154) and Near West Side ($2,125) complete the list of most expensive submarkets.
- With Chicago's tech environment expanding, office-using sectors are bound to continue adding jobs, attracting young talent and maintaining a healthy demand for rental units. Despite the addition of new apartments across the metro, we expect rents to grow by 2.8% in 2018.

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

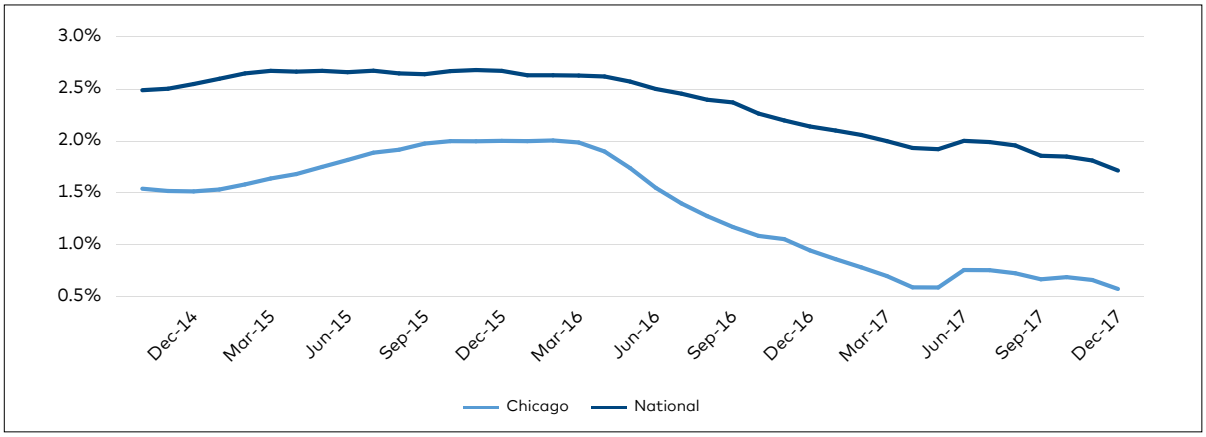
Economic Snapshot

- The metro added 31,800 jobs in 2017, a 0.6% uptick, as Chicago continues to see more discrepancy in employment across sectors. Professional and business services (8,200), financial activities (8,000) and education and health services (5,800) spearheaded growth. At the same time, intense development activity has led to a sharp expansion of the construction sector, which generated 8,200 jobs last year.

- Job cuts deeply impacted leisure and hospitality and trade, transportation and utilities, which lost a total of 9,200 positions last year. Trade was impacted by the growth of e-commerce and additional pressures coming from the sales tax—highest in the nation—as well as hikes in the minimum wage and paid sick leave, which is now mandatory. According to the Illinois Department of Commerce and Economic Opportunity, store and plant closures drove Illinois employers to announce more than 1,000 layoffs for this year. Retailers Carson's and Bergner's (400+ employees), Siemens Industry (200 employees), Teva Pharmaceutical Industries (100 employees) top the list.

- Expansions and workplace redesigns have prompted several large companies to relocate or build more generous office spaces. Facebook is adding about 100,000 square feet to its office on Wacker Drive, enough to house 500 new employees. Walgreens Boots Alliance added 27,000 square feet at Sullivan Center and announced it will double its number of employees, with 300 new tech positions.

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	%
15	Mining, Logging and Construction	173	3.7%	8,200	5.0%
60	Professional and Business Services	828	17.6%	8,200	1.0%
55	Financial Activities	309	6.6%	8,000	2.7%
65	Education and Health Services	725	15.4%	5,800	0.8%
80	Other Services	196	4.2%	4,500	2.4%
30	Manufacturing	417	8.8%	3,600	0.9%
90	Government	562	11.9%	1,800	0.3%
50	Information	82	1.7%	900	1.1%
70	Leisure and Hospitality	454	9.6%	-4,400	-1.0%
40	Trade, Transportation and Utilities	970	20.6%	-4,800	-0.5%

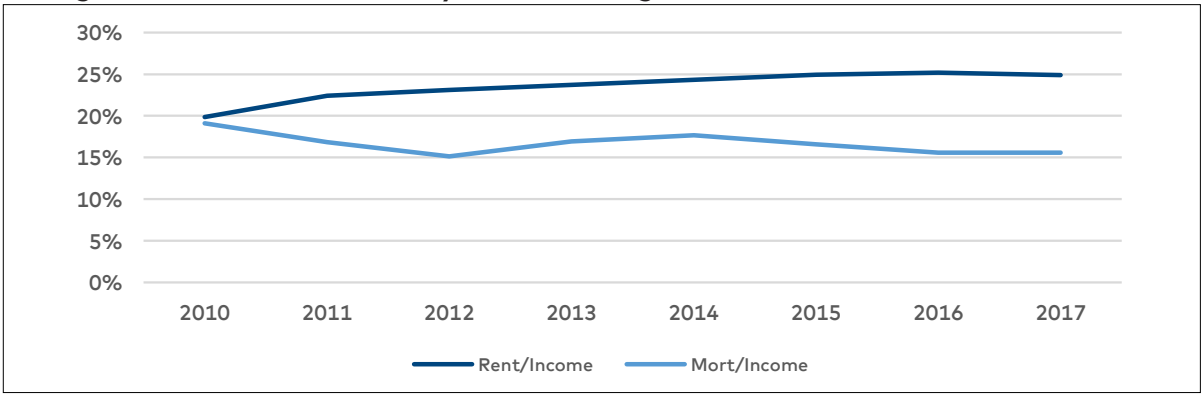
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

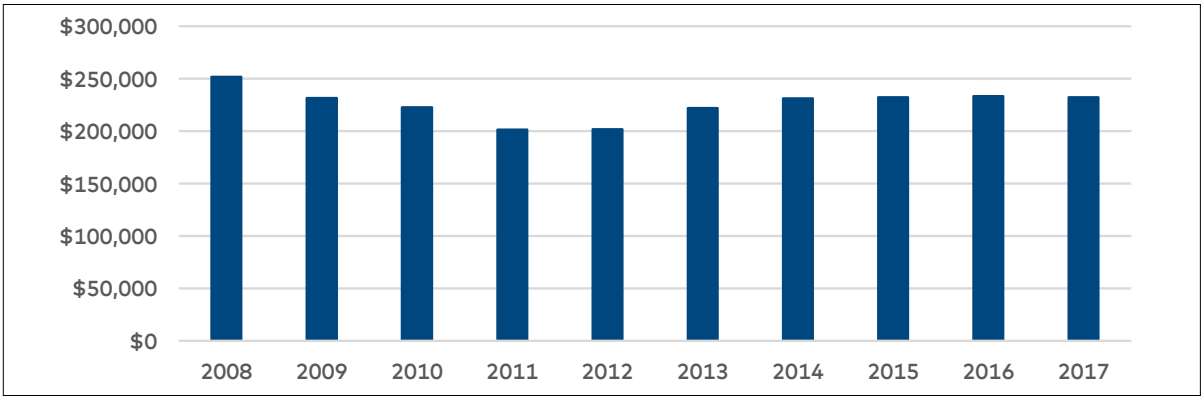
- Ownership remains less costly than renting, an ongoing trend since the last downturn. The average mortgage payment accounted for 16% of the median income, while the average rent of $1,431 equated to as much as 25%. The median home price in the metro decreased slightly in 2017, to $232,149, the lowest value of the last three years.
- Chicago's city council launched a three-year pilot program that covers areas facing gentrification pressures, such as Near North Side and Near West Side, where development is booming. New housing developments in these areas must include at least 15% affordable units.

Chicago Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Chicago Median Home Price



Source: Moody's Analytics

Population

- Chicago lost roughly 31,000 residents between 2014 and 2016. The metro contracted by 0.3% in 2016, heavily trailing the 0.7% U.S. growth rate.
- High rents and scarcity of new affordable units are pricing Chicagoans out of the metro.

Chicago vs. National Population

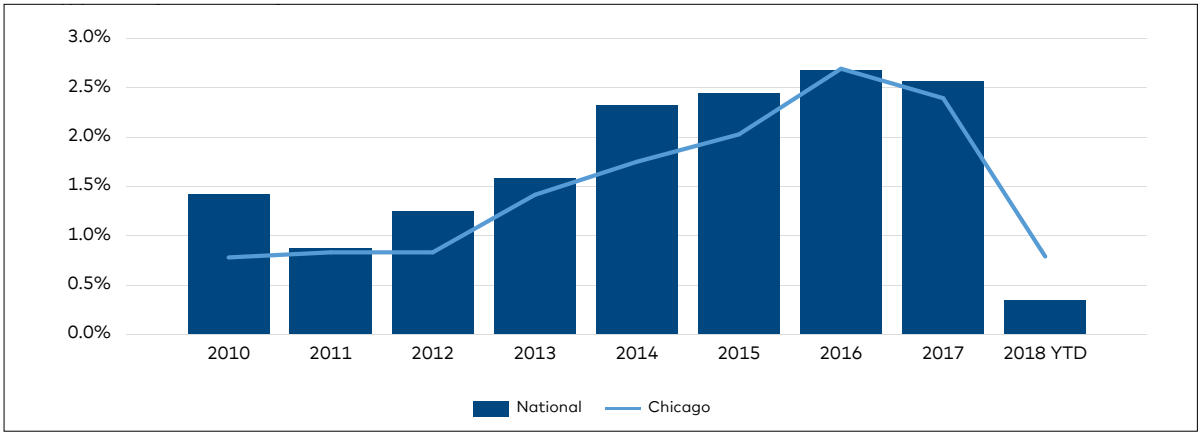
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Chicago Metro	7,315,816	7,331,883	7,335,505	7,323,962	7,304,532

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

Supply

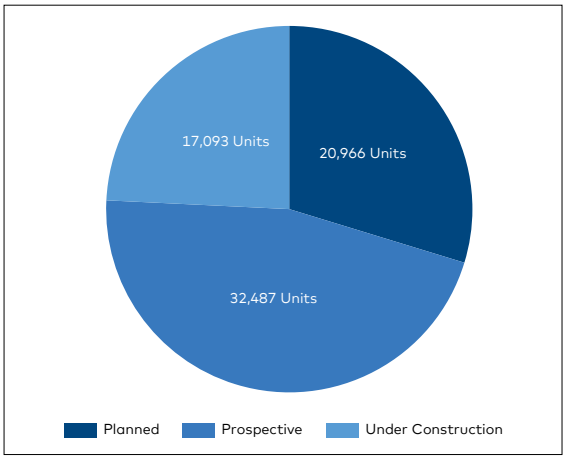
- Roughly 7,900 units were completed in Chicago in 2017, about 2.4% of total stock. In the first two months of 2018, the metro added more than 2,600 apartments out of the total 9,700 units expected to come online this year, a projected cycle peak.
- The fast pace of development is expected to continue, as more than 17,000 units were under construction out of the total 70,000 units in all stages of development. The amount of new stock is reflected in the sliding occupancy rate, which was down 130 basis points year-over-year, at 94.3% as of February. With a net absorption of just 4,000 apartments for the 12 months ending in February, oversupply could temper the metro's rent growth.
- Development is concentrated in the city core, where roughly 10,000 units were underway as of February. Chicago's largest projects are on the Near North Side, and in the Loop and Lincoln Park, and include the 792-unit One Grant Park, the 698-unit Wolf Point East, the 540-unit Lincoln Common, the 500-unit Paragon and the 496-unit Alta Roosevelt, all high-rises. Rising building costs, which may get a boost from the tariffs on steel imports, could lead to higher rents and lower occupancy.

Chicago vs. National Completions as a Percentage of Total Stock (as of February 2018)



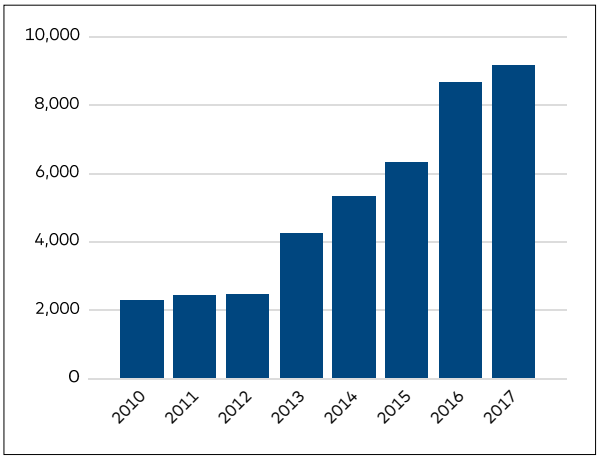
Source: YardiMatrix

Development Pipeline (as of February 2018)



Source: YardiMatrix

Chicago Completions (as of February 2018)

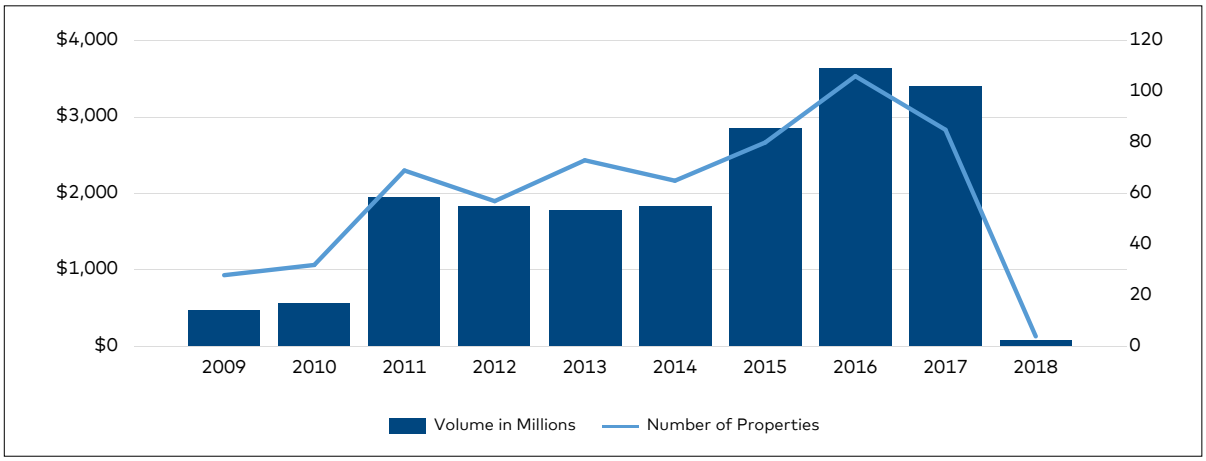


Source: YardiMatrix

Transactions

- Investment activity remains strong, despite a slight dip in transaction volume last year. Roughly $3.4 billion in assets changed hands in 2017, second only to the cycle peak of 2016. Moreover, 2018 is off to a strong start, with approximately $94 million in multifamily properties trading in the first two months.
- The slowdown follows a slight drop in acquisition yields, particularly for Class B and C assets. Yields for the second half of 2017 stood at almost 5.0% for Class A properties, 5.3% for Class B and 6.0% for Class C assets, with values expected to remain roughly flat through the first part of this year. However, the relatively high investor appetite kept per-unit prices up, at almost $185,000 for the whole of 2017.
- The highest-grossing submarkets in the 12 months ending in February were Naperville–West ($235 million), the Loop ($223 million), Wheaton ($197 million) and Naperville–East ($191 million).

Chicago Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

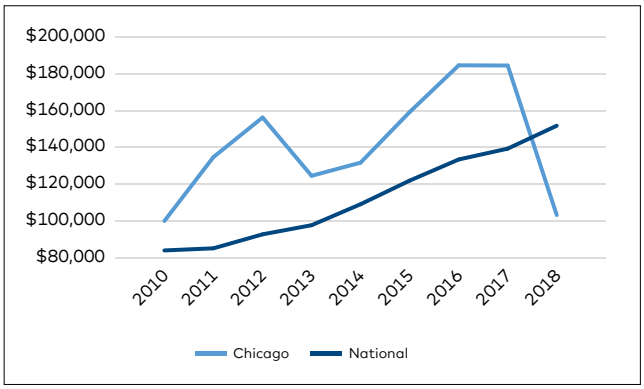
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Naperville–West	235
Loop	223
Wheaton	197
Naperville–East	191
Glendale Heights	183
Mundelein	180
Near South Side	173
Downers Grove	170

Source: YardiMatrix

[1] From March 2017 to February 2018

Chicago vs. National Sales Price per Unit

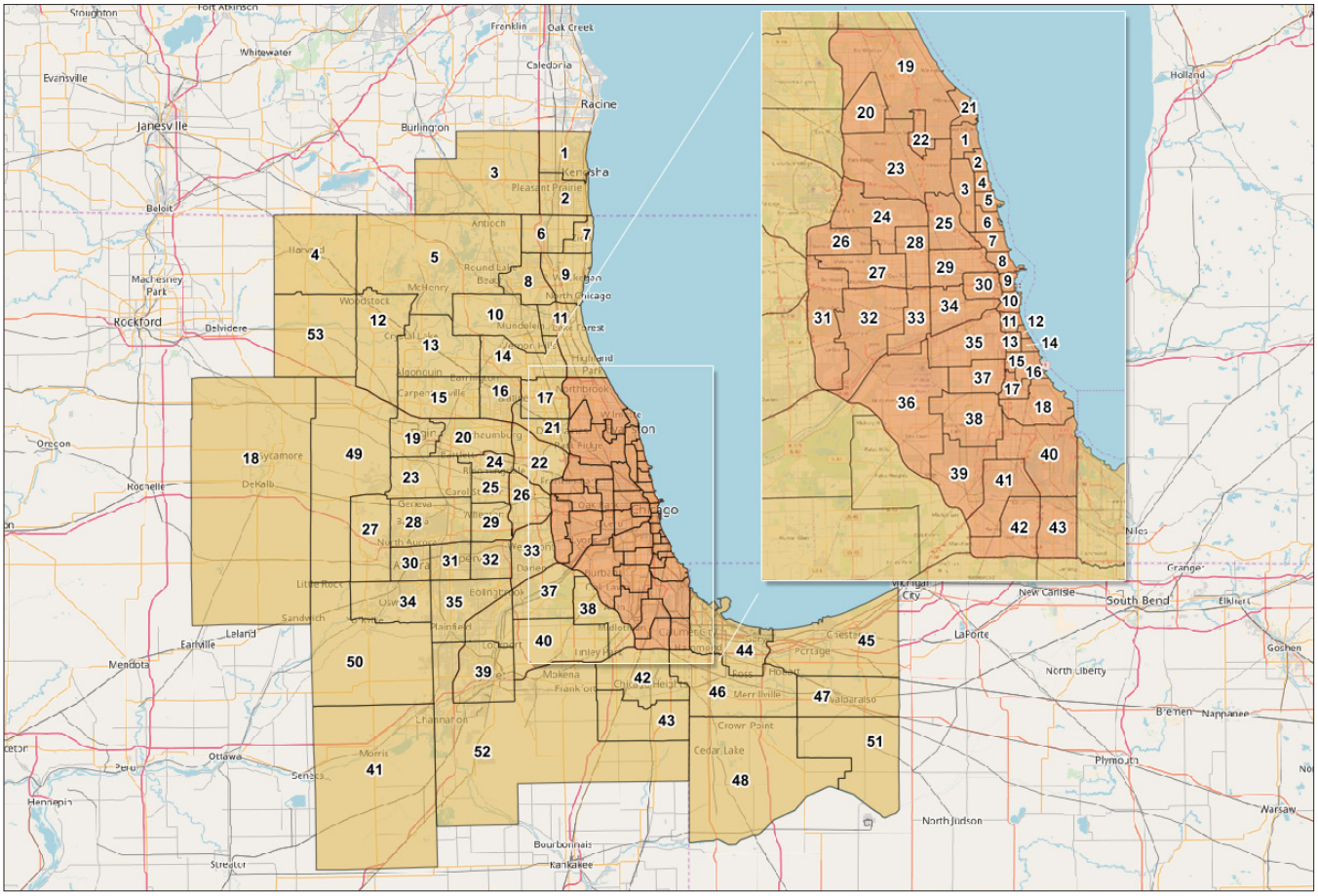


Source: YardiMatrix

Read All About It!

Photo by Ellen Moran/iStockphoto.com

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

Area #	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
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
49	Outlying Kane County
50	Outlying Kendall County
51	Outlying Porter County
52	Outlying Will County
53	Southern McHenry County

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
16	Woodlawn
17	Greater Grand Crossing
18	South Chicago
19	Wilmette-Northbrook
20	Des Plaines
21	Evanston-North
22	Skokie

Area #	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 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.

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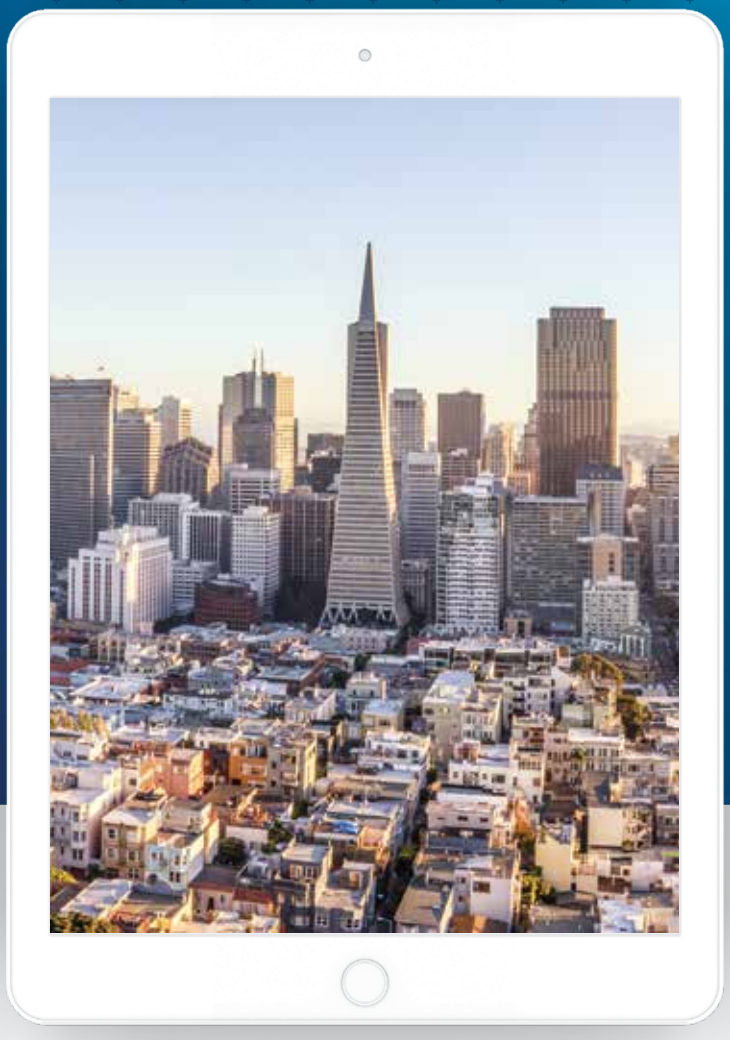
Research drives deals on Yardi Matrix



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- Deliver sales, rent and occupancy comps
- Aggregate comp set level revenue and expense comps—only available with Yardi Matrix
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