



Yardi® Matrix

Chicago's Thriving Landscape

Multifamily Report Summer 2018

Rent Growth Picks Up

Supply Slated for Cycle Peak

Investment Slowdown Continues

Market Analysis

Summer 2018

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Demand Fuels Further Growth

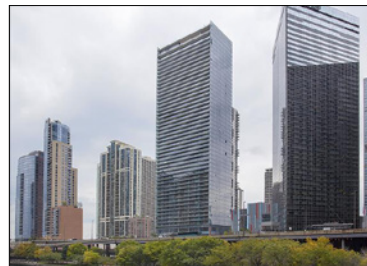
Rent growth in Chicago has picked up due to increased demand, reaching 1.8% year-over-year as of June—its highest value since November 2016. This was mainly driven by a rebound of the higher end of the quality spectrum, as rent growth for luxury apartments recovered from the negative values registered during last year's final quarter. Meanwhile, Chicago's development momentum is expected to continue, with more than 10,000 units slated for delivery in 2018, which could mark a new cycle high.

Chicago is facing a talent gap in the booming technology sector, as professionals are migrating toward coastal hubs, according to a LinkedIn report. This is doubled by the city's steady population decrease and the 5,400 jobs in information and professional and business services lost in the 12 months ending in April. However, with companies such as Google and Facebook expanding their footprints, the downtown area continues to attract Millennials and Gen Zers looking for well-positioned apartments.

The metro continues to struggle with affordability issues, prompting local authorities to set up a \$30 million fund for the creation of 300 affordable units in Chicago's core districts. An almost complete lack of new workforce housing supply coupled with a healthy demand for urban units will lead to accelerated rent growth, estimated at 2.8% for the whole of 2018.

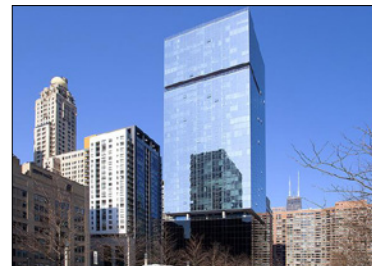
Recent Chicago Transactions

Coast at Lakeshore East



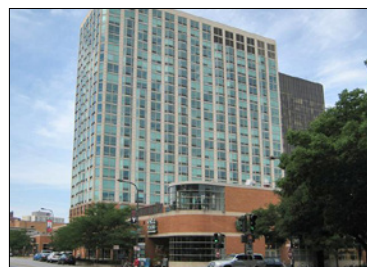
City: Chicago
Buyer: Morguard North American
Purchase Price: \$223 MM
Price per Unit: \$432,039

Optima Chicago Center



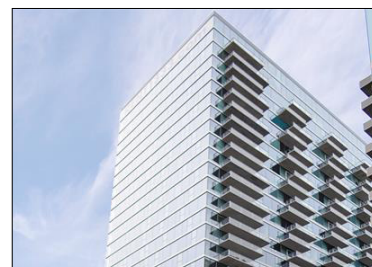
City: Chicago
Buyer: Edge Principal Advisors
Purchase Price: \$155 MM
Price per Unit: \$476,923

The Park Evanston



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

1333 Wabash

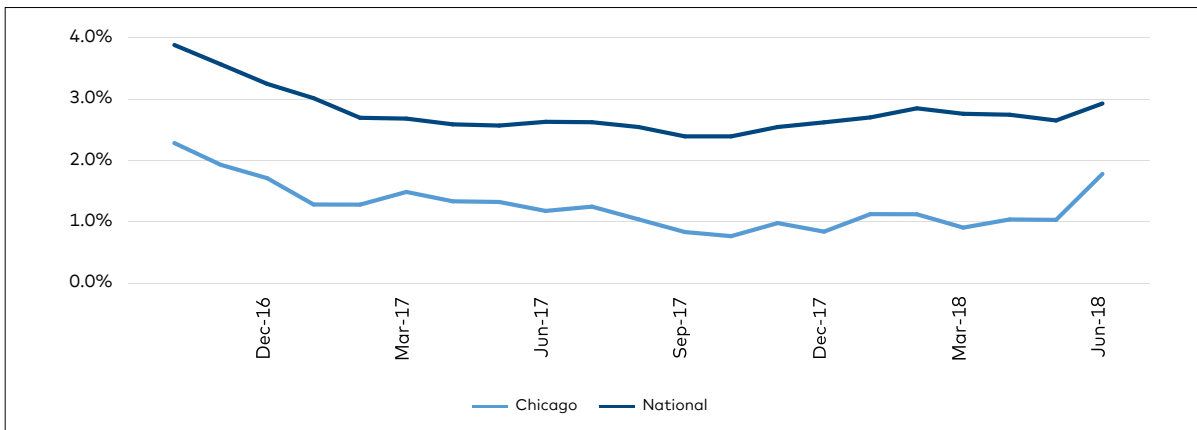


City: Chicago
Buyer: Habitat Co.
Purchase Price: \$125 MM
Price per Unit: \$410,164

Rent Trends

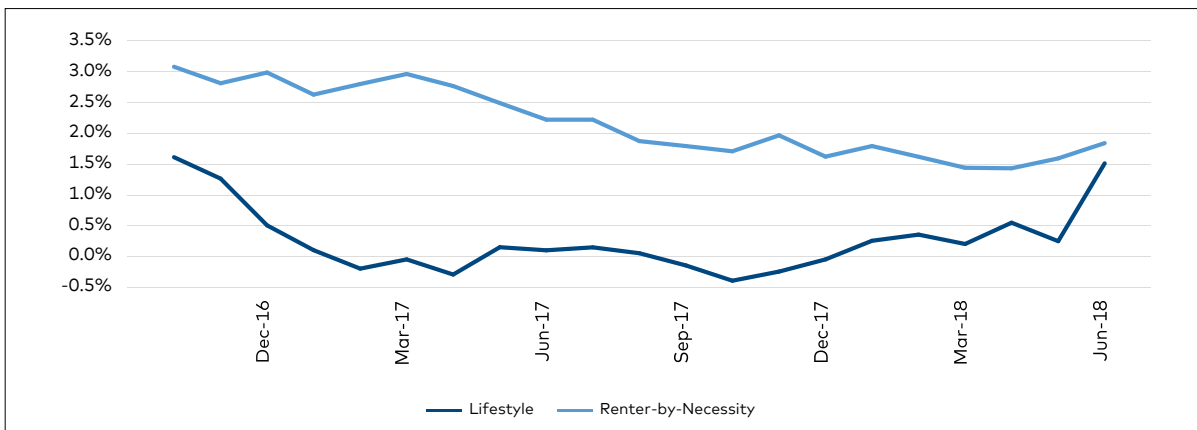
- Despite the significant wave of new supply, a strong demand has helped rent growth pick up and reach its highest rate since November 2016—1.8% year-over-year through June—but still trailing the 2.9% U.S. average. Chicago's average rent reached \$1,484, remaining above the \$1,405 national rate. Gains were led by the working-class Renter-by-Necessity segment, up 1.8% to \$1,218. Strong demand across the board helped rents for luxury units recover from the negative values of the last quarter of 2017. Rents in the Lifestyle segment were up 1.5%, to \$2,083.
- Tech employers such as Google and Facebook continue to relocate or expand in Chicago's urban core, fueling demand for well-located apartments. Consequently, central areas are now commanding rates above the \$2,000 mark: The Loop (\$2,518), Near North Side (\$2,381), West Town–Garfield Park (\$2,245), Near West Side (\$2,229) and Evanston–North (\$2,177) are the city's least-affordable submarkets. And although most submarkets registered rate hikes, rents contracted across several areas, including Highland Park–Libertyville (-1.7%) and Schaumburg (-1.2%).
- Despite a declining population and migrating tech talent, Chicago's economy continues to grow, fueling demand and supporting absorption of the record number of units scheduled to come online in 2018. Yardi Matrix expects rent growth to reach 2.8% for the whole of 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)

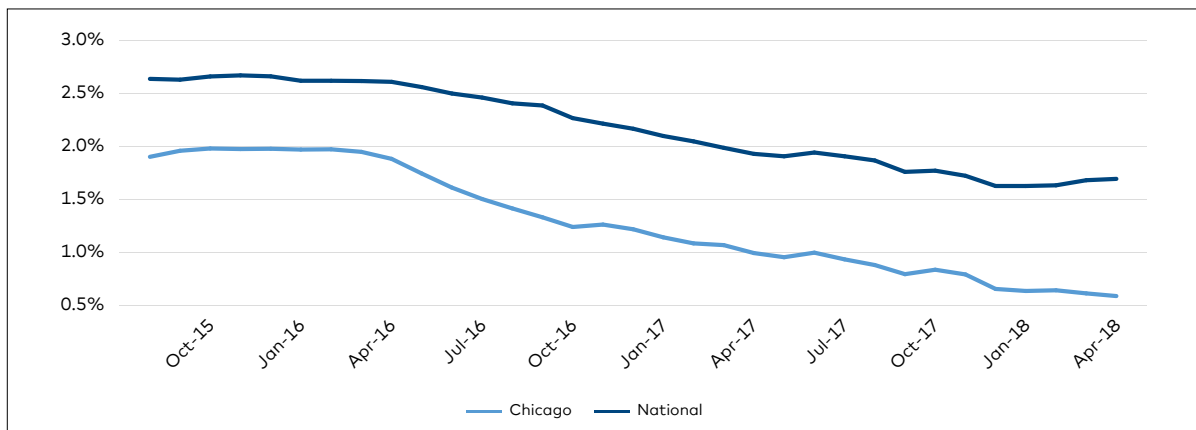


Source: YardiMatrix

Economic Snapshot

- Chicago added 34,700 jobs in the 12 months ending in April for a 0.6% increase, well below the 1.7% national rate. Gains were led by government employment (9,600), followed by education and health services (8,200) and trade and transportation (7,100). With the addition of 5,700 jobs, construction expanded by 3.4%, marking the highest jump year-over-year through April.
- As many highly skilled professionals migrate toward coastal tech hubs, information and professional and business services lost a combined 5,400 positions. According to a LinkedIn report, the metro is facing a talent gap in technology and health care, but is abundant in finance professionals. Leisure and hospitality added 800 jobs, but the sector is expecting a boost as several large-scale projects are going up in Chicago. Vista Tower, scheduled for completion in 2020, will include 210 luxury hotel guestrooms, while 1101 S. Wabash in South Loop will offer 342 guestrooms under the Hilton brand. Similar projects, such as Hilton Garden Inn McCormick Center, Aloft Hotel Mag Mile and Nobu Hotel, are expected to add a total of 1,300 guestrooms to Chicago's downtown area alone.
- With several projects underway, Fulton Market is emerging as the hotspot for office development. One of the most active players in the market is investor and developer Sterling Bay. The company's Fulton Market projects are slated to add 1.7 million square feet of office space to the existing inventory.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
90	Government	557	11.9%	9,600	1.8%
65	Education and Health Services	736	15.7%	8,200	1.1%
40	Trade, Transportation and Utilities	945	20.1%	7,100	0.8%
15	Mining, Logging and Construction	176	3.7%	5,700	3.4%
30	Manufacturing	420	8.9%	5,500	1.3%
55	Financial Activities	306	6.5%	4,100	1.4%
70	Leisure and Hospitality	476	10.1%	800	0.2%
80	Other Services	194	4.1%	-900	-0.5%
60	Professional and Business Services	815	17.3%	-1,600	-0.2%
50	Information	76	1.6%	-3,800	-4.8%

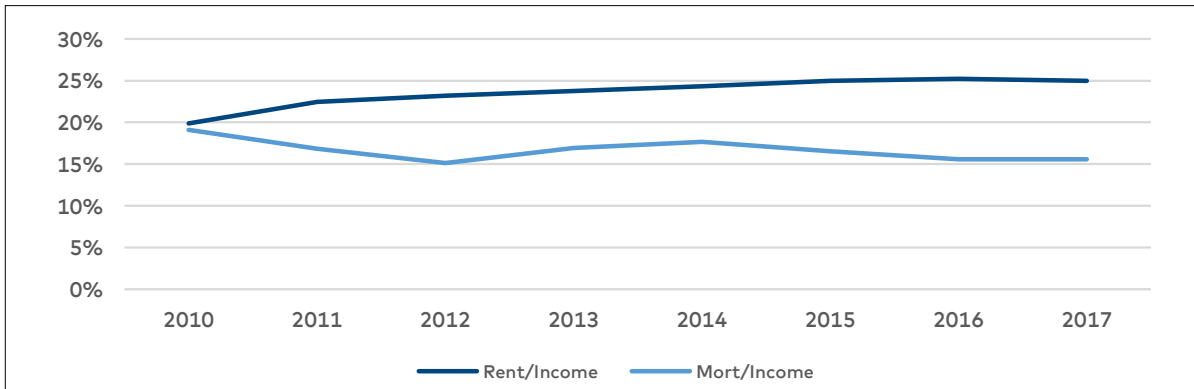
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

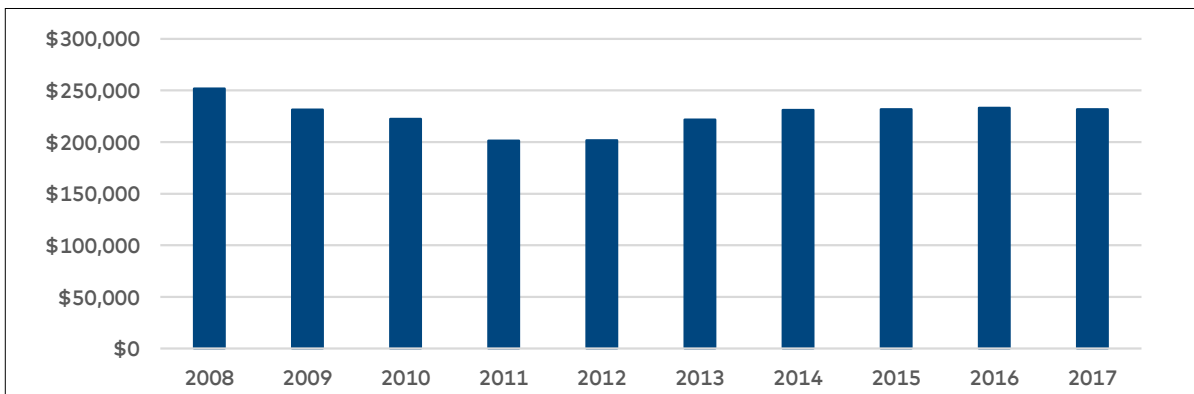
- The median home value in Chicago declined slightly to \$231,830 in 2017, remaining below the 2016 cycle high of \$233,112. The amount has seen little variation over the past few years, similar to affordability rates, which have remained relatively flat since 2013. Owning is still a lot more affordable than renting, with the average mortgage payment accounting for 16% of the area median income, while the average rent equated to as much as 25%.
- With policies aimed at preserving the existing affordable stock in place, local authorities have set up a \$30 million investment fund, aiming to generate an additional 300 affordable units in core submarkets.

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 more than 15,000 residents in 2017, marking the third consecutive year of negative growth.
- The metro's population contracted by 0.3% in 2017, trailing the 0.7% national growth rate.

Chicago vs. National Population

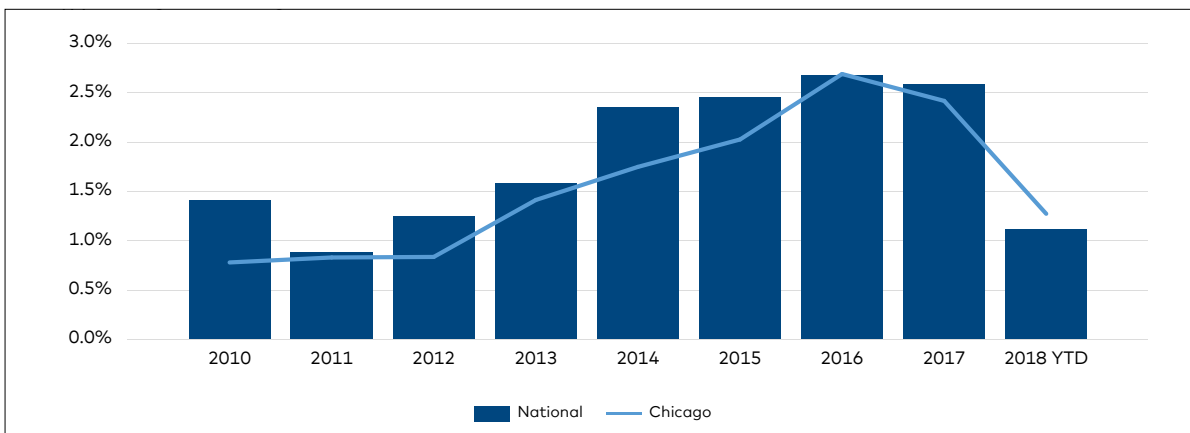
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Chicago Metro	7,343,501	7,351,417	7,347,063	7,335,054	7,319,978

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

Supply

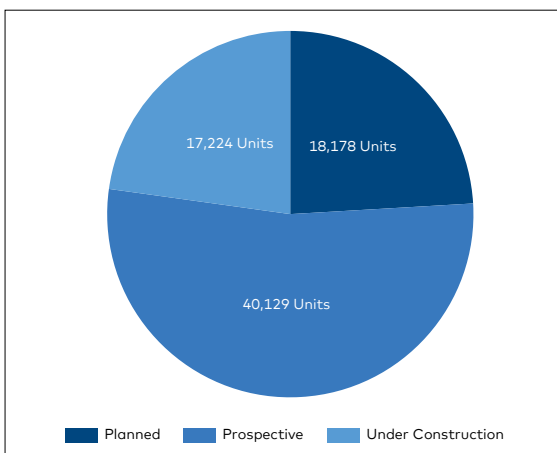
- Deliveries continue at a fast pace in Chicago, with 4,200 units completed in the first half of 2018, mostly Class A assets in core submarkets. This comes as a response to an increased demand for modern urban apartments. The total number of units coming online in 2018 is estimated at more than 10,000, above the 8,651-unit cycle peak of 2016.
- More than 17,200 units were underway in Chicago as of June. Adding units in the planning and permitting stages, the pipeline totaled 75,500 apartments. Occupancy in stabilized properties dropped only 40 basis points year-over-year through June to 94.9%, mainly due to a steady demand and despite solid completions. Roughly 4,500 units have been absorbed in the 12 months ending in June.
- Development is concentrated in and around Chicago's central business district, with more than 9,200 units underway, half of the total number of apartments under construction in the metro. New supply comes in the form of modern high-rises targeting the Millennial cohort. The 800-unit NEMA tower and the luxurious 698-unit Wolf Point East were the metro's largest projects under construction as of June. Both are located on the Near North Side, the metro's most active submarket for new development.

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



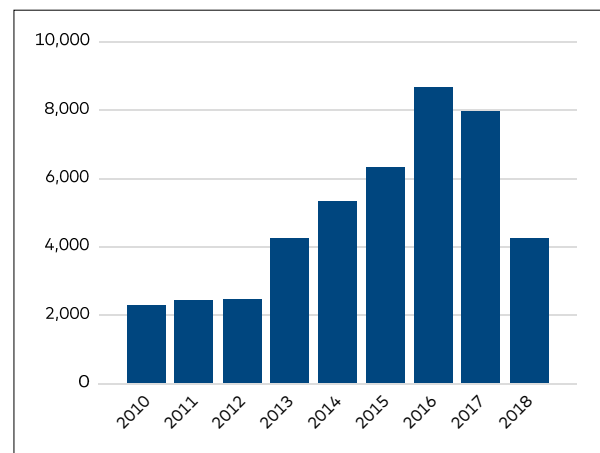
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

Chicago Completions (as of June 2018)

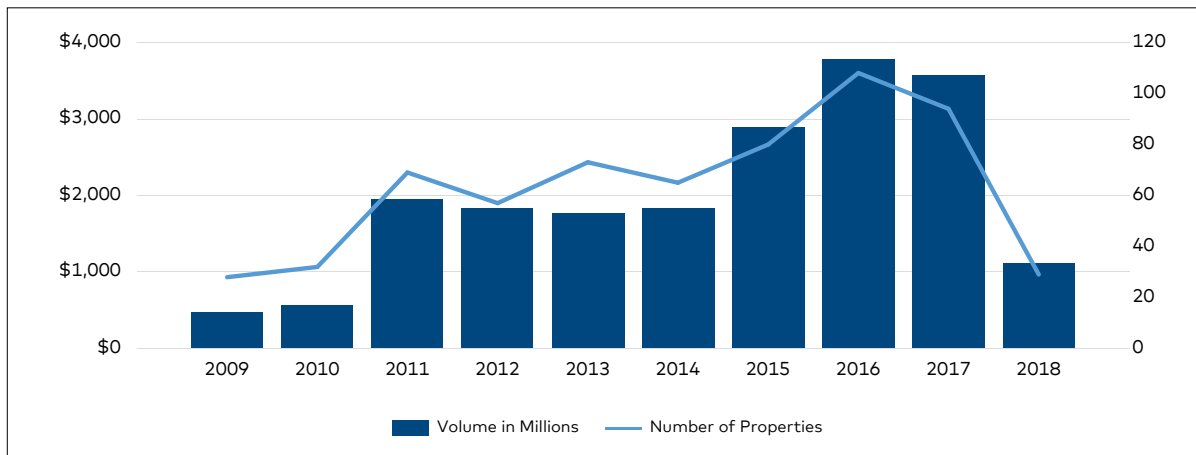


Source: YardiMatrix

Transactions

- Investment continued to slow down in Chicago, with roughly \$1.1 billion in assets changing hands in the first half of 2018. The number of transactions also indicates moderating activity, with 29 deals closed in the first six months of the year, compared to a total of 94 deals worth \$3.6 billion in 2017. Most of the properties that traded in the 12 months ending in June are suburban Renter-by-Necessity communities, as investors looking for higher returns target value-add strategies.
- The \$142,761 average price per unit for the first two quarters is below the \$150,760 U.S. figure, down roughly 20% for the year and 24% below the 2016 cycle peak. This is mainly due to a shift in investor interest, from stabilized properties in core areas to suburban assets. In the 12 months ending in June, deals for suburban properties totaled \$2.4 billion, double the total for urban assets—1.2 billion.

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



Source: YardiMatrix

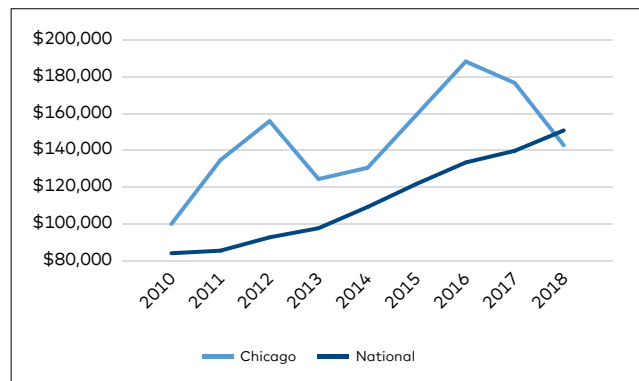
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Schaumburg	268
Loop	262
Wheaton	253
Naperville–West	235
Glendale Heights	213
Mundelein	187
St. Charles	175
Neart North Side	174

Source: YardiMatrix

¹ From July 2017 to June 2018

Chicago vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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Interra Closes 3 Chicago Sales

The properties are located in the suburb of Evanston and two North Side city neighborhoods, Avondale and Rogers Park. The combined transaction price was \$10.1 million. Joe Smazal represented the buyers.



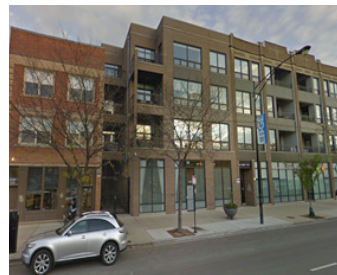
Fifield, Terraco Break Ground in Chicago

Dubbed Logan's Crossing, the building in Logan Square will feature 220 units and a 27,000-square-foot Target store, in addition to other commercial tenants on the ground floor.



CRG Breaks Ground On Chicago Luxury Building

The 12-story tower is slated for delivery in July 2019 and will offer a 2,000-square-foot rooftop deck, dog salon and coffee bar. The 149-unit luxury high-rise will also include ground-floor retail space.



Interra Realty Sells 2 Chicago Assets

The buildings, which changed hands for a combined \$16.5 million, are located along Broadway Avenue in the Edgewater neighborhood and offer a total of 44 residential units.



Jupiter Realty To Open Chicago Luxury Building

The 465 North Park tower, which offers 444 units and more than 10,000 square feet of retail space, is one of several recent high-rises changing Streeterville's skyline.



Marcus & Millichap Arranges Chicago Community Sale

The new owners, a group of private investors based in California, are set to convert the 13-story property into rental apartments and improve the rooftop deck.

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Top 10 Largest Multifamily Completions In the Midwest



By Roxana Baiceanu

data by
Yardi Matrix

The multifamily sector is gearing up for a banner year in the U.S., with more than 300,000 units expected to be delivered in 2018. The Midwest is no exception, with a number of high-profile apartment projects either nearing completion or already completed.

At the metro level, Chicago positioned itself at the top of the list, based on both unit and property count. The most active submarket was the Near North Side, home to the largest multifamily communities to come online in the Midwest. The Twin Cities and Kansas City follow, both with rapidly growing residential inventories. Columbus and Indianapolis are also emerging, with more than 20 properties completed. At the other end of the spectrum is St. Louis, with a more stagnant construction market, where only 10 projects were delivered during the last four quarters.

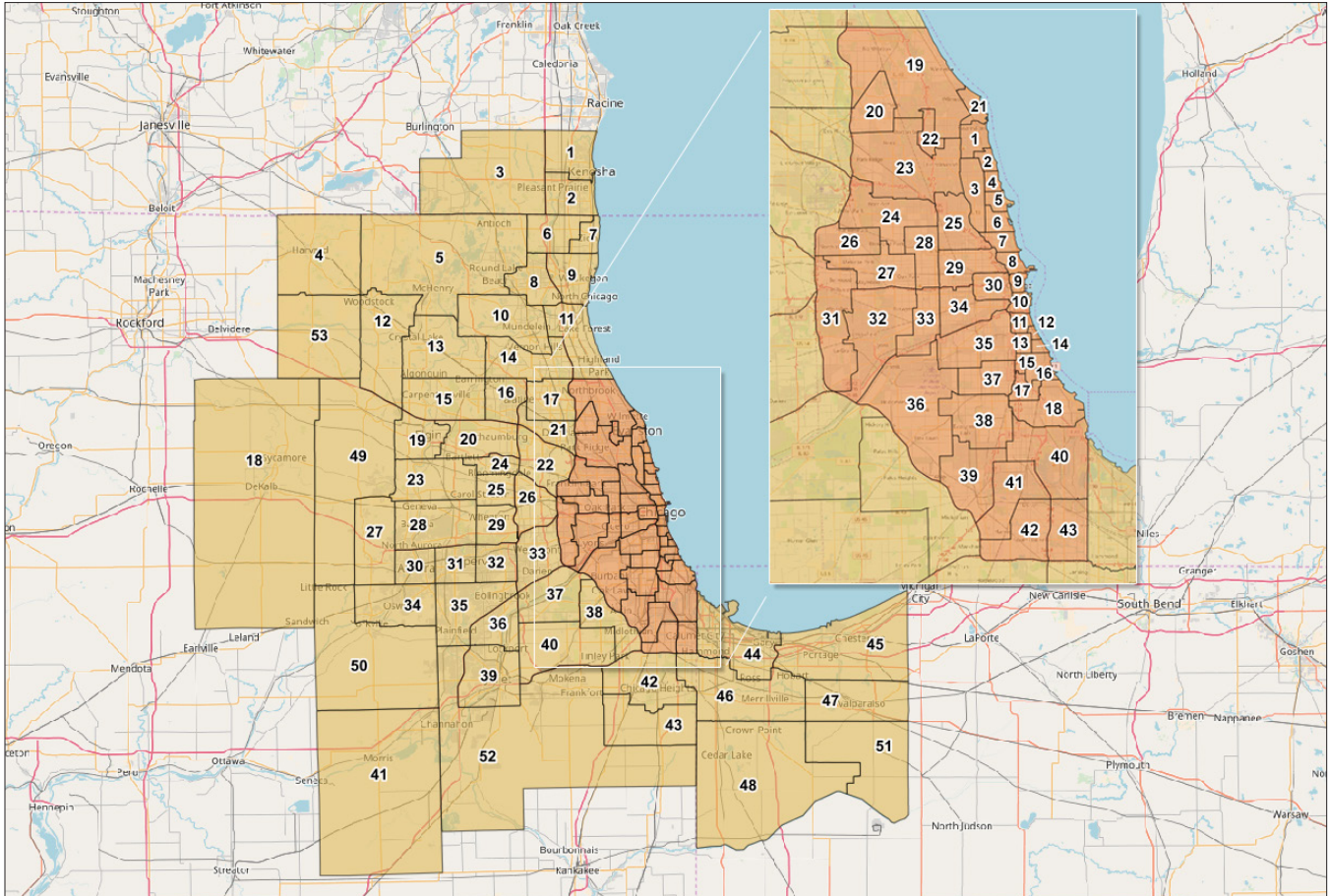
Property Name	City/Submarket	Number of Units	Property Owner	Date of Completion
Optima Signature	Chicago/Near North Side	490	Optima	2/1/2018
The Gallery on Wells	Chicago/Near North Side	442	Magellan Development Group	11/16/2017
The Lakes of Valparaiso	Chicago Greater Area/Valparaiso	407	Weiss Entities	12/6/2017
The IndiGO at Bloomington Central Station	Twin Cities Greater Area/Bloomington East	395	Lennar Multifamily Communities	4/10/2017
The Sinclair	Chicago/Near North Side	390	Fifield Realty Partners	11/1/2017
Aurelien	Chicago/Near North Side	368	Ryan Cos.	6/19/2017
Flats at 146	Indianapolis Greater Area/Westfield-Noblesville	368	Sunstone Properties	3/8/2017
Spoke	Chicago/West Town-Garfield Park	363	Bond Cos.	1/2/2018
Commerce Tower on Main	Kansas City/Downtown Kansas City	355	Lincoln Property Co.	10/2/2017
The James	Madison/Madison Downtown	348	American Campus Communities	9/30/2017

Optima Signature

Chicago's Optima Signature was the largest community to be completed in the Midwest during the 12 months ending in March. The 46-story, 490-unit tower owned by Optima is located at 220 E. Illinois St. The majority of the space is destined for residential use, while six floors feature office and retail space. The property is LEED Silver certified, offering residents a wide range of amenities, including a children's playroom, three spas, a media room, a fitness center and a clubhouse.



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.

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

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President
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