Yardi® Matrix

Chicago's Climb

Multifamily Report Winter 2019

Price Per Unit Peaks

Deliveries Slow Down

Rent Growth Accelerates

Market Analysis

Winter 2019

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Demand Fuels Rent Growth

Rent growth in Chicago continued to accelerate and reached 3.2% year-over-year as of January—the highest rate in the last two-and-a-half years—due to increasing demand, particularly for Lifestyle units, and a slighter rate of deliveries in 2018.

The metro added 45,700 jobs in the 12 months ending in November. Gains were led by the government (9,300) and health and education services (8,900) sectors, as Chicago's largest employers added to their staff. The manufacturing segment followed, with 7,600 positions added in the same period and more growth expected in 2019, as Ford is investing $1 billion in local SUV production, planning to add 500 jobs. Chicago's tech sector continued to improve, with a projected 2,000 jobs set to be created in the 2018-to-2019 interval. Millennial-friendly companies such as Upwork, Convene and Coca-Cola are among the newest arrivals in Fulton Market, the city's hot office district.

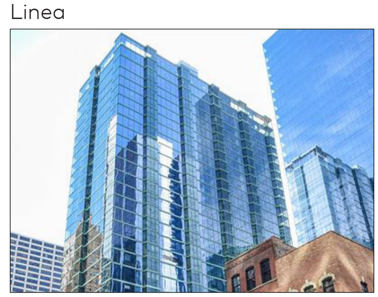
Development activity is still strong in the Midwestern metro, even though the number of completions declined to 6,700 units in 2018, from 7,800 in 2017. The forecast for the year ahead illustrates an expanded construction rate, with 10,500 apartments lined up for delivery in 2019. Consequently, the rent growth rate is projected to slow down to 2.4% this year.

Recent Chicago Transactions

ReNew Wheaton Center

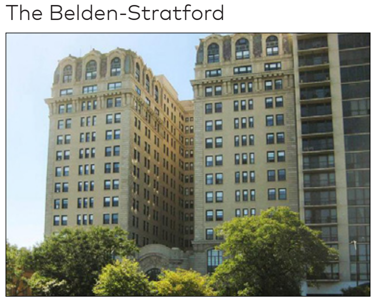
City: Wheaton, Ill.
Buyer: FPA Multifamily
Purchase Price: $131 MM
Price per Unit: $172,823

Linea



City: Chicago
Buyer: Pacific Reach
Purchase Price: $121 MM
Price per Unit: $456,981

The Belden-Stratford



City: Chicago
Buyer: Mansueto Properties
Purchase Price: $106 MM
Price per Unit: $356,902

Arc at Old Colony

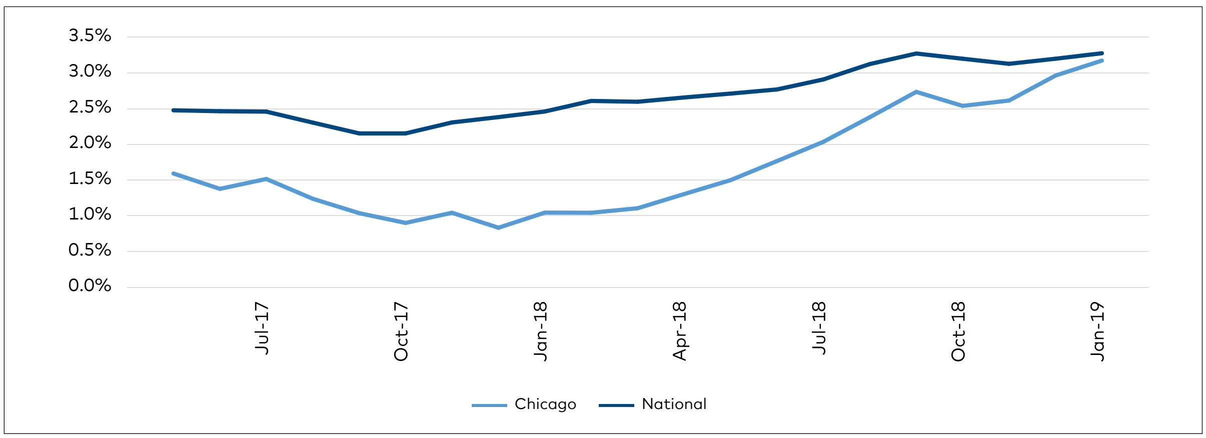
City: Chicago
Buyer: Deutsche Asset & Wealth Management
Purchase Price: $77 MM
Price per Unit: $560,584

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

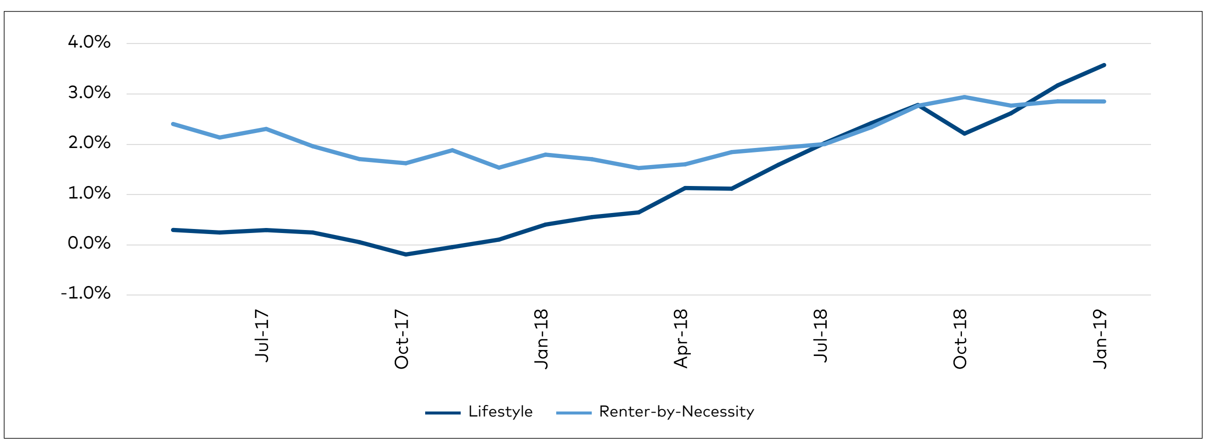
- Chicago rents rose 3.2% year-over-year through January, the highest rate recorded in the last two-and-a-half years and largely in line with the national rate of 3.3%. High demand pushed up rents to $1,497, above the U.S. average of $1,420. Core submarkets such as the Loop ($2,410), the Near North Side ($2,303) and West Town–Garfield Park ($2,188) command the highest rents.
- The rent growth hike is due to a significant uptick in Lifestyle rents—up 280 basis points year-over-year. Companies relocating from the suburbs to the metro's core, as well as new tech employers looking for talent, have led to record demand for modern rental housing nearby. Rents in the working-class Renter-by-Necessity segment have also followed an upward trajectory over the past five quarters, peaking at 2.9% in January.
- Rent growth in Chicago maintained an upward trend since bottoming in the last months of 2017, and subsequently accelerated during the last quarter of 2018. With deliveries slightly shifting down last year, while demand for well-located apartments continued to rise, the metro's average occupancy rate for stabilized properties declined 20 basis points year-over-year through December, to 94.3%. Chicago's net absorption, was 3,314 units for that interval. With the metro expecting a record number of deliveries this year, we forecast rent growth will moderate to 2.4% in 2019.

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)

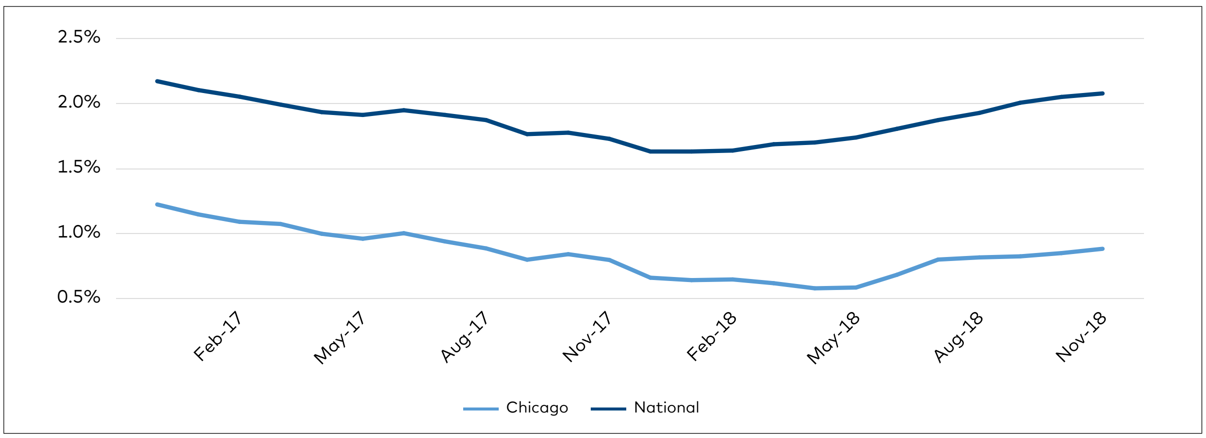


Source: YardiMatrix

Economic Snapshot

- Chicago added 45,700 jobs in the 12 months ending in November, a 0.9% increase, still far below the national average of 2.1%. Employment growth picked up slightly in the metro during the second half of 2018, despite contractions in both the information and other services sectors.
- Gains were led by the government (9,300 jobs) and education and health services (8,900) sectors, as the metro's largest employers consolidated their staffs. Ongoing development activity has led to a notable uptick in construction jobs (7,600), up 4.2% for the year, while manufacturing added 7,600 positions. The segment is poised for more growth, as Ford is planning to invest $1 billion in two Chicago factories, which are expected to hire 500 workers this year.
- The local government's efforts to boost tech businesses are yielding results. According to Mayor Rahm Emanuel, tech companies have added or will add 2,000 jobs in Chicago in 2018 and 2019. Freelancing marketplace Upwork is among the newest tenants in the city's trending Fulton Market area, which has experienced continuous growth since Google set up shop here in 2015. Coca-Cola, coworking provider Convene and Oreo maker Mondelez International have all signed agreements to take up office space in the district.

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	%
90	Government	570	11.9%	9,300	1.7%
65	Education and Health Services	744	15.5%	8,900	1.2%
15	Mining, Logging and Construction	189	3.9%	7,600	4.2%
30	Manufacturing	427	8.9%	7,600	1.8%
55	Financial Activities	311	6.5%	6,700	2.2%
40	Trade, Transportation and Utilities	978	20.4%	3,700	0.4%
60	Professional and Business Services	844	17.6%	3,400	0.4%
70	Leisure and Hospitality	476	9.9%	2,300	0.5%
80	Other Services	192	4.0%	-1,200	-0.6%
50	Information	75	1.6%	-2,600	-3.3%

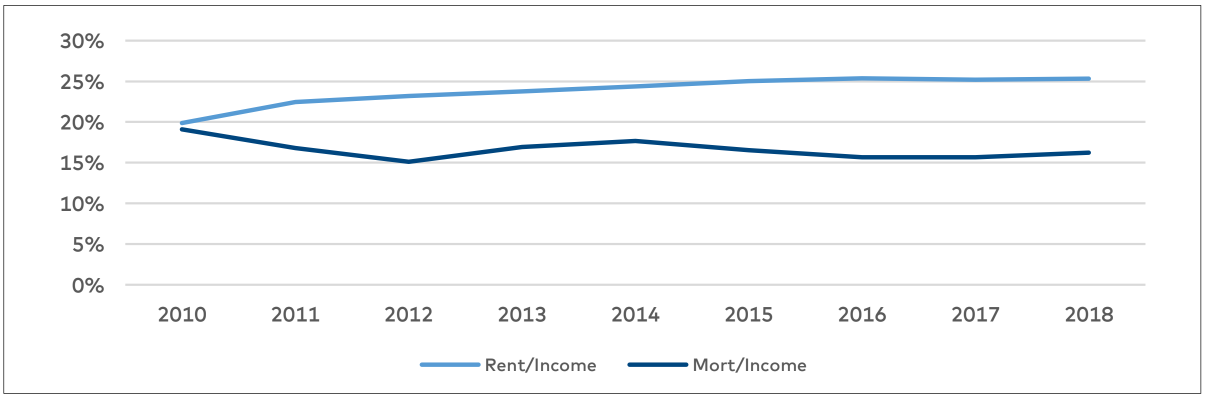
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

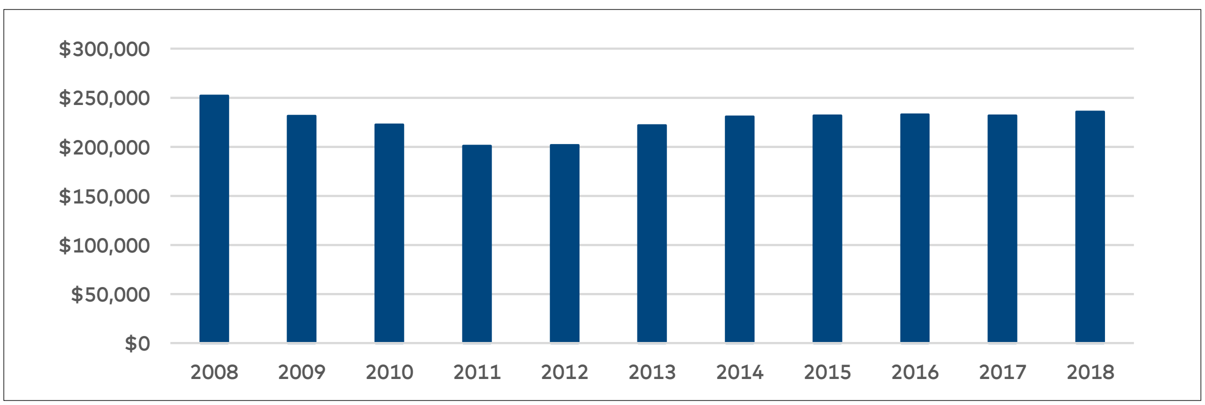
- The median home price in Chicago has fluctuated this cycle, reaching $235,585 in 2018, up 1.7% over 2017 but still below the 2008 figure of $252,014, which remains the decade's high point. Wages have kept up with changing economic conditions, maintaining flat affordability rates over the last three years. The average rent accounted for 25% of the area's median income, while the average mortgage payment equated to 16%.
- Developers have begun focusing on outlying neighborhoods for transit-oriented communities that would allow young professionals the mobility to work in the city, providing an alternative to downtown.

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's population contracted by 15,000 residents in 2017 for a negative growth rate of 0.2%, far below the U.S. average of 0.7%.
- Baby Boomers relocating to the Sunbelt is one cause for the metro's population decline.

Chicago vs. National Population

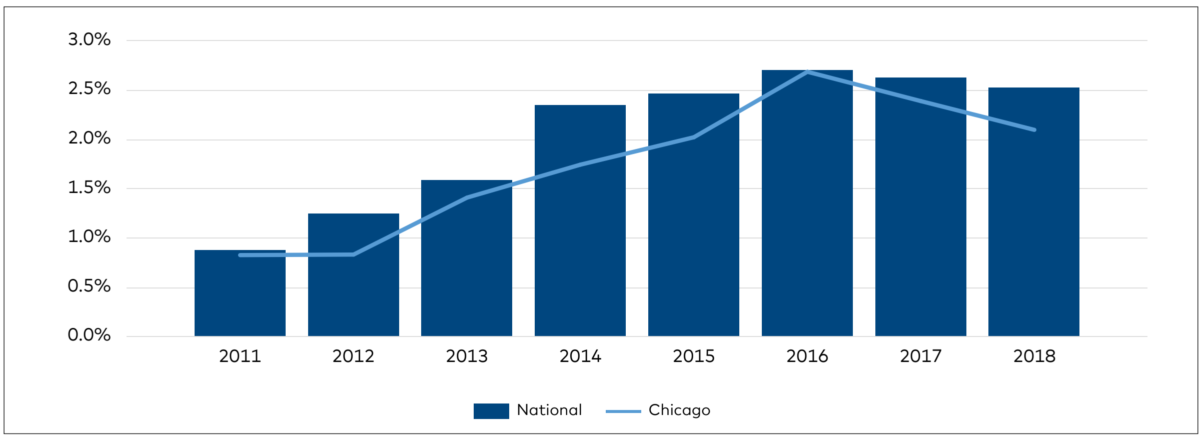
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Chicago Metro	7,343,501	7,351,417	7,347,063	7,335,054	7,319,978

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

Supply

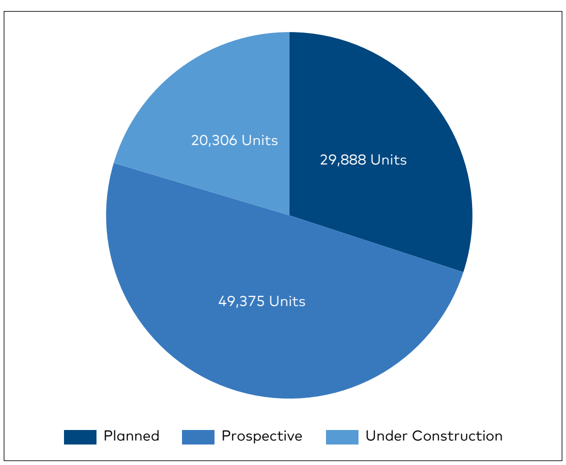
- Multifamily deliveries slowed down slightly in Chicago, with 6,708 units completed in 2018, 2.1% of total stock and 40 basis points below the national average. Deliveries have averaged 7,400 units per year since 2015, as multifamily development has significantly picked up during the second half of the cycle.
- As construction is picking up—with 20,300 units underway as of January and another 79,000 units in the planning and permitting stages—deliveries are lined up for a new cycle peak. There are 10,470 units slated for completion in 2019, as demand coming from a wave of highly skilled professionals and the resurgence of downtown Chicago has yielded solid construction activity. However, Chicago's new affordable housing program that requires new prospects to set aside 15% to 20% of all units for low-income residents, combined with an overall scarcity of developable land, is expected to reduce the multifamily pipeline over the next couple of years.
- Submarkets located in and around downtown had the largest pipelines as of January. The Near North Side (2,785 units), the Near West Side (2,215), the Loop (2,145), the Near South Side (1,561) and Lincoln Park (1,078) accounted for nearly half of all units underway in Chicago.

Chicago vs. National Completions as a Percentage of Total Stock (as of January 2019)



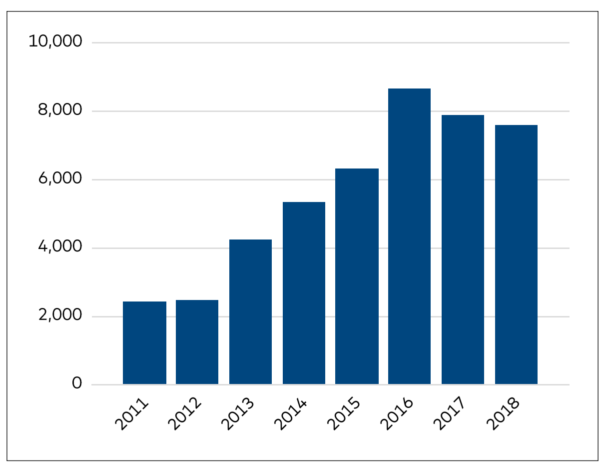
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Chicago Completions (as of January 2019)



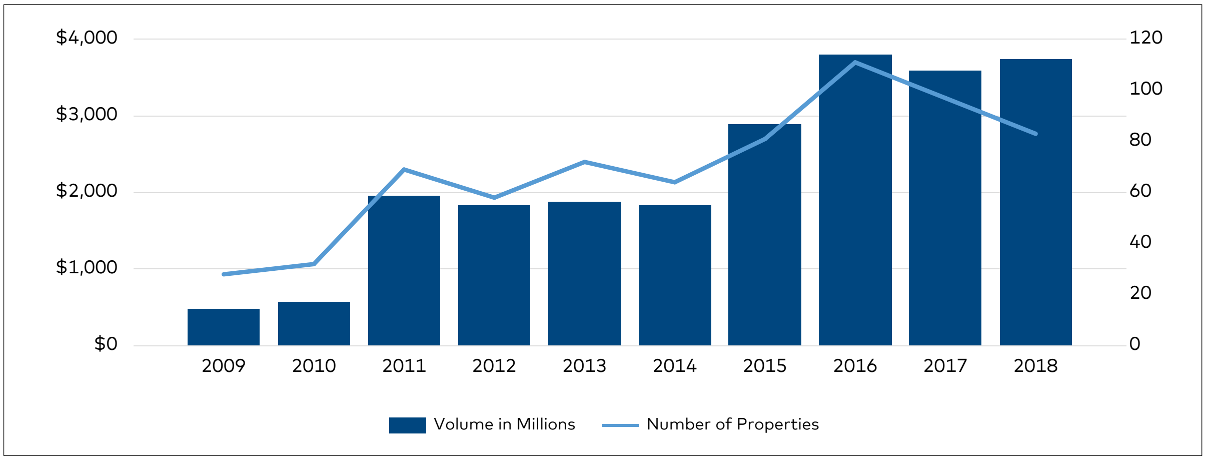
Source: YardiMatrix

Transactions

- Investors completed 83 multifamily transactions totaling $3.7 billion in 2018, just under the 2016 cycle peak of $3.8 billion. Sales in Chicago were strong in 2018, particularly during the fourth quarter, despite rising property prices. Investors focused on well-located urban properties, now in demand as many young professionals are moving into the city, but also looked for higher returns outside the city's core. Acquisition yields for suburban properties in the metro are in the 5.5% range for Class A properties and 6% to 6.5% range for value-add opportunities. The Loop continues to lead in sales volume, with more than $780 million in 2018.

- Competition has pushed per-unit prices to a post-recession peak—$198,777, up 13% for the year and well above the national average of $154,634. Standard Property Co. paid the highest price per unit in 2018—$588,889—in the acquisition of the 90-unit Lakeview 3200 for $53 million.

Chicago Sales Volume and Number of Properties Sold (as of January 2019)



Source: YardiMatrix

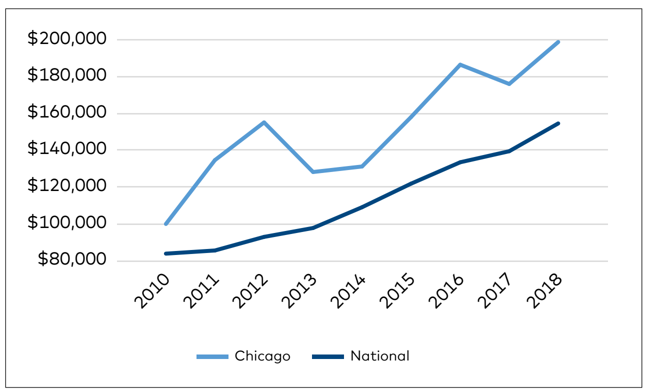
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Loop	780
Wheaton	325
Near North Side	317
Schaumburg	212
Near South Side	207
Lincoln Park	184
Palatine	170
Wilmette–Northbrook	152

Source: YardiMatrix

[1] From January to December 2018

Chicago vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING NEWS

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Draper and Kramer Makes New Promotions

Edward Polich, Blas Puzon, Julie Stevlingson and Christine Ramsey moved to new positions or expanded their roles within the company's Chicago office.

New Chicago Luxury Tower Sells for $121M

The 265-unit high-rise developed by Moceri + Roszak marks Canada-based Pacific Reach Properties' first multifamily acquisition in the city.

Marcus & Millichap Facilitates Chicago Sale

The firm has brokered the transfer of an 81-unit community located in Chicago's Rogers Park neighborhood, 11 miles from downtown.

Essex Realty Brokers Value-Add Property Sale

The company represented both the seller and the buyer in the acquisition of Lakeside Village of Mundelein, a 10-building community in Mundelein, Ill.

Marquette Cos., DRA Advisors Buy Chicago-Area Asset

The joint venture acquired the 558-unit community in Westmont, Ill. The seller of the 31-building, amenity-rich asset was Long Wharf Capital LLC.

Chicago Towers Receive $62M In Equity

The 720,000-square-foot multifamily project consists of two 17-story buildings featuring 590 units and more than 10,000 square feet of retail space.

Executive Insight

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MULTI-HOUSING NEWS

How to Stand Out in Chicago's Luxury Multifamily Market

By Roxana Baiceanu

Since apartment inventory is becoming increasingly diverse, developers are more mindful of residents' needs than ever before, according to Optima Inc. President Tara Hovey. In an interview with *Multi-Housing News*, Hovey outlines the amenities that can make a project stand out in Chicago's luxury market. The company's most recent delivery, the 490-unit Optima Signature, is one of the largest communities completed in the Midwest in the last couple of years.

Chicago seems to be approaching a new cycle peak in multifamily deliveries. Are fears of overbuilding in the luxury segment justified?

There's a healthy level of optimism among Chicago developers. As more firms are relocating to downtown, we're seeing steady demand for quality high-end luxury rentals, with the market absorbing the recent supply of units.

While gaps are emerging in the delivery pipeline, downtown Chicago's population growth is continuing, as high-paying jobs buoy the market. Young professionals and Baby Boomers want luxury living options, with access to work, restaurants, nightlife, cultural opportunities and Chicago's lakefront.

How can a project stand out among the flood of new developments?

It's all about the resident experience. Projects must have a distinctive design to appeal to renters in a competitive market. For this, developers need to tap

into placemaking and the built environment to create a shared sense of community, as the spaces where people live and work have an enormous effect on their overall wellness. One's home should have a restorative power, and this can only be achieved through the thoughtful design of amenities and experiences.

Tell us a bit about the process of building Optima Signature. What makes this project a success?

There are many things that have made Optima Signature a success, from its striking design to the overall satisfaction of our residents. As part of our commitment to placemaking, we included a plaza and public art in the front of the building to contribute to the neighborhood.

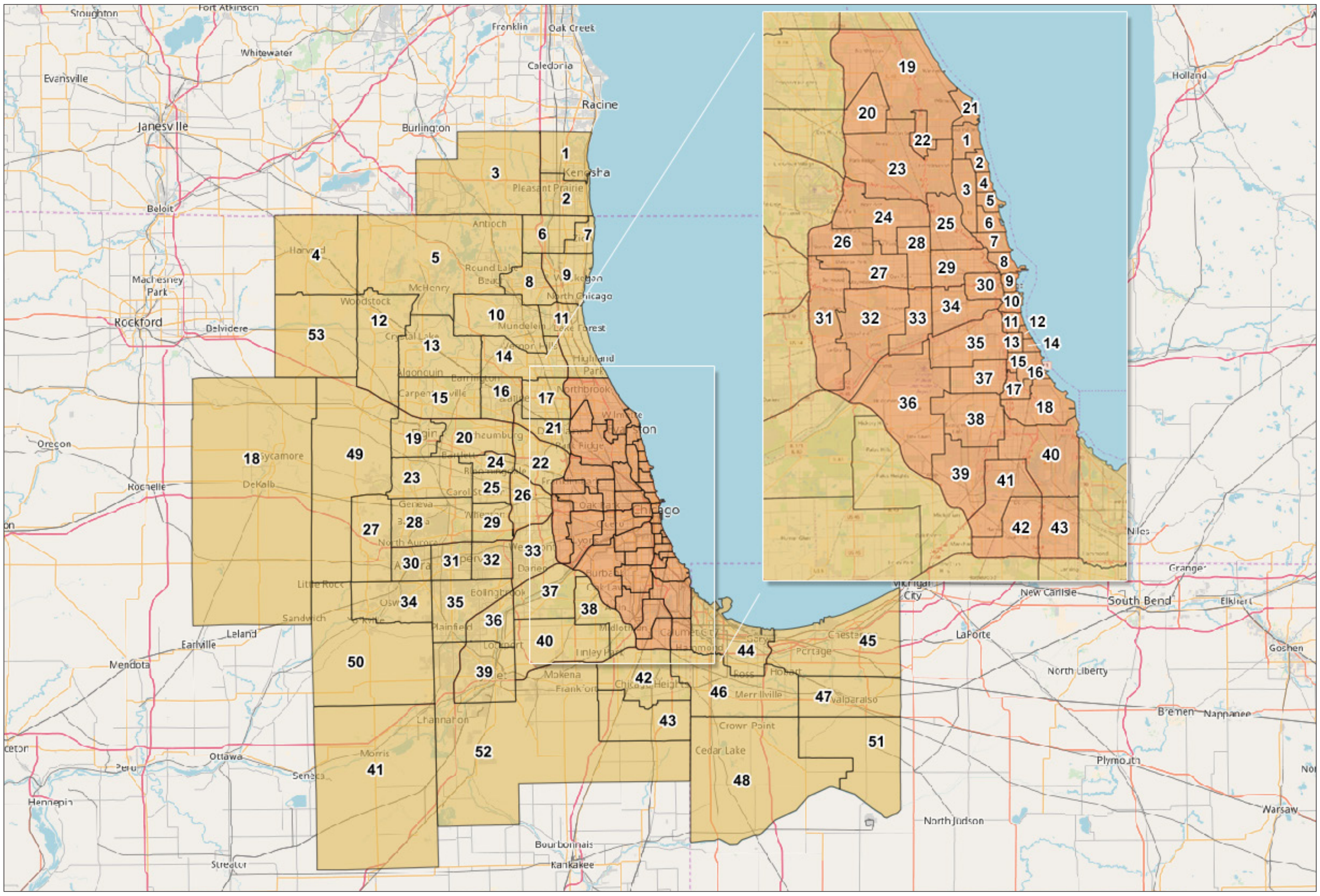
We … decided as a team that we wanted to expedite the schedule so Optima Signature would be ready for first move-ins during the peak leasing season. We hit this goal, and our first resident moved in, in June 2017.

We also kept the community-at-large in mind in signing retail tenants that would fill a void for the neighborhood and Optima's residents, such as a Montessori early childhood center, a full-service veterinarian, a nail salon and a fitness studio.

How do you see rent activity and prices in Chicago's luxury multifamily market going forward?

We expect no material shift in rental activity in Chicago's luxury market going forward. On the strength of continued strong demand, pricing will adjust based on supply in individual submarkets, but we expect an overall positive trend.

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.