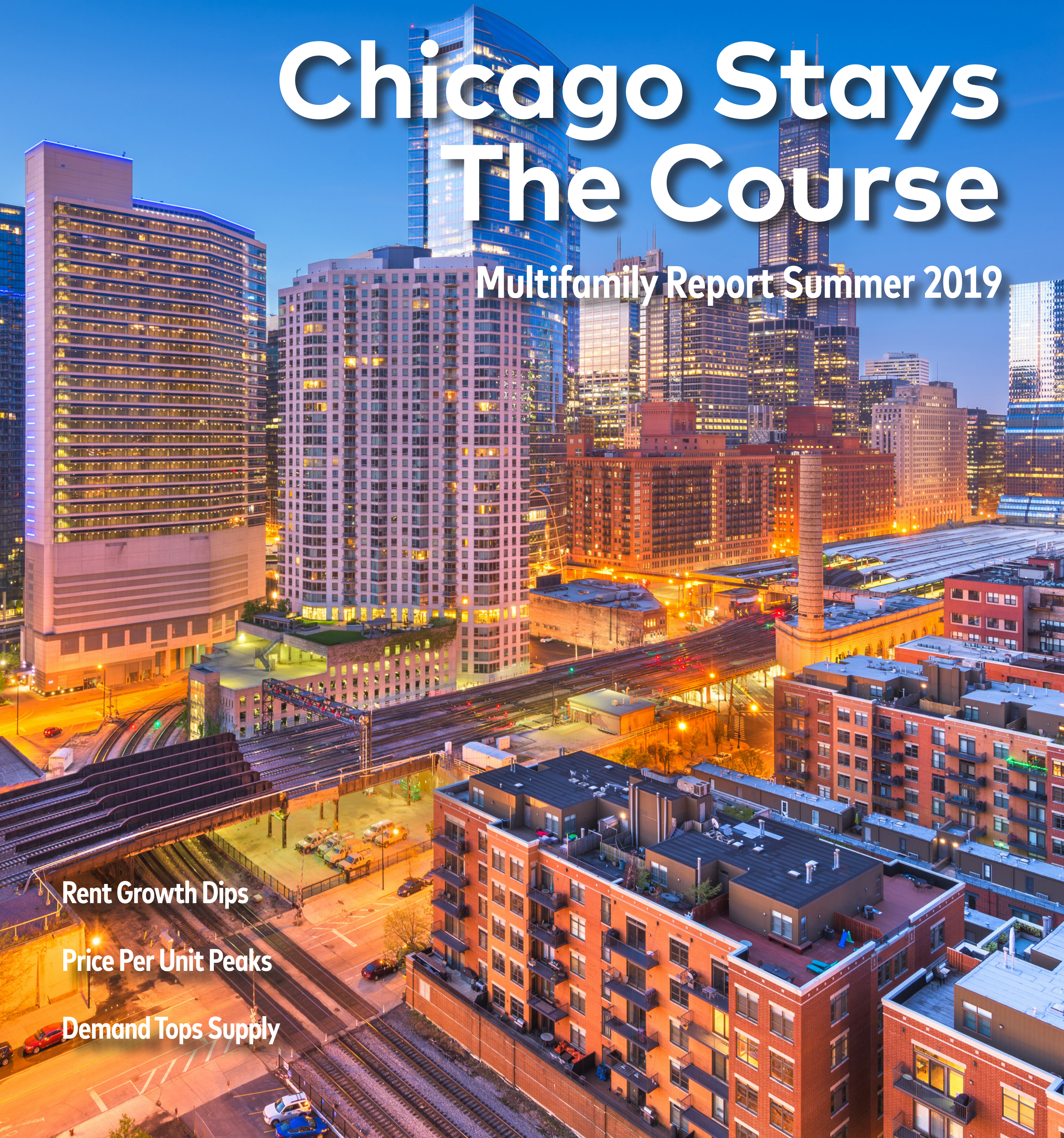
Yardi® Matrix

Chicago Stays The Course

Multifamily Report Summer 2019



Rent Growth Dips

Price Per Unit Peaks

Demand Tops Supply

Market Analysis

Summer 2019

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Millennials Keep Demand Healthy

Chicago's deep talent pool continues to fuel the economy and demand for housing. The metro remains one of the few gateway markets that will be confronted with a housing deficit in the year ahead, despite the record number of units expected to come online this year.

The metro added 39,900 jobs in the 12 months ending in May, with one third in education and health services (13,300). However, manufacturing was the top-performing employment sector, as it added 8,300 jobs for a 2% year-over-year uptick, the most significant jump among sectors. The expansion of automotive giants in the metro such as Ford Motor Co. was one of the main reasons that led to the increase. When it comes to office-using jobs, coworking providers are stealing the show, reflecting the strength of Chicago's tech sector. WeWork is closing in on the 1 million-square-foot mark in the city's downtown.

In the first five months of the year, multifamily sales volume reached $916 million. Investors prefer well-positioned Renter-by-Necessity assets and tight competition led to a surge in price per unit, which peaked at $206,234 in 2019. Despite the 10,470 units anticipated to come online this year, demand is expected to outpace supply through 2020. Strong demand will also help rent growth pick up and reach 2.8% for the whole of 2019.

Recent Chicago Transactions

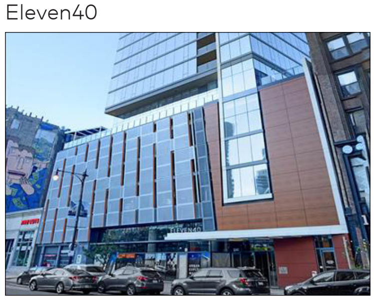
ReNew Wheaton Center

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

Linea

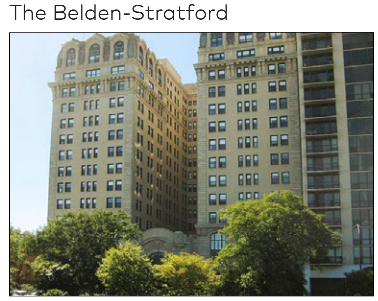
City: Chicago
Buyer: Pacific Reach
Purchase Price: $121 MM
Price per Unit: $456,981

Eleven40



City: Chicago
Buyer: Diamond Realty Investments
Purchase Price: $117 MM
Price per Unit: $365,625

The Belden-Stratford

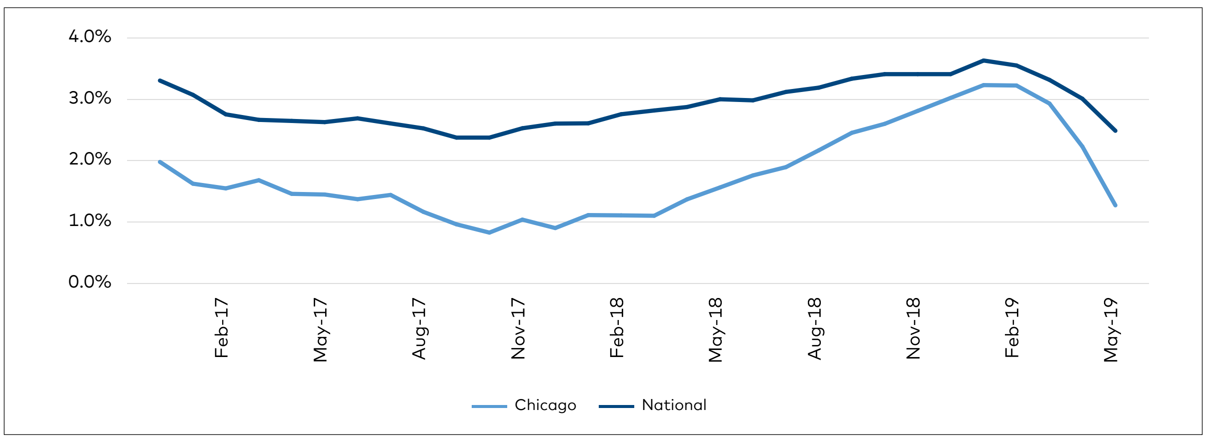


City: Chicago
Buyer: Mansueto Properties
Purchase Price: $106 MM
Price per Unit: $356,902

Rent Trends

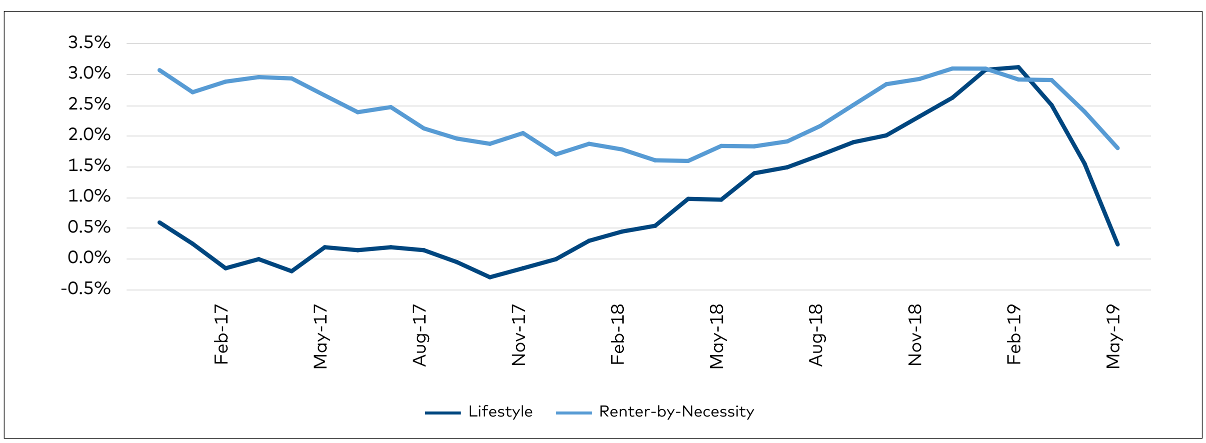
- Rents in the metro rose 1.3% year-over-year through May, trailing the national rate of 2.5%. Still, the average rent stood at $1,512, above the U.S. average of $1,442. Rent growth in Chicago declined after a strong start to the year, when rates reached the highest values of the last two years.
- The downshift was caused by the rapidly expanding inventory of luxury units, which led to a contraction of rent growth in the Lifestyle sector—up only 0.2% year-over-year through May. Rent growth in the working-class Renter-by-Necessity segment also fell to 1.8%, 60 basis points below the value in April. The addition of new units has led to a 30-basis-point decline in occupancy to 94.4% year-over-year through April. Chicago's highest rents are in the Loop ($2,513), Near North Side ($2,392), West Town–Garfield Park ($2,260), Evanston–North ($2,254) and Near West Side ($2,226) markets.
- In the 12 months ending in April, the metro absorbed 7,044 units, and this pace is anticipated to continue. Chicago is one of the few gateway markets that will see demand for housing exceed supply in the coming year, as well, particularly around the market's intellectual capital nodes—the West Loop, Fulton Market/River North and Evanston. Our analysis shows that by 2020 the metro's inventory will have a deficit of more than 1,300 units. Given overall market fundamentals, rent growth is anticipated to pick up and reach 2.8% for the whole of 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

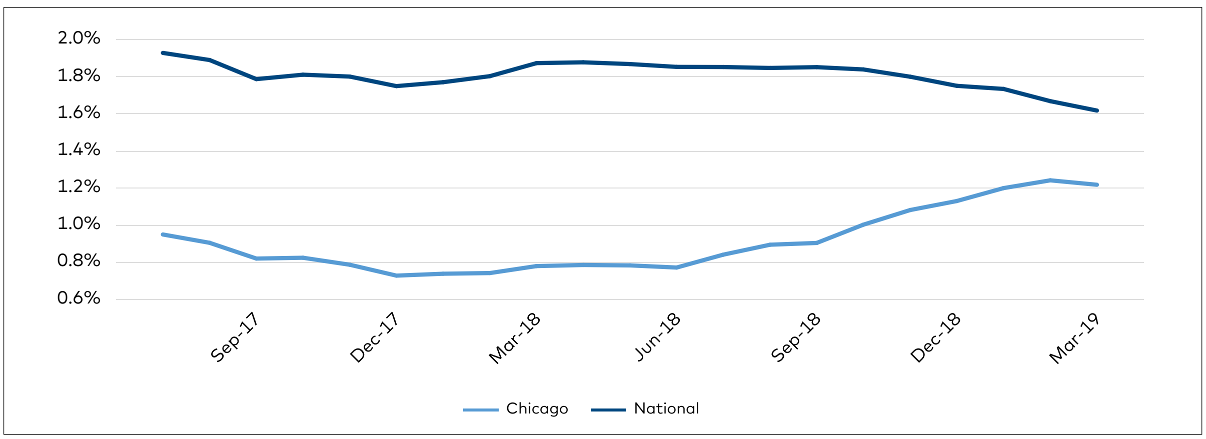
Economic Snapshot

- Employment growth picked up in Chicago, as the metro gained 39,900 jobs in the 12 months ending in March, for a 1.2% uptick, trailing the U.S. figure by 40 basis points. Gains were most significant in the strongest local economic sectors: education and health services (13,300); manufacturing (8,300); trade, transportation and utilities (7,700); and leisure and hospitality (6,700). Manufacturing saw a 2% year-over-year uptick, the highest among all industries, due mostly to expanding production units in the metro such as Ford Motor Co.'s plan to invest $1 billion in its local plants, resulting in 500 jobs.

- The effects of competition for labor and rising costs for building materials are starting to show in the metro, as the construction sector lost 700 jobs year-over-year through March. The most notable wave of layoffs was in the information sector, which lost 3,100 jobs due to major restructuring strategies implemented by companies such as Gogo and Nokia.

- Chicago is working to consolidate its tech hub status and highlight its deep talent pool, which attracts Silicon Valley employers looking to branch out. Coworking providers Industrious, Convene and WeWork have all inked leases in the metro's downtown in the first quarter of 2019. Coworking giant WeWork is close to becoming Chicago's largest private office tenant as it nears the 1 million-square-foot mark.

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	%
65	Education and Health Services	748	15.9%	13,300	1.8%
30	Manufacturing	427	9.1%	8,300	2.0%
40	Trade, Transportation and Utilities	946	20.1%	7,700	0.8%
70	Leisure and Hospitality	477	10.1%	6,700	1.4%
55	Financial Activities	311	6.6%	4,300	1.4%
90	Government	552	11.7%	2,500	0.5%
60	Professional and Business Services	819	17.4%	1,100	0.1%
80	Other Services	198	4.2%	-200	-0.1%
15	Mining, Logging and Construction	167	3.5%	-700	-0.4%
50	Information	74	1.6%	-3,100	-4.0%

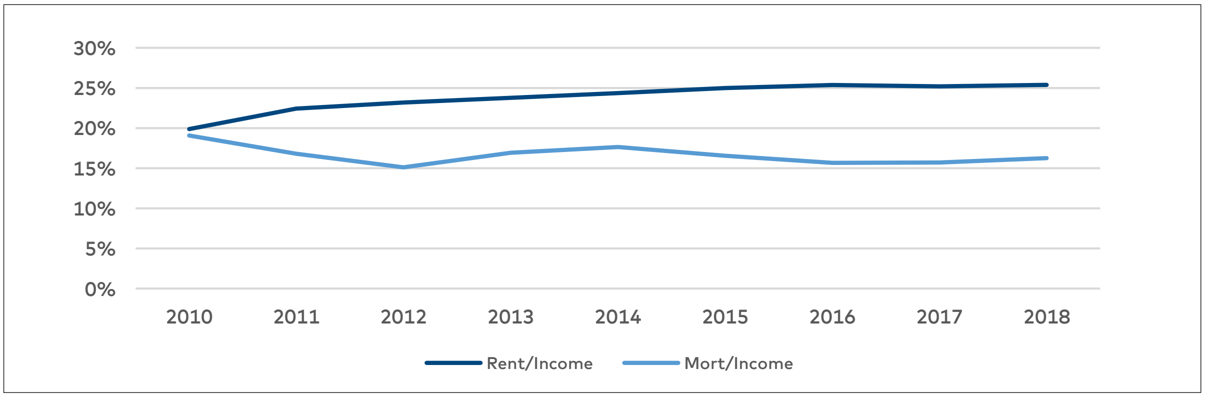
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

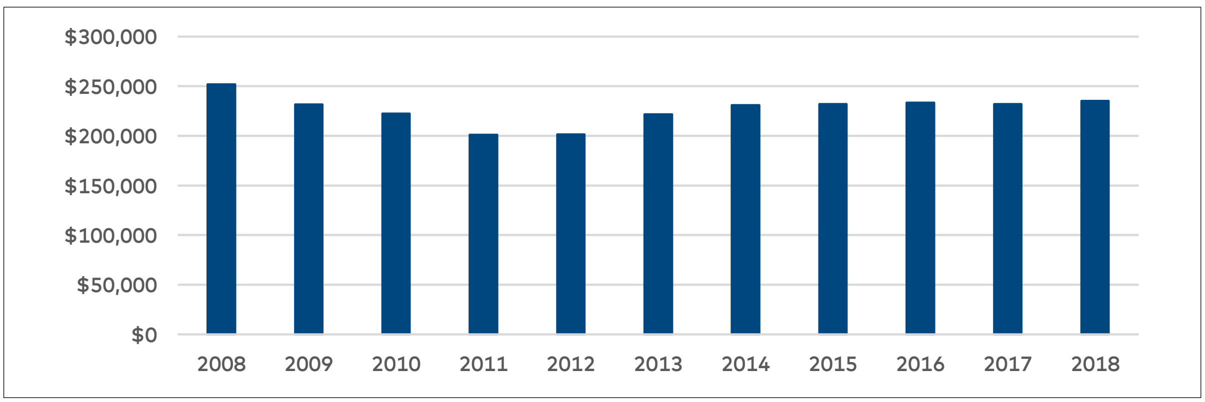
- After bottoming in 2011 and 2012, the median home price in Chicago began to climb, as the market edged toward a rebound. However, it has seen almost no fluctuation over the last five years, reaching $235,151 in 2018, only 1.3% higher than in 2017. Affordability rates have also remained flat, as wage growth has helped residents cope with rising rents. Ownership remains the more affordable option, with the average mortgage payment accounting for 16% of the area median income.
- The average monthly rent comprises 25% of incomes in the market. Chicago ranked 16th among the nation's most rent-burdened metros, according to a Freddie Mac analysis.

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 15,076 residents in 2017, for a 0.2% contraction.
- The West Loop ranks as the ZIP code with the highest percentage of Millennials in the U.S., according to a 2018 analysis by RENTCafe.com.

Chicago vs. National Population

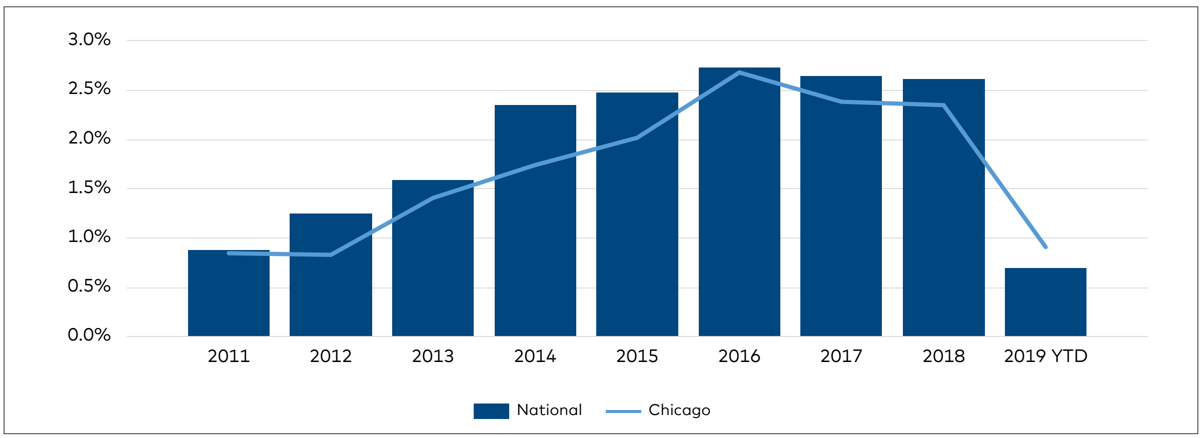
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Chicago Metro	7,343,501	7,351,417	7,347,063	7,335,054	7,319,978

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

Supply

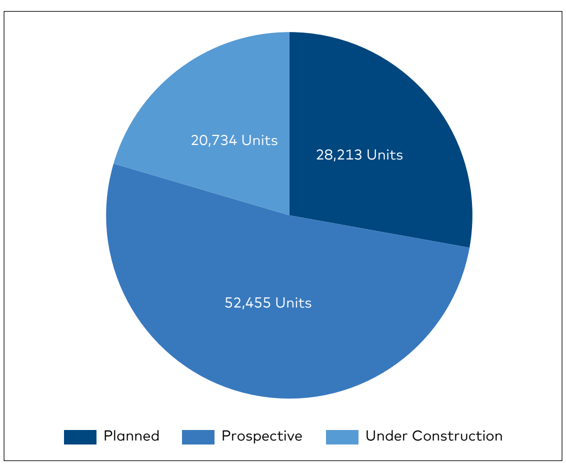
- In the first five months of the year, 2,124 units came online—most were high-end apartments in urban quadrants. Development activity in Chicago continues to cater to young professionals looking for modern urban living, close to tech jobs, transportation and entertainment options.
- The trend will continue going forward, as roughly 75% of the 20,734 units under construction as of May were in urban submarkets, with the Near West Side, the Loop, the Near North Side, the Near South Side and Lincoln Park topping the list. The metro will likely exceed the 7,952 units delivered in 2018—the number is second only to 2016's cycle peak, when 8,651 were delivered—as 10,470 units are expected to come online in 2019.
- Market fundamentals are supporting the emergence of a new housing trend: co-living. PMG's X Social Communities projects count more than 10,000 units nationwide, with two communities totaling 219 units already delivered in Chicago. The company obtained a loan for its third development in the city, which will include 99 units. Co-living provider Common also offers three properties in Chicago's Lakeview East, Ukrainian Village and Pilsen, with monthly rents for a bedroom starting at $975.

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



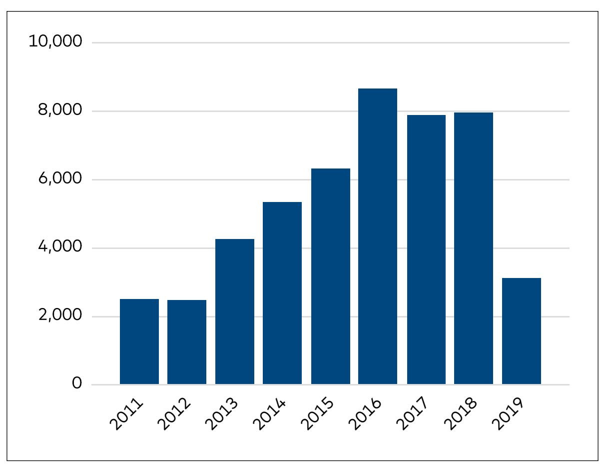
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

Chicago Completions (as of May 2019)



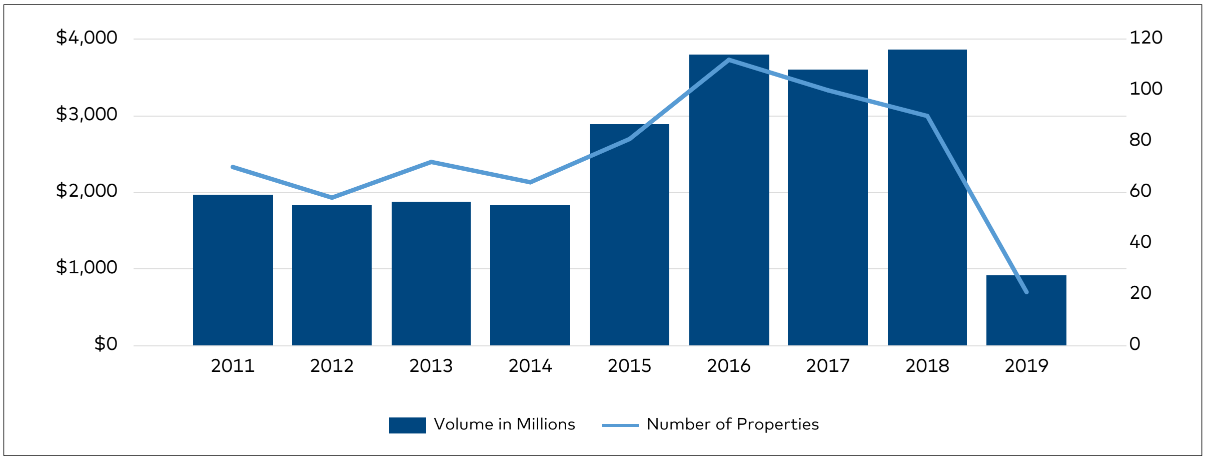
Source: YardiMatrix

Transactions

- In the first five months of 2019, 21 multifamily properties traded in Chicago for $916 million. Most of them were well-positioned Renter-by-Necessity assets. The average price per unit peaked at $206,234 in 2019, up 7% for the year and $50,000 above the national figure. Investors continue to look for value-add opportunities in the metro. So far, 2018 remains the most productive year for multifamily investment in Chicago, with transactions totaling approximately $3.9 billion.

- Interest in gateway markets such as Chicago, New York or Los Angeles has held strong despite high prices. This is mostly due to the fact that investors are executing defensive strategies in anticipation of a slowdown. In the 12 months ending in May, sales volumes for suburban properties in the metro totaled nearly $1.5 billion, compared to $2.2 billion for urban assets. Acquisition yields for infill properties vary from 5.0% to 6.3% and are in the 5.5 to 7.0% range for suburban communities.

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



Source: YardiMatrix

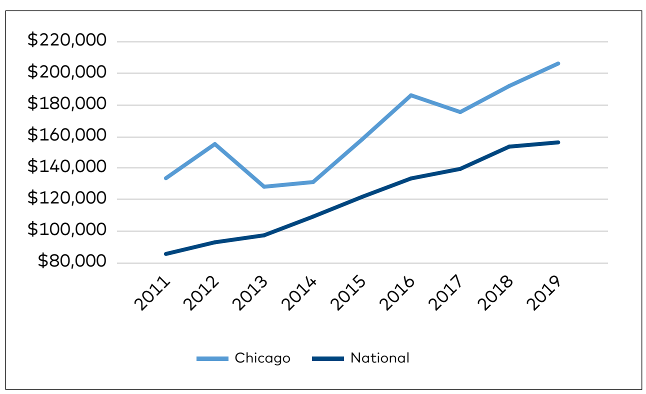
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Loop	858
Wheaton	279
Near North Side	249
Near South Side	207
Downers Grove	186
Lincoln Park	184
Schaumburg	181
West Town–Garfield Park	164

Source: YardiMatrix

[1] From June 2018 to May 2019

Chicago vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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MULTI-HOUSING **NEWS**

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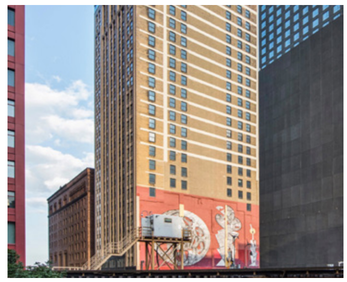
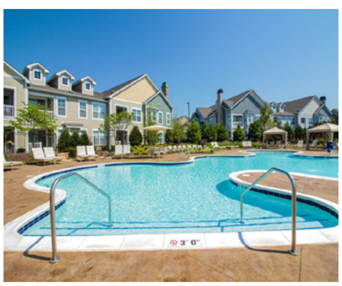
Luxury High-Rise Opens in Chicago

The 500-unit community in the South Loop received a certificate of occupancy for the first 25 floors. The interior finishing work for the remaining apartments is slated for completion in August.



Peak Campus To Manage 430-Bed Student Housing

The Buckingham serves students at the University of Illinois - Chicago and is also within a mile of 20 other schools. The 44-story property is located at 59 E. Van Buren St.



TLC Management Acquires Chicago-Area Apartments

HFF marketed Prairie Winds, a townhome-style community in St. Charles, Ill., on behalf of the seller. The 250-unit luxury apartment community was completed last year.

HFF Secures $31M Loan for Chicago Community

The luxury property is part of developer PMG's national portfolio of X Social Communities, a new concept meant to provide a high-class lifestyle at an accessible price point.

Affordable Senior Housing Breaks Ground in Illinois

The 60-unit Residences of Crystal Lake is slated for completion by March 2020. This is the largest residential project in Crystal Lake in many years.

Greystar Hires Managing Director In Chicago

Yale Dieckmann, formerly an executive vice president & CIO with JDL Development, will manage Greystar's new development projects throughout the Midwest.

Executive Insight

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MULTI-HOUSING NEWS

Chicago Multifamily Investment in Focus

By Roxana Baiceanu

Pioneer Acquisitions is a value-add investor and manager focusing on Chicago as its main market. James Peterson Jr., founder & principal of the company, told Multi-Housing News that "the fundamentals in Hyde Park are very strong" and the neighborhood has been attracting a lot of interest from investors and residents priced out of Chicago's core areas.

Peterson reveals what other submarkets are strong for investment, the evolution of rent growth in 2019, as well as the company's strategy for the year ahead.

What are the strengths and weaknesses of Chicago's multifamily market?

Strong demand remains one of the main strengths of Chicago's multifamily market, particularly in Hyde Park and the Far North Side neighborhoods. We continue to see tenants being priced out of Near North Side neighborhoods and moving north, along the "L" lines, to find units that fit their budgets.

One of the main weaknesses, particularly downtown, is the continuing introduction of new supply with elevated amenities and leasing incentives, which encourages tenants to trade up to newer buildings. Soaring real estate taxes and water/sewer prices are a major concern for landlords, as are the burgeoning discussions about the introduction of rent control.

Rents have continued to peak throughout 2018. What are your predictions for this year?

We expect rent growth to moderate, with rental increases of 2 percent to 3 percent across our portfolio.

Can you point out a few current investment trends in Chicago's multifamily sector?

Landlords continue to invest in vintage buildings, with the objective of updating/renovating and then capitalizing on them. However, these opportunities are fewer and farther between. At the same time, micro or smaller units continue to be in vogue.

Amenities remain a major focus of new developments in the downtown core, which, we believe, appeals to the aspirational mentality of Millennials. For example, Fyre Festival.

What markets and/or submarkets is Pioneer Acquisitions focusing on?

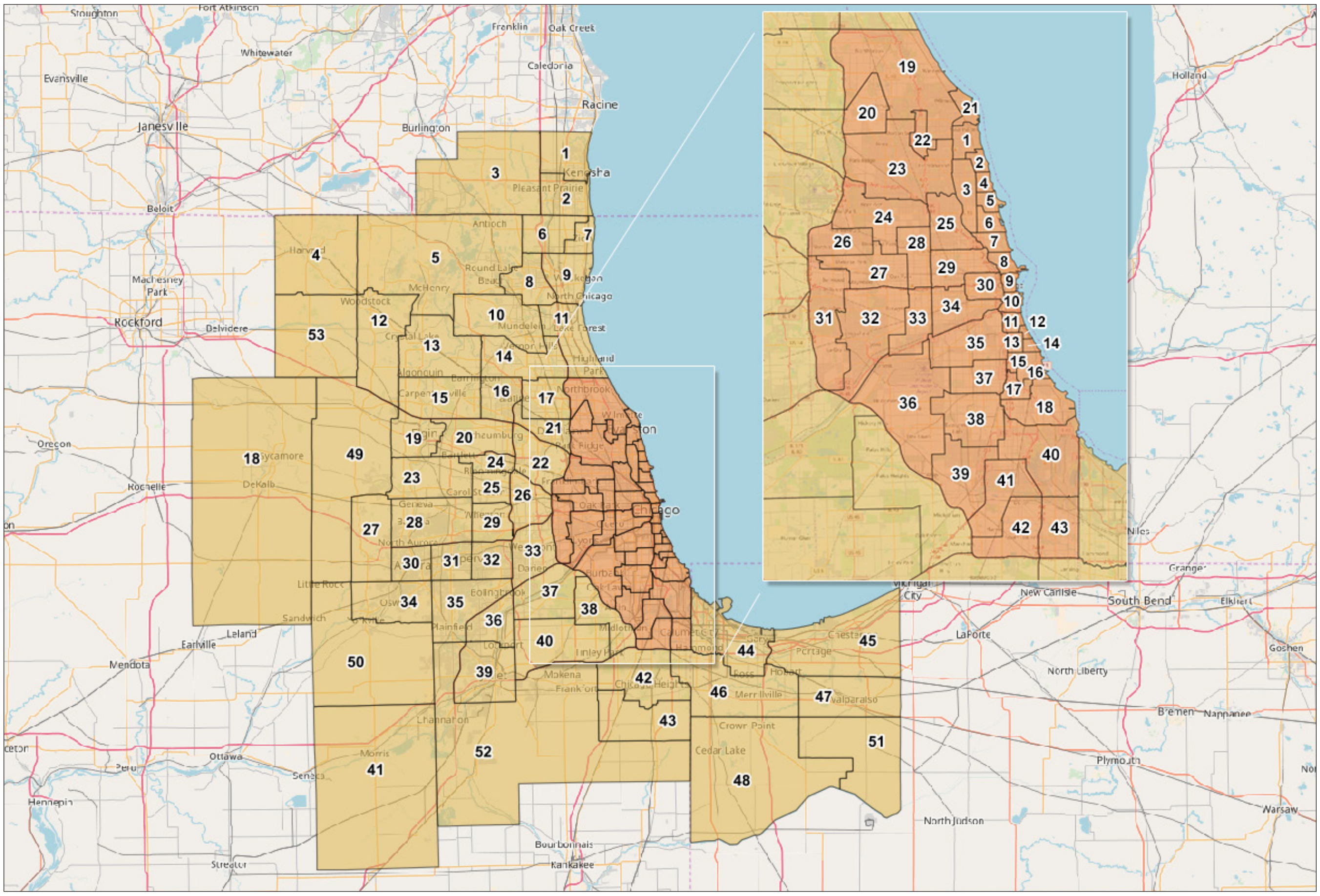
Pioneer has a significant presence in Hyde Park, where we are the second-largest landlord. We feel the fundamentals in Hyde Park are very strong, given the presence of the university and medical community.

We also invest in North Side neighborhoods from Lincoln Square to Rogers Park. These neighborhoods are on the "L" lines and still affordable relative to Lakeview, Lincoln Park, Downtown and some of the trendier neighborhoods.

What is your company's strategy for 2019?

We will continue to acquire properties on a selective basis in Chicago. We also plan on expanding into other markets in 2019 and 2020.

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	Elbum

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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