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Multifamily Report Fall 2019

Construction Activity Targets City Core

Rent Growth Outpaces National Average

High-Earning Employment Gains Accelerate

Market Analysis
Fall 2019

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Thriving Market Has Room to Grow

The overall demand for multifamily housing in Chicago is strong, but the market's performance is bifurcated. A steady increase in high-paying jobs has boosted the number of households earning more than $100,000, while the number of households earning less than $100,000 has declined. As a result, Lifestyle units are performing better, with higher rent growth than Renter-by-Necessity units.

The metro's hiring pace intensified in the 12 months ending in July, marking a 1.4% year-over-year growth with the addition of 66,700 jobs. Leisure and hospitality led gains with 22,200 jobs, following record-breaking tourism activity in 2018, when nearly 58 million people visited Chicago. Education and health services gained 18,400 jobs, while professional and business services added 11,500 positions, strongly boosted by tech powerhouses such as Google, Facebook and Salesforce. Uber is also bringing its Freight headquarters to the old post office building, along with 2,000 jobs, in 2020.

Concerns over new property tax legislation have dampened transaction activity through September 2019, but Opportunity Zones are fortifying investor demand, especially on the South Side. More than 20,000 units were under construction in Chicago as of September, with three-quarters of those rising in urban areas. We predict healthy absorption and solid rent growth through 2020.

Recent Chicago Transactions

Twin Lake Towers

City: Westmont, Ill.
Buyer: F & F Realty
Purchase Price: $79 MM
Price per Unit: $197,995

The Residences at NewCity

City: Chicago, Ill.
Buyer: Gelman Co.
Purchase Price: $75 MM
Price per Unit: $376,884

Prairie Winds of St. Charles

City: Saint Charles, Ill.
Buyer: TLC Management
Purchase Price: $69 MM
Price per Unit: $276,000

Sunset Lake/Justice

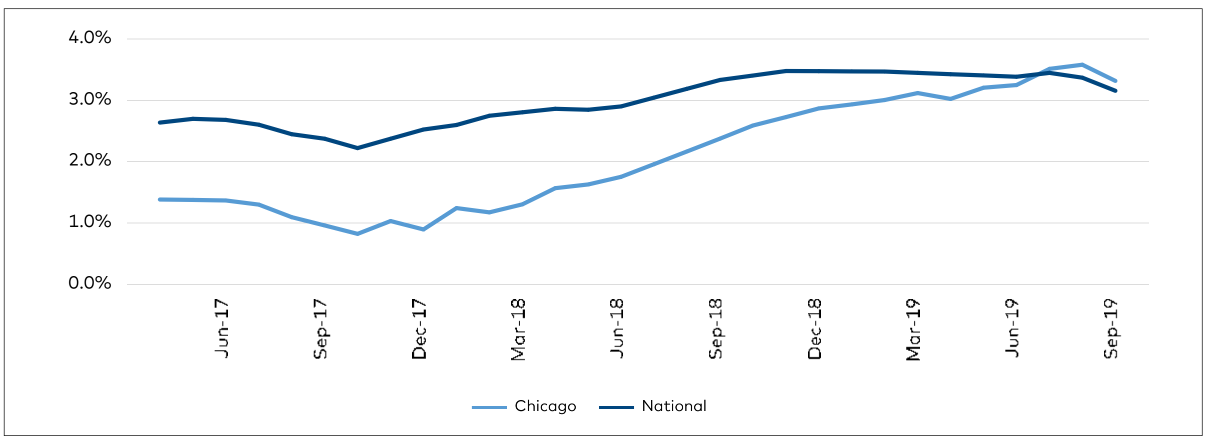
City: Justice, Ill.
Buyer: Turner Impact Capital
Purchase Price: $44 MM
Price per Unit: $111,675

On the cover: Photo by Colin Peterman/iStockphoto.com

Rent Trends

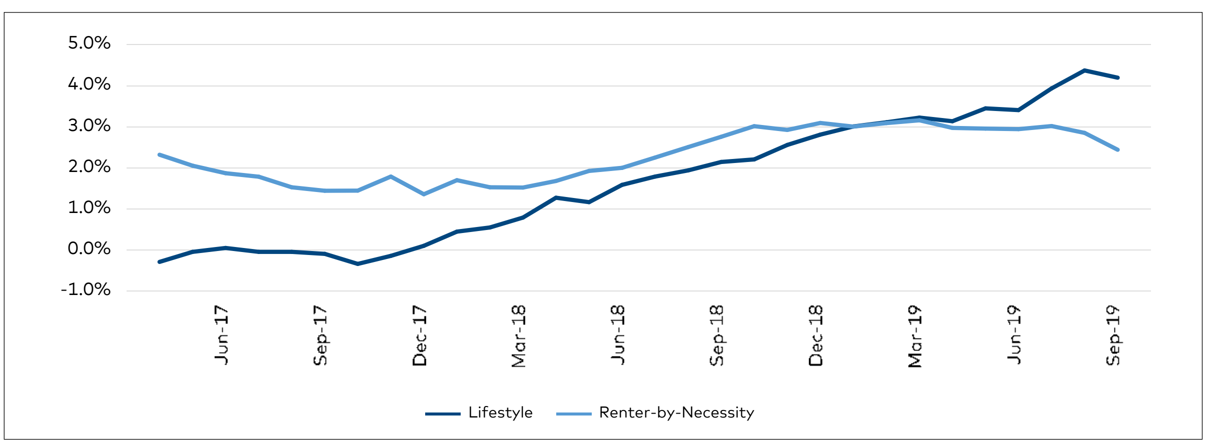
- Rents in Chicago rose 3.3% year-over-year as of September, outpacing the 3.2% national rate. The metro's average rent stood at $1,557, above the $1,471 U.S. figure. Despite consistent new supply coming online last year and in the first three quarters of 2019, occupancy sat in a tight band, dropping just 10 basis points in the 12 months ending in August, to 94.6%.
- Lifestyle rents led growth, up 4.2% to $2,184, while rates in the working-class Renter-by-Necessity segment increased 2.4%, to $1,259. Household growth and increased hiring in well-paying industries are boosting rental demand, while increasingly higher taxes are discouraging homeownership. As more Lifestyle units come online, especially in the urban core, absorption is expected to remain steady, keeping rent gains healthy moving into 2020.
- The metro's urban submarkets recorded some of the strongest rent gains, with Calumet City topping the list (6.7% year-over-year to $969), followed by the Near West Side (6.5% to $2,360), Evanston–South (5.3% to $1,960), Hyde Park (5.2% to $1,445), the Near South Side (4.9% to $2,262), the Near North Side (4.8% to $2,531) and the Loop (4.7% to $2,635), which ranks as the metro's most expensive rental submarket. In the suburbs, gains were led by Grayslake (6.1% to $1,243), St. Charles (4.9% to $1,368) and Palatine (4.6% to $1,387).

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

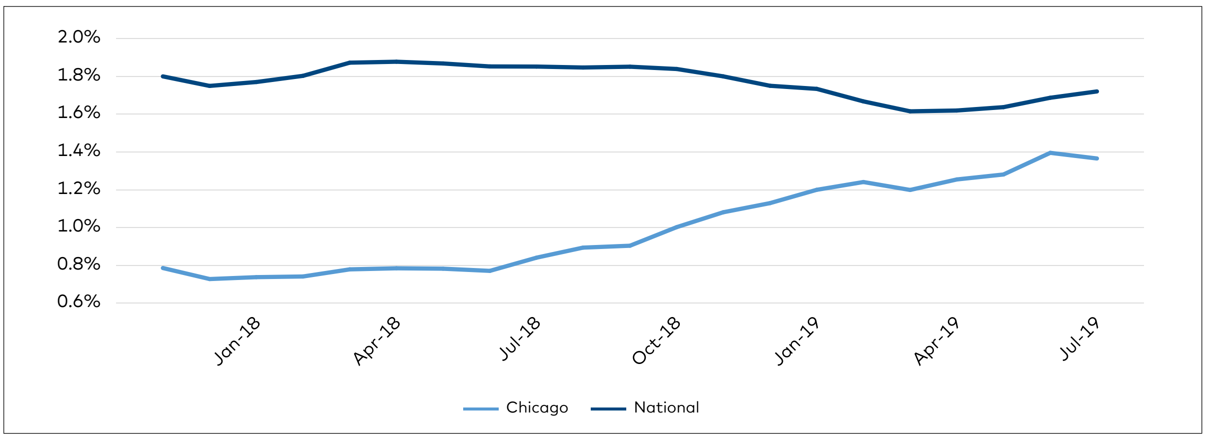
Economic Snapshot

- Chicago gained 66,700 jobs in the 12 months ending in July, up 1.4% year-over-year, below the 1.7% national average. The metro's hiring pace has been accelerating, staying above 1.0% since October 2018. In line with national trends, unemployment is down, holding at 4.1% as of July.

- Leisure and hospitality led growth with the addition of 22,200 jobs, a 4.3% expansion. Nearly 58 million people visited Chicago in 2018, representing an increase of 2.4 million tourists over the previous year, as well as the eighth straight year of improvement.

- Education and health services gained 18,400 jobs, boosted by increased venture funding, especially in education. Health care clusters are also growing: The 12-story Louis A. Simpson and Kimberly K. Querrey Biomedical Research Center, which opened in the downtown campus of Northwestern University this year, is set to host 1,500 researchers. Sterling Bay purchased the former Stanley Manne Children's Research Institute, with plans to create a hub called Prysm Life Sciences. Professional and business services hiring (11,500 jobs) is sustained by tech powerhouses such as Google, Facebook and Salesforce. Uber is also bringing its Freight headquarters to Chicago, along with 2,000 jobs at the old Post Office building, where it signed a 10-year-lease for its engineering operations.

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	%
70	Leisure and Hospitality	534	11.0%	22,200	4.3%
65	Education and Health Services	738	15.2%	18,400	2.6%
60	Professional and Business Services	860	17.7%	11,500	1.4%
40	Trade, Transportation and Utilities	960	19.8%	7,800	0.8%
30	Manufacturing	429	8.8%	4,900	1.2%
15	Mining, Logging and Construction	194	4.0%	3,000	1.6%
55	Financial Activities	318	6.6%	2,900	0.9%
90	Government	540	11.1%	2,100	0.4%
80	Other Services	200	4.1%	-1,500	-0.7%
50	Information	74	1.5%	-4,600	-5.8%

Sources: YardiMatrix, Bureau of Labor Statistics

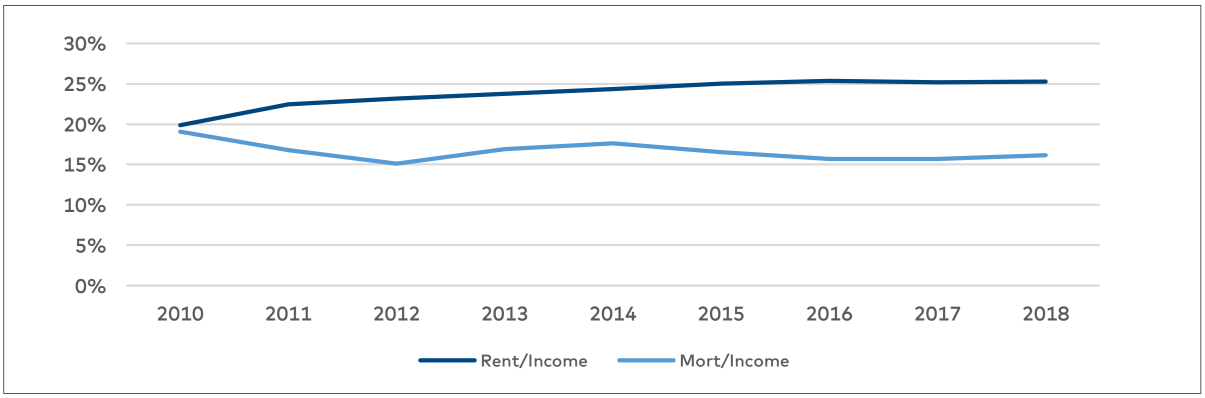
Demographics

Affordability

- The median home price in Chicago rose to $235,080 in 2018, up 1.3% year-over-year and 17% above the 2011 level, indicating the market's stability over the past seven years. The average mortgage payment accounted for 16% of the area median income, while the average rent equated to 25%.

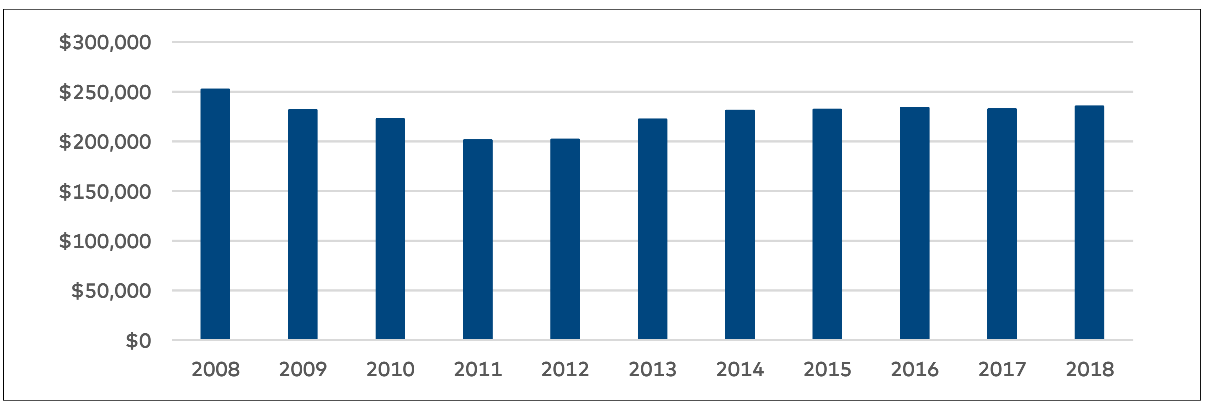
- Chicago's population has been decreasing while also undergoing a transformation: The number of households with a total income of more than $100,000 has grown, while the total of those earning less has been declining. Many Chicagoans choose to move to neighboring states that offer more affordable housing and lower property taxes.

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 22,230 residents in 2018, representing a 0.3% decrease, whereas the U.S. population rose 0.6%.

- The metro's population contracted by nearly 67,000 residents between 2014 and 2018, for a 0.9% downtick.

Chicago vs. National Population

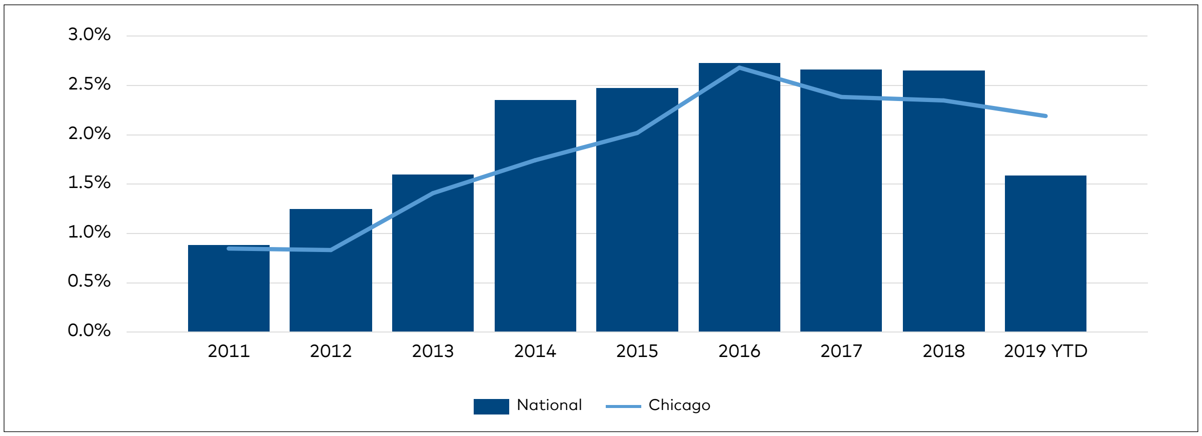
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Chicago Metro	7,355,787	7,348,719	7,330,977	7,311,079	7,288,849

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

Supply

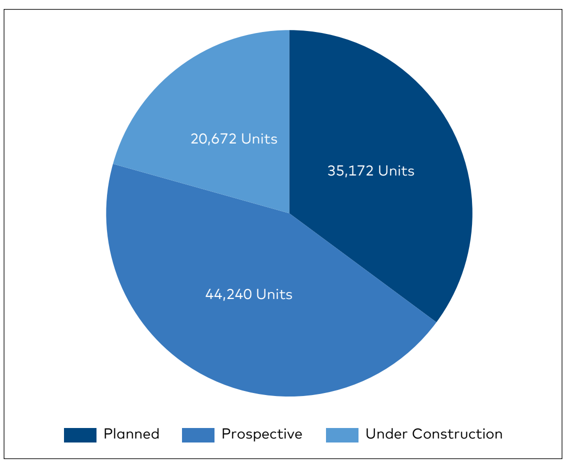
- More than 20,600 units were under construction in Chicago as of September, with nearly 16,000 rising across urban submarkets. About 80% of the upcoming units are in Lifestyle projects. A total of 6,512 units came online in the first three quarters of 2019, representing 2.2% of total stock, above the 1.6% national average.
- The pace of multifamily development has been strong over the past five years and this trend could continue, sustained by steady growth across well-paying industries. Possible headwinds could arise from rising labor and materials costs; additional government regulations requiring developers of downtown projects to contribute to an affordable housing fund; as well as concerns over changes in property assessments that could further increase real estate taxes. As of September, the metro's pipeline also included more than 79,000 units in the planning and permitting stages.
- Construction is strongest in urban submarkets, particularly in the Loop (4,756 units underway as of September), the Near West Side (2,181 units), the Near North Side (1,912 units) and the Near South Side (1,336 units). In the suburbs, Yorkville led with 748 units underway, followed by Arlington Heights (622 units).

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



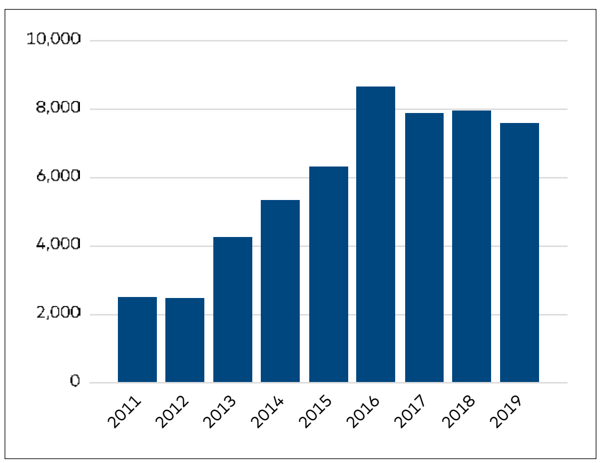
Source: YardiMatrix

Development Pipeline (as of September 2019)



Source: YardiMatrix

Chicago Completions (as of September 2019)

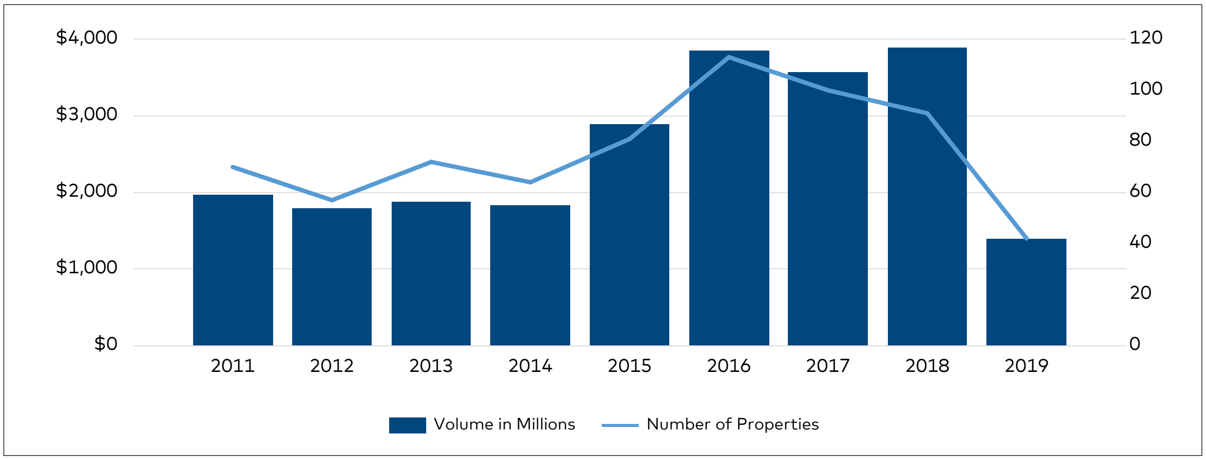


Source: YardiMatrix

Transactions

- Nearly $1.4 billion in assets traded in Chicago this year through September at an average per-unit price of $181,824, below the $191,800 cycle high of 2018, when sales volume reached $3.9 billion. The slowdown can be attributed, in part, to potential changes in property tax legislation.
- Opportunity Zones, however, are boosting investor demand, especially in the city's South Side area, with buyers able to reinvest unrealized capital gains while also capturing major tax incentives, especially for properties that need significant renovations.
- F&F Realty's $79 million buy of Twin Lake Towers, a 399-unit community in Westmont, ranked as one of the largest suburban deals of the year. Aimco sold the property in May at $197,995 per unit. In March, Hayman Co. bought the 568-unit Lakeside Apartments in Lisle for $100 million, or $176,056 per unit.

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



Source: YardiMatrix

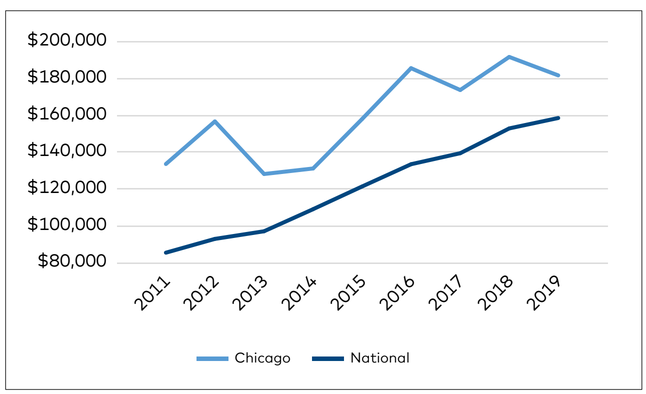
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Near North Side	324
Loop	315
Wheaton	268
Downers Grove	265
West Town–Garfield Park	194
Schaumburg	181
Naperville–East	126
Near West Side	123

Source: YardiMatrix

[1] From October 2018 to September 2019

Chicago vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MULTI-HOUSING NEWS

Chicago's 78th Neighborhood Gets in Gear

By Roxana Baiceanu

Related Midwest, the developer of The 78, Chicago's long-anticipated new neighborhood has started construction on on the Wells-Wentworth Connector, the road that will link the downtown and Chinatown areas, providing access to an expanse that has been isolated from the city for years.

The next phases of the $7.2 billion project will add 10,000 units and commercial space, with the office component expected to reach 4 million square feet. Curt Bailey, president of Related Midwest, discusses the multi-phase development and the timeline for what will become Chicago's 78th neighborhood.

What does The 78 mean for Related Midwest, taking into account your company's past work?

With The 78, Related Midwest is developing a 62-acre riverfront innovation district that will be the city's next great neighborhood for office, residential, retail, dining, culture, education, and recreation. For more than 30 years, we have designed and executed complex, market-defining developments in Chicago. For The 78, we will leverage our Chicago successes and our extraordinary achievements in placemaking on mixed-use projects such as Hudson Yards in New York and King's Cross in London. These future-forward neighborhoods have redefined the modern workplace and urban living. The 78 will do the same in Chicago.

What is the status of the project and what do you expect will be finalized by the end of this year?

The plan for The 78 has been fully approved, with private and public funds dedicated to infrastructure improvements. Construction began on the

Wells-Wentworth Connector at The 78 in the summer of 2019. The Wells-Wentworth Connector is a critical new thoroughfare that connects the Loop to Chinatown. The street prioritizes safety for workers, students and residents, and its design considers the various modes of transit preferred by city dwellers. The Connector will be completed in late 2020. Planning is underway for The 78's first phase, which will include research institute DPI, and deliver in 2024.

Infrastructure will be the key for making this project a successful continuation of the Loop. What kind of issues have you encountered at this stage and what do you expect going forward?

The land at The 78 has been vacant for over 90 years and has little existing infrastructure. There are a number of industry experts engaged to unlock the site's potential. The first infrastructure move is the Wells-Wentworth Connector, which will be accessible in just 14 months. After the Connector's completion, we will lead $850 million of additional infrastructure improvements.

How do you expect The 78 to impact Downtown, and Chicago's entire commercial real estate market?

The 78 is a $7.2 billion project that is expected to generate $40 billion of net new spending over 30 years. The 78 will provide 15,000 trade, construction and professional services jobs, along with 24,000 permanent jobs. The 78 will grow the footprint of downtown Chicago and link the neighborhoods of South Loop, Chinatown, Pilsen and Bronzeville, creating new opportunities for residents.

News in the Metro

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Luxury Senior Housing Underway in Chicago

Senior Lifestyle Corp. and Kaufman Jacobs started construction on a 200-unit community offering independent living, assisted living and memory care.

Lendlease Breaks Ground On 2 Projects

The company teamed up with Magellan Development Group to build Cascade, a 503-unit rental tower, and Cirrus, a 363-unit luxury property.

Opus Completes Chicago-Area Luxury Community

The company developed the 113-unit Ellison Apartments in a joint venture with Berkshire Residential Investments.

Arbor Realty Originates $50M Refi

Two recently renovated suburban Chicago properties built in the 1970s have received Fannie Mae refinancing following the conclusion of major value-add programs.

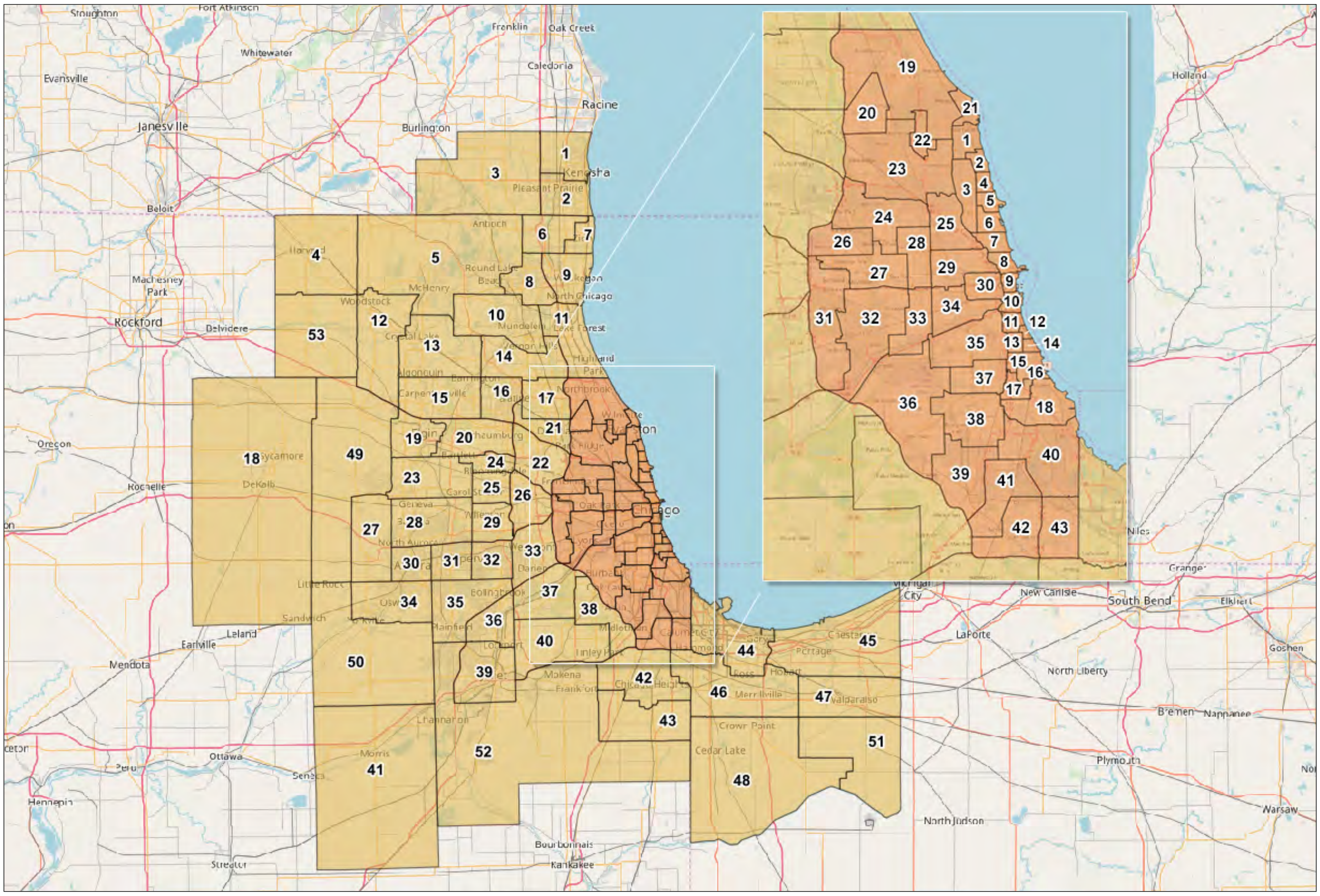
Monument Capital Expands Chicago Portfolio

The company purchased Townhomes at Highcrest in Woodbridge as part of Monument Opportunity Fund IV and is planning capital improvements for all the buildings.

Work Kicks Off On Luxury Community

The 188-unit transit-oriented development in the city's River West neighborhood is slated for completion in 2020.

Chicago Submarkets



Area #	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 #	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 #	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.