Yardi® Matrix

MULTIFAMILY REPORT

Chicago Finds Its Footing

Winter 2020

Rent Gains Below Average, But Still Solid

Development Targets Urban Core

Investment Remains Promising

CHICAGO MULTIFAMILY

Yardi® Matrix

Windy City Enjoys Some Smooth Sailing

Chicago's multifamily market continues to see stable advancement, underpinned by its solid job market. Rents grew by 2.1% year-over-year, as of January. While falling below the national rate by 90 basis points, this share is in line with the metro's average rate over the past 35 months. Rent growth was stronger in the suburbs, where inventory expansion has been limited.

Chicago's job gains have been steady throughout the past two years. The metro added 28,600 jobs in the 12 months ending in November, with education and health services leading growth (15,600 jobs). Construction lost several jobs (-2,100 jobs), but a slew of large-scale projects is changing the landscape in the urban core. The most significant of these is Lincoln Yards, where Sterling Bay is building a $6 billion, 55-acre mixed-use district.

While transaction volumes have shifted down a gear, capital is still being poured into Chicago-area rental assets. Investors largely focused on suburban properties in 2019, targeting their value-add potential, with $1.5 billion of the $2.7 billion of transactions aimed at non-core properties. With completions coming hot off last year's cycle peak of 11,228 units, the pipeline remained consistent, as 20,128 apartments were underway at the start of 2020. Considering the metro's supply-demand balance, we expect the average Chicago rent to advance by 2.3% in 2020.

Market Analysis | Winter 2020

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Recent Chicago Transactions

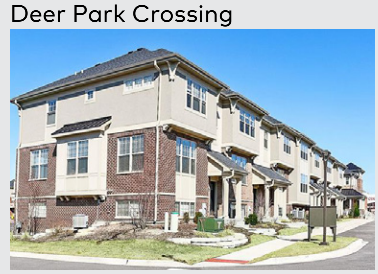
Prairie Shores

City: Chicago
Buyer: Fairpoint Development
Purchase Price: $253 MM
Price per Unit: $160,333

Railway Plaza

City: Naperville, Ill.
Buyer: BH Equities
Purchase Price: $96 MM
Price per Unit: $230,515

Deer Park Crossing



City: Deer Park, Ill.
Buyer: Redwood Capital Group
Purchase Price: $91 MM
Price per Unit: $383,475

The Atworth at Mellody Farm

City: Vernon Hills, Ill.
Buyer: PASSCO Real Estate
Purchase Price: $90 MM
Price per Unit: $347,769

RENT TRENDS

- Chicago rents rose 2.1% year-over-year through January, 90 basis points below the national rate. The average overall rent in the metro was $1,524, roughly $60 higher than the national figure.

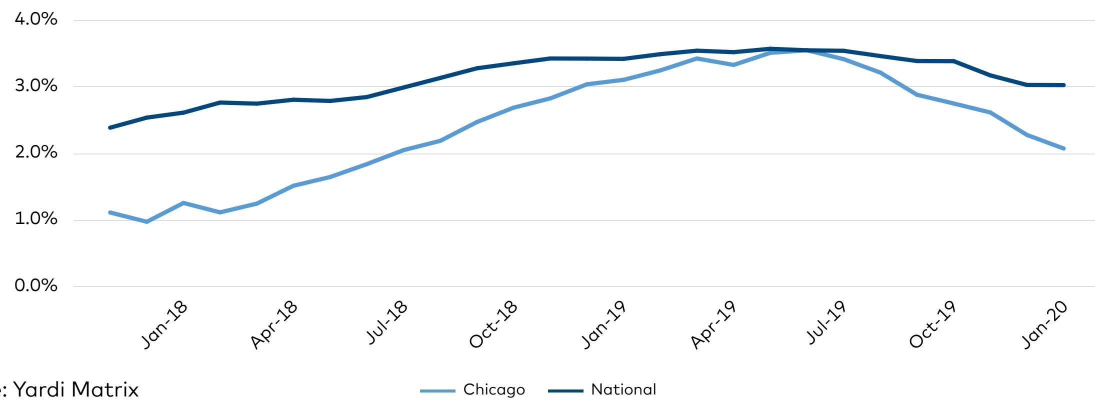
- Rents in suburban Chicago stood at $1,251, significantly below the rate in urban submarkets, which clocked in at $1,873 as of January. Unsurprisingly, new rental stock is clustered in urban areas, with three-quarters of all units underway being built in the urban core.

- Working-class Renter-by-Necessity assets led rent growth, advancing 2.3% year-over-year as of January. Meanwhile, Lifestyle rents were up 1.7%. The spread between the two segments is substantial—the average rate in RBN assets was $1,261 as of January, while Lifestyle rents averaged $2,103.

- Overall, rents grew faster across suburban Chicagoland, with Highland Park-Libertyville (12.0% year-over-year), Elgin (11.4%) and Valparaiso (9.4%) leading the way.

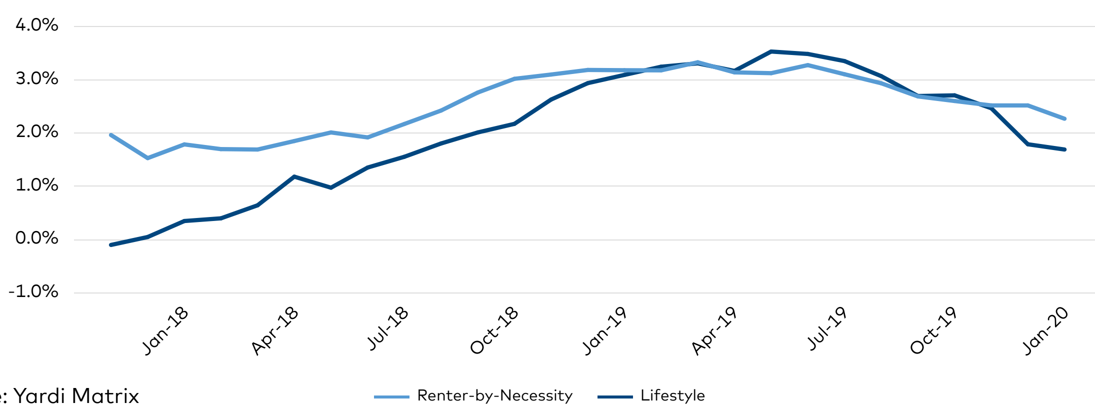
- The average occupancy rate in stabilized assets was 94.3% as of December, down 20 basis points over 12 months. With deliveries slated to remain relatively high this year, we expect the average metro Chicago rent to advance more slowly than the national figure, reaching 2.3%.

Chicago vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Chicago Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

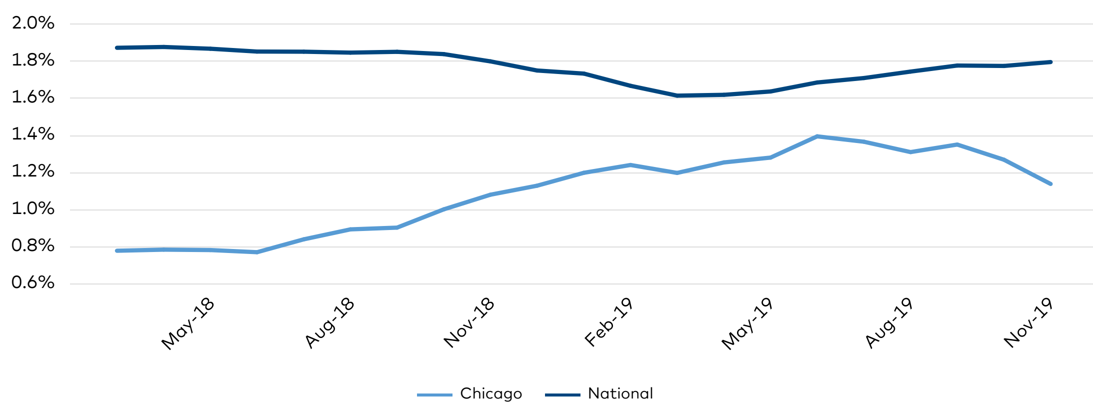
- Chicago gained 28,600 jobs in the 12 months ending in November, up 1.1% year-over-year and 70 basis points below the national level. Job growth showed improvement through 2019, after dipping below 0.8% in 2018.

- Education and health services—one of the market's leading economic drivers—led growth in the metro, with 15,600 jobs. Hiring at the Louis A. Simpson and Kimberly K. Querrey Biomedical Research Center, combined with other significant health and education projects underway throughout the metro, continued to positively affect employment.

- Although construction contracted by 2,100 positions, the market still had sufficient high-profile developments underway. Lincoln Yards is a 55-acre mixed-use project that aims to bring 14 million square feet of office, residential and public space to the riverfront. Also along the Chicago River, Related Midwest and Tribune Media are looking to redevelop large areas into other mixed-use havens.

- Information and professional and business services—both office-using sectors—lost a combined 7,300 jobs in the 12 months ending in November, as several corporate relocations continued to impact the job market.

Chicago vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	763	15.7%	15,600	2.1%
90	Government	564	11.6%	10,800	2.0%
70	Leisure and Hospitality	491	10.1%	10,300	2.1%
55	Financial Activities	316	6.5%	1,600	0.5%
30	Manufacturing	425	8.8%	1,100	0.3%
80	Other Services	199	4.1%	900	0.5%
50	Information	74	1.5%	-2,000	-2.6%
15	Mining, Logging and Construction	184	3.8%	-2,100	-1.1%
40	Trade, Transportation and Utilities	976	20.1%	-2,300	-0.2%
60	Professional and Business Services	857	17.7%	-5,300	-0.6%

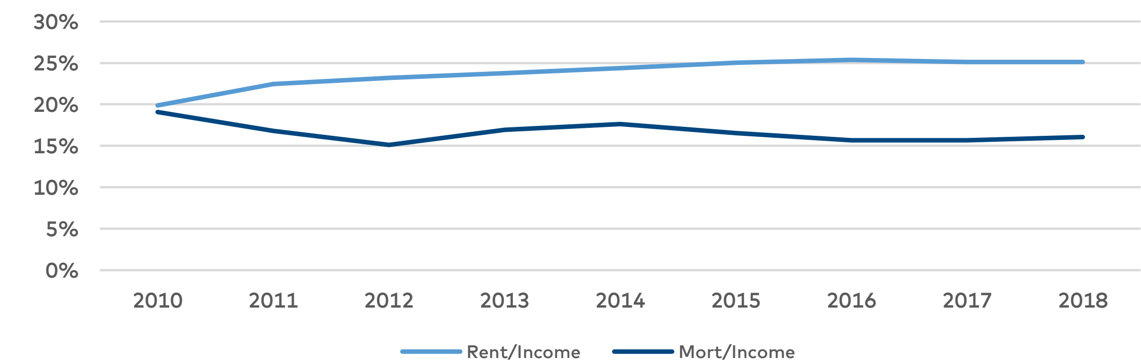
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

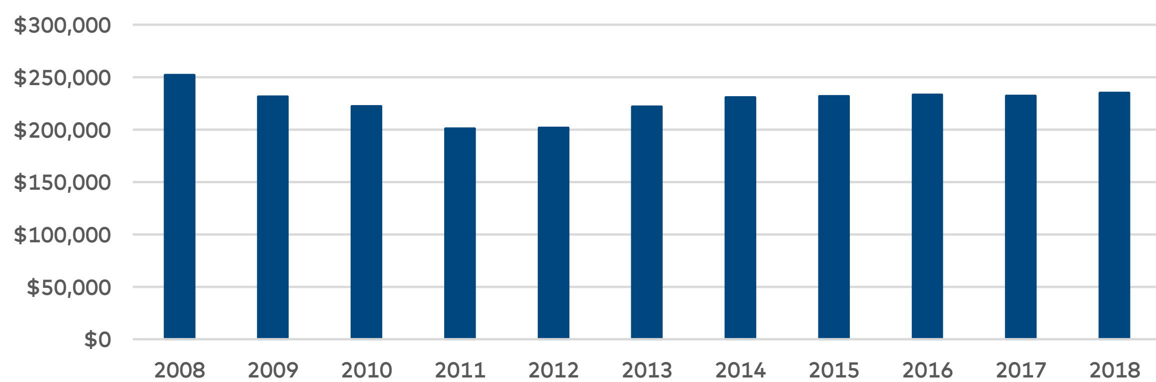
- The average Chicago rent accounted for 25% of the area median income, while the average mortgage payment equated to 16% as of 2018. The median home price in Chicago reached $235,033, a significant $35,000 over the market's 2011 low point, but still $16,000 below pre-recession levels.
- With Sun Belt markets attracting residents from major gateway metros, cities such as Chicago have seen decreased population levels. Relatively high rents and affordability issues are pushing residents farther away from the urban core into suburban quadrants, and even to smaller nearby markets. As a result, Milwaukee is feeling the spillover effect, a trend which is likely to continue through 2020.

Chicago Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Chicago Median Home Price



Source: Moody's Analytics

Population

- The third-largest city in the U.S. saw its population numbers slowly decrease over the past decade. The MSA lost 22,230 residents between 2017 and 2018. Markets in the Sun Belt have largely gained residents this cycle, with gateway cities being the main supplier.

Chicago vs. National Population

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

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

SUPPLY

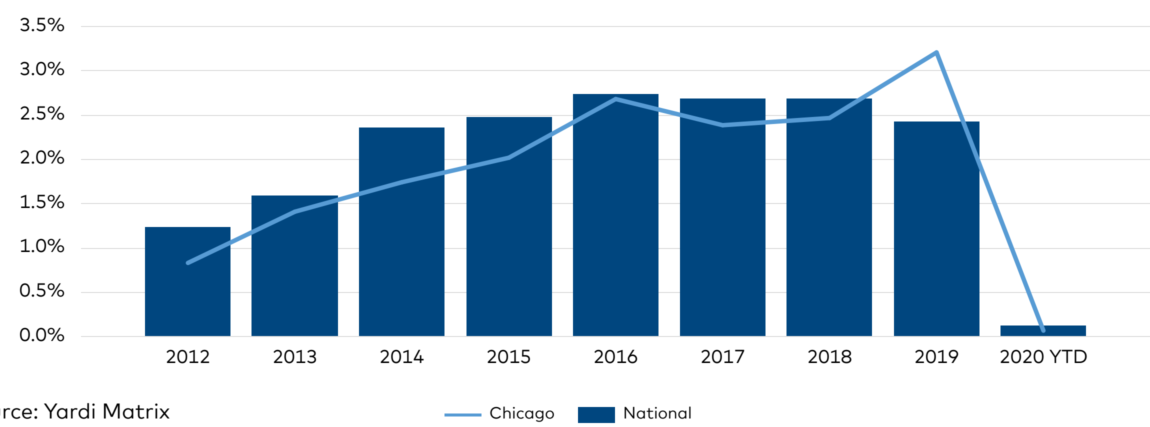
- Chicago developers had 20,128 units underway as of January, with the market hot off its strongest year for deliveries this cycle. In 2019, a total of 11,228 units were completed, or 3.2% of the total stock. This was also the first time in eight years that Chicago surpassed the nation in rate of delivery. We expect an additional 8,500 units to come online in the metro by the end of 2020.

- Another 80,000 units were in the planning and permitting stages across Chicagoland as of February, pointing to a continued influx of rental stock, should fundamentals hold steady.

- The average occupancy rate in stabilized assets was 94.3% as of December. As deliveries significantly picked up during the second half of the current expansion, occupancy has slightly decreased. Urban core assets were 94.5% occupied, while suburban properties had an average occupancy rate of 94.1% as of December.

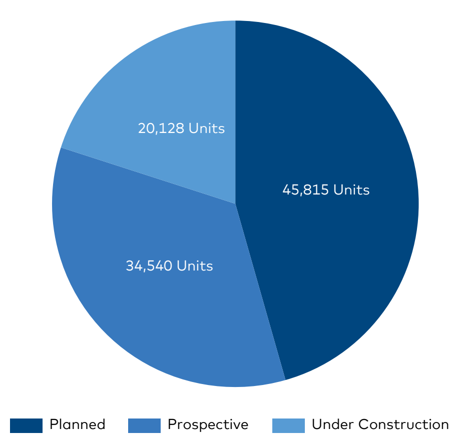
- Development activity remained much stronger in the urban core, while transaction activity skewed in favor of suburban quadrants. The Loop (4,573 units underway), the Near North Side (3,207 units), the Near West Side (1,784 units) and the Near South Side (1,075 units) led the development pipeline as of January.

Chicago vs. National Completions as a Percentage of Total Stock (as of January 2020)



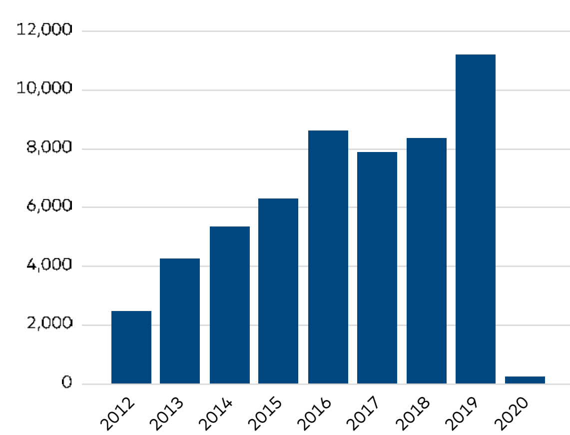
Source: Yardi Matrix

Development Pipeline (as of January 2020)



Source: Yardi Matrix

Chicago Completions (as of January 2020)



Source: Yardi Matrix

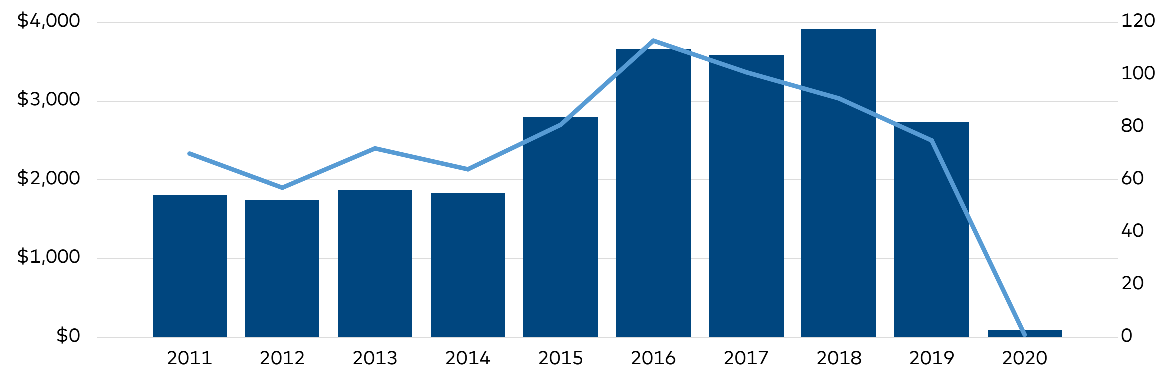
TRANSACTIONS

- Chicago multifamily assets claimed $2.7 billion in 2019, marking another solid year for sales, although still below investment volume during the second half of the cycle.

- Capital continued to largely favor Renter-by-Necessity assets, driving the average per-unit price to $184,247 last year. That's $8,000 below the metro's 2018 rate, but still $16,000 above the national average. Acquisition yields for value-add multifamily properties are in the mid-to-high 5% range, as investors continue to find value and heavily target Class B properties.

- Suburban areas led investment activity, with $1.5 billion being poured into submarkets outside the urban core. Downers Grove ($179 million), Naperville-West ($169 million) and Naperville-East ($126 million) led investment totals outside urban Chicago.

Chicago Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

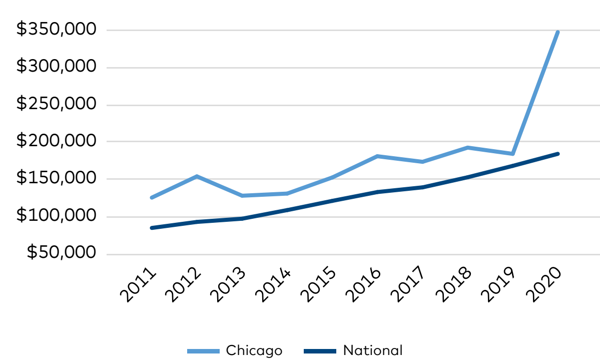
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Douglas	276
Near West Side	206
Downers Grove	179
Loop	177
Naperville-West	169
Naperville-East	126
West Town-Garfield Park	116

Source: Yardi Matrix

[1] From February 2019 to January 2020

Chicago vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 SUBURBAN SUBMARKETS FOR MULTIFAMILY DEALS

By Anca Gagiuc

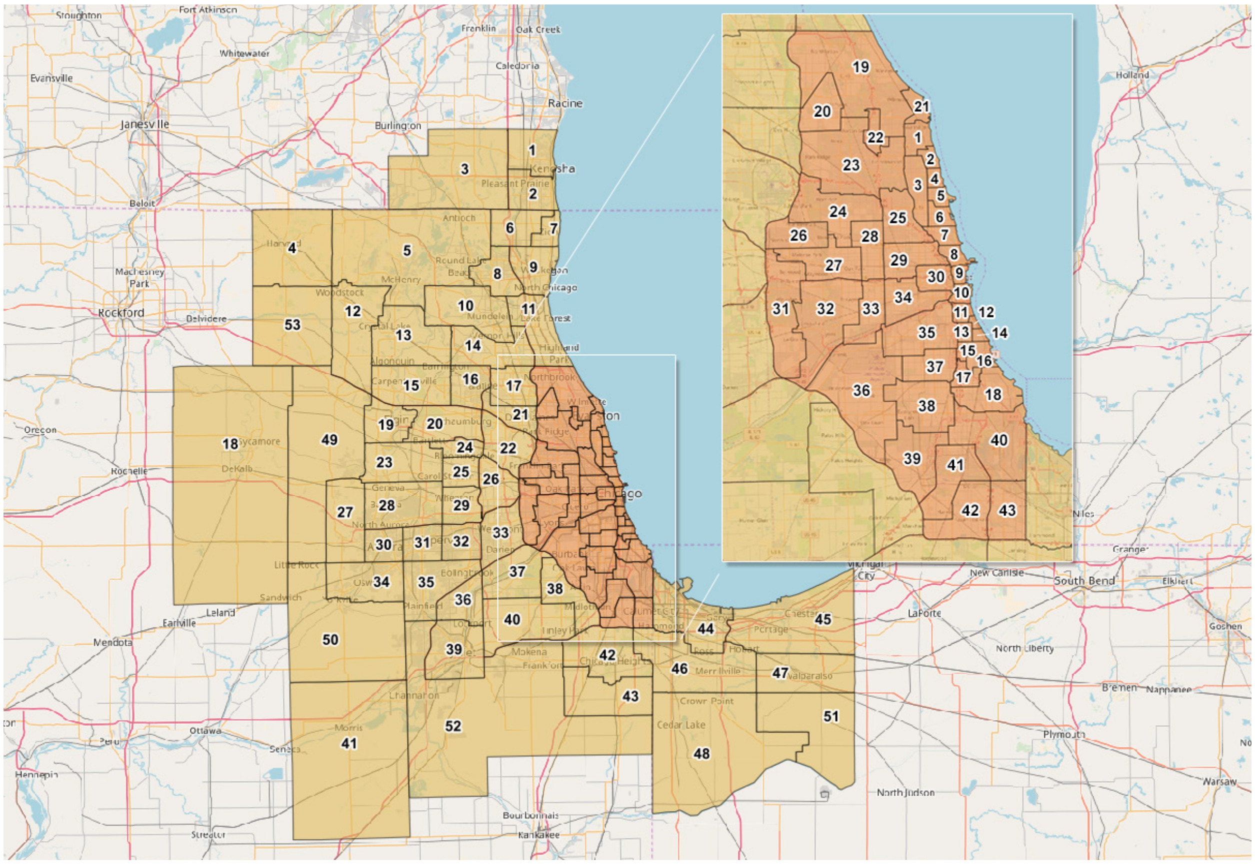
Multifamily investment in Chicago softened in 2019, in part due to property-tax legislation changes. Despite having some of the highest tax rates in the U.S., some $2.7 billion in assets traded last year in the Windy City, with activity in suburban submarkets surpassing urban asset investment by $200 million, according to Yardi Matrix data.

Rank	Submarket	No. of Units	Sale Price/Unit	Total Sale Price (MM)
5	Buffalo Grove	236	$383,475	$90.50
4	Naperville–East	744	$162,460	$126
3	Naperville–West	843	$191,176	$169
2	Downers Grove	754	$271,660	$179
1	Schaumburg	1,285	$145,678	$181

SCHAUMBURG

The northwestern suburb is part of the Golden Corridor and home to headquarters of companies like Zurich North America, Motorola Solutions and Career Education Corp. Investors spent $181 million on three assets in 2019: the 550-unit Haven Hoffman Estates, the 368-unit Savannah Trace and the 367-unit Legend Park. Tricap Residential Group and Wolcott Group paid a little over $60 million, or $109,636 per unit, for the largest asset. The 11-building garden-style community completed in 1972 was previously known as Autumn Chase Apartments and is spread across more than 19 acres at 725 Bode Circle.

CHICAGO SUBMARKETS



Area No.	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 No.	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 No.	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 No.	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.