Market Insights

Chicago Multifamily 1Q 2022

Northmarq

Construction Activity

8,160
Units under construction

1,783
Units delivered (YTD)

Market Fundamentals

5.2%
Vacancy

-60bps | Year over year change

$1,688
Asking Rent

+14.5% | Year over year change

Transaction Activity

$150,300
Median sales price per unit (YTD)

Conditions Stabilize After Rapid Growth in 2021

Highlights

- Property fundamentals posted modest improvements across the Chicago market in the first quarter, as the vacancy rate dipped and asking rents held steady. Demand for existing units continues to outpace new supply growth.
- The vacancy rate in Chicago ticked lower at the start of the year, dropping 10 basis points in the first quarter to 5.2 percent. Year over year, the rate declined by 60 basis points.
- After rapid growth in 2021, asking rents remained essentially unchanged in the first quarter at $1,688 per month. Year over year, rents jumped 14.5 percent.
- During the first quarter, the median sales price rose to $150,300 per unit, and cap rates averaged around 4.6 percent. Sales velocity got off to a more active start to 2022 than in recent years.

Chicago Multifamily Market Overview

A tightening vacancy rate highlighted the health of the Chicago multifamily market at the start of the year. Some of the largest vacancy declines in recent months occurred in the Downtown area, including The Loop and Gold Coast submarkets. The strong absorption levels in these neighborhoods in the first quarter were fueled by a recovering economy and an uptick in the number of employees returning to offices. Renter demand also surged in certain suburban communities including Wheeling and Glendale Heights/Lombard, two popular outlying submarkets where supply growth has been limited. Operating conditions remain tight in Chicago, as new supply growth has not kept pace with the increasing demand.

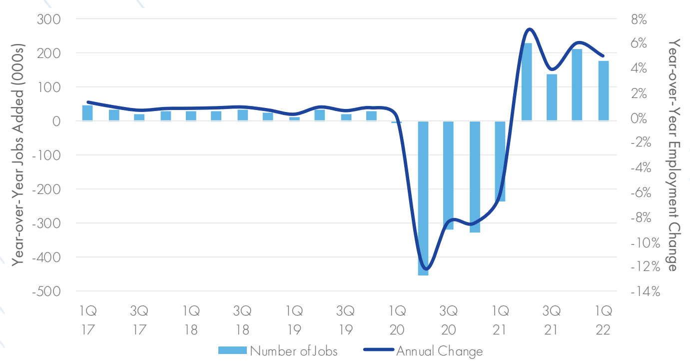
The multifamily investment market started the year strong with prices ticking higher and cap rates compressing. Sales volume spiked at the end of 2021 but slowed in recent months, which is a fairly common occurrence. Despite fewer properties changing hands compared to the previous period, transaction activity in the first quarter was ahead of levels recorded at the start of the last few years. Older, Class C properties continued to account for the largest share of the transaction mix, accounting for approximately 50 percent of the sales during the first quarter. Cap rates compressed, averaging around 4.6 percent.

Employment

- Local employers continued to add back jobs at the start of the year, although the pace of growth slowed slightly from more rapid gains recorded at the end of last year. Area employers added 30,500 jobs in the first quarter. Year over year, total employment expanded by 176,100 positions, a growth rate of nearly 5 percent.
- Chicago's government sector has provided stability in the larger employment market during the past few years. During the past 12 months, government employment added 13,700 positions and grew by roughly 3.5 percent.
- One of the region's largest employers is growing in the Chicago area. John Deere recently announced plans to expand its U.S. footprint with the opening of a new office in Fulton Market. The new space is set to open in the second half of 2022, bringing 150 information technology jobs to the area.
- **Forecast:** The local labor market in Chicago is slated for continued growth throughout the remainder of the year. Chicago employers are forecast to add 110,000 jobs in 2022, a 3 percent rate of growth for the year.

> Year over year, employment expanded by 176,100 positions.

Employment Overview



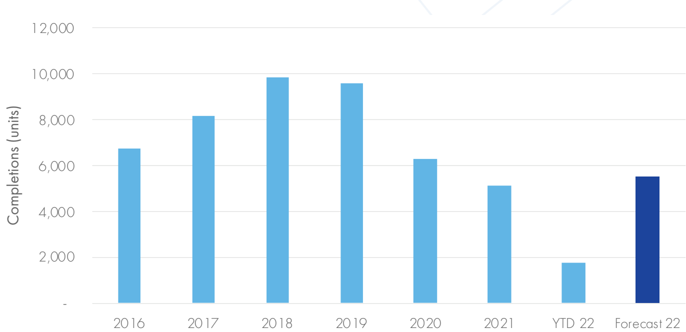
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> Projects totaling 8,160 units are under construction.

- Multifamily developers delivered nearly 1,800 units during the first quarter, similar to levels from one year earlier. Construction activity peaked in 2018 and has since slowed in recent years.
- Dozens of multifamily projects are underway in the Chicago area with 8,160 units currently under construction, up 20 percent from one year ago. The most active areas for new development include Downtown Chicago and the North Lakefront submarket.
- Multifamily permitting slowed slightly to nearly 1,350 units in the first quarter. The number of permits pulled at the start of 2022 is down 15 percent from the average permitting volume in the first quarters of the last five years.
- **Forecast:** With a recent uptick in the number of units under construction, the pace of deliveries is expected to accelerate slightly in 2022. Projects totaling nearly 5,500 units are forecast to be delivered this year.

Development Trends



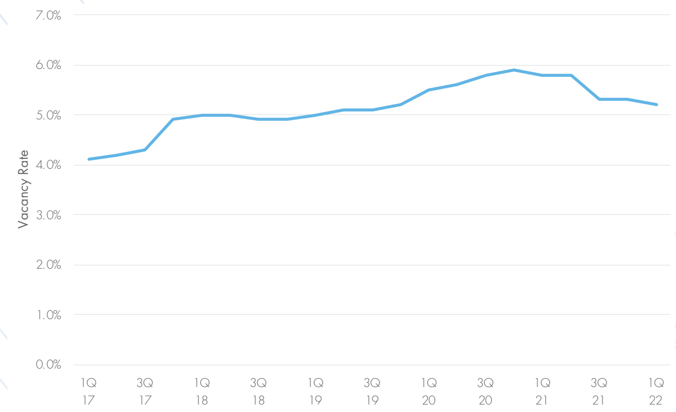
Sources: Northmarq, Reis

Vacancy

- The vacancy rate ticked lower in recent months, dropping 10 basis points in the first quarter to 5.2 percent. Vacancy rates in the Chicago area have been on a gradual improvement trend and have either dropped or held steady in each of the past five quarters.
- Year over year, vacancy tightened by 60 basis points. In the past 10 years, the rate has averaged 4.5 percent.
- Most of the vacancy declines in Chicago in recent months occurred in Class B and Class C properties. The combined Class B and Class C vacancy rate dropped 50 basis points in the first quarter to 3.3 percent.
- **Forecast:** The vacancy rate is expected to dip lower in the remainder of the year. Vacancy in Chicago is forecast to drop 30 basis points in 2022, finishing the year at 5 percent.

> The vacancy rate ended the first quarter at 5.2 percent.

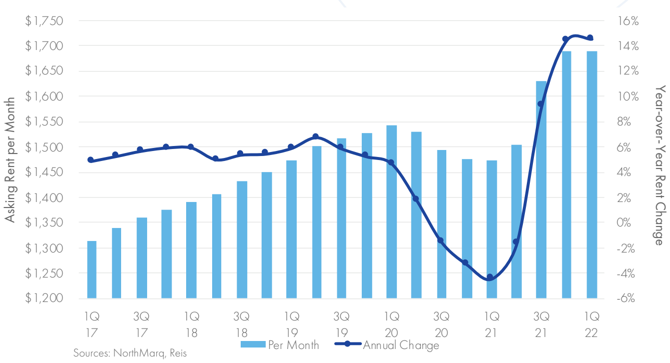
Vacancy Trends



Sources: NorthMarq, Reis

> Year over year, asking rents rose 14.5 percent.

Rent Trends



Sources: NorthMarq, Reis

Rents

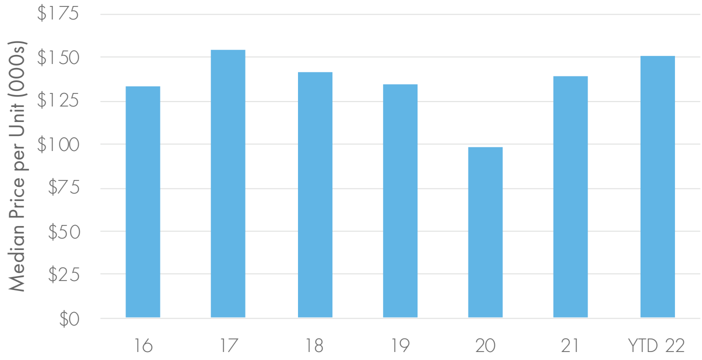
- Apartment rents in Chicago held steady in recent months. Average rents ended the first quarter at $1,688 per month, down $1 per month from the previous period.
- Despite no growth at the start of 2022, asking rents are considerably higher than one year ago. Average rents climbed 14.5 percent year over year. The most expensive submarket in the Chicago area is Gold Coast, where asking rents rose 10.8 percent in the last 12 months to $2,971 per month.
- Rents jumped across all asset classes during the last 12 months. Year over year, asking rents in the Class A segment of the market rose nearly 14 percent to $2,269 per month.
- **Forecast:** Asking rents are expected to trend higher in the coming quarters, though the pace of growth will slow in 2022 compared to the previous year. Average rents in Chicago are forecast to rise 3 percent this year to $1,740 per month.

Multifamily Sales

- Multifamily transaction activity slowed during the first quarter, as the number of sales declined more than 50 percent from the total at the end of last year. Despite the recent slowing, sales volume in recent months is ahead of levels recorded at the start of the past few years.
- Sales prices continued to trend higher in the first quarter, with the median sales price reaching $150,300 per unit, 8 percent higher than the median price in 2021. Transactions occurred throughout most of the Chicago area in recent months including a handful of sales along the water in Downtown Chicago and North/South Lakefront.
- As sales prices pushed higher, cap rates continued to compress. Cap rates averaged approximately 4.6 percent during the first quarter.

> The median sales price reached $150,300 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

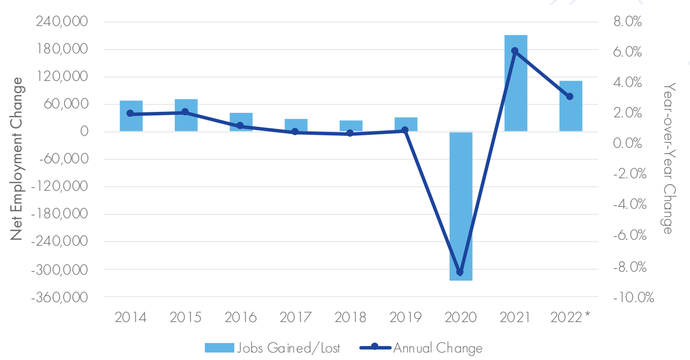
Property Name	Street Address	Units	Sales Price	Price/Unit
Ellyn Crossing Apartments	440 Gregory Ave., Glendale Heights	1,155	$137,000,000	$118,615
The Residences at Hamilton Lakes	1133 N Arlington Heights Rd., Itasca	297	$99,000,000	$333,333
The Iroquois Club Apartments	1101 Iroquois Ave., Naperville	272	$69,816,600	$256,679
Edenbridge Apartments	18134 S 66th Ct., Tinley Park	309	$34,300,000	$111,003

Looking Ahead

The Chicago multifamily market is set for further strengthening in the next several quarters. With more than 8,100 units currently under construction, the pace of apartment deliveries will accelerate slightly in 2022. As the employment market approaches a full recovery toward the end of the year, net absorption will likely remain elevated. This demand should closely track the anticipated levels of inventory growth, and the local vacancy rate should end 2022 marginally lower than at the beginning of the year. Although growth stalled in the first quarter, asking rents are forecast to trend higher in the coming months, reflecting the tightening operating conditions.

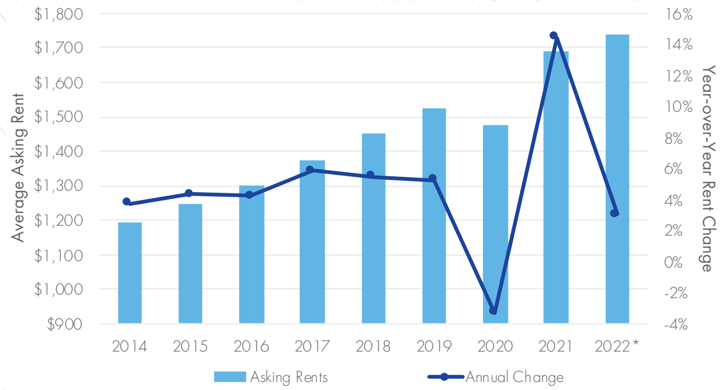
The multifamily investment market in Chicago is expected to be fairly steady in the remainder of the year. Current transaction activity levels should be sustainable, and prices have generally remained within an established range for the past several years. In the properties that have traded early in the second quarter, activity picked up in the sale of Class B assets, showing signs of a broadening transaction mix in the coming months. Despite increased borrowing costs and inflation concerns, the strong rent growth that was registered in 2021 should support market sentiment as potential acquisitions are underwritten. Cap rates compressed last year but have shown signs of leveling off thus far in 2022.

Employment Forecast



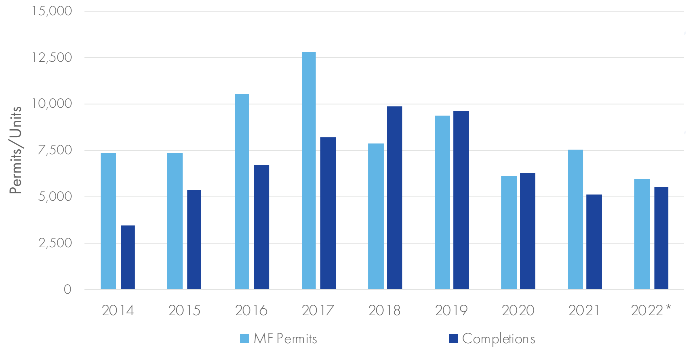
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



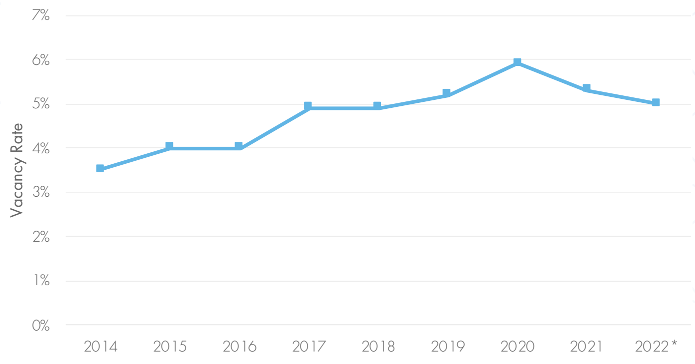
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching $70 billion, and $30+ billion in transaction volume.