Market Insights

Chicago Multifamily 2Q 2022

Northmarq

Construction Activity

9,317
Units under construction

2,678
Units delivered (YTD)

Market Fundamentals

4.8%
Vacancy

-100bps | Year over year change

$1,748
Asking Rent

+16.2% | Year over year change

Transaction Activity

$160,800
Median sales price per unit (YTD)

Significant Operational Strengthening Supporting Investment Outlook

Highlights

- Multifamily property performance metrics improved in Chicago during the second quarter. Vacancy tightened to a five-year low, and the pace of rent growth accelerated. Operating conditions will likely remain healthy for the next several quarters as deliveries of new units should closely align with demand growth.
- Local vacancy improved in recent months, dropping 40 basis points in the second quarter to 4.8 percent. During the past 12 months, the rate has tightened by 100 basis points.
- Rent growth accelerated after remaining mostly flat at the start of the year. Asking rents rose 3.5 percent during the second quarter to $1,748 per month. Year over year, rents in Chicago are up 16.2 percent.
- Sales velocity during the second quarter was similar to levels recorded at the start of the year. Prices rose in response to the strengthening fundamentals and rising rents; the median sales price year to date reached $160,800 per unit. Cap rates averaged roughly 5 percent.

Chicago Multifamily Market Overview

The Chicago multifamily market strengthened during the second quarter supported by a continuing rebound in the local labor market that has fueled renter demand for apartments. With area employers adding back jobs at a rapid pace, absorption levels accelerated in recent months, reaching more than 2,500 units during the second quarter. Nearly one-third of all new net move-ins in the last three months occurred in The Loop submarket, a sign of the reopening of the economy and a return to in-person work. As absorption gained momentum throughout the region, vacancy fell to its lowest figure in five years. These high occupancy levels have allowed multifamily operators to push rents higher across the Chicago market.

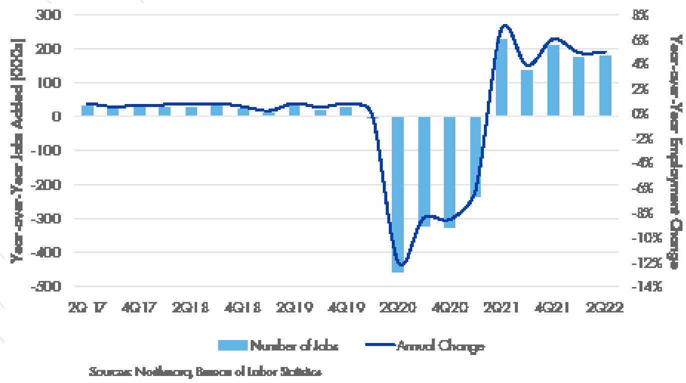
Multifamily sales activity spiked during the second half of 2021 but has since returned closer to past periods in recent quarters. The number of deals that have closed thus far in 2022 is in line with the pace recorded during the same period last year. Early indications suggest the market will sustain the recent pace of transactions, despite rising interest rates. Investors are responding to the market's improving fundamentals and the general reopening of the economy. Total employment in Chicago is expected to make a full recovery by the end of this year, which should further buoy investor sentiment. Per-unit pricing continued to trend higher in the second quarter; the median sales price to this point in the year reached $160,800 per unit, up 15 percent from 2021.

Employment

- The Chicago labor market continued to recover with the addition of 28,000 jobs during the second quarter. Year over year, total employment increased by 5 percent with the addition of nearly 180,000 workers.
- The leisure and hospitality sector gained momentum in recent months, adding 54,800 positions in the second quarter. During the past 12 months, this industry rebounded, expanding by nearly 20 percent with the addition of more than 60,000 jobs.
- Google recently announced plans to expand its presence in Chicago with the acquisition of the James R. Thompson Center in the central Loop. The tech giant, which employs 1,800 workers in the Fulton Market area, plans to create more than 1,000 jobs in its new office space by 2026.
- **Forecast:** Chicago employers are expected to continue to add jobs in the remainder of the year. The local labor market is on pace to add 115,000 positions in 2022, an annual growth rate of 3.1 percent.

> Year over year, total employment increased by 5 percent.

Employment Overview

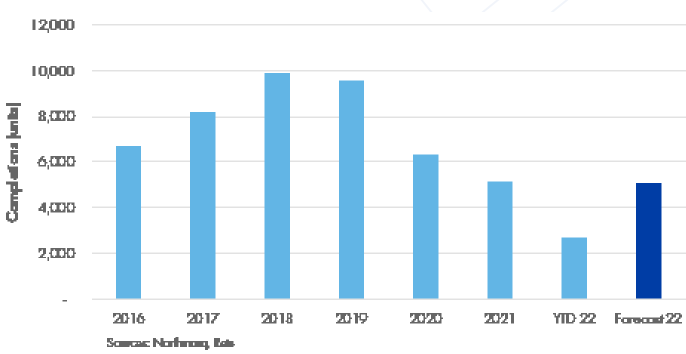


Development and Permitting

> Projects totaling more than 9,300 units are under construction.

- The pace of deliveries slowed in recent months as projects totaling roughly 900 units came online during the second quarter. Year to date, developers have completed nearly 2,700 apartment units.
- The construction pipeline continues to swell with projects totaling more than 9,300 units currently under construction in the Chicago area, up 25 percent from one year ago. Multifamily development is most active near the city center as approximately 2,500 multifamily units are currently underway in Downtown Chicago.
- Permitting accelerated in the last three months as developers pulled multifamily permits for more than 1,700 units in the second quarter, a 28 percent increase from the previous period. During the first half of this year, nearly 3,100 multifamily permits were issued, up from 2,700 permits in the same period in 2021.
- **Forecast:** Projects totaling nearly 5,100 units are forecast to come online in 2022, similar to the number of units completed in the prior year. Historically, developers have delivered an average closer to 7,500 units per year.

Development Trends

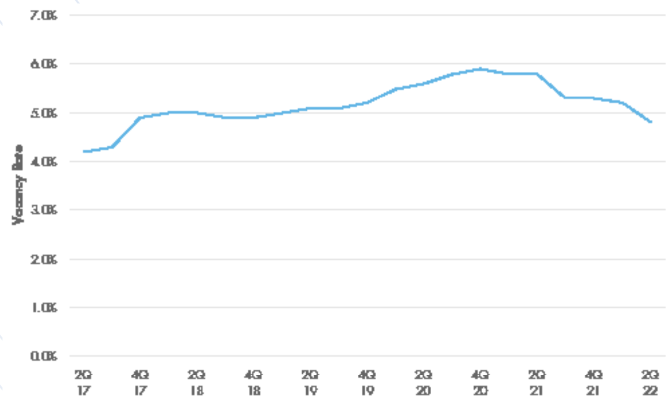


Vacancy

- The vacancy rate ticked downward in recent months after recording mostly stable conditions for the past several periods. Local vacancy dropped 40 basis points during the second quarter to 4.8 percent. This marked the lowest average vacancy rate in Chicago since mid-2017.
- Year over year, the market's average vacancy rate declined by 100 basis points. The Loop submarket posted the largest vacancy improvement in the past 12 months, with the rate dropping 360 basis points to 7.9 percent.
- The vacancy rate ticked lower across all asset classes in recent quarters, with the most dramatic declines occurring in Class B and Class C properties. The combined vacancy rate in Class B and Class C units ended the second quarter at 2.8 percent, down 130 basis points from one year ago.
- **Forecast:** Absorption levels are projected to slightly outpace supply growth in the second half of the year, allowing for a modest dip in the vacancy rate. Vacancy in Chicago is forecast to finish the year at 4.7 percent, down 60 basis points from the end of 2021.

> Vacancy dropped 40 basis points during the second quarter.

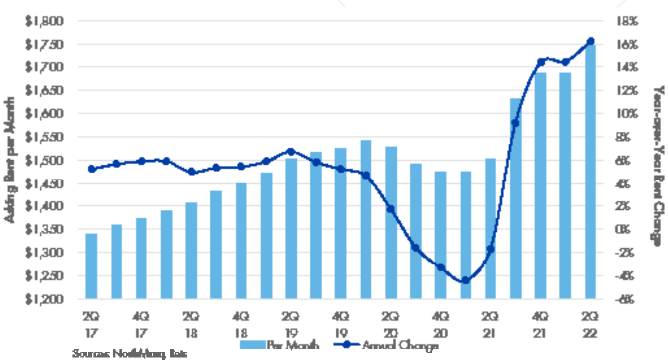
Vacancy Trends



Sources: Northmarq, Reis

> Asking rents in the last three months jumped to $1,748 per month.

Rent Trends



Sources: NorthMarq, Reis

Rents

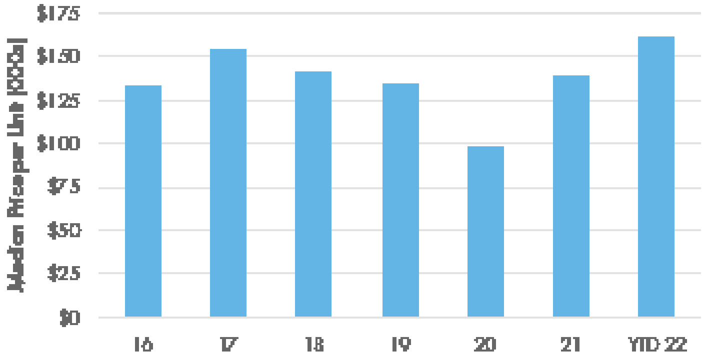
- After minimal growth in the first few months of the year, apartment rents rose at a rapid pace in the second quarter. Asking rents jumped 3.5 percent in the last three months to $1,748 per month.
- Year over year, asking rents are up 16.2 percent. Rent growth in the market has averaged about 4.5 percent per year during the past decade.
- During the past 12 months, combined average rents in Class B and Class C units rose 17.4 percent to $1,357 per month. Average Class A asking rents have spiked $300 per month in the past year, ending the second quarter at $2,334 per month.
- **Forecast:** Apartment rents are forecast to continue to climb in the coming quarters, although annual rent growth in 2022 will return closer to its long-term average. Asking rents in Chicago are expected to rise 5.5 percent this year to about $1,780 per month.

Multifamily Sales

- Sales activity was mostly stable to this point in the year, following a spike at the end of 2021. The number of deals that sold during the second quarter closely tracked levels from the previous period.
- The median sales price through the first half of the year reached $160,800 per unit, up 15 percent from the median price in 2021. Multifamily investors are usually most active near the city core in the Downtown Chicago and North Lakefront areas. During the second quarter, a handful of properties traded in the Porter County submarket.
- After compressing at the start of the year, cap rates ticked higher in recent months. Cap rates averaged approximately 5 percent in the second quarter. At the end of last year, most properties were changing hands with cap rates between 4.75 percent and 5.5 percent.

> The median sales price through the first half reached $160,800 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

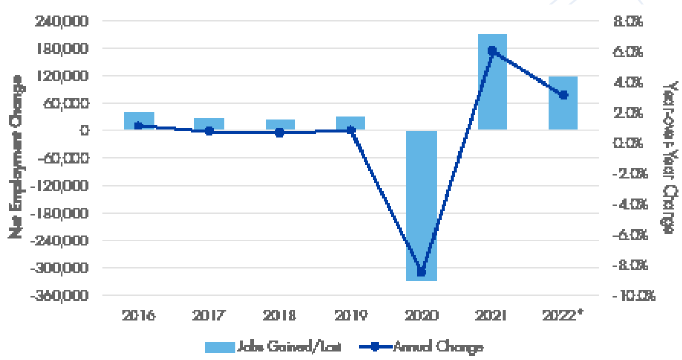
Property Name	Street Address	Units	Sales Price	Price/Unit
Legacy At Fox Valley	3750 E New York St., Aurora	272	$71,000,000	$261,029
Riverwood Apartment Homes	3649 173rd Ct., Lansing	354	$63,650,000	$179,802
Mount Prospect Greens	2000 W Algonquin Rd., Mount Prospect	344	$49,750,000	$144,622
Mandalane Apartments	450 Manda Ln., Wheeling	264	$46,000,000	$174,242
Terra Creek Apartments	375 Bienterra Trl., Rockford	278	$42,800,000	$153,957

Looking Ahead

Building on a strong performance during the second quarter, the Chicago multifamily market is projected for further growth in the remainder of the year. While most markets across the country are recording a steep rise in deliveries this year, supply growth in Chicago is forecast to come in below trend. As a result, absorption is expected to outpace deliveries in the next several periods, supporting a slight dip in the vacancy rate. The local economy has been recovering rapidly in recent quarters, although the pace will likely moderate in the second half of the year. With area vacancy at a four-year low, asking rents will continue to trend higher but will likely not repeat the unprecedented rate of growth in the previous year.

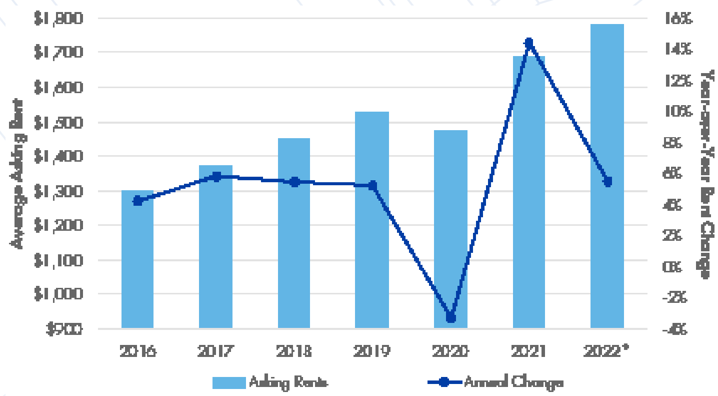
The Chicago multifamily investment market is expected to sustain momentum in the coming quarters, although the number of deals will likely trail last year's pace. Sales activity typically accelerates in the latter half of the year as investors rush to complete deals before year end. The transactions early in the third quarter already reflect a broader mix of properties changing hands. The sale of newer, Class A assets is forecast to pick up by year end, which will likely pull sales prices higher. Rising interest rates will impact the investment landscape locally and across the country, potentially driving cap rates higher. Local cap rates should average around 5 percent to 5.5 percent through the remainder of 2022.

Employment Forecast



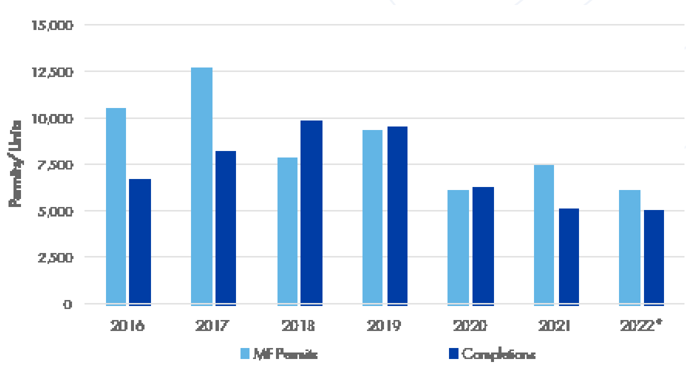
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



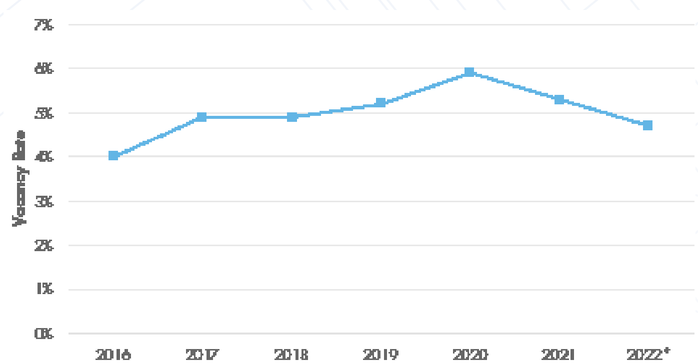
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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