

Market Insights

Chicago Multifamily 3Q 2022



Construction Activity



11,793

Units under construction

3,318

Units delivered (YTD)

Market Fundamentals



4.7%

Vacancy

-60bps | Year over year change

\$1,791

Asking Rent

+9.8% | Year over year change

Transaction Activity



\$145,700

Median sales price per unit (YTD)

Rents Rise as Renter Demand Outpaces Supply Growth

Highlights

- Operating conditions in the Chicago multifamily market continued to improve as asking rents rose, and vacancy ticked lower. While apartment developers are bringing new projects online, deliveries represent only a small percentage of existing inventory. Roughly 4,000 units are projected to be completed this year.
- The vacancy rate continued to improve in recent months, dipping 10 basis points during the third quarter to 4.7 percent. Year over year, the rate is down 60 basis points.
- Rent growth remained strong in recent months, rising 2.5 percent to \$1,791 per month. Year over year, asking rents are up 9.8 percent.
- The pace of sales during the third quarter closely tracked levels from the prior period. The median sales price to this point in the year is \$145,700 per unit, up nearly 5 percent from the median price in 2021. Cap rates averaged approximately 4.7 percent during the third quarter.

Chicago Multifamily Market Overview

Supported by a healthy local economy that continues to add jobs back at a strong pace, the Chicago multifamily market posted additional growth in the third quarter. Building on consistent gains to this point in the year, operators continued to push rents higher while the vacancy rate crept lower. Local vacancy reached its lowest figure in five years, as absorption levels closely tracked supply growth in recent months. Net absorption during the third quarter was most pronounced in Class B and Class C apartments, as more renters began to seek out prices that were below the metro average.

The multifamily investment market in Chicago maintained steady conditions in the past few quarters, with transaction volume staying within a consistent range. As investor demand remained stable throughout much of the region, sales prices have inched slightly higher from 2021 levels. The median sales price to this point in the year is \$145,700 per unit, up nearly 5 percent from last year's figure. While investors are consistently active in Downtown Chicago and North Lakefront, properties continued to trade throughout the metro area during the third quarter, including a handful of deals in the Zion and North Suburban Cook submarkets.

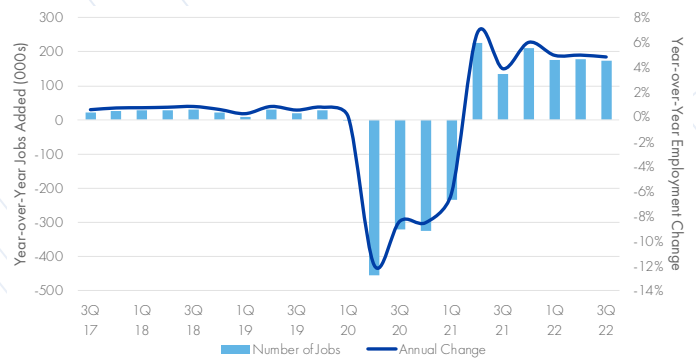
Employment

- Employers in Chicago added jobs at a rapid pace during the third quarter with the addition of nearly 38,000 jobs in the last three months. Year over year, the local labor market expanded by 174,700 positions, a gain of 4.8 percent.
- White-collar employment recorded strong growth in recent quarters. During the past 12 months, the professional and business services sector grew by 36,700 workers, a 5.3 percent annual increase.
- Tata Consultancy Services recently announced plans to expand its footprint in Naperville by creating 1,200 new jobs by the end of 2024. The technology services and consulting company already employs more than 3,000 people in Illinois with major clients including United Airlines and Walgreens.
- Forecast:** Area employers are projected to continue to add jobs in the fourth quarter. Total employment is expected to advance by 3.4 percent in 2022 with a gain of 125,000 jobs.



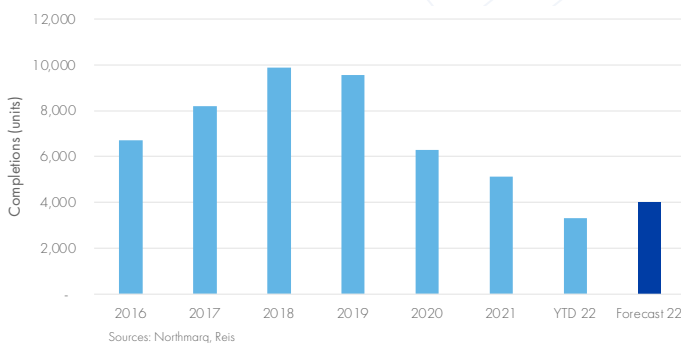
Year over year, the local labor market expanded by 174,700 positions.

Employment Overview



Nearly 11,800 units are currently under construction.

Development Trends



Development and Permitting

- The pace of deliveries continued to slow after a strong start to the year. Projects totaling approximately 640 units were delivered during the third quarter, bringing the year-to-date delivery total to roughly 3,320 units.
- New projects continue to break ground in the Chicago area with nearly 11,800 units currently under construction throughout the region, up 32 percent from one year ago. The most active areas for new development include Downtown Chicago and North Lakefront with more than 4,300 units currently underway in these submarkets.
- Permitting gained momentum in recent months as developers pulled permits for roughly 2,340 multifamily units during the third quarter, a 35 percent increase from the previous period. Year to date, permits for 5,420 units have been issued, up less than 4 percent from the same period in 2021.
- Forecast:** Apartment developers are expected to deliver new units at a modest pace in the fourth quarter. Projects totaling roughly 4,000 units are projected to be completed in 2022, after more than 5,100 units came online in the preceding year.

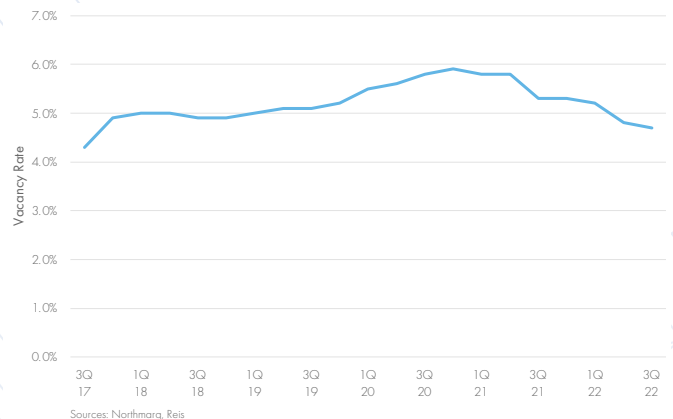
Vacancy

- The vacancy rate has crept lower in each quarter to this point in 2022. During the third quarter, vacancy dipped 10 basis points to 4.7 percent. This marks the lowest vacancy rate in Chicago in five years.
- Year over year, vacancy is down 60 basis points. With supply-side pressures limited, vacancy is expected to remain low. The tightest vacancy rate is being recorded in the Southwest Cook County submarket, where the rate fell 40 basis points during the past 12 months to 1.7 percent.
- While asking rents in Chicago continue to push higher, renter demand has been particularly strong in less expensive apartments. The combined local vacancy rate in Class B and Class C units fell 130 basis points in the past year to just 2.5 percent.
- **Forecast:** Net move-ins are expected to slightly outpace supply growth in the final months of the year, allowing for a modest dip in the vacancy rate. Vacancy in Chicago is forecast to finish the year at 4.6 percent, down 70 basis points from the end of 2021.



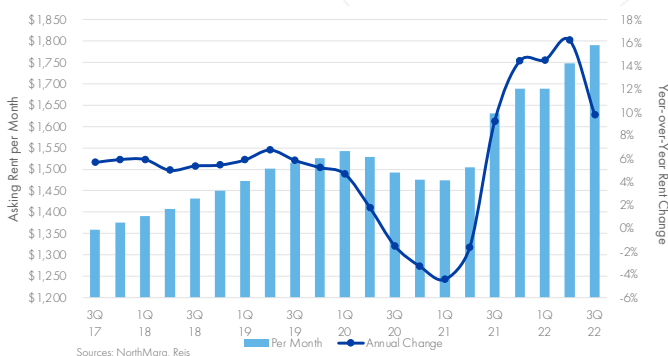
Year over year, vacancy is down 60 basis points.

Vacancy Trends



Asking rents have climbed 9.8 percent.

Rent Trends



Rents

- Apartment rents in Chicago continued to increase at a healthy pace during the third quarter, rising 2.5 percent to \$1,791 per month. During the last 12 months, asking rents have climbed 9.8 percent.
- While rents have increased throughout the market in 2022, the City West submarket posted some of the largest gains. Year over year, average rents in the submarket jumped 11.2 percent to \$2,105 per month.
- The strongest rent growth has been occurring in mid- and lower-tier properties. Year over year, combined average rents in Class B and Class C units advanced 11 percent to \$1,390 per month.
- **Forecast:** Local apartment rents are projected to rise at a modest pace through the remainder of the year. Asking rents in Chicago are expected to climb roughly 6.5 percent in 2022 to approximately \$1,800 per month.

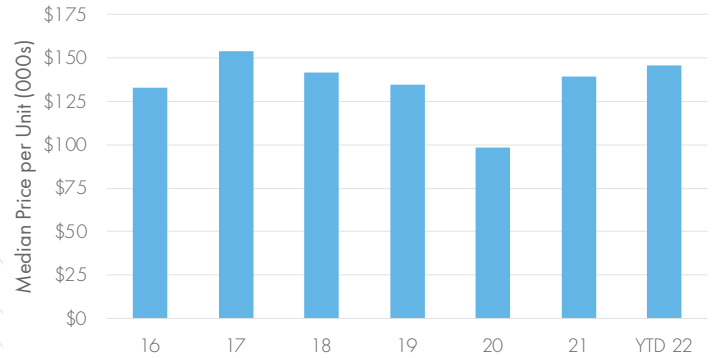
Multifamily Sales

- Sales volume held steady in recent months, as the pace of deals during the third quarter closely tracked the previous period. The number of transactions year to date is nearly identical to levels from the first three quarters of 2021.
- While pricing has inched lower in the last three months, the median sales price year to date remains above last year's figure. The median price to this point in the year is approximately \$145,700 per unit, up almost 5 percent from the median price in 2021.
- Cap rates have crept lower in recent months, averaging roughly 4.7 percent during the third quarter. Most properties have transacted with cap rates between 4 percent and 5.5 percent in the last three months.



The median price to this point in the year is approximately \$145,700 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

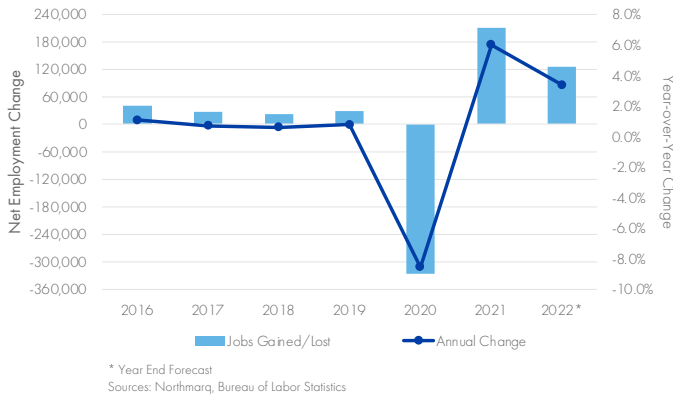
Property Name	Street Address	Units	Sales Price	Price/Unit
Echelon Chicago	353 N Desplaines St., Chicago	350	\$133,000,000	\$380,000
The Bennington	100 George St., Bensenville	571	\$106,000,000	\$185,639
Glen Oaks Commons	9700 Sumac Rd., Des Plaines	504	\$74,000,000	\$146,825
The Ponds Of Naperville	1301 Modaff Rd., Naperville	216	\$44,875,000	\$207,755
Olympic Village Apartments	31 Olympic Vlg., Chicago Heights	320	\$37,931,500	\$118,536

Looking Ahead

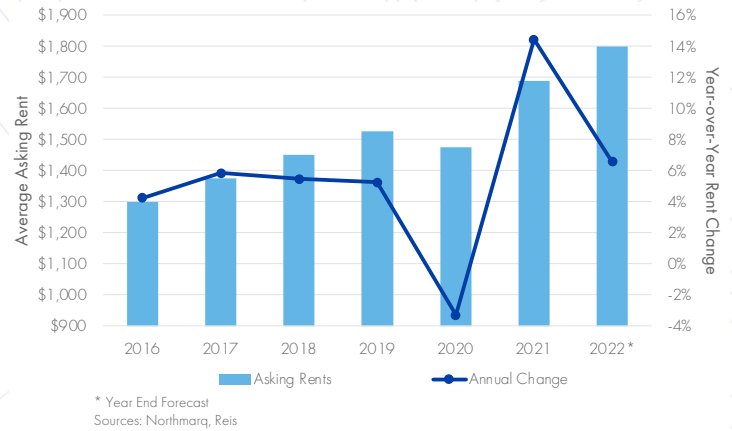
Following steady growth through the first three quarters, the Chicago multifamily market is set for a strong close to the year. The vacancy rate is expected to improve slightly in the fourth quarter, reaching its lowest year-end figure since 2016. With a low vacancy rate, multifamily operators should continue to have the ability to raise rents, although the pace of rent growth will taper off from the rapid gains recorded in recent quarters. Annual rent growth in Chicago averaged roughly 5 percent from 2015 to 2019, before falling and then spiking in the subsequent years. Going forward, rent growth should more closely track the region's long-term averages.

The Chicago multifamily investment market is expected to post a fairly stable performance in the remainder of the year. The transactions that closed early in the fourth quarter reflect that the pace of deals should closely track levels from recent periods. Additionally, sales prices should hold steady in the coming months, and the median price per unit will finish 2022 similar to last year's figure. The competitive impact from new supply growth will be more modest in Chicago than in many other major markets throughout the country. Furthermore, the healthy property fundamentals throughout the region should support investor demand and set the stage for continued stability in 2023.

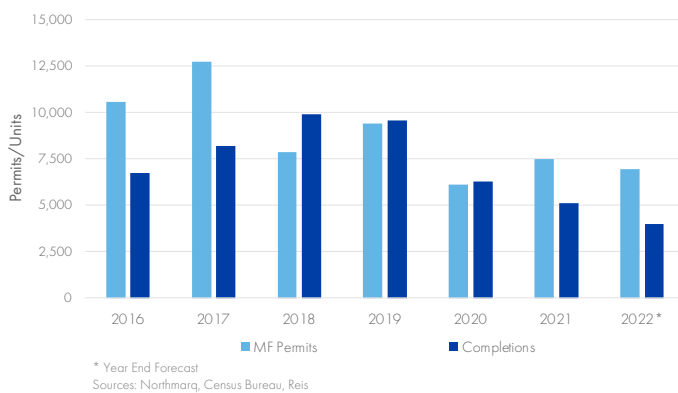
Employment Forecast



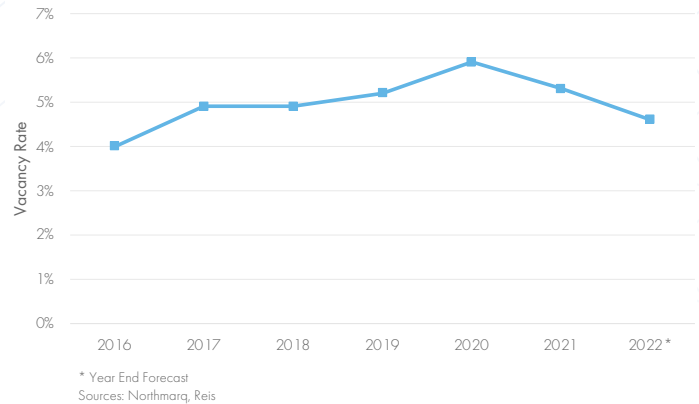
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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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.