Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	14,216
UNITS DELIVERED	1,562

MARKET FUNDAMENTALS

VACANCY RATE	5.0%
YEAR-OVER-YEAR CHANGE	-20bps
ASKING RENTS	$1,827
YEAR-OVER-YEAR CHANGE	+8.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$237,100

Chicago Multifamily
1Q 2023

MARKET INSIGHTS

Sales volume concentrated in Class A properties

HIGHLIGHTS

- Property fundamentals in Chicago softened somewhat during the first quarter as vacancy trended higher and asking rents inched lower. Multifamily developers increased activity levels, and more than 14,200 units are currently under construction.
- After holding steady during the second half of 2022, the vacancy rate rose 30 basis points in the first quarter to 5 percent. Year over year, the rate improved by 20 basis points.
- Asking rents in Chicago retreated slightly during the first quarter, dipping 0.5 percent to $1,827 per month. This followed an extended period of rapid growth; year over year, rents are up 8.2 percent.
- Sales velocity during the first quarter was minimal for a second consecutive year. While activity was limited, the median price in properties that sold spiked to $237,100 per unit, up 40 percent from last year's figure. Cap rates averaged approximately 5.5 percent.

CHICAGO MULTIFAMILY MARKET OVERVIEW

The Chicago multifamily market showed some mixed results during the first quarter. At the start of this year, deliveries of new units gained momentum, but vacancies edged higher, and rents recorded a modest dip. This followed an extended period of particularly strong property performance; despite some weakening in the first quarter, the vacancy rate is lower than one year ago, and rents are far higher. While many major markets across the country recorded a drop-off in renter demand in recent months, absorption levels in Chicago gained momentum in the first quarter. Net move-ins were strongest closer to the city center, particularly throughout the Downtown Chicago and North Lakefront submarkets where new construction was more concentrated.

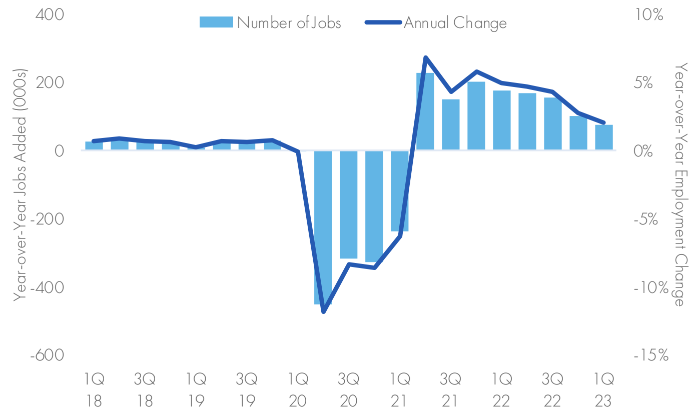
Investment activity in Chicago apartment properties at the start of 2023 closely tracked levels from the same period in the prior year. While sales velocity routinely accelerates as the year progresses, the impact of elevated capital costs may continue to stifle transaction volume for a few more quarters. In the transactions that have closed, per-unit pricing strengthened as the result of a healthy number of Class A properties changing hands. The median sales price in the first quarter was $237,100 per unit, up 40 percent from last year's figure. A handful of newer properties sold in both the Downtown and the suburban submarkets during the first quarter. Most Class A properties sold for between $300,000 per unit and $350,000 per unit.

EMPLOYMENT

- Total employment in Chicago expanded at a minimal pace during the first quarter with the addition of 5,600 jobs. Growth was more dynamic in 2022; year over year, the local labor market grew by 75,400 workers, an annual gain of 2 percent.
- Chicago's health care and social assistance sector consistently added jobs during the past year. This industry advanced by 20,000 positions year over year, increasing by 4.2 percent.
- Loop Capital Real Estate Partners is investing $100 million to build a film studio in South Cook County. Construction recently began on the 380,000-square-foot Regal Mile Studios project. The media campus is slated to be completed in late 2024 and is expected to create more than 2,000 jobs during the next five years.
- **FORECAST:** Employment growth is expected to slow in 2023, following two years of rapid recovery across the local labor market. Total employment in Chicago is projected to increase by 25,000 jobs, a growth rate of nearly 0.7 percent.

Year over year, the local labor market grew by 75,400 workers.

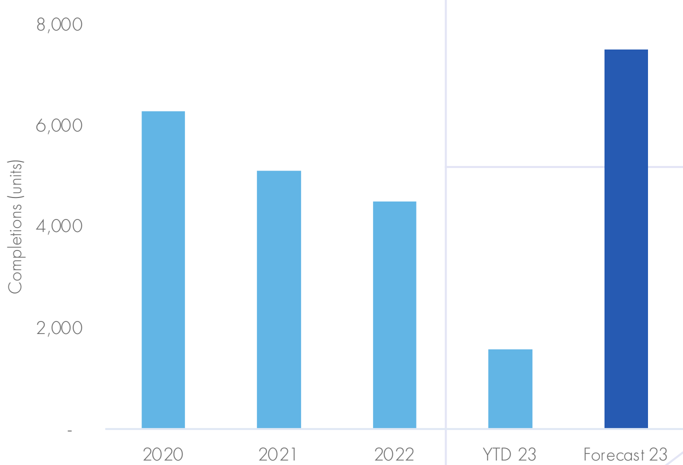
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 1,562 units came online in the first quarter.

DEVELOPMENT TRENDS



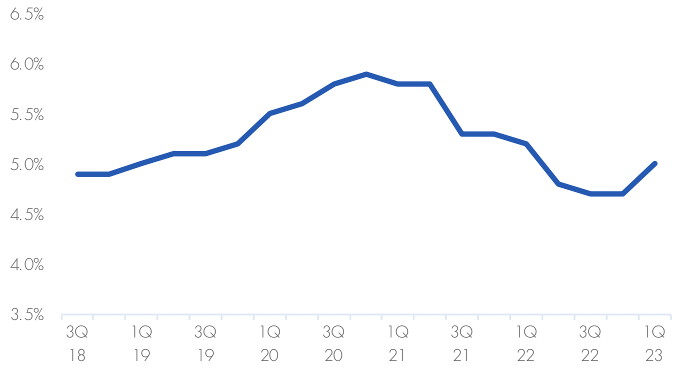
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily development activity in Chicago picked up at the start of the year. Projects totaling 1,562 units came online in the first quarter, a 44 percent increase from the previous period.
- The development pipeline continued to expand in recent months, with projects totaling more than 14,200 units currently under construction, up 45 percent from one year ago. While construction is ongoing throughout the region, new development is concentrated in the Downtown Chicago and North Lakefront submarkets.
- Multifamily permitting slowed somewhat during the first quarter after a strong second half of 2022. Developers pulled permits for nearly 1,800 units in the last three months, after permits for more than 5,000 multifamily units were issued in the second half of 2022.
- **FORECAST:** The pace of apartment completions is forecast to pick up in the coming months with projects totaling approximately 7,500 units slated to be delivered in 2023.

Year over year, vacancy improved by 20 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

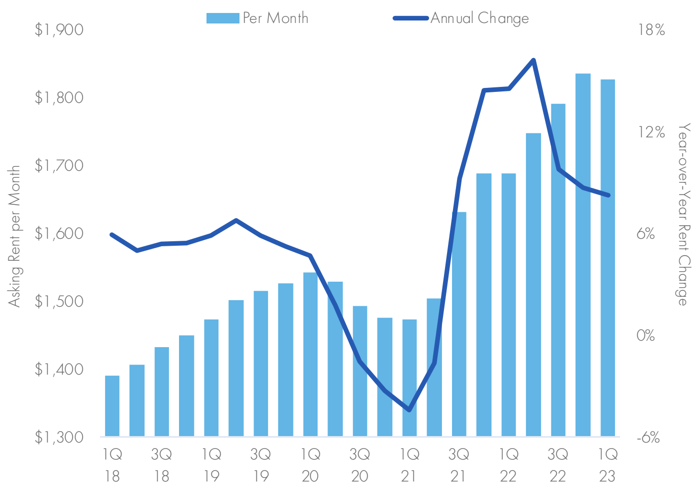
- The vacancy rate in Chicago ticked higher in recent months after holding steady during the second half of 2022. The rate rose 30 basis points in the first quarter to 5 percent. Year over year, vacancy improved by 20 basis points.
- Generally, absorption levels have been strongest in submarkets around Downtown Chicago in recent periods. With renter demand on the rise, the vacancy rate in The Loop submarket fell 320 basis points during the past year to 7.8 percent.
- Although absorption in Class A units has accelerated in recent months, vacancy conditions remain tightest among mid-tier and lower-tier properties. The combined vacancy rate in Class B and Class C units dropped 70 basis points in the last year to 2.6 percent. Vacancy in the lower tiers has been below 5 percent since 2015.
- **FORECAST:** While apartment demand should remain relatively strong, supply growth is expected to outpace absorption levels through the remainder of this year. Local vacancy is forecast to finish 2023 at around 5.2 percent, up 50 basis points for the year.

RENTS

- Asking rents in Chicago inched lower to start 2023, following rapid increases throughout much of the past two years. Local rents dipped 0.5 percent in the first quarter to $1,827 per month. Despite the recent decline, area rents are up 8.2 percent year over year.
- Some of the largest rent gains in the past year were recorded throughout the North Lakefront area. In the Belmont to Montrose submarket, asking rents rose 11.8 percent in the last 12 months to $1,788 per month.
- While operators pushed rents higher across all asset classes in the last year, some of the steepest increases occurred in Class B and Class C properties. Year over year, combined average rents in mid-tier and lower-tier properties rose 8.4 percent to $1,421 per month.
- **FORECAST:** Asking rents are expected to trend higher at a moderate pace for the remainder of the year. Apartment rents in Chicago are projected to rise around 2 percent in 2023 to roughly $1,875 per month.

Area rents are up 8.2 percent year over year.

RENT TRENDS



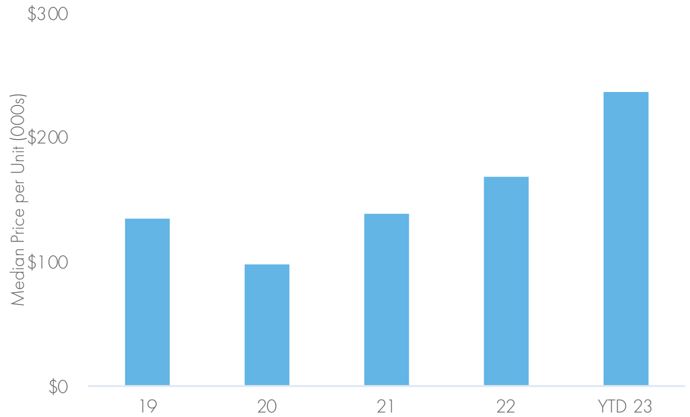
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction activity continued to decline in Chicago at the start of 2023. The number of properties that changed hands in the first quarter was down 33 percent from levels recorded at the end of 2022.
- Despite the quarterly decline, the number of transactions that closed at the start of this year was nearly identical to the volume during the first quarter of 2022. Last year, transaction activity was strongest during the second and third quarters.
- Prices have trended higher year to date, buoyed by sales of newer, Class A properties accounting for an outsized share of the transaction mix. The median sales price to this point in 2023 is $237,100 per unit, up 40 percent from the median price last year.
- Cap rates climbed in the early months of the year and averaged around 5.5 percent during the first quarter. Cap rates were averaging approximately 4.7 percent one year ago.

The median sales price to this point in 2023 is $237,100 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

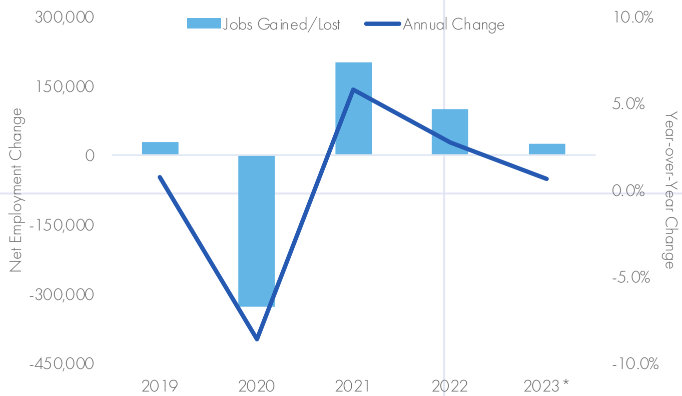
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Lincoln Park Plaza	600 W Diversey Pky., Chicago	256	$119,000,000	$464,844
Xavier Apartments	625 W Division St., Chicago	240	$81,000,000	$337,500
Courthouse Square	250 S Naperville Rd., Wheaton	149	$50,750,000	$340,604
The Reserve on Washington	1821 S Washington St., Naperville	164	$22,700,000	$138,415
Waterford Estates	17400 Kedzie Ave., Hazel Crest	253	$20,232,540	$79,971

LOOKING AHEAD

While occupancy conditions softened a bit during the first quarter, Chicago's multifamily demand markers remain fairly strong, and the overall outlook for the market is positive. Following four consecutive years of declines in annual deliveries, the pace of construction will pick up in 2023. Developers are forecast to complete approximately 7,500 new units this year, after fewer than 4,500 units came online in 2022. Development activity is heavily concentrated in the Downtown Chicago and North Lakefront submarkets, with nearly 10,000 units under construction in these areas and poised to deliver in the next few years.

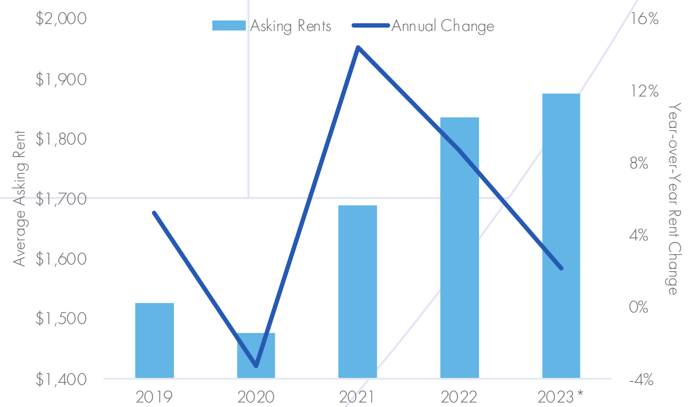
The Chicago multifamily investment market got off to a sluggish start to 2023, a fairly common trend for the region. While slow starts followed by transaction surges in the remainder of the year are routine, there are other factors at play that will likely restrict transaction activity in the coming quarters. Elevated borrowing costs are expected to eventually trend lower, but significant improvement may not occur until the fourth quarter. Cap rates have reached the mid-5 percent range, which may be high enough to move some buyers off of the sidelines by the end of the year.

EMPLOYMENT FORECAST



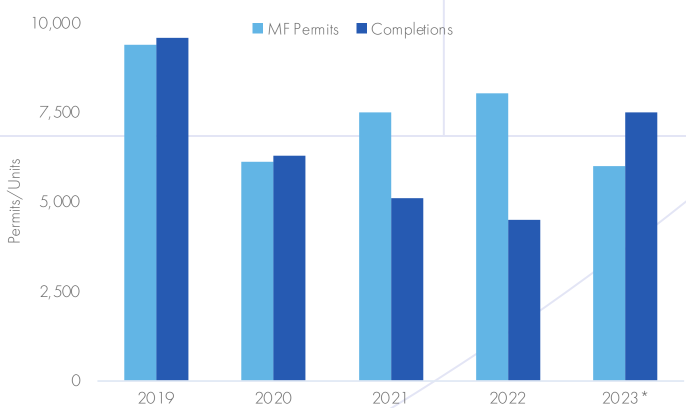
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



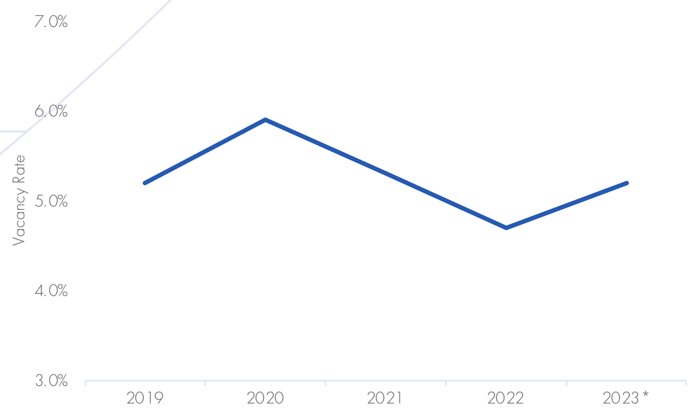
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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