MARKET REPORT

Multifamily

Chicago Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

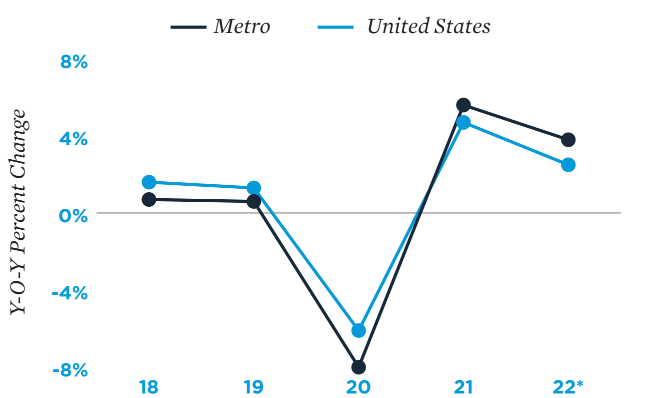
2Q/22

Demand Returns to Central Areas; Suburban Market Maintains Strength

Absorption in urban locales accelerates. Due to space constraints in the urban core, new supply has and will continue to be limited in the core this year. This has produced historically tight conditions in many central neighborhoods, as construction in the core has been unable to match renter demand. Data shows a 450-basis-point annual drop in vacancy within Chicago proper at the end of March. Competition for units here is likely to result in sharp rent climbs this year, especially in locales like Lincoln Park, Ukrainian Village and Andersonville. Also, the return to in-person work downtown supported near nation-leading annual vacancy contraction in The Loop and West Loop areas entering the second quarter. This tightness may spur more development in central locales in future years.

Pair of submarkets pilot suburban brawn. Demand for housing outside of the core is strong, with 13,700 units absorbed in 2021, despite the completion of only 4,200 rentals. Two submarkets have outperformed, even as suburban locales as a whole report solid performance. In Schaumburg, the apartment vacancy rate tightened 550 basis points year-over-year to 1.9 percent, with rent growth over 16 percent annually. Meanwhile, vacancy retreated 410 basis points in Arlington Heights-Palatine, with annual rent growth over 18 percent in March. Population gains in northwestern suburbs like Huntley and Pingree Grove have also aided performance in these locales.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

175,000 JOBS *will be created*

EMPLOYMENT:

Chicago's labor market is poised to shift from the recovery phase to a new growth cycle in 2022, as employment is set to swell by 3.8 percent by year-end. This will bring the metro job total nearly 25,000 positions ahead of the pre-pandemic high.

6,000 UNITS *will be completed*

CONSTRUCTION:

After six consecutive years of inventory growth of at least 1.0 percent, builders will expand stock by 0.8 percent this year. West Loop-Fulton Market has a sizable pipeline of proposed projects, leading to more completions here in the future.

100 BASIS POINT *decrease in vacancy*

VACANCY:

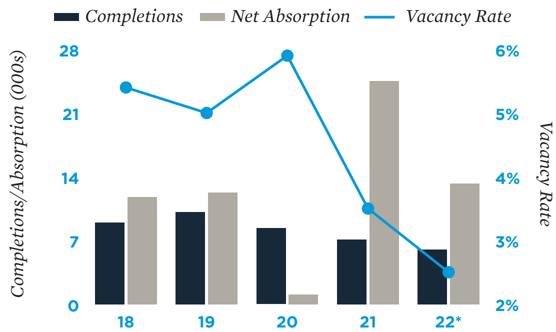
After sliding 250 basis points last year, vacancy in Chicago is expected to drop to 2.4 percent. This rate is less than half of the 2019 vacancy level. Available stock will drop beneath 18,000 units for the first time since 2000.

7.2% INCREASE *in effective rent*

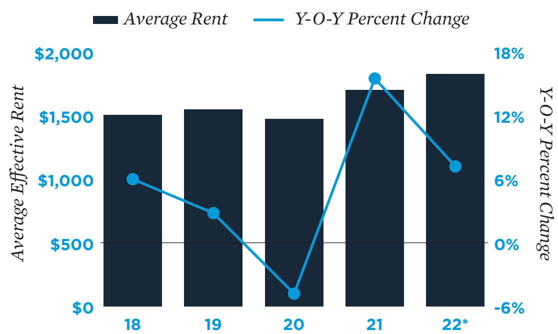
RENT:

A dearth of vacant units will spur competition among renters for available apartments, contributing to the average effective rent reaching $1,826 per month by year-end. This comes after rents advanced by more than 15 percent in 2021.

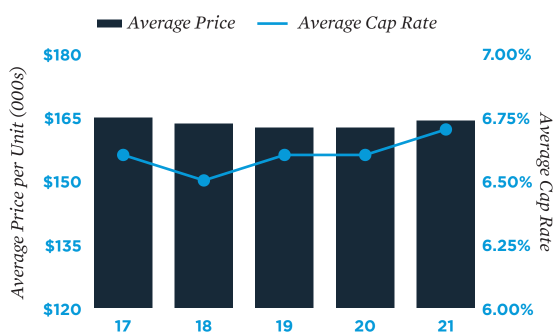
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

7,830 units completed

- Downtown locales like The Loop, West Loop and River North-Streeterville have reported the highest number of new units in the core.
- More than half of the units completed in the last 12 months have opened in suburban Chicago, with mixed-use multifamily and retail projects near public transit dominating the development pipeline.

VACANCY

310 basis point decrease in vacancy Y-O-Y

- After dropping 240 basis points in the 2021 calendar year, availability in Chicago has dropped another 60 basis points during the first quarter, lowering overall vacancy to 2.9 percent.
- Vacancy within Chicago city limits shed roughly 140 basis points during the first quarter, bringing the rate to 4.0 percent in March.

RENT

18.5% increase in the average effective rent Y-O-Y

- Scant availability in high-demand submarkets has raised the metro's average effective rental payment to $1,825 per month in March.
- Record suburban absorption supported a 13.6 percent rate bump in the 12-month period ended in March. Core rent escalation exceeded this pace of increase, notching a 19.9 percent rise.

Investment Highlights

- Transaction velocity climbed during 2021, culminating in a record-breaking fourth quarter for sales volume. Trades in the CBD drove much of the volume, as pricing here is higher than the rest of the metro. Downtown and North Lakefront are primary targets for buyers, driven by the elevated levels of institutional-grade stock in both areas.
- Average cap rates in the metro climbed 10 basis points last year to 6.7 percent. Uncertainty surrounding future demand in Downtown Chicago at the start of 2021 resulted in a higher proportion of suburban assets trading in the first half of the year than usual, applying upward pressure to the average cap rate. First-year yields higher than many U.S. metros will continue drawing out-of-state buyers to Chicago.
- Investors looking for below-average entry costs are extremely active in Southwest Side, Chicago, where sale pricing is $107,000 per unit on average. Elevated yields also draw buyers to this locale, as the average cap rate lands roughly 100 basis points higher than the metro mean.
- Northwestern cities are rapidly growing, stimulating a climb in transactions within the Far Northwest Chicago Suburbs submarket.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for $1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.
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