MARKET REPORT

Multifamily

Chicago Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

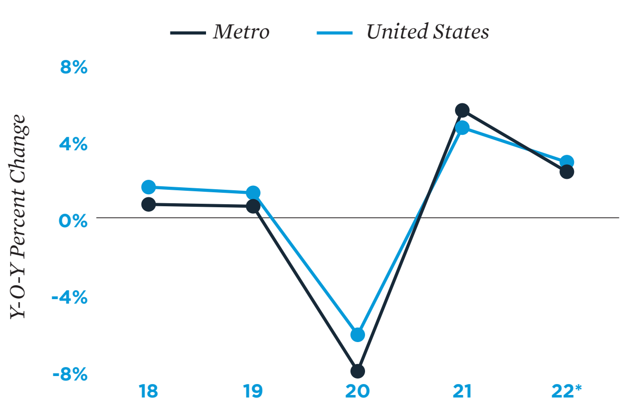
3Q/22

Tight Conditions Spark Record Rent Growth; Sales Activity Hits Post-Pandemic High

Availability sits near record low in suburban Chicago. Throughout the first half of 2022, vacancy in suburban portions of the metro rose slightly from the year-end 2021 level, but held beneath the historic average, resting at 3.3 percent in June. This level of availability is 70 basis points below the pre-pandemic record low set in 2015 and 2019. Metrics here improved during the pandemic as renters sought out larger apartments with more access to outdoor space. Momentum has not dissipated as the urban core reopens, evidenced by net absorption above 8,000 units during the 12 months preceding July — more than 2,000 units above the previous annual period and 1,700 units above the trailing five-year average. This suggests the pandemic-induced suburban flight is an acceleration of migration trends for aging millennials, as opposed to a temporary surge.

High-demand central areas record sharp rent climbs. Within Chicago proper, apartment fundamentals are also nearing records, with vacancy through the first two quarters of 2022 below any recording since 2014 at 4.3 percent. Additionally, vacancy sits below this measure in crucial lakefront locales, registering at 3.8 percent in the Uptown-Wrigleyville area and 3.1 percent in Lincoln Park-Lakeview. Exceptional tightness producing heightened competition among renters in these two locales sparked rent increases above 16 percent year-over-year. Additionally, vacancy fell 120 basis points below the 2019 level in Streeterville-River North, inducing a 19 percent annual lift in the average rent entering July.

Employment Trends



** Forecast*

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

Multifamily 2022 Outlook

110,000 JOBS *will be created*

EMPLOYMENT:

Chicagoland employers will continue expanding payrolls, reaching a 2.4 percent rate of job creation during 2022. By the end of this year, the employment count will be within 30,000 roles of the 2019 figure.

6,200 UNITS *will be completed*

CONSTRUCTION:

Builders will complete the smallest quantity of units since 2015, when just under 5,000 apartments were finalized. This decrease will aid existing structures, as inventory will expand by only 0.8 percent in 2022.

10 BASIS POINT *decrease in vacancy*

VACANCY:

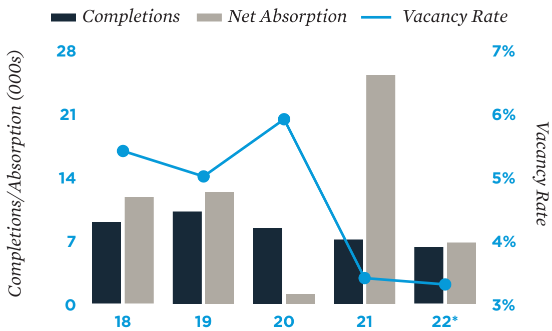
Following the 250-basis-point reduction in 2021, vacancy is set to maintain its downward trajectory this year. The 3.3 percent figure forecast for 2022 is the lowest year-end rate in more than two decades.

9.7% INCREASE *in effective rent*

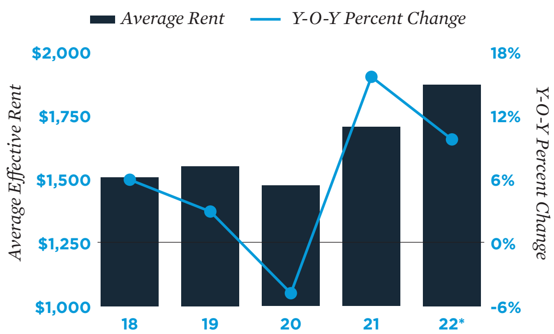
RENT:

Chicago is on pace to record its strongest two-year stretch of rent growth on record. The nearly 27 percent lift since the start of 2021 will bring the average effective rent to $1,870 per month.

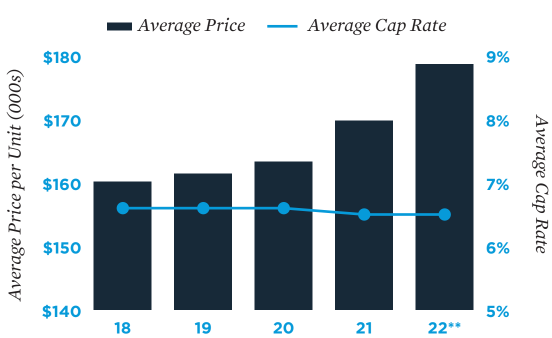
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

7,467 units completed

- Developers expanded inventory by 1.0 percent during the year preceding July, with the largest swaths of new supply located in neighborhoods downtown, such as Fulton Market, River North and Gold Coast.
- While central submarkets are adding the most units, construction activity is also substantial along public transit lines in select suburbs.

VACANCY

160 basis point decrease in vacancy Y-O-Y

- Metrowide vacancy fell to 3.3 percent entering July. During the 12-month period ended in June, vacancy in the CBD dropped 270 basis points to 4.3 percent, while suburban vacancy declined 80 basis points to 3.3 percent.
- Vacancy decreased on an annual basis in 17 of the metro's 20 submarkets, with the Lincoln Park-Lakeview and The Loop areas leading in magnitude.

RENT

17.2% increase in the average effective rent Y-O-Y

- After receding mildly during the previous annual stretch, rent growth regained upward movement during the 12 months preceding July. At the end of the second quarter, the average monthly rent was $1,826.
- Rents climbed more than 14 percent in the suburbs to $1,581 per month on average. In Chicago proper, the mean grew 17 percent to $2,153 per month.

Investment Highlights

- Sales velocity climbed to record heights during the first six months of 2022, as low vacancy in the suburbs, high rent growth and improving conditions in the core bolstered investor confidence. Interest rate movements may impact velocity in the near term, but improving property performance metrics should help maintain an active marketplace. The average sale price grew 6 percent during the last 12 months, reaching $175,000 per unit.
- Class A properties trade frequently in central neighborhoods like Streeterville, South Loop and Fulton Market, as well as northern parts of the city like Logan Square, Lincoln Park and Uptown. Per unit pricing in these locales is among the highest in the metro, at roughly $335,000 on average for high-end dwellings. Institutional buyers expecting demand for urban living to persist over the longer term have an appetite for these types of listings.
- Within suburban Chicago, historically low vacancy in the Naperville-Aurora and Arlington Heights-Schaumburg areas drew investors to assets across the apartment spectrum. Pricing in these areas is slightly under the metro average, while first-year yields are typically between 6 percent and 7 percent, but can climb higher in portions of Aurora.