MARKET REPORT

Multifamily

Chicago Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

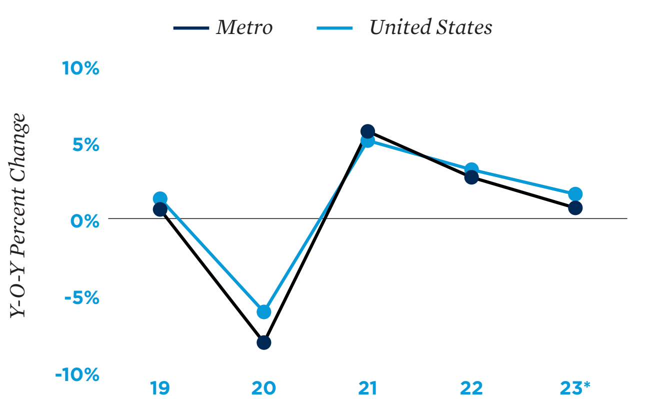
3Q/23

Despite Notable Out-Migration, Vacancy Adjusts Minimally Amid a Reduced Delivery Slate

Strong local job market aids apartment usage. In July of this year, Chicago's unemployment rate reached 3.8 percent, its lowest point since immediately before the pandemic. This job market strength was achieved despite substantial migration outflows. By year-end, the local population will register 2 percent below its 2019 total, the fourth-largest decline behind only San Francisco, New York City and Los Angeles. Still, a tight employment landscape is benefiting multifamily demand. Over the 12-month period ending in June, vacancy among one-bedroom apartments expanded at a slower pace than two- and three-room units, suggesting a strong job market is promoting more renters to live alone rather than seek out roommates. This allowed the metrowide vacancy rate to remain 100 basis points below its long-term average in the second quarter of 2023.

Mild construction activity persists. Over the five-year span ending in 2020, Chicago added an average of 9,200 new units per annum. Since then, this delivery threshold has yet to be achieved, a trend that will be maintained in 2023. Although some benefits of reduced development activity are offset by a declining population, fewer supply additions direct demand to the metro's existing stock, helping Chicago boast one of the nation's smallest vacancy adjustments this year. This trend already appears to be manifesting in North Cook County, spanning Park Ridge up to Northbrook, and Lincoln Park-Lakeview. From April through June, vacancy fell by 30 basis points in North Cook and was unchanged in Lincoln Park on a quarterly basis.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

32,000 JOBS *will be created*

EMPLOYMENT:

Total employment continues to inch toward pre-pandemic highs this year as firms increase staff counts by 0.7 percent. This annual improvement will bring the metrowide count 17,300 jobs ahead of the year-end 2019 recording.

7,500 UNITS *will be completed*

CONSTRUCTION:

Builders add 1,300 more units this year than in 2022, increasing local stock by 1 percent by December. The Fulton Market and Uptown areas will account for more than 40 percent of 2023's delivery slate.

20 BASIS POINT *increase in vacancy*

VACANCY:

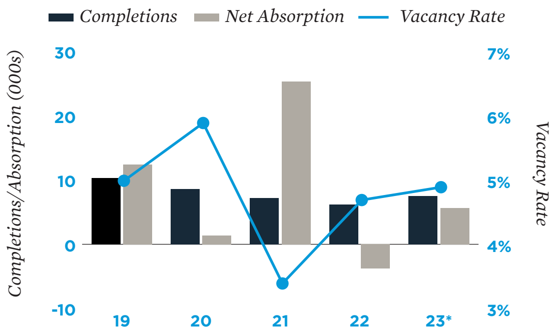
Chicago's pace of vacancy increase will match New York City as the second-smallest uptick among all major U.S. markets, behind only San Jose's 10-basis-point lift. This minimal adjustment brings the local rate to 4.9 percent at the end of 2023.

4.2% INCREASE *in effective rent*

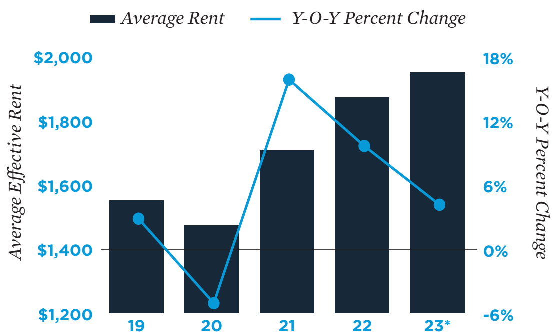
RENT:

One of the nation's lowest vacancy adjustments supports a pace of rent growth above its historical average this year. This upward momentum elevates Chicago's average effective rent to $1,950 per month.

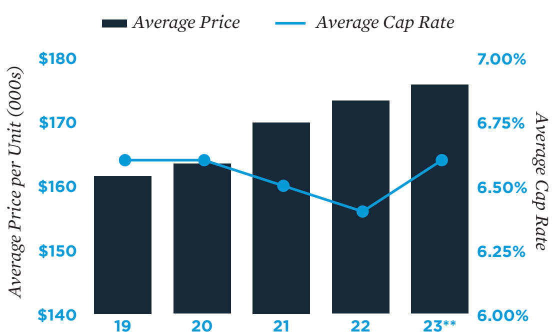
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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2Q 2023 - 12-Month Period

CONSTRUCTION
6,761 units completed

- Builders added nearly 2,500 units between April and June 2023, the second-largest quarterly supply influx since early 2020. This helped grow metrowide inventory 0.9 percent year-over-year in the second quarter.
- Though Schaumburg's 4.3 percent local stock increase was the fastest of any submarket, Fulton Market's 1,000 new units were the most by volume.

VACANCY
120 basis point increase in vacancy Y-O-Y

- Vacancy eased 20 basis points from April through June to 4.5 percent, the first quarterly decrease since reaching a multi-decade low early last year.
- Suburban vacancy expansion of 140 basis points doubled the CBD's pace of increase during the four-quarter period entering midyear 2023. This brought their rates to 4.7 and 4.9 percent, respectively.

RENT
5.7% increase in the average effective rent Y-O-Y

- Over the year ended in June, the pace of rent growth held above its 3.1 percent historical mean, lifting the average effective rate to $1,932 per month.
- The spread between an average Class A and Class B rent was $750 in June, nearly twice that of the mid- and low-tier sectors' gap. Luxury rents grew 0.7 percent, while Class B and Class C noted gains of at least 5.9 percent.

Investment Highlights

- Transaction velocity among $15 million-plus deals completed in the second quarter of 2023 remained on par with the prior three-year average. The River North area was the most active across Chicago submarkets. Despite a 60-basis-point rise in the local Class A vacancy rate year-over-year in June, this increase was nearly half that of the segment's marketwide hike.
- Northern neighborhoods, encompassing the Evanston-Rogers Park-Uptown submarkets, also commanded a sizable share of deal flow through the first half of 2023. A strong share of out-of-state firms made up buy-side activity here, while properties were typically between the 140 and 250 unit range. The area's average effective rent registered nearly 5 percent below the Loop's figure, a potential draw for cost-sensitive renters this year.
- Speculation over Chicago's proposed transfer tax hike may be contributing to some investor hesitancy. The bill would increase taxes on properties transacting for more than $1 million, further elevating their obligations from what already stand as some of the highest in the country. As a result, long-term owners are realizing gains. Nearly half of the deals completed in the first six months of the year had a holding period of at least a decade.