Market Report

IPA INSTITUTIONAL PROPERTY ADVISORS

MULTIFAMILY 2Q/26

Chicago Metro Area

2026 FORECAST

EMPLOYMENT
15,000 — Jobs will be created
0.3% — Increase Y-O-Y

CONSTRUCTION
4,450 — Units will be added
0.6% — Inventory increase Y-O-Y

VACANCY
4.1% — Vacancy rate
20 — BPS increase Y-O-Y

RENT
$2,270 — Average effective rent by year-end
2.7% — Increase Y-O-Y

Broad Demand Headwinds Not Strong Enough to Curtail Occupancy, Especially in the City

Slow inventory growth remains a key element. Chicago's supply risk will stay limited in 2026, as completions hold near last year's subdued level and the construction pipeline, as a percentage of inventory, remains among the smallest nationally. Population decline, weak net in-migration, and modest job gains may weigh on absorption, but limited relocation options should keep renter turnover low. With renewal conversion rates reaching a multiyear high of over 60 percent in early 2026, fewer units are likely to return to market. As a result, vacancy should rise only marginally by year-end.

Core and suburban vacancy appear strong. In Chicago proper, vacancy declined across all classes last year, pushing each near record lows. Momentum carried into early 2026, led by the West Side's strongest first quarter of new demand in at least 20 years and solid absorption in West Loop-Fulton Market and Edgewater-Uptown-Rogers Park, helping to bring CBD vacancy to 3 percent. Suburban vacancy fell near historic lows. Chicago's 55 percent return-to-office rate, below the national average of 68 percent, may support suburban nodes as renters seek affordability outside the core. Meanwhile, under 200 units will come online in the CBD next year, likely bolstering rent growth for a fifth year.

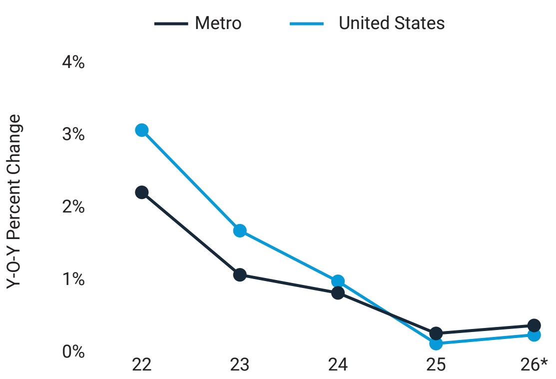
EMPLOYMENT

Chicago ranked first nationally for corporate expansions and relocations in 2025 for the 13th straight year, with more than 200 projects recorded. Still, the metro added only 9,800 net jobs last year, as broad-based economic uncertainty restrained hiring. Another year of subdued gains may follow, but Chicago's balanced economy remains a source of resilience. Ongoing investment across industrial, life sciences, entertainment, and tech should support long-term employment growth, even if near-term gains remain modest.

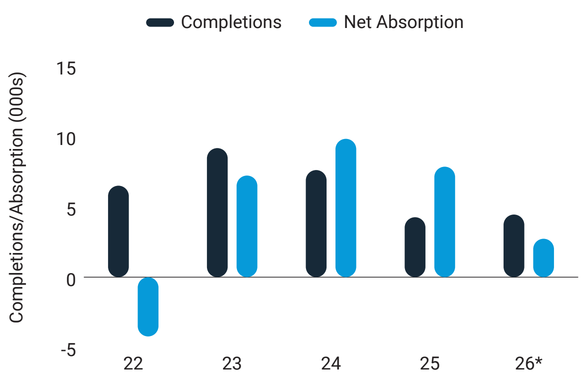
CONSTRUCTION

New-supply risk is limited. With two-thirds of completions slated for the second half, however, local fundamentals may face greater pressure after July. Lake County-Kenosha and West Loop-Fulton Market are among the nodes receiving the most supply, at roughly 1,000 and 600 units, respectively. While near-term construction remains constrained by high borrowing and development costs plus property tax uncertainty, adaptive reuse projects, especially in the core, may incrementally expand local inventories.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



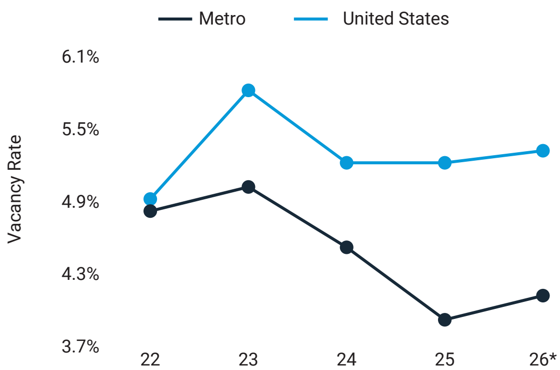
* Forecast

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

VACANCY

A directional shift in population growth, led by a 96 percent drop in net in-migration, and labor market fragility were not enough to offset last year's 44 percent pullback in new supply, ultimately allowing vacancy to fall in 2025. With 2026 completions near parity with 2025 and the aforementioned demand drivers likely to remain weak, vacancy may be tested this year. Still, Chicago's track record of underdevelopment should keep metrowide vacancy among the tightest nationally, more than 100 basis points below the U.S. mark.

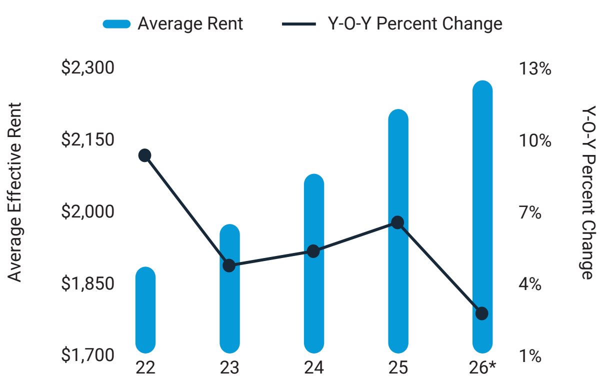
VACANCY TRENDS



RENT

Chicago recorded the third-strongest rent growth nationally in 2025 at 6.5 percent year-over-year. This pace, however, is expected to decelerate in 2026 as vacancy inches up. The handful of submarkets facing supply pressure, including Lake County-Kenosha, may see slower or flat rent growth in the near term. Still, Lake County's growing life-sciences sector should support longer-term, higher-wage employment, likely bolstering local renter demand as the near-term supply wave is absorbed over the coming years.

RENT TRENDS



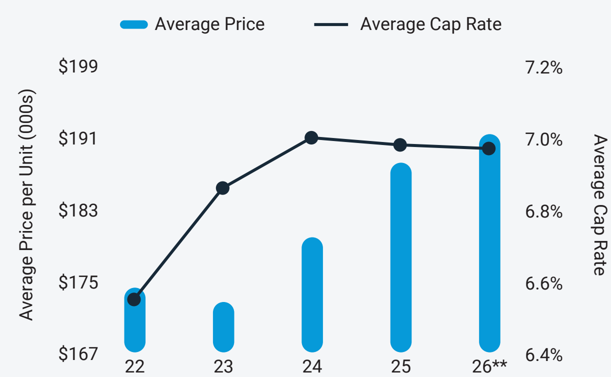
* Forecast ** Through 1Q

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

INVESTMENT HIGHLIGHTS

- Transaction velocity improved materially during the trailing 12 months ended March, rising 36 percent from the prior yearlong span and outpacing the 24 percent average among primary metros. Investors were likely drawn to Chicago's low vacancy and strong rent growth, both of which ranked among the top 10 major U.S. metros in 2025. Entry costs also rose by the fourth-largest margin nationally, up 5.2 percent, reflecting stronger cash flow expectations and increased interest in higher-quality, post-2005-vintage assets. Institutional activity also increased to a record level, accounting for more than two-thirds of the total dollar volume.
- Chicago's property taxes are among the highest in the country, at about 2.07 percent. In Cook County, property taxes have risen at roughly twice the pace of inflation over the past 30 years, highlighting the pressure local fiscal policy places on multifamily operating margins. The county's new loaded-cap-rate methodology may improve assessment transparency, but tax volatility remains a key underwriting risk. Still, limited supply pressure and strong rent growth should help offset some margin pressure.
- The more affordable Class C segment has maintained stronger cash flows than other segments since 2023, a trend that should continue to draw private capital. Will County may see increased deal flow, as expanding industrial and logistics job opportunities create a need for workforce housing. With vacancy at 2.7 percent and supply pressure easing, even modest gains in demand could support outsized rent momentum.

SALES TRENDS



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