Yardi® Matrix

Chicago Finds Its Stride

Multifamily Report Summer 2017

Supply Hits Cycle Peak

Rents Decline in Luxury Sector

Investors Eye Core Submarkets

Market Analysis

Summer 2017

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Development Boom Tempers Rent Growth

Chicago has seen rents moderate, in keeping with the nation as a whole, and features a bifurcation between luxury and working-class units. The boom in supply of luxury apartments has caused rent growth to slip in that segment, while increases continue among Renter-by-Necessity units. Chicago is preparing to receive a record level of new deliveries, with more than 8,000 expected to come online in 2017. Developers are focusing on high-rise residential communities in areas rich with amenities, making affordability a challenge.

Disparity characterizes the employment market, as well. Over the last year, Chicago gained 12,000 jobs in professional sectors but lost 11,000 positions in blue-collar segments. The metro has benefited from corporate expansions and relocations, such as those of Hickory Farms and Caterpillar, which moved downtown. As developers, investors and young renters continue to eye core markets, authorities are launching initiatives to support the revival and reinvention of the metro's industrial areas, such as Little Village.

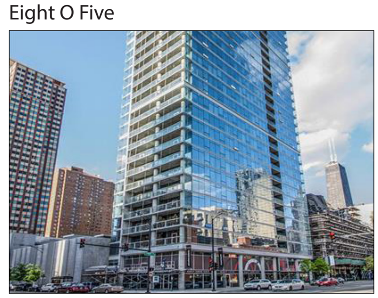
Investor demand is robust, with $3.8 billion in transactions having closed in 2016. Although downtown Chicago is gaining in prestige with renters, overall population is shrinking slightly, which serves to temper demand. We expect 2.5% rent growth for the metro in 2017.

Recent Chicago Transactions

Axis

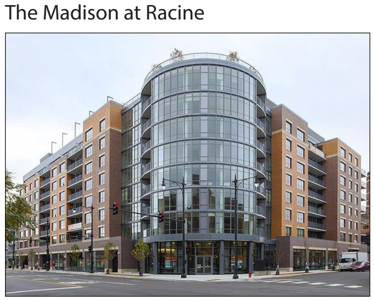
City: Chicago
Buyer: Group Fox
Purchase Price: $225 MM
Price per Unit: $366,044

Eight O Five



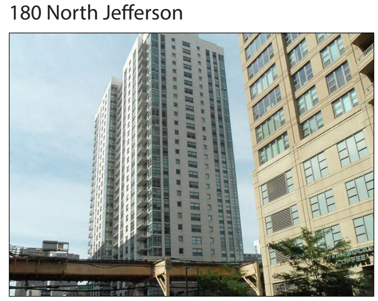
City: Chicago
Buyer: Berkshire Property Advisors
Purchase Price: $113 MM
Price per Unit: $385,274

The Madison at Racine



City: Chicago
Buyer: American Realty Advisors
Purchase Price: $100 MM
Price per Unit: $461,111

180 North Jefferson



City: Chicago
Buyer: Jones Lang LaSalle
Purchase Price: $96 MM
Price per Unit: $357,100

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On the cover: Photo by tupungato/iStockphoto.com

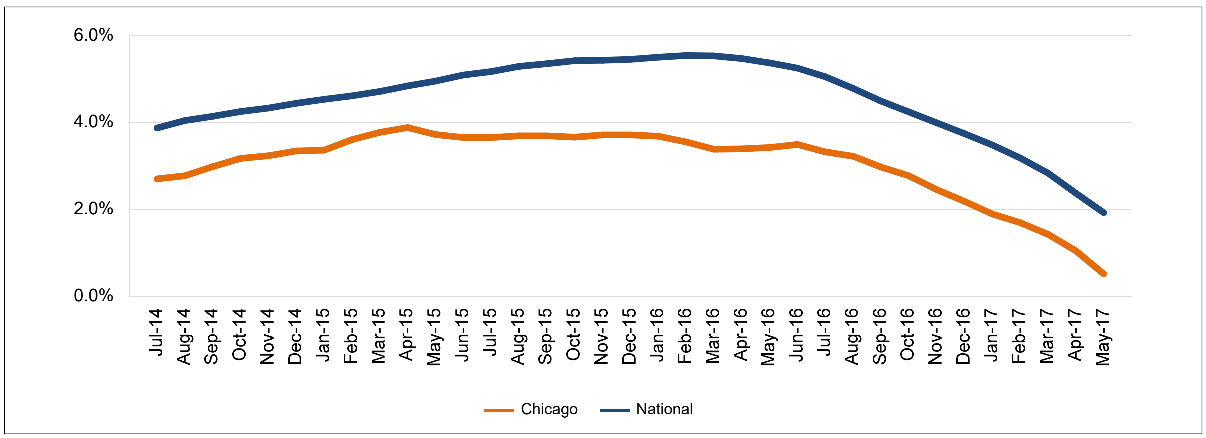
Rent Trends

- Rent growth in Chicago was 0.5% year-over-year through May, lagging behind the national rate of 1.5%. Average rents grew to $1,393, slightly above the nation's average of $1,316. With the metro experiencing a boom in luxury residential development and supply overtaking demand, rents in the Lifestyle sector dropped 1.6% to $1,944. Rents for working-class Renter-by-Necessity assets increased by 2.0% year-over-year through May to $1,177.

- While rent growth remains healthy, gains are mostly concentrated in suburban markets. Joliet (10.9%), North Park–Niles (9.0%), Grayslake (7.2%), Orland Park (7.1%) and DeKalb (6.5%) had the highest increases in the metro. While downtown areas are still seeing robust demand for living spaces, the record number of units expected to come online—especially in the high-end sector—has led to a decline in rental rates. Rents in core areas such as the Near North Side, the Near South Side, the Loop and Lincoln Square fell by more than 2.0%, while Zion–East saw the largest decrease in the metro (-12.4%).

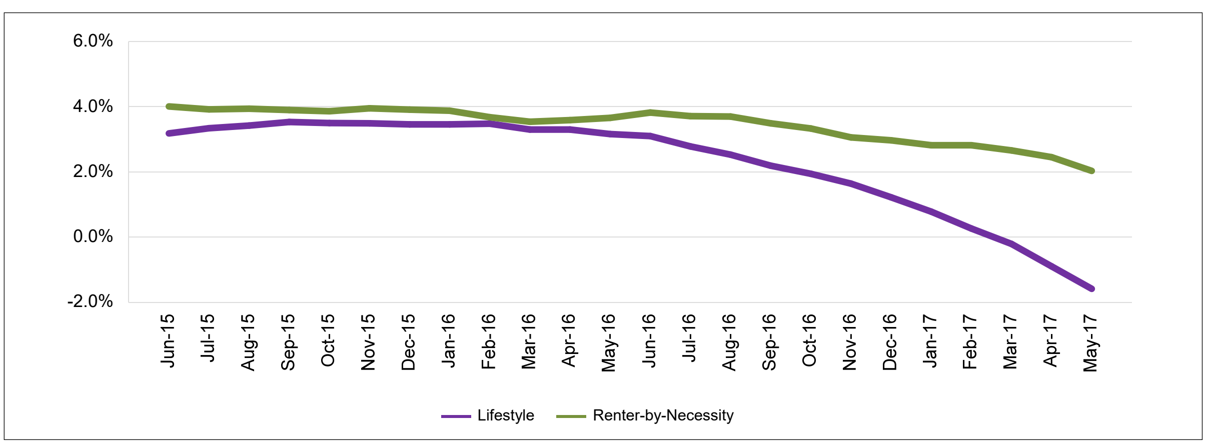
- Occupancy levels in Chicago grew slightly, to 94.6% as of April, up from 94.4% in March, with new units being absorbed rather quickly, primarily the micro-units and smaller apartments downtown. Yardi Matrix forecasts rent growth of 2.5% for 2017.

Chicago vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Chicago Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

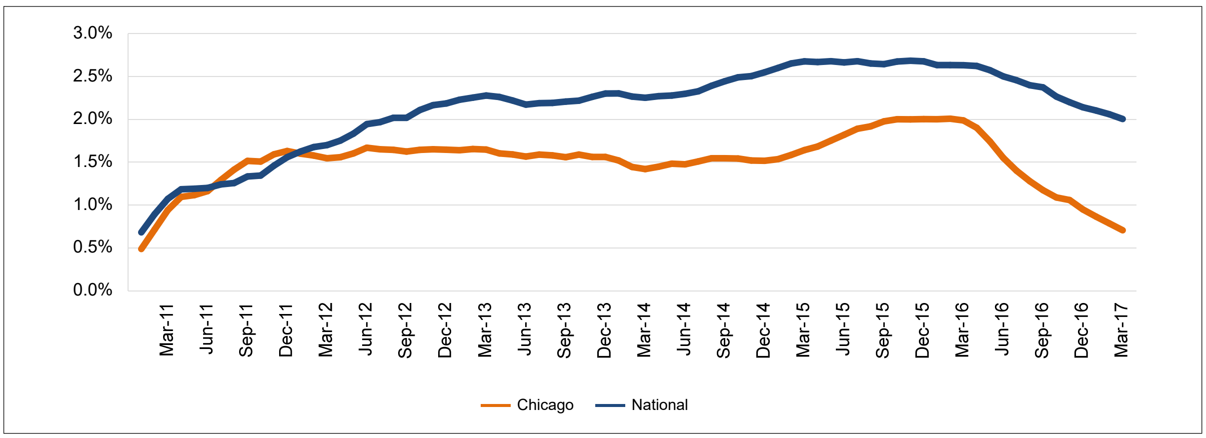
Economic Snapshot

- Following a cycle high at the beginning of 2016, job growth in the metro has slowed. In the 12 months ending in March, Chicago gained 24,500 jobs, half of which were in high-earning sectors, led by financial activities (8,000), professional and business services (2,000), and information (2,000). However, the metro lost nearly 11,000 jobs in lower-paying sectors. Despite the development boom, the construction sector has seen cuts totaling 4,000 positions.

- More companies have been expanding or relocating to the metro area than to any other market. Hickory Farms moved its headquarters from Ohio to the city's CBD, Caterpillar is relocating from Peoria, and EXP is migrating from the Toronto area. Also, companies such as KPMG and GE Healthcare announced they will be adding more than 1,000 new jobs in Chicago in 2017. For the fourth consecutive year, the Windy City has been named the top city in the nation for corporate investment by *Site Selection* magazine.

- Office leasing activity fell by about 20% year-over-year in 2017's first quarter. Despite expansions and relocations to the metro's core markets, vacancy has increased to nearly 12% due to new office high-rises coming online. The 54-story 150 North Riverside opened in April, while the Union Station revamp will bring as much as 2 million square feet of office space to the market in coming years.

Chicago vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Chicago Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
15	Mining, Logging and Construction	166	3.6%	-4,000	-2.4%
30	Manufacturing	412	8.9%	-2,300	-0.6%
40	Trade, Transportation and Utilities	932	20.1%	-2,400	-0.3%
50	Information	82	1.8%	2,000	2.5%
55	Financial Activities	305	6.6%	8,600	2.9%
60	Professional and Business Services	814	17.5%	2,000	0.2%
65	Education and Health Services	726	15.6%	9,000	1.3%
70	Leisure and Hospitality	462	9.9%	-1,000	-0.2%
80	Other Services	193	4.2%	-1,000	-0.5%
90	Government	552	11.9%	2,900	0.5%

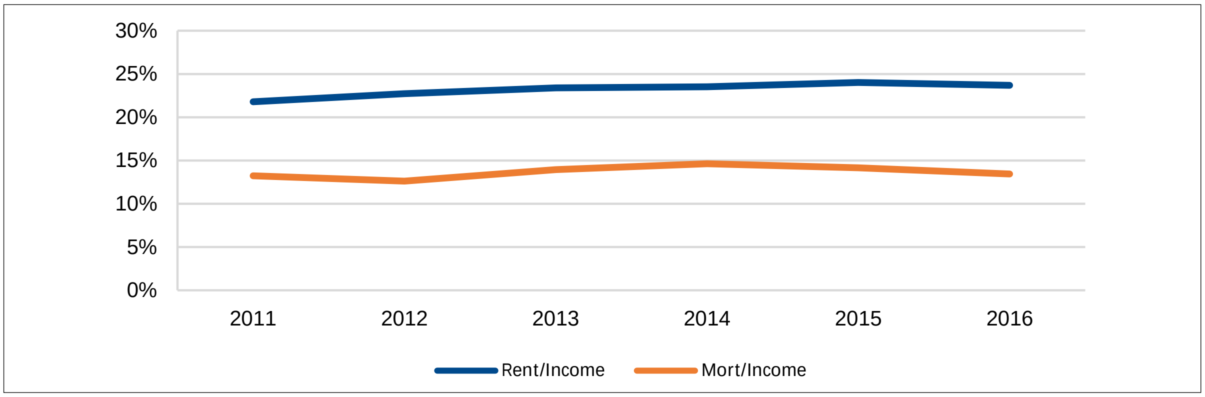
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

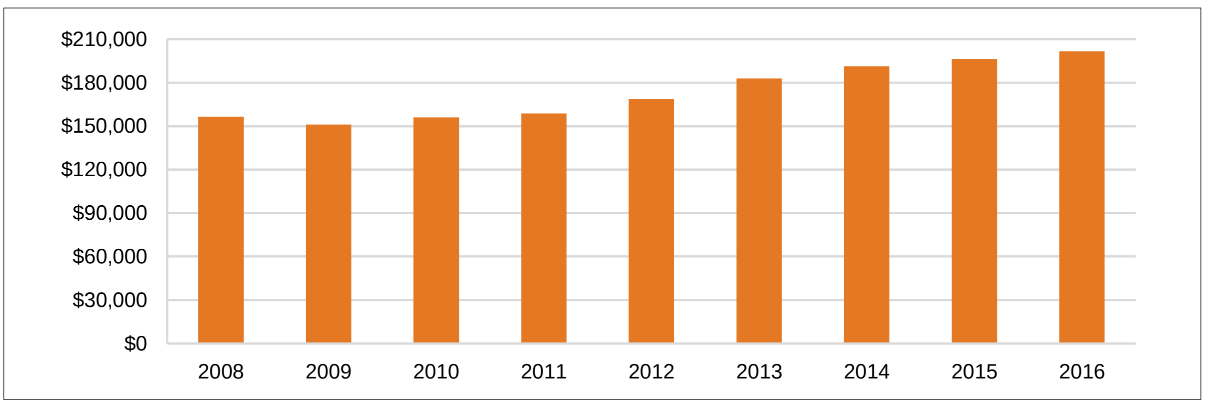
- Chicago's cost of living has remained fairly stable since 2011. The median home value was roughly $200,000 in 2016, representing a post-recession peak, and the average mortgage accounted for 13% of the median income, signaling a 1% decrease from the prior year. The average rent accounted for 24% of the median income, relatively unchanged from the previous three years.
- New development in Chicago is focused on high-end units, leading the city council to introduce an ordinance seeking to end gentrification along the 606 trail system by imposing higher fees for developers.

Chicago Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Chicago Median Home Price



Source: Moody's Analytics

Population

The Chicago metro area lost more than 19,000 residents in 2016, the second consecutive year of negative growth. The metro shrunk by nearly 0.3%, significantly lagging the national growth rate of 0.7%.

Chicago vs. National Population

	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Chicago Metro	7,315,816	7,331,883	7,335,505	7,323,962	7,304,532

Sources: U.S. Census, Moody's Analytics

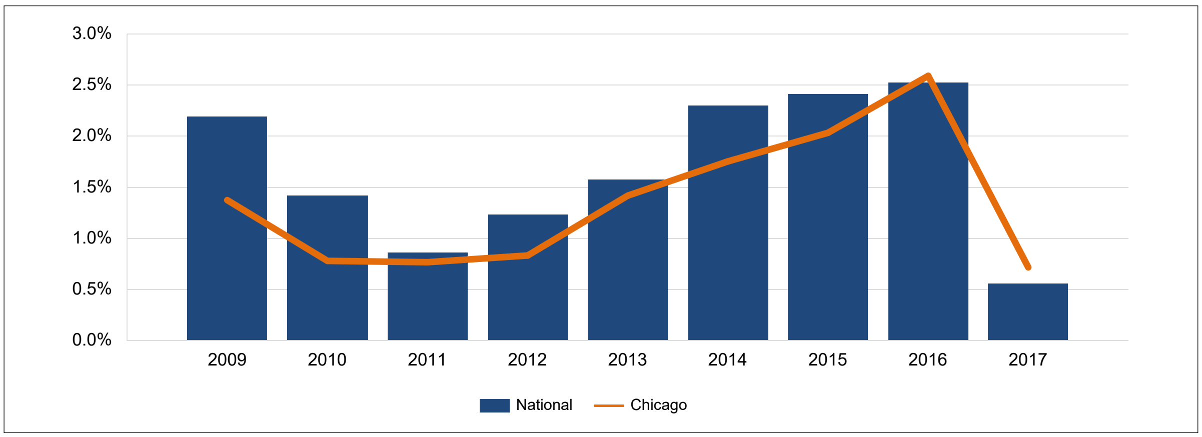
Supply

- Apartment completions are rebounding strongly. Another 8,000 units are due to deliver this year, nearly matching 2016's cycle high (8,292). In the first five months of 2017, 1,028 apartments came online. New supply is likely to remain high for at least another two years. Some 16,400 units are under construction, of which more than 60% are located in or around downtown. All told, some 60,000 units are in various stages of development.

- Downtown Chicago is consolidating its newly gained status as a live-work-play neighborhood. With many employers flocking to the city's CBD, developers are following with luxury projects built to suit the needs of young professionals: micro-units or one-bedroom apartments in buildings that offer high-end facilities and quick access to area amenities. To satisfy demand, roughly 10,000 units are under construction in the Near North Side, Loop, Near South Side and Near West Side submarkets.

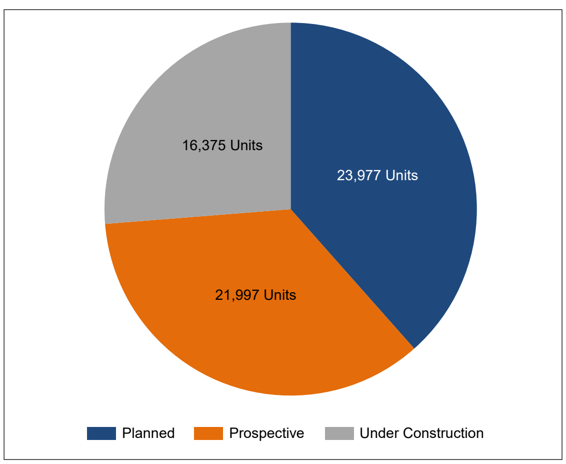
- New supply also stems from historic buildings that have been transformed into residential communities. CA Ventures plans a $141 million redevelopment of the Century Building and the Consumers Building, resulting in 429 apartments. Also, Chicago's South Loop will be home to the 792-unit One Grant Park rental tower.

Chicago vs. National Completions as a Percentage of Total Stock (as of May 2017)



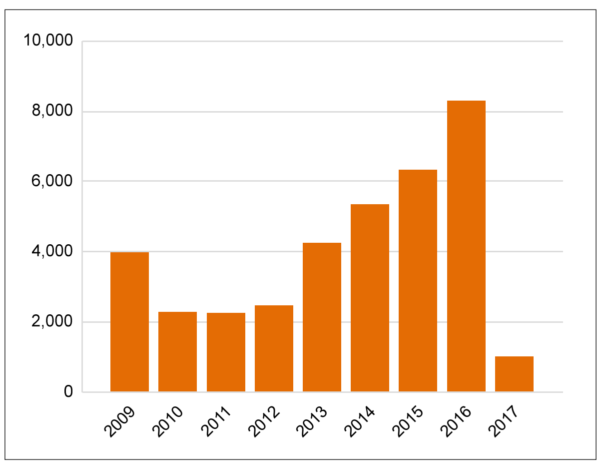
Source: YardiMatrix

Development Pipeline (as of May 2017)



Source: YardiMatrix

Chicago Completions (as of May 2017)

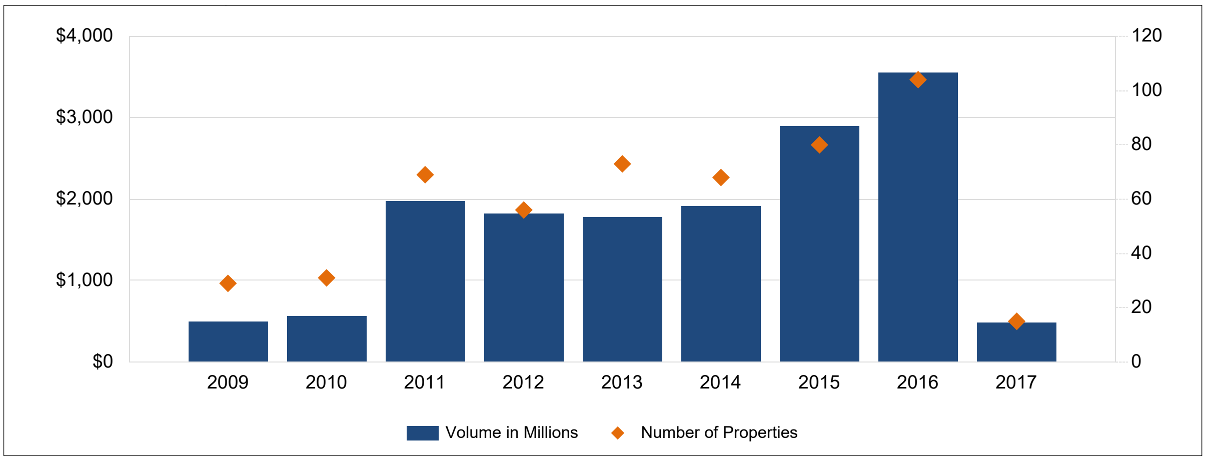


Source: YardiMatrix

Transactions

- Chicago's multifamily market is expected to shift from construction to dispositions as investors recognize new opportunities. While institutional financiers tend to target luxury units coming online in the metro's core, private equity providers are profiting from the value-add options in second-tier neighborhoods. Last year, transaction volume in Chicago hit a new cycle high of $3.6 billion. As of May 2017, $483 million of multifamily assets traded hands, and this number has significant room to grow, given the large amount of high-end properties on the market.
- The average price per unit in Chicago increased in the first five months of 2017 to $190,484, the highest post-recession value and above the national average of $130,839. Investors remain interested in core submarkets, such as the Near North Side and Near West Side, where real estate transactions totaled $630 million over the 12 months ending in May.

Chicago Sales Volume and Number of Properties Sold (as of May 2017)



Source: YardiMatrix

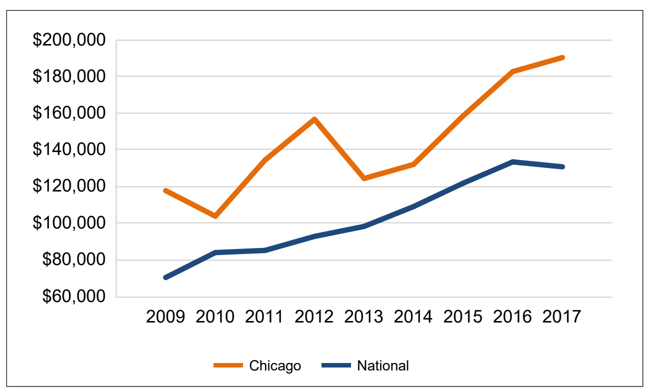
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Near North Side	415
Near West Side	214
Naperville–West	199
Palatine	138
Buffalo Grove	130
Near South Side	123
Wheaton	118
Lombard	115

Source: YardiMatrix

[1] From June 2016 to May 2017

Chicago vs. National Sales Price per Unit



Source: YardiMatrix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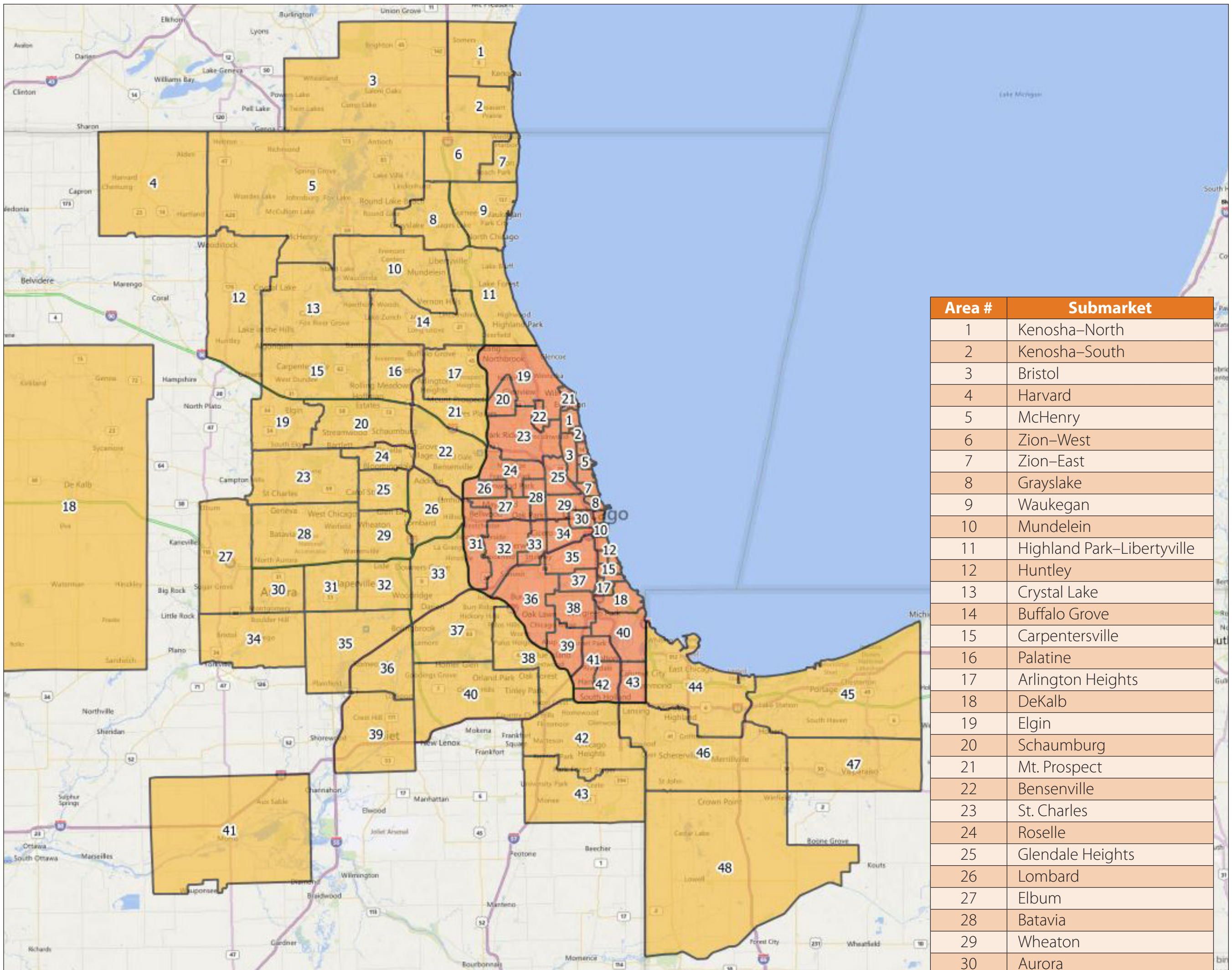
Chicago Submarkets



Area #	Submarket
1	Evanston–South
2	Rogers Park
3	Lincoln Square
4	Edgewater
5	Uptown
6	Lake View
7	Lincoln Park
8	Near North Side
9	Loop
10	Near South Side
11	Douglas
12	Oakland
13	Grand Boulevard
14	Kenwood
15	Hyde Park

Area #	Submarket
16	Woodlawn
17	Greater Grand Crossing
18	South Chicago
19	Wilmette–Northbrook
20	Des Plaines
21	Evanston–North
22	Skokie
23	North Park–Niles
24	Montclare
25	Irving Park–Logan Square
26	Northlake
27	Oak Park
28	Austin
29	West Town–Garfield Park
30	Near West Side

Area #	Submarket
31	Countryside–Westchester
32	Berwyn
33	Cicero
34	Lawndale
35	New City
36	Burbank–Oak Lawn
37	Englewood
38	Auburn Gresham
39	Blue Island
40	South Deering–Pullman
41	Riverdale
42	South Holland
43	Calumet City

Area #	Submarket
1	Kenosha–North
2	Kenosha–South
3	Bristol
4	Harvard
5	McHenry
6	Zion–West
7	Zion–East
8	Grayslake
9	Waukegan
10	Mundelein
11	Highland Park–Libertyville
12	Huntley
13	Crystal Lake
14	Buffalo Grove
15	Carpentersville
16	Palatine
17	Arlington Heights
18	DeKalb
19	Elgin
20	Schaumburg
21	Mt. Prospect
22	Bensenville
23	St. Charles
24	Roselle
25	Glendale Heights
26	Lombard
27	Elburn
28	Batavia
29	Wheaton
30	Aurora
31	Naperville–West
32	Naperville–East
33	Downers Grove
34	Yorkville
35	Bolingbrook
36	Romeoville
37	Hickory Hills
38	Palos Heights
39	Joliet
40	Orland Park
41	Grundy
42	Chicago Heights–North
43	Chicago Heights–South
44	Gary–West
45	Gary–East
46	Gary–South
47	Valparaiso–South
48	Crown Point

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.