

YARDI[®] Matrix

Chicago's Catching Up

Multifamily Winter Report 2017

New Supply Moderates Rent Growth

Investor Demand Reaches Cycle Peak

Downtown Maintains Strong Appeal

Market Analysis

Winter 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Alexandra Pacurar

Senior Writer

Smooth Strokes Up the River

Despite a flat population growth, job gains that have consistently trailed national trends and pockets of crime that garnered the attention of the media, Chicago's multifamily market continues to produce steady rent gains and remains a top Midwestern destination for investors.

The metro added 50,000 jobs in the past year, more than half in high-earning sectors. Further growth is expected across the metro, as Amazon, Cars.com and Google are expanding their presence in Chicago. The economic environment is also encouraging new businesses, according to *Built In Chicago's* annual report, which shows that startups raised \$1.7 billion in funding in 2016. Chicago has been deemed a smart city, and the local government is committed to improving the metro's transport infrastructure, particularly the rail system, through the \$2.1 billion Red and Purple Modernization Program. The downtown continues to benefit from company relocations and expansions, while authorities are trying to spike development in suburban areas through local reforms.

The metro's multifamily market is stable, with high occupancies and a strong investor interest, which pushed the sales volume to a cyclical peak in excess of \$3 billion in 2016. Completions are picking up, with more than 60,000 units in various stages of development. Yardi Matrix forecasts a 4.0% rent growth in 2017, as demand will remain strong, while a wave of new supply is about to come online.

Recent Chicago Transactions

Axis



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

North Harbor Tower



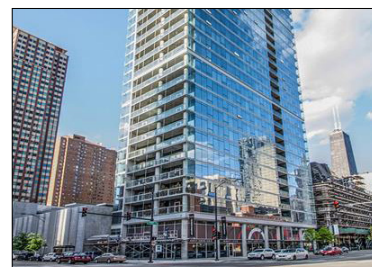
City: Chicago
Buyer: Crescent Heights of America
Purchase Price: \$212 MM
Price per Unit: \$354,063

850 Lake Shore Drive



City: Chicago
Buyer: JP Morgan Asset Management
Purchase Price: \$140 MM
Price per Unit: \$707,071

Eight O Five



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

To Subscribe

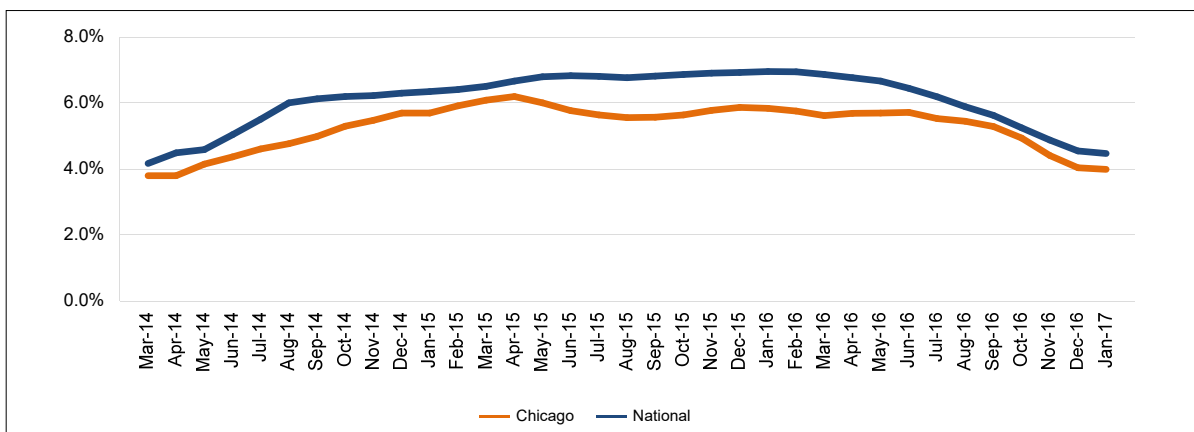
Hollie Zepke

Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

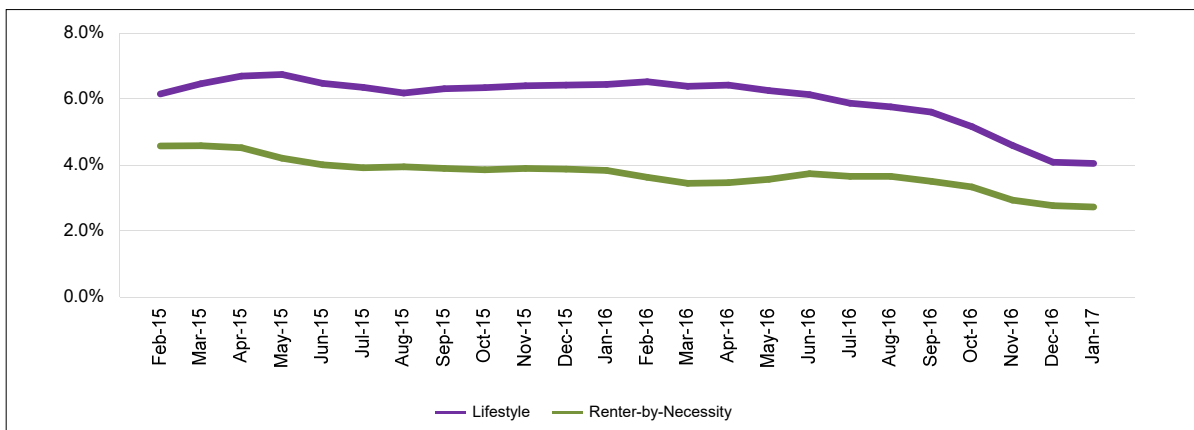
- Rents in Chicago increased by 4.0% year-over-year through January, trailing the 4.6% national average. The average rent in the metro stood at \$1,390, slightly above the national average of \$1,315. The gap between rents in the Lifestyle segment and those in the Renter-by-Necessity segment widened, with rates for luxury units averaging \$1,954, compared to \$1,172 for working-class assets.
- Suburban locations remain more affordable to renters, as the migration of companies to core submarkets will continue to fuel demand and increase rents in central areas. The Loop commanded the highest rents (\$2,139), followed by other core submarkets: \$1,932 on the Near North Side and \$1,827 on the Near West Side.
- Rent growth hit the highest levels in northern submarkets such as Arlington Heights (21%), Irving Park – Logan Square (12.8%) and Wilmette – Northbrook (9.5%). These submarkets will soon be even more appealing to renters, as Chicago is about to start the first phase of the \$2.1 billion Red and Purple Modernization Program, aiming to rebuild part of the metro’s busiest rail line, connecting the downtown area to the northern districts.
- Rent growth in 2017 is expected to be steady, with Yardi Matrix forecasting 4.0% growth in 2017. New supply will moderate growth, as deliveries will hit a cyclical high in 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)

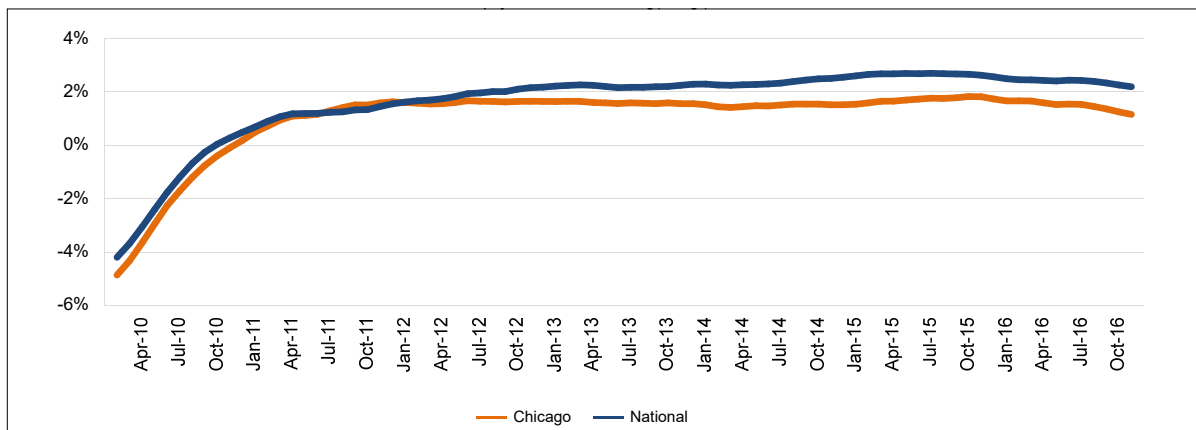


Source: YardiMatrix

Economic Snapshot

- Chicago added roughly 50,000 jobs in the 12 months ending in November 2016, representing a modest 1.2% increase year-over-year. This was well below the national growth rate of 2.2%. Nearly half of the new jobs have been in the professional and business services sector (23,200). Meanwhile, losses hit the metro's financial sector, which cut 6,500 jobs, and information, which lost 3,300 positions.
- The leisure and hospitality sector has also seen a considerable spike, with 12,100 jobs added in the 12 months ending in November 2016, as a record 53 million tourists visited the Windy City in the first nine months of 2016, according to local government data. Many of the city's high-rise developments are combining elements of residential and hospitality. A 1,205-key Marriott Marquis is slated for completion this year, while the Ace Hotel in Fulton Market is opening this fall.
- Chicago's workforce continues to migrate from the suburbs toward the downtown area. Suburban office vacancy rates top 20%, which is about twice as high as the vacancy recorded in the central business district. Still, CBD vacancy rates are growing as new supply comes online. Vacancies are expected to level off as more companies, especially tech firms, relocate to the downtown. Accenture opened a digital hub housing 500 experts in the city's West Loop, while Motorola relocated 800 workers from Schaumburg to downtown Chicago.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	837	17.8%	23,200	2.9%
70	Leisure and Hospitality	464	9.9%	12,100	2.7%
15	Mining, Logging and Construction	179	3.8%	3,900	2.2%
40	Trade, Transportation and Utilities	955	20.3%	3,300	0.3%
90	Government	565	12.0%	3,000	0.5%
65	Education and Health Services	719	15.3%	2,700	0.4%
80	Other Services	198	4.2%	1,400	0.7%
30	Manufacturing	412	8.8%	-1,900	-0.5%
50	Information	80	1.7%	-3,300	-4.0%
55	Financial Activities	289	6.2%	-6,500	-2.2%

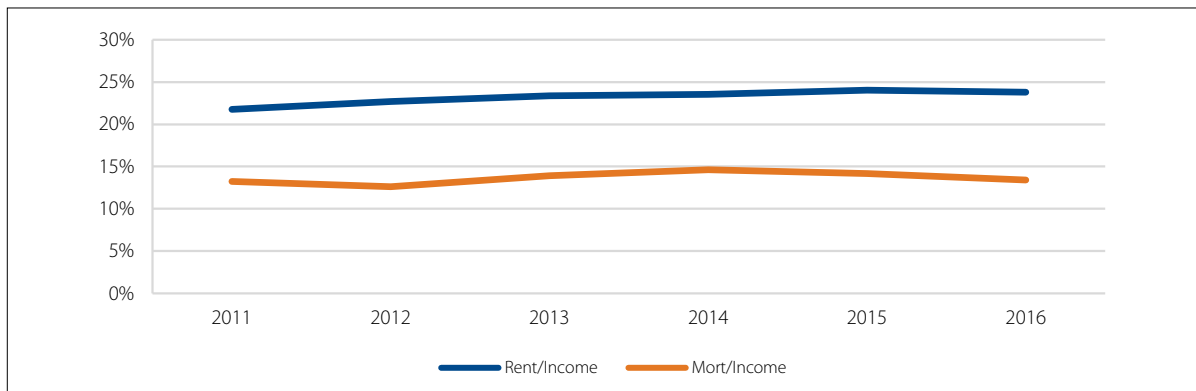
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

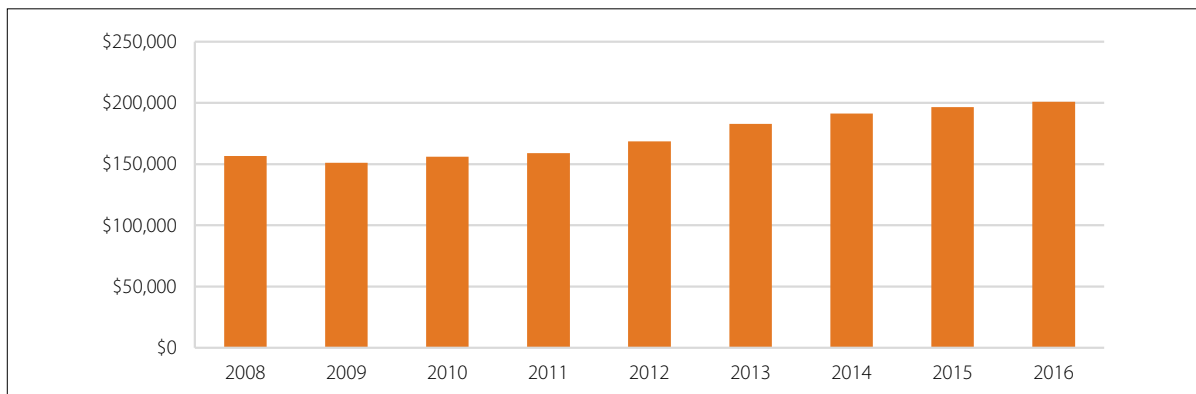
- The cost of living in the metro has been stable through this cycle. The median home value exceeded \$201,000 in 2016, a peak in the current cycle and a 33% growth compared to 2009. In 2016, homeownership continued to be more affordable than renting, as a mortgage accounted for 13% of the median income, dropping only 1% compared to 2015, the same level recorded in the years that followed immediately after the crisis.
- An increase in employment is feeding multifamily demand in the downtown submarkets, pushing up rents. Rents account for 24% of the median income, a rate that has been maintained in recent years.

Chicago Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Chicago Median Home Price



Source: Moody's Analytics

Population

- After adding roughly 52,000 to its population between 2011 and 2014, the metro lost more than 6,000 residents in 2015.
- Chicago's growth rate dropped by -0.1% compared to the national rate of 0.8%.

Chicago vs. National Population

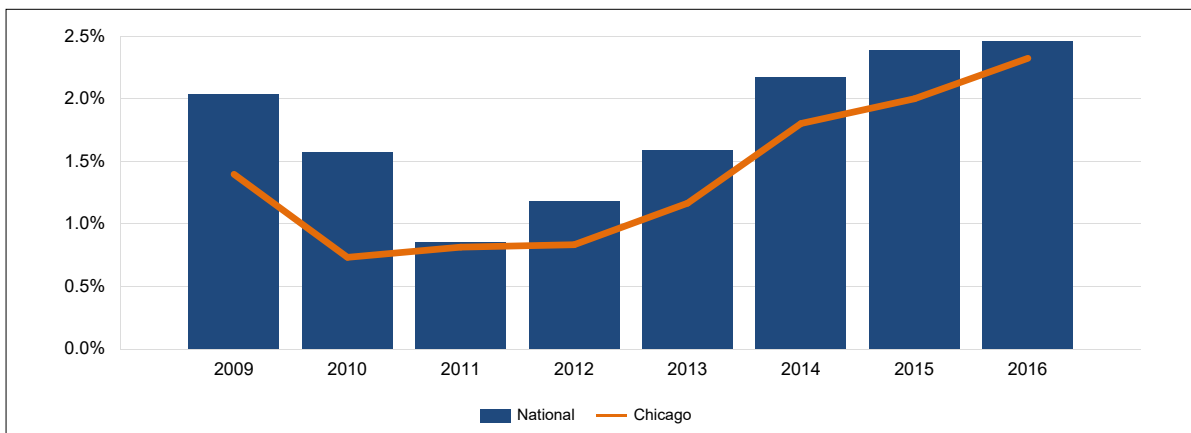
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Chicago-Naper-ville-Arlington Heights, IL Metropolitan Division	7,295,444	7,319,196	7,339,934	7,347,318	7,340,454

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

Supply

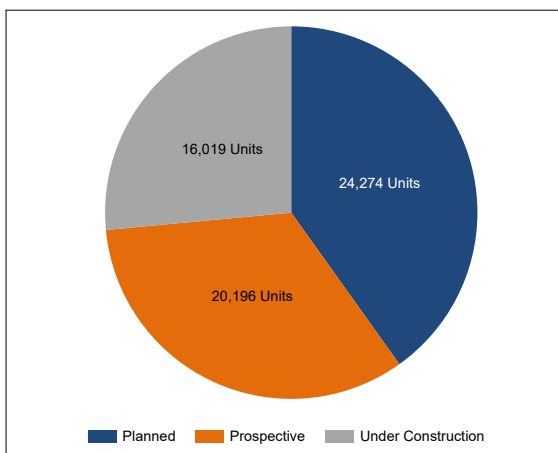
- Nearly 7,400 units came online in the metro in 2016, representing 2.3% of the total inventory and trailing the national rate of 2.5%, a trend that has been maintained since the recession. The number of completions represented a cyclical high and tripled the supply levels of the trough in 2011.
- Development is likely to remain constant in the coming years, as 16,000 units are under construction and more than 60,000 units are in various stages of progress.
- Housing stock growth is concentrated in Chicago's urban core, which is performing much better than the suburban markets. The metro's downtown area is seeing the highest number of multifamily developments, with 4,932 units under construction on the Near North Side, 1,501 in the Loop, 1,056 on the Near South Side and 794 on the Near West Side. Chicago's skyline is expected to change in the coming years. The largest upcoming development is One Grant Park, a 792-unit, 76-story tower on the Near North Side.
- Development near public transportation stations, particularly in peripheral submarkets, is likely to be accelerated as a result of a 2015 ordinance passed by the Chicago City Council that allows for higher-density development near train stations.

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



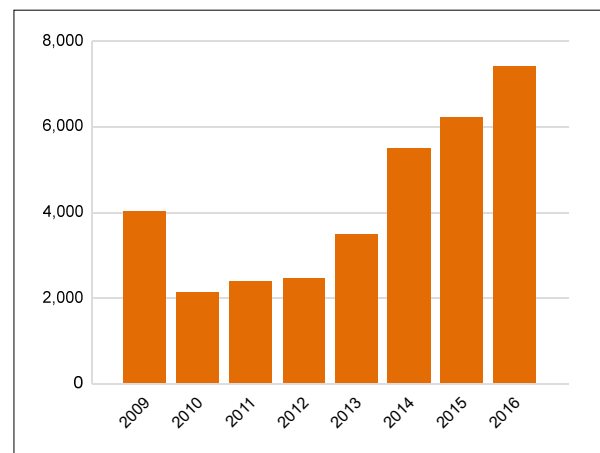
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Chicago Completions (as of January 2017)

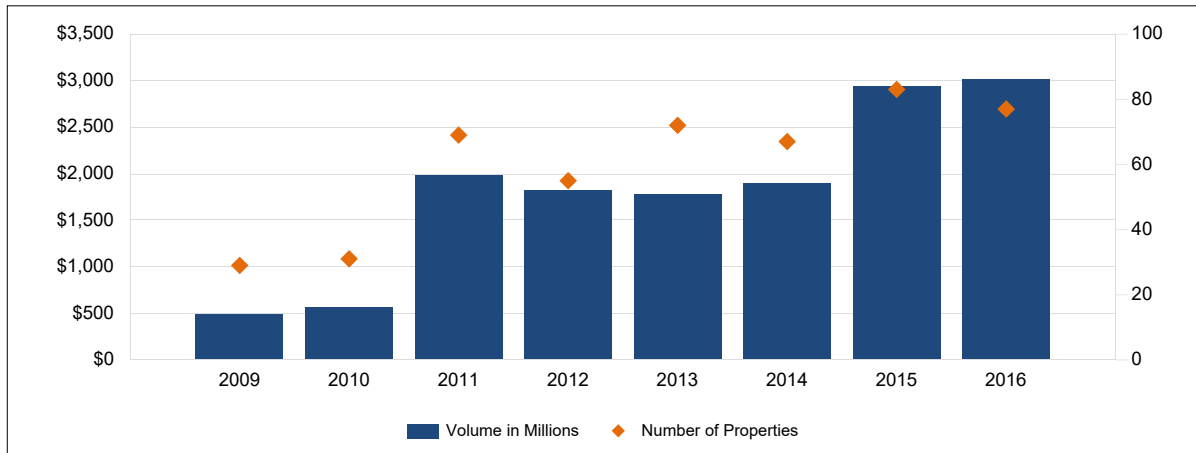


Source: YardiMatrix

Transactions

- Chicago is showing strong investment prospects, as transaction volume exceeded \$3 billion in 2016, a peak for the current cycle. The numbers were slightly above the total in 2015 and considerably higher than in 2009, when investment sales bottomed out at \$492 million. Despite the state of Illinois' fiscal crisis, Chicago is still one of the nation's core markets, with robust investor demand. Multifamily and industrial assets are expected to attract the most investor capital in 2017.
- The average price per unit continued to rise through the cycle, peaking at \$171,083 in 2016, above the national average of \$135,000. Core markets have maintained their top spot in the preferences of investors. The largest transaction in the past year was the sale of Axis, a 615-unit community on the Near North Side, to Group Fox for more than \$225 million. The acquisition price was roughly 20% higher than the last time the property changed hands, in 2013.

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



Source: YardiMatrix

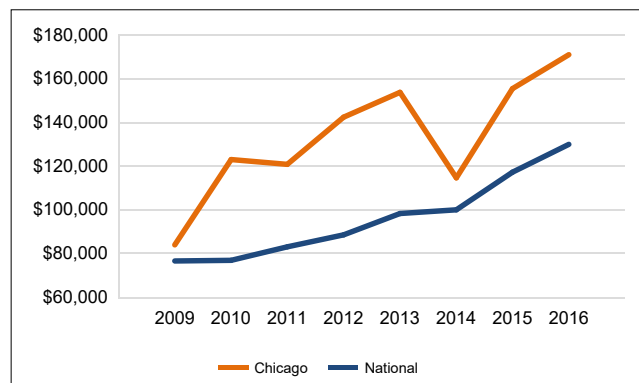
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Near North Side	610
Near West Side	215
Loop	212
Naperville - West	204
Near South Side	123
Lombard	115
Arlington Heights	110
Palatine	96

Source: YardiMatrix

¹ From February 2016 to January 2017

Chicago vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Iconic Chicago High-Rise
Slated for \$500M Revamp



NEWCITY Property
In Chicago Wins LEED Gold



World's First Triple-Flagged
Hilton Lands Financing

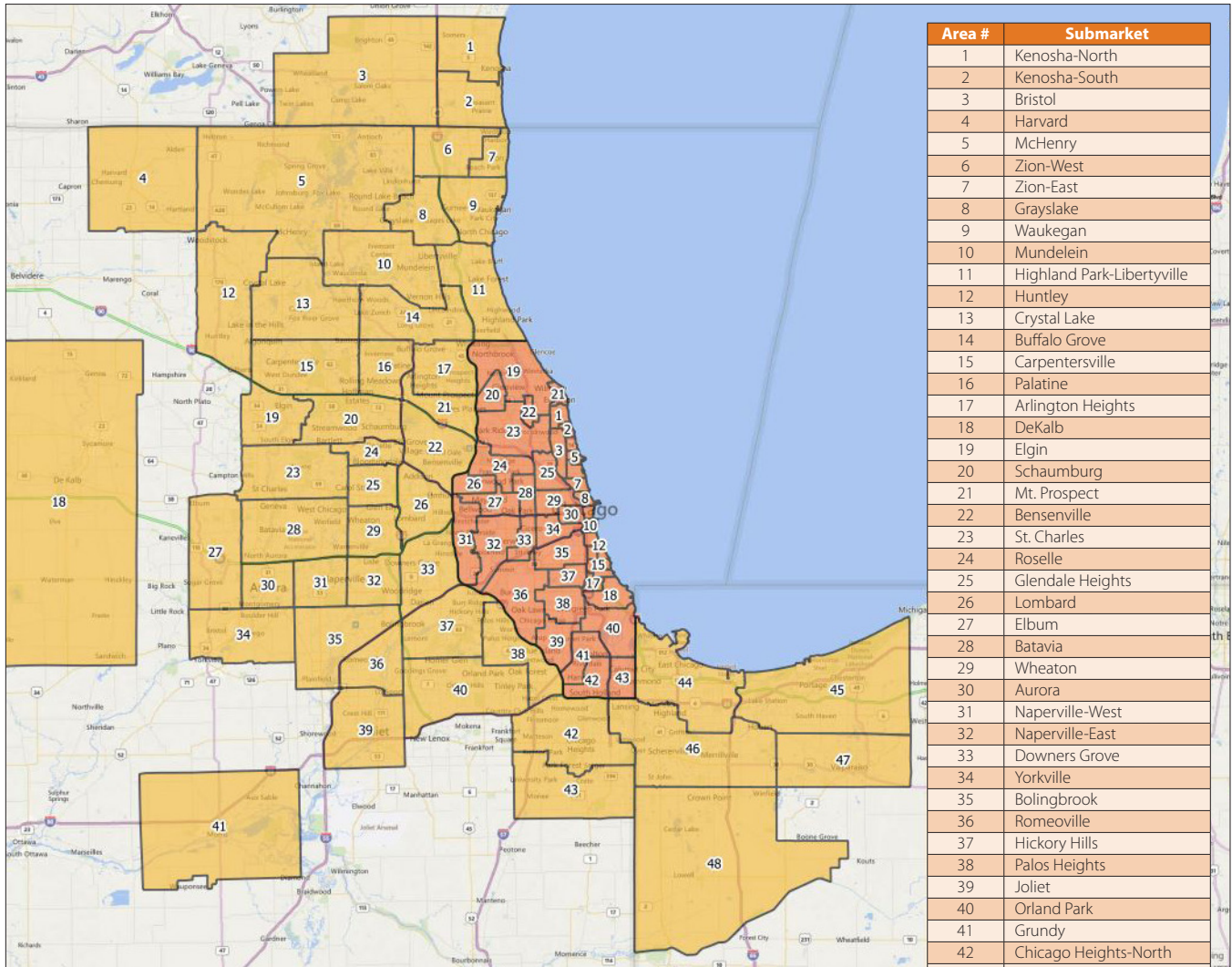


HFF Secures \$125M
Financing for Chicago
Residential Tower

Get the latest Chicago real estate
news at



Chicago Submarkets



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	Elmhurst
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

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
16	Woodlawn
17	Greater Grand Crossing
18	South Chicago
19	Wilmette-Northbrook
20	Des Plaines
21	Evanston-North
22	Skokie

Area #	Submarket
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
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

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.

What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



cpexecutive.com



multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at cpexecutive.com/subscribe and multi-housingnews.com/subscribe.

DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2017 Yardi Systems, Inc. All Rights Reserved.