Northmarq

MARKET INSIGHTS

Vacancies hold steady as demand keeps pace with supply growth

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION **12,569**

UNITS DELIVERED **5,841**

MARKET FUNDAMENTALS

VACANCY RATE **5.0%**

YEAR-OVER-YEAR CHANGE **+30bps**

ASKING RENTS **$1,853**

YEAR-OVER-YEAR CHANGE **+3.5%**

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT **$248,700**

Chicago Multifamily
3Q 2023

HIGHLIGHTS

- Market performance in Chicago stabilized in the third quarter with vacancy rates holding steady even as deliveries accelerated. Some modest improvements were recorded in Class A assets and in properties located in Downtown Chicago.
- Vacancy remained at 5 percent, matching levels from the first two periods of the year. During the past 12 months, vacancy has inched up 30 basis points.
- Asking rents in Chicago pushed higher in the third quarter with a rise of 1.3 percent to $1,853 per month. Rents inched lower at the beginning of the year but have reversed course and are on a modest upswing; year-over-year, rents have advanced by 3.5 percent.
- Sales of multifamily properties accelerated slightly in recent months, although transaction levels are still down about 40 percent from the 2022 pace. The median price year to date is $248,000 per unit, pushed higher by the sale of Class A properties.

CHICAGO MULTIFAMILY MARKET OVERVIEW

Following some recent periods of volatility in property performance, stability has prevailed in the Chicago multifamily market throughout much of 2023. The region's overall vacancy rate held steady at 5 percent in the third quarter, matching levels from the first half of the year. A few trends have begun to emerge that highlight a return to more normalized conditions. Specifically, Class A properties throughout the region—particularly in the Downtown Chicago submarkets—are posting improved performance. Class A vacancy rates have tightened from peak levels recorded a few years ago, even as deliveries of new units are well ahead of the pace recorded in recent years.

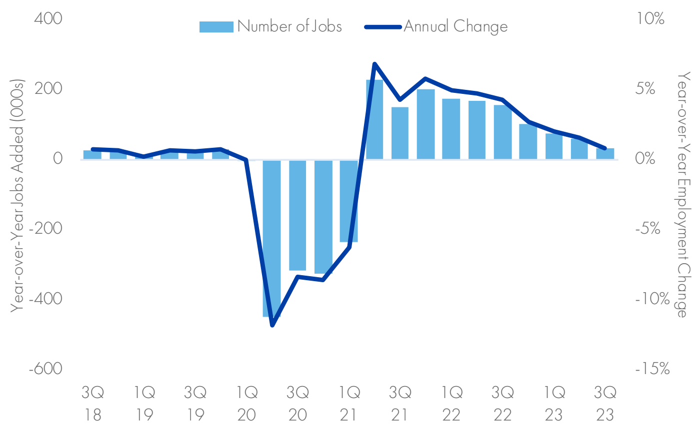
Multifamily property investment has slowly gained momentum in Chicago throughout the course of the year. Transaction counts inched higher in the third quarter, building on a modest increase recorded in the prior three months. Still, sales velocity year to date is down nearly 40 percent from the pace established in 2022. During the third quarter, investors became more active in suburban Class B and Class C properties, reversing a trend where buyers favored Class A core assets in the first half of the year. The evolving mix of properties that are changing hands has resulted in inconsistent cap rate trends, although most assets are currently being priced with cap rates in the high-5 percent to low-6 percent range.

EMPLOYMENT

- The market has settled into a period of slower gains. Year over year, employment has risen 0.8 percent with 31,500 jobs added.
- One factor driving the cooling in overall labor market conditions has been performance in Chicago's large trade, transportation, and utilities sector. The industry typically adds about 10,000 jobs per year on average but has expanded by just 0.1 percent in the past 12 months.
- In October, Ace Hardware opened their new corporate headquarters in the former McDonalds campus. Ace will employ some 1,100 workers across its 250,000 square feet of office and meeting space.
- **FORECAST:** Employers are expected to continue to add jobs through the remainder of the year and into 2024. Total employment is expected to increase by 35,000 jobs in 2023, a year-over-year increase of 0.9 percent.

Year over year, area employers added 31,500 workers.

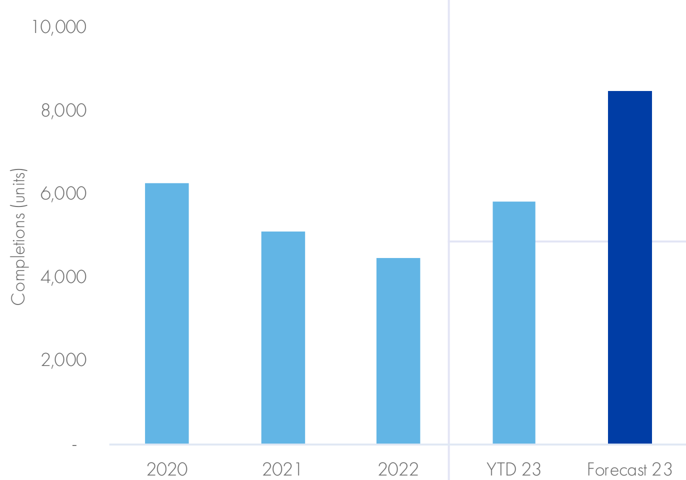
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 940 units came online in the third quarter.

DEVELOPMENT TRENDS



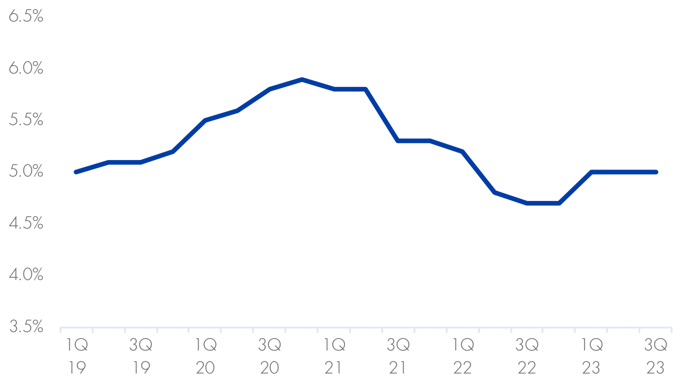
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Approximately 1,200 units were delivered during the past three months, bringing the total year-to-date completions to more than 5,800 units. The pace of deliveries has gained momentum in 2023; completions through the first three quarters of the year have already surpassed the full-year total for all of 2022.
- Projects totaling 12,569 units are currently under construction, slightly higher than one year ago, but down about 10 percent from the peak levels recorded at the beginning of 2023.
- Permitting for new construction has been on a steady decline throughout 2023. During the third quarter, developers pulled permits for approximately 1,300 multifamily units, down 12 percent from the preceding period. Year to date, permits for 4,650 units have been issued compared to 5,350 units in 2022's third quarter.
- **FORECAST:** Apartment completions are expected to accelerate through the end of the year. Projects totaling 8,500 units are set to be delivered in 2023.

Vacancy stays consistent, unaffected by rise in new inventory.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

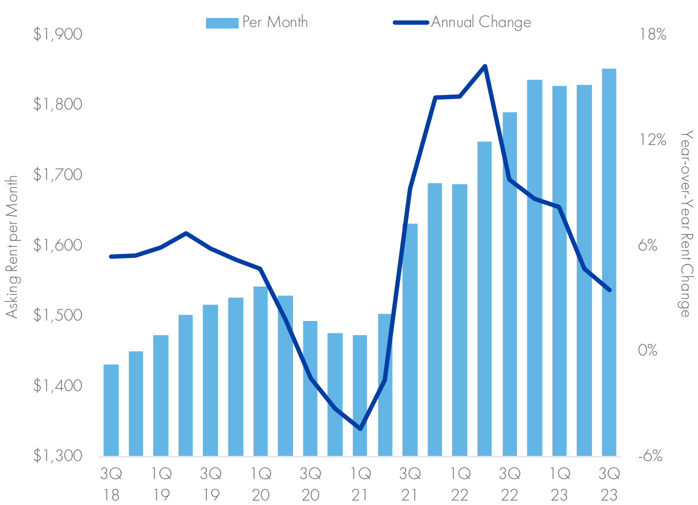
- The vacancy rate in Chicago remained unchanged, coming in at 5 percent for the third consecutive quarter. Supply and demand have been closely aligned in recent periods; net absorption has totaled more than 5,000 units during the last year.
- Class A vacancies have gone down 30 basis points year over year to 7.9 percent. Conditions in the lower tiers are much tighter; the combined vacancy rate across Class B and Class C properties has remained at or near 3 percent in each of the past six quarters.
- The South Shore submarket showed a steady improvement of 20 basis points to 4.9 percent in the third quarter, the area's first notable shift in the vacancy rate since mid-2022.
- **FORECAST:** After remaining unchanged since the beginning of the year, vacancy is expected to inch higher in the fourth quarter, rising 10 basis points by the end of 2023 to 5.1 percent.

RENTS

- Average asking rents in Chicago pushed higher in the third quarter, rising 1.3 percent to $1,853 per month. Despite a brief dip in the first quarter, year over year, rents are up 3.5 percent overall.
- The Lincoln Park submarket was a leader in rent growth with a 4.7 percent annual rise to $1,769 per month while maintaining slightly below average vacancy during the third quarter.
- After ticking lower in the first half of the year, Class A asking rents posted a gain of nearly 1 percent in the third quarter. Average Class A rents are $2,471 per month, just a few dollars lower than the peak recorded at the end of last year.
- **FORECAST:** Operators should be able to leverage steady occupancies to implement modest rent increases through the end of the year. Asking rents are forecast to end 2023 at $1,872 per month, 2 percent higher than one year earlier.

Year over year, rents are up 3.5 percent overall.

RENT TRENDS



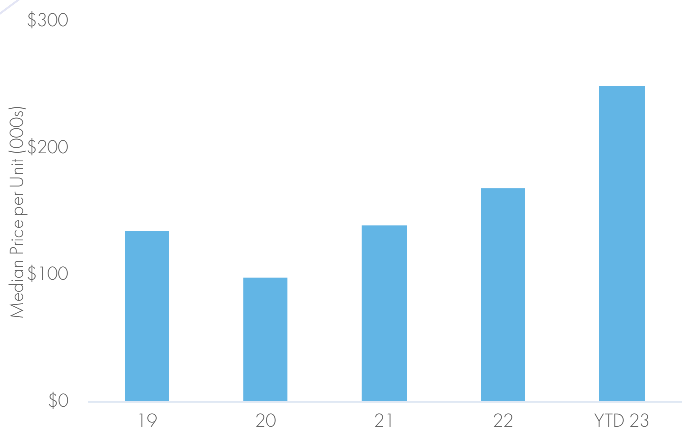
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction activity has been on a slow, but steady uptick throughout the course of 2023. During the third quarter, sales velocity inched up 11 percent, building on a similar uptick from the second quarter. Despite the recent increases, transaction counts year to date are down nearly 40 percent from 2022 levels.
- Class A properties have accounted for a larger-than-usual share of the transaction mix to this point in 2023. Approximately 40 percent of all transactions that have closed this year have involved Class A assets. In recent years, Class B and Class C properties have made up more than 80 percent of the total number of sales. During the third quarter, the transaction mix included more Class B and Class C assets.
- The significant number of Class A properties that have traded has pulled prices higher. The median price year to date reached $248,700 per unit, up 48 percent from 2022 levels. Class A assets have traded for nearly $315,000 per unit, while Class B and Class C units have sold for approximately $170,000 per unit and $120,000 per unit, respectively.
- Historically, properties in Cook County make up more than half of the transaction totals for the Chicago region. During the third quarter, however, properties in the suburbs led the way, with only 40 percent of all sales occurring in Cook County.
- Cap rates have averaged between 5.5 percent and 5.75 percent for most of the year, but there has been a fairly wide range based on property quality and location. The lowest cap rates are about 5 percent, while properties have also transacted with cap rates at 6.5 percent or higher.

The median price year to date reached $248,700 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

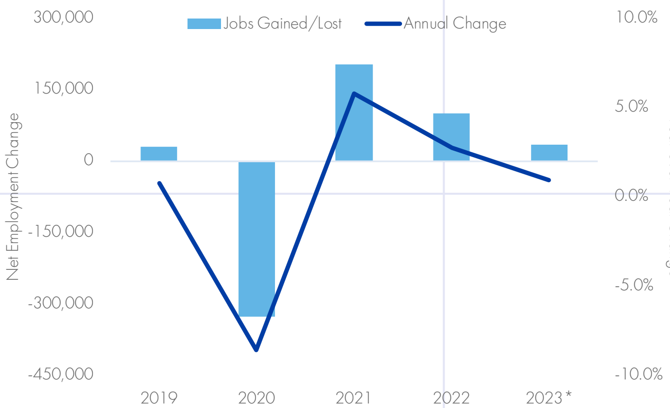
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
727 W Madison	727 W. Madison St., Chicago	492	$231,500,000	$470,528
ReNew Westmont	6715 Lake Shore Dr., Westmont	558	$96,000,000	$163,961
Meadows at River Run	350 Whitewater Dr., Bolingbrook	374	$72,700,000	$194,385
The Monarch	150 N East River Rd., Des Plaines	236	$58,700,000	$248,729
Buffalo Creek Apartments	70 S Buffalo Grove Rd., Buffalo Grove	154	$25,250,000	$172,043

LOOKING AHEAD

Conditions are poised to improve in the Chicago multifamily market in 2024, particularly in the region's top-tier properties in the city center. About half of the region's Class A units are located within the Downtown area, and vacancy rates have been elevated since 2020. The outlook going forward calls for a more active leasing environment in the coming quarters, which should bolster property performance in some of the area's highest-profile submarkets. The anticipated strengthening Downtown highlights a more widespread forecast of stability in the Chicago area's rental market. While many parts of the country are being impacted by rapid apartment supply growth, the development pipeline in Chicago accounts for a small percentage of total inventory and is following a four-year period beginning in 2020 when fewer than 25,000 units were delivered.

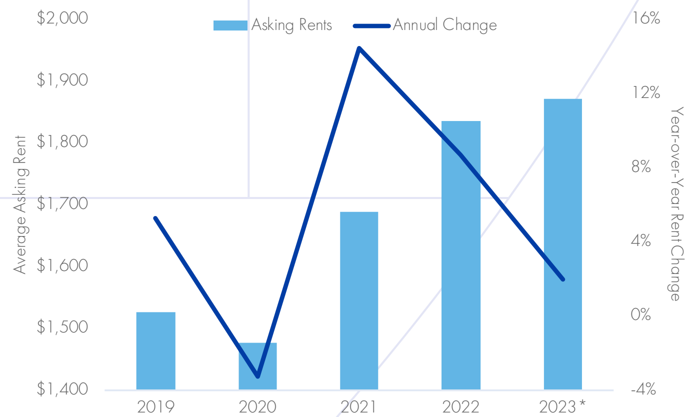
Investors have begun to become a bit more active acquiring apartment properties in Chicago, and the mix of assets that are trading appears to be returning closer to longer-term trends. Earlier this year, there was a decline in transaction activity, particularly among Class B and Class C properties as investors were more cautious than in prior periods. While transaction levels are still down compared to the past few years, sales levels have trended higher in recent quarters, with velocity gaining some momentum in 1970s-vitage Class B and Class C properties. With interest rates beginning to trend a bit lower, more acquisitions are expected to pencil, as cap rates of 5.5 percent and higher may be sufficient to pull some investors off of the sidelines.

EMPLOYMENT FORECAST



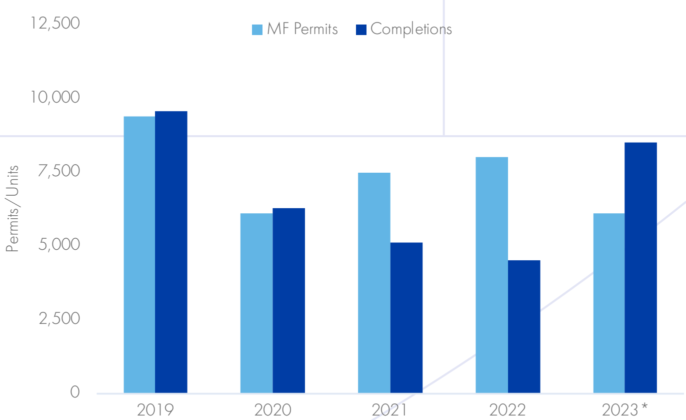
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



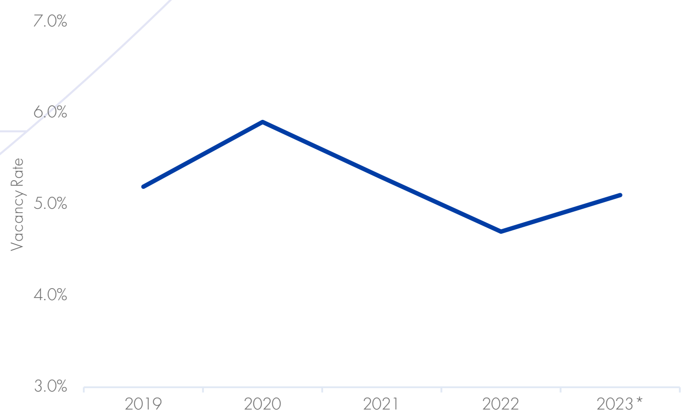
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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