Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	11,120
UNITS DELIVERED	4,658

MARKET FUNDAMENTALS

VACANCY RATE	5.0%
YEAR-OVER-YEAR CHANGE	+20bps
ASKING RENTS	$1,830
YEAR-OVER-YEAR CHANGE	+4.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$250,200

Chicago Multifamily
2Q 2023

MARKET INSIGHTS

Investors continue to target Class A properties

HIGHLIGHTS

- Property performance metrics in Chicago were mostly stable during the second quarter with the vacancy rate holding steady and asking rents ticking higher. The market should maintain its current trajectory through the end of 2023
- Vacancy in the second quarter was 5 percent, identical to the rate in the first quarter. Year over year, local vacancy rose 20 basis points. During the past five years, the vacancy rate has remained in a tight range.
- Asking rents in Chicago inched higher during the second quarter, rising 0.2 percent to $1,830 per month. Average rents are up 4.7 percent from one year ago.
- The multifamily investment market in Chicago continued to slow during the second quarter while prices remained elevated from last year. A surge in the sale of Class A properties has caused the median sales price to spike to $250,200 per unit.

CHICAGO MULTIFAMILY MARKET OVERVIEW

Similar to most markets in the Midwest, multifamily properties in Chicago have returned to stability and consistent performance. During the second quarter, the vacancy rate steadied and asking rents inched higher. After completions slowed to a crawl in recent years, apartment deliveries have picked up to this point in 2023, with approximately 3,100 units coming online in the second quarter. Although supply growth gained momentum in recent months, the pace of new inventory seems to be in equilibrium with renter demand. Vacancy conditions leveled off during the second quarter, holding steady at 5 percent. Absorption was strongest in The Loop submarket, where much of the new development is concentrated.

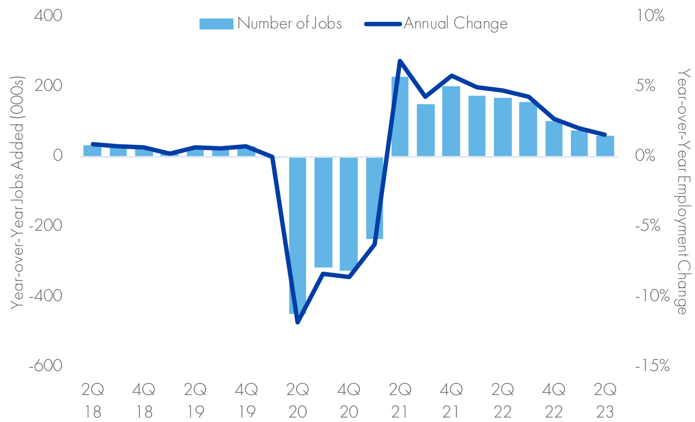
Some new investment trends began to emerge in the Chicago multifamily market during the second quarter. While the total number of transactions dipped from levels at the beginning of the year, there was a sharp upturn in transactions above the $50 million threshold. The increase in Class A property sales, particularly in submarkets in and around Downtown, has resulted in higher per-unit sales prices to this point in 2023. Prices in Class A property sales have generally topped $300,000 per unit, with a handful of transactions closing at $430,000 per unit and higher. As a result, the median sales price in all transactions to this point in 2023 is $250,200 per unit, up nearly 50 percent from the 2022 median price.

EMPLOYMENT

- The local labor market continues to expand although the pace of growth has slowed from the more rapid robust recovery recorded during 2021 and 2022. Total employment in Chicago grew by 13,800 jobs in the second quarter, and employers added 58,200 workers year over year.
- Chicago's healthcare and social assistance sector has been a significant driver of the local economy during the past year. Total employment in the sector surged by 23,000 positions year over year, a 4.8 percent spike.
- United Airlines is on a hiring spree and plans to create 15,000 jobs nationally in 2023 after adding the same number of workers last year. United announced that 3,800 of its new hires this year will be in Chicago, where the company is headquartered and runs a significant operation at O'Hare International Airport.
- **FORECAST:** Employment growth is expected to slow in 2023, following two years of strong gains in the local labor market. Total employment in Chicago is expected to increase by 30,000 jobs, a growth rate of 0.8 percent.

Year over year, area employers added 58,200 workers.

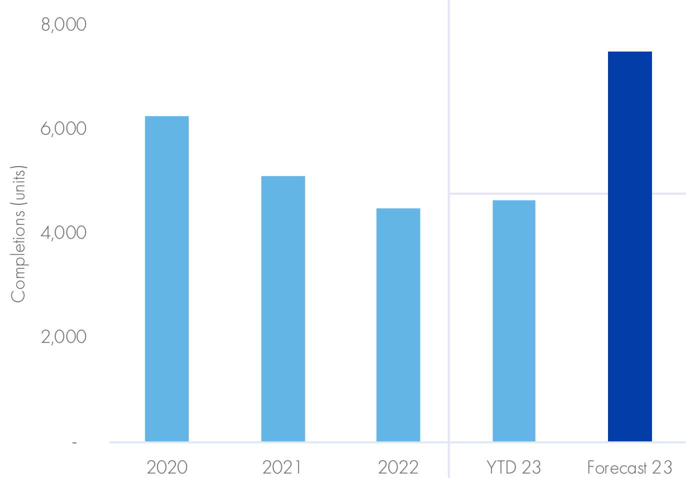
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Approximately 11,100 units are currently under construction.

DEVELOPMENT TRENDS



Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

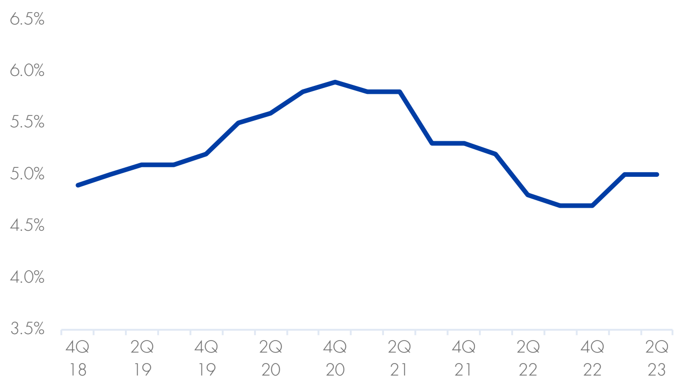
- Multifamily development activity in Chicago continued to gain momentum in recent months. Projects totaling roughly 3,100 units came online in the second quarter, bringing the year-to-date total to more than 4,650 units.
- The construction pipeline thinned a bit in recent months but remains elevated from one year ago. Projects totaling approximately 11,100 units are currently under construction throughout Chicago, down from more than 14,000 units earlier this year, but up 20 percent from during the same period, one year ago.
- Permitting continued to slow during the second quarter as developers pulled permits for 1,435 multifamily units, 20 percent lower than the total at the beginning of the year. Roughly 3,200 permits have been pulled year to date, a 37 percent decline from the second half of 2022.
- **FORECAST:** Developers will continue to bring new apartments online, and completions will outpace the depressed construction totals from recent years. Projects totaling approximately 7,500 units are scheduled to come online in 2023.

Year over year, the vacancy rate rose 20 basis points.

VACANCY

- Vacancy conditions in Chicago stabilized during the second quarter as the rate remained unchanged at 5 percent. This followed a 30 basis point rise at the beginning of 2023.
- Year over year, the local vacancy rate rose 20 basis points. Vacancy has remained in a tight range over the longer term, never ticking above 6 percent or below 4.5 percent during the past five years.
- Vacancy trends have diverged across property classes in Chicago. The average vacancy in Class A properties ended the second quarter at 8.4 percent, and the rate has remained above 8 percent since the beginning of 2022. The combined vacancy rate in Class B and Class C properties has remained consistently low, ending the second quarter at just 2.6 percent.
- **FORECAST:** After declining in each of the past two years, the local vacancy rate is on pace to inch slightly higher in the second half of the year. Vacancy Chicago is forecast to rise 40 basis points in 2023, ending the year at 5.1 percent.

VACANCY TRENDS



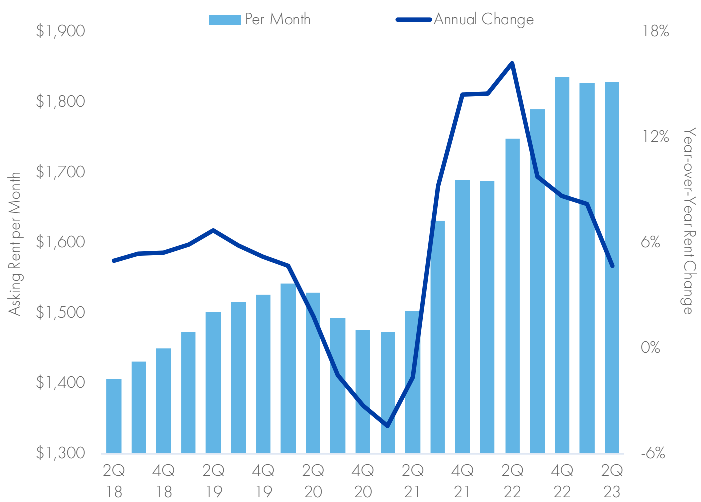
Sources: Northmarq, REIS

RENTS

- Asking rents in Chicago inched higher during the second quarter after dipping at the start of the year. Local rents rose 0.2 percent in the last three months to $1,830 per month. Despite a flat first half to 2023, area rents are up 4.7 percent year over year.
- While rents have been on the rise throughout much of the Chicago area during the past 12 months, there are some signs of slowing in the most expensive parts of the city. Rents in the Gold Coast submarket are up just 2.2 percent year over year, ending the second quarter at $3,172 per month. During the first half of 2023, rents in the submarket dipped 1.9 percent. This followed steep rent increases in 2021 and 2022.
- Tight vacancy conditions have supported above-average rent growth in the lower tiers. Year over year, the combined average rent in Class B and Class C properties has increased 5.2 percent, ending the second quarter at $1,431 per month.
- **FORECAST:** Following two years of rent growth that approached or exceeded 10 percent, asking rents are expected to inch higher in 2023. Apartment rents in Chicago are forecast to rise about 2 percent this year to $1,875 per month.

Area rents are up 4.7 percent year over year.

RENT TRENDS



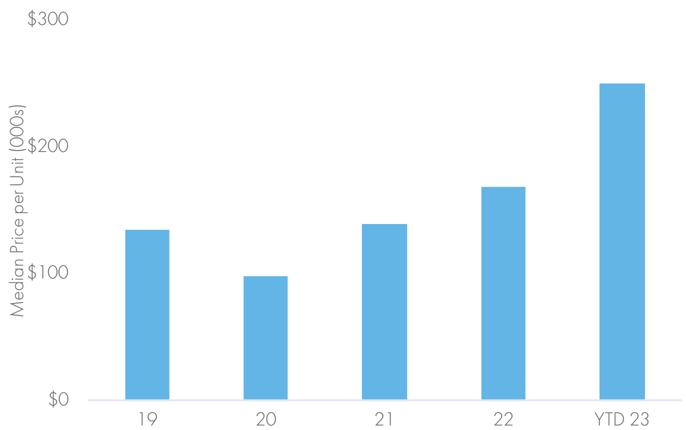
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction trends were mixed during the second quarter. Fewer properties sold in the second quarter than at the start of the year, but there was an uptick in sales of $50 million or more.
- Transaction counts in the first half of 2023 were down 25 percent from levels recorded during the same period in 2022. Sales velocity has gradually slowed since a recent peak in the fourth quarter of 2021.
- Class A properties have accounted for more than half of the transactions in recent months, causing sales prices to jump from last year. The median sales price year to date is $250,200 per unit, up nearly 50 percent from the median price in 2022. In recent years, pricing has generally ranged between $140,000 per unit and $170,000 per unit.
- Despite rising prices, cap rates have ticked higher in recent periods. Cap rates averaged around 5.75 percent during the second quarter, approximately 90 basis points higher than one year ago.

The median sales price year to date is $250,200 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

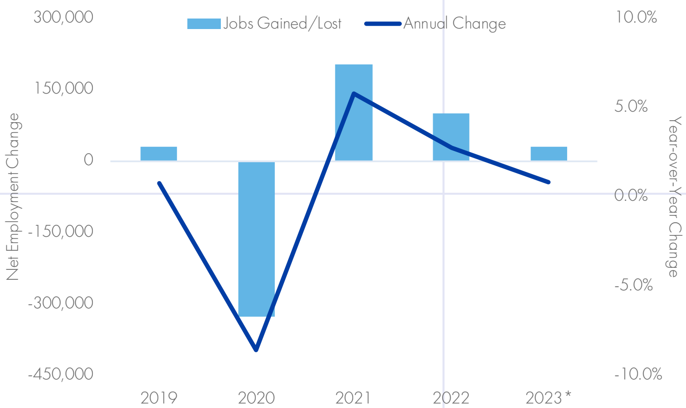
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
North Water Apartments	340 E North Water St., Chicago	398	$173,000,000	$434,673
Lake & Wells	210 N Wells St., Chicago	329	$98,000,000	$297,872
EMME Chicago	165 N Desplaines St., Chicago	199	$72,600,000	$364,824
Woodview Apartments	15 Parkway North., Deerfield	248	$65,300,000	$263,306
Campus Convenience	1571 Maple Ave., Evanston	101	$44,445,000	$440,050

LOOKING AHEAD

The overall outlook for the Chicago multifamily market is positive and calls for a continued progression toward historical norms. Developers are projected to finish the year bringing approximately 7,500 units online, after fewer than 4,500 units were completed last year. Although new development is underway in many suburbs throughout the region, construction activity remains heavily concentrated in the Downtown and North Lakefront submarkets, areas where rents are among the highest in the metro area. Renter demand is forecast to slightly trail the pace of supply growth in the second half, resulting in a minimal vacancy uptick. Area vacancy is expected to finish 2023 in the low-5 percent range, after the rate briefly dipped below 5 percent in the second half of last year.

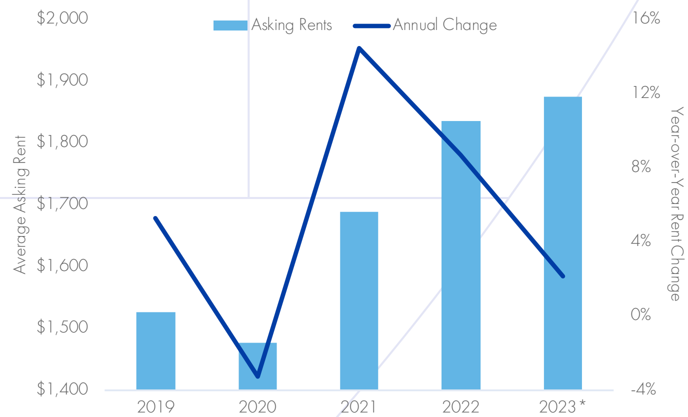
The multifamily investment market in Chicago is expected to gain some momentum in the second half of the year, although total sales volume in 2023 is not expected to match levels from recent years. While prices have jumped in recent quarters, some of this has been the result of transactions involving Class A properties in Downtown Chicago submarkets. Preliminary indications for the third quarter show fewer Class A assets are trading, and activity is picking up in the sale of mid-tier and lower-tier properties. This shift in the transaction mix will likely result in the median per-unit price returning closer to the region's long-term trends. Cap rates in Chicago will likely stabilize in the coming quarters, finishing 2023 in the mid-to-high 5 percent range.

EMPLOYMENT FORECAST



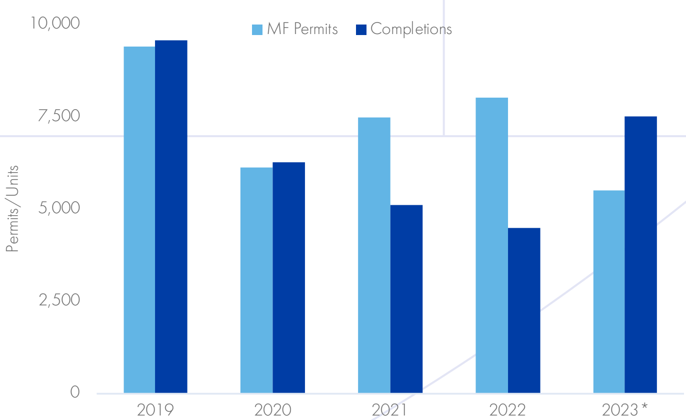
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



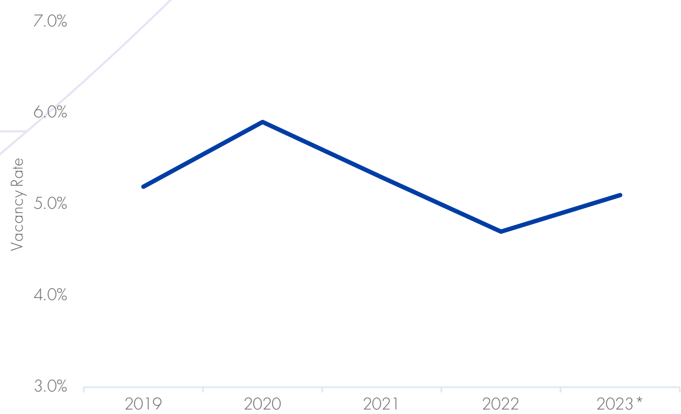
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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FOR MORE INFORMATION, PLEASE CONTACT:

ALEX MALZONE
Vice President–Investment Sales
312.651.5425
amalzone@northmarq.com

PARKER STEWART
Regional Managing Director –Investment Sales
312.651.5423
pstewart@northmarq.com

SUE BLUMBERG
SVP, Managing Director–Debt & Equity
312.651.5416
sblumberg@northmarq.com

BRETT HOOD
Managing Director–Debt & Equity
312.651.5403
bhood@northmarq.com

KEVIN MCCARTHY
Managing Director–Debt & Equity
312.651.5414
kmccarthy@northmarq.com

TREVOR KOSKOVICH
President–Investment Sales
602.952.4040
tkoskovich@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

ABOUT NORTHMARQ

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