Chicago 1Q 2023 Multifamily Market Report

Welcome to the Chicago Multifamily Market Report. This comprehensive analysis provides valuable insights into the multifamily sector's performance and emerging trends. Our data-driven approach equips investors and stakeholders with the knowledge to make informed decisions and maintain a competitive edge. We invite you to explore this resource and leverage its findings to refine your investment strategy.

Supply and Demand

Completions in 1Q 2023

In the first quarter of 2023, the Chicago multifamily market added 1,623 units. The Lake County / Kenosha submarket emerged as the primary recipient, accounting for 231 units of this new supply.

Annual Supply Trends

In 2022, a total of 6,089 apartment units were introduced to the market, expanding the local inventory by 0.8%. The Loop submarket stood out as the focal point of growth, boasting the delivery of over 1,000 units during the calendar year.

Units Under Construction

By the close of 2022, a total of 16,292 units were under construction, with 8,279 slated for completion in 2023. The first quarter of 2023 saw the successful delivery of 1,623 units. This year's deliveries will primarily be concentrated in The Loop and Evanston / Rogers Park / Uptown submarkets, each receiving over 1,400 units in 2023.

Annual Absorption Trends

In the last five years, the annual absorption rate has predominantly been positive. However, the fourth quarter of 2022 marked the first instance of negative annual absorption since 2021. Despite this, the Lincoln Park / Lakeview submarket demonstrated robust demand, with 1,207 units absorbed annually as of the first quarter. Additionally, positive quarterly absorption rates were exhibited by 13 out of the 20 submarkets.

ANNUAL DEMAND VS COMPLETIONS

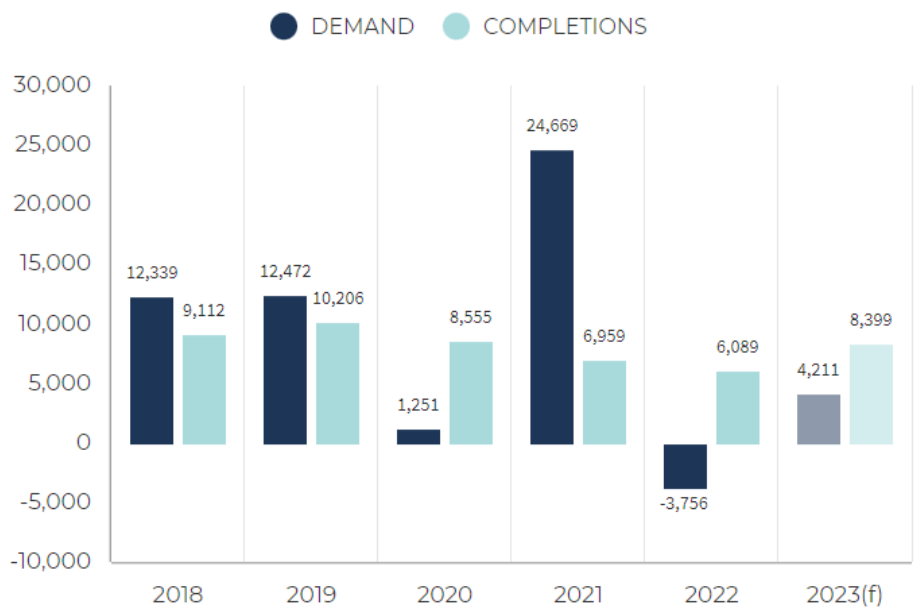
1Q23

QUARTERLY DEMAND

1,424

QUARTERLY COMPLETIONS

1,623



Occupancy and Rent Trends

Occupancy Trends

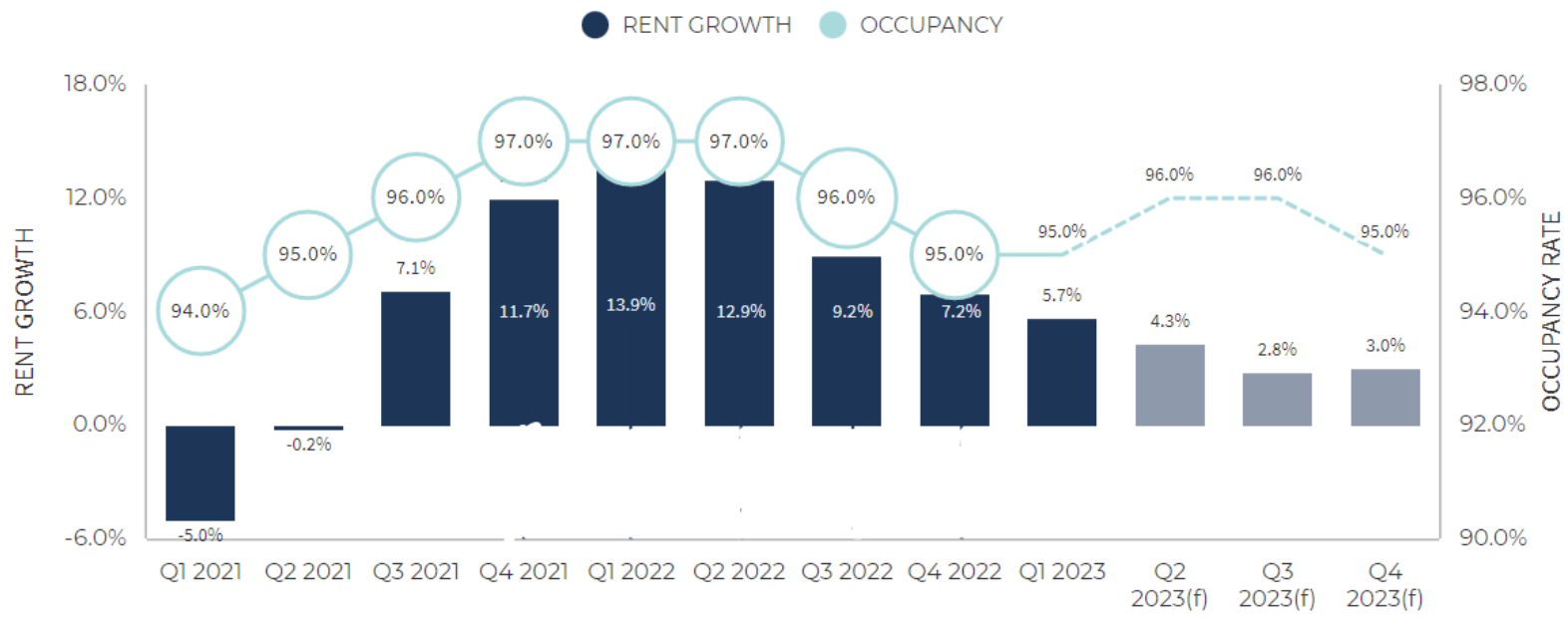
Over the past five years, the Chicago-Naperville-Elgin apartment market has sustained an average occupancy rate of 95.2%, ranging between 94.0% and 97.1%. Despite a 1.8-point decline in the past year, the occupancy rate in the first quarter of 2023 stood at 95.3%. In the first quarter of 2023, Class A, B, and C units recorded occupancy rates of 94.7%, 95.0%, and 96.1%, respectively, with Class C units consistently displaying the highest occupancy rate over the past five years.

In the first quarter of 2023, the submarkets of Gary / Hammond and North DuPage County boasted the strongest occupancy rates, while The Loop and Bronzeville / Hyde Park / South Shore experienced the weakest. Over the past five years, the Gary / Hammond submarket generally maintained the highest occupancy rate. It is anticipated that the overall Chicago occupancy rate will hover around 95% throughout this year.

Rental Trends

Over the past five years, rents in the Chicago area have displayed a fluctuating pattern, with variations ranging from a 5.2% decrease to a 13.9% increase. However, in the first quarter of 2023, rents for new leases saw a substantial year-over-year growth of 5.7%. This increase surpassed the market's five-year average of 3.3% and remained significantly above the pre-pandemic rent growth level. Class B units have consistently demonstrated the strongest rent performance over the past five years, with a notable 6.6% annual change in the first quarter of 2023. Through the balance of 2023, rent change is expected to decelerate from its current level. As of the first quarter of 2023, the average rent in the Chicago area stood at $1,886 per month.

RENT AND OCCUPANCY TRENDS



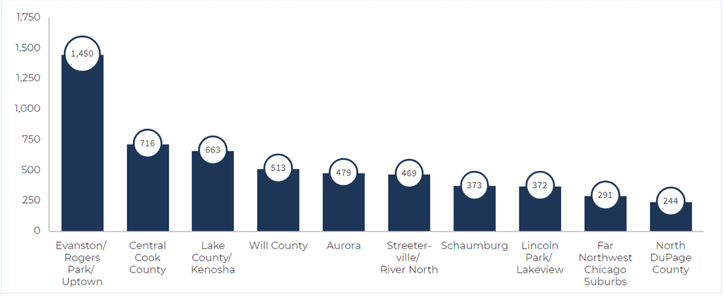
Submarket Analysis

In the first quarter of 2023, The Loop had a decent 94.0% occupancy rate, while seven of Chicago's 20 submarkets posted occupancy rates at or above 96%. The urban core submarket, Lincoln Park / Lakeview, experienced a strong 96.5% occupancy rate, one point higher than pre-pandemic levels. Rent growth performance was supported by a near balance of supply and demand, with operators pushing effective asking rent up 0.7% quarter-over-quarter. On an annual basis, rents increased by 5.7%, ranking 11th among the nation's largest markets.

Class B operators achieved the highest rent growth of 6.6%, followed by Class C at 6.0% and Class A at 4.7%. Submarket level rent growth varied, with urban core Lincoln Park / Lakeview performing the best at 5.5% year-over-year, trailed by The Loop and Streeterville / River North at 4.4% and 4.3% respectively.

Submarket Name	1Q23 Occupancy Rate	Annual Change	1Q23 Effective Rent	Annual Change
The Loop	94.0%	4.4%	$2,447	4.4%
Streeterville / River North	94.8%	4.3%	$2,746	4.3%
Lincoln Park / Lakeview	96.5%	5.5%	$2,196	5.5%
Evanston / Rogers Park / Uptown	95.1%	5.8%	$2,121	5.8%
Bronzeville / Hyde Park / South Shore	94.6%	4.2%	$1,596	4.2%
South Cook County	95.4%	7.4%	$1,273	7.4%
Central Cook County	95.0%	7.7%	$1,746	7.7%
North Cook County	95.5%	7.0%	$1,759	7.0%
Arlington Heights / Palatine / Wheeling	95.1%	9.7%	$1,731	9.7%
Schaumburg	96.0%	7.4%	$1,640	7.4%
North DuPage County	96.6%	9.3%	$1,516	9.3%
Central DuPage County	94.7%	5.8%	$1,816	5.8%
Southeast DuPage County	95.0%	8.3%	$1,686	8.3%
Naperville	95.0%	3.4%	$1,784	3.4%
Will County	96.0%	7.0%	$1,614	7.0%
Aurora	95.3%	5.8%	$1,725	5.8%
Far Northwest Chicago Suburbs	96.0%	5.5%	$1,528	5.5%
Lake County / Kenosha	96.2%	5.8%	$1,574	5.8%
Gary / Hammond	96.6%	3.7%	$1,157	3.7%
Merrillville / Portage / Valparaiso	95.6%	4.2%	$1,250	4.2%

UNITS BY SUBMARKET DELIVERING IN 2023



Sales Activity

Real Capital Analytics' data reveals that the transaction volume for individual conventional multifamily deals in Chicago-Naperville-Elgin amounted to approximately $457 million in the first quarter of 2023, marking a 37.5% decrease compared to the previous year. In this period, 24 properties were involved in the transactions, indicating a 45.5% decline from the previous year's first quarter. The tighter financial conditions have led to a slowdown in investment activities in recent months. On the other hand, the average price per unit in Chicago-Naperville-Elgin was $242,100, representing a 14.4% annual increase. This figure is above the Midwest region's average price per unit of $207,738 but below the U.S. average of $245,640.

Transaction Trends

Transaction Volume

$457.3M

1Q 2023 Transaction Volume

-37.5%

Annual Volume Change

Pricing

$242.1k

1Q 2023 Price Per Unit

+14.4%

Annual Price Change

Top Buyers (Prev. 24 Mos)

1. FPA Multifamily
2. Bayshore Properties
3. Albion Residential
4. Pensam Capital
5. JVM Realty Corp

Top Sellers (Prev. 24 Mos)

1. The Connor Group
2. Broadshore Capital Partners
3. FPA Multifamily
4. Crescent Heights
5. Friedkin Realty Group

Economy

Over the past year, the Chicago labor market has witnessed consistent growth, as total nonfarm employment rose by 74,100 (1.6%). The leisure and hospitality sector emerged as a frontrunner, contributing a remarkable 9.1% increase in new job opportunities. In tandem with this growth, the unemployment rate fell from 5.4% in March 2022 to 4.5% in March 2023.

As the third-largest economy in the United States, Chicago ranks just behind New York and Los Angeles. It serves as a crucial transportation and distribution hub, hosting 35 Fortune 500 companies. The city boasts a diverse economy, encompassing key industries such as manufacturing, printing, publishing, insurance, transportation, financial trading and services, and food processing. Furthermore, Chicago has established itself as a significant center for technology and innovation. With a steadily expanding economy, the city is poised for continued growth in the upcoming years.

Major Economic Developments

$1.3B Expansion at O'Hare

4K Jobs

created

$2.2B

Global Terminal Construction Project

2025

Completion date

350K SF

Expansion of the existing terminal 5

$250 million Biotech hub

26K SF

Campus size

Fulton Labs Campus in The Loop

Location

$250M

Total Investment

Zuckerberg Foundation Investment

In collaboration with the University of Chicago and Northwestern University

$100M Film Studio In South Cook County

3K Jobs

created over the next five years

380K SF

Facility size

South Cook County

Location

2024

Completion date

Market Outlook

The 2023 outlook for Chicago's apartment market is positive, with a projected return to historical norms. It is expected that approximately 8,800 units will be completed in the next year, which is close to pre-pandemic levels. This is due in part to the city's solid employment gains, with 85,800 workers added in the 12-month period ending February 2023, which is anticipated to generate household formation and net demand into 2024. Although there was significant softening in apartment fundamentals due to net move-outs in the year-ending 1st quarter 2023, the outlook for rent growth and occupancy in Chicago's apartment market is positive for 2023 and into 2024, with Class A and B units expected to outperform Class C units.

Chicago's reputation as the Capital of the Midwest and as a domestic and international investment destination is also expected to contribute to the positive outlook. Two major projects are in the works that will further stimulate the city's economy. Loop Capital Real Estate Partners is planning to invest $100 million to build a film studio in South Cook County, with the developer estimating that Regal Mile Studios will create between 2,000 and 3,000 jobs over the next five years. In addition, The Chan Zuckerberg Initiative is planning to spend $250 million over the next decade to fund a biotech hub in Chicago. These projects are expected to bring in additional investment and create thousands of jobs, further boosting Chicago's economic growth.

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