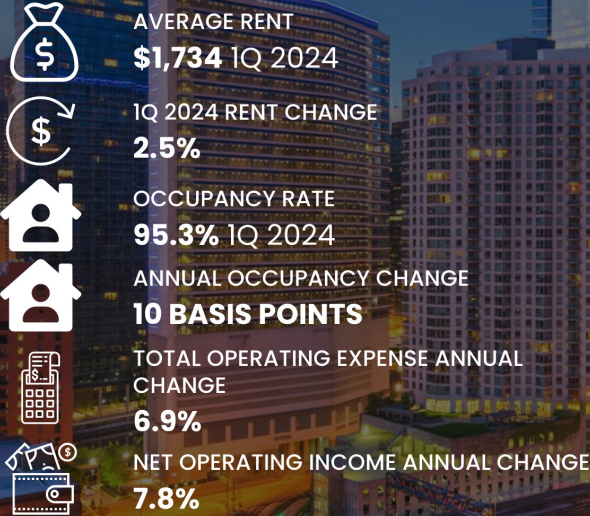


# Chicago 1Q 2024 Market Report

## MARKET SNAPSHOT



## KEY TAKEAWAYS

- **Robust Renter Demand:** Chicago's market shines with strong demand, absorbing 2,308 units in Q1 2024 and outpacing new additions. Over the past year, the metro's absorption rate reached 8,600 units, dwarfing the historical average of 4,200.
- **Manageable New Supply:** Chicago's multifamily market benefits from a controlled supply, with ongoing construction making up only 1.6% of the inventory, well below the 4.6% national average.
- **Smooth Sailing Ahead:** With construction starts at a record low and steady completions, Chicago's limited new supply and robust demand set the stage for rent growth potentially exceeding 3% by the back half of 2024.

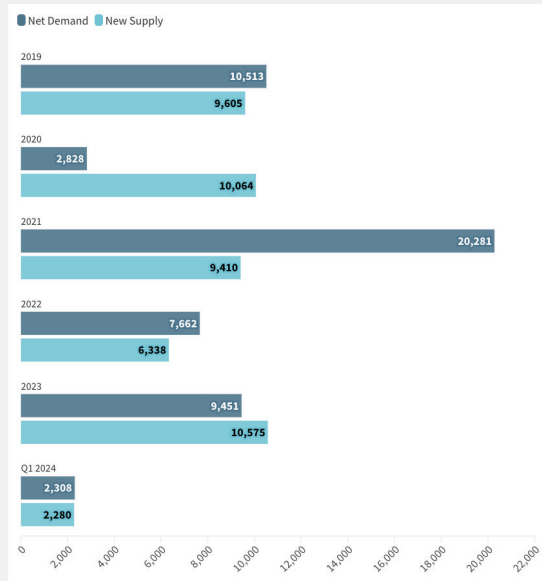
\* Please note that these employment figures have been adjusted for seasonal variations and are based on Moody's Analytics forecast as of January 1, 2024.  
 \*\* Please note that these unemployment rates are estimates that have not been adjusted for seasonal variations, and they are derived from Moody's Analytics forecast as of January 1, 2024.

## Supply & Demand

1Q 2024



## Annual Demand Vs Completions



A Flourish chart

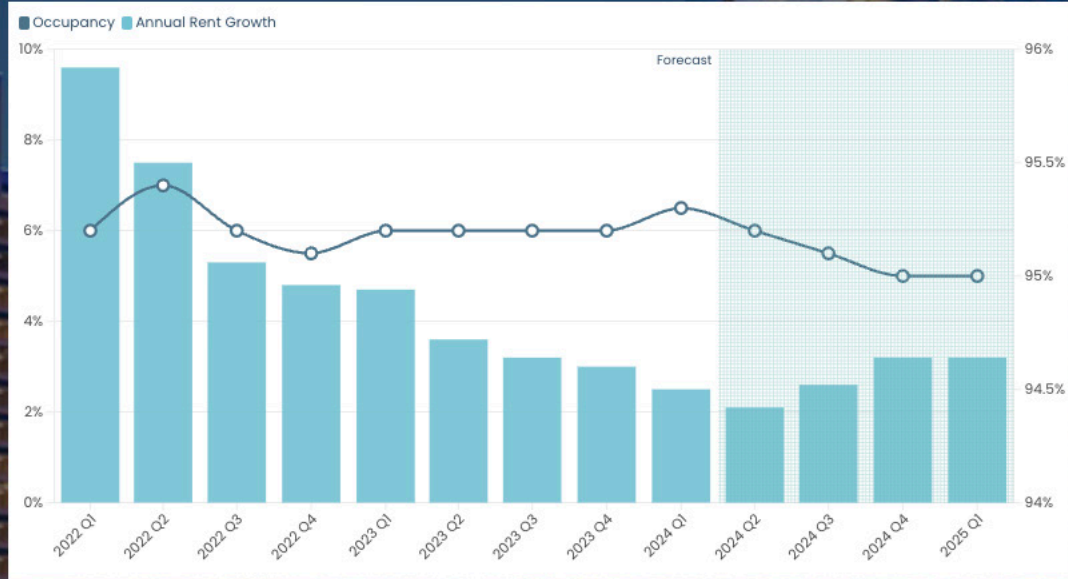
### Demand Trends

While the majority of primary markets are facing challenges like declining absorption and rental growth, coupled with high construction volumes, the Chicago market stands out with robust demand. Renters in Chicago absorbed 2,308 units in the first quarter of 2024, slightly exceeding the addition of 2,280 units during the same period. Dominating this demand were two submarkets: Downtown Chicago and North Lakefront, which together contributed to nearly half of the metropolitan area's absorption gains over the past year. Notably, Chicago saw annual absorption of approximately 8,600 units over the last 12 months, significantly surpassing the region's historical average absorption rate of 4,200 units.

### Construction Trends

The stability of Chicago's multifamily market is largely due to its tight development pipeline, with units currently under construction accounting for only 1.6% of the existing multifamily inventory—a figure significantly lower than the 4.6% national average. This stands in sharp contrast to other major markets like Atlanta or Dallas, where development is more rampant. The controlled pace of new developments in Chicago is influenced by restrictive zoning laws and high labor costs, which present hurdles to new projects. These constraints have inadvertently bolstered the strength of Chicago's multifamily market in recent quarters.

# Occupancy & Rent Trends



## OCCUPANCY TRENDS

The Chicago multifamily market has demonstrated healthy demand, with absorption of 8,600 units over the past year. By the end of the first quarter of 2024, occupancy reached 95.3%, surpassing the city's ten-year annual average of 93.6%. Traditionally, Chicago's overall occupancy rates have lagged behind the national average, but in the latest quarter, Chicago exceeded the national figure by more than 200 basis points. This shift began in 2022 when multifamily markets across the U.S. experienced rapid inventory expansion, whereas Chicago's development was more restrained. As a result, Chicago now ranks eighth in the nation for highest occupancy rates and seventh for units absorbed in the last year.

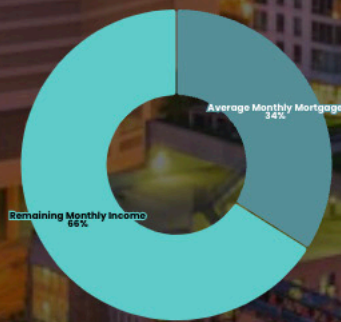
In the luxury segment, Class A properties in Chicago saw 5,800 units of move-ins, while the Class B sector reported 2,400 units of positive absorption. Notably, the occupancy rate for Chicago's premium multifamily properties is about 300 basis points above the national average, indicating that Chicago is less affected by over-supply issues compared to other U.S. markets.

## RENT TRENDS

In the first quarter of 2024, Chicago experienced a notable 2.5% year-over-year rent growth, quadrupling the national average and marking the metro's highest relative rent increase compared to the national average in over a decade. This trend began in the fourth quarter of 2022 and has positioned Chicago as having the seventh-highest rent growth among the 50 largest inventory markets in the U.S., a distinction not seen since 2010. While the growth rate may not be dramatic, it stands out for its stability, avoiding the dramatic fluctuations seen in less mature multifamily markets prone to rapid expansion or supply shortages.

Across Chicago's 43 multifamily submarkets, most reported positive rent growth over the past year. Notably, submarkets with the highest rent increases, such as North Lake County, Indiana, often saw minimal to no inventory growth, indicating a tight supply. Conversely, the submarkets with the lowest rent growth shared a common trait their distance from the urban core, with examples including smaller areas like Newton County and Western Kane County. This pattern underscores the varied dynamics at play across Chicago's diverse multifamily landscape.

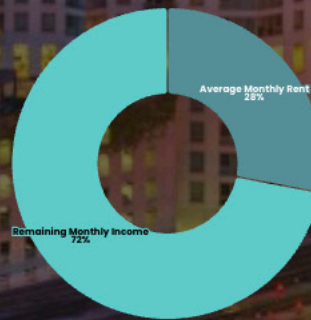
MONTHLY MORTGAGE AS A SHARE OF INCOME



**\$2,124**

Average Monthly Mortgage Payment

MONTHLY RENT AS A SHARE OF INCOME



**\$1,734**

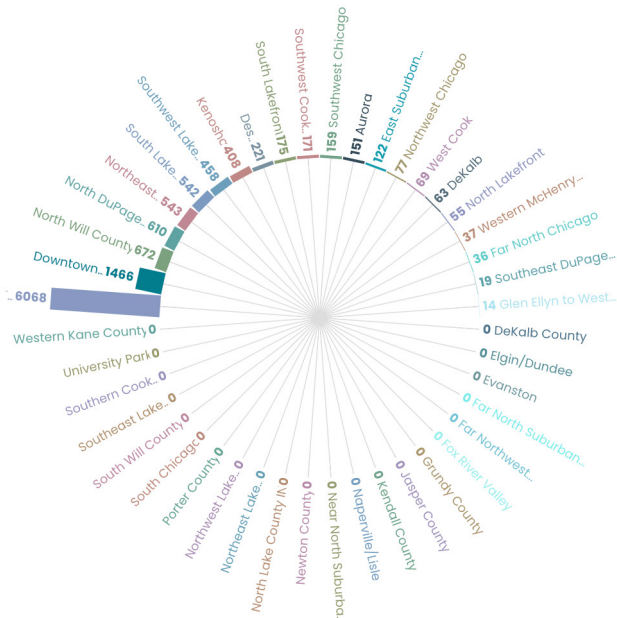
Average Monthly Rent

# Submarket Rent & Occupancy

| Submarket                           | Q1 2024 Occupancy | Annual Occupancy Change | Q1 2024 Effective Annual Rent Growth | Q1 2024 Effective Rent/Unit |
|-------------------------------------|-------------------|-------------------------|--------------------------------------|-----------------------------|
| Aurora                              | 97.9%             | 0.8%                    | 4.3%                                 | \$1,330                     |
| DeKalb                              | 93%               | 0.8%                    | 6.6%                                 | \$1,004                     |
| DeKalb County                       | 98%               | 0.7%                    | 1.5%                                 | \$735                       |
| Des Plaines/Arlington Hts Corridor  | 95.9%             | 0%                      | 4.7%                                 | \$1,775                     |
| Downtown Chicago                    | 94.2%             | -0.2%                   | 1.3%                                 | \$2,763                     |
| East Suburban McHenry               | 97.8%             | -0.3%                   | 6.2%                                 | \$1,590                     |
| Elgin/Dundee                        | 97%               | -0.8%                   | 1.4%                                 | \$1,616                     |
| Evanston                            | 95.8%             | 1.2%                    | 2.9%                                 | \$2,067                     |
| Far North Chicago                   | 95.7%             | 0.3%                    | 2.1%                                 | \$1,234                     |
| Far North Suburban Cook             | 95.7%             | 0.9%                    | 1.5%                                 | \$2,309                     |
| Far Northwest Suburban Cook         | 95.8%             | -0.2%                   | 3.5%                                 | \$1,689                     |
| Fox River Valley                    | 94.6%             | 0.1%                    | 3.1%                                 | \$1,855                     |
| Glen Ellyn to West Chicago Corridor | 96.5%             | 0.2%                    | 5%                                   | \$1,683                     |
| Grundy County                       | 98.1%             | -0.1%                   | 4.5%                                 | \$1,084                     |
| Jasper County                       | 97.4%             | 0.1%                    | 1.8%                                 | \$578                       |
| Kendall County                      | 84.8%             | -4.2%                   | 3.7%                                 | \$1,826                     |
| Kenosha                             | 96.8%             | 0%                      | 5.1%                                 | \$1,332                     |
| Naperville/Lisle                    | 95.5%             | -0.1%                   | 5%                                   | \$1,802                     |
| Near North Suburban Cook            | 96%               | 0%                      | 2.5%                                 | \$1,790                     |
| Newton County                       | 97%               | 0%                      |                                      |                             |
| North DuPage County                 | 97.1%             | -0.1%                   | 4.6%                                 | \$1,629                     |
| North Lake County IN                | 94.2%             | 0%                      | 10.5%                                | \$1,157                     |
| North Lakefront                     | 95.7%             | 0.4%                    | 2.4%                                 | \$1,948                     |
| North Will County                   | 95.8%             | -0.4%                   | 2.4%                                 | \$1,701                     |
| Northeast DuPage County             | 94.1%             | -1.6%                   | 1.7%                                 | \$1,899                     |
| Northeast Lake County               | 96.3%             | 0.2%                    | 3.9%                                 | \$1,233                     |
| Northwest Chicago                   | 95.7%             | 0.2%                    | -0.2%                                | \$1,238                     |
| Northwest Lake County               | 96.7%             | -0.8%                   | 2.2%                                 | \$1,367                     |
| Porter County                       | 96.9%             | -0.5%                   | 2.8%                                 | \$1,223                     |
| South Chicago                       | 95.7%             | 0.4%                    | 3.2%                                 | \$1,156                     |
| South Lake County IN                | 93%               | -0.5%                   | 1.9%                                 | \$1,247                     |
| South Lakefront                     | 93.9%             | 0.3%                    | 0.7%                                 | \$1,313                     |
| South Will County                   | 94.3%             | 0.2%                    | 4.1%                                 | \$1,021                     |
| Southeast DuPage County             | 95.5%             | -0.1%                   | 3.2%                                 | \$1,700                     |
| Southeast Lake County               | 94.8%             | -1.1%                   | 2.1%                                 | \$2,351                     |
| Southern Cook County                | 95.3%             | -0.5%                   | 2.1%                                 | \$1,126                     |
| Southwest Chicago                   | 94.4%             | 0.6%                    | 3%                                   | \$1,056                     |
| Southwest Cook County               | 95%               | 0.7%                    | 2.1%                                 | \$1,349                     |
| Southwest Lake County               | 95.6%             | -1%                     | 2.1%                                 | \$1,922                     |
| University Park                     | 91.2%             | -1.7%                   | 4.7%                                 | \$1,236                     |
| West Cook                           | 96.5%             | 0.4%                    | 3.8%                                 | \$1,396                     |
| Western Kane County                 | 98.6%             | 0.2%                    | 2.1%                                 | \$2,238                     |
| Western McHenry County              | 96.6%             | -0.2%                   | 4.7%                                 | \$1,152                     |

# Submarket Construction Pipeline

Units UC Delivering In the Next 4 Quarter



A Flourish hierarchy chart

| Submarket                           | Units UC Delivering in the Next 4 Quarters | Under Construction Units | % of Total Market Wide UC |
|-------------------------------------|--|--------------------------|---------------------------|
| Aurora                              | 151  | 153                      | 1.7%                      |
| DeKalb                              | 63   | 65                       | 0.7%                      |
| DeKalb County                       | 0  | 0                        | 0%                        |
| Des Plaines/Arlington Hts Corridor  | 221  | 228                      | 2.5%                      |
| Downtown Chicago                    | 1,466                                      | 3,728                    | 40.7%                     |
| East Suburban McHenry               | 122  | 124                      | 1.4%                      |
| Elgin/Dundee                        | 0  | 0                        | 0%                        |
| Evanston                            | 0  | 0                        | 0%                        |
| Far North Chicago                   | 36   | 47                       | 0.5%                      |
| Far North Suburban Cook             | 0  | 0                        | 0%                        |
| Far Northwest Suburban Cook         | 0  | 0                        | 0%                        |
| Fox River Valley                    | 0  | 0                        | 0%                        |
| Glen Ellyn to West Chicago Corridor | 14   | 104                      | 1.1%                      |
| Grundy County                       | 0  | 0                        | 0%                        |
| Jasper County                       | 0  | 0                        | 0%                        |
| Kendall County                      | 0  | 0                        | 0%                        |
| Kenosha                             | 408  | 474                      | 5.2%                      |
| Naperville/Lisle                    | 0  | 0                        | 0%                        |
| Near North Suburban Cook            | 0  | 0                        | 0%                        |
| Newton County                       | 0  | 0                        | 0%                        |
| North DuPage County                 | 610  | 613                      | 6.7%                      |
| North Lake County IN                | 0  | 0                        | 0%                        |
| North Lakefront                     | 55   | 567                      | 6.2%                      |
| North Will County                   | 672  | 676                      | 7.4%                      |
| Northeast DuPage County             | 543  | 548                      | 6%                        |
| Northeast Lake County               | 0  | 0                        | 0%                        |
| Northwest Chicago                   | 77   | 86                       | 0.9%                      |
| Northwest Lake County               | 0  | 0                        | 0%                        |
| Porter County                       | 0  | 0                        | 0%                        |
| South Chicago                       | 0  | 0                        | 0%                        |
| South Lake County IN                | 542  | 545                      | 6%                        |
| South Lakefront                     | 175  | 227                      | 2.5%                      |
| South Will County                   | 0  | 0                        | 0%                        |
| Southeast DuPage County             | 19   | 22                       | 0.2%                      |
| Southeast Lake County               | 0  | 0                        | 0%                        |
| Southern Cook County                | 0  | 0                        | 0%                        |
| Southwest Chicago                   | 159  | 196                      | 2.1%                      |
| Southwest Cook County               | 171  | 176                      | 1.9%                      |
| Southwest Lake County               | 458  | 460                      | 5%                        |
| University Park                     | 0  | 0                        | 0%                        |
| West Cook                           | 69   | 78                       | 0.9%                      |
| Western Kane County                 | 0  | 0                        | 0%                        |
| Western McHenry County              | 37   | 38                       | 0.4%                      |
| Total                               | 6,068                                      | 9,155                    | 100%                      |

A Flourish table

# Sales Activity

Preliminary data from MSCI shows that the sales volume for conventional multifamily properties in Chicago saw an improvement in terms of raw dollar volume in the first quarter of 2024 compared to the same period last year. There were 21 transactions totaling \$411.4 million, marking an 18% increase in sales volume over the first quarter of 2023. Despite the higher total volume, there were 5 fewer transactions, suggesting that the deals executed this year involved higher quality assets than those of the previous year. This trend is also mirrored in the rise in price per unit compared to 2023.

So far this year, the composition of buyers in Chicago's multifamily market has shifted slightly, with institutional investors increasing their presence to 36%, up from the historical norm of 28%. This uptick in institutional interest is likely driven by Chicago's stronger demand fundamentals compared to the national average, making the city an attractive market for these larger players. However, concerns like the challenging political landscape and stagnant population growth continue to loom, potentially deterring institutional investors in the future. Should these concerns persist, Chicago's market may revert to its traditional reliance on private buyers, who historically have been more willing to navigate these risks compared to institutional fund managers.

## TRANSACTION VOLUME

# \$411.4M

IQ 2024 Transaction Volume

# 18%

Y-O-Y Change

# 21 YTD

Q1 2024 Individual Transaction Count

# \$230.7k

Price Per Unit

# 10.1%

Annual PPU Change

\* Trailing 4Q average PPU

\* Preliminary Data from RCA - Individual transaction \$2.5M +

## Income & Expense Analysis

Please note that the income and expense data presented in this section is sourced from third-party providers. Our firm does not provide any warranty or guarantee as to the accuracy or reliability of this information. We recommend that users exercise their own discretion and professional judgment when interpreting and utilizing this data.

## Income & Expenses

### Operating Income Metrics

| Income Assumptions                   | Value / Unit      | Year Change (%) |
|--------------------------------------|-------------------|-----------------|
| Rental Income / Occupied Unit        | \$1,857.67        | 6.9%            |
| Recoverable Expenses / Occupied Unit | \$81.68           | 10.7%           |
| Other Income / Occupied Unit         | \$119.96          | 7.2%            |
| <b>Total Income / Occupied Unit</b>  | <b>\$2,059.31</b> | <b>7.0%</b>     |
| Rental Income                        | \$1,752.73        | 7.2%            |
| Recoverable Expenses                 | \$77.08           | 11.1%           |
| Other Income                         | \$113.15          | 7.5%            |
| <b>Total Income</b>                  | <b>\$1,942.96</b> | <b>7.4%</b>     |

### Operating Expense Metrics

| Operating Expenses      | Value / Unit | Year Change (%) |
|-------------------------|--------------|-----------------|
| Payroll                 | \$172.27     | 3.9%            |
| Repairs & Maintenance   | \$66.77      | 5.6%            |
| Leasing                 | \$64.64      | 6.2%            |
| General                 | \$40.86      | -2.3%           |
| Marketing & Advertising | \$30.07      | -2.1%           |
| Repairs & Maintenance   | \$138.03     | 5.4%            |
| Cleaning                | \$25.68      | 0.3%            |
| Roads & Grounds         | \$17.24      | 8.2%            |

# Income & Expense Analysis

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|                                |                 |             |
|--------------------------------|-----------------|-------------|
| General                        | \$95.11         | 6.5%        |
| Administrative                 | \$65.04         | 6.0%        |
| Security                       | \$15.50         | 6.4%        |
| General                        | \$49.54         | 5.8%        |
| Management Fees                | \$61.44         | 8.0%        |
| Utilities                      | \$106.47        | 1.4%        |
| Electric                       | \$29.83         | 16.8%       |
| Gas                            | \$21.03         | -21.5%      |
| Water/Sewer                    | \$55.61         | 4.3%        |
| Real Estate & Other Taxes      | \$276.82        | 13.0%       |
| Insurance                      | \$46.39         | 19.1%       |
| <b>Total Operating Expense</b> | <b>\$900.26</b> | <b>6.9%</b> |

## — Net Operating Income

|                             | Value / Unit      | Year Change (%) |
|-----------------------------|-------------------|-----------------|
| <b>Net Operating Income</b> | <b>\$1,042.70</b> | <b>7.8%</b>     |

## Market Outlook

Leveraging its market status, Chicago capitalizes on its inherent strengths as a major national market, enhanced by extensive financial assets and the valuable intellectual capital imported annually by new waves of college graduates to this Midwestern hub. Concurrently, the strength of Chicago's multifamily market is significantly shaped by the constrained supply conditions, whether by strategy or circumstance. Presently, the city is witnessing its lowest level of construction starts since 2013. This limited new supply, combined with on-schedule completions and strong absorption rates, suggests a promising outlook for rent growth. By the close of 2024, it's anticipated that rent increases could surpass 3%, propelled by these prevailing market conditions.

Sources: Yardi Matrix; Costar; MSCI.

TO GAIN FURTHER INSIGHTS INTO THE CHICAGO MARKET PLEASE REACH OUT TO OUR LOCAL TEAM



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