MARKET REPORT | 4Q/2020

Chicago Multifamily

Minimal New Construction Easing Supply-Side Pressures

Highlights

- Operating conditions softened in the Chicago multifamily market in 2020, but a recovery is likely to begin to take shape in 2021. The local labor market will likely begin to transition more fully into expansion mode in the second half of 2021, which should spark renter demand.
- Apartment vacancy in Chicago rose 70 basis points in 2020, ending the year at 5.9 percent. Conditions began to steady late in the year; the rate inched up just 10 basis points during the fourth quarter.
- After several consecutive years of strong growth, rents contracted in 2020. Asking rents fell 3.3 percent for the year, ending the fourth quarter at $1,476 per month.
- Apartment construction slowed, with developers delivering approximately 4,900 units in 2020. Projects totaling nearly 7,800 units are under construction.
- Sales of multifamily properties slowed in 2020, with the greatest drops in activity occurring in larger, newer assets.

Q4 Snapshot	Chicago Market
Market Fundamentals	
Vacancy	**5.9%**
- Year Over Year Change	**+70 bps**
Asking Rent	**$1,476**
- Year Over Year Change	**-3.3%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$98,200**
Cap Rates (Avg YTD)	**6.3%**
Construction Activity	
Units Under Construction	**7,790**
Units Delivered YTD	**4,913**

Chicago Multifamily Market Overview

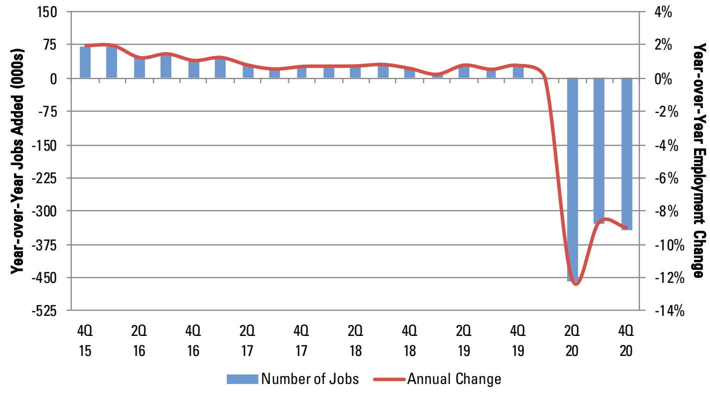
The Chicago multifamily market recorded slowing supply growth and moderating demand growth in 2020. Conditions were fairly steady in the first few months of the year, but the bulk of the pandemic-related job cuts recorded during the spring months lingered throughout the year, dragging on renter demand for apartments. With absorption registering at about 20 percent of year-earlier levels, the local vacancy rate rose, and rents dipped. These trends are expected to be short term in nature, with a recovery in the local labor market expected to take shape in the coming quarters.

Investment activity in Chicago was concentrated in older and lower-tier properties in 2020. With the mix of properties changing hands less diverse than in recent years, the median price in closed transactions retreated for the year and cap rates rose. The handful of newer buildings that sold still commanded top per-unit pricing, but there were far fewer of these sales than in previous years. The bulk of the transactions executed in 2020 were in the $15 million- to $25 million-range, whereas activity in recent years was concentrated between $30 million and $40 million.

Employment

- Chicago posted steeper annual job losses than the national average in 2020. Losses for the year were nearly 342,000 jobs, an annual decline of approximately 9 percent. The market added back about 35 percent of the jobs that were originally cut during the COVID shutdown, but the jobs recovery stalled in the fourth quarter.
- Nearly half of the local jobs that were cut in 2020 were in the leisure and hospitality sector. During the first quarter of 2021, local restrictions on dining loosened somewhat, and further easing of restrictions and an increase in summer travel should support gains in this sector in 2021.
- Employment in Chicago will receive a boost from Google. The tech giant announced plans to add thousands of new jobs in 2021 across four major U.S. markets, including Chicago. The company has nearly 1,400 employees at two locations within Chicago and enough office space to nearly double its local workforce.
- **Forecast:** Employers are forecast to add approximately 80,000 jobs in Chicago in 2021, expanding area payrolls by 2.3 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Google announced plans to add thousands of new jobs across four major U.S. markets, including Chicago

Vacancy

- Apartment vacancy has been recording minimal quarterly vacancy increases since the beginning of 2019. During the fourth quarter, the rate inched up 10 basis points, reaching 5.9 percent.
- Year over year, vacancy in Chicago rose 70 basis points after ticking up 30 basis points in 2019. The rate reached its cyclical low of 3.5 percent in 2014.
- Vacancy increases were concentrated in Class A units, where the rate rose 150 basis points in 2020 to 9 percent. While conditions were fairly stable in the lower tiers, Class A demand slowed. Net absorption for Class A properties cooled to approximately 1,500 units in 2020, down from more than 7,000 units in the preceding year.
- **Forecast:** Net absorption should gain momentum in 2021, but demand is forecast to slightly lag the pace of new supply growth. Vacancy is expected to rise 40 basis points in 2021, ending the year at 6.3 percent.

Vacancy Trends

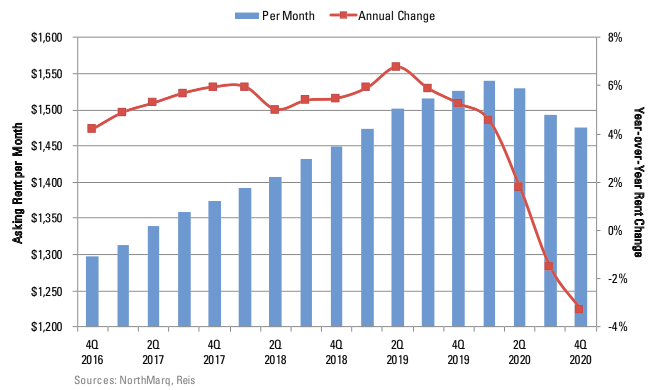
Sources: NorthMarq, Reis

During the fourth quarter, the vacancy rate inched up 10 basis points, reaching 5.9 percent

Rents

- Rents in Chicago had been posting strong gains leading into 2020, but growth stalled after the first quarter. Asking rents retreated in each of the final three quarters of the year. Asking rents dipped 1.1 percent in the fourth quarter.
- In 2020, asking rents fell 3.3 percent, ending the year at $1,476 per month. Average rents first topped $1,500 per month in mid-2019 but fell below that threshold during the third quarter of 2020.
- After rising 4.8 percent in 2019, asking rents in Class A buildings retreated 4.4 percent in 2020. Class A asking rents ended 2020 at $1,991 per month. Rents in Class A properties have dropped 5.5 percent from recent peak levels.
- **Forecast:** Rents are expected to be flat in the first half of the year and then expand slightly as economic conditions strengthen. For the full year, area asking rents are forecast to rise approximately 1.5 percent, reaching nearly $1,500 per month.

Rent Trends



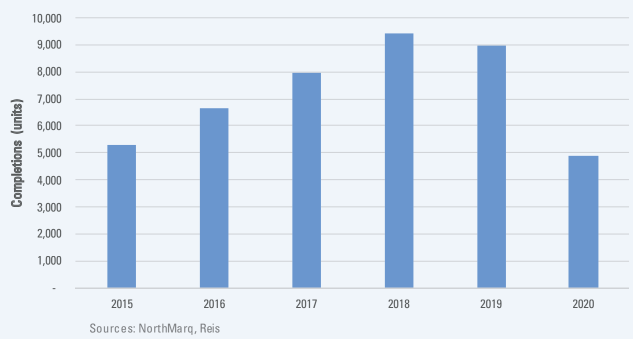
Sources: NorthMarq, Reis

Asking rents are forecast to rise approximately 1.5 percent, reaching nearly $1,500 per month

Development and Permitting

- Apartment deliveries slowed in 2020, reflecting the widespread disruption to most commerce that occurred because of the coronavirus. Developers delivered approximately 4,900 apartment units in 2020, down 45 percent from the previous year. From 2015 to 2019, annual apartment completions averaged nearly 7,700 units.
- Deliveries of new units are forecast to remain modest in the coming quarters. Projects totaling nearly 7,800 units were under construction at the end of 2020.
- Multifamily permitting slowed significantly in 2020, dropping 35 percent from 2019 levels. Developers pulled permits for approximately 6,100 multifamily units in 2020, including permits for 1,500 units during the fourth quarter. The slowest periods for permitting in 2020 were the second and third quarters, which have historically been fairly active periods.
- **Forecast:** Developers are forecast to deliver projects totaling approximately 5,500 units in 2021, a slight increase from the previous year, but much lower than the Chicago area's long-term average pace of new construction.

Development Trends



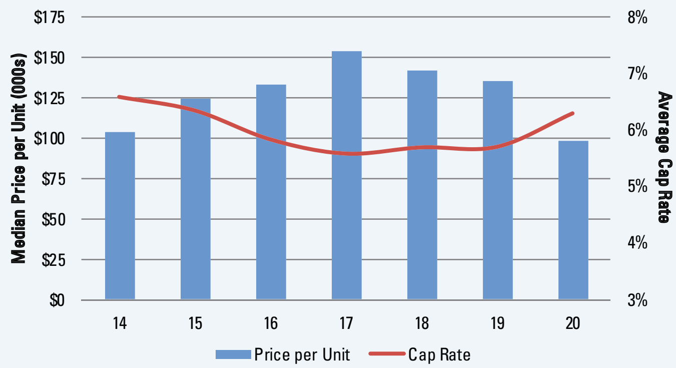
Sources: NorthMarq, Reis

Projects totaling nearly 7,800 units were under construction at the end of 2020

Multifamily Sales

- Multifamily sales activity slowed in Chicago in 2020, with the greatest declines occurring at the higher end of the market. Transaction activity in the fourth quarter was the most active period during the year, following minimal sales velocity in the third quarter. The total number of property sales declined 40 percent from 2019 to 2020.
- The median price dipped to $98,200 per unit in 2020. Transactions during the past year were concentrated in Class C properties, dragging down the overall median price.
- There is a significant disparity in sales prices of properties based on year built. In transactions that closed in 2020, the median price in buildings built before 1980 was $87,200 per unit. At the other end of the spectrum, in sales of buildings that have been delivered since 2010, the median price was over $400,000 per unit.
- With older properties accounting for a larger share of sales in 2020, cap rates pushed higher. The average cap rate in sales that closed in 2020 was 6.3 percent, up from 5.7 percent in 2019.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Transaction activity in the fourth quarter was the most active period during the year

Recent Transactions in the Market

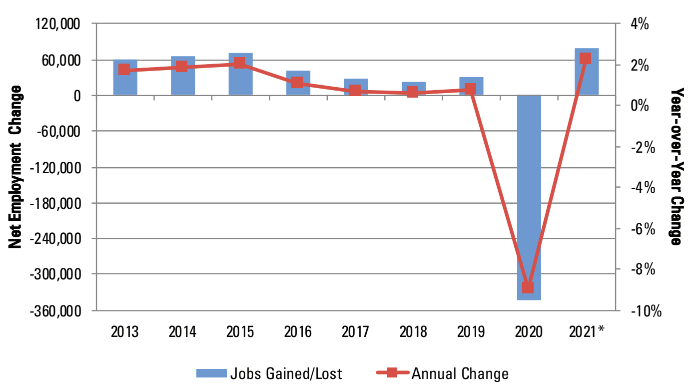
MULTIFAMILY SALES ACTIVITY				
Property Name	**Street Address**	**Units**	**Sales Price**	**Price/Unit**
Essex on the Park	808 S Michigan Ave., Chicago	479	$190,000,000	$396,660
Hunter's Glen	245 N Oakhurst Dr., Aurora	320	$47,950,000	$149,844
Fox Pointe	2074 Fox Pointe Cir., Aurora	248	$25,175,000	$101,512
Pebblewood Court	2230 Breezewood Terrace, Hanover Park	220	$21,600,000	$98,182

Looking Ahead

Fairly soft conditions are forecast to persist for another quarter or two in the Chicago multifamily market before a recovery begins to take shape. Job losses were steep in 2020, and employers have added back workers at a more gradual pace than in many other major markets. The region's large professional workforce is likely to be a source of growth in the coming quarters. The local employment outlook received a significant boost early in 2021, when Google announced plans to add thousands of jobs across four major markets, including Chicago.

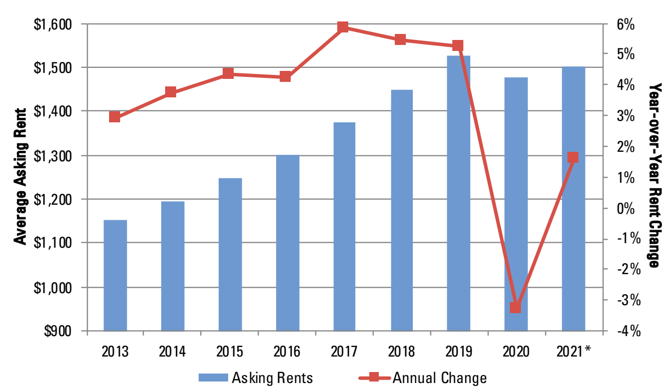
Investors have already begun to adjust to the changing demand patterns in Chicago, and sales of multifamily properties will likely accelerate in 2021. With the past year marked by an emphasis on social distancing and concerns about dense living, sales were generally concentrated in outlying areas northwest of the city core such as Addison and Oak Park, as well as Aurora, southwest of the city. Only a handful of sales occurred in Downtown Chicago in 2020. Nearly all of the transactions occurring in downtown took place in the fourth quarter, which could signal a return to a more normalized investment climate.

Employment Forecast



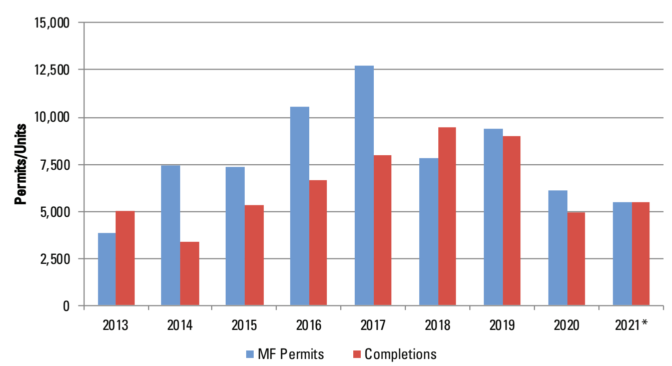
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



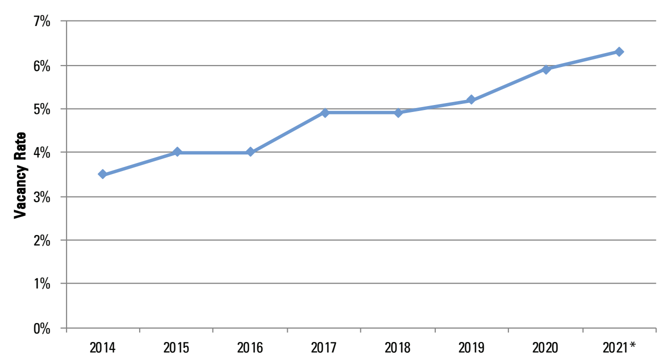
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 people.

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