Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	13,948
UNITS DELIVERED	4,490

MARKET FUNDAMENTALS

VACANCY RATE	4.7%
YEAR-OVER-YEAR CHANGE	-60bps
ASKING RENTS	$1,836
YEAR-OVER-YEAR CHANGE	+8.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$168,300

Chicago Multifamily
4Q 2022

MARKET INSIGHTS

Conditions strengthening, particularly in Class B and C

HIGHLIGHTS

- Chicago multifamily property fundamentals recorded a solid performance during the fourth quarter, as asking rents continued to rise, and vacancy conditions remained tight. With the recent expansion in the construction pipeline, the pace of apartment deliveries is expected to gain momentum in 2023.
- Vacancy ended 2022 at 4.7 percent, the lowest figure in more than five years. The rate tightened 60 basis points for the year.
- With vacancy rates improving in the past two years, the market has recorded rapid rent growth. In 2022, asking rents rose 8.7 percent to $1,836 per month.
- Multifamily sales activity slowed during the fourth quarter while prices trended higher. The median sales price in 2022 was $168,300 per unit, up 21 percent from the 2021 figure. Cap rates ticked up above 5 percent at the end of the year.

CHICAGO MULTIFAMILY MARKET OVERVIEW

The Chicago multifamily market finished the year in a strong position with vacancy holding steady at its lowest rate in more than five years and rents pushing higher. Local vacancy ended 2022 at 4.7 percent, and conditions were particularly tight outside of the Class A segment. The combined vacancy rate in Class B and Class C units fell to the market's lowest figure in more than 20 years to 2.5 percent, as affordability remains a primary concern for many renters. Operators pushed rents higher at a healthy pace in recent months, led by growth in the Rogers/Uptown and Glenview/Evanston submarkets.

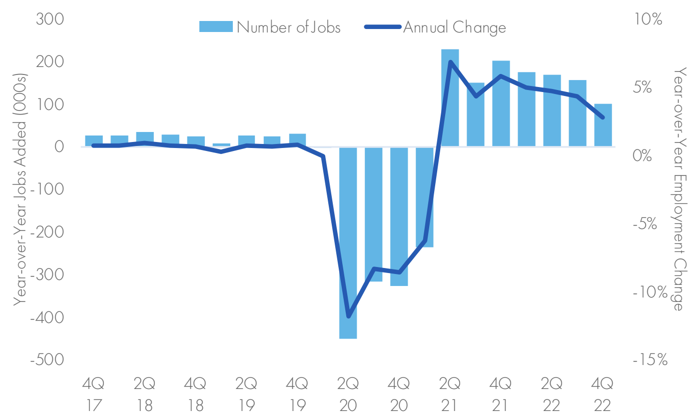
While multifamily sales activity slowed in the final three months of 2022, pricing remained elevated and pushed even higher at the end of the year. The median sales price in Chicago for the full year was $168,300 per unit, while the median sales price in the fourth quarter was $201,600 per unit. Approximately 40 percent of the deals during the fourth quarter transacted with a sales price of more than $70 million, with a handful of properties changing hands for more than $100 million, as investors allocated large swaths of capital into the market as operating conditions strengthened.

EMPLOYMENT

- After nine consecutive quarters of employment growth, the local labor market retreated slightly in the final three months of 2022. Total employment posted a minimal decline in the fourth quarter. Despite the slowing late in the year, area employers added 100,700 workers in 2022, a 2.7 percent gain.
- Chicago's health care and social assistance sector outperformed most other industries in recent quarters. During the past 12 months, this sector added 15,200 jobs and grew by 3.2 percent.
- Late in the fourth quarter, United Airlines announced plans to purchase more than 100 Boeing aircraft by 2032, as the company strives to replace aging planes with newer, more fuel-efficient models. The airline also ordered several hundred planes about a year ago, which will be delivered during the same time frame. The airline will create 2,600 jobs in Chicago to support its expanding fleet.
- **FORECAST:** Local employers are projected to add jobs at a modest pace in the next 12 months. Total employment in Chicago is expected to expand by 27,000 workers in 2023, an annual increase of 0.7 percent.

Area employers added 100,700 workers in 2022.

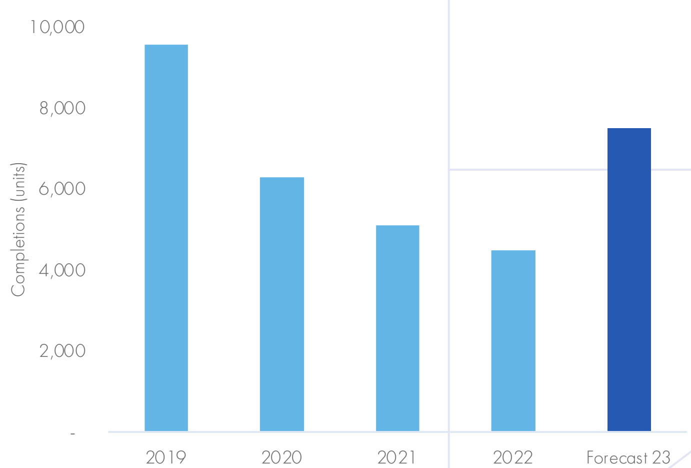
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers completed nearly 4,500 units in 2022.

DEVELOPMENT TRENDS



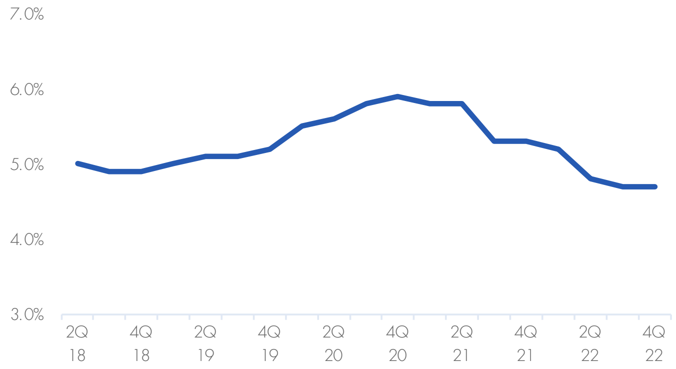
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily construction activity picked up in the final months of 2022, as projects totaling roughly 1,170 units came online in the fourth quarter. For the full year, developers completed nearly 4,500 units, down 12 percent from the 2021 total.
- Several projects broke ground toward the end of 2022, which expanded the construction pipeline. Projects totaling approximately 13,950 units are currently under construction in the Chicago area, up 52 percent from one year ago.
- Multifamily permitting continued to gain momentum, as developers pulled permits for 2,670 units in the last three months of 2022, up 15 percent from the previous period. Permits for approximately 8,000 multifamily units were issued during the course of the year, a 9 percent increase from the 2021 total.
- **FORECAST:** With the recent expansion of the development pipeline, the pace of apartment completions is expected to ramp up in 2023. Projects totaling roughly 7,500 units are scheduled to come online in the next 12 months.

The vacancy rate ended 2022 at 4.7 percent.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

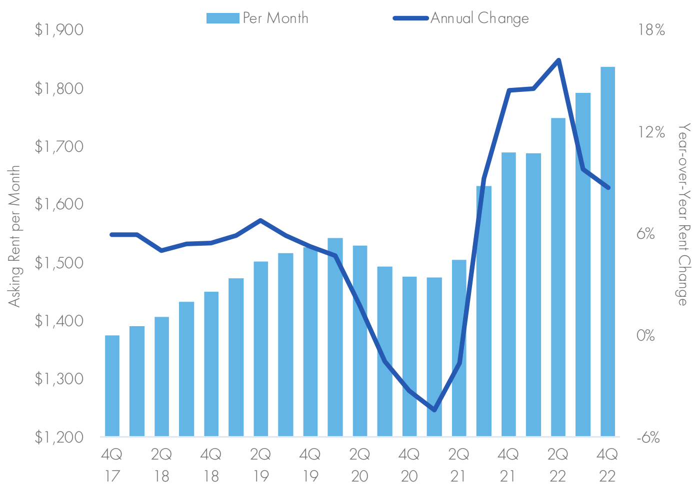
- The vacancy rate in Chicago held steady in recent months, after trending lower for the first three quarters of the year. The rate ended 2022 at 4.7 percent, down 60 basis points for the year. This matched the lowest vacancy rate in Chicago since mid-2017.
- While The Loop submarket is recording some of the highest vacancy rates in the region, this area also posted the largest decline in vacancy during the past 12 months. The rate in The Loop submarket fell 300 basis points to 8.1 percent. Vacancy in the submarket initially pushed into the double digits in 2019-2020 in response to the completion of more than 2,500 units, but deliveries have slowed and absorption gained momentum in 2022.
- Absorption levels have been strongest in mid-tier and lower-tier units in recent quarters, as affordability remains a primary concern for renters. The combined vacancy rate in Class B and Class C units dropped 130 basis points in 2022 to 2.5 percent.
- **FORECAST:** With apartment construction activity on the rise, the vacancy rate is projected to tick higher in the coming quarters. Local vacancy is expected to rise 30 basis points in 2023 and finish the year at 5 percent.

RENTS

- Apartment rents in Chicago continued to rise, ending the fourth quarter at $1,836 per month. Local asking rents increased 8.7 percent in 2022, following a spike of more than 14 percent recorded in 2021.
- Area rents pushed higher at a healthy pace across the region, with some of the largest gains located in the Rogers Park/Uptown submarket. Average rents in this submarket rose 15.7 percent during the past 12 months to $1,389 per month.
- With the vacancy rate in Class B and Class C units at a 20-year low, operators aggressively pushed rents higher in these asset classes. Combined average rents in mid-tier and lower-tier properties finished 2022 at $1,424 per month, up nearly 10 percent from one year earlier.
- **FORECAST:** After two years of heightened rent growth, local apartment rents are expected to rise at a moderate pace in 2023. Asking rents are projected to increase 3 percent in 2023 to nearly $1,890 per month.

Local asking rents increased 8.7 percent in 2022.

RENT TRENDS



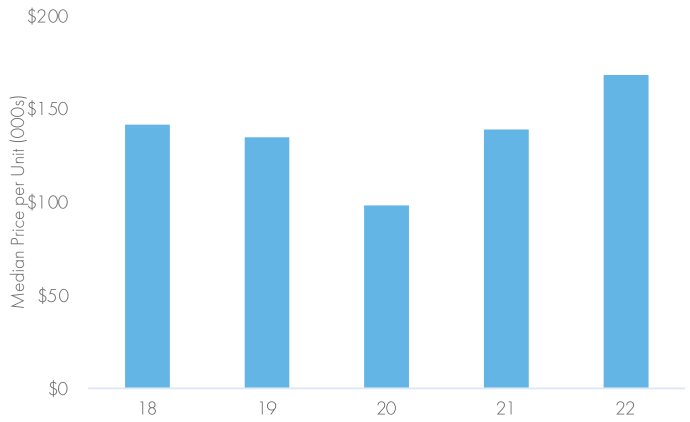
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction activity in Chicago slowed during the final months of the year, as the number of deals dropped 17 percent from the third quarter to the fourth quarter. Total sales volume in 2022 was down just 12 percent from levels recorded in 2021.
- The median sales price in 2022 was $168,300 per unit, up 21 percent from the 2021 figure. Pricing has trended higher in recent months as the median sales price during the fourth quarter reached $201,600 per unit.
- Cap rates have held fairly steady in the second half of 2022 but rose late in the year. In the fourth quarter, cap rates averaged 5.1 percent.

The median sales price in 2022 was $168,300 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

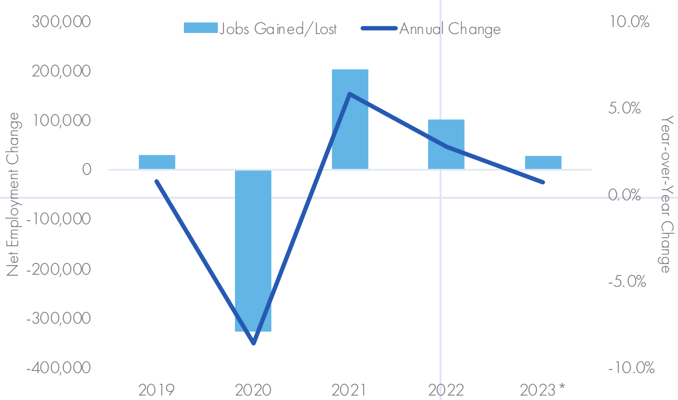
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Elle	801 S Financial Pl., Chicago	496	$170,000,000	$342,742
Fieldpointe of Schaumburg	1708 Arbor Sq., Schaumburg	396	$79,850,000	$201,641
GlenLake Village	4300 W Lake Ave., Glenview	425	$67,200,000	$158,118
Concordia Place Apartments	13037 S Daniel Dr., Chicago	297	$33,562,500	$113,005
Green Oaks of River Oaks	1370 Ring Rd., Calumet City	205	$14,903,000	$72,698

LOOKING AHEAD

After two consecutive years of significant improvement, apartment property performance metrics in Chicago are expected to cool somewhat in 2023. The pace of renter demand will likely ease as the economy slows, while construction activity will pick up and return delivery totals closer to levels recorded a few years ago. This will follow a lull in inventory growth since 2020. These factors will put some upward pressure on the vacancy rate, especially in submarkets where construction is concentrated, including Downtown Chicago and North Lakefront. The rise in vacancy is forecast to be minimal, and operators should still be able to implement modest rent increases.

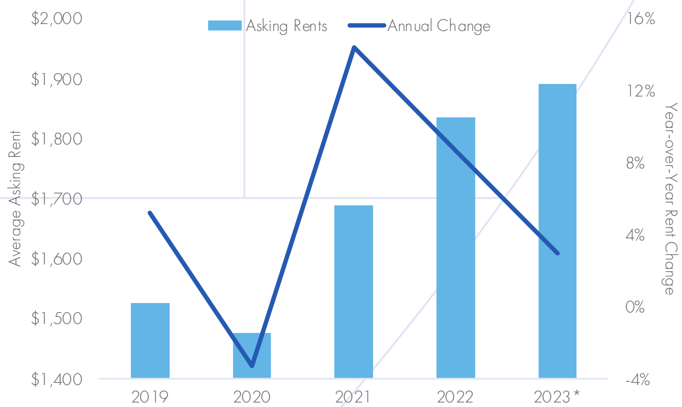
The Chicago multifamily investment market is expected to start 2023 in a stronger position than in recent years, although recent pricing may not be sustainable. After jumping in the final quarter of 2022, per-unit pricing could taper off in the coming months, as cap rates are projected to trend higher at least through the first half of the year. Early indications for 2023 show properties priced to yield cap rates closer to 5.5 percent to 6 percent, and this may be the market's trading range for much of 2023. The overall health in local operating fundamentals should continue to support investor demand and sentiment throughout the region.

EMPLOYMENT FORECAST



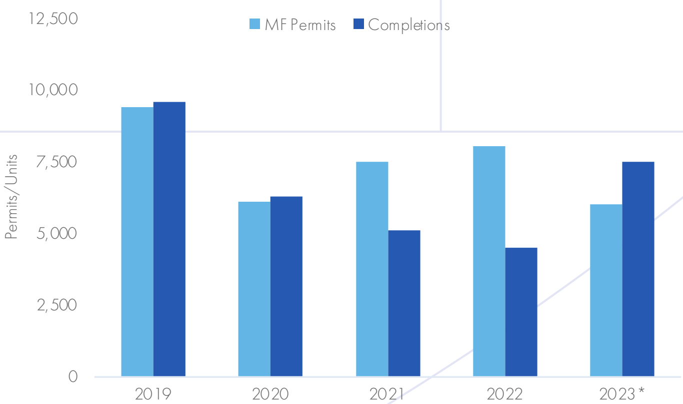
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



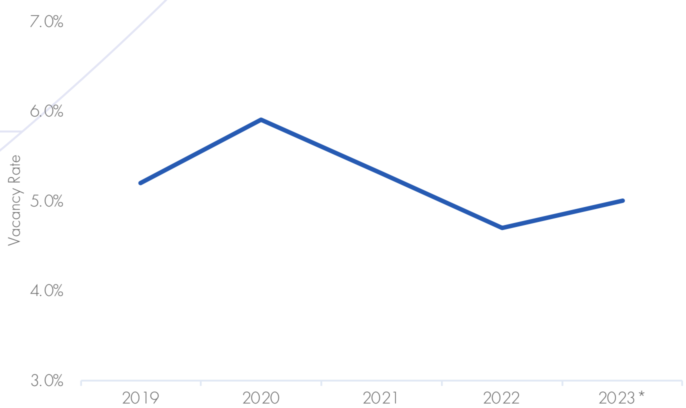
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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