MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Chicago Metro Area

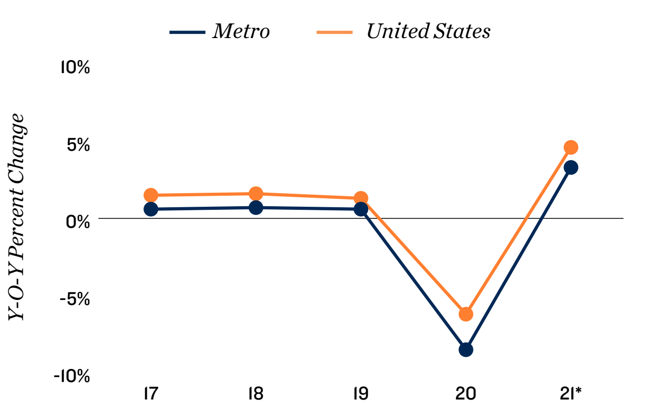
3Q/21

Fundamentals Return to Pre-Pandemic Levels, Boosting Investment and Out-of-State Interest

Positive absorption resurfaces across all submarkets. Chicago recorded a recent spike in apartment demand that restored vacancy and rent metrics to levels last seen before the health crisis. From April through June, renters absorbed nearly 9,900 units, the strongest quarter for leasing in more than 10 years. Positive absorption was widespread outside the CBD as households continued to seek larger, lower-cost apartments in suburbs. Concurrently, vaccination efforts and the return of employees to offices drew a separate cohort of renters back to the city. Streeterville-River North and the Loop registered the largest absorption totals among submarkets in the second quarter at 1,550 and 1,150 units, respectively. Moving forward, the return of students to universities and expected job growth in the second half should further bolster property performance in these locales.

Epicenter of inventory growth shifts. For the first time since 2004, suburban deliveries exceed urban completions. The disparity in rental additions will be most apparent during the second half as inventory outside the CBD grows by an estimated 2,200 units while urban stock rises by less than 500 doors. Suburban Chicago appears poised to absorb these new units after a strong first half that saw Class A vacancy decline 130 basis points amid the completion of 2,000 rentals. For urban Chicago, the near-term pullback in deliveries represents a boon for its luxury segment, which has seen vacancy rise 220 basis points over the past 24 months.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2021 Outlook

144,000 JOBS
will be created

EMPLOYMENT:

Job growth of 3.3 percent is expected in 2021, yet total employment will remain nearly 300,000 positions below the pre-pandemic mark. As a result, the unemployment rate, which rested at 7.7 percent at the end of June, is likely to stay above the U.S. level.

5,600 UNITS
will be completed

CONSTRUCTION:

The volume of apartments delivered this year will trail the prior five-year average by 3,500 units. Still, total inventory will expand by 0.8 percent. Nearly one-fourth of the rentals to be completed in 2021 are in suburban Cook County.

80 BASIS POINT
decrease in vacancy

VACANCY:

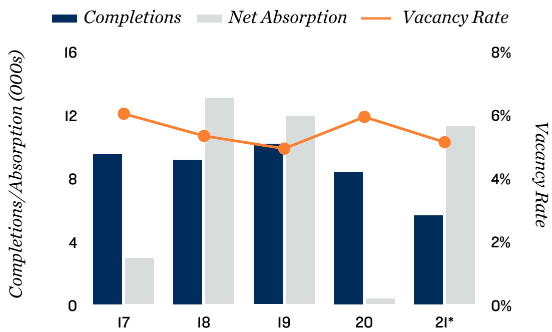
Net absorption notably outpaces new supply, slashing metro vacancy to 5.1 percent, a rate 40 basis points below the prior five-year average. The annual reduction in unit availability will nearly negate the 100-basis-point increase recorded last year.

7.2% INCREASE
in effective rent

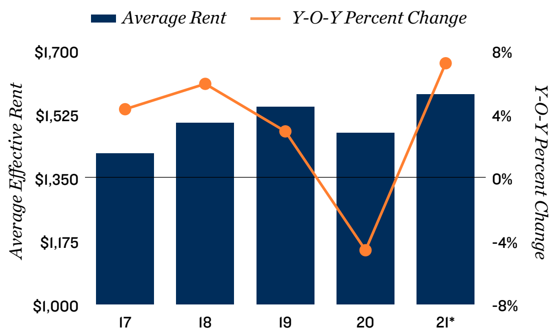
RENT:

Strong demand for apartments reduces concession usage and pushes the metro's average effective rent near the pre-pandemic level. The mean monthly rate is expected to end 2021 at $1,580 per month.

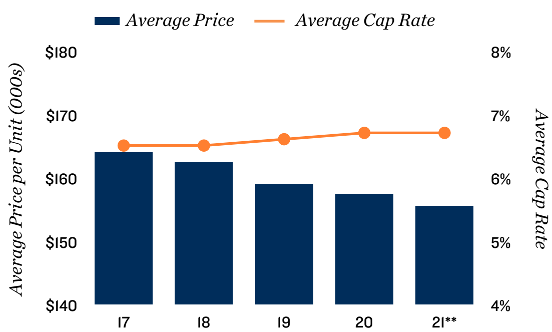
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Chicago Downtown Office:

Joseph Powers *Regional Manager*

Tel: (312) 327-5400 | joseph.powers@marcusmillichap.com

Chicago Oak Brook Office:

Steven Weinstock *First Vice President, Regional Manager*

Tel: (630) 570-2200 | steven.weinstock@marcusmillichap.com

Prepared and edited by:

Erik Pisor

Research Analyst | Research Services

For information on national multifamily trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250

2Q21 — 12-Month Period

CONSTRUCTION

6,463 units completed

- Deliveries slowed during the 12-month period ended in June as the metro's rental inventory expanded by 0.9 percent. Suburban Chicago accounted for nearly 60 percent of recent completions.
- Construction is underway on another 11,530 apartments with delivery dates extending into the second half of 2023.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Driven by a strong second quarter, nearly 7,440 units were absorbed over the past 12 months, lowering metro vacancy to 4.9 percent.
- Over half of suburban submarkets noted triple-digit basis point declines, reducing vacancy outside the urban core 40 basis points. Meanwhile, the city of Chicago recorded a 180-basis-point rise.

RENT

0.3% decrease in the average effective rent Y-O-Y

- Despite an overall reduction in vacancy, the average effective rent fell slightly over the past four quarters to $1,553 per month.
- Tightening conditions in suburban Chicago pushed the average monthly rent up 4.2 percent. This gain was offset by a 5.1 percent drop in urban Chicago, where all apartment tiers recorded rate declines.

Investment Highlights

- Chicago notched an 8 percent rise in deal flow over the trailing-12-month period ended in June, one of the largest gains among Midwest metros. Roughly 70 percent of recent trades involved Class C assets, most of which sold below $5 million to private investors.
- Average pricing fell 2 percent during the past year to $155,500 per unit, a figure that trailed the national mean by 9 percent. Over the same span Chicago's average cap rate rose slightly to 6.7 percent, widening the gap between the metro and U.S. mean to 160 basis points.
- Urban submarkets have accounted for two-thirds of all apartment transactions since last July, with trades most concentrated in North and South Lakefront neighborhoods. In the latter submarket, above-average yields and lower entry costs remain common, while pricing in North Lakefront rarely dips below $200,000 per unit.
- Strong renter demand for suburban units has drawn more out-of-state investors to locales outside the CBD including North and Northwest Cook County. Here, average pricing is on par with the metro mean with most properties netting high-5 to low-7 percent returns.