Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	6,392
UNITS DELIVERED	5,053

MARKET FUNDAMENTALS

VACANCY RATE	5.1%
YEAR-OVER-YEAR CHANGE	+10bps
ASKING RENTS	$1,848
YEAR-OVER-YEAR CHANGE	+1.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$154,200

CHICAGO MULTIFAMILY
2Q 2024

MARKET INSIGHTS

Property stability prevails during the first half

HIGHLIGHTS

- Multifamily operating conditions in Chicago performed well during the second quarter as rents posted slight gains and vacancies held steady. The pace of multifamily deliveries has been elevated through the first half of the year, and renter demand is keeping pace with the surplus of new units.
- The vacancy rate in Chicago went unchanged in the second quarter, remaining at 5.1 percent. In the past 12 months; vacancies have risen by 10 basis points.
- Asking rents have trended higher in recent months, after dipping at the end of 2023. Area rents rose 0.8 percent during the second quarter to $1,848 per month. Year over year, rents are up 1 percent.
- Activity in the investment market slowed in the first half of 2024, with transaction counts down roughly 50 percent from the number of sales recorded in the first six months of 2023. The median price through the first half of 2024 is $154,200 per unit.

CHICAGO MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the Chicago multifamily market posted little movement in the second quarter as renter demand and supply growth moved closer to an equilibrium. Renter demand has been strong to this point in the year, as net move-ins have kept pace with elevated levels of new construction coming online. The vacancy rate went unchanged, remaining at 5.1 percent during the second quarter. Vacancy conditions have been mostly stable in Chicago for the past few years, sitting between 4.5 percent and 5.5 percent since the middle of 2021. Asking rents have advanced at a modest pace thus far in 2024, offsetting dips recorded at the end of last year. Area rents are currently up 1 percent from one year ago.

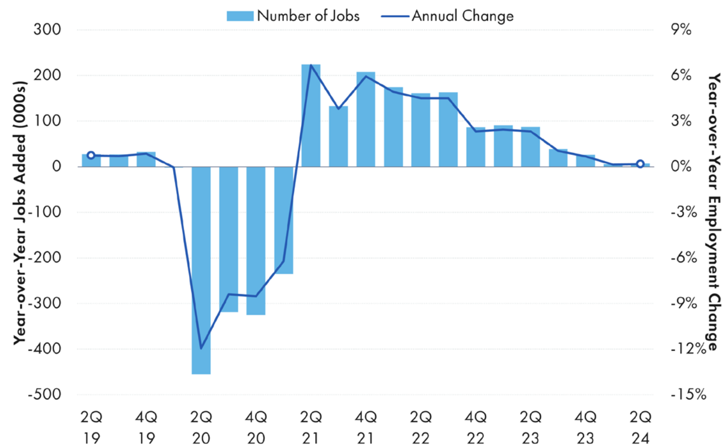
Transaction volume in the Chicago multifamily investment market dipped during the first half of 2024, as total sales lagged levels recorded in the same period of last year by 50 percent. In addition to a slowing pace of transactions, per-unit pricing also retreated after surging in 2023. Differences in the mix of properties that have sold this year have played the largest part in pricing dynamics. While nearly half of all properties that sold in 2023 were Class A assets, top-tier properties made up just 27 percent of sales in the past six months. Rising cap rates have impacted pricing as well. Cap rates in 2024 have generally averaged between 5.5 percent and 6.5 percent, a 75 basis point increase from last year.

EMPLOYMENT

- Employment growth in Chicago has been relatively flat with employers adding fewer than 7,000 workers to payrolls in the past 12 months, an increase of 0.2 percent.
- The healthcare and social assistance sector continues to lead the region in employment growth. Over the past 12 months, healthcare employers have increased payrolls by nearly 4 percent with the addition of 18,700 workers.
- This slow pace of employment growth is due in part to net job losses that have taken place in some of Chicago's major industries. The professional and business services sector has posted an annual loss of more than 26,000 workers, a 3.7 percent contraction.
- **FORECAST:** Employment growth should gain some momentum in the second half as cuts slow in some of the region's major industries, allowing net growth to rise at an increased pace. Total employment is forecast to advance by 0.7 percent in 2024 with the addition of 25,000 jobs. Last year, area employers hired 26,200 workers.

Total employment is forecast to rise by 0.7 percent in 2024.

EMPLOYMENT OVERVIEW



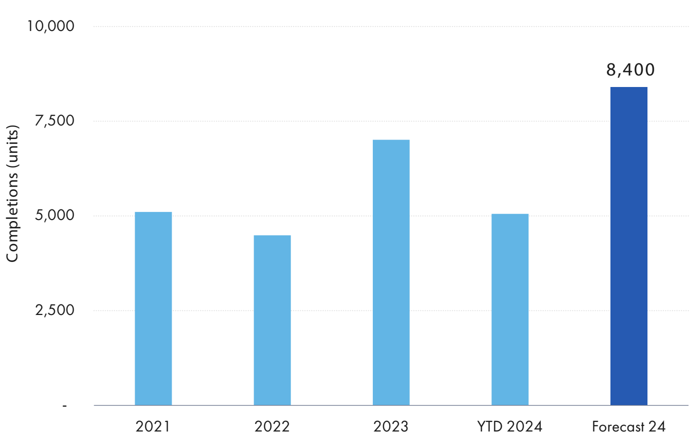
Sources: Northmarq, Bureau of Labor Statistics

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries has accelerated thus far in 2024, with more than 5,050 units completed during the first half. Completions in Chicago in the last six months are up nearly 10 percent over the first half of 2023.
- The construction pipeline has thinned in 2024, as completions have outpaced starts in recent quarters. Projects totaling roughly 6,400 units are currently under construction in Chicago, down 43 percent from this time last year.
- Multifamily permitting to this point in the year is lagging levels recorded in the same period of 2023. Developers pulled permits for roughly 2,700 units during the first half, down 17 percent from the number of permits issued in the first six months of last year.
- **FORECAST:** Deliveries of new units will slow in the second half, but completions for the full year will still outpace the 2023 total. Projects totaling 8,400 units are forecast for completion in 2024, after about 7,000 units came online last year.

More than 5,050 units were completed during the first half.

DEVELOPMENT TRENDS

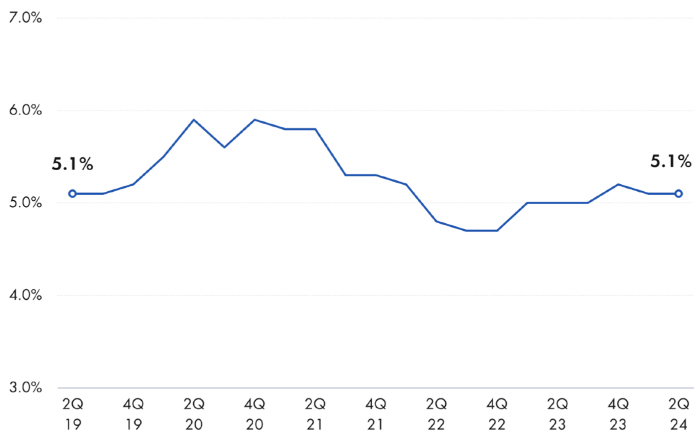


Sources: Northmarq, CoStar

VACANCY

Year over year, area vacancy inched up 10 basis points.

VACANCY TRENDS



Sources: Northmarq, Reis

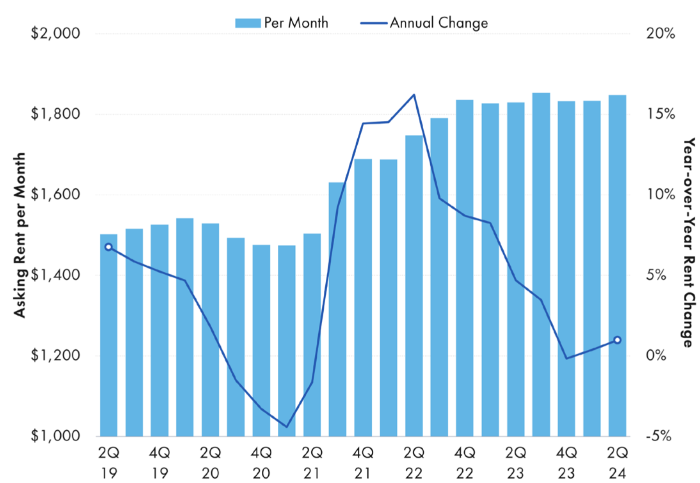
- Vacancy conditions in Chicago remained steady in recent months. The rate finished the second quarter at 5.1 percent, unchanged from the first quarter. Year over year, area vacancy inched up 10 basis points.
- Vacancy in the South Shore submarket is below its long-term trend. During the past 12 months, vacancy in the submarket has dipped 10 basis points to 5 percent. The current vacancy rate in the submarket is 80 basis points below its five-year average.
- Changes in vacancy conditions were generally modest across local submarkets. The Rogers Park/Uptown submarket led Chicago in vacancy improvement in the past 12 months. The vacancy rate in the submarket has dropped 70 basis points in the past year to 5.6 percent and the current rate is down 100 basis points from its peak recorded in 2020.
- **FORECAST** Vacancy is forecast to end the year at 5.1 percent, matching the current rate. Vacancy in Chicago ticked higher in 2020 but has remained in a very tight range for much of the past decade.

RENTS

- Asking rents recorded a modest increase in the second quarter, rising by 0.8 percent in the last three months. Year over year, asking rents in Chicago have risen by 1 percent to $1,848 per month.
- Most of Chicago's submarkets have posted small annual rent gains, including one of the region's largest submarkets by inventory, City West. Asking rents in this submarket rose by 0.9 percent over the past 12 months to $2,203 per month.
- The Lincoln Park submarket led Chicago in rent growth, as asking rents in this area rose by nearly $100 per month during the past 12 months to $1,781 per month. Rents in the submarket retreated in 2020 and 2021, but have surged ahead in recent years.
- **FORECAST:** Asking rents in Chicago will likely maintain their current pace of growth through the end of the year as new inventory comes online. Asking rents are forecast to rise by 1.2 percent in 2024, reaching $1,855 per month.

Year over year, rents have risen by 1 percent.

RENTS TRENDS



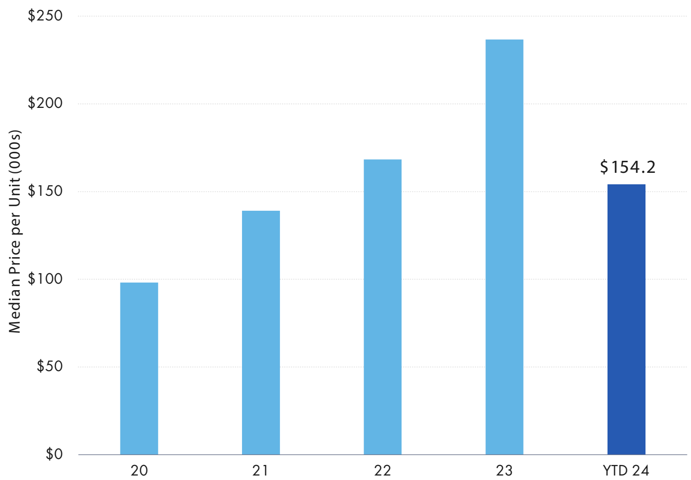
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily investment sales in Chicago slowed in the second quarter as only a few significant transactions took place. The number of properties that traded in the first half of 2024 totaled about half as many transactions as during the same period last year.
- The median sale price to this point in the year is $154,200 per unit, returning closer to 2022 levels after a spike last year. One factor contributing to this year-to-year change in pricing is the slowdown in sales for top-tier properties. Class A properties are accounting for nearly 30 percent of all sales through the first half of 2024, with a median price of $288,000 per unit. Last year, top-tier assets made up 45 percent of the transaction mix.
- Cap rates in Chicago have risen in 2024. Cap rates have generally averaged between 5.5 percent and 6.5 percent in 2024, up roughly 75 basis points from last year.

The median sale price is $154,200 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

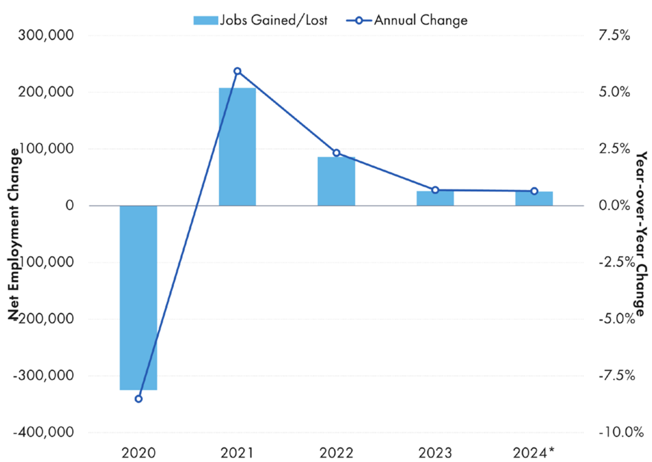
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Willow Crossing Apartments	1031 Charlela Ln., Elk Grove Village	1981	579	$89,250,000	$154,145
Sixteen 30	14750 South Wallin Dr., Plainfield	2022	284	$78,350,000	$275,880
Orchard Village	1240 West Indian Trail Rd., Aurora	2000	272	$48,500,000	$178,309

LOOKING AHEAD

Property fundamentals in the Chicago multifamily market are expected to improve through the second half of 2024, especially in Chicago's downtown submarkets where absorption has been strong. Employment growth in the area should resume a steady upward trajectory in coming months after cuts in a few major industries dragged on growth in the first half. Sectors such as healthcare and education are expected to continue to post gains and lead the way. New apartment development is projected to slow through the rest of the year, and the number of units coming online will represent a modest addition to the market's total inventory. This relatively low construction combined with an improving job market should spur renter demand, support rents, and keep vacancy flat.

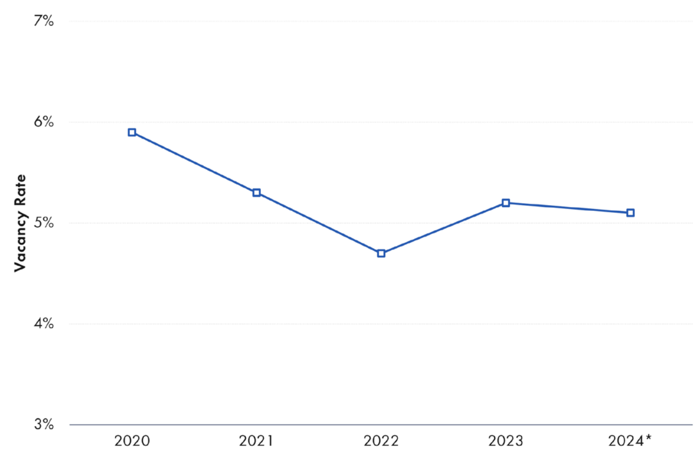
Multifamily investors have remained cautious throughout the first half of 2024 and transaction activity has been concentrated in the middle market range, with Class B properties making up the majority of sales. This is likely to continue through the end of the year and into 2025, but there is a greater possibility that newer Class A properties may begin to trade at a more elevated clip, as they did in 2023. Recent trends of investment activity in suburban Chicago will likely pace the market. With property fundamentals performing, it may take some combination of higher cap rates or lower lending rates to spark additional transaction volume.

EMPLOYMENT FORECAST



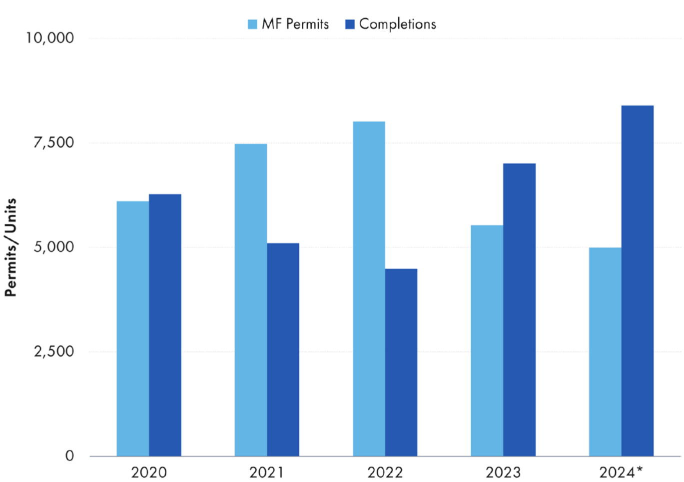
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



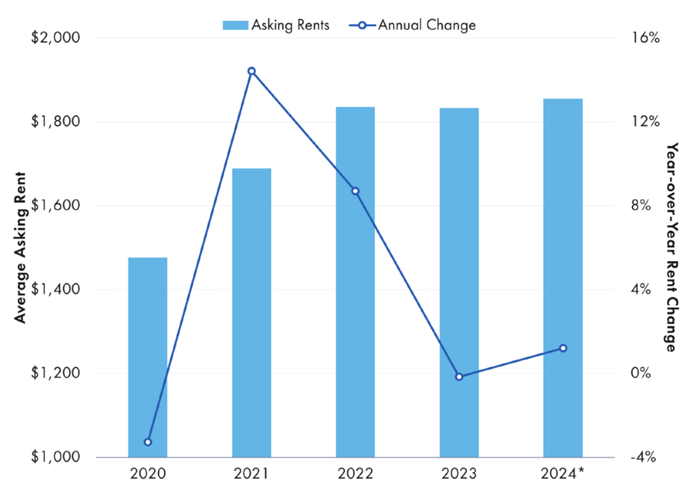
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Reis

FOR MORE INFORMATION, **PLEASE CONTACT**

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