

Multifamily Metro Outlook:

Chicago - Q1 2021

Overview:

- Chicago's recovery is zigzagging along; after showing signs of a rebound in the third quarter, only to falter in the fourth – it seems that the metro is back on an upward trajectory, as evidenced by a 0.5% increase in the employment level, which currently stands at 8.3%. However, current employment still lags pre-pandemic levels by about 350,000 jobs.
- The employment figures haven't manifested into additional stress for the apartment market, however. Absorption for the quarter was more than 2,400 units – multiples greater than last quarter – and as a result, the vacancy rate declined 50 bps to 6.25%. But, it should be mentioned that with just 95 units delivered, the depression in completions was just as much a driver in the vacancy rate decline.
- Further, the contraction in available supply had the unintended benefit of pushing up the average rent by .75% to \$1,470. Be that as it may – with the significant pipeline of new supply under construction – it is expected this effect will be temporary, and the market will begin easing again through 2021. Despite the overall rent increase, a 9.6% concessions rate was not enough to keep rents propped up in Class A properties, leading to a decline of 6.0%.

Market Strengths:

- On the positive front, warehouse and distribution continues to be a bright spot in the economy as e-commerce pushes forward. Given Chicago's mature infrastructure network combined with its role as the international trade hub for the entire Midwest, as well as its critical place in many distribution networks, growth in employment and space demand is expected.

Market Weaknesses:

- Considering airlines lost 8,500 jobs, a loss of 22% in 2020, Chicago's reliance on the aviation industry, particularly Boeing and United Airlines, is troublesome. Although, air traffic is beginning to pick up, according to data from TSA it is still only 60% of its 2019 level. Further, United is not only reducing its space footprint in the Willis Tower, but also plans to lay off more than 13,000 employees.
- Chicago's population woes intensified through the pandemic, as net outmigration combined with a slowdown in international immigration exacerbated an issue the metro was facing prior to the outbreak. Even with the end of pandemic in sight, however, population decline is expected to be among the worst 25 metros over the next five years.

Development:

- Chicago's status as a top-six metro does not extend to its development pipeline. For a metro of its size, the 11,700 units underway – an addition of around 800 units over the last quarter – although strong, barely cracks the top 20 in terms of development.
- Condo develop tells a different story. With around 1,900 units underway, Chicago's condo development places it within the top 10 most active metros for condo construction.
- With a 14.0% share of the total multifamily construction pipeline, condo development in Chicago is on par with the rest of the nation. On average condos comprise about 13.8% of units underway.

Outlook:

- Multifamily Outlook: Steady. COVID-19 had the unintended benefit of drying up much of the deliveries in 2020 and put a pause in construction, temporarily pushing back some of the market easing that was beginning to creep into the metro. However, with much of the pipeline still geared towards Class A projects – concentrated in neighborhoods proximal to downtown – Chicago is still grappling with a shortage of affordable workforce housing that will only accelerate once normal activity resumes.
- Economic Environment: Stable. The persistence of Chicago's struggling population trends is going to present an additional challenges that will lead to underperformance longer term. However, its present status as the economic hub of the Midwest should provide the support necessary for the metro to at least shadow the rest of the nation's growth rate for now.

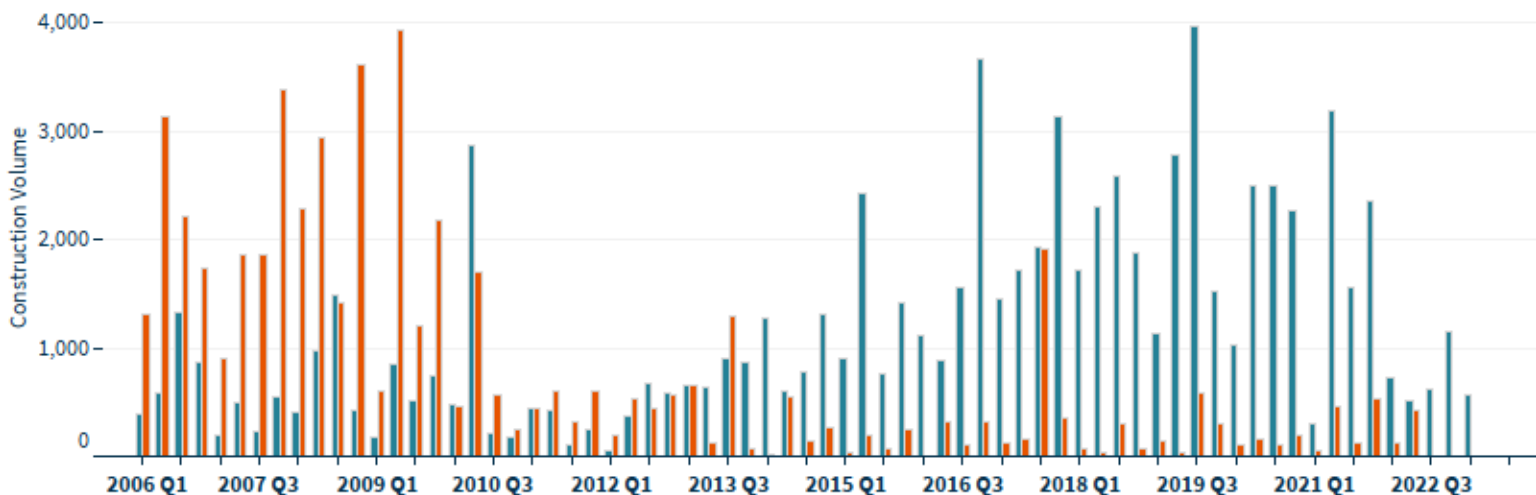
Five Year Metro Area Growth Forecast

	2020	2025	Chicago (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	7,233	7,176	-0.16%	0.52%
Households (000s)	2,820	2,903	0.58%	1.41%
Renting Cohort (Ages 20-34) (000s)	1,551	1,507	-0.58%	-0.26%
Total Employment (000s)	3,535	3,794	1.43%	1.71%
Median Household Income	\$72,721	\$85,392	3.26%	2.83%
Median SF Home Price	\$317,423	\$389,113	4.16%	4.30%
Net Migration	-23,282	-42,789		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



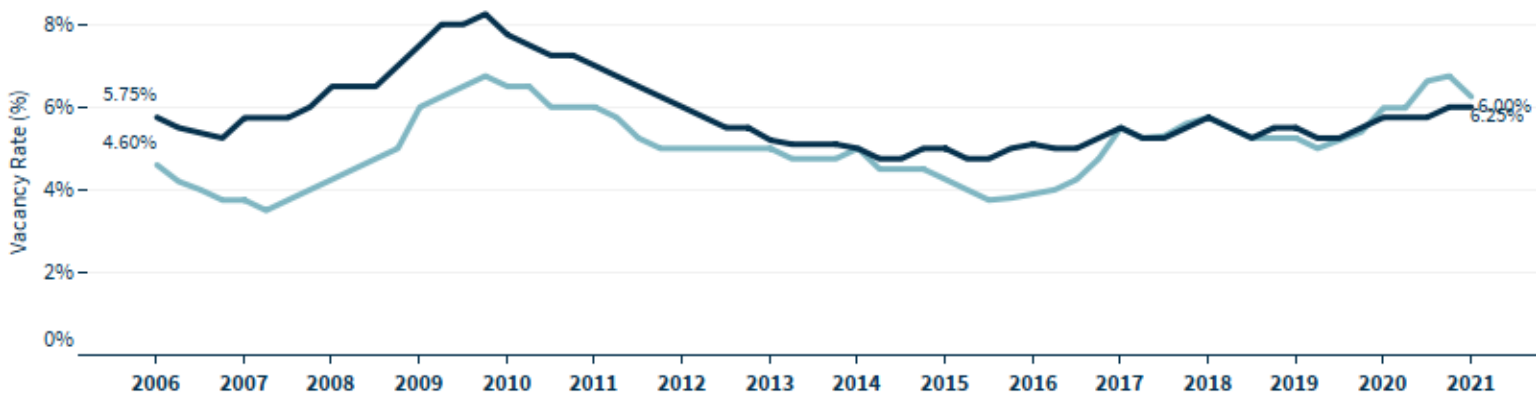
Vacancy & Rent Composite Estimates

Vacancy Rates

Chicago | National

Q1 2021 Vacancy Rate:

6.25%

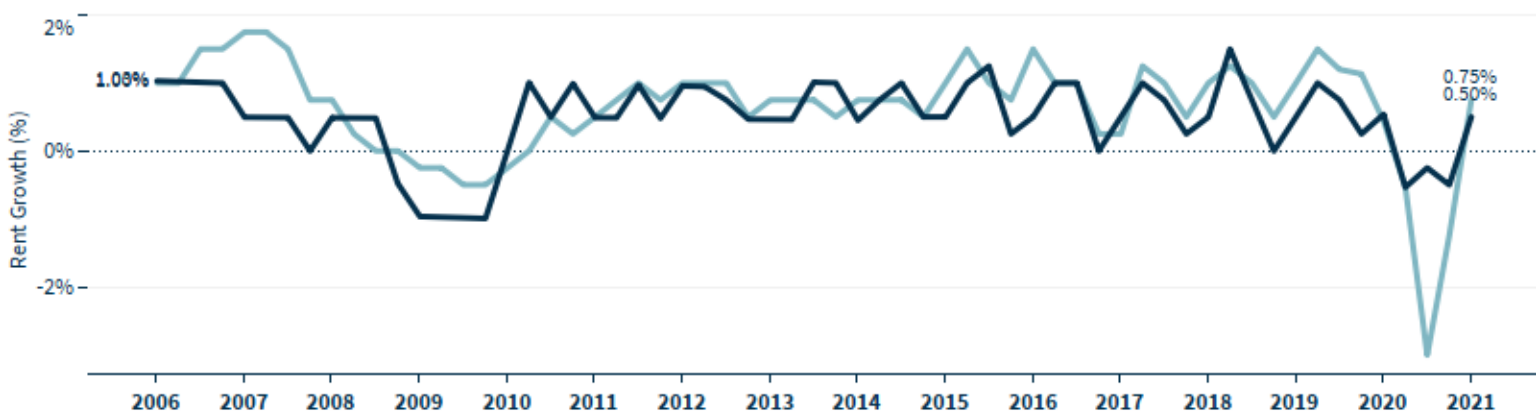


Asking Rent Growth

Chicago | National

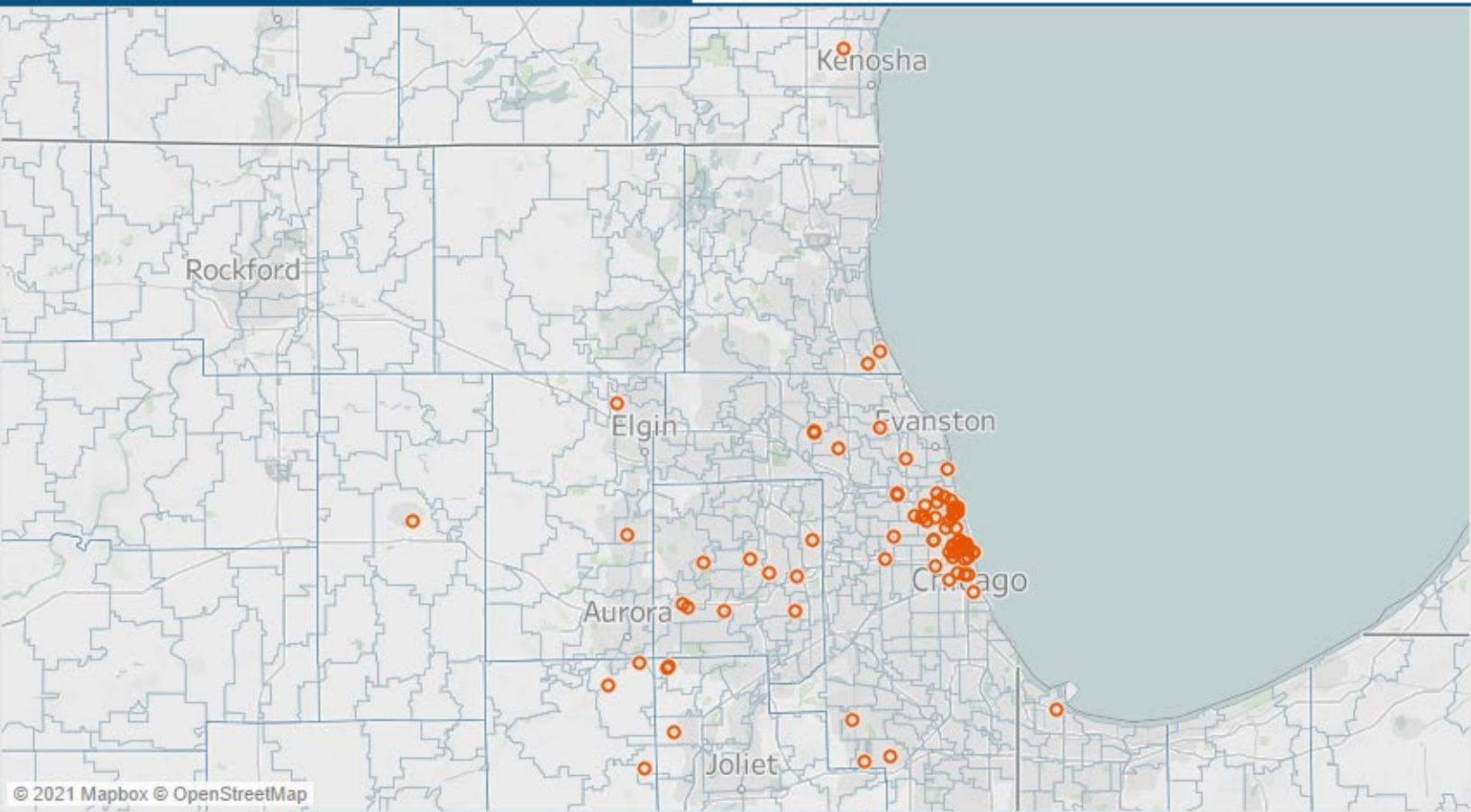
Q1 2021 Asking Rent:

\$1,470



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Aurora	2	648	0.65M
Bronzeville/Hyde Park/South Shore	3	262	0.30M
Central Cook County	16	619	0.80M
Central DuPage County	4	738	0.81M
Evanston/Rogers Park/Uptown	5	428	0.55M
Far Northwest Chicago Suburbs	3	495	0.52M
Gary/Hammond	1	28	0.04M
Lake County/Kenosha	3	450	0.63M
Lincoln Park/Lakeview	9	516	0.53M
Naperville	5	580	0.77M
North Cook County	4	690	0.95M
South Cook County	3	325	0.51M
Southeast DuPage County	2	344	0.46M
Streeterville/River North	8	2,128	2.89M
The Loop	8	2,348	2.81M
Will County	2	291	0.38M
Grand Total	78	10,890	13.62M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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