

Multifamily Metro Outlook:

Chicago - Q2 2023

Overview:

- Chicago's economy has started to turn a corner, which could lead it to progress much slower than the rest of the nation. The pace of job growth continued its downward ascent in second quarter ending 2023, dropping for the sixth consecutive quarter and turning negative for the first time in two years. In turn, the unemployment rate ticked up 23 bps from last quarter's levels to 4.29%. While this is still significantly below the unemployment rate seen during the same period ending the prior year, it should be mentioned the unemployment rate in the metro has exceeded the national average for at least as long.
- High interest rates and a sluggish global economy have weighed heavily on the business services and tech sectors; thus, it should hardly come as a surprise that the average payroll wage fell again for the second consecutive quarter. Nonetheless, the median household income continued to climb, rising 3.5% over the past year to just under \$81,000, well above the national median household income.
- Although the cost of housing continues to rise in both the multifamily and single-family sectors, the contraction in the available single-family inventory has led to price of mortgages significantly outpacing multifamily rents, making renting a more affordable option in the metro. The estimated P&I cost in Chicago commands a 20% premium over rents.

Market Strengths:

- Transportation/warehousing is emerging as an industry that can pillar the economy and support future growth. Even as e-commerce advances decelerate following the pandemic-fueled boom, expanding internet retail sales continue to increase demand for logistics services and generate new jobs.

Market Weaknesses:

- Boeing plans is relocating its global headquarters from Chicago to Arlington, VA, while Caterpillar's headquarters will move from its spot in the suburbs to Dallas. Hedge fund Citadel has also moved to Miami. These departures are expected to affect only several hundred corporate employees total, and all have said they will maintain a local presence. Yet there is a concern that these headquarters' moves portend a broader exodus for both these and other similar firms.

New Development:

- New supply continues to come online in record numbers, though the pace of construction in Chicago hardly makes it a competitive market. Close to 5,000 units were delivered in second quarter ending 2023, more than double the units delivered last quarter, and the highest amount to date since at least 2006. However, despite the record deliveries, the amount of new supply delivered amounts to less than 1% of the total apartment inventory. Further, even with the pipeline elevated over its historical levels with close to 13,000 units underway, it amounts to half the construction taking place in metros such as Phoenix and Orlando – which have a fraction of Chicago's population.
- Just over 4,600 single-family units were completed in Q2, pushing the sales inventory in the metro to slightly over 78,000 properties; though the number of total active listings has contracted by more than a quarter over the past year. An additional 4,500 units construction permits were issued for single-family properties, pushing construction activity closer to its historical average, but remains short of demand in the market.

Multifamily Outlook:

- The fundamental easing seen to start the year seems to be contained, for now. Vacancies were flat at 5.0% and remain below the national average of 5.75%. However, rent growth in the metro, while positive, increased at about half the rate as rents across the rest of the country, rising to an average asking price of \$1,860. However, with the construction pipeline at the highest levels seen for the better part of the last half decade, and demand waning – as evidenced by the recent vacancy trends – it is highly unlikely that Chicago will be able to stave off the effects of easing throughout the rest of the year.

Economy:

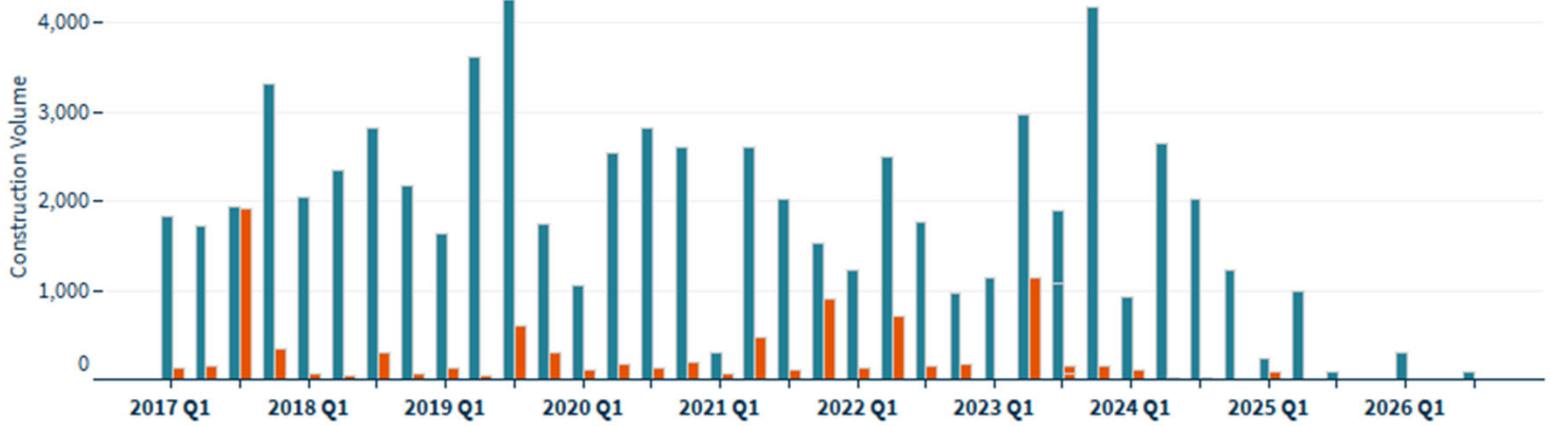
- Chicago's recovery has turned a corner, but the challenges the metro faces may mean it soon surrenders the edge it has over other Midwest markets. Out-migration continues to plague the metro and with signs of a recession looming, it is unlikely that underperformance in the metro abates any time in the next year. Unfortunately, the long-term outlook in the metro is similar, with the economy expected to lag the national average.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

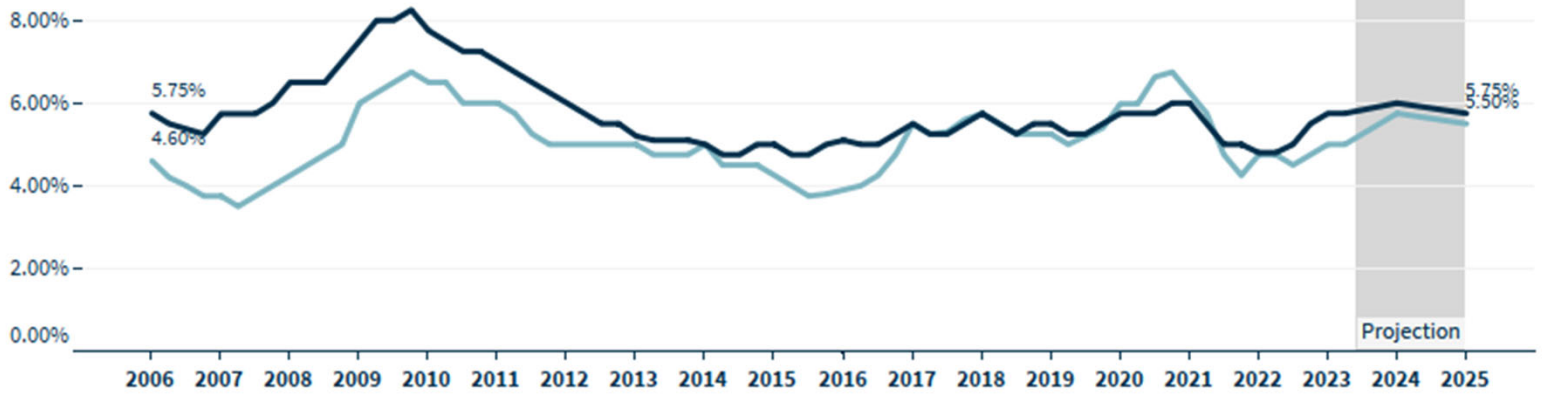
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Chicago | National

Q2 2023 Vacancy Rate:

5.00%

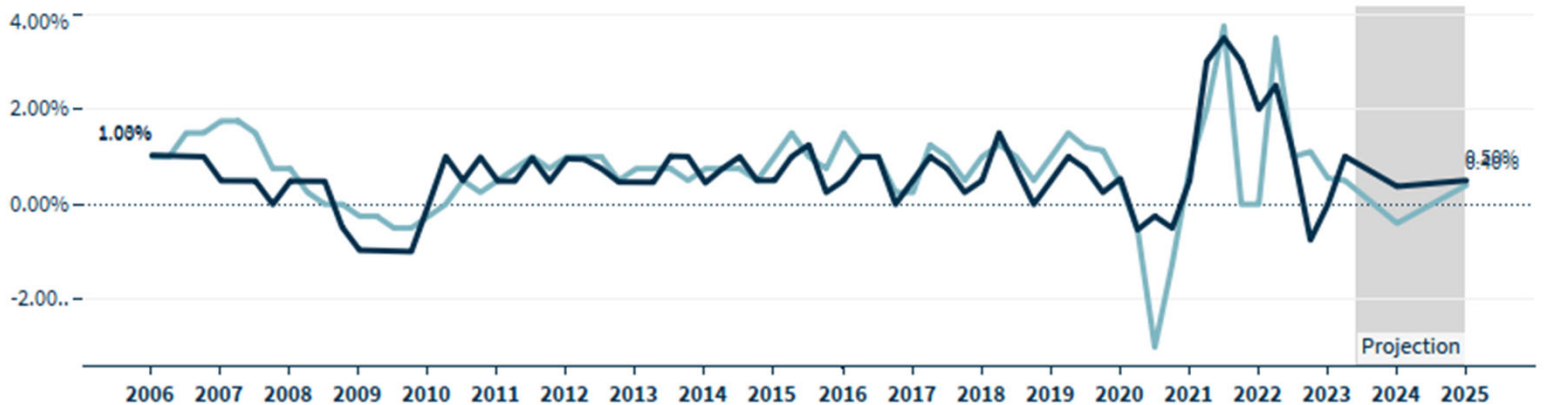


Asking Rent Growth

Chicago | National

Q2 2023 Asking Rent:

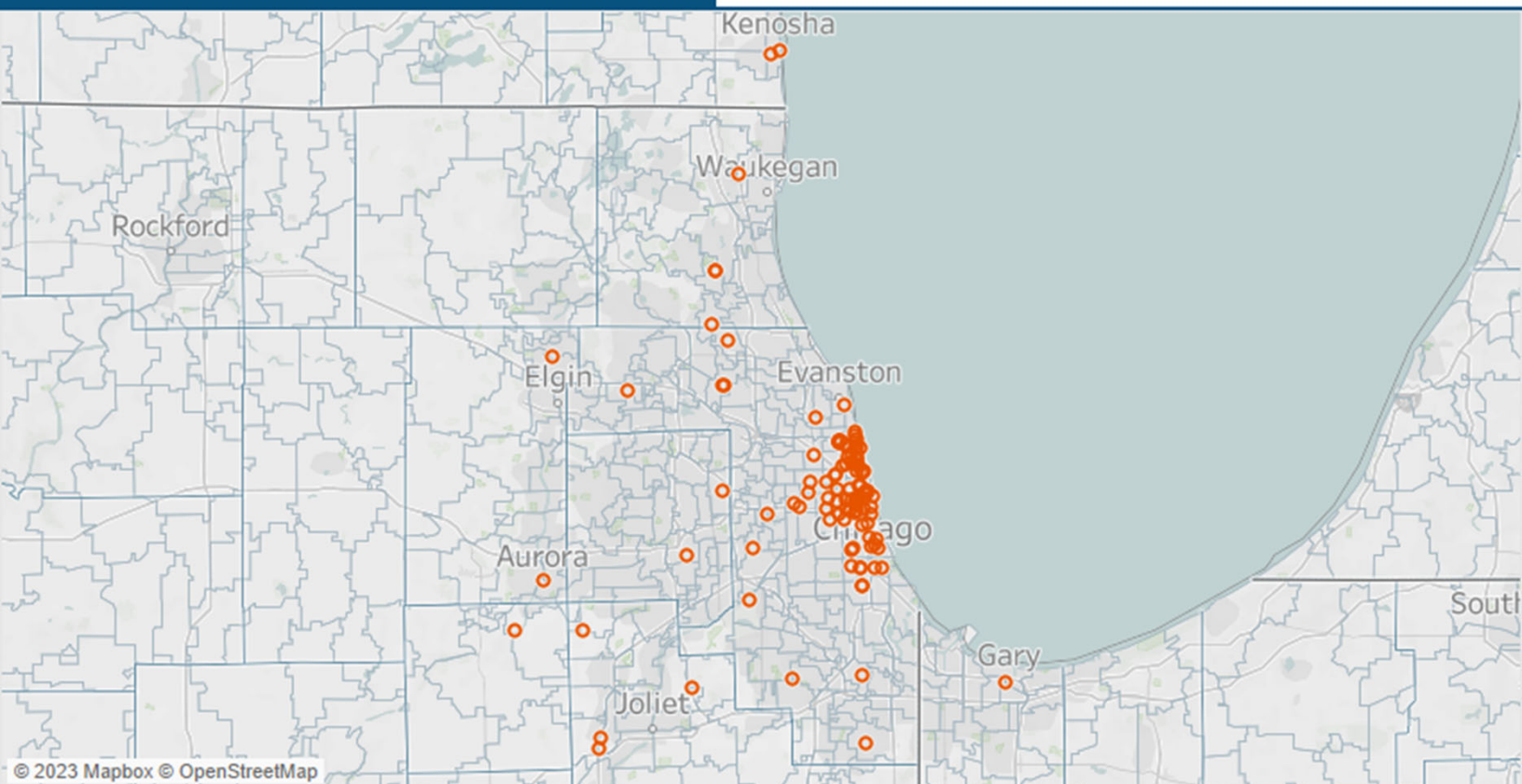
\$1,860



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Arlington Heights/Palatine/Wheeling	1	53
Aurora	2	978
Bronzeville/Hyde Park/South Shore	7	237
Central Cook County	26	1,820
Central DuPage County	1	200
Evanston/Rogers Park/Uptown	17	1,425
Far Northwest Chicago Suburbs	1	130
Gary/Hammond	1	142
Lake County/Kenosha	6	1,390
Lincoln Park/Lakeview	14	439
Naperville	1	117
North Cook County	2	168
Schaumburg	1	296
South Cook County	13	899
Southeast DuPage County	1	24
Streeterville/River North	7	1,475
The Loop	12	3,621
Will County	3	372
Grand Total	116	13,786

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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