Multifamily Metro Outlook:

Chicago – Q3 2024

Overview:

- The metro market remains balanced: absorption levels are high, vacancies are low relative to the metro's average, and the multifamily pipeline suggests that the market will not be oversupplied in the short term. This has resulted in rent growth that, while not high in the context of other metros and time periods, is about double the national average.
- Chicago's relatively tight supply stems from a political and regulatory environment that makes the metro relatively difficult for multifamily development. Developers report impediments to obtaining building permits in many jurisdictions. The city of Chicago has responded to this criticism by having city agencies streamline development approval, though it is unclear how effective this will be. The city has also provided $151.2 million to convert offices into apartments, and it has exempted conversion projects from affordable set-asides.

Market Strengths:

- Chicago saw a relatively modest increase in multifamily development since 2022. This has made the metro market tight relative to the many metros that saw a large increase in multifamily supply.
- The fundamentals of the metro economy are stable, including an excellent university system and a well-educated workforce. The logistics and tech sectors are expected to grow in the coming years.

Market Weaknesses:

- The metro has underperformed in job growth and household growth relative to the nation and the Midwest broadly. In the past few years, some very large firms have moved out of Chicago, such as Boeing and Citadel. The metro is expected to continue to lose population in younger cohorts over the next five years, and total employment is expected to be nearly flat.
- Crime and the fiscal health of the state and local governments remains an issue, and relatively high taxes, particularly property taxes, slow business investment.

New Development:

- The multifamily pipeline is not as large as in many other metro areas, representing about 1.3% of total inventory, relative to a nationwide average of 3.4%. Currently, starts are at their lowest level since 2014. Over half of Chicago's under-construction units are high-end, but, unlike many other metros, even this market segment is not oversupplied in Chicago, and luxury rents are rising at 1.5% relative to 0.2% growth in luxury rents nationwide. Development is slowed in the metro due to strict land use controls, heavy political involvement in the development process, and highly organized construction labor. New development may also be suppressed by Chicago's inclusionary housing law of 2021, the Affordable Requirements Ordinance, which requires affordable set-asides of 20-30% of new units in some areas.
- Single-family permitting exceeded multifamily in 2023 after years of lagging, and permitting is expected to continue to match or exceed multifamily levels for the next four years. However, supply of for-sale homes is still tight in the metro, and listing activity is still well below historical levels.

Multifamily Outlook:

- Continued demand, coupled with constricted supply, suggests that rent growth may increase from relatively high current levels, possibly exceeding 3% by the end of 2024. Sales volumes have declined sharply due to higher interest rates, but institutional buyers have reentered the market as debt has become more available and lower-cost. Higher-than-average expected rent increases and limited supply have increased institutional interest in the metro, but valuations are not expected to increase substantially because of concerns regarding crime, taxes, and stagnant population. Cap rates are expected to peak in 2025 and decline thereafter.

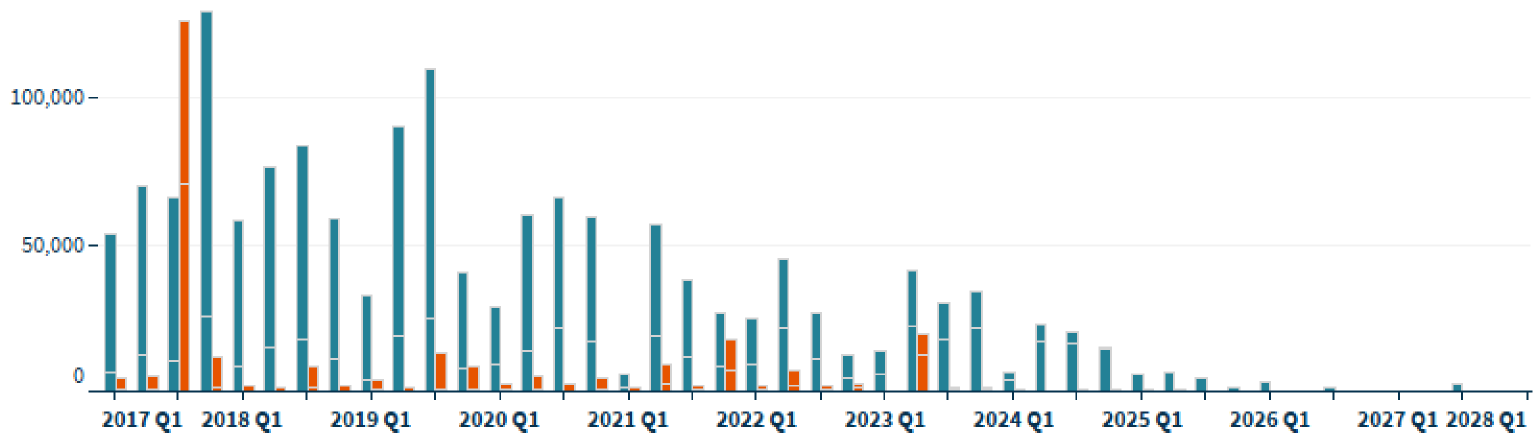
Economy:

- Chicago recovered from its pandemic job losses by the end of 2023, buoyed by growth in education, leisure and hospitality, and financial activities. Manufacturing jobs have increased 2.1% year over year, and the education and heath services, hospitality and leisure, and government sectors are also expected to see growth. However, office-using sectors like professional and business services, finance, and information have seen job losses, and office real estate remains very weak. Real estate taxes remain high, and perception of crime remains a problem, though current crime rates are on par with national averages. The fundamentals of the economy are stable, and the metro benefits from a diversified economy, its status as the host to the headquarters of many very large firms, and major infrastructure advantages, including being a major rail and highway hub. The city's financial health, which has been troubled, is improving, with Fitch upgrading the city in response to its declining debt burdens and improving economy. Still, job growth in the metro has lagged the nation for years, and the metro is expected to have near-zero population growth in the next few years.

Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | *Condos*



Source: Dodge Data & Analytics SupplyTrack Pipeline

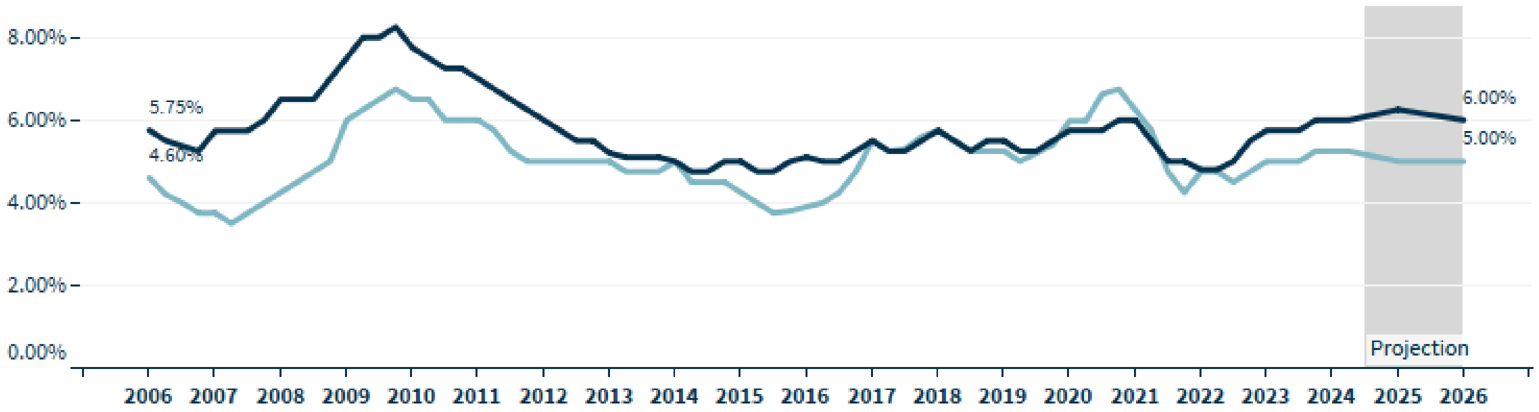
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Chicago | *National*

Q3 2024 Vacancy Rate:

5.25%

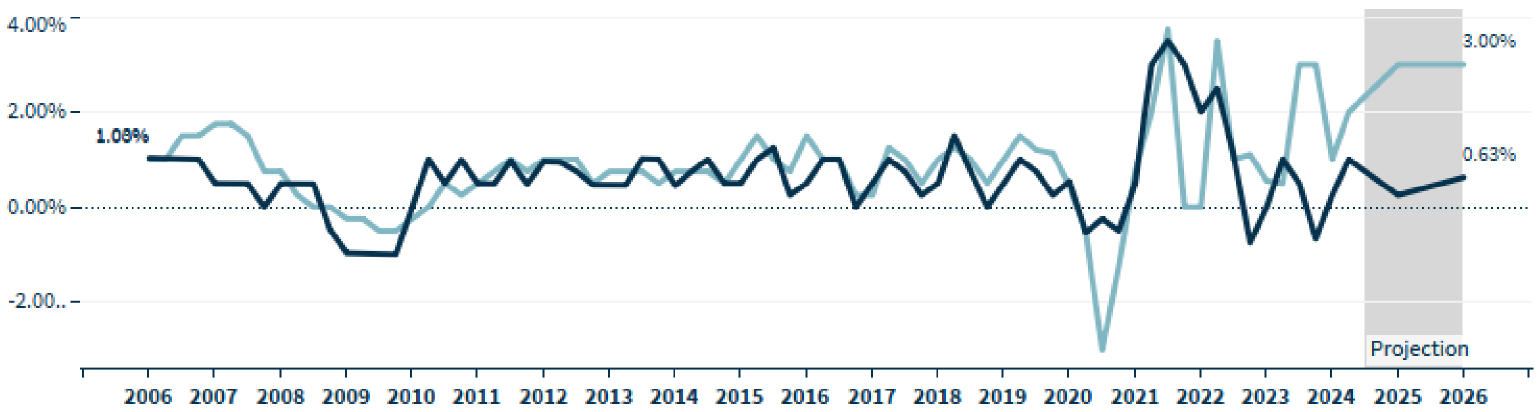


Asking Rent Growth

Chicago | *National*

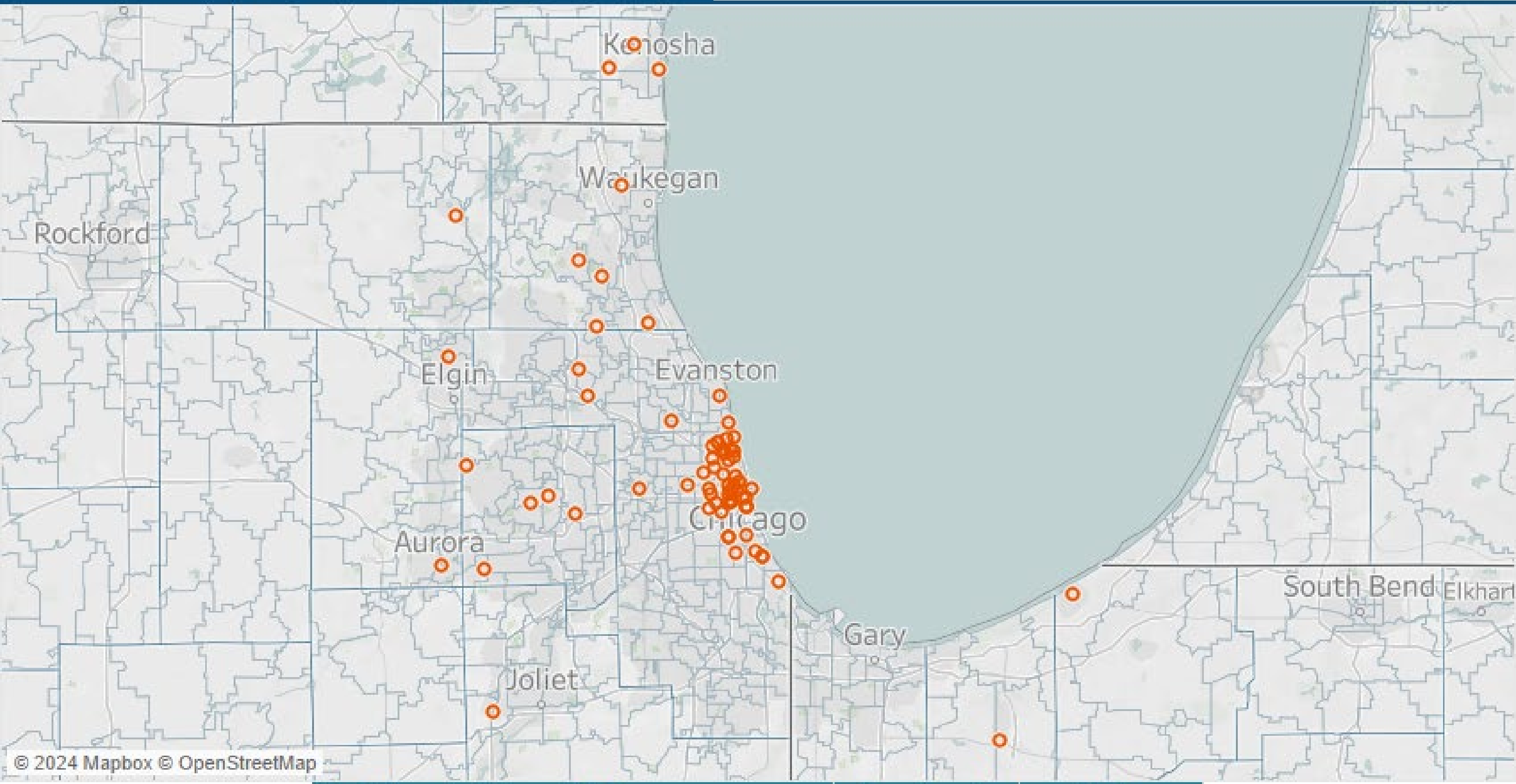
Q3 2024 Asking Rent:

$1,940



Source: Fannie Mae Multifamily Economics and Research

Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Arlington Heights/Palatine/Wheeling	2	433
Aurora	2	569
Bronzeville/Hyde Park/South Shore	7	431
Central Cook County	14	657
Central DuPage County	3	564
Evanston/Rogers Park/Uptown	6	282
Far Northwest Chicago Suburbs	3	500
Lake County/Kenosha	8	1,794
Lincoln Park/Lakeview	8	303
Merrillville/Portage/Valparaiso	1	127
NA	1	208
North Cook County	1	235
South Cook County	5	221
Streeterville/River North	6	990
The Loop	8	1,169
Will County	1	16
Grand Total	**76**	**8,499**

Source: Dodge Data & Analytics SupplyTrack Pipeline

Multifamily: ESR Team

Multifamily Metro Outlook: Chicago Q3 2024

Multifamily Economics and Market Research Team

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Sources Used

- Axiometrics
- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
- CoStar
- Dodge Data and Analytics
- Fannie Mae
- John Burns Research & Consulting
- Moody's Analytics
- MSCI Real Assets
- RealPage
- Redfin
- REIS
- Yardi
- Zillow

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