Fannie Mae

Multifamily Metro Outlook: Chicago Spring 2019

Overview

Despite record new supply coming to the Windy City over the past few years, the Chicago market remains in balance overall with the vacancy rate at about 5.25 percent as of Q4 2018 and rent growth of about three percent for 2018. Chicago's job base will likely grow by one percent on average annually over the next two years which should result in just under 50,000 jobs. Most of these jobs should continue to be in well-paying sectors like professional services, education, and healthcare, and many of them will be downtown where new supply continues to come online.

Chicago has a well-educated workforce thanks to the high concentration of world-class academic institutions, including the University of Chicago and Northwestern. In fact, 39 percent of residents 25 or older have a college degree or higher compared to just 32 percent for the nation. As a result, an estimated 18.5 percent of jobs are well-paying white-collar jobs compared to just 14 percent for the U.S., and the median per capita income is about 16 percent higher than the that of the nation.

Chicago is finally starting to address its aging infrastructure, which is necessary for continued growth and will create additional jobs. Projects to improve the Garfield Green Line station, the Illinois Medical District Blue Line station, and the Red and Purple Modernization Program have either recently been approved or broken ground.

There are some headwinds however. Chicago's population is not expected to increase over the next few years and its weak population growth is a challenge for both economic growth and the housing market. High taxes present another hurdle as Chicago attempts to close the pension funding gap for public employees.

Development

New supply continues to be delivered with an estimated 15,000 units underway on top of the almost 42,000 units completed since 2012. The large City West area, which includes more affordable neighborhoods like Wicker Park and the Ukrainian Village, is seeing the most activity with an estimated 49 projects and almost 3,900 units underway. According to REIS, vacancy in this submarket is already over 9 percent, so expect concessions to rise.

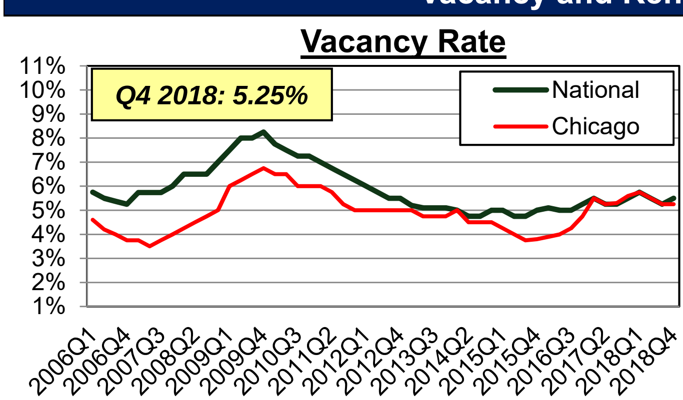
The Gold Coast and The Loop, which have also seen significant development in this cycle, have lower vacancy rates of 7.1 percent and 5.8 percent respectively according to REIS. However, combined, they have almost 2,400 units underway and are already providing a month's free rent to attract renters.

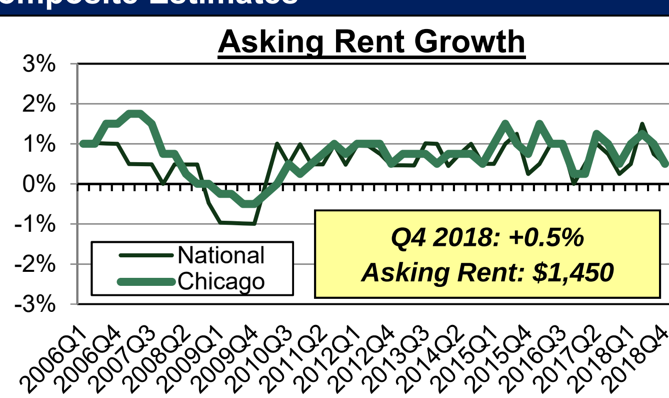
Outlook

Chicago has more than 15,000 units expected to come online over the next 2 years, yet job growth of 1.0 percent on average annually will conservatively produce demand for only about 10,000 units. This mismatch is likely to ease conditions in the metro slightly, particularly for Class A projects in submarkets which are already offering increasing concessions. Look for rent growth to slow to somewhere in the range of 2.0 percent in 2019.

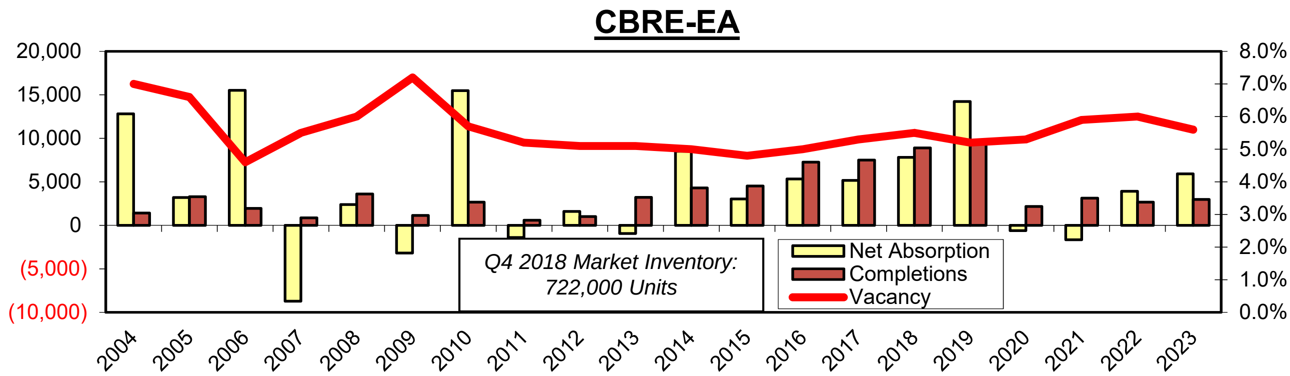
Long term, while economic and demographic growth is expected to be below average, these factors are mitigated by the fact that Chicago is the capital of the Midwest and attracts the best and brightest workers. Also, the local economy remains strong, particularly compared to its Midwest neighbors.

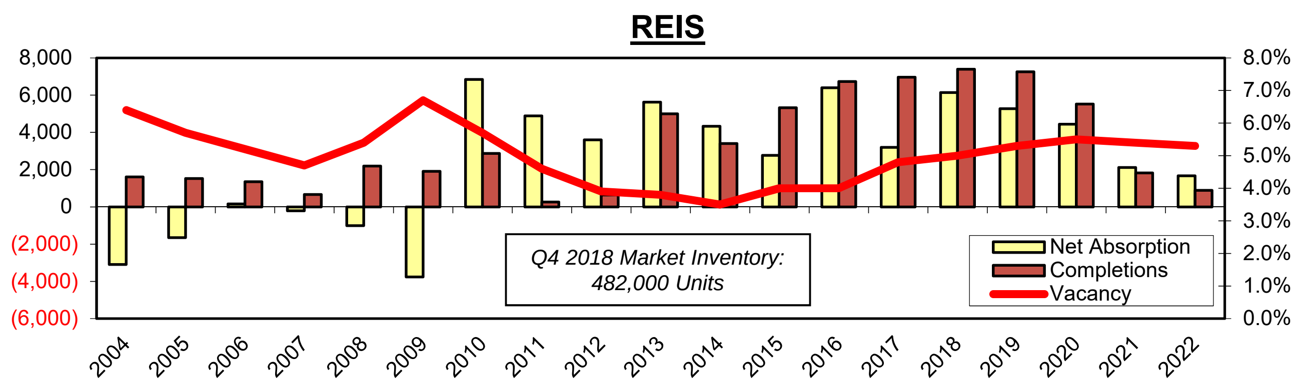
Vacancy and Rent Composite Estimates

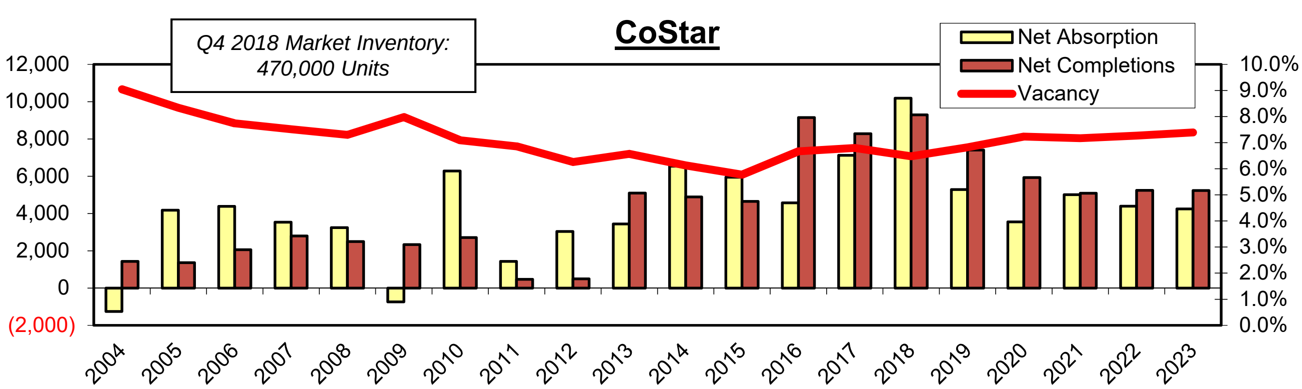


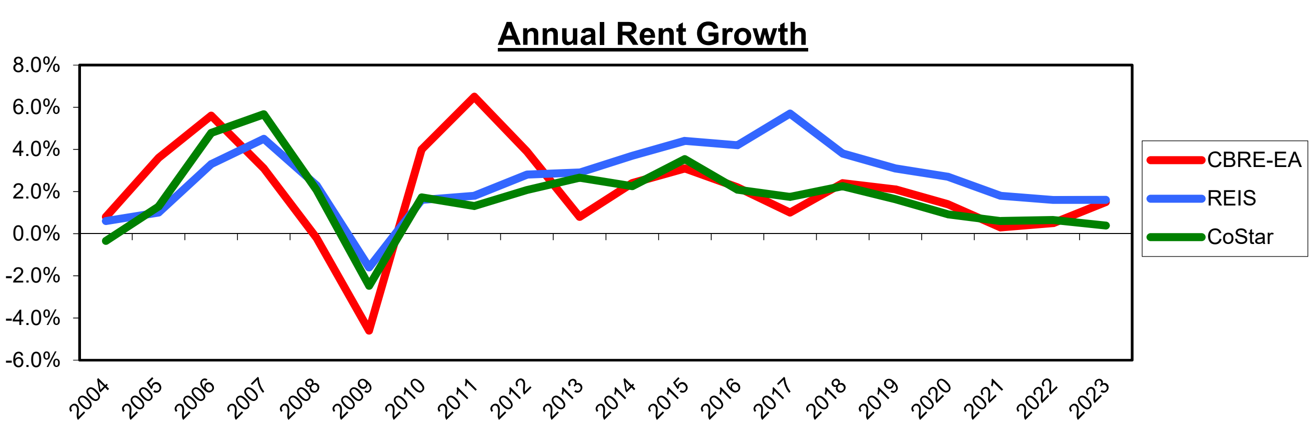


Source: Fannie Mae Multifamily and Economics Research

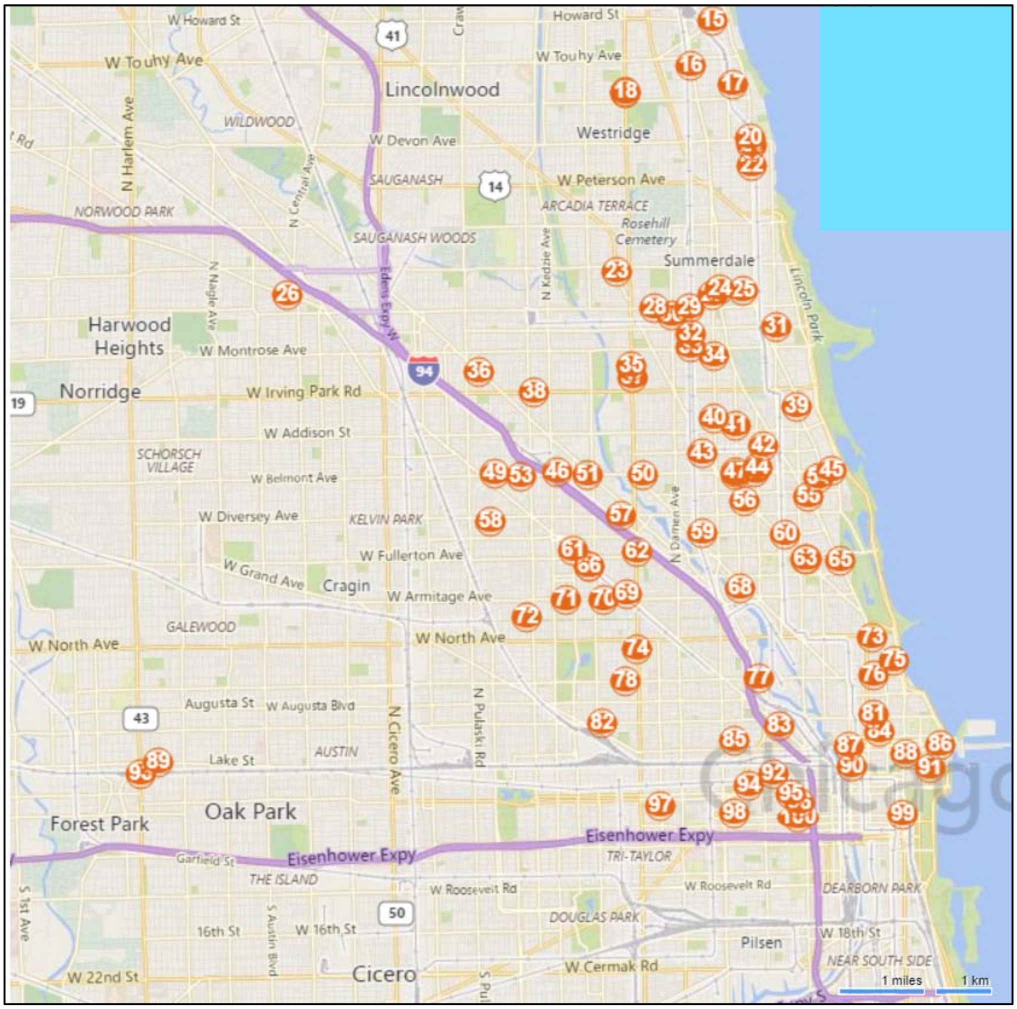

CBRE-EA
Q4 2018 Market Inventory:
722,000 Units
Net Absorption
Completions
Vacancy


REIS
Q4 2018 Market Inventory:
482,000 Units
Net Absorption
Completions
Vacancy


CoStar
Q4 2018 Market Inventory:
470,000 Units
Net Absorption
Net Completions
Vacancy


Annual Rent Growth
CBRE-EA
REIS
CoStar

Construction Bidding/Underway
(123 projects/15,000 Units/19.8 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
City West	49	5097	3931
South Shore	6	2146	1861
Glenview/Evanston	11	1935	1440
Gold Coast/River North	8	2945	1438
The Loop	3	1018	994
Kane County	2	1197	901
Wheeling	3	986	694
Lincoln Park/Old Town	6	909	684
Rogers Park/Uptown	12	770	627
Oak Park	2	495	528
Glendale Heights/Lombard	2	459	459
Aurora/Naperville	2	542	385
Joliet	2	398	372

CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
not available	3	325	324
Belmont to Montrose	7	293	199
Kenosha County	2	50	110
O'Hare	1	160	108
West Lake County	1	75	48
East Lake County	1	45	30

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Fannie Mae Multifamily Economics and Market Research

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Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics SupplyTrack
- Moody's Analytics
- Real Capital Analytics
- Reis, Inc.