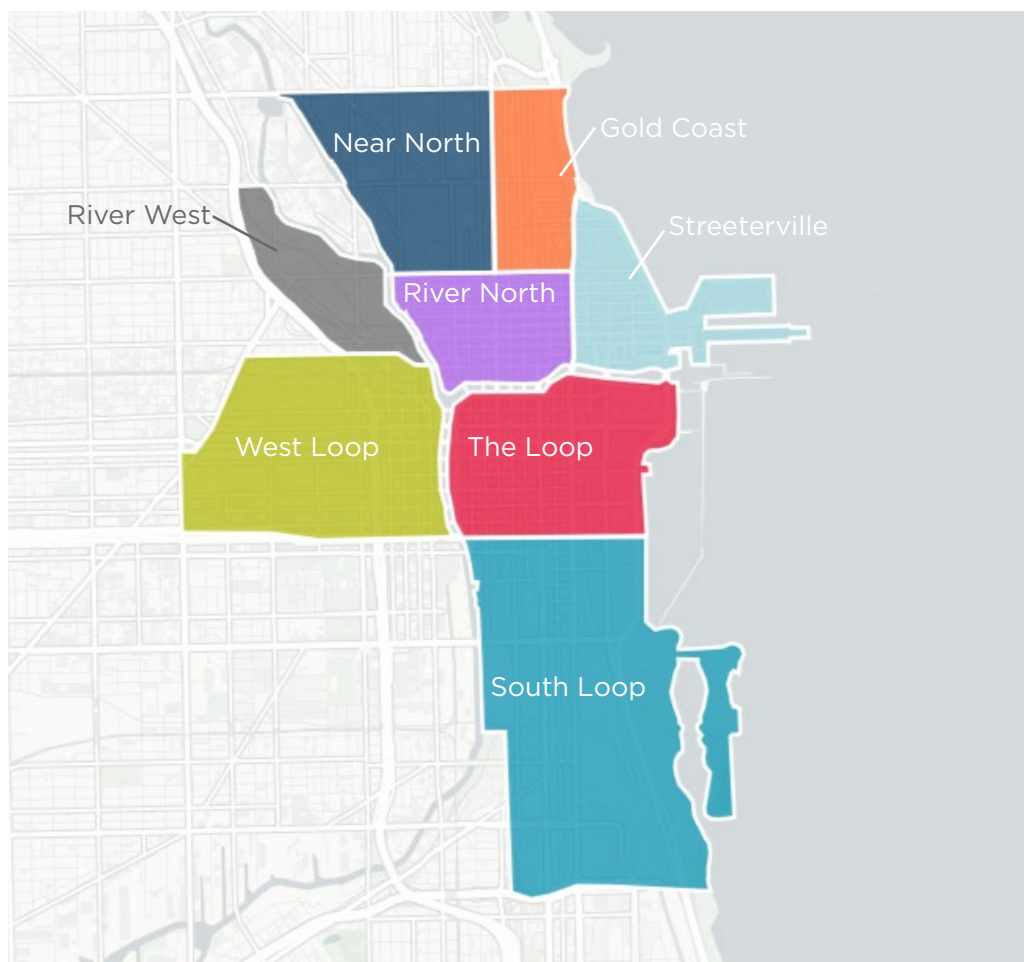


# MARKET INSIGHT

CHICAGO MULTIFAMILY REPORT | SECOND QUARTER 2019



The Cushman & Wakefield Midwest Multifamily Advisory Group provides in-depth coverage of sub-markets in Chicago. In addition to analyzing multifamily rent and sales trends, these reports examine employment data, job growth trends, key economic announcements, and development pipeline news.



## IN THIS EDITION

### ILLINOIS

- Chicago
- Downtown Chicago

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## MARKETBEAT

# Chicago Metro

Multifamily Q2 2019



### ECONOMIC INDICATORS

#### National

|                          | Q2 18 | Q2 19 | 12-Month Forecast |
|--------------------------|-------|-------|-------------------|
| GDP Growth               | 2.9%  | 2.5%  | ▼                 |
| CPI Growth               | 2.7%  | 1.9%  | ▲                 |
| Consumer Spending Growth | 4.7%  | 4.7%  | ▼                 |
| Unemployment             | 3.9%  | 3.6%  | ▼                 |

#### Chicago Metro

|                         | Q2 18    | Q2 19    |   |
|-------------------------|----------|----------|---|
| Median Household Income | \$69,700 | \$71,900 | ▲ |
| YOY Population Growth   | -0.3%    | 0.0%     | ■ |
| Unemployment            | 3.9%     | 3.8%     | ▼ |

Source: Moody's Analytics

### Economy

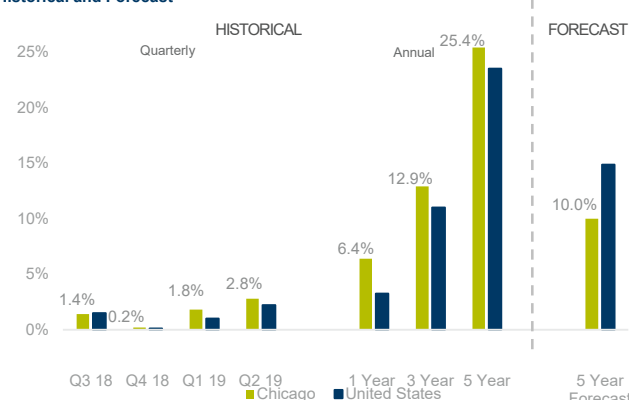
Chicago remains one of the most diversified economies in the world, with no one industry contributing more than 15% to the metro's GDP. IBM Global Location Trends has ranked Chicago #1 in the U.S. for foreign direct investment for five consecutive years. The Chicago metro area has been nation's top metro area for corporate relocation for six straight years, according to Site Selection Magazine. The Chicago-Naperville-Elgin MSA is home to 37 companies on the Fortune 500. Approximately 39% of Chicago city residents over 24 years old hold a bachelor's degree or higher, the highest percentage of the largest five cities in the U.S. The highly educated labor pool has contributed to the 14,800 office-using jobs added to the MSA in the first two months of the second quarter, a 1.5% increase from one year ago.

### Multifamily Trends

Metro Chicago's average effective year-over-year rent growth rate improved from first quarter to 6.4%. Occupancy has remained relatively stable through the last seven years, with vacancy currently averaging 4.6% despite over 9,800 units being delivered in 2018 and another estimated 8,400 that will deliver in 2019. Investment activity has slowed, with four-quarter volume down 8.4%. Development activity has picked up in many suburban markets and has remained robust throughout the city and especially downtown.

### METRO CHICAGO RENT GROWTH RATES

Historical and Forecast



Source: Axiometrics

**+6.4%**  
YOY

Average Effective Rent increased to \$1,536

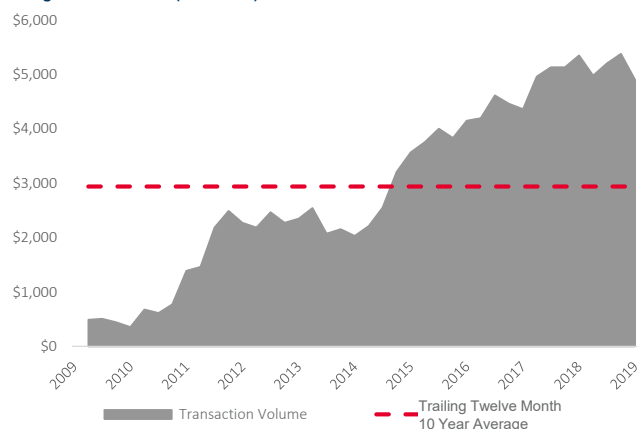
**-76 BPS**  
YOY

Vacancy decreased to an average of 4.6%

Source: Real Capital Analytics, Axiometrics, Cushman & Wakefield

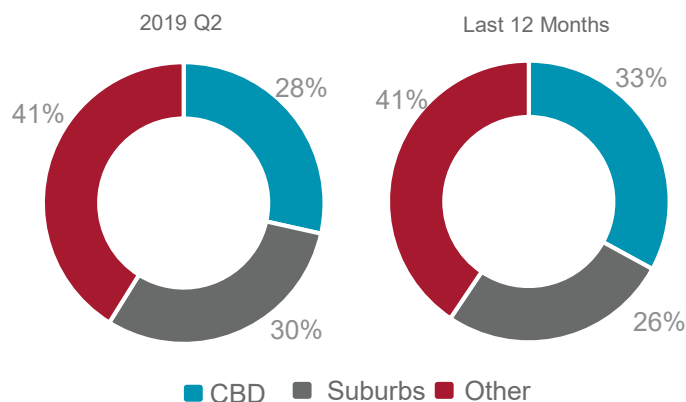
### METRO CHICAGO ANNUAL SALES VOLUME

Trailing Twelve Months (\$ millions)



Source: Real Capital Analytics

### INVESTMENT ACTIVITY LOCATION



Source: Real Capital Analytics

## MARKETBEAT

# Chicago - Downtown

## Multifamily Q2 2019



### 2019 Q2 ECONOMIC EXPANSION & INVESTMENT

The following are recent developments in the downtown market that impact investment:

- Landmark Development proposed One Central, a mixed-use development to be constructed over 34 acres of an existing railyard. The \$20 billion project would create a new transit hub and thousands of new residential units.
- The City of Chicago breaks ground on a new CTA Green Line station at Damen/Lake.
- Newcastle Limited proposes two new buildings with 470 apartments in the Gold Coast.
- Lori Lightfoot becomes mayor of Chicago. Ending aldermanic prerogative, the practice of aldermen having ultimate say on policies and developments in their ward, is one of the first issues on her agenda.
- 2,218** new units are delivered in Downtown Chicago. **72%** of those units are in the South Loop.
- Lincoln Yards and The 78 are approved by City Council. Lincoln Yards will have up to 6,000 residential units and is within a TIF that supports \$900 million in public infrastructure projects. The 78 will have up to 10,000 residential units and is within a TIF that supports \$550 million in public infrastructure projects.
- Commercial building owners in the suburbs see the first wave of assessments adjusted as the new Cook County Assessor, Fritz Kaegi, implements his 'mark to market' approach.
- Another 500 rental units are proposed in the West Loop at 1400 and 1440 West Randolph.
- Fifield begins construction on 188 units in River West.

### Outlook

- Record high demand for apartments will continue, keeping overall occupancy stable.
- The South Loop will see a slowdown in rent growth as the submarket absorbs thousands of new units.
- New construction will taper as the unintended consequences of new city policies such as the ARO Pilot Program begin to take effect.
- Uncertainty in the city's financial situation and rising property taxes will cause some owners to flee while others will see opportunity.

### Investment Activity

The second quarter of 2019 saw just one major transaction downtown. Rolling four-quarter volume is down 3.7% year-over-year and down 61.4% from the first quarter. The average cap rate over the last four quarters is 5.0%, down 10 BPS from second quarter of 2018. While the quarter was slow in terms of transactions, there were five major refinances of institutionally-owned assets.

**-3.7%**

**YOY**

**Transaction Volume**  
decreased to \$1.6B

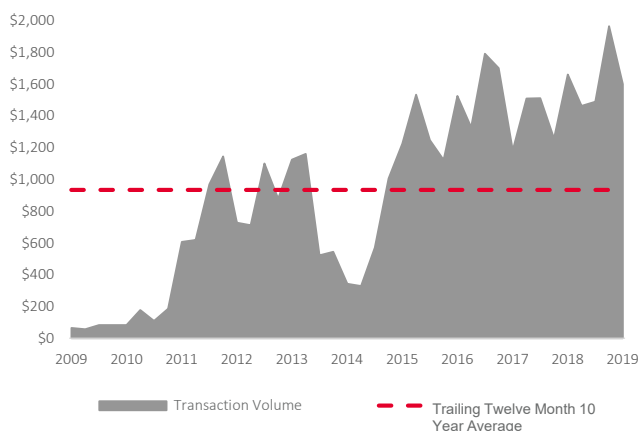
**-10 BPS**

**YOY**

**Cap Rate** decreased to an  
average of 5.0%

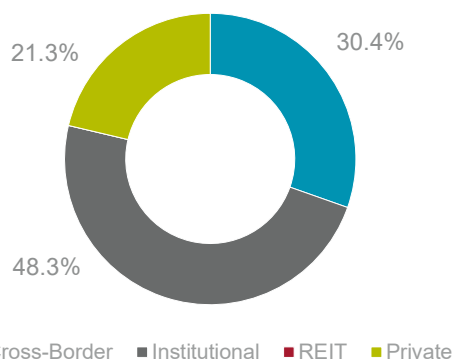
### DOWNTOWN CHICAGO ANNUAL SALES VOLUME

Trailing Twelve Months (\$ millions)



Source: Real Capital Analytics

### BUYER COMPOSITION YEAR TO DATE



Source: Real Capital Analytics

## MARKETBEAT

# Chicago - Downtown

Multifamily Q2 2019



### RENT & OCCUPANCY

#### Downtown Overview

Downtown Chicago continues to attract corporate headquarters and talent, enabling apartment developers and landlords to capitalize on the influx of demand. 2.1M sf of new office space was delivered in 2018 and there is another 5.9M sf set to deliver in the next two years. The multifamily development pipeline has begun to taper, as permits for new construction buildings with 10 or more units fell by 13.2% from this time last year. Average effective rent growth downtown is up 4.8% and vacancy is at an average 5.7%. We expect these fundamentals to continue to strengthen as the pipeline shrinks and demand remains constant through the next year.

**+4.8%**  
YOY

Average Effective Rent increased to \$2,527

**-40 BPS**  
YOY

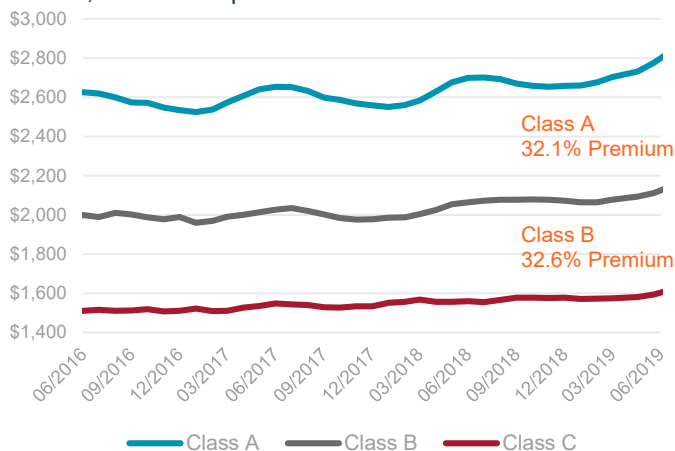
Vacancy decreased to an average of 5.7%

#### Rent Trends

All property classes have seen strong rent growth over the last twelve months with premiums between property classes expanding.

| Class   | Average Eff. Rent | Average Rent/SF | YOY Increase |
|---------|-------------------|-----------------|--------------|
| Class A | \$2,831           | \$3.37          | 4.9%         |
| Class B | \$2,143           | \$2.75          | 3.8%         |
| Class C | \$1,616           | \$2.66          | 3.7%         |

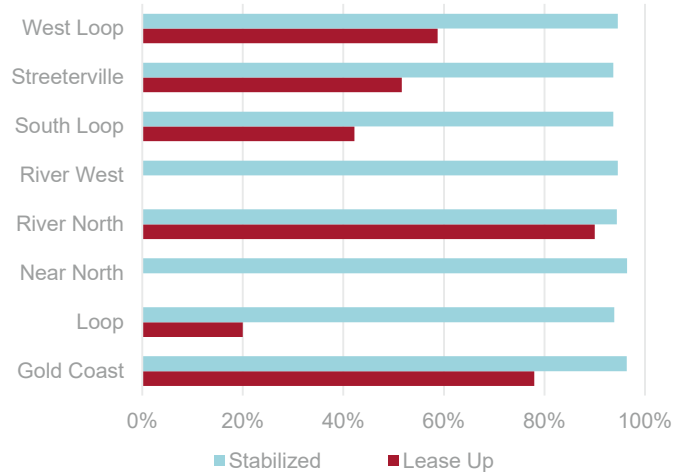
#### AVERAGE RENT PER UNIT Class A, B and C Properties



#### Vacancy Trends

**Vacancy for all downtown buildings is 5.7%, down from 6.1% at this time last year.** Stabilized buildings are averaging a 5.4% vacancy. There are 15 properties in lease up with 4,848 units, 47.7% of which are already occupied. At this time last year there were 19 properties in lease up with 4,816 units that were 49.6% occupied.

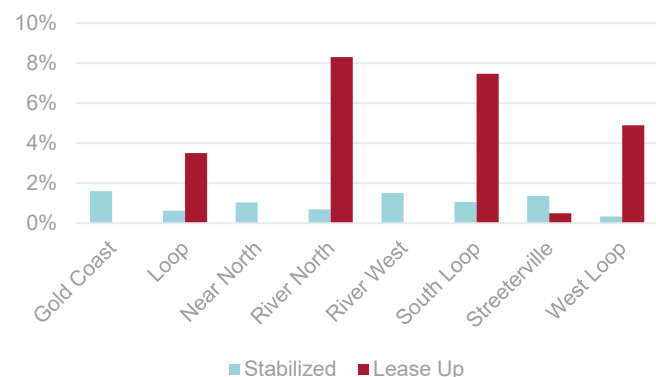
#### AVERAGE OCCUPANCY BY SUBMARKET



#### Concession Trends

Cushman & Wakefield surveyed 126 Class A and B buildings totaling 45,377 units. Of those surveyed, there are 15 in lease up and 111 stabilized. Average concessions for all buildings surveyed is 1.5%, down from 3.5% at this time last year. Stabilized buildings average 1.0% and those in lease up average 5.0%. Sixty-three percent of the buildings surveyed are offering no rent concessions, including four buildings in lease up.

#### AVERAGE CONCESSION BY SUBMARKET



## MARKETBEAT

# Chicago - Downtown

Multifamily Q2 2019



### RECENT DEVELOPMENT & PIPELINE

#### Development Overview

There are currently 5,384 units under construction, 8,480 units approved but not permitted\* and another 10,892 proposed. In the first half of 2019 there were 2,826 units delivered and there will be another 1,315 new units delivered through the end of the year.

**+20%**  
YOY

**New Units Delivered**  
increased to 4,758

**-31%**  
YOY

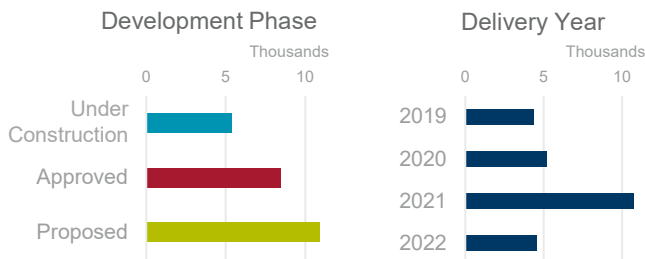
**Units Under Construction**  
increased to 5,384

**+25%**  
YOY

**Units In Lease Up**  
increased to 5,664

\*This does not include units in mega developments of The 78 and River District

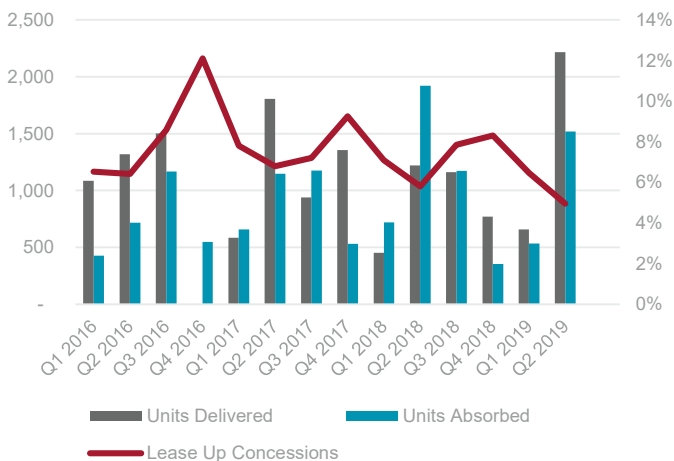
#### NEW UNIT DELIVERIES



#### New Unit Supply & Demand

Downtown Chicago submarkets have absorbed 3,513 new units in the last four quarters, a 9.4% YOY decrease from Q2 2018. Concessions offered in lease-up buildings has decreased 65 BPS from Q2 2018 to 5.0%.

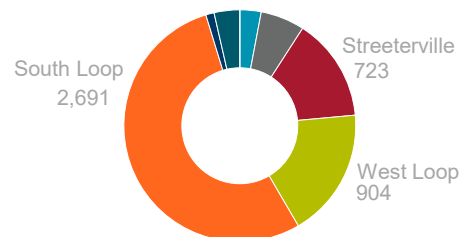
#### NEW UNIT SUPPLY & DEMAND



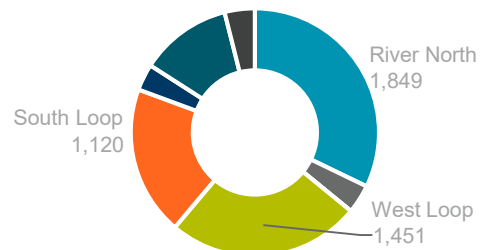
#### Development by Submarket

The pipeline of new deliveries in Downtown Chicago is robust, and while deliveries are up from last year, there will be fewer deliveries in 2019 and 2020 than there were at the peak in 2017 of 4,684 units. The South Loop has the most activity with 7 buildings (2,691 units) in lease up, 1,120 units under construction and 3,400 units approved. The least active submarkets for new development are currently Streeterville, with only 2 buildings (723 units) in lease up; Gold Coast with 58 units in lease up and 199 units under construction; and River West with 226 units under construction and 285 units approved.

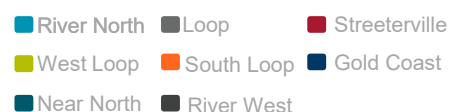
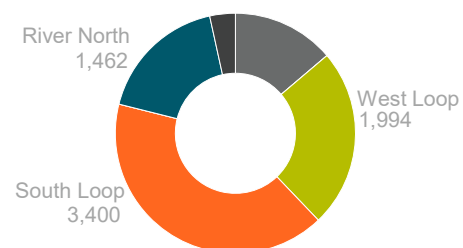
#### Lease Up



#### Under Construction



#### Approved



## Significant YTD 2019 Apartment Sales

| PROPERTY NAME     | SUBMARKET   | BUYER                      | SELLER                              | # OF UNITS | PURCHASE PRICE | PRICE/UNIT |
|-------------------|-------------|----------------------------|-------------------------------------|------------|----------------|------------|
| Aqua              | Loop        | Ares Management            | JP Morgan Asset Management          | 474        | \$190,498,500* | \$401,896  |
| Eleven40          | South Loop  | Diamond Realty Investments | CA Ventures, Keith Giles            | 320        | \$117,000,000  | \$365,625  |
| Jones Chicago     | River North | Mapletree Investments      | Gerding Edlen, Structure Management | 188        | \$91,000,000   | \$484,043  |
| Kenect            | River West  | Newcastle                  | Goldman Sachs, Akara Partners       | 227        | \$85,500,000   | \$376,652  |
| Circa 922         | West Loop   | Pacific Life               | Clarion Partners                    | 149        | \$63,000,000   | \$422,819  |
| Renaissance North | Near North  | Avanath Capital Partners   | The Renaissance Companies           | 59         | \$15,450,000   | \$261,864  |

Sources: Real Capital Analytics, Cushman &amp; Wakefield Research Services

\*Price shown represents 75% interest stake in the property

## 2019 Q2 Notable Construction Pipeline

| PROPERTY NAME          | ADDRESS                | SUBMARKET   | DEVELOPER           | STATUS               | # OF UNITS | COMPLETION DATE |
|------------------------|------------------------|-------------|---------------------|----------------------|------------|-----------------|
| One Chicago Square     | 2 W Chicago            | River North | JDL Development     | Construction Started | 795        | 2022            |
| 353 West Grand         | 353 W Grand            | River North | Onni Group          | Construction Started | 356        | 2021            |
| 717 South Clark        | 717 S Clark            | South Loop  | CMK Companies       | Construction Started | 349        | 2020            |
| 740 North Aberdeen     | 740 N Aberdeen         | River West  | Fifield Companies   | Construction Started | 188        | 2020            |
| 1120 & 1200 N State    | 1120 & 1200 N State    | Gold Coast  | Newcastle Limited   | Project Proposed     | 368        | 2022            |
| 1400 & 1436 W Randolph | 1400 & 1436 W Randolph | West Loop   | Marquette Companies | Project Proposed     | 512        | 2021            |
| 410 S Wabash           | 410 S Wabash           | South Loop  | LMC                 | Project Proposed     | 344        | 2021            |
| 344 North Canal        | 344 N Canal            | West Loop   | The Habitat Company | Project Proposed     | 343        | 2023            |
| 633 S LaSalle          | 633 S LaSalle          | South Loop  | Marquette Companies | Project Proposed     | 512        | 2021            |

Sources: Recity, Cushman &amp; Wakefield Research Services

## About Cushman &amp; Wakefield

Cushman & Wakefield is a leading global real estate services firm with 45,000 employees in more than 70 countries helping occupiers and investors optimize the value of their real estate. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of \$6 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

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## ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

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