

A low-angle photograph of the Chicago skyline, featuring several prominent skyscrapers against a clear blue sky. The buildings are a mix of modern glass facades and older, more ornate structures. The image is framed by a blue border.

SPRING 2020
**MARKET INSIGHT
REPORT**

CHICAGO
ILLINOIS, MSA

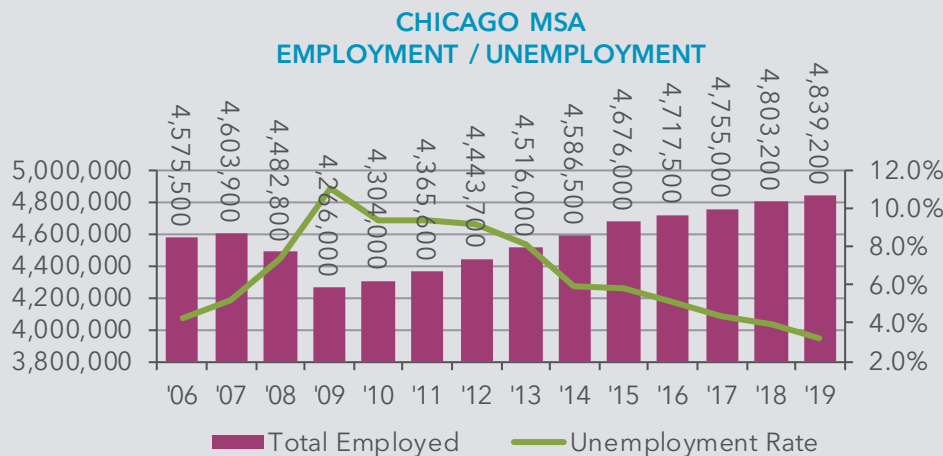
GREYSTONE

EMPLOYMENT / UNEMPLOYMENT

Chicago metropolitan employment expanded by 0.7% YoY in December 2019, adding 36,000 jobs. That rate of growth was down from the 1.0% recorded the year prior, but found correlation to a slower U.S. economy as well. Broad sentiment has placed blame for a slower national economy on the U.S. - China trade war; U.S. economic expansion was 2.3% in 2019, its slowest pace since 2015. Tight labor markets may also be holding back some growth locally and nationally. The Chicago metro unemployment rate fell to 3.2% in December, from 3.9% one year prior. More dramatic were tight conditions in Cook County, with unemployment at 2.9%, and in DuPage County, at 2.2%. Looking ahead, Moody's forecasts that metro population will fall by 49,100 from 2020 through the end of 2023, but - in a nod to housing demand, the number of households is expected to rise by 52,311 and the number of filled jobs is forecast to rise by 73,393.

Uncertainty associated with commercial property taxes is the top economic factor driving all commercial property sales velocity in Cook County, including apartments.

While well intentioned, the new assessor, Fritz Kaegi, who is a little over a year into his tenure, has demonstrated to property owners and investors that he intends to provide greater transparency with regards to determining "fair-cash" values for all property types. Despite admirable intentions, the shock to the system associated with the downward adjustment in capitalization rates for determining "fair-cash" values in a single assessment cycle (of three years) has certainly impacted transaction volume. Furthermore, since the cycle's impact will not be fully felt until 2022 (by the time the last of the assessed properties receive their tax bills), the end result is many investors sitting on the sidelines for an extended time period. At the end of the day, however, the underlining issue driving the dramatic upward revision in "fair-cash" values is the State's underfunded pension funds and poor fiscal policies.




Source: Bureau of Labor. All annual figures through December.

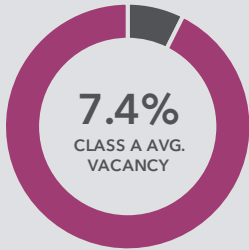
9,470,238 EST.
-0.1% ANNUAL GROWTH
CHICAGO MSA
2020 POPULATION

\$72,568 EST.
CHICAGO MSA
MEDIAN HOUSEHOLD INCOME

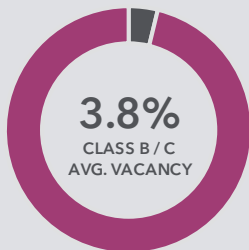
100.9
CHICAGO MSA
COST OF LIVING INDEX
U.S. Avg. = 100.0

RENTAL MARKET

 **\$2,064**
CLASS A AVG. RENT



 **\$1,161**
CLASS B / C AVG. RENT

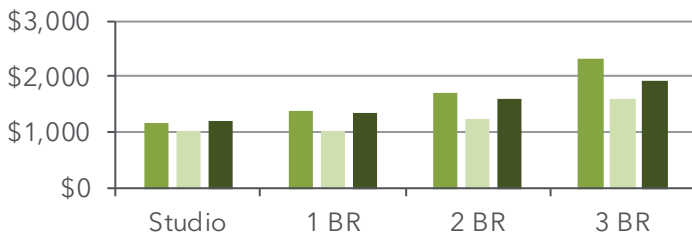


Apartment fundamentals remained strong for the Chicago apartment market in 2019. Asking rent advanced by an average of 4.8% for the year, exceeding the Midwest average of 4.0% and the U.S. average of 3.7% over the same period. Annualized rent growth was strongest in the three-bedroom survey, with a 6.9% YoY gain. At the close of 2019, mean monthly apartment rental rates for the metro area were: studios \$1,173, one bedrooms \$1,374, two bedrooms \$1,694, and three bedrooms \$2,320. Rent growth of 4.6% is expected for 2020 for the Chicago market.

Owners are offsetting higher real estate taxes and recent increases in contract services and utilities by implementing new fees. A new “communal amenity maintenance” fee is taking hold, as landlords are now charging a flat monthly pass-through fee, particularly to tenants in the upscale lakefront neighborhoods, for water and sewer usage, trash removal, and general maintenance.

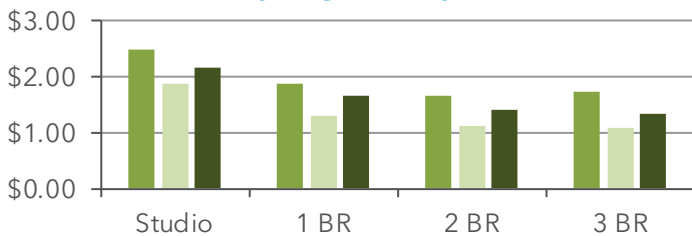
On the vacancy front, the Chicago apartment market is expected to remain competitive with the overall vacancy rate holding at 5.2% through 2020-2021. This is aided by the decline in new and announced deliveries, as demand continues to support absorption.

ASKING RENT COMPARISON



Source: Reis, 4Q 2019

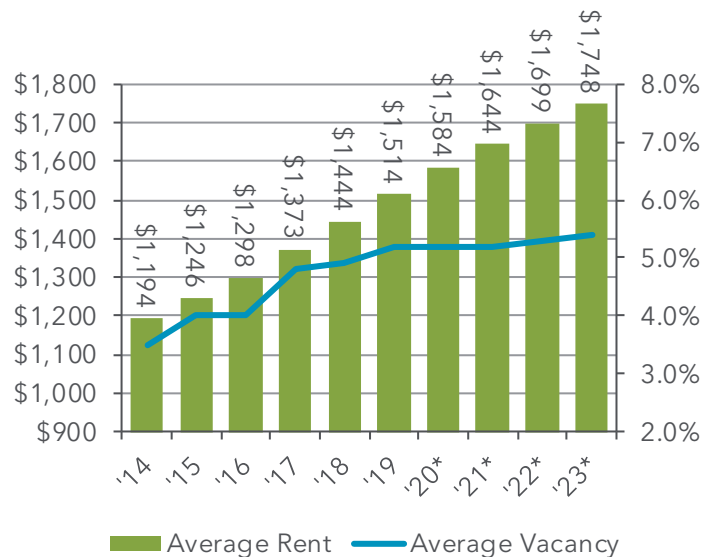
ASKING RENT PSF



Source: Reis, 4Q 2019

■ Chicago ■ Midwest ■ U.S.

CHICAGO MSA APARTMENT MARKET AVERAGE RENT / VACANCY



■ Average Rent — Average Vacancy

Source: Reis, All annual figures year end, *Projected

SUBMARKET CONSTRUCTION

River North Chicago's
6th-Tallest Building



ONE CHICAGO - JDL DEVELOPMENT
869 Units | Mixed-Use Luxury
Condos & Apartments
Completion: 2022

Chicago's newest supply has been heavily concentrated in the downtown and West Loop and north side neighborhoods where public transportation options are in abundance and both job and population growth have been well above the metro average. These submarkets account for approximately 70% of all new metro supply. The focus on high-end luxury has left a dearth of affordable units across the metro area; with no new affordable projects completed in 2019. Currently, only two affordable designated projects - totaling 152 units, are planned / proposed.

Construction activity is beginning to level off after years of record deliveries. With property tax uncertainty, coupled with rising construction costs and changes to the affordable housing requirements in the city of Chicago, developers are taking note. There is cause for optimism, as occupancy rates remain at historic highs; however, a number of developers have reported that equity providers and lenders for ground-up developments have become more selective. TOD locations and submarkets that have seen little development, but offer excellent demographics, are taking priority over less well-located sites. Still lagging and in great need are affordable-based developments.

Northwest Indiana, with cities such as Merrillville and Crown Point, offers a competitive alternative for both developers and investors given Chicago's fiscal policies. Historical rent growth for this submarket, however, is muted relative to Chicago's.

Northwest Indiana, part of the Chicago metro area, has a population over 830,000 residents and is Indiana's second-largest urban area following the Indianapolis metro. With both Merrillville and Crown Point located under an hour drive to Chicago, 12% of Lake County residents commute to Illinois for work, finding good employment opportunities there, but enjoying the affordability of NW Indiana.

SUBMARKET	COMPLETED	UNDER CONSTRUCTION	PLANNED / PROPOSED
Lincoln Park	538	0	244
City West	1,393	2,032	5,968
Gold Coast	508	1,380	3,515
The Loop	1,386	557	4,529
South Shore	1,807	275	952
Aurora / Naperville	280	364	956
Wheeling	608	97	1,323
Glendale Heights	461	0	802
Glenview / Evanston	322	516	1,806
Rogers Park / Uptown	788	439	1,675
Belmont-Montrose	80	180	526
Oak Park	535	48	613
East Lake County, IL	465	31	1,786
West Lake County, IL	0	0	274
Kane County	617	1,070	1,846
Joliet	0	456	1,014
Non-Submarket Areas	342	1,273	4,990

Source: Reis, 4Q 2019, Partial List of Submarkets, *Completed Construction 3Q 2018 - 4Q 2019

PERMITS

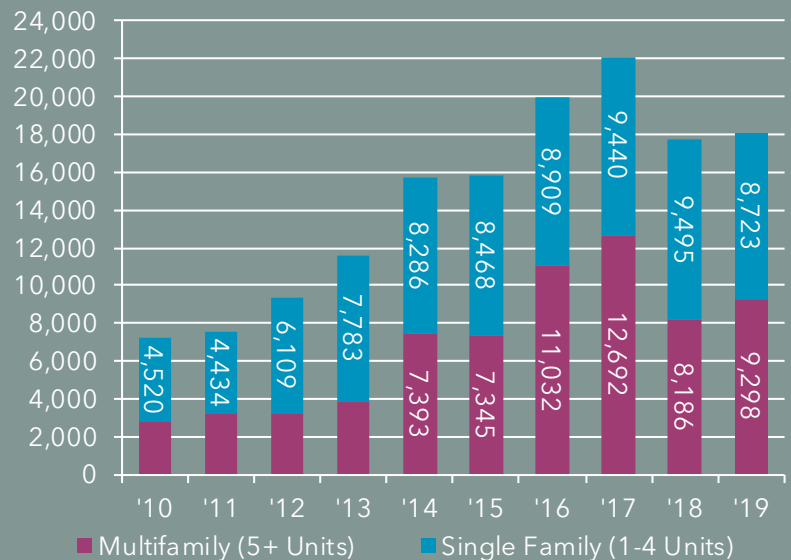
Permits for multifamily dwellings in the Chicago metro area up ticked in 2019, to 9,298 units versus 8,186 the year prior, however, still well below the peak post-recession years of 2016 and 2017.

In addition to market-rate apartments, included in the count are condominium communities, as well as affordable housing and townhome development. As of the close of 2019, over one-third of all planned / proposed multifamily development was condominium or other multifamily. At the beginning of 2020, condominiums accounted for 20% of active multifamily development. There were 33 high-rises under construction in Chicago as of the beginning of 2020 according to Curbed.

The projects are concentrated in neighborhoods such as the West Loop, Near North Side, and River North, among others. Though many are luxury apartment towers, several are office towers and hotels, and others are a combination of condominiums and rental units or student housing. One high-rise is a 1,300-bed residence hall in Woodlawn being built for the University of Chicago. Also underway, along Lake Shore Drive, is a 47-story, 363-unit condominium project named Cirrus. Units will be priced from \$400,000 - \$4 million upon completion in 2021.

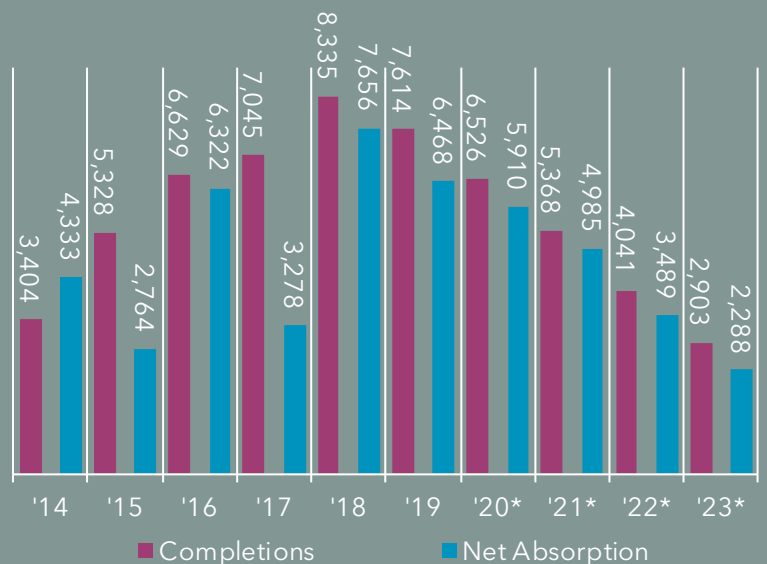
Single-family permits issued through December fell to 8,723 units, below 2018's total by 8.1%. The single-family sales pace for the Chicago MSA was down 3.3% YoY for 2019. The median sales price was up 2.3% by year end, to \$248,000. The city of Chicago saw closed volume slide 4.9% YoY, while the median sold price increased 1.7% to \$295,000.

**TOTAL RESIDENTIAL BUILDING PERMITS
CHICAGO METRO AREA**



Source: U.S. Census, Multifamily Includes Condominiums

**CHICAGO MSA APARTMENT MARKET
COMPLETIONS / NET ABSORPTION**



Source: Reis. All figures are annual totals. *Projected

AVERAGE SALES

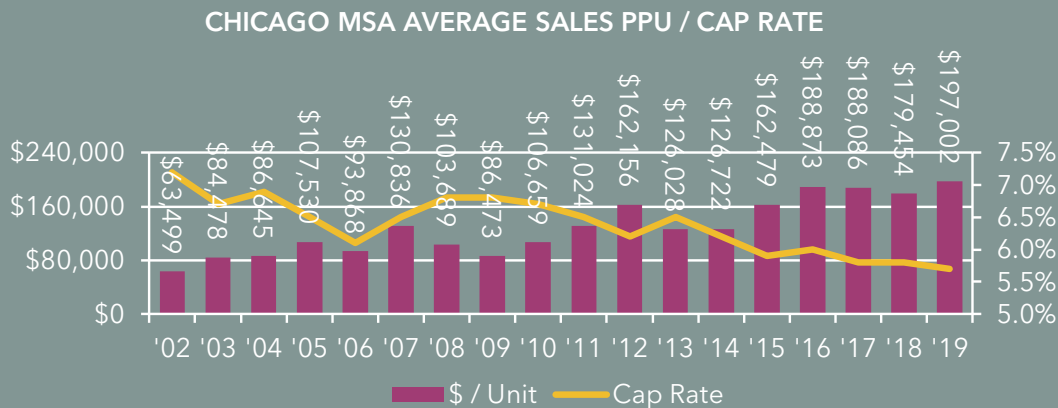
Chicago metro apartment sales volume took an uneasy, though expected, decline in 2019, with total volume reported at \$3.7 billion, a decisive retraction from \$5.0 billion sold the year prior.

While not an ideal scenario for investment sales volume, there does exist an opportunity for buyers who are willing to remain active. For instance, buyers who spend the time to understand the trends occurring at the Board of Review (aided by a market report recently completed by Greystone Real Estate Advisors), will find that much of what is making headlines is quietly being readjusted to more tolerable levels.

As the global economy continues to mature, more equity is coming to Chicago in search of higher returns. This is reflected in historically low Treasury rates, as foreign investors continue to buy U.S. Treasuries in search of higher returns. Their appetite is being directly driven by the roughly \$13 trillion in negative interest rates across the globe.

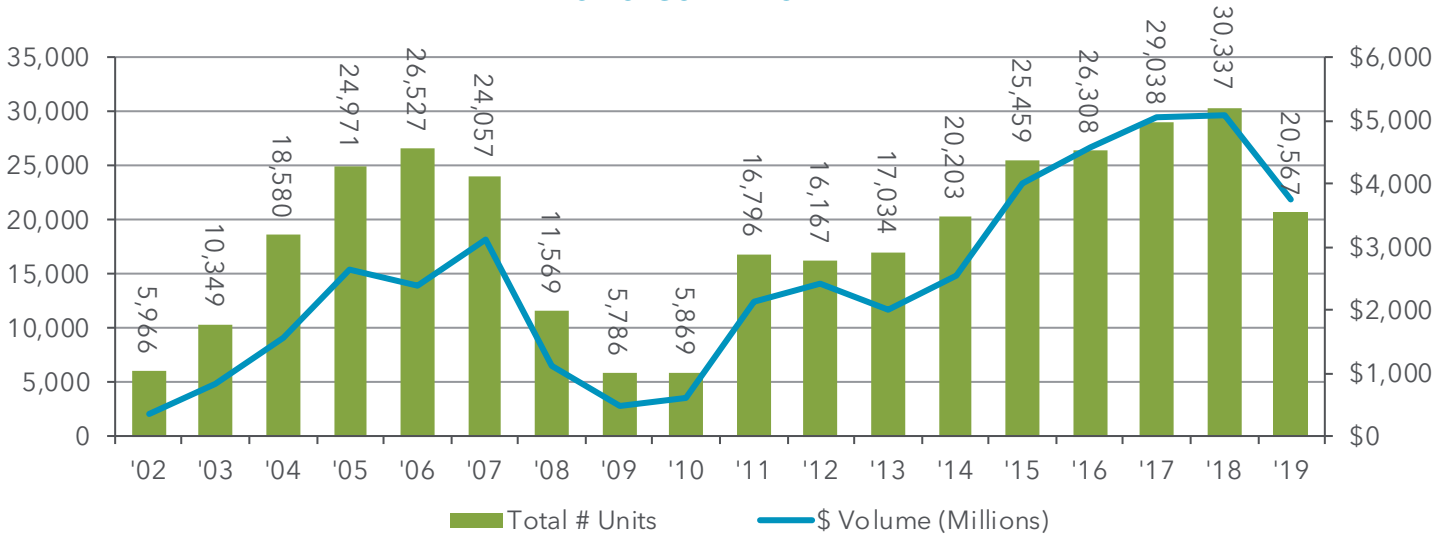
Some of this equity is also seeking higher returns in the form of investment real estate, where all-cash yields are often 200 to 300 bps above fixed-income vehicles. Apartments seem to be the choice of many investors with the ability to easily adjust to changing economic conditions with yearly vs. multi-year leases.

As interest rates remain low, investors should continue to see very favorable cash-on-cash returns. As a result, sellers of well-located and well-positioned assets should continue to see elevated pricing for their assets, as equity continues to cascade from foreign sources and the low interest rate environment persists.



Source: Real Capital Analytics. Based on sales of \$2.5 million and greater.

**APARTMENT SALES TRANSACTIONS
CHICAGO METRO AREA**



Source: Real Capital Analytics. Based on sales of \$2.5 million and greater.

GREYSTONE FEATURED LISTING



CHICAGO NORTHSIDE PORTFOLIO

Chicago, IL

Sale Price:	Subject To Offer
Number of Units:	267
Number of Buildings:	5
Total Square Feet:	139,413
Average Square Feet:	522

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To learn more about Greystone Real Estate Advisors and our capabilities please visit www.greycoadvisors.com

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Sources: Greystone; Reis; RealCapitalAnalytics; CoStar; U.S. Census; Bureau of Labor; Sperling's; Curbed Chicago; Crain's Chicago; Censusreporter.org; Realtor.com; Illinois REALTORS; Loopnorth.com

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