INVESTMENT FORECAST

Marcus & Millichap

MULTIFAMILY 2020

Chicago Metro Area

Development Remains Active Downtown; Property Tax Reassessment Weighing on Outlook

Tech sector fuels rental demand in thriving urban core. Chicago will continue to witness rent growth in 2020, lifting the average effective rent above $1,600 per month. Suburban rent growth will remain stable this year as vacancy sits below 4 percent; however, rental gains in the urban core will drive the marketwide increase. Employment growth is focused in downtown Chicago, particularly among tech firms, providing a boost to apartment demand here as vacancy has pushed down 180 basis points since 2017. Companies including Relativity, Truss and Vistex continue to add jobs, encouraging developers to meet the additional housing demand from new employees. The urban core is set to receive 65 percent of this year's completions, with construction activity in the West Loop and Near North Side. Several inner-ring communities will also receive a portion of the new supply, such as Logan Square and Uptown, which have become viable options for renters who have been priced out of downtown Chicago. Suburban completions will be largely confined to a variety of northern cities, where demand continues to steadily increase.

Chicago apartment outlook clouded by property tax concerns. Buyers have increased focus on areas surrounding the forthcoming Lincoln Yards development. Smaller Class C assets in Wicker Park and Ukrainian Village produce cap rates in the low-6 percent range, but these properties generally require considerable upgrades to compete with newer, nearby inventory. Suburban assets along major transit arteries also garner attention, particularly in Aurora and Naperville, enticing a variety of local and out-of-state investors as they capitalize on sub-4 percent apartment vacancy. Though deal flow was relatively steady during the past year, concerns surrounding new property tax assessments in Cook County will remain a downside risk for many investors. The assessor still has at least a year before the entire county has been reassessed, but increases witnessed in suburban submarkets offer insight into what could be in store for county apartment owners.

2020 Market Forecast

Employment up 0.6% — Hiring activity will continue to slow this year as 30,500 workers are added to payrolls. Last year, 33,000 jobs were created.

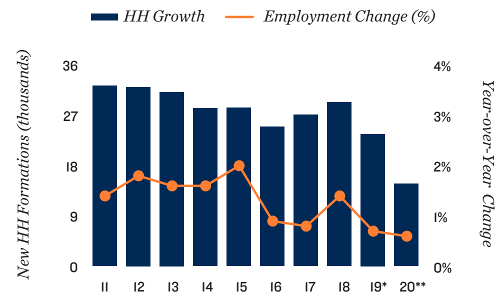
Construction 7,400 units — Completions will decrease after 9,100 units were delivered last year, with the urban core logging the majority of new supply.

Vacancy down 10 bps — The absorption of nearly 7,800 units will push market vacancy down to 4.8 percent this year. This builds on 60- and 40-basis-point drops during the previous two years.

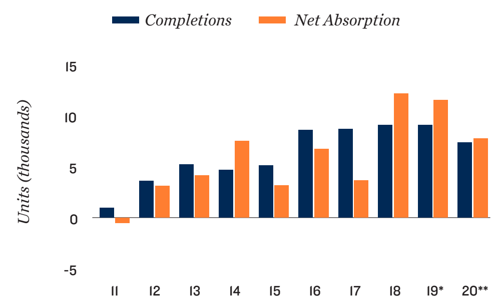
Rent up 5.1% — Coming in just under the previous three-year average, rents will continue to advance, lifting the average effective rent up to $1,663 per month.

Investment — Large-scale mixed-use projects coming to fruition in the near future will continue to spur new investment opportunities in adjacent areas, further strengthening bidding environments.

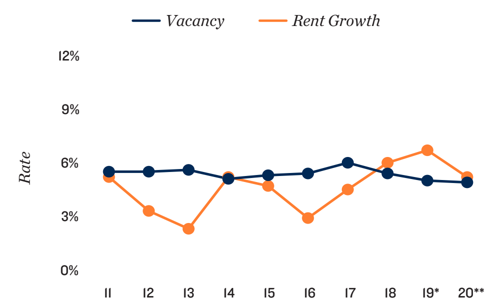
Economic Trends



Completions vs. Absorption



Vacancy and Rents



* Estimate; ** Forecast

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of November 2019. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.