



Multifamily Metro Outlook: Chicago Summer 2017

Overview

While, long-term, Chicago's economy will continue to grow based on strong support from its talent pool, institutions and infrastructure, near-term, the metro's economy faces some strong headwinds. The metro has severe fiscal problems due to state and local government budget shortfalls and job growth is slowing.

The steady addition of new supply in certain submarkets is starting to cause conditions to ease somewhat metro-wide. Asking rents remained flat in Q4 2016 and rose by anemic 0.5 percent in Q1 2017. Similarly, while the concession rate of -1.3 percent of asking rent is less than half the historic average, it has doubled since Q3 2016. The multifamily market will likely continue to ease somewhat in 2017 as the pace of new supply picks up.

With a workforce of 3.7 million, the Chicagoland economy is a mammoth consumer market, transport hub, financial center and tourist magnet. Surpassed in size only by New York and Los Angeles, Chicago is a globally important business center. It is the headquarters for more than 30 Fortune 500 corporations and hosts the world's largest futures and options market.

In addition, Chicago has been able to diversify its job base away from its manufacturing roots. 18.5 percent of jobs are in the well-paying professional and business services sector compared to just 13.9 percent for the U.S. and 15.7 percent of jobs are in the stable education and healthcare sector matching the U.S. There is a budding high-tech center in River North and more firms are moving from the suburbs to take advantage.

Chicago has a well-educated workforce. Due to the many colleges and universities located in the metro, 37 percent of Chicago's population has at least a college degree compared to 30 percent for the nation which should continue to attract employers. Hence, 21.1% of the population is in the prime renting cohort, above the 20.7% national rate. While job growth will be below average on a percentage basis, Moody's analytics estimates that about 130,000 jobs are likely to be added through 2019.

On the other hand, Chicago's weak demographic profile is a drag on both the economy and housing. It is expected to have only a third the rate of national rate of population growth, through 2021 which will threaten its status as the third largest metro. Over the next four years, residents will likely be hit with more than \$755 million in tax and fee increases to pay into the underfunded pension system and the public school system that has been hit hard by budgetary problems.

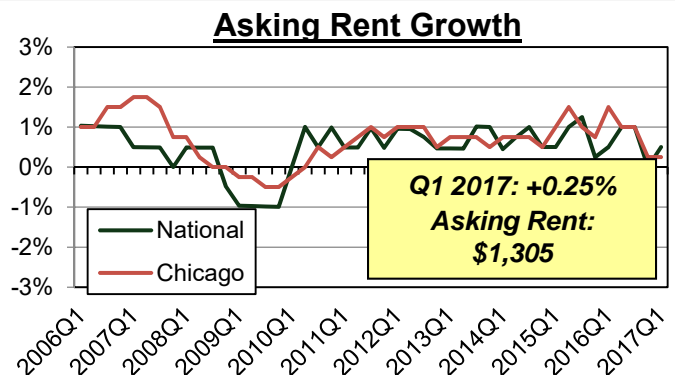
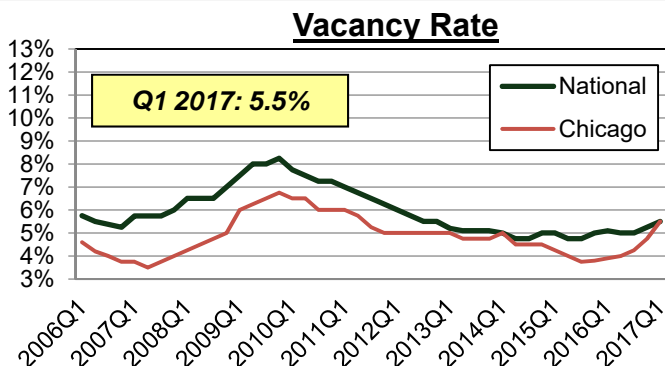
Development

Almost 26,000 multifamily rental units have been completed since 2012. The Gold Coast/River North/Loop submarkets have just over half of the estimated 14,600 new units underway. Another 18 percent are the City West submarket. The remaining 4,600 units, representing 30 percent of new deliveries are spread over 14 markets. In addition, developers are starting to cater to higher income renters priced out of the city by rehabbing older more affordable properties in the suburbs located near the Metra and restaurants into Class A rentals as renters seek city-like amenities in the more affordable suburbs.

Outlook

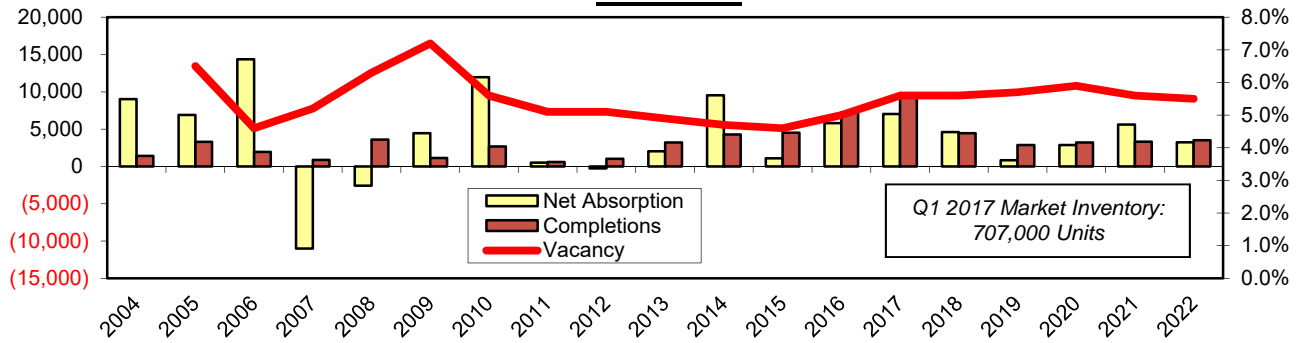
Vacancy is likely to rise somewhat in 2017 due to the elevated volume of new supply, particularly in the Loop/River North/Gold Coast submarkets. Overall, the metro should remain steady. Longer-term, despite budgetary woes, Chicago's cultural amenities will continue to attract the Midwest's best and brightest. With the exception of the urban core, the Chicago market should be able to accommodate the moderate rental inventory additions planned to satisfy its younger and transient population's demand as long as new units are delivered gradually.

Vacancy and Rent Composite Estimates

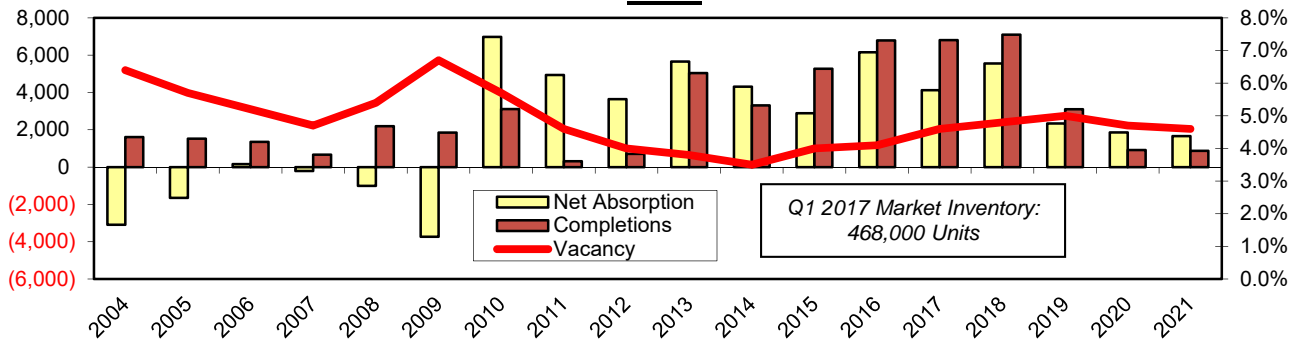


Source: Fannie Mae Multifamily and Economics Research

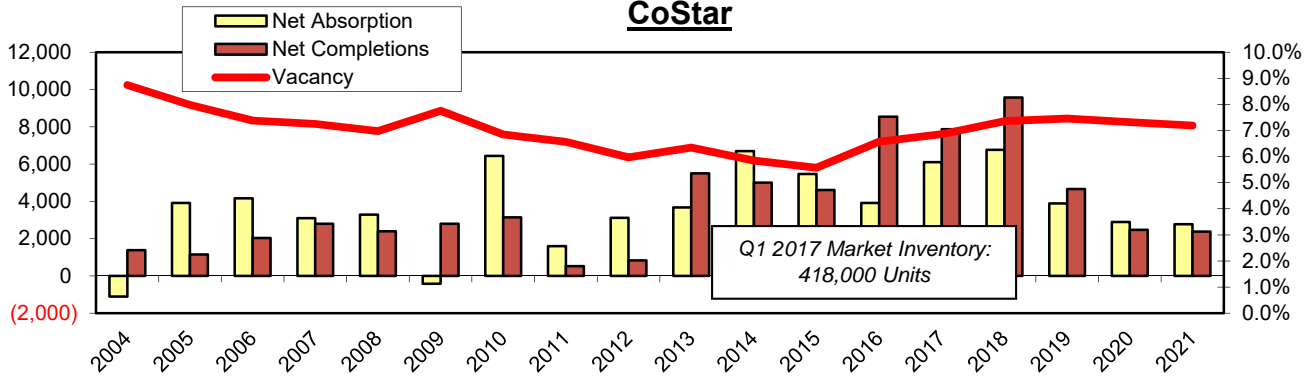
CBRE-EA



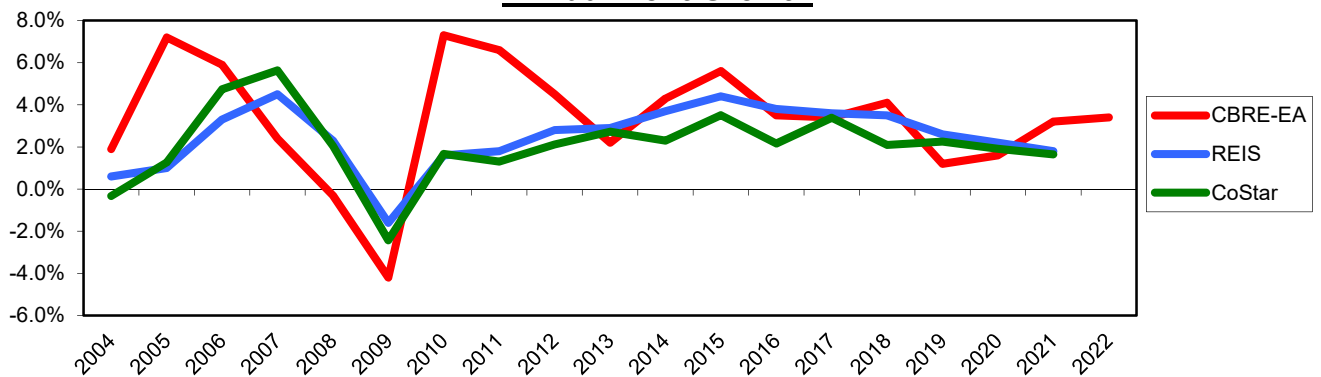
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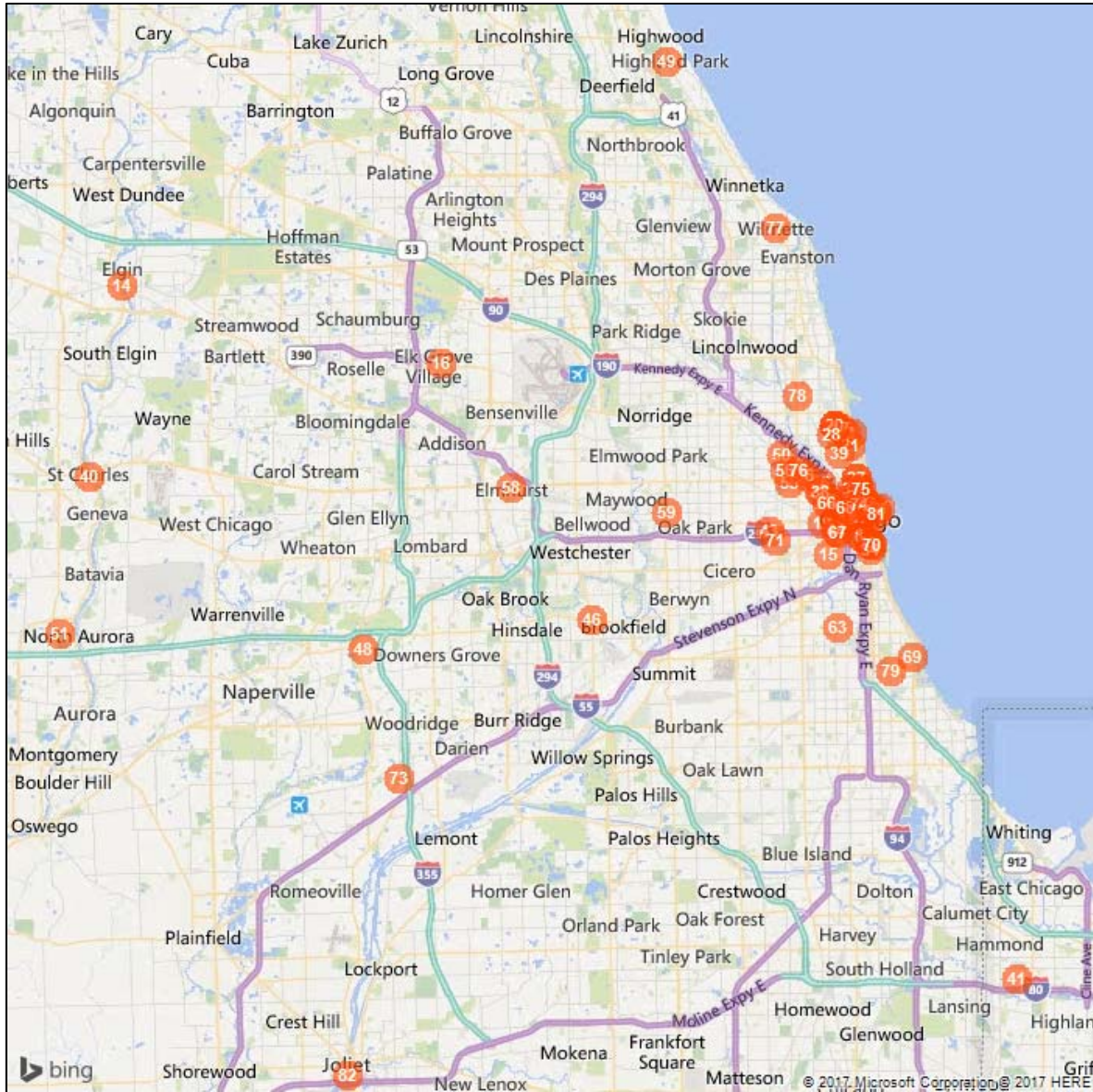
CoStar



Annual Rent Growth



Construction Bidding/Underway
(87 projects/ 15,000 Units/ 20.7 M Sq. Feet)



| CBRE-EA Submarket | Number of Projects | Total Sq Ft (000's) | Total Units | CBRE-EA Submarket | Number of Projects | Total Sq Ft (000's) | Total Units |
|------------------------|--------------------|---------------------|-------------|--------------------------|--------------------|---------------------|-------------|
| Gold Coast/River North | 19 | 7756 | 5331 | Kenosha County | 1 | 191 | 227 |
| City West | 25 | 3559 | 2579 | Belmont to Montrose | 6 | 473 | 225 |
| The Loop | 6 | 2786 | 2097 | Glendale Heights/Lombard | 1 | 237 | 192 |
| South Shore | 4 | 1861 | 1265 | Southwest Cook County | 1 | 156 | 78 |
| Kane County | 3 | 1082 | 601 | Glenview/Evanston | 1 | 185 | 75 |
| Oak Park | 2 | 666 | 524 | Joliet | 1 | 50 | 68 |
| Woodridge/Lisle | 2 | 435 | 489 | Lincoln Park/Old Town | 1 | 223 | 52 |
| n/a | 6 | 591 | 418 | Rogers Park/Uptown | 1 | 50 | 40 |
| O'Hare | 1 | 275 | 297 | East Lake County | 1 | 80 | 20 |



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Fannie Mae Multifamily Economics and Market Research

Tanya Zahalak, Economist

Sources Used

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

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