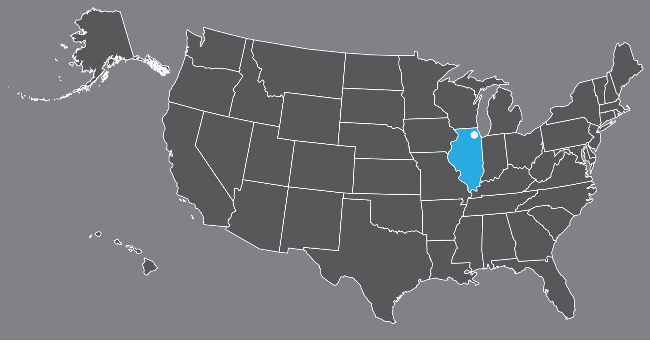
HUD PD&R Housing Market Profiles

Chicago-Naperville-Elgin, Illinois-Indiana-Wisconsin

Quick Facts About Chicago-Naperville-Elgin

- **Current sales market conditions: balanced**
- **Current rental market conditions: balanced**
- **During 2018, the Chicago O'Hare International Airport (ORD) handled over 900,000 flight operations, reclaiming the title of the United States' busiest airport (Chicago Department of Aviation). These flight operations contributed to an estimated 57.7 million visitors to the area, a record number and a 4-percent increase from 2017 (Choose Chicago). ORD has also announced an $8.5 billion modernization and expansion plan, including a new 2.25 million-square-foot terminal; construction is expected to begin late 2019, with completion expected during 2028.**



By Gabe Labovitz | As of March 1, 2019

Overview

The Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area (hereafter, the Chicago metropolitan area) includes 14 counties in Illinois, Indiana, and Wisconsin. As a nationally important business center, the Chicago metropolitan area includes 34 companies on the Fortune 500 list, including 11 in the city of Chicago (World Business Chicago). The professional and business services sector is the largest employment sector in the metropolitan area, contributing nearly 18 percent of all payrolls, followed by the education and health services and the wholesale and retail trade sectors, which account for 16 and 15 percent of payroll jobs, respectively. The three largest employers in the metropolitan area are all in the government sector, which provides more than 546,000 jobs and, at nearly 12 percent of all payrolls, is the fourth largest sector.

- As of March 1, 2019, the population of the metropolitan area was 9.48 million, representing an average decrease of 17,700, or 0.2 percent annually since 2014 (U.S. Census Bureau population estimates as of July 1). By comparison, from 2010 to 2014, the population rose by an average of 23,450, or 0.2 percent, annually.
- The shift from growth to decline was caused by an increase in net out-migration, which averaged 29,650 annually from 2010

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to 2014 and has risen to an average of 59,500 annually since 2014. Relatively slower economic growth and the out-migration of larger households, often families with children, have contributed to the recent decline in population growth.

- Despite slower growth in the city of Chicago and the metropolitan area overall, the population in the 12 ZIP Codes that comprise "downtown" Chicago, surrounding and including The Loop neighborhood, have grown an average of 2.9 percent annually from 2011 to 2017 (American Community Survey, 5-year data). During the same period, the population in the city of Chicago grew an average of 0.1 percent annually, the population in the metropolitan area grew an average of 0.2 percent annually, and nationally, the population rose an average of 0.8 percent annually.

Largest Employers in the Chicago Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
U.S. Government	Government	41,500
City of Chicago	Government	31,160
Cook County	Government	21,316

Note: Excludes local school districts.
Source: *Crain's Chicago Business*, as of December 31, 2017.

Economic Conditions

Economic conditions in the Chicago metropolitan area are in the ninth consecutive year of expansion following the Great Recession. Since emerging from the downturn in 2010, nonfarm payrolls in the metropolitan area have grown an average of 1.4 percent annually, a slower expansion than what has occurred in other Midwest-region metropolitan areas. For comparison, nonfarm payroll growth averaged 1.6 percent annually in the Minneapolis metropolitan area and 1.9 percent annually in both the Detroit and Indianapolis metropolitan areas. Nationally, the figure was 1.7-percent average annual growth.

During the 3 months ending February 2019—

- Nonfarm payrolls averaged 4.73 million, an increase of 61,400 jobs or 1.3 percent from a year earlier. By comparison, job gains during the 3 months ending February 2018 and February 2017 were 0.8 and 1.0 percent, respectively.

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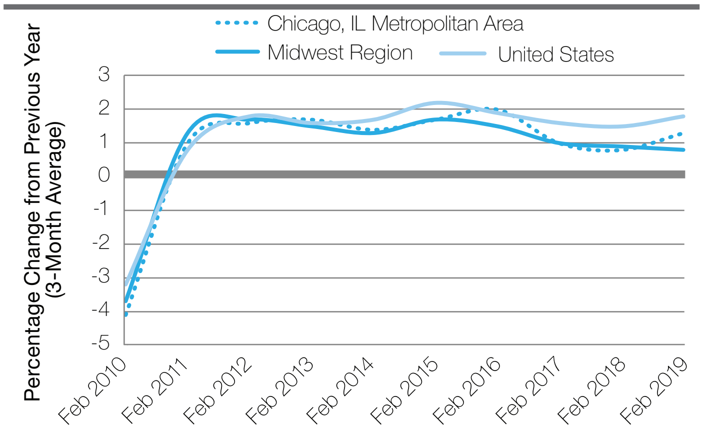
Except for a few periods, nonfarm payroll growth in the Chicago metropolitan area has trailed national growth since emerging from the Great Recession in 2010.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

Nonfarm payrolls rose in the Chicago metropolitan area; all but the information sector expanded.

	3 Months Ending		Year-Over-Year Change	
	February 2018 (Thousands)	February 2019 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	4,670.6	4,732.0	61.4	1.3
Goods-Producing Sectors	580.3	591.3	11.0	1.9
Mining, Logging, & Construction	163.5	166.9	3.4	2.1
Manufacturing	416.8	424.4	7.6	1.8
Service-Providing Sectors	4,090.3	4,140.7	50.4	1.2
Wholesale & Retail Trade	706.8	707.5	0.7	0.1
Transportation & Utilities	247.0	255.8	8.8	3.6
Information	77.3	75.3	-2.0	-2.6
Financial Activities	307.6	312.3	4.7	1.5
Professional & Business Services	821.4	831.0	9.6	1.2
Education & Health Services	728.2	744.3	16.1	2.2
Leisure & Hospitality	462.6	471.4	8.8	1.9
Other Services	196.5	197.0	0.5	0.3
Government	543.0	546.1	3.1	0.6
	(Percent)	(Percent)		
Unemployment Rate	4.7	4.3		

Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics

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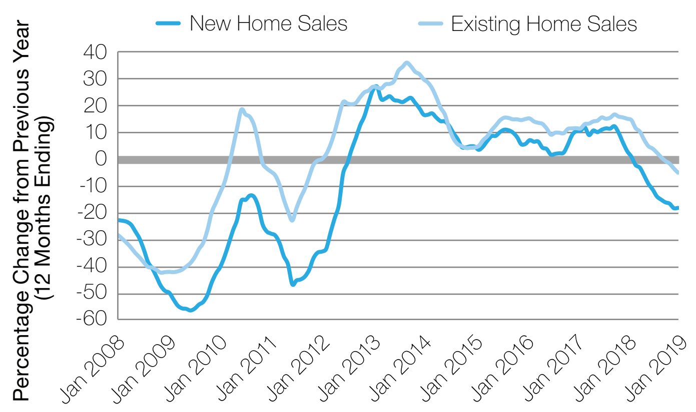
- Gains were largest in the education and health services sector and the professional and business services sector, which increased by 16,100 and 9,600 jobs, or 2.2 and 1.2 percent, respectively. Job growth in the education and health services sector has been steady, averaging 13,000 jobs annually since 2010. Since emerging from the Great Recession during 2010, the professional and business services sector, which has contributed more than 30 percent of total job gains, has led economic growth.
- The fastest growing sector was the transportation and utilities sector, which added 8,800 jobs, a 3.6 percent growth, during the past year; since 2010, this sector has averaged a 3.5 percent annual growth, or 7,600 jobs added annually.
- In the Chicago metropolitan area, the unemployment rate averaged 4.3 percent, down from 4.7 percent a year earlier. For comparison, unemployment rates for the United States and the state of Illinois averaged 4.1 and 4.8 percent, from 4.3 and 4.8 percent a year earlier, respectively.

Since 2014, the construction subsector and the leisure and hospitality sector have been the second and third fastest growing sectors, respectively. Construction jobs have grown by an average of 5,700 annually since 2014, or 3.8 percent, following the addition of 600 jobs annually from 2010 to 2014, or 0.4 percent. Although an increase since 2014 in residential construction, as measured by units permitted, is partly responsible for job gains in the subsector, construction of non-residential properties as measured by the value of construction starts—hotel, office space, and warehouse and retail—has grown dramatically and has contributed significantly to construction subsector job growth. The combined value of these construction starts averaged $2.52 billion annually from 2010 through 2014, and more than doubled to average $6.59 billion annually from 2014 through 2018 (McGraw-Hill Construction Pipeline database). In the leisure and hospitality sector, job growth has been a result of record-setting tourist visits, which led to hotel revenue of $2.51 billion during 2018, or nearly 6-percent annual growth since 2013 (Choose Chicago). Tracking only downtown hotel properties, Choose Chicago indicated that eight new hotels have opened since June 2017, adding more than 1,750 new hotel rooms. As a result, leisure and hospitality jobs grew by 8,800 during the 3 months ending February 2019, or 1.9 percent, and have increased an average of 12,100 annually, or 2.7 percent, from 2013 through 2018. Another 16 hotels under construction are expected to open during the next 18 months.

Sales Market Conditions

The sales housing market in the Chicago metropolitan area is currently balanced, with an estimated sales vacancy rate of 1.7 percent, down from 2.7 percent in 2010. As of February 2019, the metropolitan area had 3.0 months of available housing inventory for sale, unchanged from a year earlier (CoreLogic, Inc.). Since reaching a recent low in 2011, existing home sales (including single-family homes, townhomes, and condominiums) have generally risen, despite a decline during the current 12-month period. Existing home sales prices, however, are below pre-recession levels. New home sales have not increased significantly since 2009 and are well-below pre-recession levels. Average new home sales prices, however, surpassed pre-recession levels during 2017, spurred in part by strong sales at higher price points, including sales of condominiums in downtown Chicago. After peaking in January 2012 at 10.6 percent, the proportion of seriously delinquent home loans (90 or more days delinquent or in foreclosure) and real estate owned (REO) properties in the metropolitan area has returned to pre-recession levels; 2 percent of home loans in the Chicago metropolitan area were seriously delinquent or in REO status as of January 2019, down from 2.5 percent during January 2018. Corresponding rates for the state of Illinois and the United States were 2.0 and 1.7 percent, down from 2.5 and 2.3 percent, respectively.

Home sales have recently declined in the Chicago metropolitan area, partially because of a lack of available inventory.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

During the 12 months ending January 2019—

- Approximately 142,400 existing homes sold, 6 percent fewer than those sold during the previous 12-month period (CoreLogic, Inc., with adjustments by the analyst). Since a recent low of 85,550 existing home sales during 2011, existing home sales have risen 10 percent annually, to a recent high of 151,600 sales during 2017.

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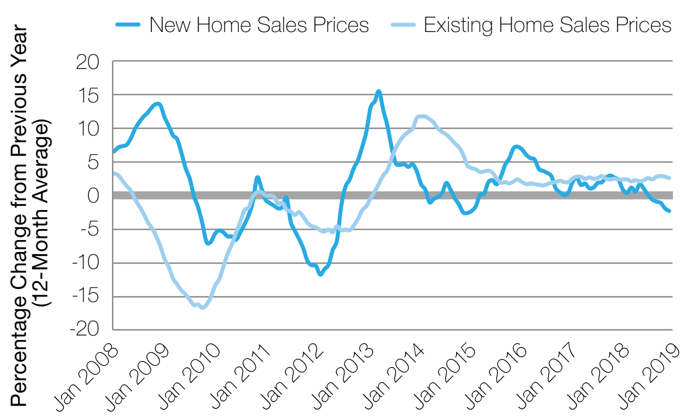
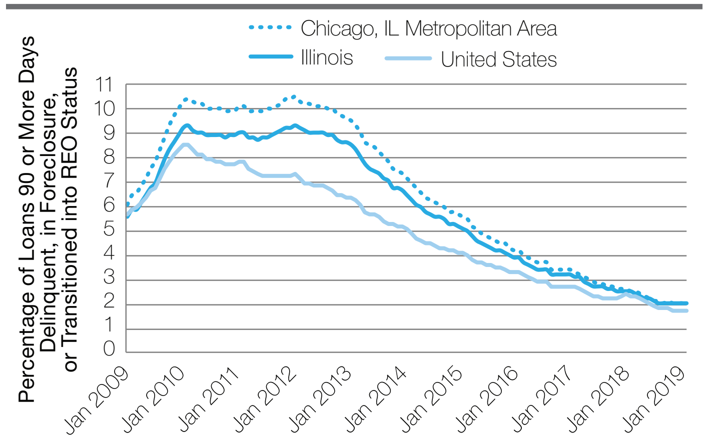
Existing home sales prices have remained steady since 2015; new home sales prices have been more volatile and declined during the past year.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst

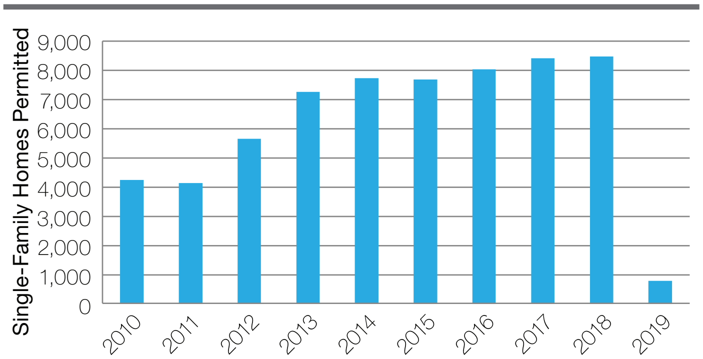
The rate of seriously delinquent mortgages and REO properties in the Chicago metropolitan area remains above the national rate, but has declined to pre-recession levels.



REO = real estate owned.
Source: CoreLogic, Inc.

- The average sales price of an existing home sale was $271,400, an increase of nearly 3 percent from a year earlier, but nearly 6 percent below the pre-recession high of $288,500 averaged during 2007. Existing home sales prices have risen an average of 4 percent annually from a recent low of $211,900 during 2012.
- New home sales totaled 6,300, or 18 percent fewer than those sold during the previous 12-month period. By contrast, during 2011, when the Chicago metropolitan area had just started to emerge from the Great Recession, only 4,275 new home sales were recorded.

Single-family permitting activity in the Chicago metropolitan area has risen steadily since a recent low level during 2011.



Note: Includes preliminary data from January 2018 through February 2019.
Source: U.S. Census Bureau, Building Permits Survey

- The average sales price of new homes in the Chicago metropolitan area fell approximately 2 percent to $387,900. Since a recent low-average annual sales price of $329,400 during 2011, new home sales prices had risen an average of 3 percent annually, to the recent high level of $397,000 during 2017, before the current decline.

Single-family home construction activity has generally increased since a recent low level during 2011 but is significantly below pre-recession levels.

- During the 12 months ending February 2019, single-family homebuilding activity, as measured by the number of homes permitted, totaled 8,375 homes, unchanged from a year earlier (preliminary data).
- After averaging 33,400 homes permitted annually from 2000 through 2006, single-family homebuilding fell sharply, to 18,100 homes permitted during 2007, and further declined to 7,625 homes permitted during 2008. Single-family permitting remained low, averaging 4,250 annually from 2009 through 2011, before recovering to current levels.
- Single-family home permitting in the city of Chicago since 2010 has averaged slightly more than the 6 percent of single-family permitting in the metropolitan area. Because the city of Chicago is largely built-out, single-family construction is generally infill and not part of larger neighborhood development. It is also generally higher cost than single-family homebuilding in suburban counties.

Apartment Market Conditions

Apartment market conditions in the Chicago metropolitan area are currently balanced and have been since before 2010. Although the population has decreased in the Chicago metropolitan area since 2014, a propensity to rent among new and existing households along with rapid population growth previously described in The Loop and surrounding areas of downtown Chicago (where renting is more prevalent than owning) have contributed to ongoing balanced apartment market conditions.

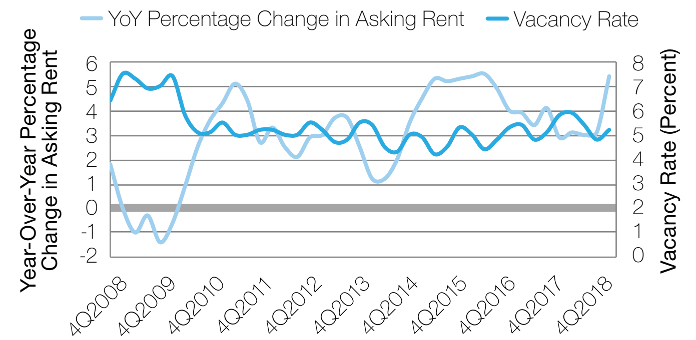
During the fourth quarter of 2018—

- The apartment vacancy rate was 5.2 percent, down from 5.8 percent a year earlier; the last time the apartment vacancy rate was above 6 percent was the first quarter of 2010 when the rate was 7.4 percent (RealPage, Inc.).
- Vacancy rates among 20 RealPage, Inc.-defined market areas that comprise the metropolitan area ranged from 3.5 percent in the Lake County/Kenosha area to 8.1 percent in the Arlington Heights/Palatine/Wheeling area. In The Loop area, the vacancy rate was 6.4 percent, down from 7.4 percent during the fourth quarter of 2017, despite the entry of more than 1,850 new apartment units into the market.
- The average asking rent in the metropolitan area was $1,492, more than 5 percent above the average a year earlier, after an increase of nearly 3 percent from average rents during the fourth quarter of 2016.
- Average asking rents ranged from $818 in the Gary/Hammond (Indiana) area to $2,393 in the Streeterville/Gold Coast area of Chicago. The fastest annual rate of rent growth was in the North Cook County and the Will County areas, where rents increased 8.5 and 8.3 percent, respectively. The second highest rent was in The Loop area with an average asking rent of $2,237, up 4 percent from a year earlier.

Developers have continued to build new apartments at the highest levels since the Great Recession but have slowed production since the 2017 high as the apartment market reached balanced conditions.

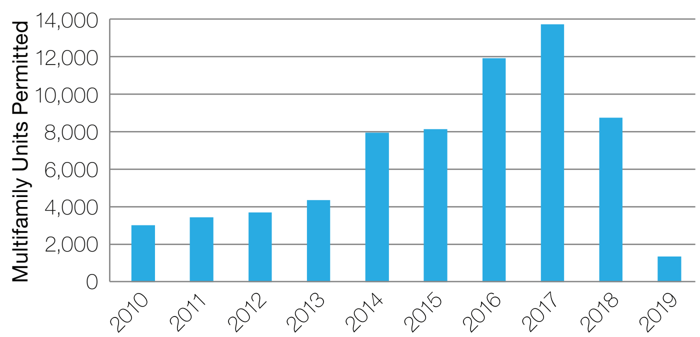
- During the 12 months ending February 2019, multifamily building activity, as measured by the number of units permitted, totaled 9,475 units, a decline of more than 25 percent compared with the 12,650 units permitted during the previous 12-month period (preliminary data).
- The 13,725 units permitted during 2017 was the highest level of multifamily units permitted since 15,800 units were permitted in 2007. Following a low of 1,725 units permitted during 2009, permitting averaged 3,625 annually from 2009 through 2013 and averaged 8,050 annually during 2014 and 2015, before expanding to 11,900 units during 2016.
- Since 2013, nearly two-thirds of multifamily units permitted in the Chicago metropolitan area have been in the city of Chicago. By contrast, from 2009 through 2013, approximately 57 percent of multifamily units permitted in the Chicago metropolitan area were in the city.
- By comparison, the percentage of multifamily units permitted in Kane County, Illinois, a suburban county west of the city of Chicago, has risen from less than 2 percent in 2014 to nearly 10 percent in 2017; at the same time, the population of Kane County has grown an average of 0.5 percent annually, faster than the average for the Chicago metropolitan area, and faster than all counties in the metropolitan area except Kendall County (also in Illinois).

The apartment vacancy rate in the Chicago metropolitan area has been below 6 percent since 2010; average asking rents have risen 2 percent or more since 2014.



4Q = fourth quarter.
YoY = year-over-year.
Source: RealPage, Inc.

Multifamily permitting activity in the Chicago metropolitan area had increased since 2010 and peaked during 2017 before slowing.



Note: Includes preliminary data from January 2018 through February 2019.
Source: U.S. Census Bureau, Building Permits Survey

- Multifamily units permitted for owner occupancy averaged 10 percent during 2017 and 2018, down from 12 percent averaged from 2010 through 2016. By contrast, from 2003 through 2007, nearly 70 percent of all multifamily permitting was intended for owner occupancy (estimates by the analyst).
- Recently completed apartment properties in the area include 727 West Madison, in the Near West Side area of Chicago, which opened in the fall of 2018 and includes 492 apartments. Studio, one-, two-, and three-bedroom unit rents start at $1,900, $2,665, $3,855, and $6,080, respectively. In West Dundee, in suburban Kane County, the Springs at Canterfield opened in late 2017 and includes 260 apartments, with rents starting at $1,232, $1,360, $1,568, and $1,779 for a studio, one-, two-, and three-bedroom unit, respectively.