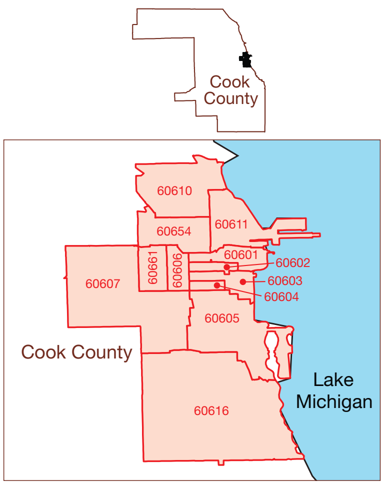
COMPREHENSIVE HOUSING MARKET ANALYSIS

Chicago Series Focus on: Downtown Chicago

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of May 1, 2018

Housing Market Area



The Downtown Chicago Housing Market Area (HMA) is part of Cook County, the central county of the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area (hereafter, Chicago MSA). The HMA is defined as the Chicago Community Areas of The Loop, Near West Side, Near South Side, and Near North Side. Situated along Lake Michigan, the HMA is a center for technology companies, financial services, and healthcare, as well as a major center for corporate headquarters in the Midwest. Of the 19 Fortune 500 companies in Cook County, 11 are in the HMA.

Market Details

Summary

Economy

In the Downtown Chicago HMA, business expansions and population growth has supported economic growth, especially since 2010. Nonfarm payrolls in Cook County increased during the 12 months ending April 2018 by 24,200 jobs, or 0.9 percent, to 2.76 million jobs following growth of 1.4 percent during the previous 12-month period. From 2011 through 2016, payrolls grew by an average of 41,600 jobs annually, or 1.6 percent. During the 3-year forecast period, nonfarm payrolls in Cook County are expected to increase an average of 0.9 percent annually, partly supported by business growth and demand for services from ongoing population increases.

Sales Market

Sales housing market conditions in the HMA are balanced, with an estimated vacancy rate of 1.8 percent, down from 9.0 percent in 2010. During the next 3 years, demand is estimated for 3,350 new homes (Table 1), accounting for all the demand in Cook County, nearly all which is likely to be for condominium units. Demand is expected to rise in the second and third years of the forecast period because of increased owner household growth. The 1,000 homes under construction in the HMA will satisfy some of the forecast demand. In addition, an estimated 1,500 condominium units are in various stages of planning.

Rental Market

Rental housing market conditions in the HMA are balanced, and the vacancy rate is estimated at 6.0 percent, down from 11.7 percent in 2010. Renter household growth outpaced apartment construction from 2010 through 2015, but construction surged beginning in 2016, leading to recent increases in apartment vacancy rates. During the forecast period, demand in the HMA is estimated for 8,075 new market-rate apartment units (Table 1), accounting for 65 percent of demand in Cook County. The 4,500 units under construction will meet demand during the first year and part of the second year of the forecast period. In addition, an estimated 8,825 units are in various stages of planning.

Table 1. Housing Demand in Cook County and the Downtown Chicago HMA During the Forecast Period

	Cook County		Downtown Chicago HMA	
	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	3,350	12,425	3,350	8,075
Under construction	1,420	5,900	1,000	4,500

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of May 1, 2018. The forecast period is May 1, 2018, to May 1, 2021.

Source: Estimates by analyst

Economic Conditions

The Downtown Chicago HMA developed as a transportation hub for water transit, linking the Mississippi River and the Great Lakes, before transforming into the nation's largest railroad hub during the late 19th century. Throughout its history, Chicago has been a center of wholesale and retail trade, provisioning the nation during its westward expansion and producing some of the nation's largest retailers, including Sears, Roebuck and Company; Marshall Field & Company; and Montgomery Ward & Co. During the 20th century, Chicago developed into a major manufacturing center, producing farm equipment, food, railroad cars, and steel. Today, Chicago is also a center of government, business, higher education, and healthcare.

During the 12 months ending April 2018, nonfarm payrolls in Cook County increased by 24,200 jobs, or 0.9 percent, to 2.76 million jobs, following growth of 1.4 percent, or 36,550 jobs, during the previous 12 months (Table 2). Nonfarm payrolls have expanded since 2011, following declines from 2007 through 2010, and during 2015, surpassed the prerecessionary peak of 2.65 million jobs in 2007. The unemployment rate, which peaked at 10.9 percent during 2010, averaged 5.2 percent during the past 12 months, down from 6.0 percent a year earlier. Figure 1 shows trends in labor force, resident employment, and the unemployment rate from 2000 through 2017.

From 2001 through 2010, the Cook County economy continued the shift that began during the previous decade from goods-producing jobs to service-providing jobs. Although employment in the service-providing sectors contracted by 5,700 jobs, or 0.3 percent, annually during the 2000s, the concentration of service-providing jobs grew from 84 to 89 percent because of

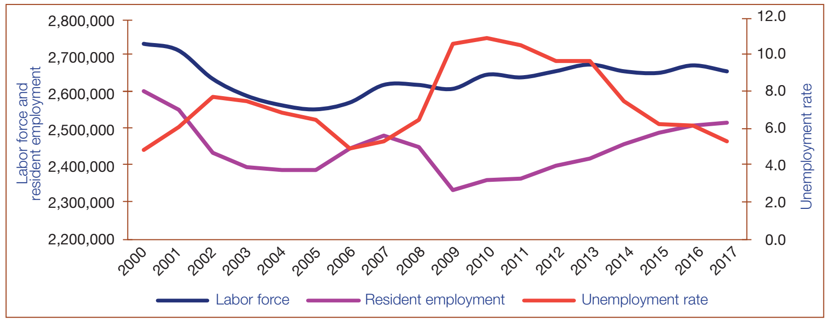
Table 2. 12-Month Average Nonfarm Payroll Jobs in Cook County, by Sector

	12 Months Ending		Absolute Change	Percent Change
	April 2017	April 2018		
Total nonfarm payroll jobs	2,737,800	2,762,000	24,200	0.9
Goods-producing sectors	272,200	276,400	4,200	1.5
Mining, logging, and construction	79,700	80,100	400	0.5
Manufacturing	192,500	196,300	3,800	2.0
Service-providing sectors	2,465,600	2,485,600	20,000	0.8
Wholesale and retail trade	392,400	398,000	5,600	1.4
Transportation and utilities	132,200	134,100	1,900	1.4
Information	55,900	54,300	– 1,600	– 2.9
Financial activities	205,200	210,100	4,900	2.4
Professional and business services	491,300	483,600	– 7,700	-1.6
Education and health services	481,600	491,300	9,700	2.0
Leisure and hospitality	276,200	284,400	8,200	3.0
Other services	115,700	114,500	– 1,200	– 1.0
Government	313,000	313,100	100	0.0

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through April 1, 2017 and April 1, 2018.

Source: Economic Information and Analysis, Illinois Department of Employment Security

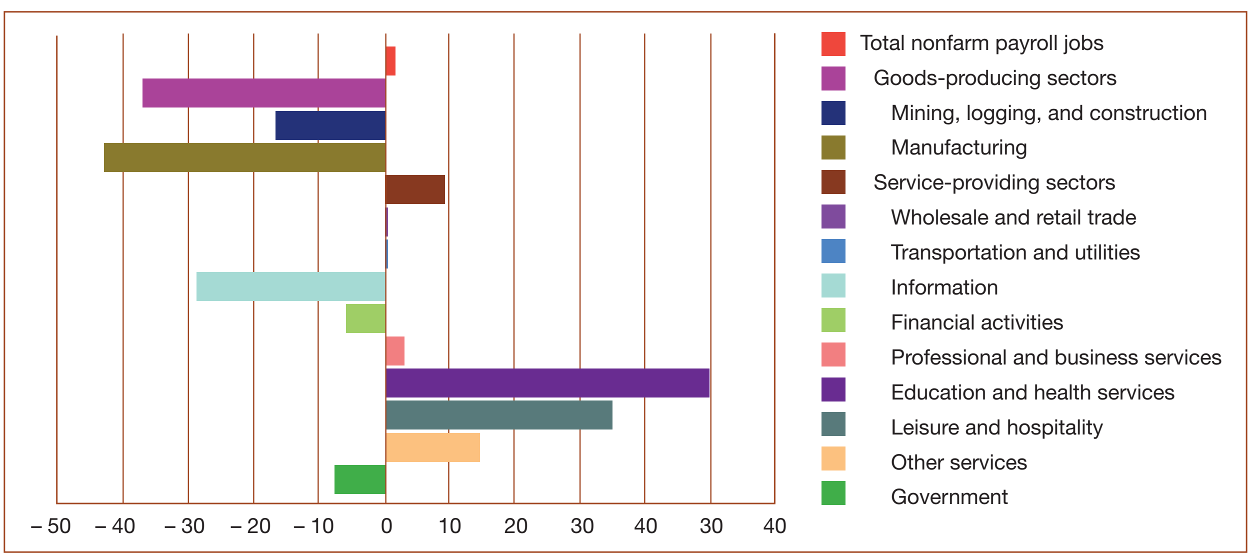
Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in Cook County, 2000 Through 2017



Source: U.S. Bureau of Labor Statistics

larger losses in the manufacturing sector. Figure 2 shows nonfarm payroll sector growth since 2000. From 2001 through 2004, the number of nonfarm payroll jobs in Cook County fell by 27,200 jobs, or 1.0 percent, annually, and manufacturing jobs comprised 75 percent of the net job loss at 20,300, or 6.5 percent, annually. An average of 1,200 jobs added annually in the mining, logging, and construction sector, which represented growth of 1.2 percent, partially offset manufacturing job losses. At the same time, the education and health services sector added 7,400 jobs, or 2.2 percent, annually. From 2005 through 2007, the economy expanded, and nonfarm payrolls rose by 16,000 jobs, or 0.6 percent, annually. Growth of 21,800 jobs annually in the service-providing sectors offset average losses of 5,800 jobs each year in the goods-producing sectors. The professional and business services and the leisure and hospitality sectors, which increased by averages of 11,100 and 5,300 jobs annually, or 2.6 and 2.4 percent, respectively, led job growth. During the period, the manufacturing sector lost 5,700 jobs, or 2.2 percent, annually, and jobs in the government sector declined by 5,100 jobs, or 1.6 percent, annually. In the manufacturing sector, layoffs were widespread

Figure 2. Sector Growth in Cook County, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through April 2018.

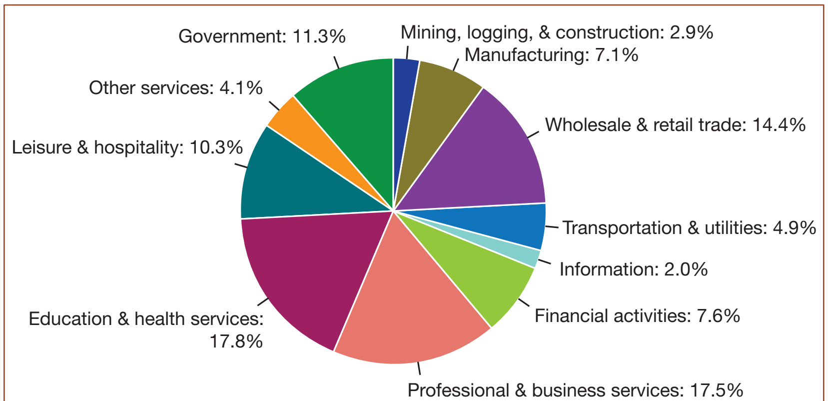
Source: Economic Information and Analysis, Illinois Department of Employment Security with food manufacturing strongly represented, including 345 jobs lost at Kraft Foods Inc., 300 jobs lost at Royal Crown Bottling Company during 2005, and 150 layoffs at the American Licorice Company during 2006. In the government sector, the Chicago Transit Authority laid off 1,050 employees during 2005.

The local economy began to contract during 2008. Nonfarm payroll losses from 2008 through 2010 averaged 2.3 percent, representing an annual decline of 59,000 jobs, well above the 1.6-percent annual job-loss rate for the nation. During 2009, the worst year for the economy in Cook County, 121,300 jobs were lost, a 4.6-percent decline. From 2008 through 2010, the number of manufacturing jobs fell by an average of 16,700 jobs, or 7.3 percent, annually. The only sector to increase during the 3-year period was the education and health services sector, which gained 11,000 jobs, or 2.9 percent, annually; slightly more than one-half of the job gains were in the healthcare and social assistance industries and the balance among educational service industries. The manufacturing sector constituted nearly 13 percent of nonfarm payrolls in Cook County during 2000, making it the third largest payroll sector. As a result of losses during the decade, the manufacturing sector shrank, becoming the seventh largest payroll sector by 2010 and currently accounting for slightly more than 7 percent of nonfarm payrolls (Figure 3).

Economic conditions in Cook County have improved for more than 7 consecutive years, and nonfarm payrolls have increased by an average of 38,800 jobs, or 1.5 percent, annually since 2011. Approximately 97 percent of nonfarm payroll growth from 2011 to the current date has been in the service-providing sectors, which have expanded by an average of 37,500 jobs a year. Since 2011, the education and health services, the leisure and hospitality, and the professional and business services sectors have added 11,700, 7,800, and 7,000 jobs annually, representing growth of 2.7, 3.1, and 1.6 percent, respectively. By comparison, the government sector declined by 1,100 jobs, or 0.3 percent, annually, and the payrolls in the manufacturing sector remained essentially unchanged. Employment at technology companies in Chicago grew 15 percent to nearly 48,000 jobs in 2017 from 41,000 in 2016, including more than 300 jobs added at advertising technology firm Performics, 120 jobs added at cloud-based software developer NetSuite, and 60 jobs added by online lender OppLoans (www.builtinchicago.org). Ten percent of computer science degrees earned in the United States during 2016 were awarded in the state of Illinois, providing workers to help fill these jobs (Illinois Science and Technology Coalition).

During the 12 months ending April 2018, the education and health services sector, which

Figure 3. Current Nonfarm Payroll Jobs in Cook County, by Sector



Note: Based on 12-month averages through June 2018.
Source: U.S. Bureau of Labor Statistics

increased by 9,700 jobs, or 2.0 percent, from the previous 12 months, led nonfarm payroll growth in Cook County. Growth in this sector is primarily because of increased employment at hospitals. Ann & Robert H. Lurie Children's Hospital of Chicago is in the process of expanding from 288 to 360 beds, with a construction cost of more than $51 million and expected completion by the summer of 2018. In addition, Lurie is adding a research facility adjacent to its hospital campus and is hiring nurses, therapists, and other staff. The University of Chicago Medical Center opened a new trauma center in the Near South Side neighborhood of the HMA in the spring of 2018, adding 188 beds to its medical campus. Rush University Medical Center is building a $500 million outpatient center in the Near West Side neighborhood of the HMA that is scheduled to open in 2020. This new facility is adjacent to its main hospital, which was completed in 2012 and constructed at a cost of approximately $683 million. Rush University reports total student enrollment increased from approximately 1,925 in the fall of 2010 to 2,575 in the fall of 2017 and is currently filling nearly 2,000 medical and nonmedical jobs. Table 3 lists the largest employers in the HMA.

Table 3. Major Employers in the Downtown Chicago HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
U.S. Government	Government	42,663
City of Chicago	Government	30,754
Cook County	Government	20,716
Advocate Health Care	Education & health services	18,930
University of Chicago	Education & health services	16,374
Northwestern Memorial Healthcare	Education & health services	15,747
JPMorgan Chase & Co.	Financial activities	15,229
United Continental Holdings Inc.	Transportation & utilities	15,157
State of Illinois	Government	13,524
Walgreens Boots Alliance Inc.	Wholesale & retail trade	12,685

Note: Excludes local school districts.

Source: Crain's Chicago Business, *as of December 31, 2016*

The fastest growing sector in Cook County during the 12 months ending April 2018 was the leisure and hospitality sector, which expanded 3.0 percent, adding 8,200 jobs. Significant growth in this sector occurred, because the city received more than 55 million domestic and international visitors during 2017, a new record, following 53.9 million visitors during 2016 (Chicago Mayor's Office; choosechicago.com). Five new hotels with nearly 730 new rooms opened in the HMA during 2017, and 7 more hotel properties with a combined 1,150 rooms are scheduled to open during 2018. Additional hotel development is under way elsewhere in Cook County but outside of the HMA. The number of accommodation and food service establishments in the HMA rose from 1,610 in 2010 to 1,859 in 2016 (U.S. Census Bureau, ZIP Code Business Patterns). During the same time, the number of workers in accommodation and food service establishments for all Cook County rose more than 3 percent annually from 191,700 during 2010 to 235,000 during 2016 (Quarterly Census of Employment and Wages).

During the 3-year forecast period, nonfarm payrolls are expected to increase an average of 0.9 percent, or by 25,000 jobs, annually. Job growth is expected to continue in the education and health services sector, with expansions including the hiring discussed above. The leisure and hospitality sector will continue to grow when new hotels open during 2018 and 2019. Jobs in the professional and business services sector are expected to increase during the next 3 years. In late 2017, Facebook, Inc., began planning to more than quadruple its current office space, adding sufficient room to hire approximately 500 workers, although no official announcement of hiring has been made. In the summer of 2017, Amazon.com, Inc. announced plans to double its current staff of 200 in The Loop neighborhood in the HMA within a year. Chicago is among 20 cities in North America vying for Amazon's second headquarters location, with an announcement expected by the end of 2018.

Population and Households

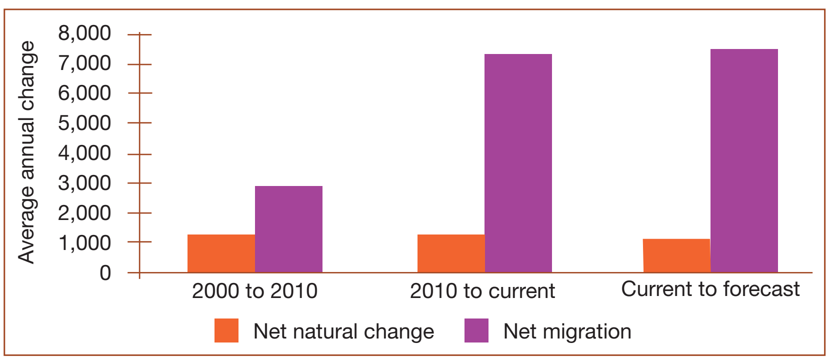
The population of the Downtown Chicago HMA is estimated at 255,100 as of May 1, 2018 (Table DP-1 at the end of this report). The HMA accounts for approximately 5 percent of the population in Cook County, which has a current population of nearly 5.18 million. Since 2000, job growth led to increased net in-migration and overall population growth in the HMA. Net in-migration accounted for more than 80 percent of the population growth in the Downtown Chicago HMA, despite overall net out-migration in Cook County.

From 2000 to 2010, a period that encompassed economic growth and two national recessions, population growth in the HMA averaged 4,100, or 2.5 percent, a year. Average annual net in-migration of 2,875 people accounted for 70 percent of population growth during the period. In contrast to the growth in the Downtown Chicago HMA, the population in Cook County declined by 18,200, or 0.3 percent, annually, as average annual net out-migration of 56,200 people exceeded an increase in net natural change (resident births minus resident deaths) of 38,000 people. Following the most recent recession, the rate of population growth increased since 2010 in the HMA. Average home sale prices in the HMA fell from 2010 through 2013, encouraging more households to live closer to downtown employment centers and recreational amenities. Local officials indicate that stronger population growth was a result of people wanting to remain closer to the downtown employment center, with shorter commutes and access to the city's public transit system. In addition, corporations began moving offices from outlying regions of the Chicago MSA to downtown Chicago. Google consolidated its employees to the Near West Side in 2015, and McDonald's Corporation will move its entire headquarters from Oak Brook to the Near West Side in the summer of 2018. Both companies indicated that interest in attracting top talent to a dynamic urban center influenced their moves (Google press release, 2015; McDonald's press release, 2017). The movement of businesses to the HMA encouraged more population growth. Since 2010, population growth in the HMA averaged 8,550, or 4.0 percent, annually, and net in-migration of 7,325 people annually comprised 85 percent of population growth. The entirety of Cook County also benefited from the employment growth and movement of businesses to the downtown core. The rate of population decline in Cook County slowed since 2010 to 2,475 annually, as net out-migration fell to 31,400 people annually from

56,200 people annually during the previous decade. Figure 4 shows components of population change in the HMA from 2000 to the forecast date.

During the next 3 years, the population of the HMA is expected to increase by an average of 8,575, or 3.3 percent, a year (Figure 5), reflecting anticipated net in-migration of 7,450 people annually, or more than 86 percent of total population growth. The population of the Downtown Chicago HMA is expected to reach 280,800 at the end of the 3-year forecast period and account for more than 5 percent of the total population in Cook County. By comparison, the rate of net out-migration from Cook County is expected to increase during the next 3 years to 40,500 people annually, leading to a total population decline of 14,650, or 0.3 percent, annually.

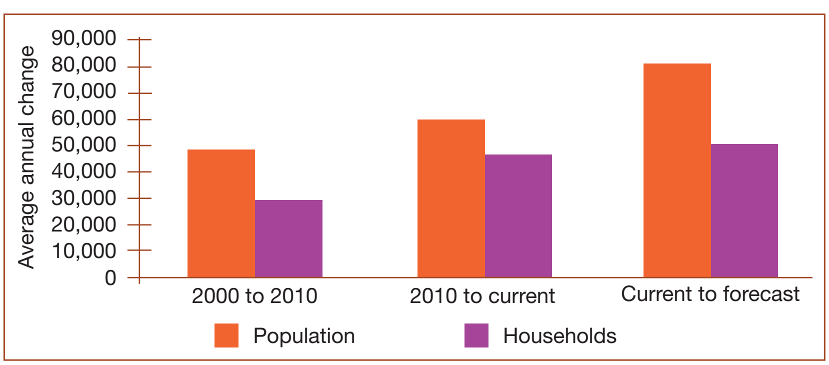
Figure 4. Components of Population Change in the Downtown Chicago HMA, 2000 to Forecast



Notes: The current date is May 1, 2018. The forecast date is May 1, 2021.

Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Population and Household Growth in the Downtown Chicago HMA, 2000 to Forecast



Notes: The current date is May 1, 2018. The forecast date is May 1, 2021.

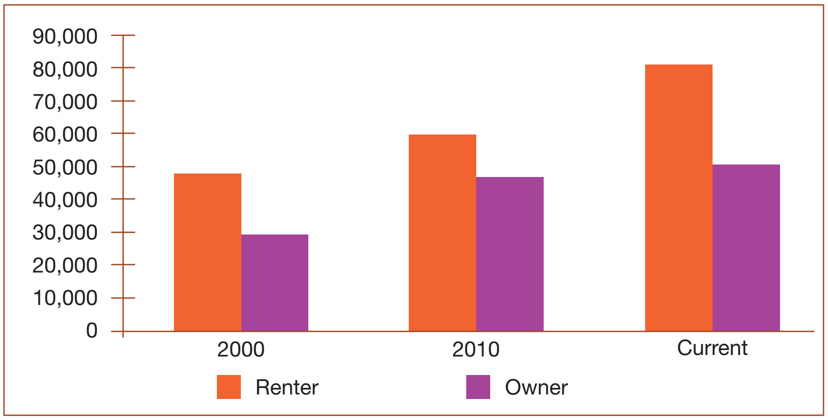
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Since 2010, the rate of population growth in the HMA has exceeded the rate of household growth. The number of households in the HMA grew by 3,200, or 2.7 percent, annually to 131,400, and population grew an average of 4.0 percent annually. By comparison, population and households grew 2.5 and 3.2 percent, respectively, during the previous decade. Job declines and a relatively weaker economy during the latter half of the 2000s coupled with rising housing costs inhibited new household formation. Increases among foreign-born and student populations, which rose from 16.5 to 18.1 percent and from 15.1 to 17.1 percent, respectively, of the population in the HMA contributed to faster population growth, as both groups generally have households that are larger than the national average (Census Bureau population estimates as of July 1).

The Downtown Chicago HMA has traditionally had a lower homeownership rate compared with Cook County because of higher housing costs relative to income levels and the nature of large cities, where renter housing is often a more common choice than in suburban or rural locations. The homeownership rate in the HMA rose from 38.2 to 43.8 percent from 2000 to 2010, partly because of increased purchases that peaked in 2005 and 2006 before falling. During the period, the homeownership rate in Cook County also rose slightly to 58.2 percent from 57.9 percent. Since 2010, even with stronger economic conditions in the HMA, the homeownership rate declined to 38.5 percent in the Downtown

Chicago HMA and 55.5 percent in Cook County. Household preferences, including growth among foreign-born and student populations who tend to rent, helped to shift demand to rental housing. Total owner and renter households in the Downtown Chicago HMA account for 5 and 9 percent, respectively, of owner and renter households in Cook County compared with 2010 when the HMA accounted for 4 and 7 percent of the county's owner and renter households. Figure 6 shows the number of households by tenure in the HMA since 2000.

Figure 6. Number of Households by Tenure in the Downtown Chicago HMA, 2000 to Current



Notes: The current date is May 1, 2018.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

During the forecast period, the number of households in the HMA is expected to grow by an average of 3,475, or 2.6 percent, annually to 141,800, accounting for 7 percent of total households in Cook County. The proportion of renter households in the HMA is currently 61.5 percent, up from 56.2 percent in 2010, and is expected to increase to nearly 63 percent of total households by the end of the forecast period.

Housing Market Trends

Sales Market

The sales housing market in the Downtown Chicago HMA is currently balanced, with an estimated sales vacancy rate of 1.8 percent, down from 9.0 percent in 2010. Increased population growth and limited condominium construction since the early 2010s has contributed to improving sales market conditions. The for-sale inventory for new and existing single-family homes, townhomes, and condominiums in the HMA fell from 8,550 in March 2017 to 7,700 in March 2018, a 10-percent decline (Illinois Realtors®) and equivalent to a 2-month supply of homes for sale. Home sales in the HMA increased to 9,000 homes sold during the 12 months ending March 2018, up nearly 10 percent compared with the previous 12 months, led by a sharp rise in regular resales (Metrostudy, A Hanley Wood Company). The average home sales price fell nearly 13 percent to $337,000 following a surge of higher value sales during late 2015 and early 2016. Changes in regular resale trends led fluctuations in home sales and prices, because resales comprise 94 percent of overall sales in the HMA.

Condominiums comprise the majority of home sales in the HMA, averaging 66 percent of sales in 2005 and rising to 86 percent of sales during 2017 (Metrostudy, A Hanley Wood Company). By comparison, condominium sales were 34 percent of total home sales in Cook County during 2005 and rose to 41 percent in 2017. Condominium sales in the HMA rose 16 percent annually from a low of 2,750 during 2010 to 6,650 during 2016, before increasing a further 12 percent annually to approximately 7,675 condominiums sold during the 12 months ending March 2018. By comparison, an average of 7,050 condominiums sold annually during 2005 and 2006 (Metrostudy, A Hanley Wood Company). Condominium sales prices in the submarket averaged $307,200 during the 12 months ending March 2018, a decrease of 10 percent from a year earlier but 10 percent higher than the recent low of $278,300 in 2012. Because condominium sales comprise most of the total sales volume in the HMA, like with the overall sales prices, the recent decline is because of a large number of higher priced sales during early 2016. Condominium sales prices are partly constrained by increasing association fees, which add to monthly homeowner costs. Approximately 18 percent of homeowners in the Chicago MSA pay a homeowner's assessment fee, and the average fee increased 27 percent from 2005 to 2015 (Trulia.com). In addition, average monthly fees for units in buildings with 50 or more units were $330 higher than average homeowner association fees for attached single-family homes in the nation. Approximately 76 percent of housing units in the HMA are in buildings with 50 or more units (2016 American Community Survey [ACS] 1-year data).

Existing home sales (which include regular resales and real estate owned [REO] sales) in the HMA declined from 2005 through 2008 and have generally increased each year since. From a prerecession high of 6,250 existing home sales during 2005, sales fell nearly 15 percent, or by 780 sales annually, to a recent low of 3,900 sales during 2008 (Metrostudy, A Hanley Wood Company). Since 2008, existing home sales have risen; the increase was slower through 2011, with increases averaging nearly 5 percent annually. After 2011, the year that economic conditions began to improve in the HMA, sales grew more rapidly, increasing nearly 31 percent annually to 7,600 sales during 2013. Since 2013, increases in existing sales have been more gradual, averaging 2 percent annually to 8,050 sales during 2016. During the 12 months ending March 2018, existing home sales averaged 8,825, up 11 percent from the 7,950 sales recorded a year earlier. Declining REO sales impacted existing sales counts in the HMA. REO sales, which totaled 60 during 2005, rose steadily to 1,050 during 2012, averaging 50-percent annual increases each year. Although the greatest number of REO sales was recorded during 2012, the proportion of REO sales peaked during 2010 at 17 percent of all existing sales in the HMA. By comparison, REO sales constituted 25 percent of existing home sales in Cook County during 2010.

The average sales price for existing homes peaked during 2008 at $406,900, the same year that economic conditions in the HMA began to decline, and fell an average of more than 7 percent annually to a recent low of $299,500 during 2012. The prevalence of REO sales, which peaked as a proportion of all existing sales during 2010 and in actual sales during 2012, impacted average sales prices, particularly in the period of rapidly declining prices from 2008 through 2012. From 2008 through 2012, the average REO sales price was only 56 percent of the average sales price for all existing homes. From 2012 through 2016, when the economy improved, the average existing home sales price increased 6 percent annually to $379,300.

During the 12 months ending March 2018, the average sales price for existing home sales was $337,100, approximately 13 percent below the average price of $375,300 recorded a year ago because of a number of higher-priced sales during late 2015 and early 2016.

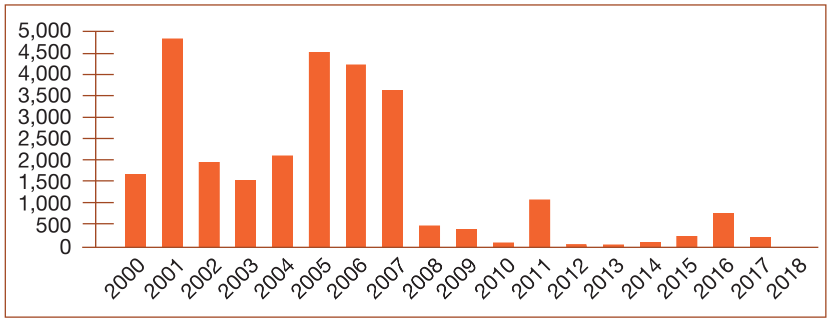
The recovery in economic conditions and in the sales market since 2011 led to a reduction in the rate of seriously delinquent mortgages (loans that are 90 or more days delinquent or in foreclosure) and properties that had transitioned to REO status in the HMA. As of March 2018, 0.8 percent of home loans in the HMA was seriously delinquent or had transitioned to REO status, down from 1.0 percent a year earlier (CoreLogic, Inc.). The rate of seriously delinquent loans and REO properties peaked in April 2011 at 5.7 percent of home loans compared with a national peak of 8.6 percent during February 2010. The rate in March 2018 is significantly lower than the 2.2-percent rate for Illinois and the nation.

New home sales have been generally decreasing since the recent high in 2005, partly because multifamily construction has slowly shifted from owner to renter. In addition, the influx of foreign-born residents and students who moved to the HMA in greater numbers supported the general trend from owner to renter tenure that occurred in the latter half of the past decade after the Great Recession and its impacts on mortgage lending. The 180 new home sales during the 12 months ending March 2018 were 28 percent lower than the 250 sales a year earlier and far below the peak of 4,725 new homes sold during 2005 (Metrostudy, A Hanley Wood Company). From the recent peak in 2005, new home sales declined 19 percent annually to 1,600 homes sold in 2010, as economic conditions worsened. From 2011 through 2013, new home sales averaged 630 annually before declining further to an average of 320 a year from 2014 through 2016.

The slowing of new home sales reflects the overall decline in condominium construction in the HMA. Construction of condominiums in the submarket, as measured by the number of condominiums permitted, averaged 3,050 units annually from 2000 through 2007 (Figure 7), and condominiums represented 71 percent of all multifamily permitting during the period. From 2008 through 2017, condominium permitting fell to an average of 330 units annually and accounted for only 28 percent of all multifamily construction. New condominium sales also declined precipitously during this period. From 2005 through 2007, new condominium sales in the HMA peaked at an average of 4,000 annually. From 2008 through 2010, new condominium sales fell to an average of 2,000 annually before declining further to an average of 610 units annually from 2011 through 2013. Since 2013, new condominium sales have averaged 250 annually. Despite increased prices, builders have not increased condominium construction. Approximately 140 condominiums were permitted during the 12 months ending April 2018, down from 570 permitted during the previous 12 months and accounting for approximately 5 percent of all multifamily permitting. Builders are developing new rental housing instead of condominiums in the HMA.

Approximately 65 percent of new home sales during the 12 months ending March 2018 were condominiums, and the average new condominium

Figure 7. Condominiums Permitted in the Downtown Chicago HMA, 2000 to Current



Notes: Includes townhomes. Current includes data through April 1, 2018.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

sales price was $1.44 million, up significantly from $758,200 a year earlier (Metrostudy, A Hanley Wood Company). Much of the new condominium development in the HMA is in higher priced, "boutique" condominium properties. The Vista Tower, which began construction in late 2016 and is scheduled for completion in 2020, reports approximately 40 percent of 396 units are presold, with sales prices from $1 million to more than $10 million. One Bennett Park, which includes 69 condominium units and 279 apartments, is expected to be complete in 2019, and condominium prices range from $2 to $15 million. With relatively low total sales of new condominiums, sales at higher priced properties impacts average sales figures, making comparisons challenging. From 2005 through 2008, new home sales prices rose an average of 10 percent annually to $575,700, before dropping sharply to $473,700 during 2009, the lowest recent value and a 1-year decline of nearly 18 percent. From 2009 through 2016, new home sales prices fluctuated but generally rose, averaging annual increases of 4 percent to an average of $641,500 during 2016.

Since 2015, homebuilding in the HMA has been primarily of luxury highrise condominiums. Construction is under way at Renelle on the River, a 50-unit condominium building, with units ranging from 1,827 to 3,434 square feet and priced from $1.3 million. In addition, construction began in June 2017 at the 79-condominium development called Illume in the West Loop, offering one- to four-bedroom units ranging in size from 558 to 3,701 square feet. Prices for one-bedroom units start at $200,000, and three- and four-bedroom units range from $650,000 to $2.5 million.

During the next 3 years, demand is expected for 3,350 new homes in the HMA (Table 1). Condominiums are expected to comprise more than 95 percent of home construction in the HMA. The 1,000 homes currently under construction will meet a portion of the demand. The existing

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Downtown Chicago HMA During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
250,000	299,999	340	10.0
300,000	399,999	500	15.0
400,000	499,999	840	25.0
500,000	749,999	840	25.0
750,000	999,999	500	15.0
1,000,000	and higher	340	10.0

Notes: Numbers may not add to totals because of rounding. The 1,000 homes currently under construction in the HMA will likely satisfy some of the forecast demand. The forecast period is May 1, 2018 to May 1, 2021.

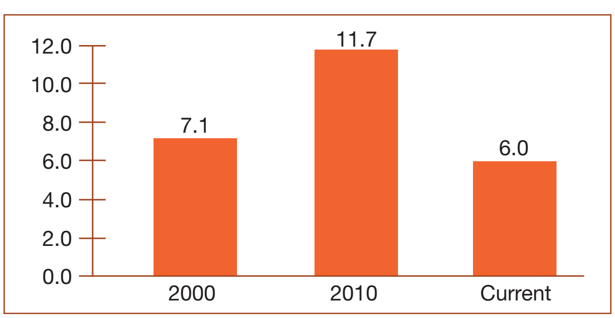
Source: Estimates by analyst

historic St. Boniface Church is to be converted to condominiums starting in July 2018. The original building will house 17 condominiums, and two new adjacent buildings will house 24 additional units, of which 4 will be affordable. Sales prices have not been released. Table 4 shows estimated demand in the HMA by price range.

Rental Market

The rental housing market in the Downtown Chicago HMA is balanced. The overall rental vacancy rate is estimated at 6.0 percent, down from 11.7 percent in 2010 (Figure 8). The vacancy rate declined, because rental household growth exceeded growth in rental inventory, although a surge in apartment construction in the past 2 years has led to a rise in vacancy rates since 2016. Approximately 82 percent of renter households live in multifamily buildings, typically apartment communities with 20 or more units, and 14 percent of renter households live in buildings with 3 to 19 units (2016 ACS 1-year data, with adjustments by the analysts). Strong demand for apartment units due to increased net in-migration contributed to rent growth and declining vacancy rates during the early 2010s. However, new apartment supply has outpaced absorption in the HMA since the third quarter of 2016. During the past year, apartment completions totaled 4,400 units, the highest number since before 2000, and apartment market conditions are now balanced to slightly soft. The apartment vacancy rate rose to 7.4 percent, as of the first quarter of 2018, from 6.4 percent 1 year earlier (RealPage, Inc.). Many new apartment communities are still in lease up, and the proportion of apartments offering concessions increased from 33 percent to 38 percent. Although the average concession remains below 1 month free with a 1-year lease, the value of concessions is increasing (RealPage, Inc.). Rent growth averaged 5 percent annually from the first quarter of 2013 through the first quarter of 2016 but fell to 1 percent during the first quarter of 2017, and during the first quarter of 2018, average rents remained unchanged from a year earlier at $2,135.

Figure 8. Rental Vacancy Rates in the Downtown Chicago HMA, 2000 to Current



Note: The current date is May 1, 2018.

Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

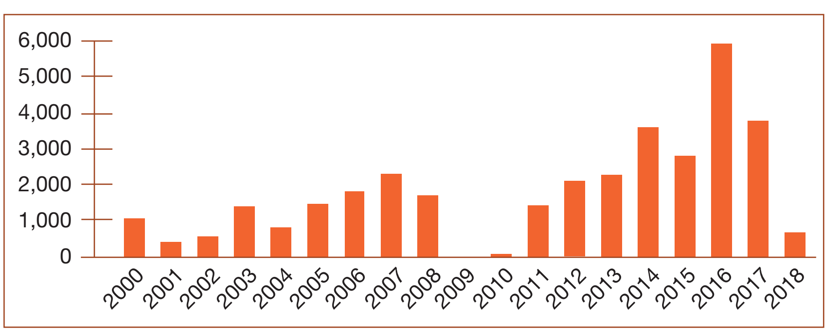
Student households comprise an estimated 14 percent of renter households in the HMA. Approximately 58,000 students are enrolled at more than 20 different educational institutions in the HMA, and 44,350 students live off campus. Colleges and universities in the HMA include Columbia College with nearly 7,500 students (2018), the School of the Art Institute of Chicago with 3,650 students (2017), and Robert Morris University with 2,675 students (2016). In the RealPage, Inc.-defined The Loop market area, which includes most downtown student apartments, the apartment vacancy rate was 7.5 percent during the first quarter of 2018, up from 6.4 percent a year earlier, and rents remained stable, averaging $2,135. Apartments that admit students from most accredited colleges or universities make up some of the student housing in the HMA. During the fall of 2017, The Plymouth opened, with 30 units of varying bedroom sizes, and rents from $849 for a shared bedroom and $1,199 for a private bedroom in a multiple-bedroom unit. This model for student housing has been duplicated in the HMA in at least four other student apartments, totaling more than 500 units and providing housing for more than 1,000 students.

Since 2010, the HMA has accounted for 37 percent of all multifamily building activity in Cook County compared with 12 percent during the previous decade. Apartment construction in the HMA has surged since 2007 and now constitutes the majority of multifamily construction. In response to strong renter household growth and declining vacancy rates, apartment construction activity, as measured by the number of units permitted, increased sharply beginning in 2011 (Figure 9). The average of 2,550 units permitted each year from 2011 through 2016 was more than double the average of 1,000 units permitted annually from 2000 through 2010, and the 5,900 multifamily units permitted in 2016 represent the highest annual total since at least 2000. Multifamily construction activity fell during the past year, however. Approximately 2,900 units were permitted during the 12 months ending April 2018, down from approximately 5,900 units permitted a year earlier, as builders slowed development activity due to the large number of units under construction (preliminary data, with adjustments by the analysts).

Apartment projects recently completed or under way include Emme in the Near West Side, with 199 units completed in late 2017. Studio, one-bedroom, and two-bedroom apartments at Emme have rents starting at $1,875, $2,390, and $3,295, respectively. The 265-unit Linea apartments in The Loop also opened in late 2017. Rents start at $1,945, $2,210, $3,370, and $5,110 for studio, one-bedroom, two-bedroom, and three-bedroom units, respectively. Among the 4,500 units currently under construction in the HMA, One Bennett Park in the Near North Side is scheduled for completion in early 2019. One Bennett Park will include 69 condominiums for sale and 279 apartments. In the summer of 2017, construction began at 1326 South Michigan Avenue in the Near South Side and will include approximately 500 new apartments on completion in mid-2019. Rents and unit configurations for the properties under construction are not yet available.

During the 3-year forecast period, demand is expected for 8,075 new market-rate rental units in the HMA (Table 1), accounting for 65 percent of demand in Cook County. The 4,500 units currently under construction will satisfy rental housing demand during the first year and a portion of the second year of the forecast

Figure 9. Apartment Units Permitted in the Downtown Chicago HMA, 2000 to Current



Notes: Includes townhomes. Current includes data through April 2018.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst period. Approximately 43 percent of the units under construction in Cook County are in the HMA. In addition, an estimated 8,825 new apartment units are in various stages of planning. Table 5 shows estimated demand for new market-rate rental housing in the HMA by rent level and number of bedrooms.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Downtown Chicago HMA During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand
1675 to 1874	680	2150 to 2349	580	3100 to 3299	250	3750 to 3949	35
1875 to 2074	900	2350 to 2549	770	3300 to 3499	340	3950 to 4149	50
2075 or more	680	2550 to 2749	770	3500 to 3699	340	4150 to 4349	50
		2750 to 2949	770	3700 to 3899	340	4350 to 4549	50
		2950 to 3149	580	3900 to 4099	250	4550 to 4749	35
		3150 or more	390	4100 or more	170	4750 or more	25
Total	2,250	Total	3,875	Total	1,700	Total	240

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 450 units currently under construction will likely satisfy some of the estimated demand. The forecast period is May 1, 2018 to May 2021.

Source: Estimates by analyst

Data Profile

Table DP-1. Downtown Chicago HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	145,127	186,038	255,100	2.5	4.0
Total households	76,994	105,556	131,400	3.2	2.7
Owner households	29,397	46,253	50,550	4.6	1.1
Percent owner	38.2%	43.8%	38.5%		
Renter households	47,597	59,303	80,850	2.2	3.9
Percent renter	61.8%	56.2%	61.5%		
Total housing units	88,319	127,943	147,200	3.8	1.7
Sales vacancy rate	3.5%	9.0%	1.8%		
Rental vacancy rate	7.1%	11.7%	6.0%		

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through April 2018. The current date is May 1, 2018.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census

2010: 4/1/2010—U.S. Decennial Census

Current date: 5/1/2018—Estimates by the analysts

Forecast period: 5/1/2018–5/1/2021—Estimates by the analysts

The metropolitan statistical area definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analysts, through diligent fieldwork, make an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_DowntownChicagoIL_18.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.