

Chicago Rent and Vacancy Report



Softening Conditions in the Chicago Rental Market

EXECUTIVE SUMMARY

- The weakened local economy¹ has significantly affected the rental apartment market. Since the second half of 2007, overall vacancy rates in the city of Chicago have increased from 5% to 5.7% in 2008, and to 6.2% in the second quarter of 2009.
- Low-income rental markets have been among those in the city of Chicago hardest hit by the downturn. Vacancy rates in these markets have increased from 6.5% in 2007 to 8.2% in the second quarter of 2009.
- Rental markets in the North submarket have been quite resilient. These markets (which include Uptown and Rogers Park) have actually experienced a slight decrease in vacancies from 4.9% in 2008 to 4.6% in the first quarter of this year, and to 3.9% in the second quarter. (Submarket map is shown on page 4.)
- Rental markets in the South and West submarkets have recorded an increase in vacancies from 6.8% in 2007 to 7.3% in 2008, to 7.9% in the first quarter of 2009, and to 8.6% in the second quarter, on average.
- We expect continued weakness in the local rental apartment market in view of the struggling economy and poor job market.

OVERALL MARKET CONDITIONS

Reflecting national trends, the rental apartment market in the city of Chicago is in the midst of a downturn.² One reason is related to the job market. Job losses in the eight-county Chicago metropolitan area, which includes Naperville and Joliet, totaled nearly 440,000 in May 2009, the highest level since February 1983, and are expected to rise throughout the rest of 2009 and into 2010.

These job losses have negatively affected the rent-to-income ratios of many renter households (by lowering incomes), and have caused some households to double up or move back with family members, reducing the rate at which new households are formed and leading to higher rates of vacancies. In the second half of 2007, vacancy rates in the rental apartment market in Chicago were around 5%. Since then (with the rise in unemployment), vacancy rates have been on the rise, increasing to 5.7% in 2008 and 6.2% in the second quarter of 2009.

As a result of these higher vacancy rates, rents in the Chicago apartment market, which had been increasing since 2008, have fallen in real terms by about 1.5% since the beginning of the year, from \$877 in the first quarter to \$866 in the second quarter.³ (See Figure 1.) This negative rental growth rate trend is expected to continue throughout 2009 and into 2010, amid continued job losses and rising unemployment (and amid a rise in the average duration of unemployment, which should cause households to reduce consumer spending even further).

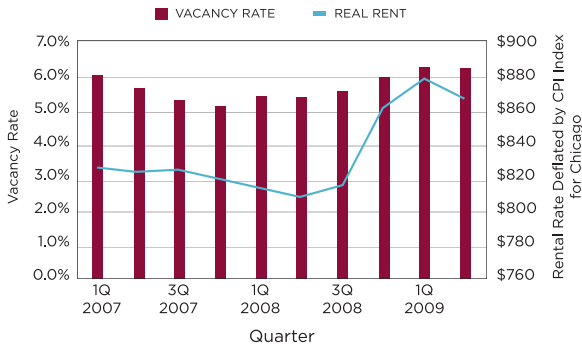
Note Regarding Data:

The IHS rent and vacancy index is a statistical estimate that is subject to sampling error. The index relies heavily on data on properties listed for sale, which may not be representative of the overall market. While the rent data used for the index includes contract rent for all sizes of multifamily buildings, vacancy data were largely based on two-to-four unit buildings, which may have lower vacancy rates than the overall market.

IHS will calculate and publish estimates of rents and vacancies for Chicago quarterly using the same methodology but different samples.

Figure 1

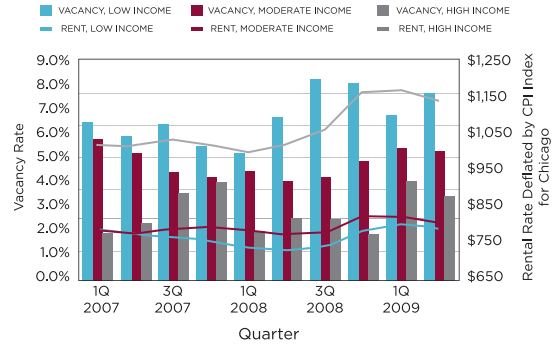
CHICAGO CITYWIDE RENT AND VACANCY RATE
2007Q1 - 2009Q2



SOURCE: IHS CHICAGO RENT AND VACANCY INDEX, 2009Q2

Figure 2

RENTS AND VACANCY RATES
BY CITY OF CHICAGO INCOME SUBMARKETS, 2007Q1 - 2009Q2



SOURCE: IHS CHICAGO RENT AND VACANCY INDEX, 2009Q2

SUBMARKETS ARE BEING AFFECTED DIFFERENTLY

Income Submarkets⁴

Low-income rental apartment markets in Chicago have suffered more so than moderate- and high-income rental markets over the past year. (See Figure 2.) Since the second quarter of 2008, vacancy rates in low-income markets have averaged 8.2%, up from 6.4% in the first half of 2008, and from 6.5% in 2007. In contrast, vacancy rates in the high-income markets have decreased slightly in the first half of 2009, from 4.4% to 3.7%. As for moderate-income rental markets, vacancy rates have fluctuated from 5.2% in 2007, down to 4.6% in the first half of 2008, and back to 5.3% since then.

Due to the effects of the recession, rental growth in the second quarter of 2009 has been decidedly negative in real terms at -1.3% in low-income rental markets. The decrease in rents is surprising, since there generally is a theoretical limit to rent cuts in low-income rental markets that is provided by total operating costs. The weakness in the economy has also negatively affected rents in moderate- and high-income rental markets. Rental growth in the current quarter has been -2.0% in real terms in moderate-income markets and -2.8% in high-income markets.

Area Submarkets

Rental apartment markets in the South submarket (which includes Hyde Park) and West submarket (which includes Austin) have been harder hit by the weakening of the economy than the rental markets in the North and Central/Near North submarkets. (See Figure 3.) Vacancy rates in the South and West submarkets are currently quite high, between 7.5% and 10%, with a rising trend. In contrast, in the North and Central/Near North rental markets, current vacancy rates are quite low, only between 3% and 4%. In the North submarket (which includes Edgewater) vacancy rates since the end of 2008 have actually been declining.

With respect to rents, rents have been declining. However, in the North submarket, real rents are up slightly, increasing 1.5% from 2008 to the second quarter of 2009. In contrast, in the South, Southwest, and West submarkets real rents have been declining.

Figure 3

RENTS AND VACANCY RATES
BY CITY OF CHICAGO AREA SUBMARKETS, 2007 - 2009Q2

	VACANCY RATE				RENT IN REAL TERMS PERCENT CHANGE FROM PRECEDING PERIOD			
	2007	2008	2009Q1	2009Q2	2007	2008	2009Q1	2009Q2
CENTRAL/NEAR NORTH	3.9%	2.4%	2.2%	3.0%	1.6%	2.9%	-0.5%	-2.1%
FAR SOUTH	3.8%	4.5%	6.5%	6.1%	-1.3%	-2.3%	0.6%	-0.6%
NORTH	4.0%	4.9%	4.6%	3.9%	-0.8%	2.0%	1.3%	0.2%
NORTHWEST	5.8%	4.5%	5.7%	5.6%	-0.6%	0.3%	-0.9%	-2.5%
SOUTH	5.6%	6.7%	6.9%	7.3%	-2.5%	-1.0%	1.4%	-4.1%
SOUTHWEST	4.1%	4.4%	5.8%	5.6%	-1.6%	-2.5%	-3.3%	-2.9%
WEST	7.9%	7.9%	8.9%	9.8%	1.3%	-2.1%	0.2%	-1.2%

SOURCE: IHS CHICAGO RENT AND VACANCY INDEX, 2009Q2

WHERE WE ARE IN THE CYCLE

An important understanding of where we are in the current housing cycle can be obtained by knowing how current apartment vacancy rates compare with the last recession. This comparison is shown in Figure 4.

During the last recession, which surrounded the events of 9/11 in 2001, vacancy rates in the Chicago apartment market were around 6%, and the hardest hit areas were the North, Northwest, and West submarkets. However, the current recession is different than the last one. For one thing, unemployment (especially among blue collar workers) is already much worse than during the 2001 recession (and even much worse than even during the 1980-1982 recession). As a consequence, most of the rental vacancies today are occurring predominantly in low- and moderate-income areas.

In the Far South, South, and Southwest rental apartment markets, vacancy rates have already surpassed their prior peak levels of 3.5% to 4.7% for the third quarter of 2001 through the end of 2002, and appear to be steadily rising. In contrast, vacancy rates in the Central/Near North, North, and Northwest rental apartment markets have not yet reached as of the second quarter of 2009 their previous peaks, and vacancy in the North submarket may never reach its previous peak. The North submarket is the only rental market within Chicago that is improving (actual rental vacancy rates are low and declining).

Figure 4

RENTAL VACANCY RATES
BY CITY OF CHICAGO AREA SUBMARKETS



SOURCE: IHS CHICAGO RENT AND VACANCY INDEX, 2009Q2

MARKET OUTLOOK

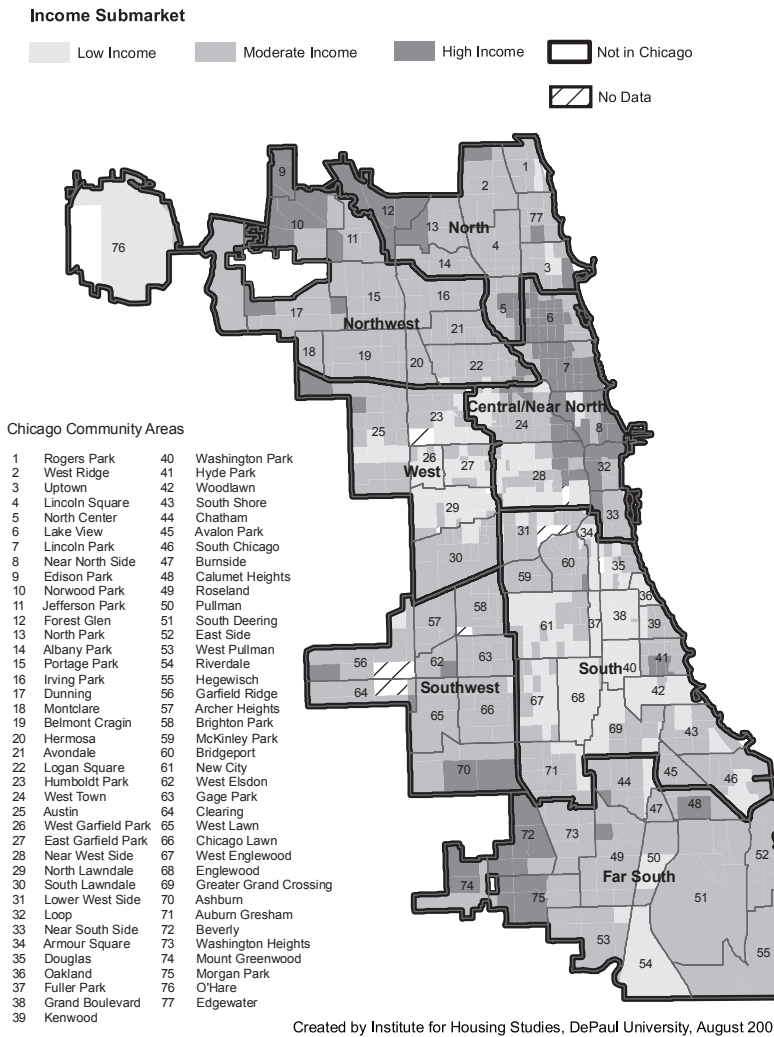
The current headwinds — high unemployment rates and low income levels — are likely to put upward pressure on rental vacancy rates in Chicago throughout 2009 and into 2010. As vacancy rates continue to rise in most submarkets, real rental growth over the immediate term should be low or negative. High unemployment rates and low income levels have hit the low- and moderate-income rental apartment markets in Chicago especially hard. We expect these effects to continue over the next two years. We also expect the rental apartment markets in the West, Southwest, and South to suffer the greatest from the cyclical downturn. The rental apartment markets in the North and Central/Near North submarkets are demonstrating resilience. This resiliency should continue in the immediate term; although it would not be surprising to see these markets soften in the long term as the single-family housing market nears a bottom, and as households gain job security and want to buy into the housing market, possibly leaving behind increased vacancies in the multifamily market.

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Figure 5

IHS RENT AND VACANCY INDEX—CITY OF CHICAGO SUBMARKETS



ENDNOTES

¹ According to the Illinois Department of Employment Security, the Chicago metropolitan area, during the first half of 2009, has lost 164,000 jobs, compared with just 49,000 jobs lost in 2008, and 43,500 lost in 2007.

² Effective rents nationally fell 1.1% in the first quarter of this year and 0.9% in the second quarter, according to Reis Inc. The same source reports vacancy levels nationally rose to 7.5% in the second quarter of this year, up from 6.1% a year earlier. IHS analysis of U.S. Census Bureau Housing Vacancy and Homeownership Survey shows that Chicago's vacancy trends are consistent with those in a number of cities, including Los Angeles, Houston, and Atlanta.

³ The Consumer Price Index (All Items for All Urban Consumers) for the Chicago metropolitan area was used to deflate all rent indexes. The CPI data are available on the CPI Web site (<http://www.bls.gov/cpi/>).

⁴ As defined, the low-income submarket includes all census tracts in Chicago where median household income in 2000 was less than 150% of poverty level income for family of four in 2000 (\$26,405). The middle-income submarket includes all census tracts where 2000 median income for the tract was between 150% and 300% of poverty level income (up to \$52,809), and high-income submarket includes all tracts where median income was higher than 300% of household income (above \$52,809).

The Institute for Housing Studies (IHS) is a multidisciplinary academic research center that provides data and analysis to inform housing-related policy and resource allocation decisions.

IHS was created in 2007 as part of Preservation Compact, a multifaceted initiative to preserve Chicago-area affordable rental housing launched by the Urban Land Institute/Chicago and a coalition of public and private partners, including DePaul, with funding from The John D. and Catherine T. MacArthur Foundation.

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The Preservation Compact
A Rental Housing Strategy for Cook County

MacArthur
Foundation