



Rental Market Analysis – Addendum:
Village-Wide Rental Market Potentials

Lake Zurich, Illinois

PREPARED FOR:
Village of Lake Zurich

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This report serves as an addendum to our *Rental Market Analysis & Development Planning Study* for the “Block A” redevelopment site, submitted to the Village of Lake Zurich on September 15, 2015. Briefly stated, our investigation for that assignment found adequate near to mid-term market support for the introduction of up to 70 luxury-oriented rental apartments within a mid-rise building configuration on the Block A site. A portfolio of five to seven floorplans ranging from 800 to 1,300 square feet were recommended at suggested base asking rents of \$1,500 to \$2,075 per month.

While the report provided brief guidance on longer term market potentials within downtown Lake Zurich, the objective of this addendum is to provide a more detailed assessment of future rental market potentials *throughout the Village*.

Area Market Context

Our previous report noted the considerable strength of the area rental market as measured by rent growth and occupancy characteristics. Moreover, recent development activity – particularly within eastern portions of Lake County, suggest that the market has gained strength since the regional recovery from the Great Recession.

Like the rest of the nation, the Chicago regional rental market has benefitted greatly from historic housing tenure shifts away from ownership and towards renting in the aftermath of the recession. Recent data from the U.S. Census Bureau suggest that, despite the strengthening national economy, historically low levels of homeownership persist, with the current homeownership rate nation-wide down 70 basis points when compared to this time last year. The current rate – 63.7 percent – remains well below the 25-year average of 66.3 percent and is considerably lower than peak levels above 69 percent experienced at the peak of the housing boom.

Meanwhile, within the *West Lake County Submarket* (as noted in our previous report), just 1,074 new rental apartments were completed over the last 20 years, while vacancy rates fell from 7.9 percent in 2009 to just 2.1 percent in the current year.

These conditions suggest that demand for new units within the submarket generally will remain strong for the foreseeable future.

Lake Zurich is well-positioned to take capture a meaningful share of this demand with its advantageous location proximate to major transportation routes and one of the region’s largest concentrations of employment, relative levels of household affluence in and around the Village, and unique natural amenities that include Lake Zurich itself.

However, the Village remains primarily an ownership market, with a renter-occupancy rate of just 11.2 percent (far below that of Lake County as a whole, at 24.1 percent) and a housing stock in which detached single family homes comprise 82.4 percent of all housing units (compared with 67.3 percent for Lake County as a whole).

Rental Market Growth Factors

Many exogenous factors affect the viability of rental market growth at the municipal level, chief among these being land availability, zoning and regulatory frameworks, the presence or absence of development incentives, municipal branding and marketing, and community planning and housing policy more generally. While an in-depth assessment of each of these factors as they relate to rental market potentials within Lake Zurich is beyond the scope of this assignment, we have augmented our prior research with additional demographic, socioeconomic, and competitive market analyses to arrive at quantified projections of *achievable unit absorption* for near and longer term timeframes under a range of market conditions.

Near to Mid-Term Market Potentials

Our near to mid-term projections (i.e., within the next five years) utilize as their basis the rental unit demand derivation found on page 22 of our previous report and reproduced below. As discussed there, demand arising from “normal” levels of projected household growth within the defined Primary Market Area (PMA) will equate to 1,400 rental units over the next five years, or an average of 280 units per year.

Derivation of Rental Unit Demand Potentials

2016-2020

SW Lake Co. - NW Cook Co. PMA

Households, CY Estimate	197,954
Households, 5Y Projection	201,457
Projected HH Growth	3,503
Expected Loss, Units (0.26%/year)	2,705
Gross Housing Demand, Units	6,208
Rental Units (21.0%)	1,304
Vacancy Requirement (7.4 Percent)	96
Total Renter-Occupied Demand	1,400
Average Per Year	280

Source: Residential Planning Partners, LLC

(Household and housing tenure estimates and projections from Esri, Inc.)

The vast majority of this demand will accrue to those areas of the PMA that have already experienced recent rental market growth (including Vernon Hills, Buffalo Grove, Wheeling, Arlington Heights, and Palatine), as new investment is generally attracted first to areas where success has been previously demonstrated. Assuming that viable rental options are made available within its borders, however, it is estimated that Lake Zurich – given its market strengths as detailed in our report and summarized above – could capture *five to seven percent* of this demand, translating to 70 to 100 units over the next five years.

However, in addition to demand emanating from normal, or “routine” household growth, another form of market potential exists within the Village. Namely, lack of available rental options resulting from years of underbuilding – throughout the West Lake County Submarket generally and, more specifically, in west central portions of the defined PMA – suggest that a certain amount of latent demand (that is, demand that goes unmet due to lack of viable options) for new units exists both within Lake Zurich itself and in

surrounding communities. We *conservatively* estimate that latent demand could add another 75 percent to the figures given above, resulting in an overall rental market potential of approximately 125 to 175 units over the next five years.

Longer Term Market Potentials

For longer term forecasts of rental market potentials, our focus shifts from the Primary Market Area to the county level (deemed the more reliable geographic basis for longer term analysis), and we turn to the Chicago Metropolitan Agency for Planning (CMAP) projections of regional population and household growth. CMAP created and maintains *GO TO 2040*, the comprehensive regional plan for the seven county metropolitan area. In support of this plan, the agency developed projections of total population and households in the year 2040 for each county within its planning area, as shown below.

Projected Population & Household Growth by County

CMAP Planning Region

County	2010 (Census)		2040 (CMAP Projection)		Change (%)	
	HH	Pop. ⁽¹⁾	HH	Pop. ⁽¹⁾	HH	Pop.
Kendall	38,022	114,528	74,382	228,530	95.6	99.5
Will	225,256	669,013	393,148	1,175,218	74.5	75.7
McHenry	109,199	307,113	179,215	508,918	64.1	65.7
Kane	170,479	508,482	265,774	789,295	55.9	55.2
Lake	241,712	682,753	318,170	896,341	31.6	31.3
DuPage	337,132	904,784	412,100	1,104,089	22.2	22.0
Cook	1,966,356	5,104,393	2,304,045	5,960,242	17.2	16.8
Grundy	4,169	13,047	5,015	14,781	20.3	13.3
Total	3,092,325	8,304,113	3,951,850	10,677,414	27.8	28.6

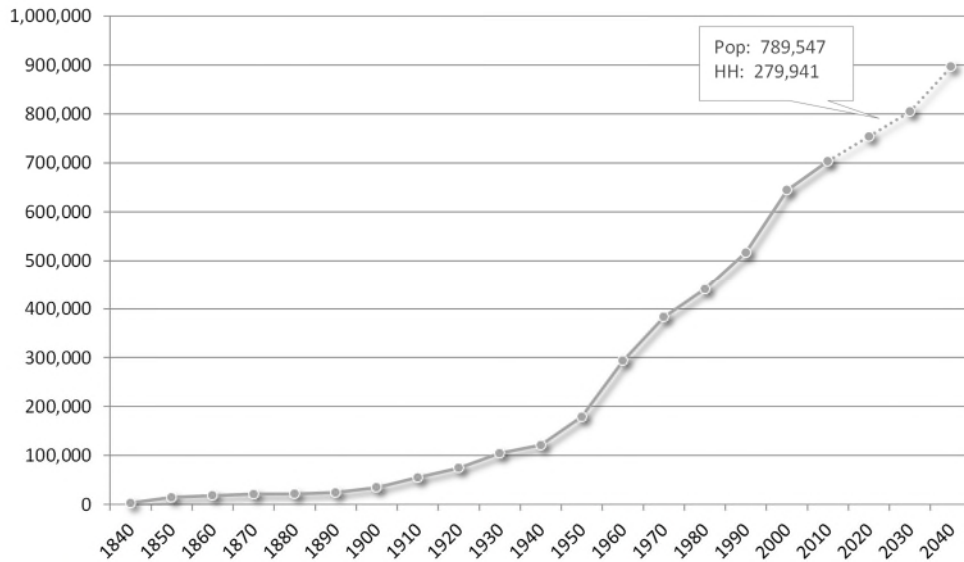
⁽¹⁾Excludes population in group quarters.

Source: Chicago Metropolitan Agency for Planning (CMAP)

As shown, CMAP expects the population and household base of Lake County to grow by approximately 30 percent by 2040, with this projection reflective of what CMAP considers “balanced” growth conditions (i.e., neither too weak nor too strong).

As a basis for our longer term projection of rental market potentials within Lake Zurich, we have extrapolated from CMAP’s projected 2040 household total in Lake County to derive household projections for interim years. This extrapolation, it should be noted, assumes a more or less steady rate of growth, which may or may not actually occur, as growth tends to happen faster in times of greater economic expansion. (It should further be noted that we have elected to use the county-wide projection from CMAP rather than that for the municipality, as the larger geographic area projection is deemed the more likely indicator of actual future growth. CMAP’s municipal level projections do not necessarily take into account shifting development patterns and evolving policy environments that could impact growth scenarios.)

Projected Population Growth -Lake County, IL



Source: U.S. Census Bureau; CMAP (2040 projection); Residential Planning Partners, LLC

Derived from CMAP’s 2040 projection, Lake County will be home to 279,941 households by 2025, representing the addition of 38,229 households compared to the 2010 Census total and 25,486 households compared to the 2015 extrapolated total.

The demographic and socioeconomic data provider Esri, Inc. projects that by 2020 renter household tenure will reach 25.4 percent of total household occupancy in Lake County. Utilizing this figure as an average tenure rate over the 2015-2025 period yields a projected total of 6,473 renter households expected to be added to Lake County over the next ten years.

Our derivation of rental unit demand potentials for Lake County for the 2016-2025 period, considering renter household additions to the county and factoring in expected unit loss as well as the need to maintain vacancy balance (see page 22 of our previous report for a discussion of these two additional housing demand generators) thus stands at roughly 8,400 for the period, or 840 per year.

Derivation of Rental Unit Demand Potentials

2016-2025

Lake County, IL

Households, CY Estimate	254,455
Households, 10Y Projection	279,941
Projected HH Growth	25,486
Expected Loss, Units (0.26%/year)	5,410
Gross Housing Demand, Units	30,896
Rental Units (25.4%)	7,848
Vacancy Requirement (7.4 Percent)	581
Total Renter-Occupied Demand	8,428
Average Per Year	843

Source: Residential Planning Partners, LLC
(Household estimate and projection derived from CMAP projections;
housing tenure projection from Esri, Inc.)

Based on our analyses here and for our previous report, we conclude that the Village of Lake Zurich has the potential to capture between *four and six percent* of county-wide rental demand for the forecast period – equating to roughly 350 to 500 units (with this inclusive of near to mid-term potentials as outlined above).

This conclusion anticipates a gradual westward shift in the path of development as more easterly portions of Lake County (particularly along the I-94 and Milwaukee Avenue corridors) become further built out and buildable land in these areas becomes less available and more expensive. However, it also presumes that adequate land will be available in desirable locations within Lake Zurich for the development of this number of units to occur.

Note that Esri’s current estimate of Lake Zurich’s rental stock stands at 858 units, or 1.4 percent of the county-wide total (61,755 units). The demand forecast and estimate of potential capture outlined here would bring Lake Zurich’s share of county-wide rental stock to 1.7 to 1.9 percent – considered achievable, given the Village’s locational and other strengths as outlined above and in our previous report.

Our conclusion is further based on the assumption that the Village of Lake Zurich will adopt an aggressive approach to attracting multi-family investment and positioning itself as a desirable community for renters. This could include an assessment of current zoning, further commitment to public investment in creating advantageous conditions for multi-family development (such as the creation of new development incentives), new marketing and branding efforts, and other strategies and tactics.

It should finally be noted that, while Lake Zurich offers natural amenities, connectivity to primary roadways, and an excellent school system, a primary limiting factor in the future growth of the Village’s rental market will be its lack of direct connectivity to mass transit. Without a Metra station or Pace bus routes, Lake Zurich will be challenged to attract commuters who rely on mass transit and the housing investment dollars that follow them. This challenge must be considered in plans for future growth and may necessitate creative approaches by the Village in order for it to reach its full market potential.

Qualification of Market Potentials

Our analyses of income levels and gross rents currently paid by area renter households suggest that within the forecast period, demand for new rental units can be distributed into three roughly equal pricing tiers, as follows:

Rental Unit Demand by Price Tier
2016-2025
Lake County, IL

Price Range ⁽¹⁾	Percent of Total Demand
Less than \$1,250	35.0
\$1,250-\$1,749	35.0
\$1,750 or More	30.0

⁽¹⁾In current dollars.

Source: Residential Planning Partners, LLC

As shown, 70 percent of area demand will emanate from the lower and middle pricing tiers (i.e., less than \$1,250 and \$1,250-\$1,749, respectively, in 2015 dollars). The remaining 30 percent will emanate from the higher end segment (i.e., \$1,750 or more per month) commensurate with generally newer and highly amenitized apartment communities in the most desirable locations. In order to achieve a four to six percent capture rate of county-wide demand, Lake Zurich can expect achievable rents for new apartments within the Village to fall roughly in line with this demand distribution.

Finally, assuming that Lake Zurich can make meaningful headway in its plan to create a vibrant and robust Village Center offering a diverse array of commercial amenities, including shopping, dining, and entertainment venues, it is possible that 50 to 60 percent of longer term rental demand could accrue to the downtown district in lakefront and commercial corridor locations, with the remainder in locations elsewhere in the Village, particularly near major roadways and the lake.



Assumptions & Limiting Conditions

Data collection for this assignment took place in August, September, and October of 2015. Information analyzed herein was obtained from a variety of sources deemed reliable at the time, but is not guaranteed. The estimates, projections, recommendations, and opinions provided were based on the information analyzed. No liability is assumed for the accuracy of said information. Client agrees to indemnify and hold harmless Residential Planning Partners, LLC, its owners, independent contractors, agents, employees, and assigns, from all liabilities they may be subject to as a result of these services.

Absorption forecasts provided in this report are based on the assumption that the housing product will be developed in accordance with the recommendations given, with high caliber design, features, and amenities, and that the units will be professionally and aggressively marketed to the appropriate target markets. They also assume that normal economic conditions will prevail during the marketing of the properties. Unforeseen economic downturns can impact the performance of even the best housing developments