

Chicago, Illinois



Multifamily Housing Update

August 2010

EXECUTIVE SUMMARY

Economic conditions in the Chicago - Naperville - Joliet metropolitan division underperformed other Midwest / Mideast metros in the second quarter. The area lost -69,200 jobs year-over-year in 2Q10, representing a -1.9% annual decline. On a percentage basis, Chicago ranked ahead of only Milwaukee and Detroit in the Midwest / Mideast. Moreover, seasonally-adjusted data were unfavorable in the second quarter despite positive contributions from the 2010 Census. In total, the BLS calculate that payroll headcounts in Chicago fell -2,400 from April to June. But the loss totaled -11,400 jobs after accounting for 9,000 temporary Census workers.

Continued job losses among construction and business service firms were largely to blame. Combined, establishments were responsible for -39,900 jobs lost y-o-y in 2Q10. On the other hand, job attrition among manufacturing, retail, transportation / utilities, and financial service firms diminished from -89,700 jobs y-o-y in 4Q09 to only -18,100 jobs.

The **RED CAPITAL Research (RCR)** econometric model predicts that the pace of job loss will decelerate to -0.3% in 4Q10. Furthermore, the model produces point estimates of 17,700 (0.5%) and 81,200 (2.2%) jobs created in 2011 and 2012, respectively. Economy.com expect a robust turnaround in 2H10. Indeed, the service predicts that a net of 57,810 (1.6%) will be created this year, followed by 70,540 (1.9%) in 2011 and 126,190 (3.47%) in 2012.

Home prices trends also were subpar. According to the National Association of Realtors the median price of a single-family MSA home decreased -0.2% y-o-y to \$203,800. By contrast, the US median price advanced 1.4% during the period. Likewise,

Chicago registered a -1.5% y-o-y decrease in the Case-Shiller home price index, ranking 17th among the 20 markets tracked by the source.

Slack job creation notwithstanding, 2Q10 apartment demand was robust as property managers net leased 1,325 units. As a result, the metro occupancy rate rose 10 basis points from 93.3% in 1Q10 to 93.4% in 2Q10. According to Marcus & Millichap suburban properties posted a moderate higher 93.6% occupancy rate, as compared to the 93.2% rate observed in the city.

The average effective rent surged in the second quarter, rising 0.8% sequentially to \$985. As a result, the 2Q10 metric was 0.3% above the figure from the comparable period of 2009. Decreased concessions contributed to the gain. The size of the average concession package fell from 7.4% of asking rent in 1Q10 to 7.0%. Marcus & Millichap report that effective rent in the city advanced 1.9% in the first six months of 2010, comparing favorably to the 1.0% rent increase among suburban properties.

Reis expect demand (1,006 units) to outpace supply (433 units) in 2H10 to produce a 10 basis point increase in occupancy by year-end. The service also predicts the pace of y-o-y effective rent growth will accelerate to 1.8% in the fourth quarter.

Real Capital Analytics identify five transactions involving properties priced at or above \$5 million in the first six months of 2010, totaling \$97 million in sales proceeds. Additionally, **RCR** were aware of a trade in July involving a property priced at \$88 million or \$295,302 per unit. Based on a 5.5% generic metro cap rate, **RCR** calculate 7.4% expected rate of total return, equal to the **RED 50** average.

SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (6.6% - 2Q10)	unchg	↓ 10bps
Effective Rents (\$985 - 2Q10)	↑ 0.3%	↑ 1.8%
Cap Rate (5.7% - 2Q10)	↓ 10bps	↔
Employment (3,597m - 2Q10)	↓ 69.2m	↓ 62.5m

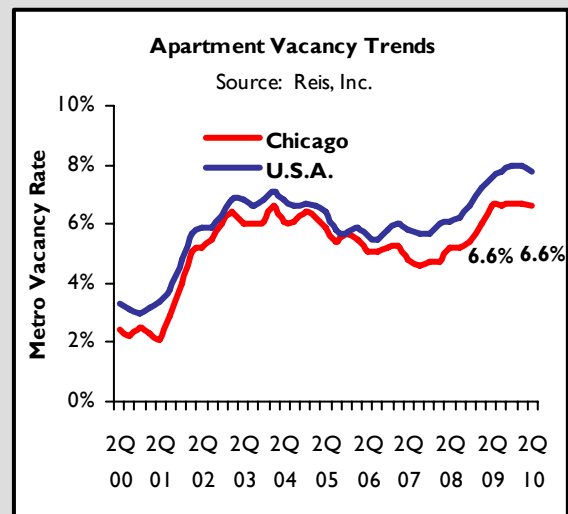
KEY POINTS

- The metro vacancy rate decreased 10 basis points sequentially, largely owing to robust tenant demand. Positive net absorption totaled 1,325 units in 2Q10, exceeding the 1,204 units absorbed during the previous nine months.
- At \$985, the average effective rent was up 0.8% sequentially and 0.3% year-over-year in 2Q10. Conversely, REIT disclosure data show that same store rent declined -3.4% year-over-year from \$1,032 in 2Q09 to \$997 in 2Q10.
- Home prices were largely unchanged in the second quarter. The National Association of Realtors estimate that the median price of a single-family MSA home decreased -0.2% year-over-year to \$203,800. Similarly, Chicago posted a -1.5% over-the-year decrease in the Case-Shiller home price index in May.
- At an assumed 5.5% going-in yield, **RCR** calculate a 7.4% expected rate of total return, equal to the **RED 50** mean. Moreover, low levels of historic NOI growth volatility produce an above average measure of risk-adjusted return.

VACANCY TRENDS

- The apartment vacancy rate declined 10 basis points sequentially from 6.7% in 1Q10 to 6.6% in 2Q10. Developers completed 1,013 units and 460 units were removed from the rental stock during the period. By comparison, positive net absorption totaled 1,325 units.
- Marcus & Millichap, report that vacancy among suburban assets fell 40 basis points from 6.8% in December to 6.4% in June. Likewise, in-fill apartment vacancy declined 30 basis points to 6.8% in 2Q10.
- Vacancy in two of the metro's 25 submarkets exceeded 10% in 2Q10.
- Reis expect vacancy to fall 10 basis points by year-end as development slows. Moreover, the service predicts that robust tenant demand will generate a 60 basis point decrease in vacancy next year.

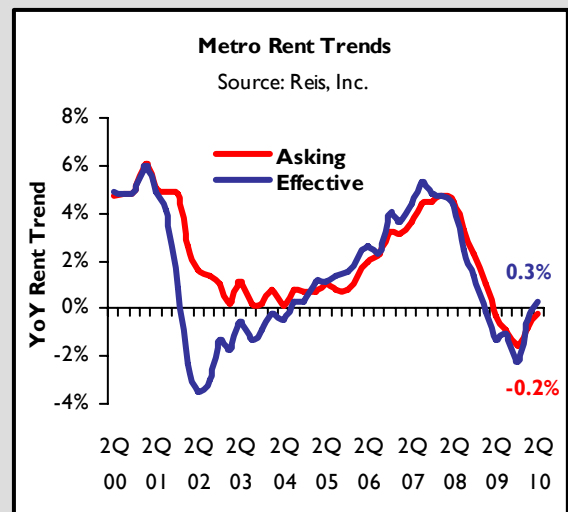
RANK: 20th out of 50



RENT TRENDS

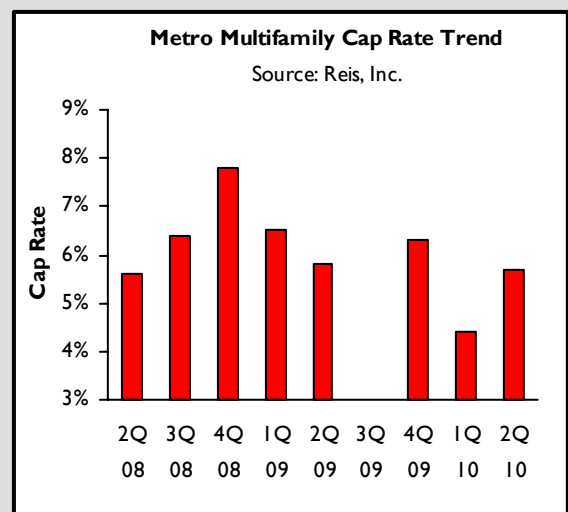
- The pace of sequential effective rent growth accelerated from 0.6% in 1Q10 to 0.8% in 2Q10. As a result, year-over-year growth turned positive (+0.3%) for the first time since 4Q08.
- Appraisal Research Counselors note that suburban apartment rents rose to \$1.13 per square foot in 2Q10, near the \$1.14 peak recorded in early 2008. The source attributes the turnaround to job market stability and the weak housing market.
- According to Marcus & Millichap, the average effective rent in the city was \$1,081 in 2Q10, up 1.9% from 4Q09. By contrast, suburban effective rents increased only 1.0% to \$894.
- The pace of year-over-year effective rent growth is forecast to accelerate to 1.8% by year-end.

RANK: 26th out of 50



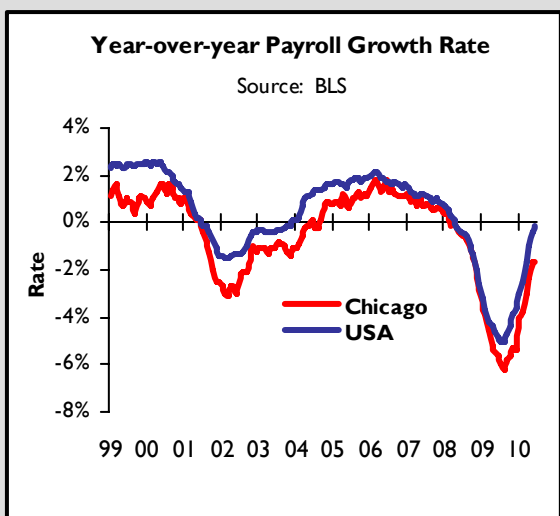
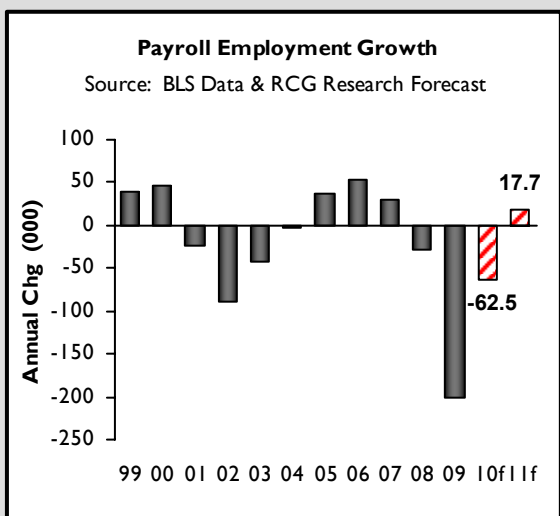
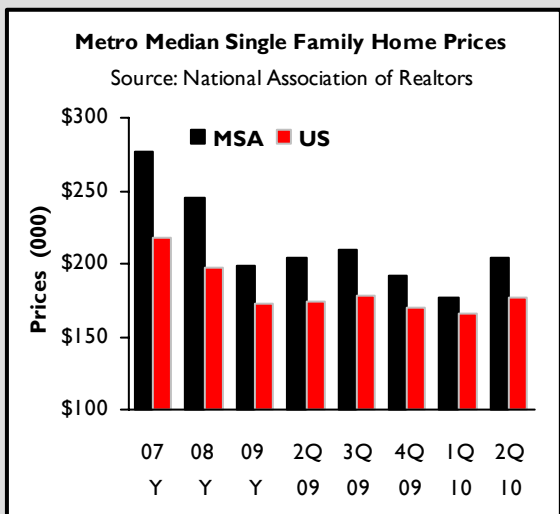
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics were aware of five investor-grade property trades in 1H10, totaling \$97 million in sales proceeds. Garden assets sold for an average price of \$78,215 per unit and mid- and high-rise properties sold for \$152,278 per unit.
- According to CB Richard Ellis, cap rates for stabilized Class-A assets ranged from 5.0% to 5.5% in August. By comparison, stabilized Class-B properties traded at cap rates ranging from 6.5% to 6.75% in the same period.
- Based on a 5.5% going-in yield, **RCR** calculate a 7.4% expected rate of total return, equal to the **RED** 50 mean. But a below average measure of historic NOI growth volatility gives rise to a 3.08 risk-adjusted return index, above the 2.63 **RED** 50 index average.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Lakes of Schaumburg (Palatine)	A	July 2010	\$47.0	\$109,813	6.5%
Burnham Pointe	A	June 2010	\$88.0	\$295,302	3.8%
Skyline at Evanston (Rogers Park / Uptown)	A	April 2010	\$30.0	\$135,747	5.0% (pro forma)



DEMOGRAPHICS & HOUSING MARKET

- At 0.7%, the pace of metro population growth was stable in 2009 as negative net domestic migration moderate slightly from 42,587 to 401,389.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -0.2% year-over-year from \$204,300 in 2Q09 to \$203,800 in 2Q10. Additionally, the source calculates a \$186,300 median condo price in the second quarter, -8.1% below the 2Q09 figure.
- The Case-Shiller home price revealed that home values declined -1.5% year-over-year in the twelve-month period ended in May, ranking 17th out of the 20 markets tracked by the source.
- DQ News calculate that the median home price in Cook County fell -2.9% year-over-year to \$200,000 in 2Q10.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- The pace of year-over-year job attrition decelerated from -133,800 (-3.7%) to -69,200 (-1.9%) in 2Q10. But despite the improvement, Chicago ranked 41st highest among the **RED** 50 with respect to year-over-year job growth in 2Q10.
- Construction and business service firms continued to shed jobs at a rapid pace as a combined net of -39,900 jobs were lost year-over-year in 2Q10. By contrast, health care employment surged 7,800 year-over-year in the second quarter, up from the 5,000-job increase observed during 1Q10.
- Manufacturers trimmed only -9,700 positions from payrolls year-over-year in 2Q10, owing to a turnaround among durable goods producers. For example, fabricated metals producers cut -100 jobs in the twelve-month period ended in June as compared to -11,800 jobs lost in the same period of 2009.

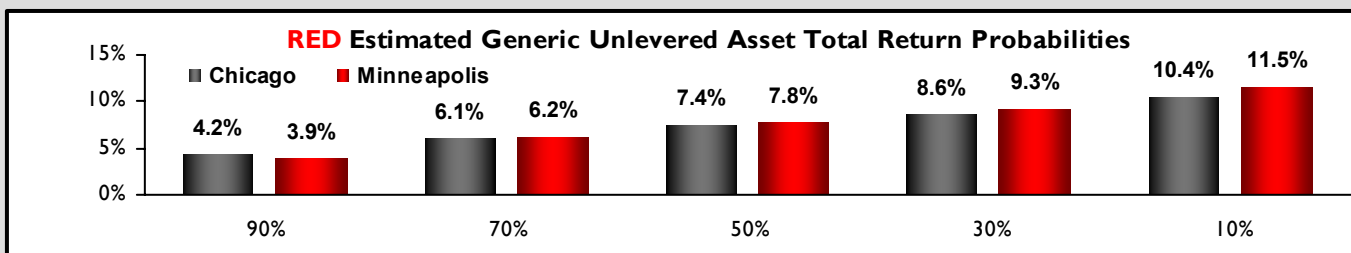
Seasonally-Adjusted

- On a seasonally-adjusted basis, employers eliminated -2,400 jobs during the second quarter, following a steady 13,600-job advance in 1Q10. Furthermore, after accounting for job growth related to the 2010 Census, job declines totaled -11,400 in 2Q10.

Forecast

- The **RCR** econometric payroll model predicts that metro job growth will resume next year. Specifically, the model produces point estimates of -62,500 (-1.7%) jobs lost this year, and gains of 17,700 (0.5%) in 2011 and 81,200 (2.2%) in 2012.

RANK: 41st out of 50

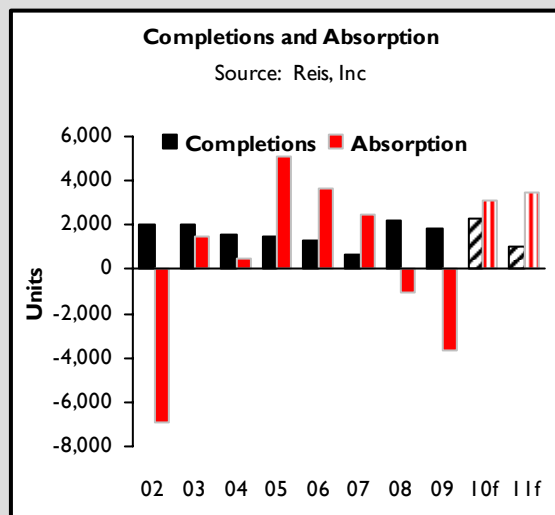


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q09	2Q10	Change	2Q09	2Q10	Change
Lincoln Park	\$1,159	\$1,162	0.2%	3.8%	3.6%	-20 bps
City West	\$931	\$986	5.9%	10.4%	11.0%	60 bps
Gold Coast	\$1,555	\$1,581	1.7%	6.0%	6.7%	70 bps
The Loop	\$1,571	\$1,504	-4.2%	13.3%	11.8%	-150 bps
South Shore	\$872	\$865	-0.8%	6.1%	6.7%	60 bps
Southeast Cook County	\$772	\$776	0.5%	5.9%	5.9%	unchg
Southwest Cook County	\$775	\$773	-0.2%	5.3%	5.6%	30 bps
Downers Grove	\$876	\$894	2.0%	8.8%	8.6%	-20 bps
Woodridge / Lisle	\$910	\$897	-1.4%	6.3%	5.7%	-60 bps
Aurora / Naperville	\$982	\$982	0.0%	6.8%	5.8%	-100 bps
Wheeling	\$970	\$985	1.6%	6.0%	4.9%	-110 bps
Glendale Heights	\$1,016	\$1,040	2.3%	5.5%	6.2%	70 bps
Schaumburg / Hoffman	\$950	\$933	-1.8%	6.5%	6.1%	-40 bps
Palatine	\$1,086	\$1,063	-2.1%	8.4%	9.1%	70 bps
Glenview / Evanston	\$1,004	\$999	-0.5%	6.5%	5.5%	-100 bps
Rogers Park / Uptown	\$783	\$765	-2.3%	5.1%	5.5%	40 bps
Belmont-Montrose	\$1,136	\$1,158	2.0%	4.0%	4.1%	10 bps
Oak Park	\$893	\$897	0.4%	8.5%	7.6%	-90 bps
Glen Ellyn / Wheaton	\$909	\$889	-2.2%	7.8%	9.2%	140 bps
O'Hare	\$831	\$813	-2.2%	4.5%	4.2%	-30 bps
East Lake County	\$925	\$925	0.0%	7.1%	6.7%	-40 bps
West Lake County	\$861	\$871	1.2%	8.2%	6.8%	-140 bps
McHenry County	\$882	\$893	1.2%	7.8%	6.8%	-100 bps
Kane County	\$940	\$955	1.6%	7.1%	7.1%	unchg
Joliet	\$751	\$757	0.8%	6.4%	6.5%	10 bps
Metro	\$982	\$985	0.3%	6.6%	6.6%	unchg

SUPPLY TRENDS

- Apartment developers completed 1,976 units in the first seven and a half months of 2010. The largest additions to inventory occurred in the City West (938 units) and The Loop (731 units) submarkets.
- Reis also was aware of 742 apartment units under construction in August. Two of the five properties, totaling 578 units are located in The Loop submarket.
- According to Reis, a 460 unit property converted from apartment to condos in the second quarter. The asset is located in the Schaumburg/Hoffman submarket.
- There were 2,918 condo units under construction in August. The largest property, containing 1,193 units is located in the Gold Coast submarket and is scheduled to open in December 2014.



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