

PAYROLL JOB SUMMARY

Total Payrolls	3,552.1m
Annual Change	55.6m (1.6%)
2015 Forecast	49.3m (1.4%)
2016 Forecast	30.6m (0.8%)
2017 Forecast	14.5m (0.4%)
2018 Forecast	2.8m (0.1%)
Unemployment (NSA)	6.0% (May)

1Q15 PAYROLL TRENDS AND FORECAST

Chicagoland payroll growth accelerated for the second consecutive quarter. Payroll employment grew at a 55,600-job, 1.6% year-on-year rate in 1Q15, up from 4Q14's 51,000-job performance. The retail trade and business services sectors were primarily responsible, collectively expanding at a 25,900-job, 2.6% rate, up from 4Q14's 13,400-job, 1.3% advance. By contrast, goods producing industries exhibited a degree of weakness. Manufacturing and wholesale trade continued to hemorrhage jobs, together recording attrition at a -5,600-job, -1.2% annual rate down from 4Q14's -3,600, -0.8% decline.

2Q15 got off to a moderately slower start, as establish-

ments hired at a 46,800-job, 1.3% rate April and May. Job cuts in the key manufacturing and finance sectors were the precipitating factor. The high-skilled business and health care services sectors remained Chicago's leading lights, adding jobs at a brisk 27,300-job, 2.2% pace.

Chicago's history of slow job creation (metro headcounts were lower in March 2015 than March 2000) make modeling the market challenging. RCR's best effort achieves a 97.5% adjusted-R² using U.S. job growth and "Baa" yields and metro personal income and home price growth as independent variables. The model foresees slower growth in Chicago's future, dipping below 1% in mid-2016.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.5%
RED 50 Rank	18 th
Annual Chg. (Reis)	+0.1%
RCR YE15 Forecast	96.3%
RCR YE16 Forecast	95.9%
RCR YE17 Forecast	95.5%
RCR YE18 Forecast	95.1%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand softened during the first quarter as tenants leased a net of 877 units, according to Reis, down from 1,039 and 955 during the prior and year-earlier quarters, respectively. Supply totaled 1,152 units, representing the largest one-quarter delivery since 2013. As a result, occupancy fell 10 basis points sequentially to 96.5%. Preliminary 2Q15 data report another 10 bps decline to 96.4%.

Axiometrics surveys of 329 larger, stabilized properties found average occupancy rates of 94.6% and 95.8% in 1Q15 and 2Q15, up 60 and 100 bps year-over-year, respectively. Class-C apartments recorded the highest 2Q15

occupancy, 96.8%, while classes A & B followed at 95.6%. Among submarkets, occupancy was highest in suburban areas that have received no recent supply, led by Downers Grove (97.4%), Glendale Heights 97.3% and SW Cook Co. (97.7%). By contrast, supply-rich infill areas (Loop, Gold Coast, Lincoln Park) posted rates in the 94%-95% range.

RCR's occupied stock growth model achieves a 93.3% ARS using the rate of change of payroll and inventory growth, home price appreciation and apartment vacancy as independent variables. The model projects steady annual space demand of 3,300-4,300 units but still heavier supply.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,121
Annual Change	2.7%
RED 50 Rent Change Rank	37 th
RCR YE15 Forecast	2.2%
RCR YE16 Forecast	3.2%
RCR YE17 Forecast	2.6%
RCR YE18 Forecast	2.6%

1Q15 EFFECTIVE RENT TRENDS

Reis report that effective rents increased sequentially at a sluggish 0.4% rate for the second consecutive quarter. As a result, the year-on-year comparison declined sharply in 1Q15, falling from 3.7% in the prior quarter to 2.7%. Metro rent growth was hampered by soft conditions in Lake Co. and several Northwest Cook suburban submarkets.

Axiometrics surveys were more upbeat, recording faster rent growth in 1H15. Rents at stabilized same-store properties increased at unit-weighted y-o-y averages of 4.6% and 4.8% during 1Q15 and 2Q15, respectively. Sequentially, rents increased 2.5% and 2.3% in the same periods. By

segment, class-B properties recorded the fastest progress, rising 5.1% and 5.7% y-o-y, while class-A properties lagged. Trends in the supply-rich City West and Loop submarkets were slower than average while gains in established infill neighborhoods were constructive, exceeding five percent.

RED's rent model uses U.S. payroll, nominal GDP and metro occupied stock growth, the slope of the yield curve and the GDP deflator as independent variables to achieve a 93.3% ARS. The model foresees sluggish trends for the balance of 2015, followed by a bounce next year fueled by faster absorption, a flatter yield curve and higher inflation.

TRADE & RETURN SUMMARY

\$5mm+ / 100-unit+ Sales	17
Approx. Proceeds	\$920.0mm
Avg. Cap Rate (FNM)	5.8%
Avg. Price/Unit	\$155,514
Expected Total Return	6.6%
RED 46 ETR Rank	27 th
Risk-adjusted Index	6.90
RED 46 RAI Rank	10 th

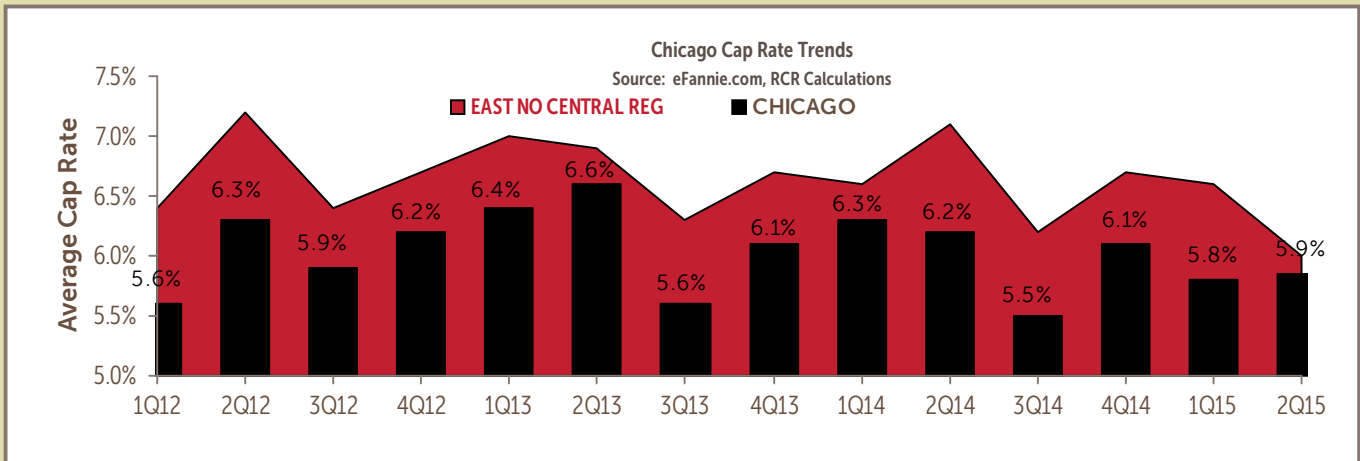
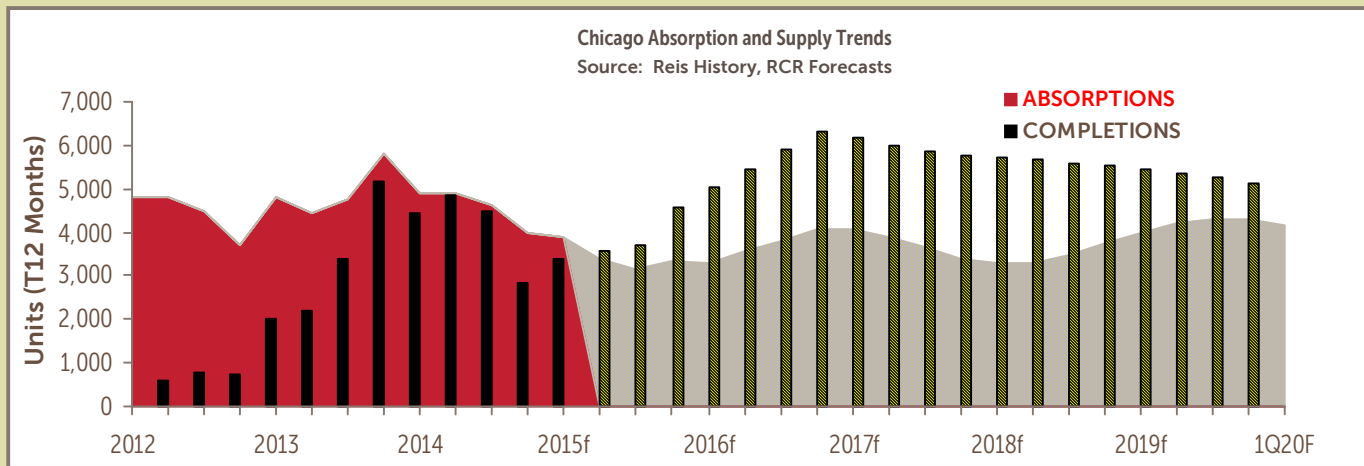
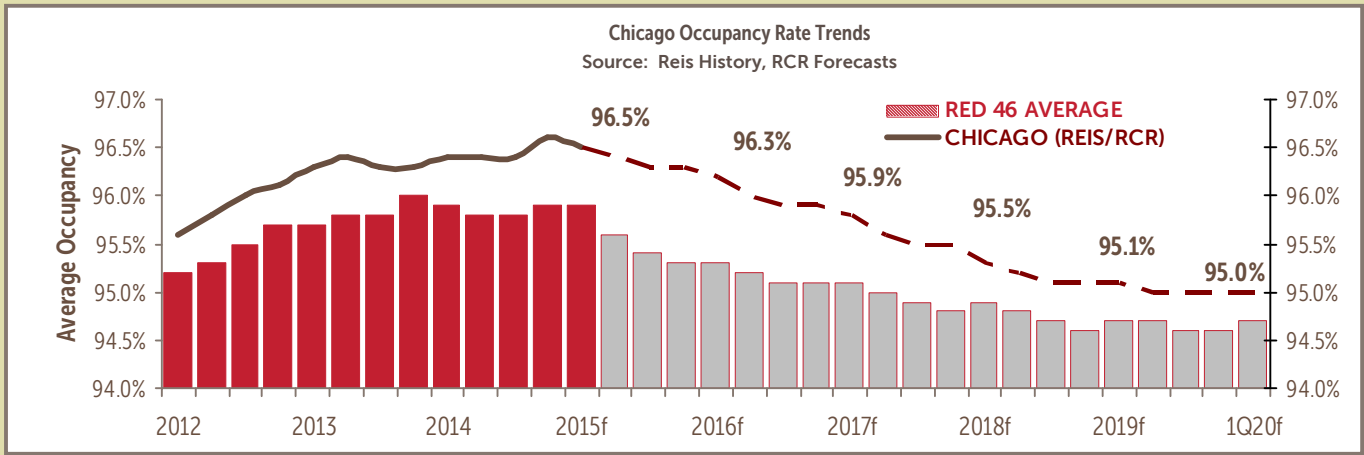
1Q15 PROPERTY MARKETS AND TOTAL RETURNS

The surge in interest among foreign, hedge and investment fund and public REIT buyers in Chicagoland properties that produced a sharp rise in 4Q14 sales continued in the first half 2015. Sales of properties valued at \$5 million or more for which price data were available numbered 17 during 1Q15, generating \$920mm of proceeds, comparing closely to seasonally stronger 4Q (19 sales/\$880mm proceeds) activity. Preliminary 2Q data suggest sales velocity continued at a brisk clip as 16 trades were recorded by the third week of June for total proceeds of \$632mm.

Cap rates for high-rise trophies in the Gold Coast/River North area were in the low-4% area. Class-A/B+ high rises

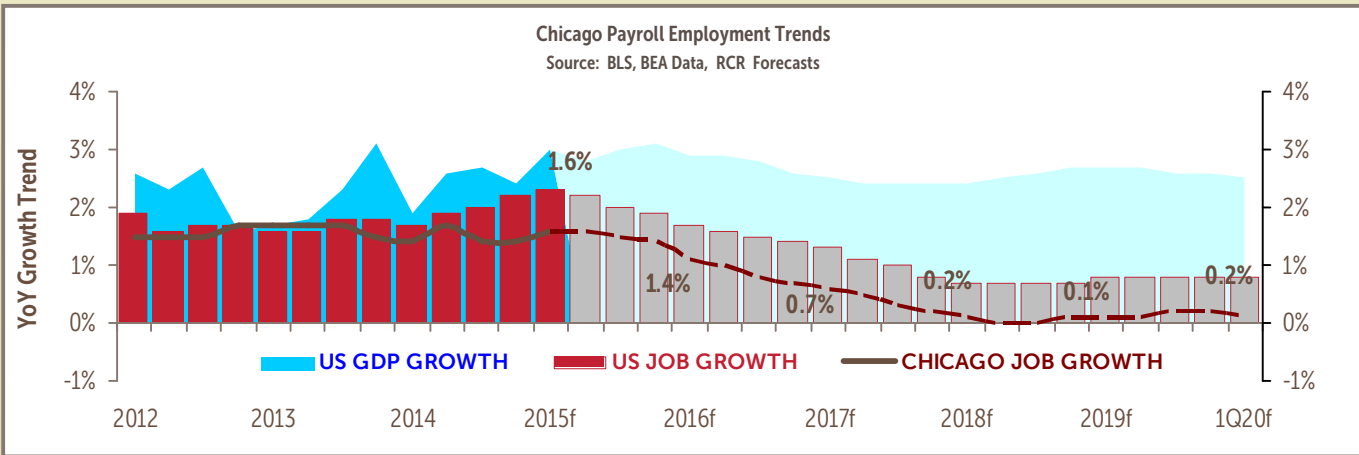
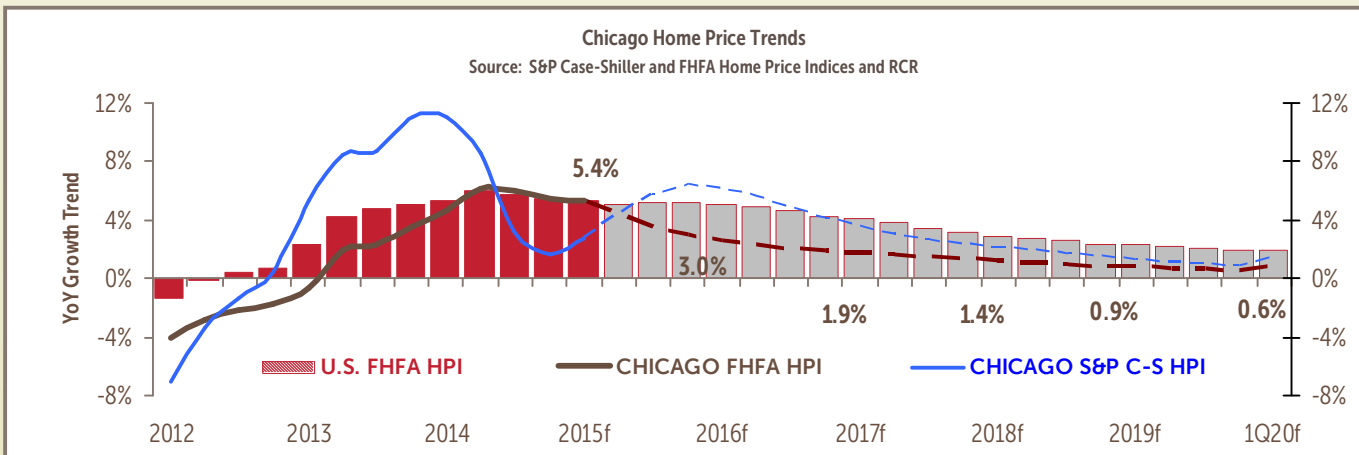
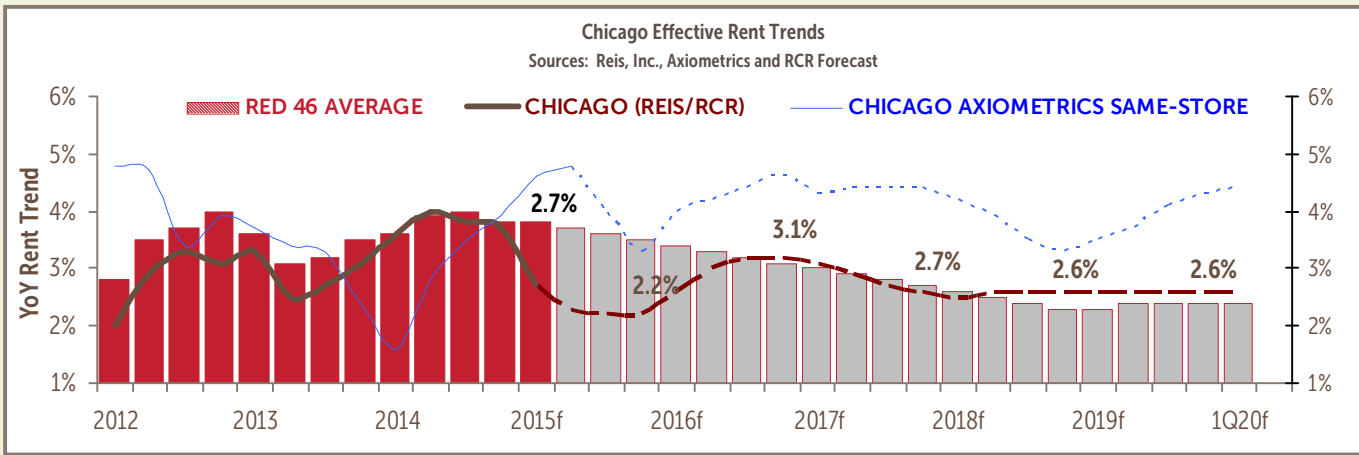
in the Loop traded in the high 4% range. Class-B suburban garden apartments were priced to yield buyers low-5% to high-5% initial yields. Published cap rates suggest that class-C product was valued in the 7% to 8% range.

Using a 5.4% proxy cap rate for a standard class-B/B+ asset; a 6.1% terminal cap rate; and model derived occupancy and rent forecasts, RCR estimate that a buyer would expect to earn a 6.6% 5-year unlevered total return from a Chicago investment. This figure ranks 27th among the RED 46, about 30 basis points below the group mean. Low model standard error lowers investment uncertainty, however, elevating Chicago to 10th risk-adjusted return rank.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
The Chicagoan (River North)	A- / HR (1990)	16-Mar-2015	\$104.0	\$470,588	4.0%
The Meadows (West Lake County)	B / GLR (1990)	26-Mar-2015	\$53.0	\$106,855	5.8%
Pensacola Place (Belmont/Montrose)	B+ / HR (1981)	6-Apr-2015	\$44.9	\$170,056	5.0%
Wheaton 121 (Glen Ellyn/Wheaton)	A- / MR (2014)	20-May-2015	\$95.8	\$312,908	4.3%/4.8% p.f.
Burnham Pointe (South Loop/Printer's Row)	A / HR (2008)	17-Jun-2015	\$126.0	\$422,819	4.9%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Aurora / Naperville	\$1,086	\$1,113	2.5%	3.0%	2.2%	-80 bps
Belmont-Montrose	\$1,243	\$1,277	2.7%	2.1%	2.5%	40 bps
City West	\$1,072	\$1,103	2.9%	6.6%	6.6%	0 bps
Downers Grove	\$974	\$995	2.1%	3.2%	2.9%	-30 bps
East Lake County	\$1,018	\$1,031	1.2%	2.3%	2.1%	-20 bps
Glen Ellyn/Wheaton	\$984	\$1,002	1.9%	4.4%	3.6%	-80 bps
Glendale Heights	\$1,160	\$1,189	2.5%	2.4%	1.8%	-60 bps
Glenview / Evanston	\$1,089	\$1,139	4.6%	2.7%	2.8%	10 bps
Gold Coast	\$1,853	\$1,928	4.0%	5.2%	5.3%	10 bps
Joliet	\$832	\$855	2.8%	5.2%	3.6%	-160 bps
Kane County	\$1,037	\$1,075	3.8%	3.1%	5.5%	240 bps
Lincoln Park	\$1,283	\$1,301	1.4%	1.3%	1.4%	10 bps
McHenry County	\$941	\$973	3.4%	2.3%	3.4%	110 bps
O'Hare	\$924	\$946	2.5%	3.5%	3.1%	-40 bps
Oak Park	\$959	\$959	0.0%	3.4%	2.9%	-50 bps
Palatine	\$1,146	\$1,186	3.5%	4.5%	3.6%	-90 bps
Rogers Park / Uptown	\$832	\$848	1.9%	3.5%	3.4%	-10 bps
Schaumburg / Hoffman Estates	\$1,032	\$1,047	1.4%	3.2%	3.1%	-10 bps
South Shore	\$921	\$939	1.9%	4.1%	3.6%	-50 bps
Southeast Cook County	\$848	\$860	1.5%	3.5%	3.1%	-40 bps
Southwest Cook County	\$835	\$847	1.4%	3.2%	2.6%	-60 bps
The Loop	\$1,672	\$1,761	5.3%	7.0%	9.8%	280 bps
West Lake County	\$943	\$954	1.2%	2.9%	2.0%	-90 bps
Wheeling	\$1,079	\$1,136	5.3%	2.1%	2.4%	30 bps
Woodridge / Lisle	\$1,042	\$1,056	1.3%	3.4%	2.9%	-50 bps
Metro	\$1,091	\$1,121	2.7%	3.6%	3.5%	-10 bps

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