CHICAGO, ILLINOIS

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 2Q15 | October 2015

PAYROLL JOB SUMMARY	
Total Payrolls	3,637.0m
Annual Change	47.8m (1.3%)
RCR 2015 Forecast	46.5m (1.3%)
RCR 2016 Forecast	30.0m (0.8%)
RCR 2017 Forecast	27.1m (0.7%)
RCR 2018 Forecast	22.0m (0.6%)
Unemployment (NSA)	5.7% (Aug.)

2Q15 PAYROLL TRENDS AND FORECAST

Chicagoland payroll growth decelerated in the spring to the slowest clip in four years, declining from a 55,500-job, 1.6% year-on-year rate in the first quarter to a 47,800-job, 1.3% pace. Slack in consumer-driven industries was primarily responsible. Hiring in retail trade and financial, accommodations and food services fell from 1Q's 11,300-job, 1.3% performance to a 4,300-job,0.5% advance during 2Q14. By contrast, construction and skilled services hiring continued at a robust rate. Building trades and business, education and health care service establishments added workers at a 33,600-job, 2.5% annual rate, on par with 1Q's strong 33,900-job, 2.6% addition.

Preliminary third quarter data appeared to further the trend. Total August headcounts were only 35,900 jobs ahead of the comparable 2014 period, representing the smallest 12-month advance recorded since may 2011.

RED Research specified a 97.5% ARS (S.E.=0.3%) forecast model using the rate of change of U.S. payroll growth (+), metro personal income (+) and home price growth (-) as independent variables. The model projects further job deceleration in payroll growth to the 0.5% to 0.8% range in harmony with slower U.S. expansion. By way of jobs, the forecast calls for annual vintages in the 25,000- to 30,000-job range for 2016 and 2017; smaller gains after.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	96.4%
RED 50 Rank	16th
Annual Chg. (Reis)	+0.0%
RCR YE15 Forecast	96.3%
RCR YE16 Forecast	95.9%
RCR YE17 Forecast	95.6%
RCR YE18 Forecast	95.3%

2Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant space demand strengthened during the second quarter as renters leased a net of 1,110 vacant units, according to Reis, representing the highest second quarter absorption total in three years. By contrast, supply deliveries were subdued as developers put finishing touches on 877 units, down from 1,611 and 1,005 in the prior and year-earlier quarters, respectively. As a result, metro occupancy increased 10 basis points sequentially to 96.4%.

Surveys of 298 larger, same-store properties by Axiometrics found a 95.8% 2Q15 metro occupancy rate (95.6% in 3Q), up 20 bps y-o-y. Class-C assets led the way for the sixth consecutive quarter at 96.7%, followed by classes-A (95.6%) and –B (95.4%). Among submarkets, Roger's Park (97.6%) and Glenview (97.5%) posted the highest levels; Lincoln Park (92.0%) the lowest. Gold Coast, Lincoln Park, South Shore and Loop properties were much in demand as renters absorbed nearly 1,000 units in 52 buildings.

RCR employed the rates of change of metro job and supply growth and lagged home price appreciation and vacancy to specify a 93.4% ARS, (S.E.=0.2%) demand forecasting model. It generates absorption point estimates of 4,154, 3,799 and 4,517 units for 2015, 2016 and 2017, respectively. Supply is expected to exceed same period demand by 4,700 units, sending occupancy down ~80bps by YE 2017.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$1,135
Annual Change	3.0%
RED 50 Rent Change Rank	34th
RCR YE15 Forecast	2.7%
RCR YE16 Forecast	3.6%
RCR YE17 Forecast	3.2%
RCR YE18 Forecast	3.5%

2Q15 EFFECTIVE RENT TRENDS

Reis surveys found that Chicagoland rent trends maintained a slow and steady course during 2Q. Average rent increased $10 (0.9%) sequentially, up from 1Q's sluggish 0.7% advance, but year-on-year comparisons decelerated for the fourth consecutive quarter, slipping to 3.0%. This metric ranks Chicago 34th among the nation's top 50 markets and stands 90 basis points below the RED 46 mean.

Same-store comparisons of Axiometrics survey data suggest a more vigorous market: unit-weighted average rents increased 4.6% and 4.9% y-o-y in 2Q and 3Q15, respectively, the latter figure representing the fastest rent growth observed during the current cycle. Class-B properties posted the fastest progress (5.4%) during 3Q15, followed by classes-C (4.5%) and –A (2.4%).South Shore (10.4%) notched the top spot among submarkets. Lincoln Park (-0.5%) and Montrose (-0.8%) posted small declines, while Gold Coast (2.1%), and The Loop (1.3%) managed only meagre gains.

RCR's rent model uses U.S. payroll (+), nominal GDP (-) and GDP deflator (+) growth, the slope of the yield curve (-) and absorption (+) as independent variables to reach a 93.7% ARS (S.E.=0.5%). In the base economic scenario the model projects slower rent growth in 2H15, followed by an up shift to the mid-3% range in late 2016, benefiting from a flatter yield curve, higher inflation and stronger demand.

TRADE & RETURN SUMMARY	
$5mm+ / 100-unit+ Sales	13
Approx. Proceeds	$637.1mm
Avg. Cap Rate (FNM)	5.9%
Avg. Price/Unit	$205,375
Expected Total Return	6.8%
RED 46 ETR Rank	26th
Risk-adjusted Index	8.7
RED 46 RAI Rank	7th

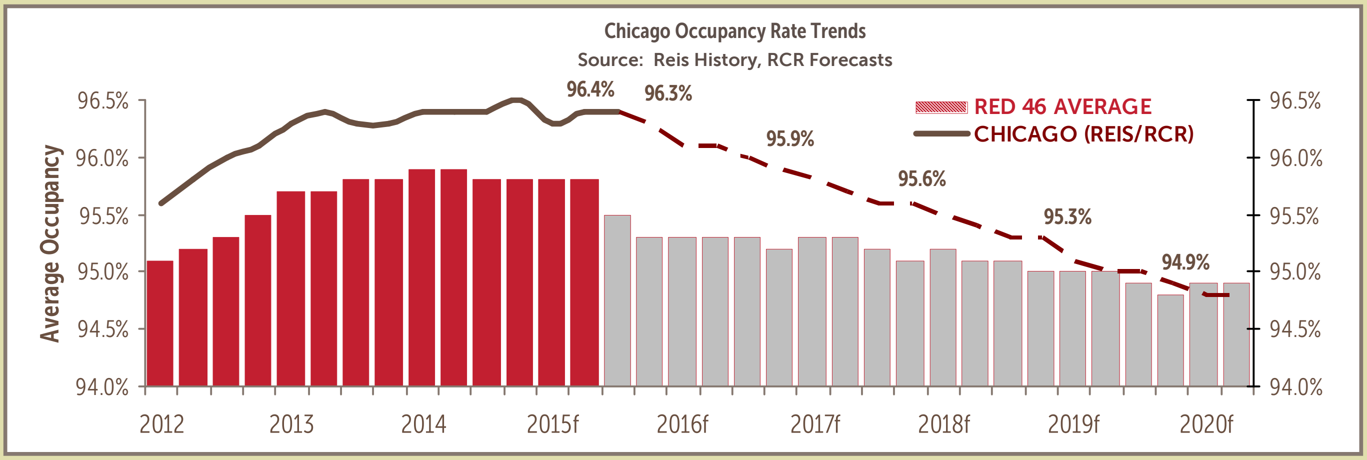
2Q15 PROPERTY MARKETS AND TOTAL RETURNS

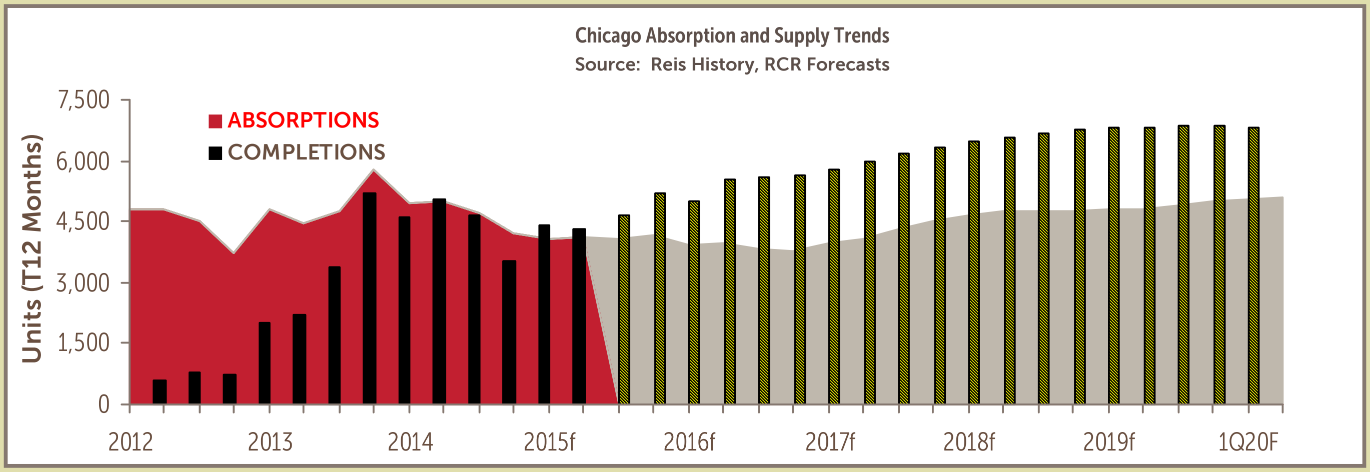
After two very active quarters property sales velocity decelerated during 2Q15, falling from 17 large trades in each of the previous two quarters to 13. Proceeds totaled about $637 million, down from $993mm and $862mm in the prior and penultimate quarters, respectively. In all, 2,883 units exchanged hands at a per unit price of $205,375, up from $185,873 and $159,045 in previous quarters.

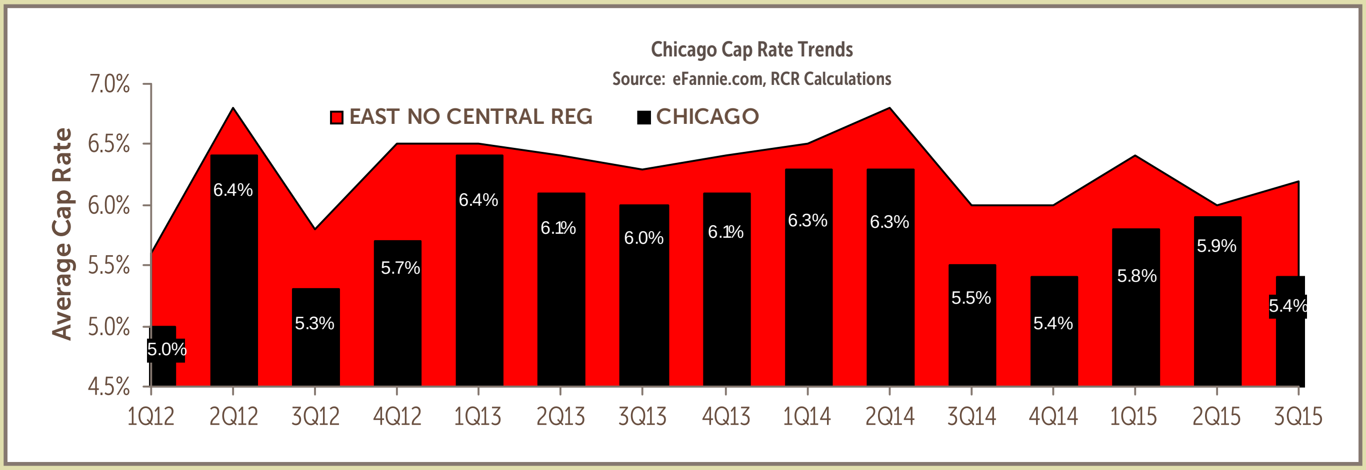
Sales were steady over the summer as 14 transactions closed at an average price per unit of $163,084. The price decline from earlier quarters was attributable to a shift in focus from infill assets to suburban repositioning plays.

Cap rates applicable to infill trophies fell in the mid– to high-4% area. Class-B/B+ suburban garden apartments traded at yields in the low-5s. Older suburban properties with upside rent potential traded in the mid-5s. Class-C assets were priced to yields in the 6% to 7% range.

In light of the strong bid for class-B assets observed in recent trade RCR elected to cut 10 bps from the cap rate proxy to 5.3%. Using this going-in yield, a terminal cap rate of 6.1% and model derived rent and occupancy point estimates, we estimate that a Chicago investor would expect to achieve a 6.8% total return, ranked 26th among the R46 (10 bps below the group mean). Low model standard errors drive stronger, 7th R46-ranked risk-adjusted returns.

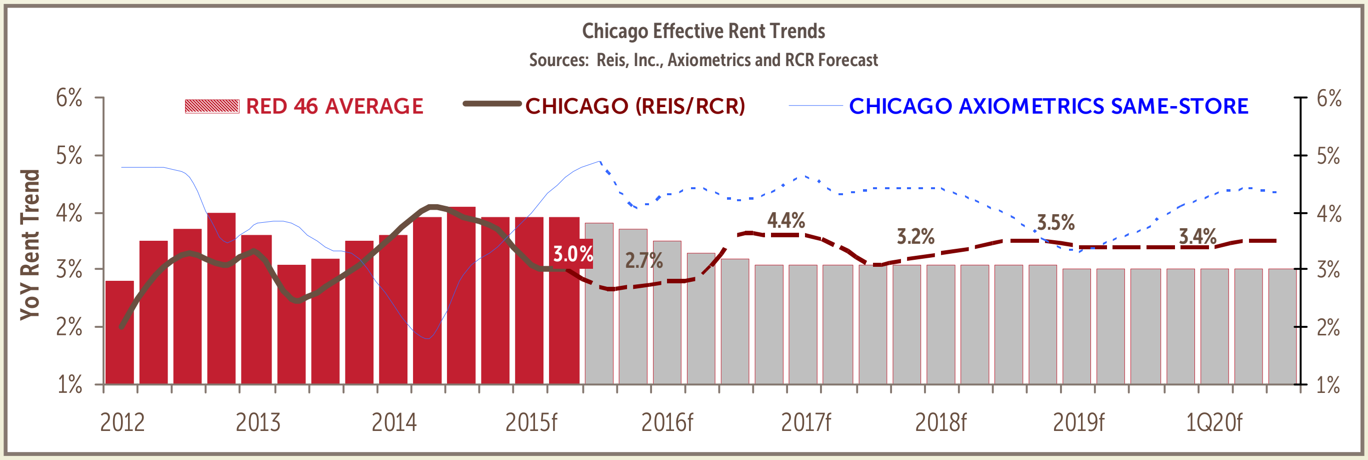


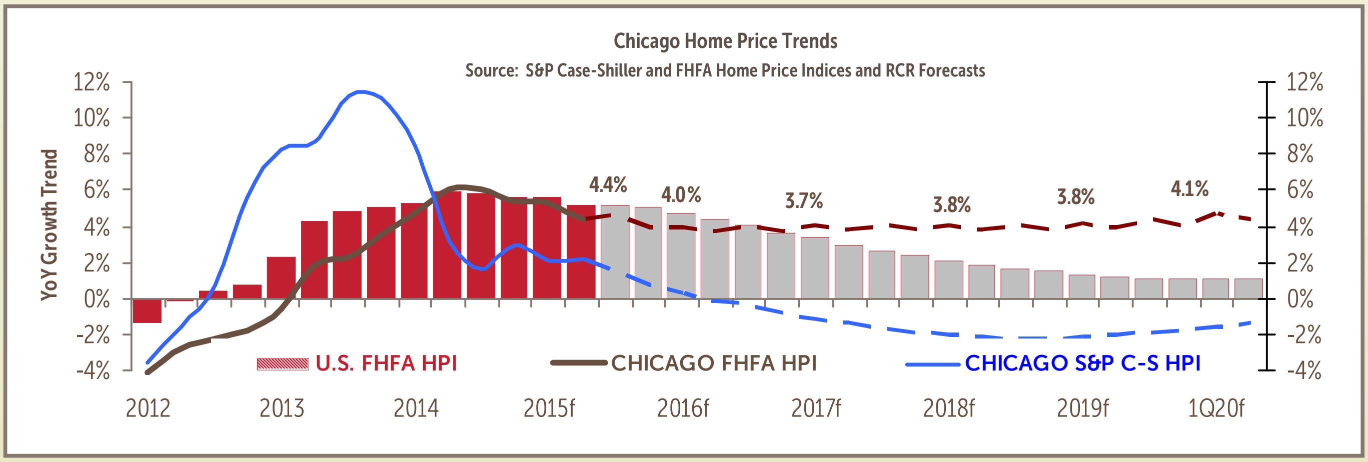


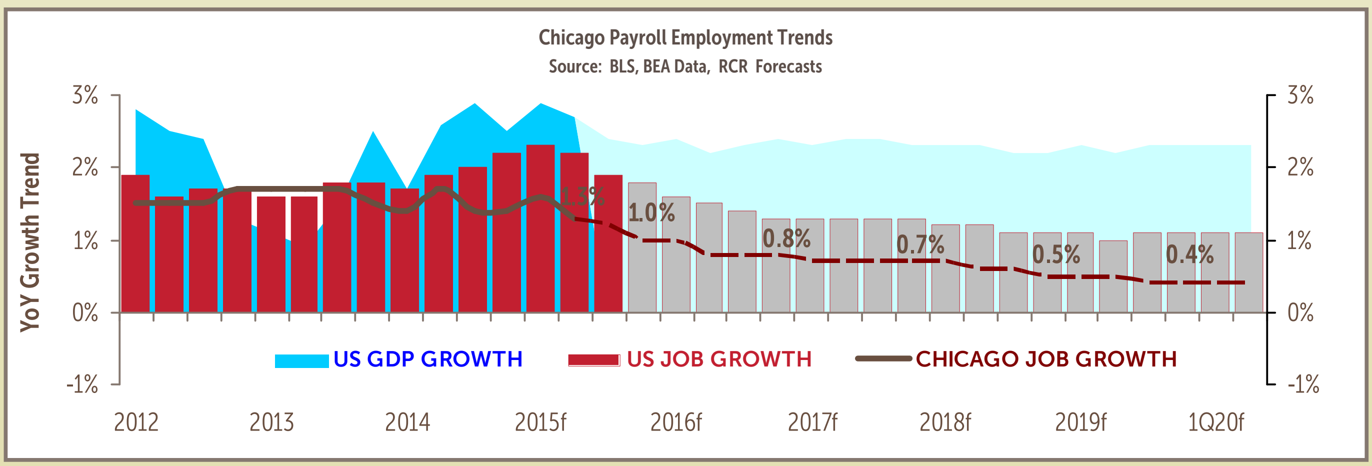


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Burnham Point (South Loop/Printers Row)	A- / SR HR (2008)	18-Jun-2015	$126.0	$422,819	4.8%
Reserve Hoffman Estates (Schaumburg/H.E.)	B- / GLR (1985)	20-Jul-2015	$86.3	$467,757	6.2%
Lofts at Roosevelt Collection (S. Loop)	B+ / MB MR (2010)	2-Aug-2015	$127.1 (allocated)	$371,575	4.8%
TGM McDowell Place (Aurora/Naperville)	B- / GLR (88/08)	3-Sep-2015	$64.9	$162,250	5.2%
The Iroquois Club (Aurora/Naperville)	B / GLR (1989)	21-Sep-2015	$38.0 (232 units)	$159,664	5.4% / 6.6% p.f.


Chicago Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
CHICAGO (REIS/RCR)
CHICAGO AXIOMETRICS SAME-STORE
YoY Rent Trend
6%
5%
4%
3%
2%
1%
3.0%
2.7%
4.4%
3.2%
3.5%
3.4%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f


Chicago Home Price Trends
Source: S&P Case-Shiller and FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
4.4%
4.0%
3.7%
3.8%
3.8%
4.1%
U.S. FHFA HPI
CHICAGO FHFA HPI
CHICAGO S&P C-S HPI
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f


Chicago Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
3%
2%
1%
0%
-1%
1.0%
0.8%
0.7%
0.5%
0.4%
US GDP GROWTH
US JOB GROWTH
CHICAGO JOB GROWTH
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	2Q14	2Q15	Change	2Q14	2Q15	Change
Aurora / Naperville	$1,094	$1,118	2.1%	2.7%	2.1%	-60 bps
Belmont-Montrose	$1,247	$1,295	3.9%	2.1%	2.5%	40 bps
City West	$1,082	$1,153	6.5%	6.1%	7.7%	160 bps
Downers Grove	$983	$1,002	2.0%	3.1%	2.8%	-30 bps
East Lake County	$1,025	$1,037	1.2%	2.1%	1.9%	-20 bps
Glen Ellyn / Wheaton	$989	$1,008	2.0%	4.2%	3.4%	-80 bps
Glendale Heights	$1,168	$1,186	1.5%	2.3%	1.7%	-60 bps
Glenview / Evanston	$1,102	$1,172	6.3%	2.7%	3.8%	110 bps
Gold Coast / River North	$1,877	$1,945	3.6%	4.1%	5.9%	180 bps
Joliet	$836	$878	5.1%	4.2%	5.3%	110 bps
Kane County	$1,058	$1,097	3.7%	5.6%	6.0%	40 bps
Lincoln Park	$1,299	$1,311	0.9%	1.5%	1.3%	-20 bps
McHenry County	$940	$1,002	6.5%	2.6%	3.2%	60 bps
O'Hare	$927	$957	3.3%	3.7%	2.9%	-80 bps
Oak Park	$959	$972	1.4%	3.3%	2.8%	-50 bps
Palatine	$1,166	$1,191	2.2%	4.4%	3.6%	-80 bps
Rogers Park / Uptown	$840	$853	1.5%	3.4%	3.2%	-20 bps
Schaumburg / Hoffman Estates	$1,030	$1,061	3.0%	3.3%	3.0%	-30 bps
South Shore	$924	$951	2.9%	3.9%	3.4%	-50 bps
Southeast Cook County	$849	$862	1.6%	3.4%	2.9%	-50 bps
Southwest Cook County	$841	$848	0.9%	3.2%	2.5%	-70 bps
The Loop	$1,716	$1,777	3.5%	8.0%	9.9%	190 bps
West Lake County	$945	$958	1.4%	2.7%	2.3%	-40 bps
Wheeling	$1,086	$1,149	5.7%	2.0%	3.2%	120 bps
Woodridge / Lisle	$1,054	$1,058	0.4%	3.1%	2.6%	-50 bps
Chicago Metro	$1,102	$1,135	3.0%	3.6%	3.6%	0 bps

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