

Appraisal Research Counselors

400 E. Randolph Street, Suite 715

Chicago, IL 60601

312 565-0977 Fax 312 565-3436

Gail Lissner

John Jaeger

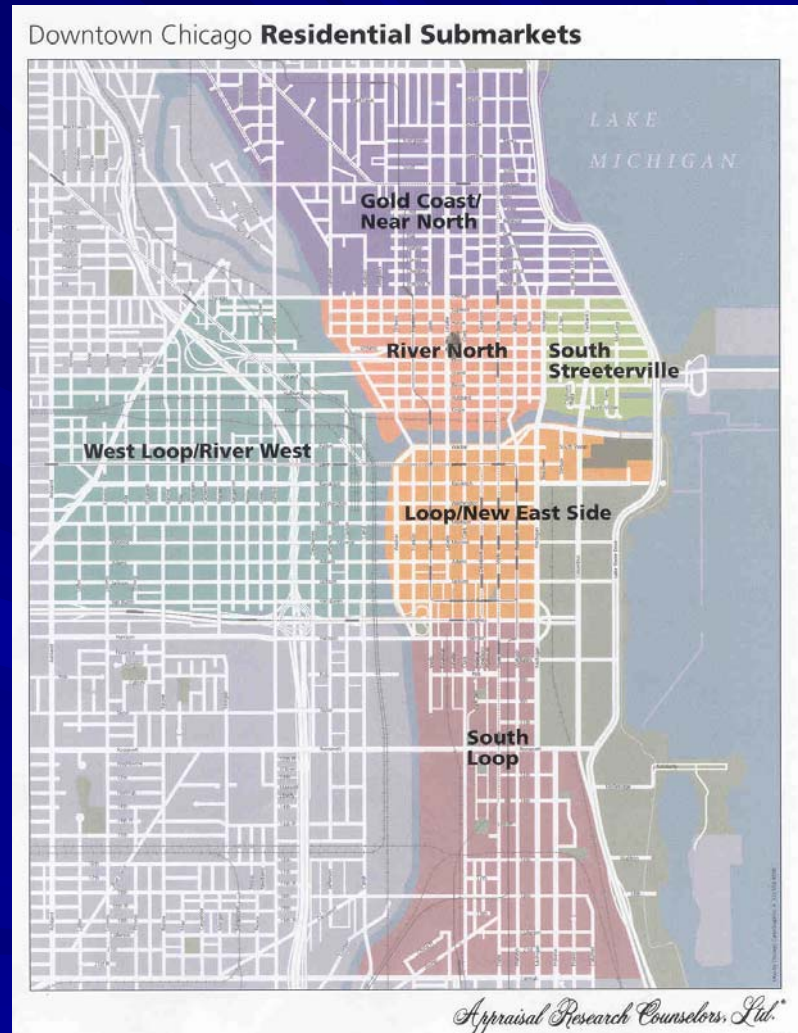
Downtown Chicago Residential Market Overview 2003-2004

Appraisal Research Counselors
www.appraisalresearch.com

Downtown Market

- New Construction Condo
- New Construction TH
- Adaptive Reuse Condo
- Condo Conversion

- Market Area:
 - N: North Ave.
 - S: McCormick Place
 - E: Lake Michigan
 - W: Ashland Ave/
 - Chicago River



2003 Results – For Sale Market

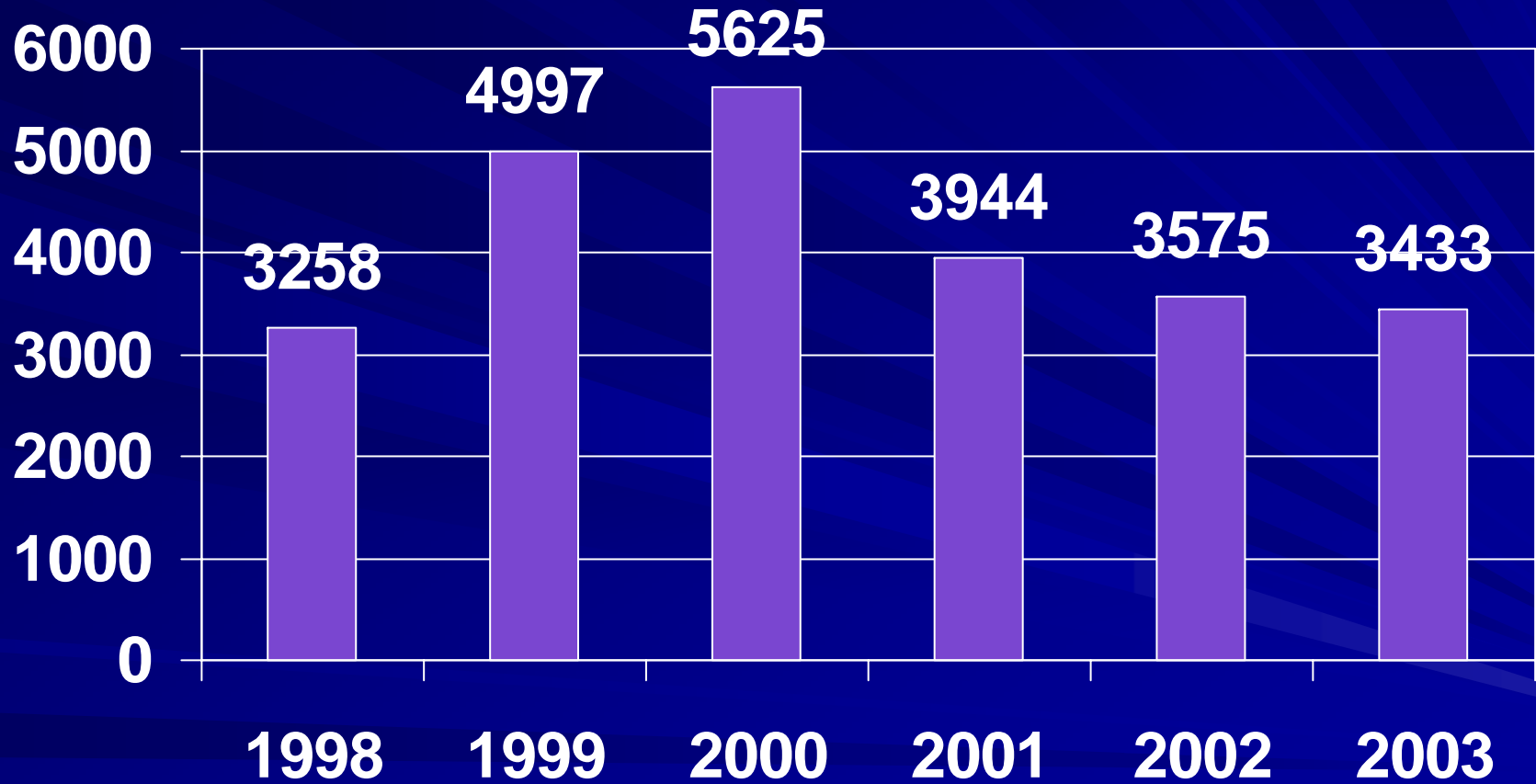
Good News

Bad News

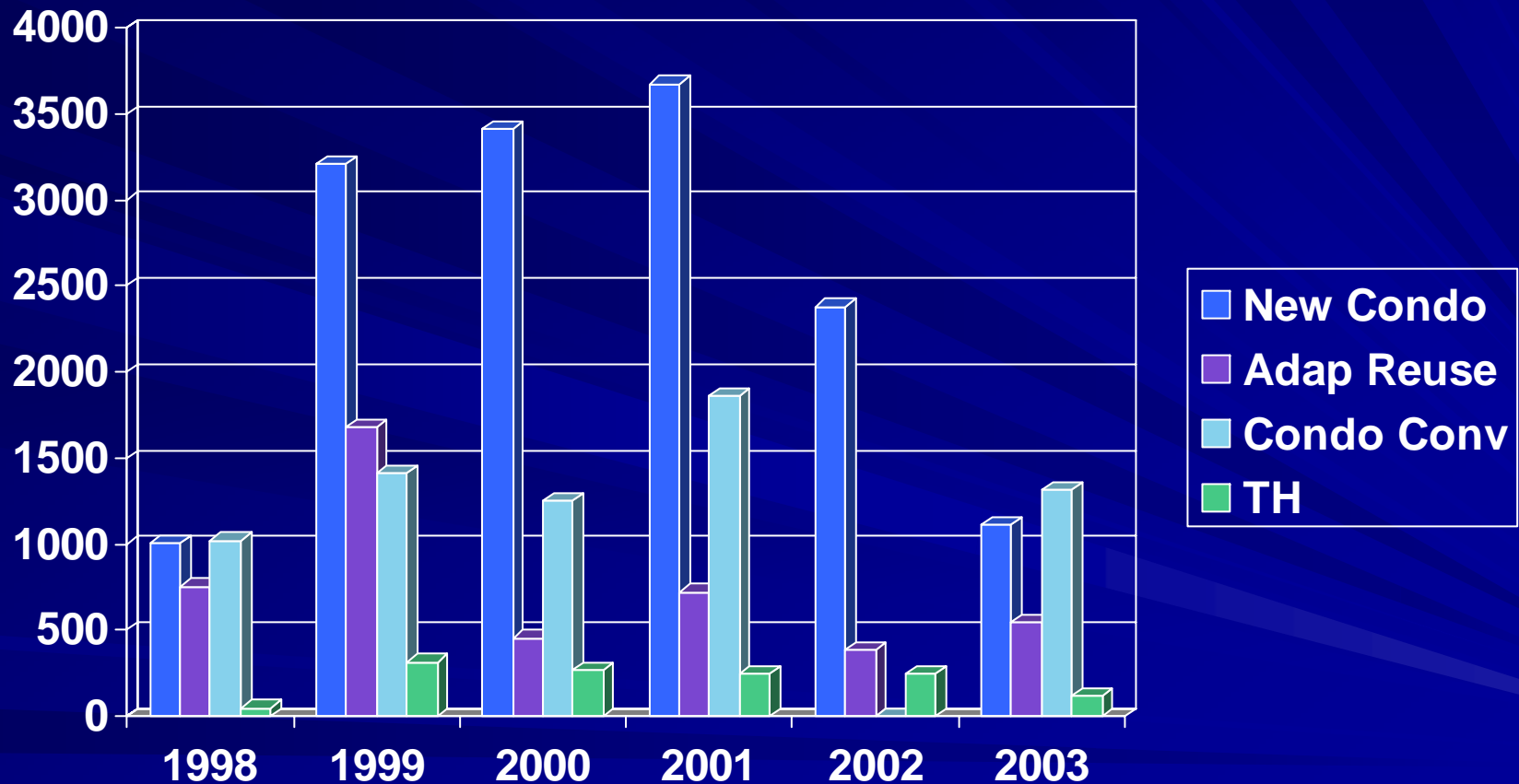
- Sales: ok
- Fewer projects announced
- Unsold inventory down
- Interest rates remained at low levels
- Developers maintained prices
- Few buyers walked from contracts
- Strong first time buyer market
- Great demand for 1BRs
- View units sell rapidly
- Good presale activity
- Fewer first-time developers

- Sales: not stellar
- Record new unit deliveries
- Unsold delivered inventory up
- Buying patterns not interest rate driven
- But concessions were rampant
- But now record numbers of units listed for resale
- Weaker luxury market
- Tough to sell a 2BR
- Ordinary units sit
- Struggle to sell out
- Construction & mezz lenders becoming developers

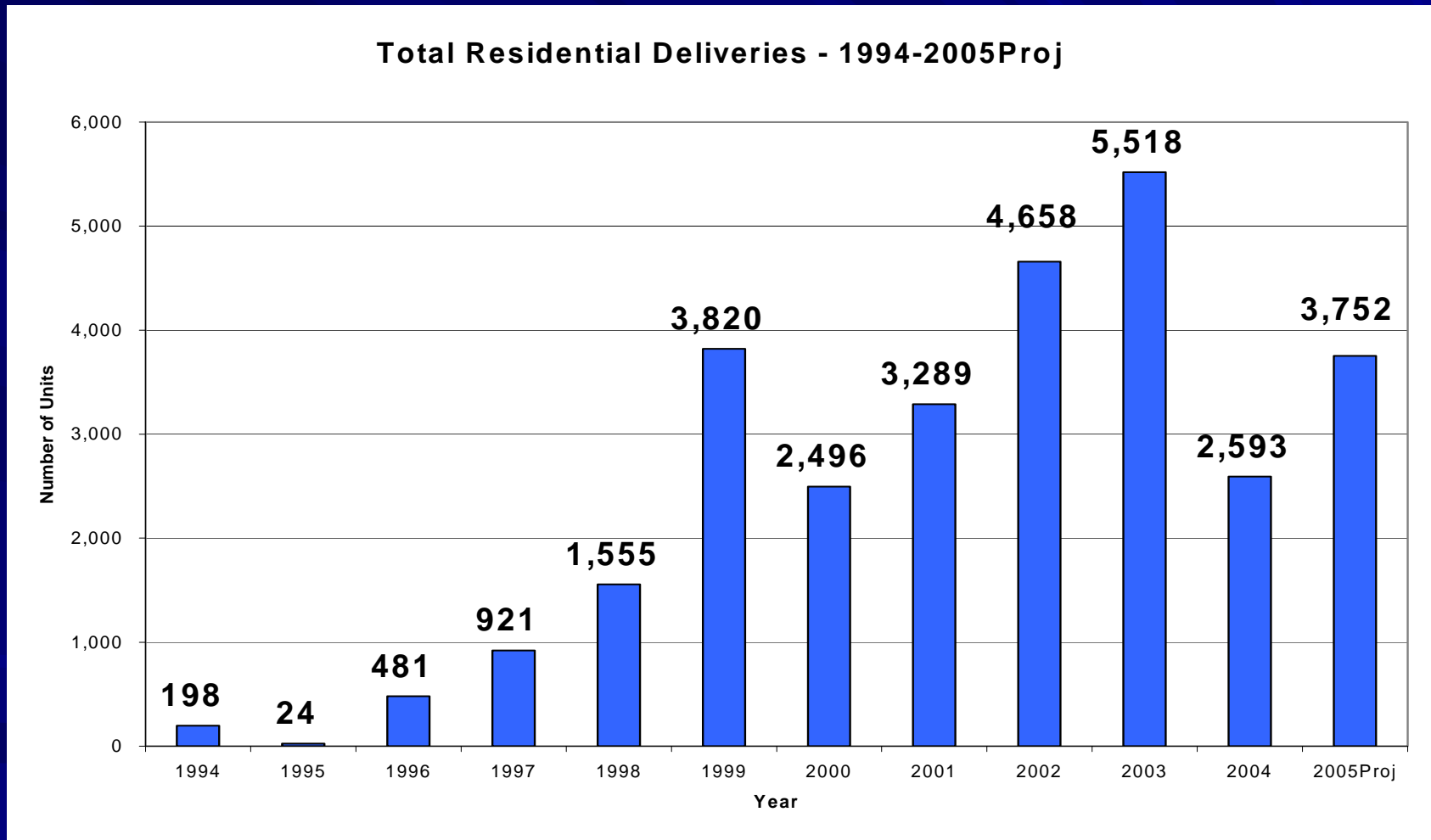
Absorption Patterns/New Contracts (New Const Condo, TH, Adap Reuse, Condo Conv) 1998-2003



Fewer Projects Announced in 2003



Total Residential Deliveries – 1994-2005Proj



What's in store for the 2004 for sale market?

- Large scale developments- big in 2004
- Pipeline is down from the boom years
- Deliveries down from 2003 record levels
- Conversion activity strong
- Adaptive reuse market still healthy
- Concessions remaining til...
- Annual sales of 3,000-3,500 units – continued decrease in unsold inventory

2003 Results – 2004 Rental Market Forecast

Good News

- In 2003 Chicago MSA lost less jobs than 2002
- Positive job growth forecasted for 2004
- Condo announcements down in 2003
- Condo and rental deliveries will be down in 2004
- Apartment occupancies increased in 2003 to 92%
- Positive net absorption occurred in 2003
- 14/36 rental buildings we survey are not offering concessions
- Demand for Apts is strong

Bad News

- In 2003, Chicago MSA lost 26,500 jobs
- Positive job growth was forecasted for 2002 and 2003!
- Condo announcements increase in 2004
- Condo and rental deliveries increase coming off 3 years in a row of record deliveries
- Market is still not stabilized from an occupancy standpoint
- Mkt needs to absorb 1,250 traditional rental units to reach 95% occupancy
- 22/36 rental buildings we survey are offering concessions
- Very little Apt product on the Mkt

Overall Conclusions - Negative

- When will concessions stop?
- “Hidden Rental Market” – rented by condo speculators
 - Biggest negative to rental market is the condo market
- Rising Insurance, Utility, other expenses
- Rising Real Estate Assessments
- Expenses as a % of EGI rising
- Lack of identifiable job growth

Overall Conclusions - Positive

- + Condo announcements and deliveries are trending down
- + Rental deliveries in 2004 will be lower than previous two years
- + Condo conversions expected to continue, depleting more rental inventory from market
- + Corporate housing providers back in the rental market
- + Rental occupancies showing positive trends
- + Existing buildings showing gradual improving occupancies, while new buildings achieving strong absorption
- + Net leasing activity is taking place