DOWNTOWN CHICAGO RENTAL MARKET
A MICRO ANALYSIS OF A SUBMARKET

National Multi Housing Council Research Forum

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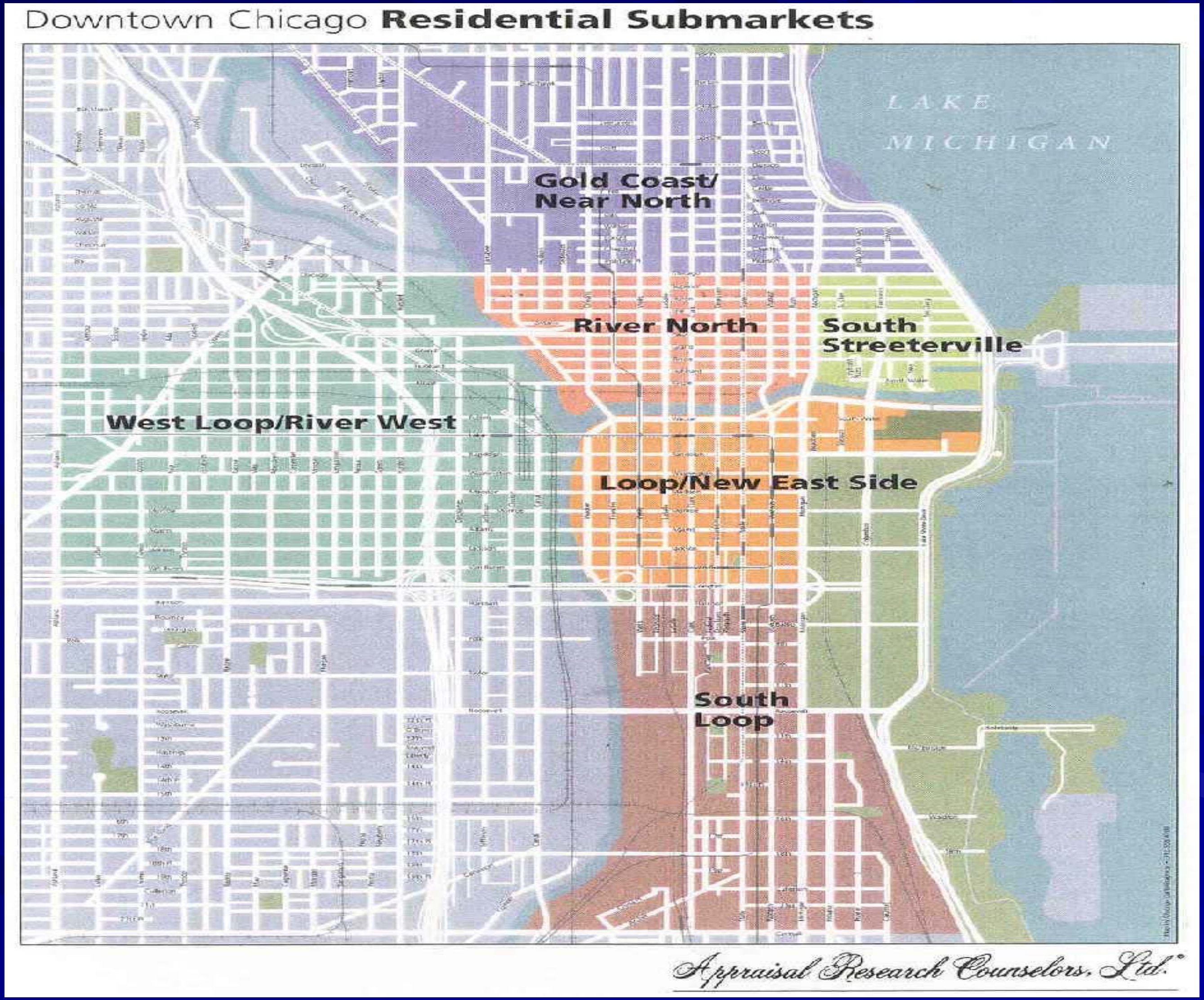
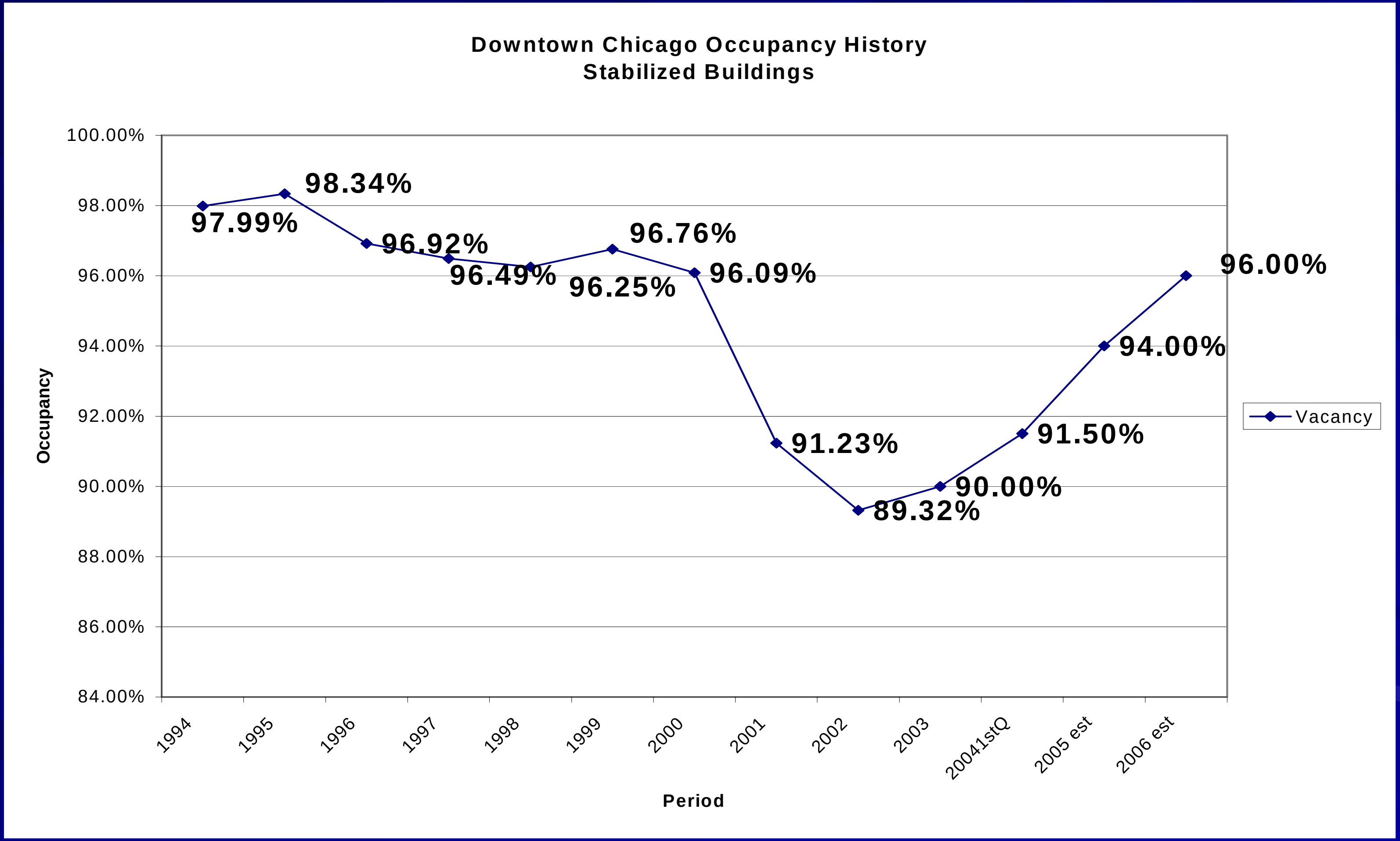
Weak Apartment Conditions Summary: The Quadruple Whammy

- Negative job trends VS occupancy
- Record new condominium and rental construction deliveries VS occupancy
- Decrease in condominium conversions during 2002/2004 VS occupancy
- Decrease in demand from corporate suite providers
- Along with record condominium deliveries, condos being rented by investors/speculators

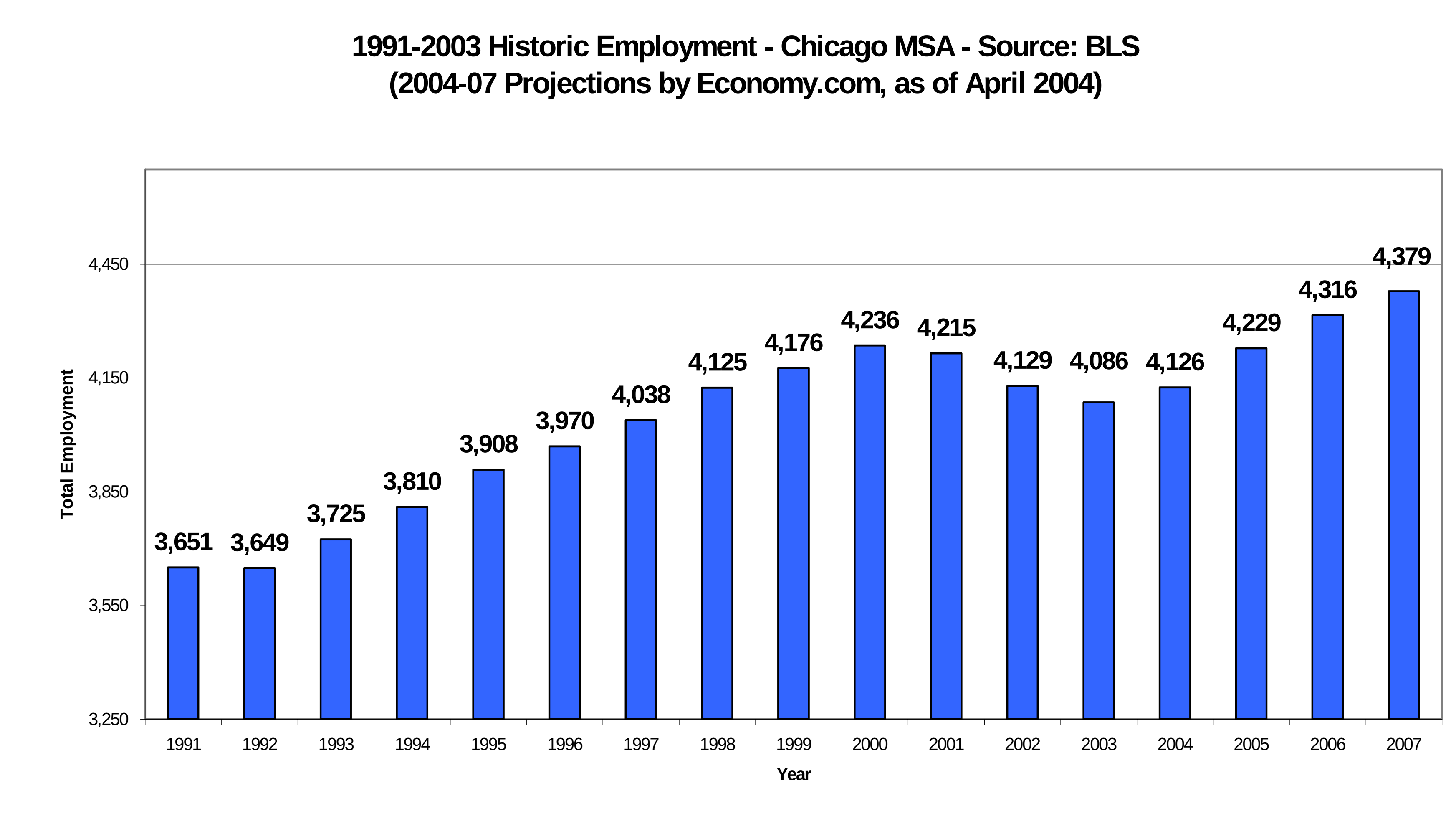
Downtown Submarkets



Downtown Chicago Occupancy History
"The Big Dipper"



1991-2003 Chicago MSA Employment 2004-07 Projections



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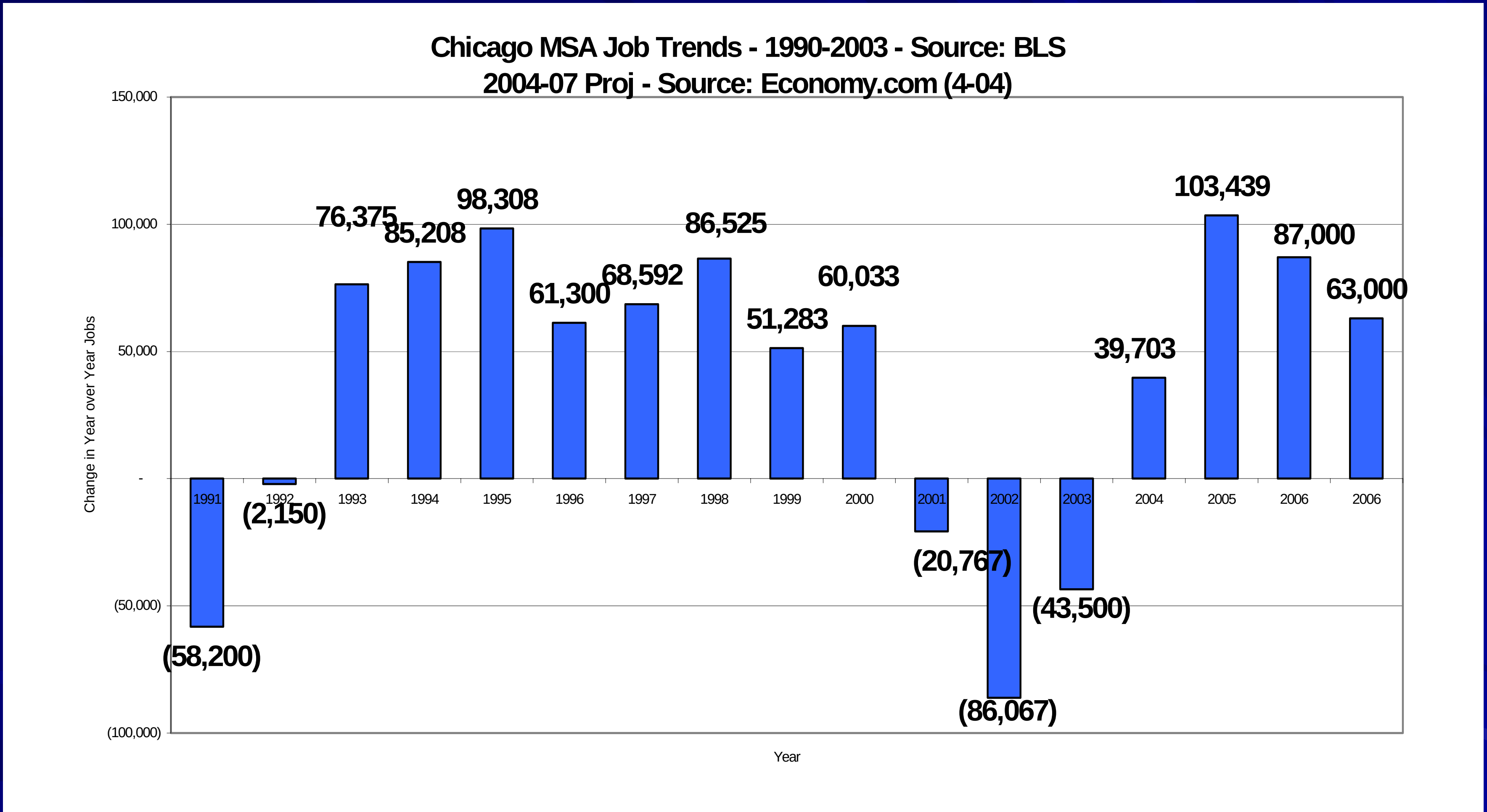
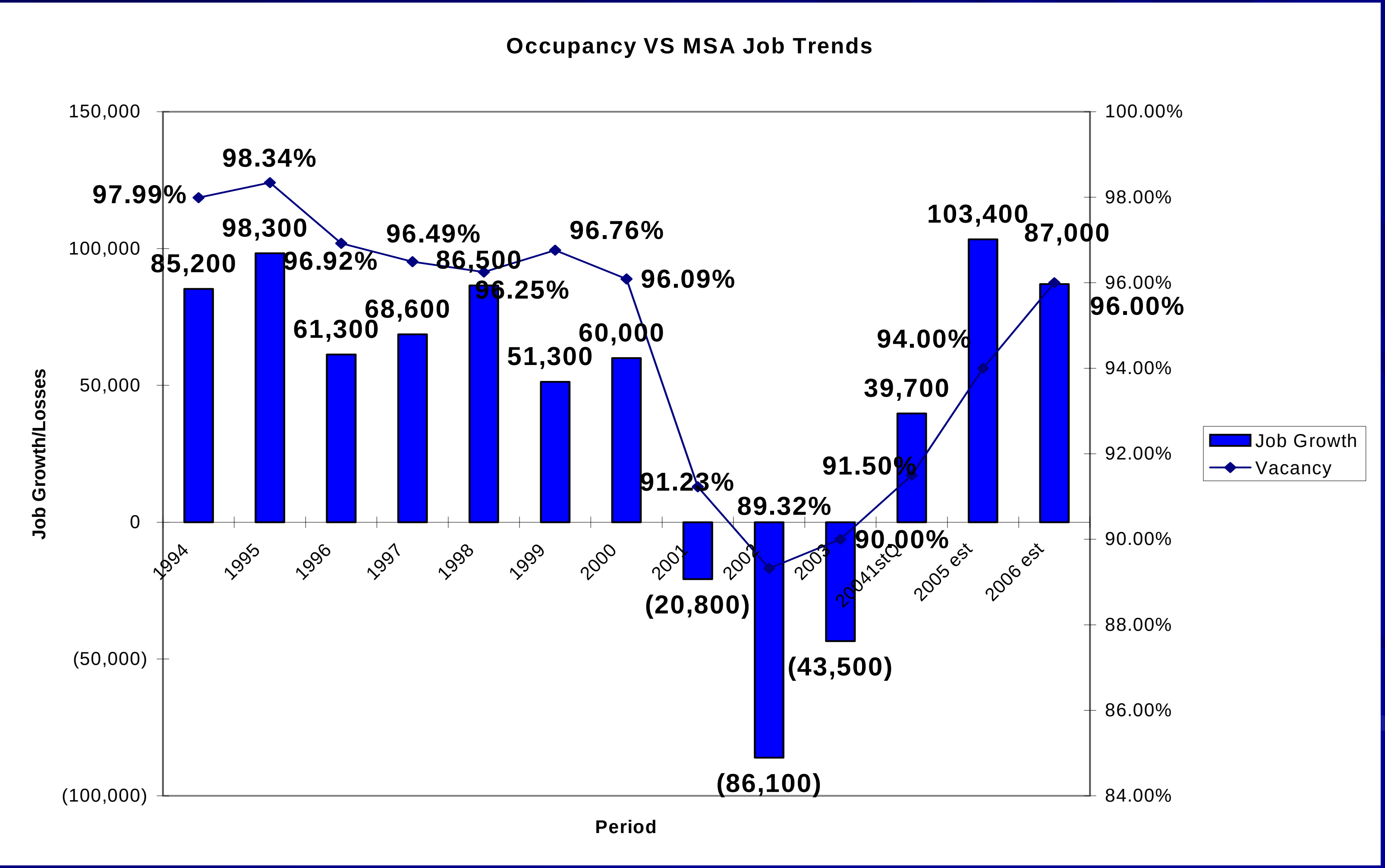


Downtown Chicago Occupancy VS Job Trends



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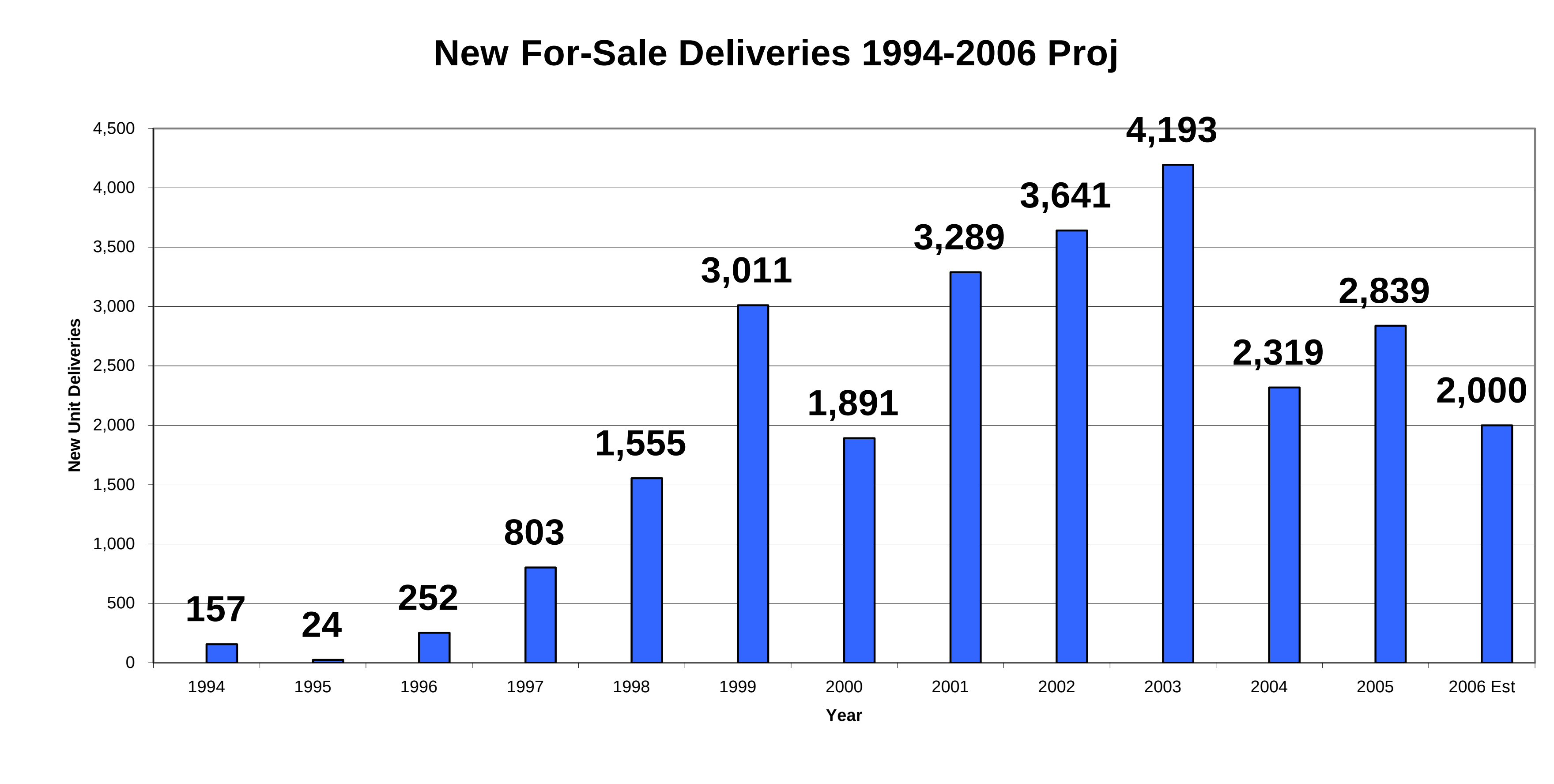
New For Sale Deliveries – 1994-2006 Proj
Almost 24,000 units Delivered



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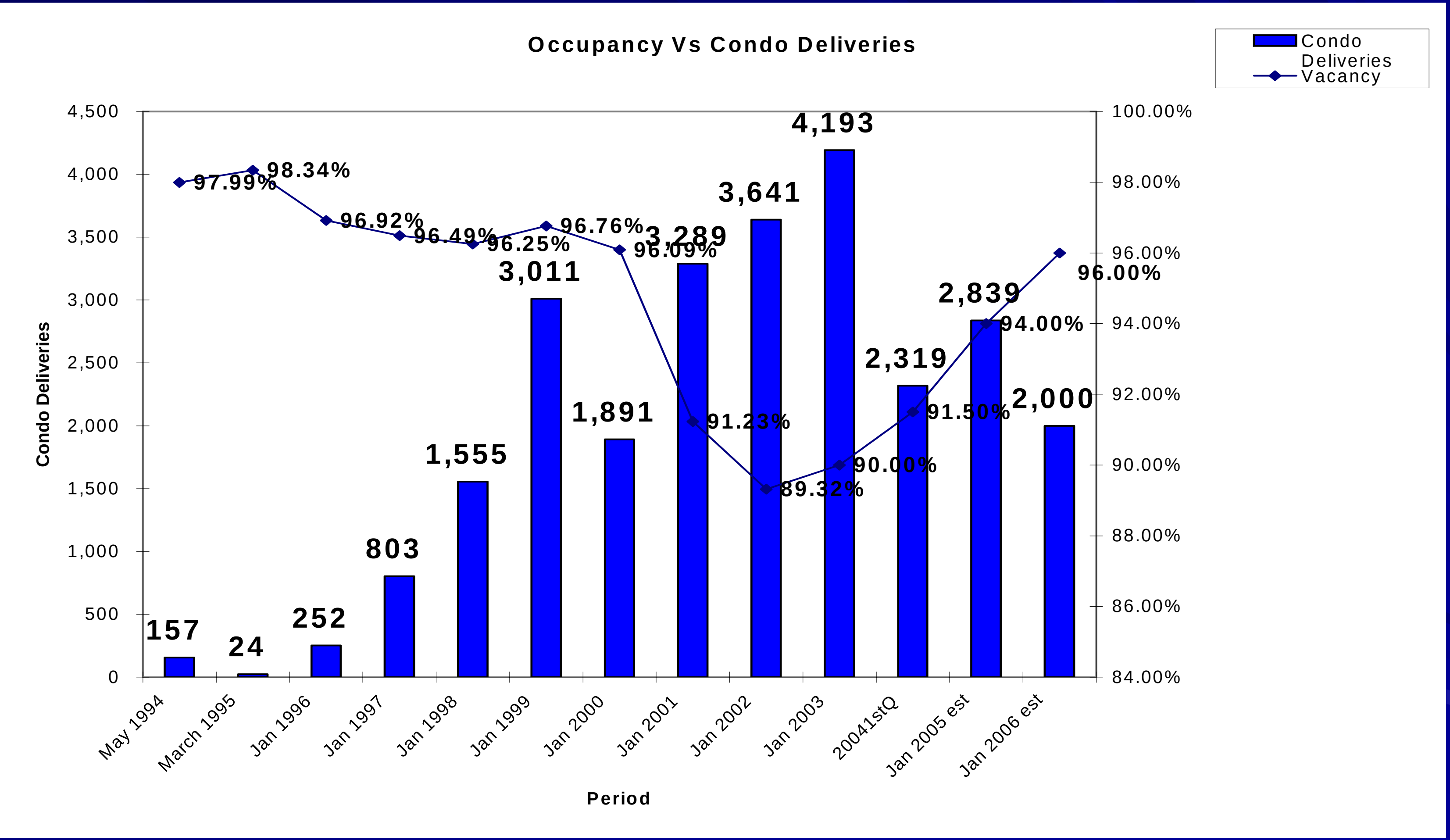
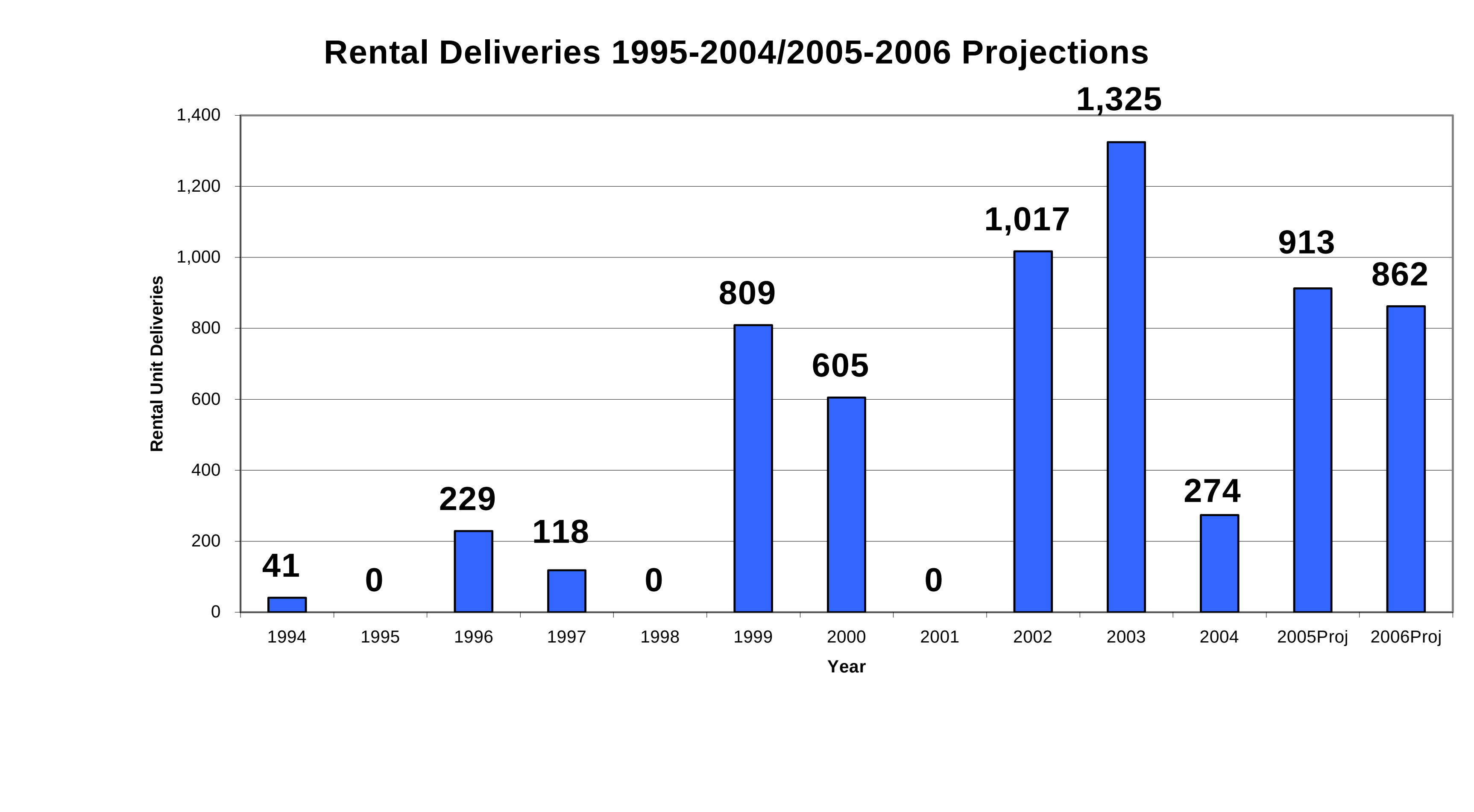
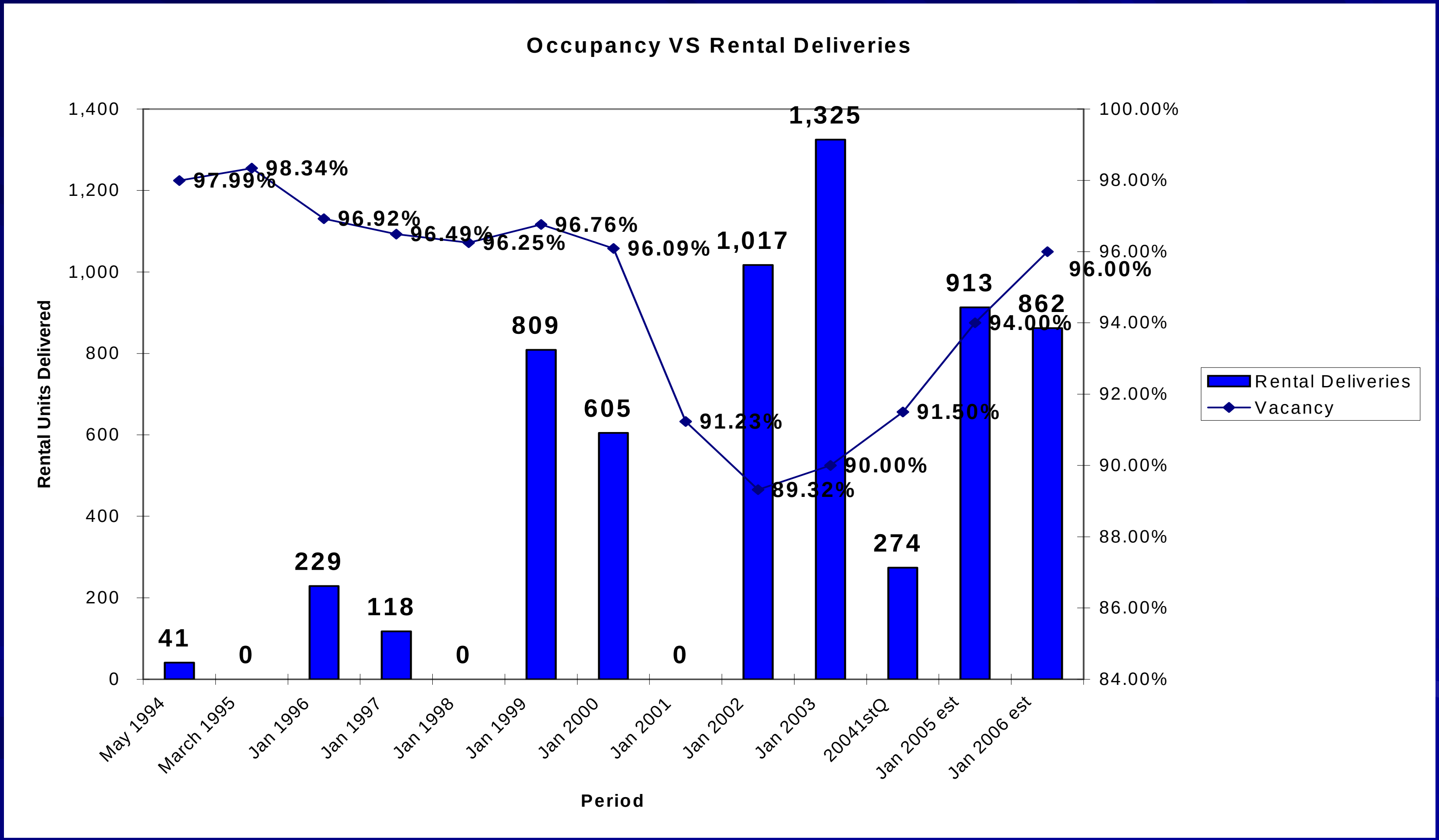
Occupancy VS Condo Deliveries 1994-2006 Proj



Rental Deliveries – 1994-2004/2005-2006 Projections (5,300 units)



Occupancy VS Rental Deliveries – 1994-2004/2005-2006 Projections



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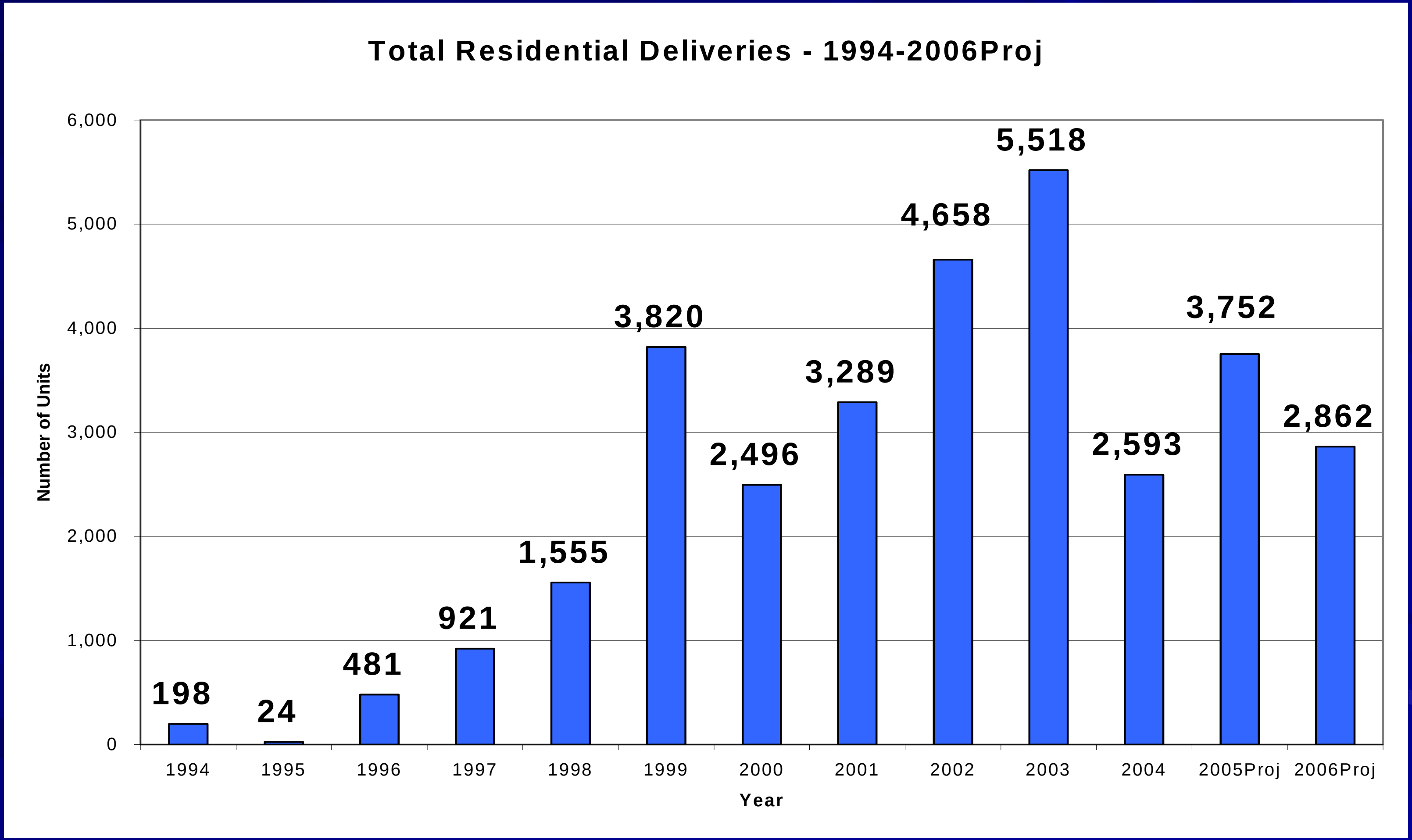
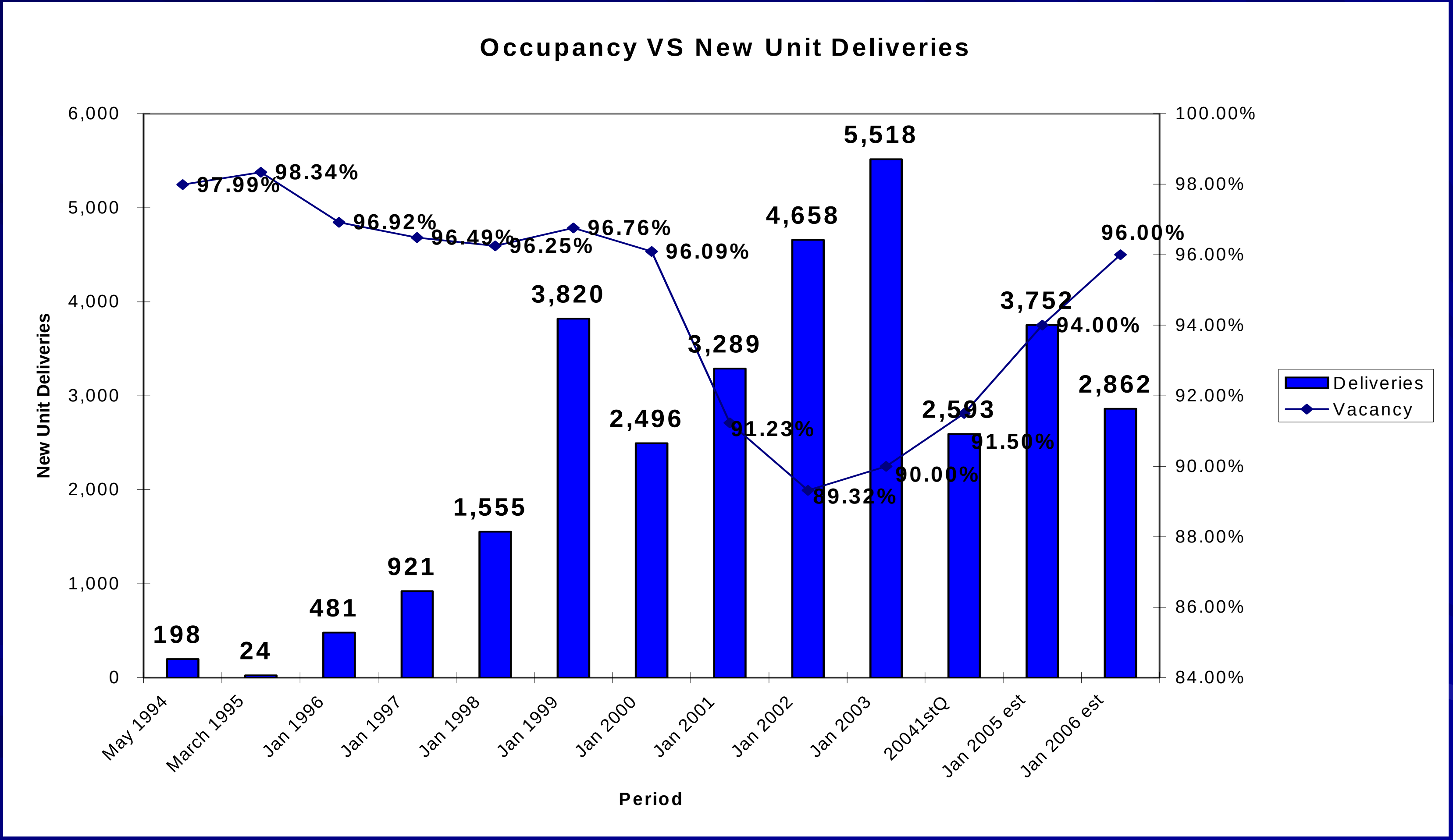
Total Deliveries – 1994-2004/2005-2006 Projections (29,000 units)



Occupancy VS Total Deliveries – 1994-2004/2005-2006 Projections



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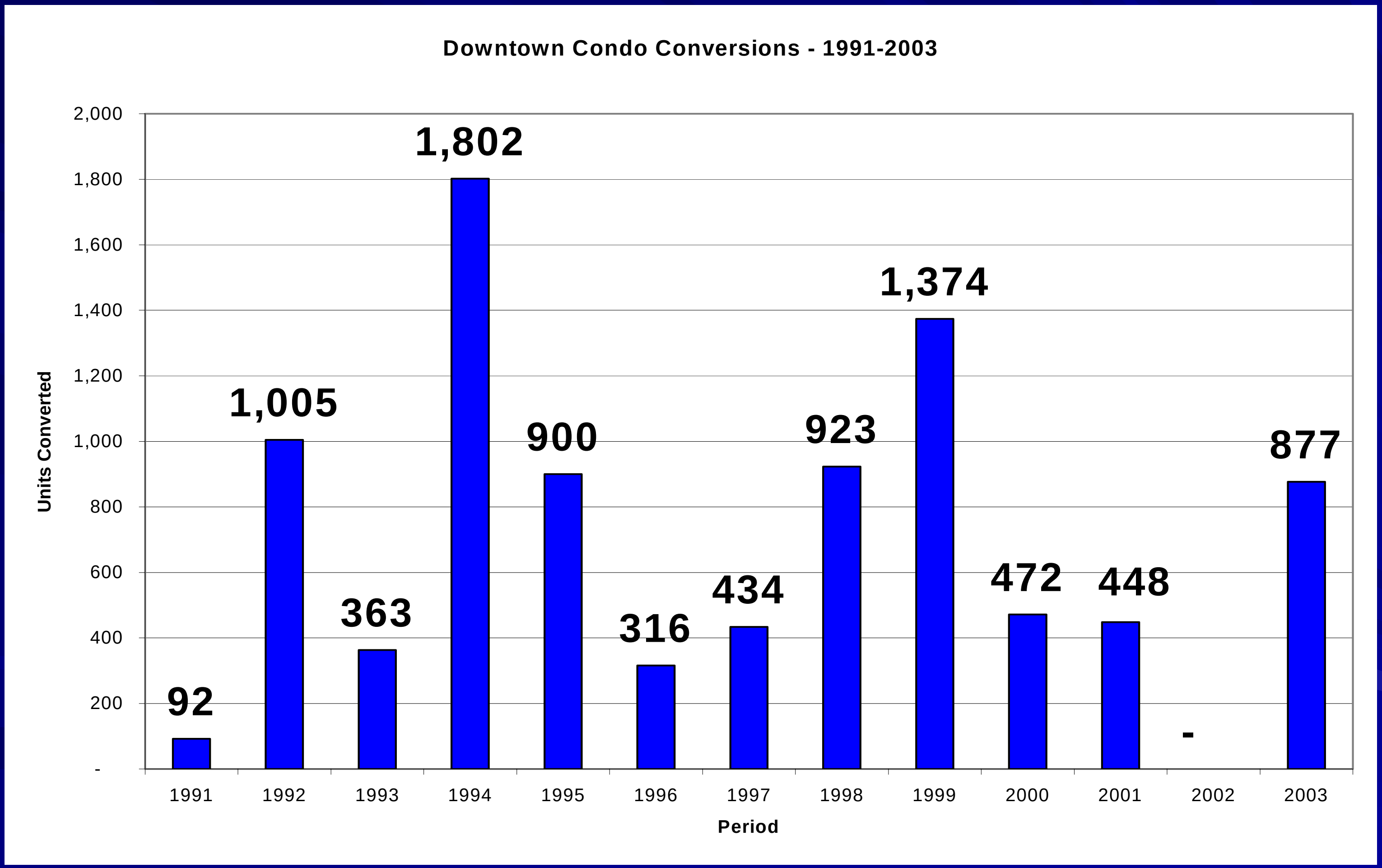
Downtown Condo Conversions – 1991-2003 (9,000 units)



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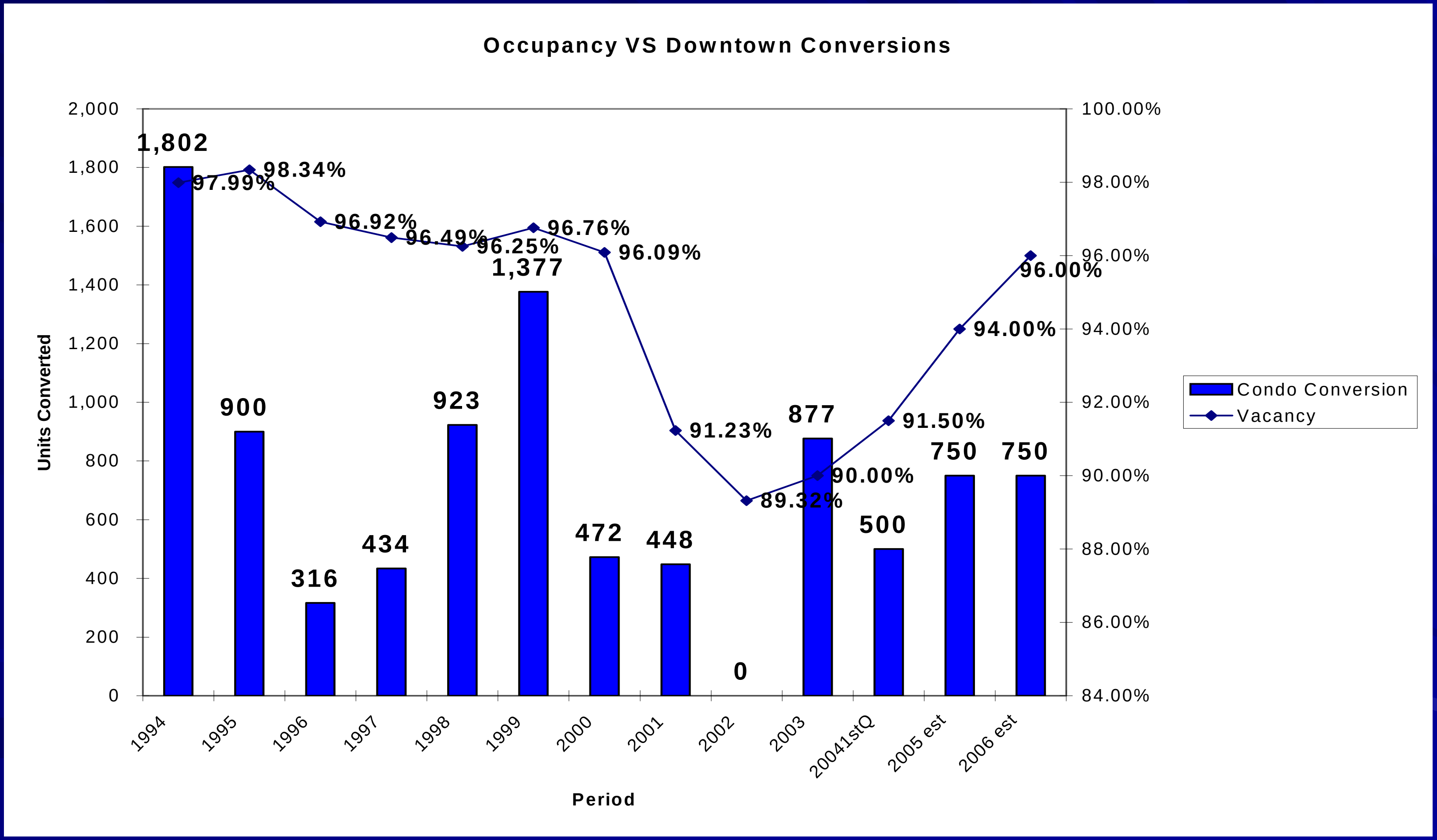
Occupancy VS Condo Conversions



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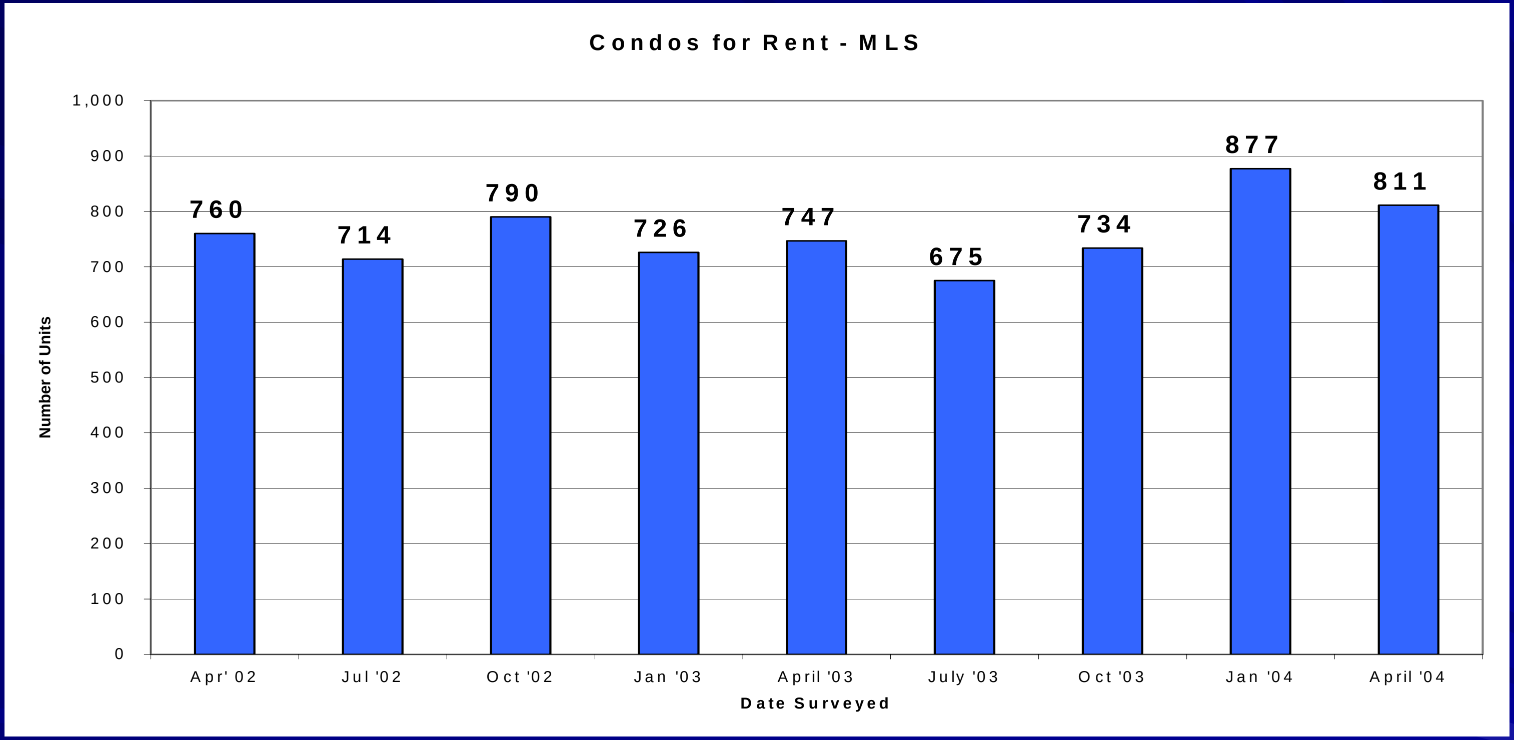
Corporate Suite Market demand dropped significantly from the late 1990's to 2002/03

Period	Bldgs	Total Units	Total Corporate	Percentage Corporate
Jul-99	68	25,519	2,562	10.04%
Apr-00	68	25,519	2,526	9.90%
Jul-00	68	25,519	2,334	9.15%
Nov-03	80	29,262	1,885	6.44%
Loss (99-03)	12	3,743	(677)	
Occupancy Loss (Based on 25,000 units)				-2.71%

Condos for Rent are competing with the rental market



Speculator Market

- About 20% of the condo market is owned by investors
- Not a recent trend, but numbers spiked from 1999-2001
- Estimated to total over 4,500 units, or the size of 9 500-unit rental buildings
- Investors competing with apartment owners and beating them on rents
- Higher interest rates may force investors to sell rather than rent

Overall Conclusions

Chicago MSA has lost 150,000 jobs over the last 4 years which has reduced demand for apartments

During this same period, there have been record deliveries of condominiums and rental units (30,000 units)

Due to more new for-sale product and lack of buildings to purchase, condominium conversions slowed in the downtown market

A decrease in demand for corporate suites led to a large reduction in demand from corporate suite providers – this impacted occupancy by as much as 2.7%

The anticipation of price appreciation combined with lower interest rates led to significant speculation activity in the downtown market, leading to thousands of “condos for rent”. These are now competing with the traditional rental markets

Future Apartment Conditions
The Quadruple Whammy Reversed?

Economy appears to be creating jobs, will Chicago get its share?

The deliveries of new condo units will drop by almost 50% in 2004 compared to 2003 and 25% lower in 2005 compared to the average of 2001-03

Rental deliveries will continue at a sustained pace of 750 to 1,000 units per year

We predict that condominium conversions will continue at a pace of 500-750 units per year

Corporate suite demand perked up in 2003 and should improve more with an improving economy

The speculator market will naturally slow due to rising interest rates and a significant slow down in price appreciation