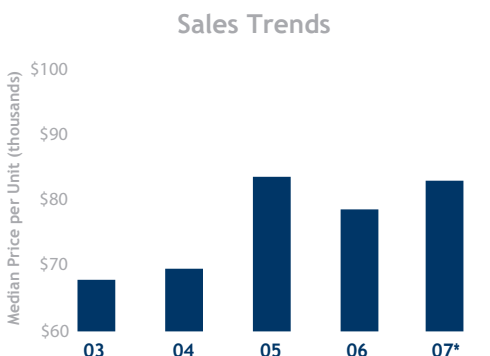
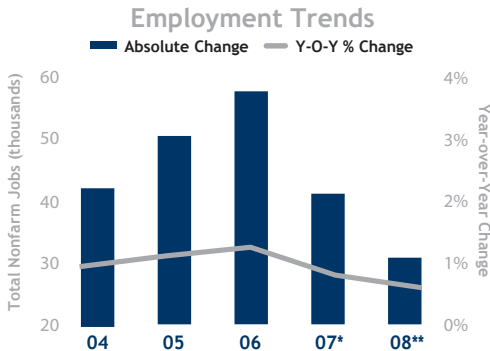


Renter Demand to Remain Strong, Leading to Lower Vacancy in Chicago Market

Operating conditions in the Chicago apartment market will remain reasonably strong in 2008. Employment growth will sustain renter demand and difficulties in the residential mortgage market will add to a large pool of potential renters, leading to a slight decline in vacancy. Additionally, rents are expected to rise at a healthy rate. Among the demand-side trends to watch in 2008 is employment in the financial activities sector, which tapered off in late 2007. This year, the Chicago Mercantile Exchange will cut 380 positions, and Bank of America will reduce local payrolls due to the firm's merger with LaSalle Bank. The possibility of financial firms continuing to trim staffing levels and a 1.3 percent gain in supply will likely cause the downtown vacancy rate to lag the overall metro slightly this year. Consequently, Class B/C properties in the downtown area will likely fare better in the short term due to their working-class tenant mix. In the suburbs, meanwhile, vacancy is forecast to remain at less than 5 percent this year, and rents will climb at a pace greater than the marketwide average, as no new stock is scheduled for completion by year end.

In the months ahead, investment activity will continue to settle into a more sustainable level, as a greater number of apartment operators re-enter the market after several periods where converters played a dominant role. Property owners should expect a more gradual pace of price appreciation in the near term and some upward movement in cap rates for lesser-quality assets. After experiencing several years of healthy gains, Class A properties could post slightly higher vacancy and a reduced pace of rent growth in the near term as renter demand shifts to the lower tiers.



* Estimate ** Forecast

2008 Market Outlook

- ◆ **2008 NAI Rank: 13, Up 7 Places.** Modest vacancy improvement and minimal additions to apartment inventory support Chicago's seven-spot rise in this year's ranking.
- ◆ **Employment Forecast:** After adding 40,000 new positions in 2007, employers will create 30,000 jobs this year, a 0.6 percent increase.
- ◆ **Construction Forecast:** Developers are expected to complete 2,200 units in 2008, up from 400 units last year but an amount equal to a scant 0.5 percent uptick in rental stock.
- ◆ **Vacancy Forecast:** Renter demand will remain steady, driving a 20 basis point decline in vacancy to 4.5 percent. In the suburbs, limited additions to stock and a soft for-sale market will cut vacancy 30 basis points to 4.4 percent, while a 10 basis point drop to 4.6 percent is forecast for downtown submarkets.
- ◆ **Rent Forecast:** Asking rents are expected to increase 3.2 percent to \$1,079 per month in 2008, and effective rents will reach \$1,010 per month, also a 3.2 percent gain.
- ◆ **Investment Forecast:** Investors may want to track the progress of hotel development around McCormick Place, where approximately 2,100 new rooms are planned. In the suburbs, a major expansion of O'Hare Airport will create jobs and bolster renter demand for area apartment units.

Market Forecast Employment: 0.6% ▲ Construction: 450% ▲ Vacancy: 20 bps ▼ Asking Rents: 3.2% ▲