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Gail Lissner and Ron DeVries are co-authors of the Appraisal Research Counselors Downtown Chicago Residential Benchmark Report and the Suburban Chicago Apartment and Condo Conversion Report. The Benchmarks provide an in-depth analysis and review of the rental and for-sale housing market and are used by persons who want to make informed decisions regarding residential real estate investments in Chicago.

To purchase a Benchmark Report, contact Ron DeVries at 312 565 3432 or rdevries@appraisalresearch.com or Gail Lissner at 312 565 3423 or glissner@appraisalresearch.com

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Suburban and Downtown Chicago Residential Market Overview – Third Quarter 2006

Prepared by Gail Lissner and Ron DeVries, Appraisal Research Counselors

Suburban Chicago

Rents are up. Occupancy is up. Condo conversions have reduced supply and the pipeline for new units remains low. Where do we go from here?

The 3Q06 survey results presented in our Suburban Chicago Apartment and Condo Conversion Report are based on our personal survey of over 200 complexes containing over 70,000 apartment units. On the condo conversion side, our database contains over 10,000 units with roughly 6,000 units in buildings currently in a marketing program.

Suburban Rent Trends

We projected significant increases in net rent would occur in Spring 2006 and they arrived followed by an additional, albeit modest, increase in the second quarter. For the third quarter, rents inched upward slightly with the biggest gain surprisingly in the two bedroom market. Net rents per square foot in the suburban MSA are up 5.6 percent over the 3Q05 survey. We expect rent to be flat over the winter but with the potential for notable increases once again in Spring 2007. Concessions stand at an average of about 2 weeks free rent per lease year which is about half the level posted in 3Q05.

The Kane/Kendall, Lake and McHenry county submarkets were the leaders in year over year net rent growth at 11.9, 9 and 8 percent respectively.

With occupancies above 95 percent and percent leased on many buildings approaching 98 percent, owners may be missing opportunities in rent growth by not raising rents further. While turn costs have to be considered, the following illustrates the economics of pushing rents:

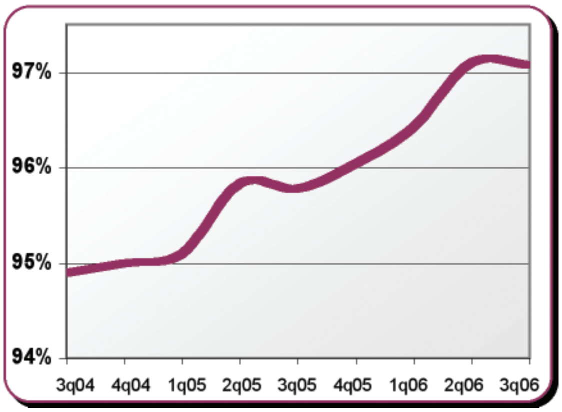
		Scenario 1	Scenario 2
	Base Line	5% increase	5% increase
PSF Rent	$1.08	$1.134	$1.134
Vacancy	3%	5%	7%
Collected Rent	$1.048	$1.078	1.055
Growth in Income		**2.86%**	**0.67%**

If rents are pushed by 5 percent and vacancy drops 200 or 400 basis points, growth in net income still occurs. Vacancy would have to rise from 3 percent to almost 8 percent before a five percent push in rents is eaten up by vacancy loss. If the 5 percent increase is absorbed without compromising occupancy, the value implications for sale of the asset or leveraging are apparent.

Suburban Occupancies

Third Quarter 2006 physical occupancy is at 97.1 percent for the entire market compared to 95.8 percent a year ago. When developments reach the 95 percent plateau, it becomes more difficult to line up a prospective tenant desires for unit type and location within the project to what is actually available for rent at that point in time. At 97.1 percent, this is the highest level seen over the past 2 years. With the employment picture continuing to solidify and conversion activity reducing supply, the growth in occupancy is no surprise.

Occupancy – 97.1%



Our projection continues to be for occupancy to now flatten out at this point with owners pushing rents instead. The goal is not to "fill the building" but rather to maximize income.

Suburban Deliveries

Riverwalk in Buffalo Grove by Hamilton Partners is finishing construction and just starting lease up. McShane Construction broke ground on Regency Place in Oak Brook Terrace for M&R Development in 4Q05 and units are expected to be delivered to the market shortly. It remains difficult to obtain appropriately zoned sites of significant size to accommodate development as most municipalities are favoring condominium development over rental product. Several of the projects we are tracking are mid-rise buildings on in-fill sites rather than traditional sprawling complexes. Overall, the ability to add significant supply is limited.

Suburban Condo Conversions

The condo conversion market continues its frantic pace in 2006. After having risen sharply this summer, interest rates for end loans have trended downward – returning lost buying power to would be owners. Investors of course are driving a lot of the demand. Price points in the $125,000 or less range for one bedroom, and $175,000 range for two bedroom units continue to sell out at a solid pace. In spite of the rising demand for condos, the unsold inventory of conversion units increased by 22 percent this quarter. There are roughly an additional 2,400 units ready to hit the market plus well over 1,000 units we are tracking on a confidential basis.

Suburban Investment Market

Transaction volume has moved from downtown to the suburbs with converters picking up a large portion of the B and C market while income buyers are typically the winning bidders on the upper tier properties. There is currently about $1 Billion worth of multifamily product either on the market or under contract in the suburbs - dwarfing recent years for activity. Demand remains strong as income buyers need to place funds in assets and the demand for condo conversion units continues.

Downtown Rental Market

With the virtually complete removal of concessions in the market, the net effective rents in the Class A market gained almost 9.5 percent compared to last year. In the B market, net effective rents are up almost 7 percent compared to last year. As the market heads into the fall/winter season, leasing programs are moving into "fill for winter" mode. Rather than press rents, owners are attempting to maximize occupancy which is typical of this time period.

As we note in our Downtown Chicago Residential Benchmark Report, the market remains undersupplied at this time. With occupancies overall at 96.9 percent, most properties are actually leased at roughly 98 percent or more. Sky55 in the South Loop and The Streeter in Streeterville are in lease up and seeing strong demand. Left Bank at K Station is anticipated for November occupancies which should add relief to the pressure on supply.