TRACY CROSS & ASSOCIATES, INC.

Market Support Analysis – A Summary
--- Corporate Reserve of St. Charles Apartments ---
St. Charles, Illinois

August 3, 2012

INTRODUCTION

At the request of JCF Real Estate, Tracy Cross & Associates, Inc. evaluated the market potential for rental apartment development in St. Charles, Illinois. Specifically, this summary analysis, which focuses upon JCF Real Estate's proposed 331-unit Corporate Reserve apartment community and is suitable for submission to the City of St. Charles, establishes the following:

- ❑ Conclusions regarding the depth of the St. Charles area for rental apartment development over the next five years based upon pertinent economic, demographic, and residential market trends which define the marketplace.

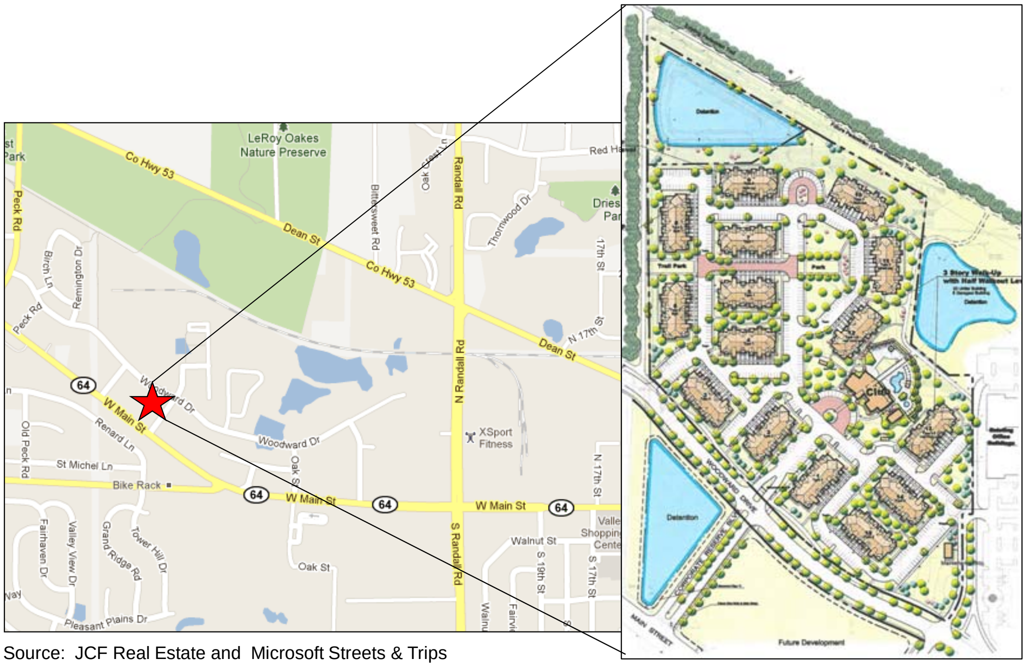
- ❑ Conclusions regarding the overall marketability of 331 rental apartments to be distributed within a series of three-story residential buildings with optional garage parking available. These conclusions are based upon factors associated with the location of the property, absorption, vacancy and rent characteristics of like developments, and the near term outlook for rental housing development in St. Charles and its immediate west suburban environs, defined as the *St. Charles Market Area*.

THE SUBJECT PROPERTY

The Corporate Reserve Apartments property consists of 20.3 acres situated immediately north of Main Street/Route 64 at the intersection of Corporate Reserve Boulevard and Woodward Drive in the western portion of the city of St. Charles, Illinois. It is located less than three-quarters of a mile west of Randall Road, a major north-south arterial serving all of Kane County.

REAL ESTATE MARKET ANALYSIS
1920 N. THOREAU DRIVE, SUITE 150
SCHAUMBURG, IL 60173-4174
t 847.925.5400 f 847.925.5415
www.tcrossinc.com

GEOGRAPHIC DELINEATION:
CORPORATE RESERVE OF ST. CHARLES APARTMENTS



Source: JCF Real Estate and Microsoft Streets & Trips

Adjacent to the subject property to the east is the commercial component of Corporate Reserve of St. Charles, consisting of two 15,000 square foot Class A office buildings built in 2010. Future plans call for additional one- and three-story office structures north of Woodward Drive together with possible standalone restaurant, retail, and other business uses oriented to Main Street.

Directly west is Remington Glen, a townhome community developed by Remington Homes which opened in January 2005. Originally slated for 103 units, Remington Homes sold a total of 58 townhomes thorugh the second quarter of 2010 at which time marketing efforts ceased and the development was formally closed. Units sold during this timeframe ranged from 1,645 to 2,020 square feet in size and were priced from $255,000 to $285,000. However, based upon recent closing activity, units resold in this community have been priced just under the $200,000 mark.

The property's northern boundary is formed by the Great Western Trail which follows 17 miles of former railway corridor through Kane and DeKalb counties. The trail's crushed limestone bed provides access for cyclists, walkers and joggers and, in the winter, cross-country skiers. Adjacent to the Great Western Trail is the Leroy Oaks Forest Preserve, a popular St. Charles destination for passive and active recreation. The preserve includes an equestrian area together with picnic locations and shelters, prairie restorations, grassy fields, and deep forests.

The Environs

The Corporate Reserve property is well served by local and regional transportation systems including Main Street which provides direct linkage to downtown St. Charles and its numerous quaint boutiques, antique stores, and restaurants. Randall Road, too, offers access to numerous shopping, dining, and entertainment venues with the nearest concentrations found to the south of Main Street and into the city of Geneva. Of particular interest to prospective renters of the Corporate Reserve community is the Geneva Commons lifestyle center located on Randall Road one mile to the south. Here, over 70 specialty retail and dining establishments have a distinctive presence including, among others, Crate & Barrel, Coach, Pottery Barn, Dick's Sporting Goods, and Williams Sonoma.

Randall Road also represents a major north-south commutation arterial joining with the four-lane U.S. 20 expressway to the north and the Ronald Reagan Memorial Tollway (I-88) to the south. Via U.S. 20 and its connection with the Elgin O'Hare Expressway, major sources of employment in and around the Itasca, Schaumburg, and O'Hare areas can be reached within a 40 to 60-minute drive time. I-88, in turn, provides linkage to heavy satellite employment concentrations in Naperville, Warrenville, Lisle, Lombard, and Oak Brook. Finally, for employed residents working in the city of Chicago, Union Pacific's West Line from Geneva offers rail transportation to the Loop reaching the central business district in approximately one hour.

Proximate to Corporate Reserve are five newer rental communities in St. Charles and Geneva which, combined, support a total of 520 apartment units. As shown in the following text table, rents in these five developments currently average $1,360 monthly for a residence that offers 1,027 square feet of living area. This equals a value ratio of $1.32 per square foot. At present, only 13 units are unoccupied which translates to a vacancy factor of just 2.5 percent.

LOCALIZED COMPETITION
-- ST. CHARLES AND GENEVA --

Program/ Address	Year Built	Number of Units	Occupied		Vacant		Average Plan Size (Sq. Ft.)	Average Monthly Posted Rent	
			Number	Percent	Number	Percent		$	$/Sq. Ft.
St. Charles									
Amli at St. Charles	1999	400	391	97.8	9	2.3	995	$1,350	$1.36
Fox Place	2004	20	20	100.0	0	0.0	980	990	1.01
Geneva									
Dodson Place	2009	22	22	100.0	0	0.0	1,455	$1,900	$1.31
Residence at Will Creek	2009	48	44	91.7	4	8.3	1,161	1,443	1.24
The Village at Mill Creek	2006	30	30	100.0	0	0.0	956	1,210	1.26
Total/Average	***---***	***520***	***507***	***97.5***	***13***	***2.5***	***1,027***	***$1,360***	***$1.32***

Source: Tracy Cross & Associates, Inc.

Situated in St. Charles, and the largest of the five localized competitors, is AMLI at St. Charles, a 400-unit community that opened in 1999. This development offers a variety of one bedroom, one bedroom plus den, two bedroom, and two bedroom plus den units in the size band from 694 to 1,452 square feet. Rents currently range from $1,086 monthly to $1,946 and average $1,350 for a 995 square foot unit.

AMLI at St. Charles, which reached stabilized occupancy levels in a 21-month period at a rate of 18.0 units monthly, features an extensive level of community amenities including a resort-style swimming pool and sun deck, two fitness centers, a business and conference center, and a multimedia room with surround sound. The community's clubhouse and swimming pool area are centrally located and overlook an expansive lake and walking trail. A number of units within the development are afforded lake views with attendant premiums averaging $30 monthly. These view charges apply to approximately 20 percent of all units.

The Proposed Development

As conceptualized by JCF Real Estate, Corporate Reserve of St. Charles Apartments will consist of 331 garden-style rental apartments distributed among a series of three-story residential buildings to include attached one-car garages. Several of the buildings will feature walk-out or partial walk-out lower levels. In total, 120 garages will be provided, along with 406 internal surface parking spaces to accommodate residents and guests, equating to a parking ratio of 1.6 to 1.0. The residential buildings will feature color palettes and coordinated architectural details inspired by the surrounding conservancy.

Community amenities will include several internal parks and other green space, walking/jogging trails and detention ponds, along with appropriate landscape and hardscape. A centrally-located 5,790 square foot clubhouse will also be provided featuring a great room with fireplace, a social center, a fully-equipped fitness center with yoga area, commercial-grade kitchen, a business center proximate to main gathering areas, a small conference room, and a media room, along with landscaped boardwalks, courtyards and outdoor terraces, an outdoor pool and expansive sundeck and grilling areas. This community center will also facilitate leasing and management offices.

Design concepts envision a variety of primarily one bedroom, one bedroom plus den and two bedroom designs, along with a modicum of studios, ranging in unit size from 611 to 1,167 square feet, *exclusive* of patio or balconies. As summarized in the following table, Corporate Reserve of St. Charles Apartments will provide 315,043 net leasable square feet, with the average apartment residence offering 952 square feet of living area.

PROPOSED PRODUCT MATRIX: CORPORATE RESERVE OF ST. CHARLES

Plan Designation	Bedroom/ Bath Mix	Total Units	Percent of Total	Net Rentable Square Feet		Proposed Rent	
				Per Unit	Total	$	$/Sq. Ft.
A	0 / 1.0	16	4.8	611	9,776	$1,008	$1.65
B-1	1 / 1.0	49	14.8	751	36,799	1,202	1.60
B-2	1 / 1.0	66	19.9	886	58,476	1,391	1.57
C	1+Den / 1.0	44	13.3	951	41,844	1,474	1.55
D-1	2 / 2.0	70	21.1	1,033	72,310	1,591	1.54
D-2	2 / 2.0	58	17.5	1,089	63,162	1,666	1.53
D-3	2 (Dbl Mbr) / 2.0	28	8.5	1,167	32,676	1,739	1.49
Total/ Wtd. Average	***---***	***331***	***100.0***	***952***	***315,043***	***$1,475***	***$1.55***

Source: JCF Real Estate Pro Forma dated 6/11/2012.

Monthly lease rates, which *include* floor and unit location premiums and are weighted by plan type, are expected to average $1,475 for a 952 square foot residence which translates to a value ratio of $1.55 per square foot. In current 2012 dollars, average monthly rents extend from $1,008 for studio units, $1,202 for the one bedroom and $1,474 for one bedroom plus den units, with two bedroom units supporting average rents extending from $1,591 to $1,739 monthly. An attached, hallway access one car garage will be available for an incremental $120 per month.

All apartments will feature an enhanced level of interior appointments commensurate with higher-quality new construction apartment development found in select areas of the suburban Chicago marketplace and elsewhere in other metropolitan areas of the country such as Houston, Dallas, Denver, Austin and the like that have witnessed a significant upturn in apartment construction activity of late. These include stainless steel kitchen appliances, granite kitchen countertops/islands, in-unit washer and dryer, walk-in closets in all master bedrooms, patios and balconies, internet and cable television access, and in-unit storage. It is expected that the resident will be responsible for all utilities.

Construction of the Corporate Reserve Apartments is expected to commence in late-2012, with leasing to begin in mid-2013 in anticipation of phased occupancies beginning in the fall of the year.

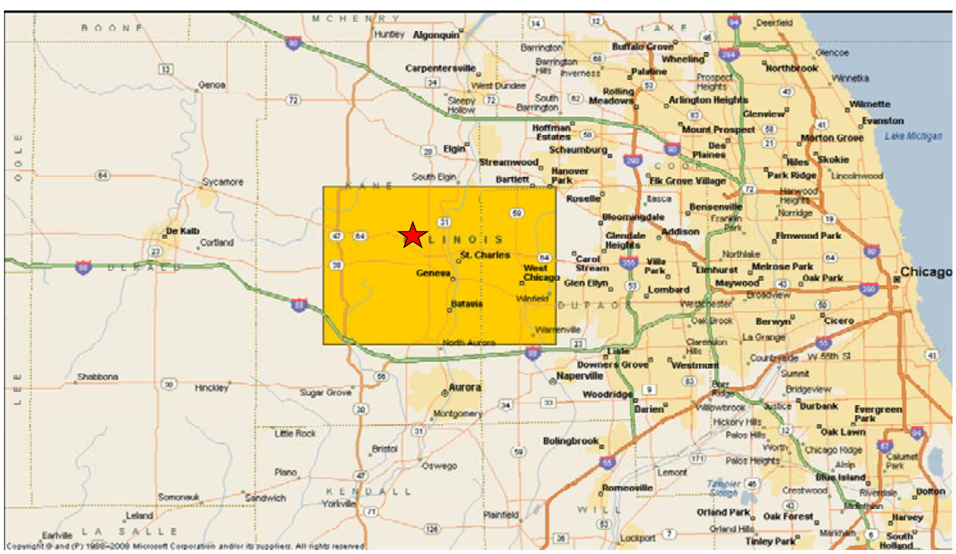
CONCLUSION

Based upon a thorough analysis of defining factors of influence, Corporate Reserve of St. Charles Apartments is viewed as a viable development opportunity. This general conclusions is based, in part, upon the property's *excellent* location in the city of St. Charles proximate to significant concentrations of shopping, dining and other daily consumer services; its contiguity to the Great Western Trail and the Leroy Oaks Forest Preserve; access to regional transportation systems and sources of employment; and, perhaps most importantly, upon tight rental market conditions found not only locally but throughout Chicago's west suburban area.

Defining the St. Charles Market Area

Given the intended resident constituency of the Corporate Reserve apartment development, the geographic area from which demand support will emanate consists of a seven township area that includes St. Charles, Geneva, Batavia, Campton, and Blackberry in Kane County along with Wayne and Winfield in DuPage County. This area, defined as the *St. Charles Market Area,* extends *roughly* west from the city of Warrenville to Illinois Route 47 and south from West Bartlett Road to the northern village boundaries of North Aurora. This area forms a homogenous component of the Chicago region defined by its dependence upon like sources of employment, socio-economic similarities in demographic and household composition, and the alignment and location of residential developments which will serve as a source of competition, both direct and indirect.

GEOGRAPHIC DELINEATION:
THE ST. CHARLES MARKET AREA



Source: Microsoft Streets & Trips and Tracy Cross & Associates, Inc.

Population, Households, And Tenure

The 2000 Census revealed that during the 1990s, the population of the St. Charles Market Area grew by 6,360 persons yearly to a 2000 base of 224,530. Market area households in turn advanced by 2,054 annually to a level of 73,874 in 2000. During the decade, St. Charles Township accounted for 13.8 percent of total population growth in the market area and 17.0 percent of all household additions.

As detailed in **Exhibit 1**, growth in both population and households slowed appreciably over the last twelve years. Estimates derived from the 2010 Census, for example, indicate that the population of the market area currently totals 262,353 representing an annual increase of 3,152 persons since 2000, or 50.4 percent *below* gains witnessed during the 1990s. Household growth, too, slowed during the 2000-2012 timeframe averaging 1,180 per year, down 42.6 percent from the pace set between 1990 and 2000. These rather steep declines can be attributed largely to the built-out nature of component market area townships in DuPage County coupled with the higher price of housing in most of Wayne Township and in the unincorporated areas of Kane County where larger lot sizes are mandated due to the lack of municipal water and sewer.

Tenure distributions in the St. Charles Market Area continue to favor ownership housing which currently accounts for 85.7 percent of all occupied units. During the 2000-2012 period, however, renter household additions accounted for 13.4 percent of total household growth in the market area compared with only 3.9 percent during the 1990s. Numerically, renter household growth in the market area moved upward at an annual pace of 158 between 2000 and 2012 to a 2012 total of 12,555 households. Of this total, 3,567 renter households are found in St. Charles Township representing 19.4 percent of all households in the township as a whole and 28.4 percent of all renter households in the seven-township market area.

Age and Income

Households in the St. Charles Market Area are relatively affluent evidenced by an estimated 2012 median income of $85,611. As shown in the following table and detailed in **Exhibit 2**, in the strongest renter age categories of under 35 and from 55 to 65, incomes are also high with the younger subset supporting a 2012 median of $74,845 and the 55 to 65 age group carrying a $88,587 median.

1

POPULATION, HOUSEHOLDS, AND INCOME
-- ST. CHARLES MARKET AREA --

Attribute/Year	St. Charles Market Area	St. Charles Township
Population		
1990	160,931	33,247
2000	224,530	42,051
2012	262,353	51,951
2017	275,203	55,142
Average Annual Change		
1990 - 2000	6,360	880
2000 - 2012	3,152	825
2012 - 2017	2,570	638
2012 Population by Race/Hispanic or Latino		
Total Population	***262,353***	***51,951***
Not Hispanic or Latino	**224,722**	**46,900**
White Alone Not Hispanic	182,492	41,006
Black Alone Not Hispanic	6,443	1,132
Asian Alone Not Hispanic	16,323	2,031
All Other Races Not Hispanic	19,464	2,731
Hispanic or Latino	**37,631**	**5,051**
2012 Housing Units and Tenure		
Total Housing Units	***91,908***	***19,339***
Occupied Housing Units	**88,034**	**18,383**
Owner Occupied	75,479	14,816
Percent	85.7	80.6
Renter Occupied	12,555	3,567
Percent	14.3	19.4
Vacant	**3,874**	**956**
Percent	4.2	4.9

Attribute/Year	St. Charles Market Area	St. Charles Township
Households		
1990	53,333	11,375
2000	73,874	14,861
2012	88,034	18,383
2017	92,066	19,339
Average Annual Change		
1990 - 2000	2,054	349
2000 - 2012	1,180	294
2012 - 2017	806	191
2012 Households by Type		
Total Households	***88,034***	***18,383***
Married Couple with Children	32,549	6,165
Married Couple without Children	27,471	5,823
Other Family with Children	6,512	1,191
Other Family without Children	3,853	963
Nonfamily with Children	92	17
Nonfamily without Children	17,557	4,224
2012 Household Income		
Total Households	***88,034***	***18,383***
Under $25,000	6,796	1,773
25,000 - 34,999	4,671	1,073
35,000 - 49,999	8,720	2,062
50,000 - 74,999	17,107	3,430
75,000 - 99,999	15,840	2,943
100,000 - 149,999	20,505	3,780
150,000 and Over	14,395	2,894
Median	***$85,611***	***$82,250***

Source: U.S. Department of Commerce, Bureau of the Census: Census 1990 and 2000; Nielsen Solution Center; and estimates by Tracy Cross & Associates, Inc.

2

HOUSEHOLD INCOME BY AGE OF HOUSEHOLDER - 2012
-- ST. CHARLES MARKET AREA --

	2012 Income													
	Under $25,000		$25,000 - 34,999		$35,000 - 49,999		$50,000 - 74,999		$75,000 - 99,999		$100,000 and Over			
Age of Householder	Number of Households	Percent of Total Households	Number of Households	Percent of Total Households	Number of Households	Percent of Total Households	Number of Households	Percent of Total Households	Number of Households	Percent of Total Households	Number of Households	Percent of Total Households	Total	Median
St. Charles Market Area														
15 - 24 Years	458	0.52	268	0.30	379	0.43	458	0.52	160	0.18	138	0.16	1,861	$30,089
25 - 34 Years	547	0.62	645	0.73	1,398	1.59	2,988	3.39	2,871	3.26	3,932	4.47	12,381	66,800
35 - 44 Years	627	0.71	439	0.50	1,364	1.55	3,880	4.41	3,764	4.28	8,221	9.34	18,295	77,437
45 - 54 Years	998	1.13	671	0.76	1,639	1.86	3,999	4.54	4,625	5.25	13,148	14.94	25,080	75,203
55 - 64 Years	1,238	1.41	994	1.13	1,661	1.89	3,162	3.59	2,989	3.40	7,315	8.31	17,359	63,951
65 - 74 Years	1,229	1.40	958	1.09	1,381	1.57	1,949	2.21	1,052	1.19	1,701	1.93	8,270	36,699
75 - 84 Years	1,190	1.35	539	0.61	688	0.78	548	0.62	304	0.35	349	0.40	3,618	24,320
85 Years & Over	509	0.58	157	0.18	210	0.24	123	0.14	75	0.09	96	0.11	1,170	22,449
Total	***6,796***	***7.72***	***4,671***	***5.31***	***8,720***	***9.91***	***17,107***	***19.43***	***15,840***	***17.99***	***34,900***	***39.64***	***88,034***	***$85,611***
St. Charles Township														
15 - 24 Years	189	1.03	57	0.31	111	0.60	128	0.70	28	0.15	24	0.13	537	$20,313
25 - 34 Years	102	0.55	195	1.06	356	1.94	582	3.17	605	3.29	839	4.56	2,679	61,596
35 - 44 Years	176	0.96	102	0.55	374	2.03	794	4.32	637	3.47	1,451	7.89	3,534	81,063
45 - 54 Years	315	1.71	106	0.58	320	1.74	639	3.48	809	4.40	2,630	14.31	4,819	77,805
55 - 64 Years	318	1.73	172	0.94	371	2.02	671	3.65	582	3.17	1,605	8.73	3,719	75,316
65 - 74 Years	292	1.59	283	1.54	330	1.80	437	2.38	181	0.98	375	2.04	1,898	58,291
75 - 84 Years	264	1.44	118	0.64	157	0.85	143	0.78	79	0.43	147	0.80	908	39,817
85 Years & Over	117	0.64	40	0.22	43	0.23	36	0.20	22	0.12	31	0.17	289	32,794
Total	***1,773***	***9.64***	***1,073***	***5.84***	***2,062***	***11.22***	***3,430***	***18.66***	***2,943***	***16.01***	***7,102***	***38.63***	***18,383***	***$82,250***

Source: Nielsen Solution Center and Tracy Cross & Associates, Inc.

HOUSEHOLD INCOME BY SELECTED AGE CATEGORIES
-- ST. CHARLES MARKET AREA --
2012

Household Income 2012	Total Households		Householders Age Under 35		Householders Age 55 - 64	
	Number	Percent	Number	Percent	Number	Percent
Under $15,000	3,328	3.78	488	3.43	583	3.36
15,000 - 24,999	3,468	3.94	517	3.63	655	3.77
25,000 - 34,999	4,671	5.31	913	6.41	994	5.73
35,000 - 49,999	8,720	9.91	1,777	12.48	1,661	9.57
50,000 - 74,999	17,107	19.43	3,446	24.20	3,162	18.22
75,000 - 99,999	15,840	17.99	3,031	21.28	2,989	17.22
100,000 - 124,999	12,442	14.13	2,067	14.51	2,376	13.69
125,000 - 149,999	8,063	9.16	929	6.52	1,676	9.65
150,000 - 199,999	7,068	8.03	681	4.78	1,381	7.96
200,000 and Over	7,327	8.32	393	2.76	1,882	10.84
Total Households (Est.)	***88,034***	***100.01***	***14,242***	***100.00***	***17,359***	***100.00***
Median	***- - - - - - $85,611 - - - - - -***		***- - - - - - $74,845 - - - - - -***		***- - - - - - $88,587 - - - - - -***	
Households with Income $50,000 - $99,999	***32,947***	***37.43***	***6,477***	***45.48***	***6,151***	***35.43***

Sources: Nielsen Solution Center and Tracy Cross & Associates, Inc.

Employment

Our favorable conclusion also reflects the fact that there are some 837,493 private sector jobs within a 45-minute drive time of St. Charles, representing roughly 27 percent of total private sector employment in the metropolitan region. The most proximate job centers to St. Charles with private sector employment levels totaling 15,000 or more in 2011 included Naperville (63,790), Elgin (39,366), Aurora (33,515), Lisle (19,362), and St. Charles proper (18,400).

PRIVATE SECTOR EMPLOYMENT
AREAS INCLUDING AND PROXIMATE TO ST. CHARLES
2011

Area	Total Private Sector Employment 2011	
	Number of Workers	Percent of Six-County Metro Area
Six-County Chicago Metro Area [(1)]	***3,192,426***	***100.0***
Within a 30-Minute Commute of St. Charles:	**280,920**	**8.8**
Kane County	156,499	4.9
St. Charles	18,400	0.6
Remainder of Kane County	138,099	4.3
Glen Ellyn, DuPage County	9,937	0.3
Lisle, DuPage County	19,362	0.6
Naperville, DuPage County	63,790	2.0
West Chicago, DuPage County	15,951	0.5
Wheaton, DuPage County	15,381	0.5
Within a 30 to 45-Minute Commute of St. Charles:	**565,775**	**17.7**
Remainder of DuPage County	375,707	11.8
Arlington Heights, Cook County	44,007	1.4
Barrington, Cook/Lake Counties	10,249	0.3
Hoffman Estates, Cook County	22,881	0.7
Palatine, Cook County	24,468	0.8
Rolling Meadows, Cook County	17,556	0.5
Schaumburg, Cook County	70,907	2.2
All Areas Within a 45-Minute Commute of St. Charles	**846,695**	**26.5**

[(1)] Includes Cook, DuPage, Kane, Lake, McHenry, and Will counties in Illinois.

Source: Illinois Department of Employment Security: *Where Workers Work 2012*

One cannot, however, discount the current economic crisis which has had a profound impact not only upon employment sources supporting the Corporate Reserve development but regionally as well. Focusing first upon localized and secondary sources of employment proximate to St. Charles finds private sector job losses of some 52,400 between 2005 and 2011 with the largest declines found in the eastern and northern portions of DuPage County and throughout Kane County as a whole. In these latter areas, payrolls declined by some 39,132 during the 2005-2011 timeframe, representing 74.7 percent of all jobs lost in areas proximate to St. Charles and 19.5 percent of total employment erosion in the Chicago metropolitan region.

TRENDS IN PRIVATE SECTOR EMPLOYMENT
AREAS INCLUDING AND PROXIMATE TO ST. CHARLES
2000 - 2011

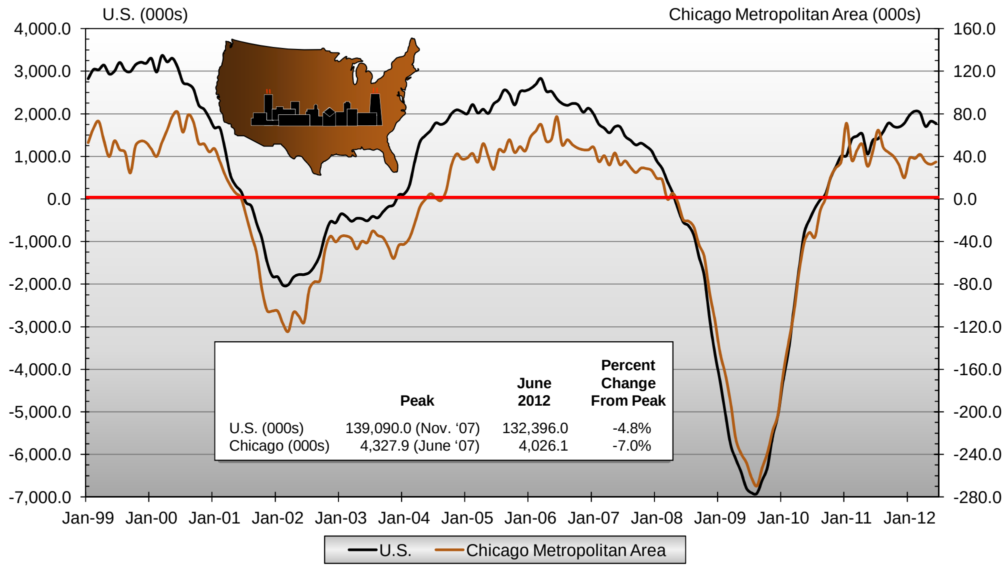
Area	Total Private Sector Employment			Average Annual Change	
	2000	2005	2011	2000 - 2005	2005 - 2011
Six-County Chicago Metro Area [1]	***3,487,542***	***3,333,380***	***3,133,051***	***-30,832***	***-33,388***
Within a 30-Minute Commute of St. Charles:	**293,583**	**294,835**	**280,920**	**250**	**-2,319**
Kane County	165,760	171,148	156,499	1,078	-2,442
St. Charles	22,510	23,016	18,400	101	-769
Remainder of Kane County	143,250	148,132	138,099	977	-1,672
Glen Ellyn, DuPage County	10,448	10,884	9,937	87	-158
Lisle, DuPage County	21,275	20,644	19,362	-126	-214
Naperville, DuPage County	63,877	60,099	63,790	-756	615
West Chicago, DuPage County	13,826	14,923	15,951	219	171
Wheaton, DuPage County	18,397	17,137	15,381	-252	-293
Within a 30 to 45-Minute Commute of St. Charles:	**610,218**	**604,266**	**565,775**	**-1,190**	**-6,415**
Remainder of DuPage County	396,202	396,194	375,707	-2	-3,415
Arlington Heights, Cook County	53,982	46,471	44,007	-1,502	-411
Barrington, Cook/Lake Counties	10,761	11,605	10,249	169	-226
Hoffman Estates, Cook County	20,710	24,293	22,881	717	-235
Palatine, Cook County	23,687	21,969	24,468	-344	417
Rolling Meadows, Cook County	24,125	23,239	17,556	-177	-947
Schaumburg, Cook County	80,751	80,495	70,907	-51	-1,598
All Areas Within a 45-Minute Commute of St. Charles	**903,801**	**899,101**	**846,695**	**-940**	**-8,734**

[1] Includes Cook, DuPage, Kane, Lake, McHenry, and Will counties in Illinois.

Source: Illinois Department of Employment Security: *Where Workers Work 2012*

The current recession has, in fact, taken a significant toll on employment throughout the entire Chicago region. As shown in the following graphic, the ten-county metropolitan area's nonfarm employment rosters through June of this year are down close to 302,000 from their peak in June 2007 with year-over-year job losses of 221,300 experienced in 2009 alone.

YEAR-OVER-YEAR CHANGE IN EMPLOYMENT
U.S. AND CHICAGO METROPOLITAN AREA



Source: U.S. Department of Labor, Bureau of Labor Statistics

The intensity of job losses in 2009 began to reverse in 2010 with job growth in the metro area turning positive in 2011. Between 2010 and 2011, for example, the ten-county region added 41,000 net workers, representing an increase of 1.0 percent year-over-year, with year-over-year job additions of 36,700 or 0.9 percent recorded through June 2012. Although these lethargic rates are hardly enough to make a dent in continued high levels of regional unemployment, they do signal that the Corporate Reserve of St. Charles Apartments will enter the market at a time of improving economic conditions which will initially create a positive influence upon the rental sector and as consumer confidence is restored over time, ultimately extend to the for sale sector.

Residential Building Activity

Since 1990 and through May 2012, residential building activity in the St. Charles Market Area has averaged 1,344 units annually, distributed between 1,220 single family units (including single address townhomes and duplexes) and 124 in the multi-family sector. As shown in **Exhibit 3**, the strongest periods of new residential construction in the market area occurred during the early 1990s when volumes averaged over 2,000 units annually due in large part to intense development along the Illinois Route 59 corridor, and again during the 1999-2005 period when authorizations averaged 1,665 units yearly. Contributing to this latter robust period of activity was the exuberant single family and multi-family for sale markets fostered by relatively low interest rates, shifts in renter to ownership tenure, and, as we now know, extremely lenient and lax lending practices.

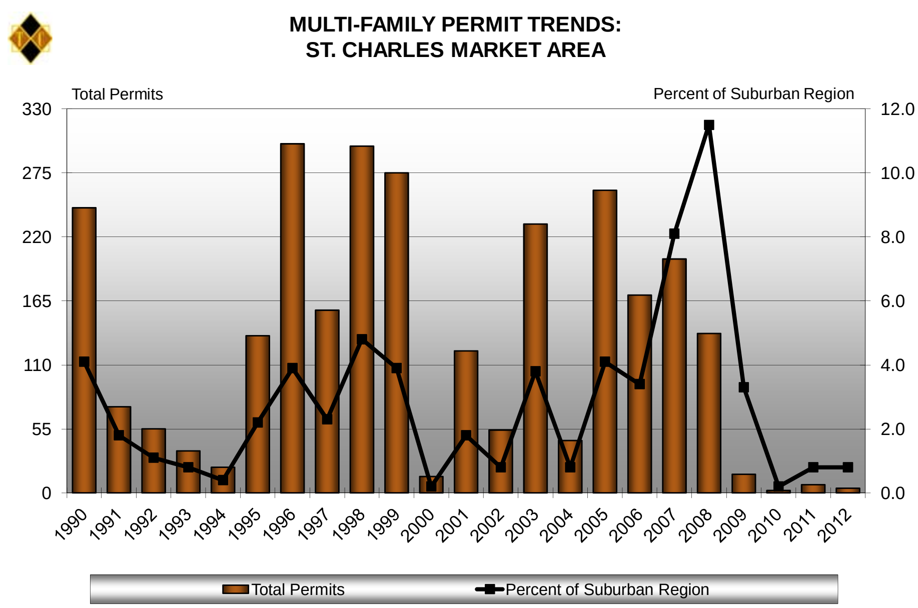
TRENDS IN RESIDENTIAL BUILDING PERMITS
WESTERN CORRIDOR AND ST. CHARLES MARKET AREA
1990 - 2012

Year	Suburban Chicago			Western Corridor			St. Charles Market Area								
	Total	Single Family	Multi-Family	Total	Single Family	Multi-Family	Total	Percent of Suburban Area	Percent of Western Corridor	Single Family	Percent of Suburban Area	Percent of Western Corridor	Multi-Family	Percent of Suburban Area	Percent of Western Corridor
1990	25,931	20,002	5,929	8,615	5,982	2,633	2,047	7.9	23.8	1,802	9.0	30.1	245	4.1	9.3
1991	22,415	18,294	4,121	6,122	5,544	579	2,002	8.9	32.7	1,928	10.5	34.8	74	1.8	12.8
1992	27,354	22,410	4,944	7,902	7,015	886	2,226	8.1	28.2	2,171	9.7	30.9	55	1.1	6.2
1993	29,664	25,125	4,539	8,507	7,838	669	2,125	7.2	25.0	2,089	8.3	26.7	36	0.8	5.4
1994	31,639	26,051	5,588	9,103	8,369	734	1,839	5.8	20.2	1,817	7.0	21.7	22	0.4	3.0
1995	30,020	23,969	6,051	8,556	6,726	1,830	1,432	4.8	16.7	1,297	5.4	19.3	135	2.2	7.4
1996	32,110	24,320	7,790	9,937	6,721	3,217	1,721	5.4	17.3	1,421	5.8	21.1	300	3.9	9.3
1997	28,879	22,188	6,691	8,204	6,264	1,939	1,410	4.9	17.2	1,253	5.6	20.0	157	2.3	8.1
1998	30,813	24,668	6,145	9,516	7,096	2,420	1,811	5.9	19.0	1,513	6.1	21.3	298	4.8	12.3
1999	34,812	27,789	7,023	10,355	7,771	2,585	2,207	6.3	21.3	1,932	7.0	24.9	275	3.9	10.6
2000	32,476	26,475	6,001	9,282	7,384	1,898	1,719	5.3	18.5	1,705	6.4	23.1	14	0.2	0.7
2001	34,970	28,072	6,898	10,715	7,495	3,220	1,676	4.8	15.6	1,554	5.5	20.7	122	1.8	3.8
2002	37,252	30,469	6,783	10,182	7,571	2,611	1,597	4.3	15.7	1,543	5.1	20.4	54	0.8	2.1
2003	37,409	31,402	6,007	9,027	7,382	1,645	1,429	3.8	15.8	1,198	3.8	16.2	231	3.8	14.0
2004	36,905	31,200	5,705	8,946	7,836	1,110	1,413	3.8	15.8	1,368	4.4	17.5	45	0.8	4.1
2005	38,523	32,181	6,342	9,937	8,511	1,426	1,615	4.2	16.3	1,355	4.2	15.9	260	4.1	18.2
2006	29,149	24,216	4,933	8,929	7,016	1,913	969	3.3	10.9	799	3.3	11.4	170	3.4	8.9
2007	17,359	14,868	2,491	4,684	4,027	657	697	4.0	14.9	496	3.3	12.3	201	8.1	30.6
2008	7,301	6,113	1,188	1,857	1,610	247	411	5.6	22.1	274	4.5	17.0	137	11.5	55.5
2009	3,752	3,263	489	994	880	114	167	4.5	16.8	151	4.6	17.2	16	3.3	14.0
2010	4,223	3,169	1,054	1,222	901	321	115	2.7	9.4	113	3.6	12.5	2	0.2	0.6
2011	4,048	3,213	835	1,040	1,022	18	151	3.7	14.5	144	4.5	14.1	7	0.8	38.9
2012(1)	4,530	4,056	474	1,358	1,322	36	130	2.9	9.6	126	3.1	9.5	4	0.8	11.1
Annual Average															
1990 - 2012	25,284	20,588	4,697	7,173	5,751	1,422	1,344	5.3	18.7	1,220	5.9	21.2	124	2.6	8.7
1990 - 2000	29,647	23,754	5,893	8,736	6,973	1,763	1,867	6.3	21.4	1,721	7.2	24.7	146	2.5	8.3
2001 - 2005	37,012	30,665	6,347	9,761	7,759	2,002	1,546	4.2	15.8	1,404	4.6	18.1	142	2.2	7.1
2006 - 2012	10,052	8,414	1,638	2,869	2,397	472	377	3.8	13.1	300	3.6	12.6	77	4.7	16.2

(1) Seasonally adjusted, annualized rate, YTD May.

Sources: U.S. Department of Commerce, Bureau of the Census, *C-40 Construction Reports* and Tracy Cross & Associates, Inc.

More recently, residential construction volume in the St. Charles Market Area began to slide downward in 2006 and precipitously so after 2008. During the 2009-May 2012 period, for example, residential building activity dropped to a yearly average of only 141 units, representing a decline of 91.5 percent from the 1999-2005 period. Virtually *all* of recent decline in residential building activity in the market area can be attributed to erosion in the for sale market as only four very small scale apartment communities have been introduced within its boundaries over the last eight and one-half years. The St. Charles Market Area, in fact, has accounted for less than 3.0 percent of all new multi-family family construction in the whole of suburban Chicago since 2000, with the vast majority of these newer units reflecting condominium for sale idioms concentrated in areas east of Route 59 or aligning the Fox River in the downtown districts of Batavia (Quarry Stone Pond), Geneva (Crossings at Geneva) and St. Charles (Milestone Row).



Source: U.S. Bureau of the Census: C-40 Construction Reports and Tracy Cross & Associates, Inc.

In the for sale sector, single family production sales, which averaged 845 per year during the 1999-2005 timeframe dropped to an annualized pace of only 84 over the last 18 months while townhome/condominium sales declined from the same 845 annual rate between 1999 and 2005 to an 18-month yearly pace of just 90 units during the 2011-June 2012 period.

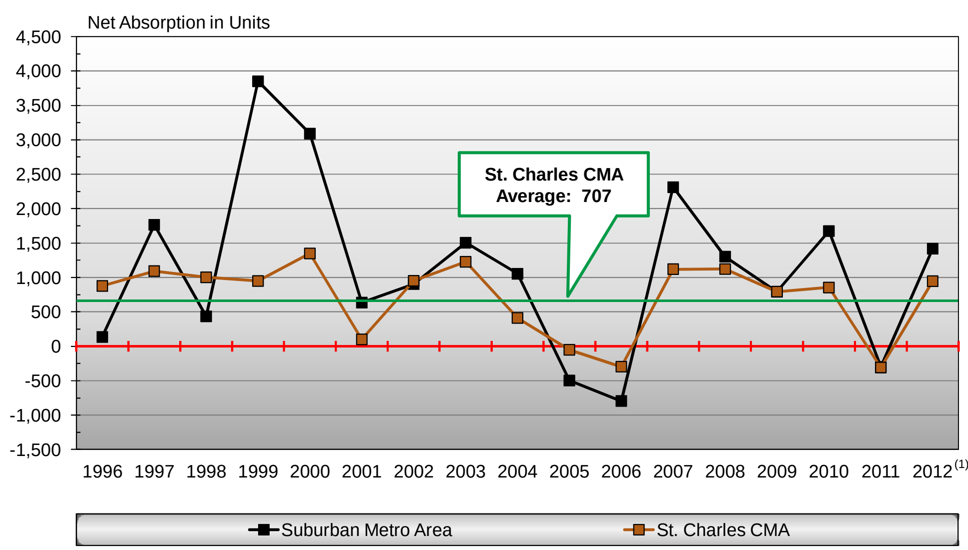
The Rental Marketplace— An Overview

Our favorable conclusion is also predicated upon a detailed examination of the west suburban area's rental market, focusing upon newer construction (i.e., built and/or fully renovated in 1985 or later) in St. Charles itself, as well as within the component municipalities of the region's Western Corridor, an area *generally* encompassing west suburban Cook, DuPage and southern Kane counties. This area is defined for purposes of this analysis as the *St. Charles Competitive Market Area (CMA)*. As of June 2012, there were 78 separate communities marketing a total of 23,355 rental units in the CMA. Roughly two-thirds of all units in this competitive area (15,640 units or 67.0 percent) are found within suburban areas *west* of I-355, concentrated in the Aurora/Naperville area which alone accounts for 9,582 units or 41.1 percent of the total.

In the St. Charles CMA, net absorption has averaged 707 units annually since 1995, accounting for 62.8 percent of net absorption throughout suburban Chicago. Cyclical in nature, absorption levels over the last 15.5 years peaked in 2000 at 1,348 units, reflecting strong new construction activity during the 1995-1999 period (again) concentrated in areas west of I-355. Subsequently, absorption levels began to subside, falling to the 101-unit mark in 2001, before improving modestly during the 2002-2003 timeframe. Thereafter, the strength of the regional *for sale* market had an adverse impact upon the rental marketplace, with absorption falling to a net *loss* of 296 units by the close of 2006 reflecting the interest rate impetus of the 2003-2005 period which stimulated unprecedented movership to for sale idioms.

Net absorption improved dramatically over the last five and one-half years (2007-June 2012) averaging 755 units annually, responding to the collapse of (particularly) the entry-level for sale sector, coupled with very limited and sporadic new apartment construction. In fact, since 2003, only 795 rental apartment units have been added to the whole of the St. Charles CMA, translating to a nominal 94 units per year. Moreover, the vast majority of these new units are found within first-ring suburbs *east* of I-355, with no new rental development of significant scale occurring in the immediate St. Charles or Geneva areas over the last twelve years.

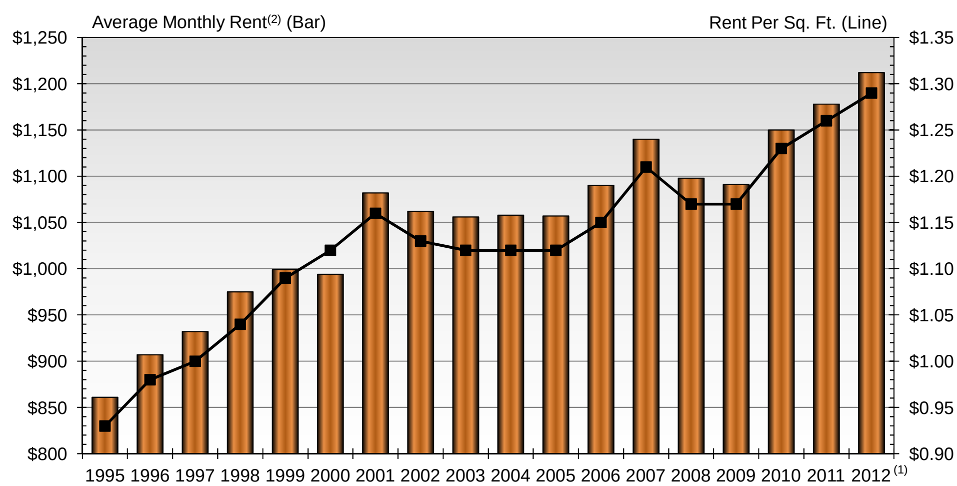
NET ABSORPTION: POST-1985 RENTAL APARTMENT DEVELOPMENTS
-- ST. CHARLES COMPETITIVE MARKET AREA --



(1) Annualized rate YTD June 2012.
Source: Tracy Cross & Associates, Inc.

Rental rate growth among the 78 newer apartment developments in the St. Charles CMA has also been subject to market forces. Efforts to encourage lease-up during the 2003-2005 period necessitated substantial concessions and/or rent rollbacks which remained in place through most of 2005. Beginning late in the year, however, as the for-sale market began to moderate, concessions began to disappear. In 2006, rent levels advanced 2.7 percent to the $1.15 per square foot mark, and continued to climb during 2007, reaching $1.21 per square foot by year end, reflecting another 5.2 percent increase during the twelve-month period. Exacerbated by the effects of the national recession which resulted in staggering job losses region wide, suburban apartment developments once again began to initiate rent concessions and rollbacks in 2008 and 2009 to encourage lease-up and/or higher occupancy levels, with average rents settling at $1.17 per square foot at the close of 2009. Most recently rents have rebounded, establishing a new peak level of $1.29 per square foot in June 2012.

TRENDS IN POSTED RENTS: APARTMENTS CONSTRUCTED SINCE 1985
-- ST. CHARLES COMPETITIVE MARKET AREA --



(1) As of December 31st 1995-2011; June 2012.

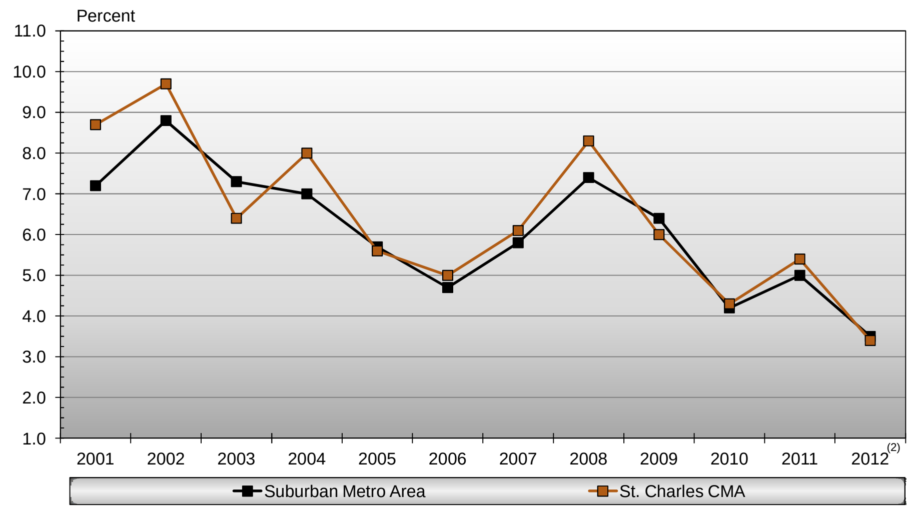
(2) Represents weighted average base posted rent (i.e. excluding floor, unit location and/or view premiums) before incentives, if applicable.

Source: Tracy Cross & Associates, Inc.

Rent concessions and/or rollbacks initiated during the 2003-2005 timeframe, coupled with the overall lack of new construction led to tighter market conditions as vacancies fell from a high of 9.7 percent in 2002 to a balanced 5.0 percent by the close of 2006. For perspective a marketplace is generally considered balanced when vacancies hover at the 5.0 to 6.0 percent level which allows for filtering or movement within the marketplace. In tandem with rising rents, vacancies among the 78 developments again began to advance in 2007, reaching the 8.3 percent mark in 2008. Notably, by the close of 2011, rent concessions and discounts, coupled with continued upheaval and uncertainty in the for sale sector, saw vacancies settle at a relatively balanced 5.4 percent.

However, over the last six months and given improving conditions in the overall economy, vacancies have again tightened as evidenced by an overall vacancy rate of 3.4 percent, reflecting the lowest level seen in the west suburban marketplace in more than a decade.

VACANCY TRENDS: STABILIZED RENTAL APARTMENT DEVELOPMENTS[(1)]
-- ST. CHARLES COMPETITIVE MARKET AREA --



[(1)] Excludes programs in initial stages of absorption.
[(2)] Statistics YTD June 2012.
Source: Tracy Cross & Associates, Inc.

Newer Developments

While the preceding paragraphs present a general overview of the west suburban rental marketplace, certainly not all of the 78 apartment complexes will be directly or even indirectly competitive with the proposed Corporate Reserve development, especially those which were built *before* 1995. Hence, attention is now directed to the newest construction communities, as this latter subset reflects higher levels of potential substitution relative to future offerings within the St. Charles property.

Since 1995, 35 fair market developments containing a total of 9,132 units have been introduced in the St. Charles CMA including two projects with separate phases. These developments reached stabilized occupancy levels at an average rate of 12.1 units per month. By individual development, absorption rates have ranged from a lows of 3.0 monthly at the relatively small Lincolnshire Court in far southwest suburban Yorkville to a high of 30.2 monthly at Lincoln at the Parks in Naperville which is one of the better located developments in the area relative to proximate employment.

The four newest *larger-scale* communities to open in the western suburbs include City View at The Highlands in Lombard (opened in 2003), Regency Place in Oakbrook Terrace (March 2007), The Residences at The Grove in Downers

Grove (August 2008), and Oak Park Place (November 2008). These four developments reached stabilized occupancy levels at an average rate of 8.4 monthly. Excluded from this group is the 69-unit Two Itasca Place which opened in May 2012. This development was initially introduced as a for sale condominium program in 2006; however, a stagnant marketplace undermined sales volumes, with the developer converting the second phase of the community to rental apartments in May of 2012. To date, eight units at Two Itasca Place have been leased, translating to an initial absorption pace of 4.0 monthly.

At the June 2012 audit, and consistent with the marketplace as a whole, vacancies among the 34 stabilized newer developments stood at a relatively tight 3.5 percent, reflecting a collective 317 unoccupied units. Notably, in the immediate St. Charles/Geneva area, conditions are *extremely strained* as evidenced by an overall vacancy factor of only 2.5 percent, or a mere 13 of 520 units unoccupied.

Reflecting conditions throughout the general area, *posted* asking rents among the 35 newer developments have begun to rise, currently averaging $1,366 monthly for a typical 1,013 square foot apartment home. This translates to a value ratio of $1.35 per square foot, a level 3.8 percent higher than the $1.30 per square foot value noted in December 2011 and a sharp 7.1 percent higher than the $1.26 per square foot rate noted one year ago (June 2011). Posted rents in St. Charles and Geneva advanced at a rate of 9.9 percent over the last six months to a current $1.33 per square foot average led by the 400-unit AMLI at St. Charles where average rents advanced a substantial 14.3 percent since December 2011.

Despite these posted rate increases, it is important to note that several of the 35 comparable rental developments continue to offer discounts and lease incentives. Specifically, current discounts among the 35 equate to an overall average *effective* rent of $1,354 monthly or $1.34 per square foot, reflecting a net rent increase of 3.0 percent since December 2011. Throughout the marketplace, discounts vary widely from waiving of application fees and reduced parking rates to up to two months of free rent on a 12- or 13-month lease. By component sub-area, discounts and incentives are strongest among those developments in near west suburban areas east of I-355, where the average incentive equates to 4.5 percent below posted rents, *fully negating* posted rate advances since year end 2011. Among developments located in St. Charles and Geneva, posted and effective rents are the same with the immediate area's tight market condition absent the need of incentives.

Direct Competition

From a practical standpoint and considering developments of scale, plan designs, community amenities, and/or location, 24 of the 35 newer developments are viewed to represent the most direct sources of competitive substitution vis-a-vis the proposed Corporate Reserve apartments. These include five communities in St. Charles and Geneva, six programs found in intercepting locales in Downers Grove, Lombard, Villa Park, Bloomingdale, Warrenville, and Wheaton, and 13 developments in Aurora, Naperville, and Woodridge.

Weighted by unit type, posted rents among the 24 direct competitors average $1,373 monthly or $1.36 per square foot, ranging from a low of $1,015 for the limited number of studio apartments to a high of $1,845 monthly for a three bedroom plus den flat. Townhome-style apartments, in turn, carry average lease rates extending from $1,783 monthly for a one bedroom to $1,853 per month for a three bedroom unit. Posted lease rates are *exclusive* of utilities, premiums, other incremental fees and, for the most part, parking.

Future Competition

The competitive landscape is likely to intensify over the next few years as the overall strength of the market has not gone unnoticed. At present, for example, there are ten larger-scale rental communities in various stages of the planning pipeline in suburban areas proximate to St. Charles. Three of these developments are currently under construction and will be in their initial leasing stage in tandem with Corporate Reserve of St. Charles. These communities include *Arboretum Landmark* in Lisle (310 units), *The Oaks at Naperville Crossing* (298 units) in Naperville, and in South Elgin, *Arbor Green* (347 units). This latter development, located near the intersection of Randall and McDonald roads, five miles north of the subject property, will consist of 347 units distributed among a variety of one and two bedroom plan types. In addition, Sho-Deen Company has proposed a 400-unit rental program within the Mill Creek master-planned community in Geneva, and St. Charles is looking toward various mixed-use plans for its downtown area as well as for the Charlestown Mall. There are also a number of larger-scale projects on the drawing boards just outside the St. Charles Market Area in Aurora, Elmhurst, Lombard and farther north in Algonquin, while it is quite probable that a number of other developments abandoned as for sale product will re-emerge as rental.

Condominium Rentals

In the communities of St. Charles, Geneva, Batavia, and North Aurora, potential competition from what is commonly referred to as the "shadow market" is minimal. Listings in this market, which include previously owner-occupied units that are now available for rent, total only ten units at this time. In this townhome dominated sector, asking rents currently average $1,479 monthly which includes an average 1,396 square foot unit. This translates to a value ratio of $1.06 per square foot. These ownership rentals are *generally* in communities of smaller scale, and lack the level of community amenities or on-site management to be provided at Corporate Reserve. Moreover, these rentals continue to be *actively marketed for sale* based upon temporary lease expirations, fully negating their competitive influence.

Residential Demand Potentials

During the 2012-2016 forecast period, new housing construction in the St. Charles Market Area will average only 1,020 units yearly largely due to a continued depressed for sale market. This sector is expected to account for volumes ranging from only 300 units in 2012 to a high of 1,200 in 2016 as this sector transitions slowly from deep recession to a new normal which is expected to be more in line with activity witnessed during the mid-1990s. On the rental side, absorption potentials will average a sustained volume of 300 units annually reconciled as follows:

- During the 2000-2012 period, renter households in the *localized* seven-township St. Charles Market Area advanced by an estimated average of 160 annually.

- As detailed in the next section, absorption within apartment projects built since 1985 in the St. Charles Market Area and adjoining areas to the east and south averaged 707 units yearly during the 1996-June 2012 period and 755 units annually over the last five and one-half years.

- To the east, there is limited land available for larger scale apartment development resulting in increasing spillover growth pressure to the St. Charles Market Area.

- It is also evident that tenure shifts from renter to owner status evident during the 1999-2005 timeframe in the St. Charles Market Area have now fully abated given tighter lending standards, foreclosures, and a decline in home values. This will provide new stimulus to apartment potentials in the market with even some segments relinquishing their ownership status in favor of an enhanced amenity supported rental environment.

- Chicago's employment picture is slowly improving which will stimulate job finding by many college graduates who are now unemployed and living at home. These 21 to 29 year olds are the prime target for new apartment development not only in the city itself but also in the suburbs.

- Finally, the overall St. Charles Competitive Market Area currently supports no fewer than 85,000 occupied rental housing units. On average, between 18,000 and 24,000 of these current renter households will move annually, with at least 40 percent of these mobile households remaining in the rental sector. These mobile renters represent a significant additional pool of potential consumers, especially considering that the "newest" rental communities in the localized area are, in fact, now some twelve years old.

ABSORPTION FORECASTS

At proposed rents, Corporate Reserve of St. Charles will reach stabilized occupancy of 94.0 percent (311 units of the 331 available) within a 22.0 month period *from the first occupancy*. Rationale supporting this forecasted absorption period is summarized as follows:

- The suggested product line is representative of rental offerings in newer Class A apartment development found in the western suburban Chicago market as well as in other parts of the region and throughout the Midwest in general. It offers a continuum of plan designs which appeal across a broad range of consumer segments and leaves a very narrow gap in rent levels between various plan sizes which will allow the community to essentially follow and remain in concert with the pattern of household incomes.

- The *inclusive* pro forma rents position Corporate Reserve in proper context to newer apartment development in the west suburban marketplace and modestly higher than *base* rents among older communities in Naperville, Wheaton, and Woodridge that are arguably better located to the south and east. Referencing the latter, the comparative Class A developments include ten projects which were built, on average, 16 years ago and do not include the higher-end interior and community features suggested for Corporate Reserve of St. Charles.

- The Corporate Reserve development will be positioned on a value basis $174 monthly over *base* rents of AMLI at St. Charles, the community's nearest and largest direct competitor. AMLI at St. Charles is now 13 years old and, while perhaps better located east of the Fox River, provides somewhat outdated floor plans and elevation treatments, white-on-white kitchen cabinetry and appliances, older kitchen and bath flooring, and fewer contemporary features associated with technology, security, and energy efficiency.

- At pro forma rents, Corporate Reserve will be well within affordability levels in the market. For example, based upon a typical 27.0 percent housing cost allocation, benchmark rents require annual incomes in the range of $45,000 to $77,000 with the average standing close to $65,000. In the St. Charles Market Area, there are currently 32,947 households that have incomes between $50,000 and $100,000 including 12,628 households aged under 35 years and between 55 and 65, the principal target age groups for rental housing.

- The absorption forecast established for Corporate Reserve compares with the 15.1 monthly leasing achieved by 25 newer and larger apartment programs found in the St. Charles Competitive Market Area. It also compares with the 13.8 monthly average achieved by 24 programs in the CMA that are viewed as most comparable and the 18.0 monthly rate seen at AMLI at St. Charles when new.

- Throughout the St. Charles Competitive Market Area and in St. Charles and Geneva in particular, the apartment market is in a tight, unbalanced market condition as evidenced by an overall vacancy rate of 3.5 percent, and a localized, very low 2.5 percent vacancy rate.

- Finally, apartment demand potentials in the St. Charles Market Area will average 300 units annually during the 2012-2016 timeframe with Corporate Reserve expected to capture roughly 60 percent of this aggregate. This capture rate should be considered fair given the fact that there is very limited *localized* future competition in the planning pipeline, as the majority of new development is located in areas east of Route 59 and/or south of I-88. In addition, the expected absorption period of Corporate Reserve can be supported by turnover in the St. Charles Market Area's existing rental stock which in 2012 was represented by 12,555 households. Of these, an estimated 3,100 will move annually with approximately 40 percent, or 1,240 staying in the rental sector and representing part of Corporate Reserve's "pool" of prospective renters. From this aggregate of 1,414 new and existing base of renters, Corporate Reserve's project capture rate stands at a very pragmatic level of 12.3 percent.