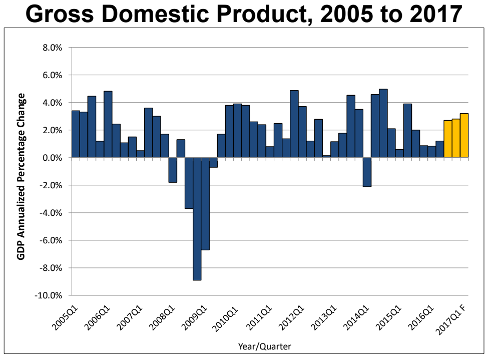
A market report for real estate professionals

2nd Quarter 2016

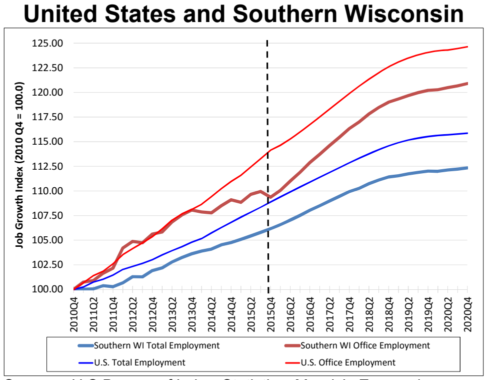
SOUTHERN WISCONSIN APARTMENT MARKET SNAPSHOT

Quarterly Change in United States Gross Domestic Product, 2005 to 2017



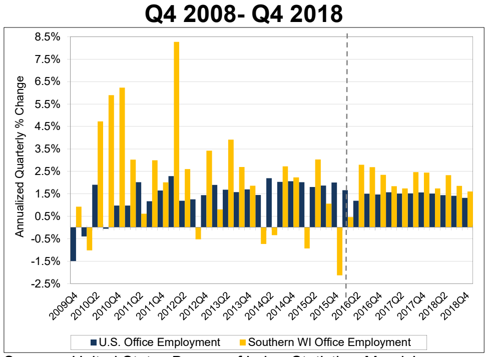
Sources: U.S. Bureau of Economic Analysis and Real Estate Counselors International, Inc.

Total Jobs and Office Jobs: United States and Southern Wisconsin



Sources: U.S Bureau of Labor Statistics, Moody's Economic.com and Real Estate Counselors International, Inc.

Quarterly Change in United States and Southern Wisconsin Office Employment: Q4 2008- Q4 2018



Sources: United States Bureau of Labor Statistics, Moody's Analytics, and Real Estate Counselors International, Inc.

Executive Summary

We remain in the fourth longest expansion in the nation's economic history, according to data available from the U.S. Bureau of Economic Analysis. In fact, nearly 15 million jobs have been created since mid-2010. Although real GDP growth over the last three quarters has been weak, consumer spending remains strong and Moody's Analytics believes that this sector of the economy will drive the U.S. expansion in the second half of the year. Real consumer spending surged in the 2nd quarter, the fastest rate since the 4th quarter of 2014. Finally, U.S. job gains remain strong, with no indication that this will not continue.

Southern Wisconsin's 1.9 million payroll jobs are forecast to grow at an average annual compounded growth rate of 0.92% per year over the next four years. This is slightly below the 1.02% annual growth rate that was exhibited between 2010 and 2015. This rate of growth is also slightly below the 1.04% growth rate forecast for the United States over the next four years.

Not surprisingly, one of the sectors driving the national economy is also a major driver of job growth in Southern Wisconsin: office-using jobs, particularly those in the large Professional and Business Services sector.

Southern Wisconsin Apartment Market Highlights as of 2nd Quarter 2016

- For properties of all classes containing ***50+ units***, the vacancy rate has steadily increased since 2014 and reached 4.0% at the end of the 2nd quarter 2016.
- For properties with ***50+ units*** the average asking rent increased by 3.7% over the last four quarters. The increase in the average asking rent for ***all units*** was even greater, at 4.3%.
- Rent growth for properties with ***50+ units*** was 5.4% in 2015, and 4.0% (on an annualized basis) in 2016, as of the end of the 2nd quarter.
- For properties containing ***50+ units***, the level of construction has surged to around 7,000 units which represent 4.7% of the existing inventory; well above the nation's overall level of apartment construction, which represents only 2.0% of the total inventory.

Southern Wisconsin Apartment Market Outlook

The Southern Wisconsin apartment market is showing signs of increasing vacancy but continued rent growth, as most of the new supply is being absorbed. The vacancy rate is expected to continue to rise and the average rent should continue to exhibit increases, though it is likely to grow more slowly in 2017. We expect growth in total employment and specifically office-using jobs to remain moderately strong and in turn, continue to fuel strong demand for multifamily rental units. The long-term demand outlook for the Southern Wisconsin apartment market is positive.

Real Estate Counselors International, Inc.

SOUTHERN WISCONSIN APARTMENT MARKET PERFORMANCE

REGIONAL VACANCY AND RENT GROWTH

The average vacancy rate for all properties containing 50+ units was 4.0% at the end of the 2nd quarter 2016, a 130 basis point increase from the 2nd quarter 2015 vacancy rate. Over the same period, the average ***asking rent for properties with 50+ units*** increased by 3.7% across the region. The increase in the ***average asking rent for all units*** was even greater, at 4.3%.

Despite a 7.1% vacancy rate for Class A properties with 50+ units, which exhibited a 300 basis point increase in vacancy over the past year, the average rent grew 7.4% over the same period.

SOUTHERN WISCONSIN'S SEVEN COUNTY METRO REGION 2ND QUARTER 2016

	All Properties - All Sizes	All Properties with 50+ Units	Class A Properties with 50+ Units
Number of Properties	4,556	1,198	136
Total Units	211,395	152,516	17,797
Apartment Vacancy Rate, 2016 Q2	4.1%	4.0%	7.1%
Apartment Vacancy Rate, 2015 Q2	3.2%	2.7%	4.1%
Basis Point Change in Vacancy 2015 Q2 to 2016 Q2	90	130	300
Apartment Asking Rent 2016 Q2	$952	$981	$1,399
Apartment Asking Rent 2015 Q2	$913	$946	$1,303
% Change in Asking Rent 2015 Q2 to 2016 Q2	4.3%	3.7%	7.4%
Rent Concessions, % of Asking Rent, 2016 Q2	2.4%	2.1%	2.3%
Units Absorbed - 2015 Q2 to 2016 Q2 (Last 4 Quarters)	3,100	2,368	1,967
Units Delivered - 2015 Q2 to 2016 Q2 (Last 4 Quarters)	4,792	4,184	2,542

Sources: CoStar Group and Real Estate Counselors International, Inc.

MARKET PERFORMANCE - SOUTHERN WISCONSIN SEVEN COUNTIES

In all seven counties shown below, the vacancy rate has increased since the 2nd quarter 2015. Still, vacancy rates across six of the seven counties remain at or below 3.6%, which are below historic averages. The ***Dane County vacancy rate was 4.8%*** at the end of the 2nd quarter, 130 basis points above the vacancy rate one year ago. More than 2,000 units have been delivered year-to date in Dane County.

The ***Milwaukee County vacancy rate was 3.6%*** at the end of the 2nd quarter, 90 basis points above the vacancy rate one year ago. Nearly 1,100 units have been delivered over the past four quarters in Milwaukee County.

Rental rate growth since the 2nd quarter 2015 (i.e., four quarter period) has been relatively flat in ***Milwaukee County***, ***Fond Du Lac County*** and ***Sheboygan County***. Average rental rate growth in ***Dane County*** and ***Waukesha County*** has remained strong.

	Milwaukee	Dane	Waukesha	Kenosha	Rock	Fond Du Lac	Sheboygan
Number of Properties	457	333	119	55	32	27	24
Total Units	61,007	43,525	16,005	7,215	3,221	3,185	2,798
Apartment Vacancy Rate, 2016 Q2	3.6%	4.8%	2.9%	3.0%	3.1%	2.9%	1.6%
Apartment Vacancy Rate, 2015 Q2	2.7%	3.5%	1.9%	1.4%	2.4%	1.8%	1.1%
Basis Point Change in Vacancy 2015 Q2 to 2016 Q2	90	130	100	160	70	110	50
Apartment Asking Rent 2016 Q2	$978	$1,105	$1,019	$859	$734	$688	$679
Apartment Asking Rent 2015 Q2	$970	$1,029	$982	$833	$714	$684	$675
% Change in Asking Rent 2015 Q2 to 2016 Q2	0.8%	7.4%	3.8%	3.1%	2.8%	0.6%	0.6%
Rent Concessions, % of Asking Rent, 2016 Q2	2.1%	2.1%	2.5%	1.2%	1.6%	4.9%	0.9%
Units Absorbed - 2015 Q2 to 2016 Q2 (Last 4 Quarters)	609	1,377	346	17	-25	-32	-15
Units Delivered - 2015 Q2 to 2016 Q2 (Last 4 Quarters)	1,074	2,016	504	131	0	0	0

Sources: CoStar Group and Real Estate Counselors International, Inc.

The majority of apartment unit construction has been taking place in Milwaukee County and Dane County. The current list of construction activity is highlighted on the following pages.

MADISON AND MILWAUKEE MARKET CONSTRUCTION

RECI surveyed properties under construction, accounting for nearly 1,700 units in the Madison MSA and over 3,400 units in the Milwaukee MSA. The tables below present pertinent details for each of these properties, including estimated delivery dates.

MADISON WI MSA

#	Property Name	Address	City	Developer, Owner or Management Co.	Style/ Market Segment	Number of Units	Leasing / Construction Start	Anticipated Completion
RECENTLY COMPLETED (2nd Quarter 2016)								
2	**Prima**	5078 Lacy Road	Fitchburg	Avante Properties LLC	Low-Rise	64	September-15	April-16
3	**The Foundry at Greenway**	1690 Aspen Commons	Middleton	LZ Management	Mid-Rise	82	September-15	May-16
4	**Holy Name Heights**	702 S High Point Road	Madison	Gorman & Company, Inc.	Low-Rise	103	August-15	May-16
5	**Factory District**	1222 E Washington Avenue	Madison	McGrath Property Group	Low-Rise	76	November-15	May-16
6	**Infinity**	5850 Charon Lane	Madison	Forward Management, Inc.	Low-Rise	80	March-15	June-16
7	**The Pointe**	2811-2815 Fitchrona Road	Fitchburg	Johnson Properties	Low-Rise	82	July-15	June-16
8	**The Lux**	433 W Johnson Street	Madison	West Johnson Apartments LLC	Mid-Rise	160	December-14	June-16
9	**Prairie Trail Residences**	3061 Pleasant Street	Sun Prairie	T. Wall Enterprises Mgt, LLC	Low-Rise	54	July-15	June-16
10	**Galaxie - Phase I**	822 E Washington Avenue	Madison	Gebhardt Development	Hi-Rise	148	September-15	June-16
TOTAL						**849**		
UNDER CONSTRUCTION								
1	**700 UBD**	700 University Bay Drive	Madison	Stone House Development, Inc.	Mid-Rise	55	July-15	July-16
2	**Uncommon Madison**	110 N BedfoRoad Street	Madison	CA Ventures, LLC	Mid-Rise	192	April-15	August-16
3	**Legacy Apartments Phase II**	9317 Glencoe Drive	Verona	McKenzie Apartments	Low-Rise	204	July-15	August-16
4	**The Masters Residences**	5241 Bishops Bay Pky	Middleton	T. Wall Enterprises Mgt, LLC	Mid-Rise	158	January-16	September-16
5	**The Tuscany on Pleasant View**	310 Samuel Drive	Madison	Connery Construction Inc	Mid-Rise	145	January-15	September-16
6	**Elan Apartments**	6311 Quarry Vista Drive	Fitchburg	Fiduciary Real Estate Development, Inc.	Low-Rise	140	April-15	December-16
7	**Portage Road Apartments**	4103-4119 Portage Road	Madison	T. Wall Enterprises Mgt, LLC	Mid-Rise	284	April-16	May-17
8	**The James**	510 University Avenue	Madison	Core Spaces	Mid-Rise	348	September-15	August-17
9	**The Apartments at Ten35 West - Phase II**	1035 Purple Iris Trail	Verona	T.R. McKenzie, Inc.	Low-Rise	152	September-15	September-17
TOTAL						**1,678**		

Sources: CoStar Group and Real Estate Counselors International, Inc. field survey, July 2016.

MILWAUKEE WI MSA

#	Property Name	Address	City	Developer, Owner or Management Co.	Style/ Market Segment	Number of Units	Leasing / Construction Start	Anticipated Completion
RECENTLY COMPLETED (2nd Quarter 2016)								
1	**Honey Creek Apartments Phase II**	2859 Honey Creek Court	East Troy	Teronomy Builders Inc	Low-Rise	240	August-15	April-16
2	**Clearwater Apartments**	2950 Clearwater Lane	Waukesha	A-Squared Development LLC	Mid-Rise	71	April-15	June-16
TOTAL						**311**		
UNDER CONSTRUCTION								
1	**Walker's Landing Apartments**	2056-2064 N Commerce Street	Milwaukee	Kendal Group Ltd	Mid-Rise	133	January-14	July-16
2	**Aperture Apartments**	1635 N Water Street	Milwaukee	Mandel Group	Mid-Rise	168	September-14	July-16
3	**Emerald Row - Phase I**	7971 S 6th Street	Oak Creek	Barrett Visionary Development	Mid-Rise	172	April-15	August-16
4	**Eleven25 at Pabst**	1125 N 9th Street	Milwaukee	Blue Ribbon Management, LLC	Mid-Rise	135	July-14	August-16
5	**Centennial Park - Phase II**	E Centennial Drive	Oak Creek	Wimmer Communities	Garden	132	April-15	August-16
6	**Cranberry Creek Apartments - Phase 4**	Jackson Drive & Main Street	Jackson	Premier Real Estate Management LLC	Garden	72	July-15	August-16
7	**Sutter Creek Phase II**	20317 E Sutter Creek Drive	Brookfield	Kevin Thompson	Mid-Rise	55	October-15	August-16
8	**Rhythm**	1632-1640 N Water Street	Milwaukee	Wiechmann Enterprises	Mid-Rise	140	October-15	August-16
9	**1009 W Juneau Ave**	1009 W Juneau Avenue	Milwaukee	Whitestone Realty Capital LLC	Mid-Rise	118	April-16	October-16
10	**4145 N Oakland Ave**	4145 N Oakland Avenue	Shorewood	General Capital Group	Mid-Rise	80	#N/A	October-16
11	**River House - Phase I**	1775 N Water Street	Milwaukee	Atlantic Realty Partners	Mid-Rise	240	November-14	October-16
12	**River House - Phase II**	1775 N Water Street	Milwaukee	Atlantic Realty Partners	Mid-Rise	200	October-15	October-16
13	**Wilson Heights**	820-860 E Loos Street	Hartford	Decker Properties	Garden	84	March-15	November-16
14	**The Junction**	N91W16028 Junction Way	Menomonee Falls	H-d Pilgrim Road Llc	Low-Rise	270	March-15	December-16
15	**The Corners**	N Barker & Bluemound Road	Brookfield	The Marcus Corporation	Garden	235	January-16	February-17
16	**The Domus**	401 E Erie Street EaStreet	Milwaukee	Mandel Group	Mid-Rise	133	January-16	April-17
17	**The Reserve at Mayfair**	11011 W North Avenue	Wauwatosa	Atlantic Realty Partners	Mid-Rise	236	April-16	April-17
18	**Hills Building**	906-910 W Mitchell Street	Milwaukee	Gorman & Co	Mid-Rise	60	June-16	July-17
19	**Stitchweld**	2151 S Robinson Street	Milwaukee	Milhaus	Mid-Rise	291	April-16	July-17
20	**Lumberyard 1505**	1505 Wisconsin Avenue	Grafton	Shaffer Development	Mid-Rise	77	April-16	July-17
21	**Village Pointe Commons**	1 Street Avenue at W Oak Street	Grafton	Tarantino & Company	Low-Rise	227	March-15	August-17
22	**State Street Station**	7400 W State Street	Wauwatosa	HSI Properties	Low-Rise	148	April-16	August-17
TOTAL						**3,406**		

Sources: CoStar Group and Real Estate Counselors International, Inc. field survey, July 2016.

SOUTHERN WISCONSIN APARTMENT MARKET DEMAND/SUPPLY

Apartment Demand in the U.S.

Demand for apartments over the next few years, will be fueled by sustained strong rates of job growth, favorable demographics (i.e., substantial increase in renter-age households) and lower levels of lending on home purchases than before the Great Recession.

There is growing evidence that most of ***today's young adults are renting longer than ever before***. These households are delaying many of decisions of adulthood that typically lead to homeownership such as finishing their education and starting families.

Southern Wisconsin Apartment Market

At the end of the 2nd quarter 2016, the Southern Wisconsin apartment market inventory encompassed approximately 4,500 existing apartment properties, totaling about 210,000 units. Just over 1,200 of the existing properties contain ***50+ units*** and encompass approximately 150,000 units. Of these 150,000 units, almost 17,000 units are considered Class A apartments.

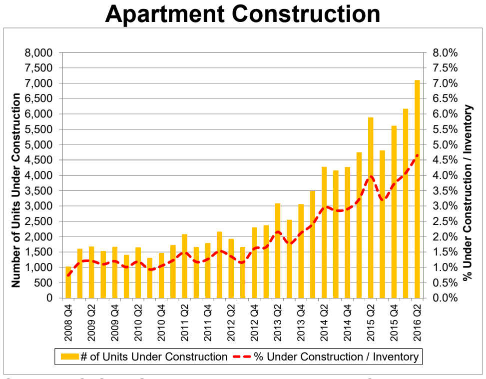
For properties containing 50+ units, ***the level of construction surged to over 4,000 units in mid-2014 and presently totals approximately 7,000 units***. This level of construction represents roughly 4.7% of existing inventory. As of the 2nd quarter 2016, there were another 6,800 units proposed among properties with ***50+ units***.

The average vacancy rate for properties containing 50+ units was 4.0% at the end of the 2nd quarter 2016, a 130 basis point increase from the 2nd quarter 2015 vacancy rate. Inventory grew by 14.3% for Class A properties with ***50+ units*** over the past year and the vacancy rate at the end of the 2nd quarter 2016 was 7.1%.

Looking as far back as 2010, asking rents have steadily increased each year. In 2015, asking rents spiked 5.4% and so far in 2016, rents are up 2.0% (4.0% annualized). Apartment rents continue to grow more rapidly in some parts of the region.

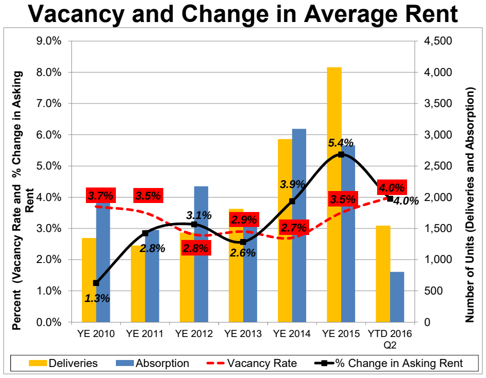
Despite new supply, positive absorption continues to drive-up rents across the region. This is particularly the case for ***Class A properties with 50+ units***, which reported a 300 basis point increase in vacancy over the past year. However, the average rent grew by an estimated 6.1% over this same period.

Southern Wisconsin Apartment Construction



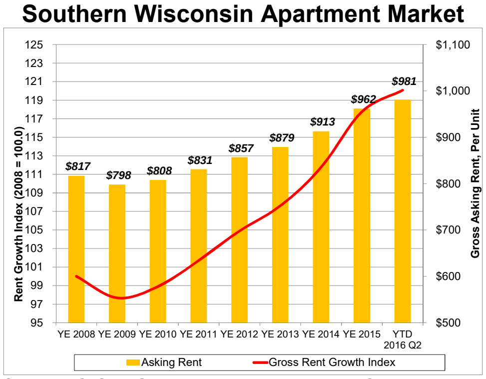
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.
Note: Chart reflects only properties containing 50+ units.

Southern Wisconsin Apartment Demand/Supply: Deliveries, Absorption Vacancy and Change in Average Rent



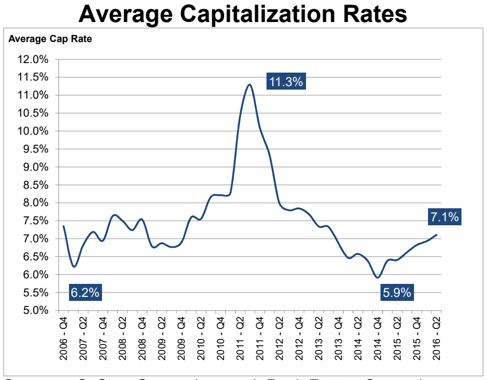
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.
Note: Chart reflects only properties containing 50+ units. Percentage change in rent YTD 2016 Q2 represents the annualized change since year-end 2015.

Trend of Apartment Asking Rents for Southern Wisconsin Apartment Market



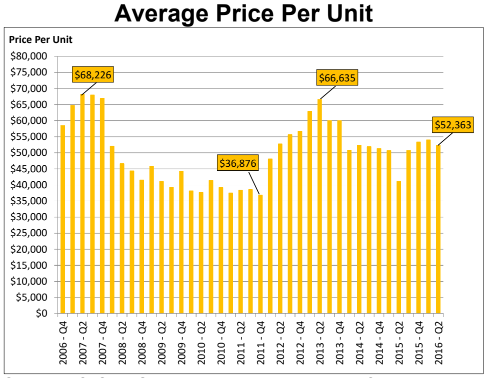
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.
Note: Chart reflects only properties containing 50+ units.

Southern Wisconsin Apartment Market Average Capitalization Rates



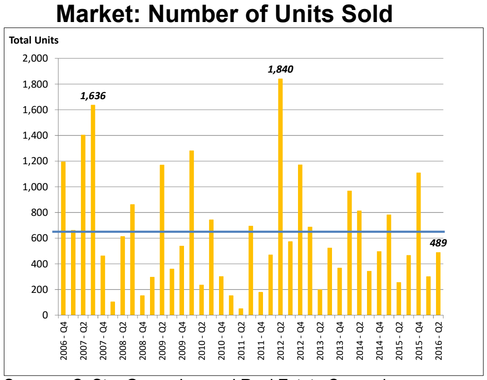
Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.
Note: Chart reflects only properties containing 50+ units, 4 quarter moving average.

Southern Wisconsin Apartment Market Average Price Per Unit



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.
Note: Chart reflects properties containing 50+ units, 4 quarter moving average.

Southern Wisconsin Apartment Market: Number of Units Sold



Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.
Note: Chart reflects only properties containing 50+ units, 4 quarter moving average.

SOUTHERN WISCONSIN APARTMENT INVESTMENT TRENDS

The Southern Wisconsin apartment investment market has exhibited rising capitalization rates and lower per unit prices compared to a few years ago when a higher volume of sales was exhibited. Capitalization rates have increased approximately 120 basis points since reaching a low of 5.9% at the end of 2014. The average price per unit is now about 21% below the peak of $66,635 per unit reported in mid-2013.

After a strong level of activity in 2012, ***the number of transactions remained slow in the 1st half of 2016***. On average, about 640 units were sold each quarter since 2006 and despite nearly 1,100 units sold in the 4th quarter 2015, so far in 2016; the number of units sold is well below the long-term average.

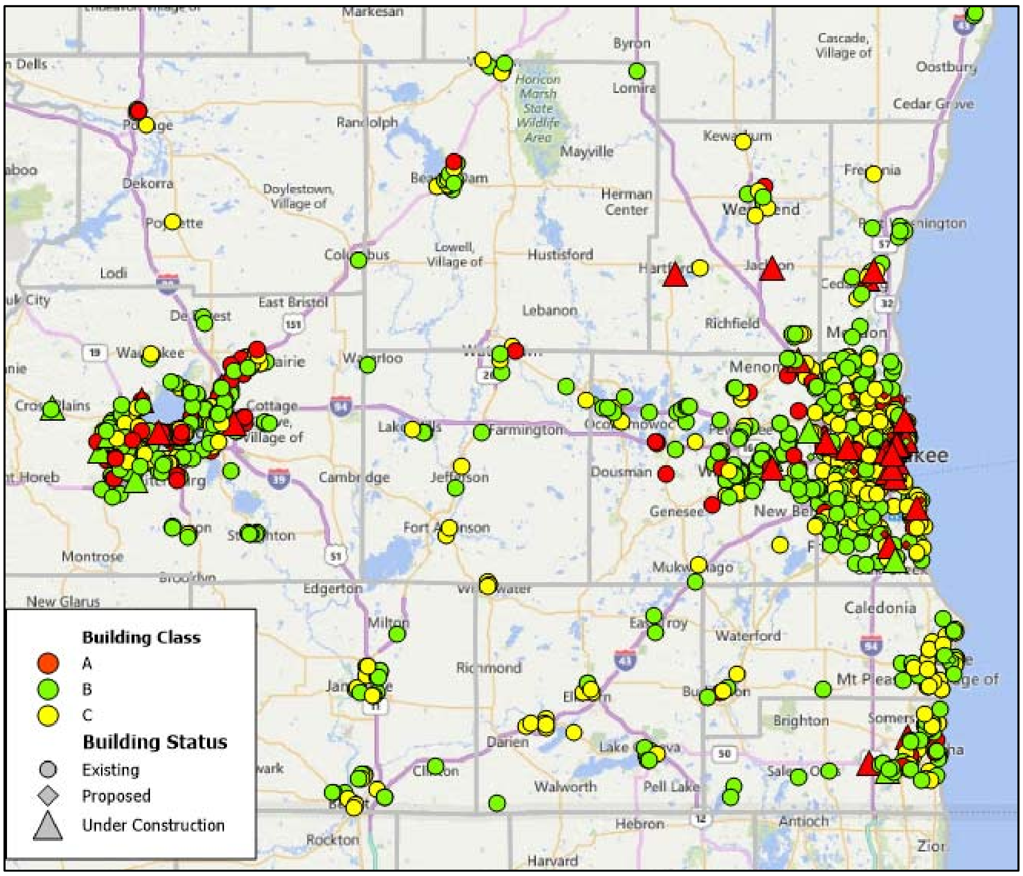
Since June 30, 2015, there have been 12 large transactions (*50+ unit* properties selling for $5.0+ million) in the Southern Wisconsin market with an average per unit price of approximately $59,000. Following are the 12 transactions.

#	Property Name	City	# of Units	Sale Date	Price per Unit
1	Chalet Gardens Apartments	Fitchburg	99	May-2016	$ 50,505
2	Lakeview Village	Sheboygan	102	May-2016	$ 49,451
3	Fairmount Meadows Apartments	Milwaukee	128	Apr-2016	$ 48,867
4	Geneva Meadows Apartments	Lake Geneva	108	Jan-2016	$ 77,778
5	Barrington Place Apartments	Madison	202	Dec-2015	$ 85,149
6	Barrington Place Apartments	Madison	202	Dec-2015	$ 85,149
7	The Ridge	Madison	292	Nov-2015	$ 43,151
8	Parkridge Apartments	Grafton	80	Nov-2015	$ 63,000
9	Glacier Valley at Reston Heights	Madison	158	Nov-2015	$ 123,975
10	Johnson Square Apartments	Milwaukee	180	Oct-2015	$ 30,303
11	Mountain Village Apartments	Waukesha	310	Aug-2015	$ 93,548
12	Garden Terrace Apartments	Milwaukee	156	Aug-2015	$ 32,692

Sources: CoStar Group, Inc. and Real Estate Counselors International, Inc.

SOUTHERN WISCONSIN APARMENT MARKET AREA DEFINITION AND INVENTORY

In total, this region contains approximately 4,500 existing apartment properties, encompassing approximately 210,000 units. Just over 1,200 of existing properties contain 50+ units and encompass approximately 150,000 units. Of these 150,000 units, almost 17,000 units are considered Class A apartments.



Sources: CoStar Group and Real Estate Counselors International, Inc.

Note: All information is from sources deemed reliable; however, no representation is made as to the accuracy thereof.

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- Property Appraisals
- Acquisition Due Diligence
- Disposition Pricing
- Forensic Due Diligence/Evaluations
- Portfolio Valuations
- Litigation Support/Dispute Resolution
- Market Feasibility Analysis

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For more information, please contact: Thomas Amato, CRE at 312.332.4000 X101 or
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