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Hilco Real Estate Appraisal, LLC

Valuation of

Franciscan Alliance, Inc.

211 Dixie Highway  
Chicago Heights, Cook County, Illinois

Report Date: October 3, 2017  
As of: September 18, 2017



LENDING • FINANCIAL REPORTING • STRATEGIC PLANNING • INSURANCE/RISK MANAGEMENT  
ESTATE/TAX MANAGEMENT • PORTFOLIO VALUATION • DISPUTE RESOLUTION • FINANCIAL OPINIONS



October 3, 2017

Mr. Steve Waryas  
Chief Credit Officer  
First Bank & Trust Company of Illinois  
300 East Northwest Highway  
Palatine, Illinois 60067

Re: Appraisal of Real Property  
Franciscan Alliance, LLC  
211 South Dixie Highway  
Chicago Heights, Cook County, Illinois

Dear Mr. Waryas:

Hilco Real Estate Appraisal, LLC is pleased to transmit our appraisal estimating the *market value* of the leased fee interest in the above-referenced property. The extent of the appraisal process is complete in that the *Sales Comparison and Income Capitalization Approaches* are utilized. In our opinion, these two approaches are the most appropriate given the nature of the property appraised and the exclusion of the *Cost Approach* does not compromise the credibility of the results.

The findings, conclusions and opinions are presented in this restricted report format, which contains only a brief presentation of the properties, data, analyses and conclusions. ***This restricted report is only for the use of the client. The appraiser's opinions and conclusions set forth in the report contain only a brief description of the properties, but additional information is retained in the file that may be needed to understand the conclusion. The client agrees that the analysis and limited reporting is sufficient considering the intended use of the appraisal, which is for internal use only and not for collateral valuation.***

The report is intended to comply with the reporting requirements set forth under Standards Rule 2-2 of the 2016-2017 Uniform Standards of Professional Appraisal Practice (USPAP). The report conforms to Title XI of the Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

This report was prepared for First Bank & Trust Company of Illinois (Client) and is intended only for their specified use for internal decision-making purposes. The report is not intended for distribution to or reliance upon by other persons or entities. The appraisal was developed consistent with the scope specified by First Bank & Trust Company of Illinois and agreed upon by the appraiser(s).

John C. Satter, MAI, GAA inspected the subject property on September 18, 2017 and prepared the report. Hilco Real Estate Appraisal, LLC has provided prior appraisal services of the subject property in July 2012, July 2013, July 2015, and June 2016. We have also relied on information provided by the company and/or client.

The value opinions set forth in the attached report are qualified by certain assumptions, limiting conditions, certifications and definitions, all of which are set forth in the report.

Thank you for the opportunity to provide the outlined services. We look forward to working with you again in the near future.

Respectfully submitted,

**HILCO REAL ESTATE APPRAISAL, LLC**



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***Franciscan Alliance, LLC (211 South Dixie Highway) – Chicago Heights, IL***

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**SUMMARY OF SALIENT FACTS AND CONCLUSIONS**

Property Name:	Franciscan Alliance, LLC
Location:	211 South Dixie Highway Chicago Heights, Cook County, Illinois
General Overview:	The subject property currently consists of a one-story, masonry constructed, freestanding office building built in 1975 and renovated in 2006/2007. The subject has a gross building area of 51,524 square feet and was originally constructed as a grocery store, but has since been converted to medical office use by the tenant. The building and interior build out are in above average condition.
Interest Appraised:	Leased Fee Interest
Effective Date of the Appraisal:	September 18, 2017
Date of the Report:	October 3, 2017
Date of Inspection:	September 18, 2017
Zoning:	B-2, Limited Service Business District
Highest and Best Use	
As Vacant:	Commercial Development
As Improved:	Current Use, Office
Value Indicators	
Sales Comparison Approach	\$5,150,000
Income Comparison Approach	\$4,800,000
<b>Market Value Conclusion</b>	<b>\$4,900,000</b>
Exposure Time	12 Months
Use Restriction	<i>This restricted report is only for the use of the client. The appraiser's opinions and conclusions set forth in the report contain only a brief description of the properties, but additional information is retained in the file that may be needed to understand the conclusion. The client agrees that the analysis and limited reporting is sufficient considering the intended use of the appraisal, which is for internal use only and not for collateral valuation. The client is not providing financing for the property identified.</i>

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**Identification of Property**

The subject improvements consist of a one-story, 51,524 square foot freestanding building with an asphalt-paved surface parking lot. The brick constructed building was built in 1975 and renovated in 2006/2007. The subject is in above average condition.

The improvements are situated on an irregularly-shaped parcel totaling 250,470 square feet, or approximately 5.75 acres.

The subject address is 211 South Dixie Highway, Chicago Heights, Cook County, Illinois. The subject property is further identified by the Cook County Assessor's Office as parcel number 32-17-131-009-0000.

**Property Ownership and Recent History**

To our knowledge, the property is under the ownership of CG Allied LLC. The subject property is currently listed for sale according to CoStar for an undisclosed amount. To our knowledge, there have not been any market-oriented transactions involving the subject property during the three years preceding the effective date of this appraisal.

**Purpose and Intended Use of the Appraisal**

The purpose of this appraisal is to estimate the *market value* of the leased fee estate in the subject properties as of September 18, 2017, the date of analysis. This report was prepared for First Bank & Trust Company of Illinois (Client) and is intended only for their specified use for internal decision-making purposes.

***The client agrees that the analysis and limited reporting is sufficient considering the intended use of the appraisal, which is for internal use only and not for collateral valuation. The client is not providing financing for the properties identified.***

The report is not intended for distribution or reliance upon by other persons or entities without written permission from Hilco Real Estate Appraisal, LLC. The appraisal was developed consistent with the scope specified by First Bank & Trust Company of Illinois and agreed upon by the appraiser(s).

**Extent of the Appraisal Process (Scope of Work)**

In the process of preparing this appraisal, the appraiser(s):

- Reviewed our prior appraisals of the property.
- Inspected the exterior of the existing building and site improvements. Our inspection was conducted for purposes of evaluating the physical characteristics and general condition of the site and building improvements.
- Conducted market inquiries into recent sales of similar facilities to ascertain sales price per square foot for the improved properties. We have not completed inspections of the comparable sales, but have relied upon available data and/or discussions with real estate professionals familiar with the properties.
- Conducted market inquiries into rental rates for similar commercial buildings to estimate an appropriate potential gross income for the subject. Deducted appropriate vacancy and collection loss and operating expenses to estimate the stabilized net operating income for the subject. Converted net operating income into value by capitalizing at an appropriate overall capitalization rate.

- Prepared *Sales Comparison Approach* and *Income Capitalization Approach* to value.

#### **Data Verification**

In the course of verifying data used in the appraisal, we rely upon published sources and/or discussions with real estate professionals. Data verification involves telephone interviews with sellers, buyers and/or participating brokers and/or searching online sources including Costar Group, Loop Net, MRED MLS, county records, and other internet-based sites, in addition to discussion with representatives familiar with the properties and/or transactions, information from previous appraisals we have completed, data provided by other appraisers or real estate professionals.

#### **Competency Provision**

We are aware of the competency provision promulgated by the USPAP, and the authors of this report meet the standards as: i.) the appraisers have knowledge and experience in the nature of this assignment and have experience with similar properties throughout the United States; ii.) necessary steps have been taken in order to complete the assignment competently; and iii.) there is no lack of knowledge or experience that would prohibit this assignment to be completed in a professional and competent manner or where a biased or misleading opinion of value would be rendered.

#### **Date of Value and Property Inspection**

The date of value and the date of inspection are September 18, 2017. John C. Satter, MAI inspected the exterior of the building and site improvements on that date. John C. Satter, MAI, previously appraised the subject property in July 2012, July 2013, July 2015, and June 2016.

#### **Property Rights Appraised**

We have appraised the leased fee interest.

#### **Definitions of Value, Interest Appraised, and Other Pertinent Terms**

The definition of **market value** as applied in this report is from Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as adopted August 24, 1990, and is defined as:

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is consummation of a sale as of a specified date and passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”

**Fee Simple Estate**

Absolute ownership unencumbered by any other interest or estate, subject to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. (*Dictionary of Real Estate Appraisal, Sixth Edition*)

**Leased Fee Estate**

A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease). (*Dictionary of Real Estate Appraisal, Sixth Edition*)

**Stabilized Occupancy**

An expression of the expected occupancy of a property in its particular market considering current and forecasted supply and demand, assuming it is priced at market rent. (*Dictionary of Real Estate Appraisal, Sixth Edition*)

**Prospective Opinion of Value**

A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy. (*Dictionary of Real Estate Appraisal, Sixth Edition*)



**Exposure Time and Marketing Period**

Exposure Time and Marketing Period are defined in the *Dictionary of Real Estate Appraisal, Sixth Edition (2015)*, published by the Appraisal Institute and are defined as follows.

**Exposure Time**

1 The time a property remains on the market. 2. [The] estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market. (USPAP, 2016-2017 Ed.)

**Marketing Period**

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of The Appraisal Foundation and Statement on Appraisal Standards No. 6, “Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions” address the determination of reasonable exposure and marketing time.)

In determining the appropriate exposure and marketing times for the subject property, we have considered national, regional and local trends for industrial real estate. We have considered the national investor survey published by *PwC* (PricewaterhouseCoopers) for average marketing times that range 2-12 months with an average of 5.8 months and under eight months for the past year. Average marketing times have been trending lower the past year given a lack of supply growth and declining vacancy in the sector. We note that the survey information reflected in the foregoing chart relates to investment grade properties, which are generally newer facilities, located in metropolitan areas. The subject is located in the primary Chicago MSA but has other risk factors including competition from new supply and other factors described throughout this report that would impact marketing time.

To determine marketing period trends within the subject’s local and regional area, we have considered the marketing times for comparable sales and listings (less than three months to two years), as well as considered insight from local market participants. Based upon the foregoing and considering the physical and economic characteristics of the subject as more completely described throughout this report, a marketing period of 12 months is concluded for the subject property as is. As marketing periods have been relatively stable the past year, we conclude a 12 month exposure period for the subject property.

The exposure time estimate reflects the activity that has existed for properties in recent periods whereas the marketing time estimate is subject to variation depending upon evolving events and unforeseen changes in the economy or marketplace. The price that may be achieved in the future at the end of the marketing period may or may not be equal to the current appraised value estimate, depending on potential changed in the physical real estate, demographic and economic trends, the real estate market and the effectiveness of the marketing program, among other factors.

**REGIONAL MAP AND DISCUSSION**



**Introduction**

The subject property is located in the Chicago-Gary-Kenosha Consolidated Metropolitan Statistical Area (CMSA). This area has the third largest population in the U.S., behind Los Angeles and New York. The CMSA includes 10 northeastern counties in Illinois, two northwestern counties in Indiana, and one southeastern county in Wisconsin.

The subject property is within a six-county (Illinois only) geographic portion of the CMSA called the Northeastern Illinois Counties Area (NICA) – an area defined by the Northeastern Illinois Planning Commission. The NICA counties are Cook (including the City of Chicago), DuPage, McHenry, Kane, Lake, and Will. These six counties encompass a total of 3,724 square miles and 208 of the suburban communities around Chicago. The six NICA counties, with the City of Chicago roughly at their geographic center, form an interlocking economic structure. Economic growth in the NICA has occurred in a radial pattern emanating outward from the city along major arterial routes, waterways, and rail lines.

The following presented economic and statistical data is provided by Economy.com.

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***Franciscan Alliance, LLC (211 South Dixie Highway) – Chicago Heights, IL***

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**Key Comparisons and Projections**

The following information is taken from the previously presented economic and statistical data provided Economy.com as of June 2017. Chicago Heights, IL is in Cook County, IL, which is part of the Chicago-Joliet-Naperville, IL-IN-WI MSA as determined by Economy.com.

UNITED STATES	MIDWEST	CHICAGO
<b><i>Total Employment</i></b>		
146,400,000	32,816,000	3,744,800
<b><i>Employment Change %</i></b>		
1.5	1.1	0.9
<b><i>Unemployment Rate %</i></b>		
4.4	4.2	4.8
<b><i>Personal Income Growth</i></b>		
4.0	3.9	4.3
<b><i>Strengths</i></b>		
<ul style="list-style-type: none"><li>• Very productive workforce.</li><li>• Labor market that attracts skilled and unskilled immigrants.</li><li>• High innovation and entrepreneurship.</li><li>• Mobile labor force, flexible labor system.</li></ul>	<ul style="list-style-type: none"><li>• Less income inequality than other regions.</li><li>• Deep pockets of specialized expertise.</li><li>• Low business costs, especially for energy.</li><li>• High housing affordability.</li></ul>	<ul style="list-style-type: none"><li>• Major business, distribution, transportation and financial center.</li><li>• Huge talent pool; strong roster of well-regarded educational institutions.</li><li>• Budding high-tech center in River North neighborhood.</li></ul>
<b><i>Weaknesses</i></b>		
<ul style="list-style-type: none"><li>• Many labor market nonparticipants.</li><li>• Large budget, current account deficits.</li><li>• Skewed income and wealth distribution.</li><li>• Polarized and fractured political system.</li></ul>	<ul style="list-style-type: none"><li>• Below-average population growth, including persistent out-migration.</li><li>• State and local budgetary pressures.</li><li>• Exposure to weak farm industry.</li></ul>	<ul style="list-style-type: none"><li>• State and local budgetary pressures.</li><li>• Below-average population growth.</li><li>• High crime rate.</li></ul>

### **National Outlook**

“The U.S. economic expansion is enjoying its eighth birthday this month. That makes it the third longest on record, bested only by the nearly nine-year expansion of the 1960s and the decade-long 1990s expansion. Odds are good for this expansion to become the longest in our economic history.

Growth in the 1960s was powered by muscular fiscal policy and an accommodative monetary policy. By the end of that decade, inflation was evolving into the economic scourge it would become in the 1970s and 1980s. The long 1990s expansion was fueled by the technology boom that eventually inflated into a massive bubble in the stock prices of tech and internet companies.

The current expansion appears rooted in stronger fundamentals. Fiscal policy certainly has not been much help in recent years. If anything, it has been counterproductive given a lengthy government shutdown and suicidal flirtations with breaching the Treasury debt limit. And while financial markets appear meaningfully overvalued, none appear to be infected by speculation and a bubble. Moreover, the economy’s current growth is broad-based, which is clear from the widespread job creation. Multiple sources of growth make for a more stable economy and a longer expansion.

The economy appears especially sensitive to moves in stock prices, particularly when they are declining. Behind this is that many baby boomers in their 50s and 60s are not financially prepared for retirement. Moreover, because returns on cash or fixed-income investments are near zero, and they have recently been burned by declining house prices, boomers have put a disproportionate share of their investments in the stock market compared with previous generations at the same point in their life cycle. When stock prices go up, the boomers are cautious to spend their newfound wealth since they need it for their nest egg. However, when prices go down, they will pull back, way back, in fear that their retirement goals are even farther out of reach.

We are anticipating more market volatility, and it is incorporated into our baseline outlook for markets, Fed policy and the economy. The volatility should be manageable, and although it may feel uncomfortable for a while, the economy should not be derailed by it. This expansion should celebrate its 10th birthday and then some, becoming the longest in history. Having said this, we could be underestimating the coming increase in volatility and its fallout on the economy. It would be prudent to prepare for a bumpy ride.” (*Precis: Metro June 2017 Moody’s Analytics*)

### **Midwest Region Outlook**

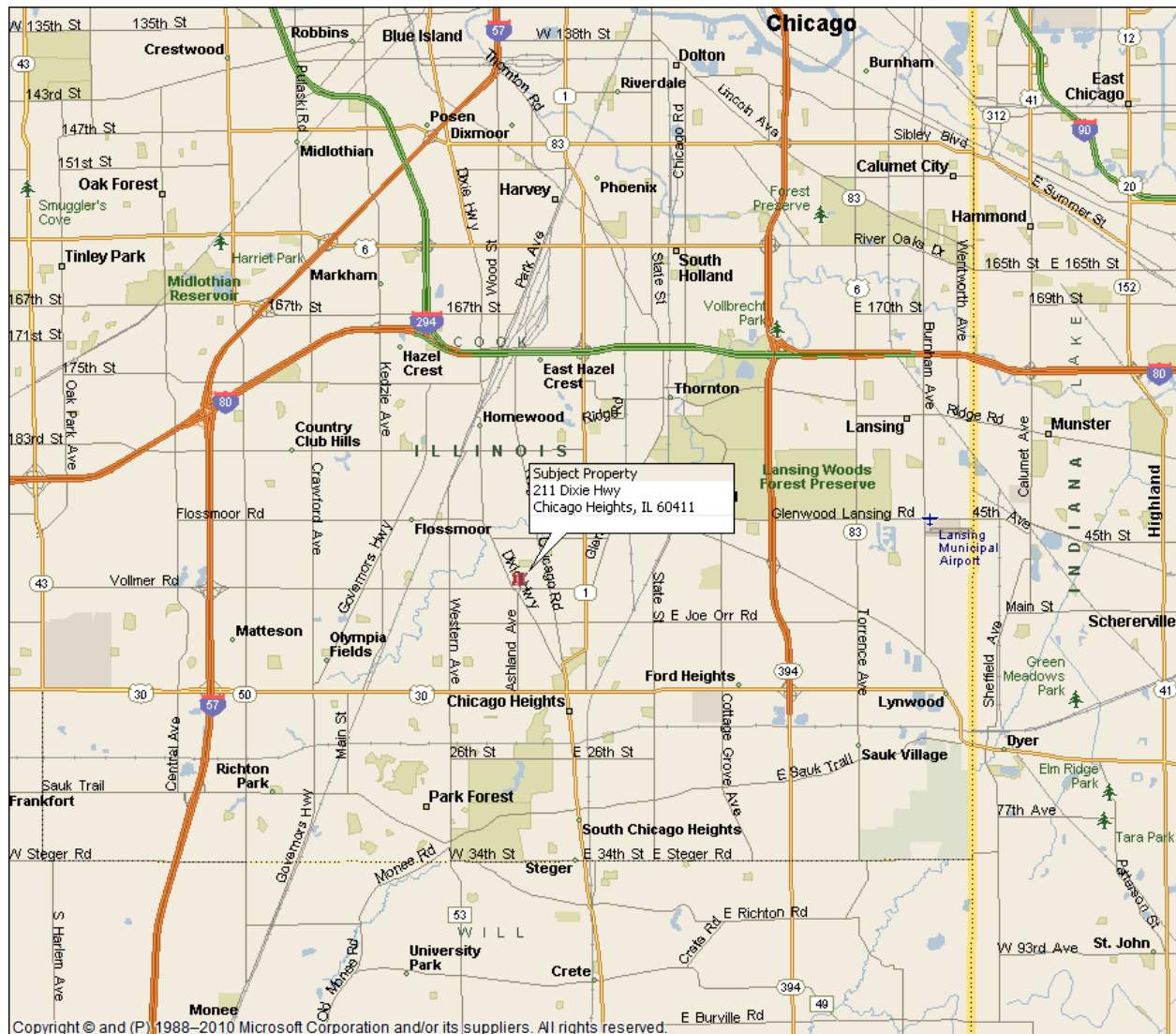
“Diminishing labor market slack will result in slowing employment growth in the Midwest for the duration of the business cycle and will push wages higher. Longer term, poor population trends will act as a speed limit on service industries and keep the Midwest an underperformer in most economic metrics.” (*Precis: Metro June 2017 Moody’s Analytics*)

### **Local Area Outlook**

“Economic metrics signal a sleepy second quarter. The Moody’s Analytics business cycle tracker has risen less in CHI than it has in other large U.S. metro areas over the last six months. A range of private industries are struggling, and the prolonged state budget battle and out-migration are crimping government payrolls. Housing is sluggish, with weak home sales, construction and subpar price growth.

Chicago-Naperville-Arlington Heights is projected to stay in the slow lane in coming quarters. Job gains in private services will be minimal, with added lift from construction. Extraordinary fiscal pressures on the state and city governments present significant challenges, and CHI will underperform the nation and region in the long term.” (*Precis: Metro June 2017 Moody’s Analytics*)

**LOCAL MAP AND DISCUSSION**



## **LOCAL AREA ANALYSIS**

### **Introduction**

The subject property is in the City of Chicago Heights and located along Dixie Highway on the southeast corner of the intersection of Vollmer Road and Dixie Highway. The City of Chicago Heights is in Bloom Township, Cook County, Illinois. Surrounding cities include Tinley Park, Orlando Park, Homewood, and East Chicago. Chicago Heights is located 30 miles south of Chicago's downtown.

The subject property is adjacent to the closed St. James Hospital, which formerly operated as a Well Group Health Partners facility, a provider of medical and health services. The immediate area has a balance of commercial, retail, and residential land uses. The subject neighborhood boundaries are Vollmer Road to the north, Joe Orr Road to the south, Chicago Road to the east and Ashland Avenue to the west.

Interstate 294 is the closest major highway and is located five miles to the east. Anchored by the Interstate 294 corridor, major commercial, office and residential developments have been occurring for the past three decades. Commercial and industrial development experienced contraction starting in 2007/2008 and is beginning to recover.

### **Access**

Primary access to the subject is provided by Dixie Highway and Vollmer Road. Dixie Highway is the major road in the area and passes through Chicago Heights. The neighborhood is accessed by local roads and streets that link to Interstate 294, Interstate 80 and Interstate 57. The local area has average linkage to the main expressway, Interstate 294 (I-294) with good linkage to the central business districts of Orland Park, Hammond, Tinley Park and East Chicago.

There are two Metra Electric rail stations within three miles of the subject, with the nearest two miles away. The Metra Electric line provides direct access to Chicago's Millennium Station, as well as several communities along the way. Chicago O'Hare International airport is approximately 45 miles from the subject and Midway Airport is approximately 20 miles from the subject.

### **Development Characteristics**

The subject property's immediate area consists of a balance of retail, commercial, office and residential properties. The immediate area surrounding the subject to the north, northwest, and west consists of single-family residential development. The immediate area to the east and to the south consists of commercial development. Adjacent to the subject is a closed and vacant Well Group Health Partners facility, which was operated by St. James Hospital, located less than two miles southeast of the property. Chicago Heights is in the stability stage of its development life cycle with limited vacant land available for new inventory.

### **Summary and Conclusion**

The subject property is located on the southeast corner of the intersection of Vollmer Road and Dixie Highway and has a highly visible location in Chicago Heights. The local area is an outlying suburban area with limited vacant land for future growth. The subject local area has good access to primary roadways, air transportation and public transportation. The area has a balance of land uses and property values are anticipated to remain stable. Development activity in the area has stalled in recent years due to economic reasons, but the area is seen as an overall stable market.

**PROPERTY DESCRIPTION**

The subject is situated on 5.75 acres, or 250,470 square feet and has a land-to-building ratio of 4.86:1. The site is considered adequate in terms of size and utility and is generally irregular in shape with adequate frontage along two primary thoroughfares. Access to the site is from two curb cuts along Vollmer Road and one curb cut along Dixie Highway. The subject is generally level and at street grade.

The subject is a 51,524 square foot freestanding building located on 211 South Dixie Highway in Chicago Heights, Illinois. The one-story building was originally constructed as a grocery store in 1975. It has since been renovated and at one point was divided into three tenant spaces. Currently, the subject is fully leased by the Franciscan Alliance, LLC medical services provider. The subject has surface parking for 120 vehicles with a parking ratio of 2.33, which is legally conforming for the existing use but is low for the market.

The exterior walls are masonry and the storefront is plate glass set in aluminum frames. The interior finishes are as follows: the floors are commercial grade carpet and vinyl tile, the walls are textured and painted sheetrock and the ceilings are painted sheetrock and suspended acoustical tile. The HVAC, electrical and plumbing are assumed to be in good working order and adequate for the building. Reportedly, the roof was replaced in July 2013 at a cost of approximately \$240,000.

**Real Estate Taxes**

The following real estate assessments and real estate taxes for the subject were obtained from the Cook County Assessor's Office.

<b>2016 SUMMARY OF ASSESSMENTS &amp; TAXES</b>				
<b>Assessor's Parcel Number</b>	<b>Assessed Value</b>			<b>2016 Taxes</b>
	<b>Land</b>	<b>Building</b>	<b>Total</b>	
32-17-131-009-0000	\$257,635	\$345,784	\$603,419	\$330,536

The prior real estate taxes payable in 2015 were \$328,164 or \$6.37 per square foot for the building, based on the indicated gross building area of 51,524 square feet. The taxes increased 3.18 percent in 2016 to \$330,536 or \$6.42 per square foot. We forecast an additional 3.0 percent increase for the 2017 tax year or \$340,000 as rounded.

**Zoning**

The property is zoned B-2, Limited Service Business District by the City of Chicago Heights. As such, the subject improvements appear to conform to current zoning regulations, which are considered a legal use.



***Franciscan Alliance, LLC (211 South Dixie Highway) – Chicago Heights, IL***

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**Exterior Photographs**



**Subject Property West Elevation**



**Subject Property West Elevation**



**Subject Property South Elevation**



**Subject Property North and East Elevations**



**Street View – Vollmer Road**



**Street View – Vollmer Road**



### ***HIGHEST AND BEST USE***

We conclude that the highest and best use of the subject as if vacant would be the development of a commercial use property. The highest and best use of the property, as improved, is consistent with the existing use and the continued use of the property for service commercial.

### ***VALUATION PROCESS***

The appraisal process is designed to evaluate all factors that influence value. General regional and local area information has been presented to inform the reader of general outside influences, which may affect value. In addition, the site and existing improvements have been described in detail. An analysis of the subject's highest and best use has been presented to evaluate the effects of legal, locational, physical, and market considerations which impact the use of the subject property. The next part of the appraisal process deals directly with the valuation of the property.

The first approach to value presented is the *Sales Comparison Approach*, which is based on the principle of substitution. This principle states that a property's value can be concluded by comparison with similar properties in the market area. In active markets with a large number of physically similar comparables, this approach is generally considered a good indicator of value. However, the use of this approach is limited, because many properties have unique characteristics that cannot be accounted for in the adjustment process. In addition, current market data is not always available. Both of these factors may reduce the validity of this approach.

The second approach to value is the *Income Capitalization Approach*, which is grounded in the premise that income producing properties are purchased based on their income-producing ability. In the *Income Capitalization Approach*, market rents for the subject property are forecast, the applicable operating expenses are deducted and the resulting net income is capitalized into a value estimate. This approach is based on an analysis of historical and market-derived information and provides a comparison of the subject property to other properties of similar character and income-producing ability.

The approaches used to value the subject property will be correlated into a final estimated market value of the leased fee interest in the *Reconciliation and Final Value Estimate* section.

## **SALES COMPARISON APPROACH**

### **Introduction**

The Sales Comparison Approach is “the process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.” (*The Dictionary of Real Estate Appraisal, Sixth Edition*)

### **Comparable Sales**

For this analysis, the research area consisted of single tenant and multi-tenant freestanding office buildings in similar markets located throughout the subject’s market. Also, information was obtained from several brokerage firms regarding similar properties that had sold or were for sale in the subject’s market.

### **Analysis of Sales**

Due to the lack of a large amount of data, as well as the lack of uniformity among available data within the local market area, supporting specific adjustments for various factors of dissimilarity is not possible. As such, a qualitative analysis has been employed. This analysis allows the appraiser to make general comparisons (inferior, similar, superior) for various factors of dissimilarity, leading to an overall comparison of each sale to the subject.

### **Property Rights Conveyed**

Adjustments for property rights must be made when the property rights conveyed in a sale transaction are different from those being appraised particularly when they have an impact on the sale price. As related earlier in this report, the fee simple estate is defined as “Absolute ownership unencumbered by any other interest or estate, subject to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”

An example of a comparable sale that would require adjustment is a property that is encumbered by a lease where the tenant pays a rent lower than currently achievable in the open market, or a below-market rental rate. The below market lease would have a negative impact on the sale price because the purchaser would need to pay less to achieve the same return as a property currently rented at market rent levels. In this case, as the below-market lease has a negative impact on the sale price, the comparable would need to be adjusted upward to be considered similar to the subject property. Conversely, a sale property achieving above-market rental rates would be considered superior to a fee simple estate.

### **Financing**

The transaction price of one property may differ from that of an identical property due to different financing arrangements. For example, the purchaser of a comparable property may have assumed an existing mortgage at a favorable interest rate. In another case, a developer or seller may have arranged a buy down, paying cash to the lender so that a mortgage with a below-market interest rate could be offered. In both of these examples, the buyers probably paid higher prices for the properties to obtain below-market financing. Conversely, interest rates at above-market levels may result in lower sales prices.

**Conditions of Sale**

Adjustments for conditions of sale usually reflect the motivations of the buyer and the seller. In many situations, the conditions of sale significantly affect transaction prices. For example, a developer may pay more than market value for lots needed in a site assemblage because of the plottage value expected to result from the greater utility of the larger site. Conversely, a sale may be transacted at a below-market price if the seller needs cash in a hurry. A financial, business or family relationship between the parties to a sale may affect the price of the property. Interlocking corporate entities may record a sale at a non-market price to serve their business interests. One member of a family may sell a property to another at a reduced price, or a buyer may pay a higher price for a property built by his ancestors. Further, listings, which have not been affected by typical negotiation, generally indicate a higher value than a completed sale.

**Market Conditions (Date of Sale)**

Comparable sales that occurred under market conditions different from those applicable to the subject on the effective date of value require adjustment for any differences that affect value. Changes in market conditions generally relate to supply and demand. National, regional and local economic trends or events may impact the value of a property over time. For example, the announcement of a major employer's entry into a market area may have a significant positive impact on values due to demand created for support uses in the area. Conversely, exodus of a major employer often has a negative impact on values.

**Location**

A property's location is analyzed in relation to the location of the comparable sale properties. An industrial location may be superior to another due to proximity to transportation facilities, including highways, railways, airports, etc. A commercial location may be superior to another due to proximity to a major retail development; access to traffic counts along major arteries, etc. A residential use may be superior to another due to location within a specific school district, economic makeup of residents within the neighborhood, taxation policies, etc.

**Size**

Typically, larger buildings sell for a lower per unit price due to economies of scale and greater capital outlay requirements. Conversely, smaller buildings sell for higher per unit values due to economies of scale. The cost/size relationship is supported by information presented in cost publications such as Marshall Valuation Service as well as from a review of actual sale transactions.

**Other Physical Factors**

The remaining factors (age, finished area, parking, land to building ratio) are relatively straightforward and obvious with respect to comparison. For example, buyers would typically desire a newer building versus an older building due to a longer remaining economic life, lower maintenance costs, etc. Additionally, buildings with more extensive parking areas have greater utility than buildings with parking facilities.

**Franciscan Alliance, LLC (211 South Dixie Highway) – Chicago Heights, IL**

IMPROVED COMPARABLE SALES SUMMARY AND ANALYSIS CHART						
ID#	Subject	I-1	I-2	I-3	I-4	I-5
Address	211 S Dixie Hwy Chicago Heights, IL	5521 W US Hwy 30 Crown Point, IL	11824 Southwest Hwy Palos Heights, IL	1877 W Downer Place Aurora, IL	3033 Ogden Avenue Lisle, IL	11600-11630 S. Kedzie Merriquette Park, IL
Sale Date		11/1/2016	3/24/2014	12/8/2015	Active	Active
Comparison		Similar	Similar	Similar	Similar	Similar
Sale Price		\$6,250,000	\$1,750,000	\$3,160,000	\$2,395,000	\$12,250,000
Area (SF)	51,524	52,360	21,315	38,400	24,000	57,127
Price/SF		\$119.37	\$82.10	\$82.29	\$99.79	\$214.43
Prop. Rights	Leased Fee	Leased Fee	Leased Fee	Leased Fee	Leased Fee	Leased Fee
Financing		Cash to Seller	Cash to Seller	Cash to Seller	Cash to Seller	Cash to Seller
Cond' of Sale		Arm's Length	REO	REO	Listing	Listing
Comparison		Similar	Inferior	Inferior	Superior	Superior
Location		Similar	Similar	Similar	Similar	Similar
Exposure/Access	Average	Average	Average	Average	Average	Average
Comparison		Similar	Similar	Similar	Similar	Similar
Size (SF)	51,524	52,360	21,315	38,400	24,000	57,127
Comparison		Similar	Superior	Similar	Superior	Similar
Year Built	1975 Renov: 2006	2003	1990	1994	1978	1995 R 2004
Condition	Average-Good	Good	Average-Good	Average-Good	Average	Average-Good
Comparison		Superior	Similar	Similar	Inferior	Similar
Construction	Brick	Masonry	Masonry	Masonry	Masonry	Masonry
Comparison		Similar	Similar	Similar	Similar	Similar
Percent Leased	100.00%	100.00%	100.00%	100.00%	64.00%	100.00%
Cap Rate		8.1%	N/A	N/A	N/A	8.0%
Comparison		Similar	Similar	Superior	Inferior	Similar
Land Area (SF)	250,470	178,596	84,698	159,038	50,000	296,208
L/TB	4.86:1	3.41:1	3.97:1	4.14:1	2.08:1	5.19:1
Comparison		Similar	Similar	Similar	Inferior	Similar
Overall		Superior	Inferior	Inferior	Similar	Superior
Price/SF		\$119.37	\$82.10	\$82.29	\$99.79	\$214.43

The unadjusted sales have the following price statistics.

SALE PRICE STATISTICS	
Low Price per square foot	\$82.10
High Price per square foot	\$214.43
Average Price per square foot	\$119.60
Conclusion	\$100.00
<b>Total (Rounded)</b>	<b>\$5,150,000</b>

Therefore, we have estimated the market value of the subject property, *as is*, via the *Sales Comparison Approach*, as of the date of valuation, at \$100.00 per square foot, or **\$5,150,000** as rounded.

## **INCOME CAPITALIZATION APPROACH**

The two most common methods of converting net income into value are direct capitalization and discounted cash flow analysis. In direct capitalization, net operating income is divided by an overall rate extracted from market sales to indicate a value. In the discounted cash flow method, anticipated future net income streams and a reversionary value are discounted to an estimate of net present value at a chosen yield rate (internal rate of return). As the property would typically be rented on an annual basis, the direct capitalization method is appropriate here. Furthermore, this is the technique most often employed by investors in properties similar to the subject.

### **Potential Gross Income**

#### **Contract Rental Rate**

The subject property is fully occupied by Franciscan Alliance, LLC, which is paying \$8.52 per square foot on a triple net basis through January 2018. The current rent is \$8.76 per square foot. The lease began on February 1, 2013 and expires January 31, 2018. The lease includes two five-year renewal options, with three percent rent increases in each option year. We understand the tenant is planning to renew for one additional year and a new long term lease is being negotiated. Assuming the tenant renews for the optional term, the annual income for the next 12 months is \$460,869.

#### **Market Rental Rates**

To determine an appropriate market rental rate for the subject, we have considered and reviewed comparable lease transactions. The foregoing indicates rents range from \$4.50 to \$14.00 per square foot, NNN. After reviewing available data sources the vacant unit does not appear to be offered for lease; however, according to the prior appraisal the unit was being offered for lease for \$10.00 on a NNN basis. We have also considered the subject's size, age, location and amenity package as compared to the comparables. Based on the foregoing considerations, it is our opinion that the subject's 51,579 square foot office unit would command a market rental rate at the low to midpoint of the indicated range on a price per square foot basis or approximately \$9.00 per square foot, net. Typical lease terms range three to ten years. The current contract rent is within the range of rents and market oriented.

### **Historical Income and Operating and Pro-Forma**

To develop projections of stabilized expenses, we considered comparable sales and published industry data.

### **Parking Income**

The subject has adequate surface parking, but no income associated with the parking spaces.

### **Miscellaneous Income**

Based on the size and the amenity package at the subject property, no additional miscellaneous income is forecasted.

### **Vacancy and Collection Loss**

In estimating the probable occupancy of the subject, consideration is given to the office market in Cook County and the subject's historical occupancy. The subject's occupancy has ranged between 15.2 and 100.0 percent for the last 10 years. Occupancy increased as of February 1, 2013 from 15.5 percent to 63.9 percent and to full occupancy as of July 1, 2016.

Local experts have also indicated that the vacancy rates for office properties similar to the subject are currently ranging between 5.0 and 10.0 percent. Considering the age, single tenant occupancy, unit layout and size of the subject, we estimate an appropriate vacancy and collection loss for the subject property of 5.0 percent.

#### **Effective Gross Income**

Based on the estimated gross income less allowances for vacancy and collection loss, the effective gross income is calculated at \$435,214 or \$8.45 per square foot of gross building area.

#### **Operating Expenses**

The lease structure for the subject is a net basis.

***Real Estate Taxes*** As related earlier in this report, the forecast real estate taxes on the subject property are \$340,000 as rounded, or approximately \$6.70 per square foot of gross building area.

***Property Insurance*** Based on information from local real estate professionals, the insurance expense for buildings similar in size and age to the subject in the region range from \$0.15 to \$0.40 per square foot. We have utilized \$0.29 per square foot for the subject.

***Common Area Maintenance*** This category includes utilities, repair and maintenance, general operating and landscaping expenses. Local real estate professionals report that common area maintenance expenses for commercial properties range from \$0.75 to \$2.00 per square foot. We have utilized \$1.49 per square foot for the subject.

***Management*** Management fees for single tenant net leased assets generally range 1.0 to 3.0 percent of effective gross income, depending on the size and nature of the property. We have included a management expense for administration of the leases and various other administrative costs associated with operation of the subject as a leased property. We have estimated a management expense at the midpoint of the range, or at 2.0 percent of effective gross income for the subject property.

***Reserve for replacement*** It is typical for an investor in a property such as the subject to set up reserves for replacement in order to replace short-lived items such as mechanical and electrical components and roof surfaces. We have estimated a reserve for replacement of \$0.20 per square foot for the subject.

#### **Summary of Operating Expenses**

The total operating expenses for the subject during the first year of analysis are estimated at \$462,577 or \$8.97 per square foot. Based on our experience with similar properties and conversations with real estate professionals, this level of expense is appropriate for the subject property.

***Franciscan Alliance, LLC (211 South Dixie Highway) – Chicago Heights, IL***

**Income and Expense Summary**

In the following, we present our estimate of stabilized income and expenses.

<b>SUMMARY OF INCOME AND EXPENSES</b>			
	<b>\$ PSF</b>	<b>SF</b>	<b>Total</b>
Franciscan Alliance	\$8.94	51,579	\$460,869
Plus: Reimbursable Expenses			
Real Estate Taxes			\$340,000
Insurance			\$15,000
Common Area Maintenance (CAM)			<u>\$76,800</u>
<b>Potential Gross Income</b>	<b>\$17.31</b>		<b>\$892,669</b>
<b>Less:</b>			
Allowance for Vacancy/Collection Loss	\$0.87	5.0%	<u>\$44,633</u>
<b>Effective Gross Income (EGI)</b>			<b>\$848,035</b>
<b>Less: Operating Expenses</b>	<b>\$ PSF</b>	<b>% of EGI</b>	
Real Estate Taxes	\$6.59	40.1%	\$340,000
Insurance	\$0.29	1.8%	\$15,000
Utilities *	\$0.77	4.7%	\$39,600
General Operating *	\$0.21	1.3%	\$11,000
Maintenance *	\$0.31	1.9%	\$16,000
Landscaping *	\$0.20	1.2%	\$10,200
Mgt./Administrative	\$0.33	2.0%	\$16,961
Non-Reimbursable Expenses	\$0.07	0.4%	\$3,500
Reserves for Replacement	<u>\$0.20</u>	<u>1.2%</u>	<u>\$10,316</u>
<b>Total Operating Expenses</b>	<b>\$8.97</b>	<b>54.5%</b>	<b>\$462,577</b>
<b>Net Operating Income</b>	<b>\$7.47</b>		<b>\$385,459</b>

*\* Included in CAM Reimbursement*

**Direct Capitalization**

In the direct capitalization method, we estimated market value by dividing stabilized net operating income by an overall rate. The table below summarizes capitalization rates for the property type from national surveys and the local area.

<b>Type</b>	<b>Rate</b>
Market Sales:	7.00% to 9.00%
National Survey Indicators:	
PwC National Chicago Office	5.00% to 10.00%
RealtyRates.com Medical Office	5.62% to 12.89%
Band of Investment:	7.67%

It is our opinion that an appropriate capitalization rate for the subject property is 8.0 percent given it single tenancy by Franciscan Alliance and in considering the high cost of the medical office build out paid for by the tenant and the high likelihood that the five-year renewal option will be executed.

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***Franciscan Alliance, LLC (211 South Dixie Highway) – Chicago Heights, IL***

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Based on the information set forth in the preceding, we have estimated the market value of the subject, via the *Income Capitalization Approach*, as follows:

DIRECT CAPITALIZATION	
Net Operating Income	\$385,459
Divided by Overall Capitalization Rate	<u>8.00%</u>
Estimated Market Value	\$4,818,238
<b>Rounded to:</b>	<b>\$4,800,000</b>

**Conclusion**

Based on the foregoing, we have estimated the *market value* of the subject property, *As Is*, via the *Income Capitalization Approach*, as of the date of valuation, at **\$4,800,000** as rounded.



**RECONCILIATION AND FINAL VALUE ESTIMATE**

The three approaches indicated the following values:

Cost Approach	Not Applicable
Sales Comparison Approach	\$5,150,000
Income Capitalization Approach	\$4,800,000

The *Cost Approach* is not utilized as the subject property is an existing one-story freestanding building built in 1975 and renovated in 2006. Given the difficulties in accurately measuring depreciation, the *Cost Approach* is not considered to be a reliable indicator of value for the subject and is not used in this analysis.

The *Sales Comparison Approach* is a reflection of what investors/users have been paying for similar assets in the recent past. A sufficient amount of information regarding sales of comparable properties in the area provided the ability to formulate an opinion of value for the subject property. Therefore, we have considered this approach appropriate but secondary in the analysis of leased assets.

The *Income Capitalization Approach* incorporated current market conditions that are relevant to income producing properties like the subject. This approach is commonly utilized by investors in properties similar to the subject. There was a sufficient amount of market lease information and capitalization rate data available in the market. Therefore we have considered this approach appropriate in this instance and afforded this approach most weight.

Based on our analysis of the property as presented in this restricted appraisal report, we have estimated the *market value* of the leased fee estate, *as is*, as of September 18, 2017, at:

**FOUR MILLION NINE HUNDRED FIFTY THOUSAND DOLLARS**  
**\$4,900,000**

***INSURABLE VALUE***

Insurable value is 1. “The value of an asset or asset group that is covered by an insurance policy; can be estimated by deducting costs of non-insurable items (e.g., land value) from market value. 2. Value used by insurance companies as the basis for insurance. Often considered to be replacement or reproduction cost plus allowances for debris removal or demolition less deterioration and non-insurable items. Sometimes cash value or market value, but often entirely a cost concept. (*Marshall & Swift LP*) “A type of value for insurance purposes.” (*Dictionary of Real Estate Appraisal, Sixth Edition*)

In the case of a property such as the subject, insurable value would include the cost new of the destructible portions of the improvements. The insurable value estimate would specifically exclude indestructible items such as basement excavation, foundation, site work and land value. For the purpose of our insurable value estimate, we have calculated the total replacement cost new of the building improvements (*See Calculation below*). From this amount, we have deducted the replacement cost of the indestructible items and other exclusions.

The replacement cost for the office/retail building is estimated using *Marshall Valuation Service*. The subject improvements are categorized as a Medical Office Building (341) Class C, Type Average as outlined and summarized in Section 15, page 22 on the cost manual. The base cost is \$137.61 per square foot (effective date November 2015). The improvements have mainly base characteristics. In addition, a current cost multiplier of 1.01 and a local multiplier of 1.26 are applied for the type and location along with the appropriate height multiplier of 1.138 and perimeter multiplier of 0.892.

*Marshall Valuation Service* (Section 96, Page 2) indicates an exclusion of approximately 4.5 percent for foundations below ground, approximately 1.0 percent for piping below ground and approximately 6.0 percent for Architects’ fees (Section 99, Pages 1 and 2). Considering the foregoing, we have estimated exclusions for the subject property at 12.0 percent of the replacement cost of the building improvements. The insurable value of the subject is therefore estimated at a total **\$8,070,000** as rounded.

INSURABLE VALUE					
Base Cost					
Medical Office Building	\$137.61	51,579	SF	\$6,852,270	MVS, Section 15, Page 22
Times Current Multiplier				1.01	MVS, Section 99, Page 3
Times Local Multiplier				1.26	MVS, Section 99, Page 7
Times Height Multiplier	18-ft			1.138	MVS, Section 15 Page 38
Times Perimeter Multiplier				0.892	MVS, Section 15 Page 38
Replacement Cost New				\$9,168,999	
Less Exclusions	12.00%			<u>\$1,100,280</u>	
Insurable Value				\$8,068,720	
Rounded				\$8,070,000	

**ASSUMPTIONS & LIMITING CONDITIONS**

"Appraisal" means the appraisal report and opinion of value stated therein; or the letter opinion of value, to which these Assumptions and Limiting Conditions are annexed.

"Property" means the subject of the Appraisal.

This appraisal is made subject to the following assumptions and limiting conditions:

1. No opinion is intended to be expressed and no responsibility is assumed for the legal description or for any matters that are legal in nature or require legal expertise or specialized knowledge beyond that of a real estate appraiser. Title to the Property is assumed to be good and marketable and the Property is assumed to be free and clear of all liens unless otherwise stated. No survey of the Property was undertaken.
2. The information contained in the Appraisal or upon which the Appraisal is based has been gathered from sources the Appraiser assumes to be reliable and accurate. The owner of the Property may have provided some of such information. Neither the Appraiser nor Hilco Real Estate Appraisal, LLC shall be responsible for the accuracy or completeness of such information, including the correctness of estimates, opinions, dimensions, sketches, exhibits and factual matters.
3. The opinion of value is only as of the date stated in the Appraisal. Changes since that date in external and market factors or in the Property itself can significantly affect property value.
4. The Appraisal is to be used in whole and not in part. No part of the Appraisal shall be used in conjunction with any other appraisal. Publication of the Appraisal or any portion thereof without the prior written consent of Hilco Real Estate Appraisal, LLC is prohibited. Except as may be otherwise stated in the letter of engagement, the Appraisal may not be used by any person other than the party to whom it is addressed or for purposes other than that for which it was prepared. No part of the Appraisal shall be conveyed to the public through advertising, or used in any sales or promotional material without Hilco Real Estate Appraisal, LLC's prior written consent. Reference to the Appraisal Institute or to the MAI designation is prohibited.
5. Except as may be otherwise stated in the letter of engagement, the Appraiser shall not be required to give testimony in any court or administrative proceeding relating to the Property or the Appraisal.
6. The Appraisal assumes (a) responsible ownership and competent management of the Property; (b) there are no hidden or unapparent conditions of the Property, subsoil or structures that render the Property more or less valuable (no responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them); (c) full compliance with all applicable federal, state and local zoning and environmental regulations and laws, unless noncompliance is stated, defined and considered in the Appraisal; and (d) all required licenses, certificates of occupancy and other governmental consents have been or can be obtained and renewed for any use on which the value estimate contained in the Appraisal is based.
7. The physical condition of the improvements considered by the Appraisal is based on visual inspection by the Appraiser or other person identified in the Appraisal. Hilco Real Estate Appraisal, LLC assumes no responsibility for the soundness of structural members nor for the condition of mechanical equipment, plumbing or electrical components.
8. Unless otherwise stated in the Appraisal, the existence of potentially hazardous or toxic materials, which may have been used in the construction or maintenance of the improvements or may be located at or about the Property was not considered in arriving at the opinion of value. These materials (such

as formaldehyde foam insulation, asbestos insulation and other potentially hazardous materials) may adversely affect the value of the Property. The Appraisers are not qualified to detect such substances. Hilco Real Estate Appraisal, LLC recommends that an environmental expert be employed to determine the impact of these matters on the opinion of value.

9. Unless otherwise stated in the Appraisal, compliance with the requirements of the Americans With Disabilities Act of 1990 (ADA) has not been considered in arriving at the opinion of value. Failure to comply with the requirements of the ADA may adversely affect the value of the property. Hilco Real Estate Appraisal, LLC recommends that an expert in this field be employed.

***CERTIFICATION OF THE APPRAISAL***

We certify that, to the best of our knowledge and belief:

1. John C. Satter, MAI inspected the exterior of the subject property on September 18, 2017.
2. Hilco Real Estate Appraisal, LLC and John C. Satter, MAI, GAA have provided prior valuation services and appraised the subject property in July 2012, July 2013, July 2015, and June 2016.
3. The statements of fact contained in this report are true and correct.
4. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are personal, unbiased professional analyses, opinions, and conclusions.
5. The appraiser(s) have no present or prospective interest, financial or otherwise, in the property that is the subject of this report, and have no personal interest or bias with respect to the parties involved.
6. The compensation for appraisal services is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. The appraisal assignment was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
7. No one provided significant professional assistance to the persons signing this report.
8. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements the most recent issue of the Uniform Standards of Professional Appraisal Practice and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. As of the date of this report, John C. Satter, MAI, GAA has completed the continuing education program for Designated Members of the Appraisal Institute.



John C. Satter, MAI, GAA  
Managing Director | Midwest Region  
Hilco Real Estate Appraisal, LLC  
IL Certified General Appraiser No. 553.001110  
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Tel: 847.504.2472

***ADDENDA***





Moody's Analytics June 2017

State Certification(s)

Qualifications of the Appraiser(s)

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*Moody's Analytics June 2017*

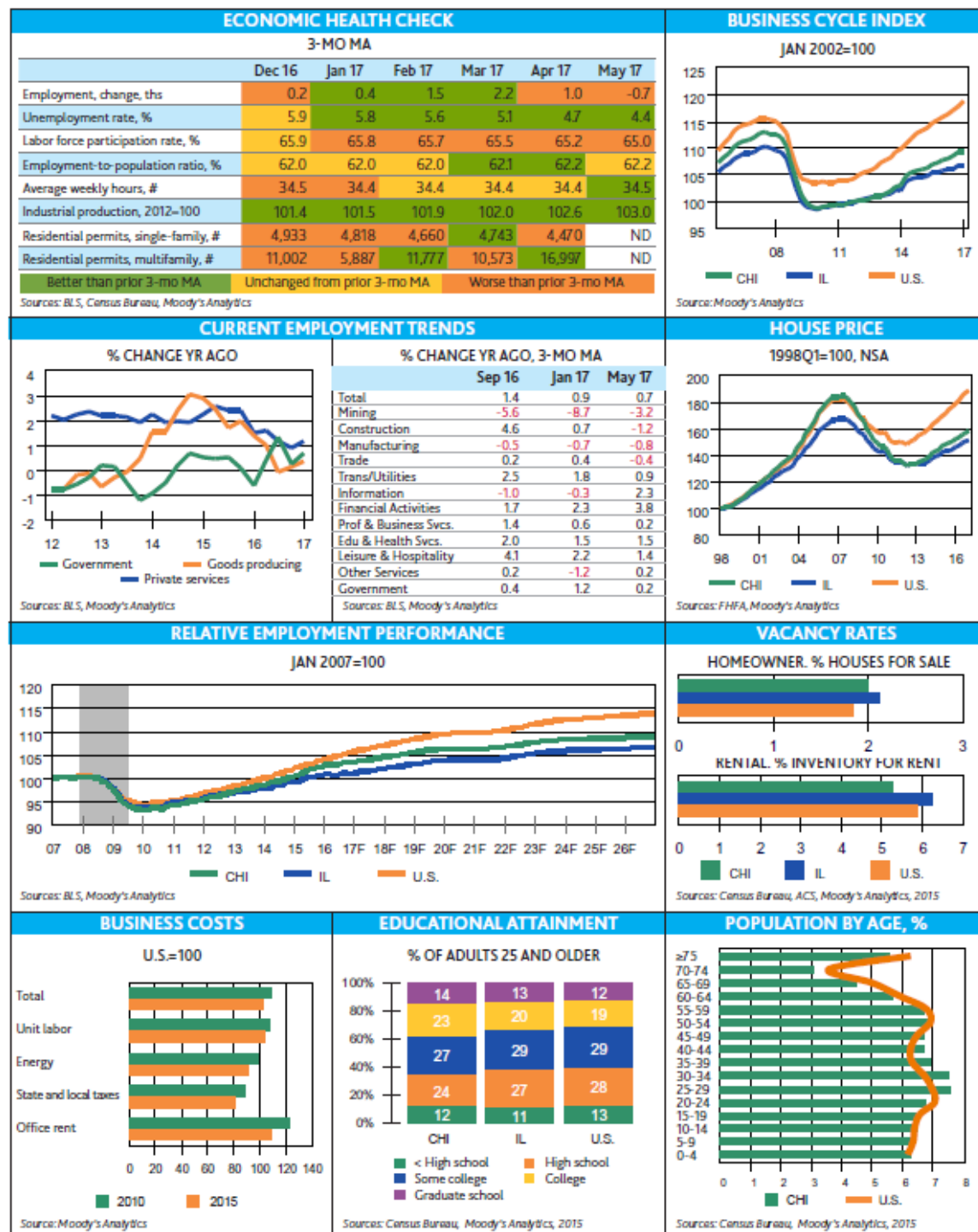
ECONOMIC DRIVERS			EMPLOYMENT GROWTH RANK		RELATIVE COSTS		VITALITY					
FINANCIAL \$ £ € CENTER	LOGISTICS 	TOURIST  DESTINATION	2016-2018 <b>280</b> 4th quintile <small>Best=1, Worst=409</small>	2016-2021 <b>293</b> 4th quintile	LIVING <b>98%</b> <small>U.S.=100%</small>	BUSINESS <b>103%</b>	RELATIVE <b>93%</b> <small>U.S.=100%</small>	RANK <b>214</b> <small>Best=1, Worst=402</small>				
BUSINESS CYCLE STATUS			ANALYSIS									
<div><div></div> Expansion</div> <div><div>»</div> <b>RECOVERY</b> <div>«</div></div> <div><div></div> At Risk</div> <div><div></div> Moderating Recession</div> <div><div></div> In Recession</div>			<p><b>Recent Performance.</b> Economic metrics signal a sleepy second quarter in Chicago-Naperville-Arlington Heights. The Moody's Analytics business cycle tracker has risen less in CHI than it has in other large U.S. metro areas over the last six months. A range of private industries are struggling, and the prolonged state budget battle and out-migration are crimping government payrolls. Housing is sluggish, with weak home sales and construction and subpar price growth.</p> <p><b>Labor force.</b> The precipitous decline in CHI's unemployment rate should be taken with a grain of salt. The Windy City's jobless rate has plummeted to 4.2%, the lowest since records have been kept and below the national rate for the first time in a decade. The decline over the past year is larger than that in all but a handful of metro areas and divisions in the country. However, it occurred only because the labor force is contracting. Moreover, the decline in CHI's working-age population is more severe than in other parts of the country. Over the next decade, CHI will lose a larger share of working-age residents than all but a few other metro areas. Weak demographics will cap growth in consumer-driven industries and housing for years to come. Even the City of Chicago has been losing residents, with a third consecutive year of decline in 2016, exacerbating fiscal problems that are among the most severe nationwide.</p> <p><b>Budget breakthrough.</b> Illinois' first budget in more than two years eases the uncertainty that has long clouded CHI's outlook. Still, instability stemming from state and city fiscal crises threatens to discourage firms from locating or remaining in CHI. This is a concern, since manufacturing is already sputtering, and downstream industries such as transportation and warehousing are no longer pitching in.</p> <p>The state's budget logjam finally broke with a House override of Governor Bruce Rauner's veto</p>									
STRENGTHS & WEAKNESSES												
<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"><li>Major business, distribution, transportation and financial center.</li><li>Huge talent pool; strong roster of well-regarded educational institutions.</li><li>Budding high-tech center in River North neighborhood.</li></ul> <p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"><li>State and local budgetary pressures.</li><li>Below-average population growth.</li><li>High crime rate.</li></ul>												
FORECAST RISKS												
<div>SHORT TERM </div> <div>LONG TERM </div>												
<p>RISK EXPOSURE 2017-2022 <b>371</b> 5th quintile <small>Highest=1 Lowest=402</small></p> <p><b>UPSIDE</b></p> <ul style="list-style-type: none"><li>More firms seek headquarters downtown.</li><li>Congress passes major infrastructure bill, leading to more investment in critical transportation assets.</li><li>Housing provides greater support.</li></ul> <p><b>DOWNSIDE</b></p> <ul style="list-style-type: none"><li>City of Chicago's budget troubles worsen.</li><li>Apartment glut develops.</li><li>High crime rate deters would-be in-migrants.</li></ul>												
MOODY'S RATING												
<b>A2</b> COUNTY AS OF JUN 03, 2016												
2011	2012	2013	2014	2015	2016	INDICATORS	2017	2018	2019	2020	2021	2022
403.1	411.2	412.0	419.2	426.7	431.9	Gross metro product (C09\$ bil)	440.3	450.6	459.3	463.6	471.2	481.4
1.6	2.0	0.2	1.8	1.8	1.2	% change	1.9	2.3	1.9	0.9	1.6	2.2
3,414.4	3,465.9	3,524.1	3,583.0	3,658.7	3,712.3	Total employment (ths)	3,744.8	3,781.2	3,816.3	3,830.4	3,834.2	3,861.8
1.4	1.5	1.7	1.7	2.1	1.5	% change	0.9	1.0	0.9	0.4	0.1	0.7
10.1	9.3	9.3	7.2	6.0	5.9	Unemployment rate (%)	4.8	4.4	4.0	4.3	5.0	5.0
4.6	5.6	2.4	5.8	4.4	3.5	Personal income growth (%)	4.3	5.0	5.0	4.3	3.8	4.2
58.0	58.8	60.1	61.2	62.5	65.6	Median household income (\$ ths)	68.1	70.4	72.9	75.1	77.2	79.6
7,294.2	7,315.8	7,331.9	7,335.5	7,324.0	7,304.5	Population (ths)	7,315.7	7,325.6	7,332.6	7,335.3	7,337.3	7,344.0
0.3	0.3	0.2	0.0	-0.2	-0.3	% change	0.2	0.1	0.1	0.0	0.0	0.1
-20.7	-21.4	-21.5	-37.7	-44.7	-55.3	Net migration (ths)	-24.5	-25.8	-28.8	-32.8	-33.4	-28.2
2,427	3,120	4,090	4,435	4,467	4,661	Single-family permits (#)	5,619	9,405	11,686	11,155	10,792	11,940
2,855	3,127	3,782	6,879	7,129	10,355	Multifamily permits (#)	11,112	10,791	9,876	8,755	8,461	9,337
152.3	147.9	150.3	157.8	164.8	171.1	FHFA house price (1995Q1=100)	178.7	186.6	190.8	194.7	201.1	209.1

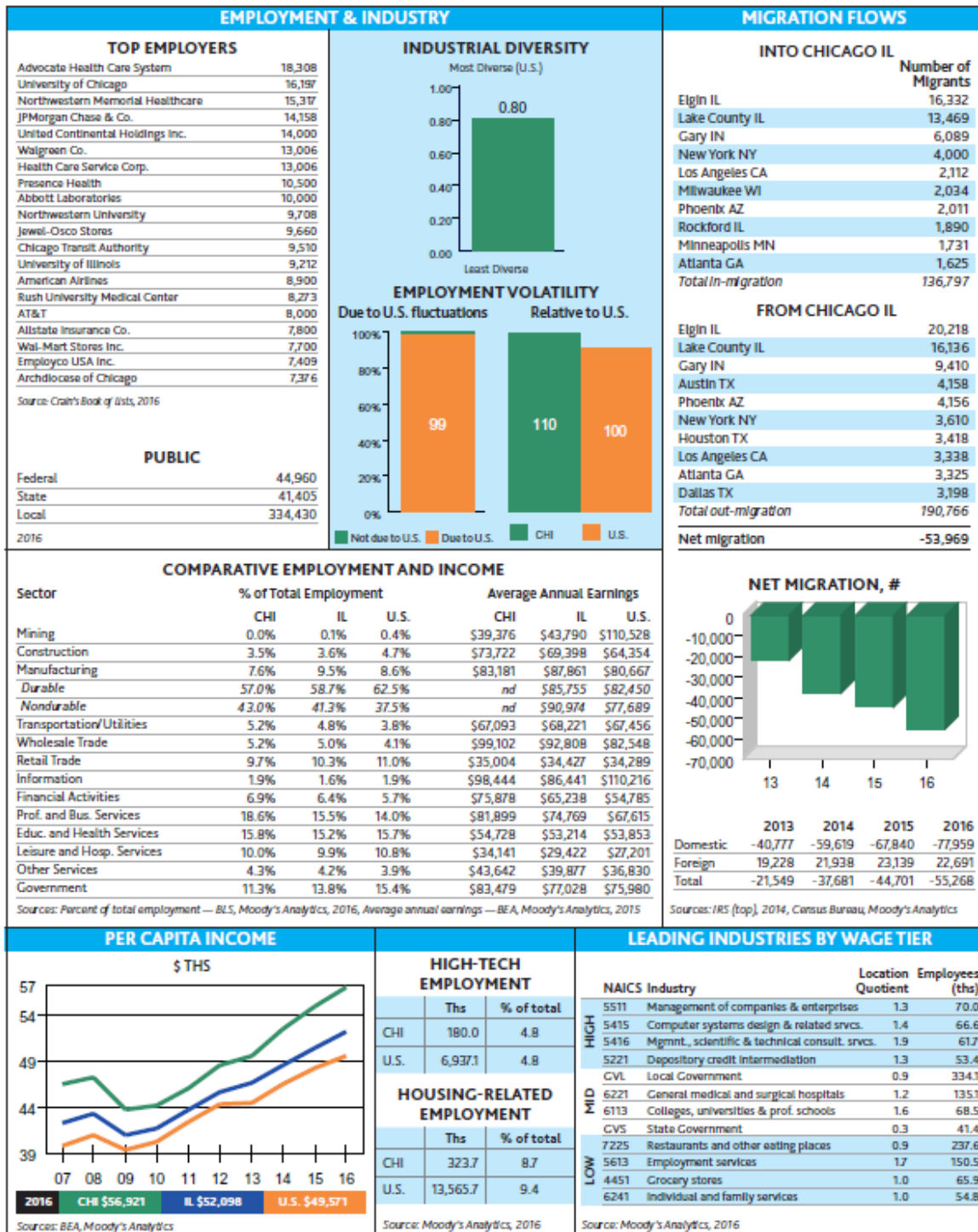
Sarah Crane  
June 2017

1-866-275-3266  
help@economy.com

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*State Certification(s)*

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*Qualifications of the Appraiser*

## **Qualifications for John C. Satter, MAI, GAA**

2011 - Present	Hilco Real Estate Appraisal, LLC Managing Director   Midwest Regional Manager
1997 - 2011	JCS Real Estate Services, Inc. President
1992 – 1996	Wayne L. Wnek, MAI & Associates, Inc. Real Estate Appraiser

### ***Scope of Experience:***

Mr. Satter is a Managing Director and Midwest Regional Manager for Hilco Real Estate Appraisal, LLC. Responsibilities include business development, staff management, and appraisal production and review. Mr. Satter has 25+ years of experience in the valuation of real property on a variety of property types.

Mr. Satter has broad experience in the valuation of residential, commercial, industrial and special use real estate throughout the Chicago metropolitan and Midwest markets. Commercial experience includes a broad range of property and assignment types including triple net leased retail assets, retail shopping centers, industrial complexes, apartment complexes, live-work projects, professional and medical office properties, health care, hospitality, proposed construction, partially-complete projects and distressed property valuations. Specialized assignments include diminution of value and right of way vacation assignments. Special use assignments include movie theaters, synagogues, churches, detention facilities, hospital and critical care facilities and specialized agricultural, industrial and manufacturing facilities. Residential experience includes valuing riparian rights, high value custom residences, façade easements and historic residences.

Mr. Satter has experience as an expert witness and has been qualified as an expert in the Circuit Courts of Cook, Lake, DuPage, and Will Counties of Illinois, the Chicago Zoning Board of Appeals, Lake and Cook County property tax appeal boards, the Chicago Planning and Zoning Commission, the U.S. District Court for Northern Illinois, and the U.S. District Court for Eastern Michigan.

Mr. Satter is a designated Member of the Appraisal Institute (MAI) and General Accredited Appraiser (GAA) of the National Association of Realtors. He has been engaged in the appraisal of real estate since 1992 with experience rendering opinions of value for private clients, financial institutions, mortgage brokers, attorneys, governmental agencies, accountants, and public corporations.

### ***Professional Associations and Affiliations:***

Appraisal Institute MAI #12452 (Awarded March 2007)  
National Association of Realtors General Accredited Appraiser #4683 (Awarded January 2005)  
Certified General Real Estate Appraiser licensed in the States of AZ, IL, IA, IN, MI, MT, OH, TX, WI, & WY  
Illinois Coalition of Appraisal Professionals (ICAP) Board of Directors 2017-2019  
Glencoe Zoning Board of Appeals Committee Member

### ***Formal Education:***

Bachelor of Science - Civil Engineering, University of Illinois - Urbana/Champaign  
Specialized appraisal and real estate education, Appraisal Institute and North Shore Barrington Board of Realtors

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