MJ PARTNERS REAL ESTATE SERVICES

REAL ESTATE UPDATE

FOURTH QUARTER 1998

MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

The Global Crisis

Its Effect on Real Estate

The global financial crisis is de-stabilizing capital intensive U.S. industries including real estate. The proliferation of Commercial Mortgage Backed Securities (CMBS) and Real Estate Investment Trusts (REITs) in the past five years is linking real estate to the whims of Wall Street. The booming business of packaging large pools of commercial mortgages for resale as bonds came to an abrupt halt in August. The collapse has left Wall Street securities firms with more than $30 billion in risky bonds waiting to be resold. Real estate leaders must adapt to the immediate corrections characteristic of fluid financial markets. Is this a blip in the market or a major correction?

CMBS MELTDOWN

The CMBS industry has been a primary growth generator for real estate for the past six years. With $160 billion underwritten and an additional $80 billion projected for 1998, the CMBS market is larger than the total equity value of all REITs. The global crisis has investors flocking to safe haven investments such as 30-year Treasury Bonds, helping drive down yields to thirty year lows. The spreads on CMBS (the difference between Treasury rates and the return investors expect from CMBS) widened abruptly during this jittery market.

Buyers for the riskier B and BB-piece tranches disappeared. Criimi Mae, a commercial-mortgage REIT that bought almost half of the riskiest bonds, filed for bankruptcy. REITs and other buyers such as GMAC are sitting on the sidelines. The result is a dramatic re-pricing of issues and massive losses to companies with low spreads securitizing in a high spread market. WMF Group lost $30 million on the sale of a pool of mortgages in September. The pipeline of Fourth Quarter securitizations is certain to leave a blood bath to those holding low spread mortgages.

IS THERE A CREDIT CRUNCH LOOMING?

The major effect on the borrower is not in the rate since rising spreads are linked to falling Treasury rates, rather the diminished availability of capital. The reluctance by CMBS companies to quote pricing in an unstable market limits the main source of capital that has fueled the recent real estate expansion.

REIT STOCKS HIT HARD

Many REITs are trading below the value of assets in their portfolio. The depressed stock prices limits REITs ability to raise cash through new stock offerings

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Market Focus

The South Loop

New Developments in Chicago's South Loop

Chicago's South Loop has arrived. Boasting views of Lake Michigan and the Chicago skyline, the convenient location to downtown and jobs, museum attractions, parks, expressways and public transportation has made the South Loop one of the hottest new residential areas in the City. Commercial development is certain to follow.

Even Mayor Richard M. Daley recently moved into the South Loop neighborhood with his family at the Central Station townhome development, just east of Michigan Avenue.

RESIDENTIAL GROWTH

In the past three years 49 residential projects with more than 5,000 units have been proposed. About 3,500 units are already being developed or have been completed in the area. The population of the Near South is 48,000 and rising quickly.

Now 30 percent of Chicago's major housing projects are in the South Loop. Some two dozen residential projects are currently selling, or soon will offer, new condominiums, lofts townhouses, and single-family homes ranging in price from about $90,000 to near $1million. There are also apartment and hotel projects.

The increase in households had already begun to fuel growth in retail required to service the influx of residents. An example includes the new South Loop Market which includes a new Dominick's grocery store at 1340 South Canal Street.

SALE PRICES

As the South Loop flourishes, prices for existing buildings continue to increase. Within the past three years, former industrial loft buildings that are acquired for conversion into residential and/or commercial have increased in price from under $20 per square foot to over $40 per square foot, depending on the building's floor plan.

The rapid development growth have also caused vacant land parcels to rise sharply in price and large contiguous land is becoming harder to find. The need for additional off-street parking has helped push the acquisition price for certain vacant land from under $20 per square foot three years ago to near $60 per square foot today.

The City of Chicago has plans to help spur relatively high-end development of the South Loop by recently announcing the possibility of offering tax increment financing subsidiaries for certain parcels along South Michigan and Wabash Avenues.

NEW DEVELOPMENTS

The following are among the new major projects in the South Loop:

- **Lakeside Square.** Walsh Higgins & Company's $800 million, mixed-use project will include retail, offices, and from 2,000 to 4,000 residential units.

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"The global financial crisis has created both challenges and opportunities for real estate investors," states Jeff Jacobson, principal with MJ Partners.

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and increases the risk premium added to their cost of obtaining new capital. The rising REIT cost of capital coupled with the falling cost for private investors such as pension funds, syndicators and Wall Street-related partnerships is leveling the playing field between private investors and REITs.

PRIVATE INVESTMENT FILLS THE VOID

REITs no longer dominate the acquisition landscape. With their acquisition plans temporarily on hold, private investors are swooping in and filling the acquisition void. REITs, on the other hand, have tough choices ahead to conserve or raise equity. The choices are to consolidate, grow internally by increasing revenues and decreasing expenses, sell assets, move toward privatization, or form off-balance sheet joint ventures.

While the underlying fundamentals for real estate remain good, the effects of the global crisis require tight navigation in the market. With the once dominant REITs mending their balance sheets, the reduced competition for deals has reduced values and increased cap rates. New developments planned by a REITs are now on hold — bringing a sense of discipline to the supply side of the market. The key ingredient to the investor however is the access to capital. The CMBS market is waiting out the market volatility. Will the traditional sources of lending (i.e. banks and life companies) respond or will they seek a safe haven?

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◆ **Lakeside Place.** Former 3 million square-foot R.R. Donnelly printing complex will be converted into retail, hotel, office and residential by Landmark America.

◆ **Beatrice Cold Storage Building.** The largest residential conversion will be this 10-story, 450,000 square-foot building for 316 condos by Frankel & Giles.

◆ **Musuem Place at Central Station.** 22-story, 129 unit new condominium Tower planned by Robin Construction Co.

◆ **Michigan Avenue Lofts.** 20-story former office building is now being converted into 267 units by Vilas Development.

◆ **Burnham Park.** A master land plan is scheduled for 62 acres in a joint venture between U.S. Equities Realty and Jos. Cacciatore & Co.

Notes

RECENT MJ PARTNERS SALES

- Rohlwing Grove Shopping Center, 1100 Devon Avenue, Elk Grove Village, Illinois. 59,097 square-foot shopping center. List price: $1,695,000.
- 2801 Harrison Street, Bellwood, Illinois. 73,000 square-foot industrial facility. List price: $1,750,000.
- 3750 West Devon Avenue, Lincolnwood, Illinois. 16,000 square-foot office building. List price: $900,000.

MJ PARTNERS — NEW LISTINGS

- Wilderness Mall, Joliet, Illinois. Newly renovated regional shopping mall, 286,607 square-foot for sale. List price: $5,900,000.
- Riverwalk Inn, Aurora, Illinois. 27-room hotel with 33,000 square-feet. List price: $1,595,000.
- Intown Self Storage, 1353 South Wabash Avenue, Chicago, Illinois. 105,000 square-foot loft building. List price: $4,000,000.
- Oak Creek Plaza, Routes 60 and 45, Mundelein, Illinois. Up to 160,000 square-feet available for lease or purchase.

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