MJ PARTNERS REAL ESTATE SERVICES

REAL ESTATE UPDATE

THIRD QUARTER 1999

MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

Chicago Office Report

Chicago's downtown office market continued to display strong fundamentals during the first six months of 1999. With vacancies near historic lows and large-scale new construction awaiting groundbreaking, property owners enter the new millennium with cautious optimism. The strong landlord/seller's market has increased property values, but the combination of cautious tenants, available sub-lease space, corporate downsizing and potential new construction has owners anxiously awaiting for what lies ahead in the year 2000.

The first six months of 1999 represents the low water mark for Class A office vacancies in downtown Chicago. Overall Class A vacancies this year dropped one percentage point to 4%, with the tightest market on North Michigan Avenue at 2.7% followed by the West Loop at 4.3%. Rising rents and lack of available space in the Class A market helped fill up Class B and C markets. Both markets experienced declining vacancies to 10.2% and 22.8% respectively. Net rents remained steady at $18 to $22 for Class A and $12 to $16 for Class B buildings.

Corporate downsizing and available sub-lease opportunities have kept office rents in check.

ABSORPTION SLOWDOWN

Net absorption slipped to just over 700,000 square feet for the first six months this year versus an average of over 1 million square feet the past few years. A majority of the absorption was attributed to the leases signed for United Healthcare's 167,110 square feet at Two Illinois Center and the U.S. Department of Health and Human Services' 155,000 square feet at Two Illinois Center. The slowdown in absorption elsewhere is due to tenants renewing in their existing spaces.

Tenants working in this tight market are analyzing several leasing alternatives. They are analyzing costs of moving to a new location, and with more frequency are determining that renewing is the best option. Sub-lease space is also growing as corporations are merging, downsizing, or requiring less space through work environment efficiencies.

A trend that is gaining momentum is the renovation of Class C buildings into Class B product. Douglas Elliman Beitler's acquisition of the Helmsley-Spear portfolio will soon place over 2.2 million square feet of redeveloped space on the market. Another Helmsley-Spear property, the 1.4 million square foot Insurance Exchange Building at 175 West Jackson Boulevard, is undergoing a $75-million office and retail renovation by Landmark America. Over 7 million square feet are planned for redevelopment in 1999-2000.

SMALLER NICHE PRODUCTS

A look at the construction cranes dotting Chicago's skyline highlights a departure from past building booms. The three office buildings currently under development are not located in the CBD. They consist of smaller niche products on the fringe of the traditional business district, which are less risky and easier to finance. They include Development Resources' 352,000 square-foot Union Tower at 550 West Van Buren Street; Fifield Development's 372,000 square-foot building at 550 West Washington Street; and Alter Group's 382,000 square-foot Dearborn Plaza at Dearborn and Kinzie Streets. A fourth, Mark Goodman & Associate's 420,000 square-foot building at 550 West Jackson Boulevard, is scheduled to start this year.

Large-scale developments in the CBD are temporarily on hold as developers search for anchor tenants to reach their pre-leasing requirements for financing. Lend Lease Real Estate Investments, Inc. and John Buck Co. say they lined up financing and tenants to break ground on One North Wacker Drive, a 50-story, 1.3 million-square-foot tower. It is just a matter of time before this project or Douglas Elliman Beitler at Dearborn and Adams Streets; Hines Interests L.P. at 191 North Wacker Drive; or LCOR Inc. at 181 North Clark Street are breaking ground for the first major office tower in nearly a decade.

The above supply-related issues have managed to keep rents in check during the first six months of 1999. The slow absorption numbers might signal a slower growth forecast for the start of the new millennium.

Highest and Best Use

For 40-years the Chicago Fish House at Grand Avenue and Wells Street served Chicago's industry from its near North Side facility. As trucks left the loading docks for the mid-morning deliveries, they jostled for space with the concrete trucks heading for the latest River North luxury loft or mid-rise residential development. Instead of fighting the trend, they capitalized on their valuable corner location and sold their parcel to a developer. Welcome to the great real estate boom of the 1990's.

In hot real estate markets all over the city and suburbs the pace of new development is forcing traditional businesses to evaluate the highest and best use of their company-owned real estate. The industrial ring just outside of the Central Business District (CBD) has experienced the greatest gentrification. Property values in River North, Clybourn Corridor, West Loop Gate, and the South Loop are increasing from the record demand and limited supply of available real estate.

This industrial ring is populated with functionally obsolete buildings that may place their businesses at a competitive disadvantage. Owners are now able to tap into the built-up equity in their real estate and use the proceeds to fund expansion or re-tool operations. A highest and best use analysis forces businesses to focus on their current business model.

FACILITY EVALUATION

The following questions are commonly asked when evaluating the importance of a company's existing facility:

- Is the business sensitive to location? Has the customer base spread to a wider geographical area or is it concentrated near the CBD?

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- Will customers follow you to a new location? Is the product offered an impulse buy (highly visible location required) or a destination product (secondary location acceptable)?
- Will key personnel remain with the company if the company relocates?
- Where does the company move its operation? City (near labor)? Or, suburbs (near executive housing)?
- Do the costs of relocating (i.e. acquisition costs, moving expenses… etc.) exceed the benefits of the new location?

One recent example involves the family-owned Shamrock Plumbing Supply Company, formerly located at 1900 South Clark Street in Chicago. The company evaluated the loading inefficiencies of a multi-story loft building in their burgeoning South Loop location. Their evaluation ultimately led to a move of the business to the city's West Side, and an eventual property sale to a residential loft developer.

"The hot real estate market has forced business owners to evaluate the highest and best use of their real estate assets," states Michael Weber, senior associate of MJ Partners.

Final analysis requires a hard look at the way a business is currently operating and the efficiencies and cost savings that may be achieved in a new location. It benefits all businesses to evaluate real estate as a critical component to the growth and positioning of a company.

Notes

RECENT MJ PARTNERS SALES/LEASES

- **Erickson Company Building, 1920 North Clybourn Avenue, Chicago, Illinois.** 137,000 square-foot warehouse building sold for self-storage and retail use. List Price: $5,800,000.
- **1745 N. Kolmar Avenue (at Grand Avenue), Chicago, Illinois.** 185,000 square-foot former Pepsi Bottling plant, sold for industrial and self-storage conversion. List Price: $3,750,000.
- **Southwest corner Clark Street and Superior Street, Chicago, Illinois.** 9,785 square-foot development site. List Price: $2,700,000.
- **380 acres, Delavan, Wisconsin.** List Price: $1,200,000.
- **3939 W. North Avenue, Chicago, Illinois.** Retail development site for the new Irving Plaza. List Price: $1,050,000.

MJ PARTNERS NEW LISTINGS

- **1001 W. Van Buren Street, Chicago, Illinois.** 340,000 square-foot mixed-use building with 35,000 square-foot lot overlooking Eisenhower Expressway (I-290). Ideal residential redevelopment. List Price: $10,900,000.
- **Chicago Lock, Stock & Storage, 2001 North Elston Avenue, Chicago, Illinois.** 132,000 square-foot, 802-unit 100% leased self-storage facility. List Price: $7,900,000.
- **2600 E. 176th Place, Lansing, Illinois.** 38-acre site overlooking I-80/I-94 near Torrence Avenue. List Price: $5.00 per square-foot.
- **200 Crystal Lake Avenue, Crystal Lake, Illinois.** 97,000 square-foot industrial building for lease.
- **1920 N. Clybourn Avenue, Chicago, Illinois.** 12,000 square-foot first floor retail space. Lease Rate: $32.00 per square foot.
- **Southeast Corner, Grand Avenue and Des Plaines Street, Chicago, Illinois.** 1,000 square-foot to 36,000 square-foot retail space for lease.

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