MJ PARTNERS
REAL ESTATE SERVICES

REAL ESTATE UPDATE

FOURTH QUARTER 1999 *MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL*

Market Focus: Industrial

Optimism in Chicago's industrial market continues encouraged by the area's outstanding regional distribution systems. Absorption of industrial product for the first half of 1999 has increased 50 percent from last year to 15.7 million square feet, with warehouse/distribution facilities making up 70 percent of that amount.

Larger warehouses are being built in markets 40 miles and greater from downtown Chicago. Higher land prices closer to Chicago coupled with distribution consolidation has directed this trend. The largest product includes the 700,200 square- foot warehouse/distribution facility for EKCO Housewares Inc. in Will County's Monee, Illinois. EKCO signed a 15-year lease for the $21 million facility, which was purchased on their behalf by Griffin Capital and is scheduled for completion next April.

Another new development is Rock Run Business Park in Joliet, Illinois, 45 miles from downtown Chicago. Constructed by Industrial Developments International, the 1.3 million square-foot regional park has attracted national companies such as Power Logistics and Unisource with its proximity to the intersection of Interstates 80 and 95.

Industrial warehouse/distribution space now makes up 70 percent of all industrial absorption.

With its proximity to O'Hare International Airport, DuPage County has seen the most explosive growth of the suburban markets. DuPage has little available land for new development and only 2,000 acres of vacant land under any zoning category. WebVan, an online grocery store, is leasing 312,000 square-feet in Carol Stream for a distribution center in central DuPage County.

BUILD-TO-SUIT ACTIVITY

Industrial build-to-suit development for Chicago's six-county region totaled 3.9 million square feet for the first half of this year. These 34 industrial transactions represent 96% of total build-to-suit activity. The number is a 14 percent overall decrease from last year.

DuPage County's 14.9 percent vacancy rate in warehouses of 100,000 square-feet or more has slowed the region's build-to-suit activity to almost one million square feet, a 60 percent drop from last year's record-breaking pace.

Lake and McHenry County saw minimal new build-to-suit activity. Will County tops the market with almost 1.5 million square feet followed by Cook County's best ever 1,070,000 square-feet.

Total build-to-suit activity has been approximately split evenly between for sale and lease. But, the average size of a build-to-suit lease transaction is 184,668 square-feet, while the average size of a sale transaction is 71,179 square-feet.

Two new national players recently entered the Chicago build-to-suit market. The Kenco Group, a family-owned third party logistics company founded in 1966 and based in Chattanooga, Tennessee is planning an 80,919 square-foot warehouse and distribution facility in Bolingbrook's Carlow Corporate Center. St. George Warehousing & Transportation has entered the Chicago market with the signing of a long term lease for 111,272 square-feet at 1099 Pratt in Elk Grove Village.

SALE AND LEASE PRICES

Individual submarket's supply and demand make sale prices and rental rates vary significantly. The overall Chicago regional average prices paid for Class A warehouse space now stands at $44.35, representing approximately a 9 percent cap rate. Gross rents average $5.61 per square-foot. Sales prices for Class B warehouses are now $34.82 per square foot, while Class C is $20.50 per square-foot.

Self Storage Capital Market Forces

The self storage market has changed drastically within the last 15 months. This change is primarily due to the volatility in the real estate capital markets.

The self storage REIT's lofty stock price multiples and low cost of capital enabled them to aggressively outbid private investors for existing self storage facilities and development sites. But, with the collapse of the commercial mortgage-backed securities market in the third-quarter of 1998, a restraint was put on this aggressive buying. Wall Street reclassified the stocks from "growth" equities to "income" equities. The resulting re-pricing drove stock prices down limiting the ability of REITs to raise cash through new stock offerings and increased the risk premium added to their cost of obtaining new capital.

Self storage product continued to attract investors, although investment was slow in the beginning of the year as interest shifted from REITs to private investors. The conduit financing began to be replaced by local banks entering the market for both acquisition and construction financing. New investors and lenders enter the industry attracted by the historically low default rates in the self storage business.

First Security Commercial arranged conduit financing for almost one billion dollars of self storage transactions in 1998, but has just recently announced the reduction in staffing for self storage lending due to the recent competition from local sources of capital.

"Future economies of scale and the threat of bidding competition should ensure lower capitalization rates for quality portfolios of facilities — even with imminent new supply storage product," says Marc A. Boorstein, Principal of MJ Partners.

NEW JOINT VENTURES

Within the past 15 months several Wall Street companies attracted by high occupancy rates within the fragmented storage industry have joined forces with developers. Some of these partnerships include Devon Self Storage and Goldman Sachs; Storage Mart and Warburg Pincus; StorAmerica and J.P. Morgan. Institutional players have also entered the market with Prudential's Real

continued on back page…

…continued from front page
Estate Investors' investment in Extra Space Self Storage expansion plans.

Also driving the market are affluent private investors and large homebuilders teaming up with storage operators. Local examples include Concord Homes and U-Stor-It; and MCL Companies and BHC Development. Several established operators are also planning to expand beyond their local markets including California-based A-American Storage and The Pegasus Group, Illinois-based Lock Up Storage Centers and Louisiana-based Safeguard Self Storage.

CAP RATE DIFFERENTIAL

All of these groups are trying to capture market share, and have joined and even replaced REITs in bidding for product and land sites. The difficulty and time associated with the acquisition of a single storage facility as compared to the acquisition of a portfolio of facilities, is causing a capitalization rate differential. One large acquisition has a shorter time-frame than smaller individual acquisitions or developments. This coupled with future economies of scale and the threat of bidding competition should ensure lower cap rates for quality portfolios of facilities — even with the imminent new supply of storage product.

Notes

RECENT MJ PARTNERS SALES/LEASES

- **350 West Kinzie Street, Chicago, Illinois.** 90,000 square-foot loft building in River North.Sold for self storage conversion. List Price: $4,800,000
- **Brook Electrical Distribution Company, 645 Heathrow Drive, Lincolnshire, Illinois.** 71,556 square-foot warehouse and distribution facility. List Price: $4,200,000
- **Intown Storage, 1353 S. Wabash Avenue, Chicago, Illinois**. 105,000 square-foot mixed-use loft building purchased for self storage use. List Price: $4,200,000
- **233-235 W. Lake Street, Chicago, Illinois.** Four-story commercial building located in Chicago's Central Business District. List Price: $1,000,000

MJ PARTNERS NEW LISTINGS

- **1907 N. Mendell (Cortland) Street, Chicago, Illinois.** 82,000 square-foot loft building overlooking Kennedy Expressway (I-90) List Price: $2,000,000
- **Little River Country Club, Marinette, Wisconsin.** 18-hole golf course on 264 acres near Green Bay. List Price: $1,500,000
- **465 N. Des Plaines Street, Chicago, Illinois.** 36,000 square-foot development site at southeast corner Grand Avenue and Des Plaines Street. For Sale, lease or build-to-suit.
- **130 N. Jefferson Street, Chicago.** 24,000 square-foot four-story loft building. List Price: $1,050,000
- **2354 North Clybourn Avenue, Chicago, Illinois.** 9,200 square-foot restaurant/brewery. List Price: $950,000
- **358 West Ontario Street, Chicago, Illinois.** 5,500 square-foot to 12,300 square-foot River North restaurant, fully equipped. Lease Rate: $18.36 per square foot
- **1120 North Ashland Avenue, Chicago, Illinois.** 8,250 square-foot three-story loft building, first floor restaurant. Lease Rate: $11 to $22 per sq. ft.
- **Former Five-Star Building, 12940 S. Western Ave, Blue Island, Illinois.** 44,070 square foot commercial building across from St. Francis Hospital. List Price: $650,000

MJ PARTNERS
REAL ESTATE SERVICES

150 South Wacker Drive
Suite 450
Chicago, Illinois 60606
312.726.5800
www.mjpartners.com

Real Estate Brokerage ◆ Consulting

Bulk Rate
U.S. Postage
PAID
Chicago, IL
Permit #1737

JEFF JACOBSON
MJ Partners Real Estate Services
150 S. Wacker Drive, Suite 450
Chicago, IL 60606

Creative Solutions For Today's Marketplace