MJ PARTNERS REAL ESTATE SERVICES

REAL ESTATE UPDATE

FIRST QUARTER 2001 MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

Market Focus
Chicago Shopping Centers

A combination of negative press, a flood of new product on the market, and cost of capital increases led to a drastic decrease in shopping center sales in 2000. Only 17 shopping centers over 75,000 square feet traded last year, compared with 30 centers in 1999. An average of 45 shopping centers per year traded from 1996 through 1998.

The reduction in retail investment was primarily due to pension funds and other institutional prospects desire to completely stay out of the acquisitions market. This void was partially filled by private investors that made the majority of last year's shopping center acquisitions. The most desirable retail products remain grocery anchored centers, followed by Class A Regional Malls and well-located value added opportunities.

Some of the negative retail news causing the investment slowdown include high profile bankruptcies and store closings. Chicago-based Montgomery Ward & Co. filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Wards will close its 252 department stores and 10 distribution centers. Additional retailers announcing store closings include Sears, Roebuck & Co. (89 stores); J.C. Penney (50); Office Depot (80); Office Max (50); Warner Bros. Studios (130); Lowes Theatres (112); Paul Harris (100); and Crown Books (28).

SUPPLY AND DEMAND

In contrast to investor's caution, the market remains well balanced from the standpoint of supply and demand. The overall vacancy rate has been steadily declining for shopping centers greater than 50,000 square feet the previous four years, by the end of 2000 the vacancy rate increased only slightly to 8.2 percent from 7.8 percent in 1999.

CONSTRUCTION

New development is driven by demand, often requiring tenant pre-commitments. By the end of 2000, 4.7 million square feet of new centers are under construction and an additional 467,000 square feet of retail space is also currently expanding or being redeveloped. This compares to about 4.2 million square feet of new construction in 1999, and under 3 million square feet in 1998.

The pharmacy expansion war is also underway. The nation's largest retail pharmacy, CVS Corp. based in Woonsocket, Rhode Island, plans to open more than 200 stores in the Chicago area during the next five years. While Deerfield-based Walgreens already has 325 area stores, with 100 new stores planned in the next three years.

LEASE RATES

The increase in average asking gross lease rates in Community/Neighborhood Centers remains consistent with a slight increase over last year to \$19.32. Average asking lease rates for Strip/In-Line Centers remain virtually unchanged at \$17.39.

The downtown Chicago residential boom has had a significant impact on retail rental rates. The upscale retail strip of North Michigan Avenue, with vacancy rates at only about 3.7 percent, boasts average asking rates of \$81.02 up from \$70.46 in 1999. Top rates now exceed \$250 per square foot for the most desirable space.

The State Street/Wabash Avenue shopping district in the early 1990s had a vacancy as high as 23 percent. Currently, the vacancy rate is down to 4.3 percent, with an average asking rent of \$51.76 per square foot, an increase from \$38.90 only two years ago.

CONCLUSION

The outlook for the 2001 shopping center market is more caution. The lowering of interest rates should facilitate sales but lenders continue to stringently underwrite retail assets. New retail development should follow downtown Chicago's becoming residential areas, as well as redevelopment of aging suburban downtowns.

Chicago Downtown Office Overview

Chicago's diversified economy and disciplined supply-side fundamentals continue for the eighth straight year. The downtown office market is experiencing a healthy combination of low vacancy rates, record high rental rates, and controlled development. Where are the opportunities and pitfalls?

The year 2000 was a record-breaking year for the CBD market. Net space leased surpassed a decade-high 2.9 million square feet, double the absorption from 1999. The tightness in the market drove overall vacancy rates down to 8.4%. Class A vacancy declined to a remarkable 3.8%, Class B to 8.3%, and Class C to 13.8%.

CLASS A RENTS EXCEED \$40 PER SQUARE FOOT

The lack of available Class A space in high-end product topped rental rates over \$40 per square foot for the first time ever. The West Loop remained the costliest submarket at an average asking rent of \$39.50 per square foot. Following close behind are the North Michigan Avenue market at \$36.25 per square foot, and the Central Loop at \$34.50 per square foot. The effects of modest new construction and the presence of sub-lease "shadow space" by consolidating corporations and failing dot-com firms helped to flattened rents by the end of 2000.

The health of the Class A market trickled down to modestly boost rent levels in secondary assets. Class B rents increased to an average asking rent of \$18 to \$22 per square foot. The continued conversion of Class C assets to alternative uses such as residential and hotel helped the supply and demand fundamentals for this class. Class C rental rates ranged \$14 to \$18 per square foot in 2000.

CLASS B RENTS — ROOM TO INCREASE

The record-breaking rise in rent levels has created a significant gap between Class A and Class B product. Although Class B rents rose in 2000, they were outpaced by the tremendous growth in Class A rents. The gap between Class A and B is now over 30%, significantly above the traditional 10% to 15% gap between the two classes. This gap may force Class A tenants experiencing sticker shock to search for more economical space. The trickle down demand may eventually accelerate Class B rents to the more traditional gap.

Expect a flattening of rents for Class A space in 2001 and beyond. While the fundamentals remain strong, over 14 million square feet of new development is in the planning stage. The immediate impact may not be dramatic

continued on back page…

…continued from front page

since only 1.6 million square feet will be delivered this year. But, 4.7 million square feet is already under construction and a percentage of developments in the planning stage may soon become reality.

Most of the new office development has taken place on the West Loop "550" corridor and remain relatively small at under 500,000 square feet. Mark Goodman and Associates' 550 West Jackson Boulevard, Fifield Realty Corporation's 550 West Washington Street, and Development Resources/Walton Street Capital's 550 West Van Buren Street, carry less leasing and financial risk due to the smaller building sizes.

Larger developments will test the market in 2001 and beyond including John Buck Company's 1.3 million square foot One North Wacker Drive; J.Paul Beitler Development Company/Prime Group Realty Trust's 1.5 million square foot Dearborn Center; Hyatt Corporation/Pritzker Realty Group/Prime Group Realty Trust's 1.2 million square foot northeast corner of Wacker Drive and Monroe Street; Hines Interests L.P.'s 191 North Wacker Drive; John Buck Company's 700,000 square foot south corner of Wacker Drive and Monroe Street; ABN Amro's 1.3 million square foot Clinton Street and Madison Street; and Fifield Realty Corporation's Quaker Oats Tower at Clinton Street and Monroe Street.

While institutional investors wait on the sidelines for evidence of a hard or soft economic landing, there remain good investment opportunities available in 2001. The investment fundamentals for Class B product should be positive as rent forecasts are trending upward. The diminishing supply of Class C assets may stabilize rents for well-located buildings.

Notes

RECENT MJ PARTNERS SALES/LEASES

- **1920 N. Clybourn Avenue, Chicago, Illinois.** 16,000 square foot retail lease to Thomasville Home Furniture by Zierk's. Asking Rate: $30 per square foot.
- **2345 N. Clybourn Avenue, Chicago, Illinois.** 9,200 square foot restaurant/brewery. List Price: $950,000.
- **122 W. Grand Avenue, Chicago, Illinois.** 4,000 square foot development site. List Price: $1,300,000.
- **954 W. Washington Street, Chicago, Illinois.** 8,000 square foot office lease. Lease: $17.50 per square foot.
- **Dwight Mini Storage, Dwight, Illinois.** List Price: $650,000
- **103 W. Roosevelt Road, Villa Park, Illinois.** Strip retail shopping center. List Price: $1,500,000.
- **744 N. Clark Street, Chicago, Illinois.** 8,200 square foot development site. List Price: $2,000,000
- **200 E. Ohio Street, Chicago, Illinois.** 25,000 square foot net rentable office building. List Price: $2,395,000.

NEW ASSOCIATE

Yvonne A. Jones, CCIM, CIPS has joined MJ Partners as a senior associate specializing in sales, leasing and tenant/buyer representation.

MJ PARTNERS NEW LISTINGS

- **Indianapolis Self Storage Portfolio.** 75,000 sq. ft. and 61,300 sq. ft., 1,123 units. List Price: $4,600,000 and $3,500,000.
- **Southwest corner of Clark and Superior Streets, Chicago, Illinois.** 9,750 square foot development site, zoned B7-5. List Price: $3,600,000.
- **Kings Park, Long Island, New York.** 3.8 acre site approved for 79,800 square feet of self storage. List Price: $1,600,000.
- **LoDo Self Storage, Denver Colorado.** 58,451 square feet, 427 units with expansion potential. List Price: $7,200,000.
- **110 W. Grand Avenue, Chicago, Illinois.** 2,400 square foot commercial building. List Price: $775,000.
- **108 W. Oak Street, Chicago, Illinois.** 6,350 square foot development site. List Price: $2,400,000.

MJ PARTNERS
REAL ESTATE SERVICES

150 South Wacker Drive
Suite 450
Chicago, Illinois 60606
312.726.5800
312.726.2905 fax
info@mjpartners.com

Real Estate Brokerage ◆ Consulting

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

Creative Solutions For Today's Marketplace