MJ PARTNERS REAL ESTATE SERVICES

REAL ESTATE UPDATE

FOURTH QUARTER 2001

MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

Market Focus
Commercial Real Estate Financing

A YEAR OF INTEREST RATE FLUCTUATIONS AND MORTGAGE MARKET INTERRUPTIONS

By any measure 2001 opened the year as one of the best times to finance commercial properties in the past 30 years. Commercial mortgage rates in the first quarter were at the lowest levels since the near panic in the fall of 1999 after the collapse of Long Term Capital Management. The Federal Reserve continued to lower short-term rates until early November (10 times in all) in order to provide liquidity to the money supply in the wake of last year's stock market correction and the economic aftermath of September 11th. As a result, short-term rates dropped to their lowest level since the early 1960's.

As of this date, the Fed's medicine seems to be working. An unexpected decline in joblessness and the surprising surge in retail sales in October have pushed the 10-year Treasury yields to 4.92%, up approximately 80 basis points from their floor in early November (4.14%) but still in line with yields in the first quarter. The 10-year Treasury is the benchmark for most commercial mortgage loans. Spreads, the difference between the interest rate on the mortgage and the benchmark, had been widening on concerns for the depth and duration of the economic downturn and its effect on default risk. Spreads are now expected to compress due to the speed of the Treasury rate run up and an improving outlook on the economy. This outlook is further enhanced with the collapse of oil prices, encouraging news from the war front in Afghanistan and the passage of airport security legislation that hopefully will reduce the chance of further September 11th type occurrences. The flight to quality (i.e. government bonds) has reversed itself and the stock market is now in bull market territory with this improved outlook.

The net effect is that commercial real estate interest rates reached their nadir in October and early November after the mortgage market reopened for business with 10 year loans priced as low as 6.50% to 6.75%. Rates are expected to increase in the coming months to the 7.0% to 7.25% range, still very attractive by historical standards. With a recovering economy and still attractive interest rates we foresee the following for commercial property financing by property type.

MJ PARTNERS CAPITAL SERVICES

Dennis R. Nyren is the new Director of MJ Partners Capital Services. Mr. Nyren focuses on providing debt and equity for commercial real estate. He is a mortgage banker and real estate broker with over twenty-four years of experience. He holds a B.S. in Economics from Lake Forest College and an M.B.A. in Finance from the University of Chicago.

OUTLOOK FOR 2002

We feel that most commercial property types are in relative supply and demand balance with the possible exception of downtown office space and hotels. This will create a still attractive environment for real estate finance in 2002.

MULTIFAMILY RESIDENTIAL

Multifamily has been the most desired property type over the past decade in most metropolitan markets where new development is constrained by a lack of available land or entitlements. This has been particularly true of Chicago in recent years especially in the suburbs where few new projects are approved for zoning due to politics.

Downtown Chicago, however, is becoming a different story since there are already approximately 4,000 condominiums owned by investors and 10,000 new condominium units expected to be delivered in the next twelve months. Many of these will become rental apartments, placing increased pressure on rental rates and condominium prices in light of the new, large developments at Rivers Edge, River East and at Illinois Center.

This softening condition is expected to make lenders cautious about new condominium or apartment construction or permanent loans for new projects. For existing projects there is still a strong lender interest downtown. Condominiums can still be financed with 60- 70% of units pre-sold. Suburban apartment lenders still provide up to 80% financing with spreads as low as 195 to 215 basis points and 1.20 debt service coverage.

RETAIL

Underwriting for retail properties varies by type. Food and drug or credit-anchored properties are most desired since they are generally experiencing lower vacancies than unanchored strips nationwide. Underwriting for food and drug anchored centers includes a 5% to 7% vacancy allowance on satellite space and 1.20 debt service coverage. Loans can be as much as 80% of value and spreads range from 205 to 230 basis points depending on the quality of the underlying asset. Unanchored strip centers require a 10% vacancy reserve, a 1.25 debt service coverage and 245 to 270 basis point spread over comparable term Treasuries. Single tenant credit retail can be financed for as much as 85% of value, 1.10 coverage with a 200 to 275 spread.

OFFICE BUILDINGS

Currently, lenders are interested in financing office buildings at assumed vacancies of 7% to 10% for A quality, downtown properties with 75.0% loan to value and spreads as low as 215 basis points. Suburban deals require 12.0% to 13.0% vacancy reserve depending on submarket location and 225 to 240 spreads.

INDUSTRIAL PROPERTIES/ SELF STORAGE

Industrial properties are highly desirable at 1.25 debt service coverage (75% loan to value and 7.0% vacancy reserve). Spreads range from 225 to 240 basis points. Self storage facilities are available at 240 to 250 basis point spreads with debt service coverages to 1.40 to 1.50 times.

NURSING HOMES, ASSISTED LIVING AND CONGREGATE CARE

Typically nursing homes have been financed by banks or credit companies and occasionally insurance companies. However, HUD has been an increasing source for these type of deals with their 232/223F program where borrowers can get up to 40 year amortization terms, interest rates as low as 6.75% and loan to values up to 90%. We have provided both conventional and HUD financings for these types of properties.

2001 is about to close similar to the way it began-as one of the best times to finance commercial real estate in the past thirty years. Rates remain near historical lows and mortgages are available- although with more equity and pre-selling required.

NEW MJ PARTNERS ADDITIONS AND PROMOTIONS

Yvonne A. Jones, CCIM, CIPS

Yvonne Jones has been elected President of the Commercial Investment Member (CCIM) Chapter of Northern Illinois. Ms. Jones has ten years of experience in the sale, leasing and management of commercial real estate representing foreign and domestic investors. She holds a Bachelor of Arts degree from the State University of New York at Oswego and an M.B.A. from the City University in Seattle, Washington.

Vince D'Amico, Vice President

Vince D'Amico brings over thirteen years experience in investment sales, tenant representation, product leasing, and real estate consulting. Mr. D'Amico was previously in the real estate advisory services group at Ernst & Young and Dantis, Inc. He holds an undergraduate degree and M.B.A from Loyola University of Chicago.

Michael Weber, JD, Vice President

Michael Weber focuses on the sale and leasing of investment real estate and development sites in the City of Chicago. Mr. Weber is a licensed attorney and has six years of experience in commercial real estate. He earned a Bachelor of Arts degree from the University of Iowa and a law degree from the John Marshall Law School of Chicago.

Marc A. Boorstein, Principal

Marc Boorstein, CCIM, has been recently elected to membership in the Association of Industrial Real Estate Brokers (AIREB). He previously served as President of the Realty Club of Chicago. He has seventeen years of real estate experience and is a graduate of the University of Illinois and London School of Economics.

Jeffrey L. Jacobson, Principal

Jeff Jacobson has seventeen years of experience in the sale, leasing and consultation of commercial real estate. Mr. Jacobson represents major investment firms, financial institutions, developers and corporations. He is a graduate of the University of Michigan School of Business Administration.

Notes

RECENT MJ PARTNERS SALES/LEASES

- **160-180 Lexington Drive, Buffalo Grove, Illinois.** 24,500 square foot 100%-leased industrial building for a Section 1031 Tax-Deferred Exchange investment. List Price: $1,900,000
- **525 Paterson Avenue, Wallington, New Jersey.** 120,000 square foot loft industrial building sold for self storage conversion. List Price: $4,550,000
- **16 West Ontario Street, Chicago, Illinois.** 3,300 square foot office lease. Asking Rate: $15.50 net
- **401 North Western Avenue, Chicago, Illinois.** Two leases totaling 28,600 square feet in the Kinzie Industrial Corridor. Asking Rent: $3.25
- **2336 North Milwaukee Avenue, Chicago, Illinois**. Commercial and residential mixed-use development site. List Price: $900,000

MJ PARTNERS EXCLUSIVE NEW LISTINGS

- **9 West Kinzie Street, Chicago, Illinois.** 67,700 square foot redevelopment opportunity at the corner of State Street and Kinzie Street. Currently a parking garage zoned C3-6 with FAR 12:1. List Price: $4,795,000
- **1201 West Madison Street, Chicago, Illinois.** First Eagle National Bank Building. A new 5,000 square feet of office space for lease. Asking Price: $18 per square foot
- **2500 West Golf Road, Rolling Meadows, Illinois.** 2.14 acre commercial development site. List price: $1,500,000.

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 ◆ Finance

PRESORTED STANDARD
U.S. Postage PAID
Chicago, IL
Permit No.1737

Creative Solutions For Today's Marketplace