MJ PARTNERS REAL ESTATE SERVICES

# REAL ESTATE UPDATE

FIRST QUARTER 2002 MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

## Market Focus
### *Chicago's Industrial Market*

The general economic malaise took its toll on the Chicago Metropolitan industrial real estate market. The year-end 2001 leasing and sale statistics highlight an imbalance of supply and demand in some of the areas strongest growth markets. Greater Chicago's industrial market comprising almost one billion square feet experienced a six-percent decline in sales and leasing activity last year to 41.5 million square feet. The decline in demand for industrial space increased the area's overall vacancy rate to 8.6 percent by year's end versus 6.6 percent a year earlier.

Total leasing activity dropped to 30.2 million square feet from 33 million square feet in 2000. The leasing market has been impacted by the slowed economy. Corporate consolidations also added to the glut of sublease options combining with a general hesitancy for leasing additional space.

### SOUTHWEST SUBURBS HIT HARD

The once robust southwest suburban market bore the brunt of the downturn. With 42 percent (2.35 million square feet) of all new industrial space constructed in the Chicago market, the southwest suburban vacancy rate spiked to 17.8 percent from 11.2 percent a year earlier. New construction in this sub-market, much of it speculative construction, increased 32 percent from a year earlier.

The other sub-markets with the strongest construction starts in 2000 and 2001 experiences vacancy rates at or above 10 percent as supply outstripped demand. Far west DuPage County and northwest Kane County increased to 9.8 percent and 10.4 percent respectively from levels near 8 percent a year earlier. Central and northern DuPage County stabilized at 8.0 percent despite over 1.8 million square feet of space added in the past two years.


*The new Chicago International Produce Market under construction on the near Southwest Side of Chicago.*

Despite a reduction in overall new construction starts, down to 5.5 million square feet in 2001 from 6.3 million square feet in 2000, vacancy rates increased across the region. In Cook County, vacancy rates elevated on City North to 6.7 percent from 3.7 percent; City South to 10.8 percent from 8.2 percent; Cook County North to 6.5 percent from 4.9 percent; Cook County West to 6.1 percent from 4.8 percent. The O'Hare market, the largest sub-market in the region at over 1.37 million square feet increased 67% to 8.8 percent from 5.3 percent while Lake County rose to 6.2 percent from 5.8 percent.

### OWNERSHIP VS. LEASING

While both leasing and building activity declined, low interest rates have made industrial real estate more attractive to both users and investors. The ownership versus lease advantage for users increased sales to users over 38 percent from 9 million square feet in 2000 to over 12.5 million square feet in 2001. From an investor's perspective, the low interest rates generated a 26 percent increase during the same period with 6.9 million square feet in transactions. The most active acquisition target is the 25,000 square foot to 100,000 square foot facilities.

In spite of the influx of available space and sub-lease opportunities, overall asking net rental rates for warehouse/distribution space ended 2001 at $4.51 per square foot, down only slightly from $4.56 per square foot a year ago. The asking net rental rate for new manufacturing space decreased 17 percent to $4.07 per square foot, although minimal leasing and new construction took place.

### LANDLORDS OFFER GREATER CONCESSIONS

Rental rates are experiencing downward pressure in the first quarter of 2002. The increased competition for tenants is forcing landlords to offer aggressive concessions to attract tenants. Landlords are offering greater concessions including free rent and build-out allowances in order to maintain base rents. The result is a lowering of effective rents paid by most tenants.

While the industrial market scenario appears sluggish, there are signs that the market is poised to quickly rebound. The softness in the economy during the past year forced manufacturers and distributors to cut costs, reduce inventories to the lowest levels in a decade and trim excess space. Any upward movement in the economy should translate into immediate gains in the industrial sector. The recent bullishness by the Federal Reserve on the state of the economy should also signal a positive outlook for the second-half of 2002.

## Real Estate Financing
### *Rate Check*

Ten-year Treasury notes, the benchmark rate for most commercial real estate mortgages, held within a tight band of 4.9% to 5.10 % during the first two months of 2002. The announced increase in retail sales and consumer confidence coupled with the reduction in the unemployment rate for February led Federal Reserve Chairman Alan Greenspan to predict that the economic rebound is "well under way". As positive economic news places pressure on Treasury yields, this declaration in early March drove the ten-year Treasury note to its highest level in eight months to 5.32%. After Greenspan's comments, it is hard for the Federal Reserve not to change the risk assessment of the economy to "neutral" from one tilted toward "weakness". The risk to bondholders is that the Federal Reserve may reverse its course of reducing discount rates in favor of increasing them.

The more critical factor for real estate owners is the spread, or risk premium, that lenders peg to the Treasury to derive the real estate mortgage rate of interest.

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Although spreads have widened recently, it has only been by one or two basis points. Lenders have been pressured to keep its spreads tight due to competitive pressures that have been exacerbated by minimal deal flow resulting from record financings in 2001 and a paucity of refinancing in the real estate recession of the early 1990's.

While the future direction of interest rates is unclear, the Federal Reserve is signaling a change in mood from systematically reducing discount rates to maintaining or possibly increasing the discount rate in the second half of 2002. It may be an appropriate time for real estate owners and operators to evaluate its financial structure and lock into the current low-rate, positive leverage environment.

## Notes

### MJ PARTNERS SALES/ LEASES/FINANCING

- **214-232 W. Ohio Street at Franklin, Chicago, Illinois.** 21,225 sq. ft. River North Property with two commercial buildings and surface parking lot, FAR 7:1. Sale price: $5,350,000
- **Indianapolis Self Storage Portfolio.** Two new state-of-the-art facilities totaling 136,300 sq. ft. and 1,123 units. Sale price: $6,750,000
- **Former Federal Reserve Bank Building, 200 S. Peoria/901 W. Adams Street, Chicago, Illinois.** 67,000 sq. ft. commercial loft building. Sale price: $3,750,000
- **Walgreens, Lantana, Florida.** 15,120 sq. ft. Walgreens on a 1.34 acre site. Financing arranged for 18.5-year term at a 7.19% rate. Loan Value: $3,050,000
- **980 N. Michigan Avenue, Chicago, Illinois.** 1,634 sq. ft. office lease. Lease rate: $35 gross
- **6901 N. Lincoln Avenue, Lincolnwood, Illinois.** 3,500 sq. ft. office lease. Lease rate: $12 net
- **2336 North Milwaukee Avenue, Chicago, Illinois**. Commercial and residential mixed-use development site. Sale Price: $775,000

### MJ PARTNERS EXCLUSIVE NEW LISTINGS

- **151-159 W. Chicago Avenue, Chicago, Illinois.** 16,312 sq. ft. River North development site/ parking lot zoned B7-5. List price: $4,300,000
- **371 W. Ontario Street, Chicago, Illinois.** Five-story, 33,000 sq. ft. vacant loft building overlooking Ontario/Ohio feeder ramp. List price: $3,300,000
- **400 North Orleans Street Street, Chicago, Illinois.** Four-story plus basement 15,000 sq.ft. commercial building adjacent to Merchandise and Apparel Mart. List price: $2,100,000
- **58 Locust Avenue, Bloomfield, New Jersey.** 163,000 sq. ft. three-story building overlooking Garden State Parkway. Ideal self storage conversion. List price: $4,500,000
- **3300 Washington Street, Waukegan, Illinois.** 100,000 sq. ft. warehouse/distribution building. List price: $2,500,000
- **Western Avenue and 95th Street, Chicago, Illinois.** 51,513 sq.ft. commercial/retail site adjacent to The Plaza Mall. List price: $1,750,000
- **4.8 Acre Site, Kirk at Roosevelt Roads, Geneva, Illinois.** Commercial development site. List price: $1,200,000

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