MJ PARTNERS REAL ESTATE SERVICES

REAL ESTATE UPDATE

THIRD QUARTER 2002 MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

Market Focus
Chicago's Office Market

Chicago's office market, both downtown and suburban, is experiencing increasing vacancies, low absorption, decreasing rents, and increasing concessions. With tightened capital markets keeping new construction in check, the real issue remains anemic demand. How deep is the malaise and when will the market recover?

The effects of the recession that began in March of 2001 resulted in a stock market crash, eroding consumer and business confidence, a slowdown in manufacturing, and concerns over corporate reporting and governance. The negative news stemmed expansion plans for corporate America and its office space needs. Tenants are evaluating lateral moves or consolidations until signs of a recovery become evident.

CBD OFFICE MARKET

Chicago's CBD vacancy rate for direct space of 13.2% in the second quarter rises to over 19% if the 6.2 million square feet of sub-lease space is included. Tenants renewing leases led the market during the first half of the year. Tenants are benefiting from landlords decisions to maintain occupancy in buildings by offering lower rates and concessions in exchange for longer lease terms. The following law firms all renewed their leases; Foley and Lardner renewed at 321 North Clark Street for 211,000 square feet, Altheimer & Gray renewed at 10 South Wacker Drive for 156,000 square feet, and Hinshaw Culbertson renewed at 222 North LaSalle Street for 125,000 square feet. DonTech renewed at 200 East Randolph Street for 100,000 square feet, and JP Morgan Chase renewed at 227 West Monroe Street for 86,000 square feet.

Washington Mutual Inc. anchors the Highland Landmark IV office building in Downers Grove, Illinois. One of the few office transactions in the East-West Corridor this year.

The overhang in the CBD market is Arthur Andersen's vacating over 650,000 square feet of space at 33 West Monroe Street and IBM Plaza, coupled with the threat of new development. While the consequential growth of Ernst & Young, Deloitte and Touche and KPMG may alleviate Andersen's fallout, a threat still exists to the CBD market. If the John Buck Co. development site at 111 South Wacker Drive and the Pritzker site at 11 South Wacker Drive secure anchor tenants and financing, a glut of space will be coming on line in 2005.

SUBURBAN OFFICE MARKET

For all of the concerns in the CBD market, the suburban market still is the weaker market. Once again demand is the culprit. Major corporate downsizing has hit each sub-market and driven vacancies to early 1990's levels. The overall suburban office market exceeds 23% vacancy including the 6.6 million square feet of sub-lease space. Rates have dropped $3 per square foot to an average asking rate of $23.2 per square foot. Concessions are on the rise with both free rent and generous build-out allowances common.

The O'Hare market, even though it is the smallest sub-market, has been hit hardest with over one million square feet of sub-lease space and new construction. The downsizing of Comdisco, Inc., Dean Foods Co., and Motorola contributes to a sub-lease glut. The completion of Orix Real Estate Equities Inc.'s 260,000 square foot Pointe O'Hare swells the vacancy rate to 25.5 % during the second quarter of 2002.

The northwest suburbs suffers from the downsizing of Motorola and 3 Com plus over 800,000 square feet of new construction. New developments include Schaumburg Corporate Center III, 150 Pierce Road, Gateway Center, and Meadows Office Center. The new buildings contribute to a class A vacancy rate that exceeds 31% versus an overall vacancy rate of 23%.

The East-West sub-market provides one of the few bright spots in the suburbs with the lease-up of the 250,000 square foot Highland Landmark IV in Downers Grove by Opus Corp. The development is 75% leased by Seattle-based Washington Mutual Inc. and the balance by Hub Group Inc. The absorption gain may be offset by the concern that Duke Realty Corp. may have to find new tenants for Budget Rent-A-Car's 182,000 square foot space at its Central Park at Lisle building. Vacancy rates reaches 23% in the second quarter of 2002.

DEMAND, DEMAND, AND MORE DEMAND

While statistics reveal a tenants' office market, signs of hope exist for landlords. The key remains lifting the demand side of the equation and trusting the capital markets to temper the supply side of the market. Demand grows in an expanding economy. Recent indicators that consumer spending is up and the chance of a "double-dip" recession is unlikely may be initial signs of an economic recovery. Continued positive economic indicators signals a slow but hopeful recovery in 2003.

MJ Partners Capital Services
Rate Check

What a difference a quarter year makes. The ten-year Treasury benchmark 90-days ago was trading at 4.8% and had been in a trading range up to 5.2%. The bond market continues to rally with ten-year Treasuries dropping 100 basis points to 3.8%. The net effect is that ten-year fixed rate commercial mortgages that were in the 6.50% to 6.75% range are now being offered at 5.50% to 5.75%.

The Federal Reserve kept rates unchanged in its last meeting due to the struggling economy, weak corporate earnings, potential war with Iraq, and minimal threat of inflation. The stock market continues to be impacted by the negative earnings reports as well as the lack of confidence by investors brought about by truthfulness of corporations and their leaders.

As government bond rates continue to fall, spreads have held steady providing borrowers with a surreal opportunity especially for CMBS loans originated through Wall Street conduit lenders. The major Wall Street firms active in commercial mortgage-backed securities auctions are reporting the most activity since this form of securitization was formed in the early 1990's. CMBS loans provide non-recourse funding at rates ¼% to ½% lower than conventional loans with longer amortizations,

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higher leverage, and faster closings. They even finance properties other lenders shy away from due to their age, location, occupancy or special purpose nature (i.e. self storage facilities, assisted living and other congregate-type properties).

Insurance companies continue to be aggressive lenders for class A real estate. They benefit borrowers who prefer to lock or fix their interest rate on permanent financing as early as the signing of the application by the borrower. They also offer continuity by acting as the servicing agent throughout the life of the loan.

The current borrowing scenario creates a situation where there is incentive to lock in rates for as long as possible. With interest rates at historic lows and predictions that the economy is primed for a recovery, borrowers are actively evaluating financing alternatives prior to an inevitable rise in interest rates.

Notes

MJ PARTNERS SALES/LEASES/FINANCING

- **Twelve Oaks Suites, Schiller Park, Illinois.** Interim loan with floating interest rate. Loan value: $2,600,000
- **Twelve Oaks Condominiums, Schiller Park, Illinois.** Floating rate condominium conversion loan. Loan value: $1,500,000
- **555 W. Jackson Boulevard, Chicago, Illinois.** 31,800 square foot office building. List price: $2,600,000
- **Former Willow Inn Club, 1622 Willow Road, Northfield, Illinois.** New restaurant lease for 9,600 square feet. Asking rent: $25 per sq. ft. net

MJ PARTNERS EXCLUSIVE NEW LISTINGS

- **Storage USA Franchise Portfolio- Dallas, St. Louis (3), Colorado Springs, Albuquerque, Indianapolis, Birmingham.** Eight facilities, 535,600 square foot rentable, 4,815 units. List price: $50,000,000
- **Storage USA Franchise Portfolio - Louisville (3) and Birmingham.** Four facilities, 259,100 sq. ft., 2,201 units. List price: $19,200,000
- **444 North Wabash Avenue, Chicago, Illinois.** Up to 5,325 square foot of office/retail space. Lease rate: $16.50 to $19.95 per sq. ft.
- **1509 S. State Street, Chicago, Illinois.** Eight-story 112,000 square foot loft building with $100,000 retail tenant net income and partial build-out for self storage. List price: $5,500,000
- **3101-09 N. Lincoln Avenue, Chicago, Illinois.** Eight-unit residential and three-unit commercial building in Lakeview. List price: $1,550,000
- **2346 West Thomas Street, Chicago, Illinois.** Six-unit apartment building in Ukrainian Village. List price: $950,000

OTHER NEWS

- **Jim Byczek** and **Sandy Breitowich** have joined MJ Partners specializing in investment real estate dispositions and leasing.

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