REAL ESTATE UPDATE

MJ PARTNERS REAL ESTATE SERVICES

FIRST QUARTER 2003 *MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL*

Market Focus
Chicago Office Investment Market

Six months ago we highlighted Chicago's office market, downtown and suburban, as experiencing increasing vacancies, low absorption, decreasing rents and increasing concessions. While the office fundamentals remain weak in today's market, building sales continue to soar. Several features of the current environment are responsible for these real estate investments. Primary among these are the 44-year low interest rates available today, which creates a positive spread between current cash yields from office properties and the cost of financing. The positive yield spread contributes to the current level of transactions despite overall slowing in leasing demand.

The combination of low interest rates and weak performance in the stock and bond markets has resulted in the unusual situation of increased transaction activity despite weakening office market conditions. Capital is readily available for the office investments that offer attractive yields, even if it means buying assets substantially above replacement costs. Foreign acquisitions of U.S. commercial real estate nearly doubled in 2002, with more than 80% of that investment in the office sector. As the economy has weakened, and scandals spread throughout the corporate sector both private buyers and institutional investors are turning to stable returns of well-leased office properties.

FLIGHT TO QUALITY

The majority of office transaction activity is for higher-quality, well-leased buildings as evidenced by the average selling price in downtown Chicago of $192 square foot, up from $147 the year before, even with rental rates falling 10% to 15% for Class A buildings, and 15% to 20% for Class B and C. Eighteen downtown office building sales totaling $2.8 billion took place last year. This is up from 13 buildings totalling $2.1 billion a year earlier. Capitalization rates for the best properties with long-term leases range from about 6 percent to 8.5 percent.

The suburban office market also shows surprising strength despite a vacancy rate of nearly 25 percent. Class A properties sold last year nearly doubled to $600 million compared with 2001, even with average net rents slipping to $15.07 a square foot, vs. $15.84 at the end of 2001. While the total value of suburban office buildings held steady the total number of transactions fell to 37 from 53 in 2001 demonstrating investors' flight to higher quality buildings. Prices rose as average capitalization rates dropped to 9.4 percent from 10.4 percent in 2001.

NEW DOWNTOWN CONSTRUCTION

Three new Class A downtown office buildings under construction coupled with two more on Wacker Drive in the planning stages should increase the approximately 16.1% current vacancy rate.

191 N. Wacker Drive developed by Hines Interests with about 735,000 square feet and Dearborn Center's almost 1.4 million square feet will be completed in 2003. The new building at 540 W. Madison Street will be fully leased by ABN AMRO when completed this year.

The new buildings scheduled for completion in late 2004 or early 2005 include 111 South Wacker Drive, developed by John Buck Company with Deloitte & Touche as the anchor tenant.

The second new office tower planned at 71 South Wacker Drive by the Pritzker family, named Hyatt Center, will be home to Hyatt Corporation, Goldman Sachs Group and Mayer Brown Rowe & Maw. Almost 400,000 square feet of space remains unleased in the 1.4 million square foot building.

CONCLUSION

Extremely low interest rates and ample capital coupled with a lack of alternative investment choice has helped to sustain the office building market despite weakened tenant demand. Cap rates have fallen for better product that satisfy investors' desire for yield and safety. In many cases, the competitive bidding for these properties has produced spectacular results. However, if rents continue to slide and demand remains weak, investors could see more opportunities to acquire distressed office assets in 2003, particularly if interest rates begin to rise.

NOTABLE OFFICE BUILDING TRANSACTIONS — 2002

PROPERTY	*SALE PRICE*	*PRICE PER SQUARE FOOT*	*SIZE*	*CAP RATE*
UBS Tower 1 N. Wacker Drive Chicago, Illinois	$415,000,000	$302.92	1,370,000 sq. ft.	6.04%
311 S. Wacker Drive Chicago, Illinois	$273,100,000	$213.19	1,281,000 sq. ft.	7.53%
500 W. Monroe Street Chicago, Illinois	$250,000,000	$262.61	952,000 sq. ft.	8.68%
181 W. Madison Street Chicago, Illinois	$248,000,000	$264.85	936,366 sq. ft.	8.00%
Two Illinois Center 233 N. Michigan Avenue Chicago, Illinois	$125,000,000	$127.50	980,362 sq. ft.	9.68%
Quaker Oats Plaza 555 W. Monroe Street Chicago, Illinois	$103,000,000	$245.24	420,000 sq. ft.	7.57%
444 N. Michigan Avenue Chicago, Illinois	$85,000,000	$168.91	503,224 sq. ft.	9.10%
200 N. LaSalle Street Chicago, Illinois	$62,500,000	$100.37	622,667 sq. ft.	9.52%
3400 Dundee Road Northbrook, Illinois	$8,175,000	$108.90	75,070 sq. ft.	8.54%

MJ Partners Capital Services
Rate Check

It is a great time to finance an acquisition or re-finance an existing asset. Ten-year Treasury note yields, a key benchmark in mortgage pricing, fell to levels unseen in 44 years. The anxiety about military action in Iraq is postponing decision-making at U.S. corporations and holding back economic growth. The year-to-date declines in the Dow Jones Industrial Average (9.3%); Standard and Poor's 500 (8.2%); and Nasdaq Composite Index (4.3%) has shifted the flow of money from securities into "safe haven" investments such as Treasury notes. The result is a drop in the ten-year Treasury note to 3.56% in March. Spreads on commercial mortgages, the premium added to the mortgage rate, have held steady with lenders placing floors below which they refuse to drop the rate. The net effect is that the ten-year fixed rate commercial mortgages that were recently in the 6.00% to 6.25% range are now offered at 5.50% to 5.75%.

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The lack of quality deals available to finance and the record number of re-financings in the past four-years limits the surge of loan demand. Many borrowers are already locked into existing financing at higher rates that preclude them from refinancing. The imbalance in the supply and demand of available deals benefits the financing search for an investor, developer or operator of commercial real estate.

The abundant supply of money from all lending types promises competitive pricing for real estate investments. Insurance companies are seeking quality loan packages and credit-leased single or multi-tenant deals. Industrial, retail and multi-family product remain in vogue with insurance companies. Banks continue to look for short-term construction loans and mini-permanent loans for well-conceived, retail, industrial and residential projects (apartments and condominiums). Office investments are scrutinized due to vacancy overhang in most markets and require substantial pre-leasing in order to receive funding. The softness in business travel has made hotel financing difficult to achieve.

Where are rates headed? It is hard to imagine rates heading down below these historical lows. The Beige Book, a survey prepared by the Federal Reserve on regional economic conditions, states that the U.S. economy "remained subdued" over the past two months due to the above-mentioned geo-political and economic concerns. The 58% rise in oil prices over the past twelve months and the loss of about 308,000 non-farm jobs in February is having wide-ranging economic effects. It is hard to foresee a measurable increase in rates in this environment. However, a positive and quick conclusion to conflict in Iraq may boost a pent-up economy and place upward pressure on rates, especially if investors trade their Treasury positions for common stocks.

Notes

MJ PARTNERS SALES/LEASES/FINANCING

- **1010 Green Bay Road, Winnetka, Illinois.** 10,272 sq. ft. retail building in the Hubbard Woods section of Winnetka.
  Sale Price: $3,352,500
- **Northeast Corner of 95th Street and Western Avenue, Chicago, Illinois.** Retail re-development site in the Beverly neighborhood of Chicago.
  Sale Price: $3,000,000
- **U-Stor-It Self Storage, 4995 North Elston Avenue, Chicago, Illinois.**
  43,869 square feet, 425 units opened in 2000.
  Sale Price: $3,640,000
- **Broad Ripple/Loveland Self Storage Portfolio, Indianapolis and Cincinnati.**
  136,850 square feet, 1,306 units.
  Sale Price: $6,600,000
- **Storage USA Franchise Portfolio, Louisville and Birmingham.** 125,850 square feet, 1,071 units.
  Sale Price: $7,800,000

MJ PARTNERS EXCLUSIVE LISTINGS

- **Wildcat Self Storage Portfolio, Cincinnati and Dayton, Ohio.** Eight Facilities, 684,022 sq. ft., 5,687 units, stabilized occupancies, Below-market financing.
  List Price: $44,450,000
- **2205 Lee Street, Evanston, Illinois.** Single-story 81,556 sq.ft. industrial building in the West Evanston Industrial District.
  List Price: TBA
- **113 South Clinton Street, Chicago, Illinois.** Two-story 10,400 sq.ft. free-standing West Loop retail building.
  Lease Rate: $40 per sq.ft. net
- **3501 Woodhead Drive, Northbrook, Illinois.** 15,000 sq. ft. flex office/industrial space in Sky Harbor Industrial Park.
  Lease Rate: $11.95 per sq. ft. gross
- **U.S. Route 9 in Barnegat, New Jersey.** 5.46 acre retail/self storage development site.
  List Price: $1,550,000

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