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REAL ESTATE SERVICES

REAL ESTATE UPDATE

FIRST QUARTER 2004

MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

Market Focus
Chicago Industrial Market

One word best describes the nearly 1-billion square foot Chicago industrial market: Disjointed. Despite an across-the-board-manufacturing slump, signs within the sector show steady improvement. Overall vacancy rates have declined slightly for the third consecutive quarter to 9.9%, and rents are stabilizing.

Demand and growth in the warehouse-distribution sector remains the driving force of the industrial market. Chicago's central location with its rail and transportation systems, coupled with land availability and economic incentives from local government provides a positive development climate and strong investment fundamentals. The markets continue to be driven by leasing demand from third party logistics ("3PL") firms, and increased capital for acquisitions from pension funds, REIT's and institutional investors.

The far Southwest Suburbs and Joliet areas are the leading sub-markets for new construction activity in warehouse-distribution product. Over 4.6 million square feet is under development in these markets, comprising 62% of total new construction in Chicago. While vacancy rates approach 13% in the far Southwest Suburbs, Joliet shows a more respectable 8%. CenterPoint Properties' 700,000 square foot build-to-suit for DSC Logistics at the CenterPoint Intermodal Center in Elwood, Illinois typifies the large transaction size in this sub-market. As supply outstrips demand, actual rents have declined slightly to an average of $3.30 per square foot net for big box warehouse-distribution as compared to an average rent of $4.57 per square foot for the overall industrial market.

ProLogis Park O'Hare
The O'Hare industrial sub-market led the area with over 5.6 million square feet of leasing and sales activity in 2003.

O'HARE REMAINS STRONG

While the Interstate 55 and Interstate 80 sub-markets generated most of the publicity in 2003, the O'Hare sub-market led the area with over 5.6 million square feet of leasing and sales activity. This should continue into 2004 as the manufacturing sector improves and companies recognize the importance of in-fill locations with abundant labor and transportation infrastructure. Rents are stabilizing in the O'Hare market with most transactions ranging from $3.70 per square foot net to $4.50 per square foot net. The O'Hare market's 8.3% vacancy remains below the overall market vacancy rate of 9.9%. Other markets outperforming the overall market include Near West/Near Southwest Suburbs at 7.7% vacancy, City North at 8.5%, Northeast Cook County at 8.9%, and Lake County at 9.0%.

Improvement in the economy is a factor that has the industrial warehouse-distribution sector poised for continued growth. Capital spending, a key barometer for the industrial real estate market, increased for the second consecutive quarter. Even with the exporting of manufacturing jobs to Asia, Chicago remains critical to the transportation of goods from overseas markets to the East Coast. The more goods in the nation's distribution system, whether manufactured overseas or domestically, the greater demand for distribution space. Developers are actively acquiring land looking to capture the anticipated demand for future state-of-the-art facilities.

The manufacturing sector which contracted for the 43rd consecutive month, has been the most affected by the economic recession beginning in 2001. The escalating trade deficit and shift of jobs to cheaper labor markets contributed to almost 3-million manufacturing job losses. Many of these jobs will never be replaced. The early-stage economic recovery, and weaker dollar making domestic goods more affordable to foreign consumers, helps improve the manufacturing market, albeit at a slow pace.

SECOND GENERATION BUILDINGS

While warehouse-distribution is the preferred product type for both tenants and investors, little demand exists for second-generation or functionally obsolete manufacturing space. This obsolescence contributes to the disjointed nature of the industrial market. An example shows industrial land for new development selling as high as $7 per square foot in the McCook market, while

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MJ Partners Capital Services
Rate Check

The continuing signs of a "jobless" recovery dropped 10-year Treasury Bond yields, a benchmark rate for commercial mortgages, hit a low of 3.72% in early March. Even with the fastest economic expansion in two decades, gains in productivity or the output for each hour worked has limited hiring by enabling companies to meet demand with fewer employees. Employer's added only 21,000 jobs in February, and since last November 716,000 people have dropped out of the labor force. The average length of unemployment rose to 20.3 weeks, the highest rate in two decades. Another troubling sign is that wages have risen only 1.6 percent over last year, the slowest rate in 40 years. It is doubtful that the Federal Reserve can justify a rate hike in such a weak job climate.

Job growth will be limited until productivity rates slow down. Productivity increases have averaged 2.4% a year from 1996 to 2001, but rose 4.4% in 2003 following a 5% rise in 2002. The increases of the past two years are the first to exceed 4% in consecutive years since record keeping began in 1947. More moderate job growth is inevitable with the economy projected to grow at a 4.6% rate and the most recent productivity rate showing only a 2.6% gain.

RISK OF RISING RATES

Economists predict that interest rates will rise within the year but to what extent is uncertain. The key long-term interest rate factors to watch are the direction of the overnight funds rate set by the Federal Reserve, the pace of inflation and the appetite of Asian central banks for U.S. Treasury Bonds. If job growth is sustained the Federal Reserve will need to increase rates to keep inflation under control. Likewise, Asian central banks, a major buyer of government bonds, are threatening to reduce their spending on U.S. Treasury Bonds to slow their own currency's rise against the dollar. A potential sell-off in the bond market would result in a quick rise in interest rates.

Commercial mortgage interest rates are near historical lows. Now is an opportune time to lock-in rates on debt before the key economic factors influencing interest rates adjust and move rates higher.

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rents for industrial space in nearby Bedford Park are only $2.50 per square foot.

Second-generation manufacturing buildings are limited by their special use nature and low ceiling heights that may not convert easily to warehouse use. But, compelling reasons exist for manufacturing firms to regenerate older buildings in urban, in-fill locations. Labor-intensive industries benefit from the abundant labor supply provided in these urban settings. The labor cost differential may tip the scales in favor of an in-fill location versus a suburban setting since thin labor supply in the far suburbs drives up costs per employee.

Alternative uses for obsolete space depends upon land size, location and demographics in a given market. Facilities located on large land parcels of twenty acres or more may be re-developed into new industrial parks. Retailers and self storage operators attracted to underserved urban areas are also buying industrial properties for redevelopment. Both require locations on heavily traveled roads in high-density neighborhoods. Rezoning a vacant industrial building to an alternative use adds to the existing tax base and helps maintain jobs.

Chicago remains North America's largest and most diverse industrial market. We believe that the market, particularly the warehouse-distribution sector, is poised for growth in 2004. The improving economy, increases in capital spending, and low interest rates are the catalysts to the emerging industrial market.

Notes

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MJ PARTNERS SALES/LEASES/FINANCINGS

- **Devon Self Storage, Philadelphia; Lawrenceville, New Jersey; Morrisville, Pennsylvania, Lanham, Maryland.** Four facilities, 400,000 sq. ft., 3,241 units. List Price: $54 million
- **The Shoreham at Lakeshore East, Chicago, Illinois.** 550-unit deluxe multi-family residential development by Magellan Development/Near North Properties. Equity Secured: $40 million.
- **Wildcat Self Storage Portfolio, Cincinnati and Dayton, Ohio.** Seven facilities totaling 632,913 sq.ft. rentable and 5,214 units. List Price: SOLD
- **Highland Park Self Storage, 1505 Old Deerfield Road, Highland Park, Illinois.** 58,201 sq.ft. rentable and 579 units. Sale Price: $6,975,000
- **Bloomfield, New Jersey.** Three-story 143,000 sq.ft. warehouse redevelopment overlooking Garden State Parkway. Sale Price: $5,000,000
- **2205 Lee Street, Evanston, Illinois.** Single-story 81,566 sq.ft. industrial building in the West Evanston Industrial District. Sale Price: $2,500,000
- **95th Street and Western Avenue, Chicago, Illinois.** 51,000 sq. ft. retail development site at the southeast corner of 95th Street and Western Avenue. List Price: $1,800,000.
- **Laraway Secure Storage, Rockford, Joliet and Michigan City.** Three single-story facilities. Sale Price: $1,445,800

MJ PARTNERS LISTINGS

- **1132 South Jefferson Street, Chicago, Illinois.** Two-story 52,000 sq.ft. industrial building in the Roosevelt Road commercial corridor. Sale Price: $3,795,000
- **Former Rennekar's Pharmacy Building, 1834 Glenview Road, Glenview, Illinois.** Up to 6,000 sq.ft. retail opportunity in downtown Glenview. Lease Price: $25 per sq.ft. triple net
- **1905 East Higgins Road, Elk Grove Village, Illinois.** Five-acre redevelopment site with excellent exposure. Sale Price: $5,000,000
- **Oak Lawn Self Storage, 4600 Southwest Highway, Oak Lawn, Illinois.** 69,515 sq. ft., rentable with 767 units in lease-up. List Price: $6,500,000
- **4700 S. Ashland Avenue, Chicago, Illinois.** Former Goldblatt's building consisting of approximately 120,000 square feet. List Price: $3,900,000
- **Storage Trust Self Storage, 1510 S. Lake Street (Route 45), Mundelein, Illinois.** 53,620 sq. ft., with 364 units, 84% occupied. List Price: $3,750,000
- **Bogota, New Jersey (Bergen County) 151 Cross Avenue overlooking Interstate 80.** 82,000 sq. ft., industrial building expandable to 130,000 sq. ft. for redevelopment. List Price: $3,900,000
- **Harwood Heights Self Storage, Harwood Heights, Illinois.** Newly built 59,125 sq. ft., with 667 units in lease-up. List Price: $5,600,000

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