



Chicago's I-55 Corridor Industrial Market Summary of Industrial Activity Year 2004

The I-55 Corridor in 2004 will go down in history as a year that provided despair and disappointment as well as elation and exultation for developers and brokers alike. Whether you prefer to be optimistic or pessimistic you will find year-end statistics in this report to support your feelings about the Corridor as we enter the First Quarter of 2005. First the positive statistics:

- ◆ Gross absorption exceeded 6.1 million square feet which compares very favorably with the best years in the Corridor's history;
- ◆ New construction (speculative and build-to-suit) exceeded 4.8 million square feet which is the most annual new construction since Champion professionals have been keeping I-55 Corridor statistics;
- ◆ Over 2.4 million square feet of transactions were completed in the Fourth Quarter of 2004;
- ◆ Approximately 2.5 million square feet of known tenant requirements are looking for a home in the I-55 Corridor as of December 31, 2005;
- ◆ Approximately 4.9 million square feet of Investment Sales occurred in 2004, the most in I-55 Corridor history.

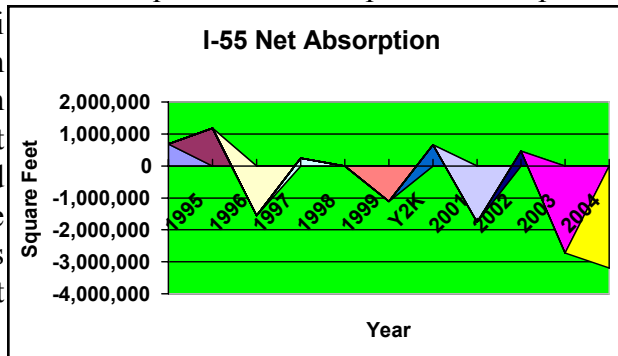
The above listed statistics are individually and cumulatively why the I-55 Corridor is one of the top industrial sub-markets in the United States. Enough for the good news! Here are the statistics the pessimists can focus on:

- ◆ The I-55 Corridor Vacancy Rate increased in 2004 to a whopping 22.41%;
- ◆ The Vacancy Rate for buildings in the Corridor west of Lemont Road is a staggering 26.24%;
- ◆ Net effective rental rates continued their downward spiral in 2004 with no bottom in sight;
- ◆ Net absorption was a negative 3.195 million square feet, an all time record for negative absorption in the I-55 Corridor.

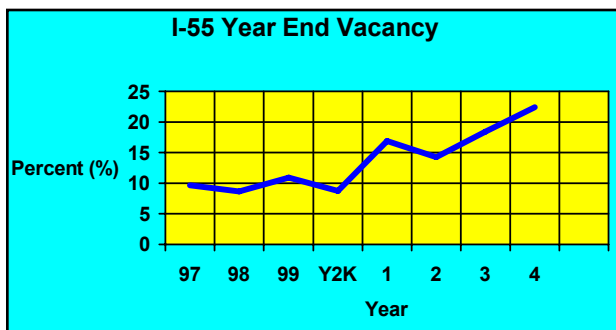




How do we make sense of this mix of positive and negative statistics? How do you square one of the highest gross absorptions in history with the highest vacancy rate in history? At Champion we make sense of these polarized statistics by first realizing that the I-55 Corridor is more than halfway through its growth cycle as an industrial submarket. The boundaries of the Corridor are for all intents and purposes, pretty well established. Aside from the existing business parks only a few development challenged sites remain available for acquisition. Well capitalized companies such as Pizzuti Development, Panattoni Development and Duke Realty Corporation control fairly substantial land positions on which they continue to aggressively construct bulk speculative buildings. On the other hand developers such as Catellus (a big player in the Corridor since the late 80s), Northern Builders (Carlow Corporate Center) and IDI are just about out of development sites.



If the national and local economies remain in a growth mode, vastly divergent statistics, such as those for 2004, will be the norm in the I-55 Corridor for the next 3 to 5 years. Development fueled by readily available, low cost capital will keep the Corridor Vacancy Rate between 15% to 20%. New construction should occur at the rate of 3.5 million square feet to 4.5 million square feet per year while gross absorption we project, will fluctuate between 5 million square feet and 6 million square feet per year. Speculative development will outnumber build-to-suit development by a 2.5 to 1 ratio (square feet).



Transactions and Lease Rates

Transactional volume in 2004 began with a disappointing 444,000 square feet in the First Quarter and finished with an astounding 2,473,046 square feet in the Fourth Quarter. Notable transactions in 2004 included Panattoni Development's leasing of its Windham Lakes #8 spec building to RR Donnelly. When completed the building will have 659,157 square feet of rentable space, including 63,000 square feet of office, 75 exterior docks, 300 trailer parking stalls and 429 car parking stalls. The 134 month lease term will begin on or about May 1, 2005. Other lease terms include a base rental rate of \$2.79/SF/Year NNN, an annual rent escalation of 2% and 2 months of rent free occupancy. The lease may contain a termination option at the end of year 5. The Panattoni - Donnelly lease is the largest I-55 Corridor lease transaction of 2004.





At the Pinnacle Park, Pizzuti Development completed two significant transactions in 2004. FlorStar Sales, (a distributor of flooring products) leased the entire 444,171 square foot Pinnacle IV Spec building on a ten year term at a base rate of \$3.10/SF NNN with a 2% per year rent escalation. The transaction included 25,000 SF of office, 60 exterior docks and upgraded lighting in the warehouse. In the other Pinnacle transaction of note Pizzuti Development agreed to construct a 444,953 square foot distribution center for Wilton Industries on a build-to-suit for sale basis.



In the Carlow Corporate Center Schwarz Paper leased 437,000 square feet of the 650,000 square foot 1450 Remington Blvd building which is currently owned by TA Associates. This building had been previously occupied by Central American Warehouse. Terms of the 90 month lease included a base lease rate of \$2.65/SF/Year NNN, a 2.5% per year rent rate escalation, six months of rent free occupancy, 77 exterior docks and 1% office.

At 581 Territorial Drive, Champion Realty Advisors, LLC assisted ProLogis Trust in leasing 334,463 square feet of the 448,512 square foot, state of the art distribution center to S&S Active Wear. The lease transaction included 12,000 square feet of new office, upgraded lighting, 54 exterior docks and upgraded warehouse lighting. The base rental rate began at \$2.85/SF/Year



NNN with an escalation to \$3.10/SF/Year NNN after the 5th year of the lease. What makes this lease notable is not only the size of the transaction but the solution that ProLogis was able to craft for dealing with an existing 163,000 square foot S&S Active Wear lease obligation. ProLogis and S&S were able to agree to on a complex formula for funding the existing lease obligation and the allocation of

any savings derived from subleasing the space. The rental rates listed hereinabove do not include any of the up charge for the existing lease obligation.

In a major coup for second generation space in the I-55 Corridor, after an extensive review of relocation options, Sony Music agreed to renew their 2 leases in the Corporate Crossing Business Park. Sony agreed to a 5-year renewal (and expansion of some 97,000 SF) in the 434,992 square foot building owned by Morgan Stanley at 351 Internationale Dr. Terms included a base lease rate of \$3.10/SF/Year NNN and a 2.5%/Year rental rate escalation. At 430 Gibraltar Dr., Sun Life Canada and Sony





agreed to a 5-year lease renewal at \$3.10/SF/Year NNN. Sony occupies the entire 281,464 square feet. A big factor in Sony's decision to renew its leases was the significant investment Sony has in a multi-level racking and conveyor system in each building. After having a difficult time leasing since 2002, second generation space leased up during 2004. The leases were by and large completed at significant discounts with some 24' clear, second generation space (40,000 SF to 100,000 SF) leasing for below \$3.00/SF/Year NNN.

Lease rates in 2004, for larger blocks of space (200,000 square feet and larger) experienced a reduction between 2.5% and 4%, on average, over similar sized 2003 lease transactions. The volume of small tenant requirements (50,000 SF and smaller) increased significantly in 2004. Lease rates for small tenant requirements firmed up somewhat due to increased demand and a reduction in the supply of available second generation space.

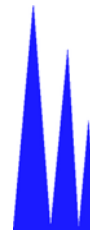
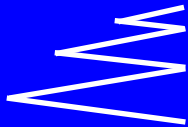
Speculative Construction

In spite of increased construction costs (fuel, steel and concrete) and a rising vacancy rate speculative construction continued at a rapid pace in 2004. Approximately 3.1 million square feet of speculative space was added to the industrial base during 2004. The largest spec building on the market or under construction is the 800,000 square foot distribution center being built by ING and Exel at 1701 Remington Blvd in Bolingbrook. Duke is moving ahead briskly with their 529,000 square foot speculative building in Park 55. Bridge Development completed 2 new spec buildings (each 201,602 SF) in their Woodhill Crossing development in Woodridge. ML Realty Partners should complete construction of their first speculative building (313,179 SF) in their Highland Corporate Center project in Bolingbrook. New speculative projects are planned for 2005 by Pizzuti Development at the Pinnacle Business Park, Panattoni Development on their land site at the southwest corner of I-55 and Weber Road and ProLogis Trust in ProLogis Park 55.



1701 Remington Blvd.





Below is a list of speculative buildings currently on the market or under construction.

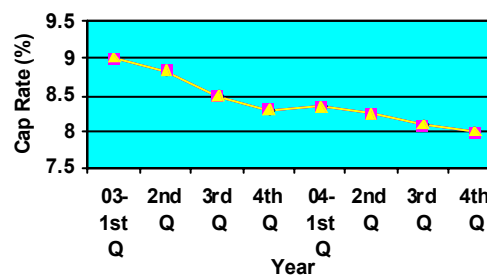
**Speculative Buildings Under Construction or on the Market
as of December 31, 2004**

Business Park	City	Developer	Size (SF)	Status
Corporate Crossing	Bolingbrook	HSA & ML Realty	247,500	Ready for occupancy
Corporate Crossing	Bolingbrook	Hamilton Partners	229,566	Ready for occupancy
Bolingbrook Lakes	Bolingbrook	Corum	701,899	Ready for occupancy
Boldt Park	Romeoville	Ryan	471,500	Ready for occupancy
1701 Remington Blvd	Bolingbrook	ING/Exel	800,000	Under Construction
Carlow Corporate Center	Bolingbrook	Exel	365,714	147,000 SF remains vacant
Windham Lakes	Romeoville	ORIX	658,060	Ready for occupancy
Bluff Point	Romeoville	Land and Lakes	500,000	Ready for occupancy
Park 55	Romeoville	Duke	529,000	1 st Q 2005 completion
Highland Corp Center	Bolingbrook	ML Partners	313,179	1 st Q 2005 completion
Woodhill Crossing	Woodridge	Bridge Development	201,602	Ready for occupancy
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Veterans Corp Center	Bolingbrook	Seefried Properties	188,500	Under Construction

Investment Sales/ Cap Rates

The I-55 investment sales market has never been hotter than it was in 2004. Approximately 4.9 million square feet in 16 buildings traded hands. The average size sale was approximately 304,000 SF. The total of all investment sales equaled approximately \$194.5 million. The average per square foot sale price for the year was \$43.77 with an average cap rate estimated to be 8.05%.

I-55 Corridor Cap Rates





The largest sale in terms of value was Panattoni Development's sale of two buildings in its Windham Lakes Business Park to a venture between TA Associates and the Estate of James Campbell. The TA/Campbell venture purchased Windham Lakes #6 (453,568 SF) which is leased to Sportmart and USC Logistics and the Windham Lakes #7 building (720,000 SF) which is fully leased to Home Depot for \$48.50/SF and \$43.43/SF respectively. Other notable investment sales are listed below:

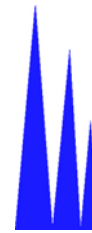
Address	Size (SF)	Seller	Buyer	Tenant	Price/SF
333 Gibraltar Dr Bolingbrook	574,000	RREEF	TA Associates	Georgia Pacific	\$37.00
370 Crossroads Pkwy, Bolingbrook	258,560	Midwest Freightways	TA Associates	Midwest Freightways	\$40.00
1101 Taylor Road, Romeoville	541,123	PV Partners	McMorgan & Company	Ozburn Hessey Logistics	\$43.15
254 Internationale Dr Bolingbrook	237,000	RREEF	Allianz of America	RR Donnelly	\$51.00
19W751 101 st St, Lemont	147,400	First Industrial	Lemont Venture, LLC	ITW	\$49.00

Forecast for 2005

Except for our prediction that the vacancy rate would decline in 2004 our other projections for gross absorption, rental rates, and land prices were relatively accurate. The transaction momentum experienced in the 4th Quarter of 2004 combined with Champion's tracking of some 2.5 million square feet of pending tenant requirements leads us into 2005 in a very optimistic mood. Assuming the National and local economies continue on a similar growth pattern as in 2004, we can peer into our crystal ball and comfortably predict that:

- Gross absorption will once again exceed 6,000,000 square feet;
- Rental rates for lease transactions in excess of 500,000 square feet will begin to approach \$2.50/SF on a net effective basis;
- Land prices for fully improved sites will increase modestly (2 to 3 percent);
- Speculative construction will approach 3,500,000 square feet;
- Build-to-suit construction will remain relatively low at about 1.5 million square feet;
- Cap rates will remain at or about 8% on average
- Net effective rental rates for spaces below 100,000 square feet will firm up due to a increase in demand and a reduction in supply;
- The vacancy rate will decline to approximately 19%
- Construction costs will rise modestly





**2004
I-55 YEAR END SUMMARY
INDUSTRIAL SPACE SURVEY
1/1/04 - 12/31/04**

Community	Base as of 1/1/04 (SF)	New Construction Added	Base as of 12/31/04 (SF)	Base Vacant (SF)	Percent of Base Vacant (SF)	Buildings With Vacancy
Hodgkins/McCook Countryside	6,652,000	303,192	6,955,192	746,886	12.23%	6
Burr Ridge/ Willowbrook/ Darien	4,878,354	60,000	4,938,354	254,243	5.15%	8
Woodridge/Lemont Bolingbrook/ Romeoville	38,835,909	4,512,264	43,348,173	11,373,614	26.24%	86
Totals	50,366,263	4,875,454	55,241,719	12,374,743	22.41%	100

- This survey does not include service center / office research / tech space or industrial space below 10,000 SF.
- Vacancy statistics include all space that is either currently vacant or will be vacant within 60 days.
- New Construction includes build-to-suit space and speculative construction started in 2004 (minimum of walls going up). Does not include pad ready sites.

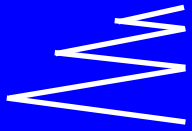
**I-55 CORRIDOR
COMPARISON OF KEY STATISTICS**

	2004	2003	2002	2001
CORRIDOR VACANCY ON JANUARY 1 ST	18.41%	14.29%	16.9%	8.73%
CORRIDOR VACANCY ON DECEMBER 31 ST	22.41%	18.41%	14.29%	16.9%
SPACE CONSTRUCTED (BTS & SPEC)	4,875,454 SF	4,740,517 SF	4,191,392 SF	2,831,000 SF
SPACE LEASED/SOLD (GROSS ABSORPTION)	6,137,841 SF	5,042,328 SF	6,384,634 SF	5,154,594 SF
SPACE VACANT ON DECEMBER 31 ST	12,374,743 SF	9,180,177 SF	6,450,261 SF	6,910,388 SF
NET ABSORPTION	(3,194,566) SF	(2,729,916) SF	+ 460,127 SF	(1,755,406) SF
NUMBER OF BUILDING W/SPACE AVAILABLE	100	86	74	61
AVERAGE SIZE OF VACANT SPACE	123,747 SF	106,746 SF	87,165 SF	113,285 SF
SPEC BUILDINGS WITH SPACE AVAILABLE*	31	32	27	20
MARKET BASE (SF)	55,241,719 SF	49,868,909 SF	45,128,392 SF	40,937,000 SF

* includes spec buildings with a minimum of walls going up by 12/31/04

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COMMERCIAL & INDUSTRIAL REAL ESTATE SERVICES



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ADVISORS, LLC**

Champion professionals continue to uncover new and profitable opportunities for our clients in the I-55 Corridor. For more information on current Champion projects we represent along the I-55 Corridor please log onto our web site www.championre.com or call us at 630-887-8833.



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