

INDUSTRIAL MARKET ANALYSIS – CHICAGO

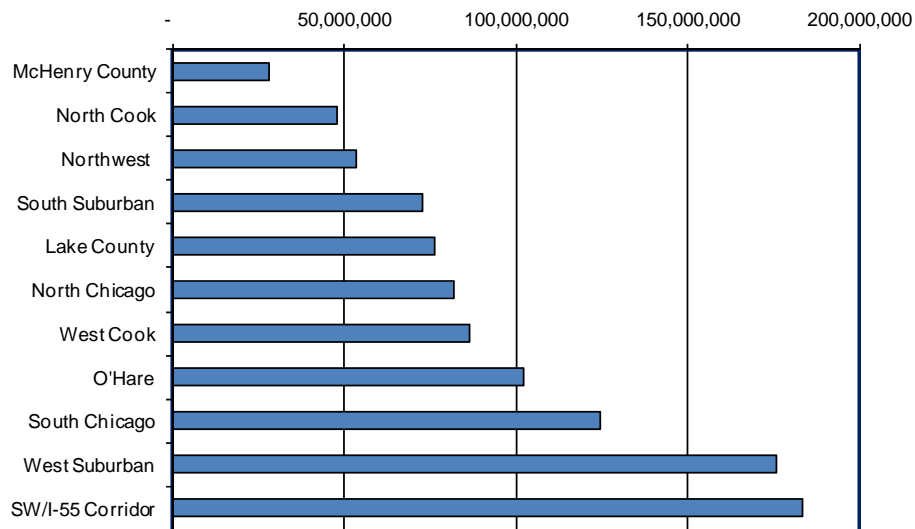
Market Composition & Distribution

According to Costar Property, the Chicago industrial market is distributed as follows:

Industrial Submarket Distribution - Chicago		
Submarket Cluster	Square Feet	Percent
McHenry County	28,004,911	3%
North Cook	47,750,606	5%
Northwest	53,287,210	5%
South Suburban	72,785,596	7%
Lake County	75,914,290	7%
North Chicago	81,614,508	8%
West Cook	86,129,686	8%
O'Hare	101,987,002	10%
South Chicago	124,369,657	12%
West Suburban	175,589,404	17%
SW/I-55 Corridor	183,485,069	18%
Total	1,030,917,939	100%

The data is displayed graphically, below:

Submarket Distribution in Square Feet

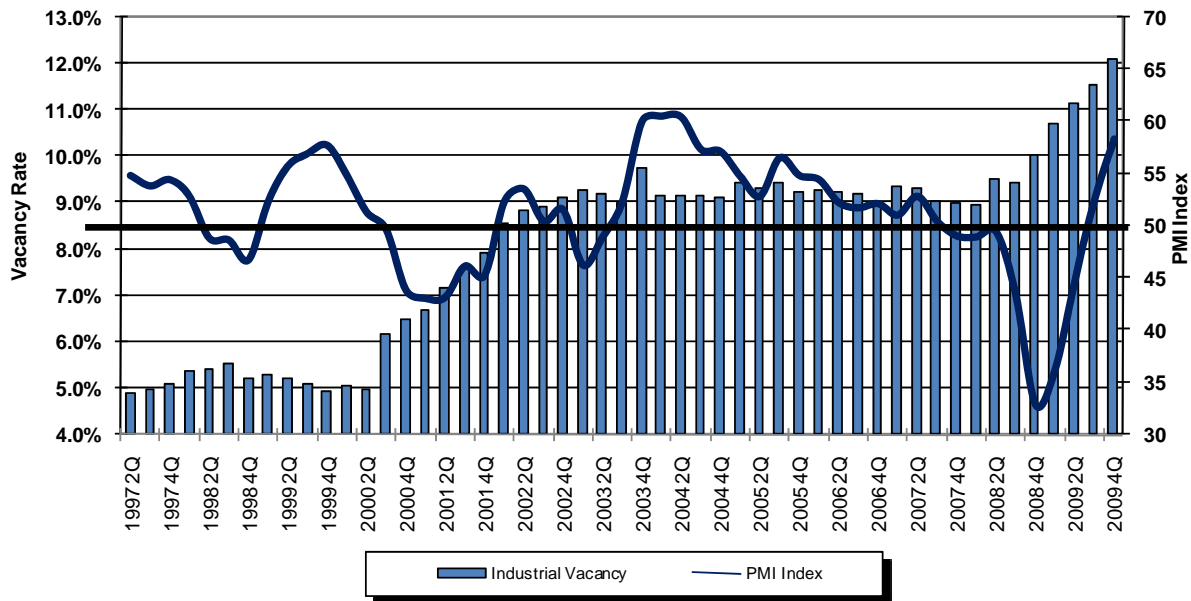


The Chicago industrial market contains over 1 billion square feet including manufacturing, warehouse and flex space. The largest submarket cluster is the Southwest I-55 corridor, dominated by large box users in the Will county area. The submarkets within the Chicago city limits, while large, are dominated by older buildings that are functionally obsolete. Nonetheless, there have been some redevelopments within the city limits that have generally met with strong demand.

Vacancy

Vacancy tracks with consumer spending and subsequently, the production and movement of goods. The chart below tracks vacancy against the Institute for Supply Management's Purchasing Manager's Index (PMI).

Industrial Vacancy vs PMI Index - Chicago



Source: Costar Property, Institute for Supply Management

Vacancy was running at historic lows in the late 1990s at roughly five percent with a sharp increase from 2000 through 2003, the last recessionary period, to over nine percent. Vacancy has held at over nine percent since mid 2002. Even so, significant new construction has hit the market since 2002 with the older functionally obsolete space suffering.

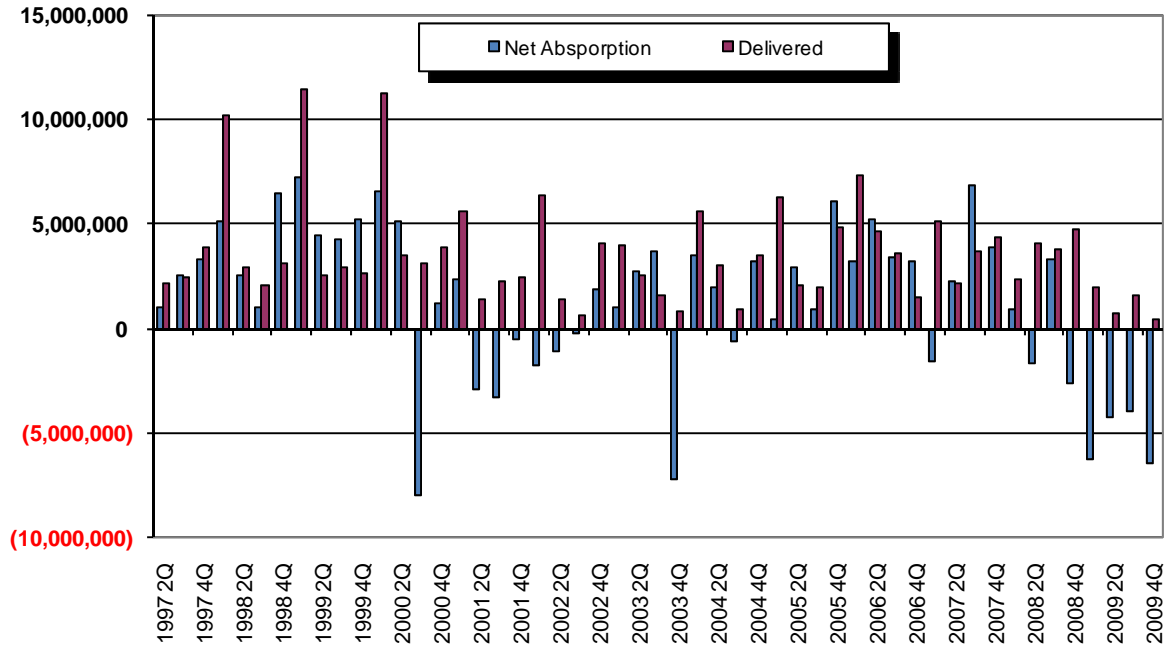
The PMI is a composite index made up of New Orders (30%), Production (25%), Employment (20%), Inventories (15%) and Supplier Deliveries (10%). A PMI reading above 50 (heavy black line) indicates the manufacturing economy is generally expanding while below 50 percent is generally an indication of decline. The PMI is a leading indicator of industrial space demand. However, the index incorporates conglomerates that are not entirely in the industrial sector.

Starting in mid 2007 the index was trending down. In mid 2008, when the recession began to intensify, the index dropped significantly to some of the lowest levels in over 25 years. However, the index has spiked back from these historically low levels. Since the 3rd Quarter 2009 the reading has been above 50, which had not occurred since 2007. The 4th Quarter 2009 reading indicates a strong reading about 58, forming a V-shape recovery for the manufacturing industry that is largely due to the historic contraction that took place in 2008 and first half of 2009. However, vacancy rates are still rising, which is not completely unusual since companies trim their real estate needs in response to declining production. After a few quarters of positive PMI readings, we believe vacancy rates will begin to decline.

Absorption & Deliveries

Job growth in the late 1990s/2000 led to expanding consumer demand for goods, new deliveries and positive absorption of space. The recessionary climate which began in 2000 and continued through mid 2003 resulted in an extended period of negative absorption in the market.

Net Absorption vs Delivered - Chicago



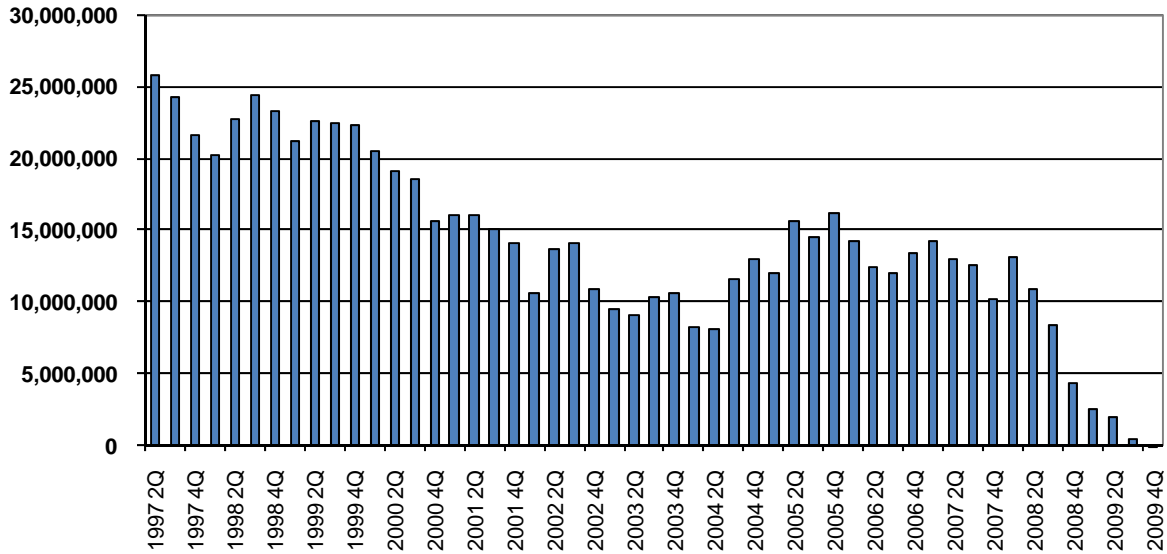
Source: Costar Property

Absorption had been positive, with rare exception from early 2004 to early 2008. However, since 2Q08 net absorption has been decidedly negative. Given the weak employment market throughout 2009, the negative absorption was to be expected. However, with employment losses moderating and PMI now well above 50, we expect absorption to increase sometime in 2010.

New Construction

New construction was rampant in the late 1990s with roughly 20M+ square feet of space under construction at all times. The recession from 2000 to 2003 cooled the market and halted construction.

Under Construction - Chicago

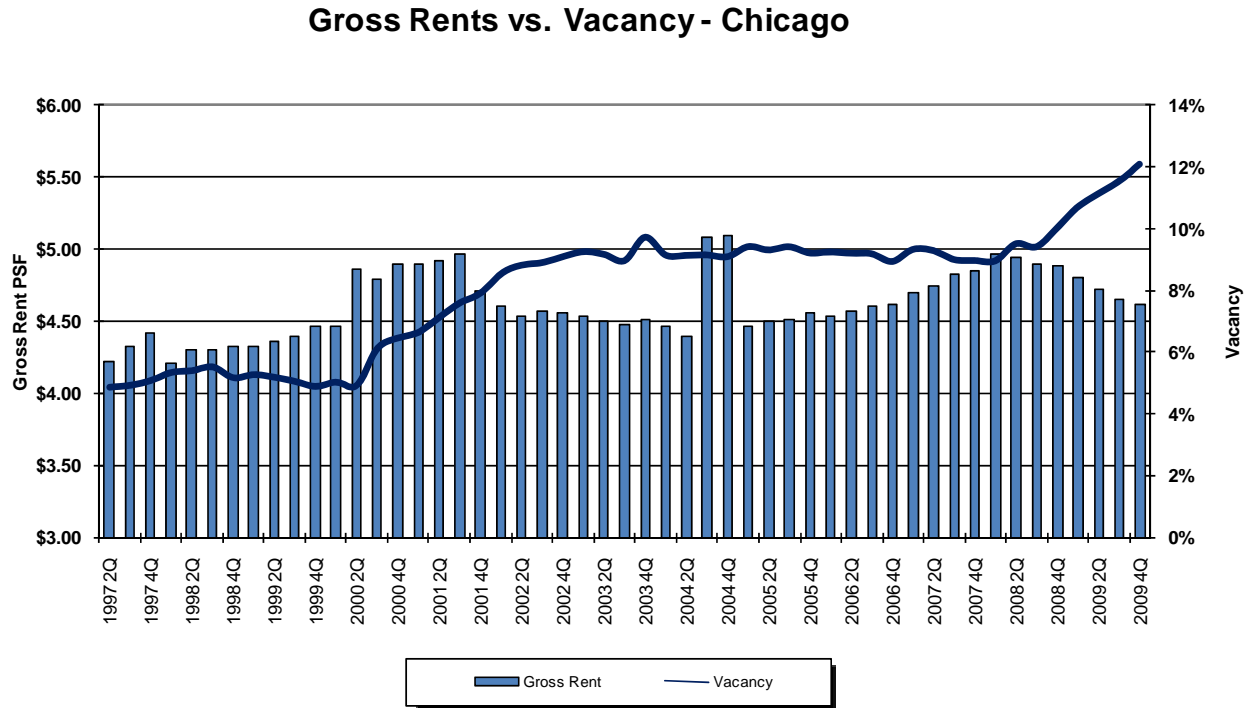


Source: Costar Property

Roughly 10M to 20M square feet of space has been under construction since 2000; however, since 1Q07, new construction has been on a steady decline to the point where only a negligible amount of construction was taking place as of 4Q09. This is by far the lowest level of construction activity in the last 12+ years. With the limited availability of financing for new projects combined with weak consumer spending, we expect few new construction starts over the next 12 months. This lack of new construction should help the net absorption figures to turn positive in 2010.

Rent Trends

The correlation between rent and vacancy is illustrated below.



Source: Costar Property

Rents rose steadily during the late 1990s through 2001 with a subsequent decline though 2004. The expanding economy led to increased rents though 4Q07 but more recently, rents have started a gradual downward trend. With the rise in vacancy since mid-2008, the expectation is that rents will continue to decline in the near term.

Transaction Market

A substantial run up in transaction volume across all property types occurred from 2004 through 2006 due in large part to very favorable loan terms (high leverage/low rates) and the expectation of increases in net income due to expected growth in demand. Weaknesses in the overall economy became apparent in early to mid 2007. The housing market was cooling in part due to the subprime mortgage market and a general over building in many markets. The collapse of Bear Sterns in March 2008 was followed in mid 2008 with a substantial rise in rates for interbank loans. The ability to obtain financing for real estate was diminishing as banks began to stockpile cash for reserves. Shortly thereafter, failures and bail outs of financial companies such as Lehman Brothers, Merrill Lynch, Fannie Mae and Freddie Mac as well as AIG led to a virtual market shut down by September/October 2008. As financing became more costly with lower loan to values and higher debt coverage ratio requirements, equity investors were requiring higher rates of return resulting in a double hit to returns.

Few transactions have occurred since late 2008 for two primary reasons. First, there remains a significant buy/sell price gap that has not yet been bridged. Sellers remain focused on pricing attained at the peak of the last cycle and buyers are unable to make the numbers work with lower loan to values and higher equity return requirements for their investors. Second, many buyers perceive the market has not reached bottom. With the volume of refinancing activity coming due over the next few years, there is a belief by many that the current financial system simply cannot deliver enough credit to keep the market functioning. Many properties are underwater with debt exceeding the value of the asset requiring substantial equity infusion to stay afloat. Should the government not come up with a workable solution, many market participants believe a wave of foreclosures will result, flooding the market with distressed assets. These buyers therefore believe there is no reason to transact today but would rather wait for the re-pricing of the market to occur. For the most part, the only sellers in the market today are those that are under pressure to sell. This includes institutions needing to raise cash for redemptions, rebalancing of portfolios and private owners who simply need to get out of one deal to fund cash flow for another project.

Overall we do not expect to see transaction volume increase over at least the next six months as there does not appear to be a solution at this point to the lack of liquidity in the market.