

HAWTHORN INDUSTRIAL PORTFOLIO
LAKE COUNTY, ILLINOIS

PIEDMONT REALTY ADVISORS
650 CALIFORNIA STREET
TWENTY-SECOND FLOOR
SAN FRANCISCO, CALIFORNIA 94108
(415) 433-4100

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1. INTRODUCTION

PIEDMONT REALTY ADVISORS

650 CALIFORNIA STREET

TWENTY-SECOND FLOOR

SAN FRANCISCO, CALIFORNIA 94108

415-433-4100

June 9, 1986

Members of the Retirement Allowance Committee
Chicago Transit Authority
Merchandise Mart Plaza
Chicago, Illinois 60654

Re: **Hawthorn Industrial Portfolio**
Lake County, Illinois

Dear Sirs and Madam:

Enclosed for your review is an investment report on the recommended acquisition of three existing and leased industrial buildings in Waukegan and one existing and leased industrial building in Libertyville. A copy of the letter of intent is shown as Exhibit I-1.

The Properties

The four properties contain 337,827 square feet of net building area on 19.05 acres of land. The proposed investment is classified as multi-tenant light industrial. The buildings are finished with 3% to 14% of their square footage as fully air-conditioned office space. The remainder of the buildings' square footage is utilized as warehouse or manufacturing space and is finished with ceiling mounted lighting and exposed concrete flooring. The warehouse space is heated by a gas heat blower-type system. The buildings were constructed between 1975 and 1981, are in good condition and are located in established industrial parks.

The Hawthorn portfolio is characterized by its flexibility to accommodate industrial tenants as small as 5,000 square feet and as large as 195,000 square feet. The three Waukegan buildings are located in an 800-acre industrial district with good access to transportation routes, retail, restaurants, bus lines and a large blue collar work force. The Libertyville property is well positioned to take advantage of the increased demand for industrial space which will result from population and employment growth in Libertyville and Mundelein.

Members of the Retirement Allowance Committee
Chicago Transit Authority
June 9, 1986
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The Transaction

The objective of the proposed investment is to continue to diversify the Plan's real estate portfolio by location and property type. The purchase price of the four properties is \$8,277,163.50. There is approximately \$3,130,000 in assumable debt at an average interest rate of 9.375% which will result in a total equity investment by the Plan of approximately \$5,147,000. The buildings are currently 93% leased. The seller will lease the remaining 7% for 18 months or until the space is leased to third-party tenants.

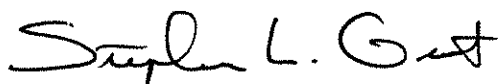
Piedmont and McDonough and Associates inspected the properties in May, 1986. Piedmont incorporated McDonough and Associates' recommendations relative to repairs and maintenance into a budget for each of the four properties. Most of the required repairs are common for industrial buildings competitive with the subject properties. The buildings are structurally sound and the exterior materials are in excellent condition. The seller, Hawthorn Industrials, Ltd., will continue to manage the property during the 18-month earn-out period. Their management contract will contain a 30-day cancellation provision.

The Risk and Return

The investment in the Hawthorn industrial portfolio will be the Plan's second leveraged equity transaction. The first, 711 Jorie in Oak Brook, is performing very well. Piedmont's value estimate of \$9,000,000 is approximately 9% higher than the proposed purchase price. The main reason for this disparity is the difference between the cost to build a new light industrial building in Lake County which averages approximately \$30.00 per square foot and the Plan's investment basis of \$24.50 per square foot. The Plan's basis of \$24.50 per square foot will enable it to lease vacant space at \$2.85 per square foot-triple net and maintain an excellent return on investment. New buildings must achieve a \$3.50 rental rate to be economically viable.

The four properties have good upside potential due to the renewal characteristics of their rent rolls, but there is risk due to potentially concurrent tenant vacancies during the investment holding period. Piedmont believes that the projected 10-year internal rate of return of 15.4% or 10.6% inflation adjusted real return adequately compensates for this risk and exceeds the benchmark returns expected by other institutional investors when they purchase industrial property. Piedmont Realty Advisors, therefore, recommends that the Real Estate Subcommittee of the Retirement Allowance Committee of the Retirement Plan of the CTA Employees Trust approve the proposed investment in the Hawthorn industrial portfolio.

Sincerely,



Stephen L. Grant
Vice President

Enclosure

Exhibit I-1
LETTER OF INTENT
HAWTHORN INDUSTRIALS

PIEDMONT REALTY ADVISORS
650 CALIFORNIA STREET
TWENTY-SECOND FLOOR
SAN FRANCISCO, CALIFORNIA 94108
415-433-4100

May 13, 1986

Hawthorn Industrials, Ltd.
c/o Mr. Joe Beale
Hawthorn Realty Group
8 East Huron
Chicago, Illinois 60611

Re: Hawthorn Industrials, Ltd.
Lake County, Illinois

Gentlemen:

This letter ("Letter") summarizes the terms on which Piedmont Realty Advisors (the "Advisor") would recommend to its client, the Retirement Plan for the Chicago Transit Authority Employees Trust, (the "Plan"), to acquire from you, Hawthorn Industrials, Ltd. (the "Partnership") the "Properties" (as herein defined).

1. Property

The property consists of certain tracts of land improved with warehouse buildings more particularly described on Exhibit A as attached hereto (collectively the "Properties").

2. Purchase Price

The total purchase price (the "Total Purchase Price") shall be \$8,309,663.50 assuming the validity of the numbers presented by the Partnership to the Advisor. The Advisor will need to verify the numbers and assumptions. The Total Purchase Price assumes that the existing vacant space in the Properties including all tenant improvements, will be completed and leased pursuant to the terms and conditions described herein during the "Escrow Period". The Escrow Period would commence on the date hereof and continue for a period eighteen months after the closing.

At the closing, to assure the leasing of the vacant tenant space in the Properties, and in connection therewith the installation of all tenant improvements within the Escrow Period, the following items will be held back from the Total Purchase Price and would be disbursed to the Partnership as space in the Properties is completed and leased during the Escrow Period pursuant to "Qualified Leases" (as defined below), and to the extent any of the

amounts held back at the closing have not been disbursed or committed to be disbursed to the Partnership as of the end of the Escrow Period, then such amounts would be retained by the Plan:

(a) Tenant Improvement Holdback

\$21,316.20 (\$0.60 per vacant rentable square foot). Disbursements made pursuant to this paragraph 2(a) would be based upon the product of multiplying \$0.60 per square foot by total rentable square feet leased during the Escrow Period and pursuant to Qualified Leases. The Partnership would be responsible for the payment of all tenant improvement costs with respect to leases entered into during the Escrow Period.

(b) Leasing Commissions

\$15,170.00 to be paid to the Partnership in amounts equal to the leasing commissions paid with respect to Qualified Leases entered into during the Escrow Period. The Partnership would be responsible for the payment of all leasing commissions in connection with any Qualified Leases entered into during the Escrow Period, provided, however, to the extent that leasing commissions exceed \$0.42 per rentable square foot as a result of a term in excess of 3 years or rent in excess of \$2.85/sq ft, the Plan will be responsible for same.

"Qualified Lease(s)" shall mean any lease of space now vacant or encumbered by a month-to-month tenancy within the Properties, entered into during the period commencing at the date of the contract and expiring as of the last day of the Escrow Period; provided, however, (a) such lease complies with the leasing guidelines described in Exhibit B; (b) the tenant is in occupancy and paying rent; (c) all tenant improvement costs and leasing commissions with respect to leases in place, which are the responsibility of the Partnership, have been paid; and (d) the Plan receives an estoppel letter from the tenant in a form reasonably acceptable to the Plan.

3. Leasing Agreement

At the closing, the Plan and the Partnership (or an affiliate of the Partnership) would enter into a leasing agreement granting to the Partnership or a third party leasing agent the right to lease the vacant space in the Properties during the Escrow Period, with such leasing agreement and the commissions payable thereunder to be on terms and conditions acceptable to the Partnership and the Plan.

4. Earnest Money

The Plan would deposit with an escrow agent as earnest money the sum of \$83,000.00 upon the execution of the contract and the additional sum of \$417,000.00 upon approval by The Retirement Allowance Committee as provided in paragraph 8(c) hereof. Only that portion of the earnest money then on deposit shall, as the sole and exclusive remedy of the Partnership, be retained by the Partnership as liquidated damages in the event of the default by the Plan under the contract.

5. Closing

The closing will take place on or by July 31, 1986 or such later date to which the parties would mutually agree.

6. Closing Costs and Prorations

The Partnership will be responsible for the payment of the State of Illinois and the County of Lake real estate transfer taxes due in connection the sale of the Properties, the cost of title insurance, and the cost of the survey. The parties will each respectively be responsible for all other costs incurred by them, including their respective attorney's fees. All ad valorem taxes on the Properties, rents, utility charges, and charges under any service contracts which remain in effect after the closing, and all other items of revenue and expense customarily prorated between sellers and purchasers of similar properties would be prorated as of the date of the closing. The Plan would receive at closing from the Partnership a credit against the Total Purchase Price equal to the aggregate of all security deposits and other entitlements due the tenants under leases.

7. Broker

Partnership shall pay or cause to be paid to Frain, Camins & Swartchild ("Broker") a brokerage commission in accordance with a separate agreement between Partnership and Broker, which brokerage commission shall be paid at closing from the proceeds due Partnership.

8. Closing Conditions

(a) Title

Title to the Properties would be conveyed by the Partnership to the Plan free of any liens, claims, leases, easements, or other encumbrances, except such matters which may be accepted by the Plan. Prior to the closing, the Plan may examine title to the Properties and have the Properties inspected and notify the Partnership of any objections, other than any permitted title exceptions noted in the contract or any leases entered into in accordance with the leasing guidelines as hereinafter described. The Partnership will have the opportunity to correct such objections, and if they are not corrected, then the Plan will have the option of terminating the contract.

- (b) Casualty or Condemnation

If there is any material casualty damage to the Properties or any taking or threatened taking of any of the Properties by eminent domain, then the Plan will have the option of (1) terminating the contract and receiving the refund of the earnest money or (2) closing the transaction and receiving the insurance proceeds or condemnation award.

(c) Board Approval

The Plan's obligation to purchase is conditioned upon the Plan obtaining the approval by the Retirement Allowance Committee of the Plan of the purchase of the Properties on or before June 24, 1986 and if the Plan is unable to obtain such approval prior to June 24, 1986, either party would have the right to terminate the contract, in which event the earnest money will be refunded to the Plan and the parties shall have no further rights or obligations under the contract.

(d) Pre-Contract Engineering Inspection

Within seven (7) business days after the date of execution by the Partnership of the Letter, the Plan, its employees, agents and independent contractors would have the right to enter upon the Properties at any time, and from time to time, for the purpose of conducting studies and inspections pertaining to the structure and condition of the Properties, including all components and systems thereof. If the Plan elects not to proceed with the transaction contemplated herein by written notice given to the partnership within 10 business days after the date of execution by the Partnership of this Letter, then the cost of the inspections and studies pursuant to this subparagraph 8(d) shall be the obligation of and paid by the Partnership.

(e) Due Diligence Contingency

- (i) Within a five (5) day period after the execution of the contract, the Partnership would furnish or cause to be furnished to the Plan or the counsel to the Plan the documents set forth on attached Exhibit C (collectively, the "Property Documents").
- (ii) Unless, within the period ending thirty (30) days after receipt of the last of the Property Documents (said period being herein referred to as the "Contingency Period"), but no later than June 24, 1986, the Plan gives to the Partnership the notice to proceed, the contract would terminate and the Partnership and the Plan would be released and discharged from all further obligation and liability under the contract, except that the earnest money shall be refunded to the Plan.

(f) Labor and Employee Relation/Building Management

- (i) The Plan would not assume any agreement or liability of the Partnership arising out of the employment relationship, including, without limitation any collective bargaining agreement, any pension, profit sharing or other employee benefit plan, any unfunded pension liability under the

Multi-Employer Pension Plan Amendments Act, ERISA, or any other statute, common law or past practice or any employee claims or employment-related claims arising as a result of the Partnership's termination of the operation and maintenance workforce in respect of the Properties.

- (ii) The Partnership would comply with and perform all its obligations under all labor, employment and collective bargaining agreements, laws, statutes and governmental regulations affecting the Properties and would take all steps and measures required under such agreements, laws, statutes and governmental regulations in connection with the sale of the Properties.
- (iii) It would be agreed that no employee of the Partnership would become an employee of the Plan by virtue of the transaction hereby contemplated and the Plan would not be under any obligation to offer employment to any employee of the Partnership.

9. Leasing

35,527 net rentable square feet are currently vacant or encumbered by a month-to-month tenancy in the Properties. The parties would agree on leasing guidelines for the vacant space in the Properties, and the Partnership would not enter into any lease which does not comply with the leasing guidelines after the execution of the contract.

10. Additional Terms and Conditions

(a) Guaranty

The Partnership shall guarantee to the Plan a net cash flow for the existing vacant space and the space encumbered by a month-to-month tenancy after adjustment for operating expenses determined on an accrual basis, of \$8428 per month during the Escrow Period.

(b) Permanent Mortgages

Title to the Properties would be conveyed subject to all existing mortgages and the Plan would receive at closing a credit against the Total Purchase Price in the amount of the aggregate indebtedness unpaid under such mortgages.

(c) Other Contract Provisions

The contract would contain the foregoing provisions, with such deviations therefrom and such other and additional terms and conditions, including representations and warranties, as may be mutually satisfactory to the Partnership and the Plan.


Hawthorn Industrials, Ltd.
May 13, 1986
Page 6


Of course, the foregoing is merely a brief summary statement of our present intent and does not constitute an offer or agreement to purchase the Property and is not binding on either the Plan or the Partnership. However, if the terms outlined above are generally acceptable to the Partnership, please so indicate by signing in the space provided below. We will then ask our attorneys to prepare a written purchase and sale agreement for the Properties for our mutual review and acceptance.

Sincerely,

Acknowledged and Accepted

PIEDMONT REALTY ADVISORS HAWTHORN INDUSTRIALS, LTD.

By: 
Its: Vice President

By: 
Its: _____

cc: Mr. C. John Anderson

Attachments

EXHIBIT A
PROPERTY DESCRIPTION

Parcel 1

1921 - 1927 Enterprise Court
Libertyville, Illinois

Parcel 2

3740 - 3742 Hawthorn Court
Waukegan, Illinois

Parcel 3

3776 - 3790 Hawthorn Court
Waukegan, Illinois

Parcel 4

3801 - 3851 Hawthorn Court
Waukegan, Illinois

EXHIBIT B
LEASING STANDARDS

All leases for vacant space in the Properties shall conform with the conditions set forth below (the "Leasing Standards") or upon such other terms as the Plan may reasonably accept:

1. The primary term of any lease shall be for a term of not fewer than thirty-six (36) months, nor more than sixty (60) months.
2. The leases may include rights and options to renew the term thereof at the then prevailing market rental for a period not to exceed sixty (60) months.
3. During the Escrow Period, the leases shall provide for an annual base rent at a rate not less than \$2.70 per square foot of net rentable area.
4. All leases shall provide that tenants shall pay all taxes and operating expenses in respect to the Properties.
5. The standard form of lease (subsequent to approval by the Plan) shall not be materially altered or amended without the prior written consent of the Plan.
6. All leases shall be duly authorized and properly executed by the Partnership pursuant to all necessary corporate or partnership action.

Leases conforming to the Leasing Standards shall be deemed automatically approved. All other leases shall be subject to the Plan's absolute approval. The Leasing Standards shall apply from the date of closing until the last day of the Escrow Period or the date of termination of the leasing agreement with the Partnership, whichever is earlier.

EXHIBIT C

PROPERTY DOCUMENTS

1. Copies of all the leases, licenses, concessionaire agreements and other agreements for use or occupancy, including without limitation all riders, exhibits, amendments and supplements thereto (the same, together with all oral tenancies and rights for use or occupancy, being herein collectively referred to as "Leases and Tenancies").
2. A rent roll, as of a date not more than thirty (30) days prior to the date of acceptance of the Contract by the Partnership, setting forth all pertinent financial and business terms, in summary form, of all the Leases and Tenancies, including without limitation: the name of each tenant; the space occupied; the rents and other sums and charges payable by each tenant and the date through which such rents and other sums and charges have been paid; the date of expiration of the term of each of the Leases and Tenancies; options to renew or extend the Leases and Tenancies and all the terms thereof, including rents and terms; the security and other deposits held under or pursuant to the Leases and Tenancies; options to purchase all or any part of the Properties; any delinquencies and defaults by tenants under the Leases and Tenancies and the nature and amounts thereof; and any notices of bankruptcy, insolvency or other impairment of credit in respect of tenants under the Leases and Tenancies.
3. Copies of all service, maintenance, utility, scavenger, management and other similar contracts and agreements including, without limitation, all riders, exhibits, amendments and supplements thereto, related or pertaining to the operation, maintenance and management of the Properties, other than "Labor Agreements" (as such term is defined in paragraph 4 below), all such contracts and agreements, other than Labor Agreements, being herein referred to as "Operating Contracts."
4. Copies of all payroll records and of all union, employment, compensation and other similar contracts and agreements, including without limitation all riders, exhibits, amendments and supplements thereto (all such contracts and agreements being herein referred to as "Labor Agreements").
5. Copies of all mortgages and other instruments of lien or security interest for borrowed money, all evidences of indebtedness thereby secured and all other documents and instruments securing, guaranteeing, or perfecting the security interest therein created to secure such borrowed money, including without limitation all renewals, extensions, amendments and supplements thereto (collectively, the "Existing Finance Documents").
6. Financial statements of the operation of the Properties for the calendar years 1983, 1984, and 1985, showing in reasonable detail all income and expenses of the Properties for each of the aforementioned periods, prepared by ~~an independent public accountant~~, together with copies of the 1983, 1984, and 1985 real estate tax bills, the most current statements for water and sewer, and all policies of insurance.

7. Copies of all certificates of occupancy or use and all other permits, licenses, consents and authorizations required or held in connection with the ownership, use, occupancy and operation of the Properties.
8. Copies of all warranties, guarantees and agreements relating or pertaining to the Properties.
9. Reproductions of all drawings, plans, specifications and renderings in respect to the Properties, if available
10. A copy of the most recent policy of title insurance and of the most recent plat of survey covering the Properties.
11. Copies of all notices, complaints, answers, interrogatories, depositions and other papers and documents filed in or pertaining to any suit, action or proceeding by or against the Properties, the Partnership, or any of the partners thereof in respect of or affecting the Properties.
12. Copies of all notices, citations and other papers from any Federal, state or local governmental authority or agency, or from any insurer or underwriter's fire, safety, environmental, health or other laws, ordinances, rules, regulations or requirements or of rules or requirements for insurance coverage, in respect of the Properties, its operation, leasing, maintenance, use and management, whether or not heretofore corrected or otherwise resolved.

June 3, 1986

Hawthorn Industrials, Ltd.
c/o Mr. Joseph S. Beale
Hawthorn Realty Group
8 East Huron
Chicago, Illinois 60611

Gentlemen:

Reference is hereby made to that certain letter dated May 13, 1986 (the "Letter of Intent") issued by Piedmont Realty Advisors (the "Advisor") to Hawthorn Industrials, Ltd. (the "Partnership") summarizing the terms on which the Advisor would recommend to its client, the Retirement Plan for Chicago Transit Authority Employees Trust (the "Plan"), to acquire from the Partnership the Properties, as acknowledged and accepted by the Partnership. Any term herein used but not defined shall have the same meaning as assigned to such term in the Letter of Intent.

It is hereby acknowledged and confirmed that, by mutual understanding, the Total Purchase Price for the Properties, if the transaction contemplated by the Letter of Intent is consummated, would be reduced from \$8,309,663.50 to \$8,277,163.50.

It is further acknowledged and confirmed that the Plan has caused the Properties to be inspected pursuant to subparagraph 8(d) of the Letter of Intent and has elected to proceed with the transaction contemplated by the Letter of Intent, subject to the terms and conditions set forth in the Letter of Intent, including, without limitation, the preparation of a definitive agreement and the approval thereof by the Retirement Allowance Committee of the Plan.

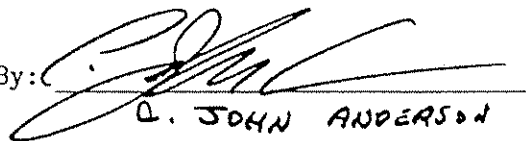
Except as herein stated, the provisions of the Letter of Intent remain unchanged.

If the foregoing is satisfactory to you, it is kindly requested that the Partnership acknowledge and confirm the same by signing, where provided, and returning to the counsel to the Plan the enclosed copy of this letter.

Very truly yours,

PIEDMONT REALTY ADVISORS

By:



D. JOHN ANDERSON
ATTORNEY AND AGENT

The above provisions are hereby
acknowledged and confirmed this
_____ day of _____, 1986.

HAWTHORN INDUSTRIALS, LTD.

By: _____ 11

II. THE PROPERTIES

II. THE PROPERTIES

A. Introduction

The four properties in the Hawthorn-Lake County industrial portfolio are classified as multi-tenant light industrial facilities and contain 337,827 square feet of net rentable building area on 19.05 acres of land (see Exhibit II-1). The buildings are finished with 3% to 14% office space to accommodate clerical and sales uses. The remainder of the buildings' square footage is utilized as warehouse or manufacturing space and is finished with ceiling mounted lighting and exposed concrete flooring. The warehouse space is heated by a gas heat blower-type system. The office space is fully air conditioned by ceiling mounted units.

Piedmont Realty Advisors targeted the multi-tenant industrial product for the Plan's real estate portfolio in 1985. The subject properties meet our product, value and locational requirements and add to the diversification of the Plan's existing Chicago real estate investments (see Exhibit II-2). Piedmont also targeted Lake County for the following reasons:

- 1) Lower Costs of Occupancy for Industrial Firms - Total rental costs (includes base rent plus taxes and insurance) average \$5.50 to \$6.00 per square foot in Cook and DuPage County. Total rental costs average \$3.50 to \$4.50 in Lake County. Lake County also has access to a large skilled blue collar base in Waukegan and North Chicago. This labor base access is comparable to Cook and is superior to DuPage.
- 2) Cost to Reproduce Multi-Tenant Industrial Buildings - The Plan is purchasing the Hawthorn properties for \$24.50 per square foot. It would cost an average of \$30.00 per square foot to reproduce the Hawthorn buildings in Lake County, \$35.00 per square foot in Cook County and \$40.00 in DuPage County. By purchasing these properties at a price substantially below the cost to build new buildings, the future competitive position of the Hawthorn portfolio is enhanced.
- 3) Access to Major Transportation Routes - The properties are located in an area which has excellent access to lightly traveled highway and rail transportation routes. This access characteristic is comparable to Southern Cook County, and is superior to DuPage County.

Northern Lake County is the headquarters location to some of Chicago's largest corporations - Abbott Labs with 7,000 employees in North Chicago, Outboard Marine with 5,000 employees in Waukegan and Cherry Electric with 2,000 employees in Waukegan. Executive housing in Long Grove, Lincolnshire, Highland Park and Lake Forest; mid-management housing in Vernon Hills and Libertyville; and entry level housing in Mundelein, North Chicago and Waukegan create a demographic base which will support significant growth in the office and industrial sectors of the Lake County real estate market during the 10-year investment holding period.

B. Location

1. Waukegan Properties

The Hawthorn Industrial Center is Lake County's first industrial park established in 1965. Hawthorn Realty purchased 450 acres of undeveloped land in the park in 1975 and started developing properties for lease and selling lots to third-party buyers (see Exhibit II-3).

The three Waukegan buildings are located on Hawthorn Court in the Township of Waukegan (see Exhibit II-4). The properties are 5 miles northeast of the intersection of Route 132 (Grand Avenue) and the Tri-State Tollway and 3 miles north of the intersection of Route 132 and Highway 41 (see Exhibit II-5).

The land in the Hawthorn Industrial Center is currently 70% developed. Most of the buildings constructed in the area are either light industrial or distribution facilities. The industrial park is well located with access to retail, restaurants and bus lines one-half mile east or west.

2. Libertyville Property

The Libertyville property is located in the Hawthorn Center for Industry, 8 miles southwest of the Waukegan properties. The industrial park is situated at the intersection of Route 137 and Highway 45 in northwest Libertyville (see Exhibit II-6). Route 137 provides the property with direct Tri-State Tollway access 7 miles to the east or the Tollway can be reached via Milwaukee Road which is 3 miles east or Route 120 which is 2 miles north (see Exhibit II-7).

The Hawthorn Center for Industry was developed in 1978 as part of the White Motors corporate reorganization. Most of the properties in the park were developed based on the specifications of tenants in the 10,000 to 25,000 square foot range. The Hawthorn Center is currently 60% developed with light industrial buildings (see Exhibit II-8). The park has limited access to the amenities of retail or restaurants. Libertyville commercial areas are 3 miles south and southeast.

3. Adjacent Land Uses

The areas surrounding the Libertyville and Waukegan properties are similar in many respects. At both locations, the area to the north consists of single-family neighborhoods. Immediately east and west are existing industrial buildings. Further east and southeast of the properties are large tracts of vacant land which have been purchased, but are being held for speculative purposes. Further to the west are rail lines; SOO Line for Libertyville and CNW for Waukegan.

The size of the industrial park in Waukegan is a major difference between the two areas. The Waukegan Industrial Center and its neighboring industrial parks form an industrial district in excess of 800 acres. The Libertyville Park is relatively isolated with 55 total acres. The Libertyville Park has a North Shore gas facility immediately south on Peterson and U.S. Gypsum's research headquarters is one mile further south. The area around the Libertyville building is generally

characterized by concentrated development at major intersections surrounded by vacant land.

C. The Properties

The Hawthorn portfolio consists of two basic types of properties. They are as follows:

- . Small Tenant Light Industrial - The 40,000 to 60,000 square foot buildings can be divided and marketed to tenants as small as 5,000 square feet in size and can accommodate a variety of uses such as sales and service, wholesale distribution, manufacturing and storage. The buildings have ceiling heights of 16 to 18 feet, drive-in grade-high truck bays with electric levelers and an architectural brick on concrete block as a facade. 1921 Enterprise Court in Libertyville (57,934 sq. ft.), 3740-42 Hawthorn Court in Waukegan (39,346 sq. ft.) and 3776-90 Hawthorn Court in Waukegan (46,072 sq. ft.) are small tenant light industrial buildings.
- . Large Tenant Light Industrial - 3801-31 Hawthorn Court in Waukegan (194,475 sq. ft.) is a large tenant building which can accommodate manufacturing and distribution uses. 3801 features 24 foot ceilings, rail service, 17 interior truck docks and a ribbed precast concrete facade. 3801 was originally constructed to accommodate tenants in the 70,000 to 100,000 square foot range. In 1983, Hawthorn spent \$742,000 to improve the roof and divide the building to accommodate tenants as small as 10,000 square feet.

D. Conclusion

The Hawthorn industrial portfolio is characterized by its flexibility to accommodate industrial tenants of varied sizes. The buildings' quality of construction relative to their competition within the Waukegan and Libertyville industrial markets is very good. Three buildings are located in an 800-acre industrial district in Waukegan approximately 5 miles northeast of a four-way, Tri-State Tollway interchange. The Waukegan tenants have access to retail, restaurants and bus lines as well as having access to a large blue collar labor pool in Waukegan and North Chicago. These factors combine to create a good long-term investment opportunity for the Plan.

The Libertyville property is surrounded by an area which has excellent growth potential. Population and employment projections target Libertyville as one of the fastest growing townships in Lake County. The Enterprise Court property has a flexible design and is located in one of two Libertyville industrial parks. The property is well positioned to take advantage of the increased demand for industrial space which will result from population growth and local employment growth.

Exhibit II-1
PROPERTY SUMMARY
HAWTHORN INDUSTRIALS

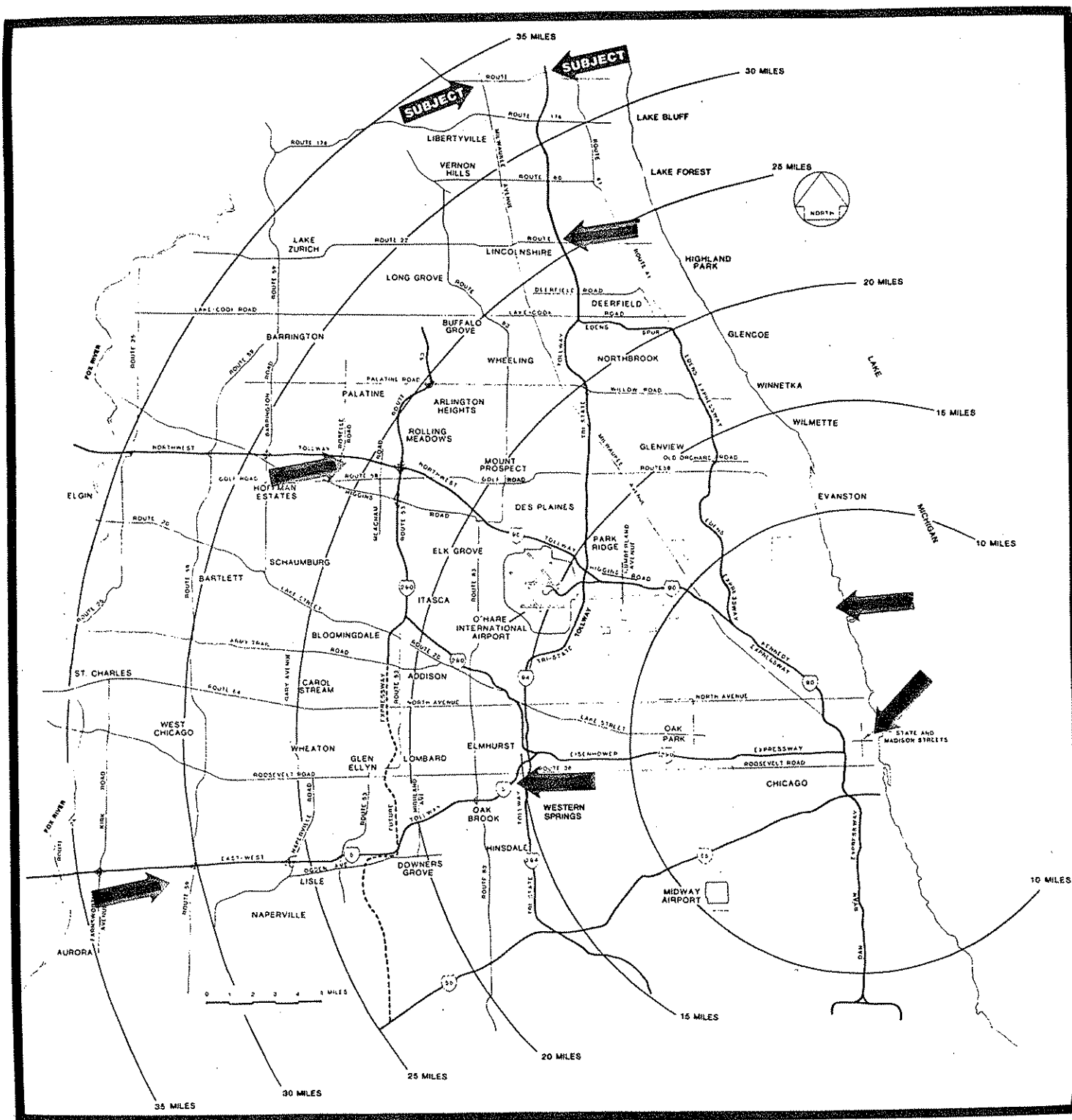
| <u>Address</u> | <u>Year Built</u> | <u>Land Area</u> ⁽¹⁾ | <u>Buildings Size</u> ⁽²⁾ | <u>Ceiling Height</u> | <u>% Office</u> | <u>Parking Spaces</u> | <u>Truck Docks</u> | <u>Rail</u> |
|--------------------|-----------------------|-------------------------------------|--|---------------------------|---------------------|---------------------------|------------------------|-------------|
| 1921-27 Enterprise | 1981 | 2.75 | 57,934 | 18 | 10 | 60 | 5 | NO |
| 3740-42 Hawthorn | 1979 | 1.87 | 39,346 | 18 | 10 | 32 | 4 | NO |
| 3776-90 Hawthorn | 1979 | 2.33 | 40,072 | 16 | 14 | 77 | 4 | YES |
| 3801-31 Hawthorn | 1975 | <u>12.10</u> | <u>194,475</u> | 24 | 9 | 190 | 17 | YES |
| TOTAL | | 19.05 | 337,827 | | | | | |

(1) Net Acres

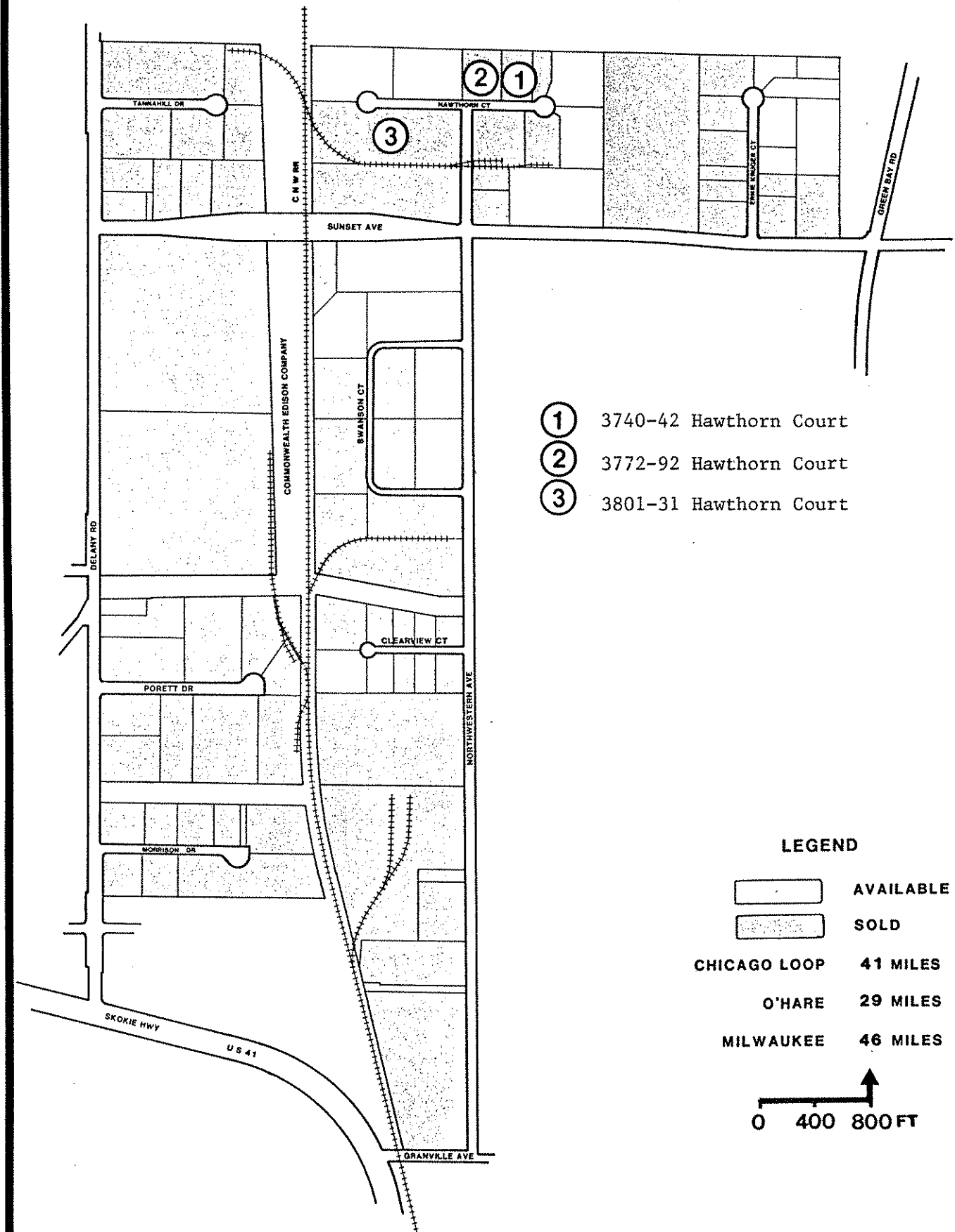
(2) Net Rentable Square Feet

SOURCE: Hawthorn Realty
Piedmont Realty Advisors

Exhibit II-2
CHICAGO INVESTMENTS
CTA RETIREMENT PLAN



Hawthorn Industrial Center Waukegan / Gurnee



Continental Distributing Co.

Payson Mfg.

Luxor

Nohl Royal Crown

Sold

Northern Illinois Wine Co.

Cherry Electrical Products

Lake Co. Movers

Aigner Corp.

Browning Ferris Cleveland Corp.

Outboard Marine Corp.

Aldon

A.L. Hanson Mfg. Company

Anchor Hocking Glass Corp.

Pepsi Cola

Krone

Walva Corp.

Dyna Par

United Parcel

Mazur Chemical

Plasco Inc.

Tri-Form

Galsinger Inc.

Northwest Molded Products

Hoerner-Waldorf Corp.

OMC Boat Service Center

Subject Properties

Exhibit II-5
PROPERTY ACCESS MAP
WAUKEGAN

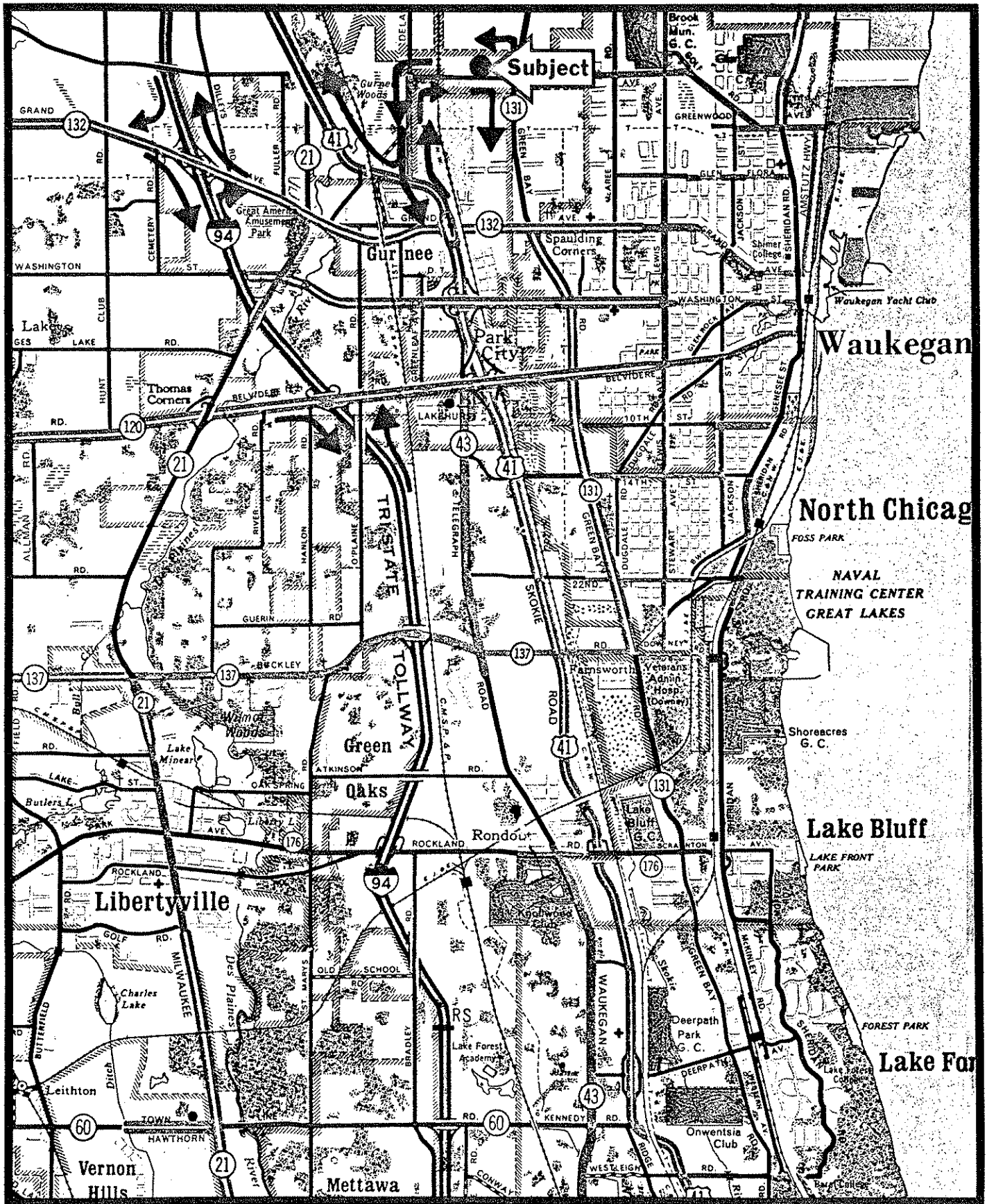


Exhibit II-6
PROPERTY LOCATION MAP
LIBERTYVILLE PROPERTY

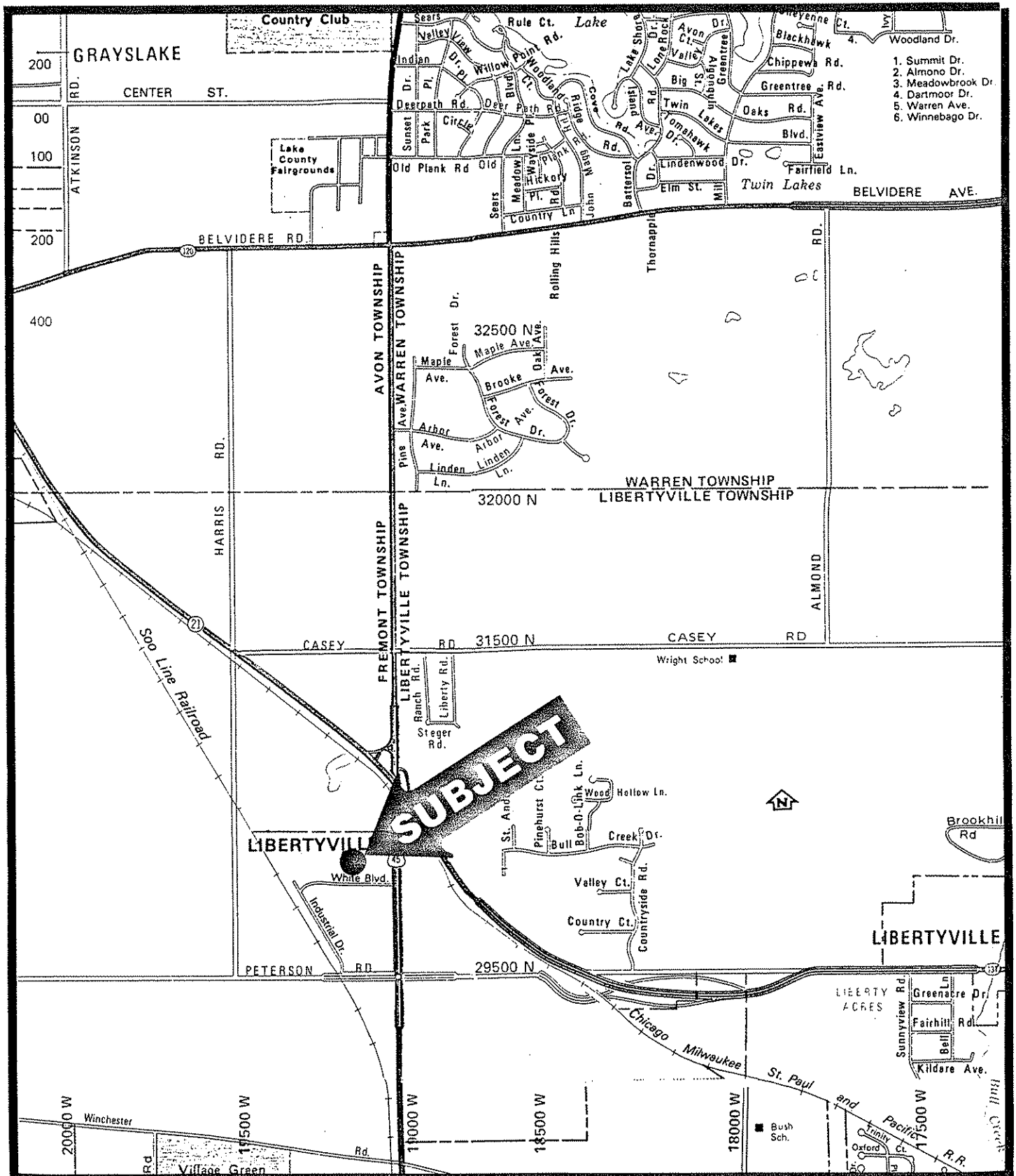
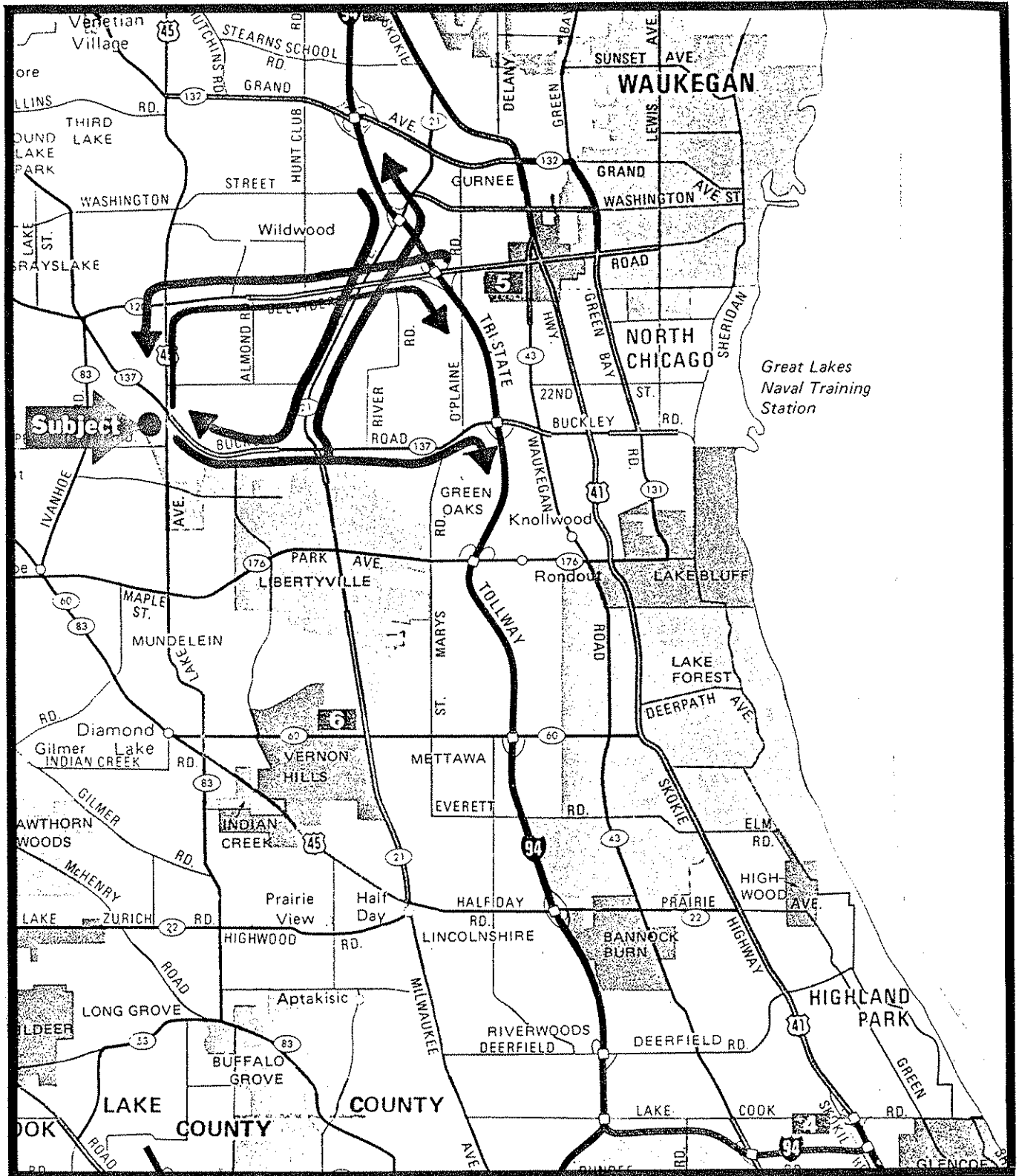
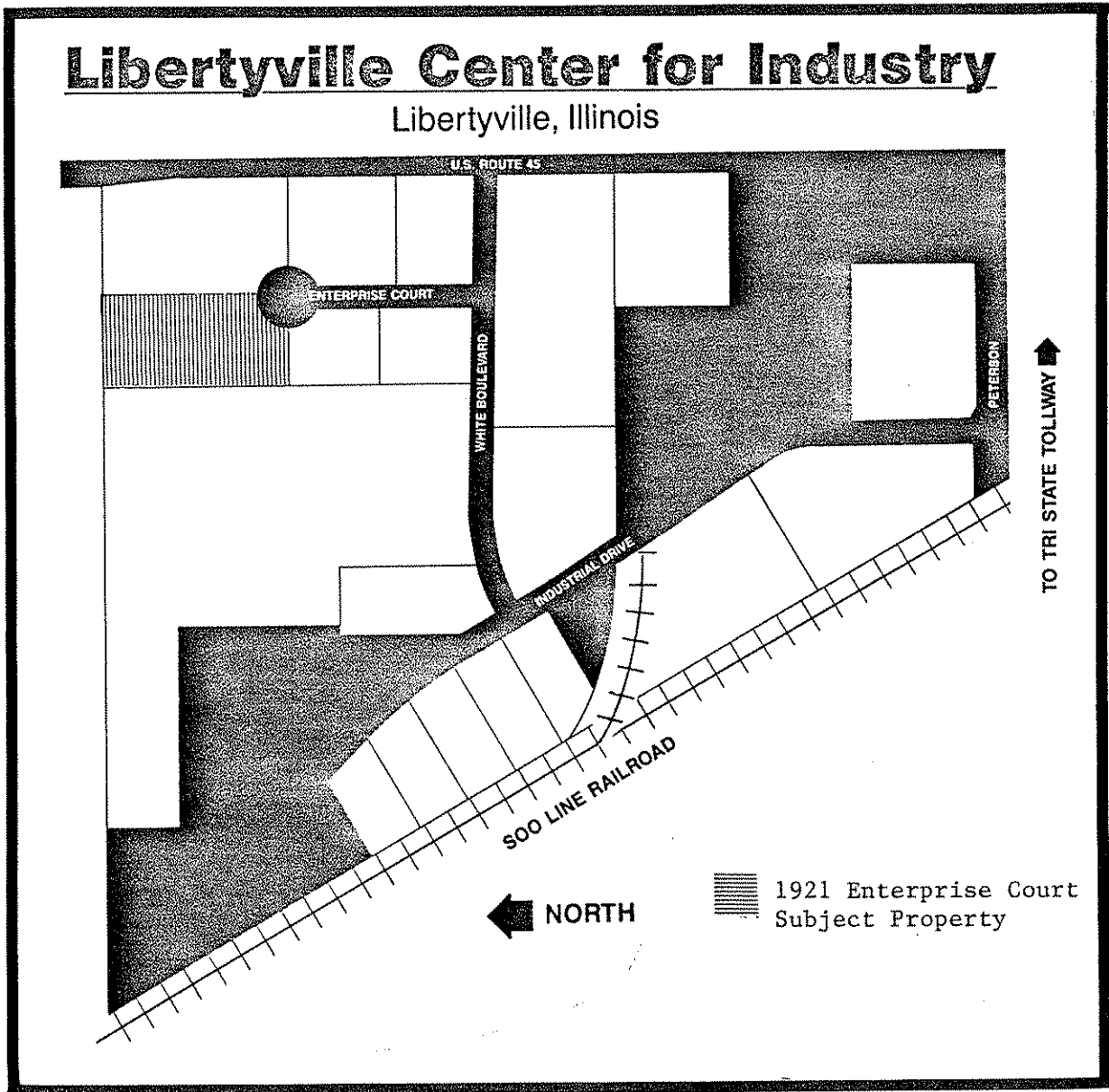


Exhibit II-7
PROPERTY ACCESS MAP
LIBERTYVILLE





III. THE TRANSACTION

III. THE TRANSACTION

A. Introduction

The objective of the proposed transaction is to continue to diversify the Plan's real estate portfolio by location and property type. The purchase of the Hawthorn industrial properties also adds to the stability of the Plan's portfolio cash flow and increases the probability of future growth in the portfolio cash flow by virtue of the rental increases specified in the existing tenant leases.

B. Purchase Summary

The purchase price of the four industrial properties is \$8,277,163.50 (see Exhibit III-I). There is approximately \$3,130,000 in assumable debt at an average interest rate of 9.375% which will result in a total equity investment by the Plan of approximately \$5,147,000.

The four industrial buildings are currently 93% leased and occupied (see Exhibit III-2). The seller will lease the space which is currently vacant or encumbered by month-to-month leases (American Fluorescent) for a period of 18 months at \$2.85 triple net which is the current market rental rate for the space. In addition, \$36,486.20 will be held back from the purchase price and disbursed to the seller when the vacant space is leased, the tenant improvements are completed and leasing commissions are paid.

C. Tenant Leasing Summary

One of the strengths of the proposed transaction is the renewal characteristics of the existing tenant leases (see Appendix A). All of the tenants with leases expiring in the first two years of the investment period have options to renew at rates below the current market rent, but substantially higher than their current lease rent. The portfolio also contains a good mix of national credit and local tenants. Piedmont has reviewed the seller's books and records and has concluded that all of the tenants are in good standing and that no tenant has been more than 10 days late in paying rent.

D. Property Maintenance Summary

Piedmont and McDonough and Associates have physically inspected all four properties. The following areas were identified as areas of deferred maintenance:

- 1) Roofs - Two-thirds of the roof at 3801 Hawthorn Court must be resealed (not replaced) within the next three years. Piedmont has budgeted \$95,000 in each of years 2 and 3 of the investment period to reseat the 3801 roof. The remaining one-third was resealed in October, 1983 and has a five-year guarantee. The entire roof at 1921 Enterprise must be resealed within four years when the guarantee expires. Piedmont has budgeted \$65,000 in year 4 to reseat the 1921 roof. The roofs at 3740 and 3776 Hawthorn Court are in good shape.

- 2) Parking Lots - All of the parking lots have two problem areas. There are several potholes which need to be filled. In addition, all the interface areas between the asphalt parking lot and the concrete truck aprons near the drive-in truck doors and the concrete sidewalks must be resealed before this winter. Piedmont has allocated a \$15,000 cash reserve account in year 1 and a \$95,000 budget allocation in year 2 for this maintenance area.
- 3) 1921 Enterprise - In 1984 Hawthorn sealed the brick facade of this building with silicon to prevent water from penetrating the brick in All-Star Die Casting's space. The seepage was temporarily stopped, but the tenant stated that during a heavy rain storm in 1985 there was evidence that some water had seeped through into the office space. McDonough and Associates has concluded that the existing problem is not serious and Piedmont has not allocated funds to fix the problem, but we will continue to monitor the situation.

During the winter of 1985 a 12-inch segment of the cement floor in Project Marketing's space expanded creating a small slope in the floor. Hawthorn applied an epoxy compound to the floor to prevent cracking. The tenant stated that the problem did not affect their business and McDonough and Associates concluded that the problem is minor and that the solution may not be financially feasible. Further, the expansion is not serious enough to affect the structural integrity of the building. Therefore, Piedmont has not allocated funds to fix the problem.

These deferred maintenance issues are common in most light industrial buildings which are competitive with the subject properties. The Hawthorn buildings are all structurally sound and the exterior materials are in excellent condition. Piedmont has incorporated the budget for the deferred maintenance outlined in Exhibit III-3 into the cash flow analysis presented in Section IV of this report.

E. Conclusion

This transaction is similar to the Woodfield property acquisitions in Schaumburg and the 711 Jorie acquisition in Oak Brook. The Plan will be purchasing properties in established locations with existing tenants that are paying rent. The space which is unleased will be leased by the seller for 18 months or until it is leased to third-party tenants. The properties are well designed and are in good physical condition. Piedmont has budgeted disbursements for roof and parking lot repairs based on a schedule which has been recommended by McDonough and Associates.

**Exhibit III-1
TRANSACTION SUMMARY
HAWTHORN INDUSTRIALS**

Property Description: The proposed investment involves four existing and leased properties in Lake County, Illinois.

1921-27 Enterprise Court, Libertyville - a one-story 57,934 net rentable square foot building located in the Libertyville Center for Industry. The property is 100% leased to four tenants:

- . Infolink
- . All-Star Die Casting
- . DTC Welding
- . Project Marketing

Ceiling height is 18 feet and office finish averages 10%. The property was completed in 1981. There is no mortgage on the property.

3740-42 Hawthorn Court, Waukegan - Contains 39,346 net rentable square feet and has an average office finish of 10%. The building is 100% leased to two tenants:

- . General Electric Supply
- . Office Concepts

The building was completed in 1979 and was financed with 3776 Hawthorn Court by a \$1.2 million loan with a 9.5% interest rate.

3776-90 Hawthorn Court, Waukegan - This 46,072 square foot building features 16 foot ceilings, extra parking and an average office finish of 14%. There are 10,400 square feet of vacant space which will be leased by the seller for 18 months. The remaining space in the building is occupied by three tenants:

- . Dreefs Switch
- . Colver Leasing
- . Uniform Rental Service

The property was financed in 1979 with 3740 Hawthorn Court.

Exhibit III-1 (cont'd.)

3801-31 Hawthorn Court, Waukegan - is a 194,475 square foot building with 24-foot ceilings and rail service. The building was completed in 1975 and financed with a \$2,340,000 loan at 9.25%. Office finish averages 9% in this building. There are 13,150 square feet of vacant space and 5,000 square feet of space leased to American Fluorescent on a month-to-month basis. All 18,150 square feet will be leased by the seller for 18 months. The remaining space is leased to four tenants:

- . Piper Industries
- . American Hospital
- . General Loose Leaf
- . American Fluorescent

Seller: Hawthorn Industrials, Ltd.

Purchase Price: \$8,277,163.50

Initial Funding: \$8,240,677.30

Physical Holdback: \$ 21,316.20

Leasing Commission
Holdback: \$ 15,170.00

Contingencies:

- . Seller guarantees payment of rent on all vacant space and space encumbered by month-to-month leases for 18 months at \$2.85 per square foot triple net; and
- . Seller is responsible for leasing the vacant space according to agreed-upon leasing standards.

Exhibit III-2
TENANT RENT ROLL
HAWTHORN INDUSTRIALS

| Building/ Tenant Name | Tenant Size(SF) | Lease Start | Lease Expire | Option/ No. Yrs. | Option Rent | Gross Rent/sf | Net Rent/sf | Expense Stops | | |
|-------------------------------------|--------------------|-----------------|-----------------|---------------------|----------------|------------------|----------------|---------------|--------|---------|
| | | | | | | | | Tax | CAM | Ins. |
| <u>1921-27 Enterprise Ct.</u> | | | | | | | | | | |
| All-Star Die Cast (1921) | 9,934 | 12/01/80 | 11/30/87 | 1/1 | Market | \$2.65 | \$2.65 | Net | Net | Net |
| DTC Welding (1923) | 12,012 | 05/01/81 | 06/30/86 | 1/5 | CPI Incr. | 2.85 | 2.85 | Net | Net | Net |
| Infolink (1925) | 11,963 | 12/15/82 | 11/30/87 | 1/5 | CPI Incr. | 2.75 | 2.75 | Net | Net | Net |
| Project Marketing (1927) | <u>24,025</u> | 08/01/82 | 11/30/89 | 0/0 | N/A | <u>2.95</u> | <u>2.40</u> | \$0.40 | \$0.10 | \$0.05 |
| Total S.F./Average | 57,934 | | | | | \$2.84 | \$2.61 | | | |
| <u>3740-42 Hawthorn Ct.</u> | | | | | | | | | | |
| G.E. Supply (3740) | 19,420 | 02/01/84 | 01/31/89 | 1/5 | \$3.06/sf | \$2.35 | 1.90 | \$0.35 | Gross | Net |
| Office Concepts (3742) ¹ | 19,926 | 06/01/84 | 05/30/87 | 1/2 | \$3.40/sf | 3.15 | 2.45 | (1) | Gross | (1) |
| | | | | | \$3.50/sf | | | | | |
| Total S.F./Average | 39,346 | | | | | \$2.76 | \$2.18 | | | |
| <u>3772-92 Hawthorn Ct.</u> | | | | | | | | | | |
| Colver Leasing (3776) ² | 6,977 | 03/01/86 | 07/31/87 | 1/3 | 50% CPI | 3.50 | 2.84 | \$0.52 | \$0.10 | \$0.04 |
| Vacant (3780) | 10,400 | --- | --- | --- | --- | N/A | --- | --- | --- | --- |
| Dreefs (3782-84) ³ | 10,321 | 04/01/85 | 03/31/87 | 1/2 | Market | 3.15 | 2.58 | \$0.35 | Gross | \$0.04 |
| Rental Uniform Service (3786) | 5,654 | 10/15/85 | 10/30/88 | 0/0 | N/A | 3.27 | 2.49 | \$0.52 | \$0.19 | \$0.074 |
| | | | | | | 3.35 | 2.57 | \$0.52 | \$0.19 | \$0.074 |
| | | | | | | 3.45 | 2.67 | \$0.52 | \$0.19 | \$0.074 |
| Colver Leasing ² | <u>12,720</u> | <u>08/01/84</u> | <u>07/31/87</u> | <u>1/3</u> | <u>50% CPI</u> | <u>3.21</u> | <u>2.56</u> | \$0.51 | \$0.10 | \$0.04 |
| Total S.F. | 46,072 | | | | | \$2.52 | \$2.02 | | | |

Exhibit III-2 (cont.d)

| Building/ Tenant Name | Tenant Size(SF) | Lease Start | Lease Expire | Option/ No. Yrs. | Option Rent | Gross Rent/sf | Net Rent/sf | Expense Stops | | |
|--|--------------------|----------------|-----------------|---------------------|----------------|------------------|----------------|---------------|--------|---------|
| | | | | | | | | Tax | CAM | Ins. |
| <u>3801-31 Hawthorn Ct.</u> | | | | | | | | | | |
| Piper Industries (3801) | 28,800 | 07/01/84 | 06/30/89 | 1/5 | CPI Incr. | \$2.75 | \$2.10 | \$0.43 | Gross | \$0.03 |
| American Critical Care (3805) ⁴ | 28,800 | 01/04/85 | 11/03/88 | 2/1 | 24% yr/1 | 3.15 | 2.50 | \$0.44 | \$0.19 | \$0.024 |
| | | | | | 30% yr/2 | | | | | |
| American Critical Care (3807) ⁴ | 14,400 | 05/15/85 | 06/02/86 | 1/1 | CPI Incr. | 2.85 | 2.85 | Net | Net | Net |
| | | | | 1/17/mo. | | | | | | |
| | | | | 2/1 | | | | | | |
| General Looseleaf (3811) ⁵ | 50,325 | 01/01/85 | 12/31/94 | 0/0 | N/A | 2.60 | 2.60 | Net | Gross | Net |
| American Fluorescent (3821) | 54,000 | 07/01/83 | 06/30/88 | 2/5 | 75% CPI | 2.95 | 2.34 | \$0.39 | Gross | \$0.03 |
| American Fluorescent (3831) ⁶ | 5,000 | 12/15/85 | 06/30/86 | mo-to-mo | N/A | 2.50 | 1.85 | Gross | Gross | Gross |
| Vacant (3831) | <u>13,150</u> | --- | --- | --- | N/A | --- | --- | --- | --- | --- |
| Total S.F./Average | 194,475 | | | | | \$2.64 | \$2.23 | | | |

- Rental increases \$0.10/sf per year. Base year for taxes shall be the sum of 7/12ths of 1984 taxes (payable in 1985) and 5/12ths of 1985 taxes (payable in 1986). Tenant will pay its pro rata share of the increase over the base year taxes and insurance up to a maximum of 10%/year cumulatively for the period 6/1/85-5/31/86; 21% year for the period 6/1/86-5/31/87; 33%/year for the period 6/1/87-5/31/88; 46% for the period 6/1/88-5/31/89.
- As of 5/1/85, Colver Leasing has moved from 5,654 sf to 5,743 sf (3788-space vacated by Roquette Corp.) The new space is contiguous to their 6,977 sf space. The lease term on the 6,977 sf space commenced 11/1/84. As of 3/1/86, Colver has leased an additional 6,977 sf (3776) for the terms reflected above.
- Renewal lease was executed by Dreefs Switch for the terms reflected.
- American Critical Care (a division of American Hospital Supply) rent commencement is 6/4/85. Option rental increase is 24% above the 1985 rental rate in year 1 and 30% above the 1985 rental rate in year 2.
- Rent commencement is 5/1/85; rental rate graduates over the lease term to \$3.70/sf.
- As of 12/15/85, American Fluorescent has leased approximately 5,000 sf of the adjacent vacant space (3831) thru 6/30/86 at \$1,041.67 per month. After 6/30/86 the 5,000 sf space may continue to be leased by them on a month-to-month basis.

SOURCE: Hawthorn Realty
Piedmont Realty Advisors

**Exhibit III-3
MAINTENANCE BUDGET
HAWTHORN INDUSTRIALS**

| <u>Year</u> | <u>Total Releasing Costs</u> ⁽¹⁾ | <u>Major Repairs/ Maintenance</u> ⁽²⁾ | <u>Total Cost</u> |
|-------------|---|--|-----------------------|
| 1 | \$ 0 | \$ 0 | \$ 0 |
| 2 | 0 | 170,000 | 170,000 |
| 3 | 52,095 | 95,000 | 147,095 |
| 4 | 69,213 | 65,000 | 134,213 |
| 5 | 70,260 | 65,000 | 135,260 |
| 6 | 55,978 | 0 | 55,978 |
| 7 | 81,436 | 125,000 | 206,436 |
| 8 | 101,197 | 0 | 101,197 |
| 9 | 132,461 | 0 | 132,461 |
| 10 | 110,800 | 30,000 | 140,800 |

(1) Includes cost of tenant improvements, leasing commissions and vacancy.

(2) Includes roof and parking lot repairs.

SOURCE: McDonough and Associates
Piedmont Realty Advisors

IV. RISK AND RETURN

IV. RISK AND RETURN

A. Introduction

The investment in the Hawthorn industrial portfolio will be the Plan's second leveraged equity transaction. The transaction is similar to the 711 Jorie acquisition in Oak Brook in that the Plan will be assuming some existing financing as part of the Hawthorn purchase. This section of the report first justifies the purchase price of the property and then identifies the various components of the returns and the risks.

B. Valuation

1. Pro Forma Income and Expenses

The purchase price of the Hawthorn industrial properties is \$8,277,163.50 or \$24.50 per square foot of net building area. Piedmont Realty Advisors estimated the properties' first year net operating income based on the rent roll information presented in Section III and Appendix A of this report (see Exhibit IV-1).

2. Valuation Methodology

Piedmont Realty Advisors evaluated the subject properties using the three methods of value accepted by the American Institute of Real Estate Appraisers. These estimates are presented in Exhibit V-2. Piedmont estimated the market value of the properties at \$9,000,000. The estimated value is approximately \$723,000 or 9% higher than the \$8,277,163.50 purchase price. This difference is good evidence that the purchase price is justified in the current Lake County industrial market.

C. The Lake County Industrial Market

There are 10 major industrial parks in Lake County (see Exhibit IV-3 and IV-4). The 10 parks contain approximately 402 acres of vacant land currently for sale out of a total inventory of 1,735 acres. Industrial land prices increase from \$1.50 per square foot in north Lake County to an average of \$3.50 per square foot in south Lake County. The price of a finished industrial lot in Lake County has increased an average of 50% during the last 3 years.

Piedmont Realty Advisors surveyed the 10 industrial parks in Lake County for buildings competitive with the subject properties. Vacant space in existing industrial buildings can be found in 4 of the industrial parks:

- 1) 86,000 square feet is currently vacant in 3 buildings in the Hawthorn Industrial Center. Asking rental rates range from \$2.75 per square foot for a 38,000 square foot vacancy to \$3.00 per square foot for a 19,300 square foot vacancy. Office finish averages 9% and there are minimal tenant concessions.
- 2) 218,500 square feet is vacant in 4 buildings at the Libertyville Center for Industry. Most of the vacancy exists in the White Motors building which has been vacant for 18 months due to unrealistic ownership expectations. The current owner inherited the property and expects to lease it for \$3.00 triple

net - as is. Rental rates for the three other existing light industrial buildings average \$3.00 net with 10% office finish.

- 3) There are 63,200 vacant square feet in 2 buildings in the Allanson Industrial Park in Mundelein. Both buildings have asking rents of \$3.25 per square foot triple net.
- 4) The Gurnee Center for Commerce has 1 vacancy in a small building of 12,000 square feet for a rental rate of \$3.00 triple net.

The remaining vacant space can be found in recently completed buildings at rental rates in the \$4.00 triple net range. It is Piedmont's opinion that most of the vacant space in existing buildings (except White Motors) and recently completed space will be absorbed during the next 9 months. The Lake County industrial market is very active and rates as one of the strongest real estate investment market segments in the metropolitan area. For the purpose of the cash flow analysis Piedmont used \$2.85 per square foot triple net as the average market rent for the Hawthorn industrial properties. This rent has recently been achieved in the subject properties on a 6,977 square foot lease to Colver Leasing. It should be noted that all of the option renewals during the first two years of the investment holding period will be below the \$2.85 rate. This factor should influence tenants to exercise their options, thereby minimizing the possibility of additional investment due to releasing the space to a new tenant.

D. Return

The projected income and expenses for the properties over a 10-year period are based on existing lease terms and the existing vacant or month-to-month space on five-year leases at \$2.85 per square foot triple net. Market rental rates, the consumer price index and expenses are all expected to increase at 4% for years 1 and 2 and 5% for years 3 through 10 of the holding period. The maintenance schedule outlined in Exhibit III-3 and the tenant rollover summary in Appendix A were also incorporated into the 10-year analysis. The initial cash return is 8.3%. The return fluctuates during the first four years of the investment period due to the budgeted maintenance schedule, but then increases steadily during the remaining six years of the holding period. Piedmont Realty Advisors estimated the Plan's return over a 10-year holding period based on the cash flows outlined in Exhibit IV-5. As shown in Exhibit IV-6, the indicated 10-year internal rate of return is 15.4% or a 10.6% real rate adjusted for inflation assumptions.

E. Risk

1. General Deal Structure

The purchase of the Hawthorn industrial portfolio will be the Plan's third equity transaction. The Woodfield Business Center in Schaumburg and 711 Jorie in Oak Brook are performing very well. The major difference between the prior equity investments and the Hawthorn investment is the tenant rent roll. The Woodfield portfolio contains 4 single tenant buildings; 711 Jorie contains 5 tenants; Hawthorn contains 4 multi-tenant buildings. While Hawthorn has greater upside potential due to the characteristics of its rent roll, there is also more risk due to potentially concurrent tenant vacancies during the holding period. The Hawthorn properties will also require more intensive management than Woodfield or 711 Jorie. Piedmont recommends that Hawthorn continue to manage the properties for a fee of 3% of the collected income for a period of 18 months (the earn out period). The management agreement will contain a 30-day cancellation clause which will enable the Plan to change the management quickly.

2. Market Risks

The Lake County industrial market is one of the healthiest market segments in the metropolitan area. The Plan's investment basis of \$24.50 per square foot enables it to lease vacant space at \$2.85 per square foot triple net and maintain an excellent return on investment. It currently costs approximately \$30.00 per square foot to construct a new light industrial building in North Lake County. A new building would have to achieve \$3.50 per square foot triple net in contract rent to produce an acceptable return. If light industrial product is not added to the market tenant demand pressures, which are currently very strong in Lake County, will cause existing market rental rates for the Hawthorn properties to rise.

3. Operational Risks

The Hawthorn properties must be effectively managed to maintain the current occupancy and cash returns. It is important that all tenants with leases expiring in the 1986 to 1988 time frame exercise their options. Piedmont will oversee Hawthorn's efforts in the renewal process. Piedmont has also incorporated McDonough and Associates' recommendations relative to repairs and maintenance into a maintenance schedule for each of the Hawthorn properties. According to the budget, most of the visible maintenance work will be performed during the tenant renewal periods. Piedmont and Hawthorn agree that this will help the renewal efforts significantly.

F. Conclusions

The investment in the Hawthorn industrial properties represents continued diversification of the Plan's Chicago real estate portfolio in terms of product type and location. While almost all other segments of the Chicago real estate market are entering periods of oversupply, the Lake County industrial market is very healthy. The prospect of future product competition is minimal due to the spread between the Plan's investment basis of \$24.50 per square foot and the cost of developing a new industrial building in Lake County which is approximately \$30.00 per square foot. Lack of available industrial facilities combined with unprecedented tenant activity in Lake County in 1986 could lead to a supply/demand situation that will result in higher than anticipated growth in rental rates and value and, therefore, a higher yield on the investment.

The initial cash return on the investment is 8.3%. This is mainly due to the Plan's assumption of two existing mortgages on the property. As the income on the property increases, however, the loan will cause the cash return to increase faster than the return would increase if there were no loans. The projected 10-year internal rate of return of 15.4% or a 10.6% real rate adjusted for inflation exceeds the real return benchmarks of the Plan and exceeds the current yields expected by other institutional investors when they purchase industrial property.

Piedmont Realty Advisors concludes that the indicated returns adequately compensate for the identified risks and therefore recommends that the Real Estate Subcommittee of the Retirement Allowance Committee of the Retirement Plan of the CTA Employees Trust approve the proposed investment in the Hawthorn industrial portfolio.

Exhibit IV-1
INCOME AND EXPENSES
HAWTHORN INDUSTRIALS

| | |
|------------------------------|----------------|
| Gross Income | |
| 1921-27 Enterprise | \$ 172,590 |
| 3740-92 Hawthorn | 250,683 |
| 3801-31 Hawthorn | <u>560,398</u> |
| TOTAL | \$ 983,671 |
| Less: Vacancy (5%) | <u>49,184</u> |
| Effective Gross Income | \$ 934,487 |
| Less: Expense | |
| Management (3% of EGI) | 28,035 |
| Reserves (1% of EGI) | 9,345 |
| Expense Stops ⁽³⁾ | <u>132,401</u> |
| TOTAL | \$ 169,781 |
| Net Operating Income | \$ 764,706 |

(3) Expense Stops specified in existing leases require that certain operating expenses, up to a specified limit be paid by the landlord. Any expenses above the limit are paid for by the tenant.

SOURCE: Hawthorn Realty
Piedmont Realty Advisors

**Exhibit IV-2
VALUATION ANALYSIS
HAWTHORN INDUSTRIALS**

Cost Approach

| | |
|-------------------|--------------|
| See Exhibit IV-2A | \$ 9,100,000 |
|-------------------|--------------|

Direct Sales Comparison Approach

| | |
|-------------------|--------------|
| See Exhibit IV-2B | \$ 9,425,000 |
|-------------------|--------------|

Capitalized Income Approach

| | |
|------------------------------|--------------|
| \$764,706 (see Exhibit IV-1) | |
| Divided by .09 | \$ 8,496,733 |

Correlation of Value Estimates

The three approaches to value indicate a range of values from \$8.5 million to \$9.4 million. The value based on the income capitalization method is low because over 43% of the rentable space in the Hawthorn portfolio will be subject to option renewals at rates substantially above the tenants' current rent during the next two years. Therefore, the indicated value should be closer to the upper range of the value estimates or:

\$ 9,000,000

**Exhibit IV-2A
COST TO REPRODUCE
HAWTHORN INDUSTRIALS**

| <u>Cost Category</u> | <u>Cost</u> | <u>Detail</u> |
|--------------------------|--------------------|--|
| Land | \$1,243,730 | 829,153 sq.ft. @ \$1.50/sf ⁽⁴⁾ |
| Site Improvement | 82,915 | 829,153 sq.ft. @ \$0.10/sf |
| Building Costs | 6,080,886 | 337,827 sq.ft. @ \$18.00/sf |
| Tenant Improvement | 552,300 | 39,450 sq.ft. @ \$14.00/sf |
| Interest Costs | 314,666 | 59% of \$8,000,000; 8 months 10% |
| Financing Fees | 120,000 | 1.5% of \$8,000,000 |
| Soft Costs | 608,089 | 10% of \$6,080,886 |
| Lease-Up Carry | <u>800,000</u> | \$8,000,000 @ 10% for 12 months. |
| TOTAL | \$9,802,586 | |
| Less: Depreciation | <u>\$ 671,260</u> | \$1.20 for 337,827 sq.ft. of roof area, \$0.50 for 300,000 sq.ft. of parking area, \$2.00 for 57,934 sq.ft. @ 1921 Enterprise for general depreciation. |
| Indicated Value | \$9,131,326 | |
| Say | 9,100,000 | |

-
- (4) Comparable sales in the Hawthorn Industrial Park in 1986 have ranged from \$65,000 to \$75,000 per acre or \$1.49 to \$1.72 per square foot of land area. Sales include access to a public street, all utilities and generally level sites.

SOURCE: Harbour Construction
Lincoln Property Company
Piedmont Realty Advisors
McDonough and Associates

Exhibit IV-2B
COMPARABLE SALES METHOD
HAWTHORN INDUSTRIALS

| Map No. | Address | Sales Price | Sale Date | Building Size | Price PSF | Cap Rate | Adjustment | Adjusted \$/PSF | Adjusted Cap Rate |
|----------------------------|--------------------------------------|----------------|--------------|------------------|--------------|-------------|-----------------------|--------------------|----------------------|
| 1. | 2125 Estes Ave Elk Grove | \$2,420,000 | 04/86 | 80,543 | \$30.05 | 9.7% | -5.0% ⁽¹⁾ | \$28.62 | 10.2% |
| 2. | Wood Dale Portfolio Prudential | \$8,750,000 | For Sale | 280,820 | \$31.16 | 8.7% | -10.0% ⁽²⁾ | \$28.34 | 9.6% |
| 3. | 43-47 Hintz Wheeling | \$7,750,000 | For Sale | 310,000 | \$25.00 | 8.9% | +5.0% ⁽³⁾ | \$26.25 | 8.5% |
| 4. | 1300 Northwestern Gurnee | \$2,100,000 | 12/85 | 76,800 | \$27.34 | (4) | +7.0% ⁽⁵⁾ | \$29.26 | NA |
| 5. | 4012 Morrison Dr. Gurnee | \$2,180,000 | 1985 | 76,530 | \$28.49 | 9.5% | +2.5% ⁽⁶⁾ | \$29.20 | 9.3% |
| 6. | 3055 Washington Waukegan | \$ 800,000 | 02/86 | 33,000 | \$24.24 | 9.3% | +6.0% ⁽⁷⁾ | \$25.70 | 8.8% |
| Subject | | 07/86 | 337,827 | | | | | \$27.90 | 9.0% |
| VALUE BY MARKET COMPARISON | | \$9,425,000 | | | | | | | |

-
- (1) Higher percent office finish (-5%)
 (2) Higher percent office finish (-5%), superior location (-5%)
 (3) Lower percent office finish (+5%)
 (4) Tenant purchased building
 (5) Inferior quality (+5%), time of sale (+2%)
 (6) Time of sale (+2.5%)
 (7) Lower percent office finish (+5%), time of sale (+1.0%)

N/A - Not applicable or available

SOURCE: Frain, Camins, Swartchild
 Grubb & Ellis
 Piedmont Realty Advisors



Exhibit IV-3
LAKE COUNTY INDUSTRIAL PARKS
MAY 1986

| Map No. | Park Name | Location | Total Acres | Unsold Acres | Asking Price/sf | Existing Vacancy (1) | Rental Buildings | |
|---------|-------------------------------------|-----------------|-------------|--------------|-----------------|----------------------|------------------|------------------|
| | | | | | | | Rental Rate (2) | Sales Asking (3) |
| 1. | Hawthorn Industrial | Waukegan/Gurnee | 450 | 55 | \$1.50-1.75 | 86,000 | \$2.75-3.00 | \$30.00 |
| 2. | Center for Industry | Libertyville | 55 | 15 | \$1.50-2.00 | 218,500 | \$2.85-3.00 | \$31.00 |
| 3. | North Shore Industrial | Lake Bluff | 93 | 0 | 0 | 0 | N/A | Sold Out 1979 |
| 4. | Allanson Industrial | Mundelein | 134 | 10 | \$1.65 | 63,200 | \$3.25 | N/A |
| 5. | Mundelein Industrial | Mundelein | 100 | 20 | \$1.50 | 0 | N/A | N/A |
| 6. | Lincolnshire Executive | Lincolnshire | 270 | 136 | \$3.25-6.50 | 0 | N/A | \$36.00-42.00 |
| 7. | CRO | Lake Bluff | 168 | 35 | \$2.25 | 76,399 | \$3.75 | \$40.00 |
| 8. | Bradley Road Butterfield Industrial | Mundelein | 170 | 0 | 0 | 0 | N/A | Sold Out 1978 |
| 9. | Corporate Grove | Buffalo Grove | 175 | 65 | \$3.25 | 217,700 | \$4.50 | N/A |
| 10. | Center For Commerce | Gurnee | 120 | 66 | BTS (4) | 12,000 | \$3.00 | \$32.00 |
| TOTAL | | | 1,735 | 402 | | 673,799 | | |

(1) Figures based on net rentable square feet.

(2) Net rental rate based on up to 10% office finish on a net rentable square foot basis.

(3) Based on Piedmont's survey of the price which owners would sell a building to a tenant interest in locating within the respective park.

(4) BTS - Build-to-Suit. Owners of the industrial park will only develop properties for tenants.
N/A = Not applicable or available.

SOURCES: Frain, Camins, Swartchild
Van Vlisigen
CRO
Bennett & Kahnweiler
Lake County Economic Development Commission
Podolsky & Associates
Piedmont Realty Advisors

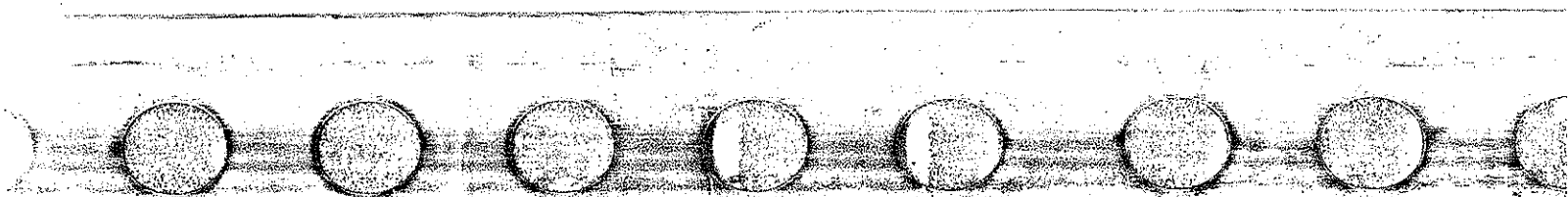
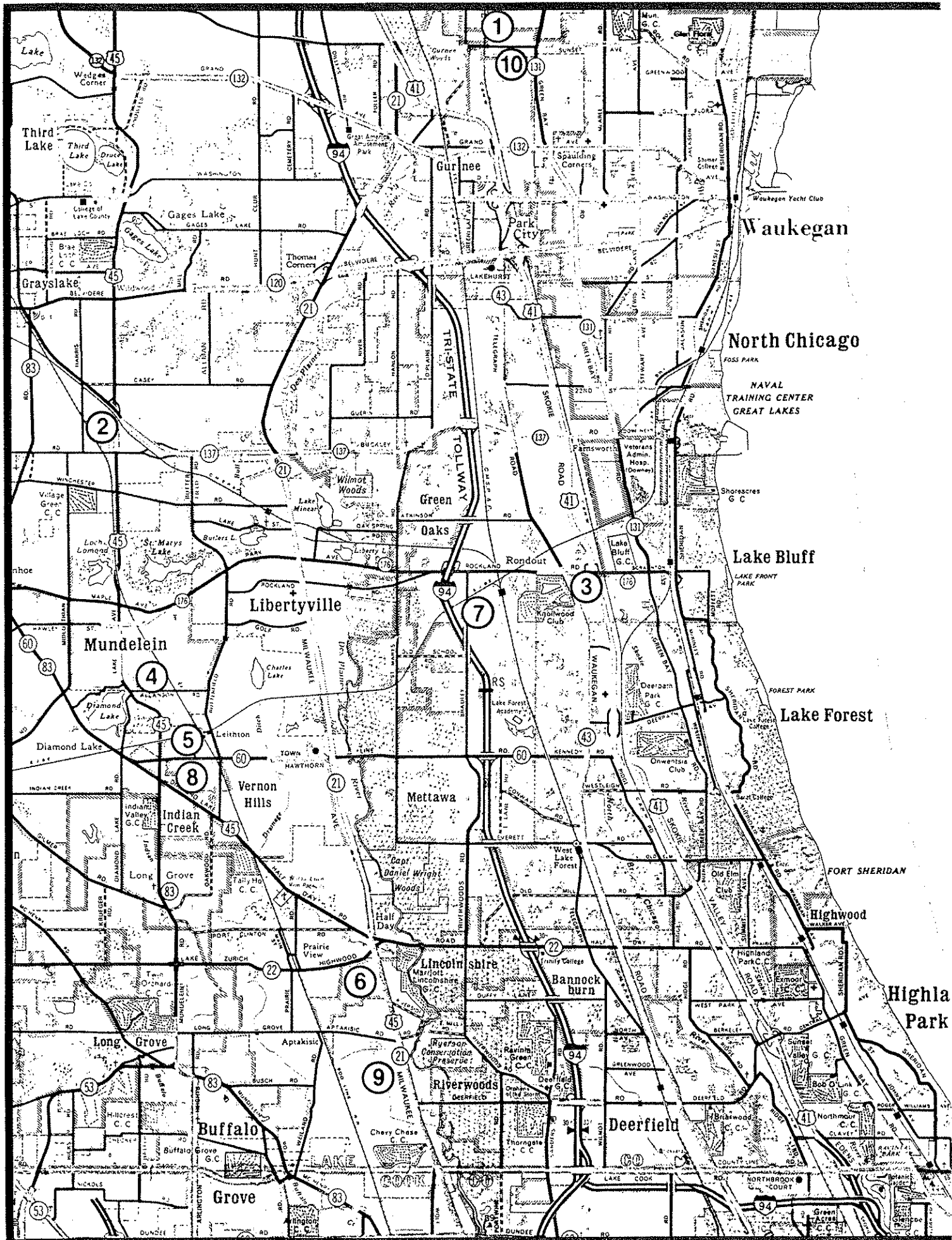


EXHIBIT IV-4
INDUSTRIAL PARK LOCATION MAP
LAKE COUNTY



①-⑩ Correspond to Exhibit IV-3

Exhibit IV-5
CASH FLOW ANALYSIS
HAWTHORN INDUSTRIALS

| | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | <u>7</u> | <u>8</u> | <u>9</u> | <u>10</u> | <u>Sale</u> ⁽⁵⁾ |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|----------------------------|
| Effective Gross Income ⁽¹⁾ | | | | | | | | | | | |
| 1921-27 Enterprise | \$ 170,555 | \$ 177,494 | \$ 182,706 | \$ 193,321 | \$ 202,563 | \$ 211,121 | \$ 222,807 | \$ 227,374 | \$ 237,524 | \$ 256,606 | |
| 3740-92 Hawthorn | 243,163 | 248,706 | 255,676 | 264,628 | 264,670 | 271,330 | 291,113 | 306,912 | 322,587 | 345,764 | |
| 3791-31 Hawthorn | <u>543,586</u> | <u>561,382</u> | <u>609,144</u> | <u>649,840</u> | <u>647,288</u> | <u>650,837</u> | <u>675,768</u> | <u>717,010</u> | <u>746,741</u> | <u>794,651</u> | |
| TOTAL | \$ 957,304 | \$ 987,582 | \$1,047,526 | \$1,107,789 | \$1,114,521 | \$1,133,288 | \$1,189,688 | \$1,251,296 | \$1,306,852 | \$1,397,021 | |
| LESS: Operating Expenses ⁽²⁾ | | | | | | | | | | | |
| 1921-27 Enterprise | \$ 20,034 | \$ 20,312 | \$ 20,520 | \$ 11,036 | \$ 8,103 | \$ 8,445 | \$ 8,912 | \$ 9,095 | \$ 9,501 | \$ 10,264 | |
| 3740-92 Hawthorn | 58,804 | 55,656 | 46,795 | 31,940 | 24,363 | 24,629 | 25,421 | 18,016 | 12,903 | 13,831 | |
| 3791-31 Hawthorn | <u>90,143</u> | <u>90,855</u> | <u>92,766</u> | <u>94,394</u> | <u>77,913</u> | <u>68,392</u> | <u>68,647</u> | <u>68,040</u> | <u>57,950</u> | <u>59,866</u> | |
| TOTAL | \$ <u>168,981</u> | \$ <u>166,823</u> | \$ <u>160,081</u> | \$ <u>137,370</u> | \$ <u>110,379</u> | \$ <u>101,466</u> | \$ <u>102,980</u> | \$ <u>95,151</u> | \$ <u>80,354</u> | \$ <u>83,961</u> | |
| Net Operation Income ⁽³⁾ | \$ 788,323 | \$ 820,759 | \$ 887,445 | \$ 970,419 | \$1,004,142 | \$1,031,822 | \$1,086,708 | \$1,156,145 | \$1,226,498 | \$1,313,060 | |
| LESS: Debt Service ⁽⁴⁾ | 361,846 | 361,846 | 361,846 | 361,846 | 361,846 | 361,846 | 60,454 | 0 | 0 | 0 | |
| LESS: Capital Expenses | | | | | | | | | | | |
| Releasing | \$ 0 | \$ 0 | \$ 52,095 | \$ 69,213 | \$ 70,260 | \$ 55,978 | \$ 81,436 | \$ 101,197 | \$ 132,461 | \$ 110,800 | |
| Mortgage Payoff | --- | --- | --- | --- | --- | --- | 2,539,301 | --- | --- | --- | |
| Repair/Maintenance | <u>0</u> | <u>170,000</u> | <u>95,000</u> | <u>65,000</u> | <u>65,000</u> | <u>0</u> | <u>125,000</u> | <u>0</u> | <u>0</u> | <u>30,000</u> | |
| TOTAL | \$ <u>0</u> | \$ <u>170,000</u> | \$ <u>147,095</u> | \$ <u>134,213</u> | \$ <u>135,260</u> | \$ <u>55,978</u> | \$ <u>2,745,737</u> | \$ <u>101,197</u> | \$ <u>132,461</u> | \$ <u>140,800</u> | |
| CASH FLOW | \$ 426,477 | \$ 288,913 | \$ 378,504 | \$ 474,360 | \$ 507,036 | \$ 613,998 | (\$1,719,483) | \$1,054,948 | \$1,094,037 | \$1,172,260 | \$13,545,251 |

(1) Collected income estimate.

(2) Includes all expense stops paid by landlord, 3% of effective gross income for a management fee and 1% of effective gross income for a reserve account. NOTE: Total expenses decrease during the investment period because new leases are based on triple net leases in which the tenant pays all operating expenses.

(3) Effective gross income less operating expenses.

(4) 3801 Hawthorn Court loan is due October 1992.
3740 Hawthorn Court loan is due January 1993.

(5) Year 10 income divided by 9.5%. 2% selling expenses.

SOURCE: Piedmont Realty Advisors

Exhibit IV-6
INVESTOR YIELD SUMMARY
HAWTHORN INDUSTRIAL

| <u>Year</u> | <u>Annual Cash Flow</u> | <u>Sale Proceeds</u> | <u>Total Cash Flows</u> |
|--------------------------------|-----------------------------|-----------------------------|-----------------------------|
| 1 | \$ 426,477 | | \$ 426,477 |
| 2 | 288,913 | | 288,913 |
| 3 | 378,504 | | 378,504 |
| 4 | 474,360 | | 474,360 |
| 5 | 507,036 | | 507,036 |
| 6 | 613,998 | | 613,998 |
| 7 | (1,719,483) | | (1,719,483) |
| 8 | 1,054,948 | | 1,054,948 |
| 9 | 1,094,037 | | 1,094,037 |
| 10 | 1,172,260 | \$13,545,251 ⁽⁵⁾ | 14,717,511 |
| Estimated Yield ⁽⁶⁾ | | 15.4% | |

(5) Sale value calculated by dividing the year 10 net operating income by 9.5%. Sales expenses of 2% of sale value are deducted to calculate net sale proceeds.

(6) Internal rate of return using \$5,147,163.50 as the investor's initial investment.

SOURCE: Piedmont Realty Advisors

APPENDIX A

Exhibit A-1
TENANT ROLLOVER SUMMARY
HAWTHORN INDUSTRIALS

| <u>Year</u> | <u>Tenant</u> | <u>Building</u> | <u>Tenant Sq. Ft.</u> | <u>Renewal Type⁽¹⁾</u> | <u>Renewal Cost⁽²⁾</u> | <u>No. Tenants</u> | <u>Total Sq. Ft.</u> | <u>Annual Summary</u> | | | <u>Total Cost</u> |
|-------------|---------------------------|-----------------|---------------------------|---------------------------------------|---------------------------------------|------------------------|--------------------------|-----------------------|---------------------|---------------|-----------------------|
| | | | | | | | | <u>O/F</u> | <u>Renewal Type</u> | <u>Market</u> | |
| 1 | Colver | 3772 | 19,697 | O/CPI .50 | 0 | | | | | | |
| | Office C | 3740 | 19,926 | O/F | 0 | | | | | | |
| | Dreefs | 3772 | 10,321 | O/F | 0 | 3 | 49,944 | 2 | 1 | 0 | \$0 |
| 2 | Office C | 3740 | 19,926 | O/F | 0 | | | | | | |
| | Amer.Fl. | 3801 | 54,000 | O/CPI .75 | 0 | | | | | | |
| | All-Star | 1921 | 9,934 | O/CPI 1.00 | 0 | | | | | | |
| | Infolink | 1921 | 11,963 | O/CPI 1.00 | 0 | 4 | 95,823 | 1 | 3 | 0 | \$0 |
| 3 | Uniform | 3772 | 5,654 | RM | 5,032 | | | | | | |
| | Office C. | 3740 | 19,926 | RM | 29,021 | | | | | | |
| | Piper | 3801 | 28,800 | O/CPI 1.00 | 0 | | | | | | |
| | Amer. Hosp. | 3801 | 43,200 | O/CPI 1.00 | 0 | | | | | | |
| | All-Star | 1921 | 9,934 | RM | 14,533 | | | | | | |
| | GE | 3740 | 19,420 | O/F | 0 | | | | | | |
| | Dreefs | 3772 | 10,321 | RM | 3,509 | 7 | 137,255 | 1 | 2 | 4 | \$52,095 |
| 4 | Colver | 3772 | 19,697 | RM | 19,512 | | | | | | |
| | Vacant | 3772 | 10,400 | RM | 6,193 | | | | | | |
| | Amer. Hosp. | 3801 | 43,200 | O/CPI 1.00 | 0 | | | | | | |
| | Project | 1921 | 24,025 | RM | 37,039 | | | | | | |
| | Vacant | 3801 | 18,150 | RM | 6,469 | 5 | 115,472 | 0 | 1 | 4 | \$69,213 |
| 5 | Amer.Hosp. ⁽³⁾ | 3801 | 28,800 | RM | 49,824 | | | | | | |
| | DTC | 1921 | 12,012 | RM | 20,436 | 2 | 40,812 | 0 | 0 | 2 | \$70,260 |
| 6 | Uniform | 3772 | 5,654 | RM | 2,220 | | | | | | |
| | Office C. | 3740 | 19,926 | RM | 8,220 | | | | | | |
| | Amer.Hosp. ⁽⁴⁾ | 3801 | 14,400 | RM | 24,087 | | | | | | |
| | All-Star | 1921 | 9,934 | RM | 4,186 | | | | | | |
| | Dreefs | 3772 | 10,321 | RM | 17,265 | 5 | 60,235 | 0 | 0 | 5 | \$55,978 |
| 7 | Colver | 3772 | 19,697 | RM | 8,535 | | | | | | |
| | Amer. Fl. | 3801 | 54,000 | O/CPI .75 | 0 | | | | | | |
| | Project | 1921 | 24,025 | RM | 10,623 | | | | | | |
| | Infolink | 3740 | 11,963 | RM | 21,321 | | | | | | |
| | Vacant | 3801 | 18,150 | RM | 19,648 | | | | | | |
| | Vacant | 3772 | 10,400 | RM | 21,309 | 6 | 138,235 | 0 | 1 | 5 | \$81,436 |

Exhibit A-1 (cont'd.)

| Year | Tenant | Building | Tenant Sq. Ft. | Renewal Type ⁽¹⁾ | Renewal Cost ⁽²⁾ | No. Tenants | Total Sq. Ft. | Annual Summary | | | Total Cost |
|------|----------------------------|----------|-------------------|--------------------------------|--------------------------------|----------------|------------------|----------------|-------|--------|---------------|
| | | | | | | | | O/F | O/CPI | Market | |
| 8 | Piper | 3801 | 28,800 | RM | \$59,740 | | | | | | |
| | DTC | 1921 | 12,012 | RM | 5,853 | | | | | | |
| | GE | 3740 | 19,420 | RM | 35,604 | 3 | 60,232 | 0 | 0 | 3 | \$101,197 |
| 9 | Uniform | 3772 | 5,654 | RM | 2,699 | | | | | | |
| | Office C | 3740 | 19,926 | RM | 9,513 | | | | | | |
| | GLL | 3801 | 50,325 | RM | 97,399 | | | | | | |
| | Amer. Hosp. | 3801 | 28,800 | RM | 6,558 | | | | | | |
| | All-Star | 1921 | 9,934 | RM | 12,191 | | | | | | |
| | Dreefs | 3772 | 10,321 | RM | 4,101 | 6 | 124,960 | 0 | 0 | 6 | \$132,461 |
| 10 | Colver | 3772 | 19,697 | RM | 25,245 | | | | | | |
| | Amer. Hosp. ⁽³⁾ | 3801 | 14,400 | RM | 36,910 | | | | | | |
| | Project | 1921 | 24,025 | RM | 28,896 | | | | | | |
| | Infolink | 1921 | 11,963 | RM | 6,120 | | | | | | |
| | Vacant | 3801 | 18,150 | RM | 8,664 | | | | | | |
| | Vacant | 3772 | 10,400 | RM | 4,965 | 6 | 98,635 | 0 | 0 | 6 | \$110,800 |

3772 = 3772-92 Hawthorn Court

3740 = 3740-42 Hawthorn Court

3801 = 3801-31 Hawthorn Court

1921 = 1921-27 Enterprise Court

(1) Renewal types are defined as follows:

RM - Release at average market rent at time of renewal

O/F - Release at fixed option rent specified in option to renew.

O/CPI - Release at an option rent which is based on the percentage increase in the consumer price index (CPI). Note: Subscript indicates the percentage of the change in CPI which is used in the renewal rent.

(2) Renewal Costs include tenant improvement and leasing commission costs and estimated vacancy.

(3) American Critical Care Lease 1 for 28,800 square feet.

(4) American Critical Care Lease 2 for 14,400 square feet.

SOURCE: Hawthorn Realty
Piedmont Realty Advisors