

GREAT LAKES REIT
Form 10-Q
August 13, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

/X/ Quarterly Report Pursuant to Section 13 OR 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2002

OR

//Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Commission file number: 1-14307

Great Lakes REIT

(Exact name of Registrant as specified in its Charter)

Maryland 36-4238056
(State or other jurisdiction (IRS employer identification no.)
of incorporation or organization)
823 Commerce Drive, Suite 300, Oak Brook, IL 60523
(Address of principal executive offices) (Zip Code)

(630) 368 - 2900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Number of shares of the registrant's common shares of beneficial interest, \$.01 par value per share, outstanding as of August 1, 2002: 16,537,348

Great Lakes REIT
Index to Form 10-Q
June 30, 2002

Page Number

Part I - Financial Information

Item 1. Financial Statements (unaudited):

Consolidated Balance Sheets
as of June 30, 2002
and December 31, 2001

3

Edgar Filing: GREAT LAKES REIT - Form 10-Q

	Consolidated Statements of Income for the three months ended June 30, 2002 and 2001	4
	Consolidated Statements of Income for the six months ended June 30, 2002 and 2001	
	Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2002	5
	Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and 2001	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	18
Part II - Other Information		
Item 6.	Exhibits and Reports on Form 8-K	20

The accompanying notes are an integral part of these financial statements.

Great Lakes REIT
Consolidated Statements of Income
(Dollars in Thousands, except per share data)

	Three months ended June 30,	
	2002	2001
Revenues:		
Rental	\$19,175	\$18,639
Reimbursements	5,536	5,075
Parking	127	102
Telecommunications	56	91
Tenant service	66	103
Interest	329	397
Other	274	180
Total revenues	25,563	24,587
Expenses:		
Real estate taxes	4,043	3,768
Other property operating	6,778	6,194
General and administrative	1,462	1,337
Interest	3,767	3,531
Depreciation and amortization	4,910	4,458
Total expenses	20,960	19,288
Income from continuing operations	4,603	5,299
Gain on sale of properties	1,034	-

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Discontinued operations, net	454	528
Minority interests	(11)	(13)
	-----	-----
Net income	6,080	5,814
Income allocated to preferred shareholders	914	914
	-----	-----
Net income applicable to common shares	\$5,166	\$4,900
	=====	=====
Earnings per common share - basic	\$0.32	\$0.30
	=====	=====
Weighted average common shares outstanding - basic	16,371	16,580
	=====	=====
Diluted earnings per common share	\$0.31	\$0.29
	=====	=====
Weighted average common shares outstanding - diluted	16,547	16,730
	=====	=====
Comprehensive income:		
Net income	\$6,080	\$5,814
Change in fair value of interest rate swap agreements	(922)	-
	-----	-----
Total comprehensive income	\$5,158	\$5,814
	=====	=====

The accompanying notes are an integral part of these financial statements.

Great Lakes REIT
Consolidated Statements of Income
(Dollars in Thousands, except per share data)

	Six months ended June 30,	
	2002	2001
	----	----
Revenues:		
Rental	\$37,766	\$36,402
Reimbursements	10,934	10,047
Parking	255	192
Telecommunications	128	222
Tenant service	129	177
Interest	670	784
Other	467	332
	-----	-----
Total revenues	50,349	48,156
	-----	-----
Expenses:		
Real estate taxes	8,101	7,366
Other property operating	13,261	11,909
General and administrative	2,570	2,625
Interest	7,527	7,037
Depreciation and amortization	9,528	8,663
	-----	-----
Total expenses	40,987	37,600
	-----	-----
Income from continuing operations	9,362	10,556
Gain on sale of properties	1,034	-
Discontinued operations, net	889	1,164

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Minority interests	(23)	(25)
Net income	11,262	11,695
Income allocated to preferred shareholders	1,828	1,828
Net income applicable to common shares	\$9,434	\$9,867
Earnings per common share - basic	\$0.58	\$0.60
Weighted average common shares outstanding - basic	16,369	16,577
Diluted earnings per common share	\$0.57	\$0.59
Weighted average common shares outstanding - diluted	16,518	16,720
Comprehensive income:		
Net income	\$11,262	\$11,695
Change in fair value of interest rate swap agreements	(623)	-
Total comprehensive income	\$10,639	\$11,695

The accompanying notes are an integral part of these financial statements.

Great Lakes REIT
Consolidated Statement of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2002
(Dollars in Thousands)

Preferred Shares	
Balance at beginning of period	\$37,500
Balance at end of period	37,500
Common Shares	
Balance at beginning of period	183
Balance at end of period	183
Paid-in capital	
Balance at beginning of period	235,371
Exercise of share options	59
Balance at end of period	235,430
Retained earnings (deficit)	
Balance at beginning of period	(15,927)
Net income	11,262
Distributions/dividends	(15,062)
Balance at end of period	(19,727)
Employee share loans	
Balance at beginning of period	(20,083)
Repayment of loans	1,566

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Balance at end of period	(18,517)
Deferred compensation	
Balance at beginning of period	(2,325)
Amortization of deferred compensation	132

Balance at end of period	(2,193)
Accumulated other comprehensive income (loss)	
Balance at beginning of period	499
Change in fair value of interest rate swap agreements	(623)

Balance at end of period	(124)
Treasury shares	
Balance at beginning of period	(27,324)

Balance at end of period	(27,324)

Total shareholders' equity	\$205,228
=====	

The accompanying notes are an integral part of these financial statements.

Great Lakes REIT
Consolidated Statements of Cash Flows
(in thousands)

	Six Months Ended Ju
	2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$11,262
Adjustments to reconcile net income to cash	
flows from operating activities	
Depreciation and amortization	9,992
Gain on sale of properties	(1,034)
Other non cash items	157
Net changes in assets and liabilities:	
Rents receivable	2,330
Real estate tax escrows and other assets	(250)
Accounts payable, accrued expenses and other liabilities	(4,030)
Accrued real estate taxes	(1,087)
Payment of deferred leasing costs	(1,743)

Net cash provided by operating activities	15,597

CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of properties	(8,095)
Additions to buildings and improvements	(6,553)
Proceeds from property sales	2,190
Other investing activities	(123)

Net cash used by investing activities	(12,581)

CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from exercise of share options	59
Proceeds from repayment of employee share loans	1,566
Proceeds from bank and mortgage loans payable	10,000
Distributions / dividends paid	(8,447)
Distributions to minority interests	(48)
Payment of bank and mortgage loans and bonds	(4,156)

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Payment of deferred financing costs	(62)
Net cash provided by financing activities	(1,088)
Net increase (decrease) in cash and cash equivalents	1,928
Cash and cash equivalents, beginning of year	2,896
Cash and cash equivalents, end of quarter	\$4,824
Supplemental disclosure of cash flow:	
Interest paid	\$7,582
Non cash financing transactions:	
Employee share purchase loans	-

The accompanying notes are an integral part of these financial statements.

Great Lakes REIT
Notes to Consolidated Financial Statements
(Unaudited)
Dollars in thousands, except per share data

1. Basis of Presentation

Great Lakes REIT, a Maryland real estate investment trust (the Company), was formed in 1992 to invest in income-producing real property. The principal business of the Company is the ownership, management, leasing, renovation and acquisition of suburban office properties, primarily located in the Midwest region of the United States. At June 30, 2002, the Company owned and operated 38 properties, primarily located in suburban areas of Chicago, Milwaukee, Detroit, Columbus, Minneapolis, Denver and Cincinnati. The Company leases office space to over 500 tenants that are engaged in a variety of businesses.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries and controlled partnership. Intercompany accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States. These statements should be read in conjunction with the Company's most recent year-end audited financial statements, which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (the 2001 10-K). In the opinion of management, the financial statements contain all adjustments (which are normal and recurring) necessary for a fair statement of financial results for the interim periods. For further information, refer to the consolidated financial statements and notes thereto included in the 2001 10-K.

2. Derivatives and Hedging Activities

In October 2001, the Company entered into two separate interest rate swap agreements with notional amounts of \$25,000 each. One agreement has a term of two years and fixes the interest rate on \$25,000 of the Company's unsecured bank credit facility at a maximum of 4.12%. The second swap agreement has a term of three years and fixes the interest rate on \$25,000 of the Company's unsecured bank credit facility at a maximum of 4.73% per annum. The Company is exposed to credit loss in the event of non-performance by counterparties under these agreements, but the Company does not expect non-performance by any of these counterparties. The amount of such exposure is generally limited to the amount of any payments due but not yet received from the counterparty.

At June 30, 2002, the fair value of the swap agreements was a liability of \$124 and is reflected as accumulated other comprehensive income(loss) in the consolidated balance sheet as of June 30, 2002.

3. Segment Information

The Company has two reportable segments, distinguished by property type. The property types are office and office service center that represent 91% and 9% (as measured by square feet) of the Company's overall portfolio, respectively. Office buildings are generally single-story or

Edgar Filing: GREAT LAKES REIT - Form 10-Q

multi-story buildings used by tenants for office activities. The buildings generally have common area lobbies and other amenities, including food service areas, atriums and limited underground parking facilities. Office service center buildings generally are one-story buildings with no common areas. Tenant spaces generally have less than 100% office use with the non-office space used for showroom, technical or light storage purposes. As of June 30, 2002, the properties were leased to more than 500 tenants, no single tenant accounted for more than 5% of the aggregate annualized base rent of the Company's portfolio and only 20 tenants individually represented more than 1% of the aggregate annualized base rent.

The Company evaluates performance and makes investment decisions in part based on net operating income, which is property revenues (rental and reimbursement income) less property operating expenses and real estate taxes. Net operating income is a widely recognized industry measure of a property's performance.

The following table represents a summary report of segment information for the three months ended June 30, 2002 and 2001:

	Three months ended June 30, 2002	2001	Six months 2002
<hr/>			
Revenues:			
Office	\$23,973	\$22,932	\$47,105
Office service center	1,067	1,258	2,325
Deferred rental income	194	-	194
Interest	329	397	726
	<hr/>		
Total	\$25,563	\$24,587	\$50,350
<hr/>			
Net operating income:			
Office	\$13,763	\$13,551	\$26,914
Office service center	456	677	1,133
	<hr/>		
Total	\$14,219	\$14,228	\$28,047
<hr/>			
Depreciation and amortization:			
Office	\$4,299	\$4,002	\$8,501
Office service center	487	298	785
Other	124	158	282
	<hr/>		
Total	\$4,910	\$4,458	\$9,568
<hr/>			
Interest expense:			
Office	\$3,655	\$3,334	\$7,389
Office service center	112	197	309
	<hr/>		
Total	\$3,767	\$3,531	\$7,698
<hr/>			
Income before allocation to minority interests:			
Office net operating income	\$13,763	\$13,551	\$26,914
Office service center net operating income	456	677	1,133
Office interest expense	(3,655)	(3,334)	(7,389)
Office service center interest expense	(112)	(197)	(309)
Office depreciation	(4,299)	(4,002)	(8,501)
Office service center depreciation	(487)	(298)	(785)
Deferred rental revenues	194	-	194
Interest income	329	397	726
General and administrative expenses	(1,462)	(1,337)	(2,577)
Other depreciation	(124)	(158)	(282)
	<hr/>		
Income before allocation to minority interests:	\$4,603	\$5,299	\$9,345
<hr/>			

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Additions to properties:			
Office	\$231	\$3,372	\$4
Office service center	3,662	50	14,1
<hr style="border-top: 1px dashed black;"/>			
Total	\$3,893	\$3,422	\$14,6
<hr style="border-top: 3px double black;"/>			

Following is a summary of segment assets at June 30, 2002 and December 31, 2001:

	June 30,	December 31,
	<hr style="border-top: 1px dashed black;"/>	
	2002	2001
Assets		
Office	\$430,922	\$428,441
Office service center	22,585	21,802
Properties held for sale	23,150	23,090
Other	16,546	13,159
<hr style="border-top: 1px dashed black;"/>		
Total	\$493,302	\$486,492
<hr style="border-top: 3px double black;"/>		

4. Property Acquisition

On January 30, 2002, the Company acquired Two Riverwood Place, a 99,500 square foot multi-story office building located in Pewaukee, Wisconsin, for a contract price of \$8,095.

5. Property Dispositions

The Company sold its property located at 160 Hansen Court, Wood Dale, Illinois, on April 22, 2002 for a contract price of \$2,322 resulting in a gain on sale of \$1,034 in the second quarter of 2002.

The Company sold its property located at 3400 Dundee Road, Northbrook, Illinois, on July 1, 2002 for a contract price of \$8,175 resulting in a gain on sale of approximately \$4,000 to be recognized in the third quarter of 2002.

6. Earnings per Share

The unvested restricted common share grants (166,664 shares at June 30, 2002) are excluded from the common shares used to compute basic earnings per share. The unvested restricted common shares are included in the shares used to compute fully diluted earnings per share using the treasury stock method whereby the unamortized deferred compensation related to these shares is assumed to be the exercise value of these shares.

The Company has 40,199 operating partnership units held by non-affiliates of the Company outstanding at June 30, 2002, which are convertible to common shares on a one for one basis at the option of the holder.

7. Goodwill

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with these Statements.

The Company has performed the required impairment tests of goodwill as of June 30, 2002, and has determined that goodwill is not impaired as of that date.

8. Impairment of Assets

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for Impairment or Disposal of Long-lived Assets, which is effective for fiscal years beginning after December 15, 2001. The provisions of this statement did not affect the Company's financial position and results of operations for the quarter ended June 30, 2002.

Edgar Filing: GREAT LAKES REIT - Form 10-Q

The Company recognizes impairment losses for its properties when indicators of impairment are present and a property's expected undiscounted cash flows are not sufficient to recover the property's carrying amount.

9. Discontinued Operations

The components of discontinued operations for the three and six months ended June 30, 2002 and 2001 are outlined below and include the results of operations through the date of each respective sale for the three and six months ended June 30, 2002 (or the full quarter of operations for properties held for sale) and a full quarter of operations for the three and six months ended June 30, 2001 for the following:

- the properties sold in 2002 (see Note 5)
- the property held for sale at June 30, 2002.

	Three months ended		Six months ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Revenues	\$ 1,276	\$ 1,370	\$ 2,500	\$ 2,500
Expenses:				
Real estate taxes	224	221	452	452
Other property operating	372	368	695	695
Depreciation and amortization	226	253	464	464
Total expenses	822	842	1,611	1,611
Discontinued operations, net	\$ 454	\$ 528	\$ 889	\$ 889

10. Subsequent Event

On August 1, 2002, the Company acquired 1111 Touhy Avenue, Des Plaines, Illinois, a 148,000 square foot office building, for a contract price of \$10,050.

ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition (Dollars in thousands)

The following is a discussion and analysis of the consolidated financial condition and results of operations for the Company for the three and six months ended and as of June 30, 2002. The following should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere herein and the consolidated financial statements and related notes contained in the 2001 10-K.

Trends

In 2001, occupancy rates in the markets in which the Company's properties are located, primarily the suburban areas of Chicago, Milwaukee, Detroit, Columbus, Minneapolis, Denver and Cincinnati, continued to decline due to increases in supply and decreases in demand for office space. As a result, the overall portfolio occupancy of the Company's properties declined from 92% at the end of 2000 to 88% at the end of 2001, and 83% at June 30, 2002. Occupancy declines in the Company's portfolio of properties adversely impact the Company's results of operations. The Company does not expect that the markets in which it operates will improve in 2002. As a result, the Company expects that overall portfolio occupancy will remain at approximately 83% through the end of 2002 and that revenues and net income will decrease in 2002 as compared to 2001. Operating results for the three and six months ended June 30, 2002, are consistent with these trends as income from continuing operations decreased as compared to the same periods ended June 30, 2001.

As of August 1, 2002, several tenants were in default under their leases for failure to make rent payments. Several other tenants that are not currently in default are experiencing financial difficulties which may lead to lease defaults. These tenant defaults may adversely impact the Company's revenue in 2002.

In June 2002, the Company terminated the lease of an affiliate of PSINet, Inc., that had vacated its space in late 2001 and ceased paying rent in 2001, and received a payment of \$475. No future payments will be received from this tenant.

Legion Insurance Company, which leases 58,000 square feet of space at Milwaukee Center and represented 1.48% of the Company's aggregate portfolio annualized base rent as of December 31, 2001, was placed in rehabilitation by the Pennsylvania Department of Insurance on April 1, 2002. The first step in the rehabilitation process is a financial evaluation of Legion Insurance by the Pennsylvania Department of Insurance. The two possible outcomes of the process are a plan of rehabilitation for Legion Insurance Company or an orderly liquidation of Legion Insurance

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Company. As of August 1, 2002, the Pennsylvania Department of Insurance has not announced its recommendation for Legion Insurance Company. Based on currently available information, the Company believes it is more likely than not that Legion will fulfill all terms of its lease. Legion Insurance Company is current on its rental payments to date.

Three months ended June 30, 2002 compared to 2001

In analyzing the operating results for the three months ended June 30, 2002, the changes in rental and reimbursement income, real estate taxes and other property operating expenses from 2001 are due principally to: (i) the addition of a full year's operating results in 2002 of properties acquired in 2001 compared to the partial year's operating results from the dates of their respective acquisitions in 2001, (ii) the addition of operating results of properties acquired in 2002 from the dates of acquisition and (iii) changes in operations of properties during 2002 compared to 2001 due to occupancy declines. Other property operating expenses include contract services, repairs, maintenance, utilities, personnel, insurance and other costs directly associated with the leasing, management and operation of the properties.

	Rental income	Reimbursement income	Real estate taxes	Property operating expenses
Increase due to properties acquired in 2001	\$705	\$485	\$161	\$278
Increase due to properties acquired in 2002	364	83	7	69
Increase (decrease) in 2002 as compared to 2001	(533)	(107)	107	237
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$536	\$461	\$275	\$584
	<hr/>	<hr/>	<hr/>	<hr/>

Telecommunications income decreased by \$35 during the quarter ended June 30, 2002 as compared to 2001 as certain tenants who paid these rentals in early 2001 discontinued their businesses later in 2001.

Tenant service income decreased by \$37 in the quarter ended June 30, 2002 as compared to 2001 as tenants' use of additional services declined with the decline in portfolio occupancy.

Interest income decreased by \$68 during the quarter ended June 30, 2002, as compared to 2001 as certain interest-bearing employee share loans were repaid in early 2002.

General and administrative expenses increased by \$125 during the quarter ended June 30, 2002 as compared to 2001 due to certain state income taxes paid during the second quarter of 2002.

Interest expense increased by \$236 during the quarter ended June 30, 2002 as compared to 2001 due to higher amounts outstanding under its unsecured bank credit facility and its long-term debt during 2002 offset in part by lower interest rates on its unsecured bank credit facility in 2002.

Depreciation and amortization expenses increased by \$452 during the quarter ended June 30, 2002 as compared to 2001 because the Company had a gross book value of depreciable assets of \$446,875 at June 30, 2002 as compared to \$430,180 at June 30, 2001.

Six months ended June 30, 2002 compared to 2001

In analyzing the operating results for the six months ended June 30, 2002, the changes in rental and reimbursement income, real estate taxes and other property operating expenses from 2001 are due principally to: (i) the addition of a full year's operating results in 2002 of properties acquired in 2001 compared to the partial year's operating results from the dates of their respective acquisitions in 2001, (ii) the addition of operating results of properties acquired in 2002 from the dates of acquisition and (iii) changes in operations of properties during 2002 compared to 2001 due to occupancy declines. Other property operating expenses include contract services, repairs, maintenance, utilities, personnel, insurance and other costs directly associated with the leasing, management and operation of the properties.

	Rental income	Reimbursement income	Real estate taxes	Property operating expenses
Increase due to properties acquired in 2001	\$1,920	\$1,243	\$469	\$802
Increase due to properties acquired in 2002	482	139	14	123
Increase (decrease) in 2002 as compared to 2001	(1,038)	(495)	252	427

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Total	\$1,364	\$887	\$735	\$1,352
-------	---------	-------	-------	---------

Telecommunications income decreased by \$94 during the six months ended June 30, 2002 as compared to 2001 as certain tenants who paid these rentals in the first quarter of 2001 discontinued their businesses later in 2001.

Tenant service income decreased by \$48 in the six months ended June 30, 2002 as compared to 2001 as tenants' use of additional services declined with the decline in portfolio occupancy.

Interest income decreased by \$114 during the six months ended June 30, 2002, as compared to 2001 as certain interest bearing employee share loans were repaid in early 2002.

Interest expense increased by \$490 during the six months ended June 30, 2002 as compared to 2001 due to higher amounts outstanding under its unsecured bank credit facility and its long-term debt during 2002 offset in part by lower interest rates on its unsecured bank credit facility in 2002.

Depreciation and amortization expenses increased by \$865 during the six months ended June 30, 2002 as compared to 2001 because the Company had a gross book value of depreciable assets of \$446,875 at June 30, 2002 as compared to \$430,180 at June 30, 2001.

Segment Operations

The Company has two reportable segments, distinguished by property type. The property types are office and office service center. Office buildings are generally single-story or multi-story buildings used by tenants for office activities. The buildings generally have common area lobbies and other amenities including food service areas, atriums and limited underground parking facilities. Office service center buildings generally are one-story buildings with no common areas. Tenant spaces generally have less than 100% office use with the non-office space used for showroom, technical or light storage purposes.

The net income for the office segment is as follows:

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Net operating income	\$13,763	\$13,551	\$26,914	\$26,5
Interest expense	(3,655)	(3,334)	(7,302)	(6,59
Depreciation	(4,299)	(4,002)	(8,510)	(7,78
Segment net income	\$ 5,809	\$ 6,215	\$11,102	\$12,1

The decrease in net income for the three months and six months ended June 30, 2002 as compared to 2001 was due to declining occupancies in this segment.

The net income for the office service center segment is as follows:

	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Net operating income	\$ 456	\$ 677	\$ 1,172	\$ 1
Interest expense	(112)	(197)	(225)	(
Depreciation	(487)	(298)	(770)	(
Segment net income (loss)	\$ (143)	\$ 182	\$ 177	\$

Edgar Filing: GREAT LAKES REIT - Form 10-Q

The decrease in net income for the three months and six months ended June 30, 2002 as compared to 2001 was due declining occupancies in this property segment.

Liquidity and Capital Resources

The Company expects to meet its short-term liquidity requirements principally through its working capital and net cash provided by operating activities. The Company considers its cash provided by operating activities to be adequate to meet operating requirements and to fund the payment of dividends in order to comply with certain federal income tax requirements applicable to real estate investment trusts ("REITs").

The Company is a party to a \$150,000 unsecured bank credit facility that matures on March 23, 2004. Borrowings under the unsecured bank credit facility bear interest at LIBOR plus 1.0% to 1.2%, depending on overall Company leverage. The unsecured bank credit facility contains financial covenants, including requirements for a minimum tangible net worth, maximum liabilities to asset values, debt service coverage and net property operating income. The unsecured bank credit facility also contains restrictions on, among other things, indebtedness, investments, dividends, liens, mergers and development activities. The Company may, depending on circumstances, seek to utilize secured debt as an alternative to the unsecured credit facility.

The Company expects to meet its short-term liquidity requirements for any property acquisitions and significant capital improvements through property dispositions and additional borrowings under its unsecured bank credit facility. The Company had \$39,750 available for future borrowings under the unsecured bank credit facility at June 30, 2002.

The Company expects to meet its long-term liquidity requirements (such as scheduled mortgage debt maturities, property acquisitions and significant capital improvements) through long-term collateralized and uncollateralized borrowings, the issuance of debt or equity securities and targeted property dispositions.

The Company sold its property located at 160 Hansen Court, Wood Dale, Illinois, on April 22, 2002 for a contract price of \$2,322 resulting in a gain on sale of \$1,034, which was recognized in the second quarter of 2002.

The Company sold its property located at 3400 Dundee Road, Northbrook, Illinois, on July 1, 2002 for a contract price of \$8,175 resulting in a gain on sale of approximately \$4,000 to be recognized in the third quarter of 2002.

On August 1, 2002, the Company acquired 1111 Touhy Avenue, Des Plaines, Illinois, a 148,000 square foot office building, for a contract price of \$10,050. Funds for the purchase came from the sale of 160 Hansen Court and borrowings under the Company's unsecured bank credit facility.

The Company is performing due diligence under a contract it signed to purchase of a portfolio of medical office buildings as well as one other office building acquisition. If consummated, the acquisition of these properties will be funded with a combination of secured long-term debt, borrowings on its unsecured credit facility, and the proceeds of property dispositions completed and expected to be completed in 2002. To date, the Company has not entered into any commitments for such funding (other than the amounts available under the unsecured bank credit facility).

Forward-Looking Statements

Statements regarding leasing velocity and other expectations regarding average occupancy and portfolio occupancy rates, the future strength of Midwestern office markets, the anticipated effects of tenant defaults, acquisition and disposition volume and opportunities, if any, the Company's liquidity requirements and certain other statements in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate" and similar expressions identify forward-looking statements. Although the Company believes that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there can be no assurance that such expectations will be met. Key factors that may cause actual results to differ from projected results include changes in: interest rates; local and/or national economic conditions; the pace of office space development and sub-lease availability; tenant office space demand; the financial position of the Company's tenants, including changes that may lead to increases in tenant defaults; actual tenant default rates compared to anticipated default rates; and other risks inherent in the real estate business. Many of these factors are beyond the Company's ability to control or predict. Forward-looking statements are not guarantees of performance. For forward-looking statements made in this report, the Company claims the protection of the safe harbor for forward-looking statements made in the Private Securities Litigation Reform Act of 1995. The Company assumes no obligation to update or supplement forward-looking statements.

ITEM 3. MARKET RISK (Dollars in thousands)

The Company's interest income is sensitive to changes in the general levels of U.S. short-term interest rates.

The Company's interest expense is sensitive to changes in the general level of U.S. short-term and long-term interest rates as the Company has outstanding indebtedness at fixed and variable rates.

Edgar Filing: GREAT LAKES REIT - Form 10-Q

The Company's variable rate debt under the unsecured bank credit facility bears interest at LIBOR plus 1% to 1.2% per annum depending on the Company's overall leverage. Increases in LIBOR rates would increase the Company's interest expense and reduce its cash flow. Conversely, declines in LIBOR rates would decrease the Company's interest expense and increase its cash flow. In October 2001, the Company entered into two separate interest rate swap agreements with notional amounts of \$25,000 each. One agreement has a term of two years and fixes the interest rate on \$25,000 of the Company's unsecured credit facility at a maximum of 4.12%. The second swap agreement has a term of three years and fixes the interest rate on \$25,000 of the Company's unsecured bank credit facility at a maximum of 4.73% per annum.

At June 30, 2002, the Company had \$199,051 of fixed rate debt outstanding at an average rate of 6.37% (including the effect of the two swap agreements). If the general level of interest rates in the United States were to fall, the Company would not likely have the opportunity to refinance this fixed rate debt prior to maturity at lower effective interest rates due to prepayment restrictions and penalties on its fixed rate debt.

In general, the Company believes long-term fixed rate debt is preferable as a financing vehicle for its operations due to the long-term fixed contractual rental income the Company receives from its tenants. As a result, 76% of the Company's long-term debt outstanding at June 30, 2002 bears interest at fixed rates (including the debt affected by the swap agreements). The Company may, as market conditions warrant, enter into additional fixed rate long-term debt instruments on either a secured or unsecured basis

A tabular presentation of interest rate sensitivity is as follows:

	Interest Rate Sensitivity				
	Principal Amount by Expected Maturity				
	Average Interest Rate				
	2002	2003	2004	2005	2006
Liabilities:					
Fixed Rate					
Mortgage loans payable	\$1,926	\$14,716	\$6,465	\$4,146	\$24,162
Average interest rate	6.96%	7.05%	7.71%	6.88%	6.69%
Fixed Rate					
Bank loan payable (1)			\$25,000		
Bank loan payable (2)			\$25,000		
Average Interest rate					
Variable Rate					
Bank loan payable (3)	-	-	\$60,250	-	-
Average interest rate (4)					
Bonds payable	-	\$375	\$415	\$460	\$505
Average interest rate	(5)	(5)	(5)	(5)	(5)

- (1) The maximum interest rate is 4.12% per annum until December 2003.
- (2) The maximum interest rate is 4.73% per annum until December 2004.
- (3) The variable rate bank debt under the unsecured bank credit facility payable accrues interest at LIBOR plus 1.2% per annum.
- (4) The average interest rate on the variable rate bank debt for the six months ended June 30, 2002 was 3.4% per annum.
- (5) The average interest rate on the bonds payable for the six months ended June 30, 2002 was 3.8% per annum.

Part II. Other Information

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are attached hereto:

<u>Exhibit Number</u>	<u>Description of Document</u>
10.1	Form of Limited Purpose Employee Loan Program Loan and Security Agreement for use in connection with limited purpose employee loans; (incorporated by reference to exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000). Amounts that were to mature in 2002 for Richard A. May, Patrick R. Hunt, Raymond M. Braun and Richard L.

Edgar Filing: GREAT LAKES REIT - Form 10-Q

Rasley were extended to mature one year later.

(b) Reports on Form 8-K:
none

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Great Lakes REIT.
(Registrant)

Date: August 13, 2002

/s/James Hicks
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)