

Chicago's TIF Districts

Chicago is the most active city in the country utilizing Tax Increment Financing. Currently 67 TIF districts are located in Chicago, up from 44 districts in 1997. Severe reductions in state and federal funding ensure that new TIFs are imminent.

WHAT IS A TIF?

Potential TIF districts are set up to help develop blighted areas, build and repair roads and infrastructure, clean polluted land, and restore vacant properties.

Once an area is declared a TIF, usually taking six to eight months of public hearings in Chicago, the amount of tax the designated area generates is set as a "base line." The taxing entities of the City such as schools, parks, police, fire, etc., continue to receive the same amount of revenue during the maximum 23-year life of the TIF.

As vacant and dilapidated properties are developed with TIF assistance, the property values increase, thus creating an incremental increase from the "baseline" tax revenue. This increment can be used as the source of revenue to pay back bonds issued to pay "up-front" costs or used on a "pay-as-you-go" basis for individual projects. When the TIF expires, the same schools, parks and other taxing entities share in the increase in tax revenues.

According to Lori T. Healy, head of Chicago's TIF Division in the Department of Planning and Development, Chicago will continue to focus on long term development of entire neighborhoods such as the recently expanded Central Loop TIF District. Originally created in 1984 as Central Loop TIF, this district already has private and public funds invested of \$2.1 billion. Ms. Healy believes it takes 6-to-10 years for TIF districts to mature.

NEW CHICAGO TIFS

One of Chicago's most ambitious TIFs is Mayor Daley's plans to invest upwards of \$10 million in subsidies for an information technology incubator building. The 17-story, 260,000-square-foot mostly vacant Lytton Building at 14 E. Jackson Boulevard will undergo an estimated \$30 million renovation by Chicago-based BriJus Properties. Installation of high-speed communication lines will be modeled on a similar facility New York City developed several years ago as its high-tech base.

Some newly announced programs are also utilizing TIF funds for residential purposes. The new plans include the residentially blighted neighborhoods of Lawndale on the west side, and Bronzeville on the south side. Former office buildings that will use TIF assistance for conversion
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Market Focus East - West Corridor

The East-West office corridor is the largest suburban office sub-market with over 28 million square-foot of space. The depth of the market and historically high net absorption has attracted investment and development to the market. The combination of low DuPage County taxes, available land and the migration west of young fast growing companies has tested the supply and demand equilibrium in the corridor.

RESILIENCY

Yet, even with the additional space generated from new construction and corporate downsizing, the East-West corridor continues to show resiliency. Absorption in the first quarter led all suburban markets with 163,300

square feet absorbed. Vacancies increased slightly to 10% in the first quarter from 9.3% at the end of 1998.

The demand from tenants for larger and more efficient floorplates and higher parking ratios set off a wave of new construction in 1998. Eleven speculative buildings totaling over 1.4 million square feet were started in 1998. Highland Landmark II in Downers Grove, Westwood of Lisle II in Lisle and Oak Creek V and VI in Lombard are significant new additions to the corridor.

Development will not slow in 1999. There are plans for 14 new buildings totaling over 1.2 million square feet set for development in 1999. John Buck Co.'s develop-

ment of 184,000 square feet at 2001 York Road in Oak Brook and Navistar International Corp.'s 260,000 square foot build-to-suit at Cantera in Warrenville summarize 1999's continued activity.

LARGER BLOCKS OF SPACE

The recent trend of mergers and acquisitions and corporate downsizing has increased the supply of larger blocks of space, once a rare commodity in the corridor. The sale of Waste Management's 500,000 square-foot headquarters building in Oak Brook to JPS Interests delivers significant class B space to the Oak Brook and Lombard markets. Other large blocks include McDonald's 212,000 square-foot sub-lease in Oak Brook, Spiegel's 180,000-square-foot sub-lease in Downers Grove and the still to be determined effects of Platinum Technologies recent corporate merger.

The competition for tenants from speculative construction, build-to-suits and sub-leased space will put pressure on East-West corridor rental rates. The fiercest competition will be in the class A market where net rents increased from \$16 to \$18 per square foot in 1998. The increased supply of new buildings may lower the rate of rental increases.

The benefactors, at least in the short term, may be class B landlords. With class A rents spiking in the past three years, tenants must decide on renewing at the higher class A rates or search for alternatives. We anticipate a modest double-digit increase in class B rents from the current gross rents of \$21 to \$23 per square foot.

While the East-West corridor has the most available land for future development, its excellent proximity to transportation hubs and growing population should balance the office supply and demand equilibrium.



One Naperville Plaza in Naperville, Illinois is one example of the East-West Corridor's strength.

"Mayor Daley believes TIFs are a key ingredient to help assure Chicago's business status," states Marc Boorstein, principal of MJ Partners.



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sion into apartment buildings including 201 North Wells Street and the Fisher Building at 343 South Dearborn Street.

INDUSTRIAL TIFs

The City of Chicago is in the process of developing strategic plans for many of its industrial corridors. Currently nine TIF districts encompass about 7,220 acres, representing 4.67% of the City's total land area. These TIF districts present development potential of 15-to-18 million square feet, and \$300 million investments in infrastructure improvements.

Chicago recently announced a record \$23.5 million grant in the Kinzie Industrial TIF district to help build Whittman-Hart's \$129 million Near West Side expansion project. The 15 year-old information technology company will move its headquarters into a 485,000 square foot complex located in the 1200 and 1300 blocks of West Fulton Street. The firm is expected to add 1,200 jobs in the City over the next few years.

The Goose Island TIF created in 1996 is highlighted as a national model for helping to reform a once blighted industrial area. Companies such as Republic Windows and Doors and Federal Express have recently built new modern facilities. Sara Lee Bakery signed a lease for 150,000 square-feet in Riverworks, a \$38 million renovation project of a Goose Island loft building which had been vacant for 25 years.

CRITICS

While property values have surged downtown, critics do argue that development may have occurred even without TIF subsidies. Additional controversy centers on the loss of total value assessed for tax purposes and competitive disadvantages for competing property owners without TIF assistance. Mayor Daley, however, remains committed to TIF districts. Daley believes TIFs are a key ingredient to help assure Chicago's business status.

Notes

RECENT MJ PARTNERS SALES

- ◆ 465 N. Des Plaines Street, Chicago, Illinois. 36,000 square-foot industrial building/development site. List Price: \$2,700,000
- ◆ 2801 Eisenhower Expressway, Bellwood, Illinois. 73,000 square-foot industrial building sold for self storage conversion. List Price: \$1,750,000

MJ PARTNERS — NEW LISTINGS

- ◆ Suburban Office Portfolio East-West Corridor and O'Hare. Four buildings totaling 188,917 square feet. List Price: \$22,000,000
- ◆ 1601 S. Canal Street, Chicago, Illinois. 100,000 square-foot loft building. List Price: \$4,500,000

- ◆ 1745 N. Kolmar Avenue (Grand Avenue) Chicago, Illinois. 185,000 square-foot industrial facility. List Price: \$3,750,000
- ◆ Route 59, Bartlett, Illinois. Five-acre site permitted for 57,000 square-foot self storage facility with 100,000 square-foot expansion. List Price: \$1,200,000
- ◆ 5550 N. Elston Avenue, Chicago, Illinois. 4,700 square-foot office building. List Price: \$425,000
- ◆ 6421 N. Hamlin Avenue, Lincolnwood. 13,000 square-foot industrial building. Lease Rate: \$5.00 net



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