

## Carrier Hotels A New Growth Sector in Commercial Real Estate

**H**igh bandwidth, connectivity, redundancy, speed-to-market, fiber optics. These are the new buzzwords in commercial real estate. The explosive growth of the Internet and new electronic data transmitting requirements is spawning a new growth sector in real estate. "Telco" or "carrier" hotels house high-technology equipment (i.e. switches, servers) powering the telecommunications infrastructure.

As part of a national trend to capture the demand created from the growth of Information Technology, developers are snatching up older industrial buildings in or near the CBD for conversion into telecommunication properties. High profile examples include the 1.2 million square-foot former Montgomery Ward warehouse on Chicago Avenue, and the 1 million square-foot former R.R. Donnelly site in the South Loop. What are the criteria for a telecommunications property? Will the demand last?

### CRITERIA FOR A CARRIER HOTEL

Viable carrier hotels must provide sufficient bandwidth, connectivity and redundancy. Bandwidth is the speed and capacity of the infrastructure. Connectivity is the transmission of data from one telecom network to another. And redundancy is the security and back-up systems. In order to create sufficient bandwidth, connectivity and redundancy the most attractive telco properties contain the following attributes:

**Immediate Availability or "Speed-to-Market"** — The telco tenants require immediate occupancy to gain capacity and hopefully gain market share.

**Proximity to Fiber Optics** — The proximity to a city's diverse fiber optic grid provides back-up security in case a primary fiber source or traditional copper wire is disabled.

**Heavy Floor Loads** — The "racks" and power support for electronic equipment requires heavy floor loads. Most racking systems require floor loads of 100 pounds

per square foot. The batteries that power the switches require in excess of 200 pounds per square foot.

**High Ceiling Height** — A minimum of 12 feet clear ceiling height is required to accommodate switching equipment, overhead air circulation and HVAC equipment.

**Heavy Power** — Switches and their batteries require significant power and back-up. A minimum of two power feeds is required in case one of them is interrupted.

**Enhanced HVAC** — The dissipation of heat generated from switches requires specialized HVAC systems.

**Large Floor Plates** — Telecommunications operators prefer to spread switches and equipment over a wide area to distribute floor loads. Floor plates over 25,000 square increase efficiencies.

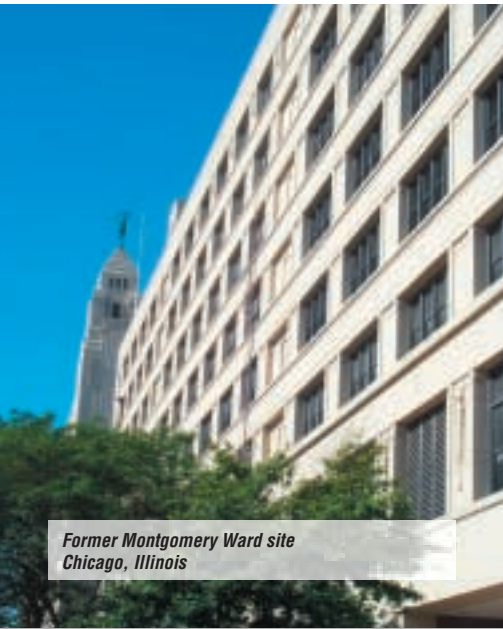
**Location** — Telco tenants prefer major metropolitan areas with dense business populations. The site must be near the fiber optic and copper wire grids.

**Size** — Carrier hotels must be a sufficient size to accommodate multiple telco tenants. The minimum size is 150,000 square feet and the maximum can reach from 500,000 square feet up to one million square feet.

### IS THERE CONTINUED GROWTH POTENTIAL?

Will the demand for carrier hotels last forever? There are reasons to believe that significant expansion can continue. The continued growth of business-to-business commerce increases the need for host servers. Increased bandwidth will make digital transmission the norm. The penetration of IT products into consumers' hands is only in its infancy. While 94 percent of the population owns a telephone, only 37 percent own computers, 26 percent own modems, and 17 percent utilize e-mail. The introduction of easy-to-use IT applications geared to the mass consumer and household markets, coupled with the

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Former Montgomery Ward site  
Chicago, Illinois

## Market Focus Suburban Office Market

**I**ncreasing vacancy rates, decreasing rental rates, and sparse building finishes. Are these signs of a healthy suburban office market? Surprisingly, the answer is yes.

### MARKET IN 2000

Office absorption was nearly 1.6 million square feet in the first quarter, the strongest start in nearly a decade, running well above the five-year average of 270,109 square feet. These strong absorption numbers are keeping new construction moving forward. Thirty-seven new buildings totalling to 3.8 million square-feet will be introduced to the suburban market this year. Hines Interest L.P. opened its 320,000 square foot Woodfield Preserve in Schaumburg in May with 97% of the space already leased. Due to the strong performance of their first phase, construction has begun on an adjacent 320,000 square foot office building to be finished by June of 2001.

### VACANCY RATES

The overall vacancy rate for the first quarter 2000 has increased to 10.5%, slightly over one and a half percent more than the first quarter of 1999. Most of the increase can be attributed to the introduction of new product to the market. The O'Hare and Northern suburbs boast the lowest vacancies at 8.7% and 9%, respective-

ly. Certain sub-markets are showing some signs of slower absorption. The East-West corridor from Oak Brook to Aurora, have their highest vacancy levels since the early 1990s at 12.2%. These levels will likely continue to escalate as 1.1 million square feet of additional construction is planned by year end.

### MARKET TRENDS

Developers are no longer building extravagant lobbies and common areas and are now focusing on building technologically capable assets. Mergers and acquisitions are constantly reshaping tenancy in the market. The overall impact is difficult to determine since some corporate activity results in increased demand and other requires consolidation. The increased supply of office product offers tenants opportunities to negotiate concessions in leases, such as rent abatements and build-out allowances. However, the pendulum has not swung completely to the tenant's side, as new, well located, high-tech, product continues to command premium rental rates.

While interest rates are on the rise, and a large amount of new product is on the market, demand remains strong and the market should continue absorbing space and experiencing healthy expansion.

"Developers... are now focusing on building technologically capable assets," says Micah Nathan, vice president of MJ Partners.



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falling price of hardware, should greatly accelerate the penetration to consumers.

#### WHAT ARE THE RISKS?

There are several perceived negatives to an owner/landlord contemplating a carrier hotel. First is the credit of the tenant. Most telco tenants have only been in existence since the deregulation of the local telephone industries created by the Telecommunications Act of 1996. The accelerated expansion has softened the balance sheet of the under-capitalized players. Second, the ultimate con-

solidation of the industry will produce winners and losers in the battle for market share. The \$38 per-square-foot rent today may be worth nothing tomorrow. The risk of having an anchor tenant vacate due to consolidation is a real concern. The threat of wireless telecommunications or other yet-to-be-known technologies may alter future space requirements for telco properties.

In the short term, the switching stations, fiber optic and cable lines are the skeleton of the telecommunications industry. As society fundamentally changes its way of communicating with each other, the demand to strengthen and grow the infrastructure will undoubtedly continue.

## Notes

#### RECENT MJ PARTNERS SALES/LEASES

- ◆ **Premier Business Center, 1300 W. Belmont Ave., Chicago, Illinois.** 34,000 square-foot office building. List price: \$4,000,000.
- ◆ **Little River Country Club, Marinette, Wisconsin.** 18-hole golf course. List price: \$1,500,000.
- ◆ **1130 N. Jefferson St., Chicago, Illinois.** 24,000 square-foot office building. List price: \$1,050,000.
- ◆ **3601 W. 53rd St., Chicago, Illinois.** 30,000 square-foot industrial building. List price: \$775,000.
- ◆ **12940 S. Western Ave., Blue Island, Illinois.** 44,000 square-foot commercial building. List price: \$650,000.
- ◆ **188 N. Wells St., Chicago, Illinois.** 4,100 square-foot office. Asking rate: \$18/sq. ft. gross.

#### MJ PARTNERS NEW LISTINGS

- ◆ **Lock Up Self Storage Portfolio, New Jersey and New York.** Four facilities, 305,214 square-feet, 2,235 units. List price: \$33,000,000.
- ◆ **Nine Acre Development Site, 1900 Frontage Rd., Glencoe, Illinois.** Nine acre development site overlooking Edens Expressway for new car dealership. List price: \$6,500,000.

- ◆ **48 Acre Development Site, University Ave. and 88th St., Des Moines, Iowa.** Located adjacent to Des Moines Country Club. List price: \$3,500,000.
- ◆ **1136 E. Northwest Hwy., Palatine, Illinois.** 67,000 square-foot development site across Arlington International Racecourse overlooking Interstate 53. Ideal for self storage. List price: \$938,000.
- ◆ **1051 S. Elmhurst Rd., Des Plaines, Illinois..** 3,700 square-foot retail/restaurant on one acre. List price: \$795,000.
- ◆ **Winnetka Galleria, 562-72 Lincoln Ave., Winnetka, Illinois.** 1,500 to 5,168 square-foot retail space and 2,256 square-foot office space. Asking rate: \$34/NNN.
- ◆ **Dwight Mini Storage, Illinois Route 17 East, Dwight, Illinois.** 22,674 square-foot self storage facility with 143 units. List price: \$500,000.
- ◆ **5601 W. Belmont Ave., Chicago, Illinois.** 17,000 square foot multi-tenant commercial building. List price: \$850,000.
- ◆ **6767 W. Belmont Ave., Chicago, Illinois.** 16,625 square-foot site with 4,900 square foot building across from Walgreens. For lease or build-to-suit.



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