

Downtown Chicago Office Market

As the U.S. economy weakened in the first half of 2001 and the dot.com phenomenon disappeared, Chicago's downtown office market continues to hold its own. The downtown market, already one of the nation's most stable, is further bolstered by Boeing Corporation's decision to relocate its headquarters to 270,000 square feet of space at 100 North Riverside Plaza. While the announcement gives the city and its landlords a psychological lift, there are signs of a second half of the year slowdown in leasing and softening of rents.

The downtown market experienced near record level low vacancies and slightly rising rents in the first half of 2001. The overall vacancy rate experienced a slight increase to 8.1% from 8.0% a year earlier. Rental rates increased over 5% to an overall average of \$30.04 per square foot. The West Loop continues its reign as the tightest sub-market with only 6.8% of its space vacant, followed by the Central Loop at 7.5%. North Michigan Avenue is next at 7.7% followed by River North at 8.8%, and East Loop at 11.1%.

One North Wacker Drive, Chicago, Illinois



SLOWING NET ABSORPTION

Real estate professionals remain cautious regarding the pace of market activity. Slowing net absorption, coupled with increasing availability of sub-lease space and new construction has many concerned. While the average net absorption over the last five-years equaled approximately 1.4 million square feet, only 76,000 square feet was absorbed in the first half of 2001. The slowdown is blamed on the demand side of the market since no new supply came on line during the period.

A dramatic increase in sub-lease space adds to the options available to prospective tenants subsequently slowing market activity. The amount of sub-lease space available spiked during the past six months, with over three million square feet of sub-lease space compared to less than one million square feet six months ago. The addition of sub-lease space to direct space lifts the overall market vacancy in excess of 11.6%.

STRONG PRE-LEASING ON NEW CONSTRUCTION

Construction activity will place further downward pressure on rents. Over six million square feet of new space is planned for delivery between 2001 and 2003. Pre-leasing is strong in the major new buildings. The 1.3 million square foot Dearborn Center at 131 South Dearborn Street is 98% pre-leased; the 1.2 million square foot UBS Tower at One North Wacker Drive is 75% pre-leased; the 725,000 square foot tower at 191 North Wacker Drive is almost 55% pre-leased; and the 1.3 million square foot ABN Amro Plaza at 540 West Madison Street is 75% pre-leased.

Continuing threats of increasing supply combined with softening demand is converting the market into a tenant rather than landlord market. Landlords are focusing on renewing existing tenants and offering concessions to better quality tenants. Larger work letters, rent concessions, and free rent are part of new lease negotiations.

Boeing Corporation new West Loop headquarters may be the last good news for a while. Signs show that the slowing economy has tenant expansion plans on hold. The forces of added sub-lease space and new supply may dampen projected rental growth. After seven years of unprecedented growth in downtown office product a return to more normal growth lies ahead.

Market Focus Chicago's Industrial Market

The first half of this year's metro-Chicago industrial market experienced a slowing of leasing activity and rising vacancies. Absorption of the area's 970 million square feet of industrial space sold or leased is down 30% to 6.3 million square feet from the same period last year. Overall vacancy rate is up to 8.5% from 7.7% last year.

Part of the slowing is due to the amount of second-generation sublease space flooding the market from corporate consolidations and closings. The Chicago area now has nearly 6 million square feet of industrial sublease space available, up from only 1 million a year ago. Examples of big-box industrial space now on the market include Montgomery Wards & Company's 750,000 square foot empty distribution center in Romeoville as a result of their recently announced closing. Circuit City Stores has recently vacated a 250,000 square foot warehouse in Hanover Park. North American Philips, in a consolidation move, is giving up 320,000 square feet in Roselle.

BUILD-TO-SUITS

While industrial absorption has slowed, industrial build-to-suit construction has soared to a record 6.2 million square feet in the first half of this year. That is a 22% increase over the same period last year in metro Chicago. Low interest rates have encouraged many small-to-mid-sized companies to purchase their own building rather than lease. Both the city and suburbs have seen a

steady stream of build-to-suits in the 60,000 to 150,000 square foot range.

Build-to-suits in Lake County nearly tripled to 501,000 square feet. Kenosha County, Wisconsin, which had no build-to-suits a year ago, totaled 1.3 million square feet, including Racine-based S.C. Johnson & Son Inc.'s plans to build a 604,000 square foot plant. Will County, where vast open spaces have attracted mega-warehouses, dropped 42% in build-to-suits to 1.9 million square feet. DuPage County, with expensive and scarce land, had a 62% drop to 451,000 square feet.

Indianapolis-based Duke-Weeks Realty Corp. is finishing up one of the biggest build-to-suits around Chicago this year, a 500,000 square foot warehouse for Sears, Roebuck and Co. that delivers in September at a site at the Crossroads Business Park in Romeoville. In the same park a 475,000 spec building by the same company has broken ground with an asking price of \$3.95 per square-foot on a net basis.

Alter Construction Company has begun construction on a 358,000 square foot build-to-suit in Glenview for Abt Electronics to be used for retail, office, warehouse and distribution use.

Other build-to-suits announced in the first half of 2001 include FCL Builders 499,200 square foot warehouse/distribution facility for Newell Window Furnish-

continued on back page...

"Low interest rates have encouraged many small-to-mid-sized companies to purchase their own building rather than lease," says Vince D'Amico, new Vice President at MJ Partners.



...continued from front page
ings a subsidiary of Newell Rubbermaid. Kajima Construction Services has completed a 284,000 square foot warehouse/distribution facility for Sanford Corporation at Crossroads Parkway in Bolingbrook.

INFILL LOCATIONS

As close-in, industrial-zoned land become scarce in the Chicago market, infill sites have become increasingly attractive to developers. Center Point Properties Trust announced that it intends to begin construction in October of four buildings totaling 800,000 square feet on 50 acres at O'Hare International Airport. Center Point will

receive \$50 million in tax-exempt bonds authorized by the City of Chicago for a 60-year ground lease. Serious discussions with tenants have already begun.

While the industrial market has slowed from last year, Chicago's strategic geographic location makes it an important place to do business. Secondary cities around the Midwest such as Indianapolis, St. Louis, Columbus, and Milwaukee are bound to suffer a quicker and deeper pullback in construction before Chicago does. Projects that were delayed a bit should get back on schedule and soon begin construction.

Notes

RECENT MJ PARTNERS SALES/LEASES

- ◆ **Lock Up Storage Centers Portfolio, Glen Rock, Lyndhurst, Linden, New Jersey.** 1,555 units, 156,718 sq. ft. Sale price: \$15,700,000
- ◆ **Brook Electrical Distribution Supply Warehouse, 2500 W. North Avenue, Chicago, Illinois.** 60,000 sq. ft. loft warehouse. List price: \$2,000,000
- ◆ **735 S. Clark Street, Chicago, Illinois.** 12,000 sq. ft. parking lot/development site. List price: \$1,500,000
- ◆ **Cicero Avenue and Morning Glory Drive, Matteson, Illinois.** 28-acre residential development site. List price: \$1,100,000
- ◆ **1136 E. Northwest Highway, Palatine, Illinois.** 67,000 sq. ft. site for self storage development. List price: \$1,000,000
- ◆ **3423 N. Drake, Chicago, Illinois.** 10,000 sq. ft. industrial lease. Asking rate: \$14 per sq. ft.
- ◆ **Marciellos Restaurant, 308 W. Erie, Chicago, Illinois.** List price: \$300,000
- ◆ **110 and 126 W. Grand Avenue, Chicago, Illinois.** Two River North commercial buildings. List prices: \$750,000 and \$900,000
- ◆ **954 W. Washington, Chicago, Illinois.** 7,000 sq. ft. office lease. Lease rate: \$17.50 per sq. ft.
- ◆ **1545 W. Division Street, Chicago, Illinois.** List price: \$675,000

MJ PARTNERS NEW LISTINGS

- ◆ **Granite Self Storage and Retail Plaza, Rahway, New Jersey.** 126,600 sq. ft., 90% occupied, 497 units, three retail tenants. List price: \$8,000,000
- ◆ **1800 West Larchmont Avenue, Chicago, Illinois.** 51,618 sq. ft. multi-tenant office building. List price: \$4,750,000
- ◆ **Wallington, New Jersey Loft Building.** 120,000 sq. ft. ideal for self storage conversion. List price: \$4,550,000
- ◆ **River North Development Site, Ohio and Franklin Streets, Chicago, Illinois.** 21,225 square feet. List price: \$4,500,000
- ◆ **80 W. Harrison Street, Chicago, Illinois.** Four-tenant retail/office condominium. List price: \$1,500,000
- ◆ **Barrington Self Storage Site, Barrington, Illinois.** 2.14 acres zoned for 93,200 sq. ft. List price: \$2,000,000
- ◆ **Mahwah, Bergen County, New Jersey.** 1.85 acres approved for 73,350 sq. ft. self storage. List price: \$975,000
- ◆ **Kings Park, Long Island, New York.** 3.8 acre site approved for 79,800 sq. ft. self storage. List price: \$1,600,000
- ◆ **2345 West Hubbard Street, Chicago, Illinois.** 11,000 to 84,000 sq. ft. industrial space. Lease price: \$3.50 to \$5.00 modified gross



150 SOUTH WACKER DRIVE
SUITE 450
CHICAGO, ILLINOIS 60606
312.726.5800
312.726.2905 FAX
info@mjpartners.com

Real Estate Brokerage ♦ Consulting

PRESORTED
STANDARD
U.S. Postage PAID
Chicago, IL
Permit No.1737

*Creative Solutions For
Today's Marketplace*