

Market Overview A New Look for City Retail

The migration of people back into the City of Chicago creates favorable investment fundamentals for retail development. The brisk pace of residential development in downtown and its surrounding neighborhoods creates greater demand for retail services.

Despite a slowdown in retail sales nationwide, pockets of dense population in the city provide an excellent consumer base and the prospects for increased sales activity. The challenge for retailers is to identify land parcels that fit specific development parameters both physically and economically. The scarcity of available land near downtown has increased land pricing and challenges retail executives to adjust specifications to fit city sites.

TWO-STORY RETAIL

To compensate for high land costs and physical shortcomings of a site, developers are increasing their project densities. Development in high barrier-to-entry locations, requires adjusting models to fit challenging infill sites. While retailers favor ground floor space, the acceptance of adding a second level may be the only solution to fit challenging infill sites in more desirable locations.

The new Jewel/ Osco store on State Street and Roosevelt Road in the South Loop consists of a 40,000 square foot main floor and a 12,000 square

foot mezzanine level. In order to serve the surging South Loop population, specifications were modified to accommodate a smaller site. Home Depot is introducing its first multi-level concept at 2665 North Halsted Avenue to fit into densely populated Lincoln Park. Even two of the most established retailers, Wal-Mart and Target, are also modifying their standard layouts to compete for city sites.

UNDERSERVED MARKETS

Locating sites in T.I.F. districts or the use of other government incentives can also help overcome economic hurdles. The City of Chicago is aggressively creating incentive programs to accelerate development in strategic areas. As part of the Illinois Medical District, Dalan Development Corp. and East Lake Development have jointly created the new 105,000 square foot Jewel/Osco-anchored center at the southwest corner of Roosevelt Road and Ashland Avenue to provide quality retail services in an underserved market.

University Village, located at the south end of the University of Illinois-Chicago, is a \$700 million mixed-use development combining city assistance with private funds. The joint venture between Mesirow Stein Real Estate, Harlem Irving Co. and New Frontier Cos. includes 930 housing units and 120,000 square feet of retail development. The redevelopment of the former Maxwell Street market will provide an economic boost to the University and Pilsen neighborhoods.

As demographic shifts in the City of Chicago provide new retail opportunities, rising land prices are forcing retailers to consider alternative concepts. The success of new multi-level and modified stores will be closely watched by retailers looking to enter high barrier-to-entry markets.



The new two-story Jewel/Osco retail center at Roosevelt Road and Wabash Avenue in Chicago, Illinois

MJ Partners Capital Services Rate Check

Ten-year Treasury rates, the benchmark for most commercial real estate mortgages, continued to fluctuate in a trading range of 4.8% to 5.20% in the first half of the year. As of the date of this writing (mid-June), these rates are at the lowest point (4.8%) since early-December of 2001, creating the best opportunity for permanent financing since post-September 11th.

Short-term rates are similarly at historic lows with most Libor rates below 2.0% for periods up to six months. Commercial mortgage spreads over government Treasuries have remained fairly constant providing fixed rate loan opportunities in the mid to high 6% range for five year to low 7.0% range for ten year terms.

Treasuries had their biggest weekly gain since January as declines in consumer confidence and

retail sales forced some investors to sell stocks and purchase government bonds. Inflation appears to be under control and the economy's advance out of a recession is appearing to slow as consumers who previously supported the economy with high-ticket purchases such as automobiles have reduced their buying in light of the cessation of zero-percent financing programs by manufacturers as well as previously satiated demand.

The Federal Reserve seems to be on hold until there is evidence that the economy is really picking up steam. All this is accentuated by a continuing gloom in the stock market that has been impacted by a lack of confidence brought about by overall concerns about the truthfulness of corporate earnings estimates as well as fears of a con-

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tinuing terrorist activities in the Middle East spreading elsewhere.

Although, there are some fears concerning overbuilding in certain markets especially suburban office, most lenders feel comfortable with underwriting most income-producing property types. We have heard complaints about a lack of

activity, possibly a reflection of massive amounts of refinancing last year.

Based on the current rates and paucity of transactions, lenders are stretching to make deals. That creates favorable conditions for those who are currently looking to borrow.

—Dennis R. Nyren, Director, MJ Partners Capital Services.

Notes

MJ PARTNERS SALES/LEASES/FINANCING

- ◆ **Rand Road at Route 53, Palatine, Illinois.**
7.6 acre infill development site sold to Insignia Homes. Sale price: \$3,700,000
- ◆ **Brook Furniture Lease, 2651 Allan Drive, Elk Grove Village, Illinois.**
65,488 square foot industrial lease.
Lease rate: \$4.85 Net
- ◆ **5151 Church Street, Skokie, Illinois.**
11,400 square foot flex office building.
Sale price: \$680,500
- ◆ **3175 Commercial Avenue, Northbrook, Illinois.** 4,377 square foot office space.
Lease rate: \$12.50
- ◆ **Walgreen's-anchored Shopping Center, 95th Street and Jeffery, Chicago, Illinois.**
87,000 square foot center with new 15,000 square foot Walgreen's. Loan value: \$6,700,000
- ◆ **111 West Elm Street, Chicago, Illinois.**
Three-story commercial building.
Sale price: \$400,000
- ◆ **Armour Boulevard, Mundelein, Illinois.**
1.5 acres sold for new Rollomatic, Inc. warehouse/office. Sale price: \$351,637

MJ PARTNERS EXCLUSIVE NEW LISTINGS

- ◆ **Broad Ripple Self Storage, Indianapolis, Indiana.** 71,850 square feet, 642 units, 70% occupied. List price: \$3,750,000
- ◆ **Loveland Self Storage, Cincinnati, Ohio.** 64,995 square feet, 554 units, opened in 2000, 50% occupied. List price: \$3,125,000
- ◆ **232 East Main Street, Barrington, Illinois.** 9,000 square foot retail and office building in downtown Barrington.
List Price: \$1,200,000

OTHER NEWS

- ◆ **Marc A. Boorstein, CCIM** and principal of MJ Partners has been chosen as one of Real Estate Chicago magazine's "40 under 40".



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