

MARKET BEAT

DEVELOPING TRENDS IN THE CHICAGO OFFICE MARKET

2ND QUARTER 2017

MB Real Estate

TRANSFORMATION IN THE SOUTH-WEST LOOP

Six major developments are slated for construction in the southwest corner of Chicago's Loop. Excitement about the future of the area has increased with the recent announcement that Amtrak has selected Chicago-based Riverside Investment & Development Co. to revitalize Union Station and develop 14 acres of the surrounding real estate.

Other large nearby projects include: the redevelopment of Chicago's Old Main Post Office, the renovation of Willis Tower, the construction of a new office building at 625 W Adams, and two large mixed use residential communities.

Investors are already taking notice of the emerging real estate and buying up property in this area of the Loop. Close proximity to the CBD and transportation options make the area a competitive commercial district, and the completion of these projects has the ability to transform the area from a quiet, peripheral corner of the CBD into a vibrant office, retail, and residential district.

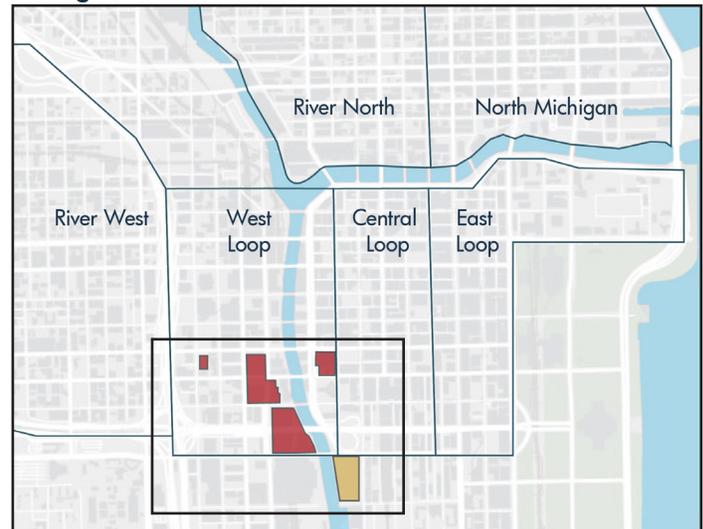
CHICAGO'S OLD MAIN POST OFFICE

The redevelopment of Chicago's Old Main Post Office is officially underway after many years of failed development schemes. The massive building, located on the west side of the Chicago River between Van Buren and Harrison, has been vacant since 1997 and requires significant interior and exterior renovations. 601W Companies, a New York based developer, purchased the 2.7 million square foot building for \$130 million in the second quarter of 2016. Upon completion, the Post Office will boast the largest continuous floor plates in Chicago.

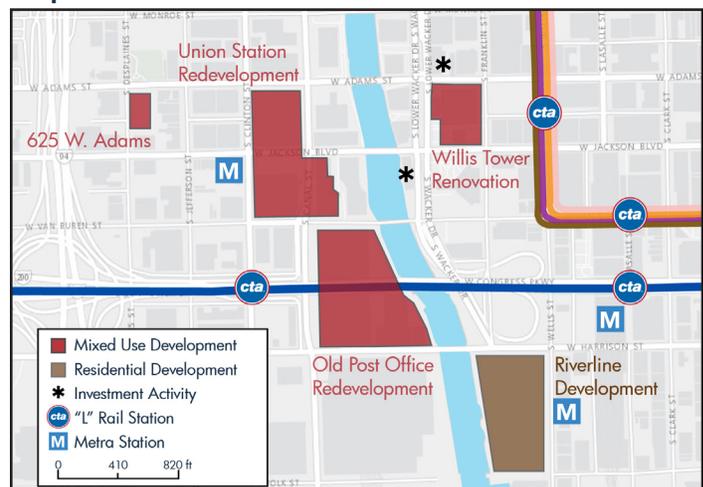
Plans for transforming the historic art deco building into an office development include: a large public riverfront plaza with a boat launch and outdoor seating for restaurants; a food hall on the

MAP OF INVESTMENT AND DEVELOPMENT ACTIVITY IN SOUTHWEST CORNER OF CHICAGO'S LOOP

Chicago Submarkets



Map of Inset



first floor; a tenant lounge, library, fitness center and conference center; a three acre rooftop park; and over 300 indoor parking spaces.

“Upon completion, the Post Office will boast the largest continuous floor plates in Chicago.”

The development offers a rare opportunity for 250,000 square foot open floor plates with 18 foot ceiling heights. There will also be three terraces available as private tenant spaces. Currently, gross asking rents are around \$37, a very competitive rate for a new amenity rich development. The first tenant spaces are expected to be ready for occupancy in 2020.



I-290 heading west under the Old Main Post Office.

UNION STATION

Just north of the Post Office is Union Station, where the initial design released by Riverside Investment & Development includes 3.1 million square feet of office, residential, hotel, and retail space to be built in three phases. The first phase will be a renovation of Union Station’s historic headhouse, which will include: a 110,000 square foot food hall, 100,000 square feet of offices and hotel rooms, and the addition of two 12 story residential structures on the roof.

The second phase will be to redevelop the block south of Union Station with 1.5 million square feet of office space, and the third phase will include the development of 500,000 square foot

residential building on top of the existing train tracks on the east side of Union Station.

The deal between Amtrak and Riverside has not been finalized and will need to be approved by the city as a planned-unit-development. Assuming all goes well, the first phase is expected to begin in 2018.

WILLIS TOWER RENOVATION

The iconic 3.9 million square foot tower, located at 233 S Wacker, was once the world’s tallest skyscraper, and remains the tallest building in Chicago. The tower proved that it is still at the forefront of commercial real estate when it broke another Chicago record recently, having been bought by Blackstone Group in 2015 for \$1.3 billion, the largest sale in Chicago’s history.

Blackstone has begun a \$500 million renovation of Willis Tower, which the company claims is the most it has ever invested in a single building. The renovations will replace the existing plaza with a glass wrap-around structure at the base of the tower, expand the Skydeck tourist attraction, and add amenities for building office tenants.

The addition to the base of the building will include 300,000 square feet of rentable space, a winter garden, and an accessible rooftop with green space. Approximately 55,000 square feet has been leased to Convene, an East Coast based company that provides corporate meeting and event space. Blackstone intends to fill the remainder of the addition with destination-quality shopping, restaurant and entertainment options.

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Office tenants will benefit from 150,000 square feet of new amenities that will be dispersed throughout the enormous building, including a 30,000 square foot fitness center and spa, a cafe lounge, and private event space.

Blackstone has been aggressively recruiting new tenants, bringing the building up from 70 percent leased, at the time of sale, to



Willis Tower, with Old Main Post Office and Riverline site in foreground.

89 percent leased. Recent new deals include Environmental Systems Design's lease of approximately 42,000 square feet, GATX Corporation's lease of 65,000 square feet, and National Restaurant Association's lease of 50,000 square feet.

625 W ADAMS

625 W Adams is currently under construction and will be a 434,931 square foot office building from developers White Oak Realty Partners and CA Ventures. Construction began in the second quarter of 2016 and is expected to be completed in the second quarter of 2018. The developers broke ground on the building before they pre-leased space to any tenants, which is unusual. At the time of publication, no tenant commitments have been announced.

The building is the largest block of space currently being marketed, so it should be an excellent opportunity for large corporations looking for a new headquarters. Until now its location in the southwestern quadrant of the West Loop has made it a bit of an outsider, but the news of the changes coming to the nearby Union Station is likely to bring more interest to the area.

LARGE SCALE RESIDENTIAL DEVELOPMENTS

There is a large scale residential development project getting started just south of the office proposals on a 14 acre site along the east bank of the river. Riverline, which broke ground in September of 2016, will help to revive the area and add to the live-work-play environment by providing nearby housing for the many office workers to come. The master plan for the development includes eight buildings with approximately 3,600 new housing units, 16,000 square feet of retail space, a six acre park, and a half-mile addition to Chicago's Riverwalk.

Additionally, plans for another project were recently announced by Related Midwest for the 62 acre riverfront site further south. This development would be one of the largest in Chicago history.

INVESTORS TAKE NOTICE

Two investment sales in the vicinity indicate investors taking notice of the coming transformation. One office building has recently sold and another is under contract, both of which will likely be renovated and repositioned over the next few years.

Metlife sold 125 S Wacker to Callahan Capital and Ivanhoe Cambridge in May for \$145 million (\$284 per square foot). The 576,000 square foot Class B building was 80 percent leased at the time of sale.

Golub and Alcion Ventures has a contract to purchase 300 S Wacker from Beacon Capital Partners for approximately \$155 million (\$275 per square foot). The 563,638 square foot building is currently 90 percent leased.

More purchases and announcements for development are likely to surface in the South-West Loop in the coming years.

THE FUTURE OF SOUTH-WEST LOOP

South-West Loop appears to have a bright future as one of Chicago's up-and-coming districts. However, the question remains whether or not the market will be able to absorb these new developments. Easy access to public transportation and the interstate, combined with new amenities and residential options in the area, should make the office developments strong competitors for the most sought after tenants.