

# Choices abound in I-80 Corridor

By Paula Widholm

The hotbed of spec construction in the past few years has been in the I-80 Corridor, and the building of these large distribution centers there shows no sign of slowing.

"Counting all started and planned facilities, there are almost 24 new projects in the I-80 and I-55 submarkets," said Susan Wehrenberg, vice president, Duke Realty. "There's definitely supply. That's the submarket that has continued to perform. If you build it, they will come. While it is a little concerning when 24 people are talking about building there, that market is extremely viable and is definitely the hot spot for years to come. There's definitely more capacity down there."

Once companies decide to take a large distribution facility in that market, they're typically ready to move in immediately. Thus, most developers now need to have product up and ready. Just two years ago, Georgia-Pacific sought an immediate 1 million sq. ft. and could only find one such building up and ready to go, and the paper producer bought the CenterPoint building in Elwood. Now, two years later, there are many more choices for companies needing that much space in the south suburban industrial market.

"Historically the big deals have gone to existing product, so if there's not existing product up that's a problem," said Michael Sullivan, Jr., president, Peak Construction Corp. "So I think now they've got a choice of where they want to go, but if you don't have one up and you're just waiting for them to come, that's probably not the best approach."

Often moves into these big buildings are the result of consolidations of several other distribution centers. "Consolidations take a lot of time," noted Cindy Bischof, SIOR, principal, Darwin Realty & Development Corp. "You've got logistical studies and labor studies. The bigger the deal the more departments get involved in the decision-making process. Consolidations will continue to happen into these big buildings. I think that it'll just take time to be able to nurture these deals."

Todd Vezza, vice president, investments,



CenterPoint Properties, agreed that it's important for a developer to have product up in the I-80 Corridor. "When a company decides to go, it's not a 12-month cycle," he said. "They want to be moving in in 90 days. Once that decision is made, it's important to have something up. Companies look at what their inventory is and the time frame out in that market. You will see it eventually get absorbed."

Daniel Leahy, SIOR, executive vice president, NAI Hiffman, predicted that some of these large spec buildings up in the I-80 Corridor will be filled with more than one tenant. "There's only a certain tier of companies that can take in excess of 1 million sq. ft. in one building," he said. "There is that second tier of importers/users that are between the 400,000- to 600,000-sq.-ft. range that are going to help absorb space. It wouldn't surprise me if a lot of those buildings get divided into two if not three tenants."

Another reason there are so many spec buildings along I-80 is "because there's nothing left along I-55, and you cannot build a big warehouse in I-55," said John Picchiotti, first vice president, ProLogis. "Shockingly, in the I-55 market now you're doing the infill building. Ten years ago that submarket was a pioneering market and all of the sudden everything is gone and absorbed, so it's pushing out to I-80. It's just a natural progression of the market, and that's where the next



AMB Property Corp. is building this 1 million-sq.-ft. spec building in Minooka. Approximately 24 new speculative big box facilities are either in the planning or development phase along the I-80 Corridor.

action is going to be."

Also for some 400,000-sq.-ft. tenants in the I-55 market that need to grow, I-80 is the next evolutionary path. "You've got all of these apple seeds planted along I-55 that don't want to dramatically relocate from where they've already gone, so they look at those big boxes in I-80," Sullivan said.

While big boxes are pushing down along I-80, Picchiotti noted that I-55 has good activity and good fundamentals. "I-55 has been the most active market for us this year," he said. "A lot of users want to be there. They see that as main and main. If you're down there, you're mainly a regional distributor. If the lion's share of a company's distribution is local, their best location is North DuPage and along that I-355 Corridor to distribute throughout Chicago O'Hare. As you move south

along I-55, it's more of a regional or national profile."

In the past year, Todd Vezza, vice president, investments, CenterPoint Properties, said he's been hearing brokers say rental rates are going up in I-55 as occupancy is going up there.

Picchiotti wholeheartedly agreed that rental rates are rising along I-55. "Land prices are pushing up, the cost of construction is very high. Replacement costs are up, and you see a stabilization of cap rates. People are still buying at very high numbers. Where do you go but up? It's impossible enough to see land values going up, yet rates have been stable. I do think in that submarket, especially because you're not getting all that supply dumped into that submarket anymore, it's going to tighten up."

He also noted the market difference

between I-55 and I-80. "If a tenant has their preference, and they can be in I-55 versus I-80, they're going to take I-55," Picchiotti said. "But, to get what you want with the big DC and adequate trailer parking, there's going to be that trade off. Rates have no where to go but up."

Howard Green, executive vice president, Meridian Design Build LLC, noted that the new construction his firm has been doing in the I-55 submarket has been mostly smaller buildings. "Companies are maxing out the sites that are left, but in most cases developers are building 240,000 to 350,000 sq. ft."

Users in that size range of 250,000 to 350,000 sq. ft. are definitely staying in the I-55 submarket rather than going out to I-80, noted Susan Wehrenberg, vice president, Duke Realty.