

CIP Editorial Board wraps up submarket activity

By Paula Widholm

In addition to noting economic changes affecting the local industrial market, Chicago Industrial Properties' editorial advisory board members also provided snapshots of some local submarkets. Following is a synopsis from the roundtable discussion held in early December.

Lake County/Southeast Wisconsin

Lake County "is exploding," said Todd Vezza, vice president, investments, CenterPoint Properties. "Seven years ago, that's where I went to find a deal with a nice high cap rate and not a lot of people circling around. But now it's unbelievable, the rental rates, the time this stuff gets absorbed by; Lake County is hot."

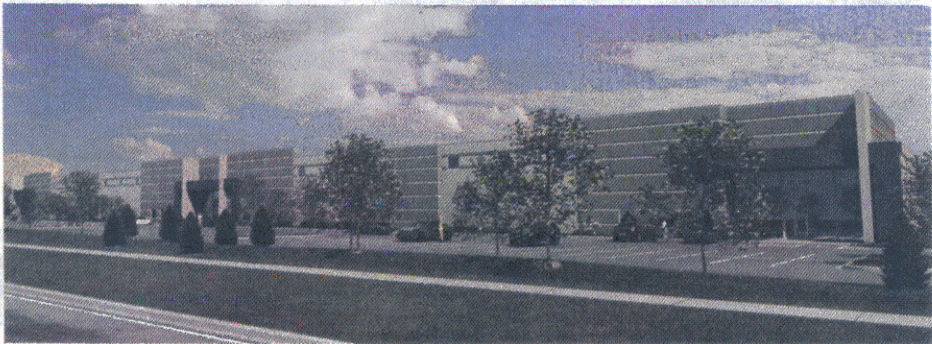
Bridge Development Partners' Aptakisic Creek Corporate Park in Buffalo Grove is the only project under construction right now in Southern Lake County for new 30-ft. clear space, according to Anthony Pricco, a principal of the firm.

In Lake County "the barriers to entry are huge," Pricco said. "Municipalities are a little more difficult. The sites have a little more hair on them, and there's probably not utilities; but if you can get in and figure it out, there's demand in that market."

Pricco noted that the typical user in Lake County is "a privately owned company where the owners live in Lake Forest and their employees are coming from 10 minutes west. It may not be the best place to be from a distribution model. But from a quality of life viewpoint, this is where they want to be. There are not a lot of options."

Vezza agreed. "You think of Lake County as open space, but for developable industrial space, it's slim pickings up there."

Over the past five years, the amount of institutional investors putting dol-



Bridge Development Partners' Aptakisic Creek Corporate Park in Buffalo Grove is the only new industrial construction in southern Lake County where demand for new 30-ft. clear space is high.

lars into industrial product in Lake County and Southeast Wisconsin has skyrocketed. "When we did the Wispark joint venture [in Pleasant Prairie, Wis.], I thought 'this is going to take forever,' but it's turned out to be one of our best joint ventures."

I-88 Corridor

"The emergence of I-88 is something that always gets skipped over," said Daniel Leahy, SIOR, executive vice president, NAI Hiffman. "It's going to be an interesting year with the amount of speculative construction we're seeing there."

He noted that I-88 is benefiting from the infill happening in central DuPage County. "Because of growth and consolidation, companies in DuPage as well as Fox Valley are looking for options," Leahy said. "If you have a 400,000-sq.-ft. requirement within the Carol Stream, Glendale Heights market, you're options are very limited, especially for a newer, more efficient building."

"We're going to be surprised, and we've been surprised to see I-88 absorb and achieve higher rental rates than we've seen in I-55," Leahy contin-

ued. "We've been able to achieve rental rates that are 25 to 30 cents higher than I-55."

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Vice President, Investments,
CenterPoint Properties

Absorption along I-88 has also been at a quicker pace than I-55, according to Leahy. For example, Liberty Property Trust leased its first 607,752-sq.-ft. building to Kaplan Dearborn Logistics and Suncast. The

other 592,539-sq.-ft. building was leased to UTI/Panasonic. Both deals, represented by NAI Hiffman, were absorbed prior to completion.

"That's something that down in I-55 we haven't seen," Leahy noted. "It'll be interesting to see next year when there are three buildings larger than 400,000 sq. ft. coming online to see how those are absorbed, but its definitely a market we want to keep an eye on."

I-39 Corridor

Absorption along I-39 could be some time out, according to Susan Wehrenberg, vice president, Duke Realty. "There needs to be some more absorption in I-80 between Morris and University Park," she said. "It's just the natural progression to continue to go west. There are users that look at I-39 as an alternative to being in the metro Chicago area. You do get more aggressive incentive packages, less traffic, and rail opportunities. There are a lot of benefits to it. In the next 12 to 36 months, it could become more and more of reality."

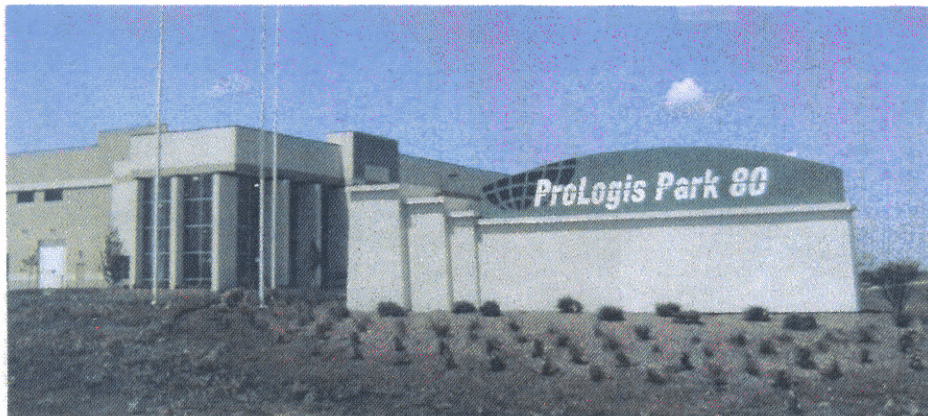
Cindy Bischof, SIOR, principal, Darwin Realty & Development Corp. said she sees I-39 as more of a build-to-suit market. "I don't see spec out there. The challenge is that the deals are all rail-driven. I think from a migration standpoint, it's a huge jump from a labor standpoint. It's about an hour away. It's a whole new labor base. It's going to be companies coming in from outside of the area or consolidating or a customer of the railroad elsewhere. Unless someone is looking to get away from a union or outside the Chicago area, they won't go there."

Vezza agreed that I-39 is not a migratory move. "It's one of these things where companies are looking at where the highways and rail are."

For now, I-39 offers domestic/cargo rail. "One of the challenges of bringing intermodal out there is that there is capacity at Global I and Global II," Leahy said. "Until Union Pacific desig-



Space gets absorbed fast in the I-88 Corridor. Liberty Property Trust leased both its buildings at Liberty Business Center in Aurora prior to completion.



Spec construction is not commonplace for the I-39 Corridor, except when it's near I-80. Kraft Foods took 806,400 sq. ft. there last year in ProLogis Park 80. Further north and south along I-39, regional distributors occupy large build-to-suits.

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nates international in one place and domestic in another place, you're going to continue to see companies have the choice where to bring goods. It's certainly a lot more efficient to distribute to Chicago than to Rochelle. For the amount of turns you can get for a distributor to bring goods to Northlake and to their DC versus

bringing it to Rochelle, it's a no-brainer. They should be at Global I or Global II. It's a lot more efficient."

Nonetheless, the I-39 Corridor has attracted its fair share of users. Michael Sullivan, Jr., President, Peak Construction Corp., noted the many retailers out there as well as big developers that have put spec near I-80 and I-39. "When IDI went to Roek Run, everyone looked at them like 'what are

you doing down there, then everyone embraced that vision and went out there too," he said. "Macy's went into Opus' existing building in Morris. [Kraft went into ProLogis' Park 80], and those buildings were already up."

Howard Green, executive vice president, Meridian Design Build LLC, noted that for companies seeking to get product up to Wisconsin or Minnesota, I-39 makes sense. "It's out

and away from Chicago," he said. "Clark Steel is out there with a 10-year lease, and they're putting raw material on the rail and shipping their studs north as well as into Chicago and east. It made a lot of sense for them."

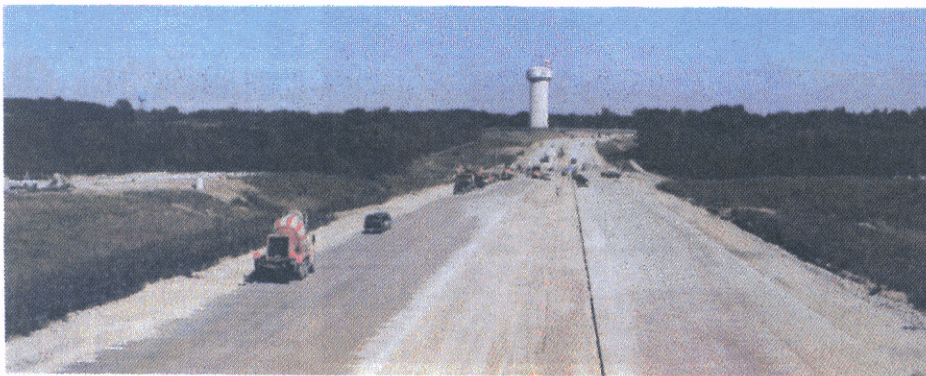
I-355 extension

Many wonder what will be going up along the I-355 extension, but most agree that it won't be big box industrial.

"The I-355 extension is going to cater to corporate headquarters and a smaller type industrial user between 50,000 and 300,000 sq. ft.," Leahy said. "It's not going to be competitive from a leasing standpoint. The limited land sites mean there's going to have to be a premium charged to absorb the land prices and the cost to come out of the ground there. Some of the parks that are being laid out there are going to be catering to smaller users, similar to the evolution of I-355 from the Itasca market all the way down. It'll be for companies that want to have headquarters that are convenient to I-355 as well as smaller distribution centers."

Veza said he envisions the I-355 extension as place for smaller buildings similar to what's seen in the Lombard and Addison area. "There has

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Don't expect to see any big box industrial along the new I-355 extension. This new leg of expressway will more likely be home to office and retail with some small industrial use.

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been a lot of off-site work and costs and issues as far as roads and access," he said. "It's going to be a time-consuming task to get that stuff out of the ground because a lot has been grabbed up for other uses."

Also, the municipalities down there want higher and better use, according to Pricco. "There are a couple of sites they've positioned for industrial development, but most of it's commercial retail, office and multifamily. There's only a handful of sites that they'll let you develop for industrial, and they're expensive, and they don't want big box."

One reason the municipalities don't want to be another big box community may also be that "a lot of those people had to deal with I-55 traffic congestion and seeing trucks back up at Weber Road in the middle of the day and they just don't want that," Sullivan said.

Northwest Indiana/South Suburbs

At the end of 2006, the inventory tax went away in Indiana, "which was the gate that opened up Indiana," Bischof said. "Indianapolis was not much affected by inventory taxes because the

tax was assessed on goods that stay within the state. So, when you had big box distribution down in Indianapolis, a lot of the goods were going outside of the state, so people were not as affected."

"A lot of the south suburban developers and a lot of the I-55 developers want land positions in Indiana," Bischof said. "There are some barriers to entry getting in and getting entitled land. You've got to have 10-year tax abatements to compete with some of these TIFs in University Park. Still, in Hammond and Gary, you've got Brownfield development and buildings that exist on site and you don't have municipalities that are willing to tear a lot of that down and you can't get the 10-year tax abatement to be able to support it. You've got Union Bank of Switzerland, Lincoln National Life, Holliday are the three main players in Northwest Indiana. Although interest rates are low, you've got a lot of people that want to come over the border. Land prices are relatively inexpensive, but developers work so hard to entitle land, they want to do build-to-suits for lease. It's a challenge because there's pent up demand to get into the market, but most of the land available is east of Portage or south of Merrillville, and you can't justify the

pace of absorption or velocity by taking down a piece of property there. So I think there's definitely interest by developers and by users, but the devel-

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& Development Corp.

opers are going to have to be a little more pioneering in terms of their land positions and by distance away from the state line. There was about 2 million sq. ft. that we leased or sold in Northwest Indiana last year. It's significantly down this year because we're waiting for 1.2 million sq. ft. to come

on line again, which won't be available until next year."

"In the South suburbs, you're starting to see land positions in I-394," Bischof continued. "I've seen a huge amount of rail activity especially by smaller users as low as 30,000 sq. ft. with significant rail volume of four to five cars a day."

For example, DSC Logistics took 111,550 sq. ft. within the Calumet Business Center in October and subsequently expanded that lease to 161,165 sq. ft. two months later. "They needed 720 linear ft. of rail, and they couldn't get it elsewhere. In a perfect world, I'm sure DSC would have loved to have been in 32-ft. clear and 50-by-50 bays, but the reality was that the rail infrastructure that was in place was in a building that was 18-ft. clear and 28-by-48 bays. They had to make some concessions based on the fact that the rail infrastructure was in place. I think there's a huge pent up demand for rail, but not necessarily intermodal business."

"If you've already got rail and it's in an existing building, it's a huge amenity," Sullivan said. "If you want to get it in your building, and get someone's attention to give it to you; it's next to impossible. The railroads are so focused on intermodal that the little guy who wants to get a new rail spur can't get their interest."

For an overview of the I-80 and I-55 submarket, see the cover story "Choices abound in I-80."



TCB Development and Tobin Development are building this 574,249-sq.-ft. distribution center in Midpoint USA in Portage, Ind. Leasing activity should pick up in Northwest Indiana once 1.2 million sq. ft. of industrial comes online there this year.

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