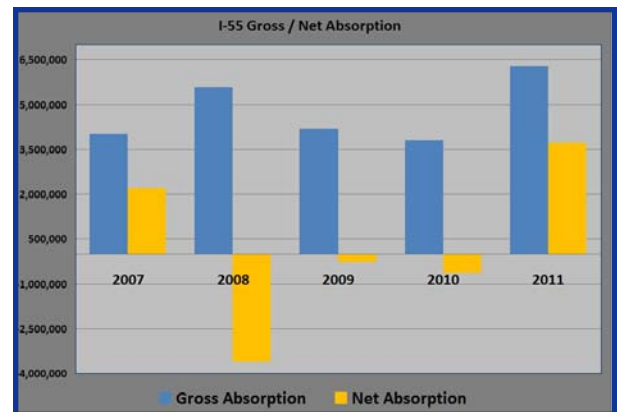


## "HIGH NET ABSORPTION LEADS TO HUGE VACANCY REDUCTION"

Although the economy had only modest growth and unemployment remains at modern era highs, absorption of industrial space in the I-55 Corridor during 2011 approached levels not achieved since 2006. Approximately 6.3 million square feet of leases, subleases and renewals were recorded in 2011. This high level of gross absorption combined with another year of no new speculative development resulted in a net absorption of 3.7 million square feet and a reduction in vacancy from 19.34% on January 1 to 13.76%, at year end. The 558 basis point drop in vacancy is the highest ever recorded by Champion for a 12 month period. 2011 gross absorption consisted of:

- ◆ 1.67 million square feet of lease renewals
- ◆ 362,500 square feet of build-to-suit leases
- ◆ 4.27 million square feet of new leases and sales to end users



### Notable Transactions

The largest lease transaction of the year was the 800,000 square foot lease at 1701 Remington Blvd in Bolingbrook. Diageo North America leased the entire facility from AEW for a reported 72 month period beginning early 1st Q of 2011. Terms included extensive free rent, a low base year rental with rents escalating to \$3.18 per square foot NNN in the last year of the lease.



1070 Windham Parkway, Romeoville

The largest spec building lease occurred in the Pinnacle Business Park in Romeoville. Samsung Corporation entered into a reported 10 year lease for the entire 650,000 square feet at 160 South Creek Parkway. The cross-dock distribution center designed and developed by Pizzuti Development is a LEED Gold certified facility that will provide Samsung with significant energy savings during their lease.

The largest lease renewal occurred at 1070 Windham Parkway in Romeoville. Home Depot renewed their lease on 723,291 square feet. Market sources reported the renewal term was 24 months. The 30' clear, 90 dock warehouse/distribution center is owned by the Estate of James Campbell.

The only significant build-to-suit in the I-55 Corridor was the Edward Don BTS. The 362,500 SF build-to-suit is a joint venture development between McShane and the original landowners Gallagher & Henry. Located at the intersection of I-55 and I-355 in the new Union Pointe Business Park in Woodridge, the facility will be ready for occupancy in the fall of 2012. Improvements include a two-story 55,000 SF corporate office component, a 32 foot clear warehouse ceiling, 38 docks, 20 trailer stalls and car parking for 380 vehicles. In return for a 20-year lease commitment the State of Illinois and the Village of Woodridge provided meaningful economic incentives including sales tax abatement.

### *Rents and Other Lease Terms*

A predictable result of the large positive net absorption and dramatic decrease in the vacancy rate during 2011 is the increase in net effective rents and a decrease in free rent. For most of the last 24 months net effective rents have been under severe downward pressure. This began to change in the 3rd Quarter of 2010. Net effective rents for leases greater than 250,000 square feet in size increased on average 5% over similar size leases in 2010. Free rent averaged less than 1 month per lease year during 2011. Lease proposals reviewed by Champion during the 4th Quarter of 2011 averaged 3 months of net free rent for a 5-year term and 5 months of net free rent for a 7-year term. Rents for spaces below 250,000 square feet increased 3% to 4% with free rent similar to leases above 250,000 square feet. Demand for specialty properties such as motor freight terminals and food production facilities increased in 2011; and largely went unfulfilled.

Due to the number of leasing options available to tenants going into 2012 we estimate rents for spaces between 300,000 SF and 400,000 SF will remain relatively flat with a slight uptick in free rent. Above 500,000 SF tenants will have few options unless some of the large leases expiring in 2012 are not renewed. Below 150,000 SF rents should increase 3% to 4% with free rent similar to that proposed by landlords in 2011. Credit worthiness will continue to be a factor in landlord underwriting criteria. A table of the largest available spaces is attached at the end of this report.

### *Investment Sales*

Our 2010 year-end prediction that investment sales in 2011 would be anemic was completely wrong. Nineteen (19) properties totaling 4.915 million square feet of space traded hands in the I-55 Corridor during 2011. Big sellers included H S A, Northern Builders and Pannattoni. The average sale price for all buildings sold was just over \$48 per square foot. CAP rates ranged from 6.5% on the high side to a low of 5.75%. The two largest sales are:

- ◆ 740 ProLogis Parkway, Romeoville - this 805,912 square foot building is fully leased to Kimberly Clark. The property was sold by Colony Realty Partners to LaSalle Investment Management for a reported \$30,200,000 or \$37.47/SF;

- ◆ 160 South Creek Parkway, Romeoville - a 650,000 square foot spec building leased long term to Samsung (electronic and appliance distribution). Located in the Pinnacle Business Park this building is a LEED Gold certified property. The property was purchased by LaSalle Investment Management from Pizzuti Development. Market sources estimated the CAP rate for this sale was well below 6% due to the long term lease and solid credit of the tenant.

### Summary

Significant progress was made in 2011 towards achieving a supply/demand balance in the I-55 Corridor. With steady demand net effective rents should increase 4% to 5% in 2012 for spaces above 400,000 SF and below 300,000 SF. Tenants will continue to have the upper hand in the 300,000 to 400,000 square foot range. Demand for space below 150,000 SF will increase in 2012. Although landlords are finally seeing rent growth we do not expect any spec development to occur in 2012. Requirements above 500,000 SF will most likely have to take the build-to-suit route. Champion is tracking prospects in the market for approximately 1.4 million square feet. Land sales remained practically non-existent in 2011 but should pick up some in 2012. CAP rates will trend a bit lower in 2012.



**160 South Creek Parkway, Romeoville**

*Champion professionals continue to uncover new and profitable opportunities for our clients in the I-55 Corridor of Chicago. For more information on current Champion projects please log onto our web site [www.championre.com](http://www.championre.com) or call us at 630-598-1001.*



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