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# Strong I-55 activity leads to talk of new development

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The I-55 corridor has been the hottest industrial market in Chicago. Positive absorption is close to four million square feet thus far in 2011 and developers are beginning to test the waters of speculative construction.

“We have done about 4 million square feet of deals in 2011,” says J.D. Salazar, managing principal at Willowbrook-based Champion Realty Advisors LLC. “In the heyday of 2006 and 2007 we were doing 6 million square feet a year.”

Salazar expects the activity to die down a little bit, as many of the big users have landed, but the overall trend is one of positive growth.

According to Champion, the I-55 corridor recorded 2,241,278 square feet of absorption in the first quarter and 1,549,332 in the second quarter. Vacancy now stands at 14.5 percent, a 484 basis point drop from the vacancy on January 1, 2011. These numbers were bolstered by a few mega-deals, with Diagio leasing 800,000 square feet from ING in Bolingbrook in the first quarter and Samsung leasing 650,000 square feet from Pizzuti in Romeoville’s Pinnacle Business Park in the second quarter.

Yet in a sign that the overall market in the I-55 corridor is healthy, large firms are not the only entities that are currently active.

Samsung leased 650,000 s.f. from Pizzuti in Romeoville’s Pinnacle Business Park

Terry M Grapenthin, senior vice president with Cawley Chicago Commercial Real Estate, says that the South I-55 corridor has experienced approximately 25 deals from 10,000-75,000 square feet in the first half of 2011, demonstrating that businesses are beginning to gain confidence and upgrade or expand their space.

There is a general feeling that the market hit bottom sometime last year and that rents will begin to escalate as the economy continues to improve, prompting many firms to get off the fence and take advantage of opportunities that currently exist.

“Rents are not as low this year as they were last year,” says Salazar. “Last year was definitely a bottoming out. We probably hit bottom around the second quarter of 2010. This year, net effective rents are up 8-9 percent over last year.”

In another sign that momentum is shifting away from tenants, the concession packages that are typically a part of new lease deals are begin stripped back when compared to previous years.

Salazar says that they are “still pretty generous” but that concessions such as free rent are not as abundant as last year.

“The average has been a free month (of rent) for each year of deal,” says Salazar. “Now we are getting proposals that instead of one month offer half a month. I just did a five-year deal with only 3 months of free rent.”

### Development

The strong market has led to talks of new development. While there is still a fair amount of Class A space available, some developers are sitting on vacant land that is drawing little attention. As leasing continues to take place at a robust pace, some believe that it would be better to have leasable property on a site, rather than waiting for a build-to-suit opportunity.

Bill Keeley, president of Keeley Construction, says that he has recently submitted a proposal for a speculative development of less than 100,000 square feet at the request of an unnamed developer in the I-55 corridor.

"Because of the absorption, some developers have come to the conclusion that nothing will happen by sitting on land," says Keeley. "If they have a building, a deal could come quicker."

If the deal goes through, Keeley says that the product could be delivered in the first half of 2012.

Rental rates may still be too low for some developers to justify construction, but with few sites available along the corridor, it may be a fortuitous time to begin investing in land.

"We are actually seeing so much activity in certain size ranges that we think developers should be taking down land," says Grapenthin. "Rental rates may not justify development yet, but there is very little land left and rental rate recovery is close. We believe that we could see some planned projects by next year."

### Investment sales

Investor confidence has improved as well, with new equity finding its way in to the market. The largest deal in the corridor this year has been the purchase of 740 ProLogis Parkway in Romeoville by LaSalle Investment Partners for $30.2 million. The 805,912-square-foot facility is occupied by Kimberly Clark.

Well-leased, core assets have been the favored target of investors, but as absorption and activity has increased some are speculating that rental rates will follow. As a result, a few have been willing to take some additional vacancy risk.

Grapenthin recently brokered a deal at 605 Territorial Drive in Bolingbrook, where KTR Capital Partners purchased an 182,400-square-foot building from BPG Properties. The facility was 50 percent leased at the time of sale.