

History of the Product Type

The tech boom of the early 1990's had a huge impact on the office sector of the real estate business. The early 1980's saw a new hybrid or flex product-type being built in suburban office markets combining office and tech uses. Tenants of traditional industrial space started to need a large percentage of office, as well as humidity and temperature-control features in their warehouse assembly areas. In response to the growing demand of high image & quality, well located low cost, efficient (compared to high rise office), space; and low cost land developers began to build modified industrial buildings in high-profile locations.

There were many start-up, technology based companies and previously established companies that were growing at a phenomenal pace. This was causing employee hours to be extended as well. Many of these tech-based companies required light assembly. Most were price or cost sensitive. The competition to hire qualified engineers was fierce. Multi story office space did not work because of the "assembly" area space, and the long hours due to multi-story office properties having a common HVAC system, which operates on a rigid schedule, typically between 7:00 a.m. - 7:00 p.m.

Parking ratios were a good example of nuances necessary for these new proto-typical users and need to increase (1:1000 to 3:1000) as the number of employees working in such space grew. These tech types of companies needed a new product to meet their fast paced, long and flexible hour's space. Usable office square feet increased from ten percent to fifty percent. Rental rates also went from the industrial market rate of \$4.00 Net per square foot to the \$8.00-\$10.00 Net for this "new" flex/tech product. No existing product type at the time could accommodate these required needs of the new businesses. Office properties cost too much per foot and loss factors added 12-15% cost to rents. Industrial buildings couldn't accommodate the office space, the temperature control and the parking requirements.

As the technology boom continued, this product type continued to evolve to satisfy this growing demand. By the late 1990's, the needs for warehouse space (for these user types) were decreasing and new product was being built with 70-100 % of the space for office. Once rents had increased to \$12-14 Net per square foot the single story office market took off. These rates allowed acceptable returns for developers. Remember developers want to create the maximum space to lease on a particular site to maximize returns on the cost. Multi story office allows returns on multiple floors and achievable higher parking ratios. The Tech Boom found its answer for space.

Today this product type offers efficiency advantages to the user: loss factors are eliminated as mixed usage enables tenants to maximize the value of every square foot they lease, access is unlimited (unlike multi-story office buildings), each individual tenant maintains complete control over HVAC and other utilities provide low cost efficient space. Since the introduction of this product-type, nearly 700,000 square feet of single-story office has been added to the Chicagoland market.

Calwey's Involvement

Sentinel Associates of New York was seeking a new broker to take over leasing responsibilities at the CenterPoint Business Center (CPBC) in Naperville, Illinois. At the time, the four building, 106,000 square foot, single-story office/flex complex, developed by **Vantage Properties**, had an extremely high vacancy rating. Sentinel always utilized large national real estate companies for brokerage services, but was dissatisfied with the lack of success at CPBC. Their decision to hire a local company was based on their belief the tenant profile for this type of property were the branch offices of larger companies of locally based entrepreneurial companies. They wanted to match the customer profile of the building with that of a real estate agency. CCRE promised the energy and expertise to accommodate the needs of their specific customer profile.

When Sentinel purchased the facility as an advisor for pension funds occupancy stood at 68%. Within 5 months occupancy at CPBC increased to 92%. CCRE advised Sentinel on new tenants, market rates and conditions, and renewals. Throughout the nine years as the leasing agent at CenterPoint Dan maintained an average 96% occupancy level.

CenterPoint Business Center transitioned from being 50% office in 1990 with rental rates averaging \$8.00 Net PSF to including 80% office and increasing rents to \$13.50 Net PSF by late 1996. This complex became the prototype for the single-story office product which started to appear in the mid 1990's across the Chicago suburbs.

Pancor Construction & Development purchased a 15-acre, contiguous landsite and built 100,000 square feet of tech/flex space called CenterPoint West Business Center. Upon completion the projected proforma had risen to 80% office use. While CPBC experienced 98% occupancy rates and maintained occupancy costs of \$3.00 higher per square foot, 14,000 square feet remained vacant at CenterPoint West Business Center.

CCRE chased PC&D to lease and manage their development. Eventually, as a result of the CCRE's success at Center Point Business Center, PC & D contacted CCRE. We requested and received permission from Sentinael to take on this new assignment and quickly implemented a similar marketing strategy for this complex. Within 45 days the occupancy increased from 78% to 98%. This high level of occupancy allowed the developer to begin work on a 52,000 square foot speculative building. The flex features that had been planned were replaced and loading docks and drive-in-doors in the I-88 corridor were eliminated from the design creating the first true single-story office building. The asset was sold within 18 months of completion at a 9% Cap Rate (2003).

Pancor constructed a two more buildings, 60,000 square foot single-story office complex, **St. Charles Business Center**, across from the Charlestowne mall. Prior to completion, Cawley preleased 60% of the building.. Although St. Charles had previously



been an unknown office market a study of the demographics revealed a large concentration of executive housing. This market knowledge knowing that executives prefer to limit their commute to work) was key to rationalizing the decision for the development. Arthur Anderson, had a national relationship with a large multinational real estate company. Cawley Chicago Real Estate through door to door canvassing effort made direct contact with Arthur Anderson and completed the 20,000 square foot deal saving our client a tenant brokerage fee. The balance of the tenants were all procured within 18 months of construction start-up through canvassing and included: The Daily Herald, Alcoa and Malcolm Marketing. Within three years of leasing, the property was sold.

WM Krug another developer had heard about CCRE's single-story leasing success and called to discuss the potential of an office development on a site he controlled in Bolingbrook. After our initial meeting with him to outline our experience, we investigated the demographics and used our underwriting analysis expertise in single-story office to determine the viability of the project financially as well as market demographics to identify the tenant market depth. Our work resulted in a report that recommended the development but determined there were risks associated with tackling the project as the lone inexperienced developer. These concerns prompted us to recommend a joint venture. Soon a mutually beneficial development deal was agreed on by the two parties. Cawley Chicago was hired to represent the two-building, 105,000 square foot office project. Within 12 months, we achieved 100% occupancy. Later, a second phase was planned and constructed. Phase one was sold with 15 months of lease up.

AMLI was the next new developer to contact us as it related to their Wyndam lakes Development on Romeoville. They were contemplating two 50,000 square foot speculative, single-story office buildings. CCRE provided the necessary expertise for AMLI to start the development. This building was also sold within 20 months of lease completion.