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Offices planned near Lincoln Park: 'Demand far exceeds supply'

By RYAN ORI |  



A real estate investor that owns several Goose Island properties bought a site just across the Chicago River where it plans to build about 200,000 square feet of new offices near Lincoln Park.

Chicago-based R2 last week bought a 111,000-square-foot loft office building at 860 W. Evergreen St. and a one-acre property next door to it, at 1422 N. Kingsbury St., where it plans to add a new office and retail building connected to the existing structure, said Managing Principal Matt Garrison.

The property is just south of a large Whole Foods Market store on Kingsbury and just north of where R2 wants to build a bridge for bikes and pedestrians that would link the traditionally industrial Goose Island with the Clybourn Avenue retail corridor.

"They're only separated by 30 feet of water, and we want to connect them," Garrison said.

R2 is already heavily invested in the area, owning a building at 811 W. Evergreen and pursuing a few office projects it plans on Goose Island to the west. It also owns a loft building to the south at 770 N. Halsted St.

\$50 MILLION PROJECT

Garrison declined to say how much R2 paid for the newest property but said the firm plans to spend about \$50 million—including the land acquisition—constructing a 200,000-square-foot building starting early next year. "Demand far exceeds supply (of office space) in the Clybourn Corridor," he said.

The seller was a venture of Tom Melk, who once ran Outer Circle Products, which makes lunch boxes and portable coolers known for the Arctic Zone

brand, out of the building. He paid \$7 million for the property in 2000, according to real estate data provider CoStar Group. Melk did not return a call.

R2's investment partner is AIMS Real Estate, which is part of New York-based Goldman Sachs' asset management business, Garrison said.

The existing building is occupied almost entirely by the headquarters of recruiting and staffing company Seaton, which Tacoma, Wash.-based TrueBlue bought for \$310 million last year. Seaton's long-term lease provides cash flow from the property as R2 fine-tunes it plans for the new structure.

EYEING INDUSTRIAL FOR OFFICE

The area is best known for its retail properties just off Clybourn, but developers like R2 are gobbling up industrial properties along the river with an eye toward developing office buildings there. C.H. Robinson Worldwide recently decided to move its Chicago offices into a new 207,000-square-foot office building Chicago developer Sterling Bay will build along the river about 1½ miles north of R2's new site.

Another developer that already owns office buildings in the area, Chicago-based Structured Development, plans a new office and retail building on a nearby property at Kingsbury and Blackhawk streets.

Although the area has not historically been known as an office market, it could expand as existing tenants such as Seaton and Jellyvision continue growing and others eye the area amid tight supply in areas to the south such as River North, Structured Principal Mike Drew said.

"There's continuing demand, and not much supply in that area," Drew said. "There are a lot of tenants that recognize the benefits of the public transportation and amenities that are nearby. You're seeing a gradual increase in rents in that market." Next year R2 also plans to begin two Goose Island office conversions regardless of whether tenants have signed leases—converting a warehouse at 909 W. Bliss St. and expanding and converting a warehouse at 1200 N. Branch St.—according to Garrison. R2 also envisions a new office building on a boat yard across the street from 909 W. Bliss.

"We have a long-term view where we think the North Side is going to fill in around it," Garrison said. "We're willing to accumulate a portfolio there over a 10-year-plus time frame. We're all in on Goose Island."