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Sullivan Center



The Sullivan Center, formerly known as the Carson Pirie Scott Building, is one of the most important buildings in early modern architecture. The historic structure, designed by Louis Sullivan, has been restored to its former glory and transformed from a department store into an office/retail building. The work included re-creating the original cornice, which had been removed many years ago.

PROJECT SUMMARY

The Sullivan Center project involved renovation and repositioning of a historic downtown department store complex made up of nine buildings on a 2.35-acre site in the heart of Chicago's Loop. The upper floors of the building have been converted into modern office space, and the lower levels are now occupied by several retail and restaurant tenants, including a new three-level CityTarget store. The project unfolded over more than ten years and involved historic tax credits, tax increment financing (TIF), detailed historic restoration of cornices and cast-iron facades, creation of modern office and retail space, and a financial restructuring.

QUICK FACTS

Location

Chicago, Illinois

Project type

Mixed use—two uses

Site size

2.35 acres

Land uses

Office, educational space, retail

Keywords/special features

Pedestrian-friendly design, renovation, historic preservation, tax increment financing, historic tax credits, adaptive use, LEED certified, transit-oriented development, public/private development

Website

www.thesullivancenter.com

Project address

Sullivan Center
One South State Street
Chicago, IL 60603

Developer

Joseph Freed and Associates LLC
Chicago, IL 60603
312-675-5500
www.thesullivancenter.com

Historic tax credit partner

Sherwin Williams
Cleveland, Ohio

Current equity partners

Winthrop Realty Trust
Elad Canada Inc.

Sullivan Center is a complex of nine historic buildings in downtown Chicago that have been renovated and repositioned for modern uses. The first building in Sullivan Center, originally designed by famed architect Louis Sullivan, was completed in 1899 and occupied by the Schlesinger and Mayer department store until 1902, when Carson Pirie Scott and Co. (CPS) bought the building. Other buildings were added over time, and CPS operated a department store in the buildings for more than 100 years.

The original building at the corner of State and Madison streets is one of the most important buildings of early modern architecture and is famous for Sullivan's ornate cast-iron ornamentation that frames the dramatic rotunda entry. CPS built two additions along State Street that were attached to Sullivan's original corner building and followed Sullivan's plans; in 1927, the firm added a 15-story building to the site along Wabash Avenue. Eventually, CPS added or acquired more buildings for a total of nine connected buildings to form a 1 million-square-foot complex on nearly an entire city block in the heart of downtown Chicago.

In the ensuing years, many of the historic elements of the building deteriorated, were covered up, or were removed, but the building remained the site of a popular department store, an iconic structure, and a must-see building

for students of modern architecture. In 1970, the buildings were designated a national historic landmark.

Joseph Freed and Associates LLC (JFA) purchased the buildings in 2001 and restored them in phases over more than ten years, from 2001 to 2012. The redevelopment involved transforming a single 1 million-square-foot department store into a dynamic and modern mixed-use, multitenant project with office, civic, education, and retail uses.

The Site and Idea

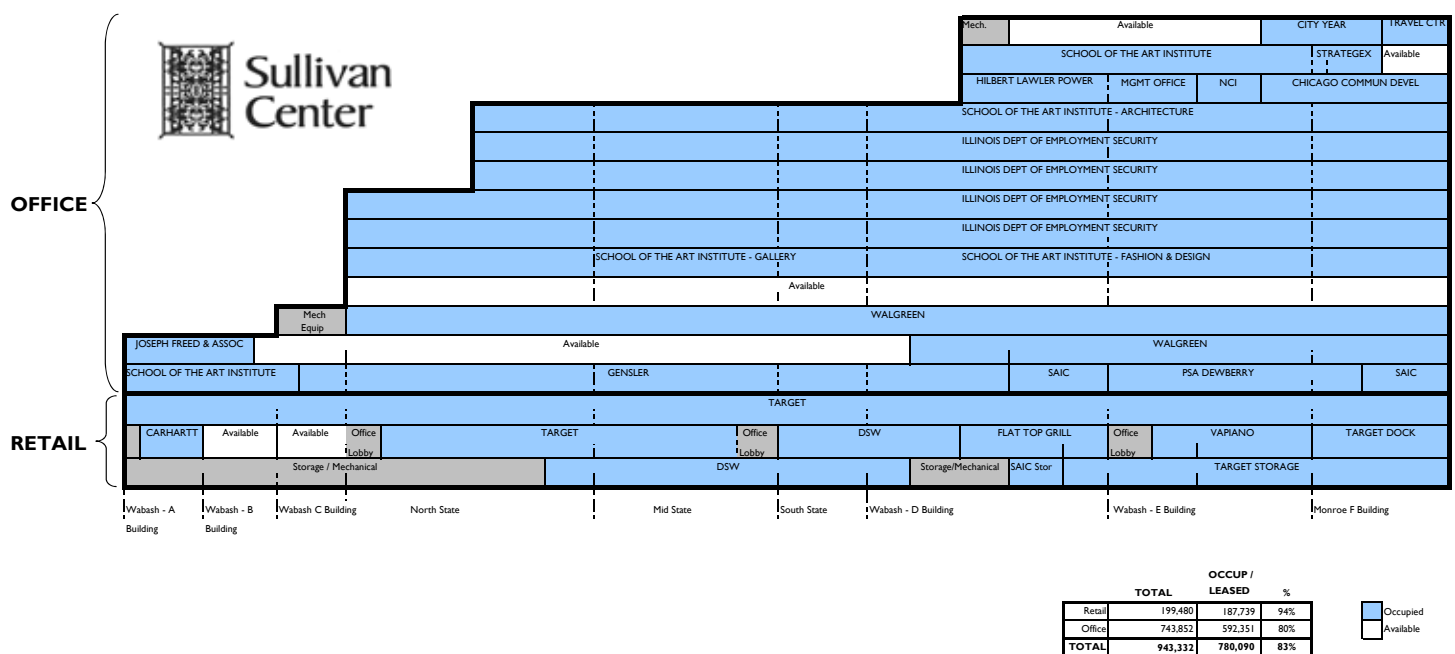
The Sullivan Center development project grew out of a relationship between CPS and JFA. Notes Larry Freed, president of JFA, "Everything starts with relationships, and our involvement with this project started with our relationship with Carson Pirie Scott, whom we had worked with before. We began the project in a consulting capacity, but this quickly changed."

Ground leases. The CPS buildings were located on a site with 20 separately owned pieces of land, including four that were 100-year ground leases set to expire in 2001. CPS brought JFA in to work on a plan to consolidate and renew or acquire the ground leases. JFA realized that the legal and ownership issues were tangled, to say the least, and soon engaged with the city of

Chicago, emphasizing that fragmented ownership of the land could undermine the viability of the historic buildings. The city stepped in, working with JFA to assemble, through condemnation, the various ground lease and ownership interests into one ownership parcel. The land and building were subsequently acquired by JFA; CPS then leased back the lower floors, where it continued to operate a 650,000-square-foot department store.

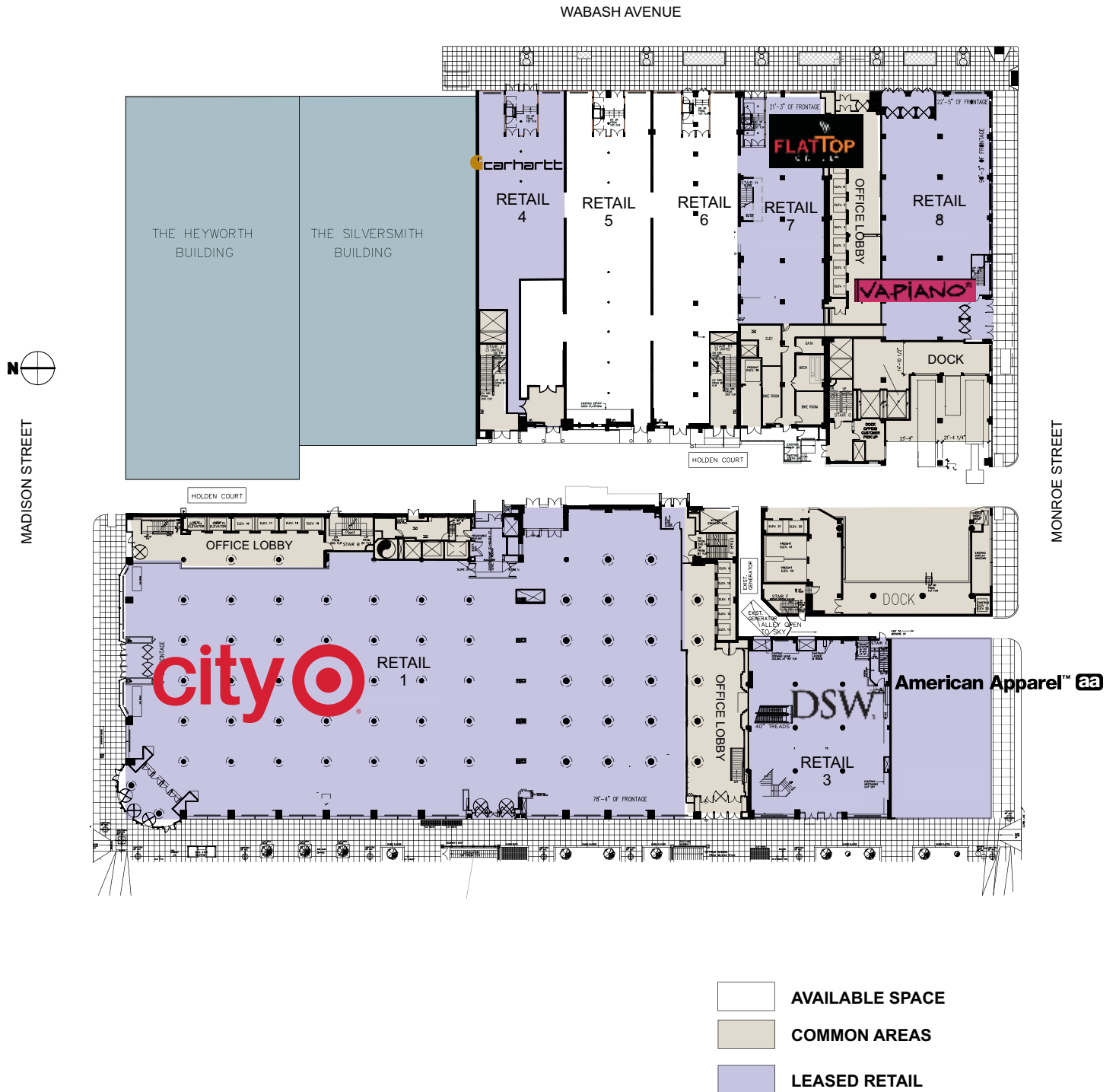
The site and existing building. Sullivan Center occupies almost a full city block (bordered by State, Madison, and Monroe streets and Wabash Avenue), a location that is in the heart of the Loop and essentially the "0-0" point of the city from which all addresses radiate. The block includes an alley, and bridges connect the two halves of the buildings on each of the above-ground levels, essentially creating a single building with connections on all levels, including underground. The Sullivan Center site has immediate access to the subway, elevated trains, and major Chicago Transit Authority bus routes. The building has no parking spaces, but 4,400 spaces are located within one block and more than 16,000 spaces are within four blocks.

The idea. The initial development idea was to restore the building to its former glory while simultaneously converting and modernizing the upper portions of the department store in a phased



The Sullivan Center stacking plan. Retail space is located below grade and on levels one and two; office space is on levels three through 15. The nine buildings on the site vary in height from four to 15 stories.

SULLIVAN CENTER GROUND-LEVEL SITE/FLOOR PLAN



The Sullivan Center covers most of one city block, with an alley running through the middle. Bridges connect the State Street side with the Wabash Avenue side on all the upper levels, creating numerous large contiguous floor plates within the building.

approach, creating a new and highly functional office building. As the project unfolded, however, the scope of the conversion grew when CPS left the building, opening up additional space to be repositioned and renovated. The strategy expanded to incorporate more office space and creation of new multilevel street retail on the lower floors.

Development Process and Financing

JFA, a private, family-owned real estate company based in Chicago, was founded in 1965 with a single retail property. It evolved into a full-service real estate business engaged in retail, residential, office, hospitality, and mixed-use development. The firm's real estate portfolio over time has included the acquisition, development, and redevelopment of 24 million square feet of retail, residential, and office space, and more than 4,000 single-family and multifamily residential units in more than 50 projects.

After JFA acquired the Sullivan Center buildings in October 2001, it began to restore and reposition the landmark structures. In the initial phases, from 2001 to 2007, JFA invested in the historic preservation of Louis Sullivan's cornice and facade and redeveloped the upper 350,000 square feet into third-party office space while CPS continued operating its department store below.

Initial financing. The sale/leaseback arrangement involved an agreement between One South State Street LLC (OSSS, led by JFA), and Sherwin Williams, which entered the deal because of the historic tax credit opportunity. The historic tax credits amounted to 20 percent of the eligible renovation costs. As renovation expenditures occurred, the tax credits were realized by Sherwin Williams, which in turn would contribute a percentage of the credits back to JFA to help finance the redevelopment. The agreement gave Sherwin Williams, in exchange for its cash investments in the property, a 99.9 percent share in the joint venture before the expiration of the historic tax credits at the end of 2017, whereupon the 99.9 percent owner interest would transfer to OSSS. As such, in the original deal Sherwin Williams was the legal owner of the property through 2017, and OSSS was the managing partner for the same period. JFA also contributed equity upfront, as well as considerable sweat equity.



Sullivan Center at night. The large windows and store lighting create an appealing atmosphere along State Street, and upper-level lighting showcases the restored cornice.

JFA sought bank financing to consummate this initial deal structure and was turned down by numerous local banks that at that time thought the Loop was in decline and not a wise place to lend money for a historic restoration project. Real estate financing was also difficult at this time because of the dot-com bust and the events of September 11, 2001. Eventually, JFA was able to obtain bank financing from National City Bank, which was acquired by PNC Bank later in the decade.

At the time of the property acquisition, National City Bank made the first acquisition-and-improvement loan totaling \$30.5 million. There was also a letter of credit in place for \$6.275 million. The project also involved a public/private partnership with the city of Chicago, consummated with a redevelopment agreement that governed about \$14 million of TIF funds for acquisition of the ground parcels, as well as restoration of the original Louis Sullivan cornice, which had deteriorated over the past 100 years. In addition, operating cash flow was used to fund

renovation costs. The financing arrangement allowed OSSS, led by JFA, to acquire its interest in the property with a minimal equity investment.

Phase II financing. In 2006, CPS decided to leave the building entirely, opening up new opportunities and challenges for the developer. Over the years and throughout the two phases of the project, National City Bank increased and modified the loan to provide additional sums for the buildout of tenant space, improvements to the base building, and additional renovation costs, most of which occurred following CPS's departure in 2007. In general, as leases were signed, the bank provided more financing and the new debt was serviced by income from the new leases.

When CPS finally closed its doors, JFA began work in 2007 on the restoration and modernization of the lower 650,000 square feet of the building. The first step involved a detailed assessment of the interior and exterior spaces previously hidden by CPS's occupancy.

With the help of the historic restoration architect Harboe Architects, JFA determined that the decorative cast-iron storefront wrapping the first two floors of the building along State and Madison Streets was in much worse condition than anticipated and needed to be either removed (because it was a safety hazard) or repaired and restored. JFA approached the city for help because the restoration would be expensive, with costs estimated at more than \$12 million. The city agreed that preserving the original Sullivan cast ironwork was a prudent use of funds and approved \$9.5 million in TIF funds for the restoration project. The Central Loop TIF district expired at the end of 2008, so the timing was fortuitous.

The developer also needed more funds to restore the base building and modernize the newly vacated space. National City Bank indicated it would need other lenders to participate in the project, so four additional banks joined the consortium. The loan was structured in part to release funds based on the signing of new leases, so JFA immediately began looking for new tenants for the lower office floors and the ground-level retail space. During 2008 and 2009, JFA attracted several office tenants to occupy the newly vacated space, including the Walgreens E-Commerce department, the Gensler architecture firm, and the School of the Art Institute of Chicago.

By April 2010, the bank loan had increased to a maximum loan capacity of \$170.8 million; it matured in March 2011, and a one-year extension was negotiated with the lenders. At this time, during and after the global financial crisis, JFA was having trouble meeting obligations on other real estate assets, so the banks began to watch all of JFA's assets and loans more carefully.

However, the Sullivan Center asset itself continued to find success, evidenced by Target signing a lease for 150,000 square feet of space in February 2011 and DSW's lease for 26,000 square feet, signed shortly thereafter. Notes Don James, senior vice president of JFA, "Even though this was a difficult time in the financial and real estate markets, the story for Sullivan Center was getting better and better." State Street itself was also evolving and improving, fast becoming a sought-after retail location again.

Refinancing/restructuring. In March 2011, when the loan matured, it was held by PNC Bank (which had purchased National City in 2008) as the lead lender for a five-bank syndicate, including Bank of America, EuroHypo AG, Macquarie Bank

Ltd., and Northern Trust Co. The bank group could not agree to extend the loan beyond the initial one-year extension, although the project continued to improve financially, including the signing of the Target, DSW, and Walgreens leases, giving it strong credit tenants totaling 270,000 square feet of new occupancy.

During this time, the property continued to perform under the terms of the loan. However, because the loan had matured and had not been refinanced, it was technically in default. The bank group decided to sell the loan, and JFA and partners tried to buy it back from the banks, but were not successful. In February 2012, the banks concluded the sale of the loan to a partnership led by Winthrop Realty and Elad Canada Inc., at a discount to par value of \$18 million.

At this time, the loan, previously totaling just under \$139 million, was restructured as a new first mortgage of \$100 million from Talos Capital Ltd. for five years' interest only, at 11 percent per annum and a current pay rate of 8 percent. In addition, Winthrop Realty and Elad Canada Inc. provided a mezzanine loan to OSSS of about \$47 million, bearing interest at 15 percent and a 10 percent current pay rate. Notes Larry Freed of JFA, "While this was a shotgun marriage, it works well today, and we have a good relationship with our new partners."

In October 2013, the Talos loan is open to prepayment without penalty. As of this writing, OSSS has arranged for a loan from a well-known and established financial institution of \$113.5 million for a term of five years at an interest rate of 235 basis points over the five-year swap rate. The approximate interest rate based on the current five-year swap rate as of September was 3.95 percent. The mezzanine loan will remain in place with the same terms, and at closing will have a balance of about \$55 million.

The original historic tax credits from the 2001 deal are set to expire in 2017, at which time Sherwin Williams's interest in the property will end and ownership will transfer to OSSS and the Winthrop/Elad partnership. If the original ownership structure had remained in place, OSSS would have been a 100 percent owner of equity in the building after the transfer. Because the loan was sold and then restructured, OSSS will only retain a 30 percent interest in the project after the tax credits expire; Winthrop/Elad will hold the remaining 70 percent. While this is a substantial reduction, the minimal equity investment that OSSS put into the deal

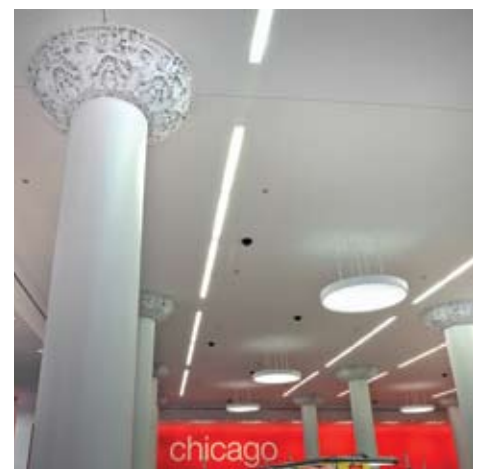
has allowed the developer to see a substantial and attractive return on equity in spite of the financing travails it has experienced. Development costs for the project totaled \$235 million.

Planning and Design

"Restoration of the building was a bit like an archeological dig, which made the process uncertain, but also exciting," notes Kirsten Hull, development director for JFA. The work often involved surprises, including historic facades that had been covered up for years and secret rooms where original Sullivan drawings were stored. The various buildings in the project presented a variety of conditions and challenges. The structures vary from four stories to 15 stories, and the floor sizes vary from 15,000 to 70,000 square feet. Ceiling heights range from 11.5 to 12.5 feet for the office floors. Each of the nine buildings also presented different structural issues. Nothing was marked or labeled in the electrical wiring. Several locations had lead paint and asbestos, and much work needed to be done to flatten the floors because most were nowhere near level or flat.

Historic restoration. Much of initial design work was focused on restoration of the many historic elements in the building. Key features of the original design included the cornice at the top of the building, cast-iron ornamentation on the first two floors, and the cylindrical main entry rotunda that rounds the corner of State and Madison streets. The developers sought to restore all these features to their original condition using a phased approach.

The cornice was the target of the first restoration work undertaken. The original terra-



Column capitals were restored throughout the lower levels of the building, including within the CityTarget store.



The historic cast ironwork along the State Street facade had deteriorated. Restoration involved documenting each piece, removing it, restoring it, then reattaching it to the building.

cotta cornice had been removed many years earlier, in part because it was deteriorating and falling off. “A major problem in the restoration of the cornice was that there was no real documentation of the cornice ornamentation, and most photos that existed were from ground level, showing little detail,” notes restoration architect Gunny Harboe of Harboe Architects. The restoration architect was eventually able to develop enough detail to replicate the cornice using glass fiber–reinforced concrete; use of terra-cotta was impractical.

In addition, within the interior of the building are numerous historic columns with decorative capitals, especially on the lower floors; walls were built around them for protection during construction. The columns were restored on the lower floors, and new plaster casts were made for some of the missing capitals.

The last restoration work undertaken, involving the exterior cast ironwork on the first and second floors, presented a major challenge in itself and required about two and a half years. All the ironwork had to be carefully documented, removed, and sent to a facility where it could be restored. This process involved a chemical treatment process to remove the paint and corrosion. Holes were filled with epoxy and pieces had to be welded back together. A high-performance paint was then applied to protect the surface.

Reconfiguration and modernization. One principal and ongoing design objective was to reconfigure and modernize all floors so they would be attractive and functional for both office and retail tenants. The developers sought to integrate the various buildings into one modern space. “One of the biggest design challenges was the need to unify nine buildings into one contiguous floor plate when buildings had

varying floor heights,” notes Neil Beaufait of DePalma Group Architects. The designers also had to modify structural walls among the nine buildings to create an open floor plate, which was especially challenging within the Target space, which runs on the second level from the State Street side to Wabash Avenue. Notes Mike Solka of Leopardo Construction, “Nothing was level, square, or plumb, and columns were not lined up.”

A second design objective was to separate and reconfigure the retail and office infrastructure and systems—including electricity, plumbing, risers, fire protection, elevators, washrooms, and heating, ventilation, and air-conditioning equipment. Because most of the initial work involved converting the upper floors into office space, the infrastructure and systems to support this new use had to be put in place. For example, new lobbies and elevators had to be installed, and stairs had to be added to the four smaller, older buildings facing Wabash Avenue.

Office space design. Because Sullivan Center’s large floor plates, high ceilings, and large windows appeal to many office tenants today, the design sought to enhance these features. Several of the office tenants have configured their space to maximize collaboration. The Walgreens space, for example, uses a low desk-partition system, a



The building complex has three office lobby entrances, including this one off Madison Street.

series of collaborative spaces, huddle rooms, and relaxation zones. The large windows in the building allow for significant daylighting, which further enhances this atmosphere. Notes Jack McKinney of J.F. McKinney and Associates, the office broker representative for Sullivan Center, “Tenants today are less concerned about what a building looks like in the lobby and more concerned with how the space works for them.”

New entrances and lobbies were built or renovated to serve the new office tenants. The office space has three entrance lobbies, one at 36 South Wabash Avenue, with eight elevators; one at 33 South State Street, with five elevators; and one at 11 East Madison Street, with four elevators. Work on the State Street and Madison Street lobbies involved conversion of the original department store entrances and elevator cores into office lobbies and elevator cores.

The renovated building uses hot-water heat with a variable-air-volume (VAV) system, has new chillers, and all its thermostats are electronically controlled.

Retail space design. Retail space in the building is generally located on the ground level, the second level, and in some cases on a lower level. The large storefront windows along both State Street and Wabash are very attractive for both retailers and restaurants and have been used very effectively to showcase such tenants. The Target store has featured the large store windows in its design, as well as the high ceilings and restored columns on the first and second levels.

Leasing, Marketing, and Performance

The marketing and leasing plan sought to position the building as a “modern classic,” and both words were essential to establishing a brand for the repositioned buildings.

Office tenants and leasing. “One of the primary leasing challenges for the project was educating the potential tenants on how the building could function as office space,” notes Paul Fitzpatrick, senior vice president with JFA. “One of the early successes in this regard was when we were able to convince the state of Illinois

to move into the building and take 250,000 square feet. That was essential.” That lease, one of the largest for the state, was a breakthrough in demonstrating to other tenants that the building was a viable office building; before that, it had always been viewed as a retail building.

Another early tenant essential to establishing the new building brand was the School of the Art Institute of Chicago, which occupies 160,000 square feet. It has a 43,000-square-foot art gallery within its space that is open to the public, and also offers educational programs, drawing many visitors to the building on a regular basis. The repositioning has subsequently attracted stable, long-term office tenants, including the Walgreens E-Commerce department and Gensler Architects.

As time has unfolded, a key feature of the building—its large floor plates, not abundant in the immediate area—has become increasingly valuable because tenants are looking for more collaborative space to fit large business units on one floor.



A close-up view of the cast ironwork on the rotunda after restoration.

The Walgreens E-Commerce department, for example, was drawn to the building by its downtown location, its large floor plates, and the appeal the building offered to its relatively young workers. The Walgreens corporate headquarters is in Deerfield, Illinois, a Chicago suburb to the north, but the firm decided to locate the e-commerce department in the Loop in order to attract the right talent. The firm initially leased 20,000 square feet, and eventually expanded to 95,000 square feet.

Another important tenant was the architecture/design firm Gensler, which was attracted to the building not only by its location and historic nature, but also because it allowed the firm to move its 200 employees from four floors in another building to one floor in the Sullivan Center. Gensler wanted to create a one-floor firm in order to foster a more collaborative environment.

The building's office space is 80 percent occupied with 13 tenants, and office rents are generally in the upper \$20s-per-square-foot range (modified gross). The entire sixth floor is available, and part of the fourth floor is available as of October 2013. The landlord offers a market-rate tenant improvement allowance, basic white-box landlord delivery, and rent abatement consistent with the years of the lease term. JFA continues

to target tech firms, financial service firms, and educational institutions. Office leasing is handled by a landlord representative.

Retail tenants and leasing. Retail leasing did not begin in earnest until restoration of the cast iron was complete because the building had no storefront during the two and a half years required for that work. JFA first thought Whole Foods would be a good fit for the primary retail space in the building, but the recession thwarted any such deal. JFA also considered developing an internal, multilevel mall and even an educational entertainment center and gathering place for the 60,000-plus students in the neighborhood. Eventually, however, Target came to JFA with the idea of placing one of its first CityTargets in the space, and a lease was signed in February 2011. CityTarget opened in the building in July 2012, providing 150 new jobs.

The CityTarget store, which includes a supermarket on the second level, was one of three CityTarget stores to open in the country in July 2012 and occupies 146,764 square feet of prime space on three levels facing State Street. The supermarket is serviced by a special escalator for shopping carts that runs parallel to the escalator for people. The CityTarget also includes a Pret A

Manger, a food service business/deli located near the front of the store that has visibility from the street.

DSW Shoes, located adjacent to Target on State Street, occupies 5,000 square feet on the ground-floor level and 21,000 square feet below grade.

On the Wabash Avenue side of the building on the corner of Monroe is the 5,771-square-foot Vapiano, a fast/casual Italian restaurant and wine bar; next door on Wabash is the 4,106-square-foot Flat Top Grill. Also on Wabash is Carhartt, a clothing retailer focused on outerwear, work boots, and durable work wear. Two additional storefronts on this street are currently vacant.

The retail space is 94 percent leased at rents ranging from \$40 to \$85 per square foot, triple-net. Retail rents have more than doubled in the past ten years. Retail leasing is handled internally by JFA because it has strong relationships with retail tenants.

Marketing and public relations. The historic nature of the building and its prime location on State Street have served it well in terms of attracting attention and publicity. Sullivan Center uses as its marketing tagline, "19th Century Classic. 21st Century Technology." The historic



Sullivan Center features large floor plates, high ceilings, and large windows, all of which are attractive features for office tenants today, especially technology tenants. Pictured here is the office space for the Walgreens E-Commerce unit.



The original rotunda entrance to the Carson Pirie Scott store has been restored and now serves as the main entrance for the new three-level CityTarget store.

preservation and restoration work was recognized with American Institute of Architects, Landmarks Illinois, city of Chicago, and ULI Chicago awards, and the project was also a finalist in the ULI Global Awards for Excellence competition. The restoration and redevelopment project has also been a strong economic catalyst in the renaissance of State Street, attracting new residential, retail, entertainment, and office uses to the area.

Sullivan Center has partnered with the Chicago Loop Alliance over the past several years to support cultural exhibits and programs featuring local artists, students, and nonprofits; for example, vacant spaces have been used for “Pop-Up Art Loop” shows. As a national historic landmark and one of the world’s most well-known and recognized buildings, Sullivan Center is featured in many undergraduate and graduate architecture classes and is a key stop on several of the famed Chicago Architecture Foundation walking tours.

Sustainability. Sullivan Center, with a strong commitment to sustainability, is one of the few

historic buildings to achieve Leadership in Energy and Environmental Design (LEED) for Existing Buildings (Operations and Maintenance) certification and to achieve an Energy Star rating. JFA also worked with several tenants to achieve LEED for Commercial Interiors certification, including Gensler, which achieved Gold status.

The JFA office operates in a sustainable manner and achieved Chicago’s Green Office Challenge Gold level in 2011. The project’s carbon footprint is minimized by its location adjacent to all major rail lines (both elevated and subway), 15 bus lines, and newly created bike lanes; the project is also a ten-minute walk from the Metra commuter-rail station.

Performance. The building is cash-flow positive and stabilized, with an overall occupancy rate of 83 percent, up from 57 percent in 2011. Eighty-five percent of its tenants are credit tenants, and the average time remaining on their leases is nine years as of 2013.

Over the past three years, net operating income for Sullivan Center has increased steadily and substantially—from \$6.3 million in 2010 to \$9.9 million in 2011 and \$12.5 million in 2012; for the first seven months of 2013, net operating income was \$7.8 million.

Beyond the property itself, adaptive use of Sullivan Center has activated State Street beyond the typical workday, with dynamic retail offerings supporting the growing residential population downtown. The CityTarget is the first and only retailer to offer a wide grocery selection in the Loop, which is critical to solidifying the area as a thriving, healthy neighborhood in which to both live and work. Upon the opening of CityTarget, the retail vacancy rate along State Street fell to 7.7 percent for the 12 months ended December 31, 2012, a significant improvement over the record high of 12.9 percent for the preceding 12 months. From lows in 2007 before the second phase of redevelopment, the foot traffic at State and Madison has increased dramatically,

with more than 40,000 people passing on an average weekday.

Observations and Lessons Learned

Sullivan Center's present and future success relies on long-term partnerships and collaborations with the community to craft a shared vision. This dialogue includes the Office of the Mayor, the alderman's office, the Chicago Department of Housing and Economic Development, the Chicago Loop Alliance, the Chicago Central Area Committee, Friends of Downtown, the Illinois Historic Preservation Alliance, and the National Park Service.

A principal lesson from the project is the need to plan and budget for the unexpected. Notes James of JFA, "You need to make certain to provide a significant contingency fund in historic restoration projects like this. There are unexpected costs, and time periods often get extended as a result of surprises." Sequencing work in a historic rehab project can be especially challenging because of the many surprises. For example, at Sullivan Center there was much more loose and deteriorating masonry than expected.

Hull of JFA observes that a typical contingency for a development project is 5 to 10 percent of all hard costs, whereas for an adaptive use project, the typical contingency is 15 to 20 percent. She also recommends that developers of such projects "budget time and money for ample due diligence and spend money on key professionals to help eliminate unknowns."

From a financial perspective, one key to launching the project was finding a lender willing to be flexible in structuring the loan to account for some of the unknowns that are not uncommon in redevelopment projects. Moreover, while there are advantages to working with the same lender on multiple projects as relationships develop and deepen, there can be disadvantages as well; financial problems in one deal may cause the lender to be less flexible on another. On the other hand, working with multiple lenders on one project can be problematic when financial challenges develop because it can be very difficult to get several lenders to agree on a course of action when there are competing interests. Finally, making the transition to a new financial structure can be painful, but JFA was able to maintain an ownership interest in the property because of its expertise, professionalism, and

perseverance in dealing with the complexities inherent in a historic redevelopment project of this monumental scale.

From a broader perspective, it is clear from the experiences at Sullivan Center that urban revitalization is a cumulative endeavor. Establishment of the initial TIF district was a critical first step. Notes Lori Bush, who worked on the project for the city and is now with World Business Chicago, "The original TIF district that was put in place on State Street was a key element to stimulating investment in the area. You must invest in cities to keep them vibrant."

Numerous important developments in the area followed. The investment in streetscape improvements and theaters in the area paid dividends and added to neighborhood nightlife. The tremendous success of the city's investment in nearby Millennium Park was instrumental in stimulating tourism that spilled over to State Street. Restoration of the nearby Palmer House Hilton hotel to its former glory was also important, as is the continued expansion of the various neighborhood universities. And the concerted effort of the city and JFA to restore and repurpose the landmark Sullivan Center was transformative for the neighborhood. All these elements, and many others as well, have contributed to bringing about a remarkable revitalization of State Street, an area that in many ways is the heart and soul of Chicago. •

OTHER RESOURCES

ULI videos on Sullivan Center

<http://www.youtube.com/user/ULITV>

DEVELOPMENT TEAM

Original lender

National City Bank/PNC Bank
Pittsburgh, Pennsylvania

Lender after restructuring

Talos Capital Ltd.

Architect (historic elements)

Harboe Architects
Chicago, Illinois
312-977-0333
www.harboearch.com

Architect (base building)

DePalma Group Architects
Chicago, Illinois
312-733-1460
www.depalmagroup.com

Infrastructure and white-box construction

Leopardo Companies
Chicago, Illinois
312-516-3653
www.leopardo.com

Masonry and terra-cotta restoration

Mark 1 Restoration Company
Gladding McBean

Window restoration

Roger & Sons Construction Inc.

Cornice reconstruction

Mark 1 Restoration Company
GFRC Inc.
CSOS Inc.

Cast-iron facade restoration

Berglund Construction
Custom Architectural Metals
Meccor Industries Ltd.
Historical Arts & Casting Inc.
MTH Industries

Office leasing/landlord representative

J.F. McKinney
Chicago, Illinois

PROJECT INFORMATION

Development timeline

Site purchased	October 2001
Construction/leasing started	October 2001
Cornice construction began	2004
Phase I completed	March 2006
Carson Pirie Scott vacated building	March 2007
Phase II started	April 2007
Target lease signed	February 2011
Original loan sold	February 2012
Phase II completed/Target opened	July 2012
Property refinanced	October 2013

Land use plan

Use	Area (acres)	Percentage of site
Buildings	2.11	95%
Landscaping/open space	0.24	5%
Total	2.35	100%

Gross building area (GBA)

Office*	743,852 sq. ft.
Retail	199,480 sq. ft.
Total GBA	943,332 sq. ft.

Office information

Occupancy rate	80%
Number of tenants	13
Tenant size	2,000 to 243,000 sq. ft.
Annual rents	\$22 to \$28 per sq. ft.
Average length of lease	5 to 10 years

Typical terms of lease: market-rate tenant improvement allowance; basic white-box landlord delivery; number of months' rate abatement consistent with number of years on lease

Major office tenants

	NRA (sq. ft.)
State of Illinois, Department of Employment Security	243,000
School of the Art Institute of Chicago**	160,000
Walgreens E-Commerce	95,000
Gensler	55,000

Retail information

Percentage of GLA occupied	94%
Annual rents	\$40 to \$85 per sq. ft.
Average length of lease	10 to 15 years

Key retail tenants	Type	GLA (sq. ft.)
Target	General	146,764
DSW	Shoes	26,144
Vapiano	Food service	5,771
Flat Top	Food service	4,106
Carhartt	Clothing	4,054

Development cost information

Acquisition cost	\$6,000,000
Phase I hard costs	\$60,000,000
Phase II hard costs	\$145,000,000
Soft costs***	\$24,000,000
Total project costs	\$235,000,000

*includes civic and education uses/tenants

**includes a 43,000 sq. ft. art gallery open to the public

***includes CPS termination payment

NET OPERATING INCOME

	2010	2011	2012	2013 (Jan–Jul)
Total operating income	\$13,613,000	\$16,793,000	\$20,465,000	\$12,495,000
Total operating expenses	\$7,299,000	\$6,928,000	\$8,001,000	\$4,727,000
Net operating income	\$6,314,000	\$9,865,000	\$12,463,000	\$7,768,000



About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide.

Established in 1936, the Institute today has nearly 30,000 members, representing the entire spectrum of land use and development disciplines. Professionals represented include developers, builders, property owners, investors, architects, planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, academics, and students.

ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both the built and natural environment;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Patrick Phillips, Chief Executive Officer

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About Allen Matkins

Allen Matkins is a California-based law firm specializing in serving the real estate industry. The firm has more than 200 attorneys in four major metropolitan areas of California: Los Angeles, Orange County, San Diego, and San Francisco. Its core specialties include real estate, real estate and commercial finance, bankruptcy and creditors' rights, construction, land use, natural resources, environmental, corporate and securities, intellectual property, joint ventures, taxation, employment and labor law, and dispute resolution and litigation in all these matters.

Michael L. Matkins, Founding Partner

Michael C. Pruter, Partner

David Osias, Managing Partner

ULI CASE STUDIES

The ULI Case Studies program highlights and showcases innovative approaches and best practices in real estate and urban development. Each case study provides detailed information regarding the ideas, plans, process, performance, and lessons learned for the development project. Each also includes project facts, timelines, financial data, site plans, photos, location maps, and online videos. The new ULI Case Studies program is the revitalization of a program begun in 1971. ULI Case Studies are offered as a ULI member benefit and via subscription for nonmembers. For more information, visit the ULI Case Studies website at www.uli.org/casestudies.

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