



CHICAGO

1K FULTON

UNIVERSITY OF MARYLAND
COLVIN INSTITUTE OF REAL ESTATE DEVELOPMENT
2017 CASE STUDY CHALLENGE

TEAM 19



STERLING BAY

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INTRODUCTION

1K Fulton, the former Fulton Market Cold Storage Building, served as a freezer for produce from 1923 to the early 2000's. It is now home to one of the most innovative projects in Chicago's real estate history. It has been redeveloped from an industrial ice capsule to a tech center for innovation. This re-imagined 535,000 square-foot LEED Certified building is now home to Google's Midwest Headquarters located in the Chicago West Loop.

The building sits on the corner of Fulton and Morgan Street. This location is the hub of the Fulton Market District, known for bring the heart of Chicago's

meatpacking legacy and the city's birth. In 2012, Sterling Bay purchased the 10-story building with an extraordinary vision for the West Loop. They acquired the building for \$12 million and pioneered transforming this former food storage, and most technologically advanced refrigeration systems of its time, to a building worthy of a Fortune 100 company, along with others.

Through the redevelopment phases, Sterling Bay first had to thaw decades of ice build-up that amounted to feet-thick ice caves between floorplates. From there, Sterling Bay introduced a six-story 155,000

square foot addition. This building not only houses Google's Midwest Headquarters, it also is home to Swift & Son and Smack Shack. Google's 650 employees moved into their new space in late 2015, and in July 2016, Sterling Bay sold the property to American Realty Advisors for \$257 million. This transformation was the first of many for Sterling Bay The West Loop, once known as the most highly-segregated and crime-heavy areas in Chicago, is now known for the city's most lively restaurant and bar scene. Sterling Bay's vision for 1K Fulton is the most innovative project in the West Loop and the entire city.

HISTORY OF THE WEST LOOP

Chicago's West Loop is known as one of the most prominent neighborhoods in the city, although it did not start that way. Reflecting back to 1871, a residential fire broke out just south of the area, and in just a few days, more than two-thirds of the city had gone down in flames. Hundreds of people died in the fire, and thousands lost their homes.

Before the fire, the Near West Side was home to a collection of smaller immigrant European communities. However, when the fire left thousands homeless, it displaced the residents of those neighborhoods to the West and South sides of the city, overcrowding these areas. The Near West Side was characterized by increasing crime rates, labor strikes, and decreasing property values throughout the remainder of the 19th century.

The World's Colombian Exposition in 1893 was a catalyst in the revitalization of the West Loop. Opening only 22 years after the Chicago fire, and 28 years after the American Civil War, the exposition commemorated

the 400th anniversary of the discovery of the New World by Christopher Columbus. Congress picked Chicago as the host of the exposition because of the support from city and state government that would not only favor the exposition, but also bring power to the city. This resulted in the built environment in the form of increasing real estate values. Daniel Burnham gathered world-class architects and sculptors, creating a truly inspiring event that led the city into an extremely successful turn of the century.

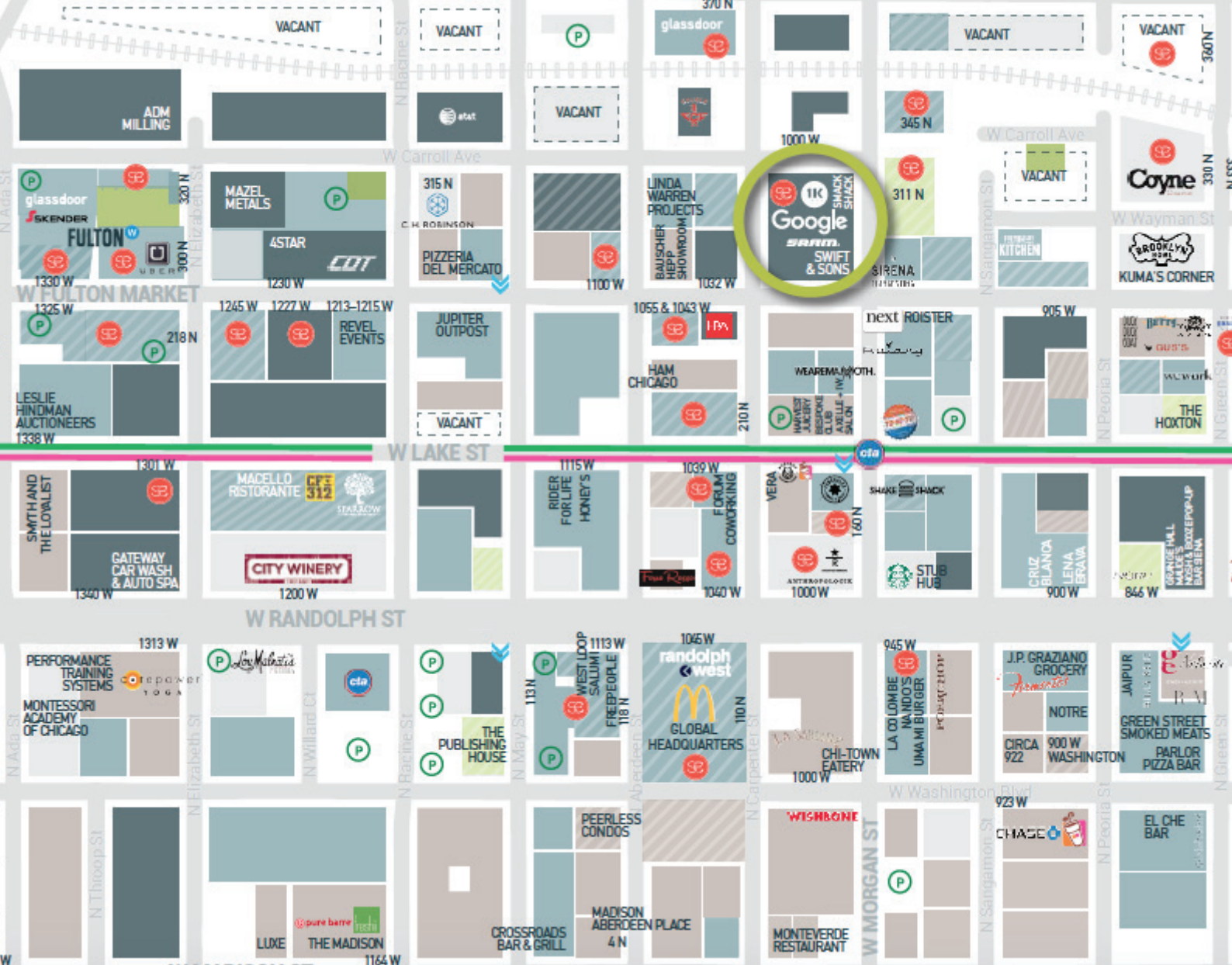
Daniel Burnham continued to contribute to the city of Chicago in the early 1900s with a revised Master Plan that envisioned a "gateway from the West into the Loop", giving the Near West Side its new name, the West Loop Gate.

The construction of the University of Illinois at Chicago (UIC) continued to steer the area away from residential and into a multi-family and commercial real estate boom. As the area continued to grow, large companies began to move into the area around Fulton Street and Randolph



Street, turning them into the heart of the West Loop.

Today, the neighborhood has seen a 14,200% population growth since 2000, with a median household income of \$106,902, a median age of 33 and 67% of residents holding a higher education degree.



THE SITE

The 1K Fulton project has set the trend for office building locations in the West Loop. This transformation has had an impact on where many Fortune 500 companies choose to be located in the city. The West Loop has been connected to the rest of the city with a new 'L' Train Station on Morgan Street, which gives easy access to the Downtown

and River North districts. The West Loop has exploded with a remarkable restaurant scene that is comprised of some of the best restaurants in the world. The area now includes Google's Midwest headquarters, McDonald's Global Headquarters, Uber, Glassdoor, along with many others. None of this existed until Sterling Bay

landed Google as a tenant in the cold storage building. Since the ice thaw, Sterling Bay has had an impact on the entire area, taking it from an industrial-dominant area to one of the Chicago's largest corporate complexes. 1K Fulton set the trend for new development in the West Loop and put Fulton Market on the map.

THE ACQUISITION

STERLING BAY

Craig Golden and Scott Goodman began their real estate careers in 1987 with a \$92,000 acquisition of a five-flat in Lakeview. After a successful renovation of the property, Sterling Bay emerged.

Nobody had heard of the company until 2012, when after their lucrative redevelopment of a 230,000 square-foot-building that now houses Hillshire Brands, a spin-off of the Sarah Lee Corporation. They were able to successfully move in Hillshire Brands within a year of the acquisition.

Shortly after, Sterling Bay continued to conduct business, re-purposing several building in the West Loop, to attract several Fortune 500 companies.

In just a short period of time, an underdog rose from deep inside the Fulton Market District, and became a titan of Industry, not only exceeding expectations, but revolutionizing office and retail development, and the West Loop of Chicago.



Previously serving as one of the few Cold Storage facilities in the West Loop, there was initial concern the project would be turned down because of opposition from the businesses in the area. Meat companies feared they would have nowhere to store their products if the Cold Storage was re-purposed.

Several companies had attempted to purchase the property in the past to turn the building into multi-family projects. They were unsuccessful because the alderman and city was not confident these developments would be approved by the current residents of the area.

However, the city, as well as the executive director of the Industrial council of Nearwest Chicago, did not oppose the development. In fact, Alderman Burnett of

the Near West Side believed the project would, “bring vibrancy and economic development in the area”. This ultimately fulfilled their goal of strengthening the neighborhood and adding value to the existing community.

Sterling Bay faced no opposition with their vision for transforming this area, had no unforeseen issues with rezoning the property, and capitalized on their ability to bring employment. While they still had to go through the process to secure the zoning change, Sterling Bay benefited tremendously by renovating the existing 10-story structure on the east portion of the site. The height was significantly more than what was permitted under new regulations, but it was grandfathered in through the acquisition.



CONSTRUCTION

Hartshorne Plunkard Architects (HPA) served as Sterling Bays main consultant for this adaptive reuse project. The redevelopment included a spacious open floor-plan, outdoor terraces, and astonishing skyline views to attract high-tech clients. The building was able to achieve LEED Gold certification, which was a redevelopment standard with reusing the bones of the existing building.

The façade was shaved off, just like the ice on the inside of the building, to allow for expansive floor-to-floor views. The brick panels between the floors were then hoisted into place to cover the columns. The loft structure was re-clad with a new masonry façade with terracotta belt courses and banding. The original intent behind this design was to preserve the building details to be able to maintain its height, which was more than the new restrictions permitted on new construction. The original materials scrapped during the façade removal were reused as much as possible in the new finishes.

Linn-Mathes was the primary contractor for this project and Project Management Advisors (PMA) managed the costs and project timeline. Linn



Mathes began the first of its three-phase construction process in February 2014, which included the skybox and stair atrium. The second phase started in March 2015 and went through September of 2015, which included Tenant Improvement buildout. The third phase went from mid-July through the end of September 2015 and included one of the most innovative commercial

kitchens for Google.

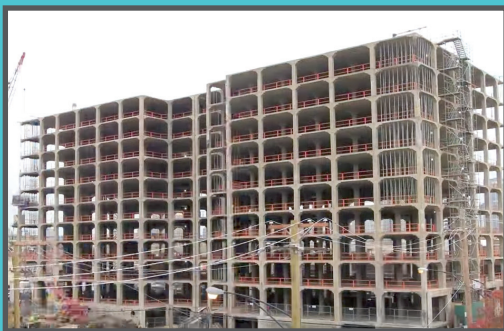
One major issue that arose during this process was building the internal staircase in a pre-existing concrete building to adapt to a commercial high-tech office space. In order to be in compliance with fire safety regulations, steel had to be moved into an already existing concrete structure.



Defrosting



Tearing Down the Façade



Structural Updates



Addition



Completion and Turnover

Phase I: Defrosting the Cold Storage Facility previously used for keeping fresh food in the West Loop, the facility built up thick layers of ice for over 10 years. The biggest component of the first phase of the development was finding an economically feasible way to melt the ice inside the property. Sterling Bay brought several propane heaters, and in a matter of days, was able to successfully melt the ice completing this part of the project on November 13, 2012.

Phase II: Tearing Down the Façade
The wear-and-tear inside the building was minimal, and maintaining the structure of the existing building was paramount. The structure was molded into what would be the core framing of the new development.

Phase III: Structural Updates
The remaining frame of the building was inspected and secured to strengthen the structure of the building, as well as repaired and updated to insure durability and long-term low maintenance costs. The front stairwell was removed to make space for new construction.

Phase IV: Addition
After the demolition of the main stairwell, 150,000 square-feet were added to the project, which extended the total property size to 550,000 square-feet.

Phase V: Completion and Turnover
The façade was torn down in phase II without damaging the concrete slab floor plates and the new construction enclosed the slabs floor-to-floor with a glass façade. The building's interior finishing touches were added upon the completion of the new exterior. Construction ended in January, 2015 and Google moved into its new home on November 16, 2016. The new office consists of about 650 Google employees, as well as several hundred more for SRAM, Sand Box Industries, The Mill, Smack Shack and Swift & Sons.

1K FULTON TIMELINE

DECOMMISSIONING & DEMOLITION

Permits, notifications and utility service disconnects

East (main) building demolition permits and utility disconnects

Utility disconnects by utility companies & demolition contractor

Decommissioning and demolition

East (main) decommissioning shut down of refrigeration systems

East (main) demolition to concrete structural frame

West buildings full wrecking to grade

NEW CONSTRUCTION WORK

East (main) building construction

Pre'construction - early start and long lead item work

Precast package

Window package

Exterior facade work

Interior core & shell and MEP work

Site work & landscaping

INITIAL CERTIFICATE OF OCCUPANCY

PHASE I

VISION

STERLING BAY'S ADAPTIVE REUSE

Purchase Cold Storage Building

Vision for Google as tenant

Prep for redevelopment phases

Due dilligence

PHASE II

DESIGN, PERMITTING AND PROCUREMENT

Schematic Design plans

Final material testing reports

Permit sent to city

Design Development complete

BIM model complete

Negotiations with Linn-Mathes & Sterling Bay

Permit issuance to owner

Signed contrat with Linn-Mathes

Notice to proceed

PHASE III

NEW CONSTRUCTION WORK

West Building construction

Basement & foundation work

Structural concrete work

Main roof

Interior core & shell and MEP work

West Building substantial completion

PHASE III

FINISHED

PROJECT FINANCING

PURCHASE

Sterling Bay purchased the Cold Storage Facility in 2012 from with closing costs totaling 1.5% of the purchase price of \$12,000,000. The purchase of the property was financed with a mezzanine loan from Prime Financing, which had a loan amount of \$35,000,000.

ACQUISITION COSTS

Purchase Price.....	\$12M
Construction.....	\$89.785M

LEASING STRATEGY

Average Rent.....	\$26 psf
OPEX & RET.....	\$15 psf

NET OPERATING INCOME

The original projections assumed \$24 net per square-foot in rents, with additional recoverable operating expenses and real estate taxes of \$15 per square-foot. With Google as the primary tenant in the building, Sterling Bay was able to push rents to \$33 per square-foot for the subsequent tenants.

CONSTRUCTION

Combined with the mezzanine loan for the purchase of the property, Sterling Bay had a capitalized interest senior construction loan from Bank of America to finance their \$89,750,000 construction budget for the redevelopment, with a total loan amount of nearly \$150,000,000.

USES

Hard Costs.....	\$80.72M
Soft Costs.....	\$9.23M

SOURCES

Mezzanine.....	\$35M
Senior Loan.....	\$150M
Equity (Estimate).....	\$23M

SOURCES

Together with the mezzanine loan and the senior construction loan, there was a cash-out refinance with Mesa West Capital upon completion of the core/shell. Mesa West Capital proceeded to sell off the mezzanine piece to Morgan Stanley. The remainder of the capital needed to complete the project came from a variety of capital pools that Sterling Bay put together, not only for 1K Fulton, but for other projects in the West Loop as well.

RETURNS

After the historic record sale of the property at \$257,000,000, this transaction was ranked as Chicago's third most expensive office deal in history. American Realty Advisors purchased the property in June of 2016, after Google moved in to their space in November 2015 and all other tenants had occupied the space. Tenants today include SRAM International, Sandbox Industries, Swift&Sons and Smack Shack.

\$257,000,000

Sales Price

4.5%

Exit Cap Rate

20%

Project-Level IRR

\$574

Price Per SF

REFINANCING STRATEGY

After refinancing the loan, Sterling bay used \$220M in loans to retire the West Loop's existing debt and fund additional projects. The new loan replaced \$150M in debt. The loan is a 5-year, floating-rate loan for 80% loan-to-value. This deal is a prime example of how developers can capitalize on rising property values and seek cash-out refinancing, allowing them to pull millions of dollars out of properties without surrendering ownership.



THE DISPOSITION

In June of 2016, American Realty Advisors purchased the completed 1K Fulton for \$257,000,000, ranking as one of the most expensive office deals in Chicago's history.

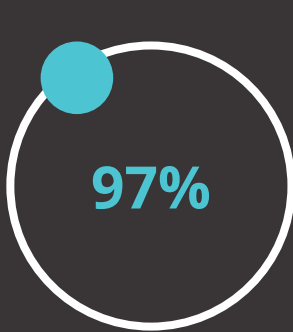
The building sold at a record \$574 per square-foot, providing Sterling Bay a 20% project-level internal rate of return, at a 4.50% exit cap rate. Through their clever refinancing strategy, they were able to obtain even higher benefits that contributed to the rest of their projects on their pipeline.

The success of this re-development project created the momentum the West Loop needed to inspire other companies

relocate to the area. McDonald's had its Global Headquarters in Oak Brook and is also working with Sterling Bay, as they continue to move forward with the re-purposing of yet another Fulton Market building. Their new West Loop 550,000 square-foot Headquarters are on schedule to be delivered in early 2018.

Sterling Bay has become the leader in office development in the West Loop, working on six other development projects in the area. Being credited with the driving force behind the historical transformation of the Fulton Market District.

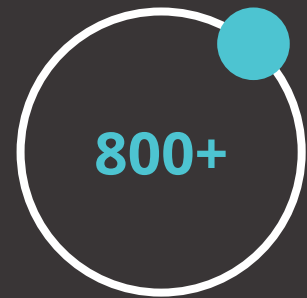
1K FULTON TODAY



OCCUPANCY



SQUARE-FEET
OF OFFICE SPACE



EMPLOYEES

LOCATION AND AMENITIES

Sustainability has become a top priority for real estate developers, as well as for tenants looking to relocate to more modern spaces. As a LEED Gold Certified building, 1K Fulton also offers shared bikes, DAS systems, recycling and composting services, ZipCar shared services and a shuttle services. The building is also located within blocks of more than 40 award-winning restaurants and transportation facilities. The prime location and accessibility to environmentally-conscious services has made the Fulton Market District the most attractive area for world-class corporations in the country.



SINCE 1K FULTON

“THE PULSE”

BALANCING SUPPLY & DEMAND

The meat packing district, from industrial buildings to office space. “After a deal like Google, developers cook up plans for nearby properties” - Chicago Business



The former site of Oprah Winfrey’s broadcasting operations, purchased for \$30.5 million in 2014, will be McDonald’s new home in May of 2017. This new Gensler designed building cost \$250 million and includes approximately 600,000 square-feet of space.

111 North Canal Street will house the Uber headquarters, one of three headquarters in the U.S., in the Fulton Market district. Uber shares the space with Gogo, SAP and Twitter in 860,000 square-feet of space in the West Loop.

1330 West Fulton, totaling 295,000 square-feet will house 250 employees from Glassdoor alone, along with other proposed. This location is a perfect addition to the corporate complex in Fulton Market and will continue to draw more attention as Sterling Bay finalizes their plans.

CREATING VALUE

Sterling Bay - It is what we do best.

“Take an extraordinary vision for the built environment and turn it into reality.”

Chicago's Fulton Market



TWITTER

At 111 North Canal, Sterling Bay not only attracted UBER, but also was able to attract Gogo, SAP and Twitter. This is a 860,000 square-foot office building. With the high-tech clients in this building, They are sure to have the city's best fiber connectivity so the tech-savvy can stay connected.

ACE HOTEL

Meeting the demand for hotels in the West Loop, Sterling Bay developed the 159-key Ace Hotel. This building was a former Italian-American cheese making factory located at 311 North Morgan Street just across the street from 1K Fulton. The hotel is expected to help with the McDonald's Headquarters opening. The demand for hotel rooms will increase as more corporate employees come in to stay a few nights a week.

DYSON

Dyson will be joining Glassdoor at the 1330 West. Fulton Building to accommodate their projected growth of 100 employees. They will be occupying 40,686 square-feet in the building and joined by Skender Construction, who has dedicated their time in the last few years to building out the spaces for tenants in Fulton Market redevelopments.

HILLSHIRE BRANDS HQ

Sterling Bay secured a long-term triple-net lease with Hillshire Brands (Former Sara Lee Corporation). This building encompasses nearing two acres in the Chicago West Loop, located on 400 South Jefferson.

-FUTURE PLANS-

CHICAGO LINCOLN YARDS



70 ACRES - RIVERFRONT

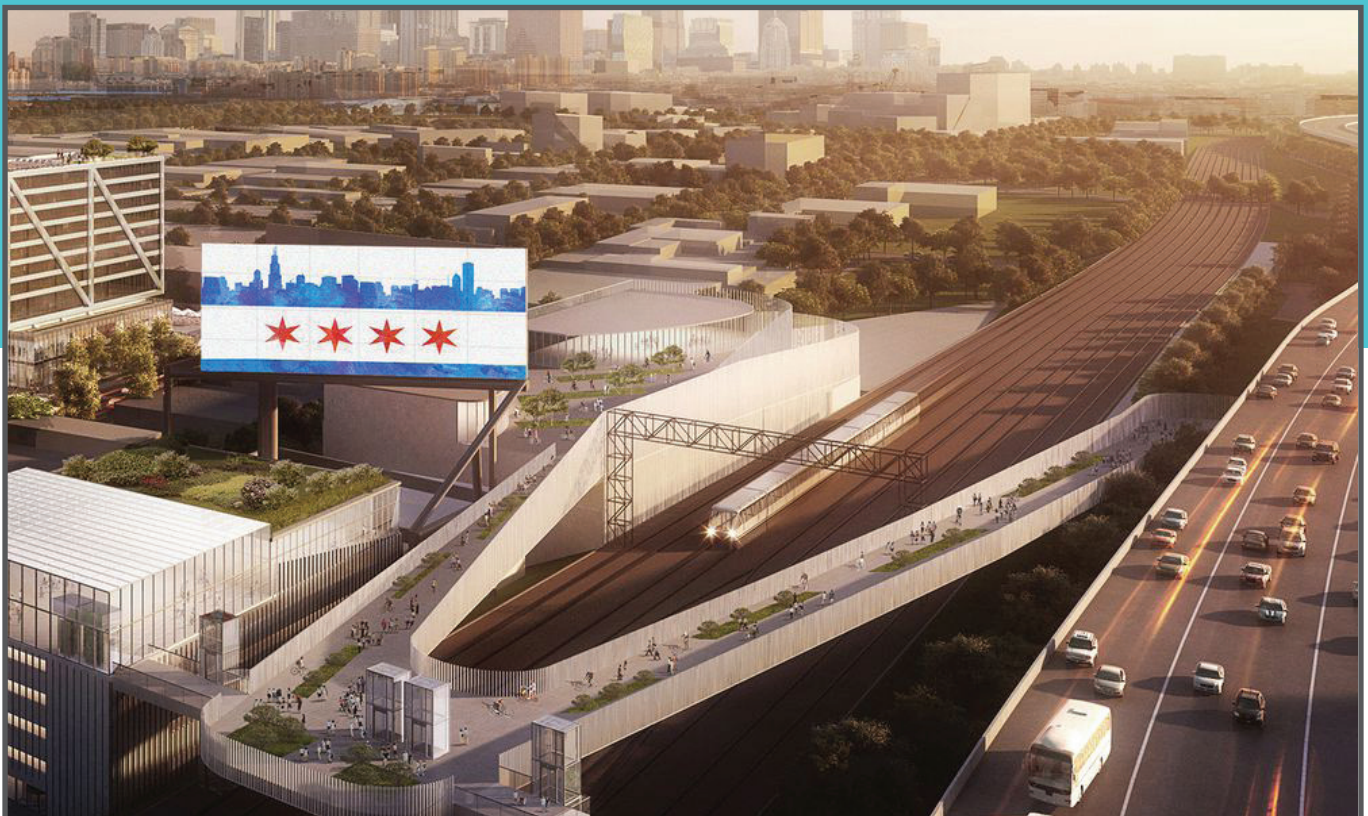
Lincoln Yards is a vibrant new development just North of the West Loop. This is another former industrial site that housed the former Finkl Steel plant.

Map showing Chicago's West Loop and Lincoln Yards, former Finkl Steel Plant.



Sterling Bay has ambitious plans proposed to land the new Amazon HQ2 in Chicago along the North Industrial Corridor. This new location would house over 50,000 square-feet at a cost of over \$10 billion. Sterling Bay has plans to build a new Metra station to connect this project to the city core, much like the way they connected the Fulton Market District to the downtown with 1K Fulton. The lower cost of living and the new high-tech corporate investments in the Chicago West Loop are attractive attributes to corporations like Amazon. Chicago has become a tech-hub in the Midwest, promoting Sterling Bay as the ultimate landlord.

WILL STERLING BAY LAND AMAZON HQ2?



FINAL THOUGHTS

The four-year redevelopment period of the 1K Fulton development ends with Sterling Bay selling the property to American Realty Advisors in July 2016. The Fulton Market District has mixed development including office, retail, food, and residential. As corporations continue to move in, Sterling Bay has capitalized on this market. Building an empire of office and retail development in the area and seeing the potential of the district early on gave them leverage over the area and made them a prime landlord for Fortune 500 companies in Chicago.

While the area is booming, the future of the area is highly dependent on residential growth. With the new housing requirement amendments, intended to increase the amount of affordable housing in the city, it will become increasingly more difficult for developers to build high-end multi-family, which the Fulton Market District could benefit from.

The district will continue to grow and housing large corporations is a good thing for the city of Chicago, and the state of Illinois. 1K Fulton was a catalyst in the revitalization of the West Loop, and the revival of Chicago, making it once again, one of the most illustrious cities in the world.

“I think there is demand for more residential in the west loop. The challenges are high land costs, restrictive zoning and the new affordable housing requirements amendment. Unfortunately these mean it will be hard to do much more in the west loop.”

- Alan Lev, Belgravia Group

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INDUSTRY PROFESSIONALS

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Jenna Goebig - Project Management Advisors (PMA)

Mike Mallon - Draper&Kramer

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