

## **2021 Annual Lease & Purchase Option Report**

**January 1, 2022 – December 31,  
2022**

For leases expiring in the coming 2022 calendar year, this report analyzes whether the state should continue leasing or use its option to purchase.

In Accordance with 20 ILCS 405/405-300(4), the Illinois Department of Central Management Services submits the following report to Auditor General & General Assembly on or before February 15th.

Janel L. Forde  
Director



February 14, 2021

Honorable Members of the General Assembly:

To meet its statutory obligation under Central Management Services (CMS) Administrative Law 20 ILCS 405/405-300(4), CMS engaged its vendor Jones Lang Lasalle (JLL) to conduct an options analysis for seventeen office and warehouse properties fully (100%) leased by the State of Illinois and set to expire during the 2022 calendar year.

JLL's options analysis consists of two key parts: a market and financial analysis for each property. The market analysis was conducted to assess the supply and demand dynamics in each market, including demographic trends, sale and lease rates for comparable properties, and leasing activity in the market. JLL determined market rates in each market by utilizing historical sales and lease data, when available, in tandem with market data for properties currently listed for sale or lease in each market.

Through financial analysis, JLL determined a breakeven purchase price for each property and analyzed market data to assess the feasibility the State is purchasing the property for a price less than or equal to the breakeven purchase price. Market analysis indicated some instances where the State could purchase the property at or below the breakeven and JLL recommended the State consider purchasing these properties. Properties where the breakeven price was significantly below or insufficiently greater than the purchase price relative to risk, JLL recommended the State continue to lease the property.

JLL recommended that the State should only consider purchasing a property if its breakeven is reasonably in line with the market-driven sale price and did caution the State to specifically consider the following risks: (i) In attempting to acquire property rather than continuing to lease, the State may not be able to purchase at market value, yet may still bear costs of construction and renovation; (ii) the needs of each using agency may change over time, programmatically and operationally, with respect to geography; (iii) the full cost of renovating property both initially and over the course of a 10-year periods falls to the State, which then bears construction risk; (iv) the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. JLL's "total cost" assumes some level of appreciation tied to the consumer price index (CPI) and a disposition of a property at the end of the 10-year period. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Therefore, as a result of their thorough analysis, JLL ultimately recommends no acquisition of property from the presented portfolio until the State has concluded a comprehensive study to better understand its operations and user groups' needs to fully determine a final decision.

Should you have any questions or need of clarity, please contact CMS Deputy Director of Property Management Michael Pittman at (217) 558-1652.

Sincerely,

A handwritten signature in black ink that reads "Janel Forde". The signature is written in a cursive, flowing style.

Janel L. Forde  
Director

JF: SB

## *Options Analysis for Leased Properties with 100% State of Illinois Occupancy Expiring in 2022*

### **Project Objectives and Approach**

The State of Illinois (the “State”) Department of Central Management Services (“CMS”) has engaged JLL to conduct an options analysis for 17 office and warehouse properties currently leased by the State of Illinois (together, the “Subject Properties”). These properties are 100% occupied by the State, and each lease is set to expire during the 2022 calendar year.

JLL’s options analysis consisted of two key parts: a market analysis and financial analysis. The market analysis was conducted to assess the supply and demand dynamics in each market, including demographic trends, sale and lease rates for comparable properties, and leasing activity in the market. JLL determined market rates in each market by utilizing historical sales and lease data, when available, in tandem with market data for properties currently listed for sale or lease in each market.

Next, JLL performed a financial analysis for each property in which a variety of inputs, including market rental rates, operating expenses, upfront capital expense, and ongoing capital expenses were used to compare scenarios in which the State would either purchase each property or continue to lease the property. Through this analysis, JLL determined a breakpoint purchase price for each property. For example, for a property with a \$500,000 breakpoint, JLL determined that the State would be better off by purchasing the property for a price less than or equal to the breakpoint purchase price of \$500,000. After determining the breakpoint purchase price for each property, JLL analyzed the market data to assess the feasibility that the State could purchase the property for a price less than or equal to the breakpoint purchase price. In cases where the market data indicated that the State could purchase the property at or below the breakpoint, JLL recommended that the State consider purchasing the property. However, for those properties in which the breakpoint was below the likely purchase price, JLL recommended that the State continue to lease the property. To help maximize CMS’s time and resources, the State should only consider purchasing a property if the breakpoint is reasonably in line with the sales price in the market.

While this analysis may identify subject properties for which the State should consider acquisition, the State may face challenges in securing funding to acquire these properties given the State’s current financial constraints. This analysis is intended to inform the State’s decision making given those financial constraints so that the State may determine priorities for the use of its limited funding.

### **Acquisition Risk**

Prior to acquiring any of the properties in the below analysis, the State must carefully consider the potential risks in purchasing property rather than continuing to lease. First, the State may not be able

to acquire property at market value. Second, the full cost of renovating property both initially and over the course of a 10-year periods falls to the State, which then bears construction risk. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI and a disposition of a property at the end of the 10-year period. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the difference in total cost between acquiring a property and continuing to lease it, acquiring a property may justify the risks above. However, the State must carefully consider whether the risk is commensurate with the cost savings. JLL has offered some general guidance below.

### **Occupancy Strategy**

CMS has developed new space standards, effective as of September 1st, 2020, in order to allow the State to reduce its footprint between 20% to 40%, which is estimated to reduce the State's footprint in the target properties by 48,800 to 97,700 square feet. However, due to the fact that the target leases expire in 2022 and reduction in lease square footage requires termination of the existing lease before spaces can be reduced, as well as a variety of complications related to estimating square footage reductions at individual properties, including landlords' probable unwillingness to allow the State to reduce its leased space especially where the State currently leases 100% of the building, JLL's analysis did not include any determination of the State's utilization of the Subject Properties for programmatic fit with the user agency. **Indeed, JLL recommends a thorough portfolio assessment be completed for all State-owned and -leased properties to determine the actual requirements for its user groups and identify opportunities for potential consolidation and footprint reduction.** CMS anticipates seeking introduction of legislation in Spring 2021 Session on Space Optimization relative to lease contracts would change the Procurement Code to allow a reduction of square footage during an executed lease contract when a Using Agency's space needs change. Where possible, leases include an expansion option, but currently, there is no mechanism to reduce square footage without rebidding a lease. This portfolio assessment would review overall real estate strategy by the user group, review the occupancy of the subject building, and create a portfolio strategy that considers each asset. This review is critical to ensuring the State has all pertinent information to make an own vs. lease decision. **Any findings below that identify "acquisition" as a lowest cost technically acceptable alternative is not an explicit recommendation to purchase.**

In addition to the State's newly adopted space standards, the COVID-19 pandemic has greatly increased remote work for many State departments. Post-pandemic workplace strategies may result in a permanent increase in remote work practices, potentially reducing the State's office space requirements as the State adopts hoteling and other desk sharing practices. As part of its portfolio assessment, the State should consider any newly adopted post-pandemic workplace strategies to ensure that the State does not lease or acquire space that its workforce no longer needs.

# Conclusions

For each property, JLL identified one of three lowest cost technically acceptable alternatives:

1. **Continue to lease:** The current lease is the most cost-efficient alternative for the location. Neither purchasing the asset, nor any identified alternatives, are as cost effective as the existing lease. Even if the State opts to continue leasing the subject property, the State should consider conducting a portfolio assessment to determine the actual space requirements for its users in the market and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.
2. **Consider acquisition:** It is more cost effective to acquire the subject asset than to lease the asset. However, prior to any asset purchase, the State should consider not only conducting a portfolio assessment to determine the actual space requirements for its users in the market and surrounding markets, but also the condition of the existing building.
3. **Consider an alternative property:** There is an asset in the proximate geography that would be a more cost-effective option for the user group. However, before acquiring or leasing the alternative property, the State should consider conducting a portfolio assessment to determine the actual space requirements for its users in the market and surrounding markets.

JLL’s analysis for each property is as follows:

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
2444 W Lawrence Avenue  Department of Employment Security - #L6680	Chicago	<b>Consider Leasing Alternative Property</b>  The total cost of leasing the alternative property at 5401-5407 N Western Ave over a 10-year period may be \$769,422 less, or 29% less, compared to continuing to lease the subject property.	Given the cost difference leasing the alternative property at 5401-5407 N Western ave and continuing to lease 2444 W Lawrence Ave, leasing the alternative property may justify the risks. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in the Chicago market. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 11.
110 N Jefferson Street	Jerseyville	<b>Continue to Lease</b>  The total cost of leasing over a 10-	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
Department of Human Services - #L6450		year period may be \$250,225 less, or 38% less, compared to acquisition.	space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 22.
250 N Chicago Street Department of Employment Security - #L3986	Joliet	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$72,123 less, or 7% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 33.
250 N Chicago Street Department of Human Services - #L6658	Joliet	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$432,240 less, or 10% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 44.
3419 Professional Park Drive Department of Healthcare and Family Services - #L6108	Marion	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$93,604 less, or 7% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 55.
200 W 5 <sup>th</sup> Street Department of Children and Family Services - #L6434	Metropolis	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$103,430 less, or	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
		33% less, compared to acquisition	State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 66.
2517 W 9 <sup>th</sup> Street Department of Human Services / Department of Natural Resources - #L6460	Mount Carmel	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$93,246 less, or 7% less, compared to acquisition	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 77.
1112 S West Street Department of Human Services - #L4455	Olney	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$114,707 less, or 27% less, compared to acquisition	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 87.
1406 Martin Street Department of Human Services / Department of Healthcare and Family Services - #L6632	Olney	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$112,430 less, or 12% less, compared to acquisition	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 97.
406 Elm Street Department of Employment Security - #L6163	Peoria	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$36,539 less, or 11% less, compared to acquisition	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its



Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
110 W Lawrence Avenue  Department of Healthcare and Family Services - #L6471	Springfield	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$355,841 less, or 22% less, compared to acquisition.	office spaces. For additional discussion, please see page 107.  The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 118.
1001 N Walnut Street  Department of Healthcare and Family Services - #L6154	Springfield	<b>Consider Acquisition</b>  The total cost of acquisition over a 10-year period may be \$293,978 less, or 16% less, compared to leasing.	Given the only minor cost difference between acquiring and leasing the property, acquiring the property may not justify the risks. Regardless of whether the State opts to lease or acquire the property, the State should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 129.
1014 E Laurel Street  Department of Central Management Services / Illinois Environmental Protection Agency - #L6248	Springfield	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$450,121 less, or 8% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 140.
1301 Knotts Street  Illinois Emergency Management Agency - #L6039	Springfield	<b>Continue to Lease</b>  Total cost of acquisition over a 10-year period may be \$683,353 , or 14% more, compared to leasing.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
2410 S Grand Avenue East  Department of Human Services - #L6627	Springfield	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$1,879,136 less, or 6% less, compared to acquisition.	office spaces. For additional discussion, please see page 151.  The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 162.
1629 Afton Road  Department of Human Services - #L6431	Sycamore	<b>Continue to Lease</b>  The total cost of leasing over a 10-year period may be \$75,162 less, or 6% less, compared to acquisition.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 173.
2740 W Grand Avenue  Department of Human Services - #L6407	Waukegan	<b>Continue to Lease</b>  The total cost of acquisition over a 10-year period is nominal, so the State should consider continuing to lease.	The State should continue leasing the property. However, before the State signs a lease, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces. For additional discussion, please see page 184.

# Definitions

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Below is a list of definitions for terms used throughout the report:

**Acquisition:** In this analysis, this refers to the purchase of a building.

**Base Rental Rate:** Rental rate that does NOT include costs such as operating expenses, real estate taxes, and electricity. This is often referred to as the “Net” rental rate.

**Capital Repairs and Renovations (CR&R):** Repairs and renovations to the space that require money to be spent.

**Class A, B, C:** A ranking system used in real estate to signify the quality of a building. This takes in to account things such as aesthetics, energy efficiency, and building quality. A is the highest quality building and C is the lowest quality.

**Consumer Price Index (CPI):** The measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

**Deliveries or “Delivered Space”:** New buildings / space that was constructed.

**Gross Rental Rate:** Includes base rental rate + Operating Expenses and Real Estate Taxes, all added up into one combined rental rate figure. The Gross Rental Rate will always be higher than the base/net rental rate because it encapsulates all costs.

**Inventory:** Physical space. Can be for office, warehouse, etc.

**Landlord Tenant Improvement (TI) Allowance:** A sum of money that the landlord provides a tenant to be used towards improving the space a tenant occupies. A TI allowance can typically be used without many restraints. The amount of money the landlord provides as a TI allowance can vary significantly based on but not limited to the term length of the lease, how nice the space is, and the credit worthiness of the tenant.

**Lease Comps:** The asking rental rates on a per square foot basis for properties comparable in quality and use type (office, warehouse, etc.) that are currently available for lease. These asking rental rates are used for comparative purposes when looking at the cost to rent the subject property being studied. They can help indicate if then rent currently being paid is too high, or if it is too low and is favorable for the tenant.

**Leasing Activity:** Quoted in SF. The amount of physical space that was leased during a certain time period.

**Market Value:** The assumed value of the property at a given time.

**Nominal Value:** Future Value.

**Operating Expenses:** Expenses a business incurs through its normal business operations. Often abbreviated as OpEx, operating expenses include rent, equipment, inventory costs, marketing, payroll, insurance, and R&D.

**Present Value Basis:** The value of a property today; current value.

**PSF:** Per Square Foot.

**Real Value:** Present Value; the value of a property today.

**Rental Rate Escalation:** The amount a rental rate increases after a certain period.

**Sales Comps:** The asking purchase prices on a per square foot basis for properties comparable in quality and use type (office, warehouse, etc.) that are currently available for sale. These asking purchase prices, or “listing prices” are used to determine an what an approximate cost to purchase the subject property would be.

**SF:** Square Feet.

**Vacancy Rate:** Percentage of space that is unoccupied.



*2444 W Lawrence Ave*

Chicago, IL

Department of Employment Security

Lease #L6680



# Market Analysis

## Property Description

Property Details	
Property Address:	2444 W Lawrence Ave, Chicago, IL
Lease Number:	L6680
Property Type:	Office
Building Size (SF):	15,500
Year Built:	1950
Using Agency:	Department of Employment Security
Lease Commencement Date:	3/27/17
Lease/Option End Date:	3/26/2022
Demographics	
Population:	1 mile: 57,502 5 miles: 1,021,191
Median Household Income:	1 mile: \$75,557 5 miles: \$69,844



Source: CoStar

## Demographic Overview for Chicago, IL

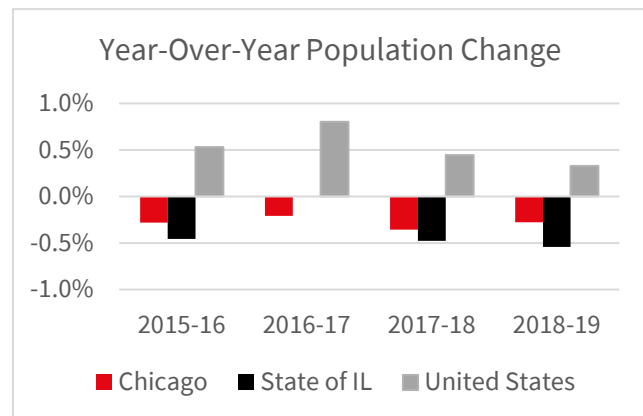
### Population

In 2019, Chicago, Illinois had an estimated population of 2,693,976. Chicago has experienced population loss since 2015, with 2019 population down 1.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

### Age

The median age in Chicago, IL is 34.8 years old, which is lower than the statewide median age of 38.6. The age difference is caused in part by the smaller share of seniors in Chicago, as 12.9% of the population of Chicago is over 65 years of age compared to 16.1% of the population statewide.

Year	Population Estimates
2019	2,693,976
2018	2,701,423
2017	2,711,069
2016	2,716,723
2015	2,724,344



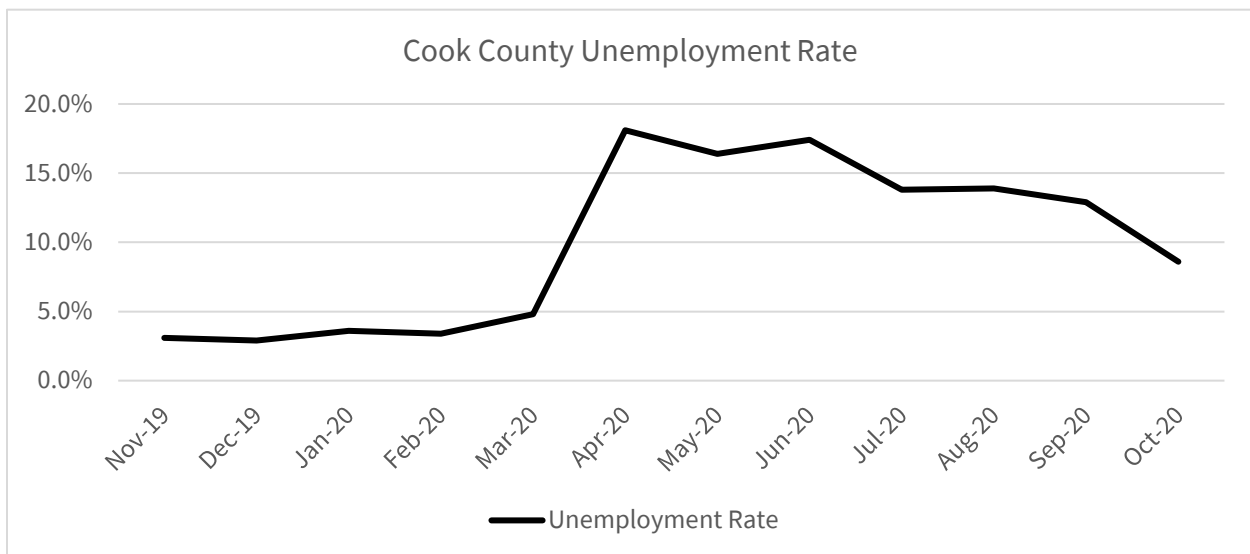
Source: U.S. Census Bureau

## Education

In Chicago, 39.5% of the population above the age of 25 has a bachelor's degree or higher, higher than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Chicago is located in Cook County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county was less than 5%, hitting a low of 2.9% in December 2019. The pandemic had a significant impact on unemployment in the county, peaking at 18.1% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 8.6%, closer to pre-pandemic levels but still higher. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

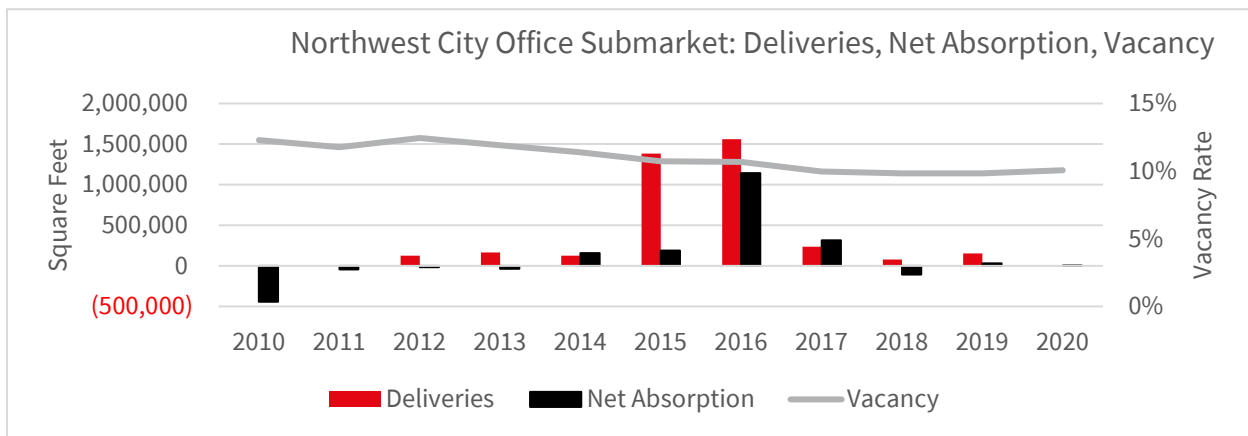


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

### Inventory and Supply

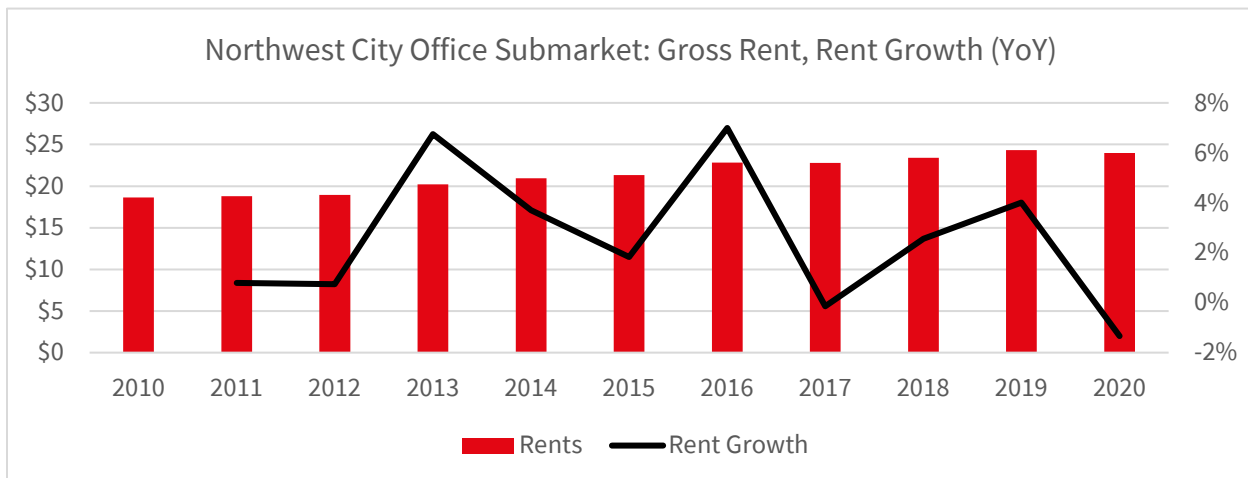
The Chicago Northwest City Submarket is the largest submarket in Chicago by area. There is a total of 16.1 million square feet of total office inventory with a vacancy rate of 10.1%. This submarket has only experienced limited stretches of negative net absorption. From 2010-2020 vacancy slowly declined from 12% to 10% without any major spikes upward. From 2010 to 2014, the submarket rebounded from the Great Recession leading to almost 3 million square feet being delivered in 2015 and 2016. Since then, net absorption dropped and is now hovering around zero with only a few notable deliveries since 2017.



Source: CoStar

### Leasing Activity and Availability

From 2010 to 2020, office rents in Northwest City have increased on average by 2.6% each year, increasing from \$18.64 to \$24.00.

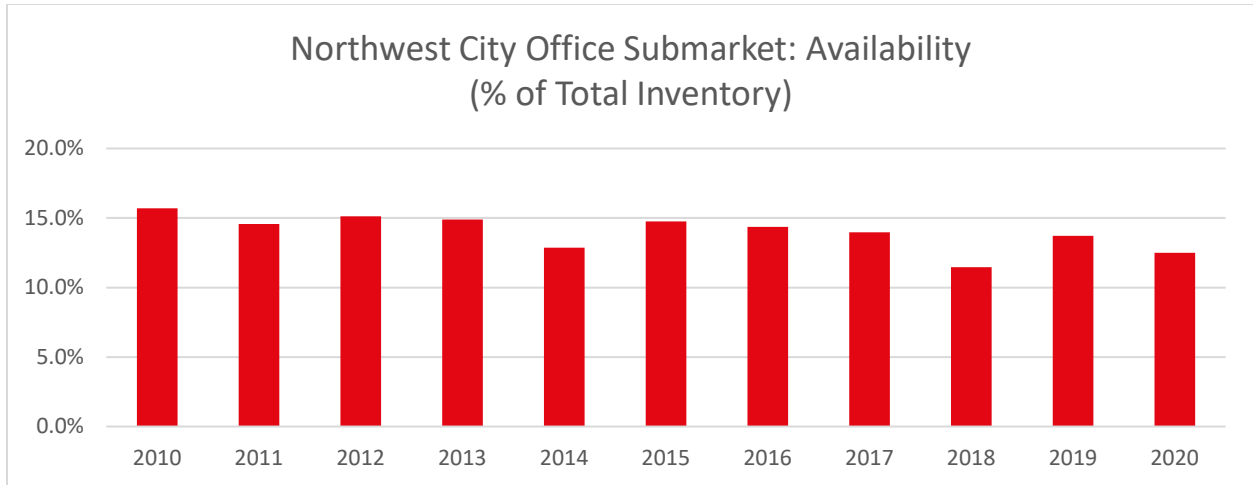


Source: CoStar



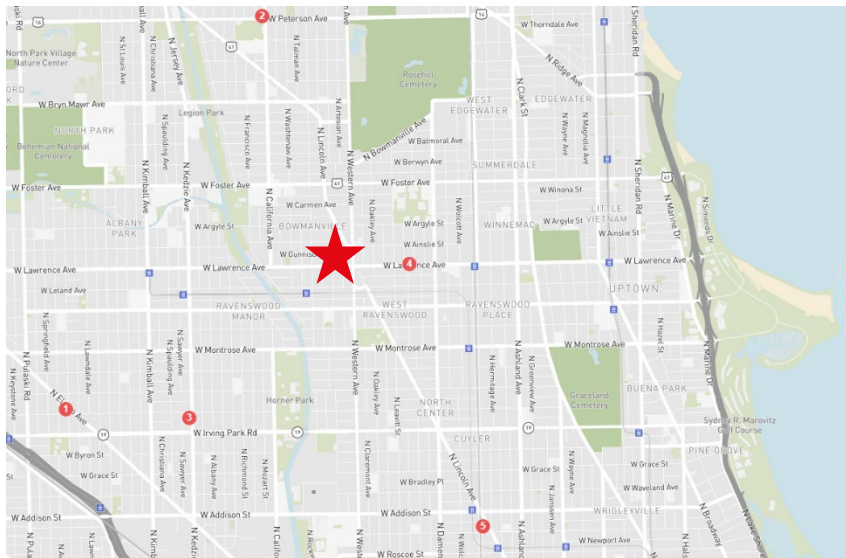
## Office leasing activity in Northwest City

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. From 2010 to 2016, availability has steadily declined from 15.7% of the total office sf inventory down to 12.5% in Year-To-Date 2020.



Source: CoStar

## Sales Comparables



## Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months within a 1-mile radius. Comparable office properties have sold for \$100.60 per square foot on average, that average is slightly skewed by the sale of 4146 N Elston Ave, which represents a significantly lower price per square foot than the market. Within a 1-mile radius, there are no properties for sales that are least 15,000 square feet.

ID	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
	2444 W Lawrence	C	15,500		
1	4146 N Elston Ave	C	15,688	\$55.46	Apr-2020
2	2800 W Peterson Ave	C	12,548	\$95.63	Jan-2020
3	4040 N Kedzie Ave	C	16,440	\$112.53	Sep-2019
4	2112 W Lawrence Ave	B	19,532	\$133.11	Oct-2018
5	3515 N Ravenswood Ave	B	20,000	\$106.25	Jan-2018

## Own Versus Lease Analysis

To assess whether the State should continue leasing 2444 W Lawrence or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	14,502
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 17.81
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$2,653,062. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 2444 W Lawrence</b>	
Total Rent Cost	\$ 2,828,101
+ Total OpEx	\$ 635,171
<b>Total Cost (Real)</b>	<b>\$ 2,653,062</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.39% over the 10-year period, which is the average growth rate of CPI for Chicago.

Using these assumptions, if the State can acquire the property for approximately \$2,750,000 (the 2022 Break-Even Acquisition Cost in the table below) the total cost of acquiring the property is equal to the total cost of leasing the property. This break-even cost equates to approximate per-square-foot purchase price of \$189.77.

<b>Total Cost to Acquire 2444 W Lawrence</b>	
2022 Break-Even Acquisition Cost	\$ 2,752,048
+ Initial CapEx	\$ 725,100
+ Total Ongoing CapEx	\$ 158,793
+ Total OpEx	\$ 635,171
- <u>2032 Market Value</u>	\$ (3,159,676)
Total Cost (Nominal)	\$ 1,818,127
<b>Total Cost (Real)</b>	<b>\$ 2,653,062</b>

If the State can acquire the building below \$189.77 psf, then it may consider purchasing as an alternative to leasing. Reviewing historical data can determine if the owner is likely to sell the Property at this price point or below, or if market values exceed this amount.

The following property sales provide some indication of market sales prices for properties in Chicago.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
4146 N Elston Ave	15,688	\$ 870,056	\$ 55.46
2800 W Peterson Ave	12,548	\$ 1,199,965	\$ 95.63
4040 N Kedzie Ave	16,440	\$ 1,849,993	\$ 112.53
2112 W Lawrence Ave	19,532	\$ 2,599,905	\$ 133.11
3515 N Ravenswood Ave	20,000	\$ 2,125,000	\$ 106.25
<b>Average</b>			<b>\$ 100.60</b>

Based on this sample, the average sale price of properties in Chicago is \$100.60 per square foot. Compared to the maximum break-even price of \$189.77 per square foot for the 2444 W Lawrence, this value is lower, indicating that acquiring the property for less than \$189.77 psf may be feasible.

Should the State acquire the property for \$100.60 per square foot, the total cost of acquisition, including capital expenditure, would be \$2,332,947.

<b>Total Cost to Acquire 2444 W Lawrence at Market Value</b>	
2022 Market Acquisition Cost	\$ 1,458,843
+ Total Buildout Cost (full TI)	\$ 706,690
+ Initial CapEx	\$ 725,100
+ Total Ongoing CapEx	\$ 158,793
+ Total OpEx	\$ 635,171
- <u>2032 Market Value</u>	\$ (1,674,924)
Total Cost (Nominal)	\$ 2,009,673
<b>Total Cost (Real)</b>	<b>\$ 2,332,947</b>

This is \$320,115 less than the cost to lease the property on a present value basis.

## Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>				
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>	
1927 N Milwaukee Ave	18,073	\$46.42	\$ 839,000	
5151 N Harlem Ave	18,000	\$71.67	\$ 1,290,060	
5700 N Central Ave	16,500	\$169.70	\$ 2,800,050	
450 N Leavitt St	16,012	\$152.55	\$ 2,442,631	
7000 W North Ave	15,284	\$63.79	\$ 974,966	
<b>Lease Alternatives</b>				
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>	
5401-5407 N Western Ave	30,000	14,502	\$12.00	
4411 N Ravenswood Ave	20,000	14,502	\$10.50	
3319 N Elston Ave	21,662	14,502	\$18.75	
4700 N Marine Dr	88,065	14,502	\$24.00	
4740-4750 N Sheridan Rd	22,236	14,502	\$19.00	
939 W Wilson Ave	15,000	14,502	\$16.00	

All the acquisition alternatives are located in the same submarket and are adequately sized to support the State's current footprint.

Regarding lease alternatives, all provide sufficient space for the State to lease and are located within the same submarket.

## Conclusion

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The lowest cost technically acceptable alternative is to lease the alternative property at 5401-5407 N Western Ave, which is estimated to save the State \$769,422 over 10 years.

However, this option presents several inherent risks. In leasing the alternative property at 5401-5407 N Western Ave, the State may not be able to lease only 14,502 square feet of space given that the property has 30,000 square feet of space available. The State would also need to plan for and temporarily disrupt operations for a move, which would require additional resources from State staff to implement.

However, given the difference in total cost between leasing the alternative property at 5401-5407 N Western Ave and continuing to lease it, leasing the property at 5401-5047 N Western Ave may justify the risks above.

Before the State signs a new lease, the State should consider undertaking a portfolio assessment to determine the actual space requirements for its users in the Chicago market. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 2444 W Lawrence</b>	\$ 2,653,062
<b>Acquire 2444 W Lawrence</b>	\$ 2,332,947
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
1927 N Milwaukee Ave	\$ 2,642,342
5151 N Harlem Ave	\$ 2,744,162
5700 N Central Ave	\$ 2,915,870
450 N Leavitt St	\$ 2,761,656
7000 W North Ave	\$ 2,300,286
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
5401-5407 N Western Ave	\$ 1,883,640
4411 N Ravenswood Ave	\$ 2,187,751
3319 N Elston Ave	\$ 3,191,317
4700 N Marine Dr	\$ 3,829,949
4740-4750 N Sheridan Rd	\$ 2,735,151
939 W Wilson Ave	\$ 2,370,218



# *110 N Jefferson Street*

**Jerseyville, IL**

**Department of Human Services**

**Lease #L6450**





# Market Analysis

## Property Description

Property Details	
Property Address:	110 North Jefferson St Jerseyville, IL
Lease Number:	L6450
Property Type:	Office
Building Size (SF):	4,200
Year Built:	1989
Using Agency:	Department of Human Services
Lease Commencement Date:	March 12, 2012
Lease/Option End Date:	June 30, 2022
Demographics	
Population:	1 mile: 7,825 5 miles: 10,525
Median Household Income:	1 mile: \$48,161 5 miles: \$50,906



Source: Google

## Demographic Overview for Jerseyville, IL

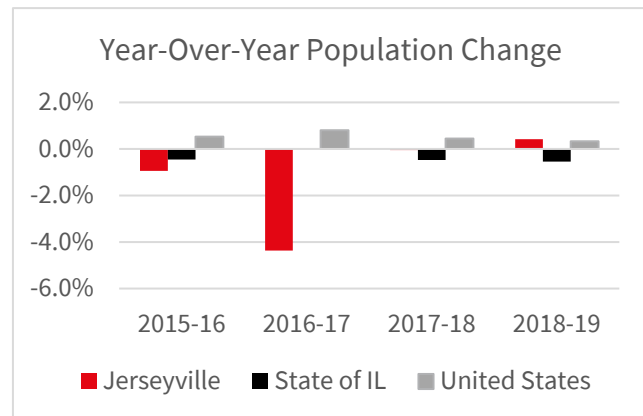
### Population

In 2019, Jerseyville, Illinois had an estimated population of 8,161. Jerseyville has experienced population loss since 2015, with 2019 population down 4.9% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

### Age

The median population in Jerseyville is 39.2 years old, which is older than the statewide median age of 38.5.

Year	Population Estimates
2019	8,161
2018	8,127
2017	8,131
2016	8,502
2015	8,583

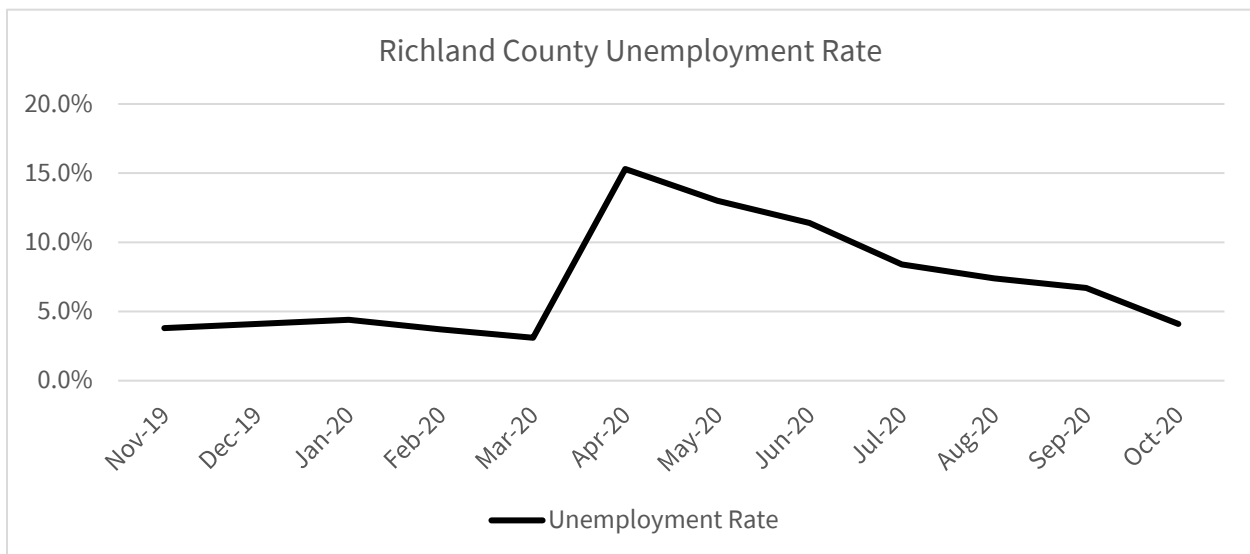


## Education

In Jerseyville, 22.5% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Jerseyville is located in Jersey County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county varied from 4.4% in January 2020 to 3.1% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 15.3% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 4.1%, similar to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

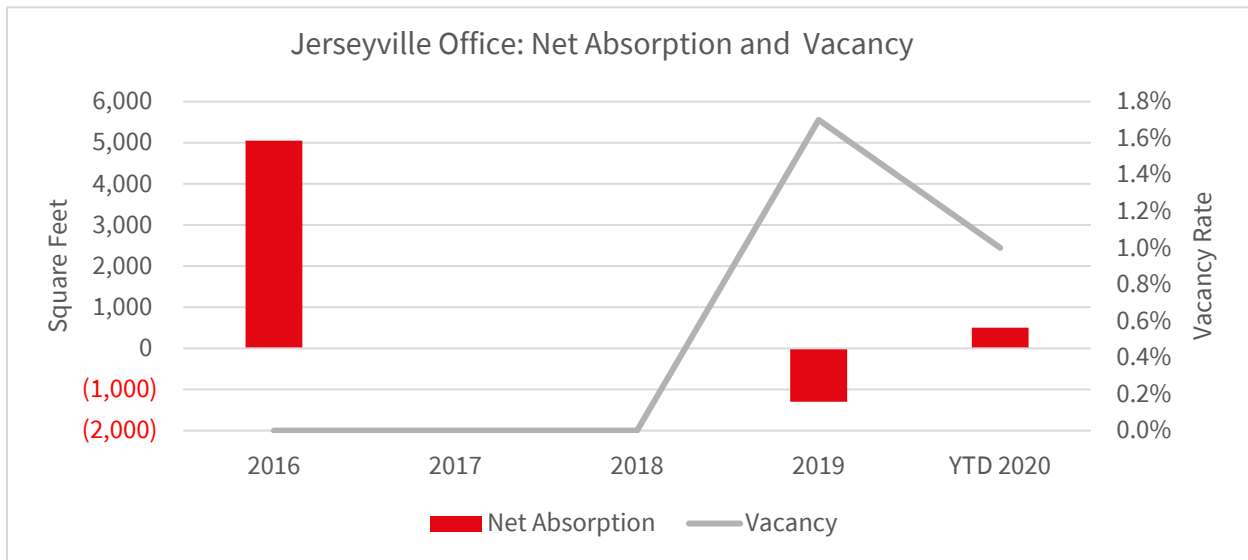


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

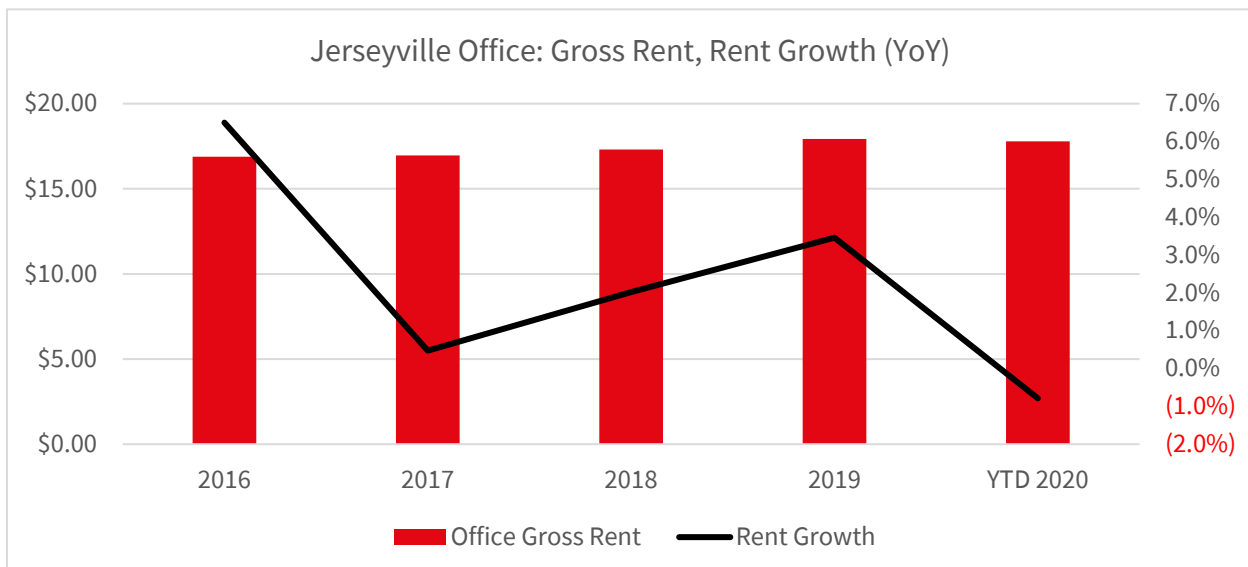
### Inventory and Supply

The Jerseyville office market has 77,900 square feet of total office inventory with a vacancy rate of 1.0%. Net absorption has fluctuated in the past five years, with positive absorption of 500 square feet of office space in 2020 YTD, up from negative absorption of 1,300 square feet in 2019. No new office properties have been delivered in the market in the past five years. Market vacancy has remained relatively low since 2016, reaching a high of 1.7% in 2019 before dropping to 1.0% in 2020 YTD.



Source: CoStar

Office rents in the market have increased slightly since 2016, going from \$16.88 per square foot in 2016 to \$17.79 per square foot in 2020 YTD.

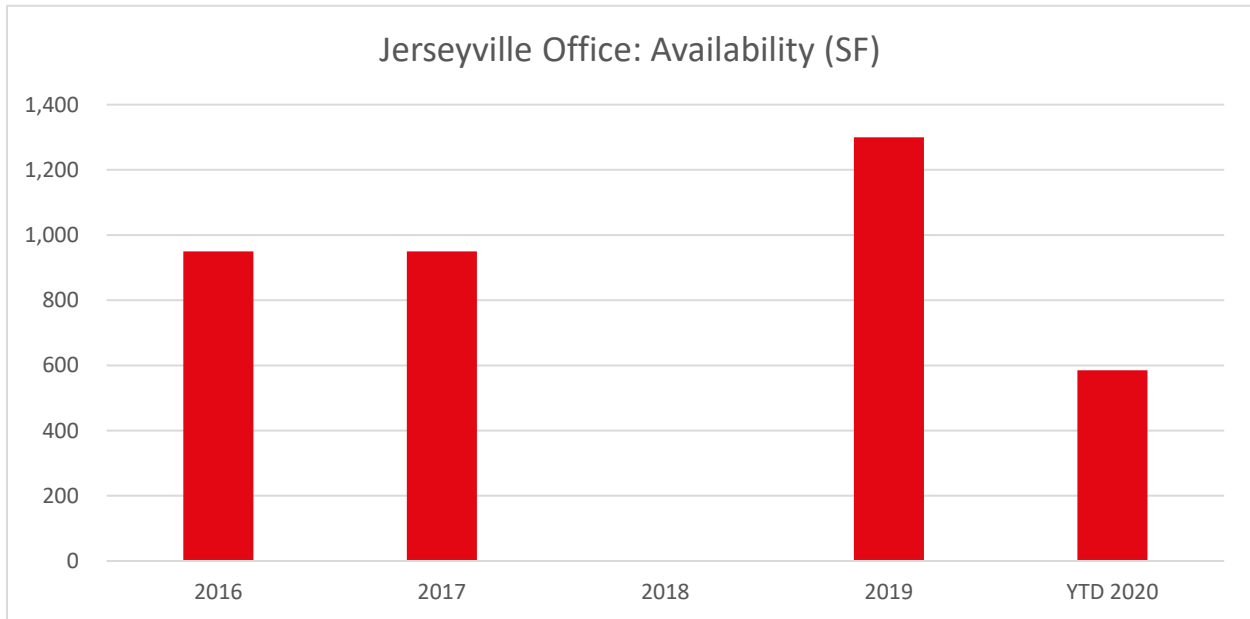


Source: CoStar

## Leasing Activity and Availability

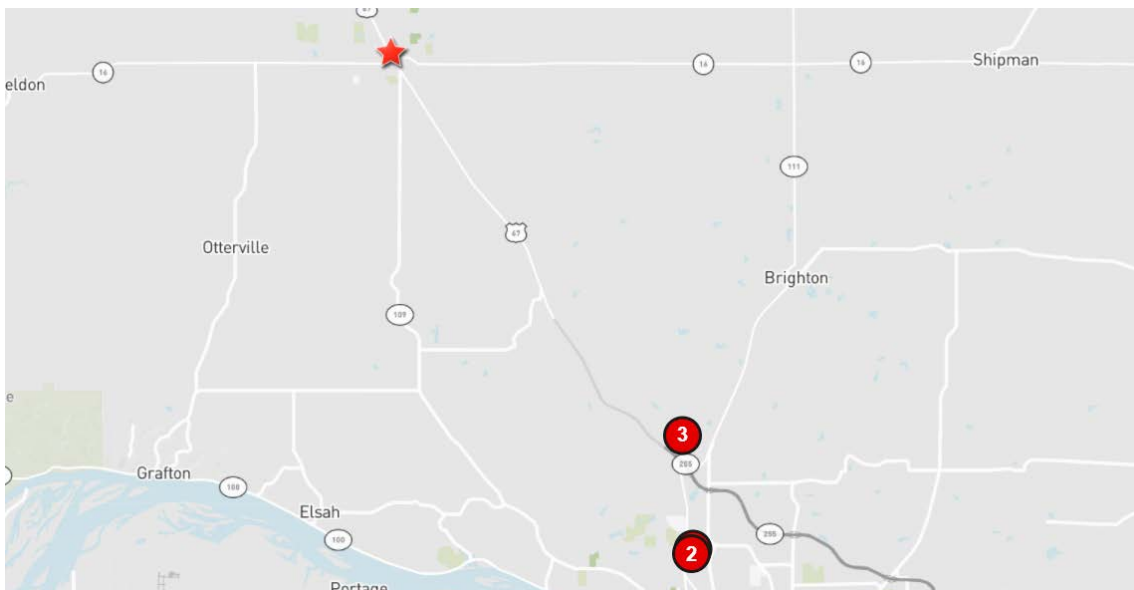
Office leasing activity in Jerseyville has been light in recent years, with 1,270 square feet leased in 2019 and 300 square feet leased in 2020. There was no leasing activity in the market from 2016 to 2018.

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been low in recent years, with total availability of 1,300 square feet in 2019 being the peak from the past five years. Availability in 2020 was just 585 square feet.



Source: CoStar

## Sales Comparables



There have been no office property sales in the market in the past three years. Outside of Jerseyville, there have been three office properties sold in Godfrey in recent years. The 1,579 square foot property at 5309 Godfrey Road in Godfrey sold for \$227,000 in July 2020; the 3,600 square foot property at 5213 Mae Drive in Godfrey sold for \$440,00 in November 2020; and the 6,720 square foot property at 620 Armsway Boulevard in Godfrey sold for \$120,000 in September 2020. Sale prices have ranged from \$22.32 per square foot for 620 Armsway Boulevard to \$143.76 per square foot for 5309 Godfrey Road.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	5309 Godfrey Boulevard, Godfrey	C	1,579	\$143.76	Jul-2020
2	5213 Mae Drive, Godfrey	B	3,600	\$122.22	Nov-2020
3	620 Armsway Boulevard, Godfrey	C	6,720	\$22.32	Sep-2020

Source: CoStar

## Own Versus Lease Analysis

To assess whether the State should continue leasing 110 N Jefferson St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	4,200
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 7.83
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$416,771. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 110 N Jefferson St</b>	
Total Rent Cost	\$ 360,093
+ Total OpEx	\$ 183,955
<b>Total Cost (Real)</b>	<b>\$ 416,771</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

However, given that the rental rate for the property is a nominal \$1/year, there is no acquisition cost, other than being given the building for free, that "breaks even" with the low cost of the lease.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
5309 Godfrey Blvd	1,579	\$ 226,997	\$ 143.76
5213 Mae Dr	3,600	\$ 439,992	\$ 122.22
620 Armsway Blvd	6,720	\$ 149,990	\$ 22.32
<b>Average</b>			<b>\$ 96.10</b>

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales in Godfrey, IL (there have been no recent sales transactions in Jerseyville), the average sale price is \$96.10 per square foot.

Should the State acquire the property for \$96.10 per square foot, the total cost of acquisition, including capital expenditure, would be \$666,996.

<b>Total Cost to Acquire 110 N Jefferson St at Market Value</b>	
2022 Market Acquisition Cost	\$ 403,620
+ Total Buildout Cost (full TI)	\$ 204,668
+ Initial CapEx	\$ 210,000
+ Total Ongoing CapEx	\$ 45,989
+ Total OpEx	\$ 183,955
- 2032 Market Value	\$ (469,897)
Total Cost (Nominal)	\$ 578,335
<b>Total Cost (Real)</b>	<b>\$ 666,996</b>

This is \$250,225 more than the cost to lease the property on a present value basis.



# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
None			
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

There are currently no alternative office properties for lease or for sale in Jerseyville. This analysis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

# Conclusion

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The lowest cost technically acceptable alternative is to continue to lease 110 N Jefferson St.

The State could consider acquiring the property for approximately \$250,000 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease 110 N Jefferson St.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 110 N Jefferson St</b>	\$ 416,771
<b>Acquire 110 N Jefferson St</b>	\$ 666,996
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



# *250 N Chicago St*

Joliet, IL

Department of Employment Security

Lease #L3986



# Market Analysis

## Property Description

Property Details	
Property Address:	250 N Chicago St Joliet, IL
Lease Number:	L3986
Property Type:	Office
Building Size (SF):	90,605
Year Built:	Not Available
Using Agency:	Department of Employment Security
Lease Commencement Date:	7/1/2017
Lease/Option End Date:	6/30/2022
Demographics	
Population:	1 mile: 19,933 5 miles: 150,001
Median Household Income:	1 mile: \$36,503 5 miles: \$59,199



Source: CoStar

## Demographic Overview for Joliet, IL

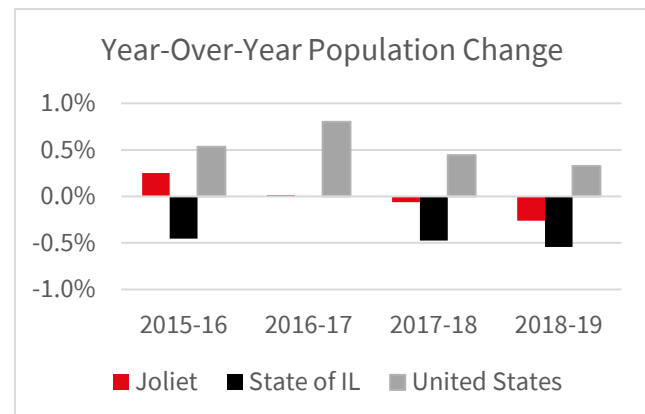
### Population

In 2019, Joliet, Illinois had an estimated population of 147,344. Joliet's population has been flat from 2015 to 2019. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	147,344
2018	147,730
2017	147,821
2016	147,802
2015	147,432

### Age

The median age in Joliet, IL is 33.3 years old, which is well below than the statewide median age of 38.6. The age difference is caused in part by the smaller share of seniors in Joliet, as 10.5% of the population of Joliet is over 65 years



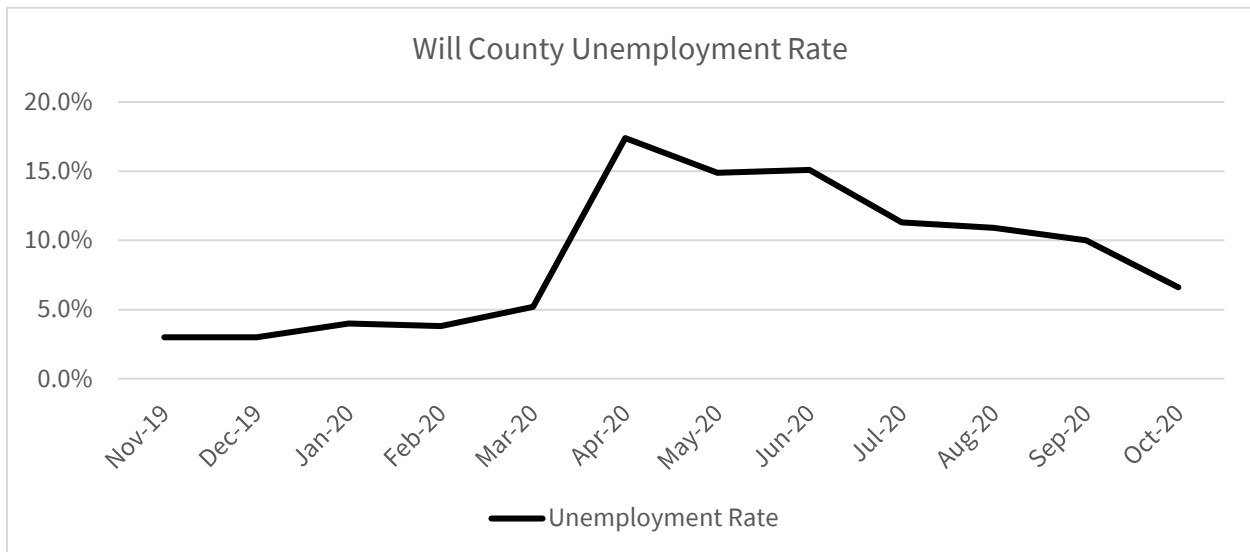
of age compared to 16.1% of the population statewide.

## Education

In Joliet, 22.1% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Joliet is located in Will County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county hit a low of 3% in November and December 2019. The pandemic had a significant impact on unemployment in the county, peaking at 17.4% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 6.6%, closer to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

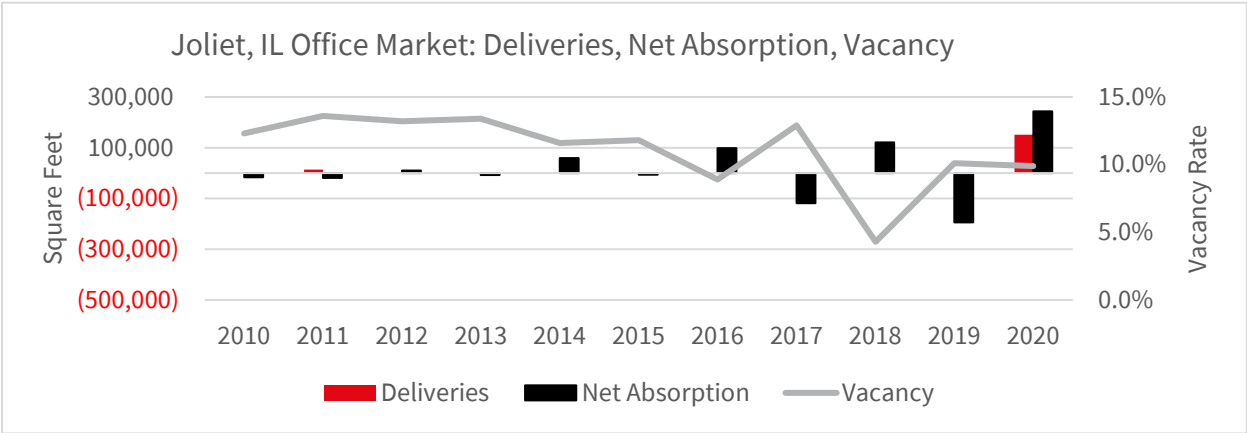


Source: U.S. Bureau of Labor Statistics

# Office Market Conditions

## Inventory and Supply

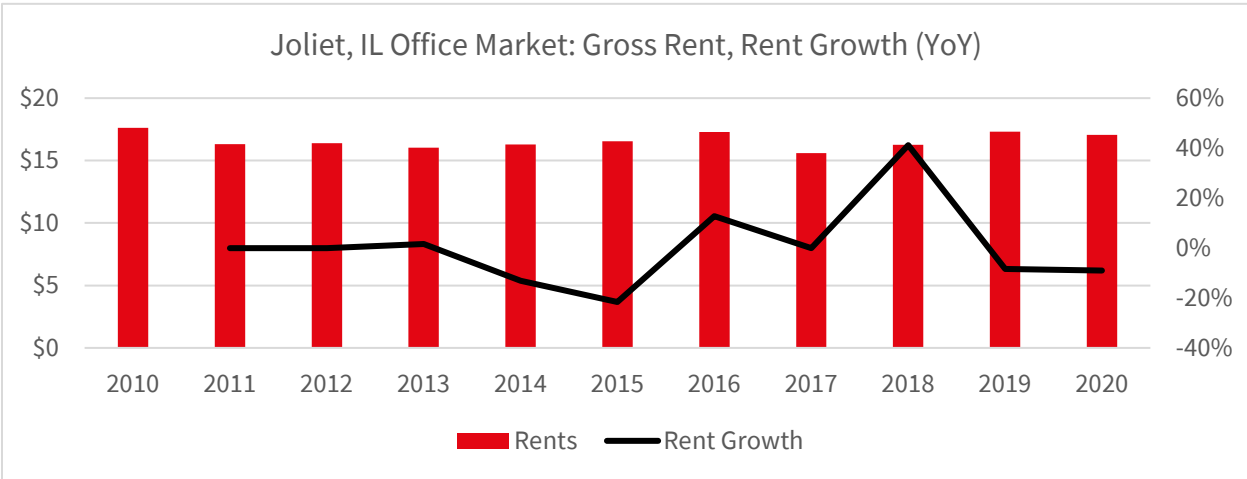
There is a total of 3,411,987 square feet of total office inventory in Joliet, IL with a vacancy rate of 9.9%. This submarket has only experienced limited stretches of negative net absorption. Vacancy declined from a high of 13.4% in 2013 to 8.9% in 2016. Since then, vacancy has averaged 9.3%. There have been three deliveries from 2010-2020, one in 2011 and two significantly larger deliveries in 2020. Despite the large delivery in 2020, the market has been able to absorb the space within the same year.



Source: CoStar

## Leasing Activity and Availability

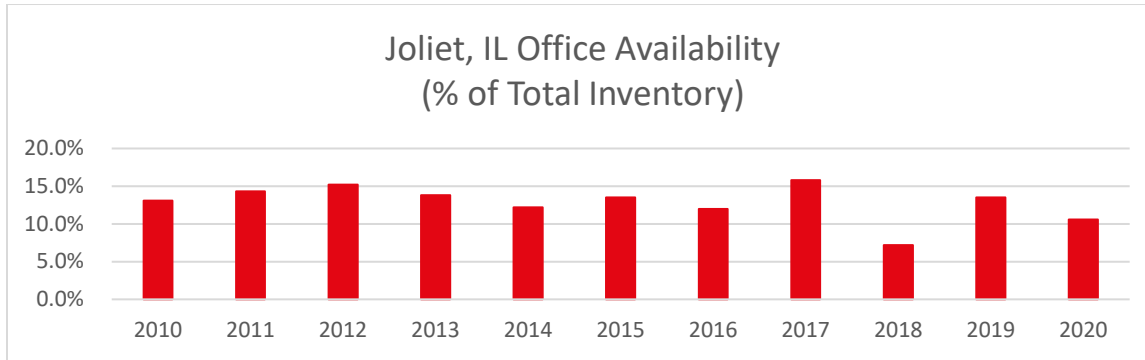
From 2010 to 2020, office rents in Joliet IL have hovered between \$15.59 and \$17.62. Over the last decade, office rents average at \$16.61. The current market rent is at \$17.07.



Source: CoStar

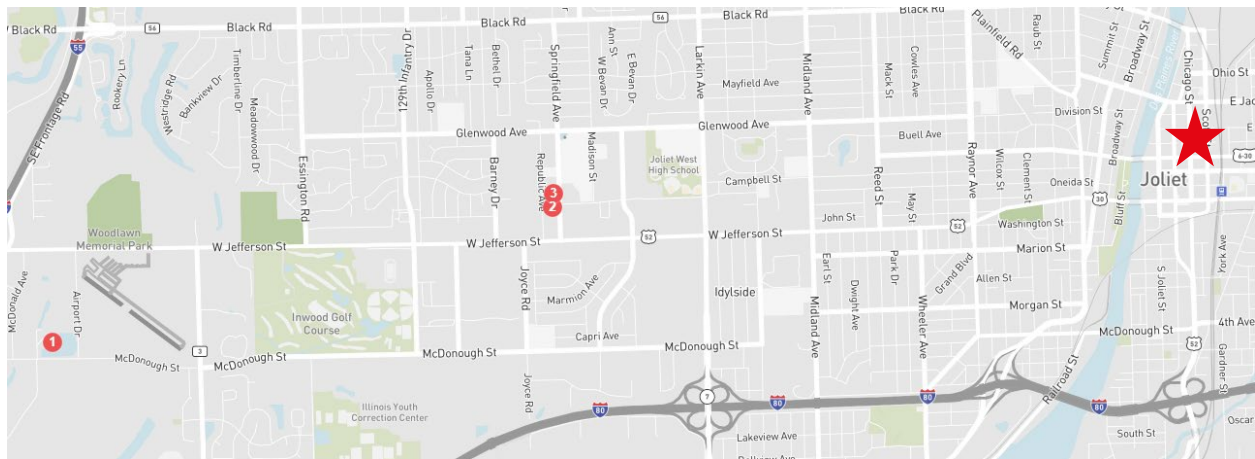
## Office leasing activity in Joliet, IL

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. From 2010 to 2020, availability has been up and down from a high in 2017 of 15.8% of the total office inventory to 7.2% in 2018. The average availability over the last ten years is 12.8%



Source: CoStar

## Sale Comparables



# Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months Joliet. There was only one office property sold in Joliet, IL at \$5.46 per square foot.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
	250 N Chicago		29,800		
1	320 Waterstone Way	B	10,000	\$155.00	Jun-2020
2	121 Springfield Ave	B	10,199	\$66.67	Jan-2020
3	195 Springfield Ave	B	10,000	\$110.00	Jan-2019



## Own Versus Lease Analysis

To assess whether the State should continue leasing 250 N Chicago St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	7,200
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 12.74
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,011,002. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 250 N Chicago St</b>	
Total Rent Cost	\$ 1,004,396
+ Total OpEx	\$ 315,352
<b>Total Cost (Real)</b>	<b>\$ 1,011,002</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.39% over the 10-year period, which is the average growth rate of CPI for Chicago.

Using these assumptions, if the State can acquire the property for approximately \$130,000 (the Break-Even Acquisition Cost in the table below) the total cost of acquiring the property is equal to the total cost of leasing the property. This break-even cost equates to approximate per-square-foot purchase price of \$17.97.

<b>Total Cost to Acquire 250 N Chicago St</b>	
2022 Break-Even Acquisition Cost	\$ 129,357
+ Initial CapEx	\$ 360,000
+ Total Ongoing CapEx	\$ 78,838
+ Total OpEx	\$ 315,352
<u>- 2032 Market Value</u>	\$ (148,518)
Total Cost (Nominal)	\$ 1,085,889
<b>Total Cost (Real)</b>	<b>\$ 1,011,002</b>

If the State can acquire the building below \$17.97 psf, then it may consider purchasing as an alternative to leasing. Reviewing historical data can determine if the owner is likely to sell the Property at this price point or below, or if market values exceed this amount.

The following property sales provide some indication of market sales prices for properties in Joliet.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
28301 Ferry Rd, Warrenvi	136,234	\$ 6,200,009	\$ 45.51
2200 Cabot Dr, Lisle, IL	131,668	\$ 4,848,016	\$ 36.82
1717 Park St, Naperville,	114,016	\$ 10,600,068	\$ 92.97
<b>Average</b>			<b>\$ 58.43</b>

Based on this sample, the average sale price of properties in Joliet is \$58.43 per square foot. Compared to the maximum break-even price of \$17.97 per square foot for the 250 N Chicago St, this value is lower, indicating that acquiring the property for less than \$17.97 psf may be feasible.

Should the State acquire the property for \$58.43 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,083,124.

<b>Total Cost to Acquire 250 N Chicago St at Market Value</b>	
2022 Market Acquisition Cost	\$ 420,720
+ Total Buildout Cost (full TI)	\$ 350,860
+ Initial CapEx	\$ 360,000
+ Total Ongoing CapEx	\$ 78,838
+ Total OpEx	\$ 315,352
- <u>2032 Market Value</u>	\$ (483,036)
Total Cost (Nominal)	\$ 1,042,733
<b>Total Cost (Real)</b>	<b>\$ 1,083,124</b>

This is \$72,123 more than the cost to lease the property on a present value basis.

## Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
2 Uno Cir	9,924	\$96.00	\$ 952,704
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
2700 Ellis Rd	261,556	7,200	\$16.00
65 W Webster St	97,116	7,200	\$10.50

There is one acquisition alternative but the building is 2,024 sf larger than the lease.

Regarding lease alternatives, both provide sufficient space for the State to lease and both are located in Joliet.

## Conclusion

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The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for approximately \$72,123 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 250 N Chicago St</b>	\$ 1,011,002
<b>Acquire 250 N Chicago St</b>	\$ 1,083,124
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
2 Uno Cir	\$ 1,572,716
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
2700 Ellis Rd	\$ 1,176,773
65 W Webster St	\$ 1,086,182



# *250 N Chicago St*

Joliet, IL

Department of Human Services

Lease #L6658



# Market Analysis

## Property Description

Property Details	
Property Address:	250 N Chicago St Joliet, IL
Lease Number:	L6658
Property Type:	Office
Building Size (SF):	90,605
Year Built:	Not Available
Using Agency:	Department of Human Services
Lease Commencement Date:	1/1/2018
Lease/Option End Date:	12/31/2022
Demographics	
Population:	1 mile: 19,933 5 miles: 150,001
Median Household Income:	1 mile: \$36,503 5 miles: \$59,199



Source: CoStar

## Demographic Overview for Joliet, IL

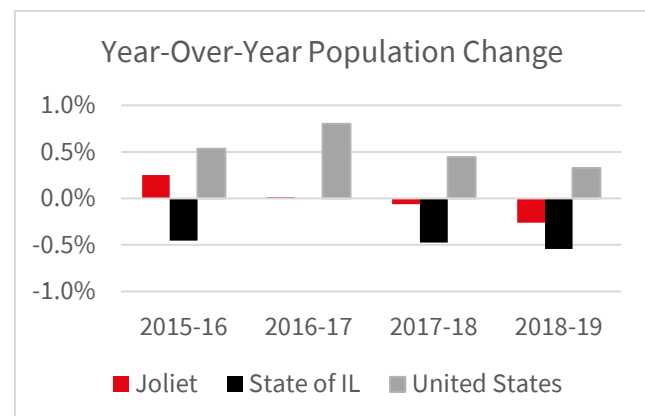
### Population

In 2019, Joliet, Illinois had an estimated population of 147,344. Joliet's population has been flat from 2015 to 2019. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	147,344
2018	147,730
2017	147,821
2016	147,802
2015	147,432

### Age

The median age in Joliet, IL is 33.3 years old, which is well below than the statewide median age of 38.6. The age difference is caused in part by the smaller share of seniors in Joliet, as 10.5% of the population of Joliet is over 65 years



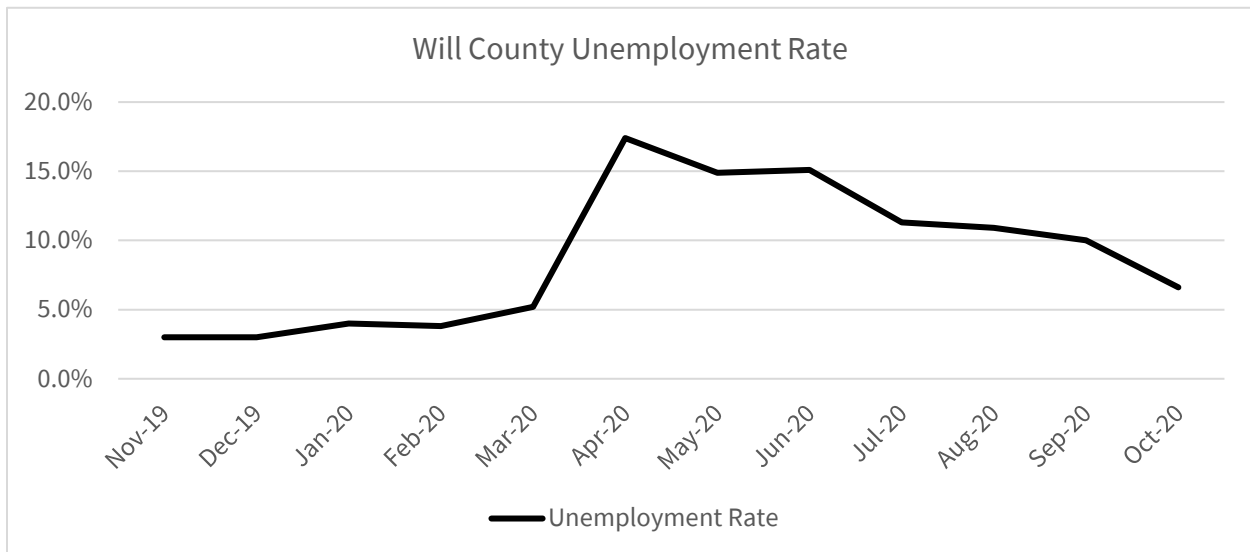
of age compared to 16.1% of the population statewide.

## Education

In Joliet, 22.1% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Joliet is located in Will County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county hit a low of 3% in November and December 2019. The pandemic had a significant impact on unemployment in the county, peaking at 17.4% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 6.6%, closer to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.



Source: U.S. Bureau of Labor Statistics



## Own Versus Lease Analysis

To assess whether the State should continue leasing 250 N Chicago St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	29,800
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 12.21
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$4,050,692. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 250 N Chicago St</b>	
Total Rent Cost	\$ 3,982,512
+ Total OpEx	\$ 1,305,207
<b>Total Cost (Real)</b>	<b>\$ 4,050,692</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.39% over the 10-year period, which is the average growth rate of CPI for Chicago.

Using these assumptions, the State cannot acquire the property for less than the total cost of leasing the property.

<b>Total Cost to Acquire 250 N Chicago St</b>	
2022 Break-Even Acquisition Cost	\$ -
+ Initial CapEx	\$ 1,490,000
+ Total Ongoing CapEx	\$ 326,302
+ Total OpEx	\$ 1,305,207
<u>- 2032 Market Value</u>	\$ -
Total Cost (Nominal)	\$ 4,573,677
<b>Total Cost (Real)</b>	<b>\$ 4,051,893</b>

The following property sales provide some indication of market sales prices for properties in Joliet.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
28301 Ferry Rd, Warrenvi	136,234	\$ 6,200,009	\$ 45.51
2200 Cabot Dr, Lisle, IL	131,668	\$ 4,848,016	\$ 36.82
1717 Park St, Naperville,	114,016	\$ 10,600,068	\$ 92.97
<b>Average</b>			<b>\$ 58.43</b>

Based on this sample, the average sale price of properties in Joliet is \$58.43 per square foot. Compared to the maximum break-even price of \$0.00 per square foot for the 250 N Chicago St, this value is lower, indicating that acquiring the property for less than \$0.00 psf may be feasible.

Should the State acquire the property for \$58.43 per square foot, the total cost of acquisition, including capital expenditure, would be \$4,482,931.

<b>Total Cost to Acquire 250 N Chicago St at Market Value</b>	
2022 Market Acquisition Cost	\$ 1,741,313
+ Total Buildout Cost (full TI)	\$ 1,452,169
+ Initial CapEx	\$ 1,490,000
+ Total Ongoing CapEx	\$ 326,302
+ Total OpEx	\$ 1,305,207
- <u>2032 Market Value</u>	\$ (1,999,233)
Total Cost (Nominal)	\$ 4,315,758
<b>Total Cost (Real)</b>	<b>\$ 4,482,931</b>

This is \$432,240 more than the cost to lease the property on a present value basis.

## Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
150 N Scott St	26,000	\$48.08	\$ 1,250,080
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
2700 Ellis Rd	261,556	29,800	\$16.00
65 W Webster St	97,116	29,800	\$10.50

There is 1 viable acquisition alternative in Joliet, IL if the State can reduce the space needed from 29,800 to 26,000 square feet.

Regarding lease alternatives, both provide sufficient space for the State to lease and both are located in Joliet.

## Conclusion

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The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for approximately \$432,240 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property.

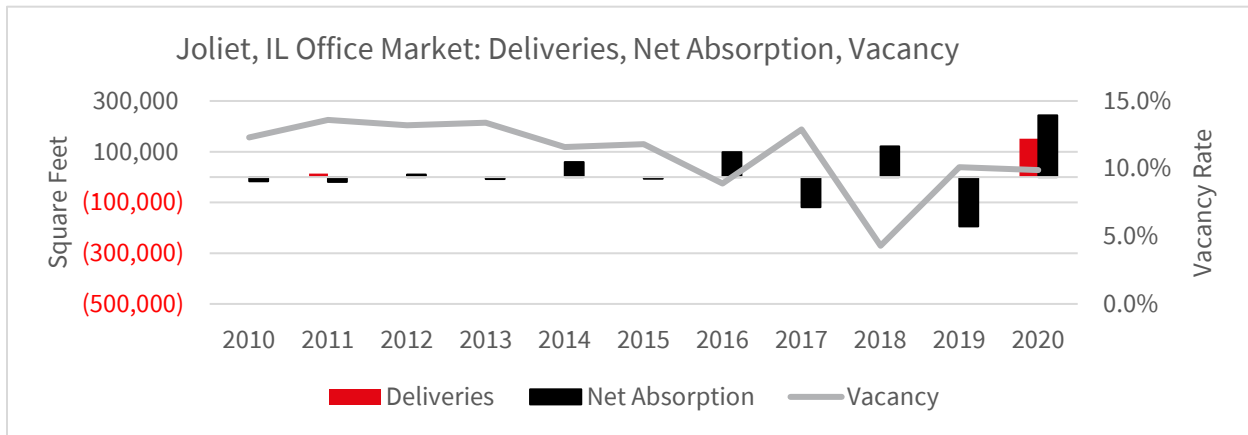
Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 250 N Chicago St</b>	\$ 4,050,692
<b>Acquire 250 N Chicago St</b>	\$ 4,482,931
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
150 N Scott St	\$ 3,811,966
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
2700 Ellis Rd	\$ 4,870,534
65 W Webster St	\$ 4,495,586

## Office Market Conditions

### Inventory and Supply

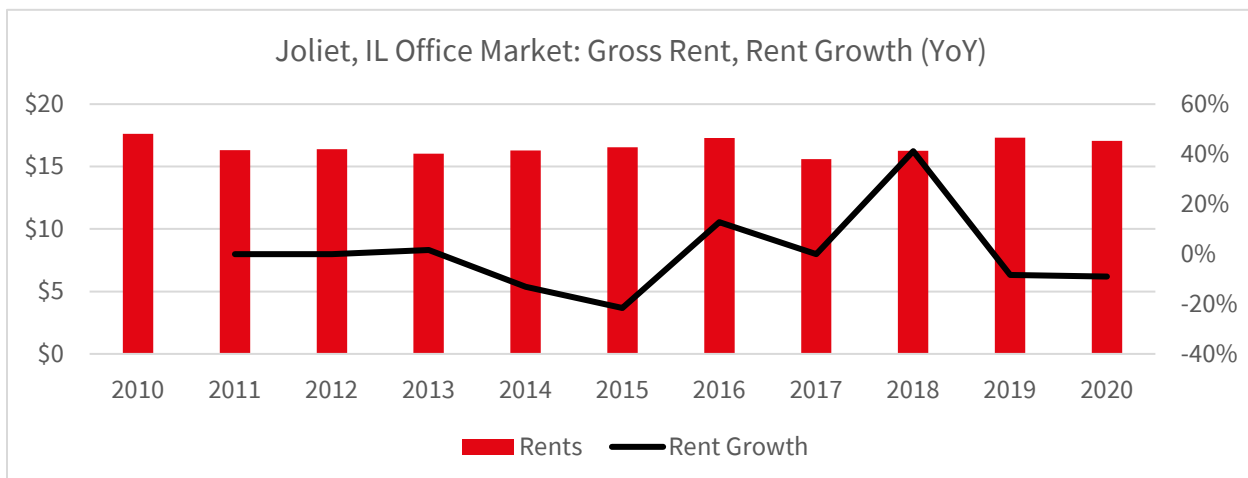
There is a total of 3,411,987 square feet of total office inventory in Joliet, IL with a vacancy rate of 9.9%. This submarket has only experienced limited stretches of negative net absorption. Vacancy declined from a high of 13.4% in 2013 to 8.9% in 2016. Since then, vacancy has averaged 9.3%. There have been three deliveries from 2010-2020, one in 2011 and two significantly larger deliveries in 2020. Despite the large delivery in 2020, the market has been able to absorb the space within the same year.



Source: CoStar

### Leasing Activity and Availability

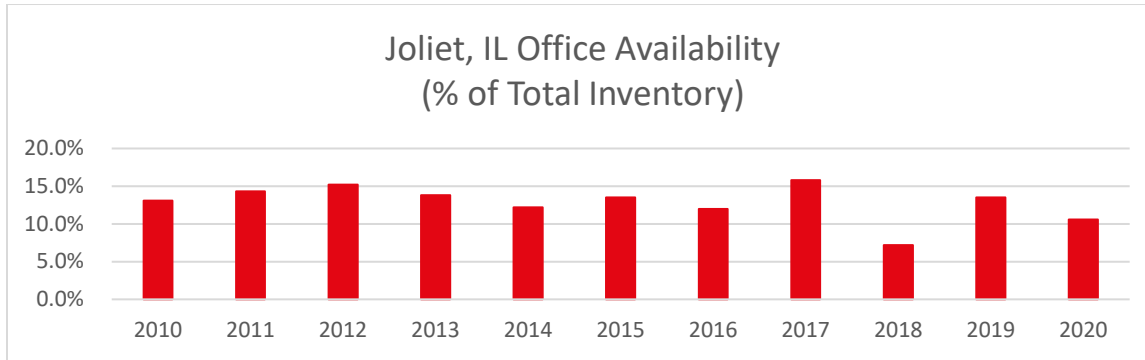
From 2010 to 2020, office rents in Joliet IL have hovered between \$15.59 and \$17.62. Over the last decade, office rents average at \$16.61. The current market rent is at \$17.07.



Source: CoStar

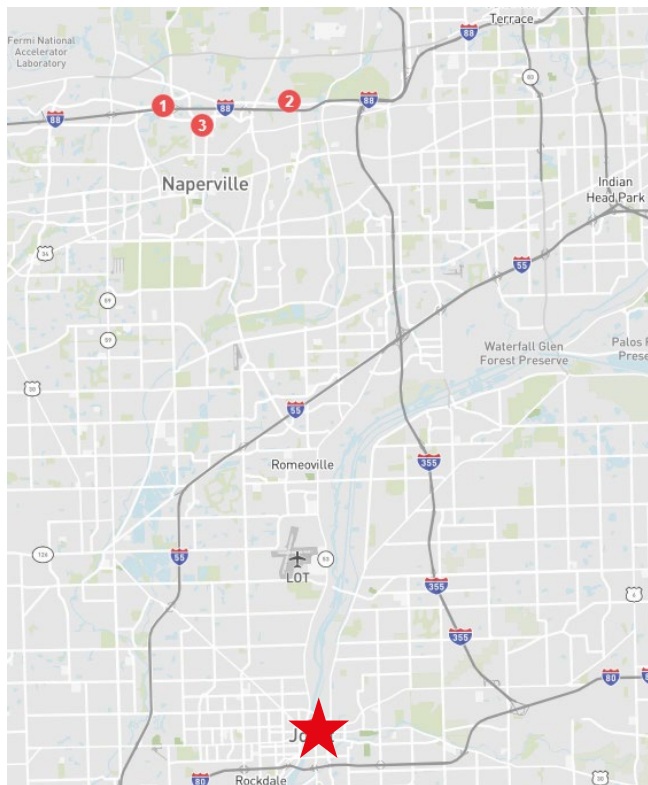
## Office leasing activity in Joliet, IL

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. From 2010 to 2020, availability has been up and down from a high in 2017 of 15.8% of the total office inventory to 7.2% in 2018. The average availability over the last ten years is 12.8%



Source: CoStar

## Sale Comparables



## Sale Comparables

Recent office sales represent properties within that have sold in the last three years in Joliet. There were no comparable properties sold in Joliet that are as large as the subject property. The average per square foot value of these sales are \$58.43

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
	250 N Chicago		29,800		
1	28301 Ferry Rd, Warrenville, IL	B	136,234	\$45.51	Jul-2020
2	2200 Cabot Dr, Lisle, IL	B	131,668	\$36.82	Nov-2019
3	1717 Park St, Naperville, IL	B	114,016	\$92.97	May-2019





# *3419 Professional Park Dr*

**Marion, IL**

**Department of Healthcare and Family  
Services**

**Lease #L6108**



# Market Analysis

## Property Description

Property Details	
Property Address:	3419 Professional Park Dr. Marion, IL
Lease Number:	L6108
Property Type:	Office
Building Size (SF):	9,200
Year Built:	Not Available
Using Agency:	Department of Healthcare and Family Services
Lease Commencement Date:	5/1/2017
Lease/Option End Date:	4/30/2022
Demographics	
Population:	1 mile: 270 5 miles: 32,286
Median Household Income:	1 mile: \$83,571 5 miles: \$43,372



Source: Google

## Demographic Overview for Marion, IL

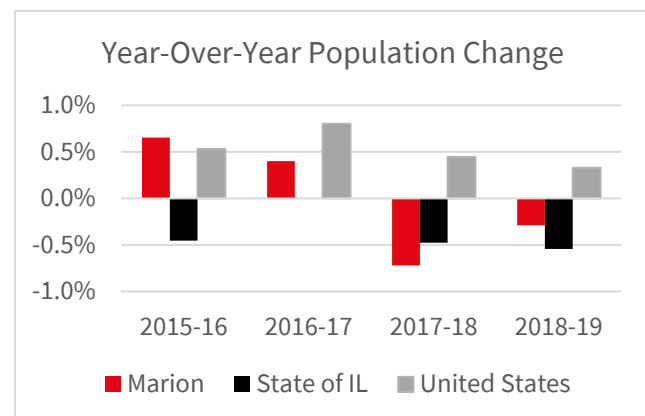
### Population

In 2019, Marion, Illinois had an estimated population of 17,595. Marion has experienced population loss since 2017, with 2019 population down 1.0% from 2017. The State of Illinois has also seen a 1.0% population decline since 2017, while the United States' population has grown 0.8% since 2017.

Year	Population Estimates
2019	17,595
2018	17,646
2017	17,774
2016	17,703
2015	17,588

### Age

The median age in Marion is 39.3 years old, which is similar to the statewide median age of 38.6. The very slight age difference is caused in part by the greater share of seniors in Marion, as



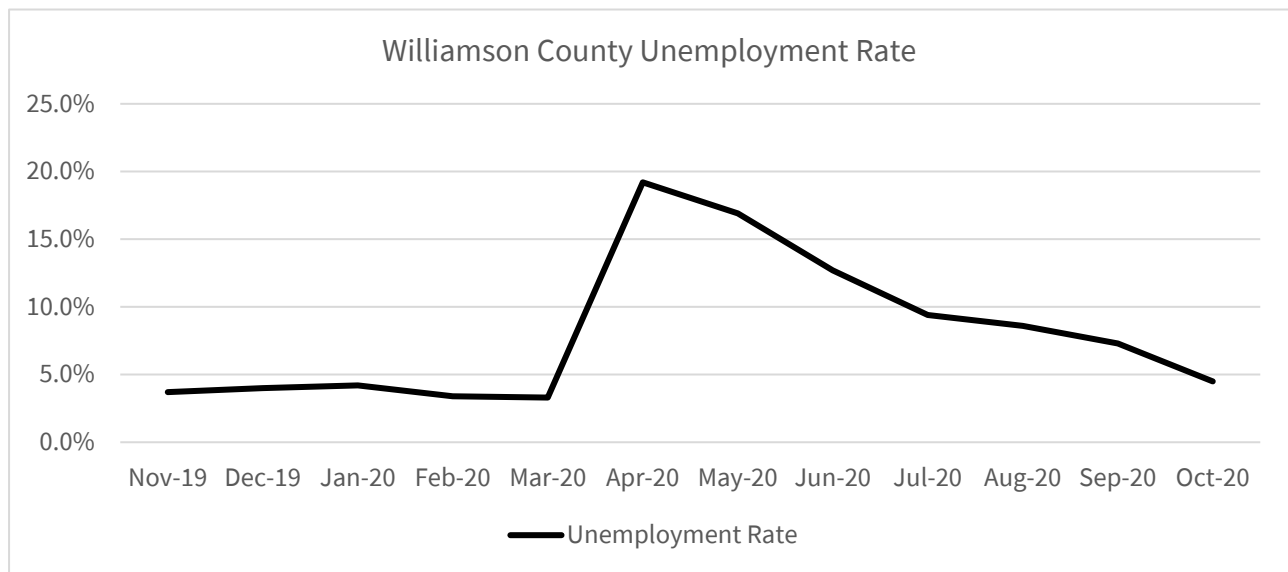
21.0% of the population of Marion is over 65 years of age compared to 16.1% of the population statewide.

## Education

In Marion, 22.7% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Marion is located in Williamson County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county was less than 5.0%, hitting a low of 3.3% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 19.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 4.5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

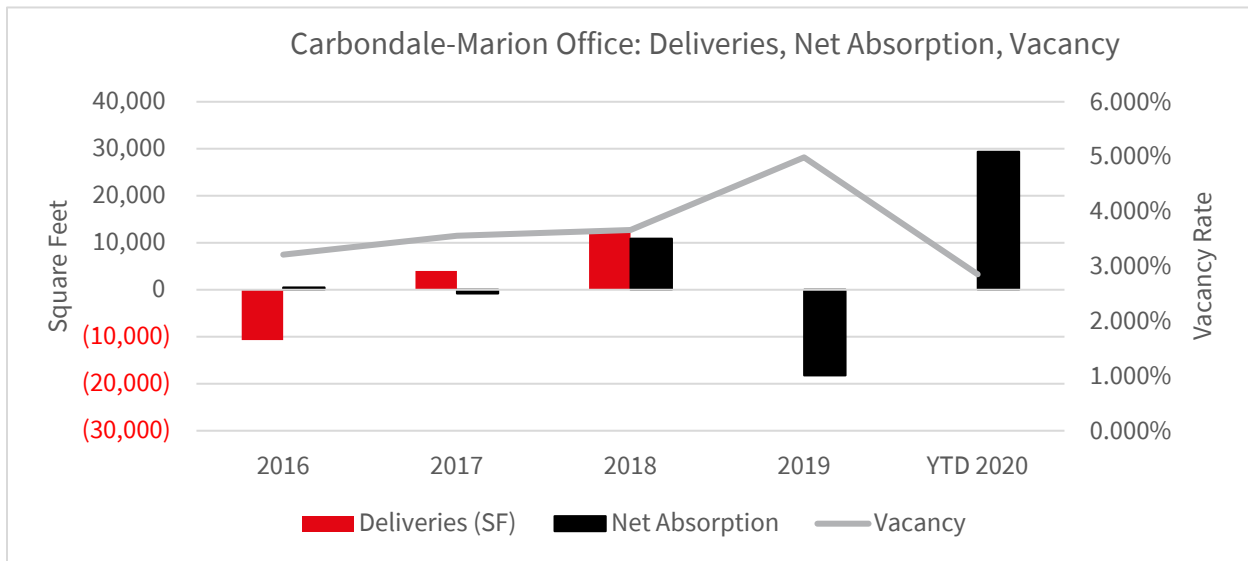


Source: U.S. Bureau of Labor Statistics

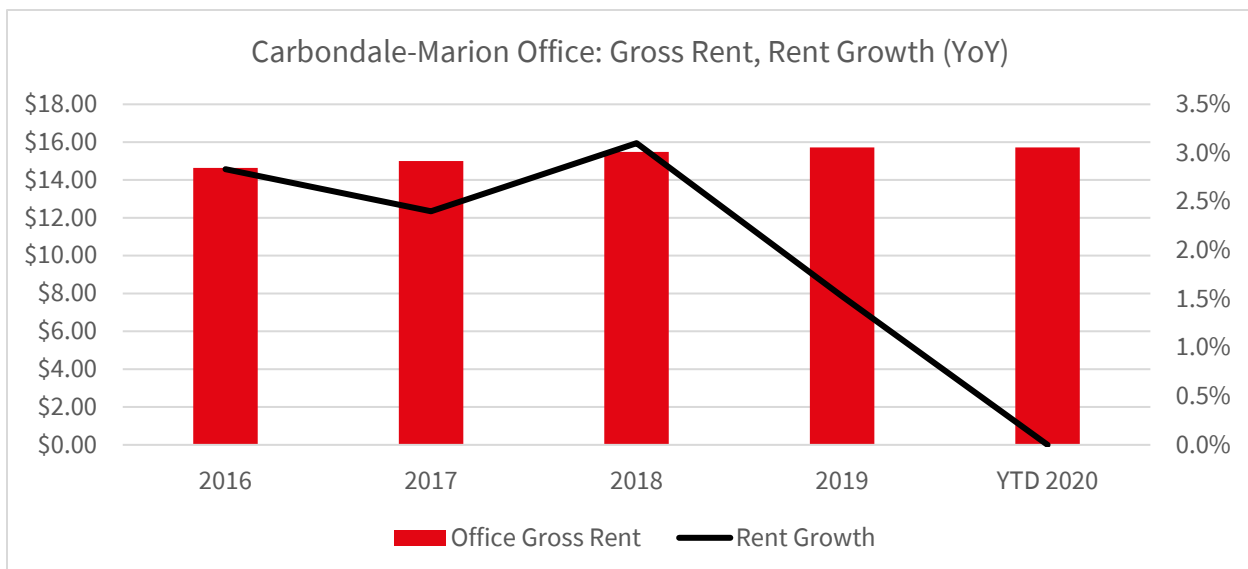
## Office Market Conditions

### Inventory and Supply

The Carbondale-Marion office market has 1.4 million square feet of total office inventory with a vacancy rate of 2.9%, the lowest level in the past 5 years. Net absorption has fluctuated in the trailing 5 years, with a negative absorption of 18,244 square feet of office space in 2019. However, this year has experienced significant positive absorption of nearly 30,000 square feet. Over the past 5 years there has been limited new construction with only 16,800 square feet delivered in 2017 and 2018. In addition, the vacancy rate fluctuated between 3% and 5% over the past 5 years.

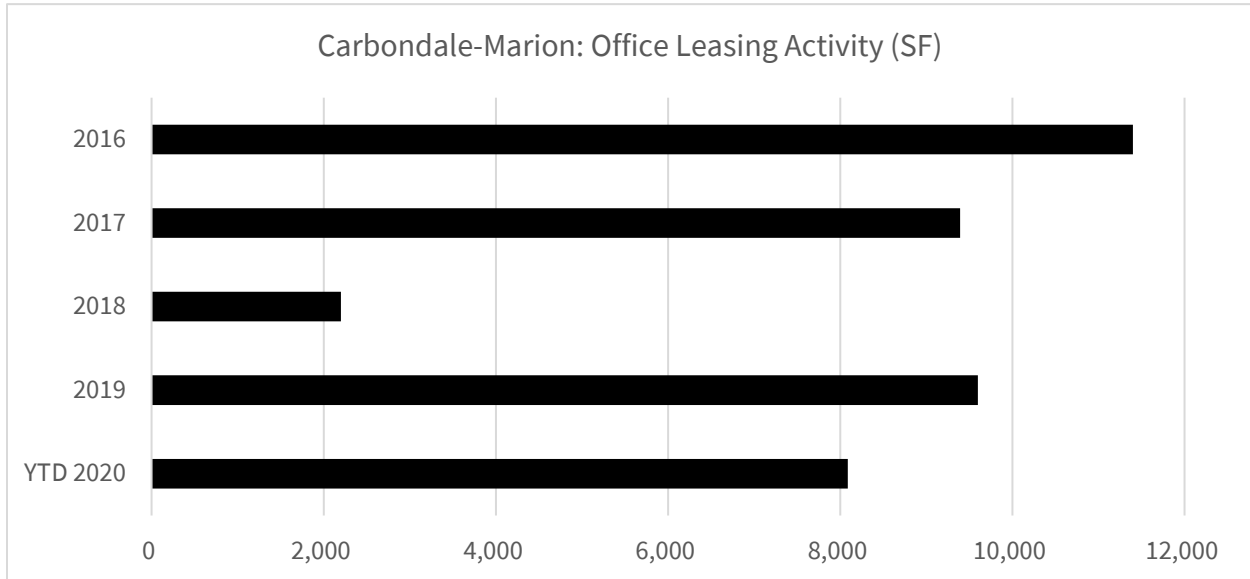


Office rents in the market have remained stagnant since 2015, going from \$14.64 per square foot in 2016 to just \$15.72 per square foot in 2020.



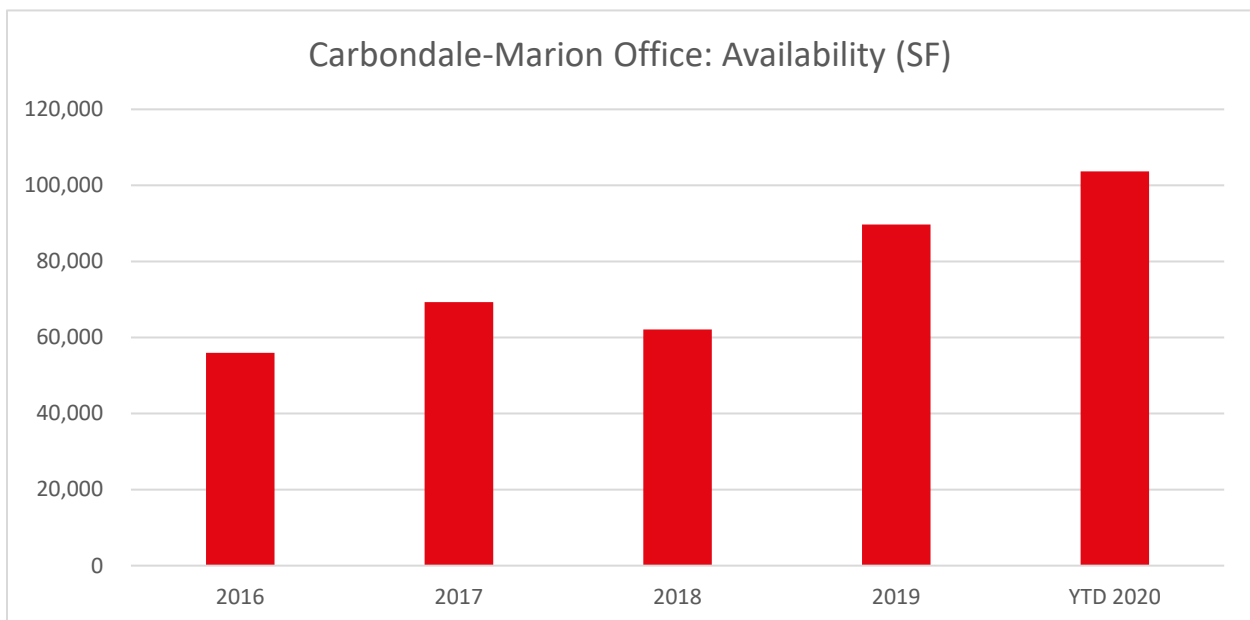
## Leasing Activity and Availability

Office leasing activity in Carbondale-Marion has been steady in recent years, with leasing between 8,000 and 12,000 square feet per year apart from 2018.



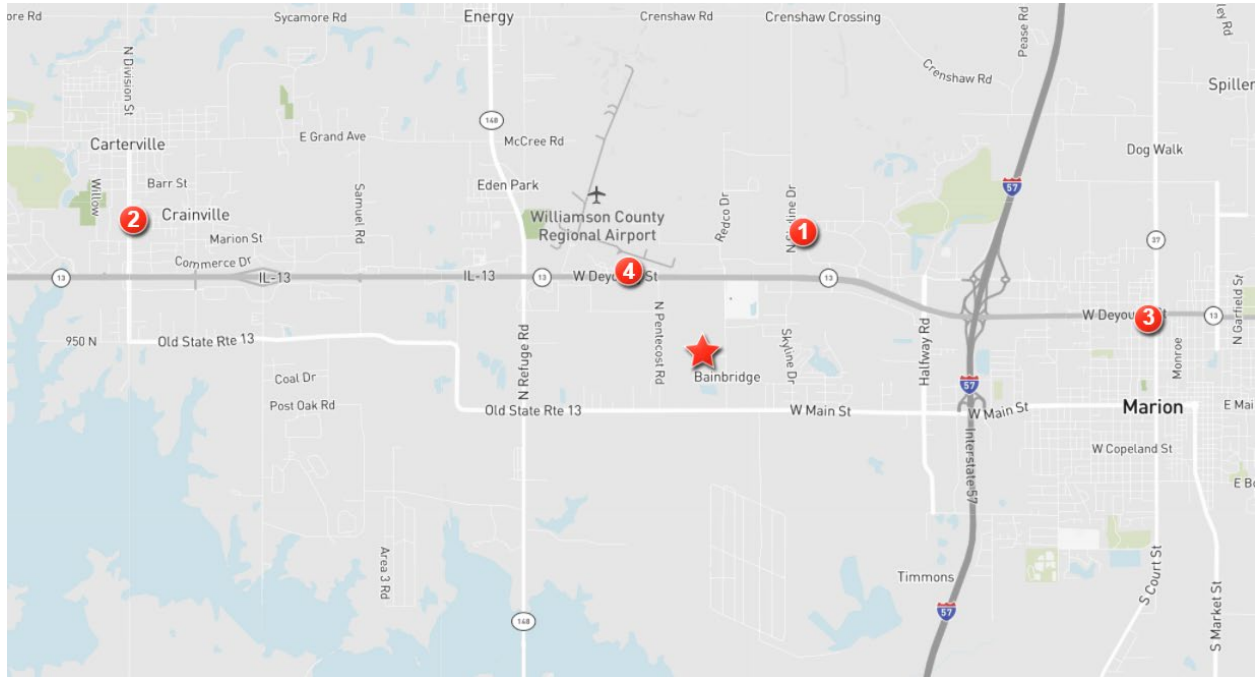
Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been steadily increasing in the most recent five years, with total availability of 56,000 square feet in 2016 nearly doubling to about 104,000 square feet in 2020.



Source: CoStar

## Sales Comparables



Recent office sales represent properties within a five-mile radius that have sold in the most recent 24 months. The weighted average sale price for these comparable office properties was approximately \$105 per square foot.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	3123 Williamson County Pkwy	C	10,850	\$92.17	Feb-2020
2	109 California St	C	9,082	\$126.62	Nov-2019
3	805 W Deyoung St	C	10,021	\$90.81	Oct-2019
4	8223 Express Dr	B	8,000	\$114.38	Jul-2020

## Own Versus Lease Analysis

To assess whether the State should continue leasing 3419 Professional Park Drive or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	9,200
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 14.00
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,389,070. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 3419 Professional Park Drive</b>	
Total Rent Cost	\$ 1,410,324
+ Total OpEx	\$ 402,950
<b>Total Cost (Real)</b>	<b>\$ 1,389,070</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, if the State can acquire the property for approximately \$580,000 (the 2022 Break-Even Acquisition Cost in the table below) the total cost of acquiring the property is equal to the total cost of leasing the property. This break-even cost equates to an approximate per-square-foot purchase price of \$63.18.

<b>Total Cost to Acquire 3419 Professional Park Drive</b>	
2022 Break-Even Acquisition Cost	\$ 581,296
+ Initial CapEx	\$ 460,000
+ Total Ongoing CapEx	\$ 100,737
+ Total OpEx	\$ 402,950
- 2032 Market Value	\$ (676,749)
Total Cost (Nominal)	\$ 1,316,555
<b>Total Cost (Real)</b>	<b>\$ 1,389,070</b>

If the State can acquire the building below \$63.18 psf, then it may consider purchasing as an alternative to leasing. Reviewing historical data can determine if the owner is likely to sell the Property at this price point or below, or if market values exceed this amount.

The following property sales provide some indication of market sales prices for properties in Marion.



## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
3123 Williamson County	10,850	\$ 1,000,045	\$ 92.17
109 California St	9,082	\$ 1,149,963	\$ 126.62
805 W Deyoung St	10,021	\$ 910,007	\$ 90.81
8223 Express Dr	8,000	\$ 915,040	\$ 114.38
<b>Average</b>			<b>\$ 106.00</b>

Based on this sample, the average sale price of properties in Marion is \$106.00 per square foot. Compared to the maximum break-even price of \$63.18 per square foot for the 3419 Professional Park Drive, this value is significantly lower, indicating that acquiring the property for less than \$63.18 psf may be feasible.

Should the State acquire the property for \$106.00 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,482,674.

<b>Total Cost to Acquire 3419 Professional Park Drive at Market Value</b>	
2022 Market Acquisition Cost	\$ 975,154
+ Total Buildout Cost (full TI)	\$ 448,321
+ Initial CapEx	\$ 460,000
+ Total Ongoing CapEx	\$ 100,737
+ Total OpEx	\$ 402,950
- 2032 Market Value	\$ (1,135,281)
Total Cost (Nominal)	\$ 1,251,881
<b>Total Cost (Real)</b>	<b>\$ 1,482,674</b>

This is \$93,604 more than the cost to lease the property on a present value basis.

# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>al Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
3020 S Park Ave	9,232	\$136.48	\$ 1,259,983
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

Regarding acquisition alternatives, the property is approximately the same size as the State's current footprint at this location. Therefore, the property may be viable.

There are currently no lease alternatives in close proximity to the State's current location.

## Conclusion

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The lowest cost technically acceptable alternative is to continue to lease 3419 Professional Park Drive.

The State could consider acquiring the property for approximately \$94,000 more than leasing it, but acquiring the property presents several inherent risks. First, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Second, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease 3419 Professional Park Drive.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 3419 Professional Park Drive</b>	\$ 1,389,070
<b>Acquire 3419 Professional Park Drive</b>	\$ 1,482,674
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
3020 S Park Ave	\$ 1,543,112
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



*200 W 5<sup>th</sup> Street*

**Metropolis, IL**

**Department of Children & Family Services**

**Lease #L6434**



# Market Analysis

## Property Description

Property Details	
Property Address:	200 West 5 <sup>th</sup> St. Metropolis, IL
Lease Number:	L6434
Property Type:	Office
Building Size (SF):	2,800
Year Built:	Not Available
Using Agency:	Department of Children & Family Services
Lease Commencement Date:	4/1/2017
Lease/Option End Date:	3/31/2022
Demographics	
Population:	1 mile: 4,790 5 miles: 11,283
Median Household Income:	1 mile: \$34,539 5 miles: \$41,424



Source: Google

## Demographic Overview for Metropolis, IL

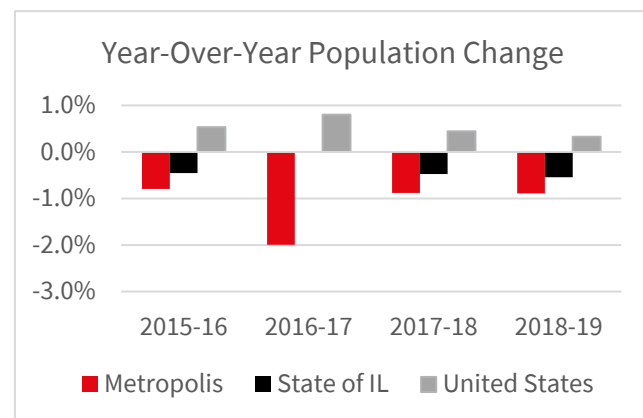
### Population

In 2019, Metropolis, Illinois had an estimated population of 6,129. Metropolis has experienced population loss since 2015, with 2019 population down 4.5% from 2015. The State of Illinois has also seen a 1.5% population decline since 2015, while the United States' population has grown 2.1% since 2015.

### Age

The median age in Metropolis is 43.7 years old, which is older than the statewide median age of 38.6. The difference is caused in part by the greater share of seniors in Metropolis, as 23.1% of the population of Metropolis is over 65 years of age compared to 16.1% of the population statewide.

Year	Population Estimates
2019	6,129
2018	6,184
2017	6,239
2016	6,366
2015	6,417



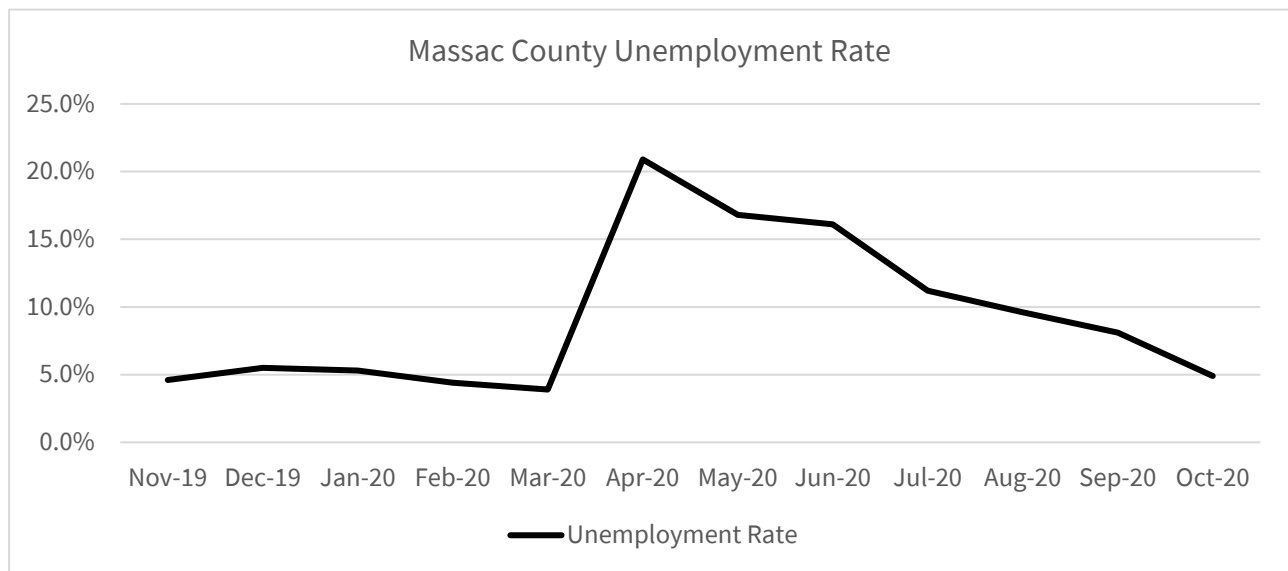
Source: U.S. Census Bureau

## Education

In Metropolis, 13.9% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Metropolis is located in Massac County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county was less than 5.0%, hitting a low of 3.9% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 20.9% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 4.9%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

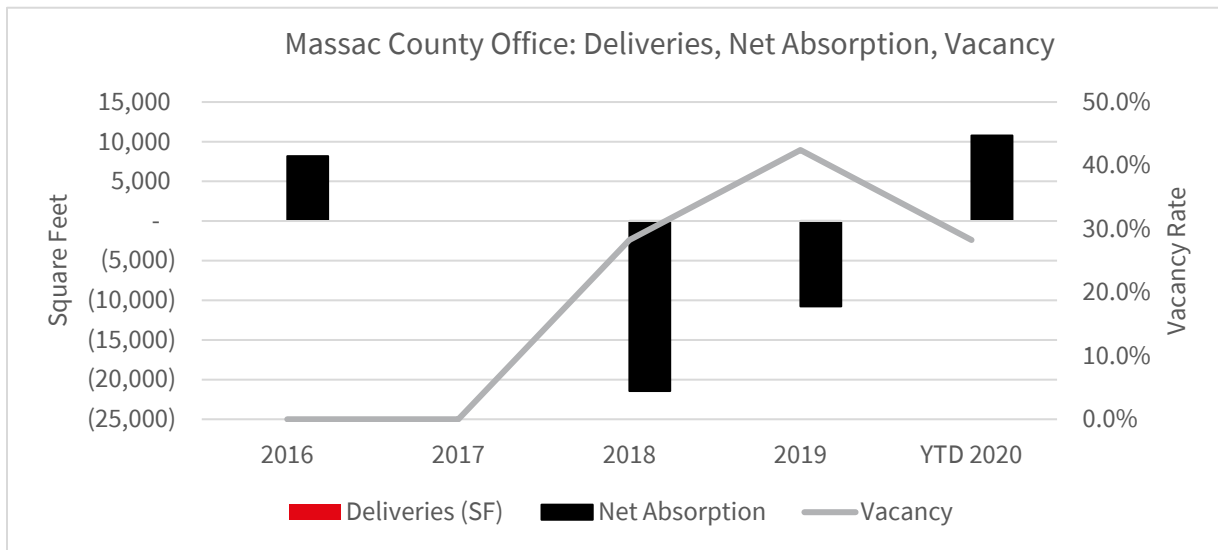


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

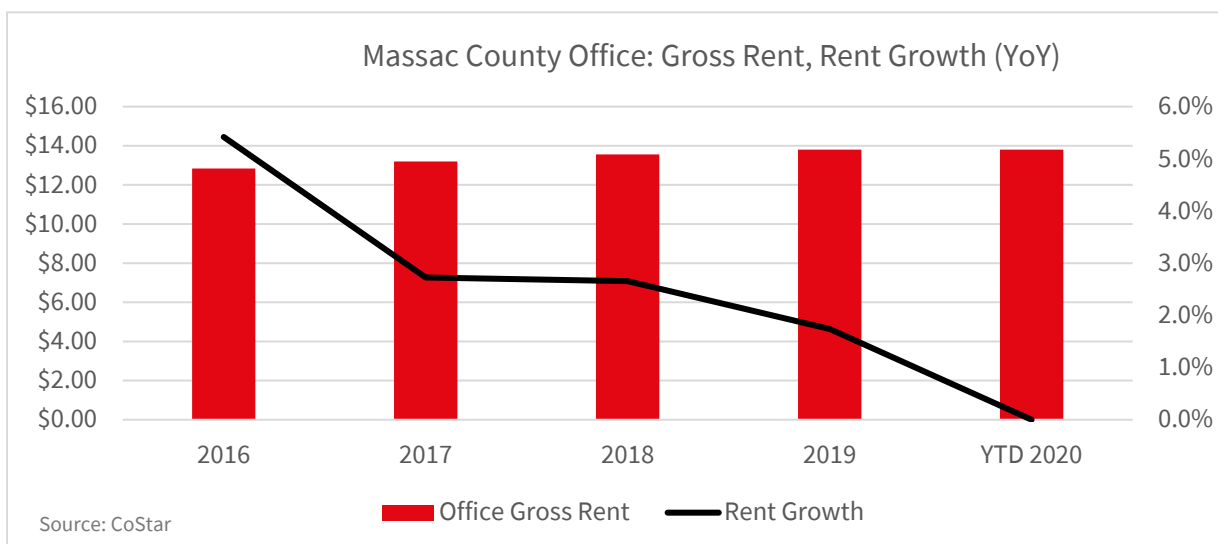
### Inventory and Supply

The Massac County office market is comprised of 13 buildings, totaling 75,900 square feet, with a vacancy rate of 28.2%. After posting two consecutive years of negative absorption from 2018 to 2019, the market experienced positive net absorption in 2020. As a result, vacancy rates decreased from 42.4% in 2019 to 28.2% year to date. There have been no office deliveries over the last five years and there is no construction in the pipeline.



Source: CoStar

Office rents in Massac County have increased annually between 2016 and 2019. Going from \$12.84 per square foot in 2016 to \$13.80 per square foot in 2019. Year to date rents remain at 2019 levels.

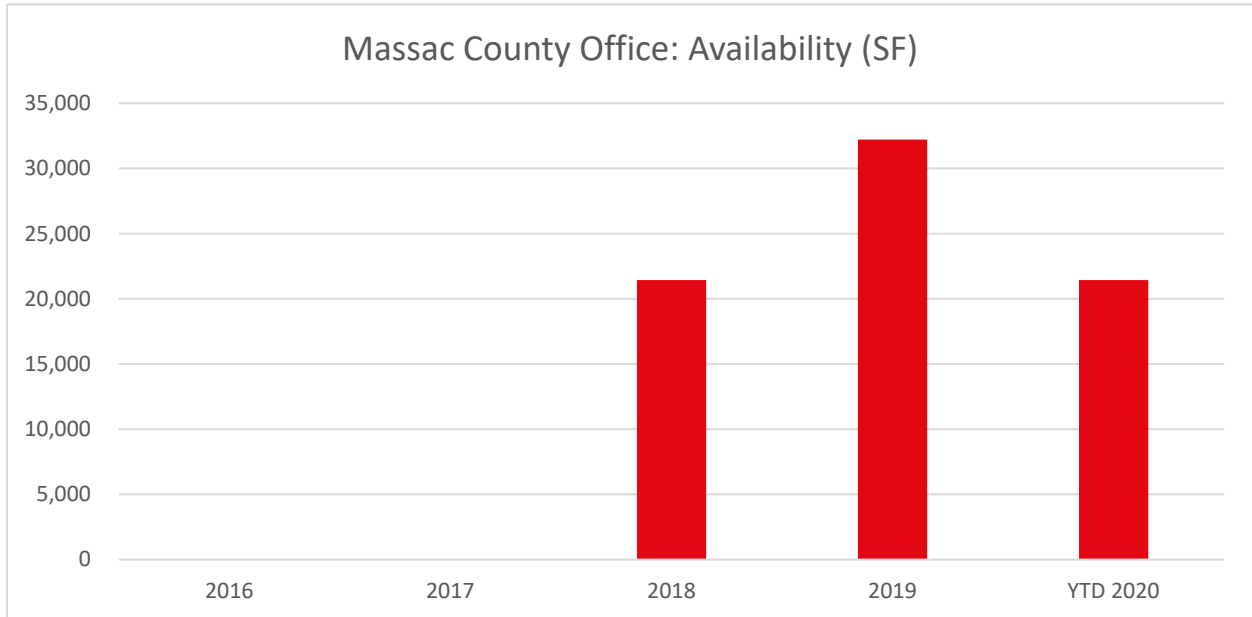


Source: CoStar

## Leasing Activity and Availability

No office leasing activity has been recorded in Massac County since 2012, when 5,561 square feet was leased.

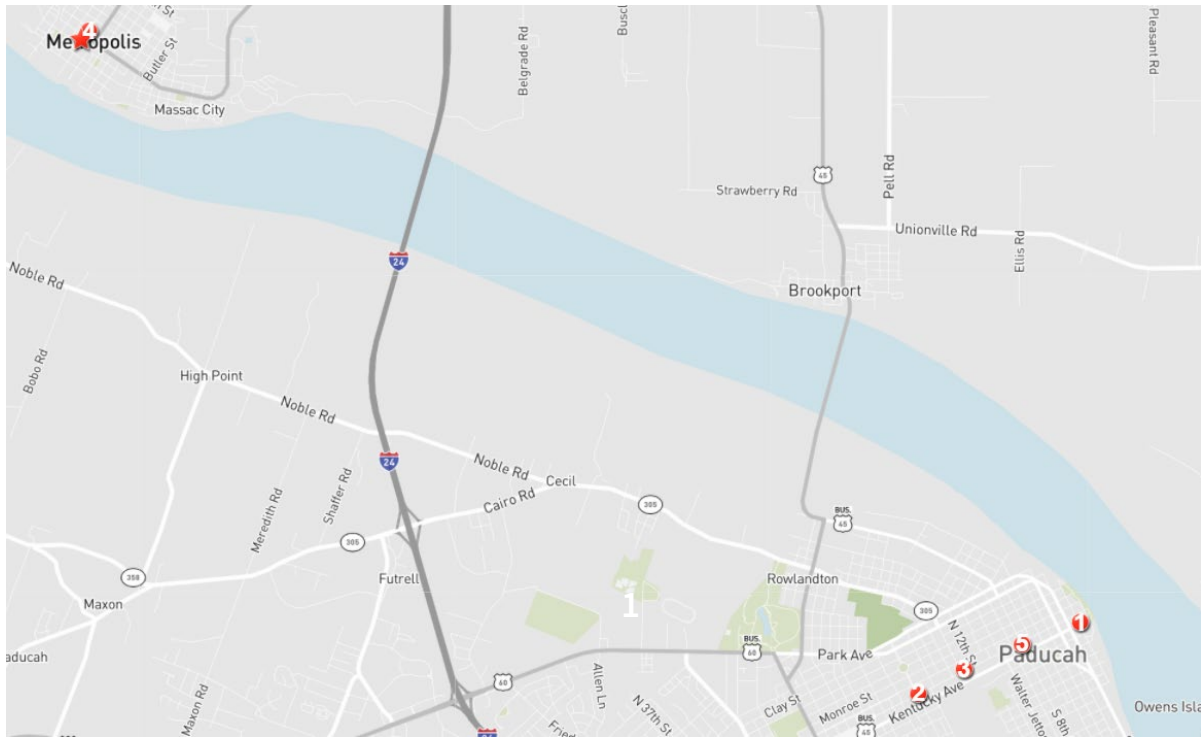
Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has fluctuated over the past five years, with current total availability of approximately 21,000 square feet.



Source: CoStar



## Sales Comparables



## Sales Comparables

Recent office sales represent properties that have sold in the most recent 24 months within a ten-mile radius of the subject property. There were five properties with a weighted average sales price of \$41.36 per square foot.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	128 Market House Sq Paducah, KY	C	9,458	\$42.19	Oct-2020
2	100 Fountain Ave Paducah, KY	B	15,400	\$38.96	Jun-2020
3	1249 Broadway St Paducah, KY	C	4,300	\$141.86	Feb-2020
4	508 Market Street Metropolis, IL	B	4,727	\$14.39	Nov-2019
5	800 Broadway St Paducah, KY	C	11,502	\$17.42	Jan-2019

## Own Versus Lease Analysis

To assess whether the State should continue leasing 200 W 5th St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	2,800
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 9.25
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$311,199. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 200 W 5th St</b>	
Total Rent Cost	\$ 283,598
+ Total OpEx	\$ 122,637
<b>Total Cost (Real)</b>	<b>\$ 311,199</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for less than the total cost of leasing the property.

<b>Total Cost to Acquire 200 W 5th St</b>	
2022 Break-Even Acquisition Cost	\$ (292,504)
+ Initial CapEx	\$ 140,000
+ Total Ongoing CapEx	\$ 30,659
+ Total OpEx	\$ 122,637
<u>- 2032 Market Value</u>	<u>\$ 340,535</u>
Total Cost (Nominal)	\$ 477,773
<b>Total Cost (Real)</b>	<b>\$ 311,199</b>

The following property sales provide some indication of market sales prices for properties in Metropolis.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
128 Market House Sq, Paducah, KY	9,458	\$ 399,033	\$ 42.19
100 Fountain Ave, Paducah, KY	15,400	\$ 599,984	\$ 38.96
1249 Broadway St, Paducah, KY	4,300	\$ 609,998	\$ 141.86
508 Market St, Metropolis, IL	4,727	\$ 68,022	\$ 14.39
800 Broadway St, Paducah, KY	11,502	\$ 200,365	\$ 17.42
<b>Average</b>			<b>\$ 50.96</b>

Based on this sample, the average sale price of properties in Metropolis is \$50.96 per square foot.

Should the State acquire the property for \$50.96 per square foot, the total cost of acquisition, including capital expenditure, would be \$414,629.

<b>Total Cost to Acquire 200 W 5th St at Market Value</b>	
2022 Market Acquisition Cost	\$ 142,699
+ Total Buildout Cost (full TI)	\$ 136,445
+ Initial CapEx	\$ 140,000
+ Total Ongoing CapEx	\$ 30,659
+ Total OpEx	\$ 122,637
- 2032 Market Value	\$ (166,131)
Total Cost (Nominal)	\$ 406,309
<b>Total Cost (Real)</b>	<b>\$ 414,629</b>

This is \$103,430 more than the cost to lease the property on a present value basis.

# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
None			
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

There are currently no acquisition or lease alternatives in close proximity to the State's current location.

# Conclusion

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The lowest cost technically acceptable alternative is to continue to lease 500 W 5th Street.

The State could consider acquiring the property for approximately \$103,000 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease 500 W 5th Street.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 200 W 5th St</b>	\$ 311,199
<b>Acquire 200 W 5th St</b>	\$ 414,629
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



***2517 West 9<sup>th</sup> Street***

**Mount Carmel, IL**

**Department of Human Services /  
Department of Natural Resources**

**Lease #L6460**



# Market Analysis

## Property Description

Property Details	
Property Address:	2517 West 9 <sup>th</sup> Street Mount Carmel, IL
Lease Number:	L6460
Property Type:	Office
Building Size (SF):	9,200
Year Built:	Not Available
Using Agency:	Human Services / Natural Resources
Lease Commencement Date:	October 12, 2017
Lease/Option End Date:	November 30, 2022
Demographics	
Population:	1 mile: 64 5 miles: 8,425
Median Household Income:	1 mile: \$44,999 5 miles: \$48,959



Source: Google

## Demographic Overview for Mount Carmel, IL

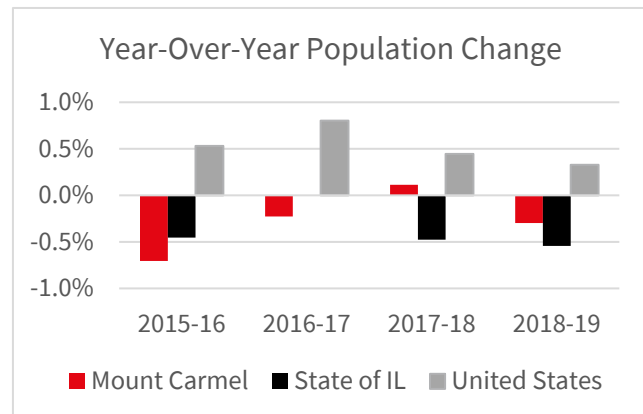
### Population

In 2019, Mount Carmel, Illinois had an estimated population of 7,019. Mount Carmel has experienced population loss since 2015, with 2019 population down 1.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	7,019
2018	7,040
2017	7,032
2016	7,048
2015	7,098

### Age

The median population in Mount Carmel is 45.9 years old, which is older than the statewide median age of 38.6. The age difference is caused in part by the greater share of seniors in Mount Carmel, as 21.0% of the population of Mount Carmel is over 65 years of age compared to 16.1% of the population statewide.



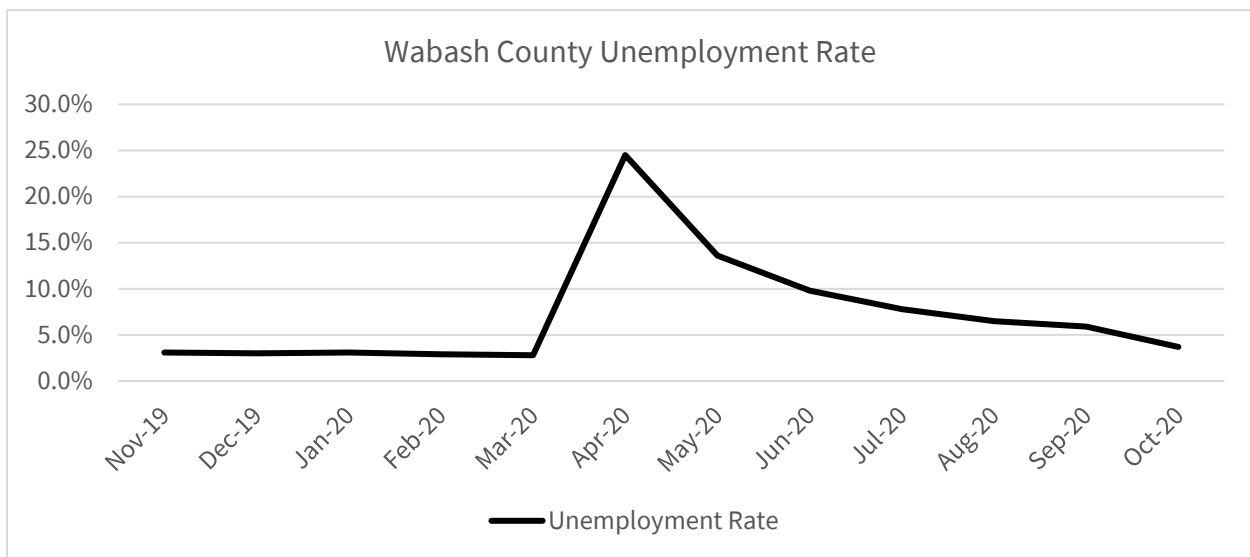


## Education

In Mount Carmel, 18.7% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Mount Carmel is located in Wabash County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county was less than 3.5%, hitting a low of 2.8% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 24.5% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 3.7%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.



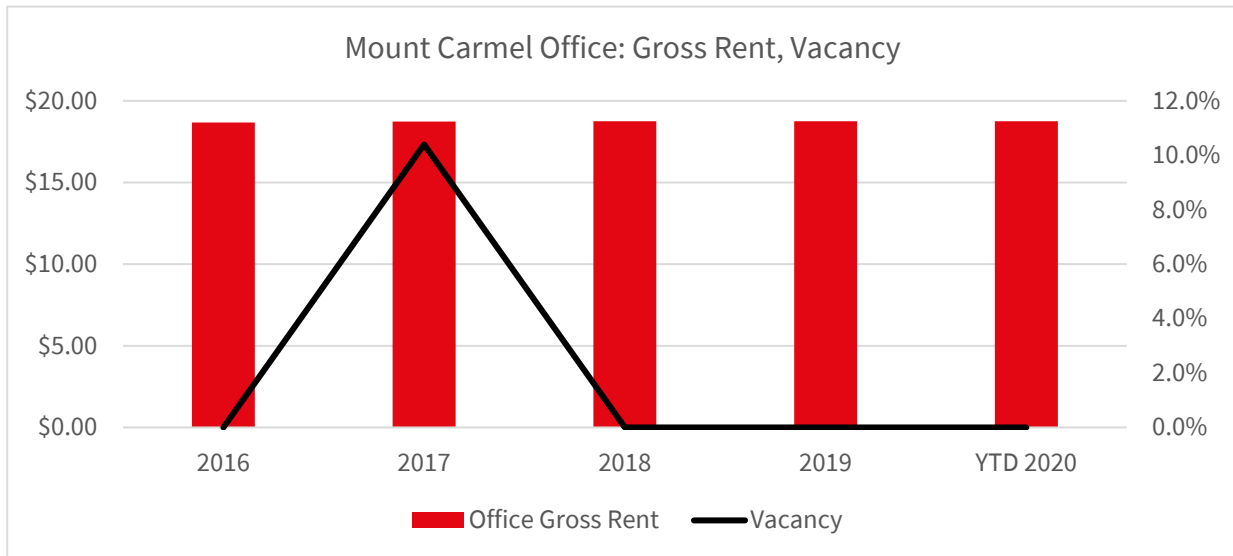
Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

### Inventory and Supply

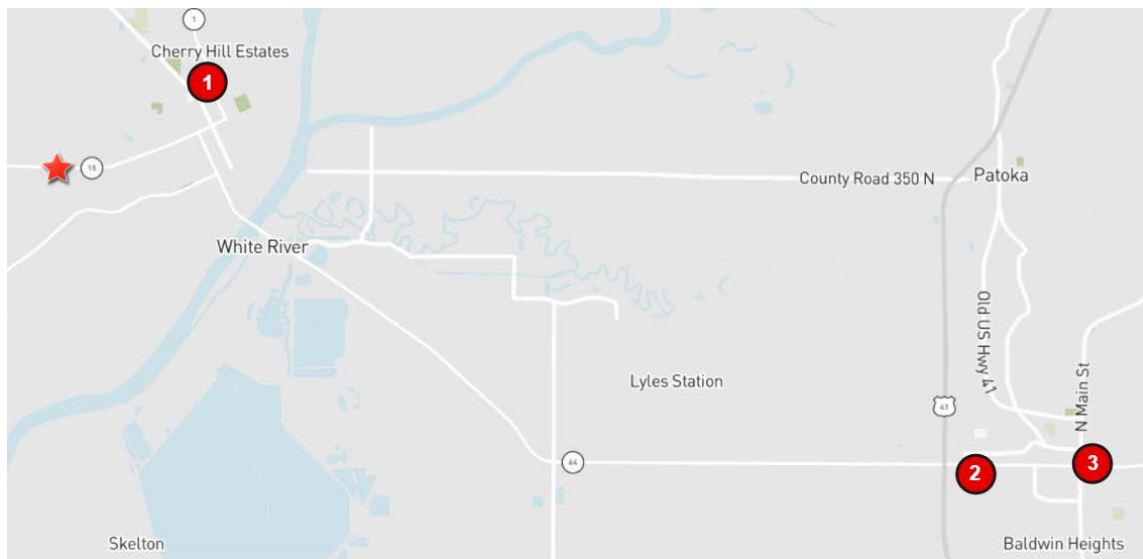
The Mount Carmel office market has 38,300 square feet of total office inventory with a vacancy rate of 0%. The office market has been fully leased since Q4 2017. Despite total occupancy of the office market, there are no properties under construction in the market at this time.

Office rents in the market have remained flat for several years at \$18.76 per square foot, up slightly from \$18.68 per square foot in 2016. Vacancy briefly increased to 10.4% in 2017 due to a single, 4,000 SF vacancy in the market, but the market has been fully leased since Q4 2017.



Source: CoStar

## Sale Comparables



There has been only one office property sale in the market in recent years: the 6,924 square foot office property at 1500 N Cherry Street in Mount Carmel sold for \$386,436 in July 2019. Outside of Mount Carmel, there have been two office properties sold in Princeton, IN in recent months. The two properties sold were the 2,860 square foot property at 310 S 5<sup>th</sup> S Avenue, which sold for \$200,000, and the 11,359 square foot property at 100 N Gibson Street, which sold for \$350,000. Sale prices have ranged from \$30.81 per square foot for 100 N Gibson Street to \$69.93 per square foot for 310 5<sup>th</sup> Avenue.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	1500 N Cherry Street, Mount Carmel	B	6,924	\$55.81	July-2019
2	310 S 5 <sup>th</sup> Avenue, Princeton, IN	C	2,860	\$69.93	Feb-2020
3	100 N Gibson Street, Princeton, IN	C	11,359	\$30.81	Feb-2020

Source: CoStar

## Own Versus Lease Analysis

To assess whether the State should continue leasing 2517 W 9th Street or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	9,200
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 12.48
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,271,771. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 2517 W 9th Street</b>	
Total Rent Cost	\$ 1,257,203
+ Total OpEx	\$ 402,950
<b>Total Cost (Real)</b>	<b>\$ 1,271,771</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

However, given that the rental rate for the property is a nominal \$1/year, there is no acquisition cost, other than being given the building for free, that "breaks even" with the low cost of the lease.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
1500 N Cherry St	6,924	\$ 386,428	\$ 55.81
310 S 5th Ave	2,860	\$ 200,000	\$ 69.93
100 N Gibson St	11,359	\$ 349,971	\$ 30.81
<b>Average</b>			<b>\$ 52.18</b>

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales, the average sale price of 1500 N Cherry Street in Mount Carmel and two properties that recently sold in Princeton, Indiana is \$52.18 per square foot.

Should the State acquire the property for \$52.18 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,365,017.

<b>Total Cost to Acquire 2517 W 9th Street at Market Value</b>	
2022 Market Acquisition Cost	\$ 480,087
+ Total Buildout Cost (full TI)	\$ 448,321
+ Initial CapEx	\$ 460,000
+ Total Ongoing CapEx	\$ 100,737
+ Total OpEx	\$ 402,950
- 2032 Market Value	\$ (558,920)
Total Cost (Nominal)	\$ 1,333,174
<b>Total Cost (Real)</b>	<b>\$ 1,365,017</b>

This is \$93,246 more than the cost to lease the property on a present value basis.

# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
None			
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

There are currently no office properties for lease or for sale in Mount Carmel. This analysis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

## Conclusion

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The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for \$93,246 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 2517 W 9th Street</b>	\$ 1,271,771
<b>Acquire 2517 W 9th Street</b>	\$ 1,365,017
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>





*1112 South West Street*

**Olney, IL**

**Department of Human Services**

**Lease #L4455**



# Market Analysis

## Property Description

Property Details	
Property Address:	1112 South West Street Olney, IL
Lease Number:	L4455
Property Type:	Office
Building Size (SF):	2,875
Year Built:	Not Available
Using Agency:	Department of Human Services
Lease Commencement Date:	August 6, 2012
Lease/Option End Date:	December 31, 2022
Demographics	
Population:	1 mile: 2,779 5 miles: 11,066
Median Household Income:	1 mile: \$37,546 5 miles: \$43,834



Source: Google

## Demographic Overview for Olney, IL

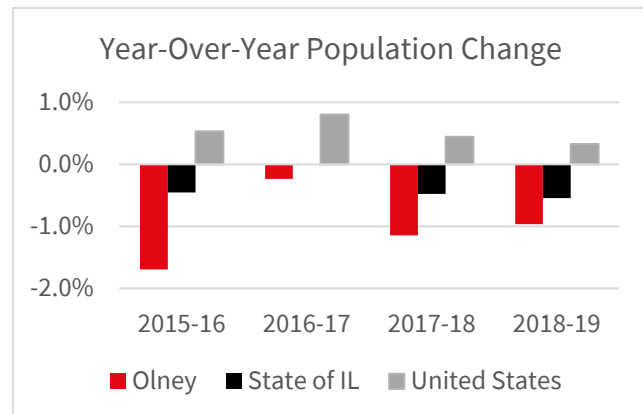
### Population

In 2019, Olney, Illinois had an estimated population of 8,723. Olney has experienced population loss since 2015, with 2019 population down 4.0% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	8,723
2018	8,808
2017	8,910
2016	8,931
2015	9,085

### Age

The median population in Olney is 41.2 years old, which is older than the statewide median age of 38.6. The age difference is caused in part by the greater share of seniors in Olney, as 20.9% of the population of Olney is over 65 years of age compared to 16.1% of the population statewide.

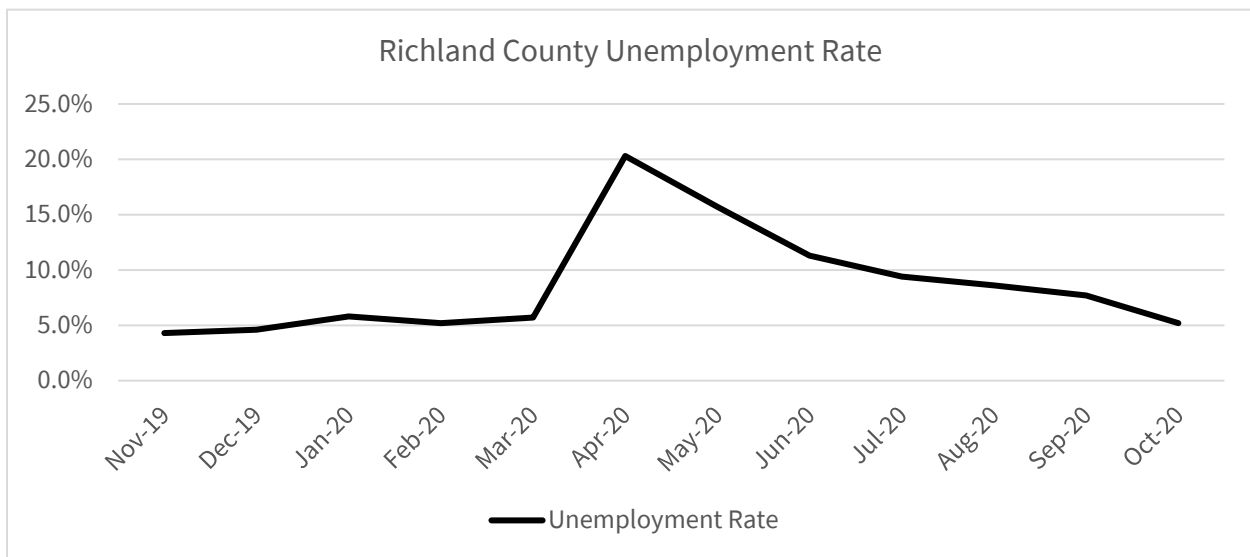


## Education

In Olney, 21.8% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Olney is located in Richland County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county varied from 4.3% in November 2019 to 5.8% in January 2020. The pandemic had a significant impact on unemployment in the county, peaking at 20.3% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 5.2%, similar to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.



Source: U.S. Bureau of Labor Statistics

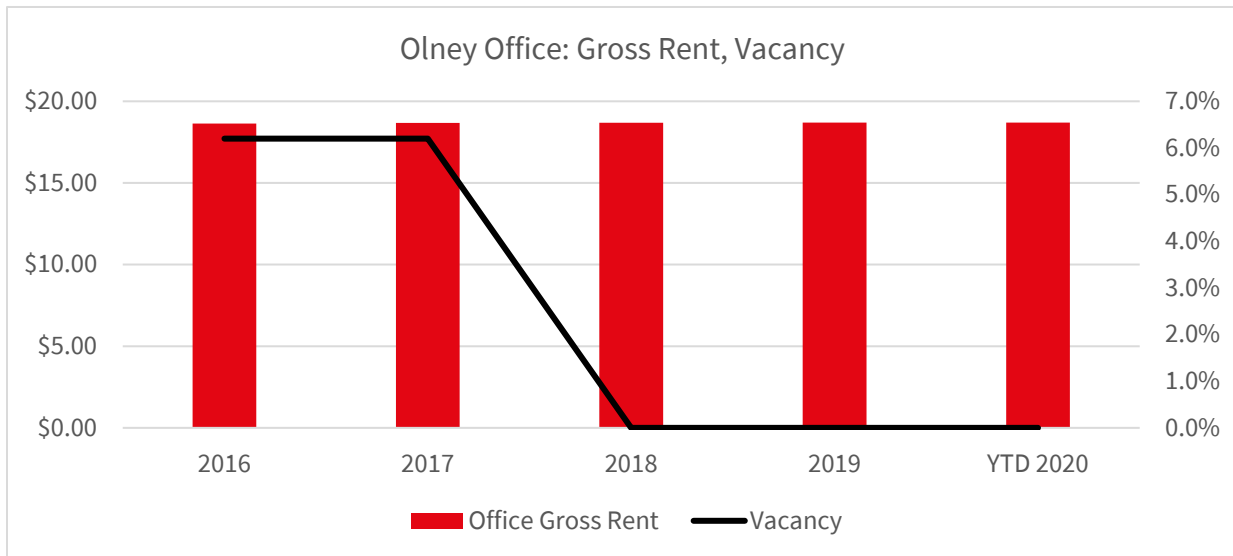
Source: U.S. Census Bureau

## Office Market Conditions

### Inventory and Supply

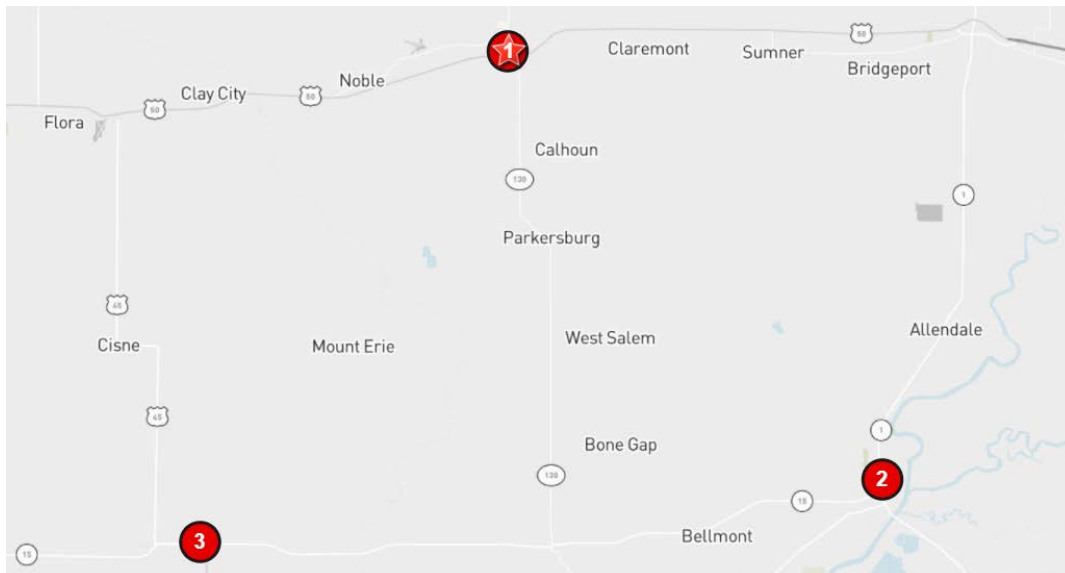
The Olney office market has 96,600 square feet of total office inventory with a vacancy rate of 0%. The office market has been fully leased since Q1 2018. Despite total occupancy of the office market, there are no properties under construction in the market at this time.

Office rents in the market have remained flat for several years at \$18.70 per square foot, up slightly from \$18.64 per square foot in 2016. Vacancy in the market was 6.2% in 2016 and 2017, but the market has been fully leased since Q1 2018.



Source: CoStar

## Sale Comparables



There has been only one office property sale in the market in recent years: the 2,204 square foot office property at 1213 S West Street in Olney sold for \$99,900 in November 2018. Outside of Olney, there have been two office properties sold in nearby markets in recent years. The 6,924 square foot property at 1500 N Cherry Street in Mount Carmel sold for \$386,436 in July 2019, and the 20,339 square foot property at 404-500 W Main Street in Fairfield sold for \$390,000 in August 2018. Sale prices have ranged from \$19.18 per square foot for 404-500 W Main Street to \$55.81 per square foot for 1500 N Cherry Street.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	1213 S West Street, Olney	C	2,204	\$45.37	Nov-2018
2	1500 N Cherry Street, Mount Carmel	B	6,924	\$55.81	July-2019
3	404-500 W Main Street, Fairfield	C	20,339	\$19.18	Aug-2018

Source: CoStar

## Own Versus Lease Analysis

To assess whether the State should continue leasing 1112 S West St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	2,875
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 8.59
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$303,618. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 1112 S West St</b>	
Total Rent Cost	\$ 270,417
+ Total OpEx	\$ 125,922
<b>Total Cost (Real)</b>	<b>\$ 303,618</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

However, given that the rental rate for the property is a nominal \$1/year, there is no acquisition cost, other than being given the building for free, that "breaks even" with the low cost of the lease.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
1213 S West Street	2,204	\$ 99,995	\$ 45.37
1500 N Cherry Street	6,924	\$ 386,428	\$ 55.81
404-500 W Main Street	20,339	\$ 390,102	\$ 19.18
<b>Average</b>			<b>\$ 40.12</b>

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales in Olney, Mount Carmel, and Fairfield, the average sale price is \$40.12 per square foot.

Should the State acquire the property for \$40.12 per square foot, the total cost of acquisition, including capital expenditure, would be \$418,325.

<b>Total Cost to Acquire 1112 S West St at Market Value</b>	
2022 Market Acquisition Cost	\$ 115,345
+ Total Buildout Cost (full TI)	\$ 140,100
+ Initial CapEx	\$ 143,750
+ Total Ongoing CapEx	\$ 31,480
+ Total OpEx	\$ 125,922
- 2032 Market Value	\$ (134,285)
Total Cost (Nominal)	\$ 422,312
<b>Total Cost (Real)</b>	<b>\$ 418,325</b>

This is \$114,707 more than the cost to lease the property on a present value basis.



# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
None			
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

There are currently no alternative office properties for lease or for sale in Olney. This analysis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

# Conclusion

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The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for \$114,707 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 1112 S West St</b>	\$ 303,618
<b>Acquire 1112 S West St</b>	\$ 418,325
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



***1406 Martin Street***

**Olney, IL**

**Department of Human Services /  
Department of Healthcare and  
Family Services**

**Lease #L6632**



# Market Analysis

## Property Description

Property Details	
Property Address:	1406 Martin Street Olney, IL
Lease Number:	L6632
Property Type:	Office
Building Size (SF):	6,700
Year Built:	Not Available
Using Agency:	Human Services / HFS
Lease Commencement Date:	January 3, 2017
Lease/Option End Date:	November 30, 2022
Demographics	
Population:	1 mile: 2,779 5 miles: 11,066
Median Household Income:	1 mile: \$37,546 5 miles: \$43,834



Source: Google

## Demographic Overview for Olney, IL

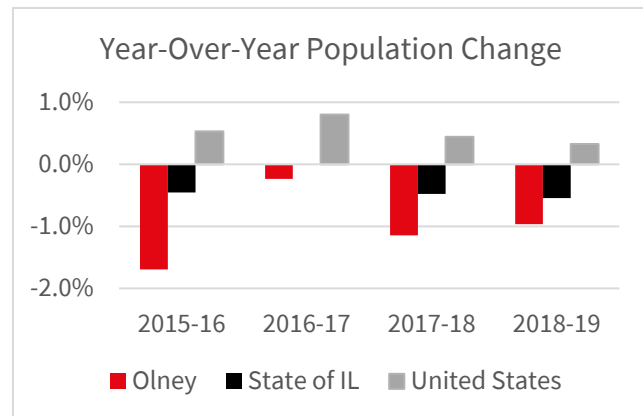
### Population

In 2019, Olney, Illinois had an estimated population of 8,723. Olney has experienced population loss since 2015, with 2019 population down 4.0% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	8,723
2018	8,808
2017	8,910
2016	8,931
2015	9,085

### Age

The median population in Olney is 41.2 years old, which is older than the statewide median age of 38.6. The age difference is caused in part by the greater share of seniors in Olney, as 20.9% of the population of Olney is over 65 years of age compared to 16.1% of the population statewide.

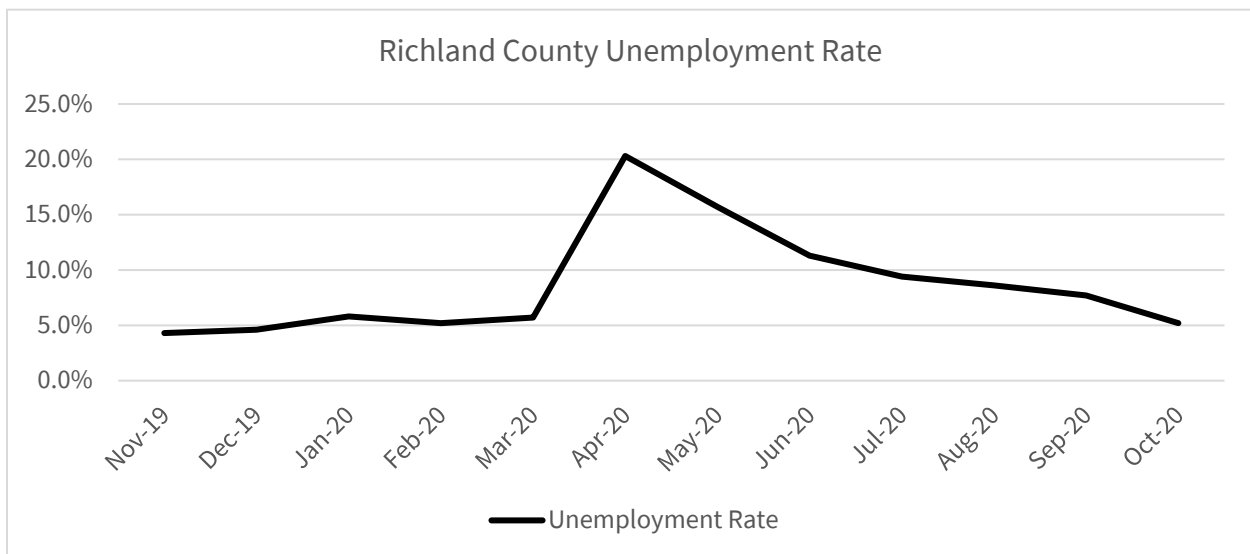


## Education

In Olney, 21.8% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Olney is located in Richland County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county varied from 4.3% in November 2019 to 5.8% in January 2020. The pandemic had a significant impact on unemployment in the county, peaking at 20.3% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 5.2%, similar to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.



Source: U.S. Bureau of Labor Statistics

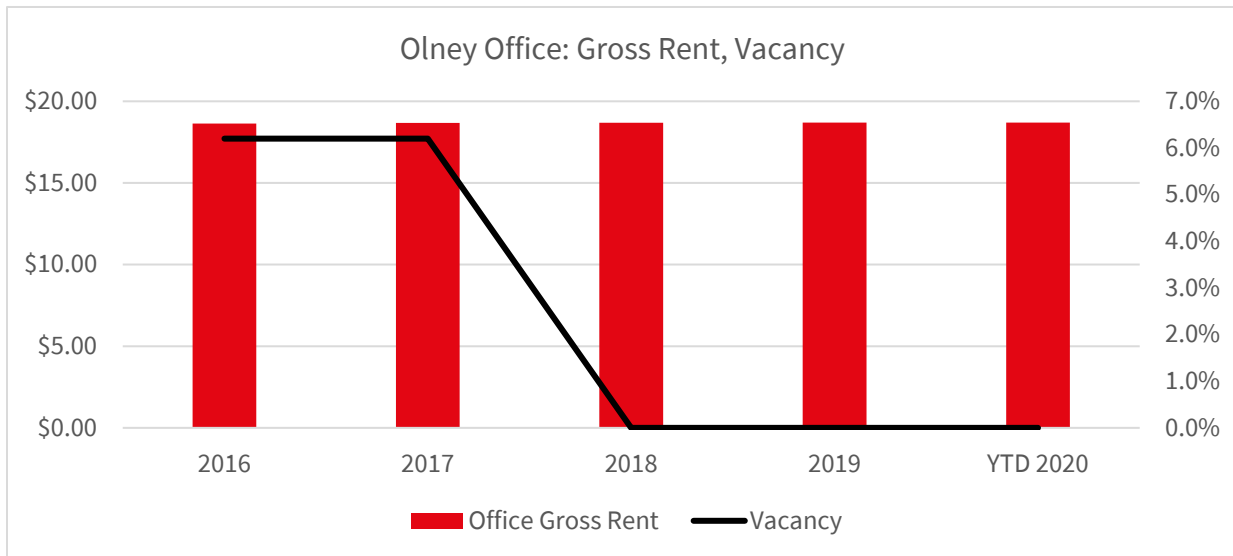
Source: U.S. Census Bureau

## Office Market Conditions

### Inventory and Supply

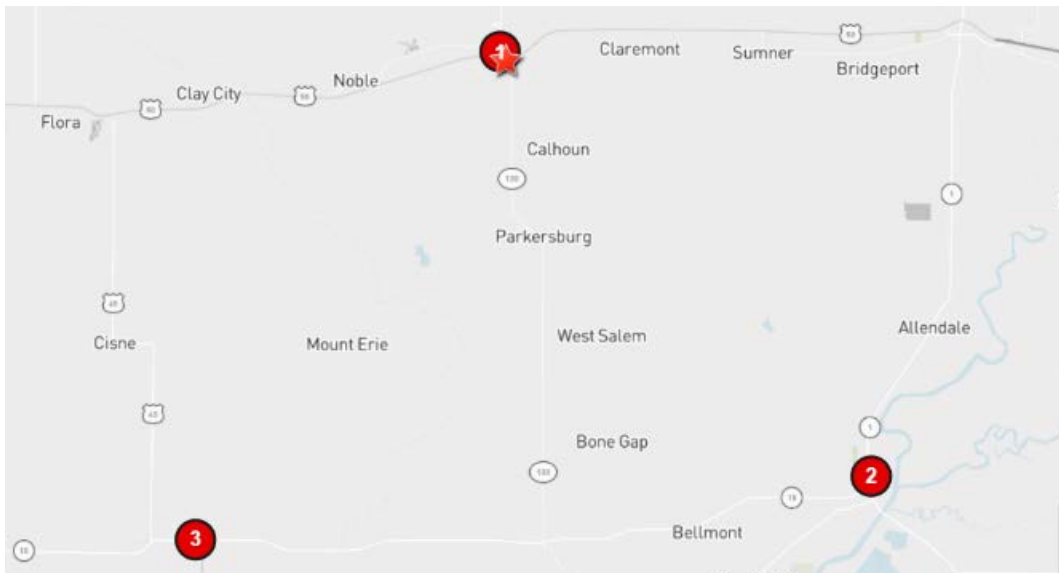
The Olney office market has 96,600 square feet of total office inventory with a vacancy rate of 0%. The office market has been fully leased since Q1 2018. Despite total occupancy of the office market, there are no properties under construction in the market at this time.

Office rents in the market have remained flat for several years at \$18.70 per square foot, up slightly from \$18.64 per square foot in 2016. Vacancy in the market was 6.2% in 2016 and 2017, but the market has been fully leased since Q1 2018.



Source: CoStar

### Sale Comparables



There has been only one office property sale in the market in recent years: the 2,204 square foot office property at 1213 S West Street in Olney sold for \$99,900 in November 2018. Outside of Olney, there have been two office properties sold in nearby markets in recent years. The 6,924 square foot property at 1500 N Cherry Street in Mount Carmel sold for \$386,436 in July 2019, and the 20,339 square foot property at 404-500 W Main Street in Fairfield sold for \$390,000 in August 2018. Sale prices have ranged from \$19.18 per square foot for 404-500 W Main Street to \$55.81 per square foot for 1500 N Cherry Street.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	1213 S West Street, Olney	C	2,204	\$45.37	Nov-2018
2	1500 N Cherry Street, Mount Carmel	B	6,924	\$55.81	July-2019
3	404-500 W Main Street, Fairfield	C	20,339	\$19.18	Aug-2018

Source: CoStar

## Own Versus Lease Analysis

To assess whether the State should continue leasing 1406 Martin St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	6,700
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 11.34
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$862,113. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 1406 Martin St</b>	
Total Rent Cost	\$ 831,938
+ Total OpEx	\$ 293,453
<b>Total Cost (Real)</b>	<b>\$ 862,113</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.



## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

However, given that the rental rate for the property is a nominal \$1/year, there is no acquisition cost, other than being given the building for free, that "breaks even" with the low cost of the lease.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
1213 S West Street	2,204	\$ 99,995	\$ 45.37
1500 N Cherry Street	6,924	\$ 386,428	\$ 55.81
404-500 W Main Street	20,339	\$ 390,102	\$ 19.18
<b>Average</b>			<b>\$ 40.12</b>

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales in Olney, Mount Carmel, and Fairfield, the average sale price is \$40.12 per square foot.

Should the State acquire the property for \$40.12 per square foot, the total cost of acquisition, including capital expenditure, would be \$974,880.

<b>Total Cost to Acquire 1406 Martin St at Market Value</b>	
2022 Market Acquisition Cost	\$ 268,804
+ Total Buildout Cost (full TI)	\$ 326,494
+ Initial CapEx	\$ 335,000
+ Total Ongoing CapEx	\$ 73,363
+ Total OpEx	\$ 293,453
- 2032 Market Value	<u>\$ (312,943)</u>
Total Cost (Nominal)	\$ 984,171
<b>Total Cost (Real)</b>	<b>\$ 974,880</b>

This is \$112,767 more than the cost to lease the property on a present value basis.

# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
None			
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

There are currently no alternative office properties for lease or for sale in Olney. This analysis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

# Conclusion

---

The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for \$112,767 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 1406 Martin St</b>	\$ 862,113
<b>Acquire 1406 Martin St</b>	\$ 974,880
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



***406 Elm Street***

**Peoria, IL**

**Department of Employment Security**

**Lease #L6163**



# Market Analysis

## Property Description

Property Details	
Property Address:	406 Elm Street Peoria, IL
Lease Number:	L6163
Property Type:	Office
Building Size (SF):	22,620
Year Built:	Not Available
Using Agency:	Department of Employment Security
Lease Commencement Date:	March 15, 2017
Lease/Option End Date:	April 30, 2022
Demographics	
Population:	1 mile: 8,197 5 miles: 123,923
Median Household Income:	1 mile: \$16,073 5 miles: \$44,835



Source: CoStar

## Demographic Overview for Peoria, IL

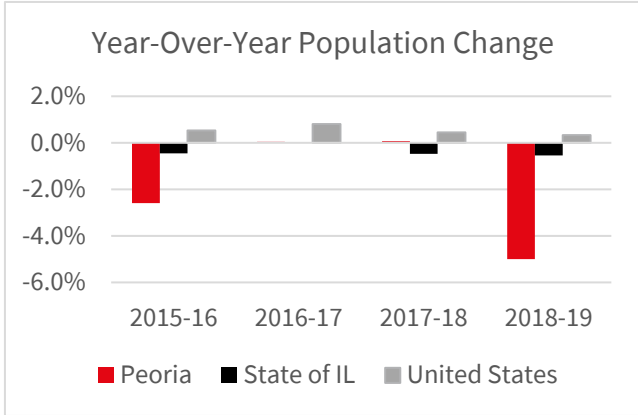
### Population

In 2019, Peoria, Illinois had an estimated population of 100,084. Peoria has experienced population loss since 2015, with 2019 population down 7.3% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	109,936
2018	115,720
2017	115,637
2016	115,588
2015	118,661

### Age

The median population in Peoria is 36.3 years old, which is younger than the statewide median age of 38.5. The age difference is caused in part by the greater share of youth in Peoria, as 23.2% of the population of Peoria is under 18 years of age compared to 22.2% of the population statewide.

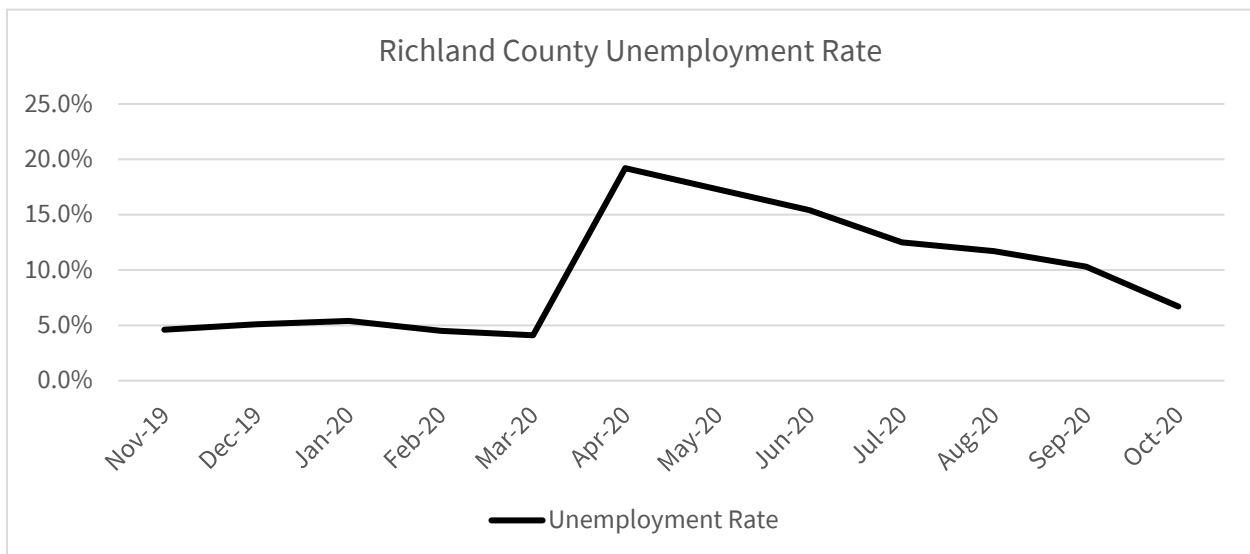


## Education

In Peoria, 23.7% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Peoria is located in Peoria County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county varied from 5.4% in January 2020 to 4.1% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 19.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 6.7%, above pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

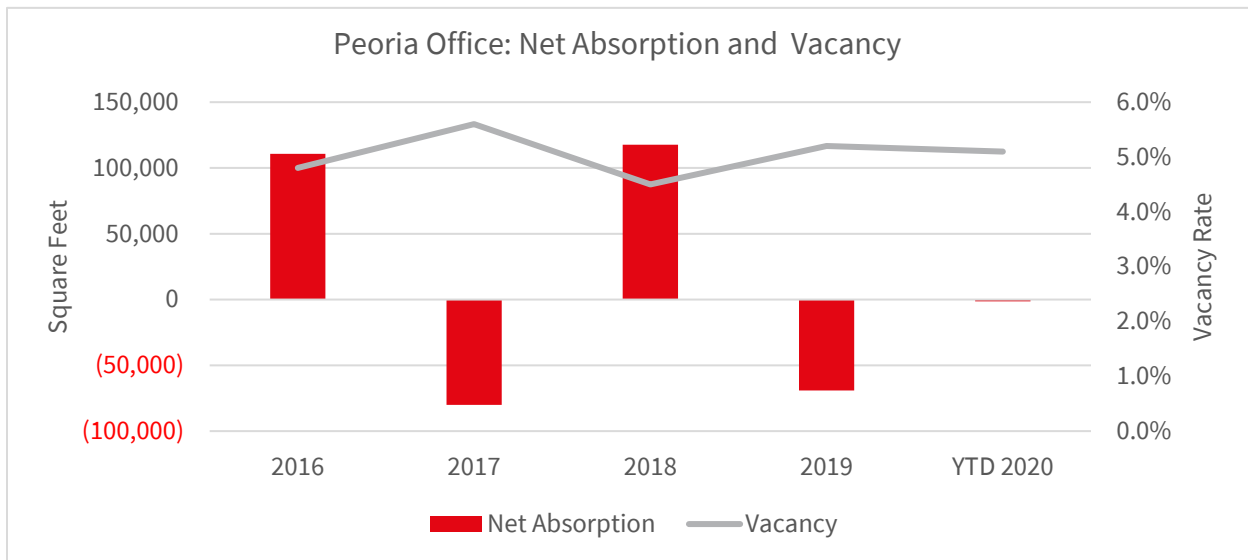


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

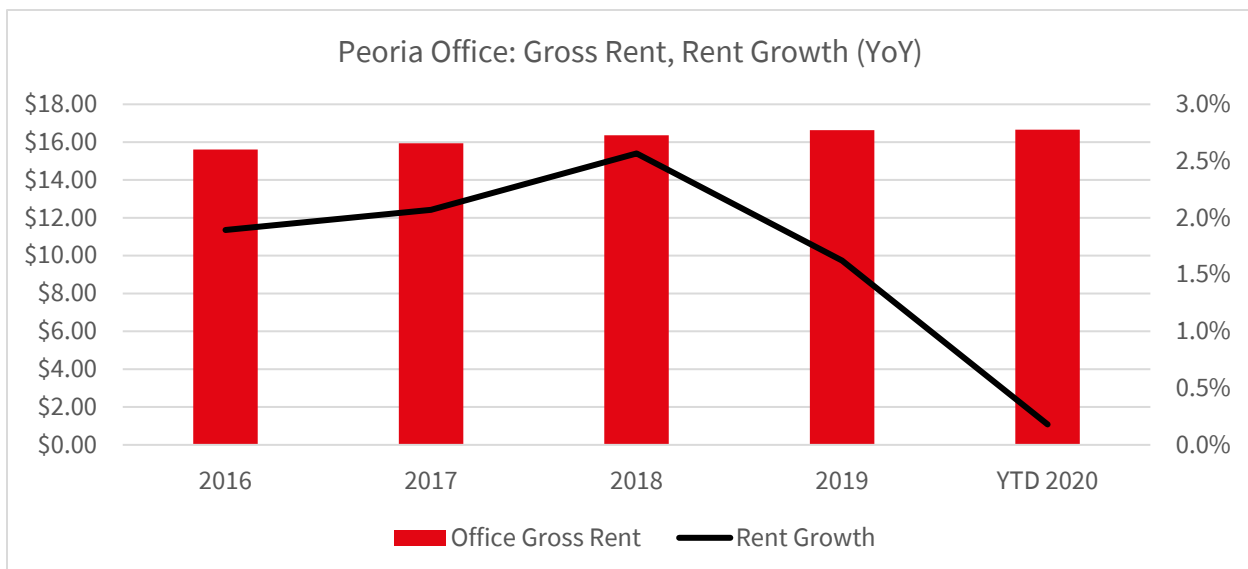
### Inventory and Supply

The Peoria office market has 9.9 million square feet of total office inventory with a vacancy rate of 5.1%. Net absorption has fluctuated in the past five years, with positive absorption of more than 100,000 square feet of office space in 2016 and 2018, but negative absorption of more than 69,000 square feet in 2017 and 2019. 2020 YTD absorption is essentially flat at negative 1,341 square feet. No new office properties have been delivered in the market in the past five years. Market vacancy has remained relatively low since 2016, reaching a high of 5.6% in 2017.



Source: CoStar

Office rents in the market have increased slightly since 2016, going from \$15.61 per square foot in 2016 to \$16.66 per square foot in 2020 YTD.

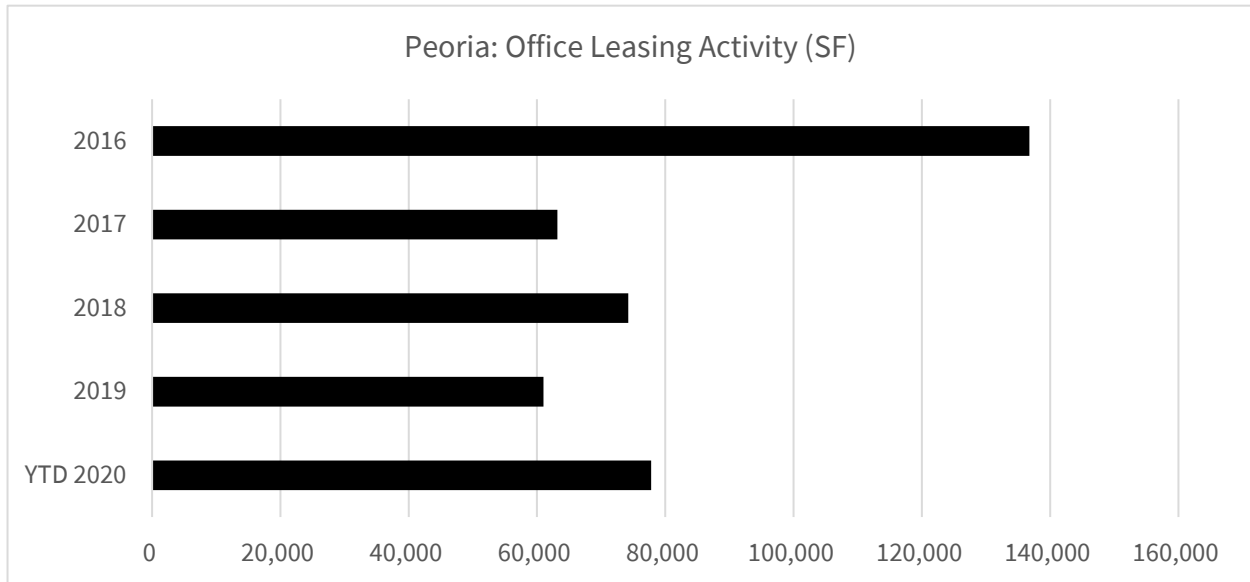


Source: CoStar



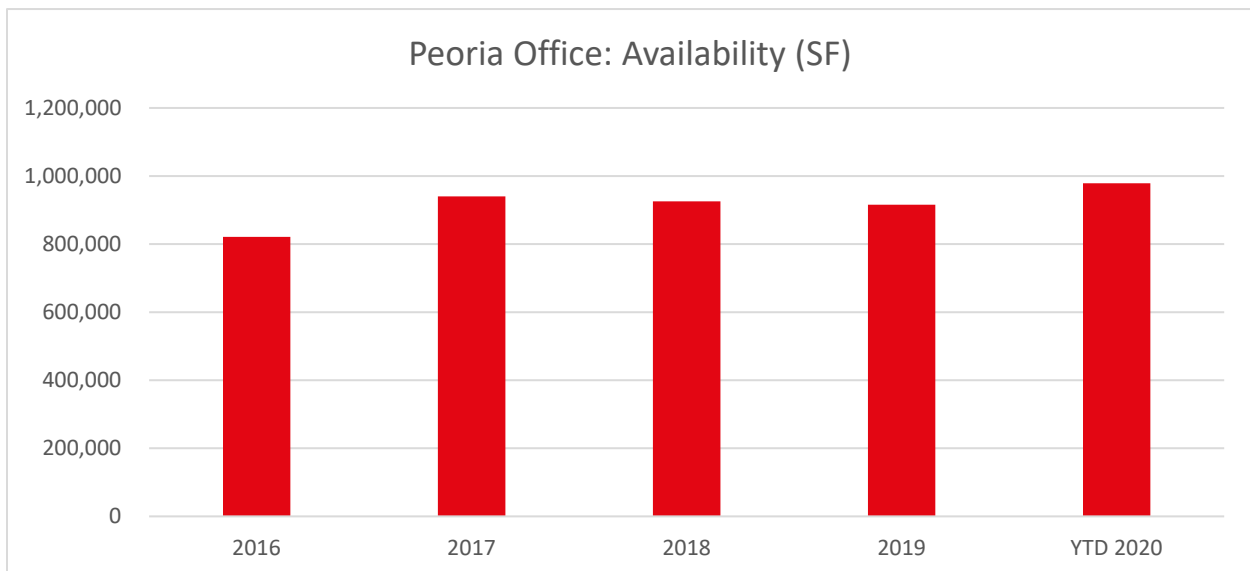
## Leasing Activity and Availability

Office leasing activity in Peoria has slowed in recent years, down to 77,798 in 2020 YTD from a peak of 136,754 square feet in 2016. Leasing activity has been relatively consistent the past four years, ranging from 61,012 square feet in 2019 to 77,798 square feet in 2020, with an average of 69,000 square feet of leasing activity per year since 2017.



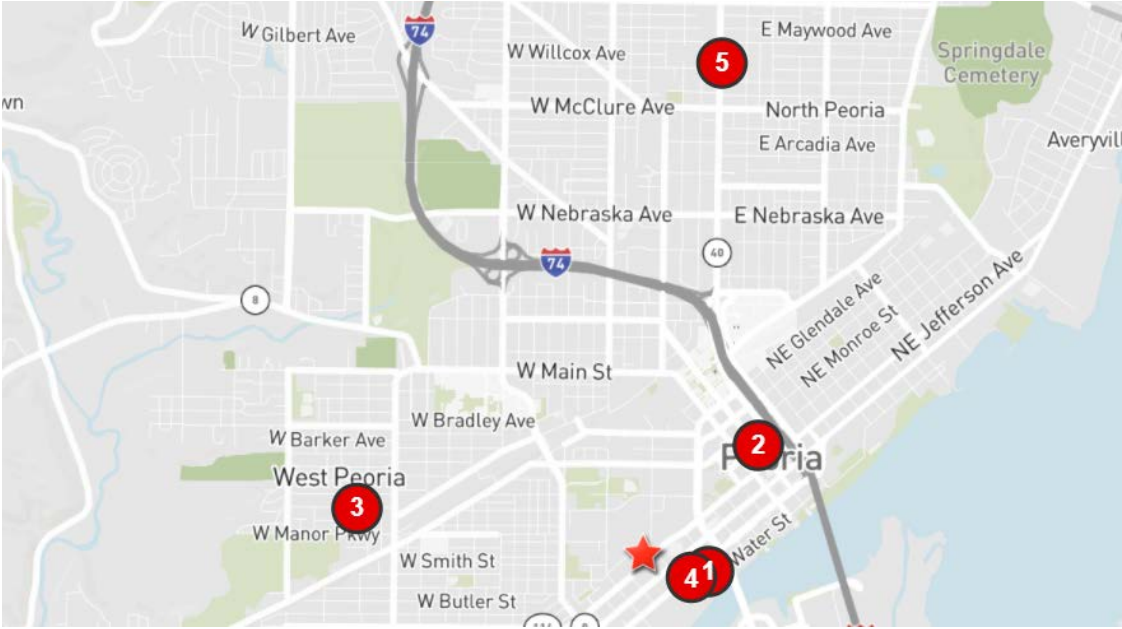
Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has increased in recent years, with total availability of 978,896 square feet in 2020 YTD being the highest availability in the past five years, up from 821,3030 square feet in 2016.



Source: CoStar

## Sales Comparables



There have been several office property sales in the market in the past twenty four months. Within three miles of the 406 Elm Street property, five office properties have recently sold, ranging from the 1,246 square foot property 210 NE Madison Avenue to the 55,528 square foot property at 736 SW Washington Street. Sales prices have varied significantly, ranging from \$4.50 per square foot for 736 SW Washington Street to \$164.72 per square foot for 601 SW Water Street. Since the property at 601 SW Water Street is nearby and is of similar size to the property at 406 Elm Street, it may be the most relevant sales comparable for this analysis.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	601 SW Water Street	B	20,034	\$164.72	Feb-2020
2	210 NE Madison Avenue	C	1,246	\$141.25	Jul-2019
3	2102 W Moss Avenue	C	4,000	\$13.38	Oct-2019
4	736 SW Washington Street	B	55,528	\$4.50	Oct-2019
5	2708-2710 N Knoxville Avenue	C	4,300	\$34.88	Jun-2019

## Own Versus Lease Analysis

To assess whether the State should continue leasing 406 Elm St or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	22,620
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 14.05
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$3,424,788. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 406 Elm St</b>	
Total Rent Cost	\$ 3,479,942
+ Total OpEx	\$ 990,731
<b>Total Cost (Real)</b>	<b>\$ 3,424,788</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

However, given that the rental rate for the property is a nominal \$1/year, there is no acquisition cost, other than being given the building for free, that "breaks even" with the low cost of the lease.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
601 SW Water St	20,034	\$ 3,300,000	\$ 164.72
210 NE Madison Ave	1,246	\$ 175,998	\$ 141.25
2102 W Moss Ave	4,000	\$ 53,520	\$ 13.38
736 SW Washington St	55,528	\$ 249,876	\$ 4.50
2708-2710 N Knoxville Av	4,300	\$ 149,984	\$ 34.88
<b>Average</b>			<b>\$ 71.75</b>

Acquiring the property at market rates may still be an option, however, and is still assessed as part of this analysis. Based on the above sample of historical property sales in Peoria, Mount Carmel, and Fairfield, the average sale price is \$71.75 per square foot. Given that 601 SW Water St is very similar to 406 Elm St, 406 Elm St could sell for as much as \$164.72 per square foot.

Should the State acquire the property for \$71.75 per square foot, the total cost of acquisition, including capital expenditure, would be \$3,461,327.

<b>Total Cost to Acquire 406 Elm St at Market Value</b>	
2022 Market Acquisition Cost	\$ 1,622,895
+ Total Buildout Cost (full TI)	\$ 1,102,284
+ Initial CapEx	\$ 1,131,000
+ Total Ongoing CapEx	\$ 247,683
+ Total OpEx	\$ 990,731
- 2032 Market Value	\$ (1,889,385)
Total Cost (Nominal)	\$ 3,205,207
<b>Total Cost (Real)</b>	<b>\$ 3,461,327</b>

This is \$36,539 more than the cost to lease the property on a present value basis.

# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
None			
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
None			

There are currently no alternative office properties for lease or for sale in Peoria. This analysis assumes that the State cannot lease or purchase an alternative property in a different market and provide the required level of service.

## Conclusion

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The lowest cost technically acceptable alternative is to continue to lease the property.

The State could consider acquiring the property for \$36,539 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 406 Elm St</b>	\$ 3,424,788
<b>Acquire 406 Elm St</b>	\$ 3,461,327
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



***110 W Lawrence Ave***

**Springfield, IL**

**Healthcare and Family Services**

**Lease #L6471**





# Market Analysis

## Property Description

Property Details	
Property Address:	110 W Lawrence Ave Springfield, IL
Lease Number:	L6039
Property Type:	Office
Building Size (SF):	11,020
Year Built:	1991
Using Agency:	HFS
Lease Commencement Date:	11/1/2017
Lease/Option End Date:	10/31/2022
Demographics	
Population:	1 mile: 13,996 5 miles: 123,489
Median Household Income:	1 mile: \$38,330 5 miles: \$52,501



Source: Google

## Demographic Overview for Springfield, IL

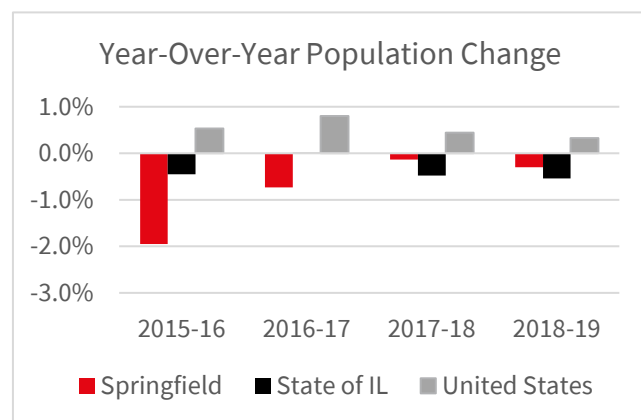
### Population

In 2019, Springfield, Illinois had an estimated population of 114,171. Springfield has experienced population loss since 2015, with 2019 population down 3.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

### Age

The median population in Springfield is 39.4 years old, which is consistent with the statewide median age of 38.6 and the median age of the United States of 38.1.

Year	Population Estimates
2019	114,171
2018	114,512
2017	114,663
2016	115,511
2015	117,809



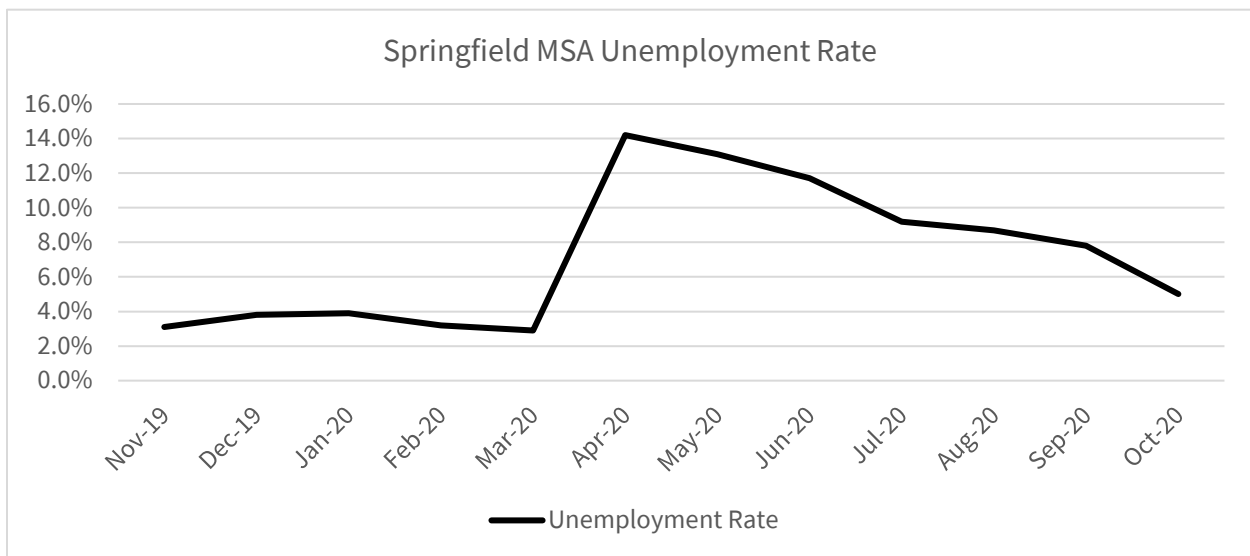
Source: U.S. Census Bureau

## Education

In Springfield, 34% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

The Springfield Metropolitan Statistical Area (MSA) consists of Sangamon County, Illinois and Menard County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the MSA was less than 4%, hitting a low of 2.9% in March 2020. The pandemic had a significant impact on unemployment in the MSA, peaking at 14.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the MSA was down to 5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

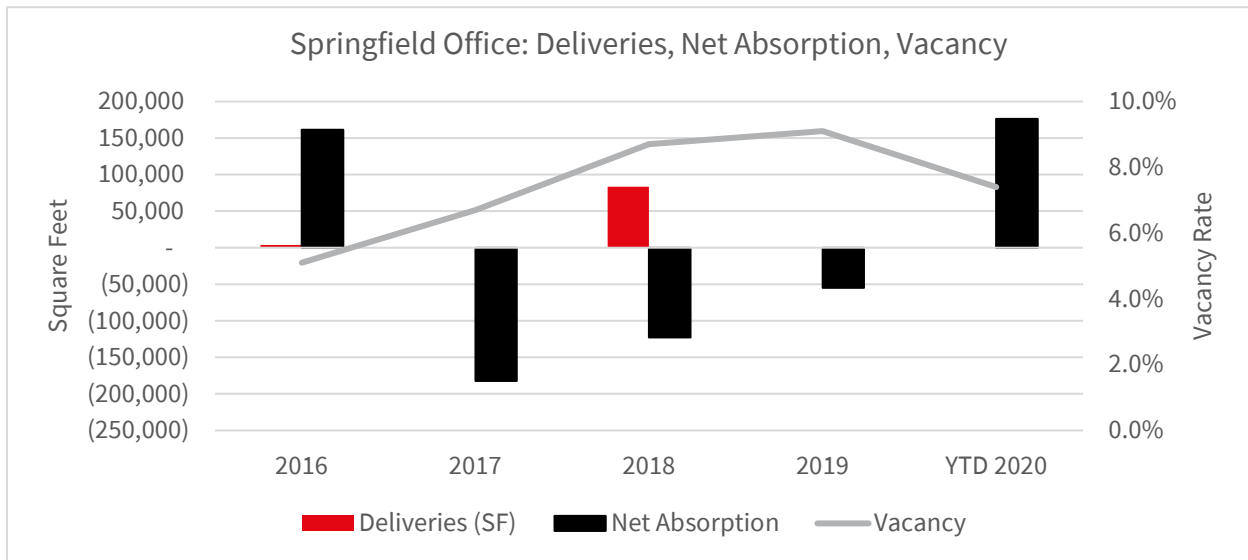


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

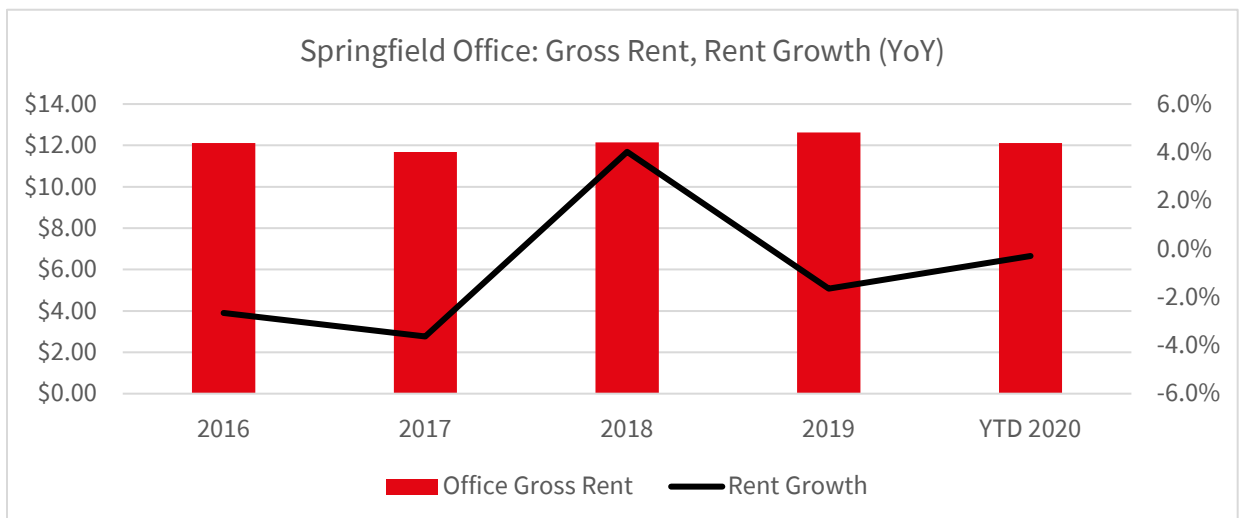
### Inventory and Supply

The Springfield office market has 10.5 million square feet of total office inventory with a vacancy rate of 7.4%. After two years of positive net absorption, 2017 through 2019 experience negative net absorption. However, 2020 Year-to-Date leasing activity has seen approximately 176,350 square feet of positive absorption. Springfield saw two office buildings totaling 83,234 square feet delivered in 2018. Recent leasing activity has led to a decrease in total vacancy, this after three years of growing vacancy rates and limited deliveries.



Source: CoStar

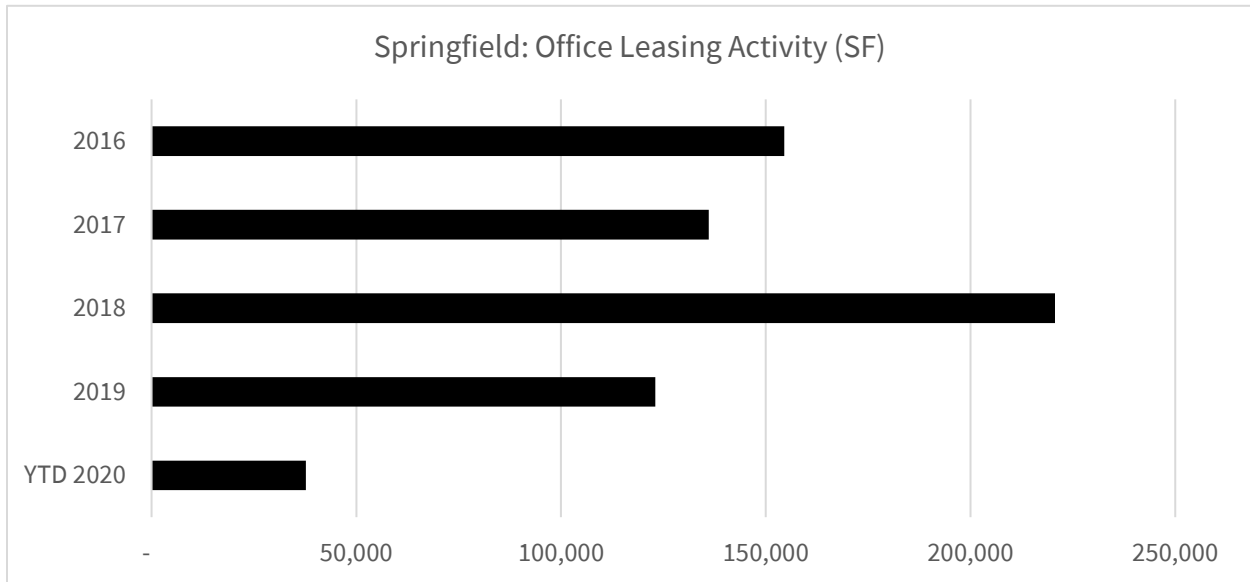
Office rents for properties in Springfield experienced a slight increase in 2019 after two years of decline, increasing to \$12.63 per square foot. 2020 Year-to-Date rents, however, has declined slightly, moving to \$12.12 per square foot.



Source: CoStar

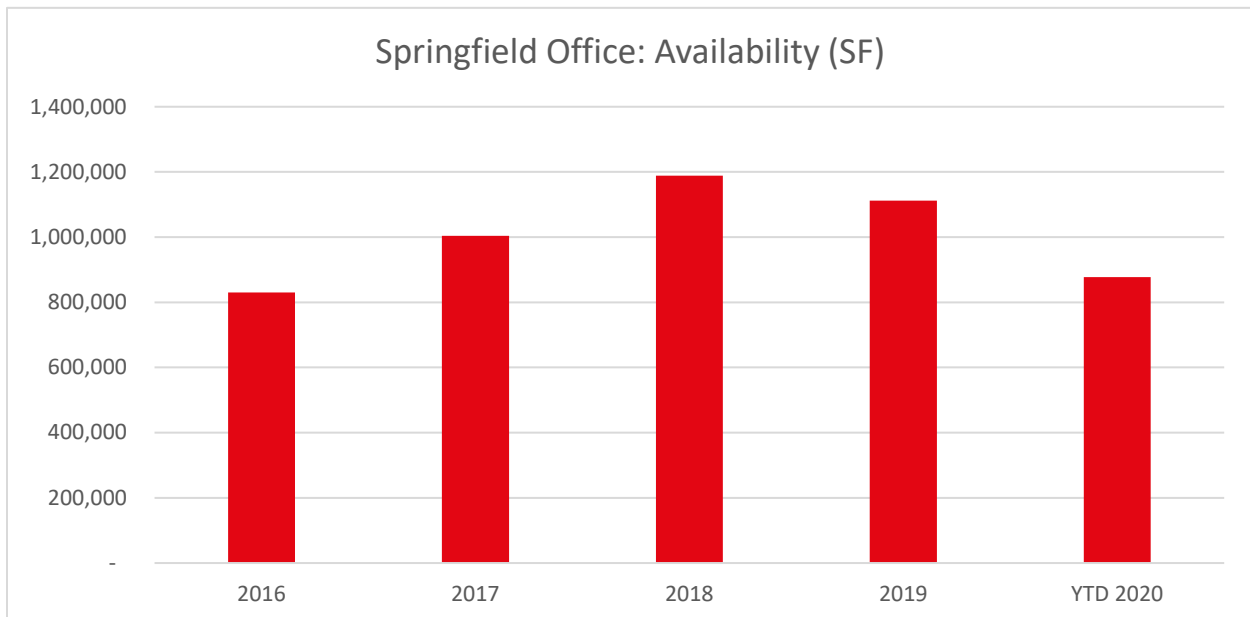
## Leasing Activity and Availability

Office leasing activity in Springfield experienced a recent sharp decrease, with leasing volume falling from 220,633 square feet in 2018 to 89,837 square feet in 2019. Year-to-date 2020 saw additional decrease in volume with 37,671 square feet of leasing activity.



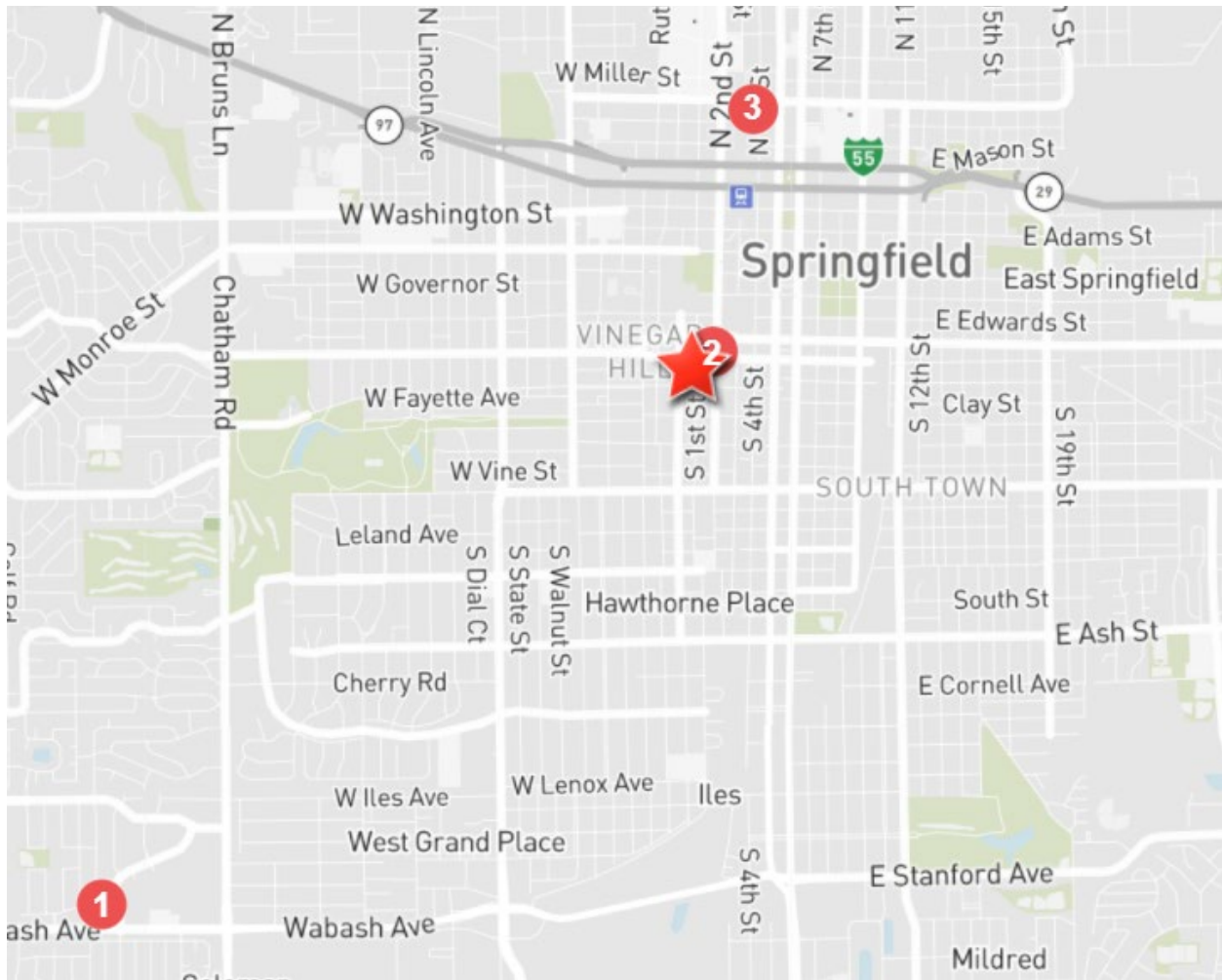
Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. Since 2015, availability in Springfield has been around 1,000,000 square feet except in 2016 where it decreased to 830,285 square feet. Year-to-Date 2020 availability has fallen to 877,750 square feet.



Source: CoStar

## Sales Comparables



### Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months. There as there were limited comparable sales within a one-mile radius. As such, a five-mile radius was utilized. Comparable office properties have sold for \$64.35 per square foot on average. All available properties are much larger than the State’s current occupancy at 110 W Lawrence Avenue.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
Sales Comps					
1	3101 Montvale Drive	C	43,000	\$44.95	Sept-2019
2	725 S 2 <sup>nd</sup> Street	C	15,300	\$57.19	June-2019
3	320 E Carpenter Street	B	22,000	\$90.91	Jan-2019

## Own Versus Lease Analysis

To assess whether the State should continue leasing 110 W Lawrence Avenue or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	11,020
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 9.92
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 46.41
<b>Landlord TI Allowance (\$ sf)</b>	\$ 23.21
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,286,722. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 110 W Lawrence Avenue</b>	
Total Rent Cost	\$ 1,197,006
+ Total OpEx	\$ 482,664
<b>Total Cost (Real)</b>	<b>\$ 1,286,722</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for a price less than the total cost of leasing the property.

<b>Total Cost to Acquire 110 W Lawrence Avenue</b>	
2022 Break-Even Acquisition Cost	\$ -
+ Initial CapEx	\$ 551,000
+ Total Ongoing CapEx	\$ 120,666
+ Total OpEx	\$ 482,664
- <u>2032 Market Value</u>	\$ -
Total Cost (Nominal)	\$ 1,665,768
<b>Total Cost (Real)</b>	<b>\$ 1,474,031</b>

The following property sales provide some indication of market sales prices for properties in Springfield.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
3101 Montvale Drive	21,800	\$ 979,910	\$ 44.95
725 S 2nd Street	15,300	\$ 875,007	\$ 57.19
320 E Carpenter Street	22,000	\$ 2,000,020	\$ 90.91
<b>Average</b>			<b>\$ 64.35</b>

Based on this sample, the average sale price of properties in Springfield is \$64.35 per square foot. Compared to the maximum break-even price of \$0.00 per square foot for the 110 W Lawrence Avenue, this value is significantly lower, indicating that acquiring the property for less than \$0.00 psf may be feasible.

Should the State acquire the property for \$64.35 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,642,563.

<b>Total Cost to Acquire 110 W Lawrence Avenue at Market Value</b>	
2022 Market Acquisition Cost	\$ 709,137
+ Total Buildout Cost (full TI)	\$ 511,438
+ Initial CapEx	\$ 551,000
+ Total Ongoing CapEx	\$ 120,666
+ Total OpEx	\$ 482,664
- 2032 Market Value	\$ (825,582)
Total Cost (Nominal)	\$ 1,549,323
<b>Total Cost (Real)</b>	<b>\$ 1,642,563</b>

This is \$355,841 more than the cost to lease the property on a present value basis.



## Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>			
<b>Address</b>	<b>al Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
509 W Capitol Avenue	43,000	\$51.16	\$ 2,199,880
2040 Hill Meadows Drive	24,600	\$40.61	\$ 999,006
<b>Lease Alternatives</b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
509 W Capitol Avenue	43,000	11,020	\$8.00
2040 Hill Meadows Drive	24,600	11,020	\$8.00
901 W Jefferson Street	12,680	11,020	\$7.00
1650 Wabash Avenue	29,500	11,020	\$8.00
1 Copley Plaza	60,000	11,020	\$12.00

Regarding acquisition alternatives, both properties are approximately the same size as the State's current footprint at this location. Therefore, either property may be viable.

Regarding lease alternatives, only 201-205 W Old State Capitol Plaza is used in this analysis. The other properties are too small.

## Conclusion

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The lowest cost technically acceptable alternative is to continue leasing the property. Leasing the property for another 10-year term will cost the State approximately \$1,286,722, compared to a cost of \$1,642,563 to acquire and maintain the property for the same 10-year period.

Given the the significant cost difference between acquiring and leasing the property, acquiring the property may not justify the risks above, and the State should consider continuing to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 110 W Lawrence Avenue</b>	\$ 1,286,722
<b>Acquire 110 W Lawrence Avenue</b>	\$ 1,642,563
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
509 W Capitol Avenue	\$ 4,319,830
2040 Hill Meadows Drive	\$ 2,409,665
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
1 Copley Plaza	\$ 6,039,436



***1001 N Walnut Street***

**Springfield, IL**

**Healthcare and Family Services**

**Lease #L6154**



# Market Analysis

## Property Description

Property Details	
Property Address:	1001 N Walnut Street Springfield, IL
Lease Number:	L6154
Property Type:	Office
Building Size (SF):	13,590
Year Built:	1990
Using Agency:	HFS
Lease Commencement Date:	8/1/2017
Lease/Option End Date:	7/31/2022
Demographics	
Population:	1 mile: 9,297 5 miles: 116,415
Median Household Income:	1 mile: \$33,152 5 miles: \$50,555



Source: Google

## Demographic Overview for Springfield, IL

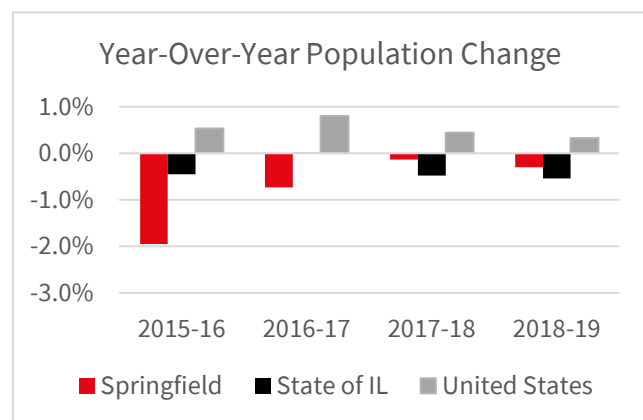
### Population

In 2019, Springfield, Illinois had an estimated population of 114,171. Springfield has experienced population loss since 2015, with 2019 population down 3.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	114,171
2018	114,512
2017	114,663
2016	115,511
2015	117,809

### Age

The median population in Springfield is 39.4 years old, which is consistent with the statewide median age of 38.6 and the median age of the United States of 38.1.



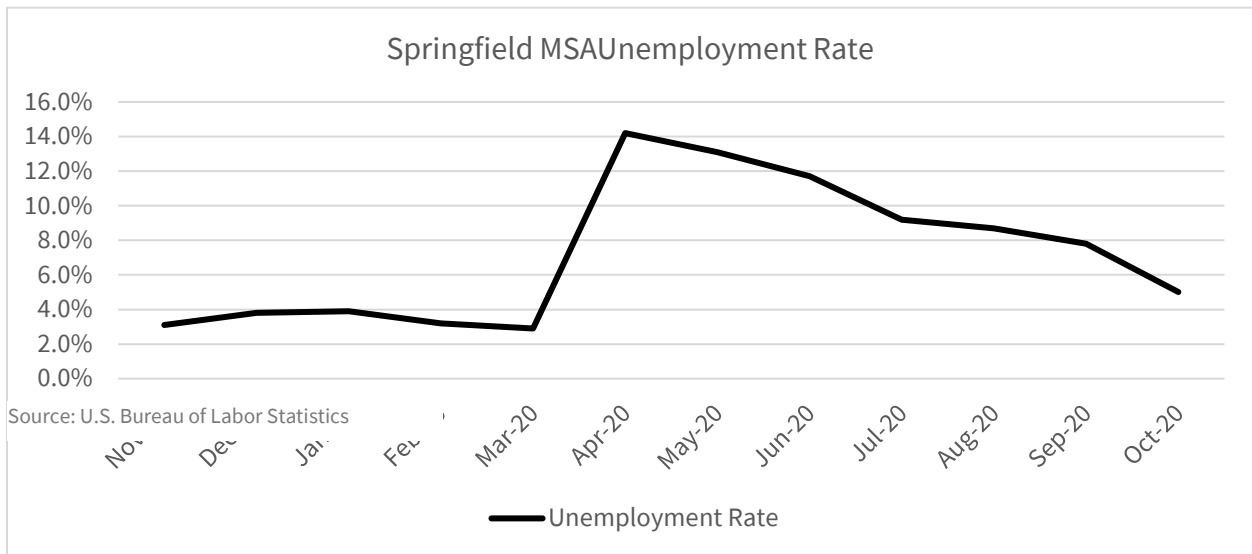
### Education

In Springfield, 34% of the population above the age of 25 has a bachelor's degree or higher, less

than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

### Unemployment Rate – Effects of COVID-19

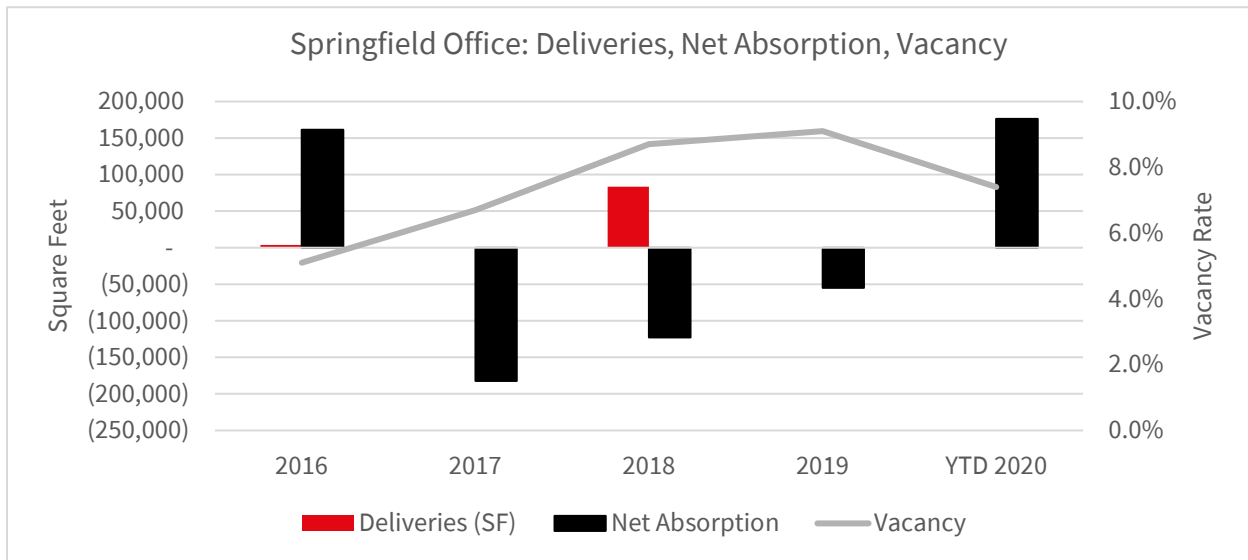
The Springfield Metropolitan Statistical Area (MSA) consists of Sangamon County, Illinois and Menard County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the MSA was less than 4%, hitting a low of 2.9% in March 2020. The pandemic had a significant impact on unemployment in the MSA, peaking at 14.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the MSA was down to 5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.



## Office Market Conditions

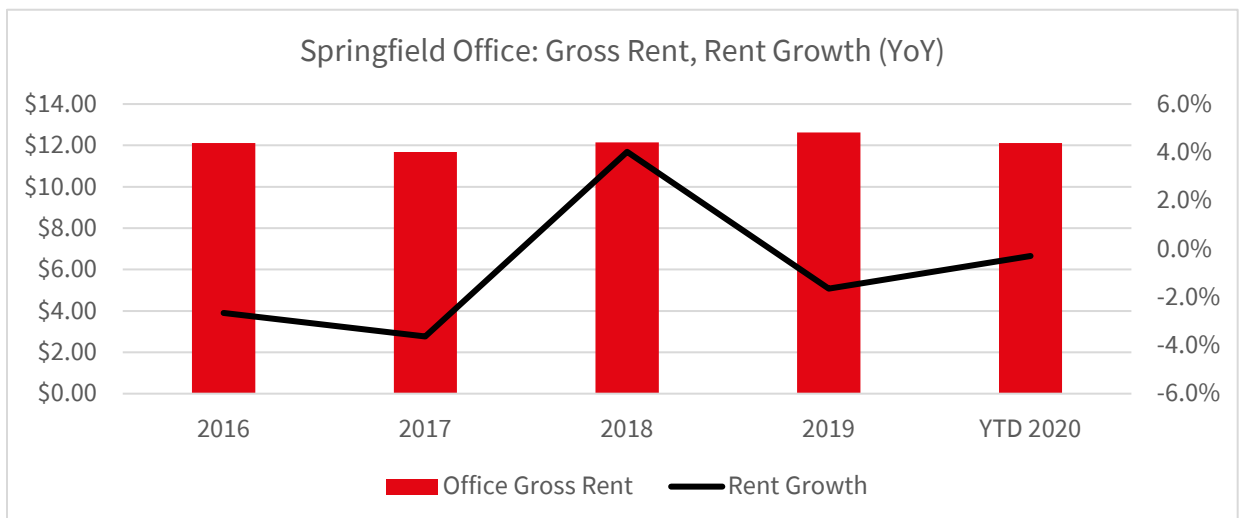
### Inventory and Supply

The Springfield office market has 10.5 million square feet of total office inventory with a vacancy rate of 7.4%. After two years of positive net absorption, 2017 through 2019 experience negative net absorption. However, 2020 Year-to-Date leasing activity has seen approximately 176,350 square feet of positive absorption. Springfield saw two office buildings totaling 83,234 square feet delivered in 2018. Recent leasing activity has led to a decrease in total vacancy, this after three years of growing vacancy rates and limited deliveries.



Source: CoStar

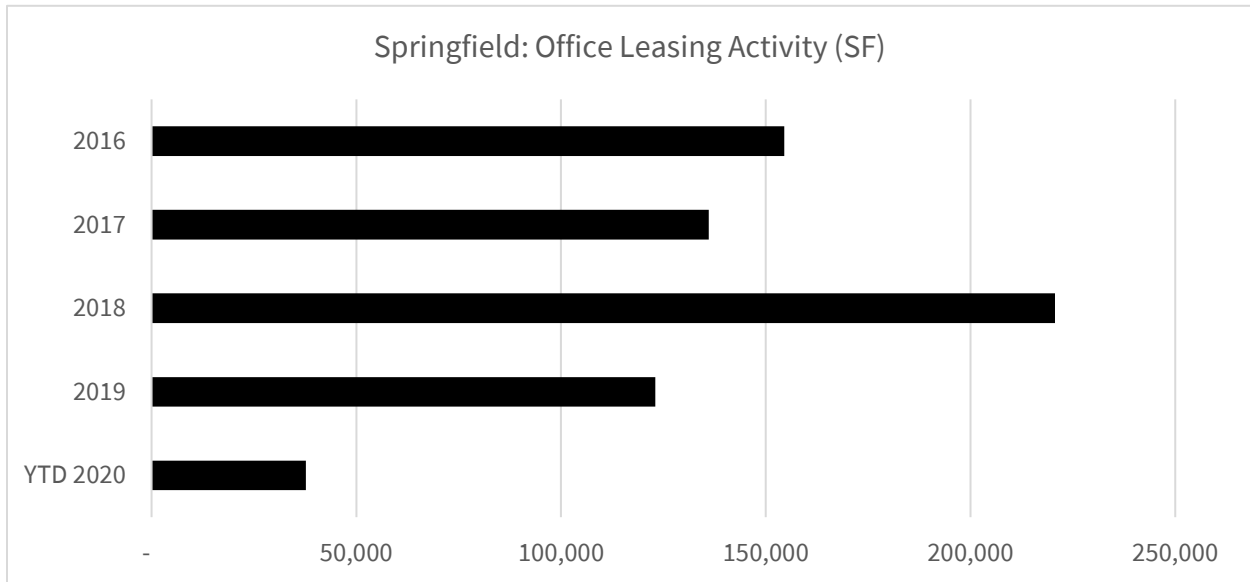
Office rents for properties in Springfield experienced a slight increase in 2019 after two years of decline, increasing to \$12.63 per square foot. 2020 Year-to-Date rents, however, has declined slightly, moving to \$12.12 per square foot.



Source: CoStar

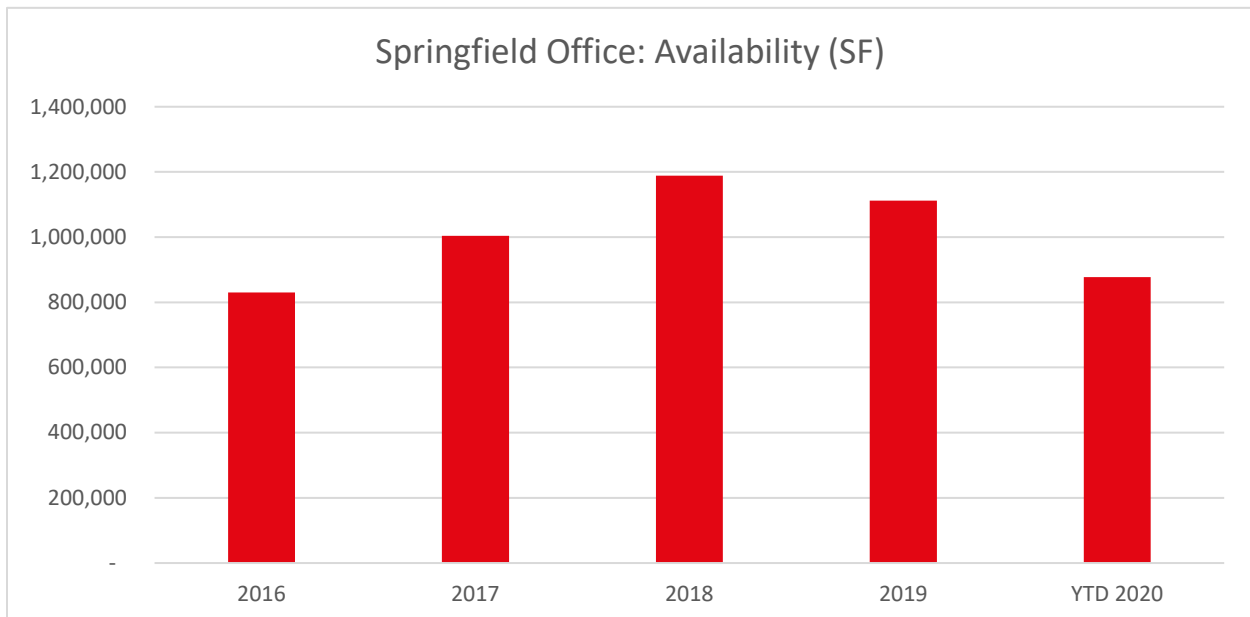
## Leasing Activity and Availability

Office leasing activity in Springfield experienced a recent sharp decrease, with leasing volume falling from 220,633 square feet in 2018 to 89,837 square feet in 2019. Year-to-date 2020 saw additional decrease in volume with 37,671 square feet of leasing activity.



Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. Since 2015, availability in Springfield has been around 1,000,000 square feet except in 2016 where it decreased to 830,285 square feet. Year-to-Date 2020 availability has fallen to 877,750 square feet.



Source: CoStar

## Sale Comparables



## Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months. There as there were limited comparable sales within a one-mile radius. As such, a five-mile radius was utilized. Comparable office properties have sold for \$64.35 per square foot on average. All available properties are much larger than the State’s current occupancy at 110 W Lawrence Avenue.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
Sales Comps					
6	3101 Montvale Drive	C	43,000	\$44.95	Sept-2019
7	725 S 2 <sup>nd</sup> Street	C	15,300	\$57.19	June-2019
8	320 E Carpenter Street	B	22,000	\$90.91	Jan-2019



## Own Versus Lease Analysis

To assess whether the State should continue leasing 1001 North Walnut Street or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	13,590
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 12.75
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 46.41
<b>Landlord TI Allowance (\$ sf)</b>	\$ 23.21
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,909,405. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 1001 North Walnut Street</b>	
Total Rent Cost	\$ 1,897,286
+ Total OpEx	\$ 595,227
<b>Total Cost (Real)</b>	<b>\$ 1,909,405</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, if the State can acquire the property for approximately \$2,110,000 (the 2022 Break-Even Acquisition Cost in the table below) the total cost of acquiring the property is equal to the total cost of leasing the property. This break-even cost equates to approximate per-square-foot purchase price of \$155.37.

<b>Total Cost to Acquire 1001 North Walnut Street</b>	
2022 Break-Even Acquisition Cost	\$ 2,111,490
+ Initial CapEx	\$ 679,500
+ Total Ongoing CapEx	\$ 148,807
+ Total OpEx	\$ 595,227
<u>- 2032 Market Value</u>	<u>\$ (2,458,211)</u>
Total Cost (Nominal)	\$ 1,276,812
<b>Total Cost (Real)</b>	<b>\$ 1,909,405</b>

If the State can acquire the building below \$155.37 psf, then it may consider purchasing as an alternative to leasing. Reviewing historical data can determine if the owner is likely to sell the Property at this price point or below, or if market values exceed this amount.

The following property sales provide some indication of market sales prices for properties in Springfield.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
320 E Carpenter Street	22,000	\$ 2,000,020	\$ 90.91
3101 Montvale Drive	43,000	\$ 1,932,850	\$ 44.95
725 S 2nd Street	15,300	\$ 875,007	\$ 57.19
<b>Average</b>			<b>\$ 64.35</b>

Based on this sample, the average sale price of properties in Springfield is \$64.35 per square foot. Compared to the maximum break-even price of \$155.37 per square foot for the 1001 North Walnut Street, this value is significantly lower, indicating that acquiring the property for less than \$155.37 psf may be feasible.

Should the State acquire the property for \$64.35 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,615,428.

<b>Total Cost to Acquire 1001 North Walnut Street at Market Value</b>	
2022 Market Acquisition Cost	\$ 874,517
+ Total Buildout Cost (full TI)	\$ 200,000
+ Initial CapEx	\$ 679,500
+ Total Ongoing CapEx	\$ 148,807
+ Total OpEx	\$ 595,227
- 2032 Market Value	\$ (1,018,118)
Total Cost (Nominal)	\$ 1,479,932
<b>Total Cost (Real)</b>	<b>\$ 1,615,428</b>

This is \$293,978 less than the cost to lease the property on a present value basis.

## Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
509 West Capitol Ave	43,000	\$51.16	\$ 2,199,880
2040 Hill Meadows Drive	24,600	\$40.61	\$ 999,006
<b>Lease Alternatives</b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
509 West Capitol Ave	43,000	13,590	\$8.00
1 Copley Plaza	120,000	13,590	\$12.00
2040 Hill Meadows Drive	24,600	13,590	\$8.00
901 West Jefferson Street	12,680	12,680	\$7.00
1 West Old State Capitol F	46,408	13,590	\$10.50

Regarding acquisition alternatives, both properties are larger than the State's current footprint at this location. Therefore, the State may need to lease any excess space in either building in order to make an acquisition financially feasible.

Regarding lease alternatives, all of the options presented in the analysis provide available space suitable for use by the State.

## Conclusion

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Given the nominal difference between leasing and acquiring the property, the State should consider continuing to lease. The State may consider making an acquisition in the event the property can be acquired at any value less than \$188.66 per square foot. Recent comparables suggest the State may be able to acquire the property for approximately \$64.35 per square foot. An acquisition at this value would yield a total savings of approximately \$401,490 over a 10-year period.

Acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 1001 North Walnut Street</b>	\$ 1,909,405
<b>Acquire 1001 North Walnut Street</b>	\$ 1,615,428
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
509 West Capitol Ave	\$ 4,319,830
2040 Hill Meadows Drive	\$ 2,409,665
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
1 West Old State Capitol Plaza	\$ 4,087,390



***1014 E Laurel Street***

**Springfield, IL**

**Central Management Services / Illinois  
Environmental Protection Agency**

**Lease #L6248**



# Market Analysis

## Property Description

Property Details	
Property Address:	1014E Laurel Street Springfield, IL
Lease Number:	L6248
Property Type:	Warehouse
Building Size (SF):	13,500
Year Built:	1978
Using Agency:	CMS/IEPA
Lease Commencement Date:	8/1/2017
Lease/Option End Date:	7/31/2022
Demographics	
Population:	1 mile: 2,687 5 miles: 83,157
Median Household Income:	1 mile: \$86,471 5 miles: \$61,358



Source: Google

## Demographic Overview for Springfield, IL

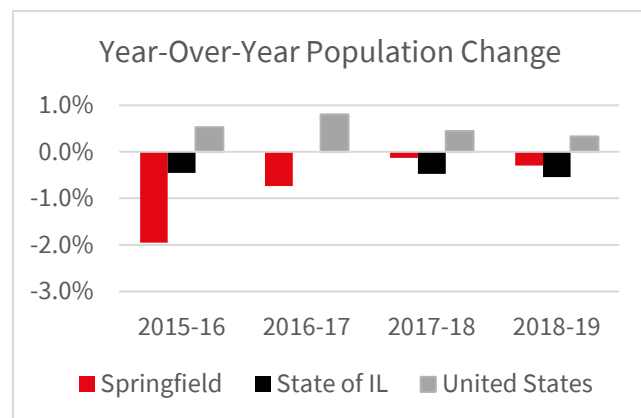
### Population

In 2019, Springfield, Illinois had an estimated population of 114,171. Springfield has experienced population loss since 2015, with 2019 population down 3.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	114,171
2018	114,512
2017	114,663
2016	115,511
2015	117,809

### Age

The median population in Springfield is 39.4 years old, which is consistent with the statewide median age of 38.6 and the median age of the United States of 38.1.

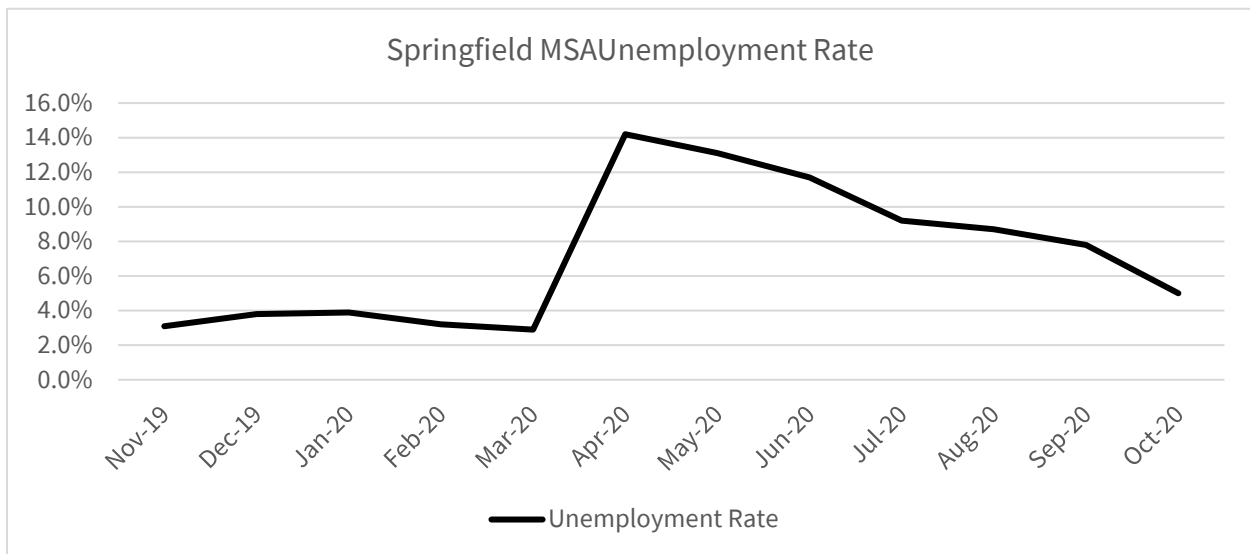


### Education

In Springfield, 34% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

The Springfield Metropolitan Statistical Area (MSA) consists of Sangamon County, Illinois and Menard County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the MSA was less than 4%, hitting a low of 2.9% in March 2020. The pandemic had a significant impact on unemployment in the MSA, peaking at 14.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the MSA was down to 5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.



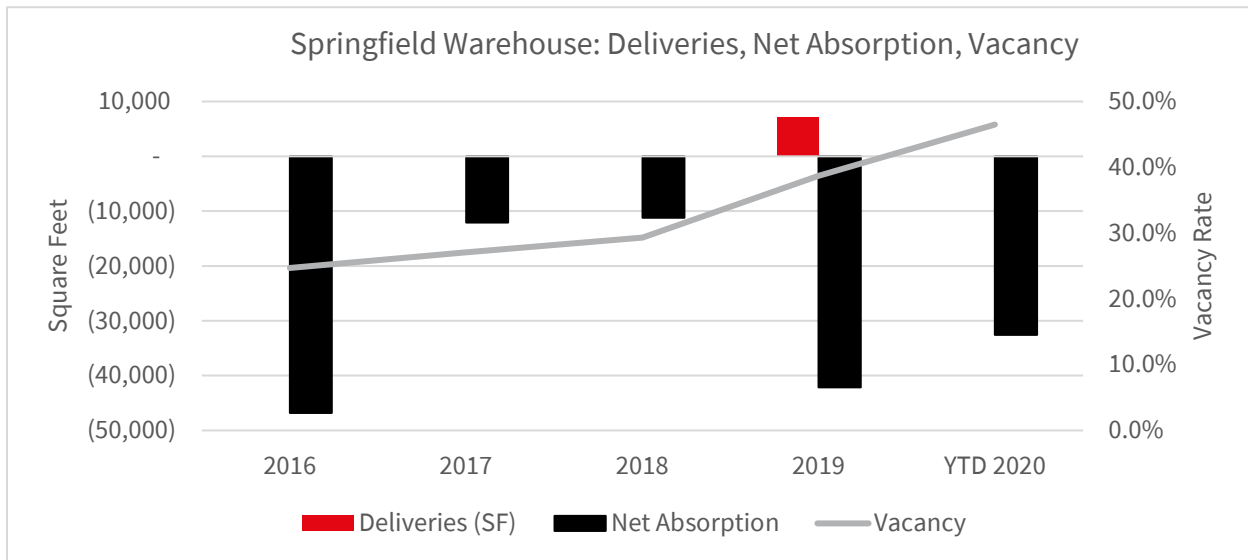
Source: U.S. Bureau of Labor Statistics



## Warehouse Market Conditions

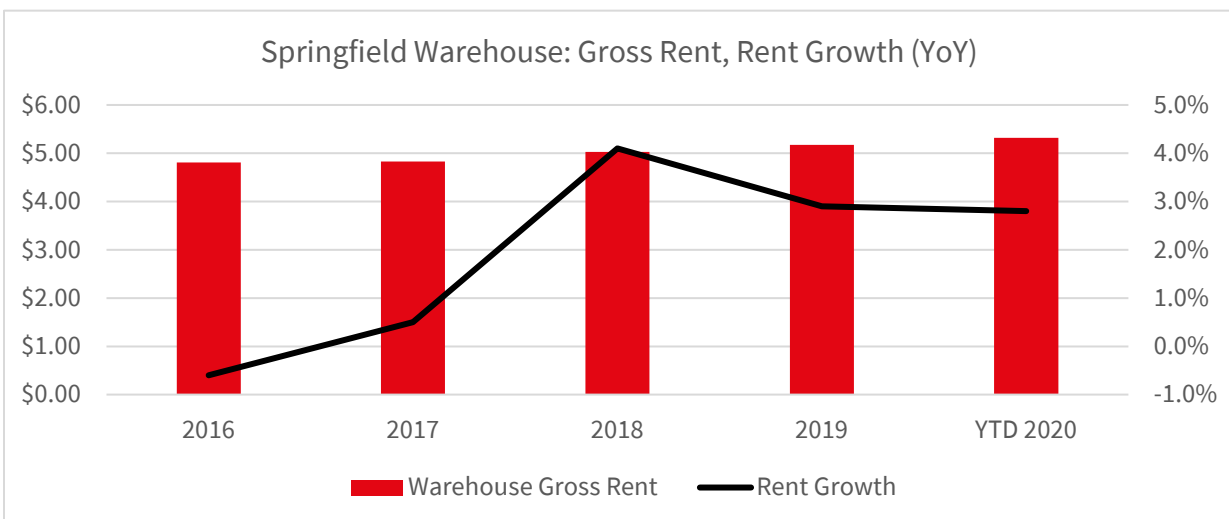
### Inventory and Supply

The Springfield warehouse market has 505,000 square feet of total warehouse inventory with a vacancy rate of 46.5%. The market has experienced negative absorption in consecutive years since 2016. The market continues to see more space available despite a recent uptick in leasing activity. Springfield saw one warehouse building totaling 7,200 square feet delivered in 2018. Vacancy continues to grow year-over-year, jumping from 27.1% in 2016 to 46.5% year-to-date in 2020.



Source: CoStar

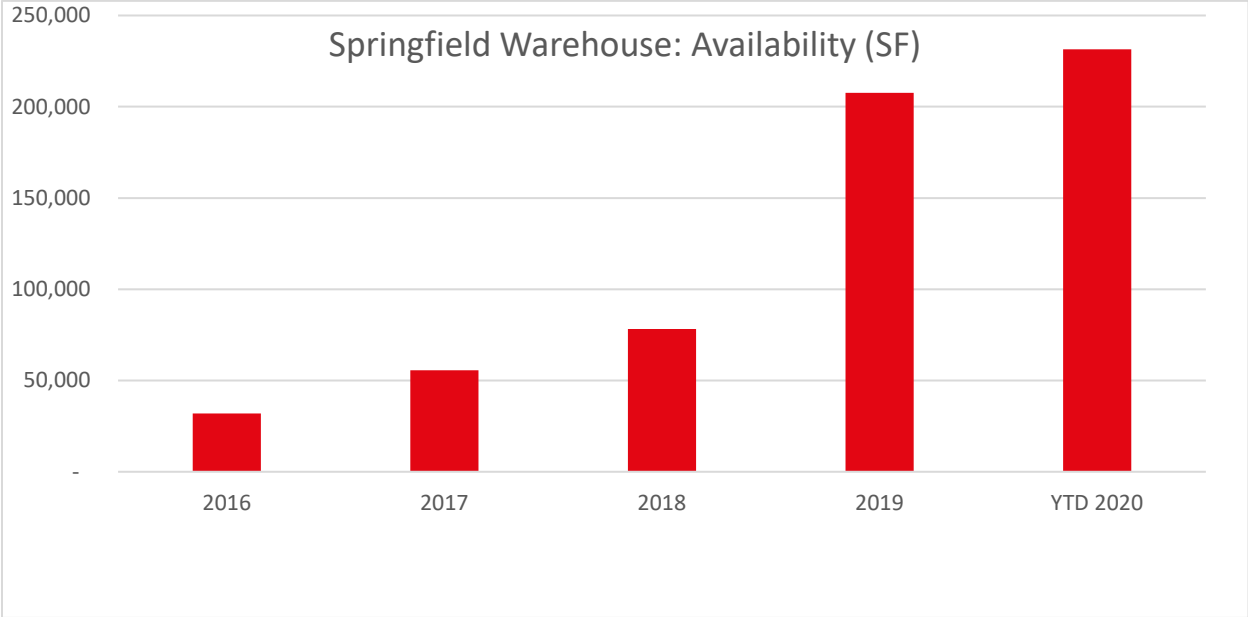
Despite growing vacancy, warehouse rents for properties in Springfield have steadily grown since 2016. The market has experience year-over-year growth in rents since 2016; in that time, rents have increased from \$4.81 per square foot in 2016 to \$5.32 per square foot year-to-date in 2020.



Source: CoStar

## Leasing Activity and Availability

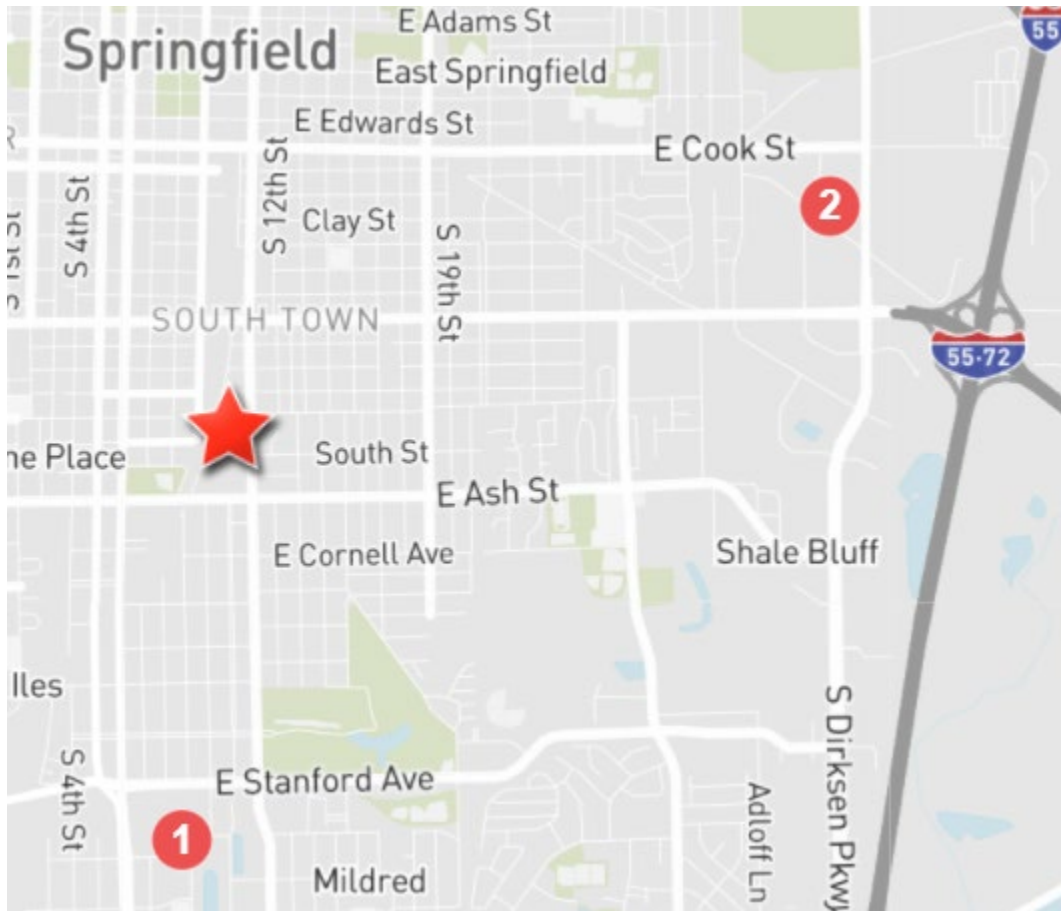
Warehouse leasing activity in Springfield experienced a recent sharp decrease, with leasing volume falling from 220,633 square feet in 2018 to 89,837 square feet in 2019. Year-to-date 2020 saw additional decrease in volume with 37,671 square feet of leasing activity.



Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. Since 2015, availability in Springfield has been around 1,000,000 square feet except in 2016 where it decreased to 830,285 square feet. Year-to-Date 2020 availability has fallen to 877,750 square feet.

## Sale Comparables



## Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months. There as there were limited comparable sales within a one-mile radius. As such, a five-mile radius was utilized. Comparable office properties have sold for \$32.13 per square foot on average. The sales comparables shown below are similar in size to the subject property.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
Sales Comps					
1	2861 Baker Drive	C	13,200	\$44.45	March-2020
2	3009 Singer Avenue	C	12,500	\$18.80	Jan-2020

## Own Versus Lease Analysis

To assess whether the State should continue leasing 1014 East Laurel Street or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	13,500
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 4.34
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 46.41
<b>Landlord TI Allowance (\$ sf)</b>	\$ 23.21
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$944,417. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 1014 East Laurel Street</b>	
Total Rent Cost	\$ 641,544
+ Total OpEx	\$ 591,285
<b>Total Cost (Real)</b>	<b>\$ 944,417</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for a price less than the total cost of leasing the property.

<b>Total Cost to Acquire 1014 East Laurel Street</b>	
2022 Break-Even Acquisition Cost	\$ -
+ Initial CapEx	\$ 675,000
+ Total Ongoing CapEx	\$ 147,821
+ Total OpEx	\$ 591,285
<u>- 2032 Market Value</u>	<u>\$ -</u>
Total Cost (Nominal)	\$ 2,040,641
<b>Total Cost (Real)</b>	<b>\$ 1,805,754</b>

The following property sales provide some indication of market sales prices for properties in Springfield.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
2861 Baker Drive	13,200	\$ 599,940	\$ 45.45
3009 Singer Avenue	12,500	\$ 235,000	\$ 18.80
		\$ -	
<b>Average</b>			<b>\$ 32.13</b>

Based on this sample, the average sale price of properties in Springfield is \$32.13 per square foot. Compared to the maximum break-even price of \$0.00 per square foot for the 1014 East Laurel Street, this value is significantly higher, indicating that acquiring the property for less than \$0.00 psf may not be feasible.

Should the State acquire the property for \$32.13 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,908,824.

<b>Total Cost to Acquire 1014 East Laurel Street at Market Value</b>	
2022 Market Acquisition Cost	\$ 433,688
+ Total Buildout Cost (full TI)	\$ 626,535
+ Initial CapEx	\$ 675,000
+ Total Ongoing CapEx	\$ 147,821
+ Total OpEx	\$ 591,285
- 2032 Market Value	\$ (504,902)
Total Cost (Nominal)	\$ 1,969,427
<b>Total Cost (Real)</b>	<b>\$ 1,908,824</b>

This is \$964,407 more than the cost to lease the property on a present value basis.

## Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
3220 Stanton Street	45,000	\$51.16	\$ 2,302,200
1700 Taylor Avenue	20,000	\$30.00	\$ 600,000
<b>Lease Alternatives</b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
3350 S Koke Mill Road	32,000	13,500	\$4.25
3220 Stanton Street	45,000	13,500	\$5.00
1700 Taylor Avenue	20,000	13,500	\$3.75
2130 East Clear Lake Aver	17,000	13,500	\$4.00
3401 Remington Street	18,000	13,500	\$3.00

Regarding acquisition alternatives, both properties are approximately the same size as the State's current footprint at this location. Therefore, either property may be viable.

Regarding lease alternatives, only 201-205 W Old State Capitol Plaza is used in this analysis. The other properties are too small.

## Conclusion

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The lowest cost technically acceptable alternative is to continue leasing the property, which is approximately \$964,407 less than the cost to acquire the building.

Acquiring the property presents several inherent risks. First, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State, resulting in negative cash-flow. Second, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the the significant cost difference between acquiring and leasing the property, acquiring the property may not justify the risks above, and the State may consider continuing to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 1014 East Laurel Street</b>	\$ 1,805,754
<b>Acquire 1014 East Laurel Street</b>	\$ 1,908,824
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
1700 Taylor Avenue	\$ 1,908,646
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
3401 Remington Street	\$ 452,958





***1301 Knotts Street***

**Springfield, IL**

**Illinois Emergency Management Agency**

**Lease #L6039**



# Market Analysis

## Property Description

Property Details	
Property Address:	1301 Knotts Street Springfield, IL
Lease Number:	L6039
Property Type:	Office
Building Size (SF):	31,320
Year Built:	1972
Using Agency:	IEMA
Lease Commencement Date:	7/1/2017
Lease/Option End Date:	6/30/2022
Demographics	
Population:	1 mile: 2,687 5 miles: 83,157
Median Household Income:	1 mile: \$86,471 5 miles: \$61,358



Source: Google

## Demographic Overview for Springfield, IL

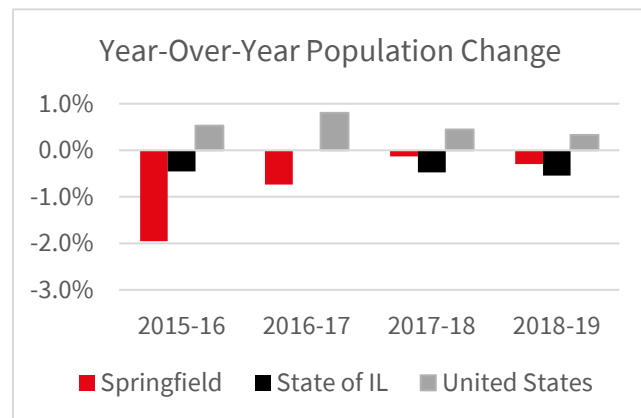
### Population

In 2019, Springfield, Illinois had an estimated population of 114,171. Springfield has experienced population loss since 2015, with 2019 population down 3.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	114,171
2018	114,512
2017	114,663
2016	115,511
2015	117,809

### Age

The median population in Springfield is 39.4 years old, which is consistent with the statewide median age of 38.6 and the median age of the United States of 38.1.

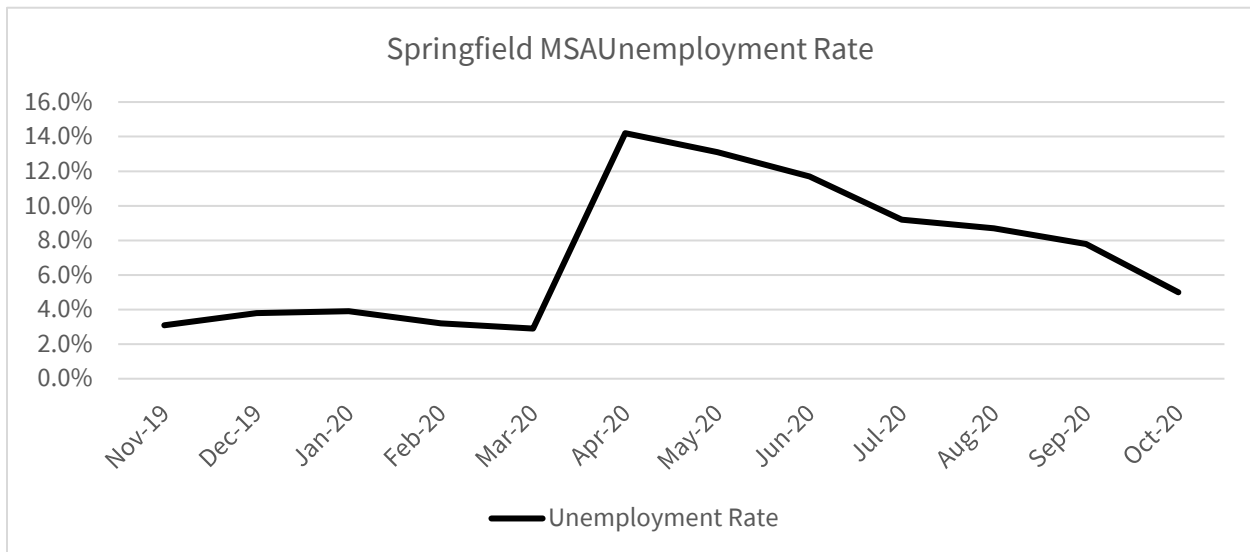


### Education

In Springfield, 34% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

The Springfield Metropolitan Statistical Area (MSA) consists of Sangamon County, Illinois and Menard County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the MSA was less than 4%, hitting a low of 2.9% in March 2020. The pandemic had a significant impact on unemployment in the MSA, peaking at 14.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the MSA was down to 5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

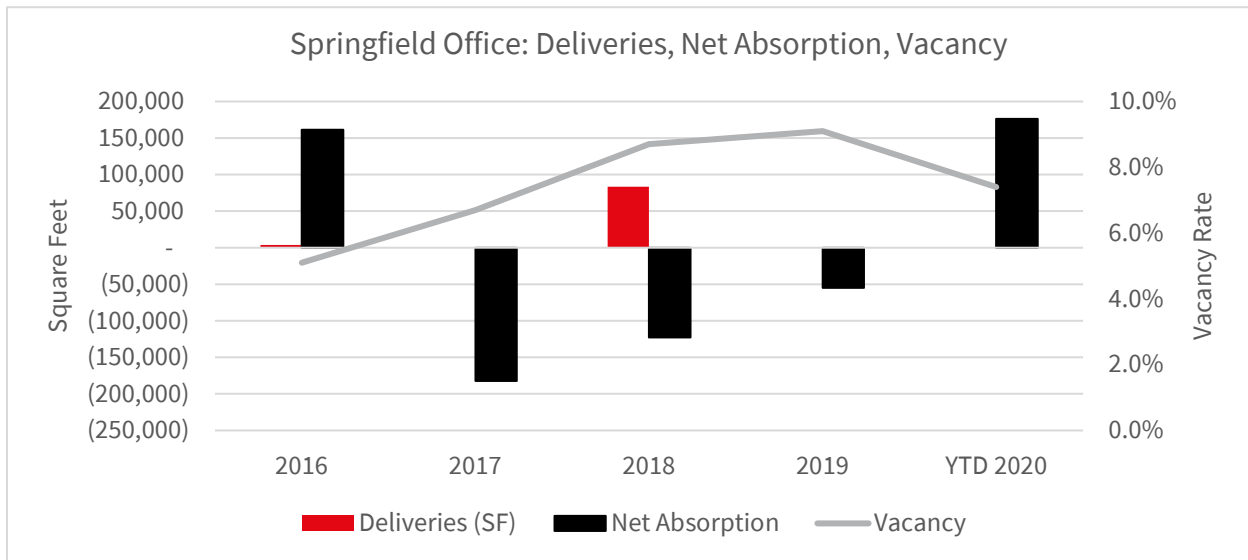


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

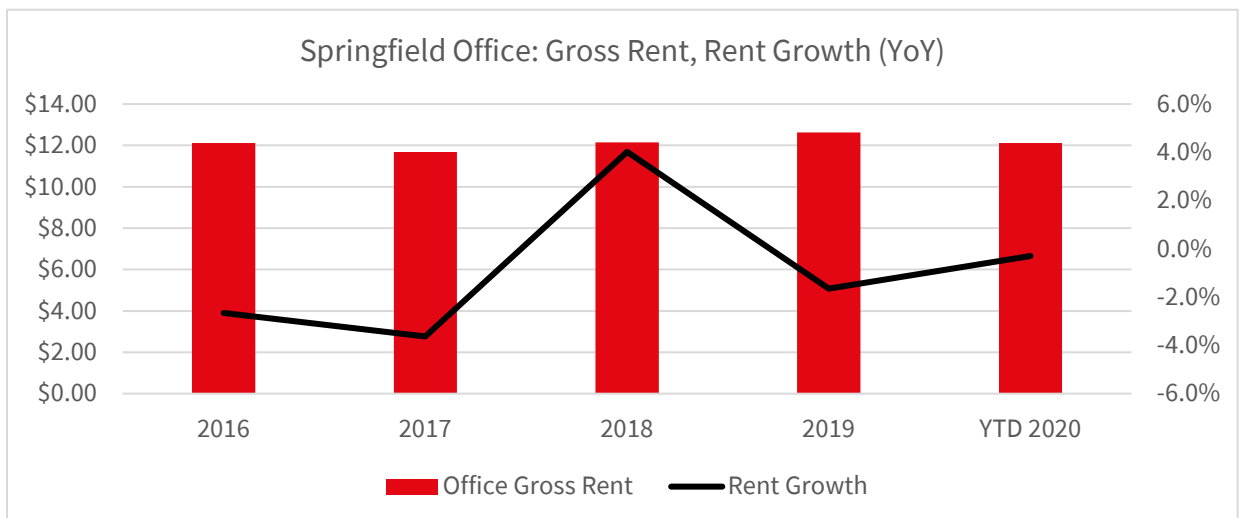
### Inventory and Supply

The Springfield office market has 10.5 million square feet of total office inventory with a vacancy rate of 7.4%. After two years of positive net absorption, 2017 through 2019 experience negative net absorption. However, 2020 Year-to-Date leasing activity has seen approximately 176,350 square feet of positive absorption. Springfield saw two office buildings totaling 83,234 square feet delivered in 2018. Recent leasing activity has led to a decrease in total vacancy, this after three years of growing vacancy rates and limited deliveries.



Source: CoStar

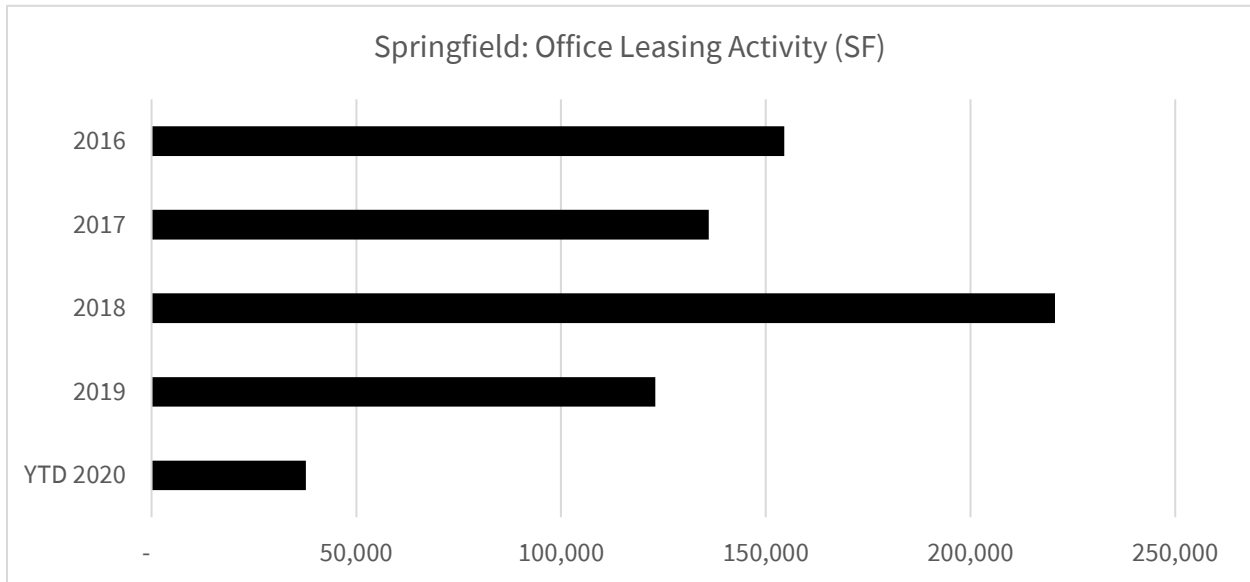
Office rents for properties in Springfield experienced a slight increase in 2019 after two years of decline, increasing to \$12.63 per square foot. 2020 Year-to-Date rents, however, has declined slightly, moving to \$12.12 per square foot.



Source: CoStar

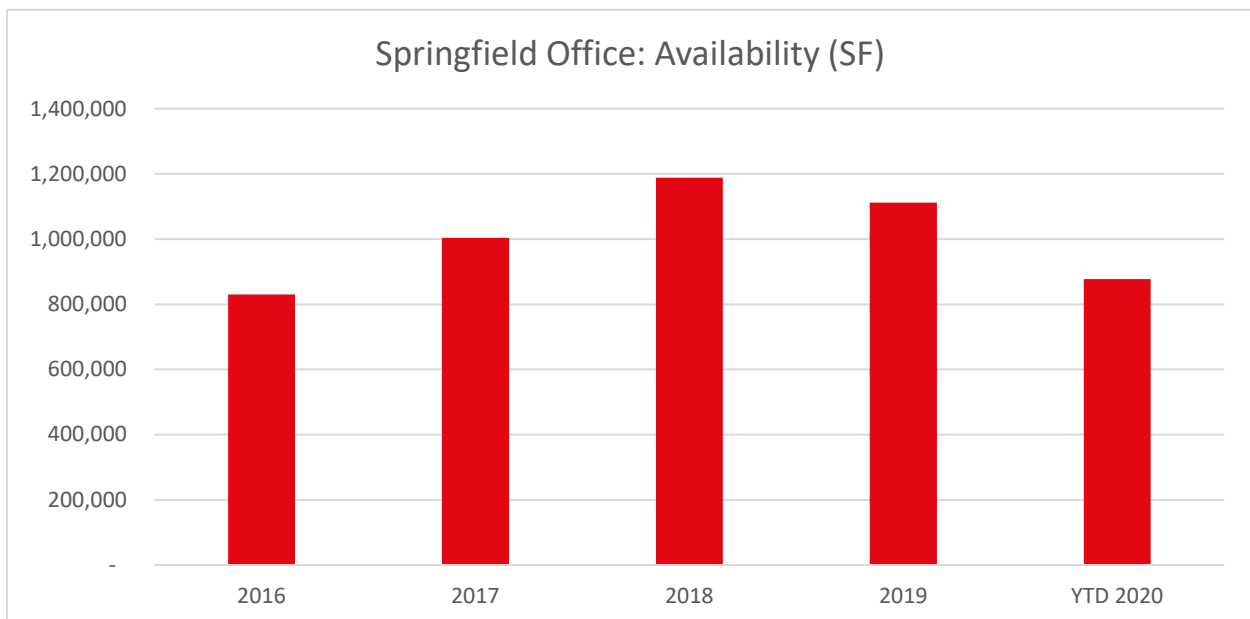
## Leasing Activity and Availability

Office leasing activity in Springfield experienced a recent sharp decrease, with leasing volume falling from 220,633 square feet in 2018 to 89,837 square feet in 2019. Year-to-date 2020 saw additional decrease in volume with 37,671 square feet of leasing activity.



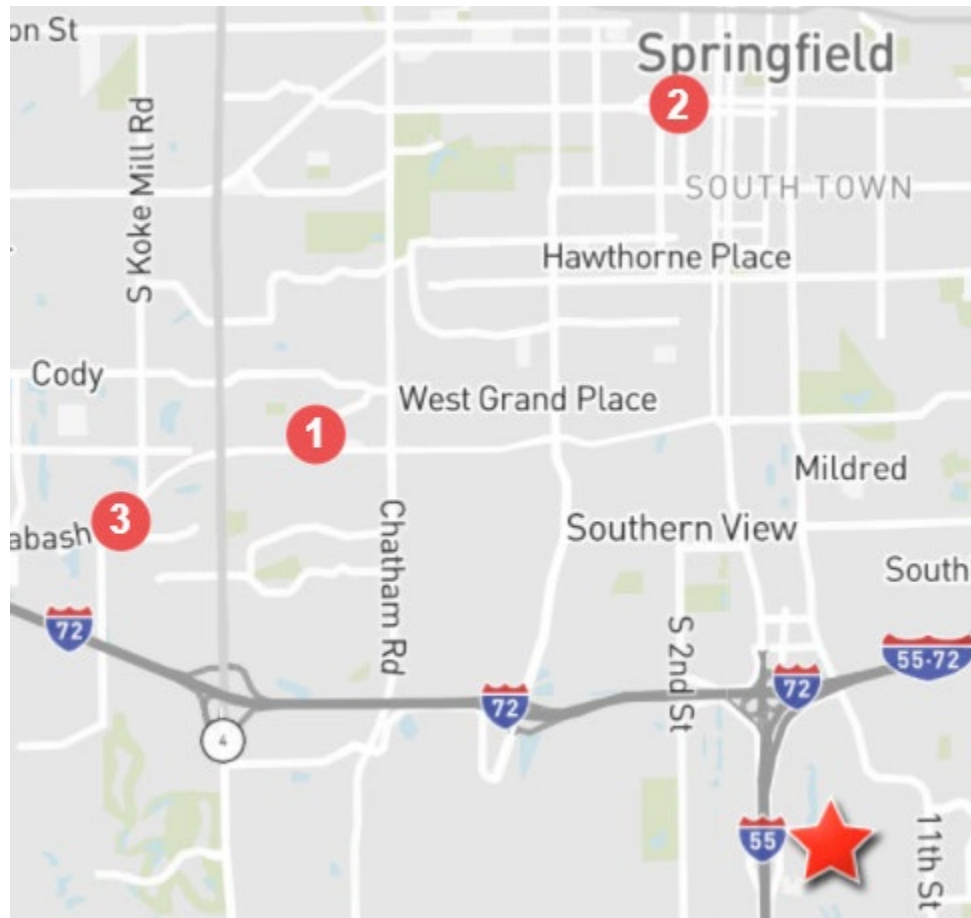
Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. Since 2015, availability in Springfield has been around 1,000,000 square feet except in 2016 where it decreased to 830,285 square feet. Year-to-Date 2020 availability has fallen to 877,750 square feet.



Source: CoStar

## Sale Comparables



## Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months. There as there were limited comparable sales within a one-mile radius. As such, a five-mile radius was utilized. Comparable office properties have sold for \$106.16 per square foot on average, that average is slightly skewed by the sale of 3500 Wabash Avenue, which represents a significantly higher price per square foot than the market. All available properties are much larger than the State's current occupancy at 830 S Spring St.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
Sales Comps					
6	3101 Montvale Drive	C	21,800	\$44.95	Sept-2019
7	725 S 2 <sup>nd</sup> Street	B	15,300	\$57.19	June-2019
8	3500 Wabash Avenue	B	18,693	\$155.14	Feb-2018

## Own Versus Lease Analysis

To assess whether the State should continue leasing 1301 Knotts Street or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	31,320
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 10.85
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 46.41
<b>Landlord TI Allowance (\$ sf)</b>	\$ 23.21
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$3,900,922. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 1301 Knotts Street</b>	
Total Rent Cost	\$ 3,720,431
+ Total OpEx	\$ 1,371,781
<b>Total Cost (Real)</b>	<b>\$ 3,900,922</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

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As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for less than the total cost of leasing the property.

<b>Total Cost to Acquire 1301 Knotts Street</b>	
2022 Break-Even Acquisition Cost	\$ -
+ Initial CapEx	\$ 1,566,000
+ Total Ongoing CapEx	\$ 342,945
+ Total OpEx	\$ 1,371,781
<u>- 2032 Market Value</u>	<u>\$ -</u>
Total Cost (Nominal)	\$ 4,734,288
<b>Total Cost (Real)</b>	<b>\$ 4,189,350</b>

The following property sales provide some indication of market sales prices for properties in Springfield.



## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
3101 Montvale Drive	21,800	\$ 979,910	\$ 44.95
725 S 2nd Street	15,300	\$ 875,007	\$ 57.19
3500 Wabash Avenue	18,693	\$ 2,900,032	\$ 155.14
<b>Average</b>			<b>\$ 85.76</b>

Based on this sample, the average sale price of properties in Springfield is \$85.76 per square foot. Compared to the maximum break-even price of \$0.00 per square foot for the 1301 Knotts Street, this value is significantly lower, indicating that acquiring the property for less than \$0.00 psf may be feasible.

Should the State acquire the property for \$85.76 per square foot, the total cost of acquisition, including capital expenditure, would be \$4,827,703.

<b>Total Cost to Acquire 1301 Knotts Street at Market Value</b>	
2022 Market Acquisition Cost	\$ 2,686,003
+ Total Buildout Cost (full TI)	\$ 1,453,561
+ Initial CapEx	\$ 1,566,000
+ Total Ongoing CapEx	\$ 342,945
+ Total OpEx	\$ 1,371,781
- 2032 Market Value	\$ (3,127,063)
Total Cost (Nominal)	\$ 4,293,227
<b>Total Cost (Real)</b>	<b>\$ 4,827,703</b>

This is \$926,781 more than the cost to lease the property on a present value basis.

## Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
509-511 W Capitol Ave	43,000	\$11.11	\$ 477,778
3220 Stanton Street	45,000	\$0.00	
<b>Lease Alternatives</b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
509-511 W Capitol Ave	43,000	31,320	\$8.00
1 Copley Plaza	120,000	31,320	\$12.00
3220 Stanton Street	45,000	31,320	\$5.00
3215 Executive Drive	68,000	31,320	\$10.00
		31,320	

Regarding acquisition alternatives, both properties are approximately the same size as the State's current footprint at this location. Therefore, either property may be viable.

Regarding lease alternatives, all of the properties presented in the analysis have contiguous space available that would meet the State's required footprint and are therefore viable options.

## Conclusion

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The lowest cost technically acceptable alternative is to continue leasing the property. The total costs to acquire the property is \$683,353 more than the cost to continue to lease the property over another 10-year term.

Acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the the significant cost difference between acquiring and leasing the property, State should consider leasing the property for another 10-year term.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 1301 Knotts Street</b>	\$ 4,189,350
<b>Acquire 1301 Knotts Street</b>	\$ 4,827,703
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
509-511 W Capitol Ave	\$ 3,910,557
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



***2410 S Grand Ave E***

**Springfield, IL**

**Department of Human Services**

**Lease #L6627**



# Market Analysis

## Property Description

Property Details	
Property Address:	2410 S Grand Ave E Springfield, IL
Lease Number:	L6627
Property Type:	Warehouse
Building Size (SF):	60,158
Year Built:	1978
Using Agency:	DHS
Lease Commencement Date:	2/1/2017
Lease/Option End Date:	1/31/2022
Demographics	
Population:	1 mile: 2,687 5 miles: 83,157
Median Household Income:	1 mile: \$86,471 5 miles: \$61,358



Source: Google

## Demographic Overview for Springfield, IL

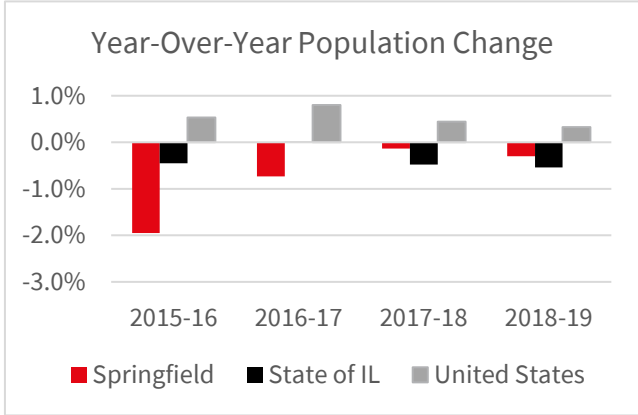
### Population

In 2019, Springfield, Illinois had an estimated population of 114,171. Springfield has experienced population loss since 2015, with 2019 population down 3.1% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	114,171
2018	114,512
2017	114,663
2016	115,511
2015	117,809

### Age

The median population in Springfield is 39.4 years old, which is consistent with the statewide median age of 38.6 and the median age of the United States of 38.1.



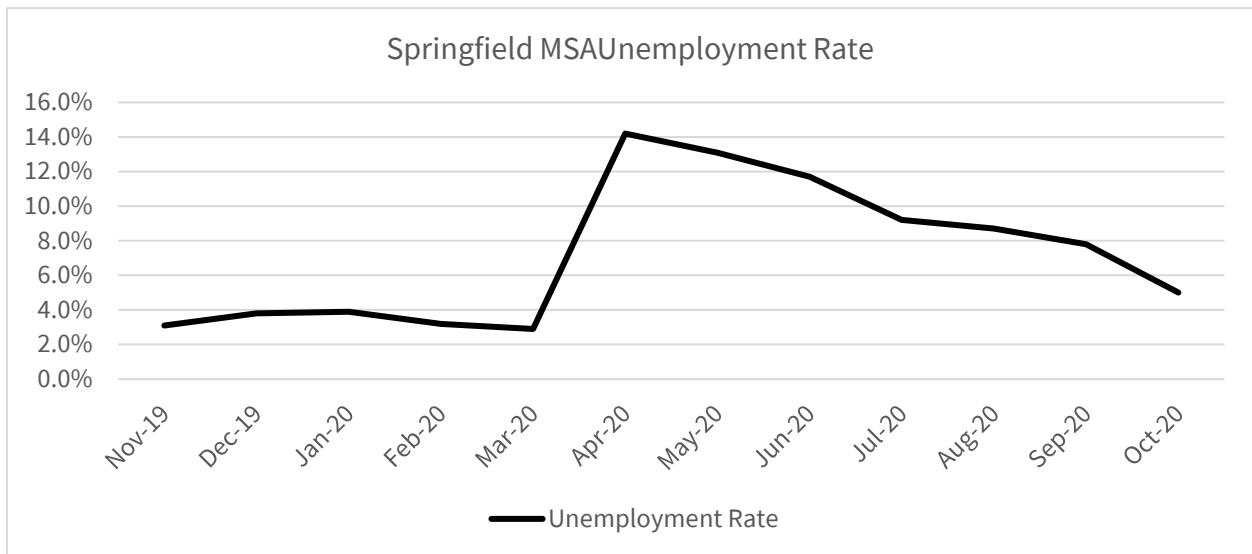
### Education

In Springfield, 34% of the population above the age of 25 has a bachelor's degree or higher, less

than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

### Unemployment Rate – Effects of COVID-19

The Springfield Metropolitan Statistical Area (MSA) consists of Sangamon County, Illinois and Menard County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the MSA was less than 4%, hitting a low of 2.9% in March 2020. The pandemic had a significant impact on unemployment in the MSA, peaking at 14.2% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the MSA was down to 5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

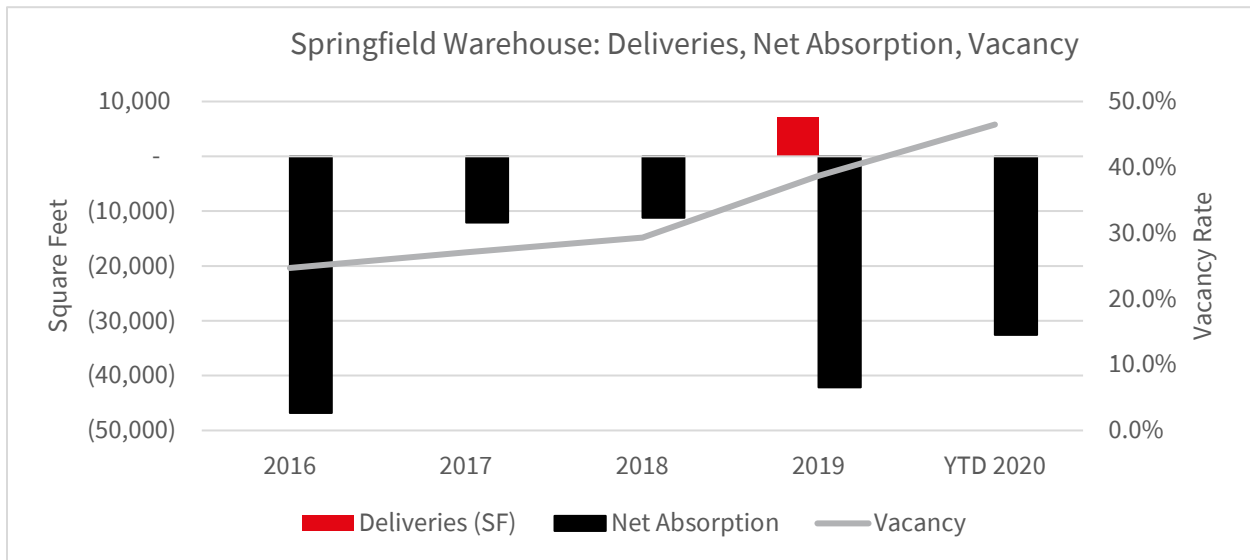


Source: U.S. Bureau of Labor Statistics

## Warehouse Market Conditions

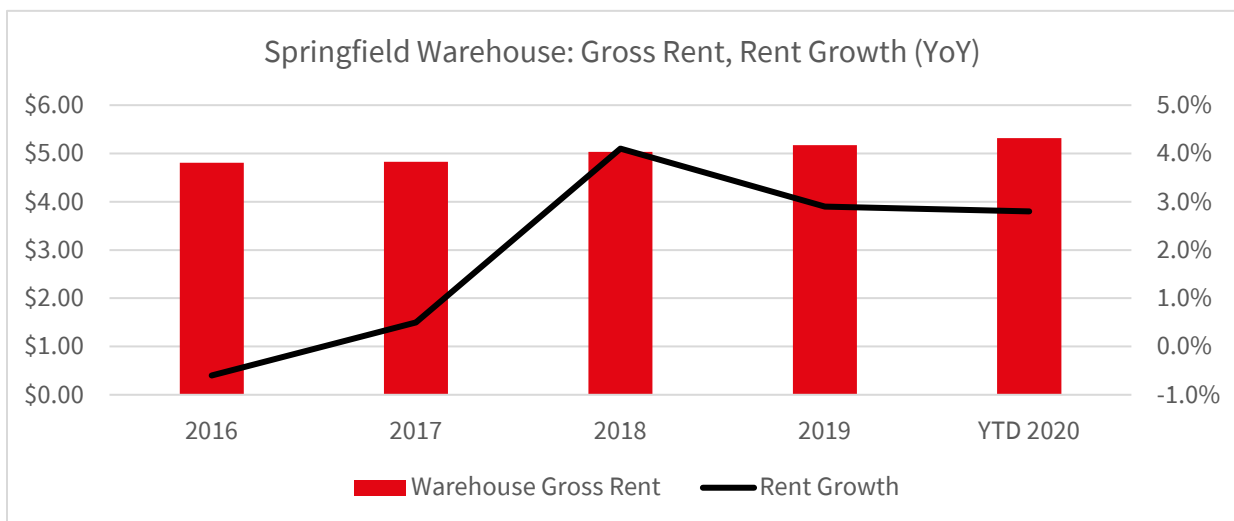
### Inventory and Supply

The Springfield warehouse market has 505,000 square feet of total warehouse inventory with a vacancy rate of 46.5%. The market has experienced negative absorption in consecutive years since 2016. The market continues to see more space available despite a recent uptick in leasing activity. Springfield saw one warehouse building totaling 7,200 square feet delivered in 2018. Vacancy continues to grow year-over-year, jumping from 27.1% in 2016 to 46.5% year-to-date in 2020. Despite growing vacancy, warehouse rents for properties in Springfield have steadily grown since 2016. The



Source: CoStar

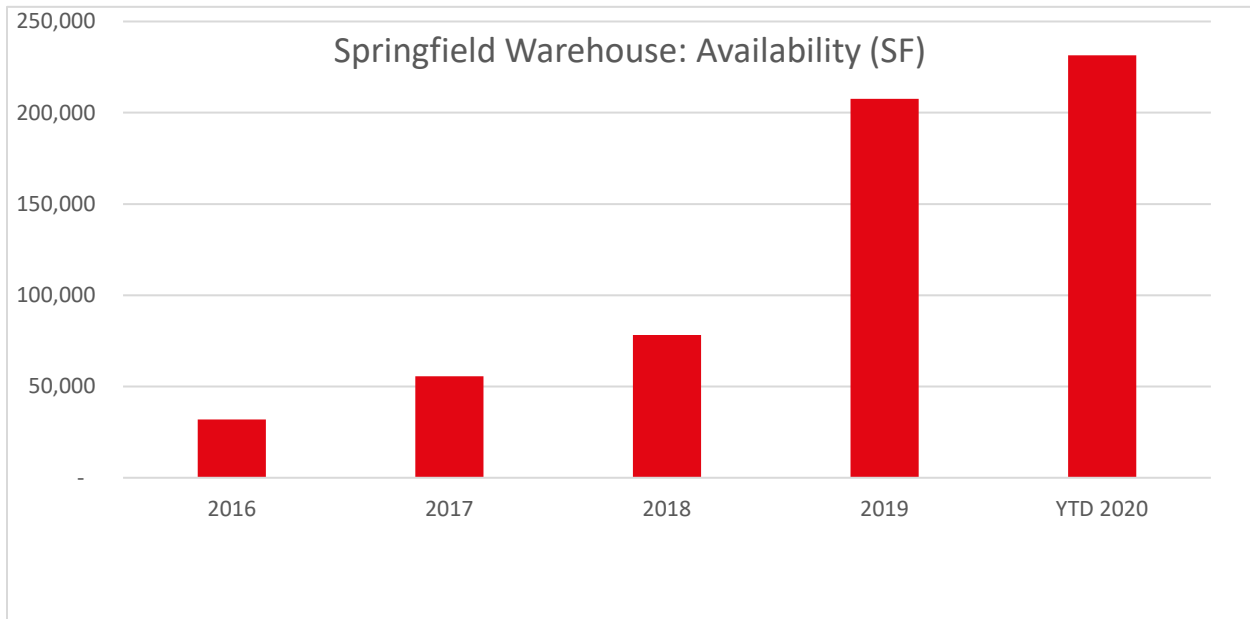
market has experience year-over-year growth in rents since 2016; in that time, rents have increased from \$4.81 per square foot in 2016 to \$5.32 per square foot year-to-date in 2020.



Source: CoStar

## Leasing Activity and Availability

Warehouse leasing activity in Springfield experienced a recent sharp decrease, with leasing volume falling from 220,633 square feet in 2018 to 89,837 square feet in 2019. Year-to-date 2020 saw additional decrease in volume with 37,671 square feet of leasing activity.

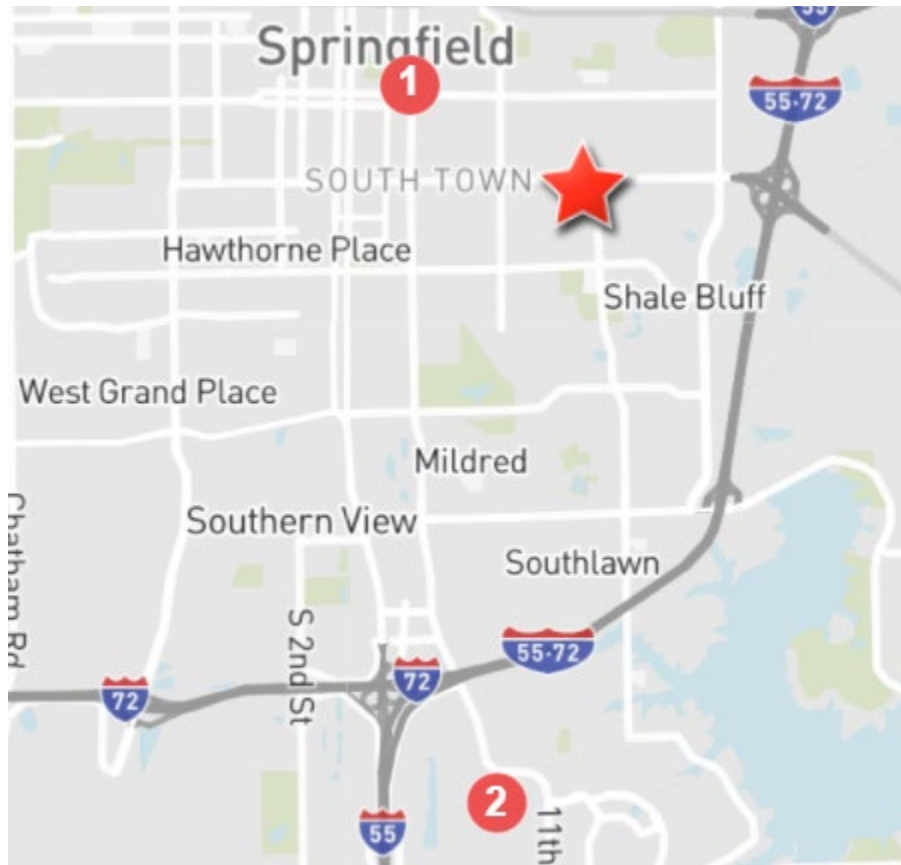


Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been relatively stable in the most recent five years. Since 2015, availability in Springfield has been around 1,000,000 square feet except in 2016 where it decreased to 830,285 square feet. Year-to-Date 2020 availability has fallen to 877,750 square feet.



## Sale Comparables



## Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months. There as there were limited comparable sales within a one-mile radius. As such, a five-mile radius was utilized. Comparable office properties have sold for \$23.27 per square foot on average. The sales comparables shown below are similar in size to the subject property.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
Sales Comps					
6	1010 E Edwards Street	B	63,584	\$24.38	May-2020
7	4650 Industrial Avenue	B	72,40	\$2.15	Dec-2019

## Own Versus Lease Analysis

To assess whether the State should continue leasing 2410 S Grand Ave E or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	60,158
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 4.34
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 46.41
<b>Landlord TI Allowance (\$ sf)</b>	\$ 23.21
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$4,208,461. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 2410 S Grand Ave E</b>	
Total Rent Cost	\$ 2,858,816
+ Total OpEx	\$ 2,634,853
<b>Total Cost (Real)</b>	<b>\$ 4,208,461</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, the State cannot acquire the property for a price less than the total cost of leasing the property.

<b>Total Cost to Acquire 2410 S Grand Ave E</b>	
2022 Break-Even Acquisition Cost	\$ -
+ Initial CapEx	\$ 3,007,900
+ Total Ongoing CapEx	\$ 658,713
+ Total OpEx	\$ 2,634,853
<u>- 2032 Market Value</u>	<u>\$ -</u>
Total Cost (Nominal)	\$ 9,093,399
<b>Total Cost (Real)</b>	<b>\$ 8,046,709</b>

The following property sales provide some indication of market sales prices for properties in Springfield.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
1010 E Edwards Street	63,584	\$ 1,550,178	\$ 24.38
4650 Industrial Avenue	72,240	\$ 1,600,116	\$ 22.15
		\$ -	
<b>Average</b>			<b>\$ 23.27</b>

Based on this sample, the average sale price of properties in Springfield is \$23.27 per square foot. Compared to the maximum break-even price of \$0.00 per square foot for the 2410 S Grand Ave E, this value is significantly lower, indicating that acquiring the property for less than \$0.00 psf may be feasible.

Should the State acquire the property for \$23.27 per square foot, the total cost of acquisition, including capital expenditure, would be \$8,379,330.

<b>Total Cost to Acquire 2410 S Grand Ave E at Market Value</b>	
2022 Market Acquisition Cost	\$ 1,399,576
+ Total Buildout Cost (full TI)	\$ 2,791,933
+ Initial CapEx	\$ 3,007,900
+ Total Ongoing CapEx	\$ 658,713
+ Total OpEx	\$ 2,634,853
- 2032 Market Value	\$ (1,629,396)
Total Cost (Nominal)	\$ 8,863,579
<b>Total Cost (Real)</b>	<b>\$ 8,379,330</b>

This is \$4,170,869 more than the cost to lease the property on a present value basis.

# Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b><u>Acquisition Alternatives</u></b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
<b><u>Lease Alternatives</u></b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>

As of December, 2020, there are no properties available for lease in the Springfield market over 50,000 square feet and, therefore, the State will not be able to find a viable lease alternative within the market.

Regarding acquisition opportunities, as of December, 2020 there are no properties being marketed for sale over 50,000 square feet. Therefore, the State may not be able to find an acquisition alternative within the market.

## Conclusion

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The lowest cost technically acceptable alternative is to continue leasing the property. Acquiring and maintaining the property over a 10-year period is not financially feasible, as such a transaction would result in negative cash-flow given the significant purchase costs compared to leasing..

Acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the the significant cost difference between acquiring and leasing the property, acquiring the property may not justify the risks above, and the State may consider continuing to lease the property.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to

<b>Lease 2410 S Grand Ave E</b>	\$ 8,046,709
<b>Acquire 2410 S Grand Ave E</b>	\$ 8,379,330
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>



# *1629 Afton Road*

**Sycamore, IL**

**Department of Human Services**

**Lease #L6431**



# Market Analysis

## Property Description

Property Details	
Property Address:	1629 Afton Rd. Sycamore, IL
Lease Number:	L6431
Property Type:	Office
Building Size (SF):	8,600
Year Built:	Not Available
Using Agency:	Department of Human Services
Lease Commencement Date:	3/1/2017
Lease / Option End Date:	2/28/2022
Demographics	
Population:	1 mile: 6,145 5 miles: 67,718
Median Household Income:	1 mile: \$72,241 5 miles: \$57,604



Source: Google

## Demographic Overview for Sycamore, IL

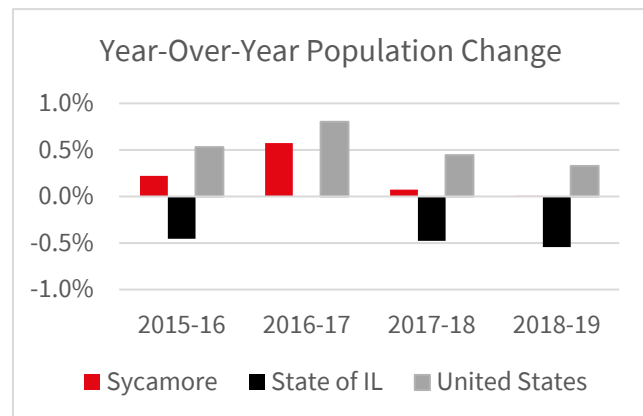
### Population

In 2019, Sycamore, Illinois had an estimated population of 17,726. Sycamore has experienced population growth since 2015, with 2019 population up 0.9% from 2015. Over the same time period the State of Illinois experienced a 1.5% population decline, while the United States' population increased 2.1%.

Year	Population Estimates
2019	17,726
2018	17,725
2017	17,712
2016	17,611
2015	17,572

### Age

The median age in Sycamore is 36.6 years old, which is similar to the statewide median age of 38.6. The slight age difference is caused in part by the smaller share of seniors in Sycamore, as 13.8% of the population of Marion is over 65 years of age compared to 16.1% of the population statewide.



Source: U.S. Census Bureau

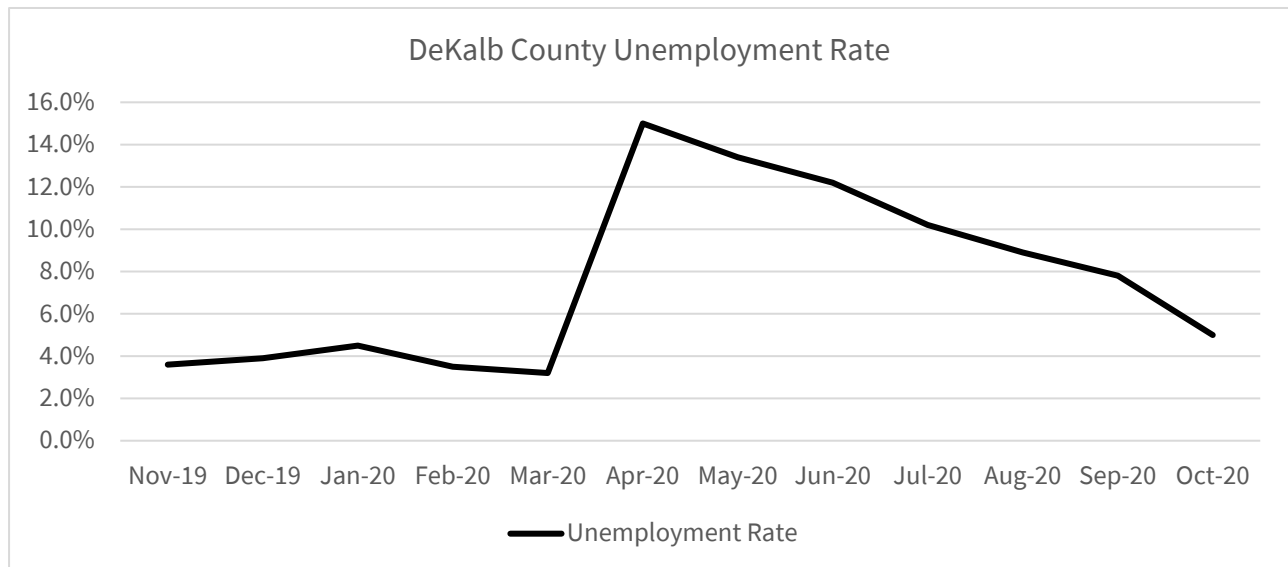


## Education

In Sycamore, 39.6% of the population above the age of 25 has a bachelor's degree or higher, more than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Sycamore is located in DeKalb County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county was less than 5.0%, hitting a low of 3.2% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 15.0% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 5.0%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

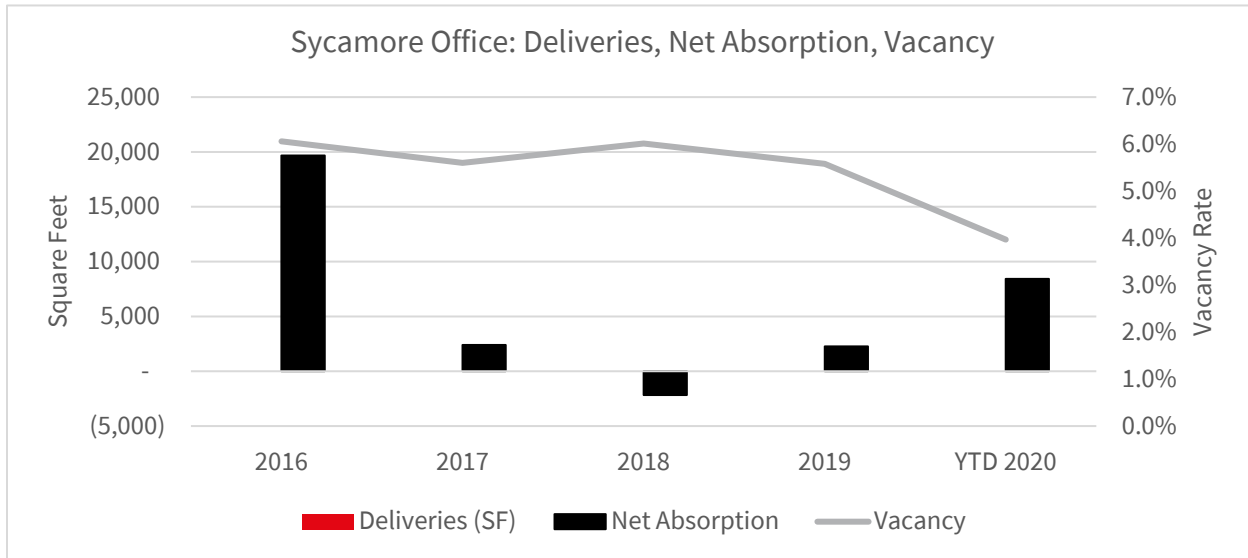


Source: U.S. Bureau of Labor Statistics

## Office Market Conditions

### Inventory and Supply

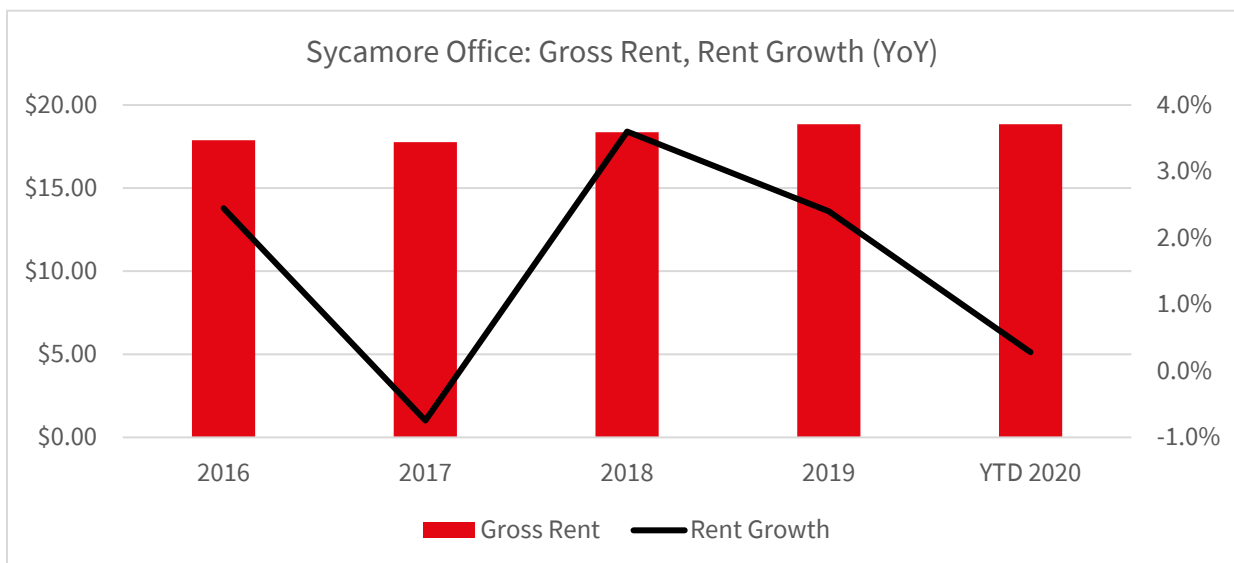
The Sycamore office market has 523,000 square feet of total office inventory with a vacancy rate of 4.0%. Apart from 2018, the market has experienced positive net absorption since 2016. There has not been any new construction since 2016. Given recent positive net absorption and no new construction, vacancy continues to steadily decrease from 6.0% in 2018 to 4.0% year-to-date in 2020.



Source: CoStar

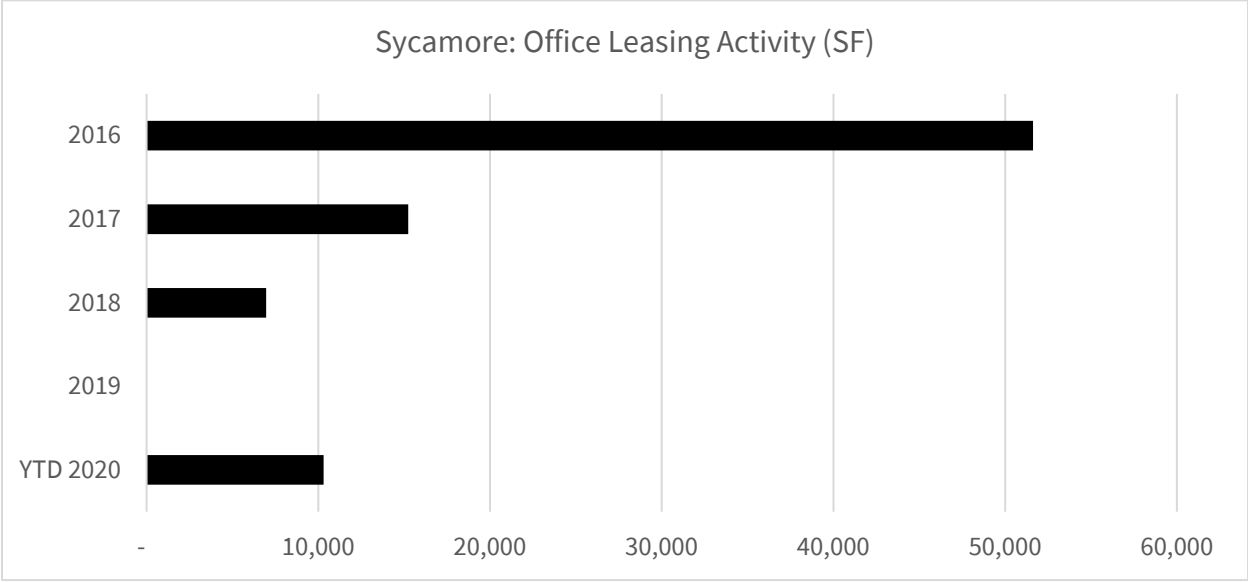
Office rents for properties in Sycamore have steadily grown since 2017. Rents have increased from \$17.76 per square foot in 2017 to \$18.84 per square foot year-to-date in 2020.

### Leasing Activity and Availability



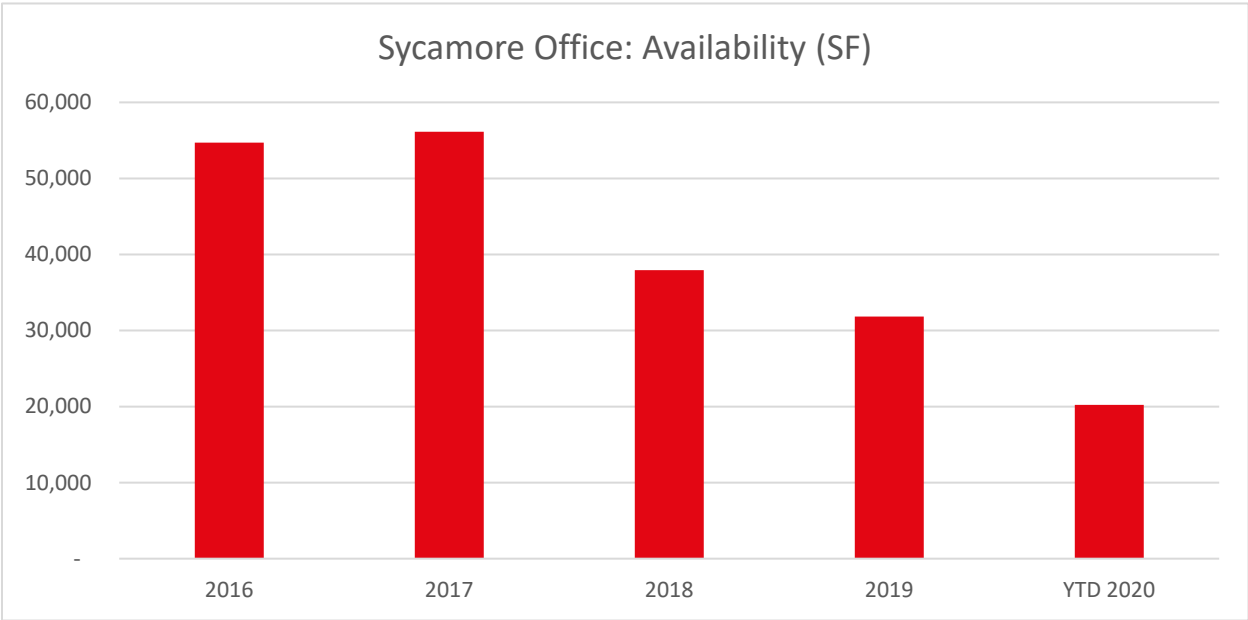
Source: CoStar

Office leasing activity in Sycamore has been steadily decreasing, with leasing volume falling from 51,623 square feet in 2016 to no leasing activity in 2019. Year-to-date 2020 saw an increase in volume from 2019 with 10,306 square feet of leasing activity.



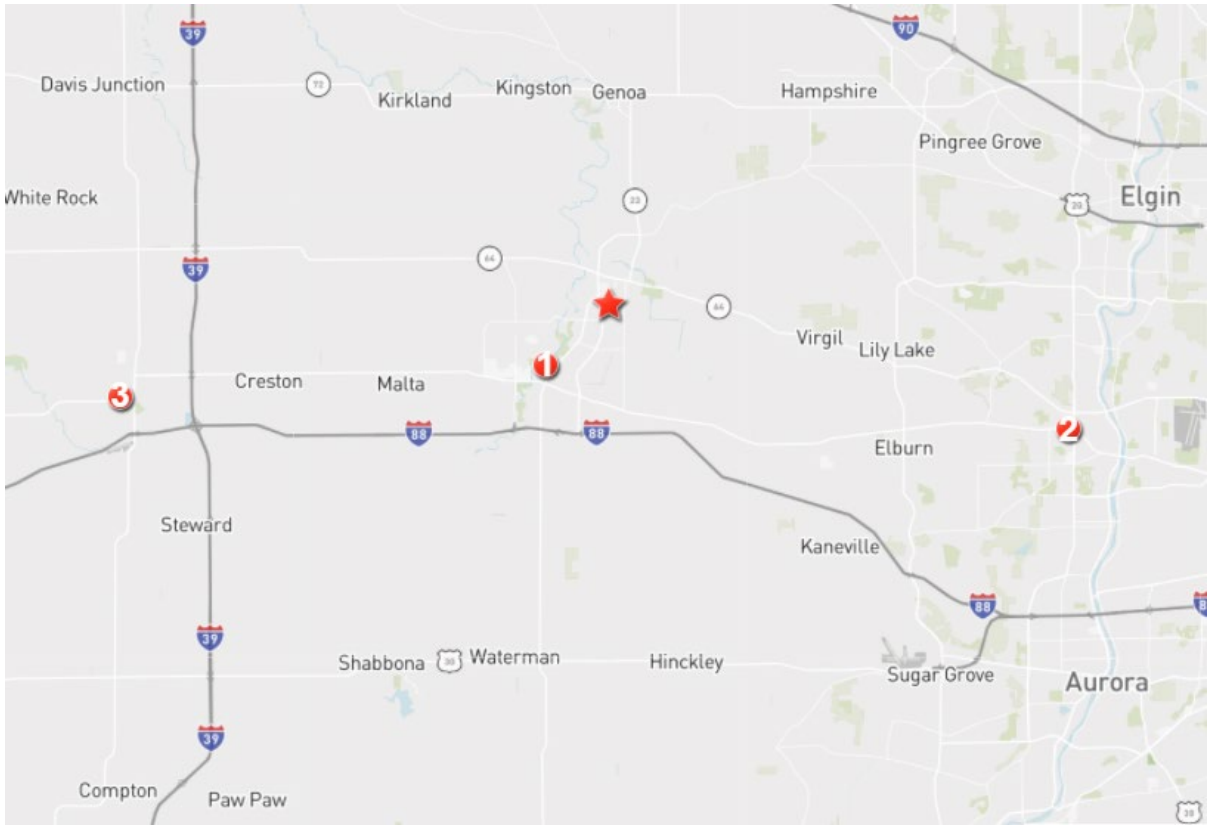
Source: CoStar

Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has been decreasing over the most recent five years. Availability in Sycamore was 54,676 square feet in 2016 and has dropped to 20,215 square feet year-to-date 2020.



Source: CoStar

## Sales Comparables



Recent office sales represent properties that have sold in the most recent 24 months. As there were limited comparable sales in close proximity to the subject property, a 20-mile radius was utilized. Comparable office properties have sold for a wide range of prices, from a low of \$7.21 per square foot to a high of \$252.14 per square foot, with a weighted average sales price of \$95.16 per square foot.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	901 N 1 <sup>st</sup> St Dekalb, IL	C	16,000	\$46.88	Dec-2019
2	2607 Lincoln Hwy Saint Charles, IL	B	9,717	\$252.14	Nov-2019
3	1500 Lincoln Ave Rochelle, IL	B	8,326	\$7.21	Jun-2019

## Own Versus Lease Analysis

To assess whether the State should continue leasing 1629 Afton Rd or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	8,600
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 14.06
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 48.73
<b>Landlord TI Allowance (\$ sf)</b>	\$ 24.37
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,302,807. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 1629 Afton Rd</b>	
Total Rent Cost	\$ 1,323,996
+ Total OpEx	\$ 376,670
<b>Total Cost (Real)</b>	<b>\$ 1,302,807</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, if the State can acquire the property for approximately \$560,000 (the 2022 Break-Even Acquisition Cost in the table below) the total cost of acquiring the property is equal to the total cost of leasing the property. This break-even cost equates to approximate per-square-foot purchase price of \$65.30.

<b>Total Cost to Acquire 1629 Afton Rd</b>	
2022 Break-Even Acquisition Cost	\$ 561,597
+ Initial CapEx	\$ 430,000
+ Total Ongoing CapEx	\$ 94,168
+ Total OpEx	\$ 376,670
<u>- 2032 Market Value</u>	<u>\$ (653,816)</u>
Total Cost (Nominal)	\$ 1,227,702
<b>Total Cost (Real)</b>	<b>\$ 1,302,807</b>

If the State can acquire the building below \$65.30 psf, then it may consider purchasing as an alternative to leasing. Reviewing historical data can determine if the owner is likely to sell the Property at this price point or below, or if market values exceed this amount.

The following property sales provide some indication of market sales prices for properties in Sycamore.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
901 N 1st St, Dekalb, IL	16,000	\$ 750,080	\$ 46.88
2607 Lincoln Hwy, Saint Charles	9,717	\$ 2,450,044	\$ 252.14
1500 Lincoln Ave, Rochelle	8,326	\$ 60,030	\$ 7.21
<b>Average</b>			<b>\$ 102.08</b>

Based on this sample, the average sale price of properties in Sycamore is \$102.08 per square foot. Compared to the maximum break-even price of \$65.30 per square foot for the 1629 Afton Rd, this value is significantly lower, indicating that acquiring the property for less than \$65.30 psf may be feasible.

Should the State acquire the property for \$102.08 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,377,969.

<b>Total Cost to Acquire 1629 Afton Rd at Market Value</b>	
2022 Market Acquisition Cost	\$ 877,859
+ Total Buildout Cost (full TI)	\$ 419,082
+ Initial CapEx	\$ 430,000
+ Total Ongoing CapEx	\$ 94,168
+ Total OpEx	\$ 376,670
- 2032 Market Value	\$ (1,022,010)
Total Cost (Nominal)	\$ 1,175,770
<b>Total Cost (Real)</b>	<b>\$ 1,377,969</b>

This is \$75,162 more than the cost to lease the property on a present value basis.

## Alternatives Analysis

Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>			
<b>Address</b>	<b>Total Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
310 N 5th St., Dekalb, IL	15,685	\$30.28	\$ 474,942
315 N 6th St, Dekalb, IL	24,050	\$28.48	\$ 684,944
145 Fisk Ave, Dekalb, IL	24,000	\$13.54	\$ 324,960
<b>Lease Alternatives</b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
310 N 5th St., Dekalb, IL	15,685	8,600	\$8.04
315 N 6th St, Dekalb, IL	24,050	8,600	\$8.04

Regarding acquisition alternatives, all three properties are significantly larger than the State's current footprint at this location. Therefore, these properties may not be viable.

Regarding lease alternatives, both alternatives are also for sale and listed in the acquisition alternatives. However, as mentioned, these spaces are significantly larger than the State's current footprint at this location. Therefore, these properties may not be viable.



## Conclusion

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The lowest cost technically acceptable alternative is to continue to lease 1629 Afton Road.

The State could consider acquiring the property for approximately \$75,000 more than leasing it, but acquiring the property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the risks above and that it will cost the State less to lease the property than to acquire it, the State should continue to lease 1629 Afton Road.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 1629 Afton Rd</b>	\$ 1,302,807
<b>Acquire 1629 Afton Rd</b>	\$ 1,377,969
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
310 N 5th St., Dekalb, IL	\$ 2,225,840
315 N 6th St, Dekalb, IL	\$ 3,402,619
145 Fisk Ave, Dekalb, IL	\$ 629,862
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>
310 N 5th St., Dekalb, IL	\$ 1,129,428
315 N 6th St, Dekalb, IL	\$ 1,129,428



***2740 W Grand Ave***

**Waukegan, IL**

**Department of Human Services / Office of  
Rehabilitation Services**

**Lease #L6407**



# Market Analysis

## Property Description

Property Details	
Property Address:	2740 West Grand Ave Waukegan, IL
Lease Number:	L6407
Property Type:	Office
Building Size (SF):	6,779
Year Built:	1980
Using Agency:	DHS/ORS
Lease Commencement Date:	5/1/2017
Lease/Option End Date:	4/30/2022
Demographics	
Population:	1 mile: 6,319 5 miles: 51,174
Median Household Income:	1 mile: \$48,275 5 miles: \$57,757



Source: Google

## Demographic Overview for Waukegan, IL

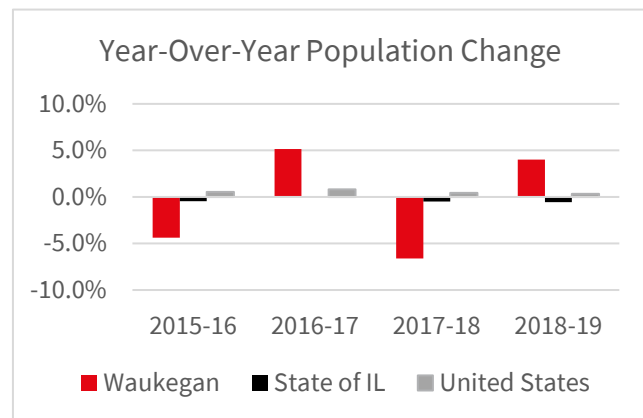
### Population

In 2019, Waukegan, Illinois had an estimated population of 86,262. Waukegan has experienced population loss since 2015, with 2019 population down 2.4% from 2015. The State of Illinois has seen a 1.4% population decline since 2015, while the United States' population has grown 2.1% since 2015.

Year	Population Estimates
2019	86,262
2018	82,934
2017	88,805
2016	84,467
2015	88,347

### Age

The median population in Waukegan is 32.3 years old, which is younger than the statewide median age of 38.6 and the median age of the United States of 38.1. This younger median age is mostly due to a larger population of children under five years of 7.6%, compared to the statewide population of 5.9%, and a lower population of people over 65 years of 9.5%, compared to the statewide population of 16.1%.

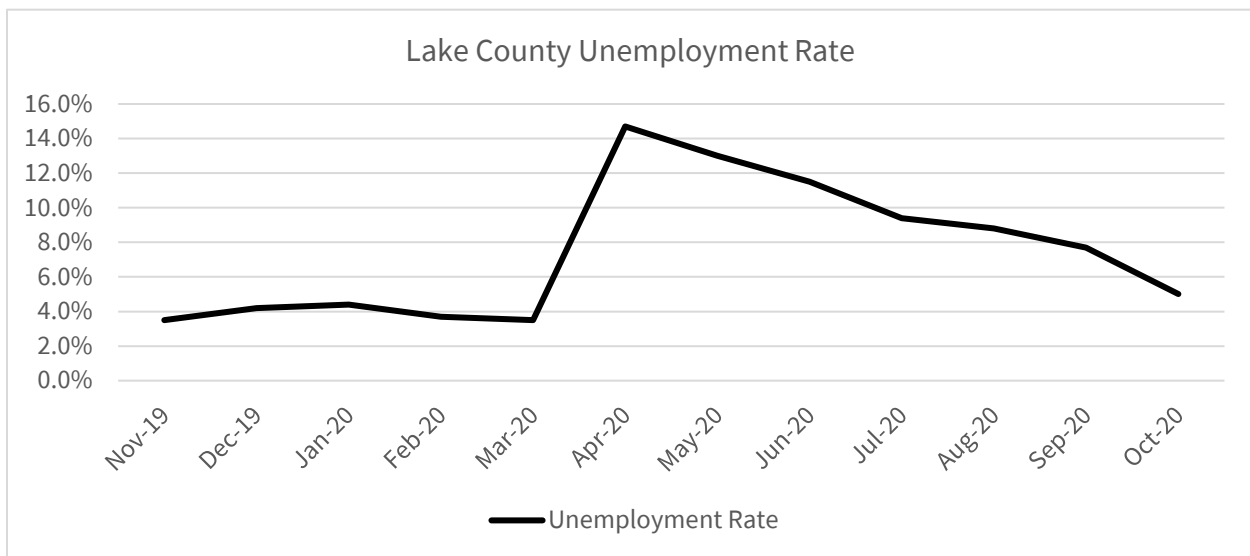


## Education

In Springfield, 17.9% of the population above the age of 25 has a bachelor's degree or higher, less than the 34.7% of the statewide population above the age of 25 who has a bachelor's degree or higher.

## Unemployment Rate – Effects of COVID-19

Waukegan is located in Lake County, Illinois. Prior to the COVID-19 pandemic, the unemployment rate in the county was less than 4%, hitting a low of 3.5% in March 2020. The pandemic had a significant impact on unemployment in the county, peaking at 14.7% in April 2020 before steadily decreasing throughout the year. By October 2020, unemployment in the county was down to 5%, close to pre-pandemic levels. While the unemployment rate has decreased significantly in recent months, a prolonged pandemic could lead to increasing unemployment as further shutdowns would likely lead to temporary or permanent business closures.

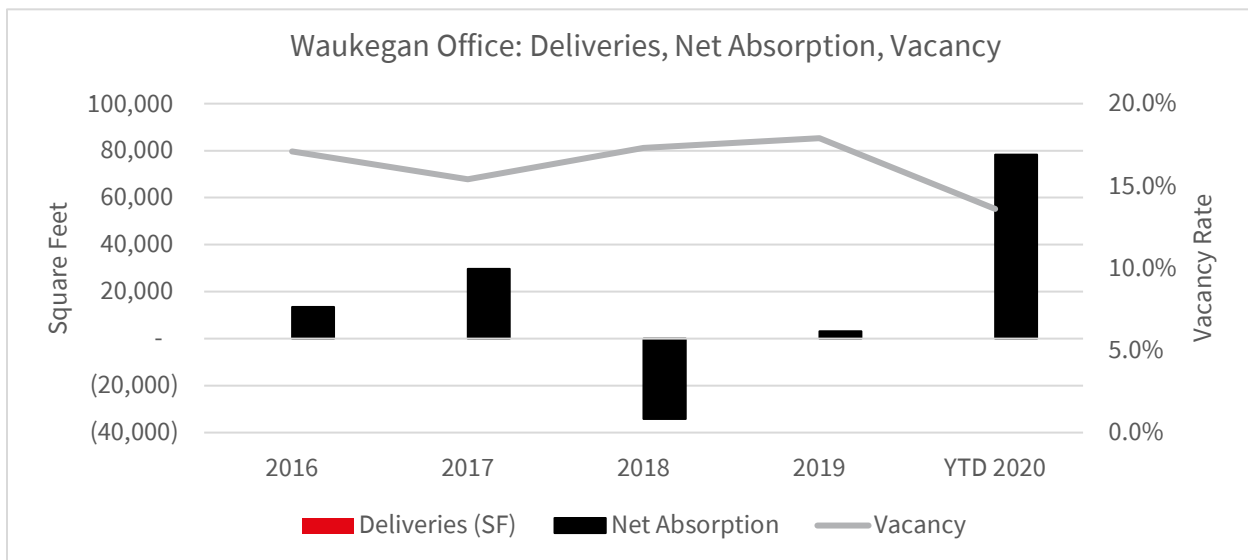


Source: U.S. Bureau of Labor Statistics

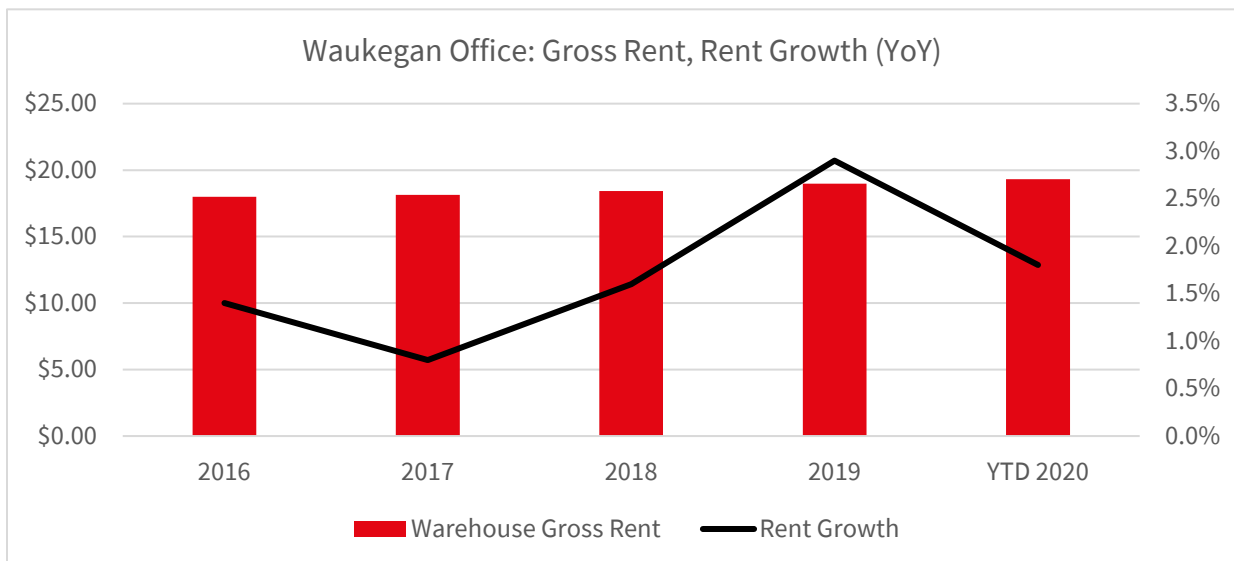
## Office Market Conditions

### Inventory and Supply

The Waukegan office market has 1.8 million square feet of total office inventory with a vacancy rate of 13.6%. The market experienced moderate positive absorption three out of the last five years. No new office buildings have delivered in Waukegan in the last five years. Vacancy rates increased from 2017 to 2019, rising from 15.4% to 17.9%. However, leasing activity in 2020 has dropped vacancy rates to 13.6% year-to-date.



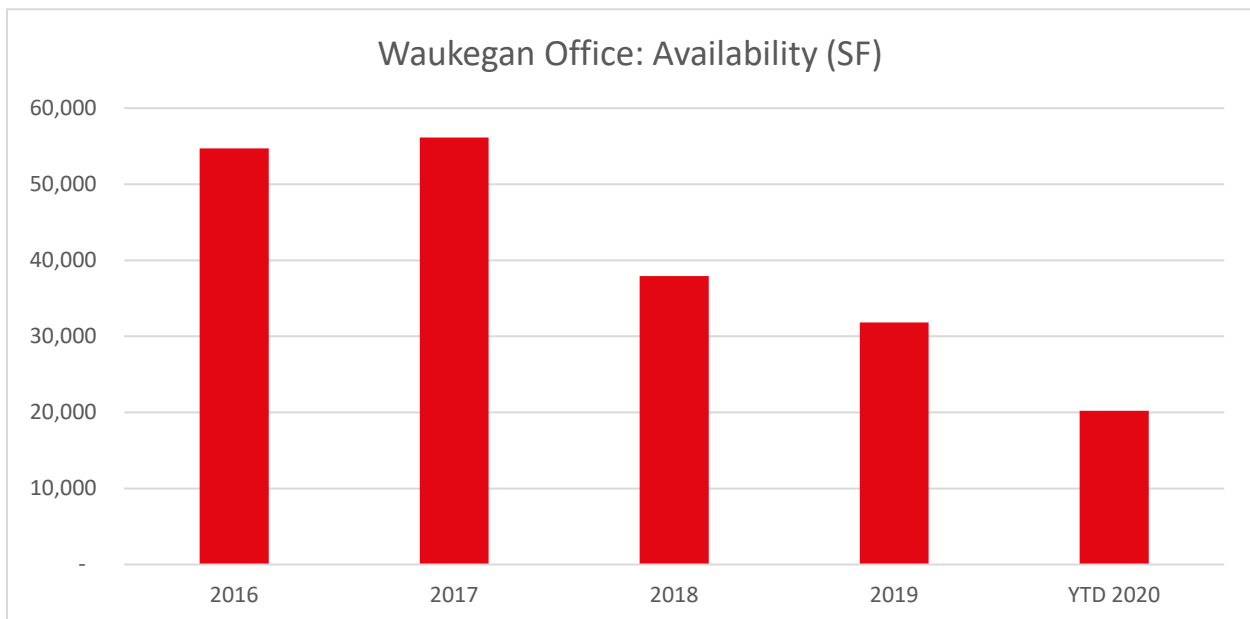
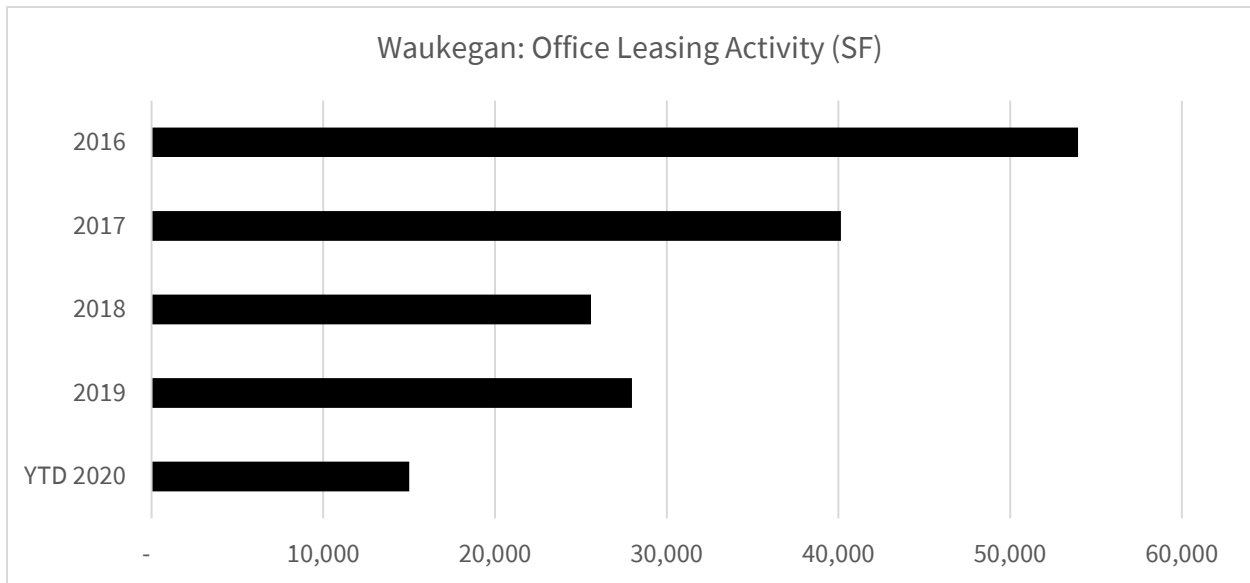
Source: CoStar



Office rents for properties in Waukegan have remained relatively flat since 2016. The market has experienced slight year-over-year growth in rents since 2016; in that time, rents have increased from \$18.00 per square foot in 2016 to \$19.31 per square foot year-to-date in 2020.

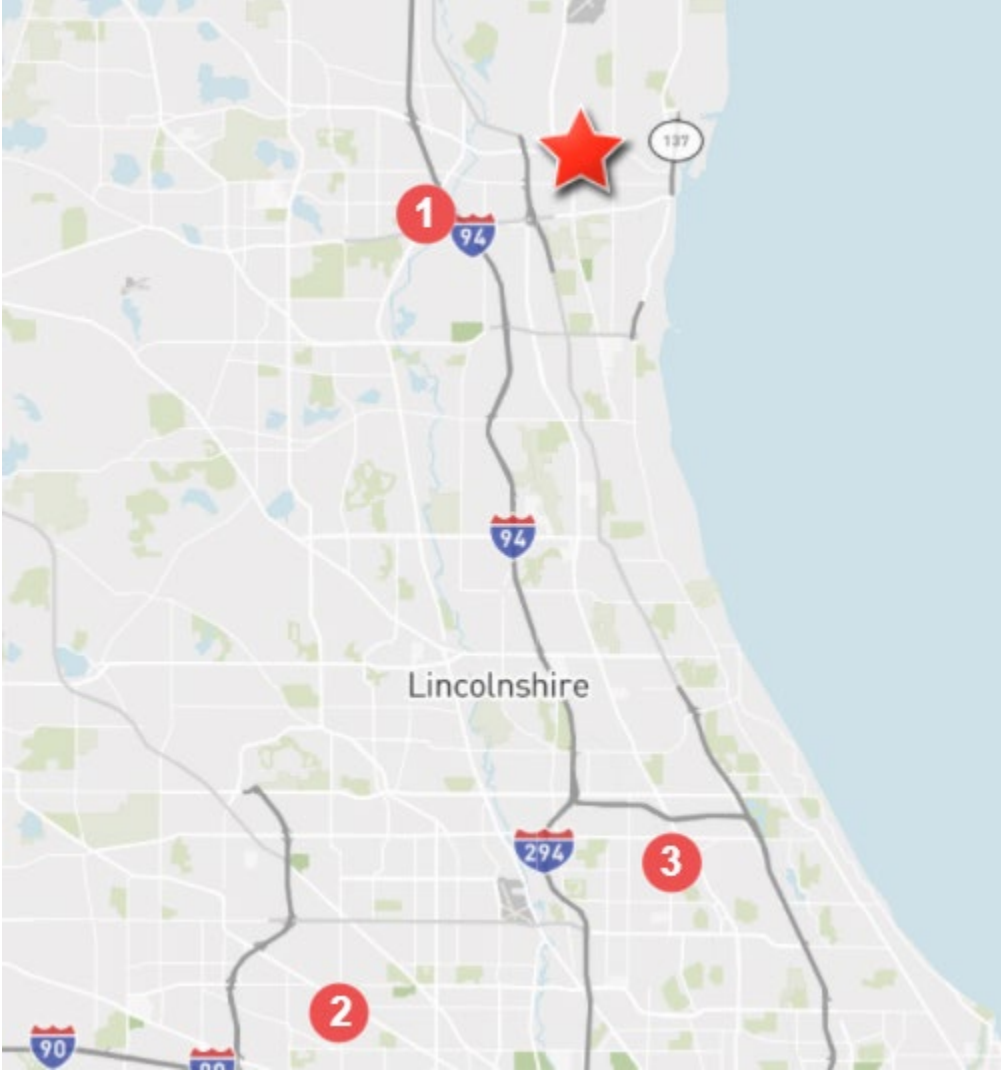
### Leasing Activity and Availability

Office leasing activity in Waukegan experienced a recent sharp decrease, with leasing volume falling from 53,962 square feet in 2016 to 27,981 square feet in 2019. Year-to-date 2020 saw additional decrease in volume with 14,999 square feet of leasing activity.



Availability, which includes both vacant space and space in which a tenant has indicated it will vacate at the end of its term, has decreased in conjunction with activity in the most recent five years. Availability in 2016 was approximately 54,696 and fell to 2019 levels of 31,834. Year-to-Date 2020 availability has fallen to 20,215 square feet.

### Lease and Sale Comparables



Source: CoStar

### Sale Comparables

Recent office sales represent properties within that have sold in the most recent 24 months. Comparable office properties have sold for \$188.30 per square foot on average, that average is slightly skewed by the sale 712 S Milwaukee Avenue, which represents a significantly higher price per square

foot than the market. All available properties are much larger than the State's current occupancy at 2740 West Grand Avenue.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
<b>Sales Comps</b>					
1	712 S Milwaukee Ave	C	9,700	\$350.52	Dec-2020
2	217 S Arlington Heights Rd	C	9,900	\$106.06	June-2019
3	1300 Meadow Rd	C	9,000	\$108.33	Aug-2020



## Own Versus Lease Analysis

To assess whether the State should continue leasing 2740 West Grand Ave or purchase the building, the total cost of leasing the property must be compared to the total cost of acquisition.

The analysis first calculates the cost of a new lease over a 10-year term. Then, the analysis estimates the maximum purchase price for the building whereby the total cost to acquire is equal to the cost to lease. The analysis then explores properties elsewhere in the market to gauge whether this price is achievable; that is, based on market data, if the current owner of the building is likely to sell the property to the State at or below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Based on a review of the local real estate market, the analysis uses the following assumptions.

<b>Rentable Square Feet (sf total):</b>	6,779
<b>Lease Term (years):</b>	10
<b>Base Rental Rate (\$ sf year)</b>	\$ 17.88
<b>Rental Rate Escalation (% year)</b>	2.0%
<b>Base OpEx (\$ sf year)</b>	\$ 4.00
<b>OpEx Escalation (% year)</b>	2.0%
<b>Tenant Improvement (TI) (\$ sf)</b>	\$ 46.41
<b>Landlord TI Allowance (\$ sf)</b>	\$ 23.21
<b>Initial Capital Repairs and Renovations (\$ sf)</b>	\$ 50.00
<b>Routine Capital Repairs and Renovations (CR&amp;R) (\$ sf year)</b>	\$ 1.00
<b>CR&amp;R Escalation</b>	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be \$1,244,162. This includes all costs associated with rent, operating costs, and any build-out or capital costs the State may incur as part of the lease.

<b>Total Cost to Lease 2740 West Grand Ave</b>	
Total Rent Cost	\$ 1,327,199
+ Total OpEx	\$ 296,913
<b>Total Cost (Real)</b>	<b>\$ 1,244,162</b>

### A note on capital requirements:

For initial capital repairs, a baseline of \$50/sf is used. This amount includes items such as woods/plastics/composites, doors and windows, and "specialties" (e.g. drinking fountains, fire hoses and alarms, extinguisher cabinets, etc.) which the State may or may not renovate or replace. It does not reflect the actual scope of work a building may need; further assessment of State facilities would be required.

## Own Versus Lease Analysis (cont'd)

As noted above, purchasing the property is only justifiable if the total cost of acquisition is less than the total cost of leasing. The "total" cost of acquiring the property includes not only the purchase price, but also any building, capital investments, and operating costs associated with the property.

The "total" cost of acquiring the property also factors in the potential future value of the property. Should the State become the owner, it may benefit at the end of the analysis period from a sale of the property, which offsets earlier capital outlays to purchase and renovate the property.

To estimate the future value of the property, the analysis escalates the 2022 acquisition cost/value by a factor of 1.53% over the 10-year period, which is the average growth rate of CPI for the Midwest.

Using these assumptions, if the State can acquire the property for approximately \$1,420,000 (the 2022 Break-Even Acquisition Cost in the table below) the total cost of acquiring the property is equal to the total cost of leasing the property. This break-even cost equates to approximate per-square-foot purchase price of \$209.43.

<b>Total Cost to Acquire 2740 West Grand Ave</b>	
2022 Break-Even Acquisition Cost	\$ 1,419,704
+ Initial CapEx	\$ 338,950
+ Total Ongoing CapEx	\$ 74,228
+ Total OpEx	\$ 296,913
- 2032 Market Value	\$ (1,652,829)
Total Cost (Nominal)	\$ 791,579
<b>Total Cost (Real)</b>	<b>\$ 1,244,162</b>

If the State can acquire the building below \$209.43 psf, then it may consider purchasing as an alternative to leasing. Reviewing historical data can determine if the owner is likely to sell the Property at this price point or below, or if market values exceed this amount.

The following property sales provide some indication of market sales prices for properties in Waukegan.

## Own Versus Lease Analysis (cont'd)

<b>Address</b>	<b>SF</b>	<b>Sales Price</b>	<b>Price PSF</b>
712 S Milwaukee Avenue	9,700	\$ 3,400,044	\$ 350.52
217 S Arlington Heights F	9,900	\$ 1,049,994	\$ 106.06
1300 Meadow Road	9,000	\$ 974,970	\$ 108.33
<b>Average</b>			<b>\$ 188.30</b>

Based on this sample, the average sale price of properties in Waukegan is \$188.30 per square foot. Compared to the maximum break-even price of \$209.43 per square foot for the 2740 West Grand Ave, this value is significantly lower, indicating that acquiring the property for less than \$209.43 psf may be feasible.

Should the State acquire the property for \$188.30 per square foot, the total cost of acquisition, including capital expenditure, would be \$1,210,130.

<b>Total Cost to Acquire 2740 West Grand Ave at Market Value</b>	
2022 Market Acquisition Cost	\$ 1,276,508
+ Total Buildout Cost (full TI)	\$ 314,613
+ Initial CapEx	\$ 338,950
+ Total Ongoing CapEx	\$ 74,228
+ Total OpEx	\$ 296,913
- 2032 Market Value	\$ (1,486,120)
Total Cost (Nominal)	\$ 815,093
<b>Total Cost (Real)</b>	<b>\$ 1,210,130</b>

This is \$34,032 less than the cost to lease the property on a present value basis.

## Alternatives Analysis

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Based on the survey of available for-sale and for-lease properties that may serve as alternatives for the State (please see the previous Market Analysis section), the expected cost to the State on a present value basis for each alternative is presented below.

<b>Acquisition Alternatives</b>			
<b>Address</b>	<b>al Rentable Square Feet</b>	<b>Asking Sales price psf</b>	<b>Asking Sales price</b>
555 S Genesee Street	9,220	\$70.50	\$ 650,010
<b>Lease Alternatives</b>			
<b>Address</b>	<b>Total Available SF</b>	<b>Square Feet</b>	<b>Asking Rent \$/SF</b>
555 S Genesee Street	9,220	6,779	\$8.00
1930 N Lewis Avenue	13,650	6,779	\$12.00
2000 N Lewis Avenue	32,176	6,779	\$10.00
216 W Madison Street	24,192	6,779	\$18.00
		6,779	

Regarding acquisition alternatives, both properties are approximately the same size as the State's current footprint at this location. Therefore, either property may be viable.

Regarding lease alternatives, only 201-205 W Old State Capitol Plaza is used in this analysis. The other properties are too small.

# Conclusion

Given the minimal cost difference between leasing the property and acquire the property of \$34,032, the State may want to consider continuing to lease the property. Alternatively, the State may consider acquiring a similar property. Based on the analysis, the State could potentially acquire 555 S Genessee Street for approximately \$968,630, or \$275,532 less than the cost of leasing the subject property for a new ten year term.

Acquiring an alternative property presents several inherent risks. First, the State may not be able to acquire the property at market value. Second, the full cost of renovating the property both initially and over the course of the 10-year periods falls to the State. Third, the State has less flexibility in the future relative to a lease, where it can explore amendment or termination options with the owner. Finally, the "total cost" assumes some level of appreciation tied to CPI. Should property values not increase, or should the State not effect a sale of the property, the State will not realize this value and therefore the total cost to acquire could be much greater than the cost to renew the lease.

Given the the significant cost difference between acquiring and leasing the property, the State should consider leasing the property for another 10-year term.

Even if the State continues to lease the property, it should consider undertaking a portfolio assessment to determine the actual space requirements for its users in this and surrounding markets. Given that the State recently adopted new space standards, the State may be able to reduce its space needs and identify opportunities to consolidate its office spaces.

<b>Lease 2740 West Grand Ave</b>	\$ 1,244,162
<b>Acquire 2740 West Grand Ave</b>	\$ 1,210,130
<b>Acquisition Alternatives</b>	<b>Total Cost to Acquire</b>
555 S Genessee Street	\$ 968,630
<b>Lease Alternatives</b>	<b>Total Cost to Lease</b>