2023 Annual Lease & Purchase Option Report

January 1, 2024– December 31, 2024

For leases expiring in the coming 2024 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.

Raven A. DeVaughn
Acting Director

Introduction

Options Analysis for Leased Properties with 100% State of Illinois Occupancy Expiring in 2024

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 two 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 2024 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 that 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 7,060 to 14,120 square feet. However, due to the fact that the target leases expire in 2024 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. **JLL recommends that the State complete a thorough portfolio assessment 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**. 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.

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
2946 Old Rochester Road Department of Healthcare and Family Services/ Department Public Health/ Lottery #L5821	Springfield	**Continue to Lease** The total cost of leasing over a 10-year period may be $4,022,345 less, or 34% 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 8.
1925 Madison Ave Department of Childcare and Family Services/ Department of Human Services #L5692	Granite City	**Continue to Lease** The total cost of leasing over a 10-year period may be $5,300 more, or 0.1% more, 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

Property	City	Lowest Cost Technically Acceptable Alternative	Risk Assessment
			and identify opportunities to consolidate its warehouse spaces. For additional discussion, please see page 19.
16845 S Halsted Illinois Department of Employment Security #L6050	Harvey	**Consider Acquisition** The total cost of leasing over a 10-year period may be $1,531,444 more, or 35% more, compared to acquisition.	The State should consider acquiring the property. However, before the State acquires 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 warehouse spaces. For additional discussion, please see page 30.

Definitions

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 purchases 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.

2946 Old Rochester Rd

Springfield, IL

Lottery

Department of Public Health

Department of Healthcare and Family Services

L5821

Market Analysis

Property Description

Property Details	
Property Address:	2946 Old Rochester Rd, Springfield
Lease Number:	L5821
Property Type:	Office
Building Size (RSF):	81,300
Year Built:	Unavailable
Using Agency:	HFS, IDPH, Lottery
Lease Commencement Date:	March 1, 2019
Lease/Option End Date:	February 29, 2024
Demographics	
Population:	1 mile: 3,224 5 miles: 106,597
Median Household Income:	1 mile: $31,581 5 miles: $48,908

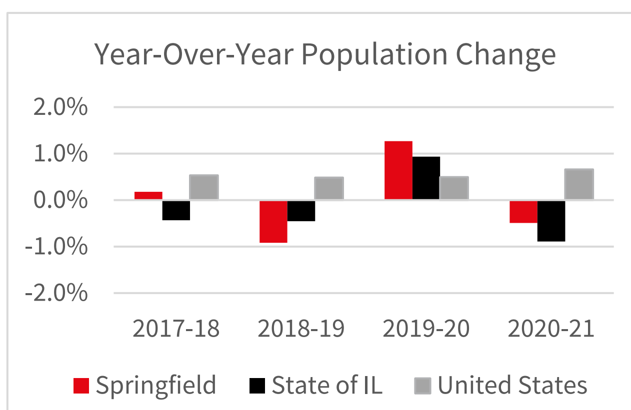
Source: Google Maps

Demographic Overview for Springfield

Population

In 2021, Springfield, Illinois had an estimated population of 154,789. Springfield has experienced a fluctuating opulation, with the 2017 population down 0.2% from 2021. Illinois has seen a 0.8% population decline since 2017, while the United States' population has grown 2.2% since 2017.

Year	Population Estimates
2021	154,758
2020	155,556
2019	153,606
2018	155,032
2017	154,758



Source: U.S. Census Bureau

Age

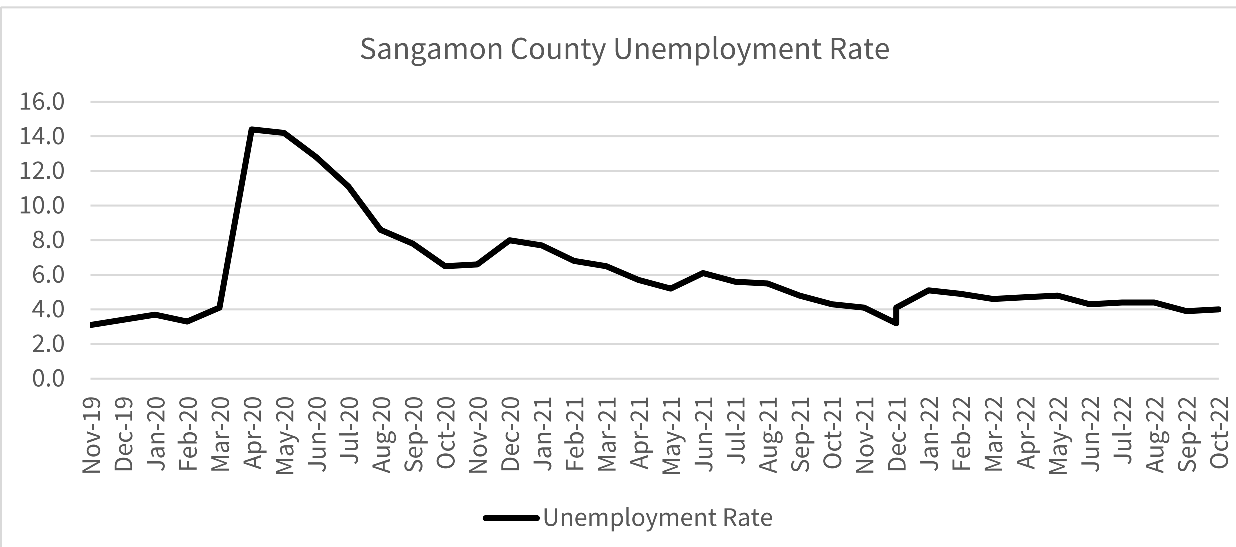
The median population age in Springfield is 39.9 years old, older than the statewide median age of 38.3.

Education

In Springfield, 34.4% of the population above the age of 25 has a bachelor’s degree or higher, similar to the 36.2% statewide population above the age of 25 who has a bachelor’s degree or higher.

Unemployment Rate – Effects of COVID-19

Springfield is located in Sangamon County, Illinois. From November 2019 to March 2020, the unemployment rate in the county averaged at 3.5%. The pandemic had a significant impact on unemployment in the county, peaking at 14.4% in April 2020 before steadily decreasing throughout the year. From October 2021 to October 2022, the unemployment rate averaged at 4.4%, above the pre-pandemic rate.

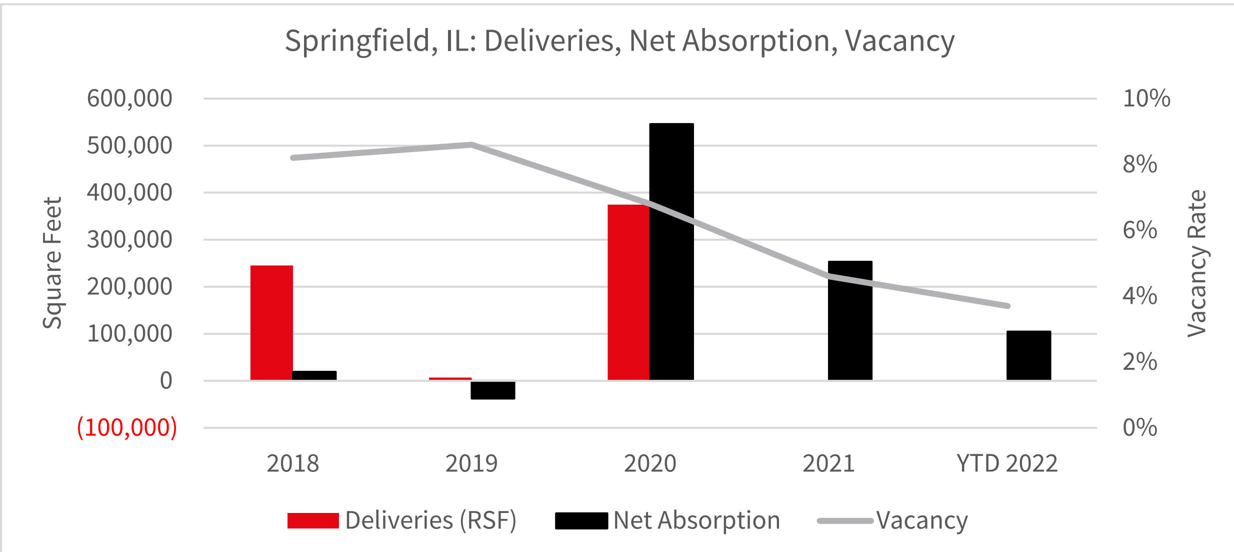


Source: U.S. Bureau of Labor Statistics

Office Market Conditions

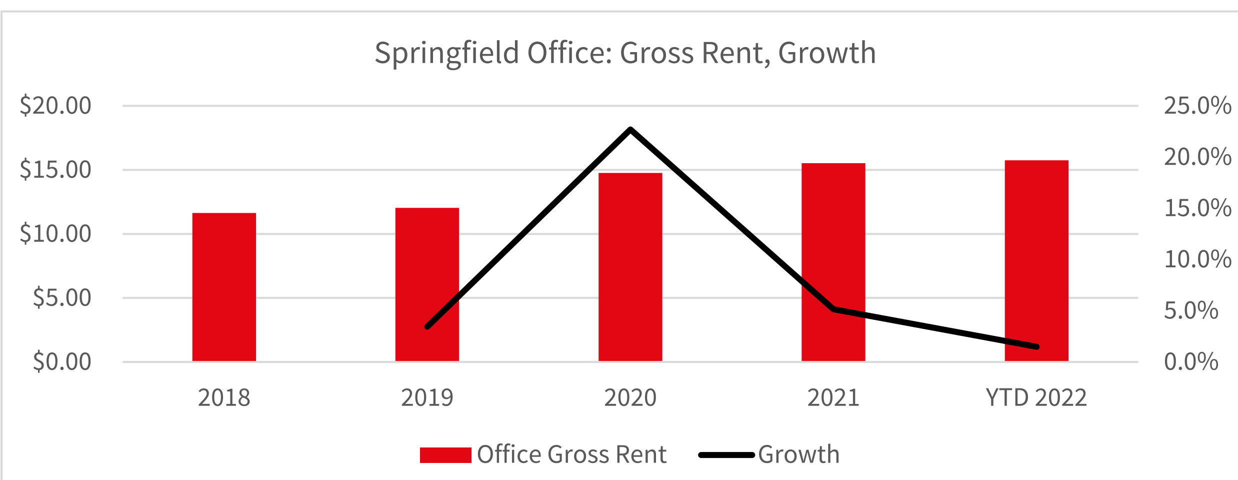
Inventory and Supply

The Springfield office market has 11,106,853 rentable square feet of total office inventory with a vacancy rate of 3.7%. Net absorption has primarily been positive despite the new deliveries. Net absorption peaked in 2020 at 545,837 and has since dipped to 104,457 in YTD 2022. Over the past five years, there have been seven new deliveries. Vacancy in the market rose to 8.6% in 2019, but vacancy has since dipped back to a low 3.17% YTD 2022.



Source: CoStar

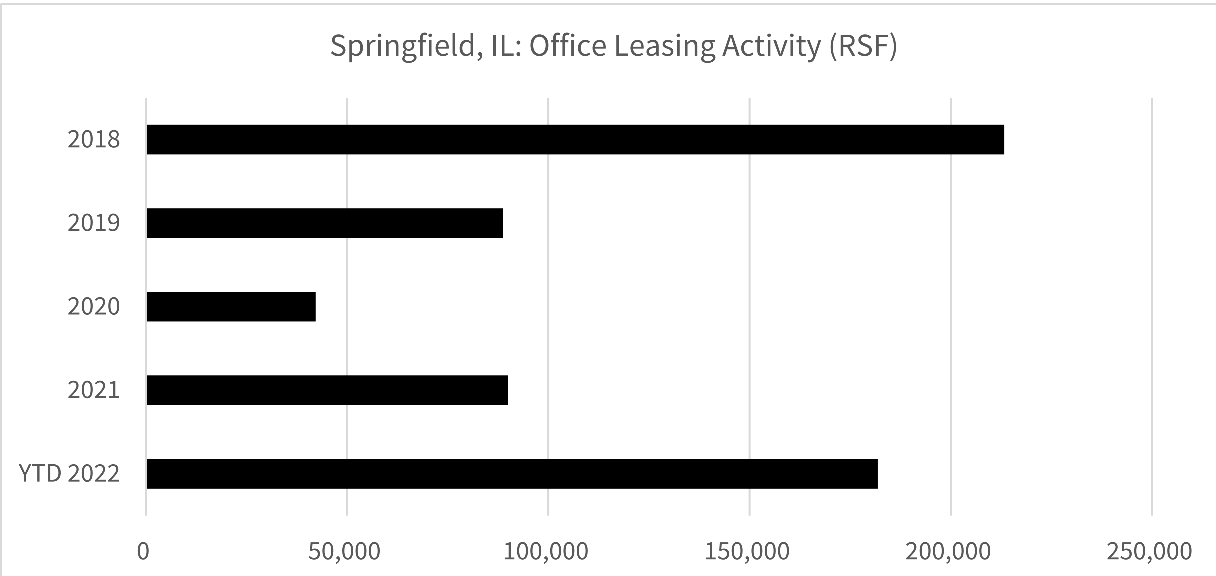
Office rents in the market spiked in 2020 despite the delivery of over 245,000 rentable square feet at $15.05 per rentable square foot, and have continued to increase through YTD 2022 at $15.75.



Source: CoStar

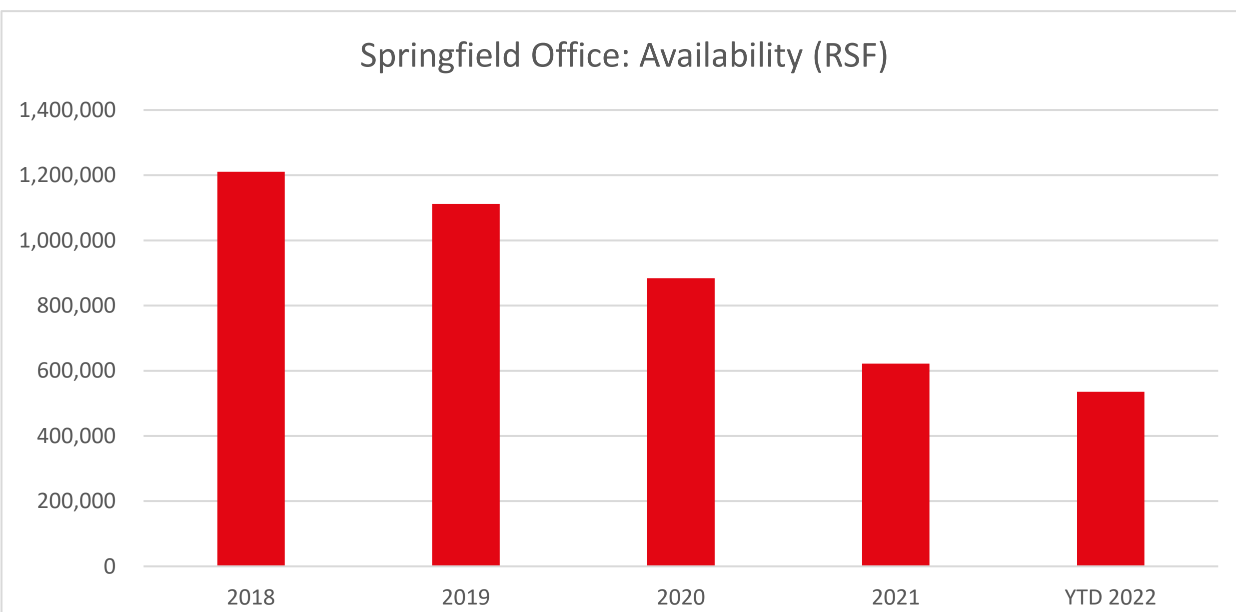
Leasing Activity and Availability

Over the past five years, office leasing activity in Springfield, IL has fluctuated, averaging 123,198 RSF of leasing activity annually.



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 continued to decrease suggesting increased demand for office space in Springfield.

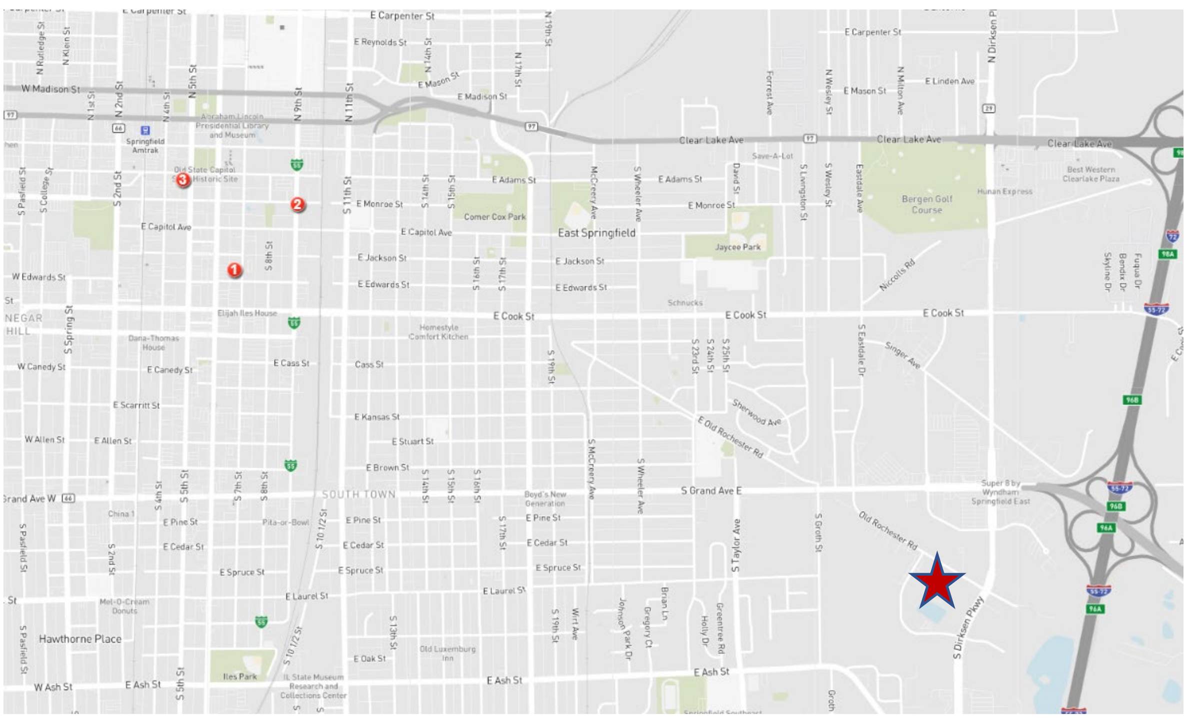


Source: CoStar

Sale Comparables

In recent years, there has been three property sales (with a publicly disclosed price) in the market in the past two years in Springfield. The 128,954 square foot property at 529 S 7th St sold for $10.86 PSF in June 2022. The 135,361 square foot property at 1 Copley Plz sold for $9.51 PSF in November 2021. Lastly, the 113,000 SF property at 205 S 5th St sold for $22.57 PSF in October 2021.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	529 S 7th St	C	128,954	$10.86	Jun-2022
2	1 Copley Plz	C	135,361	$9.51	Nov-2021
3	205 S 5th St	C	113,000	$22.57	Oct-2021



Source: CoStar

Own Versus Lease Analysis

To assess whether the State should continue leasing 2946 Old Rochester 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 our 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.

Rentable Square Feet (sf total):	81,300
Lease Term (years):	10
Base Rental Rate ($ sf year)	$ 7.53
Rental Rate Escalation (% year)	2.0%
Base OpEx ($ sf year)	$ 4.00
OpEx Escalation (% year)	2.0%
Tenant Improvement (TI) ($ sf)	$ 56.41
Landlord TI Allowance ($ sf)	$ 28.21
Initial Capital Repairs and Renovations ($ sf)	$ 50.00
Routine Capital Repairs and Renovations (CR&R) ($ sf year)	$ 1.00
CR&R Escalation	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be $7,862,918. 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.

Total Cost to Lease 2946 Old Rochester Rd	
Total Rent Cost	$ 6,703,299
+ Total OpEx	$ 3,560,849
Total Cost (Real)	**$ 7,862,918**

A note on capital requirements:
For initial capital repairs, a baseline of $10/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 2025 acquisition cost/value by a factor of 2.01% 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.

Total Cost to Acquire 2946 Old Rochester Rd	
2025 Break-Even Acquisition Cost	$ (18,653,308)
+ Total Buildout Cost (full TI)	$ 4,586,267
+ Initial CapEx	$ 4,065,000
+ Total Ongoing CapEx	$ 890,212
+ Total OpEx	$ 3,560,849
- 2032 Market Value	$ 22,770,166
Total Cost (Nominal)	$ 17,219,186
Total Cost (Real)	**$ 7,862,918**

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

Own Versus Lease Analysis (cont'd)

Address	SF	Sales Price	Price PSF
529 S 7th St, Springfield	128,954	$ 1,400,440	$ 10.86
1 Copley Plz, Springfield	135,361	$ 1,287,283	$ 9.51
205 S 5th St, Springfield	113,000	$ 2,550,410	$ 22.57
Average			**$ 14.31**

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 Springfield, the average sale price is $14.31 per square foot.

Should the State acquire the property for $14.31 per square foot, the total cost of acquisition, including capital expenditure, would be $11,885,263.

Total Cost to Acquire 2946 Old Rochester Rd at Market Value	
2025 Market Acquisition Cost	$ 1,163,674
+ Total Buildout Cost (full TI)	$ 4,586,267
+ Initial CapEx	$ 4,065,000
+ Total Ongoing CapEx	$ 890,212
+ Total OpEx	$ 3,560,849
- 2035 Market Value	$ (1,420,501)
Total Cost (Nominal)	$ 12,845,501
Total Cost (Real)	**$ 11,885,263**

This is $4,022,345 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.

Acquisition Alternatives

Address	Square Feet	Asking Price PSF	Asking Price
1 W Old State Capitol Plz	100,000	$23.49	$ 2,349,000
325 W Adams St	101,500	$111.33	$ 11,299,995

Lease Alternatives

Address	Available SF	Square Feet	Asking Rent $/SF

There are no lease alternatives with enough space available. There are two office builidngs for sale that are larger than the property, one at 1 W Old State Capitol Plz for sale at $23.49 PSF and 325 W Adams St for sale at $111.33. This analsyis 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 $4,022,345 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.

Lease 2946 Old Rochester Rd	$ 7,862,918
Acquire 2946 Old Rochester Rd	$ 11,885,263
Acquisition Alternatives	**Total Cost to Acquire**
1 W Old State Capitol Plz	$ 14,679,578
325 W Adams St	$ 16,709,444
Lease Alternatives	**Total Cost to Lease**

16845 S Halsted

Harvey, IL

Department of Employment Security

Lease #L6050

Market Analysis

Property Description

Property Details	
Property Address:	16845 S Halsted, Harvey
Lease Number:	L6050
Property Type:	Office
Building Size (RSF):	17,500
Year Built:	2003
Using Agency:	IDES
Lease Commencement Date:	May 1, 2019
Lease/Option End Date:	April 30, 2024
Demographics	
Population:	1 mile: 2,952 5 miles: 224,969
Median Household Income:	1 mile: $51,697 5 miles: $55,329

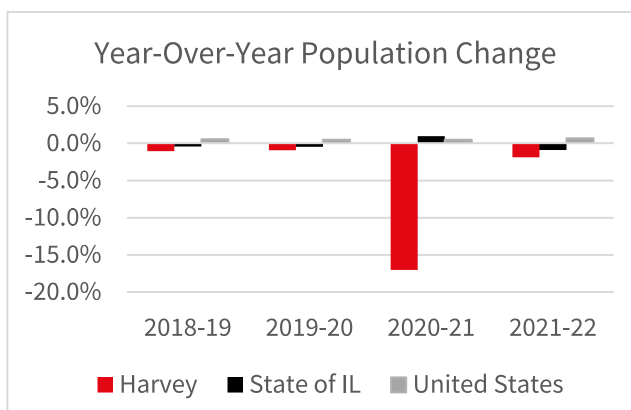
Source: Cook County Assesor's Office

Demographic Overview for Harvey

Population

In 2021, Harvey, Illinois had an estimated population of 19,871. Harvey has experienced population loss since 2017, with the 2021 population down 19.4% from 2017. Illinois has seen a 0.8% population decline since 2017, while the United States' population has grown 2.2% since 2018.

Year	Population Estimates
2021	19,871
2020	20,255
2019	24,408
2018	24,641
2017	24,908



Age

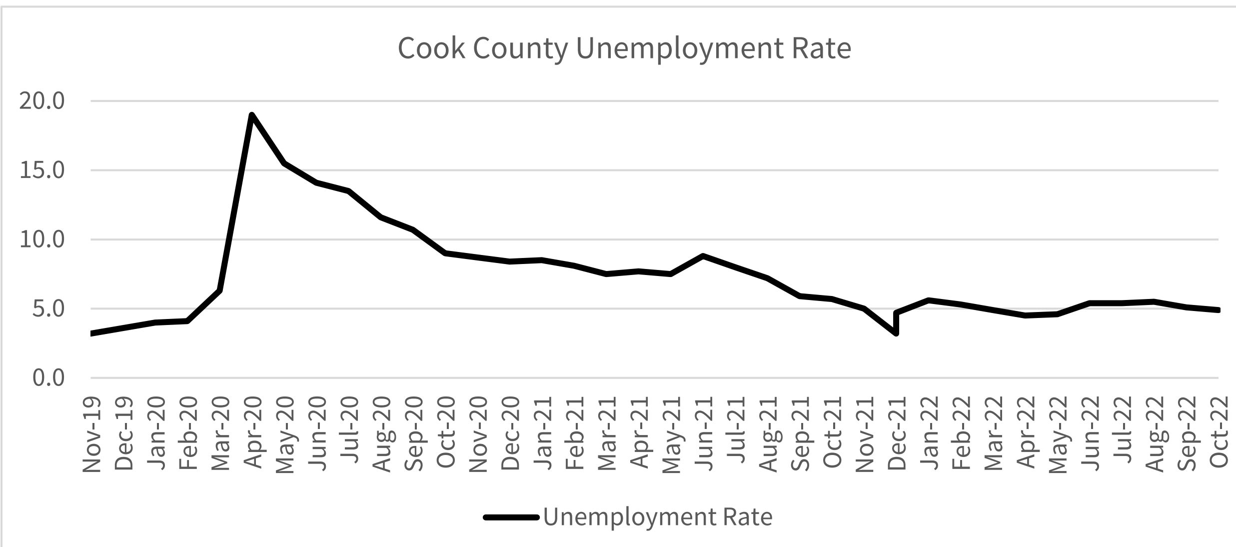
The median population age in Harvey is 34.5 years old, younger than the statewide median age of 38.3.

Education

In Harvey, 10.7% of the population above the age of 25 has a bachelor's degree or higher, the lower than the 36.2% statewide population above the age of 25 who has a bachelor's degree or higher.

Unemployment Rate – Effects of COVID-19

Harvey is located in Cook County, Illinois. From November 2019 to March 2020, the unemployment rate in the county averaged at 4.2%. The pandemic had a significant impact on unemployment in the county, peaking at 19.0% in April 2020 before steadily decreasing throughout the year. From October 2021 to October 2022, the unemployment rate averages at 5.1%, above the pre-pandemic rate.

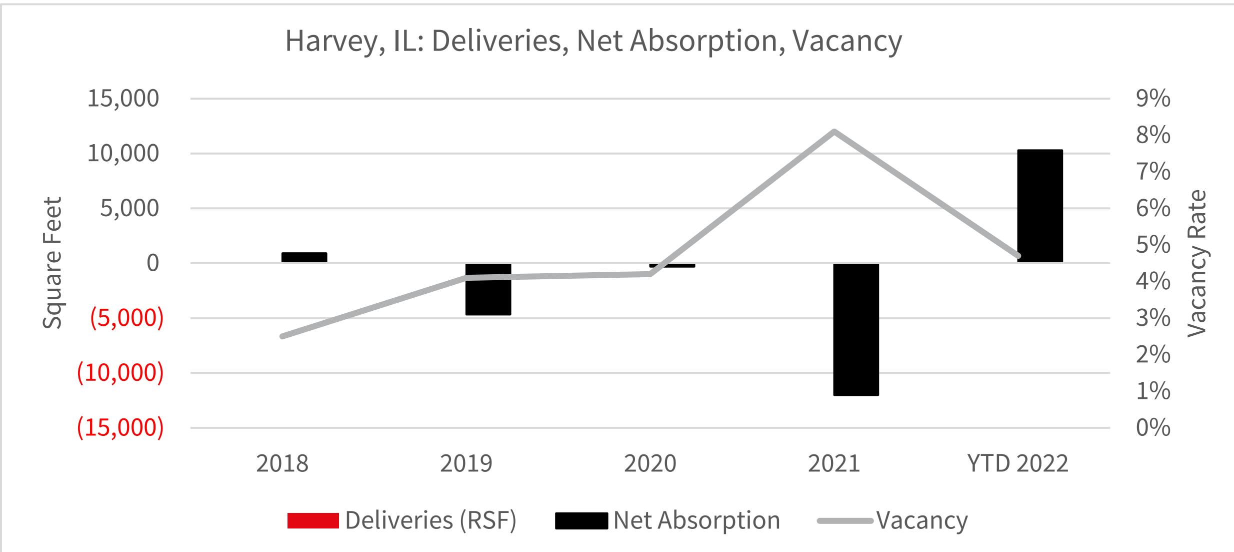


Source: U.S. Bureau of Labor Statistics

Office Market Conditions

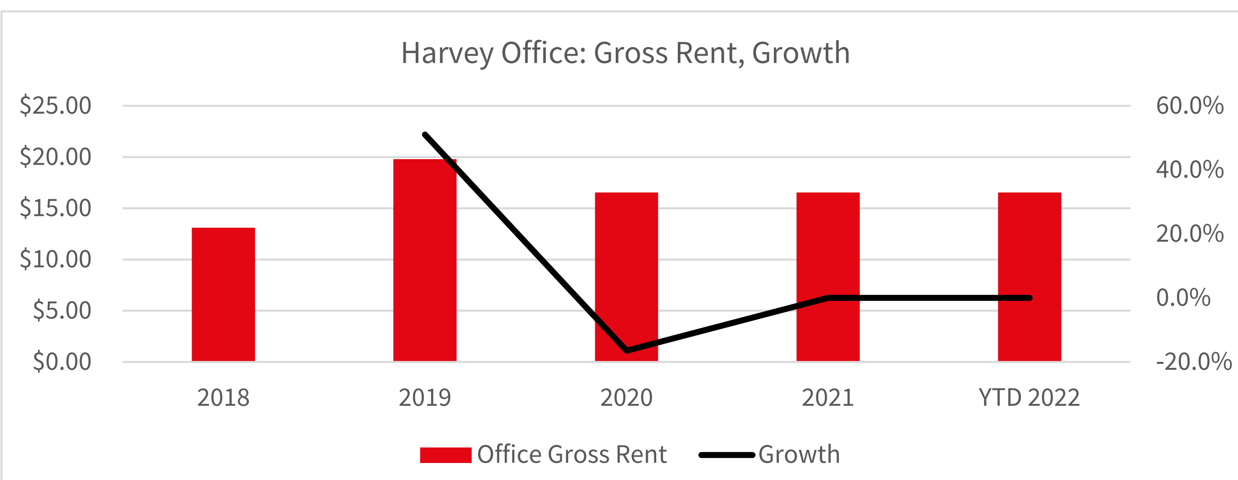
Inventory and Supply

The Harvey office market has 301,150 rentable square feet of total office inventory with a vacancy rate of 4.7%. Net absorption has fluctuated in the last five years but has more recently seen positive net absorption following a negative absorption of 12,003 rentable square feet of office space in 2021. Over the past five years, there have been no new deliveries. Vacancy in the market rose to 8% in 2021, but vacancy has since dipped back to 4.7% YTD 2022.



Source: CoStar

Office rents in the market have hovered around $16.50 per rentable square foot, following a peak in 2019 at $19.80 per rentable sqaure feet.

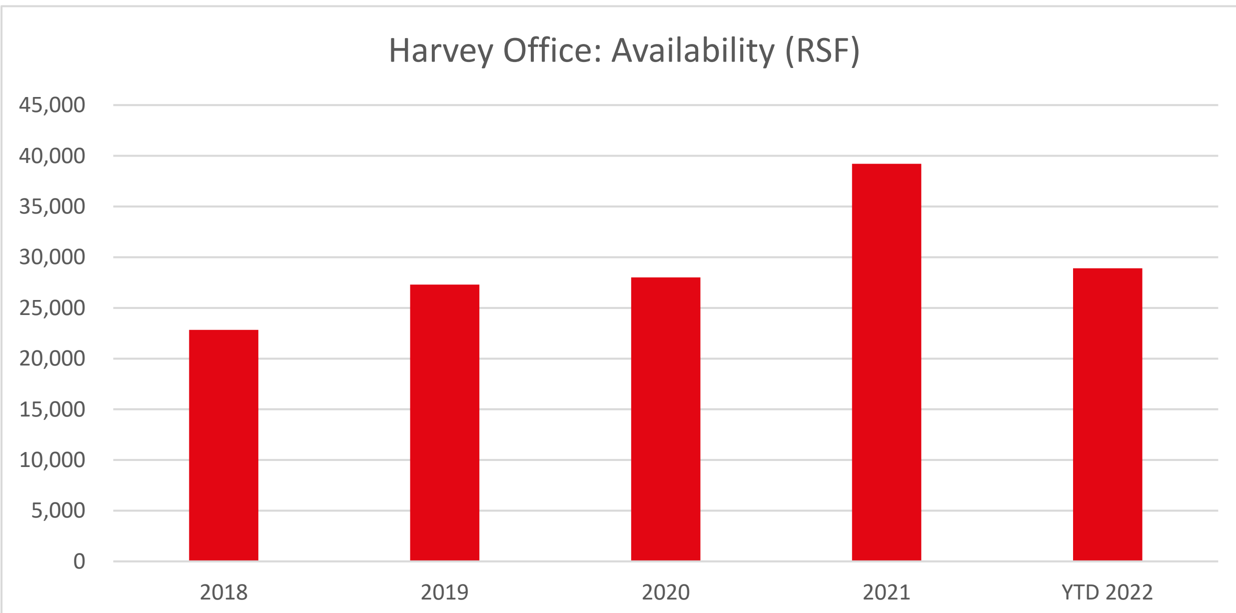


Source: CoStar

Leasing Activity and Availability

Office leasing activity in Harvey, IL is not available. However, the positive net abosorption observed in YTD 2022 suggests new leases have been signed in 2022.

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 increasing from 2018 to 2021 peaking at almost 40,000 RSF. Availability has since dropped to 29,000 in 2022 YTD.

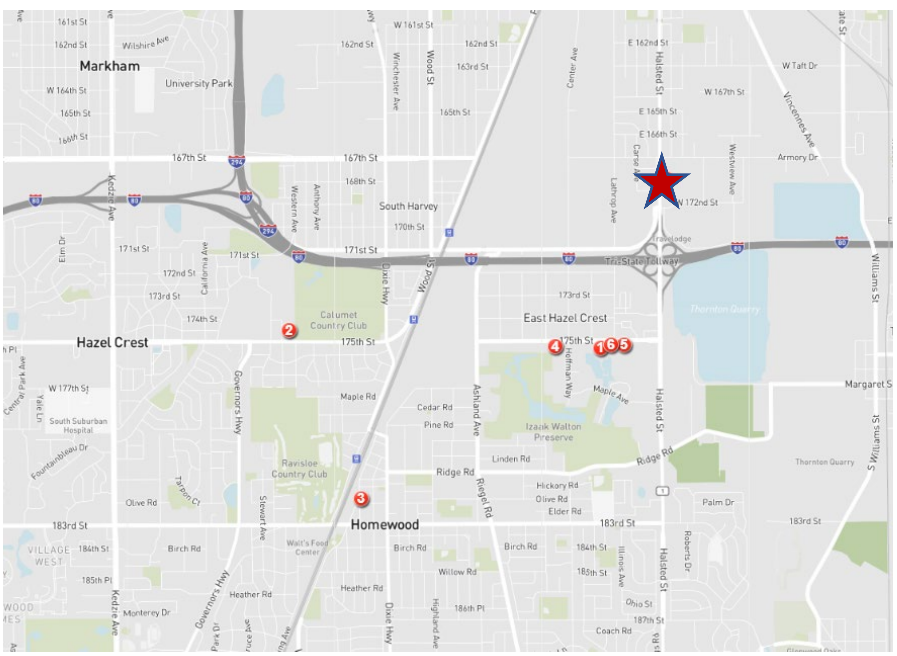


Source: CoStar

Sale Comparables

In recent years, there has been six property sales (with a publicly disclosed price) in the market in the past two years within a two mile radius of the subject property. The 55,283 square foot property at 1602 21st St in Homewood sold for $79.59 PSF in October 2022. The 35,418 square foot property at 17475 Jovanna Dr in Homewood sold for $24.46 PSF in September 2022. The 11,000 square foot property at 18161 Morris Ave in Homewood sold for $54.55 PSF in July 2022. The 26,700 square foot property at 1221 W 175th St in Homewood sold for $24.34 PSF in May 2022. The 18,000 square foot property at 935 W 175th St in Homewood sold for $65.28 PSF in February 2022. Lastly, the 12,000 SF property at 1005 175th St in Homewood sold for $28.33 PSF in June 2021.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	1055 W 175th St, Homewood	B	55,283	$79.59	Oct-2022
2	17475 Jovanna Dr, Homewood	B	35,418	$24.46	Sep-2022
3	18161 Morris Ave, Homewood	B	11,000	$54.55	Jul-2022
4	1221 W 175th St, Homewood	B	26,700	$24.34	May-2022
5	935 W 17th St, Homewood	B	18,000	$65.28	Oct-2021
6	1005 175th St, Homewood	C	12,000	$28.33	Jun-2021



Source: CoStar

Own Versus Lease Analysis

To assess whether the State should continue leasing 16845 S Halsted 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 our below this price. If this does not appear likely, then the analysis recommends that the State continue to lease the property.

Rentable Square Feet (sf total):	17,500
Lease Term (years):	10
Base Rental Rate ($ sf year)	$ 24.63
Rental Rate Escalation (% year)	2.0%
Base OpEx ($ sf year)	$ 4.00
OpEx Escalation (% year)	2.0%
Tenant Improvement (TI) ($ sf)	$ 56.41
Landlord TI Allowance ($ sf)	$ 28.21
Initial Capital Repairs and Renovations ($ sf)	$ 50.00
Routine Capital Repairs and Renovations (CR&R) ($ sf year)	$ 1.00
CR&R Escalation	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be $4,202,651. 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.

Total Cost to Lease 16845 S Halsted	
Total Rent Cost	$ 4,719,603
+ Total OpEx	$ 766,480
Total Cost (Real)	**$ 4,202,651**

A note on capital requirements:
For initial capital repairs, a baseline of $10/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 2025 acquisition cost/value by a factor of 2.01% 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

Total Cost to Acquire 16845 S Halsted	
2025 Break-Even Acquisition Cost	$ 8,351,604
+ Total Buildout Cost (full TI)	$ 987,204
+ Initial CapEx	$ 875,000
+ Total Ongoing CapEx	$ 191,620
+ Total OpEx	$ 766,480
- 2032 Market Value	$ (10,194,836)
Total Cost (Nominal)	$ 977,073
Total Cost (Real)	**$ 4,202,651**

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

Own Versus Lease Analysis (cont'd)

Address	SF	Sales Price	Price PSF
1055 W 175th St, Homewood	55,283	$ 4,399,974	$ 79.59
18161 Morris Ave, Homewood	11,000	$ 600,050	$ 54.55
935 W 17th St, Homewood	18,000	$ 1,175,040	$ 65.28
17475 Jovanna Dr, Homewood	35,418	$ 866,324	$ 24.46
1221 W 175th St, Homewood	26,700	$ 649,878	$ 24.34
1005 175th St, Homewood	12,000	$ 339,960	$ 28.33
Average			**$ 46.09**

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 Harvey, the average sale price is $46.09 per square foot.

Should the State acquire the property for $46.09 per square foot, the total cost of acquisition, including capital expenditure, would be $2,671,207.

Total Cost to Acquire 16845 S Halsted at Market Value	
2025 Market Acquisition Cost	$ 806,604
+ Total Buildout Cost (full TI)	$ 987,204
+ Initial CapEx	$ 875,000
+ Total Ongoing CapEx	$ 191,620
+ Total OpEx	$ 766,480
- 2035 Market Value	$ (984,625)
Total Cost (Nominal)	$ 2,642,284
Total Cost (Real)	**$ 2,671,207**

This is $1,531,444 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.

Acquisition Alternatives

Address	Square Feet	Asking Price PSF	Asking Price
17475 Jovanna Dr, Homewood	35,418	$47.97	$ 1,699,001

Lease Alternatives

Address	Available SF	Square Feet	Asking Rent $/SF
17475 Jovanna Dr, Homewood	35,418	17,500	$20.00
174 E 154th St, Harvey	22,004	17,500	$15.00
16300 Crawford Ave, Country Club Hills	25,000	17,500	$17.50

There is an office property in Homewood available for sale at $47.97 PSF and an office property in Harvey available for sale at $85.52 PSF. There are three lease alternatives located at 15115 S Dixie Hwy for $10.00 PSF annually, 17475 Jovanna Dr in Homewood for $20.00 PSF annually, and 174 E 154th St in Harvey for $15.00 PSF annually. This analsyis 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 acquire the property.

The cost to acquire the property is $1,531,444 less 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 consider acquiring. However, if the State plans to acquire 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.

Lease 16845 S Halsted	$ 4,202,651
Acquire 16845 S Halsted	$ 2,671,207
Acquisition Alternatives	**Total Cost to Acquire**
17475 Jovanna Dr, Homewood	$ 5,375,198
Lease Alternatives	**Total Cost to Lease**
17475 Jovanna Dr, Homewood	$ 4,117,895
174 E 154th St, Harvey	$ 3,383,936
16300 Crawford Ave, Country Club Hills	$ 3,750,915
16801 Torrence Ave, Lansing	$ 3,016,956

1925 Madison Ave

Granite City, IL

Department of Human Services

Department of Children's and Family Services

L5692

Market Analysis

Property Description

Property Details	
Property Address:	1925 Madison Ave, Granite City
Lease Number:	L5692
Property Type:	Office
Building Size (RSF):	25,000
Year Built:	2000
Using Agency:	DHS, DCFS
Lease Commencement Date:	July 1, 2019
Lease/Option End Date:	June 30, 2024
Demographics	
Population:	1 mile: 8,239 5 miles: 88,562
Median Household Income:	1 mile: $42,125 5 miles: $38,732

Source: Google Maps

Demographic Overview for Granite City

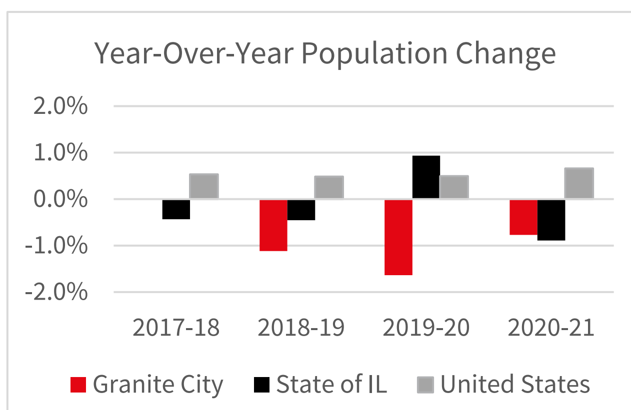
Population

In 2021, Granite City, Illinois had an estimated population of 27,484. Granite City has experienced population loss since 2018, with the 2017 population down 3.5% from 2021. Illinois has seen a 0.8% population decline since 2017, while the United States' population has grown 2.2% since 2017.

Age

The median population age in Granite City is 39.2 years old, older than the statewide median age of 38.3.

Year	Population Estimates
2021	27,484
2020	27,697
2019	28,158
2018	28,476
2017	28,476



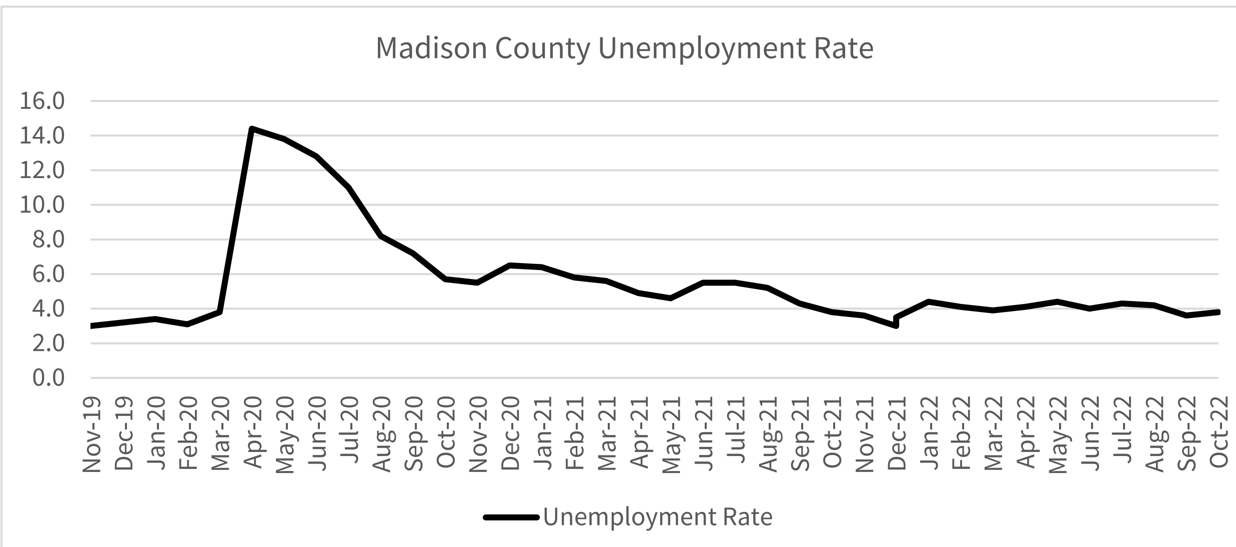
Source: U.S. Census Bureau

Education

In Granite City, 14.2% of the population above the age of 25 has a bachelor's degree or higher, the lower than the 36.2% statewide population above the age of 25 who has a bachelor's degree or higher.

Unemployment Rate – Effects of COVID-19

Granite City is located in Madison County, Illinois. From November 2019 to March 2020, the unemployment rate in the county averaged at 3.3%. The pandemic had a significant impact on unemployment in the county, peaking at 14.4% in April 2020 before steadily decreasing throughout the year. From October 2021 to October 2022, the unemployment rate averages at 4.0%, above the pre-pandemic rate.

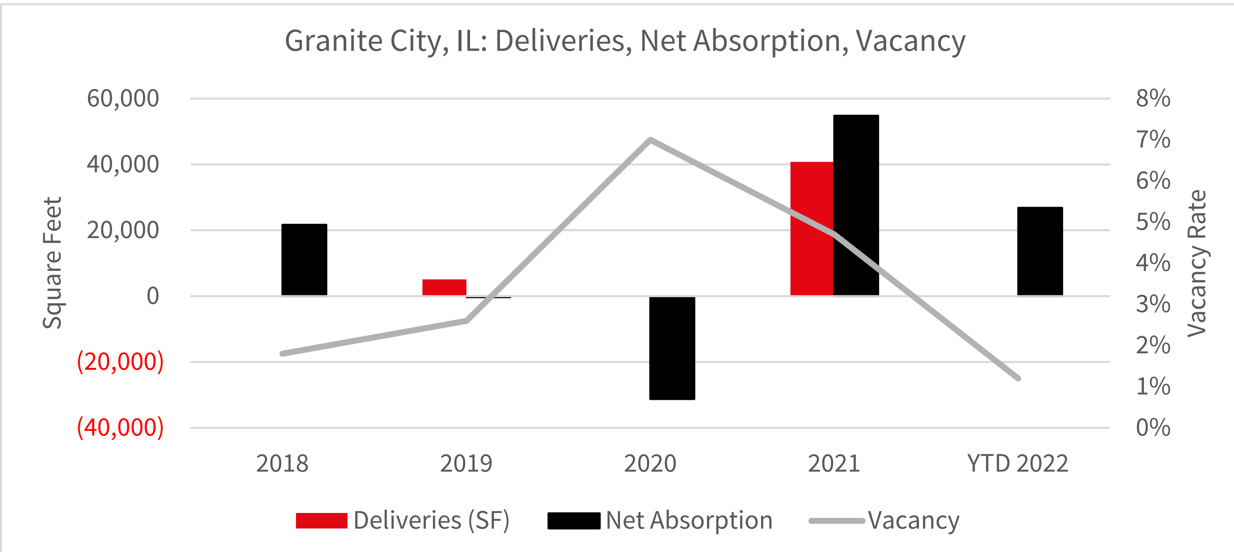


Source: U.S. Bureau of Labor Statistics

Office Market Conditions

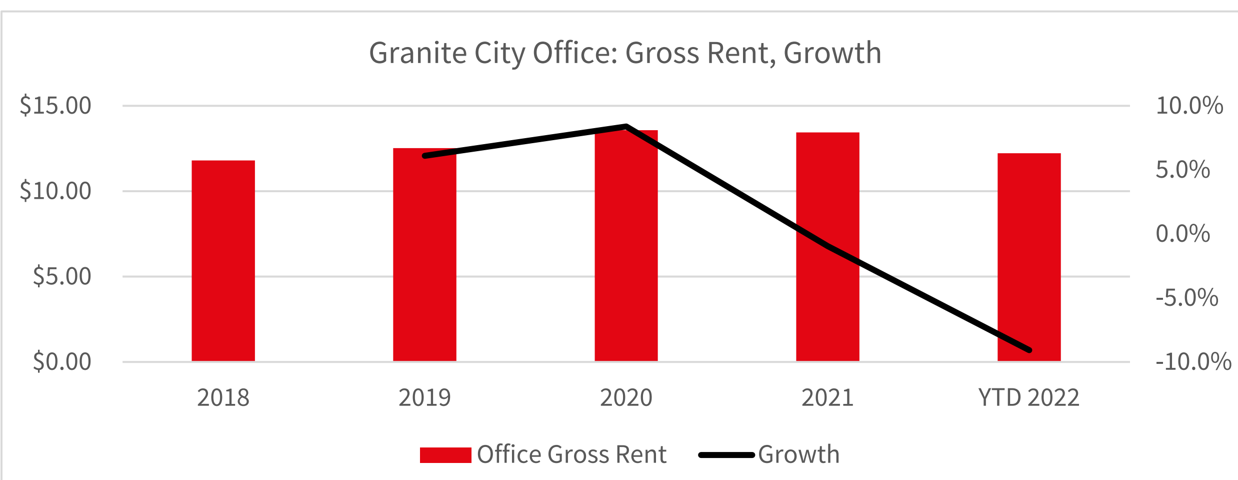
Inventory and Supply

The Granite City office market has 756,000 rentable square feet of total office inventory with a vacancy rate of 1.2%. Net absorption has fluctuated in the last five years but has more recently seen positive net absorption following a negative absorption of 31,249 rentable square feet of office space in 2020. Over the past five years, there have been two new deliveries. Vacancy in the market rose to 7% in 2020, but vacancy has since dipped back to a low 1.2% YTD 2022.



Source: CoStar

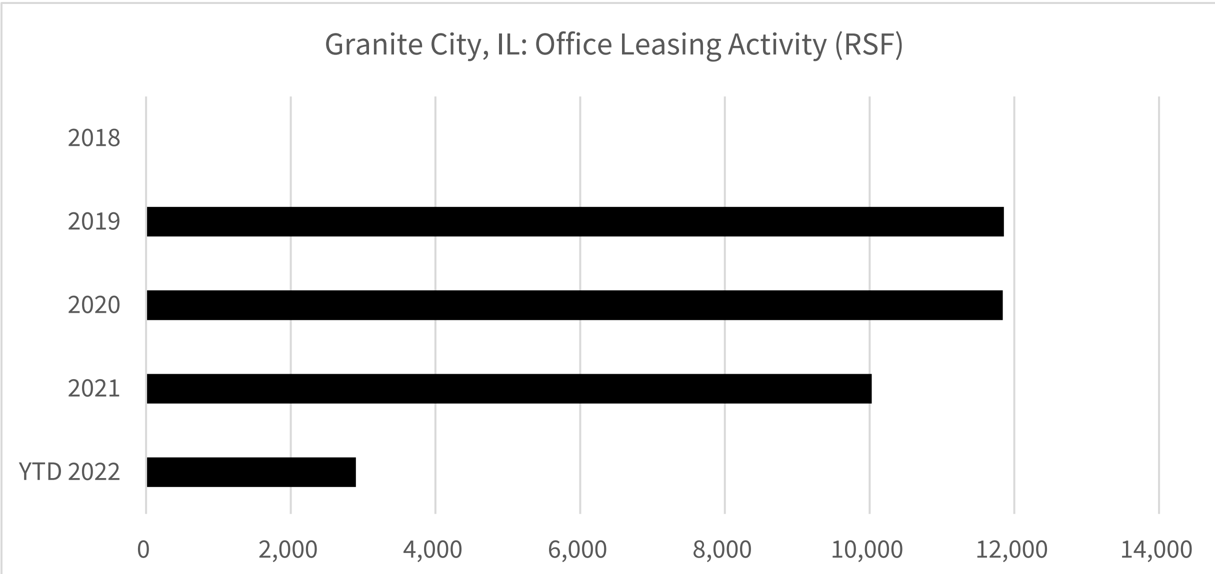
Office rents in the market have hovered around $13.00 per rentable square foot, but have dropped in 2022 to $12.22.



Source: CoStar

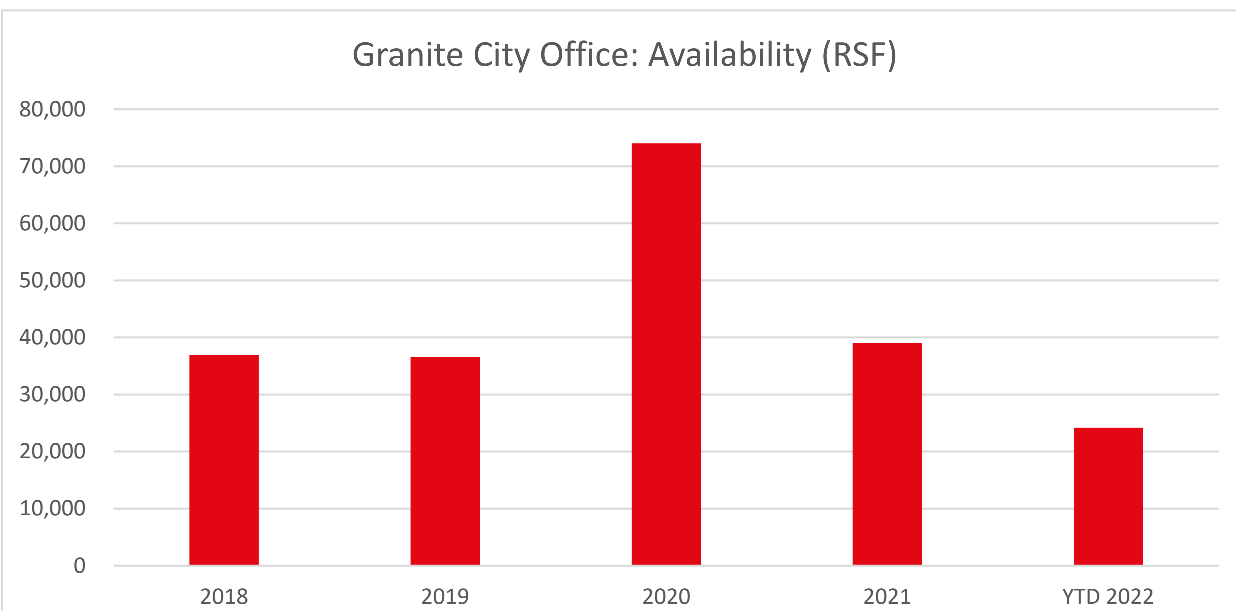
Leasing Activity and Availability

Over the past five years, office leasing activity in Granite City, IL has experienenced on average 9,000 RSF of leasing activity, indicating minimal turnover across office space in the market.



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 following a spike of availability in 2020 peaking at over 70,000 RSF.

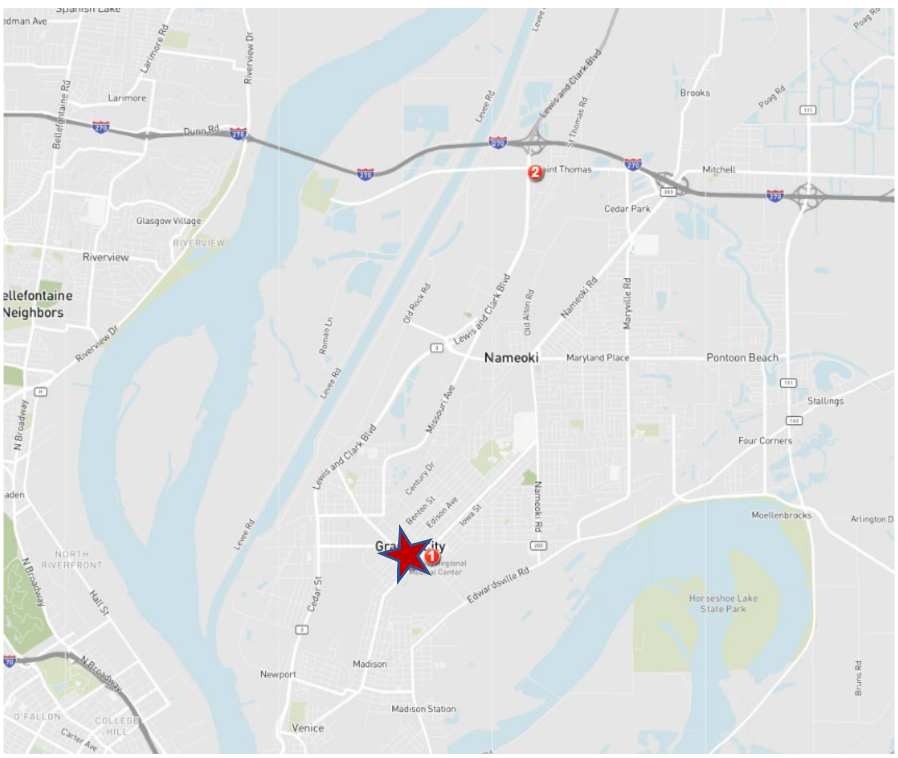


Source: CoStar

Sale Comparables

In recent years, there has been two comparable property sales (with a publicly disclosed price) in the market in the past two years in Granite City. The 12,588 square foot property at 1602 21st St sold for $123.13 PSF in May 2022. The 12,200 square foot property at 3237 W Chain of Rocks Rd sold for $17.62 PSF in March 2022.

Map Number	Address	Building Class	Size (SF)	Price Per Square Foot	Sale Date
1	1602 21st St	C	12,588	$123.13	May-2022
2	3237 W Chain of Rocks Rd	C	12,200	$17.62	Mar-2022



Source: CoStar

Own Versus Lease Analysis

To assess whether the State should continue leasing 1925 Madison 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 our 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.

Rentable Square Feet (sf total):	25,000
Lease Term (years):	10
Base Rental Rate ($ sf year)	$ 14.81
Rental Rate Escalation (% year)	2.0%
Base OpEx ($ sf year)	$ 4.00
OpEx Escalation (% year)	2.0%
Tenant Improvement (TI) ($ sf)	$ 56.41
Landlord TI Allowance ($ sf)	$ 28.21
Initial Capital Repairs and Renovations ($ sf)	$ 50.00
Routine Capital Repairs and Renovations (CR&R) ($ sf year)	$ 1.00
CR&R Escalation	2.0%

Using these assumptions, the total cost to the State to renew its lease for another 10-year term would be $3,944,507. 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.

Total Cost to Lease 1925 Madison Ave	
Total Rent Cost	$ 4,054,134
+ Total OpEx	$ 1,094,972
Total Cost (Real)	**$ 3,944,507**

A note on capital requirements:
For initial capital repairs, a baseline of $10/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 2025 acquisition cost/value by a factor of 2.01% 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.

Total Cost to Acquire 1925 Madison Ave	
2025 Break-Even Acquisition Cost	$ 1,785,360
+ Total Buildout Cost (full TI)	$ 1,410,291
+ Initial CapEx	$ 1,250,000
+ Total Ongoing CapEx	$ 273,743
+ Total OpEx	$ 1,094,972
- 2032 Market Value	$ (2,179,396)
Total Cost (Nominal)	$ 3,634,970
Total Cost (Real)	**$ 3,944,507**

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

Own Versus Lease Analysis (cont'd)

Address	SF	Sales Price	Price PSF
1602 21st St, Granite City	12,588	$ 1,549,835	$ 123.12
3237 W Chain of Rocks Rd, Granite City	12,200	$ 214,964	$ 17.62
Average			**$ 70.37**

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 Granite City, the average sale price is $70.37 per square foot.

Should the State acquire the property for $70.37 per square foot, the total cost of acquisition, including capital expenditure, would be $3,939,207.

Total Cost to Acquire 1925 Madison Ave at Market Value	
2025 Market Acquisition Cost	$ 1,759,250
+ Total Buildout Cost (full TI)	$ 1,410,291
+ Initial CapEx	$ 1,250,000
+ Total Ongoing CapEx	$ 273,743
+ Total OpEx	$ 1,094,972
- 2035 Market Value	$ (2,147,523)
Total Cost (Nominal)	$ 3,640,733
Total Cost (Real)	**$ 3,939,207**

This is $5,300 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.

Acquisition Alternatives

Address	Square Feet	Asking Price PSF	Asking Price
200 N Center Dr, Alton	27,112	$43.30	$ 1,173,950

Lease Alternatives

Address	Available SF	Square Feet	Asking Rent $/SF
100-110 Commerce Ln, Fairview Heights	69,641	25,000	$9.25
1400-1480 Discovery Pkwy, Alton	450,400	25,000	$8.75

There is an office property in Alton available for sale at $43.30 PSF. There are two lease alternatives located at 100-110 Commerce Ln in Fairview Heights for $9.25 PSF annually and 1400-1480 Discovery Pkwy in Alton for $8.75 PSF annually. This analsyis 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 acquire the property.

The State could consider acquiring the property for $5,300 less 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 the cost to lease is almost the same as the cost to acquire, 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.

Lease 1925 Madison Ave	$ 3,944,507
Acquire 1925 Madison Ave	$ 3,939,207
Acquisition Alternatives	**Total Cost to Acquire**
200 N Center Dr, Alton	$ 4,088,942
Lease Alternatives	**Total Cost to Lease**
100-110 Commerce Ln, Fairview Heights	$ 3,628,404
1400-1480 Discovery Pkwy, Alton	$ 3,523,552