

## Follow the Chicago River West...Where Opportunities Flow

This is a summary of the February 28, 2019 meeting of the ULI Chicago District Council, which gathered at the Union League Club in Chicago to learn about one of the most exciting real estate sub-markets in the Chicagoland area –The River District Corridor, including River West and Goose Island.

The moderator was Susan Tjarksen, *Managing Director*, Cushman & Wakefield. Joining her on the panel were Robert Bond, *Co-Founder and President*, The Bond Companies; Max Meyers, *Principal and Chief Investment Officer*, R2 Companies; and John O'Donnell, *Founder and CEO*, Riverside Investment & Development Company.

Among other topics, they discussed why this area is rapidly emerging as an important hub strategically linking Chicago's West Loop, River North, Fulton Market, Milwaukee Avenue Corridor and Lincoln Park neighborhoods.

River West is roughly 400 acres in size—or the equivalent of five-eighths of a square mile. The area, however, is anything but square; moderator Susan Tjarksen likened it to a “drunken triangle with the tops cut off of it.”

Until recently, it has been off-limits for new development due to a zoning code that enabled the proliferation of industrial buildings. Now those restrictions have been lifted. As a result, a variety of factors make it an attractive focus for new development, including vast in-fill potential with ready access to public transportation, a significant level of infrastructure that is already in place, and proximity to downtown Chicago, said John O'Donnell.

He also referred to it as being “in the center of the live, work, play area” of the city. “Now it's just a question of proper planning.”

It is generally bounded by Division Street to the Chicago River, south to Kinzie Street and west to Halsted Street or Milwaukee Avenue.

“It's a very unique emerging, path of progress area where everything has happened, literally encircling this particular sub-market and the only reason it's not (developed) is restrictive zoning for the last 30 years,” said Meyers. “My partner Matt (Garrison) had a quote in Crain's last week. He said that this market has been hiding in plain sight.”

Panelists said that the development, to be successful, needs to flow out of an organic process. For example, neighborhood residents are involved in providing input to developers, and that dialogue is essential in making good decisions, said Robert Bond.

“Authentic product” is part of R2’s “m.o.,” added Meyers. “There is definitely demand ...for authentic, creative office buildings that can never be replicated and resonates with certain tenants’ brand, marketing, and business strategy,” he added. “That’s one of the roles we try to play.”

O’Donnell noted that amenities such as a modern HVAC system, natural light and 5G technological capability are vital. So is complete cellular coverage, so that anyone can access WiFi from any place in a given building.

“The look is easy,” concluded O’Donnell. “The technology is harder.”

Efforts, noted Bond, are well under way to make it a “much more connected and engaged neighborhood.”

“What we’re finding is this is a convenient location and it starts with that,” Bond added. “The renter today wants convenience. They don’t want to use a car. They’re on the Blue Line, the most popular subway line in the city right now and it’s growing. We have bus transportation.”

“People don’t want to spend time commuting,” Bond said. “Everyone’s time-short. They want to spend their time living and enjoying life and being close to work.”

Meyers said there is a “fallacy” that office campuses need to have an accompanying high level of retail density.

“When we’re creating office campuses near neighborhoods where people live and hang out...we’re creating office campuses that are more adjacent to places where people actually want to be,” said Meyers. “As opposed to trying to pick super retail-dense office locations where the average worker isn’t spending as much time as you think.”

Panelists agreed that ironing out transportation concerns is a pivotal element in alleviating concerns about the area’s viability as a destination for businesses considering relocating from other parts of Chicago or elsewhere. That progress is afoot, including an agreement that The Bond Companies reached with the *Chicago Tribune* to access their site’s south 30 acres to enable a 7-minute express route to Union Station, said Bond.

Downtown areas are also difficult to access, although there is a larger perception of River West being difficult, said Meyers. “It’s an optics issue that we need to

address...we are actually closer to being where people live than the East Loop market, which itself is an island away from where most people spend their time.”

On the topic of co-working spaces, panelists said it is a strong trend—and something that O’Donnell referred to as a “necessary amenity to provide” for office buildings as it focuses largely on professional services, such as attorneys and financial services. In addition, there is rising demand for creating co-working spaces in new residential buildings, said Bond.

“People working at home like to move to different spaces within the building all the time,” said Bond. “Creating that type of experience and curating that on-site is important.”

He added that co-working has become a “mechanism for people to live where they want to live,” enabling people to “dice up the unit mix” with roommates to enable them to afford housing that has modern amenities.

Prompted by Tjarksen to discuss barriers to development, O’Donnell said one factor is that the first wave of tenants and residents may feel as if they are “pioneering a little bit.”

“That might be the only issue. Are they going to be alone on an island for a while?” O’Donnell continued. “(But) once it starts, it’s going to be the most rapid transformation that you can possibly see.”

Meyers echoed that remark, adding that the area still has an industrial look, with sidewalks that are not easily walkable and streets pocked with potholes. “There’s a chicken-and-egg scenario where some development has to happen to force that discussion (about improvements) to the forefront,” said Meyers.

So much of daily life revolves around the smart phone, both in business and in personal pursuits, said Bond, and developers must keep that at the forefront of any planning.

“It sounds obvious, but it’s not something everybody thinks about, is making sure you don’t have dead spots for your phone within the building,” added Bond. “You have to have really, really good phone capability...that’s really critical. If our tenant drops calls or can’t use their phone, they’re out of there.”

To be successful in an adaptive re-use of a building, Meyers noted, it’s key “to strike a balance between being technologically forward without being too far forward that it’s burdensome on a cost basis to our tenants.”

Other topics addressed by panelists included accommodating the rising need for storage space for packages delivered to residents in multi-unit buildings. Depending on the size of the package, delivery personnel from UPS and other services can take

packages directly to storage lockers or coordinate dropping off larger packages that a concierge holds in a designated package room for safe-keeping, said Bond.

On a public relations level, Meyers emphasized the proximity of River West to 600 W. Chicago Ave., the former Montgomery Ward headquarters that was re-incarnated as a 1.25 million square foot warehouse and office building. It is home to Groupon, among other tenants.

Calling it the “most successful creative office re-development” in Chicago, Meyers added, “No one ever questions the growth there...it is the pre-eminent beacon for technology growth and startups in Chicago and our market is adjacent to it, separated only by a very narrow canal of a river. It’s a messaging issue that we need to solve, but this isn’t a traditional path to progress. The progress has already occurred.”

During a closing segment, panelists fielded several inquiries. The first was about the anticipated impact of the change in city administration when Chicago Mayor Rahm Emanuel is succeeded by either Toni Preckwinkle or Lori Lightfoot. Both women recently emerged from a 14-person field to advance to the April 2 election.

There will be “a moment here before anyone knows what’s going on,” Tjarksen said. Between a new mayor, new aldermen and slow-downs that typically occur over the summer, “it will be September before there’s real cohesion at city hall related to development,” she added. “That’s cause for consternation if you’re midway through a project and you need some help out of city hall. There’s going to be a big pause right here.”

Bond wasn’t as pessimistic about the transition’s impact on ongoing projects. He noted continuity with the planning department and the local alderman, Brian Hopkins, as well as each mayoral candidate’s focus on economic development and job growth. All of those elements bode well for continued progress.

“The current administration has done a great job of getting game-changing projects into the mix, and that flywheel effect means that things will still get done and keep moving,” Bond said.

Another question was about where new tenants will come from, whether the suburbs or other Midwestern cities. In response, O’Donnell said that there has been “no slowdown on leasing” and “there’s a lot of new businesses being formed. There’s a lot of money in the city...I do think there will be continued job growth.”

To a question about whether office tenants are looking to revert back from open floor plans to cubicles, Meyers replied, “I see it as an evolution of something that went far

toward the open concept and we're evolving into something that's a little bit more progressively in between."

O'Donnell agreed with Meyers' assessment.

"We're seeing very large collaboration spaces and small offices typically, if there are offices," O'Donnell said. "We're seeing more bench seating as well as other intensive uses. There's a CEO I know who now has a (cubicle) on the floor, but he's got a telephone room that's as big as my office."

"The sense I have (from businesses) is their concern when they move and they're squeezing people together, is whether there is going to be a backlash," O'Donnell continued. "But I think they've done it very thoughtfully and they have said (the design) has been transformative for their business."

Panelists also agreed that providing ample open space around their developments is a crucial component to achieving the bright future they envision for River West.

"It creates security and safety in the neighborhood, it creates a more cohesive neighborhood," said Bond. "It's a better experience."

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