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Strapped for cash

The State of Illinois is set to sell three properties to put a dent in a nasty budget deficit. Brokers say the state will fare well if it goes the sale/leaseback route

James Evans

Seeking ways to raise funds to shore up an estimated \$5 billion state budget deficit, Illinois Gov. Rod Blagojevich this spring announced that one of his moves would be to sell three pieces of state real estate, including the 17-story James R. Thompson Center in downtown Chicago.

The Democratic governor said the property sale would net the state \$233 million--\$200 million coming from the sale of the 940,693 square foot Thompson Center at 100 West Randolph Street. Illinois Republicans like State Treasurer Judy Baar Topinka this spring described the sale as "burning the furniture to keep warm."

When Illinois lawmakers approved the fiscal 2004 state budget at the end of May, Blagojevich's plan was intact to sell the Thompson Center along with the Illinois State Toll Highway Authority headquarters building in Downers Grove and the Elgin Mental Health Center in Elgin.

It bodes well for the state that a large amount of



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investment money is currently chasing institutional-type properties, said Joseph Learner, an executive vice president with Studley in Chicago. He anticipates that insurance companies, pension funds and foreign investors will show strong interest in the Thompson Center.

If the deal is arranged with the state as a long-term, master-lease tenant, the state should fare well in its property sale, he said.

"If they package the deal like that and take some sort of risk on the capital issues, then I think it is going to see enormous amount of interest from the type of buyer that wants to clip coupons," Learner says. "It will be a very attractive offering."

Beginning in July, the state will begin shopping around the three assets to potential buyers. John Filan, director of the governor's Office of Management and Budget Services, will likely lead the process of selling the state buildings, said Becky Carroll, a spokeswoman for the office.

Carroll said the state would agree to an outright sale of the Thompson Center, but it is more likely it will seek a sale/leaseback deal for the office building that houses some 2,900 state employees from 60 different state agencies. She said a long-term lease of at least 20 years is likely.

Approximately three dozen inquiries have been made on the properties by real estate and property management firms since the governor made his April announcement of the sale, Carroll

reported in mid-June.

Indeed, two Chicago real estate firms declined comment for this article, citing, in part, possible interest in the state properties going forward.

One Chicago-based investment broker, who asked not to be identified, said the sale/leaseback route on the Thompson Center will obviously give the state more control in how much income they gain initially from the sale as long as the lease is attractive for a buyer.

He said, at \$18 a square foot net with an investor seeking an 8 to 9 percent yield, the building could fetch as much as \$200 a square foot. To put the cost into context, Wells Real Estate Funds Inc. this spring acquired the 82-story, 2.7-million square foot Aon Center in Chicago for \$465.2 million, or about \$172 a square foot. The investment broker estimated the replacement cost of the Thompson Center would be approximately \$275 a square foot.

The building is nearly 100 percent occupied and the state's current credit rating --AA3 or fourth from the top according to Moody's Investor Services -- likely would not deter an interested buyer, brokers said.

"That is what people are looking for," said Jim Postweiler, managing director with Insignia/ESG's Capital Advisors Group. "They want an alternative to the stock market. They don't want any vacancy risk."

The Thompson Center may not be as attractive a piece of real estate, though, if the state was not the tenant, he said. There would be some challenges to change the building to a traditional multi-tenant building, he said.

Helmut Jahn designed the Thompson Center -- a steel and glass building with a towering atrium lobby -- for Illinois. It cost \$173 million to build and was completed in 1985.

It is well known in Illinois state government circles that the office building, which has lower-level retail and access to subway service, for years has been plagued by heating, cooling and other maintenance problems.

"The state over the last 10 years has spent 10s of millions of dollars [on the building]," Carroll says. She adds that the state's Central Management Services agency, which oversees state buildings, now has the problems under control and it spends about \$20,000 a day to run and maintain the building.



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