

## **Ibalio RE 570 Investment Memo**

Date: 10/21/2024

To: Professor Steve Bell

From: Matthew Ibalio ARGUS Analyst

Re: Oak Brook Tower Investment Analysis

### **EXECUTIVE SUMMARY**

An analysis has been conducted to develop recommendations as to the offering and taking price for Oak Brook Tower as a core investment asset. The analysis was conducted by first collecting competitive data from CoStar, demographic data from STDB, and then analyzing Oak Brook Tower's current data using ARGUS. The data was then utilized to conduct an analysis of the property using a 7% discount rate using best-case, worst-case, and most-likely-case scenarios.

The analysis was conducted assuming no loans, a 10-year holding period, a 7.5% terminal cap rate and a base discount rate of 7%. After analyzing demographic, market, and financial data for Oak Brook Tower, it is recommended that with a 7% discount rate and 7.5% terminal cap rate, the property be purchased at \$31,553,681 [\$315.54/SF] with a most probable sale price of \$32,122,603 [\$321.23/SF]. The worst case sale price would be \$22,056,031 [\$220.56/SF] and best-case sale price would be \$47,114,023 [\$471.14/SF]

Oak Brook Tower has demonstrated a consistent track record of attracting high credit tenants willing to pay excellent rental rates. A stable 5-mile population of upper middle-class earners, growing average household income, and desirable location support classifying the property as a "core" asset with enough demand to support the \$32,122,603 sale price in 10 years.

### **PROPERTY ANALYSIS**

#### **Property Summary**

Oak Brook Tower was built in 1990 and has a total of 100,000 rentable square feet across seven floors, including a Chipotle restaurant on 5,000 rentable square feet on the first floor.

The upper floors are for office tenants which three in place tenants.

The property is a 10-unit, 3 story mixed use building (office/retail) located on 1400 West 16<sup>th</sup> Street in Oak Brook, IL 60523. There are 7 floors, the first being 5,000 rsf and is currently occupied by Chipotle. The upper floors are for office tenants. Currently there are 3 office tenants: First Title, Design Partners, and Citibank. There is a static vacancy of 2,000 SF and 4 vacant leases created quarterly over a 1-year period. The 4 vacant leases make up 27,000 SF.

## Location Analysis

Oak Brook Tower is located on 1400 West 16<sup>th</sup> Street in Oak Brook, IL. The property is over thirty years old and well maintained. It sits in a desirable location, providing excellent access to I-88, Tri-State I-294 Tollway, I-290, I-55, Route 83 and Butterfield Road for traffic coming in and out of the area. Tenant employees and clients would have no issues going to and coming from the property.

Within a 5-mile radius sits high traffic areas including Oak Brook Center, Yorktown Center, and Lifetime Fitness. In addition, there are more than 12 restaurants, four hotels and six financial institutions within a one-mile radius of Oak Brook Tower, adding benefits to tenants located within the property and. These benefits serve to attract top talent and clients for prospective tenants.

The desirable location also serves to maintain the property's history as a first-class office building that lease to high credit tenants.

## Demographics Analysis

Demographic information for the surrounding area was analyzed in radii of 1, 3, and 5 miles from the property. The current overall demographics for the surrounding area indicate a population that will remain flat with a growing average household income and household size. This means there's a stable pool of upper middle-class<sup>1</sup> employees to hire from for Oak Brook Tower tenants. This is an educated pool with 50%+ of the population over 25 having earned a bachelor's degree and/or a Graduate/Professional Degree.

	Population	# of HH	AvgHH Size	Median HH Income	AvgHH Income
2024					
	1 mile	6,542.00	1.92	\$ 88,064	\$ 124,764
	3 miles	83,218.00	2.45	\$ 106,087	\$ 153,122
	5 miles	283,779.00	2.6	\$ 105,916	\$ 154,039
2029					
	1 mile	6,644.00	2.57	\$ 103,014	\$ 141,787
	3 miles	82,976.00	3.06	\$ 118,315	\$ 170,771
	5 miles	278,693.00	3.16	\$ 119,632	\$ 173,382

## Current Tenants Analysis

There are two types of tenants at Oak Brook Tower, retail and office.

### Retail Tenants

The only retail tenant is Chipotle, and they rent 5,000 square feet with a lease expiration date of 8/25 with a 5-year option. Recoveries are a fixed pro-rate share of 6% of Net operating expenses, natural pro-rata share of Net real estate taxes, and total retail expenses.

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<sup>1</sup> Yahoo is part of the Yahoo family of brands. (n.d.). <https://finance.yahoo.com/news/much-earn-middle-class-illinois-110000823.html>

## Office Tenants

Citibank is the largest office tenant with 36,000 square feet and a 5-year option. The second largest is Design Partners with 20,000 square feet and then First Title with 10,000 square feet. Recoveries for First Title, Design Partners, Citibank, and the future tenants are operating expenses and real estate taxes with a base year stop. Utilities are paid by retail.

There is also 2,000 square feet of un-leasable space.

## Market Potential and Competitive Set of Properties

When examining the market for Oak Brook Tower, the primary focused was placed upon similar class A office buildings and buildings for retail use.

## Competitive Office Buildings

Property Name	Address	Year Built	Class	SFRBA	Stories	# of Available Space		Rent/Sf
						Vacancy%	(SF)	
Citibank Office Plaza	1900 Spring Rd Oak Brook, IL 60523	1979	A	107,780	5	3.3%	3577	\$ 22.00
Oak Brook Reserve	2715 Jorie Blvd Oak Brook IL, 60523	1983	A	98,570	2	17.4%	17143	\$ 31.00
NWC	1000 Royce Blvd Oakbrook Terrace, IL	1990	A	70,653	3	100.0%	70653	\$ 15.00
The Offices at Oakmont	900 Oakmont Ln Westmont, IL 60559	1985	A	84,084	4	18.0%	15128	\$ 23.75
One Oak Hill Center	1 E Oak Hill Dr Westmont, IL 60559	1988	A	85,836	4	0.0%	0	\$ 21.00
Oakmont Point West Bldg	700 Oakmont Ln Westmont, IL 60559	1989	A	92,553	3	8.8%	8149	\$ 23.00

For competitive office buildings the rent per square foot varies with the high end being \$31 for a building built in the 1980's and the low end being \$15 for a building built in the 1990's but 100% vacant. Oak Brook Tower being one of the newer properties and located off a major highway supports the higher end \$30 market rent forecasted. The demographic forecast discussed earlier also supports that there is likely not to be a significant shift in traffic from Oak Brook IL to outside of the 5-mile radius.

## Competitive Retail Buildings

Property Name (Retail)	Address	Year Built	Class	SFRBA	Stories	Vacancy%	# of Available Space (SF)	Rent/Sf
Westchester Commons	3000-3500 Wolf Rd Westchester, IL 60154	1984	A	110,612	1	3.60%	-	\$ 19.00
Oakbrook Center	100 Oakbrook Ct Oak Brook, IL 60523	1962	A	1,067,507	3	0.00%	-	\$ 46.00
Highlands of Lombard	2860 S Highland Ave Lombard, IL 60148	2002	A	139,265	1	0.00%	-	\$ 22.00
Clearwater Center	2040-2060 York Rd Oak Brook, IL 60523	2009	A	52,677	2	6.70%	3,520	\$ 24.50
Oak Brook Twenty Two	1301 W 22nd St Oak Brook, IL 60523	1985	A	154,694	11	14.74%	9,888	Withheld

There was only one office building with retail space within a 5-mile radius. To expand on the competitive set for retail space, the CoStar data included retail buildings. The mixed-use space for Oak Brook Tower makes it unique within the competitive set. Given high credit tenants have historically leased space within the building and the population can be expected to have high-end middle-class wages to spend, the retail lease is a prime space for prospective tenants supporting the excellent rent of \$60.

## Site/Building Analysis including deferred maintenance where applicable

A site/building analysis was not required for this investment memo.

## FINANCIAL ANALYSIS

### Assumptions

It is assumed that the holding period for the investment would be for 10 years. Expenses and the market rate will both increase by the same 3% annually. A vacancy rate of 3% of total tenant revenue will be used.

Monthly rents in the best-case and worst-case scenarios represent a 10% increase and 20% decrease (respectively) versus the expected probable case rents. Additionally, the scenarios reflect that both vacancy rates and expenses are not expected to increase more than 3%.

### Proposed Financing

No debt financing will be used to purchase Oak Brook Tower, only simple equity.

Oak Brook Tower		Best Case		Probable Case		Worst Case	
Market Rents (Office)							
	2020	\$	34.00	\$	30.00	\$	23.00
	2021	\$	39.50	\$	35.00	\$	27.00
	2022	\$	41.81	\$	37.10	\$	28.68
	2023	\$	43.85	\$	38.96	\$	30.16
	2024	\$	45.56	\$	40.51	\$	31.41
	2025+	\$	46.90	\$	41.73	\$	32.38
Market Rents (Retail)							
	2020	\$	67.00	\$	60.00	\$	47.00
	2021	\$	78.00	\$	70.00	\$	55.00
	2022+	\$	80.31	\$	72.10	\$	56.68

### Best Case Analysis

In a best-case scenario, office rents may achieve a \$34.00/sf and retail rents can reach \$67.00/sf in year one. Office rents would still be expected to grow by 6% in 2022, 5% in 2023, 4% in 2024 and 3% thereafter. Retail rents are also expected to maintain its growth forecast of 3% after 2021.

### Worst Case Analysis

In a worst-case scenario, office rents can drop to \$23.00/sf and retail rents can drop to \$47.00 in year one. The growth rates are expected to remain the same.

### Probable Case Analysis

In the most probable-case scenario for year one, office rents are the same as expected at \$30.00/sf and \$60.00/sf for retail.

### Partitioned IRR

The partitioned IRR is used to quantify how much of the total potential return comes from regular operations of the property versus the sale price.

With a forecasted total NOI of \$27,626,616 and forecasted sale price of \$32,122,603, the total percentage of cash flow available for distribution from operating income is 43.08% and 56.92% from the sale of the property.

At a 7% discount rate most of the total potential return is coming from the sale of the property. Generally, a greater percentage of distribution attributable to the assumed sale price equates to a greater risk of not achieving the projected returns due to the unpredictability of future sale prices. In the case of Oak Brook Tower, the distribution difference is small. A small distribution coupled with the prime location and prestigious history of hosting high credit clients means the targeted investment returns are unlikely to deviate in 10-years.

## RECOMMENDATIONS

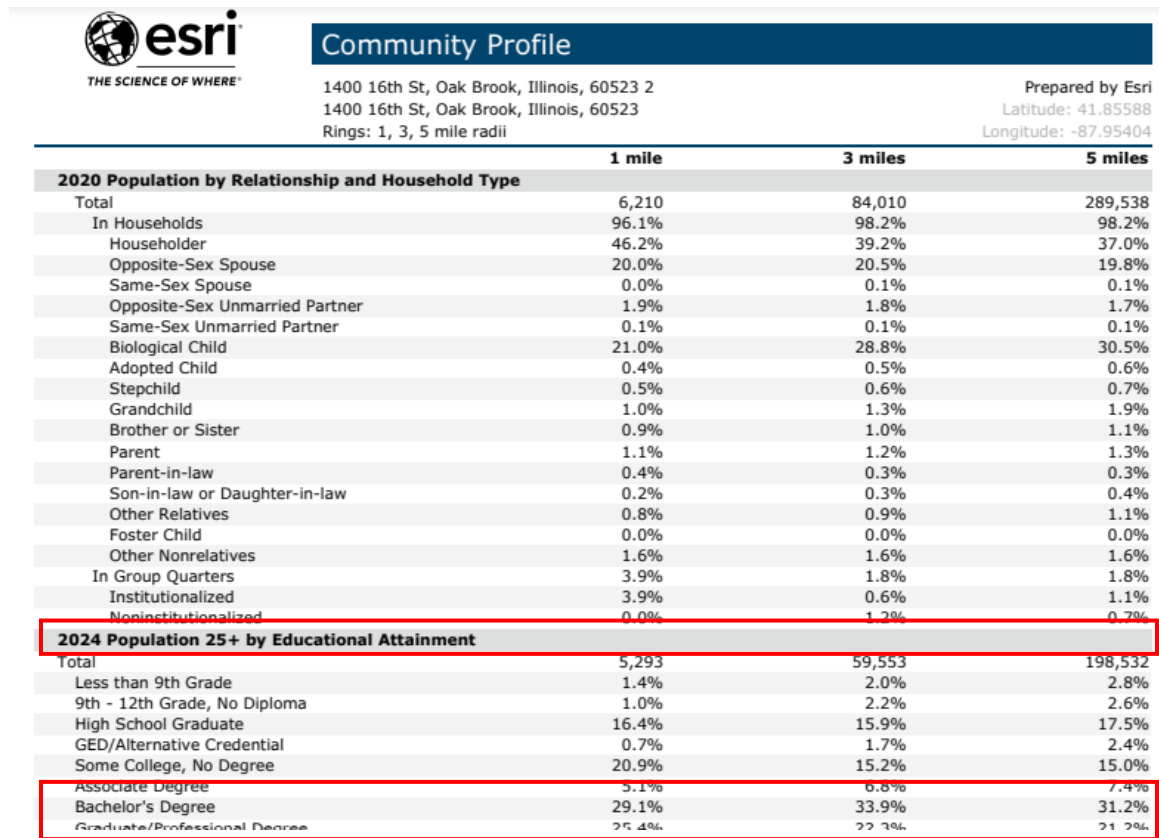
Based on the market data available on CoStar, the demographic data from STDB and the analysis conducted using ARGUS, the recommendations for taking and asking prices are as follows:

Oak Brook Tower	Best Case	Probable Case	Worst Case
Sale Price	\$ 47,114,023.00	\$ 32,122,603.00	\$ 31,553,681.00
Cash Flow Available After Distribution	\$ 77,172,835.60	\$ 56,431,211.00	\$ 41,819,950.03
Net Proceeds from Sale (\$)	\$ 47,114,023.00	\$32,122,603	\$ 31,553,681.00
Net Operating Income (\$)	\$ 30,058,812.60	\$27,626,616	\$ 10,266,269.03
Net Proceeds from Sale (%)	61%	57%	75%
Net Operating Income (%)	39%	43%	25%

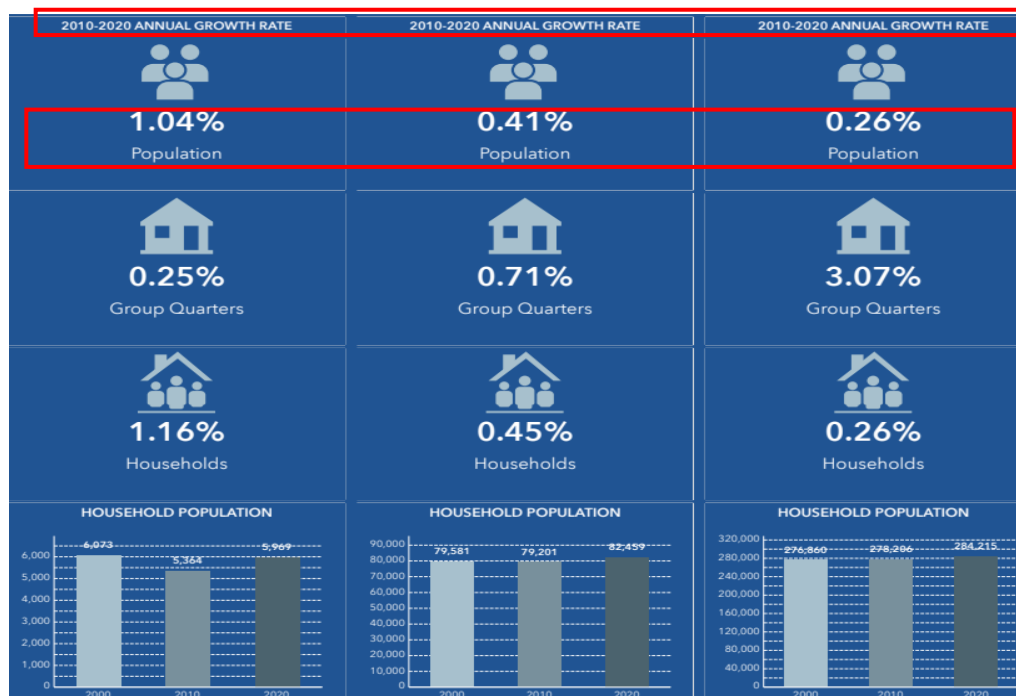
It is recommended that a “fair” purchase price for Oak Brook Tower would be \$31,553,681 and a sale price of \$32,122,603. The demographics are forecasted to maintain it’s high earning middle class population providing a strong pool of employees for tenants. The surrounding landmarks also benefit from the high earning and stable population by maintaining the prestigious status the Oak Brook area. Oak Brook Tower is also newer than most of its competition and the location supports the higher market rent expected (\$30). Given it has been well maintained over the years, it’s not expected to require excessive repairs and maintenance over the 10-year holding period. The property can provide a stable source of returns as a “core” investment, providing 43% of the forecasted returns from net operating income and 57% net proceeds from the sale. The smaller spread allows for a more reliable expected return.

## EXHIBITS

### STDB Community Profile Report



### STDB 1-3-5 Mile Summary Dashboard



## CoStar 1

Property Name	Address	Year Built	Class	SFRBA	Stories	Rent/Sf
Citibank Office Plaza	1900 Spring Rd Oak Brook, IL 60523	1979	A	107,780	5	\$ 22.00
Oak Brook Twenty Two	1301 W 22nd St Oak Brook, IL 60523	1985	A	154,694	11	\$ 22.75
York Center Oak Brook	2001 York Rd Oak Brook, IL 60523	1999	A	183,428	6	\$ 22.00
Imperial Place	1 E 22nd St Lombard, IL 60148	1985	A	165,410	8	\$ 26.00
<b>Oak Brook Tower</b>	<b>1400 W 16th St Oak Brook, IL 60523</b>	<b>1991</b>	<b>A</b>	<b>100,000</b>	<b>3</b>	
Oak Brook Reserve	2715 Jorie Blvd Oak Brook IL, 60523	1983	A	98,570	2	\$ 31.00
NWC	1000 Royce Blvd Oakbrook Terrace, IL	1990	A	70,653	3	\$ 15.00
The Offices at Oakmont	900 Oakmont Ln Westmont, IL 60559	1985	A	84,084	4	\$ 23.75
One Oak Hill Center	1 E Oak Hill Dr Westmon, IL 60559	1988	A	85,836	4	\$ 21.00
Oakmont Point West Bu	700 Oakmont Ln Westmont, IL 60559	1989	A	92,553	3	\$ 23.00

## ARGUS Cash Flow Summary Report

### Cash Flow

Iballo Oak Brook Tower (Amounts in USD)  
Jan, 2020 through Dec, 2030  
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	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	Year 1 Dec-2020	Year 2 Dec-2021	Year 3 Dec-2022	Year 4 Dec-2023	Year 5 Dec-2024	Year 6 Dec-2025	Year 7 Dec-2026	Year 8 Dec-2027	Year 9 Dec-2028	Year 10 Dec-2029	Year 11 Dec-2030	Total
<b>For the Years Ending</b>												
<b>Rental Revenue</b>												
Potential Base Rent	3,005,000	3,315,031	3,511,854	3,595,738	3,622,988	3,907,398	4,137,487	4,174,202	4,235,494	4,267,030	4,428,184	42,200,406
Absorption & Turnover Vacancy	-658,125	-59,063	0	-32,463	0	-116,492	-48,353	0	-37,998	0	-173,102	-1,125,596
Free Rent	-222,292	-174,375	0	-129,850	0	-419,025	-240,357	0	-151,993	0	-572,721	-1,910,612
Scheduled Base Rent	2,124,583	3,081,594	3,511,854	3,433,425	3,622,988	3,371,881	3,848,778	4,174,202	4,045,503	4,267,030	3,682,361	39,164,198
Total Rental Revenue	2,124,583	3,081,594	3,511,854	3,433,425	3,622,988	3,371,881	3,848,778	4,174,202	4,045,503	4,267,030	3,682,361	39,164,198
<b>Other Tenant Revenue</b>												
Total Expense Recoveries	358,938	421,966	474,080	458,296	505,912	485,032	488,599	510,248	214,634	266,776	237,596	4,422,076
Total Other Tenant Revenue	358,938	421,966	474,080	458,296	505,912	485,032	488,599	510,248	214,634	266,776	237,596	4,422,076
<b>Total Tenant Revenue</b>	<b>2,483,521</b>	<b>3,503,560</b>	<b>3,985,934</b>	<b>3,891,721</b>	<b>4,128,899</b>	<b>3,856,913</b>	<b>4,337,377</b>	<b>4,684,450</b>	<b>4,260,137</b>	<b>4,533,806</b>	<b>3,919,957</b>	<b>43,586,274</b>
<b>Other Revenue</b>												
Parking	435,990	510,413	535,392	554,464	579,080	593,752	622,774	651,386	674,590	704,539	720,848	6,583,229
Storage	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	220,000
Vending	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334	6,524	6,720	64,039
Total Other Revenue	460,990	535,563	560,697	579,928	604,708	619,548	648,744	677,536	700,924	731,063	747,568	6,867,268
<b>Potential Gross Revenue</b>	<b>2,944,511</b>	<b>4,039,122</b>	<b>4,546,630</b>	<b>4,471,649</b>	<b>4,733,607</b>	<b>4,476,462</b>	<b>4,986,121</b>	<b>5,361,985</b>	<b>4,961,061</b>	<b>5,264,869</b>	<b>4,667,524</b>	<b>50,453,542</b>
<b>Vacancy &amp; Credit Loss</b>												
Vacancy Allowance	0	-47,816	-119,578	-85,263	-123,867	-2,710	-83,219	-140,533	-90,946	-136,014	0	-829,946
Total Vacancy & Credit Loss	0	-47,816	-119,578	-85,263	-123,867	-2,710	-83,219	-140,533	-90,946	-136,014	0	-829,946
<b>Effective Gross Revenue</b>	<b>2,944,511</b>	<b>3,991,306</b>	<b>4,427,052</b>	<b>4,386,386</b>	<b>4,609,740</b>	<b>4,473,752</b>	<b>4,902,902</b>	<b>5,221,452</b>	<b>4,870,115</b>	<b>5,128,855</b>	<b>4,667,524</b>	<b>49,623,595</b>
<b>Operating Expenses</b>												
Advertising & promotion	25,000	25,750	26,523	27,318	28,138	28,982	29,851	30,747	31,669	32,619	33,598	320,195
CAM	400,000	412,000	424,360	437,091	450,204	463,710	477,621	491,950	506,708	521,909	537,567	5,123,118
General Admin	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	13,439	128,078
Insurance	125,000	128,750	132,613	136,591	140,689	144,909	149,257	153,734	158,346	163,097	167,990	1,600,974
Janitorial	15,391	19,916	20,836	21,297	22,105	22,186	23,209	24,155	24,689	25,626	26,618	245,029
Management Fees	88,335	119,739	132,812	131,592	138,292	134,213	147,087	156,644	146,103	153,866	140,026	1,488,708
Property Taxes	1,000,000	1,020,000	1,040,400	1,061,208	1,082,432	1,104,081	1,126,162	1,148,686	1,171,659	1,195,093	1,218,994	12,168,715
R&M	50,000	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239	67,196	640,390
Utilities	22,000	22,660	23,340	24,040	24,761	25,504	26,269	27,057	27,869	28,705	29,566	281,772
Total Operating Expenses	1,735,727	1,810,615	1,864,536	1,904,700	1,954,151	1,993,140	2,051,100	2,106,764	2,143,051	2,199,201	2,233,994	21,996,979
<b>Net Operating Income</b>	<b>1,208,784</b>	<b>2,180,690</b>	<b>2,562,516</b>	<b>2,481,686</b>	<b>2,655,589</b>	<b>2,480,612</b>	<b>2,851,803</b>	<b>3,114,688</b>	<b>2,727,064</b>	<b>2,929,654</b>	<b>2,433,531</b>	<b>27,626,616</b>
<b>Leasing Costs</b>												
Tenant Improvements	455,000	417,150	0	122,932	0	436,901	181,347	180,000	142,512	0	523,287	2,459,129
Leasing Commissions	100,000	0	0	51,367	0	184,004	76,320	0	59,892	0	239,217	710,801
Total Leasing Costs	555,000	417,150	0	174,299	0	620,906	257,667	180,000	202,404	0	762,504	3,169,930
<b>Capital Expenditures</b>												
Capital Reserves	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	13,439	128,078
New Sign	20,000	0	0	0	0	0	0	0	0	0	0	20,000

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## Cash Flow

Ibalo Oak Brook Tower (Amounts in USD)  
Jan, 2020 through Dec, 2030  
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	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	Year 1 Dec-2020	Year 2 Dec-2021	Year 3 Dec-2022	Year 4 Dec-2023	Year 5 Dec-2024	Year 6 Dec-2025	Year 7 Dec-2026	Year 8 Dec-2027	Year 9 Dec-2028	Year 10 Dec-2029	Year 11 Dec-2030	Total
For the Years Ending												
Total Capital Expenditures	30,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048	13,439	148,078
Total Leasing & Capital Costs	585,000	427,450	10,609	185,226	11,255	632,499	269,607	192,299	215,072	13,048	775,944	3,318,008
Cash Flow Before Debt Service	623,784	1,753,240	2,551,907	2,296,460	2,644,334	1,848,113	2,582,195	2,922,389	2,511,993	2,916,606	1,657,587	24,308,608
Proceeds from Sale												
<b>Financing</b>												
Gross Sale Price (inc. Capital Costs)	0	0	0	0	0	0	0	0	0	32,447,074	0	32,447,074
Selling Costs	0	0	0	0	0	0	0	0	0	-324,471	0	-324,471
Net Sale Price	0	0	0	0	0	0	0	0	0	32,122,603	0	32,122,603
Net Proceeds from Sale	0	0	0	0	0	0	0	0	0	32,122,603	0	32,122,603
Total Financing (Net)	0	0	0	0	0	0	0	0	0	32,122,603	0	32,122,603
Cash Flow Available for Distribution	623,784	1,753,240	2,551,907	2,296,460	2,644,334	1,848,113	2,582,195	2,922,389	2,511,993	35,039,210	1,657,587	56,431,211

## ARGUS Property Summary Report

